

TIMES & TRENDS

A Snapshot of Trends Shaping the CPG Industry

WAL-MART

CHARTING A NEW COURSE FOR GROWTH



May 2007

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EXECUTIVE SUMMARY

- ▶ Wal-Mart U.S. growth rates continue to suffer as supercenter expansion cannibalizes existing stores, but explosive growth in the international division brought total company growth back on track
- ▶ Steadily declining Wal-Mart household penetration in the U.S. highlights the need to grow business among existing consumers by reversing the slowing trip trend and fueling positive momentum in basket size
- ▶ Four major strategic initiatives will shape Wal-Mart's direction in the near term: stepping up international expansion, leveraging healthcare as a growth platform, increasing customer relevance across consumer segments, and championing sustainability
- ▶ Wal-Mart's FY2008 plans call for double-digit increases in the number of units and square footage in the international division; despite the high current and projected growth, expansion outside of North America has been fraught with challenges and setbacks
- ▶ Healthcare programs, including discounted generic drugs and Medicare Part D outreach to seniors have delivered share gains for Wal-Mart among high-priority consumer segments and offer major growth potential for select categories and brands; plans to greatly expand in-store health clinics will further bolster Wal-Mart's healthcare positioning
- ▶ While Wal-Mart has backed off aggressive efforts to move "upscale", the company continues to invest in creating assortment and services that are relevant to distinct consumer segments and will gradually build "stores of the community"
- ▶ Wal-Mart's leadership role in promoting sustainable energy sources, packaging and products will have far-reaching impact across the CPG industry -- driving new package design, eco-friendly product development, and changes in merchandising



INTRODUCTION

After an exceedingly challenging year, Wal-Mart is charting a new course for growth.

“After a tumultuous year of experimentation, abrupt reversals and admission of missteps, Wal-Mart Stores is finding its raison d’être...Saving people money so they can live better lives.”

– New York Times, 3/2/07

After decades of seemingly unstoppable growth, the world’s largest retailer has hit an impasse: supercenter expansion is increasingly cannibalizing existing stores (same store sales growth dipped below 2% for the first time in Wal-Mart’s history last year), and an aggressive plan to capture a greater proportion of “upmarket” sales fell flat. Even the international division, which drove exceptional growth, experienced setbacks, as Wal-Mart pulled out of both Germany and South Korea.

The company is now regrouping and is charting a new course for growth that leverages brand equity as a low price leader and core assets, such as the pharmacy.

In addition to continued U.S. supercenter expansion (with a more stringent location strategy to reduce cannibalization), Wal-Mart will focus on four major strategic initiatives in fiscal year 2008 and beyond:

- Stepping up international expansion
- Focusing on healthcare as a platform for total store growth
- Enhancing customer relevance through stores of the community
- Driving sustainability throughout the store (energy, products, packaging)

For CPG manufacturers, growth within Wal-Mart will increasingly require alignment with one or more of these initiatives, as growth through sheer expansion will continue to wane in the U.S. These initiatives will open new doors for brands that may have had a limited presence at Wal-Mart to date, such as green products, food and beverages with disease management benefits, locally - produced products and brands with a well-established presence within the international markets that Wal-Mart has targeted for expansion.

Wal-Mart’s new strategies will also require shifts in competitive strategies among retailers, who will face increased competition in healthcare and among Wal-Mart’s targeted consumer segments. Competing retailers will also likely face a growing demand for sustainable business practices and products. And, retailers in Western Europe and emerging markets may soon be contending with a powerful new entrant.

Wal-Mart’s re-energized plans to “save people money so they can live better lives” will have a ripple effect felt throughout the industry.



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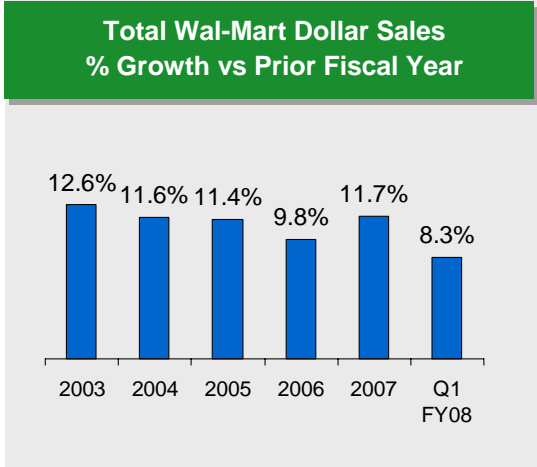
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WAL-MART PERFORMANCE TOTAL COMPANY

Total company growth rates were back on track in FY2007 as Wal-Mart International did some heavy lifting, but growth moderated in Q1 FY2008.

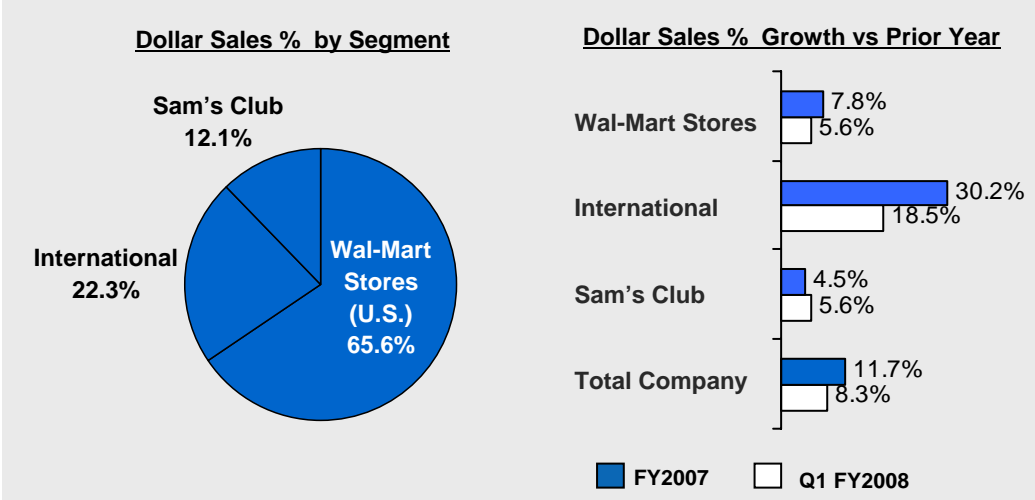
While representing only one-quarter of total Wal-Mart sales, the international division drove 50% of sales growth -- bringing FY2007 growth rates back in line with historical Wal-Mart trends after a dip in FY2006. Growth rates did moderate in the first quarter, FY2008.

The U.S. Wal-Mart Stores Division's FY2007 7.8% growth, albeit solid relative to the industry, continues a steady decline as the primary driver -- supercenter expansion -- delivers only modest trip growth and fails to expand the consumer base. A slowdown in the first quarter of FY2008 to 5.6% growth reflects a continuation of these challenges.



Source: Wal-Mart Annual Report; Q1 Earnings Release
Note: Fiscal year ends January 31

Wal-Mart Stores, Inc. Dollar Sales Mix and Growth by Segment



Source: Wal-Mart Annual Report; Q1 Earnings Release
Fiscal year ends January 31



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WAL-MART PERFORMANCE WAL-MART STORES DIVISION - OVERVIEW

The lowest same store sales growth in Wal-Mart's history has prompted changes in U.S. strategy.

The U.S. Wal-Mart Stores division's 7.8% growth rate in FY2007, which slowed to 5.6% in Q1 FY2008, represents a significant deceleration vs recent fiscal year trends, despite aggressive unit expansion.

The company has clearly reached an impasse, at which new stores, which have delivered exceptional growth for years without dramatically impacting sales of existing stores, are now taking a toll on same store sales growth.

FY2007's 1.9% comp store increase is the lowest in Wal-Mart's history and falls significantly short of rivals, including Target, Safeway, Kroger and Walgreens.¹ FY2008 is off to a rough start with comp store growth of (0.1%) in the first quarter.

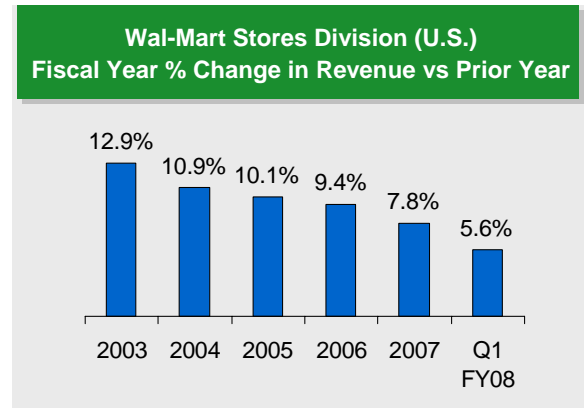
So, where does the company go from here? A first step is more selective U.S. expansion. U.S. square footage is expected to increase 7% in FY2008, vs 8.4% in FY2007. According to Wal-Mart Vice Chairman John Menzer, "Our real estate projects are now being subjected to a more rigorous prioritization process" – which will reduce the level of cannibalization of existing stores.³

Further, Wal-Mart has a number of other programs in place to grow same store sales as outlined in the Strategic Initiatives section of this report.

"There are a lot of issues here, but what they add up to is the end of the age of Wal-Mart..the glory days are over."

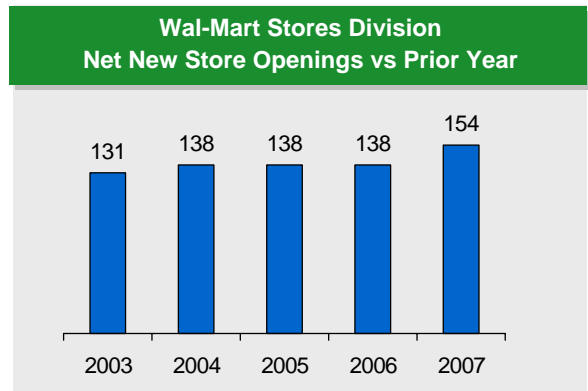
Senior Analyst,
Bernard Sands²

U.S. growth rates continue their steady decline.



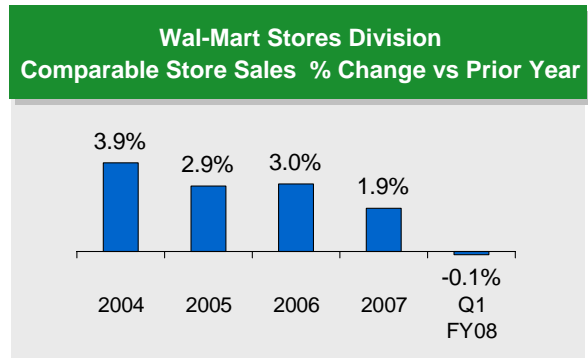
Source: Wal-Mart Annual Reports, Q1 Earnings Release

Net new store openings increased in FY2007...



Source: Wal-Mart Annual Reports

...But same store sales took a hit.



Source: Wal-Mart Annual Reports, Q1 Earnings Release
Fiscal year ends January 31

1. Business Week, 4/30/07
2. Ibid
3. Wal-Mart Press Releases



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WAL-MART PERFORMANCE

WAL-MART STORES DIVISION - SHOPPING TRENDS

Future Wal-Mart growth potential in the U.S. lies in existing, not new consumers.

Just under 80% of U.S. households shopped in a Wal-Mart store over the past year. Wal-Mart's reach is indeed vast, but the company's penetration has actually declined over the past several years. Growth is simply not likely to come from new consumers within the U.S. (unless Wal-Mart successfully penetrates the nation's largest urban markets.)

Growth will come from existing consumers – either by increasing trips or increasing basket size within each trip.

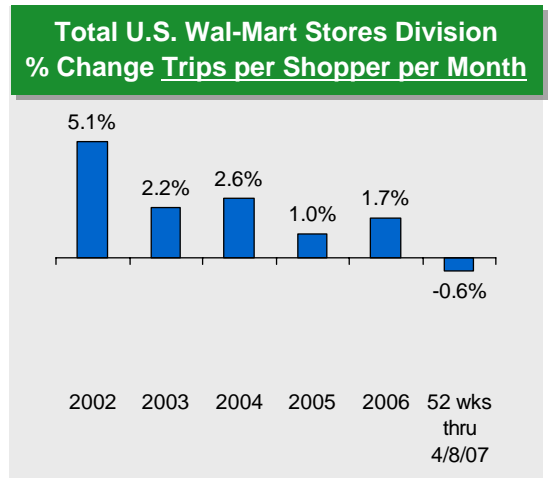
Trip growth has slowed, as consumers continue to consolidate trips overall, not only at Wal-Mart (in part due to one-stop shopping at supercenters as this format has become increasingly available). The number of Wal-Mart trips actually declined over the 52 weeks ending early April. Stronger trip growth is still a potential, however, as Wal-Mart places even greater emphasis on trip-building strategies such as health clinic expansion and pharmacy-based marketing.

Increasing customer relevance may be the key to growing basket size and improving same store sales.

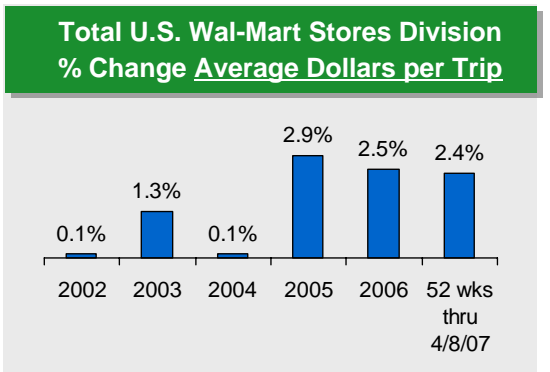
Wal-Mart's greatest potential, however, appears to be in growing consumers' baskets when they are in the store. Trends on this measure are already favorable, and are likely to be bolstered by Wal-Mart's renewed focus on customer relevance and "stores of the community" -- related initiatives designed to tailor merchandise more closely to the specific needs of various consumer segments.



Source: IRI Consumer Network®



Source: IRI Consumer Network®



Source: IRI Consumer Network®



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WAL-MART PERFORMANCE SHARE TRENDS – TOTAL CPG

Wal-Mart's re-energized price rollback program at the end of 2006 provided a boost to CPG share gains.

General consumer shopping trends at Wal-Mart, as discussed in the prior section, are reflected in decelerated Wal-Mart share gains within consumer packaged goods. The heyday of annual one-point-plus CPG share gains, primarily at the detriment of the grocery channel, appear to be over.

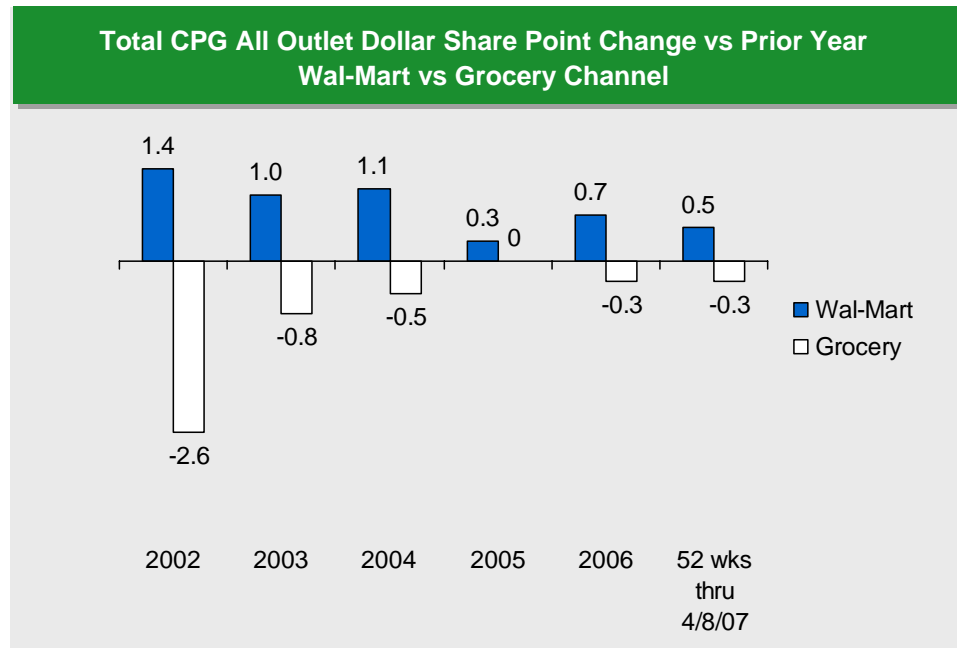
However, Wal-Mart demonstrated an ability to regain some of that lost momentum in calendar year 2006 via price rollbacks introduced in October to kickstart the holiday season.

According to CFO Thomas Shoewe, 'Wal-Mart widened the price differences with rivals in areas from groceries to pharmaceuticals, helping bring customers to its U.S. stores.'¹

When factoring in the first three months of 2007, the gain appears to be dissipating. Time will tell if Wal-Mart's efforts to increase trips and basket size will be enough to sustain CPG gains earned last year and possibly fuel incremental growth.

Within the next few years, express stores will likely pose a new threat to CPG share for Wal-Mart and other U.S. retailers. With Tesco's planned introduction of express format stores (which are under 15,000 square feet and will carry items purchased during "quick trips", including perishables and high-end prepared meals), and other retailers such as Giant Eagle already experimenting with this format, it will likely spur a major shake-up the current retail market.

Within the next few years, express stores will pose a new threat to CPG share for Wal-Mart and other U.S. retailers.



Source: IRI Consumer Network®

1. International Herald Tribune, 2/21/07



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WAL-MART PERFORMANCE CATEGORY OVERVIEW

Wal-Mart share declines are primarily confined to mature, slow-growth categories.

Consumers are spending an increasing proportion of their CPG budget at Wal-Mart overall (albeit at a slower rate of increase than was evident just a few years ago) -- but not across all categories.

In one-third of the top 100 categories, in fact, Wal-Mart share is declining. Wal-Mart is losing share in both established non-food categories such as baby accessories and in some less-established food and beverage categories, such as snack nuts. What these categories have in common is that most are either declining or experiencing only modest growth. Wal-Mart appears to be limiting focus and investment in mature, slow-growth categories.

On the flip side, the remaining two-thirds of top 100 categories in which Wal-Mart is increasing share fall into two camps: 1) categories experiencing high price increases in which consumers are turning to Wal-Mart for value pricing and 2) moderate to high-growth food and beverage categories, in which share is expanding largely due to Wal-Mart supercenter expansion.

For both brand manufacturers evaluating growth potential within a changing Wal-Mart and competing retailers evaluating threats and opportunities, an understanding of category dynamics is imperative.

**Wal-Mart Stores Division (U.S.) CPG Category Performance
Wal-Mart Dollar Share & Share Change vs Prior Year**

	<u>Losing Ground</u>	<u>Protecting Position</u>
Above Average Share	25% of Categories <i>(Eg: Baby Accessories, Tights/Socks)</i> <ul style="list-style-type: none"> ✓ Vast majority non-foods ✓ All flat or declining demand 	19% of Categories <i>(Eg: Sugar, Laundry Detergent)</i> <ul style="list-style-type: none"> ✓ Majority non-foods ✓ Half had sizable price increases
Below Average Share	<u>Limited Focus</u> 10% of Categories <i>(Eg: Snack Nuts, Fz Seafood)</i> <ul style="list-style-type: none"> ✓ Majority food and beverages ✓ Majority declining or slow growth 	<u>Up & Coming</u> 46% of Categories <i>(Eg: RTD Tea/Coffee, Mexican Sauce)</i> <ul style="list-style-type: none"> ✓ All food & beverage ✓ Vast majority growing categories
	Decreasing Share	Increasing Share

Source: IRI MarketInsight™; 52 weeks ending 3/25/07; Top 100 Categories



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WAL-MART PERFORMANCE CATEGORY: LOSING GROUND

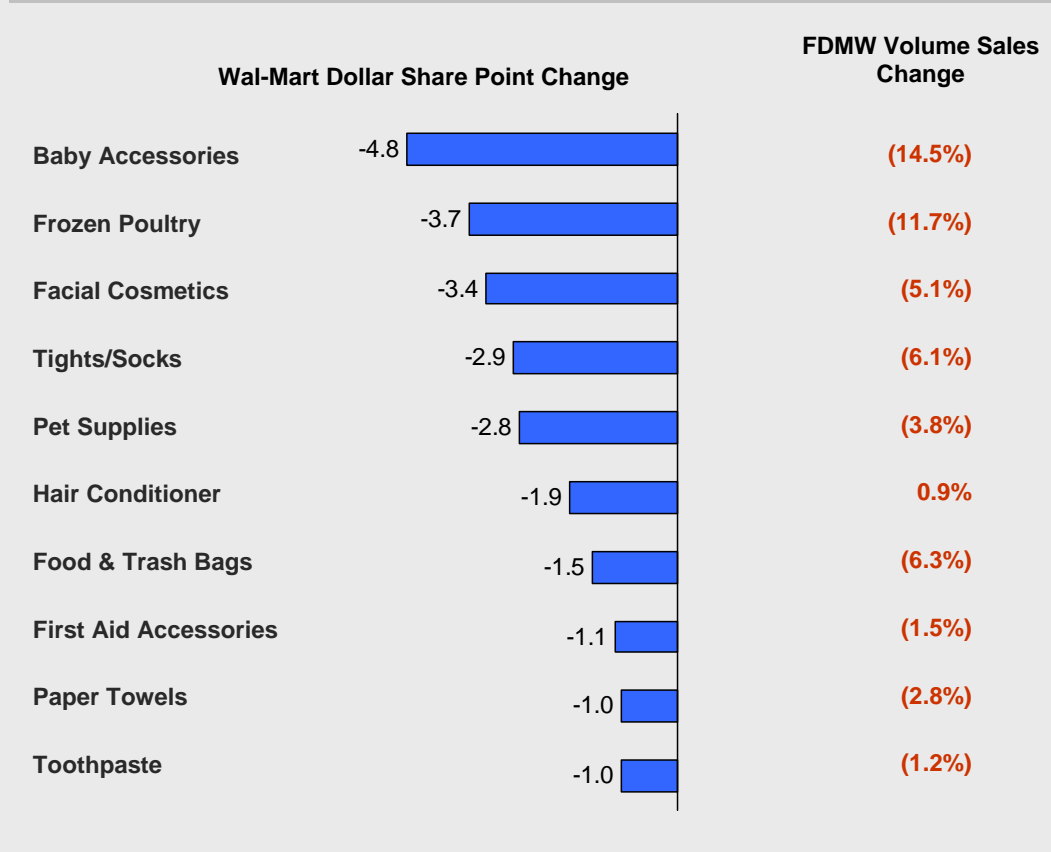
Wal-Mart's category development strategy appears to be in lockstep with changing consumer demand.

Wal-Mart is incurring share losses in 25 of the retailer's "stronghold" categories – top 100 categories in which Wal-Mart holds an above-average share.

While some of these losses are likely alarming to Wal-Mart, the fact that the vast majority are in categories with flat or declining demand overall suggests a conscious strategy in place to reduce focus on categories with limited growth potential. Wal-Mart's category development strategy is in lockstep with changing consumer demand.

In each of the ten categories below, the share losses were due in part to reduced penetration. Fewer households purchased these products at Wal-Mart. The risk for Wal-Mart and opportunity for other retailers is the potential loss (or gain for competitors) of an entire store visit if these consumers made a trip specifically for these items.

Wal-Mart FDMW Dollar Share Point Change vs Prior Year & Category Volume Sales Growth



Source: IRI MarketInsight™; 52 weeks ending 3/25/07 (FDMW = Food, Drug Mass Including Wal-Mart)



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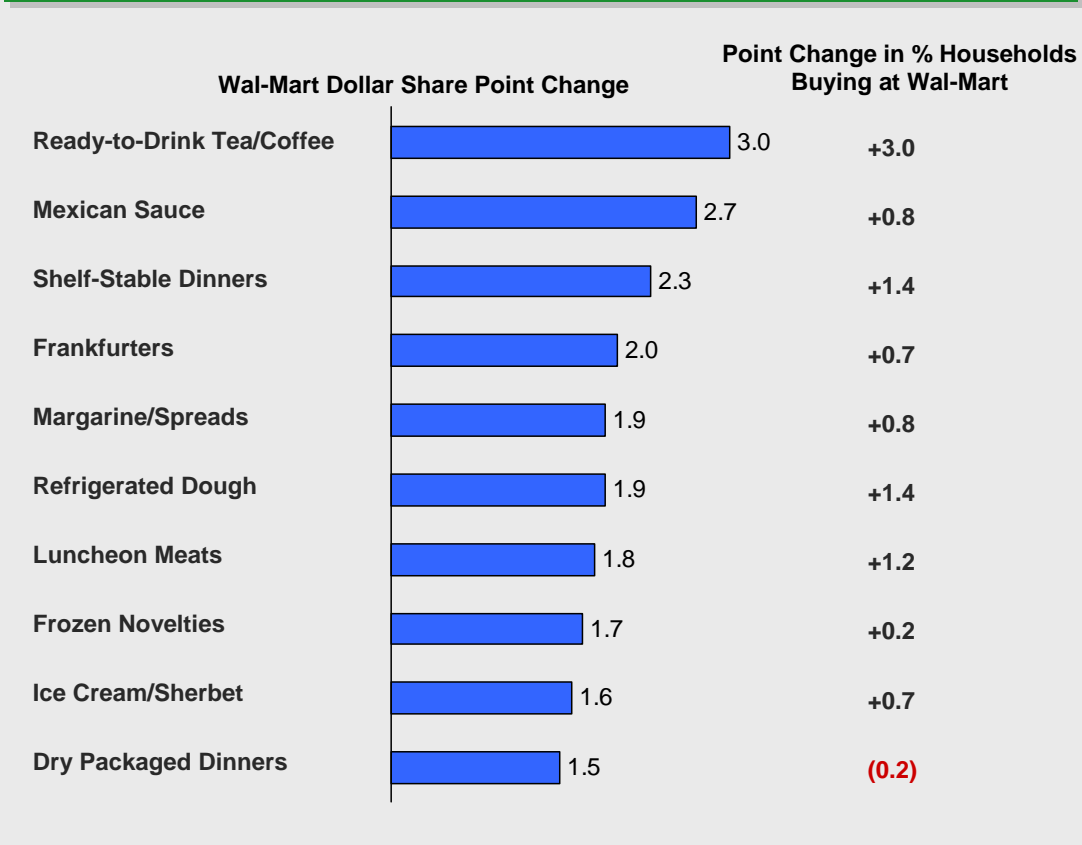
WAL-MART PERFORMANCE CATEGORY: UP AND COMING

Supercenter expansion continues to drive sizable food and beverage share gains as Wal-Mart extends household reach across key categories.

Supercenter expansion may not be bringing in net new consumers to Wal-Mart, but it is bringing in new category purchasers across a range of major food and beverage categories, resulting in sizable share increases. As highlighted in the chart below, across most of the categories with the largest Wal-Mart share gains, a greater number of households are now purchasing these products at Wal-Mart.

Despite the relative calm in spending shifts across CPG in total, manufacturers in these and other food and beverage categories will need to continually reevaluate distribution strategies to ensure adequate coverage within Wal-Mart as large shifts continue, and competing retailers will continue to carefully track and put plans in place to address share losses across these categories.

Wal-Mart FDMW Dollar Share and Household Penetration Point Change vs Prior Year



Source: IRI MarketInsight™; 52 weeks ending 3/25/07 (FDMW = Food, Drug, Mass Including Wal-Mart); IRI Consumer Network™



WAL-MART STRATEGIC INITIATIVES OVERVIEW

Wal-Mart is implementing four major strategic initiatives to “right” unfavorable trends.

The world is watching as Wal-Mart builds new strategies to “right” unfavorable trends.

Amid criticism for a false start in efforts to grow business among middle and upper-income consumers last year through “fashion forward” clothing, Wal-Mart is now taking a more comprehensive approach to increase relevance across multiple consumer segments. The company is strategically leveraging key assets, such as the pharmacy to drive traffic and sales among targeted consumer segments. And, Wal-Mart is using the company’s sheer size and vast influence to champion green practices. Further, more aggressive expansion plans within the high-performing international division are underway.

This section profiles several of Wal-Mart’s major strategic initiatives and explores likely market impact and implications for CPG manufacturers and retailers:

International Expansion

Wal-Mart is planning double-digit increases in both store units and square footage in the international division next year. Yet the company continues to face challenges in adapting to local cultures and competing with well-established players. While a promising path to growth, this path will not be without setbacks. Manufacturers of strong global brands stand to benefit from this expansion and are well-positioned to partner with Wal-Mart by sharing local market and consumer insights.

Healthcare

Recognizing the growing power of healthcare as a driver of purchases and store selection, Wal-Mart is investing in a number of healthcare initiatives, including discounted generic drugs, Medicare Part D outreach to seniors and in-store health clinics. These programs have the potential to increase store visits and offer unique growth opportunities for brands with health benefits.

Customer Relevance

Wal-Mart has invested heavily in research to understand consumer purchase and shopping habits to provide a relevant assortment and shopping experience across target consumer segments – including middle and upper-income consumers. As a result, assortment will vary somewhat by store to reflect the distinct needs and preferences of the store’s community.

Sustainability

Even Wal-Mart’s most ardent critics have rallied around the company’s sustainability initiative, which will not only reduce Wal-Mart’s own packaging and energy consumption but encourages suppliers, other industry participants and consumers to adopt more eco-friendly practices.



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WAL-MART STRATEGIC INITIATIVES INTERNATIONAL EXPANSION

Wal-Mart will significantly step up investment in international markets.

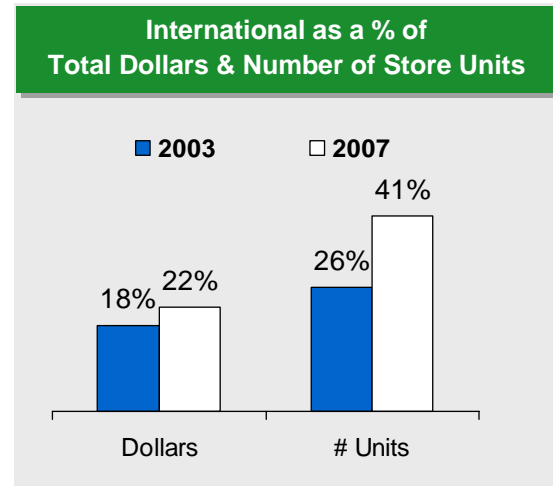
Wal-Mart International has come a long way since 1991, when the first store outside the U.S. opened its doors – a Sam’s Club in Mexico.

Now, Wal-Mart operates over 2,800 stores in 13 markets outside the continental U.S. Over the past five years, the international segment has jumped from 18% to 22% of sales. Projected double-digit growth in both units and square footage in international markets for FY2008 indicate that this segment will play an increasingly critical role in Wal-Mart’s future.

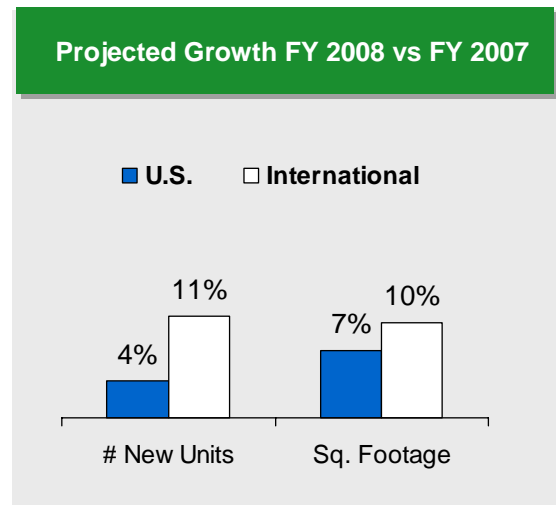
Yet, despite the stellar contribution of the international segment this past year to total company growth, expansion outside the U.S. has been fraught with challenges and setbacks as Wal-Mart faces the daunting task of modifying formats, assortment, pricing and promotion to address local market conditions and consumer preferences.

Further, in many markets, such as Western Europe, industry structure and regulations necessitate market entry and growth largely through acquisition, which is accompanied by multi-faceted integration challenges.

As a result, Wal-Mart stores in foreign markets will look and feel different in many respects vs stores in the U.S. – offering unique opportunities for brand manufacturers and distinct competitive threats for retailers. However, we will also likely see best practices emerging in foreign markets that will eventually make their way to domestic stores.



Source: Wal-Mart Annual Reports



Source: Wal-Mart Press Releases



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WAL-MART STRATEGIC INITIATIVES INTERNATIONAL EXPANSION (Cont'd)

Wal-Mart's likely expansion in Western European countries and select emerging markets offers a new growth platform for global CPG brands.

Wal-Mart's largest presence outside of the U.S. remains in North America; however, the company has a sizable business in the U.K. market with Asda, and has made significant investments over the past several years in Asia, South America and Central America.

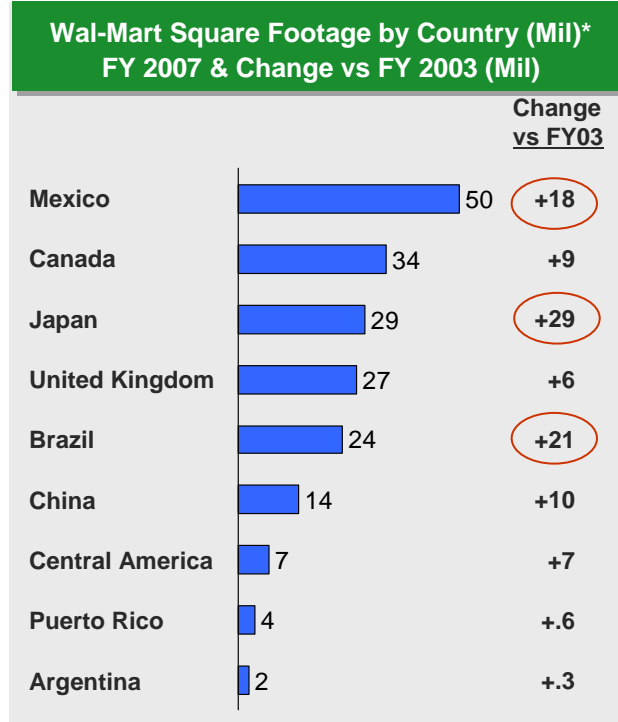
Wal-Mart's foray into new markets has been a learning experience. In May 2006, Wal-Mart withdrew from the South Korean market, followed by an announcement in July 2006 that the retailer would also withdraw from Germany. Both markets have well-established discounters offering extremely competitive pricing, and Wal-Mart lacked the scale within the market to profitably match price points in many instances.

In Japan, Seiyu Ltd., Wal-Mart's supermarket and department store unit has failed to turn a profit in six years in a culture in which consumers are not always looking for the lowest price. A divestiture of the Japanese unit is certainly possible.¹

What's next for Wal-Mart on the international front? Western Europe remains a focus area, despite the experience in Germany, with Spain, France and Italy highlighted as high-potential countries.² Highly concentrated retail markets, Spain and France may pose similar challenges to Germany, but the relatively fragmented Italian retail industry may offer greater potential.

*Note: Wholly-owned operations in Argentina, Brazil, Canada, Puerto-Rico and UK; joint venture in China; majority-owned subsidiaries in Central America, Japan & Mexico

1. Associated Press, 4/20/07
2. IGD



Source: Wal-Mart 10K

Given slow growth in CPG products across Western Europe, success in these markets will largely be determined by success in durable goods, such as electronics and apparel; thus, Wal-Mart will likely place a strong focus on these departments, rather than CPG.

Further, Wal-Mart's success in the Mexican market, where profits rose 26% and revenue 16% may well drive further expansion in other emerging markets, such as Eastern Europe, China, and India, where economies are growing, retail concentration is low, and low prices have strong consumer appeal. In fact, in November 2006, Wal-Mart signed an agreement with Bharti Enterprises to "explore retail opportunities" in India.



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WAL-MART STRATEGIC INITIATIVES INTERNATIONAL SPOTLIGHT: U.K. MARKET

FY 2007 was a “turnaround year” for Asda; the company is now fiercely protecting a hard-won number-two spot.

Representing 37% of international segment sales, the U.K. market is a cornerstone of Wal-Mart’s foreign market strategy.

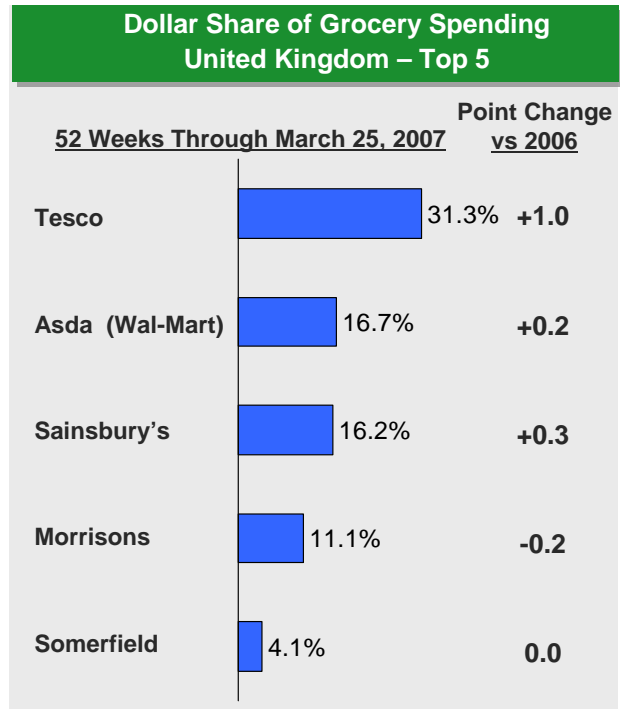
Fiscal year 2007 was a “turnaround year” for Asda, Wal-Mart’s U.K. unit, with sales rising in the mid single digits – the highest growth in two years, on favorable trends in both household penetration and consumer traffic. The result was a modest share gain in a highly competitive market that is led by Tesco, a company known as much for low pricing as for innovation and premium products.

Three key factors appear to have contributed to enhanced performance: 1) greater traction within the middle and upper-income segments through organics and premium private label; 2) success of the George clothing line and 3) poor performance among smaller competitors, including Morrisons.

Whether or not this momentum is sustainable is a question up for debate. A major vulnerability for Asda is the fact that while key competitors, such as Tesco operate multiple formats to address the full range of consumer shopping needs, Asda is essentially a single format player – the superstore/ supermarket. The company has recognized this gap and has included format expansion as a key tenet of their “Formula for Change” strategy.¹

According to Europanel, Asda reached more consumers this past year with a penetration increase of 2.2 points and grew trip frequency 6%.

1. IGD
2. The Sunday Times, 5/13/07
3. UK Business Park, 2/22/07



Source: TNS

Going forward, expect Asda to place increased emphasis on moderately-priced organics and fresh foods and to continue to introduce niche lines, such as their Great Stuff line of healthy products targeting 2 to 9 year old children. (U.S. marketers should also keep their eye on this line, which clearly has the potential to be extended to the U.S., given growing parental demand for healthy, convenient choices for kids.)

In addition, the company has announced plans to cut prices on 2,500 items.²

Store expansion and remodeling will also continue to be a driver of growth, with 18 new stores and 15 remodels planned within the next year.³

Asda is pulling out the stops to protect their number-two market position.



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WAL-MART STRATEGIC INITIATIVES HEALTHCARE

Discounted generics drive store traffic, and with it incremental growth potential across the store.

Recognizing the power of healthcare solutions in driving store traffic and sales, Wal-Mart has invested heavily in healthcare marketing, merchandising and services to transform stores into healthcare destinations.

Wal-Mart kicked off the largest pharmacy marketing effort in company history and reconfigured the pharmacy in many stores to provide easier access to the pharmacist. In addition, Wal-Mart has a number of specific healthcare initiatives in place:

- Discounted Generic Drugs
- Continued Medicare Part D Outreach
- Rapid Expansion of In-store Health Clinics

Discounted Generic Drugs

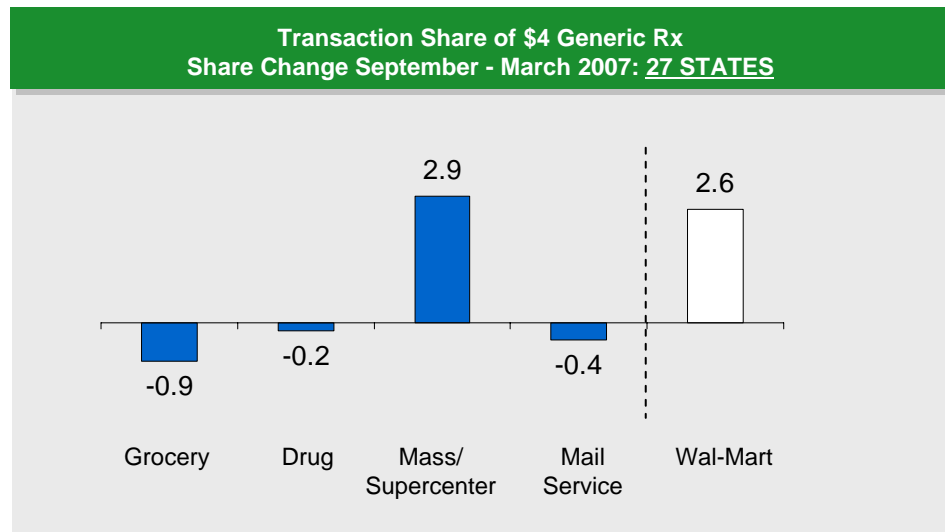
After pilot testing \$4 generic drugs in Florida in September 2006, the consumer response was so favorable

that the company began a rapid rollout, expanding to 27 states by year-end. Today, Wal-Mart now offers \$4 prescriptions on 331 generics nationwide. This offering has strong appeal to the 46 million uninsured individuals in the U.S. – many of whom are among Wal-Mart’s core, lower-income consumers.

As highlighted in the chart below, Wal-Mart has secured sizable growth in generic drug prescription transaction share, and growth in pharmacy visits offer growth potential throughout the store. Manufacturers with brands targeting either lower-income consumers or sufferers of ailments treated with these generics have an opportunity to explore cross-marketing and cross-merchandising with the pharmacy.

“Our program provides immediate relief to those who can’t afford their medication, who are neglecting their health and even some who have to choose between putting food on the table and buying their prescription.”

- Hank Mullany, President, Wal-Mart Northeast Division



Source: IRI RxPulse™



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WAL-MART STRATEGIC INITIATIVES HEALTHCARE (CONT'D)

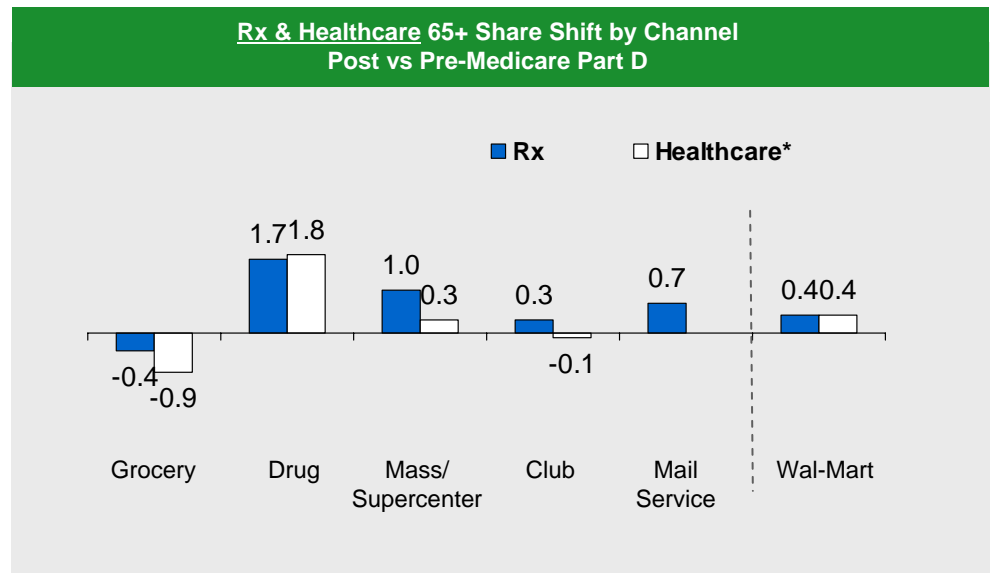
Products offering disease management benefits for chronic senior health conditions have enhanced growth potential through Med D marketing tie-ins.

Medicare Part D Outreach

A sustained, comprehensive outreach program to educate seniors regarding their prescription insurance options under Medicare Part D and drive awareness of Wal-Mart's acceptance of insurance plans has paid off with share gains in Rx transactions that have also translated to gains in share of senior "front-end" healthcare spending. (See chart below.)

However, the full potential of these senior outreach initiatives has not yet been reached. Manufacturers of products targeting seniors – in particular those with disease management

benefits for chronic senior conditions, such as diabetes and heart disease, have a sizable opportunity to tie in to Med D marketing through coupons distributed along with prescriptions, feature ads included in Med D materials sent to seniors, and secondary displays near the pharmacy in stores with a high mix of seniors.



Source: IRI RxPulse™; Calendar Year 2006 vs 2005

*Note: "Healthcare" = OTC medications and other non-prescription healthcare items.



WAL-MART STRATEGIC INITIATIVES HEALTHCARE (CONT'D)

Wal-Mart's rapid expansion of in-store health clinics will drive store traffic and offer new customer interaction opportunities.

In-Store Health Clinics

Wal-Mart has announced plans to dramatically increase the number of health clinics available in their stores – adding as many as 400 over the next two to three years and up to 2,000 within the next five to seven years.¹

As reported in the April 2007 *Times & Trends*, a number of leading retailers are rapidly expanding in-store clinic availability as consumer demand swells and satisfaction levels remain exceptionally high.

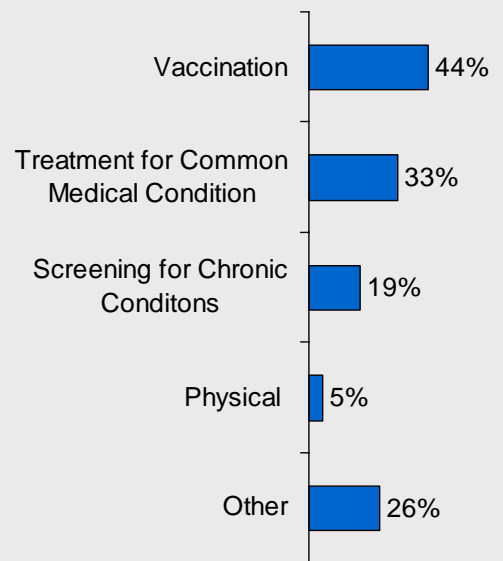
While the clinics are part of an overall Wal-Mart strategy to “help implement customer solutions to America’s health care crisis”, they will also be good for business, and offer new customer interaction opportunities to drive brand and category sales.

Both prescription and other healthcare sales are poised for growth, as the vast majority of consumers receiving a prescription fill it immediately within the retail pharmacy, and over one-third purchase OTC remedies.²

Further, as most clinics screen for chronic conditions such as diabetes, heart disease and high blood pressure that require specific diets, food and beverages with disease management properties will likely benefit not only by the presence of consumers with these ailments in the store but also by implementing targeted promotions linking in with the clinics.

As the number of retail health clinics expands throughout the industry, IRI will be tracking impact on consumer shopping and purchase patterns.

Types of Medical Services Received at an In-Store Clinic: % of Consumers



Source: Harris Interactive

“We think the clinics will be a great opportunity for our business. But most importantly, they are going to provide something our customers and communities desperately need – affordable access at the local level to quality health care.”

– Wal-Mart President & CEO Lee Scott

1. Wal-Mart Press Release
2. Drug Store News, Fall 2006



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WAL-MART STRATEGIC INITIATIVES CUSTOMER RELEVANCE

Wal-Mart will strive to make the shopping experience and assortments more relevant to multiple consumer segments.

Wal-Mart's core shoppers – predominantly lower-income consumers – continue to be the bread and butter of Wal-Mart's consumer packaged goods business. The top one-third of Wal-Mart's shoppers comprise 80% of CPG sales, and that percentage has not wavered for the past five years.

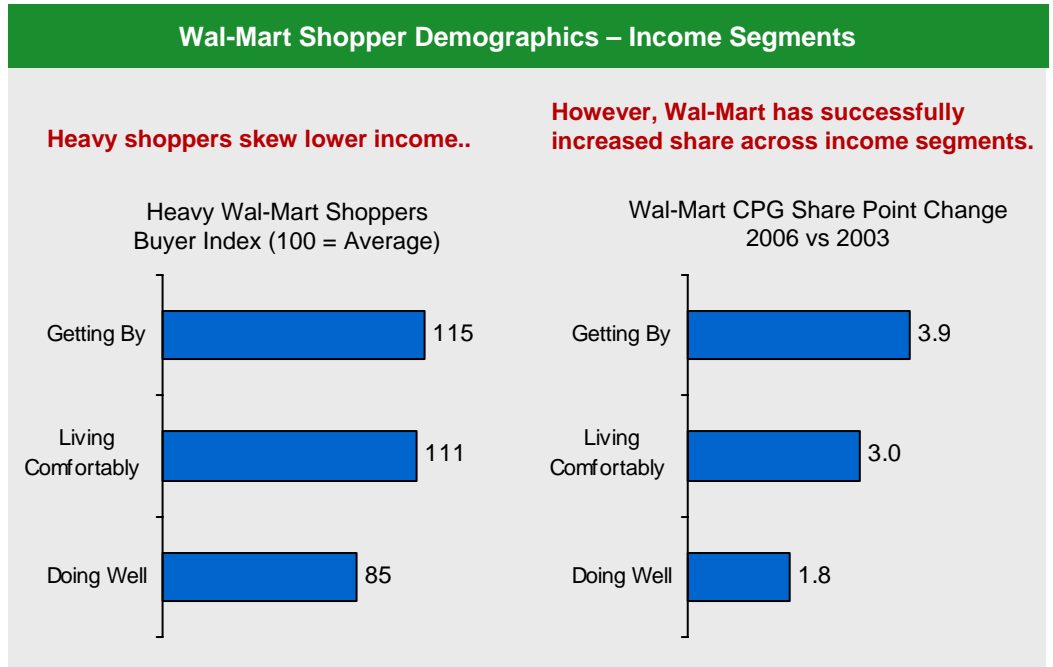
It is important to note that Wal-Mart has successfully gained share across income segments over the past few years; however, the smallest gains have occurred among upper-income consumers.

To reduce dependence on core shoppers and tap into new sources of growth, Wal-Mart implemented an aggressive strategy last year to court middle and upper-income consumers through a range of initiatives, including the expansion of the Metro 7 fashion line and a broader selection of organics. In CEO Lee Scott's words, however, the company "moved too far, too fast."¹

Despite the recent setbacks, Wal-Mart is not abandoning efforts to move beyond pure price and increase relevance among consumers outside of their core segment through assortment aligned with target segment needs and preferences. As a result, assortment will vary by store depending upon the consumer mix within the market. And, stores will carry more locally-produced items. The move to "stores of the community" will likely be a gradual, not radical process.

Income Segment Definition

- Getting By
- One member households, income up to \$19.9K
 - Two or more member households, income up to \$34.9K
- Living Comfortably
- One member households, income \$20K - \$34.9K
 - Two or more member households, income \$35K - \$54.9K
- Doing Well
- One member households, income \$35K+
 - Two or more member households, income \$55K+



1. New York Times, 3/2/07

Source: IRI Consumer Network™



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WAL-MART STRATEGIC INITIATIVES

CUSTOMER RELEVANCE: MIDDLE AND UPPER-INCOME

CPG categories that are under-developed among middle and upper-income consumers at Wal-Mart are ripe for change.

As Wal-Mart implements programs to enhance customer relevance among middle and upper-income consumers, we will likely see changes in assortment and merchandising among CPG categories that are currently under-developed within these consumer segments at Wal-Mart. (See top chart for major category examples.)

Rollback pricing, feature ads, and innovative displays are all potential tools to further develop these categories within the target segments. Brands carried will also likely be evaluated.

Categories that are particularly well-developed at Wal-Mart among middle and upper-income shoppers are listed in the bottom chart. These categories are major draws for these consumers at Wal-Mart and have the potential to serve as anchors for targeted marketing and merchandising initiatives.

Manufacturers with brands in either of these two groups have strong potential upside through participation and partnership in Wal-Mart's customer relevance initiative.

On the flip side, both the under-developed and well-developed categories should be key considerations in competitive strategies vis-à-vis Wal-Mart, as they are likely to play a prominent role in efforts to grow business outside of the core consumer segment.

Middle & Upper Income Category Development Opportunities

Wal-Mart Dollar Share Index* Middle & Upper Income Segments		
Category	Living Comfortably	Doing Well
Rfg Salad/Coleslaw	76	50
Ice Cream/Sherbet	68	54
Beer	67	55
Paper Towels	81	59
Sports Drinks	82	61
Snack/Granola Bars	84	62
Facial Tissue	80	65
Vitamins	95	66
Chocolate Candy	85	67
Salad Dressing	92	69

Source: IRI Consumer Network™
Note: Income Segment Definitions on Page 18

Middle & Upper Income Category Anchors

Wal-Mart Dollar Share Index* Middle & Upper Income Segments		
Category	Living Comfortably	Doing Well
Tights/Socks	171	135
Pet Supplies	154	128
Eye/Contact Lens Care	148	120
Eye Cosmetics	162	109
Blades	141	109
Facial Cosmetics	129	108
Air Fresheners	118	108
Deodorant	140	105
Hair Color	123	104
Skin Care	126	102

Source: IRI Consumer Network™

*Dollar Share Index Definition

Wal-Mart Dollar Share within Segment / Wal-Mart Average Dollar Share for Total Panel (Total Food or Non-Food as Appropriate); 100 = Average



WAL-MART STRATEGIC INITIATIVES SUSTAINABILITY

Wal-Mart's sustainability initiatives will have far-reaching impact throughout the CPG industry.

Wal-Mart's leadership role in promoting sustainability among associates, competitors, suppliers and consumers will profoundly impact not only the environment and consumers' lives, but also packaging, distribution, new product development and merchandising throughout the CPG industry.

The company has set ambitious goals for its own business, including converting to 100% renewable energy, creating zero waste and selling products that sustain our resources and the environment.¹ And, Wal-Mart intends to sell 100 million compact fluorescent light bulbs by year end.

Wal-Mart's U.K. unit, Asda, provides several best practices, with initiatives in place to reduce packaging on food by 25% and sell more energy-efficient light bulbs than standard light bulbs by 2008.

Wal-Mart is also holding suppliers accountable. Beginning in 2008, Wal-Mart buyers will take "packaging scorecards" that rate vendors on a variety of sustainable packaging measures, into account when making purchase decisions.

As a result, packaging will likely be the first area where impact will be evident. We are already seeing smaller package sizes embraced by Wal-Mart.

The concentrated All Small & Mighty laundry detergent, for instance, received Volume-Producing Item status at Wal-Mart (meaning that Wal-Mart heavily promoted it.)²

While many manufacturer eco-friendly initiatives were undertaken independently of Wal-Mart's sustainability plan, Wal-Mart's efforts will certainly encourage more focus and faster implementation across the industry.

And, packaging changes will bring merchandising changes. As smaller packages take up less room on shelves, retailers will eventually need to evaluate whether to add additional SKUs, more facings of existing products or simply reduce shelving and clutter.

A growing consumer awareness of environmental issues through Wal-Mart's efforts as well as expanded press coverage on the topic will drive increased demand for environmentally-friendly products, as well as packaging. While "green" cleaning products represent only 1% of the total market, for instance, sales jumped 52% last year.

Green benefits may not be the primary driver of purchases for the masses within the next few years, but they may well result in brand selection when other factors are equal.

"Wal-Mart's merchandise should be both affordable and sustainable so working families don't have to make a choice."

– Wal-Mart Annual Report

1. Wal-Mart Website
2. Fortune, 8/7/06



CONCLUSIONS CPG MANUFACTURERS

Manufacturers seeking to capture incremental growth within Wal-Mart should explore opportunities to tap into Wal-Mart's key strategic initiatives:

- ▶ International Expansion
 - Brands with an established presence in select Western European markets (Italy, Spain, France) as well as emerging markets (China, India, Eastern Europe) should explore distribution opportunities with Wal-Mart
 - Within the U.K. market, organic brands, fresh foods, innovative new products and products targeting key Asda growth segments (eg. kids, middle & upper-income) should assess increased distribution potential within Asda

- ▶ Healthcare
 - Healthcare and food and beverage manufacturers of products with disease management benefits for chronic conditions, such as diabetes, heart disease and high cholesterol should evaluate potential cross-marketing and merchandising opportunities tied to discount generics, Medicare Part D marketing to seniors and health clinic screenings
 - There is incremental opportunity for OTC solutions for minor, acute medical conditions such as colds and store throats through promotions and displays linked to the health clinics

- ▶ Consumer Relevance
 - Brands in categories that are under-developed within Wal-Mart among middle and upper-income markets (eg. ice cream, paper towels) should explore category development opportunities
 - Brands in categories that are highly developed within Wal-Mart among middle and upper-income markets (eg. pet supplies, eye cosmetics) have an opportunity to serve as anchor brands in targeted marketing and merchandising initiatives
 - Locally-produced products should explore distribution opportunities within local Wal-Mart stores

- ▶ Sustainability
 - Most brands carried within Wal-Mart will likely be exploring new package designs that reduce the amount of packaging used and are re-usable or recyclable
 - "Green" products should investigate potential increased distribution opportunities within Wal-Mart



CONCLUSIONS

RETAILERS

CPG retailers should consider the following action items within competitive strategies with respect to Wal-Mart strategic initiatives:

- ▶ International Expansion
 - In the U.K. market, retailers should have a plan in place to address recently announced price decreases at Asda, increased competition from Asda in organics and fresh foods, and potential new formats
 - Retailers in Spain, Italy and France should closely monitor potential Wal-Mart acquisitions and have a plan in place to address increased price competition that will follow with Wal-Mart's entrance
 - As major retailers explore entering developing markets, including China, India and Eastern Europe, Wal-Mart's potential development within these markets and potential impact on shopping patterns and consumer expectations should be factors under consideration

- ▶ Healthcare
 - Healthcare marketing strategies will become an imperative for retailers competing head-to-head with Wal-Mart
 - Retailers should closely track share changes across Rx and healthcare categories as Wal-Mart programs continue to gain traction

- ▶ Consumer Relevance
 - Consider targeted promotions in CPG categories that are currently under-developed at Wal-Mart among middle and upper-income shoppers (eg. ice cream, paper towels), as these categories are likely to be major focus areas as Wal-Mart builds business across these consumer segments
 - Identify opportunities to enhance consumer relevance within your stores through localized assortment

- ▶ Sustainability
 - Develop a comprehensive sustainability plan, including company policies and goals with respect to energy usage, products and packaging
 - Anticipate changes in merchandising requirements and opportunities as new, smaller packages replace existing packages across categories and new "green" products are available
 - Leverage sustainability as a marketing platform to drive awareness of company position, appeal to eco-conscious consumers and educate the public



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RESOURCES

To gain insight into opportunities and risks related to Wal-Mart growth trends and strategic initiatives, contact your IRI client service representative regarding custom analyses leveraging the following resources:

- | | |
|------------------------------|--|
| 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 RxPulse™ | Integrated longitudinal Rx and OTC panel of over 34,000 individual patient/consumers in over 15,000 households providing perspectives on demographics, lifestyles and ailments. The service provides a means to monitor total Rx & OTC drug usage on an ongoing basis across key segments. |
| 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. |

IRI MarketInsight™ Dataset

If you are interested in purchasing the IRI MarketInsight™ dataset utilized in this study, please contact your IRI customer service representative. Alternatively, you can contact an IRI representative by calling call 1-866-ANALYSE (option #1) or via email at customerinteraction.center@infores.com.



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MORE INFORMATION

Please contact Sheila McCusker at sheila.mccusker@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://www.infores.com>.



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