

ViewPoint™



A periodical insight publication from the renewable materials company

The driving consumer trends

Health, convenience & value for money

Playing by the retailer's rules

Adapting to the power shift

The future of dairy packaging

The battle for growth in mature markets.



Stagnating volumes and more value-added

The continuing urbanisation and changing lifestyles keep pushing demand for innovative dairy products to new heights. Meanwhile, drinkable milk consumption is declining in mature markets. The long-lasting health- and convenience trends motivate consumers to pay more for value-added products that they can buy when and where they want. This calls for innovation within the whole supply chain as well as in product development, packaging, branding and sales channels.

From 2015 to 2020, dairy products will grow faster in value than volume
Projected dairy market growth from 2015 (actual) to 2020 (forecast).¹⁾

	Volume growth per capita (%)	Value growth per market (%)
China	48	72
Russia	7	59
Poland	14	25
Estonia	14	27
Latvia	7	12
Lithuania	10	24
Finland	0	17
Sweden	-2	19
Mexico	-1	13
Chile	9	19

SKUs. This makes it challenging for shoppers to navigate the dairy shelves. Thus, packaging becomes even more important as a vehicle for differentiation, communication of product content and branding.

Protein boom: The LCHF trend is fading, but athletes, vegetarians and anyone looking for an efficient protein source is turning to qwark and fromage frais (e.g. Skyr from Iceland).

Free-fromification: Lactose-free, sugar-free, gluten-free and non-dairy alternatives, such as soy milk and oat milk, gain popularity as springboards to better digestion and well-being.

Fortification: Probiotic and prebiotic fortified products simplify a healthy lifestyle, often in the form of small "shots".

Hybridisation: New sub-categories emerge, such as Arla's Yoghurtkvar, a 50/50 mix of yoghurt and qwark that is both indulgent and healthy at the same time.¹⁾

Driver # 2: Convenience Packaging for urban lifestyles

Urbanisation implies a busy and more complex lifestyle, spurring consumers to save time by eating and drinking on-the-go, including dairy. Hence, packaging innovation is increasingly small, portion-controlled, snack-sized, resealable and fit-for-purpose, resulting in a dramatic increase in product variation.¹⁾

While innovation in on-the-go dairy products is skyrocketing, shelf space is still limited. This opens up for transferring dairy products into other retail categories. Example: Dairy sports nutrition drink Gainomax displays its UHT-treated products outside the dairy shelf, together with other sports nutrition products.

In discount retail, multi-packs drive larger volume sales, adding variety and facilitating habitual purchases for consumers. Shelf-ready packaging and display-ready pallets offer great potential to build brand awareness and differentiation, create shelf stand-out and increase conversion rates especially for non-chilled products.

Driver # 3: Value for Money Make packaging a part of your price strategy

The dairy market is characterized by maturity and slim margins on traditional bulk products. Value for money becomes key when the economy slows down and competition is fierce. In 2015, drinking milk prices in Finland slumped 6%, while non-dairy alternatives rose by 1%¹⁾. In Russia, decreasing disposable incomes has made consumers wary of dairy prices, forcing brand owners to focus innovation on lowering product prices through more efficient production and packaging.⁷⁾

Secondary packaging can be used in many ways to maintain a cost-efficient strategy, achieve differentiation and demonstrate value for money. Multi-packs and display packaging made from corrugated can be cost-optimised in terms of design and material selection. As an example, Stora Enso helped customers in Poland reduce packaging weight by 5-8% using its modern lightweight Avant containerboards based on recycled fibre. On top of that, efficient packaging automation lines made for high-speed dairy production can reduce total costs even further.

Three global drivers of dairy innovation

Driver # 1: Health & Wellness
Variety complicates, packaging simplifies

Brand owners and retailers respond to the increased demand for health-promoting products by innovating a great variety of premium and specialty

Eco Growth

10%

Average global growth of eco-labelled grocery sales 2014

38%

Growth of eco-labelled grocery sales in Sweden 2015⁵⁾



From zero to hero in 10 years

Chobani, the leading Greek yoghurt brand in the US started in 2005. This health-driven innovator creates new products and sub-categories using convenient packaging design. Combined with a focus on speedy production, Chobani now holds a 36 % market share in its sub-category.²⁾

Brand owners' dilemma: Innovation colliding with shelf shortage

Brand owners' innovative pace to meet new consumer demands is colliding with retailers' ambitions to rationalise SKUs to improve profitability. The take-out: Dairy shelves are too small.

Less shelf space

Retailers are more powerful and innovative than ever. Using sophisticated tools to pull insights from the consumer dialogue, they can quickly develop and deliver relevant private label products that push B-brands off the shelves.

Hard discount retailers increase their buying power by rationalising their assortments down to the bare essentials. Aldi's assortment is only 5% of Tesco's, measured in SKUs. Still, Aldi sells more products per visit (16,9 vs 16,6) and has three times Tesco's buying power per SKU.⁴⁾ In 2015, Tesco responded by slashing 30% of its assortment in one blow to save costs on low-performing SKU's. Similarly, US wholesaler Costco offers 69 dairy SKUs in an average store, while close competitor B.J.'s offers 148.³⁾

Two strategic routes to combat shelf shortage

Route 1: Go outside dairy

Innovative, value-adding dairy products can be positioned for retail categories

outside the crowded chilled dairy shelves. Non-chilled dairy allows for shelf-ready and display packaging solutions that can create new shelf space and differentiate the consumer experience in cost-effective and sales-generating ways that go beyond standard primary packaging.

Route 2: Go online

Consumers are taking online grocery shopping to heart and dairy has significant potential, now that innovative packaging and delivery models keeping the cold chain intact is on the horizon. Allowing consumers to subscribe to their favourite dairy product, an innovation-of-the-month offering or a basket of premium local dairy selections may be the next route to growth. Online retail is a convenient way to purchase dairy, alleviating consumers the burden of carrying heavy dairy products home. With unique structural and graphic design, secondary packaging can improve unboxing experiences and work as a brand-building beacon.

Less shelf time

In dairy, it is popularly claimed that 90 % of new products do not survive their first year.⁶⁾ Introducing dairy products can be costly for the retailer as shelf-life is often short. An unsold product is wasted within weeks, one of many reasons why Costco gives a new item no more than 13 weeks to perform, or it is discontinued.³⁾

Time to prove success of new dairy innovations is shortening. Dairy producers must work faster and more efficiently not just with product development, but also with their supply chains including packaging and automation. They must be able to adapt the packaging to the production while maintaining cost efficiency through high-speed production lines. By taking a holistic view on the secondary packaging, using it as a tool for branding and incorporate packaging automation and design in early stages of the product planning, the possibilities to decrease cost and maintain a high-speed launch and re-launch strategy increase.





Packaging automation cut costs for dairy customer by up to 16%

There is no room for flaws and mistakes in a dairy production line. Our insight and experience of this fact derives from long lasting partnerships with dairy companies. Thanks to our long experience of the industry, we helped a major Nordic based dairy company reduce their packaging material cost by up to 16%.

The challenge

The brand owner was about to invest in new packaging machinery for the production line of a product. They were looking for a partner with experience in integrating packaging design and packaging automation from an early stage in the process. A deep understanding of the packaging impact

at retailers and for consumers was also deemed vital. The leading theme for the project was cost reduction and efficiency.

Full integration from the start together with a team of experts in packaging automation, designers, engineers and sales representatives from Stora Enso and stakeholder representatives from the customer, we formed a team tailor-made to capture value in the whole supply chain.

Mapping the road ahead – 3 options

By involving us early in the process, the brand owner received 3 solutions for machinery, materials and design that aligned with needs and demands from brand owner, retailers and consumers.

The result

The brand owner chose a solution that matched their specific requirements in efficiency, design and sustainability. The solution resulted in an up to 16 % reduction in cost from the previous packaging and enabled a reliable, high performance packaging line with less manual interference.

Continuous optimization

Our Technical Customer Service continues the journey together with the brand owner. We make sure that our client continuously leverage on the packaging solution by maintaining our optimization focus in the packaging line to increase the brand owner's margins day by day.

About us

Stora Enso is a leading provider of renewable solutions in packaging, biomaterials, wooden constructions and paper on global markets. Our aim is to replace fossil-based materials by innovating and developing new products and services based on wood and other renewable materials.

Packaging Solutions division develops fibre-based packaging, and operates at every stage of the value

chain from pulp production, material and packaging production to recycling. Our solutions serve leading converters, brand owners and retailer customers helping to optimise performance, reduce total costs and enhance sales.

About our Viewpoints

The Viewpoint on the future of dairy packaging is the sixth edition in a series of Viewpoints from Stora Enso.

Through the Viewpoints we share our view on how our customers can become more successful in addressing future opportunities and challenges through packaging. Please see also our previous Viewpoints on packaging for Food, Consumer electronics, Retail, Online retail and Millennials. You can find them and learn more about what packaging can do for your business at www.storaensopack.com

Sources: 1. Euromonitor, 2015-2016. 2. Nielsen, 2016. 3. RetailWire, 2012. 4. The Telegraph, 2014. 5. Ekoweb, 2015. 6. Coop Sverige. 7. McCann/Stora Enso, 2016. 8. Retail Times, 2015.