Retail Meatcase Trends & What’s New In 2010

Retail Advisory Committee Meeting
April 2010
Purpose today/agenda

- Meridian Overview And Team Members
- 2009 Review Of The Meatcase
- What's New In 2010
Meridian Overview
Meridian Consulting Group profile

- Founded in 1991
  - Partnership with NPB since 1995
- Private company; strategic consultancy within Havas/Euro RSCG from 2000-2004
- Mission Statement:

  Build sustainable client *competitive advantage*…

  …through superior *go-to-market capabilities and programs*…

  …achieving *consumer/shopper objectives through the customer*
Meridian consultant background

Average 20 years marketing and sales experience from leading CPG companies
Meridian is recognized for bringing “what’s next” to the industry

Through alliances with Progressive Grocer, industry associations, and share groups, Meridian drives industry direction on emerging trends

- Building a shopper-centric environment for Cadbury at checkout – Lasting Impressions
  - Cover story
  - Follow-up Executive Insight article
  - 16 page insert (March, 2010)

- Major 2009 study: “Magnifying The Shopper Experience: Defining What’s Next”
  - Magazine feature story plus Progressive Grocer webcast (highest participation ever) sponsored by Kraft
  - Podium presentation at conferences and share groups
The Meridian/NPB Team

Michael Shinall
CEO
- Overall strategic direction

Ted Taft
Managing Director
- NPB long-term member responsible for current/new applications

Karen Strauss
Executive Consultant
- Client and project management

Cathy Libby
Director of Retail Analytics
- Primary interface with retailer IT departments
- Manages retail databases, analytics, and composite

Karen Montino
Senior Analyst
- Shopper research analysis
2009 Review Of The Meatcase
Executive Summary

- **Total meatcase dollars and pounds were up in 2009,** though overall a tough year with pound increases exceeding dollars across all species.

- **Fresh Pork continued to drive tonnage increases** with the three core species growing at approximately the same rate in dollars (Beef +3.3%, Fresh Pork +2.4%, and Chicken, 2.9%) all with reduced retail prices.

- **Breaking down the year by quarter, the importance of circular advertising becomes clear:**
  - **Q1’09:** Dollar sales growth outpacing pound growth; retail pricing and circular advertising experienced little change vs. YAG.
  - **Q2’09:** Pound growth began to outpace dollar growth; retail prices vs. YAG saw moderate decreases.
  - **Q3’09:** Double-digit growth in pounds and low single-digit growth in dollars; deep discounting, with significant growth in circular advertising.
  - **Q4’09:** Dollar sales declined; retail prices decreased again, though circular advertising did not increase as much as in the prior quarter.
2009 was a challenging year overall – including the fresh meat department

- While both pounds and dollars were up overall, pound growth exceeded dollar growth across all key segments
- Fresh Pork continued to lead tonnage gains, while the three core species were relatively close in dollar growth – all experiencing retail price decreases

% Change (52 wks ending Dec. 2009 vs. 2008)

<table>
<thead>
<tr>
<th>Category</th>
<th>Pounds Sold</th>
<th>Dollar Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Meat</td>
<td>6.8%</td>
<td>3.3%</td>
</tr>
<tr>
<td>Beef</td>
<td>7.6%</td>
<td>3.1%</td>
</tr>
<tr>
<td>Fresh Pork</td>
<td>10.0%</td>
<td>2.4%</td>
</tr>
<tr>
<td>Chicken</td>
<td>5.8%</td>
<td>2.9%</td>
</tr>
<tr>
<td>Dinner Sausage</td>
<td>0.1%</td>
<td>3.7%</td>
</tr>
<tr>
<td>Turkey</td>
<td>5.1%</td>
<td>3.1%</td>
</tr>
<tr>
<td>Ham</td>
<td>8.8%</td>
<td>3.2%</td>
</tr>
</tbody>
</table>

Ground: +8.4% pounds, +4.8% dollars, -9¢
All Other Beef: +6.9% pounds, +2.5% dollars, -18¢
Lamb: -0.3% pounds and +1.5% dollars, +10¢
Veal: -1.6% pounds and -3.3% dollars, -12¢

Nationally, the three core species represent 84% of meatcase dollars

Core species basically maintained their share of total vs. YAG

Similarly, shares across other species remained unchanged

$ Sales Share (52 wks ending Dec 2009)

Share
Change vs. 2008 vs. 2005

<table>
<thead>
<tr>
<th>Species</th>
<th>2008</th>
<th>Change vs. 2008</th>
<th>2005</th>
<th>Change vs. 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beef</td>
<td>+0.1</td>
<td>-0.8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chicken</td>
<td>NC</td>
<td>+0.7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fresh Pork</td>
<td>-0.1</td>
<td>-0.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dinner Sausage</td>
<td>NC</td>
<td>+0.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Turkey</td>
<td>NC</td>
<td>+0.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ham</td>
<td>NC</td>
<td>-0.1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lamb/Veal</td>
<td>NC</td>
<td>-0.2</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Ground: +0.5 pts vs. 2008 and +1.6 pts vs. 2005


Three core species: 84%
Both Fresh Pork and Beef gained share vs. 2008, whereas chicken lost some ground.

Fresh Pork is the only protein which has gained share (+1.0 pts) vs. 2005.

Pound Share (52 wks ending Dec 2009)

Share Change vs. 2008 vs. 2005

- Beef = +0.3 pts -0.4 pts
- Chicken = -0.3 pts NC
- Fresh Pork = +0.5 pts +1.0 pts
- Dinner Sausage = -0.4 pts -0.2 pts
- Turkey = -0.1 pts -0.2 pts
- Ham = +0.1 pts -0.1 pts
- Lamb/Veal = NC -0.2 pts

Ground: +0.3 pts vs. 2008 and +1.7 pts vs. 2005

Three Core Species Segment Review
Fresh Pork

Similar to the species overall, pound growth across segments was stronger than dollar growth.

Strength in Whole/Half Loins was driven primarily in Q4, with 47% growth in pounds and 27% dollar growth.

**Fresh Pork - % Change**

(52 weeks ending Dec. 2009 vs. 2008)

- **Chops**: -19¢, 15.1%
- **Roasts**: -19¢, 15.0%
- **Ribs**: -21¢, 15.6%
- **Unflavored Tenderloins**: -30¢, 12.9%
- **Steaks**: -18¢, 3.3%
- **Whole/Half Loin**: 30.7%
- **Value Added**: 23.7%

**Price Change:**
- **Chops**: -19¢
- **Roasts**: -19¢
- **Ribs**: -21¢
- **Unflavored Tenderloins**: -30¢
- **Steaks**: -18¢
- **Whole/Half Loin**: 30.7%
- **Value Added**: 23.7%

**% Change Front Page Features:**
- **Chops**: +6%
- **Roasts**: +33%
- **Ribs**: +4%
- **Unflavored Tenderloins**: +18%
- **Steaks**: +11%
- **Whole/Half Loin**: +4%
- **Value Added**: -20%

**Price Change:**
- BI Chops = +4.1% in pounds; -1.7% in dollars; -14¢
- BL Chops = +8.0% in pounds; -0.5% in dollars; -29¢
- Offals = +0.9% in pounds; +3.27% in dollars; +3¢
- Grounds = +12.5% in pounds; +12.6% in dollars; N/C

Beef

Pound growth also exceeds dollar growth across segments on Beef with Steaks showing the widest gap due to significant price reductions vs. YAG.

**Beef - % Change** (52 weeks ending Dec. 2009 vs. 2008)

<table>
<thead>
<tr>
<th></th>
<th>Pounds Sold</th>
<th>Dollar Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ground</td>
<td>8.4%</td>
<td>4.8%</td>
</tr>
<tr>
<td>Steaks</td>
<td>7.3%</td>
<td>1.8%</td>
</tr>
<tr>
<td>Roast</td>
<td>9.6%</td>
<td>6.0%</td>
</tr>
<tr>
<td>Value Added</td>
<td>0.9%</td>
<td>-0.4%</td>
</tr>
</tbody>
</table>

Price Change:  
-9¢ 
-28¢  
-11¢  
-5¢

% Change:  
+25%  
NC  
+3%  
+18%

Similarly Chicken experienced pound growth greater than dollar growth

Within Breast Meat, boneless performed better overall (pounds and dollars) than bone-in

**Chicken - % Change** *(52 weeks ending Dec 2009 vs. 2008)*

- **Pounds Sold**
  - Breast Meat: 8.6%
  - Other Parts: 5.6%
  - Whole: 2.4%
  - Value Added: 0.5%

- **Dollar Sales**
  - Breast Meat: 3.8%
  - Other Parts: 4.8%
  - Whole: -0.4%
  - Value Added: -2.2%

**Price Change**
- Breast Meat: -13¢
- Other Parts: -1¢
- Whole: -3¢
- Value Added: -12¢

**% Change**
- Breast Meat: -1%
- Other Parts: +3%
- Whole: +13%
- Value Added: -5%

**Front Page Features**
- Breast Meat: +9.7% in pounds; +4.7% in dollars; -15¢
- Bone-in Breast: +5.4% in pounds; -1.3% in dollars; -11¢

*Source: FreshLook syndicated meatcase grocery data and Leemis Promo Data – Total U.S. 52 weeks ending Dec. 2009 vs. 2008*
Let’s Break Down The Year
Q1’09 was a relatively healthy quarter

Dollar sales generally grew at a greater rate than pounds, while neither retail pricing nor circular advertising experienced significant change.

<table>
<thead>
<tr>
<th></th>
<th>Avg. Price:</th>
<th>% Chg. vs. YAG:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Meat</td>
<td>$2.85</td>
<td>+2.4%</td>
</tr>
<tr>
<td>Beef</td>
<td>$3.60</td>
<td>+1.6%</td>
</tr>
<tr>
<td>Fresh Pork</td>
<td>$2.53</td>
<td>-2.1%</td>
</tr>
<tr>
<td>Chicken</td>
<td>$2.09</td>
<td>NC</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Chg. in # FP Ads:</th>
<th>Total Meat</th>
<th>Beef</th>
<th>Fresh Pork</th>
<th>Chicken</th>
</tr>
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<tbody>
<tr>
<td>% Chg. vs. YAG:</td>
<td>-595</td>
<td>-200</td>
<td>-18</td>
<td>+312</td>
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<tr>
<td></td>
<td>-4.9%</td>
<td>-4.2%</td>
<td>-0.7%</td>
<td>10.3%</td>
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During Q2’09, we began to see pound growth outpacing dollars

- Moderate retail price decreases (vs. YAG) began to take place, along with some good upticks in circular advertising
- Importantly, while retail prices decreased somewhat vs. YAG, in the shopper’s mind pricing was virtually flat when compared to the prior quarter

<table>
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<tbody>
<tr>
<td>Q1’09</td>
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<td>Q2’09</td>
<td>$2.83</td>
<td>$3.64</td>
<td>$2.54</td>
<td>$2.10</td>
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</table>

**Q2 2009**

- Avg. Price: $2.83
- % Chg. vs. YAG: -1.7%
- Chg. in # FP Ads: 1,007
- % Chg. vs. YAG: +8.2%

- Beef: $3.64
  - % Chg. vs. YAG: -0.5%
  - Chg. in # FP Ads: 428
  - % Chg. vs. YAG: +8.3%

- Fresh Pork: $2.54
  - % Chg. vs. YAG: -2.0%
  - Chg. in # FP Ads: 60
  - % Chg. vs. YAG: +2.2%

- Chicken: $2.10
  - % Chg. vs. YAG: +0.5%
  - Chg. in # FP Ads: -181
  - % Chg. vs. YAG: -5.3%
In Q3’09, more dramatic differences in pound and dollar growth are seen

- While tonnage is growing in double-digits (exception Chicken), dollar growth is in the low single digits
- Deeper retail price discounting is occurring … and circular advertising is experiencing significant increases

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<td>Q3’09</td>
<td>$2.79</td>
<td>$3.55</td>
<td>$2.46</td>
<td>$2.02</td>
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</table>

Q3 2009

<table>
<thead>
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<td>$2.46</td>
<td>$2.02</td>
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</tr>
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</table>

- Avg. Price: $2.79
- % Chg. vs. YAG: -7.0%
- Chg. in # FP Ads: 10.0%
- % Chg. vs. YAG: +15.3%

- Pounds Sold: 1,679
- Dollar Sales: 826

As pound growth began to taper in Q4’09, dollars actually declined for the first time

Additional deep price discounting is taking place … however, frequency of circular advertising came down

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<tr>
<td>Q4’09</td>
<td>$2.39</td>
<td>$3.46</td>
<td>$2.30</td>
<td>$2.01</td>
</tr>
</tbody>
</table>

Breaking down the year by quarter begins to reveal the importance of advertising

In particular, when examining the dynamics in Q3 and Q4, we see the strength of increased circular advertising with a value price in Q3 driving stronger growth than in Q4, which relied more on deeper price discounts.

<table>
<thead>
<tr>
<th>% vs. YAG</th>
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<tbody>
<tr>
<td>Q1’09</td>
<td>#</td>
<td>$</td>
<td>#</td>
<td>$</td>
</tr>
<tr>
<td></td>
<td>+4.4%</td>
<td>+6.9%</td>
<td>+7.1%</td>
<td>+8.8%</td>
</tr>
<tr>
<td></td>
<td>+13.8%</td>
<td>+11.3%</td>
<td>+9.0%</td>
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</tr>
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<td></td>
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<td>-1.1%</td>
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<td></td>
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</tr>
<tr>
<td>Q2’09</td>
<td>+1,007</td>
<td>+428</td>
<td>+60</td>
<td>-181</td>
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<tr>
<td>Q3’09</td>
<td>+1,679</td>
<td>+826</td>
<td>+386</td>
<td>+95</td>
</tr>
<tr>
<td>Q4’09</td>
<td>+234</td>
<td>+105</td>
<td>+314</td>
<td>-81</td>
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</tbody>
</table>

Diving One Level Deeper
With pricing relatively flat within the quarter, advertising appears to drive volume

Circular advertising spikes in July and October align to tonnage peaks during the same months

### Fresh Pork

<table>
<thead>
<tr>
<th></th>
<th>Q3 '09</th>
<th>Q4 '09</th>
</tr>
</thead>
<tbody>
<tr>
<td>Avg. Price:</td>
<td>$2.49</td>
<td>$2.29</td>
</tr>
<tr>
<td># FP Ads:</td>
<td>1,032</td>
<td>1,081</td>
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<tr>
<td>Pounds MM</td>
<td></td>
<td></td>
</tr>
<tr>
<td>July</td>
<td>198</td>
<td>205</td>
</tr>
<tr>
<td>Aug</td>
<td>151</td>
<td>142</td>
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<tr>
<td>Sep</td>
<td>163</td>
<td>146</td>
</tr>
<tr>
<td>Oct</td>
<td>813</td>
<td>751</td>
</tr>
<tr>
<td>Nov</td>
<td>889</td>
<td>843</td>
</tr>
<tr>
<td>Dec</td>
<td></td>
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</tr>
</tbody>
</table>

A similar result is seen with Beef ...

... And again with Chicken

![Bar chart showing monthly sales and prices for Chicken]

**Avg. Price:**
- Q3 '09: $2.05, $2.03, $1.97
- Q4 '09: $1.96, $2.05, $2.05

**# FP Ads:**
- Q3 '09: 351, 278, 294
- Q4 '09: 355, 237, 237

Summary

- **Total meatcase dollars and pounds were up in 2009**, though overall a tough year with pound increases exceeding dollars across all species.

- **Fresh Pork continued to drive tonnage increases** with the three core species growing at approximately the same rate in dollars (Beef +3.3%, Fresh Pork +2.4%, and Chicken, 2.9%) all with reduced retail prices.

- **Breaking down the year by quarter, the importance of circular advertising becomes clear:**
  - **Q1’09**: Dollar sales growth outpacing pound growth; retail pricing and circular advertising experienced little change vs. YAG.
  - **Q2’09**: Pound growth began to outpace dollar growth; retail prices vs. YAG saw moderate decreases.
  - **Q3’09**: Double-digit growth in pounds and low single-digit growth in dollars; deep discounting, with significant growth in circular advertising.
  - **Q4’09**: Dollar sales declined; retail prices decreased again, though circular advertising did not increase as much as in the prior quarter.

- Importance of circular advertising is even more clear on a monthly basis:
  - With retail prices similar within the quarter, the higher levels of advertising in July and October drove greater pound growth across the three core species.
What’s New In 2010
Many retail environments are transforming to engage the shopper…

…in bookstores
...and in coffee shops
Similarly bold shopper solutions are reshaping the perimeter/center store as well.
These transformations go far beyond the “4 Ps”

With the objective to:

- Engage and excite the shopper
- Create an emotional connection
- Reinforce the store as a brand
- Build store loyalty
- Increase sales/profits!
Competition for the shopper’s satisfaction and loyalty is intense.

Shoppers are no longer confined by channels.
We must understand the key drivers across the entire Shopper Purchase Pathway.

**Shopper Purchase Pathway**

1. **Determine Need**
2. **Channel/Retailer Choice**
3. **Department/Category Choice**
4. **Product Choice Within Category**
5. **Use The Product**

“Vendors often think the ‘first moment of truth’ begins at the shelf…but for us the ‘first moment’ begins before the shelf; it begins at choosing which parking lot to pull into, and involves a broader perspective on how we build solutions.” – Retailer

New knowledge must address shopper decision points that begin before the shelf—before the “Product Choice Within Category”
While Integrated Meatcase Solutions continues to drive results in the meatcase ...

Results

- Business Results
  - 3-5% increase in total meat
  - 4-11% gains in fresh pork
  - Driven by sustained improvements to total department

- Industry Awards/Recognition
  - “Best of Class”/ Progressive Grocer
  - AMI/AMC
  - FMI
  - Published case studies

- Proprietary tools/composite database, integration with syndicated data

Recognition Highlights

- Integrated Meatcase Solutions
- In-Store Compliance
- Selling Value Added
- Hispanic/Ethnic Applications
- Integrating Meatcase Promotion Opportunities with Other Departments
It has become critical to incorporate the shopper’s perspective as it has progressed...

And go even beyond the **meatcase** ...

... to gain a larger share of total **meals**
We are building upon with new shopper research

“How America Buys Meat”
And the role of meat in “Meal Solutions” for shoppers and retailers

The new research has three core components:

National/Regional Shopper Research

Retailer-Specific Shopper Research

Retail Application & Financials
Shopper Research – what’s next?

Key learning and implications to be shared at …

- Fall RAC
- Future Retailer Presentations
- Trade Publications
- PorkRetail.org