

Competing In A Transforming Economy

SHOPPERS
IN CRISIS



October 2008

- 03 Highlights
- 04 Introduction
- 05 Situation Assessment
- 08 Consumer Purchase Behavior
- 10 Consumer Shopping Behavior
- 11 Study Overview

Competing in a Transforming Economy 2.0 *Shoppers in Crisis: Executive Summary*



Competing In A Transforming Economy

SHOPPERS IN CRISIS



The Challenge of Confidence

With surprising rapidity, U.S. financial markets have reached a tipping point and slid into crisis, dragging an already weakened U.S. economy with it. U.S. and European government leaders are implementing support programs and taking active stakes in their respective financial systems to a degree unthinkable just three months ago. Despite this unprecedented intervention, it's unclear if these strategies will provide the salutary benefit of reopening credit markets as anticipated.

Pressures on the financial markets have resulted in both obvious and subtle changes to shopper behavior. Shoppers are seeing their credit lines cut and difficulty in borrowing money. They are concerned about their jobs, as their employers face the same concerns about credit and borrowing. Shoppers have lost confidence.

Confidence loss is tremendously corrosive to the U.S. economy, eroding the will of shoppers to spend, regardless of their economic circumstances. Because lack of confidence is often irrational, using rational means to replace it is often ineffective.

Consumer products good manufacturers and retailers must respond as quickly and aggressively as those involved with the financial bailout of U.S. and European financial systems. As the majority of shoppers earning \$100,000 or less state they are worse off financially than one year ago, CPG manufacturers should consider new merchandising strategies to redefine and reinforce the value of their brands, while retailers should embark on new assortment strategies with very specific goals, such as, "here's how you can feed the family of four for \$10 per meal."

To stanch the flow of shoppers to supercenters; grocery, drug and convenience store executives must review and update their value proposition to the consumer and redefine it based on an almost individualized knowledge of the shopper, looking at everything from store layouts to assortment strategies to merchandising and promotion practices. Because shoppers are visiting the beauty salon less, for example, retailers can assist the shopper by organizing shampoos, conditioners, hair coloring, brushes and other products in a single location that might be called, "The Beautiful Woman."

In short, CPG manufacturers and retailers must combine intimate knowledge of shoppers' changing rituals, product and layout innovation, creativity and aggressiveness to regain and retain shoppers' confidence.

As our economy continues to evolve, presenting both new challenges and new opportunity, I look forward to continuing our discussion.

Thom Blischok
President, Consulting & Innovation

Competing In A Transforming Economy

SHOPPERS IN CRISIS



EXECUTIVE SUMMARY: TURNING INSIGHTS INTO ACTION

INSIGHT

- » Facing escalating costs and a shrinking financial “cushion,” the U.S. shopper is in crisis; lower and middle-income consumers are struggling to afford groceries, upper-income are feeling pinched, and all are employing strategies to make their money go further
- » From visiting the doctor’s office less often to using less of a personal care or cleaning product to make it last longer, consumers are changing rituals to save money
- » Demand shifts aligned with consumer cost-saving strategies are evident across the store, with some categories benefiting (eg. meal ingredients and components, hair color, water filters) and others declining (eg. ice cream, shampoo, household cleaners)
- » Consumers across income segments are increasingly turning to private label
- » Channel migration has accelerated as consumers recognize store selection as a critical lever in cost savings strategies

ACTION

- » Play a pivotal role in consumers’ crisis resolution through an affordable product mix and positioning; ensure that assortment and pack sizes are consistent with evolving needs
- » Understand how shifting rituals are impacting category and brand demand; alter messaging, pack size offering and/or promotional plans as required to harness growth opportunities and minimize risks
- » Re-assess assortment, brand positioning and product development priorities in relation to shifting demand patterns; prominently feature high-demand categories in features and displays
- » Retailers should leverage this unique window of opportunity to build a “halo” private label brand and drive private label usage habits; manufacturers across many categories will require a targeted private label risk mitigation strategy
- » Closely monitor channel migration shifts; alter merchandising, distribution and competitive strategies as needed to address emerging shopping trends

Competing In A Transforming Economy

SHOPPERS IN CRISIS



Economic conditions have placed U.S. shoppers in crisis.

“Shoppers already in trouble as a result of dramatically higher food and energy costs now face the new challenges of having their credit lines cut, seeing their stock portfolios and retirement investments reduced in value and are increasingly fearful about their job security.”

Thom Blischok
President, IRI Consulting
and Innovation

THE LANDSCAPE

Less savings. Less personal wealth. More debt. Skyrocketing food, gas and energy costs.

U.S. shoppers are in crisis.

IRI’s *Competing in a Transforming Economy 2.0* explores consumer response to this crisis, resulting risks and opportunities for retailers and manufacturers, and what to expect in the coming months.

Building upon the *Transforming Economy 1.0* study released in May, this latest issue in IRI’s ongoing series reveals that the belt-tightening previously reported has progressed to belt-notching, as consumers employ a broad array of cost-savings strategies.

These strategies include the expected shifts of shopping at supercenters and dollar stores more often and cutting back on “non-essentials”, as highlighted in *Transforming Economy 1.0*. But, we have reached a point at which consumers have moved beyond the expected and are actually changing rituals to save money.

For instance, one-quarter of consumers visit the doctor’s office less often than they did six months ago, opting to self-treat. A high proportion of consumers cut back visits to the hairdresser, driving an increase in sales of hair color at a time when many beauty care products are declining in sales.

In a true sign of the times, roughly half of consumers are consciously trying to use less of personal care products, such as shampoo and conditioner, and cleaning products to make them last longer. One-quarter are sharing more products among household members.

Further, while a rise in private label share might be expected, the magnitude of change in the second quarter across all income segments likely exceeded the expectations of most industry participants.

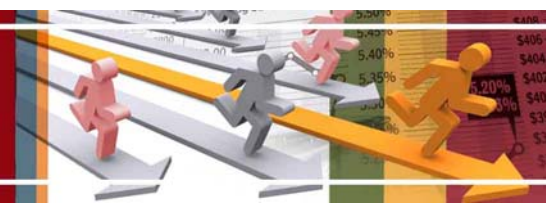
Consumer cost-saving strategies in response to this crisis have profound implications for CPG retailers and manufacturers – impacting market opportunity, and changing the rules for the “right” assortment, merchandising, positioning, pricing and distribution.

This report provides a high-level summary of key findings from IRI’s *Competing in a Transforming Economy 2.0* study to help industry participants dimensionalize the degree of consumer change and build strategies to effectively compete within this transforming economy.

See page 11 for additional detail regarding full report content and availability.

Competing In A Transforming Economy

SHOPPERS IN CRISIS



With less savings, less wealth and more debt, a majority of U.S. consumers are “worse off” financially.

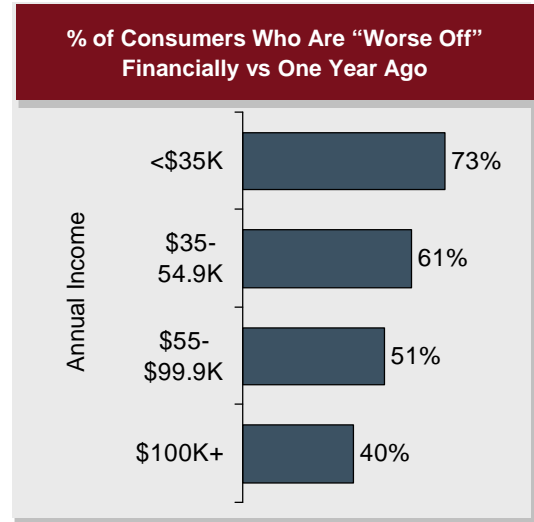
SITUATION ASSESSMENT CONSUMER FINANCIAL STATE

Consumers in the U.S. report having less savings and less overall wealth than they did just six months ago, as highlighted in the chart below, with a high proportion (22-39% depending upon income) also saddled with more debt.

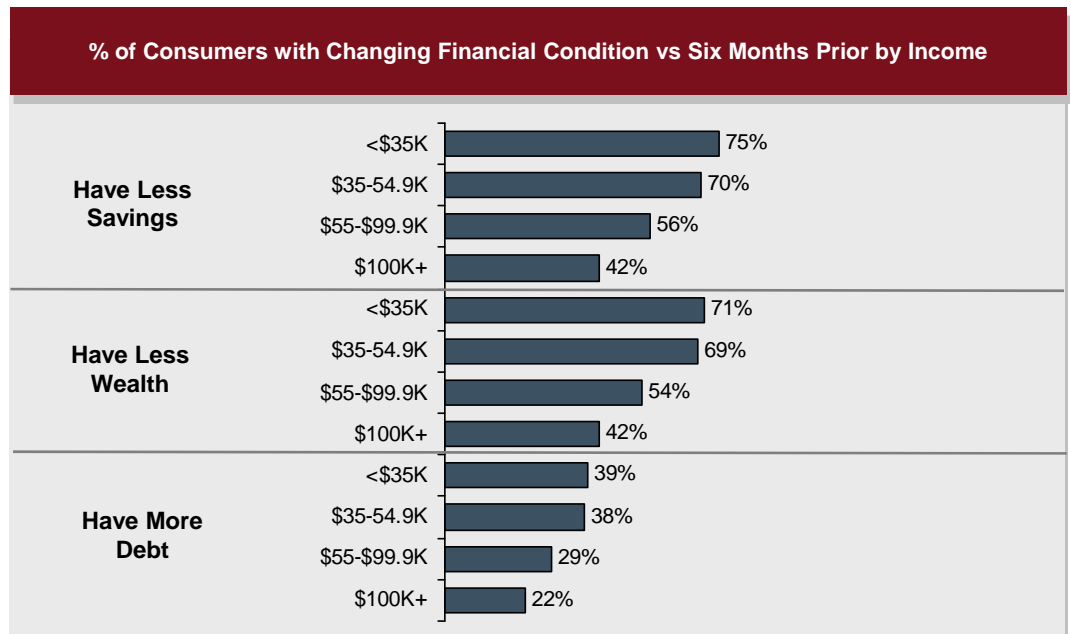
With these conditions, it is no surprise that a majority of consumers earning less than \$100K per year feel they are worse off financially vs a year ago.

As detailed throughout this report, economic conditions are impacting not only consumer financial stability but also shopping behavior, purchase behavior, and even daily rituals, such as cooking, cleaning and personal care.

Retailers and manufacturers need to quickly assess the new role that their products and stores are playing in consumers' lives and identify resulting marketing and merchandising opportunities.



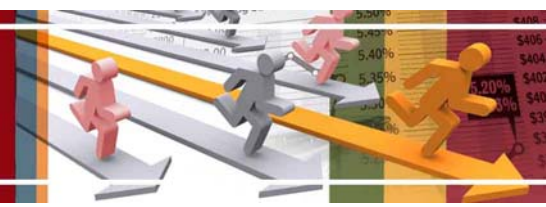
Source: IRI Economic Trend Database™ Based on AttitudeLink™ Survey of 1,000 Consumers, Aug 2008



Source: IRI Economic Trend Database™ Based on AttitudeLink™ Survey of 1,000 Consumers, Aug 2008

Competing In A Transforming Economy

SHOPPERS IN CRISIS



Rising costs continue to batter consumers, with upper-income consumers now feeling the pinch.

SITUATION ASSESSMENT

ABILITY TO AFFORD

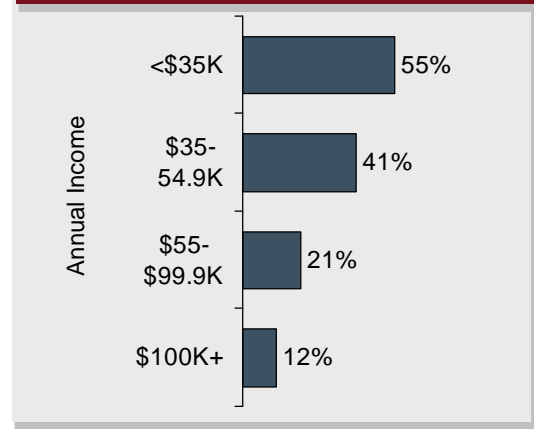
Consumers not only have shrinking financial cushions to rely on, but they are also facing unprecedented increases in daily living costs.

As revealed in the chart below, consumers believe that rising electricity, food and gas prices are negatively impacting their financial situation, with a significantly higher proportion of upper-income consumers now feeling the pinch of these cost increases.

The average consumer simply cannot absorb these increases. As was evident in IRI's *Transforming Economy 1.0* report, the new IRI survey found again that roughly half of those consumers earning less than \$55K per year -- 60% of the population -- are having difficulty buying the groceries they need.

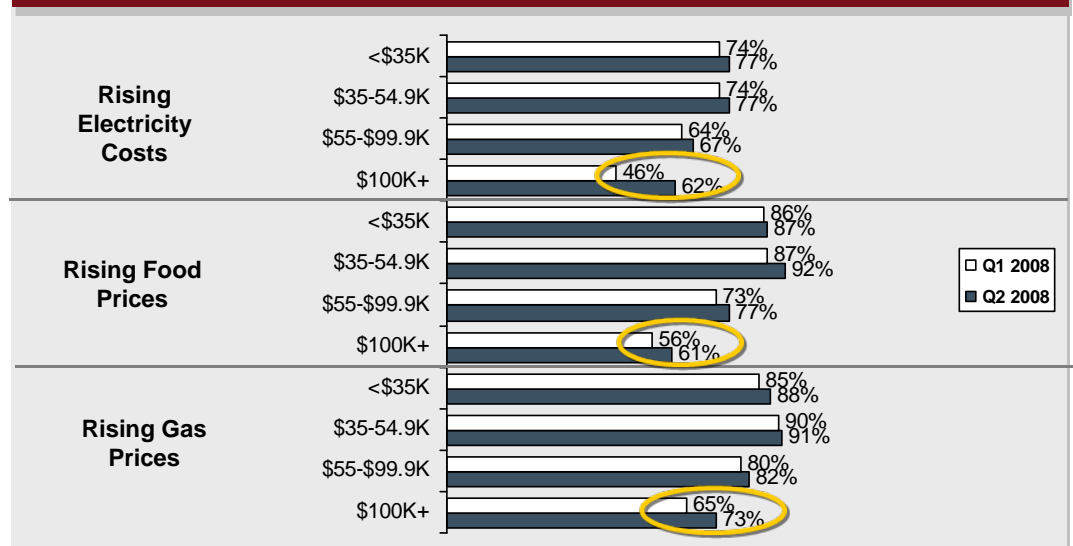
An inability to afford leads to tradeoffs and a focus on "essential" products. Affordability is becoming a requirement to make it into consumers' "essentials" basket.

% of Consumers Who Are Having Difficulty Buying the Groceries They Need



Source: IRI Economic Trend Database™ Based on AttitudeLink™ Survey of 1,000 Consumers, Aug 2008

% of Consumers Who Believe Factor Is Impacting Financial Situation by Income



Source: IRI Economic Trend Database™ Based on AttitudeLink™ Survey of 1,000 Consumers, Aug 2008

Competing In A Transforming Economy

SHOPPERS IN CRISIS



SITUATION ASSESSMENT CHANGING RITUALS

Consumers are changing rituals in an effort to stretch money further.

The inability to cover basic expenses such as groceries has placed U.S. consumers in crisis. Consumer resiliency and resourcefulness in responding to this crisis are evident in a willingness to change rituals to stretch dollars further.

For instance, roughly half of consumers are consciously making an effort to make cleaning and personal care products last longer, a trend reflected in sales declines across many of these categories.

Many consumers are foregoing professional services, such as hair salons, and are turning to do-it-yourself

solutions – even in healthcare. One-quarter of consumers are going to the doctor's office less often than they did six months ago to save money.

And, as reported in *Transforming Economy 1.0*, consumers continue to eat out less often, cooking or assembling meals at home instead.

The market result has of course been mixed, with some categories gaining (eg. meal ingredients and components) and others losing (eg. personal care products), but with the right positioning and assortment, there is opportunity almost across the board.

Over the past 6 months	TOTAL	< \$35K	\$35- \$54.9K	\$55- \$99.9K	\$100K+
DOCTORS VISITS TO SELF CARE					
Go to the doctor's office less often and self-treat to save money	25%	40%	35%	20%	16%
SINGLE-FUNCTION TO MULTI-FUNCTION REMEDIES					
Look for OTC products that treat several symptoms	31%	43%	37%	29%	16%
SALONS TO HOME BEAUTY					
Go to spas / hair salons less often	45%	55%	52%	44%	34%
Do more at-home beauty treatments	32%	42%	34%	31%	24%
INGRAINED DISPOSABILITY TO EXTENDED USAGE					
Try to make cleaning products last longer	49%	61%	58%	45%	41%
Try to make personal care products last longer	52%	64%	56%	51%	38%
PERSONALIZED BEAUTY CARE TO COMMUNAL BEAUTY CARE					
Share more products across household members (e.g., shampoo, toothpaste)	25%	27%	34%	24%	16%
PREPARED MEALS AND DINING OUT TO AT-HOME MEAL ASSEMBLY					
Buy fewer prepared meals at grocery stores	50%	57%	57%	47%	47%
Eat out less often	61%	76%	66%	63%	46%
Buy fewer convenience foods / eat more from scratch	43%	51%	55%	41%	30%

Sources: IRI Economic Trend Database™; IRI AttitudeLink™ Survey of 1,000 Consumers, August 2008

Competing In A Transforming Economy

SHOPPERS IN CRISIS



CONSUMER PURCHASE BEHAVIOR DEMAND SHIFTS – FOOD & BEVERAGE

Retailers and manufacturers are feeling the effects of consumers' changing rituals and tradeoffs.

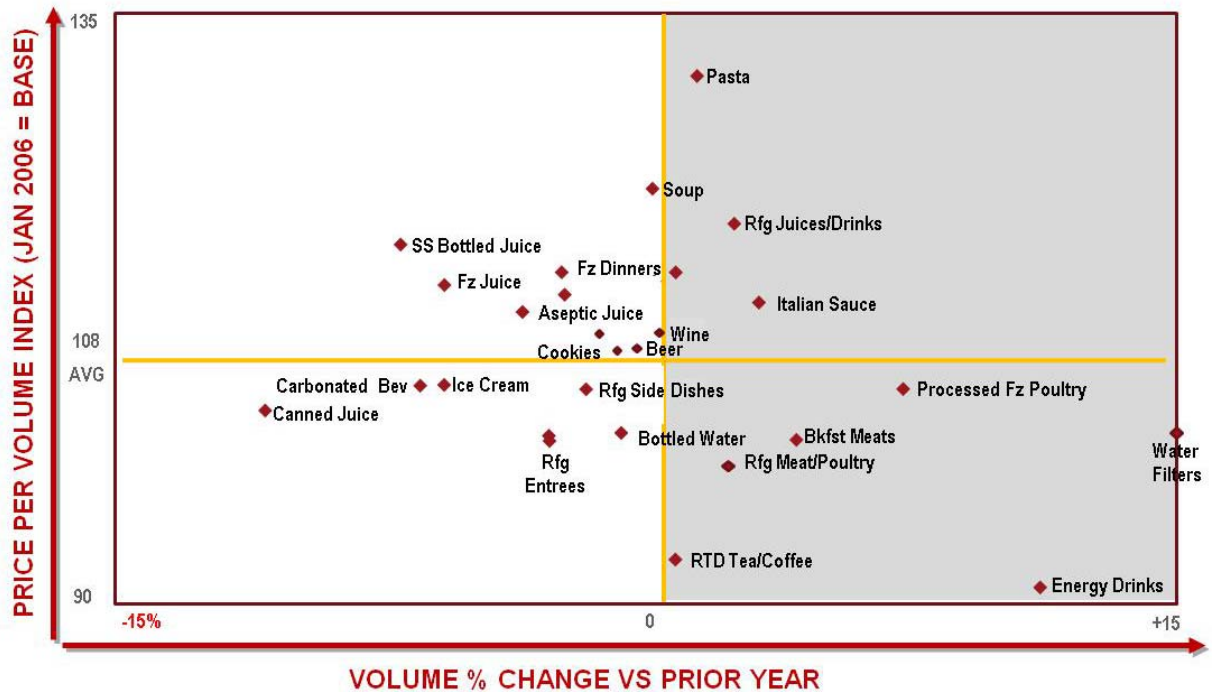
Across departments, demand trends reflect changing rituals and consumer tradeoffs.

The chart below summarizes volume sales trends in Q2 2008 vs prior year across food and beverage categories plotted against an index representing relative change in price. (Note: This chart provides one example of department demand shifts; the full *Competing in a Transforming Economy 2.0* study includes an assessment of demand shifts across every major CPG department.)

The move to at-home meal preparation, for instance, drove demand increases in meal components, such as breakfast meats, Italian sauce and pasta – despite high pasta price increases, as pasta plus sauce remains a highly affordable meal.

Consumer tradeoffs are evident in the growth of water filters, while bottled water volume slipped, and in sizable volume declines in indulgences, such as ice cream and cookies.

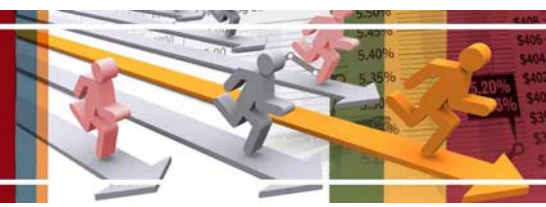
Food & Beverage: Q2 2008 Volume Change vs Prior Year/ Average Price per Volume Index vs 2006



Source: IRI Economic Purchase Behavior Longitudinal Database™, IRI InfoScan® Reviews

Competing In A Transforming Economy

SHOPPERS IN CRISIS



CONSUMER PURCHASE BEHAVIOR PRIVATE LABEL

Consumers across income segments are increasingly turning to private label.

As consumers struggle to make limited shopping budgets go further, they are increasingly turning to private label.

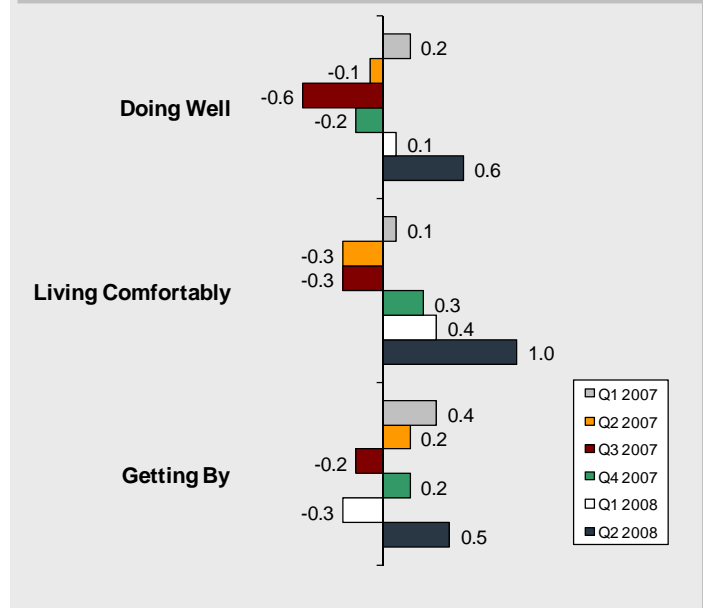
Over the past several quarters, private label secured a higher share of consumer dollars as price increases took hold, but unit share was sporadic.

Private label appears to have hit a turning point in Q2, however, as unit share surged, with sizable gains across income segments.

Retailers have a unique window of opportunity to grow private label. Consumer receptivity to private label is extraordinarily high, and positive experiences now may lead to new habits and extension across categories.

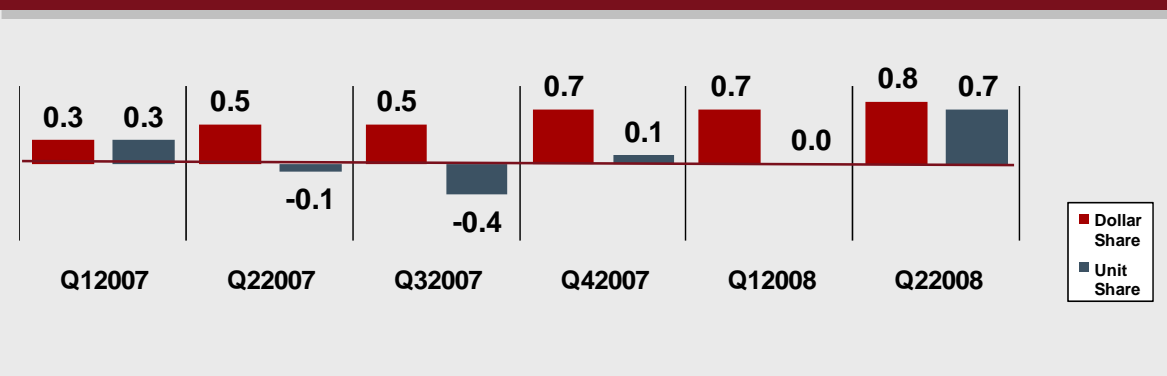
Private label risk mitigation is becoming increasingly important to manufacturers, even in categories where private label competition was not considered a threat previously.

Total CPG All Outlet Private Label Unit Share Point Change vs Prior Year by Income Segment



Sources: IRI Economic Shopping Behavior Longitudinal Database™, IRI Consumer Network™

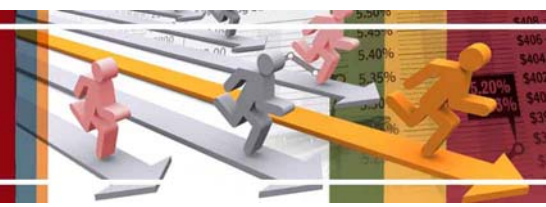
Total CPG All Outlet Private Label Unit Share Point Change vs Prior Year



Sources: IRI Economic Shopping Behavior Longitudinal Database™, IRI Consumer Network™

Competing In A Transforming Economy

SHOPPERS IN CRISIS



CONSUMER SHOPPING BEHAVIOR CHANNEL MIGRATION

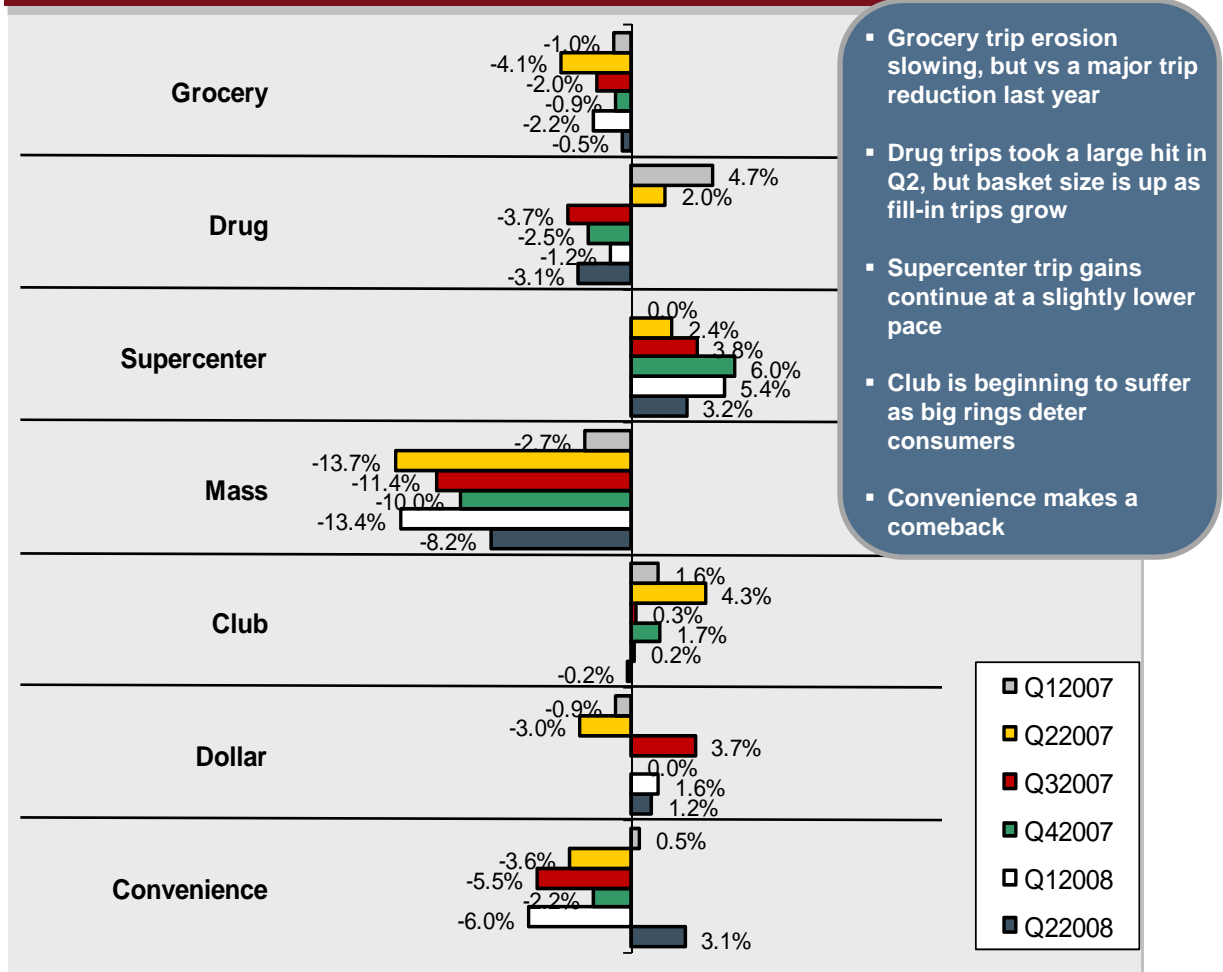
Consumers view store selection as a critical lever in addressing this economic crisis.

The acceleration of channel migration beginning Q2 2007, when CPG and gaps prices initially spiked, is evidence of consumers' viewing store selection as a critical strategic lever in addressing this economic crisis.

Supercenters and dollar stores have enjoyed sizable trip gains as low prices prove to be a powerful draw.

Q2 brought a slowdown in trip erosion for grocers as some consumers stay closer to home for fill-in shopping, and c-stores reverse a negative trip trend as consumers visit the pump more frequently and operators successfully convert visits to the pump to visits in the store.

CPG Purchase Occasions per Household % Change vs Prior Year by Quarter



- Grocery trip erosion slowing, but vs a major trip reduction last year
- Drug trips took a large hit in Q2, but basket size is up as fill-in trips grow
- Supercenter trip gains continue at a slightly lower pace
- Club is beginning to suffer as big rings deter consumers
- Convenience makes a comeback

Sources: IRI Economic Shopping Behavior Longitudinal Database™; IRI Consumer Network®



COMPETING IN A TRANSFORMING ECONOMY 2.0 STUDY OVERVIEW

IRI's *Competing in a Transforming Economy 2.0* reveals changes in consumer shopping behavior, purchase behavior, consumption patterns and attitudes in response to economic conditions and highlights emerging risks and opportunities for CPG marketers.

2.0 builds upon findings revealed in the initial study to uncover new insights into consumer coping strategies and shifts that have occurred since initial publication.

And, as changes in consumer behavior and market conditions are faster, more frequent and less predictable than at any other time in recent history, we offer ongoing monthly tracking of key indicators.

Competing in a Transforming Economy 2.0: Study Components

Industry Report

Benefits

- » Leverage best practice analysis and insight-driven action plans
- » Build strategies addressing distinct requirements by consumer segment, market and competitive threat
- » Discover strategic pricing and promotion opportunities
- » Understand new assortment, merchandising, and distribution priorities

Content

- » Demand shifts vs CPG and gas price increases (category and private label)
- » Consumer tradeoffs and changing priorities, based on proprietary IRI AttitudeLink™ survey
- » Share, trips and trip mission mix shifts across channels
- » Analyzed across categories, key consumer segments (Boomer, Hispanic, Kids, Income) and geographies
- » Customization available

Key Indicator Tracking

Benefits

- » Gain competitive advantage through early identification of emerging market shifts
- » Continually assess strategic priorities and identify course correction requirements
- » Identify new risks and opportunities warranting immediate action or further investigation

Content

- » Price and cost indices (CPG, fuel, commodities, packaging)
- » Demand shifts (category and private label)
- » Share, trips and trip mission mix shifts across channels
- » Analyzed across categories, key consumer segments and geographies
- » Monthly and rolling quarter measures
- » Customization available

>>> CONTACT

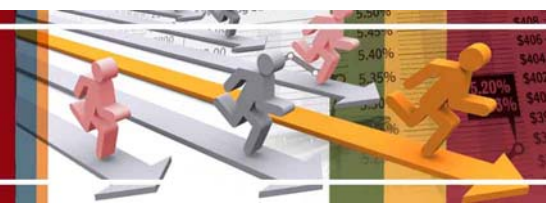
For more information about the study or custom analysis and consulting, please contact:

Thom Blischok
President
IRI Innovation and Consulting
thom.blischok@infores.com
(312) 414-2325

Kurt Orr
Partner
IRI Innovation and Consulting
kurt.orr@infores.com
(312) 474-2443

Competing In A Transforming Economy

SHOPPERS IN CRISIS



>>> MORE INFORMATION

Please contact Kurt Orr at kurt.orr@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

CORPORATE HEADQUARTERS:
150 NORTH CLINTON STREET
CHICAGO, IL 60661
Telephone: +1 312 726 1221
WWW.INFORES.COM

