Pricing and Consumption

Profitable opportunities in the fresh potato market

UNITED STATES Potato BOARD

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An Evaluation of Potato Pricing at Retail

The potato industry will be facing lower supplies due to a variety of factors such as environmental/weather/yield conditions in several growing states, industry efforts to do a better job of managing supply/plantings, and increased transportation costs associated with escalating oil prices and last year's hurricane season. The result of reduced supply, and higher prices, may cause alarm to retailers nationwide in terms of the resulting impact on the potato category. However, research conducted by the United States Potato Board over the last five years shows that there is an opportunity to adjust potato pricing upward without negative consequences on consumer purchases. This is primarily due to:

1. Inelasticity of the potato category
2. Lack of consumer understanding or awareness of current potato pricing
3. Potato pricing trending below other staple items with regards to regular increases

Inelasticity of the Potato Category

Research shows 80 percent of consumers plan their potato purchases, with consumers reporting that potatoes are already on their written or mental grocery lists before they enter a grocery store. That's supported by the fact that over 77 percent of all dinner meals are consumed at home and that potatoes are part of that dinner occasion 21 percent of the time. Taking it even further, almost 80 percent of individuals are eating some form of potatoes 3.5 times every two weeks.

In addition, while almost 60 percent of consumers indicated that quality, appearance, and color were the most important attributes when purchasing potatoes, only 18 percent of consumers reported making a potato purchase decision based on price. Looking at it another way, 70 percent of the consumers indicated potatoes were a great value for the money.

Potatoes are generally perceived as inexpensive. When asked, some consumers indicated they would pay up to $1 more per bag while not significantly changing consumption – especially if there was perceived improvement in the quality of packaging and/or of the potatoes.

Recent research indicated that price changes have little effect on consumers; however, consumers have a strong interest in recipes, new varieties, and high quality potatoes.

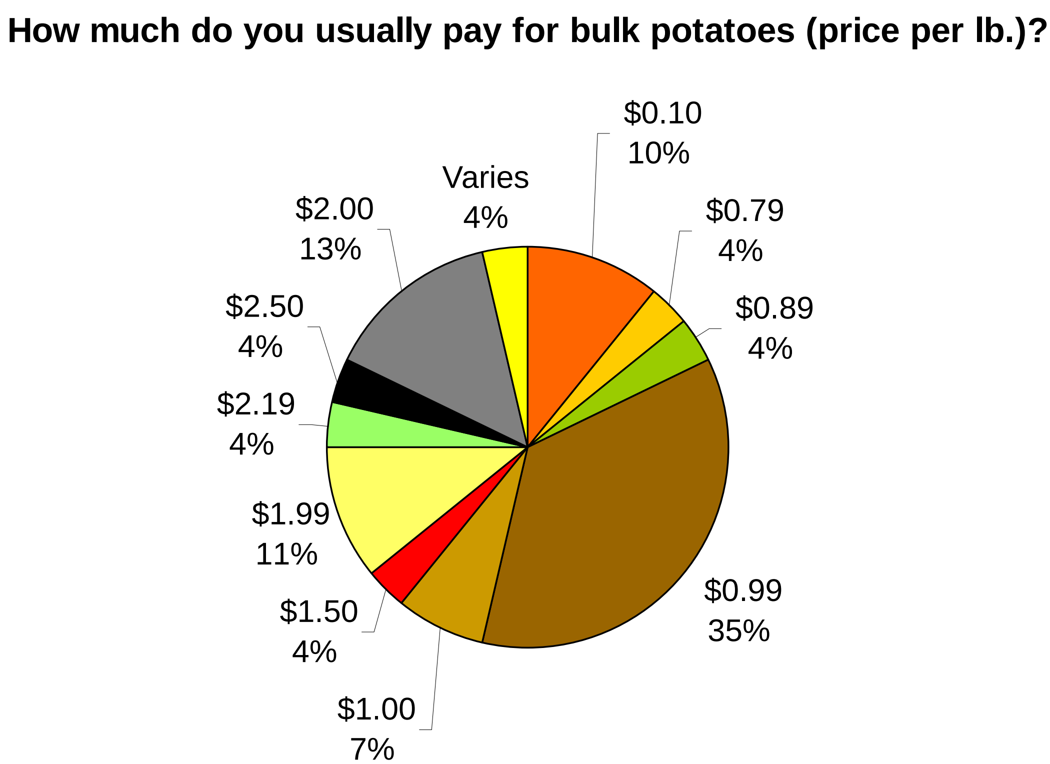
Consumer Lack of Awareness of Current Potato Pricing

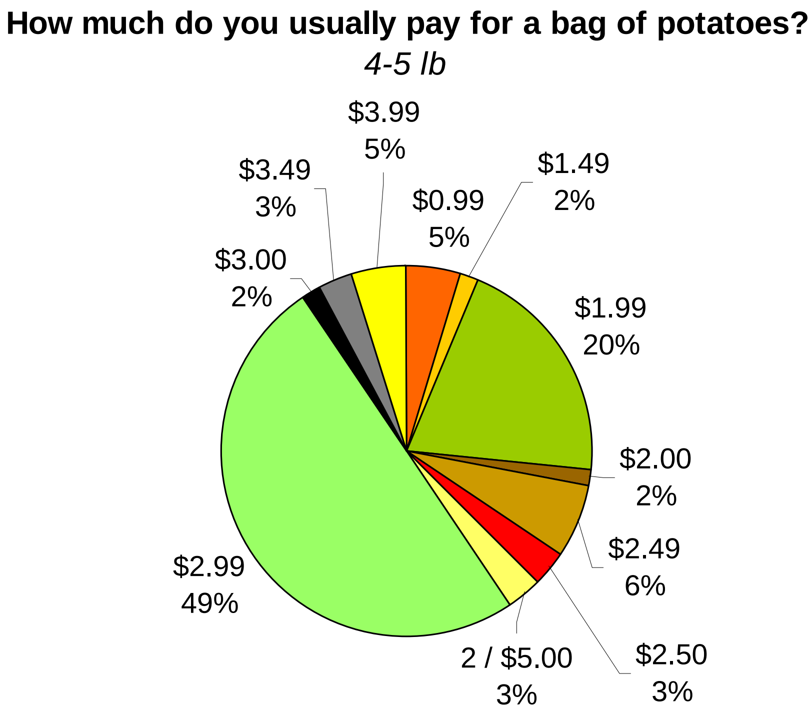
Because potatoes are considered an inexpensive staple item, many consumers do not realize what they pay for potatoes. Research conducted over the past several months to measure consumer perceptions of potato pricing versus actual potato pricing revealed:

that 43 percent of consumers thought they were paying significantly more for bulk potatoes than they actually paid. This includes the more than 30 percent that believed they were paying more than double the average price of bulk potatoes.

On a 5-pound bag of potatoes, only 22 percent accurately reported what they were paying for potatoes. Nearly three-fourths believed they were paying much higher than the actual retail prices.

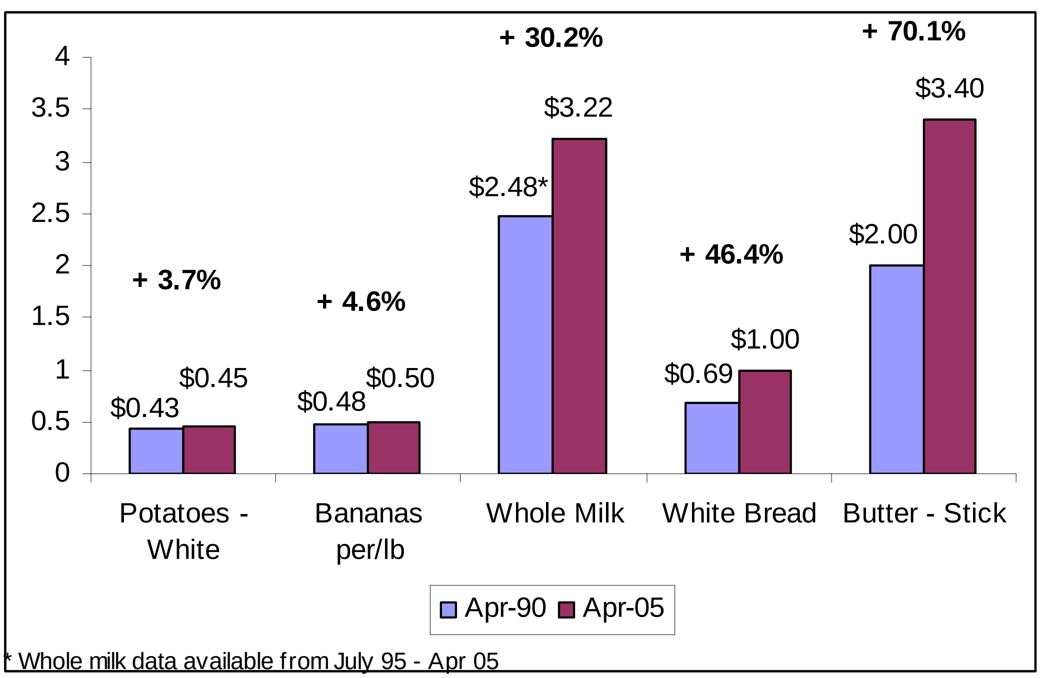
2005 Consumer Intercepts

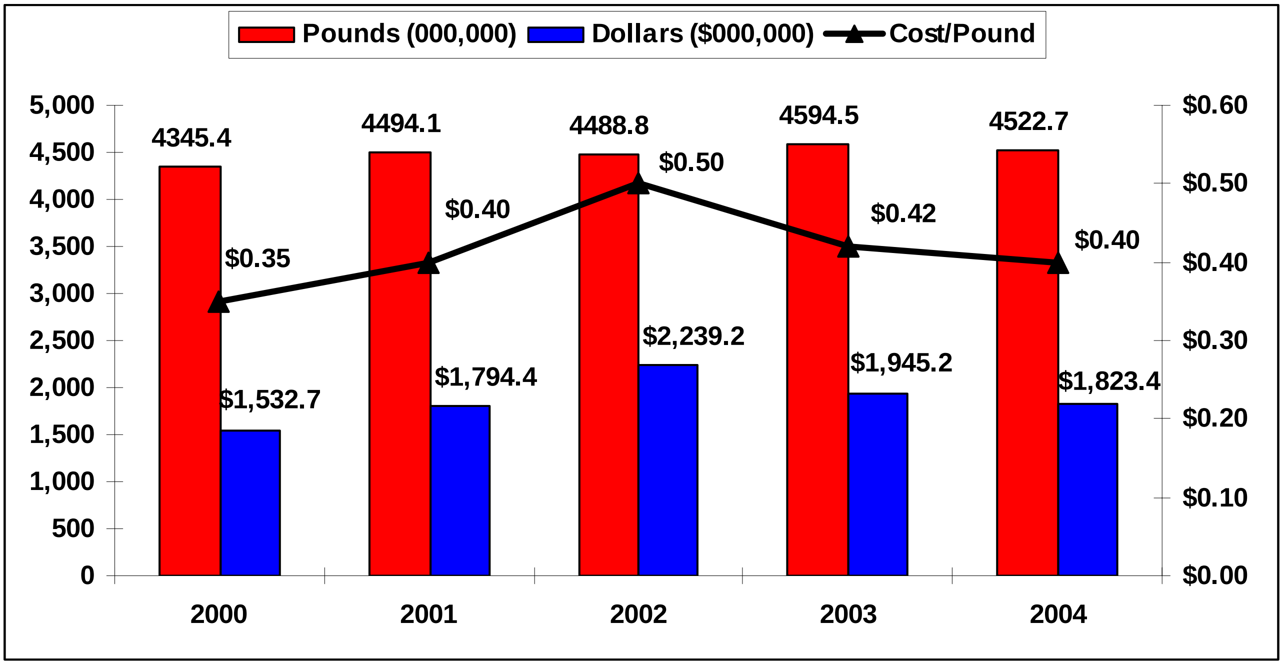




Potato Prices Have Not Increased at the Same Rate as Other Staple Items

Potato prices have increased at a slower rate than many other staple products over the last 15 years. From April 1990 to April 2005, potato prices increased 3.7 percent while whole milk, white bread and stick butter all increased in price by more than 30 percent.





Reviewing AC Nielsen data from 2000 through 2004, we see relatively flat volume regardless of the retail cost per pound indicating consistent demand whether the price was $.35, $.40 or $.50 per pound.

Future evolutions and changing dynamics of the potato category in terms of new items, varieties, and packaging will also contribute to the increased potato category pricing. The changing dynamics around the potato category will require an increase in potato category pricing. Research indicates the category can easily withstand the price increases – and that there is an opportunity for profitability for *both* retailers and suppliers with efficient category management**,** when coupled with category development----and responding to the consumer.

USPB Potato Research Reports Available

1. Re-inventing the Potato: (11/2000) An overview of the retail situation for potatoes, industry trends, opportunities and the Board's strategy to "re-invent" the potato.

2. Retail Toolkit: (3/2001) A detailed report on the consumer, retail trade practices, the results of round one of the Board's potato marketing innovation concept testing, a consumer segmentation marketing strategy and worksheets to aid retailer implementation. The Toolkit also includes an offer to provide retailers with an opportunity gap analysis, annual benchmark report and assistance to implement the consumer segmentation strategy.

3. Potato Attitude and Usage Study: Ipsos-Insight (9/2005) Provides an understanding of consumer perceptions, attitudes, beliefs and behaviors regarding potatoes, and to what extent they change over time.

4. Bureau of Labor Statistics: (6/2005) Provides average pricing across staple food items and detail of how they change over time.

5. AC Nielsen Scantrack: Available quarterly from 2004 through 2^{nd}. Quarter 2005.

6. EMS Data: Available quarterly from 2000 through 2004.

7. NET: NPD Group (Dec. 2005) National Eating Trends for the potato category.