

Times & Trends

A Snapshot of Trends Shaping
the CPG and Retail Industries



July 2009

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Price, Promotion & Merchandising: The Reinvention of CPG Marketing



Seeking the New Normal

The current economic downturn has spawned dramatic changes in how shoppers are spending their CPG dollars. Our research shows many of today's consumers are a part of a new "Downturn Generation." They will remain frugal long after the current recession ends and will continue to purchase carefully.

How has this manifested itself in the CPG world? What can companies learn from consumers today? How do companies ensure that their marketing strategies reflect rapidly changing consumer preferences and behaviors? Our new Times & Trends, "Price, Promotion, & Merchandising: The Reinvention of CPG Marketing," explores these questions and offers actionable insights for CPG marketers seeking to serve the "new normal" in shopper attitudes and behaviors.

Among the most successful products last year were brand extensions such as Gatorade G2, Dunkin Donuts Coffee and Charmin Ultra Strong toilet tissue, as shown in our annual New Product Pacesetters Report. Shoppers are looking for the comfort of brands they trust and are, thus, more averse today to trying new brands than in the past.

At-home food prices have climbed and will continue to climb over the next year, albeit at a slower pace. But, the price of dining out is increasing at a higher rate. As a result, demand for key meal ingredients and components is high, and will remain high in the foreseeable future. This is a huge opportunity for CPG marketers: consumers are seeking affordable, easy meal-time solutions. The industry must be poised to deliver.

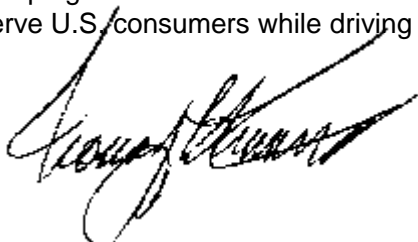
Across other CPG categories, such as bottled water and hair coloring, demand has fallen over the course of the recession. Marketers are turning to price cuts in an effort to stimulate demand across many of these categories. The move is partly in response to pressure exerted by the private label, which has benefitted greatly from consumers' trading down behavior. Temporary price reductions (TPRs) made by manufacturers looking to drive purchase behavior in a competitive market without cutting list prices is also enabling retail-level price promotions.

There is no question: consumers are looking for value. But, consumer perception of value is morphing. Our report shows the three most important factors shoppers use in selecting a product are overall quality, price and trust; brand name is an important consideration factor among only about one-quarter of shoppers. CPG marketing strategies absolutely must address shifts in shopper behaviors and tout clear, persuasive messages based on the shopper's changing definition of value.

One of the areas where we'll see these strategies play out is in merchandising. After falling for several years, merchandising activity is rebounding in this downturn across all channels, and is playing an increasingly critical role in providing value to shoppers. Targeted programs based on sound consumer knowledge are a recipe for volume growth and for building loyalty with the shopper.

The most effective merchandising tactics will be those that address the fact that consumers now make their shopping decisions in the home. We will likely see an increase in feature ads in the near term. Price-based promotional activity will increase as well, providing consumers with sought-after price relief.

Consumer attitudes and behaviors are changing quickly. CPG marketers must remain alert and ready for action. The ability to anticipate changing consumer attitudes and behaviors and react with innovative marketing campaigns is essential. We look forward to working with you throughout the recession and beyond to effectively serve U.S. consumers while driving growth and profitability within the CPG industry.



Thom Blischok
President, Consulting & Innovation



EXECUTIVE SUMMARY: TURNING INSIGHTS INTO ACTION

INSIGHT

- » After a surge in 2008, CPG price increases are beginning to ease; 2009 will be a challenging year as CPG companies seek to balance a quest to recoup margin losses incurred earlier in the recession against consumers' need for price relief
- » Though prices have moderated, a majority of shoppers indicate that higher-than-normal prices have impacted their financial situation; planning, trading down and sale shopping have become an integral part of the consumer shopping experience
- » A difficult economy has reinvigorated merchandising efforts, but merchandising dynamics are evolving as CPG marketers seek to adjust to the a new world of CPG shopping behavior
- » Merchandising is heavily leveraged to drive purchase behavior across discretionary categories and to showcase innovation across key health and beauty categories
- » Private label merchandising activity remains lower, on average, versus national brands; however, increased retailer focus on private label as a differentiator and a means to drive margin growth may lead to increased prevalence of private label merchandising programs

ACTION

- » Monitor price point, price sensitivities and price gaps on a frequent basis to ensure that pricing strategies remain in line with corporate and partner goals, as well as with the needs of key consumer segments
- » Leverage a granular understanding of consumer attitudes and behaviors to develop highly-targeted, store-specific merchandising strategies against high-potential categories and segments
- » Re-evaluate marketing and merchandising strategies through a lens of home-centric living and pre-planned shopping strategies
- » Drive purchase behavior with solutions-based merchandising programs prominently featuring newer, more innovative options; aggressively test pre-launch and track consumer response to enable mid-program modifications or builds
- » Retailers should target key consumer segments with messages featuring store brands as a low-cost, high-quality alternative to nationally branded CPG options; manufacturers should mitigate private label gains with targeted messages reinforcing affordability and unique attributes of key brands/categories



INTRODUCTION

Packaged goods marketing is undergoing a metamorphosis in response to recession-driven changes in consumer shopping rituals.

“(Our research indicates a) need for food, drug and mass retailers and their manufacturer partners to prepare now and adapt to a ‘new normal’ in shopping behavior.”

~Kelly Tackett, Retail Forward

The United States officially declared a recession in November of 2008. But, the country has battled difficult economic conditions for well over a year. During 2008, consumers faced unstable financial markets, major workforce reductions, crunched credit markets, and rising gas and food prices.

Recent headlines have been brighter, and there are signs that the economy is improving. The recession is not over, however, and consumers remain firmly entrenched in savings mode.

Though the consumer packaged goods industry has faced struggles in this difficult economy, growth opportunities have emerged from changing consumer rituals.

Self-care behavior has increased significantly. As a result, consumers are looking to CPG companies to provide effective, low-cost health and beauty treatments. The home has become *the* central hub for daily living. A wide range of CPG categories is benefitting from at-home dining and entertainment rituals.

CPG prices have remained steadfastly in the spotlight over the course of the recession. Commodity and fuel prices skyrocketed in 2008,

sending CPG prices in an upward direction and placing increased pressure of consumers' already strained wallets. While commodity and fuel prices have eased, CPG prices remain well above historic norms. Consumers are looking for price relief, and CPG marketers are looking for ways to honor this demand.

To this end, CPG marketing is undergoing a metamorphosis. Merchandising activity has increased and grocery display activity declines are slowing. On a tactical level, merchandising strategies are being re-evaluated to ensure maximal relevance and impact in the face of newly forming consumer behaviors.

This year will be an exciting one for CPG marketers.

This issue of Times & Trends provides insights into current and emerging CPG marketing trends being employed by an industry seeking to “adapt to the ‘new normal’ in shopping behavior”¹.

¹Source: Kelly Tackett, Retail Forward



After nearly two years of sizeable increases, CPG prices are showing signs of softening.

PRICING ACTIVITY TOTAL CPG

Food inflation has been headline news over the past two years. On the whole, CPG prices increased 5.4% over the past year, a rate that is nearly one point faster versus the prior year, when prices increased an average 4.7%.

A more granular look at pricing trends, however, reveals signs of price softening over the past six months. In the first quarter of this year, price increases fell below 5% for the first time since the first quarter of 2008.

Food prices will continue to be impacted by production rates and, on a global basis, by exchange rates. But, as consumers diligently cut purchases and trade down to save money, the rate of food inflation will decline.

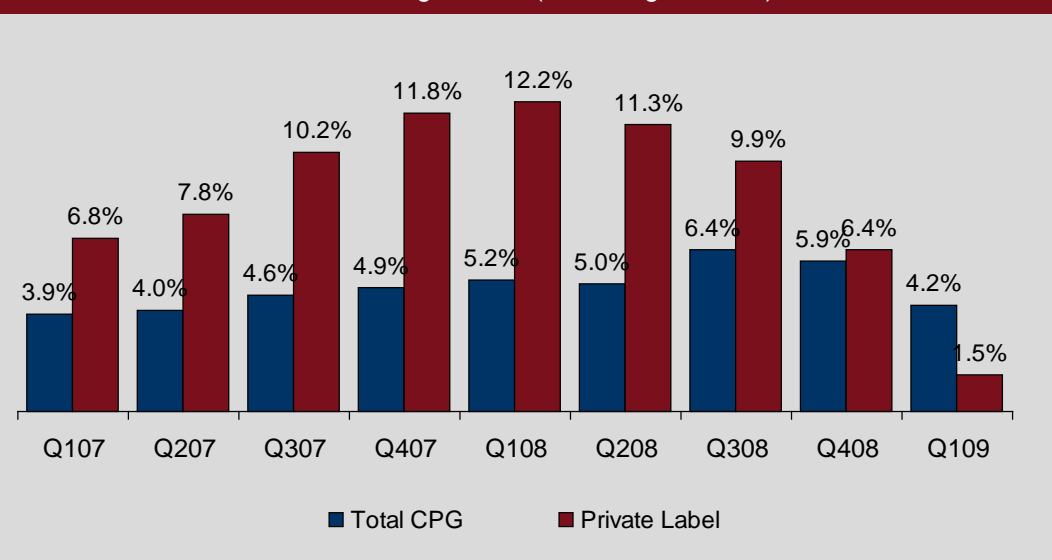
According to the USDA, at-home food prices will increase 2.5%-3.5% over the next year¹.

Though private label saves consumers an average 30% versus national brands, private label price increases have actually outpaced industry average for much of the past two years. Throughout 2007 and for much of 2008, private label prices climbed at nearly twice the rate of the industry average.

But, the rate of private label price increases has eased. During the fourth quarter of 2008, the rate of private label price increases remained above industry average, but the gap began to close. Private label price increases are now occurring at a rate well below the industry average.

Prices remain top of mind for consumers today. Private label has played, and will continue to play, a major role in helping consumers reduce their CPG expenditures.

Quarterly Price Increase: Total CPG
Based on Average Price per Volume
Food, Drug & Mass (Excluding Walmart)



¹Source: The Food Institute Report, March 2, 2009.

Source: IRI Consumer Network™; 13 weeks ending 7/1/2007-3/29/2009 versus same periods prior year



Price increases across several key meal ingredient and meal component categories have been particularly high, but appear to be easing slowly.

PRICING ACTIVITY CATEGORY- MOST ACTIVE

On average, CPG prices increased 5.4% over the past year. However, across many categories, the rate of increase has been substantially higher.

Many of the categories which experienced exceptionally high price increase are key meal ingredient/meal component categories. During a time of high at-home meal preparation behavior, increases such as these have had a major impact on consumers' CPG budgets.

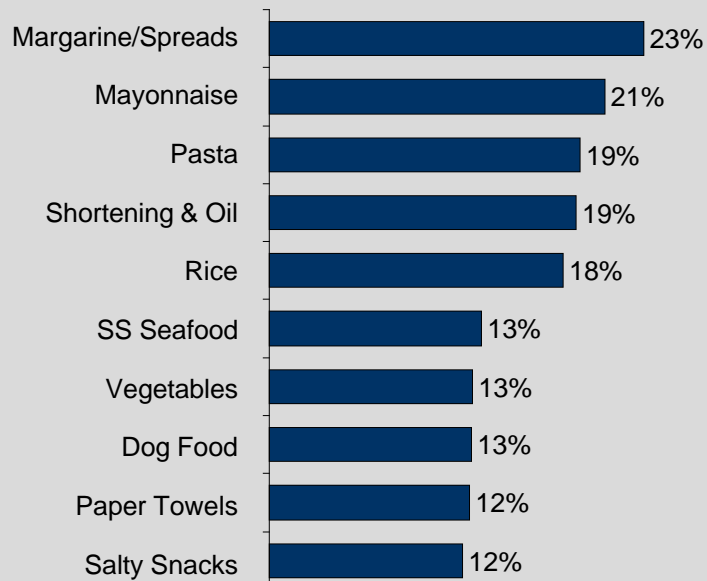
But, there are signs that relief may be in sight. For example, while pasta prices increased an average 19%

over the past year, average price per volume was only 8.2% higher in the first quarter of 2009 versus year ago.

Likewise, margarine prices had been 25% higher versus prior year for much of 2008, but 21% higher versus year ago in the first quarter of this year.

IRI does expect price increases to occur on a spot basis over the next year. However, major price hikes such as those experienced last year are unlikely, barring any major unforeseen economic shake-ups.

Categories with the Highest Price Increases
Based % Change, Price per Volume
Food, Drug & Mass (excluding Walmart)



Source: IRI Consumer Network™; 52 weeks ending 3/29/2009 versus same period prior year; Among Top 100 Categories

Note: excludes Laundry Detergent, which experienced average price per volume increase of 52%, due largely to new, more concentrated formulas.

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A Snapshot of Trends Shaping the CPG and Retail Industries



Eroding demand and intense competition across key beverage and beauty care categories is leading CPG marketers to reduce prices in order to stimulate demand.

"A slowing economy and a surplus of milk on the market have resulted in milk prices falling below the cost of production, and it's only expected to get worse."

~Patrick Hooker
New York State Agriculture
Commissioner

PRICING ACTIVITY CATEGORY- MOST ACTIVE

The chart at the bottom of this page illustrates the ten CPG categories which experienced the lowest price increases over the past 12 months. Six of the ten categories below are beverage categories.

After experiencing increasing prices through the end of 2007 and the first half of 2008, bottled water prices have declined significantly over the past nine months. Consumer moves toward private label bottled water options is definitely a major force behind this trend.

Within other beverage categories, such as milk, ready-to-drink teas and sports drinks, competition is high. Intense competition, coupled with consumer cost-cutting expenditures is leading CPG marketers to cut prices in order to maintain or gain market share.

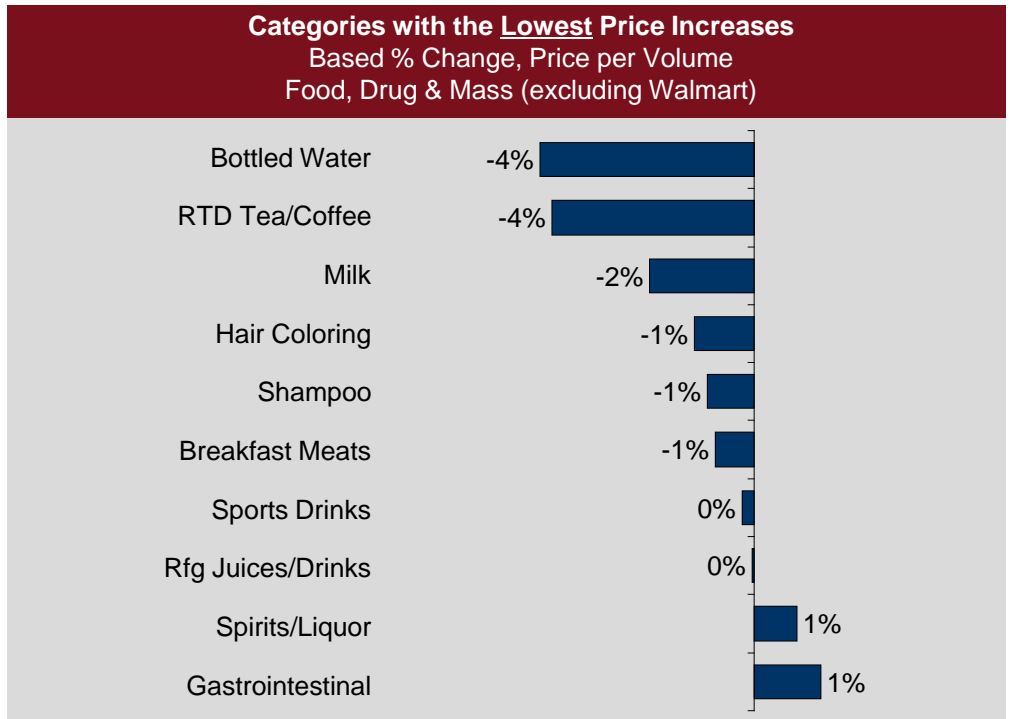
This trend is not likely to change in the near future.

The hair care market is also seeing trends shifts driven by the economic environment.

Hair coloring unit sales have been in decline since 2005; in fact, household penetration fell four points in 2008. Manufacturers are looking to stem losses with price reduction actions.

The shampoo category is seeing more purchase activity at the larger end of the product spectrum. Club and family size packages are seeing increased sales, while smaller packages are being overlooked.

U.S. shoppers are a savvy bunch. Staying on top of, or anticipating, the rapidly evolving value equation is a critical key to successfully competing in today's economic environment.



Source: IRI Consumer Network™; 52 weeks ending 3/29/2009 versus same period prior year; Among Top 100 Categories



Substantial price hikes across key staple categories appear to be subsiding, providing new opportunities for CPG marketers to create convenient and cost-effective meal solutions.

PRICING ACTIVITY CATEGORY- KEY STAPLES

Several key staple items have seen unprecedented price increases over the course of the recession. Even relative to increases seen during the country's 2001 recession, these price hikes are substantial.

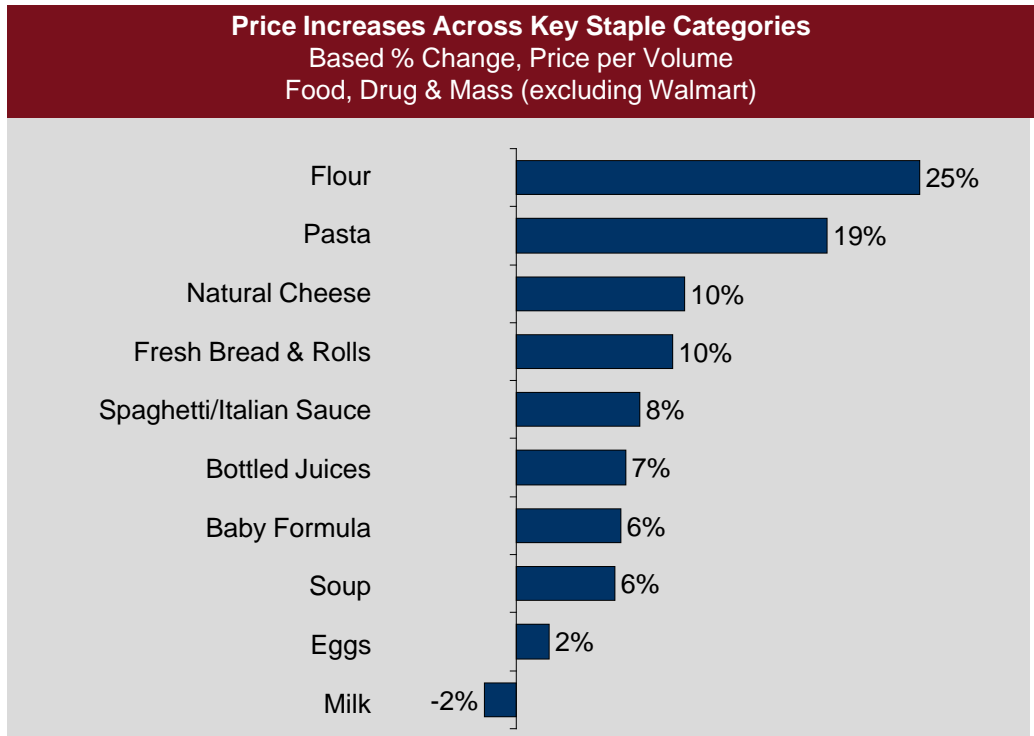
But, there are glimmers of potential turnaround. Across a majority of the ten categories listed in the chart at the bottom of the page, increase in average price per volume versus year ago for the first quarter of 2009 is below the same measurement for the full year ended March 29, 2009.

In addition to milk, which was explored earlier in this report, several key staples are seeing price relief. For instance, egg prices were up more than 20% versus year ago each quarter throughout 2007 and for the first half of

2008. But, the fourth quarter brought price declines of 4%, and the first quarter of this year saw prices slide 15% versus year ago.

Similarly, pasta prices skyrocketed over the past year, peaking in the second quarter of 2008, at 25% above prior year. In the first quarter of 2009, however, prices eased, ending the quarter at 8% above prior year.

With away-from-home food prices expected to climb 3.5%-4.5% in 2009, at-home meal preparation activity is sure to remain high¹. The need for quick and affordable solutions is high. CPG marketers most effectively answering this need will win share today and fortify relationships for tomorrow.



¹Source: The Food Institute Report, March 2, 2009.

Source: IRI Consumer Network™; 52 weeks ending 3/29/2009 versus same period prior year; Among Top 100 Categories



Well-rounded communication strategies reinforce the notion of affordability and position the brand as an effective CPG solution.

PRICING ACTIVITY CONSUMER ATTITUDES & BEHAVIORS

Product price is certainly on top of the minds of a majority of U.S. consumers today. In fact, 87% of shoppers rate price as an important consideration when making CPG product selections.

But, certainly, consumers seek more than a low price. Consumers are looking for *affordable* solutions. Importantly, over the course of the recession, consumers' definition of affordability has evolved.

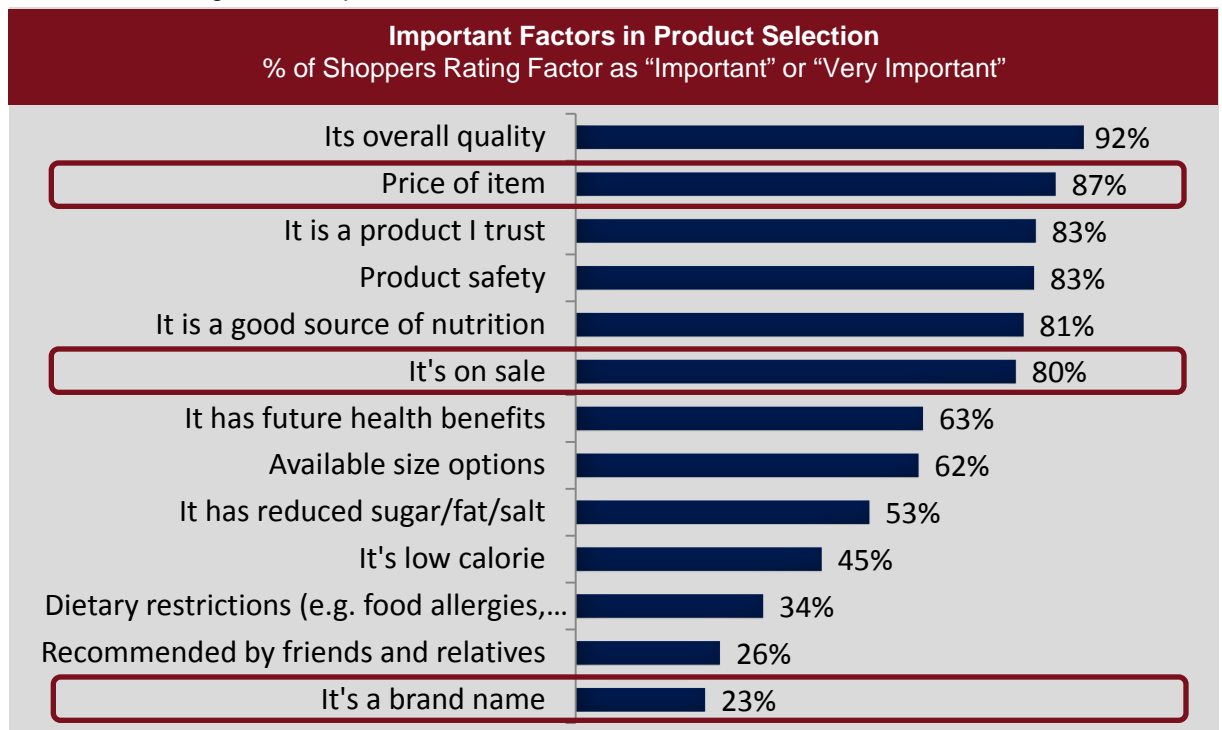
According to IRI's *The New Lens of Affordability* Thought Leadership report, satisfaction with overall product quality is the top consideration when determining affordability, and a strong majority of consumers view "stretchable" products (those they can make last longer) as more affordable.

Shown below, consumers are looking to balance the need for low prices against a range of other product selection criteria.

The industry is at a critical juncture. Though gas and commodity prices have eased, manufacturers are hesitant to drop list prices just yet, as some of the materials in production today were purchased at a higher cost and there remains a desire to recoup some margin losses incurred last year.

As such, much of the price relief doled out this year will take the form of temporary price reductions (TPRs). Manufacturers and retailers will need to effectively execute these TPRs, touting the price relief in a manner that doesn't erode brand equity.

The key to success is addressing a range of consumer concerns. A well-rounded communication strategies must reinforce the notion of affordability and position the brand as an effective CPG solution.



Source: IRI Food Safety Report March 2009, IRI AttitudeLink™, n=1,161



Planning, sale-shopping and trading down have become common strategies among consumers looking to save money.

PRICING ACTIVITY CONSUMER ATTITUDES & BEHAVIORS

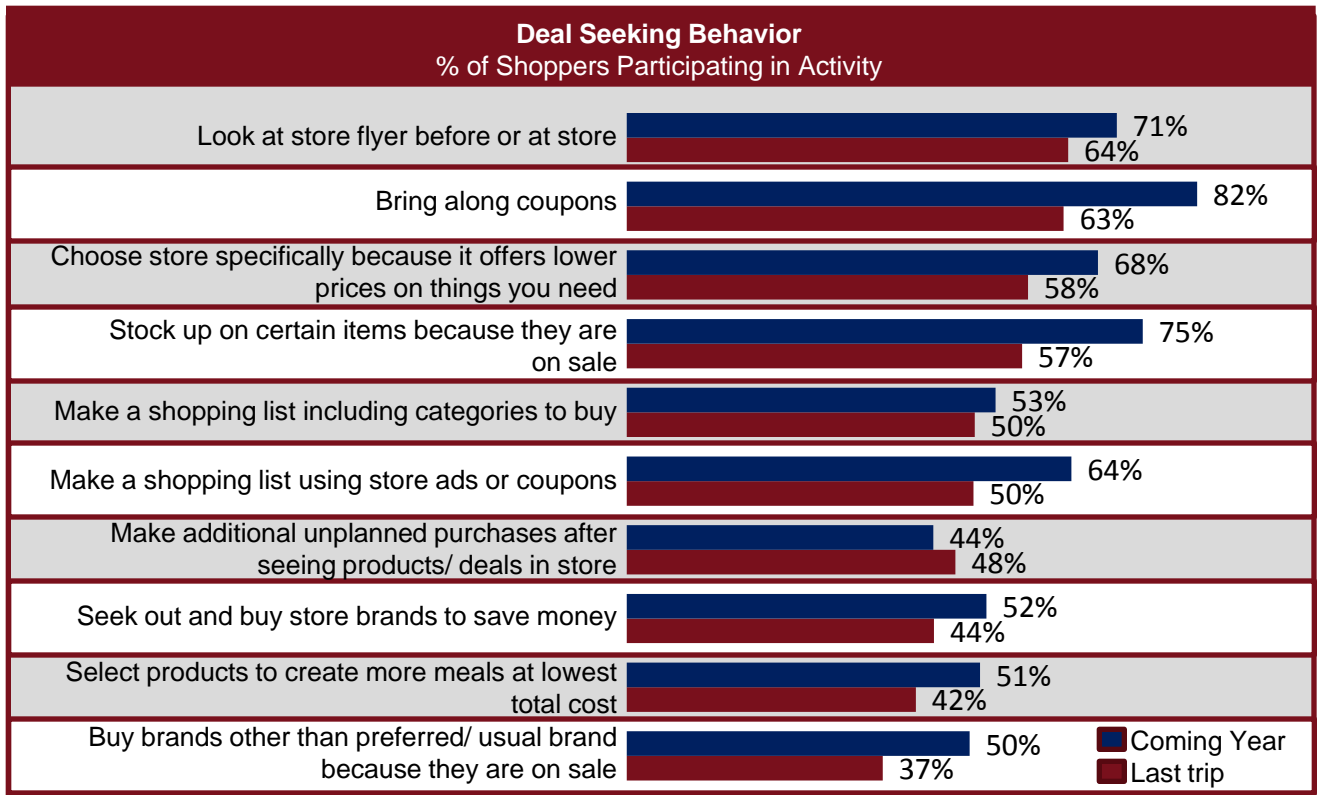
As discussed recently in IRI's *Dissecting the Downturn Generation* white paper, "today's shoppers will adopt many of the practices Depression-era shoppers implemented both to weather the recession as well as to keep a close eye on spending long after the recession ends." This is a new breed of shoppers, which IRI refers to as the "Downturn Generation."

Despite the fact that food prices have largely declined or leveled off since the summer, three-quarters of consumers indicate that higher than normal food prices have had an impact on their financial situation¹.

To lessen the impact, consumers are making significant efforts to find the most affordable solutions to address

their CPG needs. Two-thirds of shoppers are studying flyers, and an equal share are now bringing coupons to the store. Sale shopping and trading down have become a common part of money-saving strategies.

CPG marketers are wise to consumers' focus on saving money and have begun encouraging shoppers to trade down to their more basic product offerings, rather than following historic strategies of pushing consumers toward premium offerings in order to increase margins. For example, Kellogg's has launched a new campaign to drive awareness of staple cereals such as Corn Flakes and Rice Krispies, and Campbell Soup is promoting their condensed line of soups as a bargain buy².



Source: Americanism Study: IRI Economic Trend Database™, IRI AttitudeLink™ Survey of 1,067 Consumers; Q42008, February 2009
¹Source: IRI, *Dissecting the Downturn Generation*. ²Source: The Food Institute Report, October 6, 2008



Difficult economic times are spurring increased merchandising activity across channels.

MERCHANDISING ACTIVITY TOTAL CPG

After several years of declining merchandising activity (defined as displays, feature ads, feature and display combined and price reduction only), the tides are showing signs of turning.

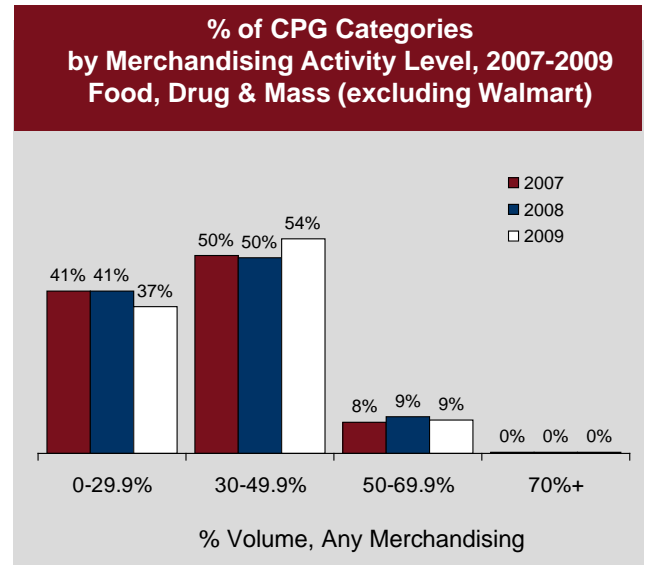
Consumer shopping rituals have been changing quickly and, seemingly, continually, over the course of the recession. Shoppers are on a mission to save money. CPG marketers recognize this mission, and are responding accordingly.

On average, 54% of CPG categories are capturing 30%-49% of their volume with merchandising support. This reflects a clear four point increase versus prior year.

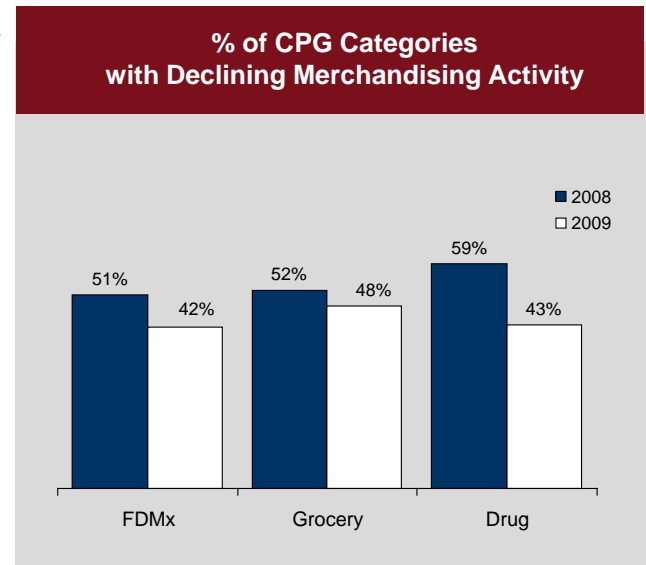
Merchandising activity is up across channels. Within the grocery channel, for example, 52% of categories are experiencing increased merchandising activity. Within the drug channel, 57% of categories are more heavily merchandised.

Merchandising is playing a critical role in providing value to shoppers in a recessionary economy. Though prices have moderated, they remain higher than normal. And, consumers are in savings mode.

Targeted merchandising programs based on sound knowledge of consumers' changing needs and wants will be received with enthusiasm, not only driving volume growth, but also building goodwill that will outlast these difficult economic times.



Source: IRI Consumer Network™; 52 weeks ending 3/29/2009 and same period prior years



Source: IRI Consumer Network™; 52 weeks ending 3/29/2009 and same period prior years

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Grocers are intently focused on changing the perception that their channel is pricier versus competing alternatives.

“Grocers have to show consumers a strong emphasis on being a greater bang for their buck when the economy is in a shambles as it is now.”

Tod Marks,
as stated in ‘Consumer Reports’

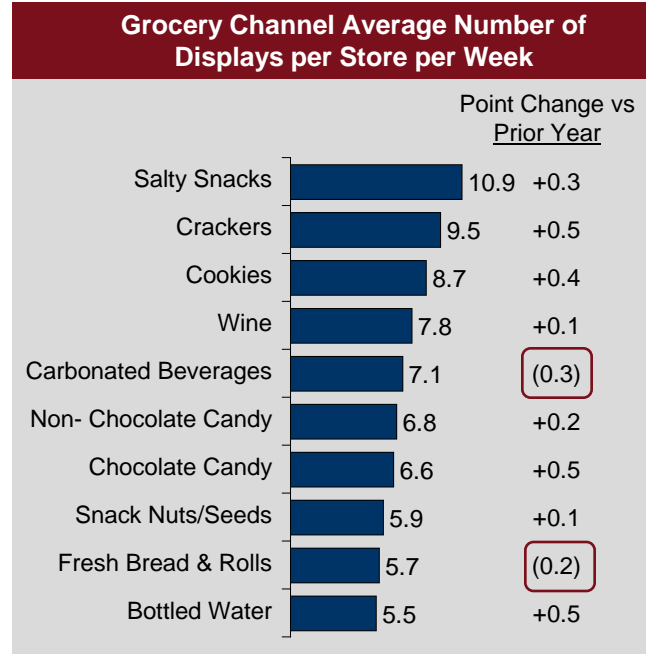
MERCHANDISING ACTIVITY CHANNEL- GROCERY

Last year’s August/September issue of Times & Trends, reported an accelerating decline in grocery display counts. Analysis showed that eight of ten key CPG categories were seeing declining grocery channel display space.

This year, the trend has completely reversed: Display count declines have moderated, and eight of ten key CPG categories have experienced increased grocery display activity over the past twelve months.

The grocery channel has historically been viewed as pricier than other CPG channels. But, grocers are working to change that image. Through programs such as Kroger’s “More Value for the Way You Live” and Giant Eagle’s “Another Way to Save,” grocers are elevating their value positioning¹.

These grocers are not alone. Clearly, the channel is rising to the challenges brought about by a recessionary economy.

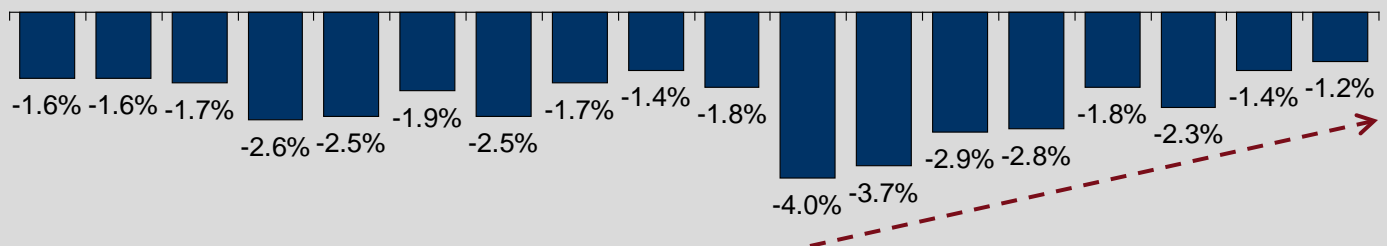


Source: IRI In-Store Solutions Group Perimeter View YTD Through 5/17/2009

Note: IRI In-Store Solutions Group Perimeter View measures UPCs displayed in the following eight areas:

- Lobby
- Front End Cap
- Back End Cap
- All Other End Cap
- Perimeter
- In Aisle
- Seasonal/Promotional Aisle
- Shipper

Average Number of Grocery Channel Displays per Store per Week %Change versus Prior Year by Quad Week



Quad Wk 1 Quad Wk 2 Quad Wk 3 Quad Wk 4 Quad Wk 5 Quad Wk 6 Quad Wk 7 Quad Wk 8 Quad Wk 9 Quad Wk 10 Quad Wk 11 Quad Wk 12 Quad Wk 13 Quad Wk 14 Quad Wk 15 Quad Wk 16 Quad Wk 17 Quad Wk 18 Quad Wk 19 Quad Wk 20

2008 2009

Source: IRI In-Store Solutions Group Perimeter View YTD Through 5/17/2009. ¹Source: The Columbus Dispatch, June 5, 2009.



The prevalence of combined display with feature support initiatives will likely continue to gain traction as CPG marketers seek to reach into the home to capture attention, then reinforce messages at the store level with innovative display programs.

MERCHANDISING ACTIVITY TOTAL CPG

Merchandising activity is, indeed, up across a majority of CPG categories. In fact, nearly all types of merchandising activity have seen increases over the past year.

Price-only actions continue to play a key role in retailers' merchandising strategies. Significant price increases have left consumers looking for innovative new ways to save. Though commodity and gas prices have moderated, CPG manufacturer list prices remain elevated.

Attracting and/or retaining consumers with temporary price reductions is tempting. But, the need for caution is high.

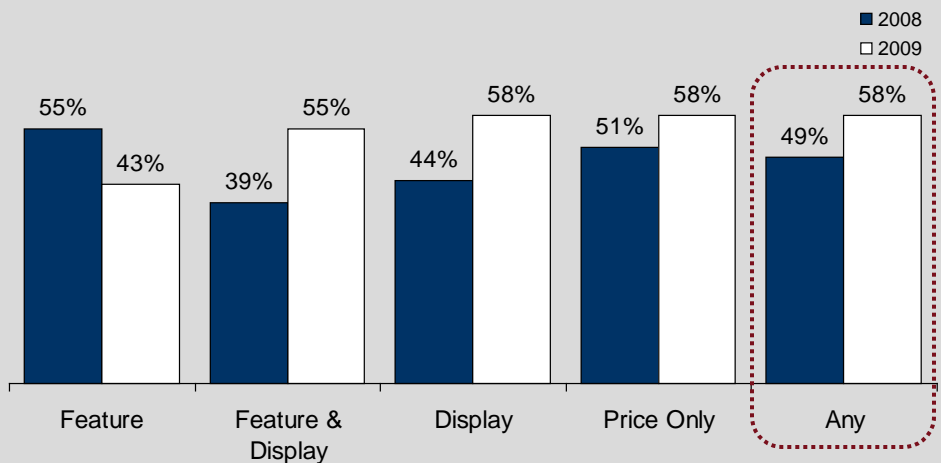
Strategies need to go beyond price to address affordability and quality or risk diminishing brand image. Indications are that CPG marketers understand this risk: though price-only actions more prevalent

versus year ago, increases in this area are smaller versus other merchandising tactics.

Feature-only merchandising is the sole tactic to see decreased activity levels over the past year. This shift is likely a result of manufacturers using combined display with feature support rather than relying on a single tactic to drive behavior.

As seen earlier in our report, consumers are increasingly planning their shopping trips before entering the store. The use of combined feature/display tactics will likely continue to gain traction as marketers seek to capture the attention of consumers in the home, but then reinforce the message at the store level through innovative display initiatives.

**% of Categories with Increased Merchandising Activity- 2009 & 2008
by Merchandising Tactic
Food, Drug & Mass (Excluding Walmart)**



Source: IRI Consumer Network™; 52 weeks ending 3/29/2009 versus same period prior year

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Merchandising continues to be highly common across discretionary CPG categories.

MERCHANDISING ACTIVITY CATEGORY- MOST ACTIVE

In difficult economic times, it is no surprise that consumers have restricted discretionary spending. CPG marketers recognize the power of merchandising to drive purchase behavior, as illustrated by the fact that nearly all of the categories where merchandising activity is highest are discretionary in nature.

The past year did not bring major changes to merchandising activity within these categories, with the exception of bottled water, where activity levels climbed.

Over the past year, bottled water merchandising increased 3.4 points versus year ago. Why?

Bottled water marketers are looking to turn the tide. The bottled water category has been struggling over the course of the past couple of years. In addition to negative publicity associated with environmental issues, the industry is struggling with the fact that its closest competitor, tap water, is free.

As a result, despite falling prices, bottled water experienced a drop in unit sales of 4.4% over the past twelve months. Marketers are hoping increased promotional support will help bolster sales.

Top 10 Categories by Merchandising Activity Level

Food, Drug & Mass (Excluding Walmart)
% Volume, Any Merchandising

		Point Change vs Prior Year
Carbonated Beverages	73%	(1.2)
Chocolate Candy	61%	(3.1) *
Salty Snacks	60%	(0.4)
Sports Drinks	60%	0.5
Bottled Water	59%	3.4
RTD Tea/Coffee	59%	(0.1)
Crackers	58%	(1.9)
Ice Cream/Sherbet	57%	0.2
Butter	56%	0.2
Mexican Food	56%	0.8

Source: IRI Consumer Network™; 52 weeks ending 3/29/2009; Among Top 100 Categories

* Note: Apparent drop in merchandising activity is due to inclusion of Easter holiday activity in 2008 (March 23, 2008 celebration date) and exclusion of holiday activity in 2009 (April 12, 2009 celebration date).



CPG marketers are leveraging merchandising to showcase a range of innovative new health and beauty products.

MERCHANDISING ACTIVITY CATEGORY- TRENDS

Consumers are approaching shopping with renewed scrutiny. Discretionary purchases are being delayed, reduced, and sometimes, completely eliminated. The term “essential” is being redefined. And, even essential purchases are being reevaluated.

Savvy CPG marketers are keen to this trend, and have stepped up merchandising activity to encourage purchase behavior.

Milk and eggs, key staples among consumers focused on at-home meal preparation, top the list of categories seeing increased merchandising activity. Unit sales across both of these categories are down versus year ago despite the crucial role they play in at-home food rituals and marketers are looking to turn the trend around.

A range of health and beauty care categories are also seeing sizable

increases in merchandising activity.

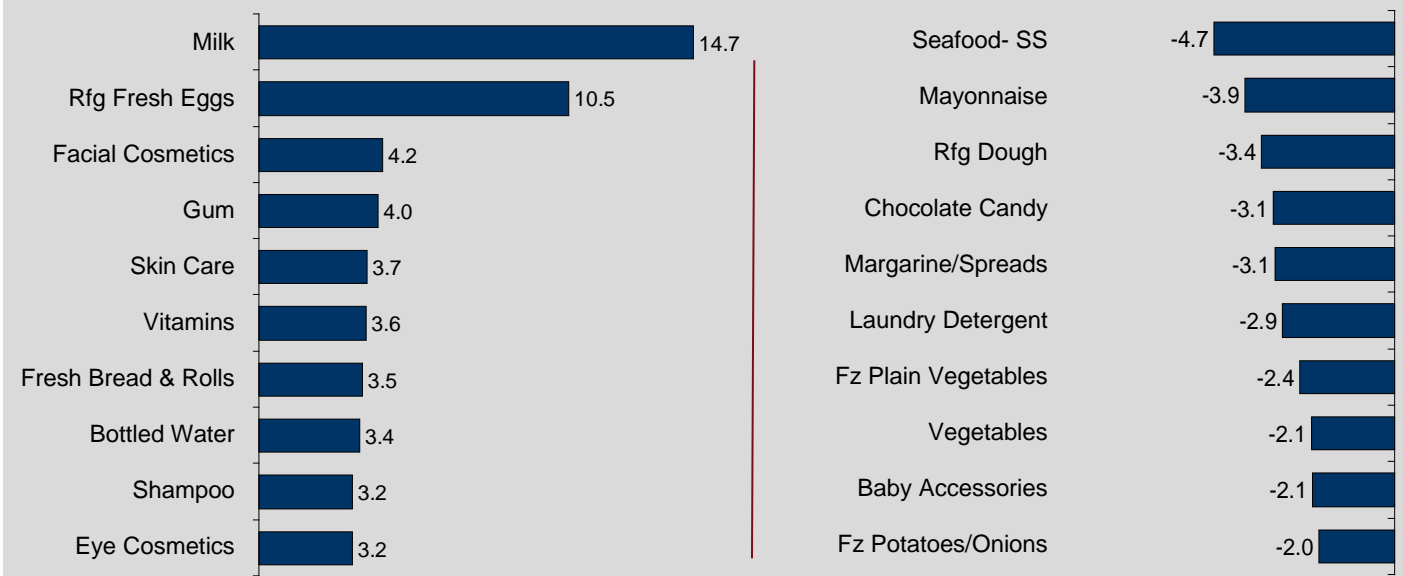
Innovation in these areas has been high over the past year as CPG manufacturers race to incorporate the latest age-defying (e.g. Olay Regenerist line) and plant-based (e.g. Organix Hair Care) ingredients into their product lines. And, with higher-than-average margins, these categories provide ample opportunity for marketers looking to drive margin growth. With self-care in the limelight, these categories will likely continue to enjoy increased focus in the coming year.

Across a range of other refrigerated and frozen categories, such as refrigerated dough, margarines and frozen vegetables, merchandising activity has declined. But, technology is improving and new, more space-friendly merchandising tactics will likely reinvigorate efforts in these areas.

CPG Categories with the Largest Increases/Decreases in Merchandising Activity Level

Food, Drug, Mass (Excluding Walmart)

% Volume, Any Merchandising: Point Change vs Prior Year



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Merchandising continues to play a key role in grocery and drug retailers battle for share of CPG dollars.

MERCHANDISING ACTIVITY CATEGORY- HBC

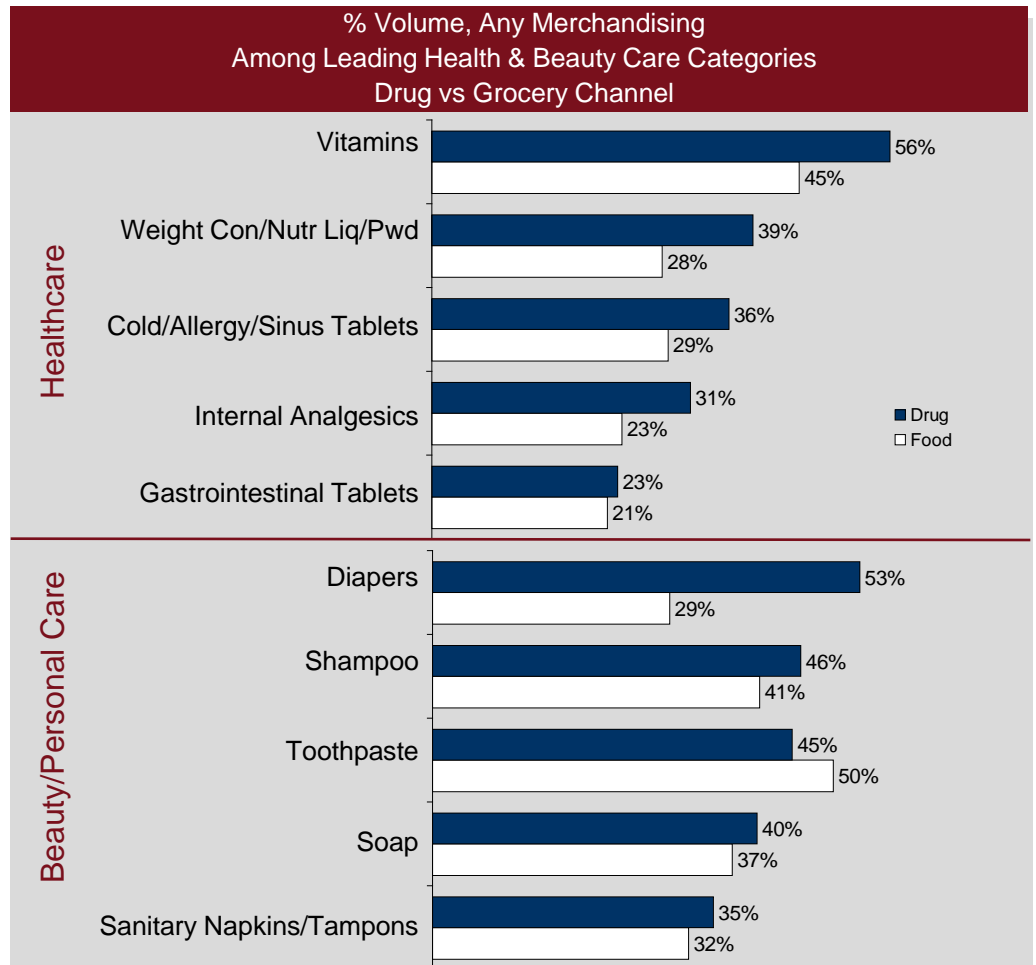
Health and beauty care have long been a battle ground between grocery and drug store retailers.

The drug store channel is an established destination for healthcare products. The channel is clearly reinforcing this position in a difficult economy with a strong focus on merchandising. But, grocers also show respectable levels of merchandising across these categories, looking to capture share from consumers already shopping the grocery channel for their other CPG needs.

Grocers continue to show resolve in

beauty/personal care categories as well. Across four of the top five categories, merchandising activity is keeping pace or higher versus drug retailers.

Diapers are a notable exception, with grocery merchandising activity well below that of drug retailers. But, as diaper prices rise and grocery private label offerings improve, this may change. For example, Kroger recently re-launched its Comforts brand, supported by stanchion signs, floor clings and point of purchase materials each touting a key value message: "Perfect for your baby. And perfectly priced for you!"



Source: IRI Consumer Network™; 52 weeks ending 3/29/2009. Note: top five categories based on grocery channel dollar sales.



Retailers are looking to capitalize on opportunity within key meal ingredient and meal component categories by increasing merchandising support.

“...some retailers prefer to be bold with everyday low prices, [but] many prefer to be bold with strong promotional programs. (Manufacturers) coming back with increased promotional monies fits very nicely into helping promotionally oriented retailers differentiate.”

Jon Hauptman,
Partner, Willard Bishop

MERCHANDISING ACTIVITY MEAL INGREDIENTS AND COMPONENTS

Consumers are in search of affordable meal solutions. They have demonstrated a willingness to travel and to shop multiple channels in order to get the most for their CPG dollars. Retailers are fighting for those dollars.

With at-home meal preparation activity at a high, retailers are looking to capitalize on opportunity within key meal ingredient and meal component departments by increasing merchandising support.

In center store and frozen food aisles, for instance, merchandising is up in one-third of categories. In fresh/perishable, nearly two-thirds of categories are more heavily merchandised this year versus year ago.

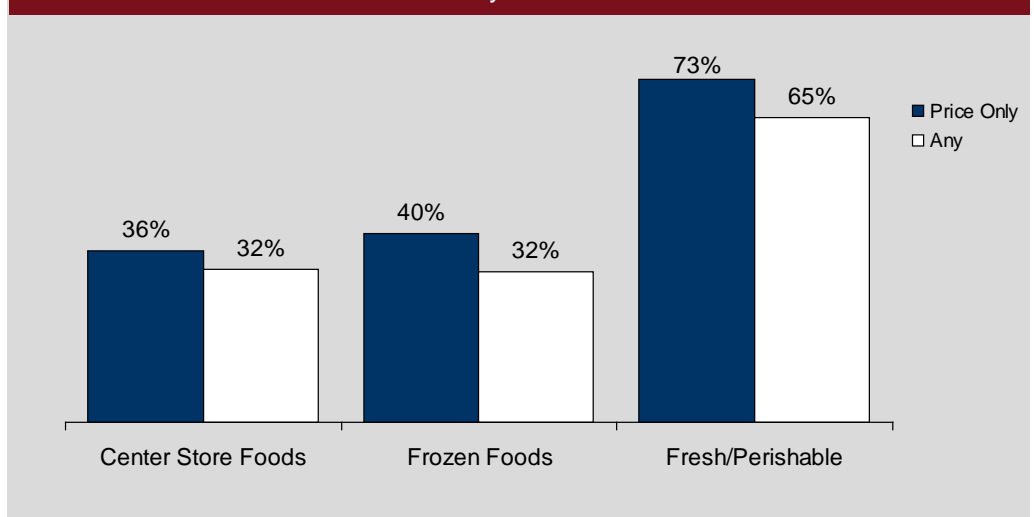
Predicted increases in manufacturer promotional activity will likely continue to drive merchandising activity at the retail level throughout this year.

Continued focus on recession-driven price increases are a major influencer of this trend. CPG manufacturers faced exceptionally high raw material and packaging costs last year. Though costs have moderated, wholesale and retail prices have not seen much relief.

Retailers are pressuring suppliers to lower costs. In fact, some CPG retailers have dropped suppliers as a result of pricing conflicts. A notable example is when Delhaize in Belgium stopped stocking 300+ Unilever items due, in part, to price issues.

For now, it appears that list prices will remain largely unchanged, and manufacturer promotional activity will increase. Savvy retailers must carefully monitor their price strategies and rapidly capitalize on temporary price reduction opportunities brought about by manufacturer-partner promotional activity.

% Categories Experiencing Increase in % Volume, Any Merchandising Among Fresh/Perishable, Frozen Foods and Center Store (Food) Departments Grocery Channel



Source: IRI Consumer Network™; 52 weeks ending 3/29/2009 versus same period prior year



Private label merchandising levels are poised to grow, driven by retailers' focus on building value, differentiation, and profit margins.

MERCHANDISING ACTIVITY CATEGORY- PRIVATE LABEL

Price hikes have served to reinforce the growing popularity of store brand CPG products. But private label does more than just answer consumers' call for low-cost product options.

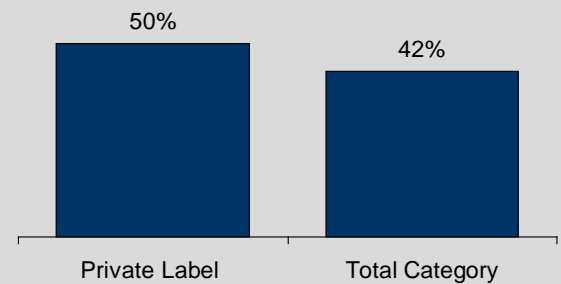
Private label is a key component of retailers' differentiation strategies. Store brands also typically carry a higher margin versus national brands. So, over the past year these lines have helped offset some of the margin squeeze retailers have felt on national brand sales.

For all of these reasons, many retailers are extending private label lines, providing store brand that compete directly with national brands across the value spectrum (i.e. value, mid and premium tier). Despite this added focus, merchandising activity declined across half of private label categories, more quickly versus brand name products.

In a majority of categories, private label merchandising is below category average across tactics.

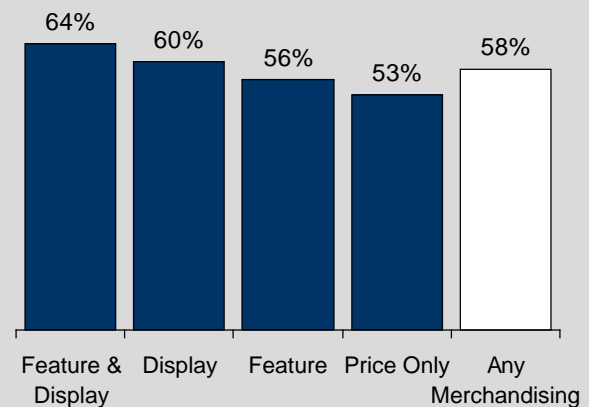
If private label continues to gain momentum, though, this trend is likely to change. The battle for shelf space, display space and ad space will intensify. More than ever, relevance is critical. Relevant products, relevant packaging and relevant messages will solidify relationships...relationships between retailers and suppliers, and relationships between CPG and U.S. consumers.

% CPG Categories with Reduced Merchandising Activity Food, Drug & Mass (excl. Walmart)



Source: IRI Consumer Network™; 52 weeks ending 3/29/2009

% of Categories w/ Private Label Merchandising Activity Below Average* by Merchandising Tactic Food, Drug & Mass Channels (Excluding Walmart)



Source: IRI Consumer Network™; 52 weeks ending 3/29/2009

*Note: Based on % volume, any merchandising for total category versus private label



Drug retailers are rewiring their merchandising strategies in an effort to drive consumer response.

MERCHANDISING EFFECTIVENESS TOTAL CPG TRENDS

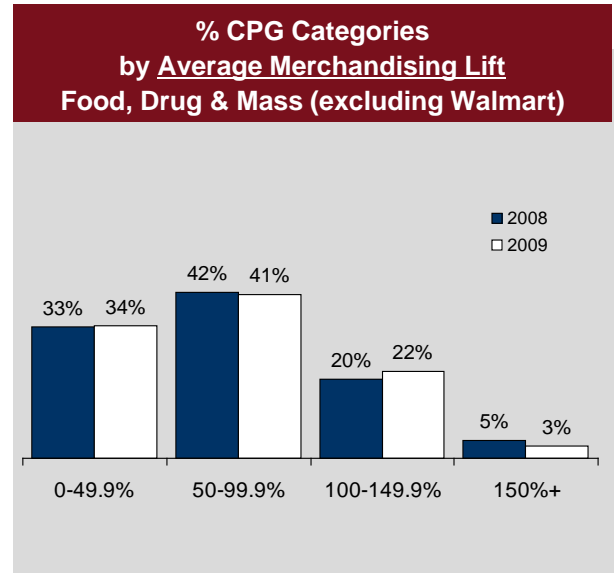
After a decline in 2007, average merchandising lift has remained fairly steady over the past year. Two-thirds of CPG categories are achieving lift of 50% or more, with one-quarter of categories seeing a boost of 100% or more from CPG merchandising efforts. Considering the financial difficulties some consumers are facing, this is certainly good news for CPG marketers.

Last year, drug retailers were somewhat buffered from merchandising lift declines by the fact that consumers are practicing more self-care and, during the time of particularly high gas prices, shopped close-to-home drug stores for fill-in shopping trips.

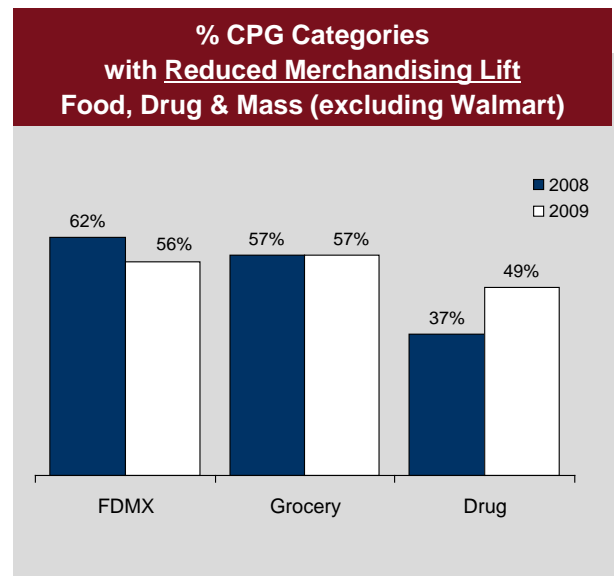
But, those buffers have faded and within the channel 49% of categories experienced less merchandising lift over the past year.

Drug retailers are sharpening their strategies in an effort to reinvigorate customer response. For example, CVS is using data from their ExtraCare loyalty program to create highly targeted promotional campaigns. And Walgreens is leveraging an radio frequency identification (RFID)- based information system to better track and measure in-store merchandising programs.

Technology-based programs such as these will continue to grow in prevalence and power. For sure, technology will be a merchandising game-changer across CPG channels.



Source: IRI Consumer Network™; 52 weeks ending 3/29/2009 and same period prior year



Source: IRI Consumer Network™; 52 weeks ending 3/29/2009 and same period prior year



MERCHANDISING EFFECTIVENESS LEADING CATEGORIES

Merchandising lift is highest across stock-up categories and those best suited for at-home meal preparation.

Stock-up categories offer significant basket-building opportunities for CPG marketers. Illustrated below, merchandising across these categories is very well-received by consumers looking to save money on CPG basics.

But, increases in merchandising support are also quite significant across a different group of categories: categories which tie to consumers' increased at-home meal behaviors.

For example, cold cereal, a low-cost and quick breakfast staple, saw volume sold with merchandising support grow nearly 17 points over the past year.

Breakfast meats, frankfurters and baking mixes have also been more heavily merchandised. The movement of merchandising funds to these types of categories is well-justified. Lift has been huge.

This trend underscores the importance of CPG marketers closely monitoring and anticipating/ reacting to changing consumer needs and wants. Throughout the course of the recession, consumer rituals have changed quickly and significantly.

The ability to maintain relevant communications hinges on having a clear and focused understanding of evolving consumer trends.

**Top 10 CPG Categories by Merchandising Lift
Food, Drug & Mass (Excluding Walmart)**

	<u>% Volume Increase w/ Merch Support</u>	<u>% Volume w/ Merch</u>	<u>Change in % Inc in Volume w/ Merch</u>
Paper Towels	213%	52%	(21.8)
Toilet Tissue	207%	45%	(6.9)
Breakfast Meats	199%	55%	+6.9
SS Seafood	176%	35%	(14.5)
Frankfurters	167%	51%	+9.8
Cold Cereal	165%	48%	+16.6
Facial Tissue	155%	46%	(0.7)
Laundry Detergent	152%	50%	(25.4)
Baking Mixes	148%	45%	+8.6
Spaghetti/Italian Sauce	148%	44%	(2.2)

Source: IRI Consumer Network™; 52 weeks ending 3/29/2009

*Note: Among Top 100 CPG categories based on FDMx dollar sales.



MERCHANDISING TACTICS PREVALENCE & EFFECTIVENESS

Merchandising dynamics are poised for change, driven by changing consumer and market dynamics.

The charts at the bottom of this page summarize the level of activity seen across merchandising tactics, and the average lift received from these merchandising efforts.

Over the past year, 94% of CPG categories sold at least 10% of volume on price-only merchandising efforts; 2% of categories saw lift of 100% or more as a result of those efforts.

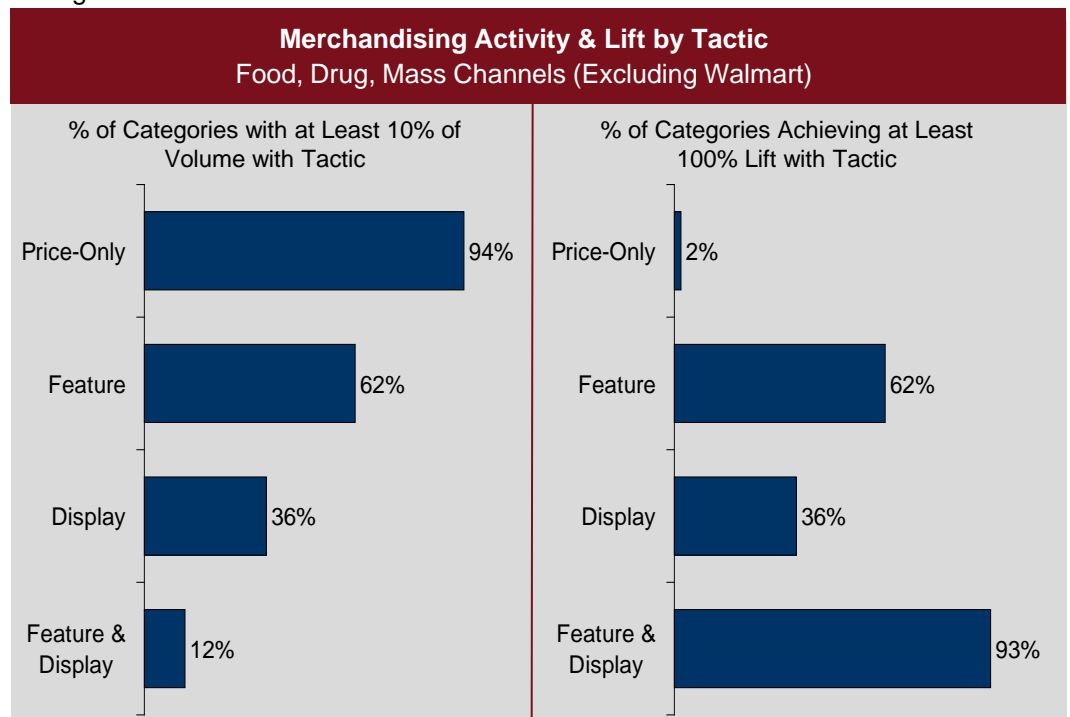
Feature advertisements have played a smaller, but more powerful role in CPG merchandising. Nearly two-thirds of categories sold 10% or more of volume on feature-only efforts, and 12% sold 10% or more of volume leveraging display with feature ad support. A majority of categories saw triple digit lift from these programs.

Merchandising dynamics are poised for change in the foreseeable future. For

instance, as highlighted in various IRI studies, the consumer decision making process is increasingly taking place in the home. Marketing efforts must be rewired address this major change. As such, emphasis on feature ads will likely increase sharply.

And, indications are that, for the present, manufacturer list prices will remain largely unchanged, but that promotional activity will increase. In these conditions, retailers will be forced to rely more heavily on temporary price reductions (TPRs) in order to provide consumers much sought-after price relief.

Yet to be seen is the extent to which these actions will be price-only, versus having the support of other merchandising tactics.



Source: IRI Consumer Network™; 52 weeks ending 3/29/2009

[Times & Trends]

A Snapshot of Trends Shaping the CPG and Retail Industries



MERCHANDISING TACTICS TOP CATEGORIES- EFFECTIVENESS

The ranks of highest-response categories has changed slightly over the past year, reflective of increased at-home food behaviors.

In past years, *Times & Trends* has illustrated that stock-up categories such as toilet tissue, paper towels, and shelf-stable seafood tend to respond quite favorably to merchandising across tactics. This is certainly still true.

This year, though, the list of highest-response categories has changed slightly. This year, a range of key meal ingredient and component categories received huge lift from merchandising efforts across tactics.

In the foreseeable future, consumer at-home and from-home meal activities are expected to remain strong. As such, categories related to these habits present significant opportunity for retailers and manufacturers.

Price-only merchandising continues to show strength in products that are notoriously difficult to display, such as refrigerated or frozen foods, and in impulse purchases such as chocolate candy. Though lift tends to be much smaller with price reduction only strategies, these categories remain good basket building opportunities.

Categories Achieving the Highest Lift by Merchandising Tactic

<u>Feature & Display</u>		<u>Display</u>		<u>Feature</u>		<u>Price Only</u>	
SS Seafood	1,083%	Toilet Tissue	215%	SS Seafood	310%	Breakfast Meats	106%
Breakfast Meats	718%	SS Seafood	180%	Breakfast Meats	274%	Chocolate Candy	101%
Paper Towels	712%	Cold Cereal	167%	Toilet Tissue	249%	Frankfurters	99%
Toilet Tissue	671%	Paper Towels	166%	Baking Mix	243%	Fz/ Rfg Poultry	92%
Cold Cereal	663%	Chocolate Candy	164%	Paper Towels	238%	Fz Seafood	90%

Source: IRI Consumer Network™; 52 weeks ending 3/29/2009; Among Top 100 Categories



CONCLUSIONS CPG MANUFACTURERS

Manufacturers seeking to maximize opportunity within the new, emerging retail environment should consider the following action items:

- » Continually identify and assess new opportunities and risks
 - Assess consumer dynamics for your categories/brands and resulting pricing and promotion implications
 - Evaluate merchandising activity and lift across your brands versus total category and competitors across key retail partners to identify gaps
 - Identify opportunities to build trial and/or repeat purchase through cross merchandising of relevant parallel categories/brands
 - Collaborate with key retailer partners to identify and test new in-store marketing vehicles/tactics

- » Work with key accounts to develop retailer-specific merchandising strategies
 - Align pricing and merchandising initiatives with partner goals/objectives as well as needs of key target consumers (e.g. self-care, at-home food rituals, etc)
 - Continually monitor changing consumer needs and rituals at the market and store level to ensure strategies remain aligned with consumer base
 - Focus on solutions-based merchandising programs that deliver convenience and affordability across key consumer segments

- » Continually measure and monitor pricing and merchandising executions
 - Test-market major pricing and merchandising initiatives prior to roll-out and frequently during the period immediately following the roll-out; implement modifications, as necessary
 - Track and benchmark store-level merchandising performance and retail execution among key retail partners



CONCLUSIONS CPG RETAILERS

Retailers seeking to maximize opportunity within the new, emerging retail environment should consider the following action items:

- » Continually identify and assess new opportunities and risks
 - Collaborate with key manufacturer partners to assess consumer dynamics across key departments/categories and resulting pricing and promotion implications
 - Continually evaluate response to merchandising initiatives vis-à-vis store sales, share of sales and consumer satisfaction
 - Evaluate private label growth potential at the category and store level
 - Test new in-store marketing vehicles/tactics to assess consumer response versus traditional techniques

- » Develop partnerships with manufacturers to will facilitate development of pricing and merchandising strategies tailored to the needs of your stores' key consumer segments
 - Identify partnership opportunities based on stores' total growth strategies
 - Develop integrated promotional programs that with related departments/categories, particularly focusing on boosting purchase of stock-up and discretionary categories, as well as those categories that related to at-home food rituals
 - Focus on solutions-based merchandising programs that deliver convenience and affordability to key consumer segments

- » Continually measure and monitor pricing and merchandising executions
 - Test-market major pricing and merchandising initiatives prior to roll-out and frequently during the period immediately following the roll-out; implement modifications, as necessary
 - Track and benchmark store-level merchandising performance to identify best practices and assist under-performing stores



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 Shopper Insights Advantage™

Shopper Insights Advantage™ Powered by IRI Liquid Data™ is IRI's transformational tool for creating actionable consumer and shopper insights. It combines superior content with the speed, power, and flexibility that you need to identify ways to grow by attracting shoppers, driving trips, and increasing basket value.

IRI In-Store Solution Suite™ (ISG)

IRI's ISG service conducts in-store audits, measuring perimeter merchandising, display, shelf, and front-end store conditions across all classes of trade; the service provides insights into shelf conditions, presence and locations of displays, etc. for own and competitive brands and categories.

IRI Controlled Store Testing™

IRI Controlled Store Testing™ accurately quantifies the effectiveness of an in-store marketing program and identifies opportunities to improve the program with far less cost and risk than a national rollout.

IRI Price Advantage™

IRI Price Advantage™ provides Web-based, real-time analysis of pricing sensitivities, price point and price gaps, thresholds and competitive implications in order to maximize sales, margins and drive overall brand management and sales lifts.

IRI Trade Advantage™

IRI Trade Advantage enhances the trade planning process by providing fact-based drivers of promotional performance via an easy to use Web-enabled interface.

[Times & Trends]

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>>> 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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