

TIMES & TRENDS

A Snapshot of Trends Shaping the CPG Industry

CPG 2007 YEAR IN REVIEW

EMERGING TRENDS SHAPING 2008 OPPORTUNITY



January 2008

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EXECUTIVE SUMMARY

- ▶ The CPG industry grew 3.3% in 2007 as massive price increases took hold across categories; slow economic growth exerted a downward pull on demand
- ▶ Price increases drove changes in shopping and purchase behavior, particularly in the back half of the year, boosting both supercenter and private label share growth
- ▶ Innovative solutions drove real demand growth across numerous categories, such as refrigerated teas, bottled water, snack/granola bars and frozen pizza; products delivering health/wellness and convenience benefits fared particularly well
- ▶ Forecasts for economic growth in 2008 – albeit modest – suggest that a significant CPG market downturn is not likely; inflation is also expected to subside somewhat, easing some of the strain on consumers' budgets
- ▶ A number of emerging consumer trends will offer new growth potential for CPG manufacturers and retailers in 2008 and beyond, including the search for multi-tasking products, the rise of informed purchasing, experiential consumption, and sustainability-driven consumers



INTRODUCTION

Price was the big story in 2007, sparking consumer shifts that could have some staying power.

2007 may best be remembered as the year in which value shopping made its resurgence.

Supercenters gained more than a full share point this year, after two years of modest gains. Private label share was up a half point in the fourth quarter, following five years of relatively flat share overall.

The primary driver? Price.

Average CPG prices increased 4.2% last year, with double-digit increases across several key categories, including milk, eggs and refrigerated juices.

These increases would be difficult for many consumers to absorb at any time, but an extremely weak housing market and skyrocketing energy costs plagued consumers simultaneously. Slow economic growth hindered CPG demand growth.

Major economic forecasters are predicting that the U.S. will avoid a much-feared recession and will actually experience modest economic growth in 2008. And, inflationary pressures are expected to ease somewhat next year.

The extent to which consumer shopping and purchase shifts will stick will depend upon consumer experiences and retailer and manufacturer marketing, merchandising and product initiatives during this period. We will closely track these trends throughout the year.

The year also delivered exciting new retail formats, health and wellness products, convenience products and sustainability initiatives. These efforts yielded store, category and brand growth as well as consumer benefits and will drive solid momentum as we move through 2008.

This report explores industry performance in 2007, drivers of performance, and what to expect in the coming year.



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INDUSTRY PERFORMANCE TOTAL CPG GROWTH TRENDS

CPG industry sales grew 3.3% in 2007 as sizable price increases took hold.

Total CPG industry sales grew 3.3% in 2007 – a significant acceleration versus last year's growth rates. However, growth was achieved primarily through price increases.

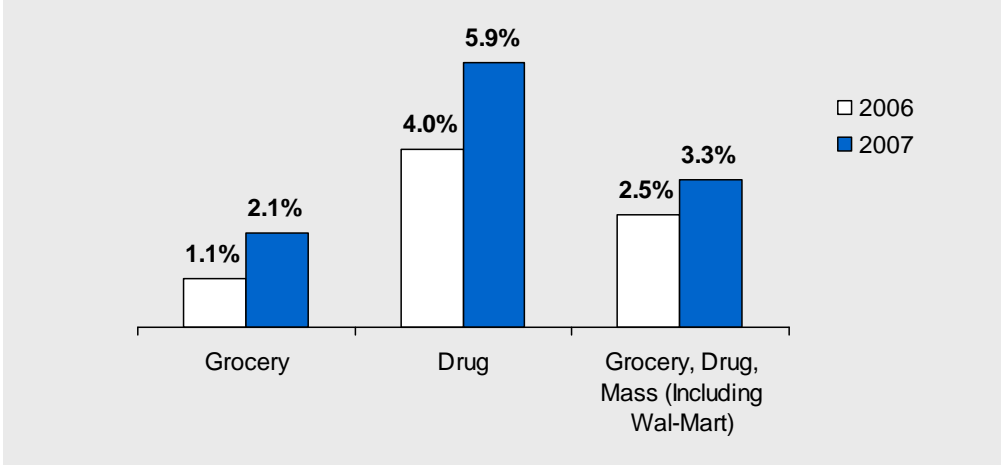
This past year was marked by the highest price increases in recent history, with double-digit increases in several major categories, including staples such as eggs and milk. These increases were substantial enough to alter consumer shopping and purchase patterns, as detailed on page 13.

At the category level, there were impressive gains achieved through innovation -- particularly among categories with health and wellness benefits, such as ready-to-drink teas and granola bars. Page 9 showcases high-growth categories.

Across channels, drug stores continue to post strong growth. Store count expansion is a major influencing factor. Walgreens alone added a net 536 stores in fiscal year 2007 with 475 more planned for fiscal year 2008.¹

But same store sales have also experienced solid growth across the industry, as drug stores benefit from strong appeal among aging Baby Boomers, effective healthcare marketing programs and upgraded beauty offerings. (Note: December was an exception, as several leading drug store players reported lower-than-expected same store sales growth due to a weak flu season and lower-priced generic drugs.²)

**CPG Industry Dollar Sales % Change vs Prior Year by Channel
Food, Drug, Mass (Including Wal-Mart) 2006, 2007**



1. Walgreens Press Release
2. Reuters 1/3/08

Source: IRI MarketInsight™; IRI InfoScan® Reviews; 52 weeks ending 12/2/07 and same period prior years



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INDUSTRY PERFORMANCE CHANNEL SHARE SHIFTS

Supercenters regained momentum throughout 2007 as price increases prompted a rise in value shopping.

After two years of moderate share gains, 2007 marked a return to more substantial gains for the supercenter channel. Gains steadily accelerated throughout the year as consumers turned to the channel for low prices in the face of massive price increases across categories.

Supercenters successfully attracted more consumers - household penetration increased by 3.5 points - and increased basket size by 5.4%. In addition to low prices, channel growth strategies, such as Wal-Mart's focus on customer relevance, healthcare marketing and sustainability, are likely influencing these shifts.

Supercenter growth was sourced from multiple channels, but most heavily from traditional mass, in large part due to store conversions/closings.

The grocery channel continues to hold its ground, as new "fresh" formats deliver differentiation, but the slight share loss incurred this year must be carefully watched for further erosion.

Supercenter Dollar Share Point Change: 2007 vs 2006* by Quarter	
Q1	+0.9
Q2	+1.1
Q3	+1.3
Q4	+1.4

Source: IRI Consumer Network™
*Note: Share changes represent a point in time and are not cumulative.

CPG Dollar Share by Channel

Channel	2007 Share	Point Change vs 2006
Grocery	55.6%	(0.2)
Supercenter	14.4%	+1.2
Mass	8.5%	(0.7)
Club	7.9%	+0.1
Drug	5.6%	+0.2
Dollar	1.3%	0.0
Other (Specialty, Convenience)	6.7%	(0.5)

Wal-Mart	18.9%	+0.8
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Source: IRI Consumer Network™; 52 weeks ending 12/30/07 vs prior year



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INDUSTRY PERFORMANCE DEPARTMENT GROWTH TRENDS

Innovation and demographic shifts spurred real demand growth in frozen foods, beverages and healthcare.

The dairy department led in 2007 dollar sales growth, due to exceptionally high price increases in eggs (+30%); refrigerated juice (+15%) and milk (+12%).

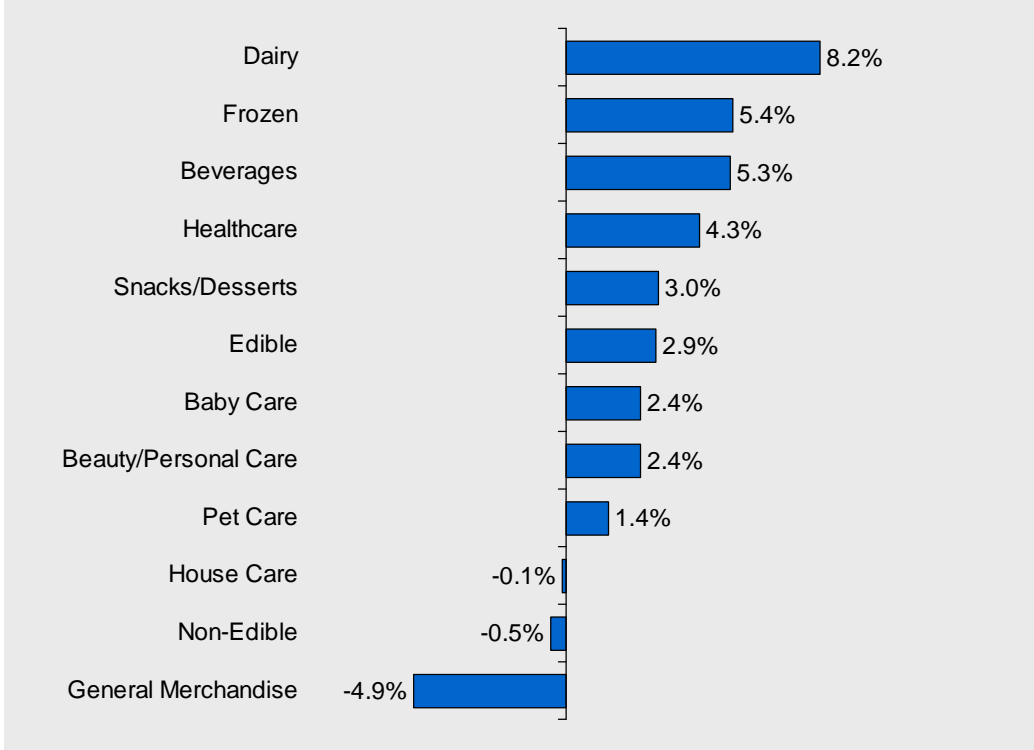
While price was a factor to some extent across most other departments, real demand growth was also evident within the high-growth frozen, beverages and healthcare departments.

Within frozen foods, there was significant demand growth in frozen pizzas, frozen vegetables and frozen appetizers as new varieties and cooking methods were embraced by consumers.

Beverages offering health and wellness benefits – from antioxidants to energy – bolstered department growth. In addition, wine continues to enjoy demand growth among aging Boomers.

Demographic trends are also favorably influencing demand growth among healthcare categories. The rising number of young adults as Echo Boomers come of age is driving growth among contraceptives and family planning products, while Boomers are fueling growth in sleeping remedies.

**Dollar Sales % Change by Product Segment, 2007 vs 2006
Grocery, Drug, Mass (Including Wal-Mart)**



Source: IRI MarketInsight™; 52 weeks ending 12/2/07 and same period prior year



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INDUSTRY PERFORMANCE

DRUG STORE GROWTH DRIVERS: HBC

Above-average growth in health and beauty care contributed to strong drug channel performance.

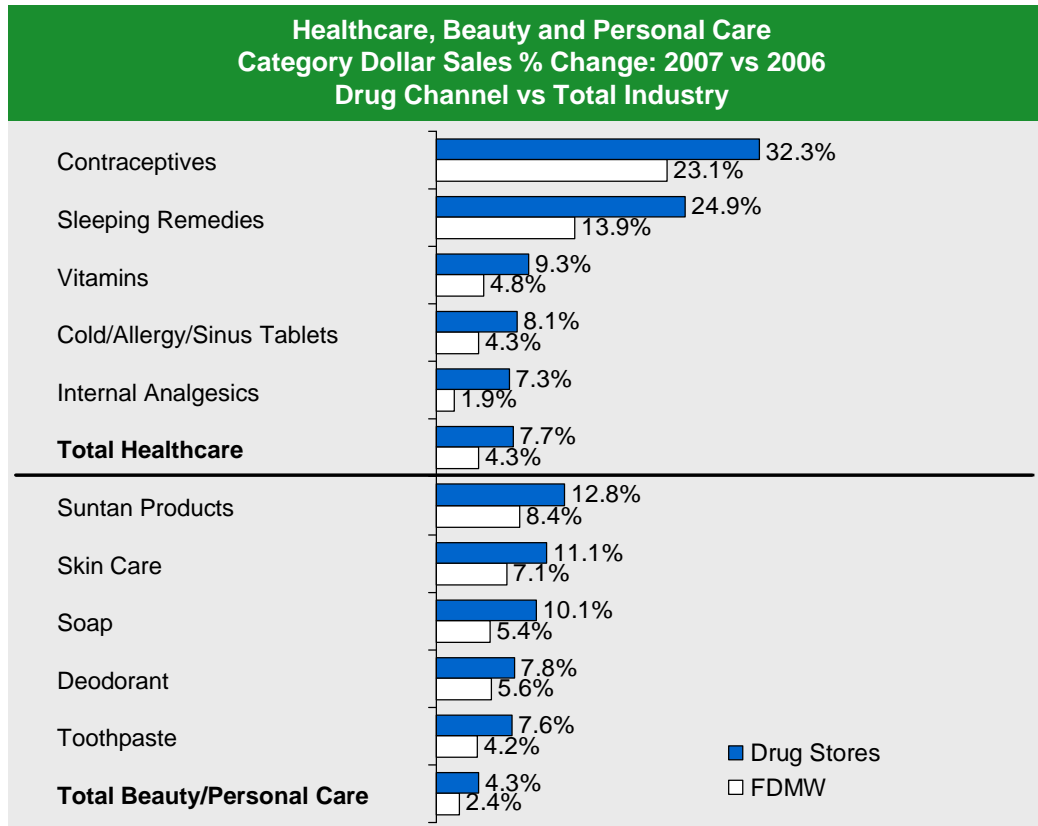
In addition to store count increases, the drug store channel's exceptional growth was driven in large part by above-average growth in healthcare and beauty/personal care categories, as outlined in the chart below. These product segments accounted for over half of the channel's \$2 billion increase.

As noted below, within healthcare, drug stores secured above-average sales increases among both high-growth categories, such as contraceptives and sleeping remedies, and slower-growth

categories, such as internal analgesics, as health and wellness marketing initiatives pay off.

Drug stores have also invested substantially in positioning stores as beauty care destinations, through expanded, upscale assortments, including exclusive and European brands, in-store skin care consultants, and stepped-up marketing.

Among high-growth personal care products, including deodorant and toothpaste, for instance, drug store price increases were larger than average, boosting growth rates.



Source: IRI MarketInsight™; IRI InfoScan © Reviews; 52 weeks ending 12/2/07 and same period prior year; select categories; FDMW = Food, Drug, Mass (including Wal-Mart)



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INDUSTRY PERFORMANCE TOP TEN CATEGORY GROWTH

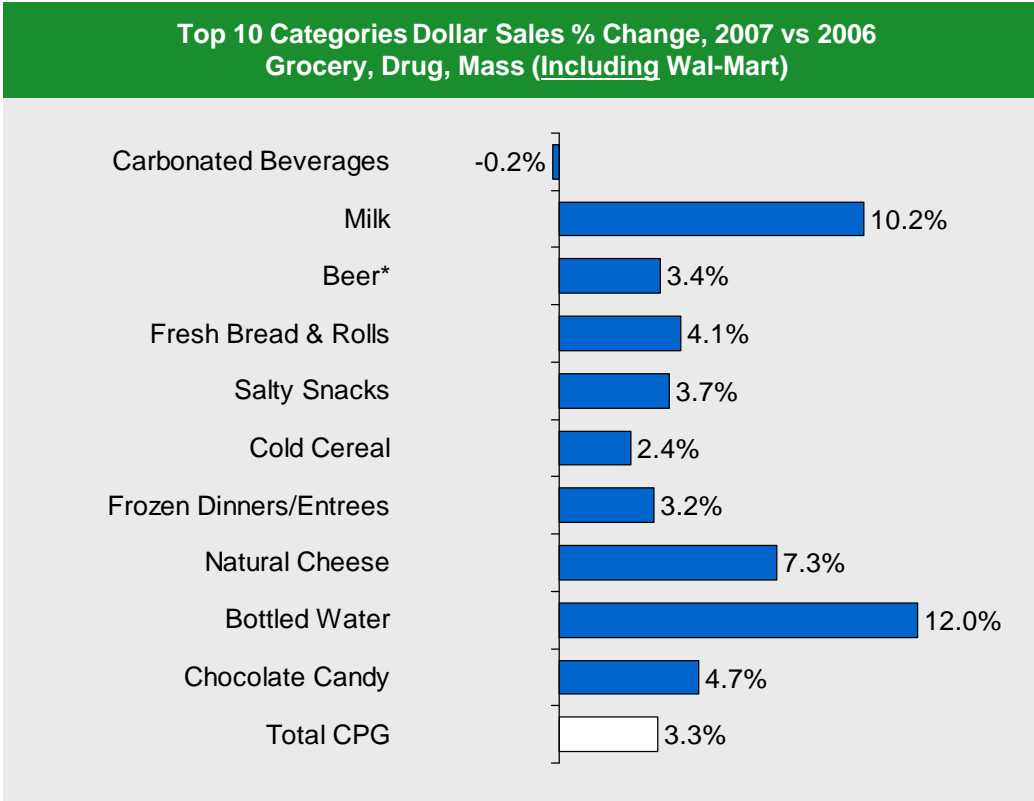
Nine of the top ten categories experienced price-based sales increases, but only bottled water saw significantly increased demand.

Price hikes drove sales increases among nine of the top ten CPG categories, but the only category experiencing significant demand growth was bottled water.

Still the largest CPG category in dollar sales, carbonated beverages continued a gradual multi-year decline as consumers shift to non-carbonated options. However, consumers continue to respond well to innovation in this category, as evidenced by multiple entries expected on this year's New Product Pacesetters list, to be published in the March 2008 *Times & Trends*.

Bottled water continues to benefit from a strong health and wellness association, as well as from innovation – particularly in enhanced waters, which grew 42% last year.

Beer category growth marks an upswing following slower growth over the past few years, as consumers turned to wine and spirits. A growing legal drinking age young adult market, coupled with the popularity of craft beers are contributing to market growth.



Source: IRI MarketInsight™; 52 weeks ending 12/2/07 and prior year
*Beer sales represent food and drug combined.



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INDUSTRY PERFORMANCE HIGH-GROWTH CATEGORIES

Below are the CPG categories earning the strongest growth rates in 2007.

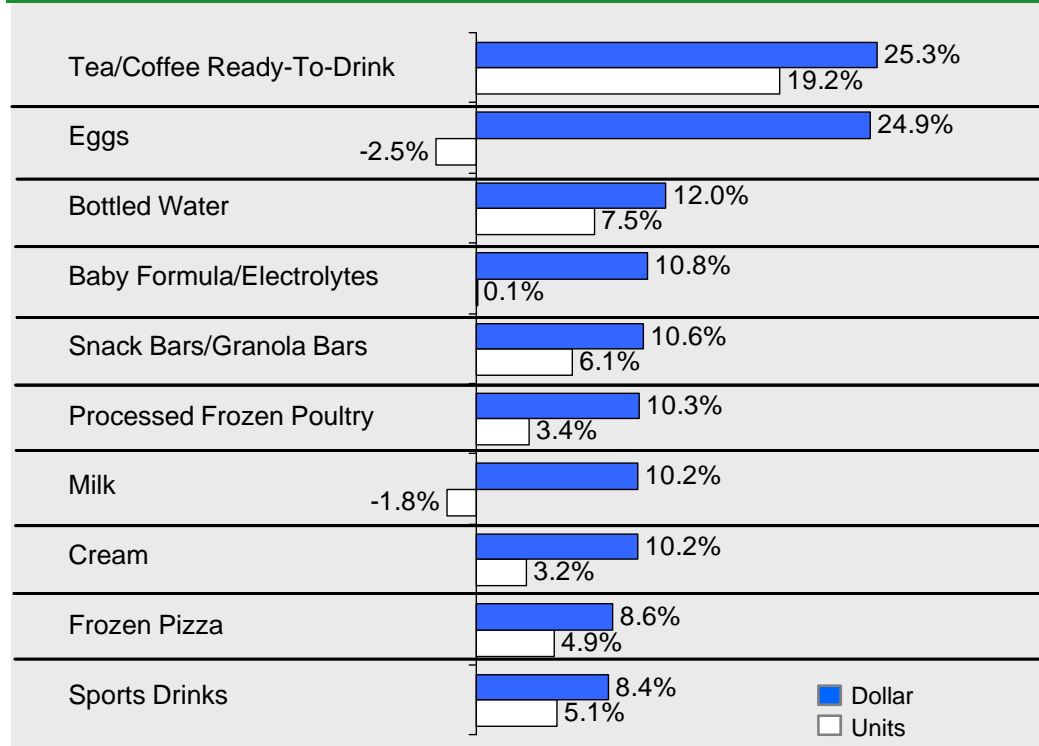
Seven of the ten categories experienced real demand growth, as evidenced by solid unit sales increases, but price was clearly the growth driver in eggs, baby formula and milk.

Innovative solutions to consumer health and wellness and convenience needs continue to propel these categories forward at a time when many CPG categories are flat or declining.

Ready-to-drink teas and energy drinks, for instance, tap into consumers' growing interest in functional foods and beverages. New, lower-calorie granola bars provide both nutrition and weight management benefits. New light frozen pizza options deliver convenience and taste without added calories.

Innovative solutions to consumers' health and wellness and convenience needs are propelling high-growth CPG categories.

**Top 10 Growth Categories* Dollar Sales % Change, 2007 vs 2006
Grocery, Drug, Mass (Including Wal-Mart)**



Source: IRI MarketInsight™; 52 weeks ending 12/2/07 and same period prior year
*Based on dollar sales; among top 100 categories



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INDUSTRY PERFORMANCE PRIVATE LABEL SHARE TRENDS

Price increases accelerated private label share gains in the back half of the year.

Category price increases have driven demand growth among private label products.

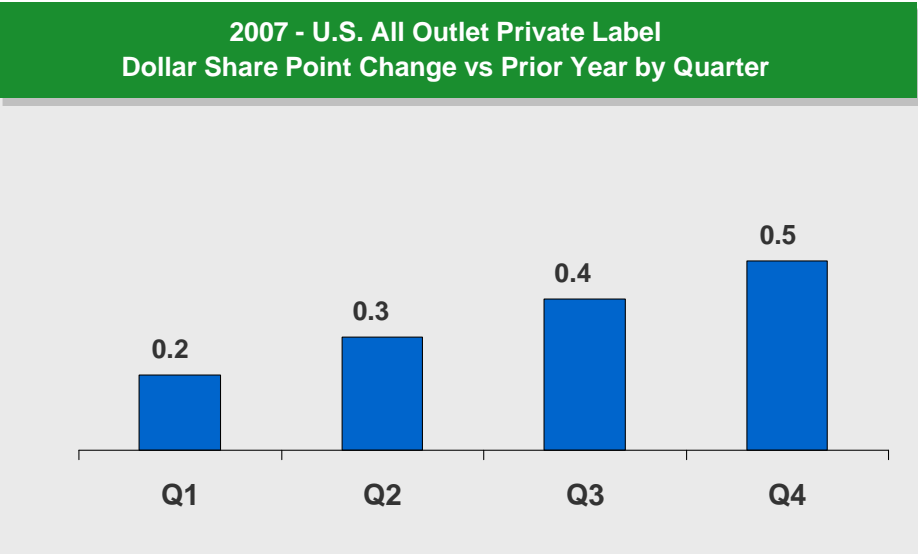
Following five years of relatively flat dollar share overall (with sizable shifts occurring at the category level), private label trends were on the upswing in 2007 – particularly in the back half of the year.

As outlined in the chart below, which shows point-in-time share shifts by quarter (ie not cumulative), share gains steadily accelerated throughout the year.

While retailer strategies have certainly had an impact, with several highly successful private label lines gaining momentum in organics and healthy foods, for instance, the current pricing environment also appears to be a primary driver of growth.

As outlined on page 13, private label secured large gains among several categories with exceptionally high price increases, including milk, eggs and refrigerated juices.

If inflationary pressures subside somewhat in 2008, as many analysts are predicting (see page 14 for additional detail), the private label gains could dissipate; however, focused marketing by retailers to drive repeat purchases and positive product experiences could result in sustained gains. Branded manufacturer marketing and promotion in categories with private label gains will of course also play a large role.



Source: IRI Consumer Network™



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ECONOMIC IMPACT TOTAL CPG

A weak economy inhibited CPG growth in 2007, but a significant downturn is unlikely.

U.S. economic health has a directional influence on consumer spending across CPG and healthcare products.

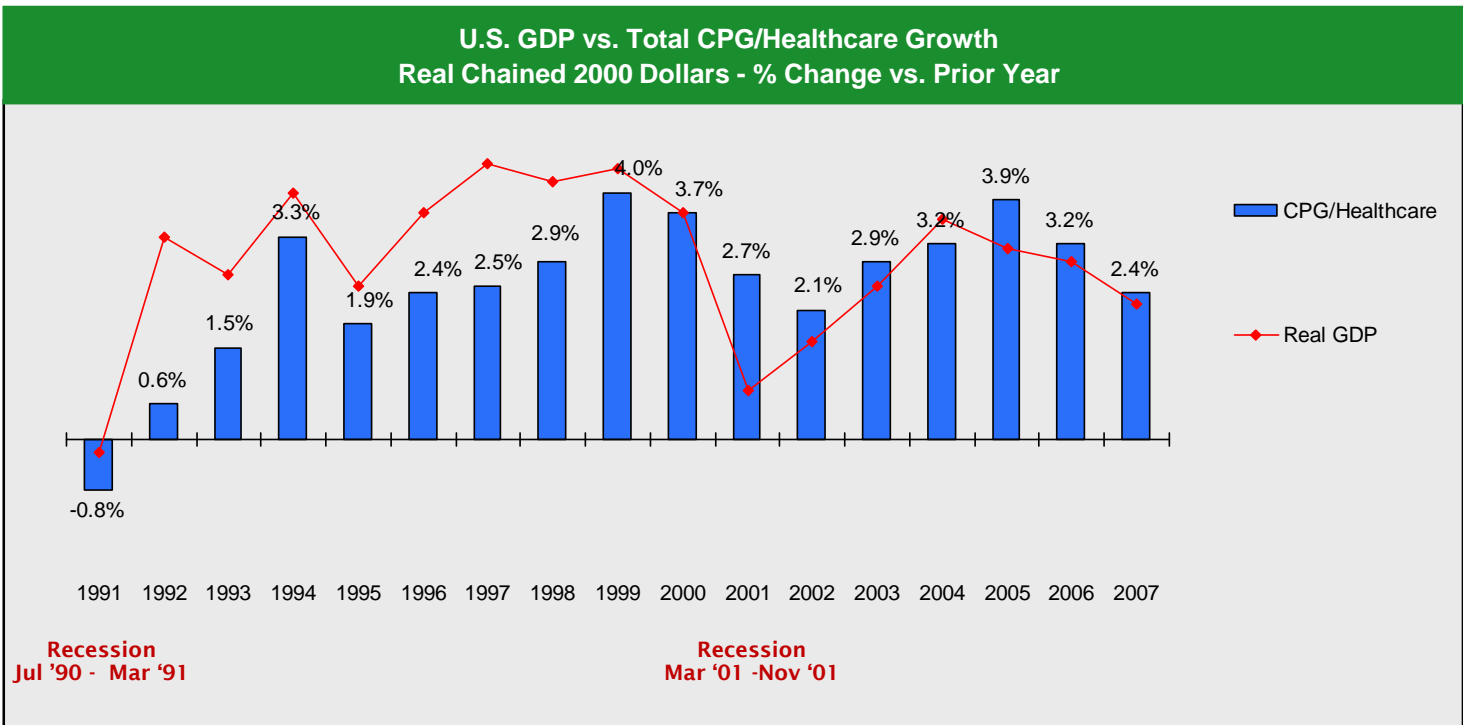
As evident in the chart below, CPG/healthcare spending tracks closely with the Gross Domestic Product (GDP) – the total value of goods and services produced within the U.S. and a widely-accepted indicator of economic growth.

Sensitivity to macroeconomic conditions is most pronounced during major economic events, such as the two recessions that have occurred over the past seventeen years (July 1990 – March 1991 and March 2001 – November 2001.)

During the 1990/1991 recession, CPG/healthcare spending was hit hard and took over a year to truly rebound. While growth slowed significantly during the more mild 2001 recession, the industry fared better and recovered more quickly.

In 2007, with the worst housing market in nearly two decades and skyrocketing energy prices, economic growth was below prior year levels, as was real growth within the total CPG/healthcare market.

As outlined later in this report, while the economy will grow only modestly in 2008, analysts are not expecting a recession, so a major downturn in CPG/healthcare spending is not likely.



Sources: U.S. Department of Commerce, Bureau of Economic Analysis; 2007 GDP estimated; personal consumption expenditures based on Q3 2007 annualized data.



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ECONOMIC IMPACT FOOD VS NON-FOOD

Consumer spending is more sensitive to economic changes for non-food vs. food purchases.

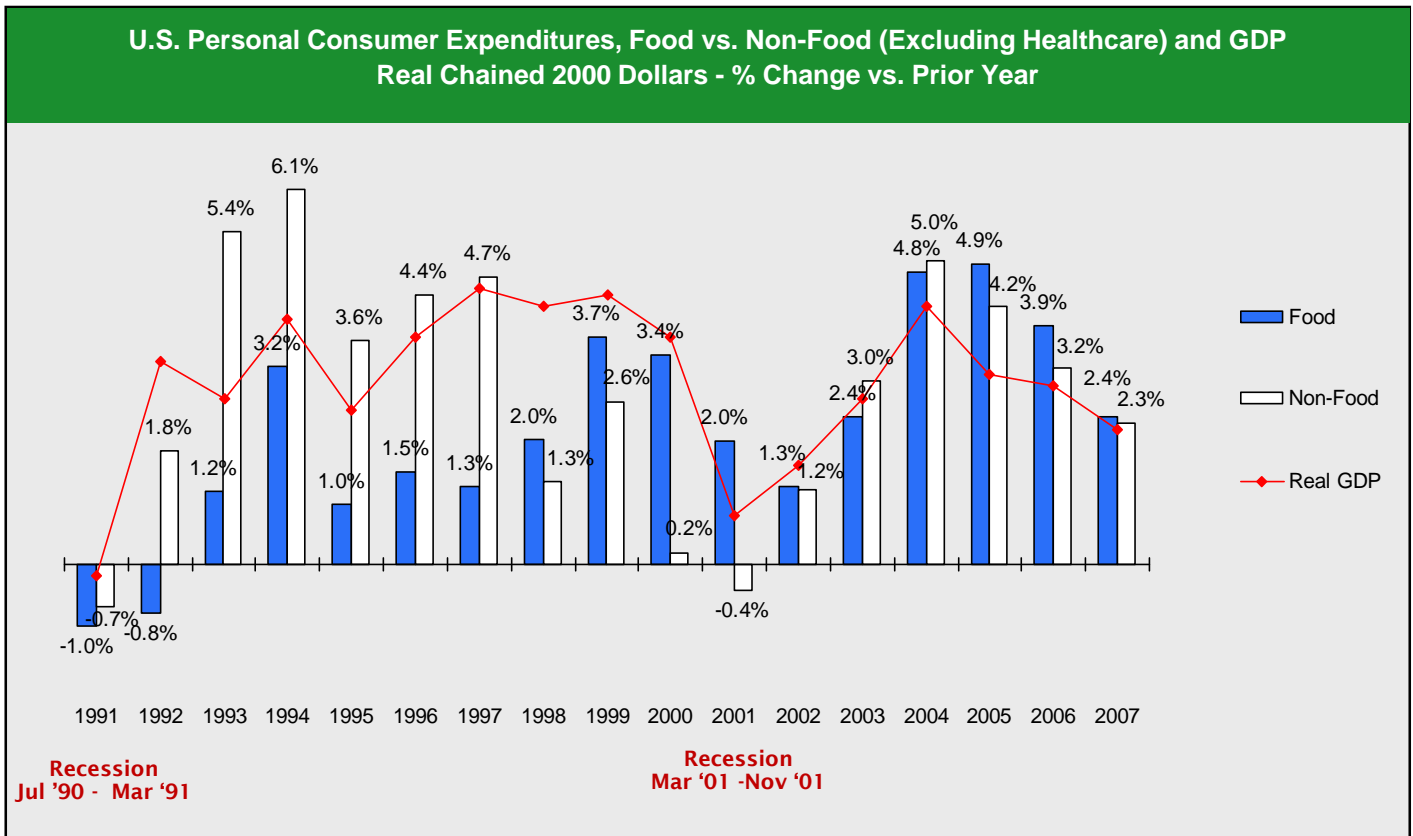
Consumer spending on food generally responds to big swings in the GDP but is less reactive to minor swings. Spending on non-food CPG products (excluding healthcare), however, has been more sensitive to relatively minor GDP adjustments over the past seventeen years.

During the 2000-2001 recession, the slowdown in non-food spending was more dramatic than food and began sooner. Across non-food categories as a whole, impact was felt well before the recession officially hit.

Over the past year, in real dollars, growth slowed similarly in both food and non-foods as GDP growth softened. Had GDP trends been more dramatic this year, we would likely have seen differences in impact between food and non-foods.

Manufacturers and retailers need to identify the relationship between general economic trends and spending within their categories, brands and stores -- including the timing of impact.

(Note: IRI analysis has shown that healthcare spending is relatively insulated from economic changes.)



Sources: U.S. Department of Commerce, Bureau of Economic Analysis
2007 GDP estimated; personal consumption expenditures based on Q3 2007 annualized data.



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PRICING HIGH-INCREASE CATEGORIES

Record price increases promoted changes in shopping and purchase behavior in 2007.

Price increases played a huge role in 2007 results, with U.S. CPI hitting 4.1% through December, versus 2.5% in 2006.

Sharp demand increases for crops used in biofuels and feeding livestock drove up pricing for many ingredients, having a ripple effect throughout the industry. Rising energy costs drove up production and distribution costs.

Price increases not only inflated CPG dollar growth but also impacted consumer shopping and purchase behavior.

Across the ten categories with the largest increases, as noted below, consumers followed one or more of the following strategies: 1) purchased less, 2) allocated more spending to Wal-Mart and 3) increased private label purchases.

The one exception is frozen poultry, where demand increased despite sharply rising prices, without major shifts to Wal-Mart or private label.

Categories with the Largest Price Increases % Change 2007 vs 2006: Price, Volume Sales, Wal-Mart Share, Private Label Share

	Average Price per Volume % Change	Volume Sales % Change	Wal-Mart Share Point Change	Private Label Share Point Change
Fresh Eggs	30.3%	(3.2%)	+0.3	+2.1
Frozen Poultry	20.2%	(4.7%)	+0.2	(0.1)
Refrigerated Juices	14.5%	(6.9%)	+1.2	+0.6
Milk	12.0%	(1.5%)	+0.5	+1.3
Bakery Snacks	11.0%	+0.4%	+1.2	(0.8)
Baby Formula	10.0%	(1.7%)	+3.2	+0.3
Coffee	7.9%	+0.5%	+2.8	+0.2
Skin Care	7.6%	+0.1%	(1.3)	+1.0
Blades	7.1%	(5.8%)	(0.4)	(0.1)
Cat Food	6.5%	(6.1%)	(0.3)	(0.9)

Source: IRI InfoScan® Reviews; IRI MarketInsight™; 52 weeks ending 12/2/07 and prior year



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2008 OUTLOOK ECONOMY & PRICING

Economic forecasters predict modest economic growth in 2008 and reduced inflationary pressure.

Despite fears of a 2008 recession circulating in the press and among many consumers, most major economic forecasters are predicting economic growth – albeit modest – in 2008, as summarized in the top box.

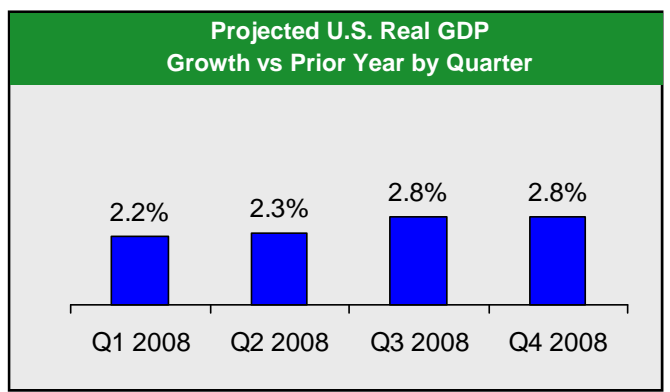
The less-than-stellar economy may limit upward growth potential in CPG; however, a major slowdown in CPG spending is unlikely.

As highlighted in the middle chart, the first and second quarters of 2008 are expected to deliver slow growth, followed by an acceleration in the back half of the year. These projections suggest that consumer budgets may loosen a bit in the second half of 2008.

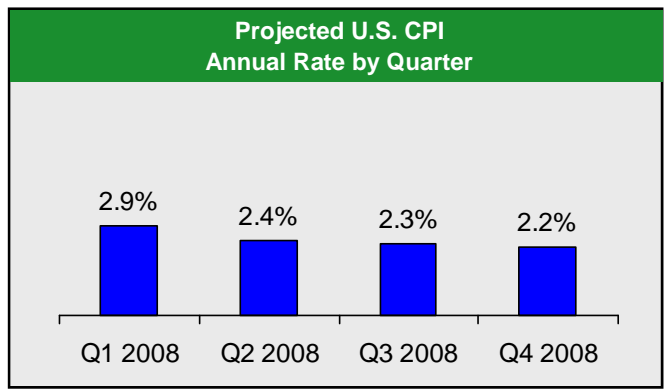
While pricing will continue to be a factor in the coming year, inflation is expected to subside as the year progresses, as highlighted in the bottom chart.

If these projections hold true, the supercenter and private label gains secured in the back half of 2007 could be tenuous. As retailers will focus on protecting and growing this business, expect increased, not decreased competitive pressure across many categories and markets as economic and pricing conditions improve.

Projected 2008 U.S. Real GDP Growth vs Prior Year by Source	
OECD Economic Outlook	2.0%
Federal Reserve Bank of Philadelphia: Survey of Professional Forecasters	2.5%
<i>The Economist</i> Poll of Forecasters	1.2% - 2.4%



Source: Federal Reserve Bank of Philadelphia; Survey of 48 Professional Forecasters



Source: Federal Reserve Bank of Philadelphia; Survey of 48 Professional Forecasters



2008 OUTLOOK

TRENDS TO WATCH - CONSUMER

The following eight trends will influence consumer demand and shopping behavior over the next few years, creating new growth opportunities for CPG retailers and manufacturers. For a more detailed explanation of these trends, see the upcoming February *Times & Trends* issue, "Consumer Trend Watch 2008."

Food as Health Solution

A spoonful of sugar makes the medicine go down. This adage is taking on a whole new meaning with functional foods and beverages. Consumers are increasingly recognizing the power of specific food and beverage ingredients in delivering specific health benefits – in both preventing disease and addressing existing conditions, such as digestive problems and high cholesterol. And, the delivery of these benefits in foods and beverages that also deliver refreshment, enjoyment and hunger satisfaction ups the appeal.

Probiotics have paved the way for other ingredients with functional benefits, with highly successful new yogurts and cheese. Expect additional probiotic products, from chocolates to cereal. Omega-3, now in orange juice, butter substitutes and cereal, has also hit its stride and offers significant further upside.

The key to success in this space appears to be the delivery of very specific benefits that produce noticeable results to consumers.

Sustainability-Driven Consumers

IRI's recent sustainability survey of over 22,000 consumers (see December 2007 *Times & Trends*) revealed that sustainability concerns (ie environmental and social impact) are no longer limited to a niche market and have evolved from attitudes to action in the CPG marketplace. One-fifth of U.S. consumers are "sustainability-driven" today, heavily factoring sustainability issues into brand and store selection.

Over the next few years, the market will broaden significantly. Increased availability of sustainable products and packaging in mainstream channels, lower pricing, improved product performance and continued media focus will further bolster consumer demand. Sustainability is fast becoming a major source of competitive differentiation.



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2008 OUTLOOK TRENDS TO WATCH - CONSUMER

Experiential Consumption

Consumers increasingly seek out exceptional experiences – not just high quality or solid performance, but unique sensory experiences: a meal offering bold or unexpected flavors; a cleaning product with a pleasing, calming fragrance; a shopping occasion that is stress-free and filled with delicious aromas.

This drive for distinct experiences is reflected in the growth of premium and specialty products, exotic spices, aromatherapy personal and home care products and the success of new “fresh” and upscale retail formats. Consumers are ready and waiting for more.

Re-Defining Fresh

Strongly associated with perceptions of healthfulness, fresh foods are in high demand. Within the grocery channel, for instance, fresh foods are growing at more than double the rate of total CPG sales.

Yet, consumers are broadening their definition of fresh – at both ends of the spectrum. At one end, consumers are applying a stricter definition of fresh, demanding locally grown produce, which is also perceived as having sustainability benefits. This is opening new competitive opportunities for local producers and retailers. At the other end, consumers are increasingly viewing frozen foods as having fresh benefits, due to educational initiatives by leading manufacturers, and innovative new products, including new steam-cooked options.

Expect continued new product introductions, expanded assortments and targeted marketing and merchandising at both ends of the growing fresh spectrum.

Natural Beauty

There is growing demand for cosmetic and skin care products made with natural ingredients, which are perceived as being healthier for the consumer, better for the environment and more effective in delivering a natural look.

Products offering plant, animal or mineral ingredients versus synthetics are poised for growth, as are products that leverage the power of natural resources to deliver specific beauty benefits, such as exotic fruits and oils. Even oxygen is in growing demand within beauty care products.

This market will growth and evolve significantly over the next few years.



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2008 OUTLOOK

TRENDS TO WATCH - CONSUMER

Informed Purchases

The days of CPG purchasing as a low involvement endeavor are coming to a close. Consumers are increasingly considering multiple factors in their CPG purchase decisions, from sustainability to health and wellness to country of origin. This new level of consideration poses new challenges for retailers and manufacturers tasked with effectively communicating all of the information consumers need to make purchase decisions at a time when packages are getting smaller, providing less room for text, and stores are already cluttered and are trying to streamline.

Further, a growing source of consumer information is completely outside of retailer and manufacturer control: other consumers. Blogs, social networks and review sites, such as epinions.com and Amazon.com provide feedback on CPG brands that can be found instantly through online searches.

Expect an even greater focus on word of mouth advertising; expansion of in-store product ratings systems; high-tech information solutions, including kiosks, electronic shelf talkers and in-store tv; more informative websites and traditional advertising that educates.

Multi-Tasking Products

In response to massive choice proliferation across both food/beverage and non-food categories, many consumers are seeking simplification, driving growing demand for products that fill multiple needs: all purpose cleaners, multi-benefit skin care, shelf-stable convenience foods that are low in fat, sodium and calories. In healthcare, even Rx products are offering treatment for multiple solutions. Pfizer's Caduet, for instance, is one pill that can be taken to treat both high cholesterol and high blood pressure.

Targeted solutions are by no means dead. Several highly successful, targeted hair care lines were introduced last year, for instance. But, across many categories and consumer segments, simplification is in.

Energy 2.0

The quest for an energy pick-me-up is nothing new. A look at the exceptional growth rates of energy drinks over the past several years clearly illustrates this trend. What is new is the extent to which this quest is now permeating nearly every aspect of consumers' lives.

Caffeine is now available in skin care, toothpaste, soap, potato chips, sunflower seeds and pretzels. Energy boosts are clearly in high demand, and consumers appear to be receptive to delivery in non-traditional products.



2008 OUTLOOK

TRENDS TO WATCH - INDUSTRY

Innovation will remain a critical driver of brand and store growth in 2008 and beyond. Below are key trends to watch in retail format and product innovation.

Retail Format Innovation

The past few years have been marked by unprecedented format innovation – particularly within the grocery channel. Safeway’s highly successful Lifestyle format, which already comprises roughly 60% of all stores, is perhaps the most visible. Focused on fresh, organic and prepared foods, and set in an upscale, peaceful shopping environment, the format has been embraced by consumers and is credited with strong company performance. A number of other major grocers have adopted “fresh” formats, including Kroger, SUPERVALU, and A&P, among others, and we will see continued focus on fresh for the foreseeable future.

Moving forward, the format to closely watch will be Express: small format stores (10,000 – 15,000 square feet) that offer fresh prepared foods in addition to other essentials. Tesco pioneered the concept with the new Fresh & Easy stores. The company expects to have 50 open by the end of February and 200 by the end of the year.¹ Retail Forward is predicting 500 by 2011. The aggressive Tesco expansion, combined with other major retailers experimenting with this format, including Giant Eagle, Whole Foods, and Wal-Mart, with the company’s new 20,000 square foot Marketside prototype stores, are strong indicators that this trend will likely forever change the retail landscape and consumer shopping habits in the U.S.

Product Innovation

A proven growth driver, even in slow growth markets, product innovation will be at the forefront of manufacturer agendas in 2008. As outlined in the preceding consumer trends section, we can expect significant new product development around the eight emerging consumer trends identified, in addition to long-standing influential trends such as the drive for total health and wellness, convenience and new tastes and varieties.

IRI’s 2008 New Product Pacesetters report will showcase the most successful new brands and the brands to watch for next year. An eclectic group of products will grace these lists, including new steam-cooked sides and meals, multi-grain snacks, energizing skin care, “professional strength” personal care products and experience-enhancing home care products. Look for key findings from this highly anticipated annual assessment in the March issue of *Times & Trends*.

1. bloomberg.com



CONCLUSIONS CPG MANUFACTURERS

Manufacturers should consider the following action items to protect and grow share in the coming year:

- ▶ Identify emerging opportunities and risks
 - Assess channel/retailer share shifts for your brands and categories to ensure optimal distribution mix, in light of sizable total CPG share shifts underway (ie reinvigorated supercenter growth)
 - Closely track Express store development and identify potential fit for your brands
 - Continuously monitor private label impact, particularly among high price increase categories
 - Leverage shopper insights to identify new merchandising and cross-promotion opportunities that deliver growth in a slow-growth market
 - Identify opportunities to enhance consumer communication regarding high-demand product attributes (eg. ingredients with specific health benefits, green benefits, product origin, etc.)
 - Understand the impact of economic softening and recession on your categories, brands and consumer segments, and the specific timing of impact, which will vary

- ▶ Evaluate pricing strategies and practices
 - Given consumers' extreme price sensitivity currently, carefully assess impact of all pricing changes prior to implementation through in-market tests and modeling
 - Collaborate with leading retail partners in the development of attractive promotions in high price-increase categories

- ▶ Enhance the new product development process
 - Up the odds of new product success by benchmarking new product concepts, marketing and media plans versus historical new product successes and failures
 - Conduct in-market tests prior to full roll-out
 - Explore potential new product opportunities aligned with emerging consumer trends identified on pages 15-17 (eg. sustainable products and packaging, multi-purpose products; experiential consumption, etc.)



CONCLUSIONS CPG RETAILERS

Retailers should consider the following action items to protect and grow share in the coming year:

- ▶ Identify emerging opportunities and risks
 - Assess competitive share shifts at the category and store level in light of sizable total CPG share shifts underway (ie reinvigorated supercenter growth)
 - Closely track express store development in your markets and identify the current and potential competitive threat and strategic options
 - Identify new private label promotion and development opportunities – particularly in high price increase categories
 - Identify opportunities to enhance consumer communication regarding high-demand product attributes (eg. ingredients with specific health benefits, green benefits, product origin, etc.)
 - Understand the impact of economic softening and recession on your core consumer segments and stores, as well as the specific timing of impact, which will vary
 - Leverage shopper insights to identify new merchandising and cross-promotion opportunities that deliver growth in a slow-growth market

- ▶ Evaluate pricing strategies and practices
 - Given consumers' extreme price sensitivity currently, carefully assess the impact of major pricing changes prior to implementation through in-market tests and modeling
 - Conduct a competitive pricing assessment by market, focused on high price increase categories and strategically alter pricing, as necessary
 - Collaborate with leading manufacturer partners in the development of attractive promotions in high price-increase categories

- ▶ Explore product assortment enhancement opportunities
 - Ensure adequate assortment within high-growth categories (eg refrigerated teas, snack/granola bars, energy drinks) and among products aligned with emerging consumer trends (see pages 15-17)
 - Carry a high mix of innovative new products, which have proven potential in delivering growth, even in slow-growth categories



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A Snapshot of Trends Shaping the CPG Industry

RESOURCES

To gain insight into new opportunities and risks across specific brands, categories, consumer segments, channels or retailers, contact your IRI client service representative regarding custom analyses leveraging the following resources:

IRI New Product Profiler™

An interactive solution drawing upon an historical database of new product introductions that empowers CPG marketers to analyze the critical success factors for new product launches. This solution integrates sales, consumer and media metrics with automated analytics and scenario planning to help marketers set realistic goals and determine optimal marketing support.

IRI Price Drivers™

A solution using advanced statistical techniques to quantify price sensitivity and support model-informed decision making. Price Drivers applies Bayesian modeling, IRI consulting, and interactive end-user tools to merge the expertise, the art of analysis, and the science all into one deliverable.

IRI MarketInsight™

Proprietary model-based sales tracking service providing superior coverage of channels, including Wal-Mart, for which point-of-sale data are not available. Reflects sales across IRI InfoScan® Reviews CPG categories. Wal-Mart data include traditional outlets and supercenters.

IRI AllScan Convenience Reviews™

The industry's first service that provides 100 percent point-of-sale (POS) based convenience store coverage with highly-accurate weekly data for more than 250 product categories and insights for more than 50 states and local markets.



TIMES & TRENDS

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MORE INFORMATION

Please contact Sheila McCusker at sheila.mccusker@infores.com with questions or comments about this report.

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://www.infores.com>.



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