Fresh Prepared Foods

FMI Mid-Winter Conference

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We are witnessing fundamental shifts in consumer purchase behavior

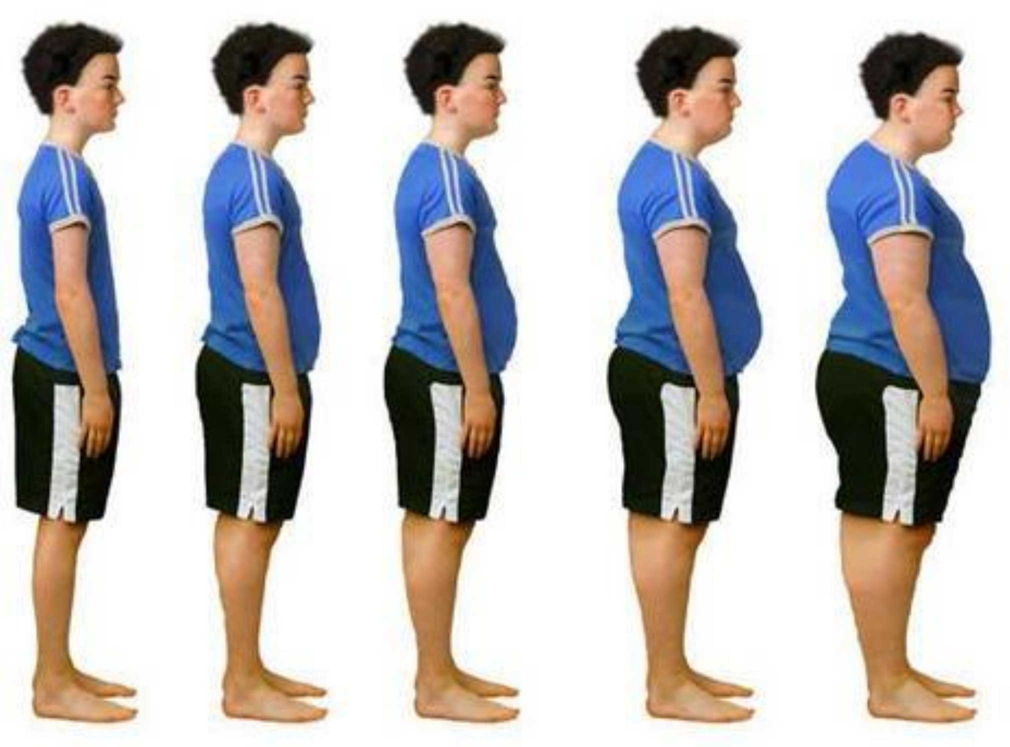
Carbonated Soft Drinks
Frozen Dinners
Canned Fruit
SS Dinners
Family and Casual Restaurants

Ready Meals
Vegetables
Deli
Fruits
Fast Casual Restaurants

Brought together by converging consumer trends

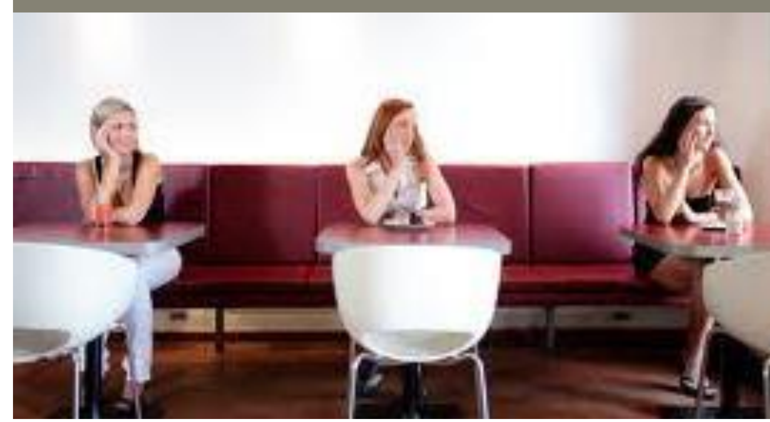
And shifting demographics

Health/Diet



Millennials

Households



Fresh prepared foods are in the spotlight

Recent Headlines

"Supermarket customers are hot for takeout." - **Washington Post**

"Grocers give restaurants competition." **- Nation's Restaurant News**

"In convenience stores, more food, fewer cigarettes." -**Businessweek**

We have seen the move to ‘fresh prepared’ before

Home Meal Replacement (HMR) Market (1997 – 2000)

eatZi's MARKET & BAKERY

BOSTON MARKET Home Style Meals

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Most retailers, however, were not delivering on customers' expectations of freshness

Common Retailer Missteps

- Unappetizing retail packaging – looks over processed
- Standard approach to merchandising – does not look "fresh market"
- Inconvenient in-store placement of fresh items (e.g. deli in the back of the store)
- Price – Particularly during recessionary times
- Too much variety

Fresh prepared meals success - UK models

- UK market for premium ready meals is forecast to rise from US$555MM to US$810MM
- Chilled products are the mainstay of the premium ready meals category
- Shoppers spending more on "lazy" products such as pre-boiled eggs and pre-sliced fruit

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Fresh prepared meals success - UK models

Meal Kits

ASDA

Sainsbury

Waitrose

Tesco - Value

Tesco - Premium

UK Ready Meals – Great presence of ready to cook meals

Learning from Tesco's US experience

fresh & easy™ Neighborhood Market

Causes of Fresh & Easy Failure

Wrong format

- Launch in 10,000 ft^2 stores (many former Rite-Aid) due to lack of available 70,000 ft^2 locations – **not because 10,000 ft^2 stores were optimal**

Massive Build Up Unproven Concept

- Built a massive distribution center to support **unproven value proposition**; assumed aggressive consumer conversion to attain economies of scale

Lack Understanding Local Consumers

- **Did not adapt to local consumer needs**; opened without standard checkout, accepting American Express or manufacturers coupons

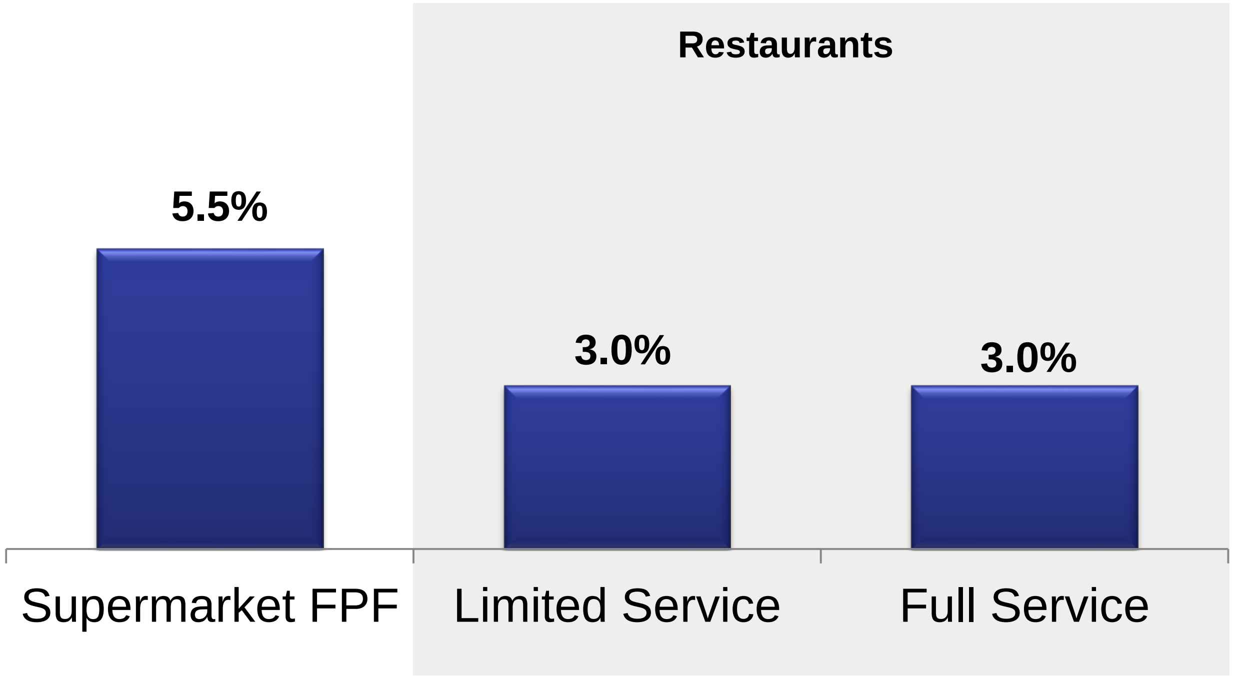
Failed to Deliver on Freshness

- In-store execution was **not perceived as 'fresh'** by consumers (e.g. plastic-wrapped produce, lack of ability to customize meals)

Source: A.T. Kearney analysis, Perishable Pundit, Tesco

Supermarket FPF is outperforming restaurants

2013 vs 2012 (preliminary)



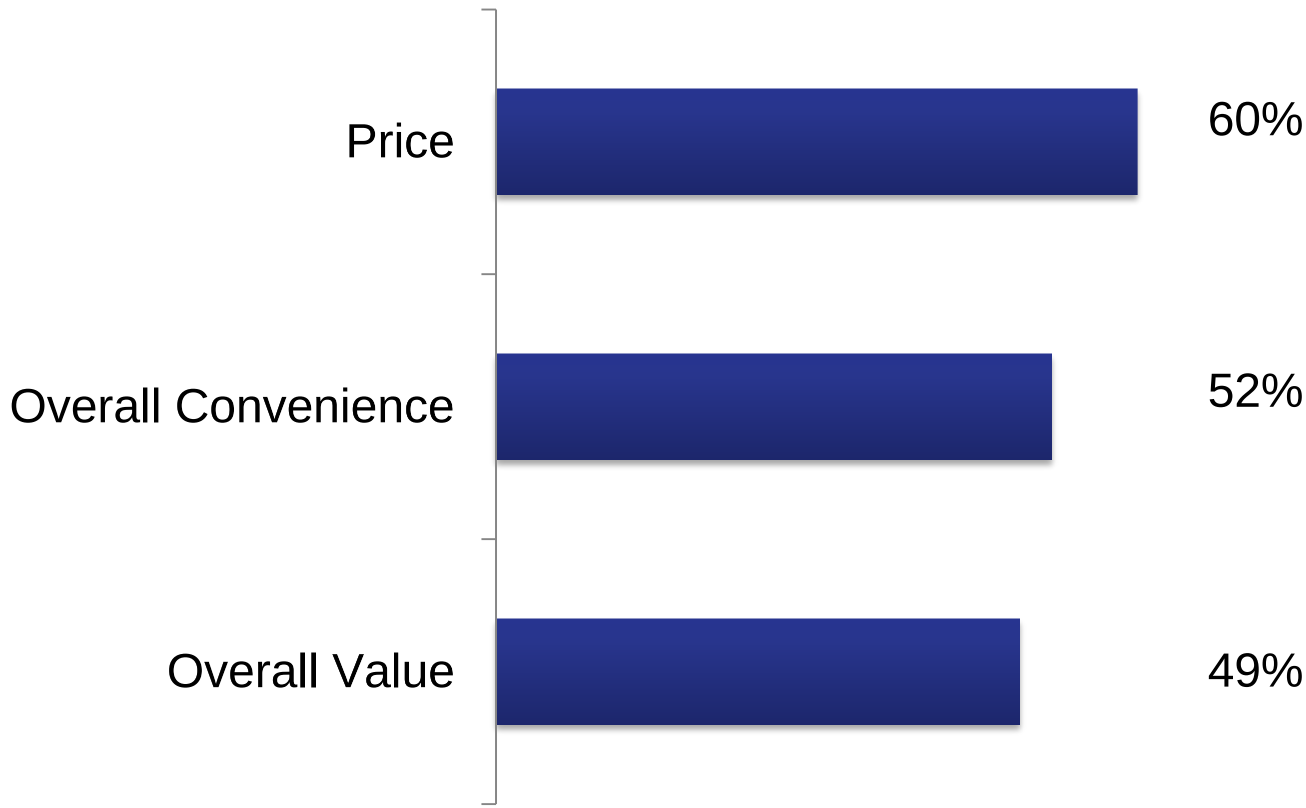
1. Source: Technomic Consumer Survey

Restaurants are vulnerable

- **“Staleness” in many restaurant segments**
- **Many retailers have upgraded and expanded their FPF programs**
- **Growth in upscale/fresh format**
- **FPF rates very high on value**
- **Increased consumer demand, including from Millennials**

Supermarket vs restaurant[1] comparisons

Supermarkets are better



1. Full Service

Source: Technomic Consumer Survey

Where do supermarkets lag relative to restaurants[1]?

- Uniqueness of items
- Variety
- Appearance of food
- Taste of food
- Number of BFY options
- Freshness of food

Source: Technomic Consumer Survey

12 Keys to a successful fresh prepared food program

1. **Localized assortment**
2. **Optimized assortment**
3. **Logical layout/traffic flow**
4. **Fresh orientation**
5. **Visual appeal**
6. **Combo meals**

12 Keys to a successful fresh prepared food program

7. **Restaurant quality**
8. **Lower than restaurant price**
9. **Professional food service management**
10. **Effective shrink management**
11. **Convenient service**
12. **Focus on dinner day part**

Fresh prepared food programs

Many "leaders" are small regional chains

- **Bristol Farms**
- **Buehler's**
- **Dorothy Lane**
- **The Fresh Market**
- **Gelson's**
- **Heinen's**
- **Hy-Vee**
- **Mariano's**
- **Mollie Stone**
- **Raley's**

Fresh prepared food program

Best-in-class companies

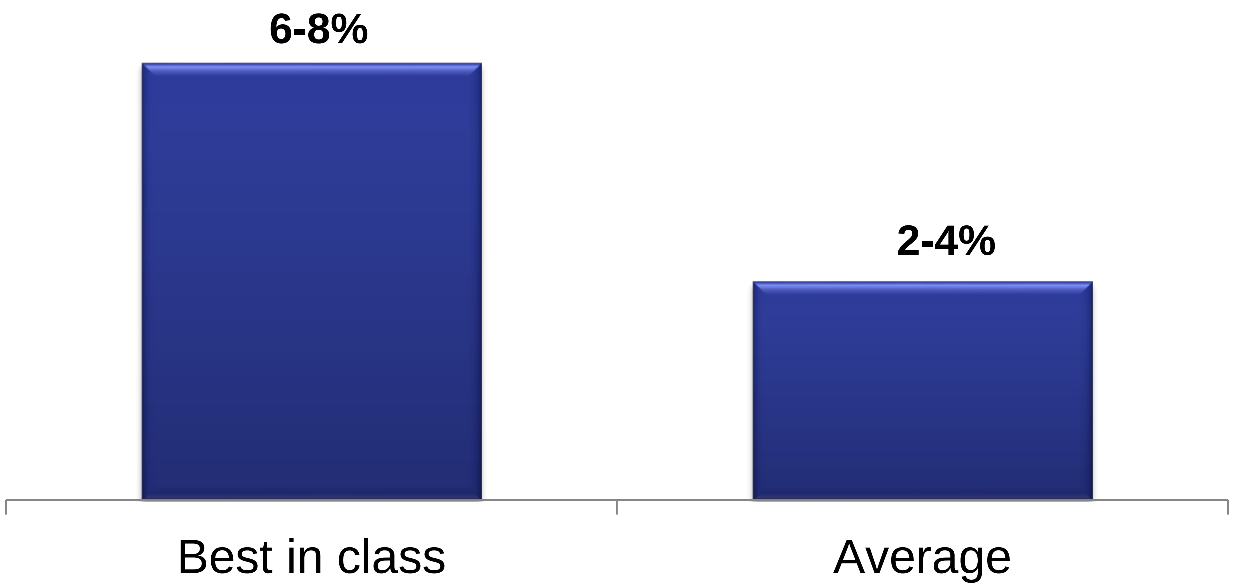
H-E-B

WHOLE FOODS MARKET

Wegmans

Fresh prepared food programs

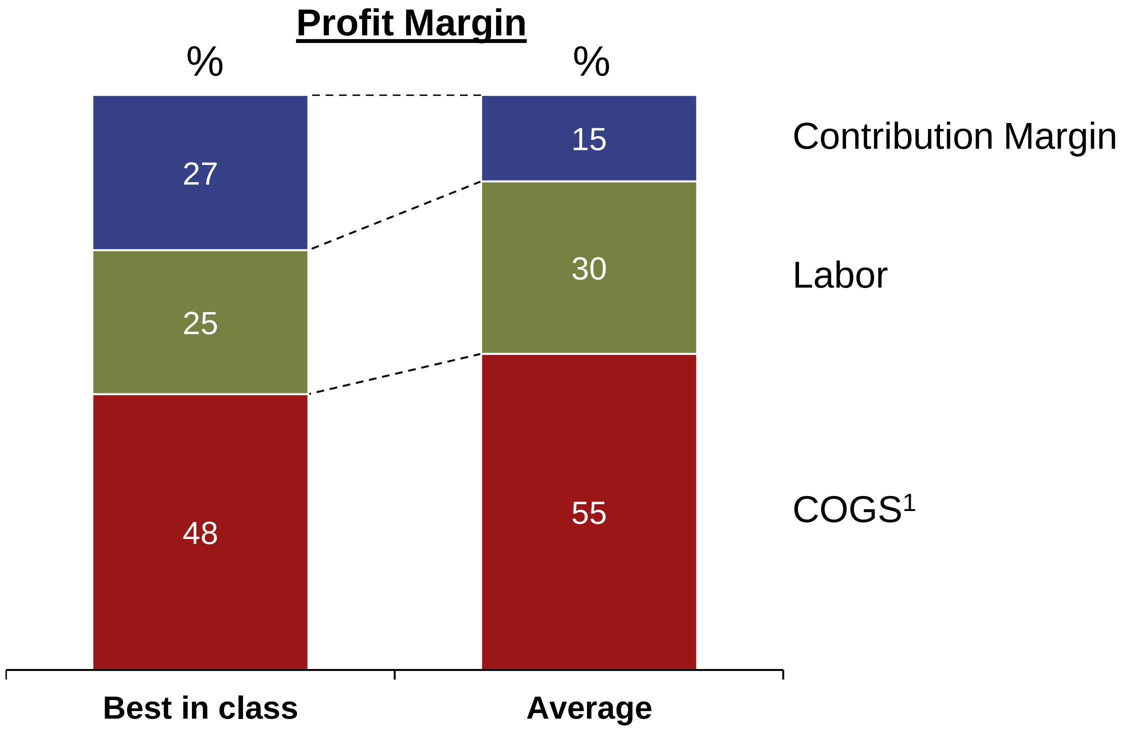
Best in Class companies exhibit superior growth



1. Source: Technomic

Fresh prepared food programs

Best in Class companies have superior margins

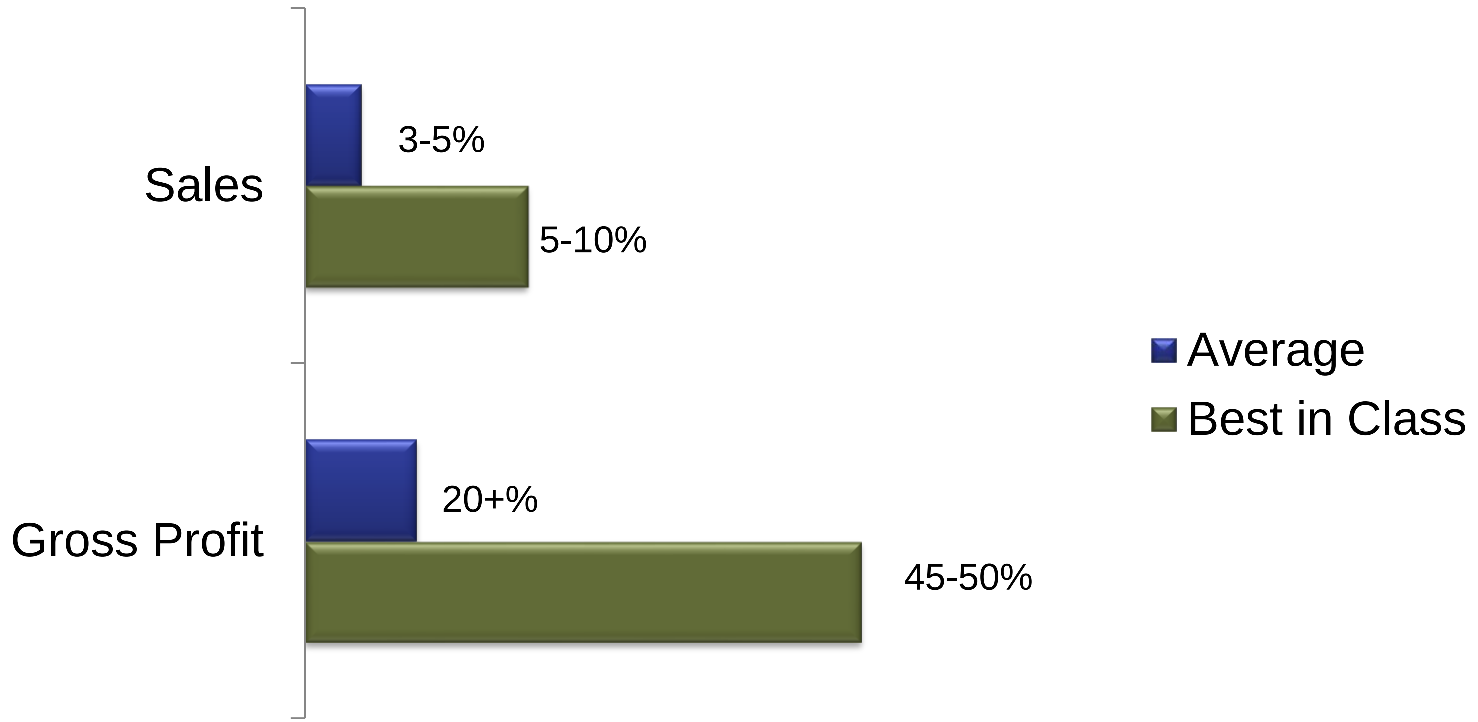


1. Includes packaging

Fresh prepared food programs

Best in Class companies contribute heavily to store sales and profitability

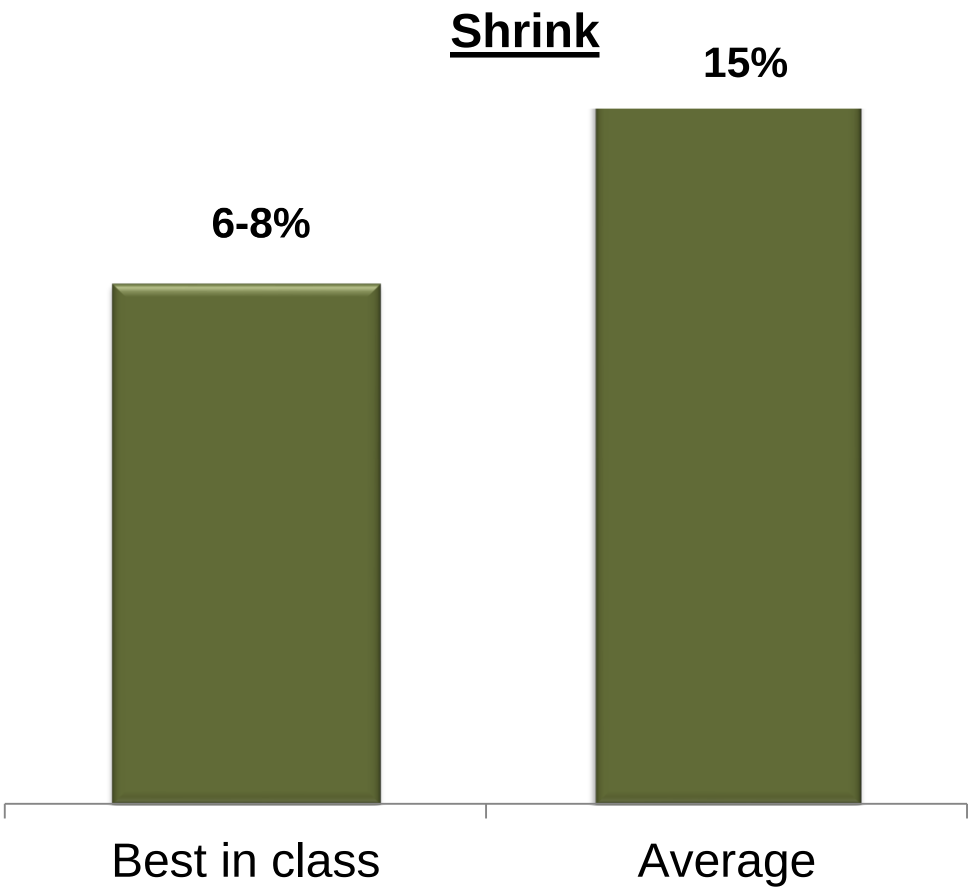
Contribution to store sales and gross profit



1. Source: Technomic

Fresh prepared food programs

Best in Class companies have lower levels of shrink



1. Source: Technomic

ATKearney TECHNOMIC

Fresh prepared foods makes sense for most retailers

- A key differentiator
- Profit and growth driver
- Builds traffic
- Aligns with trends
- Adaptable
- Lots of “headroom”
- Window of opportunity

Several operating models meet both retailer and category requirements

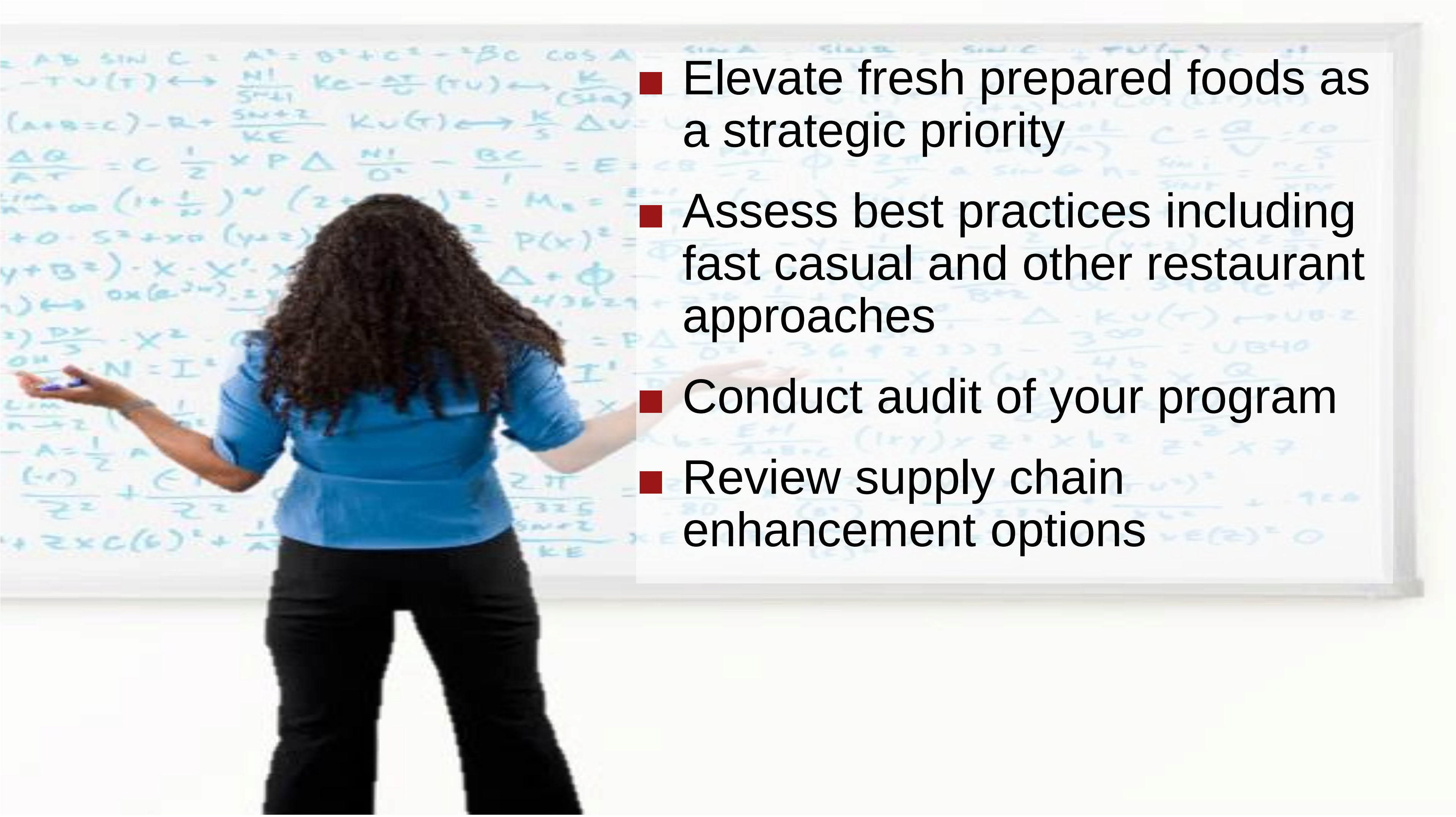
Fresh Foods Retail Operating Models

Illustrative – List is Non-Exhaustive

Model	Product Categories	Example Retailers	Sample External Suppliers	
In-Store Finish	▪ Sushi ▪ Deli sandwiches ▪ Fresh entrees ▪ Entrée Salads ▪ Side dishes ▪ Bakery	Whole Foods Market, Costco Wholesale, Wegmans, Chipotle Mexican Grill	Rich's, Dawn Food Products	• Fresh and quality offering • Highest in-store costs
Commissary		Publix, Pizza Hut, 7-Eleven, Kroger	City Fresh Foods, Inc., Greencore Group	• Scale required to operate • Shared labor costs
Food Processor	▪ Packaged meats ▪ Heat & eat meals ▪ Cheeses ▪ Basic Sides	Trader Joe's, Food Lion	Tyson, Kraft, Flowers Foods	• Lowest cost • Lower perceived quality, freshness

Source: A.T. Kearney Analysis

What should a retailer do next?



- Elevate fresh prepared foods as a strategic priority
- Assess best practices including fast casual and other restaurant approaches
- Conduct audit of your program
- Review supply chain enhancement options

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