



Times & Trends

CPG 2011 Year in Review:

The Search for Footing in an Evolving Marketplace

FEBRUARY 2012

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Symphony IRI Group

Insight.
Innovation.
Impact.

Five Trends to Bank on in 2012

Tons of ink has been consumed writing about the recession and its impact on the entire CPG value chain: manufacturers, retailers, advertisers, merchandising companies and perhaps most of all, shoppers.

But, if you look beyond the doom and gloom, there are some very exciting trends taking place in everything from new product development, technology, and information to store layouts and consumer shopping patterns. In this month's Times & Trends, editor Susan Viamari looks at some of the principal strategies CPG and retail leaders developed in 2011. I'd like to highlight five of these that SymphonyIRI believes will be prominent in 2012:



- Shoppers will continue to define value largely based on price. Our recent MarketPulse™ reported that more than half of shoppers still choose their store based on lowest prices, and three-quarters note that price weighs heavily in brand decisions. However, we do anticipate that some shoppers will start to open their wallets more assuming positive economic reports continue.
- Retailers in the drug channel will accelerate their format evolution process. Walgreens, for example, plans to convert at least 500 stores into "food oases," where space devoted to food and beverages will grow as much as 35-40 percent. These stores are located largely in lower-income neighborhoods, where access to fresh foods is limited.
- Manufacturers and retailers will pass ongoing food commodity price increases on to shoppers. When commodity costs began to rise in 2008, much of these were absorbed by cutting other costs and streamlining the supply chain. Running out of efficiencies and sensing the shopper's ability to pay more, SymphonyIRI expects manufacturers and retailers to become more aggressive about passing rising costs along.
- Private label will continue to account for unit sales in the 22-23 percent range and dollar sales in the 18-20 percent range. Retailers will increase assortments and retain the tiered product strategies that have worked so well in the past.
- Manufacturers will expand their focus on innovation as the primary private label mitigation strategy. One example comes from the coffee category. Single-cup coffee, such as that offered by Keurig, is partly responsible for the fact that 14 percent of the most successful new beverage launches came from the coffee and tea sector in 2010, versus an historical average of just 8 percent, as reported by SymphonyIRI's 2011 New Product Pacesetters report.

Please look for more information from SymphonyIRI on these and other trends as 2012 unfolds. As always, I'll look forward to your comments and input.

John A. McIndoe
Senior Vice President, Marketing
SymphonyIRI Group

Executive Summary: Turning Insights Into Action

INSIGHT

ACTION

- ❑ The economy made some strides toward firmer ground in 2011, but the global and the U.S. economic environments are far from stable and this uncertainty is reflected in CPG and consumer trends
- ❑ While consumers are still very much entrenched in conservative living and shopping behaviors, pockets of opportunity exist among both optimistic segments and those consumers seeking new ways to live well for less
- ❑ The drug channel demonstrated healthy growth during the past year, supported by evolving trip mission trends and an increased focus on the food and beverage arena
- ❑ Innovation is playing a key role in driving growth across a number of CPG categories, including weight control/nutrition liquids/powders, eye cosmetics, and energy drinks
- ❑ In the coming year, the CPG industry will be influenced by a number of factors, but the economy will continue to be the single largest influencer, bringing huge consumer focus on living well with less and an unrelenting pursuit of saving money
- ❑ Look for opportunities to drive some of the volatility out of your product pricing inputs, such as unique sourcing programs (direct source, new entrants, etc.) and variable package sizing
- ❑ Think broadly about your competitive set to understand your consumers' shopping basket as a whole—what is in the basket that shoppers can versus cannot live without? Use that knowledge to develop messaging, cross-promotion and cross-merchandising programs
- ❑ Manufacturers should re-evaluate distribution strategies to ensure they hold a sufficient presence across high-growth channels
- ❑ Evaluate opportunities to innovate at both ends of the product spectrum, with high-end products across departments following the “salon quality in the home” model that has been so powerful in the beauty care segment, and value-end products that make living well with less easier
- ❑ Continue to closely monitor economic trends, and the impacts of those trends on consumer shopping behavior; manage programs on a near real-time basis to stay in lock-step with evolving market and consumer changes

Introduction

These days, trying to survive and thrive in the world of CPG feels a bit like playing a part in the tale of David and Goliath.

Even in the best of economic times, the CPG environment is challenging. In this prolonged downturn, this term quickly became an understatement.

The United States economy has been on unstable ground for several years now. A great many consumers have been feeling like they are in a financial “holding pattern”—things are not declining, but they are not improving, either.

Outside this sizable group, consumer sentiment around the economy and personal finances has been mixed.

Pessimistic consumers are continuing to struggle to make ends meet. They are holding tight to money-saving strategies—even notching them up, where possible. They are changing channels, retailer banners and brands to save money. They are preplanning, making lists and gathering coupons.

Optimistic consumers feel that things are getting better, and they are beginning to open their minds and wallets anew, trying new products, spending on gourmet or premium items, and feeling just a little sense of relief. Even among these shoppers though, a strong sense of frugality is permeating their daily lives, their shopping behaviors and their consumption patterns.

Meanwhile, CPG marketers have been wrestling with rising commodity prices, and increased input costs all along the supply and delivery chain. The net result of these forces has been intense margin strain and ongoing growth issues.

Thus was the CPG landscape of 2011. It left the CPG industry, as a whole, in search of firm footing. For the year, industry average unit sales slid slightly and dollar sales growth was driven largely by inflationary pricing.

Across CPG channels, departments, categories and brands, there are CPG

marketers that are dialing into and delivering against the needs and wants of their shoppers. Indeed, while the war is far from over, there are battles being won.

This issue of Times & Trends explores economic, channel, department and category performance throughout 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.

Economic Overview: 2010 Performance / 2011 Projections

Economic Snapshot 2008-2011

Economic Measure	2008	2009	2010	2011	2012P
GDP (% chg)	1.9%	-2.5%	4.2%	4.0%	4.1%
Unemployment (% SA)	5.8	9.3	9.6	8.9	8.7
Consumer Price Inflation (% Chg)	3.8%	-0.3%	1.6%	3.2%	2.1%
Retail Sales (% Chg)	-1.2%	-7.0%	6.4%	8.3%	6.1%
Residential Permits, Total (Mil)	3.6	2.3	2.4	2.4	3.6

Source: Moody's Economy January 2012

In 2011, retail sales trends were heavily impacted by inflationary pricing trends, while unemployment remained high, but down versus 2010 levels.

In 2011, the economic landscape remained challenging, yet improved slightly versus the prior year. Inflation reached an average rate of 3.2%, up significantly versus 2009 and 2010 levels, but still below levels seen early in the economic downturn.

Retail sales climbed 8.3% for the year, with growth driven heavily by price increases. To be explored throughout this report, average CPG industry prices increased just over 2%, but some categories saw much higher—even double-digit—inflation.

Employment improved slightly in 2011, but unemployment still remains quite high. Discussed in SymphonyIRI's October/November 2011 Times & Trends

Special Report, unemployment and underemployment are likely to remain quite high in the foreseeable future.

Analyses of consumer sentiment around the evolving economic evolution during the coming year paint a picture of opportunity and challenge. For instance, SymphonyIRI's MarketPulse survey reveals that 27% of consumers expect that their personal financial position will improve in the coming year. An equal share, though, are braced for a stagnant or deteriorating financial future.

Among those expecting improvements in the coming year, there is opportunity to drive sales growth and market expansion. After all, with optimism comes some level

of loosening the purse strings and splurging on finer foods and beverages and/or personal pampering, and, perhaps, an increased willingness to try new products—if those products are relevant and reassuring of solid value.

However, among optimistic and pessimistic shoppers alike, all indications point to a continued frugality and conservatism. To be explored throughout this report, these behaviors have become “old hat” at this point, and CPG marketers are actively responding to these trends with products and strategies that seek to drive purchase behavior and loyalty.

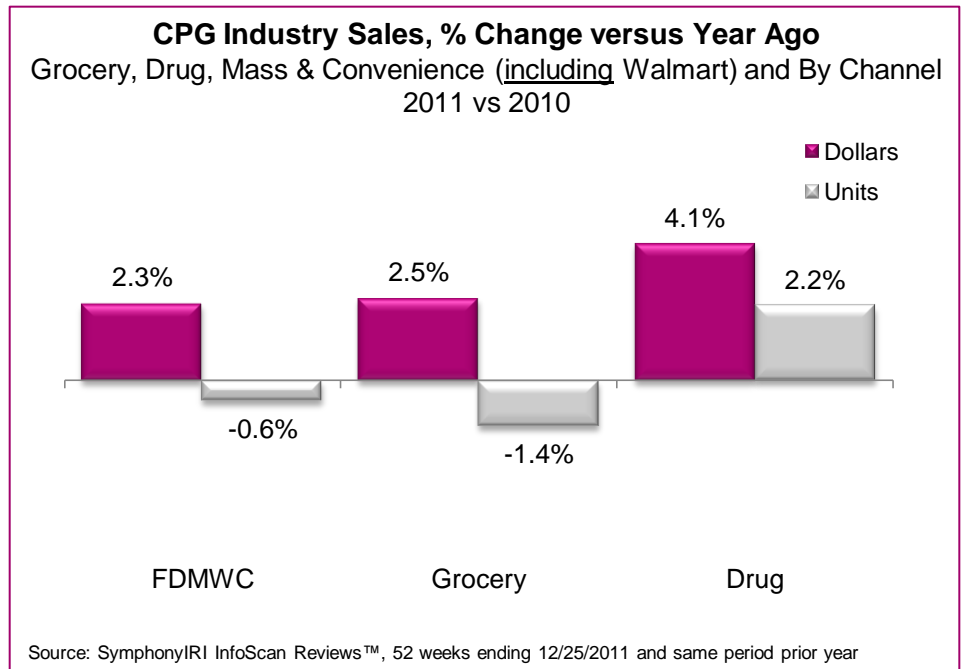
Industry Performance: Total CPG Growth Trends

In 2011, CPG unit sales slid and dollar growth was small and spurred on largely by inflationary pricing trends. In the grocery channel, unit sales declines were sharper, yet dollar sales growth was slightly higher, driven by average price per volume increases that outpaced industry average.

Within the grocery channel, performance during 2011 lagged industry average. Grocers are facing increased competition for share of food and beverage spending.

According to SymphonyIRI's MarkePulse survey, 52% of shoppers choose where to shop based on which store has the lowest prices on needed items, and 40% of consumers shop multiple stores to find the lowest prices for all of the items on their lists. Some grocery channel competitors, including the dollar channel and the supercenter channel, have a very strong reputation for value—and this reputation is critical in an environment where one-quarter of shoppers are having difficulty affording their weekly groceries¹.

The drug channel demonstrated standout growth for 2011, with unit sales climbing more than 2% and dollar sales up just over 4%. To be discussed throughout this report, the drug channel is stronger versus industry average across a number of key performance indicators.



The drug channel saw unit sales climb more than 2% in 2011, while grocery channel and industry, on average, faced declines.

The drug channel has benefitted from a number of economic and environmental factors during the past year. For instance, detailed in the December 2011 edition of Times & Trends, trip mission patterns have evolved during the course of the economic downturn.

Today's budget-strapped shoppers are making fewer pantry stock-up trips, instead favoring more frequent quick trips, with lower basket rings that make cash flow swings less volatile. The geographic proximity of drug outlets, combined with a

strong reputation for convenience, is serving drug stores well vis-à-vis these trip mission trends.

Additionally, drug channel assortment has been changing during the past couple of years. Private label assortment is being expanded and honed, and food and beverage selection has grown significantly. To be discussed later in this report, these strategic changes, too, are helping to support channel growth.

¹SymphonyIRI MarkePulse, Q4 2011
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Industry Performance: Channel Share Shifts

Today's CPG marketplace is marked by high levels of frugality, and it is shopped by increasingly savvy shoppers. There is tremendous pressure to offer high quality products at a superb value. Channel share trends illustrate the intensity of consumers' appetite for value, and their willingness to change their shopping habits in order to attain that value.

The grocery channel holds, by far, the highest share of overall CPG spending. However, mentioned on the previous page, competition for share of spending is on the rise. During the past year, grocers have ceded share to a number of competing channels, including drug, club, and dollar channels.

The club channel is enjoying a multi-year positive trajectory, with share increasing fairly steadily since 2008. This increase is occurring despite a shift away from pantry stock-up trips—a club channel strength.

Club channel momentum is attributable to several factors. First, shopper penetration is increasing. Today, just under 51% of consumers shop the club channel. Detailed in the July 2011 edition of Times & Trends, club retailers are successfully winning heavy shoppers of both supercenter and dollar store channels. Going forward, club channel marketers will continue to focus on driving increased penetration, evidenced by a solid growth in store count by some of the nation's largest club chains, including Costco.

All Outlet CPG Dollar Share Shifts

	Channel Share 2011	Share Point Change 2011 v 2010	Share Point Change 2009 v 2008
Grocery	48.5%	(0.2)	(0.4)
Drug	5.8%	+0.4	(0.2)
Mass Merchandise	5.7%	(0.2)	(0.2)
Supercenter	18.4%	(0.4)	0.0
Club	10.0%	+0.2	+0.3
Dollar	1.8%	+0.1	+0.1
Convenience/ All Other	9.8%	+0.1	+0.5
Walmart*	19.4%	(0.8)	(0.3)

Note: Share will not total to 100% due to inclusion of Walmart within Mass & Supercenter channels in addition to separate breakout. *Walmart, including Neighborhood Markets
Source: SymphonyIRI Consumer Network™, 52 weeks ended 1/1/2012 and same period prior year

The drug, club and dollar channels each captured additional share of dollar sales in 2011, at the expense of Walmart and grocery.

Dollar stores have also demonstrated steady share growth during the past several years. A high value image, geographic proximity, and store size that is a fraction of that of big-box discounters is a winning combination in an environment where shoppers are making frequent, low-basket ring shopping trips. And, recent efforts to build out assortment and enhance the store/shopping experience is driving channel appeal among lower-income and middle- and upper-income shopper segments alike.

The drug channel also captured increased share of spending during the past year. Like dollar stores, drug stores are

benefitting from an escalation in quick trip behavior. Drug retailers, already an established destination for health and beauty-related purchases, are stepping up their game in an effort to capitalize on increased trips by offering more breadth and depth in their food and beverage assortments. The channel captured just under one-half dollar share point during the past year.

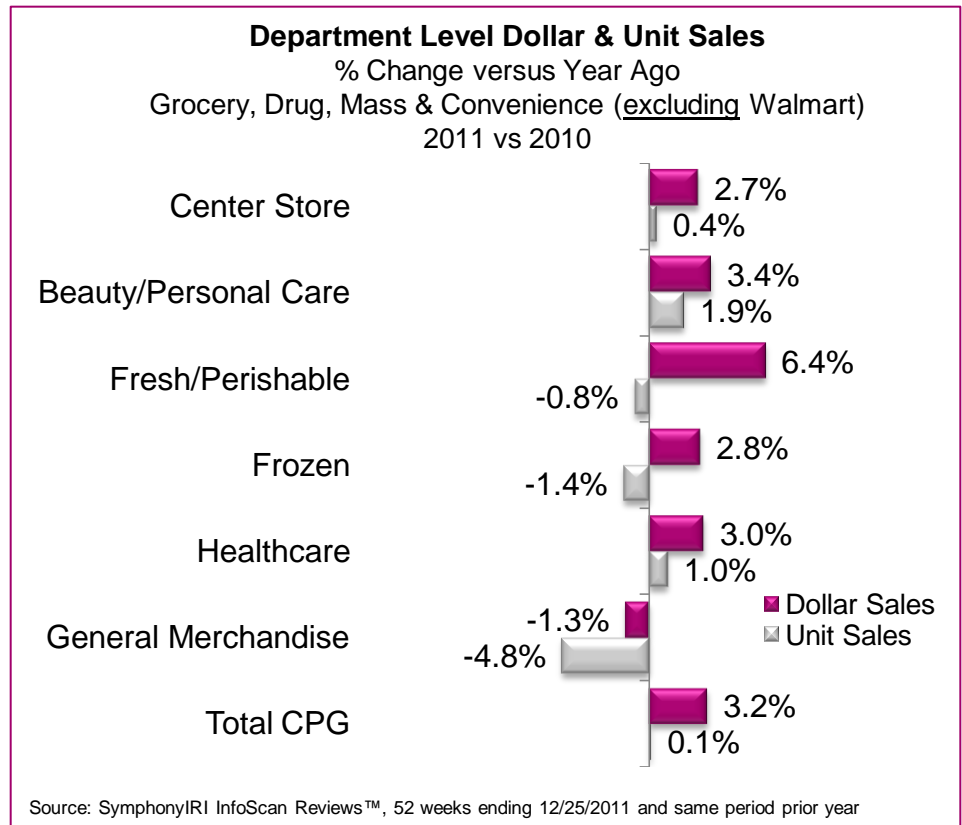
Category & Department Growth Trends: Department Level Growth Trends

Across CPG channels, but excluding Walmart, CPG unit sales for 2011 were largely flat. While dollar sales trends were generally positive, they were driven quite heavily by inflationary pricing.

For the year, the beauty/personal care department was a standout. Innovation is a key driver of strong growth in this area. During the past year, beauty marketers have used innovation to deftly address consumers' quest for smart, cost-effective products that allow them to indulge on a budget.

A particularly strong category has been nail cosmetics, which saw unit sales climb 15% during 2011. Products, such as Sally Hansen's Salon Effects, are delivering a professional looking manicure at a fraction of the price, applied in the convenience of the home. To be discussed later in this report, unit sales in eye cosmetics were also strong in 2011, thanks to innovation that really delivers against consumer needs and wants.

Innovation also helped drive above-average healthcare department performance in 2011. In this department, unit sales climbed 1% for the year. The vitamins category, which has been a strong performer throughout the downturn, continues to perform well, with unit sales up about 6% in 2011. The weight control/nutrition liquids/powders category, though, was exceptional in 2011. The category saw unit sales surge 18%,



The beauty/personal care department was a standout in 2011, and healthcare and center store growth also outpaced industry average.

influenced heavily by the strength of Abbott Laboratory's Ensure Revigor.

Inflation is also playing a powerful role in defining CPG industry trends. For instance, the fresh/perishable department saw dollar sales increase more than 6% during 2011, despite the fact that unit sales slid nearly 1%. According to the United States Department of Agriculture (USDA), a majority of meats saw inflation of greater than 8% in 2011, versus an average food-at-home rate of less than 5%. This level of inflation is having a major impact on categories such as breakfast meats and refrigerated meat/poultry, each of which

experienced an average price per volume increase of more than 13%. Dairy products also experienced higher-than-average inflation, contributing to double-digit price per volume increases in some dairy categories, such as butter and margarines/spreads.

In 2012 and beyond, inflation and innovation will remain key influencers of CPG industry trends. Both of these topics will be covered in greater detail throughout this report and in upcoming SymphonyIRI research.

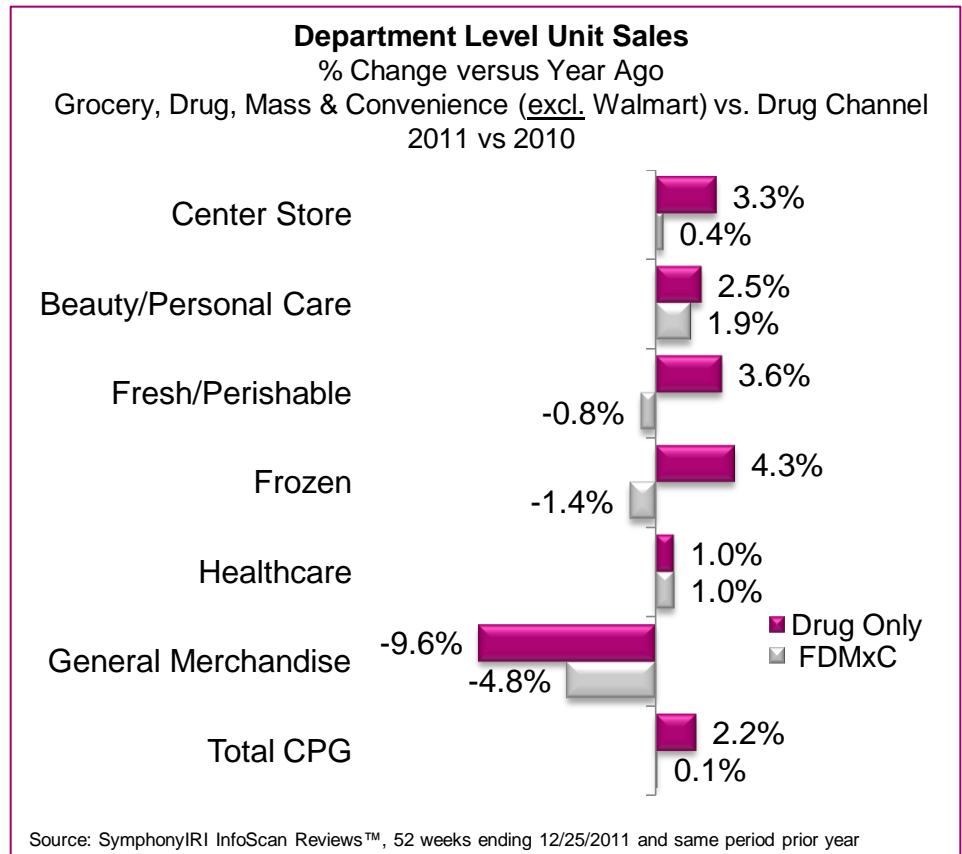
Category & Department Growth Trends: Drug Channel Growth Trends

Mentioned earlier in this report, the drug channel demonstrated higher-than-average growth during 2011. Illustrated in the chart on the right-hand side of this page, the channel's strong performance cuts across a majority of CPG departments.

Center store, fresh/perishable and frozen departments are seeing unit sales grow at a pace that is well above industry average, albeit that growth is occurring on a relatively small base. But, some drug retailers are intently focused on expanding their presence across food and beverage categories, so growth may continue to be quite strong.

For instance, Walgreens is working on plans to convert at least 500 locations into what it calls "food oases." These stores are located in predominantly low-income neighborhoods where access to fresh, nutritious foods is limited. In some of these stores, space devoted to food and beverages will expand by 35 to 40 percent¹.

In healthcare, drug channel performance was right on par with industry average. Examination of growth trends across some of the largest healthcare categories shows that while the drug channel is seeing stronger growth versus industry average in some categories, such as cold/allergy/sinus tablets and internal analgesics, the channel is lagging in others, including the high-growth categories vitamins and weight control/nutrition liquids/powders.



Unit sales within the drug channel are outpacing industry average across a majority of departments; the exception is the healthcare department, where drug channel sales mimic industry average.

To maintain its reputation as a healthcare destination, it is critical that the drug channel continues to hone its marketing game, because competing channels certainly focused on strengthening theirs.

Detailed in the January 2012 edition of Times & Trends, for instance, merchandising support within the grocery channel is up across 30% of healthcare categories. Other channels, too, are in the game. For instance, Dollar General recently partnered with J&J on a "Healthy

Essentials" free standing insert (FSI) in an effort to reinforce the availability and value offered at their banner.

More than one-third of consumers are self-treating more in an effort to save money. In the coming year, nearly all of these consumers will continue to do so². Bottom line: the healthcare department is ripe with opportunity for CPG marketers who are able to connect with shoppers and deliver against their most pressing needs and wants.

¹St. Louis Dispatch, January 22, 2012; ² SymphonyIRI MarketPulse survey, Q4 2011. © Copyright 2012 SymphonyIRI Group, Inc. All rights reserved.

Category & Department Growth Trends: Top Ten Category Growth

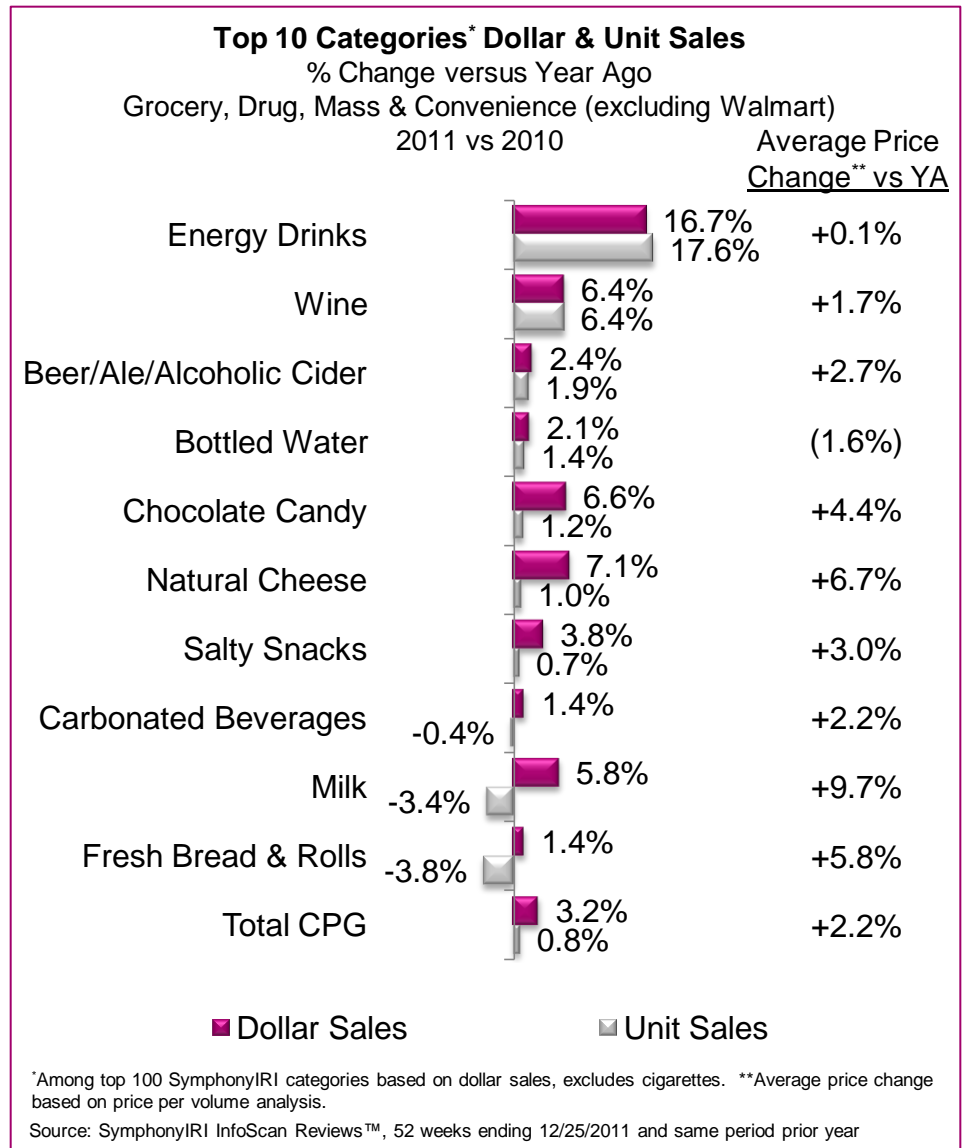
Traction across the 10 largest CPG categories was mixed in 2011, but six of the top 10 categories enjoyed growth that outpaced industry average.

Growth was strongest in the energy drinks category. This category has been experiencing exceptional growth during the past several years, driven by high levels of innovation. For instance, 2010 SymphonyIRI New Product Pacesetters brands Red Bull energy shot and Monster Nitrous gave the category a substantial boost in 2010. In 2011, 5-Hour Extra Strength energy shot and private label energy shots also demonstrated an ability to drive category growth.

The wine category grew more quickly versus industry average, with unit and dollar sales each increasing 6.4%. This segment is also outpacing the beer vertical, supported by several factors, including inflationary trends that are more mild versus CPG industry average and a growing base of millennial shoppers.

Across some of the largest CPG categories, price was a key driver of dollar sales growth, while unit sales growth was on par with industry or below average.

For instance, unit sales of milk fell more than 3% for the year, while dollar sales climbed nearly 6%. This disparity is largely explained by a 9.7% increase in average price per volume within the category. During 2011, milk volume sold with



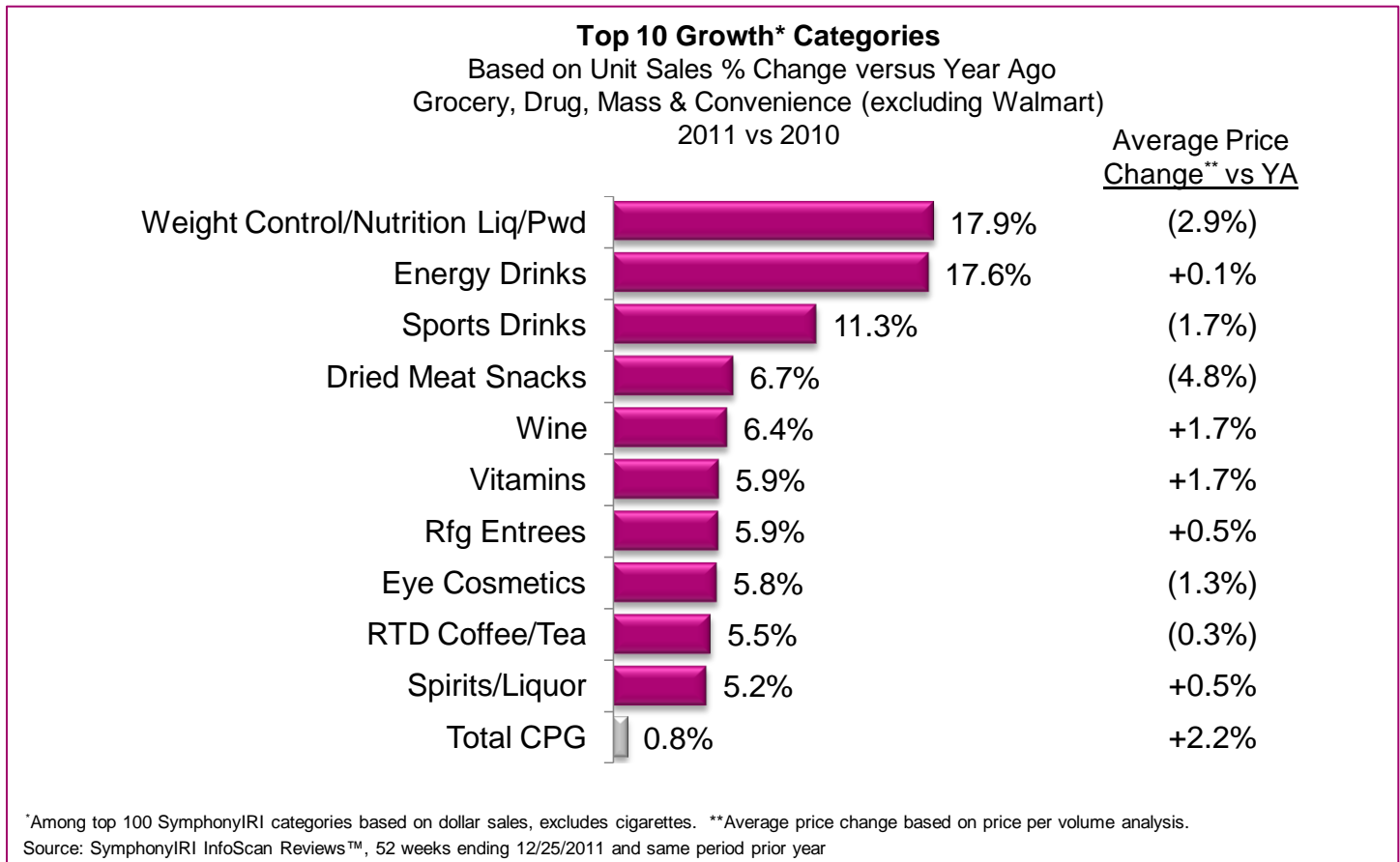
In 2011, six of the 10 largest CPG categories experienced unit sales growth that surpassed industry average.

merchandising support declined 4 points. This is a change from recent history, when some retailers followed very aggressive pricing strategies for their private label milk lines and others used high levels of merchandising to counter the pressure. As the use of these more aggressive private label strategies has subsided, others have eased their own strategies, as well.

In milk and other CPG categories, the price gap will need to be managed carefully—by retailers and national brand manufacturers. Pricing must clearly reflect the brand's/retailer's value proposition. After all, consumers have demonstrated that they will change brands, channels and/or retail banners to attain the value they seek.



Category & Department Growth Trends: High Growth Categories



Five of the 10 fastest-growing CPG categories are beverages, and several of these products—beverages and non-beverages—provide on-the-go fuel.

During the past year, five of the 10 fastest-growing CPG categories were beverage categories. Overall and across measured channels, beverage unit sales increased 2% in 2011, more quickly versus the CPG industry as a whole. But, as illustrated in the chart on this page, energy drinks, sports drinks, wine, ready-to-drink coffee/tea, and spirits/liquor each outpaced both by a wide margin.

The drug channel was a stand-out vis-à-vis beverage sales in 2011. Within the drug channel, beverage unit sales increased 8% for the year, with double-digit growth

evidenced in energy drinks, wine and ready-to-drink coffee and tea. Sports drinks also grew, albeit at a rate on par with channel beverage average.

Convenience store beverage growth was also stronger versus industry average, at 4% for the year. Here, again, the five categories illustrated outperformed channel average by a respectable margin.

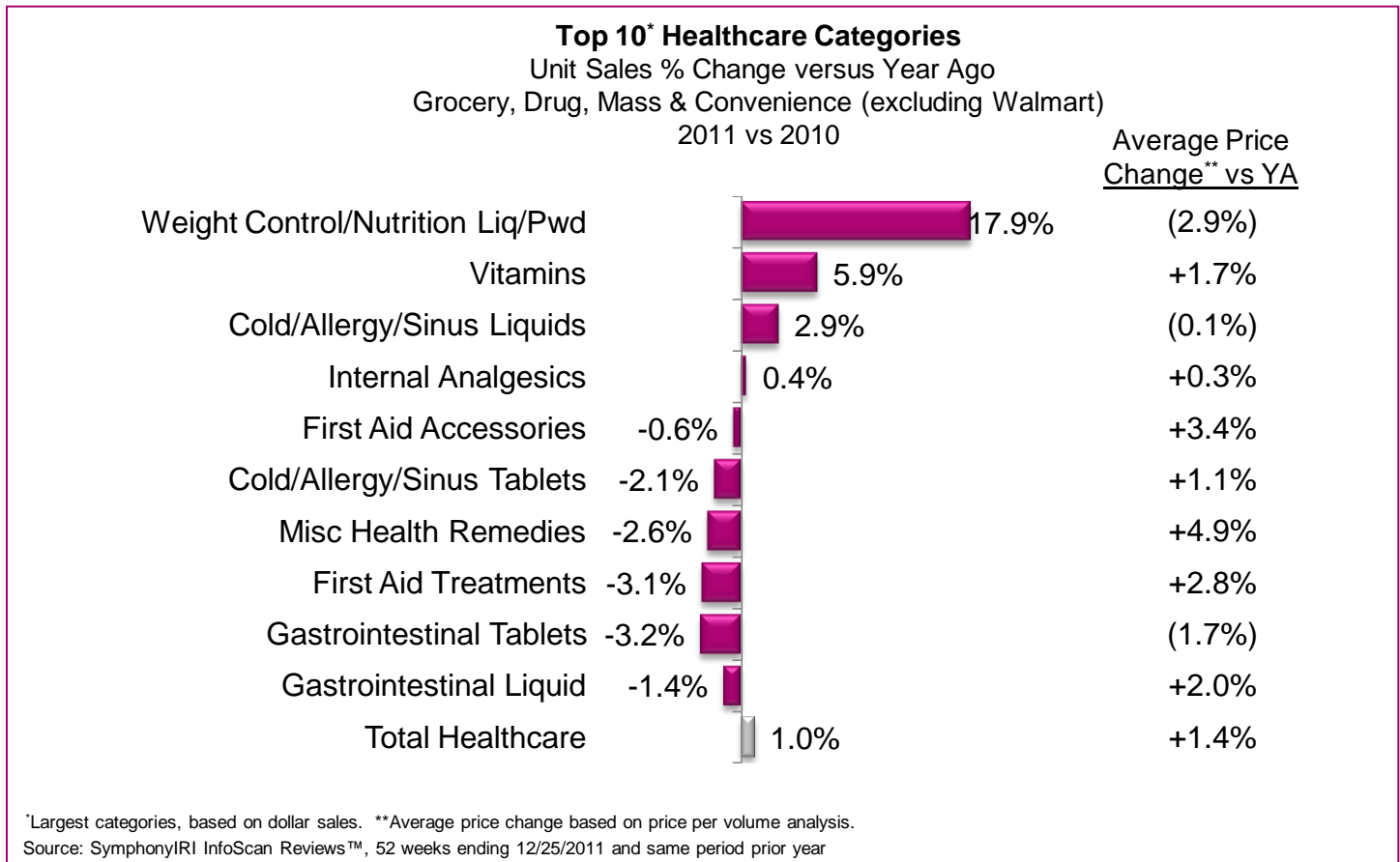
Home-based food and beverage rituals are quite prevalent today, as consumers look to trim expenditures wherever possible. Noteworthy is the fact that several of the

year's fastest growing categories illustrate both of these trends—home-based (often portable) eating and drinking without significant price hikes.

To capitalize on opportunities in today's CPG marketplace, marketers must continue to bring excitement and value into their categories through innovation, while really working to develop strategic pricing that underscores value while simultaneously protecting from or minimizing further margin erosion.



Category & Department Growth Trends: Drivers of Growth- Healthcare



Healthcare department sales grew 1% in 2011, led by innovation in the weight control/nutrition liquids/powders category.

Innovation was a key driver of growth within the healthcare department during 2011. Mentioned earlier in this report, Abbott Laboratory’s Ensure Revigor posted huge sales dollars, resulting in very high year-over-year growth for the weight control/nutrition liquids/powders category.

The vitamins category has been a strong performer for much of the economic downturn. In the past year, the supplements segment of the category has been particularly strong. Consumers today are trying to eat healthier and be

healthier—it’s an important money-saving strategy. Vitamins innovation is working to encourage more “everyday” vitamin usage, with fun gummy forms and more targeted formulations.

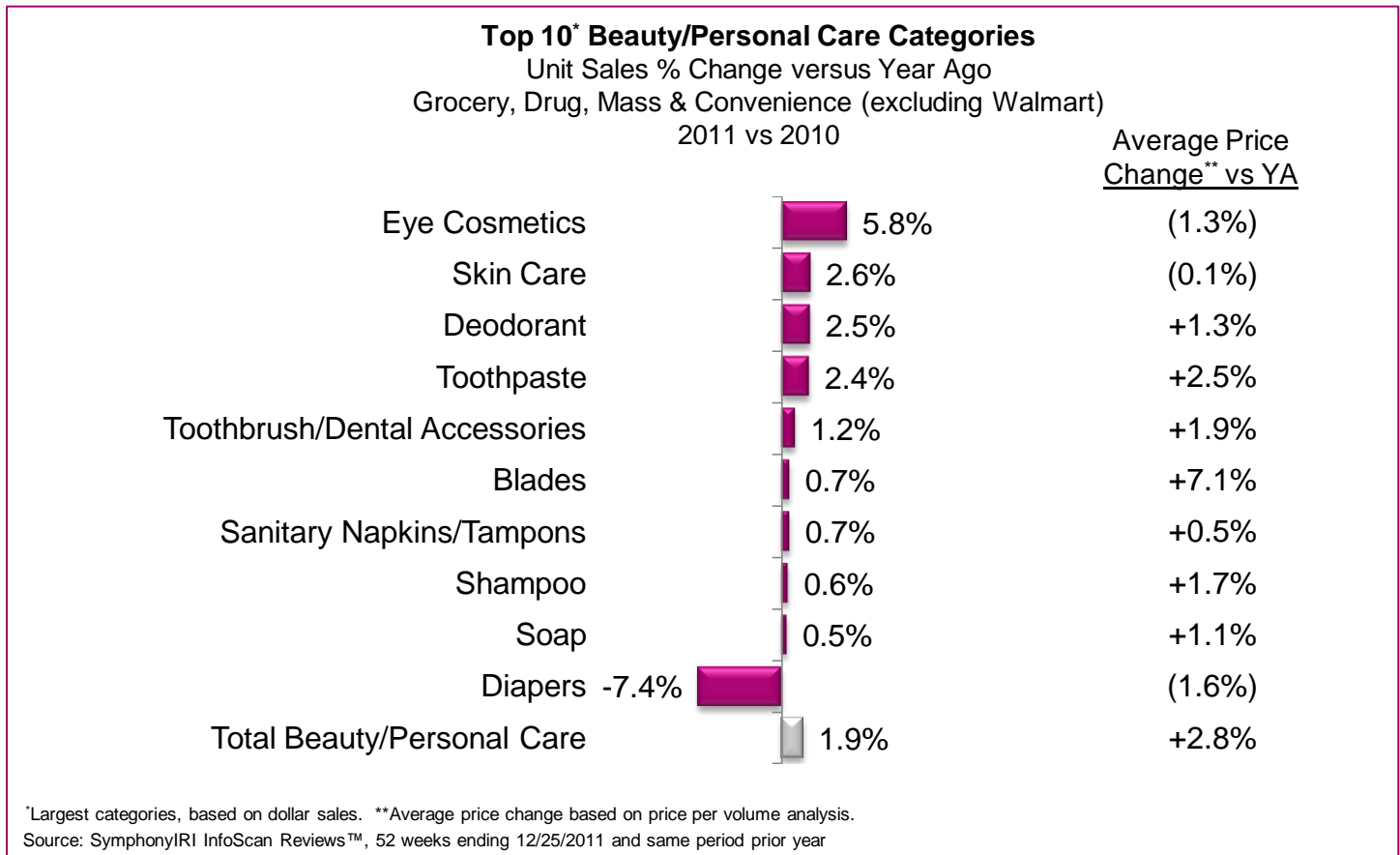
Six of the 10 largest healthcare categories experienced declining unit sales in 2011. Conservative purchase/usage behaviors are certainly playing an influencing role here. Today, one-third of consumers are trying to use fewer over-the-counter medications. A similar share of consumers indicate that people in their household are

sharing more products to reduce the number of products they need to purchase.

The drug channel is outperforming industry average, while grocery is lagging across some of the largest healthcare categories.

For instance, where cold/allergy/sinus tablets and first aid accessories experienced unit sales declines of 2.1% and 0.6%, respectively, at the industry average level, drug channel sales climbed. In grocery, however, cold/allergy/sinus tablets posted unit sales declines of 5.2%, and first aid accessories declines of 1.9%.

Category & Department Growth Trends: Drivers of Growth - Beauty & Personal Care



The beauty/personal care department demonstrated respectable growth in 2011, with more than three-quarter of categories posting unit sales gains.

Mentioned earlier in this report, beauty innovators did a fantastic job at catering to the needs and wants of those looking to pamper themselves on a budget during the past year.

For instance, eye cosmetic manufacturers caught everyone’s eye with innovation this year. Two new mascaras, Maybelline Volum’ One by One and L’oreal Voluminous Million Lashes both bring definition without clumping, making it easier to get a professional look without the professional price tag.

Overall, the beauty/personal care department posted respectable unit sales growth for the year, outpacing industry average. Indeed, 77% of department categories demonstrated growth during 2011.

Skin care, deodorant and toothpaste demonstrated higher-than-average unit sales growth for the year.

In contrast, the diapers category saw unit sales decline rather sharply in 2011, despite a 1.6% drop in average price per

volume. Unit sales declined in both drug and grocery channels, though declines were sharper within grocery.

The decline in diaper sales is likely driven by several factors, including an overall multi-year decline in birth rate in the United States, and a tough economy, which may be leading some parents to become more conservative in diaper usage.

Category & Department Growth Trends: Pricing - High Increase Categories

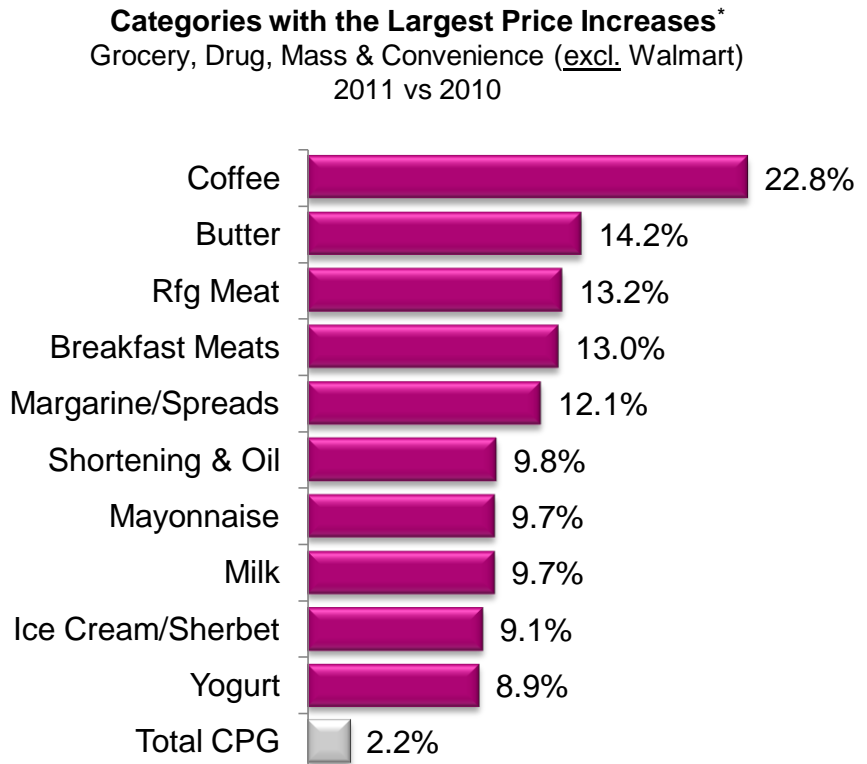
According to the USDA, meats and dairy products experienced rather substantial inflation during 2011. Mentioned earlier in this report, meat prices increased more than 8%, versus average food-at-home inflation of about 5%. Dairy product inflation was a bit closer to industry average at an estimated 6.25% to 6.75%.

The price of coffee has skyrocketed during the past year, and the upward march is expected to continue. Poor growing conditions, coupled with high levels of demand, have had an astronomical impact on the price of coffee beans.

These are certainly not the only commodity costs that are increasing. Harsh weather conditions impacted much of the world in 2011, and the global economy is less than ideal. High commodity costs are reverberating across the supply chain and are evidenced in the ranks of the CPG categories seeing the highest price increases for 2011.

For instance, J.M. Smucker and Kraft have each raised prices on their coffee brands at least three times during the past year¹. In turn, retailers must decide how to manage their increased cost vis-à-vis their retail store pricing.

The milk category experienced similar price hikes. In the grocery channel, for instance, Horizon Organic milk prices were at least 4% higher versus prior year throughout most of 2011.



*Among top 100 SymphonyIRI Reviews categories, based on price per volume analysis.
Source: SymphonyIRI InfoScan Reviews™, 52 weeks ending 12/25/2011 and same period prior year

Increasing commodity prices are having a profound impact on price across several categories, particularly dairy and meat-related categories.

In 2008, when inflation escalated for the first time in this economic downturn, many CPG retailers worked hard to absorb those price increases rather than pass them along to consumers in the name of remaining competitive. To maintain margins—or, at the very least, minimize impact—they worked on cutting costs and adding efficiency throughout their supply chain.

This time around, many retailers are selectively passing price increases along to consumers. Associated Food Stores, for

instance, is passing along increases in meat and dairy, but doing less pass-along in center store categories where it feels the competitive environment is more intense².

Though inflation is expected to moderate in 2012, price will absolutely stay top-of-mind for consumers and marketers alike. To remain competitive, CPG marketers must keep both everyday and promotional strategies in alignment with corporate and consumer goals.

¹CNN Money, May 25, 2011; ² Supermarket News, October 10, 2011
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Category & Department Growth Trends: Private Label Share Trends

Private label accounts for about 23% of unit sales and just under 19% of dollar sales across CPG channels. Detailed in SymphonyIRI's September 2011 edition of Times & Trends, this is an increase versus 2008, but a slight decline versus 2010.

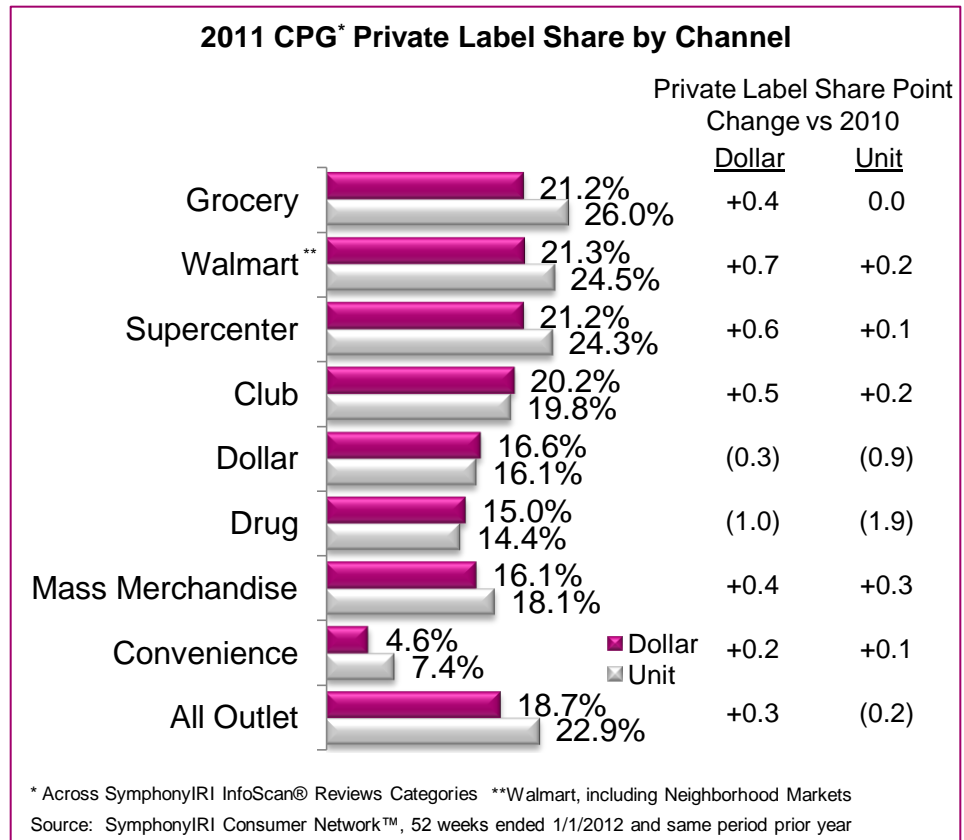
Private label share is growing across a majority of channels. Two exceptions: share is down slightly in the dollar channel and down more sharply in the drug channel.

In the dollar channel, private label unit share declined nearly one point, while dollar share slipped 0.3 points. But, dollar channel marketers are working hard to bring momentum to their private brand performance.

Family Dollar, for instance, has been focused on increasing penetration of its private label lines during the past year. It is increasing assortment, particularly of private label consumables, and it is increasing marketing and merchandising support of its lines in order to raise awareness and improve the lines' profiles¹.

To be detailed further on the pages that follow, drug channel declines are, at least in part, due to the fact that overall private label share of health and beauty sales, for which the drug channel is a destination location, are on the decline.

Private label growth was strong in the



Private label performance is generally positive across most CPG channels, but overall share of unit sales slipped, driven by noteworthy declines in dollar and drug channels.

mass merchandise and supercenter channels during 2011. Some of the private label brands within these channels, including those of Target and Walmart, are sizable and are perceived positively by consumers. In Target, for example, private brands represent more than one-third of Target's overall sales and share is climbing². And, within these channels, growth of private label lines continues to be a strong focus.

The club channel is also experiencing healthy private label share growth. A strong performer in this channel is Costco's

Kirkland Signature brand. Kirkland Signature accounts for about 20% of overall Costco sales, and the retailer is focused on growing the brand's penetration.

At present, Kirkland Signature penetration is higher in food, health and beauty, versus other areas, and this is expected to remain consistent in the future. In keeping with this focus, the retailer has expanded the line into a number of new food categories during the past year, including canned goods, nuts and snacks³.

¹ Family Dollar SEC Filings; ²Target SEC Filings; ³ Store Brands Decisions, October 11, 2011
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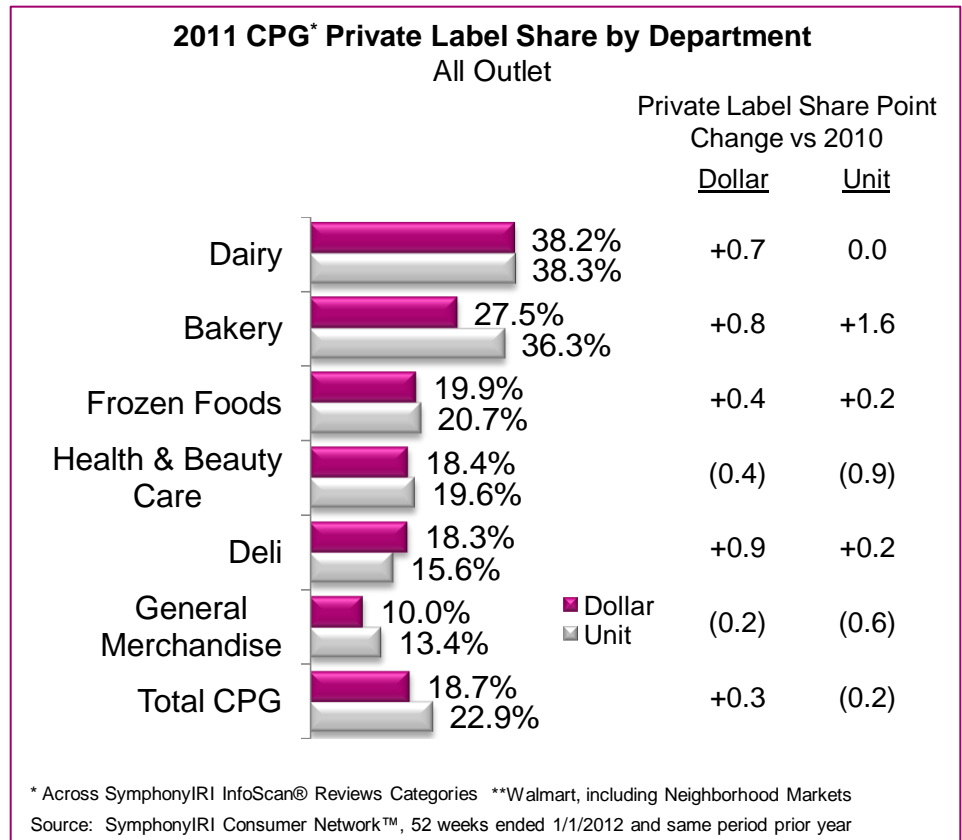
Category & Department Growth Trends: Private Label Share Trends

On average, private label share of unit sales slipped 0.2 points, and share of dollar sales increased 0.3 points during 2011. At the department level, though, private label performance varied rather remarkably.

Private label gains were strongest in the bakery department, where unit sales increased 1.6 points, and dollar sales were up just under one point. Part of the shift to private label is due to price increases: overall bakery department price per volume increased 5% in 2011, while private label bakery price per volume increased just 3.6%. This difference is not huge, but it makes an already sizable private label price gap of about 25% even larger at 27%.

Private label also gained share in the deli department. Here again, changing prices and price gaps are at play. In the deli department, even after both national and private label products experienced rather sizable price increase (and private label increases were higher), the average price per volume for private label deli solutions is nearly 8% lower versus nationally branded alternatives.

Retailers across CPG channels are focused on growing their private label lines because they offer higher margins versus national brands, as well as a level of differentiation in a highly competitive marketplace.



In the bakery and deli departments, solid and increasing average price per volume discounts versus national brand alternatives are helping to drive private label share gains.

In the health and beauty care department, private label share of unit sales slid just under one point, while dollar sales slid 0.4 points. In this department, private label price gap closed only slightly, and private label still provides a considerable discount versus nationally branded alternatives.

A more probable influencer of private label share declines in this department is the aforementioned strong innovation that is taking place in this arena.

To compete effectively, manufacturers must keep a keen eye on the competitive

environment, and continually hone pricing and innovation strategies to mitigate private label gains, and to protect and grow share of their own brands.

Retailers, too, must stay on top of innovation and pricing trends. They must constantly evaluate the feasibility and the cost/return of bringing truly innovative products into their private label line-up, and they must ensure new and existing products alike are priced effectively against national brand competitors and competing private label solutions, as well.

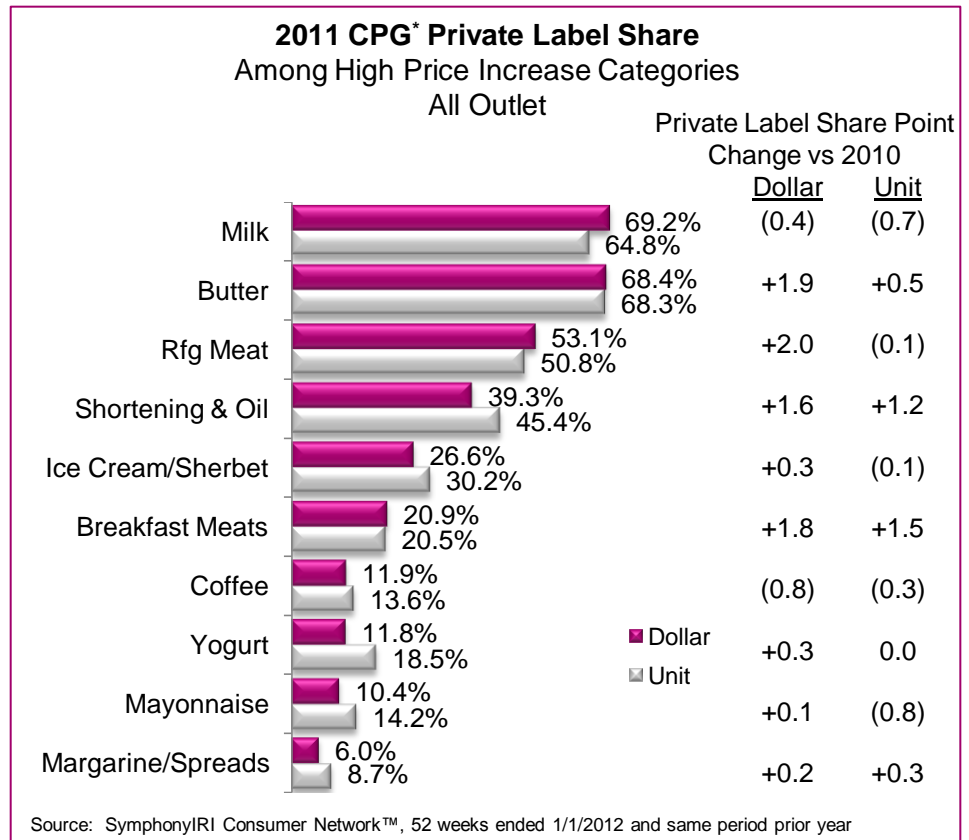
Category & Department Growth Trends: Private Label Share Trends

According to SymphonyIRI's MarketPulse survey series, 50% of consumers are buying more private label today than they did before the economic downturn began. In fact, private label has played a major role in helping consumers save money throughout the downturn.

It is important to note, though, that private label growth is not just occurring at the value end of the spectrum. Indeed, many retailers are introducing "specialty" lines that command a higher price point versus national brands, and are aimed at consumers looking for low-cost gourmet solutions.

Illustrated here, private label share is on the rise across a majority of the categories that experienced the highest price increases during the past year. In many of these categories, private label gains outpaced industry and department average by a wide margin.

For instance, private label share of unit and dollar breakfast meat sales climbed 1.5 and 1.8 points, respectively. Detailed in the September 2011 edition of Times & Trends, penetration gains have contributed heavily to increased traction in categories where private label share has been historically lower than industry average. In the case of breakfast meats, penetration increased 2.0 points between 2010 and 2011, respectively.



In many of 2011's high price increase categories, private label share gains outpaced industry average, but coffee and milk categories saw private label share decline during the same time period.

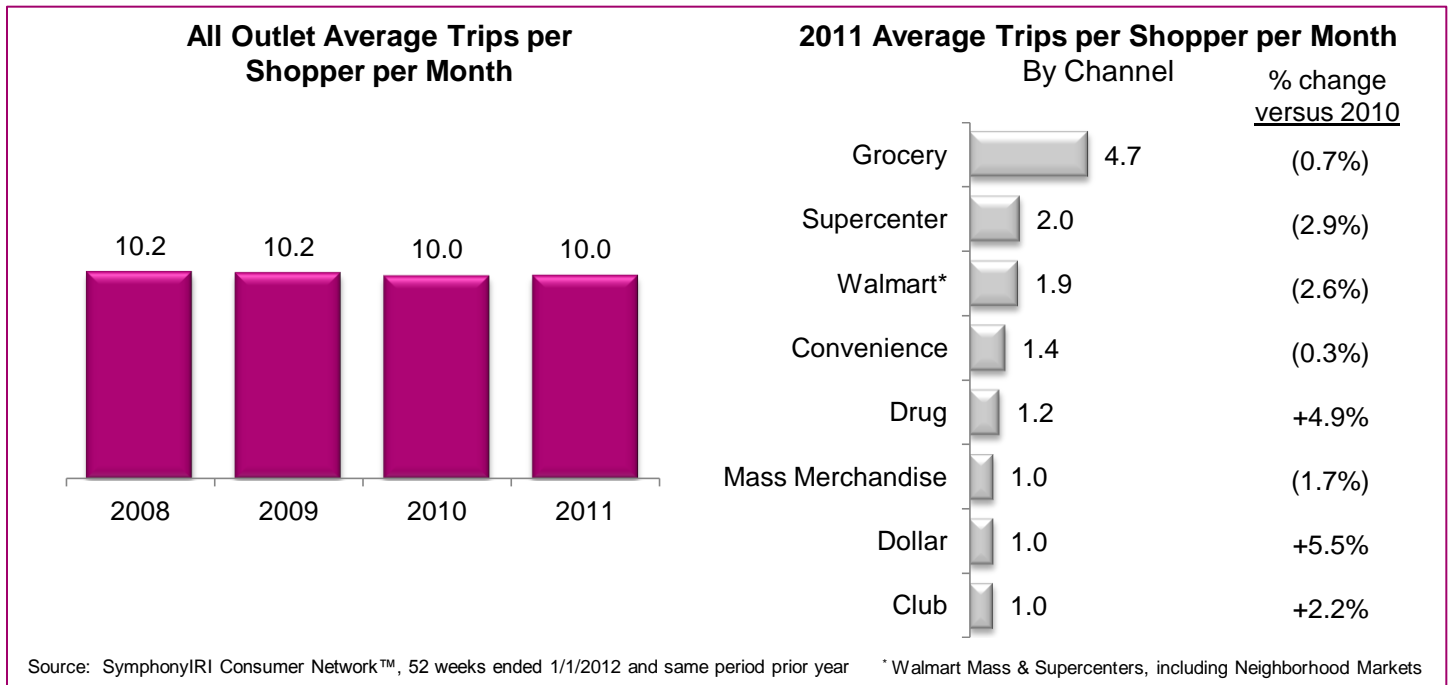
On the other end of the spectrum is private label mitigation. A long-recognized defense to private label inroads is innovation—and this is what is happening in the milk and coffee categories.

SymphonyIRI's 2011 New Product Pacesetters report revealed that 14% of 2010 beverage launches came from coffee and tea brands, versus a historical average of just 8%. Detailed therein, the jump in representation was largely attributable to the birth of single-cup coffee, known broadly as the K-cup, and sizable single-

cup new product launches by Newman's Own and Green Mountain. Single-cup coffee innovation is still quite steamy, with sizable new launches from Keurig and Tully's during the past year.

Milk innovation, too, was huge in 2010, with better-for-you variations making a substantial splash in the marketplace. Better-for-you was strong again during 2011, with Silk Pure Coconut and Bolthouse Farms refrigerated Kefir milk posting sizable sales in their first year in the marketplace.

Shopping Behavior: Shopping Patterns



While overall trip frequency changed only slightly during the past several years, channel-level changes have been rather noteworthy.

Measured at the all outlet level, trip frequency declined only slightly during the past several years. However, a more microscopic view of trip patterns shows rather noteworthy changes.

For instance, in the past year, drug and dollar channel trips increased rather sharply, while most of the other measured channels experienced trip declines. Detailed in SymphonyIRI's July 2011 edition of Times & Trends, changing trip mission patterns, which are bringing a rise in quick trip missions, are major contributors to drug and dollar channel gains.

Both of these CPG channels are also benefitting greatly from a keen focus on

building out and honing assortment. This includes a broadening of food and beverage as well as private label offerings.

The club channel also enjoyed noteworthy uptick in trip frequency during the past year. In 2011, consumers shopped in the club channel an average of once per month. Mentioned earlier in this report, overall private label share is on the rise in this channel, supported by increased breadth and depth of store lines. In a marketplace where 50% of consumers are buying private label more often, this is certainly a contributor to overall channel frequency growth.

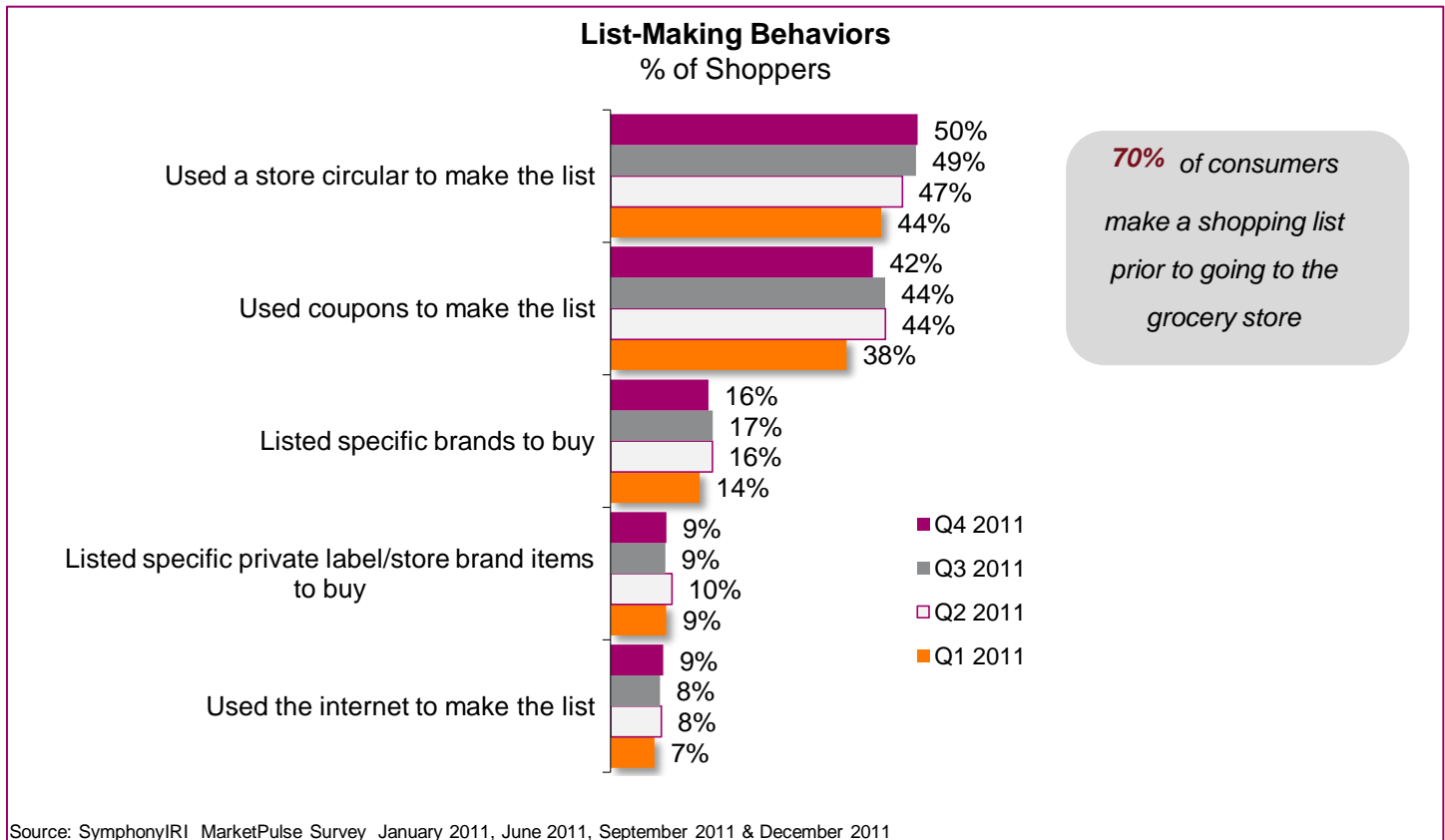
Supercenters and mass merchandisers, including Walmart, posted rather sizable

frequency declines in 2011. These channels are destination pantry-stock up channels and are being negatively impacted by overall declines in pantry stock-up behavior. However, as noted in the December 2011 edition of Times & Trends, late 2011 trends may point to a moderation or reversal of these pantry stock-up declines.

Additionally, Walmart, a major player in these channels, has been carefully examining and shifting its marketing strategies in recent months. The retailer's most recent quarterly earnings reflect a revenue uptick, perhaps an early indicator that current efforts are reaping positive rewards.

¹Omaha World-Herald, November 16, 2011
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2012 Outlook



Consumers are carefully planning their grocery shopping trips and embracing a wide range of list-making tools in an effort to save money wherever possible.

Living Well, with Less

In the foreseeable future, the CPG industry will be marked by exceptionally conservative consumer behaviors. According to SymphonyIRI's MarketPulse survey, about one in four consumers is having difficulty affording groceries. And, sentiment for the future is mixed. One in five consumers expects that this year will bring economic improvements, but a firm 49% strongly disagree.

As a result of this conservative mindset, consumers are embracing a variety of money saving behaviors. For instance,

nearly three-quarters of consumers are making a shopping list before entering the retail environment.

Coupons have become a critical list-making tool in today's CPG arena. More than 40% of consumers use coupons to make their shopping lists, and 50% of consumers are using more coupons today than they did before the economic downturn began. While many of these coupons are being sourced from traditional media, such as free-standing-inserts (FSIs), online media are gaining steam. Today, more than one-in-three consumers turns to manufacturer and/or retailer web-

sites to get coupons. While these avenues are technologically different, both demonstrate another pervasive trend that will continue to shape the CPG industry: preplanning.

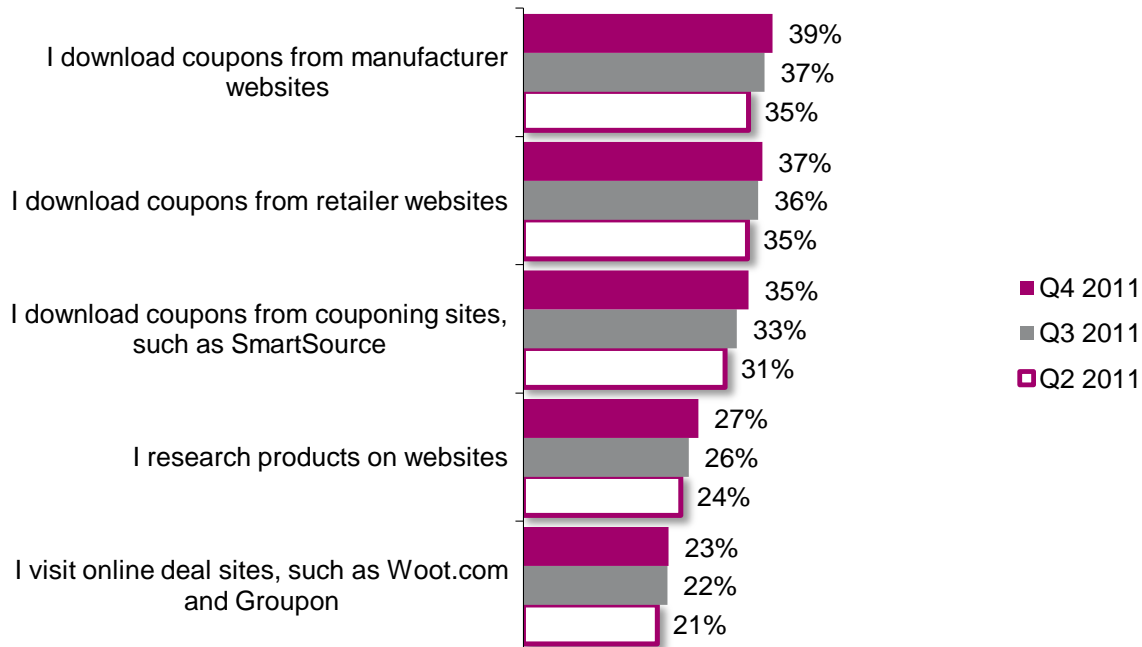
Logging on to Savings

Digital media are playing an integral role in the pre-planning process and in helping consumers find new ways to save. Like coupons, the Internet is being leveraged as a list-making tool. Though penetration is much lower versus coupons, it is steadily increasing.



2012 Outlook

Digital Media Usage % of Shoppers- Top 2 Box



Source: SymphonyIRI MarketPulse Survey June 2011, September 2011 & December 2011

Digital media are quickly gaining acceptance, and becoming an integral part of the CPG purchase process.

The Internet is also being leveraged by consumers as another coupon delivery mechanism. About one-third of consumers download coupons from retailer and/or manufacturer websites, and a similar share are sourcing coupons from sites dedicated to couponing.

Detailed in SymphonyIRI's recent Point of View, "Rich with Opportunity," wealthier shoppers tend to leverage e-planning tools more than lower-income shoppers—the result of increased means and comfort with today's newest technologies.

Men are Shoppers, Too

Certainly, men have shopped for groceries for years, even decades. Today, however, nearly one-third of males are considered to be the primary household grocery shopper.

Why such a sizable representation?

Detailed in SymphonyIRI's recent Point of View, "Men are From Mars and Women are From Venus...or Maybe Not," the rise of the male primary shopper is being driven by several factors, most notably by economic and unemployment trends, and by changing household dynamics.

CPG marketers are shifting strategies to remain in lock-step with changing times. Procter & Gamble, for instance, is expanding its "man aisle" program, which merchandises all men's products, Procter & Gamble and competitor, in a central location. Kraft is developing male-targeted products and marketing programs, including the launch of MiO water flavor droplets. And, several retail chains have male-oriented programs in various stages of development and rollout¹.

¹The Chicago Tribune, December 27, 2011
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Conclusions: CPG Manufacturers

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

- Identify opportunities and risks
 - Re-evaluate sourcing and inputs resources, and be on the lookout for opportunities to lower costs versus price tensions through innovative sourcing, packaging, and product sizing strategies
 - Closely track the evolving competitive set at the channel and retailer level to ensure appropriate alignment of distribution strategies
 - Invest to understand private label share shifts across key departments/categories, particularly across low-differentiation areas and those with sizable price increases
 - Keep abreast of technological advances within and outside the CPG environment; be on the lookout for new and innovative means of informing and engaging key consumer segments

- Evaluate pricing and promotional strategies
 - Continually re-assess and adjust pricing to maintain optimal price gap between private label and name brand offerings
 - Identify cross-promotional opportunities with high-growth categories/brands and/or key staple products

- Enhance new product development initiatives
 - Explore product development opportunities at both ends of the product spectrum, based upon existing and emerging consumer trends (e.g., restaurant quality in the home, salon in the home, etc.)

Conclusions: CPG Retailers

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

- Identify opportunities and risks
 - Closely track the evolving competitive set at the channel and retailer level to ensure appropriate product mix and inventory management strategies are maintained
 - Explore opportunities to extend private label share within and across departments, particularly across low-differentiation categories and those with sizable price increases
 - Keep abreast of technological advances within and outside the CPG environment; be on the lookout for new and innovative means of informing and engaging key consumer segments

- Evaluate pricing and promotional strategies
 - Continually re-assess and adjust pricing to maintain optimal price gap between private label and name brand offerings
 - Work with key manufacturer partners to develop cross-promotional opportunities with high-growth categories/brands and/or with key staple products

- Explore opportunities to enhance product assortment
 - Align assortment strategies with changing trip mission and product usage trends
 - Tap into evolving demand trends to ensure effective assortment and placement for high growth categories

Resources

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

SymphonyIRI InfoScan Reviews

InfoScan Food / Drug / Mass (excluding Wal-Mart) (FDMx) Tracking Service is a business reporting service that tracks point-of-sale (POS) scanner sales and promotional activity for grocery, drug, and mass merchandiser stores in the U.S.

SymphonyIRI Consumer Network

Consumer Network is a consumer panel that provides a clear picture of consumer behavior so that sales and marketing professionals can continually adjust strategies to focus on the consumer dynamics that drive brand and category performance.

SymphonyIRI AllScan Convenience Store Tracking

SymphonyIRI AllScan Convenience Store Tracking is a scanner based point-of-sale tracking service that delivers highly accurate data and unmatched business insights to help manufacturers and retailers improve category management effectiveness and retail execution across the entire convenience channel. It is the only c-store business reporting service enabling the user's visibility into all categories with weekly granularity.

SymphonyIRI Shopper Insights Advantage™

Shopper Insights Advantage™ Powered by SymphonyIRI Liquid Data™ is SymphonyIRI's transformational tool for creating actionable consumer and shopper insights.

SymphonyIRI ShopperSights™

ShopperSights is a new consumer and shopper targeting and segmentation solution delivering actionable insights at the individual household and store level.

FOR MORE INFORMATION

Please contact Susan Viamari at Susan.Viamari@SymphonyIRI.com with questions or comments about this report.

About SymphonyIRI Group

SymphonyIRI Group, formerly named Information Resources, Inc. ("IRI"), is the global leader in innovative solutions and services for driving revenue and profit growth in CPG, retail and healthcare companies. SymphonyIRI offers two families of solutions: Core IRI solutions for market measurement and Symphony Advantage solutions for enabling new growth opportunities in marketing, sales, shopper marketing and category management.

SymphonyIRI solutions uniquely combine content, analytics and technology to deliver maximum impact. SymphonyIRI helps companies create, plan and execute forward-looking, shopper-centric strategies across every level of the organization. For more information, visit www.SymphonyIRI.com.

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The logo for SymphonyIRI Group features a red curved line above the text. "Symphony" is in a grey serif font, "IRI" is in a red serif font, and "Group" is in a grey sans-serif font.

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