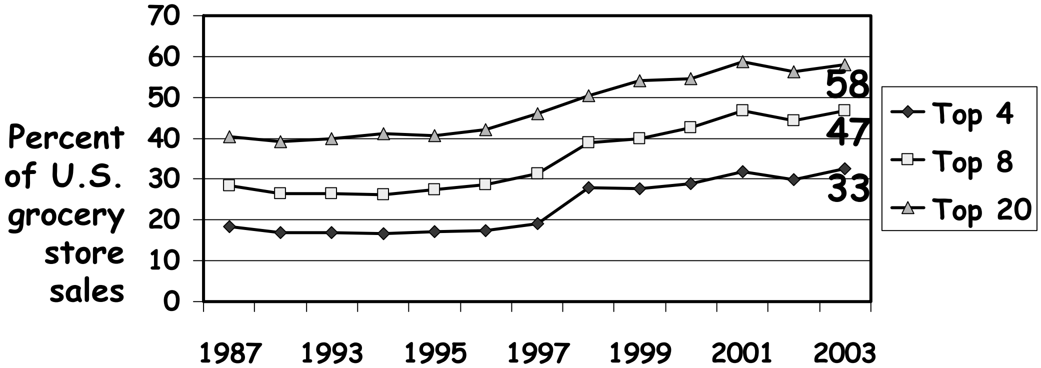
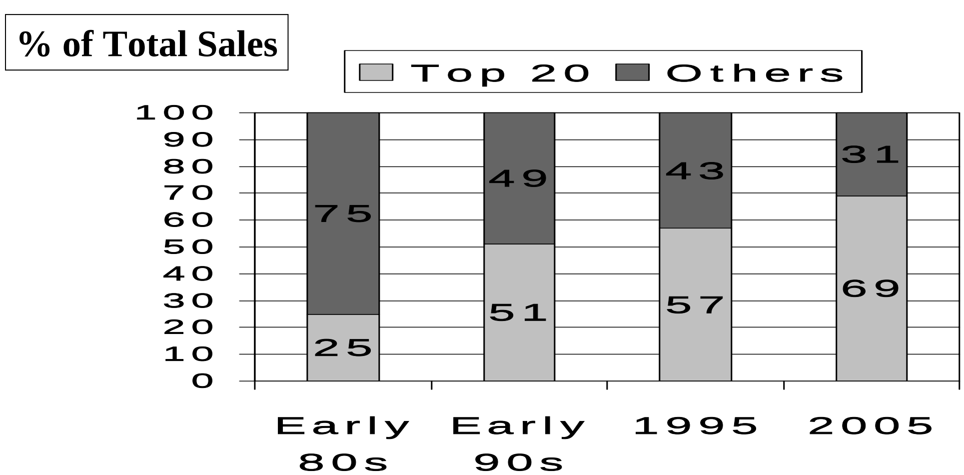
U.S. *Grocery* Retail Concentration*



Sources: ERS/USDA; US Retail Census, firm annual reports, provided by Roberta Cook, UCD

***Includes *grocery-equivalent* supercenter sales ONLY. Excludes sales of c-stores with gas. Excludes the portion of any grocery chain's sales corresponding to their drug store, jewelry store or other non-grocery store sales.**

SALES OF FOOD MANUFACTURERS
ACCOUNTED FOR BY TOP 20 CUSTOMERS



Source: Kraft Foods, Cornell Estimates

Stock Price Performance, Top 5 US Grocery Retailers 1/1/99 – 2/28/05

Chain	% Change
Wal-Mart	+ 28%
Kroger	-38%
Safeway	-70%
Albertson's	-57%
Ahold	-75%
Dow	+17%

Return on Asset Comparison, Top 4 US Grocery Retailers, 2004

	ROA	= Profit/Sales X	Sales/Assets
Wal-Mart	9.36%	3.65%	2.64
Kroger	1.02%	0.38%	2.68
Safeway	3.69%	1.56%	2.37
Albertson's	1.98%	0.92%	2.15

Still Plenty of Strong Regional Players...

- **Top 50 US markets = >75% US ACV**
- **Average 5-firm local/regional market share = 78%**
- **But, a U.S. Top 5 firm is #1 in only 23 of Top 50 markets**
- **20 other companies are #1 in the other 27 markets**

Source: McLaughlin, Cornell

Conventional Retail Chains Reconsidering their Models

- **The experience from the merger trend of the late 1990's has shown that getting bigger wasn't enough to meet the new competitive benchmark imposed by Wal-Mart's success in logistics, data management and cost reduction: supply chain efficiencies and understanding and serving customers.**

Conventional Retail Chains Reconsidering their Models

- **The challenge for retailers is to effectively utilize scanner, customer loyalty card and other data in order to identify the right product mixes at the individual store level.**
- **Food retailing is inherently local, and as retailers get larger and consumers more diverse, intensive data management is critical!**

The Future

The winners will compete on various dimensions of *value*: price, product, service, and selection.

There are a number of formats successfully defining "white space" market opportunities. Examples include Trader Joe's, Whole Foods, Dollar Stores, and conventional chains like Wegman's and HEB, as well as independents.

Retailers can deliver value to consumers at both the high and low ends of the price spectrum, depending on product selection and quality levels, and format design, by understanding the needs and wants of target segments for specific shopping occasions.

The middle, unclearly defined ground – retailers with *no clear value proposition* – will be increasingly challenged.

Cultural Occasions for Shopping

Source: Hartbeat, The Hartman Group

Bottom Line

- Changes in *food distribution* – consumer demand, technology-driven innovation, consolidation, globalization, shifting buyer-seller relationships – require new business models to seize competitive advantage.
- Drive to become preferred suppliers – via not only products, product lines, and volumes as differentiation tools, but also *services*
- Key is to add value and move away from a commodity orientation.

Bottom Line

- Increasingly consumer-driven – value-added – flavor, convenience - clear value propositions.
- The food system is becoming more vertically coordinated – tighter supply chains – driving out non-value-adding costs.
- Environmental and social responsibility is becoming a *given*.

Implications for Suppliers

- Source of value creation can vary
- Input suppliers vertically integrating with shippers
- Horizontal integration – joint ventures, strategic alliances – year-round marketing
- Higher sales volume helps spread overhead costs associated with greater investments in technology and marketing
- Not only what you grow: what you know