Sustainability: CPG Marketing in a Green World

IRI Times & Trends: February 2009

IRI Breakthrough Insights. Breakthrough Results.

Highlights

INSIGHT	ACTION
» Despite adverse economic conditions, “green” shopping is penetrating new consumer segments; these new adopters are key drivers of industry growth	» Broaden merchandising solution consideration sets through cross-merchandising and cross-marketing programs around newer, more innovative product options
» Green spending patterns are closely tied with consumers’ core values, and vary markedly across consumer segments	» Understand core values across key consumer segments; align product assortment and merchandising programs accordingly
» Organic and fair trade products are gaining momentum and contributing significantly to the growth of the sustainability-focused segment of the CPG industry	» Re-assess product development priorities, as well as local market assortments in relation to shifting consumer priorities

Highlights

INSIGHT

- Key green consumer segments demonstrate disparate views of nutrition as a driver of food purchase decisions
- Retailers' private label offerings have established a solid reputation in the CPG arena; as sustainability initiatives further permeate CPG, retailers are likely to extend store-brand product lines touting earth-friendly and natural/organic attributes

ACTION

- CPG food marketers must conduct frequent and granular consumer assessments in order to anticipate and proactively address changing consumer attitudes
- Across key product segments, retailers must identify the most critical categories for their high-potential consumer segments; solutions-based merchandising with a clear value proposition will win shopper loyalty

Overview

Key driving and mitigating factors of purchase behavior vary across green consumer segments.

Eco-Centrics

- Engage in a wide variety of green activities
- Well-informed and actively involved
- Willing to pay more for eco-friendly products

Respectful Stewards

- Community and culturally focused
- Idealistic
- Willing to pay more for eco-friendly products

Proud Traditionalists

- Hard-working; focused on family
- Run environmentally responsible homes
- Experiment with eco-friendly products

Frugal Earth Mothers

- Prudent, lower-income women
- Save money wherever possible
- Focused on "good and wholesome"

Skeptical Individualists

- Highly educated, high-income men
- Not community- or spiritually-focused
- Skeptical about corporate green initiatives

Eco-Chic

- Young adults- see green as new and hip
- Impulse buyers and early adopters
- Like "the cause" but haven't considered the state of the environment in-depth

Green Naives

- Young, lower-income shoppers
- Have not registered cause/effect of environmental responsibility

Eco-Villains

- Middle income men; small/mid-sized metro areas
- Black-and-white perspective
- Have dismissed environmental concerns outright; do not seek eco-friendly products

Source: TNS Shades of Green Segmentation

Overview

Understanding demographically-driven nuances of environmental awareness and commitment is critical to the development of relevant CPG products and promotional programs.

	Male	Female	Average Age	Ethnicity	Household Income
Eco-Centric	34%	66%	45.9	77% Caucasian	33% >100K
Respectful Stewards	41%	59%	41.7	86% Hispanic	38% <$35K
Proud Traditionalist	65%	35%	48.6	94% Caucasian	52% $35K-$100K
Frugal Earth Mothers	23%	77%	48.3	85% Caucasian	100% <$100K
Skeptical Individualists	67%	33%	37.7	81% Caucasian (10% Asian)	41% >$100K
Eco-Chic	56%	44%	38.5	75% Caucasian	100% <$100K
Green Naives	24%	76%	38.4	56% Caucasian (27% African American)	100%<$100K (skews to lower end)
Eco-Villans	70%	30%	43.2	87% Caucasian	100% <$100K

Source: TNS Shades of Green Segmentation

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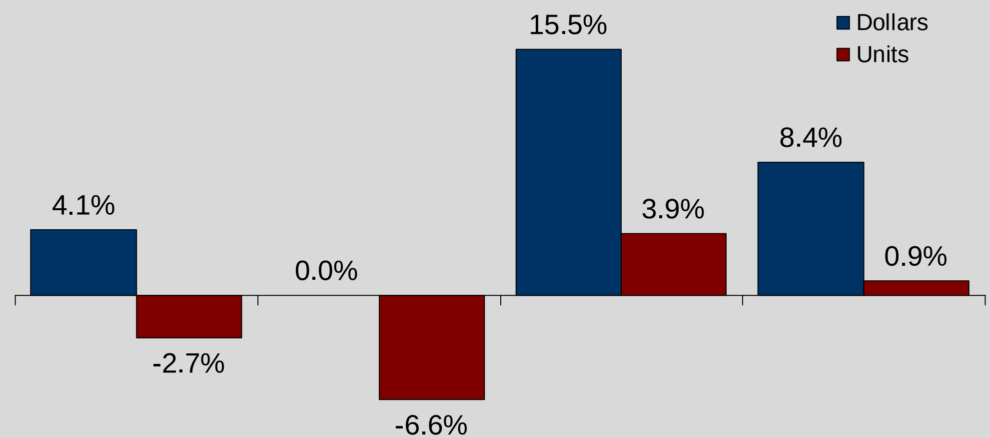
Industry Performance

“Less green” consumer segments are climbing the green adoption curve, and spurring growth of eco-friendly products despite adverse economic conditions.

Key Green Categories: Dollar & Unit Sales, % Change versus Year Ago
All Outlet
2009 vs 2008



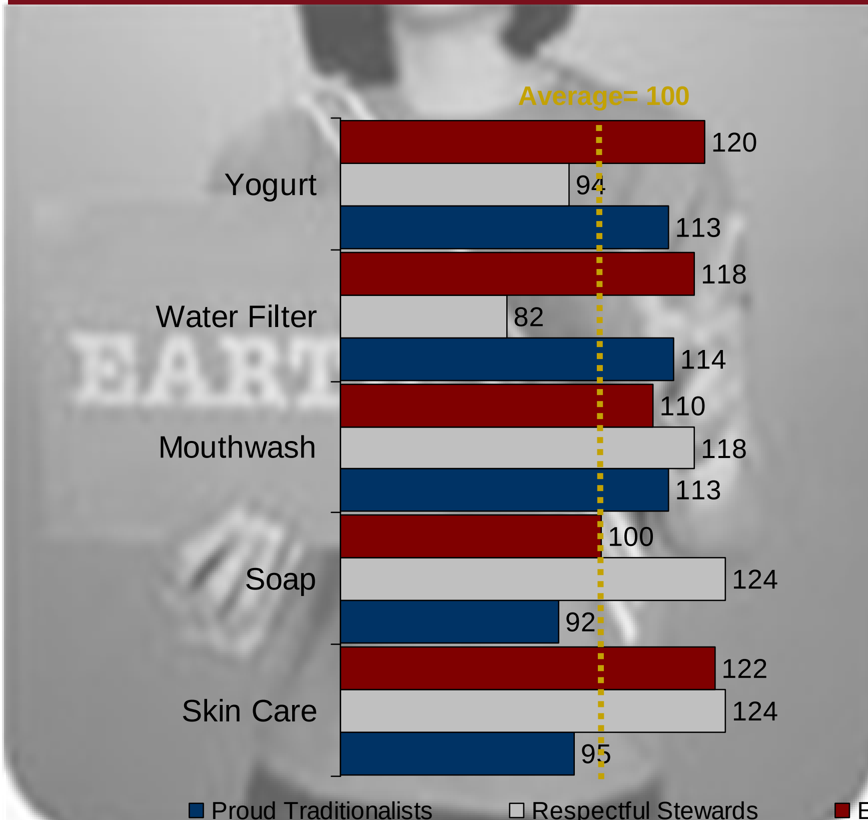
	Total Panel	Eco-Centric	Respectful Stewards	Proud Traditionalists
Green Spending as % Total Reviews	15.1%	15.7%	14.8%	15.2%

Source: IRI Consumer Network Panel 52 w/e 1/25/2009, profiled using TNS' Shades of Green Segmentation

Growth Trends

Category-level analysis reveals spending patterns tie closely with green consumers' core values.

Top Growing Green Categories* Spending Index
All Outlet (Average= 100)
2009



Point Change vs Year Ago

Eco-Centric	Respectful Stewards	Proud Traditionalists
(5.9)	(9.6)	+6.7
+6.5	(5.3)	+6.5
(7.4)	+39.8	(2.5)
+0.2	+3.9	(2.6)
(5.8)	+26.5	(6.9)

Source: IRI Consumer Network Panel 52 w/e 1/25/2009, profiled using TNS' Shades of Green Segmentation. *Among IRI categories identified as key green categories; Growth= unit sales change versus prior year.

Purchase Decision Criteria

CPG marketers must maintain a clear understanding of changing consumer attitudes toward the environment, and the impact of those attitudes on shopping behaviors.

% of Consumers That Make Food Selection Based on Nutritional Benefits By Green Segment

Eco-Centrics	73%
Respectful Stewards	65%
Skeptical Individualists	53%
Eco-Chic	50%
Frugal Earth Mothers	50%
Proud Traditionalists	49%
Green Naives	45%
Eco-Villains	42%
All U.S. Shoppers	53%

Index to Total U.S.

139

123

100

94

95

93

86

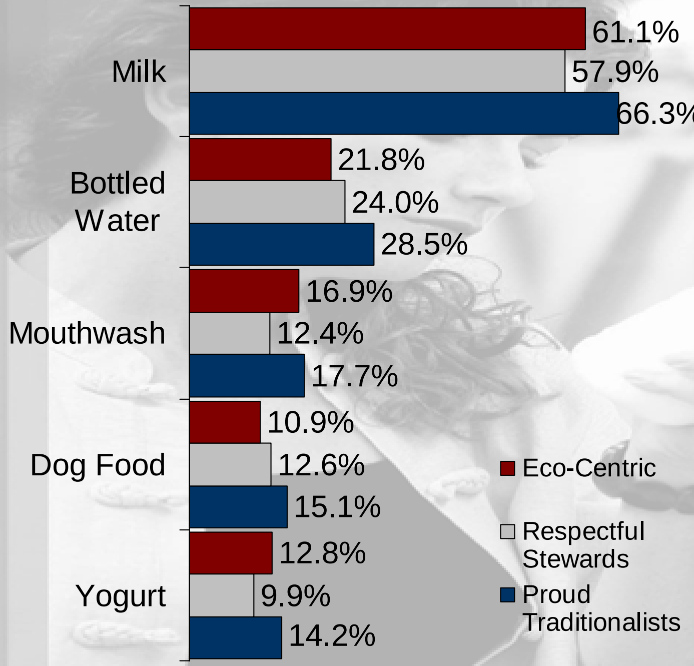
79

Source: TNS Shopper360™

Purchase Behavior: Private Label

As sustainability initiatives further permeate CPG, retailers are likely to step up availability of earth-friendly private label offerings.

Green Categories* With Largest Private Label Share-By Green Segment
All Outlet- 2009



Point Change vs Year Ago

	Eco-Centric	Respectful Stewards	Proud Traditionalists
Milk	+1.9	(2.0)	+1.0
Bottled Water	(0.9)	(2.8)	+1.7
Mouthwash	+3.6	(4.8)	+3.1
Dog Food	+1.6	+2.9	+2.2
Yogurt	+1.1	(0.6)	(2.9)

Source: IRI Consumer Network Panel 52 w/e 1/25/2009, profiled using TNS' Shades of Green Segmentation. *Among IRI categories identified as key green categories, ranked by dollar sales.

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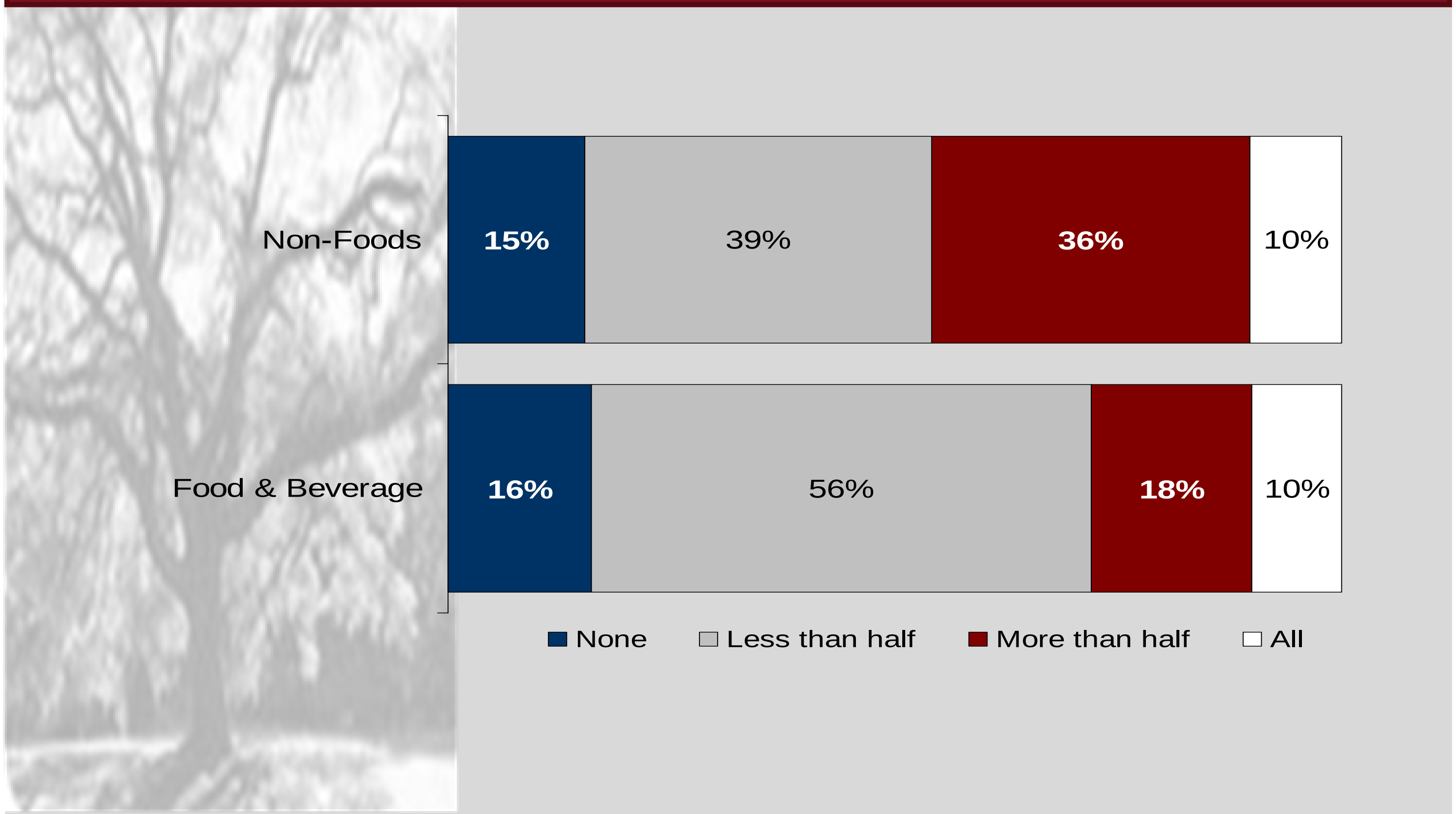
Growth Opportunities

85% of food and beverage companies are employing practices which promote environmental sustainability.

2008 Percent of Projects Which Employed Practices Promoting Environmental Sustainability



Source: In-Store Marketing Institute/Shopper Marketing. Note: Non-foods includes household items, pet foods, HBC products, cosmetics and OTC drugs.

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Growth Opportunities

CPG manufacturers are reassessing all aspects of the packaging process to identify opportunities to streamline packaging and improve transportation and storage efficiencies.

Packaging Reduction Initiatives
Key Focus Areas

Packaging Component		Eco-Friendly Alternatives
Layered Packaging	→	Convert Bag-in-a-Box to Pouch-Only
Polyethylene Terephthalate	→	Reduce Wall Thickness and/or Modify Shape
Steel and Aluminum Cans	→	Reduce Thickness/ Concentrated Formulas
Secondary Packaging	→	Switch from Corrugate Trays to Corrugate Linings/ Stackable Packaging
Tertiary Packaging	→	Replace Wooden Pallets with Slip Sheets

Source: Adapted from Food & Beverage Packaging, 9/1/2008

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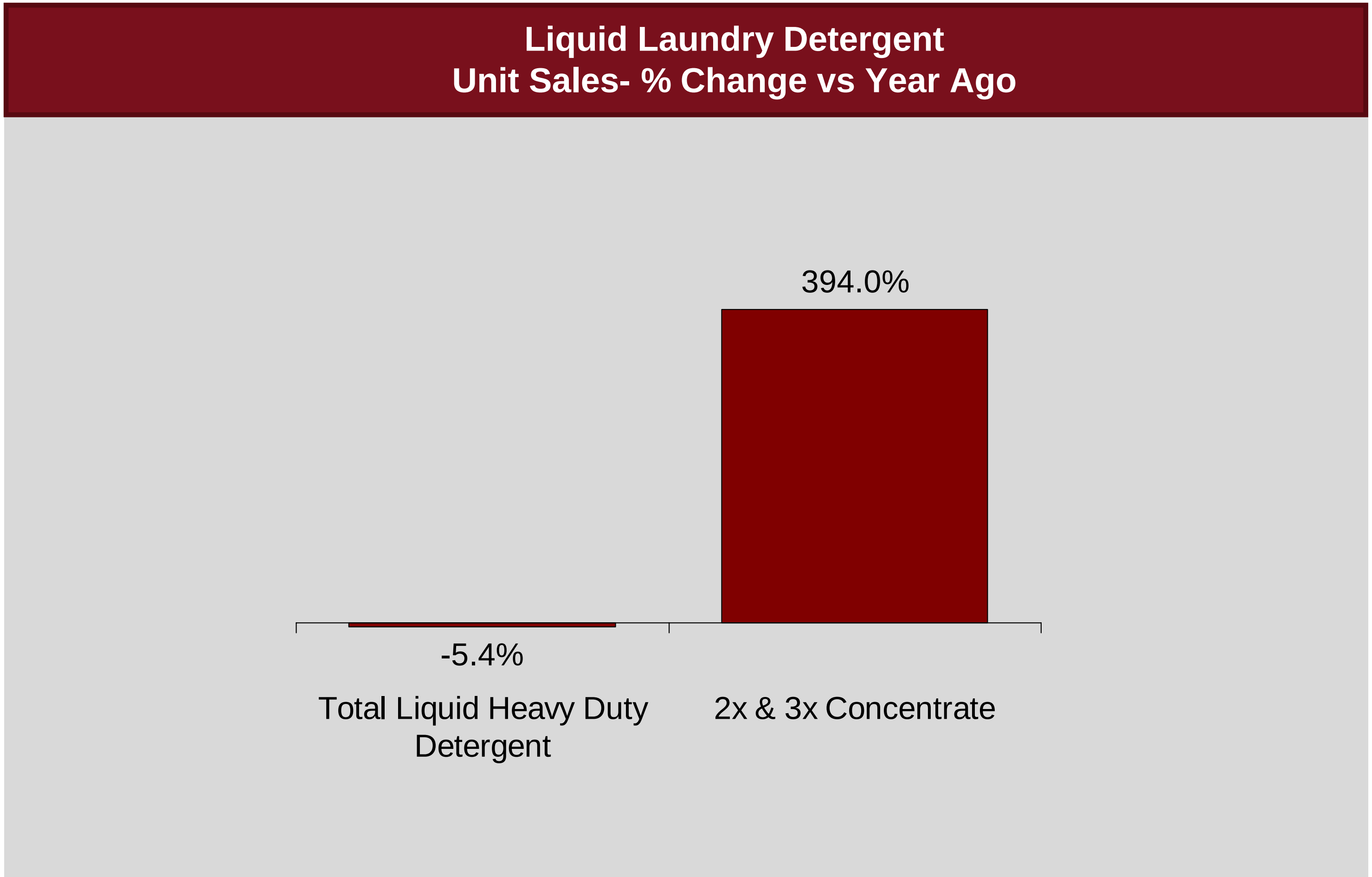
Growth Opportunities

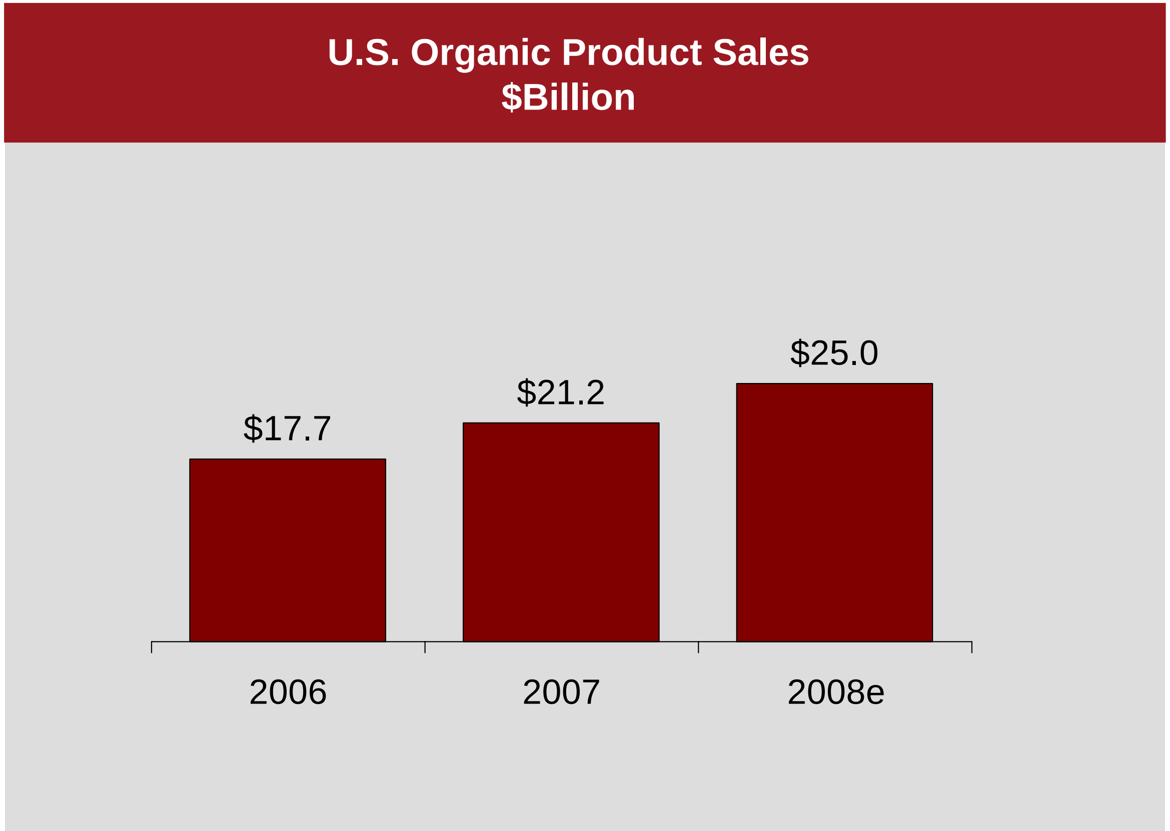
Products from cleaning supplies to beverages are being concentrated to minimize environmental impact and maximize consumer appeal.



Source: IRI InfoScan Reviews™, 52 weeks ended 1/25/2009 and same period prior year

Growth Opportunities

Growth of organic products is strong, and significant upward potential remains.



Source: Organic Trade Association's 2007 Manufacturer Survey

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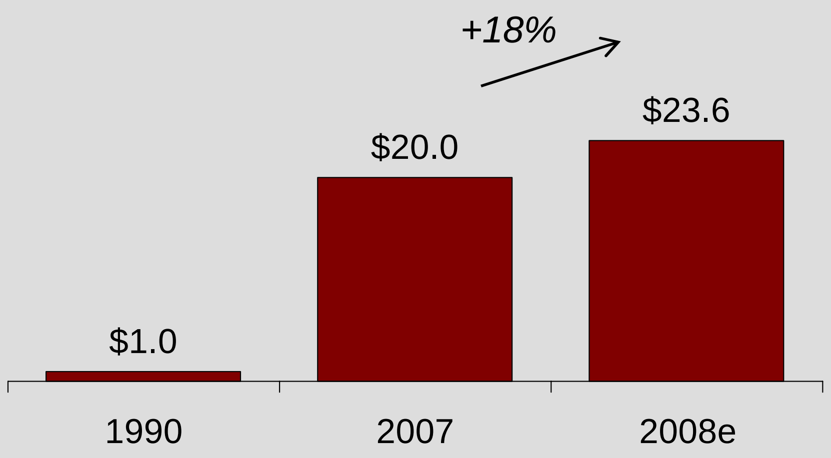
Growth Opportunities

Strong performance within organic food and beverage segments is contributing significantly to organic industry growth.

U.S. Organic Food & Beverage Sales
$Billion

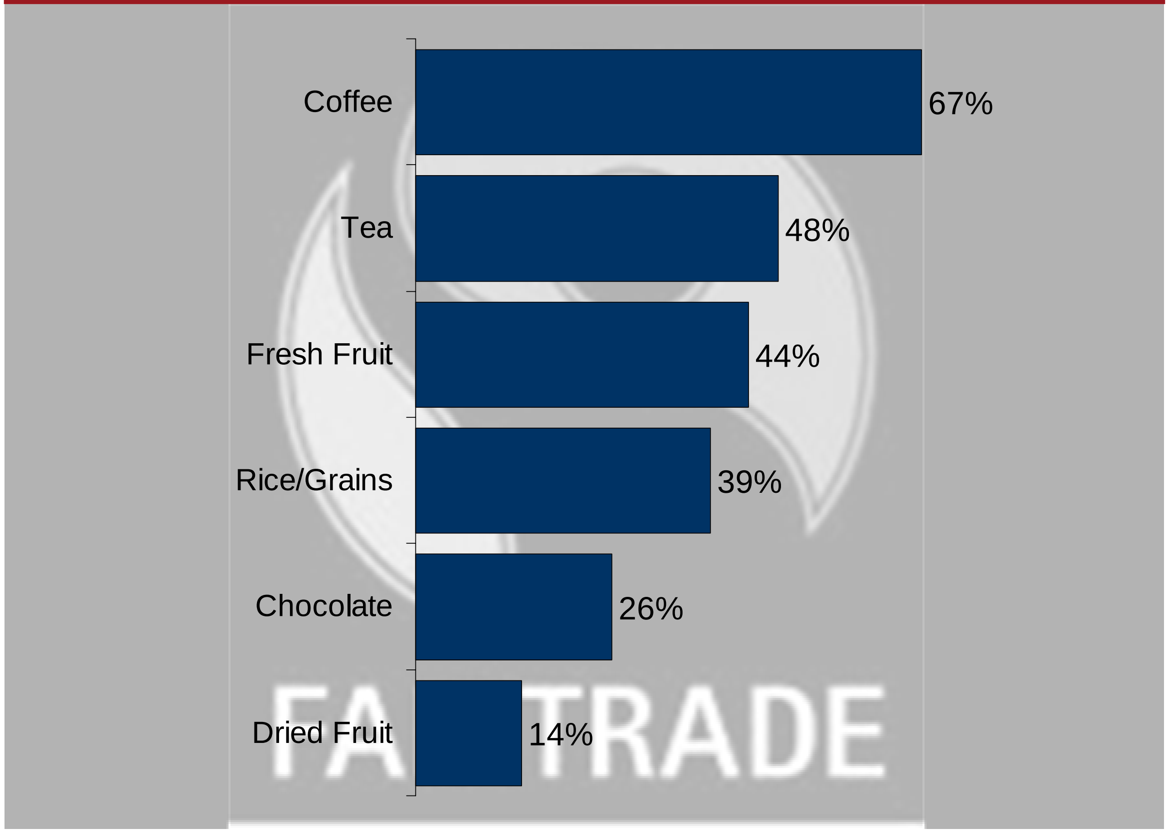


Source: Organic Trade Association’s 2007 Manufacturer Survey

Growth Opportunities

Awareness of fair trade products has gained momentum over the past several years.

Categories Most Readily Associated with Fair Trade
As % Consumers



Source: Alter Eco Fair Trade Study, October 2008

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Growth Opportunities

A lack of understanding of fair trade products and benefits of purchasing fair trade products is a barrier to purchase behavior.

Source: Alter Eco Fair Trade Study, October 2008

Manufacturer Action Items

Identify opportunities and risks

- Assess market potential of new products with sustainability benefits within your categories and target markets
- Evaluate risk/return equation of expanding distribution beyond traditional mass market outlets
- Invest to understand private label share gains within key green categories across channels and key accounts
- Explore partnership opportunities with retailers that are closely aligned against key brands/categories

Explore sustainable packaging options

- Identify opportunities to reduce packaging and leverage recycled and/or earth-friendly materials
- Import sustainable packaging innovations from outside categories/departments
- Leverage high-visibility packaging enhancements, where possible
- Clearly communicate packaging enhancements on package label and in supporting marketing initiatives

Communicate sustainability initiatives

- Ensure that all sustainability claims are measurable and well-documented
- Provide clear statement of benefits on packaging and in promotional materials

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Retailer Action Items

Identify opportunities and risks

- Assess market potential of private label products and expanded assortment of branded products with sustainability benefits (ie organic, eco-friendly, fair trade)
- Tailor product assortment by market, leveraging highly targeted campaigns against entrenched and rapidly-growing green consumer segments

Explore sustainable packaging options

- Identify opportunities to reduce packaging and leverage recycled and/or earth-friendly materials
- Increase assortment/availability of products with eco-friendly packaging
- Reassess shelf-space to ensure optimization against shrinking pack sizes, particularly within categories where concentrated formulas are gaining traction
- Clearly communicate environmental initiatives across promotional media and on in-store signage

Communicate sustainability initiatives

- Ensure that all sustainability claims are measurable and well-documented
- Educate consumers regarding personal, environmental and social benefits of sustainable products, packaging and plant initiatives leveraging store signage, in-store literature, online and social media, and traditional advertising media

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