The Baby Boomer II Report:
Preparing for the Upcoming Wave of Aging Shopper Growth

Executive Overview

July 2009

Breakthrough Insights.
Breakthrough Results.

Baby Boomer II Report
Topline Overview

At about 78 million people, Baby Boomers represent one of the largest demographics in the U.S. and represent half of total U.S. spending power (FMI). However, they are <u>not a homogeneous group</u> and only micro-segmentation will enable CPG retailers and manufacturers to take advantage of this <u>$50 billion opportunity</u> over the next decade.

<u>Benefits:</u>

» Benchmarks to measure **age-driven spending trends** across retail channels and a 39 food, beverage, and nonfoods categories.

» Shopper insights based on an extensive online survey to benchmark **aging shopper lifestyles and attitudes** - uncovering new opportunities in serving these shoppers.

» **Best-in-class case examples** describing what successful retailers and manufacturers are doing to profitable serve aging shoppers.

» Insights needed to guide the development of **innovative private label products**.

Case Example – Whole Foods

Whole Foods' Promotion of "365" Private Label

Strategy

Since it began its expansion in the 1980s, Whole Foods has evolved into the largest natural foods store in the U.S. While the retailer has earned a loyal group of shoppers through its commitment to organic and natural products, it also has a reputation for higher prices which has impacted its sales performance during the current recession.

As part of its strategy to improve its price reputation with budget-constrained shoppers of all ages, Whole Foods has expanded its promotion of two store brands – 365 Everyday Value and 365 Organic Everyday Value.

Whole Foods aggressively promotes its 365 brand across categories that appeal to aging shoppers including dietary supplements.

Tactics

Whole Foods is using several tactics to promote its 365 brands – often with a focus on aging shoppers:

- aggressively promotes and displays 365 products in age-driven categories and segments including high fiber breakfast cereal, adult skin care, vitamins, and dietary supplements (see photo at right).
- positions the 365 Everyday Value brand as natural, low-cost alternative to staple products in high household penetration categories including dairy products, frozen dinners, and canned vegetables.
- effectively promotes both brands through outdoor and in-store signage to communicate its message: "Our Best Prices on You Favorite Products 365 Days a Year."

Report Mythbusters

This report disposes many conventional views on aging shoppers in the U.S.

Conventional View

1. Aging consumers are a diminishing economic opportunity for both CPG retailers and manufacturers…**FALSE**.
2. Shoppers over 50 years of age have similar shopping tendencies across retail channels and categories…**FALSE**.
3. During the current recession, higher income baby boomers have been a key reason that the CPG industry remains strong…**FALSE**.
4. As shoppers age, the become more resistant to change – staying loyal to their favorite national brands and less likely to try a private label…**FALSE**.

What the Data Tells Us

1. In the next decade, American baby boomers will drive an estimated **$50 billion** in incremental CPG growth, representing major growth opportunities.
2. Micro-segmenting uncovers huge disparities in spending patterns. Category spending indices can swing **50+ points** across aging segments.
3. In the past year, household budget-constraints have led to increased at-home meal preparation and CPG spending – a trend that is largely led by **lower income baby boomers**.
4. Based on the 2009 survey results, propensity to switch from a favorite brand to a private label is strong for all aging groups. Further, **private label share of spending often increases** with age, although many variations exist across categories.

Conclusion

Much of what retailers and manufacturers believe to be true about aging shoppers, their lifestyles, their attitudes, and their spending is **WRONG.**

Study Objectives

A primary objective of this study is to develop a category-focused, actionable analysis that incorporates current viewpoints from aging consumer segments as well as a detailed analysis of key opportunities in private label and health & wellness.

Pain Point Area	Study Objectives
Need Insights to Drive Category Assortment	**Objective 1:** Identify the top-indexing Baby Boomer-driven food, beverage, and nonfoods categories across the center store and illustrate which are growing, which are declining, and why.
Lack Channel-Level Metrics on Aging Shoppers	**Objective 2:** Highlight the recession-period channel shifting patterns of aging shoppers to determine which channels are winning, which are losing, and lend insights as to why cross-channel shifts are occurring.
Want to Gain an Age-Focused Perspective on Private Label	**Objective 3:** Study the private label purchase patterns of aging shopper segments across categories to understand where retailers are excelling today and where they have opportunities to improve.
Need Age-Driven Health & Wellness Attitudinal Insights	**Objective 4:** Provide retailers and manufacturers with new attitudinal insights on which food & beverage categories and better-for-you attributes are most important to each aging shopper segment.

Scope and Approach

IRI conducted primary and secondary research to achieve the study objectives and to offer actionable new insights to retailers and manufacturers.

Consumer Network® Data

Purpose: *Provide trend-based insights into aging shopper household purchase patterns across CPG channels and categories.*

Approach: Utilized consumer panel data to segment and analyze channel and category performance data based on household age groups. Analyzed private label shopping patterns across aging shopper micro-segments.

Consumer Research

Purpose: *Understand current consumer attitudes towards the economy, health & wellness, private label, grocery shopping, etc.*

Approach: Conducted an online survey* of over 1,500 IRI panelists to collect:

- Current consumer attitudes on the recession impact.
- Store/category purchase drivers.
- Perception of private label.
- Dynamics around health & wellness.

Case Examples

Purpose: *Illustrate in a concise and compelling way what best-in-class retailers and are doing to excel in serving aging shopper households.*

Approach: Developed case examples on:

- CVS
- Aldi
- Whole Foods
- Emerald Nuts
- Quaker Oats
- Dannon

Secondary Research

Purpose*:* *Develop a well-rounded understanding of the marketplace and key factors impacting aging shopper households.*

Approach: Conducted research using:

- Trade publications
- Census Bureau
- Internet sources

Secondary research was also conducted to support the development of the shopper survey and the case examples.

Baby Boomer II Report:
Sample Slides

Aging Shoppers
Household Profiles

Today, Kennedy Boomers, Truman Boomers, and FDRs each maintain very unique households that shape the needs, attitudes, and spending of each group.

Household Data	Segment Household Profiles - 2009		
	Kennedy	Truman	FDRs
Age of household head	44-52	53-62	63-72
% with kids at home	39%	11%	4%
% who are married	65%	64%	69%
% who own their home	79%	81%	84%
HH income over $45K	64%	57%	40%
% own a cat or dog	65%	59%	50%
% retired	8%	29%	72%

Conclusions

Aging Americans cannot be viewed as homogeneous group or as a single type of shopper. To win more than their fair share of aging shopper spending, progressive retailers and manufacturers will need multiple, tailored strategies for each unique segment.

Aging Shoppers

Key Lifestyle Challenges

Several key facts illustrate some of the challenges and lifestyle changes facing aging shoppers today.

Personal Wealth

- From a peak of $65 trillion in late 2007, total U.S. household net worth slipped $15 trillion to $50 trillion by April 2009. Over one-third of that loss of personal wealth is represented by the baby boomer generation.
- The median household with a person between the ages of 55 and 64 saw its wealth fall by almost 50 percent from $315,400 in 2004 to $159,800 in 2009.
- If stocks begin to gain 5% annually on average beginning in 2009, it will take a full decade for baby boomer retirement funds to recover their recent losses.

Health Issues

- Over 60% of adults ages 50 to 64 have been diagnosed with at least one chronic health condition, such as arthritis, cancer, diabetes, heart disease, high cholesterol, or high blood pressure.
- The number of obese Americans 55-64 has jumped from 31% to 39% since 1994. Widespread obesity among boomers, combined with lack of exercise, could lead to an epidemic of diabetes, which dramatically accelerates aging and leads to a host of chronic diseases.

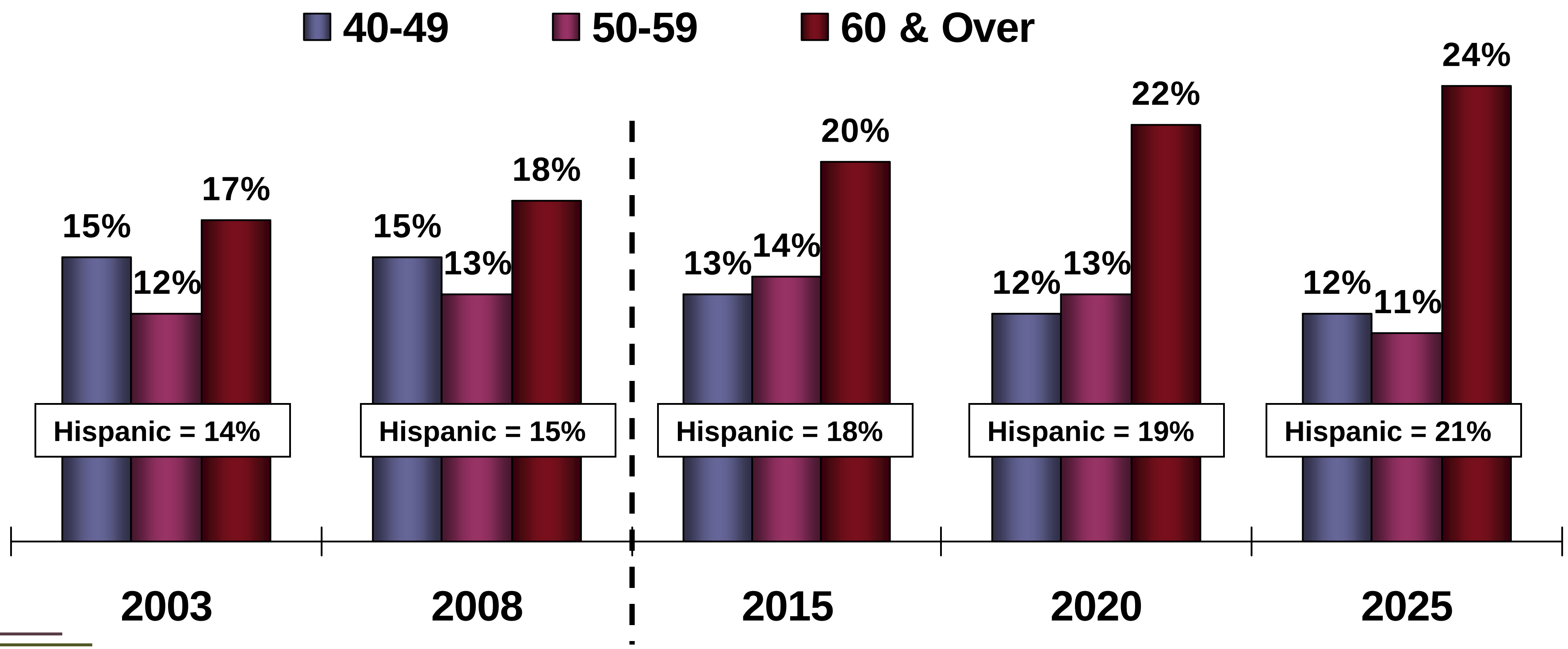
Empty Nesting

- Of the approximately 11 million baby boomer households with kids at home in 2009, 44% will become empty nesters in the next five years.
- Disposable income increases considerably for 67 percent of baby boomers after they become "Empty Nesters"; 60 percent plan to save the new-found wealth.
- Over one-third of baby boomers plan to move to a new home within five years when they become empty nesters.

Aging Shoppers
Shifting Demographics

By 2025, nearly one-in-four American consumers will be over 60 years old, outpacing both the size and growth rate of the U.S. Hispanic population.

Percent of U.S. Population by Age Group
(Actual vs. Future Projections)



Source: Population Division, U.S. Census Bureau

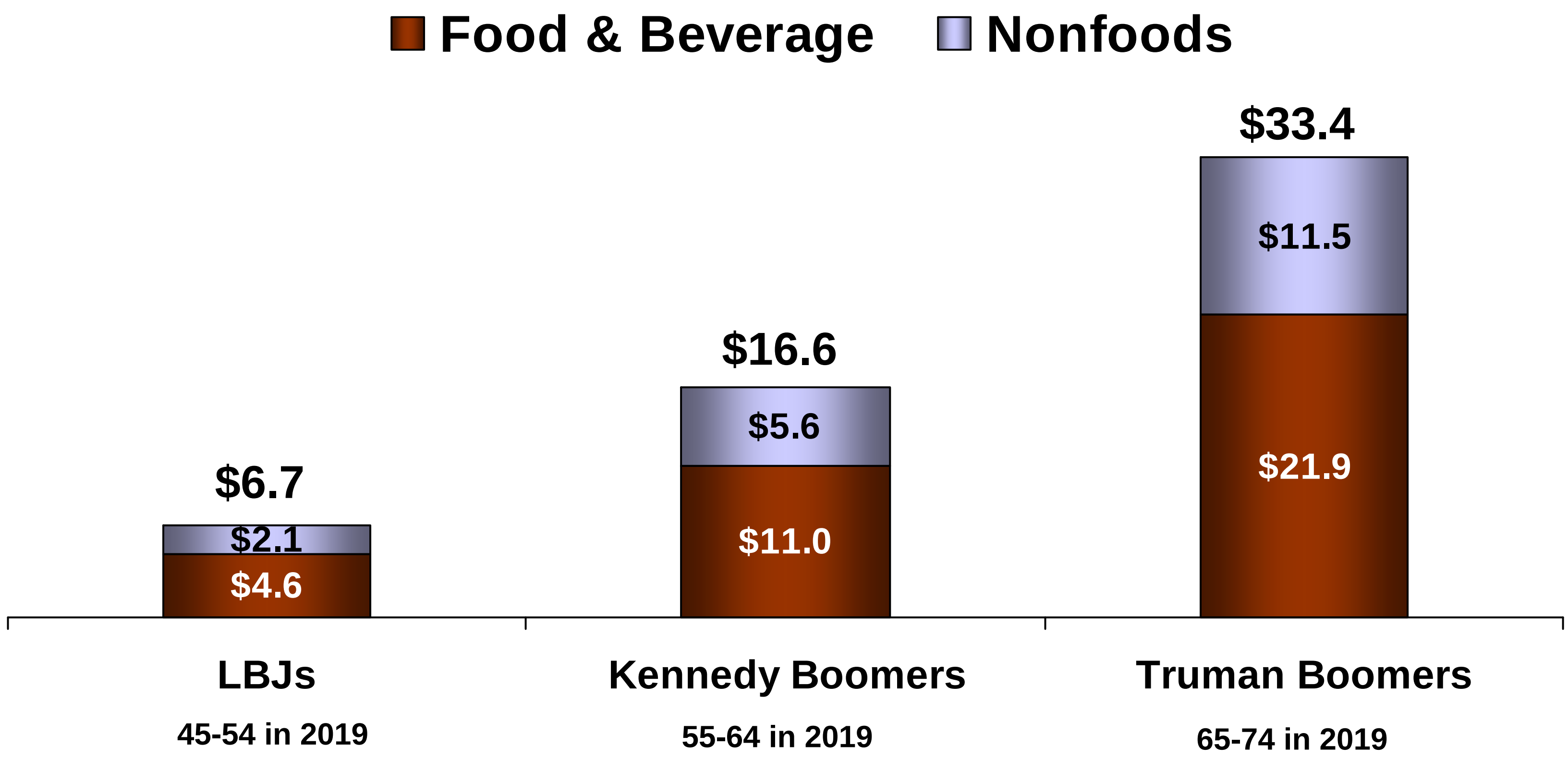
Aging Shoppers

Spending Trends

Over the next decade, an estimated $50 Billion of CPG spending growth will be driven by Kennedy and Truman Boomers.

Age-Driven CPG Spending Growth Projections

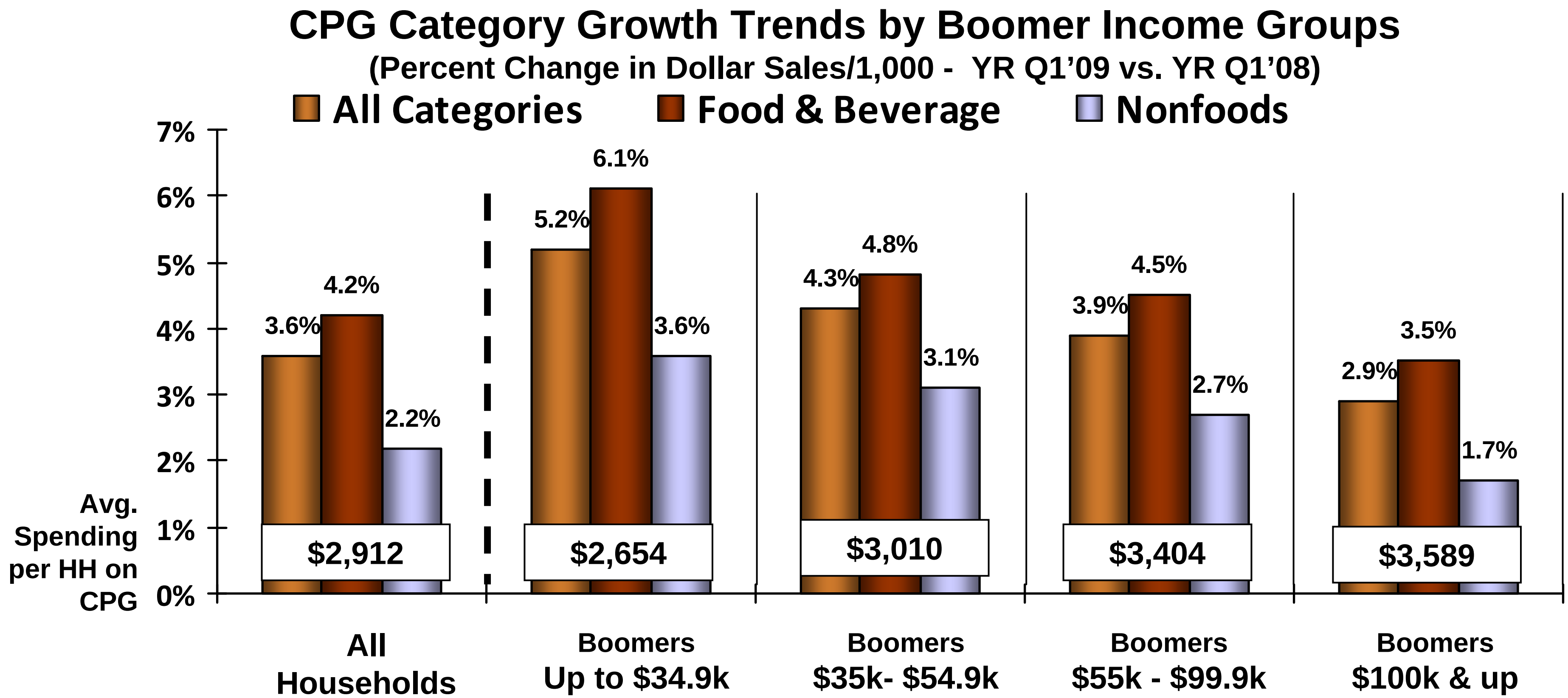
(Spending Growth By Age Group – 2019 vs. 2009 - In Billions)



Note: All Channels - Based on Shopper Scanned Purchases in YR ending Q1 2009, Projected based on Census Population projections and Bureau of Labor Statistics projected inflation to 2019.

Aging Shoppers
Spending Trends

Increased economic pressure in the past year has led to into increased at-home meal preparation and CPG spending – a trend that is largely led by lower income baby boomers.



Looking at key segments within Boomers illustrates the need for retailers and manufacturers to think differently about Boomer spending and also highlights the risks associated with maintaining a homogeneous view of aging shoppers.

Aging Shoppers

Food Category Insights

The source of major food category opportunities (and risks) can be uncovered after understanding the age-driven shifts in category spending.

Food Categories	Category Size (MM)	Spending Indices vs. Total Households				Difference
		LBJs	Kennedy Boomers	Truman Boomers	FDRs	FDRs vs. Truman
Snack Nuts/Seeds/Corn Nuts	$2,190.6	78	107	126	135	9
Breakfast Meats	$2,830.7	102	111	107	111	4
Ice Cream/Sherbet	$3,710.0	94	107	111	113	2
Crackers	$4,054.2	109	108	98	99	1
Soup	$4,303.9	99	105	104	104	0
Cookies	$3,797.7	103	109	103	103	(1)
Yogurt	$4,047.9	114	105	93	89	(4)
Chocolate Candy	$5,025.5	90	112	117	112	(5)
Frozen Novelties	$2,124.6	97	112	111	104	(7)
Cold Cereal	$7,318.6	121	108	87	80	(7)
Natural Cheese	$7,371.1	117	113	95	83	(12)
Frozen Dinners/Entrees	$7,844.5	106	113	102	86	(16)
Salty Snacks	$7,809.3	117	121	102	83	(19)
Frozen Pizza	$3,014.8	128	119	86	64	(22)
Gum	$875.3	129	129	100	74	(26)
Total Food	$159,426.4	109	110	100	93	(7)

Because aging shoppers clearly do not spend as a homogeneous group, retailers and manufacturers need to develop clear, targeted marketing initiatives designed to take full advantage of future spending but also to maintain sales volume in categories that show age-driven consumption declines.

Aging Shoppers
Beverage Category Insights

Looking at aging shopper consumption across the major beverage categories, it's clear that as shoppers age into their 60s, they prefer non-carbonated drinks which causes them to make some key trade-offs – consuming less beer but more wine and spirits, consuming fewer carbonated soft drinks but more coffee.

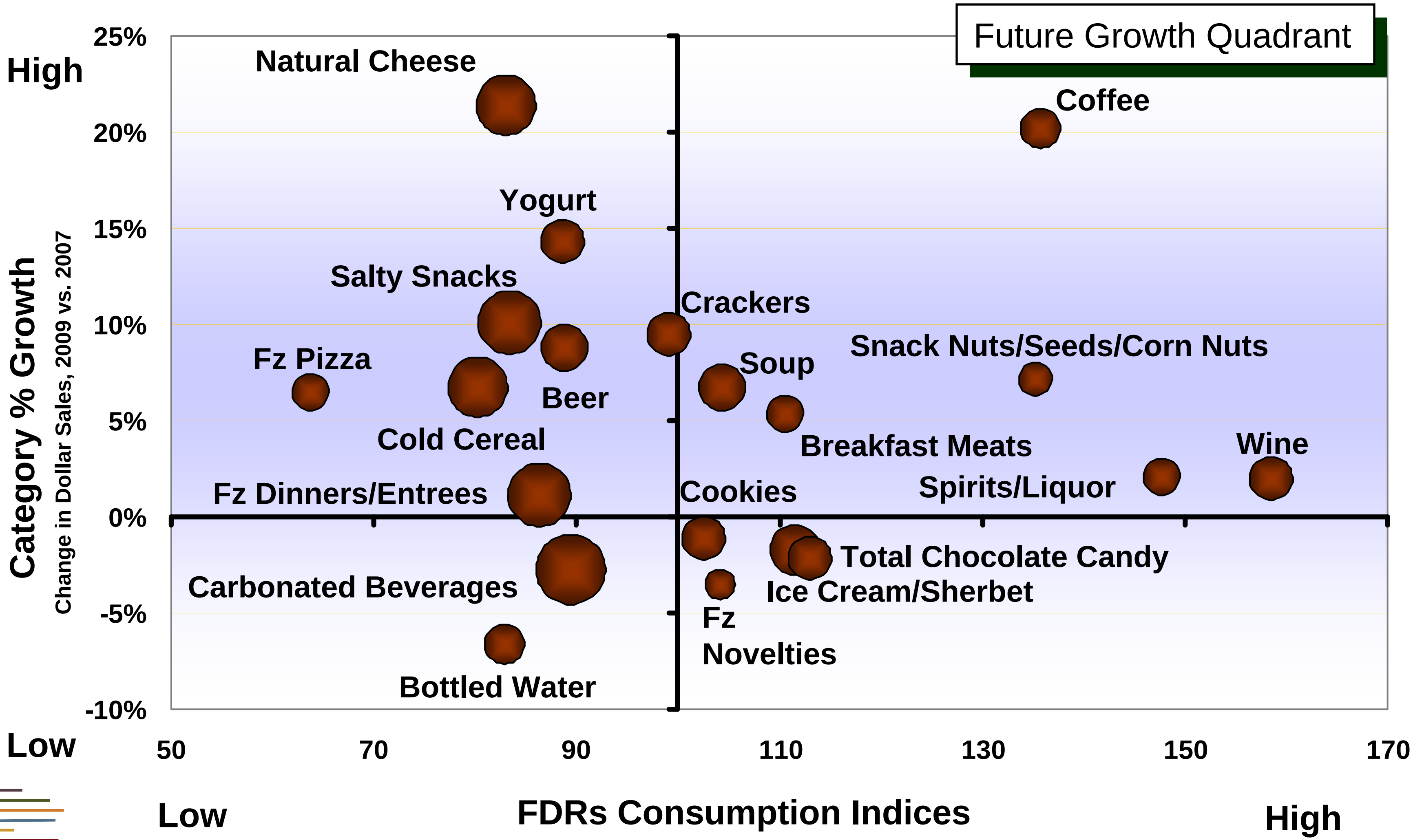
Beverage Categories	Category Size (MM)	Spending Indices vs. Total Households				Difference
		LBJs	Kennedy Boomers	Truman Boomers	FDRs	FDRs vs. Truman
Wine	$3,794.6	77	104	117	159	42
Spirits/Liquor	$2,949.6	69	110	118	148	30
Coffee	$3,408.2	78	107	126	136	9
Bottled Water	$3,330.8	117	127	107	83	(24)
Carbonated Beverages	$10,145.0	104	119	116	90	(27)
Beer/Ale/Alcoholic Cider	$4,203.8	92	136	123	89	(34)
Total Beverages	$51,186.2	103	115	107	100	(7)

Implications

Over the next decade as the "Over 60" demographic continues to grow, retailers need to be ready to proactively adjust their beverage aisle space allocation and category assortments to more effectively serve aging shoppers and win more than their fair share of future spending from these groups.

Food & Beverage Categories
Future Growth Opportunities

High food and beverage consumption indices for FDRs as well as recent total category growth highlight where retailers have major opportunities ahead.



Note: Index = dollars per 1000 households for age segment/dollars per 1000 households for total panel; 100 = average. Size of bubbles indicate category size in 2009 sales across all channels. Source: IRI Consumer Network®, 52 weeks ending March 29, 2009.

Baby Boomer II Report:

Sample Slides – Private Label / Shopper Attitudes

Breakthrough Insights.
Breakthrough Results.

Private Label and Aging Shoppers

Summary

What We've Learned

- The perception of private label quality and propensity to buy private label products - especially in food categories - grow stronger as shoppers age into their 50s and 60s.
- For both older and younger shopper segments, a strong, trusting relationship with the retailer is a prerequisite for a successful private label program.
- In many nonfoods categories including OTC, propensity to buy private label declines with age.
- Despite recent private label gains in food / beverages, PL shares often vary broadly between younger age segments and older age segments.

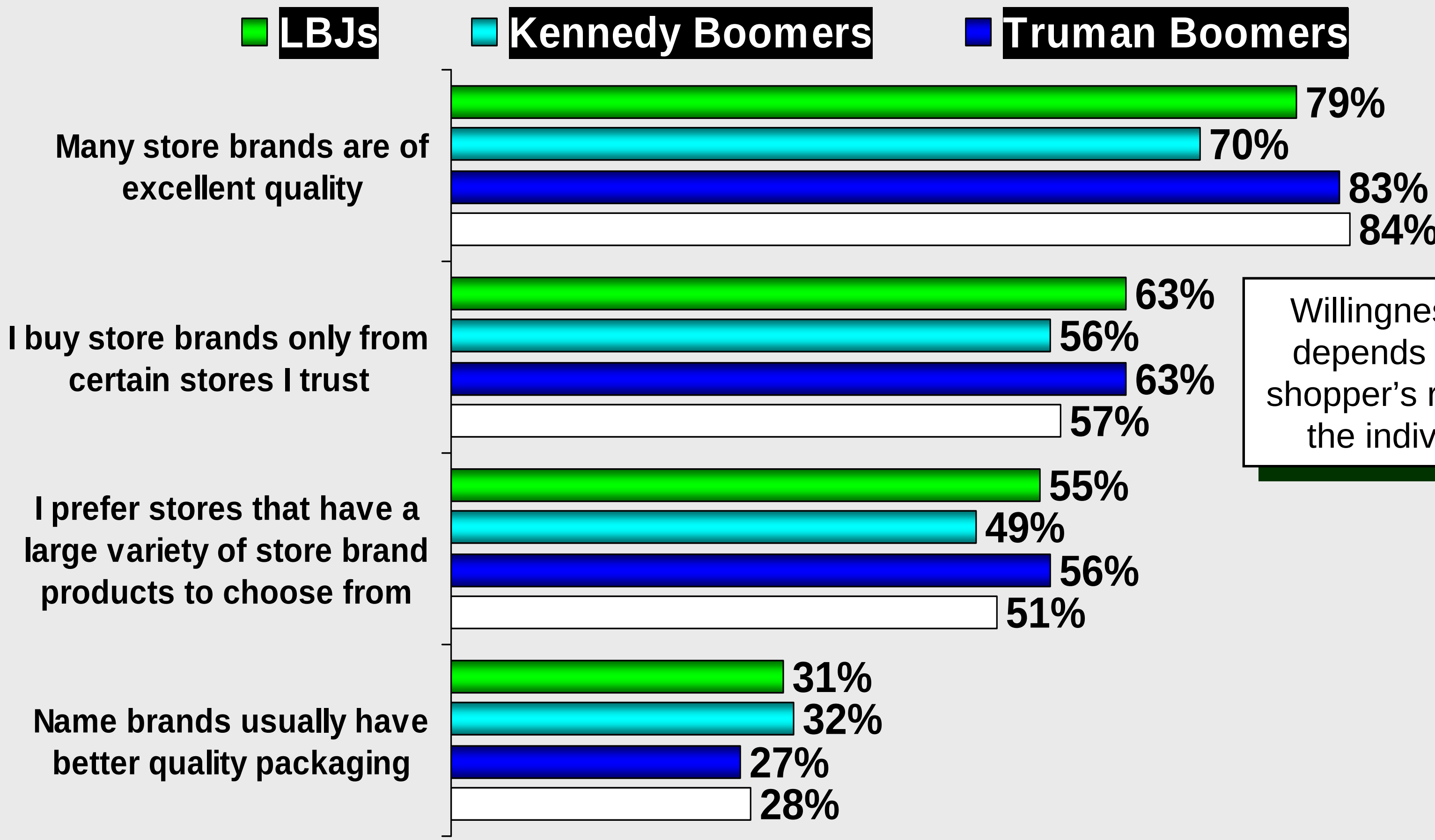
What it Means / Opportunities

- Even during and after the current economic recovery, private label growth can be expected to continue well into the next decade as Baby Boomers enter their 50s and 60s.
- Retailers with strong ties to the community and to their core shoppers have enormous upside potential in private label initiatives focused on trial and repeat across CPG categories.
- Many branded OTC and personal care manufacturers still have key advantages in the strong trust-based relationship between their brands and aging shoppers.
- Retailers can improve private label performance by focusing innovation on specific age segments where private label is under-developed.

Private Label Attitudes
Perception of Quality

Well over 80% of Truman Boomers and FDRs agree that store brands are of excellent quality. At the same time, younger respondents also rate PL quality to be excellent.

Q: Tell us if these statements describe your attitudes toward store brands and name brands when shopping for groceries.
(% of shoppers agreeing)

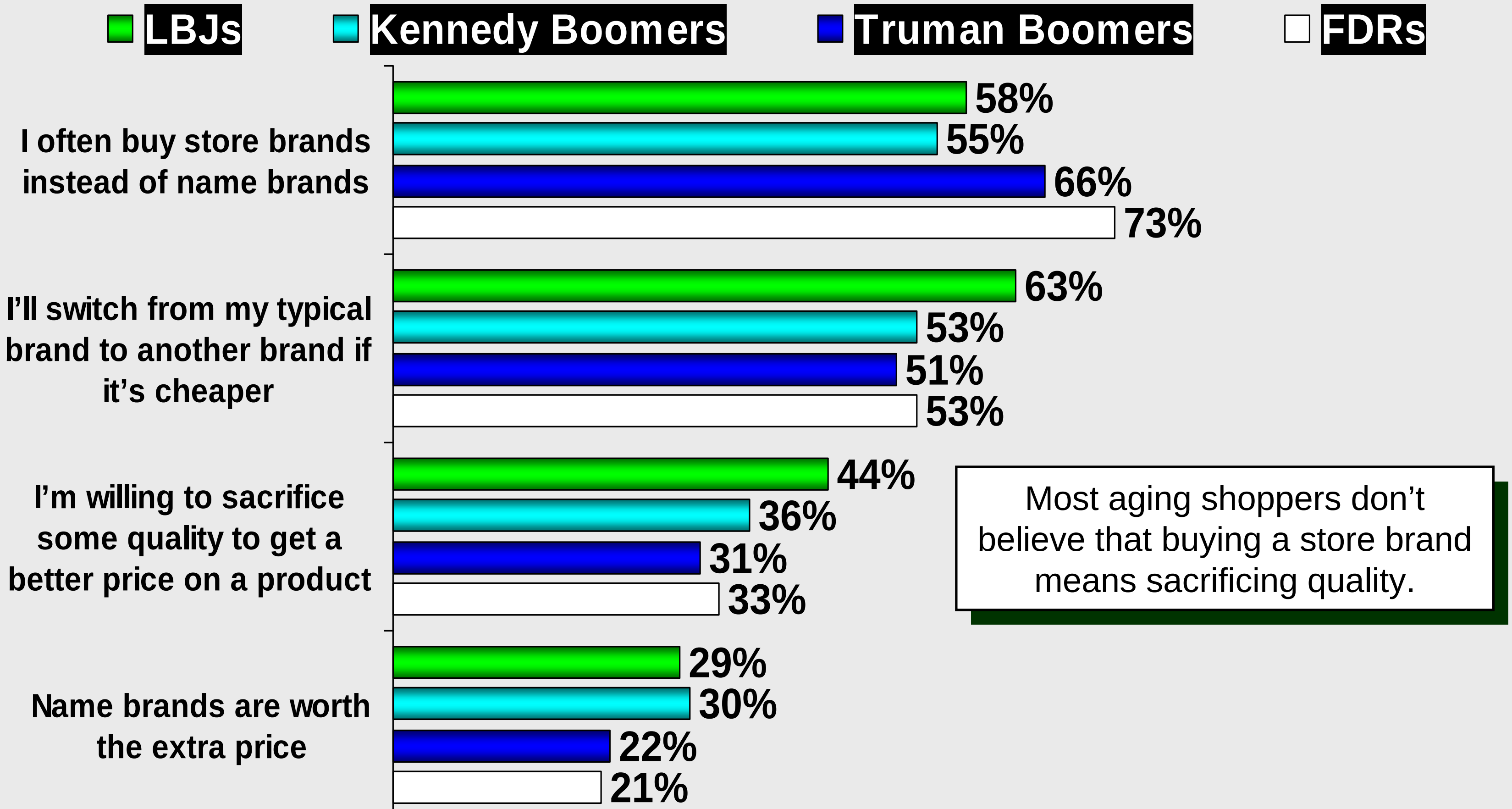


Willingness to buy a PL depends heavily on the shopper's relationship with the individual retailer.

Private Label Attitudes
Propensity to Buy

Based on the survey results, all shoppers demonstrate a strong propensity to buy private label products and this propensity grows stronger with age.

Q: Tell us if these statements describe your attitudes toward store brands and name brands when shopping for groceries.
(% of shoppers agreeing)



Private Label Performance

Food / Beverage Share of Spending

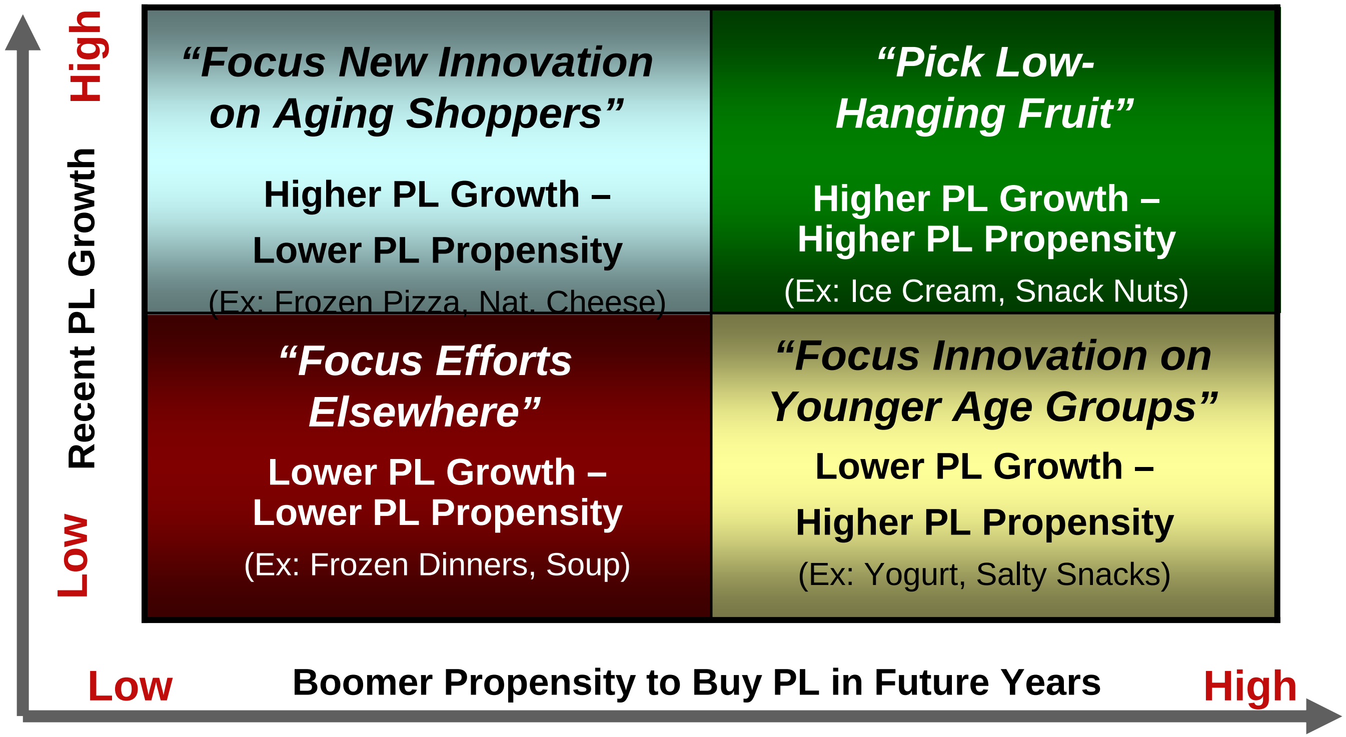
In most food and beverage categories included in this study, shopper propensity to purchase private label grows as consumers age into their 50s and 60s.

Food & Beverage Categories	PL % Share All Households	'09 vs. '07 PL Share Pt. Change	PL % Share by Age Segment				Difference
			LBJs	Kennedy Boomers	Truman Boomers	FDRs	FDRs vs. Truman
Bottled Water	24.9%	1.2	21.0%	24.2%	26.4%	29.0%	2.6%
Carbonated Beverages	8.1%	-0.1	7.9%	7.6%	7.2%	8.5%	1.3%
Coffee	13.8%	2.0	14.2%	13.5%	13.4%	13.3%	-0.1%
Ice Cream/Sherbet	25.6%	4.4	25.5%	24.7%	24.3%	26.1%	1.8%
Snack Nuts/Seeds/Corn N.	35.9%	2.3	34.6%	32.9%	35.9%	37.6%	1.8%
Cookies	14.6%	2.2	12.8%	14.1%	15.1%	16.9%	1.8%
Salty Snacks	7.7%	0.8	7.1%	7.7%	7.7%	9.0%	1.3%
Crackers	9.9%	0.2	9.2%	9.3%	9.7%	10.7%	1.1%
Yogurt	13.2%	-1.5	11.0%	13.0%	14.5%	15.5%	1.0%
Cold Cereal	10.1%	0.4	9.2%	9.8%	10.5%	11.4%	0.8%
Chocolate Candy	2.1%	0.2	1.8%	1.8%	1.9%	2.7%	0.8%
Breakfast Meats	16.8%	0.3	17.2%	16.9%	16.3%	17.0%	0.7%
Soup	11.2%	-0.3	11.3%	11.3%	10.5%	10.3%	-0.2%
Frozen Novelties	14.3%	0.4	16.0%	14.6%	12.9%	12.6%	-0.3%
Frozen Dinners/Entrees	3.5%	0.9	3.8%	3.4%	3.5%	3.2%	-0.3%
Frozen Pizza	8.6%	1.2	8.9%	9.4%	8.4%	7.9%	-0.5%
Natural Cheese	43.3%	4.4	45.5%	44.3%	41.7%	39.8%	-1.8%
Total Food & Beverages	19.3%	1.6	19.4%	18.9%	18.7%	19.2%	0.6%

Much of recent private label growth in many food and beverage categories is being driven by aging shoppers and this trend can be expected to continue. Retailers can take advantage of these trends by developing and promoting innovative private label products aimed at aging shopper segments.

Private Label Performance
The Opportunity

Successful private label retailers will focus innovation efforts on categories that have strong historic and future PL growth trends as well as categories where aging shoppers are demonstrating a strong propensity to buy private label products.



Implications

The size of the private label opportunity for a specific category is based largely on PL growth patterns as well as the level of aging shopper propensity to buy private label.

Baby Boomer II Report:
Sample Slides – Case Illustrations

Case Illustration

The CVS Minute Clinic Outreach to Aging Shoppers

Strategy

For several years, CVS has operated in-store clinics in many of its stores called Minute Clinic. These clinics are adjacent to the store pharmacy, are operated seven days a week and require no appointment. The clinics are normally staffed by a nurse practitioner and have been positioned as a convenient, lower-cost alternative to emergency rooms and doctor visits for:

- vaccinations, physicals, and health screenings.
- cold and flu symptoms including strep throat.
- laryngitis, bronchitis, and other common ailments.

In an effort to increase the appeal of Minute Clinic to aging shoppers, CVS is planning to train its nurse practitioners to provide more age-related specialized care including osteoporosis, asthma, and skin conditions including shingles treatment, wart removal, and skin tag removal.

The CVS Minute Clinic includes a touch screen sign-in kiosk, a digital menu of available services, and signage (on door) indicating the expected wait time.

Tactics

As CVS expands its Minute Clinic offerings, they will continue to promote these clinics through:

- detailed treatment and cost information on the CVS/Caremark website.
- outside marquee signs and extensive in-store signage including shelf-talkers and overhead signs.

Case Illustration

CVS Minute Clinic - Continued

Impact

While the expanded service offerings at Minute Clinic is still a young initiative, there is the potential for CVS to generate a positive impact in several key areas:

- Increased customer traffic and strengthened customer relationships (see below) – particularly with older shoppers.
- Positive publicity around affordable healthcare and a reinforced “health expert” reputation.
- Complements existing disease state management and education & counseling services.
- Increased prescription sales and overall store profitability.

The CVS Minute Clinic is also promoted on the CVS/Caremark website.

Patient Comments

“I received more caring, knowledgeable, and informative treatment (at Minute Clinic) than I have at any of the Northwestern Memorial Physicians Group outlets I've visited. And that says more about healthcare in the U.S. than any number of tracts.”

“Do you have insurance? I sure don't. Free clinics in Chicago never have room for anyone and they can't actually treat anyone. So what was I to do? A friend suggested the Minute Clinic in lieu of an urgent care facility and I'm so glad he did!”

“I'm a convert. I arrived on a Thursday afternoon and within one hour I was out the door complete with three prescriptions.”

“Quick, friendly, accepted my insurance, and delivered competent treatment on a Saturday afternoon when the only other option was the ER. The hand written thank you card that arrived in the mail a few days later sealed the deal!”

Case Illustration
How Diamond Foods Re-Invented the Snack Nuts Category

Strategy

In 2004, Diamond Foods – primarily a producer of baking nuts - made an aggressive entry into the snack nuts category. Starting with zero market share but a strong strategy, Diamond developed and introduced the Emerald brand as an innovative new player in a growing, but unexciting category. Diamond believed that the baking nut category was not well-positioned for future growth but that snack nuts – offering nutrition, energy, and convenience to consumers of all ages – was a prime opportunity for an innovative brand.

The Emerald snack nut portfolio brought several new and distinctive flavors to the category including Cocoa Roast almonds, Sea Salt & Pepper cashews, and Wasabi peanuts.

Tactics

Diamond Foods used several key tactics to compete against Kraft's Planters brand and build Emerald into one of the most recognized and fastest-growing brands in the snack nuts category:

- Raised $102 million through an IPO which helped finance a very aggressive and expensive TV advertising campaign that included ad spots during the Olympics, the World Series, and three Super Bowls.
- Introduced exotic flavor variations which were not typically associated with snack nuts (see image above.)
- Developed innovative "On the Go Canisters" that fit in car cupholders. The canisters are designed to maintain freshness and also include a measured 1 oz. cap to provide easy portion control.

Case Illustration
Diamond Foods – Continued

Impact

Based on consumer feedback, Emerald has had success in communicating its message of healthful indulgence, great taste, and convenience. Now the fastest-growing brand in the category, Emerald's is enjoying a 30%+ annual growth rate and is a two-time recipient of the Progressive Grocer Category Advisor award, recognizing its product innovation, creativity in merchandising, marketing, promotion, and consumer insights.

Shopper Comments

"Love these Emerald nuts. Great size can to have. Like keeping them in the car when you are wanting something you shouldn't have. Have a handful of protein that will hold you until you can get something healthy to eat and avoid the drive thru. Very nice balance of sweet and salty."

"High in vitamin E, iron, and calcium, and having mostly good lipids (fats), these almonds are a delicious way to keep a balanced diet. Don't expect "Cocoa Roast" Almonds to be a total confection -- like chocolate covered raisins. With only 150 calories per ounce, a little bit goes a long way."

"I love these (Emerald) nuts, I stock up on them whenever I can find them in the grocery store. They are sweet and crunchy and so satisfying that I can not go back to the other brand. Actually I bought the "big" brand of nuts just recently and gave them away after trying a mouthful. These nuts have spoiled me for any other. These are GREAT!!!"

"These are great nuts in a convenient plastic container. It's one of those bio-degradable jobs with a reusable twist on lid. Nuts in bags, bulky round tins or even just cheap plastic are fine if you eat them all at once. But when storing them for more than a few days, they can go stale or be bulky to carry around. The Emerald guys really chose the perfect blend of durability and convenience with their line of nut containers."

Baby Boomers II Report:
Action Plan / More Information

Action Plan – Sample Slide
The IRI Process

To support this study, IRI mined its proprietary data sources to provide deep category-by-category and channel-by-channel perspectives on expected future spending shifts driven by aging shopper segments. Moving forward within their own operations, retailers and manufacturers can make the most of their own unique opportunities by working with IRI's four-phase process designed to help:

- value the size of the business opportunity and the investment implications.
- utilize Baby Boomer segmentation as a means to differentiate from competitors.
- understand Boomer spending nuances and proactively adjust product offerings.
- validate the required steps towards success and execute and drive the process.

Phase	IRI's Baby Boomer Excellence Implementation Process
I	**Commitment, Assessment, Segmentation / Clustering**
II	**Identify and Prioritize the Opportunities, Align Suppliers**
III	**Product Strategy, Private Label Leadership, Best Practices**
IV	**Space, Assortment, Promotions / Messaging**

Baby Boomer II Report
More Information

- Report and on-site presentation is $50,000
- Discounts available through our subscription program
- Deliverable is a PowerPoint presentation with 100 + slides

- Customized workshops and retail consulting & analytics services available to meet your needs

- For additional information, contact Sean Seitzinger at 678-613-1427 or Sean.Seitzinger@infores.com

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» **Winning with Women Shoppers** – Fall 2009
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