

Times & Trends

A Snapshot of Trends Shaping
the CPG and Retail Industries



February 2010

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2009 CPG Year in Review *A Market Defined by Personalized Shopping Strategies*



Lessons Learned from a Year to Forget

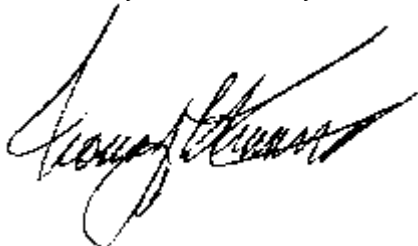
Why did media write their post mortems on 2009 so quickly? Because they are trying to put the year behind them once and for all. Now it is IRI's turn. After this report, we will never speak of 2009 again!

IRI has comprehensively chronicled and analyzed the causes and effects of the recession in the groundbreaking "Transforming Economy" series of reports. Now that the recession is past, it is useful to identify and understand the lasting changes it has effected on the economy. We note five clear trends:

- Consumers were jolted by the speed and severity with which the recession struck. They overcompensated with draconian strategies to cut CPG spending to the bone – even to the point of planting gardens to grow their own food. While the majority of shoppers have at least partly reverted to their "normal" shopping patterns, many will continue at least some of the frugal habits they acquired.
- The return of energy prices (both home heating and gasoline) away from their spike in 2008 to more normal levels enabled shoppers to recover sufficient income to travel within a wider geographic area to find the best deals. Having redefined value with a much greater weighting on affordability, by 2009, consumers were able to find the deals that best fit their new shopping values.
- More than 40 of the top 100 CPG categories experienced significant price increases in 2009, a trend that is continuing into 2010. While these increases are driven by a variety of market factors, most consumers still define value firstly on price and it remains to be seen if CPG and retail companies will be able to make these increases stick.
- This recession saw a return to "self help." From more meals prepared at home, to home beauty treatments and home health care, consumers took into their own hands a wide range of services they previously purchased. IRI anticipates that shoppers will only hesitantly revert to old habits. Why? Because people have discovered that home prepared meals taste better and are better for them. They have also realized that for a wide range of services, such as home hair coloring, that they can achieve 90 percent of the quality for 20 percent of the cost.
- The share gains of private brand products have become too significant to ignore. Once the "crazy aunt who lives in the basement that everyone wants to forget," as Ross Perot once famously stated, the private brand juggernaut will only continue. To dismiss the popularity of private brands as a low price play is dangerous. Many retailers have carved out unique value propositions for private brands that include quality and convenience, as well as price. CPG companies need to devise strategies that assume private brands will continue to gain in popularity.

One final note on 2009. Times of rapid market change reveal the companies that are true innovators. Innovators find a way to win, period. That is why our Reinventing CPG and Retail Summit 2010 focuses on three broad themes: Insights, Innovation and Impact. It will be held at the J.W. Marriott San Antonio Hill Country from March 22 – 24, and I'd like to personally invite you to attend. Learn more by visiting and registering at: <http://us.infores.com/NewsEvents/tabid/89/ctl/Details/mid/539/ItemID/890/Default.aspx>

As always, I welcome your thoughts, ideas and observations.



Thom Blischok
President, Shopper Marketing and Innovation



EXECUTIVE SUMMARY: TURNING INSIGHTS INTO ACTION

INSIGHT

- » Consumers continue to exercise deliberate and conservative spending behavior, driven by prolonged economic discord and reinforced by projections of a return to inflationary CPG prices
- » Gas prices' return to historic norms has opened the door for escalating channel migration activity; grocers are aggressively working to improve their price-value reputation to retain and attract budget-conscious shopper
- » 63 of the top 100 CPG categories experienced higher than average price increases in 2009, driven by market forces and the move to sustainable CPG; these factors are forecast to lead to CPG price increases in 2010
- » Consumers remain focused on saving money through at-home, from-scratch meal preparation and self-administered health and beauty care; categories that cater to these behaviors have performed well, and are expected to remain strong throughout 2010
- » Private label share gains cut across nearly all CPG departments and are illustrative of consumers' recession driven ritual changes, including at-home cooking and self-care

ACTION

- » Continually re-examine price and promotion strategies through consumers' new "lens of affordability" to ensure alignment with key consumer groups, as well as corporate and partner goals
- » Improve affordability with region and store-specific, highly targeted pricing and merchandising strategies across high priority categories and segments
- » Ensure that pricing strategies are founded on ongoing advanced market and consumer analytics; carefully test all price change strategies before rollout, and frequently monitor impact
- » Develop multi-pronged and complementary promotional programs touting highly targeted advertising messages of wellness and "made at home goodness" to ensure relevance among key consumer groups
- » Invest to understand collaborative opportunities that will provide consumers with solutions-based and/or multi-tiered CPG solutions across key categories



INTRODUCTION

Conservatism has become the new shopper mantra, and will have a lasting impact on CPG behaviors.

The year 2008 will go down in history as the year the United States entered the most significant recession since World War II. It is a recession that has now, in early 2010, officially entered its second year. U.S. consumers are tired.

From an economic standpoint, a lot has happened since the recession began. The stock market plummeted, good and energy prices soared, housing markets crashed, and unemployment levels began a significant upward march.

The good news is that the economy appears to be slowly recovering from the turmoil. The stock market is perking back to life, food and energy prices have subsided, the housing market appears to be slowly returning to “normal.” Unfortunately, unemployment rates are still climbing.

It is not surprising that consumers have made substantial changes to their daily lives to withstand this tumultuous economy.

The home has once again become the nucleus for daily living. At-home and from-home eating has increased significantly. Consumers are cooking from scratch and/or with less convenience items to save money. Health and beauty care is more frequently self-administered.

Shopping habits have also undergone a stark metamorphosis. Big-ticket purchases have been reduced significantly. Needs and wants have been reconsidered; many

wants have fallen by the wayside. Trading down, channel surfing, coupon clipping and sale shopping are all now common aspects of the shopping routine. These behaviors are here for the foreseeable future.

CPG marketers are nimbly adapting to these changes with beefed up promotional programs, aggressive pricing tactics and refined assortment/distribution strategies.

Still, consumer attitudes and behaviors are changing quickly. The need for ongoing market and consumer analytics remains quite high. These analytics will form the foundation of powerful marketing programs.

The year 2010 is one of opportunity. With ongoing economic uncertainty, consumers are turning to the packaged goods industry to satisfy a growing number of daily needs. CPG marketers with the ability to understand, or even *anticipate*, these evolving needs will forge relationships that will outlast the recessionary environment.

This issue of Times & Trends explores economic, channel, department and category performance over the past year. The report is intended to help CPG marketers understand market opportunities and risks by benchmarking performance versus the industry, and act on this knowledge with confidence and agility.



The return of inflation and the continuation of market instability will likely result in further rounds of belt tightening, driving consumers to brands and banners that cater to a dire need for value and affordability.

ECONOMIC OVERVIEW

2009 PERFORMANCE/ 2010 PROJECTIONS

The United States has officially been in a recession since November of 2008. But, economic tremors began many months before then. By the end of 2008, consumers had already hunkered down for the long haul.

Across a range of economic measures, 2009 was a difficult year. Unemployment rose sharply and retail sales plummeted. GDP fell 1.2%, and building permits were down considerably.

On the positive side, though, the financial markets appear to have stabilized. And, consumer prices entered a deflationary period. For the year, consumer prices fell 0.4%.

For the first time in many months, the economy is showing some signs of recovery.

Despite some positive indicators, the economy does remain very uncertain. Unemployment is expected to rise well into 2010, and

the country's deflationary period is predicated to end.

In 2010, consumer prices are expected to rise 1.7%. The USDA expects food prices to increase 2.5%-3.5% in 2010. Several key CPG categories, including milk and eggs, are expected to resume inflationary trends after deflating in 2009.

Consumers are very shaken. They remain steadfastly in savings mode, and driven by a "new lens of affordability". The return of inflation and the continuation of instability will likely result in further rounds of belt tightening. Consumers will migrate to brands and banners that cater to a dire need for value and affordability. Those that don't will be left behind.

Economic Measure	2008	2009	2010
GDP	2.6%	-1.2%	2.6%
Unemployment	5.8%	9.3%	10.6%
Consumer Price Inflation	3.8%	-0.4%	1.7%
Retail Sales	-0.7%	-6.5%	2.4%
Building Permits (millions)	3.58	2.24	3.04

Source: Moody's Economy



INDUSTRY PERFORMANCE TOTAL CPG GROWTH TRENDS

Unit sales slid across CPG channels, but grocers are showing resilience.

Though the economy has made some steps toward recovery, 2009 was a very difficult year for U.S. consumers. Financial markets, housing markets and employment markets are each in a less-than-favorable condition. And consumers remain justifiably concerned.

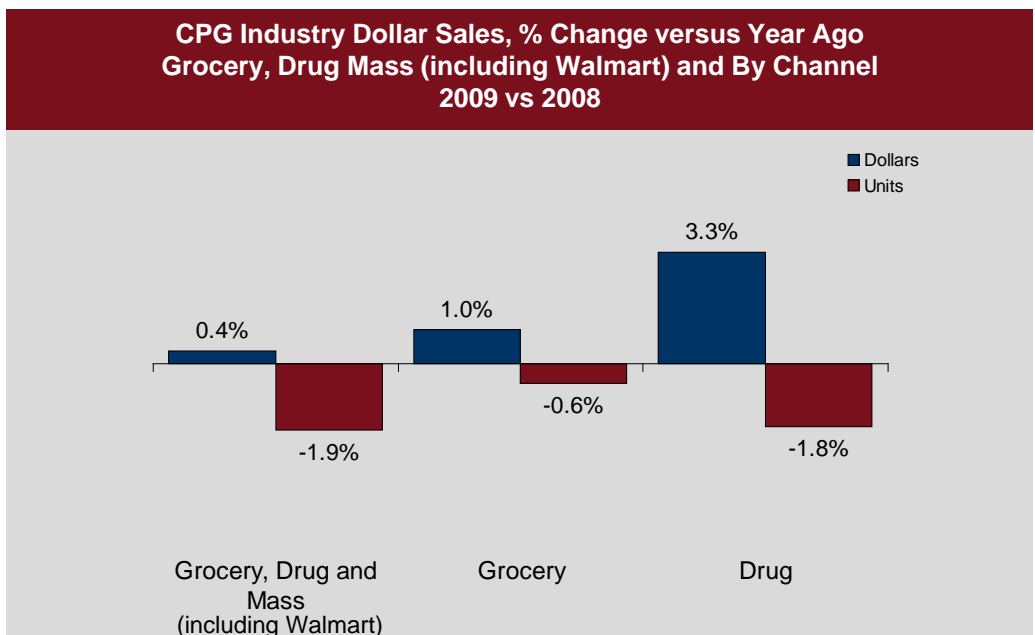
On top of that, CPG prices continued to climb at higher-than-average rates for the first half of 2009. In fact, it wasn't until the third quarter of the year that a considerable decline in inflation was appreciated.

It is not surprising, then, that consumers remain in a very conservative mindset. Purchases that can be eliminated have been, and those that can't have been delayed. Trading down is commonplace today, as is "stretching" product uses.

For the CPG industry, the net result of these conservative behavior patterns is logical. Across grocery, drug and mass channels, CPG unit sales slipped 1.9%. Dollar sales climbed slightly, but simply as a result of inflationary pricing trends. These trends will be explored in more detail later in this report.

Performance in the grocery channel was actually stronger versus the industry as a whole (and stronger versus the drug channel). Grocers have invested heavily to change a long-perceived notion that their channel is more expensive versus others. Today, "everyday low price" strategies are rather commonplace, as are temporary price reductions and reinvigorated display efforts.

The return on this investment has been significant, as detailed on the following page of this report.



Source: IRI MarketInsight™, 52 weeks ending 11/29/2009 and same period prior year



The grocery channel posted share gains of one-half point, while competing channels demonstrated flat-to-negative share performance.

INDUSTRY PERFORMANCE CHANNEL SHARE SHIFTS

Grocers are locked in a price war with each looking to lure budget-conscious shoppers from the other grocers and from competing channels. The ranks of grocers announcing aggressive price actions is substantial, including Kroger, Giant Eagle, Safeway, and many others.

These efforts, as well as an increased focus on private label offerings, merchandising and customer service, have been rewarded. In 2009, the grocery channel gained one-half share point, while competing channels demonstrated flat -to-negative share performance.

Drug channel share fell slightly in 2009, following two years of low-level growth.

In 2007/8, the channel was positively impacted by gas price trends. During the period of particularly high gas prices, consumers frequently turned to close-to-home drug store outlets for fill-in shopping trips. As gas prices subsided at the end of 2008 and into 2009, this behavior shift waned.

Drug channel share in 2009 is nearly identical to 2007 share.

This year will be one of uncertainty, in terms of economic inputs and consumer response. No doubt, CPG marketing strategies will play a powerful role in determining channel behavior in the foreseeable future.

All Outlet CPG* Dollar Share Shifts

	Channel Share	Share Point Change	
	2009	2009 v 2008	2007 v 2006
Grocery	55.9%	+0.5	(0.9)
Drug Store	5.5%	(0.2)	+0.2
Mass Merchandise	7.3%	(0.4)	(0.7)
Supercenter	14.8%	(0.1)	+1.3
Club	8.5%	+0.1	+0.3
Dollar	1.6%	+0.2	+0.1
Convenience	0.8%	0.0	+0.1
Specialty	5.6%	(0.1)	(0.5)
Walmart**	19.1%	(0.1)	+0.9

Source: IRI Consumer Network™, 52 weeks ended 12/27/2009 and same period prior year
* Across IRI InfoScan® Reviews Categories ** Walmart, including Neighborhood Markets



CATEGORY AND DEPARTMENT GROWTH TRENDS DEPARTMENT LEVEL GROWTH TRENDS

Unit sales declines cut across most CPG departments; fresh/perishable was the exception, boosted by at-home meal behaviors.

U.S. consumers remain steadfastly entrenched in conservative shopping and consumption patterns. Prioritized and streamlined spending practices are evidenced in moderate-to-significant unit sales declines across nearly all CPG departments.

Fresh/perishable was the only department to see unit sales climb in 2009. Consumer's back-to-basics mantra is a key driver of this growth. For example, salad dressings and spreads each enjoyed solid unit sales growth as consumers embraced from-scratch cooking as a money-saving tactic.

The frozen foods department was also somewhat buffered from recession-driven cutbacks. Savvy marketers, such as those behind IRI New Product Pacesetter products Healthy Choice Café Steamers and DiGiorno Ultimate frozen pizza, catered to consumers' calls for easy yet affordable mealtime

solutions and were rewarded with solid sales gains.

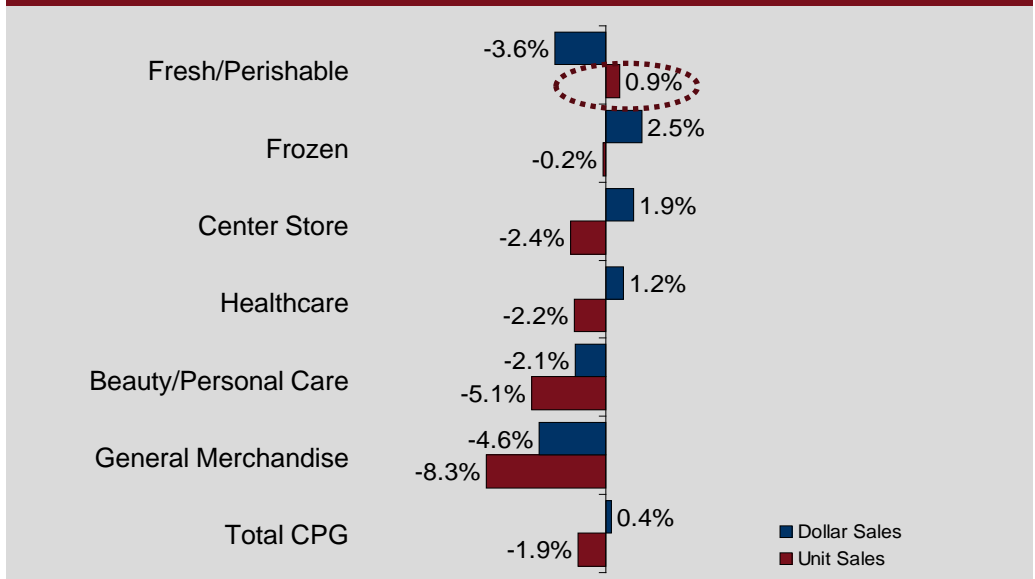
The sharpest declines were seen in beauty/personal care and general merchandise departments.

General merchandise is feeling the brunt of consumers' conservative ways. To save money, consumers are tightly restricting spending in categories such as batteries and light bulbs, resulting in double-digit sales declines.

Declines in beauty/personal care are driven by consumer efforts to streamline and stretch product usage. Though to a lesser degree, the same holds true in healthcare and center store.

More of the same is expected in 2010. CPG marketers must expect conservatism, but work to provide price relief that will encourage purchase activity.

**Department Level Dollar & Unit Sales, % Change versus Year Ago
Grocery, Drug, Mass (including Wal-Mart)
2009 vs 2008**





CATEGORY AND DEPARTMENT GROWTH TRENDS DRUG CHANNEL GROWTH TRENDS

Healthcare and beauty/personal care departments remain a stronghold for drug channel retailers.

At the height of gas prices in 2008, the drug channel enjoyed an up-tick in traffic and frequency as consumers turned to close-to-home drug store outlets for quick trips (immediate-need trips with expenditures of <\$40).

By 2009, gas prices had returned to more historic levels, leaving consumers free to return to the practice of shopping across channels to save money.

The results of this behavior change are manifested in drug store sales trends across CPG departments.

Drug store sales declines are sharper versus industry average in fresh/perishable, frozen and general merchandise departments.

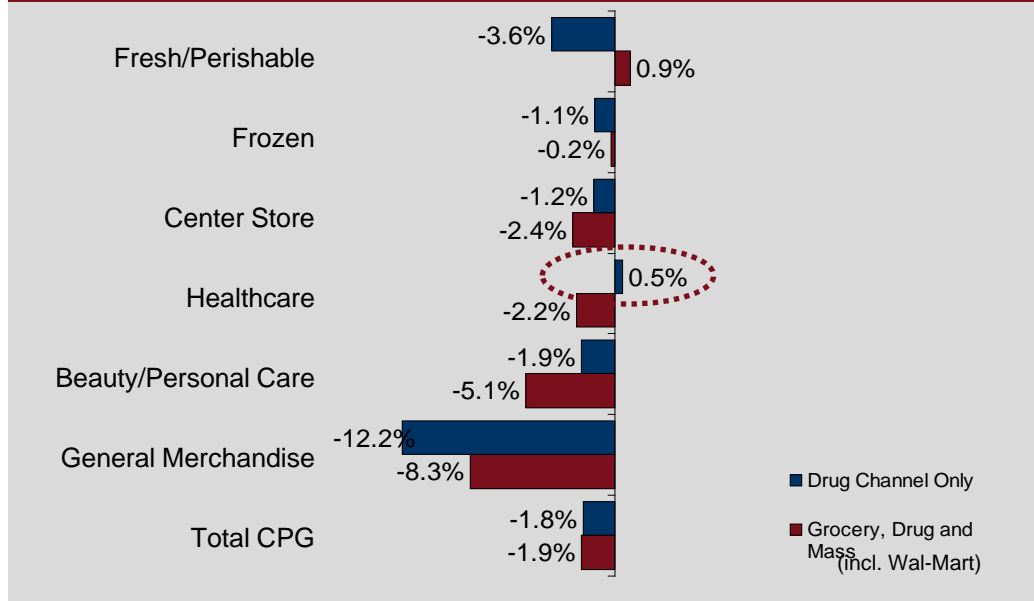
Not surprisingly, the channel is outperforming in healthcare and

beauty/personal care. These departments have been a strong suit for drug retailers for many years.

Drug retailers remain committed to capitalizing on this advantage. CVS's ExtraCare program is illustrative of retailer efforts to develop and execute successful knowledge-based marketing strategies that drive relevance and engagement across key shopper segments.

Consumers are driven by value, but value goes beyond low prices. Value includes quality and selection. Downward pressures on assortment remain. Those retailers with a demonstrated ability to provide relevant, high-quality products at a sensible price will win loyalty and share today and in years to come.

**Department Level Unit Sales, % Change versus Year Ago
Grocery, Drug and Mass (including Wal-Mart) vs Drug Channel Only
2009 vs 2008**



Source: IRI MarketInsight™, 52 weeks ending 11/29/2009 and same period prior year



CATEGORY AND DEPARTMENT GROWTH TRENDS TOP TEN CATEGORY GROWTH

Five of the top ten CPG categories experienced flat unit sales trends, while results were mixed across other key categories.

Performance among top CPG categories was mixed in 2009, but the largest five categories actually experienced flat unit sales versus prior year.

Among top categories, natural cheese was the growth leader, with unit sales increasing 5.2% versus 2008. Trends in at-home dining and a return to from-scratch meal preparation, as well as significant price deflation, likely contributed to the strength of the category.

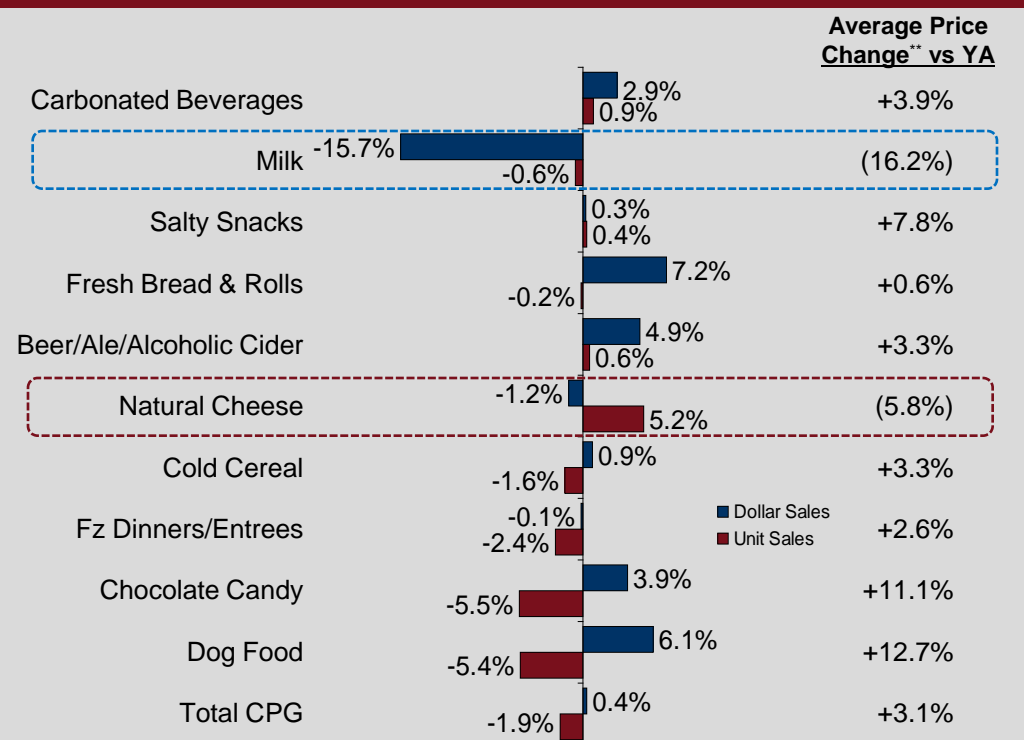
Chocolate candy and dog food fell at a rate well below industry average. A largely discretionary category, it is no surprise that chocolate sales have

slowed in a recessionary economy. Significant price hikes likely played a role in the decline.

Prices have also had a major impact on dog food sales. For more than a year now, dog food prices have escalated at rates well-above the industry average. As a result, category dollar sales are up more than six percent despite a 5.4% unit sales drop.

Once again, consumers have been forced to make difficult choices. They are cutting back and, in some cases, cutting out, dog food purchases to reduce their CPG expenditures.

**Top 10 Categories* Dollar & Unit Sales, % Change versus Year Ago
Grocery, Drug, Mass (including Wal-Mart)
2009 vs 2008**



Source: IRI MarketInsight™, 52 weeks ending 11/29/2009 and same period prior year

*Among top 100 IRI categories based on dollar sales, excludes cigarettes. **Average price change based on price per volume analysis.



The ranks of the top growing categories in 2009 tell a story of home-centered living.

CATEGORY AND DEPARTMENT GROWTH TRENDS HIGH GROWTH CATEGORIES

The ranks of the top growing categories in 2009 tell a story of home-centered living.

At the top of the list is vitamins, which climbed 5.7% in 2009 despite price hikes of 4.4%. The category was bolstered by consumers' focus on prevention as a first line of defense, as well as the innovation around vitamins targeting specific consumer segments and/or health conditions (such as IRI New Product Pacesetter Centrum Cardio).

A wide range of CPG categories are getting a boost from at-home cooking, dining and entertainment rituals. Categories such as cheese, poultry, yogurt and seafood are staples of daily meal and snack occasions.

Affordable indulgences include ice

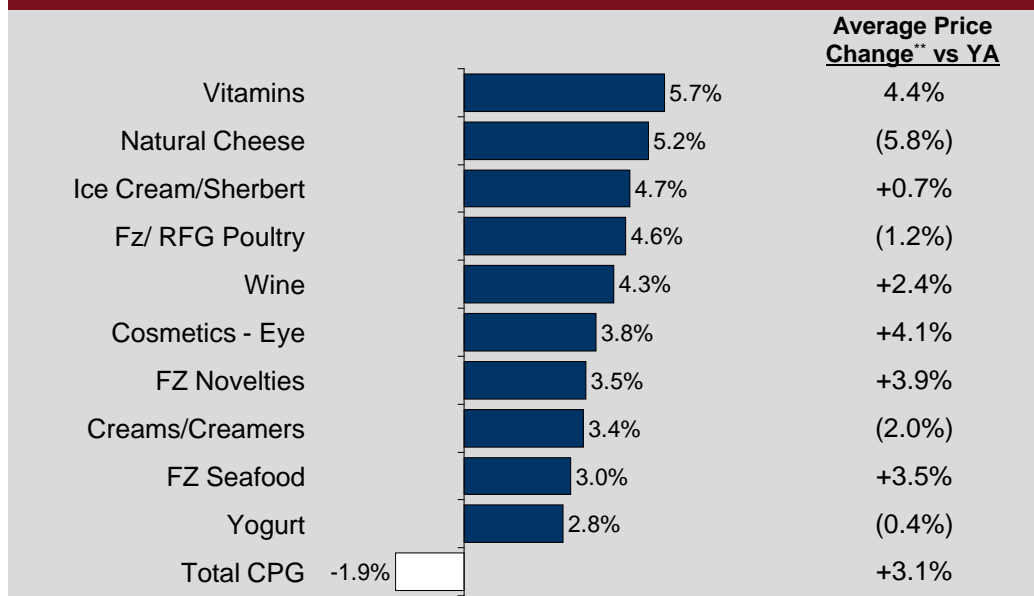
cream/sherbet and frozen novelties, which bring the ice cream parlor into the home and within budget.

High end cosmetics have been well-received in a recessionary market. Many consumers have reduced spa treatments in favor of less expensive at-home regimens. Products such as Revlon's 3D Extreme Mascara and Maybelline's Define line have raised the bar on at-home options and served to elevate the profile of mass market outlets. Unit sales of eye cosmetics climbed 3.8% in 2009.

In fact, at the department level, department stores saw cosmetic sales decline in 2009, while mass market outlets held steady¹.

Beauty trends will be explored later in this report.

**Top 10 Growth* Categories Unit Sales, % Change versus Year Ago
Grocery, Drug and Mass (including Wal-Mart)
2009 vs 2008**



¹ IRI Beauty Cross Channel Monitor; 52 w/e 9/09

Source: IRI MarketInsight™, 52 weeks ending 11/29/2009 and same period prior year
*Among top 100 IRI categories based on dollar sales, excludes cigarettes. **Average price change based on price per volume analysis.



Healthcare department sales declines were moderated by solid gains made across key self-care categories.

CATEGORY AND DEPARTMENT GROWTH TRENDS

DRIVERS OF GROWTH: HEALTHCARE

Trends in healthcare were generally negative in 2009. Unit sales slipped 2.2% despite consumers' increased focus on wellness and self-care.

It was self-care behaviors that likely saved the department from sharper declines. Top performing vitamins was discussed earlier in this report. Personal thermometers and cough syrup also saw growth, boosted by at-home treatment behaviors.

The only other healthcare category seeing positive growth in 2009 was anti-smoking products, which climbed 3.8% on consumer efforts to break the smoking habit.

Health care is a big concern for Americans today. Health care legislation is frequently headline news; unemployment and underemployment are high. The thought of costly doctor visits is not pleasant.

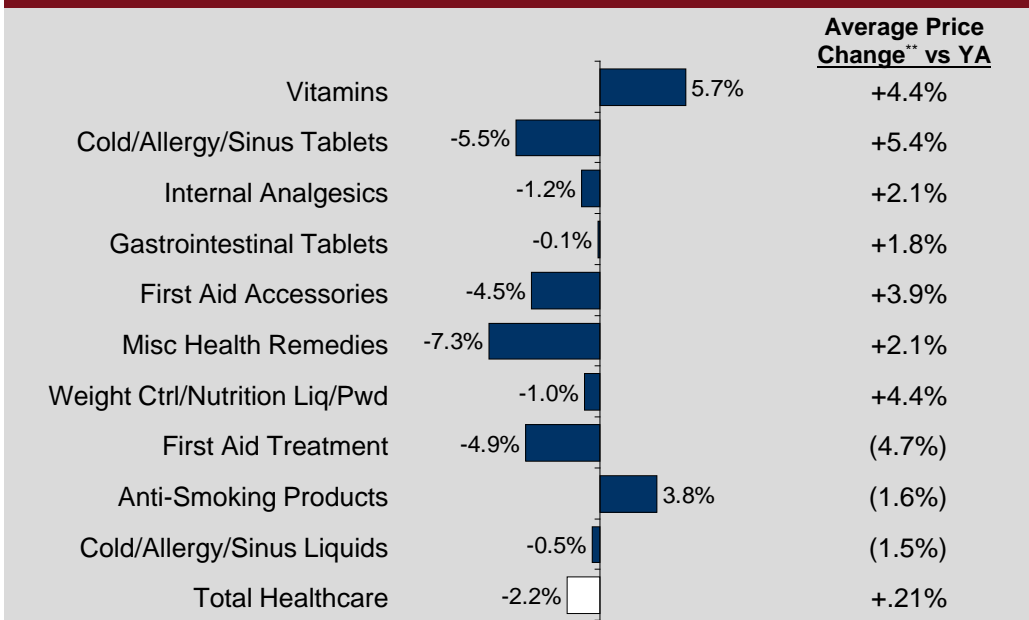
Americans are looking to CPG to lighten their burden. And CPG marketers are responding.

For example, Kroger continues to build out its health-related operations with a new partnership with The Little Clinic. Registered nurses and physicians' assistance staff the in-store clinics to provide assessment and treatment of common ailments and minor injuries¹.

And Walgreen's has established merchandising programs around disease state management, such as a 12-foot merchandising set within the pharmacy area at many of its stores dedicated to products that help manage diabetes².

Efforts such as these open the door for incremental sales while simultaneously driving goodwill among health-conscious consumers.

Top 10* Healthcare Categories
Unit Sales % Change versus Year Ago
Grocery, Drug, and Mass (Including Wal-Mart)
2009 vs 2008



¹ Company Web site
² IRI, Healthcare III Report: Opportunities in Disease State Management

Source: IRI MarketInsight™, 52 weeks ending 11/29/2009 and same period prior year.
* Based on dollar sales. ** Average price change based on price per volume analysis.



Within beauty and personal care, high-end innovation is driving price upward, and elevating the profile of mass market beauty and personal care outlets.

CATEGORY AND DEPARTMENT GROWTH TRENDS DRIVERS OF GROWTH: BEAUTY/PERSONAL CARE

Conservative purchase and consumption patterns continue to have an adverse effect on the beauty and personal care department. In 2009, the department suffered unit sales losses of 5.1%, with some categories seeing much sharper declines.

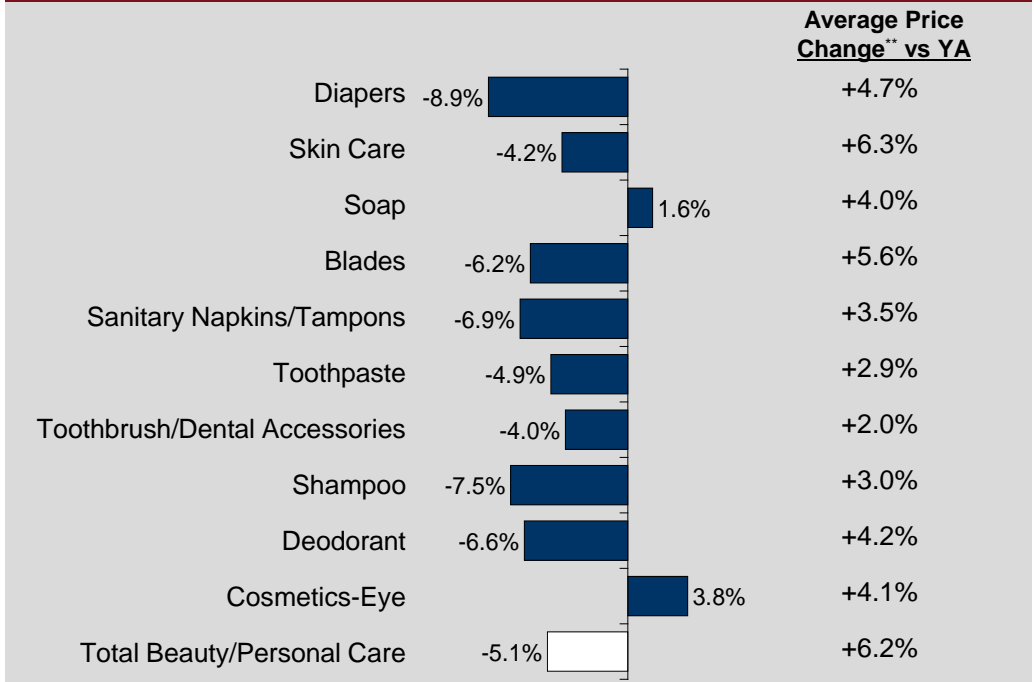
Eight out of the ten largest beauty and personal care categories experienced sales declines last year. In fact, the only positive trends were seen in soap, eye cosmetics, cosmetic storage and other grooming supplies (grooming scissors and implements). Much of these increases are attributable to an increased prevalence of at-home beauty/personal care rituals.

Despite less-than-ideal market conditions, innovation in this arena is quite strong.

High-end innovation is playing a substantial role in driving sizable price increases across many beauty and personal care categories. Olay Pro-X, for example, is the highest price-point facial system to sell in mass market retail¹.

As the economy improves, many consumers are likely to remain faithful to tried-and-true solutions that have brought savings without sacrificing results.

**Top 10* Beauty/Personal Care Categories
Unit Sales % Change versus Year Ago
Grocery, Drug, and Mass (Including Wal-Mart)
2009 vs 2008**



¹ IRI Beauty Shopper Report

Source: IRI MarketInsight™, 52 weeks ending 11/29/2009 and same period prior year
* Based on dollar sales. ** Average price change based on price per volume analysis.



CATEGORY AND DEPARTMENT GROWTH TRENDS PRICING: HIGH INCREASE CATEGORIES

Several powerful forces have impacted, and will continue to impact, CPG prices in the foreseeable future.

Food prices continue to make the headlines on a regular basis. As detailed in the January issue of Times & Trends, several key categories experienced sharp inflation early in the year, only to subside as the year progressed.

In the end, though, 63 of the top 100 CPG categories experienced higher than average price increases in 2009. Several powerful forces have impacted, and will continue to impact, CPG prices in the foreseeable future.

The move toward sustainability is playing a driving role in price inflation. Concentrated formulas (e.g., laundry detergent), natural/organic formulas (e.g., dog/cat food) and fair trade products (e.g., chocolate) are all gaining popularity and fetching a higher price point.

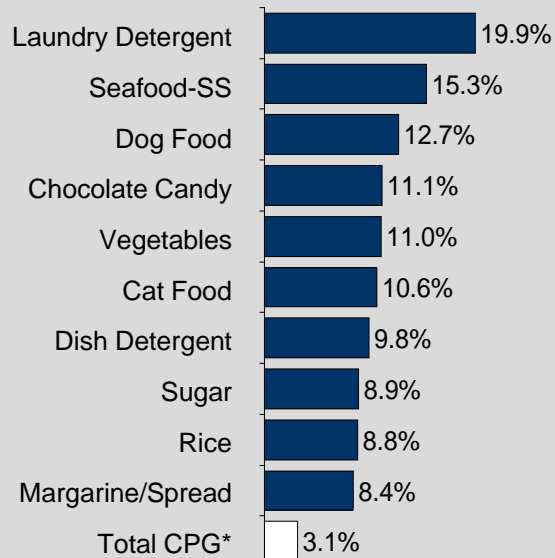
Supply and demand have also been major influencers of price over the past year.

Much has been written about consumers' stepped-up at-home behaviors. Food staples, such as sugar and rice, have been in high demand over the course of the recession. At the same time, though production has been lower, leaving supplies very tight.

Economists anticipate that tight and/or falling supply across key staples such as rice, sugar and soybeans will lead to inflation over the course of the next year.

As discussed earlier in this report, projections are mixed, but substantial inflation, such as that seen earlier in the recession, is not expected.

**Categories with the Largest Price Increases*
Grocery, Drug, and Mass (Including Wal-Mart)
2009 vs 2008**



Source: IRI MarketInsight™ 52 weeks ended 11/29/2009 and same period prior year
*Among top 100 IRI Reviews Categories, based on price per volume comparison



Retailers are heavily innovating across private label lines in an effort to capitalize on consumers' growing acceptance of private label as an alternative to nationally-branded CPG solutions.

CATEGORY AND DEPARTMENT GROWTH TRENDS PRIVATE LABEL SHARE TRENDS

At the all outlet level, private label represents just under 18% of CPG dollar sales, and 23% of total units.

Dollar share was negatively impacted by deflationary prices, a topic addressed at length in the January issue of Times & Trends. Unit share has climbed nearly one full point versus year ago, evidence of consumers' perception of store brands as a viable alternative to nationally branded CPG solutions.

Private label gains cut across CPG channels, but convenience stores clearly enjoyed the largest jump in share.

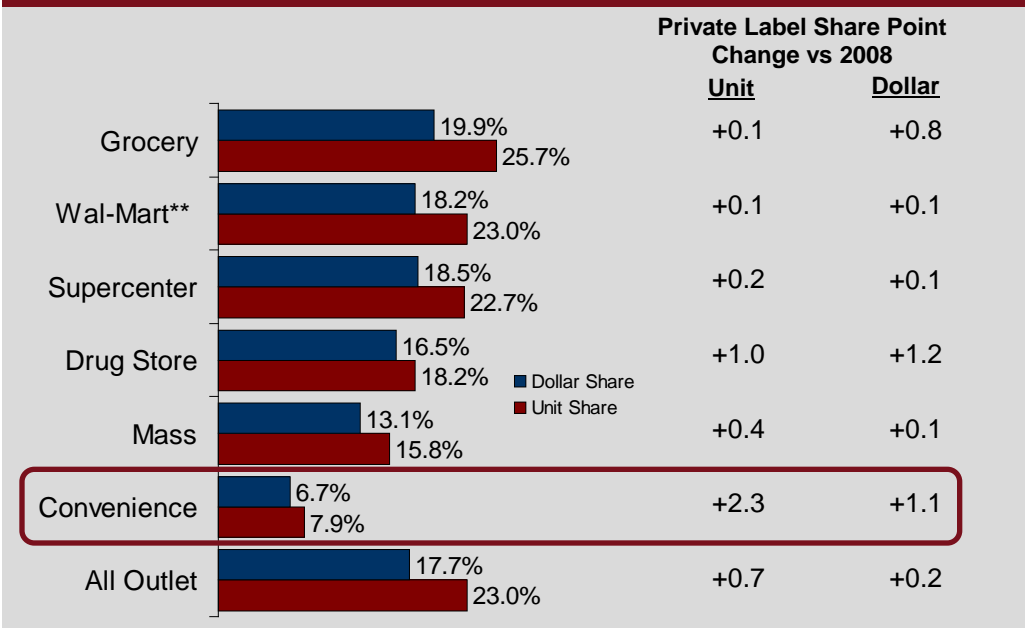
Much of this growth is attributable to an increasing availability of store brands options. Portfolios are being increased in depth and breadth as retailers race to capitalize on

consumers' appetite for store brand options.

For example, 7-Eleven has focused considerable attention on its 7-Select brand over the past year. The line now touts more than 200 products in production, and the push is on to continue expansion¹.

Drug retailers have also gained private label ground. Once again, innovative has been a key to growth. Duane Reade is heavily focused on differentiating their private label lines. The retailer operates under the philosophy that store brands need not mimic nationally branded products, but rather that they can stand on their own and complement other banners in the store (e.g. Look NY beauty tools are featured in the chains new upscale beauty section, Look Boutique)².

2009 CPG* Private Label Share by Channel



¹ Brand Week 10/27/09

² Chain Drug Review 11/9/09

Source: IRI Consumer Network™ 52 weeks ended 12/27/2009 and same period prior year
* Across IRI InfoScan® Reviews Categories **Wal-Mart, including Neighborhood Markets



Private label share gains provide insights into consumers' recession-driven mindset and associated ritual changes.

CATEGORY AND DEPARTMENT GROWTH TRENDS PRIVATE LABEL SHARE TRENDS

Private label has gained share across nearly all CPG departments. The largest gains occurred in healthcare and fresh/perishable departments, evidence of a recession-driven consumer mindset and associated ritual changes.

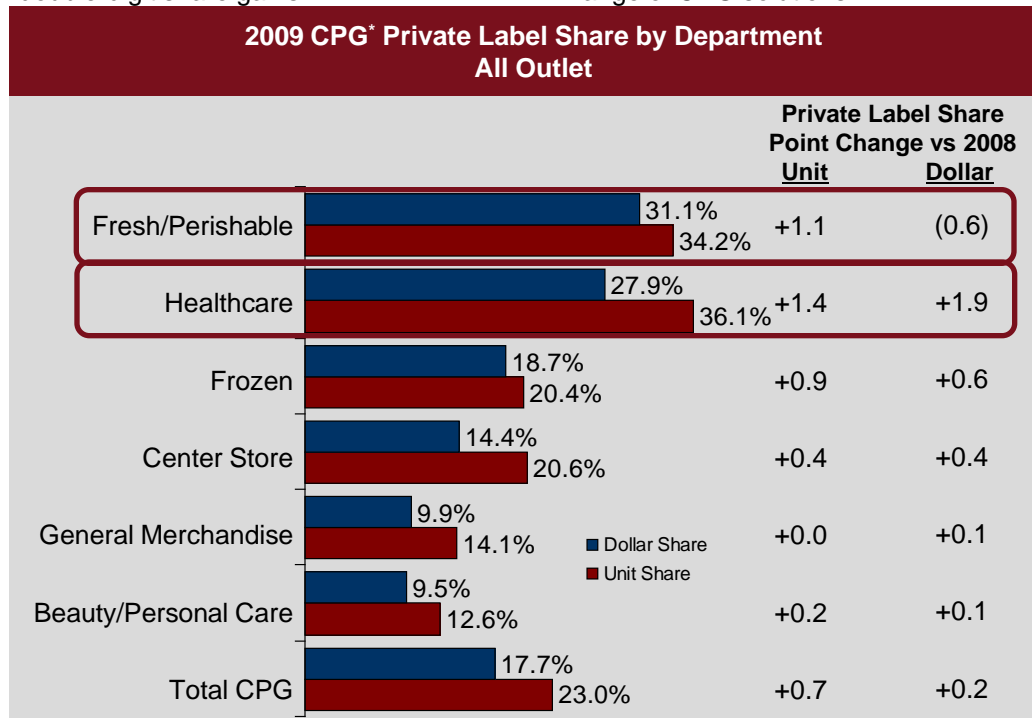
Private label gained 1.4 share points in the healthcare department in 2009, driven, in part, by high levels of innovation and consumers' increased reliance on self-care.

The quest for savings is also quite clear. On average, private label healthcare options provide consumers savings of 46% over national brands. In tight economic times, these savings are substantial. In key categories, such as personal care thermometers and anti-smoking products private label posted near-double-digit share gains.

At-home and from-scratch meal behaviors helped to drive private label gains of just over one point in the fresh/perishable department. Substantial gains were posted across key meal ingredient and meal component categories, including refrigerated entrees, fresh eggs, and refrigerated meat and poultry.

In IRI's December 2009 Economic Survey, 54% of consumers indicate that they are purchasing private label products more often in attempt to save money. In 2010, 82% of these consumers will continue to do so.

Retailers' focus on driving private label trial and adoption is strong, and momentum is building. National brand manufacturers must consider whether this trend is an opportunity to collaborate with retailers to offer a range of CPG solutions.



Source: IRI Consumer Network™ 52 weeks ended 12/27/2009 and same period prior year
* Across IRI InfoScan® Reviews Categories



In 2009, private label posted small to moderate share gains in six of the ten highest price increase CPG categories.

CATEGORY AND DEPARTMENT GROWTH TRENDS

PRIVATE LABEL SHARE TRENDS: HIGH PRICE INCREASE CATEGORIES

Private label performance across categories with particularly high price increases over the past year was mixed. In 2009, private label posted small to moderate share gains in six of the ten highest price increase CPG categories.

The increases cut across retail aisles, ranging from commodity products such as sugar and rice, to home care categories such as laundry and dish detergent.

It is not uncommon for store brands to make gains across commodity-like categories in recessionary times. Because these categories are not seen as a key area of differentiation, the trade-off generally happens quite easily.

But, consumers are making the trade across more complex categories as well. For example, retailers have gained

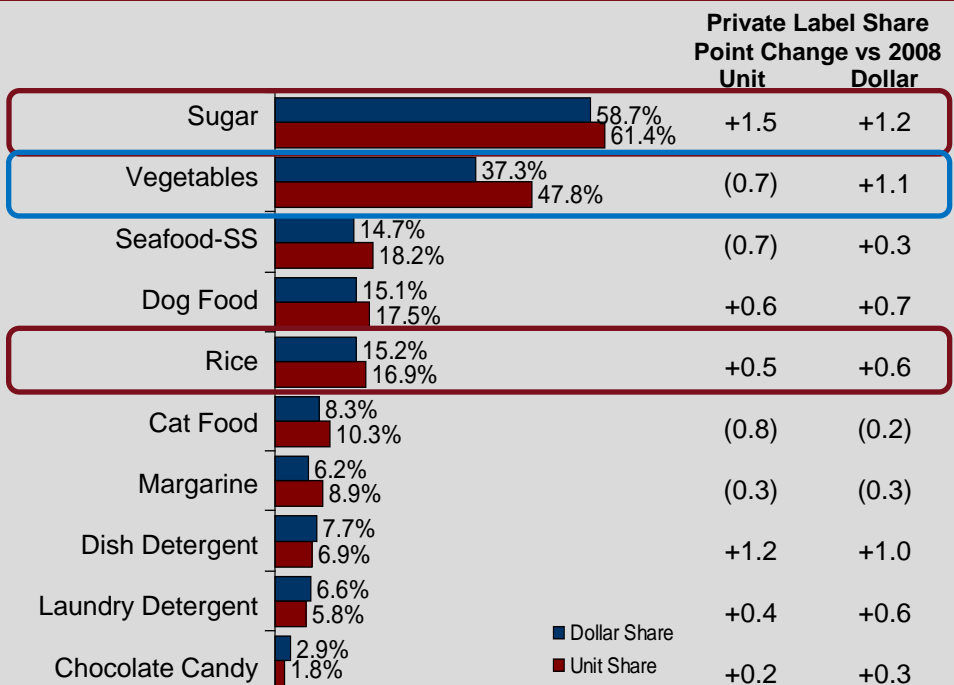
traction in dish detergents and dog food categories.

The driver is likely one of simple availability. As discussed earlier in this report, retailers have focused heavily on developing their store brands.

Additionally, retailers have become a bit more aggressive in limiting national brand assortment in attempt to drive margins and lower prices. For example, CVS has revealed plans to remove select national brands in 2010, and Walmart indicates that their efforts to “simplify” will increase.

Efforts such as these could translate to a new level of competition between retailers and national brand manufacturers. The key to success will be implementation of sound, consumer-centric assortment and marketing strategies.

2009 CPG* Private Label Share: Among High Price Increase Categories All Outlet



Source: IRI Consumer Network™ 52 weeks ended 12/27/2009 and same period prior year
* Across IRI InfoScan® Reviews Categories

Times & Trends

A Snapshot of Trends Shaping the CPG and Retail Industries



In 2009, trip behavior posted positive gains for the first time in several years; gains cut across most CPG channels.

“55% of shoppers are shopping at TEN or more retailers to satisfy their goal of ‘stretching each and every dollar.’ The new LOYALTY is to value.”

IRI, Understanding the Shopper in the New Decade

SHOPPING BEHAVIOR SHOPPING PATTERNS

Average monthly shopping trips made positive gains in 2009 for the first time in several years. For the year, monthly trips climbed 2.2%.

Much of this gain is attributable to a fairly steady drop in gas prices. Gas prices began an upward march in early 2007. The climb continued for well over a year; deflation did not begin until the final quarter of 2008. To cope with skyrocketing gas prices shoppers increased pantry stocking trips at the expense of other, smaller trip types.

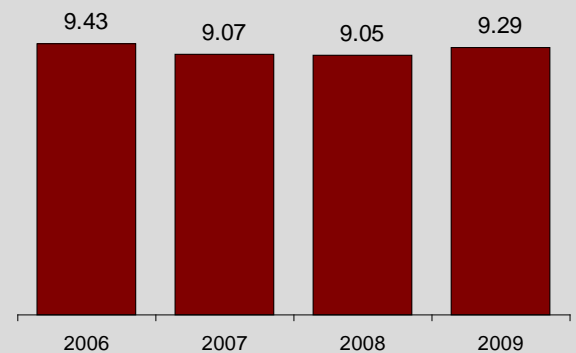
As stated earlier in this report, the drug channel reaped some reward from high gas prices, as this channel was frequented more heavily by shoppers looking to make close to home fill-in trips.

In 2009, the drug channel experienced a slight decline in trips and most other channels posted gains as consumers resumed more historic trip behavior.

The dollar channel continues to post sizable trip gains. Over the course of the recession this channel has been increasingly leveraged by consumers looking to stretch their CPG dollars.

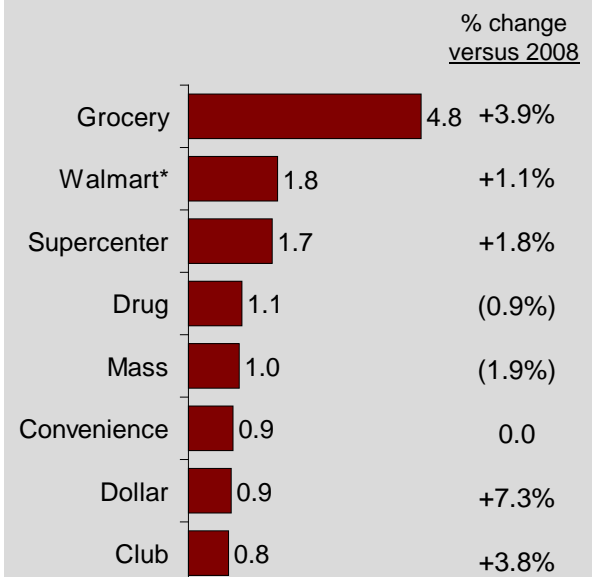
Consumers have demonstrated a willingness to travel further to save money. Though the economy has improved, the quest to save has not waned. CPG marketers must continue to heavily promote value and affordability, else risk losing share of trips and dollars in 2010 and beyond.

All Outlet Average Trips per Shopper per Month



Source: IRI Consumer Network™ 52 weeks ended 12/27/2009 and same period prior years

2009 Average Trips per Shopper per Month- By Channel



Source: IRI Consumer Network™ 52 weeks ended 12/27/2009 and same period prior year

* Walmart, including Neighborhood Markets



2010 OUTLOOK

The following trends will play a significant role in driving CPG growth in a recessionary economy and beyond.

Store Brands Escalate

Retailers and private label manufacturers have worked hard to solidify private label's position in the marketplace, and the rewards have been sweet. As detailed earlier in this report, store brands have played an important role in helping consumers save money in a recessionary economy. Even as the economic situation improves, many consumers express intentions to continue to their elevated use of store brands in 2010.

Marketers of store brands are now focused on keeping the up momentum. Efforts to increase the breadth and depth of private label lines were discussed earlier in this report. Private label products are increasingly going beyond "mimicking" national brands and establishing a brand of their own.

In the coming weeks and months, all aspects of private label will continue to evolve. From new product development to assortment planning, to marketing, expect to see private label driven to the next level. Later in 2010, *Times & Trends* will explore how store brands have become "More Than Just A Harbor in Turbulent Times."

Simpler is Better

The CPG industry has spoken of "simplifying the shopping experience" for several years. Simplicity is rapidly evolving to encompass much more than in-store experiences. Consumers want to understand what they are buying, and they want to understand what they are eating. They want marketers to help them make healthy eating choices by simplifying ingredient listings, packaging, and marketing materials.

The in-store experience is also changing quickly. Assortment is being redefined. Discussed earlier in this report, several retailers (aforementioned, Walmart and CVS) are reexamining assortment in an effort to serve shopper needs and wants while simultaneously maximizing margin and bargaining power. In today's complex CPG environment, old tricks simply do not work. Marketing and merchandising need to be rewired to effectively serve consumers who seek a simpler shopping experience.

Sources: Mintel; Packaged Facts



2010 OUTLOOK

The following trends will play a significant role in driving CPG growth in a recessionary economy and beyond.

Persistent Conservatism

U.S. consumers have been mired in difficult economic times for nearly two years. This has become known as “The Great Recession,” and is perhaps the longest and deepest recession since The Great Depression. In fact, many shoppers have implemented strategies that closely mirror those adopted by Depression-era shoppers. IRI predicts that, like those in The Great Depression, these shoppers, dubbed The Downturn Generation, will hold many of these money-saving strategies long after the recession ends.

Many of these strategies were discussed in this report. At-home meal rituals, self-care behaviors, product stretching, trading down, selective reduction, and more will persist long after this recession has ended. CPG marketers must adapt to this new normal, else risk losing relevance and, in the end, market share.



CONCLUSIONS CPG MANUFACTURERS

To effectively compete in a recessionary economy, CPG manufacturers should consider the following action items:

» Identify opportunities and risks

- Constantly monitor economic changes and related impact on consumer attitudes, behaviors and category/brand performance
- Reassess channel/retailer-level share shifts across categories and brands to ensure distribution strategies
- Invest to understand private label share gains, particularly across low-differentiation categories and those with sizable price increases
- Explore partnership opportunities with retailers that are closely aligned against key brands/categories

» Evaluate pricing and promotion strategies

- Assess end-user versus purchaser dynamics for your categories and brands, and resulting pricing and promotion implications
- In-store marketing plans should be build around the level of brand predetermination (eg focus on increasing purchase quantity where predetermination is high vs influencing brand choice where it is low)
- Products with a high purchase incidence on targeted trip types or that are complementary to these products should be placed together on shelves and bundled in promotions and displays to drive traffic and basket size
- Reevaluate pricing strategies to ensure alignment against corporate goals, and the needs of key customer segments
- In categories with a strong private label presence, invest to understand optimal price gap versus private label offerings
- Carefully test pricing changes in market before rollout

» Enhance new product development initiatives

- Align innovation strategies with evolving product usage and affordability needs
- Explore potential new product opportunities stemming from emerging consumer trends explored throughout this report



CONCLUSIONS CPG RETAILERS

To effectively compete in a recessionary economy, CPG retailers should consider the following action items:

» Identify opportunities and risks

- Constantly monitor economic changes and related impact on consumer attitudes, behaviors and category/brand performance
- Reassess channel/retailer-level share shifts across categories and brands to ensure appropriate product mix and inventory management strategies
- Explore opportunities to extend private label share within and across departments, particularly across low-differentiation categories and those with sizable price increases
- Explore partnership opportunities with manufacturers that are closely aligned against key customer segments

» Evaluate pricing strategies

- Partner with leading manufacturers to assess end-user vs purchaser dynamics for top categories and brands, and resulting pricing and promotion implications
- Identify the level of brand predetermination across leading categories and brands and resulting in-store marketing implications
- Consider introducing promotional programs within categories that have experienced particularly high price increases, either alone, or in partnership with key manufacturer partners
- Reevaluate pricing strategies to ensure alignment against corporate goals, and the needs of key customer segments
- Invest to understand optimal price gap between private label and name brand offerings
- Carefully test pricing changes before rollout, and measure consumer response shortly after rollout

» Explore opportunities to enhance product assortment

- Align assortment with evolving product usage and affordability needs
- Explore potential new assortment opportunities stemming from emerging consumer trends explored throughout this report



RESOURCES

To gain insight into opportunities across specific categories, consumer segments, channels or retailers, contact your IRI client service representative regarding custom analyses leveraging the following resources:

IRI MarketInsight™

Proprietary model-based sales tracking service providing superior coverage of channels, including Wal-Mart, for which point-of-sale data are not available. Reflects sales across IRI InfoScan® Reviews CPG categories. Wal-Mart data include traditional outlets and supercenters.

IRI Consumer Network™

Nationally representative panel of households tracking purchases with hand-held barcode scanners; extensive demographic profiles enable in-depth analysis of purchase behavior across standard or custom-defined consumer segments across channels.

IRI AllScan Convenience™ Reviews

The industry's first service that provides 100% point-of-sale (POS) based convenience store coverage with highly-accurate weekly data for more than 250 product categories and insights for more than 50 states and local markets.

New IRI Report Now Available:

IRI Beauty Shopper Report

IRI Beauty Shopper Report is designed to help retailers and manufacturers make critical decisions in coming weeks and months to maximize market opportunities among their most important shoppers. This new research focuses on the beauty market overall, and also includes an in-depth review of power beauty shoppers, who represent just 11 percent of households, but account for 40 percent of dollar sales.

For more information, contact John Deputato at John.Deputato@infores.com or
Tim Ressmeyer at Timothy.Ressmeyer@infores.com

[Times & Trends]

A Snapshot of Trends Shaping the CPG and Retail Industries



>>> MORE INFORMATION

Please contact Susan Viamari at susan.viamari@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 <http://us.infores.com>

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