TIMES & TRENDS

A SNAPSHOT OF TRENDS SHAPING THE CPG INDUSTRY

2005 CPG YEAR IN REVIEW

A REMARKABLE YEAR OF CHALLENGES AND WINS

February 2006

INFORMATION RESOURCES, INC.

EXECUTIVE SUMMARY

- Total CPG dollar sales grew only 1.6% in 2005, as the industry faced an extraordinarily challenging year marked by natural disasters and a difficult economy
- Channel migration showed signs of slowing. For the first time in several years, the grocery channel maintained share versus value retailers, as innovative new formats and a focus on natural/organic and fresh foods appear to be paying off
- Drug store front-end sales rose nearly 5%. Drug stores advanced their role as a convenient food and beverage outlet with share gains across all major segments while also enjoying gains in core health and beauty care categories
- Wal-Mart CPG share gains were modest relative to prior years and came at the expense of the club and mass merchandise channels; while the retailer continues to make strides in food and beverage share, share across several major non-food categories declined
- Beverages were the growth leaders in 2005 with dollar sales increasing at more than double the total CPG industry growth rate; key beverage categories delivered against consumer health and wellness demands, and several benefited from increased pricing

INTRODUCTION

Despite weak dollar sales growth, the CPG industry had a remarkable year.

2005 was a remarkable year for the CPG industry.

A devastating hurricane season displaced consumers, closed retailers' doors, drove huge demand swings across categories and resulted in sizable price increases across key ingredients, such as sugar.

The hurricanes further increased high fuel costs, which strained budgets among low income consumers and pushed packaging and distribution costs sky high.

Add to this mix the new trans fat labeling requirements that went into effect January 2006 and stimulated massive product reformulations across food categories in preparation.

And, let's not forget the intense pricing pressure that all categories are experiencing with value channel expansion.

Growth within this environment was indeed challenging, and total CPG industry sales increased only 1.6% across food, drug mass channels including Wal-Mart.

But, what was perhaps most remarkable about this past year is that many categories, brands and retailers did grow within this environment – largely through innovation.

Traditional grocers took a stand this year. New formats and a focus on fresh foods and natural/organic products are resonating with consumers. For the first time in several years, channel migration is showing signs of slowing.

Across categories, food and beverage products aligned with consumers' desire for moderation and a balanced, healthy diet won. Among non-food categories, brands raising the bar on performance drove category growth.

This report is intended to help CPG manufacturers and retailers:

See market opportunities and risks by benchmarking performance versus the industry.

Act on these insights with speed and confidence.

Win at the shelf.

INDUSTRY PERFORMANCE OVERVIEW
SALES GROWTH

The CPG industry posted dollar sales growth of just 1.6% in 2005.

The CPG industry posted dollar sales growth of just 1.6% in 2005 (versus 2.4% in 2004), as natural disasters and tough economic conditions took their toll on consumers.

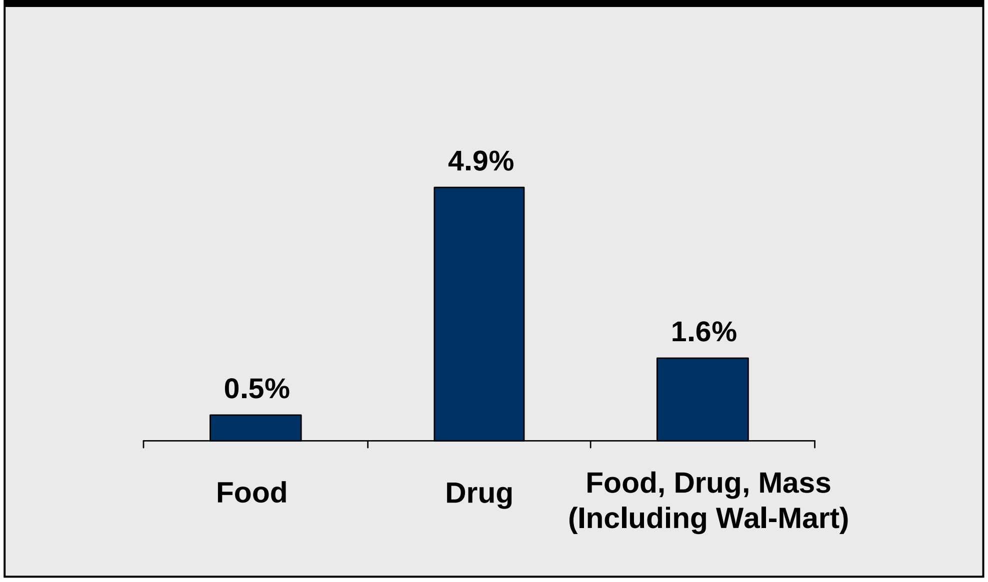
But while total industry growth was disappointing, trends across specific channels and categories throughout the industry were encouraging.

For instance, the drug store channel had an exceptional year. With total CPG sales growth at three times the industry average, the channel enjoyed growth across nearly all departments.

As detailed in subsequent sections of this report, while the grocery channel grew dollar sales only slightly, the increase was enough to maintain all-outlet share – a potential turning point in grocer's long-term battle against share erosion from value channels.

Further, select categories, including sports drinks, bottled water, hand & body lotion and cold/allergy/sinus tablets posted double-digit growth through innovation and alignment with consumer needs.

CPG Industry* Dollar Sales % Change by Channel
Food, Drug, Mass (Including Wal-Mat) 2005 vs 2004



*Reflects sales across IRI InfoScan® Reviews CPG categories.
Sources: IRI MarketInsight™; IRI InfoScan Reviews; 52 weeks ending 12/25/05 and prior year

SEGMENT AND CATEGORY TRENDS
ALL OUTLET

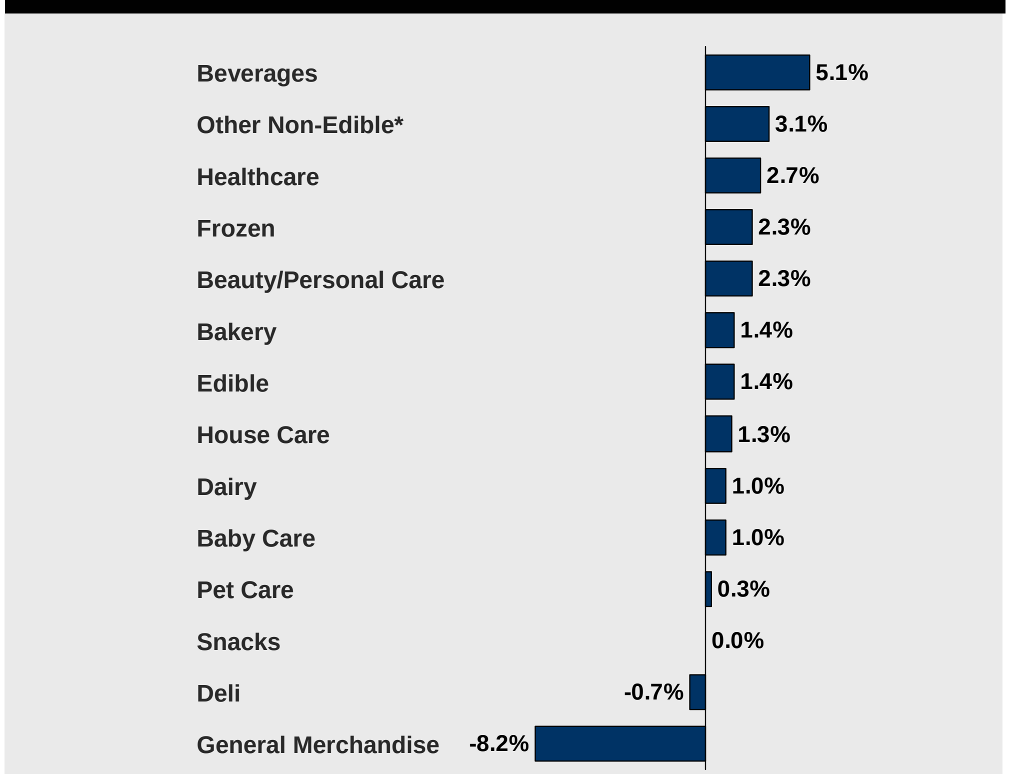
Beverage product segment growth far surpassed growth in other CPG segments.

Across product segments, beverages were the true growth leaders in 2005. Led by sports drinks, bottled water, coffee and wine, beverage sales increased 5.1%.

Healthcare segment growth was achieved through increases across a broad range of categories, led by cold/allergy/sinus products. A number of new product introductions, including Mucinex® and pseudoephedrine-free Sudafed PE™, contributed to segment growth.

The long-standing decline across general merchandise categories continued, with the most significant dollar sales declines occurring within photography supplies, batteries and kitchen storage.

Dollar Sales % Change by Product Segment, 2005 vs 2004
Food, Drug, Mass (Including Wal-Mart)



*Other non-edible includes paper products, charcoal lighter fluid, and tobacco products, among other categories.

Sources: IRI MarketInsight™; 52 weeks ending 12/25/05 and prior year

SEGMENT AND CATEGORY TRENDS
DRUG STORES

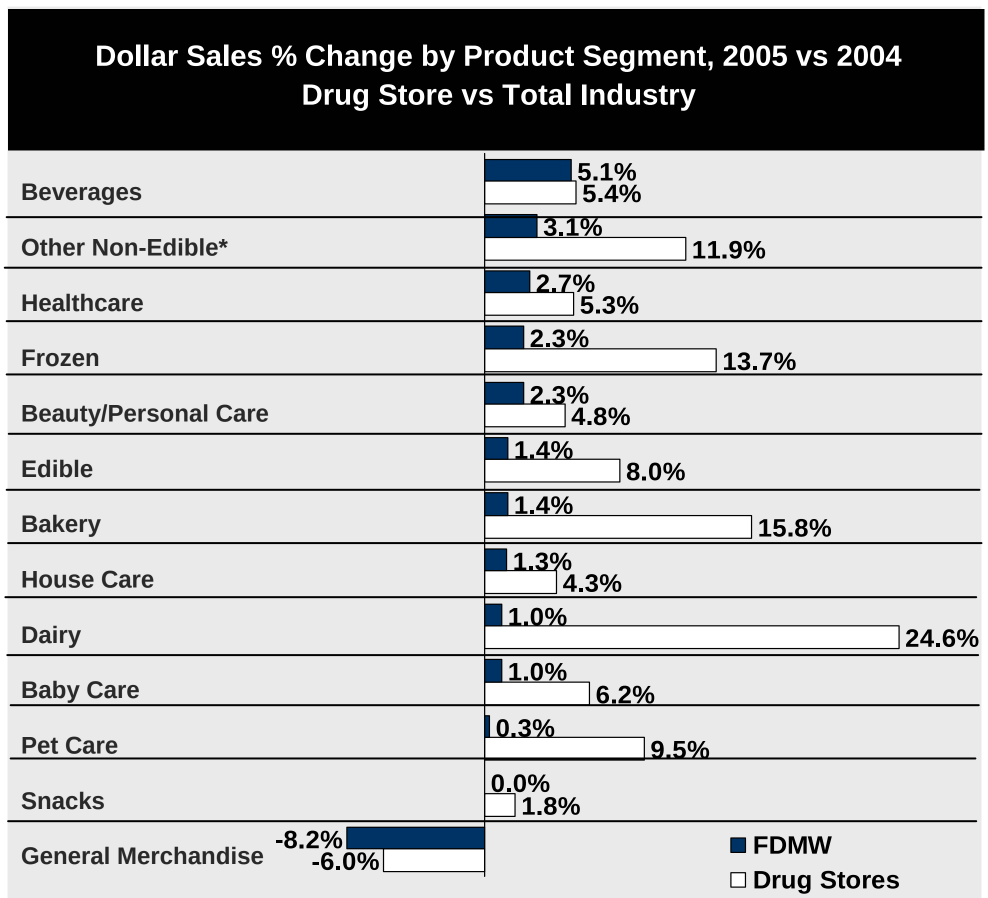
2005 was a breakout year for drug store front-end growth.

2005 was a breakout year for drug stores in front-end sales. Drug store dollar sales growth exceeded industry growth across all CPG departments.

The largest gains occurred among less-developed drug store food categories, such as frozen, bakery and dairy – providing further evidence of the channel's evolving role as a convenient food and beverage outlet.

Drug stores were also successful, however, in gaining share within core healthcare and beauty/personal care segments.

It appears that the drug store channel's heavy focus on neighborhood merchandising, investment in destination departments and efforts to link the front-end with the pharmacy are paying off.



*Other non-edible includes paper products, charcoal lighter fluid, and tobacco products, among other categories.

Sources: IRI MarketInsight™; IRI InfoScan® Reviews 52 weeks ending 12/25/05 and prior year

SEGMENT AND CATEGORY TRENDS
TOP TEN CPG CATEGORIES

Fueled by innovation, frozen dinners/entrees led the top ten categories.

Top ten CPG categories posted mixed results this past year with the largest two, carbonated beverages and milk experiencing flat sales.

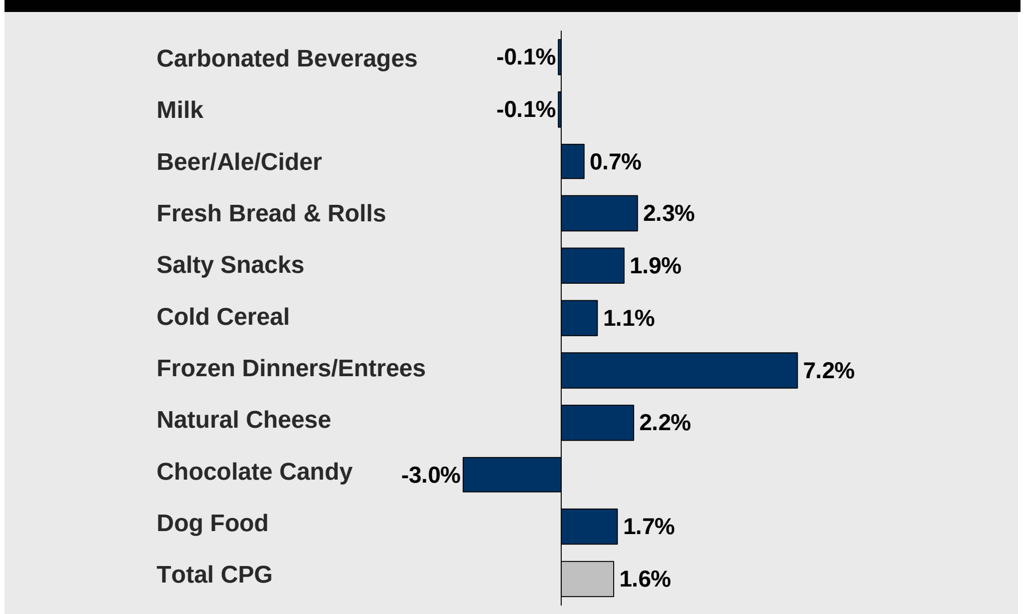
Total carbonated beverage demand continued to slide as consumers opt for alternatives such as bottled water and sports drinks. Diet soft drink sales, however, continued solid growth.

Milk dollar sales were impacted by lower price increases, in addition to a slight reduction in volume.

Wine and spirits growth continued to negatively impact beer sales, but the category is poised for longer-term growth as the legal drinking age young adult market expands.

The real stand-out category among the top ten was frozen foods. Innovative new skillet and crockpot dinners led the way.

Top 10 Categories* Dollar Sales % Change 2005 vs 2004
Food, Drug, Mass (Including Wal-Mart)



*Based on dollar sales; excludes cigarettes; beer/ale/cider reflects food and drug sales only.

Sources: IRI MarketInsight™; 52 weeks ending 12/25/05 and prior year

SEGMENT AND CATEGORY TRENDS
TOP TEN GROWTH CATEGORIES

Growth category leaders delivered health & wellness, enhanced performance, and premium products.

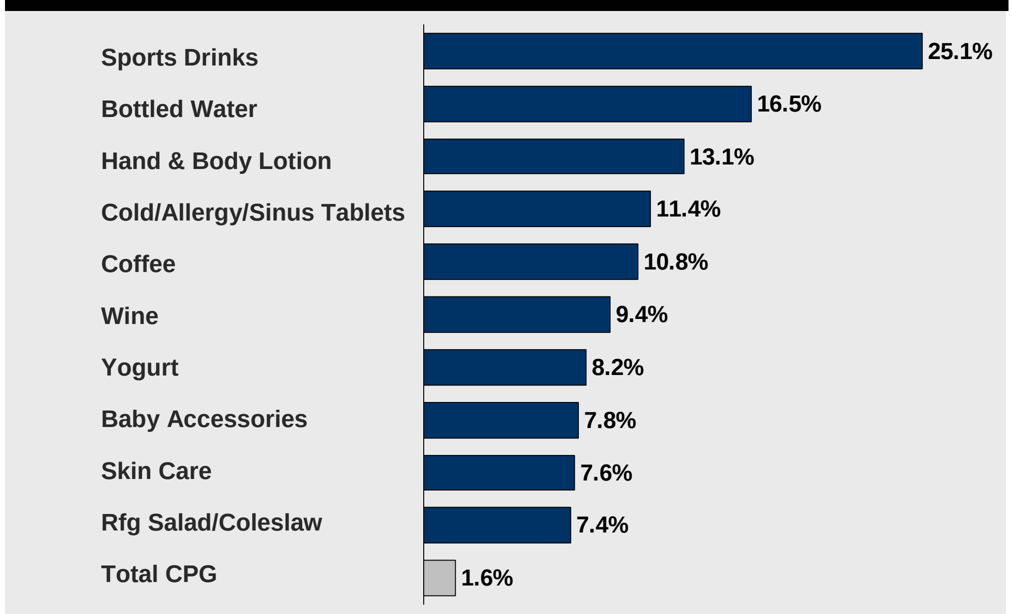
A review of the top ten growth categories highlights major growth drivers in 2005: health and wellness, enhanced performance, premium products and price.

The perceived health benefits of sports drinks, water and yogurt combined with innovative flavors and packaging propelled these categories onto the top ten list. Refrigerated salad and coleslaw also benefited from a fresh, healthy positioning, as well as convenient new product offerings.

Product mix shifts towards premium products in hand & body lotion, skin care and wine drove dollar sales growth in these markets.

Coffee is the one category on this list that actually had declining volume sales; sizable price increases resulting from hurricane-related supply disruptions contributed to increased dollar sales.

Top 10 Growth Categories* Dollar Sales % Change 2005 vs 2004
Food, Drug, Mass (<u>Including</u> Wal-Mart)



*Based on dollar sales; wine sales reflect food and drug sales only,
Sources: IRI MarketInsight™; 52 weeks ending 12/25/05 and prior year

SEGMENT AND CATEGORY TRENDS
PRICING

Rising manufacturer costs were reflected in price increases across a number of categories.

Significant price increases were passed on to consumers across a broad range of categories in 2005 as manufacturers faced sharp cost increases.

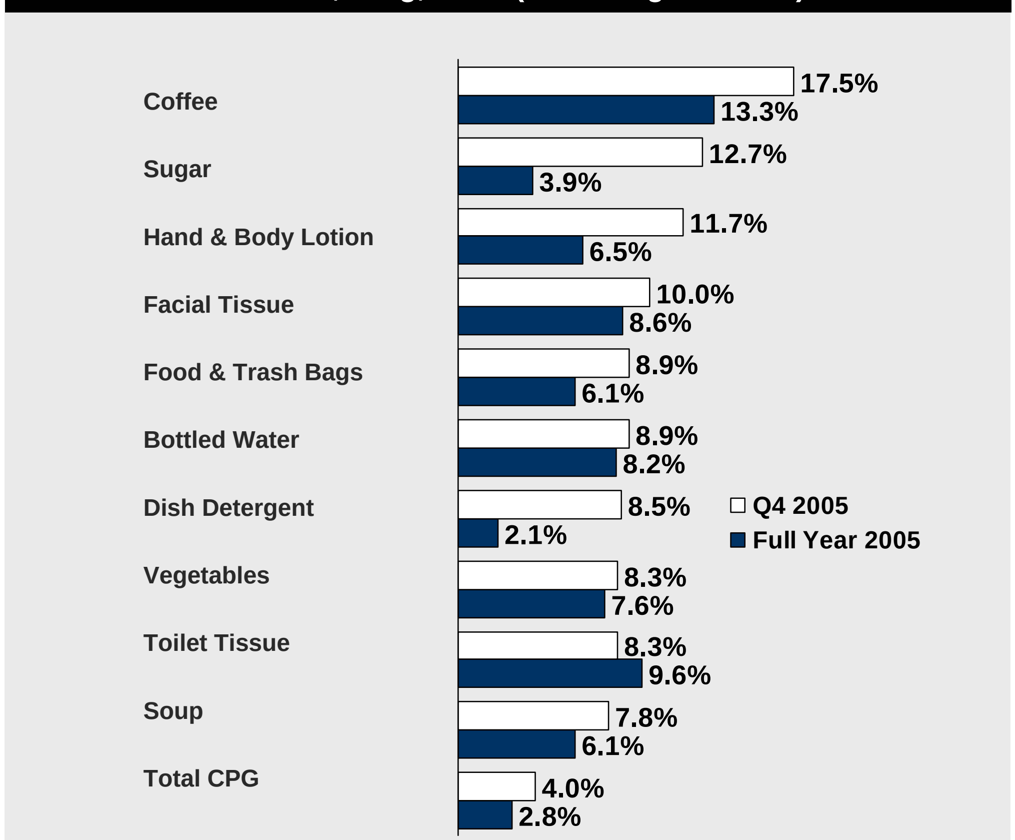
Supply disruptions caused by Gulf Coast hurricanes drove up prices in both sugar and coffee.

Escalating distribution and packaging costs caused by rising fuel prices drove price increases across most of the remaining categories below.

All of these categories experienced volume declines in 2005 with the exception of hand & body lotion, in which sales likely shifted towards higher-end products and bottled water, which has experienced unwavering demand.

With several major manufacturers announcing 2006 price increases, we expect this trend to continue and to impact an increasing number of categories.

Categories with Largest Price Increases 2005 vs 2004*
Food, Drug, Mass (Excluding Wal-Mart)



*Among top 100 categories

Sources: IRI InfoScan® Reviews; 52 weeks ending 12/25/05 and prior year

CONSUMER SHOPPING BEHAVIOR
CHANNEL MIGRATION

Channel migration is showing signs of slowing.

Channel migration was clearly evident in 2005, but at a slower pace than was seen in prior years. Further, while supercenters accrued the largest gains, the channel appeared to take share from other value channels, including mass (due in part to store conversions) and club.

The grocery channel maintained share in 2005, following a share loss in 2004. This may signify a turning point for the beleaguered channel. Industry efforts to differentiate grocery stores from value channels through new formats, fresh foods, private label and natural/organic products appear to be resonating with consumers.

Wal-Mart posted a solid year in 2005. Fiscal year 2006 (year ending January 31, 2006) total company revenue increased 9.5%, and U.S. comparable store sales increased 3.4%.[1] However, Wal-Mart CPG share gain decelerated.

The slowdown in Wal-Mart share gain versus 2004 was likely driven in large part by the impact of a tough economy on lower income consumers. If economic conditions improve, and spending among these consumers gets back on track, we may see a reversal of this trend in 2006. Further, Wal-Mart's new "Look beyond the basics" campaign may extend the retailers' appeal to new consumer segments.

All Outlet CPG* Dollar Share Shifts

	Channel Share 2005	Share Point Change 2005 vs 2004	Share Point Change 2004 vs 2003
Food	57.7%	+0.0	(0.2)
Drug	5.2%	+0.1	0.0
Mass	9.3%	(0.5)	(0.2)
Supercenter	13.0%	+0.8	+0.9
Club	6.3%	(0.2)	(0.4)
Dollar	1.4%	0.0	0.0
Wal-Mart	16.4%	+0.3	+1.1

*Across IRI InfoScan® Reviews CPG categories.
Source: IRI Consumer Network®, 52 weeks ending 12/25/05 and prior year.

[1]Wal-Mart earnings release; February 21, 2006

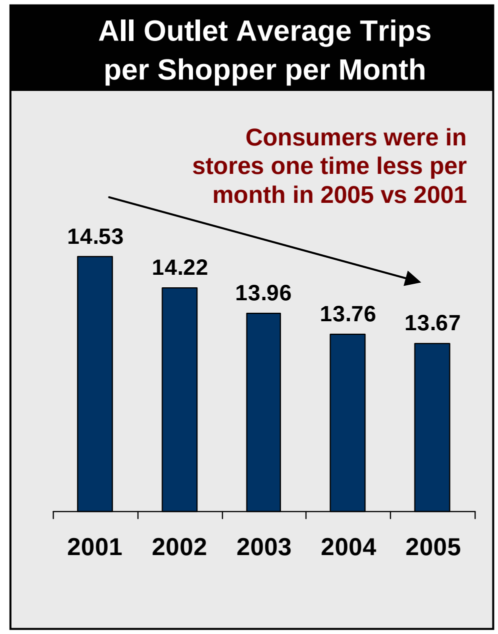
CONSUMER SHOPPING BEHAVIOR
SHOPPING TRIPS

The number of consumer shopping trips continued a slow, steady decline.

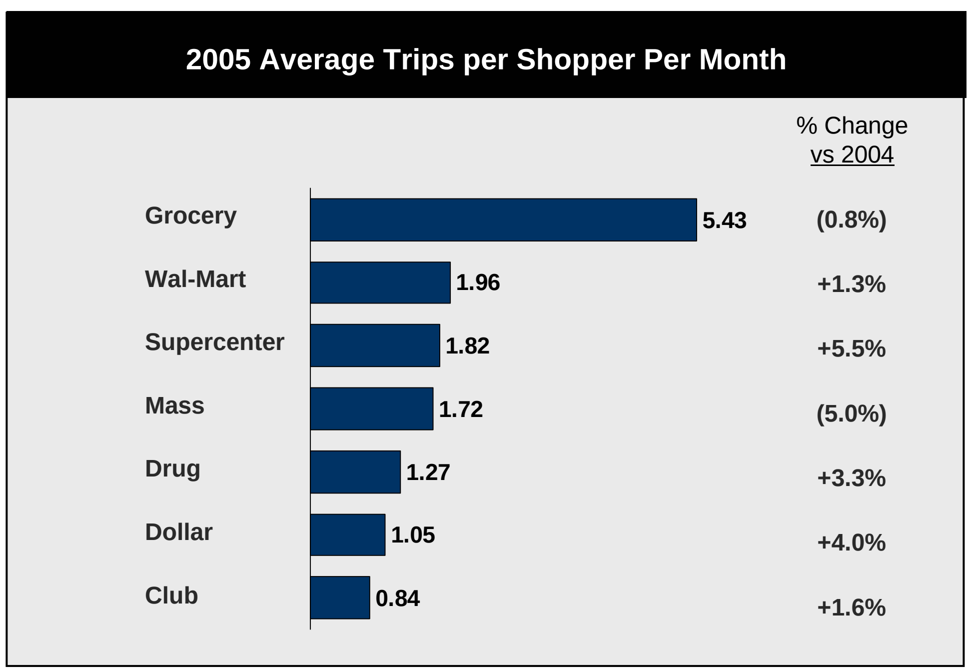
Over the past five years, consumer shopping trips have steadily declined in number.

Consumers are now in stores one time less often per month than they were in 2001. The result is fewer opportunities to influence consumer purchases in-store – creating an increasingly urgent need to enhance the effectiveness of in-store marketing and merchandising.

In 2005, trip frequency declined only slightly – (0.7%), with grocery and mass losing trips among their shoppers, while other channels gained.



Source: IRI Consumer Network®, 52 weeks ending 12/25/05 and prior years.



Source: IRI Consumer Network®, 52 weeks ending 12/25/05 and prior year.

WAL-MART OVERVIEW
CATEGORY TRENDS – DECLINING SHARE

Most Wal-Mart share losses were in declining categories, but there were exceptions.

While Wal-Mart achieved share and trip gains in 2005 across CPG categories as a whole, the retailer experienced dollar share declines across several major categories.

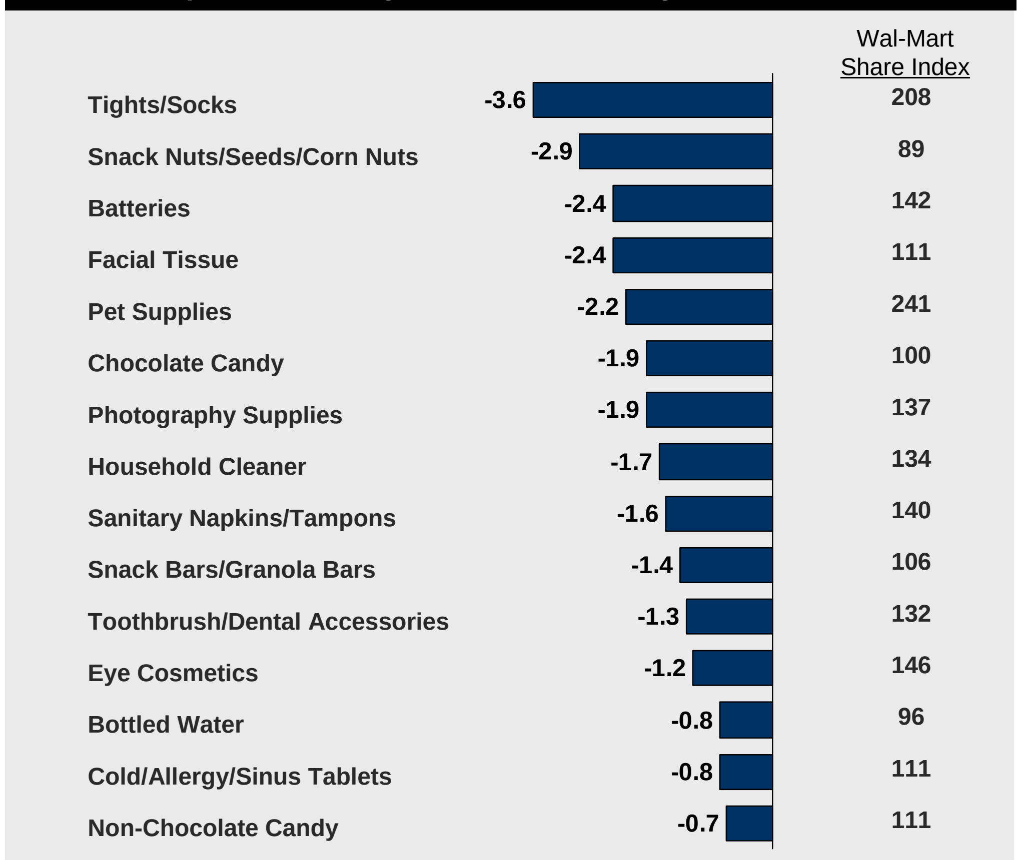
In a majority of these categories, Wal-Mart already holds a high share, and the categories are experiencing total industry sales declines.

There are instances, however, in which Wal-Mart share has declined in high-growth categories. For example, bottled water total FDMW dollar sales increased 16.7%. Wal-Mart experienced a 0.8 share point loss that appears to have benefited the grocery channel.

Both eye cosmetics and cold/allergy/sinus tablets experienced high growth last year (+11.4% and 7% FDMW dollar sales growth, respectively). Within these categories, share shifted from Wal-Mart to drug stores.

Expect Wal-Mart to increase focus against these high growth categories this year.

Wal-Mart Dollar Share Point Change 2005 vs 2004
Top Fifteen Categories with Declining Dollar Share*



*Among top 100 categories
Sources: IRI MarketInsight™; 52 weeks ending 12/25/05 and prior year

WAL-MART OVERVIEW
CATEGORY TRENDS – INCREASING SHARE

Fourteen of the fifteen categories with the largest Wal-Mart share gains were food and beverages.

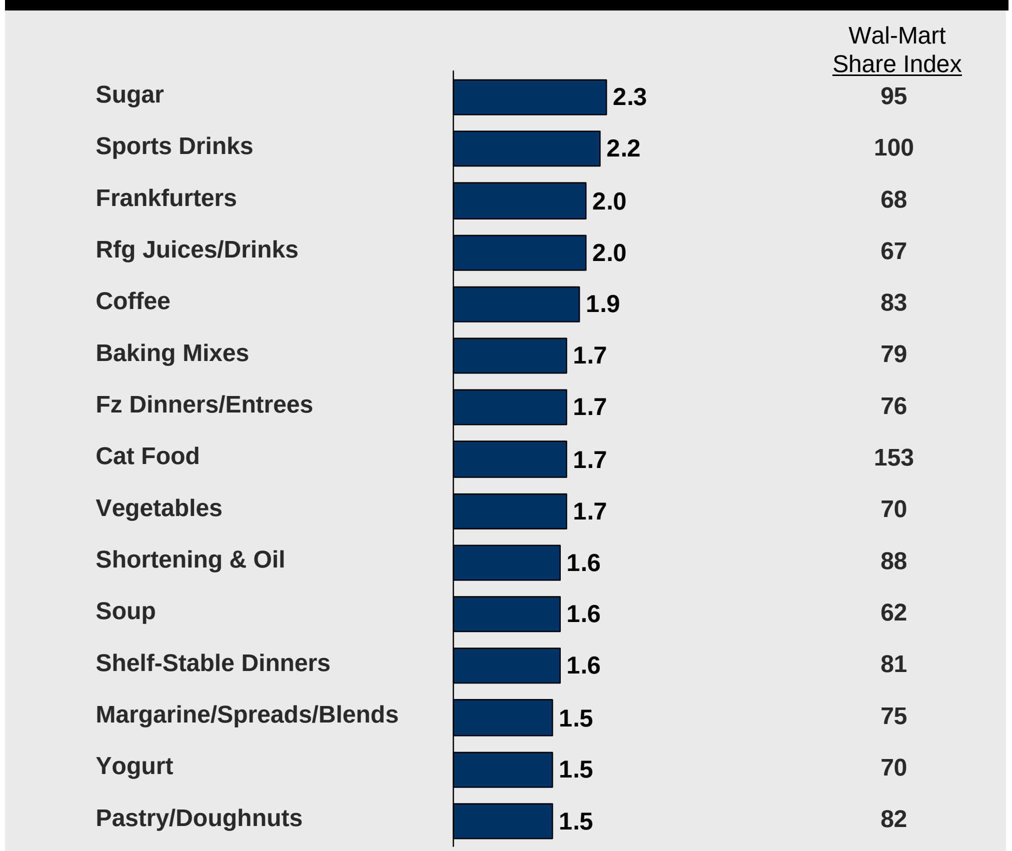
Wal-Mart's presence in food & beverage categories continues to grow with the expansion of supercenters. Fourteen of the top fifteen Wal-Mart share growth categories were food and beverage.

Cat food was the one non-food exception. Despite above average share already and flat category sales across FDMW channels, Wal-Mart successfully grew this category and increased share at the expense of the grocery channel.

Across food and beverage categories, Wal-Mart not only increased share among center store staples, such as baking mixes and shortening/oil but also gained in convenience meals, including frozen dinners/entrees and shelf-stable dinners.

Further, Wal-Mart gained share in several of the categories with above-average industry price increases in 2005, including sugar, coffee, soup and vegetables. Consumers may have turned to value retailers in the face of rising costs.

Wal-Mart Dollar Share Point Change 2005 vs 2004
Top Fifteen Categories with Increasing Dollar Share*



*Among top 100 categories

Sources: IRI MarketInsight™; 52 weeks ending 12/25/05 and prior year

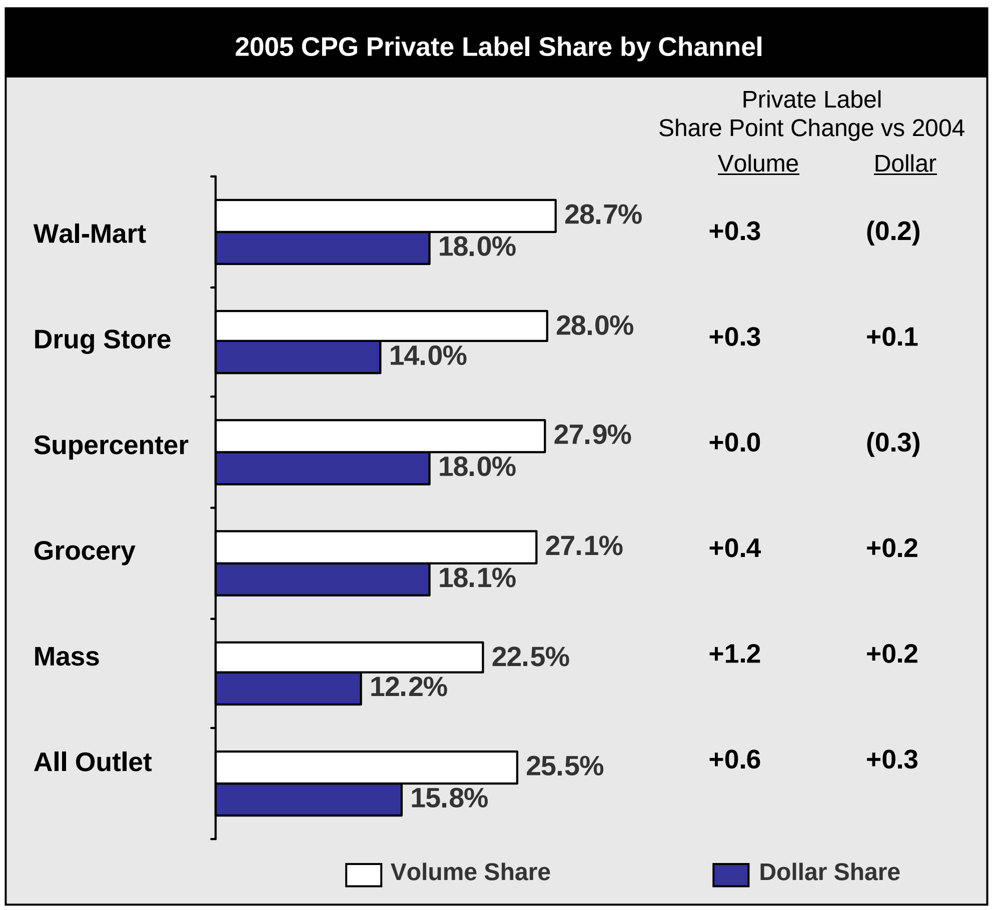
PRIVATE LABEL
SHARE BY CHANNEL

Private label continued to gradually gain share in 2005.

Private label continued the gradual share gain across CPG products that has been evident for the past several years, with volume share gains outpacing gains in dollar share.

Across channels, as reported in the November *Times & Trends*, CPG private label share within Wal-Mart and supercenters is now on par with grocery. Private label share gains did level off in these channels in 2005 but continued within the mass merchandise channel.

Traditional grocers are increasingly turning to private label as a source of differentiation. A number of major retailers have introduced natural/organic private label lines this past year. This increased focus is likely to accelerate private label share gain within the grocery channel in 2006.



*Across IRI InfoScan® Reviews CPG categories.
Source: IRI Consumer Network® 52 weeks ending 12/25/2005

TRENDS TO WATCH

We expect the following trends to impact the CPG market throughout 2006 and into the next few years:

Micromarketing will become an imperative

Given slow industry growth, CPG marketers will increasingly invest in identifying untapped niche segments, such as consumers with health conditions/allergies or narrow age groups and delivering targeted products, services and marketing initiatives to capture the opportunity. Companies first to market will win big by engendering loyalty among previously underserved consumers.

The market will be characterized by dichotomy

Two huge population groups at opposing ends of the age spectrum are poised for enormous growth. Over the next decade, over four million consumers per year will turn 21 and an even greater number per year will turn 50. These transitions will cause a dichotomy in market needs and preferences.

<u>No Frills and Premium</u>: The newly minted young adults will have greater budget constraints than the 50+ segment and will gravitate towards no frills options – value channel shopping and lower-priced brands. Aging Boomers, however, will support premium products and services (particularly if they are offered at value pricing.)

<u>Youth and Mature</u>: Marketers of mass market products cannot afford to ignore either group. Advertising and assortment will reflect an increased focus on youth side-by-side with direct appeal to 50+ Boomers.

A moderate, total health management approach will prevail.

With the controversy surrounding extreme low carb dieting still fresh in their minds and recent press shifting away from the obesity crisis to the need for healthier eating overall, consumers will continue their gradual evolution towards a more balanced, healthy diet. In the short term, extreme dieting is not likely to gain a foothold (longer term, however, it is likely that another dieting trend will grip the nation for a period and then subside.)

The implication for marketers is increased opportunity for new products with general health benefits, in addition to weight management benefits and a need for marketing messages stressing balance and moderation.

TRENDS TO WATCH (Cont'd)

Time savings will evolve to time optimization.

Harried consumers have long demanded more convenient products and services that save them time. With a plethora of time-savings products and services available to them, consumers are now looking for more. Products that not only save time but make the time spent worthwhile by delivering exceptionally high quality, health and wellness benefits and/or taste will find a waiting market. The success of fresh refrigerated side dishes and high-end frozen dinners are a testament to this trend.

Traditional retailers gain additional traction.

2005 may have marked a turning point for traditional retailers. Drug stores achieved strong growth in a tough market, and grocers held their ground – a significant fete given several consecutive years of share loss.

Supported by favorable demographic trends and innovative merchandising, drug stores are expected to thrive longer term.

The grocery channel's investment in new formats, distinct private label lines and a new health and wellness positioning appears to be paying off. We expect these initiatives to gain traction and ward off major share erosion for the next few years.

Grocers, however, will face renewed challenges as the young adult market begins to comprise a higher proportion of the CPG shopper base. Young adults allocate a much higher than average share of their spending (21% vs 12% average share for all households) to supercenters.

CONCLUSIONS

- Companies who innovate better and faster will win within this slow growth environment. A new level of collaboration between CPG manufacturers and retailers and more sophisticated, real-time analysis will empower marketers to enhance speed to market and performance benchmarking

- A deeper level of consumer understanding will be required to see and act on growth opportunities. Consumer segmentation based on loyalty, lifestyle and lifestage will move consumer understanding to the next level

- Price increases will be more prevalent in 2006; as companies evaluate and implement price increases, understanding the price elasticity for their brands and likely competitive response will be imperative

- Channel dynamics in 2005– a slowdown in the share shift from traditional retailers to value channels– may signal a new phase in the CPG retail landscape, but it is still very much evolving. Demographic changes underway are favorable to both supercenters and drug stores, and grocers' new positioning will continually be refined. Marketers must anticipate these changes in long-term planning

- Private label share gains are likely to accelerate over the next few years, given major focus against targeted consumer segments (eg. natural/organic) and planned manufacturer price increases

RESOURCES

To gain insight into opportunities and risks across specific categories, consumer segments, channels or retailers, contact your IRI client service representative regarding custom analyses leveraging the following resources:

IRI MarketInsight™	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 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 Price Drivers	Price elasticity analysis that helps CPG marketers make more profitable pricing decisions by quantifying the sales response to base-, promoted-, and cross-price variation of their products. The proprietary methodology is based on store- level data.
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.

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 leading 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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