



The Lower Income II Report:

Serving Budget-Constrained Shoppers in a Recessionary Environment



Executive Summary

February 2009





- » Providing *leading edge and provocative thinking* on topics of significant importance to the industry.
- » *\$250,000-\$350,000 of value in each report*, for a fraction of the cost, because we spread the costs across our client base.
- » *Leveraging IRI's data to develop intellectual capital* that delivers value across multiple retail formats.
- » Built upon *four strategic platforms* (at right) that allow us to uncover business growth opportunities for our clients.

Shopper Micro-Segmentation

- ▶ Baby Boomers
- ▶ Lower-Income Shoppers
- ▶ Lower-Income Shoppers II

Healthcare and Wellness

- ▶ Healthy Kids I
- ▶ Healthy Kids II
- ▶ 2007 Healthcare Report
- ▶ Tomorrow's Health & Wellness

Private Label Strategy / Mitigation

- ▶ Private Label 2007
- ▶ Private Label 2008
- ▶ Private Label 2009

Macro-Economics / Global Awareness

- ▶ The TESCO Report
- ▶ Global Retailing Report
- ▶ Competing in a Transforming Economy 1.0 // 2.0 // 3.0 // 4.0

Lower Income II Report

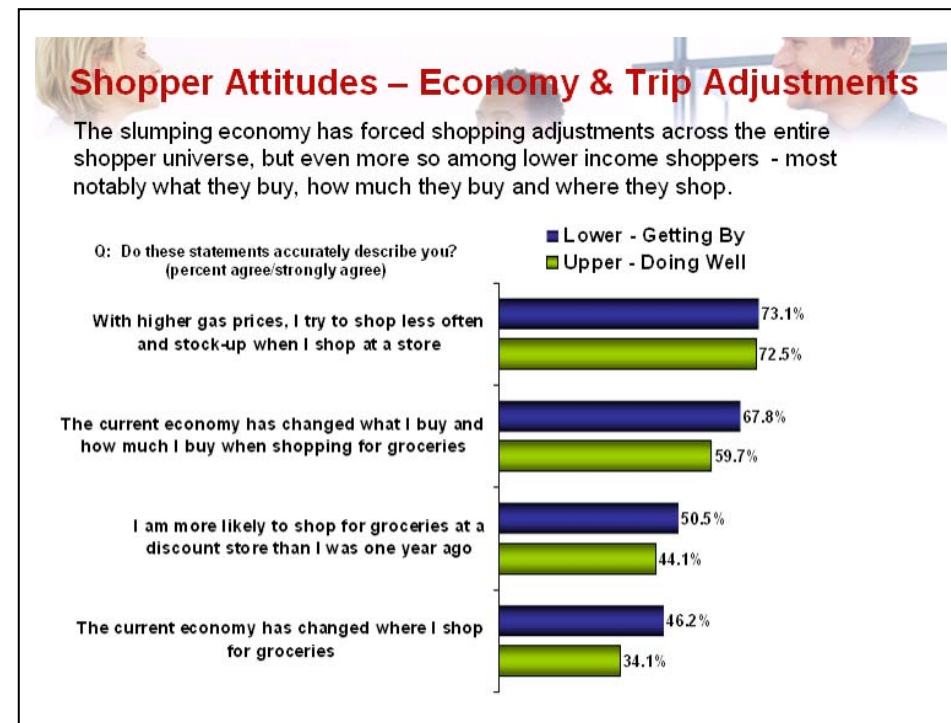
Topline Overview



Retailers and manufacturers need to understand that lower income shoppers are not a homogenous group of shoppers but that critical differences exist in the spending patterns and attitudes of lower income micro-segments. They need to better understand these differences so that they can use this insight to uncover major business opportunities during the current recessionary period.

Benefits:

- » Benchmarks to measure **recession-driven spending trends** across retail channels and food, beverage, and nonfoods categories.
- » Shopper insights based on an extensive online survey to benchmark **lower income shopper lifestyles and attitudes** - uncovering new opportunities in serving these shoppers.
- » **Best-in-class case examples** describing what successful retailers are doing to profitable serve lower income shoppers.
- » Effective solutions needed to guide the development of **innovative private label products**.



Lower Income II Report

Key Report Themes / Headlines



Key Themes / Headlines

- ▶ Lower-income shoppers are the fastest-growing income group and will generate \$84 Billion in incremental CPG spending over the next decade.
- ▶ During Q3 of 2008, CPG spending and private label performance has improved – a trend that is being led by lower income shoppers.
- ▶ Compared with other income groups in today's economy, budget-constrained lower-income shoppers:
 - ▶ are shopping more frequently but spend less per trip.
 - ▶ are aggressively shifting spending across channels, retailers, categories, and brands.
- ▶ Most retailers are still missing the mark on their private label product offerings and marketing to these shoppers, representing the single largest private label opportunity in the next five years.



Scope and Approach



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

Proprietary Data

Purpose: Understand the retail channel and category spending trends of lower income households using a broad range of performance measures.

Approach: Collected and analyzed recent IRI-proprietary data including:

- ▶ Consumer Network®
- ▶ InfoScan®

A full four-year data history was studied to provide trend-based insights.

Case Examples

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

Approach: Developed case examples on:

- ▶ Sav-A-Lot
- ▶ Aldi
- ▶ Dollar General

Consumer Research

Purpose: Benchmark consumer attitudes and preferences of lower income households across a range of CPG retailing topics.

Approach: Analyzed results from an online survey of over 650 IRI panelists to collect:

- ▶ Current consumer attitudes.
- ▶ Purchase drivers.
- ▶ Lifestyle factors.
- ▶ Impact of recession.

Secondary Research

Purpose: Develop a well-rounded understanding of the marketplace and factors impacting lower income household.

Approach: Conducted research using:

- ▶ Trade publications
- ▶ Census Bureau
- ▶ Internet sources

Secondary research was also conducted to support the retailer case examples.



Lower Income II Report: *Sample Slides*



Report Mythbusters



This report dispels many conventional views on lower income shoppers.

Conventional View

1. Lower income shoppers spend less than higher income households and as a result, represent a lower economic opportunity...**FALSE.**
2. In the current recessionary period, households with lower incomes generally share the same shopping tendencies...**FALSE.**
3. Lower income shoppers are less profitable because they only buy value brands and other products when they're on sale...**FALSE.**
4. A low price reputation is the most important criteria that lower income shoppers use when selecting a store...**FALSE.**

What the Research Tells Us

1. Lower income households CPG spending growth is **outpacing higher income households** and this group will generate over **\$84 billion dollars** in spending growth over the next decade.
2. **Micro-segmenting** lower income shoppers uncovers **huge variations** in shopping frequency and spending levels as well as **channel and category-level dynamics.**
3. Lower income shoppers are more interested in good values than in sale items. Further, retailers have **enormous untapped opportunities** to target these shoppers with value-based **private label** products and messaging.
4. Survey results tell us that lower income shoppers select stores on the basis of **many key factors** that are **just as important as price.**

Conclusion

Much of what retailers and manufacturers believe about lower income shoppers, their lifestyles, their attitudes, and their spending is WRONG!

Lower Income Shoppers

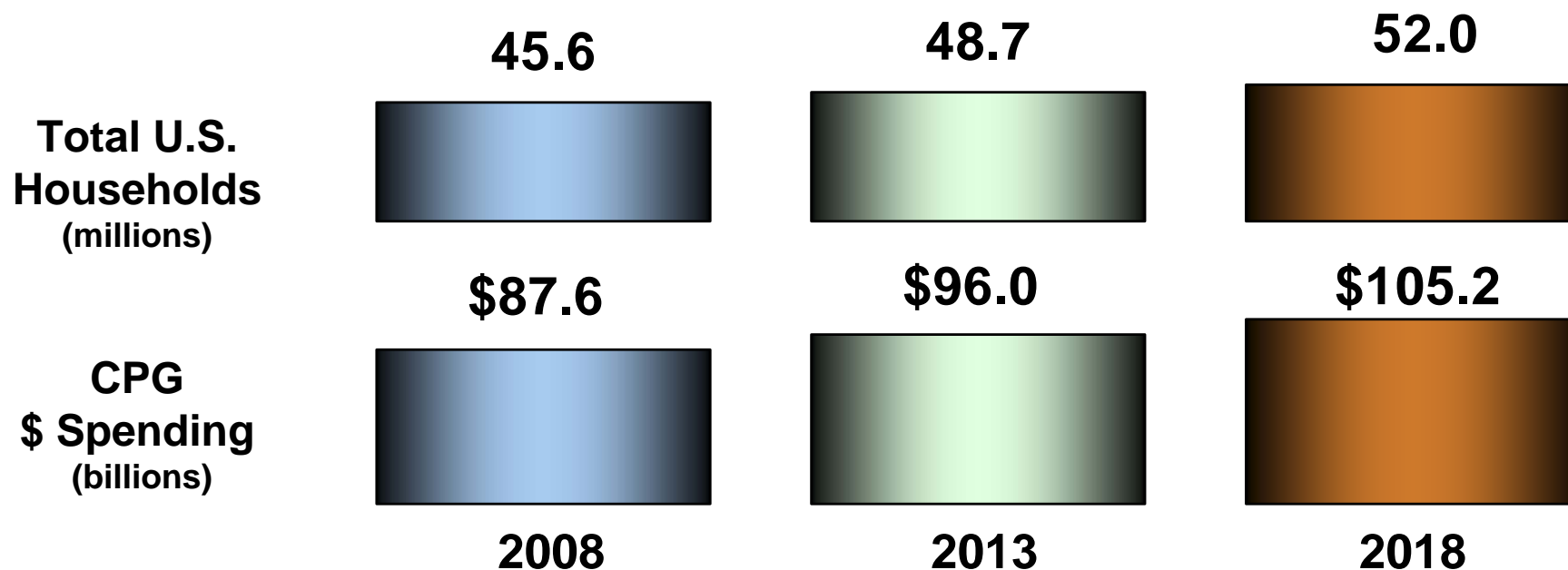
The Opportunity



Conservative growth estimates project U.S. lower income households to grow to over 50 million and for annual CPG spending to climb to over \$100 billion.

This trend represents an incremental 10-year CPG opportunity of \$84.2 billion.

U.S. Lower Income Projections (Based on Census Bureau Survey / IRI Panel Data)



Sources: Dept. of Commerce Census Bureau; 2006 Annual Social and Economic Supplement. 2005 Survey; IRI Consumer Network®, 52 weeks ending 5/11/2008 – 295 categories – all outlets.

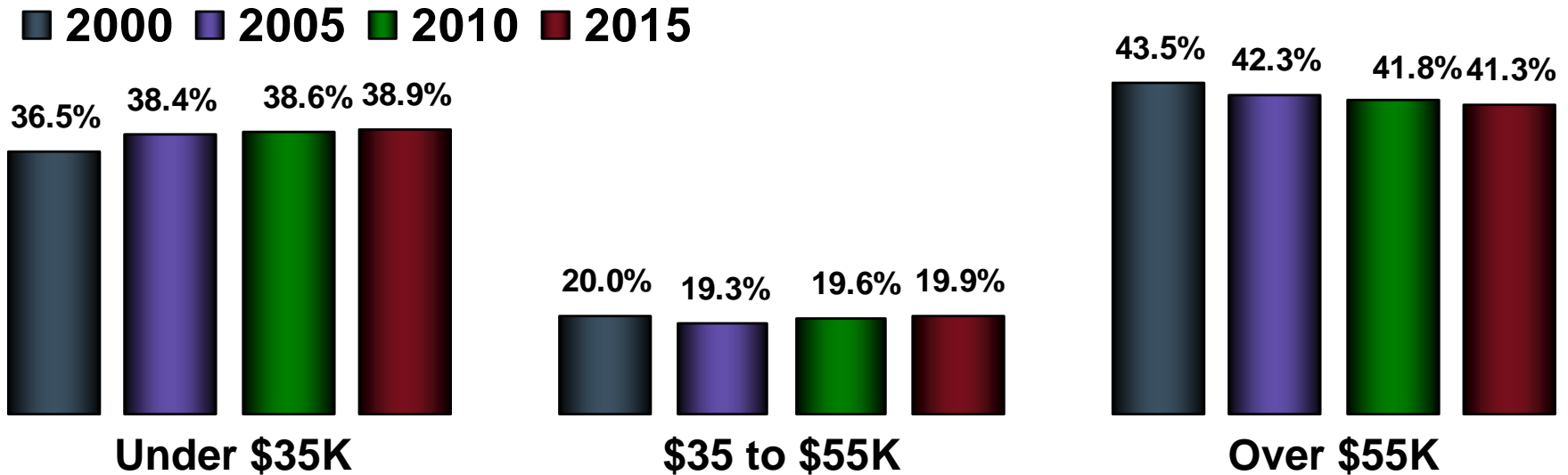
Lower Income Shoppers

The Opportunity



Lower income U.S. households are projected to increase based on a growing Hispanic population and growth in the number of retiring Baby Boomers in the coming decade. Also, many will shift into the middle-income group.

% US Households by Income Group
(Constant 2005 Dollars)



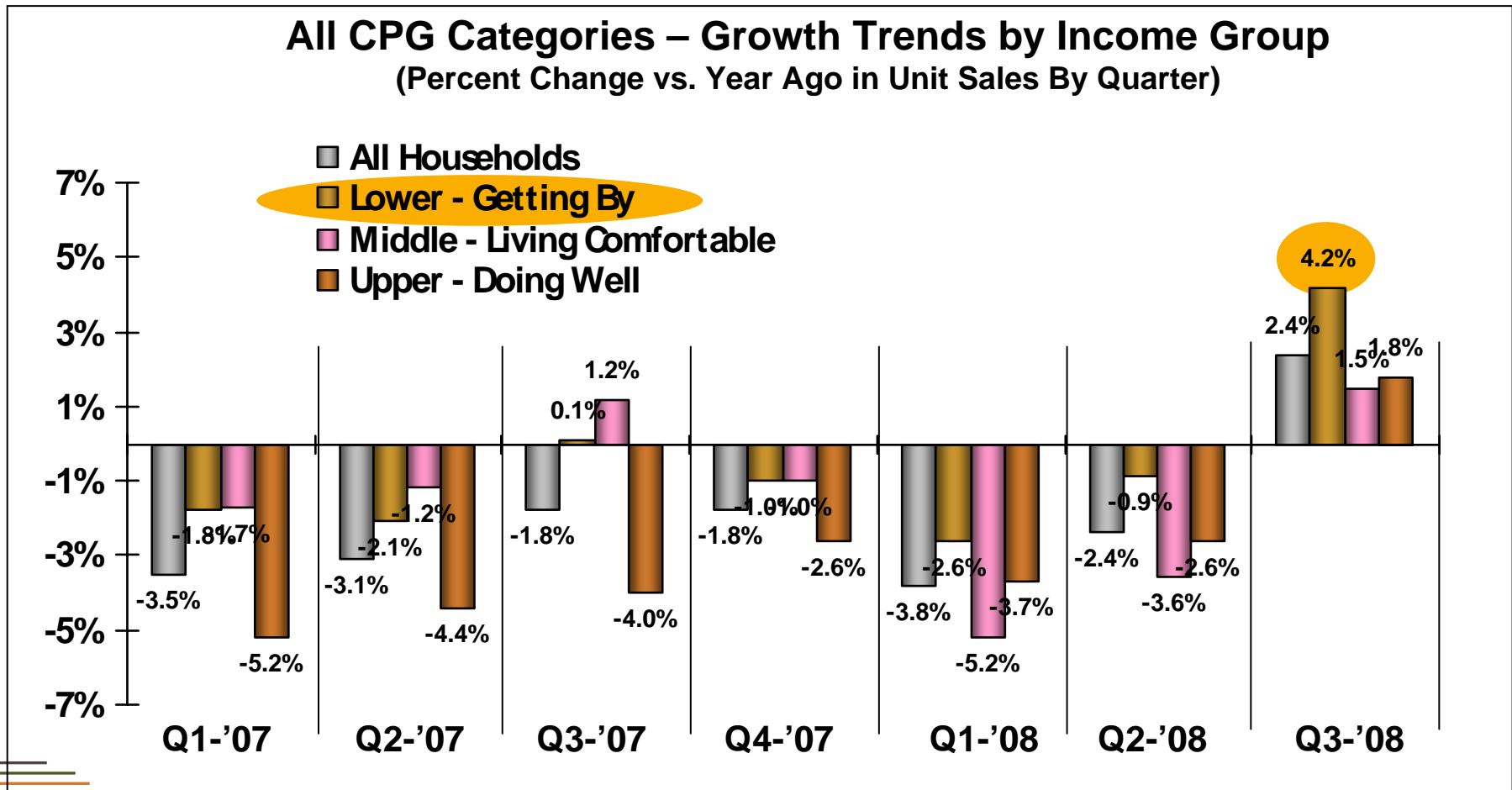
Lower income consumers will represent an even more sizable growth opportunity for retailers who are able to effectively serve this group in the coming decade.

Executive Summary

Spending Trends



The increased economic pressure in the most recent quarter has resulted in increased CPG demand – a dramatic reversal of six consecutive negative quarters – led by lower income shoppers.



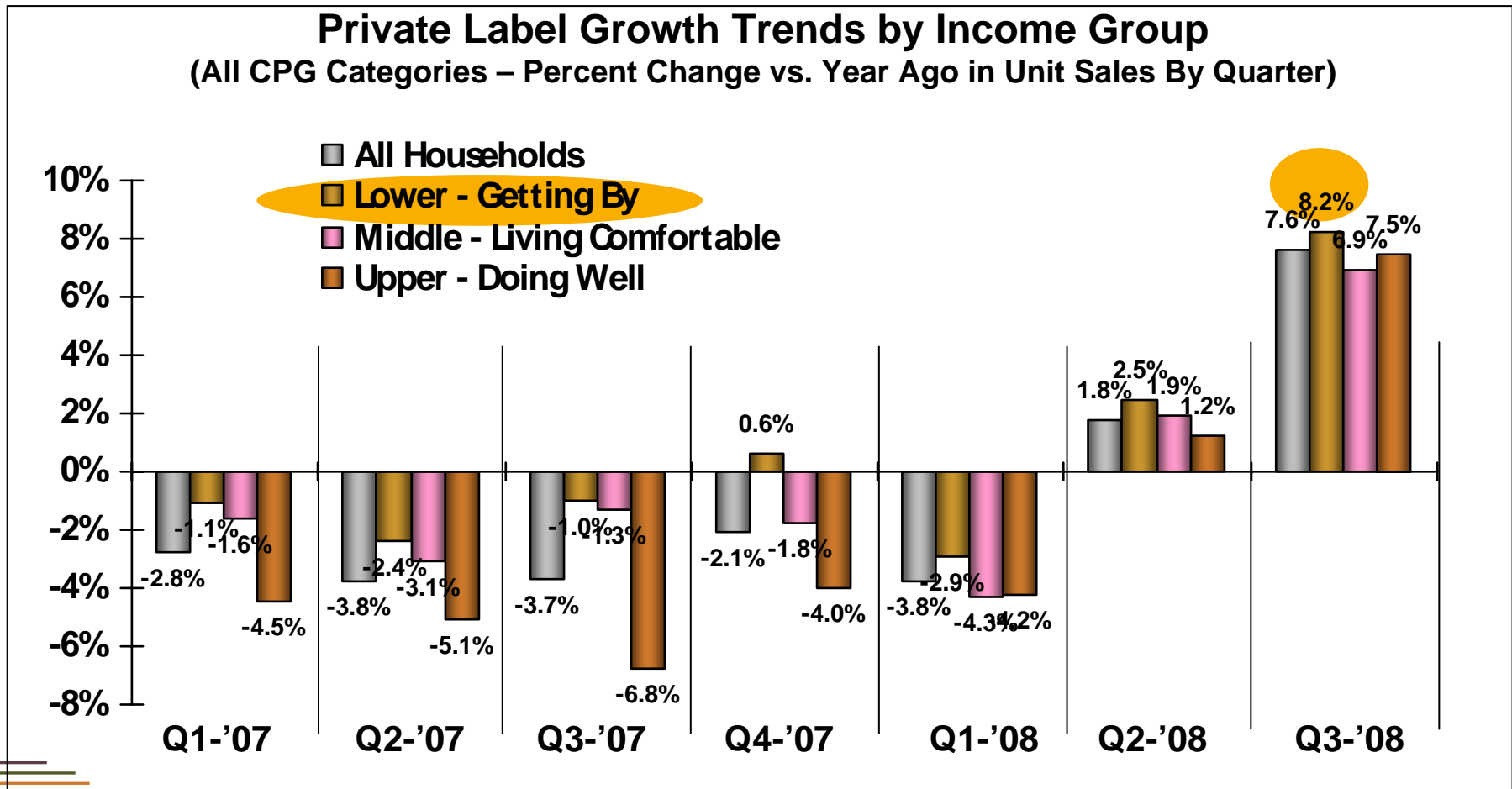
Source: IRI Consumer Network®, all outlets, all CPG categories – food and nonfood combined.

Executive Summary

Spending Trends



Private label unit sales began to recover in Q2 of 2008 with an even more dramatic recovery in Q3 – a trend that is led by lower income shoppers. Today, shoppers across income groups are increasing their private label purchases.








Source: IRI Consumer Network®, all outlets, all CPG categories.

Executive Summary

Lower Income Micro-Segments



Each lower income micro-segment is unique and is driven by a different set of financial circumstances, goals, income sources, and lifestyles.

Micro-Segment	Financial Concerns / Goals	Job Profile / Income Sources	Lifestyle Values
 <p>25-34</p>	<ul style="list-style-type: none"> ▶ Optimistic about getting ahead / worried about debt 	<ul style="list-style-type: none"> ▶ Learning a trade / often two jobs or a single paycheck 	<ul style="list-style-type: none"> ▶ Live on the fly - spontaneous / eat out regularly / friends key
 <p>65+</p>	<ul style="list-style-type: none"> ▶ Worried about healthcare & costs / controlling expenses key 	<ul style="list-style-type: none"> ▶ Social Security / odd jobs / volunteering 	<ul style="list-style-type: none"> ▶ Eat in / TV, family & friends key
 <p>HH w/Kids</p>	<ul style="list-style-type: none"> ▶ Worries about kids' welfare / paycheck to paycheck / can't save 	<ul style="list-style-type: none"> ▶ One or Two low-paying jobs / odd jobs 	<ul style="list-style-type: none"> ▶ Some carryout meals. Kids' school & sports key
 <p>Hispanics</p>	<ul style="list-style-type: none"> ▶ Worries about job security / need multiple incomes to survive 	<ul style="list-style-type: none"> ▶ Seasonal and part time jobs / odd jobs 	<ul style="list-style-type: none"> ▶ Eat as a family / Family gatherings & sports key
 <p>Afr. Americans</p>	<ul style="list-style-type: none"> ▶ Worried about daily needs / shop only with paychecks 	<ul style="list-style-type: none"> ▶ Seasonal and part time jobs / odd jobs 	<ul style="list-style-type: none"> ▶ Prefer fast foods. TV, family & sports key

Food Spending

Lower Income Micro-Segments



Younger households and households with kids are driving growth across key food categories. African American and older household spending has increased notably in salty snacks and chocolate candy – Hispanics in frozen dinners & cereals.

Lower Income Micro-Segment Spending Growth - Top 10 Food Categories

Ten Largest Food Categories- Spending Growth: % Change Dollars/1000 HH 2008 v 2005	Category Size (\$Mil)	Lower Income Shopper Micro-Segments				
		HH Age 25-34	HH Age 65+	Hispanic	African American	HH with Children
Frozen Dinners/Entrees	\$8,244.5	21.9%	4.6%	10.8%	0.1%	18.3%
Salty Snacks	\$7,658.7	15.4%	15.9%	3.1%	9.4%	8.7%
Fresh Bread & Rolls	\$7,440.2	30.7%	6.8%	-1.4%	4.1%	14.8%
Cold Cereal	\$7,289.4	23.3%	3.7%	9.9%	-1.5%	13.0%
Natural Cheese	\$6,913.1	33.1%	6.5%	8.2%	-2.8%	16.6%
Chocolate Candy	\$5,475.7	40.0%	16.6%	5.9%	21.3%	12.6%
Soup	\$4,318.9	24.6%	3.6%	3.5%	0.0%	17.9%
Cookies	\$3,985.6	4.1%	-0.7%	6.0%	-7.8%	-2.8%
Crackers	\$3,959.9	30.3%	3.9%	6.8%	-3.5%	13.6%
Ice Cream/Sherbet	\$3,833.8	9.8%	1.5%	-13.6%	4.7%	0.6%
Total Food Categories*	\$175,971.9	16.6%	5.6%	-0.2%	1.2%	8.2%

* All 135 CPG food categories. Note: Spending growth based on dollars per 1,000 households – IRI Consumer Network®, 52 weeks ending 5/11/2008 v 2005.

Private Label Spending

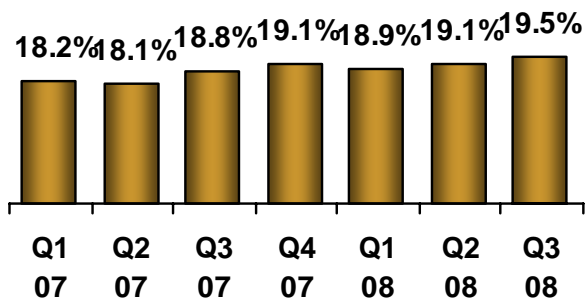
Share of Spending by Income Group



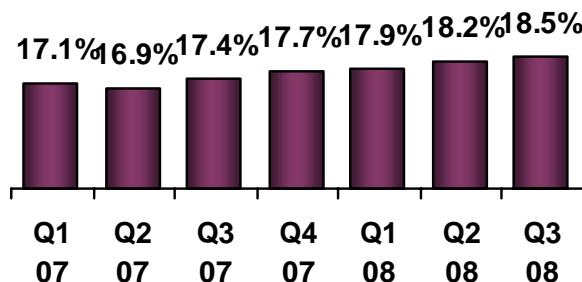
All three income groups are shifting dollars from national and regional brands to private label at a similar pace although upper income shopper groups are still doing some “catching-up” to the lower income group.

Private Label Share of Spending

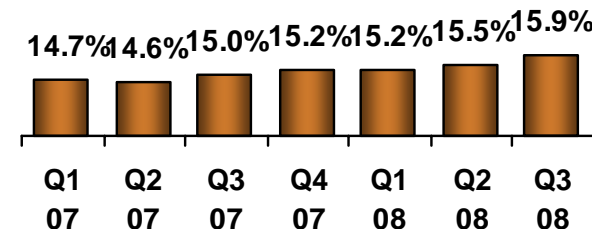
% share CPG dollars by income group



Getting By



Living Comfortably



Doing Well

The current economy shakedown is slowly but consistently increasing the role of store brands in the weekly routine of CPG shoppers. Will a deeper recession ramp up this pace?

Private Label Spending

Share of Spending by Micro-Segment



Looking at food and beverages categories, private label shares vary considerably across micro-segments – illustrating where retailers are doing particularly well in serving lower income shoppers – and where they have untapped opportunities

Lower Income Micro-Segment PL Shares - 15 Larger Food & Bev Categories

15 Larger Food & Beverage Categories with >10% PL Share among Lower-Income HH	Private Label Share of Micro Segments Spending (2008)				
	HH Age 25-34	HH Age 65+	HH with Children	Hispanic	African American
Carbonated Beverages	18%	10%	15%	14%	10%
Milk	64%	60%	63%	61%	52%
Cold Cereal	11%	15%	11%	9%	9%
Fresh Bread & Rolls	32%	27%	36%	32%	29%
Natural Cheese	42%	39%	43%	41%	39%
Soup	14%	14%	16%	10%	10%
Cookies	15%	20%	14%	15%	13%
Ice Cream/Sherbet	32%	29%	31%	31%	23%
Bottled Juices - Shelf-Stable	17%	22%	17%	19%	19%
Crackers	13%	14%	12%	12%	13%
Bottled Water	25%	32%	28%	28%	27%
Refrigerated Juices/Drinks	18%	21%	16%	18%	13%
Luncheon Meats	11%	16%	13%	13%	13%
Breakfast Meats	19%	19%	20%	23%	18%
Frozen Novelties	19%	17%	19%	16%	21%
TOTAL FOOD & BEVERAGES	21%	22%	21%	20%	18%

* Top 15 dollar food and beverage categories with minimum 10% share among the total lower income shopper segment.

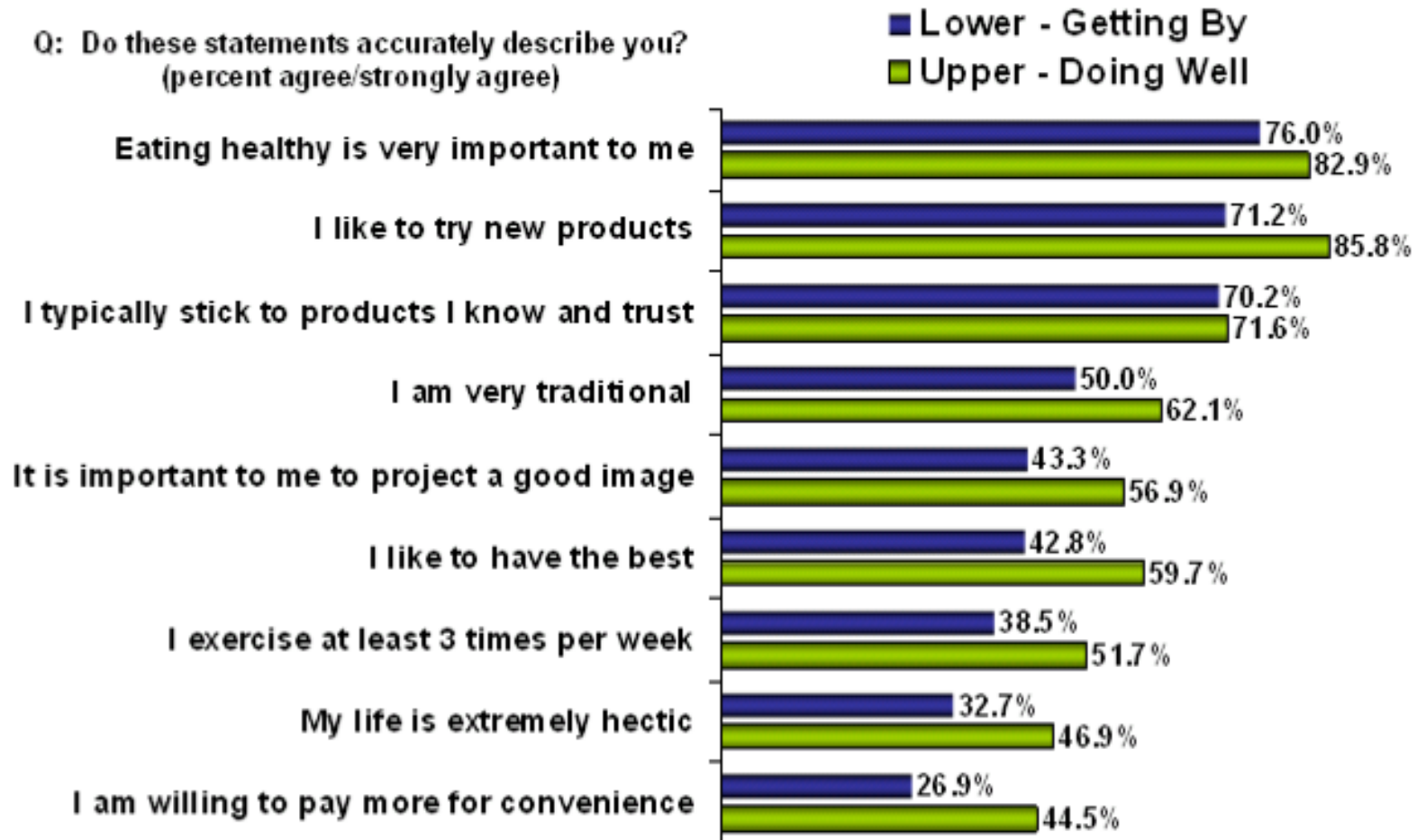
Source: IRI Consumer Network®, 52 weeks ending 5/11/2008 – 295 categories – all outlets.

Shopper Attitudes

Lifestyle Choices



In looking at lifestyle dynamics, lower income shoppers agree that eating healthy is very important. While interested in new products, they are more risk-averse and less attached to national brand image factors than upper income shoppers.



Case Illustration

Sav-A-Lot Limited Assortment Stores



Strategy

Sav-A-Lot recognizes that most lower income shoppers do not need broad category assortments to satisfy their needs. In serving lower income shoppers, Sav-A-Lot, partially owned by Supervalu, has a clear strategy to offer a limited but private label-heavy assortment across all traditional center store food and beverages categories. This private label assortment is complemented by national brands that are typically offered on an in-and-out basis on closeout products. Sav-A-Lot also offers a limited number of high volume produce SKUs in addition to a low income-targeted variety of fresh meats. Despite its limited assortment of about 1,250 base SKUs, Sav-A-Lot's strategy allows a typical lower income household to complete over 75% of its basic needs shopping at Sav-A-Lot.



Sav-A-Lot stores are located in high traffic lower income areas in urban, suburban, and rural areas.

Tactics

Sav-A-Lot has used several tactics to generate loyalty among lower income shoppers.

- ▶ Convenient shopping hours of seven days a week from 7am-10pm. Stores accept cash, checks, and major credit cards and offer a 100% money back guarantee for all private label products.
- ▶ A broad variety of better-for-you food and beverages products offered under the “Healthy For You” private label. Sav-A-Lot features these products in an easy-to-shop section in the first aisle.
- ▶ A fun-to-shop “dollar store” promotional aisle featuring a wide range of general merchandise products all priced at \$1.00 including school supplies, automotive, toys, party supplies, etc.

Case Illustration

Sav-A-Lot Limited Assortment Stores



Impact

Sav-A-Lot's strategy has provided lower income shoppers with a convenient, clean, easy-to-shop store at over 1,150 locations where they can "save up to 40% each day" across most traditional grocery categories. Due to the 100% money back guarantee, loyal Sav-A-Lot shoppers have confidence in the quality of Sav-A-Lot's private label brands. Within its operating markets, Sav-A-Lot has established itself as a convenient money-saving alternative to grocery stores and mass retailers. To effectively communicate this positioning to shoppers, Sav-A-Lot typically finds store locations in close proximity to discount stores including Wal-Mart and K-Mart.



The Sav-A-Lot extreme value strategy extends to several high-volume produce categories that don't require refrigeration.

Shopper Comments

"I just discovered Save-A-Lot and I love it. I was running low on money during the holidays so a friend told me to go there and I would save a bundle. Well, to my surprise I did Save-a-Lot. Bread .65 cents a loaf, eggs large size 18 count only \$1.09, The list goes on and on. They also guarantee their products 100%. If you buy something of theirs and you don't like it, you will get your money back. So you lose nothing to give Save-a-Lot a try. I still buy some items at my regular grocery but for most of my items I shop at Save-a-Lot!!" -- Posted at thirtyfun.com

"I live in Chalmette, Louisiana where Hurricane Katrina destroyed everything. All my neighbors and friends loved going to Save-A-Lot in Chalmette to save a lot of money and get great deals on everything in the store. After the storm, the store is still intact but it looks like no one is doing anything to repair it and everyone I talked to all wish Save-A-Lot would come back. We sure miss you!" -- Posted at thriftyfun.com

Retailer Action Steps

The IRI Process



To support this study, IRI mined its proprietary data sources to provide category-by-category and channel-by-channel perspectives on spending patterns of lower income household segments. 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 lower income household segmentation as a means to differentiate from competitors.
- ▶ understand lower income spending nuances and proactively adjust store offerings.
- ▶ validate the required steps towards success and execute and drive the process.

Phase	The IRI Lower Income Shopper 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



Lower Income II Report: *Customization Opportunities*

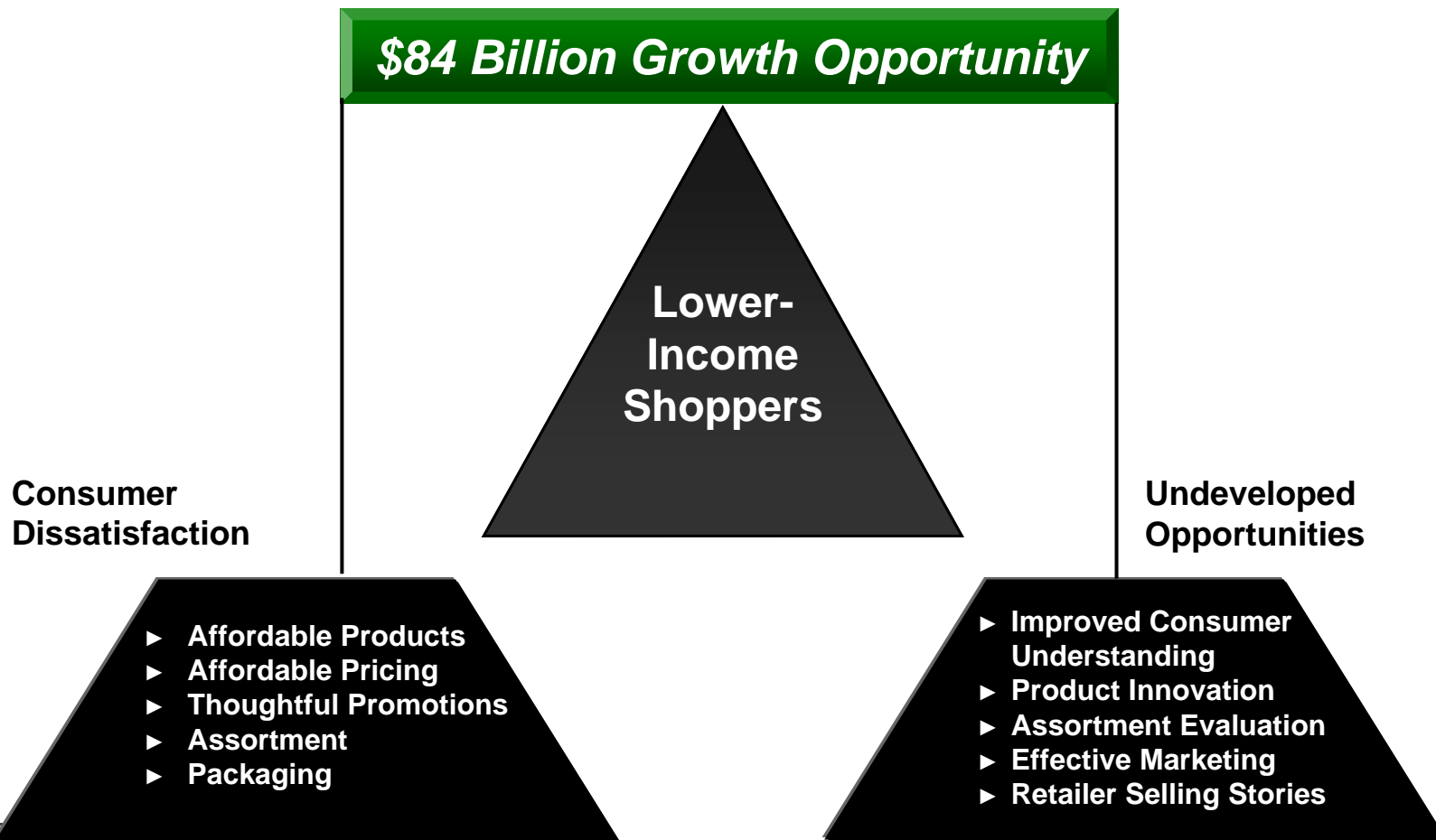


Lower Income II Report

Customization Opportunities



Manufacturers have key opportunities to address the needs of lower-income shoppers. The \$84 billion growth opportunity hangs in the balance.....



Report Customization

Manufacturer Opportunities



Manufacturer Customization – Key Deliverables

- ▶ Determine your lower-income shopper share and growth performance
 - ▶ For your categories
 - ▶ For your brands
 - ▶ For lower-income vs. middle-income vs. higher-income segments
 - ▶ For the five lower-income micro-segments
- ▶ Benchmark your performance to calculate your opportunity
- ▶ Identify opportunity gaps “Where/why are we getting less than our fair share?”
 - ▶ Affordability of Current Offerings
 - ▶ Level of Product Development and Innovation
 - ▶ Packaging Issues
 - ▶ Marketing and Messaging Issues
 - ▶ Retail Channel Issues
- ▶ Develop recommended action steps and detailed workplan

Report Customization

Manufacturer Opportunity Calculator



Categories	Lower-Income Shopper - Opportunity Calculator									
	F&B	Total Category Share			Your Company / Brand Share			Your \$ Opportunity Gap		
	Total Category \$ Sales (millions)	Lower Income	Middle Income	Higher Income	Lower Income	Middle Income	Higher Income	Lower Income	Middle Income	Higher Income
MEALS / MEAL COMPONENTS										
Bread	\$11,715.1									
Cold Cereal	\$8,310.2									
Frozen Dinners and Entrees	\$8,236.6									
Canned Soup	\$5,211.9									
Frozen Vegetables	\$3,778.9									
Cheese	\$13,208.6									
Canned Fruit	\$2,297.5									
Frozen Pizza	\$3,729.8									
Lunchmeats	\$4,588.8									
SNACKING										
Yogurt & Yogurt Drinks	\$4,632.6									
Ice Cream and Novelties	\$8,317.1									
Chocolate Candy and Chewing Gum	\$9,154.9									
Salty Snacks	\$11,027.5									
Granola Bars & Cereal Bars	\$3,374.8									
Crackers	\$5,081.9									
Cookies	\$5,319.8									
BEVERAGES										
Carbonated Soft Drinks	\$17,063.4									
Shelf-Stable Fruit Juice	\$6,102.0									
Sport & Energy Drinks	\$3,849.4									
Refrigerated Fruit Juice	\$5,523.6									
Your Lower-Income Opportunity	➔							\$ _____		

Report Customization

Basic Workplan



Customized Category / Brand Analysis and Diagnostic

Project Action Steps	Week 1	Week 2	Week 3	Week 4	Week 5	Week 6
Phase 1 - Data Collection						
Create custom panel groups						
Collect custom panel data for share and growth						
Phase 2 - Data Analysis / Benchmarking						
Benchmark share/growth performance						
Calculate opportunity gaps						
Provide opportunity gap analysis to client						
Phase 3 - Opportunity Analysis						
Diagnose cause of gaps vs. category/competition						
Document findings and recommendations						
Develop category/brand action plan						
Phase 4 - Custom Report						
Finalize custom report						
Present client findings on-site						





Lower Income II Report: *Leveraging Your Opportunity*



Lower Income II Report

Business Challenges Addressed in Report



IRI is committed to leveraging all of its resources to bring actionable and thought-provoking insights to retailers and manufacturers.

The Lower Income Shopper II Report will allow you to:

- » Facilitate **collaboration** between retailers and manufacturers in supporting lower income **shopper segmentation and store clustering** initiatives that can drive sales and margin performance.
- » Develop **innovative private label products** geared towards key lower income shopper segments to successfully differentiate the store and **enhance shopper loyalty**.
- » Develop an effective **lower income shopper communication strategy** and become a value-added source for consumer education from each lower income segment.
- » Re-think **space allocations and merchandising** in ways that prepare you to proactively prepare for and capitalize on lower income spending trends.



Lower Income II Report

Benefit Overview



SEE

what you're missing

Distinct channel, category, and shopping trip purchase patterns of key lower income shopper micro-segments and how knowledge of these patterns presents key opportunities at retail.

ACT

faster and with
greater confidence

Fact-based support for impactful lower income shopper segmentation, store clustering, and other initiatives that you can implement across traditional and non-traditional channels.

WIN

at the shelf

Action plan for excelling in lower income segmentation as a means to effectively differentiate the center store and drive shopper loyalty among lower income shopper segments.



Lower Income II Report

More Information



- » Report and on-site presentation is \$40,000
- » Discounts available through our subscription program
- » Deliverable is a PowerPoint presentation with 120 + 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

