

Times & Trends

A Snapshot of Trends Shaping
the CPG and Retail Industries



January 2009

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2008 CPG Year in Review *A Market Re-Defined by Budget-Strapped Consumers*



Title: A New Economy Calls for New Strategies

In November, the government announced what everyone already knew: the U.S. economy is in recession. This recession struck the economy with unusual rapidity and severity. Unemployment, for example, just 4.7 percent in December 2007, now stands at 7.2 percent, the largest jump in 26 years.

IRI has studied this economic transformation since the start, and divides the 2008 into two “Stages.” Stage I, “Shocking the System,” took place in Q1-3 and was characterized by an unprecedented rise in energy and food prices. Consumers reacted with sharp cutbacks to purchases overall, and began a re-evaluation of what, why, where and when they buy food and center store items. Shoppers took a new look at old spending habits and started to make significant changes.

In Q4, the economy entered Stage II, which IRI has named “A Refocus on Impact.” During this quarter, food prices moderated and energy prices plunged, but consumers continued to cut back. Surprised by the severity of price increases and the credit crunch during Stage I, shoppers did not re-open their wallets as prices moderated.

January 2008 began Stage III, “The Lasting Reality.” With a continuing rise in unemployment, ongoing weakness in the banking system and credit structure, and a belief that energy prices will rise again in the near future, consumers remain extremely skeptical. Among consumers earning more than \$100,000, there are a few signs that shoppers are backing away from their most extreme cost-cutting behaviors; but among all other income groups, the wallet remains closed.

Recessions expose the health of CPG manufacturers and retailers. Innovative companies continue to thrive, while weaker companies struggle and fail. IRI recommends to all CPG companies seven strategies for improving market share, shopper loyalty and financial position in today’s economy.

- **Planning** – Shoppers are making most decisions before they enter the store. Manufacturers and retailers should shift merchandising and promotion strategies into people’s homes via both traditional media and new, online social media.
- **Purpose** – Consumers have changed their rituals, cooking at home with fresh ingredients, bringing snacks and lunches out of the home to work and/or events. Manufacturers should make available fresh ingredients and rewire their snack strategy. Retailers must make it easy for shoppers to find the ingredients and supporting products they need to get the job done.
- **Price** – Shoppers demand good prices and quality in what they buy. Manufacturers and retailers should redouble their collaboration strategies to offer consumers the best value possible.
- **Product** – Shoppers are buying familiar products. New product experimentation is at an all time low. Manufacturers should consider an enhanced brand-extension strategy. Retailers can increase shelf space of existing brands at the expense of new products.

Title: A New Economy Calls for New Strategies (pg 2)

IRI recommends to all CPG companies seven strategies for improving market share, shopper loyalty and financial position in today's economy (cont'd)...

- Promotion – Shopper Direct Marketing has arrived and will become a strategic differentiator. Manufacturers and retailers should develop new media strategies which will ensure consumers' maximum exposure to marketing messages.
- Place – Shoppers are looking for the best deals wherever they can find them. Loyalty to a channel/banner is only as good as "what have you done for me lately." Manufacturers and retailers must review and update the value propositions of products and stores.
- Permanence – Shoppers are deeply worried about the future. Many changes they are making now will last. Manufacturers and retailers must update their management structure in a way that facilitates an ongoing ability to offer new shopping experiences that address evolving shopper needs.

As we navigate these difficult times, I am eager to hear your comments and share our observations.



Thom Blischok
President, Consulting & Innovation



EXECUTIVE SUMMARY: TURNING INSIGHTS INTO ACTION

INSIGHT

- » CPG unit sales fell 2.1% in 2008; illustrative of the struggles consumers are facing in a recessionary economy, price increases fed a 3.0% increase in CPG dollar sales despite the unit sales decline
- » 46 of the top 100 CPG categories experienced above-average price increases in 2008; particularly for goods which undergo processing, and for beef, pork and poultry, prices are expected to remain high well into 2009
- » Supercenters' everyday low price reputation has been well-received by budget-strapped consumers, and channel share of CPG dollar sales climbed 0.6 points in 2008; drug channel retailers, as a destination location for healthcare products, are also well-positioned to compete in a recessionary economy
- » A back-to-basics mantra drove CPG purchase activity in 2008, demonstrated by strong performance of key self-care health and beauty products and meal ingredient/component categories
- » Private label has been a front-burner issue for retailers over the past several years, resulting in high levels of innovation and stepped-up marketing efforts; in a recessionary economy, retailers' private label offerings are answering the call for value, resulting in increased trial and adoption that will likely transcend recessionary economy

ACTION

- » Frequent and granular shopper insight and market analyses will reveal innovative merchandising and cross-promotion opportunities to drive purchase behavior in a recessionary environment
- » Reevaluate pricing strategies to ensure alignment against corporate goals as well as the needs of key consumer segments; carefully test all price change strategies before rollout, and frequently monitor impact
- » Leverage multi-unit and buy-one-get one promotions to reinforce the notion of affordability and value
- » Support in-store initiatives with highly targeted advertising messages of wellness, balance and "down-home goodness" to ensure relevance among key consumer groups
- » Manufacturers should mitigate private label gains with targeted promotions against high-priority segments supported by solutions-based merchandising; retailers should leverage highly targeted private label promotional campaigns against key consumer segments



INTRODUCTION

In a recessionary environment, the ability to anticipate and respond to change before it happens will be instrumental in establishing long-lasting shopper loyalty.

The year 2008 may be gone, but it is definitely not forgotten. It will go down in history as the year the United States entered the most significant economic recession since World War II. This recession will last well into 2009, and possibly beyond.

The government is struggling to calm a financial firestorm. Credit markets are in dire straits, the stock market is very low and unstable, unemployment is at a 16 year high, and food and energy prices have risen sharply. Some economic conditions are expected to improve in the near term, while others have more difficult times ahead.

Gas prices spiked during the year, placing increased strain on personal finances, but prices have dropped sharply since October.

Every American has felt the impact of the country's economic battle. Across age, income, and ethnicity breaks, consumers have been forced to make substantial changes to their everyday lives- and shopping habits- to stay afloat in a recessionary economy. Changes have been broad and deep...and *rapid*.

Big-ticket items are being purchased less frequently, on-premise dining has shifted to home-cooked and home-consumed meals, and health and beauty care are more frequently self-administered. The list goes on.

CPG marketers have responded admirably to the country's economic crisis. New programs, stepped-up marketing efforts, and new meal ideas and components have eased the burden for many consumers.

But, the industry must stay on their collective toes and respond to continually changing rituals with a new level of deftness, for difficult times will enable relationships that will outlast the recessionary environment.

Frequent and thorough monitoring of changing consumer attitudes and behaviors is more necessary now than ever before. And the ability to anticipate change before it happens will define the big winners in the long term.

This 2008 Year-in-Review report explores industry performance over the past year, and provides insights on what to expect as 2009 unfolds.

Times & Trends

A Snapshot of Trends Shaping the CPG and Retail Industries



For CPG marketers, the country's recessionary economy presents challenges and opportunities.

"We've got a ways to go...this is going to be a long and deep recession."

Jeffrey Frankel
NBER

ECONOMIC OVERVIEW 2008 PERFORMANCE

In November of 2008, the government announced that the United States is, officially, in a recession. According to the National Bureau of Economic Research (NBER), the recession started in December of 2007, and, "it could be the worst post World War II recession," says NBER's Jeffrey Frankel¹.

The matrix below, from IRI's *Competing in a Transforming Economy* series, illustrates the seriousness of the situation.

As of the third quarter of 2008, gas and diesel prices were 35% and 45% higher versus year ago, respectively. Commodity costs were at near-historic highs, packaging prices were just coming down from double-digit increases, and CPG prices were more than 8% higher versus the same time period in 2007.

In addition, unemployment is at a 16 year high, credit is at a near stand-still and

investments have lost considerable value. The bottom line: times are tough...and very uncertain.

Predictions call for this recession to last well into 2009, and possibly into 2010. Consumers have hunkered down for the long haul.

To make ends meet, many consumers have been forced to make considerable changes to their day-to-day lives. Driving less, cooking and eating at home more, and limiting spa- even *medical*-expenditures through self-care.

For CPG marketers, the recession has presented challenges and opportunities. But, to capitalize on these opportunities, the industry must serve consumers like never before: monitoring and *anticipating* the needs of key target markets is more important, and complex, than ever before.

| | | 2001 Recession | Current Recession | | |
|-----------------|---------------------------------|----------------|-------------------|---------|---------|
| | | | Q1 2008 | Q2 2008 | Q3 2008 |
| Consumer | CPI: All Items | 2.8% | 3.1% | 7.9% | 2.6% |
| | CPI: Food & Beverage | 3.1% | 5.1% | 8.1% | 8.5% |
| | Gas | (4.1%) | 18.1% | 24.4% | 35.0% |
| | Energy | (2.6%) | 12.0% | 13.0% | N/A |
| | Unemployment | 5.5% | 4.9% | 5.3% | 6.0% |
| | Consumer Confidence | 95 | 63 | 50 | 60 |
| Industry | Commodity Costs | | | | |
| | Wheat | 10.2% | 64.0% | 84.1% | 23.6% |
| | Corn | 1.8% | 38.5% | 59.1% | 58.8% |
| | Soy | (6.4%) | 48.4% | 73.8% | 61.1% |
| | Diesel | (6.0%) | 32.2% | 65.6% | 45.6% |
| | Plastic (PET) | 0.5% | 21.1% | 16.5% | (15.1%) |

¹ Reuters, 12/1/2008 Source: IRI, *Competing in a Transforming Economy*



The current recession is expected to last through much of 2009, but the country's financial struggles will remain dynamic.

ECONOMIC OVERVIEW 2009 PROJECTIONS

The new year presents new challenges and opportunities for the CPG industry. Experts believe that the recession will last for much of 2009, and possibly into 2010. But, the country's financial struggles are dynamic, indeed.

As of the end of 2008, unemployment in the United States reached a staggering 7.2%. Unemployment projections for 2009 vary, with Goldman Sachs calls for unemployment to reach 9% by the fourth quarter of 2009.

The country's credit crunch is headline news on a regular basis. The next President vows to make righting the financial markets a top priority as he begins his term in office, and many potential plan iterations are circling. As we enter 2009, the credit crisis is looming large, but hopes of improvement are high.

Energy price projections are mixed for 2009. With increasing demand and rising world oil prices, the cost of electricity is projected to increase consistently through the year 2030. The Energy Information Administration (EIA) anticipates about 1% growth in electricity prices in 2009.

Fuel prices, both gasoline and diesel, are expected to moderate in 2009, but still remain well above 2006 averages.

The USDA's Economic Research Service predicts shifting, but increasing, food prices in 2009.

At-home food price increases for 2008 are expected to average out at 5.5%-6.5%. For 2009, the ERS anticipates another jump, with prices climbing 4.0%-5.0% by the end of the year.

In 2008, the largest price increases occurred in eggs, fats and oils, cereal and bakery products, and dairy. In 2009, the ERS expects the largest increases to be seen in beef, pork, and poultry products. Average price hikes on these foods are expected to fall in the 5.0%-7.0% range.

Sources: IRI's Competing in a Transforming Economy, USDA's Economic Research Service, Business Wire, EIA



As consumers struggle under intense financial pressures, daily rituals are undergoing a stark metamorphosis.

Year-over-year comparison indicates a drop in CPG unit sales in 2008, but fourth quarter analysis reveals signs of a return to positive momentum.

IRI, Competing in a Transforming Economy

INDUSTRY PERFORMANCE TOTAL CPG GROWTH TRENDS

The breadth and depth of our country's economic recession is significant. It is no surprise that consumers have responded to drastic economic changes with drastic changes of their own.

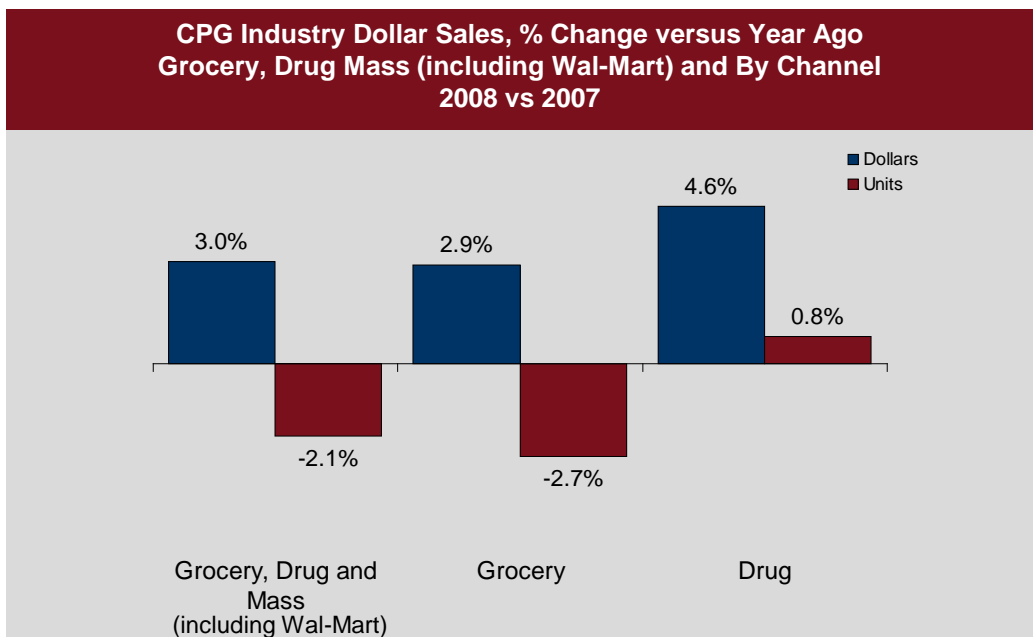
Across the board, shopping rituals are undergoing a stark metamorphosis. Channel migration has escalated, and belt-tightening has given way to belt-notching.

To save money, consumers have been making significant shifts in their day-to-day routines. Restaurant dining has become at-home dining, salon- and office- based beauty and health care are increasingly based at-home and self-administered, branded purchases are shifting to private label, cross-channel shopping to capture the "best deal" is more prevalent, consumers are "stretching" CPG product uses, and, in some cases, trading out of products or purchases altogether.

As illustrated in the chart at the bottom of this page, the net result of changes to consumer shopping rituals is a 2.1% drop in total CPG units sold across grocery, drug and mass retail outlets.

For grocery retailers, the drop is a bit sharper, down 2.7% versus year ago. Drug channel unit sales, on the other hand, climbed slightly, gaining nearly 1% over year ago.

In spite of unit sales declines, the chart below illustrates dollar sales increases across grocery, drug and mass combined, and within grocery and drug channels individually. These increases were driven by a significant jump in CPG prices, which we will explore later in this report.



Source: MarketInsight™, 52 weeks ending 11/30/2008 and same period prior year



Supercenters remain a solid winner in a recessionary economy, posting strong dollar share growth throughout 2008.

INDUSTRY PERFORMANCE CHANNEL SHARE SHIFTS

Channel migration activity has been high over the past several years. The year 2008 was no exception.

Though gas prices skyrocketed during much of the year, October brought with it a sharp turn around in prices at the pump. As the year wound down, gas prices plummeted, bringing some relief to consumers struggling to maintain financial balance in a recessionary economy.

Nonetheless, CPG prices remain well above historic norms, and consumers are feeling the pinch. Shoppers are demonstrating that, to ease the burden, they are willing to travel further and shop across channels in search of affordability and value.

Illustrated in the chart below, grocery retailers have stepped up marketing and retention efforts. In 2008, the channel effectively stemmed a multi-year negative share trends.

But, reputed to have everyday low prices, supercenters are well-positioned to compete in a recessionary economy, and the channel demonstrated solid and consistent growth throughout the year.

Continuing a positive trend that is several years in the making, supercenter's household penetration climbed three points in 2008, to 65% of U.S. households. The channel has established itself as a low-cost alternative for pantry stocking missions, and strong share performance, illustrated below in terms of CPG dollar sales, is reflective of the power of affordability.

As consumers restrict discretionary and impulse spending to make ends meet, convenience and specialty stores are feeling the pinch. Shifting priorities resulted in a loss of CPG dollar share for these retail outlets in 2008.

All Outlet CPG* Dollar Share Shifts

| | Channel Share <u>2008</u> | Share Point Change | |
|--------------------------------|------------------------------|--------------------|--------------------|
| | | <u>2008 v 2007</u> | <u>2006 v 2005</u> |
| Grocery | 55.7% | +0.1 | (0.8) |
| Drug Store | 5.7% | +0.2 | +0.2 |
| Mass Merchandise | 7.8% | (0.6) | (0.1) |
| Supercenter | 14.8% | +0.6 | +0.8 |
| Club | 8.1% | +0.1 | +0.2 |
| Dollar | 1.5% | 0.0 | +0.1 |
| Other (Convenience, Specialty) | 6.4% | (0.4) | (0.4) |
| Wal-Mart** | 19.2% | +0.4 | +0.8 |

Source: IRI Consumer Network™, 52 weeks ended 12/7/2008 and same period prior year

* Across IRI InfoScan® Reviews Categories ** Wal-Mart, including Neighborhood Markets



To maintain a manageable CPG budget, consumers have been forced to redefine the term “essential”, and prioritize spending accordingly.]

CATEGORY AND DEPARTMENT GROWTH TRENDS DEPARTMENT LEVEL GROWTH TRENDS

Difficult and uncertain financial times have forced consumers to reevaluate long-standing attitudes and behaviors, and to redefine the word “essential”. The impact of these ritual shifts are demonstrated in the chart at the bottom of this slide.

Most obvious, general merchandise unit sales dropped nearly 10% in 2008 versus prior year. General merchandise is also the only department to see dollar sales drop despite the sharp increase in overall CPG prices.

To maintain a manageable CPG budget, consumers have been forced to reprioritize their purchases, opting out of many general merchandise purchases, and reallocating those dollars to essential CPG products, such as food or health/beauty care products.

While edibles, healthcare and personal care cannot be eliminated, they can be, and have been, reduced.

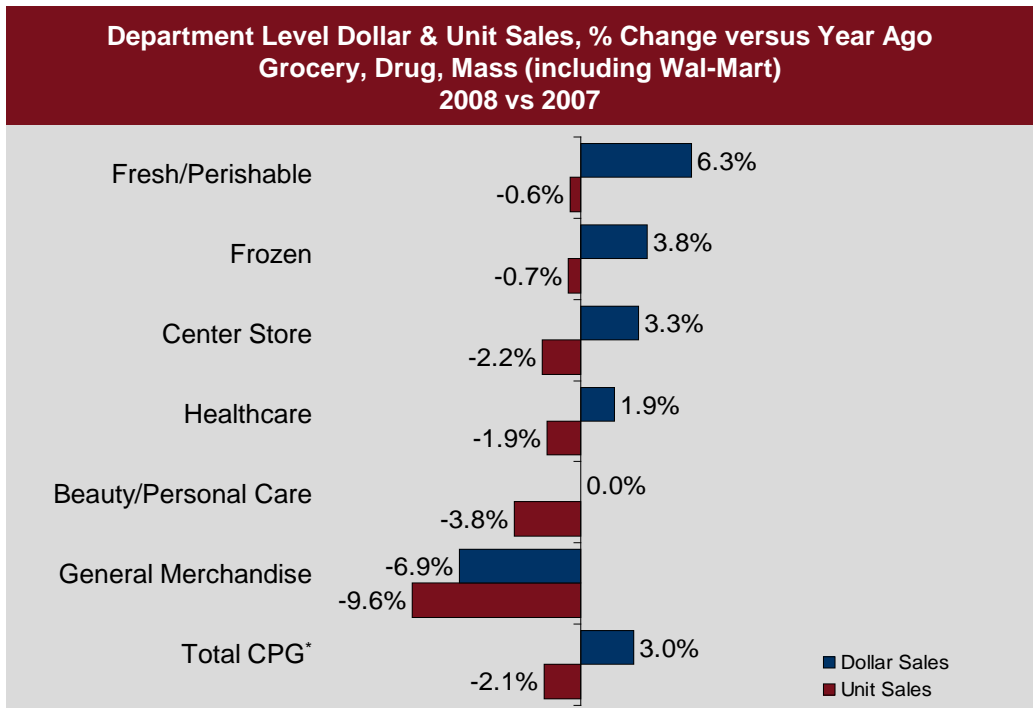
Beauty/personal care unit sales slipped

3.8% in 2008 versus prior year. To save money, consumers have begun streamlining and stretching the use of these items. Rather than each household member getting a special shampoo, for example, a single bottle is being used by all household members. And, frequently, less shampoo is being used in order to make the bottle last longer.

Similar shifts are occurring in center store and healthcare categories, though not to the same degree.

Because consumers are reducing on-premise dining, fresh/perishable and frozen foods departments have been somewhat sheltered from consumer cutbacks. The two departments saw only minimal declines in unit sales in 2008.

In 2009, prioritized and streamlined CPG purchase activity will prevail. Messages reinforcing relevance and affordability are critical.



Source: IRI MarketInsight™, 52 weeks ending 11/30/2008 and same period prior year



CATEGORY AND DEPARTMENT GROWTH TRENDS DRUG CHANNEL GROWTH TRENDS

As a destination location for healthcare needs, drug stores are poised to thrive in a recessionary economy.

About three-quarters of U.S. households shop the drug store channel. While channel penetration has held steady over the past year, channel share of CPG sales inched up 0.2 points in each of the past two years.

The root of this shift is illustrated in the chart at the bottom of this page. Across nearly all departments, drug channel performance exceeded industry average.

Within the drug channel, strongest growth came from the frozen foods department. As consumers stepped-up at-home meal preparation activity, frozen foods played an integral role in providing convenient and affordable meal solutions.

Drug retailers' center store performed well in 2008. The department enjoyed growth of 2.2%, versus a 2.2% contraction at the grocery/drug/mass combined level.

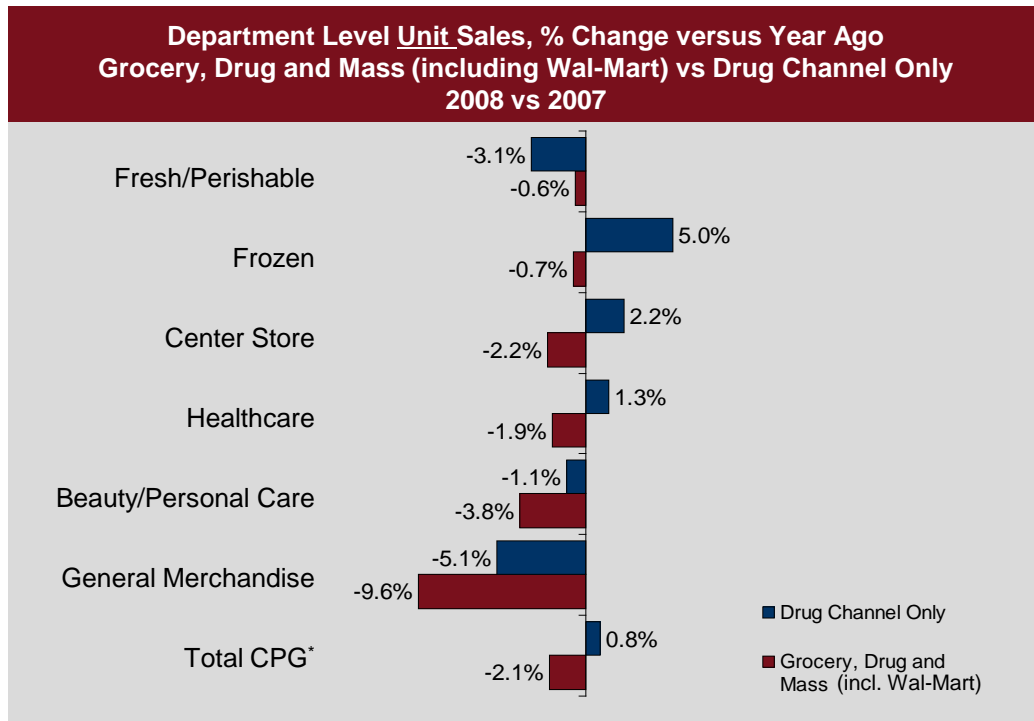
Particularly during the period of high gas

prices, drug retailers' close-to-home outlets gave a positive boost to share of frozen food sales. Health-related traffic also facilitated quick-pick-up frozen foods purchases.

Drug retailers' healthcare department posted positive unit sales growth, despite an overall industry slide of 1.9%. Efforts to bring more breadth and depth to offerings targeting an aging population have met with positive results, and these initiatives will continue in 2009.

As a destination location for healthcare needs, drug stores are well-positioned to thrive in this economy, particularly as consumers elevate the practice of self-care to minimize medical costs.

Continued growth for the drug channel will be determined by drug retailers' ability to effectively stock and merchandise their stores in order to create an affordable and convenient shopping experience.



Source: IRI MarketInsight™, 52 weeks ending 11/30/2008 and same period prior year



Performance among top CPG categories was mixed in 2008, but most categories experienced unit sales declines.

CATEGORY AND DEPARTMENT GROWTH TRENDS TOP TEN CATEGORY GROWTH

Performance among top CPG categories was mixed in 2008, though most categories experienced a slide in unit sales. In five of the top ten categories, declines outpaced the industry average decline of 2.1%.

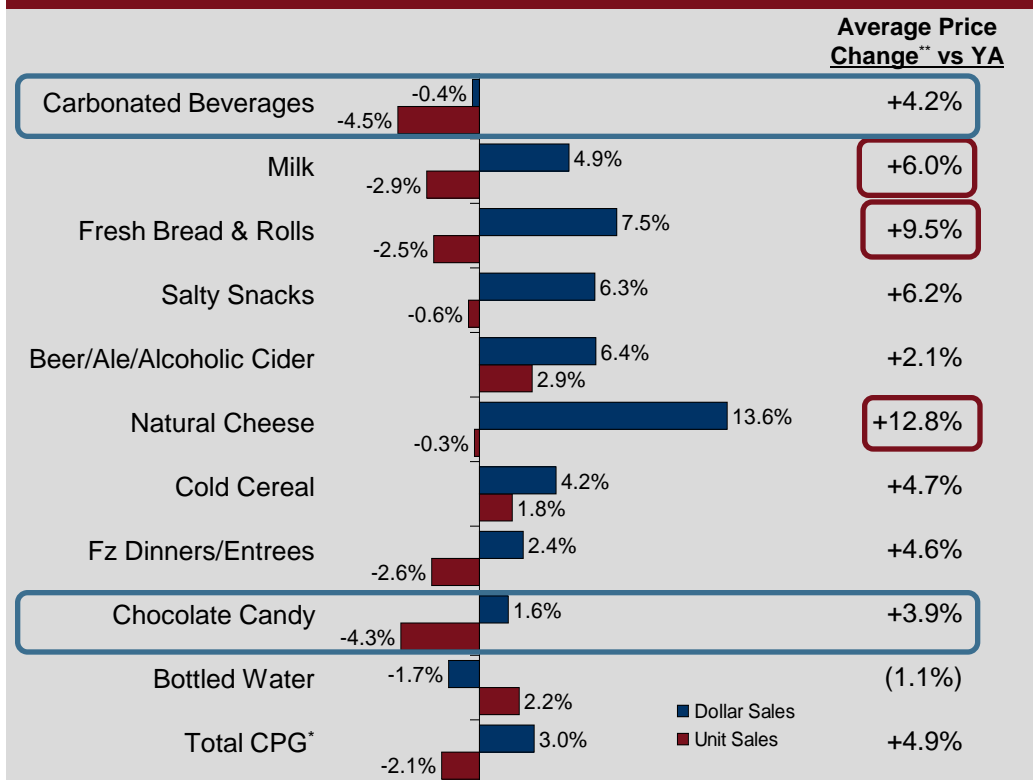
The largest declines came in carbonated beverages and chocolate candy, where purchases are generally discretionary in nature. As detailed earlier in our report, discretionary purchases have suffered as consumers prioritize spending in attempt to maintain a balanced CPG budget.

But, essential categories, such as milk and bread, have also shown lower unit sales over the past year. In both of these

categories, prices have risen at an above-average rate, climbing 6.0% and 9.5%, respectively. Although consumers have not completely opted out of these essential categories in the face of high prices, purchase trends do indicate a scaling back to manage the financial impact of price increases.

While also experiencing above-average price increases, unit sales of natural cheese remained largely unchanged in 2008. Trends in at-home dining and a return to from-scratch meal preparation likely bolstered category sales despite large price hikes.

**Top 10 Categories* Dollar & Unit Sales, % Change versus Year Ago
Grocery, Drug, Mass (including Wal-Mart)
2008 vs 2007**



Source: IRI MarketInsight™, 52 weeks ending 12/7/2008 and same period prior year
*Among top 100 IRI categories based on dollar sales, excludes cigarettes; beer and wine reflect grocery and drug sales only. **Average price change based on price per volume analysis.



CATEGORY AND DEPARTMENT GROWTH TRENDS HIGH GROWTH CATEGORIES

A resurgence in at-home meal preparation and dining had a significant impact on CPG sales in 2008.

The shift from dining out to at-home meal preparation has been in the news frequently over the past year, as consumers muscle their way through the economic recession. This shift has had a significant impact on CPG trends, as illustrated in the chart at the bottom of this page.

Among the top growing CPG categories in 2008, nearly every category is benefitting from a resurgence of at-home meal preparation and consumption. For example, fresh and processed poultry, sausage and breakfast meats, and frozen vegetables are all among the fastest growing categories of the year.

At-home dining has gone beyond basic meal preparation. While consumers have traded down from restaurant to at-home dining, they have not yet given up the enjoyment of having a glass of wine or a

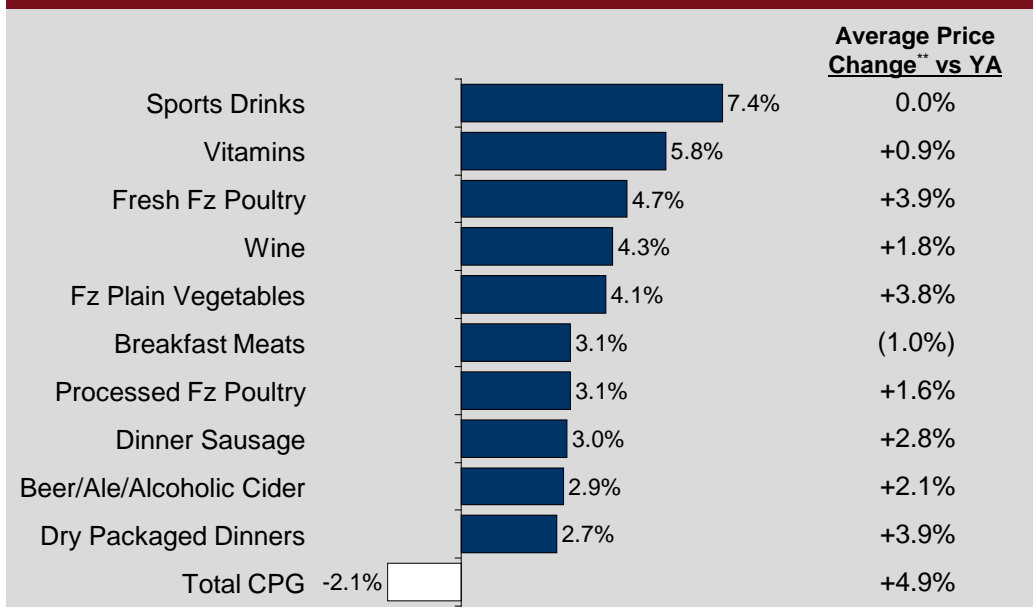
cold beer while dining. As such, wine and beer/ale/alcoholic cider categories are among top-performers for 2008.

A back-to-basics mantra has also spread to the healthcare arena. The vitamins category, a key player in preventative medicine, illustrates the increased focus consumers have placed on disease prevention. Unit sales of vitamins grew nearly 6% in 2008, in the face of a decrease in overall healthcare department unit sales of 1.9%.

For CPG marketers, the message is important. While consumers are willing and able to scale back on expenses in a tough economy, they do not want to forego all indulgences to get the job done. And, healthcare remains a priority.

Comfort and care are calming messages in an uncertain world.

**Top 10 Growth* Categories Unit Sales, % Change versus Year Ago
Grocery, Drug and Mass (including Wal-Mart)
2008 vs 2007**



Source: IRI MarketInsight™, 52 weeks ending 12/7/2008 and same period prior year
*Among top 100 IRI categories based on dollar sales, excludes cigarettes; beer and wine reflect grocery and drug sales only. **Average price change based on price per volume analysis.



Retailers have stepped-up efforts to attract and retain customers with innovative programs such as low-cost generic prescription medications.

CATEGORY AND DEPARTMENT GROWTH TRENDS DRIVERS OF GROWTH: HEALTHCARE

Healthcare category performance was mixed, but largely negative in 2008, and overall department unit sales slipped 1.9%.

The department's top performer, by far, was the vitamin category, which, as previously mentioned, received a significant boost from disease prevention measures taken as consumers seek to limit medical expenditures.

Cough drops and home health care kits, also key self-care categories, were the only two other healthcare categories to post positive unit sales growth over the year.

With the exception of cold/allergy/sinus tablets, which was flat, and benefitted from increased self-care activity, all other top healthcare categories stemmed sales declines in 2008.

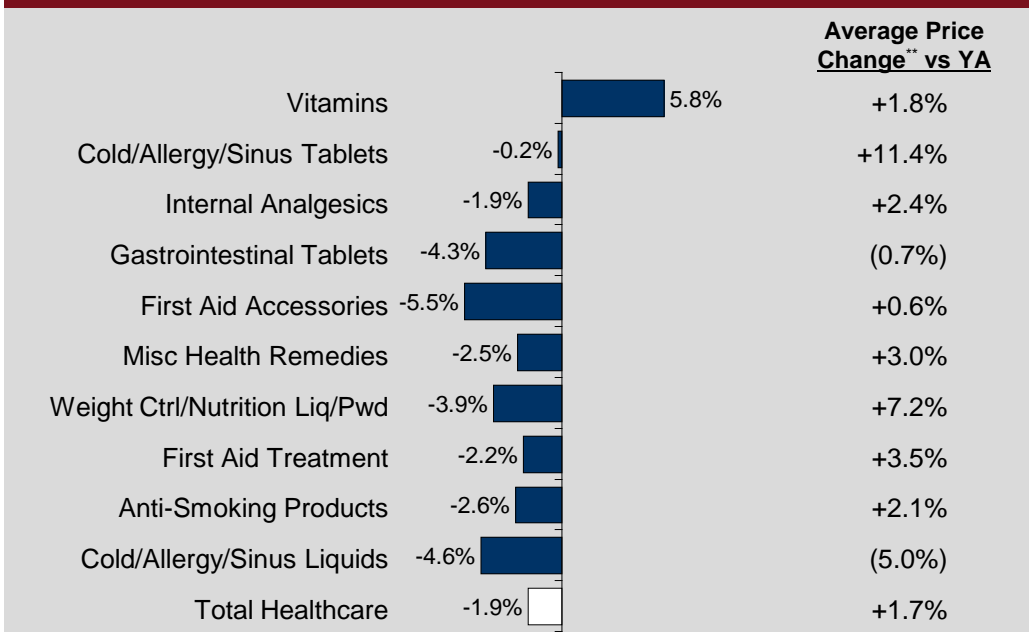
CPG marketers are stepping up efforts to attract consumers and build/fortify healthcare relationships. For example, several retailers, including Albertson's and Giant

are extending their prescription drug programs beyond the initial 30-day supply discounts on generic drugs to a 90-day supply¹. Stop & Shop is offering a free 14-day supply on several popular generic drugs².

In addition to building goodwill, programs such as these serve to attract consumers into the store and provide opportunity to drive incremental purchases.

As the recession enters its second year, CPG marketers are well-advised to capitalize on self-care opportunities with consumer-driven strategies such as these that will drive trip behavior with affordability messaging, and support these initiatives with cross-merchandising and display-based programs which will encourage purchases in adjacent and/or related categories and departments.

**Top 10* Healthcare Categories
Unit Sales % Change versus Year Ago
Grocery, Drug, and Mass (Including Wal-Mart)
2008 vs 2007**



¹ Drug Store News; The Washington Post

² Company Web site

Source: IRI MarketInsight™, 52 weeks ending 12/7/2008 and same period prior year. *Based on dollar sales. **Average price change based on price per volume analysis.



Despite an overall decline in the beauty/personal care department, a move toward home-based beauty care and an aging population are buffering economy-driven sales declines in some beauty categories.

CATEGORY AND DEPARTMENT GROWTH TRENDS DRIVERS OF GROWTH: BEAUTY/PERSONAL CARE

Beauty/personal care department growth was in negative territory in 2008, the victim of consumer efforts to streamline and stretch usage and reduce the purchase of products deemed as not absolutely essential to everyday living.

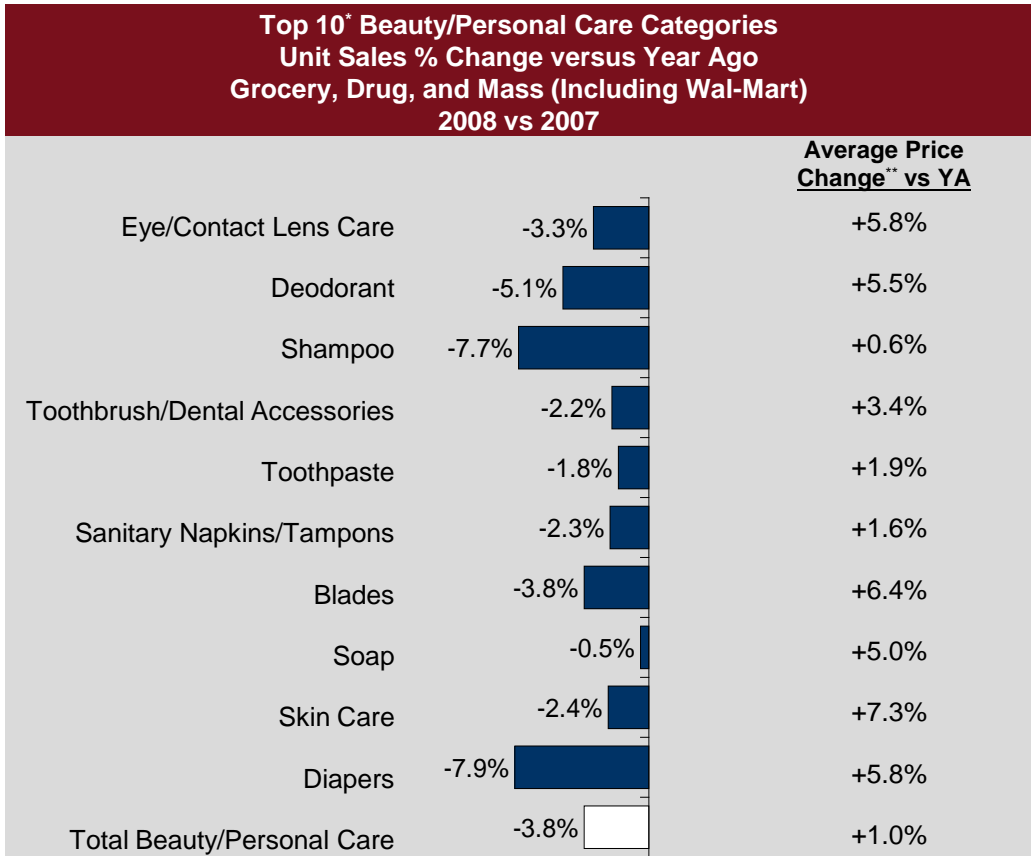
For example, unit sales of shampoo declined nearly 8% in 2008, and blades slipped 3.8%. As discussed earlier in this report, in categories such as these, consumers have shifted to broad and extended use of products in an effort to lengthen time between purchases.

Adult incontinence, not among the top ten dollar sellers illustrated below, was the top performing category in the beauty/ personal care department for 2008, in terms of unit

sales growth. Despite adverse economic conditions, the category posted a respectable 6.5% increase, driven in part by an aging U.S. population.

Similar to self-healthcare, home beauty care has also increased over the course of the recession. As a result, home permanent/relaxer kits and suntan products saw increased traffic, and posted unit sales growth of 2.8% and 0.9%, respectively.

The beauty/personal care department provides another opportunity for CPG marketers to stimulate sales growth. Value-based programs, such as buy-one-get-one, will build traffic and provide opportunity for co-marketing or cross-merchandising initiatives.



Source: IRI MarketInsight™, 52 weeks ending 12/7/2008 and same period prior year
* Based on dollar sales. ** Average price change based on price per volume analysis.



CPG prices are expected to remain elevated well into 2009, with unprocessed foods first to see price declines.

“Prices always go up faster than they come down, and products that don’t go through processing are more likely to show price changes in the near term.”

John Rand
Management Ventures,
Inc

¹ The Boston Globe

² SIC

³ SIC

CATEGORY AND DEPARTMENT GROWTH TRENDS PRICING: HIGH INCREASE CATEGORIES

Escalating consumer packaged goods pricing has been headline news over the course of the recession. As detailed in IRI’s *Competing in a Transforming Economy* series, in the third quarter of 2008, CPG prices were up 9% versus prior year on a national level, and regional variations are rather large.

The chart at the bottom of this page summarizes an analysis of the top 100 CPG categories, providing a snapshot of categories posting the largest jump in prices over the past year. In fact, 46 of the top 100 CPG categories experienced above-average price increases last year.

Despite falling prices for gasoline, commodities and some types of packaging, CPG prices are expected to remain at an elevated level for at least several more months. The deflation delay is multifaceted.

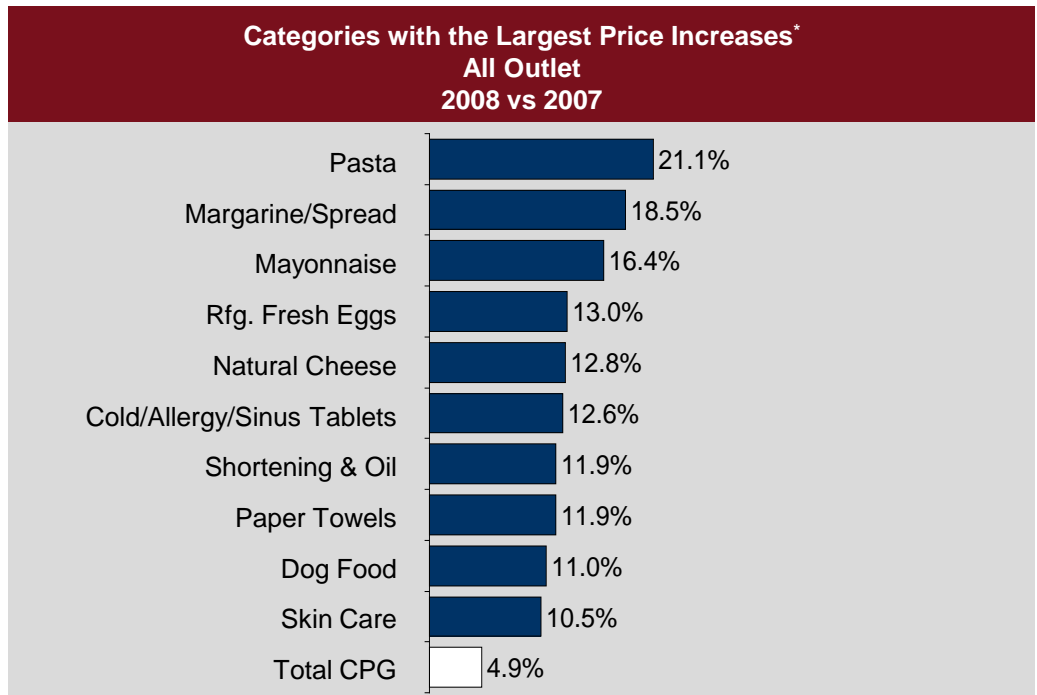
Prices on shelf-stable products are based

on negotiations which take place several months before the products hit the shelves¹.

Production time is long for many products, and materials currently in production did not necessarily benefit from cost declines mentioned earlier².

In many categories, such as pasta, eggs, cheese and dog food, natural and organic products have gained substantial ground. Generally higher-priced versus their non-natural or non-organic counterparts, increased popularity and purchase of these products will drive average price upward.

Price elasticity curves have changed, and will continue to change. Predictions are for CPG prices to remain high through the first half of 2009, and begin to moderate later in the year. Products that do not go through processing, such as eggs, will likely be the first to see declines³.



Source: IRI Consumer Network™52 weeks ended 12/7/2008 and same period prior year
*Among top 100 IRI Reviews Categories, based on price per volume comparison



Retailers have increased focus on private label, seeking to capitalize on a recessionary economy to build private label habits that will persist long after the recession has ended.

CATEGORY AND DEPARTMENT GROWTH TRENDS PRIVATE LABEL SHARE TRENDS

At the all outlet level, private label represents 17% of CPG dollar sales, and 22% of total units. These share figures represent an increase of just under one share point in both dollar and unit sales versus 2007, and are illustrative of store brands' ability to satisfy consumers' thirst for value in a recessionary economy.

As detailed in IRI's *Competing in a Transforming Economy* series, 2008 saw escalating private label growth rates as consumers increasingly turn to store brands in order to save money on packaged goods.

The chart below illustrates that grocery and drug retailers experienced the largest jump in private label share over the past year.

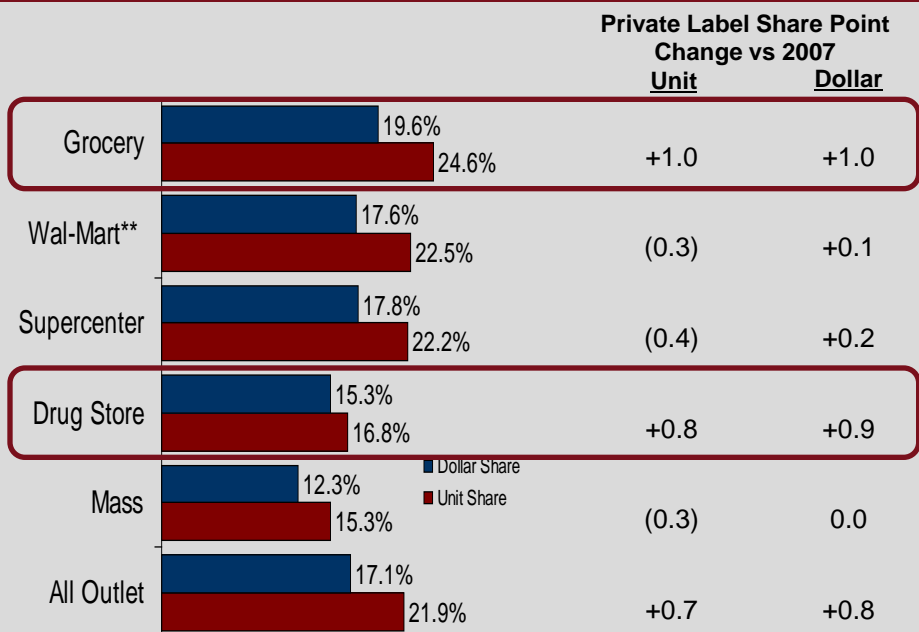
Grocery and drug channel retailers have invested significant efforts to fuel private label growth, including new strategies around development of more distinctive, premium labels, improved packaging,

in-store merchandising programs, and even feature ad support.

Supercenters and mass merchandisers, traditionally low everyday price retailers, have also stepped up private label efforts. For example, Target's Archer Farms brand introduced new cereal packaging in 2008, featuring an easy-close lid and storage-friendly package design.

And Wal-Mart recently announced plans to intensify its private label focus. Plans for 2009 include introduction of new private label lines, and the improvement/expansion of existing lines. For example, the Great Value brand, which, with over 100 categories represented, is already the largest food brand in the nation, will be re-launched during the first quarter of 2009, with enhancements made at the product and packaging level¹.

2008 CPG* Private Label Share by Channel



¹ MMR, 12/15/2008

Source: IRI Consumer Network™ 52 weeks ended 12/7/2008 and same period prior year
* Across IRI InfoScan® Reviews Categories **Wal-Mart, including Neighborhood Markets



Department-level analysis of private label provides deeper insight into trends, mindsets and ritual changes in 2008.

CATEGORY AND DEPARTMENT GROWTH TRENDS PRIVATE LABEL SHARE TRENDS

Department-level analysis of private label provides deeper insight into industry trends, consumer mindsets, and ritual changes that stem from adverse economic conditions.

For example, private label experienced exceptional growth in the healthcare department in 2008, bolstered by the number of products moving from prescription to OTC status, consumers' increased reliance on self-care, and high levels of private label innovation. Retailer brands now represents just over one-third of unit and one-quarter of dollar sales in the healthcare department.

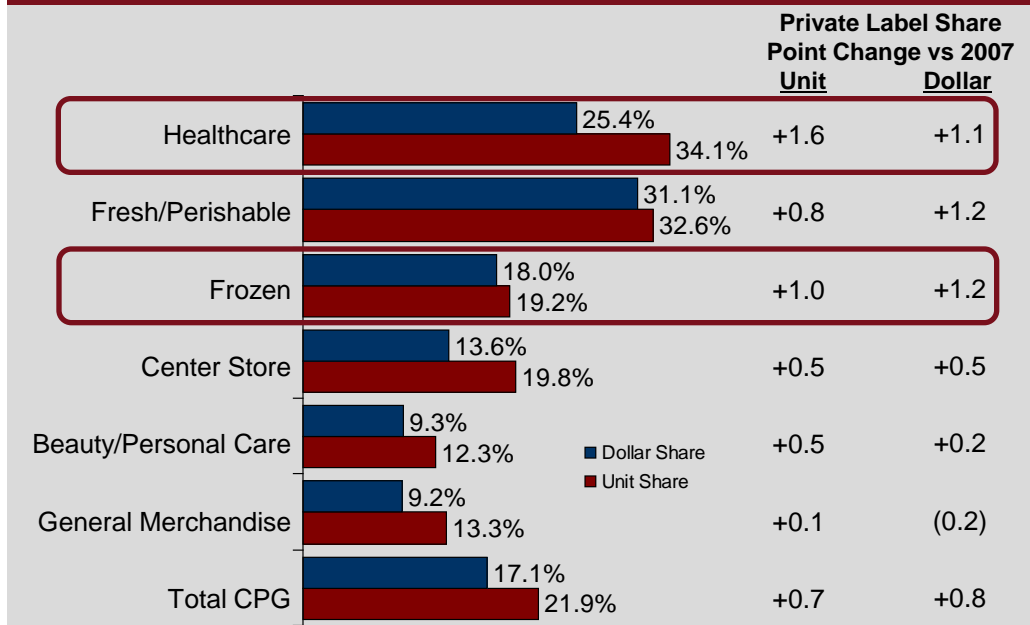
Private label frozen foods are gaining a boost from an increasing consumer perception that private label foods are of equal or better quality as their brand name counterparts. Changing consumer rituals have also bolstered department growth. With at-home cooking on the rise, frozen foods are meeting a need for quality, easy-to-prepare meal solutions that are affordable and convenient.

As the recession continues, private label trial and adoption will remain strong. Shifts are likely to be highest in commodity-like or less differentiated products, such as cheese, plastic bandages, and similar items.

Kroger produces 43% of its own private label products, while Safeway produces 22% of its private label line¹. With input and production costs inflated, retailers who manufacture their own private label products, will enjoy a competitive advantage in 2009.

Over the course of 2009, private label focus will remain strong, as retailers seek to capitalize on a recessionary and unstable economy, forging and fortifying consumer relationships and shopping habits in a way that will outlast the temporary economic downturn.

**2008 CPG* Private Label Share by Department
All Outlet**



¹ Forbes.com, 12/22/2008

Source: IRI Consumer Network™52 weeks ended 12/7/2008 and same period prior year
*Across IRI InfoScan® Reviews Categories



Private label share growth is largest among low differentiation categories.

CATEGORY AND DEPARTMENT GROWTH TRENDS

PRIVATE LABEL SHARE TRENDS: HIGH PRICE INCREASE CATEGORIES

Private label has seen a mixed consumer response among categories with particularly high price increases over the past year.

As illustrated below, private label share gains were highest within the natural cheese and shortening and oil categories. As commodity-like products, these categories are rather susceptible to private label activity¹. Manufacturers within these categories must strive to create differentiation among their products/brands to thwart private label gains. Assessing successful innovation within and outside the category, vis-à-vis product attributes and/or packaging, may provide a unique opportunity to bring innovation to a commodity-like category.

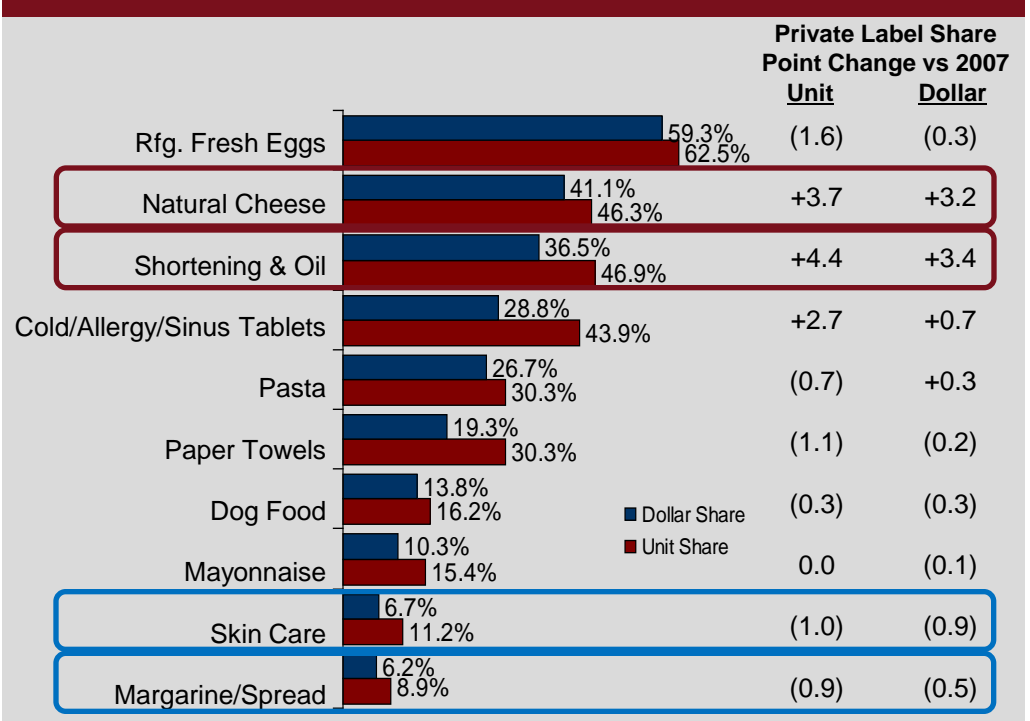
Margarine/spread and skin care also

experienced particularly high price increases in 2008. Within these categories, though, private label share of sales declined.

In these categories, innovation is high. The inclusion of plant derivatives are increasingly used in skin care products and in margarines/spreads, resulting in high levels of new product introductions and lower levels of private label purchase activity.

As 2009 unfolds, the battle for share between brand name and private label products will continue. Retailers' focus on driving share is strong, but brand manufactures are fighting back. Look for the balance of power to continue to shift throughout the recession and beyond.

**2008 CPG* Private Label Share: Among High Price Increase Categories
All Outlet**



¹ Business Wire 11/18/2008

Source: IRI Consumer Network™ 52 weeks ended 12/7/2008 and same period prior year
* Across IRI InfoScan® Reviews Categories



Shoppers have demonstrated a willingness to shop around to get the most from their CPG dollars.

SHOPPING BEHAVIOR SHOPPING PATTERNS

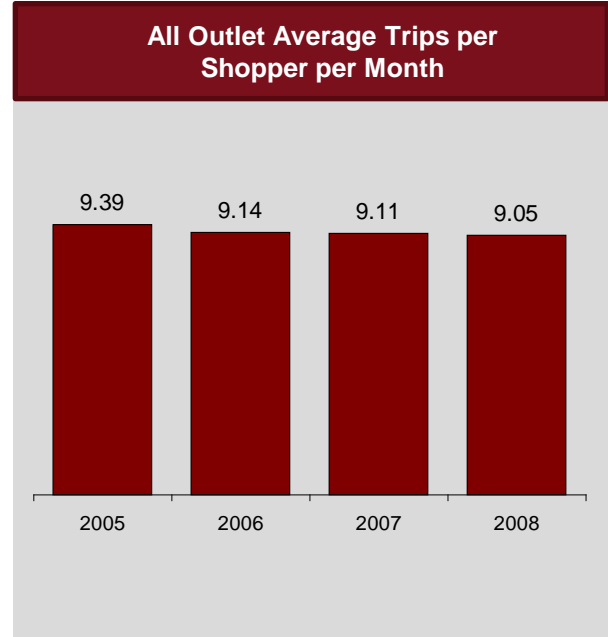
Total shopping trips continued to slide in 2008, continuing a trend which is several years in the making. All outlet trips slipped two-thirds of one percent in 2008, to just over nine trips per month. But a per month average does not tell the whole story.

Gas prices were a major driver of trip behavior in 2008. As IRI's December 2008 issue of *Times & Trends* details, when gas prices skyrocketed, consumers increased pantry stocking trips and reduced other, smaller trip types. As gas prices fell in October, trip behavior responded, with total trips posting a 6.7% increase versus the same period the prior year.¹

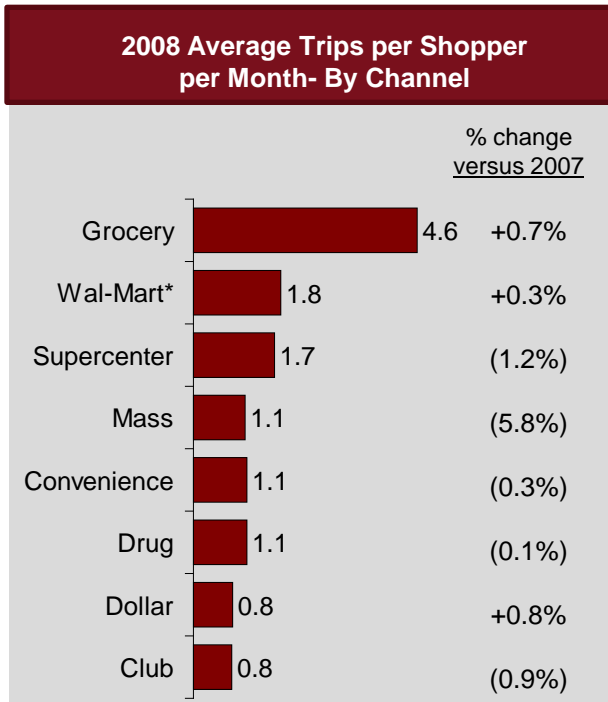
At the channel level, some changes to trip behavior were rather sizable. Grocery and dollar, for example, enjoyed respectable monthly trip growth at the expense of supercenter and club locations.

In ordinary times, consumers regularly visit supercenter and club locations for bulk purchases of high-priced and/or long shelf-life products, such as shelf-stable seafood or paper towels. As consumers struggled to make ends meet amidst high energy and food prices, and high gas prices during much of 2008, these types of high-basket ring purchases took a back seat to smaller, close-to-home trips to the local grocery store or the low-cost dollar store locations.

In 2009, CPG marketers' mantra must focus on affordability and value. Consumers have returned to a more historic pattern of trip missions, but have also demonstrated a willingness to travel further or more frequently in order to stretch their CPG dollar. Retailers who answer the affordability drumbeat will be rewarded with share of trips and dollars in 2009, and beyond.



Source: IRI Consumer Network™ 52 weeks ended 12/7/2008 and same period prior years



Source: IRI Consumer Network™ 52 weeks ended 12/7/2008 and same period prior year

* Wal-Mart, including Neighborhood Markets

¹ IRI- *Times & Trends*, December 2008



2009 OUTLOOK

The following trends will play a significant role in driving CPG growth in a recessionary economy and beyond.

Condition-Based Marketing Will Educate and Activate

Neutraceuticals have been “the buzz” for several years, and the popularity of creating and marketing CPG products with functional attributes continues to gain steam. Plant sterols, probiotics and other ingredients are enjoying higher levels of focus and attention on a seemingly daily basis. As 2009 unfolds, look for more CPG products- foods and non-foods alike- to tout functional attributes.

In addition to uncovering promising new CPG ingredients, research is rapidly revealing new benefits for many already-used ingredients, as well. For example, lycopene for prostate health, soy for slowing baldness, vitamins C and E as skin conditioners. With all kinds of “new” uses, condition-based marketing will increasingly be used to educate consumers and to drive purchase behavior.

Later in 2009, *Times & Trends* will delve further into the “Redefining Healthy Living.”

Better-For-You Gets A Bigger Spotlight

The idea of health and wellness speaks to what *is* in the products, and what *is not* in the products. With wellness top-of-mind, look for CPG marketers to bring better-for-you into the spotlight like never before. Consumers are intently focused on leveraging nutrition as a preventative medicine. CPG marketers are capitalizing on this trend with fervor. For example, Kraft is elevating calorie-controlled and lower fat offerings in 2009, including the extension of their Oreo Cakesters line and several new Jell-O roll-outs. And Beech-Nut Nutrition Corp. is promising “maximum nourishment” with its new “No Junk” products, all free from artificial colors and flavors, MSG, trans fat, added sugar, high-fructose corn syrup and “excessive” salt. Better-for-you is not going to go away any time soon. In years to come, in fact, the trend is expected to gain steam regardless of economic conditions.

Organic And Natural Products Continue to Gain Steam

The popularity of natural and organic products seems to increase every day. In a recessionary environment, some consumers have drifted away from organics/all natural products in order to save money, but the trend is by no means past. Organics/natural products have permeated every department of the retail outlet: from healthcare to fresh/perishable, from center store to general merchandise. The number of options continues to grow, and consumer appetite is keeping step.

Despite difficulties of a recessionary economy, organic/natural products will thrive.

Sources: FoodProcessing.com, Business Wire 11/18/2008; Company Web sites



2009 OUTLOOK

Sustainability Moves to The Next Level

Sustainability has been the topic of many board-room conversations over the past several years. Concentrated formulas, new “environmentally-friendly” ingredients, and eco-friendly packaging are all impacting how CPG marketers do business. Consumers increasingly speak of being concerned about the environment, CPG marketers are hard at work to answer the call for eco-friendly products.

Times & Trends will examine the sustainability movement in more detail later in 2009.

Beauty Is More Than Skin Deep

Consumers are not looking for a “Fountain of Youth”. Rather, consumers seek to look as good as possible at every stage of life. This quest for vitality is a driving force for the beauty department today. Research and development is uncovering a seemingly steady stream of new ingredients which promise to improve the way consumers look and feel.

With Baby Boomers leading the way, age-related beauty care products are positioned for exceptional growth over the next several years.



CONCLUSIONS CPG MANUFACTURERS

To effectively compete in a recessionary economy, CPG manufacturers should consider the following action items:

- » Identify opportunities and risks
 - Closely monitor economic changes and related impact on consumer attitudes, behaviors and category/brand performance; region- and market-level analyses are warranted by dynamic and varied market conditions
 - Reassess channel/retailer-level share shifts across categories and brands to ensure distribution strategies
 - Invest to understand private label share gains, particularly across low-differentiation categories and those with sizable price increases
 - Explore partnership opportunities with retailers that are closely aligned against key brands/categories

- » Evaluate pricing strategies
 - Reevaluate pricing strategies to ensure alignment against corporate goals, and the needs of key customer segments
 - Consider introducing promotional programs within categories that have experienced particularly high price increases, either alone, or in partnership with key retail partners
 - In categories with a strong private label presence, invest to understand optimal price gap versus private label offerings
 - Carefully test pricing changes in market before rollout

- » Enhance new product development initiatives
 - Align innovation strategies with evolving product usage and affordability needs
 - Explore potential new product opportunities stemming from emerging consumer trends explored throughout this report



CONCLUSIONS CPG RETAILERS

To effectively compete in a recessionary economy, CPG retailers should consider the following action items:

» Identify opportunities and risks

- Closely monitor economic changes and related impact on consumer attitudes, behaviors and category/brand performance; region- and market-level analyses are warranted by dynamic and varied market conditions
- Reassess channel/retailer-level share shifts across categories and brands to ensure appropriate product mix and inventory management strategies
- Explore opportunities to extend private label share within and across departments, particularly across low-differentiation categories and those with sizable price increases
- Explore partnership opportunities with manufacturers that are closely aligned against key customer segments

» Evaluate pricing strategies

- Reevaluate pricing strategies to ensure alignment against corporate goals, and the needs of key customer segments
- Consider introducing promotional programs within categories that have experienced particularly high price increases, either alone, or in partnership with key manufacturer partners
- In categories with a strong private label presence, invest to understand optimal price gap between private label and name brand offerings
- Carefully test pricing changes before rollout, and measure consumer response shortly after rollout

» Explore opportunities to enhance product assortment

- Align assortment with evolving product usage and affordability needs
- Explore potential new assortment opportunities stemming from emerging consumer trends explored throughout this report



RESOURCES

To gain insight into opportunities across specific categories, consumer segments, channels or retailers, contact your IRI client service representative regarding custom analyses leveraging the following resources:

IRI MarketInsight™

Proprietary model-based sales tracking service providing superior coverage of channels, including Wal-Mart, for which point-of-sale data are not available. Reflects sales across IRI InfoScan® Reviews CPG categories. Wal-Mart data include traditional outlets and supercenters.

IRI Consumer Network™

Nationally representative panel of households tracking purchases with hand-held barcode scanners; extensive demographic profiles enable in-depth analysis of purchase behavior across standard or custom-defined consumer segments across channels.

IRI AllScan Convenience™ Reviews

The industry's first service that provides 100% point-of-sale (POS) based convenience store coverage with highly-accurate weekly data for more than 250 product categories and insights for more than 50 states and local markets.

IRI Competing in a Transforming Economy

This ground-breaking series reveals fundamental changes in where consumers shop, what they buy, and even how they eat in response to shifting economic conditions. The study presents specific recommendations for retailers and manufacturers to successfully compete within this environment and includes a monthly tracking service to empower industry participants to get ahead of emerging trends.

For More Information, contact your client service representative or Kurt Orr at kurt.orr@infores.com

[Times & Trends]

A Snapshot of Trends Shaping the CPG and Retail Industries



>>> MORE INFORMATION

Please contact Susan Viamari at susan.viamari@infores.com with questions or comments about this report.

About IRI

IRI is the world's leading provider of consumer, shopper, and retail market intelligence and insights supporting 95 percent of the FORTUNE Global 500 consumer packaged goods (CPG), retail and healthcare companies. Only IRI offers the unique combination of integrated market information, automated and predictive analytics, innovative enabling technologies, and domain expertise. With IRI, leading retailers and manufacturers are able to quickly discover breakthrough insights driving smarter decisions and actions across the enterprise for breakthrough results. Companies around the world depend on IRI for improved productivity, stronger brands, and dramatic revenue growth. For more information, visit <http://us.infores.com>

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