TIMES&TRENDS

A SNAPSHOT OF TRENDS SHAPING THE CPG INDUSTRY

AUGUST 2005

CPG Merchandising Trends:

Activity, Effectiveness and Optimization

INFORMATION RESOURCES, INC.

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METHODOLOGY

Findings presented in this report are based upon an extensive analysis of scanner-based sales tracking across Food, Drug, Mass channels (excluding Wal-Mart) from IRI's Infoscan Reviews® service and audit data from IRI's In-Store Solutions Group. Please see page 21 for additional detail regarding these and other resources that can be leveraged to identify growth opportunities across categories, brands and stores.

EXECUTIVE SUMMARY

As mass media's ability to effectively reach consumers continues to erode, and consumers' drive for value increasingly guides shopping behavior, merchandising has become one of the most powerful tools available to manufacturers and retailers to influence consumer behavior.

While merchandising can be a highly effective means of driving short-term sales, as evidenced by the fact that across a majority of CPG categories, volume lift from merchandising events averages over 50%, its role has expanded far beyond short-term volume lift: merchandising helps shape consumers' value perceptions of a brand or store, can be used to effectively reach specific consumer segments, drives brand and product awareness, and increases store traffic.

Given the broad-reaching impact of merchandising events, it is critical that manufacturers implement the right merchandising level and mix and that retailers effectively allocate limited feature ad and display space. This unique report provides an in-depth assessment of merchandising activity and effectiveness across categories to enable CPG marketers to benchmark their merchandising practices and performance and highlight potential improvement opportunities.

INDUSTRY OVERVIEW

- **Among a majority of CPG categories, at least one-third of volume is sold with merchandising support**. Over two-thirds of CPG categories within food, drug, mass channels (excluding Wal-Mart) sell 30% or more of their volume with merchandising (ie. feature ads, displays and/or price reduction.) At the high end is the carbonated beverages category, in which over three-quarters of volume is sold with merchandising.
- **Merchandising activity is on the rise, but effectiveness is declining**. Nearly two-thirds of CPG categories have increased merchandising activity versus prior year; however, nearly as many, 60%, have seen declining volume lift. Lift from feature ads only and price reduction only decreased in the largest number of categories, suggesting growing importance of capturing consumers' attention in-store through display.

CATEGORY OPPORTUNITY

- **Eight of the top ten most heavily merchandised categories are snack foods/desserts or beverages.** High merchandising levels among snack foods/desserts and beverages reflect intense category competition, significant new product activity, the discretionary nature of purchases and relatively long shelf lives that enable stock-up.
- **Stock-up categories and higher-ticket items top the list of categories achieving the greatest sales lift from merchandising.** Stock-up categories, such as toilet paper, paper towels and shelf stable seafood earn the greatest average volume lift from merchandising activity. Higher-ticket items such as coffee and cold cereal also yield high response.

CATEGORY OPPORTUNITY (CONT'D)

- **The analysis highlighted several potential merchandising mix enhancement opportunities across product segments.** With relatively low activity but high volume lift, the following potential mix shifts should be explored by retailers and manufacturers within the context of overall merchandising objectives:

Beverages:

- Increase mix of display activity within coffee and aseptic juices
- Increase mix of feature activity within bottled water, shelf stable juices and ready-to-drink tea/coffee
- Shift focus from "price reduction only" events within wine to combined feature/display events

Snacks/Desserts:

- Increase total merchandising activity within chocolate candy
- Increase combined feature & display activity within cookies and non-chocolate candy

Health & Beauty Care:

- Increase display and feature activity within soap and toothpaste

Housecare:

- Increase display activity among several leading categories, including laundry detergent, dish detergent and bleach (support displays with feature ads as possible, given exceptionally high lift of feature and display combined)
- Increase feature activity within foils & wraps and bleach

MERCHANDISING TACTICS

- **Display is most effective in generating lift among meal components, everyday necessities and select impulse categories.** Everyday necessities, such as toilet paper and paper towels and long-shelf-life meal components including canned vegetables, shelf-stable dinners and cold cereal are among the categories earning the greatest volume lift with displays. Both chocolate and non-chocolate candy also made the top ten list. Perishables and less frequently purchased categories, such as beer, spirits and cold/allergy/sinus tablets yield lower response when on display. Retailers should take relative lift into account when allocating display space allocation but must also consider other factors such as margin, total basket ring and appeal to desirable consumer segments.
- **Feature ads drive exceptional volume gains within stock-up categories and higher-ticket products with broad appeal**. As with displays, everyday necessities conducive to stock-up such as toilet paper and paper towels do well with feature ads. In addition, however, higher-ticket items with broad appeal such as butter, breakfast meats and coffee earn substantial volume gains. By contrast, products targeting a more narrow audience, such as diapers, hair color and cosmetics receive relatively low volume lift.
- **Price reduction alone is relatively ineffective in less frequently purchased categories**. Among categories purchased infrequently, such as cosmetics, skin care and pet supplies, price reductions without feature and/or display support yield low volume lift; consumers are not likely scouting for deals in these categories unless they are specifically planning to make purchases.

INTRODUCTION

As mass media's ability to effectively reach consumers continues to erode, and consumers' drive for value increasingly guides shopping behavior, merchandising has become one of the most powerful tools available to manufacturers and retailers to influence consumer behavior.

While merchandising can be a highly effective means of driving short-term sales, as evidenced by the fact that across a majority of CPG categories, volume lift from merchandising events averages over 50%, its role has expanded far beyond short-term volume lift: merchandising helps shape consumers' value perceptions of a brand or store, can be used to effectively reach specific consumer segments, drives brand and product awareness, and increases store traffic.

Given the broad-reaching impact of merchandising events, it is critical that manufacturers implement the right merchandising level and mix and that retailers effectively allocate limited feature ad and display space. Merchandising strategy should be driven by a fact-based understanding of what works for a category, brand and specific market. Merchandising performance should be closely monitored and strategies altered as needed to maximize this incredibly valuable resource.

This unique report provides an in-depth assessment of merchandising activity and effectiveness across categories to enable CPG marketers to benchmark their merchandising practices and performance and highlight potential improvement opportunities.

INDUSTRY OVERVIEW

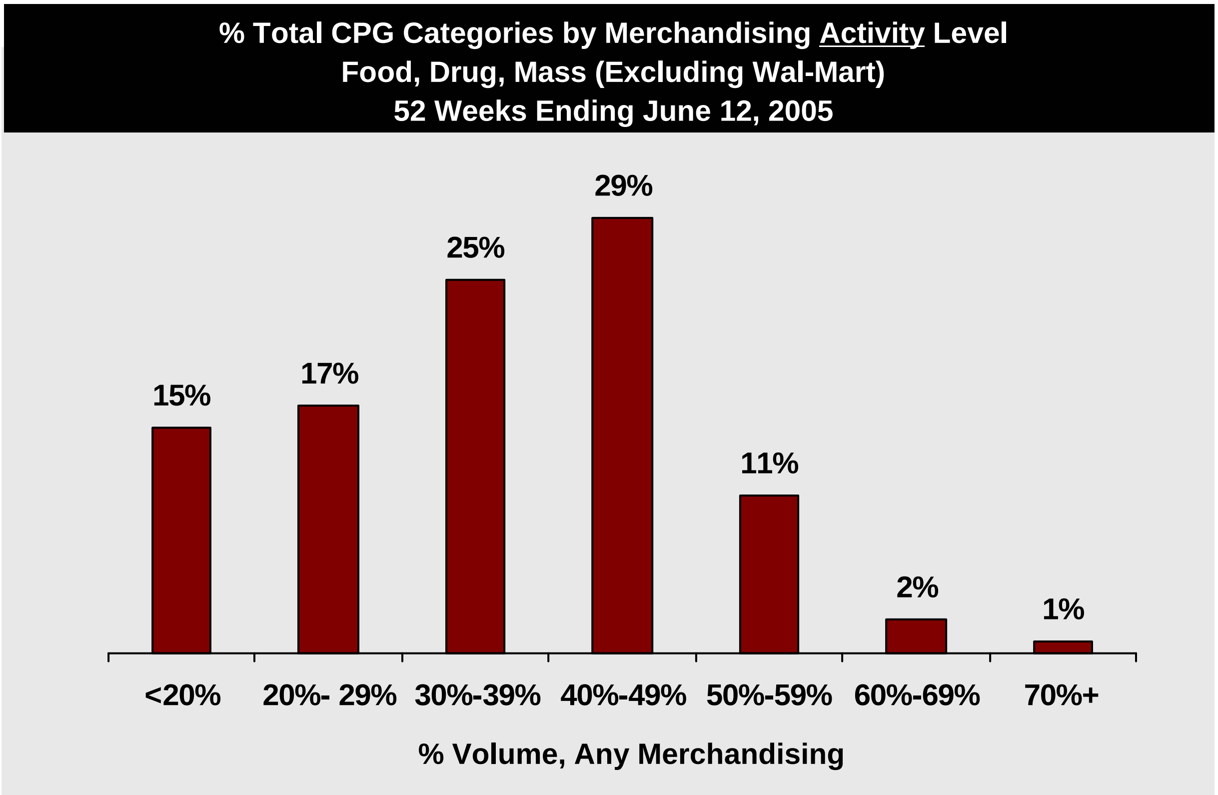
Across a majority of CPG categories, merchandising events – feature ads, displays and/or price reductions -- are a constant: roughly one- third of volume or more is sold with merchandising within two-thirds of CPG categories. At the high end, within the carbonated beverages category, over three-quarters of volume is sold with merchandising. And, merchandising activity is on the rise.

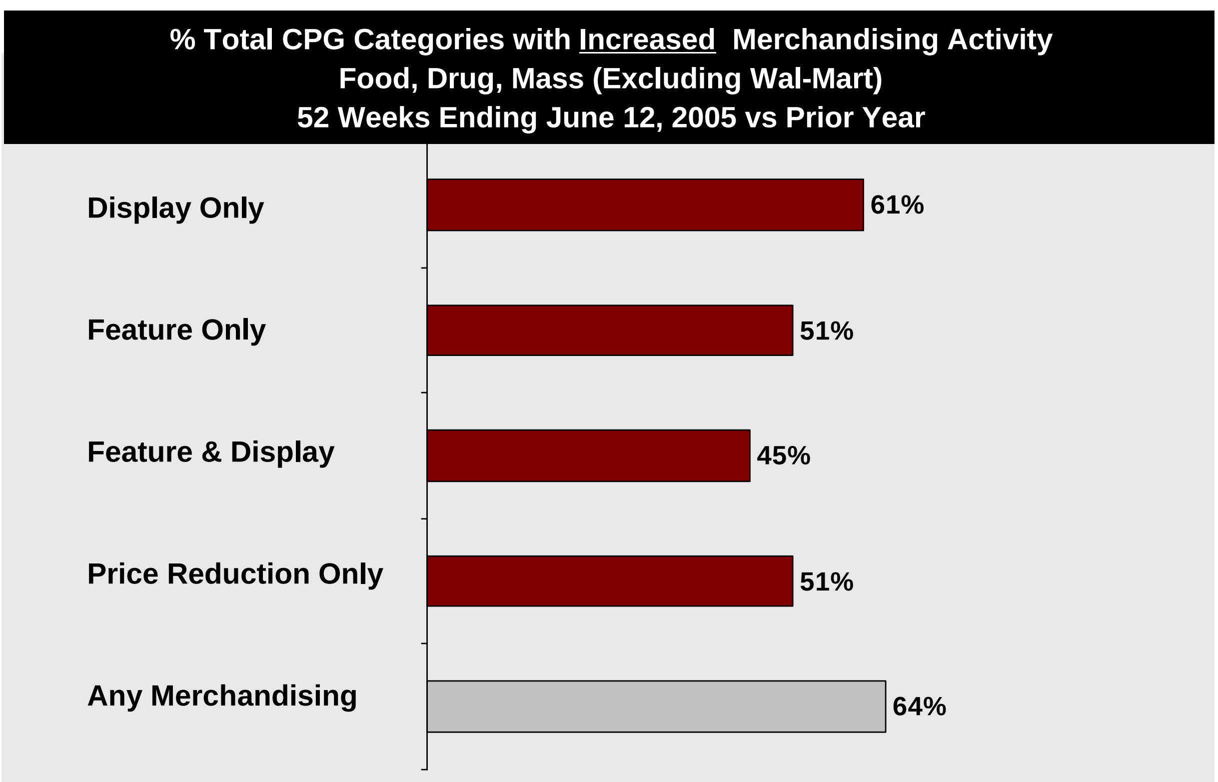
Marketers have stepped up merchandising because it works. The vast majority of CPG categories (roughly three –quarters) earned an average volume lift within Food, Drug, Mass channels (excluding Wal-Mart) of 50% or more through merchandising. Nearly one-third of categories saw average lifts of 100% or greater, illustrating the tremendous value of merchandising tactics when conditions are right.

The challenge for marketers is to make merchandising work even better and more efficiently – particularly given the fact that there is a limit to stores' display capacity and number of products that can be featured in an ad. What the trends show, however, is a <u>decline</u> in effectiveness, as measured by average volume lift with any merchandising.

Across merchandising tactics, lift from feature only and price reduction only decreased in over 60% of categories, suggesting that reaching consumers in-store through display is becoming increasingly important.

INDUSTRY OVERVIEW (CONT'D)

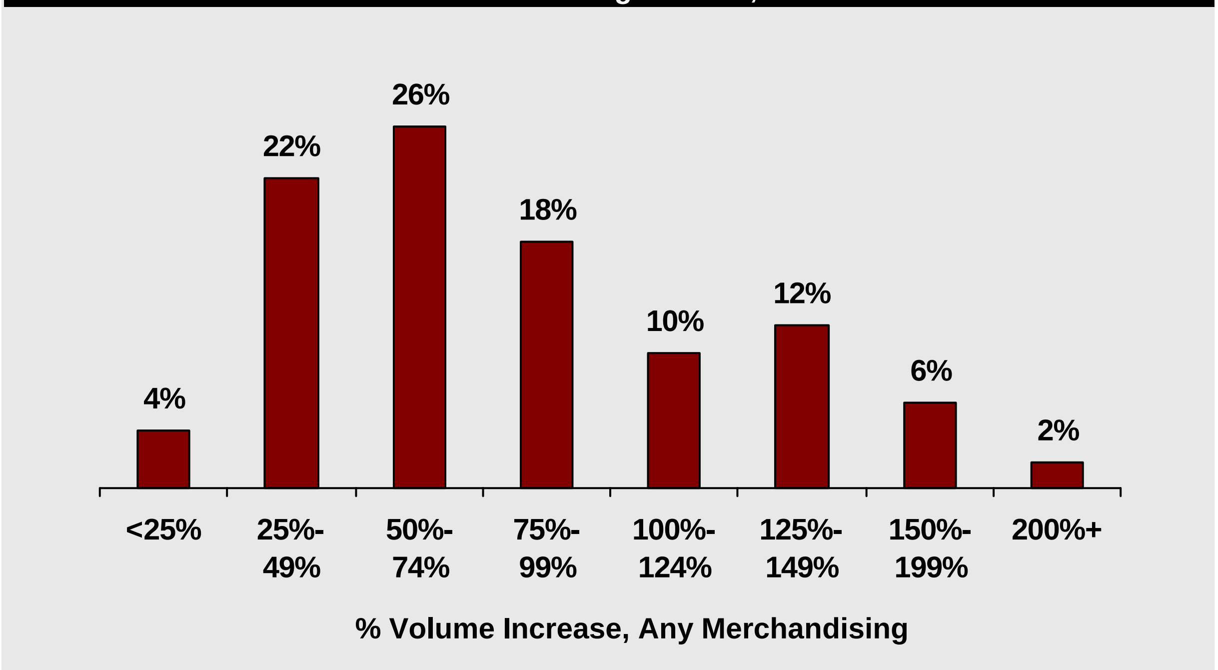




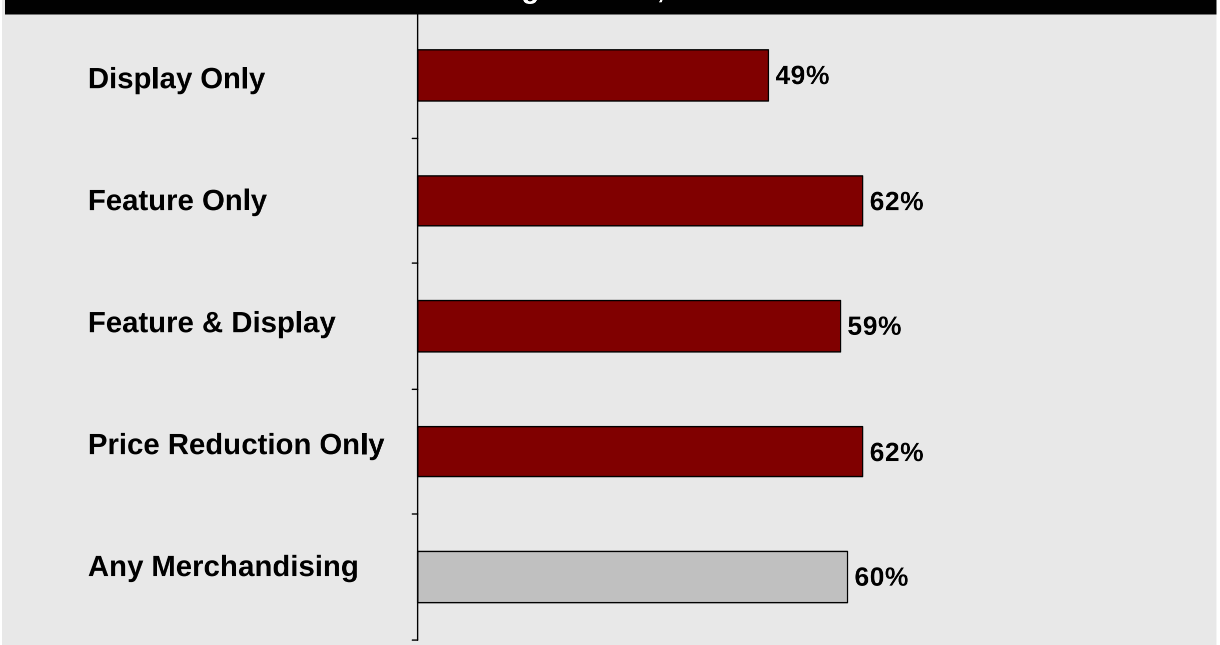
Source: IRI InfoScan® Reviews

INDUSTRY OVERVIEW (CONT'D)

% Total CPG Categories by Merchandising Effectiveness Level
Food, Drug, Mass (Excluding Wal-Mart)
52 Weeks Ending June 12, 2005



% Total CPG Categories with Declining Merchandising Effectiveness
Food, Drug, Mass (Excluding Wal-Mart)
52 Weeks Ending June 12, 2005 vs Prior Year



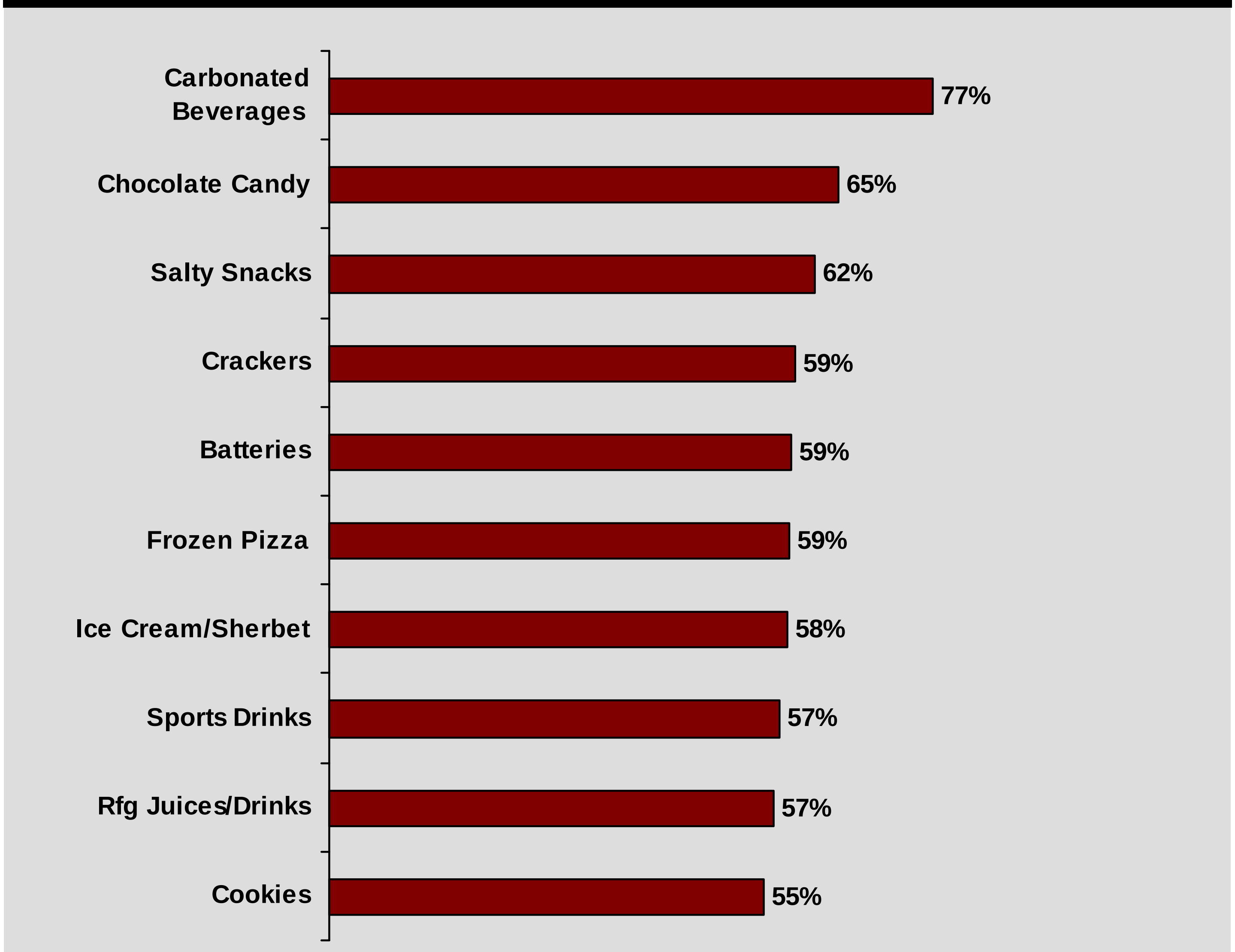
Source: IRI InfoScan® Reviews

CATEGORY OPPORTUNITY: TOP CATEGORIES - ACTIVITY

Eight of the top ten categories with the highest levels of merchandising activity are snack foods/desserts or beverages. High merchandising levels across these categories reflect intense category competition, significant new product activity (supported by merchandising to drive trial), the discretionary nature of purchases (ie consumers typically want rather than need these products and are likely more inclined to splurge when on deal) and relatively long shelf lives that enable stock-up.

As securing/effectively allocating display and ad space within these categories will be particularly challenging, it is imperative that manufacturers and retailers know the relative pull of each brand and which merchandising tactics work best within the intended target audience.

Top 10 Categories* By Merchandising Activity Level: Food, Drug, Mass (Excluding Wal-Mart)
% Volume Any Merchandising
52 Weeks Ending June 12, 2005



*Among Top 100 IRI Reviews® categories within FDMx channels

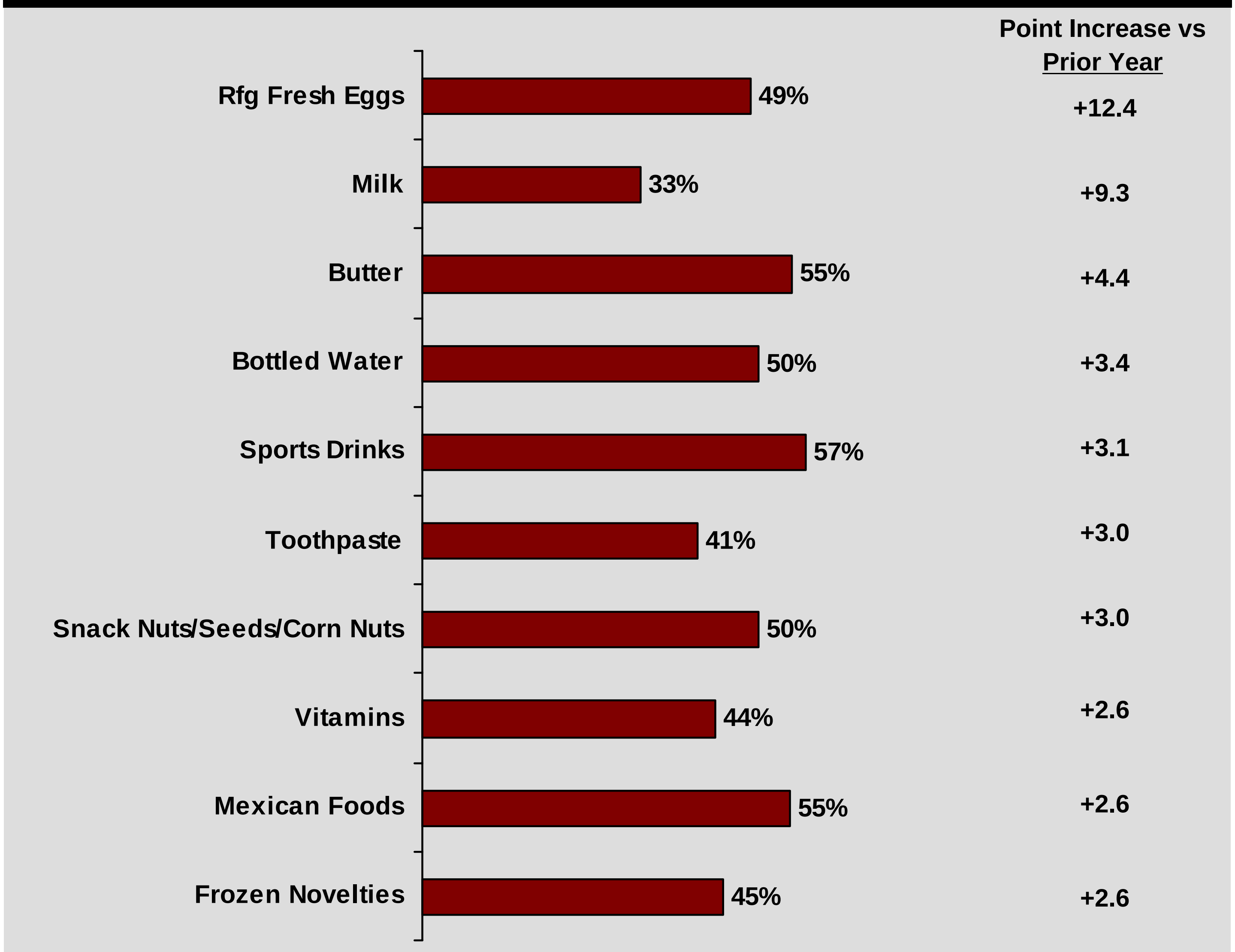
Source: IRI InfoScan® Reviews

CATEGORY OPPORTUNITY: TOP CATEGORIES - ACTIVITY (CONT'D)

Promotional activity in the dairy case stepped up significantly this past year in efforts to regain lost sales resulting from substantial price increases in 2004. While most of the increased activity was in the form of price reductions only, milk and eggs increased their presence in feature ads, as well.

In an apparent effort to capitalize on consumers' healthier living trend, several healthier categories, including bottled water, snack nuts/seeds/corn nuts and vitamins increased activity in feature ads and display.

Top 10 Categories* By Increased Merchandising Activity Level:
Food, Drug, Mass (Excluding Wal-Mart) - % Volume Any Merchandising
52 Weeks Ending June 12, 2005 vs Prior Year



*Among Top 100 IRI Reviews® categories within FDMx channels

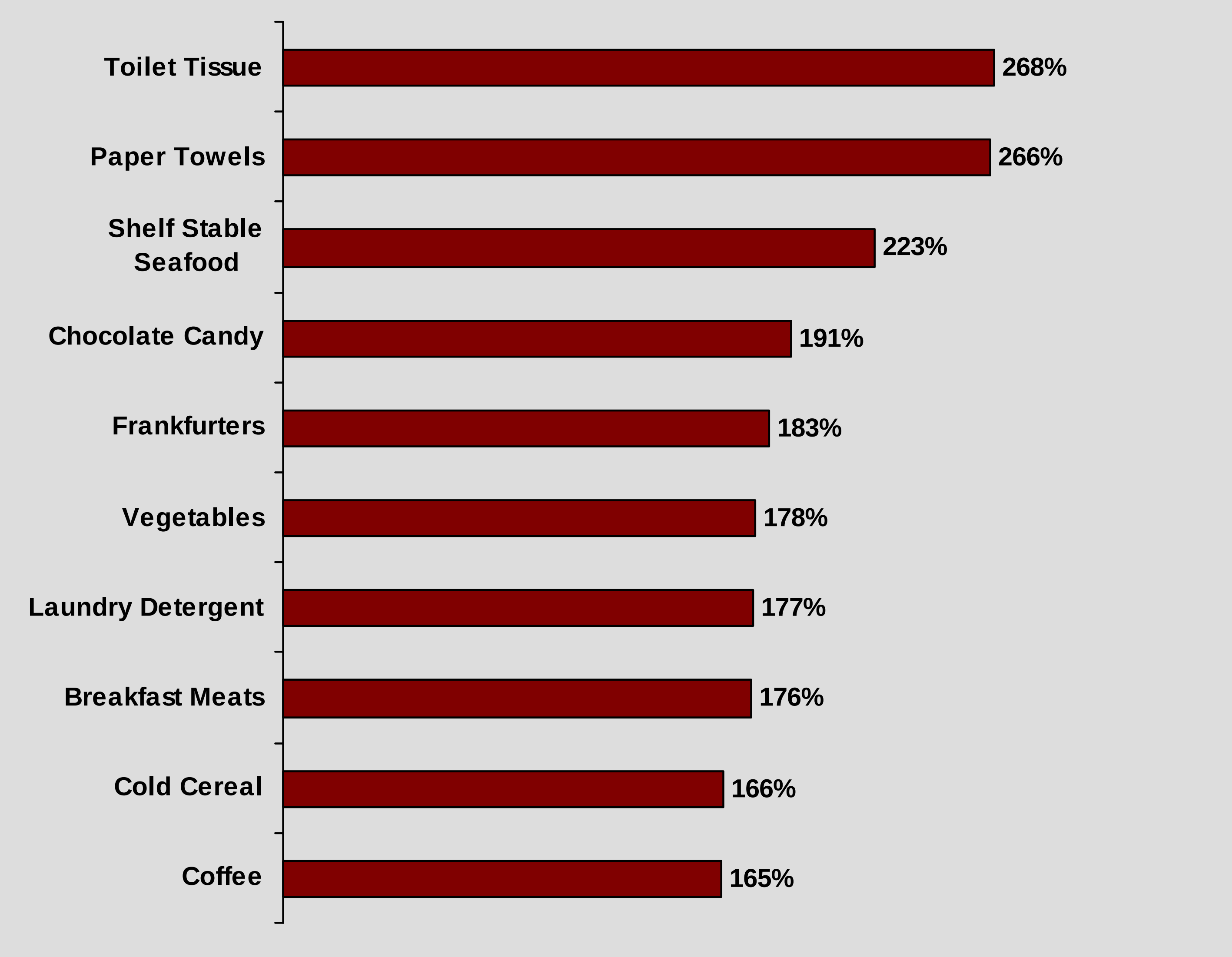
Source: IRI InfoScan® Reviews

CATEGORY OPPORTUNITY: TOP CATEGORIES- EFFECTIVENESS

Only one of the top ten most actively merchandised categories is also on the top ten list for greatest merchandising lift– chocolate candy. What is likely occurring in the remainder of highly active categories is that merchandising is so common that it is less of an "event" for consumers and therefore response is inhibited.

The categories earning the greatest lift through merchandising span a range of departments and category conditions. Most, however, are relatively large ticket purchases and/or are well suited to stock-up.

Top 10 Categories* Earning the Greatest Lift: Food, Drug, Mass (Excluding Wal-Mart)
LIFT: % Volume Increase Any Merchandising
52 Weeks Ending June 12, 2005



*Among Top 100 IRI Reviews® categories within FDMx channels

Source: IRI InfoScan® Reviews

CATEGORY OPPORTUNITY: BEVERAGES

An analysis of merchandising mix and lift across beverage categories reveals potential mix enhancement opportunities. For instance, increasing display within both coffee and aseptic juices should be evaluated, as both have a relatively low proportion of display within their merchandising mix but achieve strong lift. Similarly, increasing feature activity within bottled water, shelf stable juices and ready-to-drink coffee and tea may be warranted.

By contrast, as wine has a heavy focus but low lift with price reduction only, other tactics, such as feature and display combined, should be considered.

BEVERAGES: % Volume/Volume Increase by Merchandising Type
Food, Drug, Mass (Excluding Wal-Mart)
52 Weeks Ending June 12, 2005

	Display Only		Feature Only		Feature & Display		Price Only	
	% Vol	% Vol Lift	% Vol	% Vol Lift	% Vol	% Vol Lift	% Vol	% Vol Lift
Carbonated Beverages	24.4%	92.2%	12.7%	100.4%	30.1%	248.6%	9.6%	70.5%
Bottled Water	21.0%	94.6%	6.3%	141.2%	12.1%	459.8%	11.0%	46.8%
SS Bottled Juices	16.4%	133.3%	9.4%	161.3%	8.6%	523.2%	15.4%	62.0%
Coffee	8.7%	125.7%	14.9%	253.2%	11.2%	673.2%	14.5%	60.2%
Sports Drinks	14.3%	105.8%	15.9%	148.3%	12.2%	324.1%	15.0%	63.2%
Tea/Coffee – RTD	18.4%	90.8%	8.9%	138.3%	6.7%	344.4%	20.3%	62.8%
Aseptic Juices	8.5%	145.9%	22.7%	174.8%	10.7%	409.8%	18.9%	70.8%
Energy Drinks	16.2%	73.8%	2.6%	70.8%	1.6%	160.9%	9.9%	37.8%
Beer	17.6%	45.0%	8.0%	93.8%	13.1%	160.3%	10.4%	44.1%
Wine	14.7%	66.2%	7.8%	70.8%	4.0%	146.5%	17.8%	23.8%
Spirits	12.8%	42.3%	9.5%	80.4%	5.5%	128.0%	13.6%	32.2%

Source: IRI InfoScan® Reviews

CATEGORY OPPORTUNITY: SNACKS/DESSERTS

Within major snack and dessert categories, across the board, the most significant enhancement opportunity is to increase the percent of volume with feature and display combined - -particularly within non-chocolate candy, which has a low mix of this tactic currently. Exceptionally high lift for chocolate candy across tactics suggests potential opportunity to increase overall activity levels. (However, a point will likely be reached at which event effectiveness declines if merchandising becomes too prevalent.)

Salty snack and cookie sales may benefit from increased feature activity, as features pull even greater response than display in these categories.

SNACKS/DESSERTS: % Volume/Volume Increase by Merchandising Type
Food, Drug, Mass (Excluding Wal-Mart)
52 Weeks Ending June 12, 2005

	Display Only		Feature Only		Feature & Display		Price Only	
	% Vol	% Vol Lift	% Vol	% Vol Lift	% Vol	% Vol Lift	% Vol	% Vol Lift
Salty Snacks	26.9%	88.7%	8.9%	111.4%	15.4%	288.8%	10.7%	55.3%
Chocolate Candy	24.8%	209.9%	10.3%	170.7%	11.6%	490.8%	18.2%	111.7%
Cookies	22.1%	107.8%	8.8%	118.7%	10.2%	378.5%	14.2%	51.2%
Crackers	20.7%	95.4%	10.9%	97.3%	13.1%	285.9%	14.5%	45.5%
Non-Chocolate Candy	24.1%	161.6%	6.2%	101.5%	5.6%	359.6%	15.6%	68.1%

CATEGORY OPPORTUNITY: HEALTH & BEAUTY CARE

Overall, merchandising activity within health & beauty care is well below that of food and beverages; however, across several leading health & beauty care categories, volume lift is within the food and beverage range. Manufacturers and retailers should explore potentially stepping up merchandising activity in these categories.

For instance, soap, toothpaste, and toothbrush/dental accessories earn a relatively high lift with display only, but a small proportion of volume is currently sold on display. The same is true of feature ads within soap and toothpaste.

In addition, while feature and display combined drives strong volume lift, this tactic is used for only a fraction of volume sold across health and beauty care categories.

Source: IRI InfoScan® Reviews

CATEGORY OPPORTUNITY: HEALTH & BEAUTY CARE (CONT'D)

HBC: % Volume/Volume Increase by Merchandising Type
Food, Drug, Mass (Excluding Wal-Mart)
52 Weeks Ending June 12, 2005

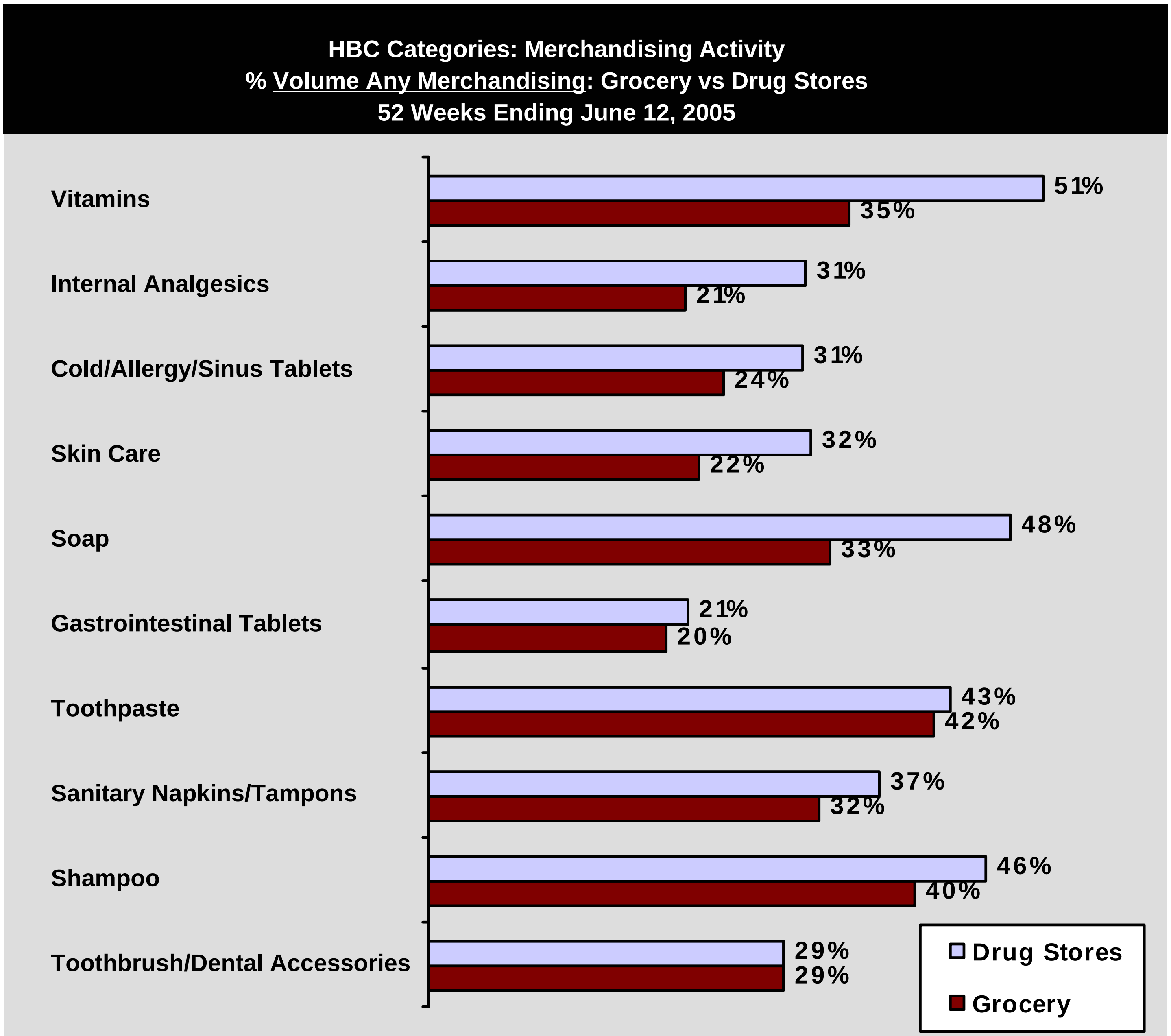
	Display Only		Feature Only		Feature & Display		Price Only	
	% Vol	% Vol Lift	% Vol	% Vol Lift	% Vol	% Vol Lift	% Vol	% Vol Lift
Vitamins	4.1%	67.0%	25.9%	101.5%	2.4%	213.1%	11.4%	25.2%
Internal Analgesics	3.3%	45.3%	10.3%	91.0%	1.2%	200.1%	10.2%	19.1%
Cold/Allergy/Sinus Tablets	6.7%	44.2%	9.0%	55.8%	1.5%	101.7%	9.8%	18.3%
Skin Care	2.3%	85.3%	12.7%	56.6%	0.8%	190.4%	11.4%	12.5%
Soap	6.9%	91.5%	12.8%	111.2%	2.7%	322.0%	16.2%	30.9%
Gastrointestinal Tablets	1.0%	62.4%	8.5%	65.6%	0.3%	144.1%	9.9%	12.7%
Toothpaste	5.7%	92.7%	15.2%	131.7%	3.6%	481.1%	16.6%	38.6%
Sanitary Napkins/Tampons	2.0%	55.3%	16.2%	73.7%	1.0%	148.8%	14.3%	26.4%
Shampoo	8.1%	81.1%	13.3%	90.1%	3.3%	263.9%	15.8%	23.5%
Toothbrush/ Dental Accessories	3.6%	88.7%	8.5%	85.5%	0.9%	289.7%	14.7%	24.2%

Among most of the leading health & beauty care categories, merchandising activity is significantly higher among drug stores versus grocery stores. Exceptions include gastrointestinal tablets, toothpaste and toothbrush/dental accessories.

Grocers interested in making greater inroads within health and beauty care should carefully evaluate merchandising levels versus competing channels and retailers. Increased merchandising activity will not only drive greater sales, but will also impact consumers' overall value perception of grocers within the health & beauty care arena.

Source: IRI InfoScan® Reviews

CATEGORY OPPORTUNITY: HEALTH & BEAUTY CARE (CONT'D)



Source: IRI InfoScan® Reviews

CATEGORY OPPORTUNITY: HOUSECARE

Given high response to displays and phenomenal response to feature and display combined across several leading housecare categories, retailers and manufacturers should strongly consider stepping up display activity, as usage of this tactic is currently low.

In addition, categories that may benefit from increased feature activity include foils & wraps and bleach, which also pulls relatively well with price reduction only.

HOUSECARE: % Volume/Volume Increase by Merchandising Type
Food, Drug, Mass (Excluding Wal-Mart) - 52 Weeks Ending June 12, 2005

	Display Only		Feature Only		Feature & Display		Price Only	
	% Vol	% Vol Lift	% Vol	% Vol Lift	% Vol	% Vol Lift	% Vol	% Vol Lift
Laundry Detergent	7.8%	137.9%	18.3%	205.2%	15.1%	676.8%	11.9%	50.0%
Food & Trash Bags	4.0%	114.8%	7.8%	111.6%	1.4%	372.5%	15.8%	47.3%
Household Cleaner	4.6%	101.5%	7.1%	108.1%	2.0%	343.3%	13.1%	37.5%
Dish Detergent	4.4%	143.1%	13.7%	160.5%	3.4%	495.8%	16.3%	56.1%
Foils & Wraps	6.5%	97.6%	8.7%	150.2%	1.9%	330.3%	14.9%	57.5%
Fabric Softener Liquid	8.8%	110.4%	12.8%	137.4%	6.0%	394.1%	14.2%	44.2%
Bleach	12.8%	119.3%	11.0%	190.1%	16.9%	621.0%	8.7%	63.6%
Rug/Upholstery/Fabric Treatment	4.7%	73.3%	3.8%	63.4%	0.4%	233.4%	10.1%	16.9%
Laundry Care	2.1%	96.7%	3.4%	86.6%	0.4%	319.0%	11.3%	28.4%
Fabric Softener Sheets	4.0%	110.5%	14.1%	136.0%	2.1%	322.3%	14.9%	53.3%

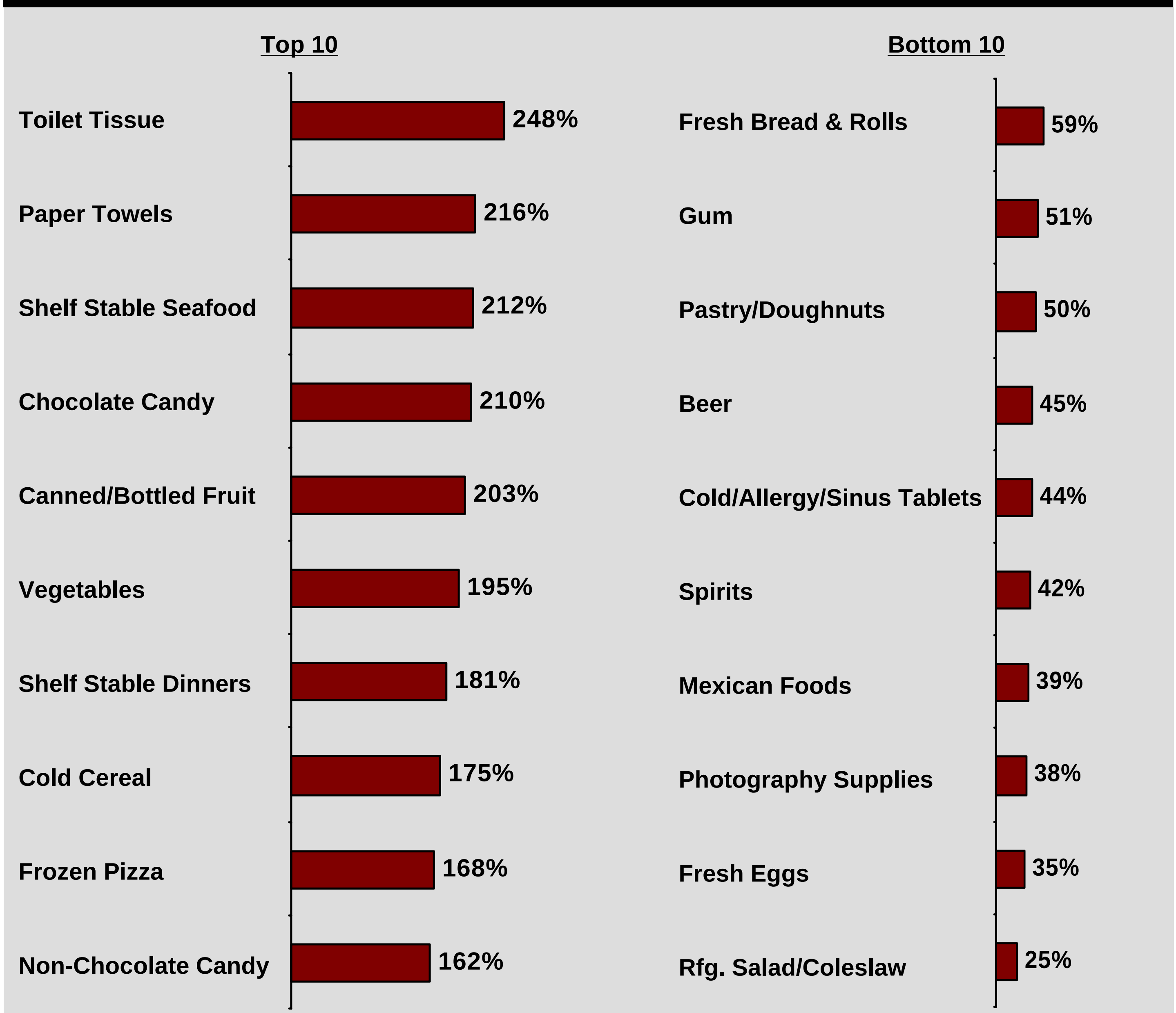
Source: IRI InfoScan® Reviews

MERCHANDISING TACTICS– DISPLAY

Categories generating the most lift via display are primarily non-perishable meal components, such as vegetables and shelf-stable dinners and non-food everyday necessities, such as toilet paper and paper towels. Impulse-oriented chocolate and non-chocolate candy also made the top ten list.

By contrast, categories achieving the lowest lift from displays include perishables/products with shorter shelf lives, such as fresh bread and rolls and categories that are typically purchased as needed, such as beer, spirits, and cold/allergy/sinus tablets, rather than stock-up.

Categories* Achieving Most/Least Volume Lift with Display Only
Food, Drug, Mass (Excluding Wal-Mart)
% Volume Increase, Display Only: 52 Weeks Ending June 12, 2005



*Among top 100 IRI Reviews® Categories with at least 5% of volume sold on display.

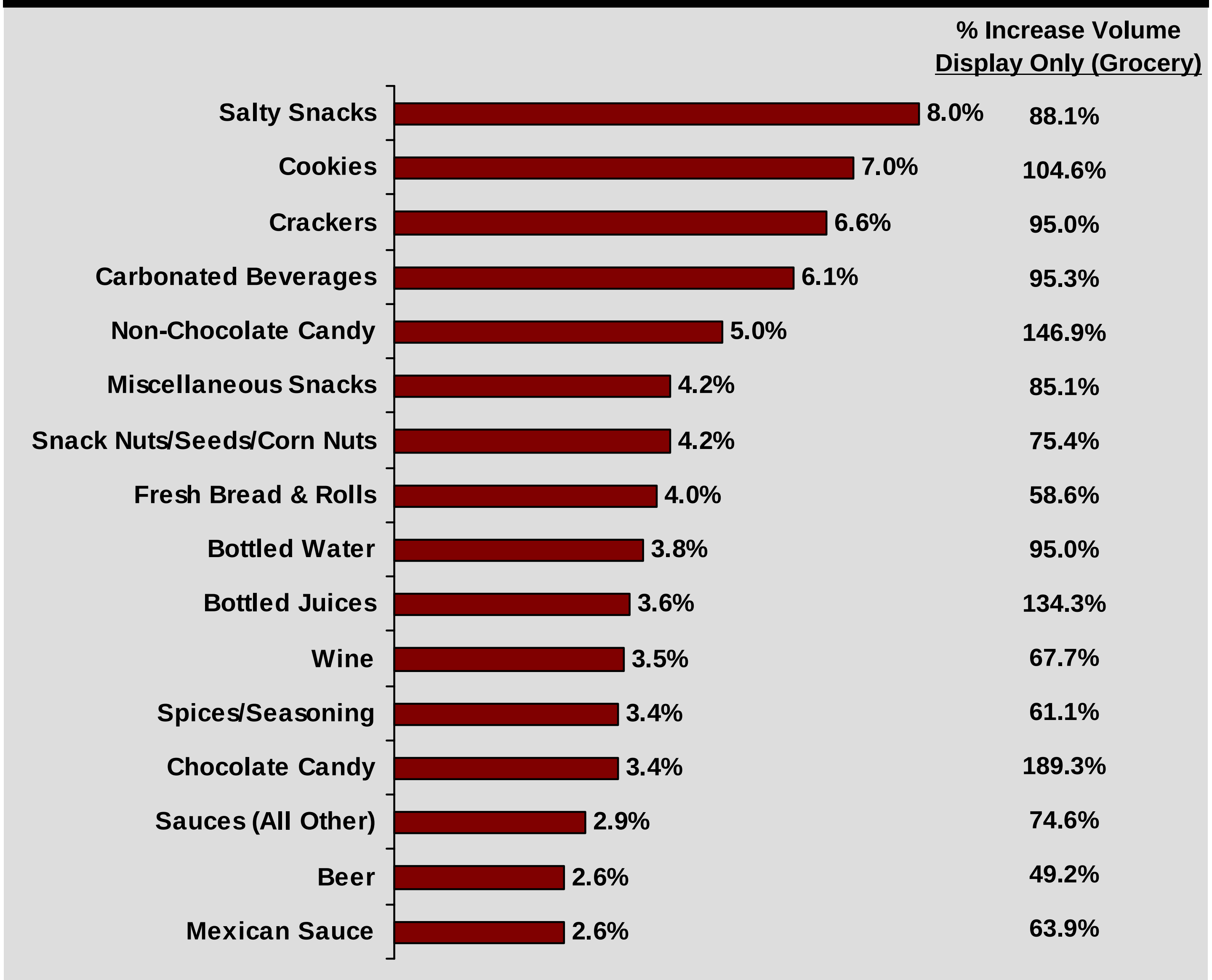
Source: IRI InfoScan® Reviews

MERCHANDISING TACTICS – DISPLAY (CONT'D)

Volume lift is one of many factors driving display allocation within retail outlets. As illustrated in the chart below, many of the categories capturing the greatest number of grocery displays have relatively low volume lift. However, in addition to lift, retailers must also consider profit, appeal to core consumers, impact on consumers' value perception of the store, competitor activity, size/space constraints and seasonality.

With these factors in the equation, retailers should explore the potential value in increasing display allocation among high lift categories such as toilet paper, paper towels, shelf-stable seafood and chocolate candy.

% of Grocery Store Displays Featuring Category
52 Weeks Ending June 12, 2005

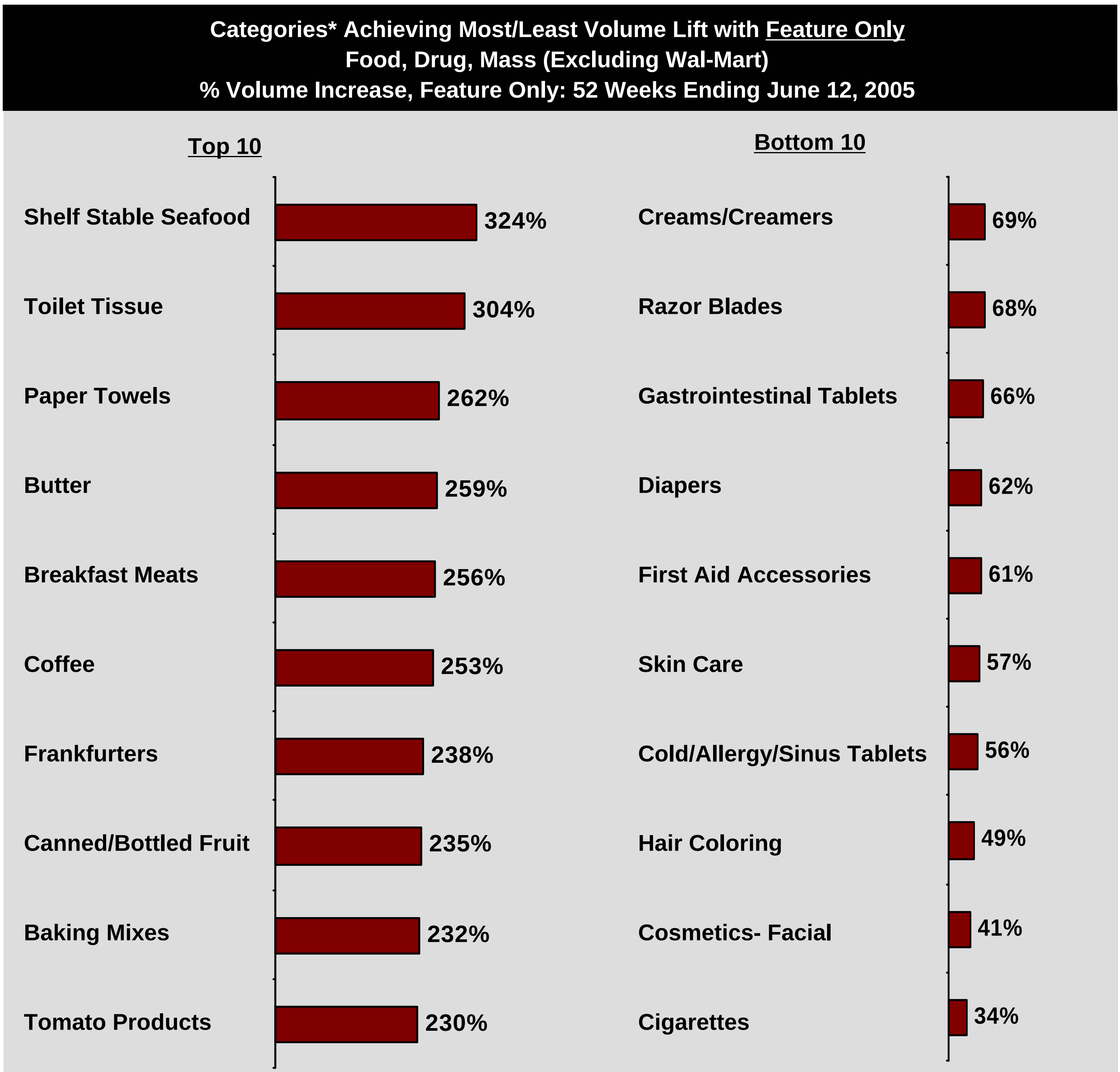


Source: IRI InfoScan® Reviews; IRI In-Store Solutions Group Display Express Data

MERCHANDISING TACTICS – FEATURE ADS

Exceptional average volume increases with feature ads among the categories listed below indicate strong potential within these categories to influence consumers' purchase decisions before they enter the store. Further, they may represent opportunities for retailers to bring consumers into the store through placement in ads. These categories share a relatively broad appeal, and most are conducive to stock-up.

By contrast, categories that do not perform as well in feature ads alone tend to appeal to a more targeted audience– such as hair color, diapers and gastrointestinal tablets.



*Among top 100 IRI Reviews® Categories with at least 5% of volume sold with feature only.

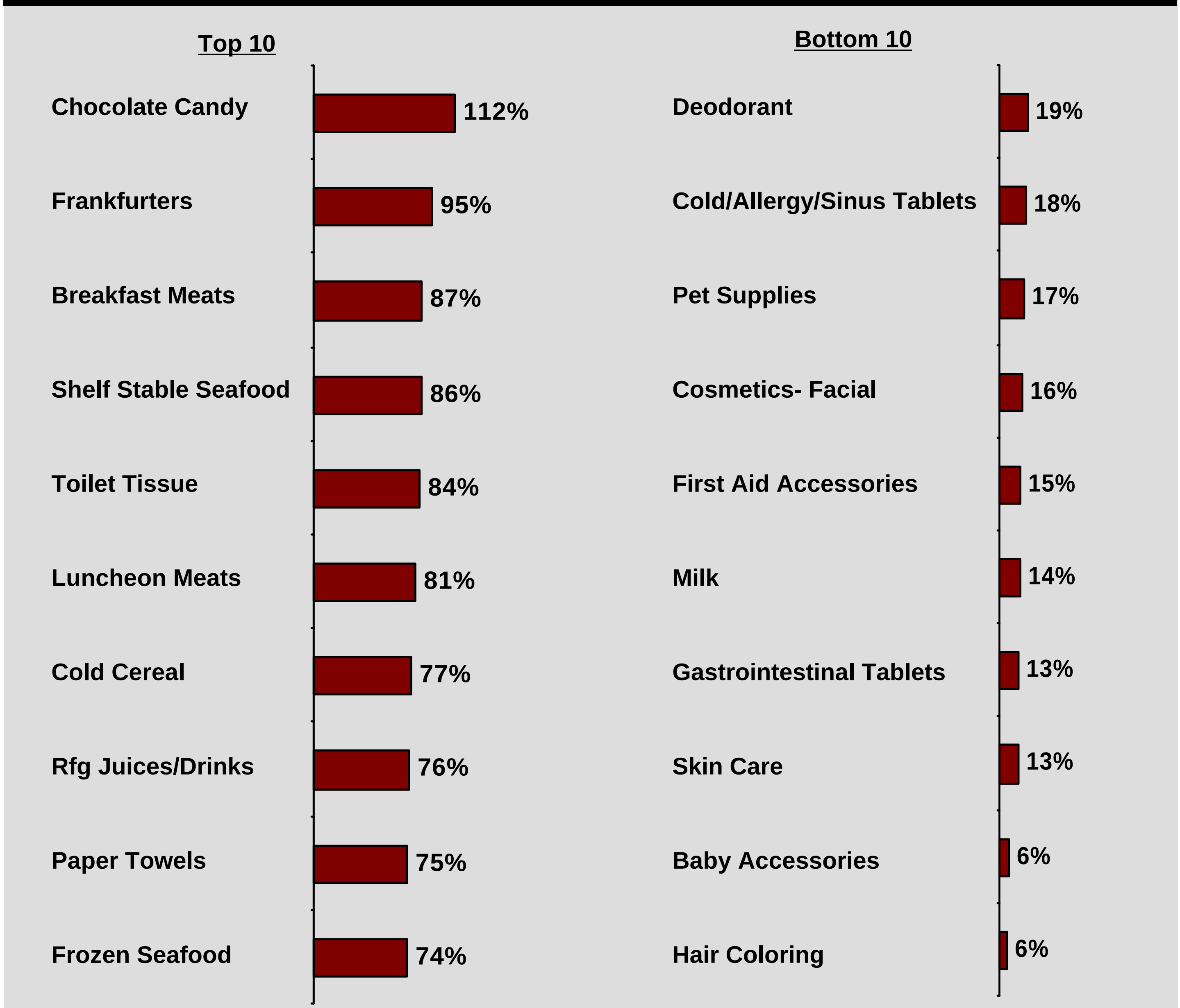
Source: IRI InfoScan® Reviews

MERCHANDISING TACTICS – PRICE REDUCTION ONLY

Categories achieving strong volume increases with a price reduction only – ie not supported by display or feature ads – tend to be highly promotionally sensitive overall. Consumers know pricing in these categories and seek deals. This tactic also plays an important role in some refrigerated and frozen categories where display is difficult.

Most of the categories on the bottom 10 list for price reduction only are purchased relatively infrequently, so consumers may not be as aware of pricing, and/or are purchased as needed, such as cold/allergy/sinus tablets. Milk is an interesting exception. Well-established purchase behavior for staples such as milk may preclude consumers from altering their patterns to look for a deal when displays or feature ads are not present to alert them.

Categories* Achieving Most/Least Volume Lift with Price Reduction Only
Food, Drug, Mass (Excluding Wal-Mart)
% Volume Increase, Price Reduction Only: 52 Weeks Ending June 12, 2005



*Among top 100 IRI Reviews® Categories with at least 5% of volume sold with price reduction only.

Source: IRI InfoScan® Reviews

ACTION ITEMS

Action Items for Manufacturers

- Evaluate current merchandising practices and performance relative to category and competitive benchmarks
- Identify price and promotional sensitivity for your brands and categories prior to developing merchandising strategies
- Test market major merchandising initiatives prior to extensive roll-outs
- Tailor merchandising tactics to specific markets/stores as needed to address different consumer and competitive profiles
- Measure and monitor store-level merchandising performance and retail execution; identify and address under-performing stores
- Explore specific merchandising mix enhancement opportunities discussed on page 4

Action Items for Retailers

- Evaluate current merchandising practices and performance relative to industry and competitive benchmarks
- Measure and monitor store-level merchandising performance and retail execution; identify and address under-performing stores; explore incentive program based on retail execution of merchandising initiatives
- Allocate display and feature ad space based upon an evaluation of several factors, including relative lift, appeal to desirable consumer segments, average basket ring with vs without products, impact on consumers' price perceptions, etc.
- Explore specific merchandising enhancement opportunities discussed on page 4

RESOURCES

To identify opportunities to improve merchandising effectiveness and efficiency for your categories, brands or stores, contact your IRI client service representative regarding custom analyses and reports leveraging the following resources:

Issue	Source	Description
Test Merchandising Tactics Prior to Rollout	**IRI Controlled Store Testing**	Quantifies the sales impact of virtually any in-store marketing variable leveraging statistical optimization program used to select matched groups of test and control stores.
Evaluate pricing/promotion decisions	**IRI's Price Drivers**	Analysis that quantifies the sales response to base, promoted and cross-price variations of products; leverages store-level data and proprietary Mix Drivers methodology.
	IRI's Promo Drivers	In-depth analysis of a product's response to pricing and trade promotion by retailer and type of promotion; leverages store-level data and proprietary Mix Drivers methodology.
Identify Retail Execution Improvement Opportunities	**IRI's Retail Execution Insights™**	Portfolio of store-level data services designed to enable marketers to view, monitor and manage retail performance issues.
	Mosaic Info-Force	In-store observational service enabled by 2,000-strong field force providing insights into shelf conditions, presence and locations of displays, etc. for own and competitive brands and categories.

QUESTIONS ABOUT THIS REPORT

Please forward questions and comments about this report to Sheila McCusker at sheila.mccusker@infores.com.