TIMES & TRENDS

A SNAPSHOT OF TRENDS SHAPING THE CPG INDUSTRY

PRIVATE LABEL

THE BATTLE FOR VALUE-ORIENTED SHOPPERS INTENSIFIES

November 2005

IRI INFORMATION RESOURCES, INC.

EXECUTIVE SUMMARY

- Increased private label focus among value channels may spur an intensified cross-channel battle for private label shoppers
- European private label share levels will not be seen in the U.S. without major increases in consolidation and/or expansion of “hard discounters”
- Beyond food and beverage staples, in which private label is purchased by a majority of shoppers, “heavy” private label buyers -- predominantly large households -- are the core target group
- Retailers have grown private label share across both well-developed and under-developed private label categories by successfully driving increased trial and repeat purchases
- Brand manufacturers have increased share among several traditional private label strongholds through innovation

INTRODUCTION

Effective strategies vis-à-vis private label will be category and store-specific.

Traditional retailers have leveraged private label to attract value-conscious consumers amid strong competition from value channels. In fact, the grocery channel has secured above-average share of heavy private label shoppers' total CPG spending.

Yet competition for private label shopper spending is now heating up. As value channel growth begins to plateau, supercenters, mass merchandisers and club stores are increasingly staking a claim on private label shoppers. While grocery channel private label share is essentially flat, share across value channels is growing.

A continuation of this trend could have enormous implications for both manufacturers and retailers. Manufacturers in categories with a high mix of heavy private label shoppers could face significantly increased competition. Traditional retailers are at risk of losing a key source of differentiation versus value channels.

Effective competitive strategies within this environment will be category and store-specific.

As detailed throughout this report, private label development, performance and potential vary dramatically by category. And, beyond food and beverage staples such as eggs and milk, the propensity to purchase private label varies substantially across consumer segments.

The "right" assortment and competitive tactics for both manufacturers and retailers will depend upon the mix of heavy versus light private label shoppers within a store and within their category/brand consumer base.

PRIVATE LABEL SHARE TRENDS
ALL OUTLET

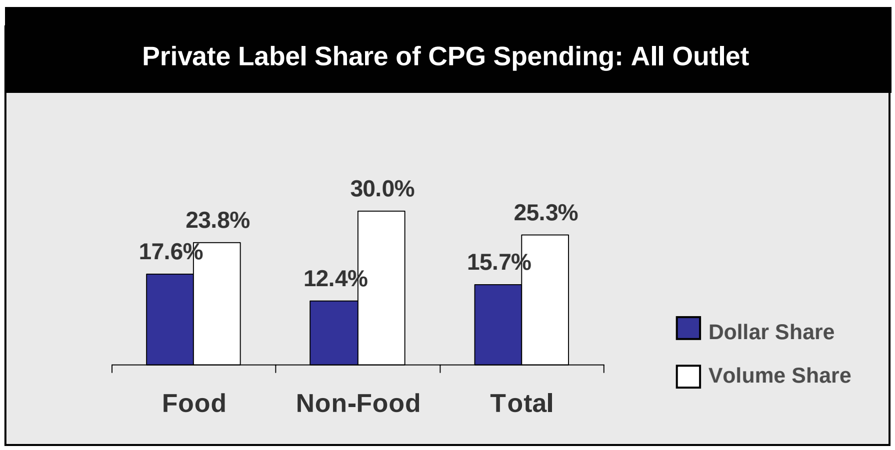
Private label spending levels are a testament to consumers' demand for value.

Consumers are allocating nearly 16% of their CPG budget, on average, to private label products, with food share closer to 18% and non-food at just 12%. (Significantly higher non-food vs food volume share but lower dollar share reflects greater private label price discounts among non-food products.)

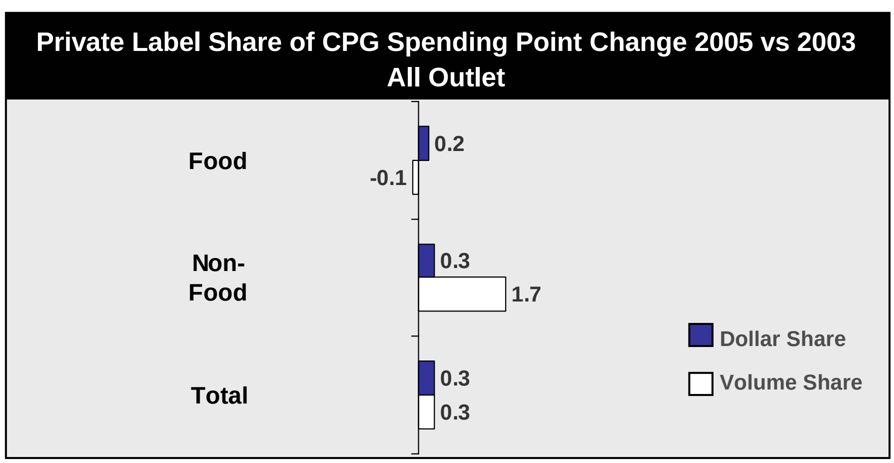
This spending level is a testament to the strength of consumers' drive for value and to the critical role that private label products play in meeting value needs.

Despite impressive private label programs within specific retailers and strong share growth across select categories and channels, overall, private label share gains have been slow and steady.

Over the past two years, for instance, all-outlet private label dollar share increased only 3/10 of a percent. Volume share within food categories actually declined slightly.



Source: IRI Consumer Network® 52 weeks ending 10/2/2005



Source: IRI Consumer Network® 52 weeks ending 10/2/2005; same period 2003

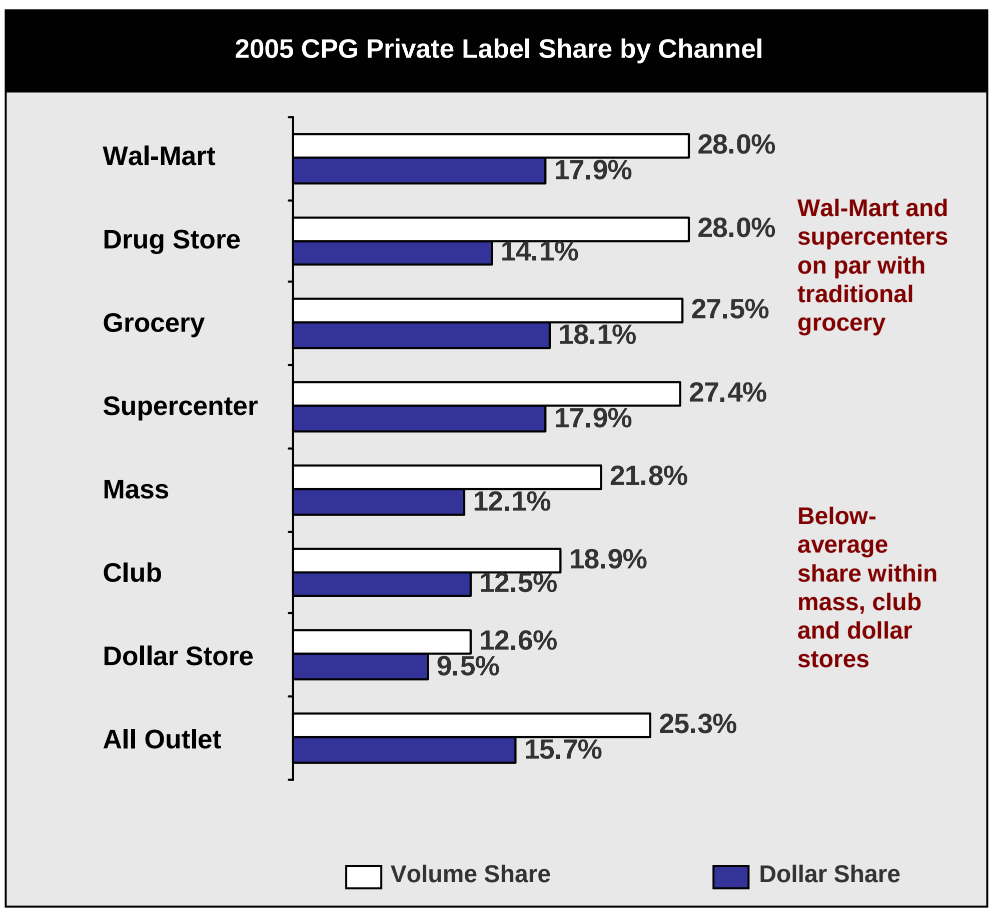
PRIVATE LABEL SHARE TRENDS
CHANNEL

Wal-Mart and supercenter private label share now on par with grocery.

While Wal-Mart and the supercenter channel have long been known for low pricing on name brands, private label has become an increasingly important part of their value proposition – dollar and volume share are now on par with traditional grocery.

Other value channels, including mass, club and dollar stores have below - average private label shares. However, club stores have placed major emphasis on private label over the past two years – increasing volume share by three points. These gains have occurred across a broad range of categories, including both food and non-food products. The mass merchandise channel has also increased share.

Dollar stores stand alone as the one value channel that appears to be holding fast to a focused low-cost name brand strategy.



Source: IRI Consumer Network® 52 weeks ending 10/2/2005

PRIVATE LABEL SHARE TRENDS
CHANNEL (Cont'd)

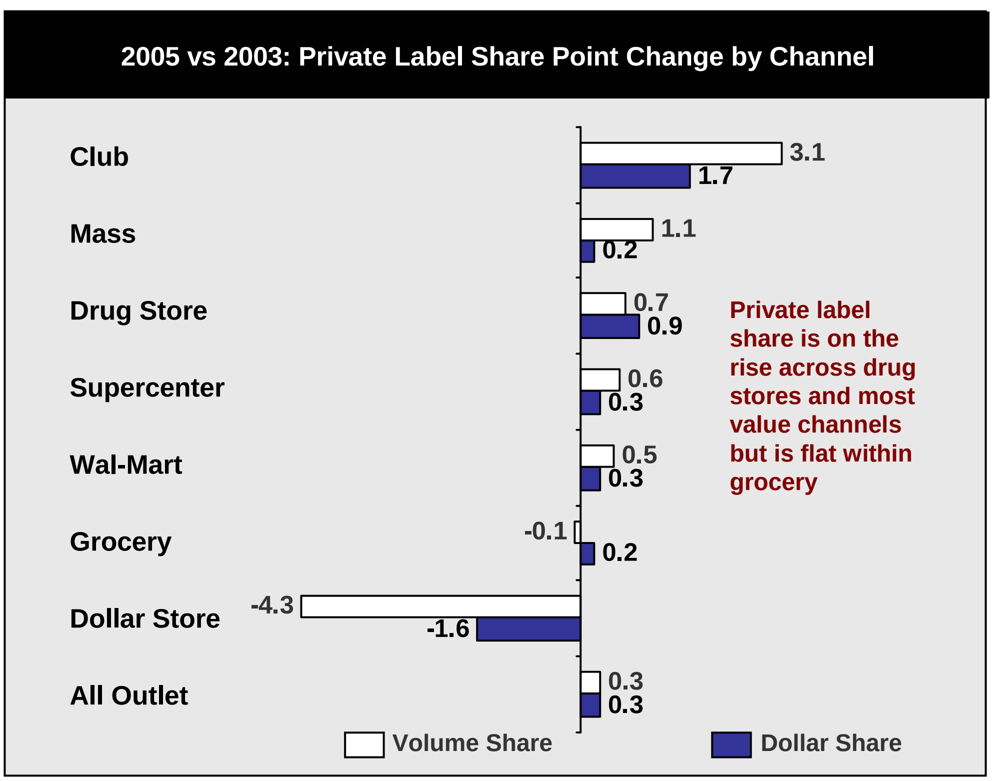
Value channels' increased focus on private label places additional competitive pressure on traditional retailers.

The increased focus on private label within value channels places additional competitive pressure on traditional retailers. Private label has served as a competitive weapon in traditional retailers' battle with value channels for the past several years. Grocers' ability to capture sales that may have gone to value channels through private label may wane in the face of new value channel private label offerings. In fact, grocery private label share is flat.

Unlike grocery, the drug store private label business is thriving within this environment. Less overlap among core drug store and value channel consumers versus grocery is apparently working in drug stores' favor.

Over the next few years, grocery retailers are likely to step up private label development and marketing in addition to continuing to seek other sources of differentiation such as niche product offering and greater focus on fresh foods.

Cross-channel private label competition is likely to further intensify.



Source: IRI Consumer Network® 52 weeks ending 10/2/2005; same period 2003

PRIVATE LABEL SHARE TRENDS
EUROPE

30%+ private label share is not likely in the U.S. without increased consolidation and/or hard discounter growth.

U.S. private label share continues to trail share across many European countries and is less than half that of Switzerland and Ireland.

While the existence of 30%+ private label share in these countries highlights continued U.S. share growth potential, sizable gains will not occur without major changes in retailer concentration and/or significant expansion of hard discounters, such as Germany's Aldi, whose private label products comprise the vast majority of chain sales. Across European countries with high private label share, one or both of these conditions is present.

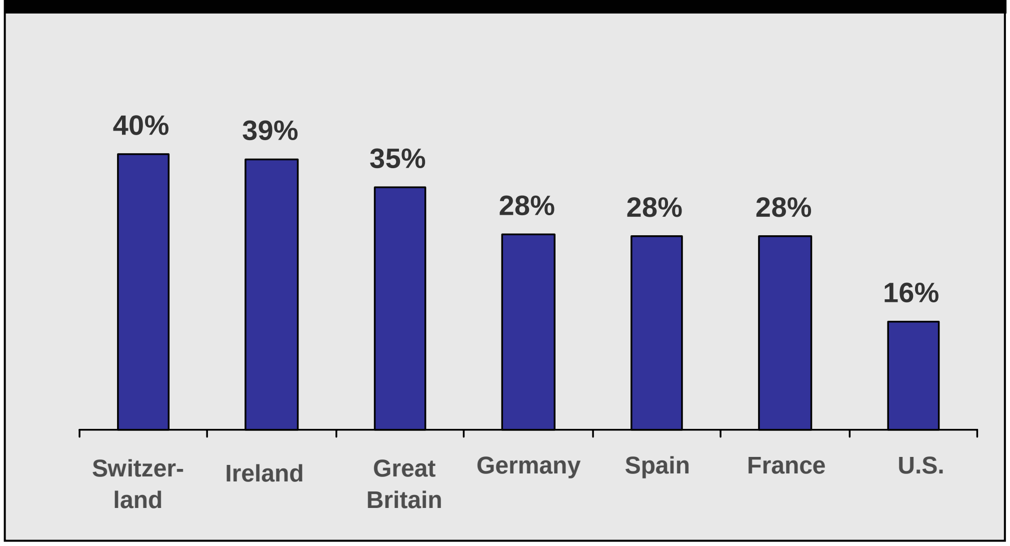
These structural changes are within the realm of possibility within the next decade. Analysts are predicting that the U.S. may be on the verge of a new wave of grocery consolidation, and hard discounters are stepping up U.S. expansion. The actual extent and timing of these events will be a key determinant of near-term U.S. private label growth.

ALDI U.S. PRESENCE

- In U.S. since 1976
- 700 stores in 26 states
- 200 Trader Joes (Aldi-owned) in 20 states
- "We will be in every city over 20,000 in population."

Sources: Company Website; *The Tennessean*

CPG Private Label Dollar Share by Country



Sources: Europanel™; IRI Consumer Network®
European shares calendar year 2004; U.S. share 52 weeks ending 10/2/2005

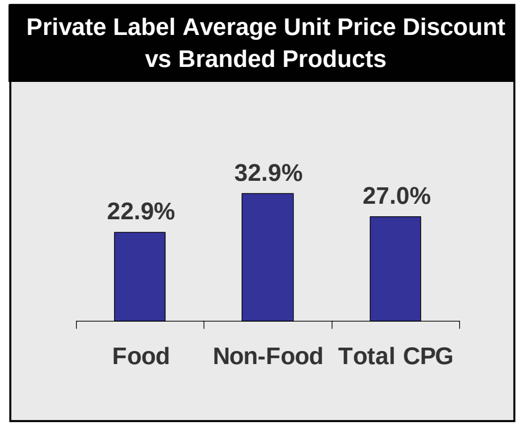
CONSUMER VALUE
PRICING

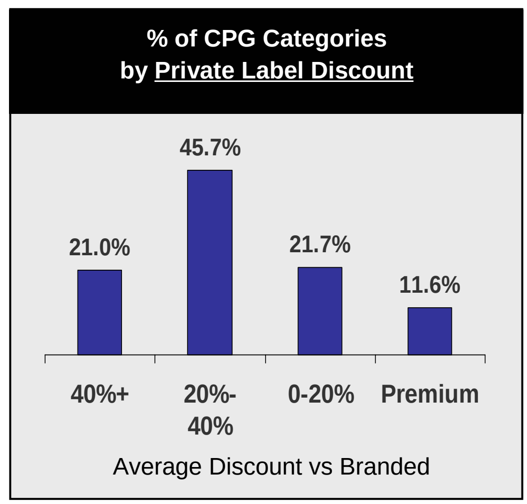
Private label price points are 27% below branded products, on average.

With price points that are on average 27% below that of branded products, private label delivers against consumers' demand for value. In nearly one-quarter of CPG categories, the discount is greater than 40%.

Discounts are significantly higher among non-food categories than food, presumably because non-food private label is less developed and is more aggressively seeking trial.

The ability of some private label products to command a premium is evidence that private label has evolved beyond a pure low-price play to a multi-dimensional competitor across many categories – delivering high quality and/or meeting specialized consumer needs. In nearly 12% of categories, including tobacco products, toothpaste and cosmetics, private label is priced at a premium to branded products.





Source: IRI InfoScan®Reviews, FDMx 52 weeks ending 10/2/2005

PRIVATE LABEL CATEGORIES COMMANDING A PREMIUM*

Tobacco Products	+144%	Frozen Poultry	+51%
Toothpaste	+106%	Chocolate Candy	+39%
Eye Cosmetics	+68%	Frozen Dinners/Entrees	+30%
Lip Cosmetics	+54%	Dried Meat Snacks	+30%
Miscellaneous Snacks	+53%	Drink Mixes	+29%

*Top 10 with >$100 million in private label FDMx sales

Source: IRI InfoScan®Reviews, FDMx 52 weeks ending 10/2/2005

THE PRIVATE LABEL CONSUMER
PENETRATION

All consumers are private label consumers to some extent.

All CPG consumers are private label consumers. Every U.S. household purchased at least one private label product in the past year.

Within the vast majority of categories, however, more than half of category buyers did not purchase <u>any</u> private label within the past year.

Categories with a high proportion of private label purchasers are predominantly food and beverage staples. (See box at right.) These are highly value-driven categories. Within these categories, both manufacturers and retailers need to view their broad consumer base as potential private label purchasers.

Beyond these categories, though, the consumer target group for private label products is more narrow and is more likely to be comprised of heavy private label shoppers.

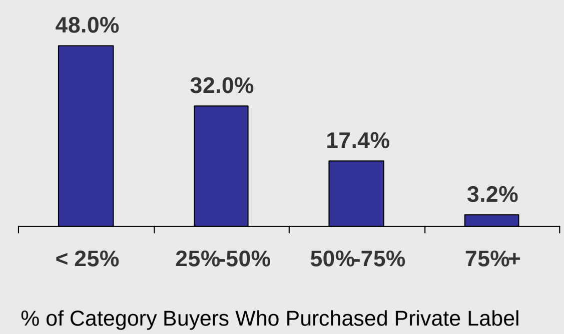
% OF CATEGORY BUYERS WHO PURCHASE PRIVATE LABEL
TOP CATEGORIES

Fresh Eggs	93%
Milk	91%
Fresh Bread & Rolls	88%
Natural Cheese	84%
Frozen Fruit	81%
Vegetables	78%
Frozen Plain Vegetables	78%
Sugar	78%
Butter	76%
Coffee	74%
Food & Trash Bags	74%

Source: IRI Consumer Network®
52 weeks ending 10/2/2005

% of CPG Categories by Private Label Penetration
<u>Among Category Purchasers</u>

Across the vast majority of CPG categories, less than 50% of category buyers purchased any private label.



Source: IRI Consumer Network® 52 weeks ending 10/2/2005

THE PRIVATE LABEL CONSUMER
HEAVY SHOPPERS

One-third of private label buyers comprise 60% of sales.

One third of consumers -- "heavy private label shoppers" -- comprise 60% of private label dollar sales. These consumers allocate 20% of their CPG budget to private label, versus only 9% among light private label buyers.

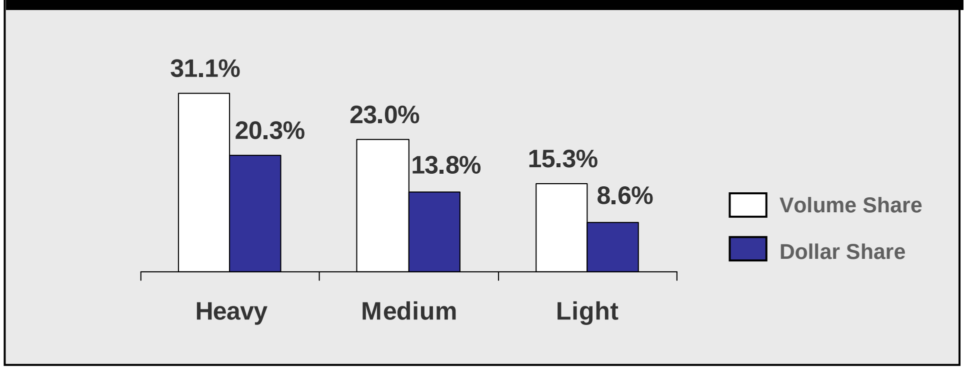
Across most categories outside of the food and beverage staples, these consumers are core targets for private label products and for conversion among manufacturer brands.

Household size is the strongest demographic determinant of heavy private label shoppers. Big households, which tend to be the biggest CPG spenders, are the heaviest private label purchasers.

However, it is critical to note that even among heavy purchasers, the propensity to purchase private label products is to a large extent situational. These consumers also purchase a high mix of branded products within any given category. The decision to purchase private label versus branded is likely based upon a range of factors including sales and promotions as well as how the product will be used (eg. self-consumption versus entertaining.)

Loyalty to private label, as defined by private label dollar share among private label buyers within a category, is below 50% across the majority of CPG categories – for heavy private label purchasers as well as average private label purchasers.

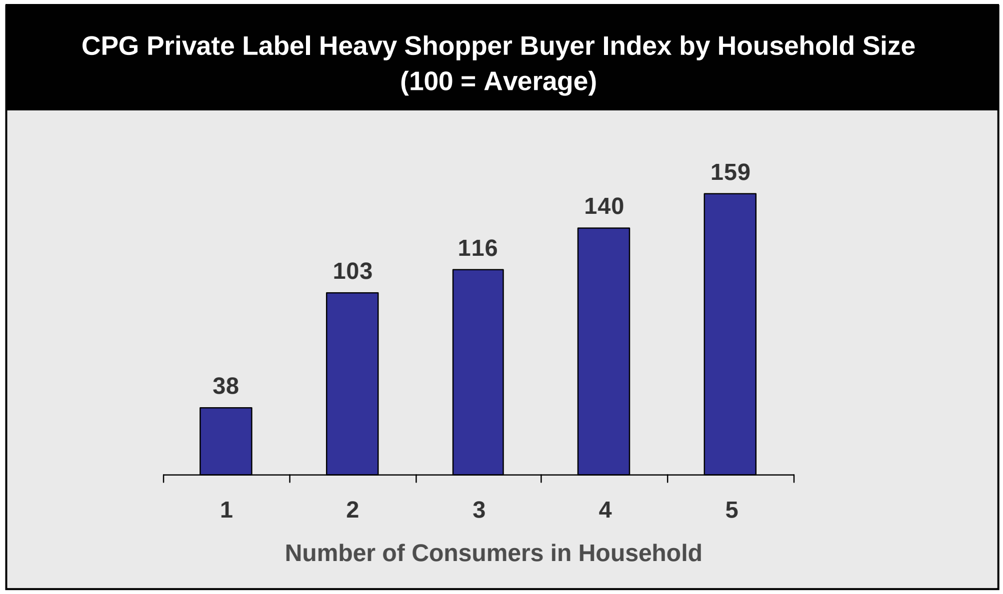
Private Label Share of CPG Spending – All Outlet
Among Heavy, Medium, Light Private Label Buyers



Source: IRI Consumer Network® 52 weeks ending 10/2/2005

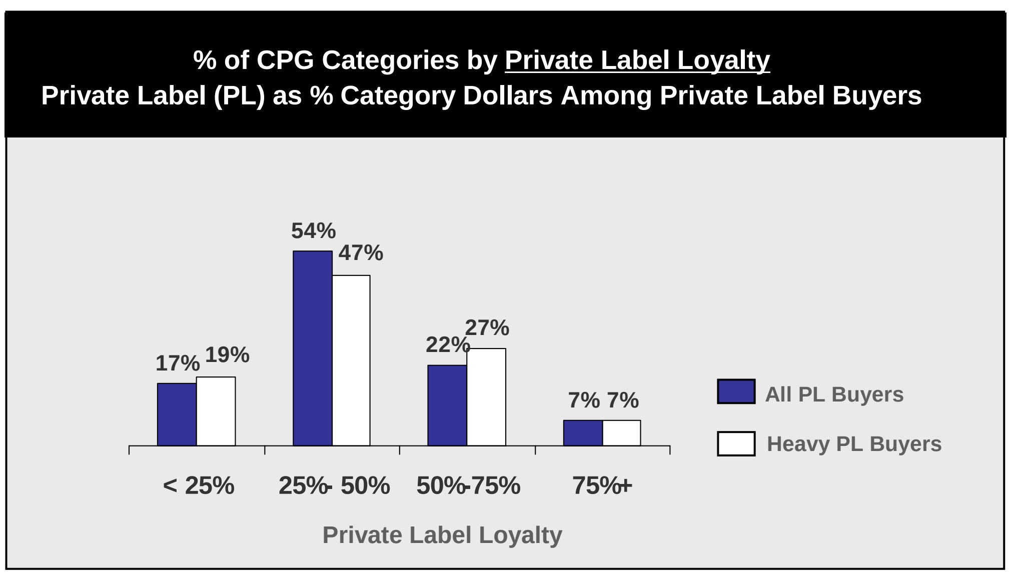
THE PRIVATE LABEL CONSUMER
HEAVY SHOPPERS

The propensity for heavy private label shopping increases with household size.



Source: IRI Consumer Network® 52 weeks ending 10/2/2005

Private label purchasers allocate a high proportion of spending to branded products, as well.



Source: IRI Consumer Network® 52 weeks ending 10/2/2005

CATEGORY OPPORTUNITY
SHARE TRENDS

Private label development and performance vary significantly across categories.

As illustrated in the chart below, in roughly one-fifth of top 100 categories, private label has a strong and growing position; however, in an equal number of categories, above-average private label share is being seriously challenged by branded products. On the flip side, in over one-third of categories, private label has a relatively small presence that is increasing rapidly.

This wide variation illustrates the critical importance of evaluating private label risk and opportunity at the category level.

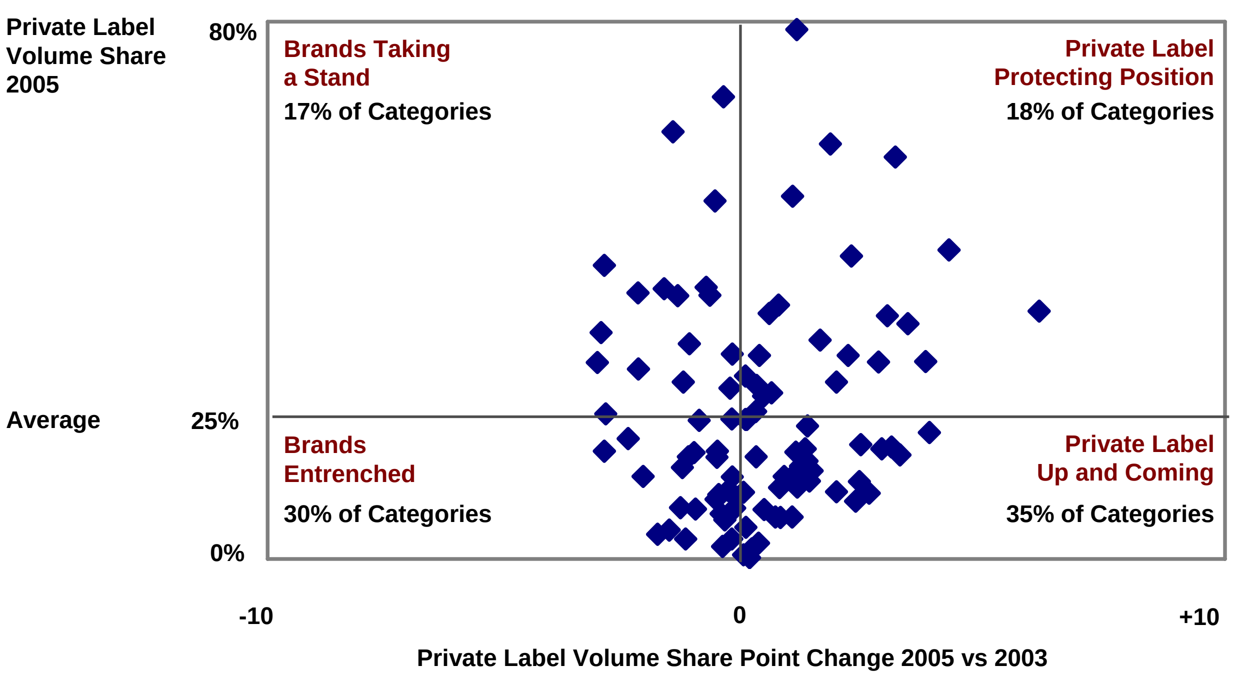
The 2003 in-depth study of private label developed by IRI and Boston Consulting Group, *The Truth About Brands*, identified category characteristics that inhibit the development of private label and help explain some of the category-level discrepancies.

CATEGORY CHARACTERISTICS UNFAVORABLE TO PRIVATE LABEL

- Heavy Advertising
- Innovation
- High Number of SKUs
- Brand Concentration

Source*: IRI/BCG The Truth About Brands*

TOP 100 CPG CATEGORIES
PRIVATE LABEL SHARE/SHARE CHANGE (2005 VS 2003)



Source: IRI Consumer Network® 52 weeks ending 10/2/2005

CATEGORY OPPORTUNITY
BRANDS TAKING A STAND

Brand manufacturers captured share in private label strongholds through innovation.

Across a number of traditionally strong private label categories, brands have taken back share – largely through innovation.

A plethora of successful new branded product introductions within the ice cream/sherbet category that offered low carb and low calorie alternatives, for instance, resulted in sizable share losses for private label.

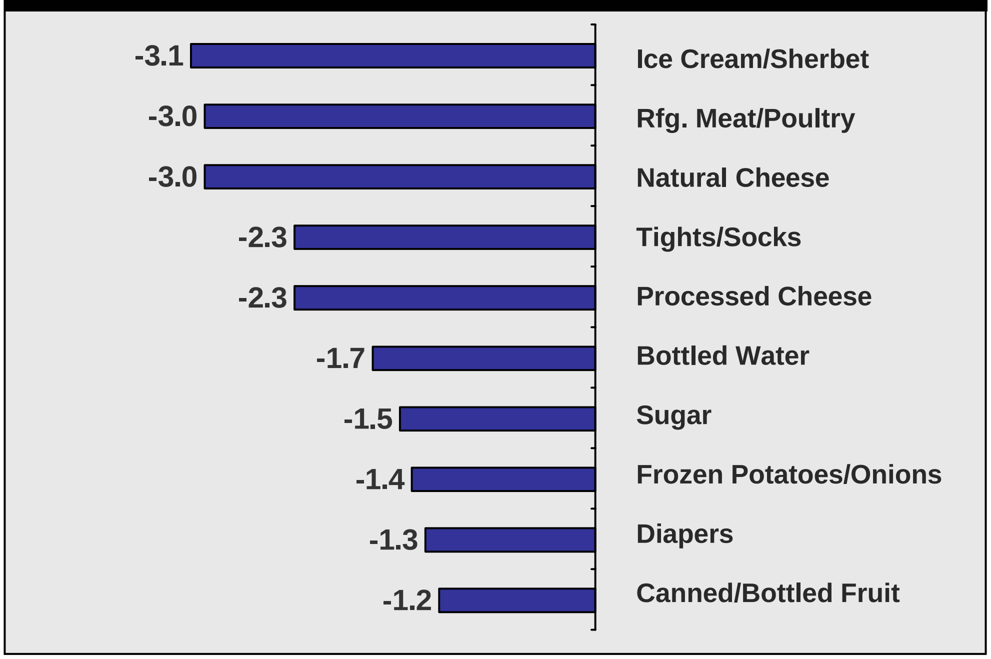
Significant new product activity within natural cheese (convenient portable cheese snacks) also negatively impacted private label.

Within sugar, the growth of patented Splenda® hurt sugar private label as more consumers switched to substitutes, within which private label only has a 9% share.

These trends illustrate the power of innovation in altering category dynamics.

Detailed category listing in Appendix I

Top Ten Categories with Above Average and Declining Private Label Share
2005 vs. 2003: All Outlet Private Label Volume Share Point Change



Source: IRI Consumer Network® 52 weeks ending 10/2/2005; same period 2003

CATEGORY OPPORTUNITY
PRIVATE LABEL PROTECTING POSITION

Retailers protected and increased share in several strong private label categories through increased trial and repeat purchases.

Among leading categories in which private label has successfully protected and increased high share, success was achieved through a combination of factors:

- Increased trial, as evidenced by penetration increases in seven of the top ten categories
- Improved rate of repeat purchases in nine of the top ten
- Increased merchandising activity levels in eight of the top ten

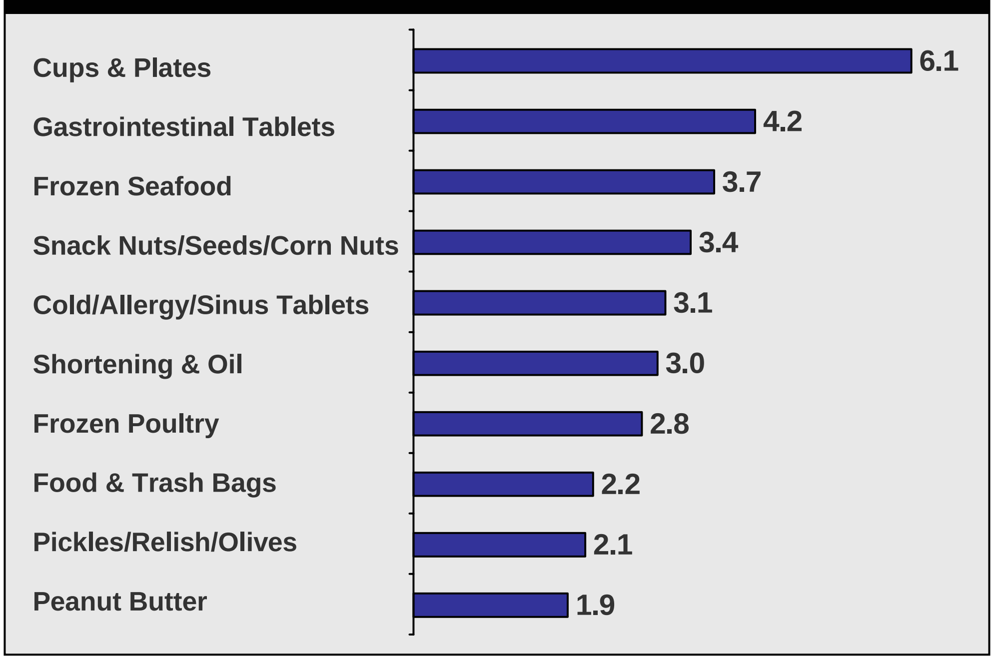
Retailers have clearly increased investment in quality and marketing across these categories.

In cups and plates for instance, private label grew substantially despite slow category growth due to a 4.5 point gain in loyalty as consumers were apparently satisfied with quality.

Within high-growth snack nuts/seeds/corn nuts, private label penetration increases were double that of the total category, and loyalty rose substantially.

Detailed category listing in Appendix II

Top Ten Categories with Above Average and Increasing Private Label Share
2005 vs 2003: All Outlet Private Label Volume Share Point Change



Source: IRI Consumer Network® 52 weeks ending 10/2/2005; same period 2003

CATEGORY OPPORTUNITY
UP AND COMING PRIVATE LABEL

In more price-sensitive categories, decreases in branded product merchandising coincided with private label share increases.

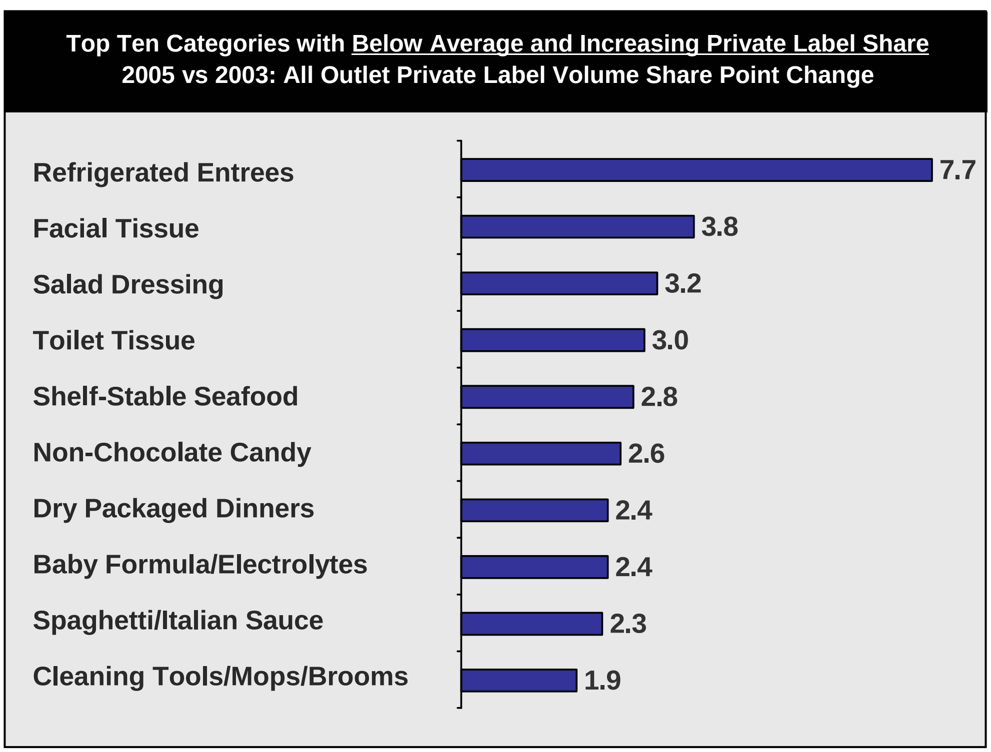
Within over one-third of top 100 CPG categories, private label has a more limited but increasing presence.

Across the ten categories below, merchandising activity decreased for both branded and private label products (with the exception of salad dressing). This trend suggests that in more price-sensitive categories, in the absence of promotion, consumers have a higher likelihood of turning to private label.

Within the top three categories below, private label earned sizable gains in both penetration and loyalty, indicating that the share increases may be sustainable. By contrast, toilet tissue private label loyalty actually decreased, which may eventually lead to loss of the share gains.

Given exceptionally strong growth of the total refrigerated entrée category, the nearly eight point share gain for private label is a huge win that will surely be contested by new branded offerings.

Detailed category listing in Appendix III



Source: IRI Consumer Network® 52 weeks ending 10/2/2005; same period 2003

CATEGORY OPPORTUNITY
BRANDS ENTRENCHED

High value channel share appears to have played a role in inhibiting private label development across some categories.

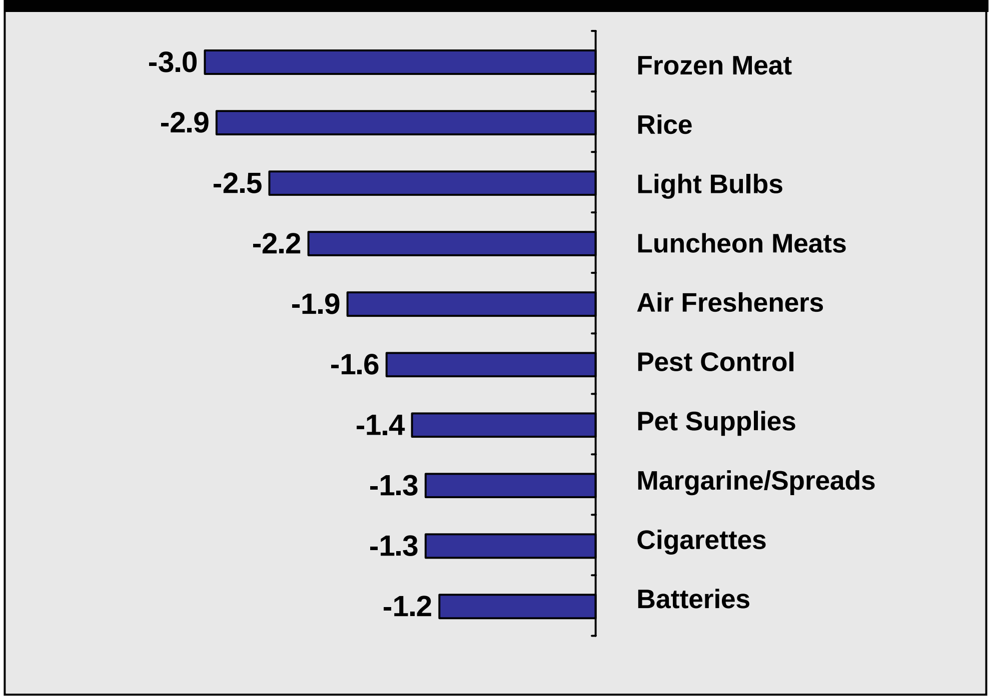
A number of factors have restricted the development of private label among the categories below.

In addition to strong brand equities across many of these categories, value channels offering low pricing on name brands have an above-average share. For instance, supercenter share is well above average within batteries, pest control and pet supplies. Value channels' increased focus on private label, however, could change this mix.

As many of these categories are purchased relatively infrequently, there are fewer opportunities for private label trial. And, private label quality may be an issue, as loyalty is low.

Detailed category listing in Appendix IV

Top Ten Categories with Below Average and Declining Private Label Share
2005 vs. 2003:All Outlet Private Label Volume Share Point Change



Source: IRI Consumer Network® 52 weeks ending 10/2/2005; same period 2003

CONCLUSIONS

- As cross-channel private label competition intensifies, additional focus on private label product development and marketing across channels is likely
- Retailers must carefully evaluate private label opportunity and optimal mix of branded and private label products by category and by store to maximize category and store profitability
- For manufacturer brands, focused competitive strategies vis-à-vis value channel private label will be required in addition to store-level competitive tactics across channels
- Both manufacturers and retailers have opportunities to gain share through identification of specific private label purchase occasion conversion opportunities
- Innovation is a highly effective means of capturing share for manufacturer brands
- Stepped-up merchandising and quality enhancements to improve loyalty are strong potential avenues to share growth within private label

RESOURCES

To gain insight into current and likely future private label trends across specific categories, consumer segments, channels or retailers, contact your IRI client service representative regarding custom analyses leveraging the following resources:

IRI Consumer Network®	Nationally representative panel of households tracking purchases with hand-held barcode scanners; extensive demographic profiles enable in-depth analysis of purchase behavior across standard or custom-defined consumer segments across channels.
IRI In-Store Solutions Group	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.
IRI Customer-Centric Category and Assortment Planning	Delivers automated plan generation from rules, models and advanced optimization analytics; integrates data from internal and external sources; enables clients to create plans targeting specific customer segments.
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.

APPENDIX I
BRANDS TAKING A STAND

PRIVATE LABEL ALL OUTLET 2005 VOLUME SHARE

CATEGORY	SHARE	POINT CHANGE VS 2003
Ice Cream/Sherbet	29.2%	-3.1
Rfg Meat/Poultry	33.7%	-3.0
Natural Cheese	43.7%	-3.0
Tights/Socks	39.6%	-2.3
Processed Cheese	28.3%	-2.3
Bottled Water	40.2%	-1.7
Sugar	63.6%	-1.5
Fz Potatoes/Fz Onions	39.2%	-1.4
Diapers	26.3%	-1.3
Canned/Bottled Fruit	32.1%	-1.2
Internal Analgesics	40.5%	-0.8
Fresh Bread & Rolls	39.3%	-0.8
Fz Plain Vegetables	53.3%	-0.7
Milk	68.8%	-0.5
Rfg Dough/Biscuit Dough	25.5%	-0.3
Cat/Dog Litter	30.5%	-0.3
Shelf-Stable Bottled Juices	27.2%	-0.02

Source: IRI Consumer Network® 52 weeks ending 10/2/2005; same period 2003

APPENDIX II
PRIVATE LABEL PROTECTING POSITION

PRIVATE LABEL ALL OUTLET 2005 VOLUME SHARE

CATEGORY	SHARE	POINT CHANGE VS 2003
Cups & Plates	36.9%	6.1%
Gastrointestinal Tablets	46.0%	4.2%
Fz Seafood	29.4%	3.7%
Snack Nuts/Seeds/Corn Nuts	35.0%	3.4%
Cold/Allergy/Sinus Tablets	59.9%	3.1%
Shortening & Oil	36.2%	3.0%
Fz Poultry	29.3%	2.8%
Food & Trash Bags	45.1%	2.2%
Pickles/Relish/Olives	30.3%	2.1%
Peanut Butter	26.3%	1.9%
Butter	61.8%	1.8%
Pasta	32.6%	1.5%
Fresh Eggs	78.8%	1.0%
Vitamins	54.0%	1.0%
Hot Cereal	37.8%	0.7%
Vegetables	36.5%	0.5%
Dog Food	30.3%	0.3%
Creams/Creamers	25.8%	0.2%

Source: IRI Consumer Network® 52 weeks ending 10/2/2005; same period 2003

APPENDIX III
UP & COMING PRIVATE LABEL

PRIVATE LABEL ALL OUTLET 2005 VOLUME SHARE

CATEGORY	SHARE	POINT CHANGE VS 2003
Refrigerated Entrees	16.5%	7.7
Facial Tissue	18.9%	3.8
Salad Dressing	15.5%	3.2
Toilet Tissue	16.7%	3.0
Shelf-Stable Seafood	16.4%	2.8
Non-Chocolate Candy	9.8%	2.6
Dry Packaged Dinners	17.0%	2.4
Baby Formula/Electrolytes	11.6%	2.4
Spaghetti/Italian Sauce	8.6%	2.3
Cleaning Tools/Mops/Brooms	10.0%	1.9
Fz Breakfast Foods	13.1%	1.4
Blades	11.6%	1.3
Cookies	19.8%	1.3
Carbonated Beverages	14.6%	1.3
Coffee	16.4%	1.2
Cold Cereal	13.9%	1.1
Soup	15.7%	1.1
Dish Detergent	10.7%	1.1
Breakfast Meats	15.9%	1.0
Baking Mixes	6.2%	1.0
Soap	12.1%	0.9
Weight Control/Nutrition Liq/Pwdr	12.3%	0.8
Laundry Detergent	6.2%	0.7
Processed Fz Poultry	10.6%	0.7
Shampoo	6.3%	0.6
Baking Needs	24.7%	0.5
Snack Bars/Granola Bars	7.3%	0.4
Yogurt	24.2%	0.4
Wine	2.3%	0.3
Sanitary Napkins/Tampons	15.2%	0.2
Paper Towels	21.9%	0.2
Chocolate Candy	1.6%	0.1
Deodorant	1.2%	0.1
Beer	0.2%	0.1
Cat Food	20.8%	0.01

Source: IRI Consumer Network® 52 weeks ending 10/2/2005; same period 2003

APPENDIX IV
BRANDS ENTRENCHED

PRIVATE LABEL ALL OUTLET 2005 VOLUME SHARE

CATEGORY	SHARE	POINT CHANGE VS 2003
Frozen Meat	16.1%	-3.0
Rice	21.6%	-2.9
Light Bulbs	18.0%	-2.5
Luncheon Meats	12.3%	-2.2
Air Fresheners	3.7%	-1.9
Pest Control	4.3%	-1.6
Pet Supplies	7.7%	-1.4
Margarine/Spreads/Butter	13.6%	-1.3
Cigarettes	3.0%	-1.3
Batteries	15.2%	-1.2
Mayonnaise	15.8%	-1.1
Dinner Sausage	7.5%	-1.1
Rfg Juices/Drinks	20.7%	-1.0
Toothbrush/Dental Accessories	8.9%	-0.6
Shelf-Stable Dinners	15.2%	-0.6
Crackers	16.0%	-0.6
Salty Snacks	9.6%	-0.6
Spirits	6.7%	-0.5
Sports Drinks	1.9%	-0.5
Frankfurters	5.8%	-0.4
Skin Care	10.2%	-0.4
Fz Dinners/Entrees	3.0%	-0.3
Fz Novelties	20.9%	-0.3
Gelatin/Pudding	12.2%	-0.3
Rfg Salad/Coleslaw	7.6%	-0.2
Fz Pizza	9.2%	-0.2
Toothpaste	0.6%	-0.1
Household Cleaner	9.9%	-0.1
Spices/Seasonings	20.8%	-0.02
Fz Appetizers/Snack Rolls	4.7%	-0.01

Source: IRI Consumer Network® 52 weeks ending 10/2/2005; same period 2003

MORE INFORMATION >

Please contact Sheila McCusker at sheila.mccusker@infores.com with questions or comments about this report.

ABOUT IRI

Information Resources, Inc. (IRI) is the world's largest provider of enterprise market information solutions and services, empowering its clients to grow their business profitably in a complex marketplace. Driving the transformation of the consumer packaged goods (CPG), retail and healthcare industries, only IRI provides a unique combination of real-time market content, advanced analytics, enterprise performance management software and professional services. The company's portfolio of services, solutions and technology enable leading retailers and their suppliers around the globe to see what they are missing, act faster and with greater confidence and win at the shelf. Ninety-five percent of the FORTUNE Global 500 in CPG and retail leverage IRI to power their business. For more information, visit www.infores.com.

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