EXECUTIVE INSIGHTS

To Drive Outsized Growth in Packaging, Align With Winning Brand Owners

Key takeaways

- Packaging companies can drive sustained above-market growth by more closely managing their customer and product exposure.
- There's a material spread in brand owner/packaging customer performance across end markets, with the biggest names not always being the biggest winners.
- Even a brand owner that's generally winning in a market can have winners or losers among their packaging formats or stock-keeping units.
- Packaging executives can set themselves up for success by more closely tracking their product exposure within their customers and by ensuring their asset base and capacity are well aligned with market winners.

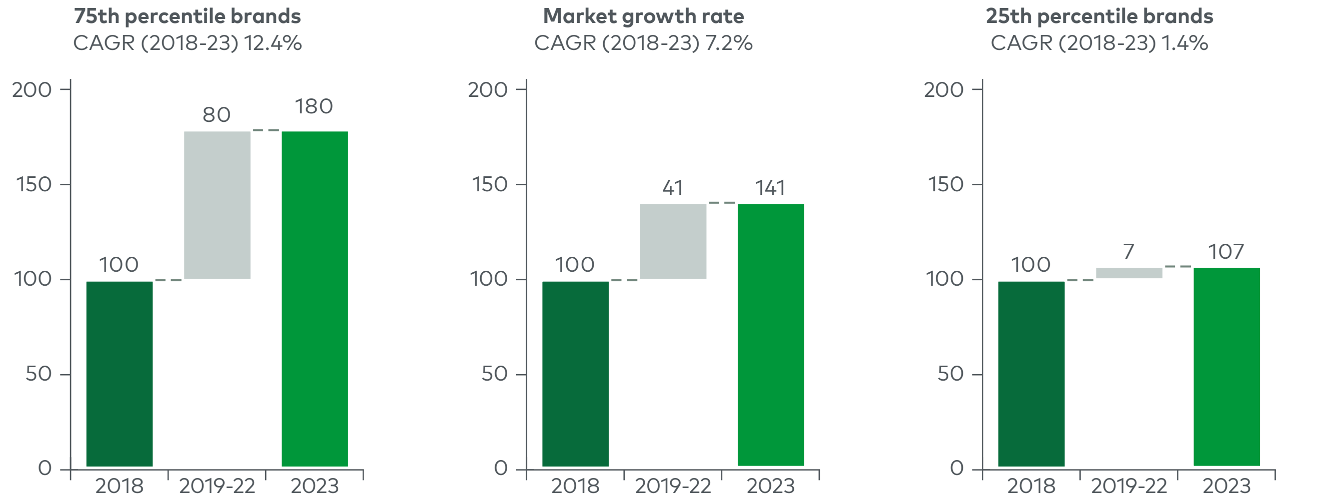
The packaging industry tends to grow at low and steady rates, so packaging executives need to be thoughtful in how to drive above-market growth. From serving higher-growth end markets (e.g., pet, consumer health) to offering sustainability-oriented substrates (e.g., mono-materials, recycled content), there are a variety of levers packaging executives can pull to consistently outpace the broader market growth. In this *Executive Insights*, we'll discuss one such lever, which is to align with winning brand owner segments and in particular the winning stock-keeping units (SKUs) of those brand owners. Let's start with a look at the evidence in support of this approach and then move on to some key considerations in managing your customer set and directing your commercial efforts.

The impact of aligning with a winning brand owner

It matters how packaging customers/brand owners are doing in the market. Take snack brands as an example. Between 2018 and 2023, a packaging provider serving a basket of brands with a growth rate in the 75th percentile would have seen its own growth rate exceed the market rate by roughly 520 basis points (bps). This rate of growth is even more impressive — 1,100 bps faster — compared to what it would have been had the provider served a basket of brands with a growth rate in the bottom 25th percentile (see Figure 1).

Figure 1

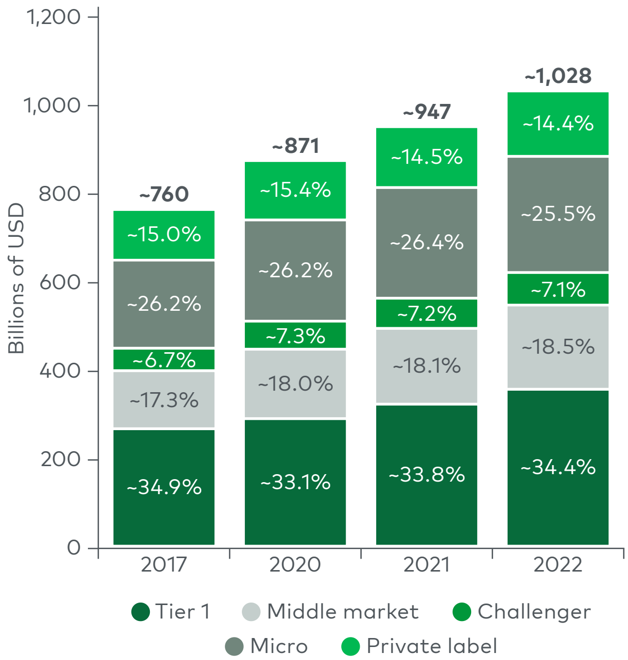
Growth profiles of a packaging provider serving a basket of snack brands* (2018-23)



*Assumes the weighted average growth rate of brands in the 75th percentile and 25th percentile from a representative sample of ~170 snack brands based on performance from 2018-23
Note: CAGR=compound annual growth rate
Source: Euromonitor; L.E.K. research and analysis

Keep in mind that the fastest-growing brands aren't necessarily the largest or most widely recognized. Tier 1 brand owners, defined as the largest companies by revenue in a category ($130 billion-plus in 2022 U.S. retail sales in alcoholic drinks and $220 billion-plus for all other segments), have consistently held the highest percentage of sales when looking at all end markets together. But they, along with private label brands, have lost share to Tier 2 brands in recent years (see Figure 2).

Figure 2
US sales by brand owner segment (2017-22)*



	CAGR%			
	2017-19	2019-20	2020-22	2017-22
Grand total	**4.0**	**5.8**	**8.7**	**6.2**
Tier 2 total**	**5.1**	**6.6**	**8.3**	**6.7**
Private label	2.8	11.1	5.0	5.3
Micro	3.7	6.7	7.1	5.7
Challenger	6.5	10.2	7.6	7.7
Middle market	6.7	5.0	10.2	7.7
Tier 1	3.0	2.3	10.9	6.0

*Sum of all end markets included: alcoholic drinks, cooking ingredients and meals, dairy products and alternatives, snacks, staple foods, beauty and personal care products, consumer health and pet care
**Defined as the sum of micro, challenger and middle market
Note: CAGR=compound annual growth rate
Source: Euromonitor International; L.E.K. research and analysis

How end markets reveal winners and losers

Still, Tier 1 brands continue to dominate in certain end markets. One is pet food, where large brands with a premium offering (think General Mills) have been gaining share. Consumer health is another market where Tier 1 brands outshine smaller competitors.

Larger Tier 2 (middle-market or challenger) brands tend to outperform in food and beverage categories with higher SKU variation, like snacks. Middle-market alcohol brands also outperform the broader market as craft brands like White Claw, Twisted Tea and Tito's gain popularity.

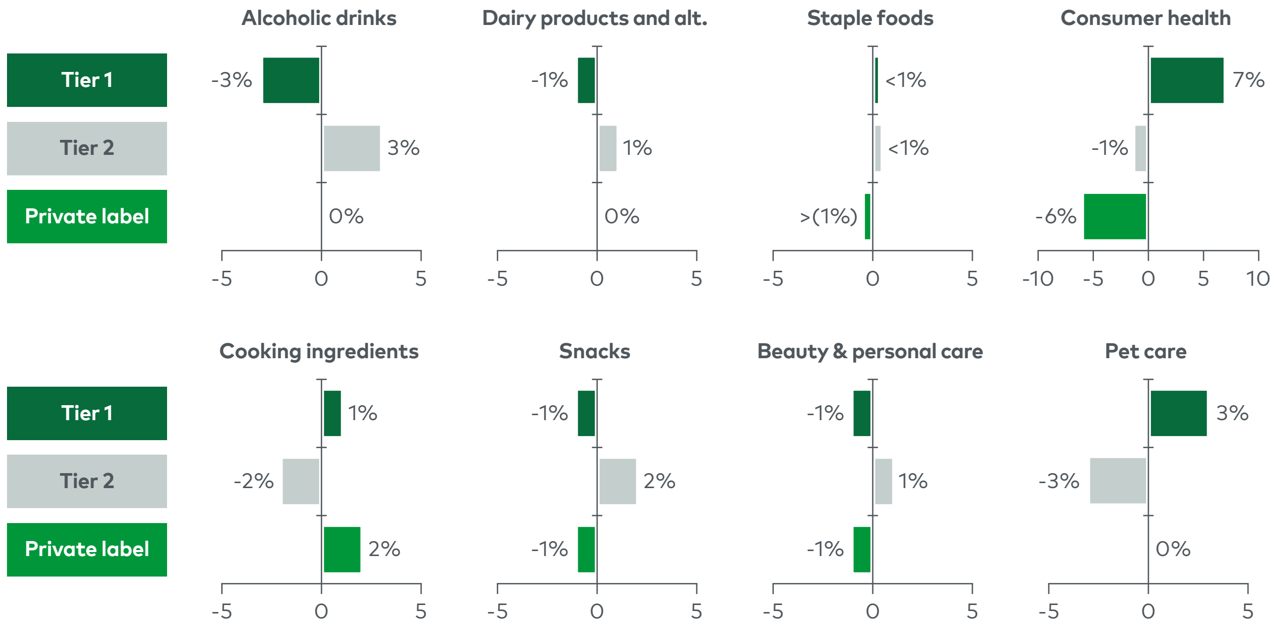
Smaller Tier 2 (micro) brands are better positioned to win in categories that are being reshaped by disruptive trends. An example of this is plant-based alternatives to dairy. Tier 2 brands also have the advantage where ecommerce accounts for a larger portion of sales, such as beauty and personal care, enabling smaller brands to reach more customers.

Finally, private label brands stand out in categories like shelf-stable food, where brand loyalty is lower and price sensitivity is higher.

Figure 3 shows how market share has changed for Tier 1, Tier 2 and private label brands across eight customer segments.

Figure 3

Market share gain by brand owner segment (change in share per tier, 2017-22)



Source: Euromonitor International; L.E.K. research and analysis

Even if you align with a winning brand, the wrong product or packaging format could sink your strategy. The sidebar below shows how competing packaging formats have fared in three food and beverage end markets since 2018.

Market share gain of packaging formats by category (2018-23)

Alcoholic drinks: From 2018 to 2023, metal cans grew approximately 650 bps faster than glass bottles by volume, gaining 6.5 PPT of share.

Staple foods: From 2018 to 2022, rigid plastic containers grew roughly 400 bps faster than flexible formats, gaining 1.5 PPT of share.

Alternative dairy: From 2018 to 2022, rigid plastics (e.g., HDPE bottles, PET bottles) grew nearly 1,000 bps faster than liquid cartons, gaining about 7.5 PPT of share in the alternative dairy category.

Of course, the inverse is also true. If you find yourself tied to a losing brand, you could still drive outsized growth by focusing on winning SKUs or packaging formats.

The basics of an effective strategy

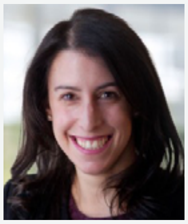
So, what does it take to successfully align with winning brand owners? Every strategy should reflect a given end market, but here are a few basics:

- **Good data hygiene.** Make sure you're tracking your customer sales accurately and at the most granular level possible.
- **SKU exposure monitoring.** Use data from providers like SPINS or Nielsen to map your sales to the market to understand your exposure to winners and losers.
- **Frequent customer touchpoints.** Stay on top of evolving customer needs and market gaps to ensure your business is well positioned to capitalize on emerging trends.
- **Capability alignment.** Assess your ability to serve high-growth customers and SKUs with existing assets to identify where additional capacity or equipment is needed.
- **Strategic investments.** Focus investments and commercial energy on winning higher-growth customers and formats.

By aligning with winning brand owner segments, participants across the packaging value chain can accelerate growth and take it beyond the performance of the overall market. A nuanced examination of growth and market share trends can help you identify the winning brands — or, conversely, the losing brands with winning formats or SKUs — that are key to your business. Pair this insight with the appropriate assets and capabilities and you'll have the foundation for an effective strategy to deliver outsized growth.

For more information, please contact us.

About the Authors



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