

# **Packaging in a Market Economy: The Economic and Commercial Role of Packaging Communication**

by

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# EXECUTIVE SUMMARY

This report examines the role of packaging communication and its economic and commercial effects. It considers how on-pack branding and packaging for fast moving consumer goods (FMCGs) perform key functions in a market economy, from a consumer perspective (such as providing information, confidence, choice, satisfaction, and reduced search costs) and from an economic and competition perspective (in respect of its role in differentiation and segmentation while supporting rivalry, commercialisation and innovation). The study shows how these functions provide important economic effects by supporting economic growth and promoting well-functioning markets.

Packaging has many roles beyond protection, preservation and presentation. Notably, packaging offers brand owners the possibility to communicate with consumers through distinctive designs and on-pack communication in the form of logos, graphics, images, colours, messages, and product information. This represents an important medium for marketing communication and an important battleground for the intense rivalry evident in most FMCG markets where brands compete for the attention of consumers.

Such competition is both *immediate* in nature, i.e. how existing packaged products compete with each other, as well as *dynamic* in the sense of the process by which new products enter the market and existing ones adapt and improve through innovation and new product development. Both aspects of competition are vitally important to a well-functioning market and for economic progress for the public good.

The analysis and discussion of packaging communication is addressed in three key study areas in the report: the consumer dimension, the competition dimension, and the economic dimension.

The *consumer dimension* considers consumers' relationship with packaging and the public interest desire that consumers should be well-informed and confident in making their purchasing decisions. This requires consideration of the range of information that is conveyed by packaging, its influence on consumers' purchase decisions, and how it can generate consumer understanding, trust, reassurance and confidence. Packaging communication plays a key role in assisting the consumer at the point of sale but also provides on-going product information and performance to influence future purchasing decisions.

The *competition dimension* addresses the public desire to see open, competitive markets where packaging is used by FMCG companies to communicate, differentiate, segment and ultimately compete through packaging's ability to support product quality, variety, and diversity as well as provide scope for innovation for the benefit of consumers.

The *economic dimension* examines how packaging is economically important through supporting innovation, new entry, competitiveness, trade and strong economic growth, while recognising that it entails both avoidable and unavoidable environmental costs.

Consideration of packaging communication's role in these three dimensions serves to highlight the broader context in assessing the role and functions of branding, and specifically what it can and cannot achieve. This consideration recognises that branding may be able to play differing roles at different stages of a category's development. For example, in relatively new categories, a confidence-inspiring brand (like Apple) might encourage take-up of the new product or service, growing the category as a result. In mature markets this role may not be possible. For example, taking an everyday category like shampoo, it is difficult to envisage that established products have much influence to encourage people to use more shampoo in the absence of new innovations no matter how attractive is the packaging.

At issue is a more general question: Does branding have the power to induce people to buy things they do not want? This is a claim sometimes levelled by policymakers. The answer lies with consumers. If consumers are informed, rational and confident then they can make effective purchase decisions that take full account of the choices available to them. On-pack branding and communication has a role to play in providing information and reassurance but cannot persuade informed consumers to buy things they do not want.

The fundamental nature of FMCGs is that they are generally repeat purchase items, so consumers have the opportunity to learn which products best suit them, regardless of how they are packaged and sold. The experience nature of these products is such that if they were tried and not liked then consumers would shift to buying alternative products, so there is always commercial pressure on producers to maintain product quality and consistency, while innovating to remain competitive.

Supporting consumer choice requires the presence of effective competition at all levels of the supply chain. To reach out to consumers, brands need access to shelf space, which can prove difficult if retailers have excessive gatekeeper power when retail markets are highly concentrated. Equally, retailers need a good choice of brands to display to give consumers suitable choice. Imperfectly competitive markets characterised by anti-competitive behaviour are not conducive to fair choice or fair prices for consumers.

For policymakers and regulators, each of the three dimensions point towards a key need. In respect of the consumer dimension, it is vital that the policy aim is directed towards supporting and developing well-informed, confident consumers. For the competition dimension, policy needs to support and promote open, competitive markets. For the economic dimension, policy must be directed at supporting competitiveness and economic growth.

Any regulatory intervention that affects how producers communicate through their packaging must tread carefully to ensure that it supports and does not undermine packaging's positive competitive and economic role. Ensuring appropriate, well-conceived, and well-executed regulatory intervention is not an easy task. There is an equal danger of too little regulatory involvement (such as failing to protect intellectual property rights or provide regulatory certainty to aid business planning) just as there is with too much regulatory involvement (which can distort competition and add to industry's cost burden, potentially increasing costs to consumers). Striking the right balance is not easy, but is vital in economic terms.

This calls for a careful *Goldilocks* assessment, to make sure that regulation is just at the right level, neither too little nor too much, and appropriate for the needs of the market to support consumer choice and confidence while ensuring or propagating effective competition.

In the context of packaging, though, there are two particular situations which can give rise to a concern that competition and innovation could be stifled or distorted and economic harm arise with inappropriate or insufficient regulation. First, regulation that restricts firms' ability to compete effectively through their packaging may impede the competitive process. Second, unfettered firms that deliberately free-ride on and undermine the intellectual property investments of others can distort competition to the detriment of consumers.

The first of these, regarding regulatory requirements on the nature of communications, can take the form of either mandating specific information or requiring the removal of information. Inappropriate regulatory action can detrimentally impact competition and confuse consumers. Two controversial policy areas are particularly pertinent:

- First, with front-of-pack nutritional labelling on food products, the failure for policymakers and regulators to be decisive in applying universal requirements means that there is no single industry-wide platform on which to compete, resulting in a proliferation of labelling formats making it harder for consumers to readily make direct product comparisons. While this situation persists, consumers can be confused and make ill-informed purchasing decisions.
- Second, plain packaging regulations for cigarettes (as due to be introduced in Australia and currently under consideration in the UK) remove on-pack branding and so make it harder for consumers to identify the brand at the point of purchase. This has the potential to distort competition by focusing attention on price rather than quality, opening up the prospect that a regulation intended to reduce demand might perversely increase demand and sales if the intensification of price competition leads to lower prices and reduced average quality, while generating smaller revenues for the industry and government (through a reduced tax take).

In the second situation, where regulation has a role to support vibrant competition by ensuring that intellectual property investments are protected, the main policy consideration is in regard to copycat packaging and the problem of parasitic copying. In this regard, the branding and packaging investments made by established brands can be undermined by copycat products free-riding on these investments and diverting sales away from established brands, and so distorting competition. Existing laws and regulations provide limited protection for brand owners, leaving them vulnerable to this problem and exposing consumers to the risk of making mistaken or misleading purchasing decisions.

# **1. Introduction**

## ***Overview***

Packaging communication is a key medium in promoting consumer goods and assisting consumers in their purchasing decisions, yet its economic and commercial effects have received remarkably little consideration in either theoretical or empirical studies despite its business importance. This report addresses how on-pack branding and packaging perform key functions in a market economy, from a consumer perspective (such as providing information, confidence, choice, satisfaction, and reduced search costs) and from an economic and competition perspective (in respect of its role in differentiation and segmentation while supporting rivalry, commercialisation and innovation). Through surveying, synthesising and contextualising the existing academic and business literature on packaging and on-pack branding and information, this report shows how these functions provide important economic effects by supporting economic growth and promoting well-functioning markets.

Consumers, and the public more generally, tend to have a love-hate relationship with packaging, recognising its key importance in protecting goods and as an information provider, but concerned about its implied cost and environmental impact when packaging is regarded as unnecessarily excessive or wasteful. Governments are also taking an increasing interest in the environmental aspects of packaging, seeking to curb waste and increase recovery and recycling rates. Yet, governments are also increasingly interested in the communication aspects of packaging, either because of the perceived lack of appropriate information (e.g. front-of-pack nutrient labelling on food products) or because of the perceived power of on-pack communication and branding to promote goods where they might wish to see sales restricted (e.g. on cigarettes).

The aim of this report is to provide insights on how packaging and the information provided on packaging (both distinctive and non-distinctive elements) play important economic functions through their support for consumers, the efficient functioning of markets, and economic growth. In particular, the report seeks to offer a balanced perspective on the important functions that packaging provides in the market and to recognise the economic benefits when otherwise packaging policy considerations might be disproportionately dominated by sustainability, public information and public health considerations. This is important in the policy context, since understanding the competitive and economic factors operating in packaged consumer goods markets can provide key insights into how regulatory intervention can affect market behaviour and performance, and ultimately impact consumers.

The focus of the study is on consumer goods markets, and specifically “fast moving consumer goods” (“FMCGs”) such as food, soft drinks, alcohol, toiletries, household



products, and toys where self-service is a significant feature and so packaging and on-pack information may play an important role in attracting the attention of consumers and influencing their purchase decisions.

The emphasis is on packaged goods generally, not distinguishing between branded goods and unbranded generic goods, or indeed goods that can fall within these ranges, e.g. the different quality tiers of retailer private label products ranging from premium through to standard down to value/budget ranges. However the importance of *differentiation* – with consumers being able easily to tell products apart – and *branding* are important themes that run through this study because of the identity that packaging and on-pack communication can provide.

While packaging is used as a catchall term to signify the outer identity and look of the product, the scope of the study covers all pack elements that are visible to and influential with the consumer, including pack graphics, pack shape, pack size, and pack materials. These elements, combined with the messages and information provided by the on-pack communication, translate into a powerful medium for products, acting as their voice on the shelves of retailers, calling out to consumers, urging shoppers to choose them over rival products.<sup>1</sup> They accordingly act as a key instrument for competition, as competing packs call out for attention from the retailers' shelves. For those which are unappealing, they will be literally left on the shelf, and eventually will lose their place on the shelf, to be replaced by a new product with more appeal. The resulting product churn represents a healthy, dynamic process whereby competition and innovation can flourish so long as there is a level playing field in gaining access to shelf space, packaging investments can be appropriated (i.e. intellectual property rights are protected), and there is sufficient choice of both competing stores and competing products facing consumers to ensure that competition is effective at all levels of the supply chain.

We begin the study by introducing the key aspects of packaging and discussing the scope of the study around FMCG markets and their characteristics and behaviour. After which we outline the different sections of the study looking at three dimensions, respectively the consumer, the competition, and the economic dimension. We then consider the policy implications arising from our analysis, focusing on three distinct but highly topical and controversial aspects: health/nutritional labelling (for food and drink products); plain packaging regulations (as might be applied to tobacco products); and copycat packaging and the problem of parasitic copying undermining intellectual property investments. A conclusion section completes the report.

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<sup>1</sup> See Dobson (2003) for a discussion on the competition implications.

## **What is the role of packaging?**

A straightforward and literal definition of packaging is “*all products made of any materials of any nature to be used for the containment, protection, handling, delivery and preservation of goods from the producer to the user or consumer*”.<sup>2</sup>

This physical nature of packaging as the substance that surrounds the product which consumers ultimately consume, applies at the following levels:

- 'Primary' (or 'Sales') packaging is packaging which forms a sales unit for the user or final consumer, for example, a box containing soap powder
- 'Secondary' (or 'Grouped') packaging is that which contains a number of sales units, for example, a cardboard outer containing a number of boxes of soap powder.
- 'Tertiary' (or 'Transport') packaging is packaging that is used to group secondary packaging together to aid handling and transportation and prevent damage to the products, for example, the pallet and shrink wrap used to transport a number of cardboard outers containing boxes of soap powder.

The focus in this report is on primary packaging, in what is identified by consumers as being an intrinsic part of the product even if it is not consumed along with the contents of the package. Packaging does not merely surround the contents, but gives those contents a shape and identity, i.e. whether in a box, can, tin, bag, wrapping, bottle, carton or other form of container. The identity of a product is often synonymous with its packaging through the instant recognition of the packaging material, shape, size, colour and design (including colours, pictures, logos, slogans and other wording). This identity feature of packaging is crucial to understanding its economic role beyond its contribution as a physical medium for containment, protection, handling, delivery and preservation.

Changing lifestyles and consumption trends, especially where products are stored before consumption, have made packaging essential and mostly inevitable. The obvious role of packaging is to contain a product and display information about what is contained therein. Its most immediate benefit is to prevent goods being damaged and maintain freshness.<sup>3</sup> Yet, despite its obvious preservation and convenience benefits, packaging is often viewed negatively and seen as an unnecessary cost; a perspective reinforced by a concern over its environmental impact as a discarded element of a consumed product.

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<sup>2</sup> This definition of 'Packaging' comes from the DEFRA website, last updated in October 2010. There are various text books in Marketing (e.g. Kotler, 2010) and Marketing Communications (e.g. Smith and Taylor, 2004) that provide definitions of packaging on the basis of its key functions.

<sup>3</sup> As an illustration, in-store wastage of grapes packed in bags or sealed trays is some 20% less than the waste from grapes when sold loose (Defra Advisory Committee on Packaging, "Packaging in perspective", October 2008).

This functional perspective on packaging ignores the importance of packaging in the marketing of products, promoting the characteristics, values and image of the product through the on-pack communication, which is designed to both attract consumer attention and provide information to support purchase decisions.

### ***Packaging communication***

In a highly competitive market, where consumers have a very wide range of products from which to choose, companies will seek to use a variety of means to communicate the relative benefits of their products to try and reach out to consumers to generate sales. In the FMCG industry, packaging and packaging design have become a vital factor in marketing consumer goods, playing a key role in communicating product benefits to the customer. This is especially so as FMCG products are generally associated with low-involvement purchase decisions, where consumers tend to make a buying decision in a very limited time and without the aid and direction of sales people in a largely self-service environment like a supermarket. In such circumstances consumers rely on cues to direct them to the products that would best serve their needs. In particular, consumers may be aided in their search by a product's display and on-pack communication.

It is only in recent times that researchers have begun to give full recognition to the crucial importance of packaging as a key role in the marketing mix.<sup>4</sup> This is surprising given that packaging carries great significance as a marketing tool within the FMCG industry; an industry which in the UK alone is worth around £200bn through retail sales (e.g. in supermarkets, convenience stores, drug stores, general merchandisers, department stores, and other retail outlets) as well as sales through other channels (e.g. restaurants, bars, and other service oriented outlets), and an industry populated by both international brands and retailer private-label brands with mass market appeal as well as a wide array of specialist, niche brands.

While the new product development (NPD) literature relating to this industry is very well established, there is comparatively little research focused on the development of new packaging and how it can influence product performance in the FMCG sector. The research undertaken has mainly focused on the development of the core product and provides limited insight to the role of packaging as a marketing tool to create new opportunities in the market. This lack of attention should not underestimate the extent to which packaging is a critical marketing tool and its role in influencing and assisting consumers' product choices and perceptions.

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<sup>4</sup> A number of studies have focused on developing theoretical frameworks for examining the role of packaging as a critical marketing tool in the marketing mix, emphasising the power of packaging to communicate with the consumers in highly competitive markets like FMCG industry. For instance, see Johnsson (1998), Rundh (2009), Saghir (2002), Silayoi and Speece (2007), and Simms and Trott (2010).

## **Outline of report**

Having introduced the key themes in the report, the approach taken in the study is to consider packaging and on-pack communication in respect of three dimensions before drawing on the insights gained to consider the public policy implications.

The next section, Section 2, addresses the *consumer dimension*, examining a wide range of questions relating to consumers' relationship with packaging and the public interest desire that consumers should be well-informed and confident in making their purchasing decisions:

- What are the differing functions of packaging (e.g. point of sale, product delivery, premiumisation, gifting, self-indulgence)?
- To what extent are particular elements (e.g. brand name, producer name, colour, imagery, shape, body copy, statutory information) important to the information functions?
- What is the range of information that is conveyed by packaging?
- How influential is packaging in influencing consumers' purchase decisions
- To what extent does packaging generate consumer understanding, trust, reassurance and confidence?
- How important is packaging relative to other means of communication for consumers (in respect of drawing comparisons and determining what to buy)?
- How do consumers use packaging at point of sale (e.g. identify product categories, product types, competing products, value for money, and determine choices)?
- Does packaging post-sale (e.g. in delivering on-going product information and performance) influence future purchasing decisions?

Section 3 then builds on these insights to address the *competition dimension*, where there is a public desire to see open, competitive markets. Here the key questions addressed include:

- Why is packaging important to competition?
- How is packaging used by companies (marketers) to communicate, differentiate, segment – and ultimately compete?
- What are the benefits to competition of packaging (e.g. informed consumers; choice of offers / variety / diversity; downward pressure on pricing; competition on quality as well as price)?
- What is the inter-relationship between innovation and packaging?
- How is innovation taking place in pack functions such as conveying information and improving product delivery?
- How does packaging reduce innovation risks for consumers and encourage innovation take-up (e.g. through branding)?

Section 4 then moves on to consider the *economic dimension* where the public interest is served by ensuring that there is global competitiveness and strong economic growth. In this context, the questions addressed include:

- Why is packaging important economically?
- How does packaging help innovation enter and be accepted by the market (e.g. by simplifying search costs, lowering barriers to entry, helping to create and grow categories)?
- How does packaging impact on sustainable development?
- What environment costs (both avoidable and unavoidable) are associated with packaging?
- How much does packaging contribute to economic growth, promote trade, and support global branding to consumers' advantage?

Section 5 draws these three dimension strands together to consider the public policy issues relating to packaging communication. The focus is on areas where regulation on packaging and on-pack branding and labelling can have particularly significant and far-reaching economic and competitive effects. In this context, there is the potential that poorly designed and conceived government regulation can detrimentally affect, undermine or distort competition by being in some circumstances too excessive and too prescriptive and yet in other circumstances too limited and too lax. Three specific and highly topical policy areas are examined:

- front-of-pack nutritional labelling for food and drink products
- plain packaging regulations for tobacco products
- copycat packaging and the undermining of intellectual property investments

Section 6 concludes the report, putting into context an assessment of the role and functions of branding and what it can and cannot achieve. The section summarises the key findings and insights and provides a discussion of the commercial and policy implications around some of the cases and examples discussed in the report.

## 2. The Consumer Dimension

While the primary use of packaging can be considered as protecting the goods inside, it plays a crucial role in assisting purchasing decisions as it provides a recognisable image and identity to allow consumers instantly to know what the goods are inside. In this identity role, packaging is fundamental in serving as both a cue and as a source of information, not just for making the initial purchase but as a mean that provides consumer confidence in generating the trust and ability to consume that drives repeat purchases as well.

By drawing together a diverse literature on packaging it becomes possible to develop a clearer understanding of the powerful nature of packaging as a marketing tool, and to recognise that packaging is a critical part of the product offering that should be highly regarded within all areas of marketing.<sup>5</sup> For FMCGs, packaging is a crucial medium between the producer and the consumer, allowing the producer to grab the attention of the consumer while communicating information that allows the consumer to make informed purchasing decisions, and for the longer term building a relationship that offers the consumer confidence and trust, so encouraging repeat purchases and building brand loyalty. This section explores these relationships and the link that packaging provides between the producer and consumer.

### 2.1 Functions of Packaging

The basic functions of packaging can be largely distinguished between those that serve a logistics or marketing role, even though in practice these roles are intertwined.

The obvious benefit of packaging is the protection of goods to be sold. It prevents damage during transport and storage from the elements, vibration and compression through a

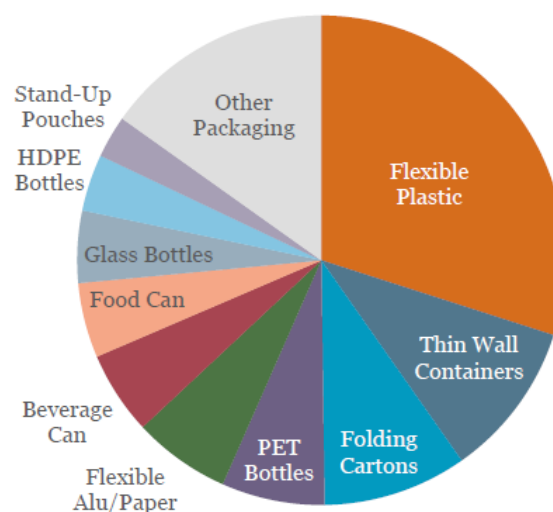
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<sup>5</sup> Packaging's ability to communicate with consumers is detailed in the marketing communication literature (Nancarrow et al., 1998; Underwood and Ozanne, 1998); how it can influence consumers' perceptions and evaluations of products (Raghubir and Krishna, 1999; Rettie and Brewer, 2000); and how it can be used to gain their attention (Underwood et al., 2001). Indeed packaging has a powerful effect on consumers at the point of sale (Prendergast and Pitt, 2000; Wells et al., 2007) and can hence improve product sales (Garber et al., 2000; Silayoi and Speece, 2004; Rundh, 2009; Simms and Trott, 2010). The brand management literature highlights packaging's importance as a brand tool (Underwood and Klein, 2002; Underwood, 2003) and to differentiate products in the eyes of the consumer (Wells et al., 2007). The distribution management literature has focused on packaging's key role within the supply chain and as a logistics tool (Johnsson, 1998; Bjarnemo et al., 2000). The importance of packaging in terms of the organisation's environmental responsibilities and commitment to sustainable marketing has also been documented in the literature. This highlights that packaging's traditional key roles must be balanced with these new environmental concerns (Prendergast and Pitt, 1996; World Packaging Organisation, 2008).

physical layer of protection. While protecting goods in transportation, packaging also keeps the freshness of products and enhances the life of perishable food items. These two benefits are mostly concerned with the logistic function of packaging.<sup>6</sup>

Other benefits of packaging to consumers arise from convenience associated with storage and shelving of long-life food items and associated hygiene and safety benefits. In particular the material and shape of packaging can be designed to support these aspects, e.g. material and shapes suitable for stacking in cupboards (e.g. jars, tins and packets) or contained in refrigerators or freezer (e.g. cartons). However, convenience also carries over to actual consumption (e.g. squeezable sauce bottles, screw-top bottles, ring-pull cans, re-sealable bags, and air-tight tins). In practice, a wide variety of materials are used for packaging, with the choice of material reflecting logistical and consumer needs. Figure 1 shows the main pack material types currently used in the UK consumer goods industry.

**Figure 1 – Top 10 Pack Types in 2011<sup>7</sup>**



Packaging can hamper the relationship with the brand if it is unmanageable.<sup>8</sup> For instance, the experience with the product can be negative if it cannot open conveniently, breaks easily, does not fit on shelves or in the refrigerator/freezer, or can cut or harm the consumer.

<sup>6</sup> See Prendergast and Pitt (1996) for detailed discussion on the different functions of packaging.

<sup>7</sup> Source: Puchard (2011) - based on Europanel data and 124 Billion units of FMCG packaging sold in the UK in 2011.

<sup>8</sup> The American Marketing Association defines a *brand* as a "name, term, design, symbol, or any other feature that identifies one seller's good or service as distinct from those of other sellers." See [http://en.wikipedia.org/wiki/Brand#cite\\_note-0](http://en.wikipedia.org/wiki/Brand#cite_note-0).

The second function of packaging is essentially a marketing role. Packaging provides an attractive method to communicate and convey messages about product attributes to consumers. Crucially, packaging is the only part of marketing communication which a consumer takes home after the purchase. Consumers also perceive packaging as one of the product attributes, no matter what the functional aspects of packaging as related to logistics considerations. This further emphasises packaging's role in communicating and reinforcing brand values over time; recognising that packaging has the power to build, but also to break brand relationships.

Even if a company does not clearly recognise the marketing aspects of packaging, it cannot escape performing the marketing function. Yet, this marketing role is critical in the FMCG industry where consumers have limited time for purchasing low-involvement products. There is, of course, a danger that the package communicates negatively, but a package designed well for its marketing function helps sell the product by attracting attention and positive communicating with consumers.<sup>9</sup> Rundh (2005) conveniently summarises the different functions of packaging and shows how these link to particular business and marketing functions as shown in Table 1.

TABLE 1 – PACKAGING AND MARKETING FUNCTIONS	
Functions of packaging	Functions of marketing
<b>Packaging protects</b> Packaging must be able to withstand robust physical handling during distribution so that the goods are received by consumers in the same function they left the factory	Physical distribution and storage Product quality
<b>Packaging preserves</b> Use packaging forms and materials that will preserve the product from deterioration	Physical distribution and storage Product quality
<b>Packaging facilitates distribution</b> Well-designed packaging and effective packaging methods are key elements in ensuring that goods reach their destination in optimum condition	Physical distribution and storage Supply chain management
<b>Packaging promotes customer choice</b> Packaging enables and promotes brand identification and competition	Promotion and selling Marketing communication

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<sup>9</sup> Silayoi and Speece (2007) conducted an empirical research based in Thailand food packaging market to understand the packaging design influence on purchase decisions and considered different segments.



<b>Packaging sells</b> Packaging is integral to the sales process. It displays and describes the product it contains; leaving the consumer to choose which product is best suited his or her taste. This, together with the visual appeal of the package, is often a decisive feature in the purchasing situation	Promotion and selling Marketing communication. Design
<b>Packaging informs and instructs</b> Packaging communicates additional messages to the consumer	Marketing communication
<b>Packaging provides consumer convenience</b> Changing lifestyles have created a demand for packages that offer time-saving features and easy efficient handling	Standardization/differentiation and distribution. Customization
<b>Packaging help contain prices</b> Consumer goods would be more expensive if it were not for cost-effective packaging. The packaging of products in packs of various sizes allows the consumer to purchase the most convenient quantity	Pricing
<b>Packaging promotes hygiene and safety</b> Improvements in standards of hygiene and medical care in hospitals are in large a measure due to the use of pre-packed medical products for usage and disposal. The same goes for food products	Physical distribution and storage. Promotion
<b>Packaging is innovative</b> In many cases, the packaging industry responds to new demands which arise for specifically packaged foodstuff products	Packaging/package development Customization Package design in relation to relevant market demand/need

Beyond its convenience and protection qualities, it is as a medium of communication that packaging is particularly important for FMCGs. In the most basic sense, packaging can provide information to a consumer regarding the product contents (e.g. from listed ingredients and/or an image of what is contained within). This information may be promotional, factual or mandated by regulation. The information serves as a cue in assisting the consumer when faced with multiple products from which to choose. This is particularly important in view of the changing lifestyles and time pressure on consumers, combined with ever widening product variety adding to the need for consumers to make rapid, informed purchasing decisions.<sup>10</sup>

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<sup>10</sup> A number of studies in marketing and related fields have confirmed the changing lifestyles influence on both purchase patterns and more recently on packaging. For example, Silayoi and Speece (2007) focused on Thailand ready-to-eat food market; Rundh (2009) highlighted the changing packaging trends using a case study; Phillips and Kim (2011) have explored the use of cues inherent in packaging that aid the identification of both the market positioning and brand recognition of the product.

## 2.2 Elements of Packaging

A package appearance is composed of many elements which represent brand and package attributes. Recent studies have found packaging's effect on brand identity and personality is due to a wide variety of structural and visual elements, including brand logo(s), colours, fonts, package materials, pictorials, product descriptions, shapes and other elements providing rich brand associations.<sup>11</sup> Table 2 summarises the findings from a number of recent studies classifying the elements of packaging. These studies have mainly focused on analysing the effectiveness of some key elements of packaging in achieving the goal of communication with customers. As highlighted in the table below, the emphasis of these studies varies from positioning to purchase decision.

TABLE 2 – ELEMENTS OF PACKAGING		
Authors	Main emphasis	Packaging Elements
Rettie & Brewer (2000)	Proper positioning of elements, which includes verbal on right-hand side and non-verbal on left hand side of the package.	Verbal: Brand slogan Visual: Visual appeal, picture, etc
Kotler (2003)	Elements should be evaluated when employing packaging decision.	Size, form, material, colour, text and brand
Underwood (2003)	Elements in packaging design help the producer in creating and communicating brand identity.	Structural and Visual elements: Brand logo, colour, fonts, material, pictorials, product description and shapes.
Smith and Taylor (2004)	Distinctive elements to be considered by producers and designers when creating efficient packaging.	Form, size, colour, graphics, material and flavour (Similar to Underwood, 2003, in focusing on structural and visual rather than verbal elements of packaging)
Silayoi & Speece (2004; 2007)	Emphasis on consumer communication and branding. Visual elements are related to affective aspect of consumer's decision making process, while informational elements are related with cognitive ones.	Visual: Graphics, colour, shape, and size Informational: Information provided and technology
Vila & Ampuero (2007)	Emphasis is on packaging as the key variable of positioning (product) in the marketing mix. Packaging plays an essential role when it comes to configuring the positioning of a food product.	Graphic components: Colour, typography, shapes used, and image Structural components: Shape, size of the containers, and materials

<sup>11</sup> Specifically, Underwood (2003) and Keller (1993) find visual elements have cognitive influence on consumers and build brand identity for the products.

Butkeviciene <i>et al.</i> (2008)	Importance of packaging elements in communicating and influencing decision making process. Visual elements of the package transfer non-verbal informational and affect emotions. Verbal information, which is transferred with informational elements, affects cognitive orientation of consumer.	Non-verbal: Colour, form, size, imageries, graphics, materials and smell Verbal: Product name, brand, producer/ country, information, special offers, instruction of usage
Kuvykaite <i>et al.</i> (2009)	Detailed evaluation of verbal and visual package elements and their impact on consumer's purchase decision. Taking into consideration involvement level, time pressure or individual characteristics of consumers, is necessary in order to implement efficient packaging decisions.	Visual: Graphic, colour, size, form, and material Verbal: Product information, producer, country-of-origin and brand

While different studies classify packaging elements in different ways, there is broadly common treatment in how these studies view verbal and non-verbal elements. Verbal signs are literally expressed on the package, such as brand name, producer, country-of-origin and product information. Except for price, non-verbal signs are those that traditionally are referred to as visual aspects and design elements. Thus, such non-verbal signs can be distinguished as size, shape, material, pattern, font, and colour. In respect of their psychological influence in aiding shoppers searching for a product to purchase, non-verbal elements are related with affective aspects of a consumer's decision making process, while verbal elements are related with the cognitive ones.<sup>12</sup> In practice, both elements combine and complement each other in helping to link and support brand identity with packaging elements.<sup>13</sup>

Studies in this field have found theoretical and empirical support for the non-verbal packaging elements influencing purchase decisions more than verbal elements with FMCG products. In spite of this, non-verbal elements have not received widespread attention in scholarly studies within marketing. However, the impact of non-verbal elements on consumers is widely acknowledged and especially in their role of attracting initial attention. In addition, they can evoke persuasion, highlighting the communication role of packaging. Furthermore, non-verbal signs can have an impact on memory and also influence attitudes.<sup>14</sup>

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<sup>12</sup> See Silayoi & Speece (2004; 2007)

<sup>13</sup> See Rettie & Brewer (2000), Silayoi & Speece (2007), Underwood (2003), Gofman *et al.* (2010), and Lofgren *et al.* (2008).

<sup>14</sup> Silayoi and Speece (2007) find significant support for the impact of non-verbal and packaging technology (convenience). Ampeuero and Vila (2006) find support for graphical elements including colour, typography, graphic forms and illustrations influencing differently elite/premium and price sensitive consumers.

Taking each of the main verbal (informational) and non-verbal (visual) elements in turn, the key findings of the academic literature are as follows:

*Package Graphics:* the graphical elements include layout, colour combinations, typography, and product illustrations, and they all contribute to creating an image for the product.<sup>15</sup> For FMCGs and other low-involvement products (typically in a self-service environment), the packaging symbolises the product for consumers and early impressions formed during initial contact can have lasting impact. The design characteristics of the packaging need to stand out in a display of many other offerings, as these aspects most directly communicate messages to the target consumers. When scanning a wide range of different packages in the supermarket, the differential perception and the positioning of the graphics elements on a package may make the difference between identifying and missing the product. The following sections detail the important graphical elements.

*Colour:* When it comes to the impact of colours on packages, it has been found that consumers use colours on packages for identification of brands, e.g. the colour of red and Coca-Cola, purple and Cadbury's Dairy Milk, as well as gold/black and Duracell. Consumers might also associate particular colours with a general character of a good (e.g. green with healthy or organic products). Research has shown that colours attract consumers' attention and impact on the evaluation of products. Moreover, accepted colours on packages may be limited, which means that consumers might only accept a few colours on a package. Studies have found that some international brands are strongly related to colours.<sup>16</sup>

However, some studies find that colour can also distract attention from relevant data (important and diagnostic information) in a situation when colourful graphics use consumers' resources that might better be used in examining the verbal component of the package label, leading to the possibility of an incorrect conclusion being drawn about the product.<sup>17</sup> More generally, colour associations are complex in nature. On the one hand, consumers seem to have personal and cultural preferences for some colours over others. On the other hand, entire product classes seem to have sets of "acceptable" colours and these sets seem to be independent of personal colour preferences.<sup>18</sup>

Furthermore, colour associations can cross category boundaries. For example, one study finds that packaging in cold and dark colours can be associated with high-prices and refined aesthetics, while accessible products that are directed towards price sensitive consumers

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<sup>15</sup> Silayoi and Speece (2004) have used these elements as visual components.

<sup>16</sup> For example, see Grimes and Doole (1998) and Madden (2000).

<sup>17</sup> See Fitzgerald Bone and Russo France (2001) for further details.

<sup>18</sup> Grossman and Wisenblit (1999) propose a learning framework to the colour literature to help understand consumer colour choices. Their study emphasises that favourite colours do not effectively explain consumer colour choices for products and consumers could develop a wide range of colour associations for various product contexts, which makes the task of understanding colour responses more complicated.

might require light, mainly white or pale coloured packaging and safe and guaranteed products were associated with red packaging.<sup>19</sup> However, it remains unclear whether these results demonstrate an inherent meaning of colour to consumers or only a set of colour associations learned from existing product categories. Nevertheless, studies focused on understanding influence of both verbal and non-verbal elements of packaging have found empirical and theoretical support for colours as one of the key elements in packaging design.<sup>20</sup> Most importantly, it can be pointed out that colours are not only emphasised when it comes to attracting attention. In fact, it is also claimed that colours have the ability to retain attention.

*Placement of visual elements matters:* Psychology research indicates that brain laterality results in an asymmetry in the perception of elements in package designs. The recall of package elements is likely to be influenced by their lateral position on the package, as well as by other usually recognised factors, such as font style, size, and colour. Recall is better for verbal stimuli when the copy is on the right-hand side of the package, and better for non-verbal stimuli when it is on the left-hand side. This may imply that in order to maximise consumers' recall, pictorial elements, such as product photography, should be positioned on the left-hand side of the package.<sup>21</sup>

*Packaging size and shape:* Size and shape also emerge as crucial dimensions. While consumers might readily view product pictures and graphics as a means of communication, size and shape subtly convey information in regarding to packages being convenient to use and carry. One way in which consumers appear to use these elements is as a simplifying visual heuristic to make volume judgments. Generally, consumers perceive more elongated packages to be larger, even when they frequently purchase these packages and have experience using them. Disconfirmation of package size after consumption may not lead consumers to revise their volume judgment sufficiently in the long term, especially if the discrepancy is not very large.<sup>22</sup>

In another study participants agreed that packaging size and shape helped them judge product volume and value for money.<sup>23</sup> Without their familiar brands, bigger packages of regularly purchased items such as commodity food products tended to be chosen.<sup>24</sup>

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<sup>19</sup> Ampuero and Vila (2006) focus on understanding consumer perceptions in order to correctly design product packaging and to achieve the desired position in the minds of consumers.

<sup>20</sup> For example, see Rettie and Brewer (2000); Underwood (2003), Louw and Kimber (2006); Silayoi and Speece (2007); Vila and Ampuero (2007); Butkeviciene *et al.* (2008); and Kuvykaite *et al.* (2009).

<sup>21</sup> Rettie and Brewer (2000) carried out the research using a tachistoscope to control the length of exposure to the pack.

<sup>22</sup> See Raghubir and Krishna (1999) for details. For an interesting experimental study, on the effects of different dimensions relating to the package size, see Chandon and Ordabayeva (2009).

<sup>23</sup> See Silayoi and Speece (2007) for further details.

*Product information:* Packaging can communicate product information as a verbal element, which can assist consumers in making their decisions carefully. An example is food labelling, where the trend towards healthier eating and allergy management has highlighted the importance of labelling, which allows consumers the opportunity to cautiously consider alternatives and make informed food choices.<sup>25</sup> However, a concern about packaging information is the possibility that it can create confusion by conveying either too much information or giving misleading or inaccurate information.<sup>26</sup> For instance, to maximise the information carried on products, manufacturers might use very small fonts and very dense writing styles, which can reduce readability. Even so, consumers appear able to reduce confusion from information overload by narrowing down their choice set by considering fewer alternative brands and evaluating fewer attributes.<sup>27</sup>

## 2.3 Packaging as a Source of Information

Consumers have become increasingly reliant on packaging carrying a variety of forms of information, including details of contents, “best before” dates, nutritional values for foods, dosages for drugs, and so on. Some of this information is required by law to protect consumers including nutritional details for food and drink items, but it also allows comparison between products as well as providing more general information on consumption (such as how to use the contents correctly). Legally required information, though, can vary from country to country, as can conventions or norms that producers generally follow. For instance, there is variation across Europe in how supermarkets and food companies display front-of-pack nutritional information; some favouring “traffic lights” based on fixed units of measurement (e.g. 100g or 100ml) whilst others use “guideline daily amounts” (“GDAs”) (often based around portion sizes).

In respect of consumers’ needs to help them make appropriate judgments, the information communicated via packaging would ideally have the following five attributes: (i) *honest*, in

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<sup>24</sup> Interestingly, consumers perceived more elongated packages to be larger, even if there were no difference in size with the less elongated packages, and even when they frequently purchased these packages and had experience using them. Thus, elongating the shape, within acceptable bounds, should result in consumers thinking of the package as a better value for money and result in larger sales generally.

<sup>25</sup> Consumers perceive package layout as important for information presentation in regard to food labelling. One recent survey on food labelling found that 90 percent of respondents agreed that nutritional information panels should be laid out in the same way for all food products so that they are easy to understand quickly.

<sup>26</sup> Mitchell and Papavassiliou (1999) examined the determinants of consumer confusion from a broad range of individual, situational, and marketing mix sources. Young (2003) argues that adding more messages is likely to clutter the label and makes it more difficult for people to absorb key information/communication from the label. Silayoi and Speece (2007) found information seeking consumers to be the smallest group among the respondents.

<sup>27</sup> See Mitchell and Papavassiliou (1999) for further details.

that it does not misrepresent the product (for example, not dishonestly misrepresenting the value of a larger “big value” pack); (ii) *truthful*, in that it withholds no facts essential to the proper and safe use of the product; (iii) *sincere*, in that it does not deliberately confuse the issue; (iv) *comprehensible*, in that it does not use vocabulary that is too specialised or too vague; and (v) *complete*, in that it explains everything a typical consumer would find useful to an evaluation of the product and its performance.<sup>28</sup>

In its role as a source of information, packaging provides informative and visual elements which facilitate consumers to make their purchase decisions. The informative elements could tend to cover a wide range of aspects, including product information, instruction of usage, nutrition values, brand, country/producer, price, ingredients and more recently nutritional labelling including traffic light colour coding or GDAs. Visual elements supporting this information and providing the consumer with appropriate cues could include graphics, colours, size, form, and material of the packaging.

Busy lifestyles and the increasing time pressure on shoppers limits the amount of time consumers are willing to spend looking at a product; typically only for about a few seconds, regardless of how many elements or messages there are on the package.<sup>29</sup> With potentially more than two-thirds of purchase decisions made at point of sale,<sup>30</sup> packaging with a distinctive appearance and containing simple and accurate information can make the difference when it comes to purchasing decisions.<sup>31</sup> This serves as an important counter to overloading the consumer with information, since adding additional messages to the package increases the likelihood that a shopper will miss any single message. For this reason marketers generally recommend that only two to three key points of communication

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<sup>28</sup> For instance, Underwood and Ozanne (1998) take their lead from the theory of communication competence (Habermas, 1984) in asserting that all information communicated via packaging should be honest. Habermas (1984) originally developed a standard against which all forms of communication can be compared, *Norm of truthfulness*; *Norm of sincerity*; *Norm of comprehensibility*; and *Norm of legitimacy*. More recently, Vernuccio *et al.* (2010) have further investigated the role of packaging information as a key ethical dimension in guiding packaging strategy using Underwood and Ozanne (1998) framework.

<sup>29</sup> Jagger (1999) in Louw and Kimber (2006) has mentioned that “brands purchases are being made or broken in the final five seconds.” *The Economist* (“Warfare in the Aisles”, 31 March 2005) claims “consumers generally spend six seconds at most selecting an item.” Detailed in-store observations reported for detergents by Hoyer (1984) in the US and by Leong (1993) in Singapore respectively report an average time in making purchases from entering the aisle to placing the product in the basket or trolley as 13.2 and 12.2 seconds. The quickest quoted time is 2.6 seconds to make a purchasing decision between two different types of packaging (e.g. [http://www.businessknowledgesource.com/marketing/using\\_good\\_packaging\\_to\\_influence\\_customers\\_030116.html](http://www.businessknowledgesource.com/marketing/using_good_packaging_to_influence_customers_030116.html)).

<sup>30</sup> See Rettie and Brewer (2000).

<sup>31</sup> Silayoi and Speece (2004) in an exploratory study have highlighted the importance of packaging design in growing competitive markets for packaged foods, with emphasis on impact of involvement level and time pressure. See Schreiber (1994) for retail trends and influence on package design. See Silayoi and Speece (2007); Rettie and Brewer (2000); Underwood and Klein (2002) on more details about the role of visual elements in packaging design and influencing purchase decision.

are placed on a front label. Adding more messages is likely to clutter the label (which often detracts from appeal and perceived quality), and makes it more difficult for people to absorb the key information/communication from the label.<sup>32</sup>

One of the core strengths of packaging as a marketing communication vehicle is its inherent accessibility at point of purchase.<sup>33</sup> This relationship can be both critical and complex at the same time: critical because in order for the package to communicate, it has to attract the attention of consumers first; and complex because it needs to balance the packaging elements by understanding the consumer purchasing behaviour and patterns.

## 2.4 Packaging Influencing Consumers' Purchase Decisions

Shopping under time pressure and making unplanned purchases preclude consumers giving detailed consideration to package elements and the number of comparisons that can be made. Consumers do not tend to search extensively for information about the brands when purchasing FMCG products (with some exceptions), carefully evaluate product features and then make a conscious decision on which brand to buy. Instead purchases of FMCG products are characterised by a large proportion of people who make routine purchases.<sup>34</sup> How consumers perceive the subjective entity of products, as presented through communication elements in the package, influences their choice and is the key to success for many FMCG products' marketing strategies.

Academic studies on the influence of packaging on the purchase decision and its effect on brand and product perceptions have provided empirical evidence on the following key aspects:

- *Identification:* The appearance of the package has an impact on consumers concerning the identification of brands. For example, consumers identify more easily those brands whose new packages are designed with colours that are similar to the original packages.<sup>35</sup>

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<sup>32</sup> Young (2003) has studied packaging influence on children's products.

<sup>33</sup> Underwood et al. (2001) emphasise that, as with all point-of-purchase communication vehicles, the primary role for product packages is to generate consumer attention by breaking through the competitive clutter and gain consumer notice.

<sup>34</sup> This seems to be a universal feature all countries selling FMCG products in self-service retail environments. For instance, Silayoi and Speece (2004 and 2007) find in the packaged Thai food market that consumers have no pre-thoughts about the product much before entering the store, and purchase intentions are essentially determined by communication at the point of purchase.

<sup>35</sup> See Garber *et al.* (2000).



- *Attention:* Packages attract attention primarily through colours and shape, with pictures on packages attracting attention particularly in cases when consumers are less familiar with a brand.<sup>36</sup>
- *Communication:* Package appearance can also influence the evaluation of the core product. For instance, while pictures of the core products on packages are not found to have an improved impact on the evaluation of the brand, pictures (including overall graphics of the packaging design) can have a positive impact on brand beliefs and attitudes towards the package supporting the view that brand identity and image can be enhanced if not created through packages.<sup>37</sup>
- *Impact on attitudes:* Appearances have an impact on attitudes concerning brands and packages as well as purchase intentions. Consumers are influenced by non-verbal signs (e.g. colour) when they are under time pressure. In these purchase situations consumers process the appearance of the package instead of evaluating verbal information on the package.

Overall, in regard to non-verbal signs, no significant evidence is found that pictures (and other important non-verbal signs in the form of colours, size and shape, and layout) result in improved brand evaluations. However, pictures on packages can have an improved impact on brand beliefs and impart a positive effect on attitudes towards the package itself.<sup>38</sup> Names and logos are the most prominent brand elements, but anything that is uniquely associated with the brand, like the presence of a licensed or brand-owned character (e.g., a Disney character or the Pillsbury Doughboy), or the colour, design and texture of the packaging can influence brand awareness and brand image.<sup>39</sup>

An indication of the importance that consumers place on packaging design is shown in Figure 2, which compares the importance of a number of different factors influencing consumers' purchasing decisions. As shown, while packaging might not be as important as

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<sup>36</sup> See Garber *et al.* (2000) and particularly, Underwood *et al.* (2001) for details on the effects of pictures on the package. More generally, Underwood *et al.* (2001) emphasise that obtaining consumers' attention is important to marketers because of the large number of stimuli within a retail setting, most of which, are ignored by shoppers who often purchase habitually or have low levels of involvement with the decision process. Attention can have an important effect on consumers, due to its impact on the formation of the consumers' consideration set. The underlying assumption is that a product which attracts no attention is not considered. One drawback of the attention arousing capacity of certain stimuli, however, is that they may complicate fast and successful information processing. In this context, Schoormans and Robben (1997) investigate the effect of the degree of derivation of coffee packages on consumers' attention and categorisation. Silayoi and Speece (2004) also highlight that consumers are typically not motivated to carefully examine the product and therefore a complex packaging message runs the risk of being ignored by the consumer.

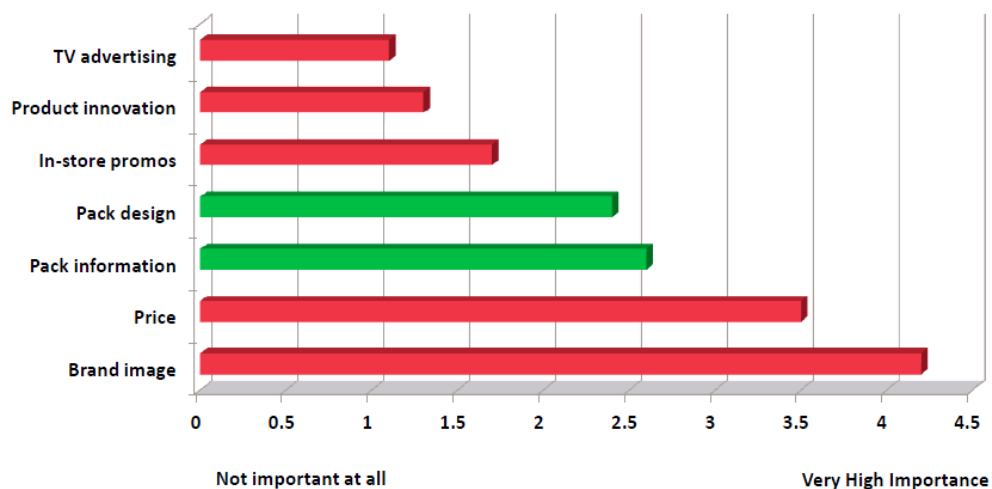
<sup>37</sup> See Underwood and Klein (2002) and Simms and Trott (2010).

<sup>38</sup> See Underwood *et al.* (2001).

<sup>39</sup> Harris *et al.* 2009 has analysed the promotion impact of using licensed characters and other marketing material on packaged food.

price and brand image, consumers report that it can have more influence than TV advertising, product innovation and in-store promotions. The advantage that packaging offers over other communication media, like TV advertising and in-store promotions, is the range of information that it can convey to detail product contents whilst giving clarity to the image, branding and appeal of the product, so acting more as a brand builder and information provider rather than purely for advertising.

**Figure 2 – Factors Influencing In-Store Choice by Consumers** <sup>40</sup>



Retailers and brand managers around the globe have embraced the concept of employing visual cues including the design of products and packages to convey brand meaning. For example, Apple seeks to ensure consumers perceive the brand as well-designed, user-friendly and cutting edge. L’Oreal focuses on communicating high quality and personal care and indulgence in the market the firm serves, while Budweiser designs its packages to generate consumer judgments of ruggedness and sincerity. Most recently, a study has examined how three factors generic to design, its typicality, clarity, and information content, relate to the accuracy of individual judgments about a brand's quality or personality.<sup>41</sup> The following section extends the discussion by focusing on the role of packaging in building consumer trust and confidence.

<sup>40</sup> The figure is from Lucas (2011).

<sup>41</sup> Orth and Malkewitz (2011) have analysed the accuracy of design-based judgements.

## 2.5 Packaging and Consumer Understanding, Trust, Reassurance and Confidence

Along with the importance in communicating with consumers at the point of purchase, packaging also plays a longer term role through continuing to build brand values during the extended usage of the product, which can help build brand equity and loyalty. These longer-term benefits are in contrast to other forms of marketing communication, like advertising exposure, which tend to be relatively brief.<sup>42</sup>

Branding, as the creation of names, symbols, characters and slogans, helps identify a product and creates unique positive associations which differentiate it from the competition and in the process creates additional value in the consumer's mind. For example, in the food industry and in the absence of advertising, consumers acquire expectations about the taste, healthiness, and social connotation associated with a particular food and its ingredients through branding, nutrition information, and/or health claims. Packaging becomes more critical where the product life is longer and its functional roles (for example, storing, preserving and hygiene) take on added importance. This can affect consumers' trust and confidence on the basis of after-purchase usage. For instance, water might be perceived to taste better when it is poured from a firm bottle than from a flimsy bottle.<sup>43</sup>

Indeed, the shape, material, and style of packaging when combined with marketing dress such as logos and recognisable colours and graphics can have a deep and lasting impact on consumers. This is especially so when consumption of the product takes place over a prolonged period, where frequent visits to the shelf or cupboard serves as a reminder. For a number of products, the packaging takes on branding importance in its own right to the extent of becoming synonymous with the brand, e.g. distinctively designed perfume bottles or iconic package shapes like the Coca-Cola glass bottle.

The distinctiveness and familiarity of packaging supports consumers' understanding, trust and reassurance to provide confidence when making purchase decisions. Knowing what the brand stands for, that it is consistent and that it is easily recognisable helps the consumer make swift, informed purchase decisions. This provides producers with a powerful incentive to invest in creating distinctive packaging to support their brands.

Unfortunately, though, it may equally provide other producers an incentive to free ride on these packaging investments of successful brands to avoid the difficulty of coming up with their own distinctive packaging. As a consequence these may result in the development of

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<sup>42</sup> For instance, Rundh (2005) emphasises the multifunctional aspects of packaging, stressing the role of packaging after product purchase.

<sup>43</sup> Krishna and Morrin (2008) have developed a conceptual framework regarding the perceptual transfer of haptic or touch-related characteristics from product containers to judgments of the products themselves.

parasitic copycat packaging that deliberately look like familiar and trusted brands through intentionally using similar packaging. This copycat packaging, though, can mislead consumers into mistaking copycat products for the real brands by drawing false associations that they are made by the same producer, are equivalent or identical in quality terms, and/or are seen as the same item when consumers do not take time to examine the packages carefully to spot (often subtle) differences in the design and labelling. The result is that the makers of copycat products do not just free ride on investments of brand producers, but they also undermine these brands and potentially harm the trust that consumers place in them when consumers are confused or misled. The economic and policy implications of copycat packaging are explored in detail in section 5.

## 2.6 Packaging in the Marketing Mix

Packaging provides a unique form of marketing communication by virtue of its means of direct communication at the exact point where products are being sought and compared. Specifically, packaging conveys meanings directly to consumers at the exact point when the decision to purchase (or not purchase) is being made. In this sense, packaging is a complementary way to communicate with consumers. Moreover, packaging may represent a permanent medium rather than a fleeting one in respect of how packaging conveys meanings about the product and its features, benefits and usage.

In contrast, advertising can be a highly effective means of communication for those consumers who *are* exposed to it. However, reaching the entire target market for most products is generally not a feasible prospect with advertising. Media fragmentation has meant that it is becoming increasingly difficult (and expensive) to reach and communicate with customers and potential customers, forcing marketers to adopt more innovative means of reaching their target market. Compared to advertising, which has inherently limited reach, a product's packaging is something that all buyers experience and are exposed to on their shopping trips, and thus has strong potential to engage the majority if not all of the target market, albeit to a different extent. This makes packaging a potent and unique tool in the modern marketing environment.

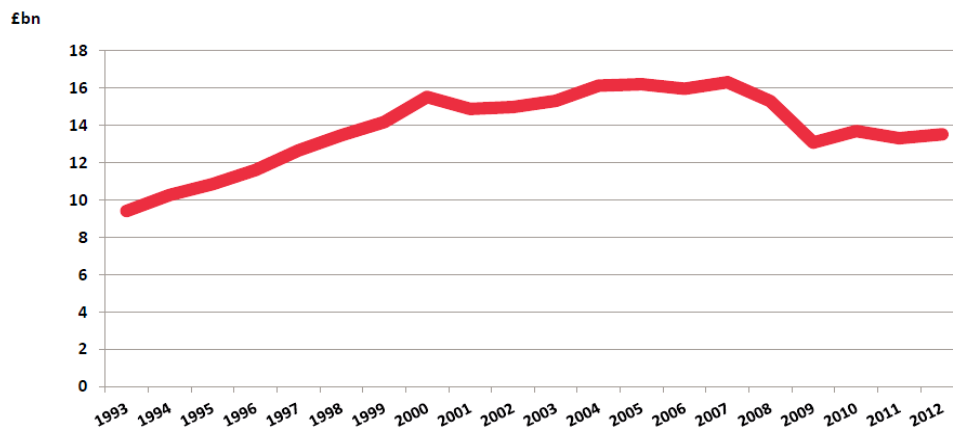
Although it is widely acknowledged and accepted that packaging conveys meanings, there are few scholarly studies that focus specifically on packages as a means of communication. The reason for this relative neglect is that marketing communication is traditionally connected with planned activities such as advertising, personal selling, sales promotion, and publicity. Indeed, it is advertising that is the focus of most academic studies on marketing communication to the neglect to the less obvious role that packaging provides.<sup>44</sup>

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<sup>44</sup> See Underwood and Klein (2002) discussion on the role of packaging in creating brand identity.

While advertising has historically been seen as the most important element of marketing communication, its influence could arguably be on the wane compared to the direct and lasting effects of packaging in communicating with consumers. Indeed, spending on advertising in real terms has been falling or flat in recent years, as shown in Figure 3. In contrast to the strong message that can arise from distinctive packaging, advertising can suffer from both ineffectiveness and misidentification. In particular, overexposure to advertising can result in consumers having difficulty in telling advertisements apart when they are characterised by strong similarity.<sup>45</sup> Whereas distinctive packaging can aid product identification, helping the product stand out from the crowd and serving as a point of clear recognition for consumers, undifferentiated advertising does not aid identification, leaving the product associated with others rather than unique in its own right.

**Figure 3 – Total Advertising Spend in the UK (at constant 2005 prices)<sup>46</sup>**



The ability of packaging to emphasise differentiation and identity is particularly attractive to producers of relatively homogenous perishable consumer goods, such as coffee.<sup>47</sup> Packaging can be a means to position products, literally by their shape and size as well as the ability to be “transferred live”.<sup>48</sup> As it accompanies the product, packaging lives in the home and potentially becomes an intimate part of the consumer’s life, constituting a type of live experience between the consumer and the brand. This could thus reinforce the intended product identity, as the product is consumed “live”.

<sup>45</sup> See Ehrenberg et al. (1997) for more detailed discussion on this issue. However, there is vast literature in marketing communication focusing on effectiveness of advertising.

<sup>46</sup> The figure is from Lucas (2011).

<sup>47</sup> See Ampuero and Vila (2006) for further details.

<sup>48</sup> See Underwood (2003) for further details.

## 2.7 Packaging at Point of Sale

Packaging's dual role is what makes it a truly unique marketing tool. Packaging is not merely a passing or transitory form of communication. Rather it stays with the consumer after purchase and thereby plays a crucial role not only at the point of sale but also after the actual purchase of the product (reminding the consumer of the purchase and the identity of the product). However, the point of sale, or "the first moment of truth", is about gaining customers interest and communicating the benefits of the product attributes.

The importance of making an impact at the point of sale cannot be underestimated. With the move to self-service retail formats, packaging increases its key characteristic as the "salesman on the shelf" at the point of sale in respect of calling out from the shelf and informing the consumer of the product's nature and attributes. This is particularly important in the context of grocery shopping, where the consumer might visit a supermarket containing 25,000 items but might only seek to fill a shopping basket with around 40 items.<sup>49</sup> This calls for consumers to sift through a vast amount of products to choose what they want – and not surprisingly they end up ignoring most of what they pass.

Crucially, at the point of purchase, packaging has to communicate information about the product to customers so they know what they are buying (or deciding what not to buy). If the customer decides to buy the product, the packaging must facilitate usage by providing the right information and user-friendly functions (as discussed above in section 2.2). Packaging must provide customers with the right cues – both at point of purchase and during usage.<sup>50</sup> At the point of purchase, packaging serves a number of key functions, namely:

- *Standing out in the crowd* – reaching out to the consumer to get noticed. Creating a powerful shelf presence so that the brand stands out from the crowd and is actually noticed is the first and most vital step for any product on a shelf.
- Communicating marketing information, giving reasons to buy
- Stimulating or creating *brand impressions*
- Providing various *brand cues*: Value, Quality and Safety

Extrinsic cues (such as price, brand name and the package, which are not part of the physical product) work together to influence the purchase decision.<sup>51</sup> The salience of intrinsic

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<sup>49</sup> Jugger (1999) and Louw and Kimber (2006).

<sup>50</sup> See Lofgrun (2005) for detailed discussion on winning at the first and second moment of truth from service perspective. This work emphasises the importance of the first moment in product comparisons, where products cannot speak for themselves and packaging remains the only mode to communicate and obtain consumer interest.

<sup>51</sup> Richardson et al. (1994) found that consumers' evaluation of retailers brand grocery items are driven primarily by the extrinsic cues. More recent studies from Silayoi and Speece (2007), Underwood *et al.* (2001),

attributes at the point of purchase depends on whether they can be sensed and evaluated at that time. In particular, extrinsic cues may serve as quality indicators when the consumer is operating without adequate information about intrinsic quality attributes.

The packaging elements can have a strong or weak influence on consumers purchase decisions depending on the consumer's *involvement level, time pressure or individual characteristics*.<sup>52</sup> In general, consumer attention tends to be driven by in-store factors and extrinsic cues, as consumers have neither the desire nor the need to comprehensively investigate and assess all the offerings available to them. In a setting like a supermarket, the wide choice of products and the varied range available to consumers at the point of sale oblige producers to work harder to achieve effective differentiation and appear distinct.<sup>53</sup> This explains why traditional mass media communication might be redirected to point of sale promotions and communication.<sup>54</sup>

In a standard supermarket, a typical shopper might pass around 300 products per minute.<sup>55</sup> This translates into less than one-tenth of a second for a single product to gain the attention of the customer and spark a purchase. Therefore, packaging design to grab attention is critically important. The package must perform many of the sales tasks for making an overall favourable and immediate impression. As discussed in the section 2.2, non-verbal packaging elements are extremely vivid stimuli compared to words and also are quicker and easier for consumers to process in a supermarket or other self-service retail setting. In this regard, colour (as a non-verbal element) often stands out as the key differentiator.<sup>56</sup> Here, going against the norm can help. For instance, Pepsi has based its packaging strategy around the colour blue, even though red is generally associated with soft drinks (and indeed is the colour used by its great rival Coca-Cola). Thus, whether or not there is a general colour association, a product could choose to both gain attention and differentiate itself by using a distinctive visual (non-verbal) packaging strategy.

It is clear that packaging faces an immensely complex task. Many products are screaming for attention, different consumers have different informational needs (none have any time), information can be complex, and packaging must fulfil its informational role in seconds. Memorable and distinctive packaging is something that all leading brand producers strive to achieve and maintain. Staying ahead of the pack of "me-too" copies and imitations is the ultimate design challenge. It is a remarkable feature of the FMCG sector that it supports

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Ahmed and Ahmed (2005), and Kuvykaite *et al.* (2009) have empirically and theoretically examined the role of packaging elements in marketing communication.

<sup>52</sup> See Underwood (2003), Silayoi and Speece (2004), Butkeviciene *et al.* (2008), and Simms and Trott (2010).

<sup>53</sup> See Underwood *et al.* (2003) and Silayoi and Speece (2007).

<sup>54</sup> See Ampuero and Vila (2006).

<sup>55</sup> See Rundh (2005).

<sup>56</sup> See Grossman and Wisenblit (1999).

such a wide range and variety of products with distinctive packaging that allows, even in a supermarket setting of 25,000 items, so many products to stand out as truly distinct.<sup>57</sup>

## 2.8 Packaging and Post-Sale Influence

Packaging becomes more influential with extended usage of a product. The issues of convenience, hygiene and safety come into play to a larger extent. Producers have responded through the development of packages that are particularly useful for extended or repeated use or where a long shelf-life is desirable (e.g. multi-serving juice packs or long-life milk). Moreover, because of the cost saving, consumers prefer larger sizes of packages when the price per unit becomes smaller. However, research not only suggests that the bigger the size of the package, the more the consumer buys, but also suggests that the bigger the size of the package, the more the consumer uses. The usage volume is also found to increase when the price per unit becomes smaller.<sup>58</sup>

For products with a long shelf-life, the issue of storage is important post sale in both functional and marketing respects. From a functional perspective, packaging is often part of the usage/consumption experience. Not only is it a means of providing necessary information, but it can also form part of the actual product and provides functional benefits (e.g. being easy to use, fitting into storage space, etc.). Some examples from different product categories which highlight the functional benefits from single to repeat usage come from packaging and product design to suit repeated and/or convenience use (e.g. Toilet Duck, Dulux paint pod, Sellotape with dispensers, Febreze air fresheners, and easy to use super glue and weed killers).

In contrast, if packaging is unwieldy it can hamper the relationship with the brand. For instance if it breaks easily, does not fit in the fridge, can cut or injure the consumer, then clearly the experience with the product can be negative. This will result in a negative impact on the prospects of repeat purchase.

As the only part of the marketing communication that the consumer takes home, packaging plays a key role in communicating and reinforcing brand values over time. In this regard, packaging could act as a “brand ambassador” for products during extended usage.<sup>59</sup> If the customer decides to buy the product, the packaging must facilitate usage by providing the

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<sup>57</sup> For instance, see Lofgren (2008) and Olsmats (2002) for specific evidence about the influence of packaging at the point of purchase. Notably, Lofgren finds loyalty intentions may be formed early in the consumption process, i.e. during purchase.

<sup>58</sup> See Wansink (1996).

<sup>59</sup> A number of studies have emphasised on building brand loyalty through packaging. For e.g., Underwood (2003); Rettie and Bewer (2000); Lofgren (2005); Rundh (2009); Silayoi and Speece (2004, 2007).



right information and user-friendly functions. In short, the packaging has to provide the customer with the right clues and cues – both at point of purchase and during usage.<sup>60</sup>

For regularly purchased FMCG products, consumers might seek only a limited amount of information when purchasing goods. External retrieval cues facilitate consumers' abilities to retrieve a specific brand name into their short-term memory. Rather than scanning a pack for its brand name, consumers might use its distinctive colour or its unique logo to help them retrieve the brand from their memory, and thereby recall its characteristics determined from their experience with previous purchases. However, this is only effective if the consumer has encoded the brand's characteristics in such a way that the pack design and logo have been categorised with the correct brand. This can be facilitated by salience when the package is brought home and only gradually used (e.g. a food item stored in a refrigerator until fully consumed). Over time, consumers will learn to associate particular pack designs with specific brands, reducing their search activity and saving them significant time when undertaking shopping trips.

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<sup>60</sup> Lofgren (2005) has emphasised on understanding the role of packaging design at first and second moment of truth, by acting as effective communicator at point of sale and improving customer experience after purchase usage.

### 3. The Competition Dimension

In the minds of consumers, product and packaging are intrinsically linked to the extent that they can become synonymous with each other. Whatever the packaging says to a shopper – through words, graphics, material, size – is exactly what its contents become, be they a bottle of perfume or a bottle of milk. For distributors, choosing the right size and material for a product, packaging could cut their logistical costs considerably. Nevertheless, in the supply chain, producers need to have broader considerations over how their products compete in the market, how these compare relative to rival offerings, how they grab attention and the message that packaging sends out about the product. Sometimes this favours adopting similar packaging to rivals to fit with consumers' expectations and experience. Sometimes it favours adopting radically different packaging to stand out and be perceived as unique. In all cases, it requires some differentiation to stake out a distinct position otherwise the product runs the risk of losing its voice in calling out to consumers and thereby risks literally being left on the shelf.

This section considers the importance of packaging to competition as a medium by which rivals compete through product image and promotional awareness. We begin by looking at how packaging is deployed by marketers to communicate, differentiate and segment in the marketplace to compete against rivals; whether they are rival producer brands or store brands (like private-label brands sponsored by retailers). The discussion moves on to consider how packaging influences competition through advancing product information, wider choice, variety and diversity, in circumstances where producers are under intense competitive pressure to provide ever more value for money through reducing prices whilst improving quality. The focus then turns to the relationship between innovation in packaging and its role in meeting consumers' wants and needs as lifestyles change and adapt, with packaging innovation acting as a spur to dynamic competition.

#### 3.1 Packaging's Importance to Competition

Product packaging design and the messages and signals packaging delivers work with other elements of marketing and product features to add value to the product as perceived by consumers. Well-suited packaging can contribute to company profits through stimulating sales and reducing costs whilst communicating value to final consumers. Well-developed packaging can go further by contributing to a company's competitive advantage by helping it to market a product more effectively through connecting it more closely with consumers.

Packaging offers an important means to compete with rivals both in the short term and over time, by helping a firm *gain* competitive advantage (i.e. beat rivals at the point-of-purchase) and *sustain* competitive advantage (i.e. build brand loyalty to secure a longer-term

advantage to generate superior returns over rivals).<sup>61</sup> In particular, packaging represents a vital means for competition amongst FMCG companies because of its ability to influence consumers' expectations, and even their post-experience liking for the product, without relying on advertising but simply by modifying the name, logo, characters, and contents information displayed as well as the physical characteristics of the package itself.<sup>62</sup>

With fragmented, difficult-to-reach consumer segments, advertising and other broad-based forms of marketing communication struggle to reach the entire target market. Packaging has the ability to engage the majority of the target market as it is something which all consumers encounter while making a purchase decision. Because of this reach advantage, as well as its impact right at the point of purchase, packaging and its design are critical to the nature and intensity of competition amongst FMCG producers.

Whilst packaging can be a key element of the marketing mix, and as such one of the key marketing levers that firms can control, packaging design itself is subject to a complex set of influences from the business environment. Among the main influences, new technology, materials development, logistic requirements, environmental issues, consumer preferences and marketing aspects all play a key role for management decisions on marketing strategy.<sup>63</sup> Furthermore, packaging design might be an element that evolves through the different stages of product development, and thus linked directly to the development of new products and their ongoing performance in the market.<sup>64</sup> As highlighted above in section 2.1, a pack has many functions – some, if not all, presenting marketers with the opportunity to distinguish their products and gain competitive advantage.

Standing out from the crowd with a positive image that can lead to more sales at the expense of rivals is something that all FMCG brand producers strive to achieve. It is a highly competitive sector where there is no guarantee that large investment in packaging design will pay off when consumers are fickle, unpredictable and changeable in respect of their tastes. While consumers appreciate familiarity, consistency and continuity to aid their search activity and confidence in buying products, they also appreciate novelty, difference and innovation to encourage experimentation and trying new things. This poses a major competitive challenge for producers in not just winning over consumers but also retaining them over time. Producers face the difficult judgement in how to balance building familiarity with packaging yet also to move it forward when faced with the competitive

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<sup>61</sup> Several studies have empirically and theoretically found support for packaging in achieving both these key elements of competition. See Underwood (2003), Rundh (2009), Silayoi and Speece (2004 and 2007), Kuvykaite *et al.* (2009); Vila and Ampuero (2007), Young (2005), and Simms and Trott (2010).

<sup>62</sup> For instance, Chandon and Wansink (2011) have studied the influence of food marketing on eating habits.

<sup>63</sup> See Packaging Federation (2004) reports for the detailed discussion on the growing relevance of packaging to wider business communities and its implication to competition in general.

<sup>64</sup> Simms and Trott (2010) have proposed a theoretical framework to incorporate packaging in different stages of product development. This include from idea generation to product launch.

pressure to keep one step ahead of rivals and also to retain and revitalise consumer interest. This challenge for producers is heightened by retailers' insistence on newly reformulated or repackaged products achieving immediate success or face being delisted and denied shelf access.

No product stands still long in the fast moving consumer goods industry, otherwise it can be "here today, gone tomorrow" given the rapid turnover of products, with typically short product life cycles for all but the most successful brands, where new products and new variants displace old ones. Even for iconic packaging, a time comes when technology and tastes change, so packaging has to move with the times but in a manner that retains consistency and brand heritage. This poses a significant strategic challenge, in striking the right balance between change and consistency, and the implications for the timing and degree of any packaging changes.

For market leaders there is relentless pressure to keep ahead of followers, and for followers there is relentless pressure to keep up with leaders. The benefits to consumers are an evolving set of products and packaging to stimulate and better serve their interests. For producers, they must accept that they are on a relentless treadmill where innovation offers a lifeline to prolonged success but at a cost of continuous product, packaging, and marketing investment.

### **3.2 A Medium to Communicate, Differentiate, Segment and Compete**

Packaging has become an effective medium to communicate, differentiate and target consumers in a highly competitive market. In particular, packaging design can assist in building strong brands by differentiating products, creating loyalty, allowing for premium pricing (or at least higher pricing compared to indistinct generic items), cutting through clutter, and protecting against competition.<sup>65</sup> Research points to consumers realising direct functional, experimental and/or symbolic brand benefits from product packaging via both mediated and lived experiences with the product.<sup>66</sup>

Brand communications involve various verbal, auditory and non-verbal images, used both to capture and hold consumers' attention and to serve as retrieval cues for later recall. These elements can relate to the brand identity in a meaningful way, or they can be unrelated. By far the most extensively investigated elements are advertising and pricing. In contrast, product packaging as a marketing communications vehicle for brand managers has gained

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<sup>65</sup> See Underwood (2003), Henderson *et al.* (2003), and Garber (2000).

<sup>66</sup> Underwood (2003) examines conceptually positioned product packaging as a product-related attribute capable of influencing the identity of brand and the self, while also strengthening consumer-brand relationship.

significant attention only in the past decade or so. Research has focused on the impact of package size, pack shape and pack height (and elongation effects) as well as pack images on consumer preferences.<sup>67</sup> Furthermore, it has been found that symbolism generated and/or communicated by the package may further enhance brand dimensions such as convenience, environmental consciousness, ethnicity, family, health consciousness, national and/or regional authenticity, nostalgia, prestige, value and variations in quality, among others.<sup>68</sup>

Packaging also has the potential to engage a range of segments of the target consumer market. For example, packaging for children products might include favourite cartoon characters or movie characters. Similarly, products targeted to different segments could use unique features on the pack to attract attention from a particular segment.

A further advantage of packaging is its ability to reach through to consumers to communicate the brand positioning for the products with low advertising support. A good example is the development and promotion of retailers' own-label product ranges, which eschew advertising but can compete effectively against manufacturers' established brands through their in-store shelf positioning (controlled by the retailer) and their packaging design to attract shoppers (drawing on the retailer's brand recognition and values).

### **3.3 Benefits to Competition**

Competition in the FMCG sector is primarily expressed through pricing, product appeal and availability. A desirable product at the right price and widely available in stores can be an instant and sustained success. All FMCG producers strive to achieve this success. The result is intense competition in a sector where success cannot be taken for granted, no matter how much investment is made in product design and promotion. If the consumer does not like the product, thinks it too highly priced, or cannot access it from their favoured store then the product will fail and the investment will be wasted. Even established brands can take nothing for granted when rivals have the potential to produce a better, more appealing product at a keener price, or indeed consumer tastes change away from that brand or product category to others (e.g. away from traditional foods to more exotic fare, or from perceived unhealthy foods to more healthy foods lower in fat, sugar and/or salt).

Yet a first step to achieving this success for any product is to encourage consumers to try it and then, once tried and liked, to encourage consumers repeatedly to buy the product and not a rival's offering. Raising awareness and reminding consumers of the values of the

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<sup>67</sup> See Underwood (2003); Ampuero and Vila (2006); Silayoi and Speece (2007); Rundh (2009); Simms and Trott (2010).

<sup>68</sup> Orth (2005) for the wine industry and Underwood (2005) for the food industry have analysed the relationship between brand identity and symbolism.

product are essential. Packaging can play a key part in this role through its appeal to consumers right at the point where they are making purchase decisions. Standing out from the crowd becomes a major competitive challenge, but one that is essential for brand producers in order to ensure that their products survive and prosper in this highly competitive environment.

While product formulation is fundamental to the product offering, the packaging has a large influence over the promotion and perceptions of the product. A great package not only helps sell the product, but influences consumers' perceptions when they consume the product, which in turn can affect repeat purchases. Not surprisingly, producers expend considerable effort in their packaging designs to match the appeal of their product to their target market.

With possibly two-thirds of purchase decisions made at the point-of-sale, the importance of packaging has increased over time as have the benefits resulting from more intense competition over this aspect. The key trends and benefits for producers and consumers arising from the increased competitive emphasis on packaging include the following:

- The declining reach and efficiency of traditional promotion tools like advertising has meant that packaging has become more effective as a communication tool allowing producers to reach wider target markets and greater information and product and brand variety for consumers helping to widen the market.
- The move away from reliance on traditional advertising through blanket marketing communication to more efficient and cost-effective targeted communication in the selling place means that firms can make cost savings which they can pass on to consumers.
- A greater range of producer and retailer brands and increasing importance of packaging as a differentiation and identification tool has provided a more level playing field to suppliers so that even those with low advertising budgets or traditionally less-known firms can compete effectively with well-established incumbents (e.g. retail sponsored brands taking on major manufacturer brands).
- Increased consumer pressure and legal requirements for product quality and preservation has led to more efficient use benefiting consumers (e.g. with less food waste and increased product life) and associated demand benefiting producers (by perceived improvements in product quality and convenience).
- Increased requirements for product safety and consumer safety have led producers to innovate and compete against rivals by providing benefits from improved packaging particularly for long-life products (e.g. long-life milk, bigger packs of juices, and other food items where packaging supports increased safety and hygiene), boosting demand for these products.

- Increased requirements for the provision of information about the product to the customer has provided producers with an opportunity to communicate better with consumers and at the same time benefit consumers by allowing them to make more informed purchase decisions (e.g. requirements to provide nutrient and calorie information clearly on the packaging can help boost demand of healthy food products when it creates a positive image in consumers' minds).
- Creation of product added value with the help of the package can help build brand loyalty through packaging that supports long-term investment plans by producers but also benefits consumers through perceived added value and trust in the brand to deliver consistent and reliable performance (e.g. big family value packs of leading brands offering novel means for ease of use or repeat use).<sup>69</sup>
- Inclusion of the customer in packaging development is likely to be of significant importance in improving the success of new product/pack combinations in the FMCG industry.<sup>70</sup>
- The use of price denominated packs can support and promote retail competition, boost product sales and provide consumers with a value reassurance in providing a ceiling to the retail price that retailers can charge.
- The use of trial sizes and sampling packs provides an effective means to generate consumer trial and gain market entry.

### 3.4 Business Environment Drivers of Packaging Innovation

As packaging's role in the marketing mix for FMCG producers has increased, so has the importance of innovating to lead on or adapt to new packaging developments. New packaging can be as significant a form of new product development as new product formulations, and so not surprisingly producers expend considerable effort to ensure that

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<sup>69</sup> For example, Big Value Packs of Imperial Leather Ocean Fresh Revitalising Shower Gel and Soft Touch Moisturising Shower Cream provide consumers benefit from the user-friendly pump action and minimal operational effort, while its special valve system provides careful control of the liquid to deliver an accurate 5ml dose with each dispense, ensuring that the 750ml pack can deliver maximum value.

<sup>70</sup> For instance, Dettol touch free soap dispenser; easy to store bigger multi-can packs from Coca-Cola; easy squeeze packaging in various food categories including ketchup and other table sources.

packaging is suitably contemporary and matching the tastes and requirements of consumers.<sup>71</sup>

A study by the Packaging Federation (2006) has summarised some key drivers influencing the rate and nature of innovation in the packaging industry. The following seven factors (A-G) are viewed as having been particularly important drivers for innovation in responses to changes in the nature and character of the business environment over recent years:

#### **A. Consumer influences**

There are a number of demographic and lifestyle factors that have resulted in various changes in consumer behaviour. The consequences of demographic factors are an ageing population and an increasing number of people living in smaller households. These changes in household size and composition are mirrored in changes in consumer lifestyle. Easy to read labels, easy open/reclose and efficient dispensing could be features seen in packaging targeted towards an aging population. Similarly, smaller packs would be more popular with small families. Moreover, the number of people eating out or on the move has also increased considerably. Snack food and takeaway packaging has responded to this trend, noticeably pack formats geared towards eating on the move (e.g. polystyrene fast food boxes, foil take away trays and cardboard food boxes).

#### **B. Environmental influences**

The environment is an increasingly important issue for all areas in the business and governments are keen to encourage conservation and reduced environmental harm. The European Union has advanced a packaging directive concerned with the minimisation of waste and laid down requirements on the amount of packaging material that should be recycled. The directive also sets targets for energy recovery, re-use and recycling of packaging. The packaging directive covers all packaging placed on the market within the EU as well as all used packaging, whether disposed of at industrial or commercial sites or coming from private homes. In the UK, the government-backed Waste & Resources Action Programme (WRAP) has been working with manufacturers and retailers on schemes to reduce packaging material, through reduced weight ("light weighting"), using recycled content and re-designed use (e.g. focusing on refills, self-dispensing, and concentrates for drinks).<sup>72</sup>

#### **C. International influences**

With the drive towards internationalisation and globalisation, international trade has increased and products and services are in many senses becoming worldwide. Some

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<sup>71</sup> For instance, see Ahmed *et al.* (2005) for a review of the growth of packaging's role in the marketing mix and its role in product innovation in the early stage of product development.

<sup>72</sup> For details of WRAP's activities, and particularly the initiatives under the voluntary Courtauld Commitment, see <http://www.wrap.org.uk>.



international products and their brands can be marketed in a standardised way, whereas most others need to be adapted to local requirements, which also affect the packaging. Customers also bring back ideas and influences from other countries, opening up opportunities for introducing new products and packaging.

#### ***D. Logistical and distribution influences***

Packaging has provided many new logistic solutions but has also been a key factor for adaptation for logistical reasons. Packaging and packaging design has been a key driver for development of modern distribution systems of dairy products like Tetra Pak and for entrepreneurship within others, such as IKEA with its flat packages. Many packaging solutions have also been developed for pallet size, or for containerisation within the exporting sector and convenience of physical distribution.

#### ***E. Marketing influences***

Changes in consumer demands and requirements of products and services have put pressure on suppliers to come up with new solutions. This has also been reinforced by strong competition in many product areas. Product and marketing managers in retailing have, for instance, pushed for new designs and higher quality of printing giving their packages luxurious or prestigious appeal. This is especially evident with premium-range private label goods, as opposed to the intentionally bland packaging on value/basic private label goods. Moreover, the growing dependency of packaging to communicate effectively with consumers gives further impetus to innovating packaging design to derive marketing benefits.

#### ***F. Technology influences***

New technology and technological development in coating and laminating has contributed to the enlargement of new materials, but also to the combination of materials with better properties. This has been one important factor in the development of many new packaging products. Another obvious driving force has been development and improvements within printing and printing technology. An important contribution to development work in packaging and packaging design has also been made by suppliers of packaging equipment of different kinds. Furthermore development work within the area of radio frequency identification (RFID) technology opens up opportunities for many new packaging solutions within diverse distribution systems. Once adopted by the largest retailers, this in turn puts pressure on their suppliers to adopt the same new technology.

#### ***G. Packaging design (materials, shape, size, colour, texture, graphics)***

Packaging design has become an important factor for marketing various products in consumer markets, notably grocery products, spirits and perfumes. As highlighted in this report, packaging can contribute to the product's benefits and in some cases be vital for the use of the product. For a variety of products, the shape of the package has been an essential factor for success in the marketplace, whereas size and colour are important ingredients in

other product and market areas.<sup>73</sup> Texture and graphics are also variables that can be modified and contribute to a successful package.<sup>74</sup>

Packaging innovation is partly *demand* driven (serving consumer needs) and partly *supply* driven (what technology and materials allow) but it must satisfy the required different functions in the supply chain from producer to end consumer. In practice, these demand and supply elements can overlap or offset each other as factors that serve as complements (reinforcing each other) or substitutes (working against each other) depending on the precise nature of the drivers of packaging innovation and the functional role served, as we summarise in the next section in regard to marketing, logistical and ethical drivers.

### 3.5 Innovation in Packaging Functional Roles

Research on packaging has tended to focus separately on packaging as a highly versatile marketing tool,<sup>75</sup> an integral element of the logistics system,<sup>76</sup> or its ethical implications.<sup>77</sup> Despite the multidimensional nature of packaging, the literature has tended to analyse these three dimensions separately. However, more recently some studies have taken a more integrative approach, analysing physical and communicative innovation in packaging and organising these innovative elements into the three components of marketing, logistics and ethics.<sup>78</sup> This section summarises the key focus and drivers of innovation in packaging in respect of the different functional roles served to provide an insight into the complex set of objectives and the basis for competing through innovation which firms are compelled by the forces of competition to adopt in order to survive and prosper in today's demanding and consumer-led FMCG markets.

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<sup>73</sup> Wansink (1996) and Raghurir and Greenleaf (2006) have found the shape and size of packaging elements to be critical in influencing consumers' purchasing decisions for a variety of goods.

<sup>74</sup> An important aspect to support rapid innovation and experimentation is the use of web design where customers can see the suggested package on the computer presented, for example, on a shelf in the store or as a point-of-sale aid in the store. The design studio uses the same technology as in a video game. The proposal can also be sent as a file to the customer or be presented on a DVD for later use. All of this helps to meet the evermore demanding timescales for new designs that are placed on design agencies by FMCG producers – see Simeon Goldstein, "Designing a brighter future", *Packaging News*, pp.30-31, October 2011.

<sup>75</sup> See Underwood *et al.* (2001), Underwood (2003), Ampuero and Vila (2006), and Kotler (2006).

<sup>76</sup> See Rundh (2005; 2009).

<sup>77</sup> See Prendergast and Pitt (1996) and Bone and Corey (2000).

<sup>78</sup> Vernuccio *et al.* (2010) have considered a more holistic view on packaging innovation. They seek to integrate marketing, logistics and ethics to present a more systematic and holistic vision of innovation in the packaging literature. Their framework is aimed at the retail grocery sector and considers the complete supply chain. Similarly, Ahmed *et al.* (2005) take a more holistic view on packaging research which takes account of different management functions in packaging innovation.

### **Packaging and marketing**

Planning an innovation strategy for packaging must have an in-depth understanding of more than just consumers' needs and wants. Recent studies have emphasised that they must also concern themselves with the basic product characteristics, the retailers' expectations, the logistics of transport and delivery, the packaging materials available, the packaging production processes, the environmental performance of the proposed packaging, and many other intervening variables. Market-oriented firms need to incorporate all these concerns in packaging innovation to achieve the value-added potential.

Marketing-led innovation in packaging can be summarised in respect of the values that innovative packaging can deliver users of packaging. Four value-added aspects are usually distinguished: realistic, ideal, emotional and essential values:

1. *Realistic value* recognises innovation as influencing the customer's perception of functional value. In the case of physical innovation, we observe an improvement in the user-friendliness of goods (transportability, re-sealability, ease of handling, etc.). Practical communicative innovations relate to verbal and iconic cues for the consumer, to facilitate use and repeat usage (e.g. the directions for use).
2. *Ideal value* concerns with the symbolic value of the packaging, the significance that it can take on for the customer, created through communicative innovations and, to a lesser extent, physical innovations.
3. *Emotional value* relates to aesthetic and emotional values (e.g. distraction, stimulation, feeling) conveyed by the physical and communicative elements.
4. *Essential value* relates to the critical cost/benefit evaluation of the offering. In communicative terms, it can be influenced by the provision of critical information (e.g. about nutritional attributes) and/or by the development of transparent packs. From the physical point of view, it concerns features that improve convenience or conservability (e.g. "intelligent" packaging, or "active" packs).

### **Packaging and logistics**

The primary logistical functions required of the packaging system, in pursuit of optimum efficiency and qualitative performance, are three-fold: protection and conservation; handling, transport, manipulation and storage; and information. In respect of performance, these functions can simultaneously work to deliver optimum efficiency, in terms of cost reduction and time saving, and improved service quality.

1. *Protection and conservation*: Better protection of the product; better protection for users and the environment; extension of shelf life; reduction of the risk of voluntary or accidental tampering; reduction of harmful materials; utilisation of materials of certified quality
2. *Handling, transport, manipulation and storage*: Weight reduction; facilitation of supply; facilitation of re-use and recycling; stackability, and space saving;

optimisation of loads and storage space; reduction of materials used; simplification and/or reduction of operations

3. *Information*: Clarity and simplicity in “Instructions for Use” on the package; better information on the components of the packaging; facilitation of product identification and traceability.

### **Packaging and ethics**

There has been a trend toward companies placing an emphasis on an ethically sound approach to innovation in packaging. The ethical dimensions of packaging innovation that are potentially useful to packaging developers include:

- *Environmental awareness*: Facilitation of recycling activity; reduction of waste; reduction of harmful materials; reduced use of materials; reduction of the risk of environmental damage; energy savings in the production process; re-use of packaging; use of ecological or certificated materials; use of recycled materials.
- *Information*: Making sure that information provided is honest, truthful, sincere, comprehensible and complete
- *Societal orientation*: Focus on special-needs customers; maximisation of user-friendliness; reduction of costs
- *Safety*: Reduction of risk of damage to the person beyond the legal obligations
- *Social solidarity*: Communication; social responsibility; social engagement

## **3.6 Packaging Innovation and Consumer Research**

One of the most challenging tasks for an organisation is to enhance their understanding about target customers’ needs and wants so as to improve their products. Packaging has a considerable ability to affect consumers’ satisfaction levels about the product. This makes consumer involvement in the development of product packaging of great importance, at the very least ensuring the packaging is consumer friendly in order to ensure effective product performance but more generally to enhance the overall product appeal.

Ironing out negative consumer sentiment is a key challenge in packaging innovation. Frustration with packaging not meeting expectations may be a key reason why consumers stop buying the product and instead switch to buying a rival’s product. Thus there is a clear competitive aspect to making sure that packaging works effectively for the consumer; first time and every time. In this regard, a number of elements can contribute to overall satisfaction levels for consumers purchasing and then subsequently using the products, including issues such as “openability”, “reclosability”, carrying, and dispensing facilities.<sup>79</sup>

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<sup>79</sup> For instance, openability is a key issue to different demographic groups, where for the elderly the openability of medicines and other products which have secure opening features might be intended to be

This is particularly important in the case of low involvement FMCG products where the packaging becomes strongly associated with the product in the eyes of the consumer.

In respect of the overall appeal, it is necessary to look at product/package opportunities holistically (i.e. produce + package + equity) to ensure an effective combination for the consumer. This necessarily requires considerable consumer-based market research to highlight effective opportunities and potential solutions. With all producers seeking to win over consumers, this can be a key focal point of competition which requires producers to compete by improving the functionality of their products and their packaging, allaying negative sentiment while seeking a decisive positive advantage over rivals.

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“child proof” but can be a frustrating experience when their declining dexterity or strength affects their ability to use the products. For a discussion on developments and industry responses in this regard, see Philip Chadwick, “Openability: Open season on age-old issue”, *Packaging News*, pp. 28-29, May 2011.

## **4. The Economic Dimension**

The previous two sections have concentrated on understanding packaging from consumer and competition perspectives. This section is more focused on exploring the overall economic role of packaging in society.

Packaging in terms of both volume and value is a large and important business in the UK and across the world. It is one of the most prominent and visible sectors which reaches society in everyday life through different mediums. The nature of packaging is such that it is intertwined with all industries, both large and small. It cannot exist on its own, but only as an integral part of the food and drink, personal care, pharmaceuticals or chemicals industries, to name just a few. The role of packaging is critical to the commercial success of both consumer and industrial products in that it protects the product, provides information about the product, and provides tamper-evidence for the product. Additionally, in the case of fast-moving consumer goods, it also markets the product and is typically seen by consumers as an intrinsic element of the product, not merely as a means of transport, protection and storage but as means of use and as a means of identifying the product.

Indeed packaging plays a vital role for both consumers and producers in the functioning of the market economy. Packaging acts as an important market signal to reduce the information barriers between producers and consumers of the product, by providing different information (advertising, branding, reputation, trials, warranties and other signals to reduce asymmetric information). Moreover, the role of packaging in reducing information imbalance between producer and consumer becomes vital when the consumer cannot determine the attributes of a product prior to purchase, for example ice cream, ready-to-eat meals, washing powders and other FMCG products. This role of packaging allows efficient and effective transactions in business and competition.

This section focuses on the economic importance of packaging at both micro and macro level. Each sub-section charts a different aspect. We begin by looking at the significance of the packaging industry to the economy in general. We then move on to examine how packaging can benefit innovation and support market development, before examining sustainability issues surrounding packaging and its environmental cost and incentives to innovate to reduce waste and improve recycling. The last sub-section explores packaging's wider economic role in respect of the links in packaging's life cycle, from a basic raw material through to its end after consumption, illustrating the very varied business sectors and economic agents involved.

## 4.1 Significance to the Economy

Packaging is a half-trillion dollar industry globally and is a multi-billion pound industry domestically in regard to sales and contribution to the UK economy. Packaging serves as the material that protects, preserves and promotes FMCG products, which themselves account for in excess of \$3 trillion in sales globally, of which the global food industry is worth an estimated \$2 trillion annually in respect of sales to households.<sup>80</sup>

In global terms, it is estimated that consumer packaging in 2010 was worth just over \$395bn and heading towards \$500bn in the next few years (Rexam, 2011). Of this, food packaging is by some way the largest segment, accounting for slightly over half (51%) of the total, with a market value at \$202bn. Beverage packaging accounts for 18%, followed by 6% for healthcare and 5% for cosmetics. In respect of geography, Europe accounts for a third (34%) of the global packaging market, equal to that of Asia, Oceania, Africa and the Middle East combined (at 34%), with North America accounting for just over a quarter (27%) and Central and South America a twentieth (5%).

In the UK, the packaging manufacturing industry is estimated to have annual sales of nearly £10 billion and employs some 85,000 people – representing some 3% of the UK's manufacturing workforce and around 5% of manufacturing GDP (equivalent to around 0.7% of UK GDP).<sup>81</sup> Packaging has consistently been one of the most intensely competitive sectors in the UK economy.<sup>82</sup> Margins have been squeezed in recent years with the key input prices rising sharply (notably the cost of raw materials and energy), and more intense price competition as FMCG producers as the major customers to the packaging industry have sought year-on-year cost reductions.

Within the UK packaging industry, the sector is dominated by plastic, paper and cardboard, collectively accounting for just over 70% of the industry's value in recent years. The general trend has been the growth of plastic at the expense of paper and board, and glass only retains a small fraction (around 6%) largely due to high energy costs and recycling requirements, and is mainly used for food and drink items.

For the UK, it is estimated that 124 billion units of FMCG packaging were sold in 2011. Figure 4 shows the units sold by product category and the anticipated growth rates of units sold. Of the different product sectors served, food packaging dominates unit volumes, followed by soft drinks, tobacco, and alcoholic drinks. It is expected that there will be an extra 3 billion units sold in food packaging over the next four years (2011-2015). The fastest

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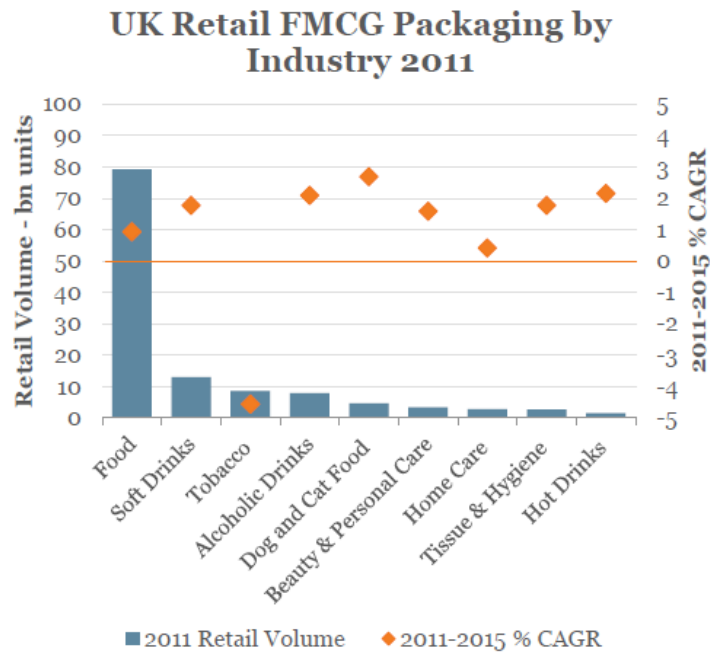
<sup>80</sup> On the global size aspects and ongoing trends, see Euromonitor (2010).

<sup>81</sup> See <http://www.packagingfedn.co.uk>.

<sup>82</sup> See <http://www.pwc.co.uk/assets/pdf/uk-manufacturing-report-sectors.pdf>

growing category is expected to be dog and cat food, growing by an additional 500 million units over the next four years (2011-2015).

**Figure 4 – FMCG Packaging Units in the UK (2011)** <sup>83</sup>



Taking as an illustration and to put the economic significance in context, the food and drinks industry, which is the largest user of packaging in FMCG markets, represents in excess of £100 billion in respect of household consumer expenditure, with a further £80 billion of consumer sales through catering services. Of this, the gross value added from manufacturing is £24 billion and employing 382,000 people, the gross value added from wholesaling is £9.3bn and employing 180,000 people, and the gross value added from retailing is £24 billion and employing 1,146,000 people.<sup>84</sup> Of this wealth generation, packaging plays a significant role. As the essential ingredient for the transport, preservation and presentation of foods and drinks, the market value of the foods and drinks packaging industry was worth over £5.6 billion in 2010 (made up of £4.2bn for food and £1.4bn for drinks).<sup>85</sup>

<sup>83</sup> The source is Punchard (2011) based on Europanel data.

<sup>84</sup> See DEFRA (2011a).

<sup>85</sup> The source is Mintel (2011).



## 4.2 Critical to Product Innovation

Packaging is a vital ingredient in new product development and innovation in the FMCG sector. Packaging has the ability to create or enhance differentiation and identity while serving to attract shoppers' attention. The proliferation and ongoing development of products in the market support extensive choice to the benefit of consumers. New product development and new packaging are key parts of the dynamic competitive process within the FMCG sector, where rivals spur on each other through their developments in a continuous competitive battle to attract shoppers and so secure shelf-space with retailers. Moreover, packaging could play a critical role for producers to enter new markets and create growth opportunities.

### ***Lowering barriers to entry***

With a large proportion purchase decisions made at the point of sale, packaging provides an effective means by which all producers can compete on a level playing field. This has benefited new entrants in the market, allowing them to compete effectively against big established brands, whether they are small niche brand producers, private label suppliers or big multinationals seeking to enter new product categories. Distinctive packaging provides an effective route whereby new entrants with access to retail shelf space can communicate directly with consumers by creating a unique packaging design which could attract consumer attention and engage them in making a purchase decision. This ability to communicate directly with consumers provides new entrants with a platform to sell and prosper in highly competitive markets. While advertising remains an important means of raising new product awareness, it is by no means the only one. Product sampling and in-store promotions can both be used in conjunction with attractive packaging design to raise awareness, in the latter case right at the point of purchase.

### ***Packaging type and new product development***

As an illustration of the extent of new product development in the FMCG sector, for the food category in the UK, a GNPD/Mintel survey identified just over 1500 new products developed in both 2009 and 2010. Table 3 provides a breakdown of this sample by packaging type, showing that plastic and glass led much of this development activity. Table 4 shows the breakdown by food category, highlighting the number of new product developments in fruit and vegetables, but also sauces and spices and a wide range of other products.

**Table 3 – New Product Development in the food category, by packaging type, 2009-10<sup>86</sup>**

Package material	2009		2010*		Total sample	
	Number variants	of (%)	Number variants	of (%)	Number variants	of (%)
Board	16	1.0	18	1.2	34	1.1
Glass	562	36.6	529	34.1	1091	35.4
Paper	1	0.1	-	-	1	0.0
Metal	218	14.2	193	12.4	411	13.3
Plastic	728	47.5	793	51.1	1521	49.3
Other	9	0.6	19	1.2	28	0.9
<b>Total sample</b>	<b>1,534</b>	<b>100</b>	<b>1,552</b>	<b>100</b>	<b>3,086</b>	<b>100</b>

**Table 4 – New Product Development in food, percentage of launches, by food category, 2009-10<sup>87</sup>**

Flavour component sub-group	2009		2010*		Total sample	
	Number of variants	(%)	Number of variants	(%)	Number of variants	(%)
Alcohol	42	5.2	9	1.2	51	3.2
Bakery	4	0.5	3	0.4	7	0.4
Berry Fruit	96	11.9	77	10.0	173	10.9
Cereal	6	0.7	3	0.4	9	0.6
Cheese	37	4.6	22	2.9	59	3.7
Chocolate	33	4.1	56	7.3	89	5.6
Citrus Fruit	43	5.3	32	4.2	75	4.7
Coffee	-	-	2	0.3	2	0.1
Confectionery	3	0.4	-	-	3	0.2
Dessert	14	1.7	12	1.6	26	1.6
Fish	11	1.4	16	2.1	27	1.7
Flower	1	0.1	2	0.3	3	0.2
Fruit	99	12.2	97	12.6	196	12.4
Hardshell	5	0.6	8	1.0	13	0.8
Herb	71	8.8	52	6.8	123	7.8
Meat	51	6.3	36	4.7	87	5.5
Nut	35	4.3	41	5.3	76	4.8
Oils	2	0.2	3	0.4	5	0.3
Other	11	1.4	15	1.9	26	1.6
Other	54	6.7	64	8.3	118	7.5
Pasta	18	2.2	9	1.2	27	1.7
Plant	2	0.2	-	-	2	0.1
Poultry	41	5.1	31	4.0	72	4.6
Rice	4	0.5	4	0.5	8	0.5
Sauces	95	11.7	73	9.5	168	10.6
Seed	21	2.6	20	2.6	41	2.6
Spice	73	9.0	82	10.6	155	9.8

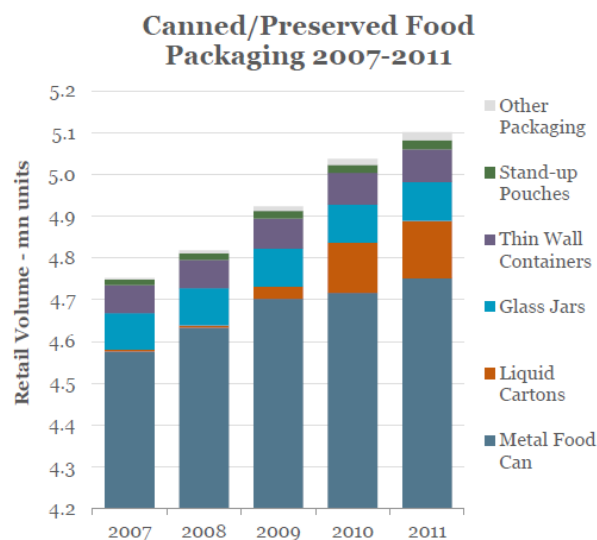
<sup>86</sup> Mintel (2011) based on GNPD/Mintel data, with data for 2010 up to October.<sup>87</sup> Mintel (2011) based on GNPD/Mintel data, with data for 2010 up to October.

Sugar	12	1.5	24	3.1	36	2.3
Syrup	22	2.7	22	2.9	44	2.8
Tea	1	0.1	2	0.3	3	0.2
Tree	1	0.1	1	0.1	2	0.1
Vegetables	271	33.5	227	29.5	498	31.5
<b>Total</b>	<b>810</b>	<b>100.0</b>	<b>770</b>	<b>100.0</b>	<b>1,580</b>	<b>100.0</b>

### Market growth and packaging

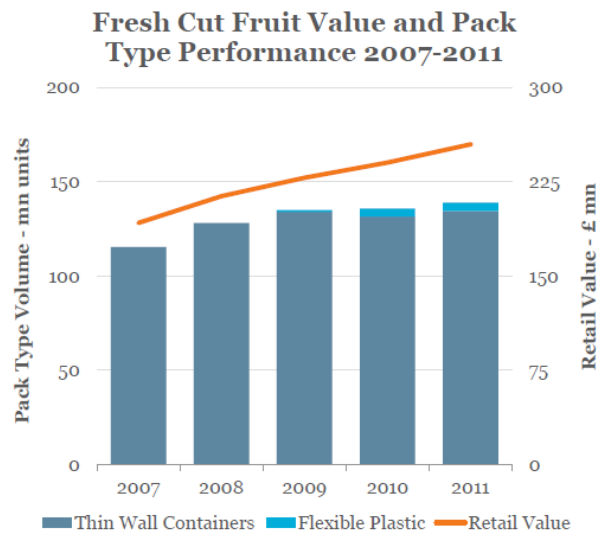
In respect of the performance of key categories in recent times, it is evident that packaging design and innovation has played a major role in impacting sales. A good example of this is canned/preserved food, which is a category that has grown rapidly in recent years, as Figure 5 shows, fuelled by innovations in packaging providing consumers with different options (e.g. Heinz Baked Beans coming in fridge packs and snack pots to complement the existing lines of cans and other brands being launched in stand up pouches and liquid cartons).

**Figure 5 – Growth in Canned/Preserved Food Category**<sup>88</sup>

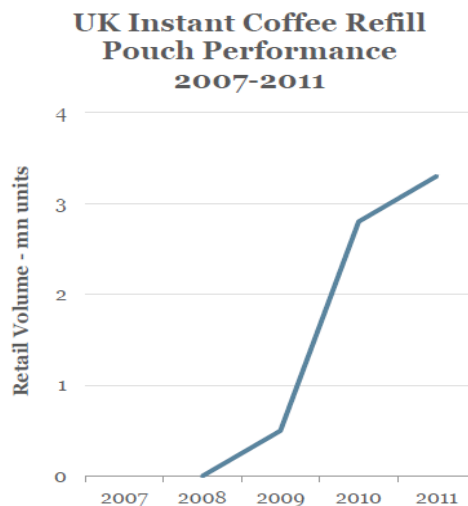


A second example illustrates that consumers are not just concerned about cost but care about convenience, which is something that appropriately designed packaging can address. The example concerns the growth in fresh cut packaged fruit, as shown in Figure 6, where three quarters (currently 73%) of retail value is accounted for by private label. This category is expected to grow by a further 12% over the next four years (2011-2015) with further developments in thin wall containers and flexible plastic packaging.

<sup>88</sup> The source is Punchard (2011) using Euromonitor data.

**Figure 6 – Growth in the Packaged Fresh Fruit Category**<sup>89</sup>

A third example is where an initiative to support recycling and reduce packaging waste has spurred the development of refill packs. This is a rapidly growing form of packaging for several categories, notably coffee where growth in sales has been very strong since the introduction of coffee refill pouches in 2008. In this case, as shown in Figure 7, coffee refill pouch sales reached almost 3.5 million units in 2011.

**Figure 7 – Sales Growth of Coffee Refill Pouches**<sup>90</sup>

<sup>89</sup> The source is Punchard (2011) using Euromonitor data.

<sup>90</sup> The source is Punchard (2011) using Euromonitor data.

### 4.3 Impact on Sustainable Development and the Environment

Sustainable development is an all-embracing term, which recognises the inter-relationships between economic success, environmental protection and social wellbeing. As an umbrella concept, it attempts to link issues as diverse as economic equality, climate change, biodiversity, employee training, health and safety, and the ageing population structure, amongst others. It is expected that the push for sustainability will be one of the key influences on the way business operates in the coming years as these issues take on greater social and economic importance so as to meet consumer expectations, make cost savings, and also comply with government-backed initiatives and regulations.<sup>91</sup>

At both the national and European level, governments have been developing a range of initiatives to promote sustainable development. In regard to packaging, considerable efforts have already been made to reduce the amount of materials used and facilitate recycling. Progress on recycling has already been substantial over the last decade. The UK has a statutory producer responsibility regime for packaging.<sup>92</sup> This places a legal obligation on businesses which make or use packaging (raw materials manufacturers, converters, packer/fillers and sellers) to ensure that a proportion of the packaging they place on the market is recovered and recycled. In 2010, the UK disposed of an estimated 10.8 million tonnes of used packaging, of which around 67% was recovered. This is regarded by DEFRA as a significant achievement given that back in 1998 only 27% of used packaging was recovered.<sup>93</sup>

In summarising the extent of recycling and recovery in UK packaging, DEFRA point to the following overall position and achievements:<sup>94</sup>

- Around half of the 10.8 million tonnes of used packaging comes from the commercial and industrial waste stream and half from household waste.
- The recycling rate has increased from 34 per cent in 1999 to 62 per cent in 2009, and the total recovery rate (including recycling) has increased from 38 per cent in 1999 to 67 per cent in 2009.

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<sup>91</sup> At a strategic level, corporate sustainability reporting is becoming a mainstream business practice. In the UK, the percentage of the top 100 firms producing environmental, social or sustainability reports has risen from around a quarter to a half (27% to 49%) in recent years. This reflects the demands of stakeholders, especially green investment portfolios. For details in the specific context of packaging, see <http://www.packagingfedn.co.uk/factsheets.html> and Packaging Federation (2004; 2006).

<sup>92</sup> Specifically, the producer responsibility regime implements the Directive on Packaging and Packaging Waste (94/62/EC, amended by Directive 2004/12/EC). Also, the Producer Responsibility Obligations (Packaging Waste) Regulations 2007 (as amended) cover recycling and recovery, while the Packaging (Essential Requirements) Regulations 2003 (as amended) cover single market and optimisation aspects.

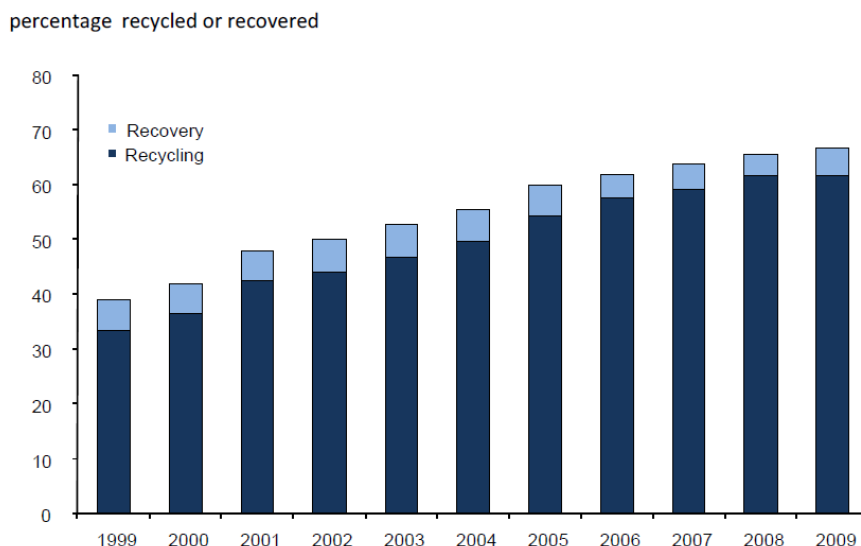
<sup>93</sup> See <http://www.defra.gov.uk/environment/waste/business/packaging-producer>.

<sup>94</sup> See <http://www.defra.gov.uk/statistics/environment/waste/wrfg17-recycrecove>.

- The 2009 estimates of the recycled packaging waste (by weight in percentage terms) show materials include paper (47 per cent), glass (25 per cent), plastics (9 per cent), wood (12 per cent), steel (6 per cent) and aluminium (1 per cent).
- The UK continues to exceed the overall recovery and recycling targets, and has achieved all of the material specific targets set in the EU Directive on Packaging and Packaging Waste.

Figure 8 shows the steady progression in recycling and recovery rates from packaging over the last decade. This is highly important in economic terms since by recycling and recovering packaging material, it ensures that fewer raw materials are used, thus reducing waste sent to landfill and the impact of packaging upon the environment.

**Figure 8 – Recycling and recovery from Packaging in the UK (1999-2009)** <sup>95</sup>



While progress has been good in the UK, the recovery and recycling rates are still behind a number of other EU countries, notably Belgium, Austria and Germany, suggesting that there is further scope for improving these rates in the UK.<sup>96</sup>

In addition to legislative requirements, industry participants have been involved in voluntary agreements to deliver progress on packaging reduction. The most significant among them is the Courtauld Commitment, a voluntary agreement which extends across the UK, between Waste & Resources Action Programme (WRAP) and major grocery retailers and brand owners, representing some 92% by value of the UK supermarkets and major brands operating across all grocery categories. Primarily, the Courtauld Commitment has acted as a shop window for developments that companies have been undertaking in ways where optimising packaging represents a win-win situation, explaining the support of companies in

<sup>95</sup> The source is DEFRA (2011b).

<sup>96</sup> See DEFRA (2009) for a comparison across EU Member States.

the process. In this context, and to demonstrate what can be achieved through win-win solutions, DEFRA (2009) point to some notable success stories arising from this agreement to inspire further innovation and development in the sector, including the following examples of packaging reduction:

- Marks and Spencer changed the plastic tray used to protect its beef to a thin skin pack wrapped tightly around the product. This method cut the packaging down by 69% and extended the shelf life of the product by four days.
- Coca-Cola has reduced the weight of its soft drink cans by 5%, potentially saving 15,000 tonnes of packaging a year across the European aluminium can sector. This represents approximately 78,000 tonnes of CO<sub>2</sub> – the equivalent of taking 25,000 cars off the road.
- Northern Foods changed the design of their Goodfella's pizza box, reducing their transit packaging by 4,000 tonnes a year. Because the new boxes stack better, the company also cut a million transport miles per year and cut the number of pizzas damaged before they reach the consumer by 75% – thus reducing food waste.
- WRAP's Glass Rite Wine project looked at how the packaging used to get wine from the vineyard to the consumer could be reduced. By importing in bulk and using lighter bottles, Glass Rite Wine has cut CO<sub>2</sub> emissions by an estimated 28,300 tonnes, the equivalent of taking 8,500 cars off the road.
- Heinz has changed the design of its 'easy open' can ends with ring pulls, saving 1,400 tonnes of steel without any effect on the performance of the cans and saving Heinz in the region of \$750,000 in production costs worldwide.

The Courtauld Commitment is now in phase 2, running from 2010-2012, and has continued to make progress in meeting its targets, again led by significant innovations in packaging design and more efficient use of materials.<sup>97</sup>

For industry, it is clear that win-win solutions are possible where there are cost savings but also environmental benefits. In some cases this has been achieved by switching the packaging material to something that can be more easily recovered and recycled. In other cases, it has been about reducing the amount of the existing material, so-called lightweighting. There have been notable successes in this area and leading industry examples have inspired others to adopt similar cost-reduction methods that allow retailers and producers to meet ambitious carbon reduction targets while at the same time making sure that packages can still perform in protecting the product through the supply chain.<sup>98</sup>

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<sup>97</sup> For details on progress and case studies on new packaging developments and innovations, see [http://www.wrap.org.uk/downloads/CC2\\_First\\_Year\\_Progress\\_Report\\_05\\_Dec\\_11\\_final.365d9f27.11547.pdf](http://www.wrap.org.uk/downloads/CC2_First_Year_Progress_Report_05_Dec_11_final.365d9f27.11547.pdf).

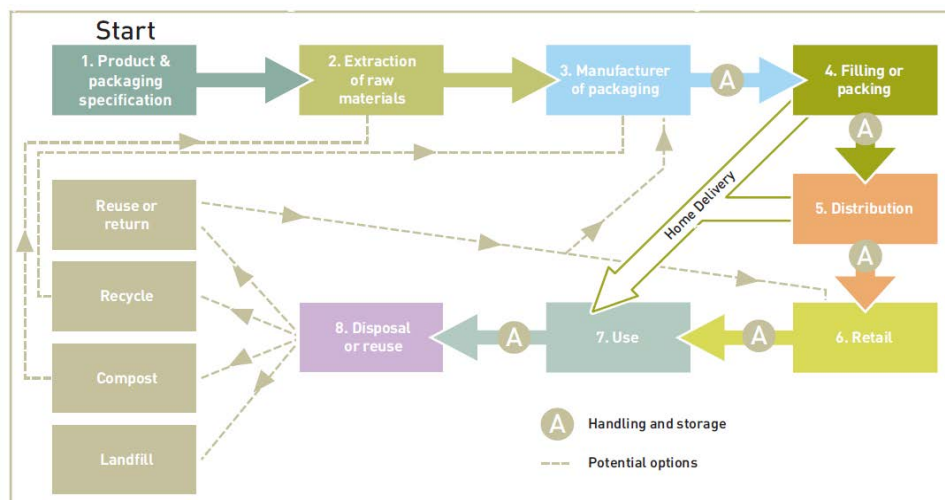
<sup>98</sup> On lightweighting opportunities for innovation, see Simon Creasey, "Lightweighting: Focus on weight is in the balance, *Packaging News*, pp. 28-29, October 2011.

## 4.4 Contribution to the Wider Economy and Trade

The previous sub-sections have focused very directly on the economic and environment impact of the core of the packaging industry, i.e. with respect to the manufacturers of packaging material and packaging machinery. However, this industry operates within a much broader business network, ultimately serving the product manufacturers, distributors and retailers that supply consumers. This business network also includes different sub-contractors depending in which industry the products are sold. The main customers for packaging are the companies who pack or fill their own products. Significant amounts of development work are also executed to design the appropriate packaging for the fillers. This development work is either carried out by the supplier of packaging material or by an independent sub-contractor in close relationship with the buying company and their packaging experts. In some cases, suppliers have also created their own packaging design studios in order to develop efficient packaging solutions in relation to requirements from buyers and end customers, satisfying both the ergonomic and environmental demands as well as aesthetic aspects that appeal to consumers.

Taken as a process through the supply chain, packaging serves the distribution system all the way to the consumer who expects to receive the products safely, in functional and labour-saving packages. If the packaging material is not re-used by the consumer, then (as discussed in the previous sub-section) requirements from packaging legislation and directives require that the waste is collected and re-cycled for new packaging material or put to other uses. Figure 9 summarises the consumers of packaging material in a product life cycle context, illustrating the very wide set of interactions in the economy involved with consumer-goods packaging, demonstrating its significant broader impact on the economy, the different businesses and users served and its key role in economic trade.<sup>99</sup>

**Figure 9 – The Packaging Life Cycle**



<sup>99</sup> The source is [http://www.wrap.org.uk/downloads/The\\_Packaging\\_Lifecycle.66fff6a7.6566.pdf](http://www.wrap.org.uk/downloads/The_Packaging_Lifecycle.66fff6a7.6566.pdf).



## 5. Packaging Communication and Public Policy

As a key medium to communicate with consumers, packaging and its design and communication features have become important aspects of competition between FMCG producers, where one development spurs rivals' developments as part of a healthy and vigorous competitive process. Ultimately it is the consumer that is the winner from this competitive process, where new innovations provide greater functionality of the product, greater ease of use, greater information provision, and greater clarity over how products stand apart and are distinguished in respect of the quality and service they provide.

Nevertheless, there are two particular situations which can give rise to a concern that competition and innovation will be stifled or distorted and economic harm arise. First, regulation that restricts firms' ability to compete effectively through their packaging may impede the competitive process. Second, firms that deliberately free-ride on and undermine the intellectual property investments of others can distort competition to the detriment of consumers.

In both situations, government intervention can play a critical role but runs the risk of causing or supporting economic harm when regulation is either too little or too much. This calls for a careful *Goldilocks* assessment, to make sure that regulation is just at the right level, neither too little nor too much, and appropriate for the needs of the market to support consumer choice and confidence while ensuring or propagating effective competition. In this context, this section examines three topical yet controversial areas of packaging regulation:

- Front-of-pack food labelling
- Plain packaging for tobacco products
- Copycat brands

### 5.1 Impact of Government Regulation on Packaging and Labelling

Government regulation covers various aspects of packaging. Some of this may be to do with the information provided. Often this is beneficial to consumers when it lays down criteria which all firms are required to follow, such as requiring honesty with regard to listing the contents of the product and not misleading consumers with regard to claims about the product (e.g. health claims). Similarly, there may be specifications over the material and quality of the packaging, e.g. for hazardous products like household bleach. All of these requirements set a base from which firms compete. Other aspects of regulation have, though, been more controversial either because of the failure to be decisive in applying universal requirements, e.g. front-of-pack labelling on food products, or because of

restrictions placed on allowing consumers to easily identify the brand on the product, e.g. current actions or plans to restrict branding on cigarette packets in certain countries (notably Australia). In both cases, competition can be detrimentally impacted and consumers left confused – either because of competing platforms (e.g. no common agreement in the industry over front-of-pack labelling), or because of identity removal (e.g. removal of cigarette on-pack branding). We examine each of these cases in turn.

### ***Front-of-pack food labelling and packaging design***

In the case of front-of-pack labelling, despite a long-running campaign and supporting research, the UK Food Standards Agency (FSA) has failed to achieve industry consensus over front-of-pack labelling to the extent that different retailers and different producers have adopted different systems around reporting standardised “traffic light” labelling (based on high, medium or low levels of fat, saturated fat, sugar and salt per 100g or 100ml) or “guideline daily amounts” (“GDA”) labelling (based on fat, sugar and salt levels contained in portions).

Figure 10 (below) illustrates the wide range of different front-of-pack labelling seen in the UK, with some focusing only on GDA information, some on coloured traffic lights, and yet others combining both GDA information and coloured traffic lights.<sup>100</sup> The FSA’s own preferred scheme is the adoption of a common form that combines GDA information with coloured traffic lights and the wording “high, medium, and low”.<sup>101</sup>

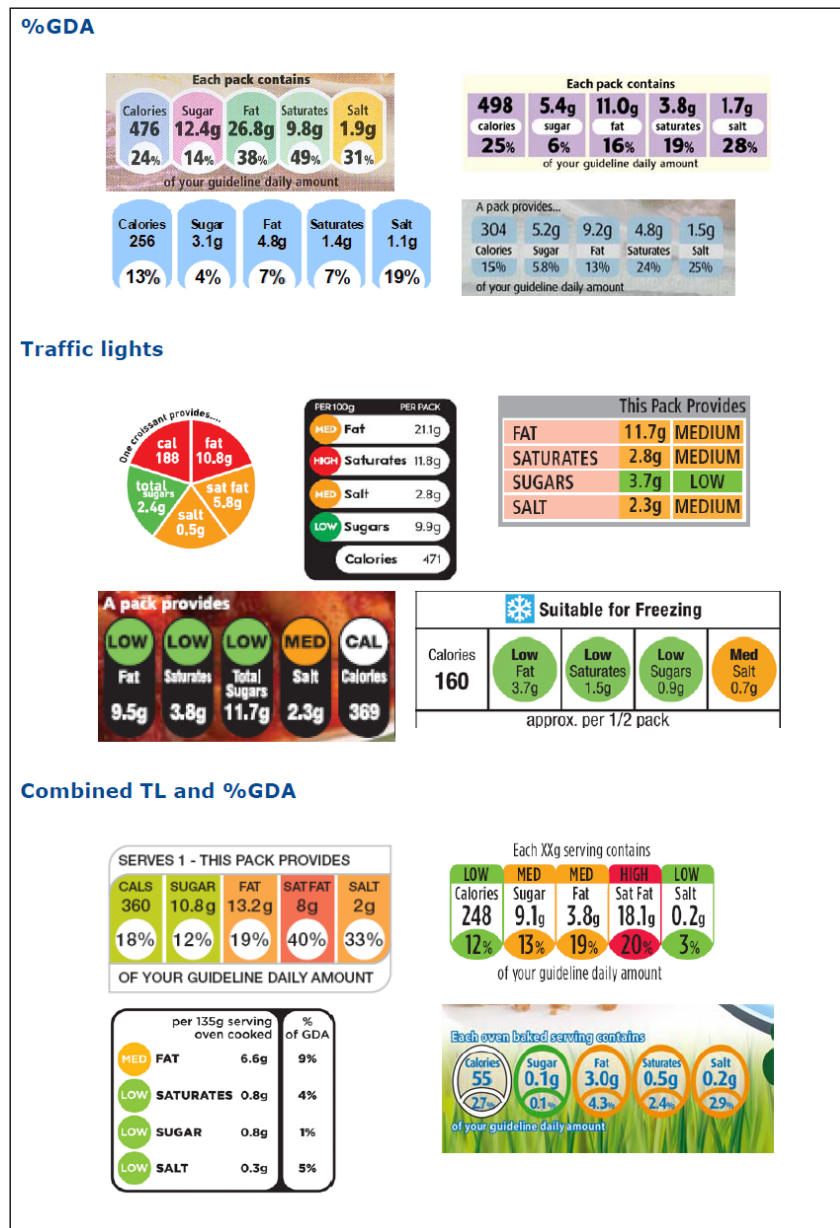
The absence of a single, universal labelling format means that consumers find it difficult to make ready comparisons on the healthiness of competing products. A common standard – whether based on traffic lights or GDAs – would have made this task easier for consumers. Even though there now appears to be a consensus in favour of GDA-based labelling across Europe, it is expected that differences will persist in how this information is reported on packs and in the absence of clear signalling through traffic lights it is likely that consumers will remain confused over the messages they face. The problem arises from a failure to regulate very specifically on how information should be presented on a single, universal basis that allows for no deviation and instant comparability across all retailers and all products.

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<sup>100</sup> The source is Food Standards Agency (2009).

<sup>101</sup> In March 2010, the FSA announced that its board had reached agreement for single front-of-pack label plan (<http://www.food.gov.uk/news/newsarchive/2010/mar/fopagreement>), yet labels continue to remain visually very different from one product to another and from one retailer to another.

Figure 10 – Examples of Front-of-Pack Labels in the UK (FSA 2009)



A related problem to indecisive regulatory action that fails to establish a common platform for competition comes from substantial changes to labelling requirements that impose substantial costs on the industry. An example is the obligations on labelling required in the European Union by the Provision of Food Information to Consumers Directive, passed in July 2011, which requires a minimum font size to be used on labels (generally 1.2mm but where the largest face is 80cm squared or less will have to have a minimum font of 0.9mm).<sup>102</sup> The

<sup>102</sup> For details of the Directive and its likely impact on costs, see “EU food label rules will force pack redesigns”, *The Grocer*, 25 June 2011.

upshot is that suppliers will likely have to redesign packs for tens of thousands of products at an estimated cost of up to £7,000 per product; costs that will inevitably pass on to the consumer through higher prices. Moreover, while these costs are borne by all producers, they can be expected to disproportionately impact on smaller, niche products with relatively low levels of sales because the change in design represents a fixed cost regardless of the volume sold. For small and medium sized enterprises (SMEs) specialising in such products, this could be particularly disadvantageous if it exacerbates their competitive disadvantage compared to big national and multinational suppliers selling mass market, high volume products.

In short, regulation in this area appears unduly limited, piecemeal and lacking standardisation, which is costly for the industry in having to make changes but insufficient from the consumer's perspective in providing consistency in how labelling information is provided. Thus far it has been a case of a missed opportunity to set clear, universal rules on health labelling for food and drink items that would allow consumers to make easy and immediate comparisons from one product to another and from one retailer to another and so promote choice and competition. The absence of a common and universal standard means that consumers are unlikely to realise the full benefits of nutritional information being provided which could allow them to make appropriately informed choices.<sup>103</sup>

### ***Cigarette Plain Packaging***

In contrast to the failure of regulation to go far enough to aid consumers, in other instances it is arguable that regulators have gone too far in intervening in how packaging should appear. The most controversial case is that relating to the ban on on-pack branding for cigarettes and all other tobacco products that is currently being introduced in Australia and with similar bans also being considered in other countries as well, including the UK. In this case, regulators are seeking to take away on-pack branding to have a plain package with large health warnings. The effect will be to make every pack and every brand like all others, so there will be no clear distinguishing features. Consequently it will make the product essentially generic in appearance; something in sharp contrast to all other FMCGs which seek to be distinct to provide the consumer with clarity to assist and support their purchasing decision.

Australia is the first major country to introduce a plain packaging requirement for tobacco products as part of the government's campaign to reduce smoking rates by 9% by 2020. The legislation to support the ban on on-pack branding requires cigarettes to be sold in plain

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<sup>103</sup> The FSA's own research drawn on experts in the field shows that a single front-of-pack labelling scheme would be in the consumer's best interest – see <http://www.food.gov.uk/news/newsarchive/2009/may/pmp>.

packages throughout the country from December 2012.<sup>104</sup> Branding and advertising will be replaced by logo-free, drab green packaging with large, visual health warnings. The brand name and variety of the cigarette will be printed on the front of the packaging in a plain typeface.<sup>105</sup> A mock-up example is shown in Figure 11.<sup>106</sup>

**Figure 11 – Mock-Up Example for Cigarette Plain Packaging in Australia**



The cited evidence used to support the Australian on-pack branding ban draws on a range of experimental studies which have examined the likely impact of plain packaging on young people and current smokers.<sup>107</sup> The conclusion drawn by Cancer Council Australia was that there are strong grounds for believing that current packaging glamorises smoking and that tobacco products packaged in a standardised colour, typeface and form would:

- improve the effectiveness of health warnings
- reduce misconceptions about relative harmfulness of various brands and
- reduce the overall appeal of smoking

This conclusion is in line with a review of evidence on the effects of plain packaging conducted up to 2009 by Hammond (2010, p. 226) who says: “The evidence indicates three primary benefits of plain packaging: increasing the effectiveness of health warnings, reducing false health beliefs about cigarettes, and reducing brand appeal especially among youth and young adults. Overall, the research to date suggests that ‘plain’ packaging

<sup>104</sup> The plain packaging bill was passed by the Australian Parliament on 21 November 2011. See “Cigarette plain packaging laws pass Parliament”, ABC News. 21 November 2011 (<http://www.abc.net.au/news/2011-11-21/cig-plain-packaging-laws-pass/3684374>).

<sup>105</sup> For details, see [http://en.wikipedia.org/wiki/Plain\\_cigarette\\_packaging](http://en.wikipedia.org/wiki/Plain_cigarette_packaging).

<sup>106</sup> The source is “Australia to force tobacco companies to adopt plain packaging”, *Daily Telegraph*, 28 April 2010.

<sup>107</sup> Cancer Council Victoria (2011) reviews 25 published experimental studies.

regulations would be an effective tobacco control measure, particularly in jurisdictions with comprehensive restrictions on other forms of marketing.”

There are, though, considerable doubts about the effectiveness of such a ban in respect of reducing smoking rates. There are also concerns about how this will more generally affect competition and economic outcomes for consumers, industry and government. In particular, there are a range of arguments against the ban on on-pack branding and the evidence and logic used to support the ban. These include the following seven arguments:

1. The tobacco industry disputes the evidence as providing little beyond surveys of consumer attitudes rather than a rigorous assessment of effects in the market with a ban in place.<sup>108</sup>
2. The ban is likely to give rise to generic product competition, resulting in lower prices leading to higher not lower sales as firms compete on prices rather than quality, differentiation and innovation.<sup>109</sup>
3. The ban is likely to encourage counterfeit sales (impacting on producers) and illicit trade (impacting on retailers) and thereby rob government of tobacco tax revenue.<sup>110</sup>
4. The ban is likely to inconvenience shoppers as retail staff struggle to locate brands leading to longer service times, and so adversely affecting retail performance.<sup>111</sup>
5. The ban will undermine intellectual property investment built up legitimately over many years.<sup>112</sup>
6. The ban will likely distort competition by shifting the competitive focus on the product to after the point of sale (e.g. providing accessories such as slipcases for cigarette packs to slip into, and other products such as branded chewing gum to complement the smoking experience).<sup>113</sup>

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<sup>108</sup> See [http://www.plain-packaging.com/Templates/Blank\\_NoEvidence.aspx](http://www.plain-packaging.com/Templates/Blank_NoEvidence.aspx) and also on counter evidence <http://www.plain-packaging.com/Templates/RelatedDocumentsTemplates.aspx>.

<sup>109</sup> Plain packaging could stifle innovation when there is no visible outside means to show it on packs; see Simon Clarke, “Great designs risk going up in smoke”, *Packaging News*, pp. 26-27, June 2011. It has also been suggested that the move to plain packaging could trigger a price war, and thus likely boost sales; see Gaelle Walker, “Plain tobacco packs will start 'price war'”, *Convenience Store*, 9 June 2011. More generally, the present difficult economic climate is making consumers more price conscious and it is the value budget brands that are likely to benefit; see Ronan Hegarty and Tara Craig, “Consumers choose price over branding in tobacco”, *The Grocer*, 20 December 2010.

<sup>110</sup> See [http://www.plain-packaging.com/Templates/Blank\\_IllicitTrade.aspx](http://www.plain-packaging.com/Templates/Blank_IllicitTrade.aspx).

<sup>111</sup> See <http://www.plain-packaging.com/Templates/RetailersTemplate.aspx>.

<sup>112</sup> See [http://www.plain-packaging.com/Templates/Blank\\_TrademarkRights.aspx](http://www.plain-packaging.com/Templates/Blank_TrademarkRights.aspx). The implication is that tobacco companies might take court actions pursuing compensation worth billions of dollars for lost trademarks and investment; see Charlie Wright, “Tobacco trade looks on as Philip Morris takes to courts over plain packs”, [www.thegrocer.co.uk](http://www.thegrocer.co.uk), 22 November 2011.

<sup>113</sup> See Simon Clarke, “Great designs risk going up in smoke”, *Packaging News*, pp. 26-27, June 2011.

7. The ban is about stripping profits away from the tobacco industry to hurt “Big Tobacco”, not about lowering sales (hence why the industry is fighting the legislation and why producers might challenge governments in court, leaving government potentially open to multi-billion dollar compensation claims).

In what is becoming a highly polarised debate, between the health lobby on one side and the tobacco industry on the other side, and the emphasis on the rights and wrongs of measures designed to curb tobacco consumption, the dynamics of industry competition and how consumer behaviour will evolve over time appear to have been largely neglected aspects. Some consumers might ignore any packaging changes, others could be put off and so decrease their smoking, yet others could see plain packaging with large health warnings as a defiant (even rebellious) act and thus encourage them to smoke. Overall, though, plain packaging is likely to considerably affect how producers compete.

Moving from a well-designed, readily identifiable and distinct branded pack to a plain pack is likely to reduce reinforcement about the brand’s characteristics at point of sale. The shift to a plain pack environment will effectively remove the usual retrieval cues and consumers would need to learn to scan the packs for the brand name. At the very least, this will make purchasing decisions more time consuming and complex for consumers. Yet, it will also do the same for shop assistants when serving customers and they have difficulty identifying the product on the shelves. This will inevitably mean a slower shopping experience for consumers purchasing these products, and thus increased retail costs.

Yet, the most profound effects are likely to be in regard to product choice and a move away from quality brands towards cheaper generic brands with the loss of brand imagery. This is borne out in a recent study by London Economics (2012) that uses a large online survey of smokers and non-smokers in the UK, where product imagery was found to have a significant impact on consumer preferences across a number of FMCG products.<sup>114</sup> The evidence in the report shows that in the absence of packaging design, and with only price as a determinant of choice, consumers would shift significantly away from premium cigarette brands towards cheaper brands. Given brand erosion and an associated reduction in consumers’ willingness to pay, in order to maintain existing market shares tobacco companies would be obliged to adopt more aggressive pricing strategies. The inevitable result would be a decline in prices in the market. This in turn could have the perverse effect of increasing rather than decreasing levels of consumption, especially amongst those individuals with fewer financial resources.

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<sup>114</sup> The analysis by London Economics involved an online behavioural experiment using a sample of 3,000 UK consumers in regard to demand for a range of products, segmented according to whether the product brands were premium, medium or low-range brands, taking account of the effect of a wide set of product signals, including price, product information, advertising, market share information, brand name and packaging imagery on consumers' preferences. The product types included cigarettes, bottled water, beer, crisps, ice cream, toothpaste and chocolate.

These findings tie in with those from a study by LECG (2010) which used simulation methods to examine the effect of plain packaging on cigarette consumption, finding that plain packaging would lead to increased price competition resulting in lower prices and higher cigarette sales. The simulation results in the study indicates that plain packaging would result in a price decrease between 4.4% and 14.1% depending on (i) the decrease in the differentiation between brands within the same price category and (ii) the market elasticity. The subsequent increase in sales would be (i) between 2.2% and 5.1% if the market elasticity is equal to -0.5 and (ii) between 4.5% and 10.6% if the market elasticity is equal to -1. Moreover, the attractiveness of the low end of the market might induce entry of new players in the super-low segment which could further intensify price competition, leading to further price falls, and so further increases in sales.

With the Australian government pressing ahead with the plain packaging requirements it may be only a matter of time to see which side of the polarised debate is proved right. Other countries are likely to be watching the outcomes very closely, especially those that might be considering introducing their own plain packaging legislation, including New Zealand, Canada, the UK, and perhaps other countries in Europe.<sup>115</sup>

However, for brand owners these are unsettling times as cigarettes might represent the thin end of the wedge, where a public health lobby might argue for plain packaging requirements on other goods that are deemed unhealthy, e.g. fatty or sugary foods and drinks, perhaps to complement new taxes on such goods, such as fat taxes (e.g. recently introduced in Denmark and Hungary<sup>116</sup>), and proposals for other taxes, such as on sugary drinks (so-called soda taxes<sup>117</sup>).

With multi-billion dollar branding investments and a huge amount of economic wealth at stake, it is to be hoped that governments take a cautious, extensively researched approach before rushing ahead with any plain packaging regulations, given the far reaching consequences this can have for competition, consumers, and the economy, as well as the possibility of doing more harm than good.

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<sup>115</sup> See Marina Kamenev, "Australia Bans Distinctive Cigarette Packaging — Should Others Follow?", *Time*, 1 December 2011 (<http://www.time.com/time/world/article/0,8599,2100987,00.html#ixzz1fmreTtDT>).

<sup>116</sup> See Ross Clark, "Why a fat tax is the best way to save the NHS billions", *Daily Mail*, 5 October 2011 (<http://www.dailymail.co.uk/debate/article-2044855/Why-fat-tax-best-way-save-NHS-millions.html#ixzz1fmw1NZEp>).

<sup>117</sup> See [http://en.wikipedia.org/wiki/Soda\\_tax](http://en.wikipedia.org/wiki/Soda_tax).



## 5.2 Copycat Packaging and Product Appearance

Beyond possible competition-distorting effects of ineffective or excessive regulation on packaging labelling and imagery, the second type of situation which can give rise to a concern that competition and innovation will be stifled or distorted concerns cases where intellectual property rights are not sufficiently protected to allow investments to be fully appropriated. Such a situation can arise where firms are allowed to free-ride on and undermine the intellectual property investments of others. A classic example is the problem of copycat packaging that intentionally mimics the trade dress and appearance of established brands by using very similar packaging design to pass themselves off as being equivalent to, if not directly equal to, the established brand.

Copycat packaging might adopt key features of an established brand to mimic its look, e.g. through the use of similar colours, pictures, logo style, text fonts, pack shape, size and feel. As such, consumers might be confused over which product is the genuine brand, potentially leading them to make wrong purchase decisions, or consumers might be lulled into thinking (wrongly) that the products are made by the same manufacturer or more generally can be taken as offering the same quality and reliability as the branded good.<sup>118</sup> For the brand producer, this can mean that sales are diverted to the copycat producer, so undermining its brand investments and its cost efficiency (with the loss of scale economies).

A particular concern in this regard is copycat private-label products sponsored by powerful retailers where brand owners face a “double agency” problem in that the retailer is both their *customer* (buying the brand to sell on to consumers) and their *competitor* (supplying copycat products intended as a direct substitute to the brand). In this situation, the retailer can have a strong incentive to favour its own copycat product over the brand to shift sales, and so profits, by using the in-store marketing levers at its disposal, including shelf space allocations and positioning, pricing and promotions. The result can be distorted competition from unequal retailer treatment. Consumer detriment can arise from consumers’ choices

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<sup>118</sup> A questionnaire study undertaken on behalf of the British Brands Group suggests that these effects are common – see <http://www.britishbrandsgroup.org.uk/pages/parasitic-copying>. Almost two thirds (65 percent) of respondents felt that the packaging of two grocery shopping items looking similar could confuse or mislead them. A third of respondent also reported that they had themselves been confused or misled by packaging of two similar looking grocery items. However, a third of all respondents reported having accidentally bought a wrong grocery item because the packaging design was similar to the item they wanted to buy originally. Moreover, 64 percent of respondents reflected concerns when similar looking packaging suggested that item is connected to a long established manufacturer or brand when it is actually not. These figures have strong economic implications in respect of the potential scale of wrong product purchases being made due to confusing or misleading packaging. See also Sean Poulter, “Shoppers ‘conned’ by copycat brands”, *Daily Mail*, 11 May 2009.

being distorted or unfairly influenced, with the result that consumers may pay higher prices or make less-informed choices than they otherwise would have with fair competition.<sup>119</sup>

Of course, if a copycat product were purchased and then disappointed the consumer by not meeting expectations, then the consumer might revert back to buying the brand. However, there is a risk that the consumer might be put off the category entirely. Where, though, the consumer deems the quality as being the same or nearly the same as the branded equivalent, a consumer may be better off buying the copycat if it is cheaper. Yet, this prospect might spur the copycat producer to mimic even closer the branded good, in the hope of encouraging more consumer trial. This is a particular problem with retailer-sponsored copycat products because of the in-store levers that the retailer can control to favour one product (the copycat) over another product (the brand). For instance, the retailer could favour the copycat with more favourable shelf positioning, in-store displays, in-store promotions, and ultimately pricing (since it is the retailer that sets all product prices in its store). In such instances, there is a clear danger facing the brand producer that the retailer might adopt “switch marketing” to favour the copycat over the branded good (e.g. promoting “switch and save” or “compare and save” campaigns).<sup>120</sup>

In respect of incentives to invest in products, the presence of copycats can undermine brand investments through the prospect of free-riding meaning that brand investments cannot be fully appropriated. Faced with this situation, the brand owner might undertake more or less investment than is optimal in the absence of copycat products. The presumption often made by competition authorities is that free-riding will lead to under-investment as brand owners will be deterred from making investments when new developments will be quickly imitated. Accordingly, authorities investigating cases might focus their attention on whether the presence of copycats leads to reduced brand investments, say through reduced new product development. However, this is only one possibility.<sup>121</sup> It is equally plausible that brand owners faced with a copycat challenge could result in over-investment compared to an absence of such a challenge. This can arise where the brand owner is pushed to keep on improving and adapting its product and its look, e.g. through its packaging, in attempting to keep one step ahead of copycat producers imitating its designs.

Given the potential for copycat packaging to distort investments and adversely affect dynamic competition and innovation, it is important that intellectual property rights and trademarks are given suitable protection in law. Unfortunately, trade dress, as represented by packaging design and communication, is not normally adequately covered to stop

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<sup>119</sup> For detailed discussion and examples, see Dobson (1998), Dobson and Chakraborty (2009) and LEI (2011).

<sup>120</sup> For examples of switch marketing, see <http://idei.fr/doc/conf/inra/2011/dobson2%20table%20ronde.pdf>.

<sup>121</sup> This was unfortunately not recognised by the UK Competition Commission’s investigation of own-label effects on brands in its analysis of competition in the UK groceries market where evidence on the buoyancy of new product development was used as evidence to suggest that free-riding problems were not having a significantly detrimental effect on the market; see Competition Commission (2008).

parasitic copying. The exception is with counterfeit products (where trademarks are copied) and very close imitations (where there is misrepresentation with the intention to damage goodwill, which is covered in the UK by the common law tort of passing off).<sup>122</sup> In practice, court cases are rare, given the onus of proof on the plaintiff and the fact that the defendant might be an important or even essential customer of the brand owner (e.g. where the brand producer is economically dependent on the retail customer's continued trade). More usually, the brand producer has to accept parasitic copying as a commercial reality and try to work around this as best as possible, even if it results in higher costs through paying more for shelf-space positioning and contributions to in-store promotions to raise the profile of its brands over copycats.<sup>123</sup>

Identifying appropriate legal measures to protect intellectual property rights in regard to parasitic copying is not an easy task. A recent report for the European Commission published in January 2012 shows that laws and regulations and their enforcement vary considerably across EU Member States.<sup>124</sup> While the UK relies on common law, other jurisdictions apply unfair competition laws, but none appear to be implemented in a manner that entirely deals with the parasitic copying problem. An unfair commercial practices directive dealing with business-to-business issues might suitably complement the existing directive dealing with business-to-consumer issues, but would still require appropriate enforcement. Yet, harmonisation of laws across Europe to tackle the parasitic copying problem appears some considerable time away.

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<sup>122</sup> See [http://en.wikipedia.org/wiki/Passing\\_off](http://en.wikipedia.org/wiki/Passing_off).

<sup>123</sup> The Consumer Protection from Unfair Trading Regulations (CPRs), introduced in 2008, have provisions addressing misleading practices but these have not been enforced by the authorities in respect of copycat packaging (and companies are not able to use the Regulations themselves to bring civil rights of action).

<sup>124</sup> See Hogan Lovells (2012) and [http://ec.europa.eu/internal\\_market/iprenforcement/documents\\_en.htm](http://ec.europa.eu/internal_market/iprenforcement/documents_en.htm).

## 6. Conclusion

Each household in the UK buys on average nearly 3 tonnes of products a year, including on average 200kg of packaging which takes products through an often long and complex supply chain to the consumer.<sup>125</sup> Packaging is needed to transport goods, keep food fresh, avoid product damage or theft, and present them to the consumer as intended. Much food packaging design is driven by consumer demands for convenience and freshness. Similarly, with other FMCGs, packaging functional role is to see the product through the supply chain to reach the consumer intact.

Yet, as this study has shown, packaging has many other roles beyond protection, preservation and presentation. Notably, packaging offers brand owners the possibility to communicate with consumers through distinctive designs and on-pack communication in the form of logos, graphics, images, colours, messages, and product information. This represents an important medium for marketing communication and an important battleground for the intense rivalry evident in most FMCG markets where brands compete for the attention of consumers.

Such competition is both immediate in nature, i.e. how existing packaged products compete with each other, as well as dynamic in the sense of the process by which new products enter the market and existing ones adapt and improve through innovation and new product development. Both aspects of competition are vitally important to a well-functioning market and for economic progress to the public good.

The analysis and discussion of the three key study areas in this report – i.e. the consumer dimension, the competition dimension, and the economic dimension – fits within a broader context of an assessment of the role and functions of branding, and specifically what it can and cannot achieve. This consideration recognises that branding may be able to play differing roles at different stages of a category's development. For example, in relatively new categories, a confidence-inspiring brand (e.g. Apple) might encourage take-up of the new product or service, growing the category as a result. In mature markets this role may not be possible. For example, taking a category like shampoo, it is difficult to envisage that established products (like Pantene or Elvive) have much influence to encourage people to use more shampoo in the absence of new innovations.

At issue here is a more general question: Does branding have the power to induce people to buy things they do not want? This is a claim sometimes levelled by policymakers. The answer lies with consumers. If consumers are informed, rational and confident then they can make effective purchase decisions that take full account of the choices available to them. On-pack branding and communication has a role to play in providing information and

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<sup>125</sup> See DEFRA (2009).

reassurance but cannot persuade informed consumers to buy things they do not want. Inevitably, there will be consumers who do make mistakes in what they purchase. But, the fundamental nature of FMCGs is that they are repeat purchase items, giving consumers the opportunity to learn from their mistakes and make changes in their purchasing decisions, as long as there is a wide choice available. We can all make bad choices that we may later regret. This is our fault, not the fault of brands. Moreover, existing consumer law and regulation offer considerable protection to consumers, significantly strengthened with the introduction of the Consumer Protection from Unfair Trading Regulations (CPRs) to prevent consumers being misled.

Yet, the critical issue for consumer choice is the need for effective competition at all levels of the supply chain. To reach out to consumers, brands need access to shelf space, which can prove difficult if retailers have excessive gatekeeper power when retail markets are highly concentrated. Equally, retailers need a good choice of brands to display to give consumers suitable choice. Imperfectly competitive markets characterised by anti-competitive behaviour are not conducive to fair choice or fair prices for consumers.

For policymakers and regulators each of the three dimensions point towards a key need. In respect of the consumer dimension, it is vital that the policy aim is directed towards supporting and developing well-informed, confident consumers. For the competition dimension, policy needs to support and promote open, competitive markets. For the economic dimension, policy must be directed at supporting competitiveness and economic growth. In all these regards, branding and on-pack communication can play a key supporting role. Yet, any regulatory intervention must tread carefully to ensure that it supports and does not undermine this role. As the cases discussed in the report show, ensuring appropriate, well-conceived, and well-executed regulatory intervention is not an easy task. There is an equal danger of too little regulatory involvement (such as in protecting intellectual property rights and providing regulatory certainty to aid business planning) just as there is with too much regulatory involvement (which can distort competition and add to industry's cost burden). Striking the right balance is not easy, but is vital in economic terms.

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