ACCOUNT Kroger

Revision Date 24th February 2004

ACCOUNT PROFILE

Annual Sales:	\$51,760 million (January 2003)
Net income:	\$1,205 million (January 2003)
Net profit margin:	2.3%
Number of Stores:	3,713 comprising 2,488 supermarket and multi-department stores, 784 convenience stores and 441 jewelry stores.
Selling Square Footage:	135,934,734 sq. ft
Sales Per Store:	\$13.9m
Number of Employees (FTE):	290,000
Sales Per Employee:	\$178,483
Inventory turnover:	9.1
Market Segment Served:	Grocery, convenience store and jewelry.
Headquarters City:	Cincinnati, OH
Ownership (Parent):	Kroger owns the following formats:

Convenience Stores

Jr. Food stores
Kwik Shop
Loaf ‘N’ Jug
Mini- Mart
Quik Stop Markets
Tom Thumb Food Stores
Turkey Hill Minit Markets

Jewelry Stores

Barclays Jewelers
Fox's Jewelers
Littman Jewelers
Fred Meyer Jewelers

Multi-department Stores

Fred Meyer
Fry's Marketplace

Supermarkets

Bell Markets
Cala Foods
City Market Food & Pharmacy
Dillons Food Stores
Fry's Food & Drug Stores
Gerbes Supermarkets
Hilander
Jay C Food Stores
Kessel Food Markets
King Soopers
Kroger
Owen's
Pay Less Super Markets
Quality Food Centers (QFC)
Ralphs
Smith's Food & Drug Centers

Warehouse Stores

Food 4 Less
FoodsCo

Description of the Business

Kroger is the US's largest food store chain and the company operates supermarkets and convenience stores as well as a chain of jewelers. In addition Kroger owns a number of food processing plants.

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To be filled in by the sales team.

CURRENT POSITION IN ACCOUNT

1. Installed Base

2. Current Contacts

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OTHER VENDORS

COMPETITORS ACTIVE IN THE ACCOUNT

IBM provides POS systems and data warehousing solutions to Kroger.

OTHER VENDORS ACTIVE IN THE ACCOUNT (Who May Have Influence or Knowledge)

JDA supplies merchandise management systems to the Fred Meyer chain.

Radiant supplies POS systems to the c-stores and gas stores.

SuperSked supplies their labor scheduling system.

S	C
N	B

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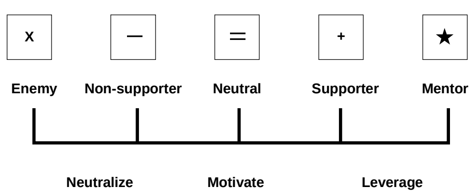
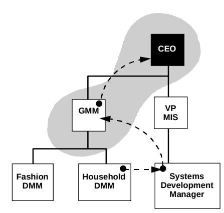
ORGANIGRAM AND INFLUENCE MAP

Chairman and CEO, Joseph Pichler (retiring June 2004)	Vice Chairman, W Rodney McMullen	CEO & Director David B Dillon (Chairman effective June 2004)	President & COO Don W McGeorgel	EVP & CIO Michael S Heschel	EVP Robert E Zincke
SVP & CFO J Michael Schlotman	SVP, President Manufacturing Geoffrey J Covert	SVP, Secretary, & General Counsel Paul W Heldman	SVP Donald E Becker	SVP M Marnette Perry	Group VP Grocery Merchandising Bruce A Macaulay
Group VP Logistics William T Boehm	Group VP Management Information Systems Carver L Johnson	Group VP Perishables Merchandising & Procurement Joseph A Grieshaber Jr	Group VP Retail Operations Paul J Scutt	Group VP Lynn Marmer	VP & Controller M Elizabeth Van Oflen
VP, Corporate Food Technology & Regulatory Compliance Keith Neer	VP, Grocery Products Group Katie Wofram	VP, Human Resources David Avery	VP, Labor Relations John Wagner	VP, Special Projects & Drug/GM Merchandiser, Atlanta Division Saundra K Linn	President Atlanta Division Bruce A Lucia
President Central Division Lisa E Holsclaw	President Cincinnati Division Robert J Hodge	President City Market Phyllis Norris	President Convenience Stores * Supermarket Petroleum Robert Moeder	President Delta Division Richard L Tillman	President Dillon Stores John Bays

President Food 4 Less David G Hirz	President Fred Meyer Jewelers Edward Dayoob	President Fred Meyer Stores Darrell D Webb	President Fry's Food & Drug Stores Michael J Donnelly	President Great Lakes Division Jon Flora	President Jay C James T McCoy
President, King Soopers Russell J Dispense	President Kwik Shop Michael Hoffmann	President Loaf 'N' Jug/MiniMart Art Stawski	President Mid-Atlantic Division Pete Williams	President Mid-South Division John P Hackett	President QFC Donna Giordano
President Quik Stop Van Tarver	President Ralphs E John Burgon	President Smith's Food & Drug Centers James W Hallsey	President Southwest Division William H Breetz Jr	President Tom Thumb Mark Salisbury	President Turkey Hill Minit Markets Darel Pfeiff
Treasurer Scott M Henderson	Director Investor Relations Kathy Kelly	Director Logistics Ranor Relatores	Director Media Relations Gary Rhodes	SVP, Sales & Marketing Food 4 Less Bob McKee	Group VP Perishables, Food 4 Less Tim Mulhall
VP, Sales & Marketing for Northern California & Las Vegas, Food 4 Less Daryl Zgodzay	VP, Store Operations, Food 4 Less Bryan Kaltenbach	Coordinator of Corporate Supplier Diversity Denise R Thomas			

*Initials in the bottom left hand corner of the box indicates who calls on that person or has the best relationship. ········►indicates who influences who





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Analysis of Desk and Other Research and Other Background Material

Kroger is the largest food chain in the country and is the closest the US has to a national supermarket chain. However, Wal-Mart has overtaken Kroger as the largest seller of groceries in the country. Thanks to acquisitions, less than 15% of sales come from Kroger's namesake stores, with about 3,700 stores coast-to-coast under some two dozen banners (including about 2,500 supermarkets).

Its Dillon Companies subsidiary operates more than 200 grocery stores under some 10 different flags, and it also runs nearly 800 convenience stores under names such as Quik Stop and Kwik Shop. Kroger's Fred Meyer Stores subsidiary operates more than 100 supercenters offering groceries, general merchandise and jewelry in the western US.

Kroger's 1999 acquisition of Fred Meyer not only added three supermarket chains (Ralphs, Smith's Food and Drug Centers and QFC). It also gave the company several new retailing formats: multi-department stores (Fred Meyer), limited selection warehouse outlets (Food 4 Less and PriceRite) and jewelry stores (under the Barclay, Fred Meyer and Littman names). The purchase gave Kroger a significant presence in the western US.

The purchase of Fred Meyer cost $7.36 billion. The combined synergy savings from the merger totaled $160 million for fiscal 1999. The success of the merger was down to merchandising and manufacturing synergies. The synergy savings are a key component of margin improvement.

The integration of the Kroger and Fred Meyer organizations went fairly smoothly. For example, they have introduced a three tier merchandising strategy for their private label business that is offering a wide variety of groceries and perishable products to their diverse customer base. They have also been able to leverage purchasing power to obtain better pricing for a broad array of products, including seasonal items, pharmaceuticals and perishables.

Kroger is consolidating its leadership in Colorado with the acquisition of 4 Cub Foods stores and a warehouse from Supervalu. Kroger also owns about 40 food processing plants that supply its supermarkets with a growing stable of about 4,300 private label products (accounting for about 25% of grocery sales). The private label brands include the newly launched Naturally Preferred, Kroger's own brand of natural and organic products. Kroger is also a major pharmacy operator, with pharmacies in nearly 75% of its food stores. Prescription sales account for close to 10% of Kroger's sales volumes.

Its name sake chain has outlets in more than 40 major markets and a sizable share of the market in large cities such as Dallas/Fort Worth and Atlanta. Kroger is buying 17 supermarkets (16 in the Houston area) from Albertsons and another 7 stores from Winn-Dixie in the Dallas /Fort Worth area. The grocery chain will spend $120 million by the end of 2004to open as many as nine new stores and remodel older ones in Tennessee, where Wal-Mart is introducing its new Neighborhood Market stores.

Also in response to intense competition from Wal-Mart Supercenters, which captured 13% of the US grocery market in 2002 compared to Kroger's 7.2% share, Kroger has been cutting prices to hang on to customers. Wal-Mart operates supercenters in more than half of the Kroger markets. Lured by the growing popularity of dollar stores, Kroger is experimenting with the concept in two of its Houston supermarkets.
To cut costs Kroger is combining divisions in Michigan and Ohio, reducing the number of retail divisions at Kroger to 17.

Kroger's Ralph chain, which operates about 300 stores in Southern California, is embroiled in a bitter, long running supermarket strike there.

The company's mission statement is "to be a leader in the distribution and merchandising of food, health, personal care and related consumable products and services."

Kroger's fundamental operating strategy is:

"To achieve competitive responsiveness and flexibility through the decentralized management of merchandising and operations combined with the economies of scale available from co-ordinating or consolidating volume based activities and support systems."

Food is the primary business of the company and accounts for 95% of total company sales.

The company has been focusing on reducing costs and in the last couple of years has:

- Eliminated 1,500 management and clerical jobs
- Consolidated the Nashville division office and DC into the Mid-South ands Atlanta divisions
- Centralized additional merchandising categories to drive down product costs
- Achieved cost savings of $500 million in 2003.

Technology

A company announcement states that Kroger "invests significant capital and expense dollars to ensure that our information systems and logistics network are operating as efficiently as possible. These investments have included:

- New point of sale systems
- Self check out technology
- Time and attendance systems
- Labor scheduling technology
- Computer assisted ordering
- Pharmacy systems
- Store cash optimization system
- "Voice-pick" technology for our distribution centers
- A new real-time warehouse management system
- Internet based inbound freight management system"

Details of most of these systems are given below and Kroger states that all these investments are “Producing returns above projected hurdle rates”.

Kroger Enterprise Systems are now in every division, Fred Meyer Stores were converted in 2003, the last format for conversion to the systems.

Kroger uses IBM for its enterprise wide decision support data warehouse. Kroger powers its data warehouse with IBM DB2 Universal Database Version 7 on an IBM RS/6000 SP with storage provided by an IBM “Shark” Enterprise Storage. Kroger is also using IBM Business Intelligence Consulting and Services.

Kroger uses IBM’s 4694 POS with ACE software. Kroger uses Sensormatic’s and PSC’s scanners to scan and deactivate security devices in one motion at the point of sale.

Kroger has been experimenting with biometrics and finger print scanning, with a number of pilots including one in 3 stores in Texas using Secure Touch-n-Pay technology for finger print scanning. It is also experimenting with finger print scanning in the Houston area, partnering with Biometric Access Corp.

The company uses Spacenet technology (two way satellite based broadband networking) to provide a platform for Kroger’s new broadband distance learning network, apparently a wide range of future applications are planned.

The company has a self scanning system in place in more than 1,750 stores using U-Scan Express machines. The system is a touch screen terminal that guides shoppers through the checkout. The system is produced by Montreal based Optimal Robotics Corp.

In 2001 Kroger installed Radiant Systems’ hardware and software fuel solution for their supermarket fuel sites. The system includes the Radiant Lighthouse point of sale, site management systems and interfaces that enable integration of the fuel kiosk with Kroger’s existing IBM ACE POS systems inside the grocery store.

Radiant also supplies its POS to 789 convenience stores owned by Kroger.

Kroger uses Management Robotics’ labor scheduling system, SuperSked.

In 2002 Kroger implemented BMC Software’s CONTROL-SA security management systems to manage and automate its user access to IT systems.

At headquarters Kroger uses IBM Lotus Notes for its workflow standard and TurboGold software from Stampede Technologies to reduce its network bandwidth requirements for Lotus Notes.

In 2003 Kroger started implementing JDA's integrated merchandising, planning and replenishment system to support the general merchandise and apparel division of its Fred Meyer chain. The systems they use are:

- Portfolio Merchandise Management
- Portfolio Advanced Replenishment by E3
- Portfolio Advanced Planning
- Allocation
- Assortment Planning
- Performance Analysis by Arthur
- Floor Planning by Intactix

Kroger uses Unicru's Hiring Management System to optimize workforce selection. The system was selected in 2003. The main benefit of the system is that it enables a uniform process for recruitment throughout its stores. Shrink and staff turnover reduced significantly in the 40 pilot stores – the latter by 25%.

The company asks its vendors to do business with them via EDI and it uses UCS and Ansi X12 EDI standards.

Distribution

Over the past few years, Kroger's logistics network has been restructured to improve efficiency, lower costs and improve product safety and quality. Since 1995, Kroger has closed 44 distribution centers and opened or significantly remodeled 20, for a net reduction of 24.

The new centers contain state-of-the-art racking and product handling systems, refrigeration, temperature and humidity controls, and space for cross docking seasonal and promotional merchandise. Many of Kroger's distribution centers and store delivery fleets have been outsourced to third party logistics providers.

Kroger is the only major supermarket with a nationwide 3 tier distribution system. The first tier consists of regional dry grocery, perishables, and freezer buildings that service stores, generally within a 200 mile radius with quick turn and perishable products. These distribution centers also serve as the company's cross dock centers for palletized merchandise that is going directly to a retail store.

The second tier consists of consolidation centers that service retail stores, within a 350 mile radius for slower turn pharmaceuticals health and beauty care and dry grocery merchandise. Internally these centers are known as Peyton's. The Peyton consolidation centers allow Kroger to purchase in larger quantities at the lowest possible price bracket. The product is piece picked, sleeve picked or case picked depending on value and movement and shipped directly to stores 2 or 3 times each week.

The third tier, also part of the Peyton network, ships seasonal and promotional products to stores in an even larger geography than the consolidation centers. Kroger operates 5 Peyton DCs.

At the DC Kroger has introduced a voice directed picking system from Vocollect, Pittsburgh. These voice activated headset systems guide order pickers in three of its DCs. The system is reputed to have boosted worker productivity by an average of 10%.

Kroger uses Elogex's OneNetwork – a web based platform to manage its logistics planning and execution and it enables increased visibility to reduce supply chain costs and increase service levels. The system has been in place since 2002.

The company started implementing UCCNet's item registration service for all its stores in 2003 and it is participating in trading exchange Transora's direct-to-store delivery data synchronization project. The idea is that the service will improve Kroger's ability to collect new item data from suppliers in an electronic format. Kroger is working with GlobalNetxchange, a business-to-business market place for retailers, to implement the service. The whole project is enabling DSD supply chain processes.

E-tailing

After various experiments with home shopping Kroger has now withdrawn from this market. Flower ordering and gift card orders are possible from its web site and this may expand in the future.

Kroger became an equity partner in GlobalNetXchange in March 2000. This is the first global business-to-business online exchange serving the retail industry. Kroger is joining the founder partners Sears Roebuck, Carrefour and Oracle as well as Metro AG and Sainsburys in developing the web based business-to-business market place.

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BUSINESS GOALS & CSFs

No.	BUSINESS GOALS	CRITICAL SUCCESS FACTORS
1.	Leverage their size to achieve greater economies of scale and increase market share and sales	1. Acquisition or organic growth or a combination 2. Superb management team and disciplines 3. Tailoring of assortments to local markets 4. Ensuring supply chain keeps pace 5. Expansion and enhancement of the loyalty system 6. Continual product innovation and expansion of assortment

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BUSINESS GOALS & CSFs

No.	BUSINESS GOALS	CRITICAL SUCCESS FACTORS
2.	Reduce inventory levels	1. Tighten supply chain and reduce lead times, especially with reference to company manufacturing plants 2. Reduce duplication in stores 3. Improve assortment planning 4. 5. 6.
3.	Reduce operating and administrative costs	1. Reduce store expenses 2. Reduce marketing costs as % of sales 3. Reduce supply chain costs 4. Improve sales per store and per square foot 5. Expand private label program 6.

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BUSINESS GOALS & CSFs

No.	BUSINESS GOALS	CRITICAL SUCCESS FACTORS
4.	Increase customer loyalty and improve customer service	1. Effective roll out of loyalty program 2. Store level training to improve in-store experience 3. Assortment planning and category management 4. Better understanding of local requirements 5.
5.	Improve supply chain performance	1. Continue with ECR initiatives 2. Streamline own manufacturing process into the supply chain 3. Work more closely with key vendors to improve responsiveness and assortment 4. 5.

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PERFORMANCE GAPS

Measure	Industry Standard For Their Segment	Key Competitor Performance	Customer Performance	GAP
Net profit	Around 3%	Safeway 3.7%, Wal-Mart 3.3%, Albertsons 1.4%	2.3%	Additional 0.5% could be feasible long term
Turn	Over 9	Safeway 9.6	9.1	Could move to Safeway's level
Sales per FTE	Up to $200k	Albertsons $176k, Safeway $188k, Wal-Mart $175k	$178k	Could move to Safeway's level
Sales per store	Levels of $20m are not uncommon	Albertsons $15.2m, Safeway $19.4m, $49.1m	$12.8m	10% increase should be feasible as new formats and product assortments get underway

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SWOT ANALYSIS

Their Strengths	Their Weaknesses
▪ Size and national coverage – with high market shares in many of the US' largest ands fastest growing metropolitan areas ▪ Ownership of manufacturing plants enabling private label program to be implemented effectively. ▪ Synergy and increased profitability from the Fred Meyer acquisition. ▪ Broad geographic diversity and multiple retail formats to allow Kroger to meet the needs of a high proportion of the population	▪ High debt levels. ▪ High inventory levels. ▪ High staff turnover at store level. ▪ High shrink levels
Their Business Opportunities	Threats To Their Business
▪ Improved margin through the expansion of the private label program. ▪ Operate new store formats, such as multi-department stores, Super Kroger, limited selection warehouse outlets and jewelry stores where there is already some experience. ▪ Growth of pharmacy, gas and other non food offerings across the chain ▪ Expansion of loyalty program	▪ Competition from Wal-Mart ▪ Industry consolidation ▪ Pricing and promotional activities from existing and new competitors, including non traditional competitors ▪ Danger of losing focus on food core business with introduction of other formats. ▪ Labor disputes and loss of sales and customer loyalty

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POSSIBLE OPPORTUNITIES

POSSIBLE OPPORTUNITY	PROBLEM OWNER	RECOMMENDERS	INFLUENCERS	DECISION MAKERS	VENDOR UNIQUE BENEFITS
Better use of marketing information to improve customer loyalty	Is there a senior marketing executive?	Paul Scutt, Group VP Retail Operations	Michael Heschel EVP and CIO and Carver Johnson, VP MIS		
Increased flexibility and improved store information	Paul Scutt, Group VP Retail Operations	Michael Heschel EVP and CIO and Carver Johnson, VP MIS	President of individual divisions		
Increased harmonization of systems across all store types	Michael Heschel, EVP and CIO	Carver Johnson, VP MIS	President of individual divisions		
Reducing inventory holding and improving supply chain efficiencies	William Boehm, Group VP Logistics	Bruce Macaulay, Group VP Grocery Merchandising	Joseph Grieshaber, Group VP Perishables Merchandising and Procurement		
Better collaboration with key suppliers – vendor portals	William Boehm, Group VP Logistics	Bruce Macaulay, Group VP Grocery Merchandising and Joseph Grieshaber, Group VP Perishables Merchandising and Procurement	Carver Johnson, VP MIS		

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FINANCIAL OPPORTUNITY ANALYSIS/FORECAST

Project	Total $/£	MONTH/QUARTER											
		Q1	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**				
Marketing / CRM	$2m	$250k	$1m	$500k	$250k								
Improved store info	$500k	0	0	$100k	$100k	$300k							
Common store systems across group	$3m	0	$1m	$1m	$1m								
Supply chain initiatives	$1m	0	0	0	$200k	$200k	$600k						
Vendor portals	$500k	0	0	0	0	$250k	$250k						

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ACCOUNT PLAN - OUR ISSUES/FACTORS LIST

OPPORTUNITY

Description of Issue or Factor	Priority A,B,C	Owner	Action
No senior level marketing contacts	A	Jim Smith	Introductions through buying and e-commerce. Review other marketing relationships of account team.
POS service contract quality issues	A	Mary Jones	Review of issues and how to solve them. Focus on quality, training of field teams.

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ACTIVITY LOG

Date	Who	Activity
End May 2004	Jim Smith	Establish key marketing contacts in account
End May 2004	Jim Smith	Talk to other account members about marketing contacts
June 2004	Jim Smith	Develop action plan re marketing
Immediate	Mary Jones	Work out cause of service issues and action plan
June 2004	Mary Jones	Implement action plan and monitor re services issues