[Times & Trends]

A Snapshot of Trends Shaping the CPG and Retail Industries

July 2008

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Channel Migration 2008

IRI
Breakthrough Insights.
Breakthrough Results.

EXECUTIVE SUMMARY: TURNING INSIGHTS INTO ACTION

INSIGHT	ACTION
» Facing unprecedented financial burdens as gas, energy and CPG costs skyrocket simultaneously, consumers have made dramatic changes in where and how they shop	» Get ahead of shifting shopping patterns through monthly tracking of trips, trip types and share shifts by channel, consumer segment and market
» Consumers are balancing the need to save money on CPG products with the need to conserve gas; the result is fewer, larger trips	» Maximize every visit to the store through assortment and merchandising aligned with high-priority trip types (eg. fill-in, pantry stocking); implement multi-unit promotions in categories with relatively low price points
» Supercenters have been the biggest beneficiaries of consumer change, securing sizable share gains across every major CPG department, across income and lifestage segments and among heavy shoppers of competing channels	» Manufacturers need to re-evaluate current channel investment and distribution strategies to tie to shifting shopping patterns; competing retailers require targeted, market-level competitive strategies vis-à-vis supercenters
» The grocery channel has lost ground across fresh/perishable, frozen and center store, including high-demand meal ingredient and meal component categories	» Across these product segments, grocery retailers need to identify the most critical categories and brands for their consumers by market and partner with manufacturers in offering affordable solutions, which are prominently featured in advertising and displays
» Cross-channel competition has intensified for self-care products, which are experiencing rapid demand increases; drug stores and supercenters have secured the largest gains, but channel shifts vary by category	» Retailers need to stake a claim on self-care categories that are of most importance to their core consumers; manufacturers who can demonstrate value in driving store traffic and basket size will have a unique opportunity to partner with retailers in self - care growth strategies

INTRODUCTION

[Financial hardship fuels a resurgence in supercenter growth, reversing the more moderate channel migration trends evident in recent years.]

Last year's channel migration update revealed a moderating channel migration trend, with nominal supercenter gains.

How times have changed.

Over the past year, channel migration has accelerated as consumers face skyrocketing gas, energy and CPG costs – all at the same time.

Supercenters secured sizable share gains over the past year, across every major CPG department. Further, gains occurred across income segments, as channel penetration extends beyond core lower income consumers to middle and upper – income groups.

With the economy not expected to rebound until at least the second quarter of 2009, there is ample time for these consumers to become quite comfortable with this new shopping pattern, suggesting that these changes and the competitive ramifications for other retailers, could have some staying power.

While this is great news for supercenters and for manufacturers with strong positions within this channel, the story does not need to end here.

There are distinct windows of opportunity for competing retailers who deliver against consumers' most pressing needs. For instance, consumers are looking for affordable meal ingredients and components as they prepare meals at home more often to stretch strained budgets further. Retailers can focus on the specific meal ingredients and components that are the highest priorities among their core consumers in promotions, advertising and displays to grow trips and re-build baskets.

Affordable healthcare also offers a source of competitive advantage in cross-channel battles. Consumers are increasingly turning to self-care in their belt-tightening efforts, driving up demand for many OTC products. An affordable product mix within healthcare (eg. smaller pack sizes, private label, promotions) will drive up store traffic and sales.

This report explores shifting shopping behavior across departments, categories and consumer segments to provide both retailers and manufacturers with a foundation for competitive and distribution strategy development and a baseline for ongoing tracking.

CPG SHOPPING TRENDS
CHANNELS SHOPPED

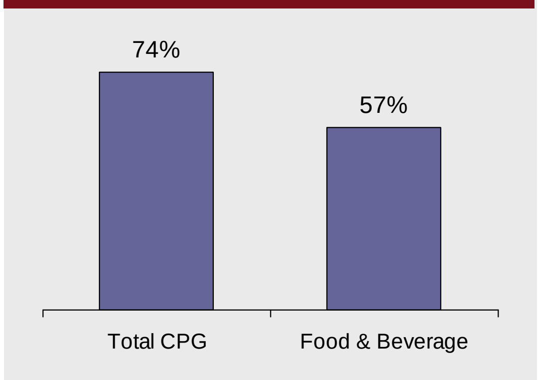
[Consumers visit five or more channels to meet their CPG needs, but with current gas prices, close-to-home is a top priority.]

In the struggle to maximize cost savings and find the selection of products they want within their budgets, consumers continue to visit multiple channels to meet their CPG needs.

Consistent with last year, three-quarters of consumers visit five or more channels to complete their CPG shopping, and roughly half visit at least five for food and beverage purchases.

However, with astronomical gas prices, consumers "shop around" within a retail set that is relatively close to home. Only 10% of consumers are willing to travel further than they did before the economic downturn to get better deals.

% of Consumers Shopping in Five or More Channels To Meet Needs

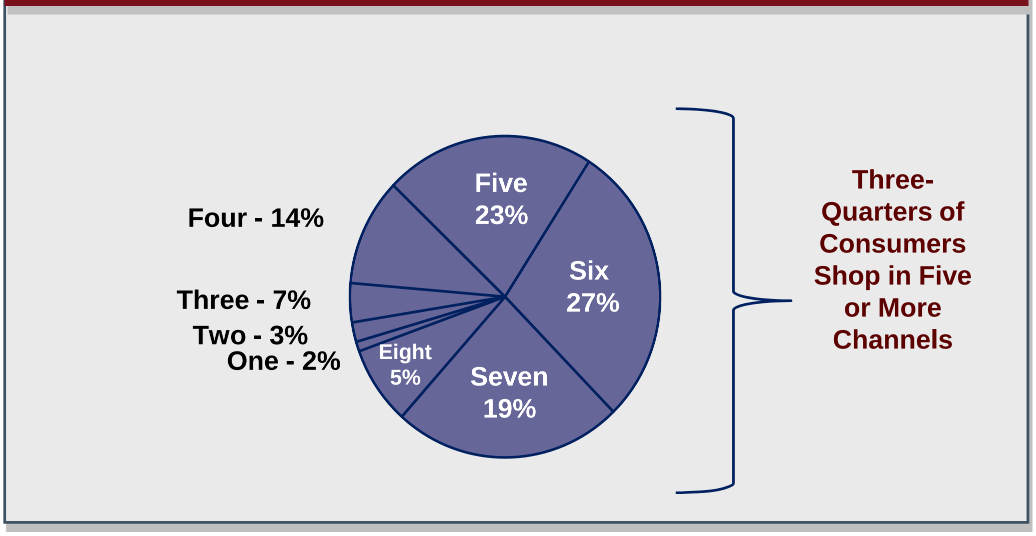


Source: IRI Consumer Network™
52 weeks ending 6/15/2008 and same period prior year

50% of consumers are "shopping around" to get the best deals, but only 10% are traveling further than they did six months ago to find values.

– IRI *Competing in a Transforming Economy*

# of CPG Channels Shopped: % of Consumers



Source: IRI Consumer Network, 52 weeks ending 6/15/08

CPG SHOPPING TRENDS
CHANNEL PENETRATION

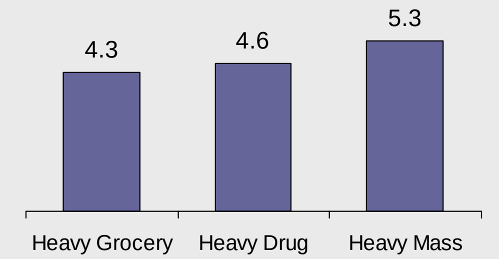
[Supercenters are attracting new shoppers looking to stretch their budgets – including top shoppers among competing channels.]

After three years of modest penetration gains and a penetration loss last year, the supercenter channel is back on track. Supercenters increased penetration significantly this past year, as the channel's low-cost one-stop shopping attracted a broader range of consumers looking to stretch budgets further.

As illustrated in the top chart, supercenters were successful in bringing in heavy shoppers from competing channels, highlighting the critical importance of retailers' identifying and addressing the needs of their top shoppers as the economy continues its transformation.

Gains in club and dollar store penetration provide further evidence of consumers' growing need for value.

Supercenter Penetration Point Gains Among Heavy Channel Shoppers



Source: IRI Consumer Network™
52 weeks ending 6/15/2008 and same period prior year

% Households Buying by Channel

Channel	2008 Penetration	Point Change vs 2007
Grocery	99.0%	(0.2)
Supercenter	65.0%	+4.2
Mass	82.4%	(3.1)
Club	49.7%	+0.7
Drug	76.6%	(1.2)
Dollar	54.6%	+0.4
Convenience	27.7%	(0.3)

Source: IRI Consumer Network™; 52 weeks ending 6/15/2008 and same period prior year

CPG SHOPPING TRENDS
SHOPPING TRIPS

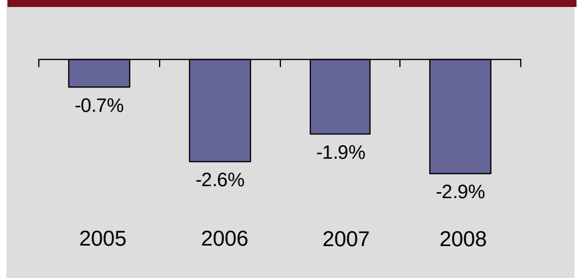
[*Supercenters and dollar stores have gained trips despite consumers' scaling back total shopping trips.*]

While consumers allocate trips across a broad range of outlets, as highlighted previously, the number of total trips continues to shrink.

Over the past year, both supercenter and dollar store trips have grown as consumers seek low cost pantry stocking (supercenters) and close-to-home, low cost fill-in (dollar stores).

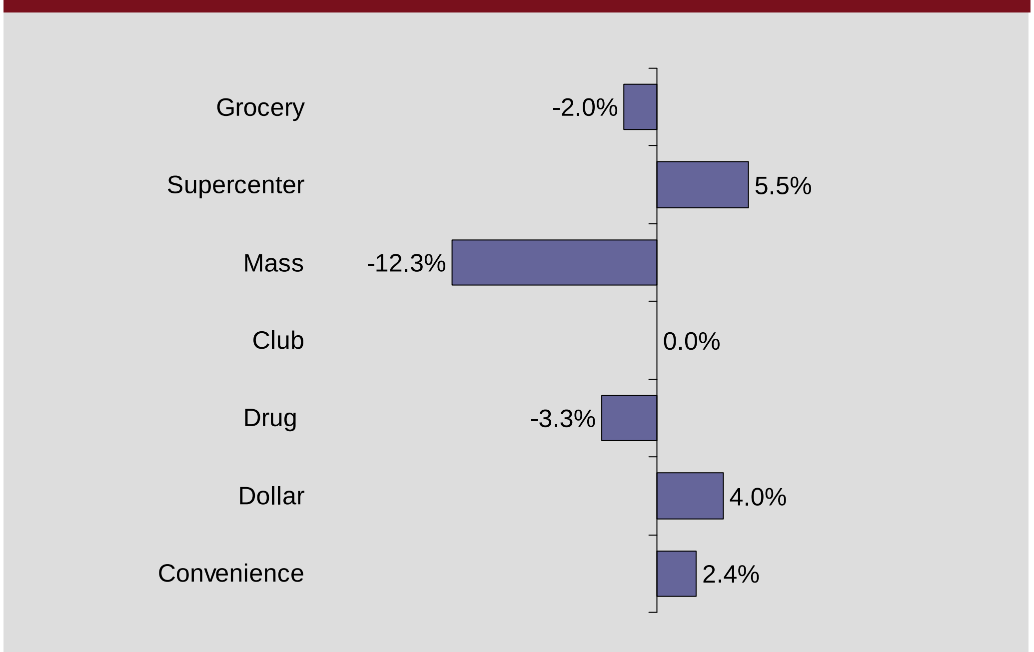
Convenience stores successfully turned a negative tide in trips. Over the past several quarters, convenience trips declined, but in Q2, trips rebounded significantly as retailers converted more frequent visits to the pump to in-store visits, with heavy promotions on staples, such as milk, a likely driver of success.

Average Purchase Occasions per Household All Outlet % Change vs Prior Year



Source: IRI Consumer Network™; 52 weeks ending 6/15/2008 and same period prior years

2008 % Change in Average Purchase Occasions per Household



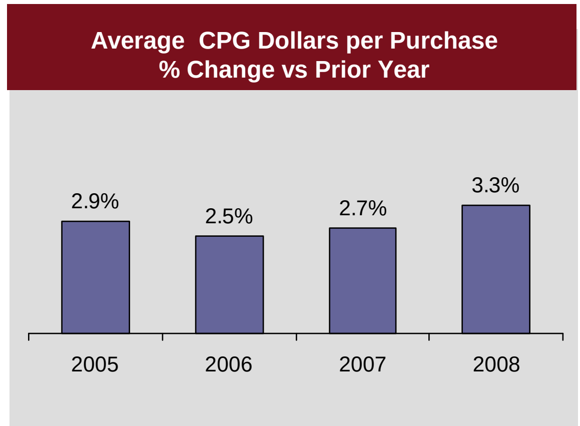
Source: IRI Consumer Network™; 52 weeks ending 6/15/2008 and same period prior year

CPG SHOPPING TRENDS
SPENDING PER TRIP

[Assortment and merchandising aligned with evolving trip patterns will help retailers and manufacturers tap into consumers' propensity towards larger trips.]

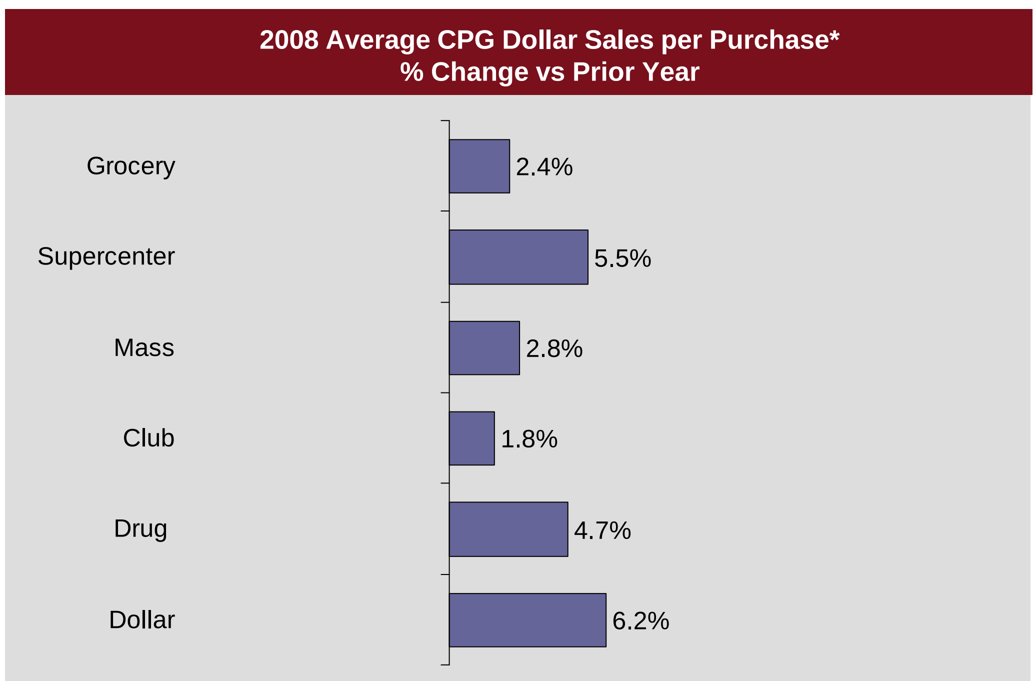
While making fewer shopping trips, consumers have become accustomed to buying more on each visit. Retailers and manufacturers can tap into this trend by building assortment and merchandising plans based on an understanding of shifting trip types (eg. rise in pantry stocking) and basket content (eg. heavier emphasis on meal ingredients and components and self care products.)

Large gains in basket size within supercenters reflect increased pantry stocking activity, while gains in dollar and drug reflect increased fill-in shopping. Manufacturers need to identify how their brands can play into these shifting channel roles.



Source: IRI Consumer Network™; 52 weeks ending 6/15/2008 and same period prior years

Manufacturers need to identify how their products fit within shifting channel roles and develop go-to-market strategies that capitalize on brand value in further developing high-priority trip types for key accounts.



Source: IRI Consumer Network™; 52 weeks ending 6/15/2008 and same period prior year

*Note; Convenience channel excluded as data not fully representative.

CPG SHOPPING TRENDS
CHANNEL SHARE SHIFTS

[***Consumers allocated substantially more of their spending to supercenters this year – evidence of the dramatic impact of economic conditions on shopping behavior.***]

An enviable combination of increased penetration, trips and dollars per trip drove substantial supercenter share gains over the past year -- representing a major shift. Supercenter share gains had slowed significantly in 2006 and 2007, but as economic conditions worsened this year, supercenter gains accelerated.

As outlined below, gains were sourced primarily from the mass channel, as consumers prefer one-stop shopping and as traditional mass stores are increasingly converted to supercenters.

However, as detailed in subsequent sections of this report, grocers lost substantial share to supercenters in critical meal ingredient and component categories, as well as convenience meals.

Manufacturers need to carefully evaluate channel investment strategies and specifically the role of supercenters in growth plans.

Competing retailers will require a deep understanding of the categories, brands (national and private label), consumer segments and trip types in which they need to invest to drive a viable competitive positioning vis-a-vis supercenters. Local market strategies will become critical, with supercenter presence a key distinguishing factor.

CPG Dollar Share by Channel*

Channel	2008 Share	Point Change vs 2007
Grocery	55.2%	(0.2)
Supercenter	15.1%	+1.4
Mass	8.1%	(1.0)
Club	7.9%	+0.1
Drug	5.6%	0.0
Dollar	1.5%	+0.1

Source: IRI Consumer Network™; 52 weeks ending 6/15/2008 and same period prior year.

*Note; Convenience channel excluded as data not fully representative; share will not total to 100% as not all channels are highlighted.

SHOPPING SHIFTS BY DEPARTMENT
DOLLAR SHARE

[Consumers' shift to supercenters is evident across every major CPG department.]

A true testament to the resurgence of the supercenter is the extent to which large supercenter gains have occurred across every major CPG department.

In beauty/personal care, while the largest share shift was from mass to supercenters, drug stores also lost nearly half a share point. This is a significant loss, as the channel had recently gained positive momentum as a beauty care destination.

In healthcare, however, drug store share gains outpaced supercenter gains; drug store healthcare marketing initiatives, combined with close-to-home access for more urgent needs have contributed to growth.

Within food and beverage, the grocery channel has suffered large losses in both fresh/perishable and frozen, with supercenters the primary beneficiaries in both departments. Grocers have a dire need to protect and grow share across these areas, which are growing as consumers return home for meal preparation. An "affordable" positioning is paramount.

Dollar Share Point Change by Department
2008 v 2007

	Grocery	Drug	Mass	Supercenter	Club	Dollar
Beauty/ Personal Care	-0.1	-0.4	-1.7	2.1	0.2	0.2
Center Store	-0.4	0.0	-0.9	1.4	0.0	0.1
Fresh/ Perishable	-1.3	0.1	0.0	1.1	0.4	0.1
Frozen	-1.6	0.1	0.0	1.7	0.0	0.1
General Merchandise	0.4	0.6	-3.0	2.3	0.4	0.5
Healthcare	0.2	1.5	-1.8	1.0	-0.5	0.2

Source: IRI Consumer Network™; 52 weeks ending 6/15/2008 and same period prior year

SHOPPING SHIFTS BY CATEGORY
MEAL INGREDIENTS AND COMPONENTS

[Grocers have lost ground among high-demand meal ingredients and components.]

As highlighted in the May 2008 issue of *Times & Trends*, as consumers struggle to make ends meet in the face of unprecedented increases in gas, energy, and food and beverage costs, they are eating out less and preparing food at home more.

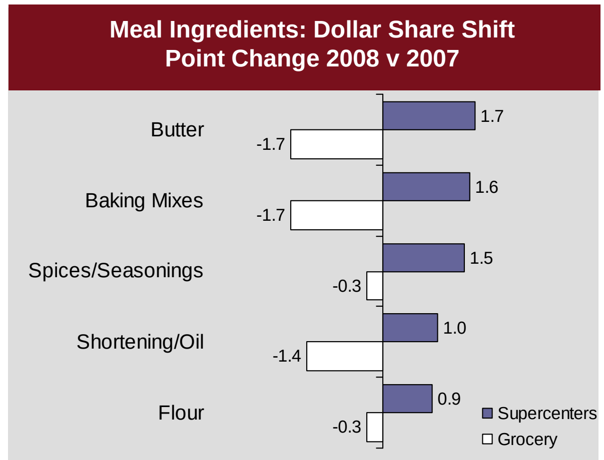
As a result, demand is on the rise for meal ingredients and components. While this increased demand should be a boon for grocery retailers, the channel is instead losing share across these product segments.

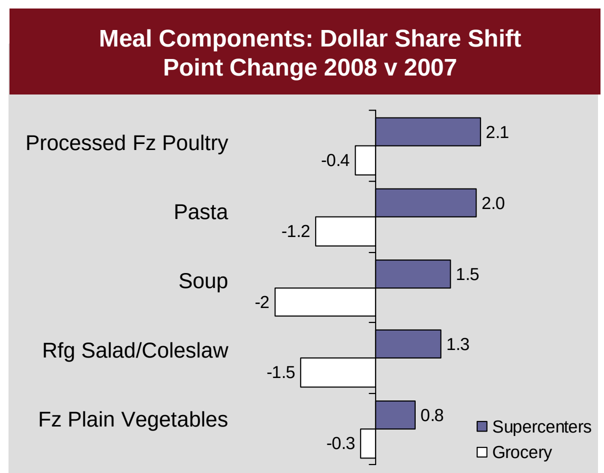
Retailers who provide affordable meal solutions (eg. feed a family of four for $10 every night of the week) will win in this space. To date, consumers are choosing supercenters as their solutions provider; however, there is major upside opportunity for other retailers who are prepared to fill this role.

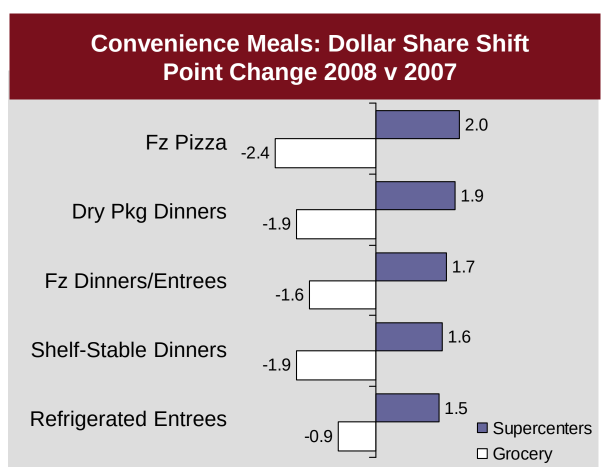
In addition, while many consumers are foregoing ultra-convenient fresh and prepared meals due to cost, affordable solutions within this space would likely resonate well with consumers. Lives still remain as hectic or perhaps more so than they were before the economic downturn. Supercenters have made large gains in convenience meals as consumers seek low-cost options.

53% of consumers are cooking more from scratch and buying fewer convenience meals than they did six months ago.

– IRI *Competing in a Transforming Economy*







Source: IRI Consumer Network™; 52 weeks ending 6/15/2008 and same period prior year

SHOPPING SHIFTS BY CATEGORY
SELF CARE

[An intense cross-channel battle has ensued among self-care categories.]

The self-care movement has gained traction throughout the past year as consumers look for opportunities to avoid expenses, including doctor visits. As a result, we have seen demand increases across major self-care categories.

The battle for share among self-care categories has intensified. As detailed in the chart below, share shifts in this segment go way beyond supercenter gains. The magnitude and variety of shifts indicate that consumers are comfortable with multiple suppliers of healthcare solutions, and retailers who work with manufacturer partners to deliver affordable offerings have an opportunity to gain a bigger piece of the pie.

The challenge for retailers and manufacturers is to work together to identify the distinct needs of each store's consumer base and to stake a claim among those categories that are most critical to that market.

Key Self-Care Categories: Dollar Share Point Change 2008 v 2007

Category	Drug	Supercenter	Grocery	Club
Anti-Smoking Products	1.1	-3.7	-4.6	1.7
Cold/Allergy/Sinus Tablets	2.6	-0.7	0.2	-0.4
Vitamins	2.9	0.0	0.5	-1.3
Cough Drops	-3.4	0.8	2.7	0.0
Home Health Care Kits	-2.0	1.0	2.2	-1.0
Gastrointestinal Tablets	1.5	1.0	-0.1	-0.9
First Aid Treatment	0.3	1.8	-0.6	-0.1
Internal Analgesics	0.1	2.1	-0.8	0.0
Cold/Allergy/Sinus Liquids	0.2	2.9	-1.3	1.3
Gastrointestinal Liquid	0.8	3.3	-2.0	2.4

Source: IRI Consumer Network™; 52 weeks ending 6/15/2008 and same period prior year

CONSUMER SEGMENT
SHARE SHIFTS

[Economic conditions have driven changes in shopping patterns across consumer segments, including upper-income consumers.]

The good news for supercenters continues. Supercenters have gained share across consumer segments, including all IRI income groups and high-spend Boomers, Hispanic consumers and households with kids.

While mass channel share erosion fueled supercenter gains across each of these segments, the grocery channel lost substantial share among middle- income “living comfortably” consumers. Grocers have continually held onto share among upper-income consumers and recently stabilized share losses among lower-income consumers, who are increasingly staying close to home for fill-in trips due to gas costs.

Economic conditions have driven changes in shopping patterns across consumer segments – even those who are relatively well-off financially. As the economy is not expected to improve for at least a year, new habits are likely to form that could transcend the economic downturn.

**Dollar Share Point Change by Consumer Segment
2008 v 2007**

		Grocery	Drug	Mass	Supercenter	Club	Dollar
Income Segment	Getting By	(0.1)	+0.1	(1.1)	+1.0	(0.1)	+0.3
Income Segment	Living Comfortably	(0.8)	+0.1	(1.0)	+2.0	+0.4	+0.1
Income Segment	Doing Well	0.0	0.0	(0.9)	+1.3	+0.1	+0.1
	Boomers	(0.4)	0.0	(1.0)	+1.6	+0.1	+0.1
	Hispanics	+0.5	0.0	(0.8)	+2.1	(0.3)	+0.2
	Households w/Kids	(0.1)	0.0	(1.1)	+1.6	0.0	+0.2

Source: IRI Consumer Network™; 52 weeks ending 6/15/2008 and same period prior year

CONSUMER SEGMENT
SHARE SHIFTS

[*Retailers are successfully growing share among top channel shoppers.*]

Amidst all of the changes in consumer shopping behavior, for the most part, retailers are holding onto and even growing share among top channel shoppers, but there is more to gain.

Heavy grocery and drug store channel shoppers, for instance, have stepped up spending within these preferred channels, but supercenters have also gained share, sourced from traditional mass. These dollars represent potential grocery and drug store gains.

The largest supercenter gains, however, were sourced from heavy shoppers of other value channels. These competing retailers need to identify categories with the largest shifts among heavy shoppers and work with manufacturers to develop a targeted plan for category revival.

These trends point to the value of gaining a deep understanding of evolving top shopper needs and catering to those needs to protect and grow share and loyalty.

Dollar Share Point Change by Heavy Shopper Segment
2008 v 2007

	Grocery	Drug	Mass	Supercenter	Club	Dollar
Heavy Grocery	+0.8	0.0	(1.1)	+0.5	+0.1	+0.2
Heavy Drug	+0.1	+0.5	(1.1)	+0.3	+0.1	+0.2
Heavy Mass	0.0	+0.3	(0.8)	+0.9	+0.1	+0.1
Heavy Supercenter	(1.2)	(0.2)	(0.5)	+1.7	+0.5	+0.2
Heavy Club	+0.2	(0.2)	(1.0)	+1.3	+0.3	+0.1
Heavy Dollar	(0.8)	+0.4	(0.7)	+0.8	+0.3	+0.5

Source: IRI Consumer Network™; 52 weeks ending 6/15/2008 and same period prior year

CONCLUSIONS
CPG MANUFACTURERS

Manufacturers seeking to capture new growth opportunities and minimize risks associated with channel migration trends should consider the following action items:

» Identify new growth opportunities and risks through ongoing category and brand channel migration tracking

- Analyze trip and share shifts on a monthly, not semi-annual basis, to identify emerging opportunities and risks
- Track shifts across key consumer segments
- Track shifts in trip mix by channel and account

» Align distribution, marketing and merchandising strategies with channel migration patterns

- Ensure adequate investment in supercenters and other channels demonstrating strong trip and share growth
- Tie merchandising to evolving trip mix by channel/account
- Partner with key accounts in the development of targeted marketing and merchandising plans designed to capture share from competing channels

» Protect and grow share among top shoppers

- Demonstrate the value of your categories and brands in driving top retail shopper satisfaction, trips and basket size
- Participate in key account marketing and promotions that reward top shoppers and build category sales

CONCLUSIONS
CPG RETAILERS

Retailers seeking to capture new growth opportunities and minimize risks associated with channel migration trends should consider the following action items:

» Identify new growth opportunities and risks through ongoing channel migration tracking

- Analyze trip and share shifts on a monthly, not semi-annual basis, to identify emerging opportunities and risks
- Track shifts at the market level
- Track shifts across high-priority consumer segments
- Track shifts in trip mix by channel and competitor

» Align competitive, marketing and merchandising strategies with channel migration patterns

- Develop cross-channel competitive strategies that are tailored by category and consumer segment where cross-channel shopping is most intense and are versioned, as required, by market/store cluster
- Build marketing and merchandising plans featuring categories that are “hotly-contested” across channels (eg. meal ingredients and components, self-care)
- Invest to build a dominant position in high-priority trip types among core and target consumers

» Protect and grow share among top shoppers

- Gain a deep understanding of shopping patterns and emerging competitive threats among top shoppers
- Assess top shopper preferred categories and brands and ensure adequate assortment, promotion and marketing across these product groups
- Partner with manufacturers in the development of targeted marketing and merchandising

RESOURCES

To gain insight into opportunities and risks related to channel migration trends, contact your IRI client service representative regarding custom analyses leveraging the following resources:

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.
IRI Consumer Network™	Nationally representative panel of households tracking purchases with hand-held barcode scanners; extensive demographic profiles enable in-depth analysis of purchase behavior across standard or custom-defined consumer segments across channels.
IRI Shopper Insights™	IRI Shopper Insights™ solution segments and analyzes stores, shoppers, trip types, and products to uniquely define target markets; this solution integrates IRI panelist demographics with Personicx segmentation and panelist purchase behavior.

IRI *Competing in a Transforming Economy*

This ground-breaking study reveals fundamental changes in where consumers shop, what they buy, and even how they eat in response to shifting economic conditions. The study presents specific recommendations for retailers and manufacturers to successfully compete within this environment and includes a monthly tracking service to empower industry participants to get ahead of emerging trends.

For More Information, contact your client service representative or
Sheila McCusker at sheila.mccusker@infores.com

See the May 2008 issue of Times & Trends for high-level findings from this study.

>>> 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

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