

RETAIL IS CHANGING CAN PAPERBOARD KEEP PACE

TOM ORIS

Agenda

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- ▶ **The Ever Changing Landscape**
 - ▶ **Consumers**
 - ▶ **Customers**
- ▶ **Brand Owners**
- ▶ **What Will Change?**
- ▶ **Where do you go?**
- ▶ **Two things to Remember**
- ▶ **Two things to Do**
- ▶ **Q&A**

The Ever Changing Landscape Society

▶ 1970:

- ▶ We had THREE major TV networks
- ▶ Most people purchased either GM, Ford, Chrysler cars
- ▶ Fast food consisted of McDonald's, Burger King (burgers)
- ▶ Most people went to Sears for something (appliances, clothes)

▶ Today:

- ▶ We have 200+ channels of television
- ▶ The Big 3, Toyota, Nissan, Honda, Hyundai, Mazda, Kia and many others
- ▶ Fast food has grown, and Fast Casual has been created
- ▶ Amazon, Walmart, Best Buy, Home Depot

The Ever Changing Landscape

CONSUMERS

- ▶ GI Generation: First 26 years of the 20th Century
 - ▶ Sadly, most have past
- ▶ Mature/Silents: 1927 – 1945
 - ▶ Older, retired – fading buying power
- ▶ The Baby Boomers: 1946 - 1964
 - ▶ For many in this room, THIS was the generation that fueled American economic power!
 - ▶ Buy, buy, buy
 - ▶ First TV generation, which changed just about everything from a Marketing perspective, which initiated the change in the paperboard industry!

The Ever Changing Landscape CONSUMERS

- ▶ Gen X: 1965 – 1980
 - ▶ The Latchkey kids – two working parent households
 - ▶ Grew up with Brand names
- ▶ Millennial: 1981 – 2000
 - ▶ The largest generation in terms of size in US History at the time
 - ▶ First digital generation
 - ▶ Unlimited access to information
- ▶ Gen Z: 2001 – Present
 - ▶ Will be the largest generation in US History
 - ▶ Will CHANGE the landscape even more than Millennial

The Ever Changing Landscape

CUSTOMERS

- ▶ Retail is changing dramatically!!!
 - ▶ Numerous retailers are struggling as Shopping Centers and Malls continue to see lower consumer volume
- ▶ Amazon leads the online shopping charge
 - ▶ E-commerce sales are anticipated to grow 23% this year globally (\$2.29 trillion) & 4x the pace of traditional sales and could DOUBLE within 4 years
- ▶ Consolidation in Grocery over the past few years:
 - ▶ Amazon – Whole Foods
 - ▶ Safeway – Albertsons
 - ▶ Dollar Tree – Family Tree
 - ▶ Aldi Expansion and the Entrance of Lidl

The Ever Changing Landscape

CUSTOMERS

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- ▶ The top 25 U.S. food and beverage companies have lost an equivalent of \$18 billion in market share since 2009
- ▶ Retailers are giving LESS shelf space for big brands, to make room other options
 - ▶ Regional Local Brands, Organics, non-GMO's, all naturals, convenience packaging, more flavors, Private Label
- ▶ Choices, choices and more choices
 - ▶ At a time where consumers have more and more choices, Brand Owners have less and less options on whom to conduct business with when it comes to packaging

PRIVATE LABEL



ORGANICS
NON-GMO
ALL NATURAL
CLEAN LABELS
ANTI-BRAND



RETAILER PRESSURE

The Brand Owners

- ▶ **“How can we remake ourselves?”**

Richard Smucker, CEO of Smuckers

- ▶ **“We understand that increasing numbers of consumers are seeking authentic, genuine food experiences and we know that they are skeptical of the ability of large, long-established food companies to deliver them.”**

Campbell Soup Co. CEO Denise Morrison

- ▶ **“I’ve been doing this for 37 years, and this is the most dynamic, disruptive, and transformational time that I’ve seen in my career.”**

Steve Hughes, former CEO of Boulder Brands

The Brand Owners

- ▶ WHO are the Brand Owners focusing on today (or who should they be focused on?)

MOSTLY MELLENIALS!!!

- ▶ WHO are the Brand Owners going to focus on tomorrow (or who should they be focused on?)

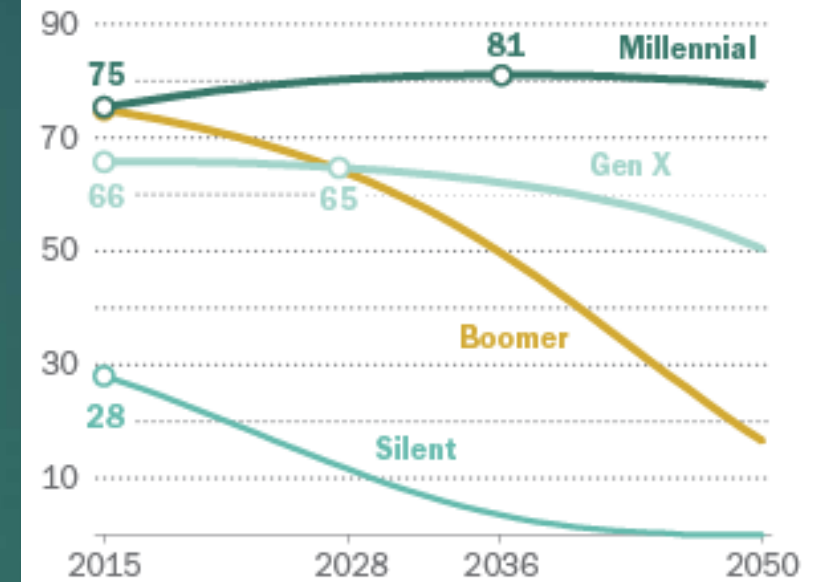
GEN X!!!

- ▶ Brand Loyalty is DYING!

- ▶ 2015 study by Catalina, a leading digital and consumer loyalty firm, noted that out of the top 100 CPG Brands, 90 have experienced share declines.

Projected population by generation

In millions



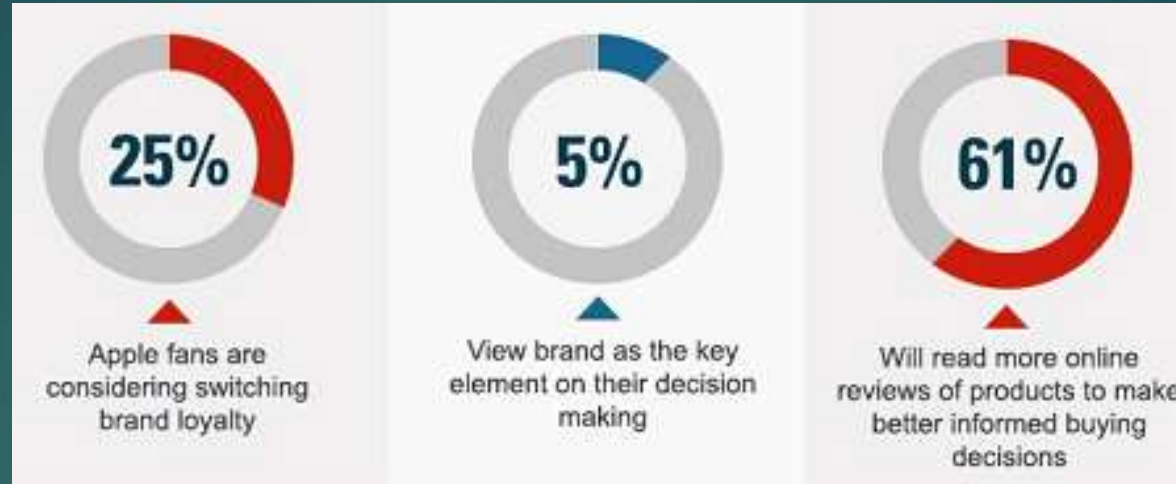
Note: Millennials refers to the population ages 18 to 34 as of 2015.

Source: Pew Research Center tabulations of U.S. Census Bureau population projections released December 2014 and 2015 population estimates

PEW RESEARCH CENTER

The Brand Owners

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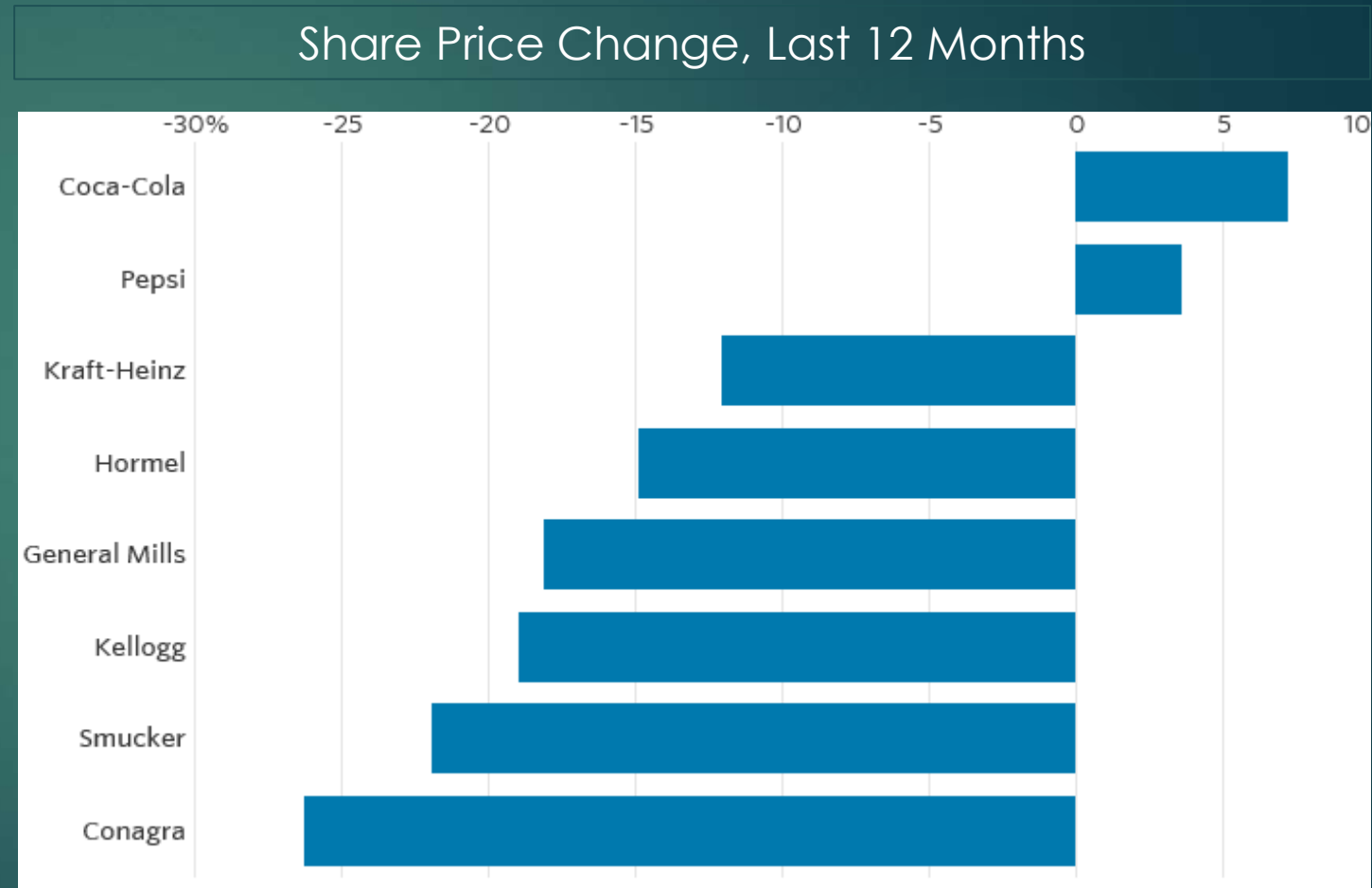
- ▶ Consumers today are not afraid of change, and in fact, they embrace it
 - ▶ “Loyalty” in general, is not what it used to be
- ▶ Large CPG players tend to have long lead times, capital requirements, shareholders and the need to constantly meet performance targets
 - ▶ Start ups, virtual companies are entering the marketplace **QUICKLY, EFFICIENTLY**
 - ▶ Big Companies are starting to pay significant sums of money to enter this market by buying these virtual companies, start ups
 - ▶ Customers are investing **MORE** in Private Label Brands

The Brand Owners

Why CEOs of Food Firms Are Exiting

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- ▶ 0 of the Top 10 Largest Food Companies (by revenue) have outperformed the S&P 500
- ▶ “To really move the needle, though, they will have to focus ruthlessly on costs.”
- ▶ Since 2015, CEO’s are leaving:
 - ▶ Kellogg
 - ▶ General Mills
 - ▶ Mondelez
 - ▶ Hormel
 - ▶ Hershey
 - ▶ Nestle



What Will Change (what is changing)?

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▶ PRIVATE LABEL

- ▶ It continues to grow and continues to CHANGE
 - ▶ 10-20 years ago, private label was the “cheaper” alternative
 - ▶ Lower product cost
 - ▶ Lower quality/consumer experience
 - ▶ Today: Private Label is competing on all levels with Brands
 - ▶ Consumer now expects the same level of quality as Brands AT a lower cost
 - ▶ Customers are putting more and more emphasis on their private label brands
 - ▶ Walmart has been giving more shelf space to its brand at the expense of Brands
 - ▶ Customers have multiple private label brands

KIRKLAND
Signature



What Will Change?

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▶ E-Commerce

- ▶ Amazon is KING here but Walmart is a solid #2
- ▶ E-Commerce is going to grow dramatically over the next 10 years.

▶ Superstores

- ▶ Walmart has a strong position, but I don't know how much investment will be made with any retailer on the super store

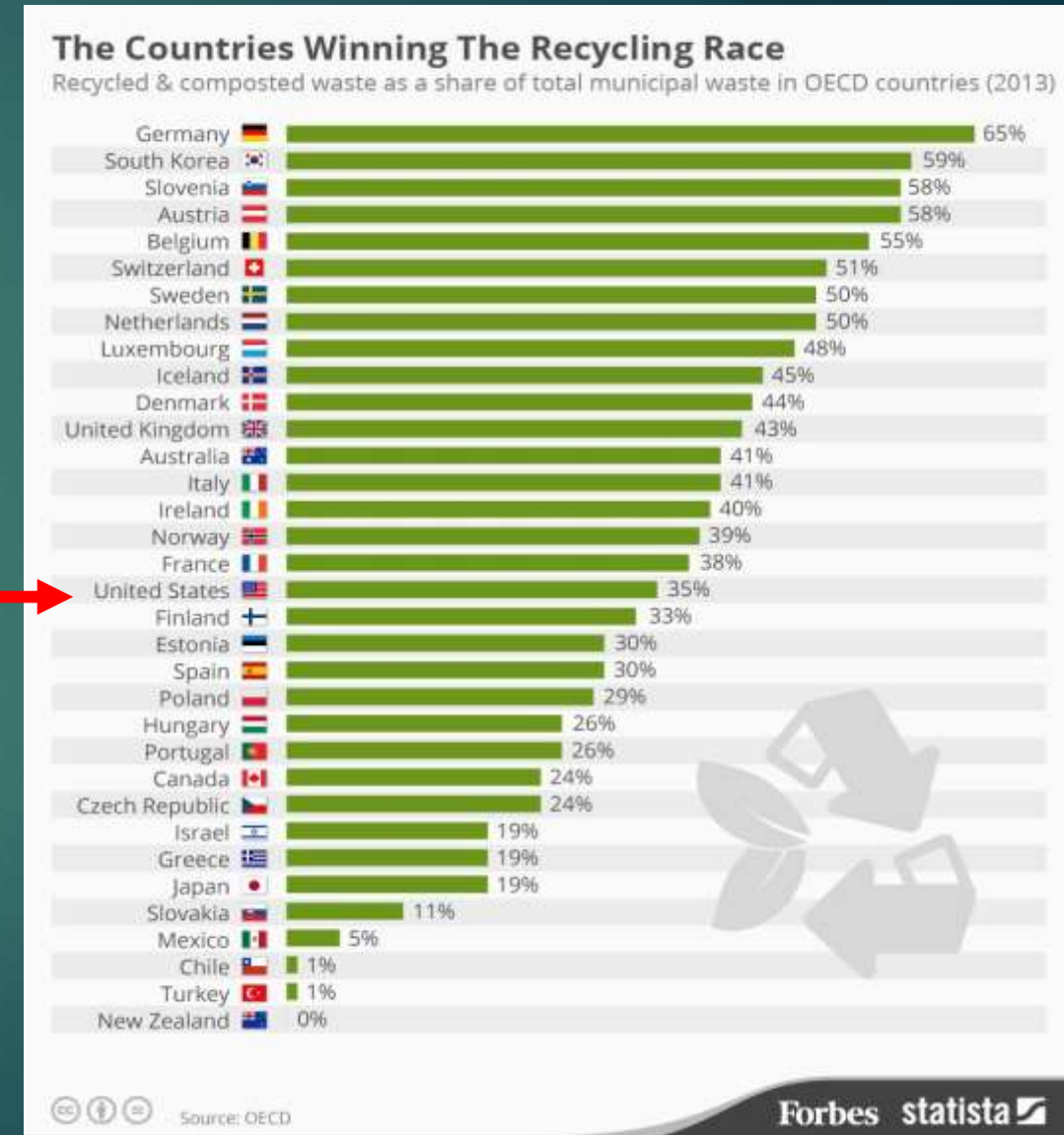
▶ Watch out for ALDI / LIDL

- ▶ Smaller, focused stores offering good quality at lower prices, while staying away from food segments that require heavy investment (such as bakeries)

What Will Change?

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- ▶ Continued and increased awareness on the environment
 - ▶ Recyclability
- ▶ The Clinton Global Initiative and Microsoft Poll:
 - ▶ 54% of Millennial believe they can make a significant contribution to better the environment
 - ▶ 66% said they are willing to pay more for products from sustainability focused companies
 - ▶ FYI... only 24% said their generation was working harder than their parents 😊



**WHAT DOES ALL THIS INFO
MEAN FOR YOU AND
YOUR INDUSTRY???**

PAPERBOARD INDUSTRY

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▶ What do WE, the Brand Owners, need FROM YOU?

▶ SPEED

▶ SPEED TO MARKET!

▶ We need to make products consumers WANT, not making products we try to get consumers to BUY, and we need it NOW.... As consumer trends are moving faster and competition for consumer dollars is fierce!

▶ Shorter Lead Times

▶ Strong and Responsive Graphics Support

▶ Products are moving from concept to full production within months, not a year or 18 months.

▶ Service the heck out of your accounts!!

▶ Service is going to play a bigger role in the future

PAPERBOARD INDUSTRY

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▶ FLEXIBILITY

▶ New Flavors, New Ingredients, Clean Labels.....equals

▶ SMALLER run sizes

▶ MULTIPLE GRAPHICS

▶ ECG

▶ What role will DIGITAL PRINTING play in the future?

▶ My Guess.... A BIG ROLE!!

▶ For Samples

▶ For Actual Production Quantities

▶ Support of Promotions:

▶ Labeling / Ink Jet Coding

PAPERBOARD INDUSTRY

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▶ QUALITY

- ▶ **NOTHING** matters if the quality is not **EXCELLENT**
 - ▶ Crisp and vibrant printing
 - ▶ Packaging that functions as its intended

- ▶ Board quality
 - ▶ Impacts performance, printability

- ▶ Today's consumer wants a look, a feel and performance that is superior to previous generations
 - ▶ They don't want their parents products

PAPERBOARD INDUSTRY

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- ▶ **IF you plan to be a long term supplier within the food manufacturing industry:**
 - ▶ **Global Food Safety Initiative (GFSI) Certification is a MUST!**
 - ▶ **Not mandatory for non-contact food packaging.... For now**
 - ▶ **Three better known:**
 - ▶ **BRC**
 - ▶ **SQF**
 - ▶ **FSSC22000**
 - ▶ **Provides potential customers with a “peace of mind” that suppliers are focused on quality, food safety, documentation**
 - ▶ **HAACP, Site Security, Pest Control, Traceability**
 - ▶ **AIB Certification, in my opinion, is meaningless today**

PAPERBOARD INDUSTRY

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▶ INNOVATION

▶ Consumers want something NEW/ DIFFERENT

▶ PRINTING (Cosmetic differences)

▶ FUNCTIONALITY

▶ SUSTAINABLE BENEFITS

▶ Higher recyclability

▶ Higher recycle content

▶ A better environmental message

▶ Challenge: Will the Brand Owners promote it?

▶ COST CONTROL

- ▶ Some of the largest grocers are slashing prices in a “Food War”
 - ▶ Amazon’s Whole Foods cut prices the first day they took ownership
 - ▶ Walmart.... Enough said
 - ▶ Aldi..... Ditto
 - ▶ Kroger cutting prices to keep pace
- ▶ Even with all the specialty products that cost more, consumers are still frugal
- ▶ Quicker changeovers, ECG, optimization of packaging, raw material stability

PAPERBOARD INDUSTRY

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▶ COST CONTROL – AND WE STILL WANT:

- ▶ Speed, quality, innovation are all important, but COSTS are going to be a larger factor!!!
 - ▶ We are entering a period where Brands, especially in the food sector, are going to be seeking cost relief!!!
 - ▶ Remember, there Brand Loyalty is dying..... And so is loyalty to long standing suppliers (even GOOD suppliers)
- ▶ How do these companies recoup at least some of the margin loss?

JUST LOOK AROUND THE ROOM!!!

PAPERBOARD INDUSTRY

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- ▶ What NEW/UNIQUE benefits can you provide?
 - ▶ Companies are going to what NEW packaging benefits to attract consumers
- ▶ DIGITAL PRINTING
 - ▶ 10 years from now, digital will be a major player and could dramatically change the landscape
 - ▶ HOW TO MOVE TO DIGITAL QUICKLY AND COST EFFECTIVELY??
 - ▶ Could be the biggest technological change in the past 25 years
 - ▶ Enables CUSTOMIZED packaging
 - ▶ Taking Coke's Named bottles to a whole new level
 - ▶ Enables Brand Owners to be very creative
 - ▶ More Promotional Opportunities
 - ▶ Enable "localizing" graphics



If you remember two things from my presentation, they should be....

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- ▶ “I’ve been doing this for 37 years, and this is the most dynamic, disruptive, and transformational time that I’ve seen in my career.”

Steve Hughes, former CEO of Boulder Brands

- ▶ Brands are slowly dying!
- ▶ Brand owners are coming at their suppliers HARD seeking cost concessions, cost control while seeking NEW ways to distinguish their brand and connect with a changing consumer market!!
 - ▶ Large CPG Companies are in BIG TROUBLE!
 - ▶ Large consumer brands are under TREMENDOUS pressure from multiple sides
 - ▶ Healthier options (non-GMO, organic, Gluten Free, all natural)
 - ▶ Locally made products
 - ▶ Private Label & E-Commerce continue to grow

If you remember two things from my presentation, they should be....

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- ▶ Millennial and Gen Z are not just the future.... They are the PRESENT!
 - ▶ While Gen X are still a viable and strong generations, the sheer number of Millennial and Gen Z are simply too great to ignore or take lightly
 - ▶ Smaller companies focused on these two generations are the future
 - ▶ The volumes aren't great, but they are growing and growing
 - ▶ Many can be acquired by larger CPG companies
 - ▶ Over time I believe the high volume, single graphic runs will continue to diminish

When you get back to your office, the two things you should do are.....

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▶ REVIEW WHAT YOU'RE DOING TODAY:

- ▶ Review die lines
- ▶ Review press sheet layouts
- ▶ Review graphics
- ▶ Optimize Board
 - ▶ Improve stiffness and reduce

▶ ASK YOURSELVES:

- ▶ How can I make my business attractive in this environment AND do you have the right customer mix for the future?
 - ▶ Increase flexibility
 - ▶ Provide sustainable options
- ▶ Smaller run sizes
- ▶ ECG

Q & A