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15 Years of New Product Pacesetters: *Excellence in Innovation Drives CPG to the Next Level*

Scrutiny of Best-in-Class Innovation Provides Insights into New Product Success

IRI's upcoming "Innovation Highlights from 15 Years of New Product Pacesetters" report, to be published in the first quarter of 2010, provides an excellent opportunity to revisit the ever-evolving state of innovation in the CPG market.

The pace of innovation has escalated throughout much of the 21st Century. But, over the last two years, shopper willingness to try new products slipped as consumers feared wasting money on a product they might not care for, and/or embraced tried and true products to gain some comfort from the trials of the recession.

It is unclear at this point in the recovery the extent to which the shoppers' taste for new products has returned. The recovery is uneven, with unemployment still widespread and confidence in the economy re-emerging slowly among many groups. And, today's shopper is marked by a much more deliberate approach to CPG shopping.

The most successful products of the past 15 years typically tied into a demonstrable consumer need or redefined a category. Frito's Baked Lays Potato Chips and Dreyer's SlowChurned ice cream aligned with consumers' eagerness to eat healthier snacks and desserts. DiGiorno Pizza elevated the frozen pizza category's expectations to "delivery" pizza quality. Swiffer redefined how people clean their homes. And, Gillette's MACH3 changed shavers' confidence in shaving really close. These game-changing introductions raised the bar on product innovation, and they had a powerful impact on consumers' purchase and consumption habits. This correlation will remain true for future successful new products, although, it is likely that shoppers' new definition of value will shape product innovations more than in the past.

Going forward, CPG companies are redefining "success" in an era of microsegmentation. In the past, a product was deemed a success if it earned more than \$50 million in year-one sales. In the future, marketers will create new definitions of success, and it is very likely they may consider products with significantly less than \$50 million in year-one sales as successful.

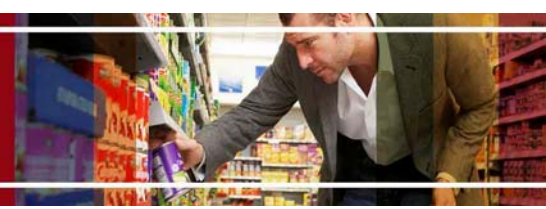
For the future, IRI anticipates that among food products, health and wellness will continue to drive new product innovation. The growing importance of food and beverage as part of consumers' overall wellness strategies is discussed in-depth in IRI's November Times & Trends, "Health & Wellness: Redefining Healthy Living." IRI also expects new food products that create enhanced sensory experiences will enjoy success, as shoppers continue to demand that eating become an "event." Sustainable packaging will become an increasingly important consideration, driven both by environmental considerations, as well as the manufacturers' desire to drive down costs.

Among non-food products, the trend toward greater self-care will continue. Innovative CPG companies will focus on solutions that aid consumers, building on the success of products that enable home-based processes, such as dental whitening and facial anti-aging. People will continue to purchase both premium and value products, based their new definition of value, creating new opportunities for the CPG companies that understand their customers' needs and wants most closely.

Transitional years such as 2010 frequently test the marketing acumen of CPG companies as consumers move from a belt-tightening mindset to a more normal frame of mind. As this evolution occurs, IRI will provide updates and commentary on a regular basis. We would appreciate your feedback and insights.



Thom Blischok
President, Shopper Marketing and Innovation



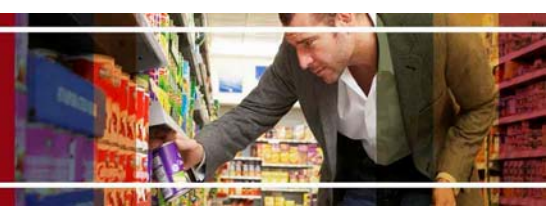
EXECUTIVE SUMMARY: TURNING INSIGHTS INTO ACTION

INSIGHT

- » Competition for consumer attention and spending has intensified, as evidenced by an escalation of new product activity over the past several years
- » Innovation generally takes one of three forms: brand extension, net-new brand, or cross-over CPG introduction; brand extension is the most common, though generally less lucrative, path to new product introduction
- » Top food and beverage product introductions have capitalized on consumers' strong and growing demand for more nutritious, but still exciting, eating occasions
- » Advances in technology, processes and formulas have contributed heavily to the ability of non-food CPG offerings to simplify and bring excitement to day-to-day tasks, and to raise the bar on healthy living
- » While convenience will continue to play a secondary (but expected) role in the CPG industry of tomorrow, primary drivers of growth include the growing desire for experiential living, an increased focus on the environment and sustainability, a continued focus on self-administered care

ACTION

- » To maximize new product relevance and impact, base new product initiatives on pervasive and/or emerging consumer trends and high-potential consumer markets; heavily market new products to build awareness and understanding of offering(s)
- » Evaluate the risk versus return associated with choosing one innovation method over the others; balance innovation efforts to bring to market a mix of smaller, more consistent launches as well as groundbreaking new brands, as warranted by opportunity and corporate growth strategies
- » Closely monitor existing and emerging sensory-related and wellness-related technologies; investigate feasibility and means of integrating these features into key existing and future categories/products/brands
- » Invest to understand the rapidly changing technological landscape vis-à-vis packaged goods; be vigilant for opportunities to incorporate new capabilities into existing and developing product offerings
- » Integrate up-and-coming attributes into all new product development efforts; heavily market new product/packaging features across all media and in in-store marketing efforts



INTRODUCTION

IRI's Innovation Highlights from 15 Years of New Product Pacesetters provides insights into the industry's most successful new brands and the consumer benefits that made them a success.

In 1995, IRI released the first annual New Product Pacesetters report. Each year since then, New Product Pacesetters has drawn upon IRI's extensive New Product Profiler database to showcase the year's strongest product launches.

Brands featured in IRI's New Product Pacesetters report truly beat the odds. Less than one-quarter of new brands exceed the \$7.5 million hurdle for year-one sales that is required to earn Pacesetter status.

In celebration of 15 years of New Product Pacesetters, IRI is proud to be releasing ***Innovation Highlights from 15 Years of New Product Pacesetters***.

The report is an in-depth analysis of 15 years of Pacesetter products. It is designed to capture the essence of successful innovation, providing insights into strategies that have led to true market success.

Brands featured in the report are illustrative of best practices in how to create new markets leveraging advanced consumer insights and new technologies.

From convenience, to wellness, to power and beyond, successful new CPG brands are meeting and exceeding consumer expectations across nearly every CPG aisle.

The pace of innovation is escalating. The ranks of new products is swelling as variety expands in attempt to reach highly targeted consumer audiences. At the same time, the number of unique SKUs per shopper per year has been in a state of

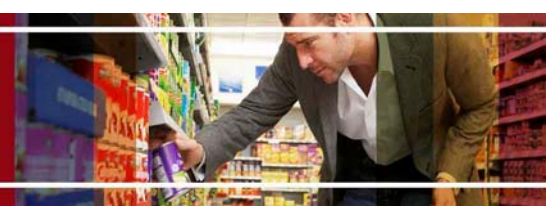
decline since 2004. This trend is expected to continue in coming years.

The industry is at a critical juncture. To drive sales gains and avoid a rapid slide into obsolescence, new products must resonate with the expectations of target consumer segments. IRI's *Innovation Highlights from 15 Years of New Product Pacesetters* provides insights into the industry's most successful new brands and the consumer benefits that made them a success.

This special edition of Times & Trends highlights some of the key findings from this soon-to-be-released celebratory research endeavor. The full report will be published in the first quarter of 2010.

IRI New Product Pacesetters Criteria

- ❖ At least \$7.5 million in year-one sales across food, drug and mass channels (excluding Walmart)
- ❖ Begin tracking sales after 30% ACV weighted distribution achieved
- ❖ Must complete a full year of sales (Brands that do not are considered Rising Stars for the following year)



Innovation has played a key role in supporting the CPG industry in good economic times and bad.

“Among the big, major consumer packaged goods companies marketers know that no matter what the economy is like, their success is predicated on coming forward with new innovation year after year.”

Colin Watts, Chief Innovation Officer, Walgreens, as quoted in BrandWeek 10/29/2009

OVERVIEW INNOVATING GROWTH

In 1996, IRI published a detailed analysis of key drivers of brand growth: marketing, price/promotions, and innovation. Among the top findings of that study is the fact that more than two-thirds of brand growth is derived from new product innovation. It was at this point that New Product Pacesetters became an annual report on the most successful new product launches in the past year.

Within the packaged goods industry, new product innovation typically takes one of two forms: the extension of an existing product line or the introduction of a completely new brand.

Detailed later in this report, product line extensions are much more prevalent than new brand introductions. Certainly, capitalizing on existing manufacturing platforms is much faster, easier, and less expensive than developing a new product from scratch. And, continuous updating and enhancing the value of established brands is critical to maintaining loyalty, trust and repeat from a brand's core base of users. Nonetheless, line extensions do have shortcomings.

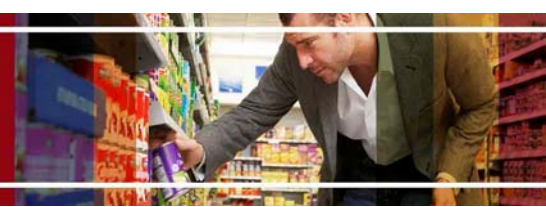
Ground-up innovation is more difficult for competitors to match and keep pace with, particularly if the new innovation is fundamentally different

than products currently in the marketplace. Often times patent protection prohibits rivals from coming to market with a competitive offering for a period of time.

Net-new brands also draw buyers from a broader customer base, increasing sales potential. And, as a novelty, an unmatched product has the potential to generate higher margins.

In the end, the consumer is the gatekeeper of a brand's success. The goal of CPG companies everywhere is to bring to market the next “must-have” product. The most prudent path to success is to leverage advanced consumer insights and new technologies to create and serve new markets.

Regardless of the path chosen, innovation has and will continue to play a key role in supporting the CPG industry in good economic times and bad.



OVERVIEW

INNOVATING GROWTH

In-depth analysis of 15 years of CPG's most successful product endeavors has provided an invaluable roadmap to sustainable new product success.

Flash-in-the-pan product successes have a strong presence in the history of consumer packaged goods. Indeed, many CPG "innovations" are actually based off of earlier product successes. Certainly, some of these products, such as Aquafina (2001) (with year-one sales of \$12.7 million and \$459.4 over the past year), have gained traction and brought multi-year sales gains. But, others have resulted in short-but-sweet incremental sales gains.

Sustainable product success is much harder to come by. Nearly 15 years of detailed analysis of the industry's most successful product endeavors, *Innovation Highlights from 15 Years of New Product Pacesetters*, provides a wonderful "roadmap" to new product success. This report will be published in the first quarter of 2010.

Success is predicated on a deep understanding of consumer needs and wants measured against existing CPG solutions. The next logical question is, "what change and/or new benefit would enhance the users' experience or category occasion?"

True innovators must understand what is most cherished by consumers and what is lacking. This understanding must go beyond the category in question, extending into competing or related categories as well as broader, high level trends in consumer attitudes and priorities – like eating healthier or going green.

Finally, it is critical to have a keen understanding of what benefits, across categories, are resonating most strongly with consumers today and what is projected to succeed tomorrow. These key attributes are prime targets, and should be closely examined for potential inclusion into new product initiatives.

The last section of this report provides case studies of three "best in class" new product innovations that have had a lasting impact on the CPG marketplace.

Analysis of 15 years of CPG's most successful new product endeavors provides a roadmap ...

- ✓ Understand key brand benefits and their value to core users
- ✓ Determine level of satisfaction with current offerings/benefits within the category
- ✓ Understand what the core brand stands for- why, its assets & its weaknesses
- ✓ Analyze competitive offerings to identify distinctive competencies/weaknesses versus our brand
- ✓ Identify opportunities to improve usage experience or occasion
- ✓ Determine if "hot" benefits outside the category can be engineered to fit our category

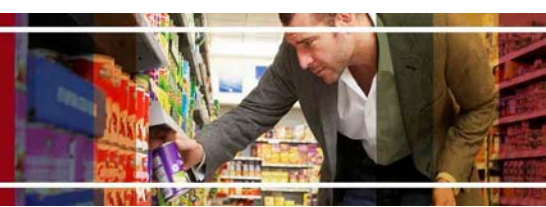
Innovative and unique benefits drive sales, not the reverse!

...which will maximize odds for short and long term success

Adapted from IRI, "Innovation Highlights from 15 Years of New Product Pacesetters"

Times & Trends

A Snapshot of Trends Shaping the CPG and Retail Industries



A healthy upward march in CPG innovation activity clearly reinforces the notion that competition for consumer attention and spending is quickly escalating.

OVERVIEW NEW PRODUCT ACTIVITY

The rate of new product innovation in the CPG industry has increased fairly steadily over the past seven years, with food and beverage introductions climbing nearly 3% annually and non-food introductions growing at an average annual rate of just under 9%.

New UPCs have grown from 7% to over 15% of all moving UPCs in IRI's CPG category database. Most of these are flavor/form extensions or novelty/seasonal items brought to market in hopes of stimulating short-term incremental purchases. Only a small fraction of these new UPCs represent new brands or major innovations.

In 2008, for the first time in several years, non-food introductions actually outpaced food and beverage related roll-outs.

But, across food and beverage and non-food CPG, the healthy upward march in innovation activity clearly reinforces the notion that competition for consumer attention and spending is quickly escalating.

Over the past decade or so, the focus of CPG product innovation has narrowed

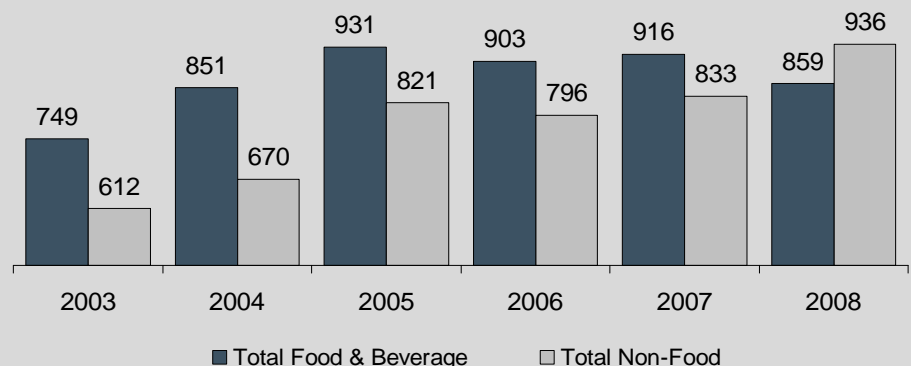
significantly. Rather than broadly-targeted product offerings, today's CPG marketers are increasingly working to develop highly targeted products aimed at a very finite segment of the population. This trend is likely to drive the number of product introductions up, while tempering the overall sales potential of any single product release.

Beyond this "micro-targeting" trend, though, is another important development. Since 2004, the number of unique UPCs per shopper per year has declined 9% to 361. In today's transforming economy, this number is expected to continue to fall below the 350 mark before the end of 2009.

Retailers are working to streamline their shelves and simplify the consumer shopping experience. In some cases, expansion of store brand offerings is simultaneously occurring, providing enhanced differentiation for retailers. As time moves forward more localized assortments are developing, with greater shelf space allocated to varieties targeting specific consumer segments.

The future of CPG will likely continue to be characterized by new, more highly targeted packaged goods offerings.

**Number of CPG New Product Introductions*
Brand Level: 2003-2008**



Compound Annual Growth Rate (2003-2008)

Non-Food	8.9%
Food & Beverage	2.8%

Source: IRI, "Innovation Highlights from 15 Years of New Product Pacesetters"
*Across Food, Drug & Mass Channels (excluding Walmart)

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A Snapshot of Trends Shaping the CPG and Retail Industries



OVERVIEW NEW PRODUCT ACTIVITY

New CPG product launches are increasingly targeted in nature, lowering year-one sales potential, and prompting the industry to redefine the threshold for efforts deemed “successful.”

Less than 3% of all new brands achieve “mega hit” status--over \$50 million in year-one sales.

Since 2003, just under ten thousand new CPG brands have been introduced. Despite increased innovation activity levels, new product success rates have remained largely unchanged over the course of the past seven years. Few new product introductions make it big.

On average, nearly 80% of new product introductions fail to garner more than \$7.5 million in year-one sales. Less than 3% of products achieve “mega hit” status, or over \$50 million in year-one sales.

A small group of products is new to CPG, but already existed in non-traditional CPG channels, such as cafes, restaurants, and pet specialty stores. Over the history of IRI’s New Product Pacesetters, many of these “crossover” products have really hit it big.

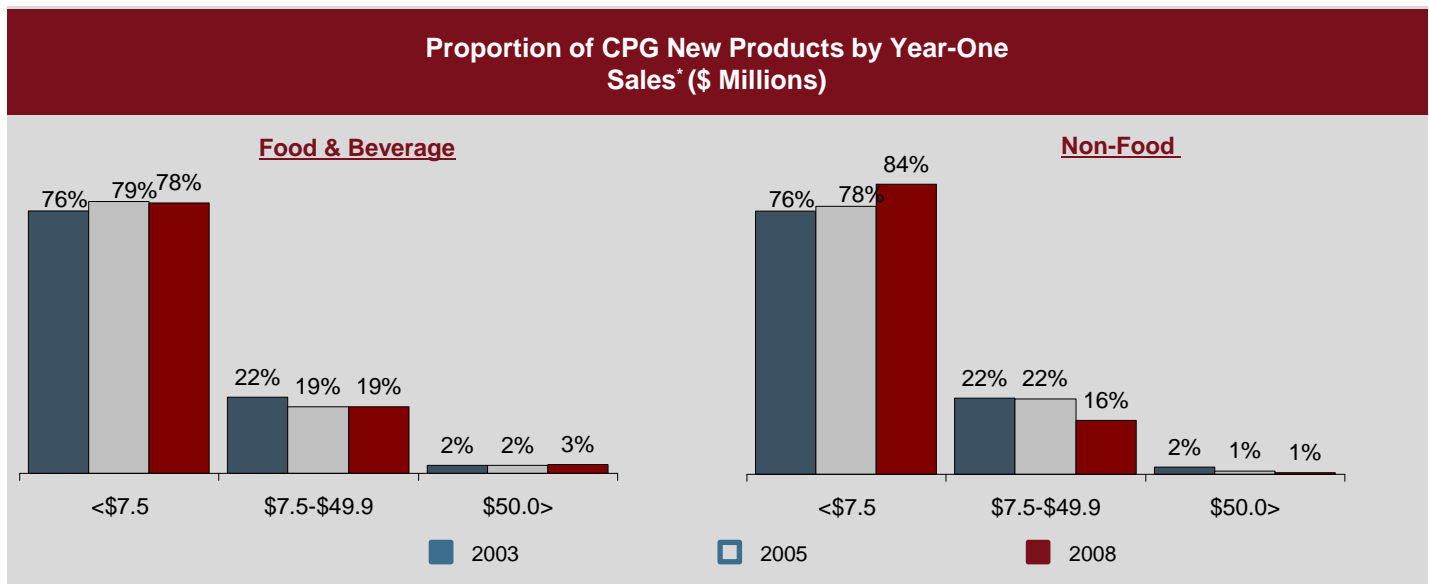
For example, Starbucks coffees (2001) captured year-one sales of \$118 million. The product remains

popular today, posting \$341 million in sales over the past year. Similarly, Iams (2001) pet food posted year-one sales of \$468.5 million, and \$529.5 million in sales over the past year.

Rx-to-OTC switch products, such as Zyrtec, have also shown the power to drive sales growth. In 2008, Zyrtec stormed into the CPG arena with \$315 million in year-one sales.

The nature of new products has changed over the past decade, though. On the whole, new product launches are becoming increasingly targeted. As a result, “successful” launches may well be below \$50 million in year-one sales.

To date, this shift has been seen predominantly in the under \$7.5 million range. But, as new product development processes improve, growth in the middle ranges may gain traction.



Source: IRI, “Innovation Highlights from 15 Years of New Product Pacesetters”

*Across Food, Drug & Mass Channels (excluding Walmart)



Brand extension is the most common, though generally less lucrative, path to new product introduction.

GROWTH OPPORTUNITIES NEW BRANDS VS EXTENSIONS

Regardless of the state of the economy, innovation plays a critical role in driving sales growth.

History shows that a majority of the time innovators choose to rely heavily on brand extensions, the relatively quick and easy road to new product introduction. This route generally requires less investment and shorter lead times, while simultaneously bringing fresh news and vitality to core brands.

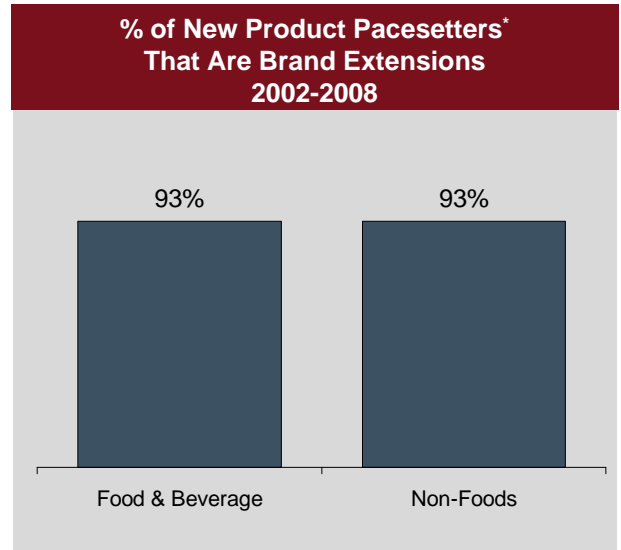
But, it comes with a price tag. On average, brand extensions have yielded 13% lower year-one sales across CPG food and beverages, and a startling 49% lower year-one sales across non-foods.

The major sales gap across non-foods has been heavily influenced by a finite group of high-performing product introductions such as Beneful in 2002, and Sunsilk in 2007.

About 10% of the time, successful product launches come from new brand introductions. Of course, the path is longer, and fraught with difficulty. But, a compelling story will reap powerful rewards.

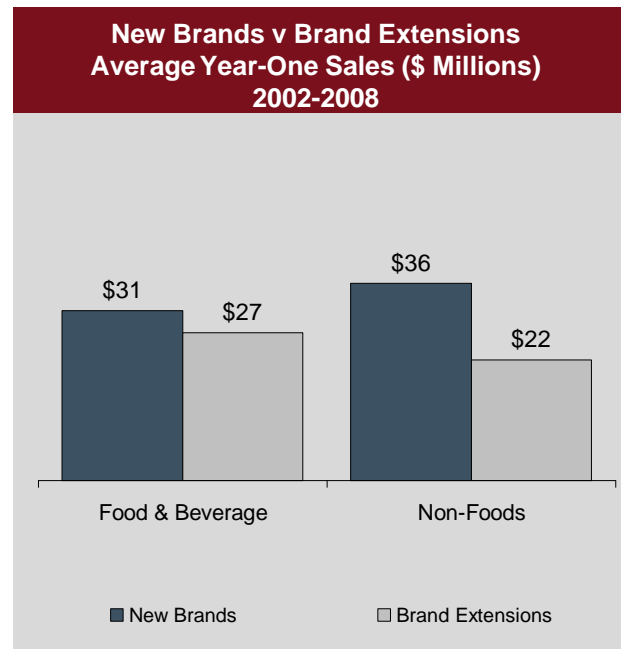
Products such as Swiffer (2000) and Febreze (1998), are examples of new brands done right.

Between these two paths to innovation are products crossing over from other channels into the CPG environment. Dunkin' Donuts (2008, coffee), Nexxus (2007, hair care) and Iams (2001, pet food) each demonstrate the potential power of this path.



Source: IRI, "Innovation Highlights from 15 Years of New Product Pacesetters"

*Across Food, Drug & Mass Channels (excluding Walmart)



Source: IRI, "Innovation Highlights from 15 Years of New Product Pacesetters"

*Across Food, Drug & Mass Channels (excluding Walmart)

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A Snapshot of Trends Shaping the CPG and Retail Industries



Product benefits are proliferating in response to rapid increases in technology and the steady rate of discovery of new product ingredients and ingredient combinations.

GROWTH OPPORTUNITIES BENEFIT TRENDS

Advances in technology and the seemingly daily discovery of new ingredients have armed manufacturers with the power to fulfill consumers' ever-changing quest for more varied, more powerful and more simple CPG solutions.

Analysis of the average number of benefits found in successful CPG product introductions underscores the fervor with which consumers are flocking to CPG products for answers to an increasingly broad array of food and beverage, household, beauty and personal care needs.

For many years and across nearly all CPG categories, convenience has been a much sought-after trait of new packaged goods solutions. Today convenience is essentially an expected feature, and often touted as secondary to other "higher profile" product attributes.

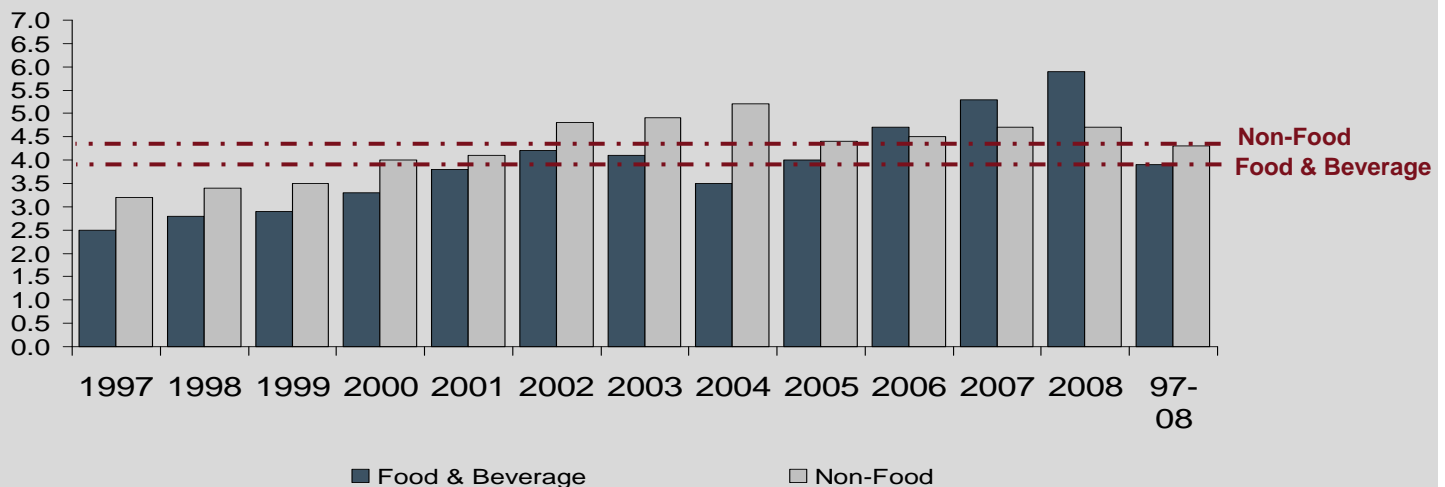
Primary product features are many and varied.

Food and beverage products are increasingly touting wellness and/or better-for-you attributes. Almost paradoxically, though, IRI's 2009 Snacking Study revealed that half of consumers have a tendency to "eat what tastes good rather than what is good for me." Marketers are deftly balancing the need for nutrition against the need for indulgence.

Non-foods tout a rather broad spectrum of product benefits. From enhanced experience to improved results, technology and ingredients are raising the bar on home, pet, health and beauty care.

These features are explored in greater detail later in this report.

**Trend in Average Number of Benefits per Pacesetter
1997-2008**



Source: IRI, "Innovation Highlights from 15 Years of New Product Pacesetters"

*Across Food, Drug & Mass Channels (excluding Walmart)

Times & Trends

A Snapshot of Trends Shaping the CPG and Retail Industries



The most successful food and beverage introductions over the past decade are illustrative of consumers' quest for healthier fare and more exciting eating occasions.

FOOD AND BEVERAGE TOP NEW PRODUCT PACESETTERS

The most successful food and beverage introductions over the past decade are illustrative of several key consumer trends emerging and evolving over the same time period.

Consumers' growing desire for healthier food and beverage options is evidenced in new product successes of the past decade. As consumers become more proactive in selecting food and beverages that help them meet weight management, nutrition, and disease management /prevention goals, new brands delivering these benefits have been hugely successful.

The largest introduction over the past decade was Frito WOW!, which achieved New Product Pacesetter (NPP) status in 1999, offering consumers the taste of traditional Lay's, Ruffles, and Doritos, but with less fat and 30-50% fewer calories.

Pepsi One (2000), Kraft South Beach (2006) and Dreyer's/Edy's Slow Churned (2006)

are three more examples of healthy done right. It was Frito WOW! that drove home the notion that consumer interest in low fat/healthier CPG options had increased significantly, and that the time had come for CPG manufacturers to solidify the technology to address this growing trend.

Experiential consumption has gained traction. Pepsi Twist (2002) and DiGiorno Rising Crust pizza (1997) brought something new to the table, and consumers responded favorably. And, despite a nearly two year old recession, consumers quest for unique and satisfying experiences has not waned.

Despite the astronomical number of products on the shelves today, consumers continue to embrace new varieties. Over the past decade, a large number of winning food and beverage brands has delivered unique new varieties. For CPG marketers, the pressure to move forward in implementing relevant assortment strategies is high and building.

Largest Food & Beverage Pacesetters: 1997-2008 \$ Millions

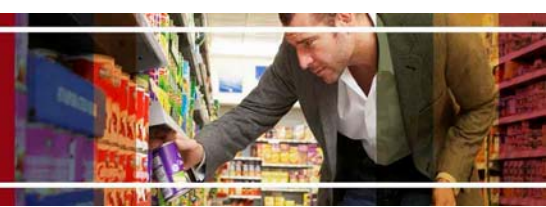


Source: IRI, "Innovation Highlights from 15 Years of New Product Pacesetters". *Across Food, Drug & Mass Channels (1997-2001 Rankings Include Walmart; 2002-2008 Rankings Exclude Walmart). ** Carbonated beverage brand rankings include regular and diet formulas.

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FOOD AND BEVERAGE CATEGORY TRENDS

Though the actual top-selling products and the most innovation-intensive categories change from year to year, the range of categories launching successful new products has remained largely unchanged over the past decade.

The ranks of New Product Pacesetters has ebbed and flowed over the past decade or so, driven and tempered by a range of forces including but not limited to technology and the economy.

As discussed throughout this report, innovation effectively drives sales growth. It is also the vehicle through which CPG marketers can improve and/or streamline processes, expand and enhance product offerings and broaden market potential.

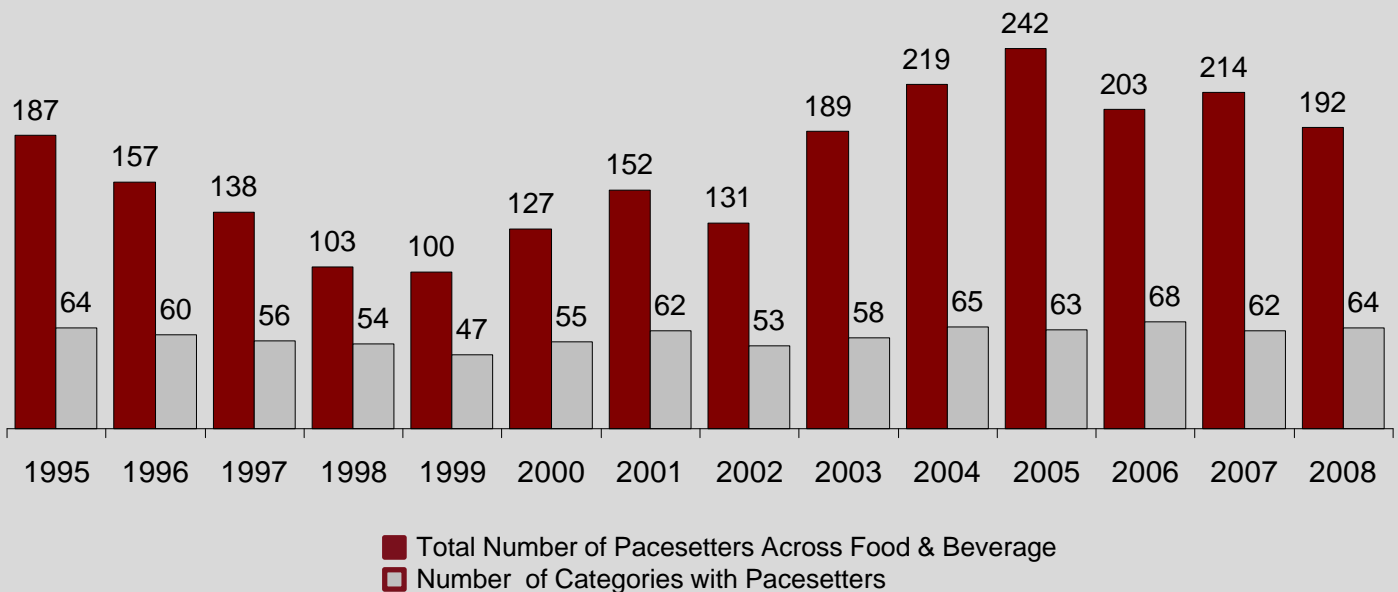
Though the actual top-selling products and the most innovation-intensive categories change from year to year, what has remained largely stable over the past decade is the cross-section of categories consistently launching successful new products.

Innovative food and beverage categories truly span the grocery aisles, including a full range of meal ingredients and components, indulgent and healthy snacks, and alcoholic and non-alcoholic beverages.

Growth in the use of new recipes, new formulas and new technologies points to increased manufacturer efforts to create sustainable differentiation with new brands.

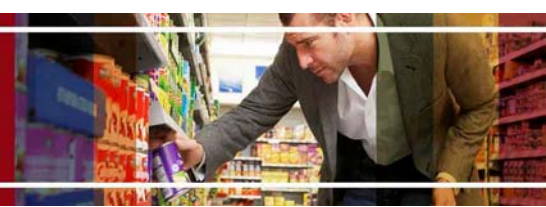
The page that follows provides a closer look at the ten food and beverage categories that have been the most active over the past several years.

**Total Number of Food & Beverage Pacesetters
And Number of Categories with Pacesetter Products
1995-2008**



Source: IRI, "Innovation Highlights from 15 Years of New Product Pacesetters"

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Mature center store categories have been among the most active area for new product innovation over the past several years.

FOOD AND BEVERAGE CATEGORY TRENDS

The center store is home to many mature CPG categories, including cereal, snacks, carbonated beverages and bottled juices. Innovation is being heavily used in an effort to stimulate growth in these categories. As such, these categories are among the most active areas for new product innovation over the past several years.

By a wide margin, the highest levels of new product activity are seen in the snack/ granola bar category. Since 2002, more than 100 snack and granola bar varieties targeting a wide range of consumer segments have achieved NPP status.

General Mills Milk 'n Cereal bars were New Product Pacesetters in 2001, winning over shoppers with an on-the-go product

cereal with the Vitamin D and Calcium found in a glass of milk.

Quaker Chewy 90 Calorie Granola bars won big in 2007, bringing consumers indulgence such as dark chocolate and cherry in a calorie-controlled, whole grain, hand-held snack.

Across food and beverage categories, CPG marketers are looking to bring nutrition, taste, texture and, in many instances, indulgence and/or excitement to everyday eating occasions.

Doing so has enabled manufacturers to broaden their market reach by addressing the specific needs and wants of different consumer segments, thus successfully stimulating growth in otherwise mature categories.

**Food & Beverage Most Active Categories
Ranked by Number of New Product Pacesetters by Category
2002-2008**

		<u>Average per Year 2002-2008</u>
Snack/Granola Bars	102	14.6
Cold Cereal	89	12.7
Cookies	75	10.7
Fz Dinners/Entrees	63	9.0
Carbonated Beverages	58	8.3
Crackers	57	8.1
Beer/Ale/Alcoholic Cider	48	6.9
Yogurt	46	6.6
Salty Snacks	45	6.4
SS Bottled Juices	37	5.3

Source: IRI, "Innovation Highlights from 15 Years of New Product Pacesetters"

Times & Trends

A Snapshot of Trends Shaping the CPG and Retail Industries



FOOD AND BEVERAGE CATEGORY TRENDS

The full range of food and beverage benefits brought to market over the past decade has been rather extensive, but can be summarized into three broad benefit groupings: better-for-you, indulgence or convenience benefits.

Successful food and beverage innovation has brought consumers a range of new benefits over the past decade. With technology advancing and new ingredients emerging on a seemingly daily basis, industry capabilities are evolving at a remarkable rate.

While the range of benefits brought to market over the past decade has been rather extensive, but can be summarized into three broad benefit groupings: better-for-you, indulgence or convenience benefits.

As stated earlier in this report, convenience is a long-standing expectation in CPG today. Frequently convenience is secondary to a less common product attribute. On average, 14% of New Product Pacesetter food and beverage products have touted convenience attributes over the past decade.

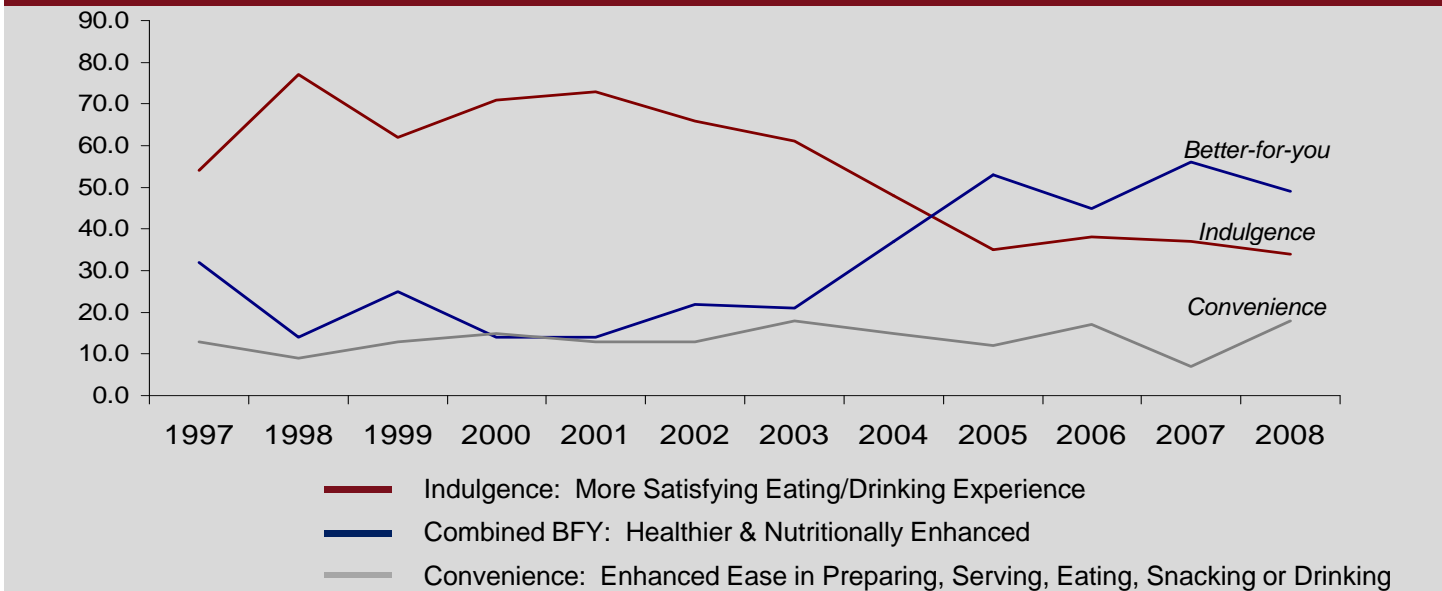
Though fortified food and beverage

offerings have long been a practice, the past several years have been witness to a rather sharp increase in the prevalence of products offering better-for-you attributes. Calcium, vitamin D and probiotics are just a few examples of widely leveraged supplements aimed at boosting the nutritional value of food. Whole grains have an increasing prominence in better-for-you foods.

Consumers' heightened awareness and understanding of the important role food and beverages play in a healthy lifestyle will continue to drive the natural/organic, functional and better-for-you market for the foreseeable future.

Nonetheless, the market for indulgent products remains strong. Despite a slide starting in 2003, products offering a more satisfying eating/drinking experience account for just about half of NPP food and beverage brands brought to market over the past decade.

Key Food and Beverage Benefit Trends
Index = % New Product Pacesetters
1997-2008



Source: IRI, "Innovation Highlights from 15 Years of New Product Pacesetters"

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FOOD AND BEVERAGE *TRENDS TO WATCH*

Food and beverage innovation will continue to run broad and deep, with convenience remaining an expected, yet secondary, attribute of most successful new products. Other key influencers of food and beverage innovation include:

Sensory

Food and beverages are more than just nourishment. Consumers today seek an eating experience. CPG marketers are answering the call with “jazzed up” versions of yesterday’s products and new flavors and/or flavor combinations that bring excitement to everyday eating occasions. Technology is “feeding” this craze, facilitating the task of preserving food freshness and locking in flavor.

With restaurant eating down from historical trends, consumers are looking to packaged goods to bring the dine-out experience into the home (and within budget). Premium quality CPG food and beverage options, such as Freschetta PizzAmoré (2008) or Folgers Gourmet Selections (2007) have gained significant traction over the past several years, and are likely to continue to enjoy popularity even as the economy eases as consumers hold tight to more conservative spending patterns.

Sustainability

The sustainability movement has permeated every facet of the packaged goods industry. From natural/organic/fair trade food and beverages to concentrated cleaners, to natural health and beauty products, the CPG universe is becoming increasingly green. Manufacturing and transportation is also impacted by this trend. CPG companies are redesigning packaging to leverage more earth-friendly materials, and reducing packaging where possible.

Manufacturing and retail facilities are being made more energy-efficient. Manufacturing processes are being reevaluated to identify more eco-friendly options. Transportation fleets are being upgraded to low-emitting and fuel efficient vehicles.

The end goal is the same across the industry: to minimize environmental impacts and maximize the use of sustainable business practices.



FOOD AND BEVERAGE *TRENDS TO WATCH*

Self-Care

One of the major impacts of the country's current recession is a growing trend of self-sufficiency. To save money, Americans have stepped up self-driven health and wellness efforts. Food and beverages have taken a spotlight role in improving overall health and warding off/managing disease.

As detailed in the November issue of Times & Trends, "Health & Wellness: Redefining Healthy Living," CPG marketers are playing a vital role in creating a healthier America. Today, nearly three-quarters of consumers rate nutritious/ wholesome meals as a key consideration when planning food and beverage shopping trips, and two-thirds of shoppers eat to manage special health conditions. CPG innovation is deftly feeding this trend.

Consumers are looking to fortified foods, such as Smart Balance Omega-3 fortified products, to play a significant role in their wellness strategies. But, what is *not* in foods (i.e. less fat, less sodium) is just as important. Progresso Light ready-to-serve soups (2007) and Dryer's/Edy's Slow Churned ice cream (2006) exemplify the power of wellness-attributes to drive purchase behavior.

Even as the recession shows signs of easing, Americans are expected to hold tight to their more self-reliant ways. The demand for better-for-you and fortified food and beverage offerings will proliferate over the next several years.



NON-FOODS TOP NEW PRODUCT PACESETTERS

The most successful non-food Pacesetters illustrate the nation's shift toward self-administered health care and a focus on experiential living.

The ranks of the most successful non-food Pacesetters tell a story of an evolving CPG environment marked by a major shift toward self-reliant health care and a focus on experiential living.

Over the course of time, health care new product introductions have proven to be infrequent relative to other categories, such as beauty or household care. However, health care products, particularly those converted from prescription to over-the-counter status, are among the most successful products in New Product Pacesetters' history.

Shown below, eight of the top 20 non-food pacesetters introduced over the past decade are Rx-to-OTC switch products.

There is a growing demand for premium-tier CPG solutions, even across categories often thought of as commodity products. Toilet tissues, such as Scott 1000 (1997) and Charmin Ultra Strong (2003), and diapers, such as Luvs Stretch (1997) and Pampers Cruisers (2002), are two powerful examples of this trend.

Enhanced performance landed several of the decade's top products onto the list, including three Gillette razors: Gillette Fusion (2006), Gillette MACH3 (1999) and Gillette Mach3 Turbo (2003). Tide with a Touch of Downy (2005) and Tide with Febreze Freshness (2006) each achieved success by co-branding strong brand equities to deliver a whole new product experience.

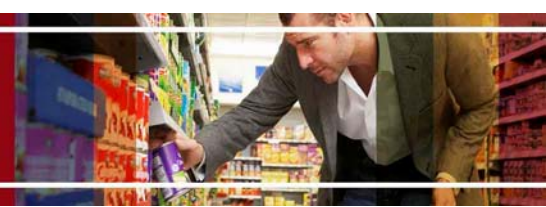
Largest Non-Food Pacesetters: 1997-2008
\$ Millions



Source: IRI, "Innovation Highlights from 15 Years of New Product Pacesetters". *Across Food, Drug & Mass Channels (1997-2001 Rankings Include Walmart; 2002-2008 Rankings Exclude Walmart).

Times & Trends

A Snapshot of Trends Shaping the CPG and Retail Industries



The pace of non-food innovation escalated sharply for over a decade before slowing slightly in 2007 and 2008.

NON-FOODS CATEGORY TRENDS

The pace of innovation in the non-food segment of the CPG industry has escalated sharply over the past decade, driven largely by significant advances in technology and CPG marketers' desire to leverage that technology to bring to market a range of new CPG solutions.

In 2007 and 2008, after seven straight years of rapid acceleration, new product innovation slowed slightly. During this time, CPG companies turned focus to updating variety and product lines currently offered, rather than bringing to market net-new innovations.

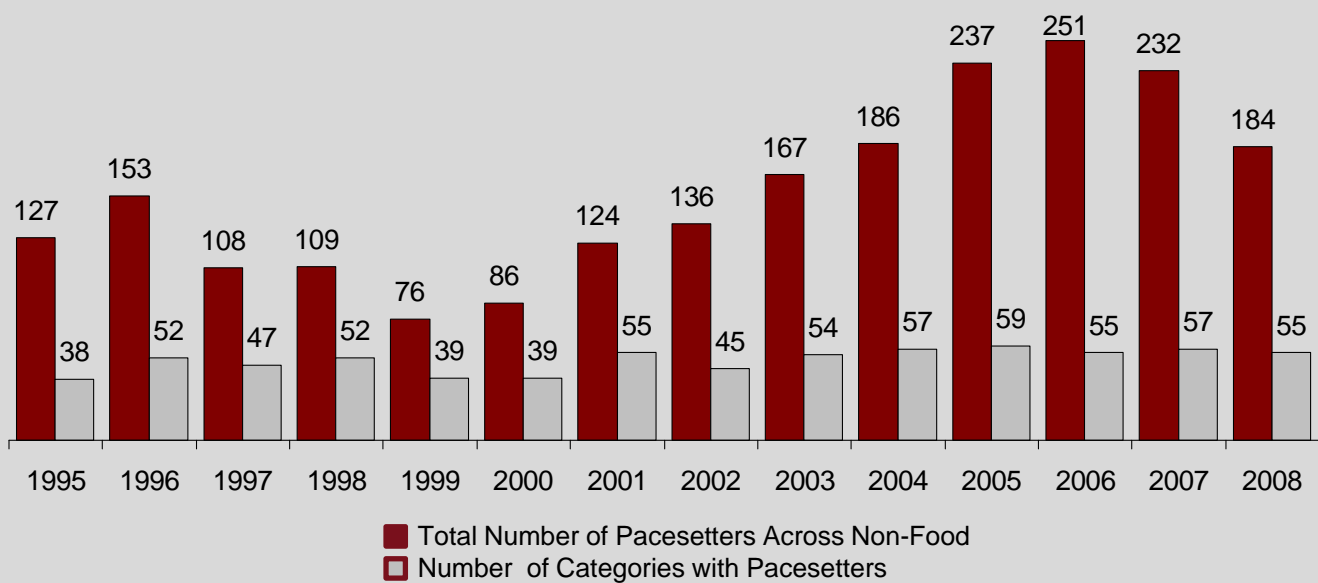
Like the food and beverage segment of the CPG industry, the range of categories consistently bringing to market successful products has remained fairly unchanged over the past decade.

As stated earlier in this report, beauty and home care represent hot beds of new product innovation.

Within these departments, high tech innovations have created stronger, more-effective products. But, successful new non-food innovations have also made consumers' lives easier in different ways. Disposable training pants cut down on laundry, easing the whole potty-training process. Dental whitening has moved out the (costly) dentist's chair and into the (more accessible and affordable) home. And, effective and disposable cleaning broom and surface cleaning cloths and disposable storage devices have reduced house care drudgery.

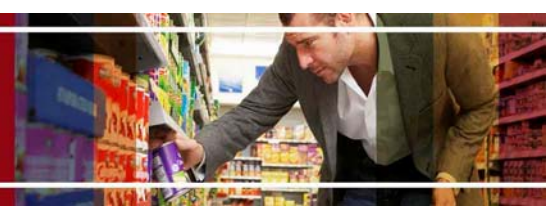
Consumers have shown a great willingness to pay a "premium" price for products that deliver superior convenience and exceptional results.

**Total Number of Non-Food Pacesetters
And Number of Categories with Pacesetter Products
1995-2008**



Source: IRI, "Innovation Highlights from 15 Years of New Product Pacesetters"

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CPG innovators are deftly bringing to market a range of health and personal care products made possible by technological advances and a range of plant and science-based ingredients.

NON-FOODS CATEGORY TRENDS

Over the past seven years, non-food CPG innovation has focused intently on self-administered beauty and personal care in the United States. Advances in technology and a growing assortment of plant and science-derived ingredients are raising the bar on customized beauty and personal care. CPG marketers are deftly bringing these breakthroughs to market.

Hair and skin care are hot beds of innovation activity. Last year, Dove Pro Age skin and hair care products revived and renewed skin and hair among “women in their best years” leveraging a range of functional ingredients.

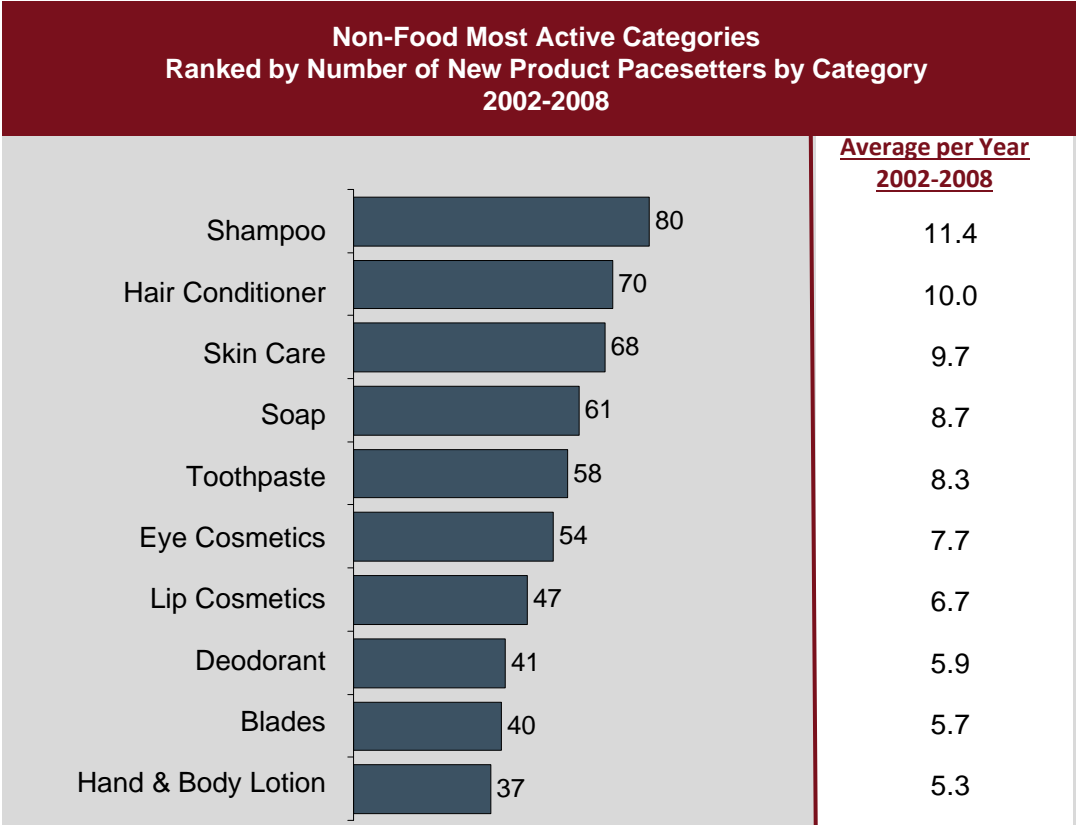
Aromatherapy is increasingly a part of daily routines, with Pacesetter products such as 2005’s Alberto VO5 Nourishing Oasis and 2007’s Herbal Essences lines.

The toothpaste category saw a burst of innovation in the 2003/2004 timeframe, and, after moderating slightly, is picking up steam again. Enhanced performance is the big focus, with a quest for cleaner mouths, brighter/whiter smiles and fresher breath.

CPG companies are delivering up-market to aging Baby Boomers (such as Dove ProAge), and simultaneously keeping pace with the evolving needs and wants of the down-market Millennials group [such as Garnier Fructis (2003)].

Current trends in beauty care across these and other consumer segments are explored in great detail in IRI’s recently released IRI Beauty Shopper Report.

IRI Beauty Shopper Report
This just-published analysis provides insights based on primary and secondary research of the overall beauty market, and includes an in-depth assessment of *power beauty shoppers*, who represent just 11 percent of households, but 40% of beauty dollar sales.



Source: IRI, “Innovation Highlights from 15 Years of New Product Pacesetters”

Times & Trends

A Snapshot of Trends Shaping the CPG and Retail Industries



Non-food innovators are rapidly developing new technologies, new processes and new formulas designed to bring added efficacy and excitement to everyday CPG solutions.

NON-FOODS CATEGORY TRENDS

An over-arching theme in non-food innovation is efficacy. Innovators of non-food products are achieving better, more targeted results by incorporating more benefits and newer technologies. Across a range of non-food categories, game changing benefits and positioning have raised the bar for future introductions.

From automated home care (Febreze Noticeables- 2007), to aromatherapy in laundry care and hair care [Downy Simple Pleasures (2005) and Herbal Essences (2003)], to “salon care at home” personal care [Neutrogena Advanced Solutions (2005)], CPG marketers are reformulating products and improving processes to bring consumers ease of use, increased pleasure and better end results.

The industry is also working to answer the call for a wider, and more effective, set of

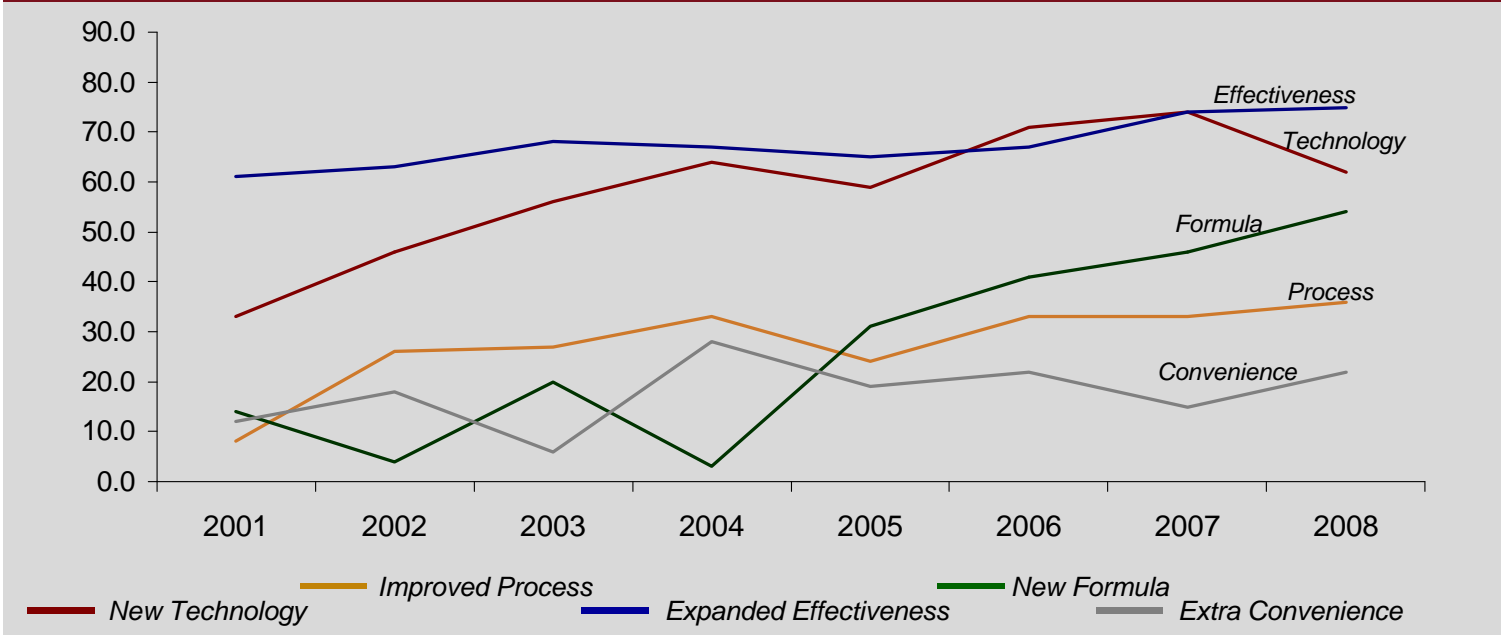
environmentally-friendly health, beauty and home care solutions.

Clorox Green Works’ (2008) line of natural household cleaners has brought home cleaning to a much more eco-friendly level, for example.

And healthy eating crossed over to the pet realm, as illustrated by the success of products such as Mars’ The Goodlife Recipe (2007) and Iams Digestive Care (2008).

Through it all, CPG companies are working hard to establish distinctive competencies that are difficult to replicate rather than a simple change in form or functionality. The ability to get ahead of the curve on innovation brings rewards of larger margin opportunities as well as a “jump start” in securing ample return on R&D investment.

Benefits Supporting Non-Food Launches
Index = % New Product Pacesetters
2000-2008



Source: IRI, “Innovation Highlights from 15 Years of New Product Pacesetters”

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NON-FOODS TRENDS TO WATCH

Innovation in the non-food arena will be influenced by a number of factors over the next several years. Some of those factors are the same as those seen in the food and beverage arena, and some are unique to non-foods.

Sensory

Innovation that incorporates sensory attributes seeks to enhance the customer experience. Technological advances are arming innovators with the means to create new processes and formulations necessary to bring new and improved experiences to market.

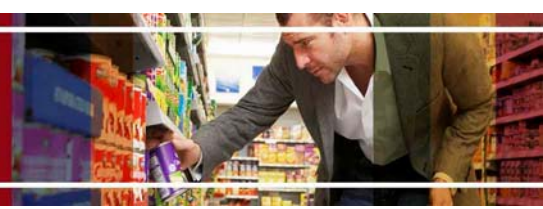
A big area of interest today is soothing or invigorating olfactory experiences. Household and personal care products such as Gain Joyful Expressions (2007) and Head and Shoulders Ocean Lift Collection (2006) are two examples of an ongoing trend toward improving experience by tantalizing the sense of smell.

Self-Care

While nutrition is being leveraged as a first line of defense, the fact remains that people can and do become ill at times. Over the past several years, consumers have increasingly purchased over-the-counter medicinal solutions in an effort to treat their ailments without incurring the expense of visiting the doctor's office. As detailed earlier in this report, Rx-to-OTC switch products have historically proven quite successful in garnering substantial year-one sales. This is not likely to change in the near future.

At-home beauty regimens have also gained traction in recent years. High-end cosmetics, such as Physician's Formula (2005) and L'Oreal Bare Nature Spa (2006) have successfully targeted those looking for natural beauty at home.

Do-it-yourself spa treatments, such as 2008 Pacesetter Ped Egg, are also a huge hit on the market today. The same holds true for home-based anti-aging treatments and dental care. Consumers have scaled back, but still want the occasional indulgence. Even beyond the recession, these "sophisticated splurges" are likely to continue to be popular across consumer segments.



NON-FOODS TRENDS TO WATCH

Sustainability

Detailed earlier in this report, the drive toward more earth-friendly products and processes is prevalent in CPG today. The February 2009 issue of Times & Trends provides a detailed analysis of trends and opportunities with respect to sustainable packaged goods.

Efficacy

From home care to beauty care to health care, consumers are on the lookout for the opportunity to do things quicker and better. The trend toward more effective CPG solutions is building, once again bolstered by the technological advances that are making it all possible. Today's industry is marked by transformational technologies, processes and formulas. In the long run, many of these "firsts" are emulated by others. But, in many instances patent protection is providing a distinct competitive advantage to those that are first to market.

Value v Premium

Recessionary economic conditions have spawned dramatic changes in the way shoppers live and in how they purchase and consume packaged goods. Over the past several years, an interesting dichotomy has emerged.

For many, the recession has meant looking for new ways to save money. Trading down has become pervasive, and store brands now hold a seat at tables across the country. As detailed in IRI's recent "Private Label 2009 Report," private label (across the value spectrum) is playing a key role in helping consumers maintain very tight fiscal budgets. Private label momentum is expected to continue to build even as the economy shows signs of improvement.

At the other end of the spectrum is the growing market for premium packaged goods solutions. The home has once again become *the* central hub for daily living. To save money, consumers are dining at home, entertaining at home, preventing and treating ailments at home, and conducting beauty treatments at home with increased frequency.

This shift has created pockets of opportunity for CPG marketers. To replicate the medical and professional office or spa feel in the home and with a lower price tag, consumers are turning to high-end packaged goods offerings. For instance, premium teeth whitening systems have successfully penetrated consumers looking for dental professional quality whitening but at home and at a significant savings. Similarly, consumers are self-treating wrinkles and other aging skin issues with affordable solutions. Effective and far less expensive OTC options for common ailments such as allergy and heartburn are also winning favor among consumers looking to save on prescription medications.

No doubt, there is opportunity at both ends of the value spectrum. This dichotomy is not expected to wane as the recession fades.

[Times & Trends]

A Snapshot of Trends Shaping the CPG and Retail Industries



CASE STUDY BIRDS EYE STEAMFRESH

Birds Eye Steamfresh provides better-for-you vegetables, supported by innovative technology – the first and revolutionary microwave steaming way to prepare perfectly cooked, less processed and nutrient-preserved vegetables.

Overview

- Launched in 2006
- A game-changing bag designed to steam food to perfection in minutes
- Initially limited to vegetables, line has been expanded to include rice dishes, sauces and entrees; mid-range and premium tier offerings

Sales History

- 2007= \$87.3M
- 52 Weeks Ended May 17, 2009= \$348.2M

Key Innovative Benefit

- Brought to market the technology to use the microwave to steam-cook foods quickly and accurately (better-for-you, healthier eating)
- Less processing/more nutrients versus traditional frozen vegetables
- Specially designed packaging allow steam to build and vent without hampering taste/texture/nutritional density of the food



“Perfectly Steams in the Bag!”

Sources: Company Web sites, Google, IRI InfoScan® FDMx



CASE STUDY SWIFFER

Swiffer enables more effective floor cleaning because of new technology and design that picks up 50% more dirt and dust than conventional brooms while simplifying the task.

- Introduced in 1999 by Procter & Gamble
- One of P&G's most successful product launches ever
- Created a new category for dry surface cleaning, using electrostatic action to pull soil into dry disposable cloths that can be attached to the sweeper for floor cleaning or used alone for hand dusting
- Line has expanded into a family of products including Swiffer Max, Swiffer Dusters, Swiffer Wet, and Swiffer Wet Jet

Overview

Sales History

- 2000= \$193.8M
- 52 Weeks Ended December 28, 2008= \$310.4M

Key Innovative Benefit

- "Dirt Grabbing Texture"
- Enhanced household upkeep; simplified cleaning
- Raised consumer expectation for household cleaning tools



"Gives cleaning a deep new meaning"

Sources: Company Web sites, Google, IRI InfoScan® FDMx

[Times & Trends]

A Snapshot of Trends Shaping the CPG and Retail Industries



CASE STUDY OLAY REGENERIST

Olay Regenerist leverages innovative technologies to re-energize the skin, making it look younger as effectively as expensive skin treatments from professional dermatologists and anti-aging experts.

Overview

- Introduced in 2003 by Procter & Gamble
- Anti-aging product, first of Olay's next generation skin care products
- New peptide technology first discovered by a small cosmetics company in France
- Technology now fuels a full line of Regenerist products

Sales History

- 2004= \$37.1M
- 52 Weeks Ended June 14, 2009= \$151.1M

Key Innovative Benefit

- Patented formula for re-energizing the skin (anti-wrinkle technology)
- A more trusted way to look younger
- Results of skin treatments sold through professional dermatologists and anti-aging experts, but at considerable savings



“Regenerate your skin’s appearance one cell at a time”

Sources: Company Web sites, Google, IRI InfoScan® FDMx



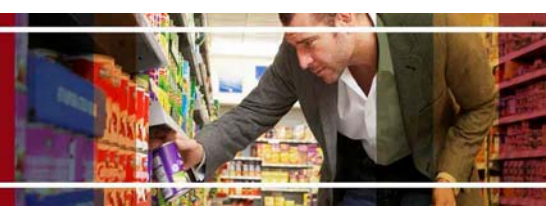
CONCLUSIONS CPG MANUFACTURERS

Manufacturers seeking to improve the new product development and launch process should consider the following action items:

- » Enhance the new product planning process
 - Establish a system to identify early indicators of emerging consumer trends, based on trend drivers (demographic, social, economic, lifestyle)
 - Identify high-potential consumer markets, including niche and high-growth segments
 - Leverage consumer research and advanced analytics to understand drivers of consumer attitudes and behaviors as well as unmet and emerging needs
 - Benchmark new product concepts, marketing and forecast plans versus historical new product successes and failures; leverage benchmarks as a basis for identifying best practices
 - Conduct in-market tests prior to full roll-out

- » Develop targeted distribution and marketing strategies
 - Identify stores with a consumer base that most closely aligns with the new product consumer target; reflect optimal store mix in distribution strategy
 - Leverage an integrated marketing strategy which clearly identifies relevant brand attributes and value proposition
 - Highlight multiple product benefits in messaging across marketing vehicles
 - Develop a fully-integrated merchandising strategy, including multi-location displays and cross-merchandising tie-ins with other products and categories that have high purchase indices within the target consumer segment
 - Seek tie-ins with existing store platforms such as “health and wellness” and “sustainability”

- » Identify course correction opportunities throughout the product launch
 - Continually monitor actual versus projected sales growth in aggregate, across consumer segments and by store
 - Identify and implement course correction in marketing, distribution and merchandising within the first several weeks of launch and at multiple checkpoints throughout the first year



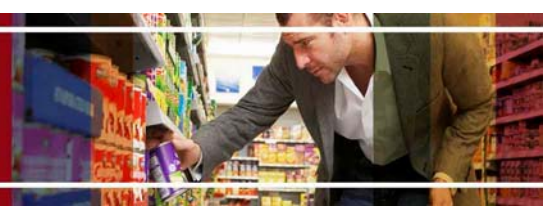
CONCLUSIONS CPG RETAILERS

Retailers seeking to improve the new product development and launch process should consider the following action items:

- » Enhance the new product selection and new private label product development process
 - Establish a system to identify early indicators of emerging consumer trends, based on trend drivers (demographic, social, economic, lifestyle)
 - Identify high-potential consumer markets (including niche and high-growth segments) and trip missions
 - Evaluate fit between new products and key consumer segments and trip missions, and heavily support those that are best-aligned
 - Benchmark new product concepts, marketing and forecast plans versus historical new product successes and failures; leverage benchmarks as a basis for identifying best practices
 - Identify new sourcing opportunities to bring in new products that create true retail differentiation

- » Develop customized in-store marketing and merchandising strategies for high-potential new products
 - Work with manufacturers to identify optimal assortment at the store level
 - Leverage localized assortment strategies that address the need for variety without creating an overly complicated shopping experience
 - Support new products with cross-merchandising and cross-marketing programs, creating tie-ins and solutions-based programs, where appropriate
 - Tie new brands into existing total store marketing platforms, such as health and wellness

- » Measure and monitor new product success
 - Monitor current and projected sales by store, across target consumer segments and across target consumer shopping experiences
 - Measure brand impact on total category sales
 - Evaluate optimal shelf and display allocation based upon demonstrated and expected contribution



RESOURCES

Contact your IRI client service representative regarding custom analyses leveraging the following resources, or to get more information on these and other new product support products and services available from IRI:

AttitudeLink™ Trier- Repeater/ Non-Repeater Surveys

Survey-based service designed to provide an understanding of how consumer perceptions of a new product differ among known trier repeaters versus trier non-repeaters.

BehaviorScan® New Product Testing

Recognized as the industry gold standard for new product testing, this patented, in-market testing service not only determines if a new product and its launch strategy are on target, but also yields valuable consumer insights to maximize success.

IntroCast™ Launch Forecasting

A model that provides accurate year-one and year-two forecasts using initial in-market results, providing performance insights and tools enabling informed decisions about alternative marketing strategies.

Launch Commander™

Launch management service that delivers an accurate year-one sales forecast based on as little as eight weeks of data and provides alerts as to whether or not the new brand is on track to meet its goals early in the launch process.

New Product Profiler™

New Product Profiler is an interactive tool which draws upon a new product database to help end users analyze critical success factors in the strongest new product introductions since January 2002, plan product launches, and set realistic goals for success.

New IRI Report Coming Q1 2010:

Innovation Highlights from 15 Years of New Product Pacesetters

IRI's **Innovation Highlights from 15 Years of New Product Pacesetters** is a study of the most successful CPG product launches over the past 15 years. It is designed to capture the essence of successful innovation, providing insights into strategies that have led to true market success. Brands featured in the report are illustrative of best practices in how to create new markets leveraging advanced consumer insights and new technologies.

Look for more information on the release of this report in the first quarter of 2010.

[Times & Trends]

A Snapshot of Trends Shaping the CPG and Retail Industries



>>> 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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