

HMR Market Overview

March 14, 1996

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Introduction:

The following overview represents a distillation of general findings drawn from multiple custom research conducted between 1981 and 1995 on behalf of both the foodservice industry and the suppliers and equipment consolidators to that industry. The focus of this report is on HMR as the indirect market to the supplier.

It is from this perspective that the information will be most valuable and most applicable and valuable since this market relationship share common traits. HMR direct market relationships are far too diverse and situational for a general report to be applicable. Analysis of HMR direct markets would require specific market data gathering and a custom report on definitive findings.

In order to facilitate the utility of this report, it is important that the reader first understand the fundamental difference between a *market opportunities* report and a *marketing* report. Following is a brief discussion of both markets, that which cannot be controlled by the client and the subject of this report; and the process of marketing, an activity controlled by the client.

Markets:

Markets are population groups who may be defined by: 1) a common need and the means to satisfy that need (Demand); 2) the proximity to an offering to satisfy that need (Access); and 3) knowledge that they both have such a need and that there is a means available for them to satisfy it (Recognition). All three criteria must be met for a population to be in a market and, further, it is the least value which determines the size of that market (ie. If demand is 100%, recognition is 50%, but access is only 10% of a population of 90 million households, then the total market is only 10% or 9 million households)

Further, while all markets are defined by the same laws and perform in the same manner, they can have vastly differing properties which can be divided into three categories of: 1) *true or primary markets* (ie. food, clothing, shelter); *dependant markets* (ie. food processing, dry cleaning, real estate); and *circumstantial markets* (ie. antacids, spot removal, fire departments). Additionally there are fads, otherwise known as transitory market phenomenon.

Knowing what type of market you are dealing with is critical to how you go after it. You must understand not only the type of market, but the specific criteria which form that market and which can be cost effectively targeted with your marketing and satisfied by your product offering. A successful program matches the market's buying motivations with your selling proposition.

While markets appear to be volatile because the ways markets are satisfied can literally change overnight, markets are actually incredibly slow to change. Most have remained virtually the same for decades or centuries. In the food markets there have been significant new trends evolving over the past 15 years. This report will present the current state of these markets. These findings will remain applicable for at least the next seven years.

In other words, this market opportunities report will serve as a road map and will disclose areas of potential, but not necessarily the process, where a marketer of products and services within the foodservice industry can achieve maximum growth and profitability. This report is the first step in developing a marketing program or plan.

Marketing:

Marketing is the process of exploiting or serving your market. It is important to understand that marketing will not significantly change the market, but it will change your business and its position in the market. Every marketing decision involves one of ten options shown in the following table:

	1. Do Nothing		
Supply/Demand	2. Modify Price	3. Modify Features (offer)	4. Modify both Price and Features
Distribution/Access	5. Modify Distribution	6. Modify Access (packaging)	7. Modify both Distribution and Access
Promotion/Recognition	8. Modify Promotional Expense	9. Modify Message	10. Modify both Promotional Expense and Message

Every option in the above table is a sound and prudent marketing strategy, but only one or two will be effective at any given time. Without the benefit of market research, the likelihood that any one will work for you is 1 in 10 or 10%. With an understanding of the market you can be assured that you will make the best and most appropriate decision every time.

A marketing report is an analysis or projection of the outcome or impact from a marketing plan or strategy in which the marketer has selected one or more of the above options. While the researcher may be subsequently contracted to provide marketing research, this report deals only with the the composition and forces which define the HMR indirect market.

Market Definition

As a supplier of goods and or services including materials, foodstuffs, supplies, labor, plant, fixtures or appliances to the retail or chain foodservice operations your market may be defined as a share of the total market serving the requirements of retail and institutional food marketers and food service operators, to facilitate the storage, preparation and sales of products, foods and beverages to an end-user market. This may be defined as the HMR Indirect market

The HMR Indirect market is a dependant market.

As term dependant implies, the HMR Indirect market has no inherent formative criteria. Rather, it is defined by indirectly facilitating, supplying or serving the formative criteria of other true, dependant or circumstantial markets. For example, if the customers of Starbucks Coffee did not find kiosks to be a convenient venue for the purchase of coffee, then Starbucks would have no need for kiosks.

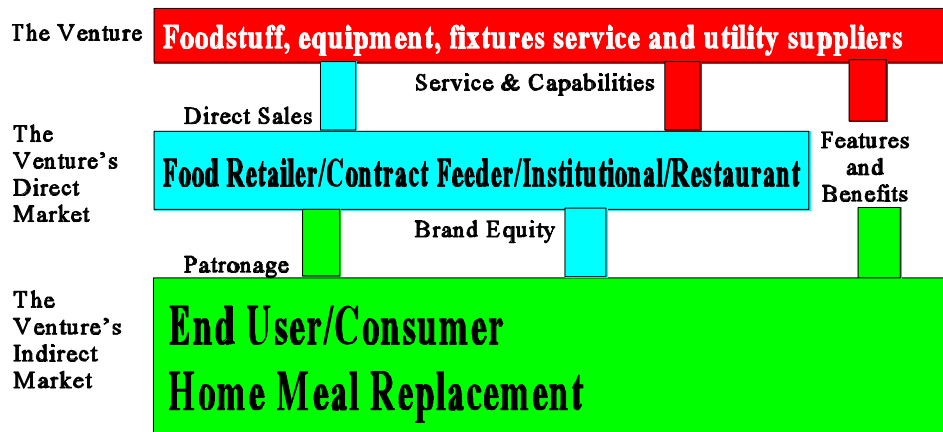
Therefore, the potential of any marketer targeting the HMR Indirect market is ultimately based upon that marketer's ability to satisfy or appeal to his customer's customer. The customer's customer is your indirect market and, in this case, the HMR Direct market creates the formative criteria for the total HMR Indirect market.

HMR Indirect Market Dynamics

Share/growth/revenue potential for a venture, within the HMR Indirect market, is predicated on two inclusive factors:

1. The applicability of the venture's **products** or **offering** to various indirect end-user/consumer markets; **and**,
2. The venture's competitiveness in marketing its **services** and **capabilities** to a direct market of retail and institutional food marketers and food service operators.

The following analysis and opportunities report will be addressed in three sections. The first section will provide a brief overview of the indirect consumer/end-user/beneficiary market (Home Meal Replacement). The section will cover current market formative criteria and trends which will define opportunities for the products offered by the venture.



The second section will present the direct market formative criteria for services and capabilities as well as analysis of market composition. This section will include statistical data on distribution and relative sizes various segments.

Section I.

The Home Meal Replacement Market

The Home Meal Replacement (HMR) Market and the Foodservice, Restaurant and Catering (FRC) Market are synonymous. WS&A has promoted the term “home meal replacement” because it more accurately describes the current patterns of commerce which define today’s market formative need to purchase and/or consume a meal, snack or beverage not prepared in the home.

The HMR Market is a true market with roots stretching back to times before the earliest recorded history of commerce. It is, in fact, older than the Meat Product and Groceries Market. While there is significant overlap between the Home Meal Replacement Market and the MPG Market they represent two distinct markets. The MPG Market, once the world’s largest, is distinguished by end-user purchase of foodstuffs, storage and preparation.

Home Meal Replacement is the direct market for the foodservice industry and the indirect market for the modular foodservice systems industry. It may be defined as the dollar/meal/service volume of all food and beverages (excluding alcoholic) consumed and/or prepared outside the home.

As with all true markets, trends within the HMR Market are multi-cyclical. This means that the changes and developments we are seeing today and will see tomorrow are the results of a process of market evolution comprised of forces occurring over a 21 year interval (generational cycle), a 7 year interval (the business or economic cycle), a year (annual cycle); and 13 weeks (quarterly or seasonal cycle).

Generational Trends

Generational cycles also form the baseline for the Consumer Price Index. Current CPI reports from USDC, Dept. of Labor, Treasury and Fed. use 1982-1984 as the 100 baseline. The three year averaging is intended to satisfy the different definitions of the generational cycle used by economists, researchers and other social scientists. The Jeffersonian definition of a generation is 19 years. This is probably the most accurate, but for economic and market analysis, the math works better with 21.

The current generational cycle began in 1983 and will continue through the year 2003. Called by many the “Yuppie Generation”, the purchase criteria of this population group, representing 23.1% of US households, currently define the growth patterns of the Home Meal Replacement market. These generational patterns are quite distinct from the baby boomers, who represented 36.1% when they entered the market back in 1963.

The next generational cycle called the “X Generation” will begin in 2004 as the children of the boomers, born between 1963 and 1983, begin to exercise their economic muscle and set the criteria for the products they will be buying as they reach their peak income.

Generational trends are those which have the greatest long-term impact and retain a level of permanence for subsequent generations. At any given time, the market is comprised of three sets of generational criteria. Areas of growth and the source of market shifts are typically defined by the current generation entering a given market. Essentially, this transition forms the status-quo.

Understanding these trends, therefore, becomes the most reliable basis for long-term strategic planning. For the HRM Market, the trendsetters are the current 18-35 generation. For this group brand identity, a five meal-a-day eating pattern and the shift from a family or household purchase criteria to an individual purchase criteria are three of the most significant generational trends.

Brand Identity:

No generation in history has been so brand conscious, nor have brands ever before eclipsed value, features and benefits as the key buying motivation for the purchase of foods, products and services. Today, demand for identical products can have a price point differential as high as 50% between branded and non-branded positioning.

To the dismay of many sociologists and economists, brand image and association have become the consumerism of the 90's. From an economic perspective, brands often act like a tax, adding intangible costs or load factors to commerce. This can slow economic recovery, prevent full redistribution of wealth and artificially inflate the consumer price index.

Notwithstanding the potential economic risks, all consumer research conducted over the past decade confirms the finding that brand image and brand association have become the single most powerful dynamic in nearly every consumer market. The HMR Market is no exception.

In order to be competitive, therefore, manufacturer's and suppliers of Modular Foodservice Systems must be able to offer their customers, through the design or features of their products, elements which build brand equity, uniquely distinguish brands or otherwise address the brand motivation of the HMR market. This is a key market formative criteria.

Five Meal Events per Day:

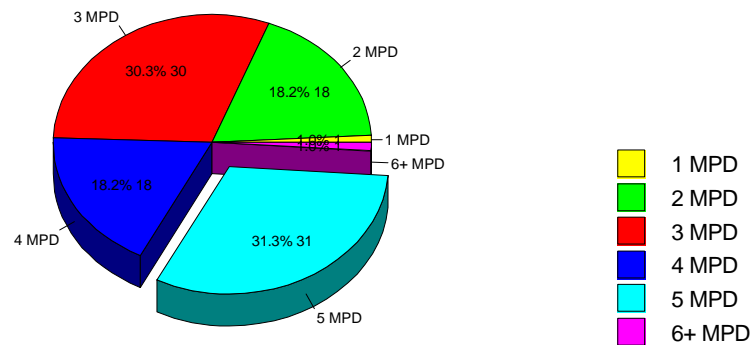
The current generational cycle has heralded a new and healthier eating trend. The convention of three square meals a day is being replaced by five light meals per day.

As we approach mid-cycle, current research has shown that between 47 and 61% of two income families, who entered the workforce after 1985 or are in the 18-34 demographic, consume 5 meals per day. Of this group, 3 of the five meals are prepared outside the home.

Of the total population, the 5 meal trend produces a national household incidence of 31%. An identical incidence is found when we survey individual meal patterns in the workplace as shown in the following table:

Workday (M-F) Meal Event Incidence

Whipple, Inc. September 1995 Workday Meal Accommodations Study



In comparing and contrasting survey data, statistical data and empirical (industry) data, all values are roughly equivalent. This is indicative that increases in unit sales (meals served), industry revenues and growth trends since 1988 are the result of the patterns of commerce defined in the current generational trend.

Further, early analysis of the eating and buying habits of "Generation X" suggest the current generational patters will continue and expand. We should expect to see continued shifts and growth in the HRM Market for the next 30 years.

Individual Purchase Pattern:

Historically, retail food, Dairy, MPG and HMR purchases have been tracked and modeled based upon household patterns of consumption. Exceptions to this are the alcoholic and non beverage segments which have historically been tracked on individual patterns. A further exception is insitutional food which has always targeted an individual consumer. While marketplace data abounds, applicable market data is virtually non-existent.

Current data invalidates nearly all household unit conventions for all but holiday, special events and vacation purchases in nearly all food related markets, and all segments but the 55-64 and 65+ demographics. In essence, this means that family values and consumption patterns have become secondary to personal or individual tastes, product expectations, purchase criteria and consumption patterns.

This is not to say that categories will not exist to classify or segment market segments, but that the the segmentation will follow lifestyle, peer group, occupational, psychographic, or brand assoication criteria. The last item, brand association, may be of greatest significance. As yet, however, insufficient data is available to fully explore these possiblities.

For the supplier of the HMR Indirect Market, however, developing products which cater to individual service, tastes (ie. Diversity to develop repeat business) and brand assoications, will provide certain marketing advantages and competitive positioning.

Industry Impact:

The Home Meal Replacement market has grown 26% since 1988 and is now more than \$270 billion.

Food Eaten Outside The Home* FOODSERVICE SALES (\$BILLION)

COMMERCIAL SEGMENTS	1988	FORE -CAST 1993	PERCENT CHANGE	1993 MARKET SHARE
Full Service Restaurants	\$ 71.245	\$84.006	17.9	31.1%
Fast Food Restaurants	64.806	86.121	32.9	31.9%
Lodging	8.071	9.713	20.3	3.6%
Retail	1.773	2.149	21.2	.8%
Supermarkets	2.477	4.054	63.7	1.5%
C-Store/Deli	2.134	2.889	35.4	1.1%
Recreation	3.444	4.475	29.9	1.7%
Social Caterers	1.907	3.173	66.4	1.2%
SUB-TOTAL	\$155.857	\$196.580	26.1	72.8%
NON-COMMERICAL SEGMENTS				
Hospitals	\$9.864	\$11.872	20.4	4.4%
Nursing Homes	3.35	4.406	31.5	1.6%
Life Care/Elder Care	0.822	1.112	35.3	.4%
College/Universities	6.66	8.025	20.5	3.0%
Schools (primary/secondary)	11.921	15.242	27.9	5.6%
Day Care/Child Care	2.122	2.807	32.3	1.0%
Employee Feeding	14.603	17.913	22.7	6.6%
Transportation	2.808	3.508	24.9	1.3%
Military	5.103	6.236	22.2	2.3%
SUB-TOTAL	\$57.253	71.121	24.2	26.3%
All Other	1.931	2.528	30.9	0.9%
TOTAL	\$215.041	\$270.229	25.7	100.0%

*Excludes Alcoholic Beverages

(Source: CARR Reports 1995, from Cahners Research, Cahner's Economics with Restaurants & Institutions Magazine, 1993)

Other Factors

Beyond the generational trends, there are important long-term socio-economic trends relating to the growth of the HMR market. As two income families become the norm, there is less time for home meal preparation, increased consumption of processed foods, and an overall decline in the cost of meals prepared outside the home in relation to cost of prepared meals in the home.

In 1960, for example, the average cost for a USDA home meal portion was \$0.38, institutional was \$.026 and restaurant was \$1.45. The cost ratio between a meal at home and one prepared outside, other than insitutional, was 1:4.

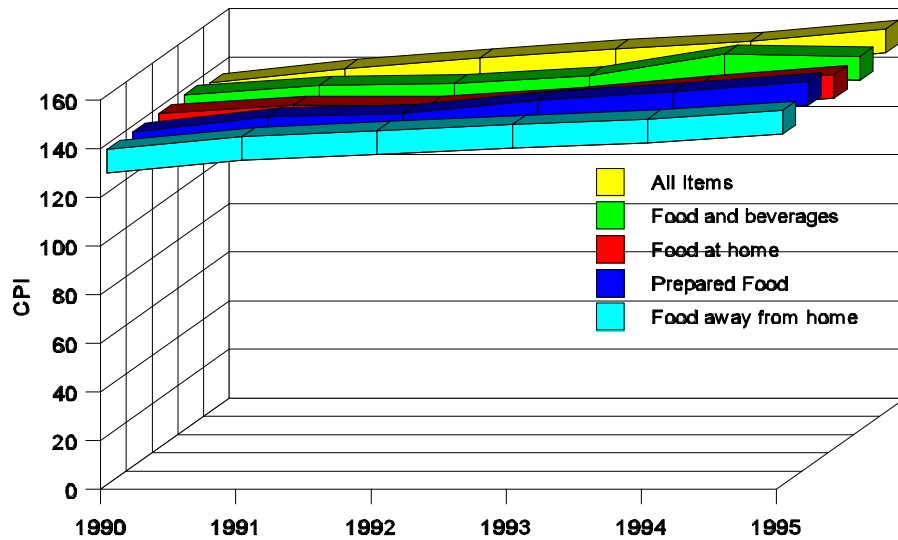
Today the average USDA home meal portion costs \$1.90, institutional costs \$1.96 and restaurant portions are \$4.12. The cost ratio has dropped to nearly 1:2.

When we compare prepared meal portions to fast food “meal” offerings using a representative sampling from local (Hingham, MA) supermarket pricing compared with local fast food franchises, the ratio approaches 1:1. In fact, the median prepared packaged frozen meal at Stop & Shop was \$2.39 while the median meal offering (including a beverage) at the fast food venues was \$1.99.

This pattern is clearly indicated by the following table of the Consumer Price Index.

Consumer Price Index

Consumer Price Indexes for Selected Items and Groups							
Source: Bureau of Labor Statistics, U.S. Dept. of Labor							
(all urban consumers = CPI-U)							
(1982-84 = 100. Annual averages of monthly figures)							
	1990	1991	1992	1993	1994	1995	% change
All Items	130.4	136.2	140.5	144.4	147.4	152.5	116.95%
Food and beverages	133.0	136.8	137.5	140.7	149.7	148.7	111.80%
Food at home	132.8	136.2	136.0	139.5	144.5	148.8	112.05%
Prepared food	132.6	138.9	140.1	145.8	149.2	153.4	115.69%
Food away from home	133.0	138.3	140.7	143.3	145.5	149.1	112.11%



Section II

The HMR Indirect Market for Equipment Consolidation

August 26, 1994, First Revision: November 25, 1994, Second Revision (JMI): December 1, 1995, Third Revision (general report) March 14, 1996

Methodology

For preliminary analysis and establishment of market qualifiers, the researcher referenced published data provided by Cahner's Research, Standard Rate and Data, *Hospitality, Foodservice Director, Restaurants & Institutions, Chain Store Age, Restaurant Business*, Standard & Poors Compustat Services, Inc., *The Progressive Grocer, Lodging*, US Dept. of Commerce, and *Convenience Store News*. Additional data for comparables to published data and validation of findings was provided through proprietary sources including a prior analysis, conducted in August 1994.

To determine indicators of market acceptance, levels of recognition, buying preference, market access and purchase patterns, the researcher conducted 100 in-depth, executive interviews with buyer/specifiers of food service equipment, restaurant and institutional furnishings and food prep/service fixtures, appliances, construction and remodeling consultants and contractors. A total of 14 interviews were conducted with buyer/specifier management of multi-unit chains, multi-unit franchise management, chain subsidiary holding companies and consulting/specifying designers, including, but not limited to Foodmaker Corp, Wendy's International, Inc., Marriott, Dunkin Donuts, PepsiCo Food Services, Bell Industries, and Shoney's Inc.

Validations of findings, from the executive interviews, were conducted with Mr. Paul Simons, of Franke Contract Group, IRC Parts Division and Mr. Bruce Stockberger, an independent WS&A associate (based upon their personal experience in the field) and involved follow-up confirmation or clarification with source respondents in all cases of discrepancy. All semantic or actuarial discrepancies and/or exceptions to statistical findings have been resolved to the satisfaction of the research analyst.

Findings, Conventions and Assumptions

The primary objective of market analysis is to minimize or totally eliminate the inclusion of assumptions in the creation of forecasts, models and sales projections. Forecasting growth trends for a new product, business or venture, however, will always include at least one assumption.

Such an assumption would be the dynamics created by the presence of the new product, business or venture entering the marketplace and impacting on the existing market. Beyond this one assumption, each additional assumption will reduce the confidence interval (precision), but not, necessarily, the accuracy of the model and all projections or forecasts based upon that model.

Universe:

The universe for the HMR Indirect Market may be defined as all chains, including those whose quarterly purchasing patterns involve as few as 1 to 6 units per contract, to produce a universe of 735 corporate headquarters, of which 277, are in the restaurant category.

The Universe finding for this model is 735 corporate headquarters in all chain food service categories. This universe is comprised of 7,869 buyer specifiers, with an average incidence of 10.5 per corporate headquarters.

Avg. Units: (Average Units per Sale)

The finding of average units per sale has been determined to be 4.29, rounded to 4. This average includes the first 1 unit sale, the second 3-6 unit sale and the average units for established sales relationships.

Universe Adj: (Total Universe adjusted by target audience to produce Total Market)

Because the universe has been qualified, no additional adjustment has been applied.

Market Cycle: (Historical interval between conversion and exchange)

It is a finding that the chain headquarter market does not perform on a uniform cyclical base, but builds a dual cycle. The first cycle is a short term cycle distinguished by a trial or test purchase of a single unit over a 3 month interval. Subject to market satisfaction, this initiates a second, multi-unit (3-6) contract, which is also a test purchase, over a 6 month interval. Once past the second phase, the cycle reverts to 3 month or quarterly intervals for repeat business.

Since a 13 week interval is a common denominator to all cycles, this figure has been applied as a convention and all values have been adjusted to a quarterly basis. While this will not produce accurate quarterly projections, it will generate a more accurate projection of aggregate sales growth and revenues.

Data Points: (Reporting interval used in the model and forecasts)

All columns in the projections represent 13 week intervals.

Sales Multiple:

This finding represents the number of repeat purchases made of a given product during a Market Cycle or reporting period. Due to the duality of the market cycle (ie. 3 months and 6 months), a convention of .5 has been applied to represent the longer term test purchase patterns. Once the new venture is well established and dominated by repeat sales to the same customers, a convention of 1 may be applied to the sales multiple.

Price/Inflation:

A standard annual convention of 5% has been applied to represent price/inflation increases over time.

Base Demand:

A standard convention of 66% has been applied to represent the nexus of price competitiveness in the market.

Base Access:

While the standard convention for a start-up would approach 0, the client represents that both he and a proposed sales consultant will begin the venture with a pre-existing relationship with [insertvalue] prospects in the market. As a weighted share of the total universe defined in the model, this produces a finding of [insertpercentage] access.

Base Recognition:

Demand Growth: (Cyclical Increase in Demand)

Barring an unique product offering, a technological advantage, or absolute price advantage, one cannot factor a cyclical increase or decrease in the demand for one company's offering over another for a negotiated sale item.

One may, however, use price to manage rate of growth which reduces demand, but may create the potential of increased profitability. Therefore, no growth has been applied to the first three market projections, but the fourth scenario (BPC.WK4) does represent this dynamic by showing a cyclical 5% reduction in demand as a result of price/margin increases.

Demand, Access or Recognition Intervals:

The values placed as intervals represent the rate of change or delay for a price reduction, increase in distribution, or promotional campaign to take effect. A "1" indicates the full effect to occur in a single cycle. A "2" or greater indicates that the change occurs over multiple cycles. Price changes typically occur in the current cycle. A distribution increase may take 1 to 3 cycles and promotion, may take 1 to 6, depending on the presence of tie-ins and the peaks of advertising flights.

For the market being studied, conventions of 1 have been applied to both demand and distribution since price and territorial expansion are not components of the plan and the market is national from day 1. A convention of 4, representing an annual corporate learning curve or product knowledge/information cycle, has been applied to all recognition growth.

Dist. Incr: (Cyclical Increase in Distribution)

Where applied, this value represents market access expansion including branching, new locations, territorial expansion, etc. Due to the limited number of entities in the market, the direct sales strategy incorporated in a business plan, and the national nature of the business, a convention of 100% may be applied.

In the first scenario, WPC.WK4, the convention has been reduced to 25% to model a straight sales organization which does no indirect promotion but relies solely on prospecting.

Promo. Incr: (Market growth through advertising and promotion)

Where applied, this value represents the recognition growth dynamic created through sales promotion and advertising. Typically, one may use an index of GRP of buy to share of audience, or reach and frequency, to generate this dynamic.

In the assumption of the business plan, the promotional strategy allows us to develop three scenarios, based upon the promotional dynamic:

1. In the first and second scenarios, the new business establishes a sales organization and creates all necessary catalogues, sales literature, stationery, etc. to prosecute a direct sales new business campaign. Since recognition is dependent on direct sales contact and qualification of prospects by the sales force (prospecting), market recognition will occur only when both the prospect is ready to entertain a sales contact and the representative contacts him. The probability of this occurring during any given quarter is 1 in 4, so a convention of .25 has been applied.
2. In the third and fourth scenarios, the business plan incorporates all of the above sales components, plus an advertising investment in trade media, direct mail and sales promotion (trade shows, etc.). This produces an acceleration of recognition and an avenue for the prospect to identify himself to the new venture through reader service cards, call ins, etc. At an optimum expenditure, this produces a convention of 100% recognition growth per cycle.

Mkt. Conversion: (Cyclical rate of market growth/decline for aggregate market formative criteria)

Note: This dynamic is not to be confused with the term “Sales Conversion” which, in this model, is defined as “Exchange”.

Market Conversion is your leading consumption pattern indicator, based on the percentage of respondents who plan to continue purchasing the products being sampled and/or plan to initiate trial within the current cycle. This percentage forms the potential market.

Since the entire market has been pre-defined in the universe, a convention of 100% may be applied to represent the market conversion dynamic.

Mkt. Exchange: (Cyclical rate of market depletion through purchase decisions, brand selection, or trial)

Since the Whipple Dynamic Model is non-regressive, exchange replaces baseline data to form the concurrent and lagging market indicator. For the present model, an empirical basis does not exist for an exchange dynamic. Therefore the exchange dynamic must be represented by a probability factor or finding.

In the pre-test in-depth interviews, it was a consensus of respondents that for each new contract or trial, they selected from six competing bid/proposals. On this basis a probability factor of 1 in 6 or 16.67% as been applied to represent the exchange dynamic. After the business is in operation and it becomes possible to evaluate both the organization’s competitiveness in the market and empirical data on quotes to closings ratios, this number will replace the statistical finding and probability value.

Market Decay:

While negative attrition (decay) occurs in all markets, as a separate factor from the exchange dynamic, the researcher has not found that it contributes any valuable insight to this particular study or modeling of market growth patterns. For this reason it has not been included in this pre-test.

Initial Price:

Based upon the intersection of the demand formative price expectation and the results of the validation, the researcher has applied the finding of [insertvalue] to the median unit sale.

Ann. Mkt Gro/Dec:

A convention of 1.16%, representing the annual US growth in labor force, according to the US Dept. of Commerce, has been applied. In addition, 1994 unit/seat/bed growth forecasts of the leading chains defined in the universe indicate expansion plans of 8.8%. At the same time, unit closings from non-performing locations may be included as a factor to reduce growth by -3.9%. This, in light of the economic recovery and a continued shift in patterns of commerce to food services, allows us to apply a finding of 6% as a reliable estimate of market growth.

Start Date:

The date applied as a base is January 1, 1996.

Market Projections

Based upon the above conventions, findings and assumptions, it is possible to construct various scenarios using the data gathered in the pre-test. The specific econometric modeling technique applied to this research was developed at SMS/A Communications, Inc. in 1981, by Sherman Whipple, then VP of Strategic Planning.

Specific features, unique to the Whipple Dynamic Model, are that the algorithms are not regressive and contain no artificial dynamic multipliers. All computations and extrapolations are the result of direct computations from statistical data, standard conventions based upon empirical data and/or assumptions (educated guesses or estimates) where precise statistical or empirical data is unavailable.

Survey tally, tabulation and cross tabulation are processed using Bumprock Chi Square Data Analysis Software. Three point modeling is performed on Lotus 1-2-3, release 4 spreadsheets. Dynamic modeling of 9, 27 and 81 point market profiles uses Lotus 1-2-3 for computation and point plotting and Corel Draw to perform least squares smoothing of penetration profiles.

Each model contains (clockwise from upper left) the data fill tables, the market equilibrium profile, market projection chart and market tables. Two applications of the three point modeling technique are presented in this report:

NOTE: In all models, due to the limited size of the universe and rapid acceleration of access and recognition, the market depletive phenomenon will show up as a series of jagged peaks and valleys. In a mathematical model, this is an accurate representation of the market dynamics involved as the previous quarter's sales activity reduces the number of new prospects. In real life, however, this phenomenon is smoothed by time as the activities during one interval, carry over to the next.

Linear Sales Model

(WPC.WK4)

In this scenario we see slow growth in new business through the first two years. As with all direct sales organizations, growth potential is limited by the recognition dynamic and penetration levels of cold-calling and other outbound programs.

No point of diminishing return occurs. The limitations of direct sales with no sales support or promotion never fully exploit the market. This delays exponential growth indefinitely. Linear growth, however, will be on-going.

The model does not factor long-term contracts generating a base of repeat business, which may be significant.

Direct Sales Model

(DSALES.WK4)

In this scenario we see predictable, steady growth through the first year. As with all direct sales organizations, growth potential is limited by the recognition dynamic and penetration levels of cold-calling and other outbound programs.

The point of diminishing return occurs after a year and a half, at a level of around [insert value from model] units per quarter, or an annual sales level of [insert value from model] in new business. However, since the limitations of direct sales never fully exploit the market, modest annual increases, in new business activity, over and above levels of market growth can be expected for several more years.

The model does not factor long-term contracts generating a base of repeat business, which may be significant.

Advertising Support Model

(MMADV.WK4)

In this scenario we see a more accelerated growth curve through the first year. Growth potential is limited only by the size of the total universe and pricing.

The model does not factor long-term contracts generating a base of repeat business, which may be significant.

Pricing to Control Growth

In this scenario we see a more accelerated growth curve through the first year, followed off by a tapering decline in new business activity in the second year. Growth potential has been limited by pricing.

The point of diminishing return occurs at a level of around 30 units per quarter, or an annual sales level of [insertvalue] from new business. Once this level is reached, the market position is firmly established and the market can use price to slow or increase new business activity. This allows the focus to shift to serving established accounts.

The model does not factor long-term contracts generating a base of repeat business, which may be significant.

Summary

The findings and recommendations contained in this final report present the objective analysis of the undersigned researcher and are consistent with accepted methodologies, practices and conventions of market analysis and the standards of the Council of American Survey Research Organizations.

Sherman Whipple, Whipple, Incorporated

Date: