



Special Report **The Ripple Effect:**

High Gas Prices Bring Pain Beyond the Pump

Times & Trends
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SymphonyIRIGroup

Insight.
Innovation.
Impact.

Executive Summary

INSIGHT

Inflated gas prices and a slow and unsteady economic recovery have left many consumers struggling, and very apprehensive about near-term prospects for their financial health and security

- Provide value while slowly weaning consumers off the “buy on promotion only” mindset by leveraging predictive analytics to identify the ideal balance of price promotion and brand building programs

Despite high levels of promotional activity in recent months, CPG prices remain very close to recession-driven highs, and CPG unit sales growth is largely stagnant

- Conduct frequent price elasticity analyses before and after setting pricing strategies to anticipate and validate impact of price changes across key business metrics

At a macro level, trip frequency and average spend are declining, but shifting shopping patterns are driving mixed trend changes at the channel level

- Drive frequency and basket size with innovative, solutions-based messaging and merchandising reflective of key consumer rituals (ie, meal solutions, beauty/health care regimens)

Executive Summary

INSIGHT

Across CPG channels, trip missions are evolving as consumers turn to value channels for pantry stocking and closer-to-home drug channel outlets for fill-in trips

- Continually re-examine distribution and merchandising strategies to ensure close alignment with primary and target trip missions

Private label trends are showing signs of change, with dollar share growth slowing and unit share growth turning negative during the past several quarters

- Retailers should consider the power of a “halo” brand to drive awareness and affinity for private label offerings; manufacturers must continue to innovate across the value spectrum to protect and grow share

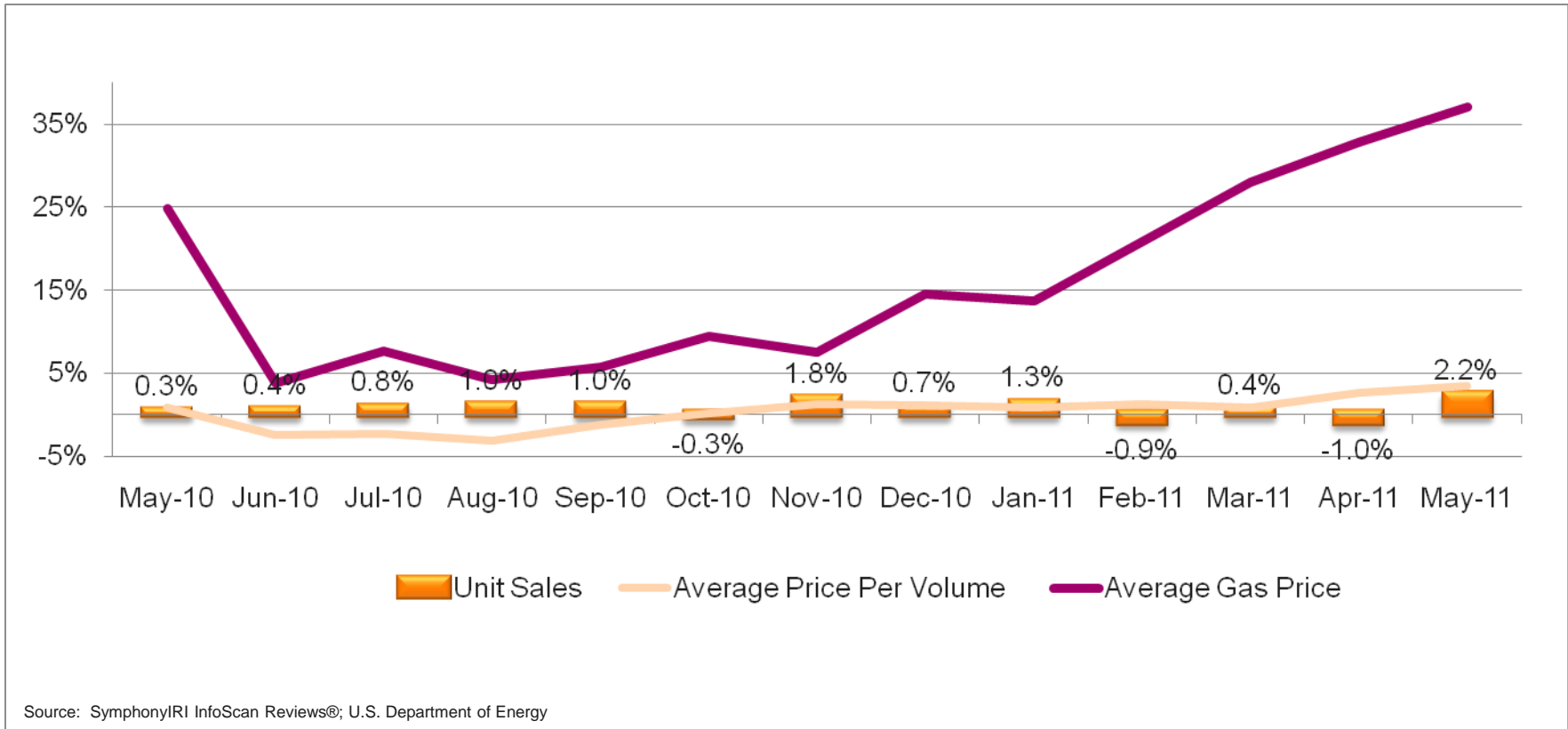
The U.S. economy continues its slow and not-so-steady march toward healthier footing.

Economic Measure	2008	2009	2010	2011
GDP (% chg)	2.6%	(1.3%)	3.9%	4.6%
Unemployment (% , SA)	5.8%	9.3%	9.9%	9.5%
Consumer Price Inflation (% Chg)	3.8%	(0.3%)	1.8%	2.1%
Retail Sales (% Chg)	-1.0%	(6.3%)	6.0%	5.7%
Residential Permits, Total (Mil)	3.58	2.33	2.71	4.21
Average Retail Gas Price	\$ 3.31	\$ 2.40	\$ 2.83	\$ 3.57

Source: Moody's Economy June 2011; Energy Information Administration. Note: 2011 gas price is average January through May, 2011; all others are full year.

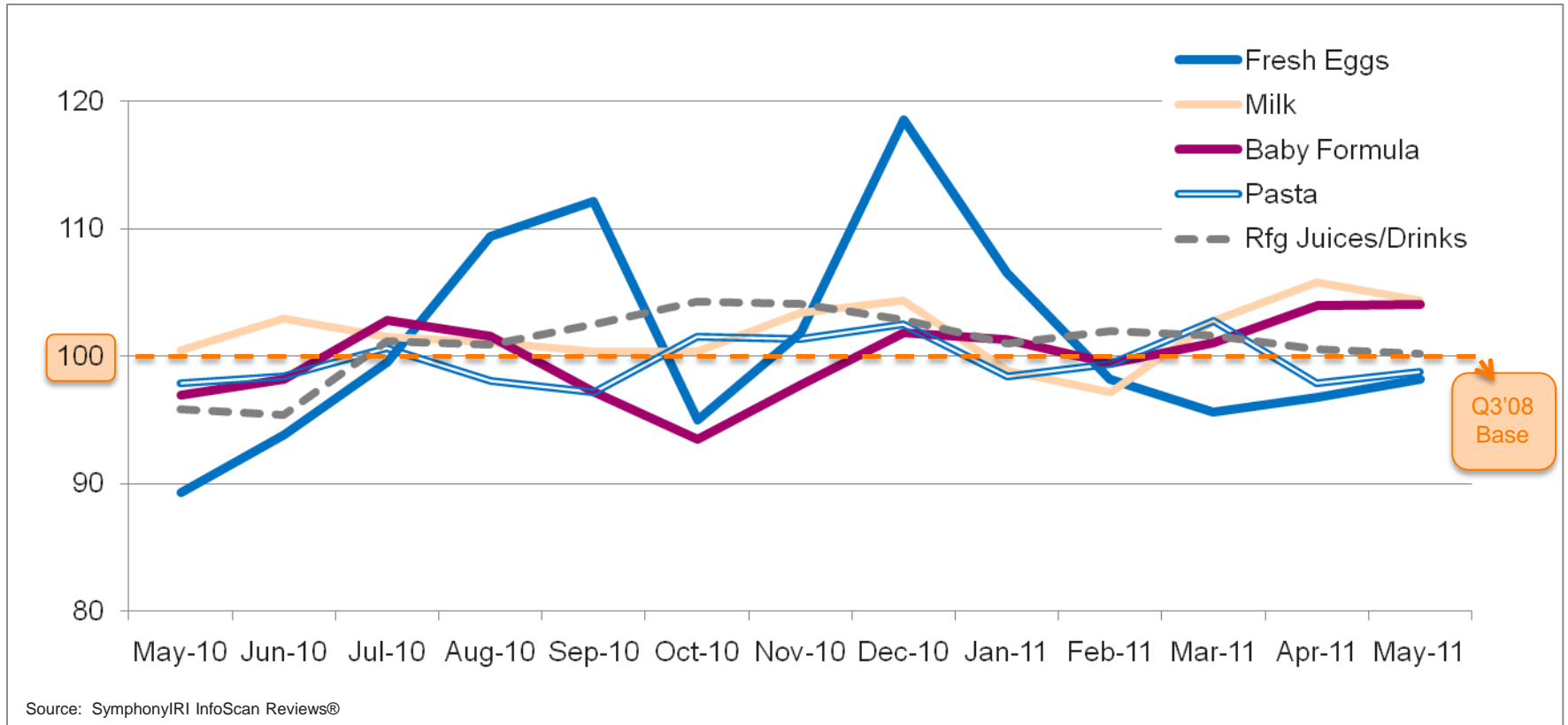
Economic Snapshot 2008-2011p

CPG unit sales trends are weak, but were not hit hard by the recent escalation in gas prices.



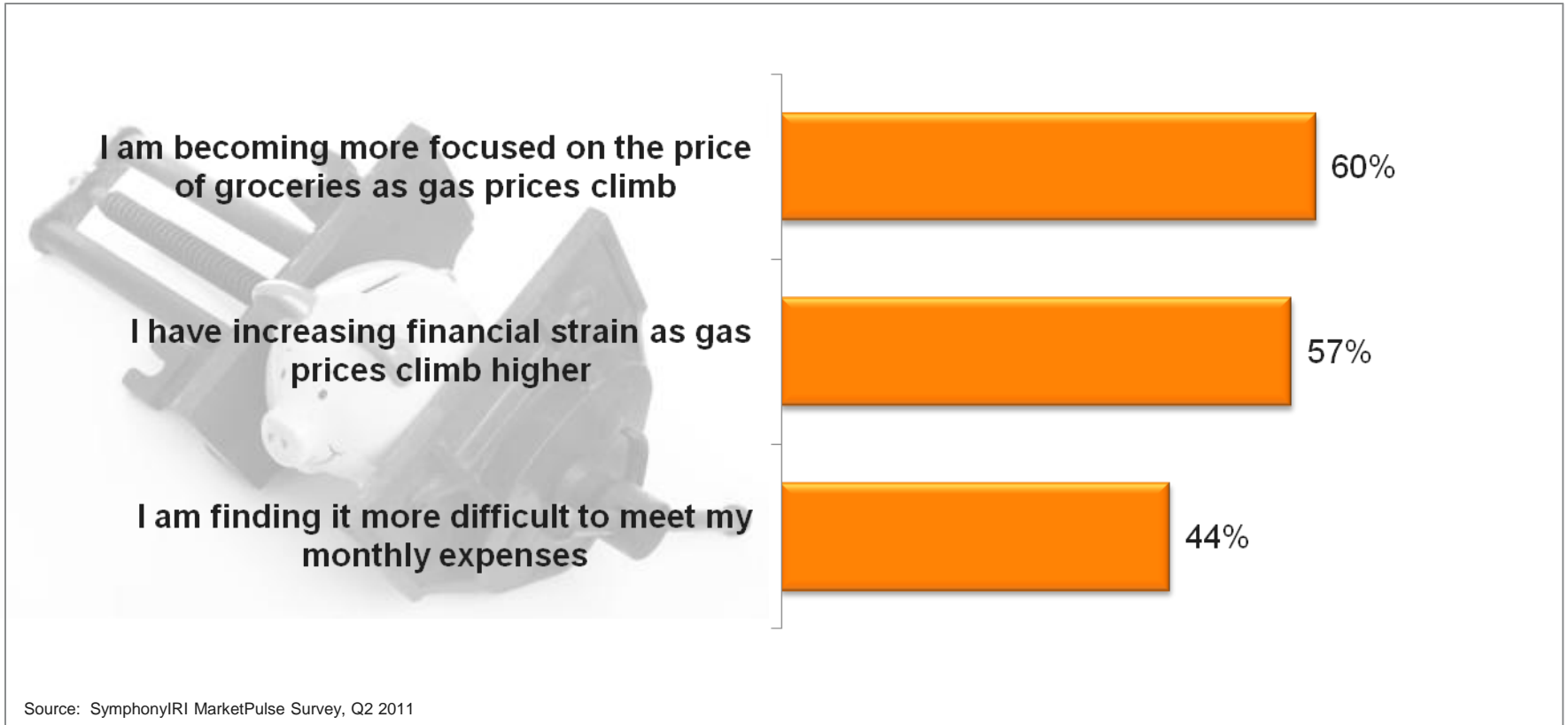
Pricing and Unit Sales Trends
 % Change versus Same Period Year Ago

Despite high levels of competition and promotional activity, CPG prices have not really subsided from the highs seen in 2008.



Price Index versus Q3 2008 Base
Index Average= 100

Gas is a major line item in most consumers' budgets, and high gas prices are creating financial strain among many already cash-strapped shoppers.



Impact of Rising Gas Prices on Consumer Finances
% of Consumers

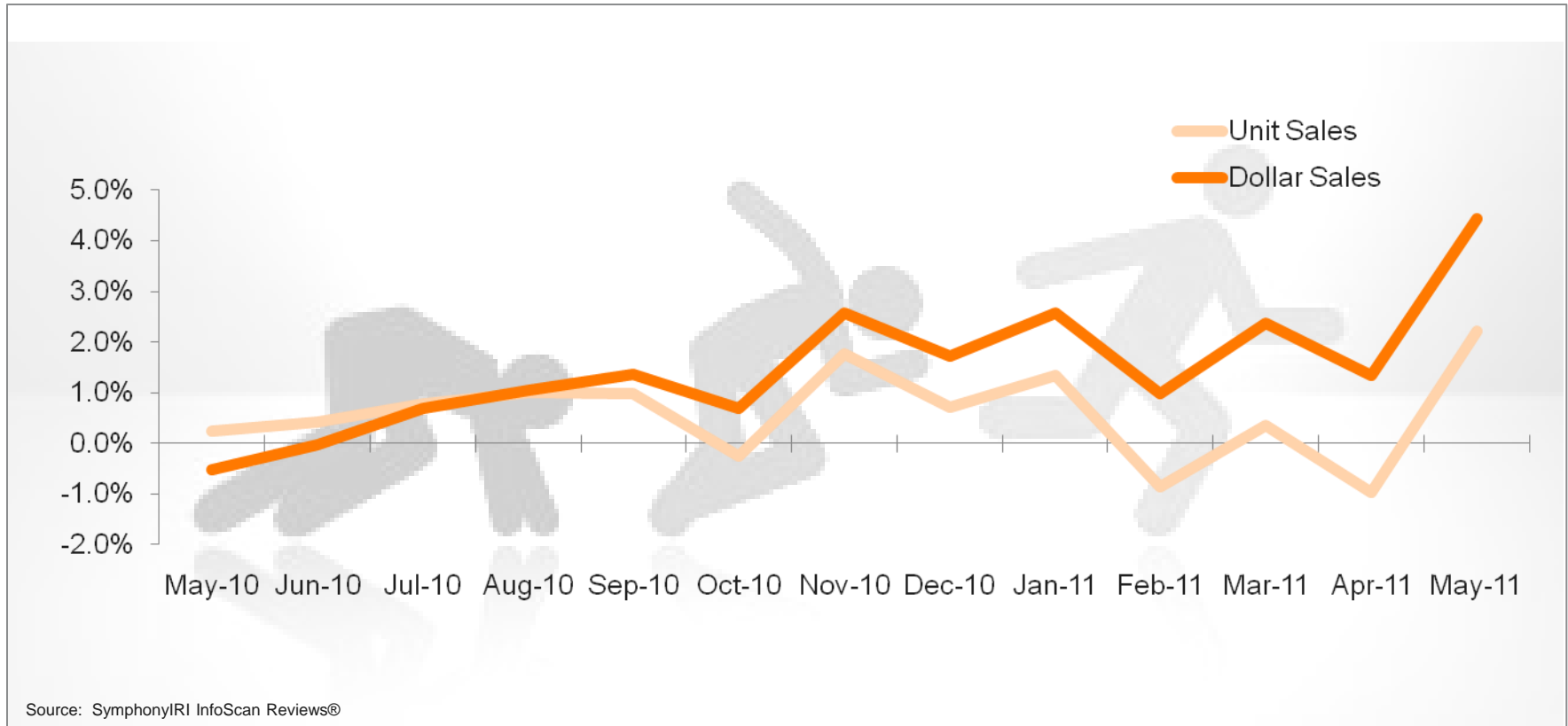
High gas prices are having a major impact on consumer shopping patterns.



Source: SymphonyIRI MarketPulse Survey, Q2 2011

Impact of Rising Gas Prices on Consumer Shopping Behavior % of Consumers

In the midst of all that has happened in the past year, the CPG industry has been slowly trending northward.



Total CPG Dollar & Unit Sales
FDMx- % Change versus Prior Year by Quarter

“Treasure-hunt” shopping is pervasive, and is making a sizable impact on channel share trends.

	Grocery		Drug		Mass/Super		Club		Dollar	
	Q1	Q2	Q1	Q2	Q1	Q2	Q1	Q2	Q1	Q2
Beauty	+0.5	+0.6	+1.2	+1.3	-1.5	-1.9	-0.2	-0.1	0.0	-0.1
Beverages	0.0	+0.3	0.0	+0.1	-0.7	-1.8	0.0	+0.7	+0.1	+0.1
Frozen	+0.9	+0.9	+0.1	+0.1	-1.0	-1.0	+0.2	-0.1	0.0	0.0
General Food	+0.3	-0.4	+0.2	+0.1	-0.7	-0.6	0.0	+0.5	+0.1	+0.1
General Merchandise	+0.3	+0.1	0.0	-0.2	-1.6	-1.9	+0.3	+0.8	+0.2	+0.2
Healthcare	+0.7	+0.5	+1.8	+1.3	-1.7	-1.5	-0.7	-1.0	0.0	+0.1
Home Care	+0.9	+0.7	+0.1	+0.4	-1.1	-0.9	-0.1	-1.1	+0.3	+0.6
Refrigerated	+0.1	-0.4	0.0	0.0	-0.9	-0.6	+0.8	+0.8	0.0	+0.1

Source: SymphonyIRI Consumer Network®, Shopper Insights Advantage™ (SIA) Quarterly Data through 13 Weeks Ending 5/8/2011 versus same period prior year

Dollar Share Point Change by Channel by Department
Q1 2011 & Q2 2011 versus Same Periods Prior Year

Though, at a macro level, trip mission trends have changed very little in 2011, important channel level shifts are occurring.

	Pantry Stocking		Fill-In		Special Purpose		Quick Trip	
	Q1	Q2	Q1	Q2	Q1	Q2	Q1	Q2
All Outlet	-0.1	0.0	0.0	+0.1	0.0	-0.1	+0.1	0.0
Grocery	-0.1	-0.5	0.0	+0.2	0.0	+0.1	-0.1	+0.02
Drug	-0.1	-0.1	+1.9	+0.2	-0.4	-0.1	-1.3	-0.1
Super	-0.9	0.0	+0.1	+0.1	+0.5	0.0	+0.2	-0.1
Mass	+2.0	+1.7	-0.9	-0.2	-1.7	-1.7	+0.6	+0.1
Club	+1.9	+2.5	-0.4	-0.2	-0.3	-0.7	-1.2	-1.5
Dollar	-0.9	-0.4	-0.2	-0.4	+0.3	-0.1	+0.7	+0.9

Source: SymphonyIRI Consumer Network®, Shopper Insights Advantage™ (SIA) Quarterly Data through 13 Weeks Ending 5/8/2011 versus same period prior year

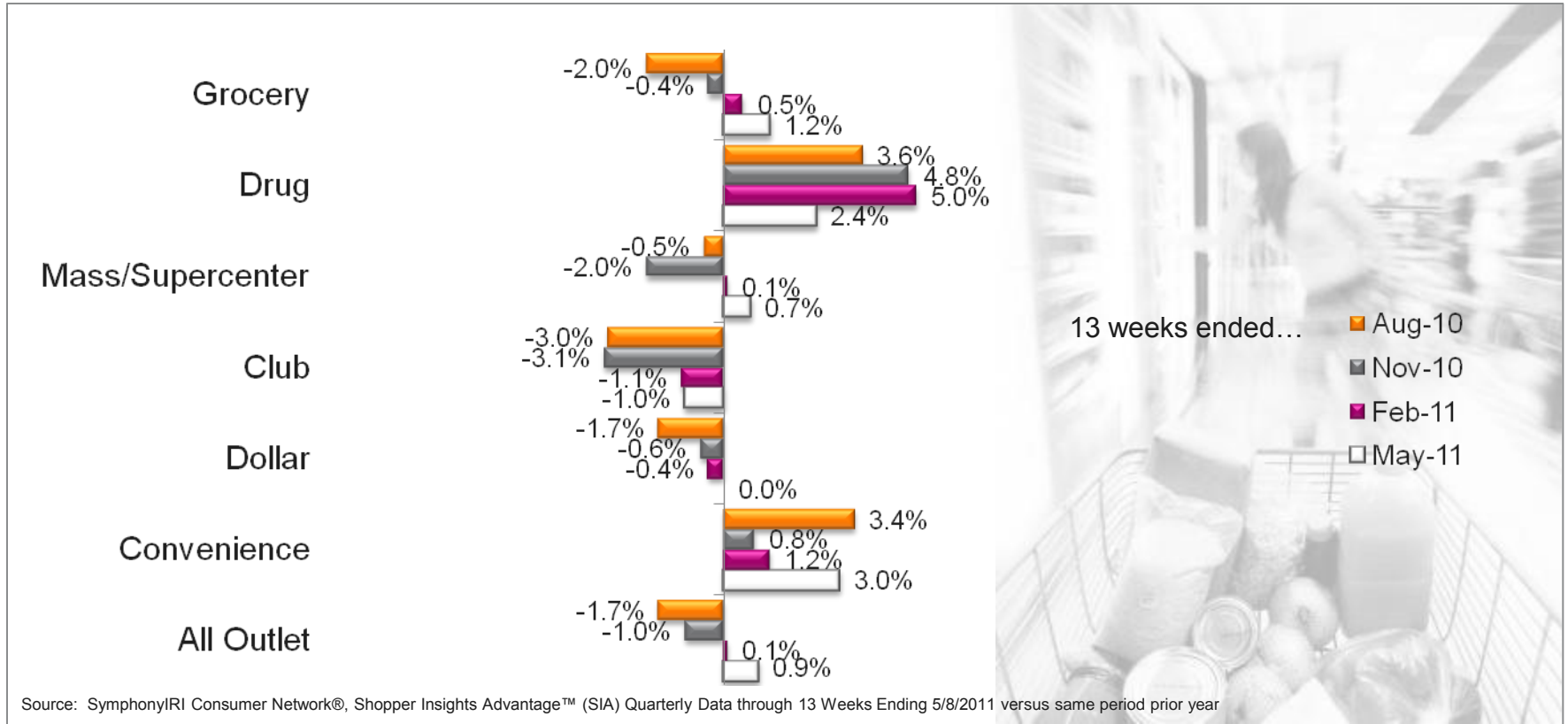
Trip Mission as % Total Channel CPG Dollar Sales Q1 2011 & Q2 2011 versus Same Periods Prior Year

Channel level purchase frequency trends are mixed, with the strongest performance in dollar and club channels, and the weakest in convenience and mass/supercenter.



Purchase Occasions per Household
 % Change versus Prior Year by Quarter

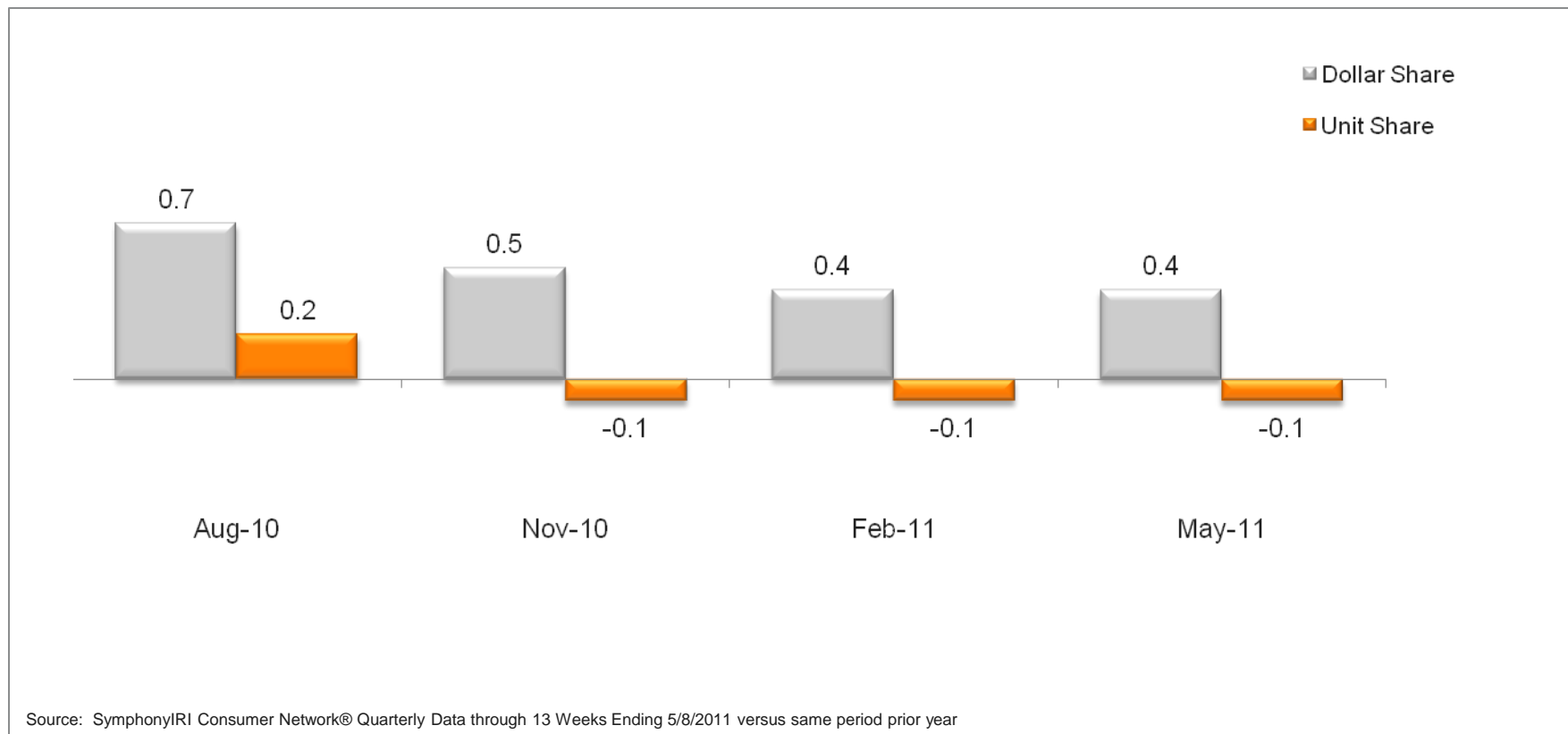
In recent quarters, per trip spending climbed in the convenience and drug channels, with drug outperforming the industry average and other channels by a wide margin.



Source: SymphonyIRI Consumer Network®, Shopper Insights Advantage™ (SIA) Quarterly Data through 13 Weeks Ending 5/8/2011 versus same period prior year

Dollars per Purchase Occasion
 % Change versus Prior Year by Quarter

Private label share trends during the past year are showing signs of change, with dollar share growth slowing, and unit share taking a negative turn.



Private Label Share Change All Outlet Point Change versus Prior Year by Quarter

Conclusions: Manufacturers

Market Assessment

- Closely monitor leading indicators of economic performance, and be prepared to adjust strategies in near-real time to capitalize on opportunities/mediate threats
- Conduct frequent and granular assessments of key and target consumer groups in order to improve responsiveness and speed-to-market opportunities
- Update segmentation schemes in light of economic transformation

Strategy Development and Execution

- Leverage predictive analytics to balance the need for brand building versus price/value positioning
- Develop a private label risk mitigation strategy, focused on own and competing categories where private label threat is strong or growing
- Ensure distribution, assortment and merchandising support efforts are closely aligned with shifting trip mission trends

Measurement

- Leverage modeling/simulation to gain perspective on cause-and-effect prior to rolling out new marketing strategies
- Monitor actual versus expected impact frequently after rollout
- Track impact of initiatives on key business drivers on an ongoing basis

Conclusions: Retailers

Market Assessment

- Closely monitor leading indicators of economic performance, and be prepared to adjust strategies in near-real time to capitalize on opportunities/mediate threats
- Conduct frequent and granular assessments of key and target consumer groups in order to improve responsiveness and speed-to-market opportunities
- Invest to understand consumer attitudes and behaviors across departments/ categories where private label position is particularly strong/weak to identify opportunities for expansion and/or improved performance

Strategy Development and Execution

- Leverage predictive analytics to balance the need for brand building versus price/value positioning
- Invest in creating a “halo brand” to drive private label growth, and further develop multi-tiered private label lines, ensuring a strong value brand for lower-income consumers
- Understand trip shift dynamics across income segments and the specific value proposition offered by competing retailers for each segment

Measurement

- Leverage modeling/simulation to gain perspective on cause-and-effect prior to rolling out new marketing strategies
- Monitor actual versus expected impact frequently after rollout
- Track impact of initiatives on key business drivers on an ongoing basis