

# Shape of the next normal in packaging

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# Good afternoon!



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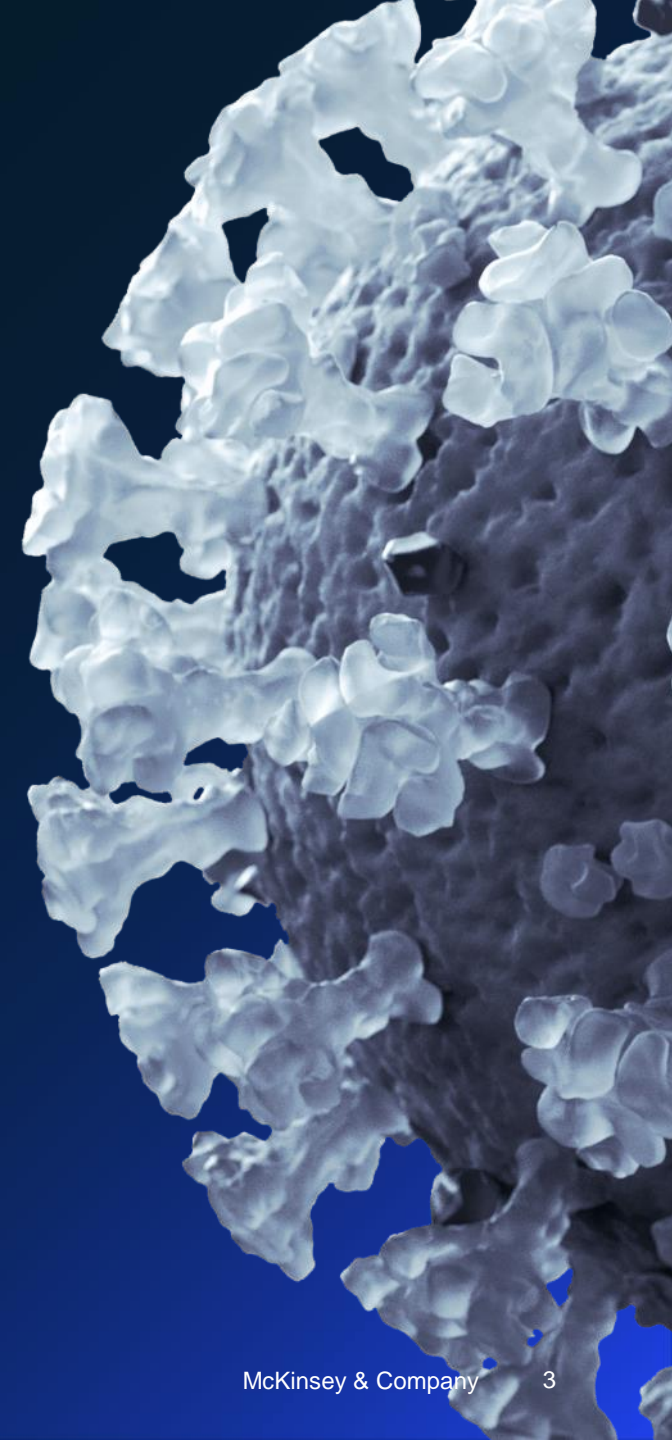
Daniel also co-leads McKinsey's global work around sustainability in packaging

# **COVID-19 is, first and foremost, a global humanitarian challenge.**

Thousands of health professionals are heroically battling the virus, putting their own lives at risk. Governments and industry are working together to understand and address the challenge, support victims, their families and communities, and search for treatments and a vaccine.

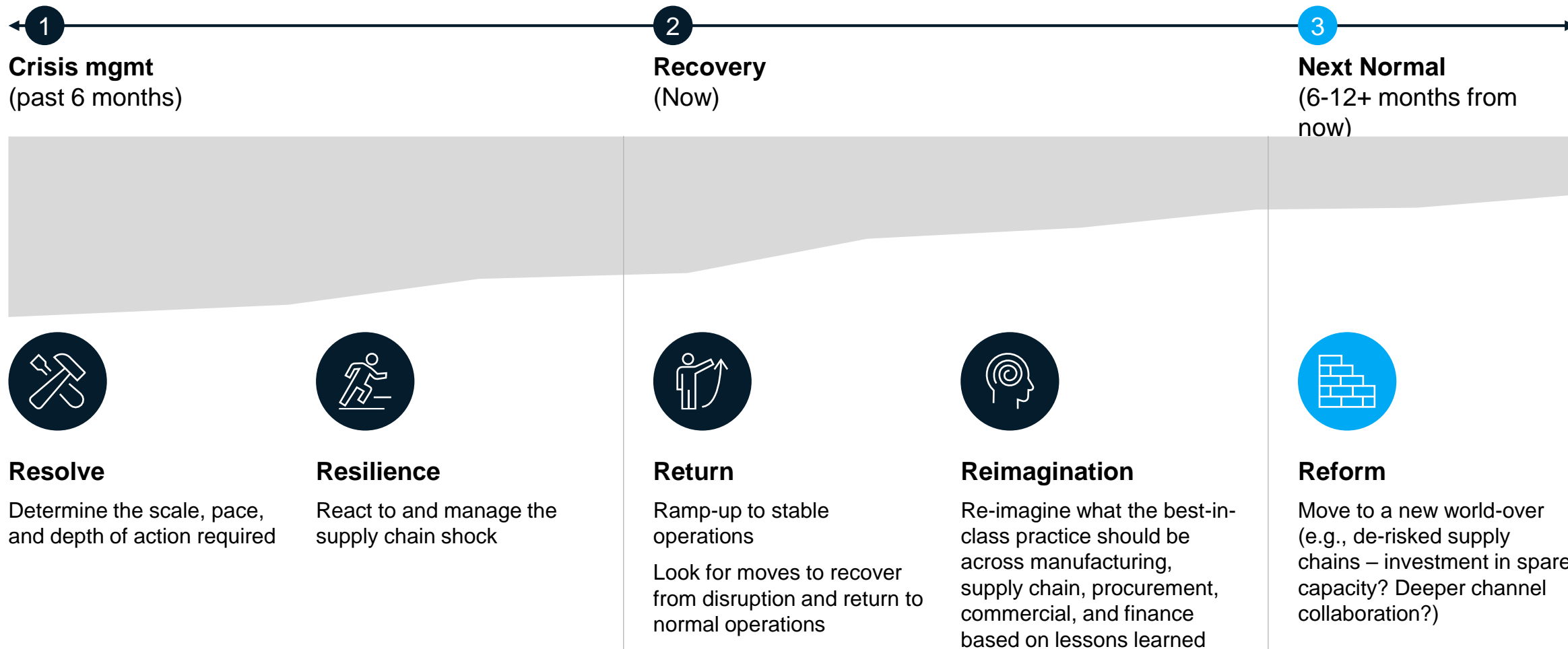
## **Companies around the world need to act promptly.**

This document is meant to help senior leaders understand the COVID-19 situation and how it may unfold for the industry, and take steps to protect their employees, customers, supply chains, and financial results.



# Today's focus is about reimagining the “Next Normal”

● Deep-dive to follow



# The coronavirus pandemic has resulted in several disrupters that will have both short and long-term impact

## EXAMPLES AND NOT EXHAUSTIVE

	COVID-19 2020 recent trends, US example	Time scale (indicative)
<b>Dramatic channel shifts, in particular in grocery</b>	<ul style="list-style-type: none"> <li>Consumers dramatically reduce spending on most categories except grocery</li> <li>Grocery 10-20% e-comm penetration during “peak” of COVID-19 crisis for some, vs. ~2-3% pre-COVID and expected to remain high</li> </ul>	>1 year
<b>New hygiene requirements</b>	<ul style="list-style-type: none"> <li>States and companies encouraging/enforcing residents/ customers/ employees to wear face masks and strong concern round virus viability on different surfaces</li> <li>New hygiene routines in B&amp;M stores and supply chain shipping</li> </ul>	>1 year
<b>Disrupted global supply chains</b>	<ul style="list-style-type: none"> <li>Disrupted global supply chains with plant closures and trade barriers significantly affecting supply depending on global supplier</li> </ul>	>1 year
<b>High volatility and uncertainty of raw materials prices</b>	<ul style="list-style-type: none"> <li>Dramatic change in oil prices with even temporary negative contacts</li> <li>Other key packaging raw material prices volatile (e.g., pulp/ paper up, metal down)</li> <li>Recycled paper going from low/ negative prices to sharp price increases</li> </ul>	>1 year
<b>Disruption of hospitality/ restaurant sector with “stay at home” orders</b>	<ul style="list-style-type: none"> <li>Government ‘stay at home’ orders in 41 states, drastic reduction of travel</li> <li>Significant restaurant closures (except for takeout) and file for bankruptcy</li> <li>“Home recast” as the coffee shop, spa, restaurant, and more</li> </ul>	<1 year
<b>Surge of unemployment</b>	<ul style="list-style-type: none"> <li>Unemployment projected to surge impacting overall consumer spend</li> </ul>	Unknown
<b>Sustainability taking a step back</b>	<ul style="list-style-type: none"> <li>Banning “bring your own cup/bag” from restaurants and other establishments</li> <li>Sustainability legislation paused/reversed for certain industries and states together with distorted recycling services</li> </ul>	Unknown

# As a “Next Normal” we expect packaging mega trends changing further with COVID-19 crisis

Indicative

Moderate

1 2 3 4 5 Very high

## Key Trend impacting the industry

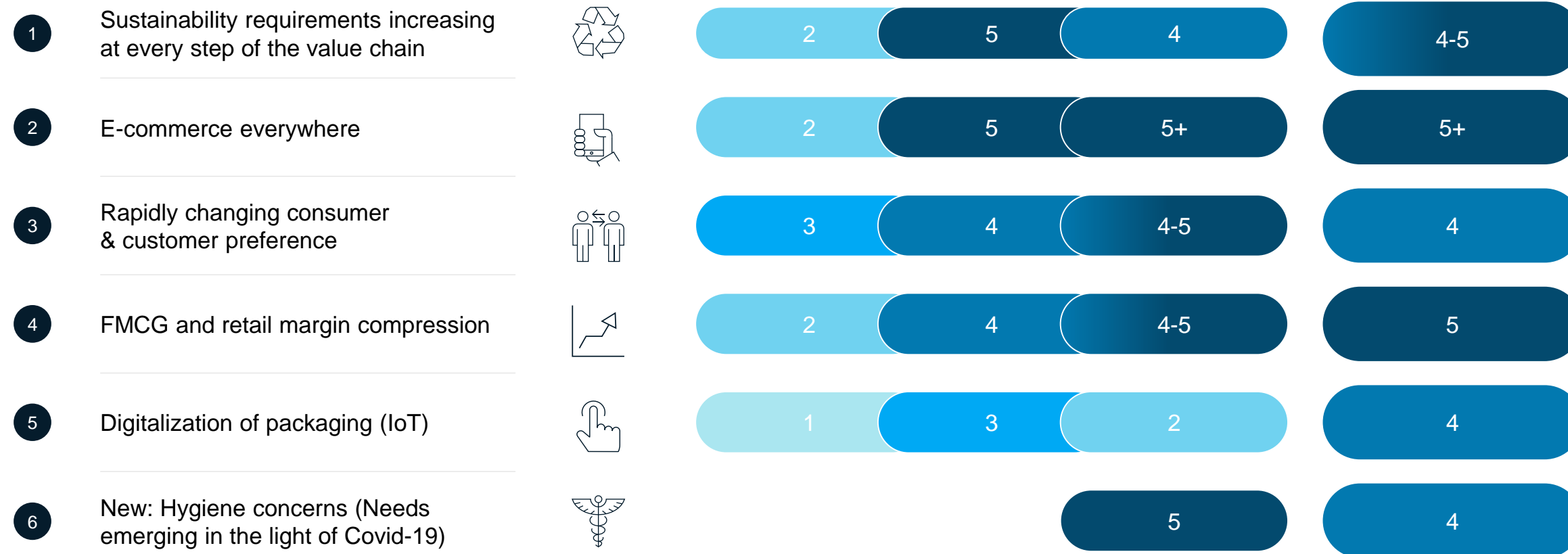
## Potential expected trend impact

Last 5 years

Before Covid-19

Current Covid-19

Shape of the Next Normal



# 1. Ahead of COVID-19 crisis, sustainability was top of mind for full packaging value chain

## EXAMPLES AND NOT EXHAUSTIVE



### Public/consumer pressure

Consumer are increasingly aware of environmental footprint of packaging, not least driven by publicity campaigns of various environmental groups



### Regulatory pressure

Across the world, policy makers are trying to shape packaging use, e.g., European Commission proposing rules for single-use plastics in May 2018



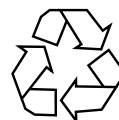
### Downstream pressure

FMCG and retail companies are making bold sustainability commitments, including increasingly as part of core consumer value prop  
Cascading impact on upstream players in the packaging industry expected to help meet commitments

# There are two main challenges with current packaging usage influencing consumer perception

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## A Recyclability

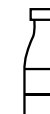


**No secondary life** - most of packaging produced today cannot be recycled in current recycling system

Especially **multi-material packaging** poses a large challenge in recycling

Another issue is (food) **contamination** that limits possibility for recycling

## B Leakage



**Recycling rates** of plastic packaging are very low (~40% in Europe vs. ~80% for paperboard and ~75-80% for metal and glass)

Plastics take more than **400 years to fully degrade**; end up reaching oceans where plastic debris levels could reach ~250 million tons by 2025

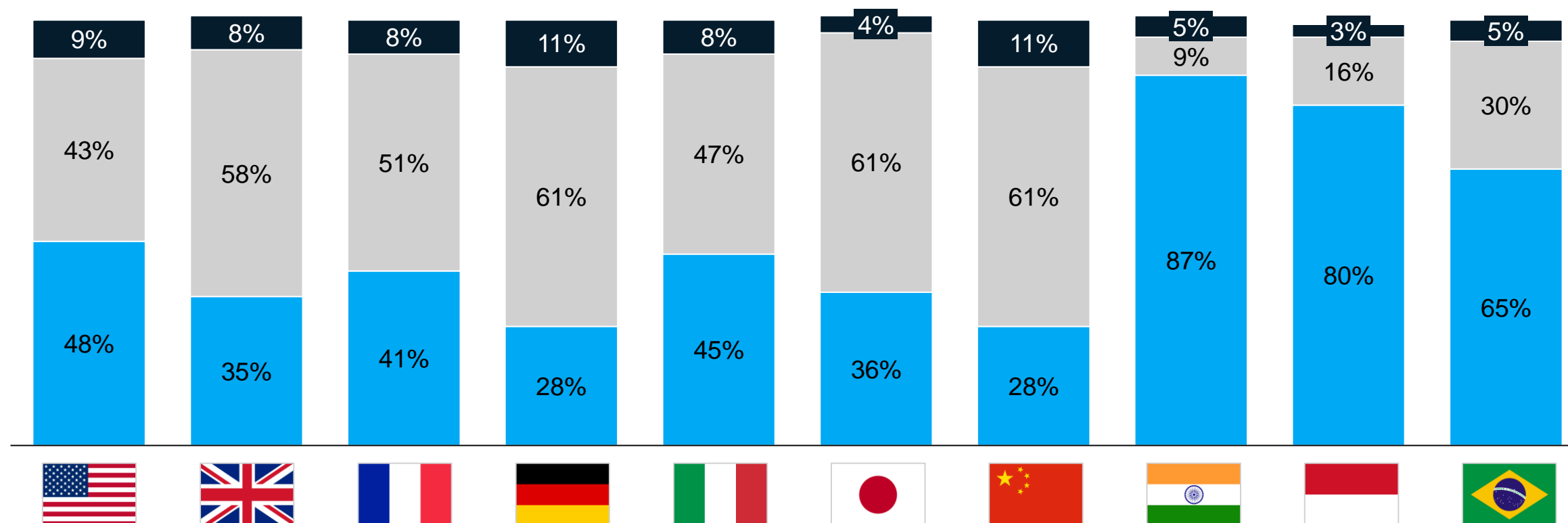


# As we enter the next normal sustainability is accelerating

Preliminary

■ Less concerned ■ Same ■ More concerned

How do you currently perceive the importance of packaging sustainability compared to the time before COVID-19?

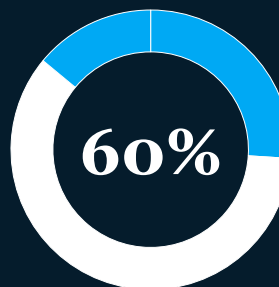


# There are three major themes across the top retailers' and FMCGs' sustainability commitments

% of commitments FMCGs/CPGs are making to support sustainability, n=94 commitments (100%)

**A**

**Emphasize recycling & recycled content**

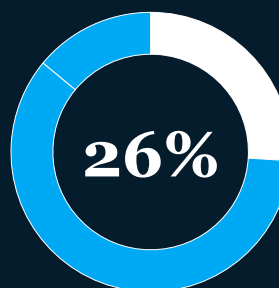


**Increase recyclability up to 100%**

Incorporate high degree of **recycled content** in the packaging

**B**

**Reduce total packaging use**



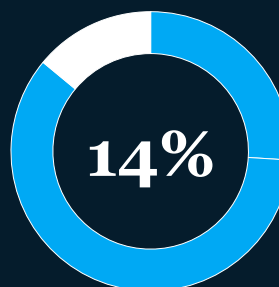
**Eliminate packaging completely** on some items

**Reduce packaging weight** by 20-50%

**Eliminate plastic peripherals where possible** (e.g. single use bags)

**C**

**Innovate and promote system change**



**Incentivize customers** to use recyclable options

**Partner with suppliers** to reduce consumption, increase substitutes

**Innovate** and partner with **environmental advocacy** groups and **academic** sustainable engineering groups

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NOT EXHAUSTIVE

## 2. Grocery e-comm is booming and expected to continue...

**16%** net intent to spend more on groceries post-COVID

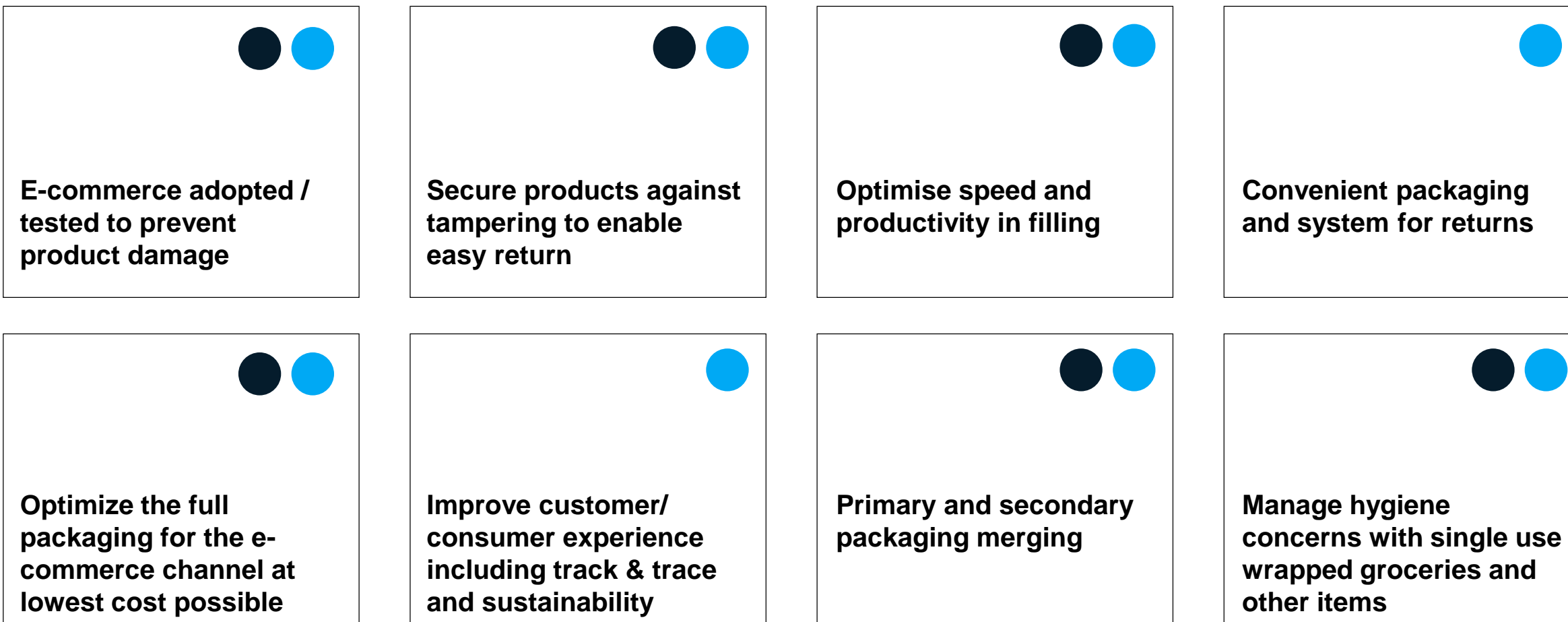
**200%** increase in grocery app downloads

**10-20%** e-comm penetration during “peak” of COVID-19 crisis for some, vs. ~2-3% pre-COVID

## 2: E-commerce as the next normal will have large implications for packaging industry – both primary and secondary packaging

EXAMPLES AND NOT EXHAUSTIVE

● Impact on primary packaging    ● Impact on secondary/ transport packaging



Closing remarks

Thank You

