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2003 Banner Year or Half-Mast?

• by *Huston Keith* ●●●●●●●●●●

“Eagles Win Super Bowl” is the headline Wall Street is hoping for at about the time you read this article. When a team from the old National Football League wins the Super Bowl, it has been a harbinger of the market being up for the year. This quirky indicator has been 90% accurate over the 30 years up to 1997, although since then it has given false readings. But old myths die hard.

What portends a good year for flexible packaging? Unlike the stock market, no one has found an indicator like Super Bowl winners or hemlines going up. But most executives are optimistic about prospects for the year. But there are storm clouds gathering on the horizon - beating of war drums, surging raw material prices and continued price pressures from customers. But a host of innovative products that bring value to customers promise continued growth.

2002 Flew Well

Despite a difficult economy, many converters reported excellent results for 2002. Sealed Air of Saddle Brook, NJ, reported quarterly sales over \$800 million for the first time ever with earnings up 17%. Protective packaging sales increased 10%, while food packaging was up 6%. Bemis (Minneapolis, MN) also had a record third quarter, with flexible packaging sales up 5% and operating profits up 9%. Winpak, in Winnipeg, MB, Canada also had a very good year with sales in the first 9 months up 4% and net earnings up 56%.

According to John Hackinson, Vice President of Marketing for Bemis's Curwood Group, “flexible packaging for food was steady to strong,” more than offsetting declines in industrial packaging. “Food typically doesn't feel the effects of a slowing economy,” he continued. Other converters that do not report results also indicated a positive 2002. Yet some described 2002 as challenging or slow. The combination of a difficult economy with raw material price increase squeezed margins severely.

What's up for 2003?

Expectations of 2003 ranged from upbeat to cautious. Sealed Air expects an excellent year, projecting earnings of \$2.40-2.45 per share even after hefty payouts on its \$500 million asbestos settlement. That is close to results expected to be announced for 2002. “We usually deliver good results in challenging years,” asserts Chip Cook, Director of Corporate Communications. He expects protective packaging to grow at one to two times the growth rate of gross domestic product.

The release of many projects will boost 2003 results, expects Hackinson. Many customers delayed new product development and introductions in 2002 to reduce costs, he continues. But the drive for more market share will cause many value-added products to be introduced by mid-year.

Similarly many customers have reduced inventory, notes Stan Bikulege, President, Pliant USA, Schaumburg, IL. He anticipates a surge of orders to fill demand as the economy picks up. 2003 looks promising for both flexographic and rotogravure printed products, a turnaround from a slow 2002, adds Jay Yakich, Director of Sales of Seville Flexpack Corporation in Oak Creek, WI.

While some other converters are equally optimistic, some are hopeful for improvement, but are concerned. Even Cook hedges his bullish forecast, saying the “wild card is the world economy and the potential impact of war on economic growth” The economy will slow down too much, states Ed Ploszaj, Vice President Business Development, Printpack, Atlanta, GA.

Many converters are expecting raw materials to continue an unprecedented increase in 2003 and hurt profitability. These additional costs are difficult to pass along, states Bikulege, anticipating also that materials may become very tight. Yakich agrees, adding that the war may cause shortages and increases. Ezra Bowen, Vice President, Marketing, North America Food, Alcan Packaging (formerly Lawson Mardon) Northbrook, IL goes further, saying that some of these increases are opportunistic and not justified by cost increases.

Saluting ever larger customers

Converters are trapped in a vise between the huge raw material suppliers and equally gigantic customers. Consolidation in the food industry has reach the point that there are just a few big players, observes Bruce Berry, President of Winpak, Winnipeg, MB.

Hackinson concurs, noting that the food companies probably cannot get much bigger. Thus he anticipates minor acquisitions to accelerate entry into new markets. These large customers will also continue to reduce the number of suppliers, he adds. Since it is difficult reduce prices more, they need partners that deliver value beyond the sale and a competitive advantage.

What's next? Ordering flexible packaging on Amazon.com along with books and CDs? Probably not, but most converters are very concerned about this trend. When a bid is posted, suppliers are invited to bid online, with results available instantaneously. The lowest bid is always posted and suppliers must enter a lower bid to be considered.

All suppliers are considered equal, states Tony Alvarez, General Manager, Hood Packaging Corporation, Decatur, GA, eliminating any consideration of differences in quality, service and performance. Although only qualified suppliers are supposed to be invited to apply, it quickly turns into a solely price-driven phenomenon. He and others are concerned that suppliers without a true understanding of costs and margin targets will bid too low and not be able to provide service. As margins erode, suppliers will exit the market and total quality will decline.

According to his survey, 65% of Internet auctions result in the incumbent keeping the business at a 15% lower price, observes Bowen. This has helped make the converter market very competitive. Several companies have been forced to close due to price pressure and excess capacity. Ploszaj agrees that it removes the value of relationships, thus Printpack does not participate. He anticipates that the practice will go away.

The Internet is geared to standard items, not custom products, asserts Mark Montsinger, Vice President, Research & Development, Bryce Corporation, Memphis, TN. Most flexible packaging films require engineering to put together. He feels that cost has been taken out of the system and the key to success is more innovation. Hackinson agrees, saying that Curwood does not participate in auctions also.

Pliant is selective about participating, Bikulege mentions, but sometimes it will win without having the lowest bid when the customer realizes that the lowest bidding party is not capable of supplying. In the grocery sack market, however, Internet bids enable down-sized purchasing groups to cover a larger amount of business, notes Don James,

President of PAK-SHER, Kilgore, TX. But auctions are not a factor in the custom products PAK-SHER provides such as folded bottom plastic bags for upscale retailers.

The consolidation of the flexible packaging industry slowed in 2002, observed most converters, mostly due to the uncertainty of the economy. Smaller suppliers are being squeezed due to increasing costs, observed both Cook and Hackinson, which may provide selective acquisition opportunities. Larger food companies are looking for “one-stop shopping,” Berry notes, so he will be acquiring smaller companies. Pliant’s owner JP Morgan Chase has also given its blessing to seek acquisitions that expand current markets or launch them into new markets, states Bikulege. An example is Decora, maker of Contact® Brand products, which will give Pliant opportunities to introduce other products in the retail market.

Many markets waving proudly

From 2002 to 2005, the number of **case-ready meat** packages were projected to grow 33% annually according to Packaging Strategies’ study *Case Ready Meat Packaging Systems 2000-2005*. Cook says Sealed Air now has \$200 million in sales and expects it to grow at double digits. It has the broadest product line in the industry with laminated barrier trays, foam trays, absorbent pads, films and bags. It can provide both “high oxygen” and “low-oxygen” systems. Even its standby shrink bags are increasingly used to merchandise meat in the case, such as primals or fresh ribs. Berry sees great potential for Winpak, with its barrier trays, films and master bag. Ploszaj is optimistic about Printpack’s barrier film and tray products for this market.

Stand-up pouches are expected to continue their long-running healthy growth. Montsinger sees significant conversion from paperboard rigid containers. In frozen foods, pouches are replacing cheaper surface printed polyethylene to add value and differentiate products, states Hackinson. Yakich is seeing considerable interest in rollstock as more customers install form-fill-seal machines to package a variety of foods. He feels pre-made pouches are still big, although as product volume grows, customers save by switching to rollstock. More of Hood’s pouch customers are also investing in form-fill-seal machines, notes Alvarez. Shapes and spouts are becoming more popular, observes Berry, helping make its pouches and rollstock a fast-growing product line.

Closely tied to the success of stand-up pouches is the growth of **zipper reclosables**. However, they are used on bags other than stand-up pouches, because they provide convenience and ease of use, states Montsinger. The growth of Innolok machines to apply transverse zippers to rollstock is also growing rapidly, apparently because of the speed advantage of not sealing through the zipper on in-line application.

While only tuna and catfood are currently commercial in **retort pouches** to date, some see significant potential. The success in Europe and Asia portends an enormous future here, says Berry. While embryonic, Bowen foresees conversion of canned products. Alcan’s 15 plants in Europe give it an edge in technology as the market catches up, he claims. Its clear high barrier Ceramis® silicon dioxide film can replace foil, he asserts. Recently Alcan won an award by printing with metallic ink on this film for a foil conversion that saved the customer money. The introduction of high quality products is removing the stigma of blandness associated with retort pouches, believes Hackinson, and will lead to growth in value-added, single serve foods.

Growth projections of 19% annually forecast for **shrink labels** in *Opportunities For Shrink Film Labels For Bottles* by Keymark Associates seem to be a reality. Shrink label sales, along with pharmaceutical packaging helped Alcoa Flexible Packaging Products, Richmond, VA, have a good year in 2002, stated Terry Copenhaver, Commercial Manager, Shrink Sleeve Labels. While most labels are in beverage and dairy, she sees growth in other products. For example, Igloo is introducing a line of coolers with labels depicting different themes such as the beach and various sports. New oriented polystyrene (OPS) film technology from sister company Kama will provide lower cost labels, she adds. Market growth and recent print awards in US and Canada is spurring Alcan's shrink label sales, asserts Bowen.

The successful, award winning introduction of Nestlé's Buitoni pasta with Cryovac® OS Films will pave the way to growth for **ready-to-eat meals**, says Cook. The films greatly extend the shelf life, allowing longer production runs and wider retail distribution. Plus it is invisible to the consumer. Heat and eat packaging will also be popular, says Hackinson, using polypropylene (PP) microwavable trays for with an easy open, self-venting lid. The new Hot N Handy, non-laminated stand-up pouch from Robbie Manufacturing, Lenexa, KS, is rapidly replacing trays and domes for rotisserie chicken because consumers prefer it and its lower cost, says Jim Guenther, Director of Marketing.

Tubular packaging targeted towards children is hot, asserts Hackinson, beginning with yogurt. Now, puddings, gelatins, and fruit snacks are using this packaging to be able to eat on the run without utensils. New products for adults are being developed for commuters and other portable eating occasions.

In **protective packaging**, Sealed Air's inflatable bubble wrap is an exciting new product offering substantial freight savings, notes Cook. Two pallets hold the same amount of wrapping material as one truckload. It is expected to replace paper. Fill-Air™ inflatable packaging continues to replace peanuts at customers such as Amazon.com, which must fill limited box sizes to accommodate an infinite number of product sizes. Furthermore it saves space and is cleaner.

High barrier films promise strong growth in 2003 for **medical packaging** forecasts Jerry Bennish, President, Rexam Medical Packaging Americas, Mundelein, IL. Many new drugs and instruments such as a drug coated stent need much higher moisture and oxygen barriers offered in the INTEGRA® Flex. Materials used include Aclar, silicon dioxide films, polyvinylidene (PVdC) coated films, foil laminations and new polymers such as cyclic olefin copolymers (COC). In the INTEGRA® Peel, new films offering better strength, easy peel, easier seal, and a wider operating window for temperature sensitive products. But like other flexible packaging products, continued cost pressures are a problem. He is increasingly concerned that these savings may introduce unacceptable risks of infection.

Long may it wave.

With the plethora of new products, flexible packaging converters should be sheltered from the storm clouds of war and the tentative economy. But as echoed by these industry leaders, adding value for customers will be essential to keeping the banner atop the pole..

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