Paperboard POTENTIAL

Despite reports of lofty growth numbers and endless aisles of opportunity, entering the business of packaging printing requires research and careful consideration.

By John Zarwan

In the face of slowing, if not declining, growth of many traditional print markets, many observers, consultants, and industry savants have been pushing packaging as an opportunity for commercial printers. After all, packaging markets are still growing. Moreover, they are largely immune from digitization. It's been said many times that "You can't send box of Wheaties over the Internet." And conventional management theory says if your core markets are declining you should diversify into growing areas. Why not packaging, where printing and graphics is becoming increasingly important?

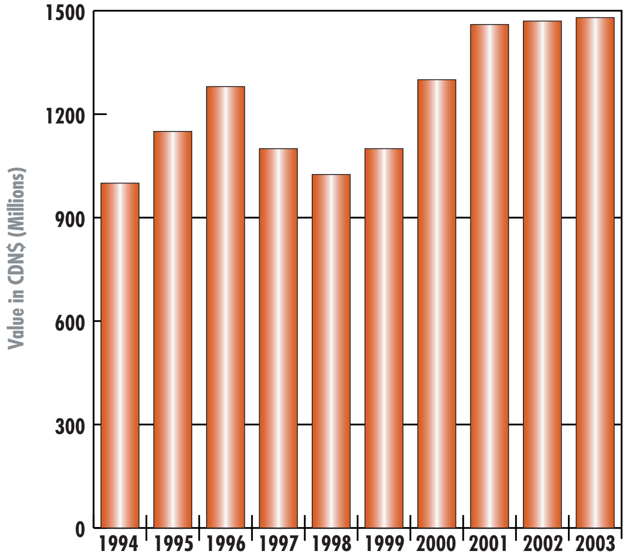
Would that it were so simple.

Packaging is not a monolithic market. There are many different types of packaging, including folding carton; corrugated; flexible; labels; glass; plastic; and metal, among others. And even within each segment there can be a variety of sub-segments. Each with its own requirements and prospects.

For commercial shops looking to leverage their strengths and core knowledge in offset lithography, you'll find offset being used mostly in printing labels and folding carton. For this discussion we'll focus on folding cartons, the segment where offset is the primary printing process.

A folding carton is a paperboard-based product that is both

CANADIAN FOLDING PAPERBOARD BOX SHIPMENTS



(Source: Statistics Canada)

Canadian folding carton shipments increased from $993.7 million in 1994 to $1.4 billion in 2003, an average compound annual rate of 4.2% per year. Between 2002 and 2003, however manufacturing shipments increased by only 1.9%

label and container, and the folding carton market is one of the largest in North America. At about $12 billion, of which about 10 percent is Canadian, it trails only corrugated, metal and flexible packaging in importance. According to the U.S.-based Paperboard Packaging Council, there are approximately 300 companies active in paperboard converting with 480 plants in the U.S., while Canada has about 40 companies with 55 facilities.

Folding cartons are used in a variety of applications, including beverage cartons and carriers, cosmetics, foods, personal care, pet products and hardware and auto parts. For these applications, folding cartons offer a number of advantages and benefits over other types of packaging. Of special significance for the printing industry, a box's billboard-like surface allows for high quality printing and high-impact graphics as well as providing more room for nutritional and promotional labeling and large typefaces.

SHARE OF FOLDING CARTON SHIPMENTS

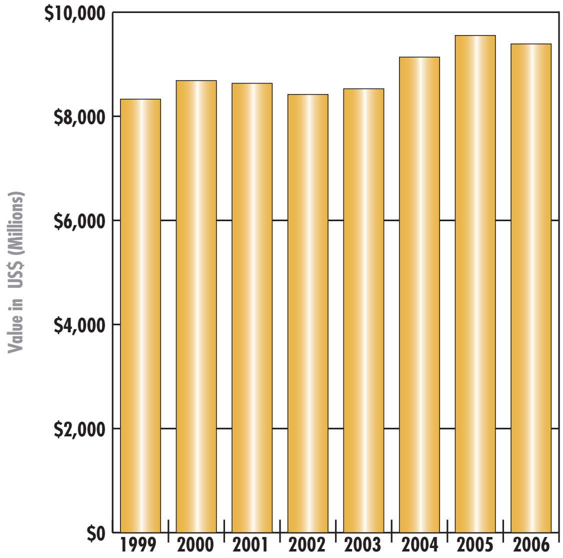
	1999	2004
Dairy	3%	3%
Soap and Cleaners	4%	3%
Biscuits and Crackers	3%	4%
Paper Products	4%	5%
Hardware	7%	5%
Retail Carry-Out	5%	6%
Pharmaceuticals	6%	6%
Frozen Foods	6%	8%
Dry Foods	11%	15%
Beverages	12%	17%

(Source: Paperboard Packaging Council)

Just imagine the sight of all those "facings" on the supermarket shelf. Folding cartons are also efficient, easy to store and take up less space than some other packaging formats. They are also relatively environmentally friendly, as the board can be recycled or composted.

Despite these advantages, the sector is facing a number of daunting trends. First, let's look at the 'growth' aspect. The *overall* packaging market has recently been projected to grow 22% from 2004 through 2009, which sounds very enticing. Unfortunately, that is only 4% a year. Compared to commercial print, that may look pretty good, but it's still just barely above current inflation and certainly slower growth than commercial print during the 1990s.

U.S. FOLDING CARTON SHIPMENTS



(Source: PaperBoard Packaging Council)

Most of the growth in this broad market, however, is accounted for by flexible packaging and labels. Folding carton has been, and is likely to continue to be, one of the slower-growing sectors. Many traditional folding carton applications, from dog food to pasta, are converting to other packaging types, particularly flexible packaging. From 1999 to 2005, overall folding carton shipments grew at about 2% compounded, in nominal (not inflation adjusted) terms. Canadian growth was somewhat higher due to strong exports to the U.S. While shipments and revenues recovered in 2003 and 2004 (up 4% to 5% each year), from 2005 through 2008 paperboard growth is expected to be only 1.5% per year. Canadian converters will be hurt even more—with the strengthening Canadian dollar, it will be more difficult to sell to the U.S.-based packaging buyer.

Not only are growth prospects making things difficult for

PACKAGING GROWTH RATES

Annual Growth rates	1996-2002	2004-2009
Flexible	3.5%	4.5%
Corrugated	2.6%	3.2%
Folding Carton	1.5%	3.2%
Labels	7%	5.5%

(Forecast from PRIMIR 'Package Printing and Converting: An Industry Assessment, 2004-2009')

folding carton printers and converters, the industry is consolidating on two fronts. The top 10 converters account for the vast majority of sales in North America. And the packaged goods companies are consolidating as well. When a goliath like Procter & Gamble buys Gillette, eventually more business goes to fewer suppliers. As with so many other sectors, run lengths are getting shorter, but with consolidation it means that each printer has higher volumes and thus more frequent make-readies.

Compounding the problem are changes in the printing processes used. While the vast majority of folding cartons are still printed offset, flexo has been taking share, although not as rapidly as many predicted 10 years ago, and its relative growth may have leveled off.

In the face of these relatively challenging market conditions, offset printers interested in moving into folding carton must also take into account the unique requirements of the market.

Virtually everything is different: the position of the printer (converter) in the manufacturing supply chain; the buying process; the customer; the production process (particularly "finishing"); and the end-use requirements. And, of course, existing converters have established relationships and fight hard to maintain that business. Commercial printers need to move into folding carton printing carefully, eyes wide open. **CP**

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RESOURCES:

Packaging Association of Canada	**www.pac.ca**
Canadian Paperboard Packaging Association	**www.cpbma.ca**
Paperboard Packaging Council	**www.ppcnet.org**
National Paperbox Association	**paperbox.org**