

Feature Article | July 1, 2017

## Digital tools enable a new business model

Consumer behavior is altering the retail landscape. Through the use of new digital tools, contract packagers can grow their services to help brands meet these new challenges.

by Mike Ferrari, Contributing Editor

How did we get to this point, where fulfillment is now center stage in the supply chain? The contract packager's role as a predominantly labor-intensive service solutions provider has been evolving. New tools are now enabling them to expand their services beyond just labor. Equipment, software, location, and knowledge of how to create or assemble a package, including distribution, are all working together to create a new business model for contract packaging.



*In 2015, Oreo offered templates on their site with holiday-themed graphics that consumers could 'color in' online.*



*The Gold Fish My Way promotion let consumers download pictures online to customize their own bag of Goldfish crackers.*

### Drivers for growth

There are two key consumer trends accelerating the growth of the contract packaging industry across all verticals:

1. The demand for customization and personalization
2. The emergence and acceleration of e&m commerce (mobile/e-commerce)

Consumer behavioral changes have and continue to drastically alter the retail environment landscape. Consumers have the power to create and share their likes and dislikes through mass communication, which is now available at their fingertips. Real-time individual expression is the reason brands are paying more attention to putting consumers "in the moment." Technological advances now enable packaging to accomplish this, adding relevancy to the consumer experience. Customization and

personalization is a trend found all around the world, and it is not going away. This is true across all verticals, including food and beverage, personal care, and pharmaceuticals.

In 2016, mobile Internet usage exceeded desktop usage, creating an “on-the-go” society. The e&m commerce platform is taking root, and digital natives—or those consumers born or brought up during the age of digital technology—will soon be the group with the largest purchasing power. As commerce shifts toward e&m, smaller, targeted quantities will become the norm.

### **Brand challenges**

In this new digital era, conventional media formats—such as TV, radio, magazines, banners, etc.—that have traditionally been employed to reach consumers are no longer working. The Internet has created new channels, with consumers spread across them. The challenge for brands is to find a way to reinvent their marketing approaches to reach their target markets. Brands are finding the answer through packaging. Packaging is “on” 24/7 and does not require power; consumers touch the package, which makes it one of the best marketing channels in the digital age.

But brands are facing three main packaging challenges:

1. Agility and speed to market in creating relevant packaging promotions that tie social media, retail, and online
2. Distribution of customized and personalized packaging promotions to consumers within days
3. Inventory management of the ever-increasing number of SKUs

### **Adding value in the digital age**

As packaging is gaining in importance as a marketing channel, it opens a new opportunity for the contract packaging industry. In order to seize the opportunity, contract packagers will need to understand the fundamental issues facing brands and redefine their business strategy. Focusing on unmet needs and leveraging technology to create solutions is where the opportunity to become the preferred supplier lies.

Let’s examine how contract packagers can address some of the top brand challenges:

**1. Agility and speed:** This is a core strength of contract packagers. Being lean and flexible through manual operations or semi-automation allows for quick changes and setup. But the current digital age of packaging will require even more agility and speed. Packaging fulfillment can rise to the next level of service using digital package printing, decoration, and finishing. Jobs can be completed within a few days. This of course will require contract packagers to either invest in such innovation or partner with nearby converters using a fully digital workflow.

**2. Distribution:** Brands still have to build distribution centers for high-volume markets, where the product or package does not change often. But this does not work for programs requiring regional or targeted city distribution or that are timed with events such as movie launches or sporting events. Personalization requires tracking the individual’s address, and this is outside the capability of the brand’s distribution center model. The answer has been contract packaging.

The ability to efficiently achieve 1:1 personalization will require contract packagers to invest in software. The IT capability to connect data from virtual storefronts or directly from their clients to track jobs all the way through to the final destination is essential.

**3. Inventory management:** Brands continue to grow the number of SKUs as they try to meet the changing needs of their consumers. There is no sign this will change or even slow down until a total 1:1 personalization is achieved, if ever. Legacy supply chains force brands to continue to order large quantities—often more than they need. This sets off a cycle of inefficiency and waste for brands as they tie up cash, need warehouses to store printed packages, and are required to manage resources. And, at the end, there is remnant scrap.

The ability of contract packagers to offer digital workflows to manage printed and filled package inventory will result in complexity reduction and system savings for brands. The action step would be for contract packagers to invest in innovation or partner with nearby converters using a fully digital workflow. Technology is now available that makes it possible for contract packagers to provide brands with what they want, when they want it.

### **Rising above the tide**

There are numerous case studies from around the world where brands have used contract packaging to deliver customized and personalized products to market. One example is Gold Fish My Way, a promotion in which Pepperidge Farm set up an e-commerce site where consumers could download pictures to customize their own bag of Goldfish crackers. In another example, Your Heineken, consumers in Ireland were given the opportunity to customize the graphics on a six-pack of Heineken bottles with their own copy and images, against the backdrop of 42 different bottle designs. For the Oreo Color-filled promotion, Oreo offered several illustrated black-and-white templates on their site with holiday-themed graphics that consumers could “color in” online. The consumer would then receive their customized package in the mail.

More brands want to create engaging programs like these, and there is no doubt this will be an opportunity for contract packagers to leverage their existing services and relationships.

In this fast-changing landscape, contract packagers can seize the moment by adding value to accelerate their growth and position in the industry. Such programs will require a new supply chain. Contract packagers that dare to embrace change, redefine their strategy, and invest in innovation will thrive.

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**PW** SOURCE: <https://www.packworld.com/article/contract-packaging/strategy/digital-tools-enable-new-business-model>