TIMES & TRENDS

A SNAPSHOT OF TRENDS SHAPING THE CPG INDUSTRY

MAY 2005

INFORMATION RESOURCES, INC.

Value Channels

Redefining the Retail Landscape

CONTENTS

METHODOLOGY

Findings presented in this report are based upon an extensive analysis of consumer data from IRI's Consumer Network® Household Panel. Please see page 18 for additional detail regarding this and other resources that can be leveraged to identify growth opportunities within value channels and within traditional channels facing value channel competition.

EXECUTIVE SUMMARY

With growth fueled by an uncertain economy, increased availability and a unique shopping experience, value channels -- supercenters, club stores and dollar stores -- have reached a combined dollar share of nearly 20%* of total CPG spending and have become an integral component of consumers' shopping experience.

Given the size, growth, and future potential of value channel shopping, manufacturers are evaluating optimal distribution, marketing and merchandising strategies to fully capitalize on these channels, while traditional retailers are searching for sources of sustainable competitive advantage. This report provides an extensive analysis of consumer purchase behavior to help retailers and manufacturers develop fact-based strategies vis-à-vis value channels.

As highlighted below and throughout this report, while value channels offer considerable growth potential for many manufacturers, opportunity varies significantly across categories, depending upon fit with core shoppers and current levels of development. And, while traditional retailers have and will continue to be impacted by value channels, the battle is far from lost.

VALUE CHANNEL GROWTH

- Supercenters were the only channel of the three to gain a significant increase in dollar share over the past two years. The two-point share gain came at the expense of grocery and mass merchandise channels, as well as fellow value channel club. Store expansion created greater convenience for supercenter shoppers, who increased their trip frequency; however, it did not increase household penetration. New supercenter formats that are more conducive to urban areas, such as Wal-Mart's Urban 99 concept will be required to achieve major incremental penetration gains.
- Lower spending per trip without a corresponding increase in number of trips resulted in a slight dollar share reduction (0.4 points) for club stores over the past two years, as they increasingly compete with supercenters.
- While dollar stores' share of total CPG spending remains low (1.3%), rapid store expansion has driven major gains in household penetration: 58% of households now shop dollar stores, and further penetration increases are likely as geographic expansion continues.

➔ Traditional grocers require a focused competitive strategy vis-à-vis supercenters, segmented by market to take into account current and likely future supercenter presence; strategies should incorporate targeted pricing and promotion initiatives against high-share supercenter categories (eg. OTC remedies, diapers, cleaning supplies) as well as heavy marketing of under-developed supercenter categories (eg. beer, carbonated beverages, ice cream/sherbet.)

➔ Loyalty and niche segment marketing have become critical to traditional retailer growth.

CORE VALUE SHOPPERS

- While each value channel has achieved fairly strong reach (50%+ household penetration), their heaviest shoppers represent more targeted and unique consumer segments: versus the other value channels, supercenters skew younger and middle income; club stores skew middle-aged and upper-income, while dollar stores skew older and lower income.

***Across IRI Reviews Categories**

CORE VALUE SHOPPERS (CONT'D)

- In general, heavy shoppers within each of the value channels are not more likely to shop at the other value channels than the general population (although heavy dollar store shoppers allocate a slightly higher than average share to supercenters) – suggesting that it is not simply low prices these consumers are after: elements of the channel's shopping experience are appealing.

CATEGORY OPPORTUNITY

- Non-food departments are clearly a major draw for consumers shopping value channels: supercenters and dollar stores hold significantly higher share among non-food departments than they do within food and beverage, although club stores are only slightly higher in non-food. Nearly all of the non-food categories analyzed have exceptionally high share indices among heavy shoppers in at least two of the value channels.
- While none of the non-food categories analyzed are under-developed within the supercenter channel, there are several potential category development opportunities within club and dollar stores; for example:
  - Club: Skin Care, Air Fresheners, Cat Food and Pet Supplies
  - Dollar Stores: Pet Supplies, Dog Food, Cat Food, Diapers, Gastrointestinal Tablets, Vitamins
- Across value channels, a number of leading food & beverage categories are under-developed among heavy shoppers. For instance, the carbonated beverages category under-indexes across all three value channels; others include the following:
  - Supercenters – Beer,Wine,Spirits (impacted by regulations); Frozen Seafood; Ice Cream/Sherbet
  - Club: Fresh Bread & Rolls, Milk, Cold Cereal, Cookies, Soup, Frozen Dinners/Entrees, Ice Cream/Sherbet
  - Dollar Stores: Fresh Bread & Rolls, Bottled Water, Coffee, Cold Cereal and Soup in addition to Deli, Dairy and Frozen Food categories, which were not previously offered in most dollar stores but will be increasingly available
- Within both club and dollar stores, there are several food and beverage categories that are highly developed among heavy shoppers (supercenter share is more consistent across food and beverage categories); examples include:
  - Club: Snack Nuts/Seeds/Corn Nuts, Frozen Seafood, Frozen Poultry, Bottled Water
  - Dollar Stores: Non-Chocolate Candy, Chocolate Candy, Cookies and Snack Nuts/Seeds/Corn Nuts
- Private label dollar share among heavy supercenter and dollar store shoppers is near or above average across all channels – both traditional and value, indicating that among these consumers, the search for value goes beyond channel selection; heavy club store shoppers, however, allocate lower than average spending to private label across all channels except club.

➔ Traditional retailers have several potential avenues to attract and retain heavy value channel shoppers: heavily market categories in which value channels are under-developed; institute aggressive pricing and promotion on highly-developed value categories; leverage private label in attracting heavy dollar and supercenter shoppers.

➔ Manufacturers within under-developed categories should explore category and brand demand among core shoppers of each value channel and pursue high-potential category development opportunities with key value retail partners; manufacturers in highly-developed value channel categories should ensure adequate distribution and shelf space within each channel.

INTRODUCTION

With growth fueled by an uncertain economy, increased availability and a unique shopping experience, value channels -- supercenters, club stores and dollar stores -- have reached a combined dollar share of nearly 20%* of total CPG spending and have become an integral component of consumers' shopping experience.

While each of the value channels has had an impact on how and where consumers shop, supercenters have had the most dramatic effect – gradually pulling both shopping trips and dollar share from grocery stores over the past several years. Supercenter expansion plans and favorable demographic trends point to strong continued growth: As reported in the April *Times & Trends*, the 75 million-strong Echo Boom generation, who is entering adulthood at a rate of over four million consumers per year, has a strong affinity for supercenters.

Given the size, growth and future potential of value channel shopping, manufacturers are evaluating optimal distribution, marketing and merchandising strategies to fully capitalize on these channels, while traditional retailers are searching for sources of sustainable competitive advantage. This report provides an extensive analysis of consumer purchase behavior to help retailers and manufacturers develop fact-based strategies vis-à-vis value channels.

As highlighted throughout this report, traditional retailers still maintain clear advantages. Capturing the majority of spending, grocery stores still benefit from the most frequent store visits by a wide margin. Traditional retailers have an opportunity to strengthen their position through heavy marketing of categories in which value channels are currently under-developed (such as carbonated beverages and beer, wine, spirits) and targeted pricing and promotion initiatives in categories that are particularly strong in value channels (such as OTC remedies and several housecare categories).

Further, while value channels represent a major opportunity for many manufacturers to reach specific consumer segments, encourage trial (eg. through smaller, lower-priced sizes in dollar stores) and sell greater quantities of their brands per transaction (eg. stock-up trips at club stores), that opportunity varies significantly across categories. An understanding of how consumers shop for specific categories and brands is imperative before developing an effective value channel strategy.

KEY FINDINGS

VALUE CHANNEL GROWTH

Despite growth in the number of stores across value channels, supercenters were the only channel of the three to gain a significant increase in dollar share over the past two years. The supercenter share increase was driven by Wal-Mart, who owns an estimated 90% of all U.S. supercenters. Supercenters' share growth came at the expense of the grocery and mass merchandise channels as well as fellow value channel club stores.

Supercenters

Supercenter growth was achieved not by greater household penetration, as might be expected given geographic expansion, but by increased number of trips among buyers. Greater availability has translated into greater convenience for supercenter shoppers, which has driven up trip frequency.

This shift has been particularly detrimental to grocers, as consumers are now in their stores less often, which means fewer opportunities to influence purchase behavior and lost purchases of weekly staples in addition to stock-up items.

***Across IRI Reviews Categories**

VALUE CHANNEL GROWTH (CONT'D)

Supercenters (Cont'd)

However, supercenters' ability to capture additional trips per customer may be inherently limited by store size and time required to complete a supercenter shopping trip. The average shopper makes under two store trips per month to supercenters, versus over five trips per month to grocery stores. A smaller value format, such as Wal-Mart's Neighborhood Market concept, offering value pricing with product selection that looks more like a traditional grocery store than a supercenter, may be more successful in securing additional shopping trips.

The lack of supercenter household penetration expansion highlights a second limitation to the current format, which is not conducive to urban areas. Wal-Mart's Urban 99 prototype, which requires less than half the square footage of the 187,000 full-size supercenter, is expected to bridge this gap. Merrill Lynch estimates that more than 90% of the 200 or more supercenters Wal-Mart will open each year over the next decade will be some variation of this format.

Penetration increases among the roughly 40% of households who are not shopping at supercenters currently will be slow and gradual as new formats take hold – leaving a window of opportunity for traditional grocers to sustain share and strengthen their positions.

Club

The club store channel's slight decline in CPG dollar share over the past two years is primarily the result of smaller total purchase amounts per trip without a corresponding increase in number of trips. Consumers are shifting some of their CPG purchases to other channels – most likely supercenters, as these channels increasingly compete in the same geographic areas.

Dollar Stores

While dollar stores have not accrued significant dollar share gains among CPG products, they have been successful in attracting new consumers -- now reaching 58% of households -- nearly as many as supercenters. This increased penetration trend is largely due to store count expansion: dollar store unit count has surpassed 16,000, and strong continued expansion is expected. While dollar stores clearly have the potential to impact traditional channels, the impact over the next five years will not be dramatic, given low share and limited product selection.

Channel Dollar Share Shifts:
52 Weeks Ending April 3, 2005 vs 2003*

	2005	Point Change vs 2003
Grocery	58.4%	(0.7)
Drug Store	5.2%	+0.2
Mass	9.7%	(0.6)
Supercenter	12.4%	+1.9
Club	5.9%	(0.4)
Dollar Store	1.3%	0.0
Wal-Mart Supercenters	11.6%	+2.3

Source: IRI Consumer Network®

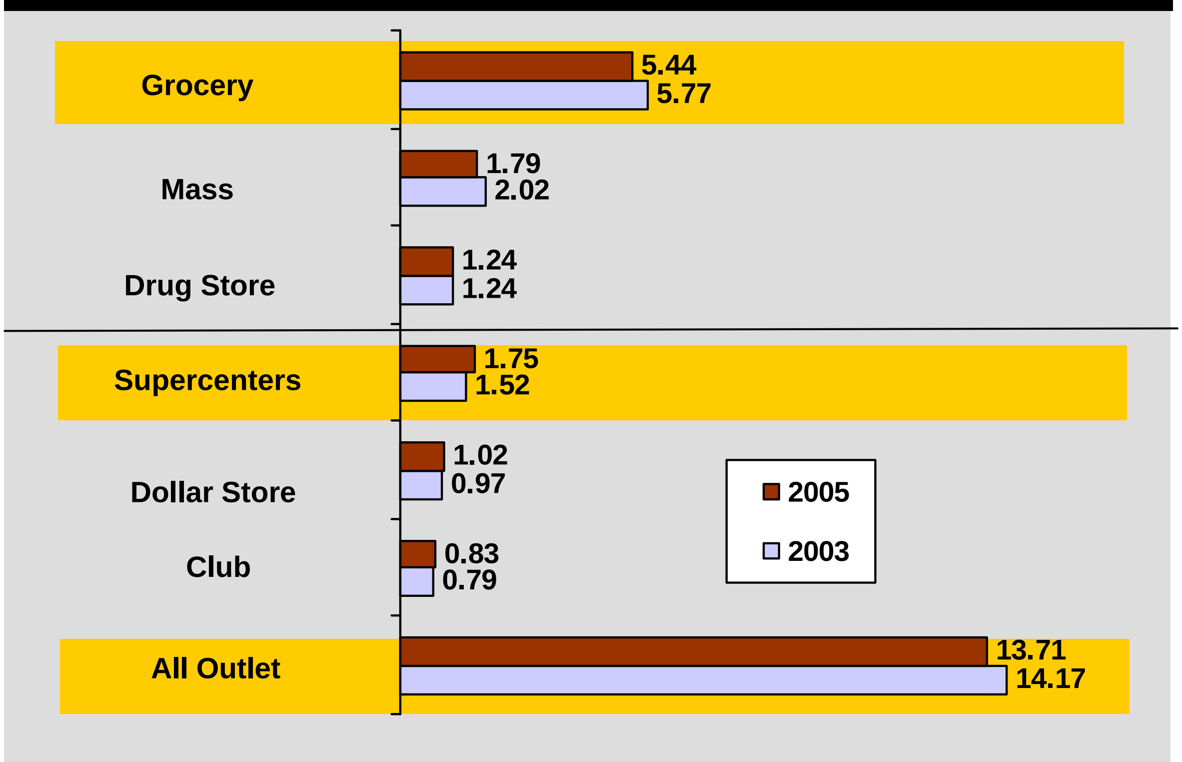
*Across IRI Reviews Categories

VALUE CHANNEL GROWTH (CONT'D)

% Households Buying:
52 Weeks Ending April 3, 2005 vs 2003*

	2005	Point Change vs 2003
Grocery	99.4%	(0.2)
Drug Store	78.7%	(0.9)
Mass	89.7%	(2.1)
Supercenter	61.7%	(1.9)
Club	49.4%	(0.3)
Dollar Store	57.5%	+4.3

Average Trips Per Shopper per Month
52 Weeks Ending April 3, 2005 vs 2003



Source: IRI Consumer Network®

*Across IRI Reviews Categories

CORE VALUE SHOPPERS: DEMOGRAPHICS

With 50% or greater household penetration, each of the value channels has achieved fairly broad reach; however, as revealed by the demographic profile of their heaviest shoppers, the core of their business is driven by more targeted and unique consumer segments. The successful coexistence of these channels within the value space has been possible due to their appeal to different consumer groups.

As channel growth within their core consumer segments slows, value channels will increasingly seek to expand business across other segments, and we will see greater competition among the value channels – as is already evident between club and supercenter.

Versus the other value channels, supercenters skew younger and middle income. Club stores skew middle-aged and upper income, while dollar stores skew older and lower income.

Manufacturers interested in increasing share within each of these consumer segments should carefully evaluate current distribution, merchandising and marketing within the respective value channels.

Demographic trends favor long-term growth in supercenters, as the massive Echo Boom generation, now aged 10-27 matures. As reported in the April issue of *Times & Trends*, Echo Boom young adults have already displayed a strong affinity for supercenters. Dollar stores will likely gain a boost from aging Baby Boomers.

Buyer Index (% of Buyers / % of Panel): 52 Weeks Ending April 3, 2005

	AGE: Female Head of HH		INCOME	
Heavy Supercenter Shoppers*	**18-34**	129	**<$25K**	94
	35-44	116	**$25K - <$55K**	110
	45-64	102	**$55K - <$100K**	97
	65+	71	**$100K+**	72
Heavy Club Shoppers*	**18-34**	85	**<$45K**	63
	35-64	113	**$45K - <$65K**	119
	65+	90	**$65K+**	178
Heavy Dollar Store Shoppers*	**18-44**	94	**<$25K**	140
	45-64	116	**$25K - <$35K**	115
	65-74	105	**$35K - <$45K**	100
	75+	68	**$45K - <$100K**	72
			$100K+	41

*Heavy channel shoppers defined as top 1/3 of shoppers ranked by total channel dollars spent across IRI Reviews categories.

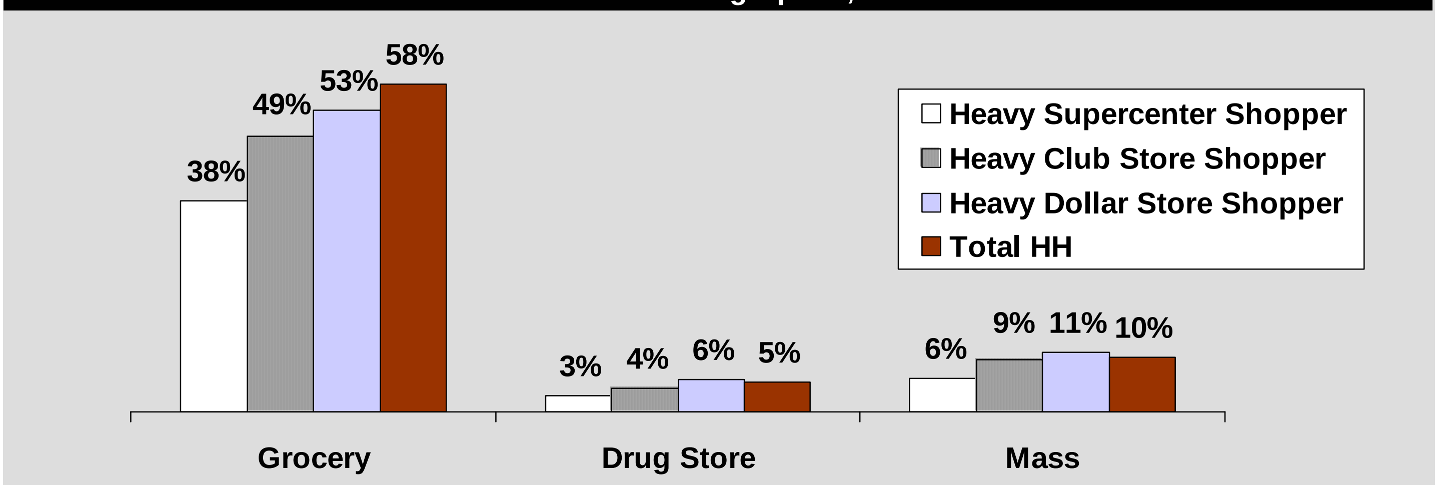
Source: IRI Consumer Network®

CORE VALUE SHOPPERS: SHOPPING BEHAVIOR

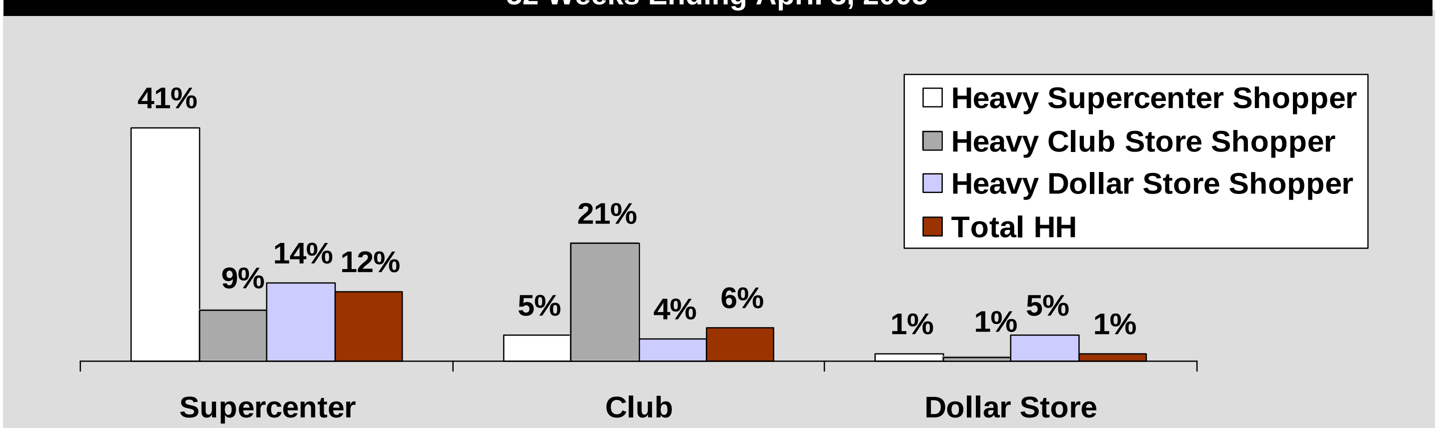
In general, heavy shoppers within each value channel are not more likely to shop at other value channels than the general population (although heavy dollar store shoppers do allocate a slightly higher than average share of spending to supercenters) -- suggesting that it is not simply low prices that these consumers are after: characteristics of the format they favor have unique appeal, and these characteristics will be difficult for other channels to replicate. Manufacturers developing a value channel strategy must recognize that reaching the "value" shopper requires an appropriate mix across the three value channels, depending upon the brand's target audience.

The impact of heavy value channel shopping on traditional outlets is most dramatic among heavy supercenter shoppers, whose spending on CPG products at supercenters now surpasses their spending within grocery; drug store and mass merchandise channel dollar share among heavy supercenter shoppers are also well below average. A strong supercenter presence is imperative among manufacturers seeking to reach the core supercenter consumer.

Traditional Channel Dollar Share Among Heavy Value Channel Shoppers vs Total Panel*
52 Weeks Ending April 3, 2005



Value Channel Dollar Share Among Heavy Value Channel Shoppers vs Total Panel*
52 Weeks Ending April 3, 2005



*Heavy channel shoppers defined as top 1/3 of shoppers ranked by total channel dollars spent across IRI Reviews categories.

Source: IRI Consumer Network®

CATEGORY OPPORTUNITY: DEPARTMENT-LEVEL OVERVIEW

Non-Food Departments

Non-food departments are clearly a major draw for consumers shopping value channels: supercenters and dollar stores hold significantly higher dollar share among non-food departments, in aggregate, than they have within food & beverage, while club stores' share is only slightly higher for non-food.

Across non-food departments, supercenters earn well above "fair share" in general merchandise and health & beauty – typically less frequently purchased departments. Club stores' strong share in non-edibles has driven up total non-food share, and while there is upside in general merchandise and health and beauty departments within club stores, club share across all of these departments is on the decline. Within dollar stores, strong opportunities exist for HBC manufacturers whose products appeal to the dollar store consumer, as this department is under-developed.

Food & Beverage Departments

Among food & beverage departments, supercenter share is consistent across departments, but remains well below non-food share, revealing continued food and beverage growth potential for supercenters as well as an area of advantage for traditional grocers.

Club stores have established a relatively strong position in the edibles and frozen food departments, as value pricing and bulk sales on non-perishable, stock-up items have resonated with shoppers; club share across bakery, dairy and deli, however, remains below average – in large part due to relatively infrequent store visits.

Within dollar stores, most food and beverage departments are significantly under-developed. Manufacturers first to establish a presence within this channel may be well-rewarded with trial and sales growth.

Channel Dollar Share by Department*: 52 Weeks Ending April 3, 2005

	Supercenter	Club	Dollar Stores
Bakery	10.6%	3.2%	0.6%
Dairy	11.0%	4.4%	0.3%
Deli	11.8%	4.9%	0.2%
Edibles	10.9%	6.3%	1.3%
Frozen	11.1%	6.0%	0.2%
Total Food & Beverage	**11.0%**	**5.7%**	**0.8%**
General Merchandise	17.4%	4.5%	2.4%
Health & Beauty	16.5%	5.8%	1.8%
Non-Edibles	13.3%	7.4%	2.4%
Total Non-Food	**15.2%**	**6.3%**	**2.2%**
Total CPG*	**12.4%**	**5.9%**	**1.3%**

Source: IRI Consumer Network®

***Across IRI Reviews Categories**

CATEGORY OPPORTUNITY: DEPARTMENT LEVEL OVERVIEW (CONT'D)

Over the past two years, supercenters' share gains have been spread across all departments, as were club store share losses (with the exception of the club store dairy department, which remained flat.)

Channel Dollar Share Point Change by Department*
52 Weeks Ending April 3, 2005 vs 2003

	Supercenter	Club	Dollar Stores
Bakery	+2.0	(0.4)	+0.1
Dairy	+2.1	0.0	+0.2
Deli	+2.2	(0.3)	0.0
Edibles	+1.9	(0.3)	+0.2
Frozen	+1.8	(0.2)	+0.1
Total Food & Beverage	+1.9	(0.2)	+0.1
General Merchandise	+1.4	(0.9)	(0.1)
Health & Beauty	+2.5	(0.4)	(0.1)
Non-Edibles	+2.2	(0.6)	0.0
Total Non-Food	+2.1	(0.6)	0.0

CATEGORY OPPORTUNITY: FOOD & BEVERAGE

High-Share Value Channel Categories

While no specific food and beverage categories (among top 75 CPG categories, based upon all outlet dollar sales) stand out as clear drivers of supercenters' appeal to heavy shoppers, there are clear stand-outs within both the club and dollar store channels. These well-established categories can be leveraged by club and dollar stores to attract new consumers but may also represent opportunities for traditional grocers to gain share back through category promotions.

Club: The club channel is earning greater than "fair share" among its heaviest shoppers across a broad range of edibles categories, including bottled water, coffee, shelf stable seafood, snack bars/granola bars, and snack nuts/seeds/corn nuts among others. Frozen poultry and frozen seafood also index exceptionally high.

Category Opportunity Methodology
Analyzed dollar share indices among heavy channel shoppers across the top 75 CPG categories (based upon all outlet dollar sales) to identify the specific categories that appear to be attracting consumers to each of the value channels as well as major categories that are under-developed.

Source: IRI Consumer Network®

***Across IRI Reviews Categories**

CATEGORY OPPORTUNITY: FOOD & BEVERAGE (CONT'D)

Channel Dollar Share Index for Selected Top 75 Categories Among Heavy Channel Shoppers*
52 Weeks Ending April 3, 2005 – PART I

	Supercenter	Club	Dollar Stores
Bakery			
Fresh Bread & Rolls	89	63	34
Dairy			
Milk	93	70	35
Natural Cheese	94	113	8
Deli			
Frankfurters	86	129	18
Edibles			
Beer/Ale/Cider	70	110	--
Bottled Juices- Shelf Stable	91	113	125
Bottled Water	100	188	78
Carbonated Beverages	85	44	69
Chocolate Candy	95	104	246
Coffee	96	144	77
Cookies	92	65	193
Cold Cereal	103	79	59
Crackers	99	93	107
Non-Chocolate Candy	95	102	408
Salty Snacks	93	110	139
Seafood – Shelf Stable	93	159	111
Shortening & Oil	102	127	52
Snack Bars/Granola Bars	109	163	112
Snack Nuts/Seeds/Corn Nuts	91	244	191
Soup	94	70	74
Spices/Seasoning	89	121	106
Spirits	22	119	--
Wine	50	123	--

*Represents Channel Dollar Share of Category / Channel Dollar Share of Total CPG Spending among Heavy Channel Shoppers (as defined by top 1/3 of shoppers ranked by total channel dollars spent across IRI Reviews categories.) 100 = Average.

Source: IRI Consumer Network®

CATEGORY OPPORTUNITY: FOOD & BEVERAGE (CONT'D)

Channel Dollar Share Index for Selected Top 75 Categories Among Heavy Channel Shoppers
52 Weeks Ending April 3, 2005 – PART II

Frozen	Supercenter	Club	Dollar Stores
Frozen Dinners/Entrees	109	76	22
Frozen Poultry	103	267	6
Frozen Seafood	63	185	10
Ice Cream/Sherbet	76	11	13

Dollar Stores: Dollar stores' high-share food and beverage categories are a significantly different group than that of club stores. Within dollar stores, heavy shoppers have a strong propensity to purchase candy (both non-chocolate and chocolate), cookies, salty snacks, snack nuts/seeds/corn nuts (shared high-index category with club), and bottled juices.

Under-Developed Value Channel Categories

There are a number of high-spend food & beverage categories in which value channels are earning less than "fair share." For instance, the largest category based on all outlet dollar sales, carbonated beverages is under-developed among heavy shoppers of all three value channels. Within these categories, manufacturers have a potentially sizable opportunity to work with value retailers to grow the category and in turn grow their brands (providing the category/brand is a fit with channel shoppers). Further, traditional retailers can leverage these categories in competitive positioning efforts vis-a-vis specific value channels.

Supercenters: While supercenter share of heavy shopper spending across most food and beverage categories is at or slightly below average, they are significantly underdeveloped in beer, wine, spirits (which is driven in part by regulations limiting the sale of beverage alcohol), carbonated beverages, frozen seafood and ice cream/sherbet.

Club: Food & beverage categories are a strong draw for club stores' heaviest shoppers, as illustrated by the fact that share indices are at or above average across the board among many of the leading categories analyzed. However, a number of large categories are under-developed, including carbonated beverages, fresh bread and rolls, milk, cold cereal, cookies, soup, frozen dinners/entrees and ice cream/sherbet.

Dollar Stores: Among shelf-stable products, low share indices are evident within the fresh bread & rolls, bottled water, carbonated beverages, coffee, cold cereal, shortening/oil and soup categories among dollar stores' heaviest shoppers. As most dollar stores did not offer deli, dairy or frozen foods during the time period analyzed, it is not surprising that share is low in these departments; however, major chains are increasingly adding coolers, so share is likely to rise.

Source: IRI Consumer Network®

CATEGORY OPPORTUNITY: NON-FOOD

Channel Dollar Share Index for Selected Top 75 Categories Among Heavy Channel Shoppers*
52 Weeks Ending April 3, 2005

	Supercenter	Club	Dollar
General Merchandise			
Batteries	125	115	213
Toilet Tissue	105	147	187
Health & Beauty			
Cold/Allergy/Sinus Tablets	125	134	164
Gastrointestinal Tablets	133	145	83
Internal Analgesics	129	154	178
Sanitary Napkins/Tampons	128	129	259
Skin Care	135	51	144
Toothbrush/Dental Accessories	122	90	156
Toothpaste	129	96	222
Vitamins	106	173	54
Non-Edibles			
Air Fresheners	117	13	351
Cat Food	107	79	70
Diapers	128	162	76
Dish Detergent	109	200	368
Dog Food	120	129	87
Facial Tissue	112	185	249
Food & Trash Bags	104	194	357
Household Cleaner	116	125	433
Laundry Detergent	103	209	269
Paper Towels	111	120	172
Pet Supplies	144	37	78
Soap	128	154	338

*Represents Channel Dollar Share of Category / Channel Dollar Share of Total CPG Spending among Heavy Channel Shoppers (as defined by top 1/3 of shoppers ranked by total channel dollars spent across IRI Reviews categories.) 100 = Average.

Source: IRI Consumer Network®

CATEGORY OPPORTUNITY: NON-FOOD (CONT'D)

High-Share Value Channel Categories

Among leading non-food categories, consumers appear to seek value pricing regardless of the channel format: at least two of the value channels have earned above-average share among their heaviest shoppers across nearly all of the non-food categories.

Offering value pricing across leading non-food categories appears to be a key source of differentiation for the value channels versus traditional channels. Traditional retailers should consider pricing and promotion strategies across these categories to attract and retain heavy value channel shoppers.

Under-Developed Value Channel Categories

While none of the leading non-food categories analyzed were significantly under-developed within the supercenter channel, there are a number of potential category development opportunities within the club and dollar store channels (assuming category fit with core channel consumers.) Manufacturers within these categories should work with club and dollar stores to explore opportunities to grow the category, while traditional retailers should leverage these categories in efforts to differentiate versus value retailers.

Club: High-potential non-food category development opportunities within the club channel include skin care, air fresheners, cat food and pet supplies

Dollar Stores: Dollar stores index well below average on dollar share among heavy shoppers within pet care (pet supplies, dog food, and cat food), diapers, gastrointestinal tablets and vitamins.

CATEGORY OPPORTUNITY: PRIVATE LABEL

While supercenter private label dollar share across IRI Reviews CPG categories is comparable to grocery private label share, private label is not as well-developed in club stores and dollar stores.

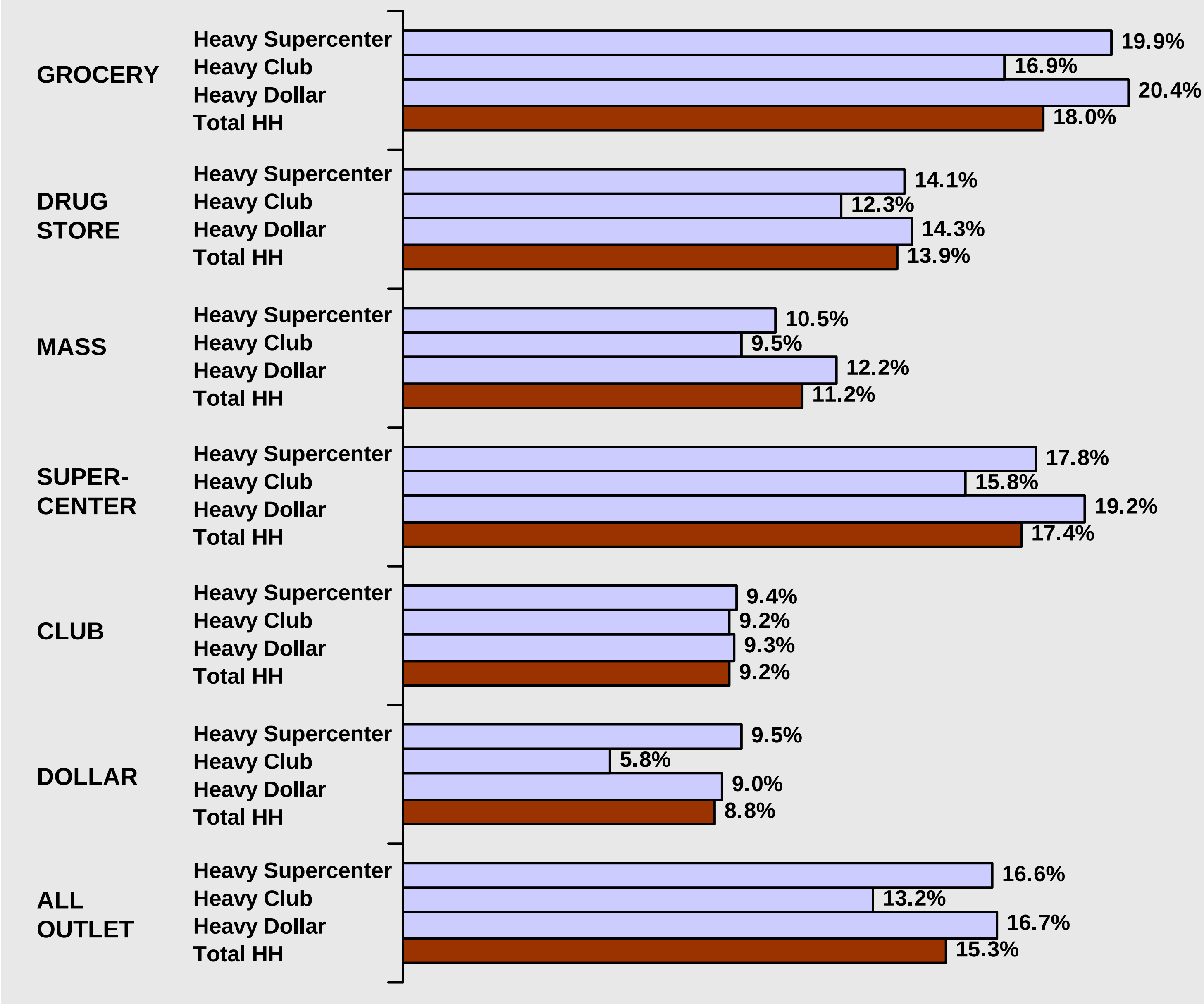
Club stores' private label offerings may satisfy the needs of their heaviest shoppers, however, who are not big private label pruchasers and allocate a lower proportion of their spending to private label than the average household across all channels except club. These consumers represent a strong target audience for branded products and are less likely to visit a traditional outlet because of a strong private label brand.

Among heavy dollar store shoppers, by contrast, both grocery and supercenters have a higher than average private label share, suggesting that private label is a strong potential differentiator in attracting this segment. Further, dollar stores appear to have an opportunity to grow private label among their core consumers.

Private label may also help traditional grocers seeking to protect and grow their share among heavy supercenter shoppers, who allocate a greater share of their total CPG spending to grocery private label than the average household. Supercenters, whose private label share among its core consumers is two points below grocers' private label share within this segment, have additional upside potential.

CATEGORY OPPORTUNITY: PRIVATE LABEL (CONT'D)

Private Label Dollar Share Among Heavy Channel Shoppers*
52 Weeks Ending April 3, 2005



*Heavy Channel Shoppers defined as top 1/3 of shoppers ranked by total channel dollars spent across IRI Reviews categories.

Source: IRI Consumer Network®

ACTION ITEMS

Action Items for Manufacturers

- Manufacturers within highly developed categories among each of the value channels must assess channel share for their brands to ensure adequate distribution allocation to the channel and fair share of shelf space.
- Manufacturers within under-developed categories for each channel should first assess category and brand fit with core channel consumer demographics and then partner with key channel retailers on high-potential category development initiatives.
- Food and beverage manufacturers -- particularly those with shelf-stable brands appealing to the over 45, lower-to-middle income market -- should explore the dollar store channel as an avenue to incent trial, given the opportunity to sell smaller, lower-priced offerings and limited competition currently among many food and beverage categories.
- Given a significantly lower propensity among club store shoppers to purchase private label products across any outlet, well-established brands should carefully evaluate their current club store distribution allocation, as this channel may offer a prime opportunity to reach brand-conscious consumers who will purchase large quantities in one transaction.

Action Items for Retailers

- Traditional grocers should explore the following options to protect and grow share among heavy value channel shoppers:
  - Develop competitive pricing and promotional strategy for key high-share value channel categories (eg. <u>healthcare</u>: cold/allergy/sinus tablets, internal analgesics, gastrointestinal tablets; <u>household</u>: household cleaners, laundry detergent, dish detergent, toilet tissue.)
  - Capitalize on advantaged position in under-developed value categories through heavy marketing focus (eg. carbonated beverages; beer, wine, spirits; ice cream/sherbet.)
  - Leverage private label in acquisition efforts targeting heavy supercenter and dollar store shoppers.
  - Segment strategies by market based upon value channel presence.
  - Carefully monitor impact of new value channel formats (eg. Wal-Mart Urban 99 Concept.)
- Value channel retailers should explore category development opportunities with strong manufacturer partners in under-developed categories.
- Supercenters and dollar stores should evaluate increased private label offerings.

RESOURCES

To gain further insight into value channel opportunities for your categories or brands or the impact of value channels on your stores, contact your IRI client service representative regarding custom analyses and reports leveraging the following resources:

Issue	Source	Description
Purchase Trends Among Heavy Value Channel Shoppers	**IRI Consumer Network®**	Nationally representative panel of households tracking purchases with hand-held barcode scanners; extensive demographic profiles enable in-depth analysis of purchase behavior across standard or custom-defined consumer segments across channels.
Sales Trends Across Major CPG Channels and Retailers	**IRI Total Retail View™**	Proprietary model-based sales tracking service providing superior coverage of channels, including Wal-Mart, for which point-of-sale data are not available. Reflects sales across IRI InfoScan® Reviews CPG categories. Wal-Mart data include traditional outlets and supercenters.
	IRI InfoScan® Retail Account-Level Data	Scanner-based, retailer-specific data. Account-level data within the club store channel now available for Costco stores, where IRI is the exclusive supplier of store data, as well as BJ's Wholesale Club stores. Within the dollar store channel, IRI will begin offering coverage for Family Dollar stores in June 2005.
Attitudes Among Heavy Value Channel Shoppers	**IRI AttitudeLink**	IRI's custom survey capability that can be executed via mail, telephone or Internet; the ability to link attitudes with actual purchase behavior enables clients to track sales across custom attitudinal segments.

QUESTIONS ABOUT THIS REPORT

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