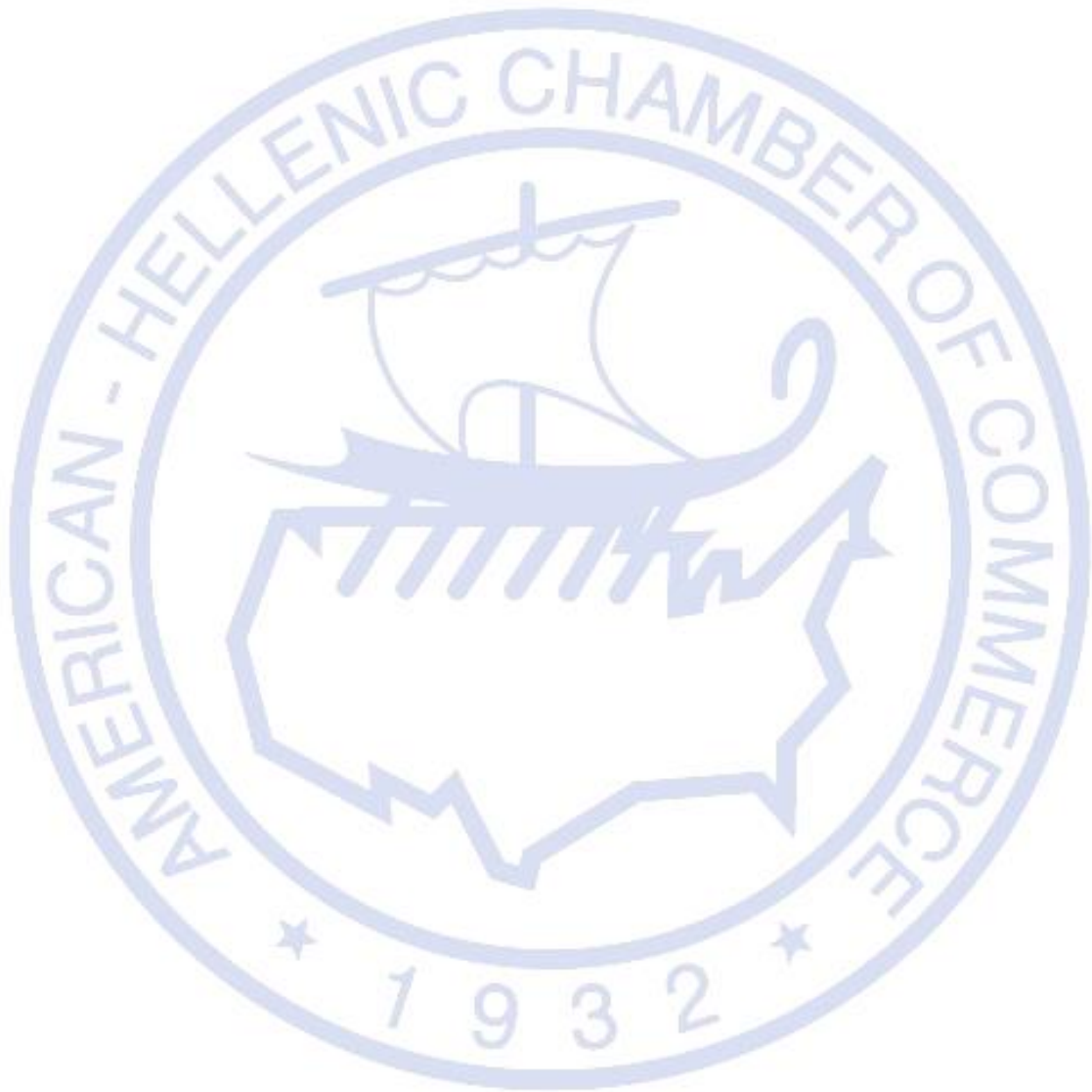
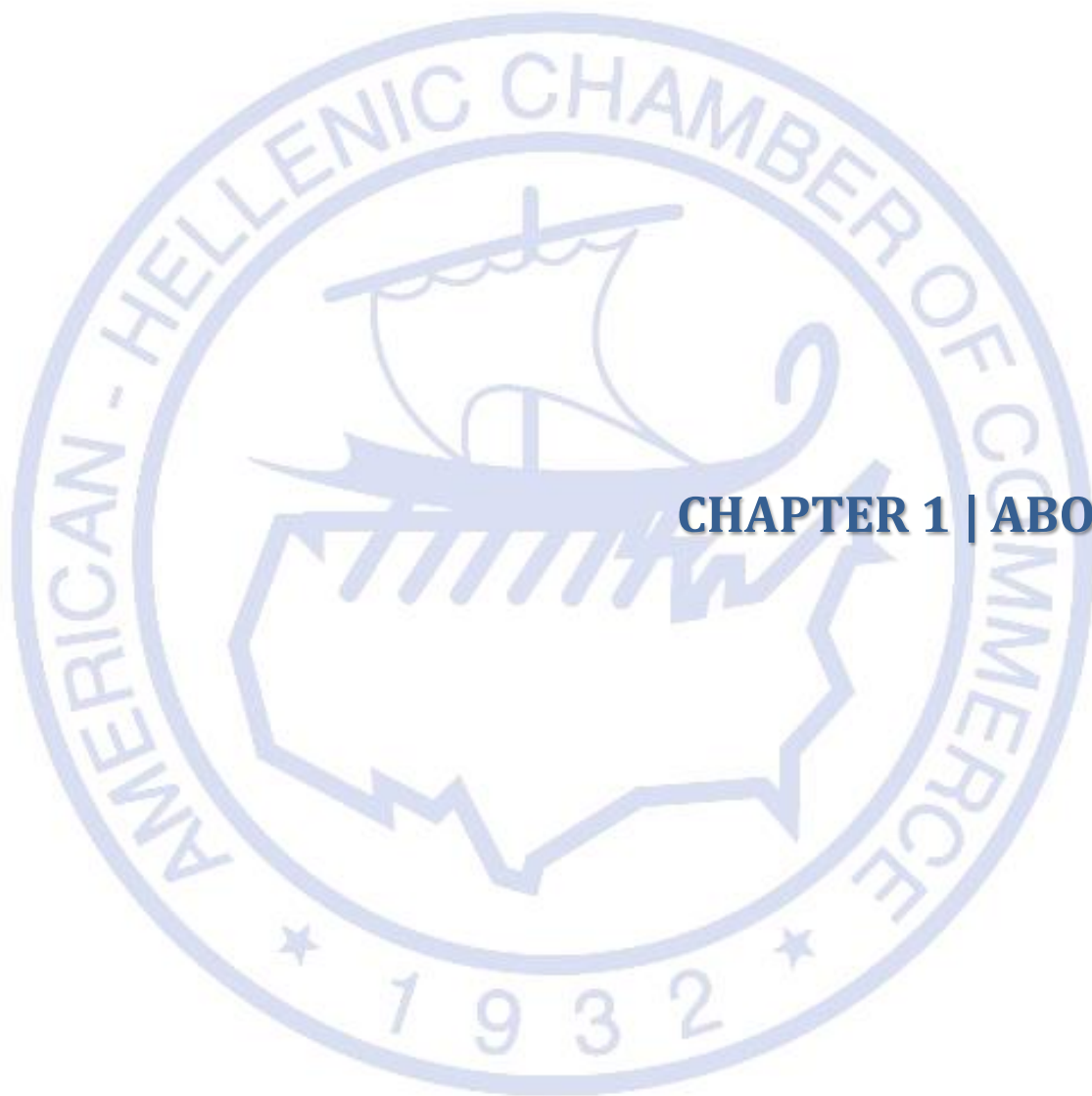


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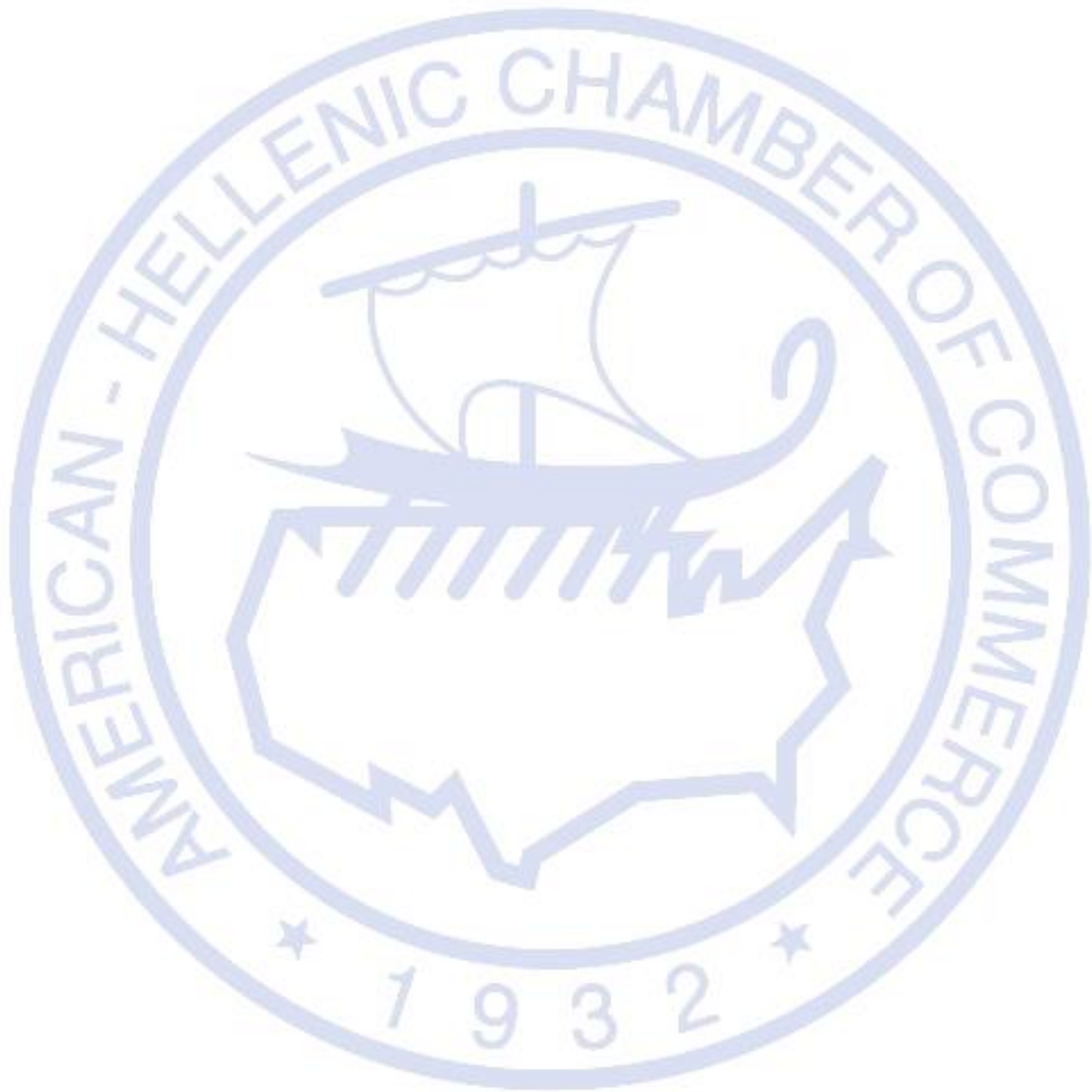




CHAPTER 1 | ABOUT

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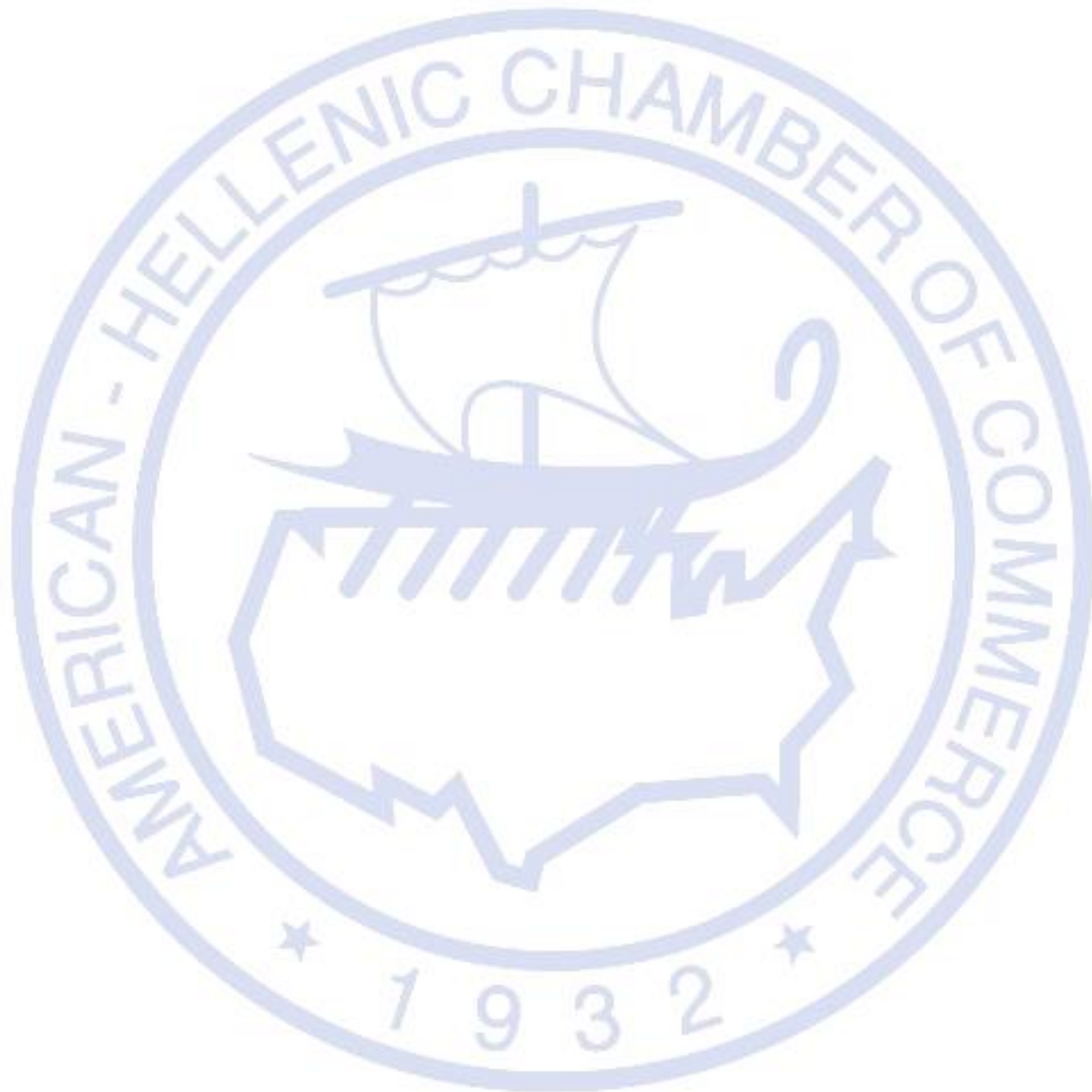


In 2014 the total sales reached \$3.2 trillion according to the National Retail Federation, suggesting that the industry has a direct and significant effect on unemployment rates and the overall economy. In 2012, the Retail industry in the US accounted for 3% of total GDP and employed 2% of the workforce according to the Euromonitor International, accounting for more than 12 million jobs and thus providing numerous opportunities for growth.

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The key to growth and success which in turn will drive profitability in the retail industry, is the understanding and satisfaction on consumer demands.





THE RETAIL INDUSTRY - DEFINED

"The retail industry is a sector of the economy that is comprised of individuals and companies engaged in the selling of finished products to end user consumers."

According to Euromonitor International, retail is defined as an aggregation of Non-specialized stores, Food, beverages and tobacco stores, Medical goods, beauty and personal care stores, Second-hand goods stores, other specialized stores and retail not in stores and Repair of personal and household goods. These categories of retailers are defined below, as defined by Euromonitor International:

Non-specialized Stores

Include activities of general stores that have, apart from their main sales of food products, beverages or tobacco, several other lines of merchandise such as wearing apparel, furniture, appliances, hardware, cosmetics etc. as well as activities of department stores carrying a general line of merchandise, including wearing apparel, furniture, appliances, hardware, cosmetics, jewellery, toys, sports goods etc.

Food, Beverages and Tobacco Stores

Includes sales in stores specialized in products like fresh or preserved fruit and vegetables, dairy products and eggs, meat and meat products (including poultry), fish, other seafood and products thereof, bakery products, sugar confectionery, beverages (not for consumption on the premises), tobacco products, other food products.

Medical Goods, Beauty and Personal Care Stores

Includes the retail sale of pharmaceuticals, medical and orthopedic goods, perfumery and cosmetic articles.

Second-Hand Goods Stores

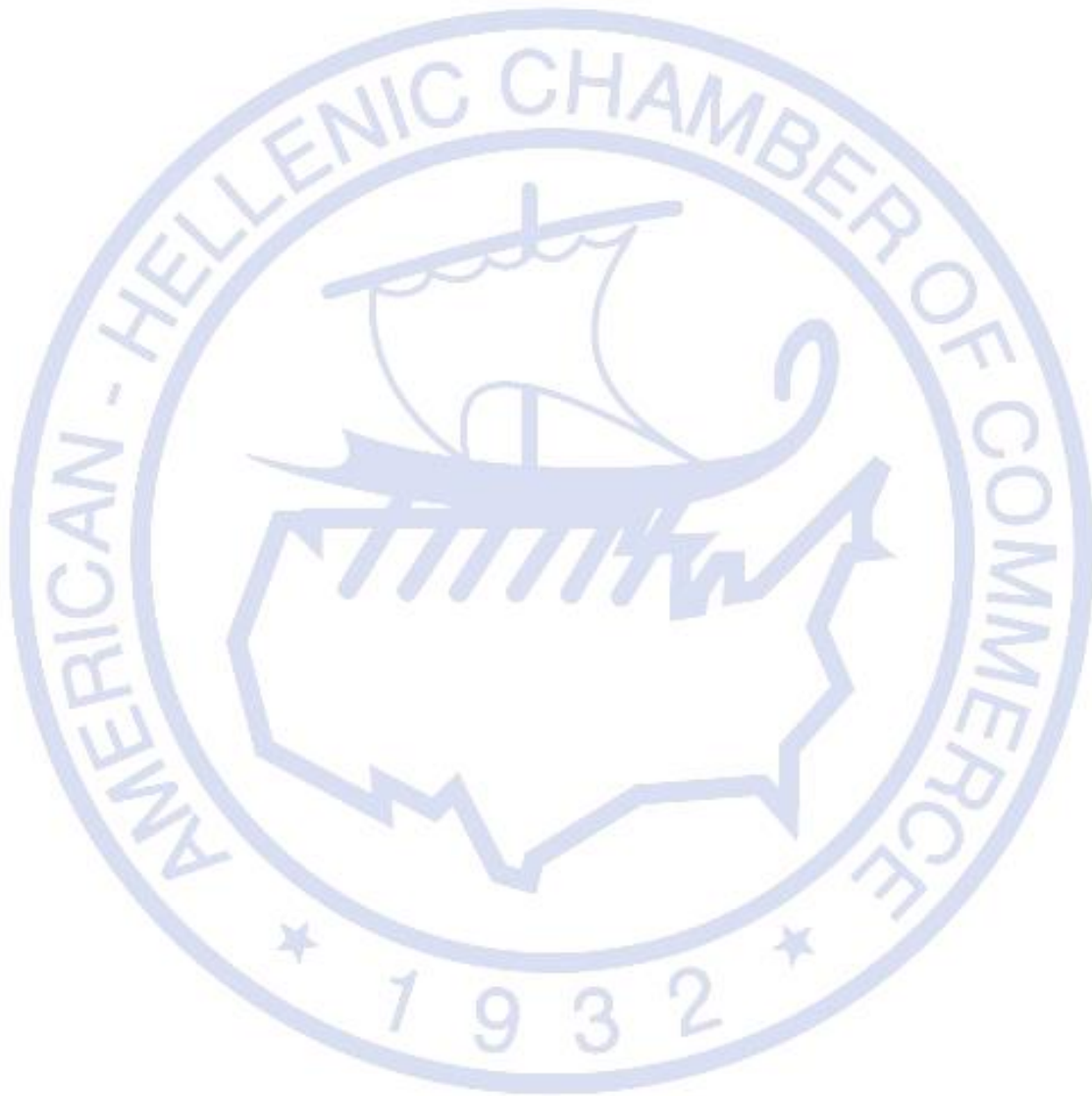
Includes the retail sale of second-hand books and other second-hand goods as well as antiques and activities of auctioning houses (retail).

Other Specialized Stores and Retail not in Stores

This category includes retail sale of textiles, clothing, footwear and leather goods; household appliances, articles and equipment; hardware, paints and glass; other retail sale in specialized stores. It also includes retail sale via mail order houses, via stalls, kiosks and markets and other non-store retail sale such as retail sale by direct sales or door-to-door sales persons, through vending machines; retail sale on a fee or contract basis, activities of Internet auctions and other non-store auctions (retail).

Repair of Personal and Household Goods

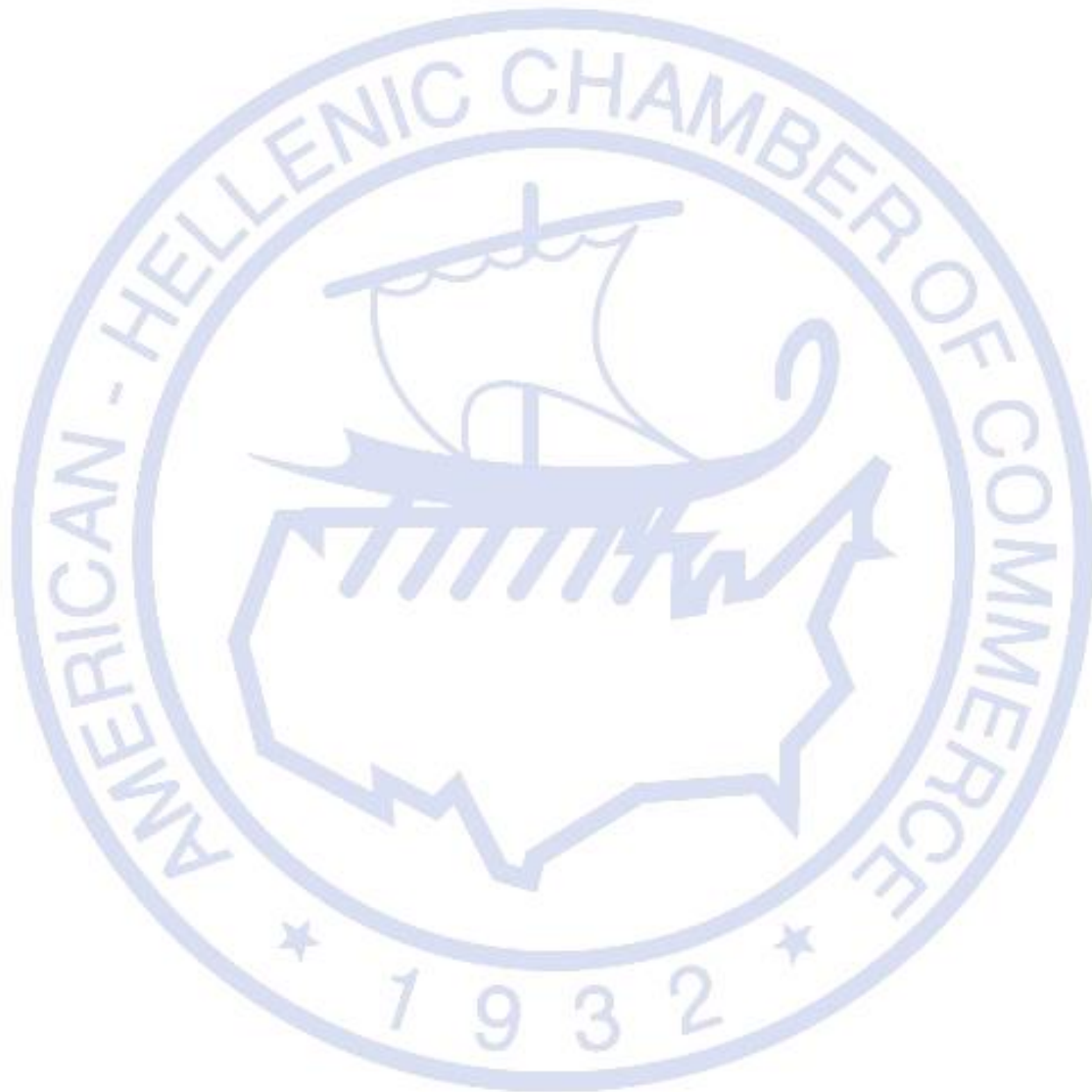
This category includes repair of household appliances, consumer electronics bicycles, clothing, jewellery, watches as well as such activities as piano-tuning and "while-you-wait" services.



CHAPTER 2 | THE US RETAIL INDUSTRY

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This analysis presents an overview of the US retail industry between 2007 and 2015 according to which production (turnover) increased by 11,7%, as a result of growing consumer demand and expectations. The average salary per employee has slightly increased according to the Euromonitor International Official Statistics between 2007 and 2012 however since 2011 there has been a slight decrease. Moreover, there is an inverse relationship between the total number of employees in the industry and the number of employees for the given period, indicating that an increasing number of people are being employed in the existing firms. Improved and more efficient use of technology has also resulted in higher output levels per employee during the examined period, a factor which has positively influenced both profit margins and production levels.

Key Industry Indicators 2007-2012						
	2007	2008	2009	2010	2011	2012
Production (Turnover) (US\$ million)	1,009,161	985,311	937,997	1,038,307	1,089,885	1,126,834
Value Added (US\$ million)	634,118	610,000	621,368	658,035	688,992	703,703
Profit (US\$ million)	118,351	103,496	124,290	143,451	148,021	153,394
Profit Margin (%)	11.7	10.5	13.3	13.8	13.6	13.6
Producer Volume Index (1997=100)	121	112	106	117	120	122
Producer Price Index (1997=100)	129	136	138	138	140	144
Number of Enterprises	648,992	639,718	620,110	615,456	607,257	601,169
Number of Employees	15,082,644	14,802,234	14,219,670	14,291,057	15,238,438	15,770,680
Output per Employee (US\$ '000)	66.9	66.6	66.0	72.7	71.5	71.5
Average Salary (US\$ '000)	30.9	30.8	31.2	32.1	31.9	31.4
Source: Euromonitor International from official statistics, trade associations, trade press, company research.						

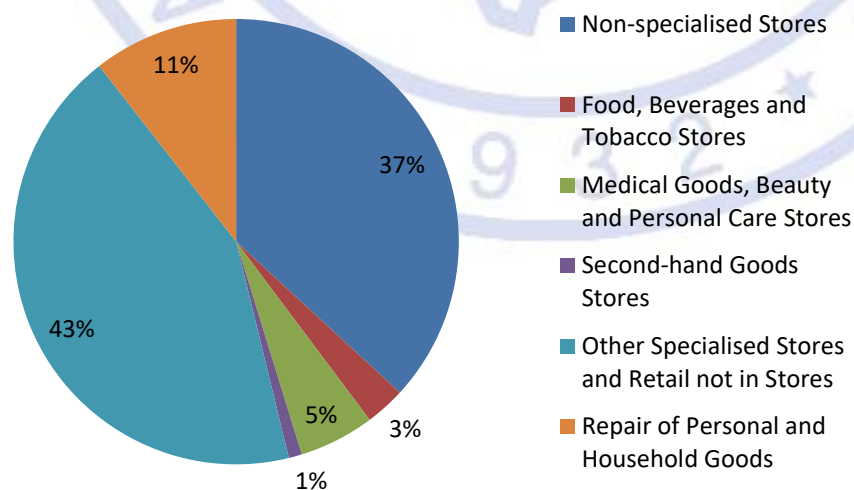
The annual growth rates of the above indicators show that the retail industry has been negatively influenced and slowed down by the recent economic recession and the European economic crisis.

Key Industry Indicators: Annual Growth 2008-2012					
	2008	2009	2010	2011	2012
Production (Turnover) (%)	-2.4	-4.8	10.7	5.0	3.4
Value Added (%)	-3.8	1.9	5.9	4.7	2.1
Profit (%)	-12.6	20.1	15.4	3.2	3.6
Profit Margin (%)	-1.2	2.7	0.6	-0.2	0.0
Producer Volume Index (1997=100, %)	-7.3	-5.8	10.5	3.1	1.1
Producer Price Index (1997=100, %)	5.3	1.1	0.1	1.8	2.3
Number of Enterprises (%)	-1.4	-3.1	-0.8	-1.3	-1.0
Number of Employees (%)	-1.9	-3.9	0.5	6.6	3.5
Output per Employee (%)	-0.5	-0.9	10.1	-1.6	-0.1
Average Salary (%)	-0.3	1.1	3.1	-0.8	-1.3
Source: Euromonitor International from official statistics, trade associations, trade press, company research.					

Dividing the retail industry into sectors, the majority of production in terms of value is concentrated in the category “other specialized stores and retail not in stores”, which in turn also accounts for the fastest growing sector and which is followed by production in “food, beverage and tobacco stores”. The annual growth rates of each sector for the examined period are summarized in the table below. On the contrary the sector “Medical Goods, Beauty” and related products is contracting.

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Share of Total Production Value by Industry Sector 2012



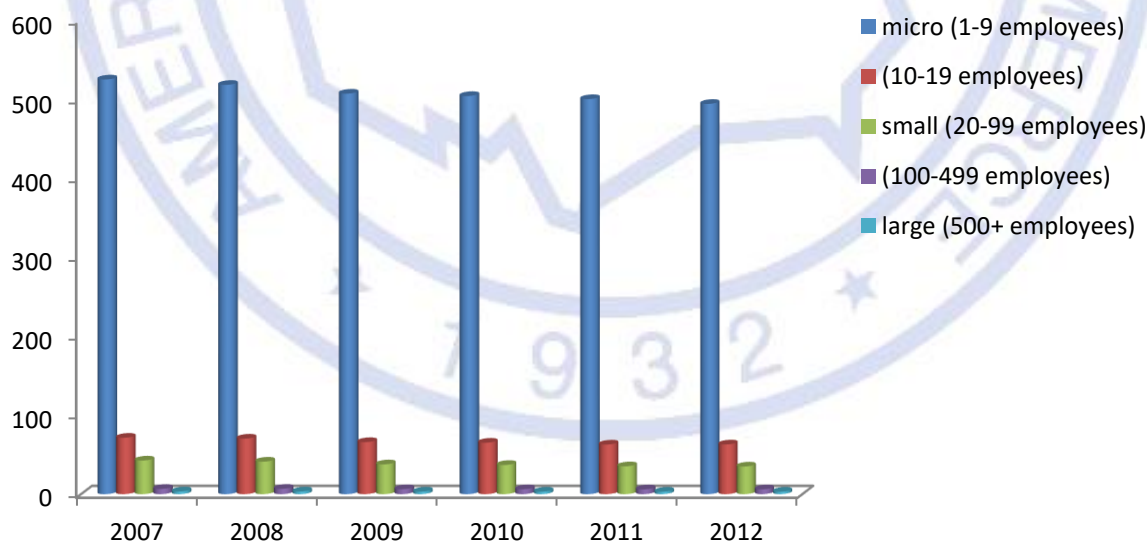
Source: Euromonitor International from official statistics, trade associations, trade press, company research.

Production by Sector: Annual Growth 2008–2012					
	2008	2009	2010	2011	2012
Non-specialized Stores	-5.7	-9.2	12.3	6.4	4.2
Food, Beverages and Tobacco Stores	-2.2	-3.3	18.0	1.7	2.7
Medical Goods, Beauty and Personal Care Stores	-4.0	-2.8	11.4	6.2	-5.8
Second-hand Goods Stores	-5.0	-6.8	13.6	6.6	3.5
Other Specialized Stores and Retail not in Stores	0.1	-1.0	10.8	4.8	4.4
Repair of Personal and Household Goods	1.0	-5.4	3.5	0.9	2.1
Total	-2.4	-4.8	10.7	5.0	3.4
Source: Euromonitor International from official statistics, trade associations, trade press, company research.					

The US retail market is characterized by its fragmented structure and a decreasing number of total firms over time. Recent economic uncertainty and changing consumption patterns have led to a decrease in the number of retailers by 9% since 2006. In 2012 large and medium-sized enterprises, comprised approximately 2% of total companies but held a 73% share of total turnover. The majority of the firms are found in the micro- category of firms with 9 or less employees. Additionally, retailers have focused on renovating existing stores or acquiring cheaper spaces rather than building entirely new stores.

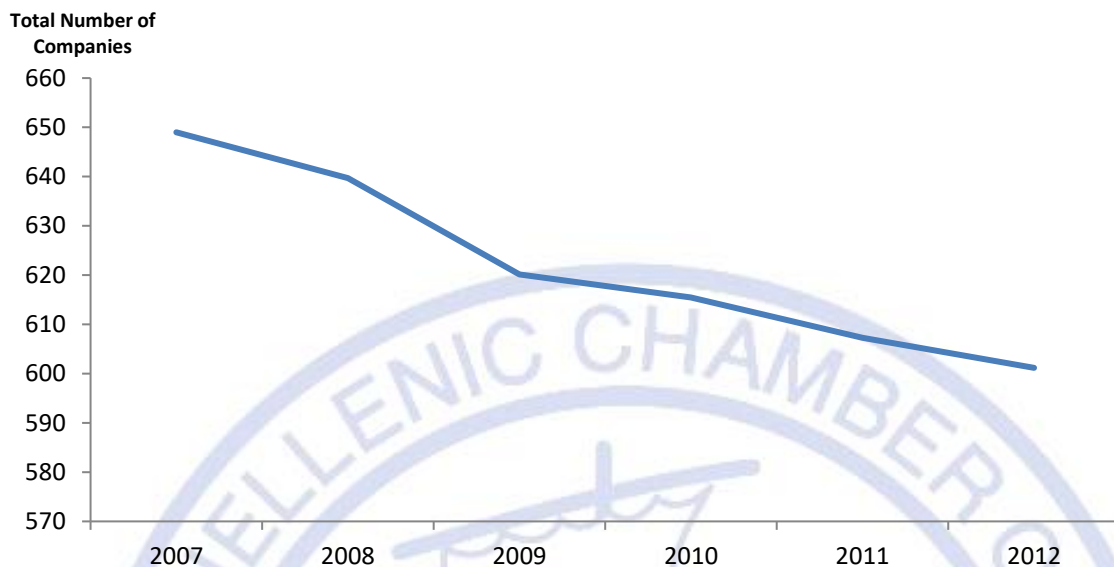
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Number of Companies by Employment Size 2007–2012



Source: Euromonitor International from official statistics, trade associations, trade press, company research

Total Number of Companies in the US Retail Industry 2007 – 2012

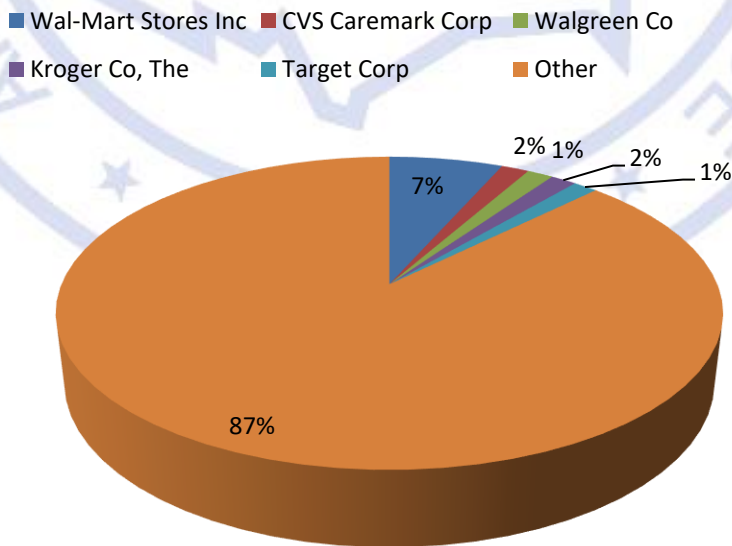


Source: Euromonitor International from official statistics, trade associations, trade press, company research

Even though the industry is widely fragmented, US retail allows for the presence of leading market players which in turn specialize in particular sectors and goods. An overview of industry and its leaders is presented in the pie-chart below. The top five players in total only capture 13% of the retail industry.

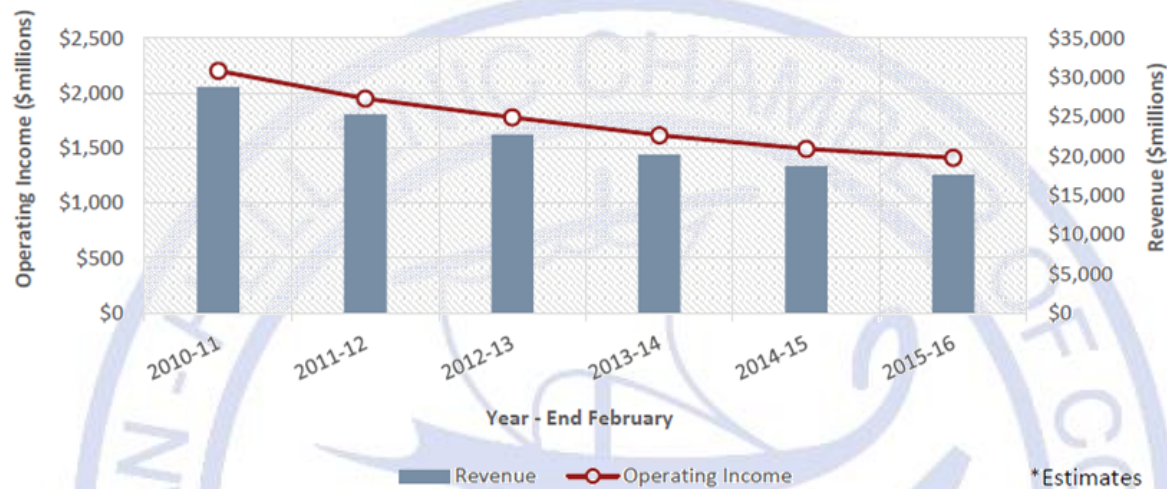
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Industry Leaders: Company Production Shares 2010



Source: Euromonitor International from official statistics, trade associations, trade press, company research.

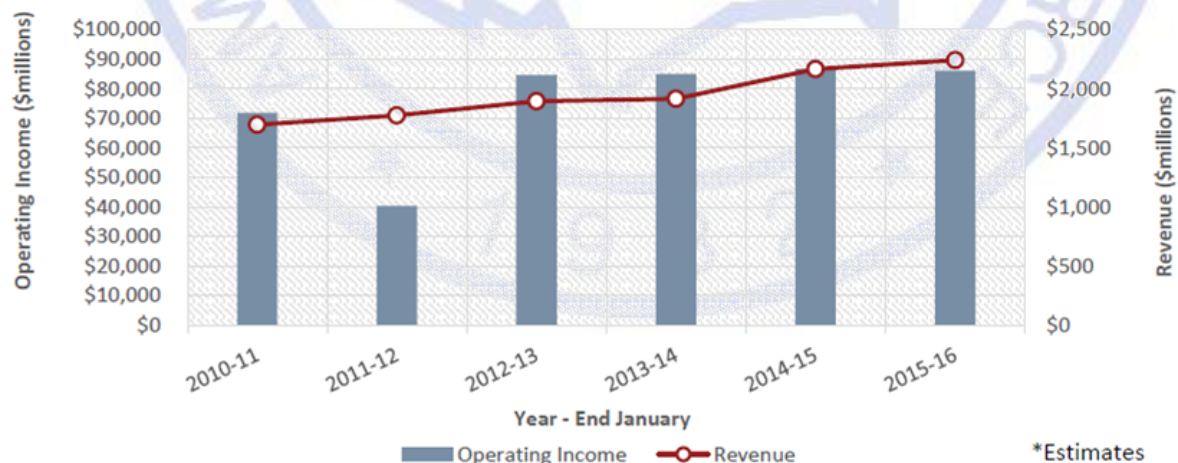
Walmart Stores is the world's largest retailer and grocery chain by sales. Founded in 1962, it operates in the US and internationally with 3,868 outlets in the US and Puerto Rico and three separate divisions i.e. Walmart US, Sam's Club and Walmart International and is characterized by its low price levels and wide variety of products available which include food and beverages, clothing and electronics. Walmart Stores capture approximately 7% of the total retail production shares, followed by CVS Caremark Corp with only 2% of total production. In the category of Warehouse club and Supercenter Retailers, Walmart Stores capture 65,1% of the total market share in 2015 and 1,3% of the Supermarkets & Grocery Stores. Walmart Stores operate in another 14 countries internationally.



Source: TradeUSA Archive 2015

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Kroger Co, was founded in 1883 and is the largest grocery store chain in the US, capturing 15,4% of the Supermarket and Grocer Stores Sector. Based in 2012 it operated 2,425 supermarkets and department stores, 789 convenience stores and 337 fine jewellery stores. In total the company has approximately 355,000 employees. Its financial performance has been consistently growing during the past five years, as a result of higher sales and merger activities.



Source: TradeUSA Archive 2015

Walgreen Co is a network of parapharmacies and drugstores and has approximately 247,000 employees in the US. Target Corp operates 1,763 general merchandise and grocery discounters in the US and employees approximately 355,000 people.

Production by Employment Size: Annual Growth 2008–2012					
	2008	2009	2010	2011	2012
micro (1-9 employees)	-2.4	-3.9	9.5	5.0	1.5
extra small (10-19 employees)	-3.5	-7.8	8.5	1.3	1.9
small (20-99 employees)	-6.5	-11.2	5.6	-1.8	-0.2
medium (100-499 employees)	-1.0	-8.9	9.1	2.5	3.0
large (500+ employees)	-1.7	-3.3	12.0	6.4	4.4
Total	-2.4	-4.8	10.7	5.0	3.4
Source: Euromonitor International from official statistics, trade associations, trade press, company research					

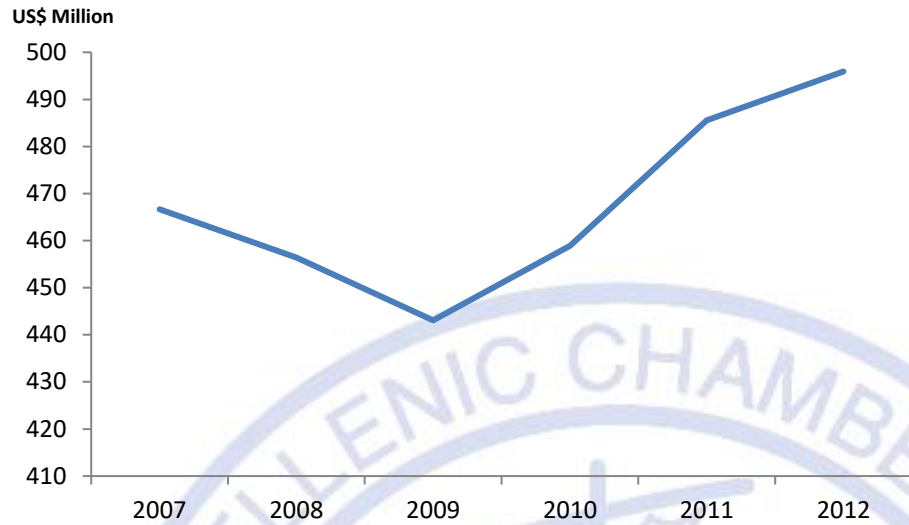
Overall, production in large companies with more than 500 employees, are growing at the fastest rate over the examined period. However after 2010 when the industry peaked and large companies grew at annual rate of 12% the growth rates have started to decrease.

Labor costs remain the largest expense of the industry since the segment is labor-intensive. Total labor costs increased by 9% since 2006 as more employees were hired and wages increased by 3% overall. For big-box & Department Store Retailers wages are the second highest cost after purchases (which account for 67,4% of segment revenue in 2015) the levels of which have remained relatively stable for the past years. Additionally, large department stores and supermarkets benefit from lower operating costs as a result of cost savings from buying in bulk.

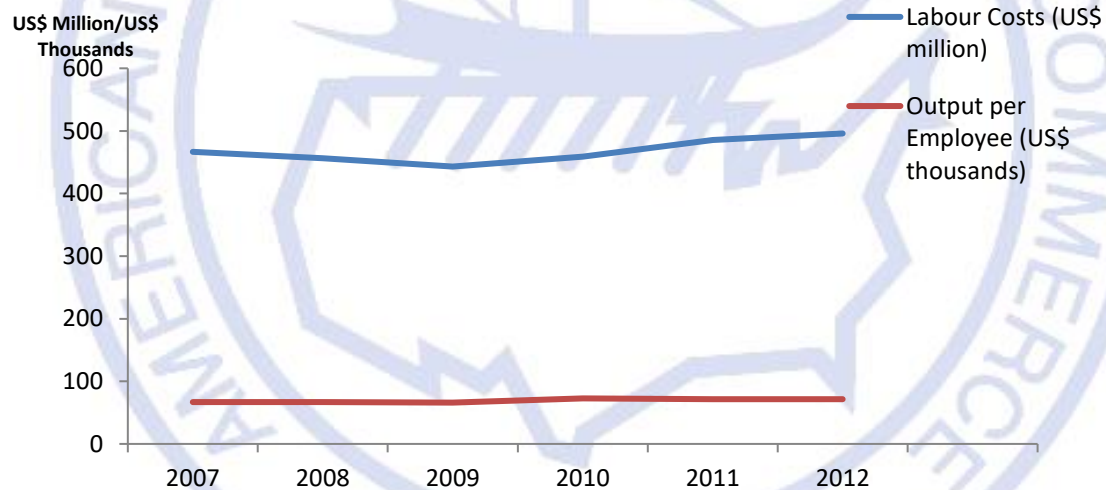
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LABOUR COSTS: 2007–2012						
	2007	2008	2009	2010	2011	2012
Labour Costs (US\$ million)	466,693	456,414	443,074	458,950	485,576	495,923
Number of Employees	15,082,644	14,802,234	14,219,670	14,291,057	15,238,438	15,770,680
Output per Employee (US\$ '000)	66.9	66.6	66.0	72.7	71.5	71.5
Average Salary (US\$ '000)	30.9	30.8	31.2	32.1	31.9	31.4
Source: Euromonitor International from official statistics, trade associations, trade press, company research.						

Labor Costs 2007 - 2012



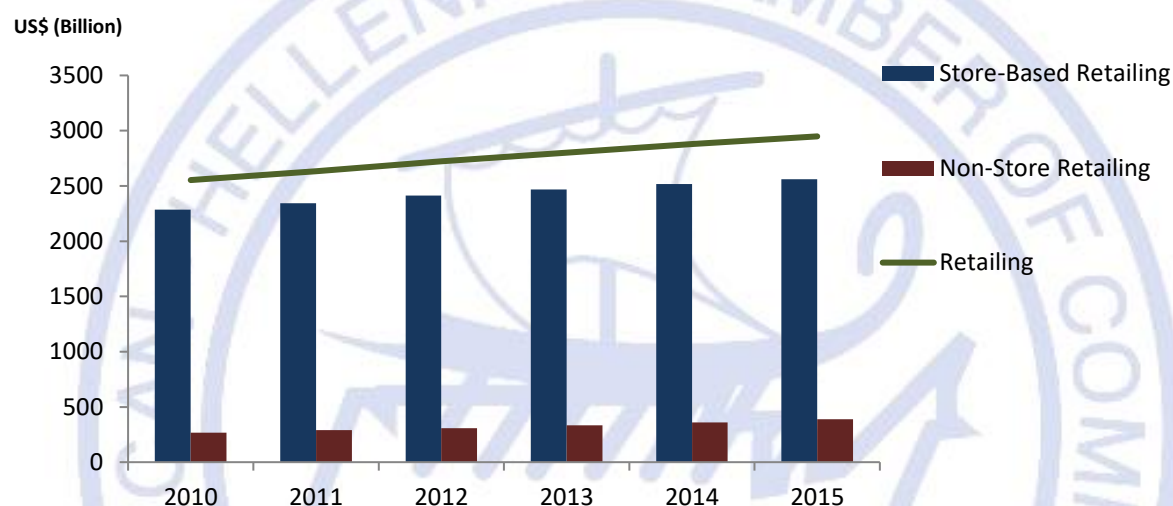
Labor Costs vs. Output per Employee



Source: Euromonitor International

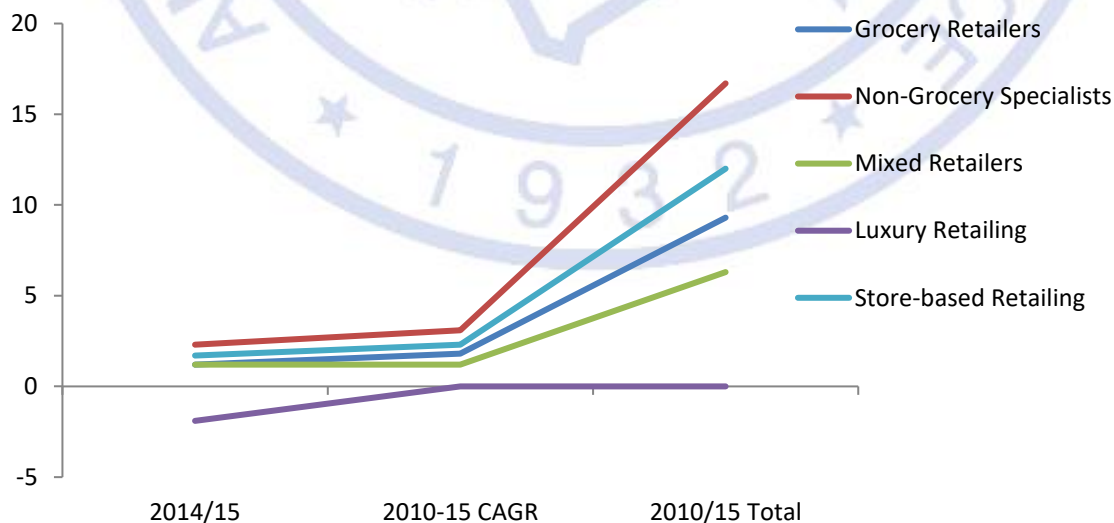
Consumers are of primary importance to the retail industry and therefore consumption patterns are also analyzed. Sales in retail are divided into two main categories: store-based and non-store based retailing, the former of which constitutes 86,8% of total sales revenues in 2015 in terms of value reaching \$2,560.3 billion. Sales from non-store retailing contribute marginally to total sales with a value of \$387.8 billion. On the other hand, store-based retail can be divided into different distribution channels, presented in the above diagram. Amongst the four divisions both grocery retailers (9,3%) and non-grocery specialists (16,7%) are growing in value at the highest rates. In 2015 sales of luxury retailing decreased by 1.9% in terms of current value growth, suggesting that average consumer consumption is moving away from unnecessary spending and consumers are spending a larger proportion of his disposable income on groceries and essentials.

Sales in Retailing by Store-Based vs. Non-Store: Value 2010 - 2015



Source: Euromonitor International from official statistics, trade associations, trade press, company research.

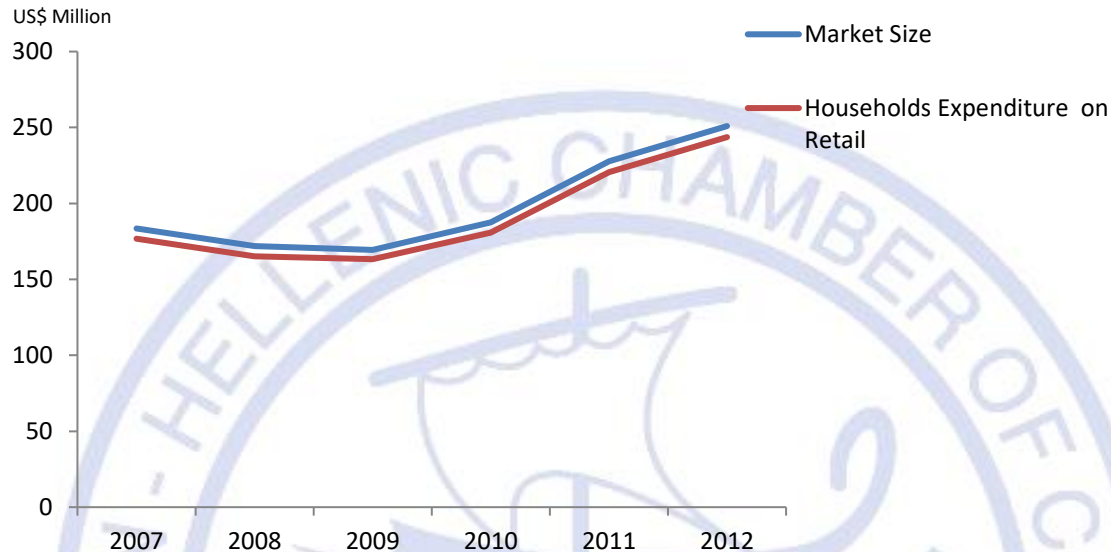
Sales in Store-based Retailing by Channel: % Value Growth 2010 -2015



Source: Euromonitor International from official statistics, trade associations, trade press, company research.

Total household expenditure on retail follows the positive growth pattern of the overall market for the given period. The market and in simulation to it consumer behavior have shown strong signs of recovery along with consumer confidence and increased disposable income per capita.

Market Size vs. Households Expenditure (2007 - 2012)



Source: Euromonitor International from official statistics

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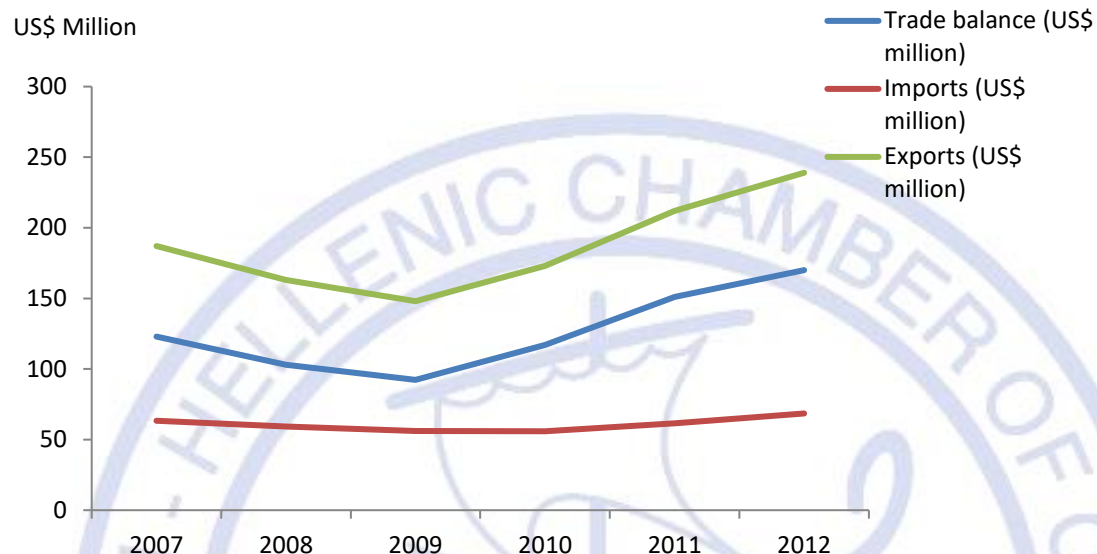
Households Key Statistics: 2007-2012

	2007	2008	2009	2010	2011	2012
Total Household Expenditure (US\$ billion)	9,772	10,036	9,866	10,246	10,787	11,190
Households Expenditure on Retail (US\$ million)	176,689	165,265	163,297	180,746	220,674	243,666
Household Expenditure on Retail per Capita (US\$)	587	543	532	584	708	776

Source: Euromonitor International from official statistics, trade associations, trade press, company research.

Trade balance in the industry is presented below. The graph indicates a positive trend suggesting that the exports are higher than the imports in monetary terms between 2007 and 2012.

Trade Balance for Retail Industry 2007 - 2012

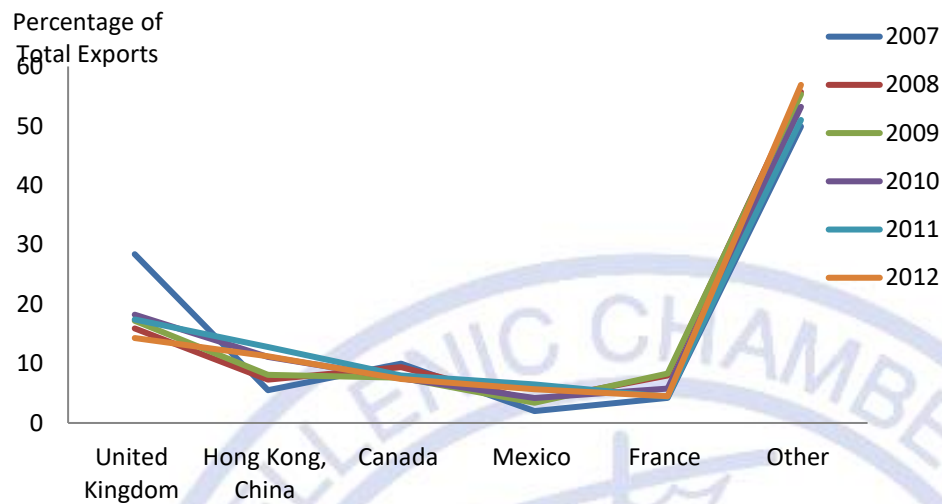


Source: Euromonitor International from official statistics, trade associations, trade press, company research.

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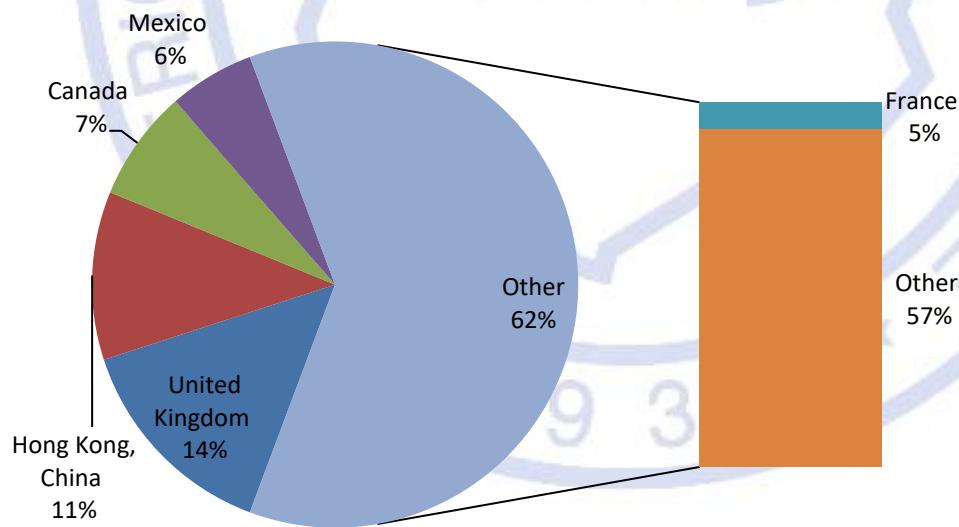
Overall, the European countries are the most dominant importing players to the US supply market, capturing in total 51% of the total importing market. During the examined period (2008-2012) the value of imports has remained relatively stable at approximately \$50 million annually. Exports have risen significantly, particularly after 2009 reaching a value of approximately \$250 million annually in 2012. Regarding the export destinations vary widely in their geographical location and include neighboring countries such as Canada and Mexico but also European markets such as United Kingdom and France. More precisely, the United Kingdom is the US's top importing country, capturing 23% of total imports.

Top US Export Destinations 2007 – 2012 (Percentage of Total Exports)



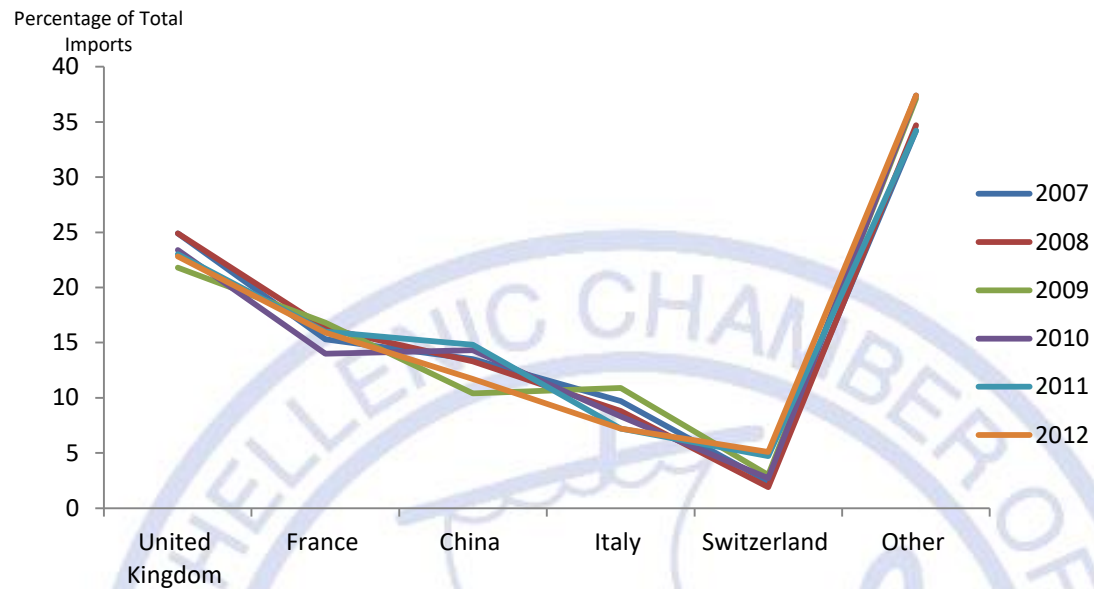
Source: Euromonitor International from official statistics, trade associations, trade press, company research

Major US Export Destinations in 2012



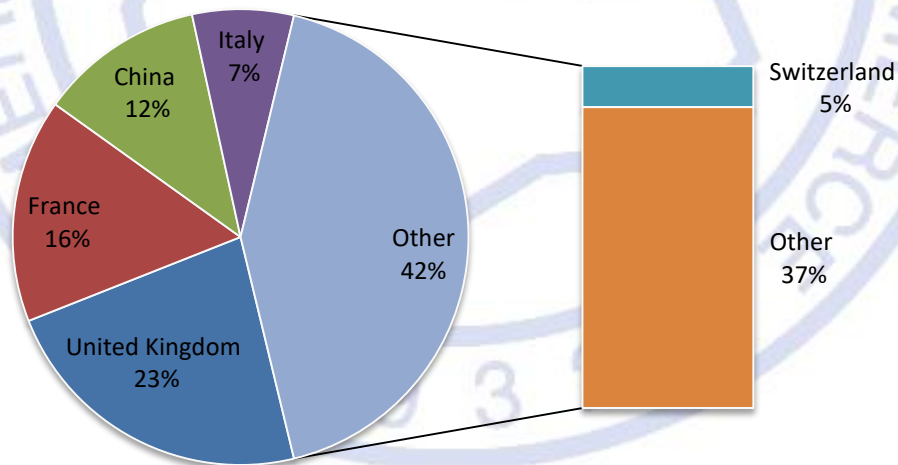
Source: Euromonitor International from official statistics, trade associations, trade press, company research

Top US Importing Countries 2007 - 2012 (Percentage of Total Imports)



Source: Euromonitor International from official statistics

Major US Importing Countries in 2012



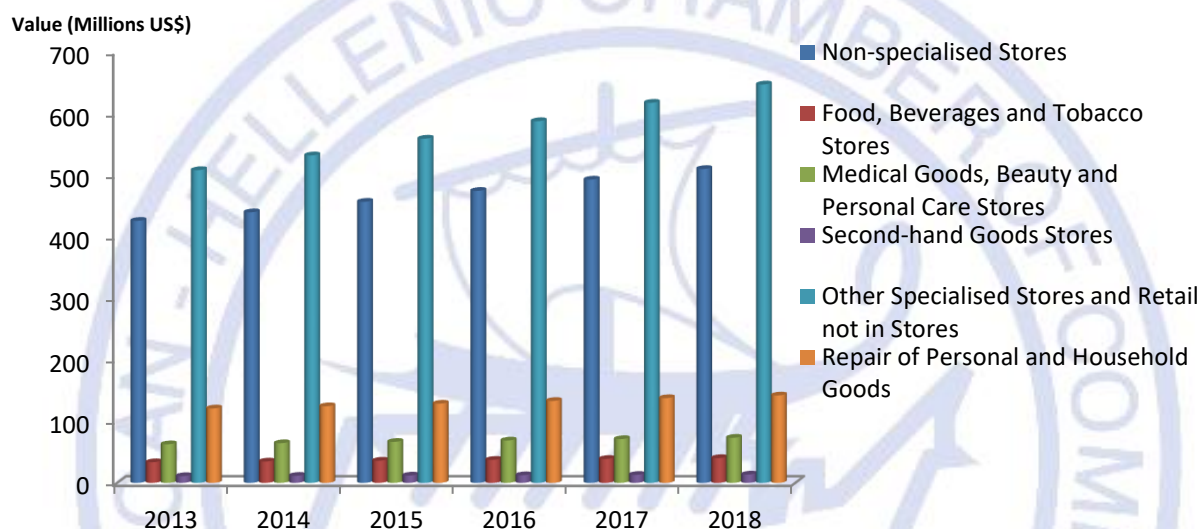
Source: Euromonitor International from official statistics.

FUTURE OUTLOOK & PROSPECT OF THE RETAIL INDUSTRY

Between 2013 and 2018, US retailers are expected to grow turnover by 27%. However, many retailers are likely to scale back their expansion of store networks. More mergers and acquisitions are also likely as companies struggle to survive the weak economic recovery.

Consumption is expected to grow and retailers are expected to focus on channels highly connected with internet retailing. Certain supermarkets and large department stores such as Walmart are encouraging consumers to use online applications for their shopping.

Industry Forecasts 2013–2018 by Sector



Source: Euromonitor International from official statistics, trade associations, trade press, company research

Overview of Total Industry Forecasts 2013–2018



Source: Euromonitor International from official statistics, trade associations, trade press, company research

CONSUMER TRENDS & FACTORS AFFECTING GROWTH

Per Capital Disposable Income and the financial health of consumers are essential in determining consumer trends as well as the growth of the retail industry. When consumers have limited access to capital and there is low disposable income growth, consumers are obliged to reduce spending, particularly on goods and services which are not considered essential or prefer to substitute more expensive brand or products with cheaper or inferior substitutes. This factor is greatly influenced by the level of unemployment of the economy.



Source: Mazzone & Associates 2015, Retail Report

Consumer Confidence significantly determines the number of purchases per customer. Once the confidence has been established a typical US customer is highly likely to become faithful and regular customers in the long-run. When consumer confidence is low then typically consumers are there is a delay in purchases and payments.

Positive **economic growth** in 2015 and low unemployment rates are linked with consumer spending, increased consumption and demand. Stable and relatively low energy prices also encourage consumption by encouraging consumers to travel larger distances in order to purchase a particular good or to reach a particular retail outlet, thus further encouraging spending.

Population growth increases demand and therefore production levels since the number of stores in each area or neighborhood is directly linked to the population size. The US population is expected to increase in the coming year according to the World Bank estimates is expected to reach 344.7 million by 2025.

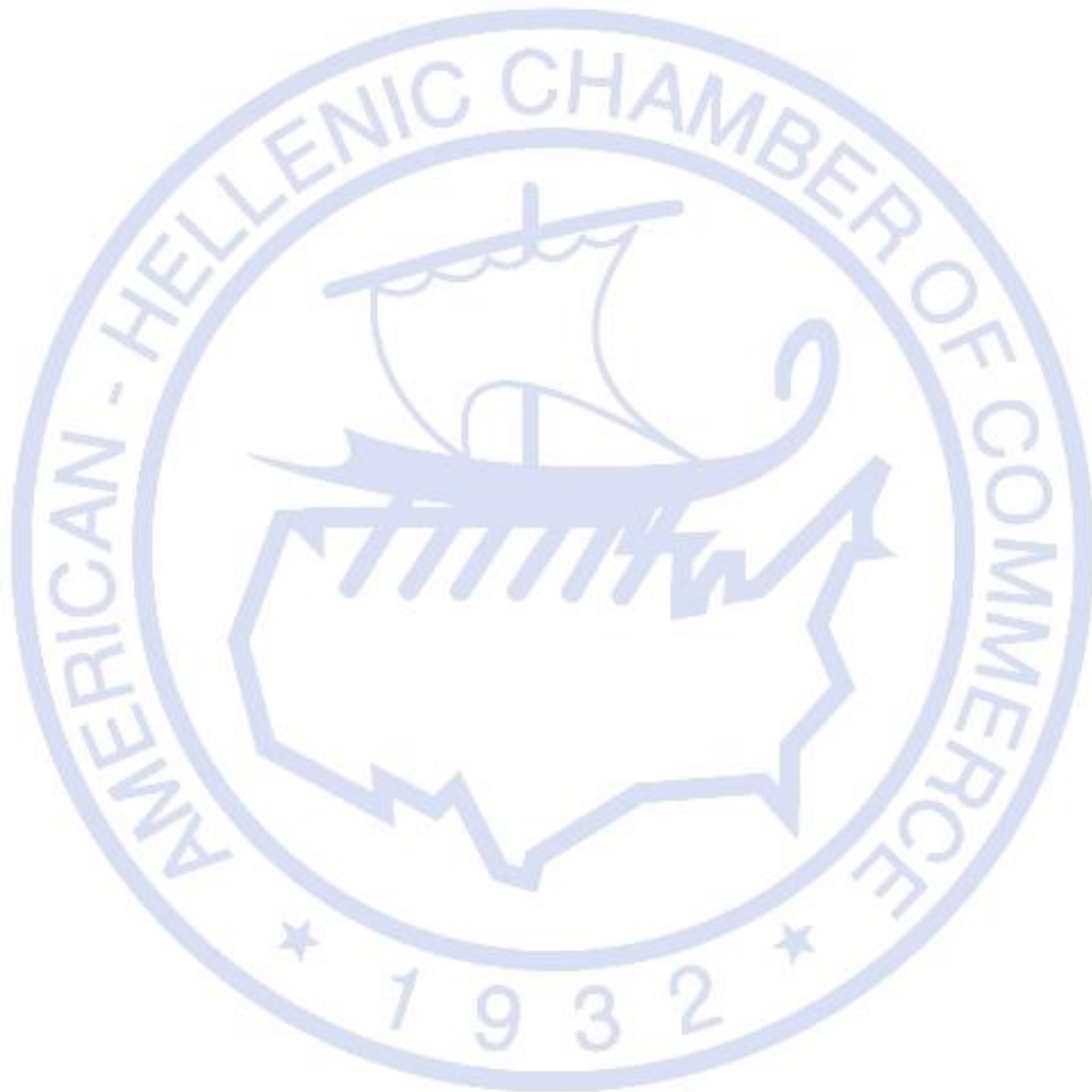
Internal Industry Competition exists between the various sectors of the industry as a result of different consumer preferences and prices available and a wider variety of consumer goods. Another type of internal industry competition is between grocery and non-grocery retailers since in periods of economic instability, uncertainty or recession consumer spending tends to be more

concentrated in sectors which Finally internet retailers are becoming increasingly common amongst US consumers, in comparison to small and more traditional sectors.

Shifting consumer shopping habits are important since consumers are increasingly turning towards their shopping online and are increasingly relying on their mobile phones and other digital devices to get informed and make purchases. **E-commerce, technology and electronic payment methods** are becoming increasingly common. The Census Bureau of the Department of Commerce suggest that the Retail E-Commerce increased by 4% in the 3rd quarter of 2016, accounting for \$93.7 billion. –tailers are expected to grow at an average rate of 12,8% until 2020 according to the official data of the



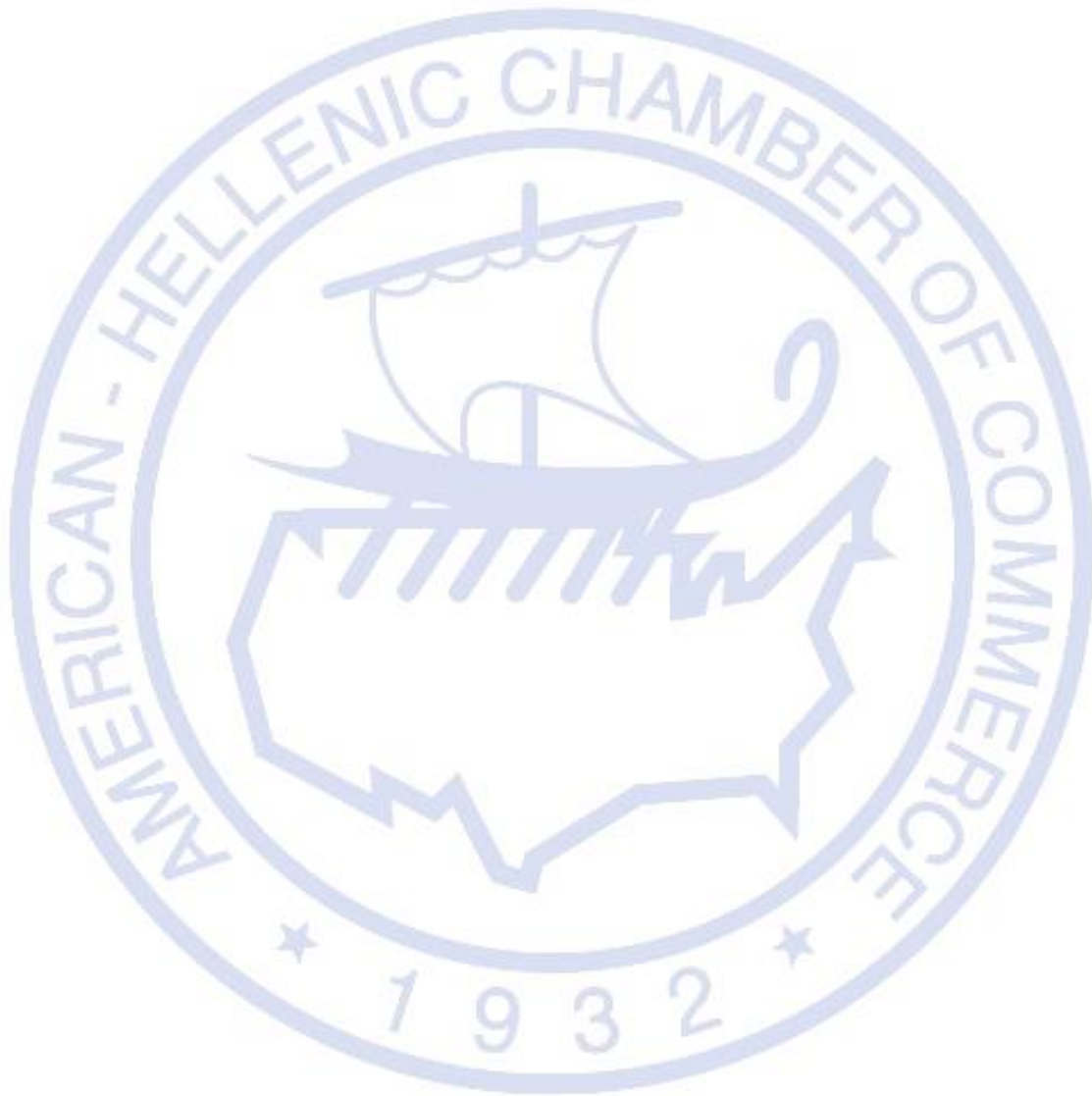
Source: Mazzone & Associates 2015, Retail Report



CHAPTER 3 | THE US GROCERY INDUSTRY

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OVERVIEW

Grocery retail is the largest sector of the retail industry in the US, since consumers are heavily reliant on its products for their daily supplies. The grocery retail sales grow by 1% in current value terms and reach a value of US\$982.5 billion. The industry is expected to continue to grow at an average annual rate of 1% until 2018.

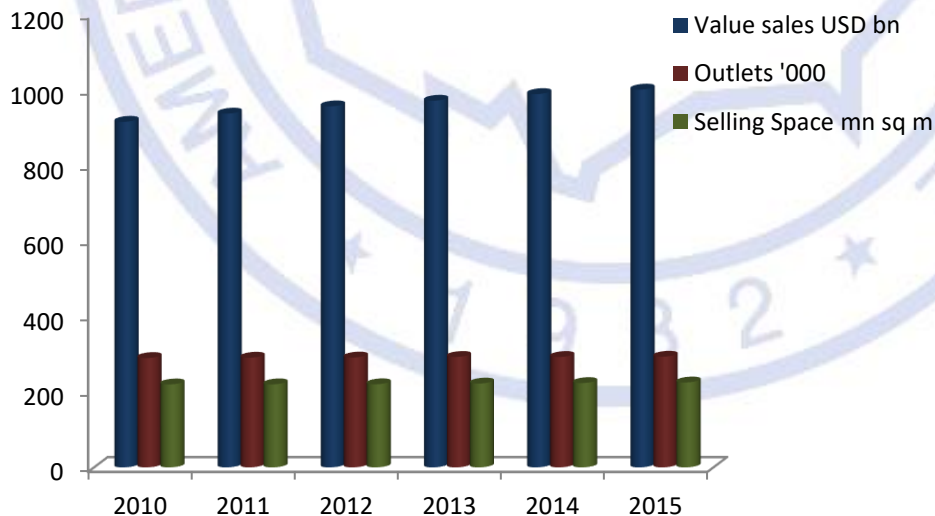
As a result of increased economic stability, shoppers are becoming less interested in mid-market grocery products and are becoming increasingly interested in premium goods. There is an increase in the demand for the niche market of organic products, which has resulted in the tendency for retailers to provide low-cost organic products thus encouraging a decrease in price levels.

Additionally, according to official statistics Modern Grocery Retailers and distribution channels (i.e. supermarkets, hypermarkets, forecourt retailers, convenience stores and discounters) are rapidly growing in terms of sales, revenue and units sold. Forecasts predict that the modern grocery retail industry will continue to grow steadily until 2020. In 2015 modern grocery retailers captured 85% of total sales. On the contrary the traditional retail industry is expected to further contract in the given period and only to remain of primary importance for access to niche products such as ethnic foods and in certain rural regions.

GROCERY RETAILERS Facts & Figures

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Grocery Retailers: Value Sales, Outlets and Selling Space (2010 – 2015)



Source: Euromonitor International from official statistics, trade associations, trade press, company research, trade interviews, trade sources

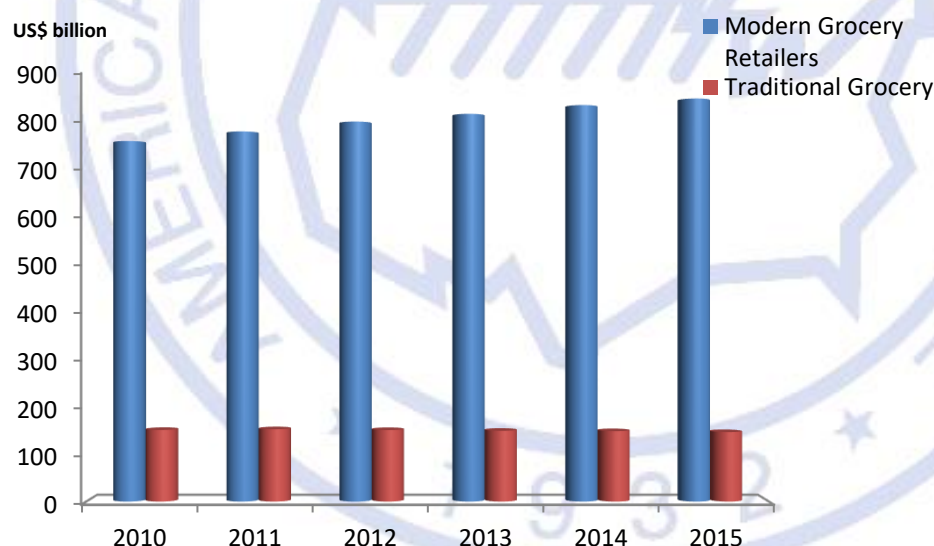
Sales in Grocery Retailers by Channel (2010- 2015)

Modern vs. Traditional Grocery Retailers

Modern grocery retailers continued to dominate grocery retailing in the US in 2015, commanding an 85% share of value sales. Traditional grocery outlets do exist, however, achieving sales of US\$147.7 billion in 2015. This high figure is primarily due to the size of the US economy as a whole, however, rather than the strength of the channel.

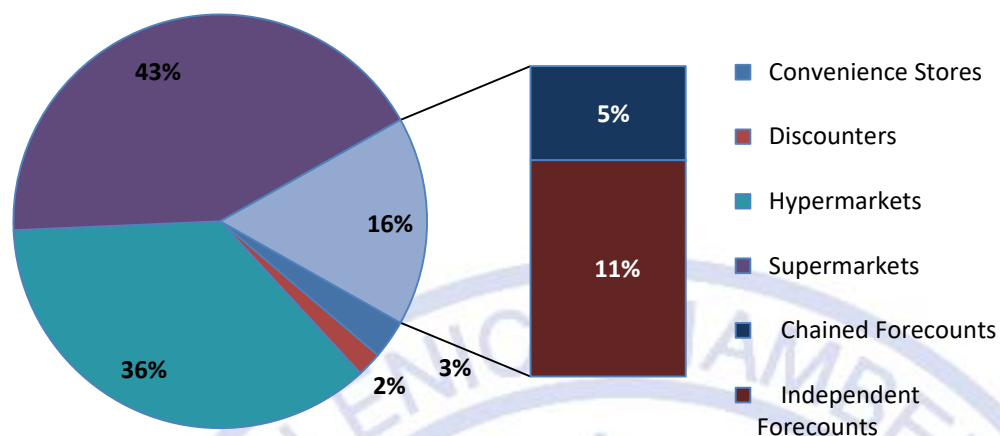
Traditional grocery retailing holds importance for some consumers and regions, but this is an exception and most consumers do not shop in traditional channels. One of the biggest areas of traditional grocery retailing is ethnic food stores. These outlets are typically located in ethnic enclaves and allow shoppers to purchase items typically found in their home countries. While most shoppers are locals, these outlets can draw from a wide geographical base if far-flung consumers need a particular item.

Independent small grocers have trouble competing in the US market because of intense competition from modern grocery retailers and mixed retailers. These modern outlets typically offer lower prices and a wider range of products thanks to their better economies of scale. Independent small grocers compete by offering unusual and locally produced items as well as operating out of smaller stores which enable them to benefit from locations closer to shoppers' homes.



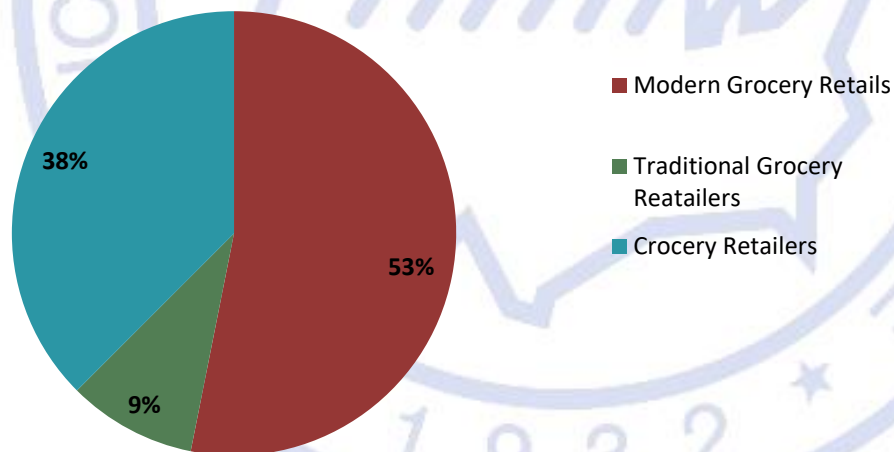
Source: Euromonitor International from official statistics, trade associations, trade press, company research

Composition of Grocery Retailers by Channel



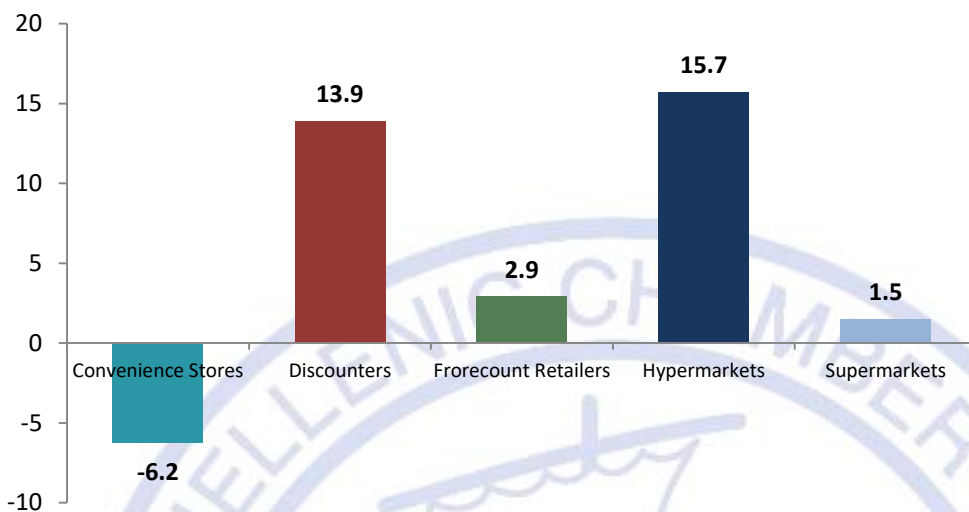
Source: Euromonitor International from official statistics, trade associations, trade press, company research

Grocery Retailers Outlets by Channel 2010/15 Total



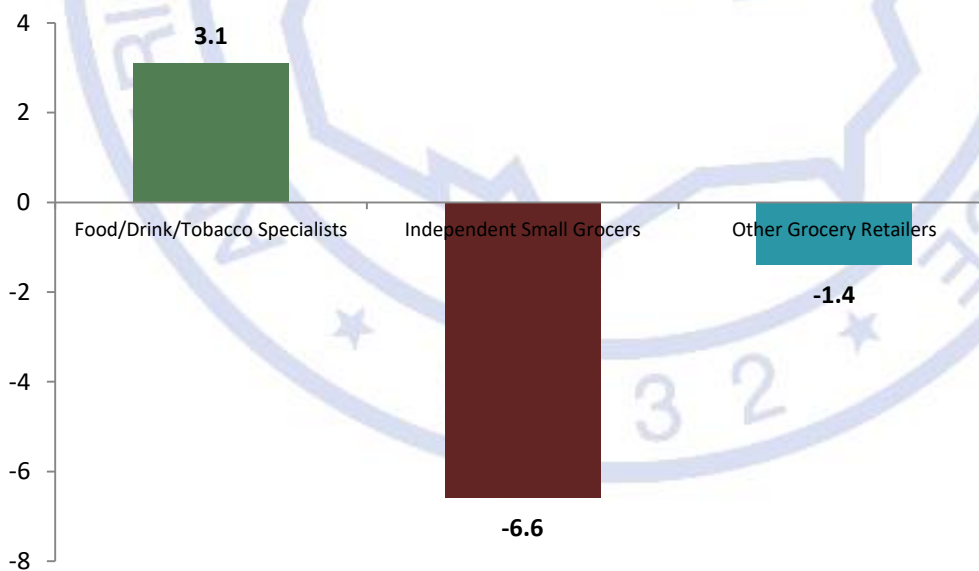
Source: Euromonitor International from official statistics, trade associations, trade press, company research

Modern Grocery Retailers 2010/15 Total



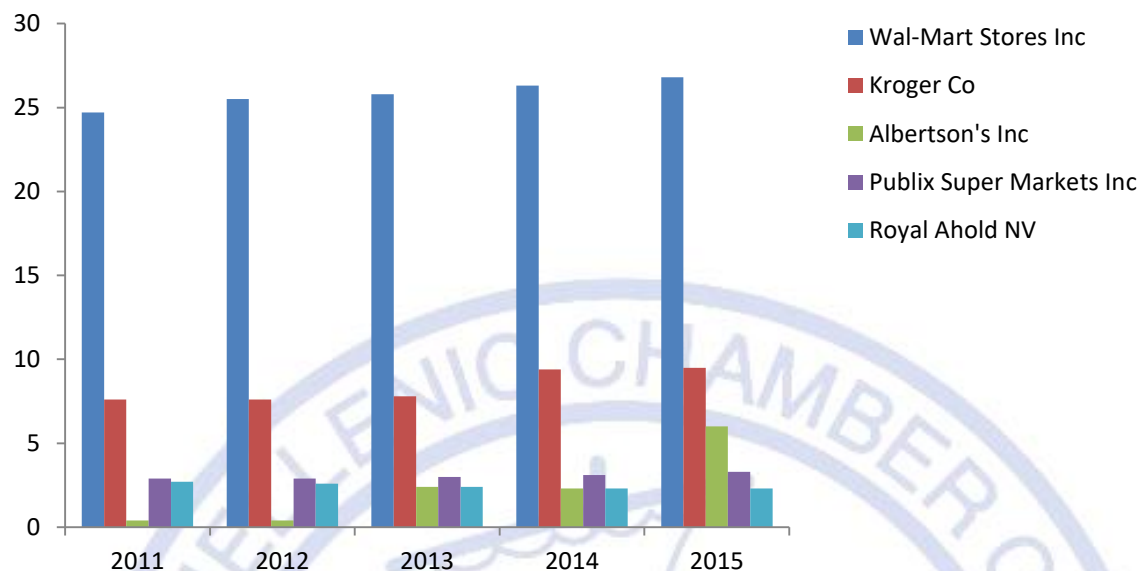
Source: Euromonitor International from official statistics, trade associations, trade press, company research

Traditional Grocery Retailers 2010/15 Total



Source: Euromonitor International from official statistics, trade associations, trade press, company research

Grocery Retailers GBO Company Shares: % Value 2011 -2015



Source: Euromonitor International from official statistics, trade associations, trade press, company research

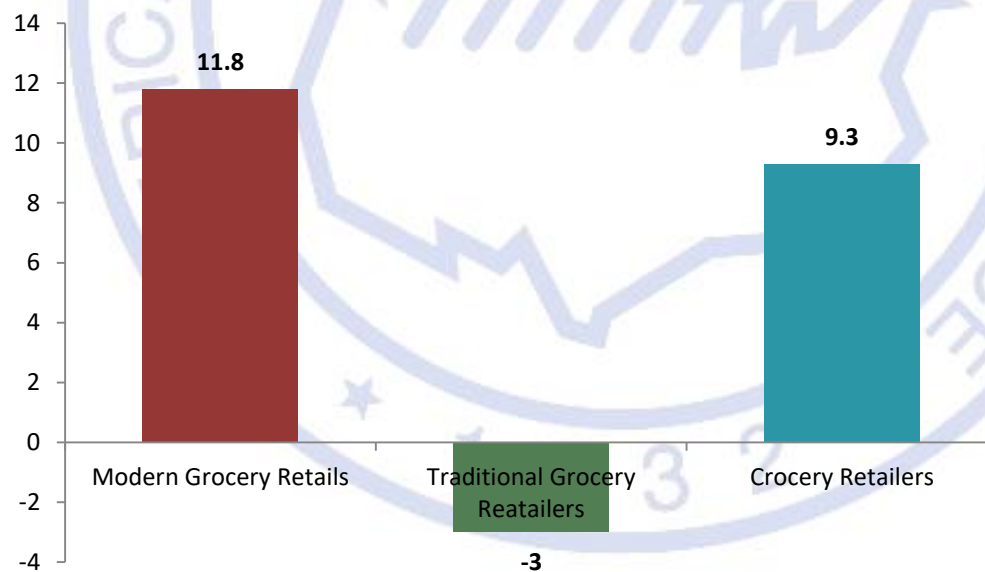
Supermarket & Grocery Store Retailers: Key Statistics							
Year	Revenue (\$millions)	IVA (\$millions)	Establishments (Units)	Enterprises (Units)	Employment (Units)	Wages (\$millions)	Consumer Spending (\$billions)
2006	531,046.9	67,568.5	66,054	42,506	2,473,518	55,354.5	35,461.0
2007	540,086.8	68,253.5	64,142	40,923	2,424,912	55,831.6	35,870.0
2008	551,558.0	68,176.5	63,384	40,343	2,450,033	56,042.2	36,082.0
2009	546,609.2	71,964.1	63,634	40,456	2,440,412	57,205.7	35,600.0
2010	548,990.6	69,806.9	64,380	41,027	2,402,743	56,631.1	35,705.0
2011	564,147.7	67,782.9	64,366	40,888	2,413,784	55,935.8	36,294.0
2012	570,350.4	70,641.7	66,047	41,568	2,434,913	56,953.3	36,759.0
2013	576,401.2	70,917.5	65,723	41,161	2,440,431	57,083.9	36,771.0
2014	581,642.2	71,102.0	66,428	41,656	2,460,376	57,142.6	37,709.0
2015	584,293.8	70,727.1	67,084	42,036	2,489,995	56,704.1	38,708.0
2016	590,721.0	71,536.2	67,055	42,011	2,492,478	57,595.2	39,496.0
2017	596,628.2	73,198.7	67,355	42,137	2,500,724	58,450.1	40,351.0
2018	601,401.3	73,456.9	67,321	42,051	2,504,131	59,297.5	41,232.0
2019	605,009.7	73,103.0	67,723	42,261	2,513,687	60,089.9	42,016.0
2020	606,824.7	74,400.8	67,937	42,341	2,522,334	60,794.7	42,814.0

Source: TradeUSA Archive 2015

Annual Change (%)							
Year	Revenue	IVA	Establishments	Enterprises	Employment	Wages	Consumer
2006	0	-2.2	-1.8	-2.7	-0.9	-0.8	3
2007	1.7	1	-2.9	-3.7	-2	0.9	1.2
2008	2.1	-0.1	-1.2	-1.4	1	0.4	0.6
2009	-0.9	5.6	0.4	0.3	-0.4	2.1	-1.3
2010	0.4	-3	1.2	1.4	-1.6	-1	0.3
2011	2.8	-2.9	0	-0.3	0.5	-1.2	1.6
2012	1.1	4.2	2.6	1.7	0.9	1.8	1.3
2013	1.1	0.4	-0.5	-1	0.2	0.2	0
2014	0.9	0.3	1.1	1.2	0.8	0.1	2.6
2015	0.5	-0.5	1	0.9	1.2	-0.8	2.6
2016	1.1	1.1	-0.1	-0.1	0.1	1.6	2
2017	1	2.3	0.4	0.3	0.3	1.5	2.2
2018	0.8	0.4	-0.1	-0.2	0.1	1.4	2.2
2019	0.6	-0.5	0.6	0.5	0.4	1.3	1.9
2020	0.3	1.8	0.3	0.2	0.3	1.2	1.9

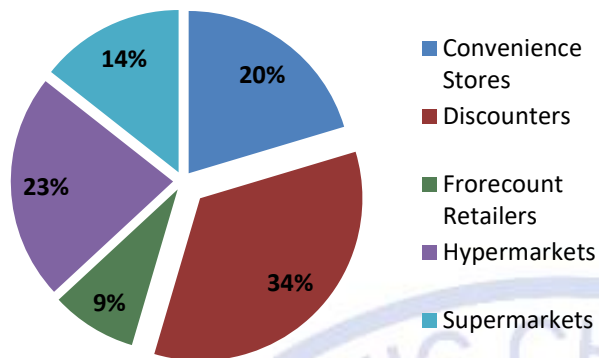
Source: TradeUSA Archive 2015

Sales in Grocery Retailers by Channel 2010/15 Total



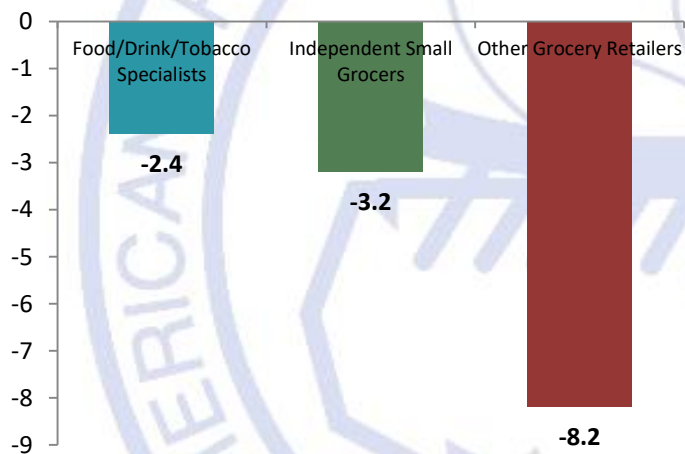
Source: Euromonitor International from official statistics, trade associations, trade press, company research

Modern Grocery Retails 2010/15 Total



Source: Euromonitor International from official statistics, trade associations, trade press, company research

Traditional Grocery Retailers 2010/15 Total



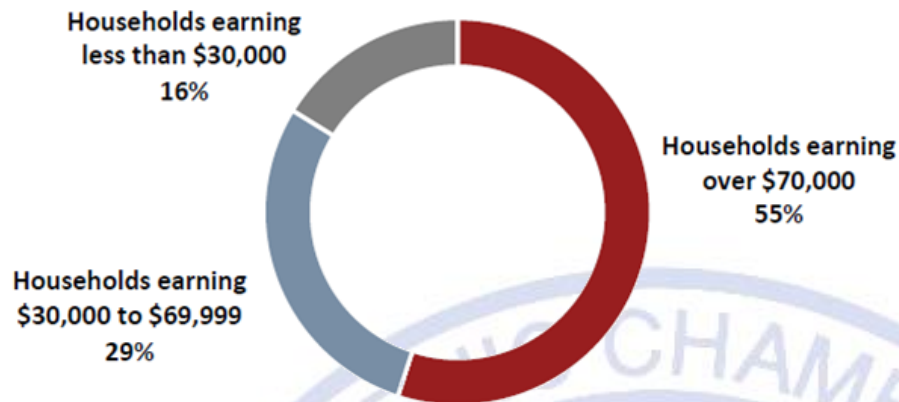
Source: Euromonitor International from official statistics, trade associations, trade press, company research

Supermarket & Grocery Store Retailer Revenue Growth



Source: TradeUSA Archive 2015

Major Market Segmentation 2015



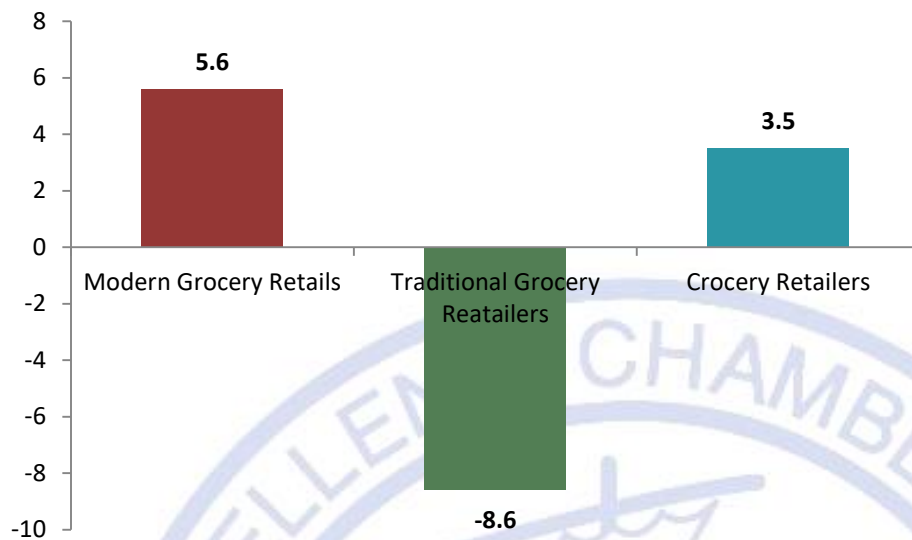
Source: TradeUSA Archive 2015

Grocery Retailers Local Brand Name Brand Shares: Outlets 2012 - 2015					
Sites/Outlets Brand (GBO)	Company (NBO)	2012	2013	2014	2015
7-Eleven (Seven & I Holdings Co Ltd)	7-Eleven Inc	7,700	7,865	7,863	8,132
Shell Shop (Royal Dutch Shell Plc)	Shell Oil Co	4,934	4,950	5,009	5,070
Circle K (Alimentation Couche-Tard Inc)	Circle K Stores Inc	4,229	4,342	4,455	4,537
Walmart Supercenter	Wal- Mart Stores Inc	3,158	3,288	3,409	3,509
Amoco FoodMart (British Petroleum Co Plc, The)	BP America Inc	3,170	3,060	3,150	3,155
Speedway	Marathon Oil Co	1,464	1,478	2,733	2,749
Kroger	Kroger Co	2,296	2,297	2,498	2,495
Albertson's	Albertson's Inc	190	1332	1013	2339
Texaco (Chevron Corp)	Chevron USA Inc	2,166	2,200	2,215	2,245
Chevron (Chevron Corp)	Chevron USA Inc	1,891	1,916	1,933	1,952
Casey's General Stores	Casey's General Stores Inc	1,731	1,783	1,808	1,888
Kangaroo Express	Pantey Inc, The	1,572	1,538	1,553	1,552
Save-A-Lot	Supervalu Inc	1,331	1,330	1,334	1,434
Aldi (Aldi Group)	Aldi Inc	1,280	1,325	1,336	1,375
Publix	Publix Super Markets Inc	1,069	1,079	1,101	1,111
Food Lion (Delhaize Group SA)	Delhaize America Inc	1,138	1,124	1,108	1,109
Valero	Valero Energy Corp	1,032	1,036	1,052	1,052
Ampm (British Petroleum Co Plc, The)	BP America Inc	1,000	885	950	970
Cumberland Farms	Cumberland Farms Inc	881	841	949	950
Kroger's Convenience Stores	Kroger Co	786	786	782	780
Safeway	Safeway Inc	1,418	1335	1326	-
Hess Express	Hess Corp	1,307	1296	-	-
Albertson's	Supervalu Inc	1,068	-	-	-
Others	Others	244,999	246,303	245,730	245,602
Total	Total	291,810	293,389	293,307	294006

Source: Euromonitor International from official statistics, trade associations, trade press, company research

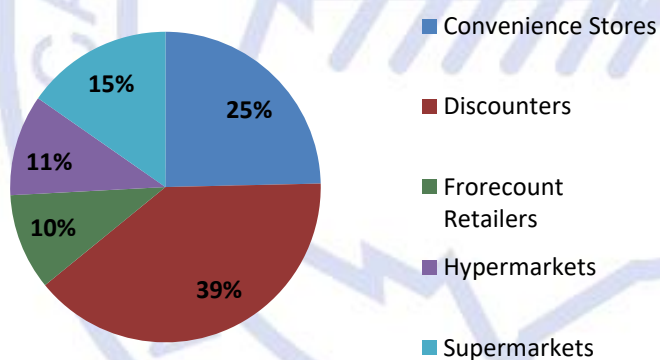
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Forecast Sales in Grocery Retailers by Channel: % Value Growth (2015 -2020)



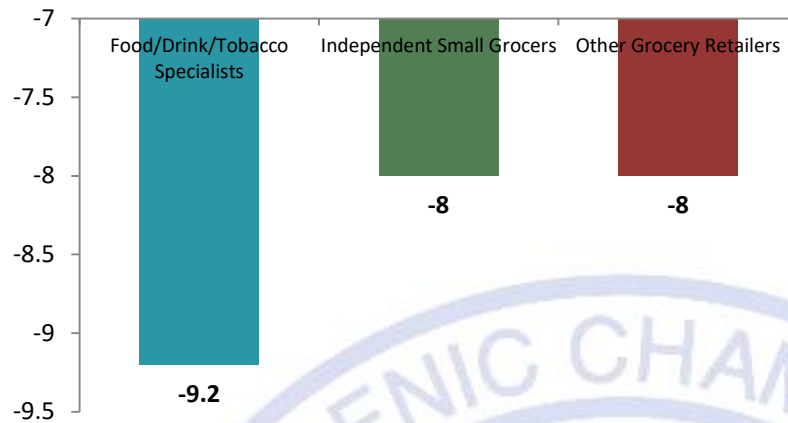
Source: Euromonitor International from official statistics, trade associations, trade press, company research

Modern Grocery Retailers 2015/20 Total



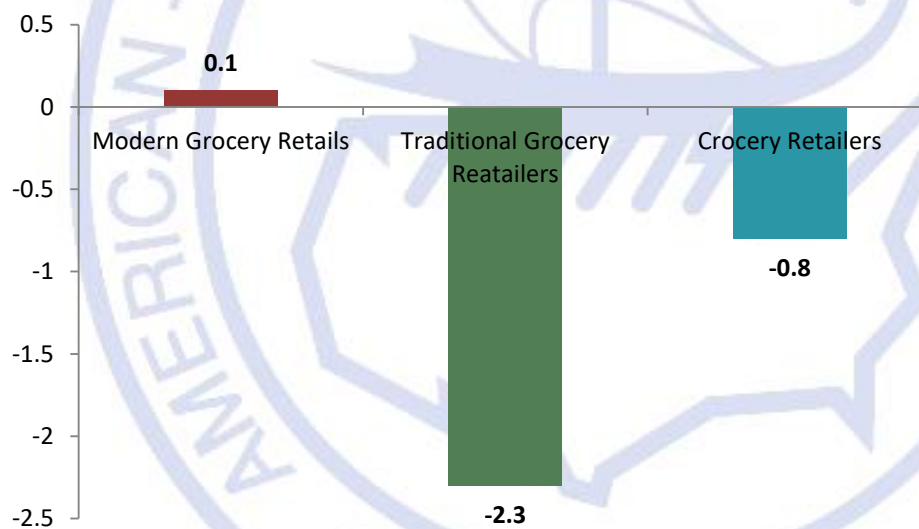
Source: Euromonitor International from official statistics, trade associations, trade press, company research

Traditional Grocery Retailers 2010/15 Total



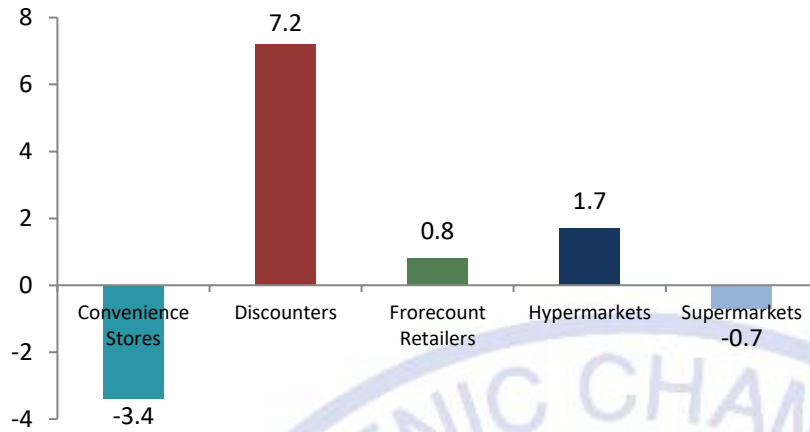
Source: Euromonitor International from official statistics, trade associations, trade press, company research

Forecast Grocery Retailers by Channel: % Unit Growth 2015/20 Total



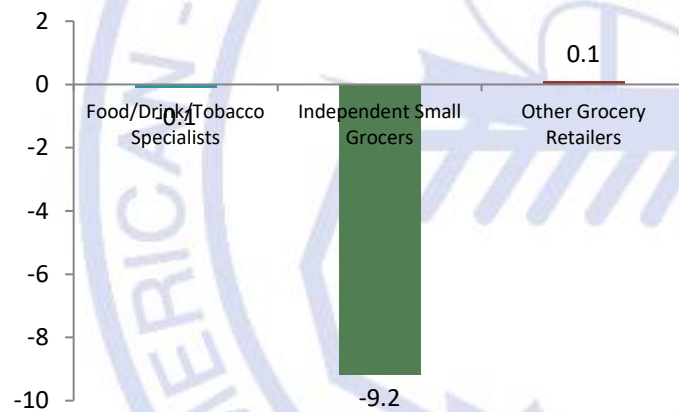
Source: Euromonitor International from official statistics, trade associations, trade press, company research

Modern Grocery Retailers 2015/20 Total

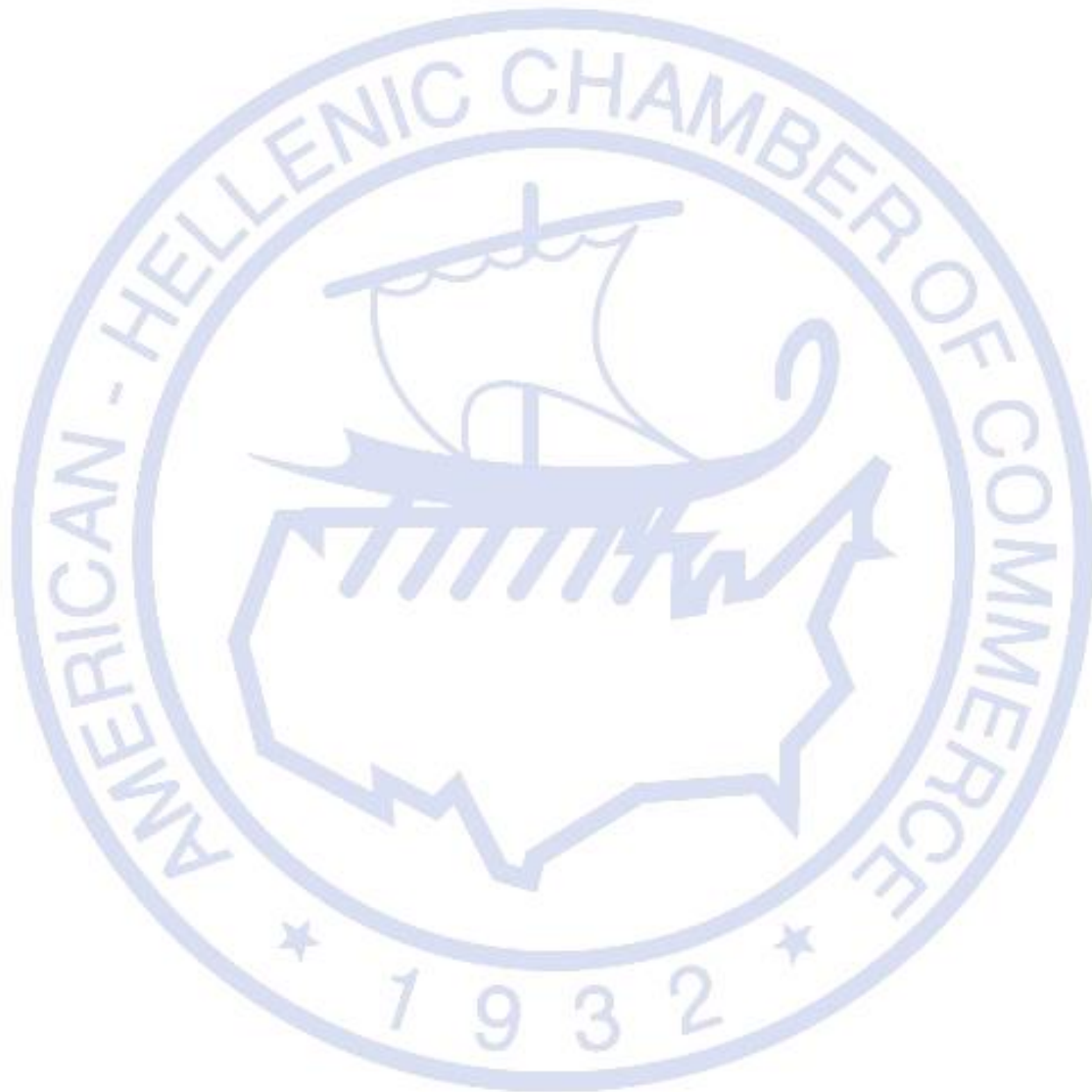


Source: Euromonitor International from official statistics, trade associations, trade press, company research

Traditional Grocery Retailers 2010/15 Total



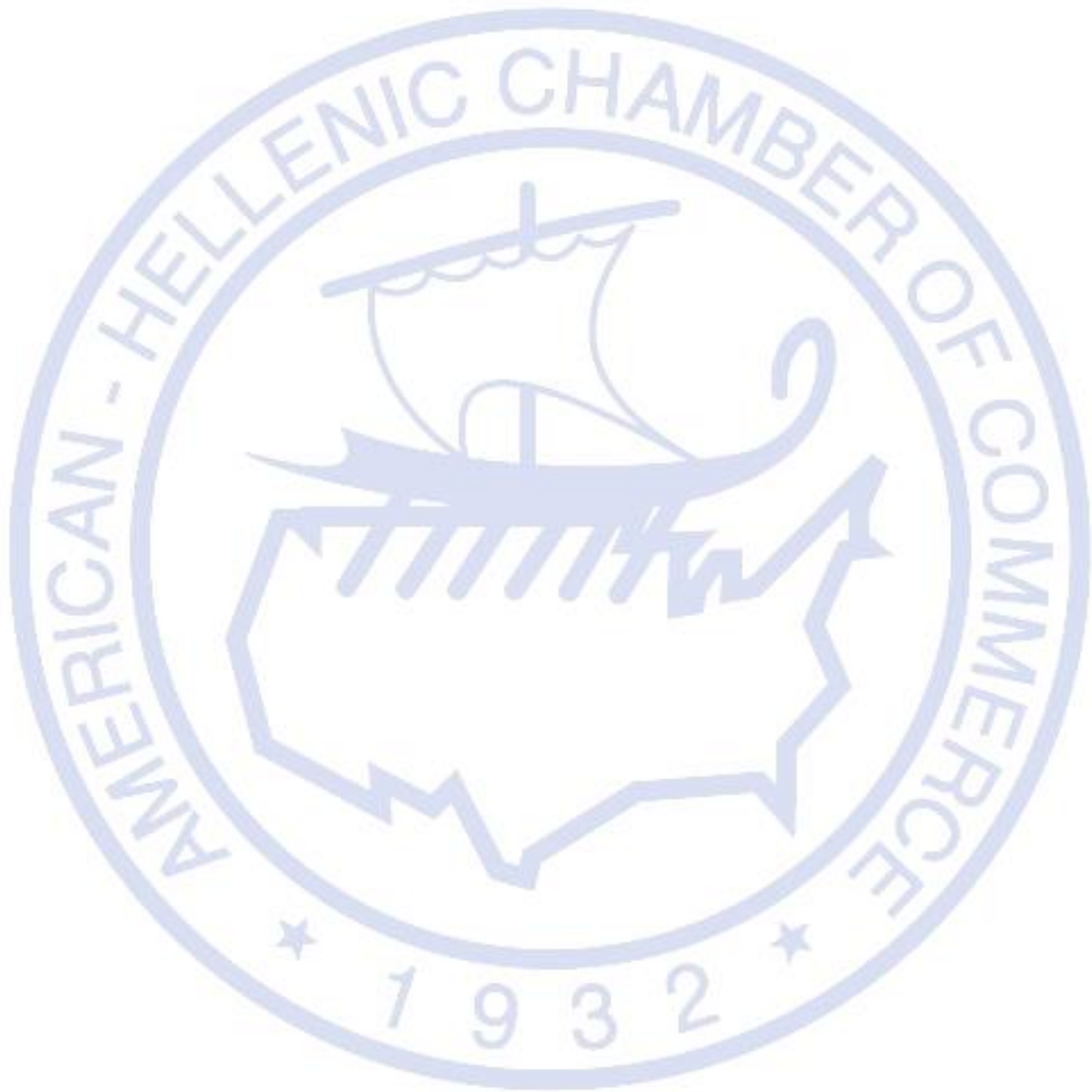
Source: Euromonitor International from official statistics, trade associations, trade press, company research



CHAPTER 4 | THE US FOOD INDUSTRY

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OVERVIEW

In a nutshell, the facts for the U.S. Food Industry for the year of 2015 are summarized below:

- Traditional food retailers, facing increased pressure from alternative channels, are testing new concepts to retain market share.
- Natural and organic supermarkets, while continuing to trade at a premium to traditional food retailers, are fighting to maintain traffic.
- The U.S. Hispanic population is growing exponentially, which is influencing national consumption patterns.
- Merchandisers are changing assortment, providing more shelf space to prepared foods for take away and home meal replacements.
- Stiff competition, evolving consumer preferences and a challenging organic growth environment are driving food retailers to consider strategic alternatives, including M&A , to optimize capital allocation and pursue growth opportunities.

MARKET OUTLOOK

Competition in the food retail market has increased in recent years. Traditional food retailers have faced fierce pressure from alternative channels including warehouse clubs, supercenters, drug stores, mass retailers and convenience stores, as well as online retailers and grocery delivery services. As consumers distance themselves from the traditional supermarket model, grocery retailers are attempting to stay competitive by creating more intimate and innovative shopping experiences tailored to individual shoppers with an emphasis on fresh, organic and prepared food options. As some large chains have actively pursued relationships with smaller niche retailers, other grocery chains have failed to adapt.

Stiff competition, evolving consumer preferences and a challenging organic growth environment are driving many food retailers to evaluate their store and brand portfolios and consider strategic alternatives, in order to optimize capital allocation and growth opportunities. This has led to a wave of consolidation in the industry over the past five years. For example, Kroger, the largest pure play grocery company in the U.S., recently acquired Roundy's in a take-private transaction to expand into Wisconsin and Harris Teeter to increase its presence in the Carolinas and Mid-Atlantic markets. Additionally, on January 7, 2016, SUPERVALU filed an initial Form 10 Registration Statement in connection with the possible spin-off of its discount banner, Save-A-Lot. Finally, consumer preference for high end, convenience oriented and specialty food concepts drove the recent acquisition by ACON Investments of Fiesta Mart and Pace Food Retail's acquisition of Dean & DeLuca. As secular trends continue to put pressure on the traditional food retail model, industry consolidation is expected to continue.

1. Channel Shifting

Traditional supermarkets continue to be challenged in today's environment. One format that has gained significant market share in recent years is the limited assortment or small format grocery store. Since 2006, the average supermarket square footage in the U.S. has fallen steadily, according to Packaged Facts. Trader Joe's, Aldi (with over 1,400 locations in the U.S. and counting), Bfresh in Boston and Green Zebra in Portland are each small format players that offer an attentive and curated shopping experience with a heavy focus on private label and exclusive brands.

Aldi and its main UK competitor, Lidl, both have aggressive expansion plans in the U.S. over the next several years. Lidl's U.S. spokesman boasted that, "Lidl will offer customers the highest-quality products at the lowest possible prices in convenient history." The new entrants have many traditional retailers concerned and contemplating the introduction of new store concepts. For example, Kroger is currently expanding its convenience and value-oriented concept, Turkey Hill Minit Markets.

2. Natural/Organic Competition

The demand for natural and organic products has led to increased competition within the retail space. The three largest publicly traded natural and organic supermarkets by market capitalization – Whole Foods, Sprouts and Fresh Market – have seen their stock prices plummet over the past year. As of February 3, 2016, the group closed, on average, at 42.7% of their 52-week high while the S&P 500 closed at 89.7% of its 52-week high. Institutional investors have focused on declining comparable store sales and are challenging the validity of current long term growth projections.

The most recent year-to-date financials for Whole Foods, Sprouts and Fresh Market indicate comparable store sales growth of 2.5%, 5.2% and -1.6%, respectively. Each of the three failed to replicate growth experienced in previous years. In each fiscal year from 2011 to 2013, Whole Foods reported same store sales growth above 7.0% and in 2014 growth of 4.4%, materially higher than 2015. For the thirty-nine week period ending September 28, 2014, Sprouts had vigorous comparable growth store of 10.4%, which declined to 5.2% for the same period in 2015. Fresh Market experienced a similar slow down from 2.9% in the thirty-nine week period ending 2014 to a contraction of -1.6% in 2015. These metrics are particularly concerning to investors in light of projections for the global organic food market, which suggest a 13% CAGR from 2015 to 2020.¹

Conventional retailers, including Kroger and Walmart, have entered the natural and organic segment, which has hampered the potential growth trajectories of specialty retailers. It was recently reported that Kroger is in the second round of an auction process to acquire Fresh Market. As these large players have increased their natural and organic offerings and continue to leverage their robust sourcing and supply chain capabilities, customers now have the option to pay less for similar product offerings. In response to the increasing competition, Whole Foods announced in May that it will begin opening an entirely new format called "365," which will offer value pricing aimed at millennials. 365 by Whole Foods Market President Jason Turnas stated that, "with a fresh format and unique product assortment, we think 365 will offer convenience and value while

providing the quality and transparency that consumers love and expect.” As competition continues, we expect additional operators to explore expanded channel offerings.

3. Delivery

Even with continued innovation in global, regional and local supply chain and delivery capabilities, the online-only grocery business model remains challenging. However, consumer demand for online food offerings has increased in recent years, providing an incentive for traditional brick-and-mortar retailers to enter the online segment. Current online only incumbents include FreshDirect and Peapod, a unit of Ahold USA. In addition, several other large traditional supermarkets have entered into the space. Amazon.com has launched AmazonFresh and recent press statements indicate they are in strategic discussions with the UK online grocery retailer, Ocado. Furthermore, in January 2015, Albertsons acquired Safeway, which owns and operates Groceryworks.com. Albertsons is expected to grow this service materially. Additionally, Walmart has expanded both its online and store pickup platforms.

One company that is creating a buzz within the industry is Instacart. Instacart is an on-demand grocery delivery platform facilitating doorstep deliveries of groceries and other home essentials in major cities around the U.S. Founded in 2012, the company received approximately \$275 million in a January 2015 funding round led by Kleiner Perkins Caufield & Byers, which values Instacart at roughly \$2 billion. The company offers a collection of over 300,000 items from several independent stores including Whole Foods, Safeway and Costco, enabling customers to place orders on their smartphone from their favorite store or to mix items from different stores. Once an order is placed by the user, a shopper is designated to purchase and deliver the groceries to the user. Instacart’s model depends on consumers’ comfort level with independent individuals selecting and dropping off their groceries. Walter Robb, co-CEO of Whole Foods, evidently believes that this is a possibility, as “customers today are interested in options and services outside the four walls of the store.”

4. Technology and Retail

Technology has had a widespread impact on commerce over the past ten years, and the food retail industry is no exception. In 2012 Kroger rolled out QueVision, a technology platform that uses sensors and predictive analytics to feed managers real time data. QueVision indicates in real-time when long lines will happen and where cashiers are needed before a pileup begins, allowing for staff optimization. Prior to deployment, average wait time in Kroger stores was four minutes; today, it is less than thirty seconds. Kroger has also spent the last few years investing in companies with key insights and expertise in the online grocery business in hopes of developing an omni-channel offering. In 2014, Kroger finalized its merger with Harris Teeter, which included online ordering platform Express Lane. Kroger has also initiated testing of its own click-and-collect service, called Click List. For a fee of \$4.95, Click List allows customers to buy groceries online, and then at an appointed time pay and collect goods at a pickup window. Finally, in 2014, Kroger purchased the nutrition and healthy living ecommerce business Vitacost.com.

5. Large Operator Advantage

As large chains, such as Kroger and Albertsons, continue to grow, they have been able to leverage fixed infrastructure costs and optimize capabilities. Kroger's significant size and scale presents an advantage over many peers, allowing for efficiencies within its private label manufacturing, distribution network, and ability to offer more competitive pricing given its purchasing power with suppliers. In the most recent quarters' investor call transcript, Kroger CEO Rodney McMullen stated that they will "continue to manage costs so that we can continue investing to grow our business for the future while delivering today."

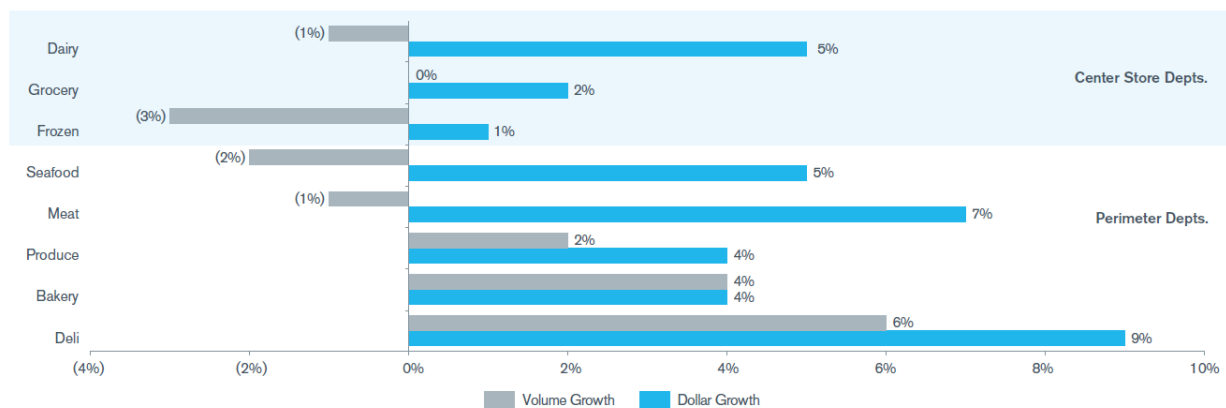
In recent years, Kroger has taken advantage of industry trends by bringing certain business functions in-house, as opposed to out-sourcing. Kroger has been aggressive with investments in the rapidly growing natural and organic food categories. The company has also invested in the in-store customer experience by improving merchandising and enhancing its prepared food offerings. These store enhancements position Kroger to capitalize on the growing demand for fresh and prepared foods. Albertsons is another company leveraging its scale. The company's fresh fruit and vegetable offerings are cut daily by members of their own produce department. When Albertsons acquired Safeway last year, it announced that Safeway would be switching to Albertsons fresh-cut fruit and vegetables. Safeway is now able to in-source fresh-cut produce, reducing cost and improving profitability.

The industry is incredibly dynamic and there is constant pressure to adapt formats to address evolving customer preferences. Larger players have been much more receptive to operating a broad portfolio of store formats, whether developed in house or through acquisition. In doing so, these players have been able to leverage their infrastructures to drive higher sales, margins and investment returns.

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Food Retail Industry Insights – 2016

2015 Growth by Grocery Store Department



Source: Nielsen Perishables Group – 4/25/15, growth verse prior year

6. Food Trends – A New Wave of Eating

Consumer preferences are changing, and changing drastically. According to the 2015 Supermarket Guru Grocers Association Consumer Survey, 50% of people in the U.S. said their diet could be healthier. In addition, 28% of shoppers want minimal processing and 25% said they want a shorter list of ingredients. IFIC's Annual Food & Health Survey also reported that 36% of shoppers said they worry about chemicals in their foods, and that foods labeled with a health attribute experienced a sales increase of 13% in the last year versus roughly flat sales throughout the store. As consumers are actively trying to live healthier lifestyles, food retailers are being forced to tailor their products and services to this new 21st century consumer.

7. Fresh Foods and Vegetables

The fresh foods story is at the forefront throughout the supermarket industry. Over the past five years, there has been a significant increase in overall fresh food offerings as retailers strive to meet rising demand from customers. Vegetables, in particular, have been taking center stage on consumers' plates as they are perceived to be versatile, nutritious and flavorful. Certain vegetables, such as beans and lentils, are making their way into products including snack bars, drinks and smoothies as consumers look for new ways to add protein and fiber to their diets.

8. Prepared Foods and Snacks

The prepared foods market in the U.S. has grown significantly in recent years. A substantial component of this growth can be attributed to the expansion of value-added fruits and vegetables which grew 65% and 49%, respectively, from 2010 to 2014.² As consumers increasingly look for convenience in the foods they purchase, the market for fresh prepared foods such as value-added produce will continue to grow at a robust pace in coming years. According to Nielsen, the prepared foods market is forecasted to grow at an annual pace of 4.5% through 2019.

Healthy snacking is also expanding as a category as consumers focus on “better for you” options. According to Euromonitor, sales of snacks increased more than 3% a year since 2008, significantly outpacing sales of staple packaged foods. Going forward, snacks are projected to grow 2% annually through 2019. The growth of snacks is driven largely by Millennials, who are snacking as a form of meal replacement. On average, Millennials eat 3.05 snacks per day, compared to 2.26 snacks consumed daily by generation X and 1.53 snacks by baby boomers. Millennials are also reaching for healthier options including fruits and vegetables. On average Millennials eat 5.12 servings of fruits and vegetables a day compared to 4.71 by generation X and 4.43 by Baby Boomers.³

9. Local Foods

“Local” produce has been one of the biggest trends in food retail in recent years as consumers have a rising interest in knowing specifically where their food is coming from. A 2015 survey in Shopping for Local Foods in the U.S. found that 53% of adult respondents specifically seek out locally grown or locally produced foods. Among the primary reasons for purchasing locally grown or locally produced foods, 60% of consumers say they do so because the products are fresher and 44% indicate these products taste better. While the increase of fresh and local produce should support the growth of natural and organic supermarkets, not all consumers purchase these items from large retailers. Instead, many consumers prefer to buy directly from the grower. Farmers' market count

is up 35% since 2010, with almost 8,000 farmers' markets operating in the U.S., according to the U.S. Department of Agriculture. Retailers are certainly catching on to this trend. Jason Ackerman of FreshDirect (U.S.) stated, "We will compete by our commitment to farm-to-table and fresh products. That's our position."

CONSUMER TRENDS

1. Millennials

Millennials will soon surpass the Baby Boomer generation as the nation's largest living generation, making up roughly a quarter of the total U.S. population. Millennials are driving changes in the country's eating behaviors with their approach to food choice and preparation. According to The NPD Group, Millennials' increased interest in fresh foods may be explained by their reactions to the Great Recession. Younger adults were hit hardest by unemployment, and although this age group is considered the heaviest user of restaurants, they pulled back the most from going out to restaurants during the downturn. It seems these adults still wanted many of the benefits that restaurants provided – among them, freshness and speed.

2. Baby Boomers

The Baby Boomer generation is aging, considering retirement and developing health ailments, all of which are typically associated with major changes in the way a consumer approaches food and beverage consumption. While shrinking in size, the generation is still large enough to have a significant impact on food consumption in the U.S. As the generation continues to age, it will be driven less by the latest fad and more by what is needed to sustain health and lifestyles. Healthful foods, such as foods high in whole grains, protein and calcium, or low in saturated fat, cholesterol and sodium, will be of most interest to the Baby Boomer generation.

3. Smaller Households

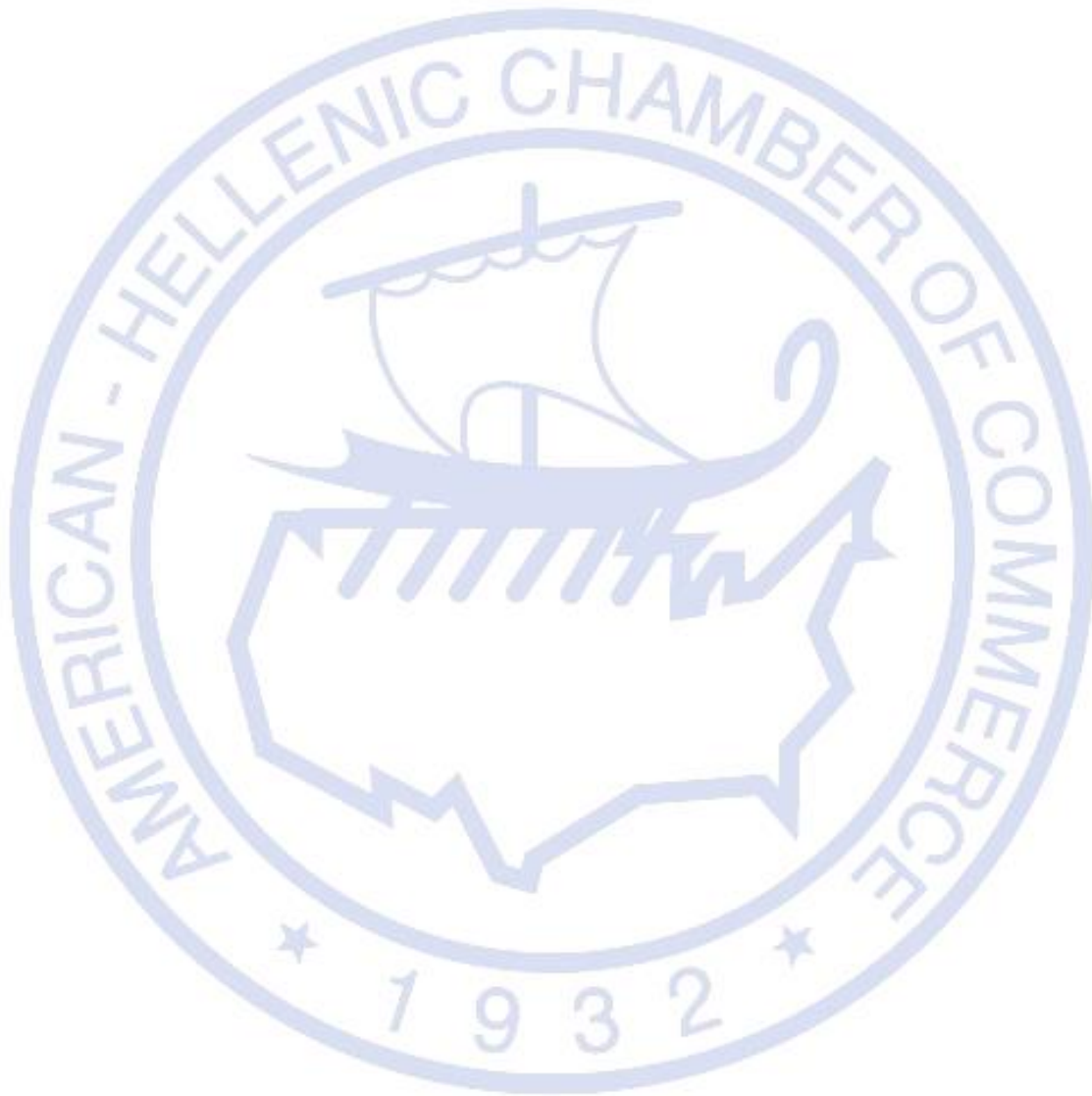
Consumption behavior in the U.S. has become less household-oriented and more individualized than in previous generations. Today, over 50% of eating occasions occur when consumers are alone. Currently 27% of all households consist of just one person; this is the highest level in U.S. history, according to the U.S. Census Bureau. The number of solo eating occasions will have a wide range of implications for food retailers in terms of packaging, positioning and more.

4. Demographic Shifts

The U.S. Hispanic population is growing exponentially compared to non-Hispanic populations and as a result, in-home Hispanic dining traditions are beginning to influence national consumption patterns. As of 2015, approximately 17.7% of the total U.S. population was of Hispanic descent. By the year 2040, Hispanics are projected to make up 24.1% of the total population.⁴ Hispanics provide a bright spot in the U.S. food retail market. On average, Hispanics cook more frequently at home, spend more on routine shopping trips and visit supermarkets more often. In 2014, overall ethnic supermarket revenue was \$30.4 billion, and this number is expected to increase to \$35.2 billion in 2018, representing a 3.7% cumulative annual growth rate.⁵

One supermarket that identifies itself with the growth of the Hispanic population and ethnic supermarket industry is Vallarta Supermarkets. Based in Sylmar, California, Vallarta operates supermarkets catering to a primarily Hispanic consumer base in the Greater Los Angeles area. In 2015, the company added three new store locations bringing its total number up to 47, which helped push it to number one on the Supermarket News' Top 50 Small Chains and Independents 2016. The California market has been especially active for Hispanic food retailers. To meet ever increasing demand for Hispanic and other ethnic food, Unified Grocers, a wholesale cooperative partnering with independent grocers, now has an entire division devoted to supplying Latino and other ethnic foods.

There has also been a significant amount of strategic activity in the Hispanic food retail sector in California. In January 2014, Cardenas Markets and Northgate Gonzalez Markets formed a special purpose vehicle to acquire Ontario, California based Pro's Ranch Markets. In February 2014, Victory Park Capital provided financing to Mi Pueblo in connection with its emergence from bankruptcy. Mi Pueblo is the owner and operator of 21 Latino supermarkets in Northern California that have been performing quite well since completing its restructuring.



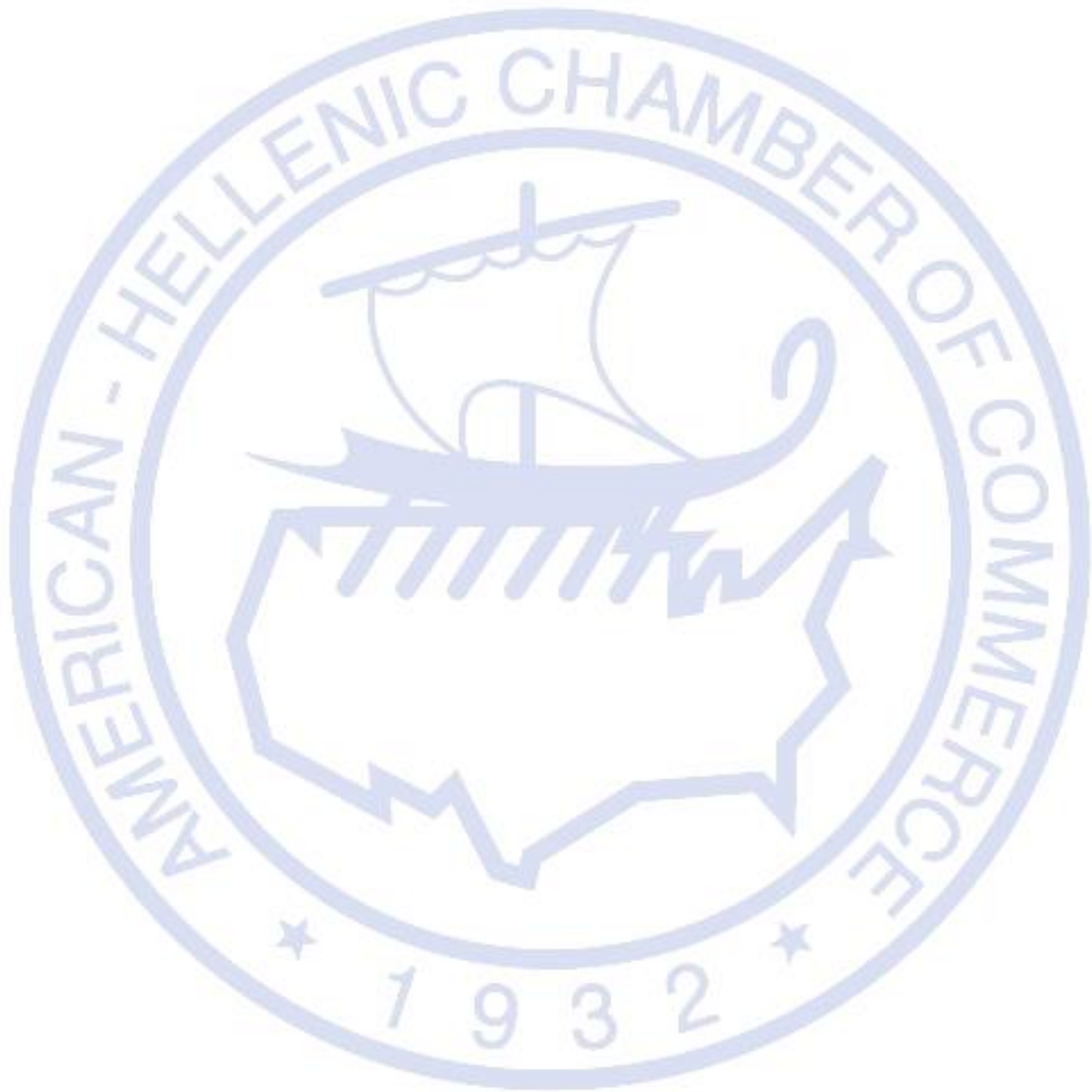
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CHAPTER 5 | DAIRY PRODUCTS IN THE US & THE INTERNATIONAL ENVIRONMENT

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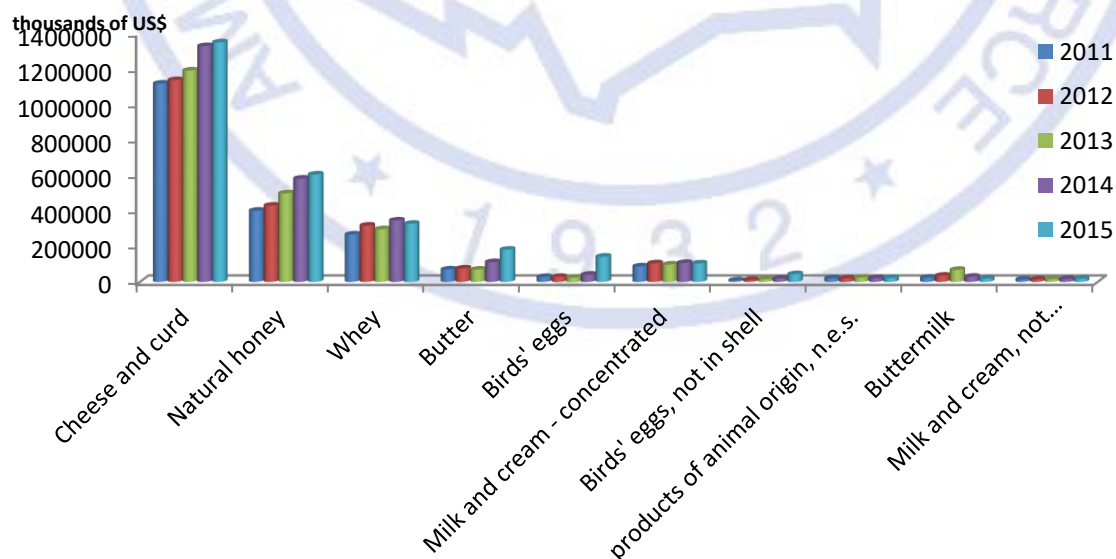
Dairy products are

Consumption of dairy products in the US			
Food products	Availability (lb per capita) (milk-equivalent weight)	Availability (kcal per capita) (from milk-equivalent calories)	
Fluid milk and cream	203,65	137640	
Cheese	33,21	22442	
Frozen dairy products	21,17	14305	
Evaporate and condensed milk	7,03	4754	
Butter	4,87	3288	
Dried dairy products (excluding whey)	3,72	2514	
Cottage cheese	2,33	1571	
Dried whey	1,29	871	
Source: USDA Food Composition Databases			

Imported dairy products to the US are mainly Cheese and Curd and Natural Honey for the examined period 2011 – 2015, a trend which implies that these products have increasing demand amongst US consumers for international varieties and tastes.

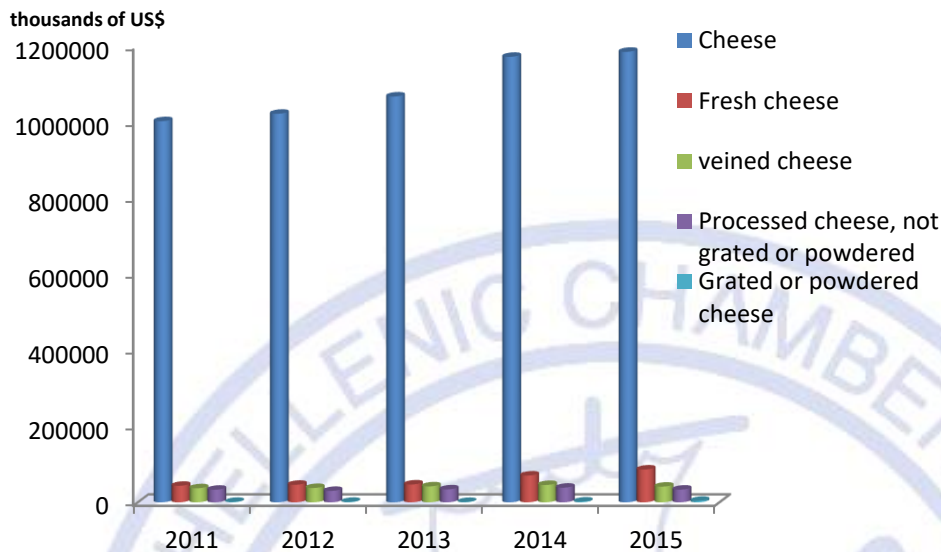
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Major Imported Dairy Products to the US (2011 – 2015)



Source: Trade USA- US CENSUS BUREAU – UN COMTRADE

US Imports of Cheese by International Harmonizing Category Type

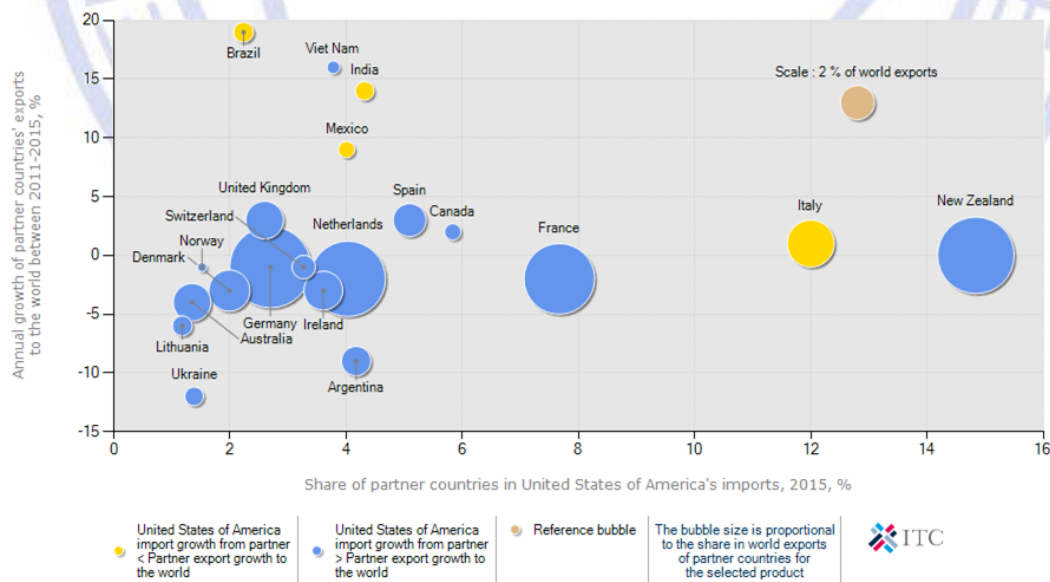


Source: Trade USA- US CENSUS BUREAU – UN COMTRADE

The importing market is primarily dominated by New Zealand and secondly by European markets such as Italy, France and Spain.

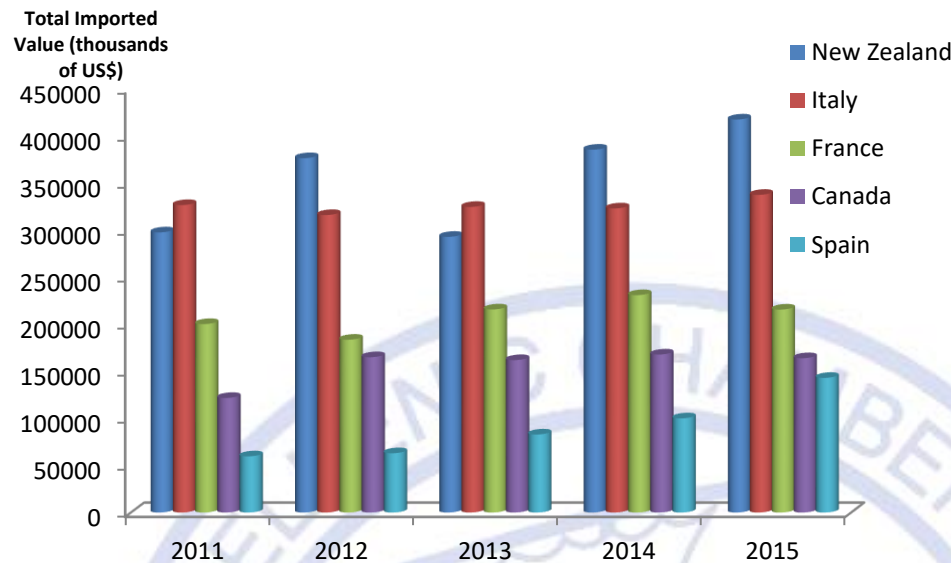
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Diversification of Suppliers – Dairy Products 2015 (International Harmonizing Code 04)



Source: International Trade Center (ITC)

Total Imported Value to US by Country (2011 - 2015)



Source: Trade USA- US CENSUS BUREAU – UN COMTRADE

Imported Value by Country to the USA

HS Code: 04 (Dairy produce; birds' eggs; natural honey; edible products of animal origin, not elsewhere else specified)

Unit: thousands of US\$

Exporters	2011	2012	2013	2014	2015
World	2,036,952	2,174,446	2,300,439	2,603,318	2,813,975
New Zealand	297,742	376,534	293,039	385,542	417,594
Italy	326,747	316,164	324,784	323,192	337,602
France	200,403	183,777	215,944	231,127	215,776
Canada	121,903	165,221	162,162	168,088	164,160
Spain	59,784	63,102	83,031	100,199	143,268

Source: International Trade Center (ITC) calculations based on UN COMTRADE statistics

- New Zealand remains the most dominant player in the importing market and continues to follow an increasing trend for the given period. The European markets are capturing an increasingly large proportion of the total importing market. More precisely the Spain market has grown at a remarkable rate of 139,6% in monetary terms, during the five year period examined.

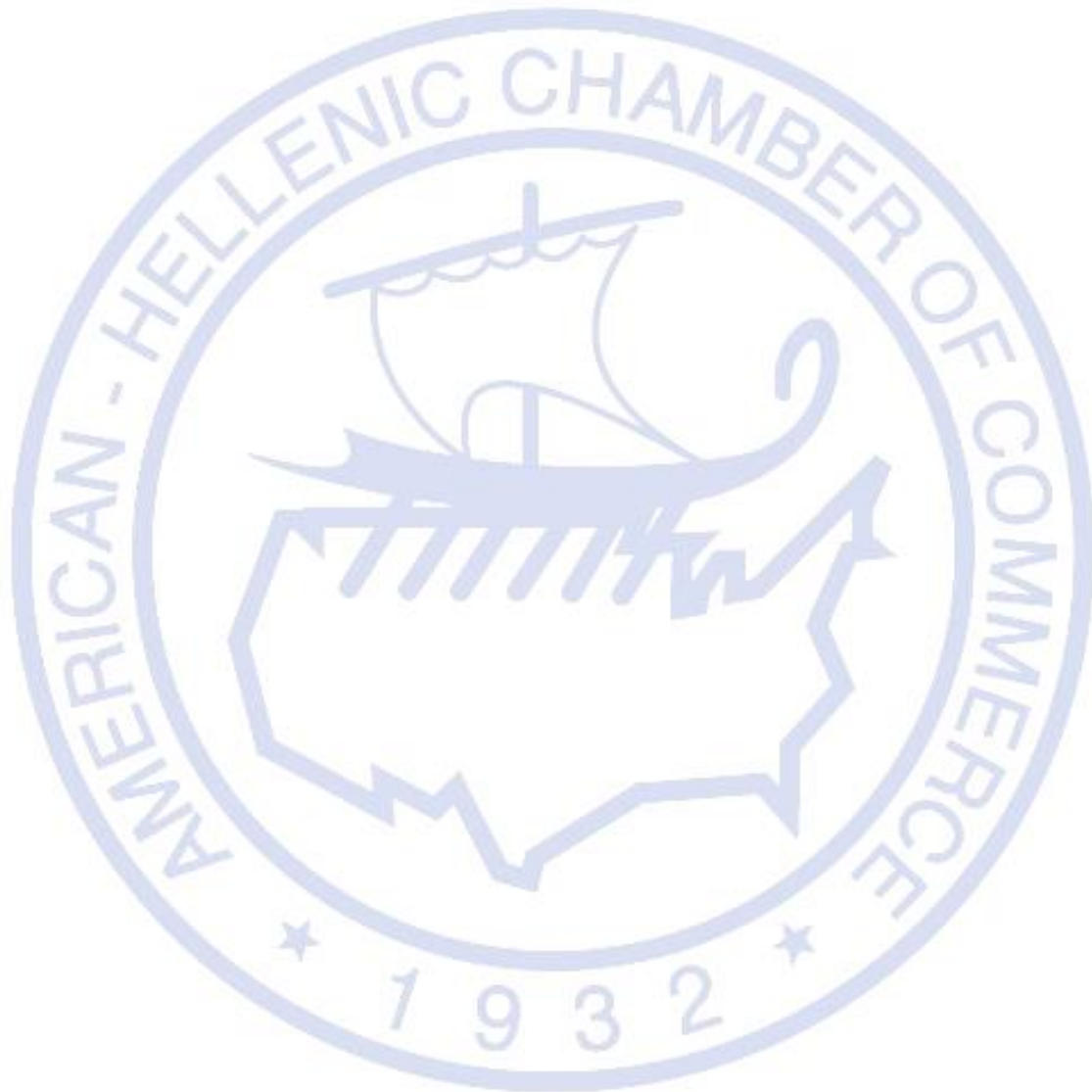
- The growth rate of the New Zealand market is relatively unstable as the table below indicates.
- The growth rates of the European markets are in fact the ones which present the most potential and opportunities for growth and expansion.
- European markets have grown particularly since 2013 and capture 25% of the total imported value, therefore presenting a market which has no fully matured and is relatively open to new entrants and products.

Imported Growth in Value by Country to the USA					
HS Code: 04 (Dairy produce; birds' eggs; natural honey; edible products of animal origin, not elsewhere else specified)					
Unit: Percentage Growth (%)					
Exporters	2011-2012	2012-2013	2013-2014	2014-2015	2015
World	7	6	13	8	2,813,975
New Zealand	26	-22	32	8	417,594
Italy	-3	3	0	4	337,602
France	-8	18	7	-7	215,776
Canada	36	-2	4	-2	164,160
Spain	6	32	21	43	143,268
Source: International Trade Center (ITC) calculations based on UN COMTRADE statistics					



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Over the forecast period the trends which have been identified in the US market, most notably the increased importance consumers are placing on healthy eating, are expected to continue and be reflected across the grocery landscape. Increases in sales are expected to be driven by higher unit prices rather than an increase in food purchasing. The overall grocery retailing channel is expected to post a value CAGR of 1% at constant 2015 prices. Health-oriented supermarkets like The Fresh Market, Sprouts and Whole Foods are expected to remain the fastest growing companies over the forecast period due to their strong positioning with current market dynamics and projected outlet expansion in fast growing areas like the South, even in the face of greater competition between the three. Kroger and Albertson's are expected to remain at the top of the supermarket pyramid as their high levels of cash flow will allow them to keep prices competitive.

The overall number of US grocery retail outlets is anticipated to decline over the forecast period. This will be due to a combination of factors, such as the closure of underperforming stores, higher consumer density and the growth of online grocery retailing. Furthermore, saturation in the supermarket channel will lead to companies such as Kroger looking to eliminate competitors' stores via acquisitions to make more room for its own new stores.

Discounters is expected to remain the fastest growing channel over the forecast period. Growth will primarily be driven by Aldi and its ambitious expansion plans. The company is expected to face competition from the second largest player in the channel, Save-A-Lot. Additionally, a new player is expected in 2018 as the German discounter Lidl is planning to enter the US market.

Hypermarkets is expected to record a slow value CAGR of 1% at constant 2015 prices over the forecast period due to the channel's maturity and a lack of new store openings. Few hypermarket operators are focused on opening new stores, instead looking to invest in smaller store formats and online platforms. Target is not expected to expand its hypermarket store base significantly, if at all, as it will focus on its smaller-format stores and continue to recover financially from its failed expansion into Canada. Wal-Mart, the largest hypermarket operator, opened smaller-format stores over hypermarkets for the first time in 2014 and the company is expected to continue with this strategy over the forecast period. Meijer does have expansion plans and entered Wisconsin in 2015. The hypermarket channel's overall growth will likely be driven by Wal-Mart and Meijer.

Traditional grocery retailing is expected to perform poorly, posting a value CAGR decline of 2% at constant 2015 prices over the forecast period. The channel will continue to struggle against larger supermarkets, hypermarkets and warehouse clubs which can undercut traditional outlets on price through the strength of their large volumes. Farmers' markets, however, will be one positive area in traditional grocery retailing as these have seen strong growth in recent years as Americans look to purchase locally grown and organic produce and other groceries. This follows a broader consumer trend of knowing more about where food comes from.