AGENDA

- Brief Background on WMU’s Food/CPG Marketing Program
- Insights on U.S. Economy
- Retailing & Food Industry Trends
- 47th Annual Food Marketing Conference
- Questions
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Program was Established in 1959

Originally housed in the College of Applied Sciences

Moved to the Haworth College of Business in 1989

Program maintains a close association to industry
Members of a University Coalition

“Focused on the Advancement of Food Industry”
CAREER FOCUS:
- Retail Management
- Sales Careers
- Category Analyst
- Logistics & Supply Chain
- Foodservice
Points of Pride:

- Internship Requirement
- Industry Guided Advisory Board
- Experiential Learning Opportunities
- Industry Outreach
- Annual Food Marketing Conference
- Category Management Certification
Student Experiences

Company Visits

Leadership Retreat

Industry Speakers

Community Service

Plant Tours

Client Based Projects
40 MEMBER INDUSTRY ADVISORY BOARD

- RETAILERS
- MANUFACTURERS
- SALES AGENCIES
- TRADE GROUPS
- DATA PROVIDERS
- CONSULTANTS
Industry Involvement

Client Based Sales Training

Annual Food Marketing Conference

Creative Choice Awards

Category Management Certification Course - TBA

Mid-Level Retail Management Seminar - TBA
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Consumer Confidence
Affected by Uncertainty on Several Fronts

- Housing Market
- Financial Markets
- Labor Markets
- Fuel Costs
- Inflation

Source: Yahoo Finance
Over the Past 4 Years Consumers’ sense of Financial Security has clearly been Shaken

Pre Recession 2006 - 2007
Recession 2008 - 2009
Post Recession 2010 - 2011

Consumer Confidence

107
80
56

Source: Conference Board Consumer Confidence
“Once you have covered your essential living expenses, what do you do with your spare cash? I spend it on…”

Source: Nielsen Global Consumer Confidence & Opinion Survey 4Q’11
The U.S. consumer remains increasingly cautious about the future.

DO YOU THINK OUR COUNTRY WILL BE OUT OF A RECESSION IN THE NEXT 12 MONTHS?

“% SAYING YES”

Source: Nielsen Global Consumer Confidence & Opinion Survey 4Q’11
Concerns continue and underscore a precarious state of recovery

WHAT ARE YOUR BIGGEST CONCERNS OVER THE NEXT SIX MONTHS......

Economy 28%
Jobs 17%
Personal Debt 15%
Fuel Prices 5%
Work/Life Balance 5%

Source: Nielsen Global Consumer Confidence & Opinion Survey 4Q’11
Some Positives Among the Gloom
The US economy grew by 2.8% during the fourth quarter of 2011.

The US Unemployment Rate dropped in January, for the fifth consecutive month, to 8.3%.

The Stock Market this week hit 13,000 for the first time since 2008.

Inflation Rate Dropped for the 4th consecutive month.

Consumer spending increased by 2% in the fourth quarter, driven primarily by expenditures for cars.

(Average Age of an automobile is 10.2 years)
Will the Economic Growth of the fourth quarter continue?

The European debt crisis continues to loom over our financial markets

The Continued Weakness in the Real Estate Market

While inflation eased at the end of 2011. It was still higher at 3.2% than the 1.6% annual rate in 2010

“Real” Consumer spending on gasoline, food and electronics declined in the fourth quarter

Anticipated increases in fuel prices could threaten economic recovery
Unemployment dropped to 8.3% January 2012
243,000 New Jobs in Nov, Dec & Jan

42.9% of the Unemployed have been Unemployed longer than 27 weeks
Current Unemployment Rate Compared to 50 Year Average

With Modest GNP Growth Projections we will likely see Elevated Unemployment levels until 2016

Average 50 year Unemployment Rate 5.5%

Source: IMF, September 2011;
The Underutilized Workers Segment Pushes the Real Unemployment Number to 15.1%

Underutilized workers = unemployed plus discouraged workers no longer looking for employment or working part-time for economic reasons.
Increasingly Polarized Consumers

50% of Americans own stock, mutual funds, 401K or IRA

1 in 7 Americans rely on food stamps (SNAP)

20% of U.S. Households earn more than $100,000

15% of U.S. Households earn less than $20,000 a year

Source: Nielsen; U.S. Census Bureau; Huffington Post/Gallup
Unemployment Varies by Demographic Groups

January 2012 Unemployment Rates – Seasonally Adjusted

<table>
<thead>
<tr>
<th>Race/Ethnicity</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asian</td>
<td>6.7%</td>
</tr>
<tr>
<td>White</td>
<td>7.4%</td>
</tr>
<tr>
<td>Hispanic</td>
<td>10.5%</td>
</tr>
<tr>
<td>Afr-American</td>
<td>13.6%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>20-24</td>
<td>13.3%</td>
</tr>
<tr>
<td>25-34</td>
<td>9.0%</td>
</tr>
<tr>
<td>35-44</td>
<td>6.8%</td>
</tr>
<tr>
<td>45-54</td>
<td>6.4%</td>
</tr>
<tr>
<td>55+</td>
<td>5.9%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Education</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than high school diploma</td>
<td>13.2%</td>
</tr>
<tr>
<td>High school grad; no college</td>
<td>8.4%</td>
</tr>
<tr>
<td>Some college, or assoc degree</td>
<td>7.2%</td>
</tr>
<tr>
<td>Bachelor degree and higher</td>
<td>4.2%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Gender (adults 20+)</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Women</td>
<td>7.7%</td>
</tr>
<tr>
<td>Men</td>
<td>8.3%</td>
</tr>
</tbody>
</table>

Source: Seasonally Adjusted U.S. Total Non Farm Employment, Bureau of Labor Statistics
U.S. Department of Labor
“Misery Index” Improving in Last 3 Months

Misery Index = Unemployment Rate + Inflation

Source: U.S. Bureau of Labor Statistics; CPI non-seasonally adjusted, unemployment rate seasonally adjusted
“Feeling the Most Misery”

Misery Index = Unemployment Rate + Inflation

Source: U.S. Bureau of Labor Statistics; CPI non-seasonally adjusted, unemployment rate seasonally adjusted
Median Household Income Shrinking

<table>
<thead>
<tr>
<th>Year</th>
<th>Median Household Income</th>
<th>% Change from Previous Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>'00</td>
<td>$53,164</td>
<td>-0.2%</td>
</tr>
<tr>
<td>'01</td>
<td>$52,005</td>
<td>-2.2%</td>
</tr>
<tr>
<td>'02</td>
<td>$51,398</td>
<td>-1.2%</td>
</tr>
<tr>
<td>'03</td>
<td>$51,353</td>
<td>-0.1%</td>
</tr>
<tr>
<td>'04</td>
<td>$51,174</td>
<td>-0.3%</td>
</tr>
<tr>
<td>'05</td>
<td>$51,739</td>
<td>1.1%</td>
</tr>
<tr>
<td>'06</td>
<td>$52,124</td>
<td>0.7%</td>
</tr>
<tr>
<td>'07</td>
<td>$52,823</td>
<td>1.3%</td>
</tr>
<tr>
<td>'08</td>
<td>$50,939</td>
<td>-3.6%</td>
</tr>
<tr>
<td>'09</td>
<td>$50,599</td>
<td>-0.7%</td>
</tr>
<tr>
<td>'10</td>
<td>$49,445</td>
<td>-2.3%</td>
</tr>
</tbody>
</table>

“First time since the Great Depression the median U.S. household Income when adjusted for inflation was lower than 13 years earlier.”
Gas Price Impact on Consumers
Gas Prices fell During the Holidays!

Consumer Reactions:
- Fewer Shopping Trips
- Eat out Less
- Shopped More for Bargains
- Increased Coupon Usage

Gas Prices Have Become Political of Late
Average Price of Fuel

[Diagram showing 72 Month Average Retail Price Chart with annotations for Bush Administration, Obama Administration, and 2008 Elections.]
Gas Price Still Elevated from Year Ago

The Monthly Impact of Gas on U.S. Households:

- $0.10 increase: $10.50
- $0.50 increase: $52.50
- $1.00 increase: $105.00
- $2.00 increase: $210.00

Source: Nielsen Gas Impact Homescan Survey; U.S. Energy Information Administration, Monthly U.S. Regular All Formulations Retail Gas Prices (2011 & 2012) *prices include all taxes
Gas Price Still Elevated from Year Ago

Fuel Could Hit $4.00 - $5.00 a gallon by Summer

The Monthly Impact of Gas on U.S. Households:

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- $0.50 increase: $52.50
- $1.00 increase: $105.00
- $2.00 increase: $210.00

Source: Nielsen Gas Impact Homescan Survey; U.S. Energy Information Administration, Monthly U.S. Regular All Formulations Retail Gas Prices (2011 & 2012) *prices include all taxes

2010

2012

$2.72 $2.64 $2.77 $2.85 $2.84 $2.73 $2.73 $2.73 $2.71 $2.80 $2.86 $2.99 $3.10 $3.21 $3.56 $3.80 $3.91 $3.68 $3.65 $3.64 $3.61 $3.45 $3.38 $3.27 $3.38

Source: Nielsen Gas Impact Homescan Survey; U.S. Energy Information Administration, Monthly U.S. Regular All Formulations Retail Gas Prices (2011 & 2012) *prices include all taxes
More retailers leveraging gas rewards in their loyalty programs to Build Transactions.
Polarized Consumers:
Affluent Households Driving Retail Spending

Retail Spending: 2 year trend

Source: Nielsen Homescan, 52 w/e 10/1/2011 versus 10/3/2009
excludes gas-only or Rx-only trips

Household Income

20% of US HHs
Polarized Consumers: Shopper Trips Correlates with HH Income

Source: Nielsen Homescan, 52 w/e 10/1/2011 versus 10/3/2009
excludes gas-only or Rx-only trips
Polarized consumers: Wealthiest one-fifth have exited the recession, rest have not

Source: Nielsen Homescan, 52 w/e 12/31/2011 versus 1/2/2009  excludes gas-only or Rx-only trips
The Question for Some is Not Whether I live in the House on the Right or the Left
The Decision for Some is Difficult…

Fill the Refrigerator

Fill Up the Car

Buy New Clothes
For Many their Sense of Value Changed

Permanently

“The New Normal”
Like the Great Depression

This Recession Has Had a Profound Affect on Many
Cautious Consumer Behavior Will Likely Continue in 2012

Did This Past Year

- 52% Save on gas & utilities
- 40% Reduce Eating Out
- 37% Reduce Entertainment
- 34% Spend Less on Clothes
- 33% Reduce Grocery Spending
- 23% Use Car Less
- 17% Reduce Phone Expenses

Will Continue To Do

- 54% Save on gas & utilities
- 34% Reduce Eating Out
- 28% Reduce Entertainment
- 31% Spend Less on Clothes
- 32% Reduce Grocery Spending
- 23% Use Car Less
- 20% Reduce Phone Expenses

Source: Nielsen Global Online Consumer Confidence and Opinion Survey
Comparison of 2Q10 vs 2Q 2011 - US
The New Normal....

Value Brands:  
19% Pre-Recession

34% During Recession
The New Normal…

Coupon Usage: 22% Pre-Recession

35% During Recession
The New Normal...

Eating Out Less:

36% Pre-Recession

52% During Recession
Value is not Always About Price, it’s about the Balance between Price & Benefits

Value Consumer = \frac{\text{Price}}{} \quad \text{Value Consumer} = \frac{\text{Benefits}}{\text{Price}}

Remaining Yogurt

- Dollar sales -7%
- Unit sales -10%

Total Greek Yogurt

- Average price 97% higher
- Dollar sales +114%
- Unit sales +132%

Source: Nielsen Scantrack, Total U.S. FDM (including Walmart)
Value is not Always About Price, it’s about the Balance between Price & Benefits

Value Consumer = Price

Value Consumer = Benefits/Price

Mainstream Coffee

Dollar sales +4%
Unit sales -4%

Premium Coffee

Average Price 18% Higher
Dollar sales +8%
Unit sales +5%

Pod Coffee

Average price 40% Higher
Dollar sales +115%
Unit sales +99%

Source: Nielsen Scantrack, Total U.S. FDM (excluding Walmart) 52 weeks ending 09/03/2011 (vs. prior year); UPC-coded
Value is not Always About Price, it’s about the Balance between Price & Benefits

Value Consumer = Price

- Wet Dog Food
  - Dollar sales -2%
  - Unit sales -1%

Value Consumer = Benefits/Price

- Refrigerated & Organic Wet Dog Food
  - Average Price 2x–4x Higher
  - Dollar sales +23%
  - Unit sales +16%

Source: Nielsen Scantrack, Total U.S. FDM (including Walmart)
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Food Based Retailing Accounts for 24.1% of Retail Trade

- Food & Beverage Stores: 13%
- Gas Stations: 11%
- Clothing: 4%
- Garden Centers: 6%
- Health Personal Care: 6%
- Electronics Stores: 2%
- Home Furnishings: 2%
- Car Dealers: 17%
- Warehouse Clubs: 9%
- Foodservice: 11%
- All Other: 9%
- Other General Merch: 10%

Total Retail Trade in 2010
$4.355 Trillion
Average Annual Household Expenditures for Food

<table>
<thead>
<tr>
<th>Year</th>
<th>Away From Home</th>
<th>At Home</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>59%</td>
<td>41%</td>
</tr>
<tr>
<td>2001</td>
<td>58%</td>
<td>42%</td>
</tr>
<tr>
<td>2002</td>
<td>58%</td>
<td>42%</td>
</tr>
<tr>
<td>2003</td>
<td>59%</td>
<td>41%</td>
</tr>
<tr>
<td>2004</td>
<td>58%</td>
<td>42%</td>
</tr>
<tr>
<td>2005</td>
<td>56%</td>
<td>44%</td>
</tr>
<tr>
<td>2006</td>
<td>56%</td>
<td>44%</td>
</tr>
<tr>
<td>2007</td>
<td>56%</td>
<td>44%</td>
</tr>
<tr>
<td>2008</td>
<td>58%</td>
<td>42%</td>
</tr>
<tr>
<td>2009</td>
<td>59%</td>
<td>41%</td>
</tr>
<tr>
<td>2010</td>
<td>58%</td>
<td>42%</td>
</tr>
</tbody>
</table>
48% of Consumers Say they Are Eating More at Home

Cookbook sales +10%
Total Book sales -6%

Primetime viewing of the Food Network reached 1.15 million individuals; average viewing minutes at 64

Food & cooking websites attracting 66 to 86 million unique monthly visitors
Recession

Recovery

July 2008 – July 2009

Inflation was 3.2% in 2011

Less than 1%

2011

December Sales Declined, After 18 months of Modest Growth

Source: U.S. Census Bureau (44Y72: Retail Trade & Food Service, ex Auto)
Units Sales Decline
As Sales DO Not Keep Pace with Inflation

Source: The Conference Board, Nielsen Total FDM including WMT Unit Sales
Polarized Retailing

Value Driven

Upscale/High End

Value Proposition Is Less Clear
Polarity in Food Retailing Mirrors Non-Food Retailing

Value Tier and Upscale Tier are Thriving

Mainstream Retailers are Struggling
Two Higher-End Chains Grew in Each of the Last Six Months

% Change in Same-Store-Sales for last six reported months

- Nordstrom
- Macy's

Bar chart showing the percentage change in same-store sales for each of the last six reported months.
Dollar Stores Had Strong Sales

% Change in Same-Store-Sales for last six reported quarters

Source: Company press releases

1st  2nd  3rd  4th  5th  6th (current)

- Dollar Tree
- Family Dollar
- Dollar General
Two Mainstream Retailers Continue to Struggle

% Change in Same-Store-Sales for last six reported months

Source: Company press releases
Drug Channel - All Three Major Chains Had Positive Same-Store-Sales

% Change in Same-Store-Sales for last six reported months or quarters*

CVS*
Walgreens
Rite Aid

Source: Company press releases
Target up in 19 of past 20 months

% Change in Same-Store-Sales for last six reported months or quarters*

Source: Company press releases (excluding gas) (current)
Strong Growth from Costco & Sam’s Club

% Change in Same-Store-Sales for last six reported months or quarters*

Source: Company press releases (excluding gas)
Wal*Mart Had a Gain after 9 Quarters of Declines

% Change in Same-Store-Sales for last six reported months or quarters*

Source: Company press releases (excluding gas)
Polarized Retailing

% Change in Same-Store-Sales

Discretionary Spending

<table>
<thead>
<tr>
<th>Store</th>
<th>2011 % Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lowe's</td>
<td>2</td>
</tr>
<tr>
<td>HomeDepot</td>
<td>14</td>
</tr>
<tr>
<td>Kohl's</td>
<td>25</td>
</tr>
<tr>
<td>JCPenney</td>
<td>27</td>
</tr>
<tr>
<td>Macy's</td>
<td>9</td>
</tr>
<tr>
<td>Nordstrom</td>
<td>15</td>
</tr>
<tr>
<td>Walgreens</td>
<td>16</td>
</tr>
<tr>
<td>CVS</td>
<td>15</td>
</tr>
<tr>
<td>Rite Aid</td>
<td>9</td>
</tr>
<tr>
<td>Kmart</td>
<td>16</td>
</tr>
<tr>
<td>Walmart</td>
<td>15</td>
</tr>
<tr>
<td>Target</td>
<td>15</td>
</tr>
<tr>
<td>FamilyDollar</td>
<td>3</td>
</tr>
<tr>
<td>DollarTree</td>
<td>16</td>
</tr>
<tr>
<td>DollarGeneral</td>
<td>15</td>
</tr>
<tr>
<td>SUPervalu</td>
<td>15</td>
</tr>
<tr>
<td>Safeway</td>
<td></td>
</tr>
<tr>
<td>Kroger</td>
<td></td>
</tr>
<tr>
<td>WholeFoods</td>
<td></td>
</tr>
<tr>
<td>Sam's Club</td>
<td></td>
</tr>
<tr>
<td>Costco</td>
<td></td>
</tr>
</tbody>
</table>

Value & Convenience

Stock-Up & Save

Winning Streaks*

Source: company press releases; *from 2008 through latest monthly or quarterly news releases – excluding gas
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Creating Great Customer Experiences: Retailer Panel

Paul Madura
Panel Moderator
Senior Advisor
Endeavor Management

Sheila Laing
Vice President
Human Resources
Hy-Vee

Dona Kotzur
Regional Director of Customer Service
H-E-B Foods/Drugs

Diana Copland
Vice President, Operations
Busch’s Fresh Food Market

Tom Urtz
Vice President of HR Community Relations
ShopRite
FEATURED SPEAKERS

John Phillips
Senior Vice President
Customer Supply Chain & Logistics
PepsiCo, Inc.

Susan O’Malley
Former President
NBA’S Washington Wizards
Sports & Entertainment

Consuelo Castillo Kickbusch
Lieutenant Colonel
U.S. Army (Retired)
Author, Motivational Speaker

Patrick Kuhse
Author, International Speaker and Trainer

Bill Diankworth
Vice President
Grocery Merchandising
The Kroger Company
March 26 & 27, 2012
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