Times&Trends

A Snapshot of Trends Shaping the CPG Industry.

The Recession & Consumer Shopping Trends

information resources
Intelligence to power your business

February 2003

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Welcome to *Times&Trends*

This informational monthly publication highlights key trends shaping the consumer packaged goods (CPG) industry. It is designed to help CPG manufacturers and retailers make effective, fact-based decisions about their businesses.

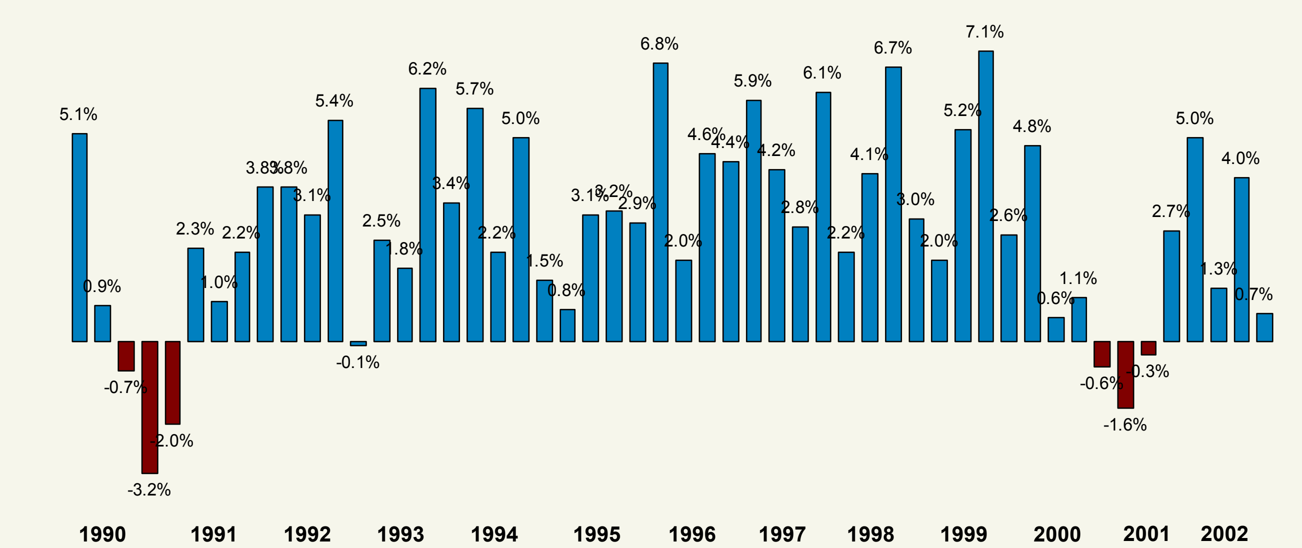
Times&Trends is developed and distributed by Information Resources, Inc., a leading provider of UPC scanner-based and consumer panel-based business solutions to the CPG industry.

This month's *Times&Trends* brief addresses the US economy's recession from the consumer perspective and draws from IRI consumer shopper panel data to assess its impact on shopping trends.

The US economy has been in a softened, recessionary mode for over two years, hampered by the terrorist attack in September 2001 and subsequent threats, corporate business contraction/collapse, and more recently, building concerns over war. The result has been a lackluster economy, downward market trends and a shaky job market.

How have consumer shopping trends been impacted? What kind of channel shifts are shoppers making? Who are the winners and losers in this unsettling consumer environment?

GDP (Gross Domestic Product) – US Economy's Growth Barometer Quarterly % Change versus Prior Period



US Gross Domestic Product
% change from prior period, in 1996 Dollars (seasonally adjusted at annual rates, inflation removed)
Source: US Dept of Commerce

Data Sources & Methodology

A number of government, industry and IRI databases, as well as consumer panel-based custom analyses, were drawn upon to make this report.

The Conference Board tracks consumer confidence, a measure of the consumers' collective attitudes toward the economy and employment in the US.

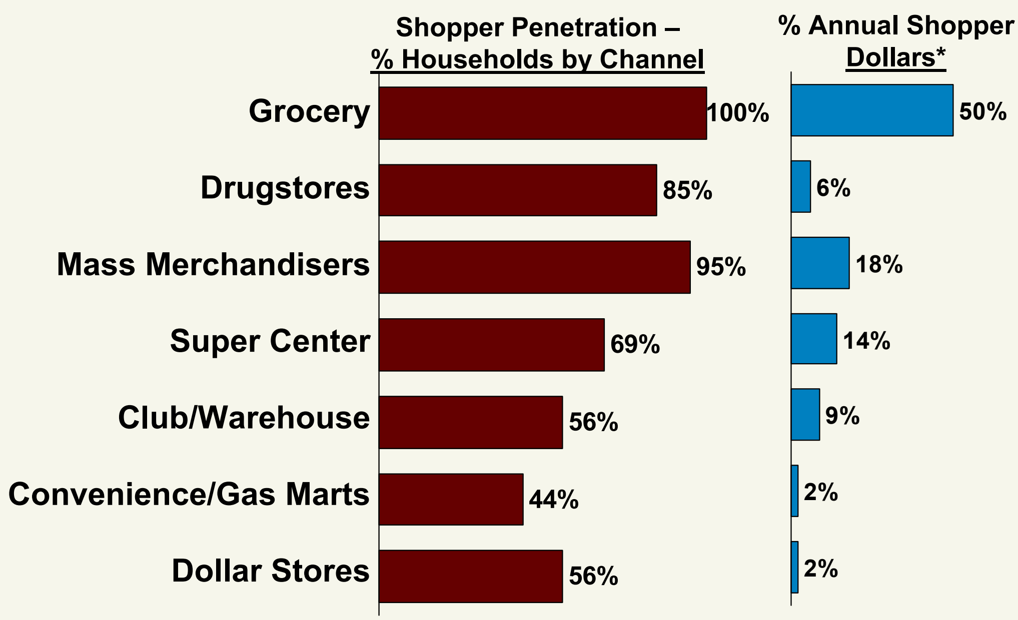
The Bureau of Labor Statistics reports on employment changes in the US on a monthly basis, including the national unemployment rate and the number of newly created jobs.

The Department of Commerce's Bureau of Economic Analysis provides extensive economic data. In addition to the GDP stats shown on page 3, BEA maintains other statistical tracks on consumer spending, including disposable income growth and personal savings as a percent of income to provide a sense of whether the consumer has continued to spend and throw caution to the wind, or whether they are holding back.

The Bureau's retail sales data enable us to look at key CPG channels from a macro basis and compare growth rates for the past three years.

But to answer the key questions on the consumer, we rely on IRI Consumer Shopper Panel data, analysis, and modeling drawing on a Household Panel of 70,000 US households who scan all of their bar-coded purchases at home from all types of retail outlets.

Consumer Shopper Profile – 2002 Purchase Behavior by Channel



Source: IRI Consumer Shopper Panel Database, Custom Analysis
*100% Total = sum of 7 channels shown

Introduction – Recapping Consumer Shopping Trends During This Country's Three-year Economic Slump.

Today's shopper is a fluid, "moving target" for CPG marketers and retailers, challenging our understanding more than ever before. The events of the past three years and mounting threats of terror and war have driven consumers to seek lower prices and total cost savings, stimulating cross-over, multi-outlet shopping. The supercenter channel is leading the charge, becoming a universal shopping destination.

- **Consumer confidence falls as anxieties mount.** The slumping economy & stock market, job insecurities and mounting fears of war and potential terrorist attacks are sending the confidence index downward.
- **Consumer spending retreats with uncertainties.** Savings rise as worried consumers squirrel away disposable income with uncertainty of what's ahead.
- **Discounters dramatically outpace retail average growth.** Growing +15-16% per year on average (including major expansions), discount channels drive retail industry's +5% growth in "real" dollars.
- **Deep-discounters gaining universal penetration.** Consumers shop in multiple channels but increasingly seek out everyday savings.
- **Heavy discount shoppers still anchored in traditional channels.** Even with the rise of discounters, grocery has a command over heavy shoppers' penetration and average number of trips, no matter which channel they shop. But their share of total basket is slipping.
- **Grocery's shopping trip lead is shrinking.** Discounters as a group total 65 average trips per shopper in 2002, just behind the grocery channel's 69 trips.
- **Heavy discount channel shoppers dominate sales.** The upper third of discount shoppers in dollars-per-trip account for 74% to 84% of total sales.
- **Supercenters gradually growing share of dollar sales.** Given Wal-Mart's aggressive expansion plans and increased basket ring from satisfied consumers, supercenters are apt to reach #2 status behind grocery, passing traditional mass merchandisers.
- **Wal-Mart supercenters draw 58% of growth from crossover shoppers.** Grocery shoppers crossing over contribute 26% to Wal-Mart's annual dollar increase. Established Wal-Mart channel buyers account for 29% of year-to-year growth, while Wal-Mart traditional-format factor in 13% of their supercenter increase. The balance (32%) comes from other competitive channels.

Anxieties over war, slumping economy & job insecurities feeding downward consumer confidence trend.

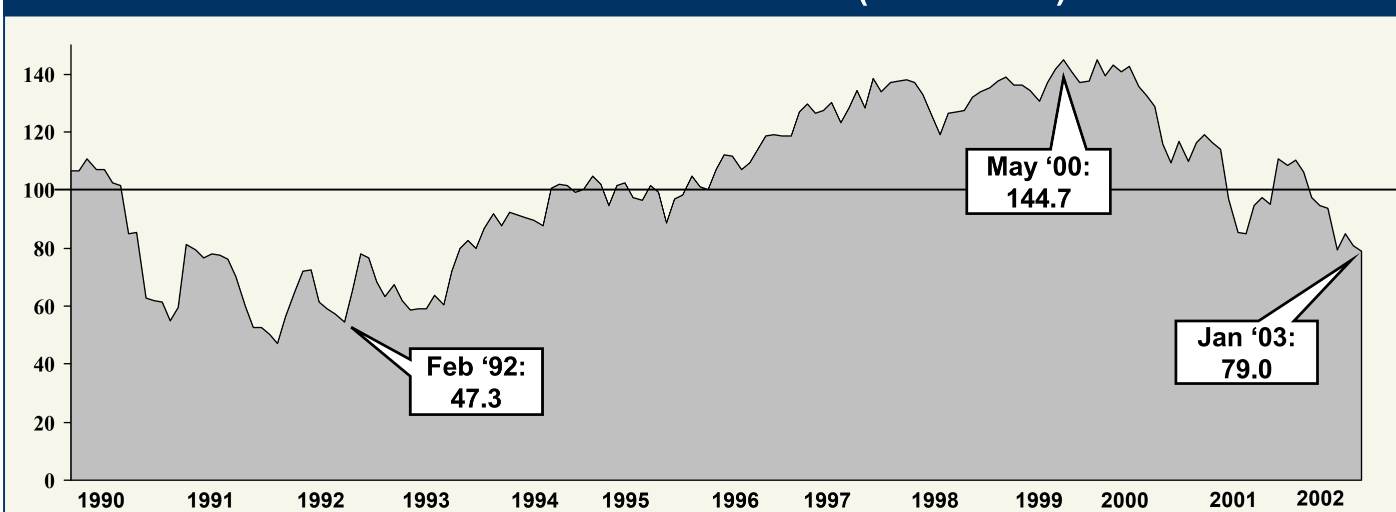
The Conference Board's Consumer Confidence Index dipped nearly two points in January. The Index now stands at 79.0 (1985=100), a new nine year monthly low. The Consumer Confidence Survey is based on a representative sample of 5,000 US households.

Attitudes had softened before 9/11 but then soured dramatically. Recovery in the middle of 2002 was short-lived as business and the economy headed south.

“Overall readings continue to reflect the country’s lackluster economic activity,” said Lynn Franco, Director of The Conference Board’s Consumer Research Center. “Now, with the threat of war looming, consumers have grown increasingly cautious about the short-term outlook.”

Consumers’ expectations for the next six months are less optimistic than they were in December. Those anticipating business conditions to sour over the next six months rose to 14.0 percent from 11.0 percent. The employment outlook was also less favorable: consumers expecting fewer jobs in the coming months edged up to 20.9 percent from 20.2 percent; consumers' assessment of current conditions remains glum.

Consumer Confidence Index (1985 = 100)



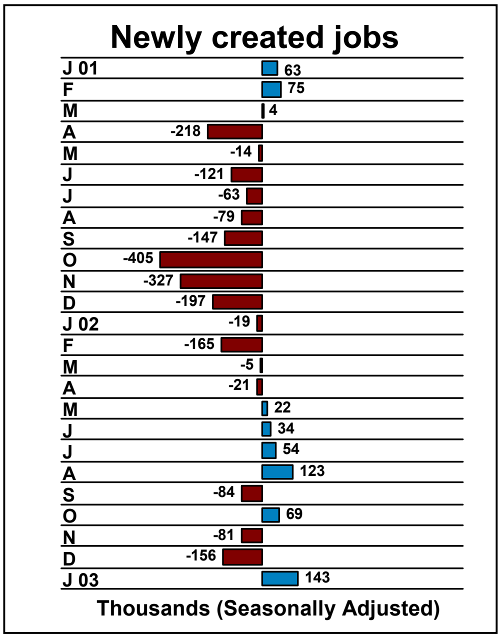
Survey of 5,000 Households
Source: The Conference Board

Job contraction & unemployment news creating consumer insecurities.

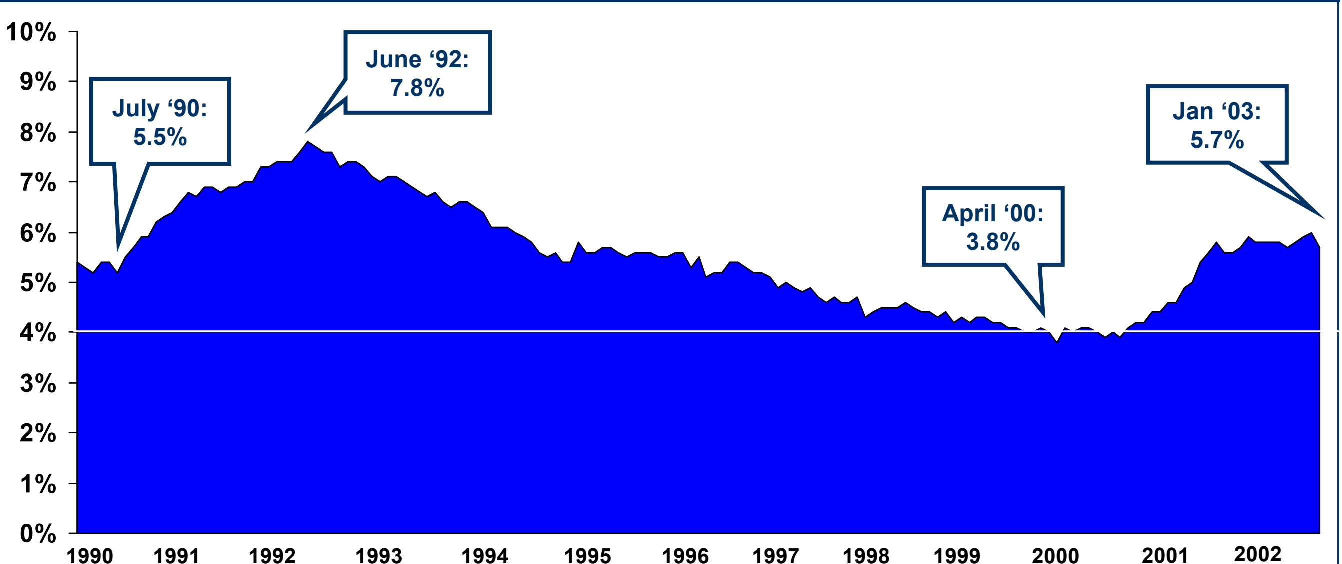
The US recession has led to over a million job cuts annually since January 2001. Per Alan Greenspan, “One major headwind for the economy is the effect of rising unemployment on consumer spending. Consumers fuel two-thirds of the US economy, and they could be less inclined to spend money if their jobs are threatened.”

Unemployment is a lagging economic indicator in that it usually gets worse even as the economy gets better. Federal policy makers a year ago expected the unemployment rate to rise to between 6.0 percent and 6.25 percent this year. Companies resist rehiring until assured the economy and their profits are on the mend.

Job growth has continued to sputter with only modest gains in six of the latest 12 months.



Unemployment Rate of the Civilian Population (Seasonally Adjusted)



Source: Bureau of Labor Statistics

Consumers have more disposable income, but are choosing to save more rather than spend due to the uncertainty of what's ahead.

Consumer Spending – hands down, the main engine that fuels economic growth, accounting for two-thirds of the total Gross Domestic Product – rebounded slightly in 2002, up a modest 3.1%

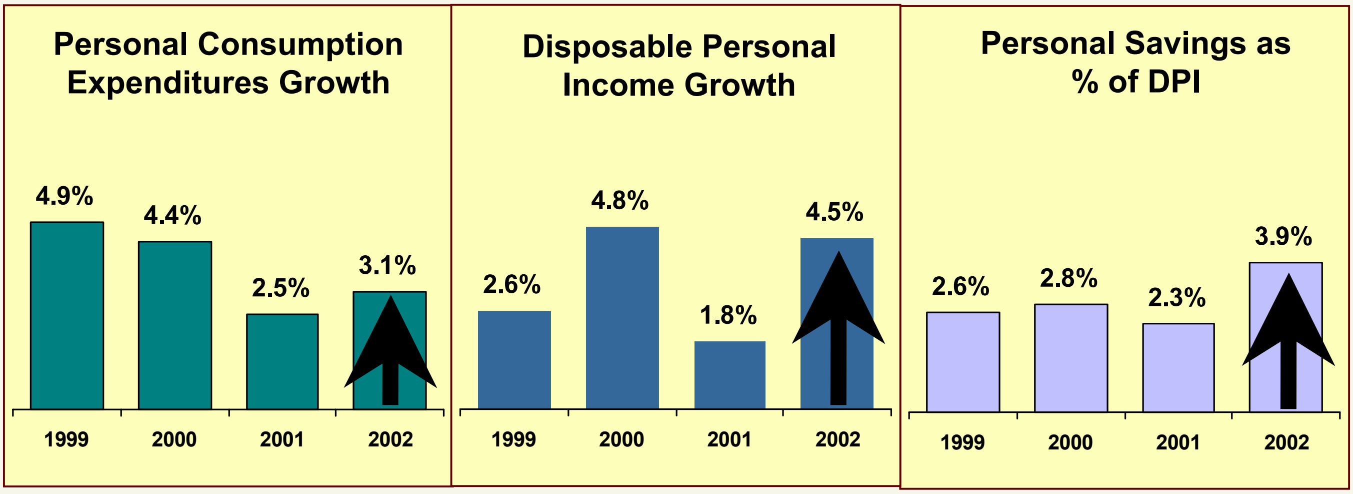
After 9/11, consumers did what they were told; they went on with their lives. With mortgage rates low, and many re-financing, and with exceptional deals on cars, apparel and gifts as the holidays approached, consumers said, "Why not!"

But the buildup of war threats in the second half of 2002 and business contractions and weaker bottom lines throughout the year have created a great deal of doubt and anxiety.

Spending in the most recent fourth quarter was only so-so, up just 1%. From income and savings data, consumers are more apt to squirrel away more of what they earn than go for the new car or even out to dinner. The full service restaurant trade has not really recovered from its sharp drop after 9/11, up a modest +2% in fourth quarter.

Consumer Spending Growth – clearly the US's most important economic element, but also one of the most fickle – is influenced heavily by positive sentiments, job security and credit availability. This is a day and age when suddenly any one of these could take a negative turn. And consumers know it.

Annual Growth of Consumer Spending & Income Components



Source: US Dept of Commerce; % Change vs Previous Year, Constant 1996 Dollars or Personal Savings as a % of Disposable Personal Income

Discounters are driving stable retail industry growth.

Though the past three years have been recessionary or soft in tone, most retail channels are not seeing red but rather experiencing modest, "real" growth and minimal pain.

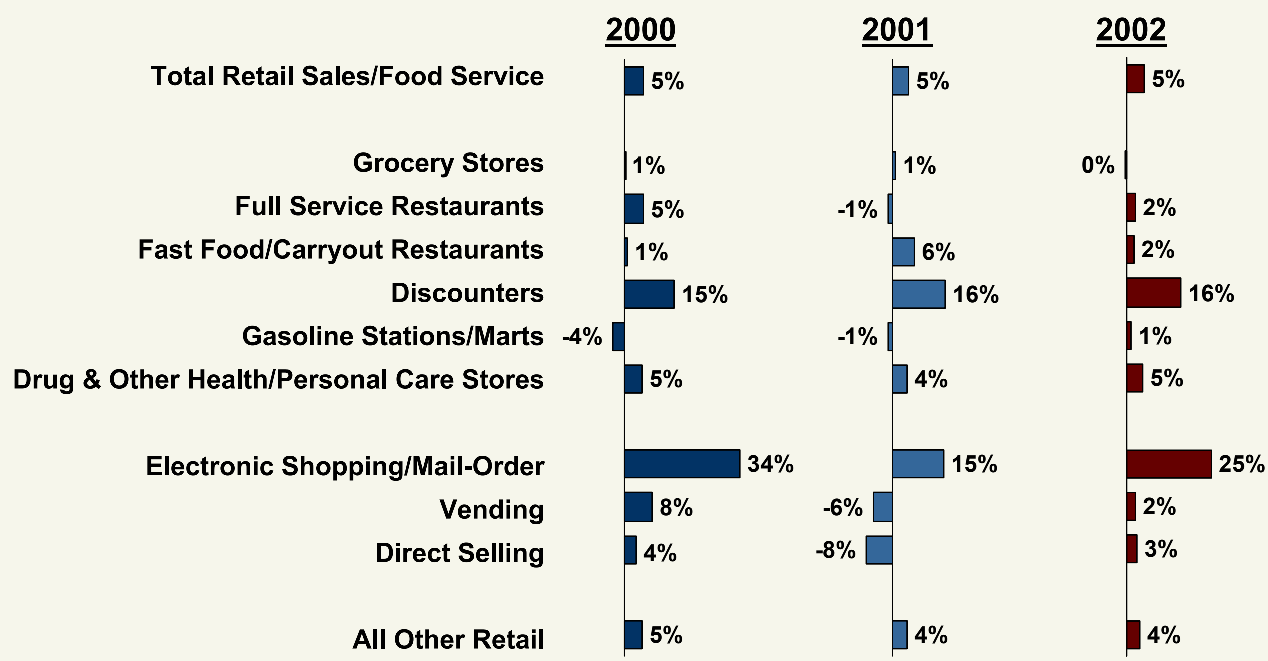
The retail Industry finished the year up 5%, led by the discounters, up 16%. The government database lumps together mass merchandisers, dollar stores, club/warehouse outlets and supercenters in this group.

In contrast, grocery – 11% of total retail sales – finished the year off -0.4%, virtually even versus the prior year for the third straight year.

Despite plenty of frequent shopper discounts in the grocery channel, consumers have tightened their budgets, made cheaper substitutions, eliminated fringe or luxury items altogether and shifted some of their shopping behavior over to one or more of the discount channels.

Multi-channel shopping is mainstream and characteristic of the recession. Despite time pressures, consumers are crossing over to discount outlets, in search of savings.

Retail Industry Annual Growth Comparison (in constant $ sales)



Source: US Dept of Commerce; in 1996 Constant Dollars "Real" Growth, inflation removed;
% Change versus Prior Year; "All Other" includes Auto, Department Stores, Furniture, Apparel & others.

Consumers regularly shop at several outlets & channels – but deep-discounters are gaining universal penetration.

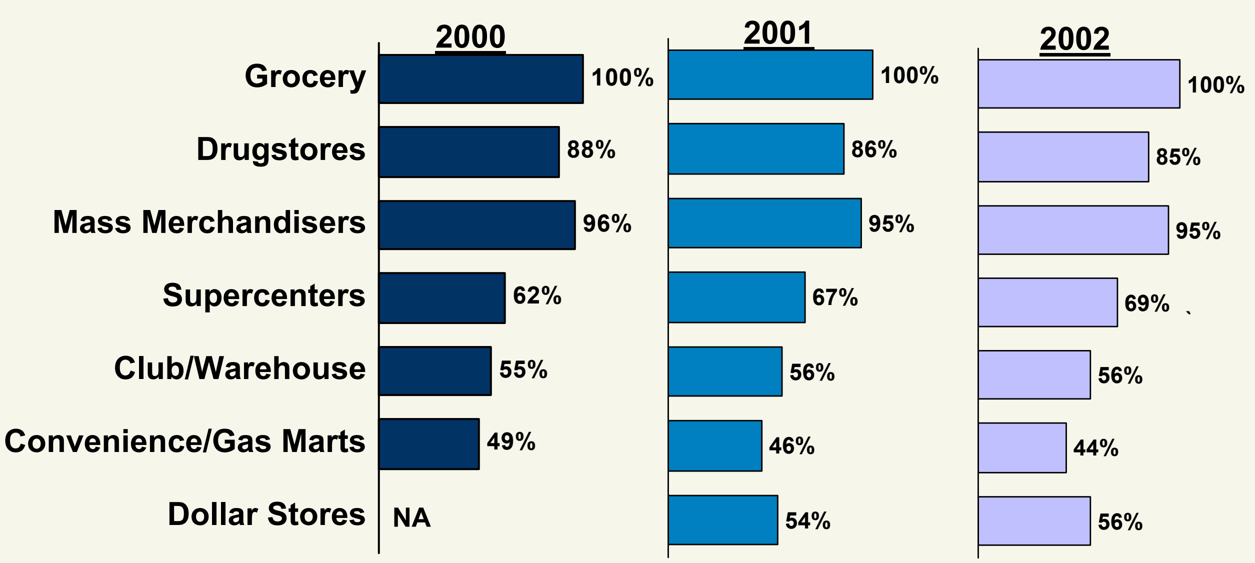
From the government perspective, it's clear that discounters are ahead of the trend – sales growing double-digit rates in contrast to the balance of the industry which is growing at 5% or under.

The balance of this recap looks at consumer household penetration and shopping trends comparing traditional channels with the newer discount channels to address the question "what are the channel shifts taking place?"

Tracking household penetration among the key retail channels for the CPG industry illustrates how broad consumer shopping behavior has become. Under the pressure of the times, we feel compelled to pursue potential savings.

The newer deep-discount channels are gaining universal participation without dramatically hurting penetration in traditional channels. During this recessionary period shoppers are making fewer trips to and spending less at the traditional outlets.

Household Penetration Comparison



Source: IRI Consumer Shopper Panel Database, Custom Analysis

Heavy discount channel shoppers still shop traditional channels.

Ultimately, retailers and manufacturers share the same consumers and are all affected by the changing retail landscape. Whether a consumer wants to buy soap or soda, the choice of locations to make this purchase are numerous, and shoppers often have no real preference for the purchase location.

Heavy channel-shoppers tend to be heavy crossover shoppers as well, as evidenced by this chart. They are the target for frequent shopper programs, buy-one-get-one-free promotions, 5-for-$1.00 specials and stock-up sales.

Chain advertising, newspaper circulars and coupon inserts are aimed at the heavy crossover shoppers, as these consumers demonstrate a much higher basket ring.

The grocery channel is the most frequented channel in all heavy channel groups. It still commands a strong competitive exposure advantage vis-à-vis the consumer. There are simply more shoppers frequenting a local supermarket on a regular basis. The grocer's challenge? Holding on to category shares and shopper basket totals.

Heavy Channel Shoppers – % Penetration in Competitive Channels

Channel	Heavy Grocery	Heavy Drug	Heavy Mass	Heavy Super Center	Heavy Club	Heavy Conv/Gas	Heavy Dollar Stores
Grocery	100%	100%	100%	100%	100%	100%	100%
Drugstores	88%	100%	89%	80%	87%	92%	91%
Mass Merch	95%	97%	100%	94%	97%	97%	98%
Supercenter	63%	68%	67%	100%	67%	75%	79%
Club/Warehs.	58%	59%	63%	56%	100%	54%	53%
Conv/Gas Mts	44%	54%	51%	48%	40%	100%	64%
Dollar Stores	54%	63%	64%	65%	51%	71%	100%

Heavy Channel Shoppers – Average Annual Trips in Competitive Channels

Channel	Heavy Grocery	Heavy Drug	Heavy Mass	Heavy Super Center	Heavy Club	Heavy Conv/Gas	Heavy Dollar Stores
Grocery	96	88	78	56	70	82	77
Drugstores	17	32	16	11	14	20	18
Mass Merch	28	28	45	19	26	29	31
Supercenter	12	17	14	44	18	22	24
Club/Warehs.	10	10	11	9	20	9	9
Conv/Gas M	15	18	15	13	12	33	19
Dollar Stores	11	13	12	13	9	16	25

Heavy Channel Shoppers represent the top one-third of each channel's spending.
Source: IRI Consumer Shopper Panel Database; Total US; 52 weeks ending December 2002

Supercenters are targeting grocery dominance of consumer shopping trips.

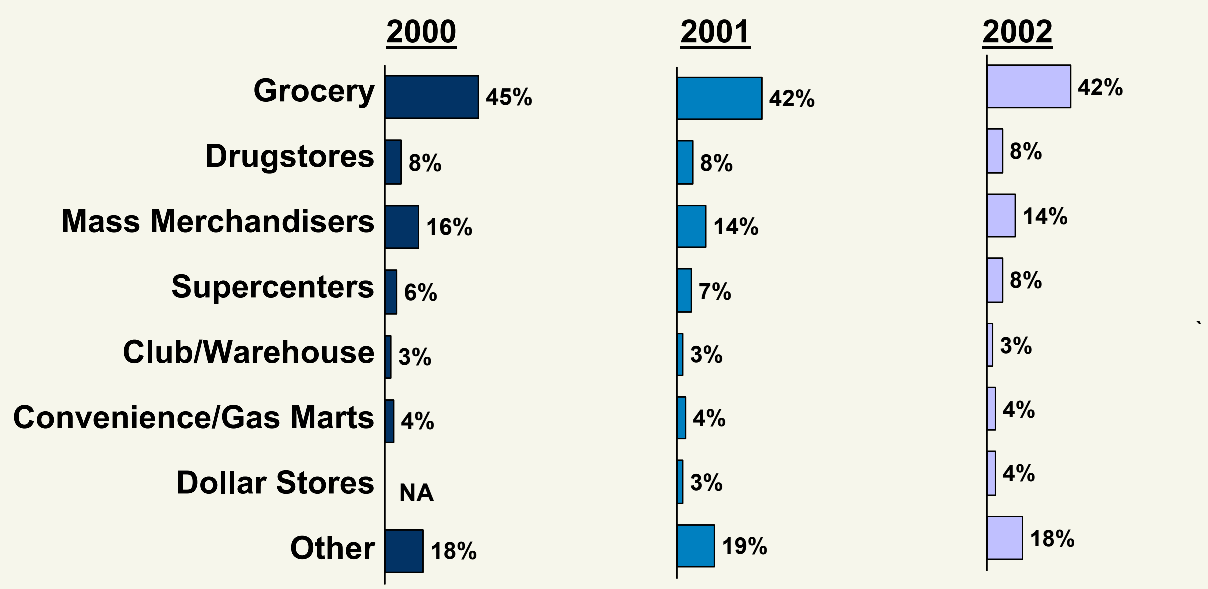
The supercenter's share of consumer shopping trips grew from 6% to 8% of all household trips over the past two years, with average number of trips-per-shopper growing from 15 to 20 per supercenter shopper, over the same period.

In contrast, grocery lost ten "average" trips since 2000 and mass merchandisers lost five. Consumers did some economizing on their shopping trips as well as seeking discounts. Overall, trips are down.

Add the four discount channels together and the average number of trips almost comes up to the Grocery total (65 versus 69). Discount shopping is a major activity in a soft economy. National brands at lower prices are the big attraction, although supercenter private label is growing at about the same pace.

Avg. Trips per Shopper in:	2000	2001	2002
Grocery	79	72	69
Drugstores	17	16	15
Mass Merch	29	25	24
Supercenter	15	19	20
Club/Warehouse	10	9	10
Conv/Gas Mart	14	14	14
Dollar Stores	NA	10	11

Percent Share of Total Annual Shopper Trips



Source: IRI Consumer Shopper Panel Database, Custom Analysis

Supercenters gradually picking away at Grocery's dominance of total shopper dollars spent.

Supercenters account for 14% of dollars spent per channel in 2002, demonstrating remarkable growth of five points versus 2000 dollar share.

Clearly Wal-Mart's expansion of the channel in many regions of the country has a lot to do with this. *TIME* magazine reported a total of 1,300 Wal-Mart supercenters. And Wal-Mart recently indicated that food is now their largest division, growing over 20% in their latest fiscal year.

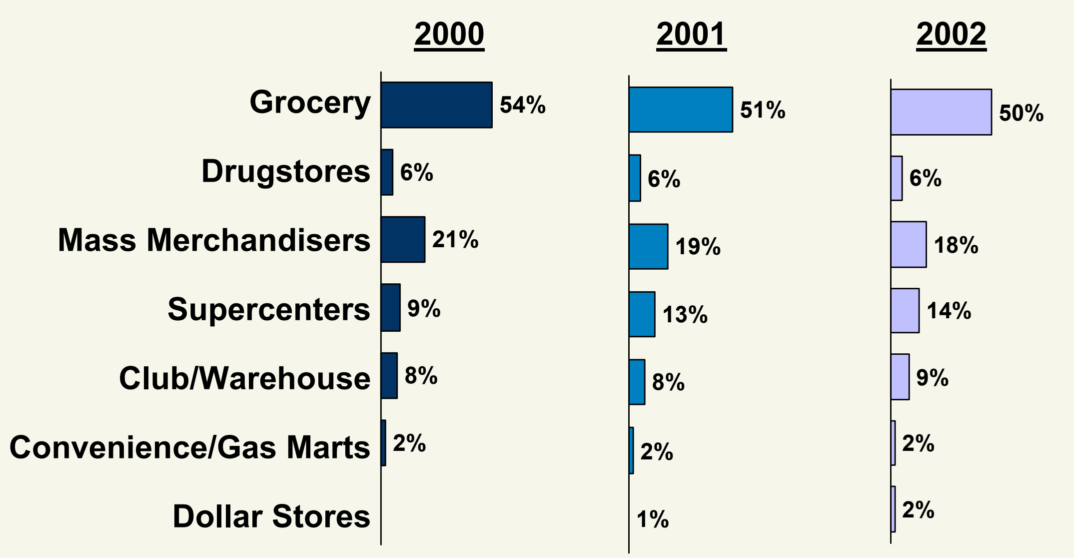
Some speculate Wal-Mart supercenters are able to underprice their grocery competitors by about 15%, in part because they are more efficient, but also because they use nonunion labor.

The recession and increased consumer preoccupation with saving have also contributed to the growth of supercenters. When economic conditions improve – given shopper satisfaction – it's unlikely we'll see a reversal in supercenter's growing share.

Supercenter private label lags grocery stores in key food categories. High penetration supermarket private label categories tend to have significantly lower penetration rates in supercenters. This could change as Wal-Mart becomes more aggressive, using store banners to bring attention to high volume categories.

But the incentive that's driven growth in the past three years has been supercenters' offering of nationally branded items at deeply-discounted prices.

Percent Share of Total Annual Shopper Dollars*



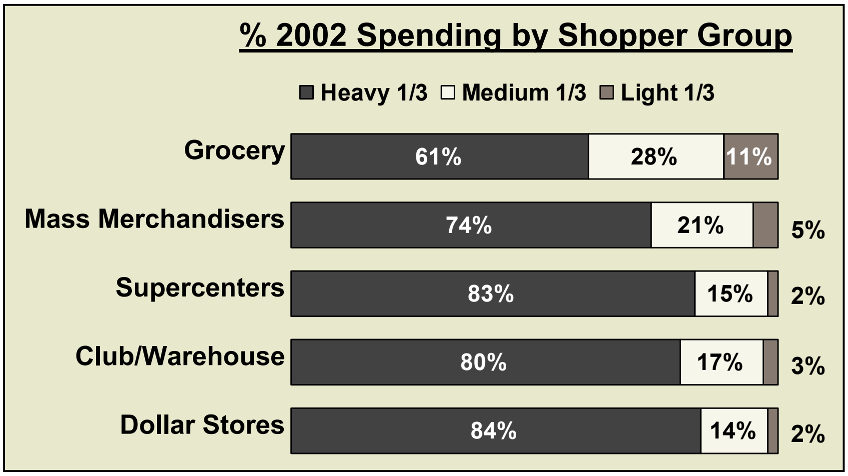
Source: IRI Consumer Shopper Panel Database, Custom Analysis
*100% Total = sum of 7 channels shown
TIME Magazine, time.com; January 5, 2003

Supercenter & Club channels realize the largest gains in shoppers' spending per trip.

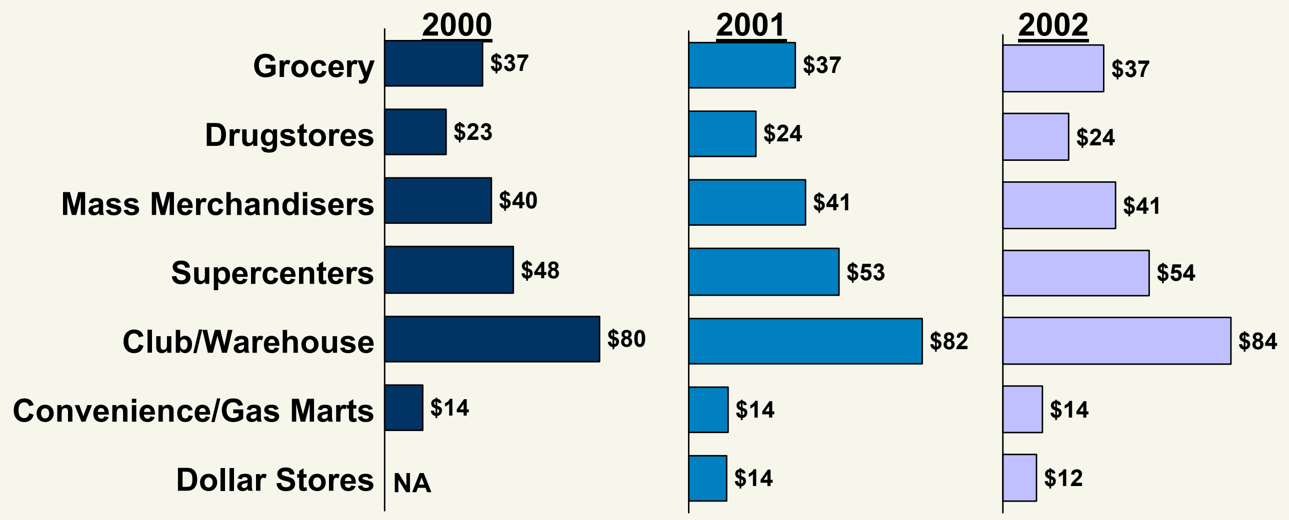
Looking at average shopper dollars per trip by channel – unadjusted for inflation – shopper spending has been relatively flat over the three year period ended 2002. No one channel is dominating the average shopper during the recession.

Supercenters (led by Wal-Mart) and club or warehouse stores are the exception. Average annual trip dollars are on the increase.

Discounters are much more driven by heavy spenders than the grocery channel – the top one-third of spenders accounts for 74% to 84% of total discount channel dollars compared to 61% at grocery.



Annual Shopper Dollars per Trip by Channel



Source: IRI Consumer Shopper Panel Database, Custom Analysis

Most Wal-Mart supercenter growth stems from crossover shoppers shifting spending over to Wal-Mart from other channels.

To address how supercenters are impacting shopping traffic in other channels, IRI's custom panel group created a source of volume analysis focusing on Wal-Mart supercenters. The analysis calculated a 19.3% increase in Wal-Mart SC total basket spending in the latest year and tells us where this increase came from.

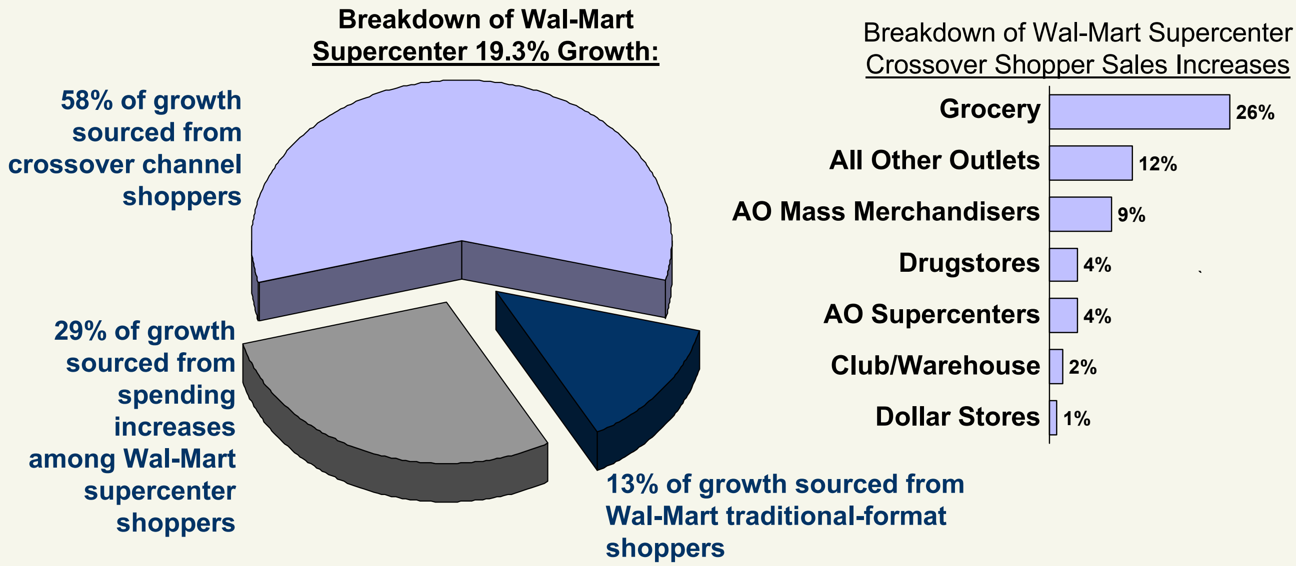
Nearly six of ten incremental Wal-Mart supercenter dollars in the past year shifted over from other outlets, with the balance coming from a combination of increased spending from steady Wal-Mart supercenter shoppers who were actively part of their business base and from Wal-Mart traditional-format shoppers turned supercenter shoppers. Many of Wal-Mart's newer supercenters in the past two years replaced their traditional format.

The grocery channel – or crossover grocery shoppers – as expected contributed the most to Wal-Mart's basket gains. However, grocery at the year's beginning had a 41% share of all outlet total spending. So, the channel's 26% contribution to Wal-Mart supercenter growth is only three-fourths of what one might expect.

But realistically, during the recession period and most likely beyond, consumers are multi-channel shopping – not just crossing over to Wal-Mart supercenters – to find the best deals wherever they are.

This creates a fluid, "moving target" for CPG marketers and retailers. More than ever before, we are challenged to better understand the consumer – where, when, how and why they shop.

Source of Wal-Mart Supercenter Growth – 2002 versus 2001



Source: IRI Consumer Shopper Panel Database, Custom Analysis; 2002 versus 2001; Total Spending Outlet Switching Report; Share Allocation Model

Summary & Implications

The events of the past three years and mounting concerns regarding global unrest are stimulating multi-outlet, crossover shopping to discounters to reap savings and anticipated lower prices. Discount outlets are springing up everywhere, in every demographic market. The supercenter channel is leading the charge, becoming a universal shopping destination. And the shift is just as prevalent among white collar consumers versus blue collar consumers.

Traditional channels are changing, reacting to hold their consumer base and contributing to the multi-channel phenomenon. Drugstores are larger, on every corner, presenting more selection of CPG convenience products than ever before and more side-by-side "save" comparisons. Convenience stores and gas marts are becoming food-to-go experts, fostering consumers' propensity to drive and eat. And grocers are promoting more aggressively and presenting deeper discounts of their own. "Buy one, get one free" is in every ad, on every shelf in every aisle.

Today's shopper is a fluid, "moving target," challenging our understanding of consumer attitudes and behavior more than ever before. CPG marketers and retailers need clear, defined and actionable insights on the consumer. Here are some questions to ask ourselves:

What channels, accounts & consumers are driving category and brand growth? The playing ground is far more complex than ever before despite the recent wave of retail consolidations. But the playbook really is the same.

What are the key consumer drivers of sales by channel? By account? Consumer attitude and behavior are changing rapidly in response to dynamic economic and lifestyle influences.

What synergies are there between channels? With increased complexity, the need for synergy and simplicity is more critical.

What innovative strategies are winning in the marketplace? Keeping eyes and ears open to what's working and winning is both a necessity and an art form. Learning from outside our comfort zones can be the most impactful input to optimizing results in our familiar territories.

Who are the most valuable shoppers; what are their attitudes and their preferences? "Focusing" takes on increasingly more significance as we become challenged by all of the increasing demands from every level of the marketplace. Pursuing every opportunity, every segment, every niche, every competitive challenge can water down the effectiveness against the consumer that's ultimately going to pay the bills.

What information and experience will best help clarify today's shopper opportunity? It all boils down to knowledge – the most and the best. Historical perspectives are helpful benchmarks. But realistically, keeping current is the only way to be sure we are capturing the true consumer opportunity.

The Challenge: Building Strategies Around Multi-Channel Shoppers

The challenge to building growth strategies is complicated by consumers crossing over from one channel to another to find the best deal or discounts. Their shopping patterns are fluid. Retailer loyalty is on thin ice. Category sales are dispersed over more channels and retailers. And brand shares are more volatile.

More than ever before, the consumer is a moving target. Innovative consumer-based decisions must be made on better consumer information and understanding. The need for an integrated, seamless database and base of consumer knowledge is critical.

IRI Consumer Panel digs deeper into the multi-channel shopper situation, focusing on all of the critical issues – changing loyalties, heavy shopper behavior, evolving brand dynamics, account purchase cycles, etc. – to effectively position the consumer opportunity to key buyers.

IRI's Builders Suite™ combines data from all retail outlets, including the discounters – mass, club, dollar and supercenter – and can focus on consumer insights by retailer-defined geographies.

IRI's ability to integrate census sales data and consumer panel purchase, demographic and attitude data provides the accuracy and leverage that's needed to generate actionable decisions.

To Find Out More About IRI's Consumer-Based Panel Analytics

Consumer shopper panel analysis enables CPG brand and retail managers to make informed decisions on channel strategies and address with confidence how to maximize the consumer opportunity. Experienced consumer panel consultants provide a tailored solution for every situation.

To learn more about IRI's consumer panel services or IRI's Builders Suite™ please contact your local IRI representative, or call Staci Covkin, SVP National Panel Analytic Consultant, at IRI in Fairfield, NJ: (973) 244-5165 or email Staci at staci.covkin@infores.com.

Questions & Comments on This Brief

IRI welcomes questions, comments and suggestions regarding the *Times&Trends* report and *The Recession & Consumer Shopping Trends* recap. Please contact your local IRI representative. Or, email us at times&trends@infores.com.

About IRI

Information Resources, Inc (NASDAQ: IRIC) is a leading provider of UPC scanner-based and consumer panel-based business solutions to the consumer packaged goods industry, offering services in the U.S., Europe, and other international markets.

The company supplies CPG manufacturers, retailers and brokers with information and analysis critical to their sales, marketing, and supply chain operations. IRI provides services designed to deliver value through an enhanced understanding of the consumer to Fortune 500 companies in the CPG industry. More information is available at www.infores.com.