

The Foodservice Channel

Natural Products Expo West

March 5, 2004



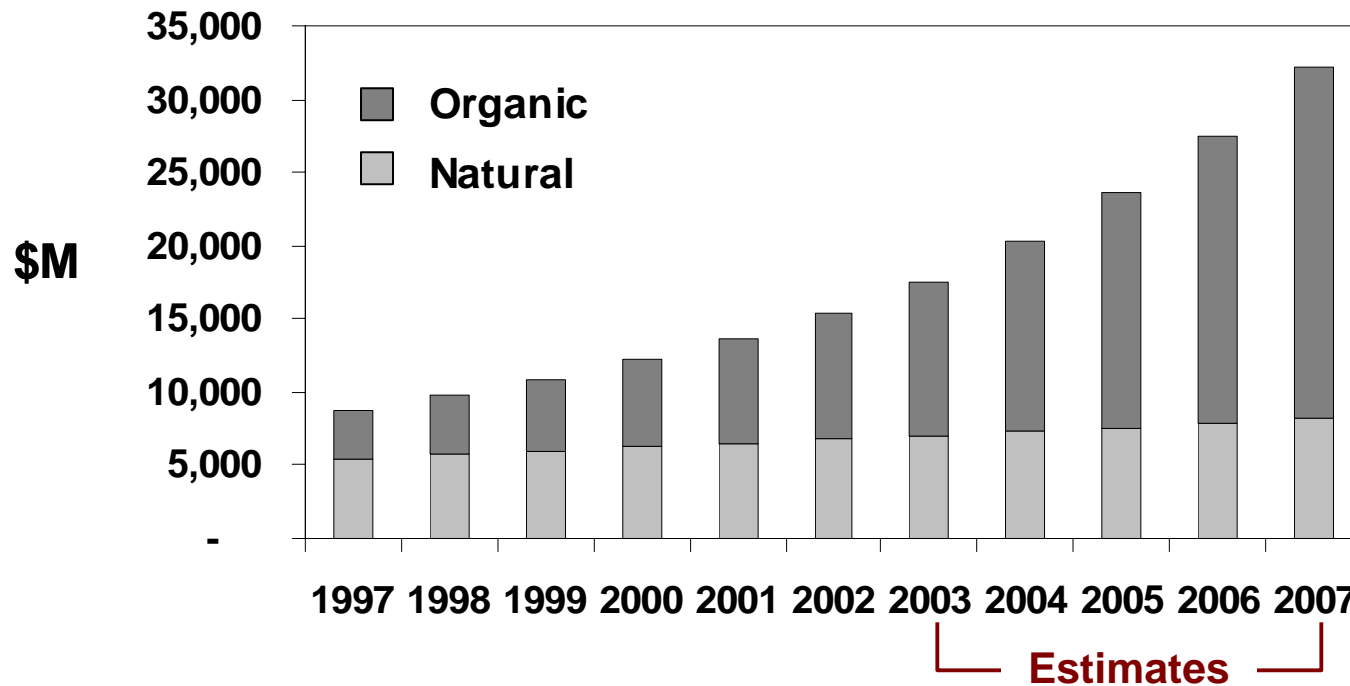


***Information-based Services to
Grow Your Natural Products Business***

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Retail Demand for Natural & Organic Food Will Exceed \$30 Billion by 2007

Natural & Organic Retail Sales



Source: SPINS/NBJ Estimates

The Question

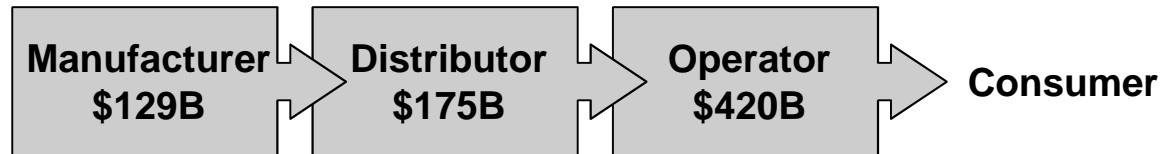
***What is the Opportunity for
Natural and Organic products in the
Foodservice channel?***

Approach

- SPINS partnered with premier foodservice consultants from **The Hale Group**, to gain a fundamental understanding of the dynamics of the Foodservice industry
- Worked with Organic and Foodservice Industry Sponsors, and conducted Interviews across the Organic and Foodservice industries
 - Manufacturers, Foodservice Brokers, Distributors, Operators
- Created sizing estimates and growth forecasts for leading Organic Food and Beverage Categories through Foodservice
- Analyzed key opportunities and barriers facing the growth of this segment within Foodservice

- **Strategic Specialists in Foodservice & Agribusiness since 1986**
 - Utilize unique food industry insight to provide clients with actionable business strategies that drive profitable growth.
 - Operators / Associations / Brokers / Manufacturers / Distributors
 - Experience beyond research
 - Strong functional expertise
 - Deep foodservice knowledge
 - A leading industry association resource
 - Contacts throughout the supply chain
 - Excellent client references and industry reputation

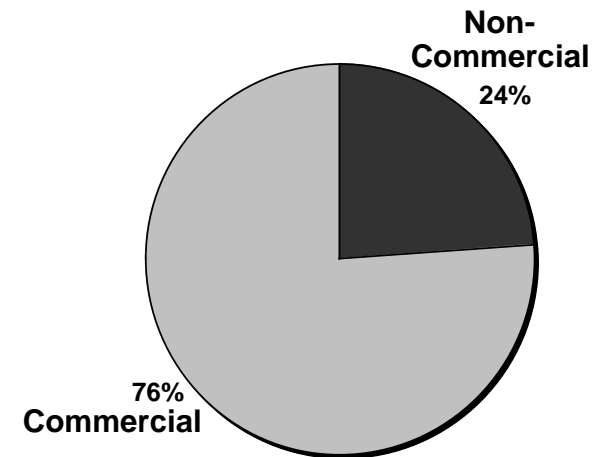
In 2002 Foodservice Generated \$420B In Operator Sales to the Consumer



FOODSERVICE OPERATOR SEGMENTS

The Foodservice industry is made up of commercial and non-commercial segments.

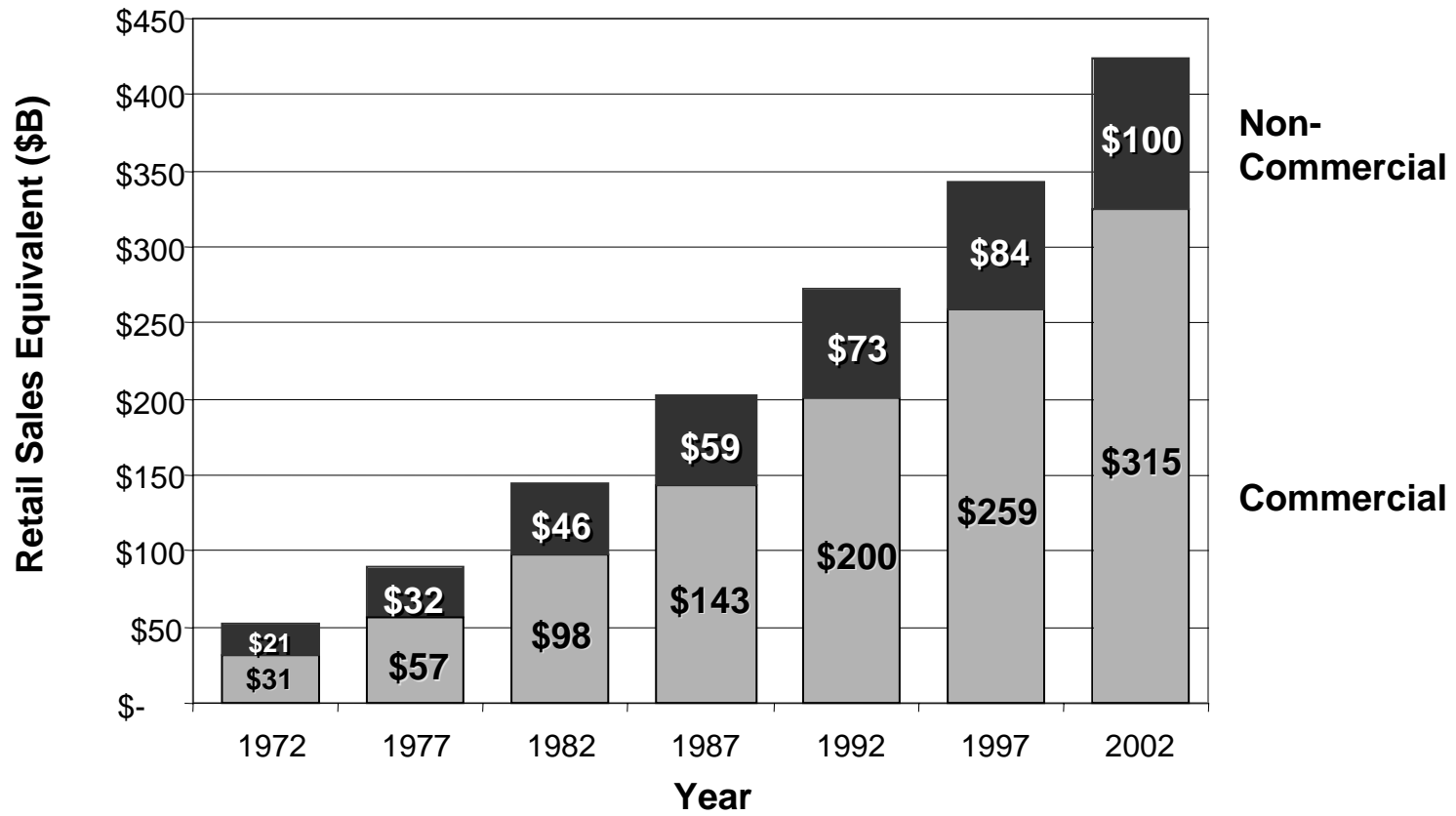
NON-COMMERCIAL	(\$B)	COMMERCIAL	(\$B)
Vending	\$29	QSR (fast food)	\$126
Business & Industry	\$22	FSR (full service)	\$123
Schools (K-12)	\$14	- Family	\$70
College & University	\$9	- Casual	\$38
Hospital	\$7	- Cafeterias	\$4
Nursing Homes	\$5	- Upscale	\$12
Military	\$3	Lodging & Recreation	\$26
Others	\$12	Supermarket Foodservice	\$19
		Convenience Store	\$14
		Others	\$12



Source: The Hale Group

Foodservice Is Growing

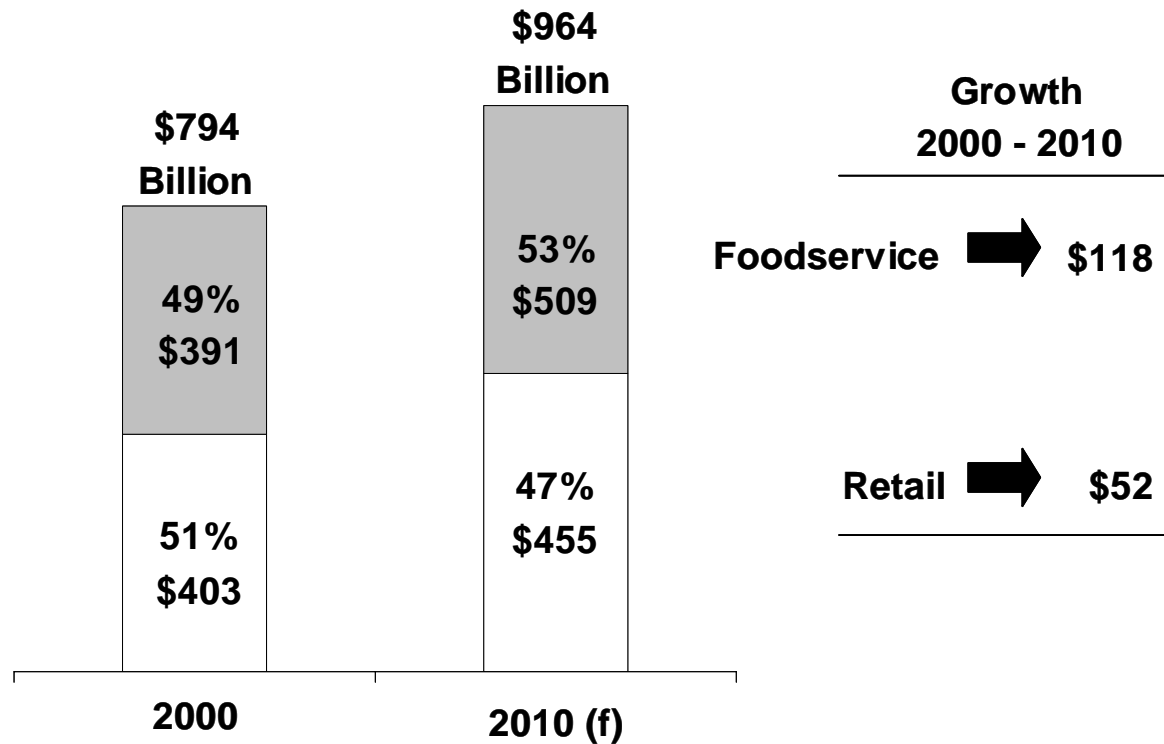
Real Growth U.S. Foodservice 1972 - 2002



Source: The Hale Group Estimates

Foodservice is Growing

Foodservice will surpass retail



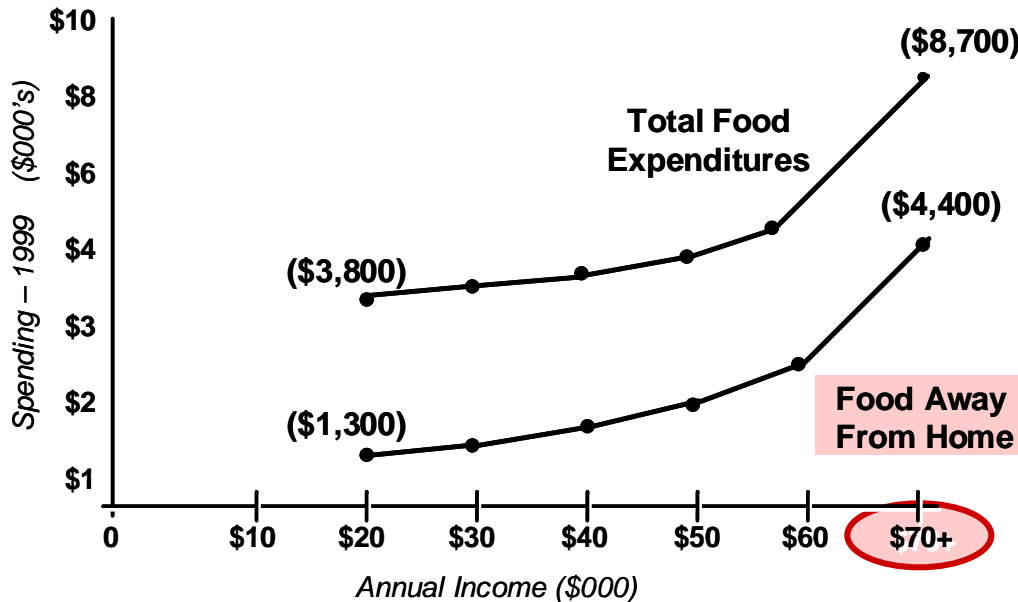
Note: Constant 2000 dollars

Source: The Hale Group Estimates

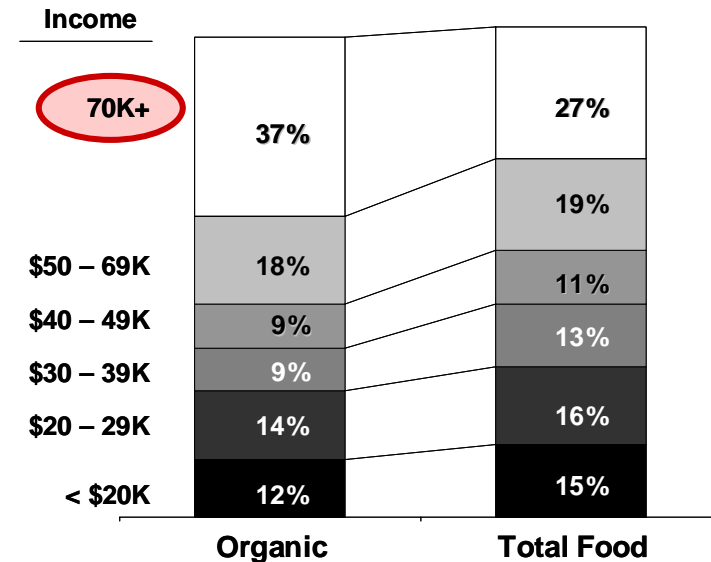
Expenditures on Organic Food and “Food Away From Home” Increases with Income

- Households with Incomes of \$70K+ are leading *Food Away From Home* and *Organic* consumption

Food Away From Home



Organic Sales



Source: US Census Bureau

Consumer's Attitude Toward Eating Organic Food Away From Home

Organic Opportunities in Away From Home Eating

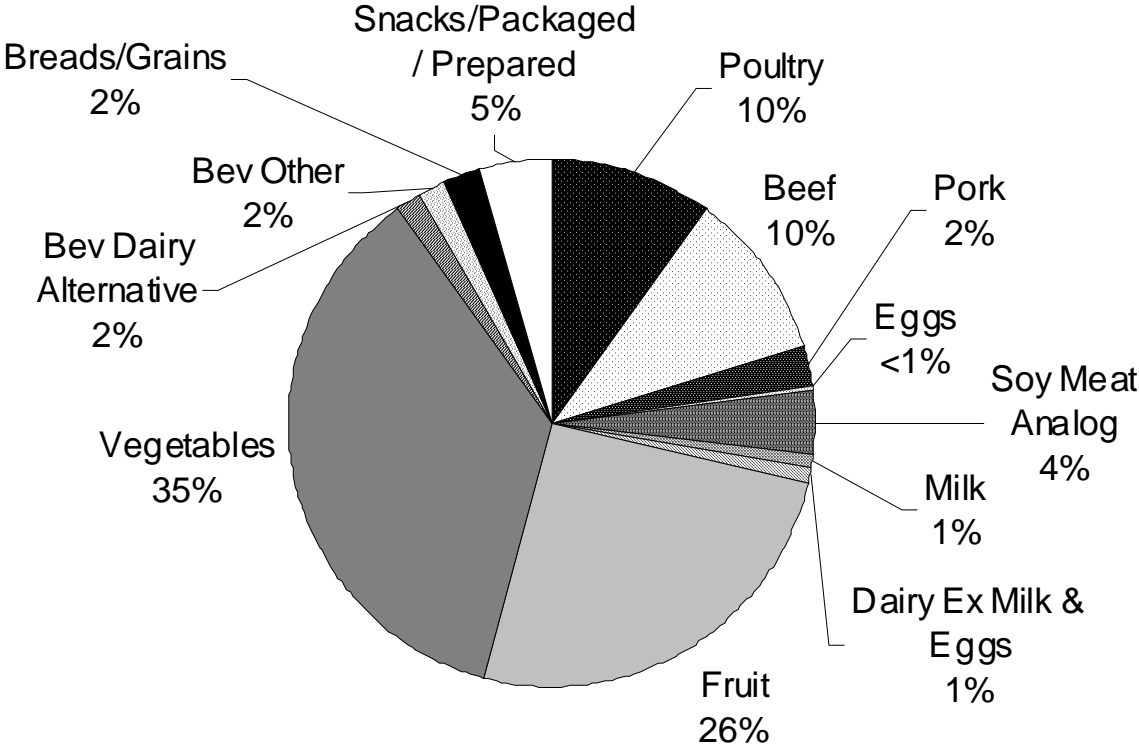
(% consumer segments agree completely/somewhat that...)

	General Pop.	Organic Oriented	Organic Users
Try to maintain the same at home standard when I eat away from home	55.8%	62.2%	65.7%
Would eat more fast-food products if they were available in healthier versions	43.1%	45.5%	52.1%
Care less about eating healthy when I go to a restaurant	38.8%	31.9%	32.6%
Taste is more important than health when eating out	41.8%	31.8%	32.1%
Would like to purchase organic foods & beverages at restaurants	16.2%	20.5%	35.3%
Would like to purchase meatless products when eating out	16.1%	18.6%	25.3%

Source: 2002 SPINS/NMI Organic Consumer Trends Report

2003 Estimated Size of Organic Foods in Foodservice \$330 Million

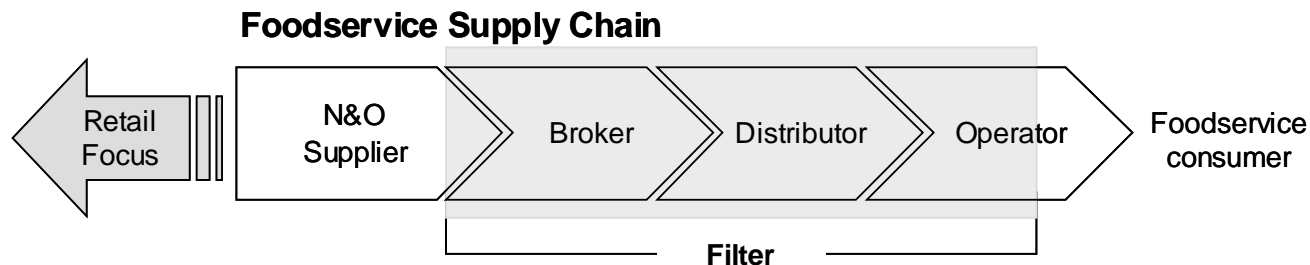
Total Organic Manufacturer Shipments by Food Category*



* Includes Natural & Organic Meat

Challenges to Developing a Foodservice Business

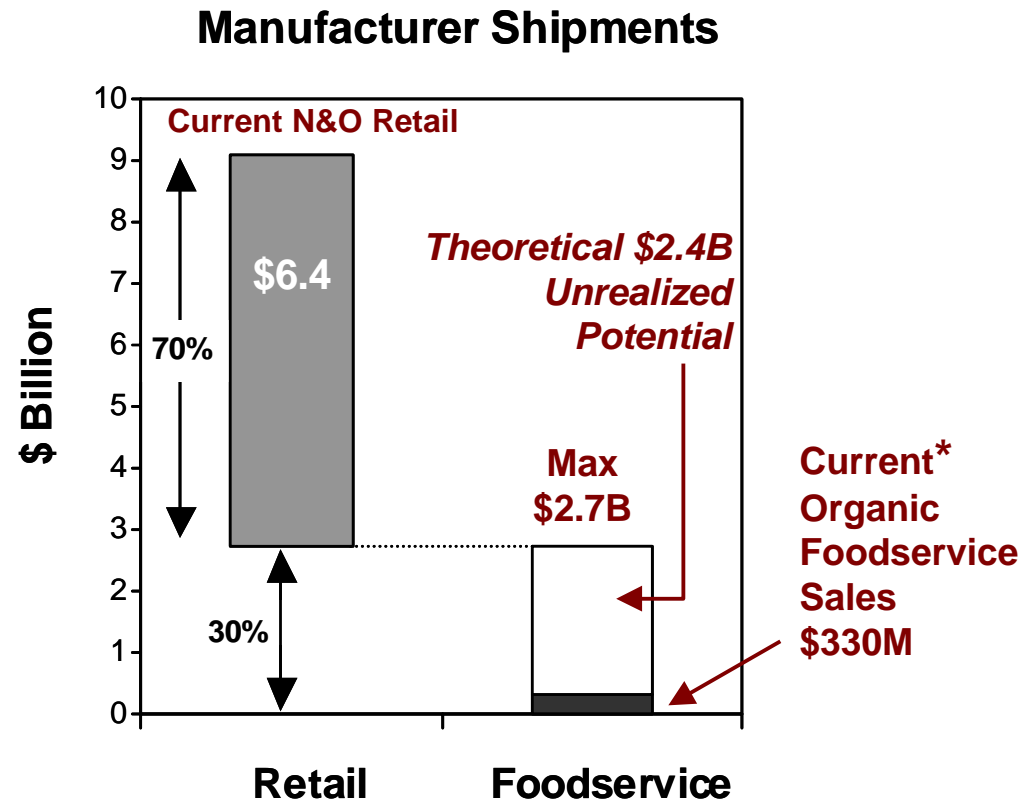
- Natural & Organic Suppliers Are Retail Focused
 - Foodservice Channel Management
 - Product Design
 - Foodservice Operators are reluctant
 - Consumer Demand Is Filtered



- Competing Labels And Classifications
 - Local and regional, Fair Trade, Free Farmed etc.
- Natural & Organic price premiums

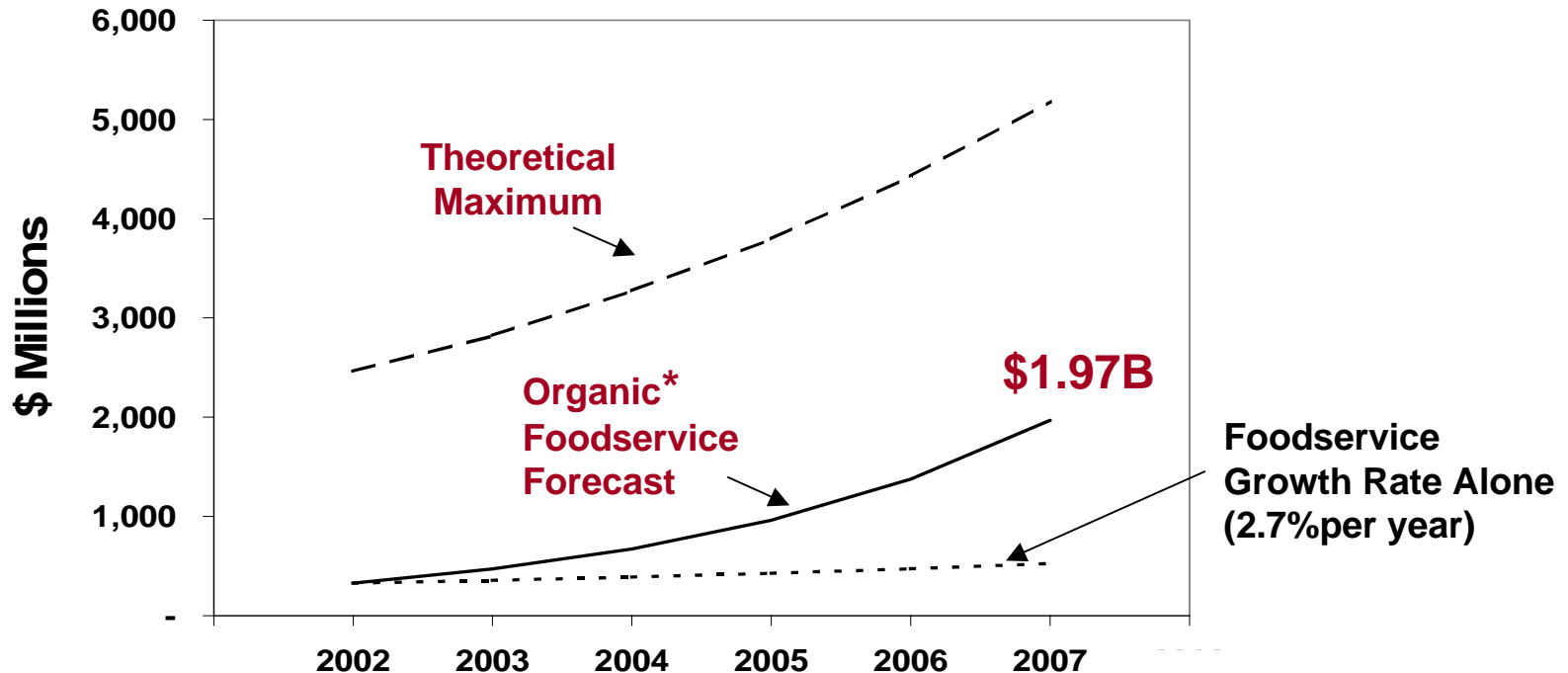
Foodservice Model

- The relationship between Manufacturing Shipments (\$) of food to the Conventional Retail Channel vs. the Foodservice Channel is 70/30.
 - 70% Retail
 - 30% Foodservice
- Assuming the relationship were to hold true for Organic & Natural foods, there is a \$2.4B unrealized potential for Natural & Organic foods in the Foodservice Channel



2003 Estimated Size of Organic Foods in Foodservice \$1.97 Billion

Organic Manufacturer Shipments*



- Assumption: Natural & Organic grows at SPINS estimated rates AND Natural products are increasingly converted to Organic

* Includes Natural & Organic Meat

Leading Categories & Segments

Operator Segments

- Commercial
 - Fine Dining
 - Supermarket Foodservice
 - Casual / Fast Casual
 - Quick Service (QSR)
- Non-Commercial
 - Contract Management (Sodexo, Aramark)
 - College & University

Food Categories

- Vegetables
- Fruits
- Meats
 - Beef, Chicken, Poultry
- Snacks, packaged & prepared foods
- Milk/Soy milk

Key Success Criteria

- Create Consumer Demand
- Focus on Regions and Segments
- Design Appropriate Products
- Establish Distribution
- Achieve Scale (i.e. reduce cost per unit)

Begin by Developing a Comprehensive Foodservice Strategy



**SPINS/The Hale Group
2004 Foodservice Report**

***Additional information available at
SPINS booth #4724***



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Thank You!