STRATEGIC ANALYSIS INC.

THE IMPACT RETAILERS HAVE ON PACKAGING DECISIONS

A presentation to

FLEXIBLE PACKAGING ASSOCIATION
FALL EXECUTIVE CONFERENCE
CHICAGO, IL

October 26, 2005

PRESENTATION OVERVIEW

STRATEGIC ANALYSIS INC. (SAI)
International business consulting firm Market research, competitor analysis and related services Business-to-business field-oriented research 140 employees in 11 operations worldwide Over 225 projects in flexible packaging industry globally
TODAY'S PRESENTERS
Bruce W. Deckman, President Kevin Armour, Director

PRESENTATION OVERVIEW (cont'd)

PRESENTATION OUTLINE
Project description
Industry participants' roles
Retail overview
Consumer highlights
Impact on flexible packaging Packaging format Food packaging Non-food packaging Promotion and display Market differentiation Operation
Conclusions and recommendations
Open questions

PROJECT DESCRIPTION

INDUSTRY PARTICIPANTS' ROLES

RETAIL OVERVIEW

CONSUMER HIGHLIGHTS

IMPACT ON FLEXIBLE PACKAGING
- PACKAGING FORMAT
- FOOD PACKAGING
- NON-FOOD PACKAGING
- PROMOTION AND DISPLAY
- MARKETING DIFFERENTIATION
- OPERATION

OVERALL ASSESSMENT

APPENDIX

PROJECT OVERVIEW

Objective

To examine dynamics involving:

- Influences and demands of retailers
- Retailers impact on packaging decision

Scope

Product:

- Flexible packaging
- Trash and storage bags excluded

High-volume retailer (HVR)

Mass merchandisers	Drug stores
Grocery stores	Category killers/specialty stores
Club stores	Department stores-a
Convenience stores	Internet –a

a- Secondary overview only

SAI'S APPROACH

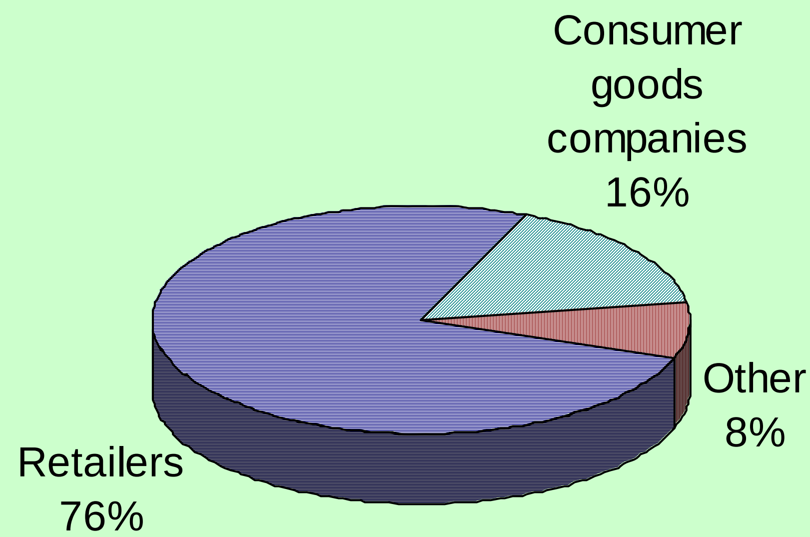
Methodology

Secondary Data
Published industry statistics
Computerized literature searches

Primary Research
Field interviews with key industry participants

Client Interaction
Period reviews with SAI and FPA Task Force throughout the project (3/29/05 – 9/15/05)

Field interviews



Total: 99

ORGANIZATIONS INTERVIEWED

RETAILERS (75)	
7-Eleven (2)	Kmart
Albertsons (3)	Kroger
All American Plazas	Kwick Stop
Big Y Foods	Lowes (5)
BJ's (6)	Meijers (4)
Brooks Pharmacy	Petco
Brookshire Brothers	PETsMART (2)
Costco Wholesale (7)	Rite Aid
Cub Foods	Save-A-Lot
CVS	Sheetz (3)
Discount Drug Mart (2)	Staples (2)
Dollar General	Target (3)
Dollar Tree Stores (3)	Ukrop's Super Markets
FFP Operating Partners	USA Drug (May's) (2)
Fred's	Walgreens
Happy Harry's (2)	Wal-Mart Stores (4)
Home Depot (2)	Wawa (2)
Kerr Drug (2)	Winn-Dixie
Kinney Drug	

CONSUMER GOODS COMPANIES (16)	
Archer Daniels Midland	Great Lakes Cheese
Best Brands Corp	Interstate Bakeries
Boar's Head Provisions	Kellogg Snacks Division
Cacique	Spectrum Brands
Carvel	Tyson Foods
Del Monte Foods (6)	

NOTE: The number in ( ) indicates the number of interviews completed within the organization, if more than one.

REPRESENTATIVE FUNCTIONS INTERVIEWED

RETAILERS

MARKETING/PRODUCT/BRAND/SALES

- Assistant Category Manager
- Brand Manager - Consumer Insights
- Category Manager
- Director of Meat Merchandising
- Director of Produce and Floral
- Director of Product Development and Merchandising
- Director of Retail Marketing
- Director of Sales
- EVP Marketing
- Marketing Service Manager
- Meat and Seafood Director
- Merchandising Director
- Merchandising Manager
- Retail Sales Analyst
- Senior Corporate Category Manager
- VP of Sales
- VP Retail Operations

PACKAGING

- Corporate Packaging Manager
- Director of Packaging
- Manager – Packaging Sandwiches
- Packaging Development Manager
- Packaging Development Manager – Grocery Products
- Packaging Quality Assurance Manager
- Private Label Packaging Manager
- RFID Manager

PURCHASING/SOURCING

- Buyer -- Bread and Salty Snacks
- Buyer -- Candy and Confections
- Buyer -- Dairy Goods
- Buyer – Health and Beauty Aids (HBA) and Personal Care Products
- Buyer -- Paper Products
- Buyer -- Pet Food and Accessories
- Category Buyer – Seasonal, Seed, Mulch and Soil
- Consumables Buyer
- Director of Sourcing, Staples Brand
- Purchasing Manager
- Purchasing -- Power Tools and Accessories
- Purchasing -- Landscape Décor
- Senior Buyer – Dry Groceries
- Senior Buyer – Private Label Products
- Senior Buyer – Snack Foods

OPERATIONS/LOGISTICS

- Director of Logistics
- Director of Operations and Warehousing
- East Coast Regional Logistics Manager
- President of Operations
- Senior VP – Depot Operations

OTHER

- East Coast Regional Logistics Manager
- Market Research

REPRESENTATIVE FUNCTIONS INTERVIEWED (cont'd)

CONSUMER GOODS COMPANIES	
MARKETING/PRODUCT/BRAND/SALES	
Brand Manager Director – National Accounts	Retail Planning Manager Retail Industry Analyst
PURCHASING/SOURCING	
Director of Purchasing (Packaging) Manager, Strategic Sourcing Packaging Purchasing Manager	Purchasing Manager Senior Buyer – Packaging
PACKAGING	
Director of Packaging Innovations Packaging Creative Director	Packaging Development Manager

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INDUSTRY PARTICIPANTS' ROLES

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CONSUMER HIGHLIGHTS

IMPACT ON FLEXIBLE PACKAGING
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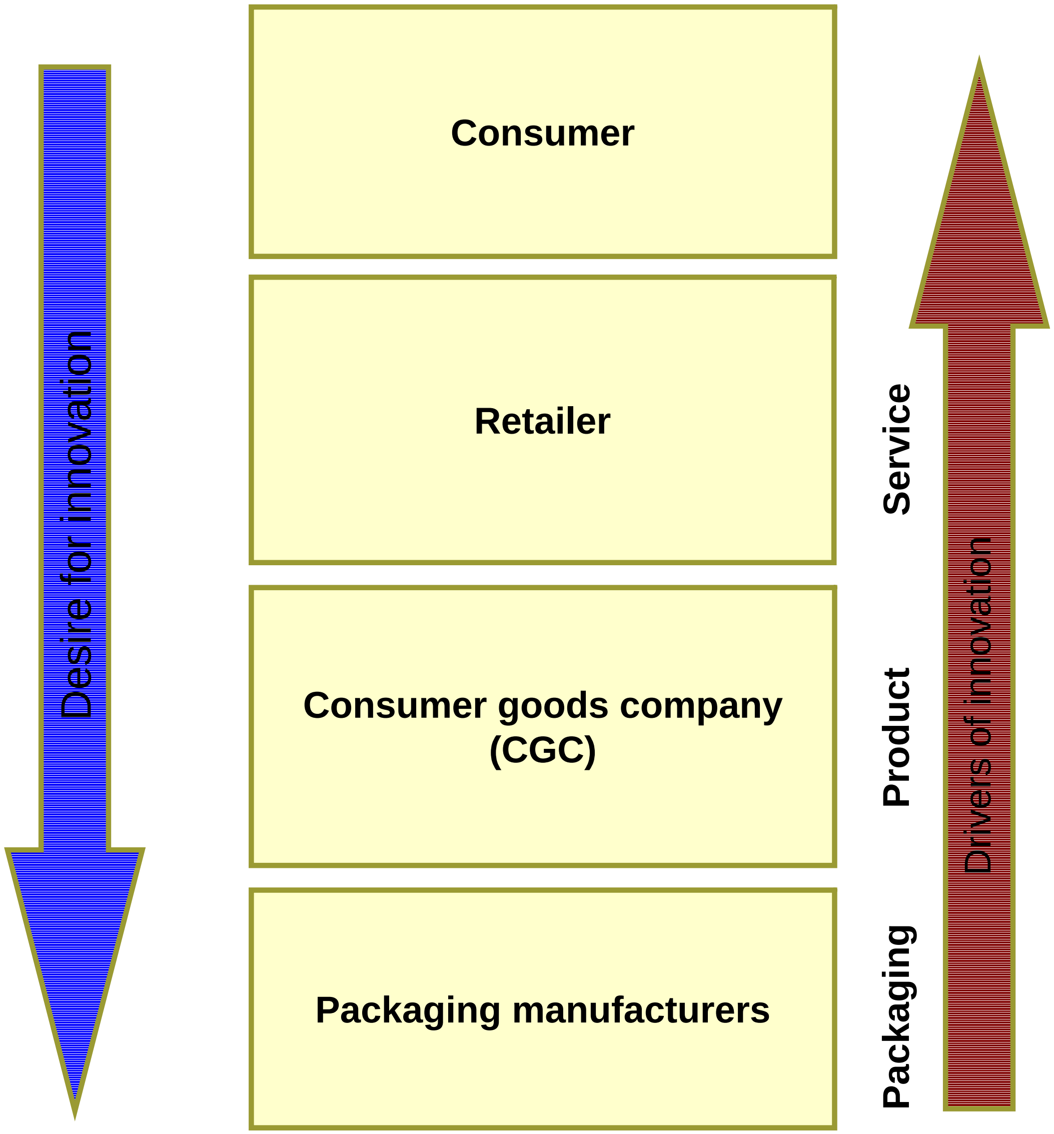
KEY LEVELS AND THEIR INFLUENCE



RETAILERS' PERSPECTIVE ON PACKAGING INNOVATION

"We expect innovations from our suppliers in the way of both products and packaging. We have the last call on what we will accept, however, we leave the actual packaging development to them."

Structural Packaging Manager, major club store

"As far as packaging goes, I largely defer to what P&G, J&J, etc. decide. They are very smart at making the right decisions regarding packaging."

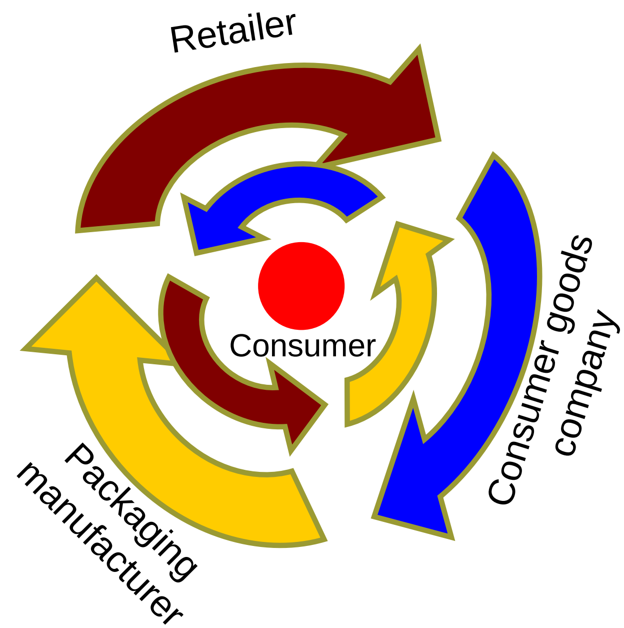
HBA and Personal Care Buyer, major club store

"The consumer goods companies dictate the packaging technologies used. Only in rare occasions do we ask for special packaging to be designed."

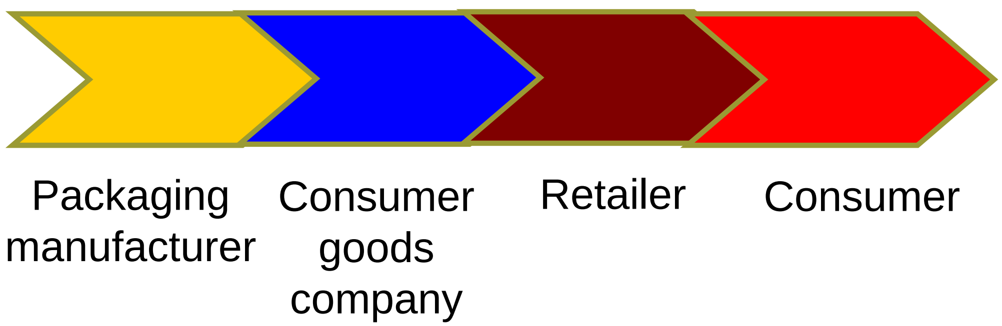
Senior Buyer -- Dry Groceries, major mass merchandiser

INTERACTIVE VALUE CHAIN OF SUPPLIERS

Interactive Value Chain



Historical Value Chain



INTERACTIVE VALUE CHAIN (cont'd)

"We dictate packaging needs to consumer goods companies all the time. We will select the size we want and how many are in the pack, but we do not generally dictate packaging technology."

Merchandise Manager, national pharmacy chain

"The club stores and mass merchandisers tell us what they want in packaging (overall), but they don't really know what they want (specifically). They expect us to come up with the innovations."

Packaging Purchasing Manager, major consumer goods (food) company

RETAILER DIRECT INFLUENCE

Direct influence by retailers

Product damage
False advertising

Reported problems with packaging

Retailers report limited product loss from packaging and have very few problems overall:

- Peggable bag reinforcement
- Strength of stretch film
- Bag strength
- Improved tear and leak properties

Packaging decision making

Final product price is a key driver for packaging decision making

CONSUMERS’ INFLUENCE ON RETAILERS

CONSUMER PREFERENCES & HABITS

RETAILER

COMPETITION

In-segment	Out-of-segment

MERCHANDISING

Image	Price position versus margin	Product breadth versus depth	Segment focus versus diversification

OPERATIONAL DYNAMICS

Inventory Management/ (order fulfillment)	Product handling at distribution centers	Product tracking (safety and timing)	Product handling cost at the store

RETAILER ISSUES

- Will the product sell?
- What margins will it earn?
- Is the CGC in compliance with the point-to-point shipping standards?
- Does the packaging:
  - Provide the necessary information?
  - Have striking graphics?
  - Communicate value?
  - Promote the feature/benefit proposition?
- Will the internet distribution channel impact packaging needs?

RETAILER ISSUES (cont'd)

"We don't dictate a package's design or material. The only time we dictate packaging (to the CGC) is to point out packaging defects or informational deficiencies on packaging."

Category Manager, major grocery chain

"There are over 2,000 SKUs on our shelves. High impact graphics and packaging impact are hands down the most important thing for selling drug store products in general."

Purchasing Manager, pharmacy chain

"Wal-Mart doesn't demand anything unusual from us in the way of structural packaging such as a radically shaped or designed cereal box. What they do ask us to do, however, is to do things that make their life easier and/or reduce their costs. Functional things such as use less corrugated or make the cases smaller."

Director of Packaging Innovations, major snack food producer

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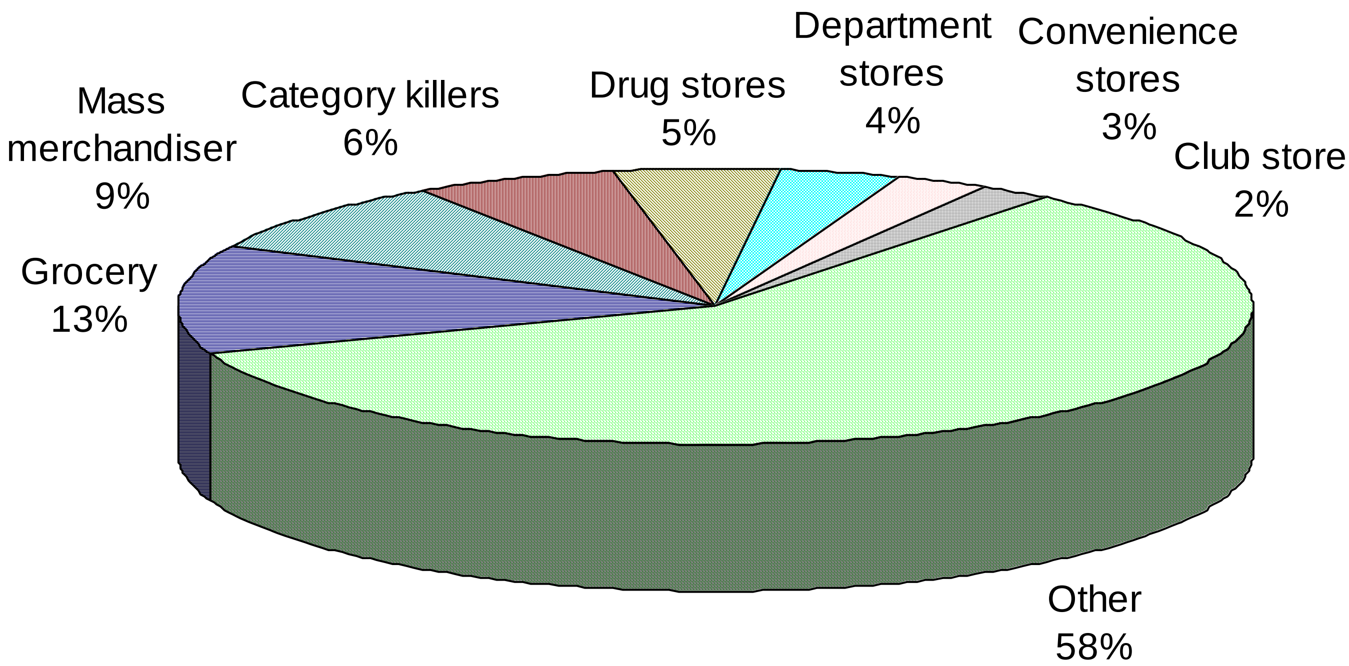
HIGH-VOLUME RETAIL SEGMENTS

Segment	Retailer examples		
TRADITIONAL			
Grocery (or supermarket)	A&P ALDI Albertsons	Kroger Pubix	Safeway Winn-Dixie
Drug store (or pharmacy)	CVS Longs	Medicine Shoppe Rite Aid	Walgreen
Category killer (or specialty stores)	Barnes & Noble Bed, Bath & Beyond Best Buy	Circuit City Home Depot	Lowes Toys “R” Us
Department store	Federated Department Stores	JC Penney Kohl’s	Saks Sears
Club store (or warehouse club)	BJ’s Wholesale Club	Costco	SAM’S Club
Mass merchandiser (or superstore)	Kmart Meijer	Shopko Stores Target	Value City Wal-Mart
Convenience store (or C-store)	7-Eleven Cumberland Farms	Flying J Quick Trip	Sheetz
NON-TRADITIONAL			
Internet	Amazon		Ebay

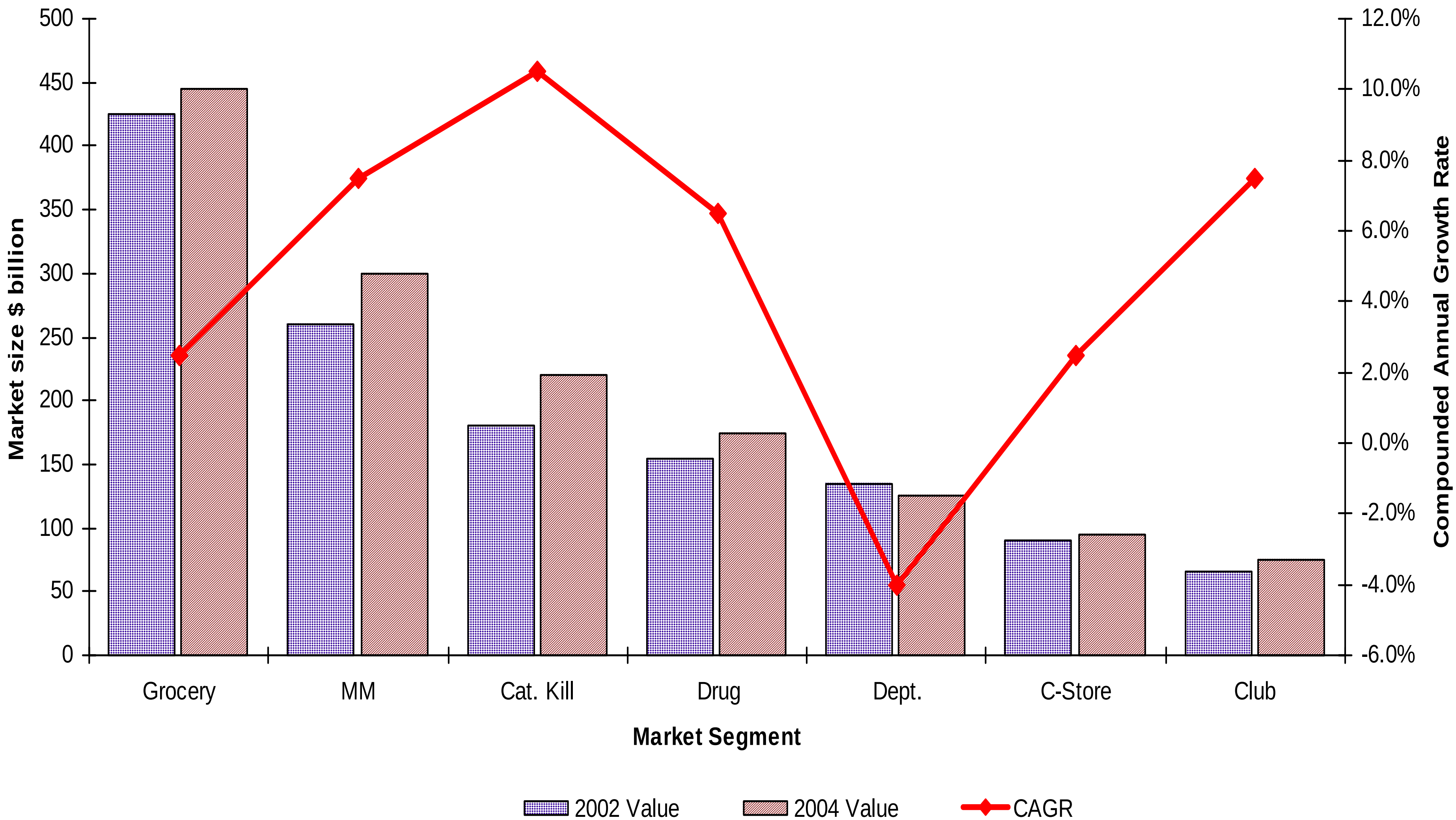
U.S. RETAIL SALES BY SEGMENT 2004



Total: $3.5 trillion

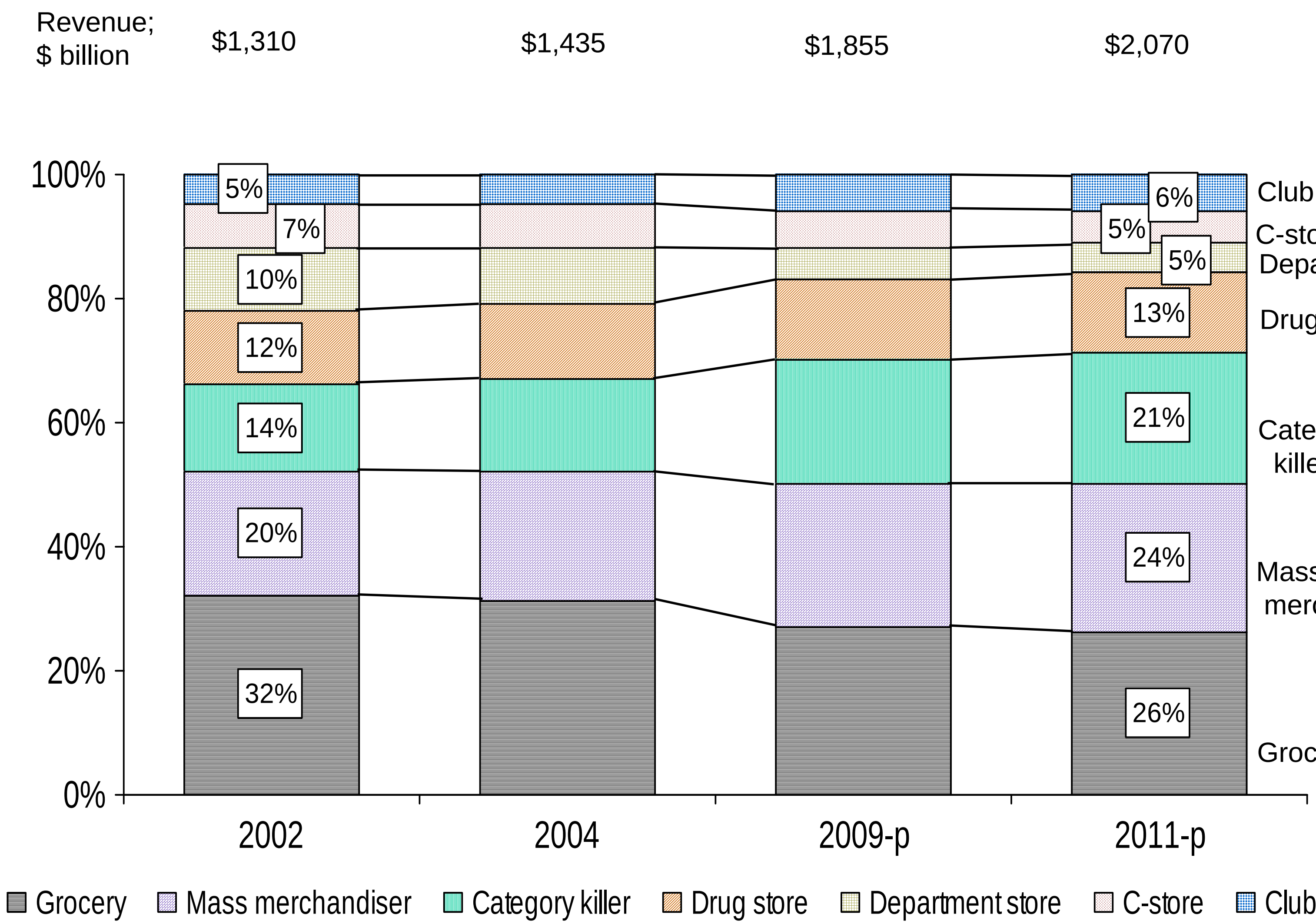
Source: U.S. Census and SAI analysis

MARKET GROWTH BY TRADITIONAL RETAIL SEGMENT 2002-2004



Source: U.S. Census Bureau

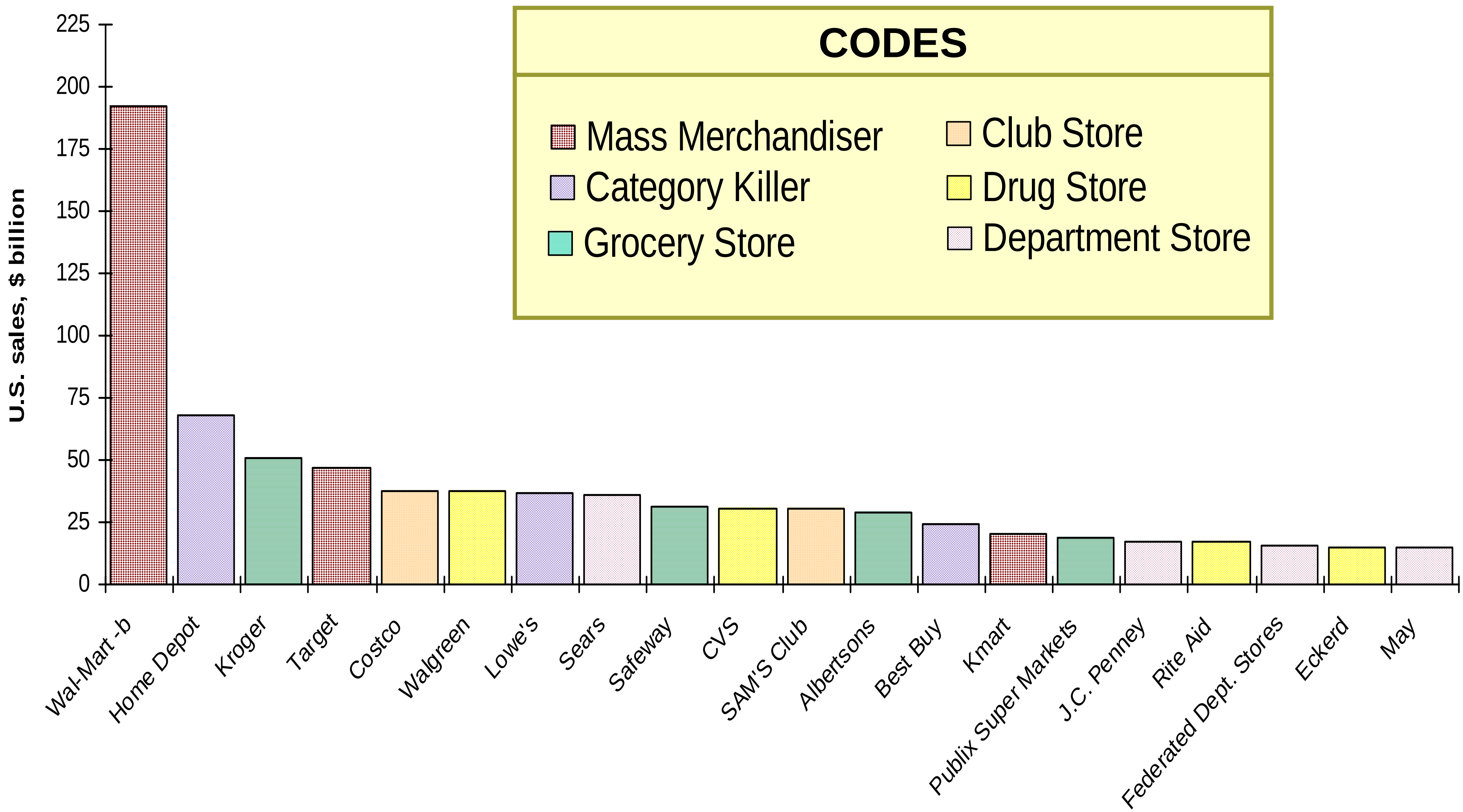
MARKET CHANNEL SHIFT – 2002 THROUGH 2011



	CAGR	% Share Change
Club	7.5%	1%
C-store	2.5%	(2%)
Department	(4.0%)	(5%)
Drug	6.5%	1%
Category killer	10.5%	7%
Mass merchandiser	7.5%	4%
Grocery	2.5%	(6%)

p- Projected

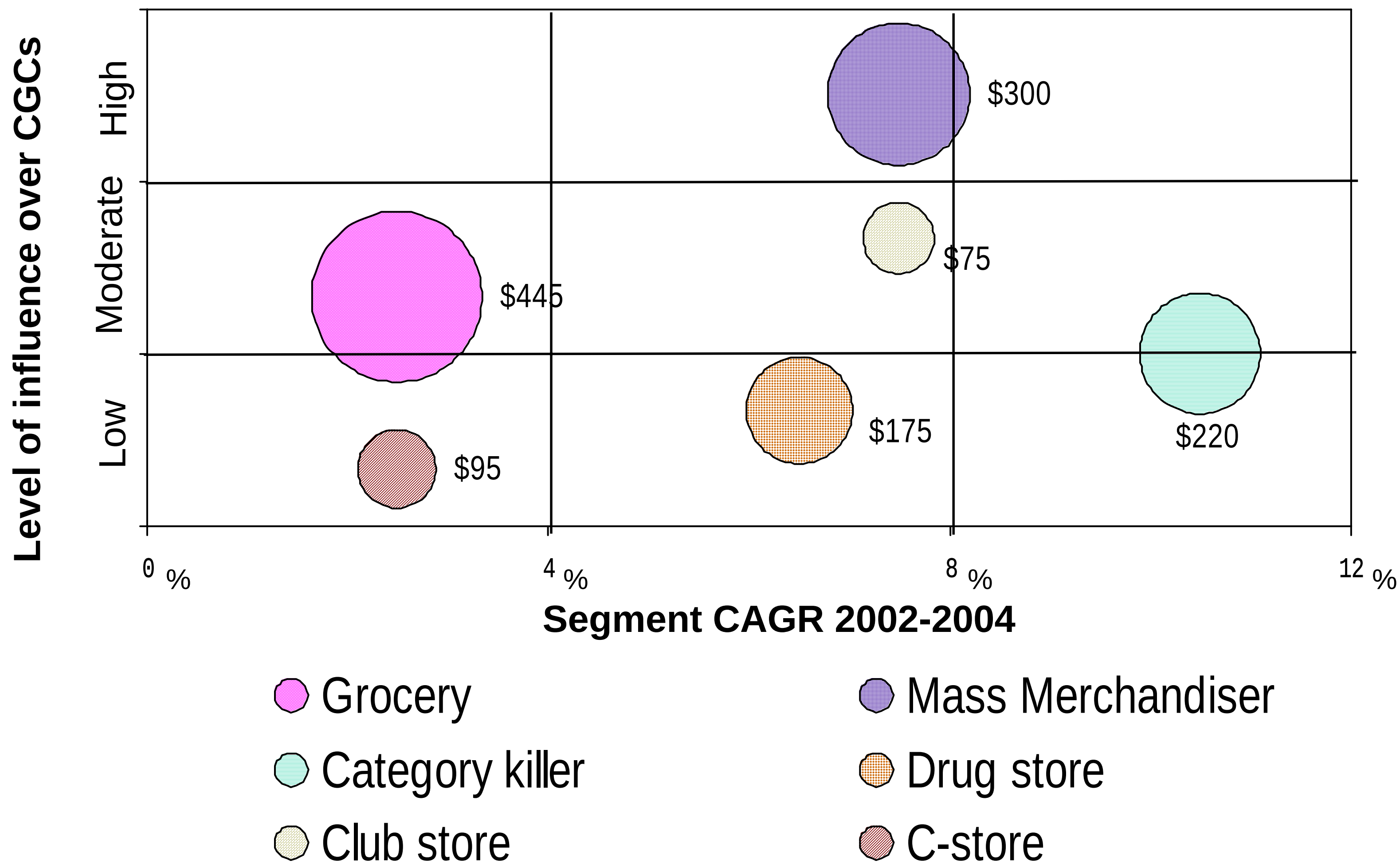
TOP 20 RETAILERS 2004



Source: U.S. census and company reporting

a- Company revenues rounded to the nearest $1 billion
b- Excludes SAM'S Club

RETAILERS' LEVERAGE IN THE MARKET PLACE



RETAILER DRIVERS/ISSUES

CONSUMER ISSUES	OPERATIONAL ISSUES
Consumer preferences Changes in consumer lifestyles Changing demographics Continual desire for something new Other	Ensuring food and product safety Satisfying government regulations Increasing operating efficiencies product handling/logistics Increased retail competitiveness through diversification (fierce retailer competition) Rising cost of labor and benefits Rising energy costs Recruiting and maintaining qualified employees

GLOBAL SOURCING BY RETAILERS

MOTIVATIONS

- Long-term financial success
- Give consumer broader selection of quality products

FOREIGN SOURCES

- Most common:
  - China
  - India
  - Other
- Wal-Mart
  - $18 billion from China
- Target
  - 50% to 100% increases/year from China

KEY CHALLENGES

- Political instability
- Financial instability
- Trade restrictions
- Tariffs
- Currency exchange rates
- Transportation capacity and costs
- Inflation

CURRENT FOCUS

- Reduce procurement costs
- Source directly from foreign factories by bypassing middleman (e.g. P&G)

GLOBAL SOURCING BY RETAILERS (cont'd)

MOTIVATIONS

"Global sourcing of the many products we sell is an important factor in our financial performance."

Wal-Mart 10K 2005

"We source from the global market to offer our customers who live paycheck to paycheck the greatest value for their money on many essential products. To do this, we buy, in addition to the United States, from many regions such as Africa, Asia, Europe and Latin America"

Wal-Mart web site

"We maintain a global sourcing merchandise program to source high-quality products directly from manufacturers. This gives our customers a broader selection of innovative products and better, while enhancing our gross margin."

Home Depot 10K 2005

GLOBAL SOURCING BY RETAILERS (cont'd)

MOTIVATIONS (cont'd)

"In the future, we expect purchases from our global sourcing offices to increase as a percentage of total purchases. We also believe that the expected increase in our global sourcing volumes ill help drive gross profit rate improvements by lowering our overall product cost."

Best Buy 10K 2005

"Best Buy considers global sourcing to be a fundamental contributor to the sustained, long term success of the company."

Executive VP-Supply Chain and CIO, Best Buy

GLOBAL SOURCING BY RETAILERS (cont'd)

CURRENT FOCUS

- Wal-Mart reportedly plans to cut 20% from its procurement costs over the next five years.

"We are really focused on the procurement aspect of the business."
Singapore Operating Group General Manager, Wal-Mart

- Only 10% of its purchases are sourced directly from factories currently.
- By buying direct, Wal-Mart bypasses the middleman and passes some savings on to the customer.

"Quite frankly, we're late to the party. But we could easily double the 10% penetration rate (of purchase direct from the factory)."
Senior Vice President for Global Procurement, Wal-Mart

GLOBAL SOURCING BY RETAILERS (cont'd)

Imports are not just limited to textiles and durable goods

	$ thousand		
Item	2002	2004	CAGR 2002-2004
Pharmaceutical products	$21,513,766	$31,325,752	21%
Edible fruit & nuts; citrus fruit or melon peel	$4,229,416	$5,180,511	11%
Meat and edible meat offal	$3,789,727	$5,095,158	16%
Edible vegetables & certain roots and tubers	$3,138,412	$4,041,536	13%
Prepared vegetables, fruits, nuts or other	$2,802,027	$3,544,763	12%
Edible preparations of meat, fish, crustaceans, etc.	$2,562,635	$3,081,714	10%
Dairy products; birds eggs; honey; ed animal pr nesoi	$1,242,343	$1,525,934	11%

SOURCE: http://tse.export.gov

PROJECT DESCRIPTION

INDUSTRY PARTICIPANTS' ROLES

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CONSUMER HIGHLIGHTS

IMPACT ON FLEXIBLE PACKAGING
- PACKAGING FORMAT
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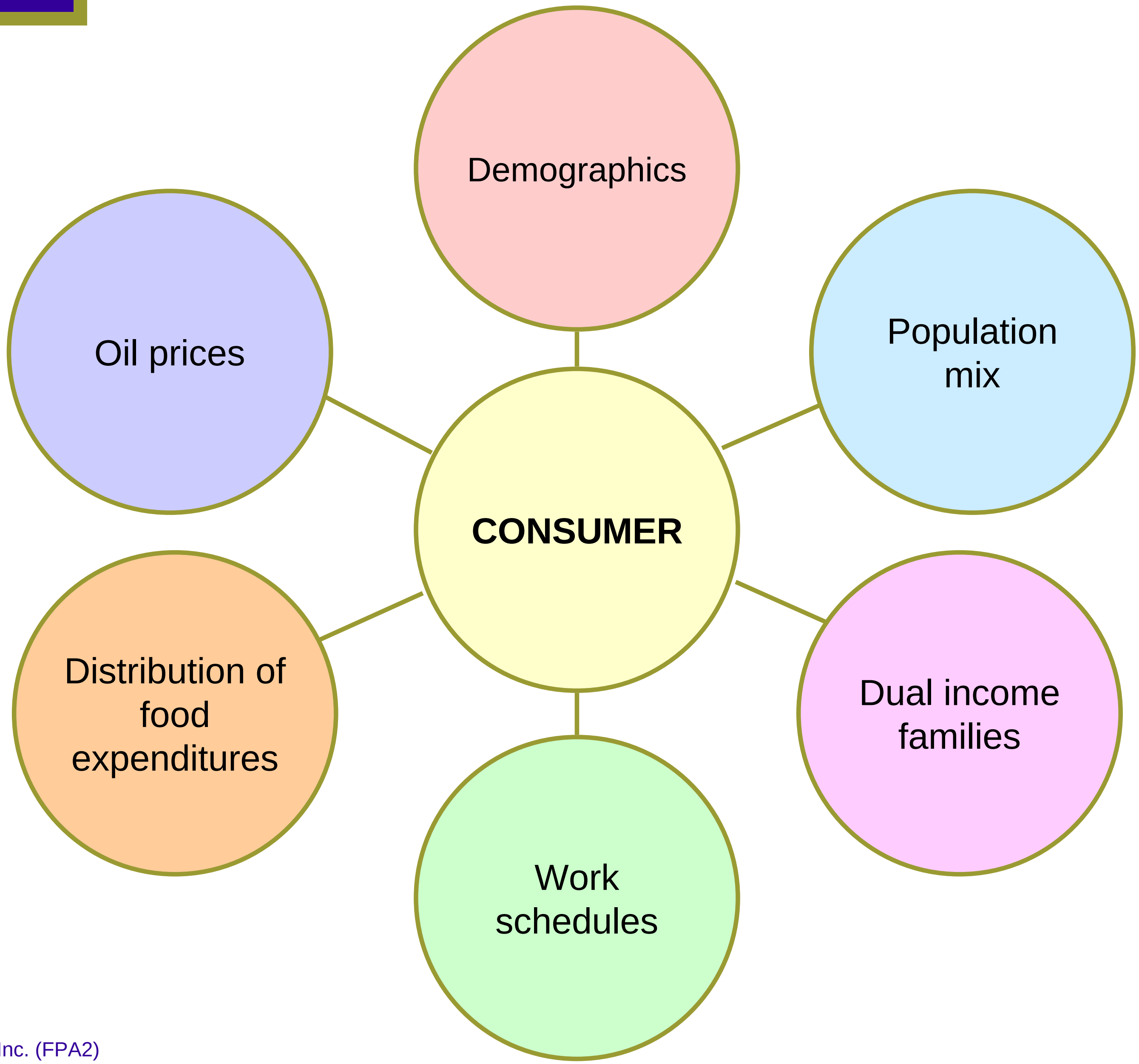
KEY DYNAMICS EFFECTING RETAIL MARKETS



FOOD RETAIL

Grocery expenditure by category

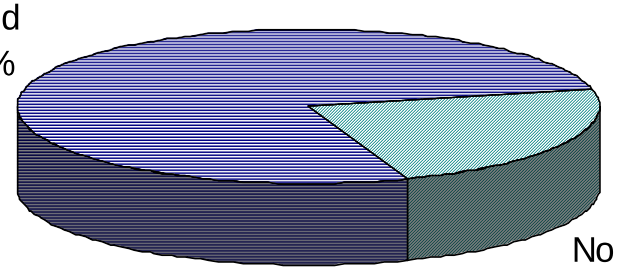
Grocery category	% of annual expenditures
Fresh meat	16%
Main meal items and staple condiments	15
Beverage	12
Produce	11
Dairy	10
Non-food grocery	9
General merchandise, and health and beauty care	8
Frozen food	8
Bread and baked goods	6
Deli	5
Floral	-a-
Total	100%

a- Less then 1%

Key factors describing consumer purchasing habits

Activity	% of respondents actions
Make a list	81%
Deviate from the list	49%
Make unplanned purchases	43%
Talk to store personnel	25%

Flexible packaging market by retail area: $13.2 billion -b



Source: Progressive Grocer and FPA

b- excludes pharmaceutical retail applications

CONSUMERS' IMPACT ON RETAILERS' PACKAGING INTEREST

KEY CONSUMER TRENDS	KEY RETAILER TRENDS
	CONSUMER-DRIVEN
Lifestyle changes On-the-go Longer work days Time constrained Health and diet conscious Well-informed Preferences Convenience Product quality/cost trade off Product and consumer protection Impulse purchases Demographics 65% of Americana live in one- and two-person households Growing ethnic population Increased number of dual income families Desire for "new" Technology development adding value to consumer purchases as desired	Multipacks/Bundling Dollar bins/Sample sizes Shelf-popping packaging Private labeling Promotional displays/end caps/ aisle hangers Internet and mail order offerings **OPERATIONAL** Point-to-point handling Conveyable cases Shoppable pallets Stocking trays Multipacks RFID/Advanced scanning systems Source tagging Global sourcing Sustainable packaging

TREND ANALYSIS SEGMENTATION

Packaging Format

- Blister packaging
- Multipacks
- Bundling – prepared food
- Bundling – club pack

Food Packaging

- Pre-packaged meat
- Produce
- Dairy
- Freezer section
- Price inelastic products
- Shelf stable foods

Non-Food Packaging

- Health and beauty – pharmaceutical packaging
- Pet food
- Lawn and garden

Promotion and Display

- Dollar bins
- Shelf popping
- Promotional displays

Marketing Differentiation

- Private label
- Internet and mail order

Operation

- RFID
- Point-to-point handling

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IMPACT ON FLEXIBLE PACKAGING

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PACKAGING FORMAT

BLISTER PACKAGING

Mass	Club	Groc	Drug	Conv	Category
H	-	M	H	L	-

In a rare instance, Wal-Mart actually asked for more blister packaging to be used for prescription drugs.

TREND DRIVER

Pharmaceutical sales growth
- Prescription and generic ($225 billion NA), OTC

Need for more information/directions
- Provides larger advertising space

Dosage compliance

Labor cost savings

IMPACT ON FLEXIBLE PACKAGING

Blister packaging

"Blister packaging will realize strong growth because it is being pushed by Wal-Mart, which will make it more available to other retailers".

Vice President Marketing and Research; drug store

PACKAGING FORMAT

MULTIPACKS

Mass	Club	Groc	Drug	Conv	Category
M	H	M	-	-	-

"We are buying more products with flexible packaging overwrap because it is neater looking and allows graphics to be seen ".

Senior Buyer, Snack Food; mass merchandiser

TREND DRIVER

Decrease stocking cost

Increase dollar ring

Clean shelf appearance

Billboard effect

TREND

Increase in:

Large unit multipacks

Smaller unit multipacks

IMPACT ON FLEXIBLE PACKAGING

Shrink film

Overwrap

"We dictate packaging needs to CGCs by telling them that we need smaller case packs (fewer items) for different lines. If the CGC is only allotted 16 units on a shelf, 24 case packs are problematic".

Category Manager, grocery store

PACKAGING FORMAT

BUNDLING -- PREPARED FOOD

Mass	Club	Groc	Drug	Conv	Category
M	H	H	-	-	L

TREND DRIVER

Convenience

Perceived value to consumer

TREND

Unique combination of product offerings

IMPACT ON FLEXIBLE PACKAGING

Breathable films

Film lidding

Lay flat bags

Resealable bags

Mesh netting

Examples:
- Prepacked deli platters
- Vegetable platters
- Assorted cheese and chip platters

PACKAGING FORMAT

BUNDLING -- CLUB PACK

Mass	Club	Groc	Drug	Conv	Category
L	H	L	-	-	-

Example: basting brush with the purchase of two jars of BBQ sauce

TREND DRIVER	TREND	IMPACT ON FLEXIBLE PACKAGING
Complementary product combinations Perceived consumer value	Club-pack	Shrink film Overwrap

"Shrink film allows us to put together club packs, which have been tremendously successful and is our predominate packaging strategy, because of our focus on families ".

VP of Merchandising and Presentations; club store

PRE-PACKAGED MEAT

Mass	Club	Groc	Drug	Conv	Category
H	H	H	-	L	-

TREND DRIVER
Consumer convenience
Retailer cost savings
Increased SKU offering
Lack of skilled labor
Food safety

→

TREND
Case-ready meat/poultry
Deli products

→

IMPACT ON FLEXIBLE PACKAGING
MAP
Vacuum packaging
High quality barrier films
Resealable bags

"Case ready meat streamlines distribution, which gets the product from the manufacturer to the consumer faster. Cost savings meets our goal to pass savings on to the customer".

Public Relations – mass merchandiser

PRODUCE

Mass	Club	Groc	Drug	Conv	Category
M	M	H	-	L	-

81% of produce is still purchased from traditional grocery stores

TREND DRIVER

- Demographics
- Lifestyle
- Destination area
- Convenience
- Retailer cost savings

→

TREND

Convenience and value added packaging for produce

→

IMPACT ON FLEXIBLE PACKAGING

- Breathable films
- Resealable bags
- Film and foil lidding
- Lay flat bags

DAIRY

Mass	Club	Groc	Drug	Conv	Category
H	M	H	L	M	-

Decreased dairy consumption in 2004, but increase in sales due to higher prices received from value added offerings

TREND DRIVER
Lifestyle
Convenience
Destination area

→

TREND
On-the-go and value added packaging for dairy products

→

IMPACT ON FLEXIBLE PACKAGING
Resealable bags
Shrink sleeves
Foil lidding
Quality barrier films
Resealable, lay flat, peggable bags

FREEZER SECTION

Mass	Club	Groc	Drug	Conv	Category
H	H	H	-	L	-

Freezer products go through a five year swing in packaging, and flexible packaging is in the beginning stages of new growth

TREND DRIVER
Convenience
Lifestyle
Demographics
Product protection

→

TREND
Home meal replacements
On-the-go meal solutions

→

IMPACT ON FLEXIBLE PACKAGING
Metallized film bags
Dual ovenable bags
Resealable freezer bags
Form-fill-seal pouches
Microwaveable films

PRICE INELASTIC PRODUCTS

Mass	Club	Groc	Drug	Conv	Category
M	M	M	L	L	-

Consumers prefer value added packaging, and will pay for the product however much the price may change

TREND DRIVER

Price inelasticity

TREND

Indulgent food/goods
- Coffee
- Chocolate
- Cigarettes

IMPACT ON FLEXIBLE PACKAGING

Foil brick packs

Metallized films

Resealable packaging
- Press-to-close
- Zipping solutions
- Dead fold

SHELF STABLE FOODS

Mass	Club	Groc	Drug	Conv	Category
M	M	H	-	M	-

TREND DRIVER
Demographics
Convenience
Lifestyle

TREND
Shelf stable products

IMPACT ON FLEXIBLE PACKAGING
Aseptic packaging
High quality barrier films
Microwaveable films
Retort packaging

Mass	Club	Groc	Drug	Conv	Category
M	L	M	H	M	L

HEALTH AND BEAUTY/ PHARMACEUTICAL PACKAGING

TREND DRIVER
Improved directions/ product information
Limited shelf space
Shelf pop

→

IMPACT ON FLEXIBLE PACKAGING
Expandable labels
Shrink sleeves
Film lidding

"The upscale, premium look of shrink sleeve labels is good for shelf pop and will grow – It seems to be a good surface for razor sharp graphics and attractive colors. However, growth will be monitored by cost in some cases".

Merchandising Manager, drug store chain

Mass	Club	Groc	Drug	Conv	Category
M	L	M	H	M	L

HEALTH AND BEAUTY/ PHARMACEUTICAL PACKAGING -- CONVENIENCE

TREND DRIVER		IMPACT ON FLEXIBLE PACKAGING
Single use Travel size Dosage compliance	→	Metallized film packets Film lidding Lay flat resealable bags Blister packaging

PET FOOD

Mass	Club	Groc	Drug	Conv	Category
M	L	M	L	L	H

TREND DRIVER
Specialty product offerings
Retail space availability

IMPACT ON FLEXIBLE PACKAGING
Resealable pouches
High quality barrier film bags
Shrink film

"You will not see pricing wars within the category killer segment as you will in other retail segments"

Brand Manager – pet food company

LAWN AND GARDEN

Mass	Club	Groc	Drug	Conv	Category
L	L	L	-	-	H

TREND DRIVER
Prevention of: Product loss Leaks and spills Use of outdoor retail space

→

IMPACT ON FLEXIBLE PACKAGING
Stronger ply film bags Resealable pouches Waterproof films

"Pallets, bags and leaking products are our biggest problems with packaging. However, the ultimate purchase price is the major deciding factor for the materials we select to purchase."

Seasonal, Seed, Mulch and Soil Buyer – home improvement company

PROJECT DESCRIPTION

INDUSTRY PARTICIPANTS’ ROLES

RETAIL OVERVIEW

CONSUMER HIGHLIGHTS

IMPACT ON FLEXIBLE PACKAGING

- PACKAGING FORMAT
- FOOD PACKAGING
- NON-FOOD PACKAGING
- **PROMOTION AND DISPLAY**
- MARKETING DIFFERENTIATION
- OPERATION

OVERALL ASSESSMENT

APPENDIX

DOLLAR BINS

Mass	Club	Groc	Drug	Conv	Category
M	-	M	L	-	M

TREND DRIVER		IMPACT ON FLEXIBLE PACKAGING
Sample size Brand awareness Foot traffic	→	Lay flat bags Wrappers Light gauge shrink film Blister packs

"Dollar bins are a great way to introduce new products and create brand awareness, but packaging must meet the low cost format".

Brand Manager – pet food company

SHELF POPPING

Mass	Club	Groc	Drug	Conv	Category
H	H	H	H	H	H

Shelf pop is used to target the 43% of shoppers that make impulse purchases during their shopping trip

TREND DRIVER		IMPACT ON FLEXIBLE PACKAGING
Visual impact	→	Shrink film
Billboard effect		Shrink sleeves
Impulse purchasing		Standup pouches

PROMOTIONAL DISPLAYS

Mass	Club	Groc	Drug	Conv	Category
H	M	H	L	L	M

TREND DRIVER
Floor policy
Merchandising strategy

TREND
Shoppable pallets
End caps
Aisle hangers
Floor displays (PDQ)

IMPACT ON FLEXIBLE PACKAGING
Stretch film
Shrink film
Pouches
Peggable lay flat bags

"In an effort to improve our store image, we are moving towards a clean floor policy".

Director of Packaging, mass merchandiser

PRIVATE LABEL

Mass	Club	Groc	Drug	Conv	Category
H	H	H	H	H	H

"Our company has its own private label with which we work to develop products. Packaging generally tries to mimic national brands, but not at a significant expense ".

Director of Buying and Merchandising, drug store chain

TREND DRIVER
Higher margins
Brand development
Retailer loyalty
Foot traffic
Premium image

IMPACT ON FLEXIBLE PACKAGING
Packaging varies by product position strategy

" For something like private labels pitched at a value minded consumer, a shrink sleeve label is unnecessary and sacrifices savings".

VP Merchandising, drug store chain

INTERNET/MAIL ORDER

Mass	Club	Groc	Drug	Conv	Category
M	-	L	M	-	M

TREND DRIVER		IMPACT ON FLEXIBLE PACKAGING
Shipping/handling cost Product protection Flexibility for packaging various orders Convenience Market competitiveness	→	Packaging bags Padded envelopes Bubble wrap Rapid fill air cushions Suspension packaging

Example: Prescription drugs grew 6% in 2004, but mail order prescriptions grew 18% for drug stores

RFID

Mass	Club	Groc	Drug	Conv	Category
L	-	-	-	-	-

"We are waiting to see how Wal-Mart program turns out. If anyone can do it, they can".

Senior Vice President of Distribution, mass merchandiser

TREND DRIVER
Supply chain efficiencies
Cost savings
Product traceability and product protection
Source tagging

IMPACT ON FLEXIBLE PACKAGING
RFID
Smart labels

"At this point we are watching the Wal-Mart program. We don't yet feel the cost involved is worth the investment (of RFID)".

Director of Logistics, club store

OPERATION

POINT-TO-POINT HANDLING

Mass	Club	Groc	Drug	Conv	Category
H	H	M	L	L	L

TREND DRIVER
Decrease handling cost
Shipping efficiencies
Conveyable cases

→

TREND
Multipacks
Shoppable pallets
Aisle hangers
Floor displays (PDQ)

→

IMPACT ON FLEXIBLE PACKAGING
Stretch film
Shrink film
Pouches
Peggable lay flat bags

"Getting product on the store floor (pallets) or on shelves (trays/multipacks) with a minimum of handling is essential. It's both a JIT issue as well as a cost and labor issue".

Director Product Development and Merchandising, mass merchandiser

CONCLUSIONS

DYNAMIC RETAIL INDUSTRY

- Seven HVR segments
- Segment shift
- Segment blurring
- Retailer consolidation

WAL-MART

- "King of Retailers"
  - Impacts virtually all retail segments
- 13% seven segments
- 5% of total $3.5 trillion retail market

RETAILERS → PACKAGING

- Retailers influence packaging decisions but typically indirectly

CONCLUSIONS (cont'd)

INFLUENCE ON PACKAGING GROWTH
RETAILER STRATEGY
Differentiation Merchandising strategies
PRODUCT POSITIONING
Product properties Brand image/recognition Price Quality

KEY RETAIL TRENDS DO IMPACT PACKAGING

KEY CONSUMER TRENDS	KEY RETAILER TRENDS	FLEXIBLE PACKAGING TECHNOLOGIES MOST IMPACTED
Lifestyle changes Preferences Demographics Desire for “new”	**CONSUMER-DRIVEN** Multipacks/Bundling Dollar bins/Sample sizes Shelf-popping packaging Private labeling Promotional displays/end caps/ aisle hangers Internet and mail order offerings **OPERATIONAL** Point-to-point handling Conveyable cases Shoppable pallets Stocking trays Multipacks RFID/Advanced scanning systems Source tagging	**EXCEPTIONAL GROWTH** Shrink sleeves Mail bags, padded envelopes, bubble wrap, rapid fill inflatable cushions, suspension packaging **STRONG GROWTH** Shrink film Lidding Dual ovenable bags Retort pouches Blister packaging MAP Vacuum packaging **ABOVE AVERAGE GROWTH** Barrier films Breathable films Microwaveable films Resealable bags Standup pouches

OVERALL ASSESSMENT

RETAIL SEGMENT GROWTH AREAS

Retail sector	Growth	Key areas of packaging growth		
Internet-e	15%-20%	Bubble wrap Padded envelopes Packaging mail bags	Rapid fill air cushions Suspension packaging	
Category killer	10.5%	High quality barrier films Lay flat peggable bags	Overwrap Resealable bags	Shrink film Wrappers
Mass merchandiser	7.5%	Barrier films Blister packaging MAP Metalized film	Overwrap Resealable bags Standup pouches Shrink film	Shrink sleeves Stretch film Vacuum packaging
Club store	7.5%	Barrier films Lay flat bags MAP	Metallized film Overwrap Resealable bags	Shrink film Stretch film Vacuum packaging
Drug store	6.5%	Shrink sleeves, metallized packets, expandable labels, blister pack, lidding		

RETAIL SEGMENT GROWTH AREAS (cont'd)

Retail sector	Growth	Key areas of packaging growth		
Grocery store	2.5%	Barrier films Breathable films Dual ovenable films	Form-fill-seal Lay flat bags Lidding	Metallized films Microwaveable films Resealable films Shrink sleeves
Convenience store	2.5%	Form-fill seal Microwaveable films	Shrink sleeves	
Department store	- 4.0%	Detailed segment analysis not covered in scope, minimal impact on flexible packaging sales		

RECOMMENDATIONS FOR FLEXIBLE PACKAGING COMPANY

OVERALL

Follow consumer and retailer trends
Sponsor consumer research?
Promote new packaging concepts/solutions to CGCs

Monitor success of consumer goods products for which your packaging material is used

Evaluate products and capabilities related to high growth packaging opportunities driven by retail trends (see next page)

RECOMMENDATIONS FOR FLEXIBLE PACKAGING COMPANY (cont'd)

PACKAGING TECHNOLOGY GROWTH ESTIMATES

Exceptional growth (16% to 20%)

Shrink sleeves

Packaging mail bags/padded envelopes/ bubble wrap/ rapid fill inflatable cushions/ suspension packaging

Above average growth (5% to 8%)

Barrier films

Breathable films

Microwaveable films

Resealable bags

Standup pouches

Strong growth (10% to 15%)

Dual ovenable films

Retort pouches

Blister pack

MAP

Vacuum packaging

Shrink film

Lidding

Average growth (2% to 4%)

Stretch film

Labels

Bag-in-box

Mesh netting

Lay flat bags

Wrappers

PROJECT DESCRIPTION

INDUSTRY PARTICIPANTS' ROLES

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