[Times & Trends] A Snapshot of Trends Shaping the CPG and Retail Industries

January 2010

Price, Promotion & Merchandising: Balancing the Call Between Value and Price Relief

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U.S. consumers have been on a rollercoaster ride for the better part of two years. Energy, gas and commodity prices skyrocketed, and then subsided. Financial, housing and credit markets crashed, but appear to be turning the corner. And, unemployment is still in the headlines on an all-too-frequent basis. It has been a very difficult period. Not surprisingly, this environment has spawned dramatic changes in consumer attitudes and behaviors both in the home and in the CPG arena. Consumers' finances have been taxed, and belts have been tightened to the breaking point. Value is the theme of the day.

The packaged goods industry has done a commendable job of responding to consumers' intensifying drive for value. As illustrated in our new Times & Trends, "Price, Promotion & Merchandising: Balancing the Call Between Value and Price Relief," efforts to bring value and price relief to consumers have increased during the past year. Pricing and merchandising strategies have been at the center of these efforts. Pricing-cutting has become a common practice, and display activity has rebounded from a multi-year slide.

In the midst of it all, an interesting conundrum has arisen. Today's shoppers are approaching promotional fatigue and want more than just temporary price relief. Shoppers want value—value that is here today and will remain tomorrow. Given the complex nature of the economy and the turmoil that has been seemingly omnipresent during the past year or two, tomorrow is not all that easy to predict. One issue is commodity and CPG prices. Analysts seem fairly certain that the country's recent deflationary period has come to an end. At the same time, it seems very unlikely that we will experience drastic increases, such as those seen in late 2007 and much of 2008. Tomorrow's CPG prices will be somewhere in between.

Then there's the U.S. consumer. It has been well-documented in IRI research that consumers have undergone a stark metamorphosis during the course of the recession. The home has once again become the nucleus of daily living, and self-care has become the mantra for health, beauty and home care. Nutrition is at the forefront of consumers' wellness strategies. Clearly, the meaning of affordability has become much broader and deeper.

The CPG industry has reached a critical juncture. Going forward, pricing and merchandising strategies will play an increasingly critical role in providing value to shoppers. Targeted programs based on sound consumer knowledge are a recipe for volume growth and for building loyalty with the shopper. The most successful strategies will be those that address consumers' pre-planned shopping behaviors. This industry must connect with consumers in the home. Messaging must be relevant and persuasive. In-store efforts must close the loop, ensuring that the decisions made at the moment of truth are favorable.

Change continues to occur at an alarming rate, so CPG marketers must remain vigilant, and strive to anticipate evolving consumer needs and wants. Innovative and well-executed marketing strategies will be the hallmark of best-in-class CPG companies in the coming year. We look forward to partnering with you in your efforts to maximize the effect of price, promotion and merchandising strategies on shopper behaviors and drive the growth and profitability of your business.

Thom Blischok
President, Shopper Marketing and Innovation

EXECUTIVE SUMMARY: TURNING INSIGHTS INTO ACTION

INSIGHT	ACTION
» 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	» 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
» 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	» Broaden merchandising consideration sets to consider new/evolving technologies and techniques; tightly target programs against high-potential categories and segments
» 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	» Develop region and store-specific merchandising strategies to ensure maximum relevance and response; aggressively test prelaunch and track response to enable mid-program modifications
» Merchandising is heavily leveraged to drive purchase behavior across discretionary categories and key meal ingredient /meal component categories	» Drive purchase behavior with solutions-based merchandising programs prominently featuring categories closely linked with at-home and from-home food rituals
» 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	» 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

INTRODUCTION

[The need for pricing and merchandising strategies that address consumers' conservative spending and consumption patterns is high.]

The United States economy has officially been in a recession since November of 2008. However, stormy economic conditions preceded the actual declaration of a recession by many months.

Commodity prices escalated sharply in the latter half of 2006, throughout 2007, and into 2008. Fuel, energy and packaging prices also climbed sharply during this period.

Not surprisingly, as these key costs rose, packaged goods prices rose. At the same time, the financial markets crashed, the credit markets came to a screeching halt, and unemployment rose sharply. It was the beginning of what would later become the deepest and longest recession since The Great Depression.

Consumer response to recessionary economic conditions and escalating CPG costs has run broad and deep. At-home meal behavior has increased significantly, self-care health and beauty rituals have become commonplace and a myriad of money-saving strategies have been embraced.

The economy has shown signs of improvement over the past several months. The financial markets have made positive movement, housing and credit markets have improved, and gas prices have moderated.

Commodity prices have fallen, but manufacturer list prices remain elevated. Instead, promotional activity intensified.

Consumers remain fully entrenched in savings mode. At-home and from-home meal behavior is high, and self-care remains at the crux of many savings strategies.

Analysts expect that the deflationary period is coming to an end. Gas prices have edged up. Production has been reigned in, leading to tight inventories.

This year will be fraught with opportunity and risk for CPG marketers. The need for strategies which address conservative spending and consumption patterns is high. CPG marketers that deliver will reap great rewards.

This issue of Times & Trends explores current and emerging pricing and merchandising trends that define CPG marketer attempts to serve and satisfy consumers in a recessionary market.

" …overall consumer inflation should return to positive annual levels and put an end to the recent deflationary period."

~Analyst USDA, as stated in the Rochester Democrat and Chronicle, December 2009

PRICING ACTIVITY
TOTAL CPG

[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.]

Food prices have been on a roller-coaster ride over the past several years. Following inflation of 3.9% in 2007 prices spiked dramatically in 2008, increasing 5.4% over the prior year. In 2009, relief arrived. For the year, prices were up 3.6%, largely in line with historical trends.

For private label , the ride has been even choppier versus the CPG industry as a whole. For example, in the fourth quarter of 2007, CPG prices increased point three points to 4.9%. Over the same period, private label prices climbed more than one and a half points, to 11.8%.

Likewise, deflation occurred more sharply across private label products. In the first quarter of 2009, rate of total CPG inflation slipped slightly less than one-half of a point. During the same period, private label prices fell 4.9 points, to 1.5%.

And, when total CPG inflation held firm in the second quarter of the year, private label price changes actually slipped into negative territory.

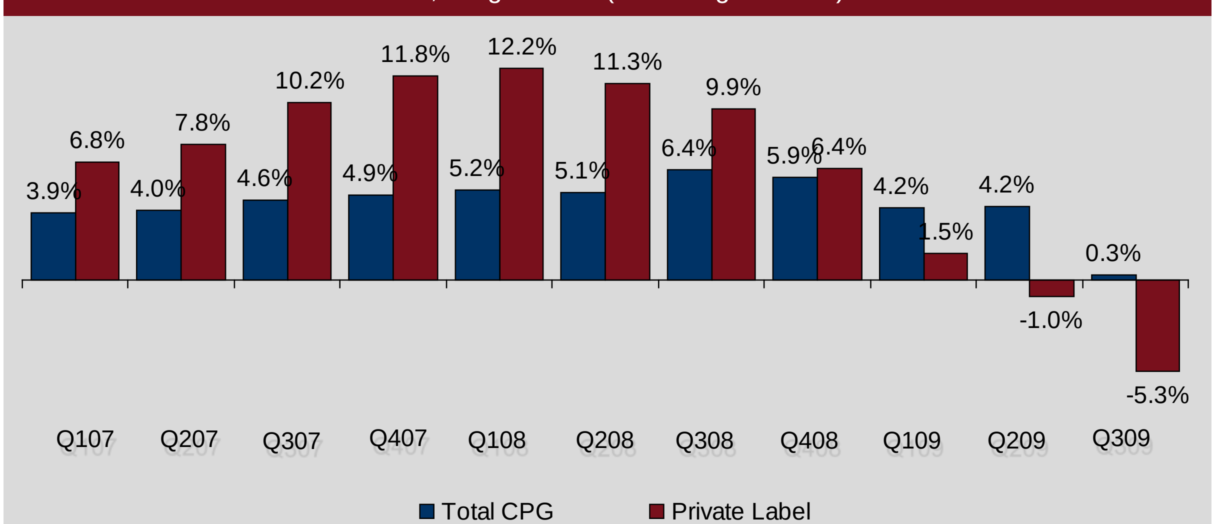
CPG prices are very much in the spotlight today. In November of 2009, the USDA forecast a three to four percent jump in food prices over the next year, spurred on by rising demand. Analysts at Wells Fargo are anticipating sharper increases, in the vicinity of 6%, elevated by increased demand and lower supplies, as well as high costs of corn and animal feed[1].

Consumers are concerned, and rightfully so. These sharp fluctuations make budget-balancing difficult, and add anxiety to an already stressful financial situation.

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.

Pricing and promotional strategies are at a critical juncture. The need for new, more effective strategies is high.

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

[1]Source: Supermarket News, December 21, 2009.

PRICING ACTIVITY
CATEGORY- MOST ACTIVE

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

On average, CPG price inflation returned to more historic levels over the past year. Nonetheless, several key categories continued to inflate at a much higher-than-average rate.

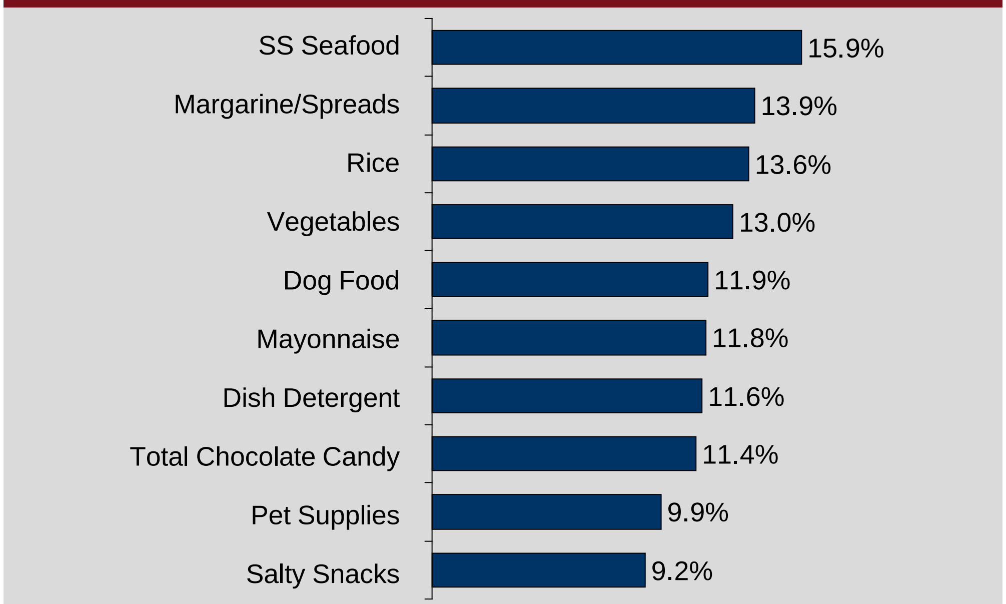
Meal ingredients/ meal components continue to represent the lion's share of highest price increase categories. With consumers well-entrenched in at-home meal preparation behavior, increases in categories such as these tend to have a significant impact on CPG budgets. As seen over the course of the recession, these budgetary hardships tend to lead to a reevaluation of needs versus wants and more conservative spending and consumption patterns.

On the positive side, the industry has enjoyed some price relief over the past several months. For example, shelf stable seafood saw prices increase 21% in the first quarter of 2009. The next six months brought significant change, though, and third quarter inflation was just 7% versus year ago.

Similarly, rice climbed 21% in the first quarter of 2009. By the third quarter, prices versus year ago were actually down 3%.

As discussed earlier in this report, CPG prices remain unsettled. Economists express concern with falling and/or tight demand among a range of staple items, such as rice, sugar and soybeans[1]. Price projections for the coming year are mixed, but some level of inflation is expected.

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.*

[1]Source: www.bloomberg.com, December 14, 2009.

PRICING ACTIVITY
CATEGORY- MOST ACTIVE

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

This year's ranks of lowest price increase categories is fully represented by categories which have seen prices actually fall versus year ago. Five of the ten categories experiencing the lowest price increases over the past 12 months are dairy categories.

Dairy prices followed an upward trajectory from the fourth quarter of 2006 through the first quarter of 2008. As prices escalated, demand fell, particularly during the height of economic turmoil in the United States.

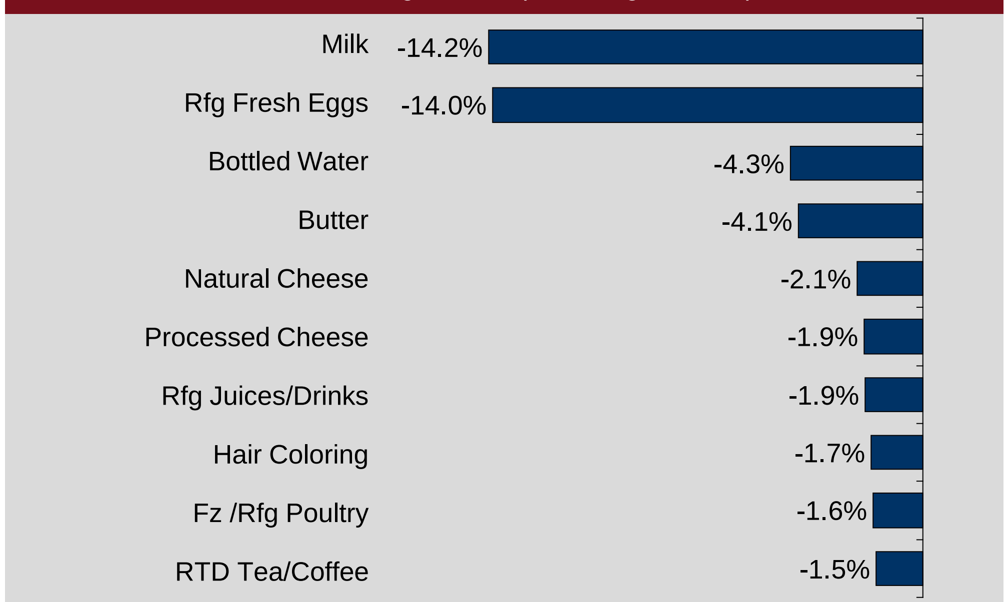
In attempt to drive demand, the industry began cutting prices in the fourth quarter of 2008. Since then, price cuts have been persistent and, in some cases, substantial. For instance, milk and egg prices each declined 14% over the past year.

The industry has reached a critical juncture. Farmers are struggling to maintain profitability. Prices must turn around, or long-term survival will not be possible. To this end, farmers have cut production.

It is too soon to say whether these measures will successfully turn the tide. No doubt, success will require marketing savvy.

Dairy categories are critical to at-home and from-home eating behaviors. The industry must leverage advanced consumer analytics to intimately understand changing needs and wants of their target consumers, then develop programs which resonate clearly.

Categories with the Lowest 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

PRICING ACTIVITY
CATEGORY- KEY STAPLES

[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.]

Following a period of unprecedented price hikes, prices on staple CPG products have begun to moderate. In fact, several key staple categories have seen prices grow more slowly versus the industry as a whole.

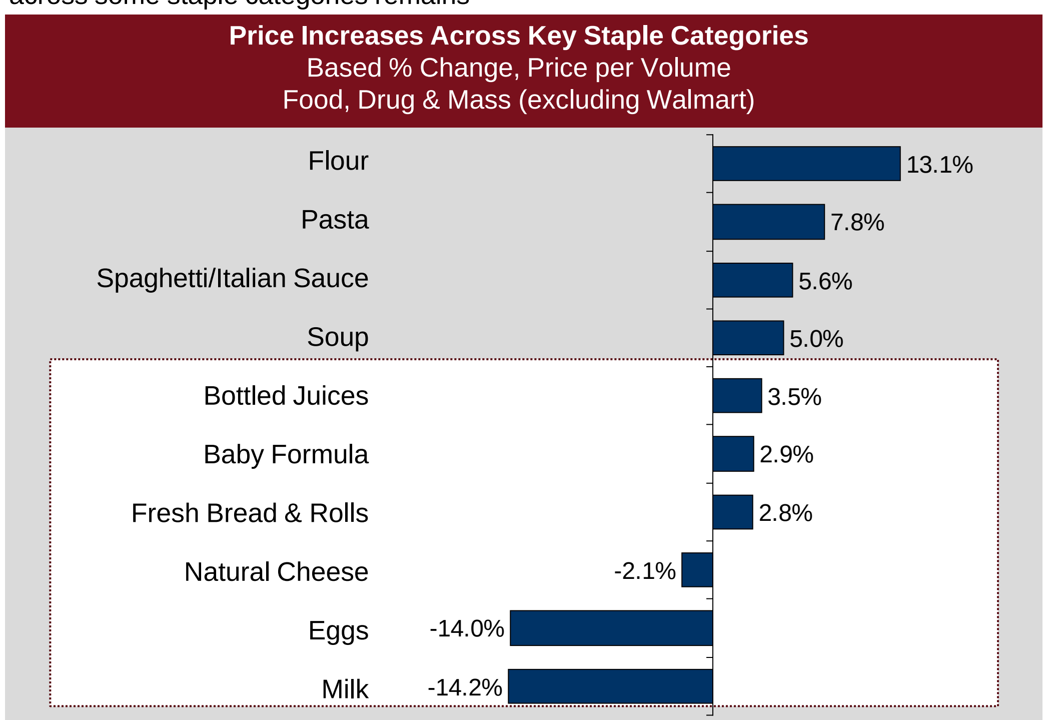
For example, price inflation in the baby formula category outpaced industry average by a wide margin in 2008, climbing 10% (average industry price inflation was 5.4%). In 2009, however, baby formula prices climbed at 2.9%, about one half of a point below the industry as a whole.

In an even larger shift, natural cheese prices actually contracted in 2009, after climbing 14% in 2008 and 3.4% in 2007. Drivers of this shift were discussed earlier in this report.

On the other hand, the rate of inflation across some staple categories remains well above average. Among some of these large categories, including flour and pasta, a deflationary trend is developing.

In the first quarter of 2009, flour prices were up nearly 17% versus prior year. By the third quarter, the category saw prices slide just over 1% versus the same period prior year. Similarly, pasta prices were up 8% in the first quarter of 2009, but down 1.5% in the third quarter.

As discussed earlier in this report, projections are that the industry's deflationary period has come to an end. But, consumers continue in their quest for affordable meal solutions. Regardless of the near-term pricing trends, CPG marketers with the ability to provide innovative money-saving solutions will forge lasting relationships with recession-weary consumers.



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

PRICING ACTIVITY
CONSUMER ATTITUDES & BEHAVIORS

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

Recessionary conditions have greatly impacted consumer attitudes and behaviors. Consumers' perception of value is one example of a major change.

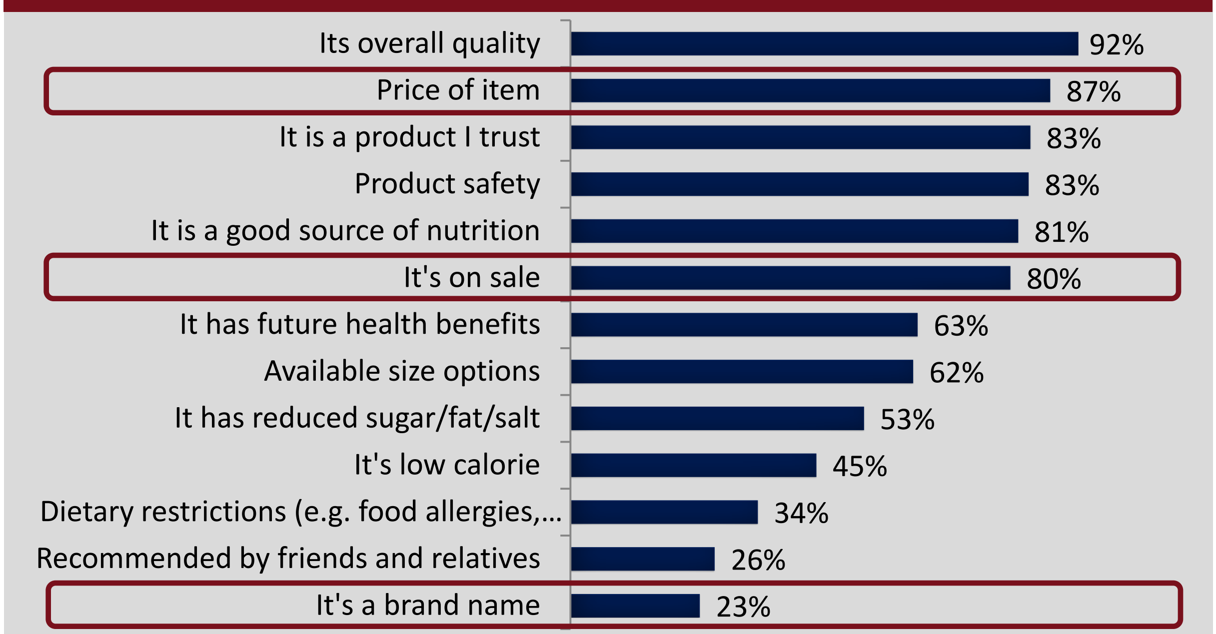
Not surprisingly, 87% of consumers rate price as an important consideration when making CPG product selections. But, today's consumer seeks more than just low prices. Consumers seek *affordable* CPG solutions.

According to IRI's *The New Lens of Affordability* Thought Leadership report, satisfaction with overall product quality is the top consideration when determining affordability, and a strong majority of consumers view "stretchable" products (those they can make last longer) as more affordable.

Product selection is a complex task. Consumers balance the need for low price against a range of other criteria. Quality, efficacy and assortment are just a few examples of considerations that go into product selection.

CPG marketers must possess an intimate understanding of the needs and wants of key consumer and target groups. That knowledge must form the foundation of a well-rounded communication strategy.

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
CONSUMER ATTITUDES & BEHAVIORS

[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.]

Deal-seeking behavior has escalated sharply over the course of the recession. List-making and sale shopping are now a common part of the CPG shopping experience.

In fact, though the economy has shown signs of improvement, 61% of shoppers look at store flyers, and 53% of shoppers stock up on certain items because they are on sale. These numbers have changed very little since late 2008, when the recession was in full swing.

Consumers began embracing a range of money-saving strategies as means to survival earlier in the recession. They have quickly become engrained, and all indications are that consumers will continue with these tactics for the foreseeable future.

CPG marketers are leveraging a variety of marketing strategies to protect and grow in this volatile environment.

Tiered branding strategies, such as Olay's entry-level Total Effects, then Regenerist and Definity, and high-end Olay Pro-X have been very well-received.

Marketing strategies are being rewired to address pre-planning behavior. Store brands are being expanded and more heavily marketed. Merchandising efforts are intensifying.

The following pages of this report provide a more in-depth look at how these efforts are reshaping the packaged goods industry.

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

MERCHANDISING ACTIVITY
TOTAL CPG

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

Merchandising has become somewhat of a hot button in the CPG industry. After several years in decline, merchandising activity (defined as displays, feature ads, feature and display combined and price reduction only) is staging a comeback.

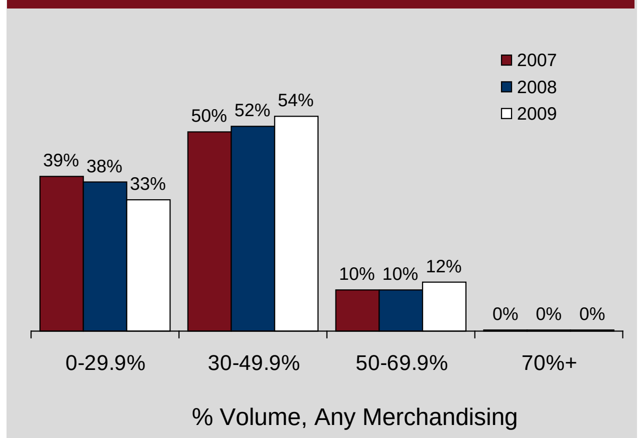
On average, 52% of categories are capturing 30%-49% of their volume with merchandising support. Another 12% now boast merchandising activity levels of 50%-69%. These figures represent a four point and two point increase over just two years ago, respectively.

Merchandising support is up across channels, but is demonstrating particularly sharp changes in the grocery arena. In 2009, 88% of CPG categories experienced increased merchandising activity in the grocery arena. This shift is illustrative of grocers' efforts to attract and retain consumers that are actively shopping across channels in an effort to get the most for their CPG dollars.

Within the drug channel, 57% of categories are more heavily merchandised today versus year ago. This channel, too, is working on its image vis-à-vis value.

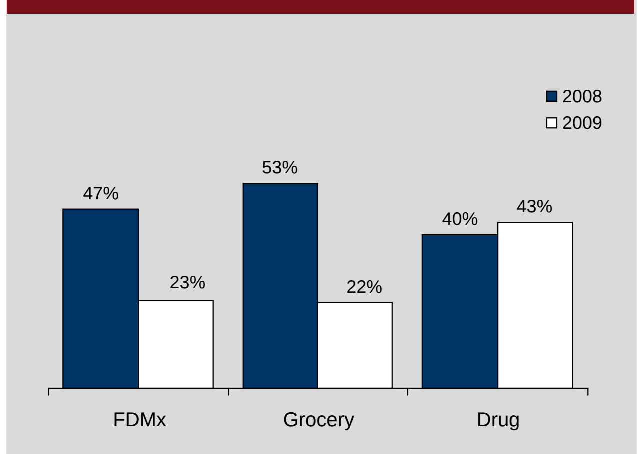
Even as the economy improves, consumers remain fully entrenched in savings mode. Today's shopper is fixated on value. For retailers across channels, the need for a solid value proposition is high.

% of CPG Categories by Merchandising Activity Level, 2007-2009 Food, Drug & Mass (excluding Walmart)



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

% of CPG Categories with Declining Merchandising Activity



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
CHANNEL- GROCERY

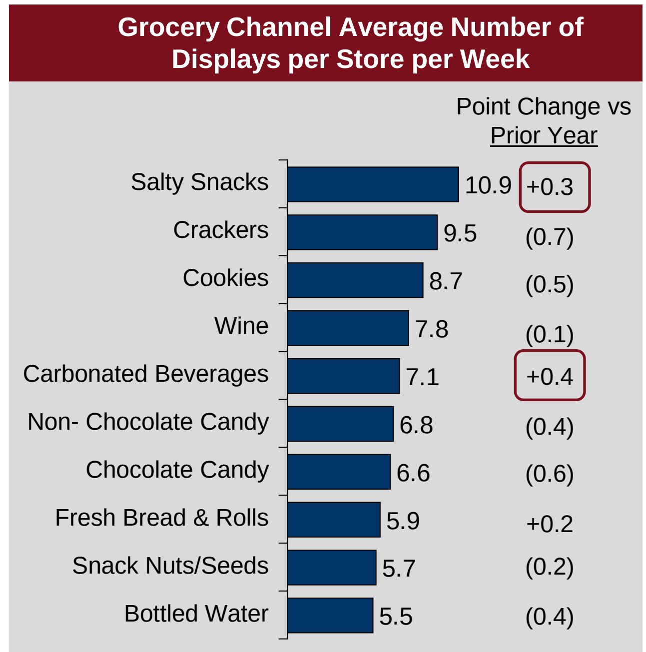
[Grocery marketers are working hard to change their long-held reputation for being costlier versus other CPG channels.]

Grocery display counts spent much of 2007 and 2008 in decline, driven by clean store policies and the associated drive to simplify the shopping experience.

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. In mid-2009, channel display counts grew for the first time in quite a while.

The grocery channel has long been reputed to be pricier versus other CPG channels. But, grocery marketers are working hard to change that reputation, particularly in light of high levels of consumer deal-seeking behavior.

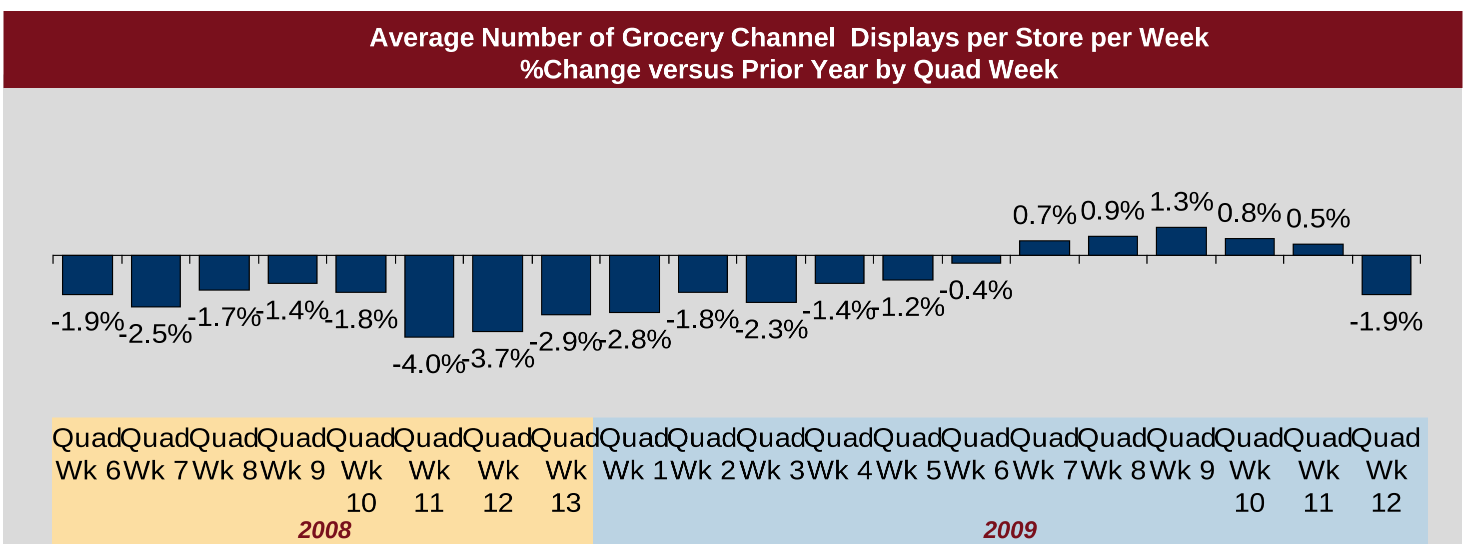
Stop & Shop/Giant Landover's Value Improvement Program, which is focused on lowering prices, improving products and service and lowering costs is just one example of grocers' efforts to answer consumers' calls for value.



Source: IRI In-Store Solutions Group Perimeter View YTD Through 11/29/2009

Note: IRI In-Store Solutions Group Perimeter View measures UPCs displayed in the following eight areas:

- *Lobby*
- *Front End Cap*
- *Back End Cap*
- *All Other End Cap*
- *Perimeter*
- *In Aisle*
- *Seasonal/Promotional Aisle*
- *Shipper*



Source: IRI In-Store Solutions Group Perimeter View YTD Through 11/29/2009.

MERCHANDISING ACTIVITY
TOTAL CPG

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

Merchandising activity within the CPG industry escalated sharply over the past year. The share of categories seeing an increase in "any merchandising" climbed 24 points. Stepped up activity levels are seen across most tactics, with feature-only the sole tactic to remain flat.

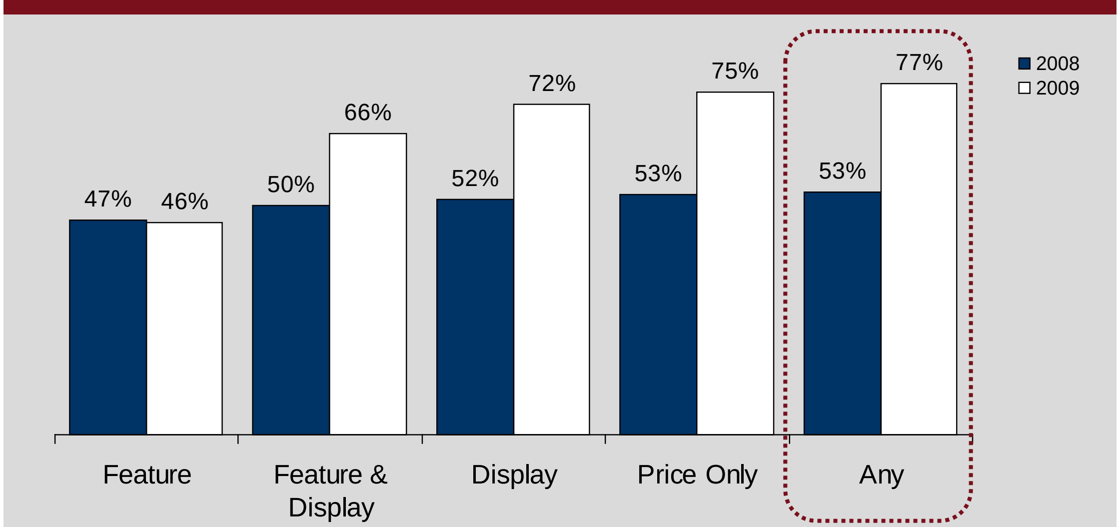
Earlier, this report detailed pricing trends which prompted increased merchandising activity. Though prices have moderated, manufacturers have been reluctant to lower list prices, and retailers are struggling to find the most effective way to bring consumers much-sought value. One strategy has been to heavily leverage temporary price reductions. As such, price-only actions experienced a major jump in 2009.

At the same time, though, display actions, both with and without feature support, have intensified.

As detailed in the October 2009 edition of Times & Trends, pre-planned shopping has become increasingly popular over the past several years. In 2007, 60% of consumers were making CPG purchase decisions at home. That number has escalated sharply, and, today, 83% of shoppers are making purchase decisions before entering the retail store.

Though the economy shows signs of brightening, consumers indicate that pre-planned behaviors will continue throughout 2010. The use of combined feature/display tactics will likely continue to gain traction as marketers seek to capture the attention of consumers in the home, but then reinforce the message at the store level through innovative display initiatives.

% of Categories with Increased Merchandising Activity- 2009 & 2008
by Merchandising Tactic
Food, Drug & Mass (Excluding Walmart)



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

MERCHANDISING ACTIVITY
CATEGORY- MOST ACTIVE

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

Categories of a discretionary nature continue to be well-represented among the ranks of the most heavily merchandised categories. Carbonated beverages and chocolate candy, for instance, achieve 73% and 65% of their volume with merchandising support, respectively.

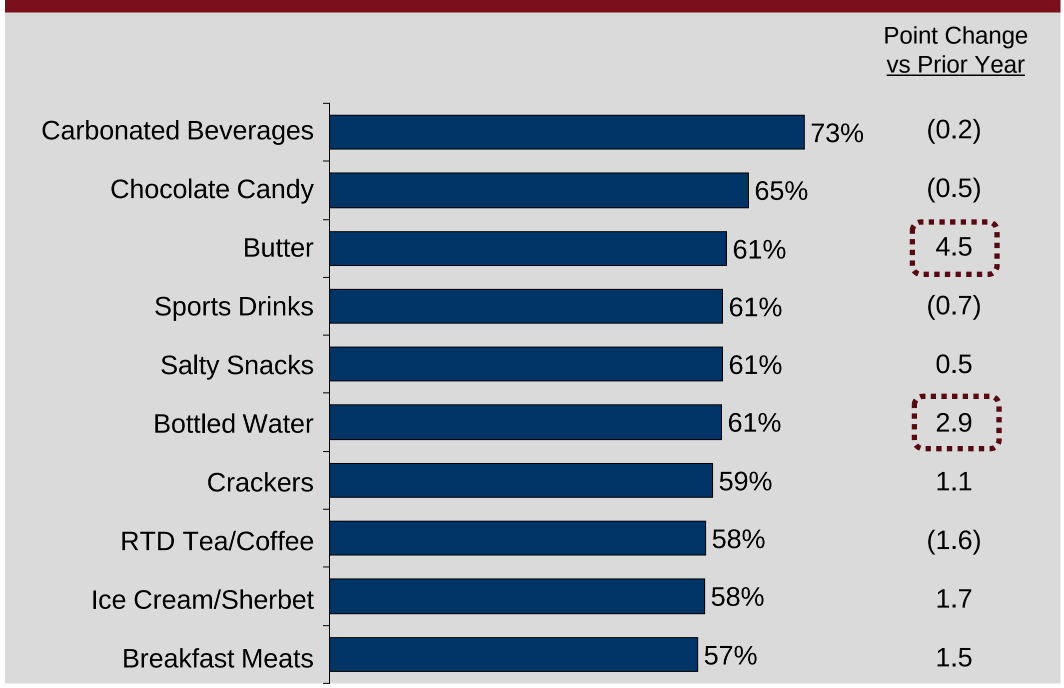
The ranks of the most heavily merchandised categories have not changed drastically over the past six months. Nonetheless, several noteworthy trends exist.

First, butter has experienced a 4.5 point increase in merchandising activity over the past year. Much of this activity stems from price-only actions. The drivers of increases seen in this category were discussed earlier in this report.

Bottled water also continues to see increased levels of merchandising activity. Discussed in IRI's July 2009 edition of Times & Trends, the category is struggling with negative publicity associated with environmental issues, as well as with the fact that its closest competitor, tap water, is free.

Consumers are being quite selective about where their money is spent., and what it is spent on 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
CATEGORY- TRENDS

> ***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.***

The ranks of categories seeing the largest increases in merchandising activity leave little doubt that CPG marketers are working hard to cater to consumers' stepped-up at-home meal rituals.

Illustrated in IRI's recent 2009 Economic Survey, half of consumers are cooking from scratch or with fewer convenience foods more frequently, and nearly two-thirds of consumers are eating out less frequently. Nearly all of these consumers (93% and 92%, respectively) indicate that they will continue with these rituals throughout 2010. These rituals represent significant opportunity for CPG marketers.

Dairy products are well-represented on this chart. Milk, cheese and butter, for instance, play a key role in at-home meal preparation and consumption.

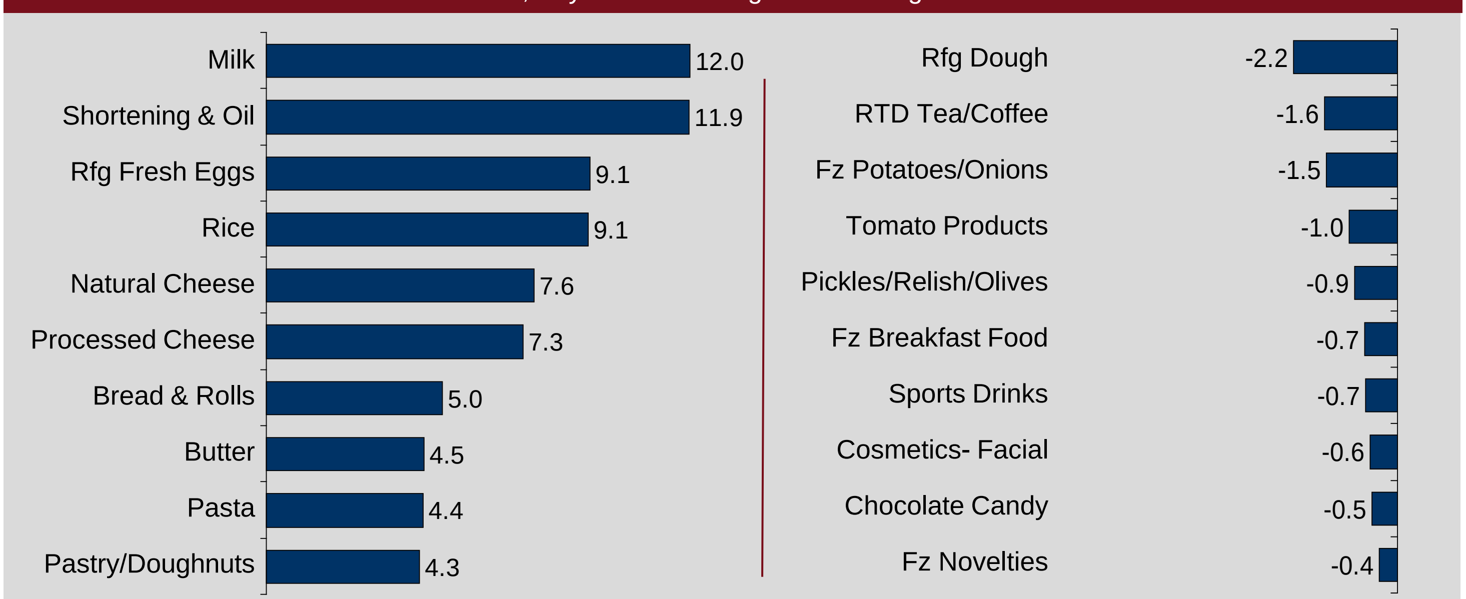
But, detailed earlier in this report, demand for these categories has been flat-to-negative. Pricing strategies are being rewired in hopes of spurring a turn-around. As key staples, these categories will remain hotbeds of merchandising activity throughout 2010.

Among the top CPG categories, decreases in merchandising activity were limited and quite small.

Consistent with historic trends, frozen and refrigerated products are heavily represented among the sharpest declines in merchandising activity. But, in 2009, even those departments saw little in the way of declines.

These categories also play a key role in at-home meal rituals. And, with technology advancing rapidly and new, more friendly tactics emerging, these areas are likely to see increased activity in the near future.

CPG Categories with the Largest Increases/Decreases in Merchandising Activity Level
Food, Drug, Mass (Excluding Walmart)
% Volume, Any Merchandising: Point Change vs Prior Year



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

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

MERCHANDISING ACTIVITY
CATEGORY- HBC

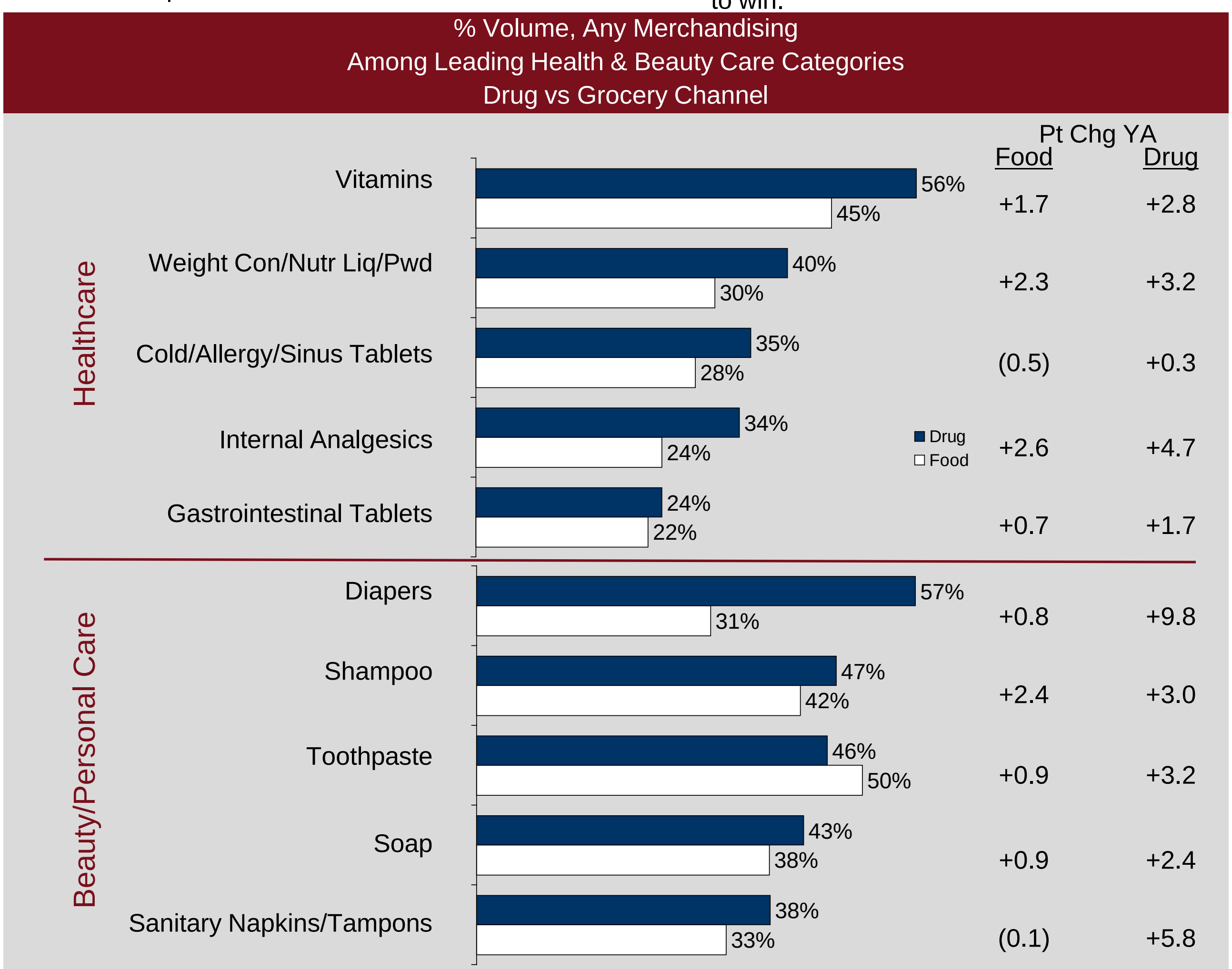
Health and beauty care continues to be a key battleground for grocery and drug retailers.

Within key categories, drug retailers hold a rather faithful following. For example, the drug retailers hold 67% share of lip cosmetics, and 51% of internal analgesics. With self-care health and beauty behavior at a high, categories such as these are a must- win.

But, the economy is difficult, and consumers are fixated on value. D rug retailers must contend with the reality that theirs is not perceived as a value channel.

The channel is working hard to change this perception. Merchandising is up, and value-oriented programs are becoming pervasive. For instance, Rite Aid is leveraging circulars to increase the profile of promotional efforts and highlight value. Store signage and displays have been reworked to communicate value, such as “Red Hot Specials[1].”

Within the drug channel, merchandising across key health and beauty categories has increased significantly. Grocers must take heed; the drug channel is out to win.



Source: IRI MarketInsight™; 52 weeks ending 11/1/2009. Note: top five categories based on grocery channel dollar sales.

[1]Source: Chain Drug Review, August 2009

MERCHANDISING ACTIVITY
MEAL INGREDIENTS AND COMPONENTS

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

Competition for share of meal ingredient and meal component dollars is high. As detailed in the August, 2009 issue of Times & Trends, shopping across multiple channels has become a hallmark of consumers seeking the best value for everyday CPG needs.

To compete in this intense environment, CPG marketers have stepped up focus on meal-related departments. In center store and frozen foods, for instance, nearly three-quarters of categories are seeing increased merchandising activity. The fresh/perishable department illustrates an even sharper trend, with 84% of categories more heavily merchandised this year versus last.

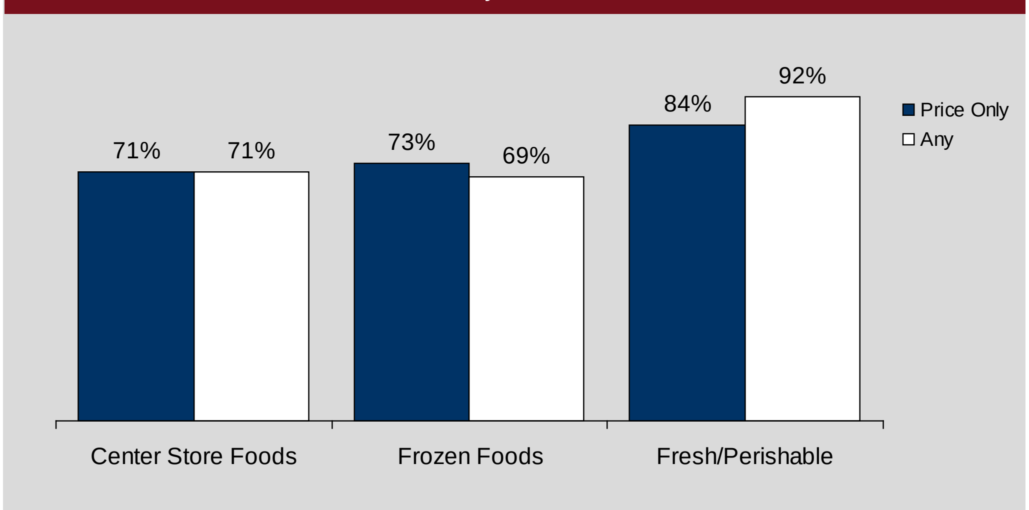
Price-only actions play a significant merchandising role across each of these departments. In the fresh/ perishable department, 92% of categories are seeing more price-only actions versus year ago.

In today's environment, having an effective and well-aligned pricing strategy is critical. Some marketers rely on "everyday low price" strategies, while others tout promotional programs, such as TPRs. Many use a combination of the two.

Shoppers have seen a great deal of promotional activity over the past year, and promotional fatigue is quickly becoming a reality. IRI will explore this phenomenon in greater detail throughout 2010.

The need to develop and execute effective marketing strategies is high. Despite slowly brightening economic conditions, consumers remain fully entrenched in recession-driven behaviors, such as at-home dining and deal-seeking. Delivery against these critical consumer needs will build and solidify relationships today and long after the recession has ended.

% Categories Experiencing Increase in % Volume, Any Merchandising
Among Fresh/Perishable, Frozen Foods and Center Store (Food) Departments
Grocery Channel



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

MERCHANDISING ACTIVITY
CATEGORY- PRIVATE LABEL

Retailers are armed with the tools necessary to develop powerful merchandising strategies which will raise the bar on store brands to a whole new level.

"[Retailers] have a unique opportunity to get their product message across and keep it in sync with the broader message--the store image--in away national brand manufacturers have never been able to."

John Wlikins,
Vice President, Client & Retail Strategy, Miller Zell

As detailed in the September 2009 issue of Times & Trends, retailers and private label manufacturers have done a remarkable job of bringing high-quality store brand options to market. No doubt, recessionary economic conditions and consumers' associated drive for value have also contributed to private brands' popularity.

To continue to drive store brand momentum, marketers must now increase focus on merchandising strategies.

Consistent with patterns seen at the industry level, merchandising of store brands is on the rise. Less than 40% of store brand categories experienced a decrease in merchandising activity over the past year.

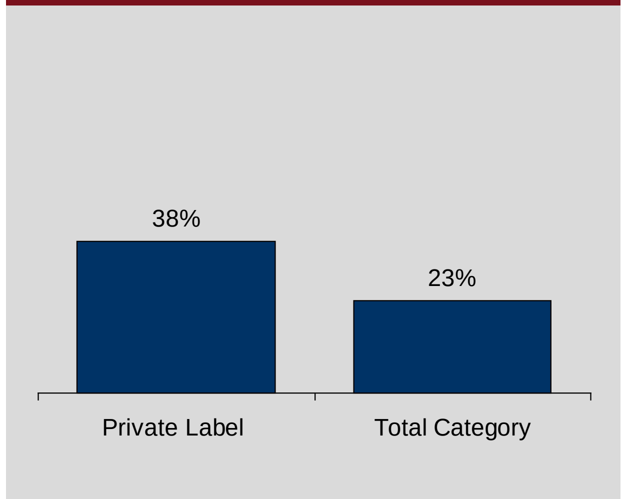
Nonetheless, in a majority of categories, private label merchandising is below category average across tactics.

Store brands are quite valuable to retailers. They are often a key differentiator, and they generally carry a higher margin versus national brands.

To drive their brands to the next level, retailers must crack the code on merchandising of their own brands. While they may lack the experience of national brand marketers, retailers certainly do have the upper hand when it comes to shelf space, circular layout and easy access to customer knowledge.

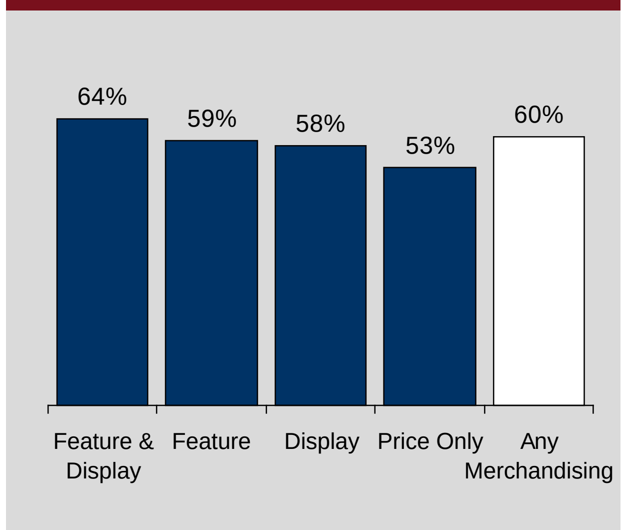
Effectively harnessing these advantages will enable the development of effective merchandising strategies, and will raise the bar on private label now and after the recession ends.

% CPG Categories with Reduced Merchandising Activity
Food, Drug & Mass (excl. Walmart)



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

% of Categories w/ Private Label Merchandising Activity Below Average*
by Merchandising Tactic
Food, Drug & Mass Channels (excl. Walmart)



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

MERCHANDISING EFFECTIVENESS
TOTAL CPG TRENDS

[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.]

Merchandising lift has remained relatively unchanged over the course of the recession. Today, two-thirds of categories achieve lift of 50% or more from CPG merchandising efforts, while one-quarter actually see lift levels above 100%.

Across channels, 54% of categories experienced reduced lift in 2009 versus 2008. This represents a slight decline versus the prior year, and is likely the result of ongoing difficult economic conditions.

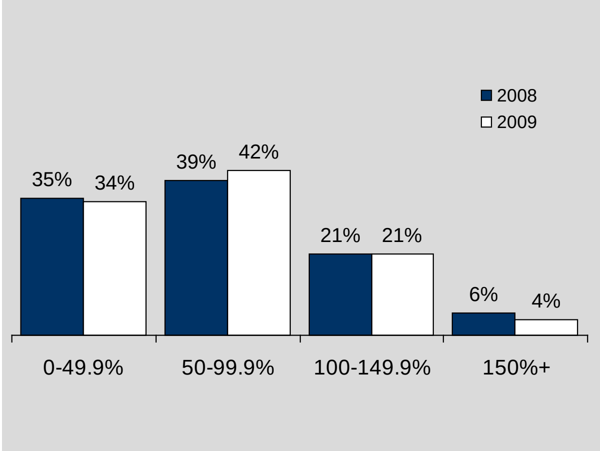
At the end of 2007 and into 2008, the drug channel was somewhat buffered from merchandising lift declines by the fact that self-care activity was up and, during the time of particularly high gas prices, fill-in trips were more frequently occurring in close-to-home drug store outlets.

As gas price increases eased and other channels stepped up efforts to serve self-reliant consumers, the drug channel's advantages waned. In 2009, 61% of categories within the drug channel experienced reduced merchandising lift versus year ago.

The channel is rewiring strategies in an effort to reinvigorate response. For $20 per year, Walgreens' Prescription Savings Club offers customers discounts on approximately 4,000 brand-name and generic prescriptions, and a selection of 400 generics for $12 for a 90-day supply. It also offers discounts on photofinishing and store brand products.

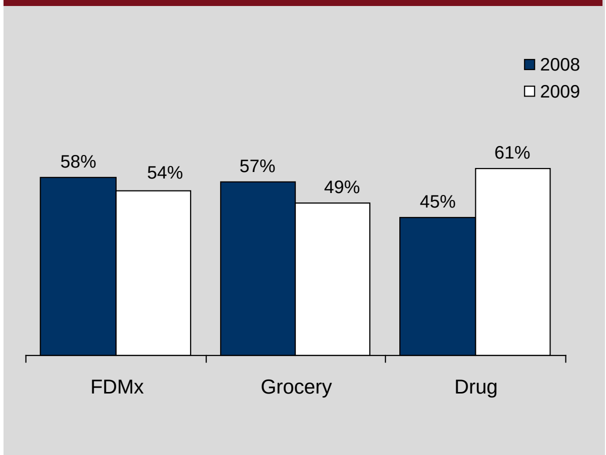
CVS is heavily leveraging their ExtraCare program, the largest retailer loyalty program in the nation, to gain insights into individual customers' shopping habits.

% CPG Categories by Average Merchandising Lift Food, Drug & Mass (excluding Walmart)



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

% CPG Categories with Reduced Merchandising Lift Food, Drug & Mass (excluding Walmart)



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

MERCHANDISING EFFECTIVENESS
LEADING CATEGORIES

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

As noted earlier in this report, lift is somewhat lower versus year-ago across a majority of CPG categories. This holds true among most "biggest lift" categories as well. Given the weakened state of the U.S. economy, this decline is not unexpected.

As noted in IRI's July 2009 issue of Times & Trends, stock-up categories generally respond well to merchandising efforts. Historically, stock-up categories are heavily represented among the ranks of categories achieving the largest lift.

This year's ranks of categories receiving the biggest lift from merchandising efforts reminds CPG marketers of the importance of closely monitoring and anticipating/ reacting to changing consumer needs and wants. Throughout the course of the recession, consumer rituals have changed quickly and markedly.

In 2009, seven of the ten categories seeing the biggest lift from merchandising efforts are categories which tie to consumers' increased at-home meal behaviors.

Marketers across a range of categories closely associated with at-home eating behaviors, including breakfast meats, coffee, baking mixes and butter have invested more heavily in merchandising over the past year. The investment is well-justified; lift has been huge.

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

	% Volume Increase w/ Merch Support	% Volume w/ Merch	Pt Change in % Volume Increase w/ Merch
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
PREVALENCE & EFFECTIVENESS

[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.]

The charts at the bottom of this page summarize the level of activity seen across merchandising tactics, and the average lift received from these merchandising efforts.

A vast majority of categories, 86%, sold at least 10% of volume on price-only merchandising efforts, while only 2% of categories achieved lift of greater than 100% with price-only actions.

Display actions with feature support show an almost converse relationship. A mere 7% of categories sold at least 10% of volume on feature-display combined merchandising efforts, yet 89% of categories achieved lift of 100% or more as a result of these efforts.

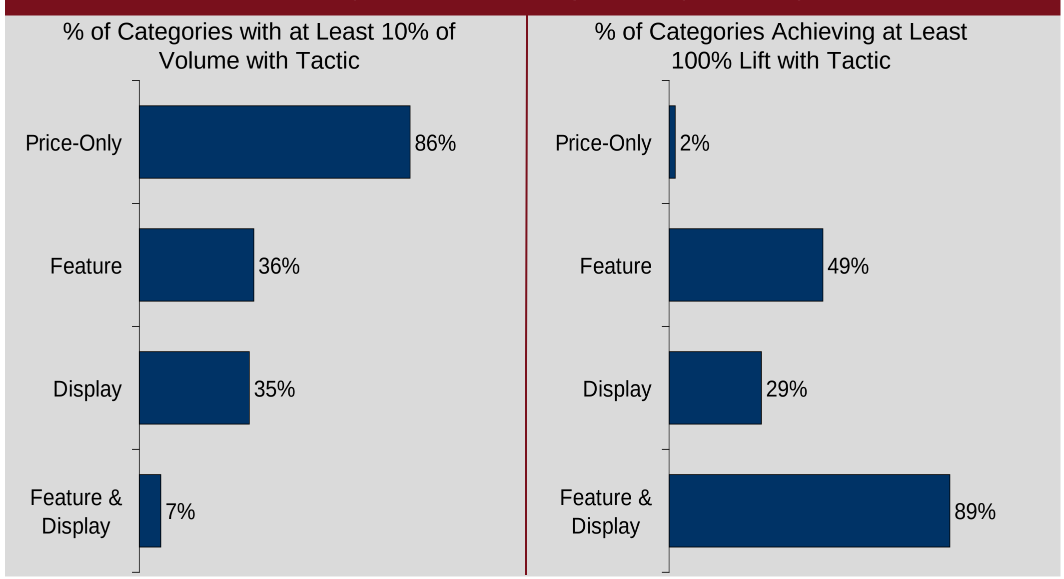
These powerful results are quite logical. The increasing prevalence of pre-planned shopping rituals was explored earlier in this report.

A vast majority of shoppers are making CPG purchase decisions before entering the retail environment. Marketers absolutely must reach consumers in the home. The success of feature advertisements reinforced by display is undeniable proof of the importance of monitoring and marketing against critical consumer trend such as these.

Retail pricing strategies will also remain crucial in the foreseeable future. Though commodity prices have moderated, manufacturer list prices remain elevated. This has forced retailers to rely more heavily on temporary price reductions (TPRs) to provide consumers price relief.

With the future of commodity prices as yet undefined, marketers must stay vigilant for opportunities to bring price relief to recession weary shoppers. Understanding the risks versus rewards of new and evolving pricing, marketing and merchandising strategies will be key to the development of powerful marketing programs.

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



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

MERCHANDISING TACTICS
TOP CATEGORIES- EFFECTIVENESS

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

Consumer response to promotional efforts has been strong. Though overall lift has decreased slightly in response to difficult economic times, consumers are still taking advantage of deals to stock up on key items.

Detailed earlier in this report, this year's highest lift categories have shifted in a manner that is illustrative of consumers' at-home eating rituals.

Historically it is stock-up categories that achieve the highest lift from retailer merchandising efforts. Those products are still responding well. Across tactics, though, response to merchandising across meal ingredient and component categories has been rather impressive.

Throughout 2010, and likely beyond, at-home and from-home meal activities are expected to remain strong. As such, categories related to this rituals present significant opportunity for CPG marketers.

Categories Achieving the Highest Lift by Merchandising Tactic

Feature & Display		Display		Feature		Price Only	
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

CONCLUSIONS
CPG MANUFACTURERS

Manufacturers seeking to maximize opportunity within the new, emerging retail environment should consider the following 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 simplify and enhance the consumer 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

CONCLUSIONS
CPG RETAILERS

Retailers seeking to maximize opportunity within the new, emerging retail environment should consider the following 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, particularly across high-response categories (eg. toilet tissue, breakfast meats, shelf-stable seafood, etc)
- Invest to build best-in-class store brand merchandising programs across key categories/departments at the local level
- Test new in-store marketing vehicles/tactics to assess consumer response versus traditional techniques

» Work in partnership with manufacturers to develop strategies that simplify and enhance the consumer shopping experience

- Where possible, 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, then 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

RESOURCES

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

IRI Shopper Insights Advantage™

Shopper Insights Advantage™ Powered by IRI Liquid Data™ is IRI's transformational tool for creating actionable consumer and shopper insights. It combines superior content with the speed, power, and flexibility that you need to identify ways to grow by attracting shoppers, driving trips, and increasing basket value.

IRI In-Store Solution Suite™ (ISG)

IRI's ISG service conducts in-store audits, measuring perimeter merchandising, display, shelf, and front-end store conditions across all classes of trade; the service provides insights into shelf conditions, presence and locations of displays, etc. for own and competitive brands and categories.

IRI Controlled Store Testing™

IRI Controlled Store Testing™ accurately quantifies the effectiveness of an in-store marketing program and identifies opportunities to improve the program with far less cost and risk than a national rollout.

IRI Price Advantage™

IRI Price Advantage™ provides Web-based, real-time analysis of pricing sensitivities, price point and price gaps, thresholds and competitive implications in order to maximize sales, margins and drive overall brand management and sales lifts.

IRI Trade Advantage™

IRI Trade Advantage enhances the trade planning process by providing fact-based drivers of promotional performance via an easy to use Web-enabled interface.

>>> MORE INFORMATION

Please contact Susan Viamari at susan.viamari@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://us.infores.com

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