Retail Marketing Produce Short Course

United Fresh Marketplace

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Chicago, IL

Presented by: Perishables Group

Sponsored by: EuroFresh, Inc.
Paul Marshall Produce, Inc.
Produce Business
Torrey Farms, Inc.

Tapping the Organic Opportunity in Conventional Supermarkets

Presented by:

Perishables Group

Project Approach and Sponsors

- First of its kind research project that included:
  - Online survey of 2,000 organic/all natural consumers (December 2006)
  - In-store intercepts of 350 consumers (January 2007)
  - Organic shopping behavior – 15,000 member fresh panel of Nielsen's Homescan Data
  - Spectra Store Opportunity Finder (March 2007)
  - SPINS provided natural foods consumer overview (22,000 consumers)
  - Full study completed in April 2007

Research Approach

1. Consumer Purchase Intent and Triggers

PERISHABLES GROUP®
Keeping Your Business Fresh®
www.perishablesgroup.com

Internet Surveys
Topline View

Store Audits
Market View

Consumer Intercepts
Store Level View

POS (US/Regional results—16,000 stores)

CONSUMER Opportunity

2. Consumer Purchase History

FRESHFACTS® POWERED BY ACNielsen

Spectra Clustering
Store Level View

Spectra Segmentation
Market View

Spectra intelligent targeting™

Homescan/Spins Panel Data
Topline View

3. Predictive Consumer Behavior

homescan THE AUTHORITY ON CONSUMER BEHAVIOR

SPINS Information & Services to Grow the Natural Products Industry

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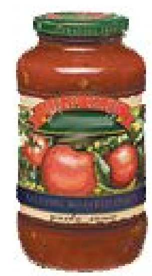
Consumer Progression

	Trial	Transitional	Regular	Committed
Purchase Rationale	Accidental Promotion Diet/Allergy	Health Condition Diet/Allergy Good For Me	Good For Me Good For My Family Good Taste	Good For Me Good For My Family Good Taste Good For The World
% of US Population	55%	25%	17%	3%
% of TTL NP $	13%	22%	38%	26%
% of OG $	7%	13%	35%	45%
Categories	**Entry Point** *Produce* *Meat, Seafood* *Eggs* *Tea* *Vitamins, Minerals*	**Partial Meals** *Meat, Seafood* *Eggs* *Tea* *Homeopathic* *Diet Formulas* *Vitamins, Minerals*	**Complete Meals** *Yogurt* *Pasta Sauce* *Snacks/Beverages* *Meal Replacements* *Diet Formulas*	**Complete Baskets** *Personal Care* *HH Cleaners* *Paper Products* *Supplements* *Organic*


Homescan Shopper Activity

Total Outlet Behavior	Total U.S.- Heavy Organic Fruit	Total U.S.- Light Organic Fruit
Total RW Fruit & Veg		
Purchase Frequency	39.1	37.5
Purchase Size (Dollar Volume)	5.3	4.0
Purchase Cycle (Days)	8.1	8.3
% Dollar Volume on Deal	21.1	31.3
% Dollars in 2MM+ Grocery w/o Mass Super	72.3	82.3
% Dollars in Mass Merch Supers	6.3	7.3
Total RW Organic Fruit		
Purchase Frequency	10.1	1.4
Purchase Size (Dollar Volume)	3.7	1.7
Purchase Cycle (Days)	22.1	78.0
% Dollar Volume on Deal	16.8	33.8
% Dollars in 2MM+ Grocery w/o Mass Super	59.5	80.0
% Dollars in Mass Merch Supers	5.3	5.6


9 Key Findings

9 Key Findings

1. Conventional supermarkets have a significant, untapped sales opportunity

- **77% of consumers purchased organics in last six months**
- **57% percent buying more than a year ago**
- **Existing sales dominated by “heavy users” - who shop alternative formats, but also conventional stores**
- **Light users (fastest growth) shop conventional stores**

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9 Key Findings

2. Leveraging the organic opportunity in conventional supermarkets starts in the produce department

- Produce is the entry point
- Greatest consumer trial rates
- Greatest understanding of offering
- Light organic users shop first in conventional stores

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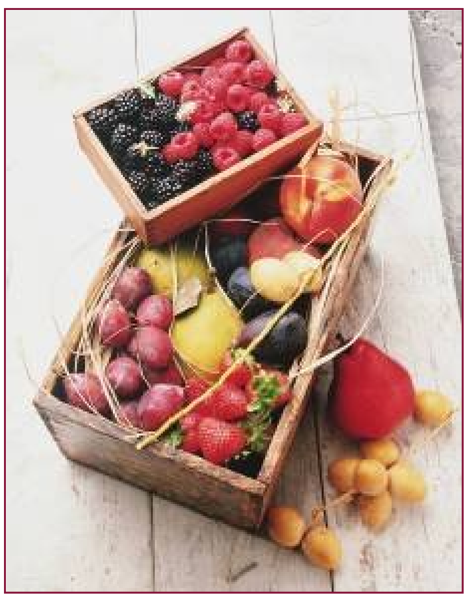
9 Key Findings

3. Quality and appearance – the key purchase drivers, especially among light users

- **Conventional products set benchmark**
- **Quality and appearance top purchase factor**
- **Brand ranked last in purchase considerations**



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9 Key Findings

4. Organic "health halo" can be leveraged by conventional stores in fresh foods

- **70% said organics are "better for you" than conventional**
- **Health factors more important than environmental issues to light users**
- **Organic fresh foods drive overall image of store among consumers, currently missed among supermarkets**

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9 Key Findings

5. Organic price is the key purchase barrier, but consumers expect to pay more

- **Among light users, a majority will pay up 20 percent above conventional**
- **Conventional supermarket shoppers more active in comparing price/value versus quality**

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9 Key Findings

6. Organic shoppers in conventional stores are very different from primary natural food store shopper

- Light users driven by convenience and price
  - Less likely to shop natural outlets
- More active in “shopping”
- Not committed to organic “lifestyle”
- Unlikely to seek out organics
- Key success words: convenient, accessible, comparable

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9 Key Findings

7. Growth is large, market is small

- Growth rate is five times conventional produce
- About three percent of total produce sales
- Key items are critical: packaged salad, carrots, apples, bananas
- New items drive growth: tomatoes, berries, grapes

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9 Key Findings

8. Store selection and product substitution are key

- Supermarket organic target is:
  - <u>Suburban</u>, college grad, older, small household, $100K income
- Urban organic consumer more committed to alternative format stores
- Strategic product substitution important
  - Control SKUs, improve visibility, leverage "organic" image

9 Key Findings

9. Proper margin and pricing critical

- East region is strongest
  - Everyday organic pricing is lowest with largest promotional discounts (-19 percent)
  - Smallest difference between average conventional and organic ($0.54)
- South region is weakest
  - Everyday organic pricing is highest with smallest promo discounts (-11 percent)
  - Largest difference between average conventional and organic ($1.07)

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Panel Discussion

Marvin Lyons	Biggs/Super Valu
Tracy King	Dovex Fruit Company
Brian McElroy	Driscoll Berry Associates
Rick Steigerwald	Lunds/Byerly's
Scott Owens	Paramount Citrus
Billy Heller	SunRipe Produce Company