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Natureview Farm

It was a crisp Vermont morning in February 2000. Christine Walker, vice president of marketing for Natureview Farm, Inc., a small yogurt manufacturer, paused to collect her thoughts from a recently adjourned meeting with the other members of Natureview's senior management team. The team faced a challenging situation—that of finding a path to grow revenues by over 50% before the end of 2001. The central focus of the meeting was whether Natureview should expand into the supermarket channel in order to meet its revenue goal—a move which would represent a major departure from the company's established channel strategy and one which would impact every aspect of Natureview's business.

Despite the growth that Natureview Farm had been able to achieve since it began in 1989, the company had long struggled to maintain a consistent level of profitability. Jim Wagner, hired in 1996 as chief financial officer (CFO), had developed financial controls that brought steady profitability to the company, in line with dairy industry standards. No one at the firm had questioned Wagner's recommendation in 1997 that Natureview arrange for an equity infusion from a venture capital (VC) firm to fund strategic investments. However, the VC firm now needed to cash out of its investment in Natureview. Natureview management had to find another investor or position itself for acquisition, and increasing revenues was critical in order to attain the highest possible valuation[1] for the company. Wagner had advised the management that it would be critical to grow Natureview's revenues to $20 million before the end of 2001—a large jump from the $13 million the company reported in 1999. (See **Exhibit 1** for 1999 income statement.) While Wagner realized the bind Natureview was in, alternative financing would be extremely difficult until the VCs cashed out.

The previous day, Natureview's Chief Executive Officer (CEO) Barry Landers had admonished his management team that he needed a plan:

[1] Organic foods companies similar to Natureview were frequently valued on a multiple of revenues rather than profit or cash flow because these VC firms were investing in order to generate significant revenue growth. Typical sales multiples ranged from 1.5 times to 2.1 times revenue, so maximizing overall revenue was critical to achieving a higher valuation by potential investors.

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This case, though based on real events, is fictionalized, and any resemblance to actual persons or entities is coincidental. There are occasional references to actual companies in the narration.

> We have to come up with a plan that takes us to $20 million in revenues by the end of 2001. This immediate pressure to grow the top line is going to help us get to the size that we have long aspired to be. As you think through our options, though, you can't lose sight of what has made this company great. I'm proud of the strong brand we've built and what it represents in our marketplace, and I'm even more proud of the unconventional route we've taken to get here. We owe it to our customers, our suppliers, and our distribution partners to make the right strategic choices regarding the revenue growth objective before us.

Those words weighed heavily on the Natureview management team. The first meeting to address the CEO's challenge had not gone well. After much analysis and discussion, the team members were sharply divided.

Natureview Farm's Early Years and the Current Situation

Founded in 1989, Natureview Farm manufactured and marketed refrigerated cup yogurt under the Natureview Farm brand name. The yogurt was manufactured at the Natureview Farm production facility in Cabot, Vermont. The key to the Natureview yogurt flavor and texture was the family yogurt recipe developed by the company's founder. The recipe used natural ingredients and a special process that gave the yogurt its unique smooth, creamy texture without the artificial thickeners used by the major U.S. yogurt brands—Dannon, Yoplait, and Breyers. The company used milk from cows untreated with rGBH, an artificial growth hormone that increased milk production. Because of the special process and ingredients, Natureview Farm's yogurt's average shelf life (the length of time the yogurt stayed fresh) was 50 days. Most of the large competitors' products had a 30-day shelf life, requiring them to build multiple production plants to reduce shipping time to their distributors.

In 10 years, Natureview Farm's revenues had grown from less than $100,000 to $13 million. The company first entered the market with 8-ounce (oz.) and 32-oz. cup sizes of yogurt in two flavors—plain and vanilla. Based on its early success, the company added flavors to both sizes. The 8-oz. flavors were developed by putting fruit puree into the bottom of the cup and adding plain yogurt on top. Producing this "fruit on the bottom" yogurt product required new equipment, but it allowed the brand to expand its product offerings to help increase revenues. Because of the emphasis on natural ingredients and its strong reputation for high quality and great taste, the Natureview brand grew quickly to national distribution and shared leadership in the natural foods channel. This was aided by creative, low-cost "guerilla marketing" tactics that worked well in this channel.

By 2000, Natureview Farm produced twelve refrigerated yogurt flavors in 8-oz. cups (86% revenues) and four flavors in 32-oz. cups (14% revenues). The company had also started exploring multipack yogurt products (children's 4-oz. cups and yogurt packaged in tubes). Natureview shipped its yogurt to retailers in cases, with a typical case containing 12 cups for the 8-oz. and 6 cups for the 32-oz. product lines, respectively. (If the company were to expand into multipack products, their cases would contain four packages.) As a major brand in the natural foods channel, Natureview Farm had developed strong relationships with leading natural foods retailers, including the chains Whole Foods ($1.57 billion revenues in 1999) and Wild Oats ($721 million revenues). The organic foods market, worth $6.5 billion in 1999, was predicted to grow to $13.3 billion in 2003.[2]

[2] "A Step Closer To Defining 'Organic,'" *Natural Foods Merchandiser* 12: 43 (December 1999).

The Refrigerated Yogurt Category and the Yogurt Consumer

Yogurt is a dairy product, the result of milk fermented in a carefully controlled environment. Special bacteria added to the milk change its texture and give yogurt its unique health properties—it is a good source of calcium and improves digestion. Plain yogurt is typically made from whole, low-fat, or nonfat milk without additional flavoring ingredients. Flavored yogurt has sugar and either artificial flavorings or natural fruit (or both) added.

In 1999, total U.S. retail sales of refrigerated yogurt reached $1.8 billion and sales volume was just over 2.3 billion units. The market was fairly concentrated with the top four competitors—Dannon, Yoplait, Breyers, and Columbo—having the dominant share and the top two competitors controlling over 50% of the market. In 1999, when sales through the dominant two distribution channels—supermarkets and natural foods stores—were combined, supermarkets sold 97% of all yogurt consumed, and natural food stores sold the balance. Yogurt revenues were also generated through other channels, including warehouse clubs, convenience stores, drug stores, and mass merchandisers. However, Natureview did not consider entry into these channels because, relative to the supermarket channel, these channels offered limited revenue generation potential; the company's product was not a strong fit for the narrow product offering afforded to consumers through these channels; and volume requirements were prohibitive in certain channels. Warehouse clubs, for example, required multiple unit packages, 24 cups of 8-oz. cups per carton, but Natureview did not view its brand as developed enough to generate the consumer demand necessary to meet this volume requirement. In the previous five years, yogurt sales through supermarkets had grown an average of 3% per year, while sales through natural food stores had grown 20% per year. Because consumers were increasingly interested in natural and organic foods, well-managed natural foods retailers were thriving. Yogurt was an important product in the overall dairy portfolio of natural foods retailers, since stores earned a higher margin on yogurt than on any other dairy product.

Shoppers at natural foods stores tended to be more educated, earn higher incomes, and be older than the typical supermarket shopper. Forty-six percent of organic food consumers bought organic products at a supermarket, 25% at a small health foods store, and 29% at a natural foods supermarket. Generally, shoppers who purchased organic products, regardless of channel, tended to have higher incomes, have more education, and live in the Northeast and West. Organic dairy products were bought by 74% of heavy organic food buyers and 29% of light organic food buyers. Sixty-seven percent of U.S. households indicated that price was a barrier to their purchase of organic products, and 58% expressed that they would buy more organic product if it were less expensive. Forty-four percent of consumers identified the need for a wider selection of organic product in supermarkets.[3]

Yogurt was consumed by approximately 40% of the U.S. population, with women comprising the majority (over 70%) of yogurt purchases. Factors considered when deciding which yogurt to purchase included package type/size, taste, flavor, price, freshness, ingredients, and whether the product was organic, typically in that order of preference. For natural foods shoppers, the product's ingredients and whether or not the product was organic were more important purchase criteria. Among natural foods shoppers, a product's health-promoting qualities were usually more important than price in the purchase decision.

Regarding consumer product preferences, 6- and 8-oz. yogurt cups were the most popular product sizes, representing 74% of total category supermarket sales in U.S. dollars. This segment was

[3] "A Step Closer To Defining 'Organic,'" *Natural Foods Merchandiser* 12: 43 (December 1999); "Organic Products Are On One Third of Shopping Lists Enhanced Title," Research Alert 18(7):5 (April 07, 2000); eBrain Market Research, http://www.ebrain.org/ (2002 survey).

growing 3% per year, but also faced stiff competition. Women primarily bought 8-oz. yogurt cups as a healthy snack or lunch substitute and valued a variety of flavors since most consumers did not "add" anything to this size. By comparison, the next largest segment—multipacks—represented 9% of category sales and was growing by more than 12.5% per year. Children (and their mothers, seeking healthier snack alternatives) were the target of the fastest growing multipacks. These included six-packs of 4-oz. cup servings and the "fun and less messy" tube yogurt, which was squeezed from a flexible plastic tube and could be eaten without a spoon; eight 2-oz. tubes were included in the typical multipack. The last segment, the 32-oz. size, represented 8% of sales and was growing at a modest 2%. Buyers of the 32-oz. size were "heavy" yogurt consumers, who either ate the yogurt plain, added other ingredients (granola, fruit, etc.), or used yogurt in recipes (smoothies, cooking). For the 32-oz. size, the most popular flavors were plain and vanilla, and the most important purchase criteria were brand, expiration date, and price. (See **Exhibit 2** for yogurt market share by segment and region in the supermarket channel.)

Stores typically merchandised yogurt product in their own section within the refrigerated dairy case. The size of the yogurt section varied from store to store, although on average, the yogurt section in a natural foods store was smaller (4′ wide by 6′ high) than that in a supermarket (8′ wide by 6′ high). In both channels, the small cups (6-oz. and 8-oz.) were displayed on the upper two shelves, most commonly at eye level—where consumers more often purchased items, research showed. Stores usually put multipacks on the next-lowest shelves and 32-oz. containers in the bottom "well" (the least visible spot).

The Sales and Distribution Process: Supermarket Channel vs. Natural Foods Stores

Supermarket Channel

Large consumer products manufacturers, such as Procter & Gamble and Coca Cola, had dedicated sales forces that called directly on category buyers who ultimately controlled dairy product placement in their stores. By contrast, smaller manufacturers like Natureview Farms used sales brokers to sell their yogurt to both natural foods and supermarket chains. These influential brokers, representing several brands of consumer products, used their relationships to arrange discussions between retail chains, wholesalers, and manufacturers, in addition to performing numerous other services for manufacturers. For these services, brokers charged manufacturers such as Natureview a fee or commission that varied from product to product. For yogurt, the broker's fee was 4% of manufacturer's sales.[4]

If Natureview Farm chose to expand into the supermarket channel, it would depend heavily on its broker's knowledge of promotional and merchandising requirements. For each item or SKU (stock-keeping unit) they carried, supermarket chains aimed to maximize sales volume and inventory turns.

Supermarkets carefully monitored sales trends, especially of new items, by region, area, and store, using sophisticated scanner technology. Their relatively streamlined distribution systems also allowed supermarkets to maintain lower prices. Suppliers to supermarkets typically sent products to a large distribution center, which in turn shipped directly to the supermarket chain's warehouse. This facilitated efficient distribution to the individual stores. At each step, the distributor and the retailer charged a markup on products that flowed through their warehouses or stores. The typical distributor margin in this channel was 15%, and the typical retailer margin was 27%. These margins were consistent across yogurt product type. A supermarket would charge $0.74 for the same cup of

[4] Broker's fees were typically accounted for in SG&A (Sales, General & Administrative) expense.

yogurt priced at $0.88 in a natural foods store. (See **Exhibit 3** for manufacturing costs and retail prices by channel.)

In order to sell its yogurt into supermarkets, Natureview would be required to pay a one-time "slotting fee" for each SKU only in the first year it was introduced and then to participate in regular trade promotions—both uncommon practices in the natural foods channel. The supermarket retailer charged this slotting fee in order to set up a slot throughout its distribution system for the new SKU and then monitor its sales trends. If the SKU did not prove profitable for the supermarket within the year, the supermarket would discontinue the product and would require a new slotting fee payment in the event the manufacturer sought reauthorization of the SKU. For refrigerated yogurt, the slotting fee averaged $10,000 per SKU per retail chain. For instance, Natureview would need to pay each supermarket chain $80,000 to introduce eight different flavors in the 8-oz. size.

Once an item became part of a supermarket chain's regular inventory, the chain expected or required the manufacturer to participate in regular trade promotions, usually at least every three months. This meant advertising the product in the weekly sales circular that the supermarket distributed to local households. The cost of trade promotion ads varied widely by region and by size of the advertisement. In the Northeast, Midwest, and Southeast of the U.S., advertisements cost $7,500 for the size typically used by Natureview Farm's competitors. In the West, the same advertisements cost $15,000 per ad per retailer. (Nationally, they cost $8,000 on average.) While these were not significant expenses for larger competitors such as Dannon and Yoplait, both of which spent over $60 million per year in marketing their yogurt products, this was an expensive proposition for smaller manufacturers to match.

Natural Foods Channel

Natural foods chains typically charged higher retail prices for the same products than supermarkets did, due to lower price sensitivity among natural foods customers as well as differences in the distribution system. Distribution in the natural foods channel involved four, instead of three, parties. A manufacturer like Natureview first shipped products to a natural foods wholesaler. The wholesaler shipped the yogurt to a natural foods distributor, who in turn delivered the products to a retailer like Whole Foods. (See **Exhibit 4** for a diagram illustrating the length of each channel to market.) In contrast to supermarket distributors, intermediaries in the natural foods channel would "break cases" (i.e., allow natural foods retailers, who tended to be small stores at the time, organized in few chains) to order fewer items than a full case. Furthermore, natural foods distributors would deliver product to individual stores, and in some instances even stock the shelves and track paperwork. The typical natural foods wholesaler margin was 7%, the distributor margin was 9%, and the retailer margin was 35%. These margins tended to be consistent across yogurt product type. Thus, by the time an 8-oz. cup of yogurt had reached the store shelf in the natural foods channel, it had passed through two distribution points plus the retailer, and the retail price of the 8-oz. cup was $0.88.

In contrast to supermarket chains, natural foods retailers did not charge manufacturers monetary slotting fees, but did require a one-time allotment of one free case of product for every new SKU authorized for distribution in its first year. Aside from the large chains—Whole Foods and Wild Oats—most natural foods stores lacked automated scanner checkout systems to track sales from promotions, and price discounts were usually not necessary to achieve sales targets. The competitors that Natureview faced in the natural foods channel versus the supermarket channel reflected the different business models, consumer audiences, and distribution systems inherent in both channels. Horizon Organic, flush with cash from a recent initial public offering (IPO), was Natureview's greatest competitor to obtaining supermarket distribution. It produced a full range of organic dairy products and was a national brand in natural foods stores. Brown Cow was a smaller company with a strong regional presence on the West Coast. Brown Cow's yogurt was "all natural," but not organic; Horizon's was organic, but it had a shorter shelf life than Natureview's product. (See **Exhibit 5** for market share by brand.)

The Senior Management Team's Three Options

Back in her office, Christine Walker was considering the three options that the senior management team had proposed to grow Natureview's revenues to $20 million by the end of 2001. Two of the options required Natureview to enter the supermarket channel. While supermarket distribution offered Natureview a potential solution to its revenue requirement, it also presented potential problems that required careful evaluation.[5] She wondered what would it really take to thrive in the supermarket channel. The ripple effect of this decision could shake Natureview to its core, changing all aspects of Walker's job, from how she allocated marketing budgets to how she thought about brand strategy.

What concerned Walker even more was the CEO's admonition that kept ringing in her head. "We owe it to our customers, our suppliers, and our distribution partners to make the right strategic choices regarding this revenue growth objective." Natureview accounted for 24% of yogurt sales through the natural foods channel. These retailers had made Natureview what it was today. How would these long-term partners react to seeing Natureview's yogurt at the supermarket down the street at prices at least 15% lower? Would price concessions follow? Worse yet, would the stores in Natureview's traditional channel drop the brand and replace it with competitors' lines? When Natureview's current broker heard about the plan, he would likely let everyone at the company know his displeasure. Clearly Walker would have to minimize the damage to the channel support Natureview had established.

Walker picked up her notebook, which summarized the three options. Fortunately, none of them required building a new facility in the short term, which would have cost $30 million, and capital expenditures for manufacturing were approximately equal across the three options.

Option 1

The first option, to expand six SKUs of the 8-oz. product line into one or two selected supermarket channel regions, was most strongly advocated by Walter Bellini, vice president of sales. (Pursuing six SKUs struck the right balance between having enough cups on the shelf to provide a good shelf presence, while not incurring too large a slotting expense. The six SKUs chosen were the best-selling SKUs of the 8-oz. line.) His argument was based on three key points:

1. Eight-ounce cups represented the largest dollar and unit share of the refrigerated yogurt market, providing significant revenue potential.

2. Other natural foods brands had successfully expanded their distribution into the supermarket channel. Two such brands—Silk Soymilk and Amy's Organic Foods—had increased revenues by over 200% within two years of entering supermarkets. Natureview, the leading natural foods brand of refrigerated yogurt, was uniquely positioned to capitalize on the growing trend in natural and organic foods in supermarkets.

3. Bellini had heard rumors that one of Natureview's major natural foods competitors would soon try to expand into the supermarket channel. Supermarket retailers would likely

[5] Natureview used a discount rate of 8% to evaluate projects.

authorize only one organic yogurt brand. The first brand to enter the channel could therefore have a significant first-mover advantage.

One of Natureview's brokers had told Bellini that supermarket chains—afraid of losing market share to other channels—believed that offering more organic products in their stores would attract higher-income, less price-sensitive customers. Bellini mentioned that some industry experts were predicting unit volume growth of organic yogurt at supermarkets of 20% per year from 2001 to 2006. These predictions were relative to unit growth projections of 2% to 4% for the yogurt category overall in the supermarket channel.

The team acknowledged that this option had great upside potential but also higher risks and costs. The 8-oz. size received the highest level of competitive trade promotion and marketing spending. Natureview Farm's sales broker had indicated that supporting this cup size would require quarterly trade promotions and a meaningful marketing budget. Natureview's advertising agency estimated that a comprehensive advertising plan (comprising television, radio, outdoor, and print advertising) would cost Natureview $1.2 million per region per year. These launch expenditures were in addition to the trade promotion expenditures the company would need to make. Natureview's sales, general, and administrative expenses (SG&A) would increase by $320,000 annually; $200,000 would be incremental SG&A for additions to sales staff required to manage the supermarket brokers in the two regions, and $120,000 would go towards additional marketing staff.

With this level of advertising support, Natureview felt it could achieve a 1.5% share of supermarket yogurt sales after one year, producing an incremental annual sales volume of just over 35 million units. (See **Exhibit 6** for incremental unit sales projections by strategic option.) This projection also assumed Natureview's brokers could take advantage of their relationships with the top 11 supermarket retail chains in the Northeast and the top 9 chains in the West. Research showed that supermarket consumers in the northeastern and western regions were more likely to purchase organic and natural foods than consumers in other regions.

Walker found Bellini's arguments compelling. It was hard to counter his belief that Natureview had to enter the supermarket channel to successfully address the revenue gap. For Bellini, the "go or no-go" decision was clearly a question of "when" and "how," not "if." Walker glanced down at her notebook again.

Option 2

The second option—to expand four SKUs of the 32-oz. size nationally—was advocated by Jack Gottlieb, vice president of operations. His argument was based on three key points:

1. Although 32-oz. cups comprised a smaller unit and dollar share of the yogurt market, they currently generated an above-average gross profit margin for Natureview (43.6% vs. 36.0% for the 8-oz. line).

2. There were fewer competitive offerings in this size, and Natureview Farm had a strong competitive advantage because of the product's longer shelf life. Natureview's brand had achieved a 45% share of this size segment in the natural foods channel. The management team felt that it was realistic to assume that the company could sell approximately 5.5 million incremental units in the first year. To generate this projection, Natureview's broker advised that the company would need to expand into 64 supermarket retail chains across the United States.

3. Although slotting expenses would be higher because national distribution would require slotting fees across a larger number of retailers, promotional expenses would be lower—the 32-oz. size was promoted only twice a year. For a 32-oz. expansion, marketing expenses would be significantly lower as well—only 10% of what was projected for the 8-oz. size in each region, representing $120,000 per region per year.

Despite the many advantages of this option, the management team doubted that new users would readily "enter the brand" via a multi-use size. Bellini was also concerned about his sales team's ability to achieve full national distribution in just 12 months. Furthermore, as with the first option, Natureview would need to hire sales personnel who had experience selling to the more sophisticated supermarket channel and would need to establish relationships with supermarket brokers. Additions to sales headcount for the 32-oz. expansion option would increase SG&A by $160,000.

Despite these concerns, Walker thought this was an interesting option to consider. Dannon was rumored to be launching a line called Bright Vista, an organic yogurt that would compete directly with Natureview. Supermarkets themselves were also considering launching their own private-label versions of organic yogurt. Would launching a 32-oz. offering be less noticed by the competition? Could it acquaint supermarket customers with the brand before Natureview pursued the 8-oz. size in the supermarket channel? Since the 8-oz. size was the "bread and butter" product for Natureview's competitors, they might view an expansion into the 8-oz. market as a greater threat by Natureview.

Option 3

The third option—to introduce two SKUs of a children's multi-pack into the natural foods channel—was advocated by Walker's colleague Kelly Riley, the assistant marketing director. Riley based her argument on five key points:

1. The company already had strong relationships with the leading natural foods channel retailers, and expansion into the supermarket channel could potentially affect these relationships. Yogurt was an important product to natural foods retailers from both a revenue and a profit standpoint.

2. Riley also was not convinced that Natureview had the necessary resources or skill-set to sell effectively to and through supermarkets. Her recent conversations with Natureview's brokers, who were skeptical of the move, had only added to her concerns, and she feared that her colleagues were not adequately taking into account the impact that a "go" decision would have on the current marketing, sales, brand, and channel-partner arrangements.

3. Natureview Farm's all-natural ingredients would provide the perfect positioning from which to launch its own children's multi-pack product offering into their core sales channel. The sales team was confident that they could achieve distribution for the two SKUs.

4. The financial potential was very attractive. The projected total yearly revenue for the two multipack SKUs would be approximately 10% of the natural foods channel category dollar sales, and Riley estimated potential incremental unit volume at 1.8 million. Gross profitability of the line would be 37.6%. Furthermore, sales and marketing expenses in this channel were lower; the cost of the complimentary cases was estimated at 2.5% of the product line's manufacturer sales, and the marketing expenses were estimated at $250,000. Riley believed that introducing this product line into the natural foods channel would yield the strongest profit contribution of all the strategies under consideration.

5. The natural foods channel was growing almost seven times faster than the supermarket channel, and Natureview was developing several new products that could further boost sales performance in this highly successful channel. The five-year projected unit growth CAGR of yogurt in the natural foods channel was projected to be 15%, according to industry market research.

For this option, R&D and Operations would need to develop the multipack product. Natureview would incur no additional SG&A costs to introduce the multipack product—this was within the capabilities of the current functional resources.

While the management team sympathized with Riley's concerns, the team argued that potential channel conflict should not be the deciding factor—Natureview could find ways to manage it. But Riley held firm to her belief that supermarkets' emphasis on sales promotion and price was inconsistent with the premium brand positioning that Walker and Riley had worked hard to establish. Walker also recalled Riley describing her fear that Natureview's marketing department was unprepared to handle the demands on resources and staffing that entering the supermarket channel would impose.

Walker thought back to the exploratory conversation she and Riley had not long ago with a dairy buyer at a large Boston-based supermarket chain. He had advised them, "You're going to have to show us a real marketing plan if you want us to distribute your brand. Trade promotion spending and clever public relations stunts alone aren't going to cut it." She also remembered the previous day's conversation with Natureview's fulfillment manager, who had raised concerns about Natureview's ability to handle distribution to supermarket distributors. Such distributors were more demanding from a logistical and technological standpoint compared with distribution partners Natureview was familiar with from the natural foods channel. Instead of incurring the inevitable cost, change, and trauma from entering the supermarket channel, Kelly Riley wanted Natureview to focus on the "shooting star" and create a strategy to gain shelf space at natural foods retailers. Riley could be right, Walker thought, but she also suspected that the natural foods channel would soon be making demands much like those that Riley feared from supermarkets. Walker knew from experience that retailers were likely to demand more and more as they grew.

Just then, the phone rang. It was Natureview's CEO. "Christine, I'm really counting on you to help us figure out what to do here. I trust your instincts about the marketplace—our customers, competitors, and channels. You have the best direct read on all of this, and I need a coherent point of view and an action plan. I know these are not easy decisions, but I have confidence that you'll lead us down the right path."

Exhibit 1 Natureview Farm Income Statement, 1999

Revenues[a]	$13,000,000	100% Revenues
Cost of Goods Sold[b]	$ 8,190,000	63%
Gross Profit	$ 4,810,000	37%
Expenses		
- Administration/Freight	$ 2,210,000	17%
- Sales	$ 1,560,000	12%
- Marketing	$ 390,000	3%
- Research & Development	$ 390,000	3%
Net Income	$ 260,000	2%

[a]Natureview's 1999 revenues were 100% generated from sales of refrigerated yogurt to natural foods stores.
[b]The COGS reflects a product mix of 86% 8-oz. yogurt cups and 14% 32-oz. yogurt cups.

Exhibit 2 Yogurt Market Share by Packaging Segment, 1999 (Supermarket channel, in % U.S. dollars)

	Dollar Share	**Dollar Sales Change vs. Prior Year**
8-oz. cups and smaller	74%	+3%
Children's multipacks	9%	+12.5%
32-oz. cups	8%	+2%
Other	9%	NC
	100%	

Yogurt Market Share by Region, 1999
(Supermarket channel, in % U.S. dollars)

	Dollar Share	**No. of Retailers in the Region**
Northeast	26%	25
Midwest	22%	30
Southeast	25%	33
West	27%	17
	100%	

Note: Market share is given as percentage U.S. dollars for national U.S. market.

Exhibit 3 Yogurt Production Costs and Retail Prices by Channel

Natural Foods Channel	Average Retail Price
8-ounce (oz.) cup	$ 0.88
32-oz. cup	$ 3.19
4- oz. cup multipack	$ 3.35

Supermarket Channel	Average Retail Price
8-oz. cup	$ 0.74
32-oz. cup	$ 2.70
4-oz. cup multipack	$ 2.85

Note: Natureview's manufacturing costs for the three product lines—the 8-oz. cup, the 32-oz. cup, and the children's multipack—were $0.31, $0.99, and $1.15 respectively.

Exhibit 4 Length of Channels to Market

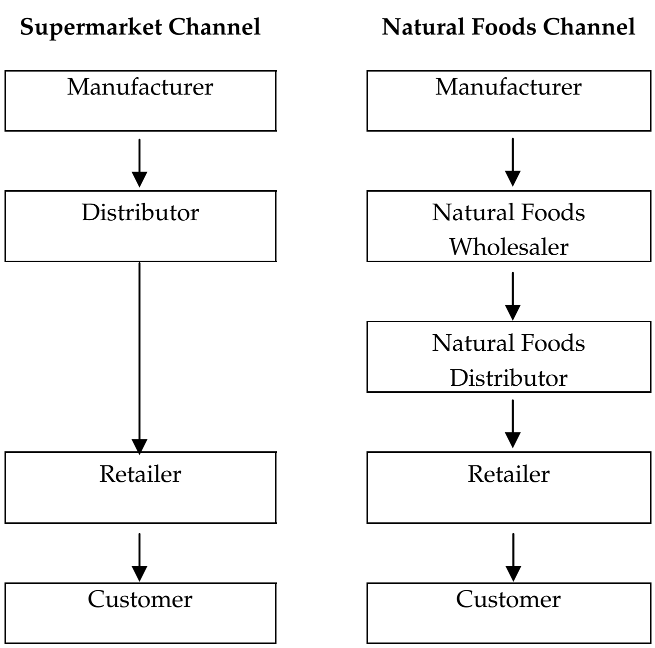

Exhibit 5 Yogurt Market Share by Brand, 1999
(Supermarket and Natural Foods channels, in % U.S. dollars)

Supermarket Channel

Dannon	33%
Yoplait	24%
Others	23%
Private Label	15%
Columbo	5%
	100%

Natural Foods Channel

Natureview Farm	24%
Brown Cow	15%
Horizon Organic	19%
White Wave	7%
Others	35%
	100%

Exhibit 6 Sales Projections for Natureview's Strategic Options

Option	**Action**	**Anticipated Incremental Retail Unit Sales**
1	Expand 6 SKUs of the 8-oz. size into eastern and western supermarket regions	35,000,000
2	Expand 4 SKUs of the 32-oz. size nationally into supermarket channel	5,500,000
3	Introduce 2 children's multipacks into natural foods channel	1,800,000