# Our five core challenges

*Chief executive of Ball Corporation David Hoover identified the key issues facing the metal packaging industry when he provided the keynote address to The Canmaker Summit in May.*

This is a critical time for canmakers. We are facing five core challenges that require us to respond with savvy and wisdom. Or we may witness the continued decline of our biggest markets over the long term.

What are the five core challenges?

• A significant decline in recycling rates for a package – the aluminium beverage can – that makes economic as well as environmental sense to recycle.

• The pending retirement of large parts of our workforce as the people who helped build this industry – particularly the beverage can industry in the 1970s and 80s – reach or surpass retirement age.

• A mindset that accepts the view that while the can is a package that serves a large portion of beer and soft drinks volume, it is essentially a commodity at the bottom of the packaging totem pole and little more.

• A need for smarter innovation to provide exciting new cans to our customers, which they want and are willing to buy at a fair price.

• The necessity to enter new product markets that are growing faster than our traditional markets.

Some of these are not new. For instance, 'innovation' is probably the most overused word in American business today. Canmakers are no exception. I think all of us have been saying for some time that we are 'innovative' and create 'innovative' cans. And we have come up with a few. But at times those innovative ideas have been more interesting to us as canmakers than to our customers.

The view of the beverage can as a commodity has also been around a while as well. What is troubling is the seemingly general acceptance even within this industry that it is correct.

Some of us are striving to make the case that "cans today indeed offer unique and exciting advantages, but our voices are not yet loud enough to convince our customers" and their consumers.

The combination of these five core challenges – recycling rates, retirements, innovation, a commodity mindset and new markets – is new. And we have to recognise and address these issues now.

The good news is that there are a lot of very smart people in our industry. There are younger, experienced, capable canmakers on the way up who can lead the effort to ensure the future of our industry.

Let's take a look at each of the five core challenges I mentioned and how we might address each one.

First, we must promote the hell out of recycling. Because, frankly, low recycling rates are not someone else's problem.


*"Cans today indeed offer unique and exciting advantages, but our voices are not yet loud enough to convince our customers," says Ball's David Hoover*

Recycling is our problem.

Recycling is vital to our industries, and for reasons beyond the environmental benefit. High recycling rates help fend off legislation detrimental to can and aluminium companies. Recycling helps provide a steady source of metal while lowering the environmental and economic costs to produce it. And if we promote recycling, we can actually promote the can.

But recycling rates in the world's largest beverage can market have been declining. In 2003, only 50 percent of aluminium beverage cans in the US were recycled. That's down from a high of 66.5 percent in 1997.

Steel cans have not experienced a dramatic decline in recycling rates, but it is lower than it should be at around 58 percent in the US. In Europe it is 60 percent, but that is after a 20 percent increase from 2000.

Beverage and food cans face similar challenges when it comes to recycling:

• First, budgets are being restricted or reduced by many local and state governments, and that can negatively affect curbside recycling programmes.

• Second, our recycling messages are not as effective as they once were. In the 1960s and 70s, promoting the message of "recycling is the right thing to do to preserve the environment" worked well.

But it is a different time today, and there are many more messages competing for consumers' attention. A study in 2003 revealed that 67 percent of people who regularly recycle are over 45. The generations after that don't seem to have heard it. Or if they have, the message was fragmented and confusing.

We need to refocus our recycling messages and include information that consumers can use; to show that recycling is convenient and simple; and to show that it works. We need consumers to make recycling a habit.

And we need to take our message not only to consumers, but also to states and local governments. When budgets are strained, recycling must show it should not be the victim of a budget cut.

We should be out front in the effort to turn recycling rates around. CMI, our can sheet suppliers, the National Soft Drink Association, the Canned Food Alliance, the Steel Recycling Institute and others are doing what they can to influence the consumer, but it is an overwhelming challenge to change attitudes with what we can afford.

For our part, we must support this effort, and to explore other effective ways to partner with our customers, local municipalities, states, and the federal gov- ▸

ernment to improve recycling rates.

Our second core challenge is that we must develop the next generation of canmakers.

I joined Ball in 1970, as the two-piece aluminium can was just beginning to take off. I have worked for three decades with some damn good canmakers. Some are starting to retire.

It isn't only the canmaking industry. A 'brain drain' is looming as baby boomers begin to retire. High school and college graduates who have grown up on the Internet and enjoyed their own cell phone or mp3 player as teenagers don't view the canmaking industry as attractive. In general, manufacturing often isn't even on the radar screen. It isn't as 'sexy' as many alternatives. How do we attract people to our industry?

First of all, if we can keep our industry healthy and viable, we can attract new people – and keep our newest people – and maybe they will fall in love with it as we have.

We are also doing a number of things at Ball to recruit new talent. They include:

- Emphasising competence-based credentials rather than just past experience.
- Establishing formal relationships with schools.
- Cultivating organisational partnerships with groups that cater to the needs and interest of minorities.
- Engaging our military, which has many experienced and able people who will be entering the workforce.

In terms of retention, most employers find that it is easier to recruit people than to retain, engage and inspire them. We have created a culture at Ball that rests largely on asking employees to behave like owners of our business.

Owners accept responsibility, and they are given more responsibility. They participate in the decision-making process, they take risks without fear of unfair reprisal, and they are expected to 'do the right thing' in their everyday activities.

If we expect to continue to employ people who will represent our companies and our industry with passion and energy and skill, we must pursue them with the same passion, and energy and skill.

Third, canmakers must innovate, but do it with our customers, not for them.

'Innovation' is a buzzword today, but saying it and doing it are two different things.

Canmakers need to develop new products together with our customers. And we need to learn more about the consumers' needs and how to satisfy them with our packages.

Our customers know their consumers. And they are now beginning to partner more with canmakers and share these insights. They are also asking us about our research findings. It wasn't always this way.

Over the years, canmakers have generated many good ideas that our customers liked and which became commercial successes. The 8.4-oz energy drink can is a well-known example.

We have also had our share of failures. You may remember one of ours at Ball from the mid-1990s… the TouchTop center-push beverage can end. Though it caught the attention of the media, the TouchTop was of more interest to us than to our customers.

I believe most of those failures were born out of our effort to create a package first, then show it to our customers. We didn't do our consumer research.

The cost of new product failures is great. Clearly, we need to work more closely with our customers' marketing and brand development people. While their purchasing personnel will always be important to us and we will continue to work with them in many ways, it is the brand people who know their markets.

We shouldn't neglect design. In February an international designer said that he believed people are willing to spend "25 percent more for something that is beautiful?" That touches on the emotional needs of consumers, an area I think packaging has not fully explored.

I believe it is important that we as canmakers – to the extent we legally can – work together to make our industry stronger as we develop new ideas. Our products should make our customers' lives easier, not harder.

Fourth, we must all put the can's image back on a pedestal. We are too quick to nod agreement when someone says the can is a commodity. Certainly some sizes – like the standard 12-oz. can in beverage and the 300 x 407 in food – are generally viewed that way. But it is also true that the can is a fantastic package.

Instead of accepting the commodity label, we should respond that a lot of engineering goes into making a can. The can is an engineering marvel.

The beverage can is durable, stackable, recyclable, chills faster than other packages, feels colder than plastics, doesn't break like glass and has a long shelf life.

The food can provides food that is as nutritious or more nutritious than frozen or supermarket fresh food, is convenient, has a long shelf life, is recyclable, doesn't break and is probably the safest food package available.

Food cans face an additional challenge in that some people – even a member of Congress – labour under the misperception that canned food is not as nutritious or appetising as frozen or supermarket fresh food.

The fact that canned food is more affordable than those alternatives – which should be a good thing – inadvertently feeds this misperception.

Studies have shown that canned food is in fact as nutritious or more nutritious than frozen or supermarket fresh. But getting that message out there is a challenge, and we must overcome it or face a lingering shadow much like aerosol cans have had regarding fluorocarbons and ozone.

Organisations such as the Canned Food Alliance, which uses research to focus on mothers and young children and their perceptions and needs, are also a key part of this effort.

We already know what a fantastic package we have in the can. Changing negative perceptions will help us grow the market and increase sales. And improving the can's image is directly tied to innovation. Adding new graphics, or a different shape, or size, or new feature can play a significant role in changing those perceptions.

Finally, we must enter new product markets that are growing faster than our traditional markets.

Some of us are already doing this, and with success. But we need to be quicker about it. Product cycles are faster. The window of opportunity is smaller. In some cases, the right package can play a significant role in the success of a new beverage. We need to be ready with that package when it is needed.

For example, Ball has developed a smaller-diameter 12-oz container we call the Sleek can. We think its unique size and premium image may help define a market for the right beverage, just as 8.4-oz. cans did for energy drinks.

We also need to help change perceptions about the can in some markets. Why shouldn't water come in a can?

Part of the challenge involves image. Part of it involves innovation. And part involves the need for us to be more aggressive in capturing developing product markets.

I don't have all the answers. I like to think we do have good ideas at Ball, some of which are already in play. We believe many will succeed.

My message is that while we do face core challenges, there is no reason we cannot meet them. And while we do so, we continue to have opportunities before us.

Some opportunities are for new products that offer the consumer added convenience, or eye-catching design, or both.

Some opportunities are market-based, particularly in developing regions such as eastern Europe and northern Africa – both places where Ball Packaging Europe is involved in building new beverage can plants.

Nothing preserves the quality of the product and is as economically efficient to produce and recycle as the can. There will always be a place for it.

But I am not as concerned about the opportunities before us. That's the easy part.

The harder part is addressing the challenges to the can, challenges we all face.

The most successful, long-lived industries have been those that knew how to reinvent themselves when their initial markets slowed or faced obstacles.

That time is coming for us. We must be prepared for it.

## Secrets of success

Understanding the needs of the consumer and using advertising to develop markets are two key issues that canmakers must address, delegates were told at The Canmaker Summit held during Cannex 2004 in Denver.

Under the theme 'Broadening the Horizons' speakers offered a message that consumer-backed research is needed for faster product development to regain market share from other packaging formats.

• Alcoa's technology chief Wendy Winge stressed that packaging innovation is the way to combat and overcome threats to the can industry, but she reminded delegates that they cannot afford to have ten-year development cycles when a new PET bottle can reach retailers shelves in one week.

• Head of new product and process development at Crown Holdings, Daniel Abramowicz, also stressed the need for improved market insight. "The consumer is vital to successfully commercialising new product development," he said, adding that key data from research isn't necessarily related to functionality and performance, rather to consumer perceptions and unarticulated customer needs. The impact of packaging innovation is greatest when packaging responds simultaneously to two or more of today's 'mega-trends': health, convenience, mobility and point-of-sale impact, he said.

• Chief executive of Rexam Beverage Can Americas William Barker explained how Rexam and Russia's Rostar have invested US$11m in a marketing campaign in Russia since 2000 to change the country's perception of canned beer. In the US, canned water is an opportunity waiting to be exploited, he said, and backed his assertion by drinking Dasani from a can. As chairman of the Can Manufacturers Institute in the US, Barker is spearheading a $3.5m campaign to raise awareness of canned products in North America.

• Rostar's chief executive Pavel Ulianov described the progress of the Russian campaign in detail. Delegates learned how Rostar raised the can's share in the domestic beer market from 0.2 percent in 1999 to 11.1 percent in 2003. "End consumers were negative to cans but sensitive to advertising," he said, adding that Rostar took responsibility for "creating and presenting a new image for canned beer."