

The Dynamic US Fresh Produce Industry

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Top Grocery Trends in 2010

- Restraint remains the new normal for consumers.
- Value is a top priority - shoppers - channel blurring, coupons, etc.
- Value is a top priority - customers/commercial buyers - downward pressure on margins.
- Both contributing to store brand/private label growth.
- Grocery consolidation, and smaller formats growing.
- Better information management - thru technology.
- Store clustering to achieve optimal assortments

New Trends in the US Food Industry

- In this recession all retailers have to take control of store operating expenses, only a few of which are variable.
- Labor, assortment and inventory are targets; in the past reducing assortment was not considered an option whereas today it is a major focus.
- SKU Rationalization (RAT) affects value-added, fresh-cut suppliers in particular.
- Rat can decrease labor, inventory and hence capital costs required to operate stores.

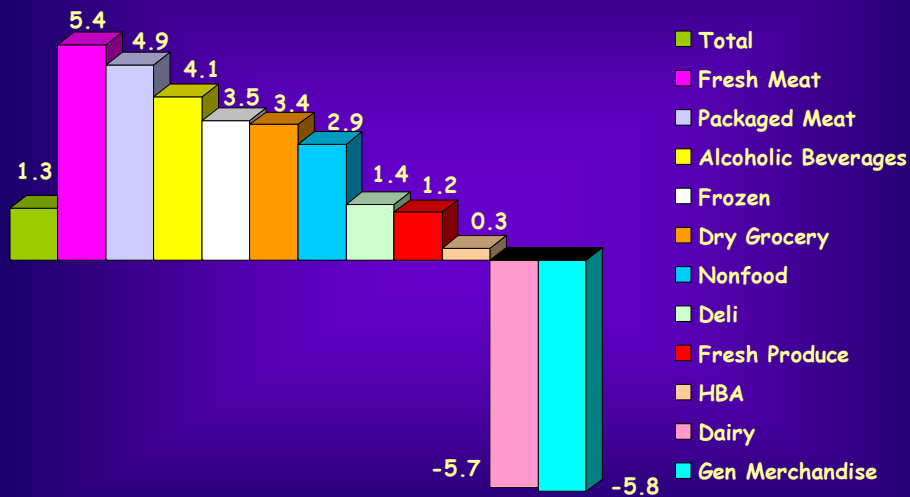
Source: Willard Bishop Competitive Edge, September 2009

Supply Chain Imperatives

- Mutual dependency between buyers and sellers – get away from adversarial relationships
- Streamlining the supply chain, improving vertical coordination, involves identifying mutually beneficial strategies and tactics
- This includes identifying which activities add more value than cost
- Eliminating non-value-adding activities
- Decreasing operational inefficiencies – often hidden and not important enough to attract attention in more favorable markets – but with margin squeeze they count

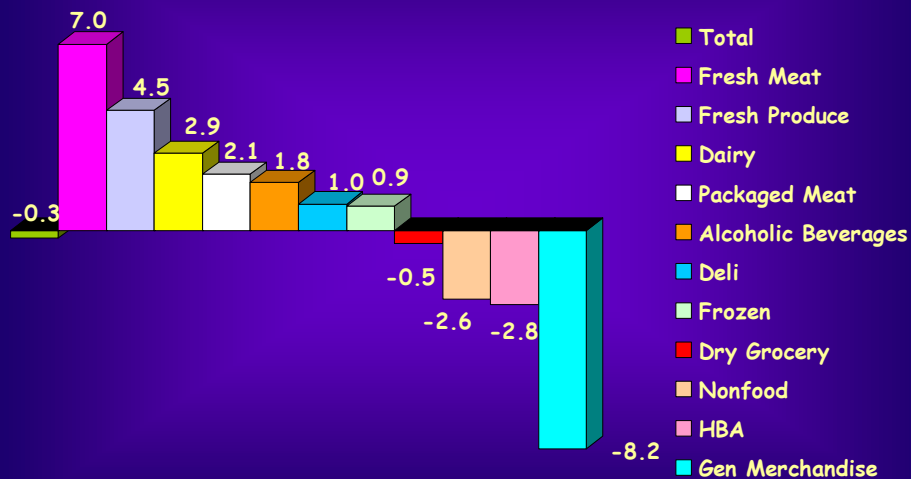
Recession Impacts on Fresh Produce Sales

Sales of U.S. Food, Drug and Mass Merchandisers (FDM, incl. Walmart), % Dollar Sales Growth Rates by Key Department, 2009



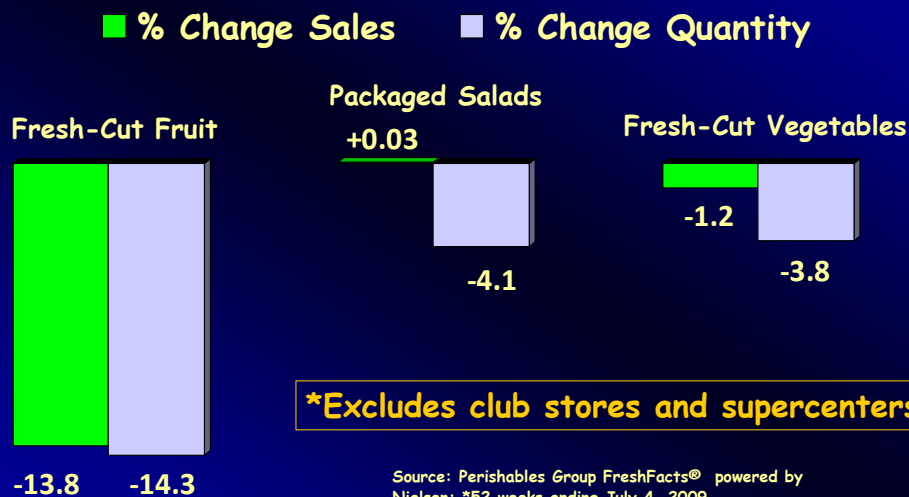
Source: Scantrack®, a service of The Nielsen Company, Nielsen Economic Advisor, January 17, 2010. 52 weeks ending 11/28/09 (versus prior year).

Sales of U.S. Food Drug and Mass Merchandisers (FDM incl. Walmart), % Unit Sales Growth Rates by Key Department, 2009

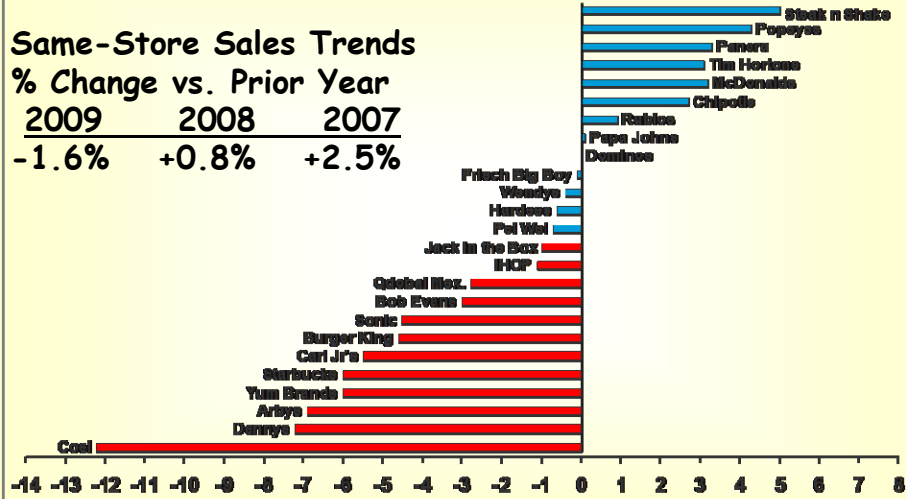


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US Supermarket* Fresh-Cut Produce: Dollar Sales and Quantity, % Change from 2009* to 2008

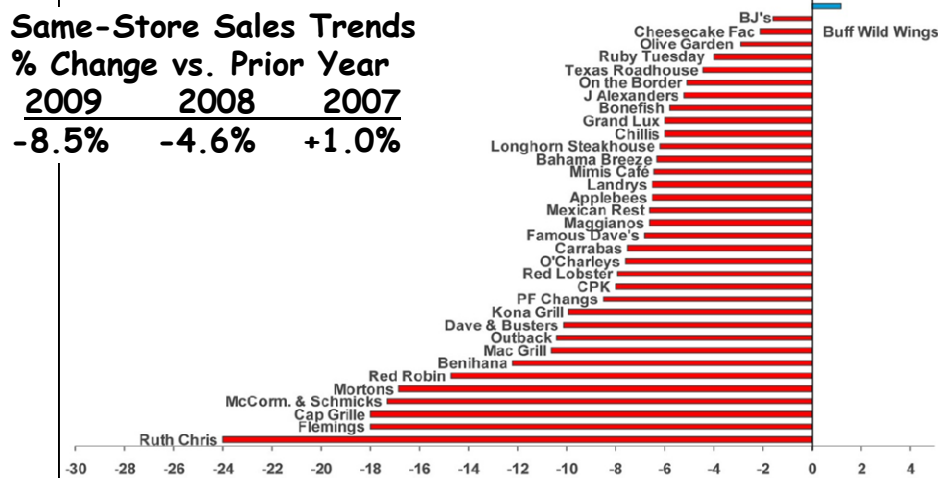


Q3 2009 Selected Fast Casual/Family Dining/QSR Same-Store Sales Growth Rates



Source: Company Reports - NRN (Nov 9, 2009); Latest quarter, except last four weeks for McDonald's, Carl's Jr, and Hardees.

Q3 2009 Same-Store Sales Growth Rates for Selected U.S. Full-service Restaurant Chains



Source: Nielsen Economic Advisor Company Reports - NRN (Nov 16, 2009); Latest Quarter.

Fresh Produce Value Chain

U.S. Fresh Fruit and Vegetable* Value Chain, 2008 *Estimated* Billions of Dollars



Source: Estimated by Dr. Roberta Cook, UC Davis, based on numerous public sources, incl. USDA, DOC, Progressive Grocer, and PMA. Preliminary estimate. Not for publication.

Leading US Fresh Market Vegetable States in 2009:
 Geographic concentration of production (due to climate) limits local sourcing potential, yet it is growing in the summer/fall

Area Harvested		Production		Value	
State	% of Total	State	% of Total	State	% of Total
CA	44	CA	49	CA	52
FL	11	FL	9	FL	13
AZ	7	AZ	7	AZ	7
GA	6	GA	5	GA	5
NY	4	NY	4	NY	3

Source: NASS/USDA, Vegetables 2009 Summary, January 2010

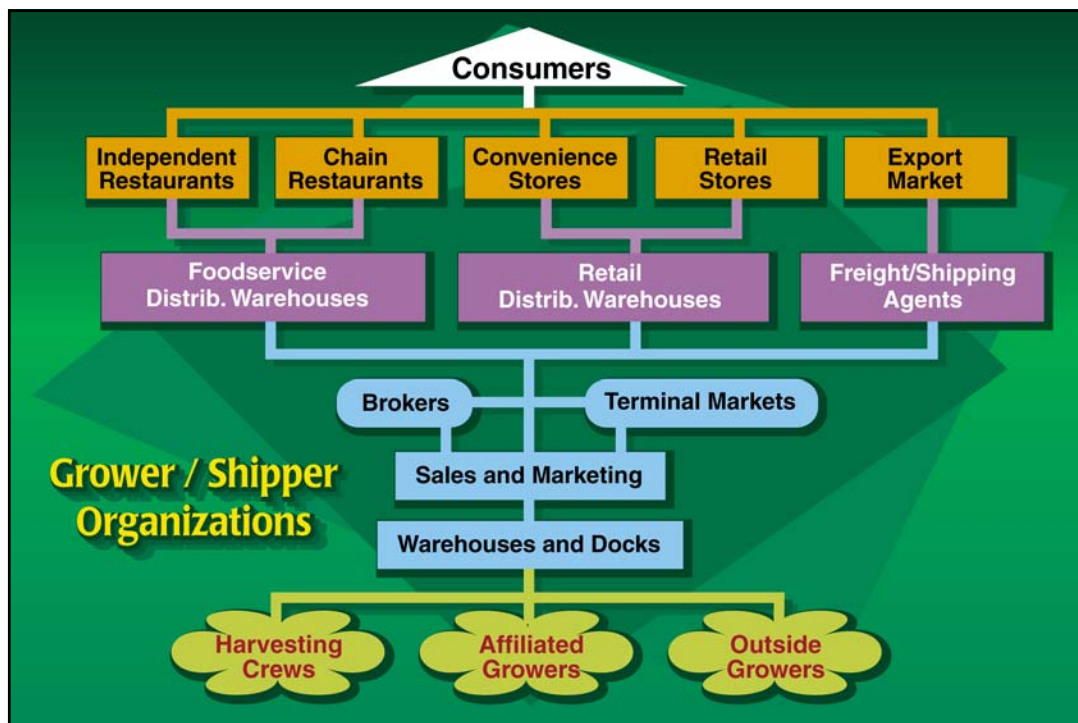
Leading State Market Shares, Value of Production of Fresh Fruits

State	Value (\$1,000)	%
CA	\$ 3,665,350	49%
WA	\$ 2,021,237	27%
FL	\$ 498,527	7%
OR	\$ 101,578	1%
MI	\$ 83,234	1%
NY	\$ 249,583	3%
Others	\$ 838,317	11%
Selected state fresh fruit value	\$ 7,458,226	100%
Total US fresh fruit value	\$ 8,543,212	(selected state value is 87% of total US value)

Source: USDA/ERS, Gary Lucier.

Fresh Produce Market Structure

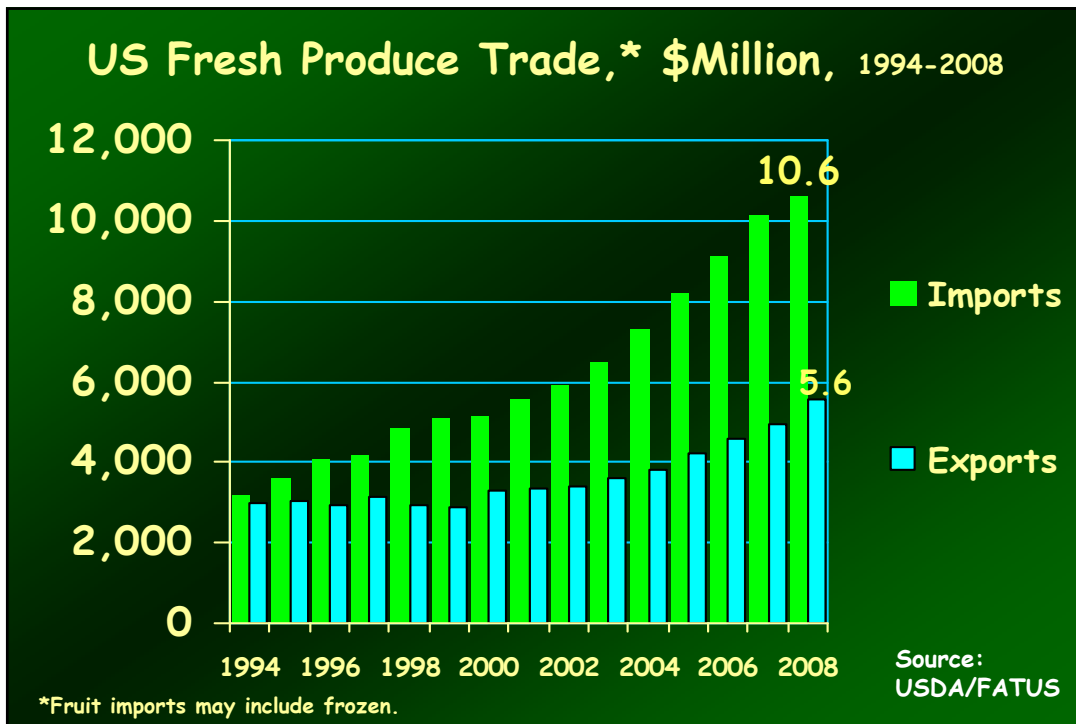
- Most growers rely on shippers to market their products, most of which are family-owned forward-integrated grower-shippers, most of which market not only their own production but that of other growers
- For products that are shed packed (such as Ca. tree fruit) some growers may use one packer to pack the fruit and a packer-shipper to market it (not relevant for field-packed items)
- This means that when looking at the number of sellers facing buyers we should focus on grower-shippers or packer-shippers rather than the number of growers





Fresh Produce Marketing

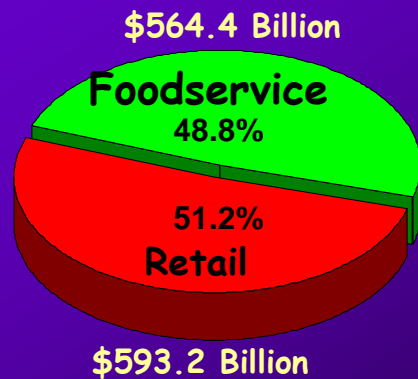
- Growers and shippers are price takers, they typically are not large enough to set prices
- Growers receive the residual of the market price less marketing charges, pick, pack and harvest, palletization, in some cases cooling, and other handling charges and mandated-marketing or other institutional fees (e.g., CLGA, commission or marketing order charges)
- The shipper has incentives to continue shipping if at least covering variable costs, and in order to meet commitments with buyers; sometimes there is no return to the grower (production costs are not recouped)
- Perishability makes markets and returns volatile



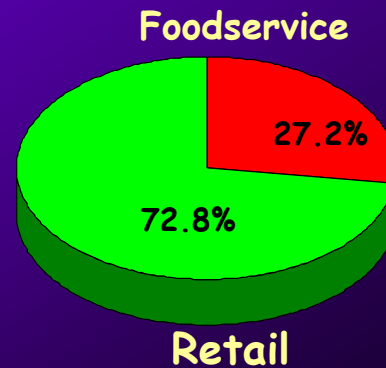
Food Marketing Structure and Trends

2008 USA Food Sales: \$1,157.6 Billion Retail Sales-Equivalent, and Channel Shares, Quantity and Value

Dollar Sales



Quantity Sold



Source: PlanetRetail for dollar sales and dollar share, 2008; Technomic, Inc. for share of quantity sold, 2006.

Fresh produce not getting its "fair" share of foodservice channels - opportunity to shift demand!

- Seasonality, perishability, price volatility, supplier size are obstacles.
- Now is the right time for all segments of the foodservice industry to increase fresh produce use, CSR propels action and consumer health and wellness trends support it.
- Growth in fast casual chains which emphasize fresh represents potential opportunity
- The race to innovate is on as retail HMR offerings improve, and some retailers enter foodservice (e.g., Publix and Crispers) - so substitutes are growing
- But the recession is a big challenge!

Unusual Salad Offerings: LSR Chains

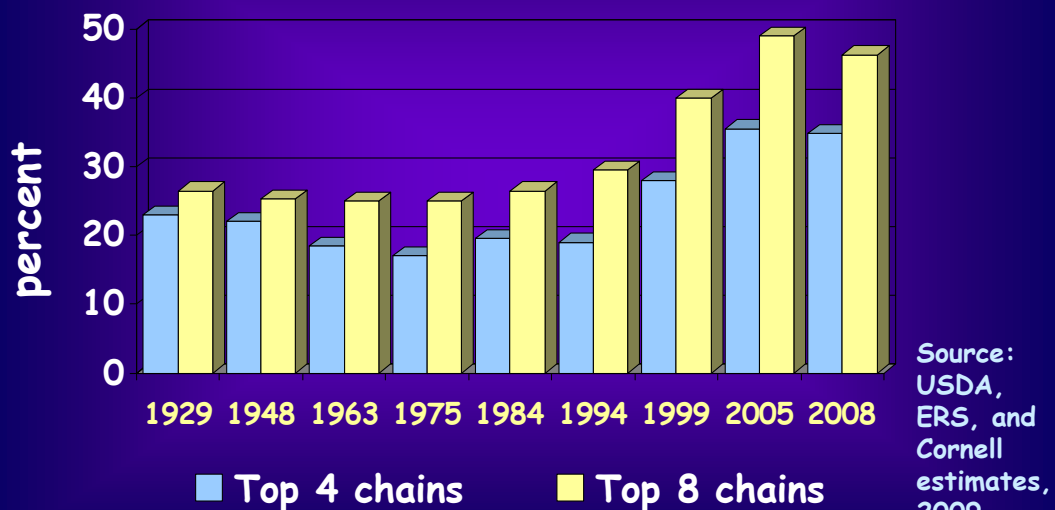
Lots of innovation in fresh produce offerings in fast casual sector; low price points.

Panera Bread / St. Louis Bread Co.

Fuji Apple Chicken* **\$5.69**
all-natural citrus-herb chicken, field greens, Romaine lettuce, tomatoes, onions, pecans, Gorgonzola, and apple chips with white balsamic Fuji apple vinaigrette

Source: 2007: *The Salad Category Report*, Technomic Info. Services, 2007.

Market Shares of Top U.S. Grocery Chains, Share of U.S. Grocery Sales, 1929-2008



Estimated Number of U.S. Wholesale and Retail Firms, and Grower-Shippers, 2008*

Item	
Retail Chains (10 or more stores)	156
<i>Retail Chains with 100 or more stores</i>	58
Independent Retailers (<10 stores)**	72
Wholesale grocers	220
Total US Grower-Shippers	3,452
<i>Grower-shippers in California</i>	1,102
<i>Grower-shippers in Florida</i>	404

Source: Bluebook online queries by Cook, March 18, 2009.

*May be over counting due to firms listed in multiple categories. **Gross undercounting as most independents don't buy direct and are not listed in the Blue Book.

Top Grocery Retailers, Estimated *Grocery-Equivalent Sales Only* (not total firm sales) in U.S. Market, 2009

Company	Est. Sales in billion \$	Est. Food Sales in billion \$
Wal-Mart	320.8	170.7
Kroger	80.5	69.9
Costco	61.6	40.3
Safeway	40.6	37.2
SuperValu	39.4	35.7
Target	66.7	24.7*
Publix	25.5	23.1
Ahold	23.3	21.2

Source: www.planetretail.net April 2010, Food Banner Sales only. *Incl. \$13.8 B of SuperTarget

Top Grocery Retailers, Estimated *Grocery-Equivalent* Sales Only (not total firm sales), in U.S. Market, 2009, cont.

Company	Est. Sales in billion \$	Est. Food Sales in billion \$
Delhaize Group	19.8	15.8
Aldi	13.4	12.5
HE Butt	14.7	13.0
Meijer	16.3	11.4
Giant Eagle	8.7	8.0
Whole Foods Market	8.2	7.8
Tengelmann	9.7	7.3

Source: www.planetretail.net April, 2009, Food Banner Sales only.

Walmart Grocery and Fruit and Vegetable U.S. Sales, by Format, 2009 (million \$)

Banner	Fruit & Veg.	Groceries	Fruit & Veg. Share
Supercenter	\$11,707.5	132,914.1	8.8%
Sam's Club	2,304.6	24,716.9	9.3%
Walmart	0.0	10,826.4	0%
Neighborhood Market	256.0	2,158.2	11.9%
Supermercado	3.2	27.9	11.5%
Marketside	4.6	24.8	18.5%
Total All Formats	14,275.9	170,668.2	8.4%

Source: planetretail.net, April 2010.

2009 SuperValu Grocery Sales by Banner Type

<u>Rank</u>	<u>million \$</u>	<u>Rank</u>	<u>million \$</u>		
1	Albertsons	13,215	8	Farm Fresh	1,446
2	Save-A-Lot	4,410	9	Shop 'n Save	1,214
3	Cub Foods	4,075	10	bigg's	862
4	Jewel	3,301	11	Bristol Farms	348
5	Shaw's	3,019	12	Hornbacher's Foods	147
6	Acme	1,926			
7	Shop.Food & Pharmacy	1,719			
			Total		35,682

Source: planetretail.net, April 2010.

2009 Safeway Grocery Sales by Banner Type

<u>Rank</u>		<u>Million \$</u>
1	Safeway	25,358
2	Vons	5,293
3	Randalls	3,117
4	Dominick's	2,144
5	Genuardi's Family Markets	954
6	Carrs Quality Centers	361
	Total	37,227

Source: planetretail.net, April 2010.

Target: Grocery and Fruit and Vegetable U.S. Sales, by Format, 2009 (million \$)

Banner	Fruit & Veg.	Groceries	Fruit & Veg. Share
SuperTarget	1,215.1	13,795.3	8.8%
Target	0.0	10,859.8	0%
Total All Formats	1,215.1	24,655.1	4.9%

Source: planetretail.net, April 2010.

Grocery Banner* Sales of Top 25 Global Food Retailers in 2009

Company	Headquarters	Sales (billion \$)
Wal-Mart 	U.S.	253.5
Carrefour/Promodès	France	118.7
Kroger 	U.S.	71.4
Tesco 	U.K.	71.2
Schwarz Group	Germany	69.9
Aldi	Germany	67.2
Rewe Group 	Germany	60.7
AEON	U.K.	59.9

*NOT total firm sales, rather primarily grocery sales from stores with grocery banners.
Source: Planet Retail 2010.

Grocery Banner Sales of Top 25 Global Food Retailers in 2009

Company	Headquarters	Sales (billion \$)
Seven & I	Japan	57.9
Edeka	Germany	55.2
Ahold 	Holland	53.8
Costco	U.S.	51.6
Auchan	France	51.2
Casino	France	49.6
Metro Group	Germany/Switz.	46.2

*NOT total firm sales, rather primarily grocery sales from stores with grocery banners.
Source: Planet Retail 2010.

Grocery Banner Sales of Top 25 Global Food Retailers in 2009

Company	Headquarters	Sales (billion \$)
Safeway USA	U.S.	44.7
ITM (Intermarché)	France	38.1
Woolworths (Aus)	Australia	35.8
Leclerc	France	35.7
SuperValu	U.S.	35.7
Target	U.S.	29.6
Sainsbury	U.K.	25.0

*NOT total firm sales, rather primarily grocery sales from stores with grocery banners.
Source: Planet Retail 2010.

Grocery Banner Sales of Top 25 Global Food Retailers in 2009

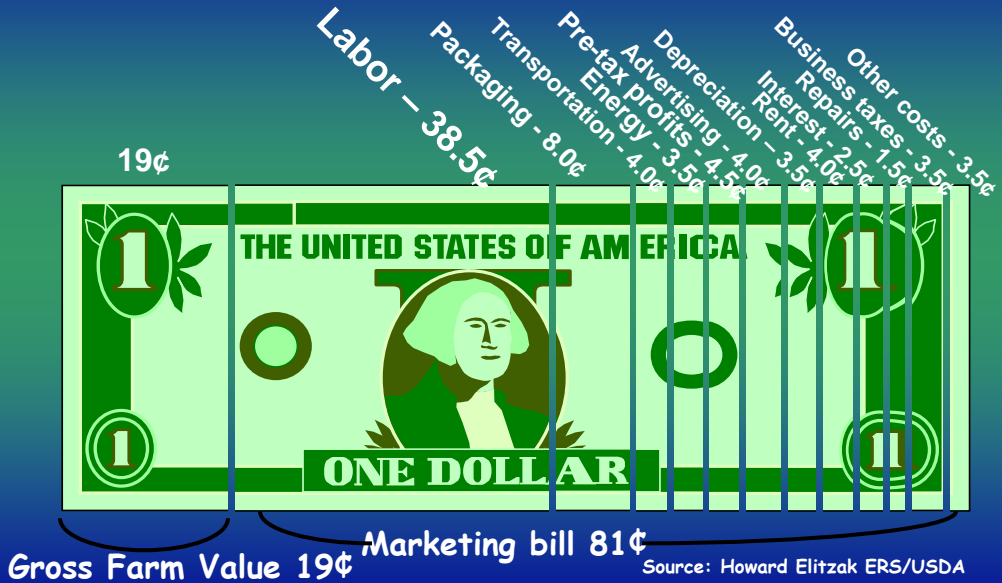
Company	Headquarters	Sales (billion \$)
Delhaize Group	Belgium	24.7
Rite Aid	U.S.	24.3
Systeme U	France	23.5

Cumulative Sales for Top 25 in 2009: \$1,455.1 billion

*NOT total firm sales, rather primarily grocery sales from stores with grocery banners.
Source: Planet Retail 2010.

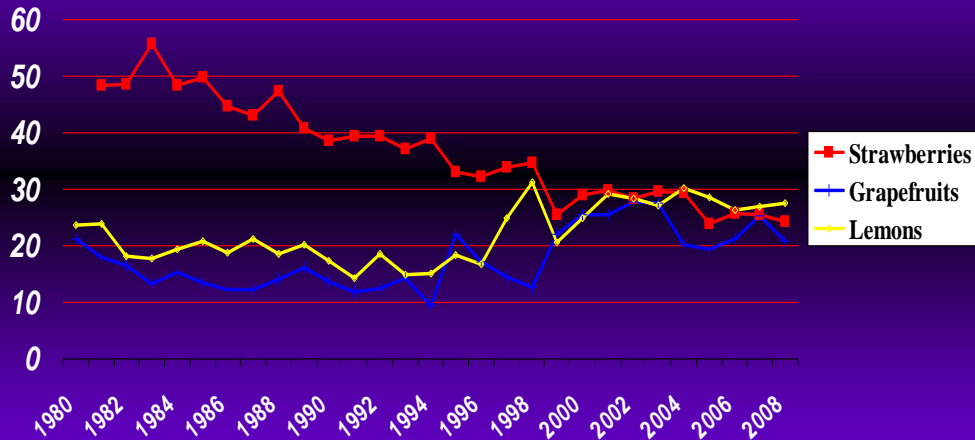
Marketing Margins and Some Pricing Basics

WHAT a DOLLAR SPENT for FOOD PAID FOR in 2006 in the USA



Selected U.S. Fresh Fruits, 1980-2008, Farm Share of Retail Price

Percent

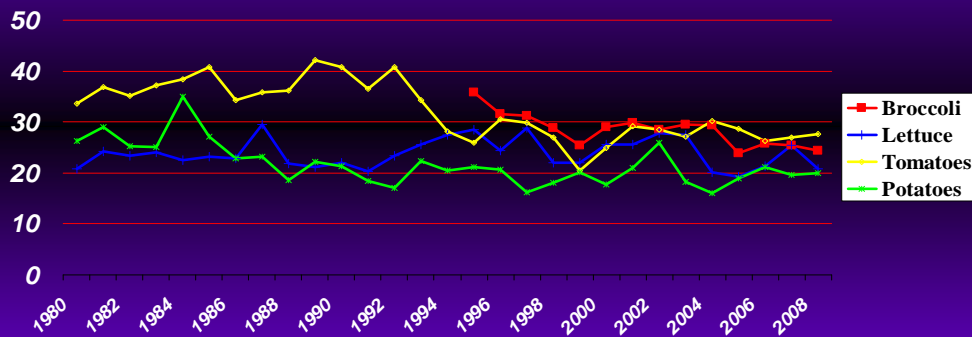


Source: USDA/ERS, October 2008 Fruit and Nut Yearbook

15.8% average farm share for fresh fruit, 2008.

Selected U.S. Fresh Vegetables, 1980-2008, Farm Share of Retail Price

Percent



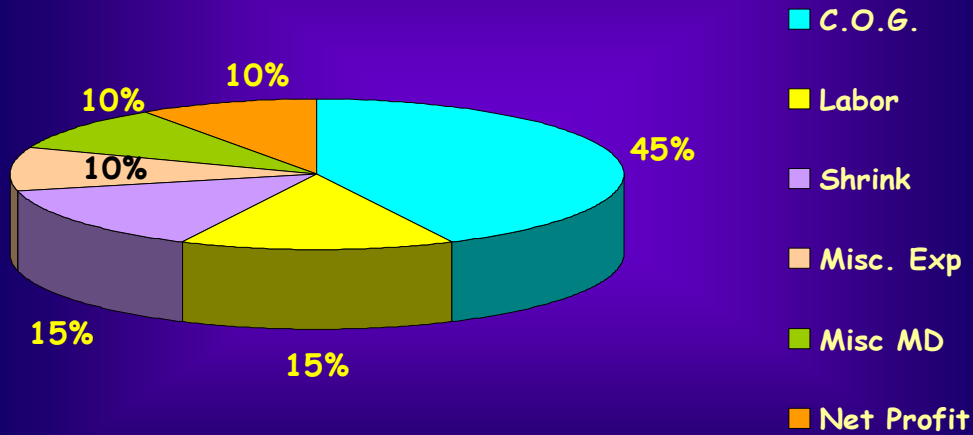
Source: USDA/ERS, May 2008 Vegetable Yearbook

18.7% average farm share for fresh veg., 2008.

Retail Pricing Strategies

- Every Day Low Pricing (EDLP) or High-Low pricing are the two most common strategies.
- EDLP is generally used by new model retailers - supercenters, club stores - and generally margins are lower than for conventional supermarket chains. Costco margins never exceed 14%.
- EDLP operators emphasize contract vs. spot market buying but conventional retailers are also increasingly operating more on a partnership basis with key preferred suppliers with program focus.
- Successful grower-shippers are increasingly account-driven so they can respond to either EDLP or High-Low pricing retailers accordingly.

Where does \$1.00 in retail fresh produce sales go?



Source: Bruce Peterson, President, Peterson Insights, 2009

Retail Produce Department Pricing

- It takes a 7% change in a retail price for a consumer to "sense" there has been movement.
- It takes a 10% change in retail pricing for a consumer to "think" about a behavior change.
- It takes a 15% change in retail pricing for a consumer to "act" and change behavior.
- So if the f.o.b. price declines buyers will generally take it in margin and it won't negatively impact quantity sold.
- Buyers are generally not held accountable for net margins/profit as the expense side is typically viewed as beyond their control.

Source: Bruce Peterson

Some Metrics from Selected US Grocery Chains, by Dept.

Department	Share of Total Store Sales	Share of Linear Feet	Share of True Profit
Grocery	31.4%	39.4%	33.7%
Dairy	10.0%	3.2%	19.7%
Produce	10.9%	5.1%	15.7%
Frozen	7.1%	7.4%	9.3%
Liquor	8.6%	5.1%	7.5%
Meat	7.1%	1.7%	5.9%
Deli and Foodservice	6.6%	2.9%	5.6%
GM	6.6%	17.6%	4.0%
Packaged Deli	1.8%	1.0%	3.3%
Floral	1.4%	1.1%	0.4%
Seafood	1.0%	0.6%	-1.4%
Bakery	2.5%	2.0%	-1.7%
HBC	5.2%	12.7%	-1.8%

Source: Willard Bishop 2009 Total Store SuperStudy™ (Kroger, Safeway, Stop & Shop, and Jewel/Osco)

Average Fresh Produce Department Performance for U.S. Supermarkets, 2009

Average Days of Supply	7
Average Turns	55
Gross Margin	42%
# SKUs	2,249
Square Foot Facing*	1,222
Weekly Sales	\$59,448
Adj. Gross Profit**	\$24,938
Share of Perimeter Weekly Sales	33.8%
Share of Perimeter Adj. Gross Profit	29.4%

Notes:

* Square Foot Facing is shelf width times shelf height.

** Adjusted Gross Profit includes trade spending - cash discounts, off invoice, bill backs, scan backs, display allowances, slotting, etc.

Source: Willard Bishop Total Store SuperStudy™, September 2009.

Problems Facing U.S. Retail Fresh Produce Depts., 2009
Rated on a Scale of 1-10 Where 10 = Extremely Serious

Competition from supermarkets	4.71	Transportation costs	4.03
Profits	4.36	Employee training	4.03
Shrink/spoilage	4.28	Attracting more shoppers to produce dept	3.96
Quality of product	4.19	Customer satisfaction levels	3.95
Competition from Walmart	4.11		
Wholesale prices	4.10		

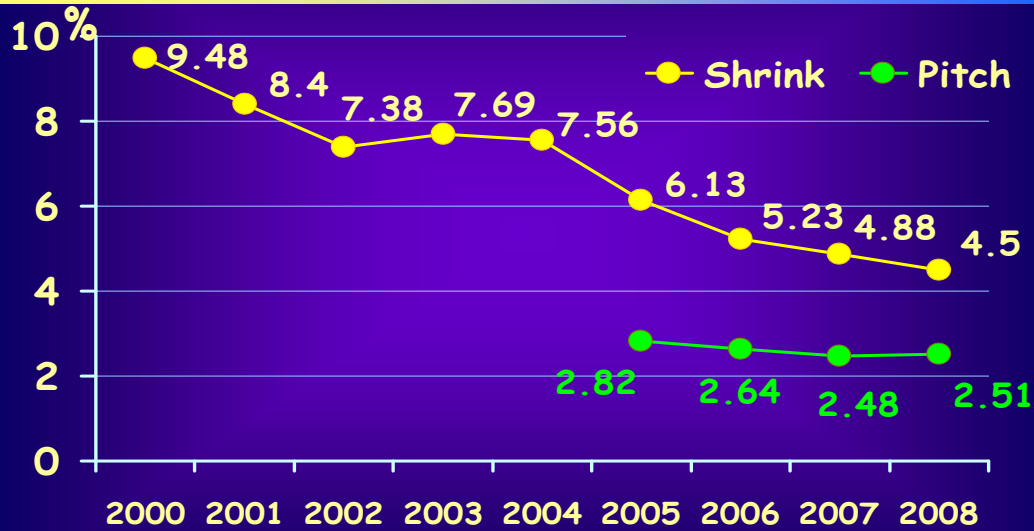
Source: Progressive Grocer Market Research, Oct. 2009.

The global economic crisis combined with the growth of the discounter channel has forced conventional retailers to take the discount threat seriously

- In the wake of the global economic crisis, discounters were expected to benefit from rising foot traffic due to lower discretionary income. And initially they did, with Aldi UK's turnover climbing 24% in 2009.
- However, due to their accelerated growth and increasing market importance, discounters can no longer 'fly under the radar' as traditional retailers can no longer afford to ignore them.
- For the first time, other channels have begun to react both aggressively and comprehensively to the discounters in many markets.
- These moves have impacted the discount channel. Aldi UK's and Germany's prelim 2009 same-store-sales were presumably negative while Carrefour Ed's same-store-sales in France decreased by 7.5%!
- Discounters cannot take for granted they will automatically grow. By choosing the right weapons, traditional channels can hinder their development.

Source: Discounters: Rapid Growth or Gross Myth?, February 2010, Planet Retail

Retailer "X" Fresh Produce Department Shrink and Pitch History, Percent, 2000-2008



Source: Company documents.

Top 10 Fresh Produce Shrink Items at Retailer X, 2008

By Cost

1. Strawberries
2. Bananas
3. Tomatoes on vine
4. Red sweet peppers
5. Green peppers
6. Green seedless grapes
7. Asparagus
8. Cantaloupes
9. Red raspberries
10. Beefsteak tomatoes

By Quantity (lbs or pkg)

1. Bananas
2. Green peppers
3. Cucumbers
4. Yellow corn
5. Red sweet peppers
6. Strawberries
7. Head lettuce
8. Navel oranges
9. Green seedless grapes
10. Homegrown tomatoes

Source: Company documents.

Estimated Ranges of Losses in the U.S. Fresh Produce Distribution System

<u>Distribution Activity</u>	<u>Percent Losses</u>	Percentage losses are based on dollar values of losses in each phase of distribution as a % of the wholesale value of products entering the distribution system.
Transportation	2.80 - 5.00	
Wholesaling	2.50 - 5.03	
Retailing	2.74 - 6.58	
System losses	9.04 - 16.61	

Source: Pierson, Thomas R., Allen, John R. and McLaughlin, Edward W., "Produce Losses in the U.S. Food Distribution System," *MSU Agricultural Economics Report*, 1983.

Private Label

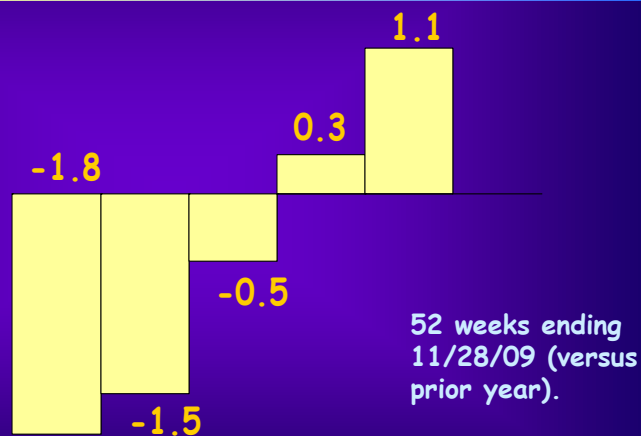
Private Label Share of CPG Spending in U.S. Grocery Channels

	Dollar Share	Unit Share
1989	11.6	15.3
1993	13.9	18.2
1995	14.9	19.4
1997	15.7	20.1
2003	16.1	20.8
2004	16.2	20.6
2005	16.1	20.8
2006	15.9	21.3
2007	16.2	21.5
2008	16.9	21.6
2009	17.6	22.8

Source: Various
Private Label Magazines

Branded Grocery Product Unit Sales Growth Rates in U.S. Food, Drug and Mass Merchandisers (FDM, so including Walmart), 2009

Percent unit sales growth for last 6 (4-week) periods

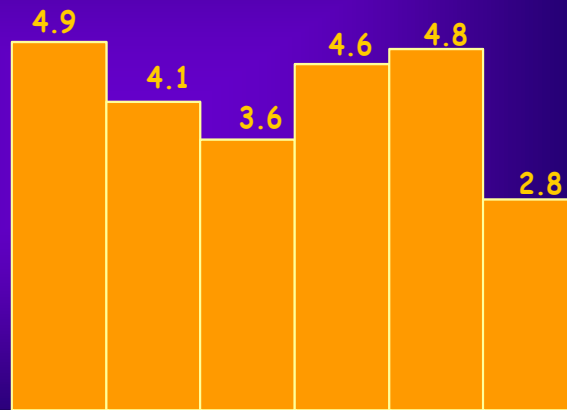


Source: Scantrack®, a service of The Nielsen Company, Nielsen Economic Advisor, January 17, 2010.

Private Label Grocery Product Unit Sales Growth Rates in U.S. Food, Drug and Mass Merchandisers (FDM, so including Walmart), 2009

Percent unit sales growth for last 6 (4-week) periods

52 weeks ending 11/28/09 (versus prior year).



Source: Scantrack®, a service of The Nielsen Company, Nielsen Economic Advisor, January 17, 2010.

Private Label Fresh Produce Sales in US Supermarkets¹, 2008

•Private label fresh produce sales in supermarkets surpassed \$2.3 billion and were ninth among the top 10 categories in the supermarket with the highest unit gains.

•Private label fresh produce units sold grew by 11.3 percent.

•Value-added fresh-cut items figure most prominently in fresh produce private label sales, accounting for \$1.3 billion in supermarket sales (*Progressive Grocer*).

¹Supermarkets are grocery stores exceeding \$2 million in annual sales, excluding membership clubs such as Costco, and mass merchandisers such as Walmart discount stores and supercenters.

Sources: The Food Institute and *Progressive Grocer*

Threats and Opportunities

- Private labels are becoming more important to retailers both as a differentiation tool with innovative rather than just “me-too” products, and as a way to offer value (price relative to quality) to consumers. Value can be at the high end as well.
- Private labels can represent an opportunity to fresh produce suppliers by generating predictable demand for those items, on the other hand, margins are likely to be thin and you can lose control of the marketing.

US SUPERMARKET BAGGED SALAD CATEGORY MARKET SHARES, BY KEY FIRM, (% of Total \$ Sales) 2009 vs. 2008 and 2006

	2009	2008	2006
Fresh Express	47	43	41
Dole	21	28	31
Private label	20	15	12
Ready Pac	5	5	8
Earthbound	4	5	6

Sources: IRI: *52 weeks ending Aug. 24, 2008; 52 weeks ending Oct. 8, 2006; Perishables Group, 52 weeks ending July 4, 2009. Note may not be directly comparable due to changes in sources and methodology.

2009* US FRESH-CUT VEGETABLE CATEGORY MARKET SHARES, BY KEY FIRM, (% of Total \$ Sales) and Change in \$ Sales 2008/09*

Firm	Share	% Change in \$ Sales vs. YAGO
Private label	45.3%	16.5%
Mann's	5.9%	-30.7%
Eat Smart	4.5%	-16.8%
Fresh Express	3.1%	8.0%
Greenline	3.1%	-4.7%
Dole	3.0%	2.2%
Grimmway	2.3%	-11.3%
All other	33.0%	-10.7%

Source: Perishables Group

*52 weeks ending July 4, 2009.

2009* US FRESH-CUT FRUIT CATEGORY MARKET SHARES, BY KEY FIRM, (% of Total \$ Sales) and Change in \$ Sales 2008/09*

Firm	Share	% Change in \$ Sales vs. YAGO
PRIVATE LABEL	25.2%	.5%
Del Monte	18.7%	-8.9%
Ready Pac	15.4%	-24.7%
Crunch Pak	7.0%	-1.7%
Garden Highway	7.0%	3.3%
Chiquita	6.5%	-53.1%
All other	20.2%	-9.0%

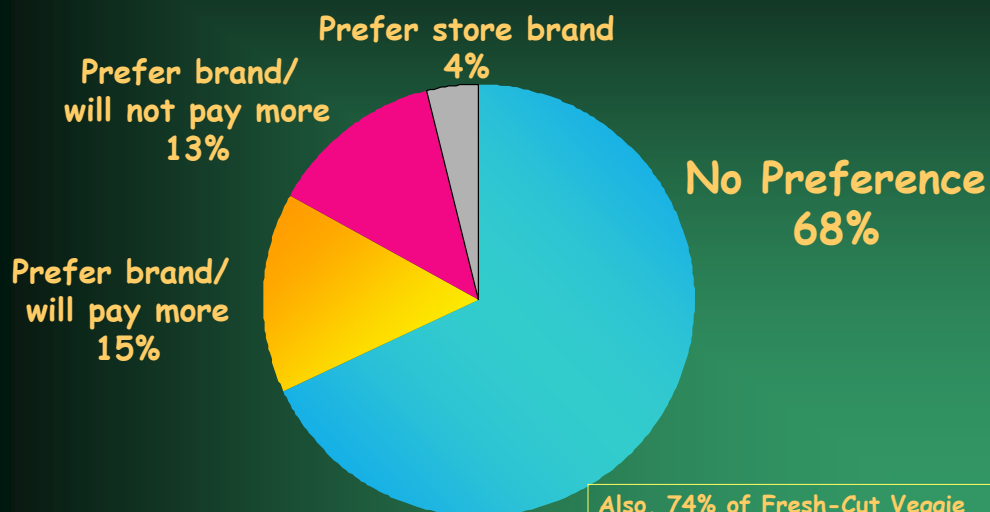
Source: Perishables Group

*52 weeks ending July 4, 2009.

Private Label Fresh Produce Sales in US Supermarkets

- Produce suppliers are benefiting from retailers' consumer data, such as when they become private label suppliers for a chain. Example, when Kroger rolls out private label products it may discontinue corresponding branded SKUs. Via the Dunnhumby data suppliers can target consumers who were purchasers of the discontinued items, sending them coupons for the similar new private label items.
- Some produce suppliers are also finding that they can reach out to get product feedback from Kroger's shoppers and learn interesting lessons.
- Leading executives feel that this increased integration between shoppers and the retailer and the supplier will produce benefits for all, and that it is a big miss for competitors not engaged in these practices.

Example: Branded Importance to US Consumers of Fresh-Cut Fruit is Low (brand loyalty is also low for bulk fresh produce)



Source: "Fresh Summit 2007 Ripe for the Picking," Perishables Group, Oct. 2007.

Becoming Marketing-Driven

- Becoming customer-centric.
- Putting the interests of your customers first.
- Understanding that you will get there faster if you work together.
- Next level is to become consumer-centric.
- Consumer-centrism will increasingly be achieved via supplier-customer partnerships.
- Suppliers and customers must choose strategic partners - align with those who will succeed in the marketplace

Conclusions

- Suppliers and buyers (retail or foodservice) who partner together to identify mutually beneficial actions may gain a competitive advantage in their respective markets
- Successful partnerships are likely to be based on achieving logistical or operational efficiencies and/or consumer insights that get THE RIGHT PRODUCT TO THE RIGHT CONSUMER AT THE RIGHT TIME
- Vertical coordination can better match supply and demand (meaning a profitable market-clearing price for efficient growers)
- Getting a handle on "meaningful" consumer segments that can be effectively targeted is challenging but today smaller segments may be reached more cost-effectively with "new media" - *how* to achieve this is a challenge

Conclusions

- Improved strategies may lead to greater market transparency, vertical coordination, and efficiency
- Firms should focus on understanding consumers in order to develop strategies that stimulate demand in a way that distributes benefits to both suppliers and buyers, e.g., at the most basic level, win-win promos, category development holds great potential
- Effective positioning requires understanding the fundamentals of the rapidly evolving food and fresh produce distribution system!

More on the Fresh Produce Value Chain

Fruit, Vegetable and Nut Farm Structure

Number of fruit, berry and nut farms with sales over \$50,000/yr.* - 28,824

- 4,711 farms selling >\$1million account for 4% of total fruit/berry/nut farms and contribute 67% of total value

Number of vegetable and melon farms with sales over \$50,000/yr.* - 13,824

- 4,908 farms selling >\$1million account for 7% of total veg/melon farms and contribute 84% of total value

*Total of 112,690 fruit, berry, nut farms and 69,100 total vegetable and melon farms, of all sizes. Source: 2007 Census of Ag

Ca. Share of: the Number of U.S. Vegetable Farms, and Sales, by Key Size Category, 2007

Item	CA	% US
Farms with sales > \$50 K - #	1,914	2.8%
Total Sales (\$millions) of farms with sales >\$50K	\$ 5,410	36.8%
Farms with Sales of \$1 Million or more - #	1,109	1.6%
Total Sales (\$millions) of farms with sales of \$1 Million or more	\$ 5,212	35.5%

Source: 2007 Census of Agriculture

**Ca. Share of: the Number of U.S. Fruit and Nut Farms,
and Sales, by Key Size Category, 2007**

Item	CA	% US
Farms with Sales >\$50 K - #	15,131	13.4%
Total Sales (\$millions) of farms with sales >\$50K	\$ 10,714	57.5%
Farms with Sales of \$1 million or more - #	2,647	2.3%
Total Sales (\$millions) of farms with sales of \$1 million or more	\$ 7,880	42.3%

Source: 2007 Census of Agriculture

Supplemental Information

Total US Grocery Sales,* Store Numbers, and Market Share by Channel, 2008, and Projected Share, 2013

	2008 Sales \$Million	2008 No. of Stores	2008 % of Sales	2013 % of Sales
Traditional	\$463,605	40,277	48.4	43.4
Nontraditional	\$349,452	51,008	36.4	41.0
Total C-Stores**	\$145,729	151,053	15.2	15.6
GRAND TOTAL	\$958,786	242,338	100.0	100.0

*Grocery sales only (food and nonfood); excludes electronics, prescription drugs, toys, jewelry, sporting goods, gas, clothing, footwear, knickknacks, and hardlines. ** Sales exclude gas.
Source: Adjusted by Roberta Cook from The Future of Food Retailing, Willard Bishop, June 2009

US Grocery Sales, Store Numbers and Market Share of Total Grocery Sales, by Store Format, 2008, and Projected Share, 2013

Traditional Grocery Channel

	2008 Sales \$Million	2008 No. of Stores	2008 % of Sales	2013 % of Sales
Total Traditional	\$463,605	40,277	48.4	43.4
Conven. Supermkt	\$403,658	26,802	42.1	35.2
Fresh Format	\$7,983	825	0.8	1.0
Ltd Assortment	\$22,290	3,204	2.3	3.5
Super Warehouse	\$18,214	588	1.9	2.6
Other (small groc.)	\$11,460	8,858	1.2	1.1

Source: Adjusted by Roberta Cook from The Future of Food Retailing, Willard Bishop, June 2009

US Grocery Sales,* Store Numbers and Market Share of Total Grocery Sales, by Store Format, 2008, and Projected Share, 2013

Nontraditional Grocery Channel

	2008 Sales \$Million	2008 No. of Stores	2008 % of Sales	2013 % of Sales
Total Nontrad'l	\$349,452	51,008	36.4	41.0
Supercenter	\$152,176	3,240	15.9	21.6
Wholesale Club	\$79,483	1,295	8.3	8.5
Dollar Store	\$16,911	21,554	1.8	1.8
Drug	\$50,489	21,003	5.3	5.6
Mass	\$44,637	3,754	4.7	2.9
Military	\$5,757	172	0.6	0.6

*Grocery sales only (includes food and non-food); excludes electronics, prescription drugs, toys, jewelry, sporting goods, gas, clothing, footwear, knickknacks, and hardlines.

Source: Adjusted by Roberta Cook from The Future of Food Retailing, Willard Bishop, June 2009

Sales and Store Numbers in Major US Grocery Channels, by Key Format, 2008, Excluding: Membership Clubs, C-Stores, Grocery Stores with Sales <\$2M/Yr., and Dollar Stores

Format	# of Stores	% of Total Stores	Sales, Million \$	% of Total Sales
Total	34,659	100.0%	\$604,321	100.0%
Supermarkets*	27,390	79.0%	\$421,872	69.8%
Supercenters**	3,240	9.4%	\$152,176	25.2%
Combined ltd assort and fresh/natural formats	4,029	11.6%	\$30,273	5.0%

*Conventional supermarkets and super warehouse formats.

**Sales of supermarket-type items only (food and non-food grocery).

Source: Calculated by Roberta Cook based on data in The Future of Food Retailing, Willard Bishop, June 2009.

Size of Leading US Natural and Limited Assortment Supermarket Retailers

- In 2009 Whole Foods operated 271 stores in the USA with \$8.2 billion in sales (total \$8.5 billion and 283 stores, incl UK and Canada); 17% of sales are fruits and veg
- Trader Joe's sales are estimated at over \$6.5 billion, with 310 stores in 2008 (privately held, owned by the Albrecht family of Germany - Aldi chain)
- Specialty retailers represent only about 5% of US grocery store sales
- Conventional supermarket operators are still the primary customers for fresh produce suppliers, and most are changing their formats to emphasize freshness, including increased attention to produce departments and also organics

US Grocery Store Format Characteristics, 2008 Traditional Grocery Channel

	Total Store Area	Average Total SKUs	Average Weekly Sales \$	Groc. & Consum. % Sales
Total Traditional			\$221,345	100
Trad. Supermkt	52,100	45,500	\$289,631	100
Fresh Format	32,400	30,000	\$185,991	100
Ltd Assortment	15,000	1,400	\$133,799	100
Super Warehouse	43,100	36,000	\$595,467	100
Other (small groc.)	9,000	3,000	\$24,880	100

Source: The Future of Food Retailing, Willard Bishop, June 2009

US Grocery Store Format Characteristics, 2008 Nontraditional Grocery Channel

	Total Store Area	Average Total SKUs	Average Weekly Sales \$*	Groc. & Consum. % Sales
Total Nontraditional			\$132,035	
Wholesale Club	130,500	5,100	\$1,180,329	59%
Supercenter	184,100	100,000	\$903,311	60%
Dollar	7,400	5,400	\$15,095	66%
Drug	12,300	25,000	\$46,229	34%
Mass	66,400	95,000	\$228,639	23%
Military	29,400	15,000	\$643,610	100%

*Grocery sales only (includes food and non-food); excludes electronics, prescription drugs, toys, jewelry, sporting goods, gas, clothing, footwear, knickknacks, and hardlines.
Source: The Future of Food Retailing, Willard Bishop, June 2009

U.S. Fresh Produce Retail Sales by Segment, 2008

Random-weight vegetables	31.9%	Fresh-cut fruit	2.8%
Random-weight fruits	29.8%	Store brand fresh-cut produce	2.7%
Packaged salads	11.0%	Floral	1.9%
Specialty produce	4.8%	Refrigerated dressings	1.7%
Packaged fresh-cut produce	4.0%	Premium juices	1.6%
Organic produce	3.9%	Other items	3.9%

Source: Progressive Grocer Market Research, Oct. 2009.

Key Objectives of Assortment Optimization

1. Increase Sales & Profitability
In-store & supply chain optimization



2. Drive Buyer Conversion
Reduce shopper leakage



3. Build the Basket
Right mix, in-stock all the time



4. Increase Loyalty
Improve shopper satisfaction



Source: White Paper - Strategic Assortment Initiative, Progressive Grocer Webinar March 18, 2010

Today, assortment is a study of contrasts

- The increase in new items**
In a new world of smaller stores & sections
- The increase in complexity to shop the shelf**
In an environment where consumers want improved shopability while they consolidate trips
- The increase in inventory**
In an economy where retailers need to reduce inventory carrying costs
- The increase in out-of-stocks**
In a time when well-executed assortment optimization programs can drive real gains in productivity

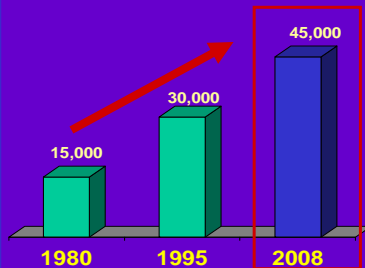
**How
did we
get
here?**

Source: White Paper - Strategic Assortment Initiative, Progressive Grocer Webinar March 18, 2010

More SKU's being offered...less being purchased

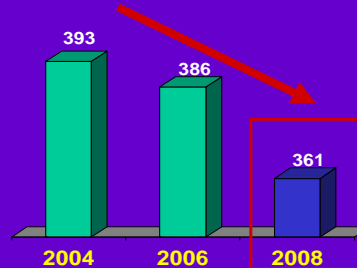
of SKU's at shelf
up 50%

Average SKUs Carried Per Store
(All Channels)



Unique SKU's in
Home down 10%

of Unique SKUs Per Shopper
In Home Pantry



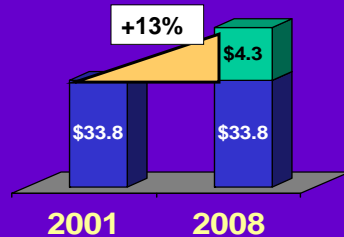
Result: Increase in duplicative assortment at retail

Sources: FMI Speaks, 2000-2008; IRI 2009 "Rethinking Shopper Behavior in the New Transformational Economy"

Predictably, inventory and out of stocks have risen

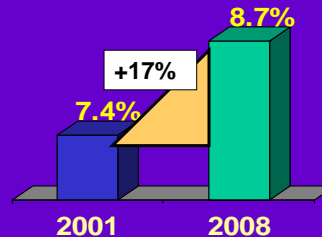
Inventory Levels

Total U.S. Food Stores
(Grocery \$B)



Out-of-Stocks

Average OOS Rate
(Grocery)



Result: reduced cash flow & customer satisfaction

Sources: GMA; IHC OOS Study 2008

- Information technology, business intelligence will play a key role at all levels of the value chain going forward
- Those who embrace this may gain competitive advantages
- This includes a better understanding of consumers and the tactics that increase consumption without sacrificing return for the commercial buyer or seller
- Scale is increasingly important - investment capabilities and competitive wherewithal
- Scale can help achieve buying and selling advantages but can only be managed successfully with focused management, real-time data management systems and operational excellence

- Fresh produce lags the food industry in the use of business intelligence to improve performance
- Fresh produce faces special challenges due to perishability, daily harvesting and shipping constantly influenced by the weather
- Regardless of the special challenges of produce, fresh produce is increasingly being asked to conform to the standards of the consumer packaged goods (CPG) industry
- The rapid growth in value-added fresh produce sold with UPC codes off of a list price (like CPG) has led the way for more rigorous data analysis at retail and focus on promotion and consumer marketing

- Despite rapid change, we are still largely operating in commodity markets - so shippers are trying to differentiate themselves via products or services while still largely being price takers - this is challenging - can you show a positive ROI in the short run when investing in differentiation?
- Retailers are attempting to remain competitive amidst channel blurring (already in place in the pre-recession era)
- The recession is causing some retailers to abandon their go-to-market strategies and attempt to morph into something "on the fly" by thinking short-term vs. long-term (Willard Bishop)

- Wholesalers and distributors are pressed to add value to remain relevant
- Foodservice industry is no longer expanding as it was for decades
- Seed companies are striving to develop more output-specific consumer traits, in some cases in conjunction with growers and shippers in order to capture more of the value chain; in some cases developing exclusive marketing relationships with retailers, supporting retailer differentiation