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A Presentation Guide to The U.S. Food Industry

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Preface

Frequently individuals and organizations have need of information describing the contemporary U.S. food system for presentation at various company meetings or industry conferences. The purpose of this bulletin is to provide materials and data relevant to today's food industry in a form that can be readily used by others to create presentations of their own. The bulletin provides over 40 figures and tables often used to describe and summarize the important trends and challenges facing the food industry.

Part I presents brief statements to assist with the interpretation of the information presented in each accompanying figure/table and to help guide the presenter through the information. Part II reproduces each of the figures and tables from Part I, but enlarged on seperate paper suitable for convenient conversion into overhead transparencies.

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Section I

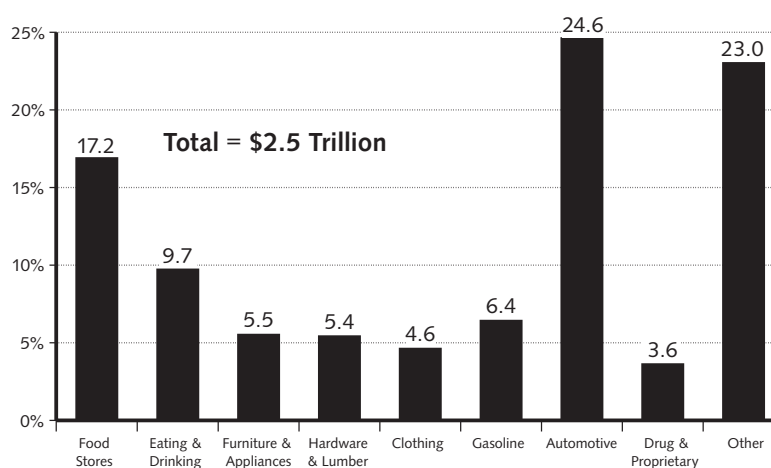
Structure of the Food Industry

Structure of the U.S. Food Industry



- In 1996, total U.S. retail sales amounted to \$2.5 trillion.
- Retail sales from food stores amounted to 17.2 percent of total U.S. sales.
- When food retail sales are combined with the sales from eating and drinking establishments, they become the largest retail segment in the U.S. with 26.9 percent of total U.S. retail sales.

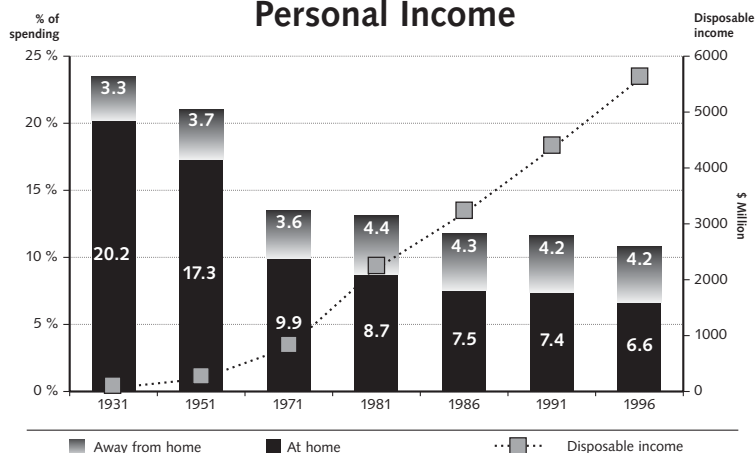
Divisions of U.S. Retail Sales, 1996
Percent of Total Sales



Source: U.S. Department of Commerce

- Disposable income for Americans has risen continuously since 1938.
- At the same time, the proportion of disposable income spent on food has decreased almost without interruption. In 1931, almost one quarter of disposable income was spent on food. In 1996, only 10.8 percent was spent on food.
- In recent years, a growing proportion of disposable personal income is being spent on food away from home.
- The relatively low percentage of disposable income spent on food in the U.S. is often used as an indicator of the efficiency of the U.S. food and agricultural system. This same measure for the majority of developed economies is between 18%-25%.

Food Expenditures as a Share of Disposable Personal Income



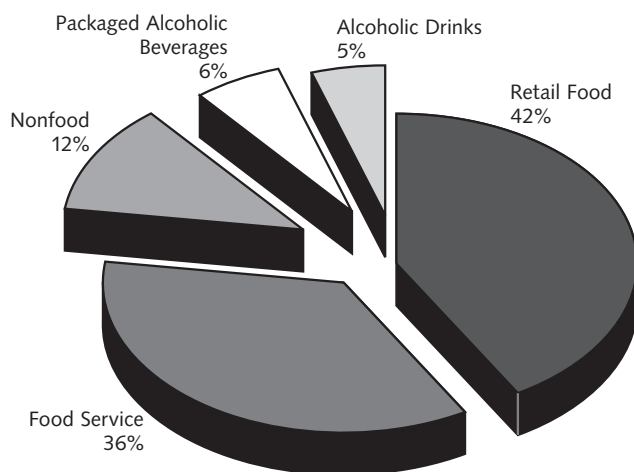
At home: includes food purchases from grocery stores and other retail outlets, including purchases with food stamps and food produced and consumed on farms, because the value of these foods is included in personal income. Excludes government-donated foods.

Away from home: includes purchases of meals and snacks by families and individuals, and food furnished employees because it is included in personal income. Excludes food paid for by government and business, such as food donated to schools, meals in prisons and other institutions, and expense-account meals.

Source: U.S. Department of Agriculture, Economic Research Service, *Food Review*, September–December 1997

- Food stores are the single largest segment of the U.S. retail food system, accounting for 42% of the total food sales.
- Food service outlets (eating and drinking establishments) contribute 36 percent of the U.S. food and beverage spending.
- Nonfood items that are sold in retail food stores such as paper goods, detergents, etc. account for 12 percent of food system sales with the remainder going to alcoholic beverages.

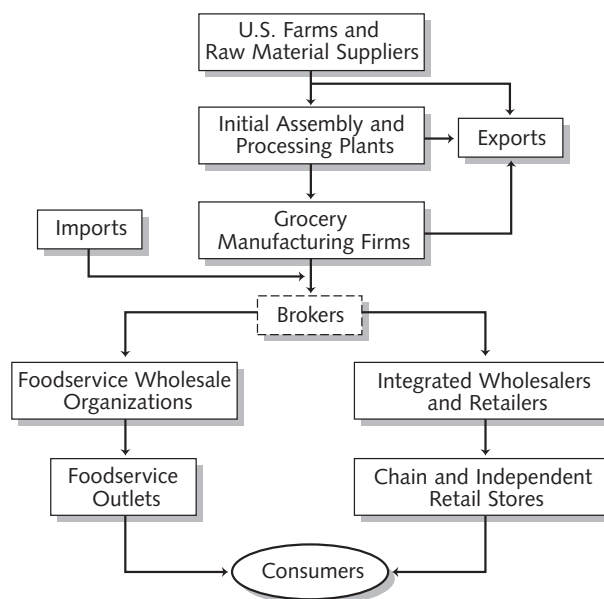
U.S. Food System Sales, 1996



Source: U.S. Department of Agriculture, Economic Research Service, *Food Review*, September–December 1997

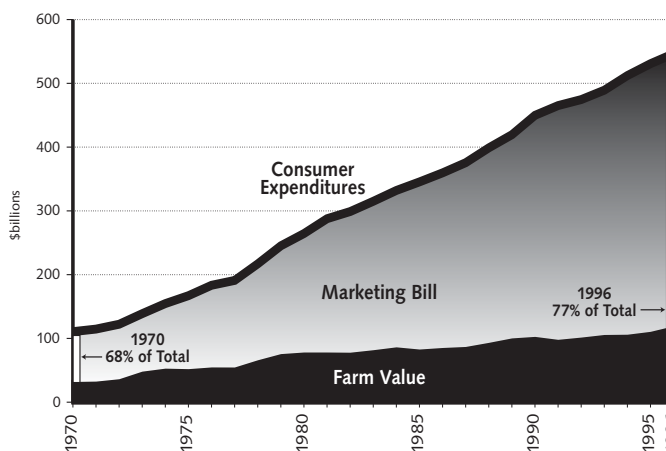
- The food marketing system moves food products from the producer through a myriad of marketing channels to the final consumer.
- Food system firms closer to producers tend often to be “commodity oriented”. Firms closer to the consumer tend to focus on “adding value” to commodities.
- Although many mergers have occurred in the wholesale and retail food channels, they remain regional companies, and there is no one national supermarket chain.

Major Marketing Channels for U.S. Grocery Products



- Consumers spent \$547 billion in 1996 for food from U.S. farms.
- Of this expenditure, almost 77 percent was spent on marketing functions including: processing, wholesaling, transporting and retailing. This proportion has increased gradually since 1970 when it constituted only 68 percent of expenditures.
- In 1996, the farm share of consumer expenditures was approximately 23 percent (\$123 billion) down from 32 percent in 1970.
- The reason for the increase in the marketing bill is the increased demand for convenient, value-added products. The value is added through further processing and packaging and by making them available to consumers in more convenient forms.

Distribution of Food Expenditures



Source: United States Department of Agriculture, Economic Research Service, *Food Review*, September-December 1997

- The farm share of retail price is the percent that farmers receive for every dollar that consumers spend.
- The products for which farmers receive the greatest share tend to be animal products. Reasons for this include minimal further processing and shortened marketing channel.
- Food products requiring more processing, transportation or wholesaling activities such as bread and rice return a smaller share to the farm level.

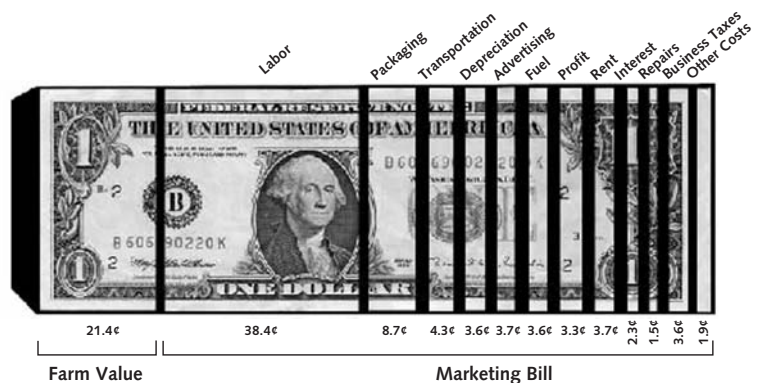
Farm Value Share for Selected Foods

Food Product	1996 Farm Share of Retail Price
	<i>percent</i>
Animal Products:	
Eggs, Grade A Large, 1 dz.	62
Beef, Choice, 1 lb.	48
Chicken, Broiler, 1 lb.	57
Milk, 1/2 Gallon	43
Cheese, Natural Cheddar, 1 lb.	40
Fruit and Vegetables:	
Fresh	
Apples, Red Delicious, 1 lb.	23
Grapefruit, 1lb.	18
Lettuce, 1 lb.	18
Frozen	
Orange Juice Conc., 12 oz.	37
Crop Products	
Sugar, 1 lb.	34
Flour, Wheat, 5 lb.	33
Rice, Long Grain, 1 lb.	24
Prepared Foods	
Peanut Butter, 1 lb.	27
Bread, 1 lb.	8

Source: United States Department of Agriculture, Economic Research Service, *Food Review*, September–December 1997

- Twenty-three percent of every dollar spent for food was returned to the farm in 1996. The remaining 77 percent of food expenditures was spent on marketing activities.
- By far the largest expense in the food system is labor which accounted for 38 percent of the total food bill in 1996.

What a Dollar Spent for Food Paid for in 1997



Note: Includes food eaten at home and away from home. Other costs include property tax and insurance, accounting and professional services, promotion, bad debts, and many miscellaneous items.

Source: United States Department of Agriculture, Economic Research Service, *Food Review*, September–December 1997

Section II

Consumers and Food Trends

Consumers and Food Trends



■ The U.S. population growth rate is now about 1% per year. This is among the lowest growth rates from developed countries. However, while the growth rate is low, the diversity within the U.S. population is growing.

■ The proportion of White Americans is projected to continue to decline. By the year 2025, they will constitute about 62 percent of the population.

■ The U.S. Census Bureau projects that by 2025, Hispanics will constitute the largest minority group.

■ Asians have recently been, and will for at least 25 years continue to be, the fastest growing group.

**Percent of Total Population
by Race and Hispanic Origin
1990, 2000, and 2025**

Race	1990	2000	2025
White, Not Hispanic	75.7	71.6	62.0
Black	12.3	12.8	14.2
Hispanic Origin (of any race)	9.0	11.3	16.8
Asian and Pacific Islander	3.0	4.4	7.5
American Indian, Eskimo, and Aleut	0.8	0.9	1.0
U.S. Total Population (1000s)	249,440	274,634	335,050

Source: United States Bureau of the Census, *Population Estimates*

- The percentage of the population under 16 will peak at the turn of the century and then decline.
- The effect of the baby boomers will continue as those aged 65 and over will increase from 13% of the population today to over 18% by 2025.
- The percentage of those over age 85 will nearly double in the next 25 years.

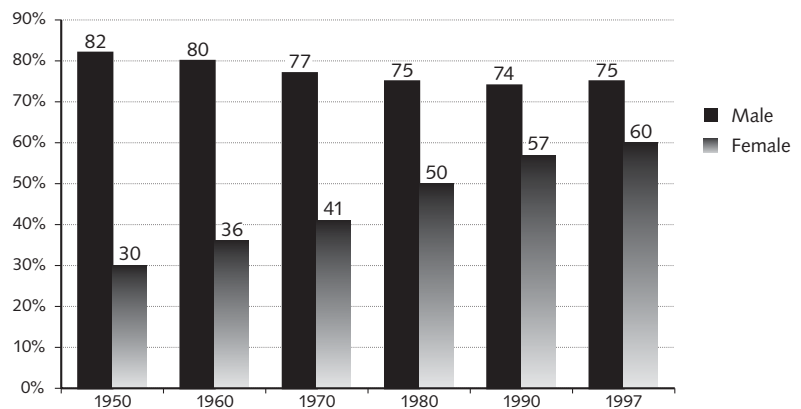
Percent of U.S. Population by Age 1990, 2000, and 2025

Age	1990	2000	2025
Under 16	23.0	29.7	21.4
65 and over	12.5	12.6	18.5
85 and over	1.2	1.6	2.1

Source: United States Bureau of the Census, *Population Estimates*

- Only 41% of women were in the labor force in 1970, compared to 60% in 1997.
- For women ages 35-44, the workforce participation rate today is 77%. This compares to 93% for men of that age.
- This trend is the driving force behind much of the rising consumer demand for convenience.

Workforce Participation Rates, 1950-1997 Percent in Workforce



Source: United States Department of Labor, Bureau of Labor Statistics, *Current Population Survey*

- Nearly half of consumer expenditures in the average supermarket are for perishable items.
- Expenditures for meat and seafood products represent the largest category of supermarket expenditures at 15.9 percent.
- Nonfood items, which include general merchandise and health and beauty care items, represent almost 21% of consumer expenditures at supermarkets.

How \$100 is Spent, 1996 Consumer Expenditures by Major Category

Product Category	\$ Amount
Perishables	49.18
Bakery Foods	2.94
Dairy Products	8.15
Deli	3.16
Florals	0.18
Frozen Foods	5.34
Ice Cream	1.52
In-store Bakery	1.89
Meat & Seafood	15.90
Produce	10.10
Non-perishables	50.82
Non-edible Grocery	9.81
Miscellaneous Grocery	9.24
Beverages	9.59
Snack Foods	5.65
Main Courses and Entrees	5.33
General Merchandise	3.96
Health & Beauty Care	4.07
Unclassified	3.17

Source: *Progressive Grocer*, April 1997

- When meals are eaten at home, but not prepared at home, they are most often purchased from a fast-food restaurant.
- Supermarkets have increasingly become a source of take-out food, accounting for 22 percent of the total take-out expenditures in 1997, double that of 1988.

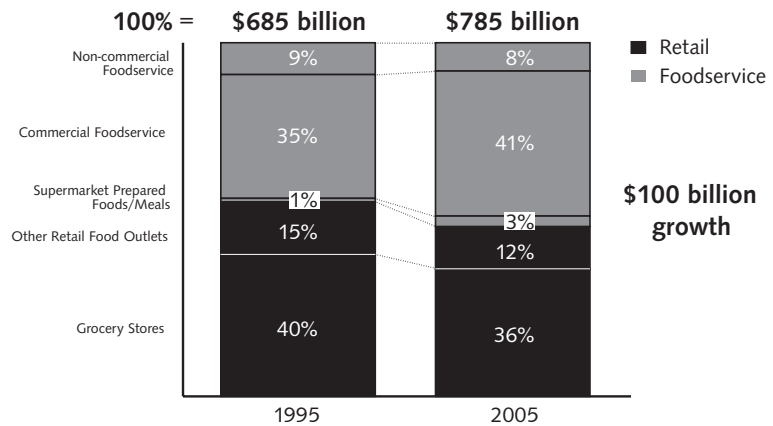
Sources of Take-out Food, 1988-1997 Percent of Total

	1988	1991	1994	1997
Fast-food Restaurant	41	51	46	41
Restaurant	38	23	25	21
Supermarket	11	14	15	22
Deli/Pizza Parlor	na	na	na	5
Convenience Store	na	2	2	1
Other	3	6	8	7
None	7	4	4	3

Source: Food Marketing Institute, *Trends in the United States 1997*

- The growth in consumer food expenditures from 1995 to 2005 is projected to be \$100 billion.
- In 1995, grocery stores and other retail food outlets accounted for approximately 56% of consumer food expenditures. However, by 2005, the retail food sector is expected to account for only 51 percent of food expenditures.
- Continued expansion of foodservice offerings, including prepared food/meals from supermarkets is expected.

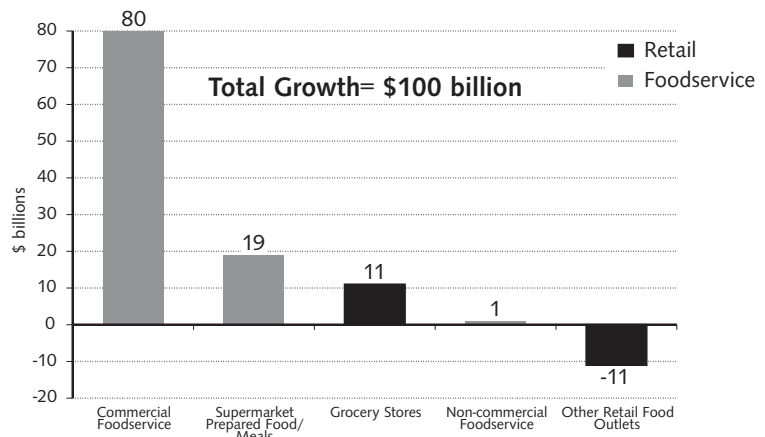
Consumer Food Expenditures, 1995, 2005



Source: McKinsey & Co.

- Eighty billion dollars of the \$100 billion growth in food expenditures is predicted to come from foodservice. However, supermarket prepared food/meals are expected to grow by \$19 billion.
- Although sales through traditional grocery stores will increase by \$11 billion, these are anticipated to be offset by a decline in sales of \$11 billion through the other retail food outlets.
- Therefore, aggregate growth in food retail stores will come from growth in the prepared food/meals.

Growth in Consumer Food Expenditures, 1995-2005



Source: McKinsey & Co.

- Estimates of home meal replacement (HMR) expenditures differ widely, but one conclusion is clear: HMR will grow to have a major impact on the U.S. food system.
- Estimates of HMR expenditures differ due to the various ways that it is defined: ready-to-eat, ready-to-heat, take-out, chilled etc..

How Big Was Home Meal Replacement in 1996?

Source	\$ billions
FIND/SVP ¹	82.4
NPD ²	38.0
Datamonitor ³	
Meal solutions	107.9
HMR	42.3
Technomic ⁴	
Convenient meals	135.0
HMR	44.0

¹ National Petroleum News, January 1998

² Refrigerated and Frozen Foods, January 1998

³ Packaging Digest, January 1998

⁴ Progressive Grocer, September 1997

Section III

Food Manufacturers

Food Manufacturers



- Philip Morris, parent company of Kraft General Foods and the Miller Brewing Company, was the largest U.S. food manufacturer in 1996.
- Philip Morris' food sales were more than 50 percent larger than the second largest food and beverage manufacturer—PepsiCo.
- Coca-Cola, the leader in soft drink sales, was third.

Leading Food and Beverage Manufacturers

	1996 Food & Beverage Sales	1996 Consolidated Sales
<i>\$ millions</i>		
Philip Morris	32,277	69,204
Pepsico	20,204	31,645
Coca-Cola	18,546	18,546
ConAgra	18,249	23,899
IBP	12,539	12,539
Anheuser Busch	10,144	12,621
Sara Lee	9,426	18,624
H.J. Heinz	9,112	9,112
Nabisco	8,889	17,063
CPC International	8,477	9,844
Campbell Soup	7,678	7,678
Seagram	6,694	9,747
Kellog	6,677	6,677
Tyson Food	6,454	6,454
General Mills	5,416	5,416
Quaker Oats	5,199	5,199
Procter & Gamble	4,066	35,284
Hershey Foods	3,989	3,989
Dole Food	3,840	3,840
Hormel Foods	3,099	3,099

Source: Prepared Foods, July 1997

- Over 19,000 new grocery products were introduced by manufacturers to retailers in 1997; 12,000 of those were food products.
- The number of new product introductions has increased significantly over the last 10 years, nearly doubling from 10,182 in 1987. The annual average for the 1970's was about 1,000.
- The leading category in number of new product introductions in 1997 was condiments with salad dressings being a major contributor.
- Since 1992, The number of new food products has leveled off, while non-food categories has increased rapidly.
- Only about one-third of new products actually make it to supermarket shelves.

New Grocery Product Totals by Category

	1997	1992	1987
FOOD CATEGORIES			
Baby Foods	53	53	10
Bakery Products	1,200	1,508	931
Baking Ingredients	422	346	157
Beverages	1,606	1,538	832
Breakfast Cereals	83	122	92
Candy/Gum/Snacks	2,505	2,068	1,367
Condiments	2,631	2,555	1,145
Dairy	862	1,320	1,132
Desserts	109	93	56
Entrees	629	698	691
Fruits & Vegetables	405	276	185
Pet Food	251	179	82
Processed Meat	672	785	581
Side Dishes	678	560	435
Soups	292	211	170
TOTAL FOOD	12,398	12,312	7,866
NONFOOD CATEGORIES			
Health & Beauty Aids	6,226	3,690	2,039
Household Supplies	311	474	161
Paper Products	60	153	47
Tobacco Products	127	45	51
Pet Products	202	116	18
TOTAL NONFOOD	6,926	4,478	2,316
GRAND TOTAL	19,324	16,790	10,182

Source: New Product News, January 1998

- In 1997, the top 20 manufacturers introduced 12 percent of all new food products, down from 13 percent in 1992 and 16 percent in 1987.
- More than a quarter of the companies on 1997's list have never before been on the annual Top 20 ranking.

New Food Product Introductions Leading Companies

Rank	Company	1997	1992
1	Philip Morris	165	256
2	ConAgra	143	151
3	Grand Metropolitan	129	74
4	Nestle	115	114
5	Sara Lee	103	60
6	CPC International	74	53
7	H.J. Heinz	72	99
8	Unilever	72	53
9	Hain Food Group	71	-
10	General Mills	55	61
11	Quaker Oats	54	31
12	Hormel Foods	50	50
13	Campbell Soup	49	121
14	Frieda's Finest	45	-
15	World Variety Produce	43	-
16	Dean Foods	42	-
17	Nabisco Brands	42	67
18	Tyson Foods	42	-
19	Perugina	32	-
20	Dreyer's Grand Ice Cream	32	-
Total, Top 20 Firms		1,430	1,566
Total, All Firms		12,398	12,312

Source: New Product News, January 1998

■ Grocery Manufacturers cite a variety of reasons to explain their motivations to introduce new products into the U.S. grocery distribution system:

- New products can respond to changing consumer demands,
- They help keep client interest in the manufacturer,
- New products can take advantage of new technologies being developed,
- New products can counter or block new product efforts of competitors,
- Products can be transformed from commodities to new, value-added products.

Manufacturer Motivations

- ✓ Respond to changing consumers
- ✓ Maintain interest of intermediaries
- ✓ Take advantage of new technologies
- ✓ Counter competitive thrusts
- ✓ Transform commodity to value-added

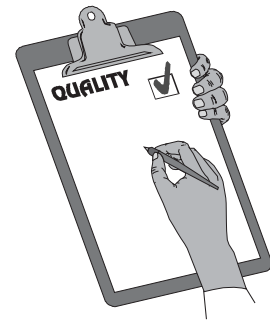
■ Research results indicate supermarket buyers rely on certain new product characteristics more than others. Important considerations include:

- A gross margin (GM) which matches the retailer's GM target,
- A product already adopted by other retailers is more readily accepted,
- Truly unique items have the highest probability of acceptance,
- Items introduced into categories with high growth are more often accepted,
- Certain excessive terms of trade inducements may actually signal inferior quality.

Important New Product Criteria

Key decision criteria used by buyers

- ✓ Gross Margin
- ✓ Competition
- ✓ Quality/Uniqueness
- ✓ Category Growth
- ✓ Terms of Trade

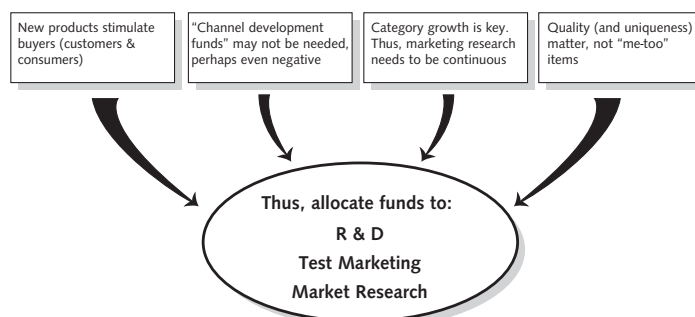


■ In times of limited budgets, food marketers need to allocate scarce marketing funds where they will produce the largest marginal returns.

■ Some of the most important reasons to support continued research and development budgets are:

- New products stimulate interest from buyers, the immediate customer, and the end consumer,
- Certain terms of trade inducements may actually signal inferior quality,
- Category growth is key to sales growth and new products help grow the category,
- Buyers are favorably influenced by fundamentally new items, not look-alikes.

New Product Research Managerial Implications

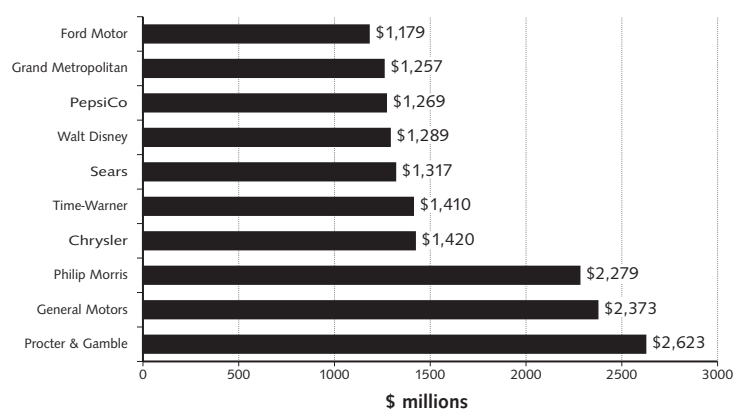


■ Two of the top three leading national advertisers – as determined by major media advertising expenditures – are Proctor & Gamble and Philip Morris, both of whom have significant presence in the grocery industry.

■ Proctor & Gamble's advertising alone, which does not include promotions, was \$2.6 billion in 1996.

■ Grand Metropolitan, a U.K. based food manufacturer, and PepsiCo also finished in the top 10.

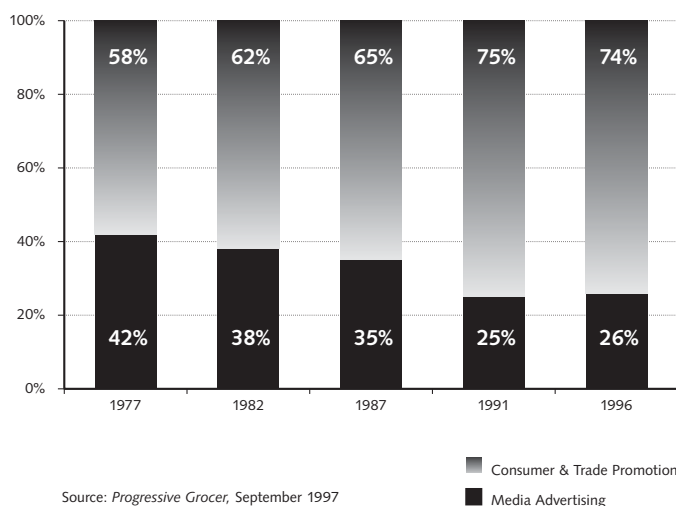
Expenditures of Top 10 National Advertisers, 1996



Source: Advertising Age, September 25, 1997

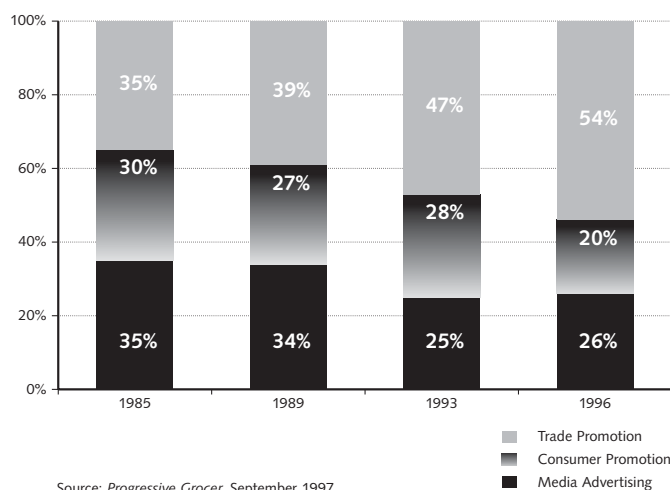
- Media spending generally refers to mass media—newspapers, magazines, radio, television, and billboards.
- Consumer promotions are offered directly to the consumer and include couponing, new product sampling, cash refunds, sweepstakes, etc.
- Trade promotions include cash allowances and free product based on customer performance.
- Since 1977, the share of marketing dollars spent on consumer and trade promotions has generally increased.
- In 1996, three times as much money was spent on promotions as on advertising.

Advertising vs. Promotions: Share of Marketing Spending



- The increase in promotional spending is being allocated principally to trade promotions.
- The proportion of spending allocated to trade promotions has increased from 35 percent in 1985 to 54 percent in 1996.

Shares of Total Marketing Promotional Expenditures



■ Numerous reasons are put forth to explain the shift of marketing funds away from media advertising to sales promotion:

- Trade promotions increase sales in the short run,
- More products are priced on an equal level needing a means to differentiate,
- Sales force will respond to pressure by increasing promotions to increase sales,
- Responses to trade promotions can be readily measured. This also enables more localized, targeted promotion planning. Responses to mass media, however, are quite difficult, if not impossible, to quantify,
- Increases in media channels make mass consumer advertising difficult and diffuse media messages.

Reasons to Shift to Sales Promotion

- ✓ Increase in short run management view
- ✓ More parity products
- ✓ Sales force pressure
- ✓ Measurement capabilities
 - More localized promotional planning
- ✓ Increasing media diffusion

■ The shift in promotional spending has not necessarily had positive impacts:

- Brand loyalty, supported by media advertising, has declined,
- The decline in brand loyalty has led to a heightened price sensitivity and the view that one brand is the same as the other,
- Cash allowances and free product encourage forward buying and then diversion of the extra product for cash sales to other retailers.

Consequences of Shift in Promotional Spending

- ✓ Decline in brand loyalty
- ✓ Heightened price sensitivity-
“commoditization” of brands
- ✓ Encourages forward buying and diverting

- Price reductions generally increase sales. The increases can be especially large when used in combination with other promotional activities.
- Example: a sales increase of 18% is produced by dropping the price from 100% to 95% of the original price. However, sales growth can be more impressive when price reductions are combined with ads and displays.
- Often the same increase can be generated by applying different marketing tools. Example, a 20 percent reduction (price index=80) produces a twofold sales increase (sales index=209). However, the same effect is produced with an in-store display with no price reduction (sales index=213).

Sales Impact of Various Promotional Conditions

Promotion Condition	Price Index ¹						
	100	95	90	85	80	75	70
	<i>sales index</i>						
Non-promoted	100	118	142	171	209	258	324
Ad Only	198	234	281	338	414	511	641
Display Only	213	251	302	364	445	550	690
Display & Ad	395	466	561	675	825	1,019	1,280

¹ 100=undiscounted, everyday normal price

Source: A. C. Nielsen

Section IV

Food Wholesalers and Retailers

Food Wholesalers and Retailers



- Although the top 20 grocery distributors produce annual sales revenues well over a billion dollars, their names generally are not as well known as their manufacturer counterparts partly because grocery retailers remain largely regional companies.

Sales of Top 20 Grocery Companies, 1996¹

Rank	Company	Sales
		<i>\$ millions</i>
1	Kroger Co.	25,200
2	Safeway Inc.	22,700
3	Wal-Mart	17,500
4	Albertson's Inc.	13,650
5	American Stores Co.	13,301
6	Winn-Dixie Stores Inc.	12,955
7	Ahold USA	11,200
8	Publix Super Markets Inc.	10,400
9	A&P	10,100
10	Food Lion Inc.	9,750
11	Meijer Inc.	5,600
12	Ralphs Grocery	5,362
13	H.E. Butt Grocery Co.	5,200
14	Super Kmart	5,000
15	Supervalu, Inc.	4,500
16	Giant Food Inc.	4,000
17	Pathmark Stores Inc.	3,907
18	Fleming Companies Inc.	3,600
19	Fred Meyer, Inc.	3,549
20	Penn-Traffic Co.	3,309

¹ U.S. grocery sales only

Source: *Private Label*, March/April 1997

- The sales concentration of the top 4 and top 8 chains in the grocery industry has remained remarkably stable since 1929.
- However, grocery chains are gradually replacing independent supermarket companies. Chains accounted for only 31.5% of grocery sales in 1929, but accounted for the majority of grocery industry sales in 1996.
- On a regional level, the top four supermarket companies often account for over two-thirds of grocery store sales in their market area.

U.S. Grocery Chains Market Shares, 1929-1996

Year	Top 4 Chains	Top 8 Chains	Total All Chains
	percent		
1929	23.1	26.7	31.5
1948	21.7	25.5	38.6
1963	18.7	25.0	41.1
1975	17.0	25.0	46.6
1980	17.5	26.3	46.7
1984	19.4	26.8	49.3
1993	17.2	26.1	54.5
1996	18.6	29.8	59.3

- Chain supermarkets tend to be more numerous and larger than independents. In 1996, chain stores numbered 18,920 or 14.9% of the total number of grocery stores, but generated nearly 60 percent of grocery industry sales.
- Independent supermarkets numbered 10,980 or 8.6% of all grocery stores in 1996, but generated 16.7% of grocery industry sales.
- Smaller store formats, convenience stores and other small stores dominate total grocery store numbers with nearly 100,000 outlets.

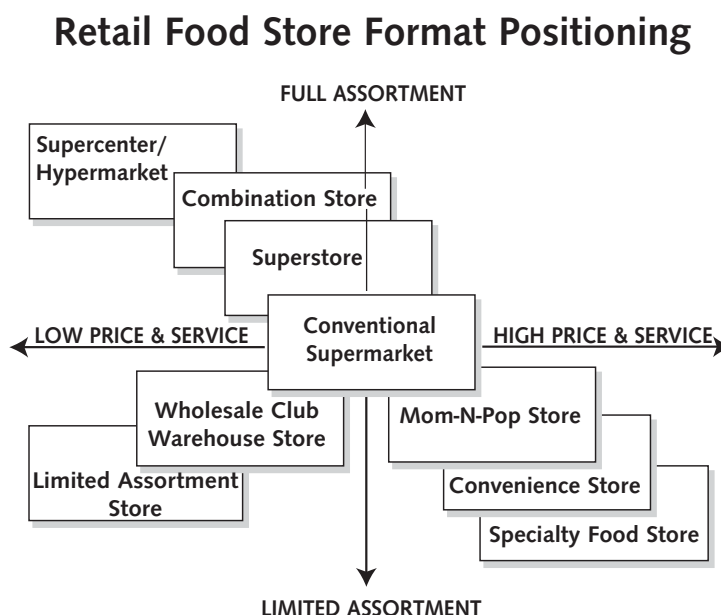
1996 Grocery Sales By Volume and Format

	Number of Stores	% of Total	Sales ¹ (\$ billions)	% of Total
All Grocery Stores	127,000	100.0	425.7	100.0
Supermarkets \$2 million +	29,900	23.5	323.2	75.9
Chain Supermarkets				
\$ millions	18,920	14.9	252.3	59.3
2-3.9	1,375	1.1	4.0	0.9
4-7.9	4,090	3.2	24.6	5.8
8-11.9	4,065	3.2	39.0	9.2
12-19.9	5,285	4.2	78.5	18.4
20-29.9	3,075	2.4	70.9	16.7
30 +	1,030	0.8	35.3	8.3
Independent Supermarkets				
\$ millions	10,980	8.6	70.9	16.7
2-3.9	4,535	3.6	13.1	3.1
4-7.9	4,020	3.2	22.4	5.3
8-11.9	1,140	0.9	10.9	2.6
12-19.9	785	0.6	11.2	2.6
20-29.9	330	0.3	7.5	1.8
30 +	170	0.1	5.8	1.4
Convenience Stores	55,100	43.4	26.8	6.3
Wholesale Club Stores	705	0.6	19.6	4.6
Other Stores	41,295	32.5	56.1	13.2
By Supermarket Format				
Conventional	18,200	60.9	142.5	44.1
Extended ²	8,200	27.4	140.0	43.3
Economy ³	3,500	11.7	40.7	12.6
Total Supermarkets	29,900	100.0	323.2	100.0

¹ supermarket items only. ² includes combination (1,500) and superstore (6,700). ³ includes limited assortment (850), warehouse (1600), super warehouse (450), and hypermarket/supercenter (600).

Source: Progressive Grocer, April 1997

- Grocery store formats are evolving away from conventional formats.
- Newer supermarket development can be explained by examining how new stores are positioned with respect to price/service and assortment dimensions.



- The number of conventional or traditional supermarkets has declined both in number and in sales share.
- Growth in the larger and economy formats such as warehouse and limited assortment stores appears to have stabilized in recent years.

Store Format Growth Trends, 1980-1998

Traditional Grocery Channel	1980		1993		1998 ¹	
	Stores	% of ACV Share	Stores	% of ACV Share	Stores	% of ACV Share
Conventional	30,250	55.2	15,370	26.1	13,500	20.6
Superstore	3,150	11.6	6,270	22.4	7,200	23.1
Food/Drug Combo	475	2.2	2,190	10.2	3,500	14.5
Warehouse Store	920	2.5	2,400	6.5	1,950	4.7
Super Warehouse	7	na	500	3.4	675	4.1
Limited Assortment	750	0.6	730	0.6	930	0.6
Convenience Store (trad.)	35,800	5.4	49,800	6.6	48,500	5.7
Convenience Store (petro.)	na	na	34,200	3.6	36,000	3.4
Other	96,000	22.5	51,650	11.8	39,000	8.0
Subtotal				91.2		84.7

¹ projections

Source: Willard Bishop Consulting

- Superstores and combination food/drug stores are relatively new formats that have captured a greater proportion of grocery industry sales since 1980. These large stores often sell general merchandise and health and beauty care items as well as a full array of supermarket foods.
- Wal-mart and K Mart have both implemented a form of hypermarket, called a supercenter, which combines the traditional mass merchandise of Wal-mart and K Mart with the traditional supermarket. Strong expansion within this format will increase sales in this channel.

Store Format Growth Trends, 1980-1998 (cont.)

Non-traditional Grocery Channel	1980		1993		1998 ¹	
	Stores	% of ACV Share	Stores	% of ACV Share	Stores	% of ACV Share
Hypermarket	na	na	18	0.2	19	0.2
Wholesale Club	na	na	603	5.6	800	6.6
Mini Club	na	na	148	0.3	175	0.3
Supercenter	na	na	250	1.5	1,020	7.0
Deep Discounter	na	na	690	1.2	750	1.2
Subtotal	na	na	8.8		15.3	
Traditional Grocery Channel Subtotal			91.2		84.7	
TOTAL			100.0		100.0	

¹ projections

Source: Willard Bishop Consulting

- The sales shares of the major departments in the supermarket continue to evolve with changing consumer demand.
- The meat department has experienced a steady decrease in sales as a proportion of total store sales since at least 1967.
- Along with general merchandise, health and beauty care, and nonfoods, it is primarily the fresh foods departments (e.g. produce, deli, bakery, seafood) that are experiencing the greatest growth.

Supermarket Sales Distribution Past, Present and Future

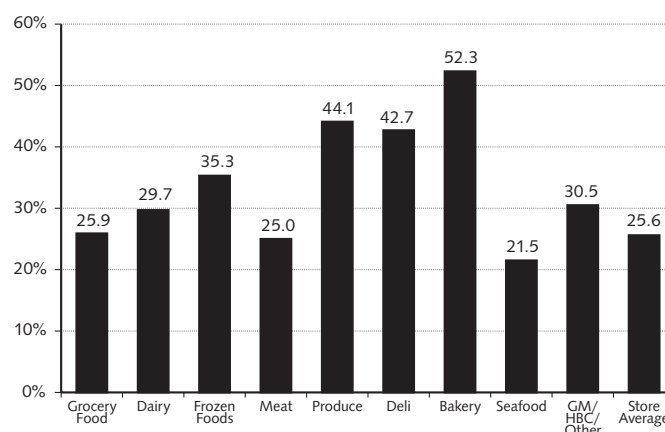
	1967 ¹	1989 ²	1993 ²	1996 ²	2000 ³
Meat	24.1	15.5	14.0	14.4	12.3
Dairy	11.1	6.2	6.0	6.1	6.1
Produce	7.6	9.1	10.4	10.9	12.7
Deli	na	4.3	6.0	6.6	7.8
Bakery	na	2.6	3.3	3.3	4.0
Seafood	na	1.1	1.1	1.1	1.6
Frozen Foods	4.3	5.4	5.2	5.4	5.5
Grocery, Food	34.5	27.0	26.6	26.4	24.7
GM/HBC/Other	18.9	28.8	27.4	26.8	25.2
Total	100.0	100.0	100.0	100.0	100.0

¹Chain Store Age, 1968. ²Supermarket Business, September 1990, 1994, 1997.

³Cornell Food Executive Program projections, 1997

- Supermarket gross margin is the markup between the cost and selling price divided by the selling price of the product.
- The average gross margin for the total store is 25.6% or about one-quarter of the average price to shoppers.
- Gross margin is intended to cover all retail costs incurred by the supermarket. Frozen foods, produce, deli and bakery departments have higher equipment and labor costs as well as higher loss and shrinkage rates. Therefore, they have higher gross margins to cover the additional costs.

Supermarket Gross Margins



Source: *Supermarket Business*, September 1997

- The proportion of private label or store brands in the supermarket has increased in recent years. In 1991, supermarket sales' shares of private label products was 13.6%. By 1996, this had increased to 15.8%.
- Private label volume or unit share has also increased from 18.1% in 1991 to 20.2% in 1996.
- Private label sales share is lower than its share of volume due to the generally lower pricing on private label goods.

Private Label Market Share Trends U.S. Supermarket Industry

Year	Dollar Share	Unit Share
	percent of total sales	
1991	13.6	18.1
1992	14.6	19.4
1993	14.9	19.7
1994	14.9	19.6
1995	14.9	19.5
1996	15.8	20.2

Source: Private Label Manufacturers Association, 1997

- Sales share of private label varies by supermarket department from a low of 9.7% in health and beauty care to 38.5% in the dairy case.
- The high sales share in the dairy department is primarily due to private label milk sales. Many supermarkets carry their own store brand of milk.

Private Label Share by Department, 1996 U.S. Supermarket Industry

	Dollar Share	Unit Share
	<i>percent of total sales</i>	
Edible groceries	10.6	15.3
Non-edible groceries	10.5	13.9
Frozen	15.3	19.9
Dairy	38.5	39.0
Bakery	26.2	35.5
Deli	12.2	15.2
HBC	9.7	13.2
General merchandise	10.1	16.2
Total	15.8	20.2

Source: Private Label Manufacturers Association, 1997

- In some European countries private label has a much greater presence than in the U.S..
- Switzerland and the United Kingdom have the greatest private label unit shares.

Global Private Label Penetration, 1997 Country Private Label Dollar Share

Country	
	<i>percent</i>
Switzerland	45
United Kingdom	40
Austria	30
Denmark	30
Canada	25
France	23
Belgium	22
Germany	21
Netherlands	21
United States	16
Ireland	12
Italy	11
Portugal	10
Spain	10
Finland	8
Norway	8
Sweden	8
Greece	7

Source: Datamonitor

Section V

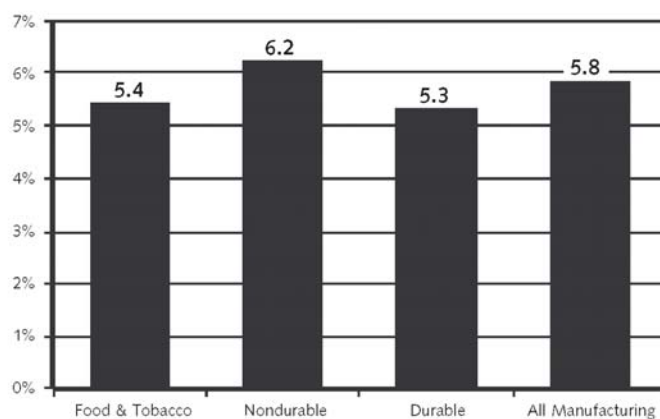
Financial Performance

Financial Performance



- Measured as a percentage of sales, the profits of U.S. food and tobacco manufacturers have been lower than the average of all manufacturers in the U.S. economy in recent years.

**Average After Tax Profits as a Share of Sales
Manufacturing 1994–1996**



Source: *Statistical Abstract of the United States, 1997*, no. 880

- Net profits have increased for all three food related industries since 1993.
- In general, food manufacturers have experienced higher net profit margins and higher returns on assets than food retailers and wholesalers.
- Net profits of retailers have grown considerably faster since 1993 than those of manufacturers.

Net Profit Margin for Food Manufacturers, Wholesalers, and Retailers Net Profit as a Percent of Sales

	Manufacturer	Wholesaler	Retailer
1993	4.4	0.9	1.5
1994	4.5	0.9	1.8
1995	4.8	1.1	1.9
1996	4.6	1.1	2.0
1997 ¹	4.7	1.1	2.1
1998 ¹	5.2	1.2	2.2

¹ estimates

Source: Value Line Investment Survey, November 14, 1997

- While returns on equity have grown for manufacturers and wholesalers since 1993, they have declined for retailers.
- The largest growth has occurred in the wholesale sector, where returns have increased by 30 percent.

Return on Equity for Food Manufacturers, Wholesalers, and Retailers Net Profit as a Percent of Total Equity

	Manufacturer	Wholesaler	Retailer
1993	16.1	9.6	23.7
1994	16.2	11.0	24.4
1995	16.6	12.2	22.8
1996	16.6	12.3	21.7
1997 ¹	17.0	12.5	22.0
1998 ¹	17.5	12.5	21.0

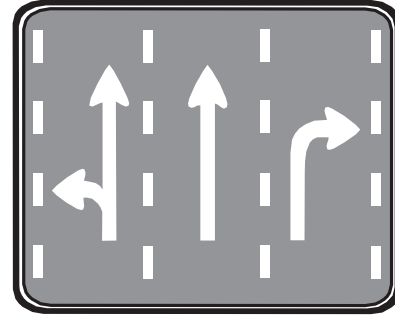
¹ estimates

Source: Value Line Investment Survey, November 14, 1997

Section VI

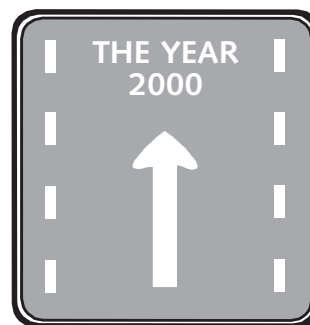
Directions for the Future

Directions for the Future



- To remain competitive in the future, the food industry has concentrated efforts in two main directions: 1) to add more customer value and 2) to eliminate unnecessary costs.
- Adding value is important because the consumer continues to demand genuine benefit for money spent.
- Eliminating unnecessary costs will help to further increase the value or benefit/cost ratio by reducing costs.

Food Industry Directions Toward the Year 2000



- ✓ Adding more value
- ✓ Eliminating unnecessary costs

-
- One method of adding value to the business is to continue to improve product variety by offering exciting and differentiated products that consumers perceive as unique and of value.
 - New hybrid store formats can position supermarkets and target specific consumer market segments.
 - Private label is projected to continue to grow as consumers recognize the higher quality and increased value of store brands.
 - Service, freshness and increased consumer orientation should help make the shopping experience more fun and exciting.

Adding Value

- ✓ **Differentiation—product variety**
- ✓ **Positioning—new hybrid formats**
- ✓ **Growth of private label**
- ✓ **Service and freshness**
- ✓ **Consumer orientation**

-
- Various electronic technologies will assist the food industry to eliminate unnecessary costs in product management, data exchange and logistics.
 - Targeted spending on advertising and promotion will result in a further reduction in advertising and an increase in promotional spending.
 - Strategic alliances with preferred suppliers will streamline the marketing channel logistics and trim costs. They will also create an environment which will enable firms to more quickly respond to the consumers' changing demands.

Eliminating Costs

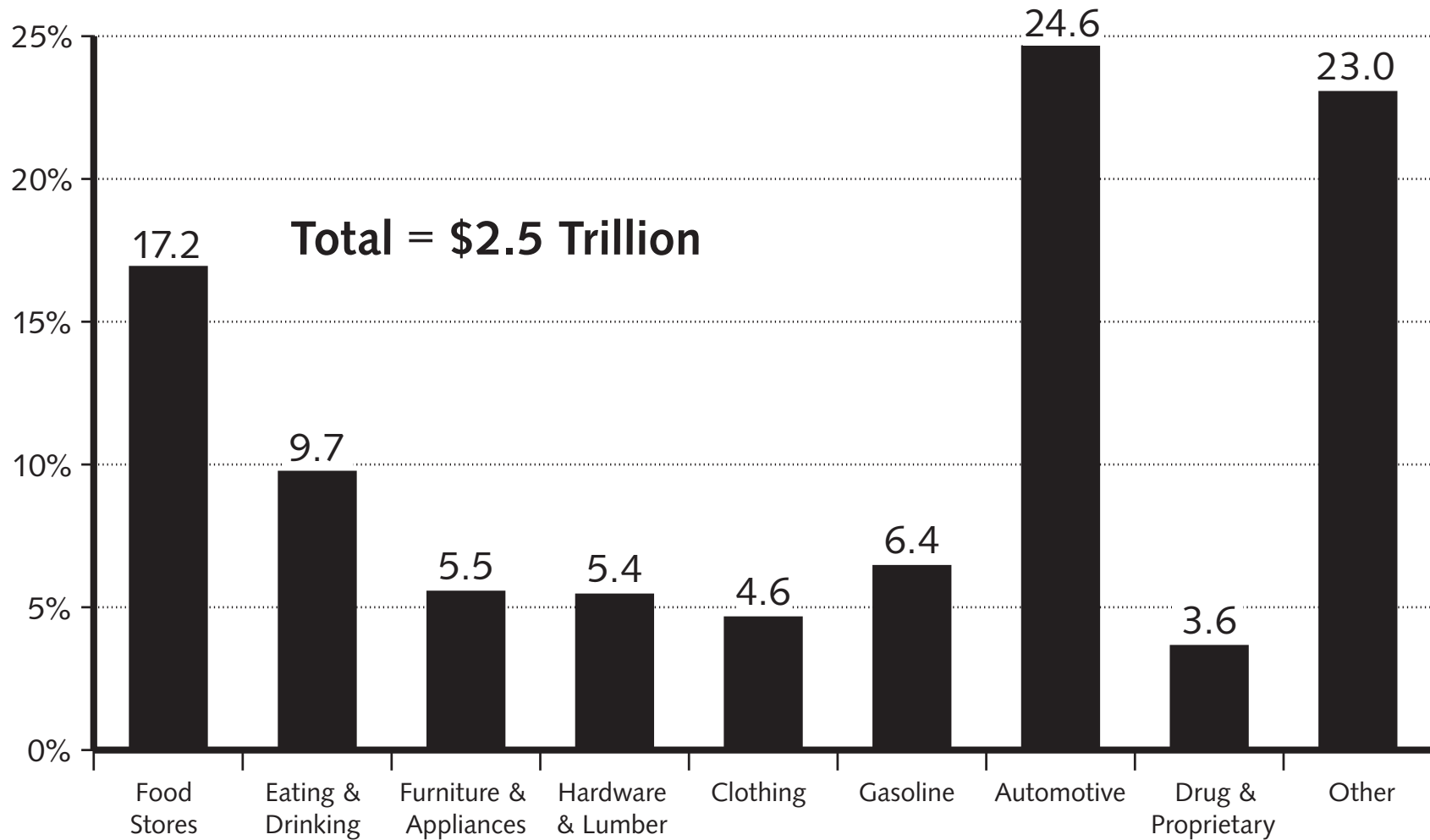
- ✓ **Electronic imperatives—ECR, EDI, logistics optimization**
- ✓ **Reduce advertising—but increase promotion**
- ✓ **Develop strategic alliances with preferred suppliers**

Structure of the U.S. Food Industry



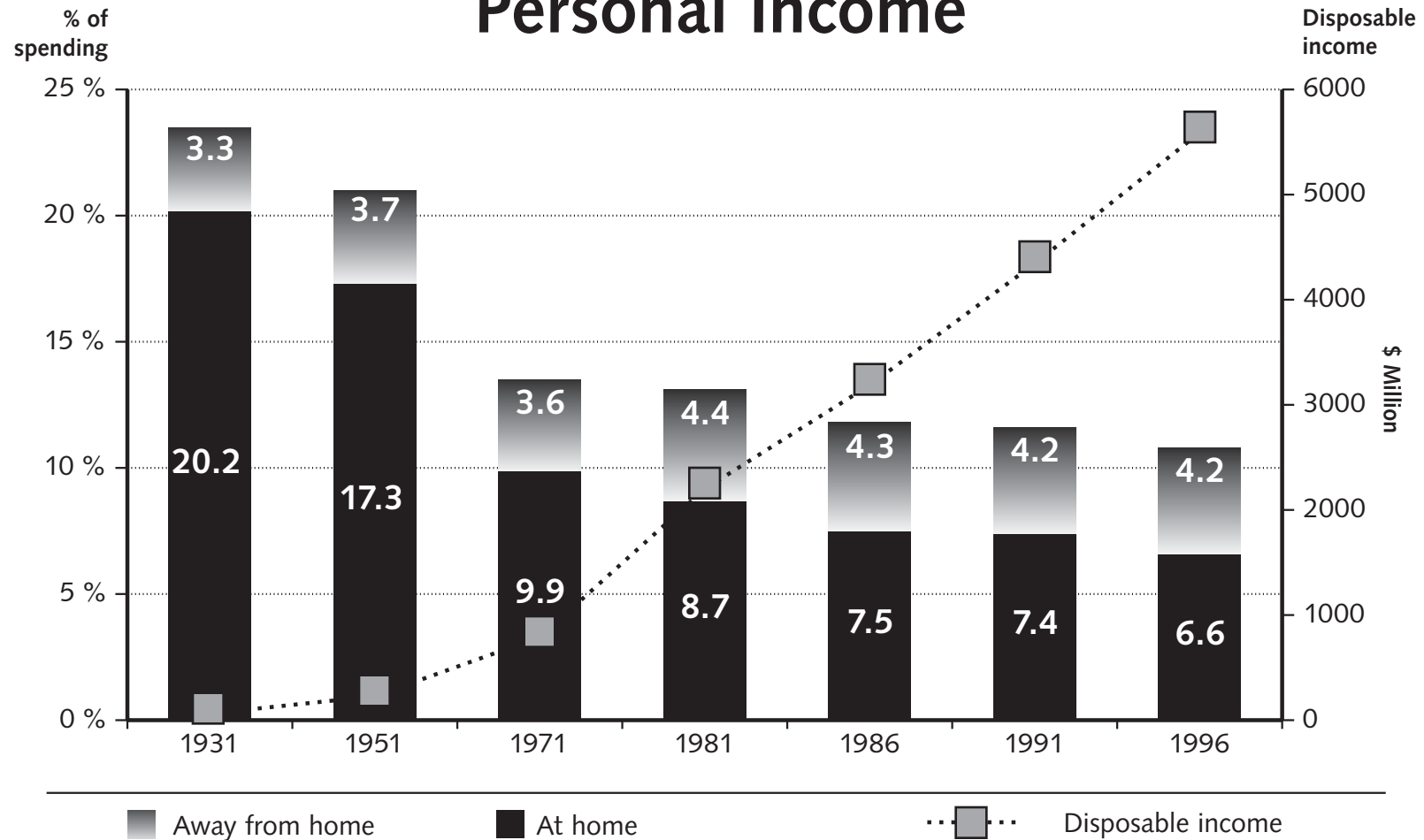
Divisions of U.S. Retail Sales, 1996

Percent of Total Sales



Source: U.S. Department of Commerce

Food Expenditures as a Share of Disposable Personal Income

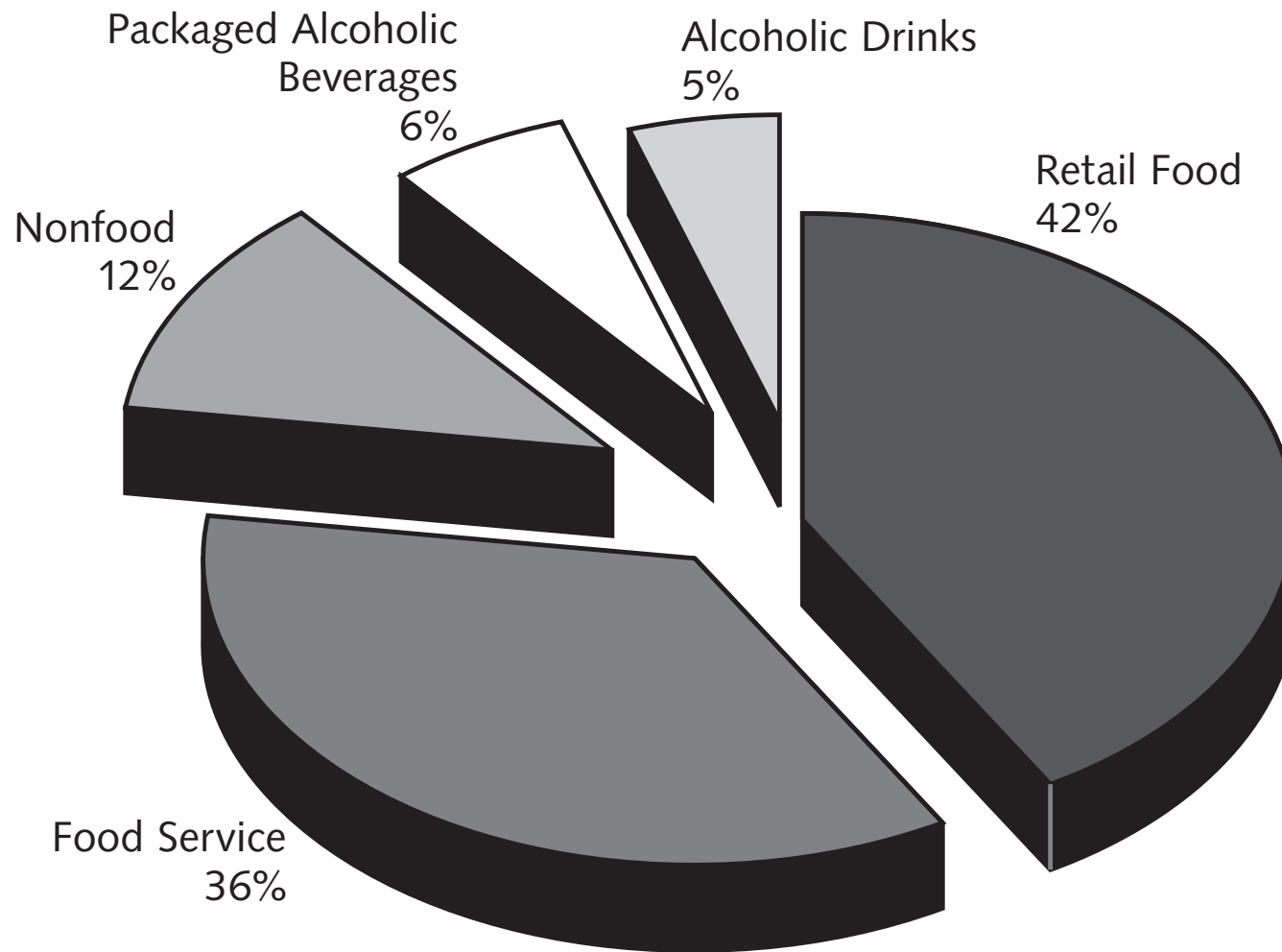


At home: includes food purchases from grocery stores and other retail outlets, including purchases with food stamps and food produced and consumed on farms, because the value of these foods is included in personal income. Excludes government-donated foods.

Away from home: includes purchases of meals and snacks by families and individuals, and food furnished employees because it is included in personal income. Excludes food paid for by government and business, such as food donated to schools, meals in prisons and other institutions, and expense-account meals.

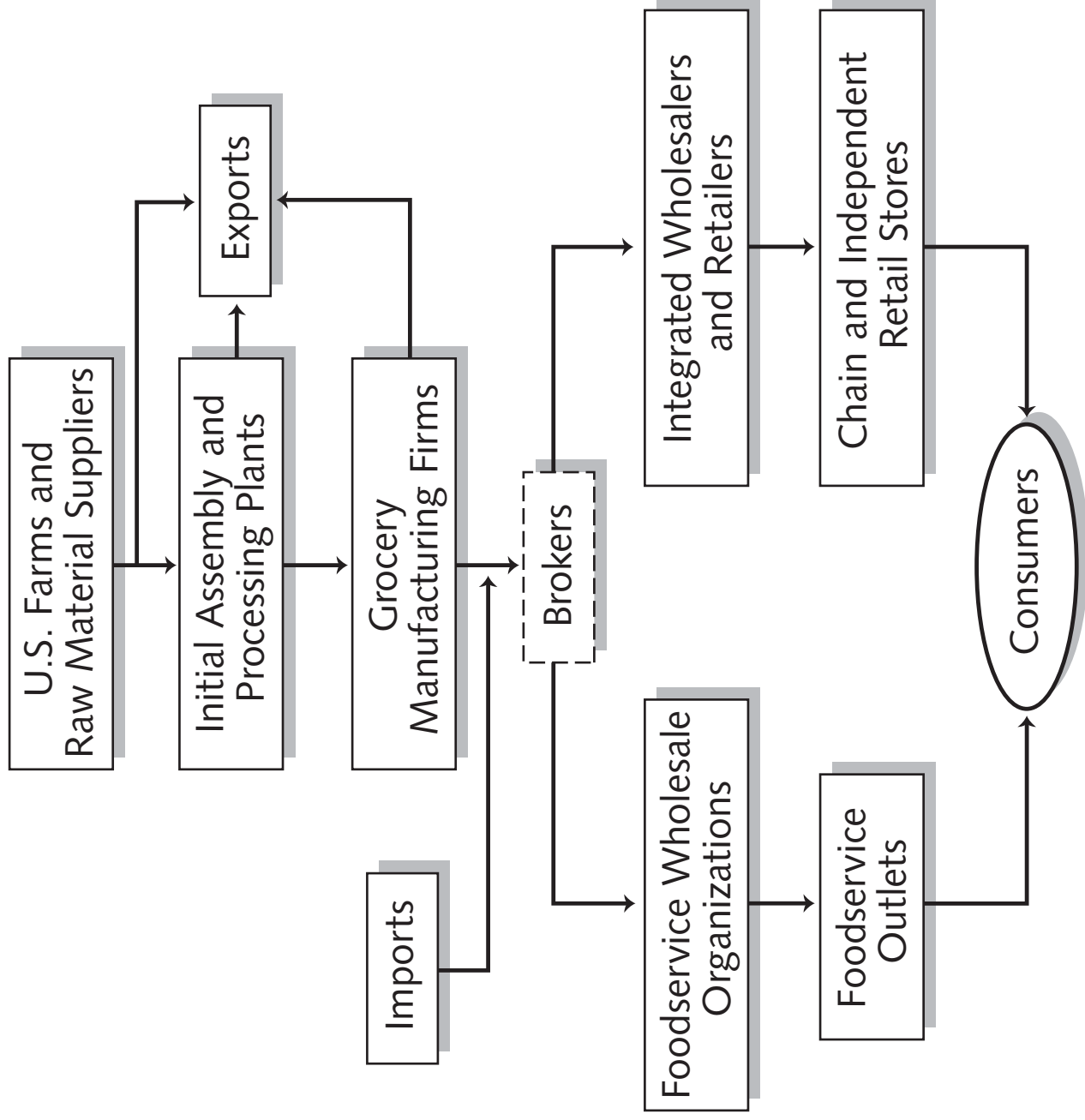
Source: U.S. Department of Agriculture, Economic Research Service, *Food Review*, September–December 1997

U.S. Food System Sales, 1996

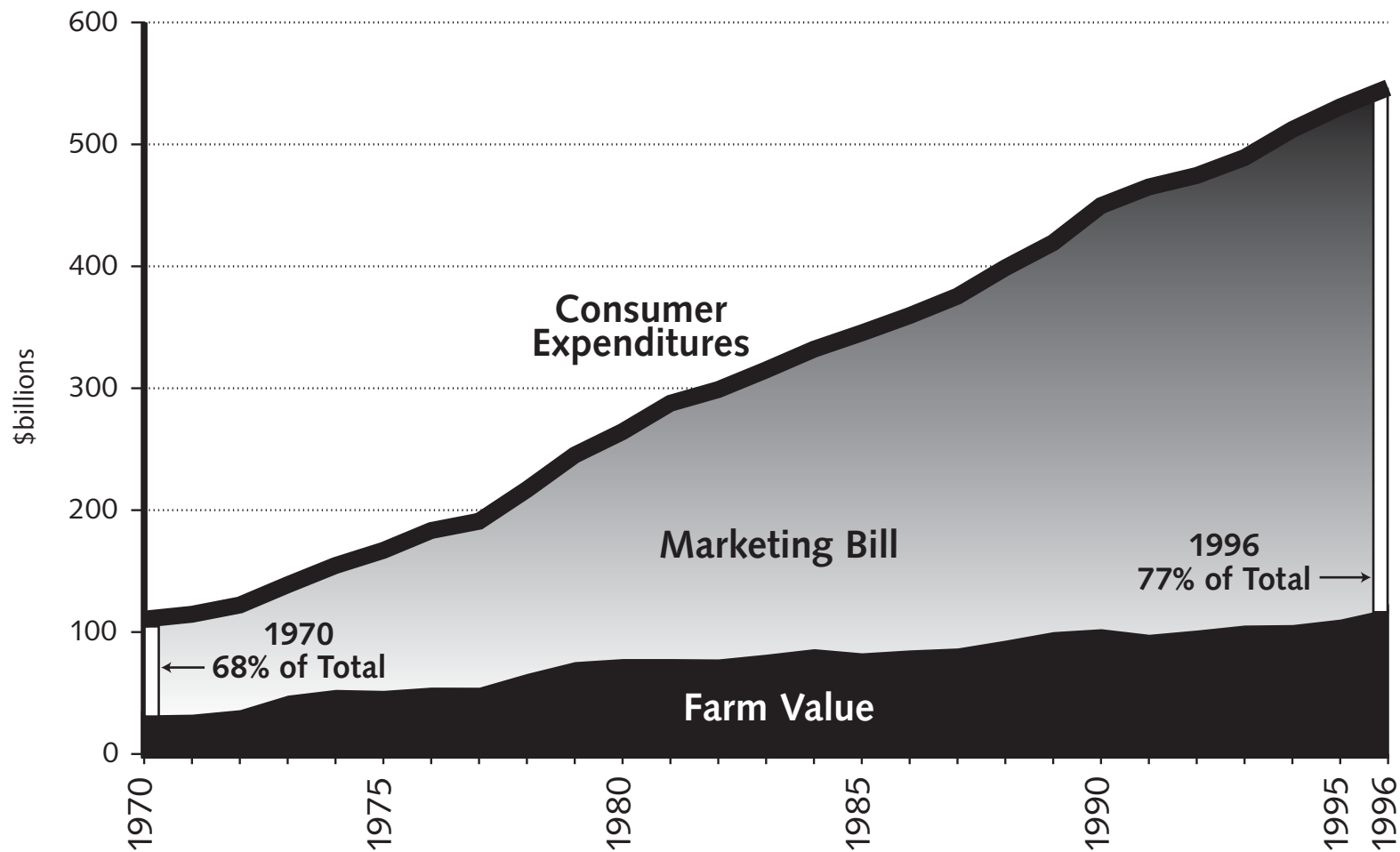


Source: U.S. Department of Agriculture, Economic Research Service, *Food Review*, September–December 1997

Major Marketing Channels for U.S. Grocery Products



Distribution of Food Expenditures



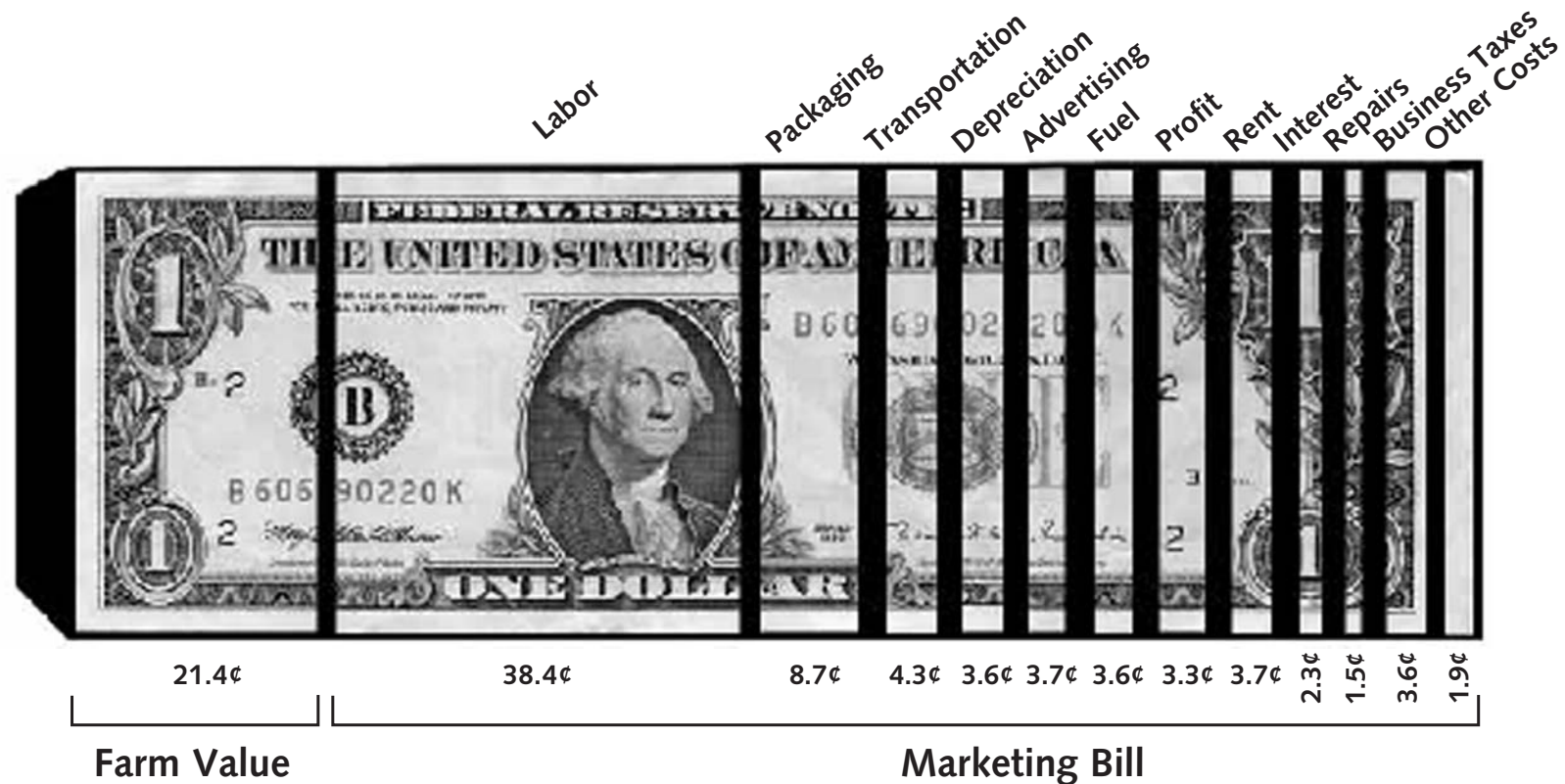
Source: United States Department of Agriculture, Economic Research Service, *Food Review*, September–December 1997

Farm Value Share for Selected Foods

Food Product	1996 Farm Share of Retail Price
Animal Products:	
Eggs, Grade A Large, 1 dz.	62
Beef, Choice, 1 lb.	48
Chicken, Broiler, 1 lb.	57
Milk, 1/2 Gallon	43
Cheese, Natural Cheddar, 1 lb.	40
Fruit and Vegetables:	
Fresh	
Apples, Red Delicious, 1 lb.	23
Grapefruit, 1lb.	18
Lettuce, 1 lb.	18
Frozen	
Orange Juice Conc., 12 oz.	37
Crop Products	
Sugar, 1 lb.	34
Flour, Wheat, 5 lb.	33
Rice, Long Grain, 1 lb.	24
Prepared Foods	
Peanut Butter, 1 lb.	27
Bread, 1 lb.	8

Source: United States Department of Agriculture, Economic Research Service, *Food Review*, September-December 1997

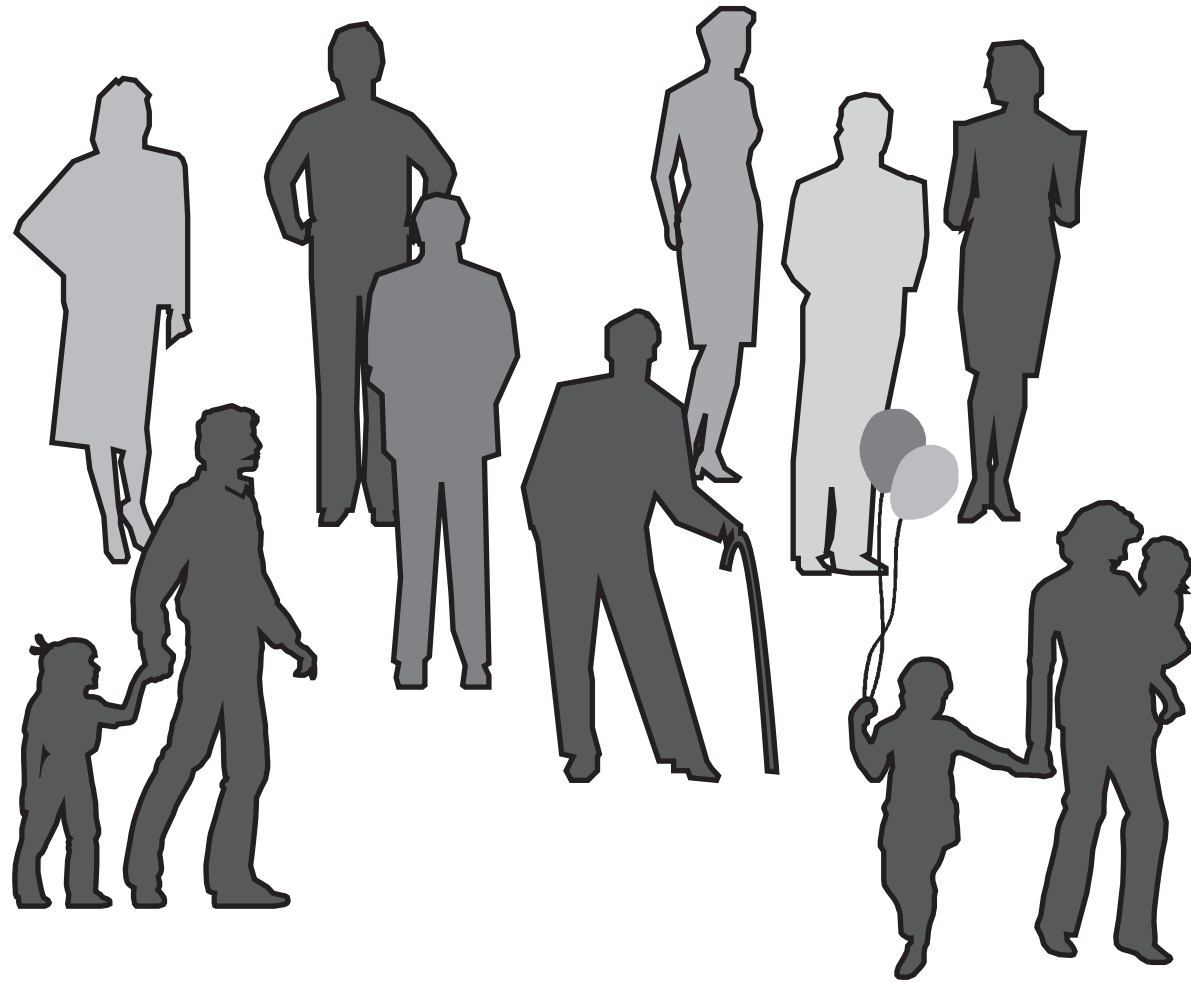
What a Dollar Spent for Food Paid for in 1997



Note: Includes food eaten at home and away from home. Other costs include property tax and insurance, accounting and professional services, promotion, bad debts, and many miscellaneous items.

Source: United States Department of Agriculture, Economic Research Service, *Food Review*, September–December 1997

Consumers and Food Trends



Percent of Total Population by Race and Hispanic Origin 1990, 2000, and 2025

Race	1990	2000	2025
White, Not Hispanic	75.7	71.6	62.0
Black	12.3	12.8	14.2
Hispanic Origin (of any race)	9.0	11.3	16.8
Asian and Pacific Islander	3.0	4.4	7.5
American Indian, Eskimo, and Aleut	0.8	0.9	1.0
U.S. Total Population (1000s)	249,440	274,634	335,050

Source: United States Bureau of the Census, *Population Estimates*

Percent of U.S. Population by Age

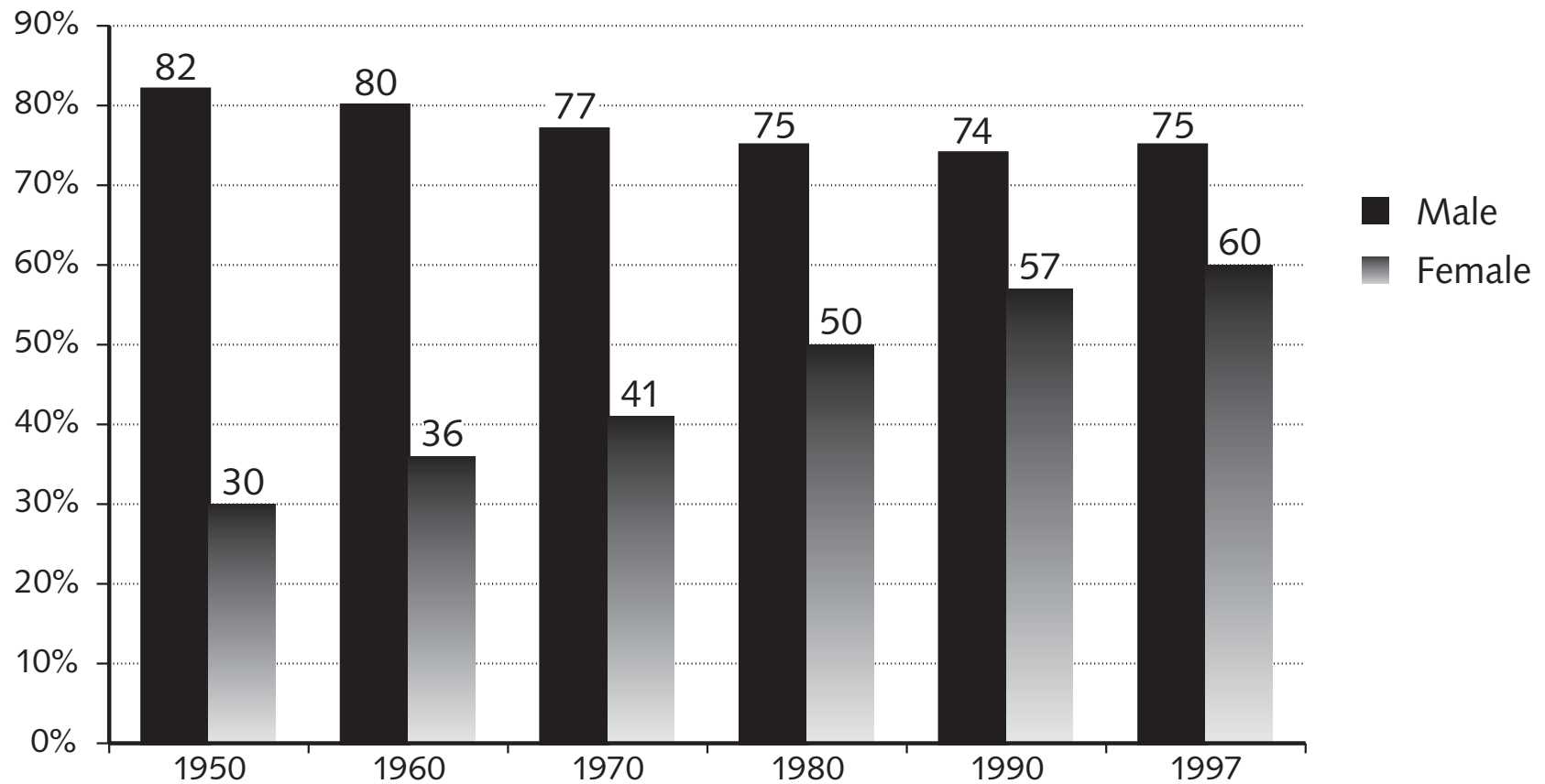
1990, 2000, and 2025

Age	1990	2000	2025
Under 16	23.0	29.7	21.4
65 and over	12.5	12.6	18.5
85 and over	1.2	1.6	2.1

Source: United States Bureau of the Census, *Population Estimates*

Workforce Participation Rates, 1950–1997

Percent in Workforce



Source: United States Department of Labor, Bureau of Labor Statistics, *Current Population Survey*

How \$100 is Spent, 1996

Consumer Expenditures by Major Category

Product Category	\$ Amount
Perishables	49.18
Bakery Foods	2.94
Dairy Products	8.15
Deli	3.16
Florals	0.18
Frozen Foods	5.34
Ice Cream	1.52
In-store Bakery	1.89
Meat & Seafood	15.90
Produce	10.10
Non-perishables	50.82
Non-edible Grocery	9.81
Miscellaneous Grocery	9.24
Beverages	9.59
Snack Foods	5.65
Main Courses and Entrees	5.33
General Merchandise	3.96
Health & Beauty Care	4.07
Unclassified	3.17

Source: *Progressive Grocer*, April 1997

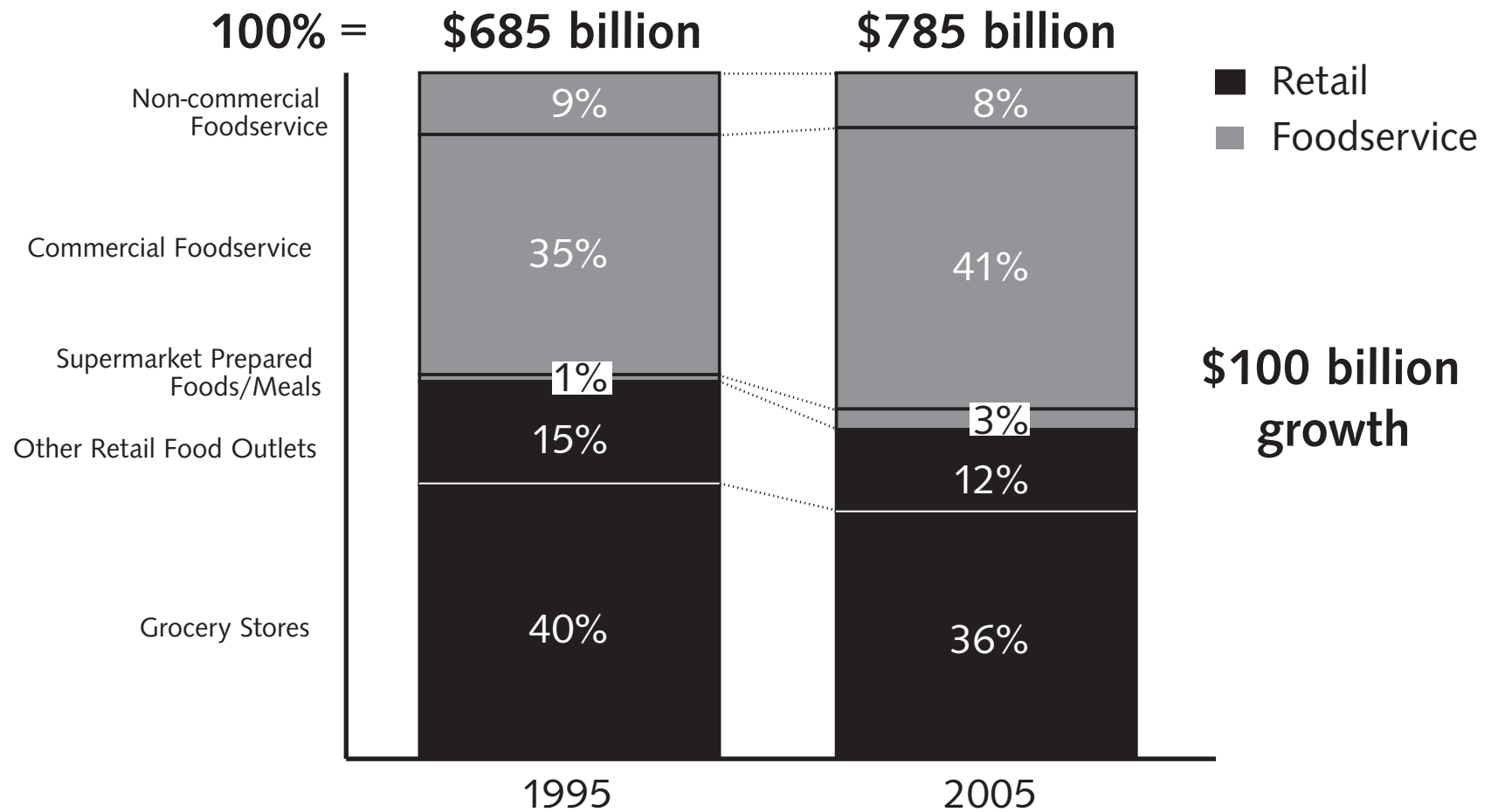
Sources of Take-out Food, 1988-1997

Percent of Total

	1988	1991	1994	1997
Fast-food Restaurant	41	51	46	41
Restaurant	38	23	25	21
Supermarket	11	14	15	22
Deli/Pizza Parlor	na	na	na	5
Convenience Store	na	2	2	1
Other	3	6	8	7
None	7	4	4	3

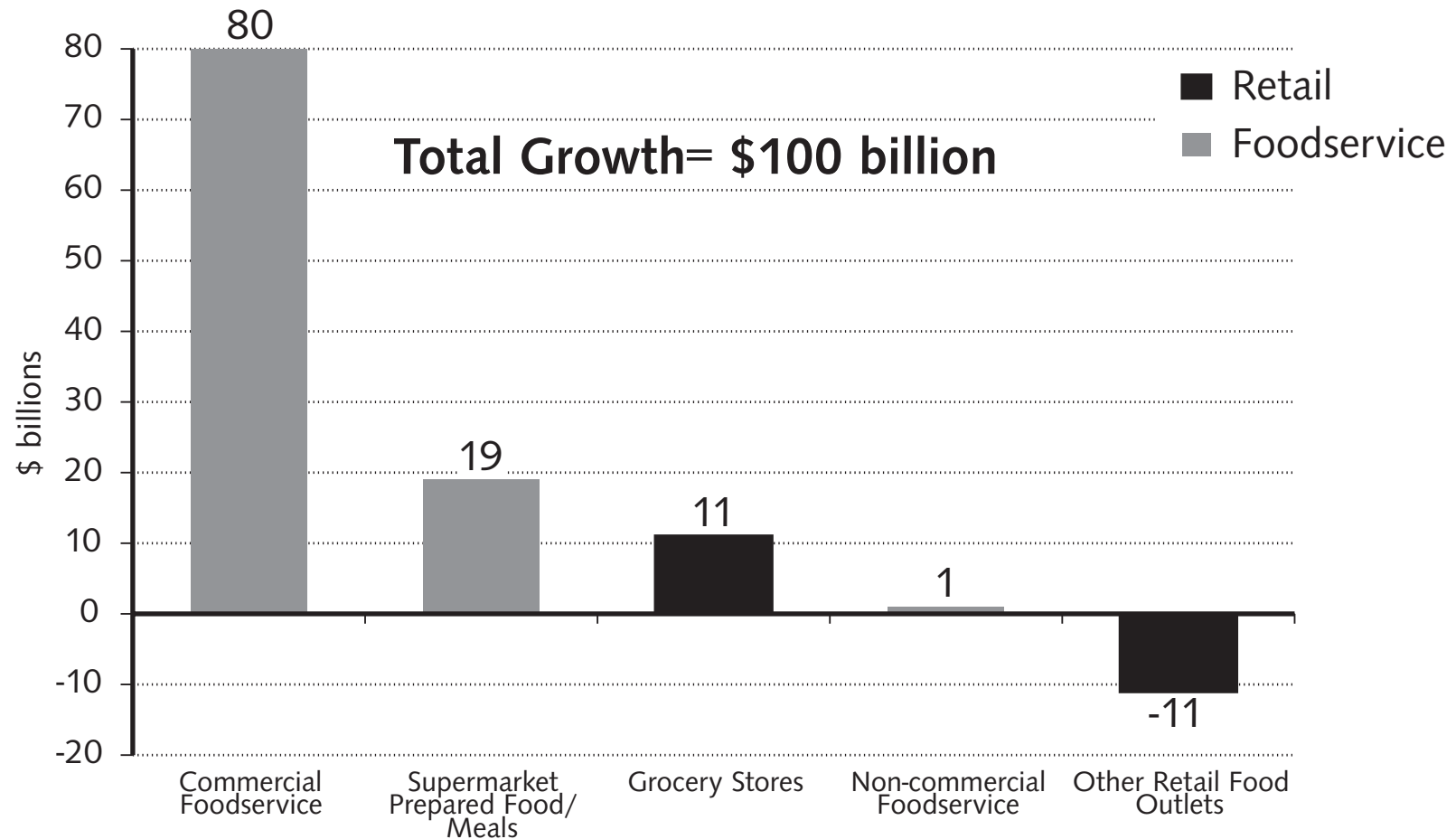
Source: Food Marketing Institute, *Trends in the United States 1997*

Consumer Food Expenditures, 1995, 2005



Source: McKinsey & Co.

Growth in Consumer Food Expenditures, 1995–2005



Source: McKinsey & Co.

How Big Was Home Meal Replacement in 1996?

Source	\$ billions
FIND/SVP ¹	82.4
NPD ²	38.0
Datamonitor ³	
Meal solutions	107.9
HMR	42.3
Technomic ⁴	
Convenient meals	135.0
HMR	44.0

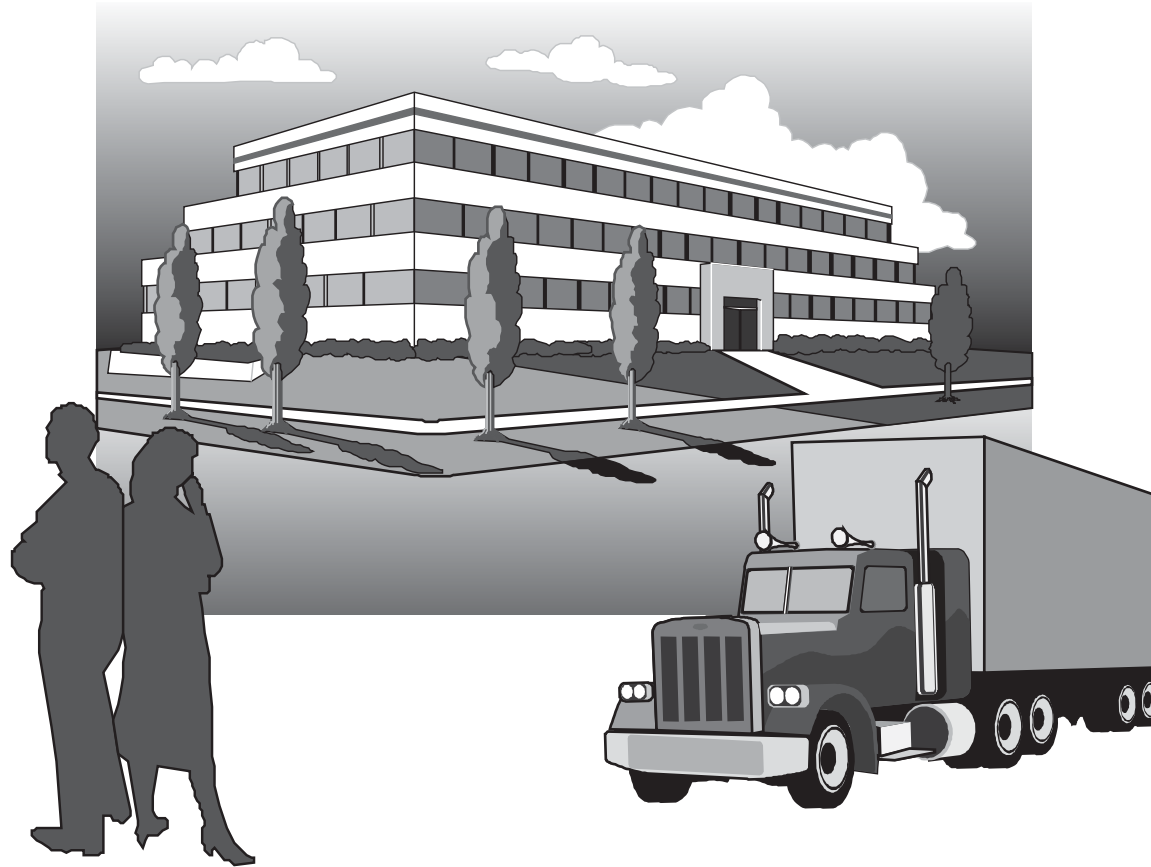
¹ *National Petroleum News*, January 1998

² *Refrigerated and Frozen Foods*, January 1998

³ *Packaging Digest*, January 1998

⁴ *Progressive Grocer*, September 1997

Food Manufacturers



Leading Food and Beverage Manufacturers

	1996 Food & Beverage Sales	1996 Consolidated Sales
<i>\$ millions</i>		
Philip Morris	32,277	69,204
Pepsico	20,204	31,645
Coca-Cola	18,546	18,546
ConAgra	18,249	23,899
IBP	12,539	12,539
Anheuser Busch	10,144	12,621
Sara Lee	9,426	18,624
H.J. Heinz	9,112	9,112
Nabisco	8,889	17,063
CPC International	8,477	9,844
Campbell Soup	7,678	7,678
Seagram	6,694	9,747
Kellog	6,677	6,677
Tyson Food	6,454	6,454
General Mills	5,416	5,416
Quaker Oats	5,199	5,199
Procter & Gamble	4,066	35,284
Hershey Foods	3,989	3,989
Dole Food	3,840	3,840
Hormel Foods	3,099	3,099

Source: *Prepared Foods*, July 1997

New Grocery Product Totals by Category

	1997	1992	1987
FOOD CATEGORIES			
Baby Foods	53	53	10
Bakery Products	1,200	1,508	931
Baking Ingredients	422	346	157
Beverages	1,606	1,538	832
Breakfast Cereals	83	122	92
Candy/Gum/Snacks	2,505	2,068	1,367
Condiments	2,631	2,555	1,145
Dairy	862	1,320	1,132
Desserts	109	93	56
Entrees	629	698	691
Fruits & Vegetables	405	276	185
Pet Food	251	179	82
Processed Meat	672	785	581
Side Dishes	678	560	435
Soups	292	211	170
TOTAL FOOD	12,398	12,312	7,866
NONFOOD CATEGORIES			
Health & Beauty Aids	6,226	3,690	2,039
Household Supplies	311	474	161
Paper Products	60	153	47
Tobacco Products	127	45	51
Pet Products	202	116	18
TOTAL NONFOOD	6,926	4,478	2,316
GRAND TOTAL	19,324	16,790	10,182

Source: *New Product News*, January 1998

New Food Product Introductions

Leading Companies

Rank	Company	1997	1992
1	Philip Morris	165	256
2	ConAgra	143	151
3	Grand Metropolitan	129	74
4	Nestle	115	114
5	Sara Lee	103	60
6	CPC International	74	53
7	H.J. Heinz	72	99
8	Unilever	72	53
9	Hain Food Group	71	-
10	General Mills	55	61
11	Quaker Oats	54	31
12	Hormel Foods	50	50
13	Campbell Soup	49	121
14	Frieda's Finest	45	-
15	World Variety Produce	43	-
16	Dean Foods	42	-
17	Nabisco Brands	42	67
18	Tyson Foods	42	-
19	Perugina	32	-
20	Dreyer's Grand Ice Cream	32	-
Total, Top 20 Firms		1,430	1,566
Total, All Firms		12,398	12,312

Source: *New Product News*, January 1998

Manufacturer Motivations

- ✓ Respond to changing consumers
- ✓ Maintain interest of intermediaries
- ✓ Take advantage of new technologies
- ✓ Counter competitive thrusts
- ✓ Transform commodity to value-added

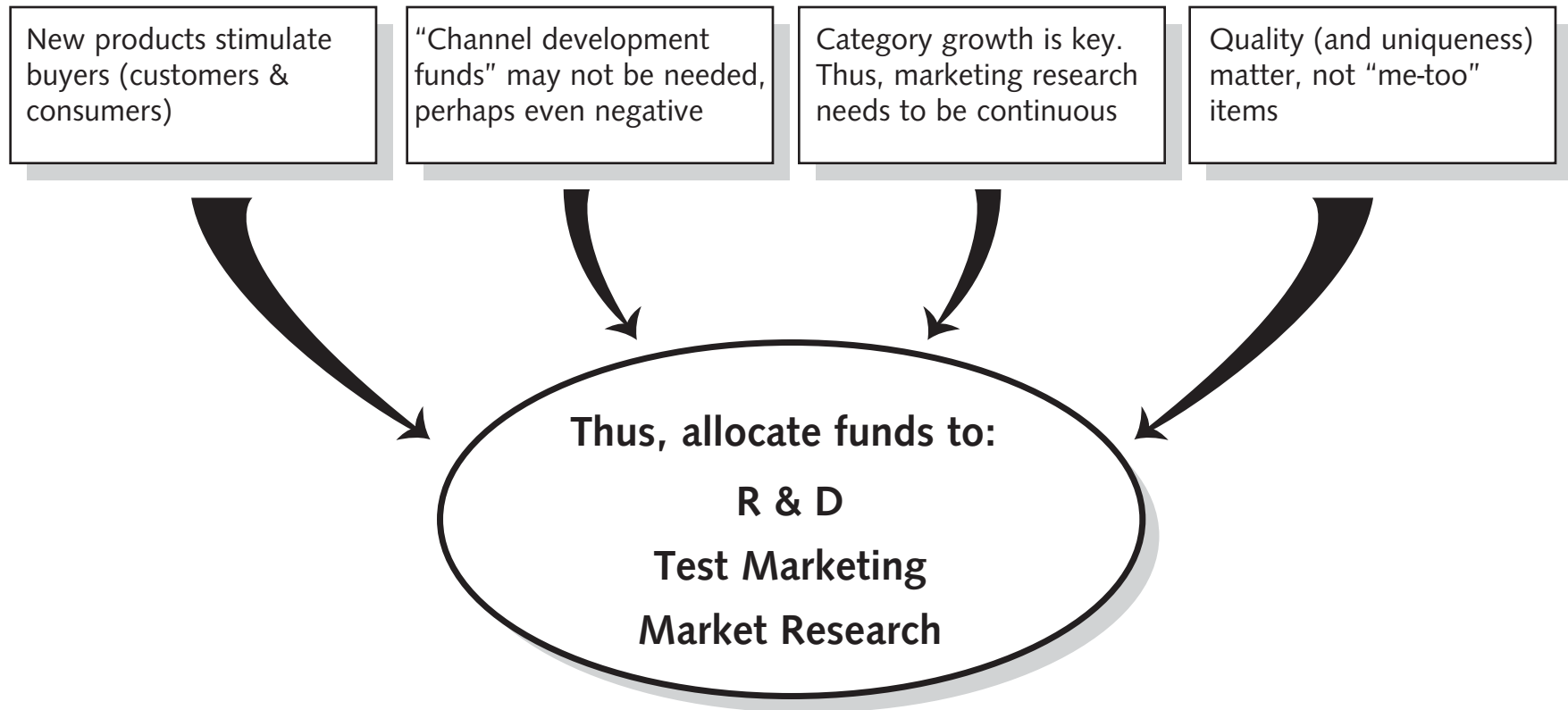
Important New Product Criteria

Key decision criteria used by buyers

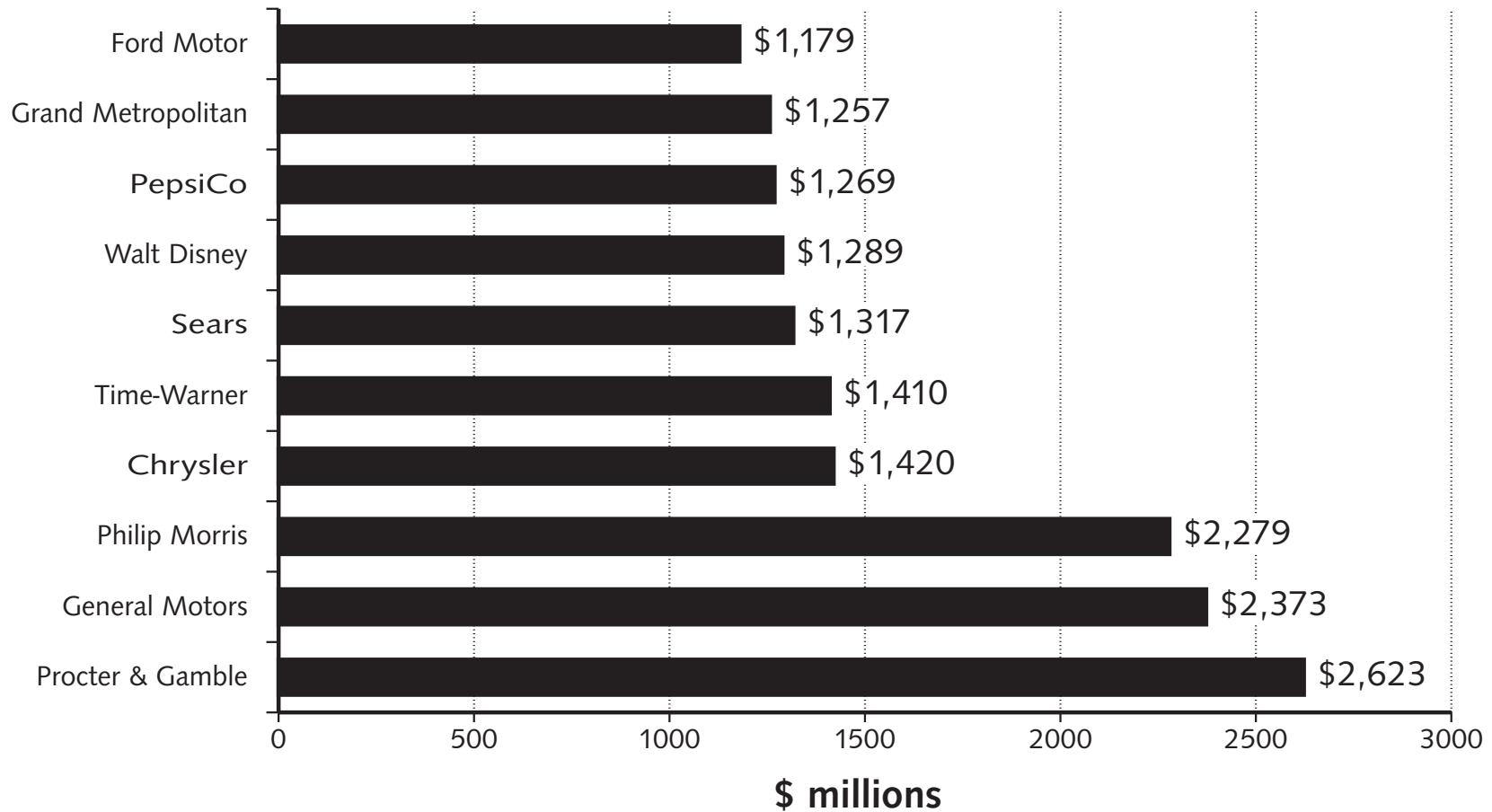
- ✓ Gross Margin
- ✓ Competition
- ✓ Quality/Uniqueness
- ✓ Category Growth
- ✓ Terms of Trade



New Product Research Managerial Implications

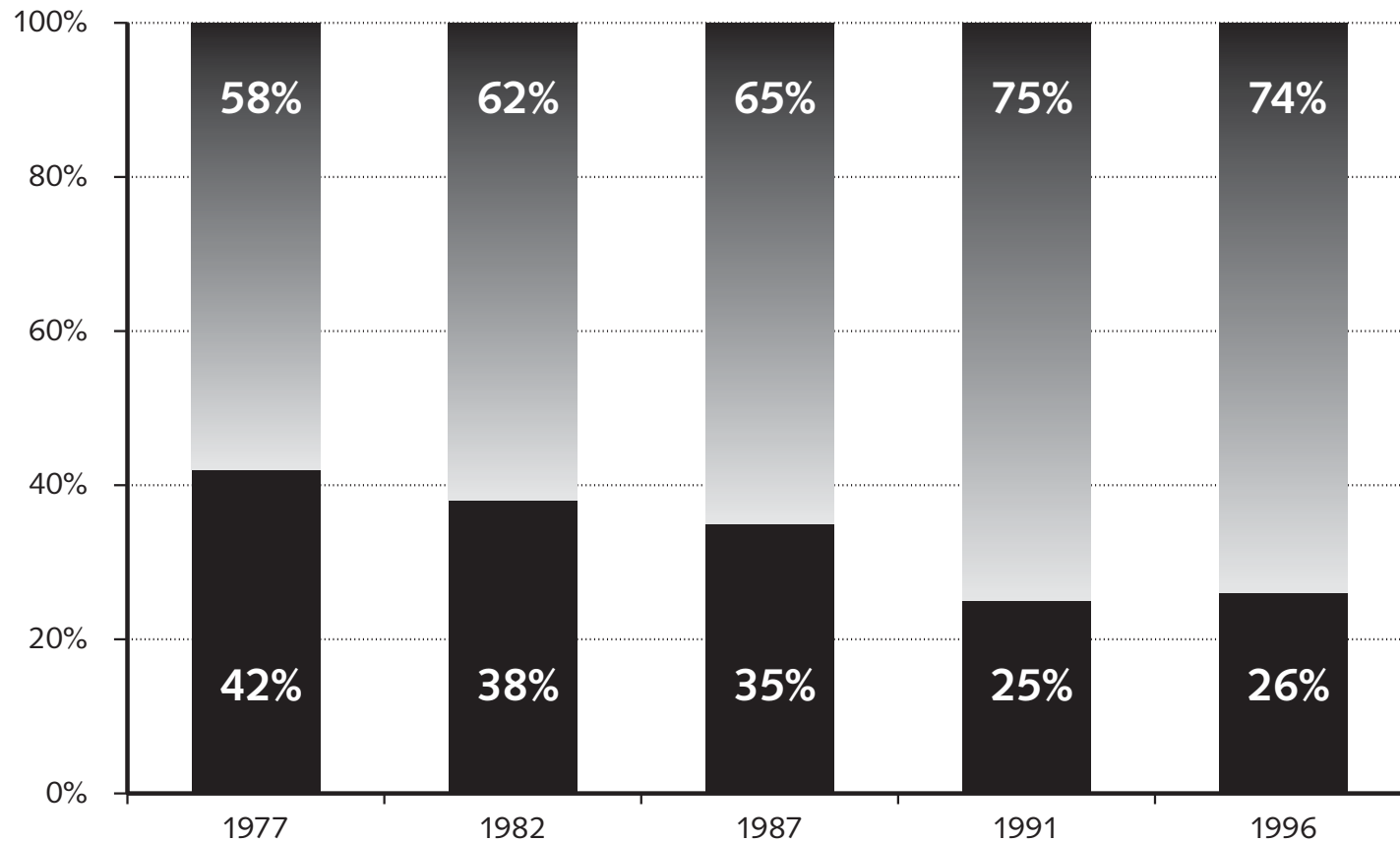


Expenditures of Top 10 National Advertisers, 1996



Source: *Advertising Age*, September 25, 1997

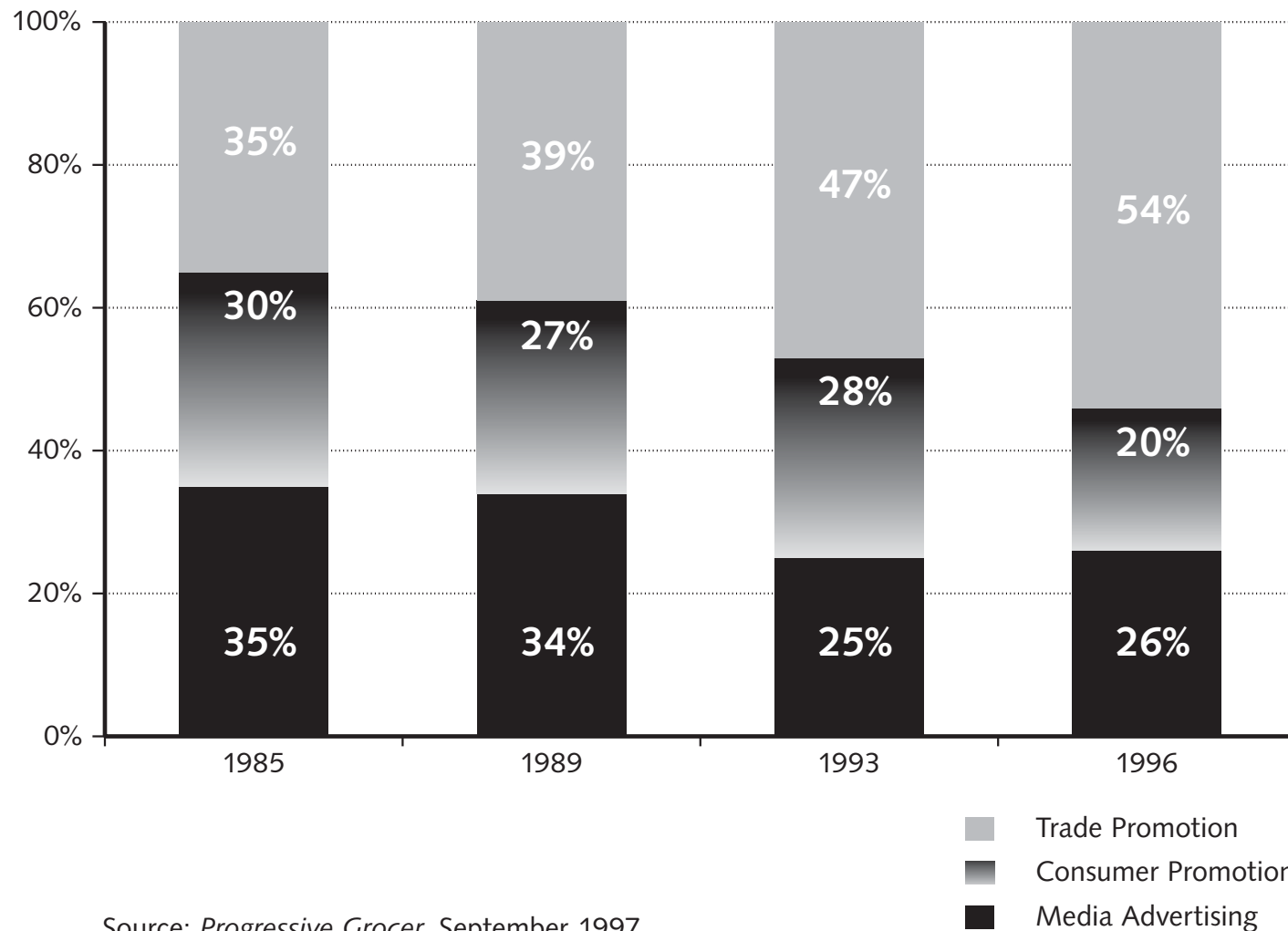
Advertising vs. Promotions: Share of Marketing Spending



Source: *Progressive Grocer*, September 1997

■ Consumer & Trade Promotion
■ Media Advertising

Shares of Total Marketing Promotional Expenditures



Source: *Progressive Grocer*, September 1997

Reasons to Shift to Sales Promotion

- ✓ Increase in short run management view
- ✓ More parity products
- ✓ Sales force pressure
- ✓ Measurement capabilities
 - More localized promotional planning
- ✓ Increasing media diffusion

Consequences of Shift in Promotional Spending

- ✓ Decline in brand loyalty
- ✓ Heightened price sensitivity-
“commoditization” of brands
- ✓ Encourages forward buying
and diverting

Sales Impact of Various Promotional Conditions

Promotion Condition	Price Index ¹						
	100	95	90	85	80	75	70
	<i>sales index</i>						
Non-promoted	100	118	142	171	209	258	324
Ad Only	198	234	281	338	414	511	641
Display Only	213	251	302	364	445	550	690
Display & Ad	395	466	561	675	825	1,019	1,280

¹ 100=undiscounted, everyday normal price

Source: A. C. Nielsen

Food Wholesalers and Retailers



Sales of Top 20 Grocery Companies, 1996¹

Rank	Company	Sales
		<i>\$ millions</i>
1	Kroger Co.	25,200
2	Safeway Inc.	22,700
3	Wal-Mart	17,500
4	Albertson's Inc.	13,650
5	American Stores Co.	13,301
6	Winn-Dixie Stores Inc.	12,955
7	Ahold USA	11,200
8	Publix Super Markets Inc.	10,400
9	A&P	10,100
10	Food Lion Inc.	9,750
11	Meijer Inc.	5,600
12	Ralphs Grocery	5,362
13	H.E. Butt Grocery Co.	5,200
14	Super Kmart	5,000
15	Supervalu, Inc.	4,500
16	Giant Food Inc.	4,000
17	Pathmark Stores Inc.	3,907
18	Fleming Companies Inc.	3,600
19	Fred Meyer, Inc.	3,549
20	Penn-Traffic Co.	3,309

¹ U.S. grocery sales only

U.S. Grocery Chains Market Shares, 1929-1996

Year	Top 4 Chains	Top 8 Chains	Total All Chains
	<i>percent</i>		
1929	23.1	26.7	31.5
1948	21.7	25.5	38.6
1963	18.7	25.0	41.1
1975	17.0	25.0	46.6
1980	17.5	26.3	46.7
1984	19.4	26.8	49.3
1993	17.2	26.1	54.5
1996	18.6	29.8	59.3

1996 Grocery Sales

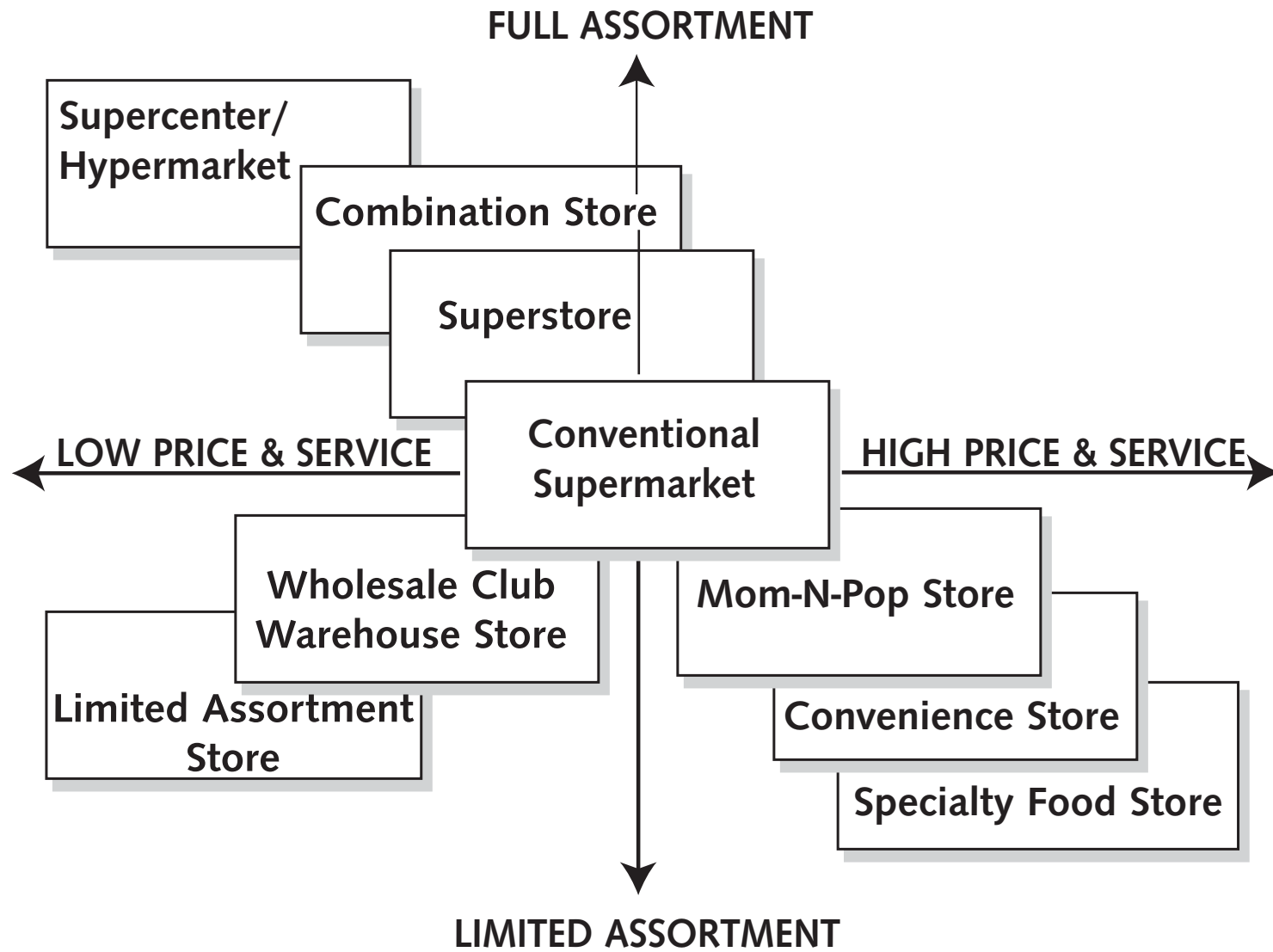
By Volume and Format

	Number of Stores	% of Total	Sales ¹ (\$ billions)	% of Total
All Grocery Stores	127,000	100.0	425.7	100.0
Supermarkets				
\$2 million +	29,900	23.5	323.2	75.9
Chain Supermarkets				
<i>\$ millions</i>	18,920	14.9	252.3	59.3
2-3.9	1,375	1.1	4.0	0.9
4-7.9	4,090	3.2	24.6	5.8
8-11.9	4,065	3.2	39.0	9.2
12-19.9	5,285	4.2	78.5	18.4
20-29.9	3,075	2.4	70.9	16.7
30 +	1,030	0.8	35.3	8.3
Independent Supermarkets				
<i>\$ millions</i>	10,980	8.6	70.9	16.7
2-3.9	4,535	3.6	13.1	3.1
4-7.9	4,020	3.2	22.4	5.3
8-11.9	1,140	0.9	10.9	2.6
12-19.9	785	0.6	11.2	2.6
20-29.9	330	0.3	7.5	1.8
30 +	170	0.1	5.8	1.4
Convenience Stores	55,100	43.4	26.8	6.3
Wholesale Club Stores	705	0.6	19.6	4.6
Other Stores	41,295	32.5	56.1	13.2
By Supermarket Format				
Conventional	18,200	60.9	142.5	44.1
Extended ²	8,200	27.4	140.0	43.3
Economy ³	3,500	11.7	40.7	12.6
Total Supermarkets	29,900	100.0	323.2	100.0

¹ supermarket items only. ² includes combination (1,500) and superstore (6,700). ³ includes limited assortment (850), warehouse (1600), super warehouse (450), and hypermarket/supercenter (600).

Source: *Progressive Grocer*, April 1997

Retail Food Store Format Positioning



Store Format Growth Trends, 1980-1998

Traditional Grocery Channel	1980		1993		1998 ¹	
	Stores	% of ACV Share	Stores	% of ACV Share	Stores	% of ACV Share
Conventional	30,250	55.2	15,370	26.1	13,500	20.6
Superstore	3,150	11.6	6,270	22.4	7,200	23.1
Food/Drug Combo	475	2.2	2,190	10.2	3,500	14.5
Warehouse Store	920	2.5	2,400	6.5	1,950	4.7
Super Warehouse	7	na	500	3.4	675	4.1
Limited Assortment	750	0.6	730	0.6	930	0.6
Convenience Store (trad.)	35,800	5.4	49,800	6.6	48,500	5.7
Convenience Store (petro.)	na	na	34,200	3.6	36,000	3.4
Other	96,000	22.5	51,650	11.8	39,000	8.0
Subtotal				91.2		84.7

¹ projections

Source: Willard Bishop Consulting

Store Format Growth Trends, 1980-1998 *(cont.)*

	1980		1993		1998 ¹	
Non-traditional Grocery Channel	Stores	% of ACV Share	Stores	% of ACV Share	Stores	% of ACV Share
Hypermarket	na	na	18	0.2	19	0.2
Wholesale Club	na	na	603	5.6	800	6.6
Mini Club	na	na	148	0.3	175	0.3
Supercenter	na	na	250	1.5	1,020	7.0
Deep Discounter	na	na	690	1.2	750	1.2
Subtotal	na	na	8.8		15.3	
Traditional Grocery Channel Subtotal			91.2		84.7	
TOTAL			100.0		100.0	

¹ projections

Source: Willard Bishop Consulting

Supermarket Sales Distribution

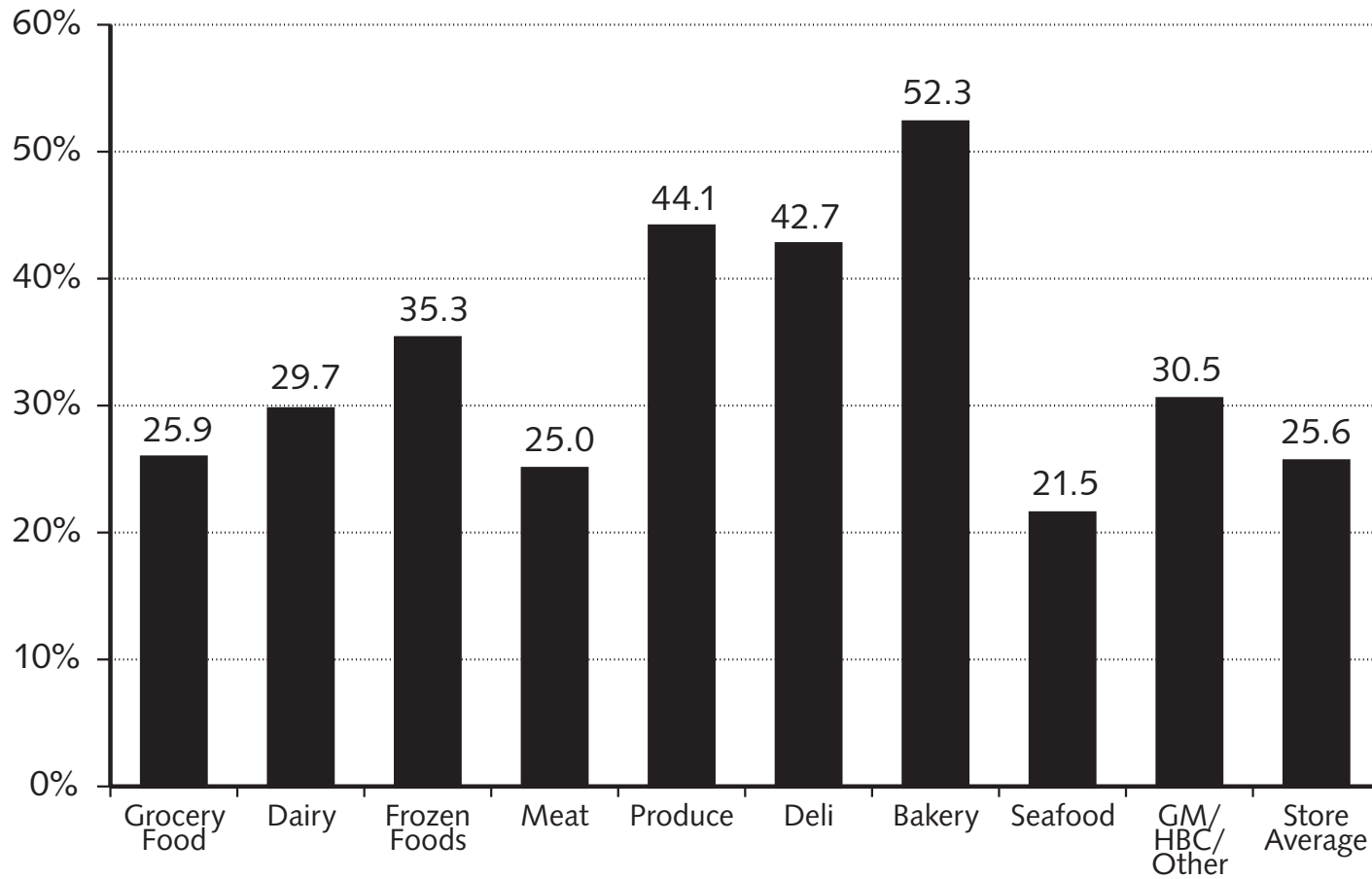
Past, Present and Future

	1967 ¹	1989 ²	1993 ²	1996 ²	2000 ³
Meat	24.1	15.5	14.0	14.4	12.3
Dairy	11.1	6.2	6.0	6.1	6.1
Produce	7.6	9.1	10.4	10.9	12.7
Deli	na	4.3	6.0	6.6	7.8
Bakery	na	2.6	3.3	3.3	4.0
Seafood	na	1.1	1.1	1.1	1.6
Frozen Foods	4.3	5.4	5.2	5.4	5.5
Grocery, Food	34.5	27.0	26.6	26.4	24.7
GM/HBC/Other	18.9	28.8	27.4	26.8	25.2
Total	100.0	100.0	100.0	100.0	100.0

¹Chain Store Age, 1968. ²Supermarket Business, September 1990, 1994, 1997.

³Cornell Food Executive Programprojections, 1997

Supermarket Gross Margins



Source: *Supermarket Business*, September 1997

Private Label Market Share Trends

U.S. Supermarket Industry

Year	Dollar Share	Unit Share
	<i>percent of total sales</i>	
1991	13.6	18.1
1992	14.6	19.4
1993	14.9	19.7
1994	14.9	19.6
1995	14.9	19.5
1996	15.8	20.2

Source: Private Label Manufacturers Association, 1997

Private Label Share by Department, 1996

U.S. Supermarket Industry

	Dollar Share	Unit Share
	<i>percent of total sales</i>	
Edible groceries	10.6	15.3
Non-edible groceries	10.5	13.9
Frozen	15.3	19.9
Dairy	38.5	39.0
Bakery	26.2	35.5
Deli	12.2	15.2
HBC	9.7	13.2
General merchandise	10.1	16.2
Total	15.8	20.2

Source: Private Label Manufacturers Association, 1997

Global Private Label Penetration, 1997

Country Private Label Dollar Share

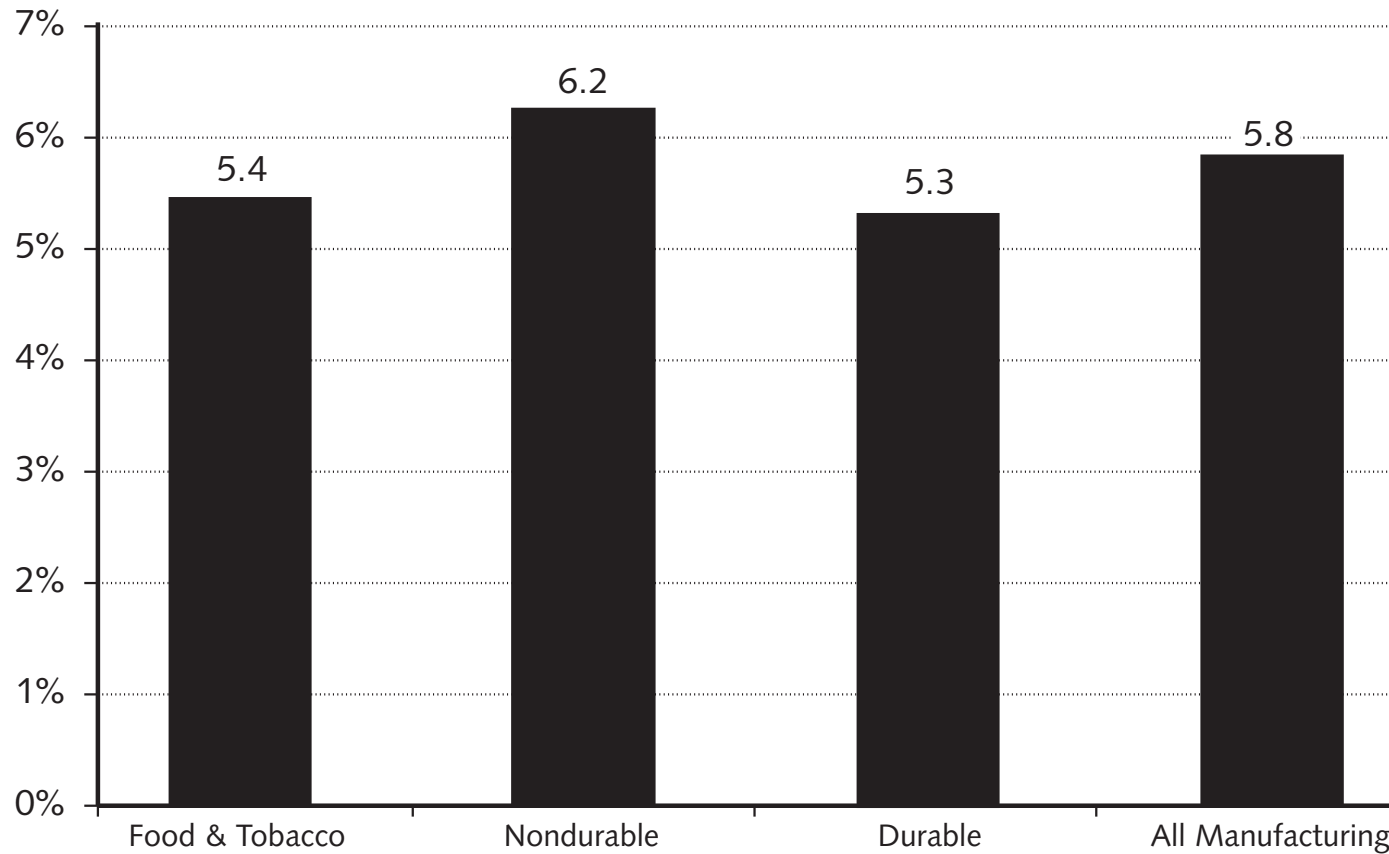
Country	<i>percent</i>
Switzerland	45
United Kingdom	40
Austria	30
Denmark	30
Canada	25
France	23
Belgium	22
Germany	21
Netherlands	21
United States	16
Ireland	12
Italy	11
Portugal	10
Spain	10
Finland	8
Norway	8
Sweden	8
Greece	7

Source: Datamonitor

Financial Performance



Average After Tax Profits as a Share of Sales Manufacturing 1994–1996



Source: *Statistical Abstract of the United States*, 1997, no. 880

Net Profit Margin for Food Manufacturers, Wholesalers, and Retailers

Net Profit as a Percent of Sales

	Manufacturer	Wholesaler	Retailer
1993	4.4	0.9	1.5
1994	4.5	0.9	1.8
1995	4.8	1.1	1.9
1996	4.6	1.1	2.0
1997 ¹	4.7	1.1	2.1
1998 ¹	5.2	1.2	2.2

¹ estimates

Source: *Value Line Investment Survey*, November 14, 1997

Return on Equity for Food Manufacturers, Wholesalers, and Retailers

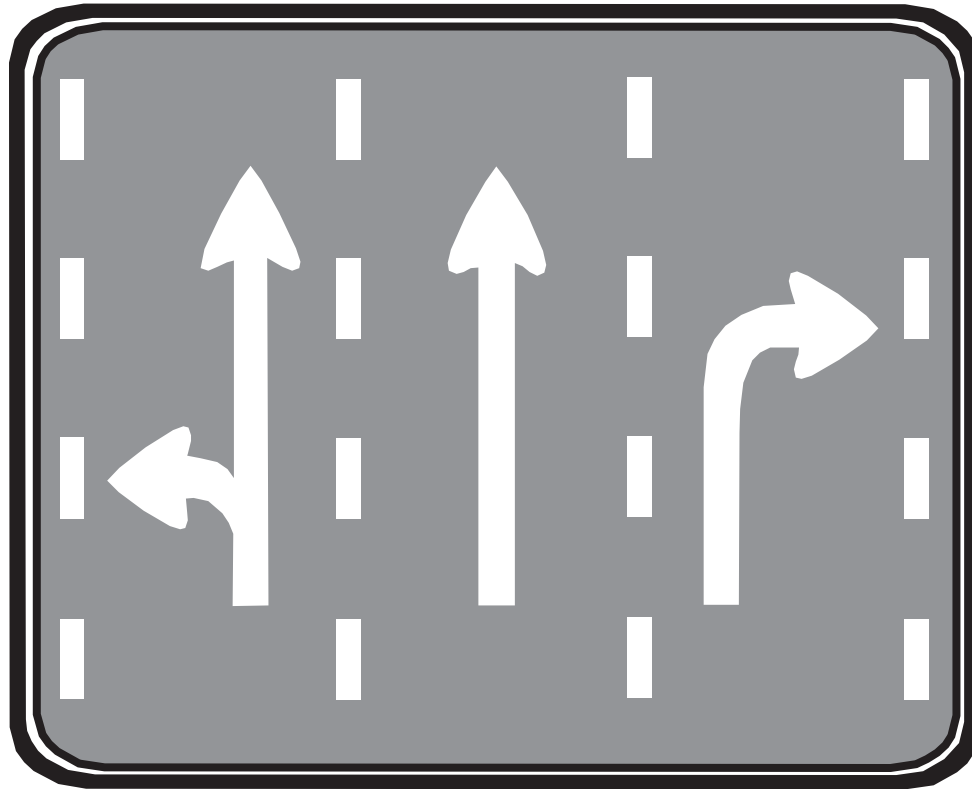
Net Profit as a Percent of Total Equity

	Manufacturer	Wholesaler	Retailer
1993	16.1	9.6	23.7
1994	16.2	11.0	24.4
1995	16.6	12.2	22.8
1996	16.6	12.3	21.7
1997 ¹	17.0	12.5	22.0
1998 ¹	17.5	12.5	21.0

¹ estimates

Source: *Value Line Investment Survey*, November 14, 1997

Directions for the Future



Food Industry Directions Toward the Year 2000



- ✓ Adding more value
- ✓ Eliminating unnecessary costs

Adding Value

- ✓ Differentiation—product variety
- ✓ Positioning—new hybrid formats
- ✓ Growth of private label
- ✓ Service and freshness
- ✓ Consumer orientation

Eliminating Costs

- ✓ Electronic imperatives—
ECR, EDI, logistics optimization
- ✓ Reduce advertising—but increase promotion
- ✓ Develop strategic alliances with preferred suppliers