



# The Affordability Report:

## The New Lens of Affordability



**Executive Overview**

**February, 2009**



# Affordability Report

## Topline Overview



*During the current U.S. recession, change in consumer spending is happening faster, more frequently, and is less predictable than ever before. Within the CPG industry, escalating prices and stagnant wages have bred exceptional price sensitivity, resulting in lower demand in many categories, growth in private label / lower-tier brand share, and accelerated channel migration.*

### Features & Benefits:

- ▶ Detailed **category-level analyses** that focus on **which food & nonfoods categories are “safe”** in today’s economy and which are **at-risk for trade-down and trade-out** shopper behavior.
- ▶ New **shopper insights** linking attitudes to trend-based category metrics including private label share, household penetration, trip frequency, etc.
- ▶ A series of **14 case examples** taken from **best-in-class manufacturers and retailers** that are achieving success in serving “affordability-driven” shoppers.
- ▶ Detailed **retailer and manufacturer action plans** to actively respond to affordability-driven needs and attitudes across shopper segments.

### Case Example – General Mills’ Macaroni Grill

General Mills has joined forces with Macaroni Grill Restaurant to offer consumers a restaurant-quality meal prepared at home.

#### The General Mills Strategy

In the early 1970s, General Mills helped invent the dry packaged dinner category with its introduction of Hamburger Helper “add-to-meat” meals.

Today, General Mills manufactures a line of premium packaged dinner kits through an alliance with Macaroni Grill. The add-to-chicken meals are offered in four flavors including Creamy Basil and Chicken Alfredo. The “Restaurant Favorites” products:

- ▶ are among the most expensive in the category with retails typically in the \$4.99 - \$5.99 range – likely providing strong margins for both General Mills and food retailers.
- ▶ despite the high price, are clearly positioned as a great-tasting and more affordable alternative to an expensive restaurant meal.
- ▶ created a new “restaurant quality” segment in the category.
- ▶ provides Brinker (owner of Macaroni Grill) with a new source of revenue to help mitigate slower traffic in its restaurants.



# Affordability - Mythbusters



This report dispels many conventional views on affordability in today's economy.

## Conventional View

1. During the current recession, a low price is the single most important factor in shopper-defined affordability across CPG categories....**FALSE.**
2. Because “People Have to Eat”, food and beverage manufacturers are relatively insulated from the impact of the current economy....**FALSE.**
3. Because many nonfoods categories are “necessities” with longer purchase cycles and limited competition from lower-tier brands and private label, major manufacturers are well-positioned to weather the recession ....**FALSE.**

## What the Data Tells Us

1. The shopper definition of affordability is complex and although price is important, factors including quality, past satisfaction, durability, and “long-lasting” qualities are equally, or even more important.
2. People do have to eat but they are actively adjusting their category spending based on affordability-driven factors. Even in core food and beverage categories, shoppers are trading-down to cheaper brands and to private label – and in the future – will be willing to trade-out of some key categories altogether.
3. Nonfoods categories are more insulated against “trade-out” behavior but shoppers across income segments are actively trading-down to cheaper brands and are finding new ways to reduce their consumption across many key nonfoods categories.

## Conclusion

**The current recession is prompting unique shopper behavior across household segments. Much of what retailers and manufacturers believe about how shoppers view affordability and how it's impacting category performance is WRONG!**

# Scope & Approach



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

## Consumer Research

**Purpose:** Understand how shoppers define affordability today and how their shopping behavior and category consumption patterns are being impacted.

**Approach:** Conducted an online survey\* of over 1,100 IRI panelists to collect:

- ▶ Current consumer attitudes.
- ▶ Category importance metrics.
- ▶ Trade-down / trade-out behavior.

## Consumer Network® Data

**Purpose:** Understand the retail channel and category spending trends of U.S. households using a broad range of performance measures.

**Approach:** Conducted a comparative analysis between the channel and category metrics collected in the shopper survey against actual household panel-based metrics including household penetration, buying rates, etc.

## InfoScan® Data

**Purpose:** Determine the impact of emerging shopper attitudes on category sales and volume performance, private label penetration etc.

**Approach:** Collected and analyzed IRI-proprietary scan data through Q4 2008 to determine performance metrics of categories included in the on-line shopper survey.

## Case Examples

**Purpose:** Illustrate in a concise and compelling way what best-in-class retailers and manufacturers have done to meet shopper demands for affordable solutions.

**Approach:** Developed case examples on:

- ▶ Campbell's Soup
- ▶ Procter & Gamble
- ▶ ConAgra
- ▶ Hormel
- ▶ General Mills
- ▶ Aldi
- ▶ Supervalu
- ▶ Others



# The Affordability Report: *Sample Slides*

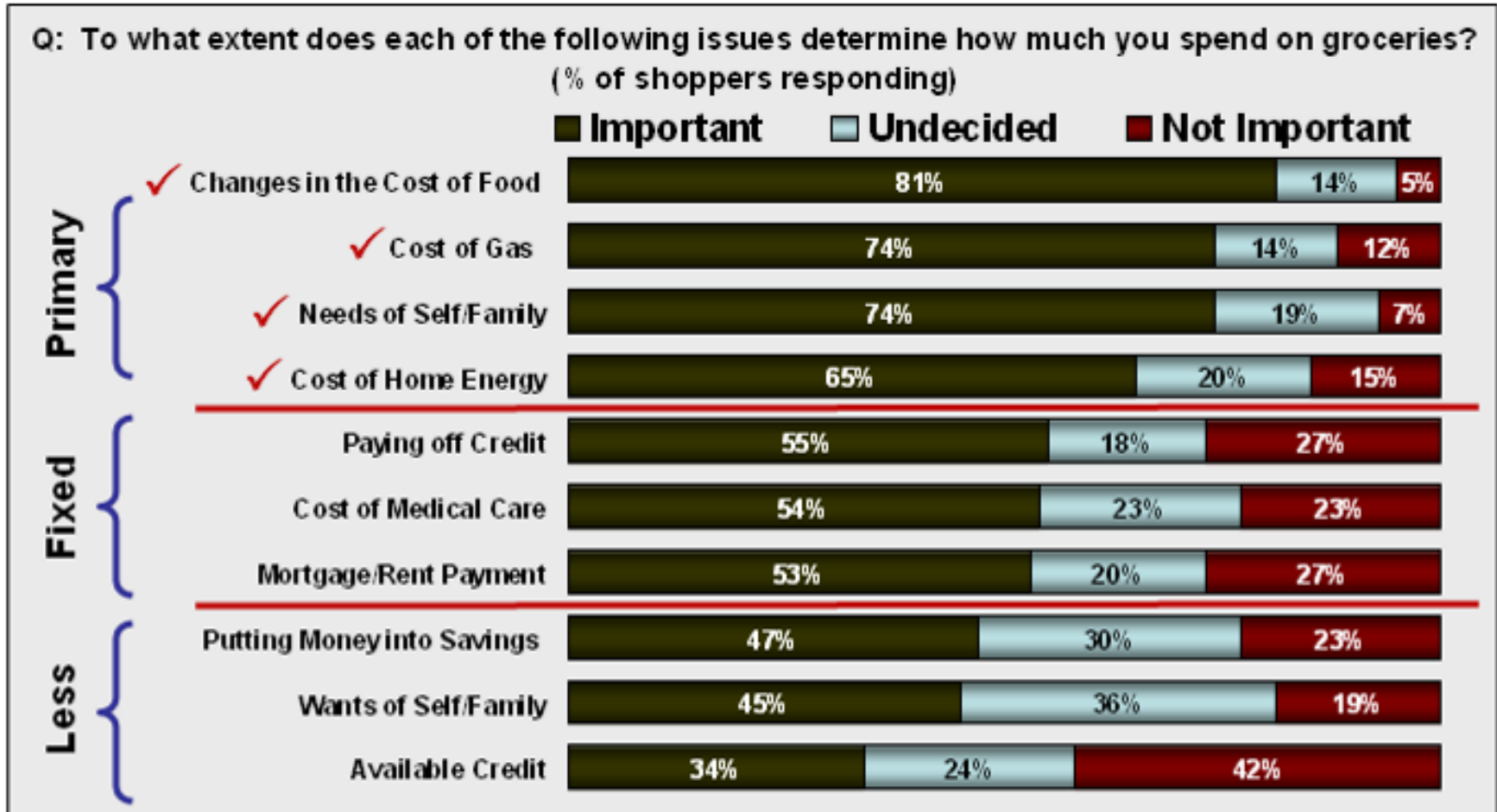


# Executive Summary

## Topline Consumer Trends



Shopper grocery budgets are impacted by several primary factors – notably food inflation and the cost of gas and home energy.

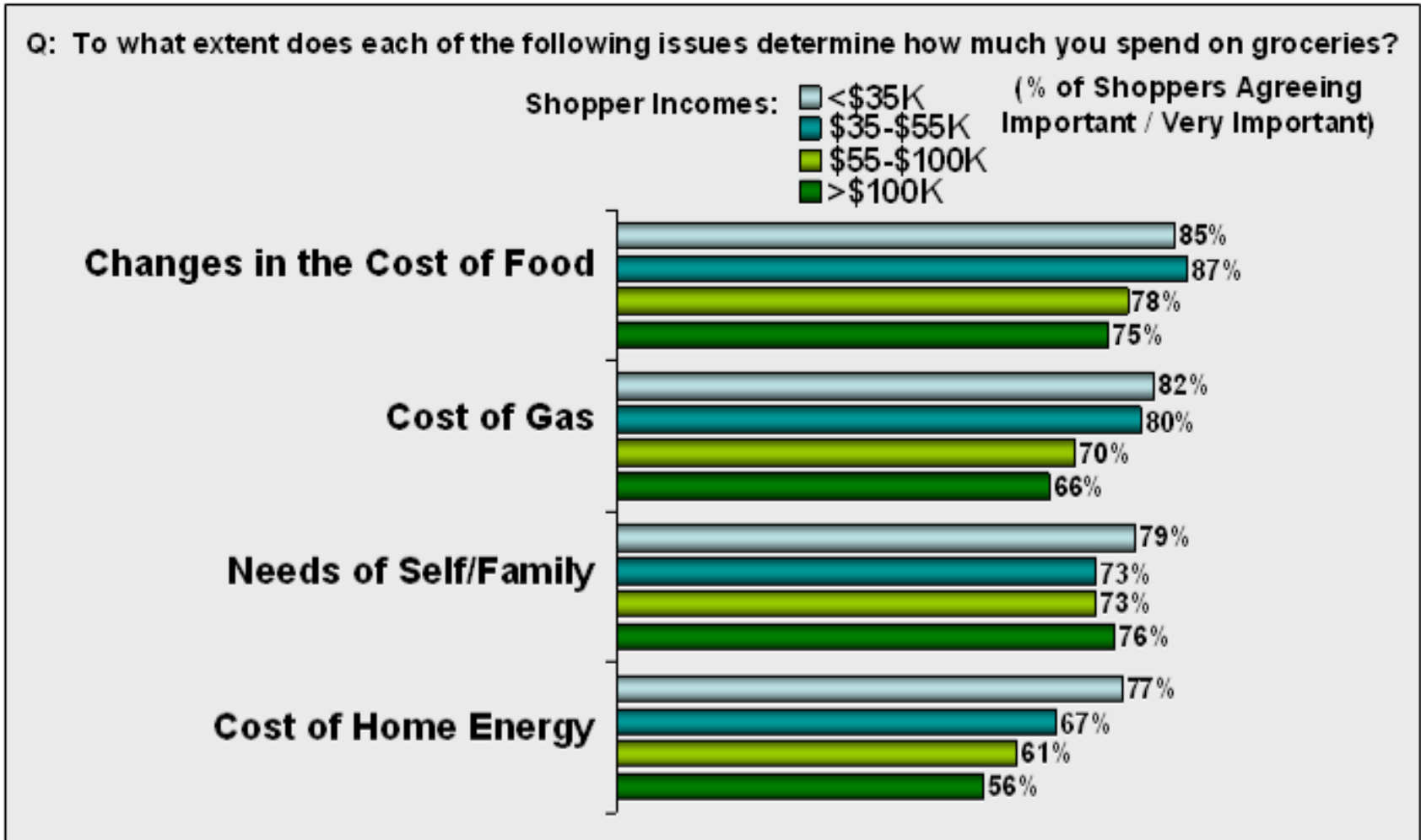


# Executive Summary

## Topline Consumer Trends



Even as household incomes exceed \$100K annually, changes in food, gas, and energy costs still have a strong impact on grocery spending.



# Shopper Insights

## *Defining Affordability*



The results from the shopper survey indicate that while price is important, the consumer definition of affordability incorporates many factors that are as just as important or more important than a low price.



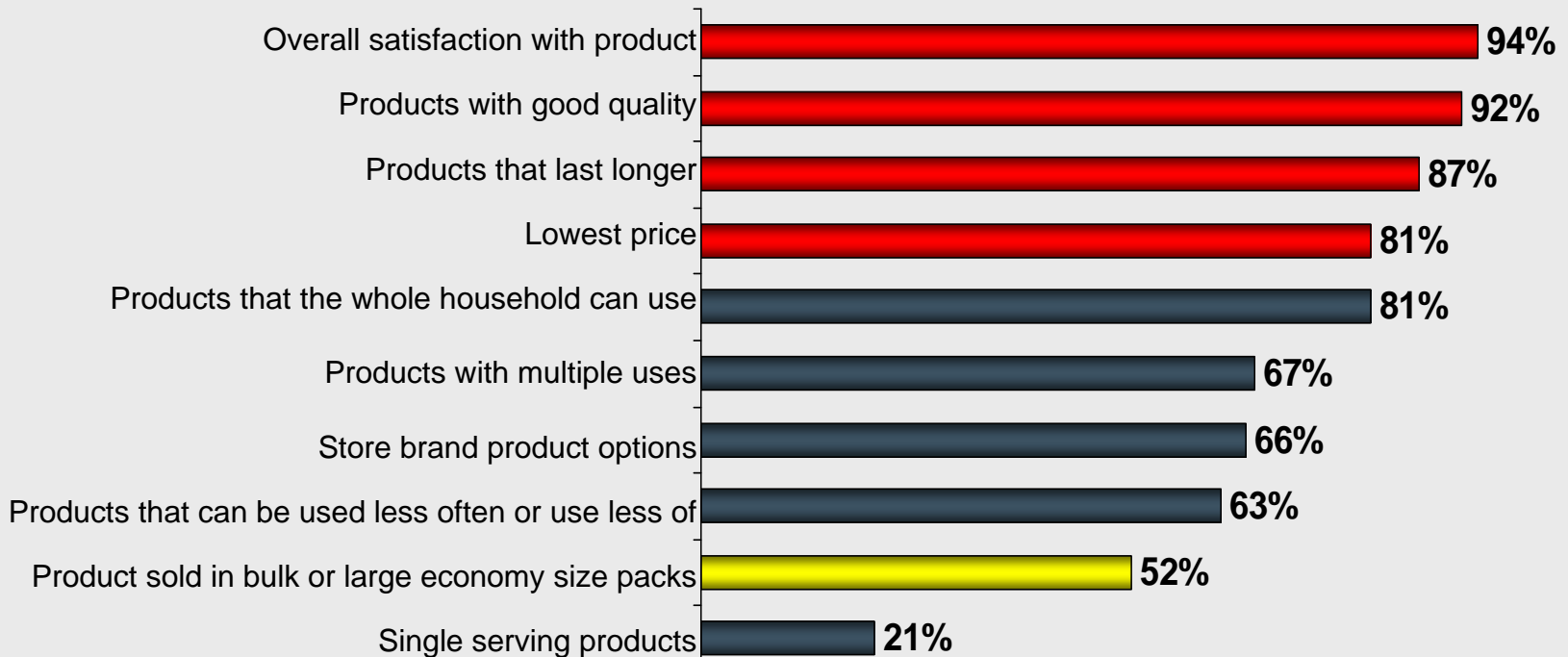
# Shopper Insights

## Defining Affordability



In defining affordability, consumers are clearly focused on overall satisfaction, quality, and durability. Price is a less important criteria. Further, today's shopper rates economy club packs as relatively low as a component of affordability.

**Q: When shopping for groceries, how do you determine how affordable a product is? (percent important or very important)**



### Implications

In developing more affordable product solutions for budget-constrained shoppers, retailers and manufacturers cannot focus on low price points alone. Other key factors including quality, durability, flexible usage, and other factors are also an important part of the shopper definition of affordability.

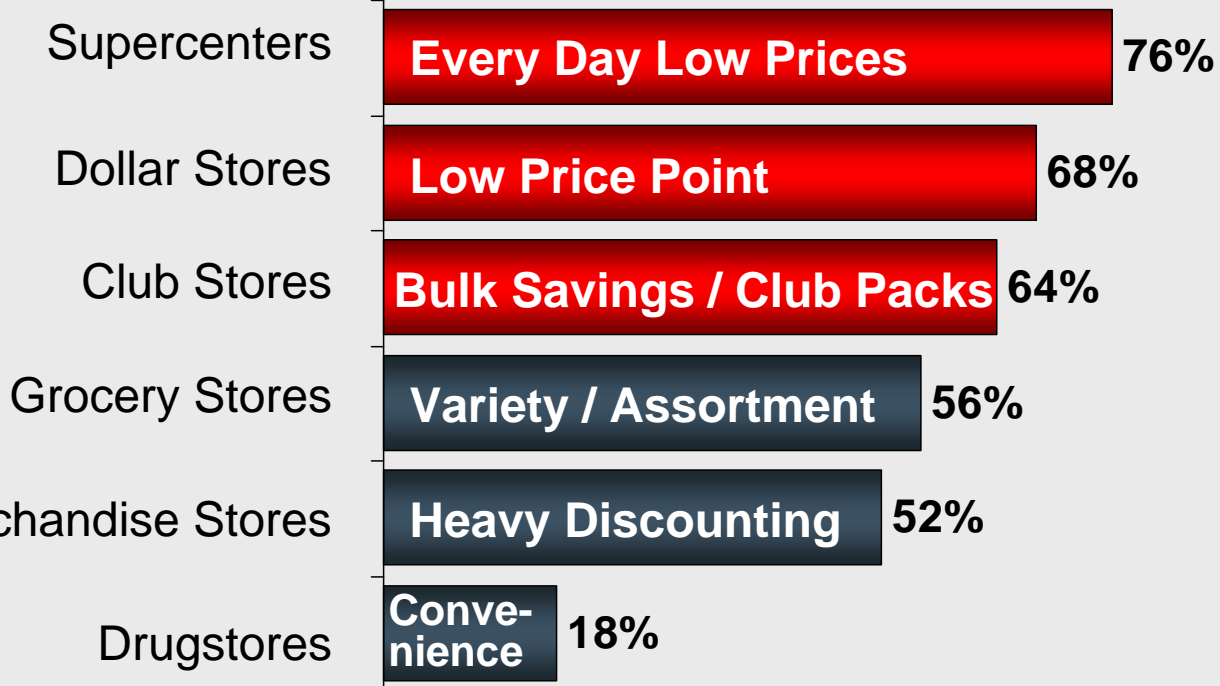
# Shopper Insights

## Defining Affordability



Looking at retail channels for grocery shopping, shoppers give the highest affordability ratings to Supercenters including Walmart and Super Target. Dollar stores and club stores also receive high marks.

**Q: In your opinion, which types of retailers offer the most affordable groceries?**  
(percent affordable or very affordable)



### Implications

While supercenter retailers should continue to leverage their high perception of affordability; grocery and drugstore retailers need to focus on improving their affordability-focused shopper messaging, pricing, and in-store merchandising.



# The Affordability Report: *Category-Level Analysis – Sample Slides*



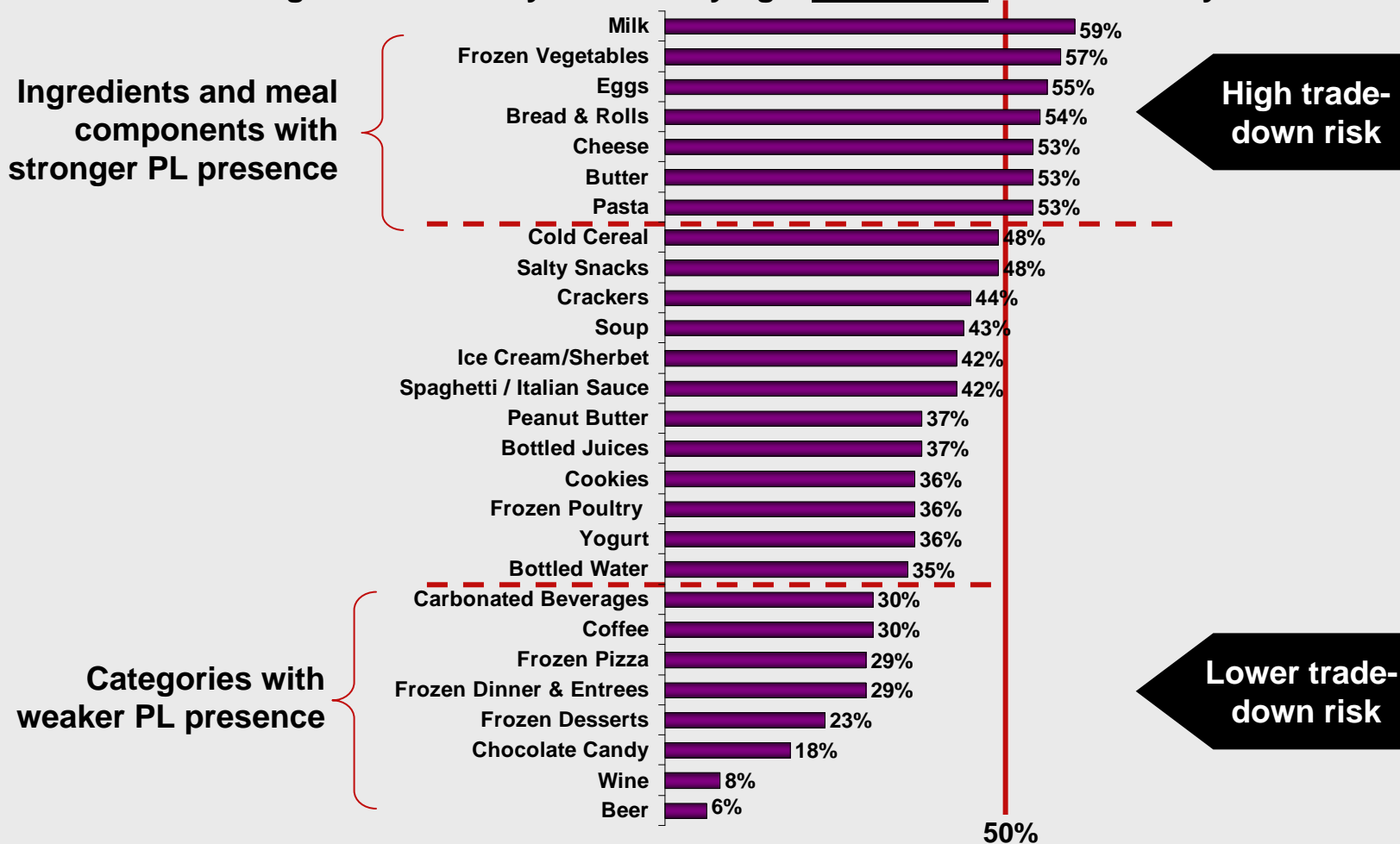
# Category Insights

## Trade-Down Risk Assessment



When challenged with rising expenses, shoppers are very willing to trade-down to a private label product in many food and beverage categories.

Q: If your monthly expenses went up \$100 per month, for which of the following food and beverage items would you start buying a store brand to save money?



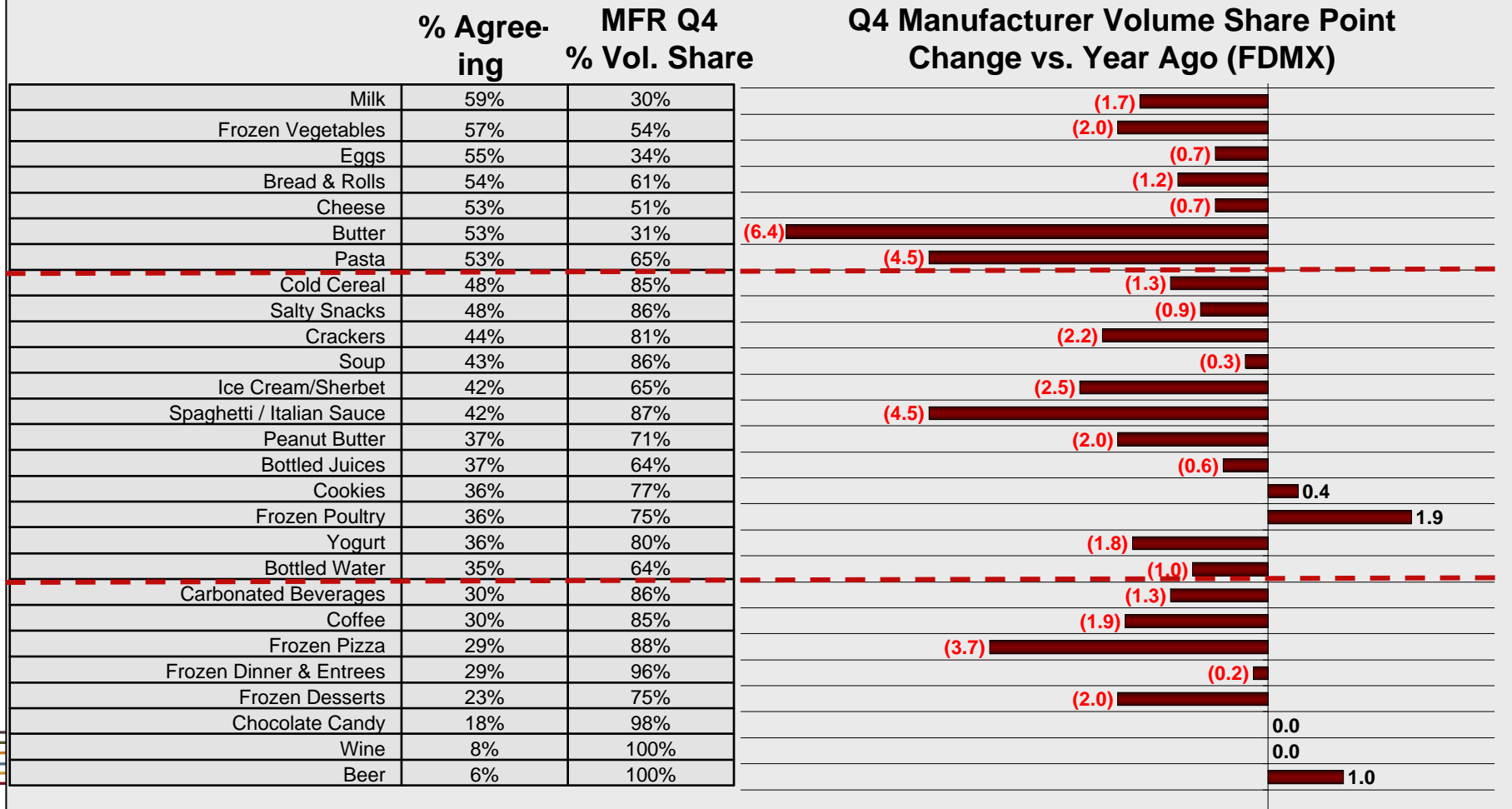
# Category Insights

## Trade-Down Risk Assessment



In Quarter 4 of 2008, branded manufacturers lost volume share in all of the top “vulnerable to trading-down to PL” categories. Shoppers are already actively trading-down in many of these key categories.

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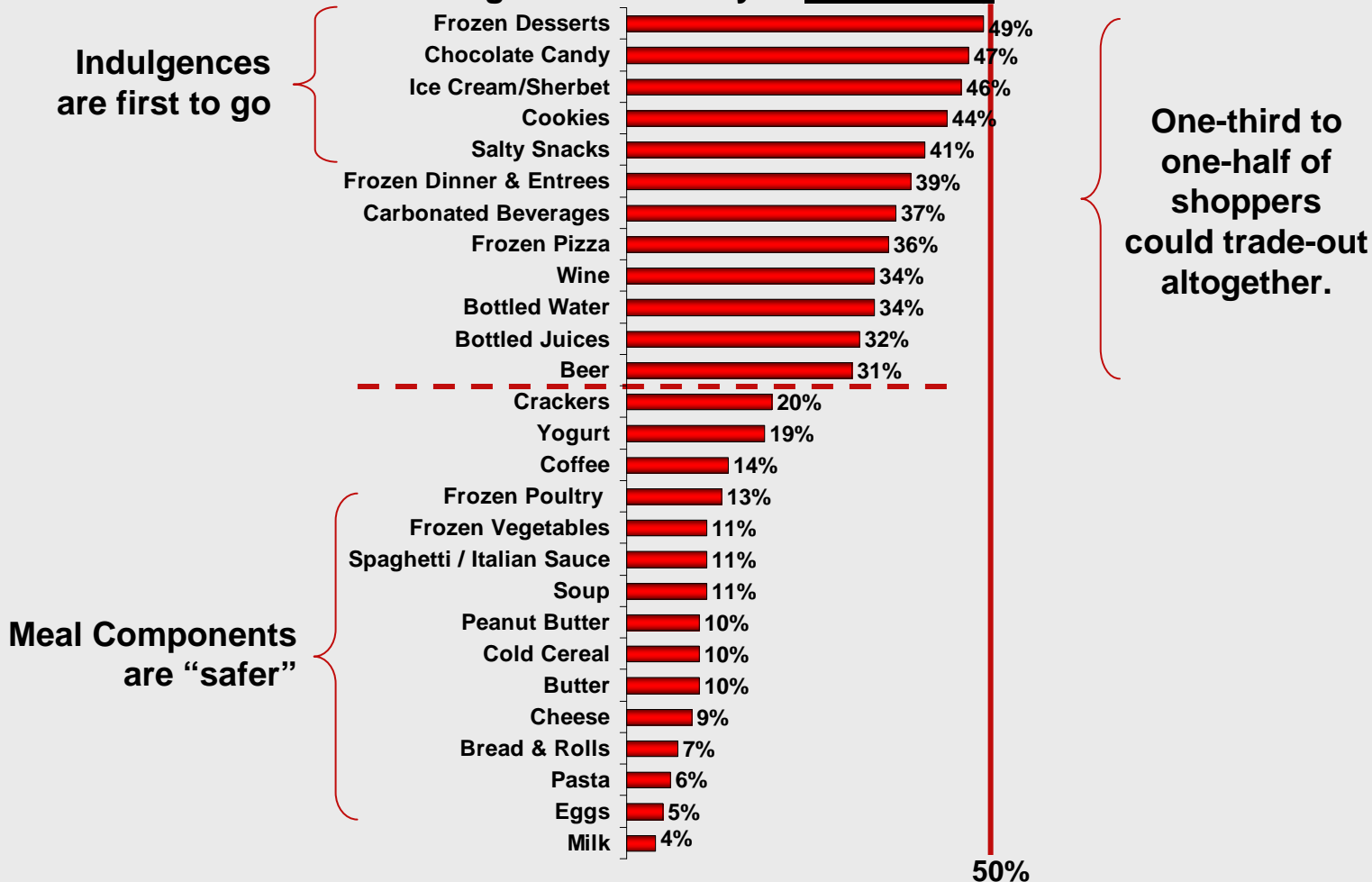
# Category Insights

## Trade-Out Risk Assessment



Shoppers were asked if they would stop shopping some categories altogether if expenses continued to escalate. For many indulgent categories, nearly 50% indicated that they would consider “trading-out” of the category altogether.

**Q: If your monthly expenses went up \$100 per month, which of the following food and beverage items would you stop buying?**



# Category Insights

## Food / Beverage Manufacturer Risk Summary



If left unchecked, branded manufacturers in at-risk food and beverage categories are positioned to lose millions of sales dollars as consumers continue to trade-down and trade-out during 2009.

At-Risk Categories	Branded Manufacturers		1-Year Loss Projection*		
	Category Share	Annual Sales Dollars (millions)	Branded Mfg. Trade-Down Share Loss	Trade-Out Loss (category millions)	2009 Lost Branded Mfg. Sales Dollars (millions)
Bottled Water	66%	\$3,399.0	3.9%	\$237.9	\$290.7
Bread & Rolls	61%	\$7,192.5	7.3%	\$143.8	\$610.6
Carbonated Beverages	87%	\$9,939.1	5.2%	\$695.7	\$1,121.7
Cheese	51%	\$6,783.7	6.1%	\$135.7	\$481.4
Chocolate Candy	97%	\$5,131.7	1.9%	\$615.8	\$700.4
Coffee	82%	\$3,138.1	4.9%	\$156.9	\$282.2
Cookies	79%	\$3,721.8	7.9%	\$372.2	\$586.2
Frozen Desserts	70%	\$585.5	4.2%	\$70.3	\$73.3
Frozen Pizza	88%	\$2,861.8	5.3%	\$200.3	\$328.3
Frozen Vegetables	48%	\$1,945.0	5.7%	\$38.9	\$130.4
Ice Cream/Sherbet	65%	\$3,600.4	6.5%	\$432.0	\$515.9
Spaghetti / Italian Sauce	87%	\$1,287.7	4.3%	\$64.4	\$112.0



# The Affordability Report: *Case Illustrations – Sample Slides*



# Case Illustration

## General Mills



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### The General Mills Strategy

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**Free-standing inserts and the General Mills website offer \$1 off coupons.**

# Case Illustration

## Kellogg's



**Kellogg's latest TV advertising is aimed at reminding budget-constrained shoppers about the value of their cereals – supported by retailer ads and shopper deals.**

### The Kellogg's Strategy

Kellogg's – focusing on the economic as well as nutritional value of a cereal breakfast with their core group of family-oriented brands – launched a television campaign in October 2008 communicating that cereal is only 50¢ a bowl (with milk). To further build consumer awareness, Kellogg's:

- ▶ has dramatically increased their TV and print ad spending to support this affordability-focused campaign.
- ▶ is stepping-up in-store promotional efforts geared towards securing additional secondary displays and promotional deals, e.g. buy-one-get-one-free, on their core cereal brands.
- ▶ offers a \$1.00 coupon from the Kellogg' Internet side and Google.

***Kellogg's commercial features their core family brands and kids eating cereals with voice-over 'We know you want the best for your family, the best start to your day... at less than 50¢ a bowl, including milk...talk about family values...Kellogg's, the best to you each morning.'***

Today, consumers are eating out less and at home more – creating a positive impact on cereal consumption and manufacturers like Kellogg's. For Kellogg's, this value story will continue to reinforce in consumers' minds why at-home meals can make a difference.



# The Affordability Report:

*Sample Slides - Retailer Action Plan / Manufacturer Roadmap*



# Retailer Action Plan – Sample Slide

## Overview



To support this study, IRI mined its proprietary data sources to provide category-by-category perspectives on how consumers are adapting to the challenging economy. Moving forward within their own operations, retailers can make the most of their own unique opportunities by working with IRI's four-phase process designed to help retailers:

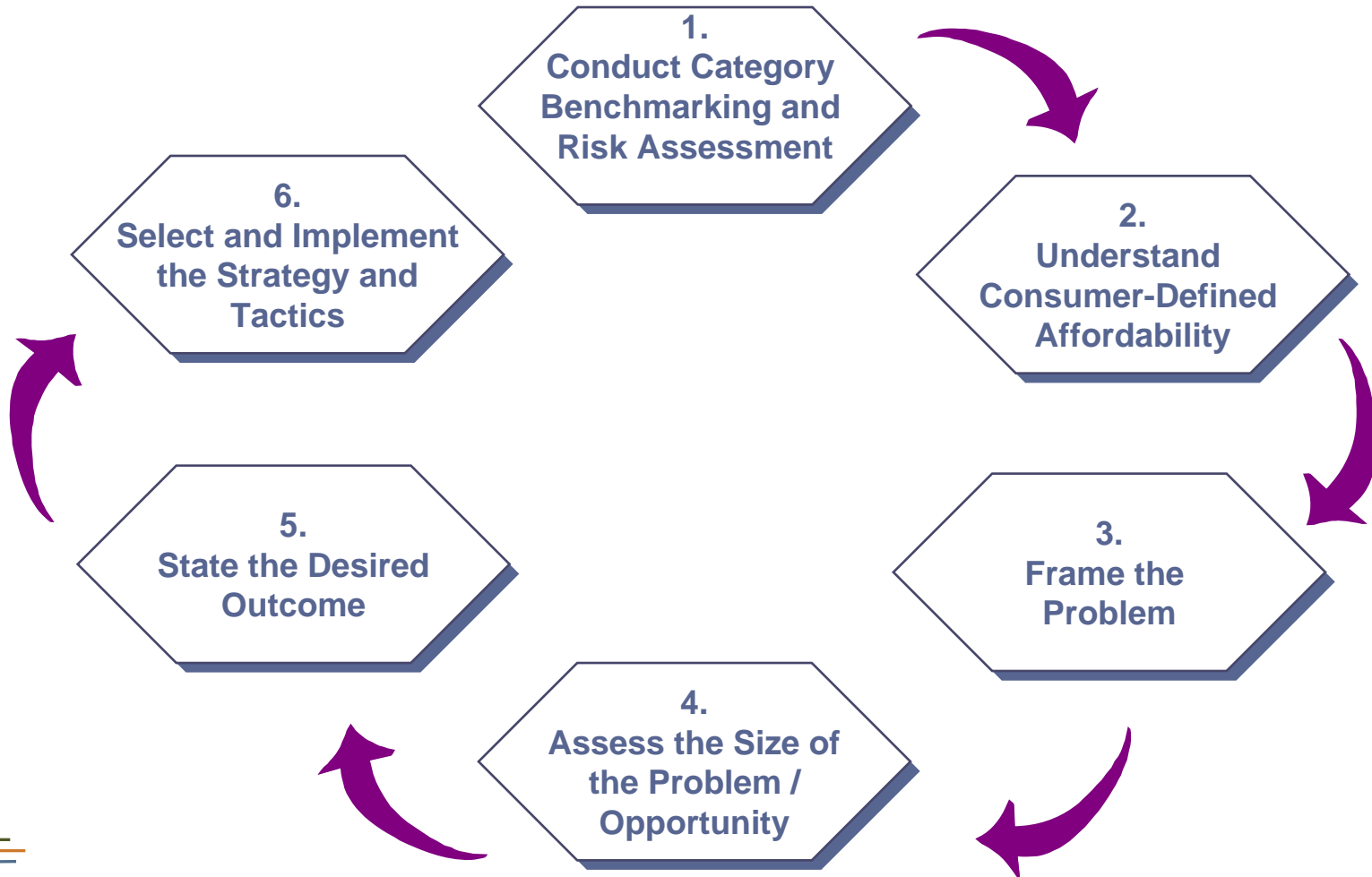
- ▶ value the size of the business opportunity and the investment implications.
- ▶ utilize affordability initiatives as a means to differentiate from competitors.
- ▶ understand category-level affordability nuances and proactively adjust store offerings.
- ▶ validate the required steps towards success and execute and drive the process.

Phase	The IRI Excellence in Affordability Implementation Process
I	Commitment, Assessment, Affordability Benchmarking
II	Identify and Prioritize the Opportunities, Align Suppliers
III	Product Strategy, Private Label Leadership, Best Practices
IV	Space, Assortment, Promotions / Messaging

# Manufacturer Roadmap – Sample Slide Overview



The Affordability Roadmap is a systematic, disciplined approach to winning more than your fair share of affordability-driven spending within key categories.



# Manufacturer Roadmap – Sample Slide

## Phase Three

### 3. Frame the Problem

The purpose of this phase is to frame the category problem by identifying the affordability scenario that is impacting your category and brands.

#### **Shoppers are opting-out of my category: “It’s a category problem.”**

- ▶ Shoppers view my category as unimportant relative to others in the basket.
- ▶ Shoppers view my category as easily substituted with another category.

#### **Shoppers are staying in my category but trading-down: “It’s a brand problem.”**

- ▶ Shoppers view the category as being commodity-driven with little differentiation across brands.
- ▶ Shoppers view my products as being poor solutions in the category.
- ▶ Shoppers view my products as not being affordable.
- ▶ My marketing and messaging is ineffective in reaching affordability-focused households.

#### **Shoppers are staying in my category but all brands are down: “It’s both.”**

- ▶ No brands or products are attracting new shoppers into the category.
- ▶ Shoppers are not responding to new items in the category.
- ▶ Category buying rates are down.
- ▶ Shoppers are using less.
- ▶ Shoppers are purchasing smaller package sizes.



# The Affordability Report

## *More Information*




# The Affordability Report

## *More Information*




- » Report and on-site presentation is \$40,000
- » Deliverable is a PowerPoint presentation with 130 + slides
- » For additional information, contact Sean Seitzinger at 678-613-1427 or [Sean.Seitzinger@infores.com](mailto:Sean.Seitzinger@infores.com)



**Affordability:  
Rethinking the  
Consumer Value  
Proposition in a  
Challenging  
Economy**

February 2009

Grow your business profitably  
in a complex marketplace.



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## Other Current Reports

- » **The Lower Income Shopper II Report:**  
Serving Budget-Constrained Shoppers in a Recessionary Environment
- » **Competing in a Transforming Economy 3.0**

## Upcoming 2009 Reports

- » **Private Label III** – Out in March 2009
- » **Competing in a Transforming Economy 4.0/5.0** – Release dates TBD
- » **Baby Boomers II** – Out in June 2009
- » **Pricing in Volatile Markets** – Out in August 2009
- » **Health & Wellness** – Deep Dive into Healthy Heart – Out in Q4 2009





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