

# Thoughts

Reflexion and Analysis for the Indian Market

June 2018

## The FMCG Packaging – A Moving Market



## Foreword

Sustainable packaging in the FMCG (fast moving consumer goods) market is moving from being purely cost driven towards a strategic approach of resource management.

The principal purpose of packaging continues to be maintaining the safety, wholesomeness, and quality. The large growing middle class, liberalization and organized retail sector are the catalysts to growth in packaging. The key packaging materials are glass, metal, plastics, paper, laminates, co-extrusion and bio-degradable polymers.

Being a cost-sensitive market, the pressure for FMCG companies to reduce packaging costs in India is strong. In the past 5-6 years the market for sustainable packaging in India was driven primarily by cost reduction, however, moving forward corporations are now placing more thought leadership into their sustainable packaging plans across the value chain.

Indeed, packaging plays an essential role for FMCG businesses in meeting consumer needs and preventing waste by protecting products for proper consumption. The fast selling and low margin products have a high production and consumption rate, as well as, an extensive distribution network that demands large amount of paper/plastic/glass and metal. Sustainable packaging ultimately is the practice of ensuring any material waste from packaged products never leaves the value chain, as well as, uses material with little to zero environmental harm.

## Industry at a Glance

The Indian Packaging Industry is valued in between US\$ 34 to 45 billion in the year 2017. The large growing middle class, liberalization and organized retail sector are the catalysts to growth in packaging. More than 80 percent of the total packaging in India constitutes rigid packaging, & remaining 20 percent comprises flexible packaging. There are about 600-700 packaging machinery manufacturers, 95% of them are in the small and medium sector located all over India. The major segments of packaging industry are: flexible packaging, folding cartons, corrugated boards and boxes, labels, shrink sleeves and wrappings and glass bottles. Earlier rigid packaging dominates, however currently there is a shift in demand and flexible packaging demand is increasing.



## The Packaging Value Chain

The ideal system of sustainable packaging would be a complete closed-loop system where zero material is wasted and instead all is recycled or reused post consumption. Any FMCG corporation trying to create sustainable packaging for their products should adopt a holistic approach covering all the aspects of the packaging value chain from raw material to post consumption disposal and treatment.

### 1. Type of Raw Material

First step in the sustainable packaging value chain is choosing the right raw material for product packaging. A FMCG manufacturer needs to decide on the type of packaging material used, not only on its ability to be recycled/reused into the same product or up-scaled into a better product but more importantly on its ability to protect the product it contains. Although a difficult type of initiative to implement, it is critical due its significant impact on achieving a closed looped packaging chain (zero waste). Example – ITC implemented 99.8% waste paper in their corrugated packaging boxes for their Sunfeast brand. It helped to lessen the burden of extracting raw fiber material.

### 2. Material Use

The next step requires a product manufacturer to partner with its packaging supplier to determine the optimum amount of packaging material to use and find the right balance between under-packaging and over-packaging. Optimal packaging supports more efficient logistics and distribution down the value chain.

Example – SC Johnson reduced the material use in their Mr Muscle cleaner bottle by 9%, which saves them 9,00,000 pounds of plastic resin on bottle annually.

### 3. Re-design Product and Optimize Product Distribution

The third step requires them to re-design their product such that it requires less packaging. This step also includes optimizing the packaging (required for transport) throughout the distribution channel – from the manufacturer to the retailer.

Example – Unilever re-designed their products to sell concentrated form of cleaning liquid. Thus, packaging was reduced considerably.



#### 4. Consumer Awareness

Educating the consumer about the benefits and methods of waste management will spur behavioral change and subsequently lower the burden on the packaging value chain for collection and segregation of recyclable material.

Example – Consumers were offered discounts against further purchases in exchange for returning used/empty plastic bottles and pouches to Bharti Stores across Delhi. This helped in increasing consumer awareness and leads to responsible disposal of packaging waste.

#### 5. Post Consumption Treatment

The last step requires all stakeholders to ensure the packaging never leaves the packaging value chain or enters an equivalent/better value chain. Considering the existing poor state of waste management systems at local municipality levels in India, it is imperative to implement initiatives related to treatment of packaging waste to achieve a sustainable packaging value chain.

Example – Dabur Foods works with packaging suppliers and engages the informal sector to pick-up Tetra Pak packaging waste from the streets and city dumps to up-cycle them into product. This helped to increase rate of waste packaging re-entering in the value chain.

## The Path to Sustainable Packaging

Sustainable packaging is a relatively new addition to the environmental considerations for packaging in India. It is beneficial, safe & healthy for individuals and communities throughout its life cycle and should meet market criteria for performance and cost while it is sourced, manufactured, transported, and recycled using renewable energy. It is made from materials healthy throughout the life cycle and is physically designed to optimize materials and energy. It also includes Remove, Reduce, Recycle, Renew, Re-use.

Businesses in India view sustainable packaging as an important initiative in their overall sustainability goals. Out of the top 42 FMCG businesses operating in India, 23 have sustainability reports, all of which regard sustainable packaging as a key issue in their supply chain. Out of those 23, 15 have implemented one or more sustainable

packaging initiatives within their supply chain in India, while 8 either have future plans or solely mention its importance. As per research based on publicly disclosed information by FMCG firms in India, 36% of all packaging initiatives undertaken in India are linked to light weighting the packaging material or downsizing the packaging content. This trend is prevalent across the globe. 19% FMCG manufacturers in India also focus on waste recovery initiatives. However, only 15% of all Indian initiatives included the use of recycled/renewable content, far behind their global counterparts which accounted for 31%. Thus, there is a clear distinction where Indian corporates are lacking comparable to the rest of the global, as well as, an opportunity for possible growth.

### 1. Light Weighting Innovations

When a company aims to correct inefficiency in their packaging it becomes a win-win scenario for both the value chain and the bottom-line, less waste added and less material purchased. For example, Pepsi Co saw a 5% reduction in costs with their light-weighting initiatives globally. The majority of sustainability packaging linked initiatives undertaken by corporations both globally and within India was to lightweight or reduce packaging material. Such initiatives are low hanging fruits, since there is a foreseeable rate of return on light weighting investments thus making FMCG companies more amenable to undertake the related investment.

It can also be observed, when inflation rose over the past five to six years, large FMCG companies in India (Britannia, Parle, ITC, Pepsi Co, Mondelez, Coca Cola, etc.) combated back by reducing their packaging weight. The practice of light weighting material instead of rising prices to combat inflation among the FMCG sector is well known. Luckily such costs saving actions align with the practice of sustainable packaging.

Packaging generally makes up 7-11% of total costs of a product for most FMCG companies. Additionally, in 2011 packaging prices increased up to 3-5% in India. In order to combat these, companies either increased their prices or reduce their packaging, with similar effects. As inflation rates continue to rise, large FMCG corporations are strategizing to reduce the weight of their packaging by substantial amounts.

Out of the 23 corporations with sustainability report, 100% mention targets to reduce packaging volume/weight in the future.

The driver for the largest share of sustainable packaging initiatives in India was FMCG companies combating rising inflation without having to raise costs.

## 2. Catalyzing re-entry of packaging waste into the value chain

A corporation can light weight all their products, change to 100% recyclable material, have the most efficient process but if the post-consumer packaging doesn't end up back into the value chain then it serves little purpose.

India's entire recycling system stems from how much an informal sector worker can fetch for a certain material. If the material can't attract enough price then it doesn't re-enter the value chain. A low price doesn't reflect the lack of economic value embodied in the waste, but rather, there are no formalized waste channels to which informal workers can sell to. For example, only 27% of total paper and paperboard consumed in India is reintroduced into the system.

Meanwhile, 60% of total waste paper used is imported from overseas, which suggests that these waste products have an economic value which can be realized if one can develop 'at bulk, reliable' waste streams in India. On a similar vein, plastics like polystyrene (PS), polyethylene (PE), and polypropylene (PP) have low recycling rates due to their low monetary value for wholesale recyclers but are extremely valuable inputs for emerging plastics to fuel industries.

## 3. Creating a reliable waste-stream in the informal sector

Polyethylene (PE) and polypropylene (PP) make up 90% of all polymers used in flexible packaging and additionally makes up the majority of all packaging mediums (33% is flexible packaging). HDPE and certain PET make up rigid plastic packaging. PE and PP compass a large amount of packaging waste but currently there is no effective way to enter it back into the value chain due to a lack of monetary incentive for the informal sector.

Large FMCG companies in India are creating market value for PE, PP, and Tetra Pak packaging in order for the informal sector to collect them off the streets. Still in its early stages, Unilever is trying to create a program to deliver market value for light plastic packaging and discarded sachets to incentivize the informal sector.

As another example, Dabur has partnered with TetraPak to educate the informal sector about recycling TetraPak material in order to decrease the amount headed towards a landfill.

Once recycled TetraPak can be re-used to create a variety of products like office stationary and roofing sheets. By collaborating directly with the informal sector, Dabur



made an arrangement for door-to-door collection of waste, as well as, a sorting and segregation facility. As well, there is significant work happening among the plastic to waste industry to collect and re-purpose this low value plastic but currently it's only being catalyzed by the CSR budgets of FMCG. Overall, more collaboration between stakeholders is needed in order to decrease the 6,137 tonnes a day of plastic flooding the streets of India. As well, in order to hit sustainability targets, stakeholders have to incentivize the collection of low value waste by the informal sector.

## Conclusion

Under invariable pressure from government, customers, consumers and media, the packaging industry is progressively being forced to think more about how the packaging of their products can be made more sustainable. The concept of sustainability not only combines the environmental but also includes social, ethical, and legal issues that can be both internal and external to the company. The common sustainable packaging trends are like downsizing the weight of packing material, improved recycling and recovery of waste, and increasing the use of recycled content. The consumers want sustainability but most of the consumers do not want to pay more for Green Packaging/Sustainability.

As India's demand for more packaged goods rises over the coming years, all stakeholders have to work together in order for the recycling rate to out match the production rate of packaging material. Large FMCG brands have the greatest power to direct sustainable initiatives but need to understand the holistic nature of packaging in order to truly achieve the goals of sustainable packaging. Overall, it is the collective responsibility of government, policy makers, FMCG corporations, suppliers and consumers to reduce the amount of packaging waste headed to landfills and achieve a zero-waste approach to packaging.

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## About Nymex Consulting

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