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shikatani Lacroix

Packaging Performance

is your packaging measuring up?

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Shikatani Lacroix is a leading branding and design firm located in Toronto, Canada. The company commissions assignments from all around the world, across CPG, retail and service industries, helping clients achieve success within their operating markets. It does this by enabling its clients' brands to better connect with their consumers through a variety of core services including corporate identity and communication, brand experience design, packaging, naming and product design.

About the Author

Jean-Pierre Lacroix, R.G.D., President and Founder of Shikatani Lacroix

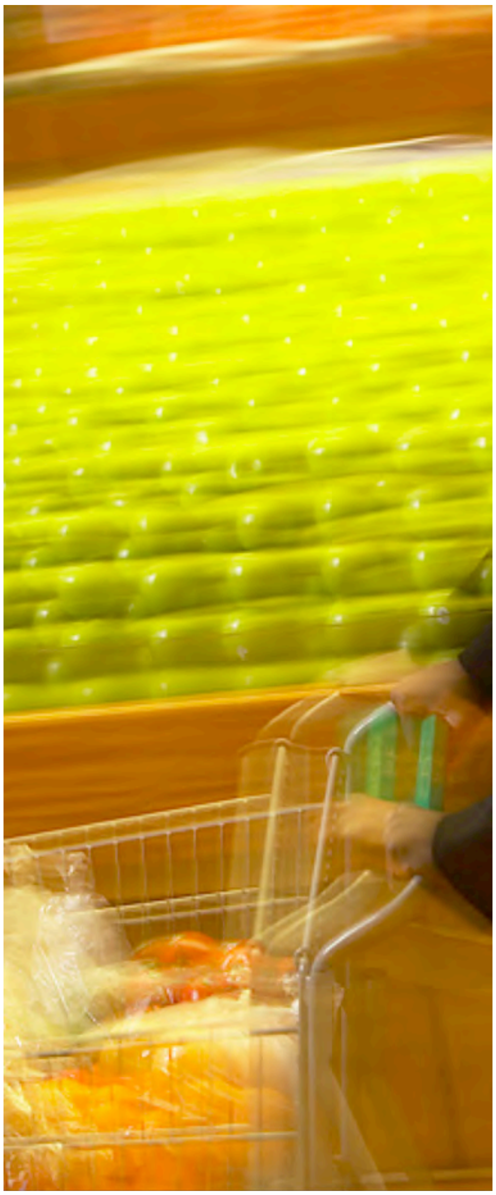
Jean-Pierre (JP) Lacroix provides leadership and direction to his firm, which was founded in 1990. He has spent the last 30 years helping organizations better connect their brands with consumers in ways that impact the overall performance of their business. Mr. Lacroix was the first to coin and trademark the statement "The Blink Factor" in 1990, which today is a cornerstone principle to how brands succeed in the marketplace. JP has authored several papers, has been quoted in numerous branding and design articles and, in 2001 he co-authored the book "The Business of Graphic Design" which has sold over 10,000 copies. JP can be reached at jplacroix@sld.com and you can follow his blog at: www.belongingexperiences.com & www.belongingexperiences.wordpress.com.

Other Articles and Books

The Belonging Experience

Managing Brands

Business of Graphic Design



Pressure on ROI

Today, chief marketing officers are being challenged to demonstrate a strong marketing return on investment (ROI) in order to justify their efforts and expenditures. Since packaging is one of the marketing cornerstones of most consumer packaged goods organization, the need to clearly understand the impact on sales and ROI has come to the forefront of discussions as part of companies' annual operating planning process.

The attention given to packaging is mainly due to its rise as a viable marketing tool, in part because former disciplines such as TV advertising have faltered. In addition, organizations have come to realize that packaging is the most effective marketing vehicle in connecting consumers with brands since it occurs at the moment of truth, the store shelf.

Increased competition from store brands has also created a heightened need to focus more attention to packaging and determining its effectiveness in growing sales and margin.

A 2007 pilot packaging study looking to bring the same kind of metrics used in radio and TV was cancelled when Procter & Gamble and Wal-Mart both pulled out this summer, highlighting the difficult task of persuading CPG marketers to share confidential data. The purpose of this document is to identify information that demonstrates packaging can and does deliver a measurable rate of return for marketers.

Defining the Challenge

Although the pressure to measure ROI on packaging investment is growing, so is a push back from designers and marketers who assert that, like advertising, packaging is something that builds a brand over time.

They argue that it is hard to place quantitative metrics to packaging since sales increase or decrease can come from a combination of factors and influences. Did sales drop because the sales force was not aligned behind the change? Was the change unnoticed by the customers? Was the actual product performance poor? Was there a hollow impact from advertising? Were sales growth driven by the consumer offer or trade spend?

Although these are potential factors in challenging the need to have accurate measurement of packaging performance and rate of return on investments, there are factors that can clearly validate the impact packaging has on sales.

The following study will investigate three key questions, namely:

1. What factors influence successful packaging?
2. Can packaging be measured for ROI performance?
3. How do you measure packaging ROI - what tools and processes are required?

The ability to clearly identify the impact of packaging design is heavily influenced by many factors:

- No additional influences were at play during the repackaging launch
- Adequate sales force support behind the repackaging
- The packaging supported a meaningful consumer benefit that was relevant and differentiated
- The trade supported the repackaging initiative by ensuring that it was properly located at shelf level
- No unusual heavy competitive activities during the launch period

The study clearly identifies two rules that will ensure products beat the odds in effectively competing for consumer attention, namely:

A distinctive value proposition that consumers that consumers recognize as different

Superior execution of branding elements such as product name and packaging

Beating the Odds of Failure

Another dimension on understanding packaging ROI is leveraging the learning from the ability of new brands to succeed at retail. Based on a review of the past 10 years in new U.S. food product launches by A.C. Nielsen in 2006, the study shows the dramatic impact of fragmentation on food innovation and supports the belief of needing stronger packaging at store level.

The study shows that while the number of new products has soared from 2,899 in 1980 to 10,651 in 2005, consumer adoption has not kept with the pace. Observed trial rates for the average new food introduction have fallen by roughly 50% on a trended basis since 1996. The A.C. Nielsen study identifies that interest in new food ideas has remained constant over the years but shelf fragmentation has impacted consumers' desire to try new brands. When consumers are offered too many choices, the adoption process becomes stressed. In order to cut the clutter and ensure that their brands stand out, marketers have been forced to focus their support behind the right items, resulting in some brands not getting their fair share of support.

The overall decline in marketing spending by manufacturers - a primary driver for awareness, coupled with larger stores carrying more products - triggers a double jeopardy situation for consumer awareness. The study shows that BASES forecasts the average new product will have 30% lower awareness than 10 years ago.

The study concludes that a distinctive value proposition is the strongest card that marketers can play, which can actually offset the impact of average packaging execution. Specifically, a well-differentiated idea can overcome other branding elements that do not have a unique consumer appeal.

It was noted that in mature, densely saturated categories with less potential for truly new ideas, the odds for success are more firmly rooted in executional elements. A clever, memorable brand name coupled with outstanding packaging can become a meaningful means of effectively connecting with customers on both the emotional and rational levels.

The Importance of Delivering Relevant Change

A study was conducted in 2006 by Scott Young, President of Perception Research Services (PRS), to help justify senior management, marketers and packaging, the high likelihood of positive return-on-investment (ROI) on multi-million dollar packaging investments.

Specifically, the study needed to demonstrate how functional benefits of a new packaging system could actually translate into a strong possibility of increased revenue. Perception Research Services and the Institute of Packaging Professionals (IoPP) conducted a study of packaging innovation, which included 800 U.S. shoppers.

The primary objectives of the study were to:

- Guide packaging innovation efforts by uncovering which functional benefits were the most important to shoppers.
- Better understand the connection between packaging innovation and ROI by gathering shoppers' reactions to a range of recent introductions.

The study was conducted across eight product categories (sugar, body lotion, raisins, peanut butter, detergent, toothpaste, suntan lotion, and potato chips) through in-person interviews, which allowed shoppers to interact with the actual packages.

Within each category, the study centered upon a “test” packaging system - a new or innovative system that had recently been introduced in the market) and a “control” package (the previous or “old” package for that same product/brand). It is important to note that shoppers never directly compared the “test” and the “control” packaging for the same brand. The study explored preference and selection vs. competition. Does the brand “win” vs. the competition more consistently with a new package? Second, price expectation: does the new package drive higher price expectations, which suggests that additional packaging costs can be passed along to shoppers?

Shoppers state what really matters

To address the first objective, PRS and IoPP asked shoppers about the packaging features and benefits that are most important to them within the eight product categories. Some trends emerged:

In food-related categories (such as sugar, raisins and potato chips), product protection and tamper-resistance consistently ranked as top priorities. These were typically cited as “extremely important” by more than 75% of respondents to the survey.

In non-food categories (such as body lotion, laundry detergent and sun screen), product protection was typically secondary to ease of opening and dispensing. Notably, environmental concerns such as environmentally friendly packaging were nearly always a second-tier or lower-level priority.

Typically, fewer than 50% of respondents cited environmental concerns. While these commonalities were evident, the differences in shoppers' packaging expectations across categories were also notable. On a broader level, the survey results show that delivering on consumer’s unmet needs vary widely by category, and they represent opportunities for new packaging to deliver value.

In the study more than 40% of the respondents claimed that current potato chips bag is difficult to re-close. They said the bags often fail to protect the chips from spoiling. In addition, the study identified there are innovation opportunities in toothpaste dispensing; 20% of respondents claim that current tube toothpaste packaging is not sufficiently mess-free.

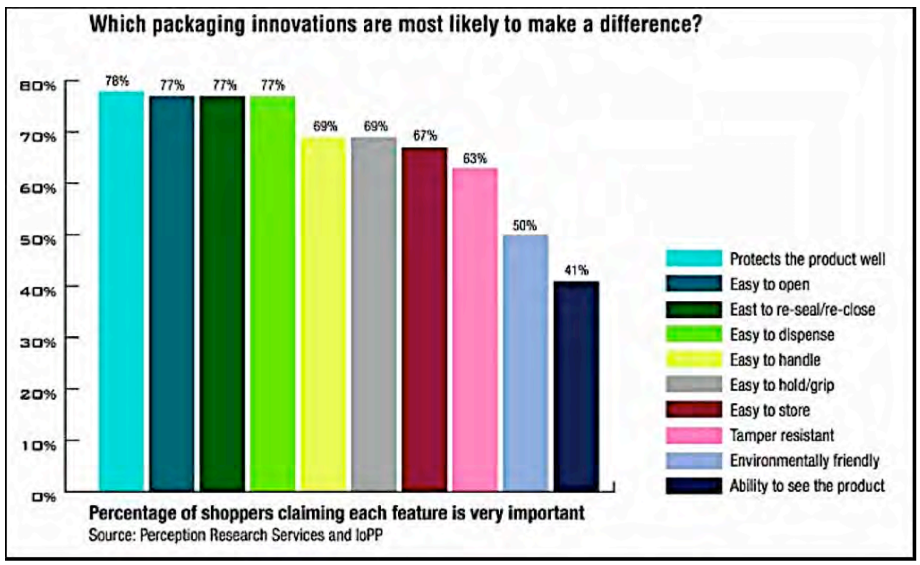
Across categories, product protection and ease or dispensing emerged as consistently important factors. These are primary areas of consumer dissatisfaction with current packaging and they present opportunities for marketers and designers. It is important to note that packaging design efforts should be rooted in a solid understanding of shoppers' priorities and concerns within a product category. In other words, packaging solutions appear to be less about the intrinsic nature of a feature or benefit and more tied to whether the feature addresses an underlying unmet consumer need state.

Packaging decision-making

The study demonstrates that new packaging systems can directly impact shoppers' price expectations and product selections. Thus, the study clearly identified that if packaging changes are done properly, it is very likely to provide a positive return on investment (ROI) through increased market share or the ability to raise prices to cover incremental costs.

However, the study also identifies circumstances in which packaging changes can reduce sales, particularly if a new structure fails to meet shoppers' expectations and functional needs. Packages that "break the rules" by violating category norms and expectations may be most successful when positioned as line extensions and tied to specific usage occasions, rather than as replacements for current packaging.

Clear implications can be drawn from the study in determining how to approach and assess new packaging. First, the study demonstrates the need for upfront research with consumers to understand functional priorities, expectations, and unmet opportunities within a product category.



Second, the study illustrates the importance of measuring packaging innovation for impact on price expectation and competitive differentiation - metrics that connect directly to ROI - rather than on purely functional measures and on preference vs. current packaging.

As the need for packaging innovation and the demand for accountability and ROI continue to grow, marketers will continually need to demonstrate how functional innovations translate into higher price points, growing market share, and increased profitability.

Tetley Tea Canisters, A Strong Case for Packaging ROI

Tetley is one of the world leaders in the hot tea category and enjoys strong sales, worldwide. Its Canadian division, known for innovation and industry leadership, embarked on a repackaging program for its entire line of hot teas. Tetley Canada, the market leader has grown through industry leadership in product offering, being the first to launch Green Teas as part of its mainstream offering.

The challenge for the organization was "how to grow sales when you are already the market leader by a large margin". This was the question posed to its branding design firm, Shikatani Lacroix who had been the brand steward for the organization for over 20 years.

Shikatani Lacroix conducted ethnography research among its staff and family friends in order to determine barriers for consumer purchase. The study clearly identified that the size of the pantry and ability to keep the product fresh were key factors that inhibited repeat or multiple purchases and were truly unmet consumer needs that none of the brands were delivering.

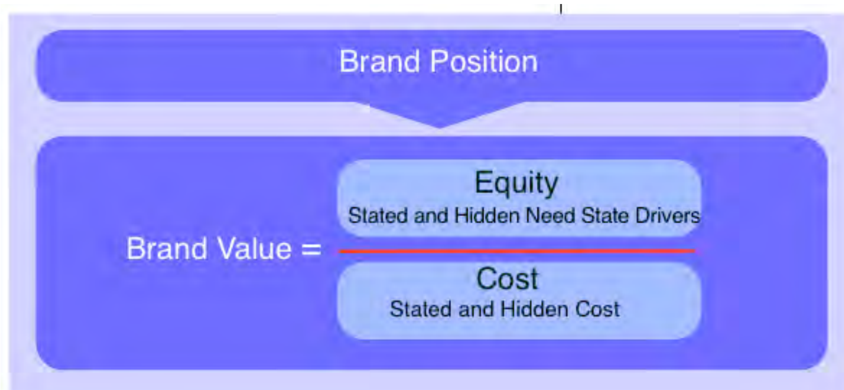
These findings drove the creative process as new packaging design container shapes were developed that provided for better shelf management by consumers in their home. The new canister design was rolled-out to Tetley's entire line of non-specialty teas consisting of herbal varieties, green teas and flavours of unique points of origin.

A second snap-box design was also introduced to its core line of black teas and larger format tea offerings. Limited advertising and trade support were provided as part of the new re-branding. A.C. Nielsen provided sales tracking to understand not only how the product sold into retailers, but the strength of the sell-through. The response from the trade was strong as they saw the value in creating news within a growing category that had not received much attention other than line extensions. Not only was Tetley able to gain support from the retailers, they were also able to gain a larger shelf-presence through incremental shelf facings since the new packaging was significantly smaller than the conventional box format.

Furthermore, sales to consumers grew twenty-fold with a greater percentage of sales growth coming from consumers who had never purchased Tetley products. Due to the stack-ability of the new packaging and the fact that it keeps products fresher longer, consumers were also more likely to purchase multiple flavours. The Tetley packaging initiative supports key findings from Scott Young's study, where packaging that meets a consumer unmet needs has a higher probability of gaining consumer preference and increased market share.

What is the role of emotion within packaging?

Recent studies in consumer purchase behaviour identified that forty-seven percent of all buying decisions are done strictly for emotional reasons. The emotional connection with consumers tends to be most important in brands where there are no real discerning points of difference other than how the brand reflects the desired aspirational image of the buyer. In these situations, packaging has the most ROI impact if the design reinforces a unique quality or badge value, since the package design serves to reinforce what image advertising and promotional activities have already created in the minds of consumers.



Shelf Differentiation Drives Purchase Intent

If you were to weigh these factors on potential impact to ensure ROI, the ability to stand out at shelf level and effectively communicate a meaningful and differentiated offering would lead the way. Thus, the study clearly identified that if packaging changes are done properly, it is very likely to provide a positive ROI through increased market share or the ability to raise prices to cover incremental costs.

At Shikatani Lacroix, we believe that differentiation at shelf is predicated on a clear value proposition based on a strongly defined emotional and rational benefit divided by the cost of the product's full experience, namely the actual price in addition to factors such as time, risk, etc. We have identified our firm's value model, as a tool to help clearly define the value proposition and its relevance to consumer needs when developing packaging that truly connects with consumers.

However, the study also identifies circumstances in which packaging changes can reduce sales, particularly if a new structure fails to meet shoppers' expectations and functional needs. Thus, packages that "break the rules" by violating category norms and expectations may be most successful when positioned as line extensions and tied to specific usage occasions, rather than as replacements for current packaging. Clear implications can be drawn from the study in determining how to approach and assess new packaging. The study demonstrates the need for upfront research with consumers, to understand functional priorities, expectations, and unmet opportunities within a product category.

Calculating Packaging ROI

Part of the challenge in determining the real ROI value for packaging is identifying the metrics one uses to define the return from packaging investments. On the return side of the equation, cost per impression (number of times a packaging is seen by a customer), number of new users buying the product and its conversion over the lifetime purchase of the product by that given customer, and total sales over the year are all key performance metrics worth considering.

On the cost equation, the investment in the new packaging, including production and material cost, marketing support and any dealer incentives such as listing fees should be considered. What is not clear in developing an effective ROI model is determining the R&D investment for cases where the packaging is supporting a new feature or benefit.

For the purpose of this exercise, we have excluded any R&D cost since these can vary from ten years of investment to a few months, and may include new manufacturing equipment and processes. The R&D highlights that packaging ROI models need to be grouped in two main categories. The first consist of incremental packaging changes (reduce material cost, new packaging features, line extensions) and those that are more R&D intensive, such as development of a new category (Swiffer), major reformulation (no trans-fat), new category (Organic), to name just a few. The second group would require an ROI assessed over a longer period of time since its impact would be felt well beyond the packaging change.

The final equation in determining the ROI model is the time factor. Is the packaging change impacting sales of the product over a given time period? In most cases, the time factor would be established based on a time period that the incremental packaging would remain in the market place before any changes are required.

In the situation of a new product that requires extensive R&D, large launch campaign and marketing support, the ROI time factor will need to be assessed based on the full lifetime value of a customer. Hence ROI on more radical changes may require a larger investment in production capital that could necessitate a longer payback period. Since assessing ROI for new products is more complex, with a wide range of factors, we have focused our assessments to incremental package design changes.

Following the belief that we can provide accurate ROI on packaging, we have developed the following calculator to be used to determine the full ROI of a packaging initiative for projects that do not require any R&D, specifically where the packaging formulation has gone through extensive changes and research.

The ROI analysis process starts with business assumptions and sales targets based on historical data and the brand group's best assumptions. Because of the challenges of accurately identifying the sales growth before a package is launched, information needs to be

Packaging ROI Calculator

Sales

Average current sale per unit	
Average number of units purchased per year	
Sales increase	
Average years the new package is in market	
Total Value	

Cost of Goods

A) Packaging
- Material
- Films/Printing
- Finishing
- Shipping

B) Product
- Manufacturing
- Shipping/Distribution

C) Marketing
- Listing fees
- Advertising/Promotion

Total Cost

ROI = **Total Value** / **Total Cost**

developed based on historical data and based on developing different scenario starting with no sales increase to a range in increments of 5%. This will allow the ROI to be benchmarked against historical information and based on a range of assumptions.

Sales

To determine the total value, we need to determine the total number of units sold following the new introduction of the packaging over the total number of years the packaging will appear in the market place. To determine the duration in the marketplace, you will need to review historical information regarding how often the given brand has been updated over the past ten years, any potential R&D development in the pipeline that may impact the new design, trends such as sustainability or potential competitive threats. In developing the net value of the packaging, you may want to establish different scenario based on a range of potential years in market.

Cost of Goods

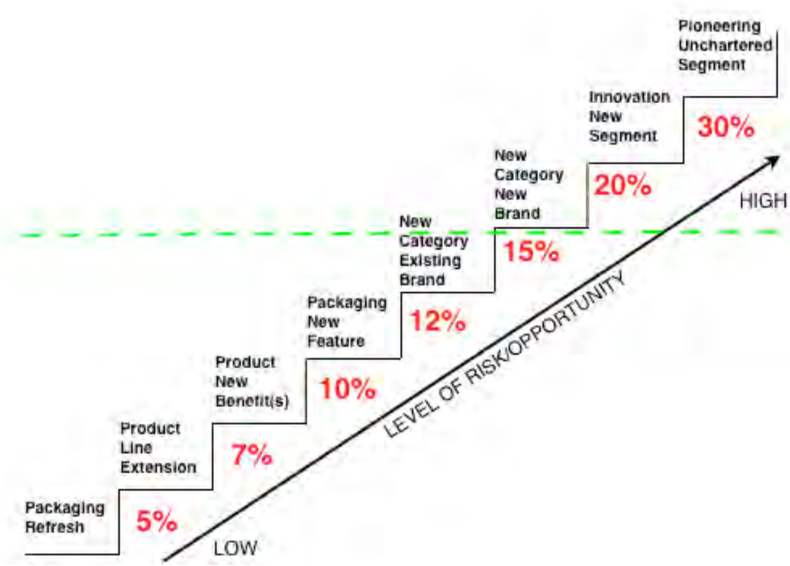
To determine the actual cost of goods, an analysis of both the direct and indirect cost of the packaging needs to be initiated. These costs would include direct packaging costs such as film, printing in addition to the actual cost of manufacturing the product(s). Indirect cost would cover marketing and promotional activities that need to include any listing fees and discounts to manage a hard or soft packaging conversion in the marketplace.

ROI Calculations

ROI is calculated based on dividing the "Total Value" of the packaging change based on the "Total Cost" to launch the changes in the marketplace. The key variables that will impact the ROI model, which need to be re-evaluated a year following the launch, consist of the number of years the new package will be in market and the projected sustained sales increase.

Packaging Sales Increase Ladder

Based on 25 years of developing package design and being exposed to the success of products, we have identified a packaging sales increase performance ladder. The rule of thumb chart is based on key metrics identified on page 8 and 9, namely the ability to provide a clear and differentiated value proposition supported by strong shelf visibility and the "Blink Factor" - the ability to connect with consumers in the split second it takes to make a decision at shelf level.



The suggested sales increase was based on the premise that the more relevant and meaningful the benefit is for the customer - and one that cannot be matched by competitors - the higher the potential for sales increases.

Hence, refreshing a package will provide consumers with an opportunity to notice the brand and reinforce a key message that it is still current, the overall meaningful benefit is low versus a product that has gone through a reformulation (for example, no trans-fat) or an easier to use, more convenient packaging that overcomes a key issue customers have had with the product.

As we move further up the ladder of differentiation, the opportunity to increase the sales percentage is directly proportionate to the level of risk in the event the product fails to ignite a true consumer need state.

Based on the fact that only 1 in 10 new products actually succeed, we can start understanding the risk involved with any packaging initiative that leverages a truly innovative offering.

For this reason, we have excluded any packaging initiative that is beyond a new category with an existing brand in our effort to identify a package's true ROI.

Conclusion

The most effective approach in determining packaging ROI is to establish a process, through key metrics, that consistently evaluates the impact of packaging changes in the marketplace. Creating a consistent process can generate key learning within the organization that will provide a platform for knowledge and benchmarking that would result in a more predictable model when assessing ROI.

Leveraging the ROI factors, in addition to understanding the value the packaging changes communicate to the target group will provide a strong platform to measure and track the full potential of packaging changes. We would also recommend that the organization establish a sales increase ladder that represents past performance of packaging initiatives through each of the steps of the ladder, to help management understand how their packaging and R&D investments will provide their investors with a clear understanding of the balance between risk and opportunity.

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