

S. Sherman Associates

OPERATIONAL CONSULTING | MANAGED PURCHASING
ANALYSIS & PROCESS ENGINEERING | REVENUE ENHANCEMENT

“We Become a Source of Funds”

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An excerpt from an audit report.

Market Summary

The summary below details wholesale price fluctuations from 2009 to 2010 as well as projected increases for 2011.

Food Prices 2010

After a 1.6% drop in wholesale food prices in 2009, the largest since 1967, Wholesale food prices rose 4% in 2010, according to data from the Bureau of Labor Statistics analyzed by The Food Institute. From November to December the index rose 1.1%. The third time in four months wholesale food prices exceeded a full percentage point. Much of the increase can be attributed to prices for fresh and dry vegetable, which surged 22.8%. Higher Prices for meats also were a major factor in the increase.

USDA Consumer Price Index Report

The U.S. Department of Agriculture's Economic Research Service 2011 Consumer Price Index analysis for projections on food prices reported that **overall food prices are expected to increase 2% to 3% in 2011. We are actually predicting more as our clients use products that tend to be higher in specification and quality that would normally be reflective of the CPI and are more susceptible to increases in pricing.**

The Hotel's Grocery/Dry Goods vendor, Sysco Foodservice financial results provide a clear indication of food inflation challenges we are facing at the beginning of 2011. Sysco's food cost inflation was 3.3%, driven by nearly **10% inflation in the meat, dairy and seafood categories.**

The causes include rising commodity prices fueled by exports, shrinking supplies of key ingredients and increasing demand for corn-based ethanol for vehicle fuel.

All this is expected to translate to higher prices for all consumers. They will probably see it soon at the meat counter, in part because feed prices surged last year. According to the USDA's index report. **Beef prices were up 6.1% in December compared with a year earlier, while pork prices jumped 11.2% last month compared with December 2009.**

On Monday Feb. 07, McDonald's Corp. warned that it is increasing the price of some of its menu items to offset the rising cost of beef. Company representatives have reportedly said that the average price the fast-food chain pays for its most-used ingredients such as **chicken, wheat and cheese could further increase as much as 2.5% in 2011, which is higher than the USDA projection.** And other leading packaged-food companies, including Kraft Foods Inc. and Sara Lee Corp., have warned consumers that higher prices are coming this year.

Individual Commodities

The following is a breakdown of the individual commodities and how the price changes affected the top volume products purchased by the Hotel. ***All pricing and percentage comparisons were calculated using December 2009 and 2010 market and purchase reports.***

**Please note that the wholesale percentage differences will be different than the percentage difference on the products purchased by the Hotel. This is due to added costs (Fuel, Labor, Packaging) associated with transporting and processing the wholesale product to the end user.*

Beef prices were 6.1% percent above last December, with steak prices up **5.4% percent** and ground beef prices up **6.2% percent**. **Beef prices are now projected to increase 2.5% to 3.5% percent and pork prices 3.5% to 4.5% percent in 2011.** **Pork prices were 11.2% percent** above last December's level.

Product Description	2009	2010	Difference %	
Lamb Rack 12-14-ounce	\$6.39	\$10.60	\$4.21	40%
Beef Slider Patties 2-ounce	\$1.61	\$2.01	\$0.40	20%
Beef Patties 80/20 8-ounce	\$1.61	\$1.96	\$0.35	18%
Beef Ribeye Choice	\$5.29	\$6.26	\$0.97	16%
Beef Hanging Tenders 8-ounce	\$3.86	\$4.55	\$0.69	15%
Beef Top Round Choice	\$1.77	\$2.06	\$0.29	14%
Beef Tenderloin Black Canyon	\$8.05	\$9.20	\$1.15	13%
Pork Sausage 2-ounce	\$2.02	\$2.31	\$0.29	13%
Beef Tenderloin 5&up Choice	\$9.45	\$10.45	\$1.00	10%
Pork Bacon 13/17-count	\$2.12	\$2.33	\$0.22	10%
Veal Leg Shank Bones	\$1.30	\$1.39	\$0.09	7%
Beef Strip loin 1x0	\$4.38	\$4.54	\$0.16	4%

As commodity prices and input costs have risen over the past 6 months, beef and pork prices are now significantly higher than in 2010. Increased inflation for beef and pork products is expected in the first half of 2011, as reflected in ERS's forecasts.

Poultry were **1.3% percent** above prices last year at this time, with chicken prices up **1.4% percent** and other poultry prices (including turkey) up **0.9% percent**.

Product Description	2009	2010	Difference %	
Chicken Breast bnls/skls 6-ounce	\$2.26	\$2.59	\$0.33	12.7%
Chicken Breast Airline	\$3.13	\$3.19	\$0.06	1.7%
Chicken Breast Random	\$1.39	\$1.41	\$0.02	1.4%

Egg prices increased a mostly seasonal **5.1% percent** in December (following a 10.6% percent increase in November), so that egg prices are **6.1% percent** above the December 2009 level.

Product Description	2009	2010	Difference	%
Egg Extra Large Grade AA 15-dozen	\$22.45	\$25.19	\$2.74	11%

Dairy prices were **3.7% percent** above the December 2009 level. Within the dairy category, prices changed as follows in December: **milk** prices were **5.1% percent** above last December's prices; **cheese** prices were **4.3% percent** above last December's level; **ice cream** and related product prices were **2.6% percent** above last December's level; and **butter** prices were **21.9% percent** above last December. In 2009, dairy prices were up only 1.1 percent from 2009 (following a 6.4 percent *decline* from 2008 to 2009). **However, higher projected prices for farm milk in 2011 will lead to increases of 4.5% to 5.5% percent for retail dairy products in 2011** based on current ERS forecasts.

Product Description	2009	2010	Difference	%
Manufacturer Cream 40%	\$3.79	\$5.11	\$1.32	25%
Butter Sweet Solid	\$1.70	\$1.90	\$0.26	13%
Half & Half Fresh	\$1.07	\$1.21	\$0.14	12%
Cheese Feta Stella	\$2.10	\$2.36	\$0.26	11%
Milk Homogenized	\$1.47	\$1.61	\$0.15	9%
Cheese Jack Shredded	\$1.83	\$1.96	\$0.13	7%
Milk 2%	\$1.46	\$1.55	\$0.09	6%
Cheese Cheddar Shredded	\$1.87	\$2.00	\$0.13	6%

Fresh fruit prices increased **3.7% percent** in December due to increases in other fresh fruit prices. The fresh fruit index is now up **3.1% percent** overall from last year at this time, with apple prices up **3.8% percent**, banana prices up **2.9% percent**, citrus fruit prices up **9.1% percent**, and other fresh fruit prices up **1.3% percent**. Fresh fruit prices fell in 5 of the past 11 months, leading to an overall fresh fruit price *decline* of 0.6 percent in 2010. **However, recent price increases imply that fruit prices will return to positive inflation rates in 2011.** The **fresh vegetable** index increased **2.5% percent** in December. Since last year at this time, fresh vegetable prices are up **1.2% percent**,

with potato prices up **5.4% percent**, lettuce prices down **7.4% percent**, tomato prices down **10.5% percent**, and other fresh vegetable prices up **6.9% percent**. **Processed fruit and vegetable** prices increased **1.3% percent** in December (the fourth monthly increase in the past 11 months) and are **1% percent** below the December 2009 level.

Product Description	2009	2010	Difference	%
Avocado Hass	\$32.60	\$44.36	\$11.76	27%
Melon Cantaloupe	\$19.47	\$24.33	\$4.86	20%
Red Bell Peppers	\$33.10	\$39.54	\$6.44	16%
Cucumber Hot House	\$15.60	\$17.29	\$1.69	10%
Strawberries	\$33.89	\$36.90	\$3.01	8%
Asparagus Large	\$29.60	\$32.45	\$2.65	8%
Carrots Baby Peeled	\$22.97	\$24.60	\$1.63	7%
Yellow Bell Peppers	\$38.70	\$40.51	\$1.81	5%
Asparagus Extra Large	\$29.60	\$30.44	\$0.84	3%

Cereal and bakery product prices were down **0.2% percent** from last year at this time, with bread prices up **1.1% percent** and breakfast cereal prices down **1.3% percent** over the past year. Although cereal and bakery product prices declined **0.8% percent** overall in 2010, higher wheat commodity costs should begin to affect cereal and bakery product prices over the next few months, causing prices to rise **2% to 3% percent** overall in 2011. **Sugar and sweets** prices were **2.2% percent** above last December. Within the nonalcoholic beverages category, prices changed as follows in December: **carbonated drink** prices were down **1.5% percent** from December 2009; **coffee** prices were up **2.5% percent** from last December; and non-frozen noncarbonated **juices and drinks** prices were **2.2% percent** below the December 2009 level.

Here are two more examples of regular use grocery items where costs increased.

Product Description	2009	2010	Difference	%
Oil Soy Salad (2/17.5-lb)	\$28.18	\$33.00	\$4.82	15%
Tuna White Albacore Solid	\$73.42	\$85.86	\$12.44	15%

Seafood

The Seafood Index for 2010 showed an increase of 17% over 2009. An additional 2% increase is forecast for 2011. The objective of the Seafood Index is to indicate medium and long-term price trends for key seafood products. Each individual species will have different degrees of price changes bases on catch totals, weather conditions, as well as other factors. However the Index provides a general overview of the Seafood Market. List below are some specific examples of price change on the top seafood product purchased by the Resort.

Shrimp

Shrimp farms in Mexico experienced white spot disease driving prices up on shrimp to the highest levels in history. Combined with poor fishing in the wild segment, Mexican shrimp remain one of the highest commodities available. Because of the Mexican Shrimp situation, Thailand, Bangladesh, and Vietnam followed suit with the increases, making shrimp in general over 30% higher in cost from 2009 to 2010.

Lobster/Scallops

Weather on the East coast late in 2010 & in 2011 has really impacted fishing of Live Lobsters and Scallops creating huge price increases that will influence the frozen markets as well.

Halibut

Alaska Department of Fish & Game announce in November 2010 a 10% decrease in quota of Wild Alaska Halibut. Combine this with the introduction of IFQ (Individual Fish Quota) we can expect 2011 to mirror 2010 in the fresh Halibut opener. Every indicator available speaks the opening season will start over the \$8.00 mark for H&G fish.

China Factor

Increased seafood demand has put increased pressure on the global seafood market. The increased consumption of seafood by the expanding Chinese middle class has increased demand and driven market prices up on Chilean Sea bass, Alaskan Cod, Halibut, and Shark. The dollar is stronger in China than the US and big fisheries have chosen to move their catch overseas for better prices. This is especially the case in Farmed Salmon out of Chile.

Product Description	2009	2010	Difference %	
Seabass Chilean Fillet	\$12.53	\$17.90	\$5.37	30%
Shrimp Tiger 21/25-count	\$4.98	\$6.31	\$1.33	21%
Shrimp White U/12-count	\$9.04	\$11.34	\$2.30	20%
Salmon Scottish Fillet	\$6.79	\$8.51	\$1.72	20%
Scallops Sea U/10 Dry	\$12.09	\$14.48	\$2.38	17%
Tuna Loin #1 Skin-off	\$16.63	\$19.25	\$2.62	14%
Yellowtail Hamachi Head-off	\$10.57	\$11.35	\$0.78	7%
Mahi Mahi Fillet frozen	\$3.10	\$3.21	\$0.11	3.4%

Conclusion

We are available to the Hotel throughout the year and can provide suggestions on products prior to instituting new menu items, should the Hotel wish. We hope the suggestions provided in this report are found useful and serve to enhance the financial performance of the Food and Beverage Department.

Please visit our website www.sshermanassociates.com to find Market Reports and Industry news.

Sherman Associates Client Managers Kelli Ann Donohue and Daniel Kube are available at any time answer questions or to provide any assistance that may be needed. We look forward to continuing our relationship with Hotel Del Coronado and its staff.

Kelli Ann Donohue – Vice President of Operations

Cell: 602-725-1749

E-mail: kdonohue@sshermanassociates.com

Daniel Kube – Associate

Cell: 602-725-3775

E-mail: dkube@sshermanassociates.com

“While Others Work On The Cost Of Food, We Focus On Total Food Cost”.

4941 E. Rockridge Rd | Phoenix AZ | 85018 | 602 553-0250