Ship Shape: Paper and Packaging Prices on the Rise
By Jesse Chiang

IBISWorld looks at the rising price of paper and paper-based products and what procurement professionals can do to salvage buyer power

Despite business increasingly moving online, businesses and consumers alike still depend on paper, especially in various packaging and shipping markets. The bad news for businesses, however, is that the prices of paper and packaging products are on an upward trend as input costs rise for upstream suppliers and consumer shopping trends drive demand for shipping materials and services.

Specific input costs on the rise include wood pulp and paper. In fact, 2011 marked global wood pulp price’s highest point in more than thirty years. Prices have faltered somewhat in the three years since, but global wood pulp prices remain at historically high levels. IBISWorld expects the global price of wood pulp to rise at an annualized rate of 1.0% in the three years to 2017, driven by increased demand from recovering economic conditions both domestically and abroad. Higher construction and industrial activity will require more wood pulp and other wood products, boosting prices. Drastic increases in input costs up the supply chain will likely be passed on to the buyer in the form of price hikes. For example, rising wood pulp prices are expected to flow through to the price of paper, which is anticipated to increase at an annualized rate of 2.1% in the three years to 2017.

To make matters worse, growth in key demand drivers is expected to exacerbate price growth for paper and packaging supplies. Per capita disposable income is forecast to rise at an annualized rate of 2.3% in the three years to 2017. This growth will increase demand for packaging materials because greater disposable income allows consumers to spend more on discretionary items, which are often packaged in paper-based materials. Furthermore, the surging popularity of e-commerce has boosted shipping activity and, thus, demand for the boxes and shipping products needed.

### Key Driver Growth

<table>
<thead>
<tr>
<th>CAGR Growth</th>
<th>Price of Paper</th>
<th>World Price of Wood Pulp</th>
<th>Per Capita Disposable Income</th>
<th>Industrial Production Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011-2014</td>
<td>0.2%</td>
<td>-1.1%</td>
<td>1.3%</td>
<td>3.1%</td>
</tr>
<tr>
<td>2014-2017</td>
<td>2.1%</td>
<td>1.0%</td>
<td>2.3%</td>
<td>3.4%</td>
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SOURCE: WWW.IBISWORLD.COM
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IBISWorld anticipates rising prices for wood pulp and paper will flow on to a number of paper-based packaging products and services. The markets that are anticipated to bear the weight of these trends include corrugated boxes, molded fiber packaging and packaging services.

**Corrugated Boxes**

Corrugated boxes are a popular packaging product used for a variety of applications, such as shipping and storing consumer goods and industrial tools and equipment. In the three years to 2017, IBISWorld forecasts the price of corrugated boxes to increase at an annualized rate of 3.0%. The rising price of paper, a key input in manufacturing corrugated boxes, will force operators to increase box prices to maintain profit margins. With growing overall demand for corrugated boxes stemming from consumers and businesses alike, suppliers will be able to raise prices without risking drops in demand.

Rising prices are problematic for buyers of corrugated boxes. The number of substitute products that provide the same balance of cost and functional strength is limited. Plastic boxes are similarly durable but carry a significantly higher per-unit cost. Solid fiber boxes are less expensive but lack the durability of corrugated boxes. Consequently, the lack of viable substitutes hinders buyer power, reducing the ability to negotiate.

To gain leverage in negotiations, buyers should take advantage of low market specialization and switching costs. Because corrugated boxes are commoditized and do not require much experience or expertise to manufacture or distribute, buyers can easily find numerous operators that can satisfy their needs. Additionally, low switching costs allow buyers to change vendors easily with minimal risk. Buyers can leverage the large number of qualified vendors to encourage price-based competition among suppliers.

**Molded Fiber Packaging**

Molded fiber packaging is a type of paper packaging made from paperboard and newsprint, commonly used to form egg cartons, other food containers and various molded packaging supplies for shipping. IBISWorld expects the price of molded fiber packaging to grow at an annualized rate of 4.2% in the three years to 2017. Higher wood pulp prices and higher demand for packaging products are expected to fuel such price growth. Additionally, in the three years to 2017, the domestic population is anticipated to grow at an annualized rate of 0.8%. The growing domestic population will require more food, which is often packaged with molded fiber packaging, further driving greater demand in the next three years.

Buyers of molded fiber packaging can leverage the high availability of substitutes to negotiate lower prices, such as expanded polystyrene packaging. Despite its higher cost, many buyers already opt for polystyrene packaging instead of molded fiber packaging because of its greater durability and aesthetic appeal. These characteristics boost distribution and presentation of buyers’ products. Buyers can leverage the availability of polystyrene packaging as a substitute to negotiate lower prices or to

![World Price of Wood Pulp](source: IBISWorld)
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simply switch to the alternative product if the buyer is unable to find favorable negotiating conditions in the molded fiber packaging market.

Packaging Services
Suppliers of packaging services provide both manual packaging and machine packaging of client’s materials. IBISWorld forecasts packaging service prices to grow at an annualized rate of 2.5% in the three years to 2017. The rising price of packaging supplies will boost supplier input costs, fueling service price growth. Additionally, rising average wages in the packaging services market will further contribute to price growth. In light of rising costs in the market, buyers should conduct a thorough cost-benefit analysis to determine whether they should outsource the process or conduct it in-house.

Buyers of packaging services benefit from low market share concentration when negotiating with suppliers. Nearly 93.0% of packaging service suppliers operate from a single facility because buyers tend to source from local packaging suppliers to reduce transportation costs. The even distribution of packaging suppliers allows buyers to easily source packaging services from local vendors. The highly fragmented market benefits buyers because it heightens price competition, giving buyers leverage in negotiations.

Packaging Product Price Growth

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<tbody>
<tr>
<td>Corrugated Boxes</td>
<td>3.0%</td>
</tr>
<tr>
<td>Molded Fiber Packaging</td>
<td>4.2%</td>
</tr>
<tr>
<td>Packaging Services</td>
<td>2.5%</td>
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</tbody>
</table>

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Buyer Power
With steady demand for paper-based packaging products and rising prices of wood pulp and paper, prices of boxes, packing materials, packaging services and more will continue to trend upward. Fortunately, buyers can protect themselves from rising prices in multiple ways. In the corrugated boxes market, buyers can take advantage of the commoditized nature of the product and shop around for the cheapest price. Buyers of molded fiber packaging, meanwhile, can look to viable substitutes if they feel the supplier is charging too much. Finally, buyers in the packaging services market can leverage the price competition that comes from low market share concentration. In addition, buyers can bundle these purchases with other paper and packaging goods from the same supplier, such as tape, cushioning or stationery, to help secure a lower price. Buyers may also get volume discounts by placing large orders or entering into longer-term contracts with suppliers.
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Our procurement and strategic sourcing research helps clients engage and negotiate effectively with suppliers, internal stakeholders and C-level executives. Our insight on price trends, major suppliers and supply chain risk helps clients better manage the entire sourcing process.

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