FMI is the trade association that serves as the voice of food retail. We assist food retailers in their role of feeding families and enriching lives.
The Association:

Our members are food retailers, wholesales and suppliers of all types and sizes

FMI provides comprehensive programs, resources and advocacy for the food, pharmacy and grocery retail industry
Fresh @ FMI

FMI is committed to the growth and success of fresh companies and their partners. FMI provides resources and networks that support the interests of member companies throughout the global, fresh produce supply chain, including family-owned, private and publicly traded businesses as well as regional, national and international companies.

Emphasis on fresh
• Produce
• Meat
• Seafood
• Deli/In-store, fresh prepared foods and assortments

Rick Stein
Vice President, Fresh Foods
Food Marketing Institute
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FMI Fresh Foods

Research and Education
In-depth information, trends and insights to foster innovation, take advantage of new opportunities and help develop winning strategies

Networking
Share ideas, explore best practices and develop business relations

Advocacy
Understand what is going on in Washington and make your voice heard
FMI Fresh Executive Committee

John Ruane (Co-Chair)
Ahold USA

Rick Steigerwald (Co-Chair)
Lund Food Holdings, Inc.

Tom DeVries (Past Chair)
Giant Eagle, Inc.

Jason Anderson
Affiliated Foods Midwest Cooperative, Inc.

Bill Artman
Giant Eagle, Inc.

John Beretta
Albertsons, LLC

Dave Bornmann
Publix Super Markets, Inc.

Scott Bradley
Target Corporation

Jerry Chadwick
Lancaster Foods, LLC

Alex Corbishley
Target Corporation

Chris Darling
Albertsons, LLC

Jerry Edney
Associated Wholesale Grocers, Inc.

John Grimes
Weis

John Haggerty
Burris Logistics

Mark Hilton
Harris Teeter LLC

Christopher Lane
Wakefern Food Corporation

Mike Malone
Brookshire Grocery Company

Dan Murphy
Unified Grocers, Inc.

Pat Pessotto
Longo Brothers Fruit Markets Inc.

Jerry Suter
Meijer, Inc.

Geoff Waldau
Delhaize America

Dan Wampler
Hy-Vee

Blaine Brinthurst*
Price Chopper Supermarkets

Steve Mayer*
Schnuck Markets, Inc.

Nicole Wegman*
Wegmans Food Markets, Inc.

* Silent members(*)

The FEC seeks to

• identify areas of collaboration across all fresh foods departments
• promote understanding and cooperation throughout the industry and with sister fresh associations
• maximize common learning’s between fresh categories and to create a vision of leadership for the entire fresh category
FMI Fresh Foods Leadership Council

John Ruane (Co-Chair)
Ahold USA

Rick Steigerwald (Co-Chair)
Lund Food Holdings, Inc.

FEC Members
FMI Fresh Executive Committee

Glen Dolezal
Cargill

Chris DuBois
IRI

Michael Eardley
International Dairy-Deli-Bakery Association

Jim Ethridge
National Cattleman's Beef Association

Sherry Frey
Nielsen Perishables Group

Paul Mastronardi
Sunset Grown Produce

Michael Higgins
Hussmann

Henry Pellerin
Hill Phoenix

Jeff Oberman
United Fresh Produce Association

Janet Riley
North American Meat Institute

Tristan Simpson
Ready Pac Foods, Inc.

Tom Super
National Chicken Council

Jarrod Sutton
National Pork Board

Joe Watson
Produce Marketing Association

Joe Weber
Smithfield Foods Inc.

Art Yerecic
Yerecic Label

The FFLC is...
Comprised of FMI Member companies, industry trade association and fresh focused knowledge partners
Our study focused on finding the keys to high performance

**Objective**

Define the major trends that are driving Perimeter sales outperformance and will directly impact long-term success of retailers and suppliers over the next 3-5 years.

**Inputs**

- Industry interviews
- Primary data analysis
- Secondary research
Consumer Demands

Food Transparency

Connect

Convenience

Industry Response

New Supply Chains

Fresh Prepared

5 Trends
Major Conclusions

Trends are still in the early stages of growth

Embracing these trends drives sales outperformance

Pursuing trends requires strategic perspective across departments

Trends will set foundation for next generation of retail business success
New Supply Chains
Today’s Discussion

New Supply Networks
Farmer Direct to Consumer
Integrated Local Networks
Retailer Direct
Vertical Farming

New Fulfillment Approaches
Omni-channel Delivery/Partially Prepared
Today’s Discussion

New Supply Networks
- Farmer Direct to Consumer
- Integrated Local Networks
- Retailer Direct
- Vertical Farming

New Fulfillment Approaches
- Omni-channel
- Delivery/Partially Prepared
Consumer Demands

Local, fresh and high quality
Product transparency
Environmental impact

Industry Response

New Supply Networks
Farmer Direct to Consumer

Growing and distribution approaches in which farmers and consumers are directly linked

Includes 3 distinct segments:
- Farmer’s Markets
- Community Supported Agriculture
- Alternative Models
Consumers desire authentically local products

Source: IRI research, 2015 Power of Produce, FMI report; 210Analytics

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Farmer’s Markets Growing

Farmers market growth

1,755 2,410 2,746 1,863 3,137 3,706 4,385 4,685 5,274 6,132 7,175 7,864 8,144 8,268 8,476

Source: USDA-AMS Marketing Services Division
Farmer’s Market Internet Mentions by Product Category
(80,000 per month)
April 2012 – March 2016

<table>
<thead>
<tr>
<th>Product Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vegetables</td>
<td>36%</td>
</tr>
<tr>
<td>Meat /Eggs*</td>
<td>28%</td>
</tr>
<tr>
<td>Fruit</td>
<td>26%</td>
</tr>
<tr>
<td>Bread/Grains</td>
<td>10%</td>
</tr>
</tbody>
</table>

*includes prepared-meat items sold at farmers market

Source: IRI Social Advantage Monitoring and Analysis, April 2012 to January 4, 2016
Why Consumers Shop Farmer’s Markets

- 86% product freshness
- 62% quality
- 80% purchase satisfaction

Source: 2015 Power of Produce, FMI report; 210Analytics
Farmers’ evolving sophistication

- Integrated websites to unite farms, markets, and events
- Foodservice and retail focus
- Emerging ecommerce opportunities
- SNAP acceptance and payment processing

Source: Company websites
Community Supported Agriculture

A system in which a farm operation is supported by shareholders within the community who share both the benefits and risks of food production.

4 CSA Models

- Joint risk sharing
- Varied flow of products
- Direct sales

Farmer managed
Shareholder/subscriber
Farmer cooperative
Farmer-shareholder cooperative
Growth of CSA’s Over Time

- 1019 registered CSAs in 1999
- 2250 registered CSAs in 2009
- 6200 registered CSAs in 2014

Source: Community Supported Agriculture: A model for the farmer and community?; Mark Paul – 2/2/2015
Consumer interest in CSAs

Focus is more on community and lifestyle, rather than just food

Conversations are influenced by local advocacy organizations

Source: IRI Social Advantage Monitoring and Analysis, March 2012 to March 2016
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Alternative Methods

AgriHoods: Serenbe

Serenbe is a 1,000 acre community located near Atlanta.

A 25-acre organic farm and CSA provides organic produce for Serenbe’s three on-site restaurants as well as other local businesses.

Source: Serenbe website
Alternative Methods

Willowsford in Aldie, VA

Harvest in Argyle, TX

Prairie Crossing in Grayslake, IL

Rancho Mission Viejo, California

Source: CivilEats.com; July 9, 2014
How We See Farmer Direct to Consumer Evolving

Growing consumer demand for transparency will transform retail and farm connections

• Directly filling consumer need for food transparency and lifestyle needs
• Increasing ability to create local brands and distribution
• Will impact growth rate of traditional retail outlets
Integrated Local Networks

Retailers have the opportunity to deliver their own farmer-to-consumer experience

- Long-term Supply Commitments
- Co-Marketing with Retailer/Grower
- Deeper integration of businesses

Source: Company websites
# Integrated Local Network Leading Practices

<table>
<thead>
<tr>
<th>Stage</th>
<th>In-Store Marketing</th>
<th>Assortment</th>
<th>Supply Integration</th>
<th>Co-Marketing with Farmers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stage 4</td>
<td>Highly specific locations (e.g., mileage from store), pictures of farmers, program information</td>
<td>Consistent in-stock positions on items</td>
<td>Long-term relationships</td>
<td>Web presence, retail signage at farm and around property</td>
</tr>
<tr>
<td>Stage 3</td>
<td>Specific mention of farms providing product; signage with pictures and locations</td>
<td>Consistent broad assortment in season</td>
<td>Tight integrated planning with supply/volume commitments</td>
<td>Web presence</td>
</tr>
<tr>
<td>Stage 2</td>
<td>Closer grower/producer locations to store; improved signage rotating with crop changes</td>
<td>More steady supply during season</td>
<td>Limited harvest planning; supply/volume commitments</td>
<td>None</td>
</tr>
<tr>
<td>Stage 1</td>
<td>Little signage Non-specific geographies (region/state)</td>
<td>Limited products Peaks and out of stocks</td>
<td>Basic procurement</td>
<td>None</td>
</tr>
</tbody>
</table>
From trend to business impact

Local networks can impact revenue of 5-10%

$60B
2015 US Produce sales

~$4B
Farmer’s market sales

2x
Growth of farmer’s markets vs. US produce volume growth

Source: IRI MULO POS data, 2015; IRI estimates based on USDA reports
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How We See Integrated Local Networks Evolving

Retailers will use this to differentiate themselves in local markets

Positive banner positioning that enhances other growth platforms

• Organic produce
• ABF and Organic meat
• Fresh Prepared

Differentiate vs. value formats

Sales benefit/leakage prevention
Retailer Direct

Retailer-owned or managed food production operations for resale in store

Strategic Context:

• Scope & scale limited
• Selective categories (Produce, Meat, Foodservice)
• Growth platform that complements other initiatives
• Brand positioning
  - Healthy attributes
  - Conservation
• Education benefits
Retailer Examples

Wegman's Farm

Whole Foods' Rooftop Garden

Rouses' Rooftop Garden

Source: Company website pictures
In-Store Farming

Metro stores in Germany growing herbs and other vegetables

- Uses 5 sq. mtrs.
- Creates more intense flavors
- Transparency halo with consumers

Source: Metro company website
How We See Retailer Direct Evolving

Will remain niche and serve as a marketing benefit

- Creates brand positioning benefits around healthy, local products
- Plays role in education and energy management
Vertical and Local Greenhouse Farming

Vertical farms, typically urban, produce food in vertically stacked layers or on vertical surfaces typically in high ceiling buildings (e.g., older warehouses)

Local Greenhouses are larger structures near cities that produce food in ideal growing climates

Image Source: http://www.skygreens.com/about-skygreens/
Vertical Farming

50 - 120K sq ft of space
15-20 crop cycles/year

Typically located near urban centers
Focus on sustainability
High volume/high value products
FarmedHere

Vertical Farming

Major retail alliances

Chicago and Louisville operations

Brand building

Source: Company website
Japanese innovation for products typically imported:

Producing 2,500-3,000 heads of lettuce per day

Currently profitable in 260,000 sqr. mtr facility

Expanding trials to 20 other vegetables

Ability to modify tastes (bitterness) to consumer preferences

Source: Fast Company.com; “Vertical Farms Will Be Big, but for Whom?; 12/3/2014
Greenhouses

Bright Farms

- Local greenhouse operation
- Longer-term agreements
- Strategic partnerships with retail
- 4 locations across the US and expanding

Source: Company website
Current High Value/Volume Focus

- Fresh Herbs
- Salad Greens
- Spinach
- Kale
- Chard/Other Greens

Near Term Focus Expansion

- Tomatoes
- Other Lettuces
- Strawberries & Other Berries
- Small Fruits
- Other High Volume Products

Source: Company websites; IRI analysis based on MULO POS data - 2015
How We See Vertical Farms Evolving

• Cost structures have yet to be proven and scalable
• Gradual evolution in categories
• Significant and sophisticated investment will drive growth
• Heavy experimentation and high levels of innovation
New Supply Chains Over Next 3-5 Years

- Shift to more local production models
- Expansion of vertical and greenhouse farming models
- Deeper integration of farmers and retailers
- Evolutionary sophistication for direct to consumer
Retailer Implications

Local Networks
- Fully develop local networks- halfway measures won’t get desired results
- Provided offensive and defensive benefits

Vertical Farming/Local Greenhouses
- Don’t concentrate investments too early
- Define expected benefits upfront

Manufacturer Implications

- Need to evolve business models to capture long-term changes
- Local supply options will increasingly supplement traditional supply chains
- Farmers and customers will have more options
Today’s Discussion

New Supply Networks
- Farmer to Consumer
- Integrated Local Networks
- Retailer Direct
- Vertical Farming

New Fulfillment Approaches
- Omni-channel
- Delivery/Partially Prepared
Omni Channel

Multi-channel approach to sales that seeks to provide the customer with a seamless shopping experience

Click & Collect

Home Delivery

Mail Delivery
Omni-channel

Expected to grow to:

10% of sales by 2022

Ecommerce Expected to exceed:
50%+ of total F&B growth 2014 - 2022

Digital capabilities and connections drive online and offline growth

Click & Collect & home delivery expected to dominate

Source: IRI Consulting analysis;
Perimeter departments have a strong presence in Click & Collect and Home Delivery baskets

- **80%** produce
- **62%** bakery
- **50%** meat/seafood
- **20%** deli

Note: Total Ecommerce sales are 2% of total F&B

Source: IRI All Outlet Ecommerce data; IRI analysis
Basket size is larger for Omnichannel

$60 average across all US trips

$160 click & collect

$180 delivery

Source: IRI All Outlet Ecommerce; IRI analysis
Ready to prepare meals are large and growing

Blue Apron

~$600MM est. 2015 revenue
5MM meals/month

HelloFresh

~$240MM est. 2015 revenue
15,000 recipes
4MM meals/month

plated

~$100MM revenue
300K meals/month

Source: IRI estimates; Company reports
Consumer Drivers

• Cooking ease/access to guidance
• New flavors and foods
• Simplicity
• Dietary control
Retailer Implications

• Start experiments now to find best options
• Benefits are both hard (cost, supply) and soft (marketing); but they are real
• Commit for multiple years on initiatives

Manufacturer Implications

• Long-term supply chain relationships are evolving
• Experimentation with new technology may open new markets
• Expect technology to evolve quickly
# 2016 Individual Trend Launches + Education Plan

<table>
<thead>
<tr>
<th>Jan 28</th>
<th>Feb 25</th>
<th>Mar 30</th>
<th>Apr 28</th>
<th>May 26</th>
<th>June</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food Transparency</td>
<td>Fresh Prepared &amp; Specialty Foodservice</td>
<td>New Supply Chains</td>
<td><strong>Next: Convenience</strong></td>
<td>Connected Consumer</td>
<td>FMI Connect</td>
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<tr>
<td>Webinar</td>
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<td><strong>Webinar</strong></td>
<td>Webinar</td>
<td>Refresh/Update</td>
</tr>
</tbody>
</table>

**Next: Convenience**

**Speakers:**
- Chris DuBois
- Chris DuBois
- Steve Ramsey
- Sally Lyons Wyatt
- Larry Levin

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Everyone to the Table.
Thank You!

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