# TIMES & TRENDS

A Snapshot of Trends Shaping the CPG Industry

## CPG MERCHANDISING TRENDS
## GROWING DEMAND FOR A CONSUMER-CENTRIC APPROACH

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INFORMATION RESOURCES, INC.



## EXECUTIVE SUMMARY

- Merchandising remains a critical tool in CPG manufacturer and retailer efforts to influence consumer shopping and purchase behavior: in two-thirds of CPG categories, 30% or more volume is sold with merchandising support

- Early indicators suggest that CPG merchandising practices may be on the verge of a significant transformation; as grocery display space steadily declines and innovative new merchandising tactics reap big rewards, the demand for consumer-centric merchandising grows

- The most significant increases in merchandising activity occurred in stable and growing categories (eg. frozen poultry, refrigerated entrees), while marketers decreased support in declining categories (eg. sugar, milk, shelf-stable seafood)

- Categories achieving the highest merchandising lift are relatively high-ticket and/or stock-up purchases (chocolate candy is an exception); the merchandising tactics that landed these categories on the top ten list varied significantly across categories

- Over the next several years, CPG marketers will step up merchandising innovation to simplify the shopping experience, break through the clutter, better align with consumer shopping patterns and reach targeted consumer segments

## INTRODUCTION

**Early indicators suggest that CPG merchandising practices may be on the verge of a major transformation.**

Merchandising -- feature ads, displays and/or temporary price reductions -- has long been one of the most effective tools available to CPG manufacturers and retailers to influence consumer purchase decisions.

Yet, as consumer decisions have become more complex due to both product proliferation (there are now nearly 1 million CPG products available) and merchandising proliferation (among two-thirds of categories, 30% or more volume is now sold with merchandising support), merchandising strategies and tactics have not kept pace to address evolving consumer needs.

That may be changing. Early indicators suggest that CPG practices may be on the verge of a major transformation.

For instance, as grocers seek to "unclutter" stores and many implement new upscale formats, the number of grocery store displays has steadily declined. Within drug stores, two-thirds of categories had declines in merchandising activity this past year.

If merchandising activity continues to erode, competition for display and feature ad space will intensify, and the stakes for any given merchandising event will be higher. These trends will drive merchandising innovation.

In fact, several manufacturers are already stepping up to the plate. For example, as profiled in the Best Practices section of this report, Campbell Soup created a new gravity-feed shelving system that significantly simplifies the consumer shopping experience while driving both brand and category growth.

This report is intended to provide CPG manufacturers and retailers with new insights regarding current and emerging merchandising trends required to:

***See*** new opportunities and risks that will arise as the industry transforms merchandising practices

***Act*** on these insights with speed and confidence and

***Win*** at the shelf.


## MERCHANDISING ACTIVITY
### TOTAL CPG TRENDS

**Merchandising activity has declined across a high proportion of CPG categories.**

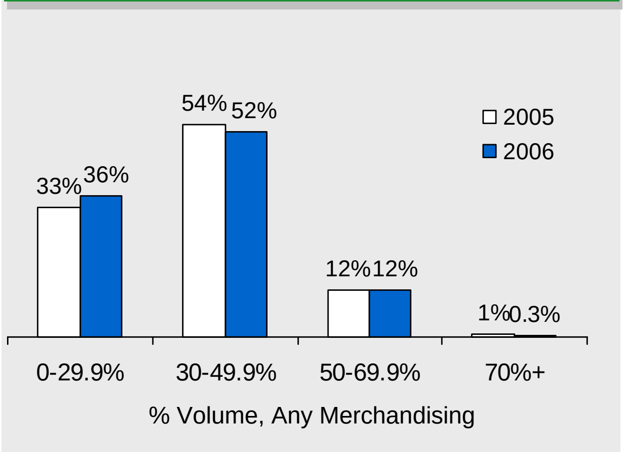
Merchandising remains a critical tool in CPG manufacturer and retailer efforts to influence consumer purchases: within two-thirds of CPG categories, 30% or more of CPG volume is sold with merchandising support. At the high end, three-quarters of carbonated beverage volume is sold with merchandising.

We are beginning to see a slight downward trend in merchandising activity. Just over half of CPG categories decreased merchandising activity within food, drug, mass channels, excluding Wal-Mart (FDMx). Declines occurred in nearly two-thirds of categories within drug stores.

It appears that with consumers balking at the increased complexity of the shopping experience, CPG marketers are recognizing that more is not better with respect to merchandising. Instead, both manufacturers and retailers are seeking opportunities to enhance merchandising effectiveness and simplify shopping.

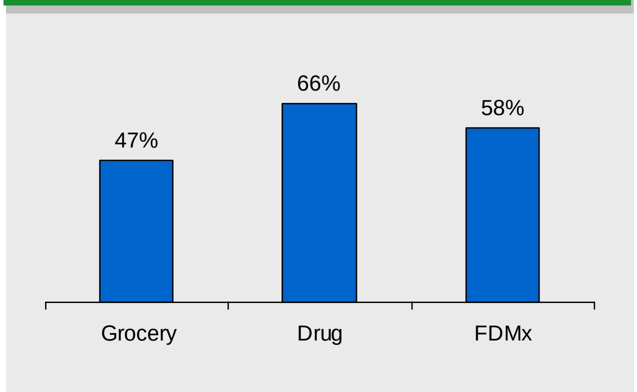
The "Best Practices" section of this report highlights examples of merchandising initiatives aligned with this goal.

**% of CPG Categories by Merchandising Activity Level 52 Weeks Ending June 18, 2006 & Prior Year**




Sources: IRI InfoScan® Reviews, FDMx

**% of CPG Categories with Declining Merchandising Activity 52 Weeks Ending June 18, 2006 vs Prior Year**




Sources: IRI InfoScan® Reviews

## MERCHANDISING ACTIVITY
### CHANNEL - GROCERY

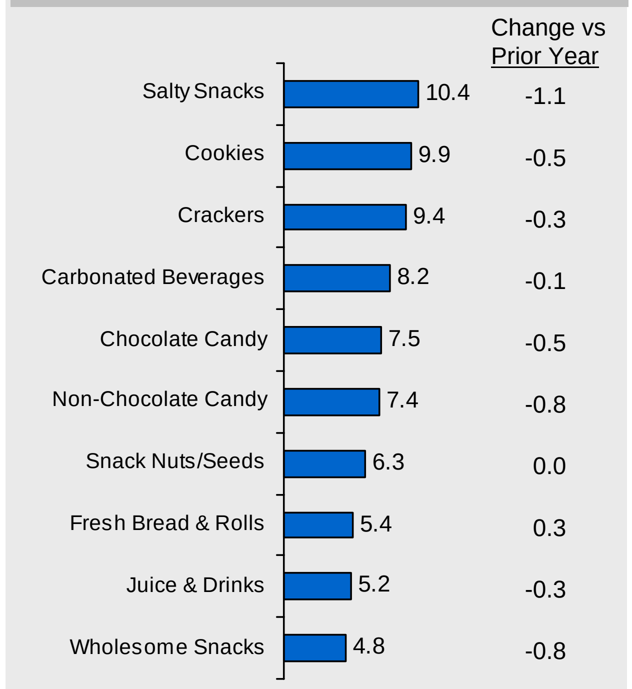
**Competition for shrinking grocery display space is intensifying.**

Over the past two years, the number of grocery channel displays has steadily declined. One likely driver of this trend is the development of new store formats with a heavy focus on perimeter departments and upscale, uncluttered layouts.

Impact has been felt among even the most heavily-displayed categories – eight of the top ten have seen declines.

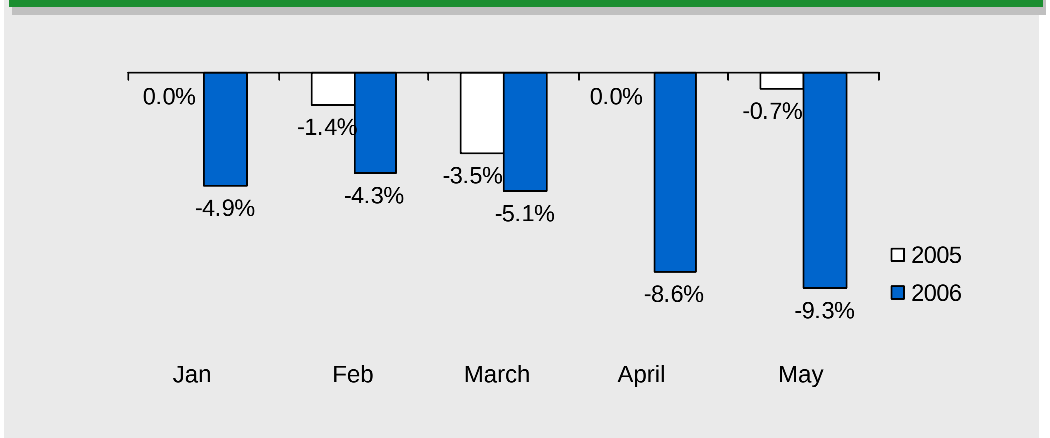
As display space becomes more scarce, and competition among manufacturers to secure it intensifies, we will see an increased focus on merchandising innovation – particularly among categories to the right with heavy display activity.

**Grocery Channel Average Number of Displays per Store per Week**




Source: IRI In-Store Solutions Group Perimeter View, Q1

**Average Number of Grocery Channel Displays per Store per Week % Change vs Prior Year**




Source: IRI In-Store Solutions Group Perimeter View

## MERCHANDISING ACTIVITY
### CHANNEL – DRUG STORE

**Drug store categories experiencing merchandising activity declines span multiple departments.**

Within the drug store channel, a majority of the most heavily-merchandised categories maintained activity levels or experienced only slight declines.

A number of other categories, however, experienced sizable declines in merchandising activity. These categories, represented in the chart below, span both food & beverage and non-foods and represent a wide range in merchandising effectiveness levels.

It appears that category-specific events and strategies are at play, rather than a broad effort to decrease focus against specific departments or categories achieving relatively low lift.

**Drug Store Categories with Largest Declines in Merchandising Activity**
**% Volume Any Merchandising: Point Change vs Prior Year**

| | | % Volume, Any Merchandising | % Volume Increase, Any Merchandising |
|---|---|---|---|
| Weight Control Candy/Tablets | -10 | 36% | 44% |
| Pantyhose/Nylons | -8 | 40% | 40% |
| Facial Tissue | -7 | 59% | 163% |
| Milk | -7 | 34% | 53% |
| First Aid Treatment | -7 | 42% | 53% |
| Soup | -6 | 65% | 150% |
| Writing Instruments | -6 | 45% | 117% |
| Cold/Allergy/Sinus Liquids | -6 | 35% | 33% |
| Children’s Art Supplies | -5 | 34% | 72% |
| Pest Control | -5 | 40% | 50% |

Source: IRI InfoScan® Reviews; 52 weeks ending 6/18/2006
Among Top 100 Categories



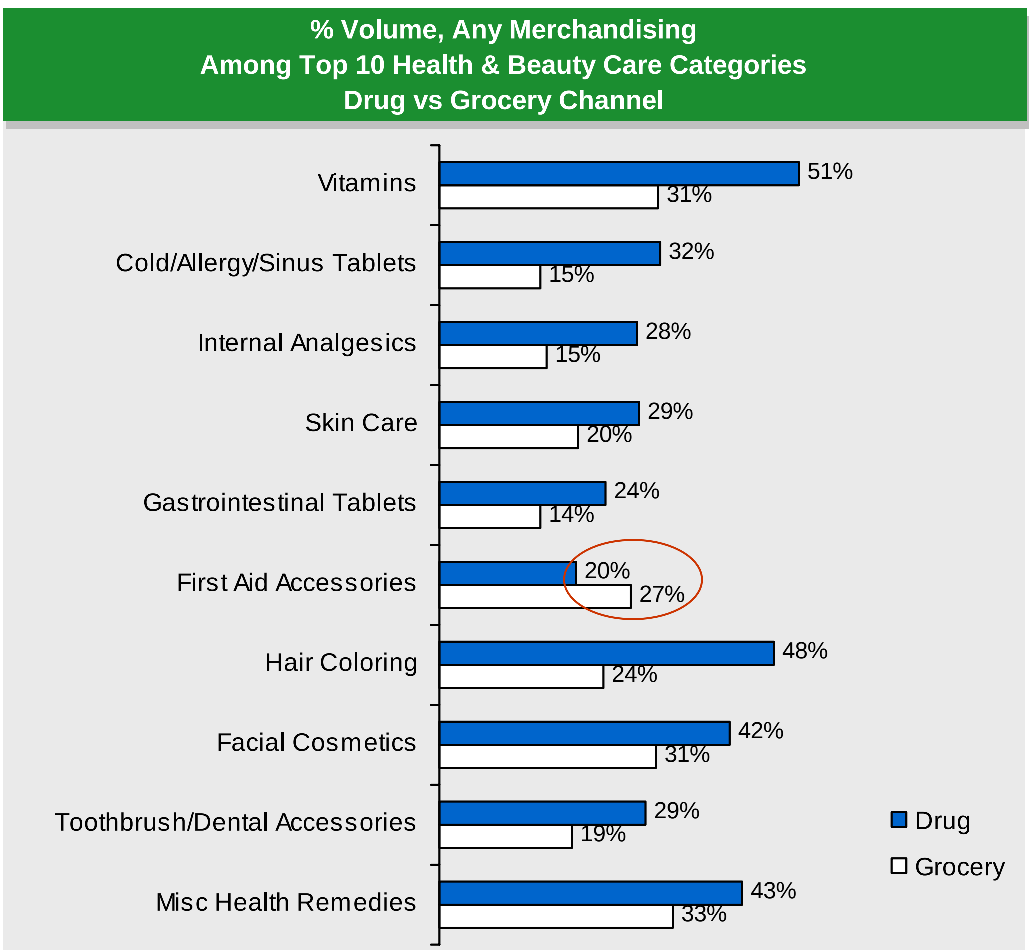
## MERCHANDISING ACTIVITY
### CHANNEL – DRUG STORE vs GROCERY: HBC

**Drug stores remain highly active in merchandising across HBC departments.**

Despite the fact that the drug store channel has experienced declining merchandising activity across a relatively high proportion of categories, it is important to note that the channel remains highly active across health and beauty care (HBC) categories versus other channels—particularly grocery.

Drug store merchandising activity significantly outpaces that of grocery stores within nine of the top ten HBC categories.

In fact, HBC merchandising strategies continue to differentiate drug stores versus other channels. In markets where cold/allergy/sinus tablets containing pseudoephedrine (PSE) were recently placed behind the counter, for instance, drug stores secured major share gains from grocery stores through comprehensive merchandising plans, including a broader product selection behind the counter and effective store signage.




Source: IRI InfoScan® Reviews; 52 weeks ending 6/18/2006

## MERCHANDISING ACTIVITY
## CATEGORY – MOST ACTIVE

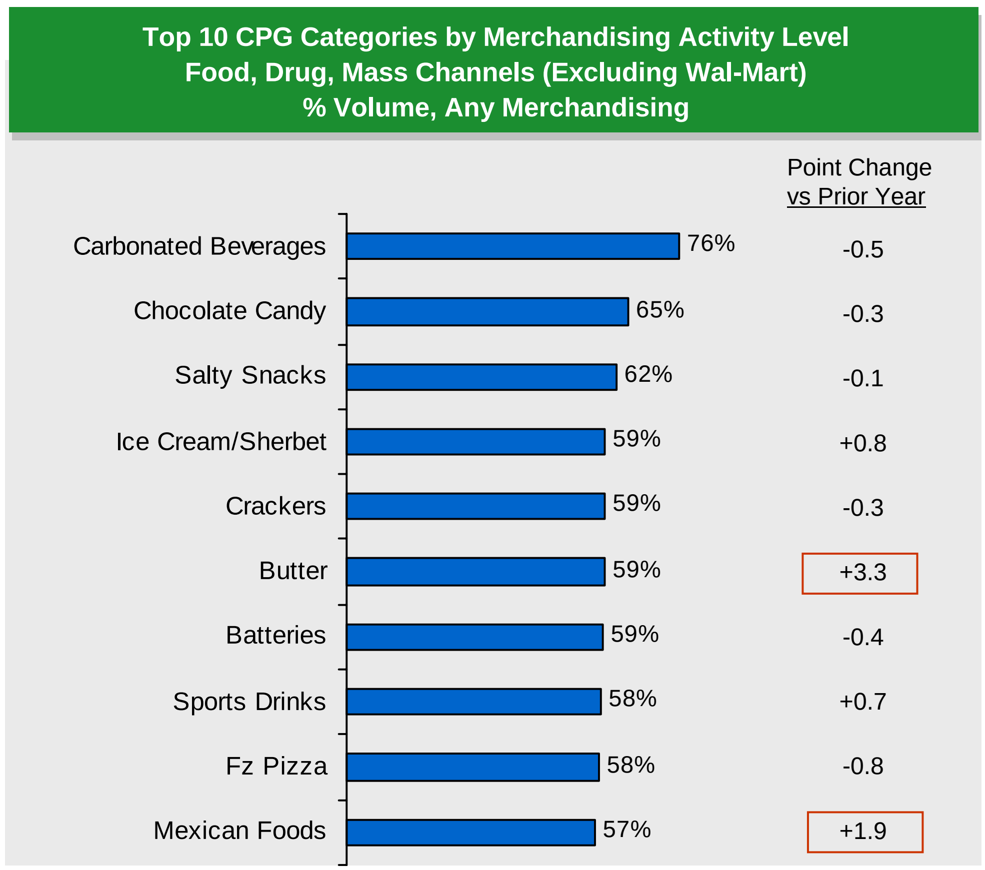
**Snacks/desserts and beverages are among the most heavily merchandised categories.**

In a continuation of long-term trends, snack foods/desserts and beverages dominated the list of this year's top ten most heavily-merchandised categories.

New to this year's top ten list are butter and Mexican foods – both of which stepped up merchandising activity substantially to counter flat or declining sales. While these two categories replaced cookies and refrigerated juices/drinks from last year's top ten, the displaced categories are still within the top 15.

The most active categories share one or more of the following characteristics:

- Low category growth rates/intense competition
- Purchases are discretionary; consumers likely splurge when on deal
- Conducive to stock-up
- High levels of new product activity




Source: IRI InfoScan® Reviews; 52 weeks ending 6/18/2006; Among Top 100 Categories

## MERCHANDISING ACTIVITY
## CATEGORY - TRENDS

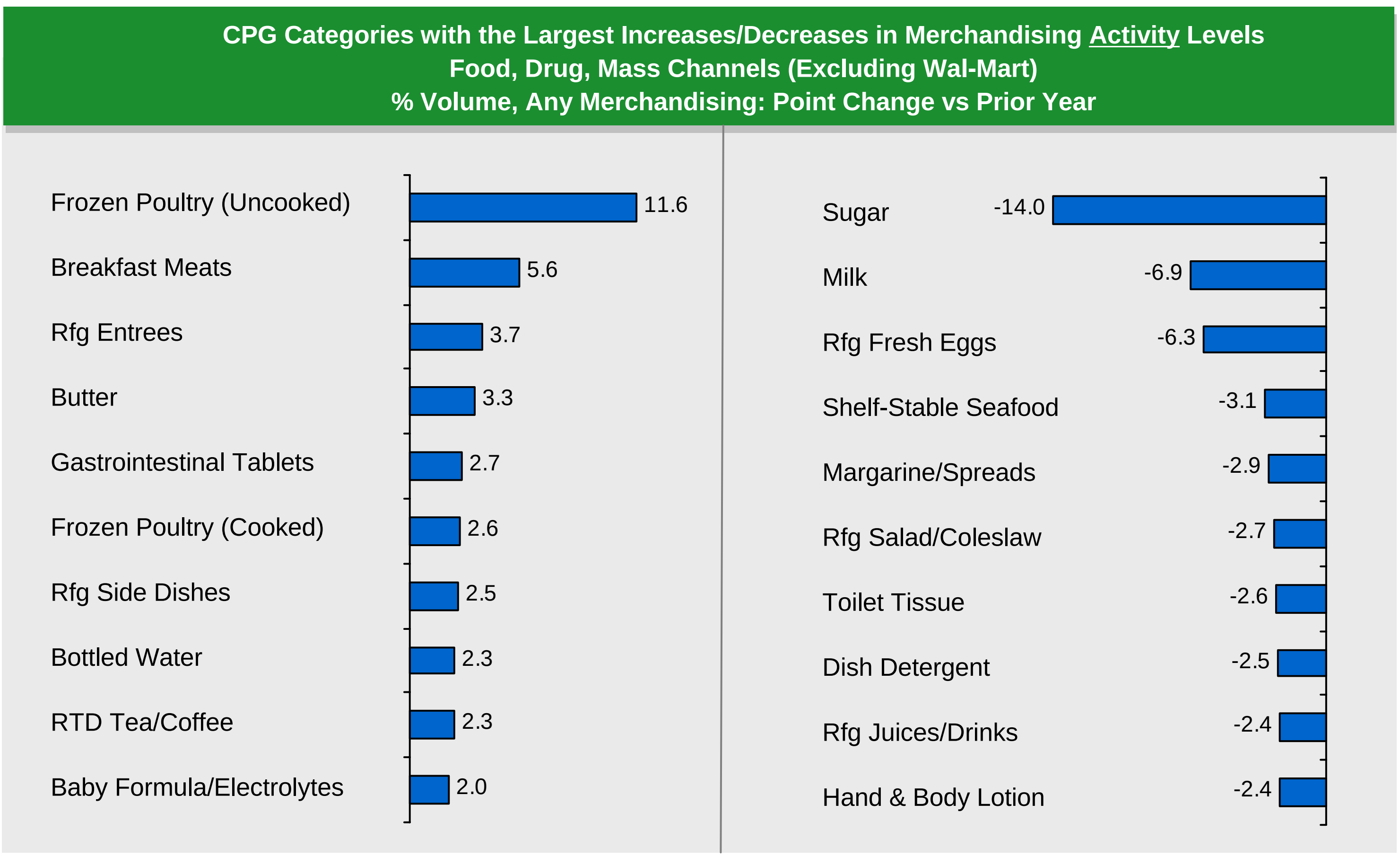
**CPG marketers are strategically leveraging merchandising to protect and grow share within stable and growing markets.**

Significant swings in merchandising activity occurred this past year at the category level as CPG marketers leveraged merchandising to protect and grow share within stable markets while decreasing merchandising focus in declining markets.

Eight of the ten categories with the largest merchandising increases have flat or increasing sales within FDMx channels (exceptions are breakfast meats and baby formula/electrolytes).

By contrast, nine of the top ten with declining activity are experiencing sales declines (hand and body lotion sales have increased modestly.)

Within declining markets, CPG marketers have an opportunity to capture share as competitors decrease focus by stepping up merchandising – particularly in categories such as sugar and dish detergent that have relatively low levels of merchandising but earn high lift.




Source: IRI InfoScan® Reviews; 52 weeks ending 6/18/2006 Among Top 100 Categories

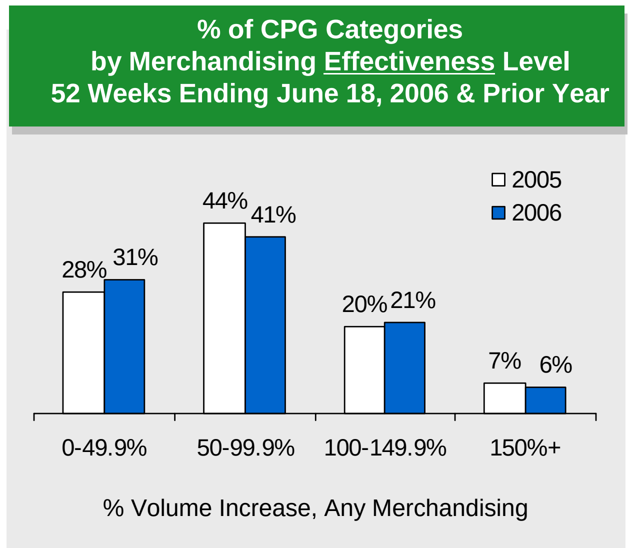
## MERCHANDISING EFFECTIVENESS
### TOTAL CPG TRENDS

**Two-thirds of CPG categories earn an average lift of 50% or more through merchandising.**

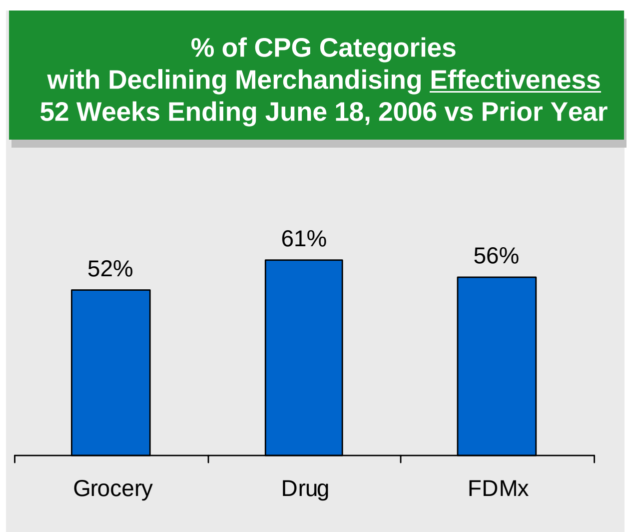
Merchandising remains a highly effective sales driver: a majority of CPG categories earn at least a 50% volume lift, on average, with over one-quarter reaching 100% or more.

However, there has been a shift in merchandising effectiveness with just over half of CPG categories experiencing declines in average lift -- even more within the drug channel.

If effectiveness continues to slowly deteriorate and merchandising opportunity continues to get squeezed, as is evident in the declining number of displays within the grocery channel, for instance, there will be growing demand for truly innovative merchandising that breaks through the clutter and streamlines the shopping experience. True consumer-centric merchandising will become more prevalent.




Sources: IRI InfoScan® Reviews, FDMx




Sources: IRI InfoScan® Reviews

## MERCHANDISING EFFECTIVENESS
### LEADING CATEGORIES

**Categories achieving the highest merchandising lift were primarily high-ticket and/or stock-up purchases.**

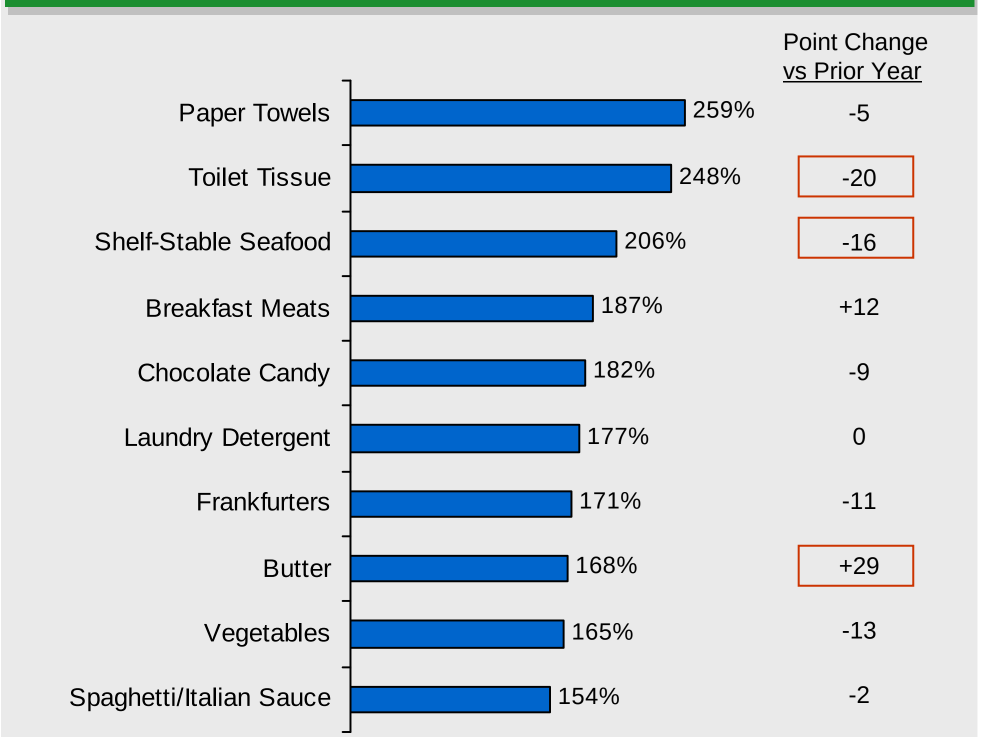
This year's top ten categories achieving the greatest lift through merchandising have consistently earned top spots throughout the past several years. With a sharp rise in lift, butter is new to the top ten.

Consumers' strong response to merchandising within these categories may reflect the fact that merchandising events are less frequent than in other categories – only chocolate candy and butter are on the ten most active list (see page 8).

While the top ten list spans several departments, these categories tend to be relatively high-ticket and/or stock-up items.

Impulse also clearly plays a role in driving merchandising lift; while chocolate candy is the only impulse category on the top ten, others with a relatively high impulse component, such as bottled water and non-chocolate candy were among the top one-third of categories ranked by merchandising lift.

**Top 10 CPG Categories by Merchandising Effectiveness Level**
**Food, Drug, Mass Channels (Excluding Wal-Mart),**
**% Volume Increase, Any Merchandising**




Source: IRI InfoScan® Reviews; 52 weeks ending 6/18/2006 Among Top 100 Categories



# MERCHANDISING EFFECTIVENESS
## TACTICS

**Merchandising mix varied significantly across categories achieving the greatest volume lift.**

A review of merchandising tactics employed by categories achieving the highest merchandising lift reveals that there is no magic merchandising mix. Instead, the winning mix varies considerably across categories.

For instance, the one impulse category on the top ten list, chocolate candy, relies more heavily on display than other categories. Deli and dairy categories, which are less conducive to display, place a heavy focus on feature ads.

Paper products, which can be purchased well in advance of need, are more likely than others to be supported with a combined feature ad and display.

Finally, temporary price reductions alone are highly leveraged by frequently purchased categories in which consumers are highly price-aware.

While general guidelines can be extracted from this assessment, each brand should identify optimal mix through testing and historical analysis.

**Top 10 CPG Categories by Merchandising Effectiveness Level**
**Food, Drug, Mass Channels (Excluding Wal-Mart)**
**% Volume By Merchandising Tactic**

| | Display Only | Feature Only | Feature & Display Combined | Price Only |
|---|---|---|---|---|
| **Paper Towels** | 11% | 12% | 20% | 10% |
| **Toilet Tissue** | 11% | 14% | 16% | 12% |
| **Shelf-Stable Seafood** | 8% | 12% | 10% | 14% |
| **Breakfast Meats** | 5% | 25% | 7% | 20% |
| **Chocolate Candy** | 24% | 11% | 11% | 18% |
| **Laundry Detergent** | 8% | 18% | 14% | 12% |
| **Frankfurters** | 4% | 24% | 6% | 19% |
| **Butter** | 7% | 23% | 11% | 18% |
| **Vegetables** | 13% | 10% | 9% | 13% |
| **Spaghetti/Italian Sauce** | 6% | 16% | 8% | 16% |

Source: IRI InfoScan® Reviews; 52 weeks ending 6/18/2006 Among Top 100 Categories



## MERCHANDISING BEST PRACTICES
## NEED FOR CHANGE

**Innovative merchandising is required to address the downfalls of heavy merchandising activity and CPG product proliferation.**

Heavy merchandising levels, as highlighted earlier in this report, combined with an astounding number of available CPG products (see chart below) have created a stressful, confusing and complicated retail shopping experience for consumers.

This retail environment has also resulted in huge challenges for CPG marketers: new product success rates are dismal (only 1% of new CPG products generate $100 million or more in year-one sales) and creating excitement over a particular brand or category is a major feat given competition for consumer attention within the store.

We are already seeing retailers respond to this situation by "uncluttering" the store, as is evident in declining grocery display space.  This trend will drive increased pressure for merchandising events to perform.

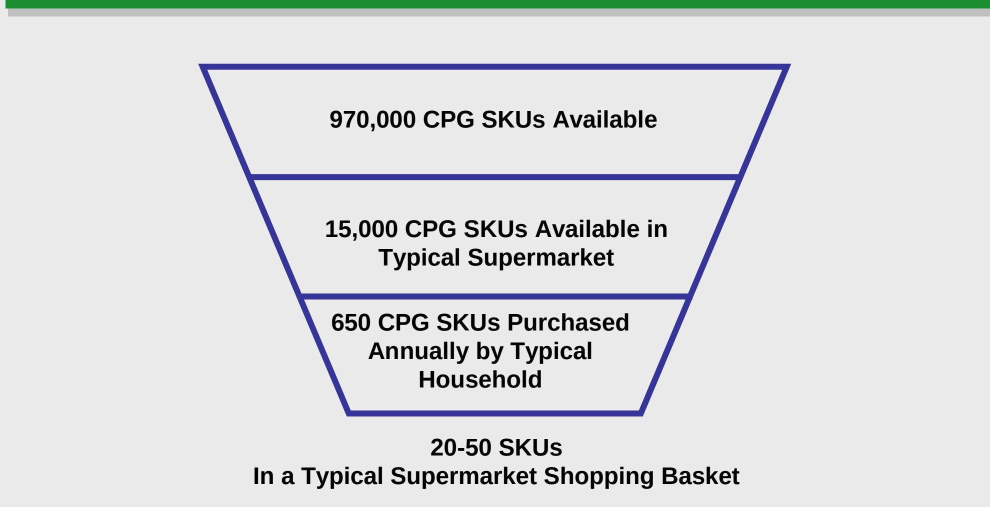
The industry is ripe for consumer-centric merchandising supported by innovation that simplifies the consumer shopping experience, breaks through the clutter, and aligns with consumer shopping needs.

The section that follows profiles three best practice case studies that illustrate how this goal can be accomplished:

- Simplifying the Shopping Experience: Campbell Soup
- Breaking Through the Clutter: Gillette Fusion
- Aligning with Consumer Purchase Patterns: HBC Seasonal Merchandising

**There is a dire need for simplification of the consumer shopping experience.**

**CPG Product Proliferation**




Sources: IRI Consumer Network®, IRI InfoScan® Reviews, IRI Dictionary



# SIMPLIFYING THE SHOPPING EXPERIENCE TO FUEL CATEGORY GROWTH

## CAMPBELL SOUP

**Campbell's new "gravity-feed" shelving system has simplified the shopping experience and fueled category and brand sales.**

### Merchandising Innovation Case Study: Campbell Soup

**The Challenge**

- Campbell's sought to stimulate growth in the mature condensed segment of the wet soup category
- Consumers considered soup the "second hardest" category to shop, as varieties were hard to find or often out-of-stock, impacting their purchases[1]

**The Solution**

- Campbell's created the IQ Maximizer shelving system; the "gravity - feed" units organize soup by flavors, which are clearly marked with "mini-billboards" at the front of the shelf
- Units have been installed in over 15,000 supermarkets[2]
- The units are designed to hold all of the condensed soup brands that a retailer stocks – including private label[3]
- Consumers can locate the exact item they want within 6-7 seconds with the new shelving system[4]

**The Results**

- The condensed soup segment experienced a 4% sales increase in the first year following installation of the IQ Maximizer, maintaining nearly that rate (3%) over the course of two soup seasons[5]
- Campbell's condensed soup line sales in those stores increased 4% during the first soup season, reversing a long-term trend. Over a two-season span, the Campbell condensed line was still showing positive growth of 2% in stores with the IQ Maximizer[6]
- Private label condensed also saw a sales benefit from being shelved in the gravity-feed unit
- The new shelving has resulted in decreased labor costs for retailers due to simplified re-stocking[7]
- The shelving units have been so successful that Campbell's has extended the system to ready-to-serve soups, including microwaveable bowls and cups[8]

***"The new [gravity-feed] fixtures…have revolutionalized merchandising in the soup aisle."***

***– Advertising Age 5/1/06***

1. Campbell's Research
2. *Supermarket News*, 5/8/06
3. Ibid
4. *Advertising Age*, 5/1/06
5. IRI InfoScan® Reviews
6. Ibid
7. *Business Wire*, 5/22/06
8. *Supermarket News*, 5/8/06

## BREAKING THROUGH THE CLUTTER
### GILLETTE FUSION

**Gillette leveraged a totally integrated merchandising blast to launch the Fusion line.**

***"We're not just launching a product. We're launching the flagship of the Gillette brand."***

– Peter Hoffman, President, Global Grooming, P&G

1. *Advertising Age*, 7/3/06
2. *The Boston Globe*, 1/27/06
3. IRI InfoScan® Reviews
4. *The Boston Globe*, 1/27/06
5. IRI InfoScan® Reviews
6. Ibid

**Merchandising Innovation Case Study: Gillette Fusion**

**The Challenge**

- With a goal of $1 billion in sales by 2008[1], it was imperative that Gillette Fusion razors, blades and personal care products -- Gillette's largest launch in eight years --quickly gain share
- Both razors and blades have historically achieved relatively low volume lift through merchandising

**The Solution**

- Gillette shipped 180,000 Fusion displays to retailers in the first week – more than were sent out during the first 12 months of the Mach3 shaving line launched in 1998[2]
- Fusion razors reached 77% distribution in the first week[3]
- Displays leverage Fusion's colors in the shelf frames as well as matching floor graphics and include an interactive "razor demonstrator"
- Product strips were placed in secondary locations with high traffic among the target audience, including the beer aisle
- Gillette secured an extended period as a "new item feature" (Eg. CVS will advertise Fusion as a new item for 12-18 months, versus only several weeks for a typical new product)[4]
- Merchandising was executed in conjunction with an aggressive ad strategy including two Super Bowl ads

**The Results**

- Fusion razors captured a 42% share of total razor dollar sales in food, drug, mass channels (excluding Wal-Mart) within eight weeks after launch[5]
- Fusion cartridges had reached an 11% dollar share as of mid-July 2006[6]

***"Fusion's handle and refill sales are both off to strong starts vs plan and Mach3." – Advertising Age, 7/3/06***



# ALIGNING WITH CONSUMER SHOPPING PATTERNS
## HBC SEASONAL MERCHANDISING

**Seasonal merchandising offers strong potential upside for HBC categories.**

***"Retailers have recognized the power of HBC categories to complement their seasonal offerings and generate incremental sales."***

*– GMDC*
*Seasonal Best Practices*

### Merchandising Best Practice: HBC Seasonal Merchandising

**Background**

- Health and beauty care (HBC) annual growth rates over the past five years have averaged only 1.2%
- A recent IRI-sponsored GMDC study, *Seasonal Best Practices* revealed the relatively untapped potential for HBC seasonal merchandising to drive incremental sales and profits

**Opportunity**

The following HBC categories have exceptionally high sales indices during specific times of the year and are strong candidates for seasonal merchandising:

| Category | "Season" | Sales Index During Season (100 = Avg.) |
|---|---|---|
| Lice Treatment | Aug-Oct | 125 |
| Cold/Allergy/Sinus Liquid | Sept - March | 133 |
| Lip Balm | Nov - Jan | Nov/Jan 128; Dec 200 |
| Thermometers | Dec - March | 152 |
| Bath Products | Dec | 180 |
| Cosmetics | Dec - April | 123 |
| Women's Fragrances | Nov - Dec | Nov 130; Dec 372 |
| Power Toothbrushes | Dec | 212 |
| Shaving Ltn/Men's Fragrance | Dec | 290 |
| Motion Sickness Tablets | July-Aug | 132 |

**Best Practices**

The GMDC study highlights the following guidelines:

- Include seasonal merchandising as part of company strategy and tactics
- Apply category management practices to seasonal events
- Employ store-level micro-marketing tactics
- Allocate permanent space to seasonal merchandise
- Expect markdowns
- Run early display and early ads
- Empower and track store-level execution

Sources: *GMDC Seasonal Best Practices*; IRI InfoScan® Reviews, FDMx

## CONCLUSIONS
## CPG MANUFACTURERS

Manufacturers seeking to transform current merchandising practices via a consumer-centric approach should consider the following actions:

- Fine-tune the merchandising planning process
  - Invest in understanding consumer response drivers, brand perceptions with respect to merchandising, and shopping patterns among target consumer segments (own and retail partners); leverage insights as key inputs in the planning process
  - Optimize merchandising mix across brands based upon an assessment of projected response by tactic
  - Test-market major merchandising initiatives prior to roll-out
  - Develop the capability to efficiently tailor merchandising activity and tactics to local markets and specific consumer segments

- Develop consumer-centric strategies and tactics
  - Invest in innovation to develop merchandising displays and promotions that simplify the consumer shopping experience and break through the clutter
  - Reflect shopping patterns in merchandising strategies and tactics (eg. untapped seasonal opportunities, displays in secondary high-traffic locations, etc.)
  - Participate in retail partners' targeting merchandising initiatives against specific high-potential consumer segments (eg. based on loyalty, shopping trip types, lifestyle, etc.)

- Closely monitor retail execution
  - Track and benchmark store-level merchandising performance and retail execution among leading retail partners
  - Address underperforming stores or eliminate them from merchandising events
  - Identify retail execution best practices and work with retail partners to replicate in other stores

## CONCLUSIONS
### CPG RETAILERS

Retailers seeking to transform current merchandising practices via a consumer-centric approach should consider the following actions:

- Fine-tune the merchandising planning process
  - Broaden the selection criteria for merchandising allocation to include projected consumer response and alignment with target consumer segments
  - Support manufacturer efforts to test-market major merchandising initiatives prior to roll-out
  - Develop the capability to efficiently tailor merchandising activity and tactics to local markets and specific consumer segments

- Develop consumer-centric strategies and tactics
  - Partner with leading manufacturers in the development of innovative merchandising displays and promotions that simplify the consumer shopping experience and break through the clutter
  - Build targeted merchandising strategies for specific high-potential consumer segments (eg. based on loyalty, shopping trip types, lifestyle, etc.)
  - Explore opportunities to better reflect consumer shopping patterns in merchandising initiatives; for example, include less-traditional categories in seasonal displays (eg. health and beauty care items) and multiple display locations for promising new products to capture consumer attention on shopping routes

- Closely monitor retail execution
  - Track and benchmark store-level merchandising performance and retail execution for major merchandising events
  - Address underperforming stores; consider incentives for superior performance
  - Identify retail execution best practices and replicate in other stores

## RESOURCES

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

| | |
|---|---|
| IRI In-Store Solutions Group (ISG) | IRI's ISG service conducts in-store audits, measuring perimeter merchandising, display, shelf, and front-end store conditions across all classes of trade**;** the service provides insights into shelf conditions, presence and locations of displays, etc. for own and competitive brands and categories. |
| IRI Consumer-Centric Merchandising Suite™ | This solution integrates shopper and market data with predictive analytics to provide consumer demand intelligence; empowers retailers and manufacturers to develop targeted merchandising strategies and tactics at the local market and consumer segment levels. |
| IRI Shopper Insights™ | IRI Shopper Insights™ solution segments and analyzes stores, shoppers, trip types, and products to uniquely define target markets; this solution integrates IRI panelist demographics with Personicx segmentation and panelist purchase behavior. |
| IRI Controlled Store Testing™ | IRI Controlled Store Testing™ accurately quantifies the effectiveness of an in-store marketing program and identifies opportunities to improve the program with far less cost and risk than a national rollout. |



## 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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