

Save-A-Lot Ltd.

a SUPERVALU Company



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December 15, 2003

Ms. Patricia Daniels
Director, WIC
Food and Nutrition Service, U.S. Department of Agriculture
3101 Park Center Drive, Room 520
Alexandria, VA 22302-1594

Dear Ms. Daniels,

Thank you for this opportunity to comment on the Women, Infants, Children (WIC) program. As a national grocery store with more than 1,000 locations in 38 states, we have extensive hands-on experience with the program. Save-A-Lot is the nation's 13th largest retail grocery chain and the fifth largest under a single banner. Annual chain-wide retail sales exceed \$4 billion and are expected to increase rapidly. Save-A-Lot is also a wholly owned subsidiary of SUPERVALU, the nation's largest food wholesaler and tenth largest retailer.

A cornerstone of our operations is providing our customers with the highest quality products at savings up to 40 percent over traditional grocery stores. If a product does not meet our standards for superior quality and value, we will not carry it. In addition, our store locations are primarily in rural and inner city neighborhoods – areas that are traditionally underserved by other national grocers. Our innovative business model of an extreme value, limited assortment store means that we can locate where other grocers cannot or will not, in neighborhoods of need. Our limited assortment concept means that while a customer can do all their healthy food shopping at our stores, we strive to hold down the number of Stock Keeping Units (SKU's) to be sure we can provide our customers with the very best value at all times. As a result of our locations, format and customer demographic profile, a majority of the customers we serve utilize programs such as WIC and food stamps. We at Save-A-Lot see the importance of such programs to our clientele each and every day.

As a company, we are unique in our development, understanding and application of government programs to assist people in achieving stronger and healthier lives. We applaud the USDA for focusing their attention on a well-deserved program that truly offers assistance to those in need. Oftentimes, these programs designed for those transitioning from welfare to the workforce fall by the wayside, and we recognize the valuable attention that the USDA is paying to WIC. We also are prepared to work further with the Department on other nutrition programs, such as food stamps and the coming

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reauthorization of child nutrition programs. Save-A-Lot stands ready to further engage with the USDA on these issues. We welcome the opportunity to arrange for a tour with Save-A-Lot operators and officials from the Department to our stores and distribution centers to explore practical solutions in communities of need.

We appreciate that the USDA is taking the initiative to review and redesign WIC food packages to better serve participants in the program. This move also opens the opportunity for us to comment on the administration of these changes, and how they impact the grocery industry – from our distribution centers to our stores. Whatever changes are made to the foods that are covered under WIC, we at Save-A-Lot stress that **consistency** be a priority in the final rule. What follows is a compilation of recommendations that have been developed with cross-functional, company-wide input about the administration and challenges with WIC.

FIVE A DAY

Expanding WIC to include fresh, seasonal produce.

In part due to the successful “5-A-Day” produce program, more consumers are aware of the benefits fruits and vegetables lend to a balanced diet. These products do fall under the goal of WIC, which is to provide nutritional supplements to those that are traditionally in danger of poor dietary practices. This can also lead to incorporating ethnic considerations in diet, such as mangoes and plantains.

Save-A-Lot has the following recommendation to enhance the current WIC food packages:

- Offer additional fresh and packaged produce. Regular produce items can be selected from a main list of high volume foods, while also taking into account and incorporating seasonal produce (oranges and grapes) throughout the year.

CONSISTENCY

50 states mean 50 WIC programs.

The intent of operating WIC at the state-level was to allow maximum flexibility for the program. Each state runs WIC, setting their individual requirements and administration for the program. Save-A-Lot, which has locations in 38 states, must respond to the varying requirements set by those 38 states. Our Humboldt, Tennessee distribution center serves seven states and, as a result, must meet seven separate program requirements for WIC. For example, one state requires Enfamil under WIC, while the

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adjoining state requires Similac. One state requires an 8-ounce package of cheese for their WIC program, while another requires a 16-ounce block of cheese. Having to stock varying products to respond to different WIC requirements means additional expenses for the company, and does result in discouraging retailers from participating in the program.

Save-A-Lot would recommend the following to ensure consistency in operations:

- Create a master list of approved items for every state to make it easier to comply with item requirements.
- Ensure uniformity in the vouchers themselves so that the procedures for inspecting and accepting the vouchers can be the same for all retailers.

APPROVAL OF PRIVATE LABELS

Pass quality savings to the consumer – and taxpayers

Save-A-Lot is a value-driven store. The cornerstone of our operations is quality food at significant savings. One way we are able to do this is by carrying our own brands, some of which surpass national brands in taste tests. Our brands are significantly lower in cost, and have the same size box and the same ingredients as national brands. For example, a box of Kellogg's Corn Flakes is \$2.49 while a box of Morning Gem Corn Flakes (the Save-A-Lot nutritionally-equivalent brand) is \$0.99: same box size, same ingredients at a \$1.50 savings to the consumer. In some states, our products have been approved for use in WIC. However, some states still deny our products simply because they are not the brand a state has contracted to use.

While we are glad that some states are approving and using our products for WIC, the process for approval is a slow one. For example, in New England there is a limited window of opportunity to get products approved. Miss it, and you have to wait until the following year. Our private label products have been approved by some states and at Save-A-Lot, we want to continue submitting our products for WIC approval. A speedier and more efficient approval process would allow us to continue to get quality goods to our customers – saving both them and taxpayers money.

Also, because Save-A-Lot is able to save customers up to 40 percent on their grocery needs, we find that customers can get the required quantities covered in their vouchers, but not reach the total dollar value listed – and are not allowed to use the remainder of the dollar value. Unfortunately, this translates to money unused, and lost for both consumers and taxpayers. However, we must cite one positive in that most states allow WIC vouchers to be used in conjunction with store sales or promotions, such as “buy one, get one free.”

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Save-A-Lot would recommend the following to ensure that consumers receive quality products and realize additional savings:

- Develop a faster approval process for private label products. In many cases, our product meets the product nutritional requirements but are denied simply because they are not the brand that a state has contracted to use. In other cases, the process is unnecessarily long or has a brief window of opportunity.
- Allow participants more flexibility in spending. Vouchers require that participants collect only the quantity of items listed on the voucher not to exceed the listed dollar amount. Because Save-A-Lot prices are significantly less than conventional retailers, participants can get the required quantities and still not reach the total dollar value listed but are not allowed to use the remainder of the dollar value. They should at the least be allowed to get more quantities of the listed items.

REDEMPTION & REIMBURSEMENT PROCESSES

Challenge for grocery industry to track.

Having each state administer the program means that each state has a different process for redemption and reimbursement, which makes it difficult for the company to track our reimbursements. This is a challenge throughout our company, but particularly for our smaller operators. Save-A-Lot has both corporate and licensed stores. Many of our licensees are independent operators who are willing to locate in communities of need, and often are the only grocery stores in the area. Because their operations are small, they do not have the capital available to support the store while they wait for reimbursements. Unfortunately, this often dissuades them from participating in WIC because they simply cannot stay in business while they wait for the process to move along – a loss to the community, especially if they are the only store nearby. The fact that it is far more difficult than necessary for the company to recoup the reimbursement turns a program that should be a win-win for participants and retailers into a potential profit-losing endeavor for retailers.

For example, to gather data on how much Save-A-Lot is reimbursed from WIC takes between 3 to 4 months based on the states, some of which are better than others. Currently, states are not required to provide this information. Save-A-Lot is very proactive in gathering this data, but still this information in most cases is denied or very spotty in content. While there is a 95 percent reimbursement rate with WIC, information can only be gathered once a year, so it is difficult to identify states that have significantly low reimbursement rates, which makes it difficult for us to track and resolve.

Ideally, SAL would like to be able to track this information quarterly. As mentioned before, we are unable to do so because of the challenge and time involved in getting the information from each state.

Save-A-Lot has the following recommendations to ease the redemption and reimbursement processes:

- Require states to provide companies with a report each month (or at least on a quarterly basis) that details how many vouchers were submitted, what amount was reimbursed, what amounts were denied, and what amounts are pending approval or denial.
- Require states to have the same redemption processes. Some states (Ohio for example) deposit reimbursements directly into a retailer's account because the retailer submits its vouchers directly to the state. Other states require that the vouchers are deposited at a bank, the bank then sends them to a third-party contractor to process. The lack of uniformity makes it difficult for retailers to recoup their money, even though they have provided WIC participants the prescribed product.
- Eliminate the WIC stamp and use the store deposit information on the back of the check as the way to track each vendor. Ninety-five percent of our check rejections are due to the store not stamping the WIC check with the WIC stamp before they deposit them.
- Institute rules that require banks to list WIC deposits as separate lines on bank statements. Many banks (in spite of the fact that we deposit WIC with separate deposit tickets) treat the vouchers as checks. This makes it difficult for retailers to track how much they have been reimbursed in WIC by comparing bank credits to actual WIC sales.

ADDITIONAL COMMENTS

Save-A-Lot recognizes that considering new nutritional research in redefining the WIC food packages is a benefit to our customers. We believe in getting the highest quality food at a savings to our customers. Also, we recognize that new arrivals to the country would benefit from the incorporation of ethnic foods to WIC. However, we cannot stress enough the importance of ensuring any changes to WIC recognize the challenges in having each state administer the program separately. In general, the fact that the WIC program is not consistent from state to state – and in some cases from region to region within a state – makes it very labor intensive and expensive for retailers to qualify and to stay in compliance. We feel that if WIC were run in a similar manner as the Food Stamp program, many of these challenges might be addressed and met. With the coming reauthorization of the Child Nutrition programs in 2004, we hope that these recommendations are also considered.

Save-A-Lot would also like to contribute the following recommendations to WIC:

- Allow large chains like Save-A-Lot to have a national WIC contract as we do for the food stamp program.
- Run the WIC Program like the Food Stamp Program (EBT Process). Making WIC an electronic transaction would eliminate the management of paper vouchers, eliminate bank costs for retailers (because many banks are treating vouchers as regular checks), and insure that retailers easily recoup 100 percent of their money.
- Approve stores faster. The approval process becomes an expensive one, since inspections are random and can take up to 90 days or more. Our distribution centers have to keep unusual quantities of a product on hand that the store cannot sell until approved for WIC. This means we must stock low turn items for long periods to have on hand to pass an inspection. This leads to higher inventory cost and waste, since outdated items carried to pass inspection must be destroyed.
 - Also, with an inconsistent approval process, this can lead to varying degrees of professionalism, with some inspectors taking a more lenient view while others are stricter.
 - Additionally, oftentimes we must stock high quantities of inventory to meet WIC requirements. If we are holding more product than is needed for the market, some products go to waste and are lost.
- Develop an easier and simpler application process particularly for large chains, based on what is currently done for the national food stamp agreement.
- Allow more licenses per state. Many states only allow a certain number of licenses for WIC. If a large chain store is using a majority of the licenses, this may mean less access for consumers since smaller stores located in neighborhoods of need may not be able to be approved for WIC.

At Save-A-Lot, our core values are commitment, communication, consistency, coordination and confidence – or as we refer to them, the 5 C's. These values are a company-wide guide for our daily operations. We are committed to working with the USDA; we encourage communication and coordination between our two entities; we are striving for consistency in our operations; and we are confident that the USDA will continue to serve and highlight the needs of the working poor.

We thank you for this opportunity to comment on the WIC program, and hope they provide you with helpful guidance. As stated at the start of this letter, we are prepared and ready to work further with the USDA on WIC, as well as food stamps and other nutrition programs. We feel that all these programs benefit from the continued emphasis that the Department places on them. Every day, we see the impact in our stores.

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We hope that the upcoming year provides us with the opportunity to arrange a visit to our operations and to discuss ideas to further improve and develop nutrition programs. I encourage you to contact Wendy Ardagna, Director of Government Programs & Community Relations at Save-A-Lot, for any additional questions you might have, as well as to arrange a visit to our operations to explore improvements in nutrition programs that strengthen America.

Sincerely,

A handwritten signature in cursive script that reads "Bill Moran". The signature is written in black ink and is positioned above the printed name and title.

Bill Moran
President and CEO