Brand Loyalty:

How Understanding Brand Equity Impacts Brand Loyalty and Delivers to the Top and Bottom Line

SymphonyIRI Group

Insight.
Innovation.
Impact.

Times & Trends

August 2011

Executive Summary

INSIGHT

- A weak economic environment and inflationary pricing trends are feeding consumers' propensity to experiment with brands outside their "normal" consideration set in some categories, having a negative impact on brand loyalty
- Categories with generally high levels of brand loyalty have demonstrated a diminished sensitivity to price increases that have occurred during the past three years
- Innovation has proven to be a powerful way to protect and grow brand loyalty, particularly across categories where innovation is enabling consumers to trim back expenses yet still indulge/enjoy (e.g., spa at home; quick/easy/delicious at-home dining)

ACTION

- Leverage frequent and granular assessments of core and target shoppers to ensure a comprehensive and always-current understanding of value drivers for key categories and brands
- Invest heavily in establishing and strengthening brand loyalty, focusing in on and delivering against the most meaningful needs of key and target shoppers
- Constantly seek opportunities to innovate, but approach innovation in a strategic and targeted manner in order to address the true needs of target consumer segments

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Executive Summary

INSIGHT

- Private label places considerable pressure on brand loyalty across some categories, particularly low-differentiation categories; as private label assortment expands, this pressure is likely to reach further, threatening loyalty in historically "safe" categories and brands
- Private label loyalty has increased in three-quarters of the top 100 CPG categories during the past three years

ACTION

- Base pricing strategies on a market view of pricing dynamics, understanding own targets and margins as well as those of key partners, and competitor and private label availability and pricing structure
- Provide ongoing support across key categories and brands, leveraging promotion tactically, and innovation to ensure that brands continue to deliver against the changing needs and wants in the marketplace

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Weak economic conditions and an increasing rate of inflation are heavily impacting the CPG marketplace, and testing the true power of brand loyalty.

Economic Snapshot
2008-2011p

Economic Measure	2008	2009	2010	2011
GDP (% chg)	2.2%	-1.7%	3.8%	4.3%
Unemployment (%, SA)	5.8%	9.3%	9.6%	9.0%
Consumer Price Inflation (% Chg)	3.8%	-0.3%	1.6%	3.0%
Retail Sales (% Chg)	-1.2%	-7.0%	6.4%	7.9%
Residential Permits, Total (Mil)	3.6	2.3	2.4	2.6

Source: Moody's Economy July 2011.

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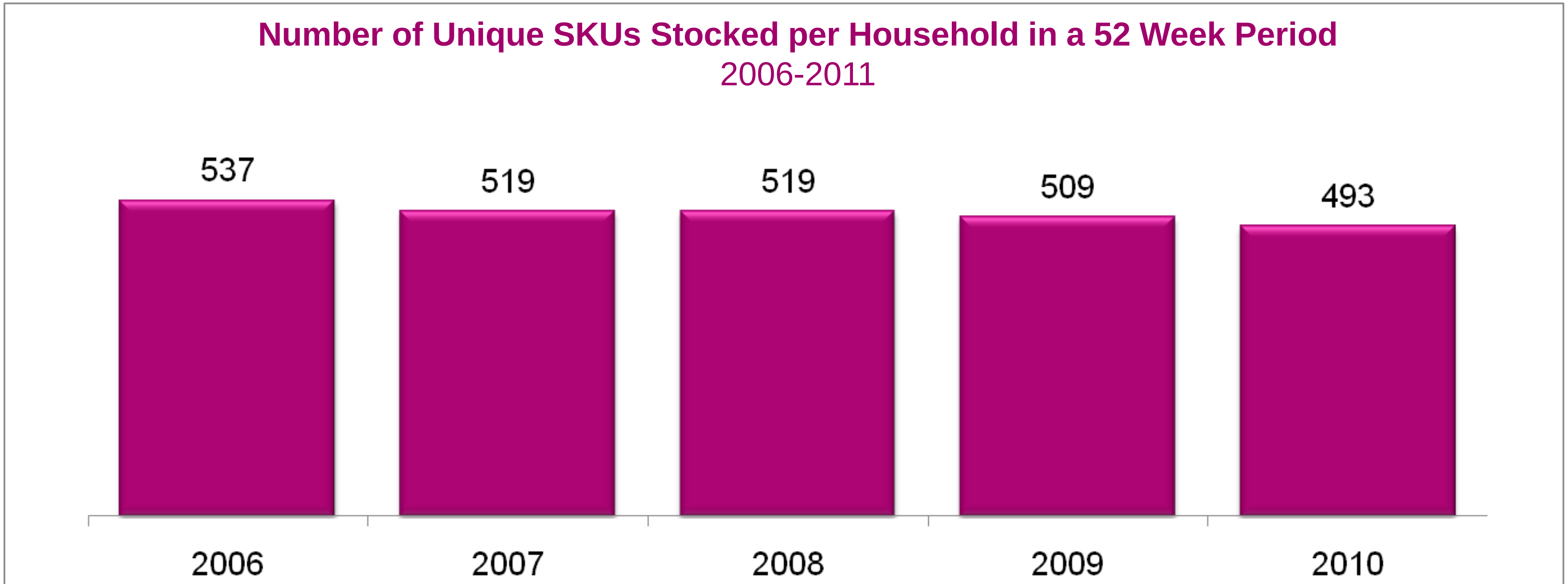
Since 2006, the average U.S. pantry has been slashed by more than 8%.



Source: SymphonyIRI Consumer Network™

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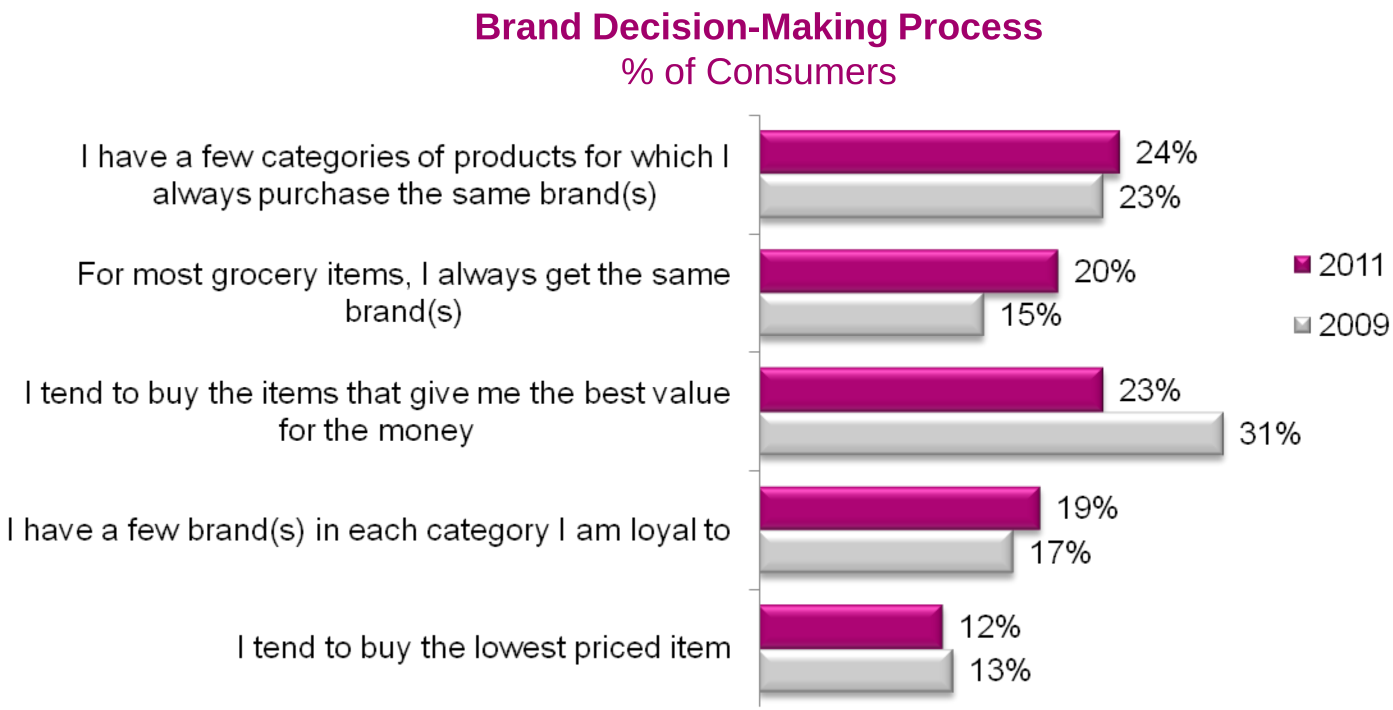
Despite ongoing economic instability and a conservative marketplace, consumers continue to seek out their preferred brands, at least across a handful of CPG categories.



Source: SymphonyIRI Brand & Retailer Loyalty Survey 2009 & 2011; Note: 1% & 2% of respondents answered "none of these," respectively.

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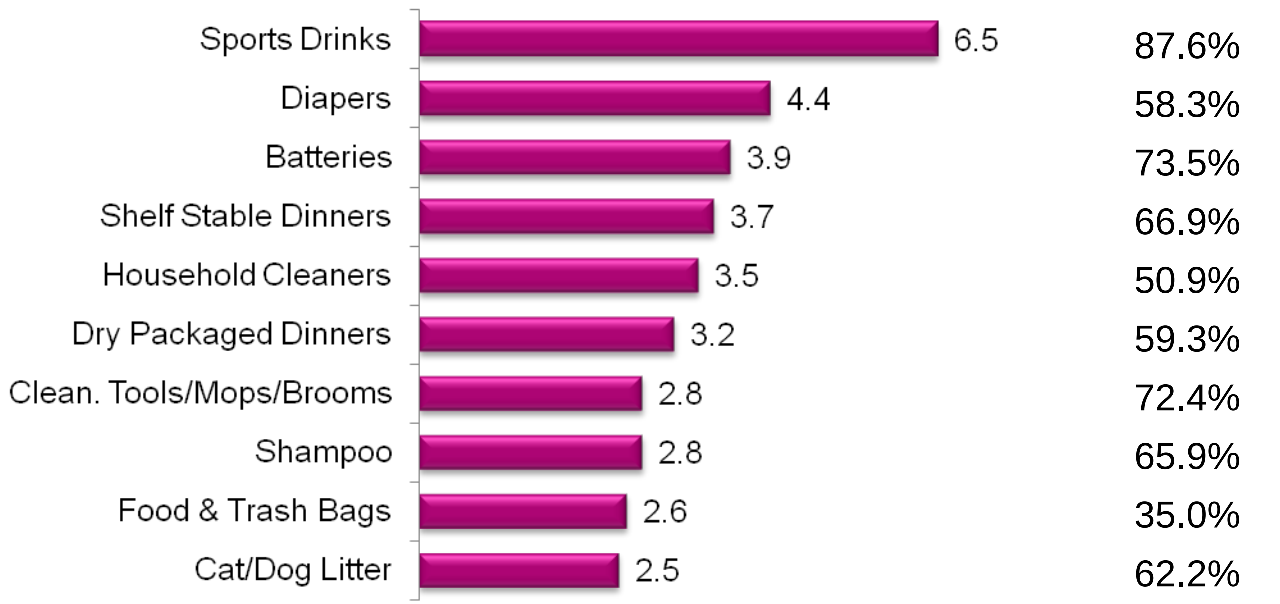
Brand loyalty has increased in 45 of the top 100 CPG categories during the past 3 years.

Categories with Largest Increase in Brand Loyalty
Pt Change in % Consumers Who Are Loyal to A Single Brand*
2011 v 2008

% Brand Loyal Consumers 2011



* Note: May be national brand or private brand.
Source: SymphonyIRI Consumer Network™, 52 weeks ending 7/3/2011

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Brand loyalty has declined in 55 of the top 100 CPG categories during the past 3 years.

Categories with Largest Decrease in Brand Loyalty

Pt Change in % Consumers Who Are Loyal to A Single Brand*

2011 v 2008

	Pt Change	% Chg Avg. # Unique Brands Purchased 2011 v 2008	% PL Loyal Consumers 2011	% PL Loyal Pt Chg v 2008
Rfg Salad/Coleslaw	-22.1	+6.0%	26.9%	+19.1
Gastrointestinal Tablets	-11.0	(5.5%)	42.7%	+12.8
Cold/Allergy/Sinus Tablets	-7.2	(7.1%)	43.9%	+10.3
Internal Analgesics	-6.9	(10.5%)	51.5%	+11.5
Sugar	-6.5	(5.3%)	64.1%	+7.4
Pastry/Doughnuts	-5.2	(2.6%	24.8%	+6.9
Creams/Creamers	-5.2	+15.4%	26.5%	(0.3)
Mexican Foods	-5.1	+6.9%	11.4%	+2.5
RTD Tea/Coffee	-4.9	+3.7%	5.2%	+3.8
Butter	-4.7	(2.7%)	68.2%	+5.2

* Note: May be national brand or private brand.

Source: SymphonyIRI Consumer Network™, 52 weeks ending 7/3/2011

Generally speaking, in categories with high rates of brand loyalty, consumers are less sensitive to price increases. Even in categories with low average loyalty, nonetheless, brands can still build loyalty during inflationary times.

Largest Price Increase Categories
Avg Price per Volume % Chg & Brand Loyalty Pt Chg
2008 v 2011

	Price per Volume % Change, 2011 v 2008	% Brand Loyal Consumers 2011	% Brand Loyal Pt Chg v 2008
Sugar	22%	32.6%	(6.5)
Coffee	21%	67.1%	(1.5)
Breakfast Meats	20%	50.4%	(0.8)
Dog Food	16%	45.1%	(0.4)
Chocolate Candy	16%	29.9%	+1.3
Blades	14%	82.7%	+0.3
Laundry Detergent	14%	75.6%	(1.9)
Dish Detergent	14%	68.1%	+1.8
Butter	13%	27.2%	(4.7)
Fz Breakfast Foods	12%	64.2%	+1.2

* Note: May be national brand or private brand.
Source: SymphonyIRI Consumer Network™, 52 weeks ending 7/3/2011

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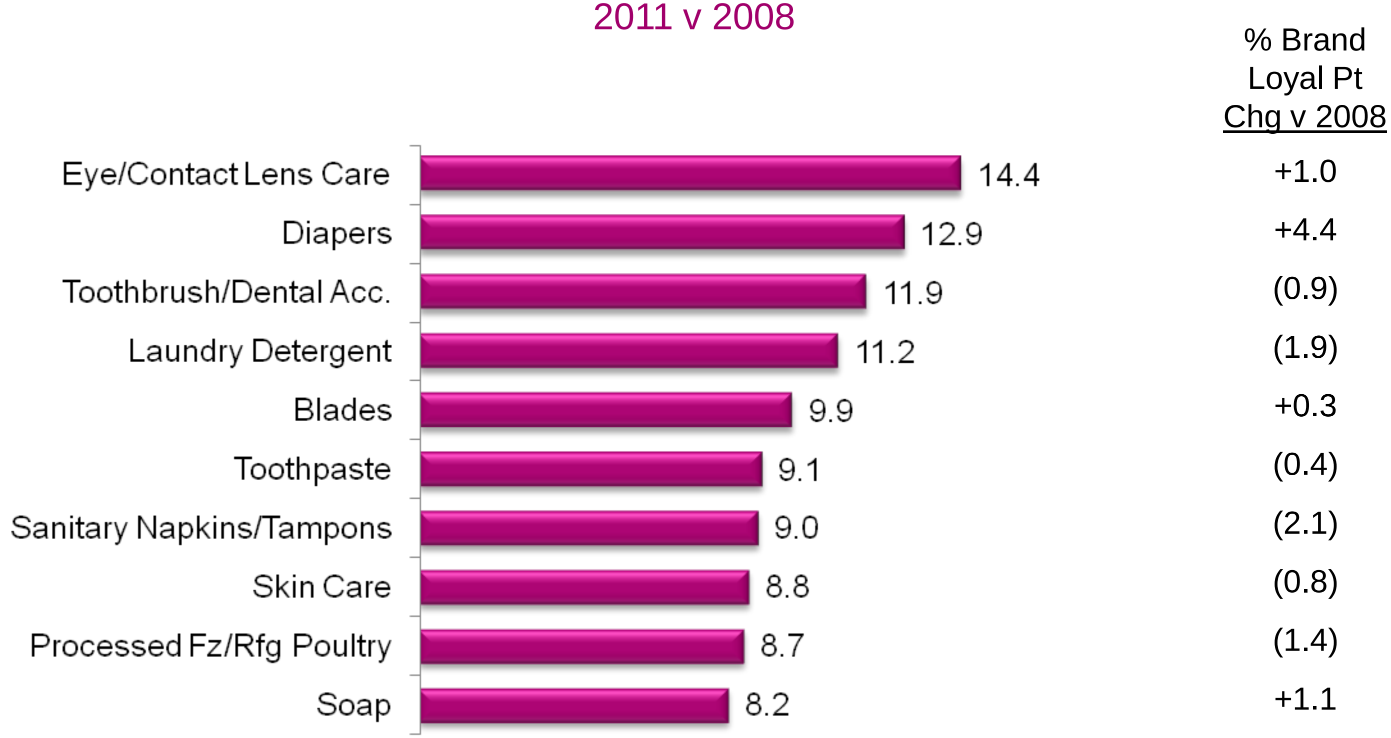
Across the ten categories with the largest increase in percent of dollars sold on deal, loyalty fell in six.

Categories with Largest Increase in Deal Activity
Pt Change in % of Dollars Sold on Deal
2011 v 2008



* Note: May be national brand or private brand.
Source: SymphonyIRI Consumer Network™, 52 weeks ending 7/3/2011

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Across a number of categories, a proliferation of available CPG solutions has occurred in recent years, having a mixed impact on brand loyalty.

Categories with the Largest Increase in Number of Available Brands
2011 v 2008

Pt Change in Brand Loyalty
2011 v 2008

(0.4)
+0.8
(1.6)
+1.6
(0.4)
(3.8)
+0.7
+0.4
(3.5)
+2.8

* Note: May be national brand or private brand.
Source: SymphonyIRI Consumer Network™, 52 weeks ending 7/3/2011

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Store brands play an important role in differentiating retailers today, and strong private label assortment weighs heavily in the store selection process.

Source: SymphonyIRI Brand & Retailer Loyalty Survey

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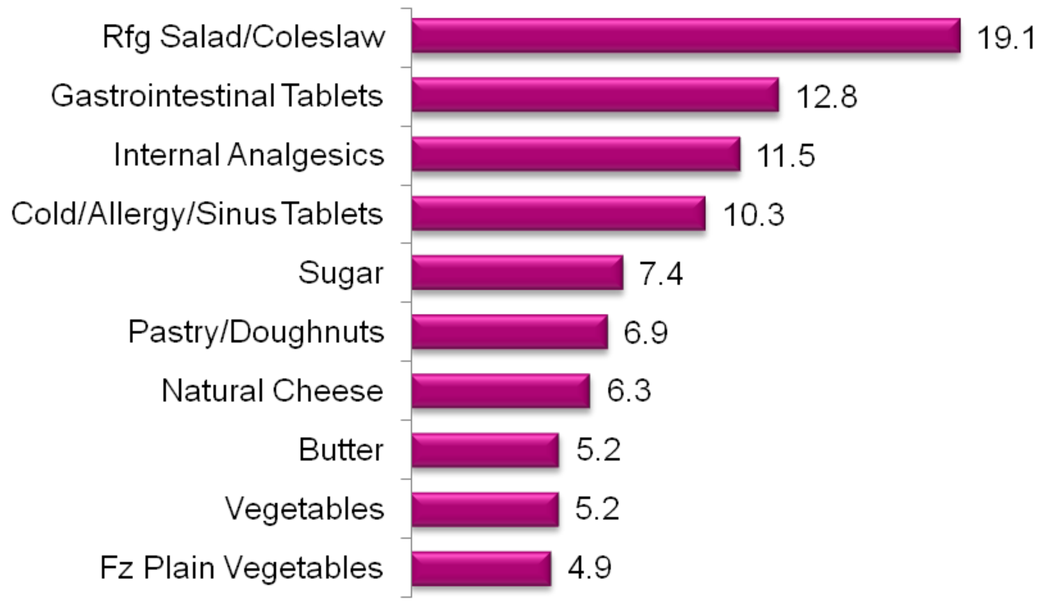
Private label loyalty is strong and growing across many of the top 100 CPG categories.

Categories with Largest Increase in Private Label Loyalty
Pt Change in % Consumers Who Are Loyal to Private Label
2011 v 2008



% PL Loyal Consumers 2011

26.9%
42.7%
51.5%
43.9%
64.1%
24.8%
43.5%
68.2%
38.1%
46.4%

* Note: May be national brand or private brand.
Source: SymphonyIRI Consumer Network™, 52 weeks ending 7/3/2011

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Conclusions: Manufacturers

Innovation

- Innovate in a highly targeted manner, addressing specific needs across key and target shopper segments (e.g., address a specific nutritional need, while offering a new/experiential flavor and/or texture)
- Explore niche market innovation opportunities that offer true differentiation

Price & Promotion

- Develop a keen understanding of price elasticity across key categories and brands, and use that knowledge as the basis for all pricing strategies,
- Keep the lines of communication open with key retailer partners in the coming months and years as the private label environment evolves, ensuring a true partnership
- Rewire promotional strategies, taking a tactical approach to promotions, rather than employing promotion as a loyalty-building tool

Measure & Monitor

- Leverage market-level models to understand expected impact of pricing changes before implementing changes; carefully monitor actual impact versus expected, and make real-time course corrections, as warranted

Conclusions: Retailers

Innovation

- Constantly evaluate the new product development pipeline, and be on the look out for opportunities to bring in highly targeted products that address specific needs across key and target shopper segments (e.g., address a specific nutritional need, while offering a new/experiential flavor and/or texture)
- Continue to build private label portfolio with consumer-centric products tailored to the needs of key shoppers at the region/market level

Price & Promotion

- Develop a keen understanding of price elasticity across key categories and brands, and use that knowledge as the basis for all pricing strategies,
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