



WHAT'S NEW AT PBi?

Specialty Pet Stores, Farm & Feed Stores: A Second Look at the Flexible Packaging Smorgasbord (2008)

"... We take another walk down the petfood packaging smorgasbord with the question in mind: Does the package format drive higher sales revenue?"

This is letter #5 in our series on flexible packaging in the petfood and feed segments.

In this letter, we take another walk down the petfood packaging smorgasbord with the question in mind: Does the package format drive higher sales revenue? The second run through offers a closer look at the data and new opportunities to contemplate package styles and the impact on retail dollars in the petfood and feed segments. It is interesting to consider the impact on sales dollars. Sales and margins play an important part of decisions in all companies. This is much more enjoyable than the first plate of information; The PBi team took time to savor and discuss the tasty data.

Note: We did not include grocery stores. In our opinion, grocery stores are dominated by major brands' cost sensitive large private label companies. We look at specialty segments for innovations.

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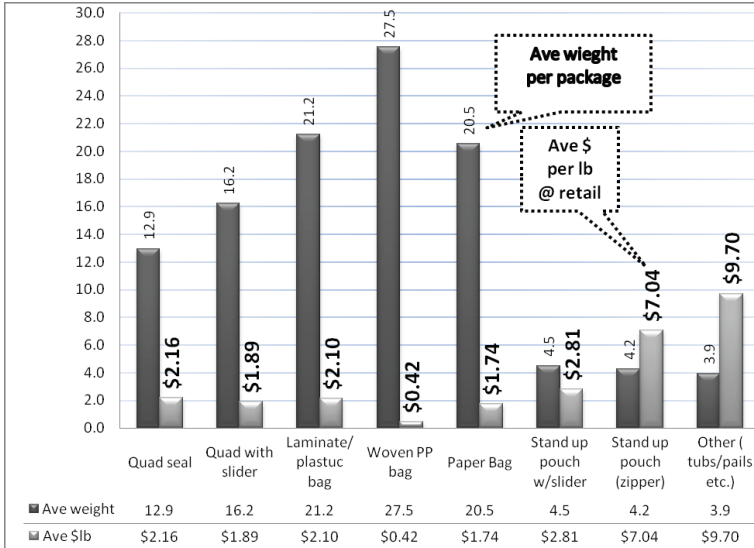
In this article, we attempt to summarize package formats versus retail sales dollars per pound. In the next few pages we offer a chart and a summary of the data.

Our chart summarizes a review of over 200 retail packages. We condensed the information into a graphic illustration of two criteria:

- a) Package Format: What type of package is it?
- b) Average Weight: What is the average weight of product put into the package format?
- c) Average Price Per Pound in Each Format: Retail price per pound.

In this document we dive into more details about price/lb and package format at retail stores (price versus packaging offers a great pile of data for analysis – this is just too much fun... a packaging smorgasbord!). The results are interesting.

Note: Cursory cost studies at the manufacturing level indicate the added costs of some new package formats justify a change. We can only estimate the impact on margins at the manufacturing facility given our vantage point.



The Data:

Notes on chart:

- **Total Packages Reviewed:** 218
- **Avg Weight:** The average weight of product put into the specific format (e.g. our study found the average weight in the paper bag is 20 ½ lbs).
- **Ave \$/lb:** The average cost per pound at retail. (e.g the average Stand Up Pouch in the study holds 4.2lbs of product and yields \$7.04/lb at retail)

Summary of Data:

We asked the question earlier: does a package format drive higher sales revenue? Unfortunately that answer is not as easy as “yes” or “no”. That said, there are some observations that can be made by reviewing the data and using general knowledge we gathered from the industry. We will not touch on every package format, but highlight a couple of key observations.

- 1) **Woven Polypropylene:** Typically seen in the feed market. Woven polypropylene bags typically garner a lower price per pound than other formats (\$0.42/lb). To a certain extent this makes sense – the format is used extensively in the feed market. But don’t count out the woven bag in the retail market.

Several large branded companies have switched to this format. There are also heat sealable versions of the woven bag coming into the market that offer the strength of the woven bag but with heat sealable closure.

- 2) **Paper Bag versus Laminate Bag:** The ubiquitous paper bag has been a stalwart in the pet food industry for many years and we don’t see major changes any time soon. Nonetheless, the market is trending towards laminate packaging – especially in the premium and super premium markets.

The data indicates that diets in paper change less than diets in laminates by about 15-20%. (In early 2008, avg paper price/lb = \$ 1.74 versus avg laminate price/lb = \$ 2.10).

The addition of other value added packaging options such as Quad Seal, Quad Seal w/Slider, Stand-Up Pouch etc. makes price disparity continue to grow. It also seems to indicate perception of consumer conveniences such as the easy opening, built in re-closure and other value added features garners higher retail prices.

- 3) **Quad Seal and Stand-up Pouch with Sliders:** One interesting anomaly in the price per pound study is at first blush the slider bag does not appear to guarantee higher retail prices than a barrier bag with either a zipper or no re-closure device. However, the slider is a relatively new closure device to the pet food market. The number of products packaged in the format is relatively small as compared to the non-closure or zipper format (e.g. 5 examples of the Quad Seal Slider versus 36 examples of a Quad Seal Zipper on no re-closure device). Because the number of slider bags in the market is so small, our analysis is skewed.
- 4) **Stand-Up Pouch:** As with most other markets, the Stand-up Pouch (SUP) has become a very popular format. In the Petfood industry, the stand-up pouch is used to package everything from bedding materials for marsupials to high-end dehydrated pet foods. Because the great disparity of the product, the SUP tends to garner one of the higher price per pound in the study. Petfood treats, snacks and other higher end products flock to the stand-up pouch; therefore the price per pound is high.

Conclusions:

As the market continues to diversify (premium, super premium, holistic etc.) the packaging will migrate into high performing, value added packages like the stand-up pouch. Consumers love the stand-up pouch and price per pound is high. Manufacturers and marketers are continuing to add value added features such as easy-to-open packages, handles, built in re-closure devices etc, so long as consumers are willing to pay for them. In our view, petfood packaging and change are synonymous.