Reviewing the State of the Retail Fresh Meat Case

Rick Dawrant
Lucid Partners, Inc
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Presented by
Rick Dawrant, Lucid Partners, Inc
Objective: Gain a clearer understanding of the link between the current economic challenges and fresh meat merchandising by looking at several topic areas:

Review retail fresh meat volume and pricing trends on a broad scale

Focus on segments to understand current dynamics on a volume and price basis

Review what retailers are telling us about their merchandising plans for the coming year

Begin by understanding the current state of retail fresh meat merchandising
Perspective: The Current State of Retail Meat Merchandising

How Lucid Partners defines the art of Fresh Meat retailing:

- The act of buying product at the lowest possible price and then selling product at the highest price that consumers, the marketplace and/or the broader store strategy will allow.

Fresh Meat retailing remains focused on the buy side of the equation.

- Selling commodity product vs marketing to consumers

More effective marketing strategies and tactics could be put in place but are not due to limited bandwidth of personnel and overall complexity of the category.

- Trained to buy and buying activities trump everything
- Leveraging the lack of information within their own organizations
Perspective: The Current State of Retail Meat Merchandising

- Data remains complex and quality is an issue in raw form
  - Inconsistent coding, each store can act as a manufacturing plant
  - System II data – reporting different codes, different measures
  - Most systems not capturing accurate retail prices or causal

- Fresh meat features remain central to weekly retailer ads
  - Center of plate plays a central role in the weekly ad strategy
  - Markets do not always align with retailer strategy and tactics
  - Ad plans change to react to competitive market conditions

- Sales patterns are shifting faster than advertising changes
  - Often retailers are resistant to deviating from historical ad patterns

- Country of origin labeling intent vs reality

- Volume is concentrated on a finite number of core cuts / SKU’s
Concentration of Volume

- All SKU’s in the Lucid database are scrubbed, coded to a proprietary code structure then matched to URMIS (Uniform Retail Meat Identity Standard).
- The key item groupings below represent the top five in terms of dollar and pound volume for the periods identified, but represent less than 0.25% of all item groupings observed.

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>2005</th>
<th>2008</th>
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<td>POUNDS</td>
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<tr>
<td>1</td>
<td>Chicken: Whole Bird</td>
<td>Chicken Breast (Boneless/Skinless)</td>
<td>Chicken Breast (Boneless/Skinless)</td>
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<tr>
<td>2</td>
<td>Chicken Breast (Boneless/Skinless)</td>
<td>Chicken: Whole Bird</td>
<td>Ground Chuck</td>
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<td>3</td>
<td>Ground Chuck</td>
<td>Ground Chuck</td>
<td>Ground Chuck</td>
</tr>
<tr>
<td>4</td>
<td>Ground Beef (70-77% Lean)</td>
<td>Chicken Breast (Split)</td>
<td>Pork Chops (Assorted Bone In)</td>
</tr>
<tr>
<td>5</td>
<td>Pork Chops (Assorted Bone In)</td>
<td>Pork Chops (Assorted Bone In)</td>
<td>Ground Beef (70-77% Lean)</td>
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<tr>
<td></td>
<td>14.4%</td>
<td>17.0%</td>
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<tr>
<th></th>
<th>2001</th>
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<td>DOLLARS</td>
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<td>Ground Chuck</td>
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<td>3</td>
<td>Chicken: Whole Bird</td>
<td>Chicken: Whole Bird</td>
<td>Chicken: Whole Bird</td>
</tr>
<tr>
<td>4</td>
<td>Ground Beef (70-77% Lean)</td>
<td>Pork Chops (Assorted Bone In)</td>
<td>Pork Back Ribs</td>
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<tr>
<td>5</td>
<td>Pork Chops (Assorted Bone In)</td>
<td>Ground Round</td>
<td>Pork Chops (Assorted Bone In)</td>
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<tr>
<td></td>
<td>11.6%</td>
<td>12.3%</td>
<td>11.5%</td>
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</tbody>
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Source: Lucid Partners national fresh meat database 2001-2008
Identifying Current Trends:
Analyzing Fresh Meat Point of Sale Data
Data Parameters
Identifying accounts to serve as sample

- Lucid Partners national fresh meat database overview
  - Collection of syndicated and retail direct point of sale data
  - Overlay of causal data for inclusion of featuring activity
  - Production of additional measures for purpose of analysis
  - Some accounts dating back to 1997
  - Approximately 18 million+ records

- For purposes of this review, a set of criteria was established to determine which accounts from the database would serve as part of the sample used for this evaluation
  - Geographically dispersed
  - Consistent data delivery
  - Matched to causal data
  - Data runs through December 2008

- Selected set of accounts used all analysis contained within
Total Fresh Meat Volume
Dollars and Adjusted Pounds 2004 - 2008

Dollars / Adjusted Pounds
Total Fresh Beef Volume
Weekly Dollars by Segment 2004 - 2008

- ALL Ground Beef - Dollars
- Beef Middle Meats - All Grades - Dollars
- Beef End Meats - All Grades - Dollars
Total Fresh Beef Volume
Quarterly Dollars by Segment 2004 - 2008
Total Fresh Beef Volume
Dollars by Segment Q4 Comparisons 2004 – 2008
Fresh Meat Volume Change
Q4 2008 Dollars vs. Q4 2007

GROUND BEEF AVERAGE PRICING
December BLS: $3.19 vs $2.87 YAGO
December Sample: $2.48 vs. $2.40 YAGO
Retail Pricing – Boneless Chuck Roast
2008 Average Weighted Retail vs. 2004-2007 & BLS 2008

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Fresh Meat Volume Change
Q4 2008 Dollars vs. Q4 2007

Change vs Q4 2007

- All Proteins: 7.6%
- Total Pork: 8.8%
- Pork Chops (Boneless): -5.0%
- Pork Chops (Bone In): 13.8%
- Total Chicken: 7.6%
- Whole Chickens: 4.2%
- Fresh Bnls Skinls: 3.6%
- Legs: 12.6%
- Thighs: 15.9%
Retail Pricing – Chicken Legs
2008 Average Weighted Retail vs. 2004-2007 & BLS 2008
Patterns in Promotional Timing
2008 vs 2007 Single Account Dollar Sales - Ground Beef <84% lean
Retailer Interviews
Retailer interviews
Macro store environment

- Store opening, expansions, conversions to higher end formats have either slowed or are on hold
- Larger retailers hold edge over smaller competitors due to their ability to leverage size to gain price and supply advantage
- Increasing concern about the recession creating a legacy switching issue to alternate channels, specifically Wal*Mart and Costco
  - Increased efforts to maintain customer loyalty through the recession in the hopes of reaping a long term payout
Retailer interviews
Meat Merchandising Strategies

- Increased focus and coordination with the meat department over what items are run on the front page of the ad
  - Meal planning opportunities that bridge across the store to create value

- Investigating or beginning to use new, outside of normal merchandising practices aimed at retaining customer dollars
  - Use of “Buy One Get One Free” offers
  - Store purchase offers: “Purchase $X.00 groceries or meat and receive $Y.00 off your next purchase

- Lower retail prices on turn (began earlier in Wal-mart markets) to retain traffic and create/retain a value image

- Increased emphasis on store branded meat product lines to retain margins
  - Even a reposition of commodity product
Retailer interviews
Meat Merchandising Strategies (continued)

- Shifting to greater emphasis on grinds
- Anticipate shift towards pork due to value
- Retailers struggling to merchandise the whole animal as more middle meats come into the market, but demand is off because of the retail price points
- Retailers asking packers for new solutions to help them merchandise better
  - New cuts with a value proposition that they can build around
  - Pre-cut case ready programs on selected cuts
  - Value pack plant packaging as a transition to bulk “club style” buying
  - Sponsored analytical services to measure their performance
Retailer interviews
Consumer Response

- Increase in store traffic as consumers slide more of their dollars into the grocery channel and away from certain sectors of food service
  - Increasing turn business

- Sharp increase in “cherry picking” by consumers across multiple competitors and multiple channels
  - Resulting in more educated and at times less valued consumers

- Shifting buying habits
  - Trading down dollars from more expensive cuts to those with greater value
  - Larger size packages, cut and freeze
  - In some cases consumers trading up to more expensive prepared meals that save time even though they cost more
Concluding Comments

- Fresh meat continues to be a push business
  - Supply side of the market still driving what consumers buy due to exposure of product at retail
  - Consumer demand by way of turn business is having greater influence over what is being “pulled” out of the retail case

- Retailers are evolving their decision making on fresh meat merchandising, but real change on a broad scale will be slow

- Broad category level figures are moving slowly, but sub segments are seeing a swifter change as consumers react at the point of sale

- Consumers are seeking value in terms of price, size and outlet

- Fresh Meat business is dynamic with no single magic bullet