Reviewing the State of the Retail Fresh Meat Case

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Outline of the Discussion

- 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

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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**

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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**

POUNDS		2001	2005	2008
	1	Chicken: Whole Bird	Chicken Breast (Boneless/Skinless)	Chicken Breast (Boneless/Skinless)
	2	Chicken Breast (Boneless/Skinless)	Chicken: Whole Bird	Ground Chuck
	3	Ground Chuck	Ground Chuck	Chicken: Whole Bird
	4	Ground Beef (70-77% Lean)	Chicken Breast (Split)	Pork Chops (Assorted Bone In)
	5	Pork Chops (Assorted Bone In)	Pork Chops (Assorted Bone In)	Ground Beef (70-77% Lean)
		14.4%	17.0%	12.7%

DOLLARS		2001	2005	2008
	1	Chicken Breast (Boneless/Skinless)	Chicken Breast (Boneless/Skinless)	Chicken Breast (Boneless/Skinless)
	2	Ground Chuck	Ground Chuck	Ground Chuck
	3	Chicken: Whole Bird	Chicken: Whole Bird	Chicken: Whole Bird
	4	Ground Beef (70-77% Lean)	Pork Chops (Assorted Bone In)	Pork Back Ribs
	5	Pork Chops (Assorted Bone In)	Ground Round	Pork Chops (Assorted Bone In)
		11.6%	12.3%	11.5%

Source: Lucid Partners national fresh meat database 2001-2008

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Identifying Current Trends:

Analyzing Fresh Meat Point of Sale Data

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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**

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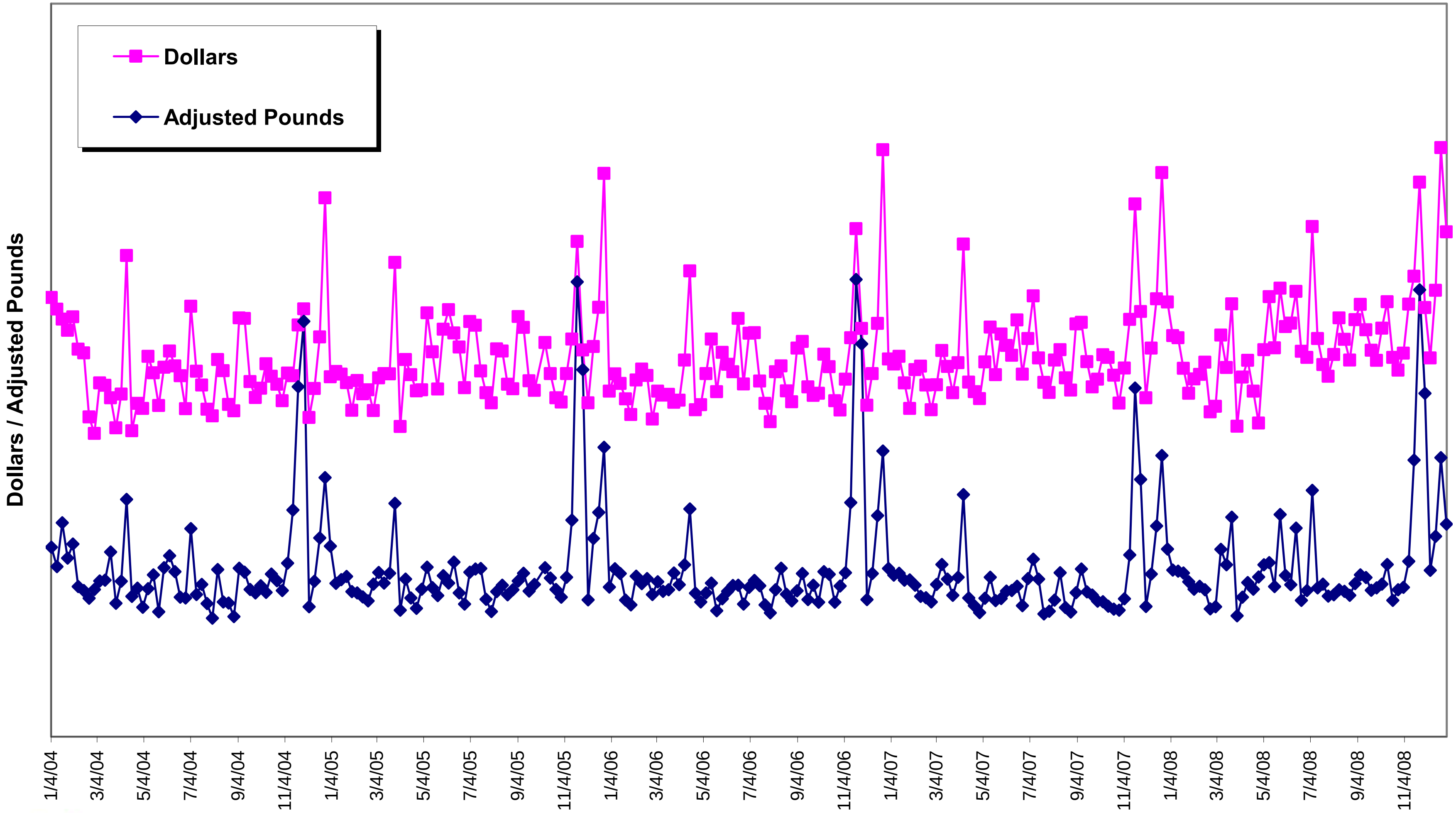
Total Fresh Meat Volume

Dollars and Adjusted Pounds 2004 - 2008



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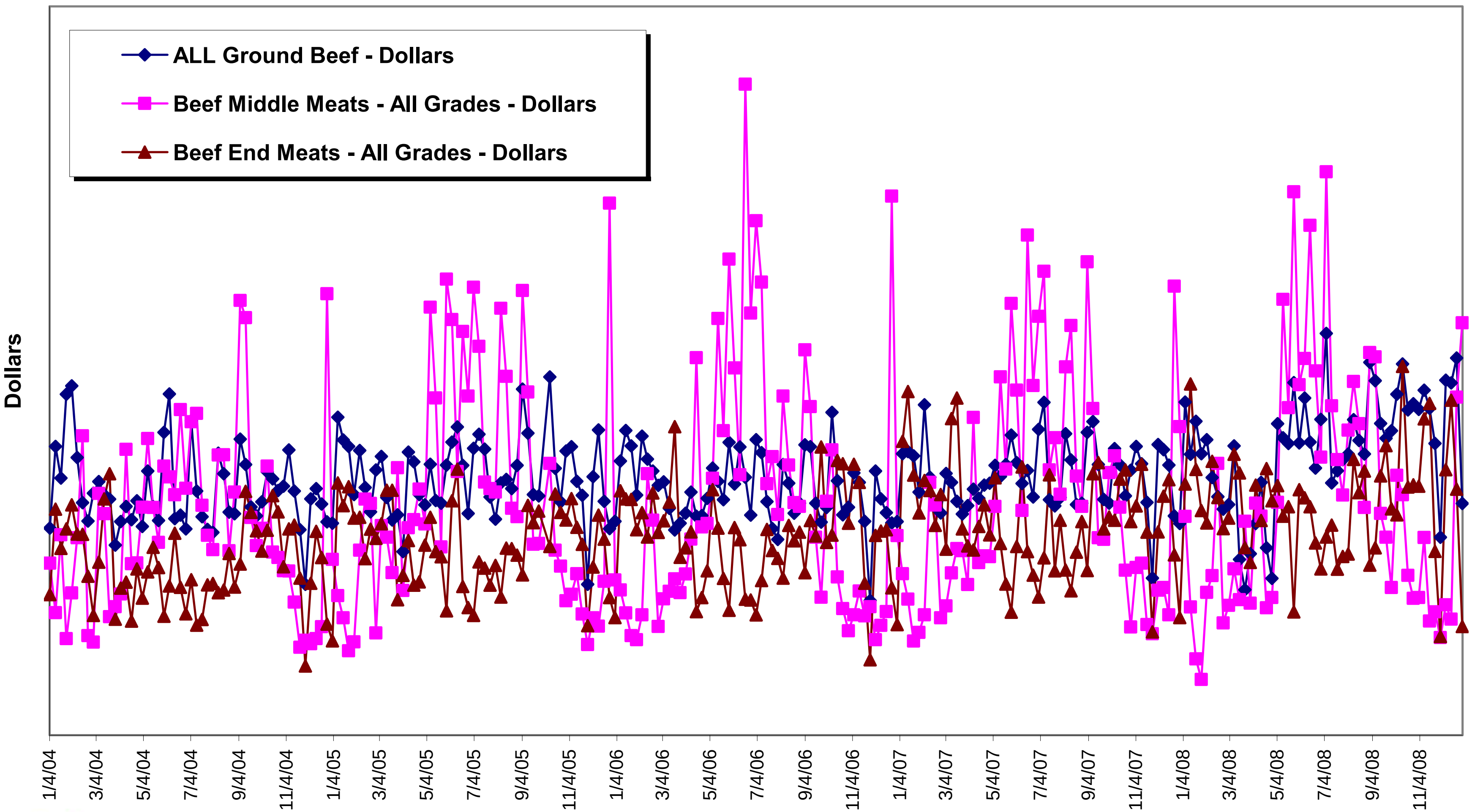
Total Fresh Beef Volume

Weekly Dollars by Segment 2004 - 2008



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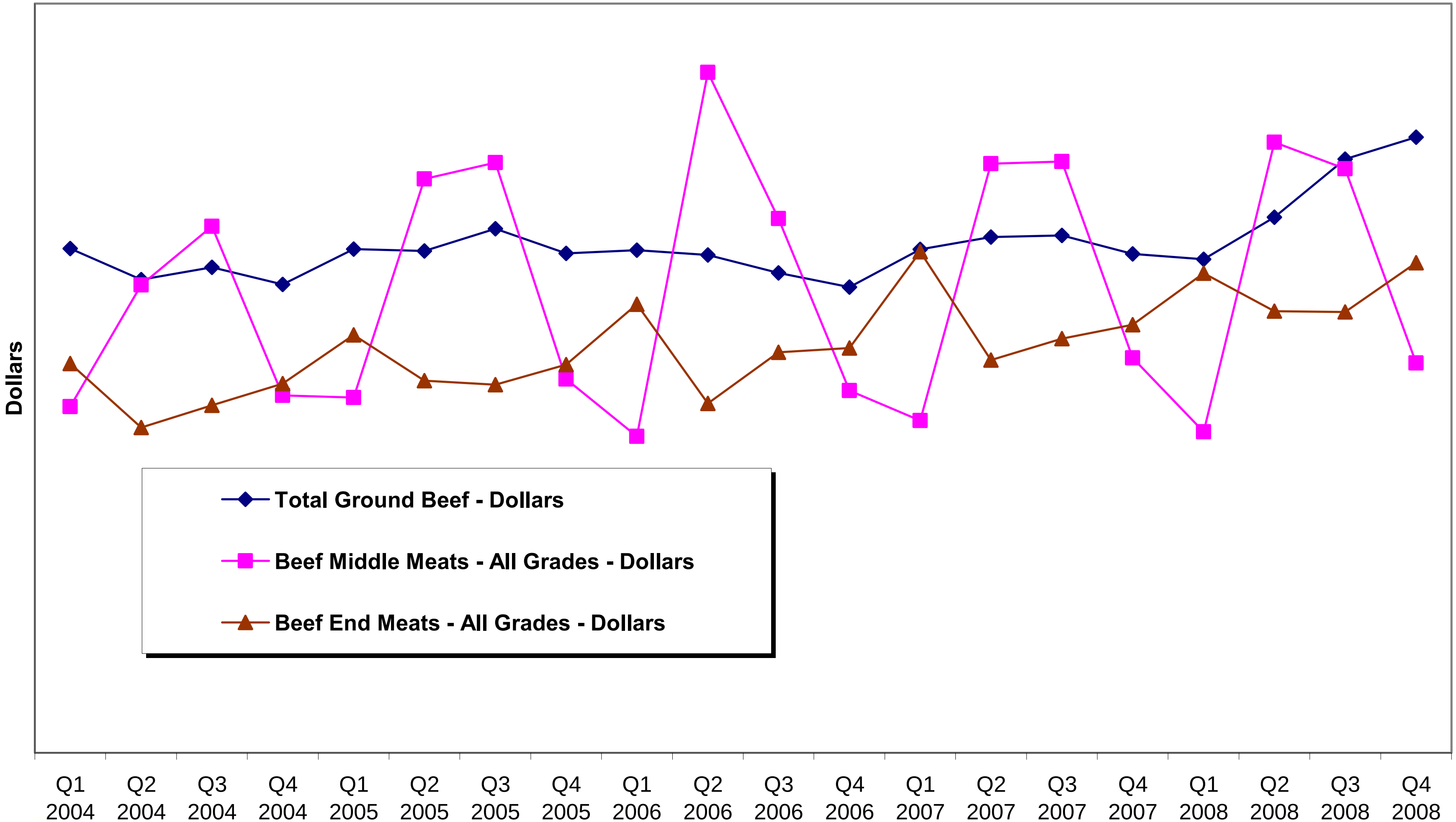
Total Fresh Beef Volume

Quarterly Dollars by Segment 2004 - 2008



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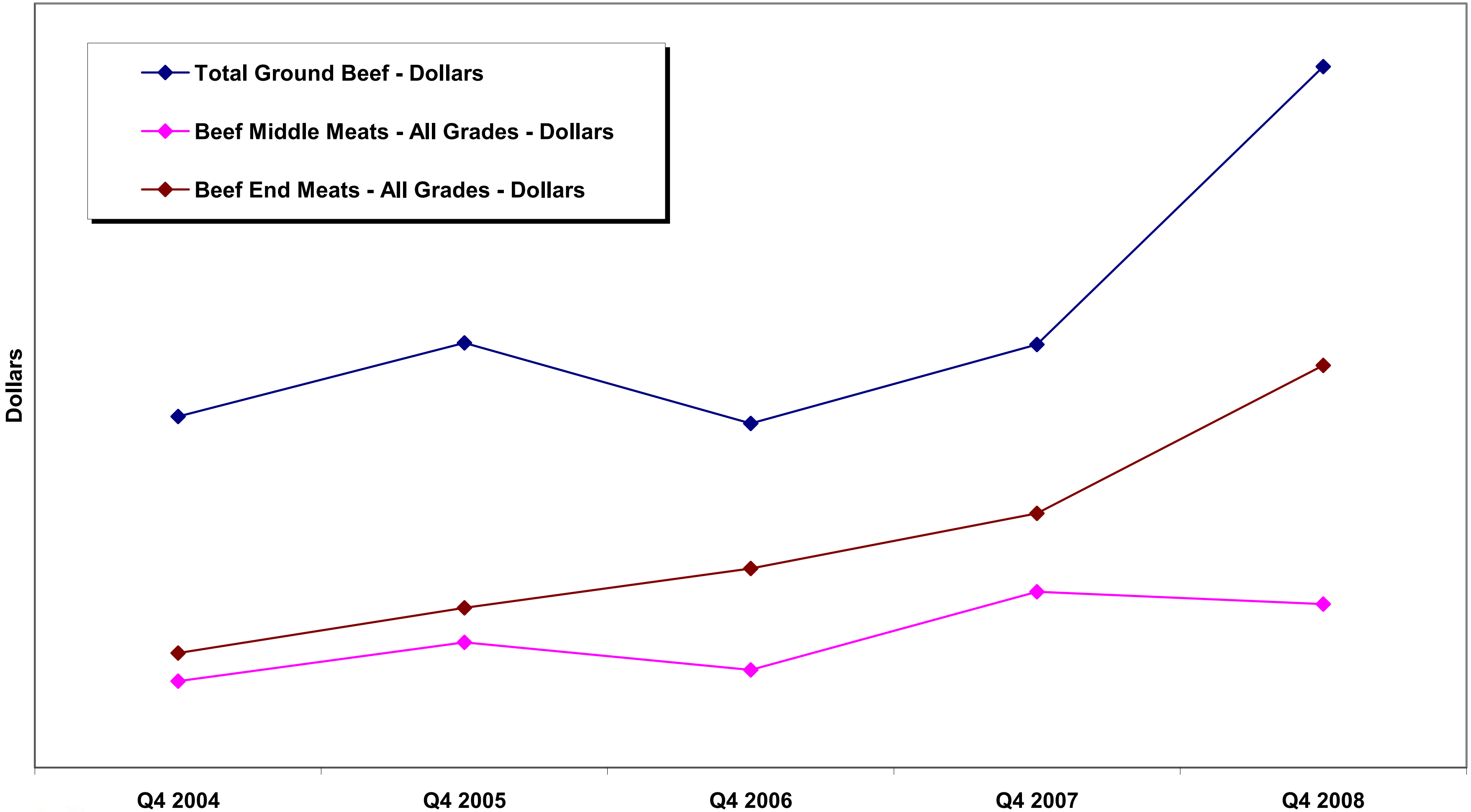
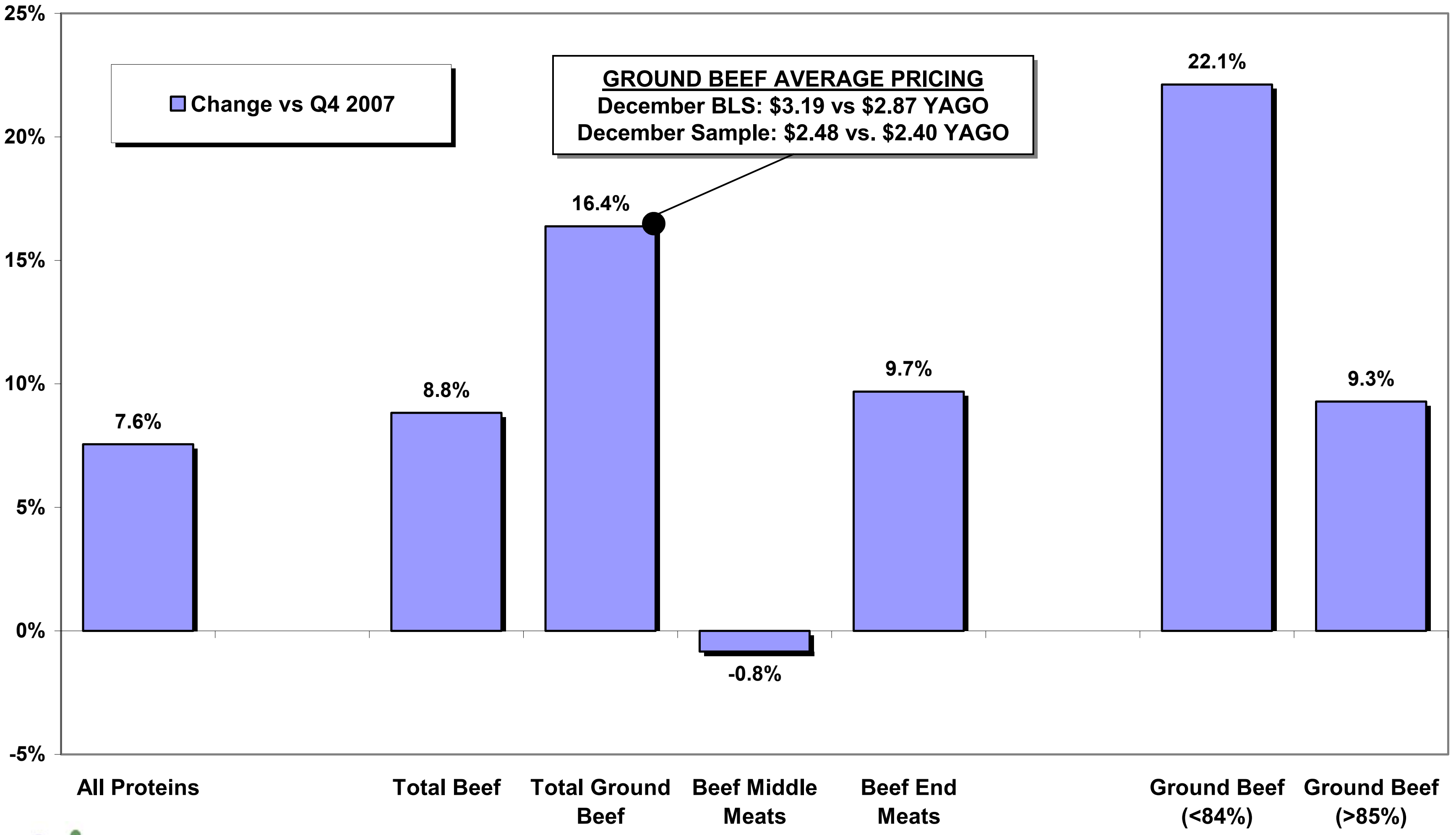
Total Fresh Beef Volume

Dollars by Segment Q4 Comparisons 2004 – 2008



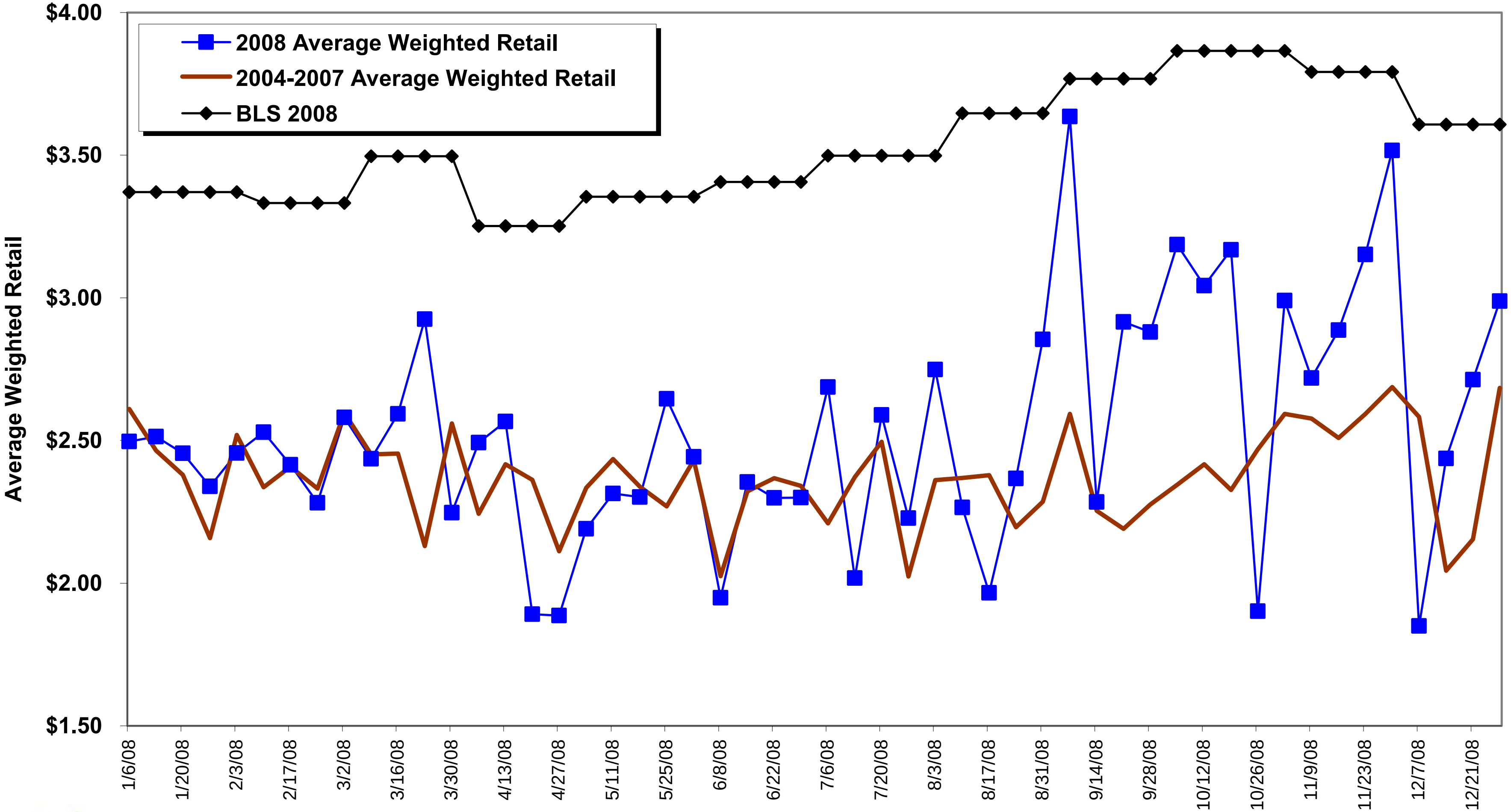
Fresh Meat Volume Change

Q4 2008 Dollars vs. Q4 2007



Retail Pricing – Boneless Chuck Roast

2008 Average Weighted Retail vs. 2004-2007 & BLS 2008



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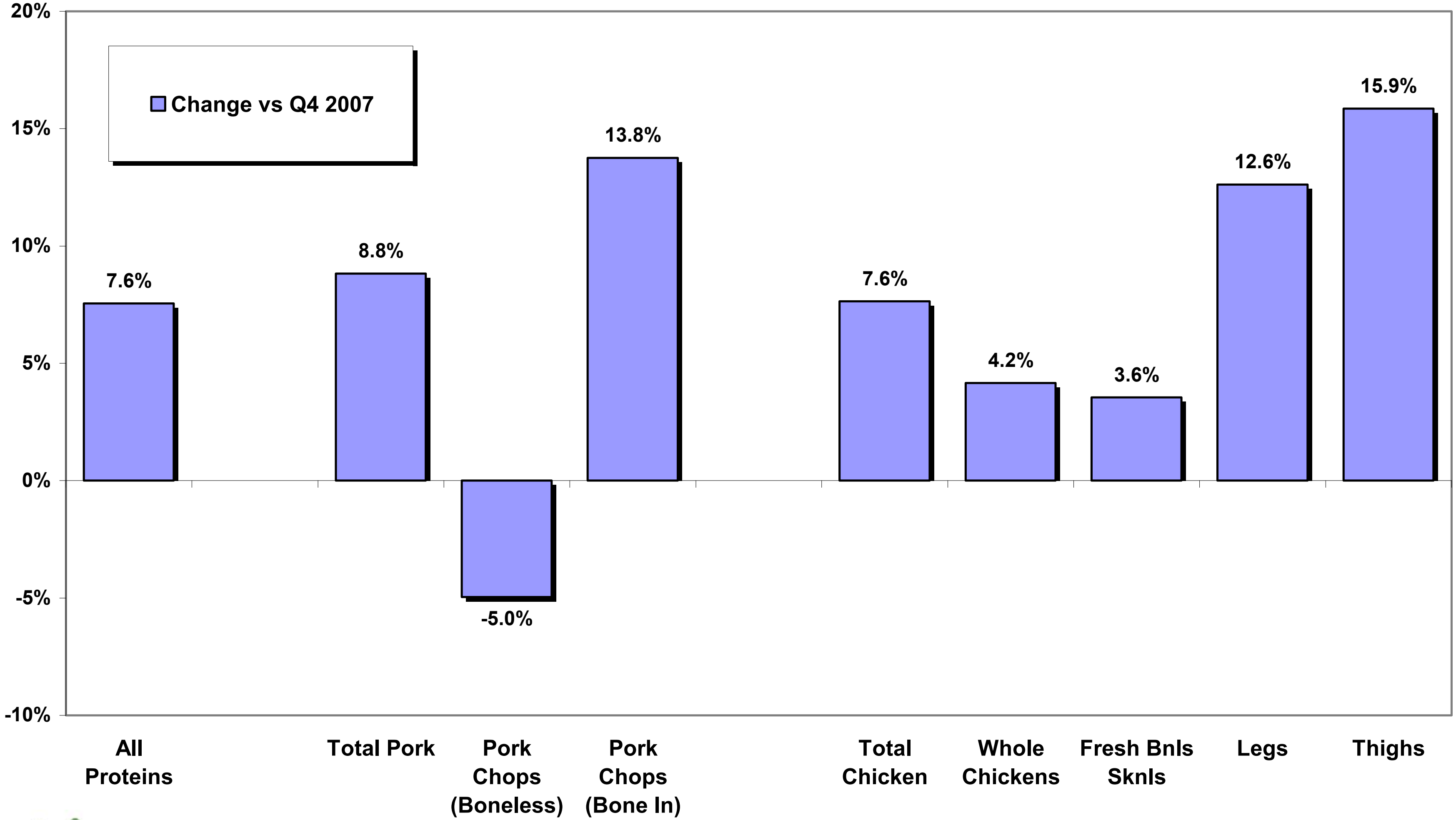
Fresh Meat Volume Change

Q4 2008 Dollars vs. Q4 2007



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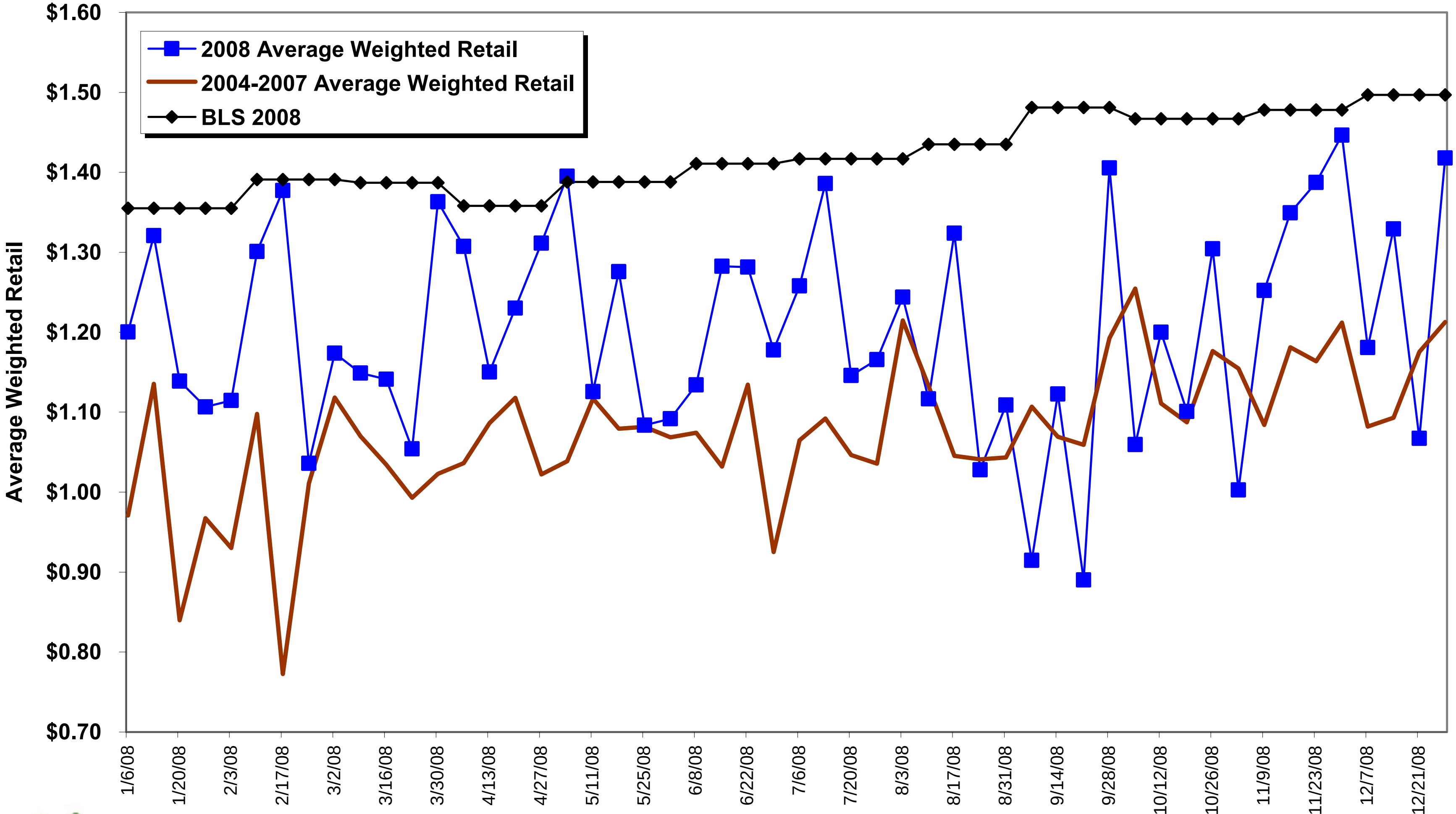
Retail Pricing – Chicken Legs

2008 Average Weighted Retail vs. 2004-2007 & BLS 2008



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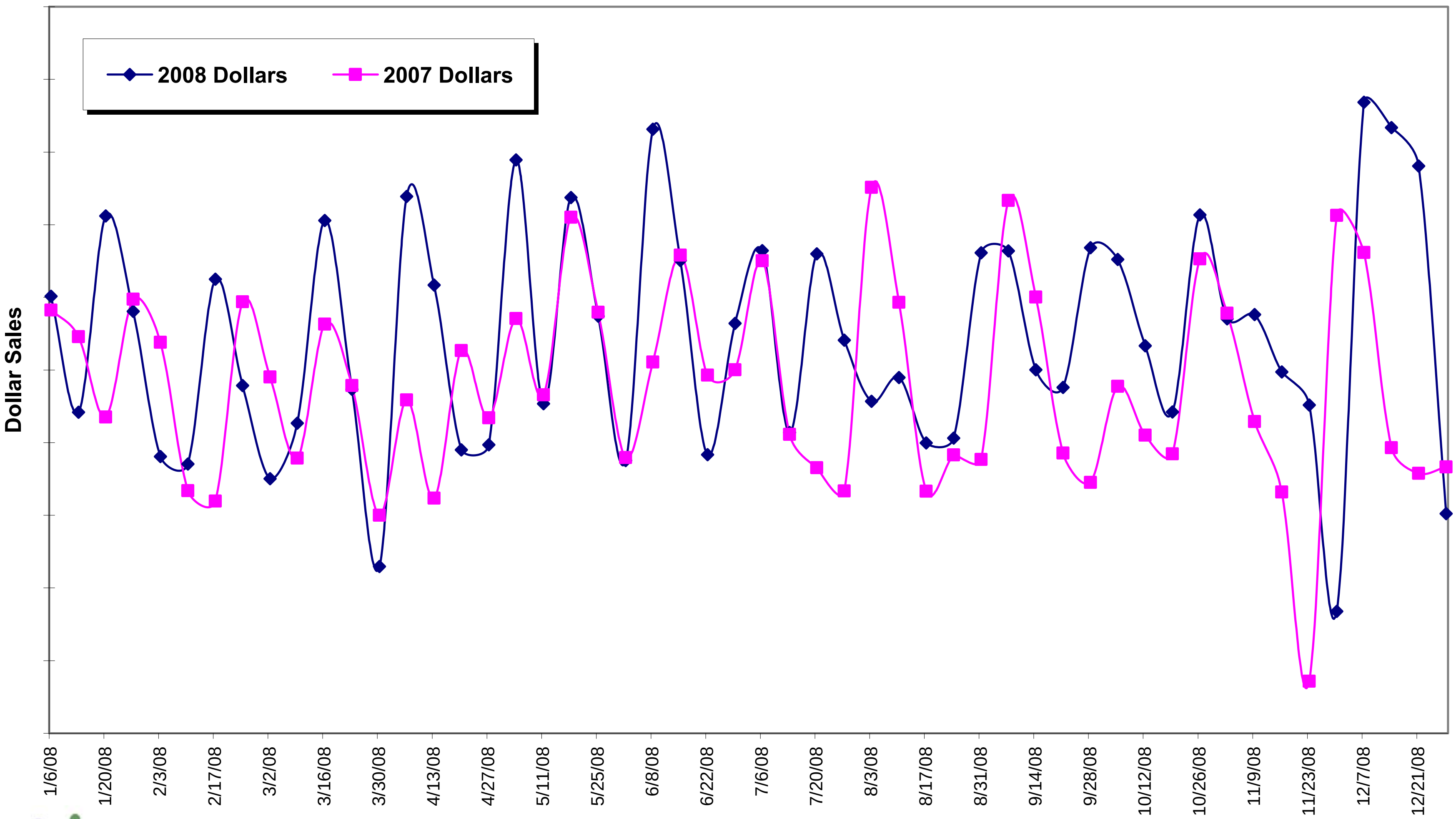
Patterns in Promotional Timing

2008 vs 2007 Single Account Dollar Sales - Ground Beef <84% lean



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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 <u>new</u> 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

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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**