

KROGER - COMMUNITY LINK FINANCIAL MODEL

Kroger - Community Link Financial Model

As of Jan 2018

Model Assumptions

Market Assumptions

\$ 3,000 Average grocery sales per household per year (\$28.00 per visit @ 2.1 visits per week)
 \$ 150 Industry cost to acquire a new household (5% of average sales)

Kroger assumptions

** Exclusivity for Kroger in Grocery/Pharmacy/Floral Markets
 750,000 Number of Kroger households in S.E. Michigan
 17% Average rate of Kroger households lost per year (defectors)
 7.06% Average EBITDA

Community Link Assumptions

\$0 Start-up costs to Kroger for Community Link Program
 \$0 Ongoing Administrative and systems costs to Kroger to maintain CL Program (other than % payable to CL households)
 10% Estimated rate of Community Link households lost per year (defectors)
 50% Ramp up factor for revenue / costs from new Community Link households added each year (e.g. 6 months average revenue)

Manufacturer, Distributor/Vendor offset programs

0%	4%	8%	12%	15%	15%	15%	15%	Manufacturer Offset % of total program cost
0%	4%	8%	12%	15%	15%	15%	15%	Distributor/Vendor Offset % of total program cost
0%	8%	16%	24%	30%	30%	30%	30%	Total Offset

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Total	
Existing Spending % Increase	10%	4%	3%	2%	2%	2%	2%	2%		Increase in annual purchases due to Community Link
Existing Spending	\$3,300	\$3,432	\$3,535	\$3,606	\$3,678	\$3,751	\$3,826	\$3,903		Estimated Community Link existing Kroger household spending
Incremental Spending (Existing)	\$300	\$132	\$103	\$71	\$72	\$74	\$75	\$77		Incremental spending for existing Kroger households
New Spending	\$1,650	\$1,750	\$1,850	\$1,950	\$2,050	\$2,150	\$2,250	\$2,350		Estimated Community Link new household spending
Total Households	250,000	350,000	250,000	150,000	100,000	100,000	100,000	100,000		Total community link households (New + Existing)
# New	87,500	140,000	112,500	75,000	50,000	50,000	50,000	50,000	615,000	Year End Estimated number of new households enrolled in Community Link
% Existing	65%	60%	55%	50%	50%	50%	50%	50%		Percent Existing vs. New for Households Added during each year
# Existing	162,500	210,000	137,500	75,000	50,000	50,000	50,000	50,000	785,000	Estimated number of current Kroger households use Community Link
Program Cost	3%	3%	3%	3%	3%	3%	3%	3%		Percentage payable by Kroger to Community Link household for purchases

SUMMARY RESULTS:

Incremental Revenue	\$ 91,734,375	\$ 211,681,875	\$ 250,034,074	\$ 196,281,046	\$ 148,740,533	\$ 130,930,818	\$ 136,191,752	\$ 141,461,565
Inc. Earnings (EBITDA)	\$ 6,476,447	\$ 14,944,740	\$ 17,652,406	\$ 13,857,442	\$ 10,501,082	\$ 9,243,716	\$ 9,615,138	\$ 9,987,186
Program Cost (3%)	\$ (9,698,906)	\$ (33,007,097)	\$ (54,945,354)	\$ (66,995,090)	\$ (72,222,622)	\$ (75,255,723)	\$ (78,291,373)	\$ (81,328,108)
Bottom Line	\$ (3,222,459)	\$ (18,062,357)	\$ (37,292,948)	\$ (53,137,648)	\$ (61,721,540)	\$ (66,012,008)	\$ (68,676,236)	\$ (71,340,921)
Customer Retention Savings	\$ 2,493,750	\$ 5,735,625	\$ 7,655,813	\$ 8,386,481	\$ 8,545,333	\$ 8,688,300	\$ 8,816,970	\$ 8,932,773
Manufacturer/Vendor Offset	\$ -	\$ 2,640,568	\$ 8,791,257	\$ 16,078,821	\$ 21,666,786	\$ 22,576,717	\$ 23,487,412	\$ 24,398,432
Net Bottom Line	\$ (728,709)	\$ (9,686,164)	\$ (20,845,879)	\$ (28,672,345)	\$ (31,509,420)	\$ (34,746,991)	\$ (36,371,854)	\$ (38,009,716)

SENSITIVITY ANALYSIS:

	Every \$100 addl spending by new customers	Every 5% points increase in % Existing Customers
Incremental Revenue	\$ 6,650,000	\$ (8,015,625)
Inc. Earnings (EBITDA)	\$ 469,490	\$ (565,903)
Program Cost (3%)	\$ (199,500)	\$ (293,906)
Bottom Line	\$ 269,990	\$ (859,809)

Status

- Request
- Done Change terminology from "switched household" to "existing Kroger" or "existing" household
- Done Increase % of existing Kroger customers that move to Community link to 65% in Year 1 dropping to 40% of total CL households
- Done Run sensitivity analysis on key model inputs - e.g. % existing households, revenue per new household, years
- Done Run model to 8 years or until the annual program impact goes negative - extrapolate assumptions in reasonable manner
- Done Change the new household annual revenue to \$1650 year 1; 1750, 1850, 1950, 2050 over the 5 years
- Done Split Program Cost calculation to "existing" and "new" components, because each has different estimated annual spending
- Done Change model for to work on # of total households joining community link program (existing + new), and % works on total number
- Done Change model for new households so that not counted on incremental revenue after year added
- Done Use for total number of CL households (Yr1-8: 250,350,250,150,100,100,100,100)
- Done Run two scenarios only: base case and 44/50% scenario

EXAMPLE:

- 1000 Number of Parishners in Church
- 35% Kroger Market Share
- 350 Number of current Kroger households
- 800 Total number of Community Link Cards distributed to the Church
- 450 Number of new Kroger households using CL
- 44% Percent Existing vs. New Households added to CL