
COMPETING IN A TRANSFORMING ECONOMY 3.0

“The Search For Affordable Solutions”



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Competing In A Transforming Economy 3.0



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Summary Observations



The shopper is in crisis and is now focused on long term survival

1

“Deep Shopping” Is Becoming The New Shopper Norm
Retail “Channel Surfing” Continues With An Increase In Trips

2

Private Label Continues As A “Growth Juggernaut”
Growing Need For “Balanced Thinking”

3

Growing Shift In Shopper Rituals
Developing Potential Reality Of Permanence

4

A Heightened Focus On Ongoing Shopper Behaviors Is Critical
Shopper Insights Becomes A Strategic Weapon In Competing

5

Economic Instability Potentially Changes To Stability In Q4
A Scenario That Could Result In “Light At The End Of The Tunnel”



Competing In A Transforming Economy 3.0 Contains:

- 1 [Executive Summary]
- 2 [Transforming Economy]
- 3 [Consumer Impact]
- 4 [Shopper Impact]
- 5 [Private Label Adoption]
- 6 [Foresight™: A Look Into 2009 Category Performance]
- 7 [Strategies To Compete]

AVAILABLE: NOW



An Economy In Transformation



The U.S. economy is undergoing a transformation; market conditions and consumer shopping and purchase behavior will be fundamentally changed.

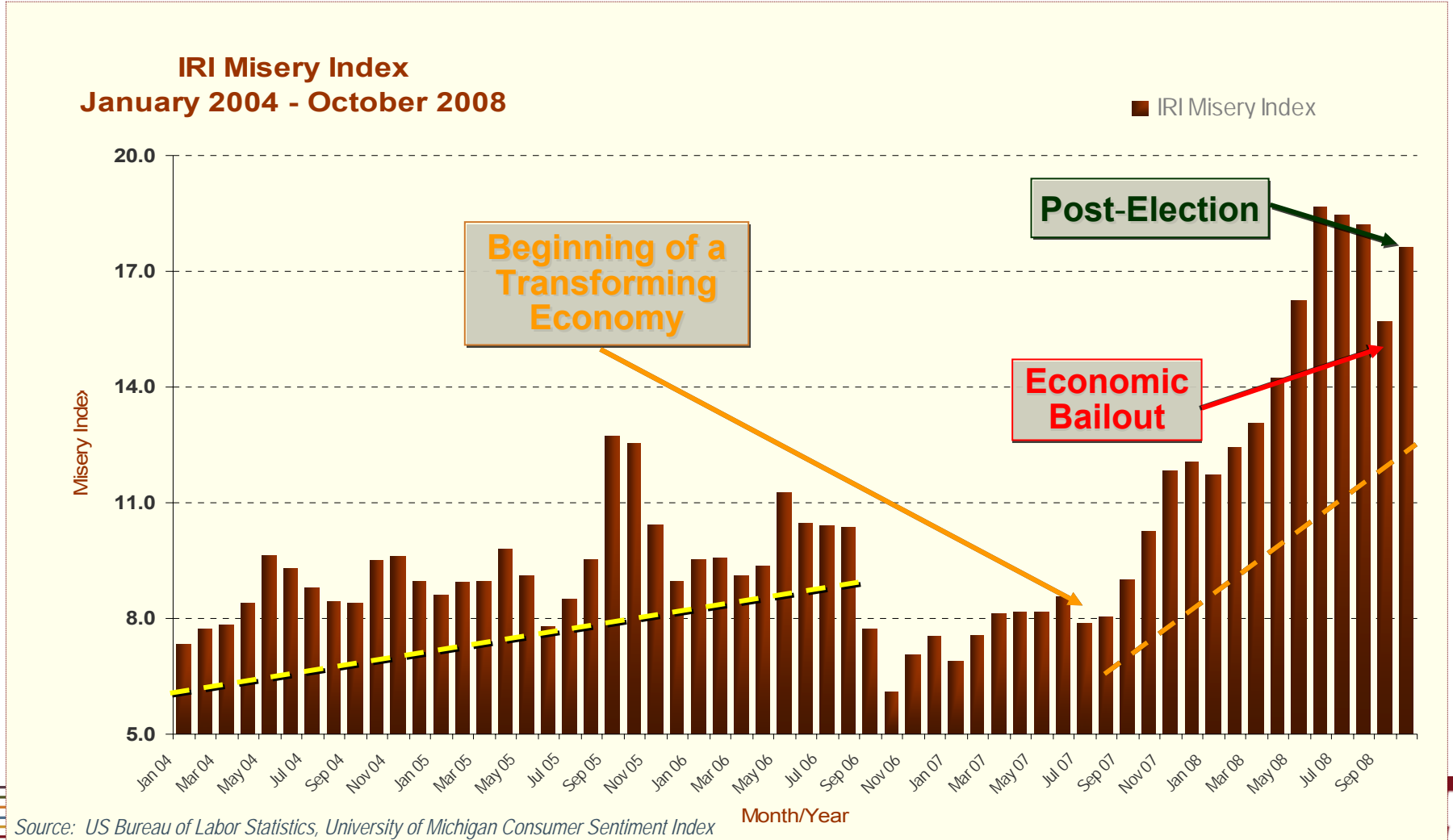
- » **The current economic “sea change” continues to drive significant changes in shopper behavior;**
 - Many of these changes will be permanent;
 - Costs have been offset by sizable price increases across categories with selected rollbacks likely
- » **Sustained higher daily cost of living (energy/transportation, food, health care) have driven changes;**
 - in what consumers buy;
 - where they buy it ;
 - and, what and how they eat
- » **Continued growth of unemployment; loss of financial cushions, financial market instability and the “risk management” of credit:**
 - Contributes to long term consumer growing fear and uncertainty of survival
- » **The current environment is unprecedented in history, and will likely last throughout 2009 and well into 2010**

***The consumer continues to fundamentally change:
A return to pre-downturn conditions unlikely***

US Economy: IRI Proprietary 'Misery Index'



A custom index that captures current consumer economic well-being and expectations of future economic conditions



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A Transformation in Three Stages

A long term perspective on the "Transformed Economic Model"



STAGE I Shocking the System – Q1/Q2 2008

- » A radical rise in energy (gas, home, and electric)
- » Food costs begin to change shopper behavior
- » Shoppers react with the “lens of affordability”

STAGE II A Refocus on Impact – Q4 2008

- » Energy and food costs begin to stabilize
- » Shoppers begin extreme belt tightening
- » Overall focus changes from cost to long term survival

STAGE III The Lasting Reality – 2009

- » Shoppers fundamentally change usage “rituals”
- » Manufacturers and retailers rewire relationships
- » Brand/banner loyalty becomes redefined

Top Line Findings – The Economic “Winter”



The shopper decision making is clouded by complex short and long-term personal issues. “Fear of the unknown” is a critical factor in this year’s purchase decisions.

Economic Factor Importance to Shopping Decisions	% of Shoppers
Immediate Impact	
Rising price of food	90%
Rising price of gasoline	89%
Rising cost of utilities	86%
Rising cost of healthcare	76%
Health concerns for myself and / or family	71%
Long Term Impact	
Recession	77%
Stability of banks and other financial institutions	74%
Stability of your job	62%
Home value	60%
Changes in the stock market	58%
Access to personal credit (e.g. credit cards, car loans, personal loans, etc.)	56%

*The Rising Cost
of Daily Living*

*The “Breaking”
of the American Dream*

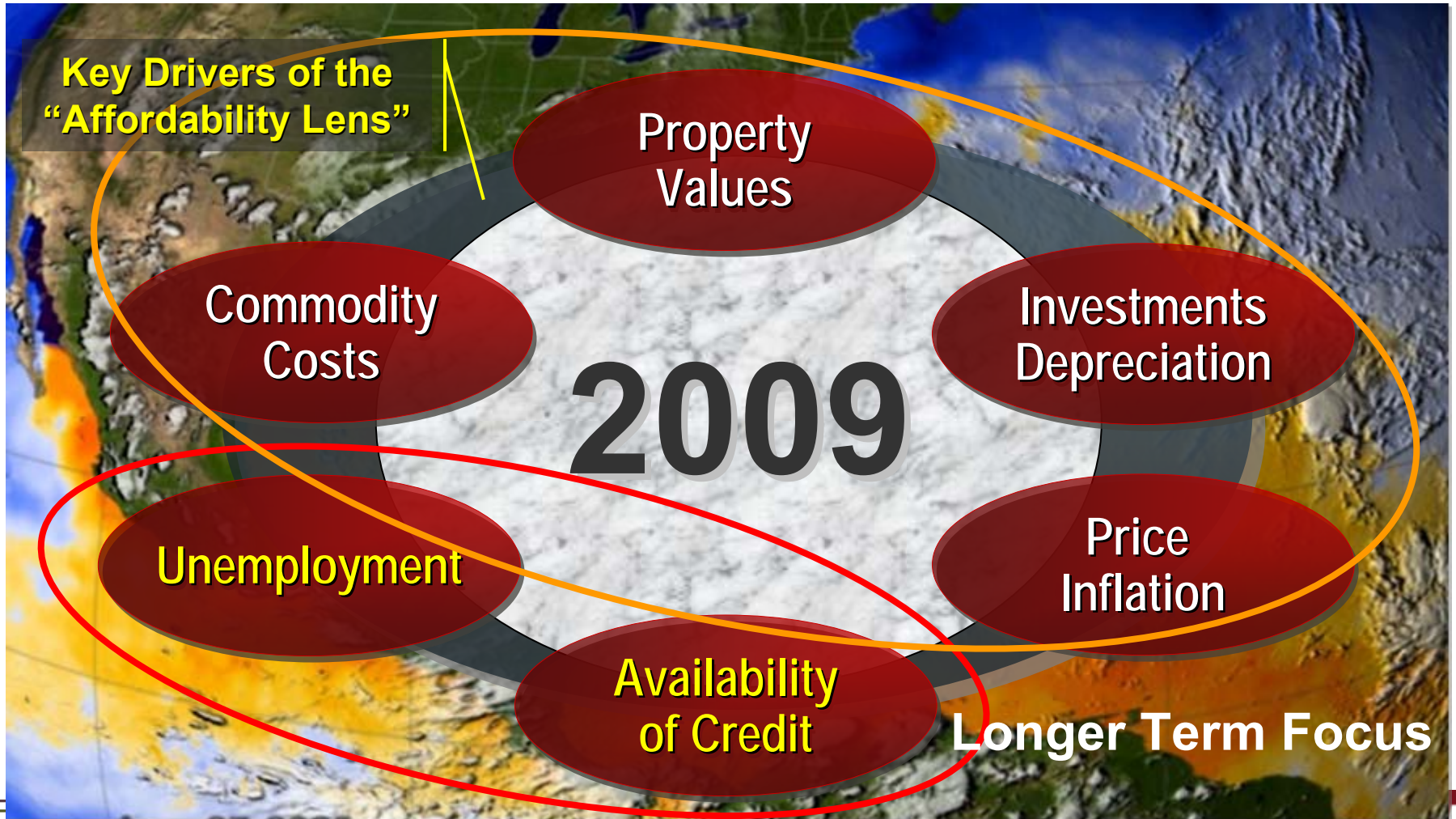
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US Economy: The Perfect Storm



The "winds" of economic change are pressuring US consumers on multiple fronts..



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Unprecedented Economic Environment



% Change versus. Prior Year/Index (Consumer Confidence)

Consumer

Industry

	2001 Recession	Q1	Today Q2	Q3
CPI: All Items	2.8%	3.1%	7.9%	2.6%
CPI: Food & Beverage	3.1%	5.1%	8.1%	8.5%
Gas	(4.1%)	18.1%	24.4%	35.0%
Energy	(2.6%)	12.0%	13.0%	N/A
Unemployment	5.5%	4.9%	5.3%	6.0%
Consumer Confidence	95	63	50	60
Commodity Costs				
Wheat	10.2%	64.0%	84.1%	23.6%
Corn	1.8%	38.5%	59.1%	58.8%
Soy	(6.4%)	48.4%	73.8%	61.1%
Diesel	(6.0%)	32.2%	65.6%	45.6%
Plastic (PET)	0.5%	21.1%	16.5%	(15.1%)

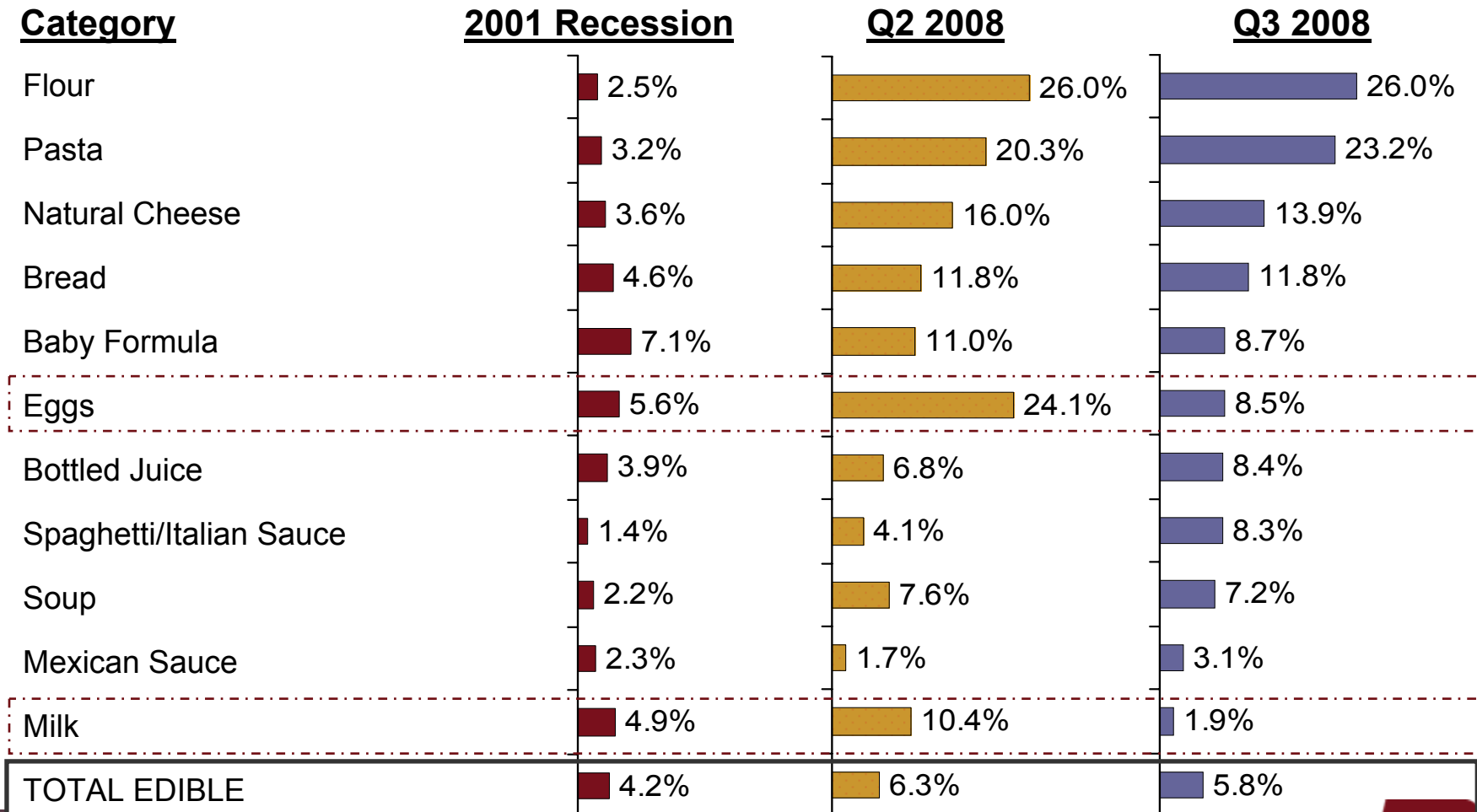
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Unprecedented Price Increases on Staples, Some Q3 Relief As Retailers Roll Back Destination Items



Average Unit Price % Change versus Prior Year



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



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New Shopper Behaviors – Continuing Strategy



Shoppernomics 2.0™ – *availability to affordability* – the new shopper “mantra” – *go-forward strategy should integrate these changing shopper behaviors*

**Low Income
Less Than
\$55K Per Year**

Redefining Life's Basics

Health Care
Beauty Care
Eating
Communal Purchases

**Medium Income
\$55K - \$99K Per Year**

Selectively Deselecting

“Affordable Indulgences”
Home Health and Wellness
Opting out
“Stretching Consumables”

**High Income
Over \$100K Per Year**

Simple Prioritizing

Extending Lifestyle at a Lower Cost



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A Look into the Near Future



Expect the rest of 2008 as well as 2009 to be challenging from a planning perspective.

Q4/Q1

Price increase and roll back “chessboard” in an effort to stimulate demand

Q4

Cost of living rises further challenging the shoppers ability to stretch their dollar

2009

History suggests **a troubled S&P 500** post election – we are seeing that

2009

Shoppers **continue to struggle** while balancing short and long term thinking

The **bold opportunity** is to rethink the role and value of the brand as well as the store



Our Projection of the New Economic Reality



Q1 – as 2009 begins to develop – the attempt to stabilize the economy.

Expect An Economic Recovery Package From Obama

Q4 – Interest Rate Reduction Another 0.5%, Maybe To 0%

Q1 – Funding For State Infrastructure Projects To Stimulate Jobs Versus Unemployment

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Our Projection of the New Economic Reality

Mid-year considerations – the crisis worsens.



And...a Few “Probable” Economic Surprises

- » **Consumer Credit Crunch Deepens**
- » **Commercial Real Estate “Bust”**
- » **Commercial Lending Tightens**
- » **Unemployment Approaches 8% – 9%**



Our Projection of the New Economic Reality



The beginning of the end of the economic dive” – stabilization and signs of “spring”.

Signs Leading To Improvement

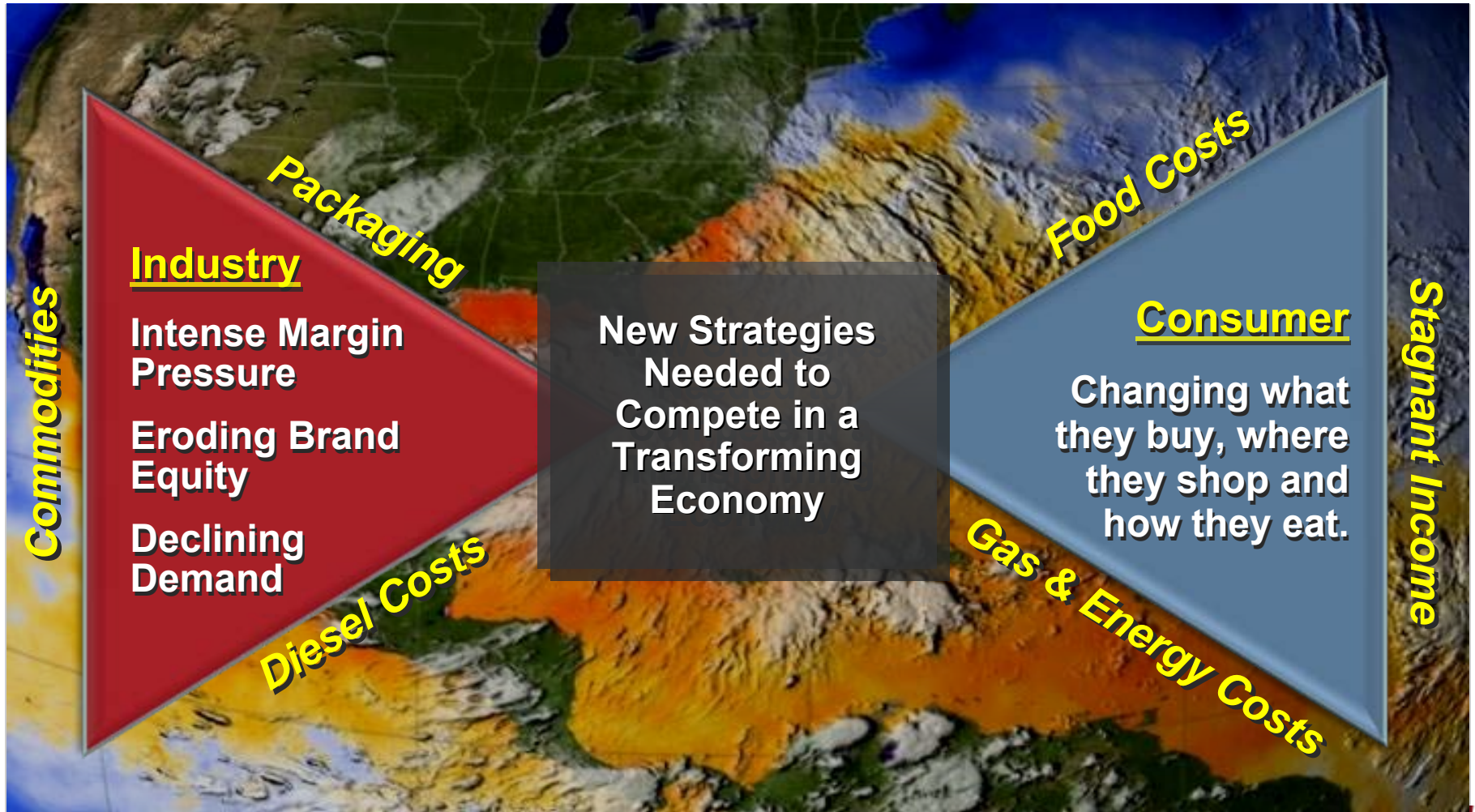
- » Demand Stabilizes***
- » Reduction In Unemployment***
- » Banks Begin Lending With Much Lower Risk***

2010 – Very Limited Growth – 1.5% to 2.0%

An Economy in Transformation



Two "perfect storms" are driving fundamental economic change.



Continuum of Services to Meet Range of Client Needs



Competing in a Transforming Economy 3.0: Components

Times & Trends Executive Overview

- >> High-Level Findings
- >> Publicly available ongoing thought leadership

Industry Study

- >> Detailed Findings & Implications

Industry Tracking

- >> Monthly/Quarterly Standardized Key Indicators
- >> w/Report Purchase

Customized Study

- >> Customized Economic Mitigation Strategies
- >> Targeted Shopper Insights Utilizing Attitude Link Surveys

Monthly Tracking

- >> Monthly/Quarterly Customized Key Indicators Available

Consulting & Analytics

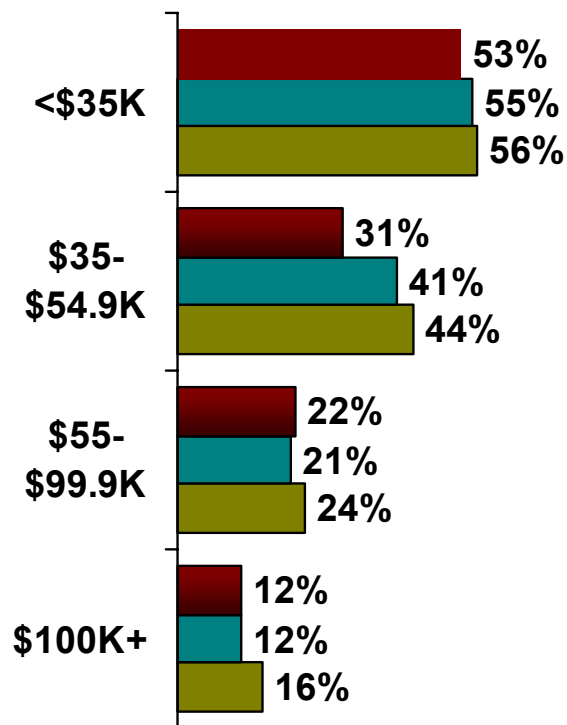
- >> Foresight™ 2009 Forecasting Service
- >> Brand Opportunity Assessment
- >> Private Label Mitigation Strategy
- >> Go-to-Market Strategy
- >> Shopper Insight Capability Development

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Middle To Low Income Continue to Find It Hard To Afford The Groceries They Need



% of Consumers Having Difficulty Buying the Groceries They Need



60% Of U.S. Households Earn Under \$55K per Year

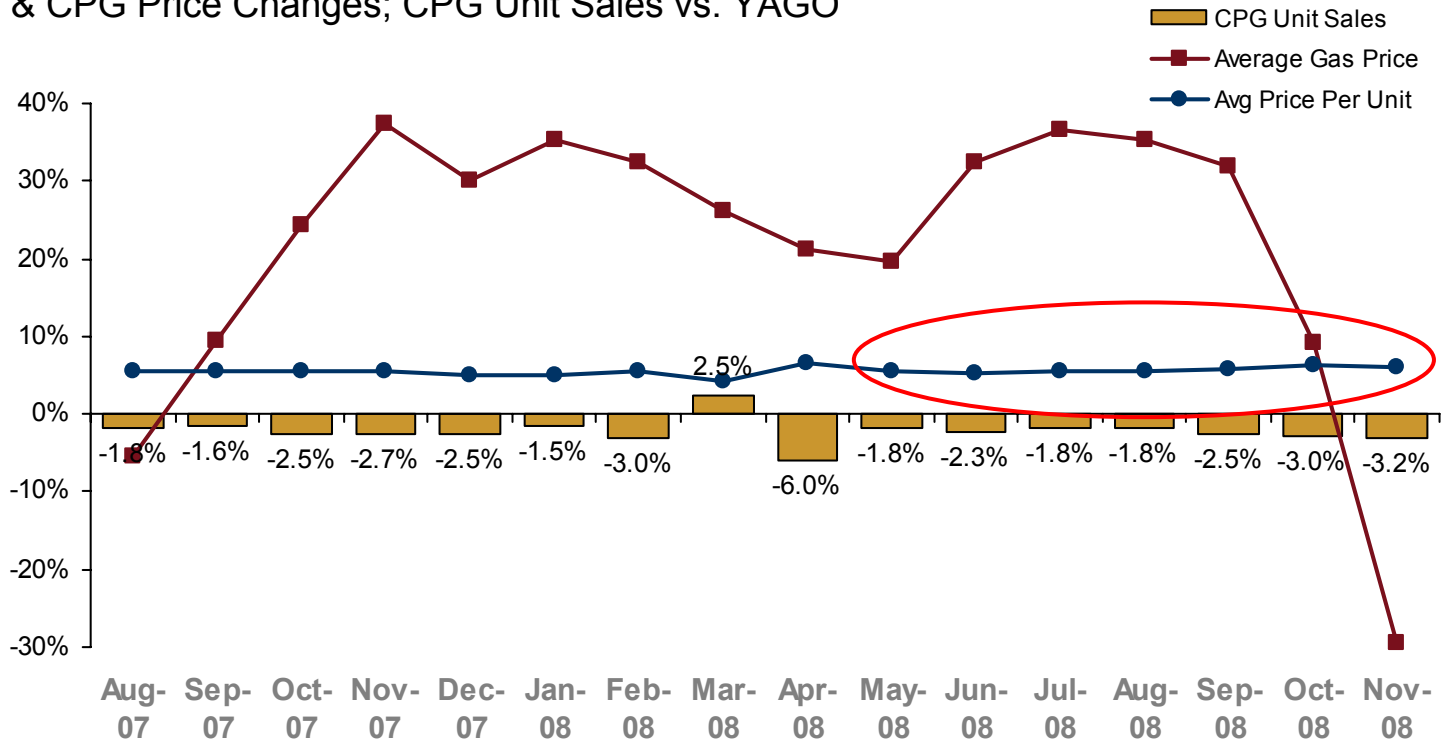
■ Q3 2008
■ Q2 2008
■ Q1 2008

[Shoppers will be seeking affordable solutions to make ends meet]

Plummeting Gas Prices Heading In Q4, CPG Unit Sales Continue To Slide On Increased Prices



Consumer Impact: CPG & Gas Price Impact On Purchasing Fuel & CPG Price Changes; CPG Unit Sales vs. YAGO



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Source: IRI Economic Purchase Behavior Database™, IRI Info Scan® Reviews, U.S. Department of Energy



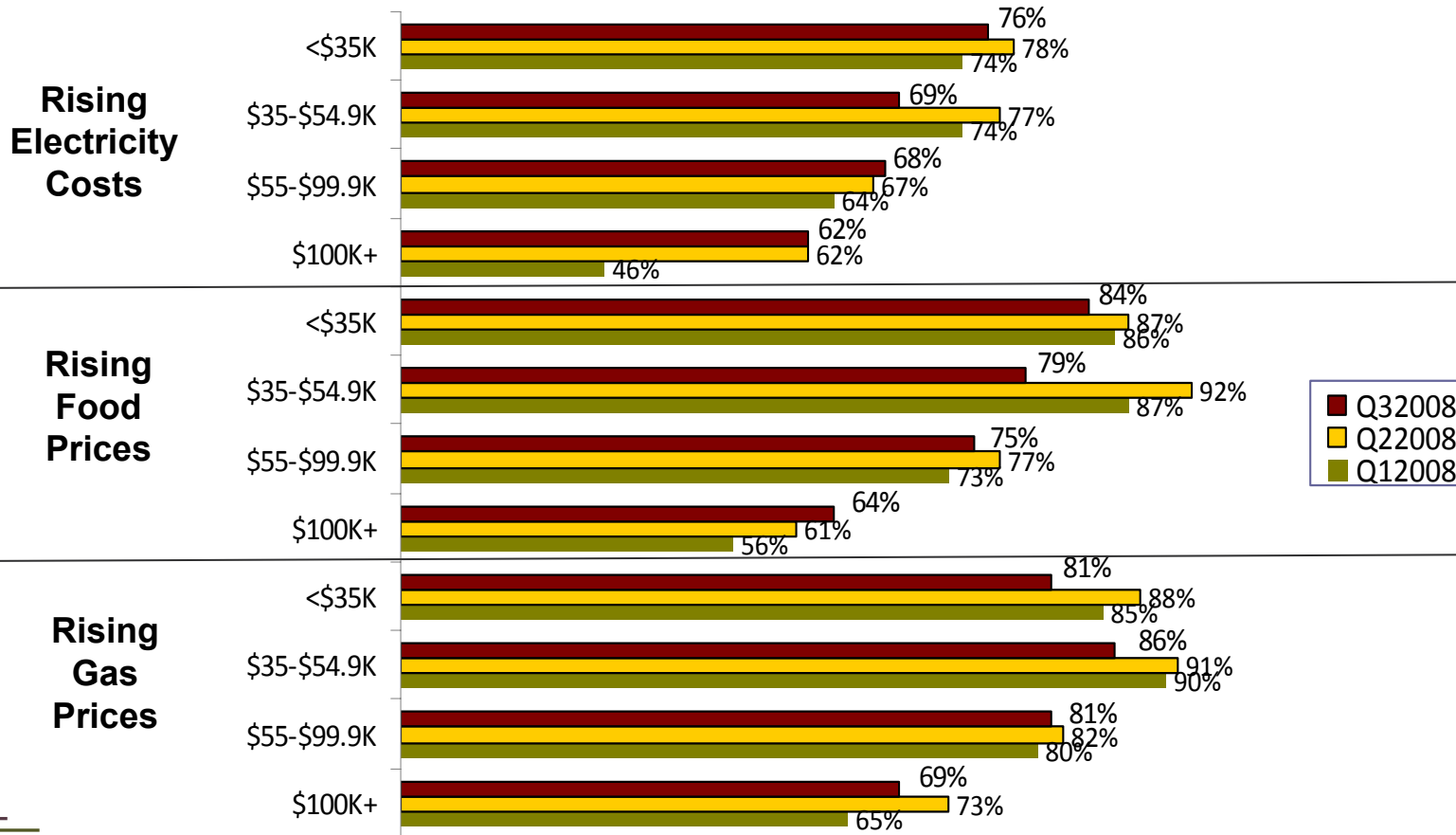
As Economy Continues Downward Spiral All Income Classes Feel Impact Of Rising Costs



Despite lowering gas prices late in Q3, about 80% of consumers remain impacted by fuel costs

Factors Influencing Financial Situation

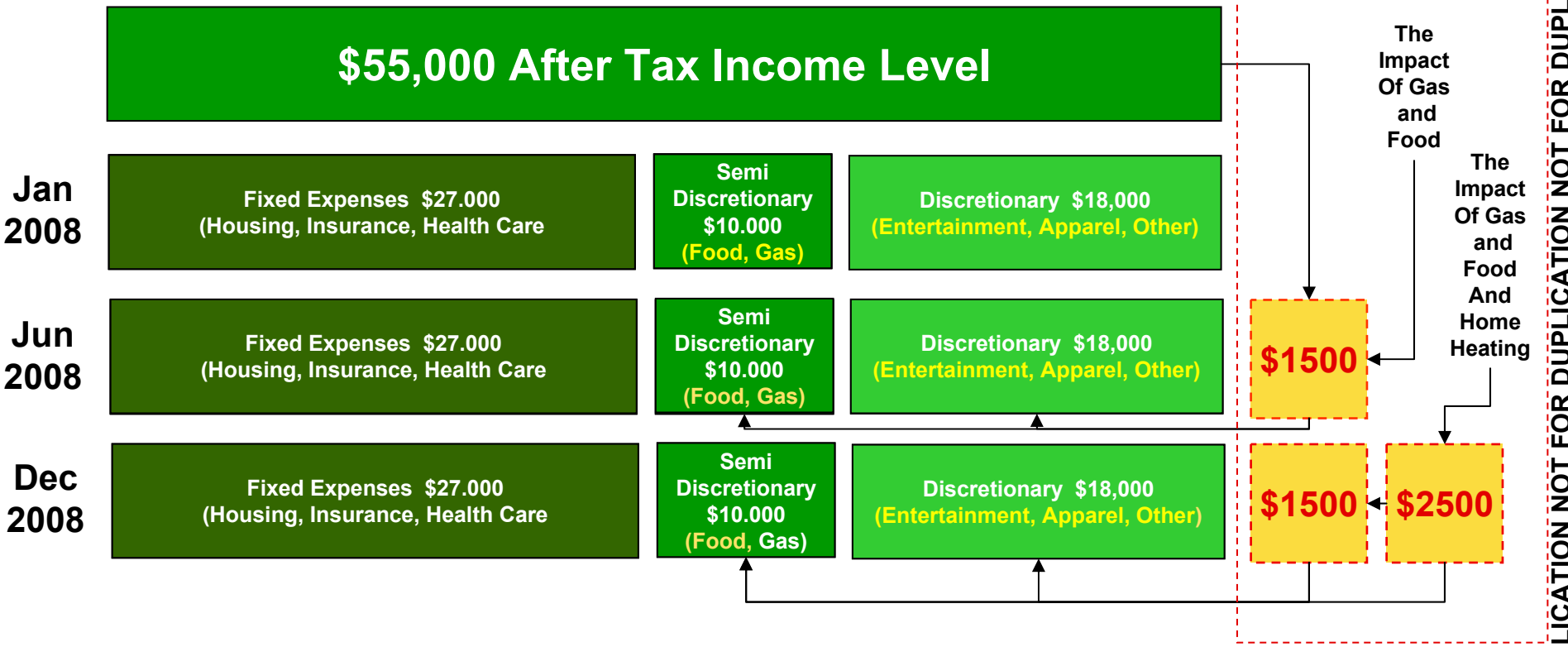
% Agreement By Income Segment



“Wallet Squeeze”, Driving Reduced Discretionary Spending



The “Wallet Squeeze” Has Forced An Estimated \$4000.00 of after tax Unfavorable Choices and Decisions



The Shopper is Struggling with the Ability to Balance Spending



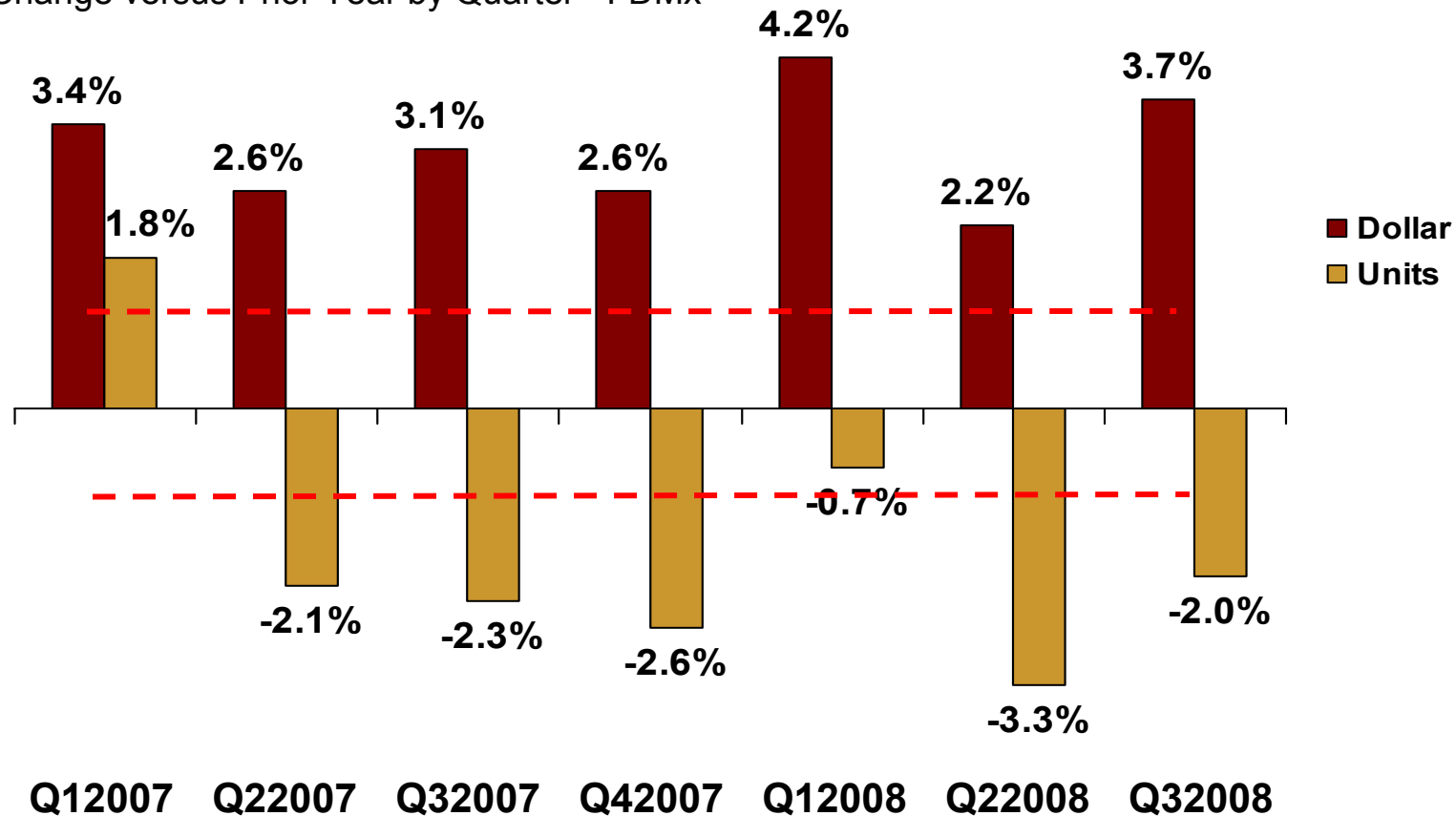
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Economic Conditions Impacted CPG Demand As Shoppers Are Spending More And Buying Less



Total CPG Dollar/Unit Sales

% Change versus Prior Year by Quarter - FDMx



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Sources: IRI Economic Purchase Longitudinal Database™, IRI Info Scan® Reviews

Consumers Are Changing Rituals To Adapt



Changing Meal Rituals

% of Consumers Making Change Over Past Six Months

Meal Strategies	Under \$35K			\$35K – \$54K			\$55K – \$100K			Over \$100K		
	Q1 (195)	Q2 (181)	Q3 (217)	Q1 (238)	Q2 (233)	Q3 (291)	Q1 (306)	Q2 (382)	Q3 (392)	Q1 (118)	Q2 (165)	Q3 (137)
I eat out less often	71%	76%	77%	63%	66%	64%	61%	63%	57%	52%	46%	47%
I buy fewer prepared meals at grocery stores	63%	57%	66%	59%	57%	48%	53%	47%	44%	39%	47%	30%
I cook more from scratch or with fewer convenience foods to save money	60%	51%	59%	59%	55%	45%	53%	41%	44%	36%	30%	33%

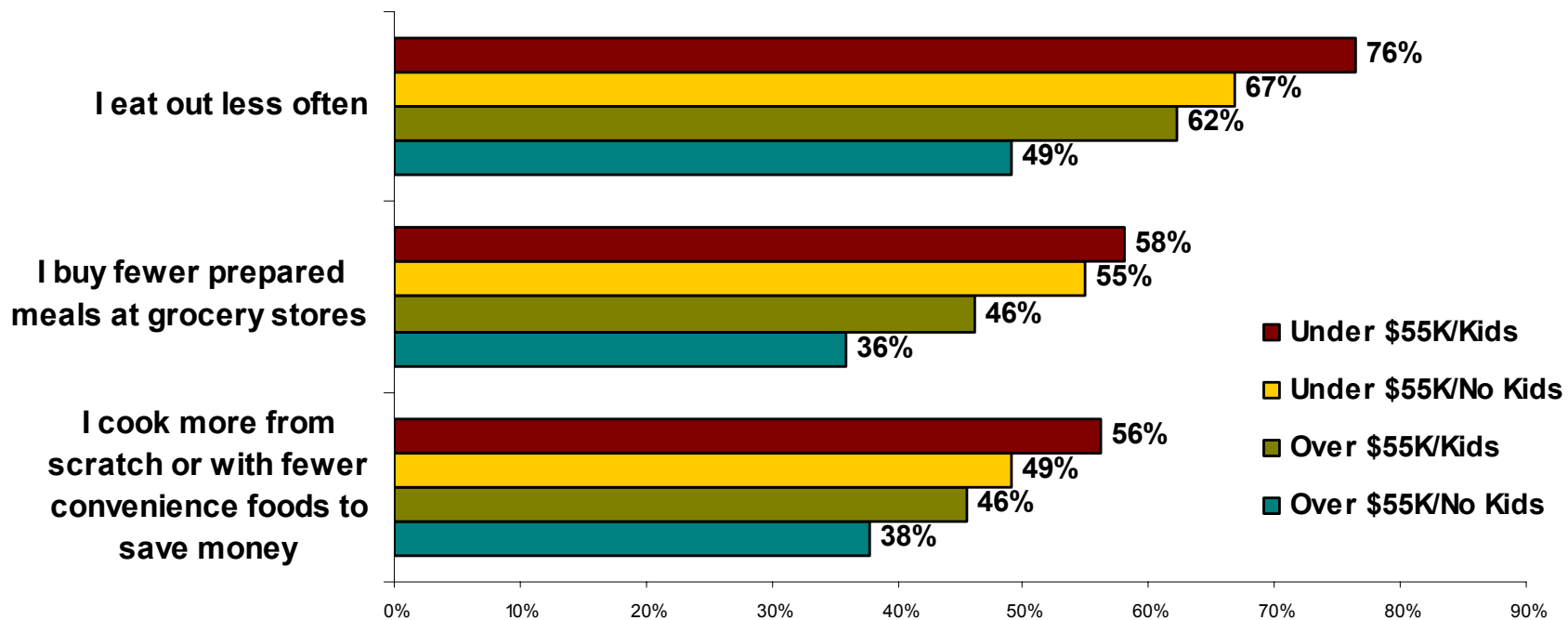
[Products creating and complementing in-home meal solutions, and special in-home dining experiences will be embraced as dining-in remains a savings strategy.]

Households With Children Feeling More Of The Impact, More Likely To Make Changes



Changing Meal Rituals

% of Consumers Making Change Over Past Six Months



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Brands Are At Risk To Private Label And Other More Affordable Options



Changing Brand Strategies

% of Consumers Making Change Over Past Six Months

Erosion of Brands	Under \$35K			\$35K – \$54K			\$55K – \$100K			Over \$100K		
	Q1	Q2	Q3	Q1	Q2	Q3	Q1	Q2	Q3	Q1	Q2	Q3
Price has become a more important consideration than convenience in brand purchases	76%	77%	76%	77%	70%	70%	68%	63%	64%	46%	50%	50%
I am buying more private label or store brands than I used to	58%	56%	63%	58%	55%	51%	47%	45%	49%	31%	32%	32%
I am trying new brands that are priced below my regular brands	62%	62%	58%	55%	58%	47%	46%	50%	44%	35%	33%	31%
I am giving up some of my favorite brands to save money	58%	50%	55%	52%	45%	42%	38%	32%	34%	19%	25%	23%

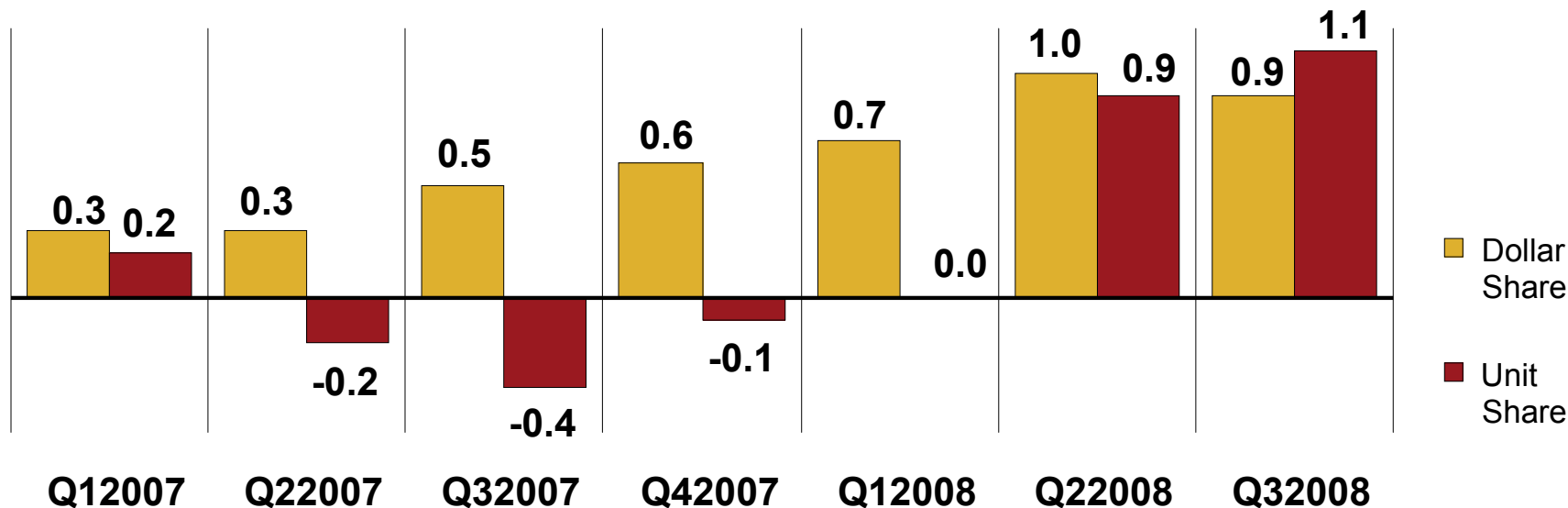
[Brands need to remind consumers that they have a unique value proposition that makes them an essential part of their consumer experiences]

Increased Reliance On Private Label Solutions Evident In Q2 And Q3 As Unit Share Increases



Purchase Behavior: Private Label

All Outlet CPG Share Point Change by Quarter



[Significant unit share gains show private label has increasingly become part of the consumer consideration and usage set. With greater familiarity and confidence in retailer brands, we would expect share to continue to grow]

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



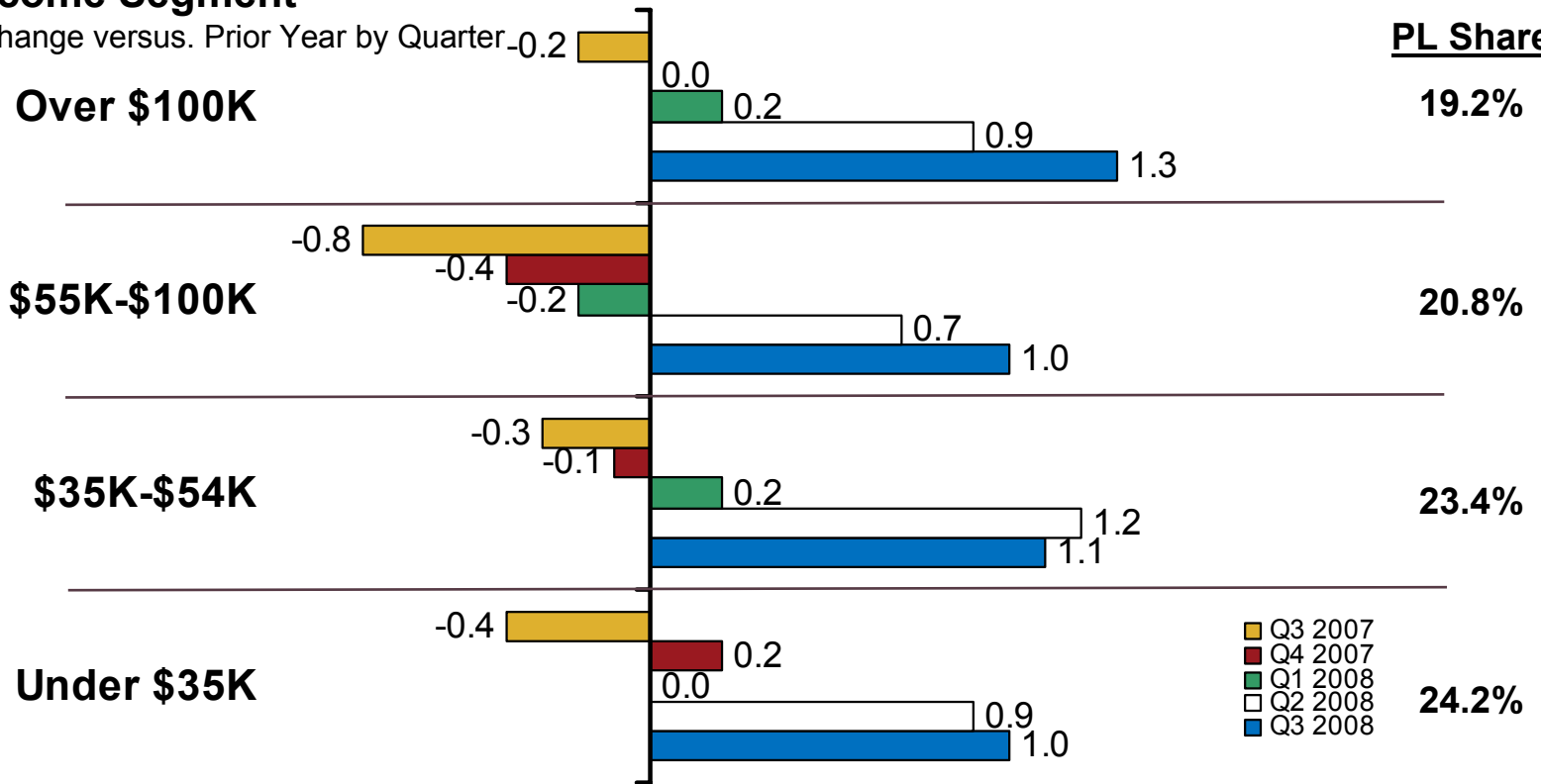
All Income Segments Are Leveraging Private Label As Part Of Their Shopping Strategy



Private Label Unit Share Growth By Income Segment

Point Change versus Prior Year by Quarter

PL Share



[Retailers should aggressively invest in multi-tiered private label lines, ensuring a strong value offering for all income groups]

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



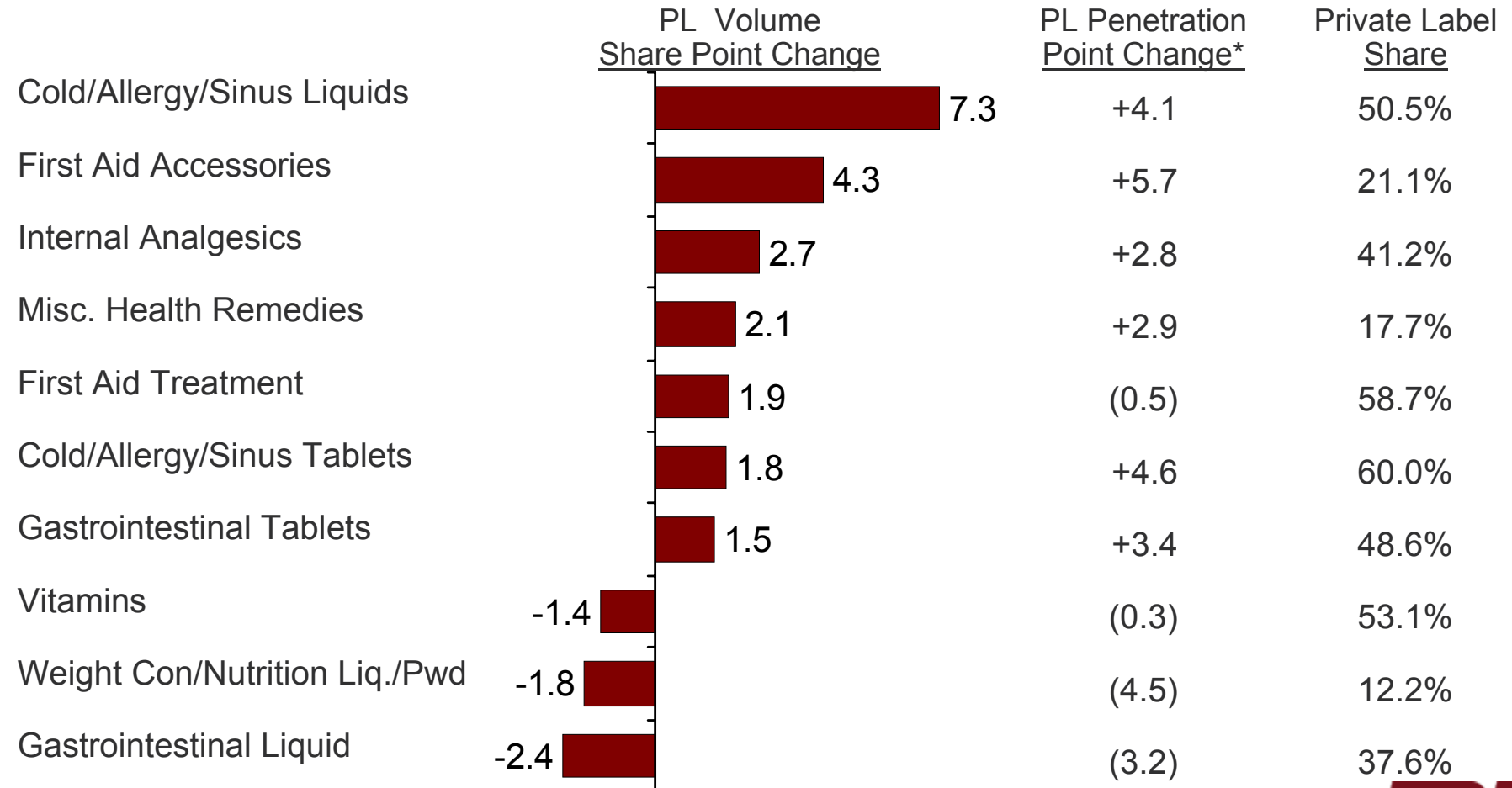
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Private Label Posted Significant Share Gains and Maintained Substantial Share



Private Label – Healthcare

52 Week Share Change Versus YAGO Thru Q3 2008



*Among category buyers

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



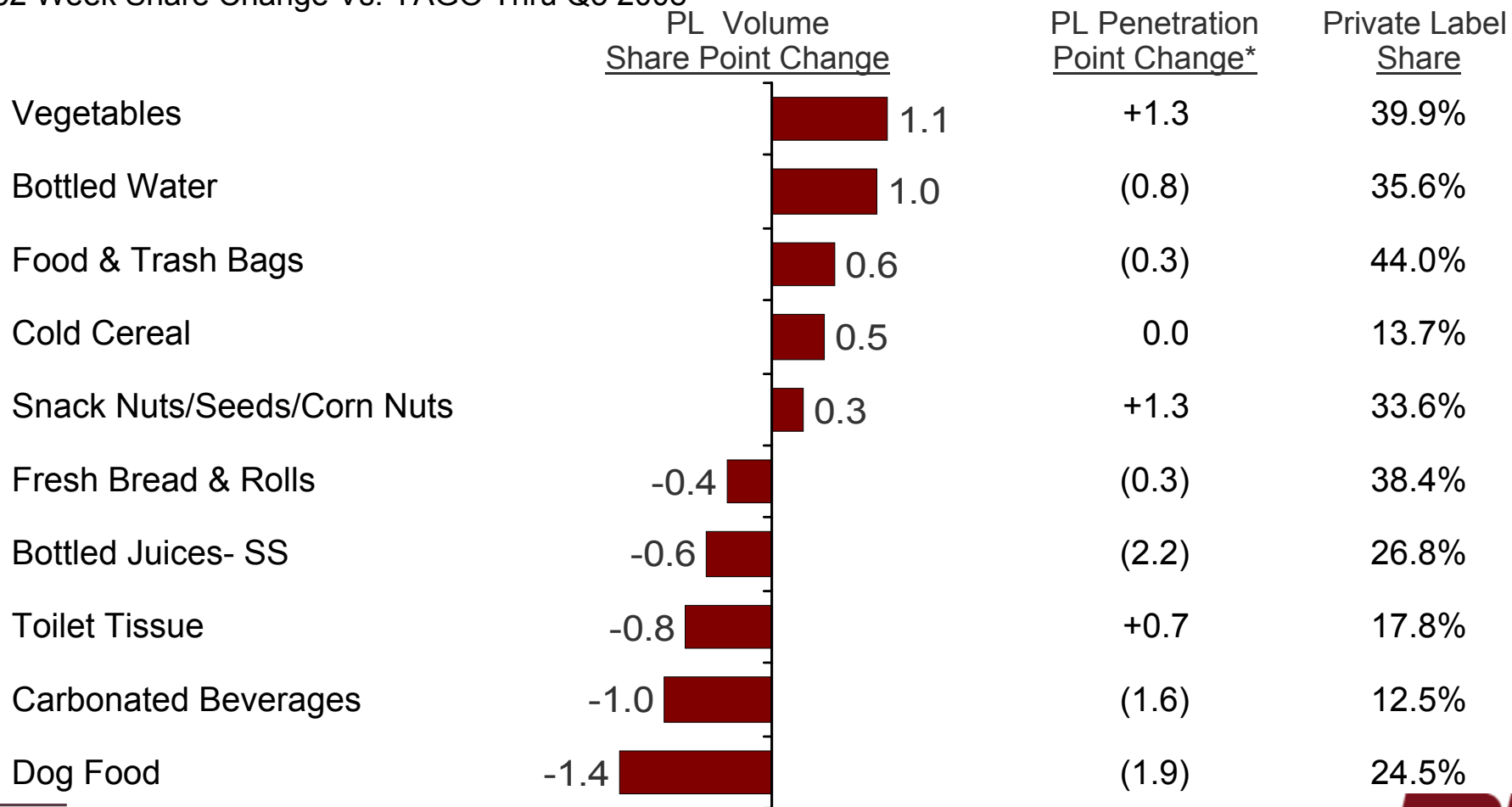
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Retailers May Be Missing An Opportunity to Build Private Label in Center Store



Private Label – Center Store

52 Week Share Change Vs. YAGO Thru Q3 2008



*Among category buyers

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



Private Label Has Secured Share and Penetration Gains Across Many Personal Care Categories



Private Label – Beauty/Personal Care

52 Week Share Change Vs. YAGO Thru Q3 2008

	PL Volume Share Point Change	PL Penetration Point Change*	Private Label Share
Mouthwash	2.7	+2.9	33.8%
Soap	1.8	+2.4	16.8%
Cotton Balls/Swabs	1.6	+2.9	43.2%
Sanitary Napkins/Tampons	1.4	+2.1	17.1%
Moist Towelettes	0.8	+2.3	40.9%
Adult Incontinence	0.5	+4.6	30.3%
Feminine Needs	-0.3	(1.6)	24.7%
Diapers	-0.4	0.0	26.2%
Skin Care	-0.6	(1.4)	13.0%
Eye/Contact Lens Care	-1.1	(1.4)	23.0%

*Among category buyers

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



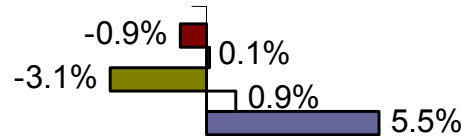
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Most Departments Have Grown Dollars In Q3 Through Price Increases; General Merchandise "Opted Out"



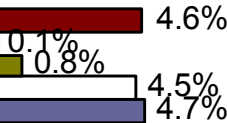
Purchase Behavior: Department
% Dollar Sales Change versus Prior Year by Quarter

Beauty & Personal Care



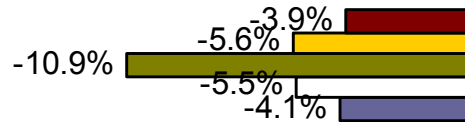
Steady Deceleration to Q32008 Growth Rebound

Healthcare



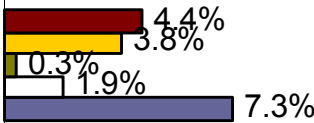
Solid Growth But Some Slowing

General Mdse



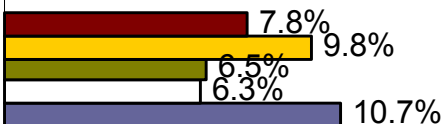
Eliminating Non-Essentials

Frozen



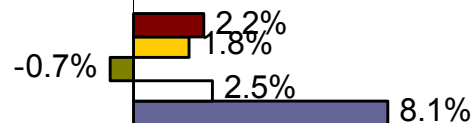
Improvement In Q32008

Perishables



Solid Growth

Center Store



Q32008 Accelerated Growth

- Q32007
- Q42007
- Q12008
- Q22008
- Q32008

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



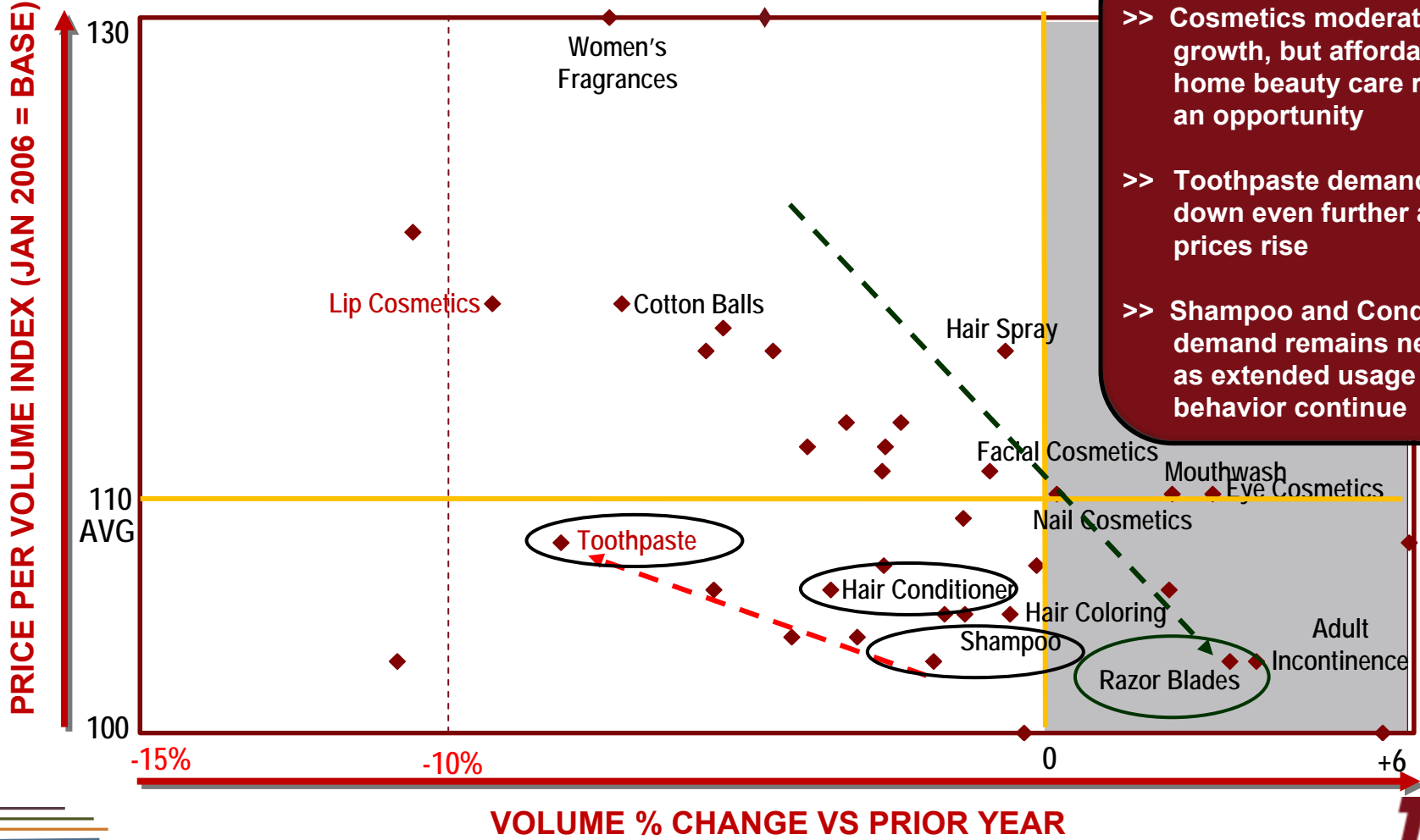
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Some Categories Benefited From Price Roll-Backs Such As Razor Blades, Others Slowed As Consumers "Extended Usage"

Purchase Behavior: Beauty & Personal Care

Q3 2008 Price Index/Demand Growth



Q3 vs Q2 Shifts

- >> Cosmetics moderated growth, but affordable in-home beauty care remains an opportunity
- >> Toothpaste demand is down even further as prices rise
- >> Shampoo and Conditioner demand remains negative as extended usage behavior continue

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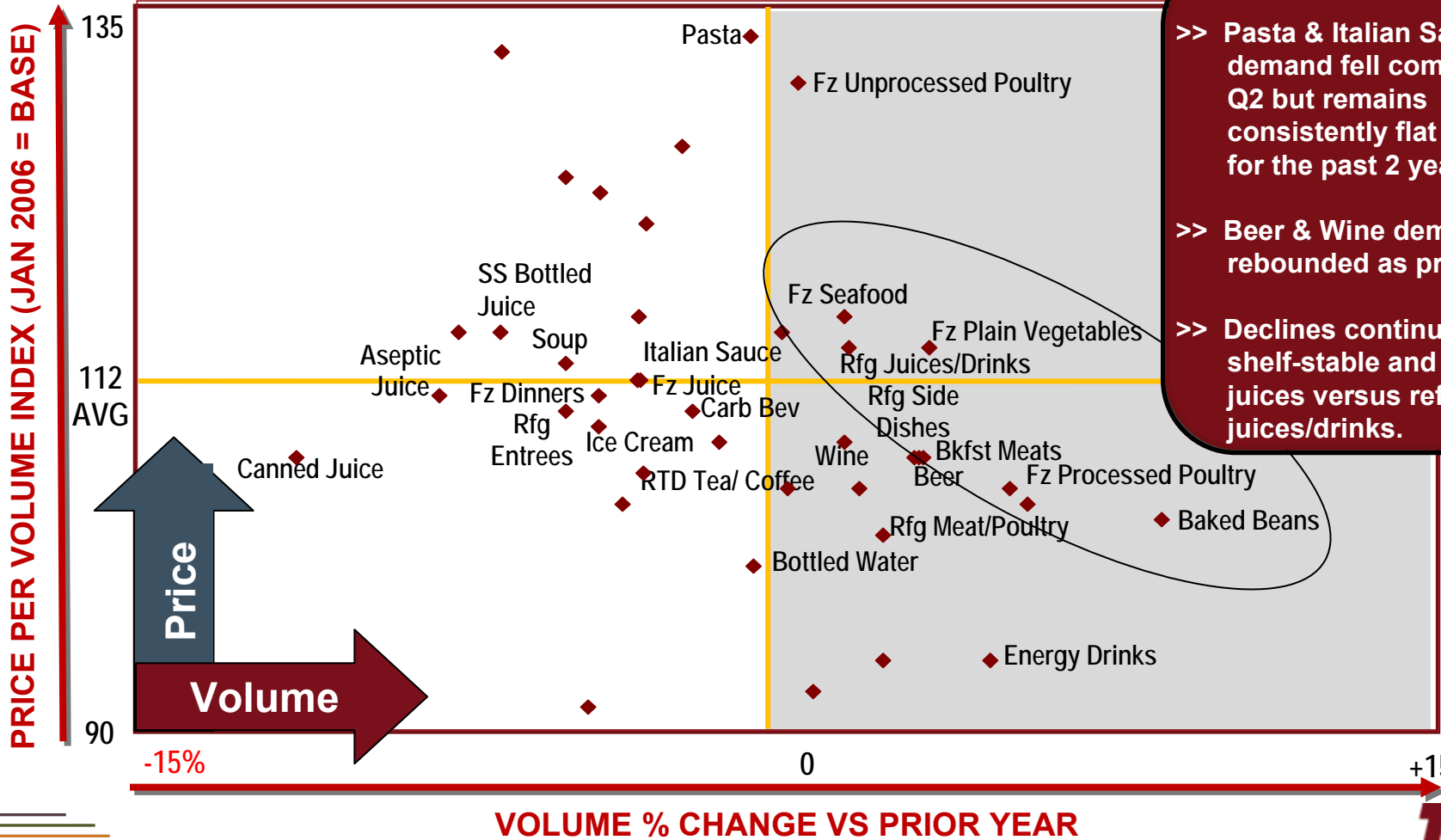




In Q3, Meal Component & Side Dish Trends Hold Strong Including Poultry, Whereas Ready-to-eat Dinners/Entrees Remain Weak

Purchase Behavior: Food & Beverage

Q3 2008 Price Index/Demand Growth



Q3 vs Q2 Shifts

- >> Pasta & Italian Sauce demand fell compared to Q2 but remains consistently flat within Q3 for the past 2 years
- >> Beer & Wine demand rebounded as price drops
- >> Declines continue across shelf-stable and frozen juices versus refrigerated juices/drinks.

Pantry Stocking Behavior Increased in Spend and Trips During Q3



Trip Strategies

CPG Share Pt Change versus YAGO

Total Panel	Dollar Share			Trip Share		
	Q2	Q3	Q3 Share	Q2	Q3	Q3 Share
Pantry Stock Up	0.6	0.9	42%	0.3	0.3	15%
Fill-In	0.0	-0.6	20%	0.0	-0.1	15%
Special Purpose	-0.3	-0.4	17%	0.1	-0.2	18%
Quick Trips	-0.2	0.1	21%	-0.4	0.0	53%

[Even with total shopping occasions picking up, there is an increased emphasis and spending on pantry stock up occasions]

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

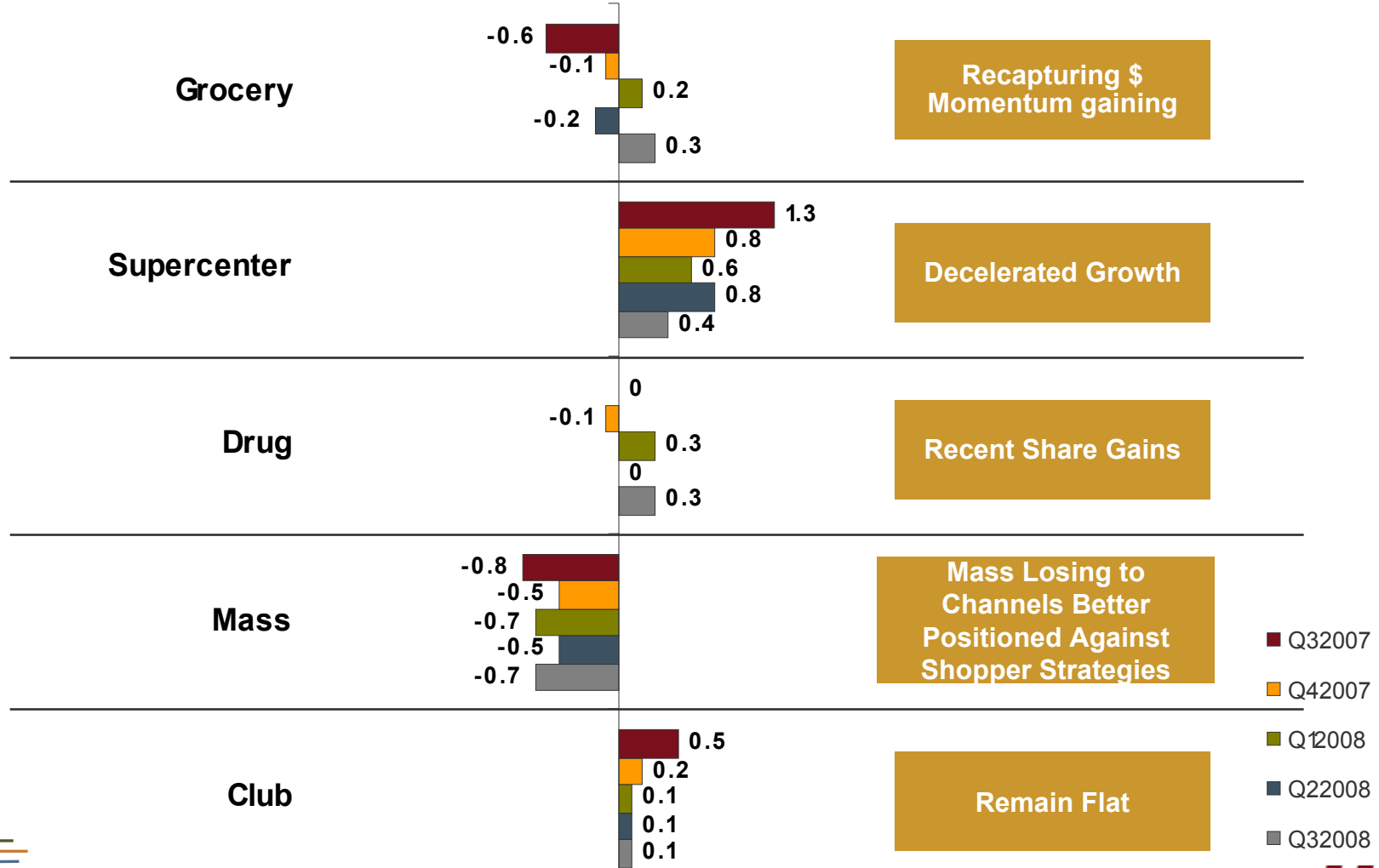


Grocery and Drug Rebound And Gain Share



Channel Migration

Dollar Share Point Change versus Prior Year by Quarter



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



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A Look Into 2009 From IRI Foresight



IRI Foresight is a customized risk management solution that provides IRI clients with category and brand-level sales volume forecasts based on projected macro-economic factors and marketing/promotional inputs.

CATEGORY RISK: *What categories have the highest risk of unit declines based on anticipated changes in CPI , unemployment rate, Gas Prices, Consumer Sentiment; what categories have the lowest risk exposure?*

RISK FACTORS: *What factors are the best predictors of changes in category performance? What factors should you be watching to mitigate category risk?*

Data & Robust Methodology

- » InfoScan Data by Week & Category (Q12004 – Q32008): 25 'Super-Categories'
- » Independent Variables: Unemployment, CPI, Consumer Sentiment, Gas, Base Prices etc.
- » Vector Auto-Regression (VAR): Useful for describing the dynamic behavior of multiple economic series for forecasting



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Transforming Economy 3.0 Delivers 2009 *Foresight* Forecasts Of These “Super Categories”



- ▶ **BABY**
- ▶ **BAKING INGREDIENTS**
- ▶ **BEAUTY CARE**
- ▶ **BEVERAGES ALCOHOLIC**
- ▶ **BREAKFAST**
- ▶ **CLEANING HOUSEHOLD SUPPLIES**
- ▶ **CARBONATED BEVERAGES**
- ▶ **DAIRY**
- ▶ **FROZEN DESSERTS**
- ▶ **FROZEN MEALS & SIDE DISHES**
- ▶ **FROZEN MEAT POULTRY SEAFOOD**
- ▶ **GENERAL MERCHANDISE**
- ▶ **HEALTH CARE**
- ▶ **JUICES**
- ▶ **MEAL INGREDIENTS FLAVORING AND TOPPINGS**
- ▶ **PACKAGED FRUITS VEGETABLES**
- ▶ **PERSONAL CARE**
- ▶ **PET**
- ▶ **RFG MEALS COMPONENTS**
- ▶ **RFG PACKAGED MEAT**
- ▶ **SINGLE SERVE MEALS & SIDES**
- ▶ **SHELF STABLE SNACKS**
- ▶ **SHELF STABLE/RFG BAKED GOODS**
- ▶ **TEA COFFEE ENERGY WATER**
- ▶ **TOBACCO**

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Five Key Economic Issues to Monitor



We Recommend That These Key Economic Indicators Be Closely Watched Through 2009 To Keep "Closely Aligned" with the Shopper

1

The Contained Fluctuation of Energy Costs
Gas, Home Electricity, and Heating

2

Home Value "Deflation"
The Challenge of Current and Future Net Worth

3

Spiraling Food Cost Increases
The Magnification of the "Affordability Lens"

4

Unemployment Claims
Continuing Uncertainty Leading To Further "Controlled Spending"

5

Government's Ability to Deal with Deficit Spending
Can the US legislature Get a Handle on Uncontrolled Spending

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» For More Information



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