TOUGH TIMES CREATE A REVIVAL OF THE DINING ROOM

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As a result of economic pressures, recent IRI research has found that many consumers are having difficulty affording their groceries.

Gasoline more than $4 per gallon and rapidly rising food prices have created severe, negative ripple effects throughout the U.S. economy, but they have also created positive results, some obvious, some more nuanced. A renewed drive for alternate energy sources, an increased emphasis on conservation and recycling, and greater interest in addressing global warming are among the most obvious, new behaviors.

A more subtle result is a revival of the family dinner, complete with home-cooked meals featuring fresh ingredients and increased spending on “home luxuries,” such as wine to accompany dinner. More than 60 percent of consumers reported they are visiting restaurants less often than they did as recently as January.

Yet, this new found interest in dining at home is not a panacea for grocery manufacturers. As a result of economic pressures, recent IRI research has found that many consumers are having difficulty affording their groceries. This ranges from 56 percent for those earnings less than $35,000 per year to 44 percent of those earnings between $35,000 and $54,900. These two groups account for a full 60 percent of U.S. households. Even 16 percent of those earning $100,000 per year have claimed difficulty in purchasing their groceries.

Because consumers are working harder to make ends meet, 55 percent of surveyed shoppers state they have scaled back their purchases of higher-priced ultra-convenient meals. Examples of these meals include frozen pizza, shelf-stable dinners and refrigerated prepared lunches. In turn, 53 percent are cooking from scratch and/or buying more convenience-style foods. These include frozen vegetables, frozen prepared poultry and refrigerated side dishes.

People representing all economic backgrounds are following these trends. Of the 53 percent cooking from scratch, 57 percent of these consumers earn $100,000 per year or less, while 36 percent have incomes of $100,000 or more. Among the 55 percent buying fewer prepared meals, 58 percent earn less than $100,000, while 39 percent earn $100,000 or more.

Yet, the shift to ingredients over prepared meals is having its own ripple effects. Certain population segments, especially lower-income consumers, are turning away from more expensive organic products and fresh produce, in favor of less expensive traditionally-grown products as well as canned or frozen produce. And among all income segments, people are tending toward foods that have been

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processed, sometimes due to cost, other times due to the greater convenience; i.e., marinated versus plain frozen poultry.

To compensate, consumers are turning to alternate channels to buy certain goods. There is a renaissance of the home garden and significant growth in foot traffic at farmers' markets. Innovative shoppers are even turning to online purchasing sites, such as Craig's List (www.craigslist.org) to buy and sell produce. Buyers are eager to acquire fresh produce at more affordable prices than what's available at the grocery store or even the farmers' market, while sellers are seeking supplemental income to reduce their own income woes.

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To preserve at least some of the special flavor of dining out, many people are indulging in home luxuries to accompany meals at home and wine is principal among these. Wine sales at all price points have risen significantly in the past 12 months, with growth highest in the $15-$19.99 per bottle segment, increasing 19.3 percent. Even at the $20+ per bottle range, sales have grown 8.6 percent.

SHOPPERNOMICS 2.0

More than just a series of trends, rising gas and food prices are causing a transformation in how Americans shop. Unlike recessions, where after a 12-18 month period shopping patterns return to normal, it is highly unlikely that today's trends will abate soon. While consumers may pay $3.50 for gas again, the days of $2.00 a gallon are past. This transformation, dubbed "Shoppernomics 2.0" by IRI, creates a new imperative for CPG manufacturers.

Gone are the days when manufacturers can simply create infinite line extensions that protect existing market share and result in perhaps 1-2 percentage point market share increases. Manufacturers must innovate like never before, creating new products, new packaging, rethinking portions and developing other strategies to build and maintain shopper loyalty in these trying times.

Similarly, retailers must rethink how they serve and interface with the customer. Relying on chainwide campaigns developed at headquarters that fail to consider local factors, such as product preferences, tastes, affluence, education levels, and ethnic composition, is a failed strategy.

Manufacturers must redefine relevancy. The products, assortments, formats and promotions that worked a year ago are very possibly ineffective today. As with any significant change, today's market transformation creates new opportunities for the manufacturers able to develop a new series of strategies that IRI calls *Shoppernomics Marketspace Innovation.* Shoppernomics Marketspace Innovation applies the concepts of creating Marketspaces—innovative new shopping Experiences—to today's economic transformation. Shoppernomics Marketspace Innovation is based on the following five key strategies.

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STRATEGY #1

RE-IDENTIFY THE MOST VALUABLE SHOPPER

While manufacturers may have carefully segmented shoppers in the past, today's transformation requires them to renew this process and give it greater urgency. Indeed, even people earning more than $100,000 per year are changing their shopping behaviors. Managers must re-identify the most valuable current and potential shoppers, based on their behaviors and trip missions, defining "most valuable" on a recency, frequency, monetary value (RFM) basis as well as current and potential share of wallet basis.

Manufacturers must have an intimate, scientific understanding of their shoppers and how they are reacting to higher prices. This detailed understanding must include information on revised shopping strategies, price elasticity on a product-by-product basis, trip missions, basket sizes, promotion sensitivity, as well as their personal habits, such as what they read and view on television.

STRATEGY #2

RECREATE AN INTIMATE UNDERSTANDING OF THE TARGETED SHOPPER'S ONGOING PURCHASE INFLUENCERS

Because shoppers are changing many of their behaviors, how they receive information about products and stores may also have changed. The shopper that used to drive to work and listen to the radio, may now take a bus to work and read a newspaper or download and listen to podcasts on their iPods. The consumer that used to go to the movies frequently may now spend more time at home in front of the computer. One constant remains, however. In a world characterized by "information everywhere," consumers are ignoring promotions that are even slightly irrelevant to their needs and honing in on sources that provide the most relevant information in the format best suited to how they live.

STRATEGY #3

REDESIGN PROGRAMS TO CREATE NEW, UNIQUE PRODUCT DIFFERENTIATION

With a firm understanding of the "new shopper," manufacturers and retailers must collaborate to create new, unique experiences targeted to each group. For example, if a shopper group is identified as "Loves Luxury," manufacturers and retailers might create store sections that group a wide range of these products together, along with espresso coffee, liqueurs and other foods and beverages research shows consumers tend to enjoy with desserts.

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STRATEGY #4

RECREATE VERTICALLY–INTEGRATED, CONSUMER-FOCUSED PRODUCT SOLUTIONS

CPG companies focusing on creating new product categories must encourage people to rethink how they use a product or category of products. One example is a new toothpaste people leave on their teeth overnight that also acts as a whitener, replacing two products—one for cleaning another for whitening—with one. This innovation appeals to shoppers' eagerness for economy (one product versus two) as well as efficiency ("it works while I sleep"). Another is a leading brand of hair care products, where the manufacturer

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designed the shampoo and conditioner bottles to "nest" together on the shelf, encouraging shoppers to purchase both.

STRATEGY #5

RE-INVENT MERCHANDISING AND PROMOTION

Re-inventing merchandising and promotion reveals a critical CPG issue. Manufacturers typically build extensive data on *what* shoppers buy, but they often have much less intelligence on *why* they buy.

Understanding shopper motivations is the cornerstone of developing new merchandising and promotion strategies. As all shoppers, even affluent shoppers, ask, "How can I feed my family well for less?"

Shoppers are pursuing three broad strategies to answer this question, and manufacturers that aggressively address each trend are mostly likely to benefit:

>>> **"Indulging Affordably" – These shoppers are brand loyal to the premium products they are used to purchasing. Many manufacturers are facilitating this loyalty through innovative strategies such as providing smaller portions to keep luxuries within the shopper's budget**

>>> **"De-prioritizing" – Changing behaviors and purchasing, for example, a $20 bottle of wine in place of the $100 bottle they are used to characterizes this shopper group. To meet the needs of this group, manufacturers are developing promotions that encourage high wealth consumers to test less expensive brands**

>>> **"Selectively De-selecting" – Other shoppers are substituting expensive products with less expensive ones, such as less expensive beef cuts in place of sirloin. Innovative manufacturers are offering tantalizing recipes with beef chuck and other cuts to aid shoppers in preserving the look and taste of an expensive meal with less expensive ingredients**

The revival of the dining room is a silver lining within the dark cloud that hangs over the U.S. economy today. It enables the family to cook and share meals together once again. It also creates opportunities for innovative CPG manufacturers to create a lasting bond with the large number of shoppers finding it increasingly difficult to put nutritious meals on the table.

Innovators that adopt the Shoppernomics Marketspace Innovation approach position themselves as helping the customer through this transformation. This will invariably earn customer loyalty and reap many benefits in the future, including the ability to sell in new brands, charge higher prices as shoppers' incomes improve and improve their bottom lines. It is this type of scientific knowledge, coupled with a willingness to innovate that will help shoppers, manufacturers and retailers alike adapt to today's new economic realities.

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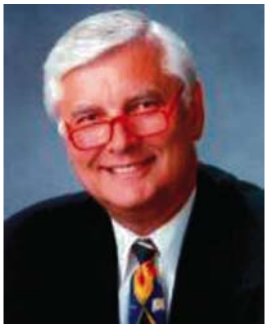

Thom Blischok is President of Consulting and Innovation for IRI. A seasoned executive possessing more than 25 years of industry expertise, Thom leads the company's strategic consulting, thought leadership, innovation and marketing practices. A recognized futurist and thought leader, Blischok is known around the globe for his innovative thinking and strategies to help retailers and manufacturers fundamentally transform their go-to-market economic models using innovative approaches to understanding the consumer with new forms of marketplace information.

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