

THE FOOD INSTITUTE REPORT



81st Year No. 4

www.foodinstitute.com

JAN. 28, 2008

NO QUICK FIX SEEN FOR FOOD-AT-HOME INFLATION

In the wake of retail food price inflation reappearing at the highest levels in 17 years in 2007, several members have been asking if there is a way to correlate this change to advances in wholesale prices, which rose 6.5% — the highest rate in 29 years. The accompanying chart portrays both the Consumer Price Index (CPI) for retail food-at-home, and the Producer Price Index (PPI) for finished consumer foods for the past three years.

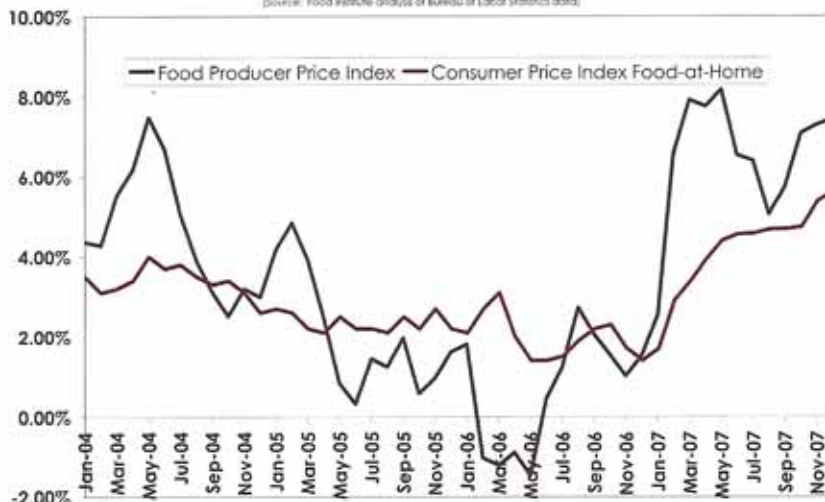
While the PPI was well below the CPI between mid-2005 and mid-2006, during the latter half of 2006, both indexes were pretty much in sync until 2007. At that time, the PPI began to rise at a more rapid pace as fresh fruits, fresh vegetables, eggs, rice, chicken, processed fruits and vegetables, and cooking oils all began rising well over prior year levels. Retail prices also increased sharply but could not keep pace with the wholesale increases. That trend peaked in May of last year when beef and pork also posted substantial gains over 2006 levels. These advances can be attributed at least in part to higher feed corn prices as more was diverted to ethanol production and plans for significant expansion in the biofuel industry peaked. Since that time, however, such plans have been sharply tempered.

Wholesale and retail price indices came closer in August, but since then the PPI has exceeded the CPI for food-at-home by more than two percentage points.

Looking ahead, USDA is forecasting further increases in retail food-at-home costs of between 3.5% to 4.5% this year as retailers pass along their increased costs at the wholesale level.

Wholesale Price Advances Outpacing Retail

12 Month Change in Price through Dec., 2007
(Source: Food Institute analysis of Bureau of Labor Statistics data)



HEALTHY TREND DRIVES SALES OF FUNCTIONAL BEVERAGES

With the rise of functional foods, new and functional beverages are also enjoying growing popularity amongst the natural and organic craze. "The functional beverage market is now a \$9.8 billion industry," according to **MINTEL**, and outlined in *Whole Foods* (December 2007). Consumers are looking for smarter drinks that include nutrients, vitamins, and flavor, in addition to hydration. Being stimulated by large amounts of sugar and caffeine are not viewed favorably in this now health-conscious time, which leaves room for many new drinks to develop.

Superfruits are again making an appearance, this time in drinks. Jasen Cusick, group marketing manager of **SMUCKER QUALITY BEVERAGES**, predicts "...antioxidant-rich superfruits are leading the way...[curiosity about the fruits] have really accelerated interest in juices over the past few years." Blueberries, pomegranates, açai, and goji berries are touted as having high levels of antioxidants, as well as exotic tastes. In the end, the healthiness of a superfruit is determined by its phytochemical concentration, according to Wayne Geilman,

(See **FUNCTIONAL** on page 2)

Sustainability: Trends in the Marketplace

A Webinar hosted by The Food Institute and Mintel

Feb. 12, 2008 - 2 PM (EST)

Join The Food Institute and Mintel for an insightful webinar that will explain sustainability and reveal some of the most important issues facing manufacturers today. This 45-minute webinar led by Mintel's Lynn Dornblaser will focus on sustainability issues pertaining to food and beverage, but will also draw from the non-food sector. Examples will center around U.S. activity, but will also include what is occurring elsewhere in the world. Additionally, this presentation will touch on the "green issue" from the coveted Mintel reports series revealing U.S. consumer purchasing frequency patterns and their attitudes towards green living. Examples from Mintel Global New Products Database across various categories will be used throughout the presentation. Lastly, Ms. Dornblaser will provide some interesting thoughts for the future.

For more information or to register, visit:

www.foodinstitute.com/sustainabilitytrends.cfm

NEWS IN A MINUTE



SUPERVALU INC.'S plan for future growth includes: "raising the bar" on in-store execution, investing in the retail store network with the Premium Fresh & Healthy model program, deploying innovative merchandising programs, increasing the company's "own" brand program, and utilizing relevant marketing programs for maximum customer impact.

The **FRESH MARKET** plans to add stores in Cornelius and Elizabeth, NC. The move comes as the Charlotte, NC area has seen more upscale grocery stores open in recent years as the region's population grows and companies see that more customers are willing to spend for all-natural, organic or other specialty foods... *The Charlotte Observer* (Jan. 21)

PRICE CHOPPER stores began replacing **WILD OATS'** natural and organic store-brand items with 200 products distributed by **TOPCO** under its *Full Circle* line of natural and organic items. Also, Price Chopper plans to participate in the Overall Nutritional Quality Index rating system that was introduced by Topco prior to the end of 2007—see *FOOD INSTITUTE REPORT* Dec. 3, page 5... *Supermarket News* (Jan. 23)

The **HERSHEY COMPANY'S** goal in 2008 is to stabilize U.S. business marketplace performance through markedly higher brand-building support, including advertising, quality merchandising, enhanced retail coverage and new chocolate products within the premium and trade-up segments. In line with those efforts, Hershey will launch the **STARBUCKS** and **HERSHEY'S Bliss** product lines in March.

The **HEALTHY BEVERAGE COMPANY**, Newton, PA, introduced *Steaz Decaffeinated Sparkling Green Teas* in 12-ounce cans in conjunction with the launch of the *Steaz Healthy School Initiative*. The lightly carbonated decaffeinated teas, sweetened only with organic cane juice, are available in four flavors: Raspberry, Orange, Root Beer and Green Tea With Lemon. These beverages contain the same antioxidants and polyphenols as a cup of green tea, in addition to organic acerola juice, "a tropical cousin of the cherry famed for its high vitamin C content."

MILLER BREWING CO. is gearing up for an aggressive regional rollout of a 64-calorie, female-targeted version of *Miller Genuine Draft*. The new line's calorie count is a little more than half *MGD Light's* 110 calories. *MGD 64*, touted as the lowest-calorie mass-marketed domestic beer to date, will replace *MGD Light*... *Advertising Age* (Jan. 17)

STARBUCKS CORP. is testing "short" \$1 coffees and free refills in its Seattle area stores, according to *The Wall Street Journal* (Jan. 23), as the global coffee chain faces increasing competition from fast-food rivals. The \$1 cup undercuts regular coffee prices at both **MCDONALD'S** and **DUNKIN' DONUTS**... *Reuters* (Jan. 23)

On Jan. 22nd, **STARBUCKS** and its joint venture partner **ARMREST HOLDINGS N.V.** opened its first coffeehouse in the Czech Republic. The new unit in Prague will be managed daily by *Armrest Coffee s.r.o.*, the joint venture company.

Truckers that deliver product within New Jersey may be negatively impacted by the increase in tolls. This type of remedy "could become a standard for other fiscally troubled states," notes an editorial in *The New York Times on the Web* (Jan. 19). Pennsylvania is also said to be considering a similar move and California is looking for funds to repair its infrastructure as well.

Aristo Wellness Bars, nutrition bars containing tasteless fish oils, is the latest functional food being rolled out **ARISTO HEALTH, INC.**, Morristown, NJ. The new bars, with 140 calories or less, also contain ingredients such as "super fruit" antioxidants and are naturally sweetened with unrefined organic brown rice syrup, organic evaporated cane juice and honey. The flavors include **Asia-Blueberry & Lime; Pomegranate & Cranberry; and Goji Berry & Orange.**

The gourmet cupcake craze hit Central Florida with the opening of stores such as **CUPCAKE DELIGHTS** and **CUPCAKE CRAZY**. The growing cupcake trend spans from **MAGNOLIA BAKERY** in New York City to **SPRINKLES** in Los Angeles, as well as shops in Japan and Australia. The specialty bakeries have hit most of the world's major cities. "A cupcake is a luxury item that's easily affordable and is reminiscent of the nostalgia of childhood," says Aaron Allen, founder and CEO of *Quantified Marketing Group LLC*, a restaurant and marketing consulting firm... *Orlando Business Journal* (Jan. 21)

TECHNOMIC revised its 2008 U.S. foodservice industry nominal growth forecast downward from 5.1% to 3.6%, citing a larger-than-expected slowdown in discretionary consumer spending. Among the two largest segments of the industry, restaurants and bars are still expected to perform slightly better than other "beyond restaurants" segments, at 3.8% and 3.1%, respectively. While the industry has experienced sustained growth up until now, weaker performance is expected in 2008. Factoring in a 4% rate of inflation, real spending will likely be down this year, noted Technomic.

ESPRESSO AMERICANO INTERNATIONAL LLC launched two new business concepts: **EA BREVITA COOPERATIVE ASSOCIATION** and **EADELIVERS.COM**. EA Brevita, a specialty beverage drive-thru concept, will be fully sold and supported online, while *EADelivers.com* is an online specialty beverage supply store.

PEPSICO INC. expects its business, based on "comfort foods," to be resilient to a U.S. economic slowdown, according to Chief Executive Indra Nooyi. The current market conditions do not really affect the company in a "significant way," Indra Nooyi said. Although rising commodity prices were a challenge for *Lay's* potato chips and *Quaker* oatmeal, the company had the means to overcome it... *Reuters* (Jan. 23)

CARGILL and **PURECIRCLE**, Malaysia, extended a non-exclusive arrangement until mid-2010 that involves Cargill purchasing a significant volume of *Reb-A*, a zero-calorie high-intensity sweetener that PureCircle will supply. *Reb-A* is extracted from the stevia leaf... *Milling & Baking News* (Jan. 15)