



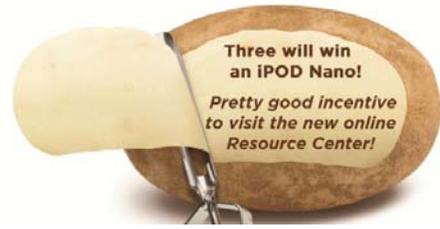
State of the Potato Category



United States Potato Board • Retail Update • January 2010

Retail Portal Transforms into a Resource Center

The USPB is excited to announce the launch of the new and improved retail portal. It is now called the Resource center and features expanded offerings. The USPB Resource Center is a Web-based tool that provides the industry and retailers with easy-to-use data, tools and capabilities to work effectively and maximize potato category performance. Dig up some new tools for your business - the Resource Center is your industry resource for potato research, information, nutrition and category performance tracking. Visit: <http://tinyurl.com/uspresourcecenter>



Need another reason to check out the USPB Resource Center?

The USPB is hosting a Resource Center contest! Visit the Resource Center from January 1, 2010 through March 1, 2010, using the link above, and enter to win one of three new-and-improved iPod Nanos, which now come equipped with a video camera and FM tuner that allows you to pause live radio broadcasts. Winners will be announced at the USPB 2010 Annual Meeting in Denver.



Balloons Help Raise Potato Sales

The USPB developed retail POS material that capitalizes on the “Peel Back the Truth” ad campaign success by utilizing the same images. In addition to traditional signage, the USPB developed balloons as a new and unique way of displaying the USPB campaign signature at retail. Schnucks was the first retailer to test the new concept supported by an 11x7 sign with recipe tear pad. By incorporating signage at the point-of-purchase, the industry is able to educate consumers on nutrition, variety and usage information. The balloons and 11x7 sign at Schnucks drove category performance beyond the control stores within the chain. Test stores outpaced control stores in terms of average weekly volume and experienced 1.4% growth beyond control stores compared to the prior year. The balloons and 11x7 signage did not drive category performance beyond the competitive market; however, pricing and promotions may have also been a factor. To learn more about these campaign signature tests or for more information about obtaining signage for your retailer, contact Kathleen Triou, VP Domestic Marketing at ktriou@uspotatoes.com or 303.369.7783.

Dealing with Demand

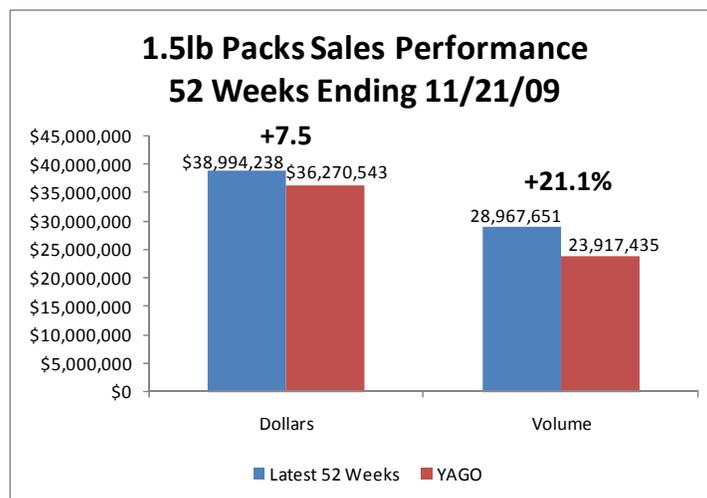
This year marked the second annual Potato Expo, which took place in Orlando, Florida, from January 4 through 6. At this year’s expo, much discussion was focused on the decline in consumer demand which the category has seen over the past few years. While a struggling economy has depressed demand across the fresh departments, a lot of the weakness in potato sales numbers is not merely due to unfavorable economic conditions, but the fact that consumer demand for potatoes is shrinking. Board President Tim O’Connor pointed out at the Expo that while 79% of

consumers still eat potatoes at home at least once every two weeks, those occasions involve fresh potatoes less frequently than in the past. As O'Connor stated, potatoes "represent more time and work" than relatively convenient sides like rice or pasta.

There are several ways to address this decline, and some in the industry have counteracted sluggish demand by shifting attention to smaller pack sizes which generally feature higher average price points and margins. Not only has this strategy helped lift dollar sales over the past few years, but the data and trends indicate that smaller pack sizes should continue to be strong sellers going forward. When Wada Farms re-launched their microwavable line this fall, for example, they not only changed the name but also switched to a smaller pack size.



Sustainable packaging manufacturer Earthcycle recently rolled out a new line of tray packs, and opted to make them 2-count versus their traditional 3-count format, citing increased demand for smaller pack sizes. Unlike produce such as the squash and peppers intended for Earthcycle's new packs, potatoes are generally offered in very large package sizes. And though 10-pound bags ranked first in dollar and volume sales growth among the top 10 pack sizes for the 52 weeks ending November 21, 2009, 4-pound and 1.5-pound pack sizes followed closely behind. Additionally, 10-pound pack sales were aided by heavy promotional activity that led to 66% growth in promotional dollars versus a year ago. While sales declined across most package sizes, 4-pound and 1.5-pound bags registered 8%+ dollar sales growth. Whereas 10-pound growth was fueled by promotions and its inherent value in a down economy, the smaller packs grew despite consumers' apparent efforts to economize. The dollar draw of these smaller packages is evident in the data as well; while 1.5-pound packs ranked seventh in volume contribution for the 52 weeks ending November 21, 2009, they were the fifth largest dollar contributor in the category during the same period. This strong dollar performance was seen across varieties as well. Of the seven types of potatoes offered in a 1.5-pound package, only creamers saw declines in dollars and volume. Meanwhile reds, fingerlings, red skin/yellow flesh, gemstone and white products saw 15%+ growth in volume.



Source: Perishables Group FreshFacts® Powered by Nielsen

Smaller package sizes offer several benefits to the consumer: they appeal to smaller households and those who do not frequently eat potatoes; they often are comprised of B-sized potatoes or smaller, which are convenient due to their thin skin and faster cooking times; and they allow consumers to trial a new variety in a smaller quantity. But the smaller package sizes also benefit suppliers due to their higher margin. With sales trends indicating continued growth in these smaller pack sizes, they may soon become a much larger player in the category and one to watch closely.

In the Bag

One of the most promising innovations that the category has seen in recent years is the introduction of microwavable packaging. Despite industry excitement over the packaging, sales have generally not lived up to the expectations. That said, some microwavable items have seen success while others are showing signs of a promising future. Fresh microwavable products provide much-needed convenience; according to NPD, microwave use jumped up 10% in 2009 after 20 years of stable use. With the increase, microwaves are now used in the preparation of 22.5% of meals cooked in American homes. This could bode well for potatoes, which have seen some success in the space already. The Freedonia Group, a Cleveland-based market research firm, recently directed a study which projected growth for microwavable products over the next three years, especially for fresh products. While microwavable products are expected to see annualized growth of 7% through 2013, fresh-cut applications in particular are projected to grow 11.2% annually.

Potatoes are well represented within the limited ranks of fresh microwavable products already achieving sales success. This was seen in an analysis of innovation in the produce department conducted by the Perishables Group on behalf of the USPB. One of the product offerings showing great movement in the department, with nearly \$30 million in annual sales, was single-wrapped potatoes. To that end, Maria Brous of Publix noted in a December article in *The Packer* that while movement for many specialty potato products remained slow, single wrapped products fared well. Their 7.6% growth versus a year ago was strong, yet it paled in comparison to that of bagged steamable potatoes, which saw a dollar increase of 36.6% versus a year ago. Though potato steamer bags account for relatively low dollar sales, there is a lot of room for them to grow and mature. With single-wrapped potatoes establishing themselves within the space, there is an opportunity to further educate consumers on other convenient options within the potato category, especially steamer bags.

Steamable Fresh Vegetable Products versus Potato Value-Add Products Latest 52 weeks ending 8/29/2009

	Volume	Volume YAGO	Volume% Change vs. YAGO	Dollars	Dollars YAGO	Dollar% Change vs. YAGO
Prepared Vegetables	31,016,511	34,666,435	-10.50%	\$44,093,522	\$44,156,147	-0.10%
Single Wrap Potatoes	23,800,333	25,796,893	-7.70%	\$28,381,370	\$26,378,713	7.60%
Potato Steamer Bags	678,230	520,206	30.40%	\$1,851,067	\$1,355,148	36.60%

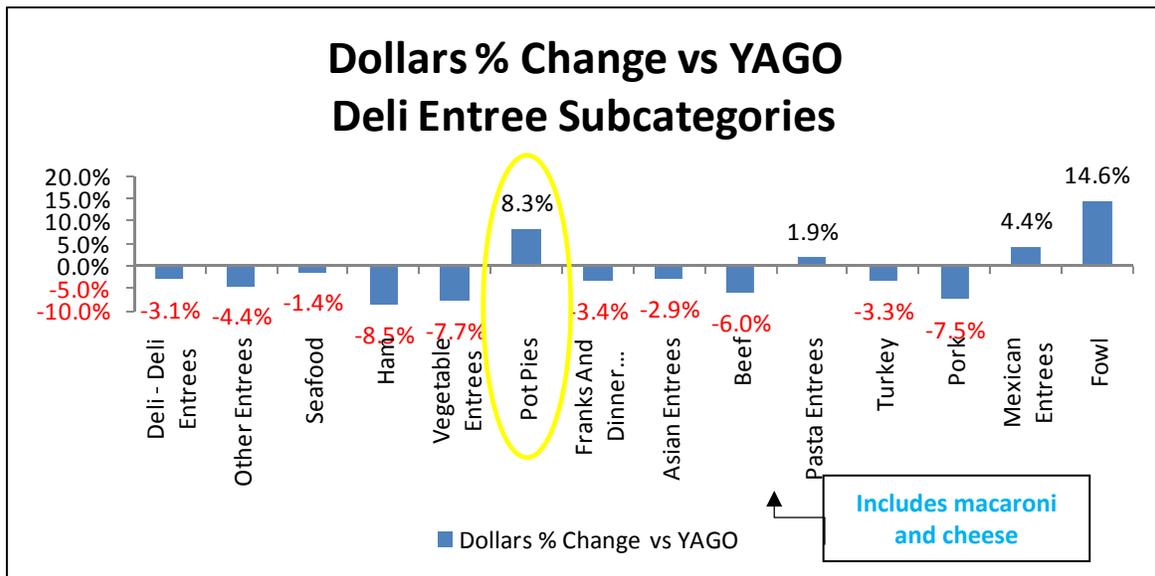
Source: Perishables Group FreshFacts® Powered by Nielsen

Seeking Comfort

One food trend from 2009 that is poised to gain considerable momentum in 2010 is the turn toward simple, comforting foods. While this movement was well-documented in 2009, it shows no sign of losing steam in 2010 according to research firms Mintel and Technomic. Both just released their top five trends for food service in 2010. While they disagree on much of the list, both placed the continued rise of comfort food at the top of the trends.

The data reflects this as well, as seen by sales trends in the deli entrée category. While much of the category has struggled compared to a year ago, pot pies have seen solid year on year growth. For both the latest 13-week and 52-week periods, pot pies was the subcategory with the second highest dollar and volume growth versus a year ago. Within the pasta subcategory of deli entrées, another comfort dish has been strong: macaroni and cheese. While the subcategory in general has not performed well over the latest 52 weeks, macaroni and cheese has maintained its dominant presence; of the top 10 items in the subcategory, eight were macaroni and cheese products, including all of the top five items.





Source: Perishables Group FreshFacts® Powered by Nielsen

This focus on simple and traditional food items should provide a great opportunity for the category, as many comfort classics incorporate potatoes – like pot pies and stews - while other comfort dishes would be incomplete without potatoes as a side. What's a burger without fries, or meatloaf without mashed potatoes? With the right positioning, potatoes stand to greatly benefit from consumers' return to comfort food.

Best in Class Signs on Two New Retailers

The USPB BIC Program is a 3-year partnership between USPB, suppliers and retailers to innovate and grow retailer potato categories. BIC retailers help potato category sales increase by following assortment, pricing, promotion and merchandising recommendations combined with consumer education. A Midwest retailer joined the program in 2009 and has implemented assortment recommendations. Following the busy holiday season, this Midwest retailer is beginning to execute merchandising best practices through a test scheduled for February 2010.

December was an exciting month for BIC, as two new retailers joined the program. Schnucks, a St. Louis, Missouri-based retailer with 108 stores and Safeway-Seattle, a division of the Pleasanton, California-based Safeway with 198 stores, began the planning phases of the program in January 2010.

SAFeway 
Ingredients for life.™



Schnucks

Only Three Retailer Outreach Spots Left – Nominate your Retailer (or Yourself) Today!

Ensure your key retailers are scheduled for the annual USPB Retail Outreach program. This interactive meeting provides retailers with the latest tools and offerings available from USPB. Partnering with the USPB Retail Programs team, the meeting generates excitement and dialogue around growing the category, driving innovation and testing new concepts. Contact Kathleen Triou, VP Domestic Marketing at ktriou@uspotatoes.com or 303.369.7783 to find out more information about this opportunity or to nominate your retailer. Or, if you are a retailer, nominate yourself!