

TIMES & TRENDS

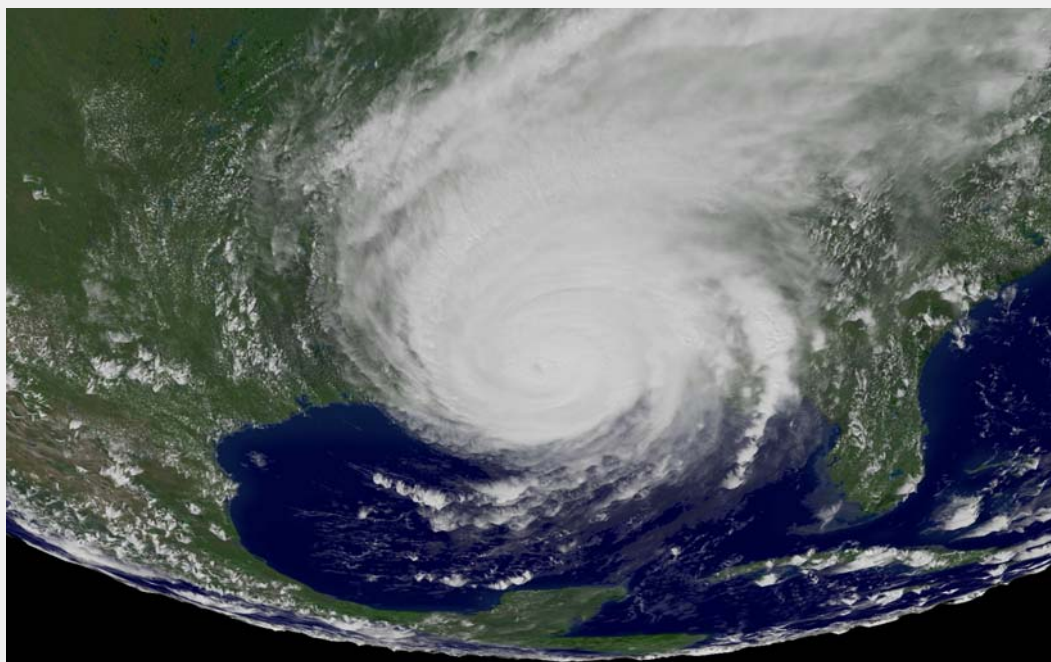
A SNAPSHOT OF TRENDS SHAPING THE CPG INDUSTRY

OCTOBER 14, 2005



IMPACT OF HURRICANE KATRINA

ONE MONTH AFTER
FINAL REPORT IN A FOUR-PART SERIES



Source: NESDIS

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EXECUTIVE SUMMARY

- **Hurricane-related total CPG demand followed a three-phased cycle.**
Consumer purchases across CPG product categories in response to Katrina occurred in three phases: **preparation** in which consumers stocked-up on hurricane supplies (eg. shelf-stable food and beverages, batteries and flashlights) and decreased focus in other categories; **replenishment** in which critical basic necessities lost in the hurricane (eg. personal care products as well as food and beverage items) were purchased; and **adjustment** in which growth rates approached normal levels or declined across many categories.
- **Demand cycles varied slightly across categories as consumers broadened their purchase mix over time.**
Sales across categories providing the most basic food and beverage needs (eg. bottled water, canned meat) peaked one week earlier than other categories offering more variety (eg. aseptic juices, shelf-stable dinners.) Demand spikes occurred earlier among non-food supplies (eg. batteries) versus food and beverages.
- **Gulf Coast purchase behavior prior to Katrina highlights potential educational opportunities to ensure consumer preparedness during future disasters.**
A comparison of Gulf Coast product purchases versus American Red Cross recommendations suggests that while consumers were well-aligned with recommendations across most food, beverage and power outage supply categories, they may have placed too little emphasis on other critical product needs (eg. healthcare, baby care.)
- **National retail pricing impact still not evident across total CPG.**
Expected retail price increases resulting from Katrina-related higher fuel costs are not yet evident across the board. However, pricing across individual product categories -- particularly those that are petroleum-based -- should be carefully monitored.

INTRODUCTION

Insights gained from the Hurricane Katrina tragedy will form the basis of effective industry disaster plans.

The Hurricane Katrina tragedy has prompted many CPG manufacturers and retailers to reexamine their disaster plans to ensure that consumer needs can be effectively and efficiently met in times of crisis.

Based upon an extensive analysis of purchase behavior before and after Hurricane Katrina, this four-part series has provided guidance to the CPG industry in three critical areas with respect to disaster planning:

Demand Planning: Highlights categories and markets that experienced significant changes in consumer demand

Consumer Education: Provides learning from Gulf Coast consumer purchases that can be shared with other consumers during future disasters

Pricing Strategy: Provides benchmarks on retail pricing changes following disaster-driven cost increases

This fourth and final report summarizes learning in each of these areas, provides an update on market changes during the third and fourth week following Hurricane Katrina and highlights recommendations for industry disaster planning efforts.

Insights gained from the Hurricane Katrina tragedy will form the basis of effective demand planning, educational initiatives and pricing strategies during future catastrophic events.

DEMAND PLANNING - OVERVIEW

Three major phases in CPG product demand were evident.

An analysis of purchase behavior before and immediately after the hurricane reveals three phases in consumer demand for CPG products, as outlined below:

Hurricane Katrina: CPG Product Demand Cycle

Phase One: Preparation Week Before

- Huge surges in demand for shelf-stable, protein-rich foods and beverages and supplies for power outages (eg. flashlights, batteries)
- Declines in food and beverages requiring refrigeration, healthcare, baby care and pet care as consumers focused on limited array of "survival" items
- Total U.S. CPG sales declined slightly during this period
- **Impact concentrated in directly affected markets**

Phase Two: Replenishment 1-2 Weeks After

- Increased demand for greater variety of shelf-stable foods, beverages and easy meal solutions (eg. shelf-stable dinners and soup)
- Huge spikes in sales of basic personal care necessities as consumers replenished supplies lost in hurricane/transit; healthcare, baby care and pet care rebounded
- Power outage supplies still in high demand after week one (in affected markets only) but taper off by week three
- Total U.S. CPG sales increased significantly during this period
- **Impact felt in affected markets, surrounding regions (displaced consumers) and across total U.S. (donations)**

Phase Three: Adjustment 3-4 Weeks After

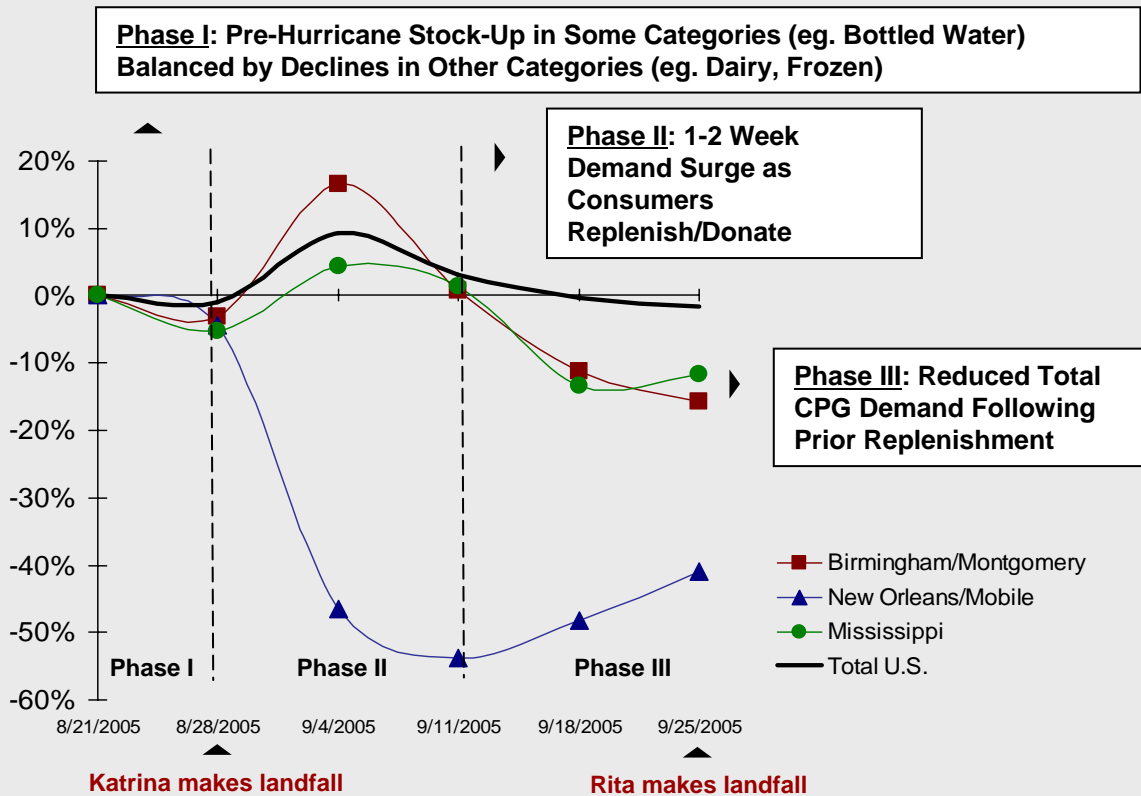
- Across most categories, sales returned to normal levels or declined as the market adjusted after highly concentrated period of replenishment; the specific week in which this "market adjustment" occurred varied by category
- Several shelf-stable beverage categories (excluding water) have maintained above-average sales levels
- Total U.S. CPG sales declined during this period
- **Impact felt in affected markets, surrounding regions (displaced consumers) and across total U.S. (donations)**

DEMAND PLANNING – TOTAL CPG

CPG sales in directly affected markets declined in weeks three and four after the hurricane.

Major CPG sales increases in directly affected markets during the first two weeks after Hurricane Katrina (with the exception of New Orleans/Mobile) were followed by declines in weeks three and four. Mass quantities of basic food, beverage and personal care necessities destroyed or left behind had to be replenished immediately following the hurricane. After consumers fulfilled these requirements in a condensed timeframe, there was a gap in “normal” demand in the following weeks.

AFFECTED MARKETS: Total CPG Grocery Channel Weekly Dollar Sales % Change vs Pre-Hurricane Katrina Period (Week Ending 8/21/2005)



Source: IRI InfoScan®

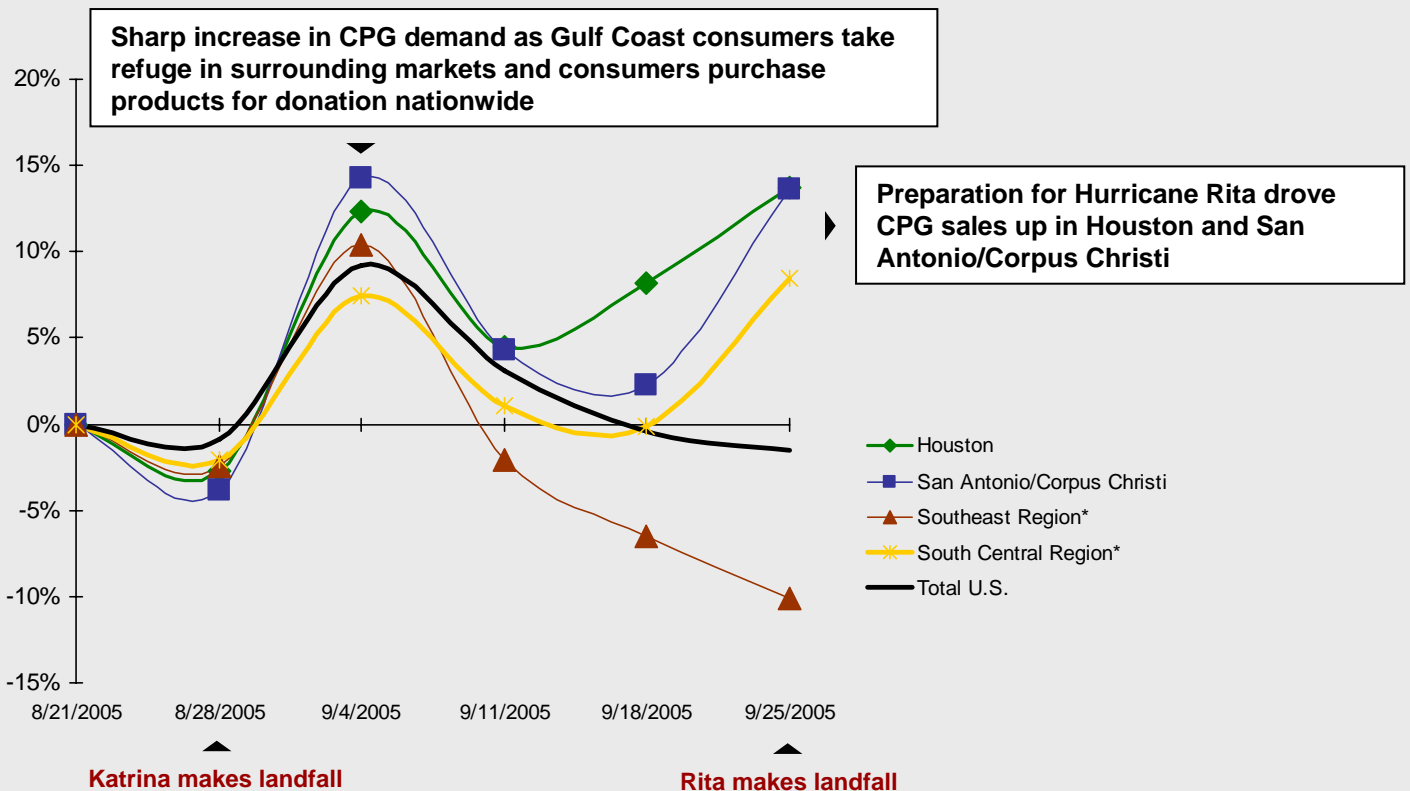
DEMAND PLANNING – TOTAL CPG

Markets with a high proportion of Gulf Coast refugees saw second sales boost as consumers prepared for Hurricane Rita.

Total grocery CPG sales in Houston and San Antonio/Corpus Christi experienced double-digit growth in the week following Hurricane Katrina as displaced New Orleans consumers took refuge in these markets. While still above average, growth rates slowed significantly by the second week and would likely have plateaued at this level and then gradually diminished without the pending arrival of Hurricane Rita.

The threat of Hurricane Rita drove sales up once again as consumers made hurricane-related purchases, including batteries, flashlights, and shelf-stable foods and beverages. These purchases essentially mirrored those made by Gulf Coast residents prior to Katrina with one important exception – healthcare, baby care and pet care increased in Houston and San Antonio/Corpus Christi, while these categories decreased in New Orleans/Mobile prior to Katrina. The sheer devastation and length of displacement following Katrina may have prompted consumers to take a broader view of their hurricane-related needs with Rita.

SURROUNDING AREAS: Total CPG Grocery Channel Weekly Dollar Sales % Change vs Pre-Hurricane Katrina Period (Week Ending 8/21/2005)



Source: IRI InfoScan®

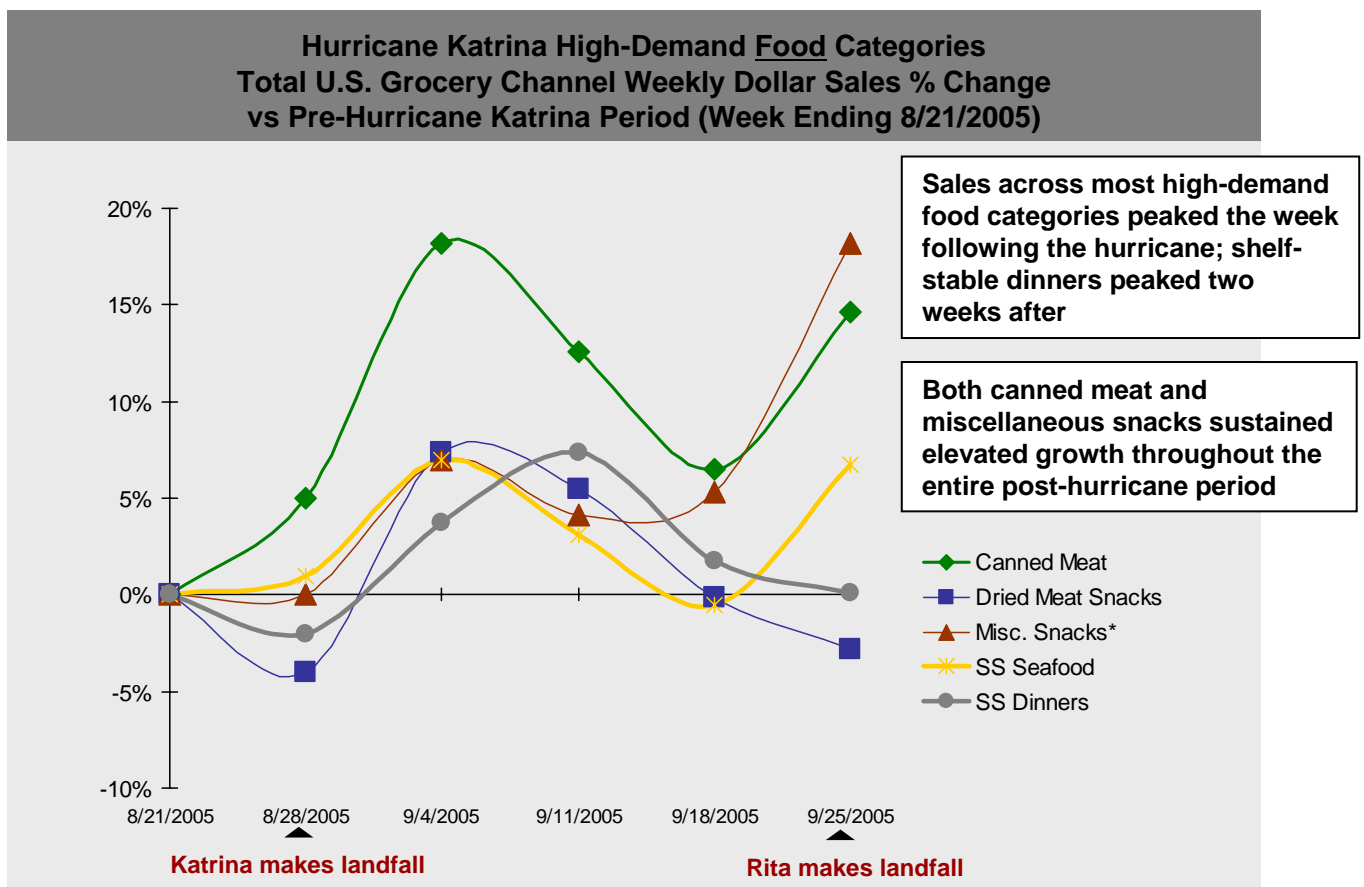
*Southeast region includes FL, MS, AL, GA; South Central region includes TX, OK, AR, LA

DEMAND PLANNING – HIGH-DEMAND FOOD CATEGORIES

High-demand food categories returned to either normal sales levels or a reduced growth pace within three weeks.

Hurricane-related food categories followed a similar demand pattern: peaking one or two weeks after the hurricane and then returning to normal levels or a reduced growth pace by the third week.

Consumers appeared to gravitate from the basics (eg. canned meat) to greater variety (eg. shelf-stable dinners) over time. The same basic pattern appeared to be re-occurring with Rita.



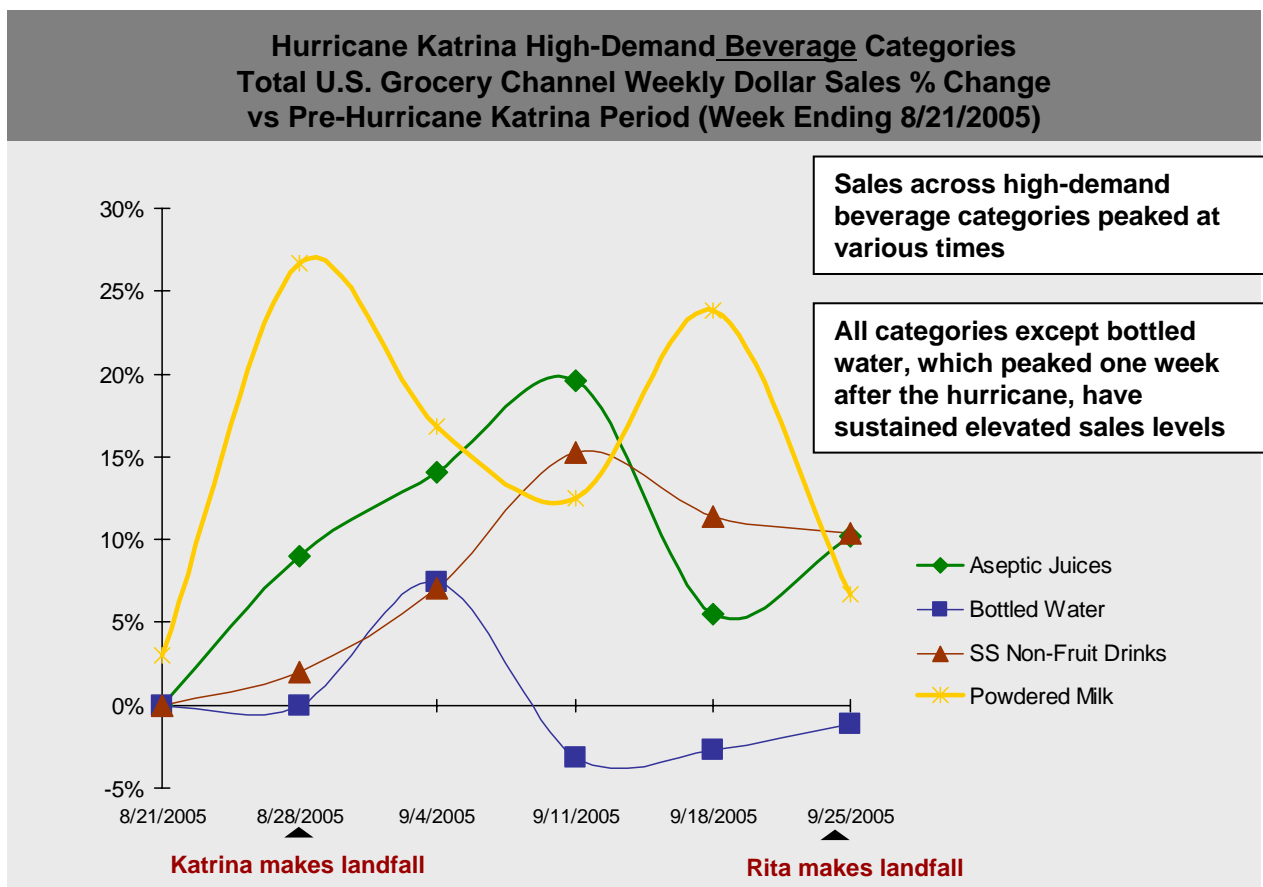
*Miscellaneous snacks include trail mixes, yogurt covered snacks and chocolate covered snacks

Source: IRI InfoScan®

DEMAND PLANNING – HIGH-DEMAND BEVERAGE CATEGORIES

With the exception of water, beverage category growth remained above average.

Each major “high-demand” beverage category followed a unique demand path, with sales spiking at different time periods. For instance, powdered milk sales growth peaked in the week prior to the hurricane, while bottled water peaked the week after and both aseptic juices and non-fruit drinks did not peak until two weeks after. It appears that consumers gradually broadened their beverage selections beyond the basics as time progressed. While growth rates were reduced within one to two weeks following the major sales spike, growth in all but bottled water remained above normal levels.



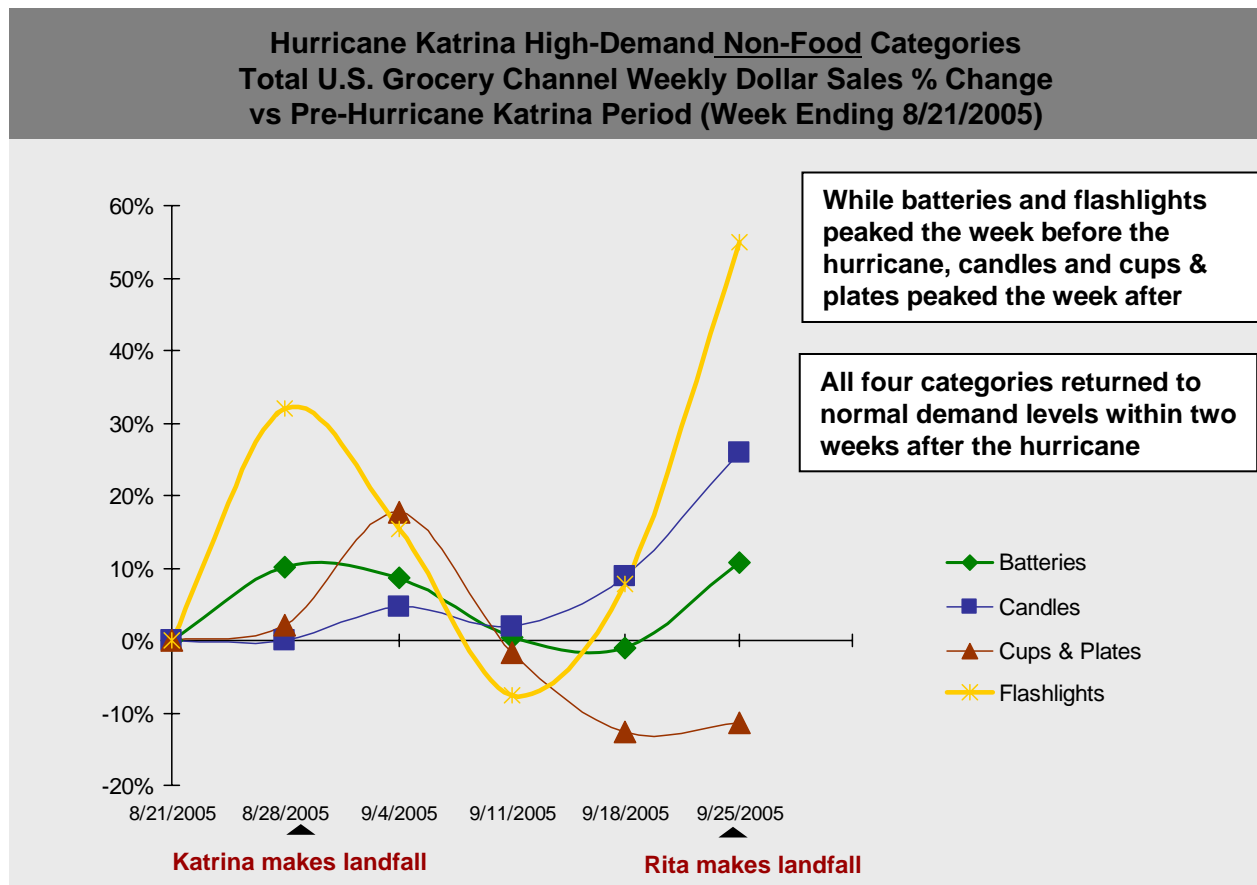
Source: IRI InfoScan®

DEMAND PLANNING – HIGH-DEMAND NON-FOOD CATEGORIES

Non-food category sales returned to normal levels within two weeks following the hurricane.

Supplies purchased to contend with power outages peaked during the week before the hurricane or week after and returned to normal levels within two weeks after the event. Sales spiked again in preparation for Hurricane Rita.

Disposable cups and plates actually experienced significant declines versus the pre-hurricane period in the third and fourth week as consumers apparently purchased more supply than needed.



EDUCATIONAL OPPORTUNITIES

In-store checklists and signage will help enhance consumer preparedness.

Manufacturers and retailers have an opportunity to partner in the development of in-store educational materials, checklists of necessary products (based on American Red Cross disaster planning guidelines, for example) and store signage to alert consumers to the products they will need in preparation for a disaster. A review of American Red Cross guidelines versus New Orleans/Mobile consumer purchase behavior prior to Katrina reveals a number of areas in which heavier consumer focus in preparatory efforts may have been warranted (highlighted in bold in following chart.) Educational initiatives should emphasize the importance of these categories.

EDUCATIONAL OPPORTUNITIES

Gulf Coast consumers appeared to have followed many but not all of American Red Cross CPG product guidelines for preparedness:

American Red Cross Recommended Disaster Supplies CPG Products

New Orleans, La/Mobile, Ala CPG Purchase Trends* Week Prior to Katrina

Food & Beverage

- Water
- Ready-to-Eat Shelf-Stable Foods
- High Energy Foods
- Comfort/Stress Foods

- Purchases closely aligned with recommendations; for example:
 - Bottled water increased 41%
 - Canned meat increased 145%
 - Salty snacks increased 20%

Baby Care

- Formula/Powdered Milk
- Diapers

- **Baby care declined (9%)**
- Powdered milk increased 168%

Healthcare

- First Aid Kits
- Non-Prescription Drugs

Educational initiatives should emphasize the importance of these categories.

- **Healthcare sales declined (22%)**
- **First aid treatment declined (16%); first aid accessories declined (30%)**

Sanitation

- Toilet Paper, Towelettes
- Personal Hygiene
- Bleach
- Liquid Detergent

- Toilet paper & moist towelettes increased 9%
- **Several personal hygiene categories declined significantly (deodorant (30%); soap (13%) shampoo (8%))**
- **Bleach declined (44%); dish detergent declined (12%)**

Tools & Supplies

- Paper Cups/Plates
- Batteries
- Flashlights

- Purchases closely aligned with recommendations:
 - Paper cups/plates increased 28%
 - Batteries increased 259%
 - Flashlights increased 697%

*Reflects grocery unit sales change week ending 8/28/2005 (week prior to hurricane) vs week ending 8/21/2005 (pre-hurricane period)

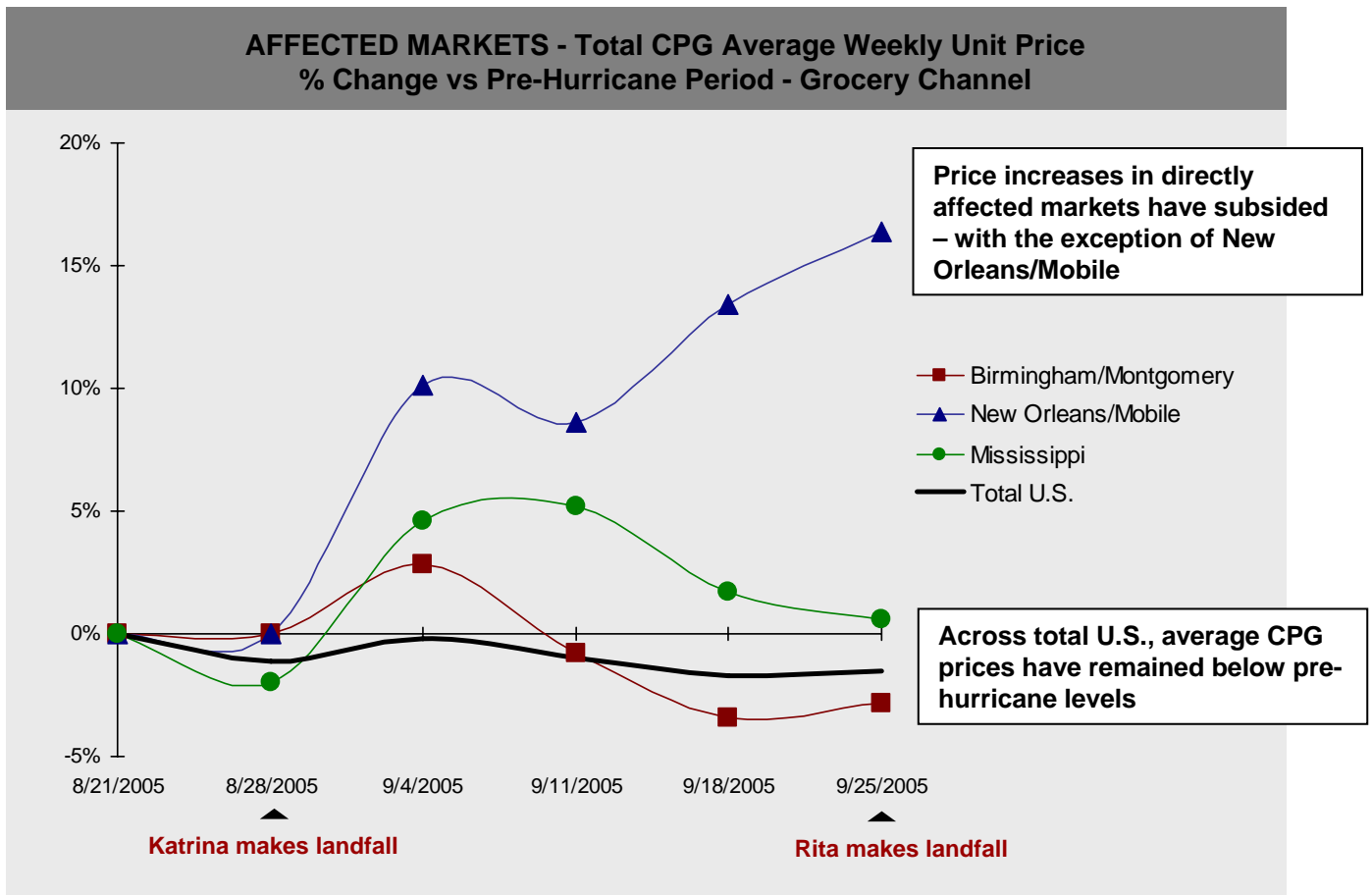
Sources: IRI InfoScan®; American Red Cross

PRICING STRATEGY

National pricing impact not yet evident across total CPG.

Total CPG average unit pricing at the national level has remained slightly below pre-hurricane levels during the entire post-hurricane period, suggesting that as a whole, the industry has not passed on increased fuel costs resulting from Katrina to consumers. However, this trend should be closely monitored at the category level – particularly among categories in which petroleum represents a large raw material cost.

Among directly-affected markets, where limited supply drove up prices during the first few weeks following the hurricane, pricing has returned to normal levels with the exception of New Orleans, La./Mobile Ala.



Source: IRI InfoScan®

CONCLUSIONS

- Effective planning for “unplanned” disastrous events is achievable through the development of production, distribution, marketing/education and pricing strategies based upon historical consumer purchase trends during catastrophes.
- Agile supply chains, fueled by real-time demand data are imperative to adequately address rapid shifts in geographical demand (eg. from New Orleans to Houston) and massive short-term sales spikes across critical products.
- CPG manufacturers and retailers can play an important role in ensuring consumer preparedness through in-store checklists and store signage highlighting product needs.
- While total CPG pricing impact from Hurricane Katrina was not evident one month after the event, it is critical that manufacturers and retailers continually monitor pricing across specific categories – particularly those in which products are petroleum-based.

FOR MORE INFORMATION

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