



Price, Promotion & Merchandising: The Reinvention of CPG Marketing

IRI Times & Trends: January 2010





INSIGHT

- » After a surge in 2008, CPG prices went through a deflationary period in 2009; analysts predict that the deflationary period has come to an end, with low-to-moderate price increases expected for 2010
- » Though the recession has eased, consumers remain entrenched in deal-seeking behavior; CPG marketers are scrambling for innovative ways to offer value in a manner that will forge solid and lasting relationships with recession-weary consumers
- » Across channels, 54% of categories experienced reduced lift in 2009 versus 2008; drug channel declines were sharper versus grocery, and versus the industry as a whole

ACTION

- » Monitor price point, price sensitivities and price gaps on a frequent basis to ensure that pricing strategies remain in line with corporate and partner goals, as well as with the needs of key consumer segments
- » Broaden merchandising consideration sets to consider new/evolving technologies and techniques; tightly target programs against high-potential categories and segments
- » Develop region and store-specific merchandising strategies to ensure maximum relevance and response; aggressively test prelaunch and track response to enable mid-program modifications



INSIGHT

- » Merchandising is heavily leveraged to drive purchase behavior across discretionary categories and key meal ingredient /meal component categories
- » With a solid reputation for value and quality, store-brands are well-positioned to compete in a recessionary environment; to date, retailers efforts around store brand merchandising fall short of efforts put forth by marketers of national brands

ACTION

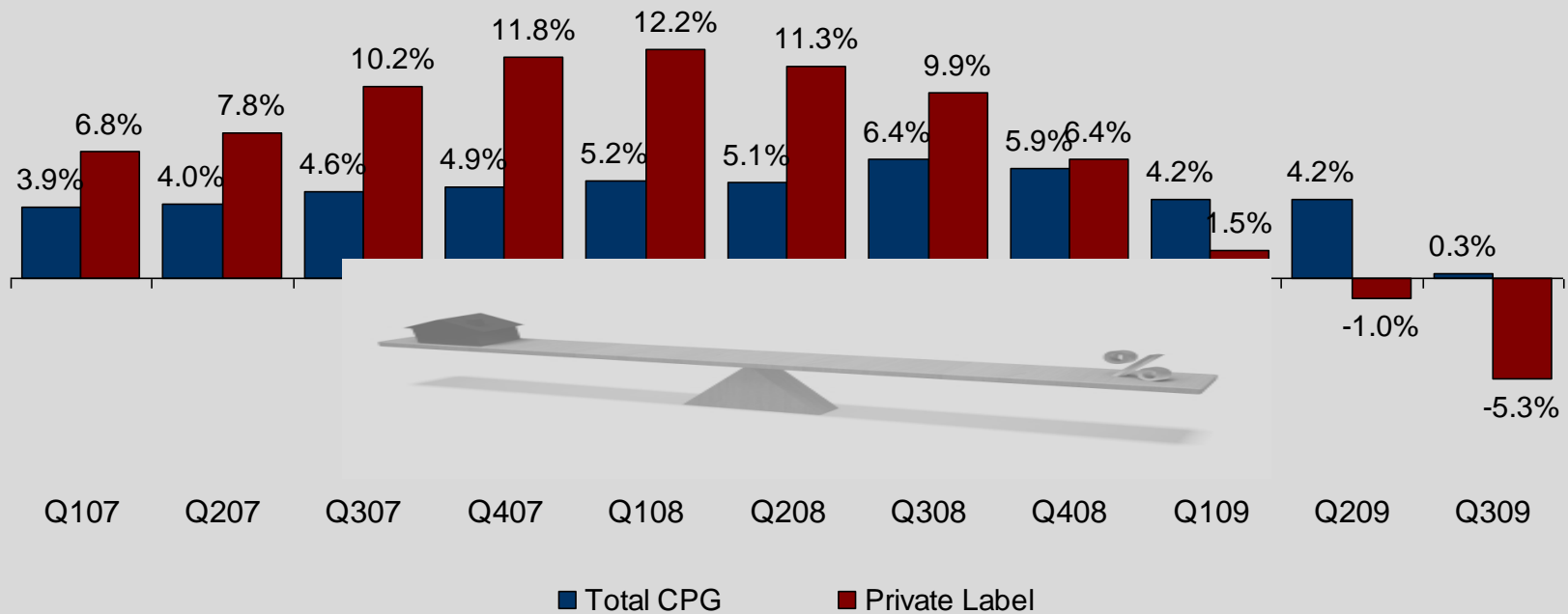
- » Drive purchase behavior with solutions-based merchandising programs prominently featuring categories closely linked with at-home and from-home food rituals
- » Carefully cultivate knowledge repositories to create knowledge-based merchandising and marketing programs; leverage promotional and in-store to prominently highlight store brands as a quality and value-oriented alternative to nationally branded CPG solutions

Pricing Activity



CPG retailers and manufacturers are locked in a dance that seeks to bring much sought-after price relief to consumers without jeopardizing thread-bare margins.

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



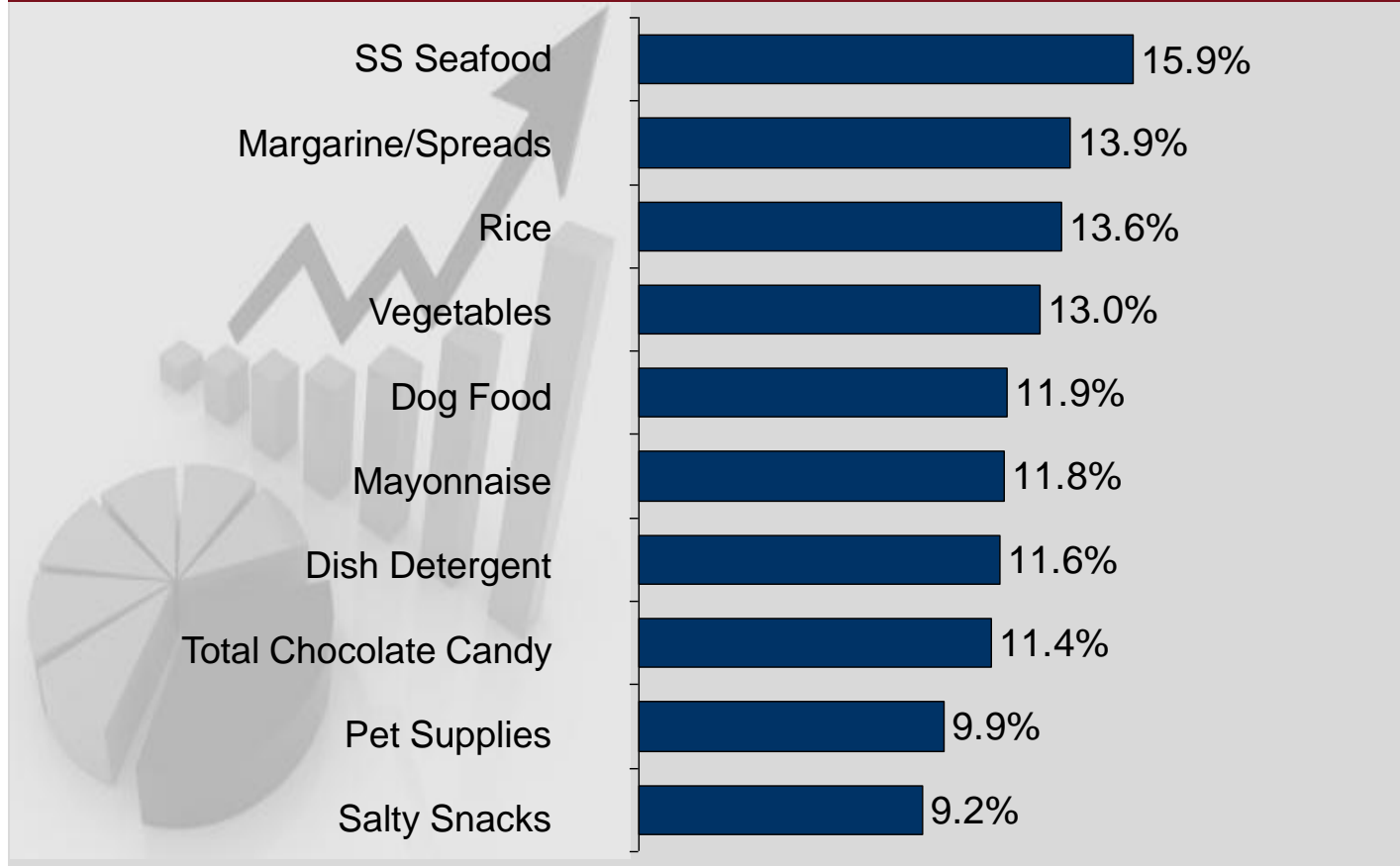
Source: IRI MarketInsight™; 13 weeks ending 4/1/2007-9/27/2009 versus same periods prior year

Pricing Activity



Meal ingredients and meal components are well-represented among the ranks of highest price increase categories.

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

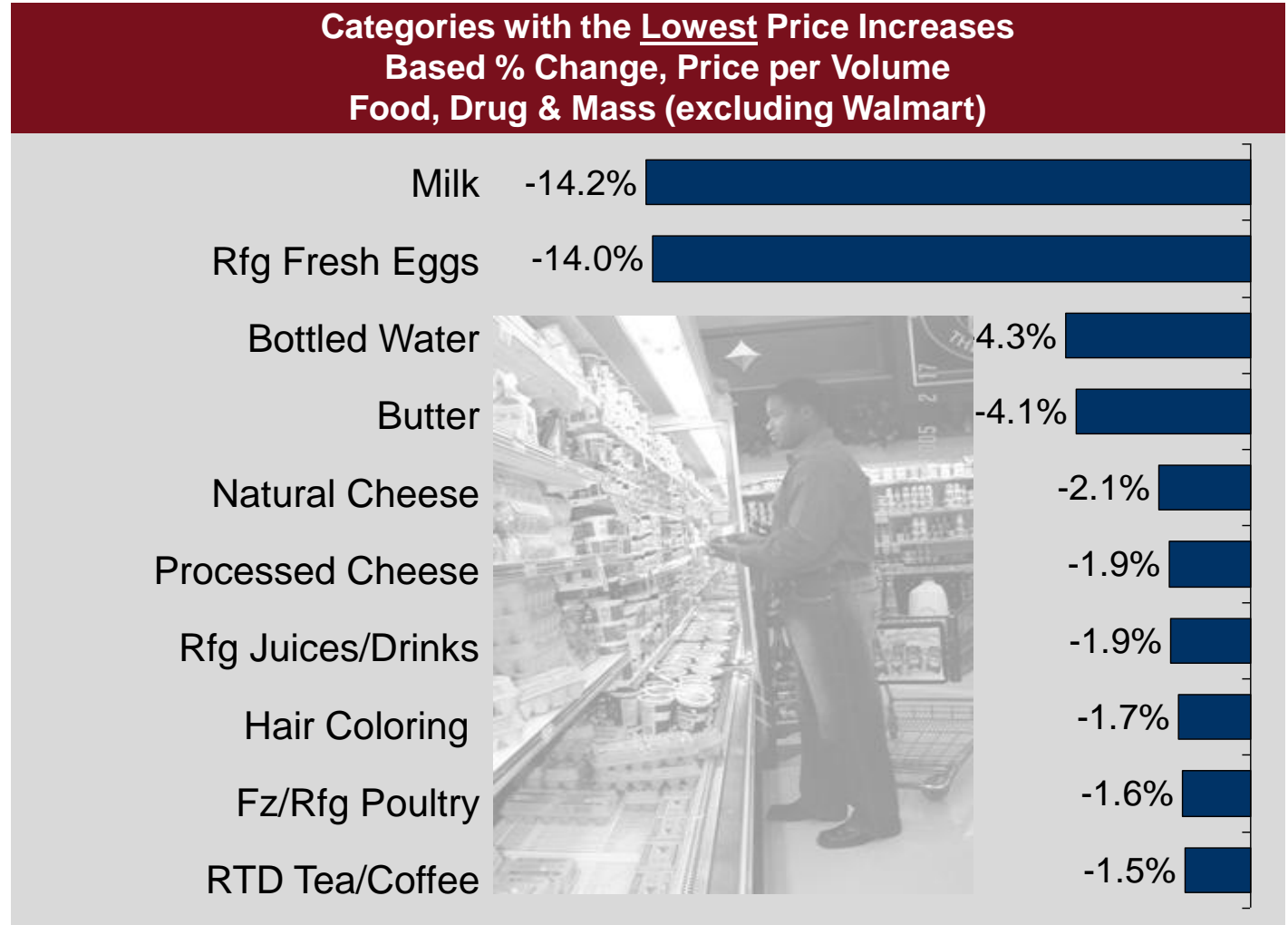


Source: IRI MarketInsight™; 52 weeks ending 9/27/2009 versus same period prior year; Among Top 100 Categories. *Note: excludes Laundry Detergent, which experienced average price per volume increase of 32%, due largely to new, more concentrated formulas.*

Pricing Activity



Five of the ten categories experiencing the lowest price increases over the past 12 months are dairy categories.



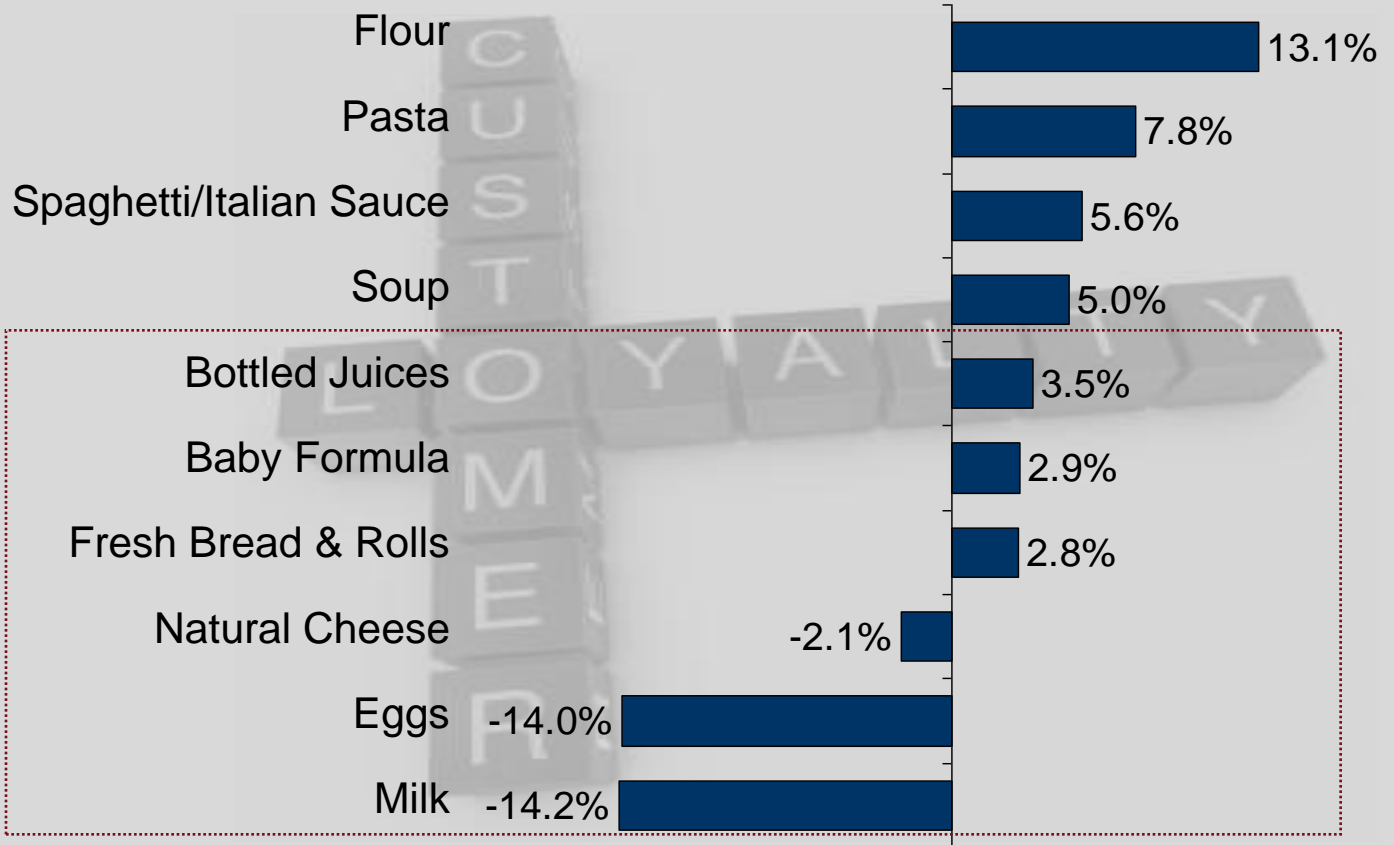
Source: IRI MarketInsight™; 52 weeks ending 9/27/2009 versus same period prior year; Among Top 100 Categories.

Pricing Activity



With consumers well-entrenched in money-saving strategies, CPG marketers with the ability to provide innovative money-saving solutions will forge lasting relationships with recession-weary consumers.

Price Increases Across Key Staple Categories
Based % Change, Price per Volume
Food, Drug & Mass (excluding Walmart)



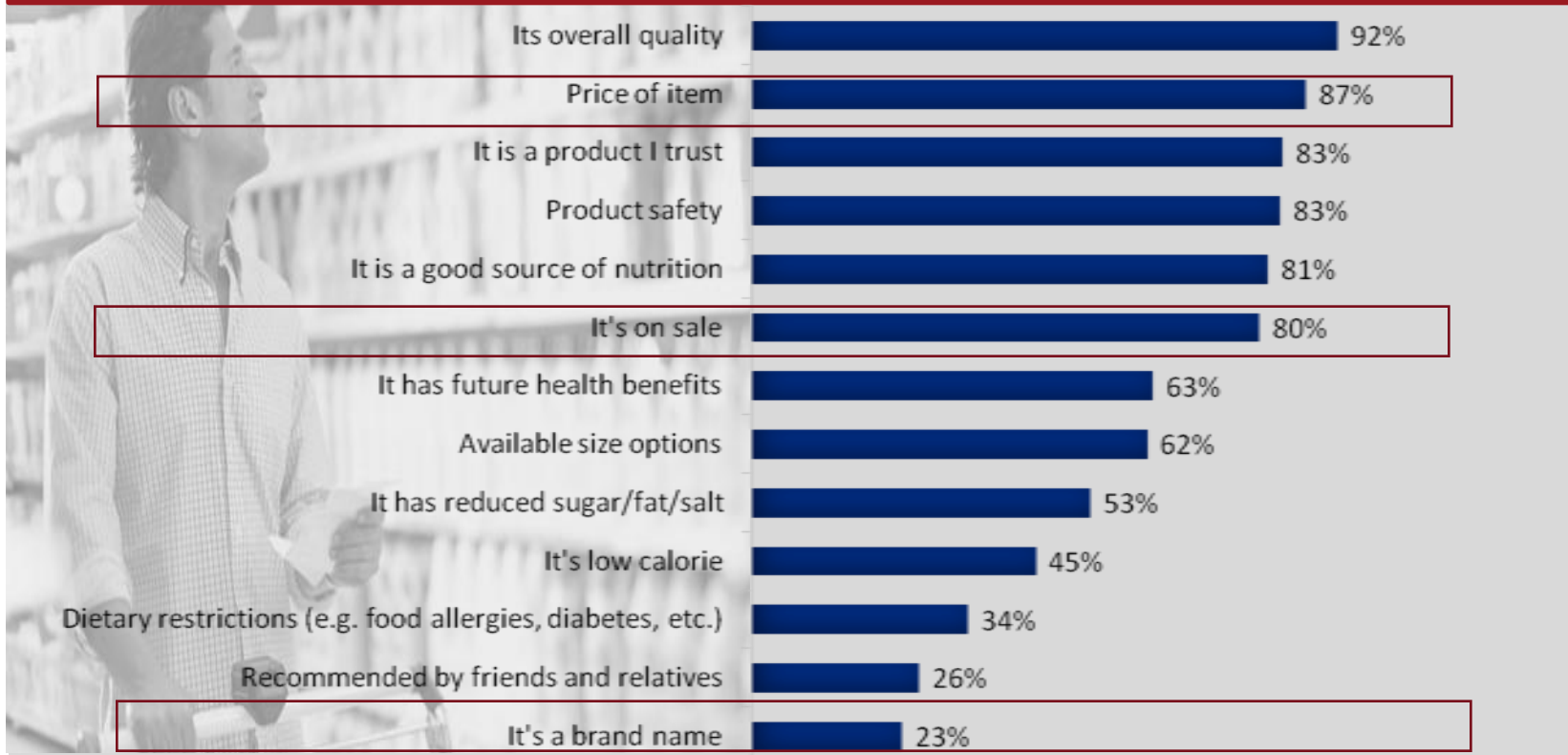
Source: MarketInsight; 52 weeks ending 9/27//2009 versus same period prior year; Among Top 100 Categories

Pricing Activity



Product selection is becoming an increasingly complex task, elevating the need for an intimate understanding of the needs and wants.

Important Factors in Product Selection % of Shoppers Rating Factor as “Important” or “Very Important”



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

Pricing Activity



Deal-seeking behavior remains escalated and CPG marketers are leveraging a variety of strategies to connect with shoppers and protect and grow share in a volatile environment.

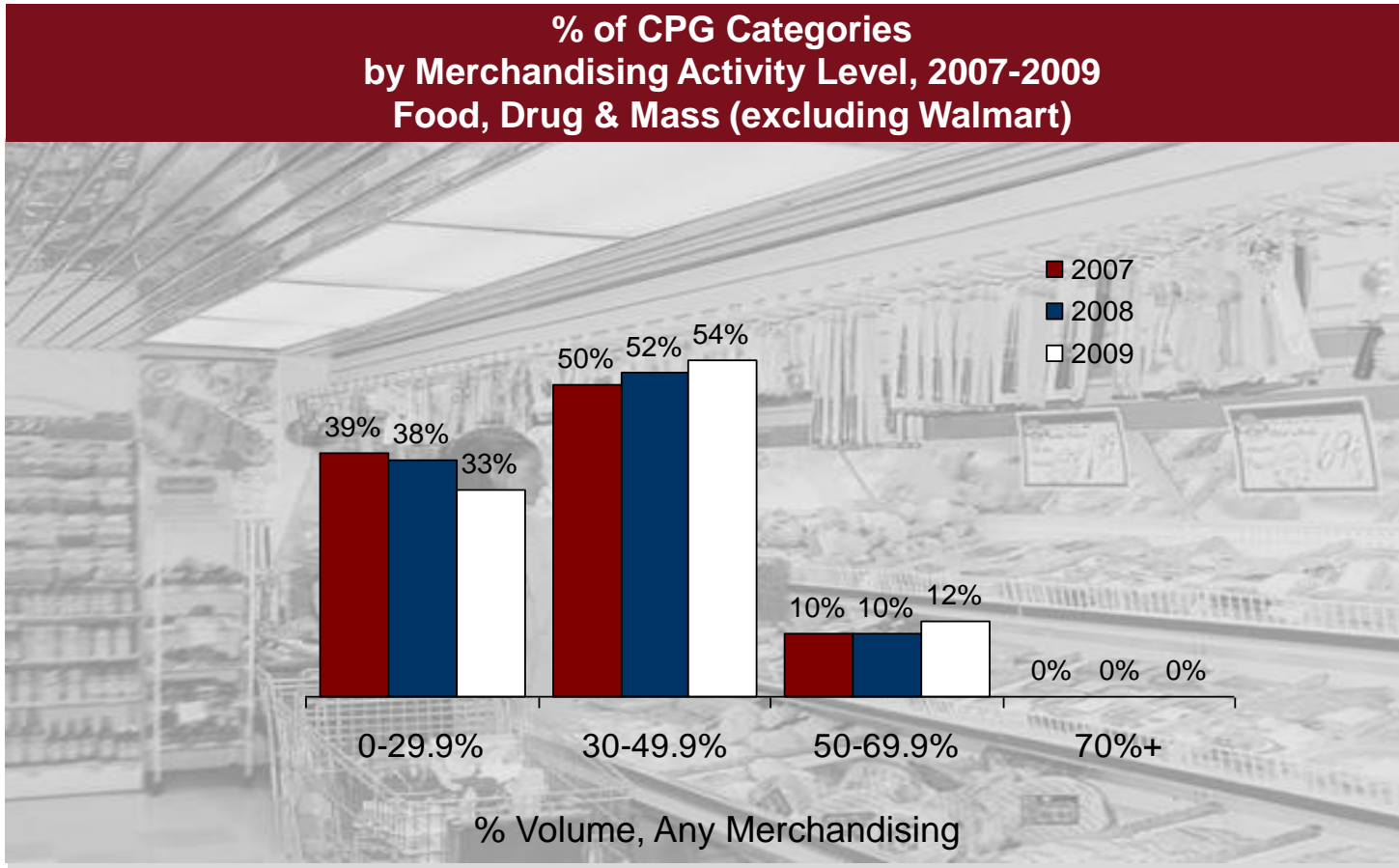


Source: IRI 2010 FMI Economic Survey; Americanism Study: IRI Economic Trend Database™, IRI AttitudeLink™ Survey of 1,067 Consumers; Q42008

Merchandising Activity



After several years in decline, merchandising activity is staging a comeback.

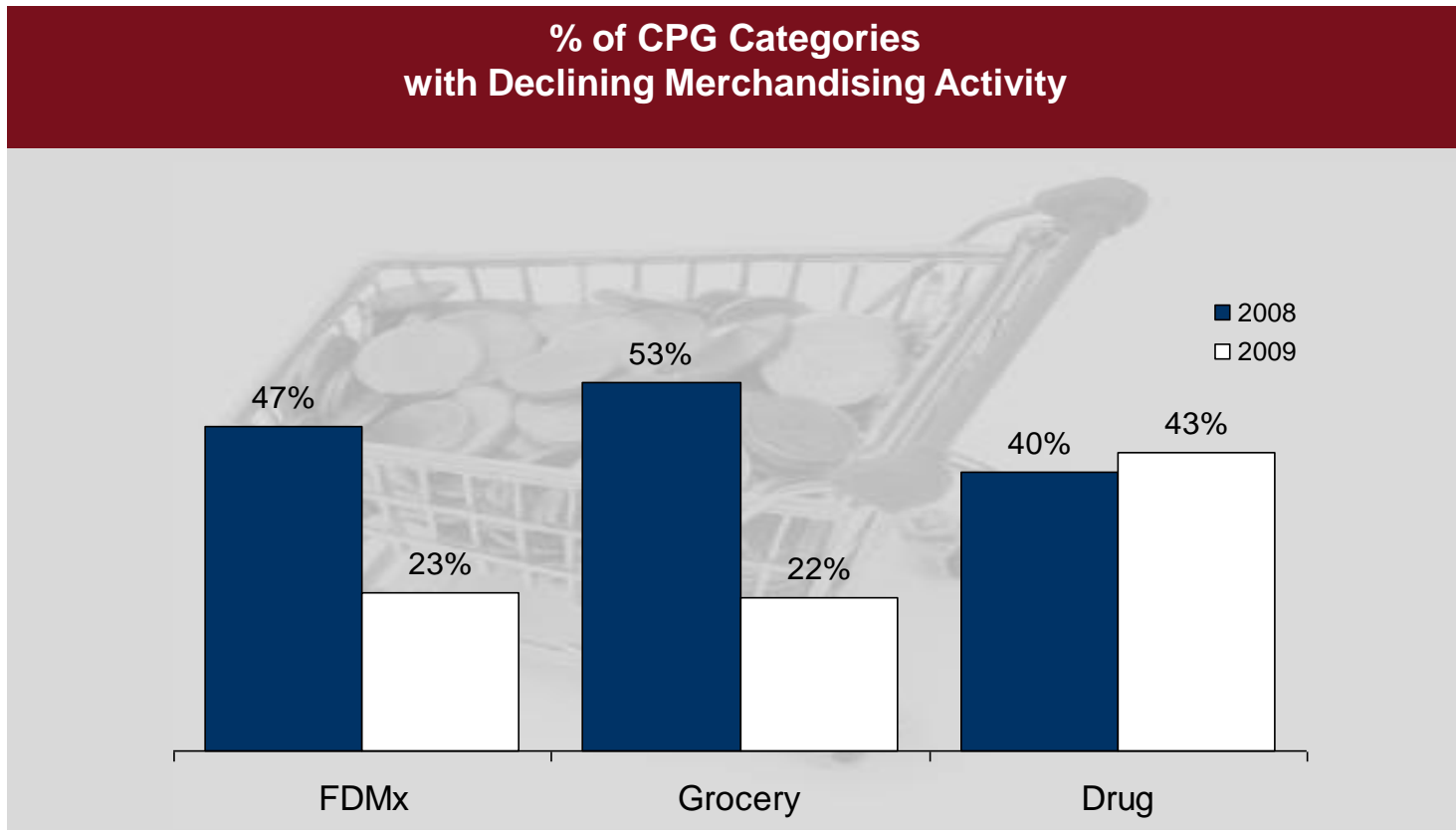


Source: IRI MarketInsight™; 52 weeks ending 11/1/2009 versus same period prior year; calendar year 2008 & 2007 versus same period prior year

Merchandising Activity



Merchandising support is demonstrating particularly sharp changes in the grocery arena.



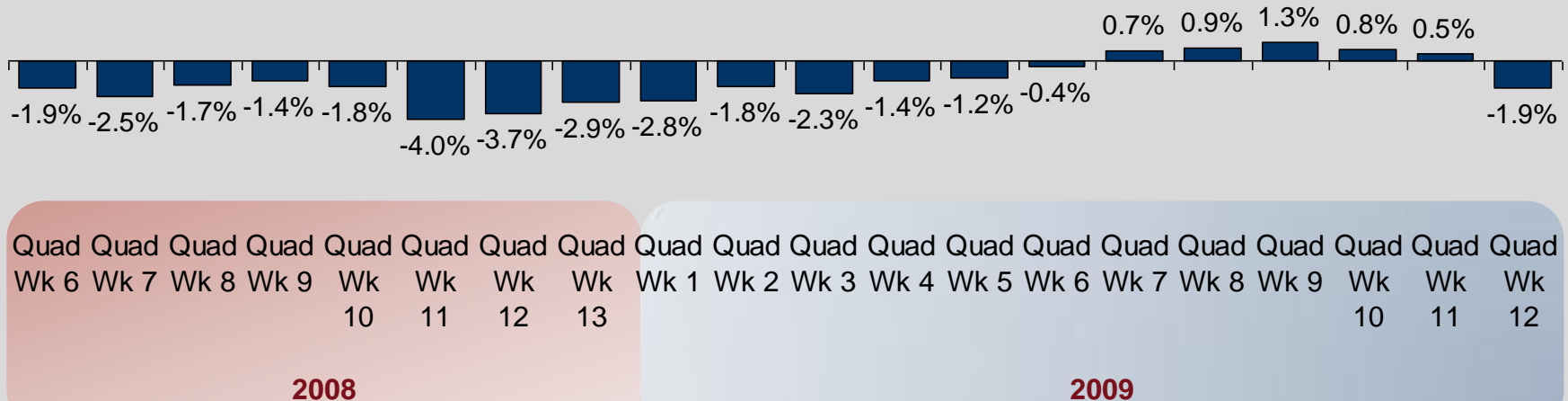
Source: IRI MarketInsight; 52 weeks ending 11/1/2009 versus same period prior year; calendar year 2008 & 2007 versus same period prior year

Merchandising Activity



At the end of 2008 and into 2009, display count declines slowed in response to recessionary pressures and consumers' quest for low-cost CPG solutions.

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

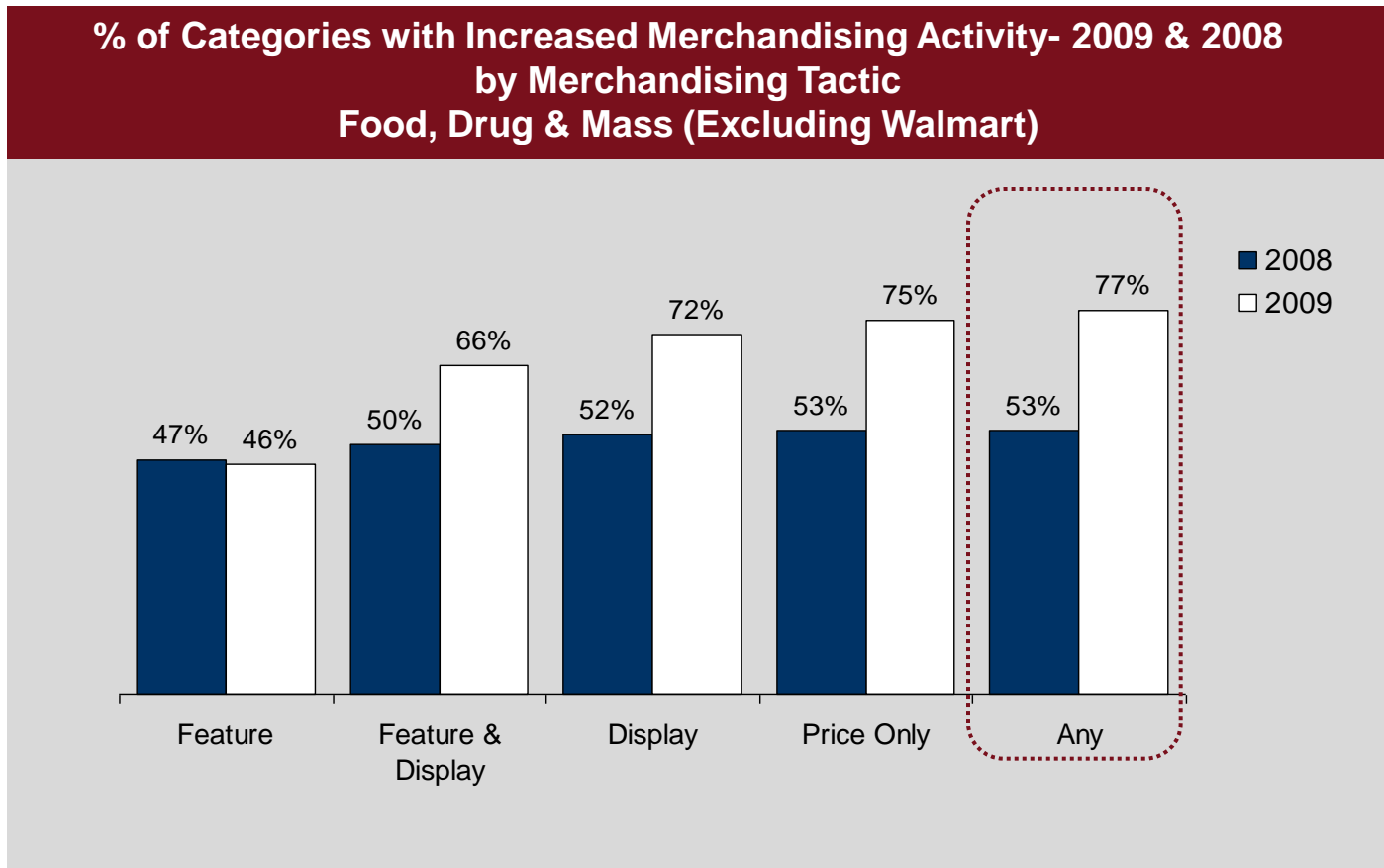


Source: IRI MarketInsight™; 13 weeks ending 4/1/2007-9/27/2009 versus same periods prior year

Merchandising Activity



Activity has escalated across a majority of merchandising tactics as retailers work to bring consumers much sought-after price relief.



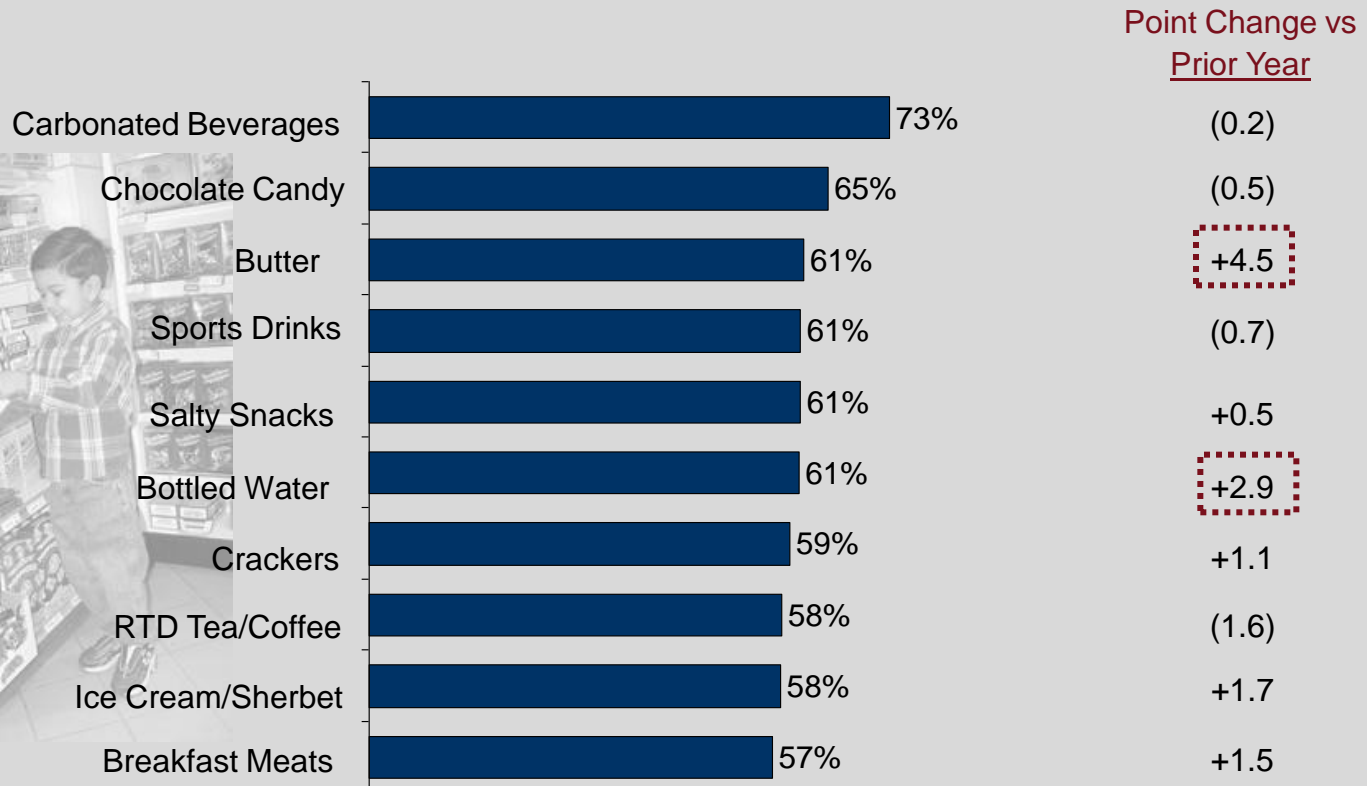
Source: IRI MarketInsight™; 52 weeks ending 11/1/2009 versus same period prior year; calendar year 2008 versus same period prior year

Merchandising Activity



CPG marketers are leveraging merchandising to raise the profile of discretionary and other struggling categories in hopes of spurring sales in a tight economy.

Top 10 Categories by Merchandising Activity Level
Food, Drug & Mass (Excluding Walmart)
% Volume, Any Merchandising

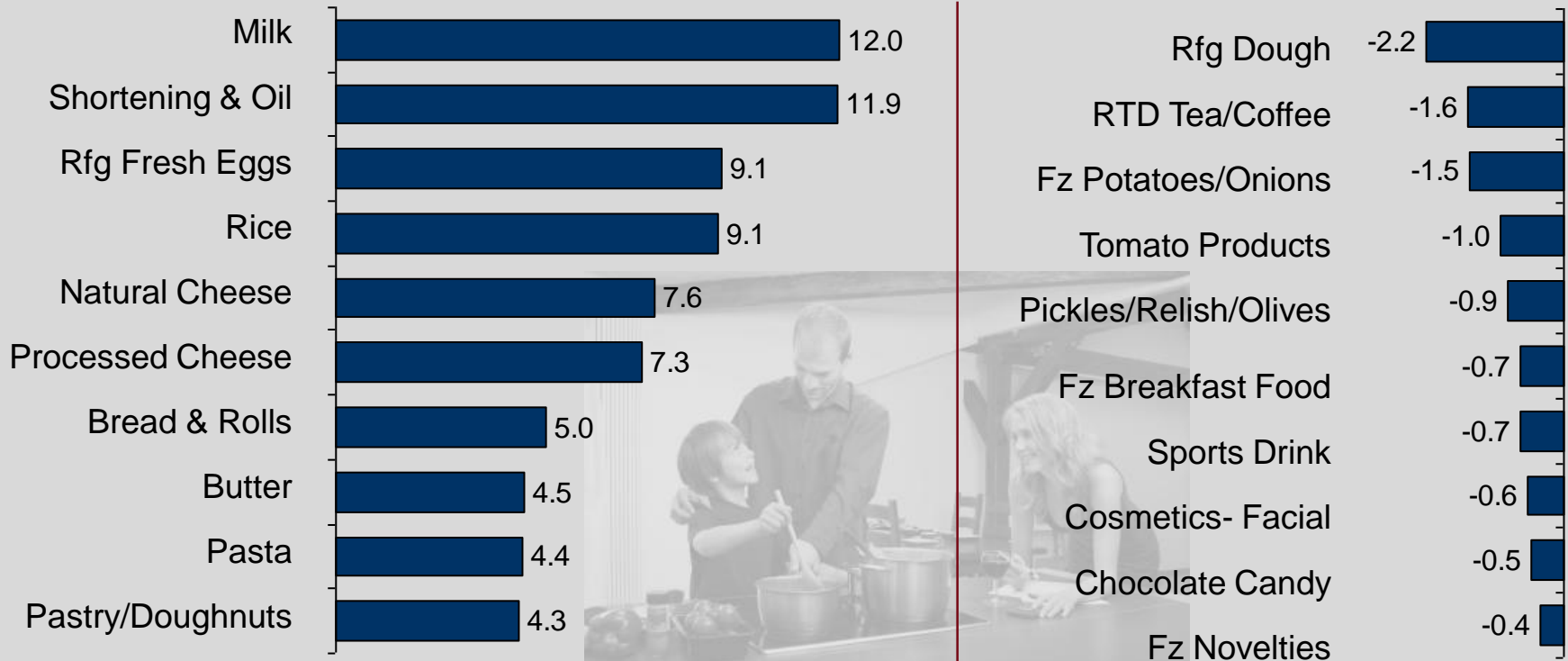


Source: IRI MarketInsight™; 52 weeks ending 11/1/2009; Among Top 100 Categories

Merchandising Activity



The ranks of categories seeing the largest increases in merchandising activity are illustrative of CPG marketers' efforts to cater to consumers' stepped-up at-home meal rituals.



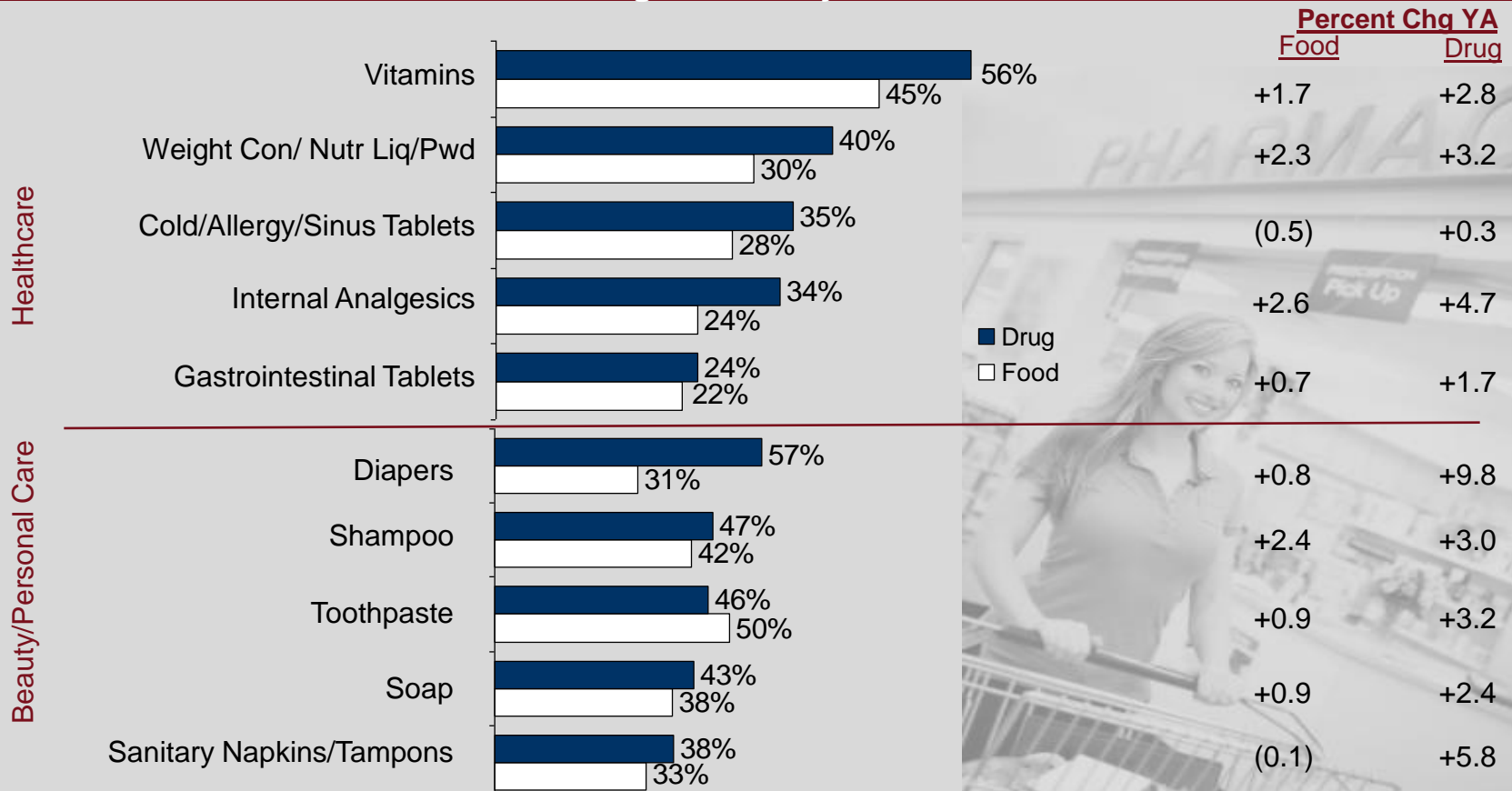
Source: IRI MarketInsight™; 52 weeks ending 11/1/2009; Among Top 100 Categories

Merchandising Activity



Within the drug channel, merchandising across key health and beauty categories has increased significantly.

**% Volume, Any Merchandising
Among Leading Health & Beauty Care Categories
Drug vs Grocery Channel**

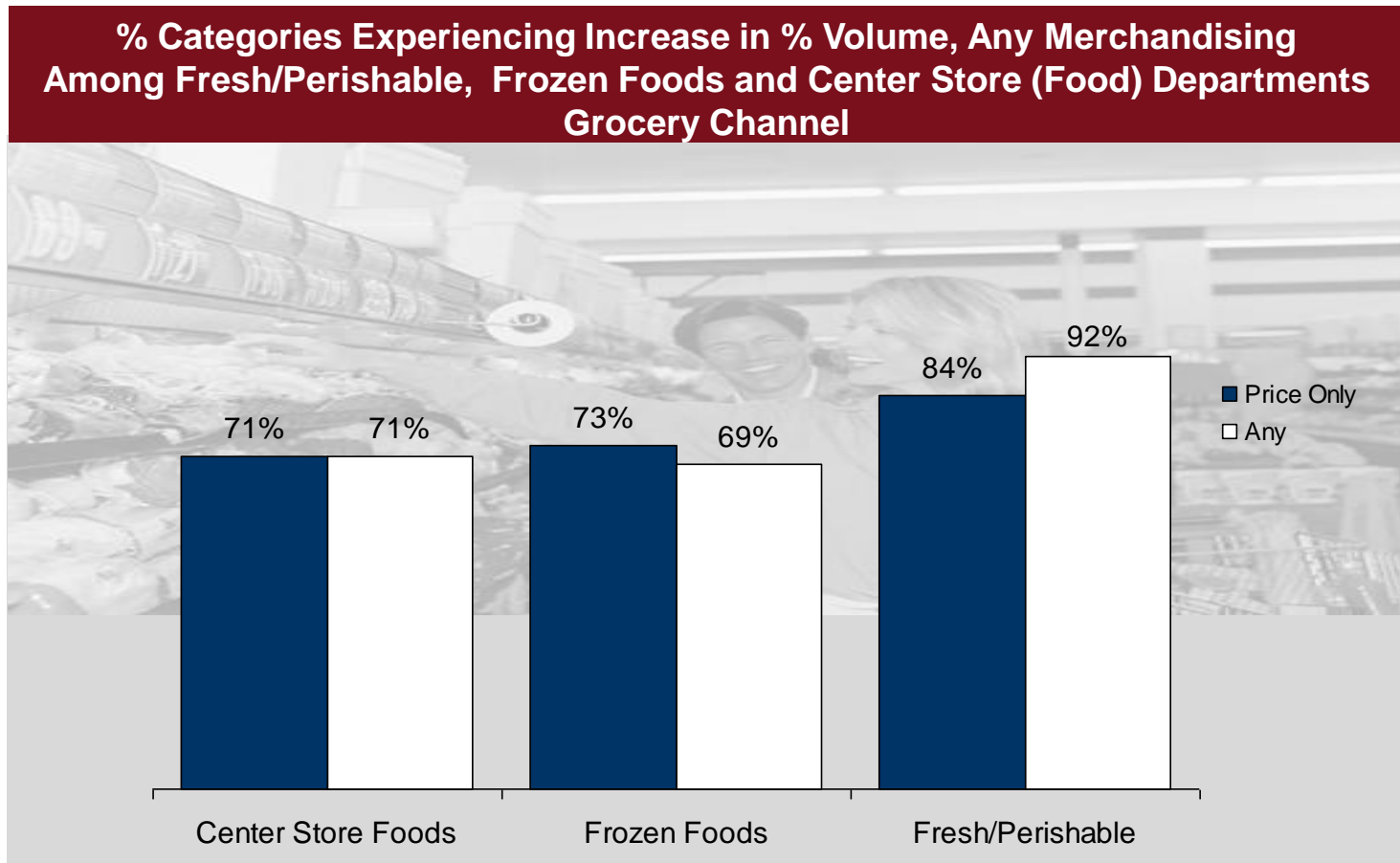


Source: IRI MarketInsight™; 52 weeks ending 11/1/2009; *Note: Among Top 100 CPG categories based on FDMx dollar sales.

Merchandising Activity



CPG marketers have stepped up focus on meal-related departments, with price-only actions taking center stage.

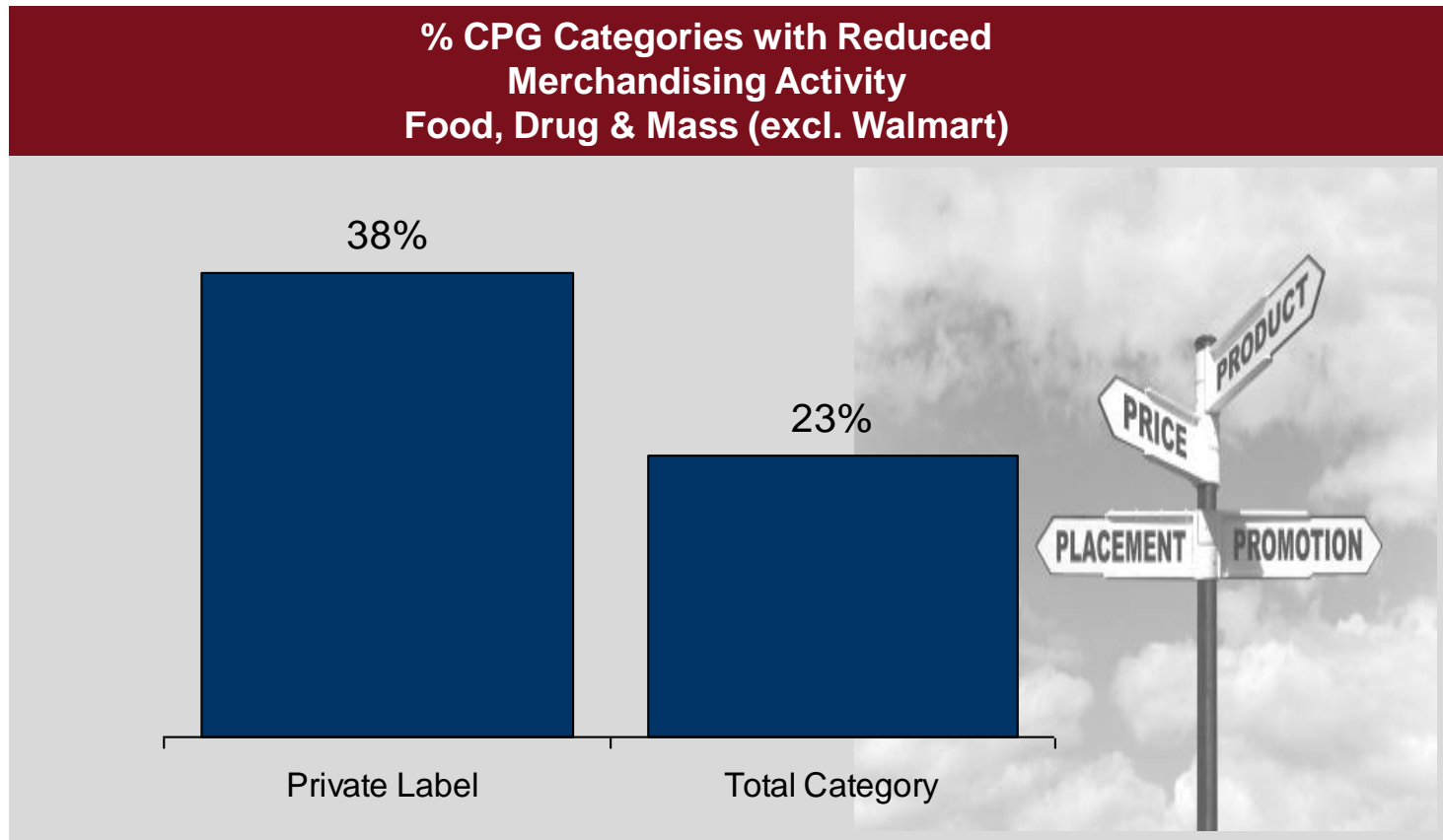


Source: IRI MarketInsight™; 52 weeks ending 11/1/2009 versus same period prior year

Merchandising Activity



Merchandising of store brands is on the rise.

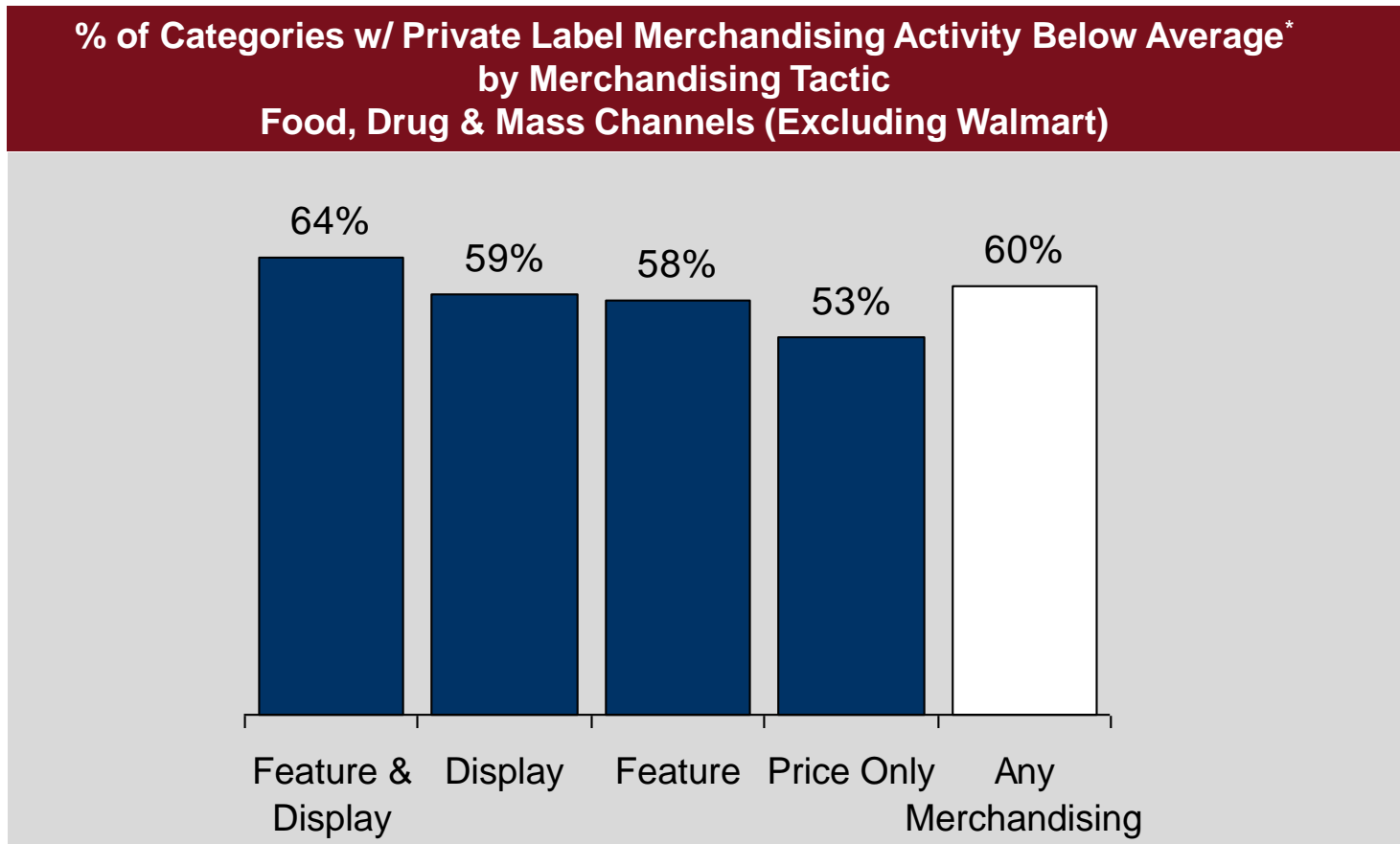


Source: IRI MarketInsight™; 52 weeks ending 11/1/2009 * Note: Based on % volume, any merchandising for total category versus private label

Merchandising Activity



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

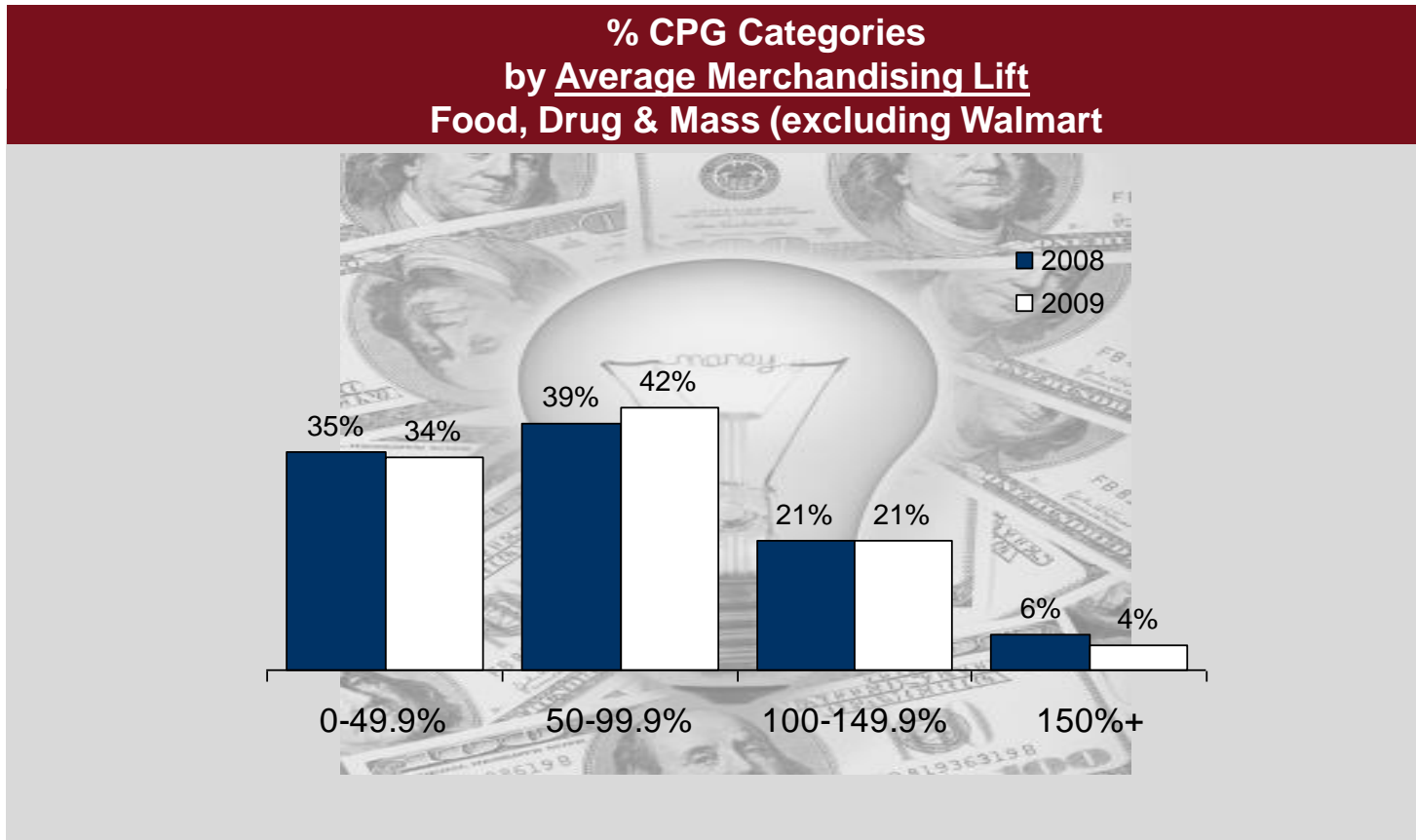


Source: IRI MarketInsight™; 52 weeks ending 11/1/2009 * Note: Based on % volume, any merchandising for total category versus private label

Merchandising Effectiveness



Two-thirds of categories achieve lift of 50% or more from CPG merchandising efforts, while one-quarter actually see lift levels above 100%.

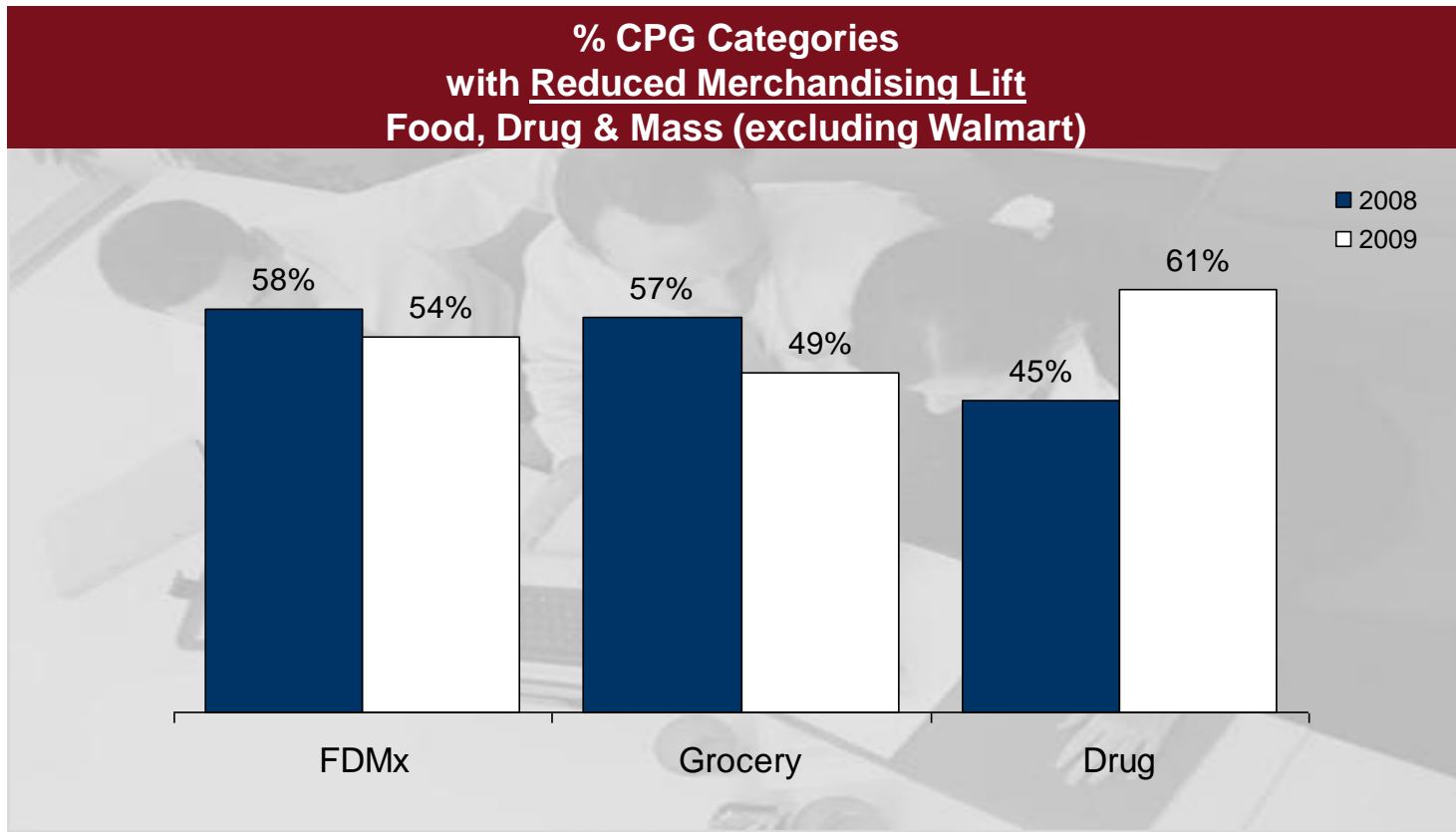


Source: IRI MarketInsight™; 52 weeks ending 11/1/2009; calendar year 2008

Merchandising Effectiveness



Lift from drug channel merchandising fell more sharply versus other channels; drug channel marketers are rewiring their strategies in an effort to reinvigorate consumer response.



Source: IRI MarketInsight™; 52 weeks ending 11/1/2009; calendar year 2008

Merchandising Effectiveness



Seven of the ten categories seeing the biggest lift from merchandising efforts are categories which tie to consumers' increased at-home/from-home eating behaviors.

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

<u>% Volume Increase w/ Merch Support</u>	<u>% Volume w/ Merch</u>	<u>Change in % Inc in Volume w/ Merch</u>	
Paper Towels	211%	54%	(11.9)
Toilet Tissue	199%	47%	(14.3)
Breakfast Meats	195%	57%	(5.5)
Frankfurters	170%	53%	(2.8)
Chocolate Candy	166%	65%	(3.3)
SS Seafood	166%	39%	(28.7)
Cold Cereal	164%	48%	+4.1
Baking Mixes	157%	47%	+9.3
Coffee	148%	50%	(6.9)
Butter	146%	61%	(16.1)

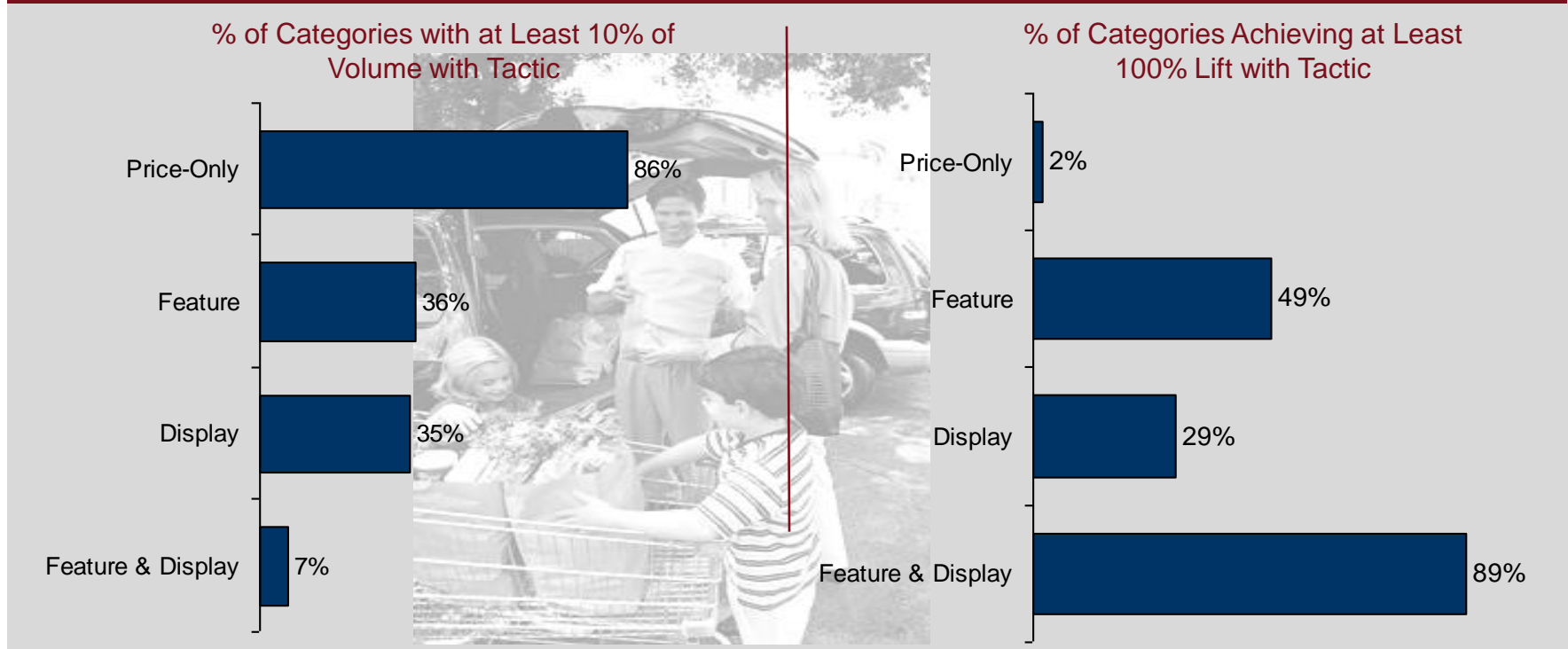
Source: IRI MarketInsight™; 52 weeks ending 11/1/2009; *Note: Among Top 100 CPG categories based on FDMx dollar sales.

Merchandising Tactics



While display actions supported by feature ads brought lift of greater than 100% to 89% of categories, this tactic is, by far, the least-used by CPG marketers.

Merchandising Activity & Lift by Tactic Food, Drug, Mass Channels (Excluding Walmart)



Source: IRI MarketInsight™; 52 weeks ending 11/1/2009

Merchandising Effectiveness



Categories related to at-home and from-home meal rituals are achieving substantial lift across merchandising tactics.

Categories Achieving the Highest Lift by Merchandising Tactic

<u>Feature & Display</u>		<u>Display</u>		<u>Feature</u>		<u>Price Only</u>	
SS Seafood	1,083%	Toilet Tissue	215%	SS Seafood	310%	Breakfast Meats	105%
Breakfast Meats	718%	SS Seafood	180%	Breakfast Meats	274%	Chocolate Candy	102%
Paper Towels	712%	Cold Cereal	167%	Toilet Tissue	249%	Frankfurters	98%
Toilet Tissue	671%	Paper Towels	166%	Baking Mix	243%	Fz/ Rfg Poultry	95%
Cold Cereal	663%	Chocolate Candy	164%	Paper Towels	238%	Fz Seafood	78%

Source: IRI MarketInsight™; 52 weeks ending 11/1/2009; Among Top 100 Categories

Manufacturer Action Items



Continually identify and assess new opportunities and risks

- Assess consumer dynamics for your categories/brands and resulting pricing and promotion implications
- Evaluate merchandising activity and lift across your brands versus total category and competitors across key retail partners to identify gaps
- Identify trip- and mission-based opportunities to build trial and/or repeat purchase through cross merchandising of relevant parallel categories/brands
- Collaborate with key retailer partners to identify and test new marketing vehicles/tactics within the store environment, and across traditional and new media

Work with key accounts to develop strategies that enhance the shopping experience

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

Continually measure and monitor pricing and merchandising executions

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

Retailer Action Items



Continually identify and assess new opportunities and risks

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

Work in partnership with manufacturers to develop strategies that enhance the shopping experience

- Leverage multi-category promotions that deliver solutions to consumers
- Build cross-merchandising/cross promotional programs that make parallel products easier to locate/access
- Develop multi-pronged marketing programs to reach the consumer in the home; reinforce the message with comprehensive in-store efforts
- Focus on solutions-based merchandising programs that deliver convenience and affordability to key consumer segments

Continually measure and monitor pricing and merchandising executions

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