



**DISCOVERING AND LEVERAGING THE REAL TRUTH
ON SHOPPER BEHAVIOR IN THE NEW TRANSFORMATIONAL ECONOMY**

By: Thom Blischok, President, Consulting and Innovation
Information Resources, Inc.

CORPORATE HEADQUARTERS:
150 N. Clinton Street
Chicago, IL 60661
Telephone: +1 312 726 1221



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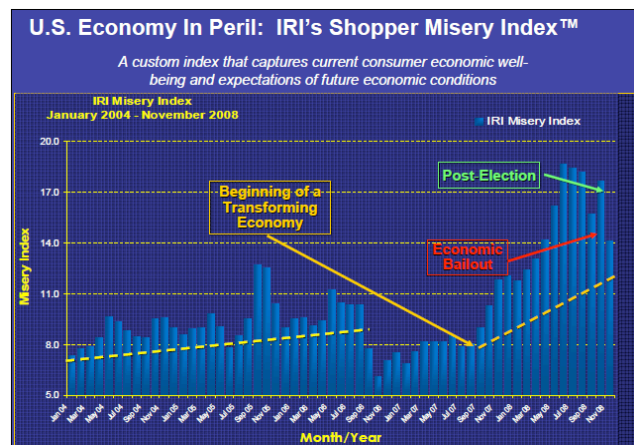
Today's economy and the profound transformation occurring are perhaps the most widely discussed topics in the last decade. Consumer packaged goods executives at all levels at both manufacturers and retailers feel first hand the effects of rising food commodity prices, the consumer's shrinking wallet, spiking energy costs and the other symptoms of today's economic malaise.

Also clear are shoppers' behavioral changes as a result of the ongoing economic transformation. Consumers are turning to private label, substituting hamburger for steak, opting for smaller portions and following other budget-stretching strategies discussed in multiple IRI Times & Trends Reports issued throughout 2008. Less obvious, however, is when the economy will level off and start to grow again, as well as the time necessary for consumers to regain their shattered confidence.

A BRIEF RETROSPECTIVE ON 2008

Consumers experienced a perfect storm of negative trends starting in the Fall of 2007, including falling property values and a decrease in the availability of credit, followed shortly thereafter by a dramatic rise in food and energy prices. As consumers cut back and credit dried up, retail sales slumped and unemployment rose. The chart to the right, outlining IRI's Shopper Misery Index™, illustrates this slide into recession.

IRI's proprietary Shopper Misery Index builds on the Misery Index first developed in the 1970s and combines the inflation rate, unemployment rate and the Consumer Sentiment Index published by the University of Michigan.

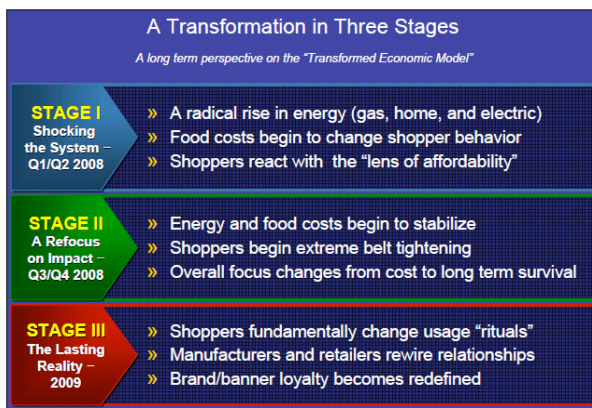


IRI suggests that the current economic transformation will unfold in three stages. The first half of 2008, discussed earlier, represents the first, and most traumatic stage of the transformation. The second stage took place in the second half of 2008 and was characterized by severe consumer belt tightening in reaction to the shocks of the first half of the year, combined with a leveling off of food prices and dramatic fall in energy prices.



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The third stage, which IRI has identified as “The Lasting Reality,” will include shoppers institutionalizing much of their changed, economizing rituals, innovative CPG manufacturers and retailers reviewing and recasting the value proposition they offer consumers, and a redefinition of what “brand” means to shoppers who are now applying dramatically different criteria to what they purchase, how they purchase and how they use CPG products. IRI’s Transformed Economic Model is illustrated below:



FOCUSING ON LOWER INCOME CONSUMERS

While understanding the needs of all shoppers is important, building and maintaining a highly-detailed, exhaustive understanding of consumers earning less than \$55,000 per year is critical. These shoppers comprise 60 percent of U.S. households and tend to be the most price and trend sensitive. For example, recent data collected by IRI revealed that consumers earning more than \$100,000 agreeing with the statement, “I am struggling to make ends meet” dropped from 16 percent to 13 percent from Q1 to Q3 2008, a reduction of four percentage points. Consumers earning \$35,000 to \$54,900 agreeing with that statement plummeted from 44 percent in Q1 to 31 percent in Q3. Manufacturers and retailers ignore these shoppers at their peril.

DEVIL IN THE DETAILS

Shoppers are closing their wallets and buying less, but often spending more. This behavior is sending shockwaves through the entire CPG value chain, from farmer to retailer. People are keeping fewer products in their homes overall; since 2005, the number of unique UPCs per shopper per year in the home has dropped from 400 to 361, a nine percent decrease.

Concurrently, new product innovation has been a victim of 2008 belt tightening. Just two percent of consumers purchased 16 or more new products last year, as compared with 75 percent who bought five or fewer. Only products that drove a fundamental change in function and/or usage tended to be successful.

Understanding the needs of all shoppers is critical.

From the perspective of getting it right with the shopper, ConAgra with its “Healthy Choice—Café Steamers™,” Kellogg’s with the introduction of the \$.50 breakfast, Campbell’s with the repositioning of V8 V-Fusion® as “affordable health and wellness” and Clorox with the “keeping the home safe from germs” with Clorox all hit the mark in 2008. These companies understood early in 2008 the impending challenges of the shopper and all drove the fundamental repositioning of their shopper value equation through a “New Lens of Affordability.”

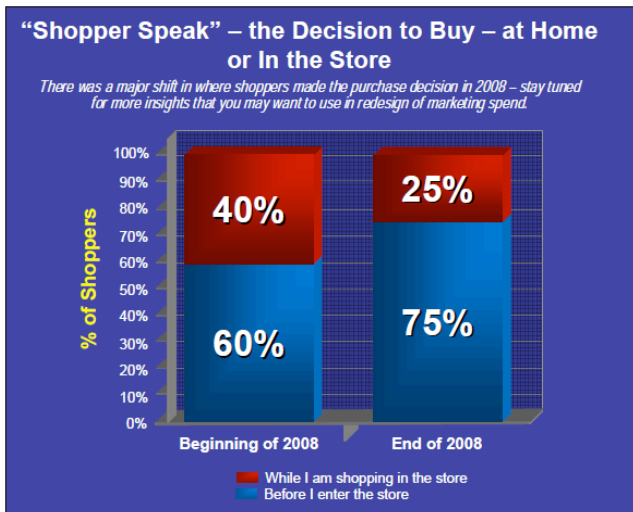
Four salient shopping strategies have emerged from IRI’s detailed and ongoing study of consumer behavior. Understanding these



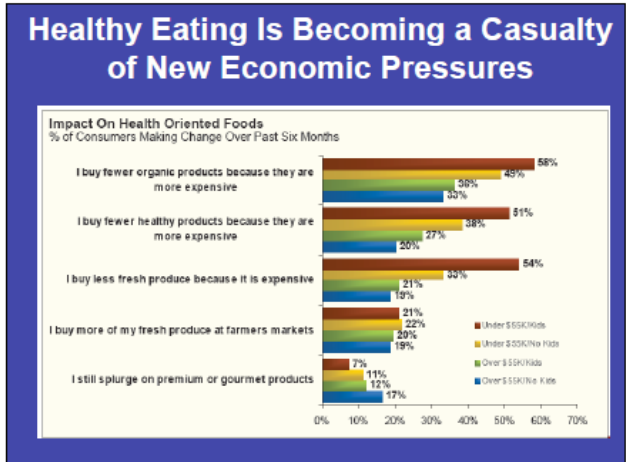
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strategies provides an essential roadmap for CPG manufacturers and retailers sprinting to protect revenue, market share and shopper loyalty.

Shoppers have overwhelmingly become more focused and organized when planning their shopping trips in an effort to save money. Among lower income consumers, 73 percent stated at the end of 2008 that they plan their menus and set their budgets prior to visiting the store, and even 55 percent of consumers earning more than \$100,000 are pursuing this strategy. Across all income groups, 75 percent of shoppers are making their purchase decisions prior to visiting the store at the end of 2008, up dramatically from 60 percent from the beginning of last year.



The movement to healthier foods, organics and “green” products has also become another victim of the current recession. Among shoppers earning less than \$35,000 per year, 37 percent have sliced their optional buying habits, which includes greens and organics. Even consumers with incomes of \$100,000 have just held steady over the last year.



Private label products gained significantly in popularity last year, accelerating an upward trend that began several years ago as retailers expanded their private label offerings to include wider assortments and improved quality. Lower-income consumers pursuing “purpose buying” strategies, such as selecting private label products, leapt last year from 45 percent to 52 percent from Q1 to Q3, respectively.



Finally, shoppers at all income levels have adopted what IRI has named “Strategic Shopping,” which involves much more aggressive utilization of coupons,



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loyalty cards and other price-based promotional activities. Among lower income shoppers, at the beginning of last year, 35 percent stated they were actively using coupons, planning their shopping experience in advance and undertaking additional “Strategic Shopping” approaches. By the end of Q3, that number jumped to 42 percent. Even shoppers earning more than \$100,000 per year are taking a new look at organizing themselves better - 16 percent called themselves “Strategic Shoppers” at the end of Q3, compared to 12 percent at the beginning of the year. The chart below illustrates several new shopper behaviors, with “Strategic Shopping” approaches principal among these.

STRATEGIES FOR SUCCESS IN 2009 AND BEYOND

IRI has identified six major changes in shopper rituals that will drive the CPG manufacturing and retail strategies for 2009 and beyond. IRI uncovered these strategies based on its ongoing series of research studies, combined with focus groups, “shopper intercept” interviews conducted at retailers, and integration of data secured from other research sources.

Many Shopper Strategies Changes Are Here To Stay

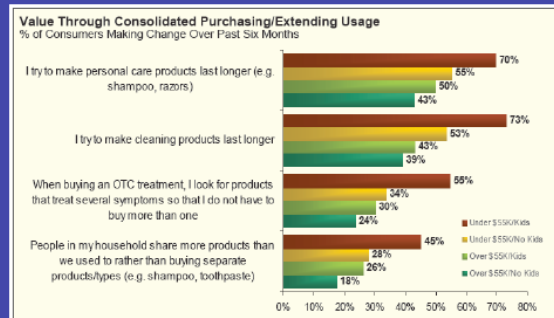
Six key decision behavioral changes all of which present opportunities for both retailers and manufacturers to reshape their shopper positioning strategies.

	Less money to Spend	Monthly Expense Increase	Financial Stress
Stick to a Budget	71%	50%	67%
Ads and Coupons	61%	44%	63%
Buy on Sale	64%	48%	65%
Switch to Private Label	59%	49%	62%
Stock Up	57%	44%	61%
Purchase in More Stores	62%	43%	64%

EATING MORE AT HOME

53 percent of shoppers in IRI’s recent research stated they are eating more at home. The home has become the “center of the universe” with regards to family eating habits. Families are spending more time at home, preparing more meals from fresh, individual ingredients as opposed to buying prepared or partially-prepared foods. They are taking snacks to events instead of buying snacks there, and taking lunch to work.

Shoppers of All Income Levels Employ Extended Use Strategies to Reduce Costs



CREATING THE “DOWNTURN DIET”

Many shoppers are significantly altering their diets at home as an additional strategy to save money. This is resulting in both positive and negative behaviors. On the positive side, people are buying healthier snacks, staying away from less healthy options and putting money into health and wellness products, rationalizing that it is a worthwhile investment to eat healthier. On the negative side, people are cutting out supplements, stating they can’t afford to eat organics and staying away from other indulgences.

SAVING THROUGH SELF RELIANCE

Consumers in all income brackets are stretching their dollars by

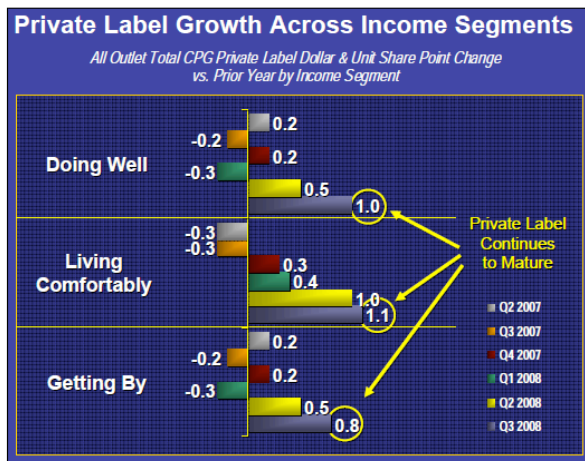


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stretching their personal care products and handling more personal care activities at home. The previous chart illustrates several shopper self-reliance behaviors and demonstrates that extended use strategies are prevalent across all income levels

EXPANDING PRIVATE LABEL POPULARITY

IRI has reported frequently on the continuing popularity of private label, and predicts that the trend of increased private label usage will only increase in 2009 and beyond. Illustrating this point is the fact that shoppers IRI characterizes as “Living Comfortably” financially represent the fastest-growing private label segment, increasing private label purchases by 1.1 percent in Q3 year over year. As demonstrated by the chart below, consumers at all income levels are increasing their private label purchases significantly.



SEVEN STRATEGY RECOMMENDATIONS FOR CPG MANUFACTURERS AND RETAILERS

Combining shopper behavior observations in 2008 with attitudes and actions consumers have stated they plan to pursue in 2009 and beyond, IRI recommends seven strategies for CPG manufacturers and retailers that will contribute significantly to building shopper loyalty, protect

and potentially increase market share, and safeguard revenue and income streams.

PLANNING

Shoppers are making most decisions before they enter the store. Budgets, lists and meal planning are at the heart of this behavior.

>>> Action: Manufacturers and retailers should reconsider merchandising and promotion strategies, shifting these activities out of the store and into shoppers' homes via television, radio, print and online advertising, online promotions and related activities that pull consumers into the store and to the product.

PURPOSE

Consumers' shopping decisions reflect changing rituals and lifestyles such as more cooking at home with fresh ingredients, bringing snacks and lunches out of the home to work and/or events.

>>> Action: Manufacturers should refocus product development efforts on making available fresh ingredients, develop snacks that provide the nutritional value to potentially replace full meals and design snack packaging better suited to mobile lifestyles.

>>> Action: Retailers must take a new look at displays and in-store promotional activities, making it easier for shoppers to find the ingredients and supporting products they need.

PRICE

Shoppers are seeking good prices and quality in what they buy, maximizing the use of coupons, weekly ads, loyalty cards and other means to stretch their budgets.



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>>> **Action:** Manufacturers and retailers should review their collaboration strategies with a view to ensuring they can offer consumers the evolving combinations of pricing and quality they will demand.

PRODUCT

Shoppers are buying familiar products. New product experimentation is at an all time low.

>>> **Action:** Manufacturers should consider an enhanced brand-extension strategy in place of completely new products, increasing share based on the strength of existing brands.

>>> **Action:** Retailers can increase shelf space of existing brands at the expense of new products, as well as position these brands in more prominent locations throughout stores.

>>> **Action:** Manufacturers and retailers should refocus merchandising and promotional resources on existing brands, review pricing strategies and consider other strategies that address the shopper's focus on familiar products.

Shoppers are looking for the best deals wherever they can find them.

PROMOTION

Shopper Direct Marketing has arrived and will become a strategic differentiator—marketing to the home.

>>> **Action:** In addition to rewiring merchandising and promotion efforts to reach shoppers at home, manufacturers and retailers should study and consider expanded new media strategies to ensure consumers' maximum exposure to marketing

messages. This might include expanded activity with social media sites, increased direct marketing and experimentation with other new media, such as mobile advertising and promotions.

PLACE

Shoppers are looking for the best deals wherever they can find them. Loyalty to a channel/banner is only as good as "what have you done for me lately." The dramatic decrease in gasoline prices has restored the mobility shoppers lost in Q2 and Q3 2008.

>>> **Action:** Manufacturers and retailers must review and update the value propositions of products and stores. Consumers are continuously searching for the best overall value, not simply the lowest price. Manufacturers and retailers must continuously revisit and reset the best combination of price and quality to determine optimal value.

PERMANENCE

Shoppers are deeply scared about the financial future. Many changes they are making now will last.

>>> **Action:** Unlike past recessions, manufacturers and retailers cannot afford to "wait it out." In addition to fundamentally revisiting the value proposition they offer, they must update their management structure in a way that facilitates an ongoing ability to offer new products and shopping experiences that successfully address continuously evolving shopper needs.

BENEFITTING FROM THE REAL TRUTH

Shoppers have suffered a significant shock to their systems and continue to react with new attitudes and behaviors. They are concerned about their future and



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have developed a “New Shopper Psyche” characterized by a focus on affordability, consolidation of products, increasing home care and home as the center of the universe. As consumers struggle to stretch their budget dollars, they are on an ongoing quest to find the best value and are turning to private label, de-selecting previously favorite products and swapping out luxury goods for more affordable ones.

CPG manufacturers that are able to recapture shoppers by creating new, focused strategies and continuously evolving them have the opportunity to lock in shopper loyalty for an extended period. For retailers, capitalizing on private label wherever possible will tap into consumers’ proven and expanded interest in the value these products provide. For manufacturers, the success of private label is a wake up call to revisit the value proposition their products. Finally, manufacturers and retailers that revisit every element of their marketing and collaboration efforts to better reach consumers in their homes, leverage consumer interest in “familiar” products as well as maintain a highly-detailed understanding of shopper needs —will win in the New Transformational Economy.



Thom Blischok is President of Consulting and Innovation for IRI. A seasoned executive possessing more than 25 years of industry expertise, Thom leads the company’s strategic consulting, thought leadership, innovation and marketing practices. A recognized futurist and thought leader, Blischok is known around the globe for his innovative thinking and strategies to help retailers and manufacturers fundamentally transform their go-to-market economic models using innovative approaches to understanding the consumer with new forms of marketplace information.

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://us.infores.com>.

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