

First Quarter 2003 Review January 1 – March 31

MUSHROOM SALES SHOW POSITIVE GROWTH IN Q1 2003

Mushrooms drove incremental sales in the first quarter for the category nationally, despite the fact that the Easter holiday sales occurred in second quarter. Package mushroom sales led category growth overall while the bulk mushroom segment continues to decline.

Mushroom sales spiked in January due to promotional and holiday activity. Ideally, promotions should be spread more evenly throughout this first quarter. Best practice research shows that if promotions increase in March it will help stimulate declining sales that typically occur at the start of the summer.

Shrink averaged 12 percent during Q1, which is in line with category best practices which recommend a target of 10-12 percent.

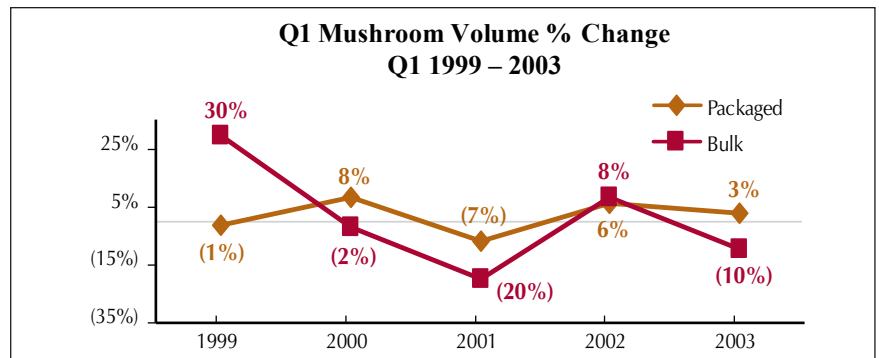
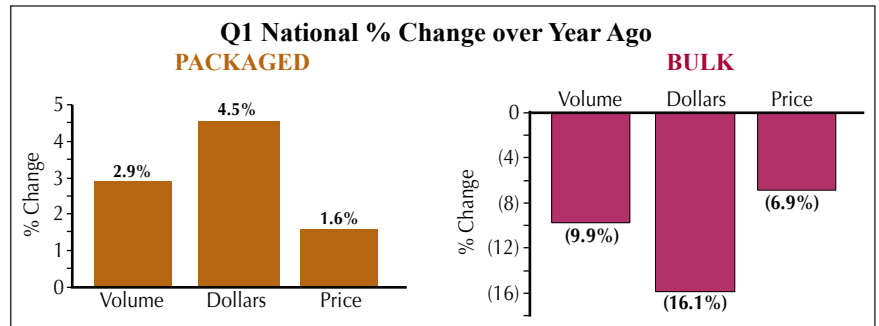
In the coming quarters, research supports a mushroom strategy that continues to drive sales with packaged product while communicating the freshness/value image through bulk mushroom displays.

Executive Summary

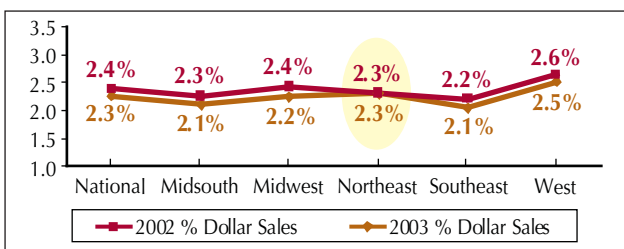
Nationally in Q1 2003 volume, dollars, and average retail price increased positively in the packaged mushroom segment while bulk continues to show declines in overall performance versus previous quarters. Looking at mushroom sales over the past 5 years has shown that packaged and bulk performance has not shown any long term trends. In fact, both packaged and bulk mushrooms displayed volume increases in Q1 2002 versus 2001.

Similarly, in Q1 2003 mushrooms outperformed the department in dollars per square foot. However, national category dollar contribution decreased in the first quarter versus Q1 2002, and produce department dollar growth continued to outpace mushroom category growth.

Brown mushroom dollars increased, while white mushroom dollars decreased. Consumers are more aware of the varieties of mushrooms and have responded with purchases in the brown mushroom segment. On average, volume more than doubled when mushrooms were promoted which has a similar impact to what happens year-round.



Category Contribution (Dollars)

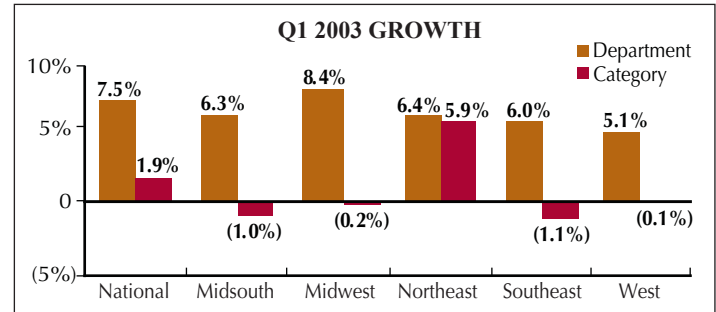


Category dollar contribution declined compared to 2002 in all regions except the Northeast (which remained unchanged from YAGO) for first quarter. The Northeast grew their volume in the brown subcategory which allowed them to maintain their dollar contribution to department sales. Dollar contributions in Q1 2003 ranged from a high of 2.5 percent (West) to a low of 2.1 percent (Southeast).

First Quarter 2003 Review • January 1 – March 31 (continued)
Category vs. Department Growth (Dollars)

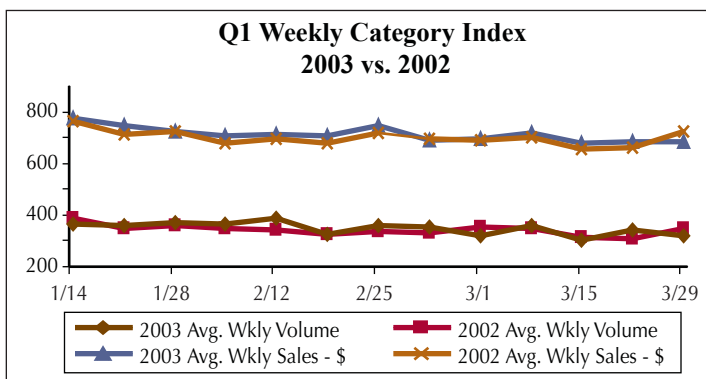
The produce department is outpacing mushrooms in dollar growth in all regions. The Northeast posted the largest Q1 category dollar growth at 5.9 percent. Looking at the subcategory level in the Northeast, the greatest dollar growth occurred in brown mushrooms, followed by dried mushrooms and white mushrooms. Overall, nationally brown mushroom volume increased by 19 percent due to consumer trial in that subcategory.

The Southeast has the largest opportunity for improvement based upon the decline of packaged and bulk sales and a loss of focus on category. Mushroom dollar growth decreased 1.1 percent in the Southeast during Q1 2003. At the subcategory level, dried mushroom dollar growth decreased 6.2 percent, specialty mushroom dollar growth decreased 5.4 percent, and white and brown mushroom dollar growth both declined 3.0 percent. Packaged mushrooms decreased by 0.9 percent and bulk decreased by 11.8 percent.


1st Quarter Weekly Performance (Dollars, Volume and Retails)

Nationally, packaged mushroom volume increased in Q1 of 2003 and bulk volume decreased versus YAGO. The Midwest was the only region with an increase in bulk volume between Q1 2002 and Q1 2003. The Northeast had the largest packaged volume gains over 2002. The Northeast led all regions in packaged volume, followed by the Midwest. Packaged retail prices increased in all regions except the Midwest and Northeast.

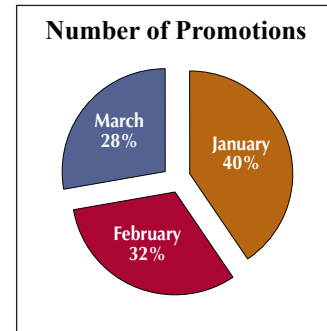
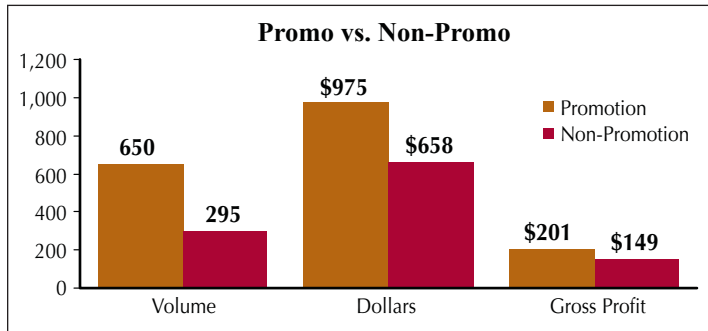
1st Quarter Average Weekly Performance: By Store/By Region										
Region	Packaging	VOLUME			DOLLAR SALES			UNIT PRICE		
		Prior Year 2002	This Year 2003	% Change	Prior Year 2002	This Year 2003	% Change	Prior Year 2002	This Year 2003	% Change
National	Packaged	313	322	2.9%	\$609	\$637	4.5%	\$1.95	\$1.98	1.6%
	Bulk	30	27	(9.9%)	\$90	\$75	(16.1%)	\$3.03	\$2.82	(6.9%)
Midsouth	Packaged	295	257	(12.7%)	\$504	\$497	(1.6%)	\$1.71	\$1.93	12.7%
	Bulk	33	32	(4.0%)	\$108	\$110	1.6%	\$3.27	\$3.46	5.9%
Midwest	Packaged	340	340	0.0%	\$693	\$687	(0.9%)	\$2.04	\$2.02	(1.0%)
	Bulk	7	8	13.8%	\$20	\$25	24.5%	\$2.78	\$3.05	9.5%
Northeast	Packaged	453	491	8.5%	\$901	\$975	8.2%	\$1.99	\$1.99	(0.2%)
	Bulk	30	19	(37.3%)	\$81	\$65	(19.9%)	\$2.65	\$3.38	27.7%
Southeast	Packaged	194	192	(1.2%)	\$391	\$387	(0.9%)	\$2.01	\$2.02	0.3%
	Bulk	2	2	(14.9%)	\$8	\$7	(11.8%)	\$3.51	\$3.63	3.5%
West	Packaged	276	282	1.9%	\$510	\$542	6.3%	\$1.84	\$1.92	4.3%
	Bulk	78	65	(16.2%)	\$244	\$211	(13.3%)	\$3.14	\$3.25	3.3%

National Weekly Category Index (Dollars and Volume)


Volume and dollars were relatively flat throughout early Q1 2003, but peaked slightly around the New Year and Valentine's Day holidays.

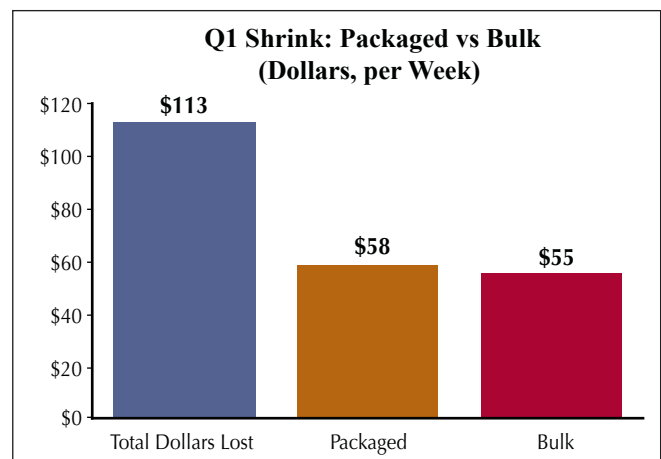
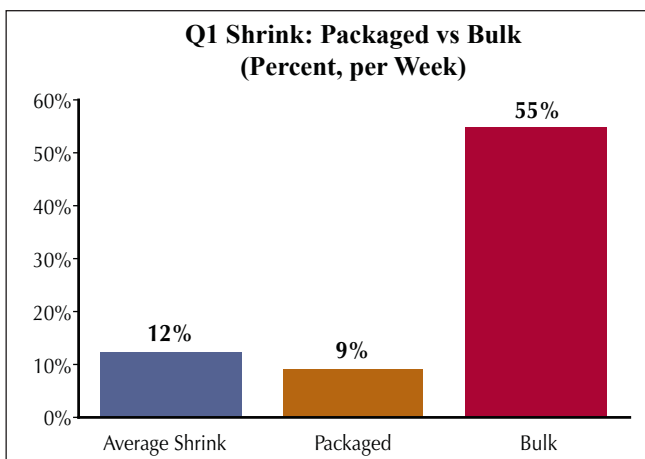
First Quarter 2003 Review • January 1 – March 31 (continued)
Promotions – Select Retailer Composite (9)

Average promotional discount on mushrooms was 26 percent in Q1, and on average, volume more than doubled when mushrooms were promoted. Promotional volume represented 22 percent of the category in Q1 2003. This is below ideal promotional volumes, which normally average above 30 percent. Best practices an ideal volume percentage indicate 30 percent as optimal. When looking at specific months, 40 percent of the promotions in Q1 2003 were run in January, followed by February (32 percent) and March (28 percent). Only 17 percent of the mushroom promotions featured bulk product. This segment will continue to see decreasing returns unless it is supported with promotional funds.


Shrink (4 Retailer Composite)

The average shrink percentage for the mushroom category was 12 percent. Comparing packaged versus bulk shrink we found package shrink at 9 percent and bulk shrink at 55 percent. Packaged mushrooms represent roughly 90 percent of volume versus 10 percent volume comes from the bulk segment. This equates to \$58 dollars lost per week per store on packaged product, while bulk accounts for \$55. There's definitely an upside to controlling this factor when considering that for a 100-store chain, shrink accounts for \$587,610 dollars lost per year.

Lowering category shrink will decrease the amount of poor quality product being left on the shelf. Freshness is one of the major factors consumers look for in purchasing produce. Therefore, it is critical that proper space to sales criteria are followed and that the mushroom set is based on specific store demographics (please see category Best Practices).



Looking Ahead to Third Quarter 2003

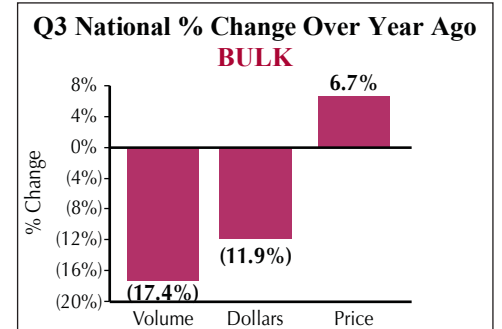
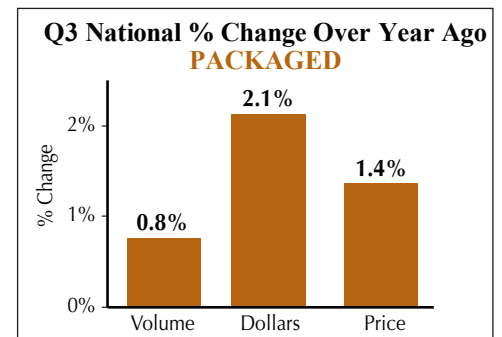
During the summer months, fresh fruits and vegetables are top of mind for the consumer, yet mushroom sales historically dip slightly in the third quarter. As a result, the challenge for the mushroom category is to maintain spring sales levels throughout the entire summer. The good news is that the third quarter is particularly conducive to mushroom consumption, as the summer grilling season is well underway, and increasingly more consumers are turning to the category for a meat substitute. Additionally, consumers looking to eat lighter healthier meals often fill up on fresh salads in the summer months. Therefore, capitalizing on consumers' seasonal eating habits by implementing promotion and merchandising strategies can result in strong mushroom category sales during the summer of 2003.

National Trends

Nationally in the third quarter of 2002, volume of packaged mushrooms increased almost 1 percent while dollar sales and average retail price were up 2.1 percent and 1.4 percent respectively. The largest decline was in bulk mushrooms with volume down 17 percent, dollars down almost 12 percent, however average retail price increased almost 7 percent. Looking at the trends, average retail price for bulk mushrooms has increased 11 percent over the past four years, in the third quarter, from a low of \$2.78 per pound in 1999 to a high of \$3.08 per pound in 2002. This historical data indicates that if there is a **focus on the bulk segment in Q3 2003 it can reverse the current erosion of bulk category share**. However, this emphasis on bulk should not be at the expense of the packaged mushroom segment, considering that consumers are looking for convenience as they add mushrooms to their summer meal occasions.

Opportunity: Increase bulk mushroom category share.

Recommendation: Bulk product should be promoted at least three times during Q3 in conjunction with packaged items to reverse current sales trends. A minimum of 2 square feet should be allocated for bulk product to maximize sales during the quarter with 14 square feet being allocated to packaged product.

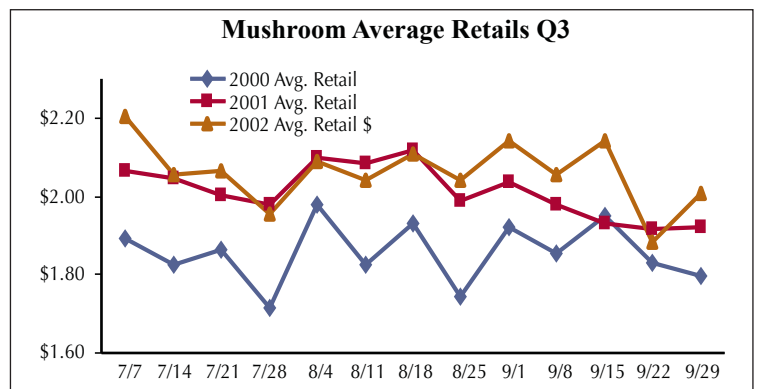
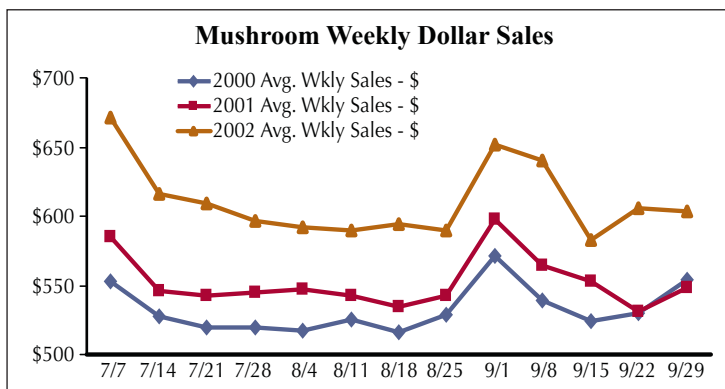


Weekly Sales Q3 2002

The first week of July in 2002 had the highest overall dollars for the quarter, driven by Fourth of July holiday sales. Average weekly sales in the third quarter over the last three years have increased showing the same overall trend as the quarter progresses.

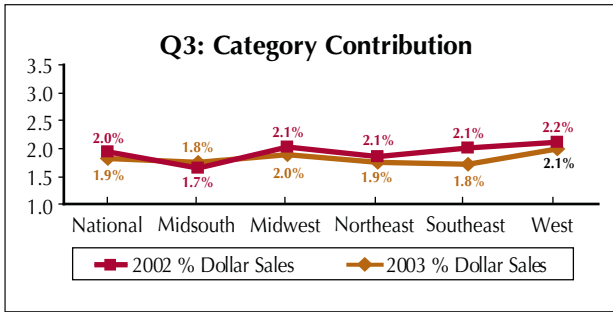
Opportunity: Build weekly mushroom sales.

Recommendation: In Q3 2003 add incremental mushroom promotions – beyond the traditional Fourth of July and Labor Day promotions.



Looking Ahead to Third Quarter 2003 (continued)

Category Contribution (Dollars)



In 2002 all regions except the Midsouth lost dollar share. The Midsouth grew their core business in the white and brown subcategories that allowed the region to increase overall mushroom contribution to the department.

Opportunity: Improve mushroom category contribution to overall department dollars

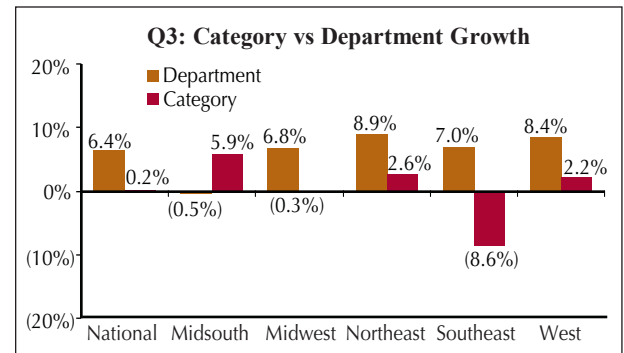
Recommendation: With summer in full swing, maximize sales of sliced mushrooms for salads as well as Portabella products by capitalizing on the outdoor grilling occasions.

Category vs. Department Growth (Dollars)

During Q3 last year, produce dollar sales increased at a faster rate than mushroom sales in all regions except the Midsouth. Department dollar growth is out-pacing mushroom dollar growth by 6.2 percent nationally. The Midsouth posted the largest Q3 category dollar growth at 5.9 percent by focusing and improving upon both white and brown mushroom sales.

Opportunity: Regionally, the Southeast has the largest opportunity to improve the white and brown mushroom dollar growth that declined 10.2 percent in the Q3 2002.

Recommendation: Southeast region suppliers should confirm that merchandising and promotional Best Practices are being implemented for the white and brown subcategories.

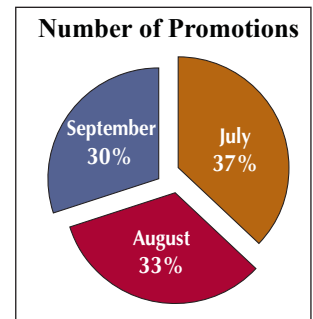
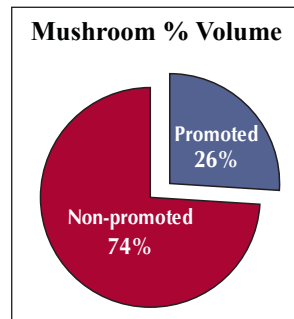


Q3 2003 Promotions (5 Chain Composite)

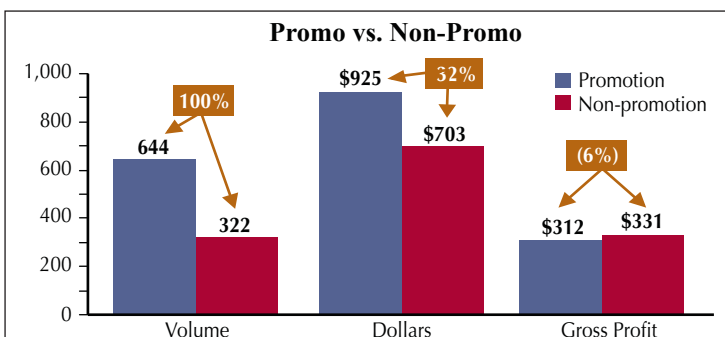
In the third quarter of 2002, 26 percent of mushroom volume was generated by promotions, which is the lowest percentage of volume sold on promotion over all four quarters of 2002.

Opportunity: Ideally, 30 percent of volume should be driven from promotions based on category best practices.

Recommendation: Promotions should be utilized to drive incremental volume and dollars emphasizing all four subcategories with six to seven ads planned during Q3 for maximum impact.



The highest concentration of ads came during July; two ads were run on average per month and 88 percent of the ads featured packaged mushrooms. Looking at promotions in Q3, on average volume increased 100 percent, dollars 32 percent and profit declines slightly at 6 percent.



Volume and dollars show significant increases on promotion (see above chart) the average retail promotion price was \$1.47 versus \$2.19 non-promoted.

Opportunity: Drive mushroom category sales through promotions.

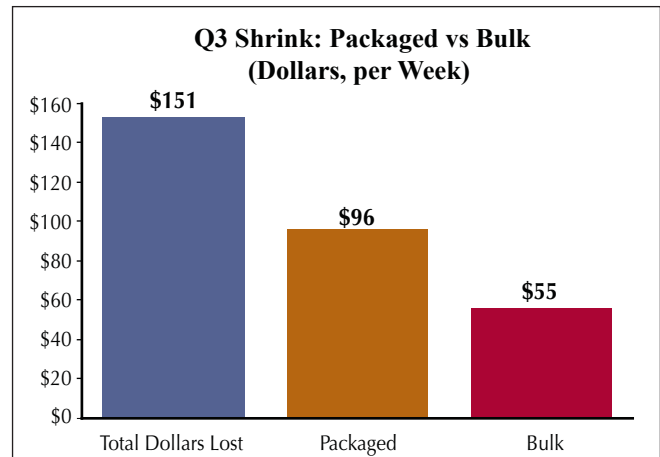
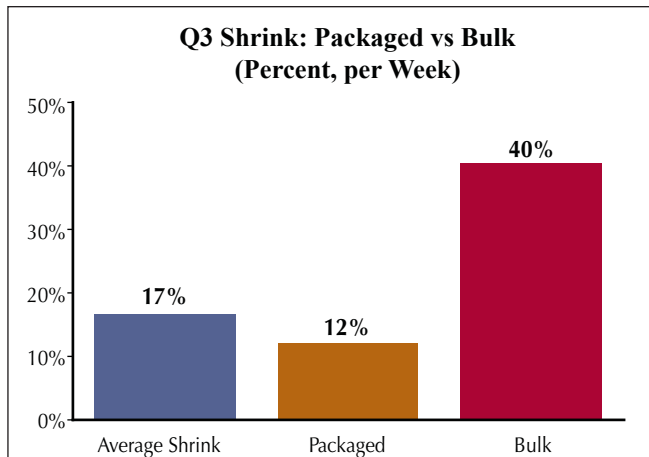
Recommendation: Emphasis should be placed all four subcategories with six to seven ads planned during Q3 for maximum impact.

Looking Ahead to Third Quarter 2003 (continued)
Q3 2003 Shrink

The packaged mushroom subcategory contributes 64 percent of shrink. While bulk mushroom shrink is significantly higher than the packaged subcategory, packaged is still driving overall shrink (\$96 versus \$55 dollars). By continuing to highlight the category through fall promotions, overall shrink percentages will decline. Mushroom category shrink should fall between 10 percent and 12 percent.

Opportunity: Decrease shrink.

Recommendation: Proper space to sales allocations based on store demographics (see Best Practices) will increase turns and help to continue to drive shrink out of the category.

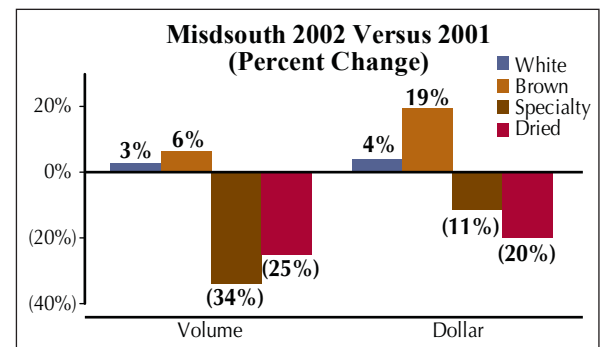
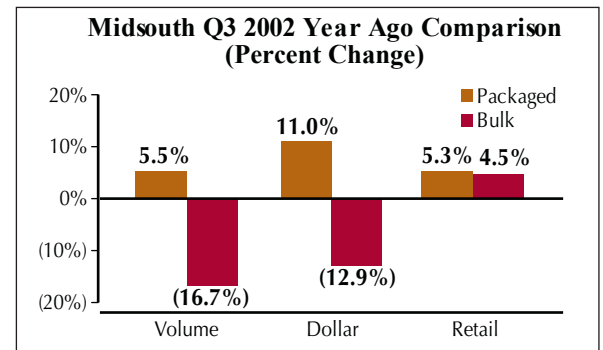

Looking at Regional Opportunities
Midsouth

The Midsouth was the only region which grew its category contribution to total produce dollars over YAGO. The Midsouth also was the only region with mushroom category growth that outpaced overall produce department growth. Overall, volume, dollars and profit increased in the packaged segment, with growth in the white and brown subcategories. However, while three of the top five items showed declines in the category, the three packaged Portabella items increased substantially over last year.

Opportunity: Continue to grow the overall category.

Recommendation: The Midsouth should maintain focus on the white and brown subcategories but emphasize the specialty category more often utilizing promotions in 2003.

Top Five Items	Volume 2001	Volume 2002	% Change
Packaged White Whole 8 ounce	94	93	(0.8%)
Packaged White Sliced 8 ounce	60	60	0.1%
Packaged Italian Brown/Crimini	32	30	(3.4%)
Bulk White Large	26	22	(16.7%)
Packaged White Whole 16 ounce	7	7	0.8%



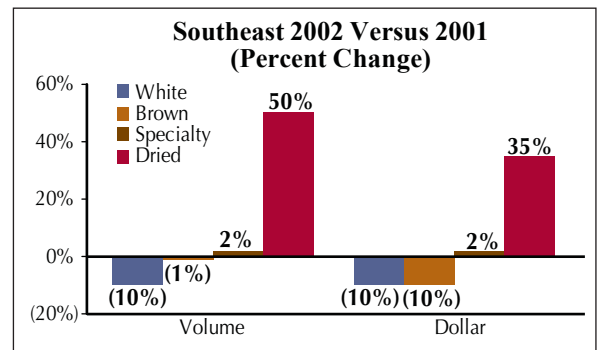
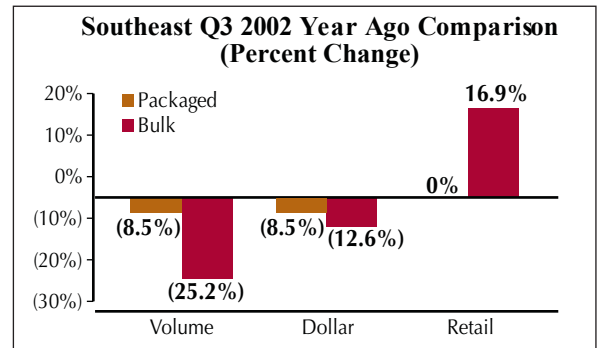
Looking at Regional Opportunities (continued)
Southeast

Packaged and bulk sales took significant losses in Q3 2002 in the Southeast. While the region performed well in dried product, it was not enough to impact overall sales. Four of the top five items showed declines in the category.

Opportunity: Grow core mushroom category segments (whites and browns).

Recommendation: The Southeast should promote white mushrooms a minimum of five times during the quarter with two to three of those ads including brown and specialty items.

Top Five Items	Volume 2001	Volume 2002	% Change
Packaged White Whole 8 ounce	59	54	(8.4%)
Packaged White Sliced 8 ounce	55	53	(3.7%)
Packaged White Whole 16 ounce	11	10	(9.5%)
Packaged Sliced Portabella	7	9	29.1%
Packaged White Portabella	5	5	(5.5%)

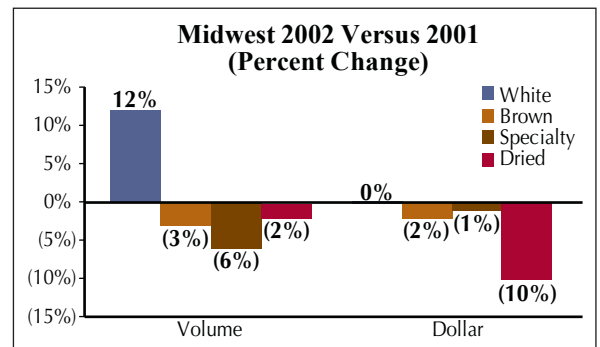
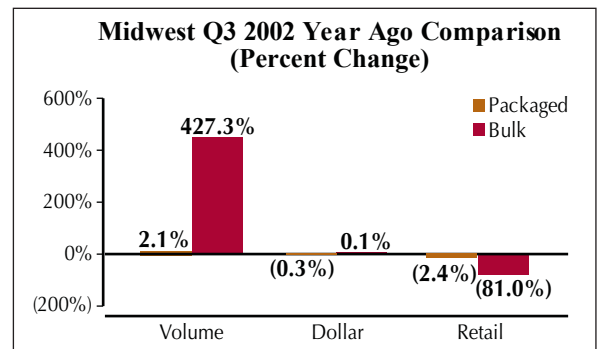

Midwest

The 10 cent bulk mushroom promotion helped drive sales in Q3 2002 in the Midwest region. White mushrooms grew in volume, but remained flat in dollars. Three of the top five items showed declines in the category. While 8 ounce whole volume increased, the larger package decline led to an overall sales decrease for the category.

Opportunity: Continue to grow the brown and specialty segments.

Recommendation: The Midwest should run at least two large package white ads in 2003 and two to three ads emphasizing the brown and specialty segments during the quarter.

Top Five Items	Volume 2001	Volume 2002	% Change
Packaged White Whole 8 ounce	109	106	(2.6%)
Packaged White Sliced 8 ounce	88	105	19.4%
Bulk White Large	3	26	722.9%
Packaged White Whole 16 ounce	33	26	(20.6%)
Packaged White Whole 12 ounce	18	16	(12.2%)



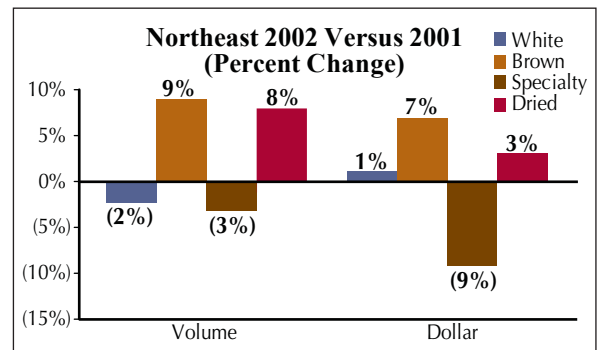
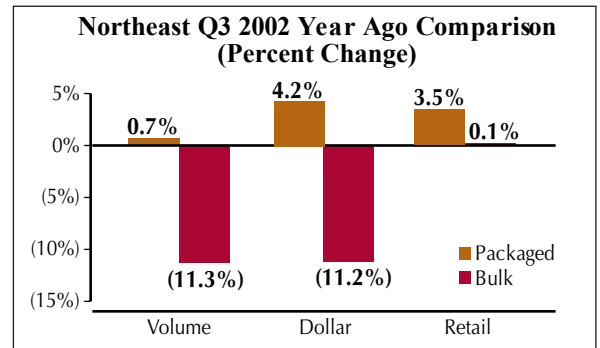
Looking at Regional Opportunities (continued)
Northeast

Packaged volume was flat in the Northeast in Q3 2002. The greatest gains came in the brown subcategory. Four of the top five items showed increases in the category but the top item declined almost 14 percent in volume.

Opportunity: For mushroom category growth from the top sellers.

Recommendation: The Northeast should focus more on the top five items in 2003 through aggressive promotions (five to six ads).

Top Five Items	Volume 2001	Volume 2002	% Change
Packaged White Whole 8 ounce	142	123	(13.5%)
Packaged White Sliced 8 ounce	60	71	17.5%
Packaged White Sliced 10 ounce	43	47	8.5%
Packaged Baby Portabella	20	21	0.4%
Packaged Sliced Portabella	18	20	8.3%

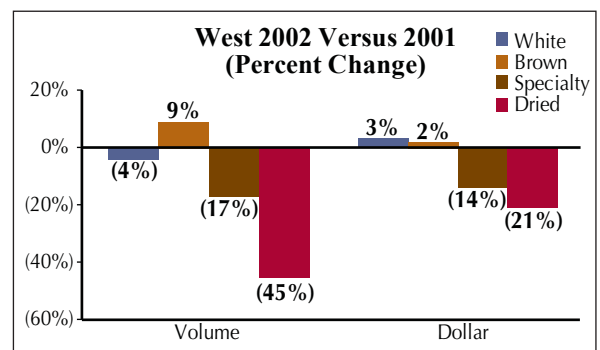
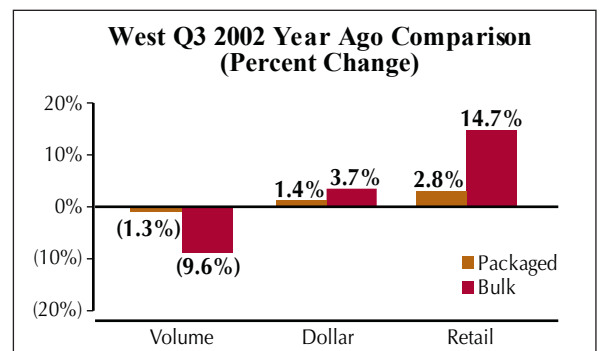

West

Bulk retails increased almost 15 percent in 2002 in the West region. The brown subcategory was the only segment growing in both volume and dollars. While sliced 8oz grew significantly it was negated by the fact that whole 8oz loss 13 percent in volume.

Opportunity: Grow category sales on the top SKUs as well as lower tier items.

Recommendation: The West region should increase the number of promotions for the top six SKU's (six to seven on average) and continue to promote the lower tier items as part of multiple-item promotions utilizing subfeatures and liners.

Top Five Items	Volume 2001	Volume 2002	% Change
Packaged White Sliced 8 ounce	95	110	15.7%
Packaged White Whole 8 ounce	98	85	(13.3%)
Bulk White Large	46	51	10.6%
Packaged Sliced Portabella	3	3	11.3%
Packaged Whole Portabella	2	3	58.8%



Promotion Best Practices

OPPORTUNITY IS PLENTIFUL WITH SUMMER MUSHROOM PROMOTIONS

Continue to promote mushrooms during the summer

The largest opportunity gap in mushroom sales occurs during the summer when promotional efforts are lower. Mushrooms are the perfect ingredients in salads and portabellas are great grilled.

Promote an average of three items for the highest impact

Studies show that the most effective ads, from a volume and gross profit standpoint, are those with multiple mushroom segments represented. For example, promote packaged whites with brown and specialty mushrooms.

Promote frequently, but not so often that consumers depend on discounts

Promotions should attract new customers and generate new purchases that would not have been made without discounts. Studies indicate that six ads per quarter maximize category growth and profits.

To take full advantage of the mushroom category's potential, focus on the category throughout the year – do not ignore the summer months.

Focus on packaged white mushrooms to drive volume

Promoting packaged white mushrooms at a 33 percent discount can generate volume and profit lifts of 115 percent and 50 percent respectively.

Drive incremental sales with sampling, demos and POP materials

Educate consumers with in-store marketing programs to increase consumption and attract new consumers. Try-Foods research found that 40.2 percent of consumers look for recipes at the supermarket, and 81.7 percent of consumers who pick up a recipe buy ingredients during that store visit. Research conducted in 2002 showed that a recipe booklet made available to consumers in July increased sales on featured varieties by 70 percent, while the rest of the category declined.

PROMOTIONAL PLANNER

Promotion Date	Promotion Items / Description	Promotion Type	Promotion Price	In-Store Activity
First Quarter – SPRING	Week 4 Specialty ad	Subfeature	25% off pricepoint	Chinese New Year
	Week 7 White/Brown combo ad (include bulk)	Subfeature	30% off pricepoint	
	Week 9 White/Specialty combo ad (include bulk)	Subfeature	30% off pricepoint	
	Week 11 Hot White single item ad	Feature	45% off pricepoint	Salad Theme
Second Quarter – SUMMER	Week 13 White/Brown combo ad (include bulk)	Subfeature	30% off pricepoint	
	Week 15 White/Specialty combo ad (include bulk)	Subfeature	30% off pricepoint	
	Week 17 Hot White single item ad	Feature	45% off pricepoint	Salad Theme
	Week 19 Sampling/Demo Portabellas	Subfeature	25% off pricepoint	Grilling Theme
	Week 21 Portabella ad	Subfeature	35% off pricepoint	Memorial Day
	Week 23 White/Brown combo ad (include bulk)	Subfeature	30% off pricepoint	
Third Quarter – FALL	Week 26 Hot White single item ad	Feature	45% off pricepoint	Salad Theme
	Week 27 White/Specialty combo ad (include bulk)	Subfeature	30% off pricepoint	
	Week 29 White/Brown combo ad (include bulk)	Subfeature	30% off pricepoint	
	Week 30 Hot White single item ad	Feature	45% off pricepoint	Salad Theme
	Week 31 Specialty ad	Subfeature	25% off pricepoint	
	Week 33 Sampling/Demo Portabellas	Subfeature	25% off pricepoint	Cooking Theme
	Week 35 Hot White single item ad	Feature	45% off pricepoint	Salad Theme
Fourth Quarter – WINTER	Week 36 Portabella ad	Subfeature	25% off pricepoint	
	Week 39 White/Brown combo ad (include bulk)	Subfeature	30% off pricepoint	
	Week 45 Sampling/Demo Portabellas	Subfeature	25% off pricepoint	Italian Theme
	Week 47 Specialty ad	Subfeature	30% off pricepoint	Thanksgiving
	Week 52 Hot White single item ad	Feature	45% off pricepoint	Salad Theme

NOTE: The term promotion is used in the context of ads that are run by retail chains and has nothing to do in relation to overall Mushroom Council activities.

Promotion Test Results

RECIPE BOOKLET INCREASES SUMMER MUSHROOM SALES

In the summer of 2002, the Mushroom Council monitored usage of a recipe booklet featuring, among other things, whole white and Crimini mushrooms as main ingredients in summer recipes. The booklet, "Summertime Made Easy," included quick and easy recipes designed for summer entertaining. The booklet was designed by an East Coast retailer to support summer interest in grilling and salads.

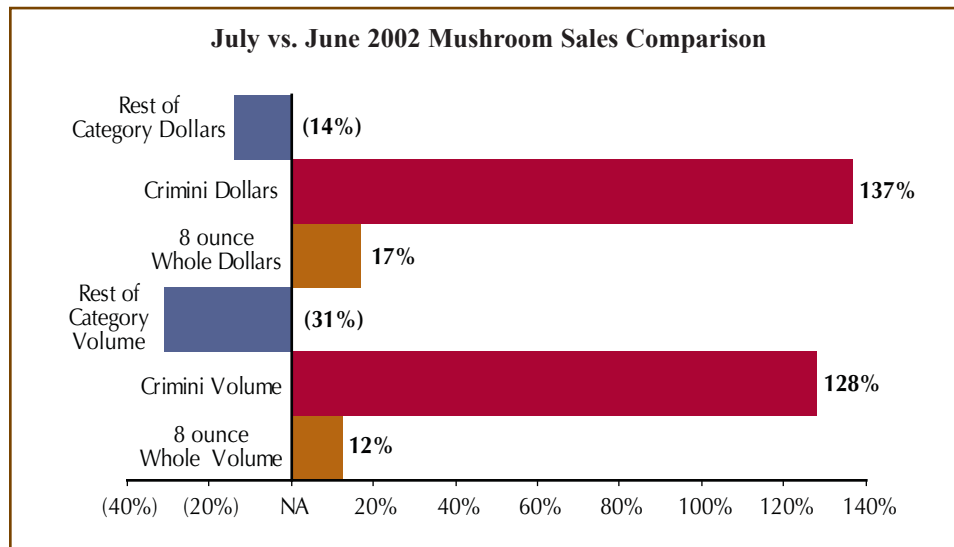
The booklet was available in Landover, Md.-based stores between June 21 and July 21. All 185 stores in Delaware, Maryland, New Jersey, Virginia and Washington, D.C. received booklets, with 222,000 distributed throughout the chain. These recipe booklets were available to consumers in the meat, seafood and produce departments, and in seasonal aisles with summer e themes.

To determine the impact on summer mushroom sales at retail, the Mushroom Council evaluated year-over-year mushroom performance by store, as well as average weekly movement in June, July, and August 2002 compared to 2001. Promotional schedules for both years were taken into consideration, as were average retail prices during the same three-month period.

Study results indicate the summer recipe booklet positively impacted mushroom sales. While overall mushroom sales declined in the three-month period, July showed gains in movement and sales for Crimini and white whole mushrooms (8 ounce), the varieties featured in the "Summertime Made Easy" recipe booklet that was distributed in July. Compared to June sales, sales for the featured varieties during the recipe booklet drop increased while the rest of the mushroom category declined (see chart below).

With the exception of the recipe booklet, Crimini mushrooms were not promoted during June, July and August of 2002 or 2001. White whole mushrooms were promoted 50% less in 2002. Consumers continued to buy both varieties even though retail prices were higher compared to 2001. The use of a recipe booklet generated significant interest in summer mushroom usage and ultimately led to increased mushroom sales.

For a complete copy of this research report please contact the Mushroom Council.



NOTE: The data in this report comes from multiple sources. Promotion and shrink information is sourced from retailers involved as Perishables Group research partners.