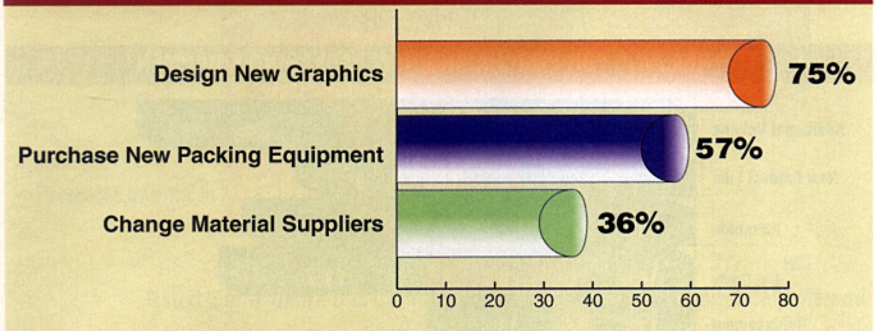
MARKETPLACE CHALLENGES INTENSIFY PACKAGING DEMANDS

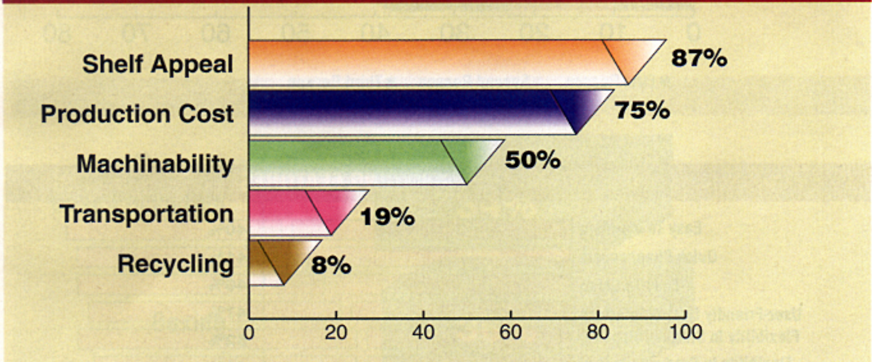
Candy Industry's latest survey reaffirms that processors primarily want quality, value and timely delivery from their suppliers.

by Huston Keith

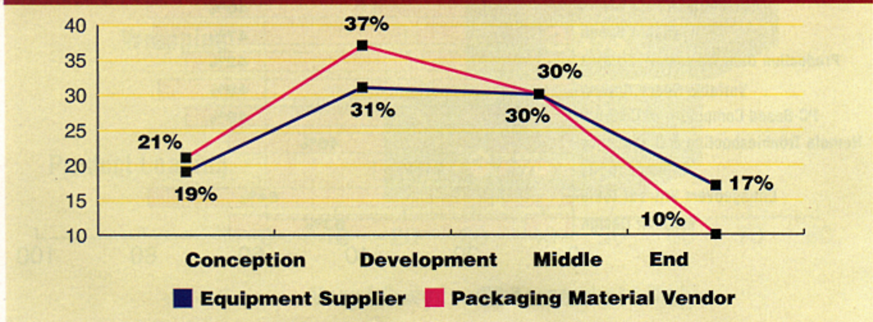
PACKAGING PLANS IN NEXT 12 MONTHS



IMPORTANT CONCERNS IN DEVELOPING NEW PACKAGING



INVOLVEMENT IN DEVELOPMENT STAGE OF NEW PRODUCTS



In these uncertain times, candy processors want to give a KISS to their packaging suppliers. No, it's not a romantic gift of candy nor a sudden surge of affection in the supply chain. It's Keep It Simple, Supplier. More than ever, suppliers need to stick to the basics to help processors be successful in providing product to impulsive consumers.

As Candy Industry's survey of nearly 200 candy processors details, everyone in the industry understands the importance and marketing value of packaging. At the same time, everyone is looking to contain costs while improving efficiencies and adding consumer appeal.

Not surprisingly, most processors plan to change graphics during the course of the next 12 months. As William Latsha, corporate buyer for JoEl, Inc. in Elizabeth, Pa., points out, candy is an impulse item. "No one puts candy on the shopping list," he says. Thus, the need for eye appeal, convenience,

Giving a new look to an existing product (40%) is the leading reason to change graphics. Naturally, new product introductions factor highly as well, representing nearly a third of the reasons manufacturers need new packaging. Updates factor highly, accounting for 22% of the times packaging

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changes are made.

Although most candy manufacturers plan to change graphics this year, about four-fifths claim that they have already revamped graphics about once a year (five times or less over the past five years). However, 11% have changed 20 or more times, driving the average up to seven times.

The preferred method of printing continues to be flexography (37%), followed by rotogravure (21%). Offset and lithography are favored by 16% and 11%, respectively. Half of the candy manufacturers polled feel their preferred process offers higher quality, while a third say it has a lower overall cost.

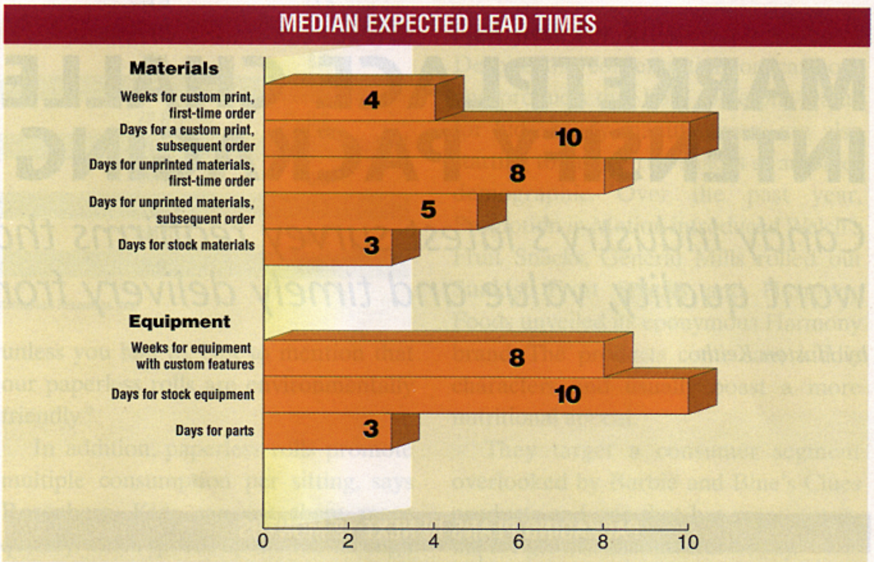
In developing new products, processors usually involve packaging suppliers in the development or middle stage. Interestingly, one of five even include them at the conception stage. Given the ongoing compression of schedules in today's competitive environment, it's imperative that confectioners involve suppliers early, particularly when the expected median lead times for custom materials and equipment are four and eight weeks, respectively. Lead time for subsequent custom material orders drops to 10 days, and unprinted materials to eight and five for first and subsequent orders, respectively.

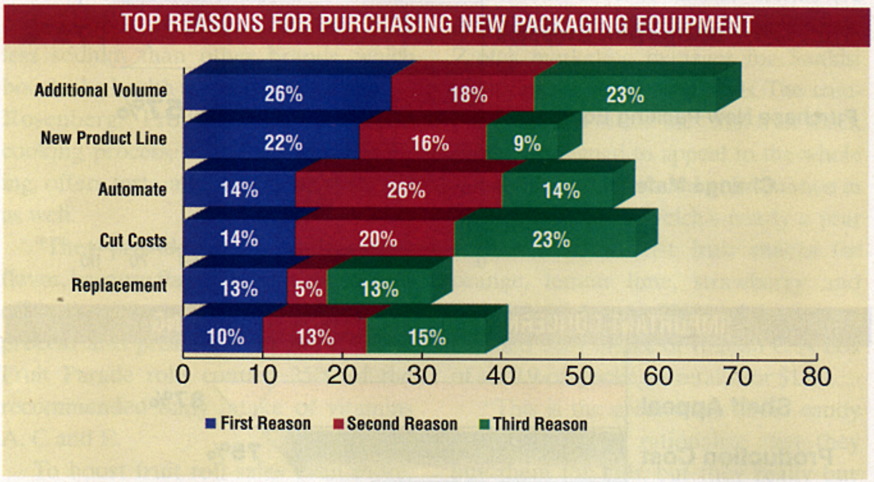
Equipping for the future

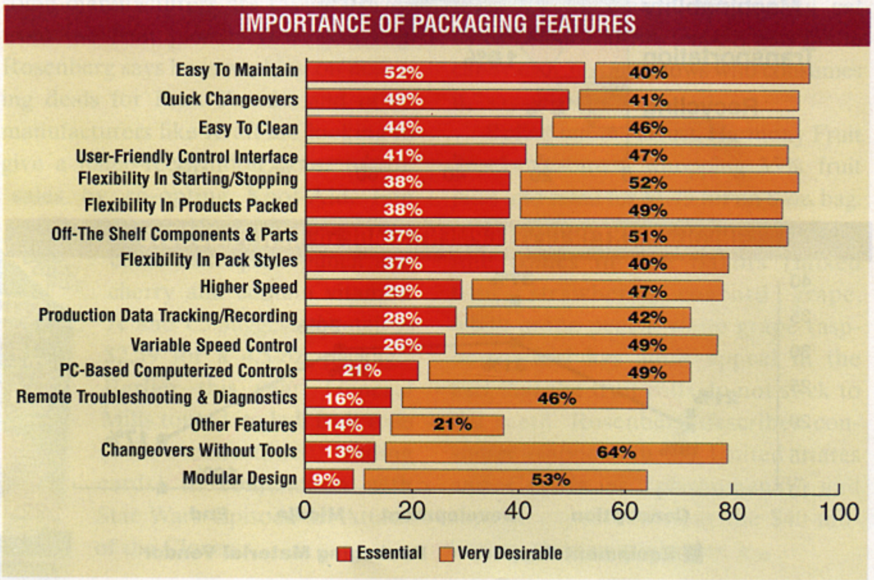
New packaging equipment purchases are planned in 12 months by more than half of processors. Additional volume or a new product line are the chief reasons, followed by automating and cutting costs.

Half or more processors have basic packaging machines such as stretch wrapping, vertical form-fill-seal, overwrapping, flow-wrapping and case sealing. Nearly half have twist-wrapping and box forming equipment. A third or less have other machines.

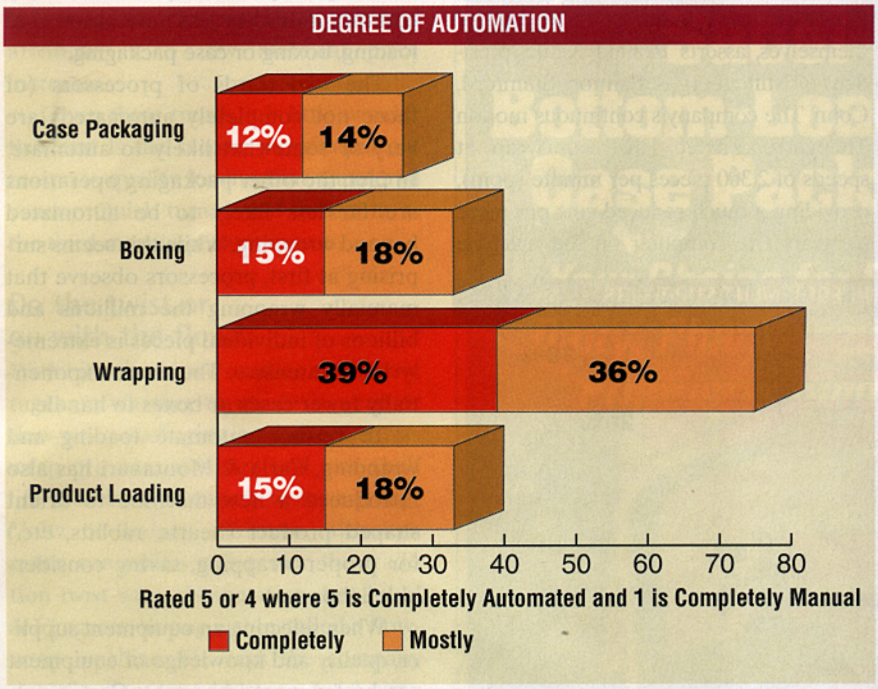
Jelly Belly Candy Co. of Fairfield,

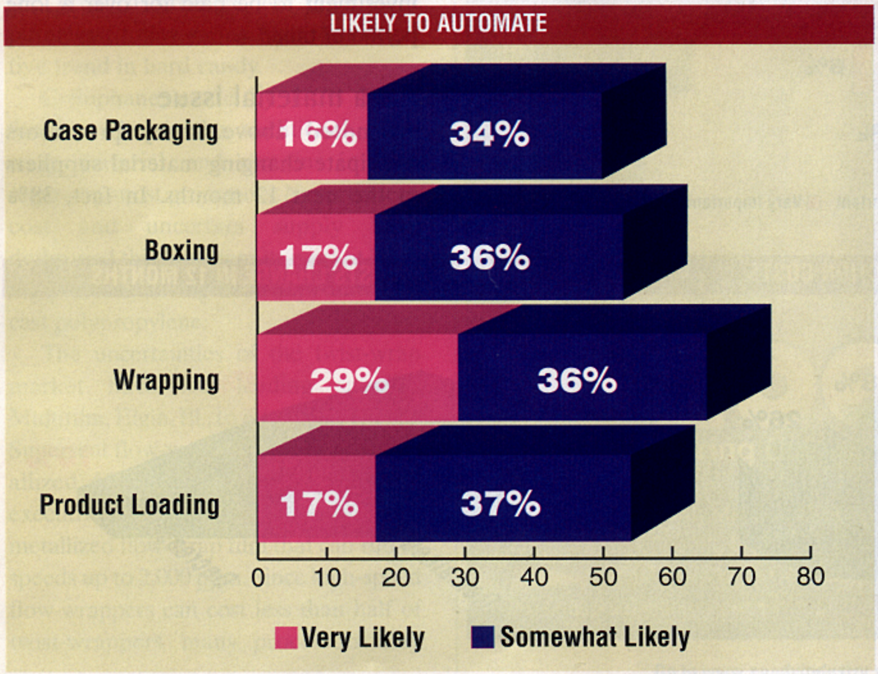






Calif., is one of the few candy companies using robotics, primarily in its palletizing operation. Dave Klablunde, vice president, sales, says the robots take products from the automated case-packing and arrange them on pallets for space-saving shipping and storage. While a great boon to productivity, they also serve as a side attraction for the numerous tours the company conducts daily. One of the robots entertains thousands of people on the plant tour by wearing a saddle carrying Mr. Jelly Belly. Another robots picks up a sign thanking people for the tour.





As for buying equipment this coming year, about 15-20% of processors plan to buy any given piece of equipment, although only 9% plan to buy twist-wrapping machines and 7% bunch wrapping and palletizing equipment. More plan to buy flow-wrapping (22%) and vertical form/fill/seal (23%).

Sugar pill hard to swallow

The dramatic decline in domestic hard candy manufacturing accounts for the reduced need for twist and bunch wrapping machines. Hard candy manufacturers say they are being driven offshore or, worse, out of business by high domestic sugar prices supported by powerful politicians. With world prices at a third or less, importers from Mexico, Canada and other locations are undercutting domestic prices.

Processors are abandoning U.S. production facilities in droves. Farley's & Sathers just closed its last domestic hard candy plant in May, having quietly arranged various offshore and domestic sources. Several independent companies have built plants in tax-favored maquiladora zones in Mexico. Spangler contracted with Sunrise Confection to make candy canes in its new plant in Mexico. Kraft's LifeSavers is in the process of moving production to Canada. Brach's is closing their giant Chicago plant by 2003 – contracting Arcor of Argentina for half its production and is developing a facility in Mexico for the other half.

While, in most cases, these plants maintain domestic packaging sources – many offshore producers have established their local sources. Amy Voltz, vice president of Judson-Atkinson Candies, San Antonio, asserts that it is impossible for a domestic manufacturer

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to compete in this environment. The only alternative is to develop unique items not being made elsewhere.

Back to the basics

When they do buy machines, candy processors primarily want machines that are easy to operate and maintain. Off-the-shelf components and parts are also important. Flexibility also ranks high, whether it is for starting/stopping, using to pack a variety of products, or changing pack styles. To meet this need, the new V-Pack 2 wrapping machine with quick style changeover allows users to switch from double twist to diefold in five minutes, claims Moreno Roncato, president of Carle & Montanari USA, Raleigh, N.C.

Higher speed is not as essential for most processors, nor are often touted technologies such as remote troubleshooting & diagnostics, PC-based computerized controls, variable speed control and production data tracking/recording. However, these features often pay for themselves, asserts Ronald Kehle, president of Miltenberg & Samton, Stamford, Conn. The company's continuous motion Theegarten-Pactec EK4 can wrap at speeds of 2,300 pieces per minute (ppm), providing a much reduced cost per piece to wrap. The computer on the machine can provide a history to pinpoint problems and to ensure proper maintainance. A modem can also be attached for remote troubleshooting to save expensive service calls and expensive downtime.

Wrapping is by far the most automated part of candy packaging operations, with 75% of processors claiming they are completely or mostly automated. By contrast, a third or less have automated loading, boxing or case packaging.

The two thirds of processors (of those not completely automated) are very or somewhat likely to automate. In fact, the other packaging operations are far less likely to be automated beyond wrapping. While this seems surprising at first, processors observe that manually wrapping the millions and billions of individual pieces is extremely labor-intensive. There are exponentially fewer cases or boxes to handle.

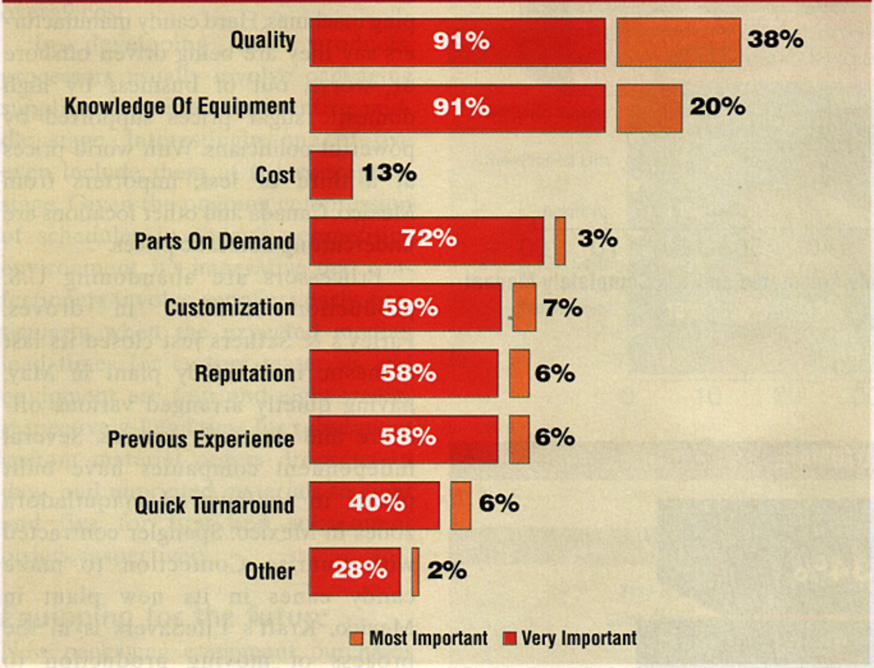
To further automate loading and wrapping, Carle & Montanari has also introduced a new machine to orient shaped product (hearts, rabbits, etc.) for proper wrapping, saving considerable labor cost

When selecting an equipment supplier, quality and knowledge of equipment are by far most important. Cost is secondary, because the purchase is an investment to be paid for over a long period of time.

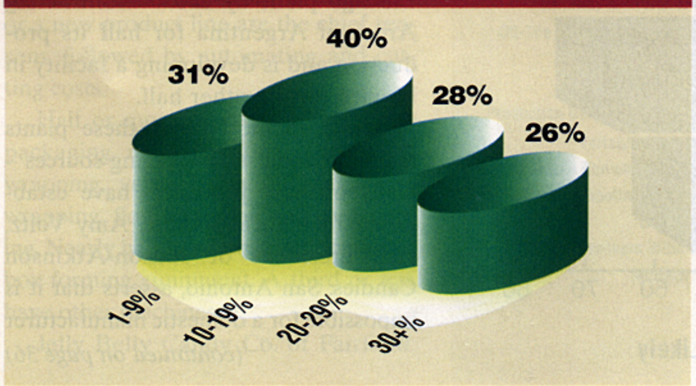
It's a material issue

As noted above, many processors anticipate changing material suppliers in the next 12 months. In fact, 38%

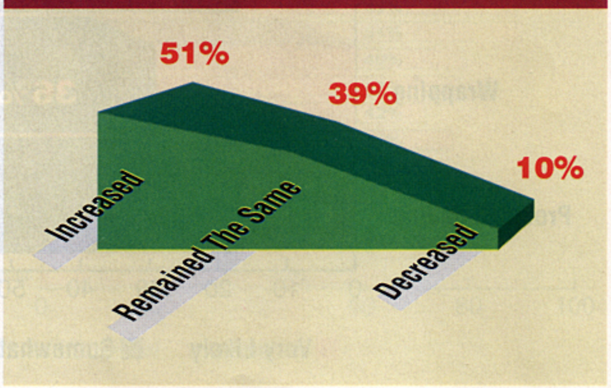
CONSIDERATIONS IN SELECTING EQUIPMENT SUPPLIERS



PACKAGING PERCENT OF PRODUCTION COSTS



PACKAGING COSTS CHANGE IN 12 MONTHS



have reduced the number of packaging suppliers in the past 12 months, half to save money. Fewer suppliers, however, are easier to manage also, but cost is a major concern.

Packaging now averages 17% of production costs, and exceeds 20% for half of the processors. Another 50% also report that packaging costs have increased over the past 12 months and attribute it to raw material price increases.

Given these trends, it is little wonder that cost is the second most important reason to quality for choosing a material vendor. Quick turnaround factors in as the third most important reason.

Do the twist or go with the flow?

With bite-sized hard candies, the debate rages on whether to use twist-wrap or flow-wrap packaging equipment. Flow-wrap provides a better seal and shelf life than twist or bunch wrapping, says Voltz of Judson-Atkinson, although many consumers still prefer the tradition twist-wrap presentation. Latsha of JoEl agrees, having just installed a flow-wrap machine. He says the company doesn't plan to add more twist-wrap equipment. Both insist, however, that the greatest problem for equipment purchases today stems from the negative trend in hard candy.

Cellophane, made by UCB Films, Smyrna, Ga., is the traditional twist-wrap material, and remains in high regard by most processors. Nevertheless, cost and uncertain supply have dethroned this film from its market leading position, having been supplanted by cast polypropylene.

The uncertainties of the twist-wrap market have led leading supplier Multifilm, Elgin, Ill., to expand its unique Superseal flow-wrap line to include metallized films. Olle Mannertorp, chief executive officer, claims it is the only metallized flow-wrap film that can run as speeds up to 2,000 ppm. Since high-speed flow-wrappers can cost less than half of twist-wrappers, many processors may replace aging twist-wrap machines.

Despite the tenuous outlook for twist-wrap, material suppliers still are developing new materials to meet market needs. Oriented polyethylene films from ExxonMobil (Macedon, N.Y.) that are converted by Printpack, Atlanta, have replaced cellophane for Hershey's Jolly Rancher products last year. And Cargill Dow, Minneapolis, says its polylactic acid biodegradable film – a potentially great calling card for environmentally conscious con-

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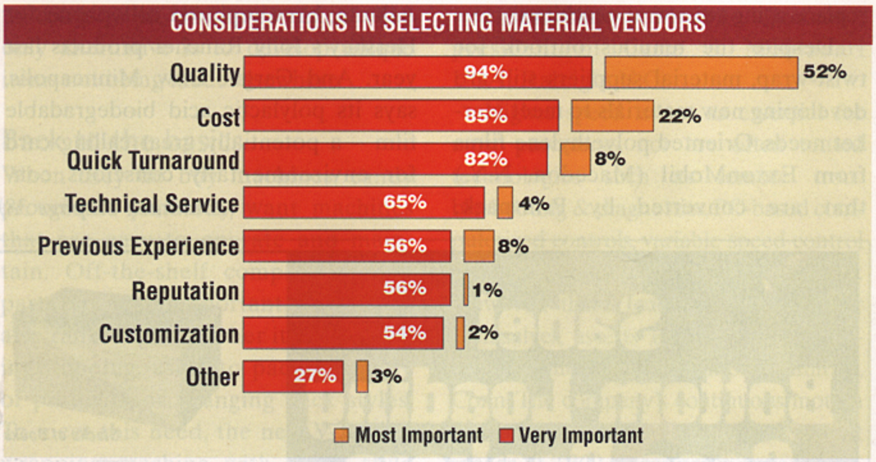

sumers — has properties suitable for twist-wrap.

Now SKC America, Covington, Ga., has introduced a modified polyethylene terephthalate (PET) twist film. According to John Kim, business manager, its sparkle, deadfold and other properties rival cellophane at a competitive cost. A leading hard candy manufacturer is already successfully using it, although it will not be officially introduced until Pack Expo in November 2002.

Tradition, which often translates to comfort, continues to play a role in candy marketing. For example, to provide the seal of flow-wrap while retaining the classic presentation of twist-wrap, Theegarten-Pactec has modified its CHD double twist to add long seam and end seals. According to Ronald Kehle, president of Theegarten's U.S. representative Miltenberg & Samton, Stamford, Conn., it is being used successfully to wrap M&M/Mars' recently introduced Celebrations assortment of bite-sized chocolate bars.

Be it twist- or flow-wrap, a carton or a pouch, flexo or roto, packaging suppliers must adjust their product line to the marketplace. As one lollipop marketing manager polled noted, suppliers need to react "to changing trends in the marketplace and to our customers' constantly changing requirements."

It's key to having a long shelf life.

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