

2. Annual Costs

a. *Administrative.*

The total cost of administrative activities is the dollar value of the

incremental effort expended in order to comply with the final rule. Administrative costs consist of activities such as interpreting the rule in relation to the firm's products, determining the

scope and coverage related to product labels, establishing a corporate position, formulating a method for compliance, and managing the compliance method.

TABLE 3.—TOTAL ANNUAL COSTS OF FROZEN, REFRIGERATED PIZZAS, KITS, AND MIXES¹

Year	Cost level	Admin cost	Graphic design cost	Total cost	Disc factor 7%	Total disc cost
1	Low	\$211,636	\$529,089	\$740,725	0.93	\$688,874
	Medium	493,816	793,634	1,287,450	1,197,329
	High	775,997	1,058,178	1,834,175	1,705,783

¹ Costs are over a three year period, even though the industry does not incur costs during the second and third year.

FSIS estimates that the administrative costs over the three-year period of compliance for the industry will range between \$212 thousand and \$776 thousand, (\$197 thousand and \$722 thousand, discounted at the 7% rate)⁹ as depicted in Table 3, with the mid-point being at \$494 thousand and the per company cost being \$3,186 at the mid-point (\$493,816/155 firms). These administrative costs of changing labels for pre-printed packages will only be incurred in the first year of the rule.

b. *Graphic Design*

The graphic design costs are being counted as a direct cost of the final rule, range from \$529 thousand to \$1.1

million, with the mid-point being at \$794 thousand, as depicted in Table 3, and the per company cost is \$5,120 at the mid-point (\$793,634/155 firms). The cost depends upon the type of printing processes used, the complexity of the label change, and the length of the compliance period. The graphic design costs will be incurred in the first year only, and no additional costs are expected because companies will need to print labels regardless of whether this rule is promulgated.

c. *Stickers*

Companies will also have the option of supplying the required information by applying a separate sticker to existing

product labels. It should be noted that the meat and poultry pizza manufacturers of brand-name and private-label pizzas who regularly use stickers to convey product information already incur these costs. Thus, these costs are not expected to be a direct effect of the final rule for all meat and poultry pizza manufacturers. Table 4 depicts the costs of changing and applying stickers to pizza packages for 2,068 UPC,¹⁰ ranging from a low of \$6.9 million to a high of \$18 million, with the mid-point being at \$12.6 million.

TABLE 4.—TOTAL INDUSTRY COSTS ASSOCIATED WITH USING INDIVIDUAL STICKERS TO MODIFY PRODUCT LABELING¹

Cost type	Low	Medium	High
Administrative	\$273,009	\$637,021	\$1,001,033
Graphic Design	\$682,523	\$1,023,784	\$1,365,045
Stickers	\$5,926,137	\$10,981,288	\$15,654,141
Total	\$6,881,669	\$12,642,093	\$18,020,219

Source: FDA Labeling Cost Model (Muth, Gledhill, and Karns, 2001).

¹ Estimated for 2001.

The use of pre-printed stickers to modify the product labels also has recurring labor costs, assuming that the stickers are manually applied. Estimated sticker application costs range from \$0.014 to \$0.034 per package¹¹, which is included in the cost for stickers given in Table 4, ranging from \$6 million to \$16 million, with the mid-point being \$11 million. Stickers' application costs

comprised 87 percent of the total costs for stickers.

In most cases, FSIS believes that it will not be practical for meat and poultry pizza manufacturers to use these stickers to incorporate the required information on the product label because they are small and difficult to apply. Moreover, FSIS believes that the cost of using stickers for longer than six months is unrealistic because the costs associated with stickers are expected to

be higher than the alternative of printing packages. For example, the FDA Labeling Cost Model shows that the total cost of applying stickers to frozen and refrigerated pizzas as depicted in the Table 5 below is over 8 times higher than the costs of changing the labels on packages. The total costs depicted for printing stickers in the table include both labor and the one-time redesign cost.

⁹ The discount factor of 7 percent is used to calculate the present worth of a future value at the end of a 3 year period.

¹⁰ The number of UPCs increased from 1,603 for pre-printed packages to 2,068 for stickers because the FDA Labeling Cost Model assumes that the companies which use stickers will have six months to comply. In those six months, the companies will

print the stickers until they are set up to print their packages. Therefore the number of UPCs will increase.

¹¹ Muth, Gledhill, and Karns, 2001.