

TIMES & TRENDS

A Snapshot of Trends Shaping the CPG Industry

HISPANIC CONSUMERS CAPTURING CPG MARKET POTENTIAL



April 2008

- 02 Executive Summary
- 03 Introduction
- 04 Hispanic Segment Overview
- 07 Shopping Patterns
- 09 Purchase Behavior
- 15 Conclusions
- 17 Resources



TIMES & TRENDS

A Snapshot of Trends Shaping the CPG Industry

EXECUTIVE SUMMARY

- ▶ The U.S. Hispanic market drives \$34 billion in CPG spending today and will spend an estimated \$52 billion by 2015; spending per household among Hispanic consumers significantly outpaces the national spending averages across nearly every channel
- ▶ Capturing a greater share of this market requires targeted product development, marketing and merchandising plans that reflect distinct needs and preferences across Hispanic sub-segments; few major retailers and manufacturers have cracked the code to develop an advantaged position
- ▶ Offering deals and multi-packs appealing to larger Hispanic households, the mass and club channels have secured an above-average share of Hispanic shopper spending; supercenters are gaining ground, but store locations have inhibited growth
- ▶ Shopping and purchase patterns and media usage among unacculturated Hispanic consumers are markedly different from acculturated Hispanic consumers; for instance, unacculturated consumers highly value fresh foods and traditional home cooked meals and are heavy users of Spanish language magazines and TV
- ▶ Hispanic consumers are a particularly strong target market for baby care, beauty care, laundry care, and food and beverages that are youth-oriented, offer specific health benefits (eg. low sugar, high fiber) or are an ingredient or component of ethnic meals



INTRODUCTION

Capturing growth in the Hispanic market requires targeted strategies reflecting the needs and preferences of key sub-segments.

The 45-million-strong Hispanic consumer market in the U.S. drives \$34 billion in CPG spending today – a number projected to grow to \$52 billion by 2015.

Spending significantly more than the average household on CPG products, Hispanic consumers are a highly attractive segment for retailers. This segment also offers huge growth potential for brands who win their loyalty – especially across heavily-purchased categories, including baby care, beauty care, laundry care, youth-oriented food and beverages and ethnic meal components and ingredients.

Given the extraordinary market potential, why have so few leading retailers and manufacturers cracked the code on how to capture this opportunity for their brands and stores?

The answer lies in the complexities of the market. While Hispanic consumers may share some common characteristics, this is by no means a homogenous group. It is comprised of numerous sub-segments, based on multiple factors, including language spoken, level of acculturation and country of origin.

Capturing brand or store growth potential requires an in-depth understanding of the needs and preferences of each sub-segment among the brand's target consumer base and within the neighborhood surrounding each store.

This report highlights differences within the Hispanic market vs the general population and across Hispanic sub-segments that warrant consideration in product and packaging development, marketing and merchandising plans. In addition, the report showcases innovative manufacturer and retailer initiatives that are moving the needle within this critical market segment.



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HISPANIC SEGMENT OVERVIEW MARKET OPPORTUNITY

Hispanic consumers represent a \$52 billion CPG market by 2015.

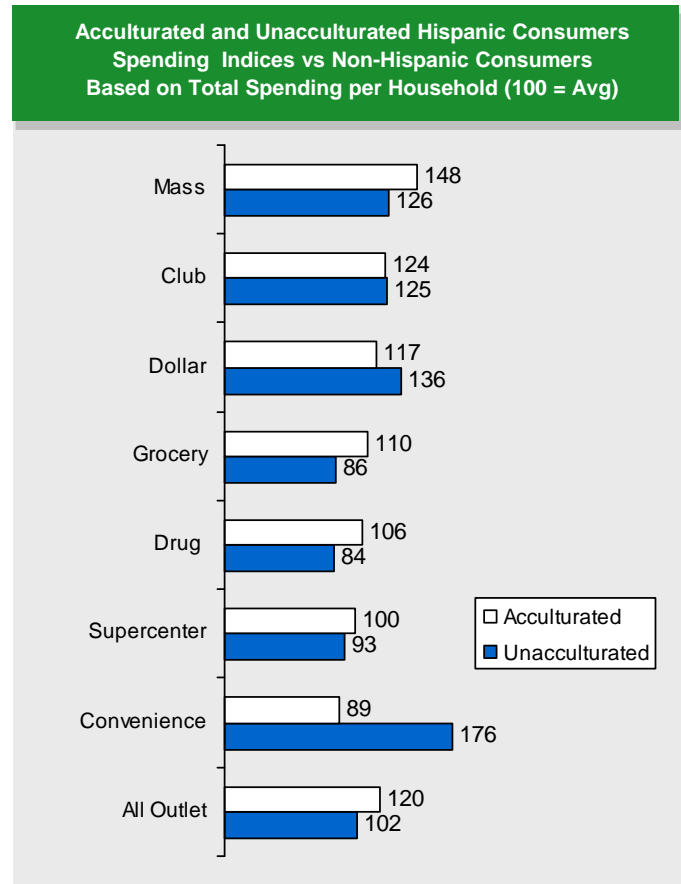
Hispanic consumers spend an estimated \$34 billion on CPG products today – a number projected to grow to \$52 billion by 2015.

With over 45 million Hispanic consumers in the U.S. today, and growth rates that are triple the national average, the sheer size and growth of this segment establish Hispanic consumers as one of the most critical emerging markets for CPG manufacturers and retailers.

Further, acculturated Hispanic households spend significantly more on CPG products than non-Hispanic households - primarily due to larger families. And, spending is above average among these consumers in nearly every outlet.

There are important differences in spending patterns between acculturated and unacculturated Hispanic consumers.

As will be detailed throughout this report, there are distinct differences in shopping and spending patterns between acculturated Hispanic consumers – those who have assimilated more to the U.S. culture, as evidenced by English language usage – and unacculturated Hispanic consumers.



IRI Hispanic Shopping Basket Assessment

Overall, unacculturated Hispanic consumer CPG spending is below that of acculturated Hispanic consumers, but comparable to the general population. And, unacculturated consumers spend significantly more at convenience stores. This difference is most likely driven by a higher concentration of these consumers in urban areas.



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HISPANIC SEGMENT OVERVIEW GROWTH AND COMPOSITION

Larger families and a younger consumer mix deliver unique marketing and merchandising opportunities.

The median age for U.S. Hispanic consumers is 27 vs 36 for the total population.

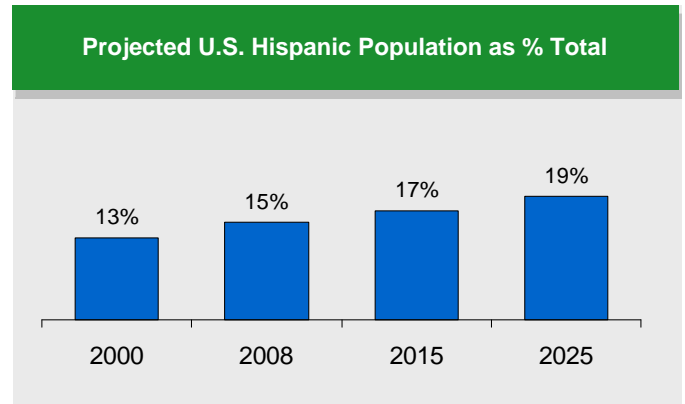
– U.S. Census Bureau

Nearly one of every six consumers in the U.S. today is Hispanic, and that ratio will jump to nearly one in five by 2025.

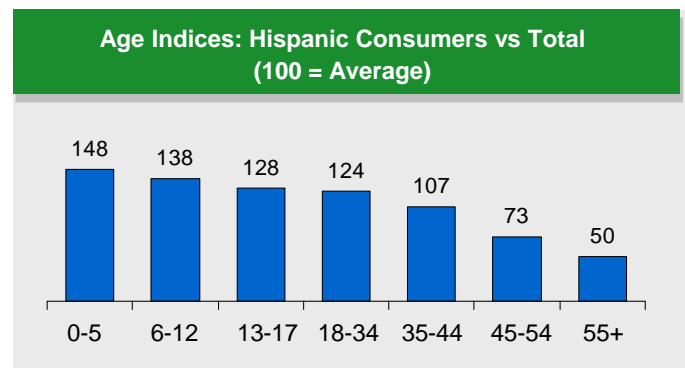
This segment has many unique characteristics and distinct sub-segments that will dictate optimal advertising, marketing, packaging and assortment. The next few pages provide a high-level overview of several key factors that distinguish this market and illustrate the complexities of building a successful Hispanic market strategy.

As illustrated in the middle chart, the Hispanic market is far more youthful than the general population. Marketers are beginning to tap into the youth culture with initiatives such as Pepsi’s “Blue Carpet Bash,” a multi-city music and entertainment program linked to key Hispanic award shows that targets 18-34 year-old Latino consumers.¹

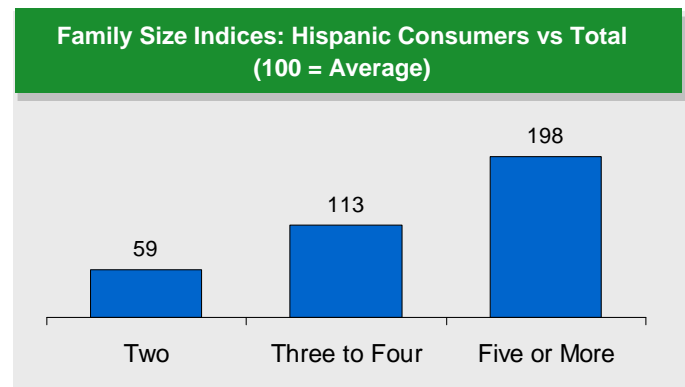
Hispanic families are also significantly larger than the national average, as highlighted in the bottom chart, driving opportunity in bulk packages and multi-unit purchases.



Source: U.S. Census Bureau Projections



Source: Based on data from 2006 American Community Survey



Source: Based on data from 2006 American Community Survey

1. Brandweek, 1/17/08



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HISPANIC SEGMENT OVERVIEW SUB-SEGMENTS

Level of acculturation and country of origin are critical segmentation variables.

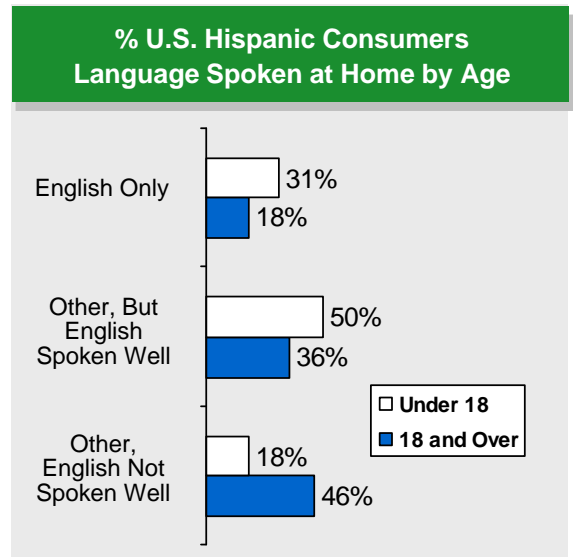
The Hispanic segment is further distinguished by sub-segments based on language spoken and country of origin.

While a majority of Hispanic children speak English well, typically in addition to another language at home, nearly half of Hispanic adults do not speak English well.

Spanish-language media is critical in reaching unacculturated Hispanic consumers, but may not be the optimal vehicle for reaching acculturated consumers: A recent IRI Hispanic Survey found that 70% of unacculturated consumers read Spanish language newspapers or magazines at least one hour per week, and 83% watch at least one hour of Spanish language TV per day. This compares with only 20% of acculturated Hispanic consumers leveraging Spanish language media to this extent. Advertising and marketing require a segmented approach depending upon level of acculturation.

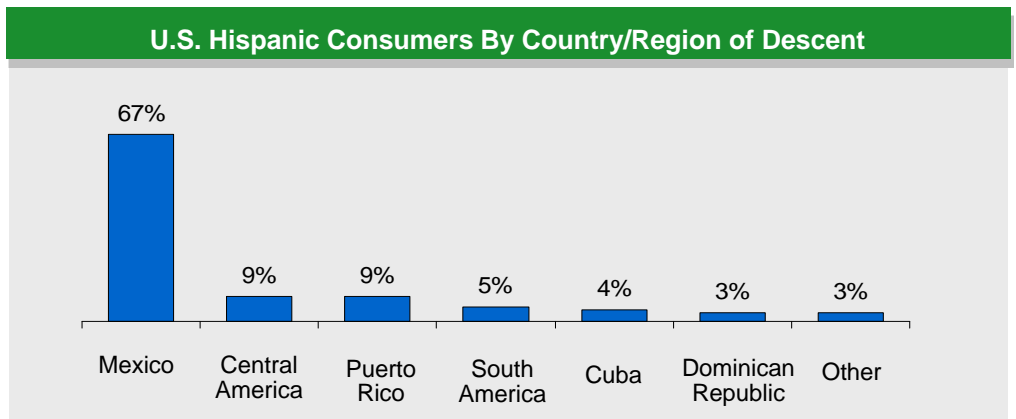
Roughly half of acculturated Hispanic consumers do not watch Spanish language TV.

– IRI AttitudeLink™
Hispanic Survey



Source: Pew Research

As country of origin influences cultural traditions and product preferences, it is also a critical segmentation variable. While a majority of U.S. Hispanic consumers are of Mexican descent, several countries and regions are well-represented among the U.S. Hispanic population, requiring an understanding of local market composition to ensure relevant assortments.



Source: U.S. Census Bureau Estimates



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A Snapshot of Trends Shaping the CPG Industry

HISPANIC CONSUMER SHOPPING PATTERNS CHANNEL SHARE SHIFTS

Mass and club stores earn an above-average share of Hispanic consumer spending, but supercenters are gaining ground.

With large households requiring above-average CPG spending, it is not surprising that Hispanic consumers are more likely than non-Hispanic consumers to stick to a budget when shopping and to allocate a higher share of spending to mass and club channels.¹

What is a bit surprising, however, is that supercenters are relatively under-developed in dollar share among Hispanic consumers. The lack of supercenters in urban areas is a key inhibiting factor, certainly, but club stores have managed to draw Hispanic consumers to stores that are often out of the way. The strong appeal of deals on large packages that are perfect for large families has apparently enabled club stores to overcome this hurdle.

Supercenters have made significant strides over the past year, however,

with a nearly two-point share gain, as both Wal-Mart and Target implement marketing and merchandising programs tied to significant Hispanic cultural events including Three Kings Day (Wal-Mart) and Hispanic Heritage Month (Target).

While the grocery channel has not gained share overall, promising formats and programs have been implemented by major retailers. Publix's Sabor stores in Florida offer a wide range of items that are staples in the Hispanic community. All employees are bilingual, as are store signs.² Winn Dixie's Hispanic Neighborhood Merchandising program offers products appealing to the Hispanic nationalities in neighborhoods surrounding each store in addition to "core" Winn Dixie items.

CPG Dollar Share by Channel Among Hispanic Consumers

Channel	2008 Share	Share Index vs Total Panel	Point Change vs 2007
Grocery	53.4%	96	0.0
Supercenter	11.9%	81	1.9
Mass	10.2%	122	(0.7)
Club	11.0%	139	0.2
Drug	5.1%	91	(0.1)
Dollar	1.3%	93	(0.1)
Other (Specialty, Convenience)	7.0%	106	(1.1)

1. IRI AttitudeLink™ Hispanic Survey

2. floridatrend.com

Source: IRI Consumer Network™; 52 weeks ending 3/9/08 vs prior year



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HISPANIC CONSUMER SHOPPING PATTERNS STORE SELECTION CRITERIA

Retailers need to address the distinct needs of unacculturated Hispanic consumers to become a preferred shopping destination.

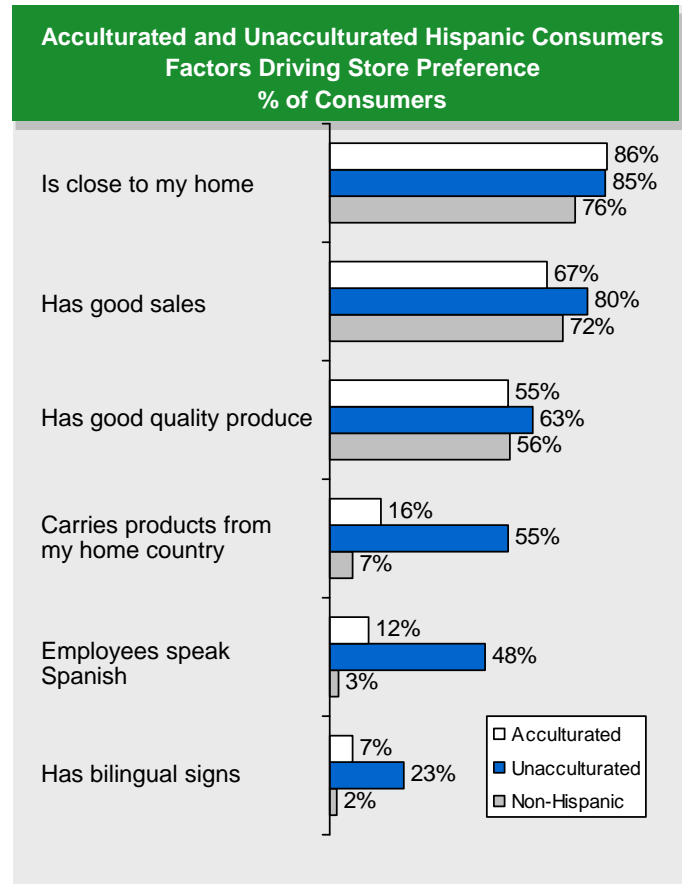
Retailers seeking to attract Hispanic shoppers must take note of key differences in expectations among acculturated and unacculturated Hispanic consumers.

Both sub-segments value proximity to home even more than non-Hispanic consumers. Beyond this criterion, however, acculturated Hispanic consumers' store selection criteria are aligned with non-Hispanic consumers.

Unacculturated consumers, however, take distinct considerations into account when deciding where to shop.

As these consumers are more likely to look for sales, it is critical that store circulars and other advertising clearly communicate "good sales" on heavily-purchased items.

In addition, unacculturated consumers look for products from their home country. It is imperative that retailers in markets with a high proportion of Hispanic consumers identify country of origin and favorite products and customs within these



Source: IRI 2007 AttitudeLink™ Hispanic Survey

countries and develop sourcing relationships to ensure an attractive assortment of relevant products.

In markets with a large number of unacculturated consumers, creating an easy, enjoyable shopping experience through bilingual store signage and employees who speak Spanish is a must.



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HISPANIC CONSUMER PURCHASE BEHAVIOR FOOD & BEVERAGES

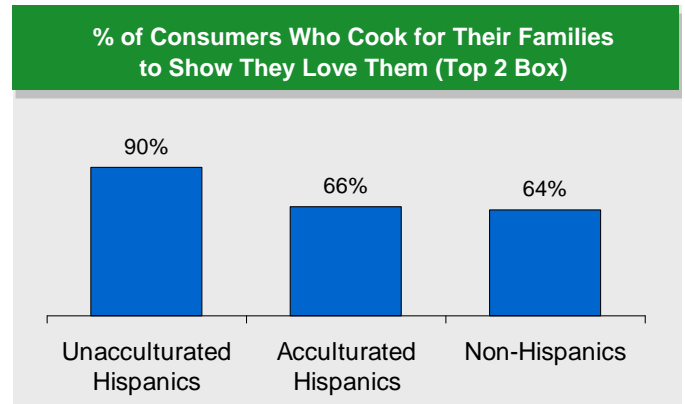
The role of food in unacculturated Hispanic consumers' lives creates unique positioning and assortment opportunities.

Among unacculturated Hispanic consumers, food is a source of connection – to home countries and to family members.

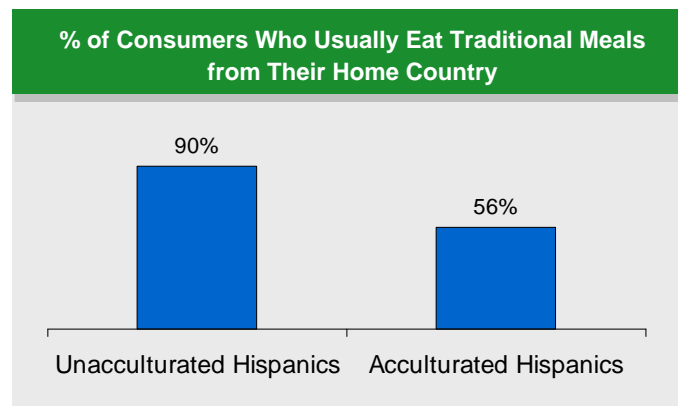
The vast majority of unacculturated Hispanic consumers indicate that cooking for their families is a sign of love. Messaging around this sentiment will likely resonate particularly well within this segment. Ingredients for home-cooked meals will also be in high-demand, while demand for prepared meals may be weak.

And, as 90% of unacculturated Hispanic consumers and over half of acculturated Hispanic consumers frequently eat traditional meals from their home countries, ingredients for these meals will be a critical component of assortments.

General Mills is addressing the needs and preferences of unacculturated consumers in Que Rica Vida (What a Rich and Wonderful Life), a Spanish language lifestyle magazine that the company has developed as an “important resource for moms struggling to navigate their way through the acculturation process” that also offers appealing, convenient recipes.¹



Source: IRI 2007 AttitudeLink™ Hispanic Survey



Source: IRI 2007 AttitudeLink™ Hispanic Survey

1. General Mills press release



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A Snapshot of Trends Shaping the CPG Industry

HISPANIC CONSUMER PURCHASE BEHAVIOR FOOD & BEVERAGES: HEALTH & WELLNESS

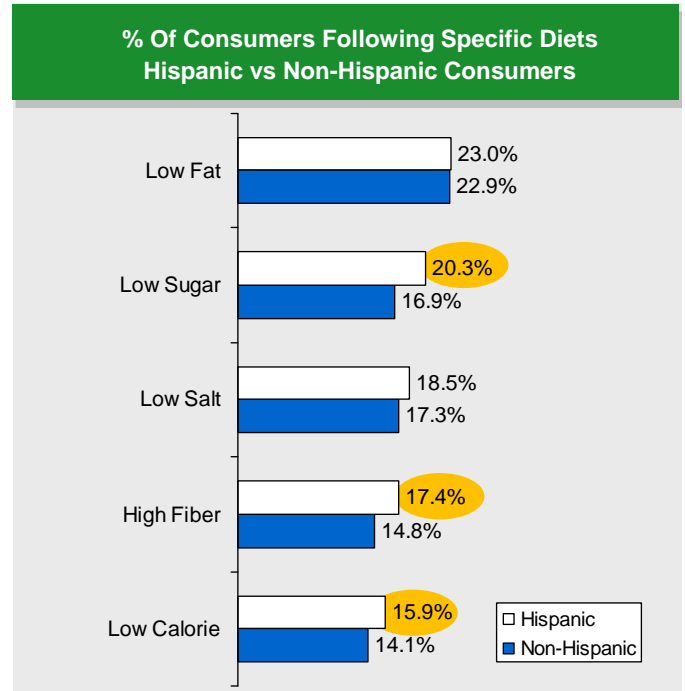
Hispanic consumers are a strong target market for fresh foods and products delivering specific health benefits.

Consistent with the general population, health and wellness are powerful drivers of food and beverage selection among Hispanic consumers. However, market opportunity appears to be even stronger than average among several “better for you” product categories within the Hispanic segment.

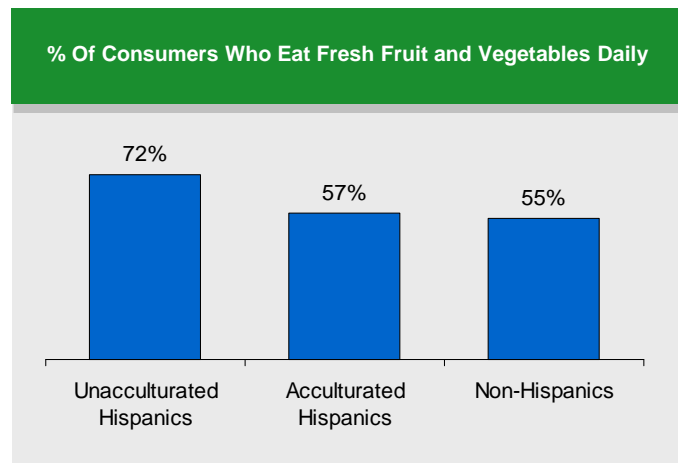
As detailed in the top chart, a higher than average proportion of Hispanic consumers look for products low in sugar, high in fiber and offering reduced calories. Manufacturers of products offering these benefits should explore targeted Hispanic marketing initiatives.

In addition, unacculturated Hispanic consumers are far more likely than other consumers to eat fresh fruits and veggies daily, and are more likely than other consumers to look for package labels such as “100% juice”, “fresh” and “real.”

Kellogg's is one manufacturer addressing these needs through the company's Healthy Beginnings program, offering tests by bilingual nurses for several health conditions at retail locations and coupons for \$1 off fresh produce with the purchase of two Kellogg's products.



Source: IRI MedProfiler VII



Source: IRI 2007 AttitudeLink™ Hispanic Survey



TIMES & TRENDS

A Snapshot of Trends Shaping the CPG Industry

HISPANIC CONSUMER PURCHASE BEHAVIOR FOOD & BEVERAGES: HEAVILY PURCHASED CATEGORIES

Hispanic marketing programs are an imperative across youth-oriented categories and ethnic meal components.

The unique characteristics of the Hispanic consumer segment discussed throughout this report – from a youthful consumer mix to a preference for traditional foods and a love of cooking are all reflected in the food and beverage categories that are heavily purchased by this segment.

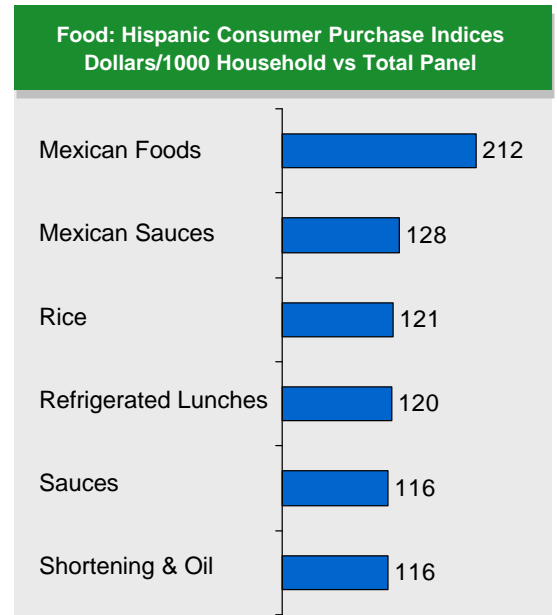
Ingredients and components of traditional Mexican meals top the list of high-index food categories.

Food and beverages targeting children are also high on the list, including refrigerated lunches and aseptic juices.

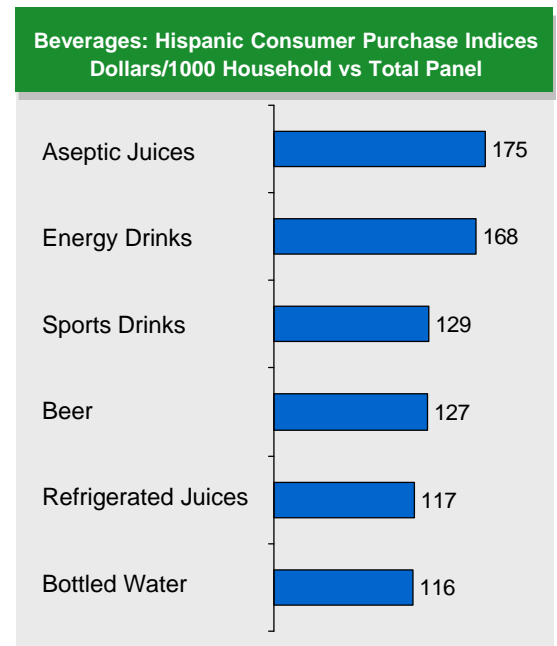
Beverages with high purchase indices among young adults, including energy drinks and sports drinks, for instance, also have above-average purchase propensities among Hispanic consumers, which is not surprising given the higher proportion of Hispanic consumers in the young adult age bracket, as detailed on page 5.

Manufacturers with products in these categories without a comprehensive Hispanic marketing program are likely missing out on major market opportunity.

Retailers seeking to build a strong presence within Hispanic communities need to ensure an adequate assortment of preferred brands across each of these categories, which should also be prominently featured in advertising and promotions.



Source: IRI Consumer Network™ All Outlet
52 weeks ending 3/8/08



Source: IRI Consumer Network™ All Outlet
52 weeks ending 3/8/08



TIMES & TRENDS

A Snapshot of Trends Shaping the CPG Industry

HISPANIC CONSUMER PURCHASE BEHAVIOR BABY CARE

Hispanic consumers represent an exceptionally strong target market for baby care products.

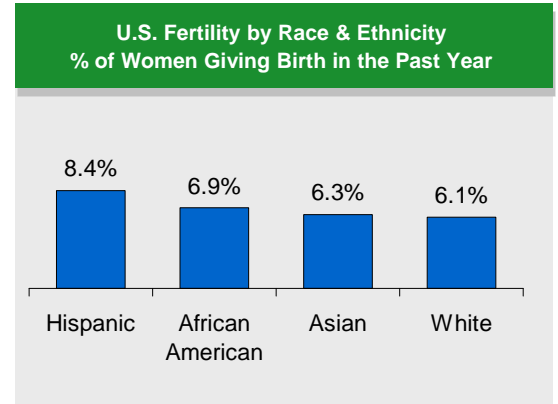
High birth rates among Hispanic women translate to strong market potential across baby care categories within the Hispanic market, as evidenced by exceptionally high purchase indices summarized in the bottom chart.

With nearly one in four babies born in the U.S. to an Hispanic mother, manufacturers in the baby care segment require a strong Hispanic marketing program to capture growth in these highly competitive categories, yet this opportunity appears to be largely untapped, with a few notable exceptions.

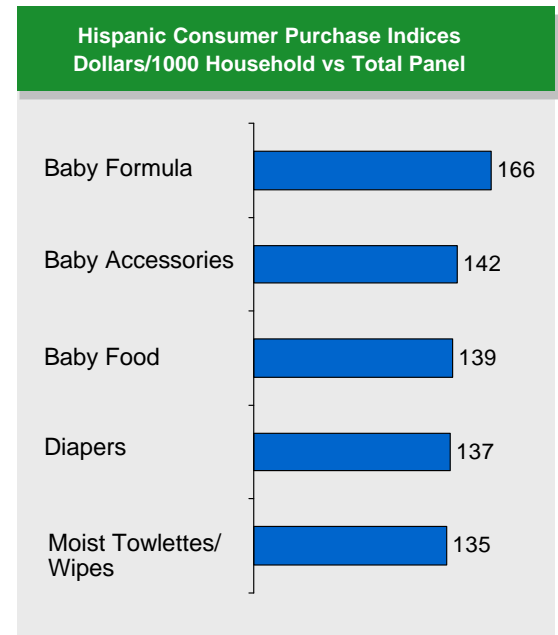
BabyCenter, the leading U.S. parenting website, which is owned by Johnson & Johnson, is extending its reach among Hispanic parents with a Spanish-language version, Baby Center en Español. The site is open to advertisers wishing to reach this lucrative market.

The largest advertiser in Spanish magazines in 2007, Procter & Gamble allocated nearly \$1 million of this spending to Pampers Swaddlers.¹

Given the relatively high ticket of many baby care purchases, such as diapers and baby formula, these categories have strong potential to bring consumers into the store if prices are competitive. Retailers should invest in developing strong baby care departments with favored brands in markets with young Hispanic families and ensure clear communication of values on baby care items.



Source: Pew Research



Source: IRI Consumer Network™ All Outlet 52 weeks ending 3/8/08

1. Media Economics Group



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A Snapshot of Trends Shaping the CPG Industry

HISPANIC CONSUMER PURCHASE BEHAVIOR BEAUTY CARE

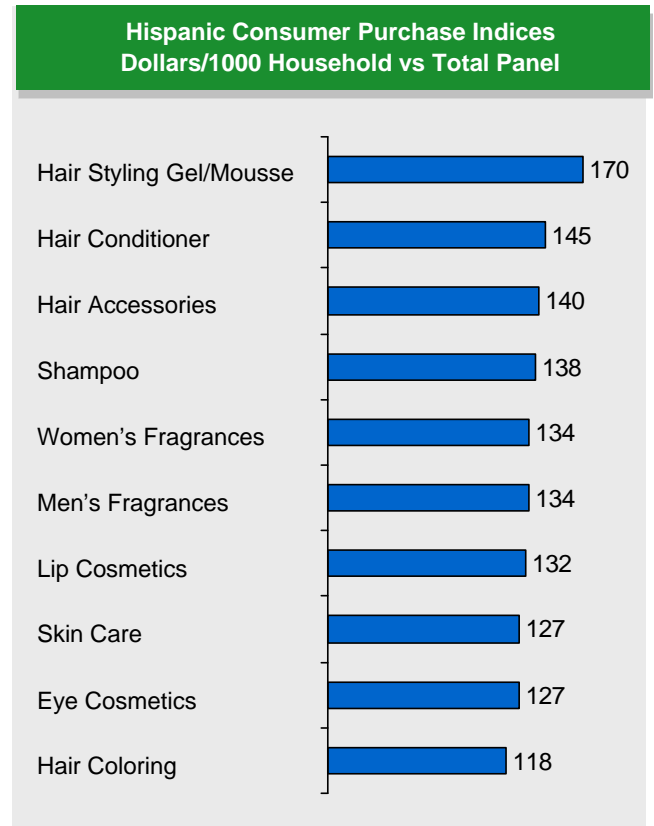
Hispanic consumers are a critical target market for beauty care.

High purchase indices across nearly every major beauty category illustrate the importance Hispanic consumers place on beauty and personal care.

Beauty care manufacturers increasingly recognize this potential. Sunsilk hair care, one of the most successful new CPG brands introduced last year, included SKUs specifically targeting Hispanic women with names such as Anti-Esponja (Anti-Spongy) and Anti-Caida (Anti-Fall). Packaging for these brands is bilingual.¹

Unilever's bilingual ViveMejor magazine, which is available free of charge at major grocery stores and vivemejor.com, also offers tips on everything from beauty care to recipes and features Unilever brands, such as Dove, Suave and Caress.

Beauty care is a destination department that retailers can leverage to drive store traffic among Hispanic consumers. Several major retailers are beefing up their Hispanic targeted offerings. Wal-Mart, for instance, began carrying Suzi Q cosmetics in select markets last summer. The cosmetics line includes shades made specifically to complement the warm skin tones of many Hispanic women.²



Source: IRI Consumer Network™ All Outlet
52 weeks ending 3/8/08

1. Shelf Impact, May 2007

2. Hispanic Business Magazine



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A Snapshot of Trends Shaping the CPG Industry

HISPANIC CONSUMER PURCHASE BEHAVIOR HOME CARE

Across high-spend home care categories, P&G successfully tapped into Hispanic consumer scent preferences to drive growth.

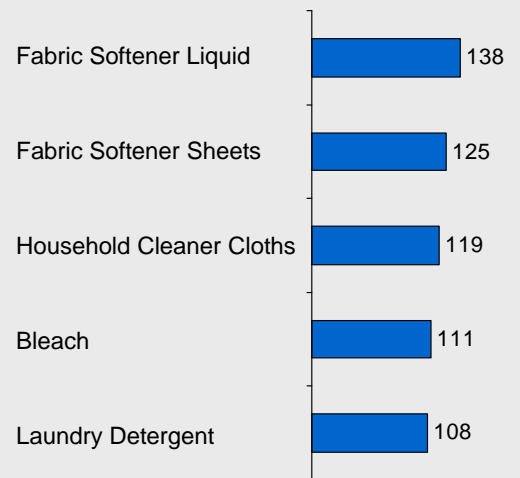
Home care – laundry care in particular – is also a high-spend segment for Hispanic consumers. In laundry care, greater usage driven by larger families is a contributing factor.

Within this category, P&G illustrated the value of applying a deep understanding of Hispanic consumer preferences to marketing efforts. Leveraging research showing that scent is especially important to Hispanic consumers, P&G began emphasizing fragrance in Gain detergent marketing. This targeted strategy worked, driving Gain to the number two spot behind Tide in market share.¹

In addition, P&G partnered with Target in the “Touch of Scent in Every Room” campaign, which included promotions on multiple P&G brands, including Tide, Febreze and Dawn, that offer unique scent experiences.

Among other innovative Hispanic marketing campaigns, through a branded entertainment deal with Telemundo, Clorox gained placement of several home care brands, including Clorox bleach, Clorox disinfecting wipes, and Pine Sol cleaner in the novela *Dame Chocolate*. The brands are integrated into the storyline.²

Hispanic Consumer Purchase Indices
Dollars/1000 Household vs Total Panel



Source: IRI Consumer Network™ All Outlet
52 weeks ending 3/8/08

“P&G’s research showed that scent was a particularly important factor in Hispanic households and..believed that a fragrant detergent would draw the growing Hispanic population...The bet paid off.”

- The Wall Street Journal, 9/4/07

1. The Wall Street Journal, 9/4/07

2. Mediaweek, 2/20/07



CONCLUSIONS CPG MANUFACTURERS

Manufacturers seeking to grow sales within the Hispanic consumer segment should consider the following action items:

- ▶ Market Assessment
 - Identify category purchase indices and penetration levels for own and competing brands across Hispanic sub-segments to determine market potential
 - Within high-potential categories, conduct primary research to assess brand perceptions and most important attributes in product selection across target sub-segments
 - Determine category shopping patterns, including preferred channels and retailers and trip mission mix to optimize distribution and merchandising strategies
 - Explore market potential for new products or varieties within existing lines targeting the Hispanic segment/sub-segments

- ▶ Market Development
 - Develop targeted advertising, marketing, merchandising and distribution strategies for each high-potential sub-segment
 - Explore cross-category marketing and merchandising with fresh foods and other high-index categories and brands
 - Work with retail partners to identify optimal store mix

- ▶ Market Measurement
 - Track share shifts across sub-segments
 - Track growth by market and by store
 - Track target consumer attitudes to ensure programs are hitting the mark



CONCLUSIONS RETAILERS

Retailers seeking to grow sales within the Hispanic consumer segment should consider the following action items:

- ▶ **Market Assessment**
 - Identify stores with a high mix of Hispanic consumers within the trading area
 - Within Hispanic markets, determine country of origin, language spoken and level of acculturation
 - Assess competitive retail set by market
 - Conduct primary research to determine preferences in product mix, language and media

- ▶ **Market Development**
 - Tailor assortments to local market preferences
 - Establish sourcing relationships to offer favorite products from home countries -- particularly in markets with a high mix of unacculturated consumers
 - Ensure that store signage addresses the language preferences of neighborhood consumers and that bilingual staff are available, as needed
 - Place a heavy emphasis on fresh foods and home-cooked meal ingredients and components in markets serving unacculturated consumers
 - Leverage heavily-purchased categories, such as baby care and beauty care to drive store traffic and loyalty among Hispanic consumers; ensure that these categories are prominently featured in displays and advertising and offer preferred brands

- ▶ **Market Measurement**
 - Track share shifts across sub-segments
 - Track growth by market and by store
 - Track target consumer attitudes to ensure programs are hitting the mark



RESOURCES

IRI Portafolio de Productos Hispanos

This set of reports empowers CPG marketers to compare the purchasing, shopping habits and attitudes of unacculturated Hispanic consumers with acculturated Hispanic consumers and non-Hispanics.

Critical Business Questions Answered:

- ▶ Importance of brand equity vs private label and low price brands
- ▶ Pinpointing the key purchase influencers and optimal marketing mix
- ▶ Importance of product attributes, including health & wellness and meal & flavor preferences
- ▶ Shopping outlet preferences and why
- ▶ Highest opportunity categories by channel and trip type

Includes:

- ▶ IRI AttitudeLink™ Hispanic Survey: Reveals the preferences and attitudes of Hispanic households, linked with actual purchase behavior
- ▶ IRI Hispanic Shopping Basket Assessment: Uncovers the purchasing habits of Hispanic consumers across categories and retail channels
- ▶ IRI Hispanic Trip Mission Assessment: Analyzes and segments Hispanic trip missions, revealing the optimal approach to reach these consumers in the store
- ▶ IRI Hispanic Brand Insights Report: Highlights the brands winning with Hispanic consumers

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A Snapshot of Trends Shaping the CPG Industry

MORE INFORMATION

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ABOUT IRI

Information Resources, Inc. (IRI) is the world's leading provider of enterprise market information solutions and services, empowering its clients to grow their business profitably in a complex marketplace. Driving the transformation of the consumer packaged goods (CPG), retail and healthcare industries, only IRI provides a unique combination of real-time market content, advanced analytics, enterprise performance management software and professional services. The company's portfolio of services, solutions and technology enable leading retailers and their suppliers around the globe to see what they are missing, act faster and with greater confidence and win at the shelf. Ninety-five percent of the FORTUNE Global 500 in CPG and retail leverage IRI to power their business. For more information, visit www.infores.com.



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