Merchandising Trends:

Achieving Differentiation with a Shopper-Centric Approach

SymphonyIRIGroup

Insight.
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Times & Trends

January 2011

Executive Summary

INSIGHT

- After accelerating sharply in 2009, merchandising activity growth slowed in the past year; still, merchandising support is escalating across a majority of CPG categories and tactics
- In stark contrast to pre-recession trends, grocers have stepped up display activity during the past year
- The ranks of the categories seeing the biggest jump in merchandising activity are well-represented by products related to home-based eating rituals; price-only actions are becoming more prevalent across many of these categories

ACTION

- Consistently balance promotional efforts with everyday value-oriented programs that are consistently aligned with partner goals/objectives as well as the needs of key target consumers
- Leverage technological advances that allow for micro-level shopper marketing and enable marketers to reach key consumer segments with a “less is more” approach
- Carefully evaluate price elasticity of demand across key categories and brands, and leverage this knowledge to create highly targeted everyday and promotional strategies that reflect consumers’ evolving definition of value and affordability

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Executive Summary

INSIGHT

- ❑ Volume lift from merchandising support has declined across more than half of CPG categories; this decline is fairly consistent across CPG channels
- ❑ Private label receives lower-than-average merchandising support across a majority of CPG, and support declined across nearly half of private label categories during the past year

ACTION

- ❑ Maximize impact of merchandising efforts with strategies tightly targeted against key shopper and high-priority segments at the market and store level
- ❑ Retailers should enhance the relevance and positioning of merchandising programs across key private label categories and brands with solutions-based programs and/or co-branded and multi-tier programs targeted against key shopper segments

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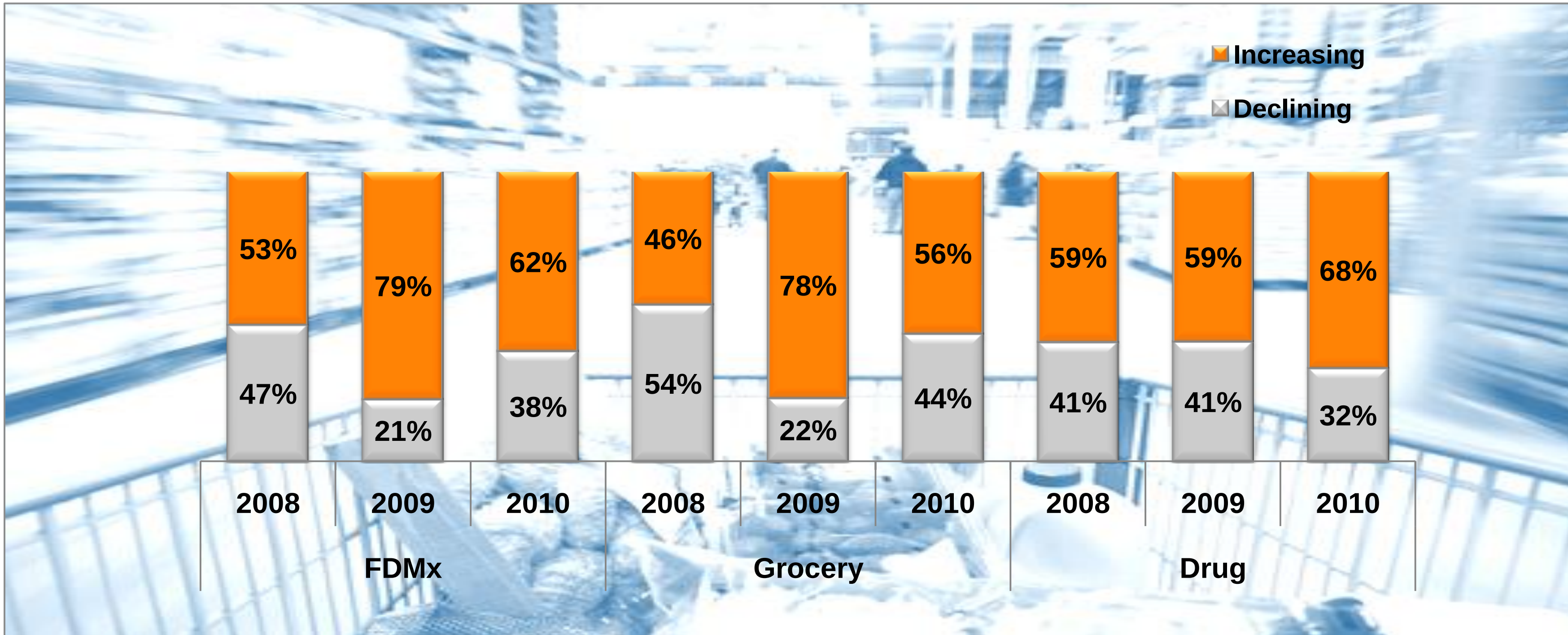
After escalating sharply in 2009, growth in merchandising support across CPG channels moderated in 2010.



Source: SymphonyIRI InfoScan Reviews™; 52 weeks ending 10/31/2010 versus same period prior year and calendar year 2008-2009 versus prior year

% of CPG Categories
with Increasing/Declining Merchandising Activity

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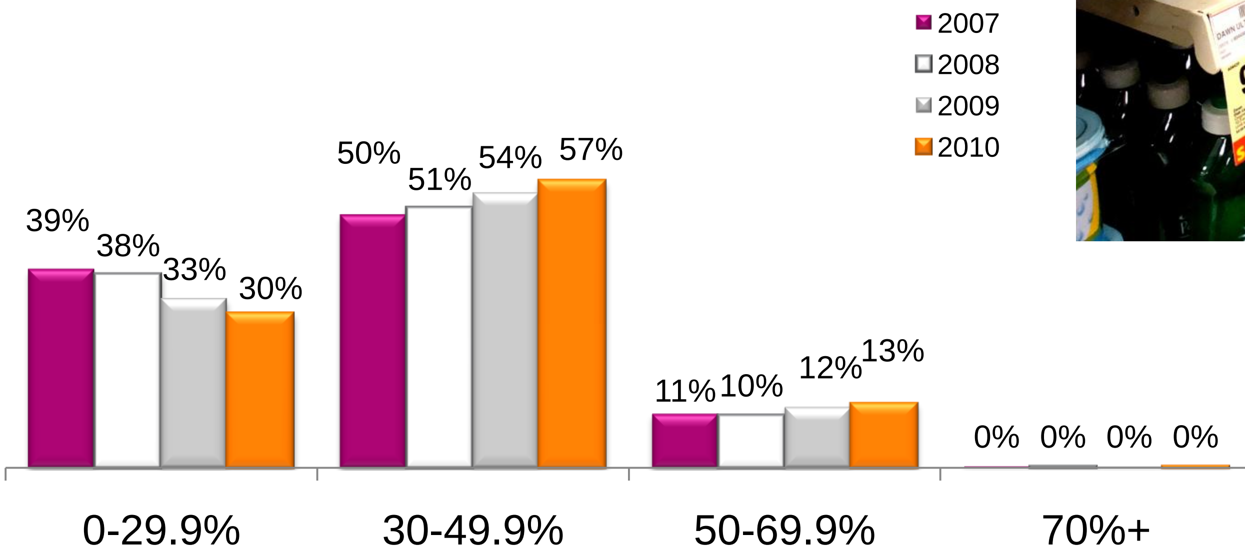
On average, 70% of CPG categories sell more than 30% of their volume with merchandising support.



Source: SymphonyIRI InfoScan Reviews™; 52 weeks ending 10/31/2010 and same period prior year, and calendar year 2007-2008

% of CPG Categories
by Merchandising Activity Level, 2007-2010

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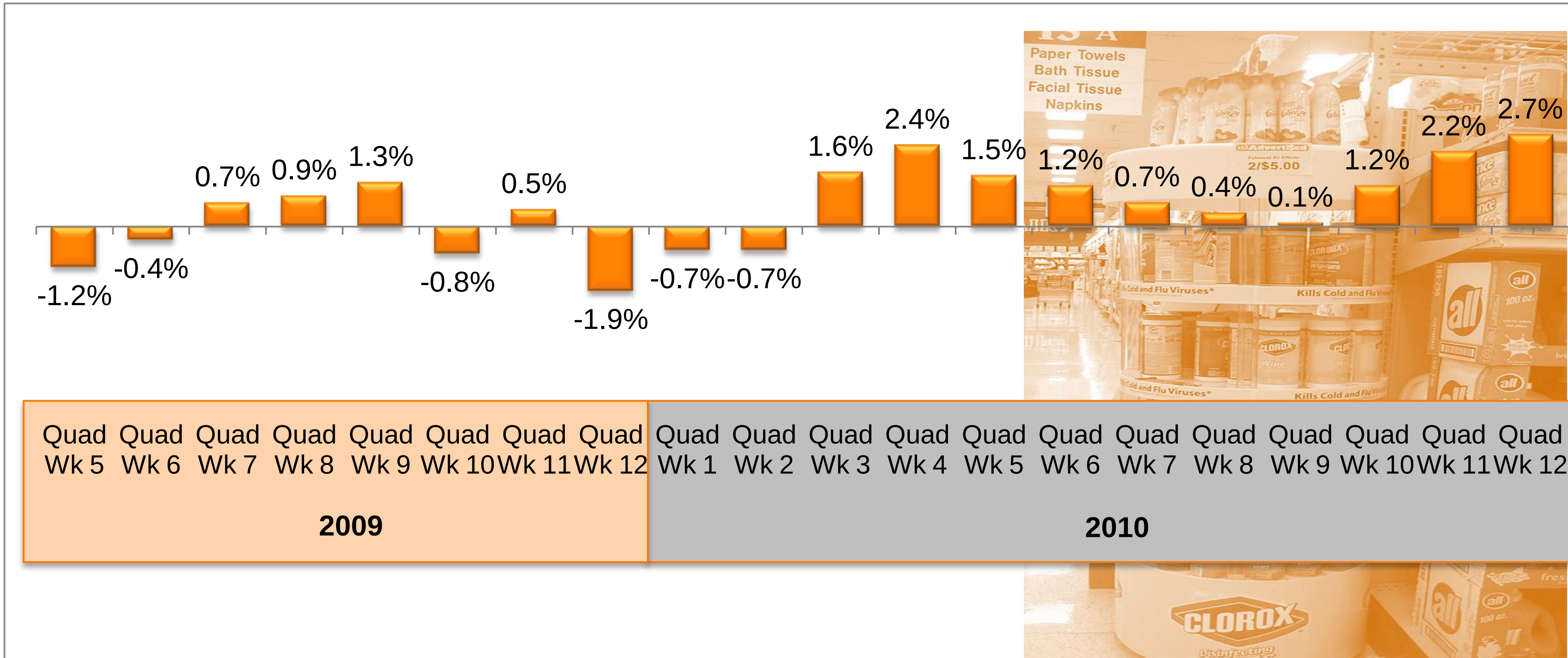
Grocery display growth trends escalated throughout much of 2010, generally outpacing trends seen in 2009.



Source: SymphonyIRI In-Store Solutions Group Perimeter View YTD Through 11/28/2010

Average Number of Grocery Channel Displays per Store per Week

%Change versus Prior Year by Quad Week

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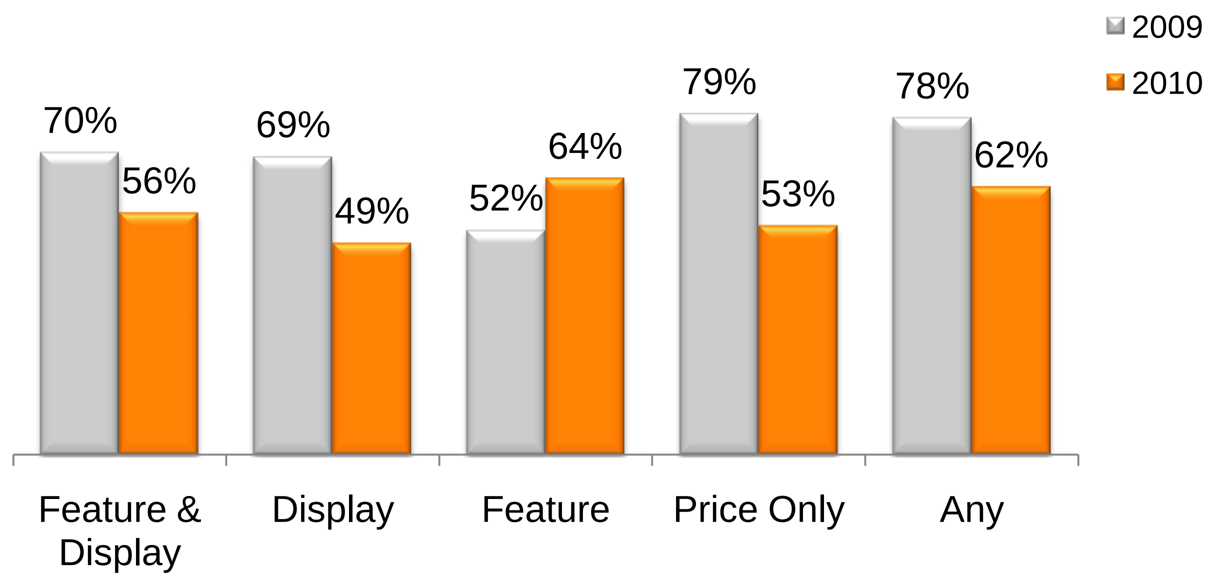
Despite a deceleration in merchandising activity, nearly two-thirds of CPG categories saw increased merchandising support in the past year.



Source: SymphonyIRI InfoScan Reviews™; 52 weeks ending 10/31/2010 and same period prior year, and calendar year 2009 versus prior year.

% of Categories with Increased Merchandising Activity

by Merchandising Tactic

Food, Drug & Mass Channels (Excluding Walmart**)**

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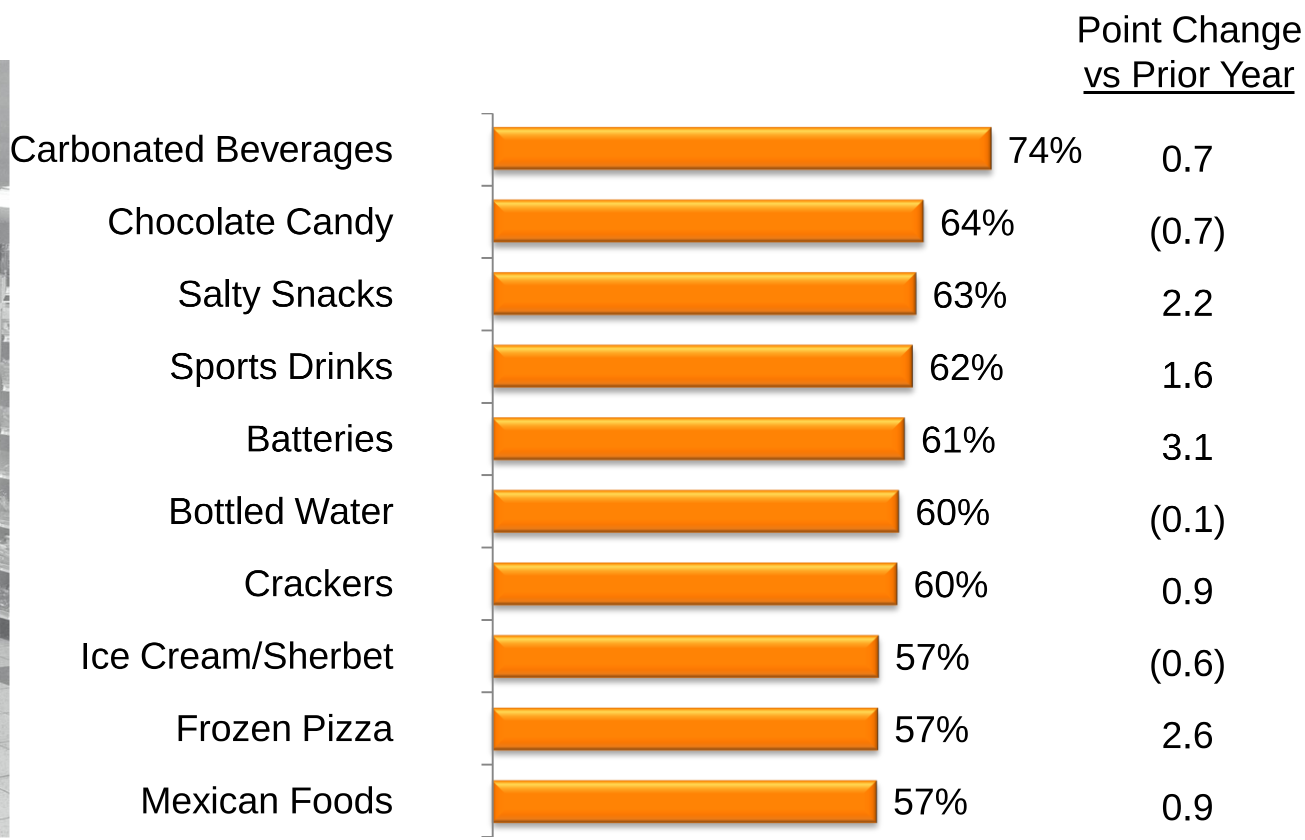
The ranks of the most heavily merchandised CPG categories are well-represented by discretionary categories.



Source: SymphonyIRI InfoScan Reviews™; 52 weeks ending 10/31/2010; Among top 100 categories

Top 10 Categories by Merchandising Activity Level

Food, Drug & Mass Channels (Excluding Walmart)

% Volume, Any Merchandising

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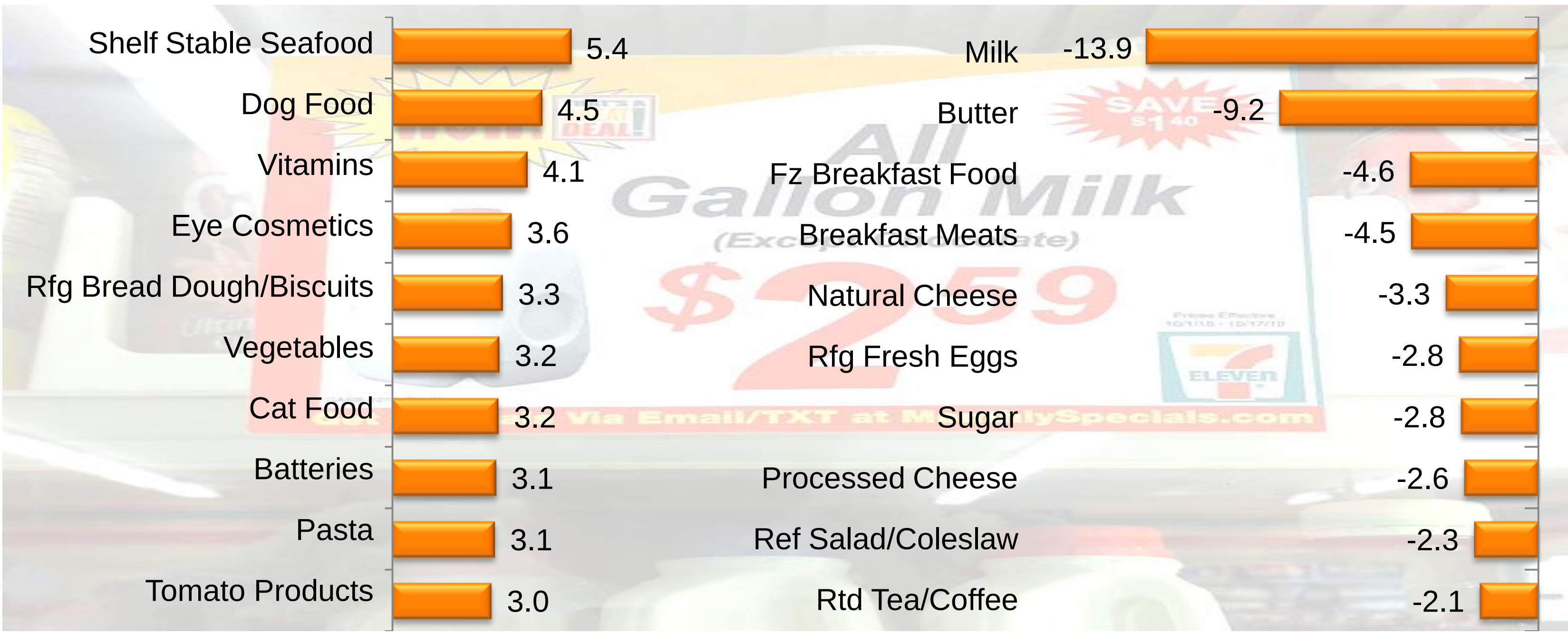
Merchandising support increased across a broad range of CPG categories, while dairy categories account for five of the 10 categories seeing the largest decreases.



Source: SymphonyIRI InfoScan Reviews™; 52 weeks ending 10/31/2010 versus same period prior year

CPG Categories with the Largest Increases/Decreases in Merchandising Activity Level

Food, Drug & Mass Channels (Excluding Walmart)

% Volume, Any Merchandising: Point Change vs Prior Year

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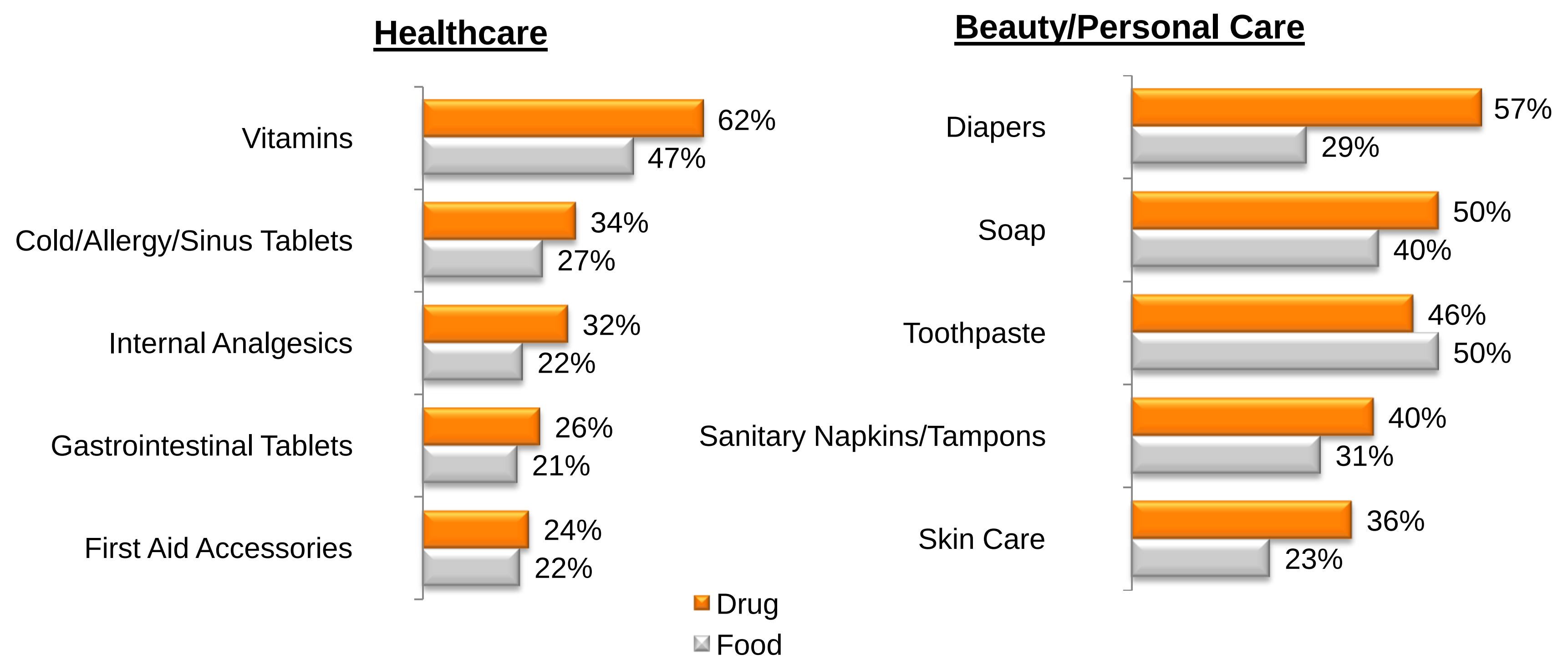
Across a majority of the top five categories in the healthcare and beauty/personal care departments, merchandising support is above average and on the rise.



Source: SymphonyIRI InfoScan Reviews™; 52 weeks ending 10/31/2010. Top five categories in each department, ranked by dollar sales, FDMx

% Volume, Any Merchandising
Among Leading Health & Beauty Care Categories
Drug vs Grocery Channel

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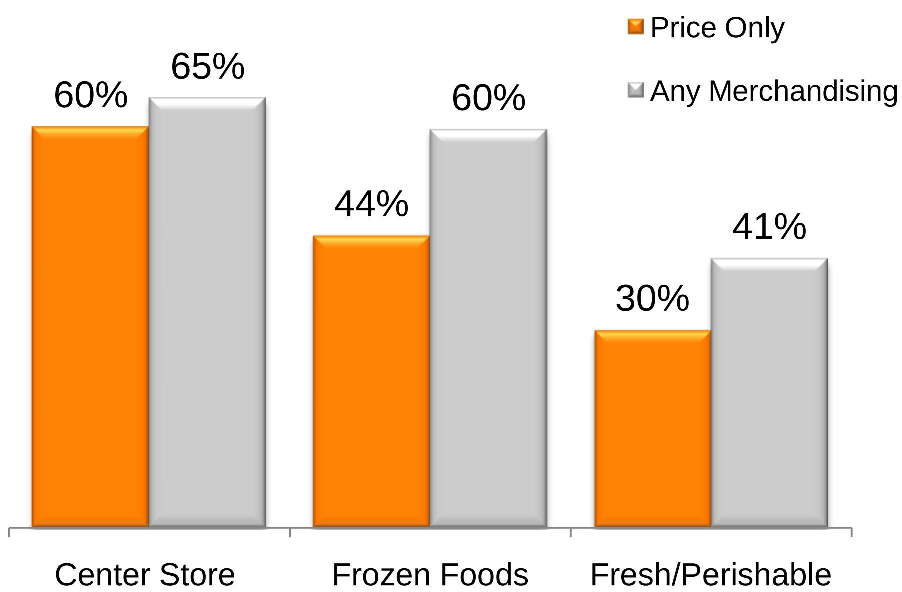
Merchandising support across key frozen, fresh/perishable and center store continues to escalate, and is heavily marked by price-only actions.



Source: SymphonyIRI InfoScan Reviews™; 52 weeks ending 10/31/2010

% of Categories with Increased Merchandising Activity
Among Fresh/Perishable, Frozen Foods and Center Store Categories Grocery Channel

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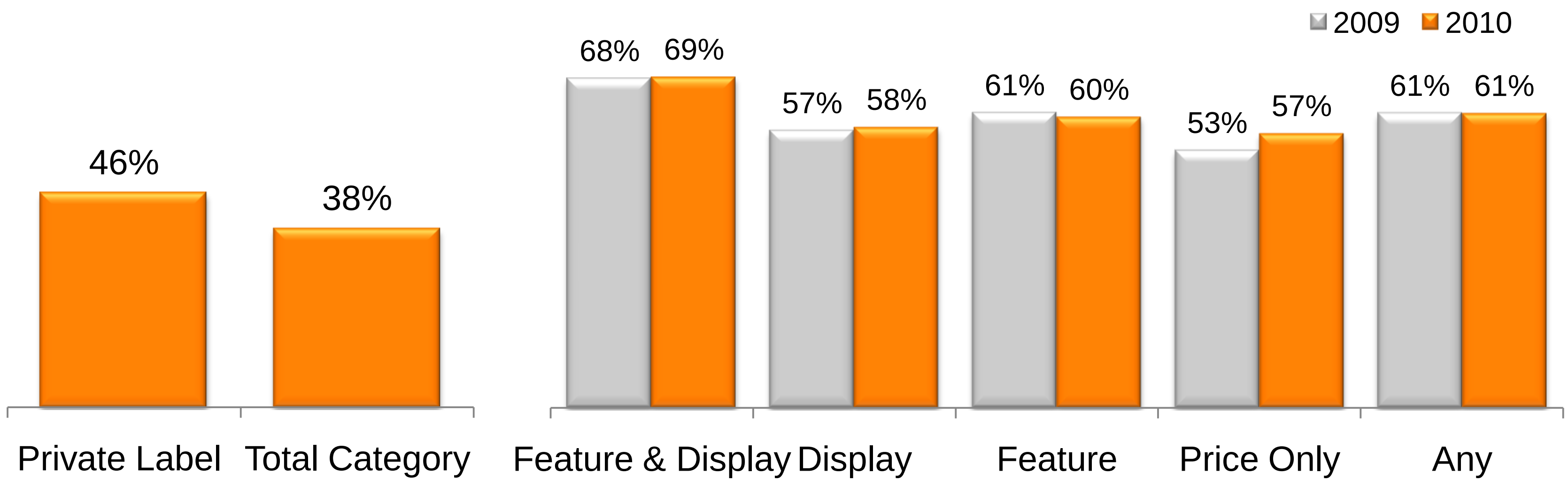
Private label receives lower-than-average support across nearly two-thirds of CPG categories and, in 46% of categories, merchandising activity declined during the past year.



Source: SymphonyIRI InfoScan Reviews™; 52 weeks ending 10/31/2010 and same period prior year

*Note: Based on % volume, any merchandising for total category versus private label

% CPG Categories
with Reduced
Merchandising Activity

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

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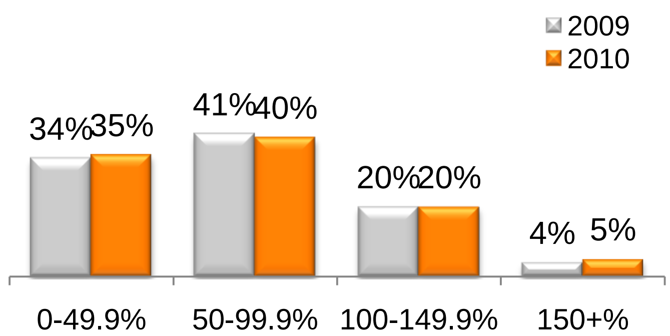
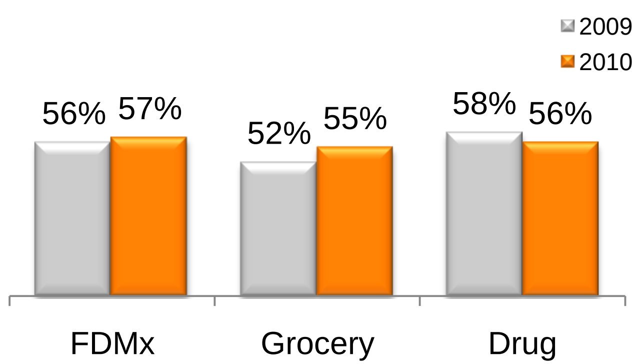
Despite consumers' intent focus on saving money and related "sale shopping" fervor, average merchandising lift changed very little during the past year.

% of CPG Categories by Average Merchandising Lift
2009 & 2010



% of CPG Categories with <u>Reduced</u> Merchandising Lift
2009 & 2010



Source: SymphonyIRI InfoScan Reviews™; 52 weeks ending 10/31/2010 and same period prior year

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In 2010, many of those categories achieving the highest lift from merchandising support are categories tied closely to consumers' home-based eating rituals.

	% Volume Increase w/ Any Merch. Support	% Volume w/ Any Merch.	Change in % Inc in Volume w/ Merch
Paper Towels	220%	53.2%	+9.2
Toilet Tissue	210%	52.0%	+6.6
Shelf Stable Seafood	190%	44.7%	+23.4
Breakfast Meats	182%	52.2%	(11.6)
Frankfurters	174%	53.3%	+4.0
Cold Cereal	164%	50.3%	+0.5
Baking Mixes	160%	49.2%	(6.0)
Shortening & Oil	156%	47.9%	+20.3
Coffee	152%	49.7%	+4.1
Chocolate Candy	152%	64.1%	(14.6)

Source: SymphonyIRI InfoScan Reviews™; 52 weeks ending 10/31/2010 versus same period prior year

Top 10 CPG Categories by Merchandising Lift
Food, Drug & Mass (Excluding Walmart)
2010

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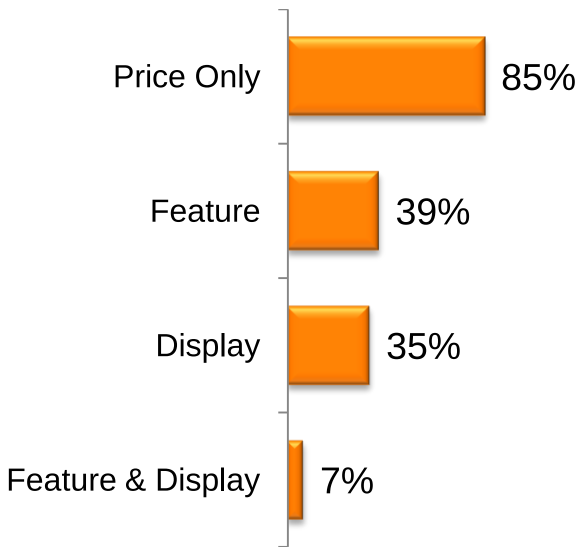
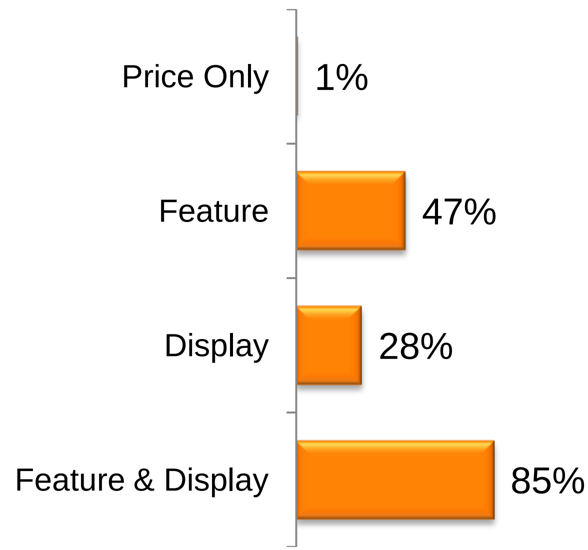
Despite the fact that feature support tends to produce the strongest lift results, use of feature tactics, with and without display support, remains relatively low.

% of Categories with at Least 10% of Volume with Tactic



% of Categories Achieving at Least 100% Lift with Tactic



Source: SymphonyIRI InfoScan Reviews™; 52 weeks ending 10/31/2010

Merchandising Activity & Lift by Tactic
Food, Drug & Mass Channels (Excluding Walmart)
2010

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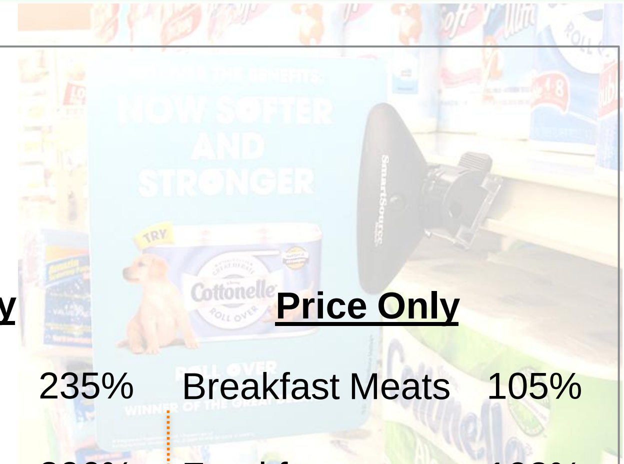
Response to merchandising support is particularly strong across key stock-up categories, and across those categories which support consumers' home-based food rituals.



Feature & Display		**Feature Only**		**Display Only**		**Price Only**	
SS Seafood	1,204%	SS Seafood	341%	SS Seafood	235%	Breakfast Meats	105%
Paper Towels	680%	Shortening & Oil	268%	Toilet Tissue	206%	Frankfurters	102%
Toilet Tissue	678%	Baking Mixes	257%	Chocolate Candy	182%	Chocolate Candy	95%
Shortening & Oil	675%	Paper Towels	242%	Can./Bot. Fruit	181%	Fz/Rfg Poultry	94%
Cold Cereal	674%	Breakfast Meats	238%	Cold Cereal	174%	Fz Seafood	83%

Source: SymphonyIRI InfoScan Reviews™; 52 weeks ending 10/31/2010; Among top 100 CPG categories

Categories Achieving the Highest Lift
by Merchandising Tactic

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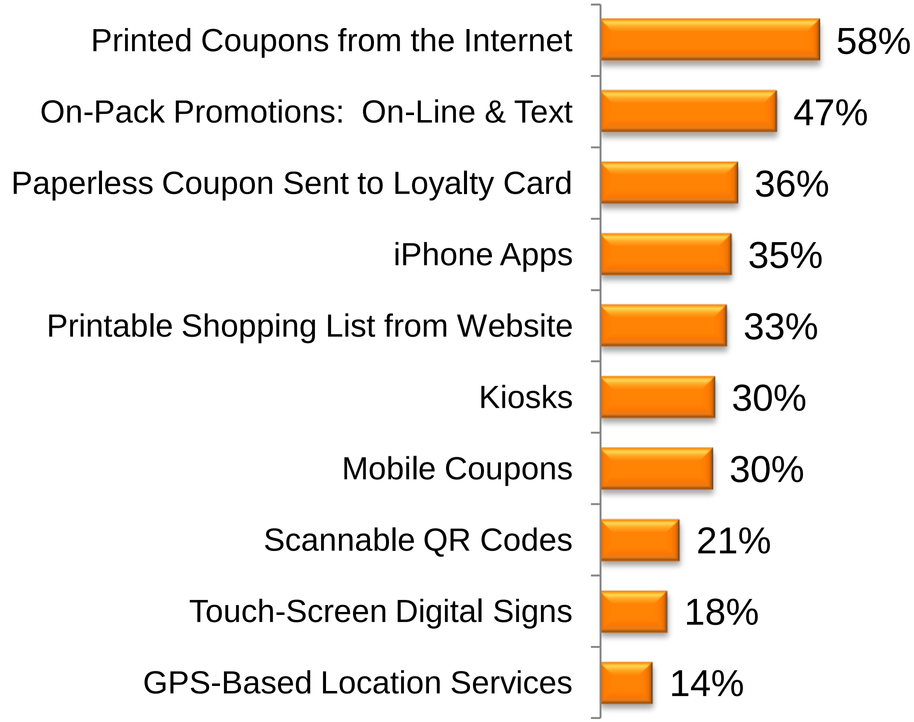
Shopper marketing, supported and empowered by advances in technology, will play a pivotal role in the world of CPG marketing for years to come.



Source: In-Store Marketing Institute, Shopper Marketing Trends Report 2011

Prevalent "Digital Shopper-Marketing" Tactics
as % Responding Companies Employing the Tactic

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Conclusions: Manufacturers

Identify new growth opportunities and threats

- Understand price elasticity of demand across key categories/brands and leverage that knowledge to develop and refine everyday and promotional pricing strategies
- Evaluate merchandising activity and lift across your brands versus total category and competitors across key retail partners to identify gaps
- 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 address market and store level shopping patterns and needs

- Continually re-evaluate pricing and merchandising initiatives to ensure alignment with partner goals/objectives as well as needs of key target consumers
- Focus on highly targeted, solutions-based merchandising programs that deliver against the needs and wants of key shopper segments at the market and/or store level

Continually measure and monitor pricing and merchandising executions and impact

- Monitor store-level merchandising performance and retail execution among key retail partners and adjust mid-path, as warranted
- Carefully test all pricing and merchandising initiatives at a micro level prior to roll out and then closely monitor impact of roll out

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Conclusions: Retailers

Identify new growth opportunities and threats

- Understand price elasticity of demand across key categories and leverage that knowledge to develop and refine everyday and promotional pricing strategies
- Continually evaluate response to merchandising initiatives vis-à-vis store sales, share of sales and consumer satisfaction, particularly across high-response categories
- Carefully monitor changing consumer dynamics to identify opportunities to build share and loyalty by cross-merchandising of relevant parallel categories/products

Work with key manufacturer partners to develop strategies that address market and store level shopping patterns and needs

- Build cross-merchandising/cross-promotional programs that make parallel products easier to locate/access
- Focus on highly targeted, solutions-based merchandising programs that deliver against the needs and wants of key shopper segments at the market and/or store level

Continually measure and monitor pricing and merchandising executions and impact

- Monitor merchandising programs at the store level for planned versus actual performance and adjust mid-path, as warranted
- Carefully test all pricing and merchandising initiatives at a micro level prior to roll out and then closely monitor impact of roll out

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