14e.

Low Carb Milk

Review of Retail Sales & Analysis of Hood Carb Countdown's Source of Volume

Prepared for DFA

January 13, 2005

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Analysis Background & Objective

- Background
  - Low Carb milk products began coming into the marketplace in response to the rapid consumer interest in low carbohydrate diets like Atkins and South Beach.
  - In order to meet consumer demands, Hood was one of the first manufacturers to launch a low carb product. Hood Carb Countdown Milk was launched in Q4 2003.
- Objective
  - Understand the impact of Hood Carb Countdown Milk on the overall Fluid Milk category.

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Sales Recap

- At our meeting October 20th, we reviewed Hood Carb Countdown's sales history
  - We noted that low carb consumers drink less fluid milk than the general adult population (Source: NPD)
    - Lower carb adults 96 beverage milk eatings per year
    - Total adults 135 beverage milk eatings per year
  - We also noted that Hood introduced the 1st lower carb milk product in October, 2004 and was the main player with a share of 95% and distribution of 79% in food/drug/mass (without Wal Mart)
    - Trial of the product was fairly low, but repeat was high at 40%
    - Sales had grown quickly in the 1st half of 2004 until the combination of price increases and a weakening of low carb diet participation set in.

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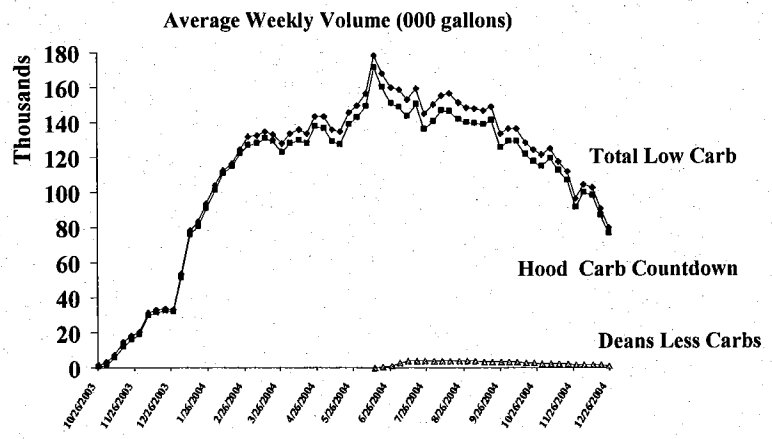
Low Carb Milk Segment No Longer Growing



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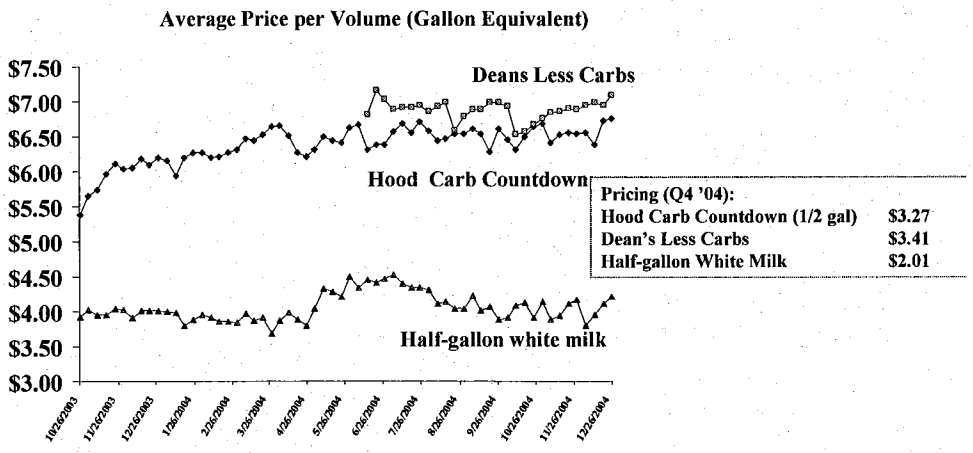
Source: IRI Scanner Food/Drug/Mass excluding Wal Mart

Pricing of Low Carb Milk Remains Elevated



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Source: IRI Scanner Food/Drug/Mass excluding Wal Mart

New IRI Analysis

- DMI commissioned IRI to analyze the source of Hood Carb Countdown's volume

- **Geography**
  - Total U.S. All retail outlets
- **Time Periods**
  - Post Launch = 52 Weeks ending October 17, 2004
  - Pre-Launch = 52 Weeks ending October 19, 2003
- **Potential Sourcing Targets**
  - Whole White Milk
  - Reduced Fat White Milk
  - Low Fat White Milk
  - Fat Free White Milk
  - Flavored Milk
  - Lactose Reduc / Free Milk
  - AO Fluid Milk

  Mutually exclusive segments

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IRI IntroSource Methodology

Hood Carb Countdown sales came from 4 potential sources:

1. Category Churn
Expected category sales

2. Brand Shifting
One brand in a buying household's purchase mix was replaced by a different brand.

A → B

3. Category Expansion
A buying household added the new brand to its existing purchase mix, increasing its total category volume.

A → A + B

4. New / Infrequent Category Buyers
A household that did not purchase the category in Period 1 became a category buyer, buying (at least) the new brand.

→ B

Increased Consumption

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IRI IntroSource Methodology

Methodology

The IntroSource matches households that tried the new product to households that did NOT try to get an ***accurate expectation of trier behavior.***

Bought Category in Period One and Period Two

New Product Trier Matched to New Product Non-Trier Household
Based on historical volume purchasing

Bought Category in Period Two Only (i.e. New Category Buyers)

New Product Trier Matched to New Product Non-Trier Household
Based on demographics because no historical volume purchasing trends exist

All matches are performed within the same market such that the households have had the opportunity to be exposed to the same promotional/pricing conditions

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IntroSource Methodology

Category Churn

The part of new category buyer volume which is normal and expected.

- Consumers can come in and out of some categories quite infrequently.
- In these cases, they are not just choosing between brands within a category, but also deciding whether to buy a category or not.

Provides a better measure of incremental category volume.

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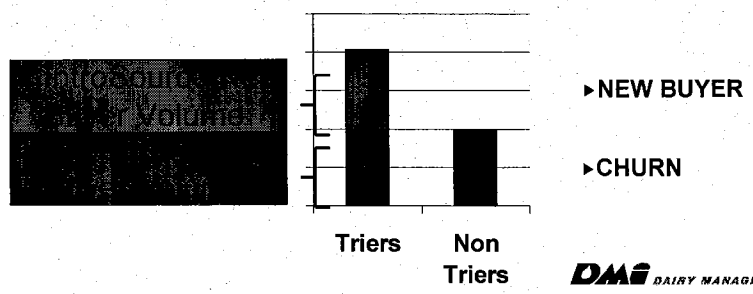
IntroSource Methodology

- IntroSource accurately reports ***all*** the volume accounted for by new category buyers.
- The IntroSource Model acknowledges that some of this volume is to be expected.
- Therefore, IntroSource reports the expected New Buyer volume, as well as the incremental New Buyer volume.



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IntroSource Methodology

Interaction Indices

- Interaction indices are a "fair share" measurement of the interaction between brands based on their category shares.
  - Interaction is considered a measure of substitutability.
  - An index of 120 or greater means the brands interact more than expected. An index of 80 or less means the brands interact less than expected.
  - Net Shifting Changes and Interaction Indices are independent measures. Interaction Indices relate to the total amount of volume that goes back and forth between brands, not the net change.

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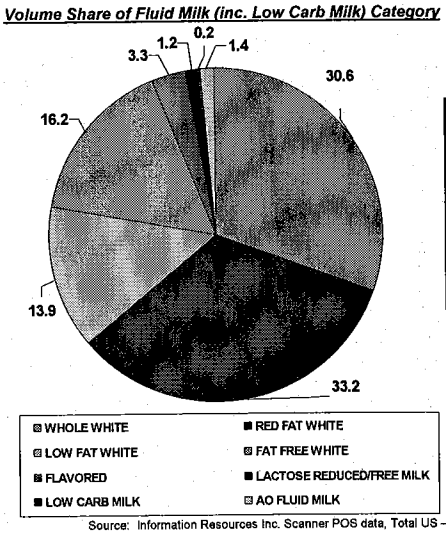
Fluid Milk Volume Declined 4.6% in Combined Food/Drug/Mass Stores (excl Wal Mart)
Lactose Reduced / Free Milk and the New Low Carb segment However Grew in Sales

Volume Share of Fluid Milk (inc. Low Carb Milk) Category



	Volume Sales	Volume Sales %Chg Year Ago
FLUID MILK CATEGORY	3,247,435,697	(4.6)
WHOLE WHITE	994,498,496	(6.5)
RED FAT WHITE	1,078,551,808	(3.9)
LOW FAT WHITE	450,434,880	(2.9)
FAT FREE WHITE	526,560,416	(5.3)
FLAVORED	107,468,344	(6.2)
LACTOSE REDUCEDFREE MILK	39,747,172	3.5
LOW CARB MILK	5,900,721	17,049.9
AO FLUID MILK	44,273,860	(4.8)

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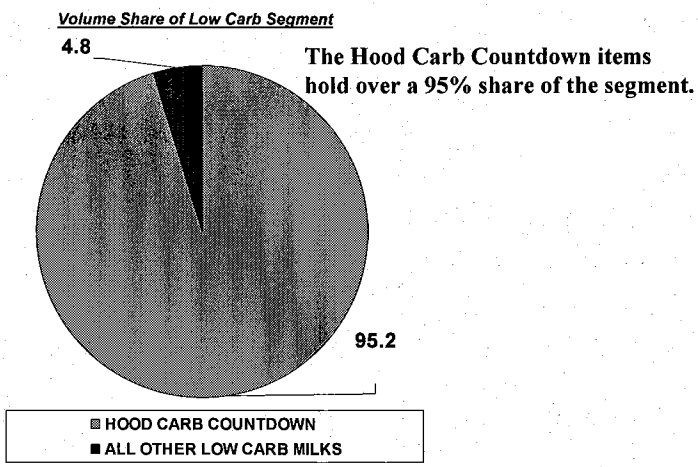
Source: Information Resources Inc. Scanner POS data, Total US – FDMx, 52 week ending October 17, 2004

Hood Reaped the Benefits of being First-to-Market with a Low Carbohydrate Milk



The Hood Carb Countdown items hold over a 95% share of the segment.

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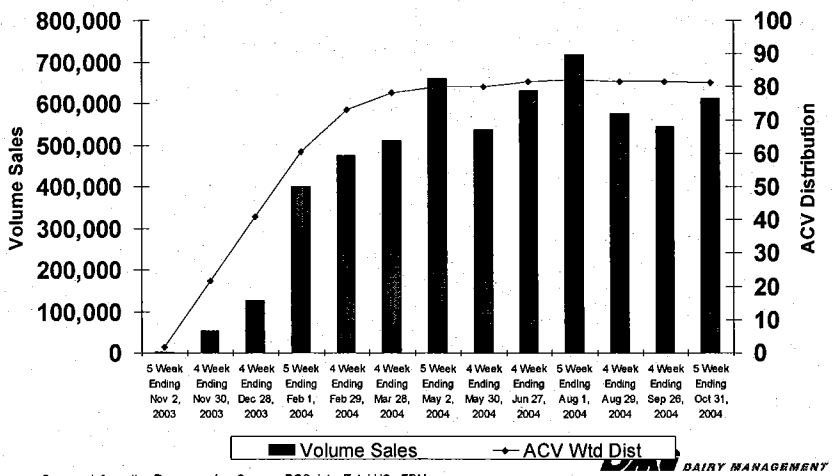
Source: Information Resources Inc. Scanner POS data, Total US – FDMx, 52 week ending October 17, 2004

Hood Carb Countdown's Distribution and Volume Rose Rapidly after Launch



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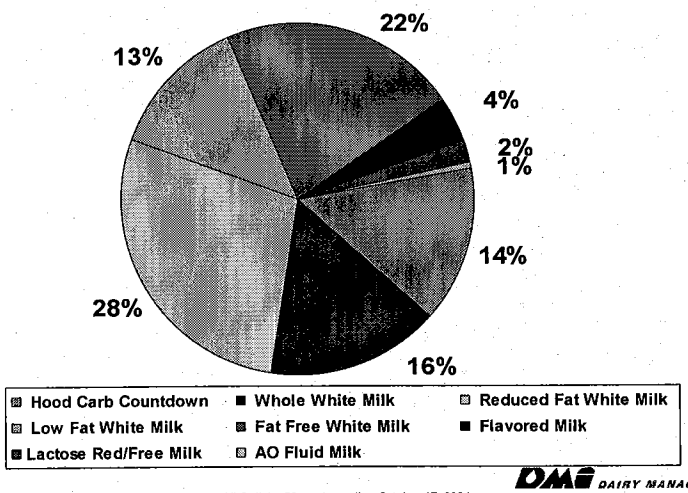
Source: Information Resources Inc. Scanner POS data, Total US - FDMx

Hood Carb Countdown Buyers Allocated 14% of their Category Purchases to the Brand



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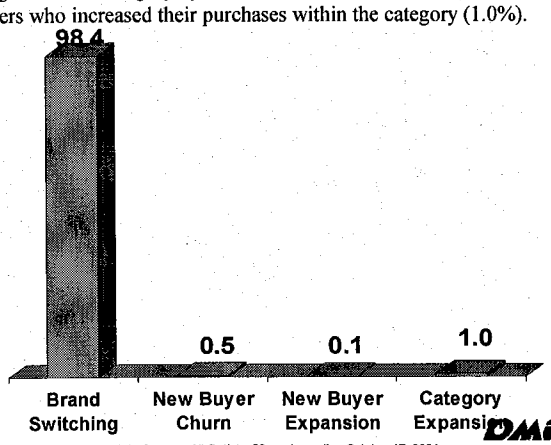
Source: Information Resources Inc. IntroSource; All Outlets; 52 weeks ending October 17, 2004

Hood Carb Countdown Source of Volume

•Hood Carb Countdown gained 98% of its volume from brand switching.
•The remaining 2% of volume was due to new buyer churn (0.5%), which represents expected new buyers brought into the category by Hood Carb Countdown, unexpected new buyer expansion (0.1%), and consumers who increased their purchases within the category (1.0%).



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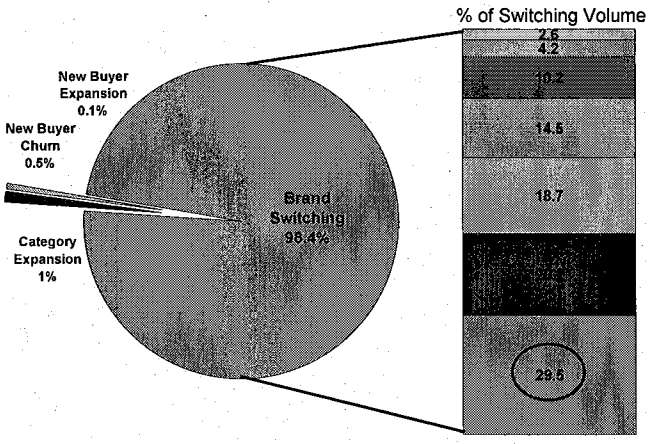
Source: Information Resources Inc. IntroSource; All Outlets; 52 weeks ending October 17, 2004

Hood Carb Countdown Sourced Most of its Volume from Reduced Fat and Fat Free White, but had a Higher than Expected Interaction with Lactose Red/Free, Flavored, and AO Fluid Milk.



	Interaction Index
All Other Fluid*	**204**
Lact Red/Free Milk	**297**
Flavored	**229**
Whole White	83
Low Fat White	102
Fat Free White	77
Reduced Fat White	96

*AO Fluid Milk = Egg Nog, Buttermilk, & Keifer

Source: Information Resources Inc. IntroSource; All Outlets; 52 weeks ending October 17, 2004

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Executive Summary

- Brand switching accounted for virtually all (98%) of Hood Carb Countdown's volume gains.
  - Consumers appear to be switching from lower fat milks to the Hood Carb Countdown items as over half of the Hood volume gains are coming from reduced, low, and fat free milk
- Hood Carb Countdown is highly substitutable with Lactose Reduced/Free Milk & Flavored Milk, based on very high interaction indices of more than 200.
- A small amount of volume sourced by this product (0.5%) came from expected new buyers, also known as new buyer churn or the part of new category buyer volume which is normal and expected.
- The remaining 1% of Hood Carb Countdown's volume gains came from two sources.
  - New buyers expansion represented just 0.1% of Hood Carb Countdown's volume gains. This percentage represents unexpected new buyer volume.
  - Category expansion accounted for 1% and represents the percentage of volume from households who bought the new product in addition to other items from the category; thus increasing the household's total category volume.

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