Points of Impact

Presented by FMS/NGA

February 8, 2006

Today’s Path

- Survey Purpose and Description
- Retailer Insights
- Economic Factors/Landscape
- The Facts and Figures
- The Challenge

Purpose of a benchmark survey

- To provide information to you, the independent retailer, to compare to your operating results.
- To highlight opportunities to improve and celebrate
- To generate conversation amongst retailers and their staff to improve key performance results and become a healthier long term business

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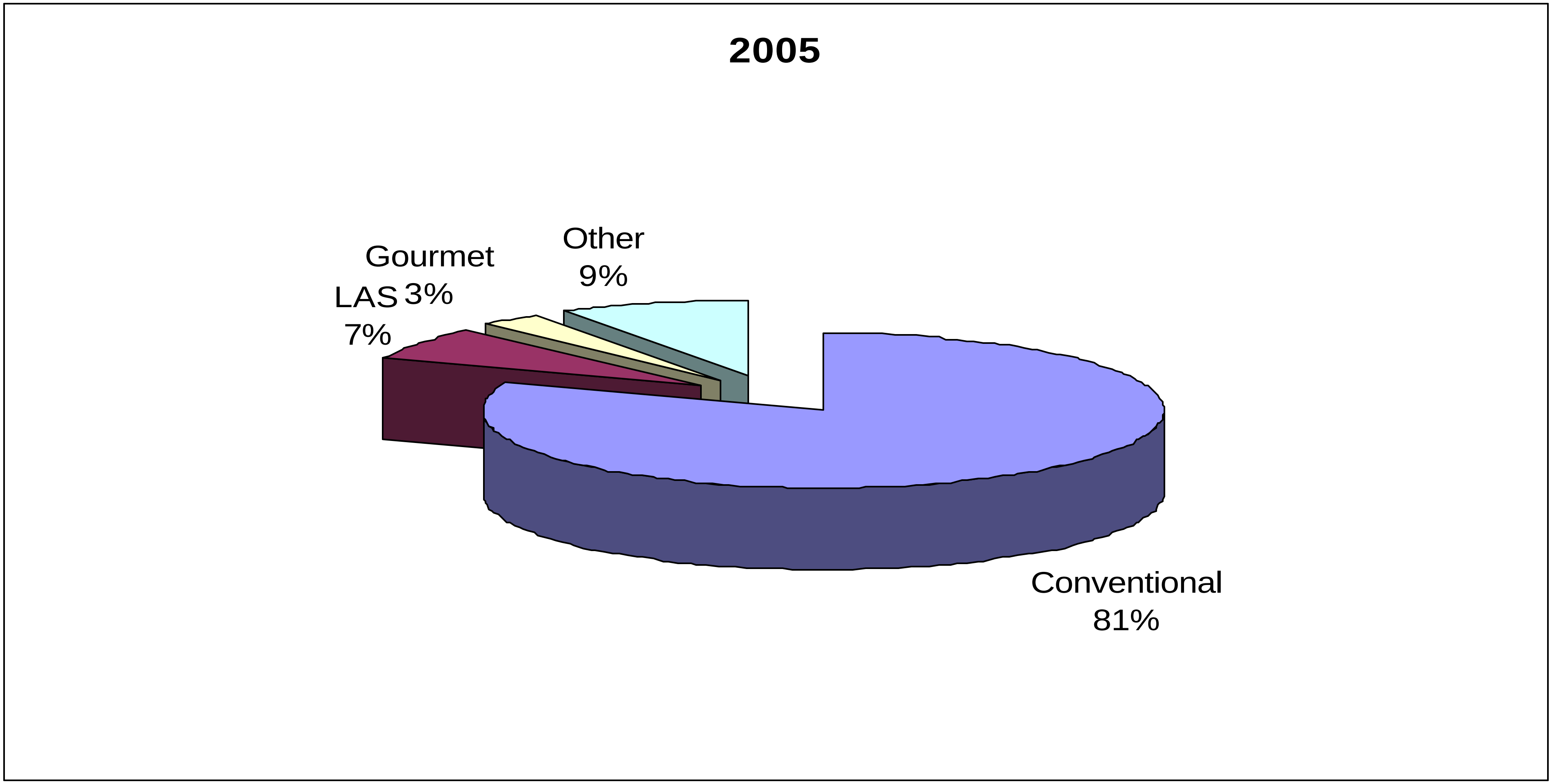
Survey Overview

- Survey was conducted in 2005
- Financial results of operators were last available, ranging from mid 2005 to November of 2005.
- Results are compiled with complete confidentiality for individual operators

Survey Sample

- 368 stores
- 104 companies
- Number of stores range from 1 to 33

Store Format



Survey Categories

- Survey results are broken down into 6 categories
  - Single Store
  - Multi Store
  - All
  - Conventional
  - Limited Assortment
  - Specialty/Gourmet

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Primary Competitors

- 50% Conventional Competitors
- 33% Super Centers
- 8% Specialty Stores
- 9% All Types

Secondary Competitors

- 42% Conventional Supermarkets
- 33 % Super Centers
- 17% All Types
- 8%   Specialty

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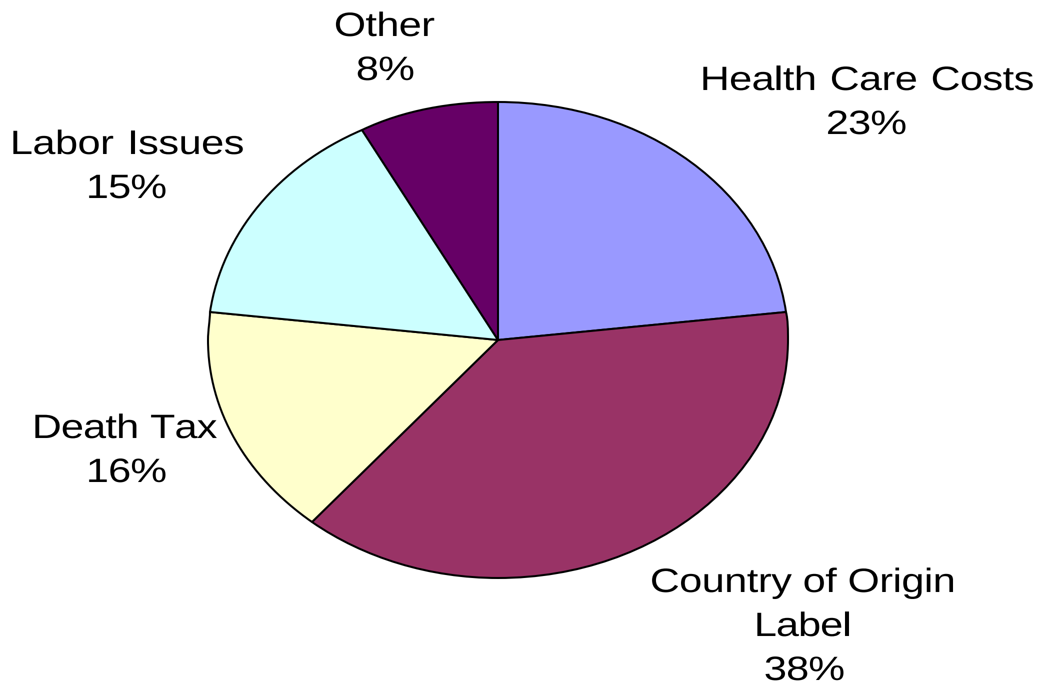
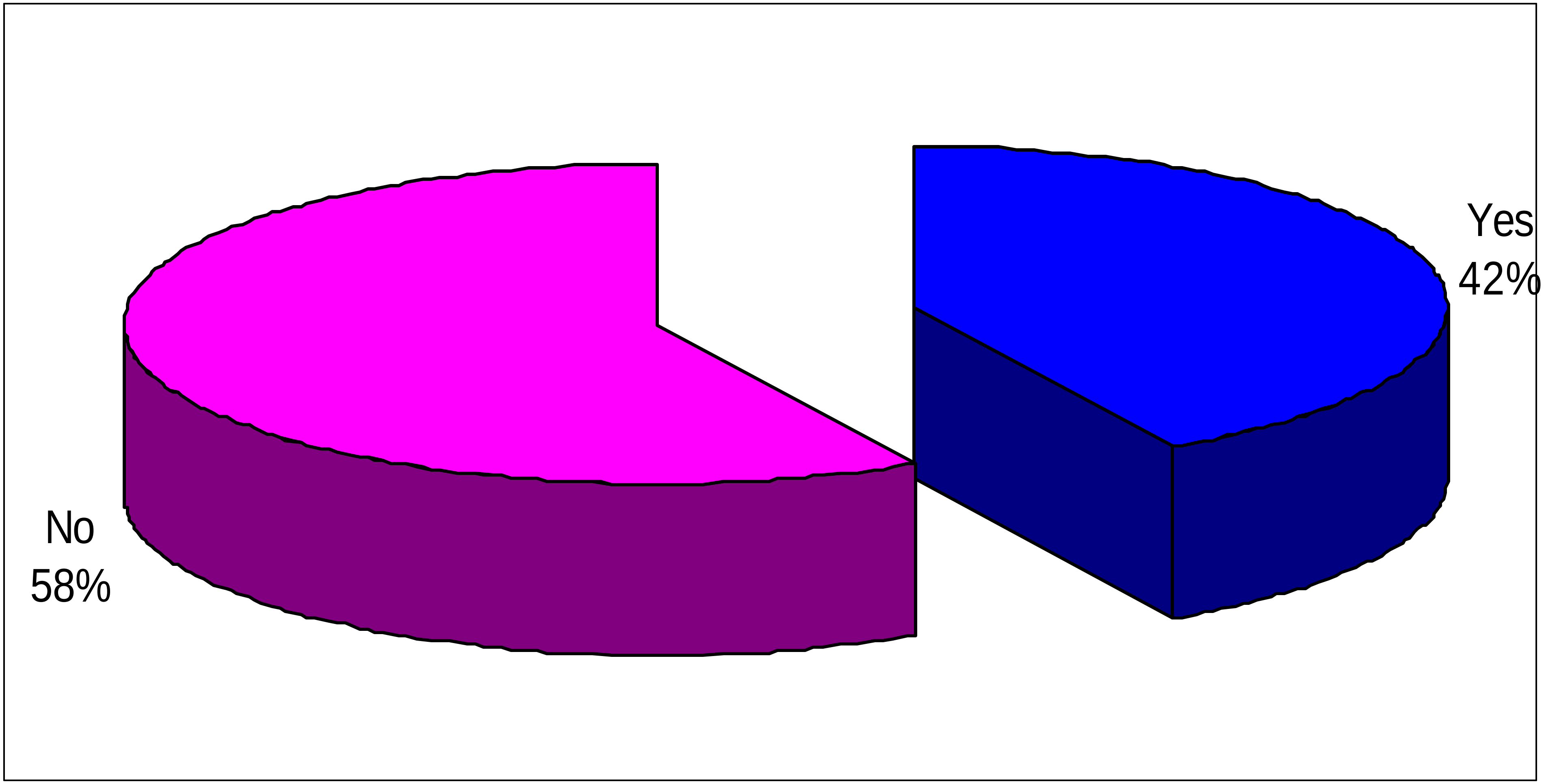
Political Change Needed



Primary Wholesaler Satisfaction

- Positive outlook for the supplier community......
  - Nearly 83% of respondents are satisfied with their primary wholesaler.

Do you use a secondary wholesaler?



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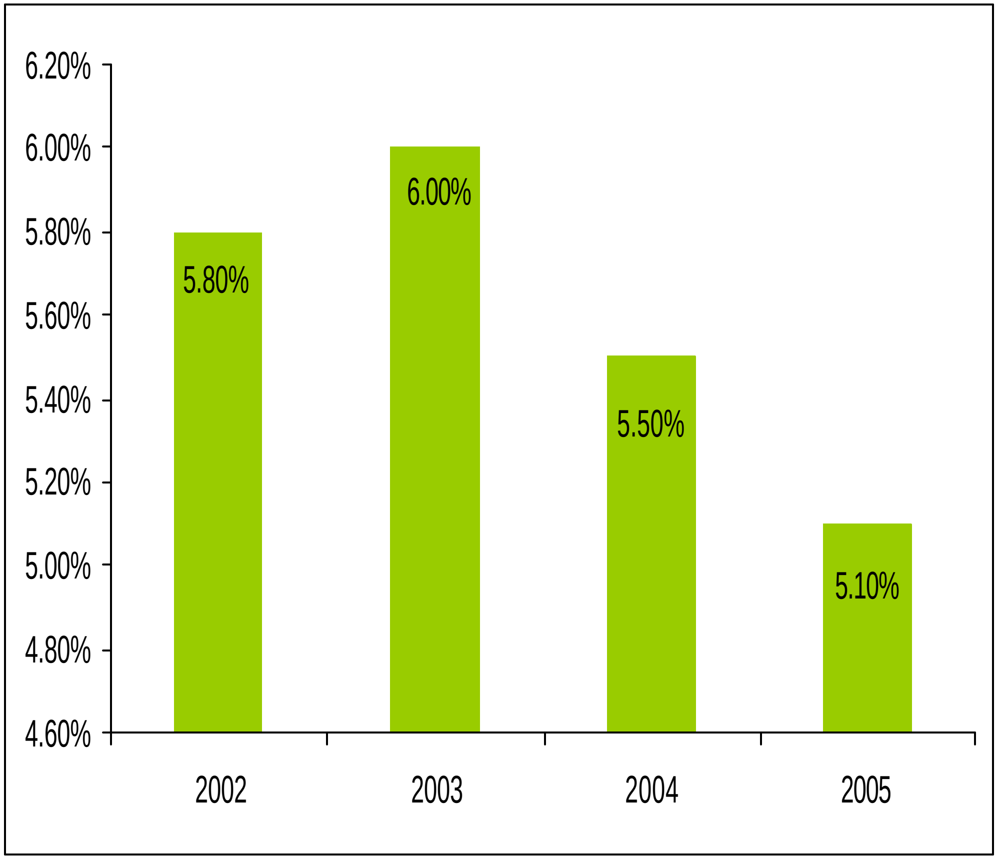
Industry and Economic Factors

- Unemployment
- Inflation
- Industry Changes
- Interest Rates

Unemployment

- Low Unemployment
- Lack of Quality Job Candidates
- Future Outlook



Unemployment-Detail

- High School Graduates or less have a higher unemployment rate

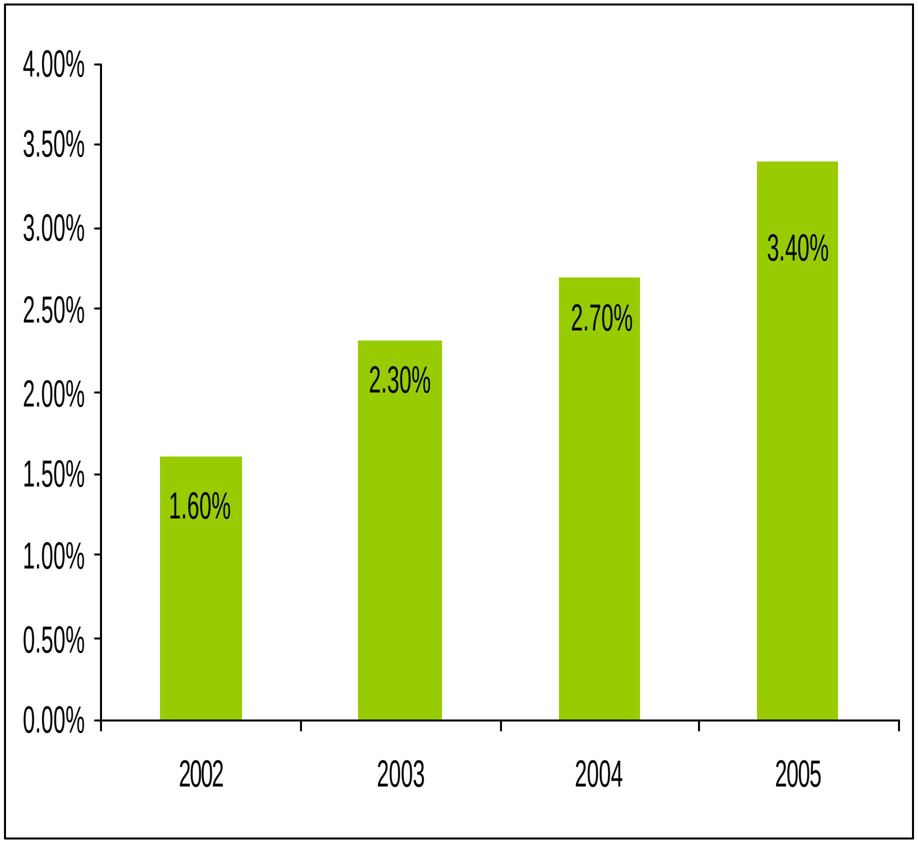
- So where is the hiring problem for retail?
  - Management!
  - Unemployment for degreed and skilled professionals is extremely low!

The Landscape

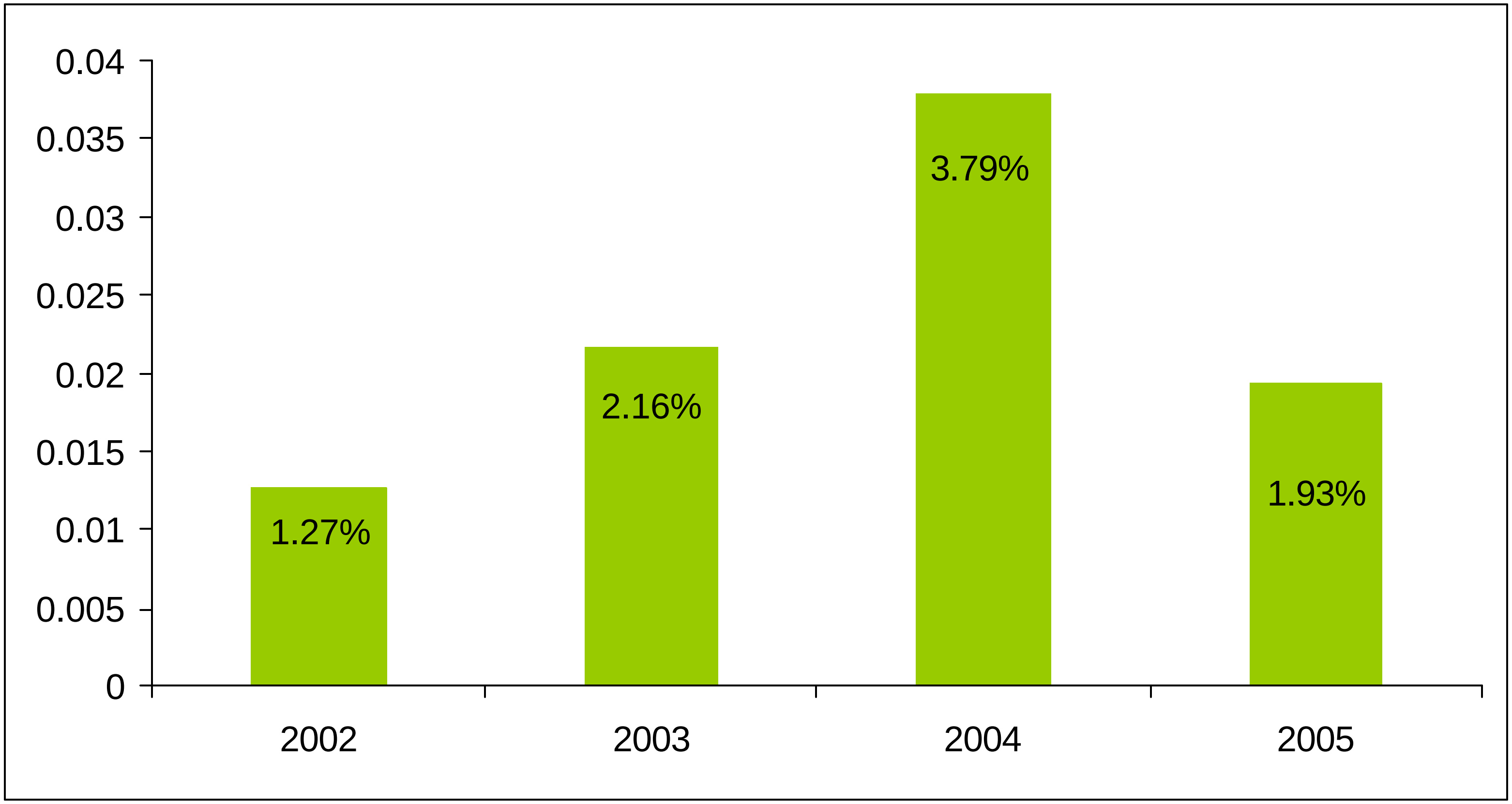
- Large organizations are breaking off divisions, selling, or going bankrupt
  - Ahold
  - Albertsons/CVS-SuperValu
  - Winn Dixie Bankruptcy
- Opportunity to grow
  - Required divestiture
  - Do your homework

Inflation-CPI

- Gas prices impact low income consumers
- Super centers and deep discounters impacted the greatest
- Inflation without gas and oil is relatively stable and low



Food At Home CPI



Food At Home CPI

- Why is inflation important?

-Measure growth in customer count versus dollars?

-Measure growth in items per transaction versus dollars?

-Factor out CPI food at home if you use sales dollars.

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Better Ways to Measure Growth

- Customer counts - are they up
- Items sold - are you increasing your units sold

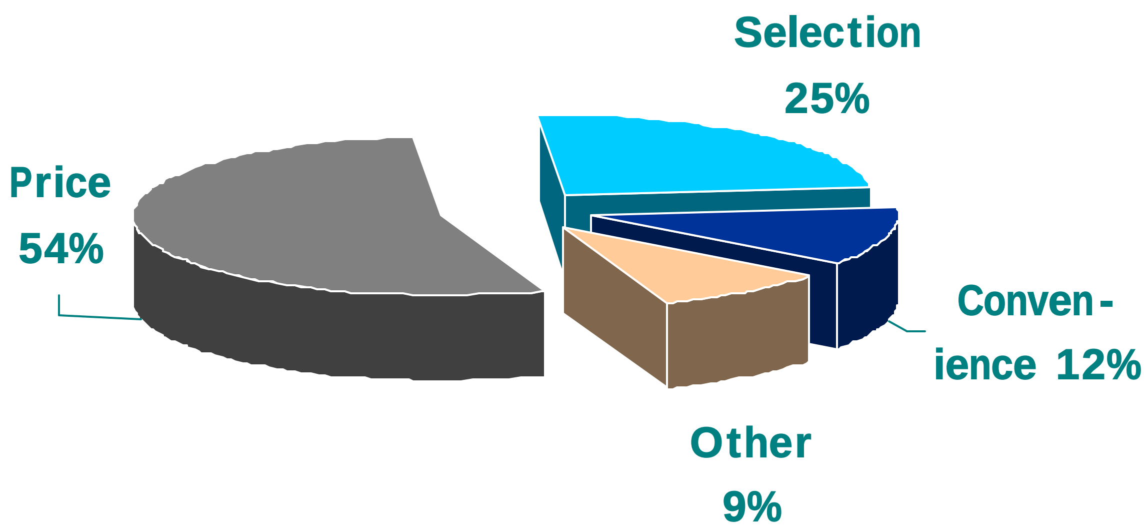
- Are your sales up but customer count down?
- Are your sales up but items sold/scanned down?
- These indicators may point towards a negative trend while your dollars may be up 2%

The Challenge for growth

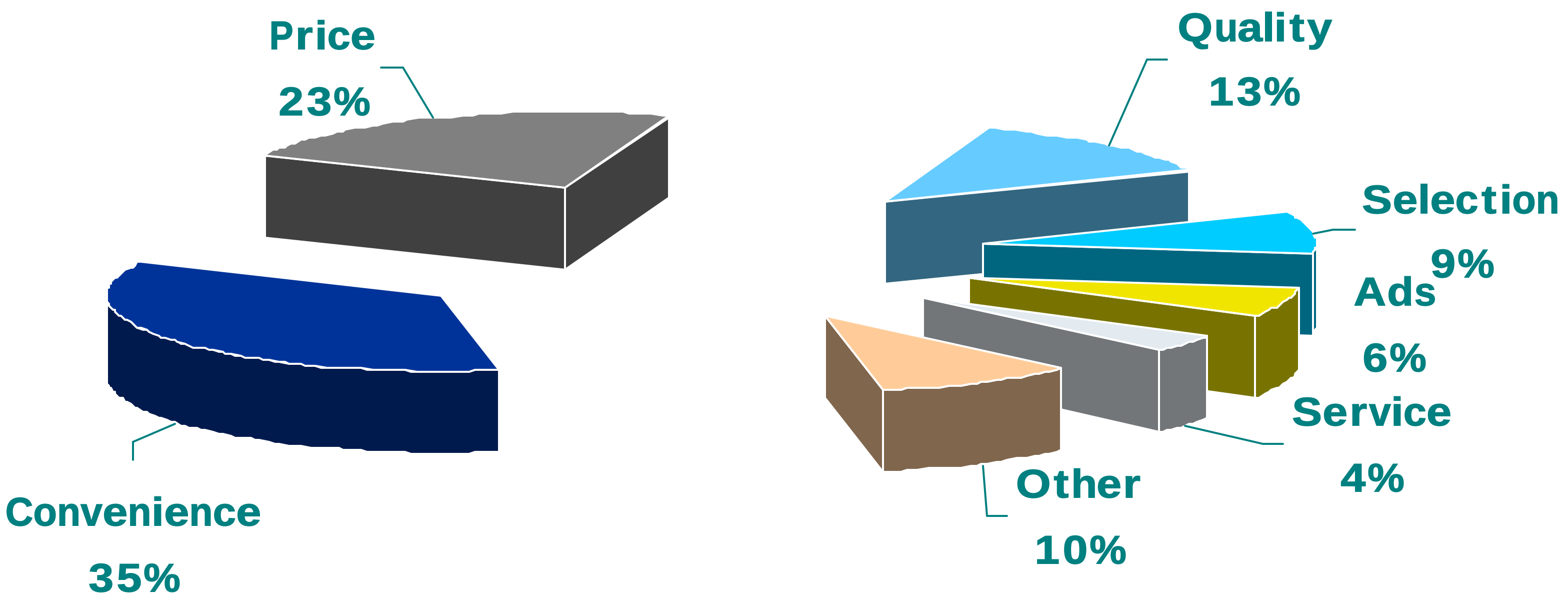
- The Prime Rate at the start of 2005 was 5.25%
- The Prime Rate is currently 7.50%

- While opportunities exist on the landscape, debt burdens will be stronger.
- Don’t get trapped in the excitement of growth.
- Do your homework, don’t expect to perform miracles!

Major Reasons for Shopping a Super Center



Major Reasons for Shopping Primary Store



How Do You Stack Up?

Key performance indicators of your success

- Sales
- Gross Profits
- Labor Rates
- Expenses
- Net Profit

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Survey Sales Trends

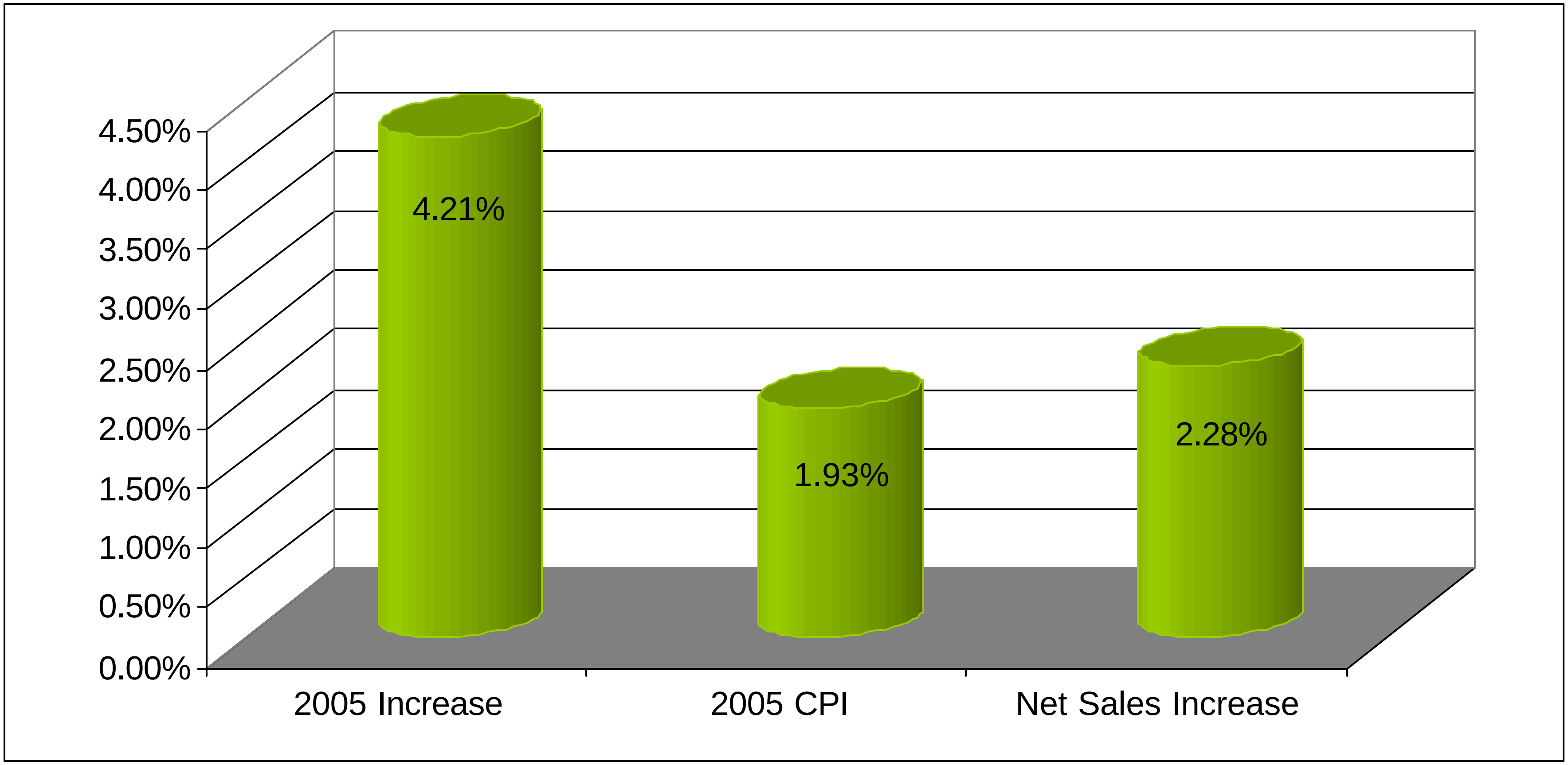
Sales

Increase

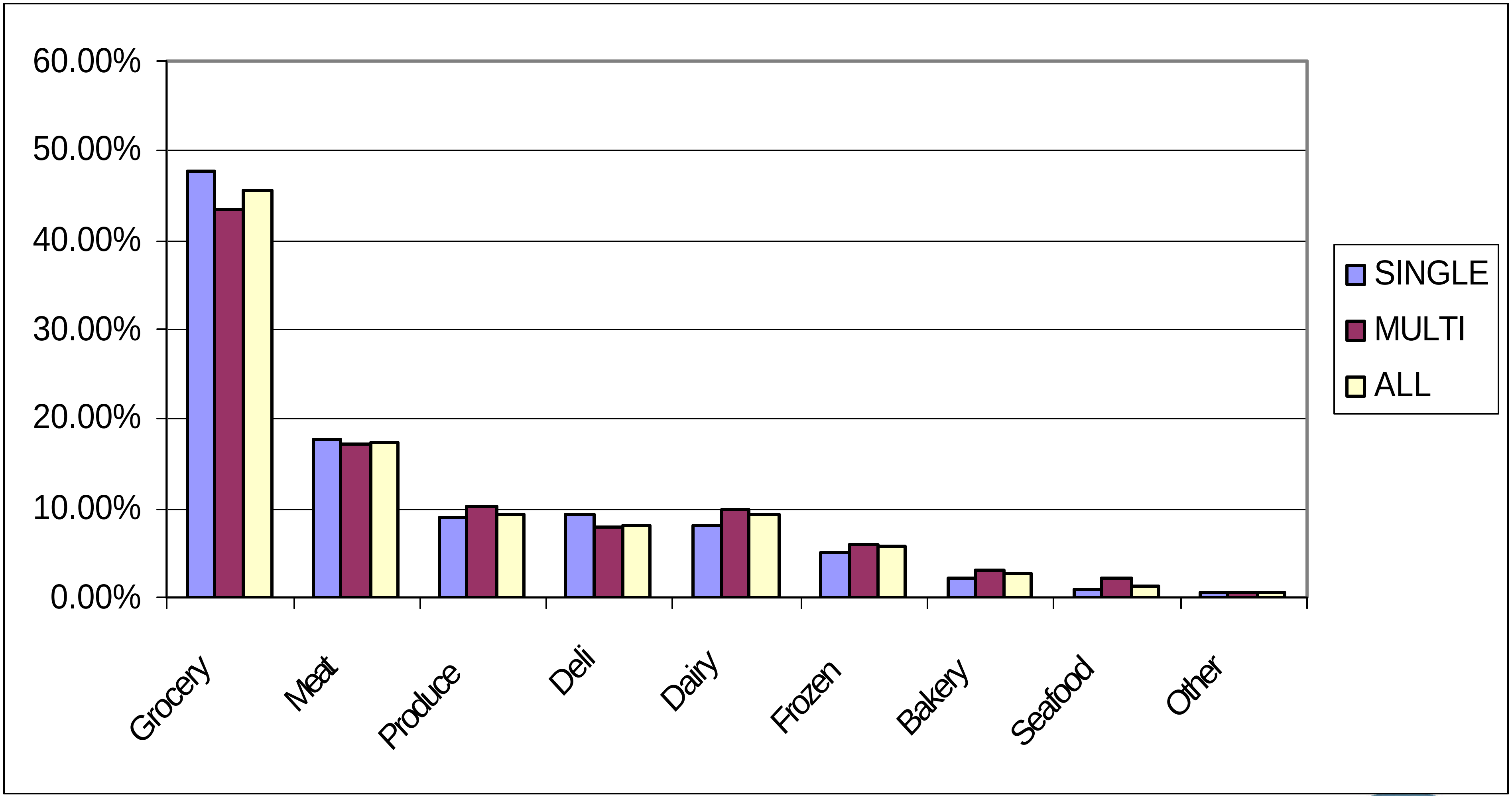
4.21%

- Sales are up!
- Are they as good as they look?
- Let's see…..

Sales Less CPI Food At Home Inflation



Sales-Distribution Rates



Sales-Distribution Rates

	SINGLE	MULTI	ALL
Grocery	47.73%	43.55%	45.57%
Meat	17.64%	17.00%	17.38%
Produce	8.88%	10.24%	9.41%
Deli	9.20%	7.78%	8.01%
Dairy	7.99%	9.76%	9.20%
Frozen	5.02%	6.06%	5.78%
Bakery	2.21%	3.00%	2.75%
Seafood	0.81%	1.95%	1.33%
Other	0.51%	0.65%	0.57%
	100.00%	100.00%	100.00%

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Sales-Distribution Rates

- Focus on perishable and other higher margin categories
- Perishables help you differentiate against super-centers
- Increase total sales

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Gross Profit

Departmental breakdowns

- Information must be normalized
- Departments were categorized in order to create comparable data
- Grocery is made up of grocery, dairy, frozen, hbc, gm, magazines
- Meat is a combination of meat deli bakery and seafood
- Produce includes produce, floral, plants, and garden departments

Why normalize?

- Various companies classify information and departments differently. By normalizing the data, we can provide real benchmark numbers.

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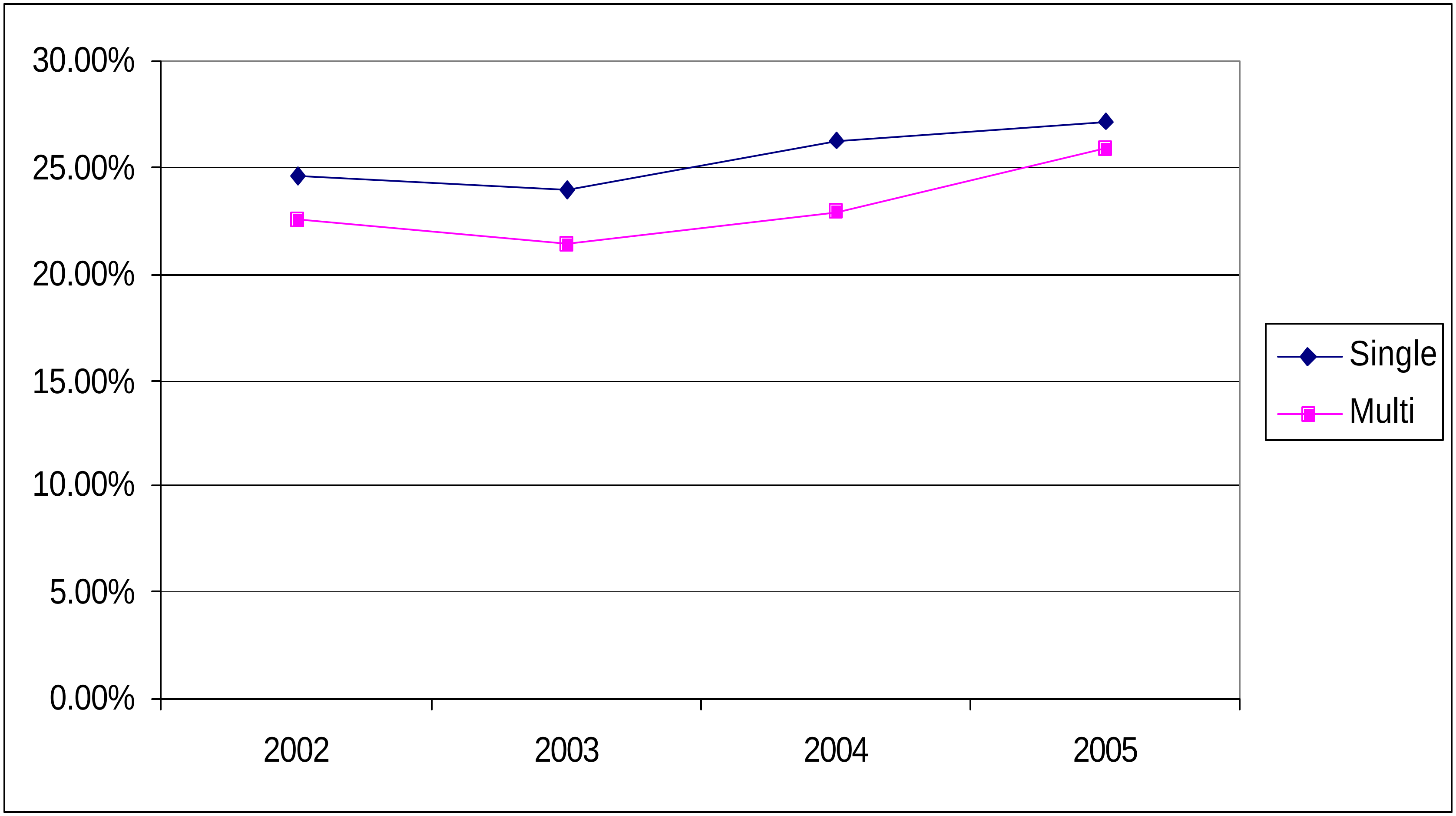
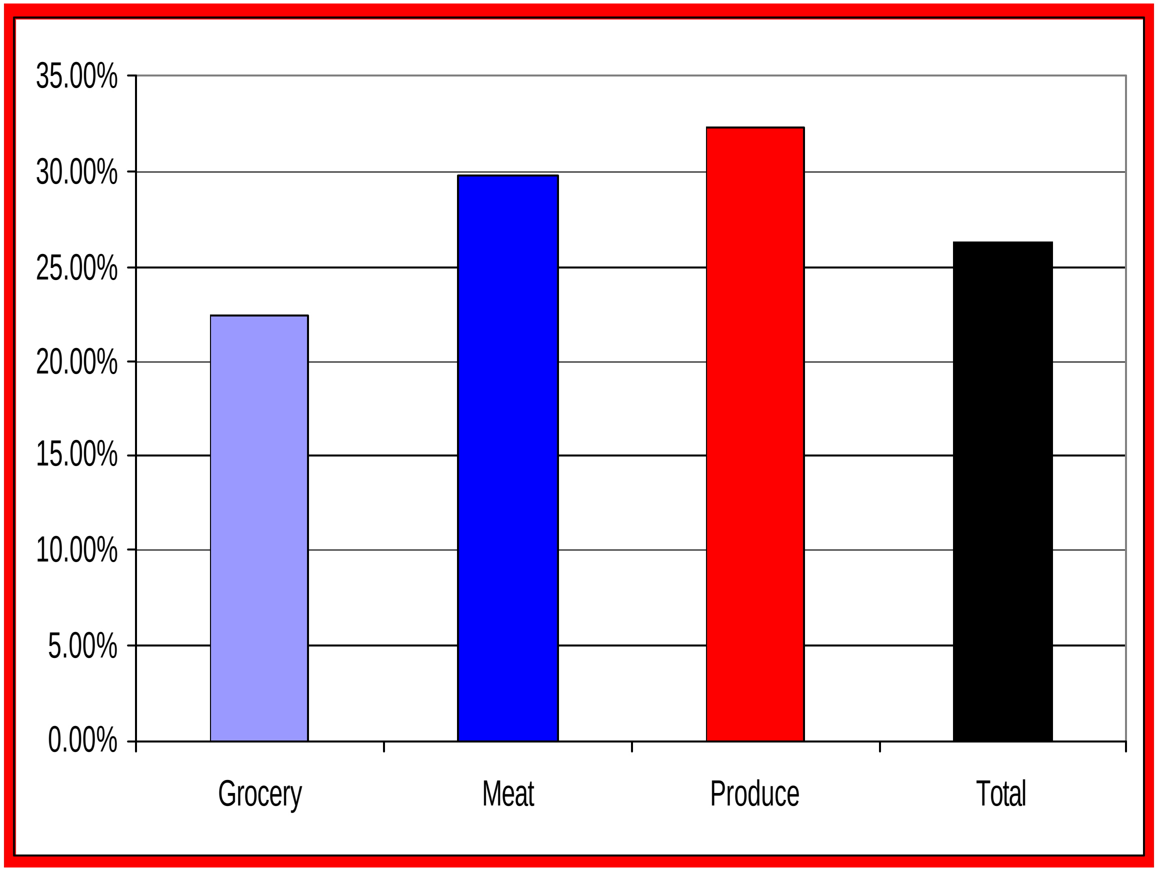
Gross Profit Margins
Single vs. Multi



Gross Profit Margins-All

All Respondents



Grocery	22.49%
Meat	29.89%
Produce	32.39%
Total Store	26.33%

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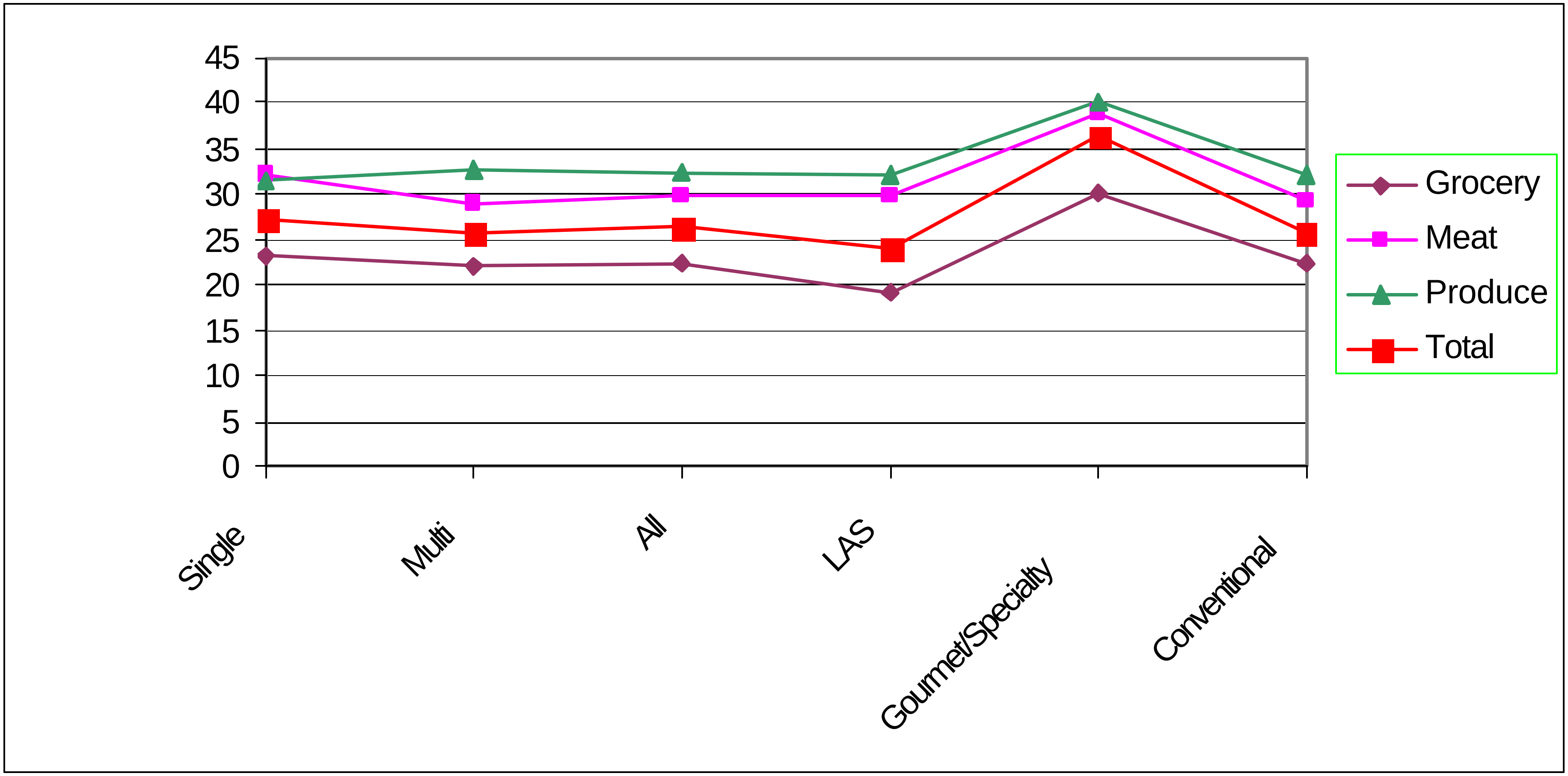
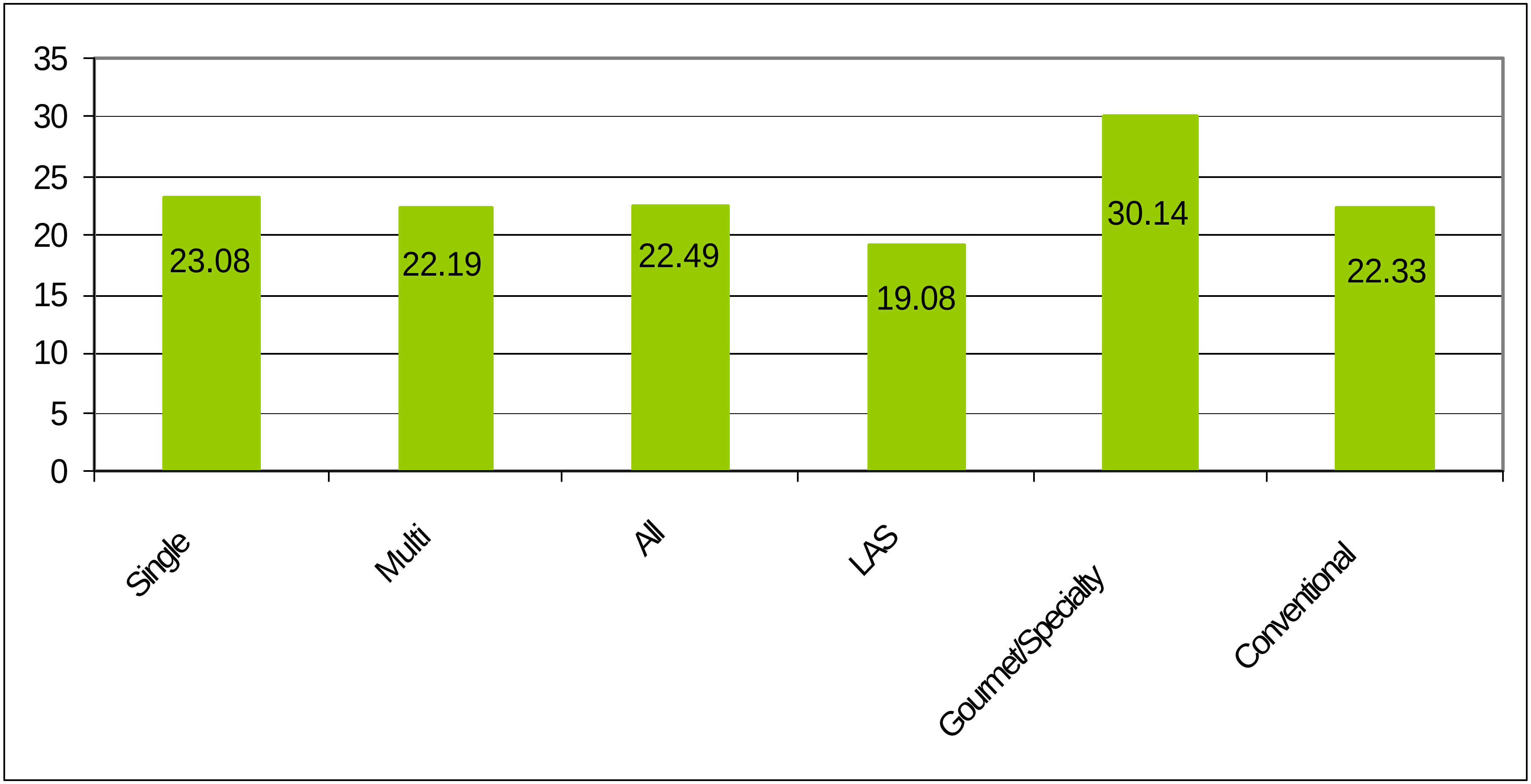
Gross Profit Margins-All Formats



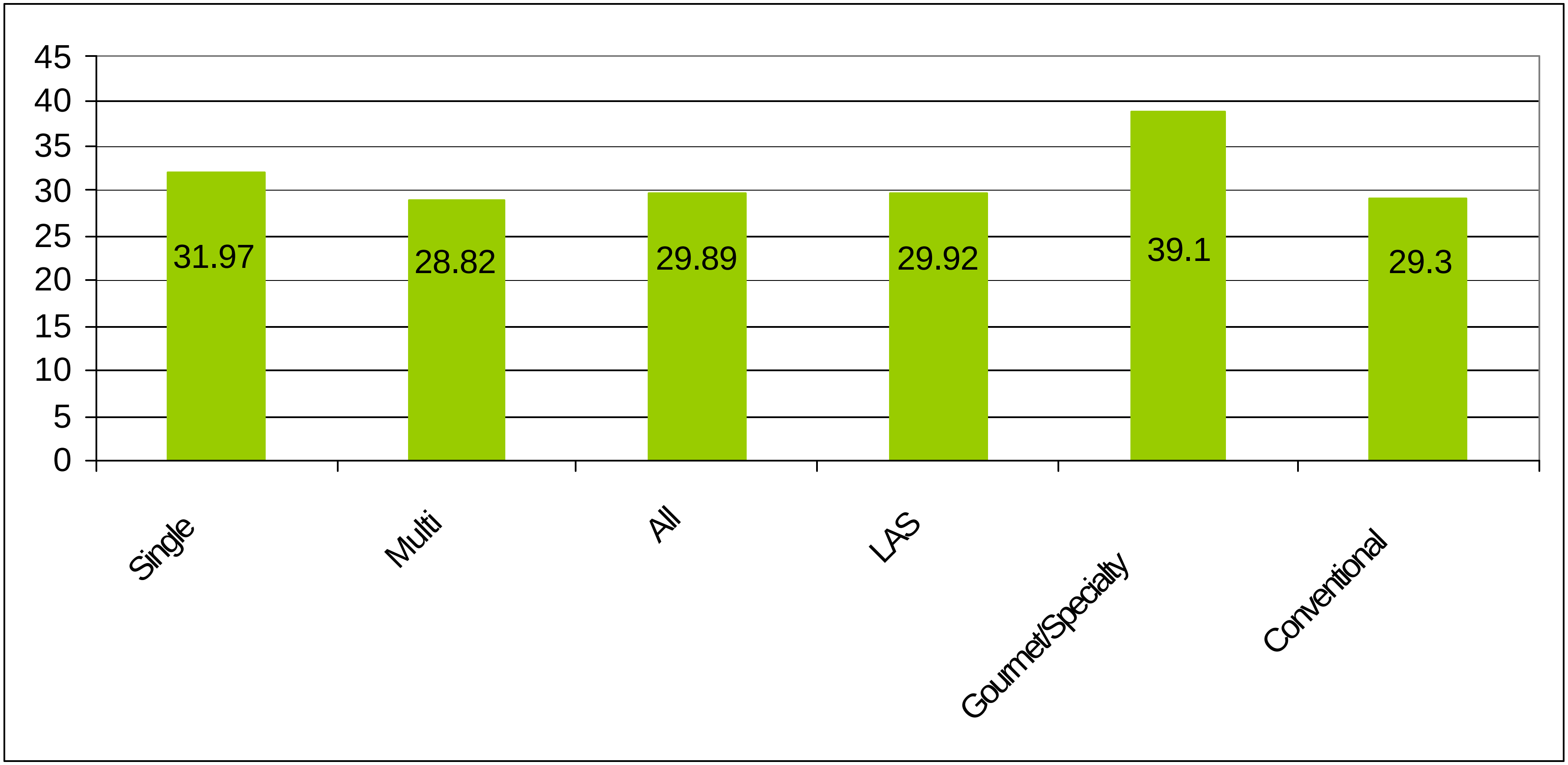
Grocery Gross Profit



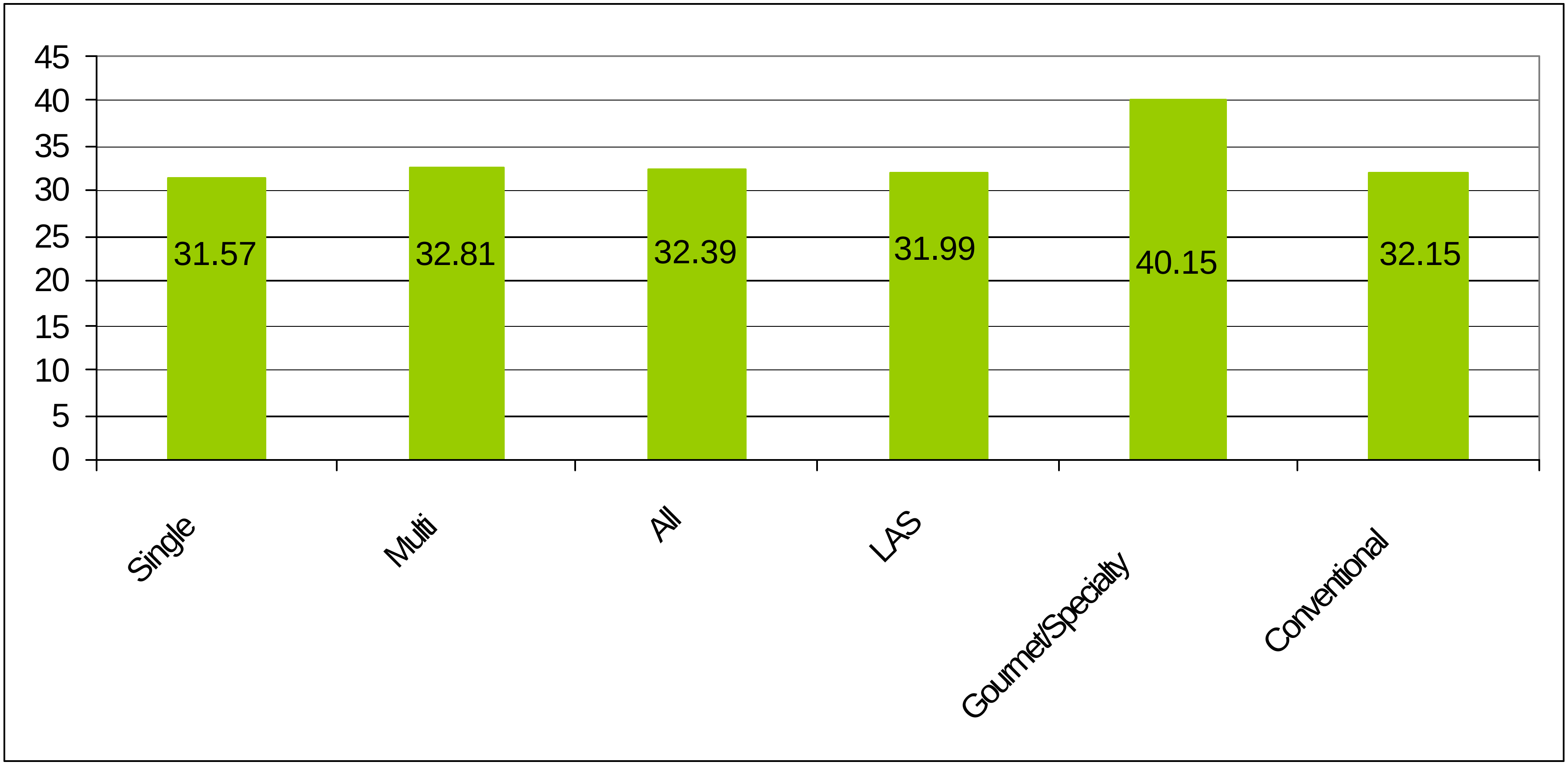
Why Is Grocery So Susceptible

- Dry grocery is easily stocked and provides little “expertise” and maintenance
- Dry grocery and some dairy products are stocked by everyone: dollar stores, gas stations, convenience, drug stores

Meat Margins



Produce Margins



Produce Margins/D-Rate

Before

	SINGLE	MULTI
Produce	8.88%	10.24%
PRODUCE MARGIN	31.57%	32.81%
Sales(250K per Week)	$ 13,000,000.00	
Produce Sales	$ 1,155,023.02	
Produce Margin	$ 364,585.24	
Net Profit Percentage	0.88%	
Net Profit $	$ 114,400.00	

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Produce Margins

After

	SINGLE	MULTI
Produce	10.24%	10.24%
PRODUCE MARGIN	32.81%	32.81%
Raw Grocery	23.08%	
Margin Spread	9.73%	
Sales(250K per Week)	$ 13,000,000.00	
Produce Sales	$ 1,331,200.00	
Increase In Produce Sales	$ 176,176.98	
Net Margin Dollars	$ 17,142.02	
Net Profit Percentage	1.01%	
Net Profit $	$ 131,542.00	

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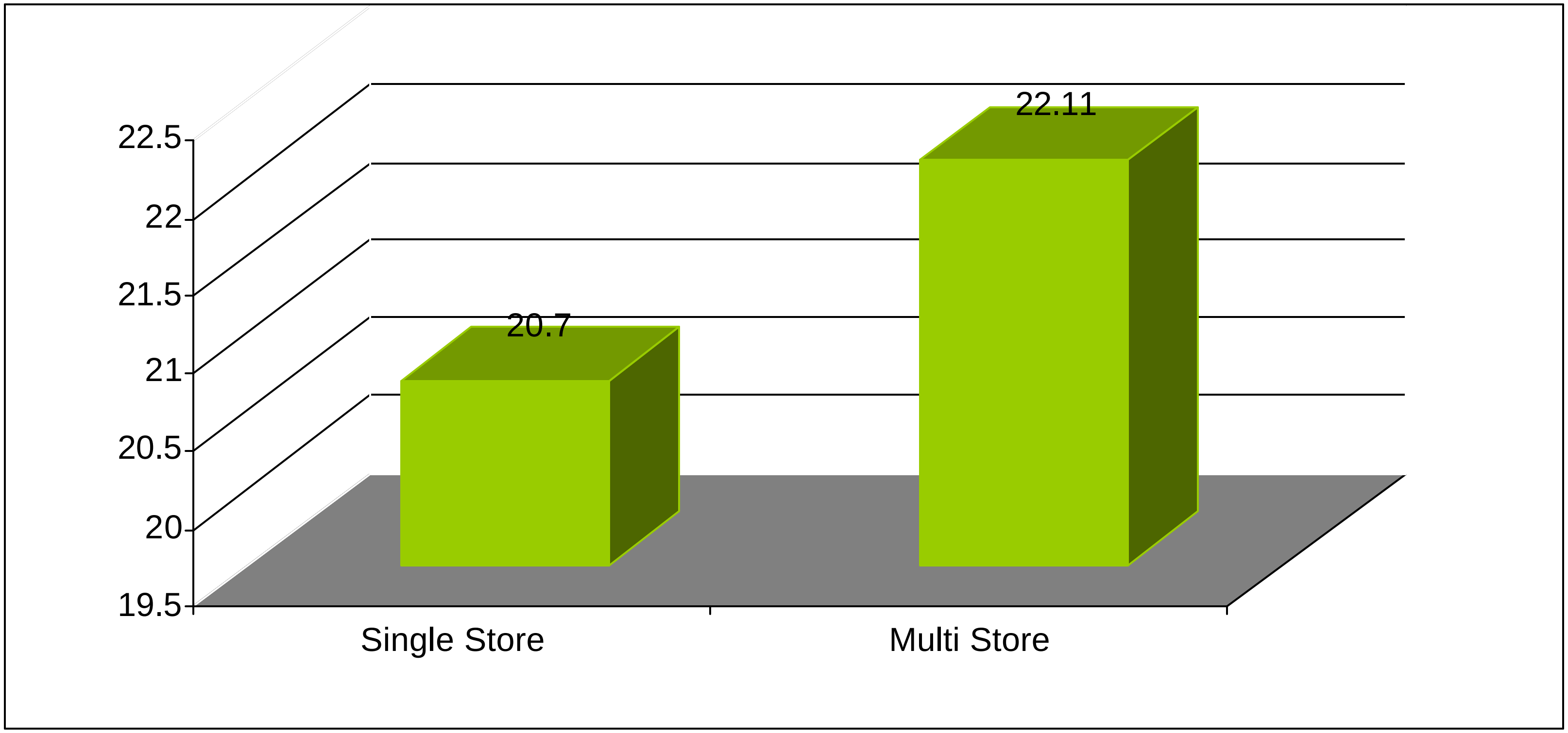
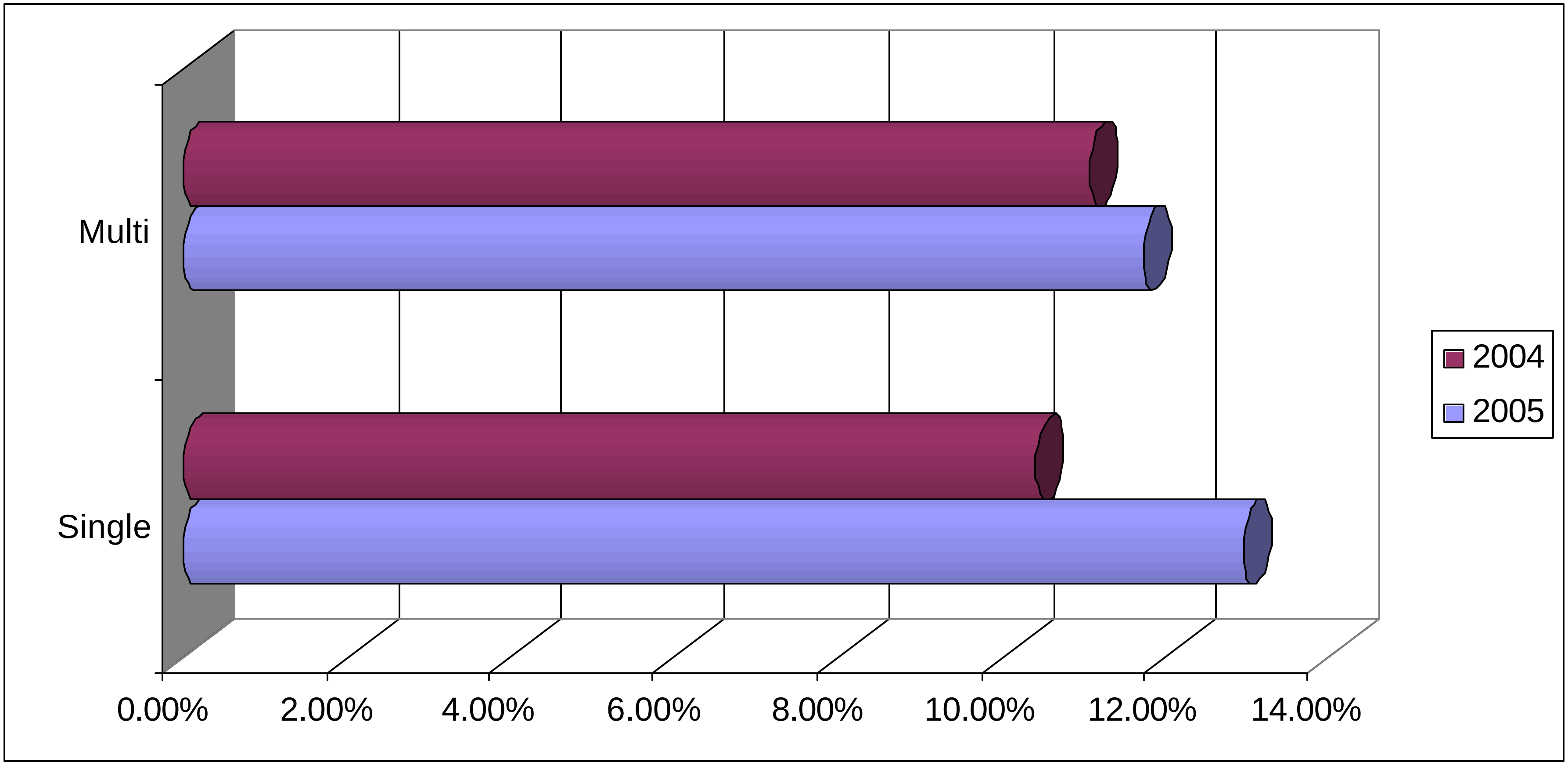
Inventory Turns



Total Wages



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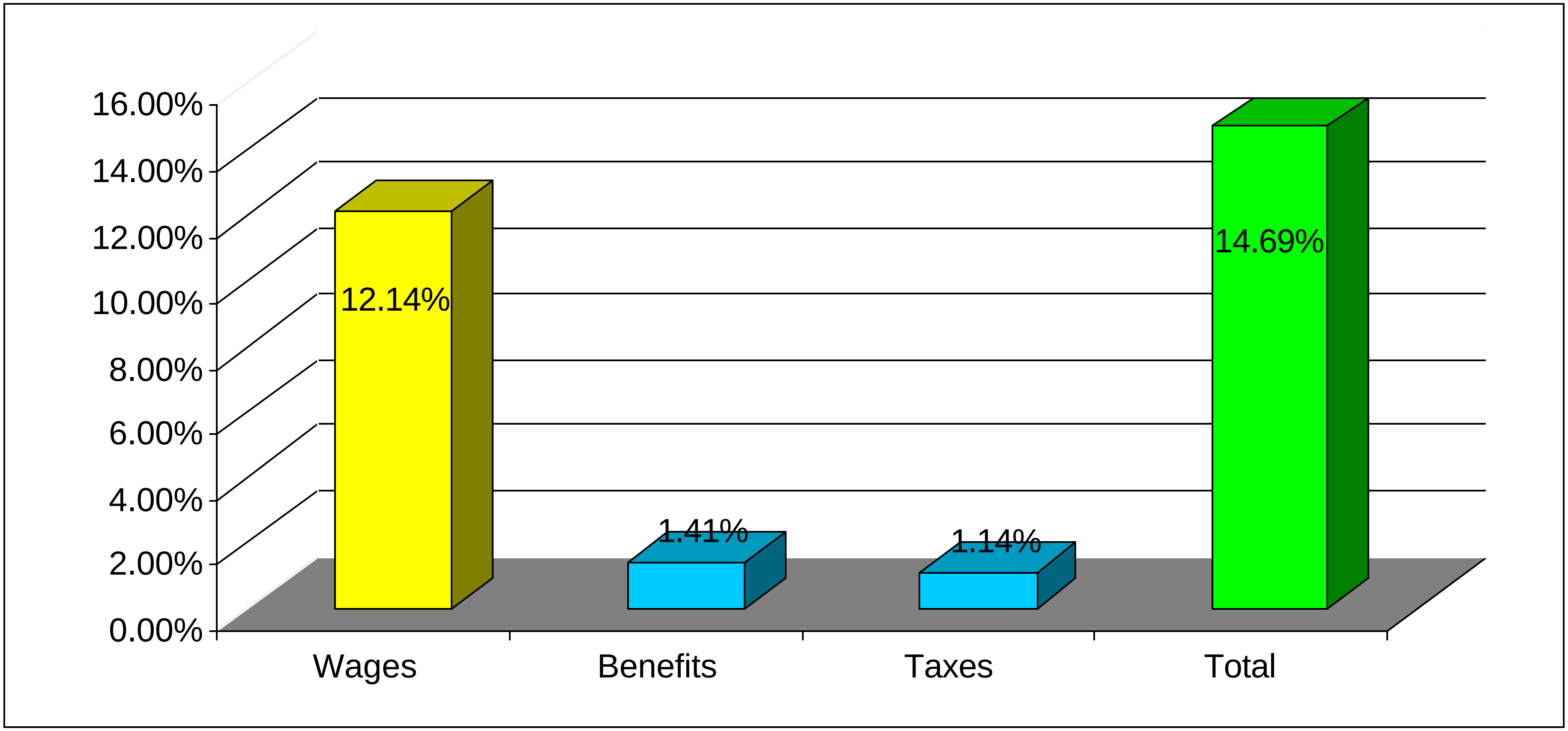
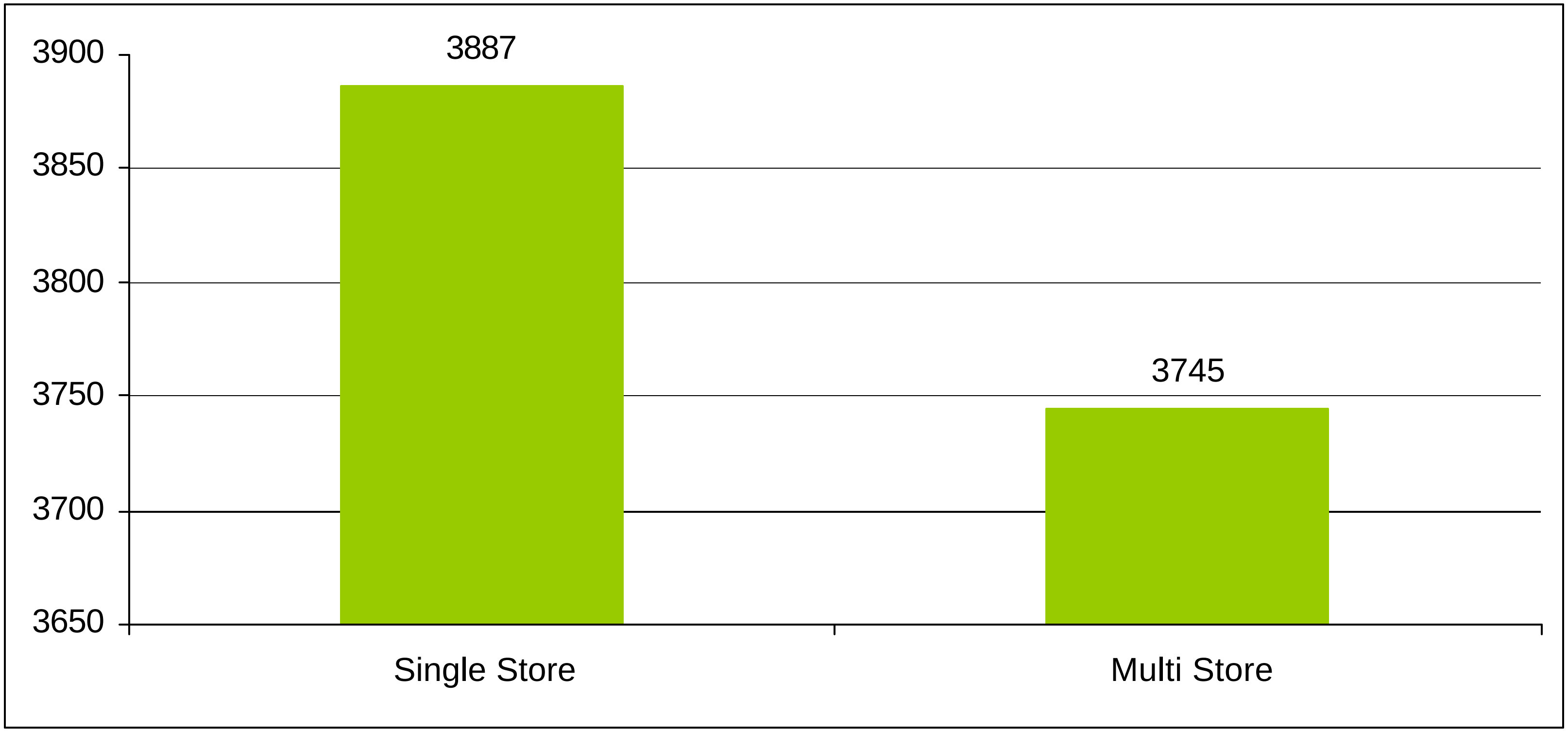
Wages and Benefits All

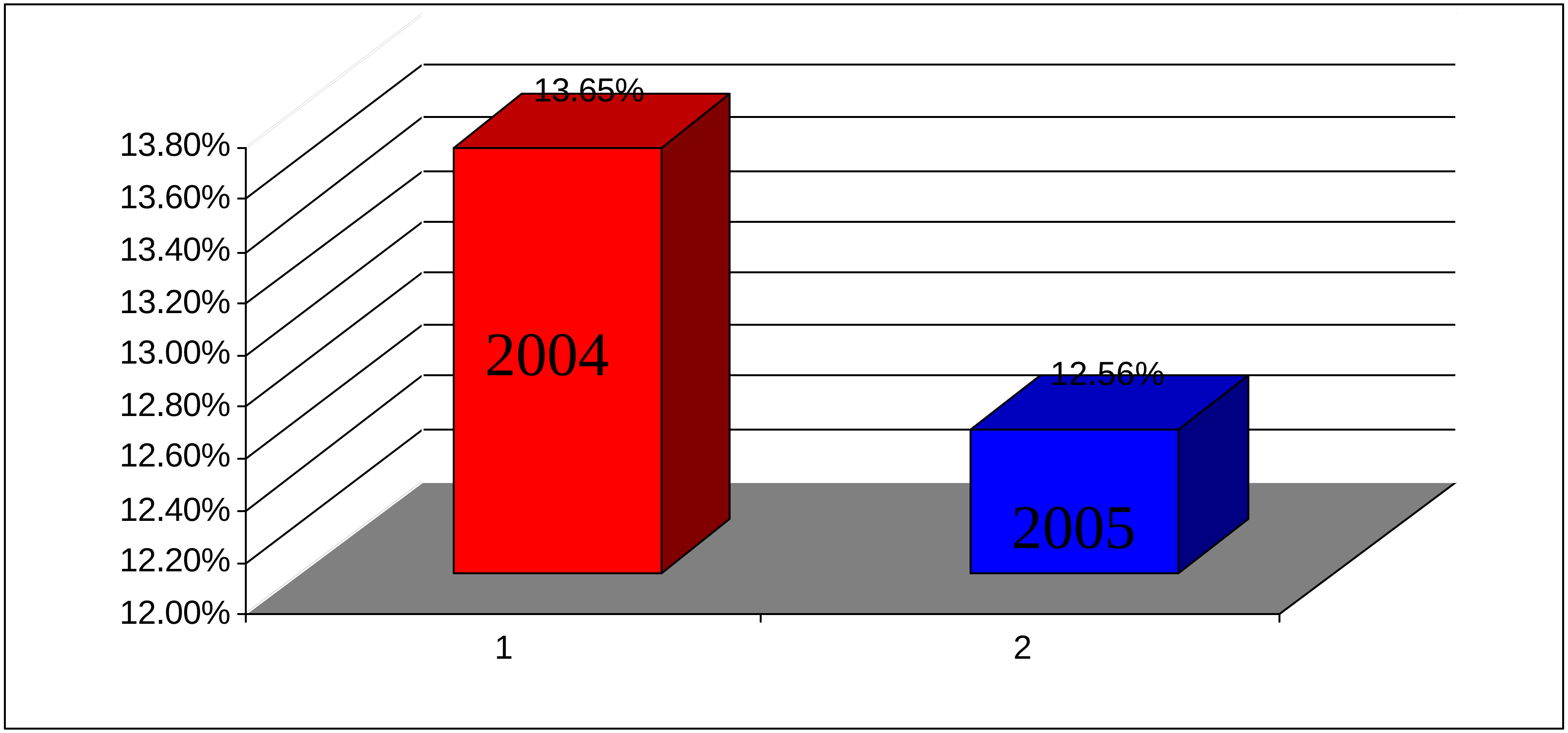


Sales Per Labor Hour

Health Care Costs Per Employee



Health Insurance



Think Outside The Box

What Are Retailers doing to combat health care costs?

- Wellness programs
- Higher Deductible
- Flexible Spending Accounts
- Changing to plans with fewer benefits
- Increase Co-pays
- Reduce other benefits
- Change in eligibility requirements

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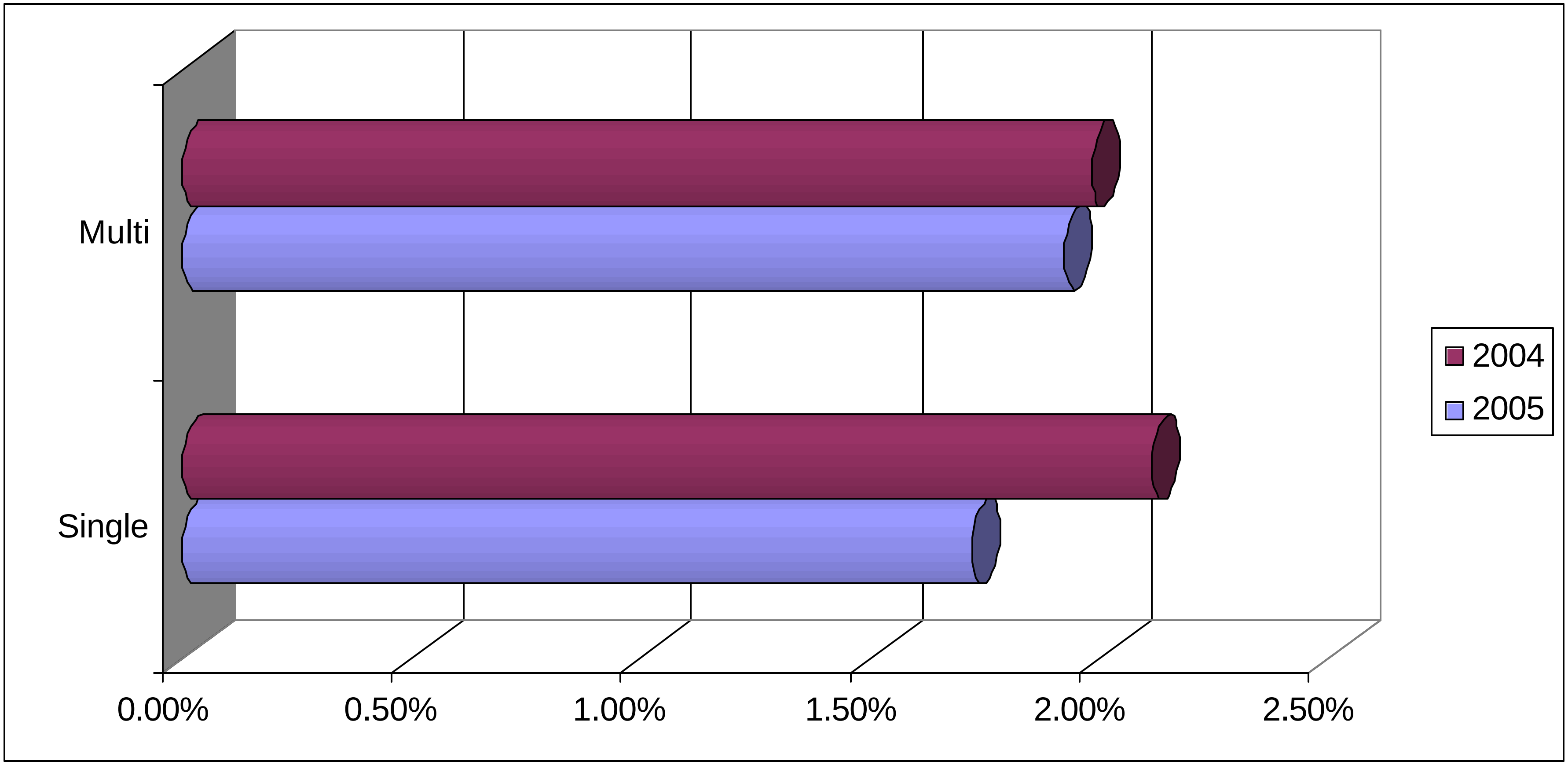
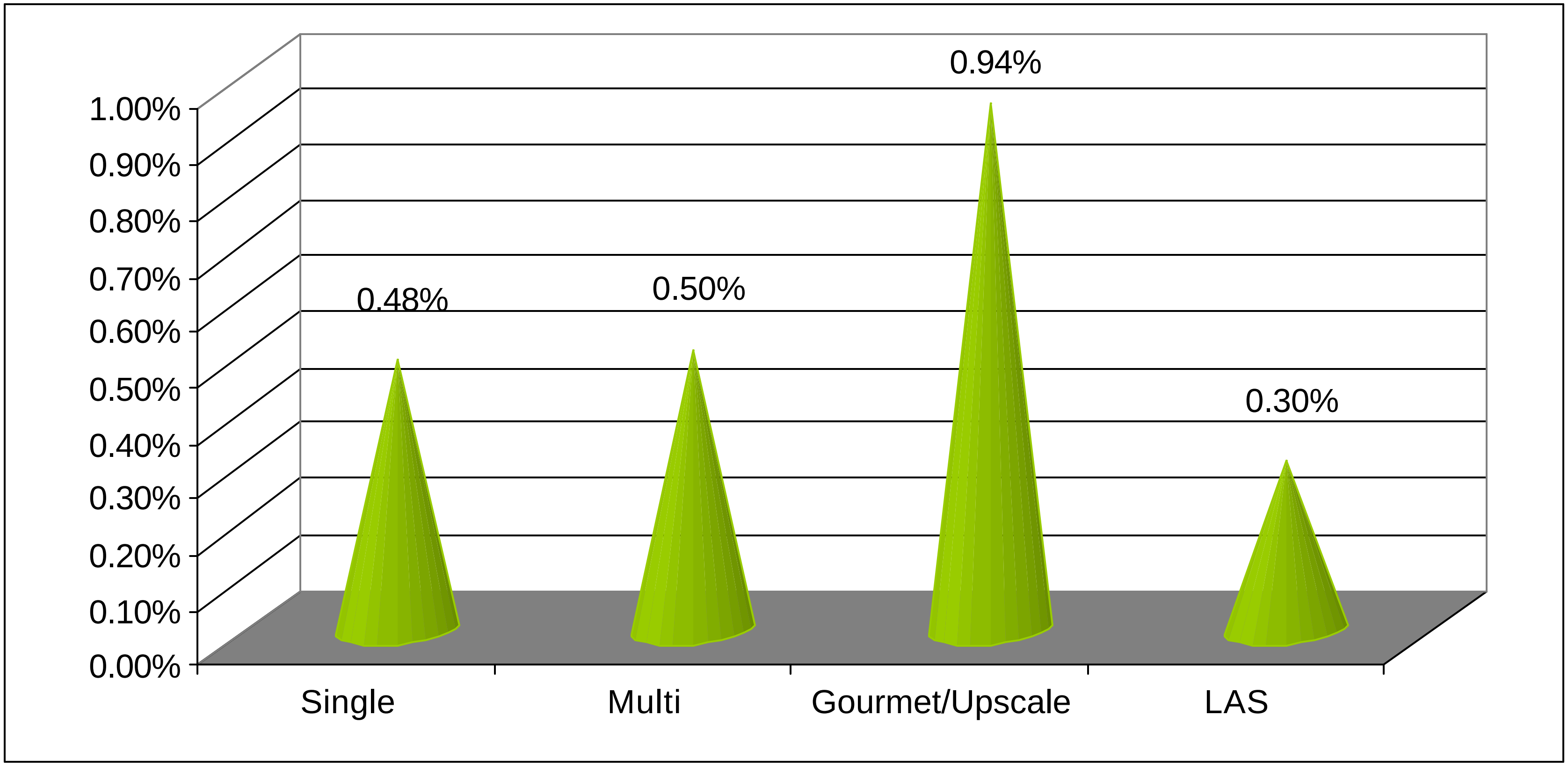
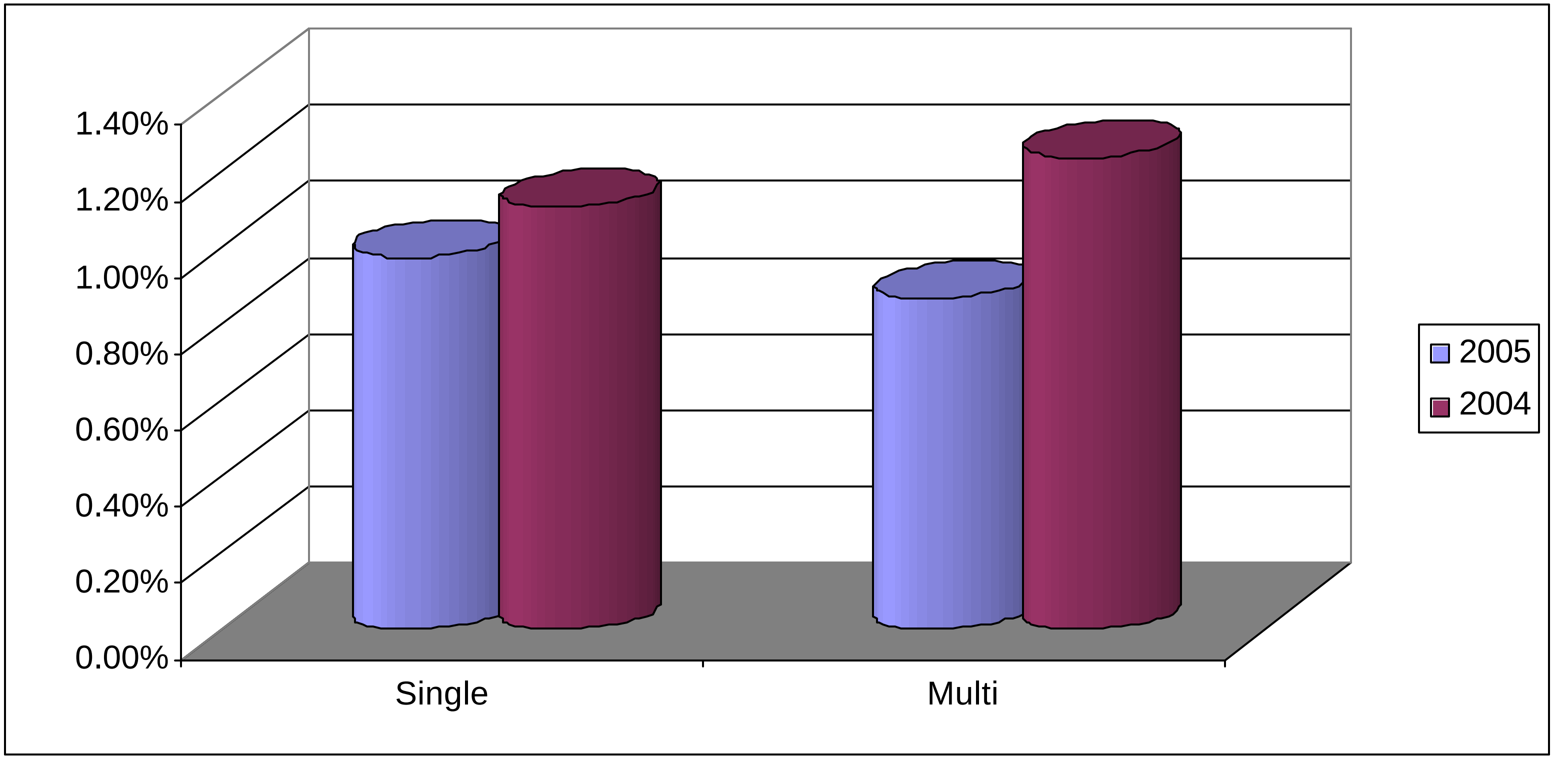
Rent by Type



Credit Card Fees by Format



Depreciation by Format



Depreciation

- Previous years saw heavier investment due to tax laws
- Many retailers have invested in the first couple years of tax benefit availability
- Seeing a slow down in depreciation expense as a result

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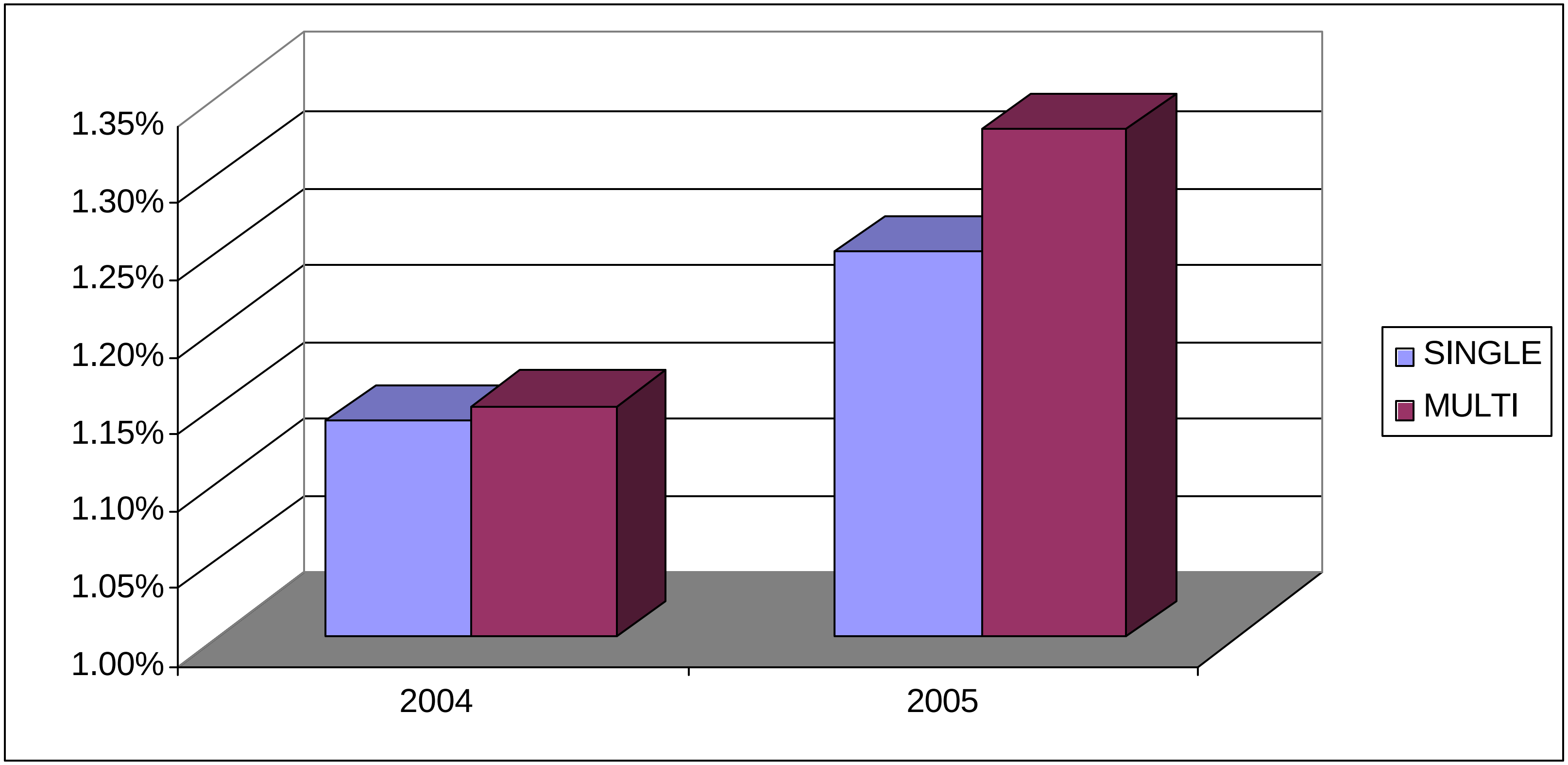
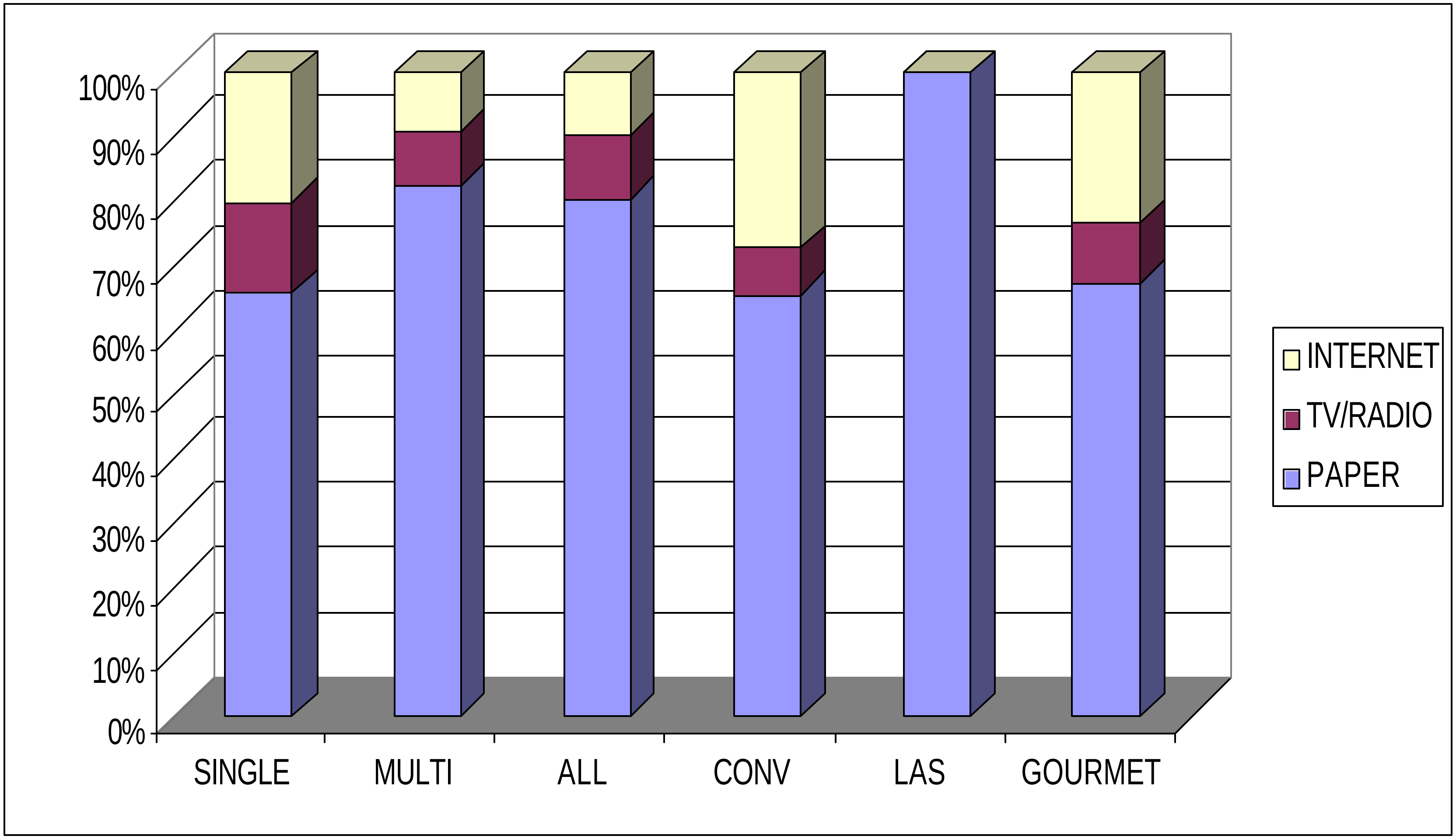
Advertising Costs



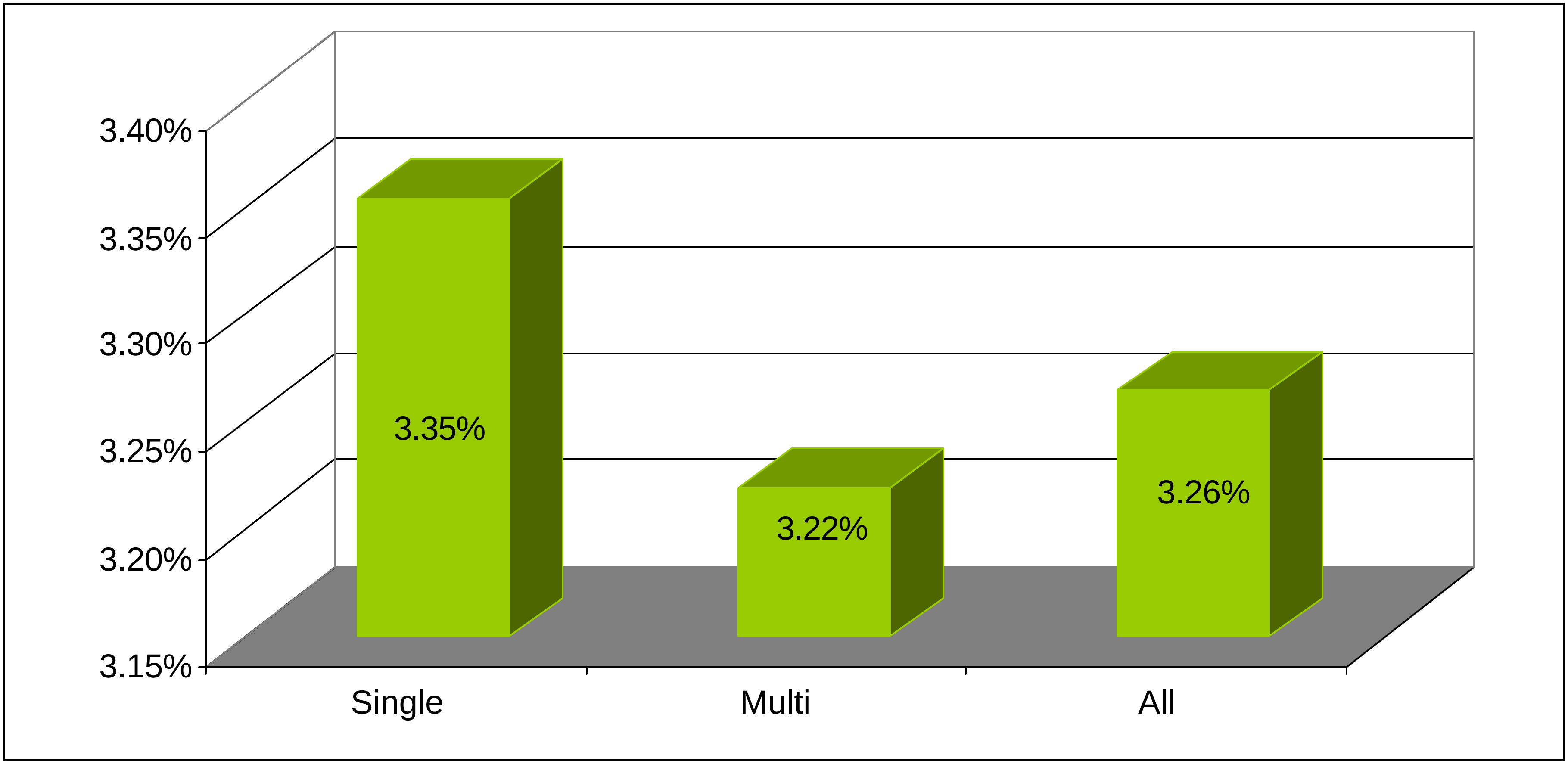
Where are the dollars spent?



Advertising Costs

- Cost of advertising is insignificant if it is effective
- What are we seeing?
  - Card marketing
    - Some good use, use zip codes to reduce mailings
    - Use the data, baby clubs, home meal replacement, discounts 5 off 50 etc
    - Some are implementing cards but do not use the data
    - Don't confuse your customer base, card on card off
    - Offer alternative means to use card, customer gives phone number-prevent frustration!
- Advertising is important, the cost is relevant to the return
- Are you after the bargain shopper or the convenience shopper

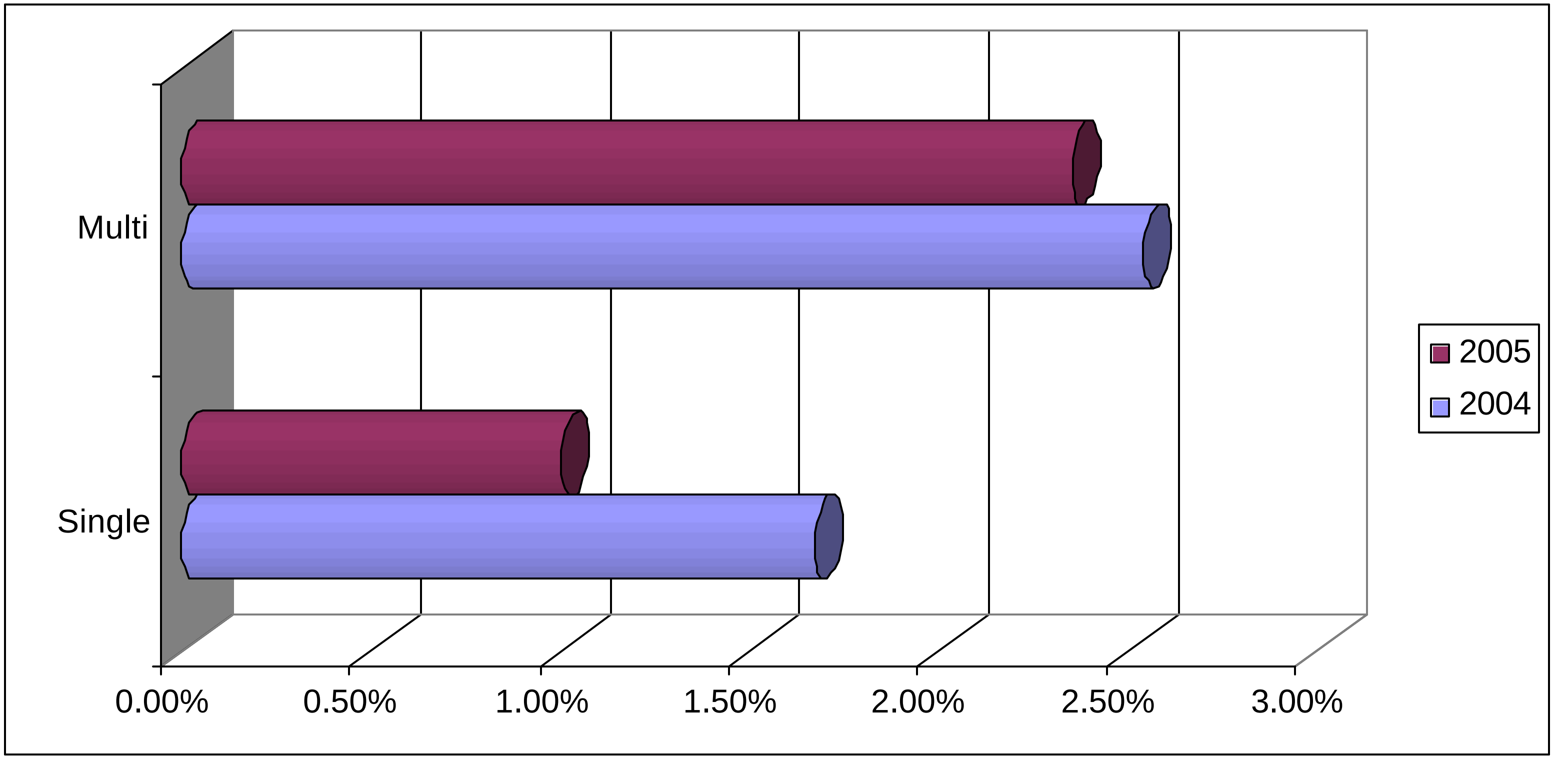
Administrative Expenses by Format



Administrative Expenses by Format

- Eliminate unnecessary overhead
- Evaluate the best use of resources
- Back office functions and labor need to be controlled
- Like advertising-What is the benefit you receive?

Net Profit Before Taxes



Net Profit

- National Industry Average is 1.16%
- Non National/Regional Chains .90%
- Strikes in California, Impacted previous years figures in certain market areas
- 5 stores or less 1.11%

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The Challenge

- Take the results from the survey and compare to your individual results
- Target 1 underperforming area of your operation
- Develop a plan for the upcoming quarter to improve those results and exceed the average

The Future

- Thank you to the single store council yesterday for feedback on how to better the survey
- Future will include:
  - Urban vs. non-urban
  - Regional results
  - Required breakout of a minimum of 8 departments

Thank You

- Surveys are available in the back of the room.
- We will be performing this survey periodically during the year and hope you will participate in the future
- Thank you for your time

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