

COMPETING IN A TRANSFORMING ECONOMY 4.0



The New Equilibrium: An Upside Downturn
July 9, 2009



Competing In A Transforming Economy 4.0

1 [Executive Summary]

2 [Transforming Economy]

3 [Consumer Strategies]

4 [Shopper Impact]

5 [Optimist vs. Pessimist]

6 [Coming Year Strategies]

7 [Strategies To Compete]

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Headline Observations



Shoppers Move Forward Despite Economic Uncertainty

1

Consumers Are Faced With An 'Upside Downturn' Economy
Both Optimistic And Pessimistic Signals Common, Markets Remain Volatile

2

Continued Economic Pressure Is Creating Convergence Of Ritual Changes Across Income Groups
Thriftness, Self-reliance, Frugality

3

Consumers Continue To Drive Affordability And Make Sacrifices
Expect Consumers To Expand Affordable Luxuries If Economy And Prices Show Sustained Improvement

4

Shopping Preparation Is Centered In The Home As Intentional Value Strategies Become A Shopper Ritual
Increased Opportunity For Innovative Solutions

5

Shopper Outlook Provides A New Perspective For Interpreting And Anticipating The Impact Of The Economy
Shopper Insights Becomes A Strategic Weapon In Competing

The Transformation in Four Stages

STAGE I

Shocking the
System – Q1/
Q2/Q3 2008

- » A radical rise in energy costs (gas, home, and electric)
- » Shoppers react with the “**lens of affordability**”

STAGE II

A Refocus
on Impact –
Q4 '08-Q1 '09

- » Energy and food costs begin to stabilize
- » Economic conditions lead to “**extreme belt tightening**”

STAGE III

Overcast
Conditions –
2009

- » Unsure where economy stands and where heading
- » Unemployment “**ripple effect**” impacts many households
- » Evolution for Categories, Channels & Shopper Groups

STAGE IV

Reflective
Consumerism –
2010-?

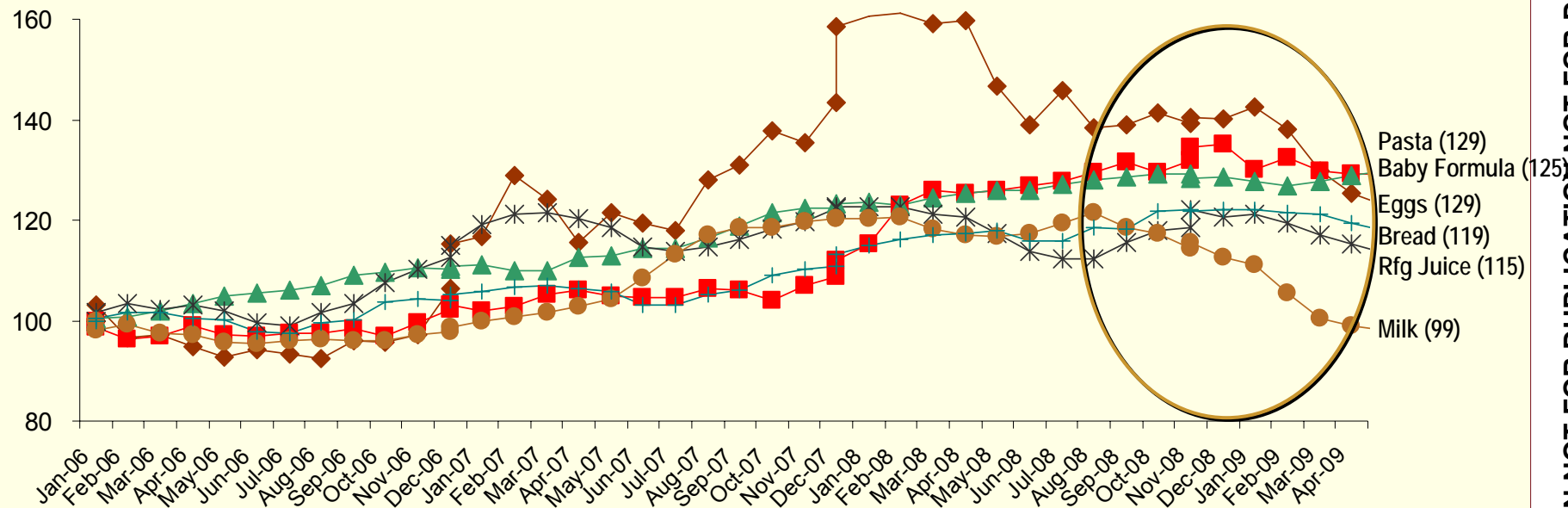
- » **Lasting impact** on households and next generation
- » Strategies will need to evolve to meet new consumers

While Consumers Have Found Some Modest Relief In Pricing of Staples

Transforming Economy

Consumer Impact: Consumer Staples Pricing

January 2006 (Index) - April 2009



Sources: IRI Purchase Behavior Longitudinal Database™, InfoScan® Reviews; FDMx

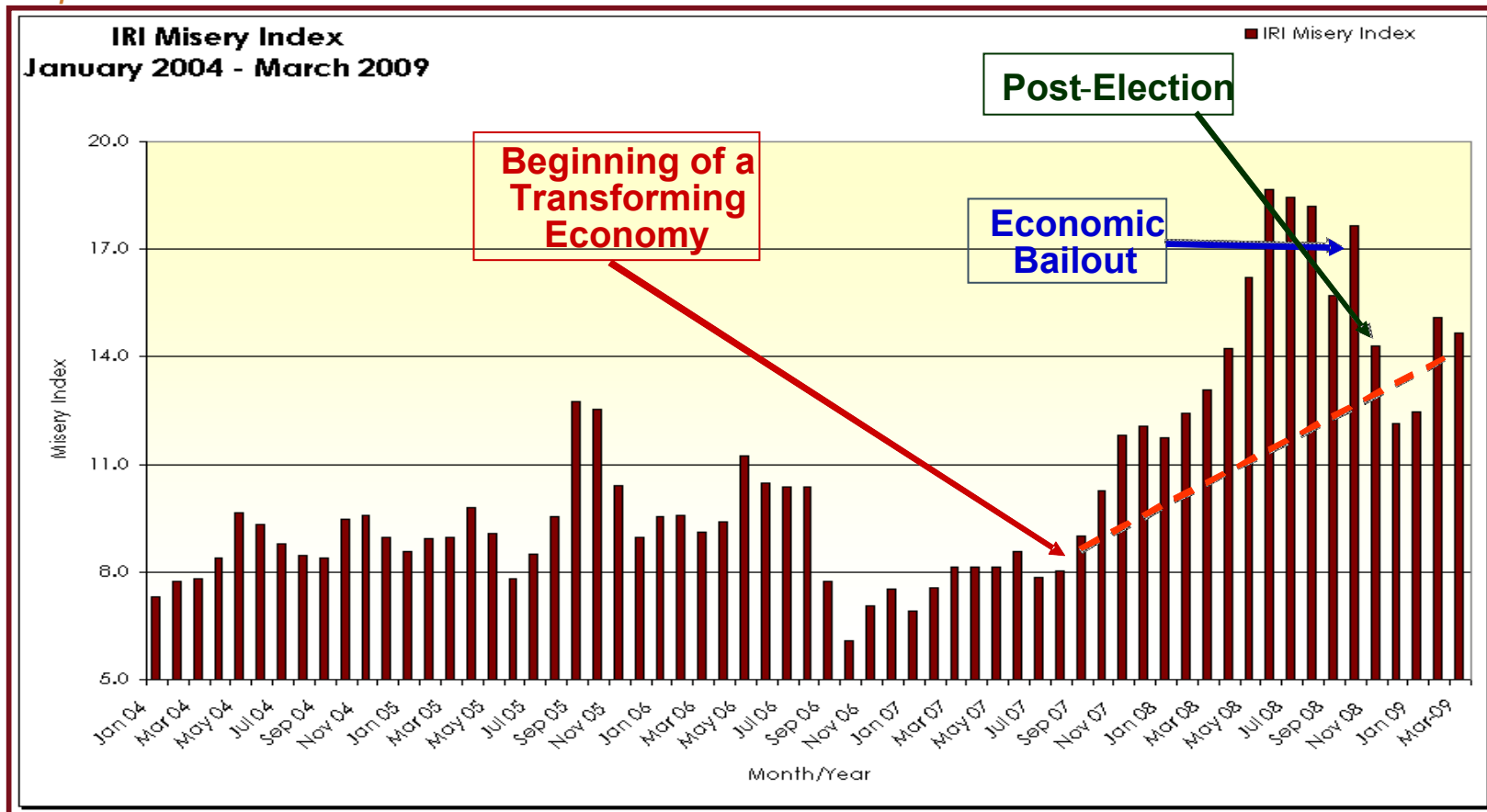


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Overall "Misery" Remains High for U.S. Consumers

Transforming Economy

IRI "Misery Index": A custom Index that captures current consumer economic wellbeing and expectations of future economic conditions



Sources: U.S. Bureau of Labor Statistics, University of Michigan Consumer Sentiment Index

Consumers Are Trying To Navigate The 'Upside Downturn', Marked By High Volatility, And A Mix Of Optimistic and Pessimistic Signals



Forecasts Indicate That 2009 Will Be Challenging And 2010 Will Improve Slowly

Transforming Economy

Economic Measure	2008	2009	2010
GDP	1.1%	-3.0%	1.4%
Unemployment	5.8%	9.1%	9.6%
Consumer Price Inflation	3.8%	-1.0%	1.7%
Retail Sales	-0.7%	-6.9%	4.2%
Building Permits (millions)	3.52	2.27	3.16

Source: Moody's Economy – Forecast for 2009 and 2010

Economists Are Faced With Mixed Signals As They Chart A Course Through Turbulent Waters





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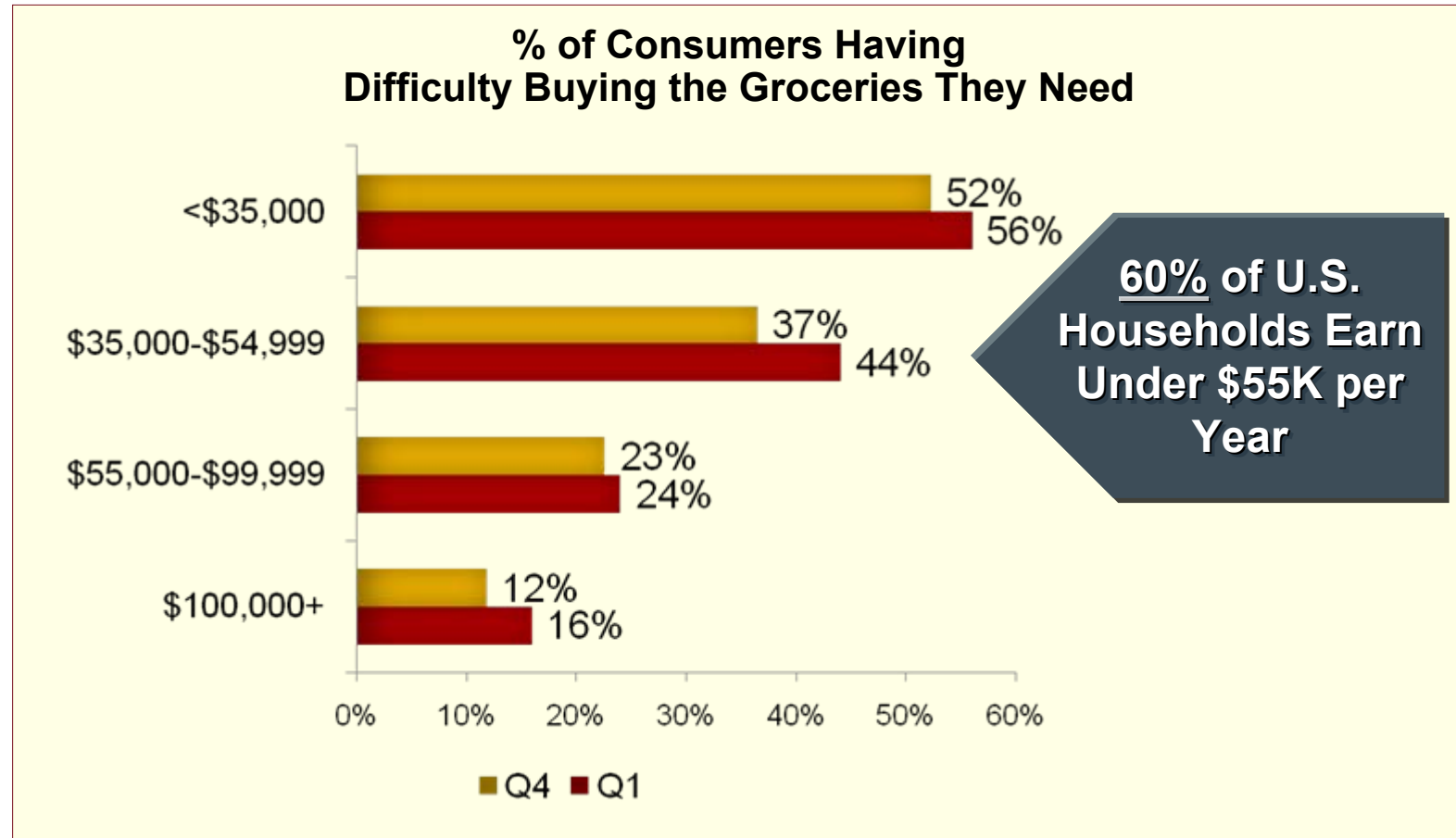
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Although Food & Energy Price Increases Abated, Grocery Buying Remained Difficult In A Bad Economy



Sources: IRI Economic Trend Database™, IRI AttitudeLink™ Survey of 1,000 Consumers, Q1 and Q4 2008, U.S. Census Bureau

**Consumers Have Had To Focus On Affordable Essentials:
Families Will Seek To Make Fewer Sacrifices As /If The Economy Improves**



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Pricing Pressures Continue To Drive Focus On Selecting Only The Essentials

Changing Rituals

% of Consumers Making Change Over Past Six Months

Seeking Affordable and Essential Solutions	Under \$35K			\$35K – \$54K			\$55K – \$100K			Over \$100K		
	Q2	Q3	Q4	Q2	Q3	Q4	Q2	Q3	Q4	Q2	Q3	Q4
I have reduced purchase of products that have had big price increases	75%	83%	78%	72%	71%	71%	60%	62%	66%	52%	52%	49%
I have cut back spending on non-essential groceries	75%	72%	71%	70%	62%	60%	58%	57%	62%	41%	45%	42%
I have changed my definition of what is “essential”	60%	63%	60%	61%	50%	58%	47%	39%	46%	36%	36%	34%

Sources: IRI Economic Trend Database™, IRI AttitudeLink™ Survey of 1,000 Consumers, Q2, Q3, Q4 2008

Shoppers are sensitized to prices / price increases: Income is a clear factor

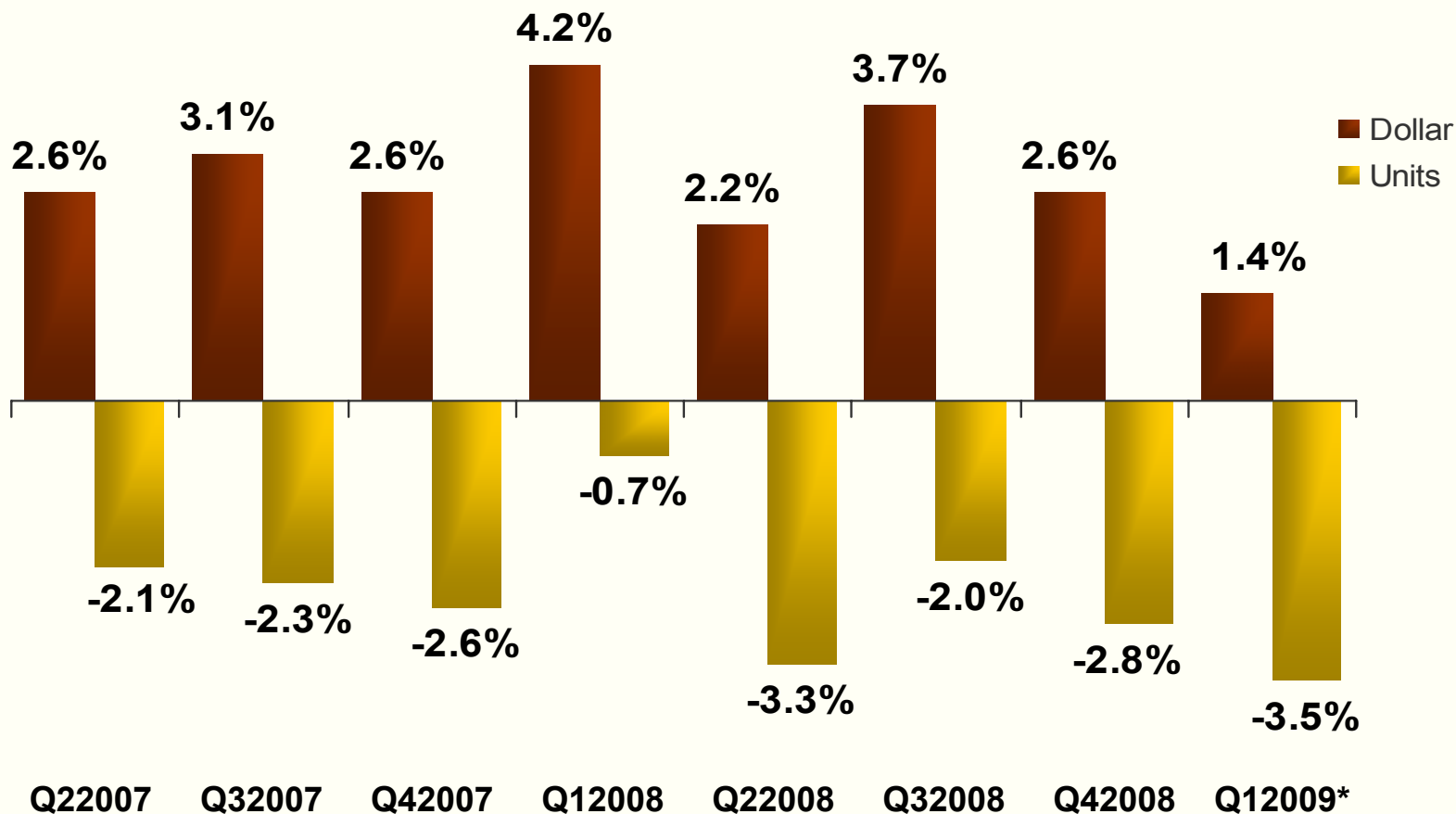
Strengthen the value proposition to help retain your brand as essential: Target innovation to drive pragmatic benefits or increase durability

Remember that maintaining the same spending level results in fewer groceries

CPG Has Experienced Declining Unit Sales, And Near Term Trend Has Been Negative

Total CPG Dollar/Unit Sales

% Change Vs. Prior Year by Quarter - FDMx



Sources: IRI Economic Purchase Longitudinal Database™, IRI InfoScan® Reviews

*12 week ending Mar 22, 2009





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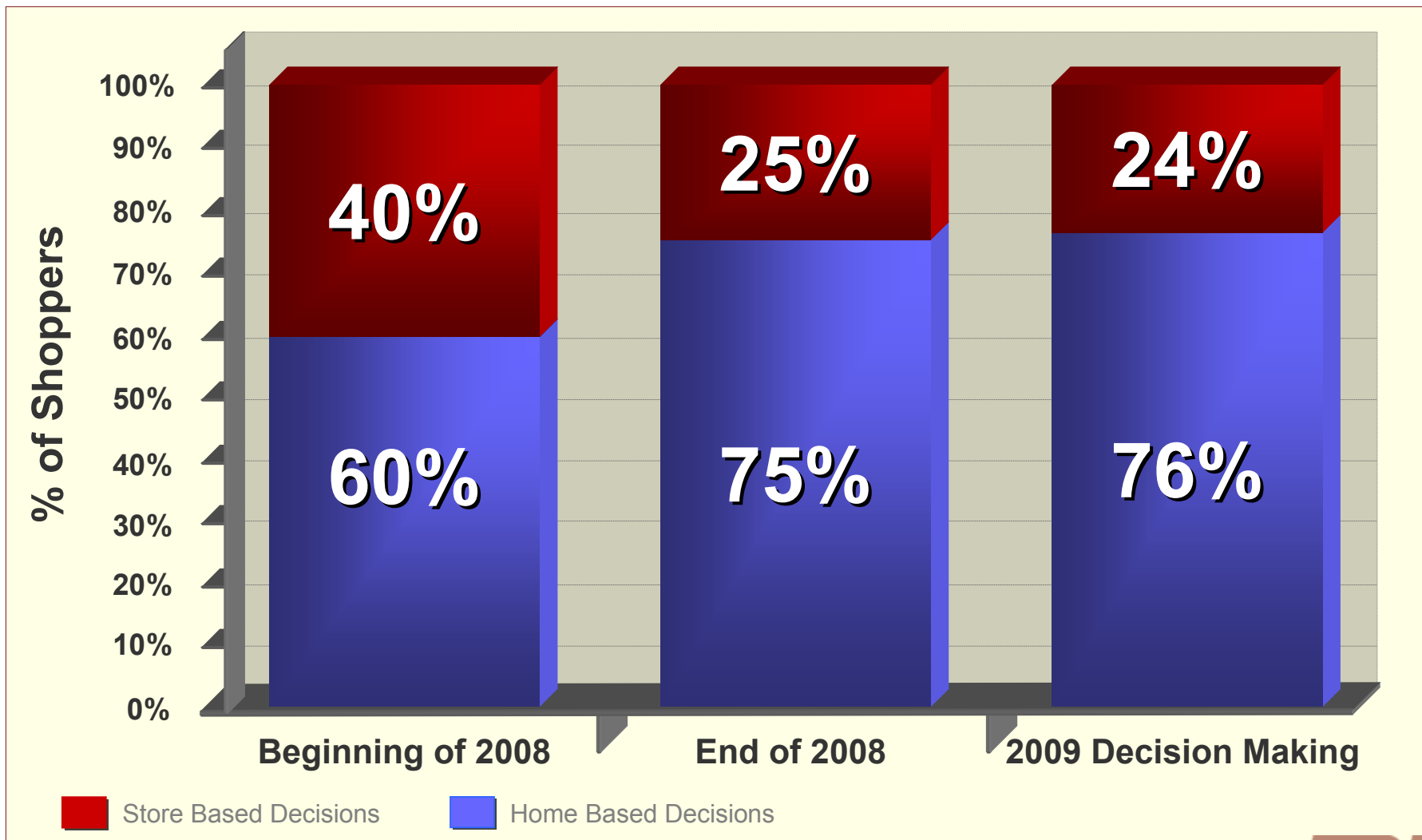
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Shoppers Tell Us They Will Be More intentional About Trip Planning and At Home Decision Making

Shopper



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- » **The focus on affordability has increased the level of intentional shopping**
 - Value is more than 'low price', so value strategies are intentional

- » **Consumers increased their use of shopping lists, and many reported that they used store circulars or flyers as part of their list preparation**

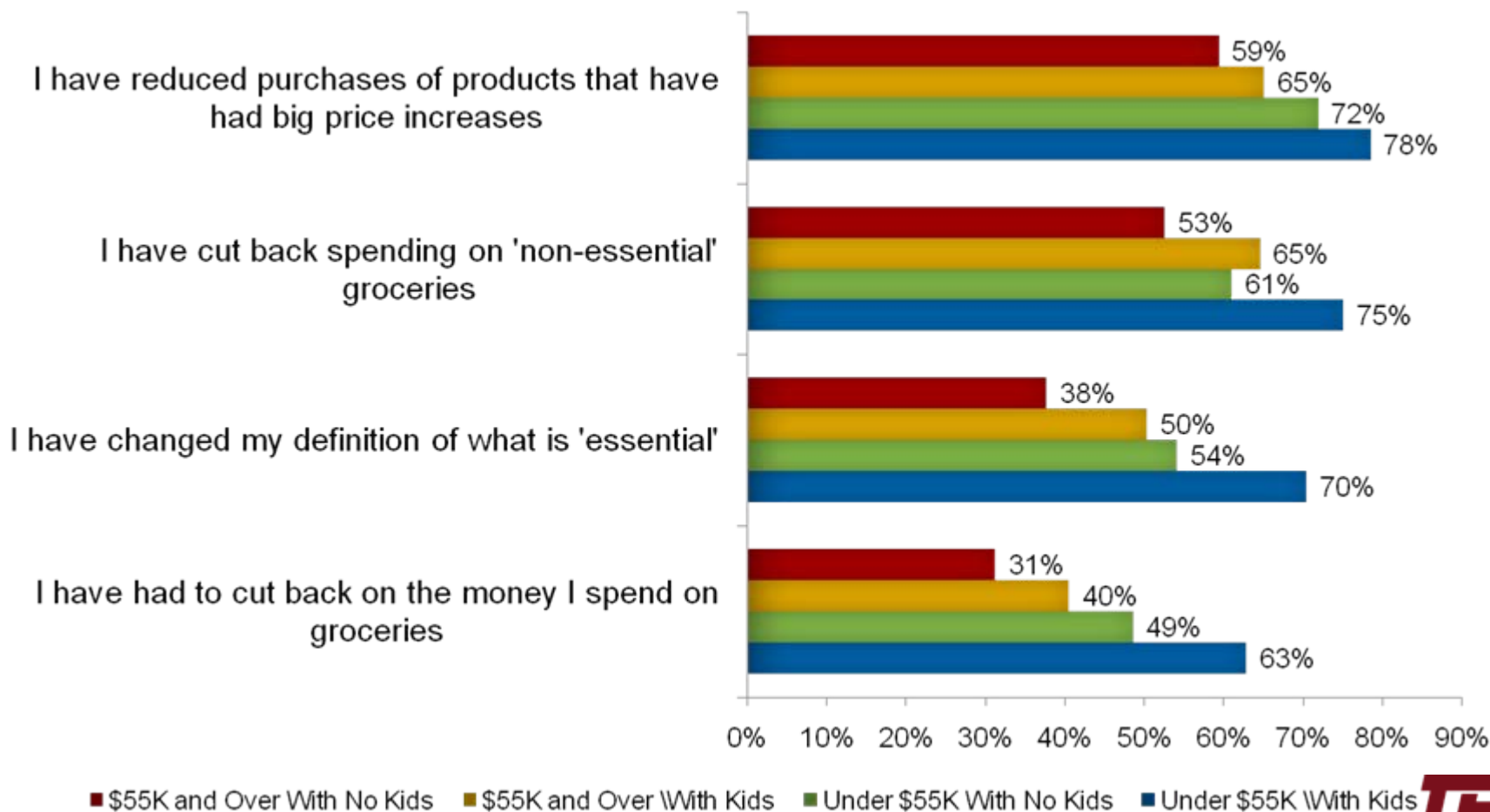
- » **When asked about the factors that influenced their behavior, shopper responses indicate that they incorporate influences from a variety of sources**
 - Previous usage and trust of the brands
 - Coupons from the home
 - Newspaper circulars from home
 - Shopper loyalty card discounts

Lower Income Levels Families With Children Show The Biggest Shift To De-Selection

Shopper

Changing Rituals: Households with Kids

% of Consumers Making Change Over Past Six Months



Sources: IRI Economic Trend Database™, IRI AttitudeLink™ Survey of 1000 Consumers, Q4 2008



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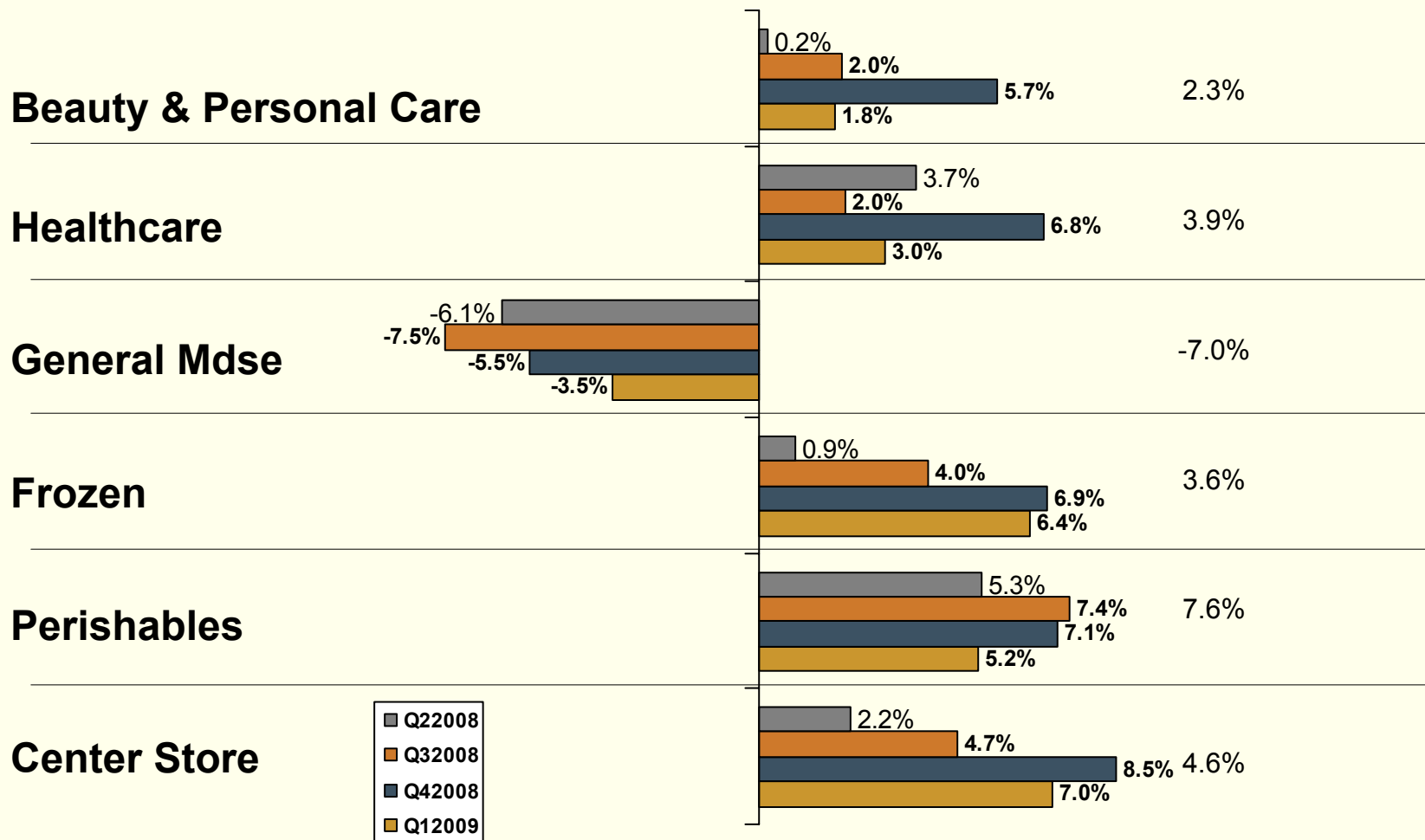
On Balance, Price Increases Fueled Dollar Growth Across Most Departments

Shopper

Purchase Behavior: Department

% Dollar Sales Change vs. Prior Year By Quarter

CY 2008



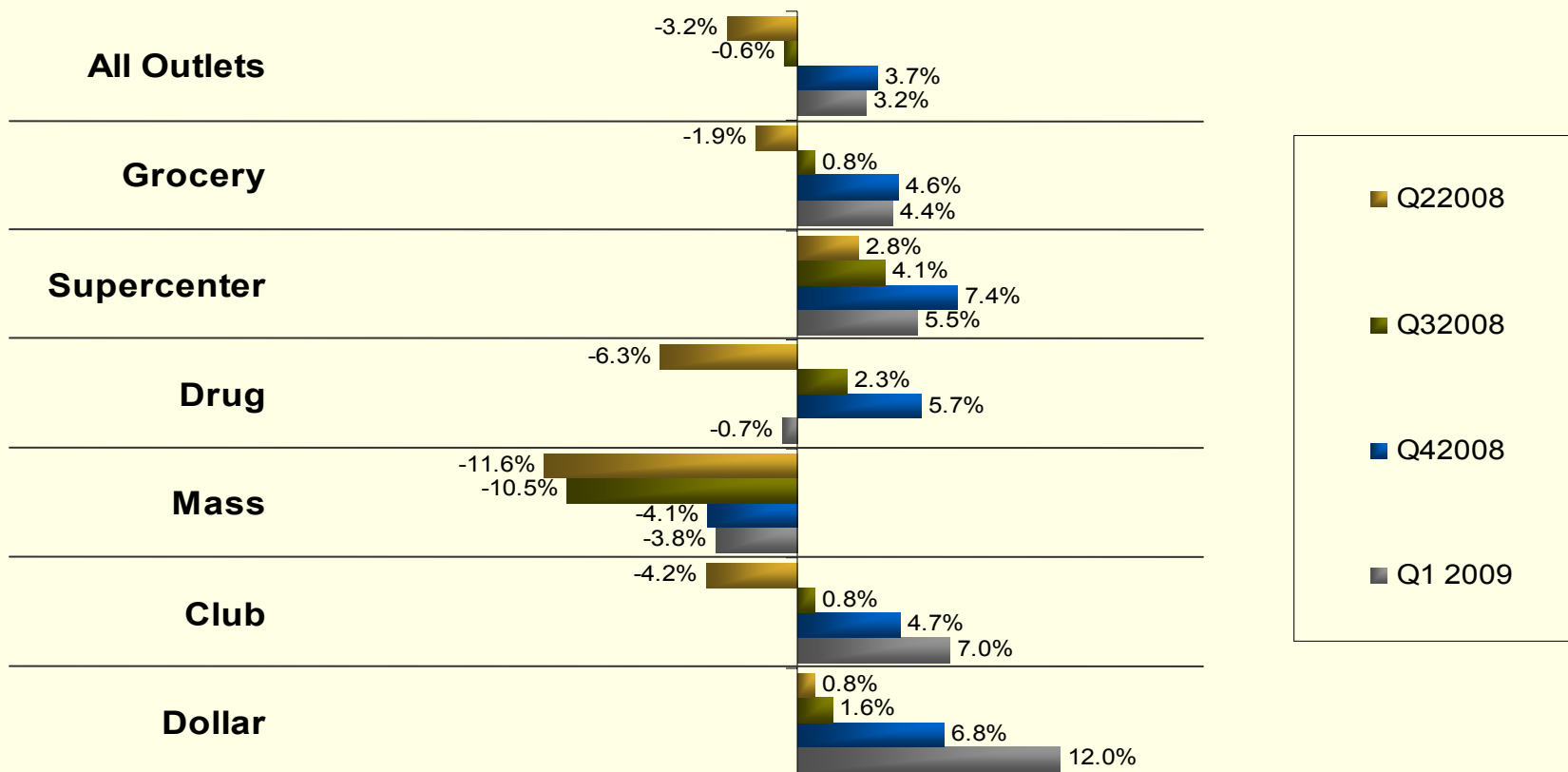
Sources: IRI Economic Shopping Behavior Longitudinal Database™; IRI Consumer Network™ ALL OUTLET

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Countervailing Impact: Consumer Trip Frequency Rebounded In Q4 & Q1

Shopper

Purchase Occasions per Household for CPG Items % Change vs. Prior Year By Quarter



Rebound May Not Herald Positive News, As Consumers May Be Splitting Trips To Manage Budget And Cash Flow Issues

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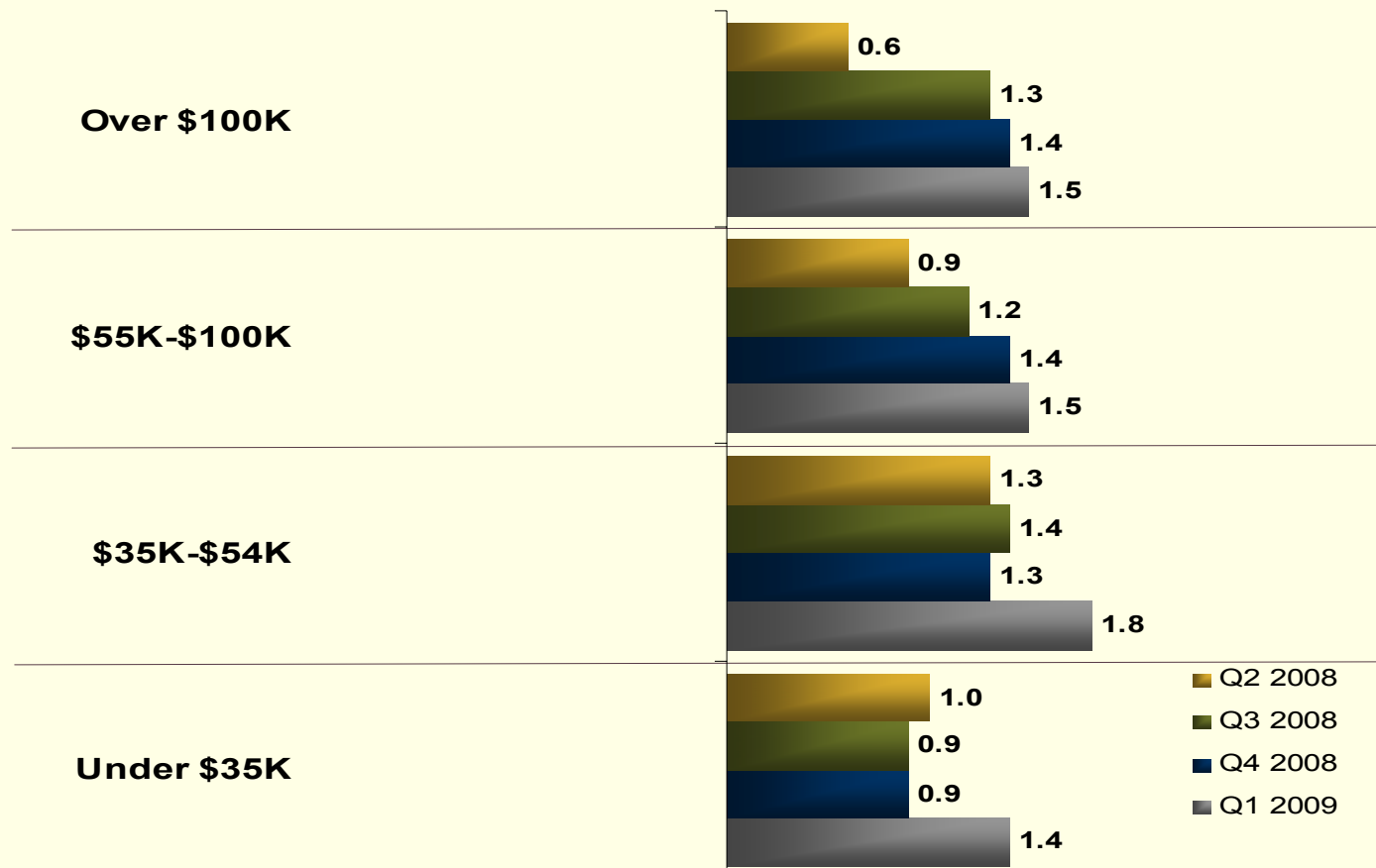
Sources: IRI Economic Shopping Behavior Longitudinal Database™; IRI Consumer Network™



Private Label Has Played A Pivotal Role In Helping Shoppers Make Ends Meet

Shopper

Private Label Unit Share Growth
Point Change Vs. Prior Year By Income Segment



Private Label Is Now An Option Leveraged Across Income Groups, And Shows Continued Growth Across Spectrum Of Consumers



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Optimist Or Pessimist: Who Will I Be Today?

Optimist vs.
Pessimist



Optimist

“Things will get better within the next 12 months.”

Shopping Strategies:

- Spend money wisely
- Make a few prudent cutbacks
- Make sacrifices as a last resort



Maintainist

“The economy won’t get worse, but it won’t get better.”

Shopping Strategies:

- Spend money wisely
- Make prudent cutbacks



Pessimist

“If you think times are hard now, next year will be worse.”

Shopping Strategies:

- Make as many cutbacks as possible
- Hunt for the deals

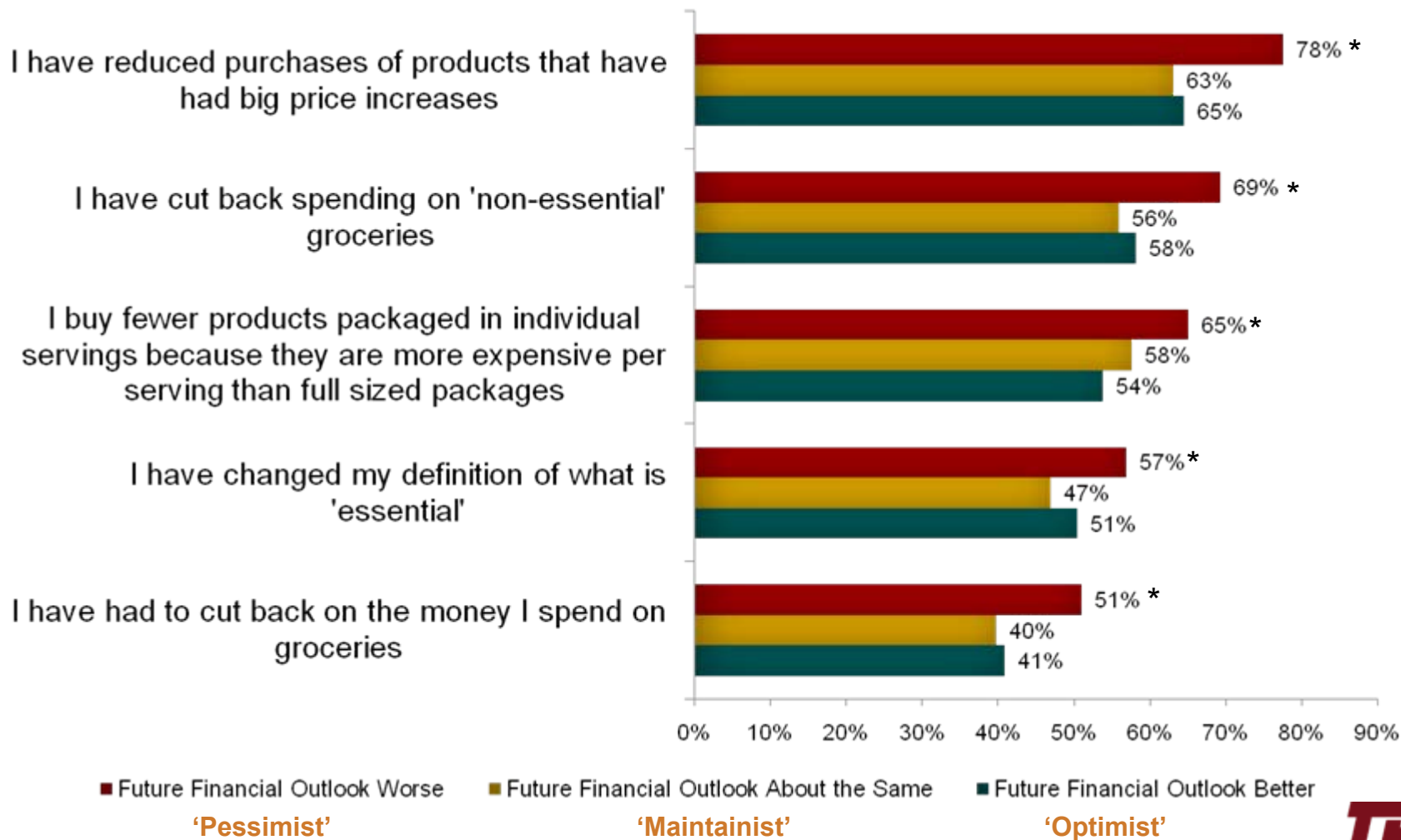
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Pessimists Are Redefining Essentials And Priorities – And Are Articulate Consumers

Optimist vs. Pessimist

Changing Rituals

% of Consumers Making Change Over Past Six Months



Sources: IRI Economic Trend Database™, IRI AttitudeLink™ Survey of 1,000 Consumers, Q4 2008

As The Year Continues To Unfold



As the U.S. economy emerges from the first half of 2009, market conditions and consumer shopping behavior will be shaped by conflicting views on the recovery.

- » **The current economic “sea change” continues to drive significant shifts in shopper behavior;**
 - Many of these changes will be permanent, as a new consumer sensibility has formed;
 - Consumers will seek to return to selected ‘comfort zones’ from prior rituals
- » **Continued growth of unemployment; loss of financial cushions, market turbulence and tight credit:**
 - Contribute to long term consumer concern and uncertainty
 - But, consumers will try to ‘move on’ if recovery takes hold
- » **Sustained higher daily cost of living (energy/transportation, food, health care) have driven changes;**
 - Shoppers now will need to balance longer term vs short term (savings, cars, clothes, groceries, entertainment)
 - Affordability, thrift, self reliance themes will continue to drive shoppers and marketers

The consumer continues to fundamentally change, even in the face of possible recovery: A new equilibrium will form - a return to pre-downturn conditions is unlikely

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Continued Economic Pressure Is Creating Convergence Of Ritual Changes Across Income Groups
Self-reliance & Thriftiness While Being Price Conscious

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Consumers Continue To Drive Affordability And Make Sacrifices
Expect Consumers To Expand Affordable Luxuries If Economy And Prices Show Sustained Improvement

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Shopping Preparation Centered In The Home As Intentional Value Strategies Become A Shopper Ritual
Increased Opportunity For Innovative Solutions

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Shopper Insights Becomes A Strategic Weapon In Competing

Thank You



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