

TIMES & TRENDS

A Snapshot of Trends Shaping the CPG Industry

55+ CONSUMERS

THE NEW “MUST WIN” MARKET



June 2006

- 02 Executive Summary
- 03 Introduction
- 04 Market Opportunity
- 05 Drivers of Change
- 06 Pre-Senior Aging
- 12 Insurance Access
- 14 Conclusions
- 15 Resources





TIMES & TRENDS

A Snapshot of Trends Shaping the CPG Industry

EXECUTIVE SUMMARY

- ▶ Representing one-third of the U.S. adult population and growing in number by 30% over the next decade, 55+ consumers comprise one of the most powerful consumer segments in history
- ▶ Two major events are driving new opportunities and risks for manufacturers and retailers as they impact where 55+ consumers shop and what they buy: 1) over 3 million pre-seniors (age 55-64) will turn 65 each year and 2) seniors (age 65+) have gained prescription insurance through Medicare Part D
- ▶ Pre-seniors are expected to shift CPG/healthcare spending from value to traditional channels as they age, but supercenters and mail order will gain in prescriptions
- ▶ Demand will increase for products with the following benefits: disease management (eg. arthritis, high cholesterol), dietary (eg. low fat, high fiber); long shelf-life (eg. dried and frozen foods) and enjoyment (eg. wine and spirits)
- ▶ Medicare Part D implementation has resulted in dramatic changes in channel selection: grocers have incurred sizable share losses in both prescriptions and front-end healthcare among seniors
- ▶ With an estimated \$36 billion in incremental spending power since gaining new prescription coverage, seniors are evaluating how to spend their newfound funds; a broad range of categories from home health care kits to sports drinks appear to be benefiting



TIMES & TRENDS

A Snapshot of Trends Shaping the CPG Industry

INTRODUCTION

Manufacturers and retailers have a unique opportunity to build relationships with one of the most powerful consumer segments in history.

One of the largest, most powerful consumer segments in history is re-evaluating where they shop and what they buy.

Two major events are driving changes in purchase and shopping behavior among consumers aged 55+: 1) over the next decade, roughly 31 million pre-seniors (now age 55-64) will turn 65 and 2) seniors (age 65+) gained access to prescription insurance through Medicare Part D, and over 33 million have enrolled.

CPG/healthcare manufacturers and retailers have a unique opportunity to protect and grow their business within this critical and rapidly growing segment as 55+ consumers progress through these transitions.

This report summarizes results from an extensive analysis of purchase behavior among 55+ consumers to assess current and likely future impact of these events.

As summarized throughout the report, there is good news for traditional retailers – grocery and drug – who are poised to gain CPG/healthcare share longer-term as pre-seniors age.

However, this favorable outlook must be balanced with grocers' recent Rx and healthcare share losses among current seniors who switched to other channels in the process of enrolling in new Medicare Part D insurance plans.

Further, while some product segments, such as chronic disease remedies and food and beverages with low fat, low sugar and high fiber benefits appear to have strong growth potential as pre-seniors age, others, such as pet care, may suffer.

Marketers are increasingly recognizing the value of this massive segment, which is rapidly becoming the new “must-win” market.

This assessment is intended to provide CPG/healthcare manufacturers and retailers with new insights required to

See new opportunities and risks that will arise from pre-senior aging and Medicare Part D enrollment

Act on these insights with speed and confidence and

Win at the shelf.



TIMES & TRENDS

A Snapshot of Trends Shaping the CPG Industry

55+ CONSUMERS MARKET OPPORTUNITY

The 55+ consumer segment is massive, powerful and growing.

The 55+ consumer segment is not only enormous, representing one-third of the U.S. adult population, but it is the fastest growing age segment by far.

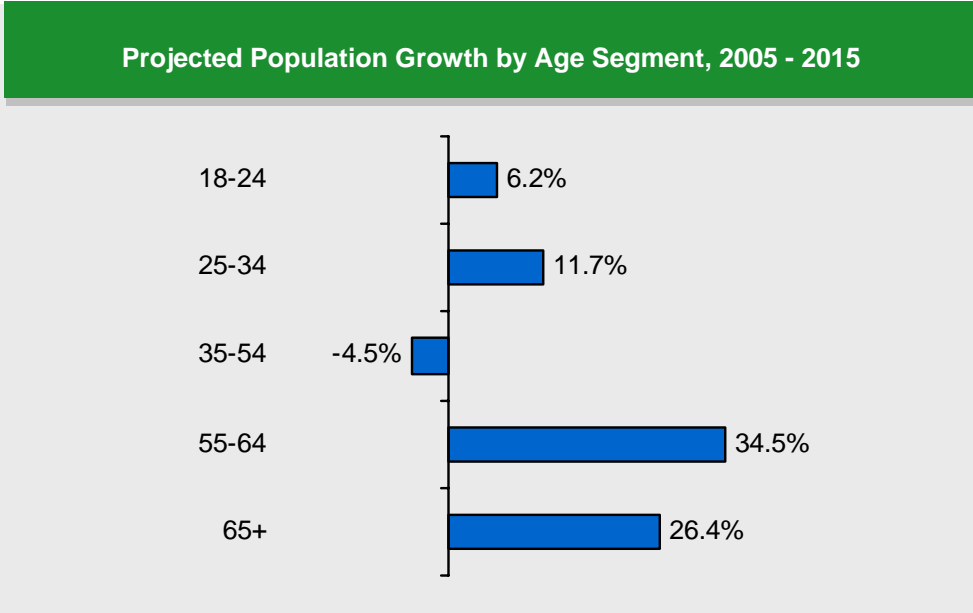
While some have discounted the value of this segment in driving CPG growth, due to the perception that these consumers are beyond their prime CPG spending years, in fact, 55-64 year-old consumer spending per household is slightly above the total household average, and 65+ consumer spending is only 20% below average.

Further, as will be explored in more detail throughout this report, 55+ consumers spend well above average across numerous categories.

Finally, as the number of high-spending families in the 35-54 year-old segment will actually decline over the next decade as Boomers are replaced by the much smaller Generation X, the 55+ segment will become even more critical to growth.

“Contrary to everything you’ve heard, there are markets to be had and money to be made far to the right of 18-49 .”

Frank Kaiser
Suddenly Senior



Source: U.S. Census Bureau



TIMES & TRENDS

A Snapshot of Trends Shaping the CPG Industry

55+ CONSUMERS DIVERS OF CHANGE

Pre-senior aging and new insurance access among seniors will drive changes in where 55+ consumers shop and what they buy.

Demographic and market events will drive significant changes in the purchase patterns of today's 55+ consumers.

It is imperative to identify and act upon emerging shifts in where these consumers are shopping and what they are buying to gain an edge in this increasingly competitive market.

Pre-Senior Aging

Over the next ten years, the 31 million pre-seniors who are currently aged 55-64 will reach a critical milestone in their lives: turning 65. Roughly three million consumers per year, on average, will make this transition.

Not only will these consumers become eligible for benefits such as Medicare and Social Security (with eligibility after age 65-67 depending upon year of birth), enabling many consumers to retire, but physical changes begin to creep in, driving demand for new products and preferences for new store formats.

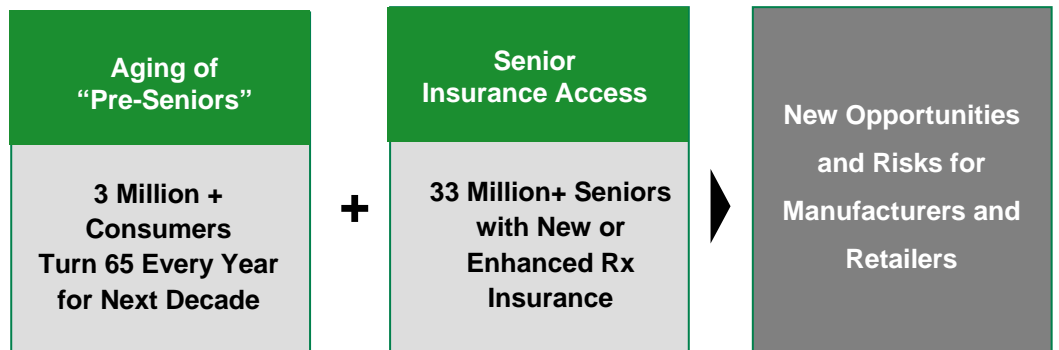
Insurance Access

The 65+ segment is also in the midst of a major transition. Through Medicare Part D, 42.5 million consumers (including seniors as well as younger consumers with disabilities) became eligible for prescription insurance on January 1, 2006.

One-quarter of these consumers had no prior prescription insurance at all. A majority of the balance had sub-standard coverage.

As seniors fill 48% more prescriptions than the average consumer, the lack of adequate prescription insurance encouraged these consumers to shop where they could get the best prices on prescriptions and reduce spending on other items.

Medicare Part D has provided seniors with more choice in where they fill their prescriptions as cost becomes less important, and more funds to spend in other areas.





TIMES & TRENDS

A Snapshot of Trends Shaping the CPG Industry

PRE-SENIOR AGING CHANNEL SHIFTS - CPG/HEALTHCARE

Aging will drive changes in where pre-seniors shop for CPG/healthcare products.

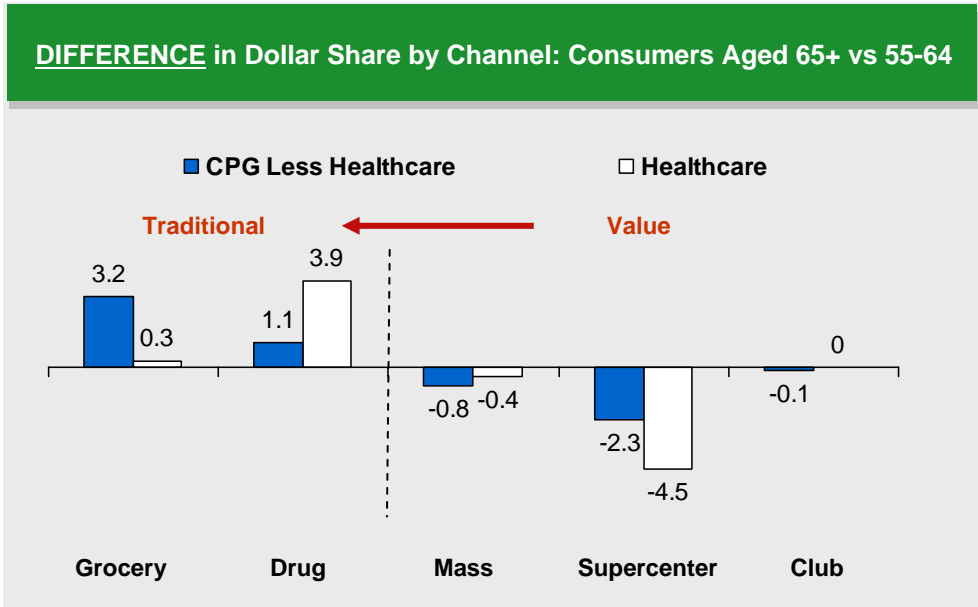
Seniors allocate a higher share of their CPG and healthcare spending to traditional channels (grocery, drug) than their younger counterparts, who spend more of their dollars at supercenters.

Lifestyle is a major driver of this difference. Seniors appear to gravitate towards the smaller format and more conveniently located traditional outlets and are less likely to require bulk purchases due to smaller household size.

While it is possible that today's pre-seniors will hang onto some of their shopping patterns as they move into the senior lifestage, it is likely that at least some share shifting to drug and grocery will occur.

However, it is important to note that as marketers increasingly vie for 55+ consumers, grocery and drug store retailers must aggressively defend this potential share gain. Marketing efforts underway at Wal-Mart to grow business within the 55+ segment, for instance, may alter this path.

Pre-seniors are expected to shift CPG and healthcare spending from value to traditional channels.



Source: IRI Rx Pulse™, January – April 2006



TIMES & TRENDS

A Snapshot of Trends Shaping the CPG Industry

PRE-SENIOR AGING CHANNEL SHIFTS- Rx

Prescription share shifts are expected to follow a different pattern than CPG, as mail order becomes a major factor.

Despite the fact that pre-seniors will likely be spending more of their CPG and healthcare dollars within traditional channels as they age, the same will not likely hold true for prescriptions.

In fact, drug stores are at risk of losing prescription share within this segment.

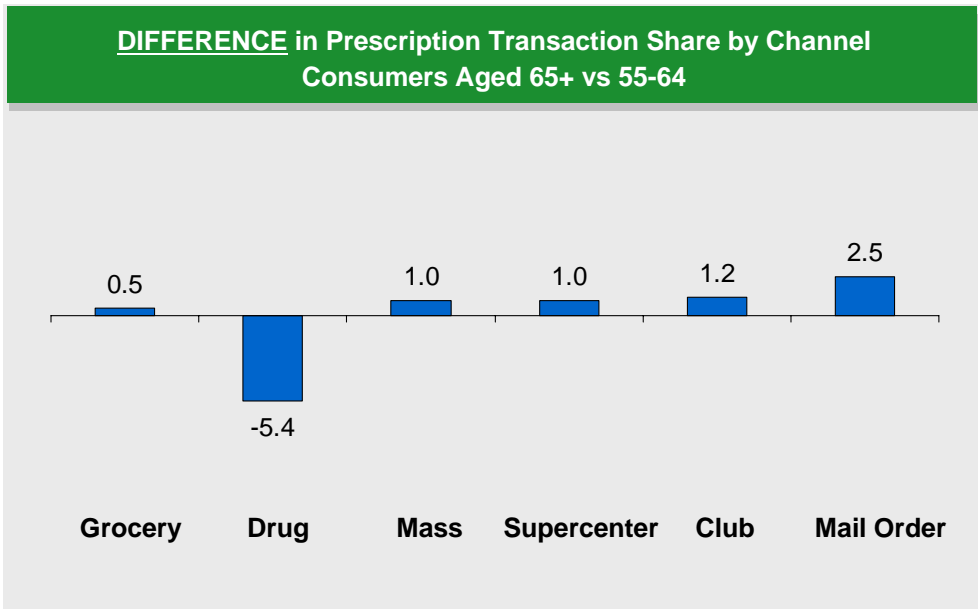
Two factors are behind the differing dynamics for prescriptions vs other products: 1) mail order, which offers convenience and is a requirement in some insurance plans, plays a much larger role in the senior market and 2) many seniors incur high out-of-pocket costs for their prescriptions, even under

insurance plans, as co-pays add up when the volume is high. These consumers turn to value channels.

Drug stores - particularly those with a high mix of pre-seniors among their consumers - will require aggressive retention strategies vis-a-vis value channels and mail order.

Note: The statistics highlighted below reflect share differences post-Medicare Part D. As discussed in detail in the next section, drug stores gained share among seniors following Medicare Part D implementation, but drug store 65+ share is still well below share among 55-64 year-old consumers.

Share differences between pre-seniors and seniors suggest likely Rx shifts from drug to value channels and mail order.



Source: IRI Rx Pulse™, January – April 2006



TIMES & TRENDS

A Snapshot of Trends Shaping the CPG Industry

PRE-SENIOR AGING CATEGORY OPPORTUNITY - HEALTH MANAGEMENT

Rx and OTC remedies and food and beverages with specific health management benefits are poised for growth.

The incidence of chronic health conditions such as arthritis and high cholesterol rises sharply as consumers enter their pre-senior years and again after age 65.

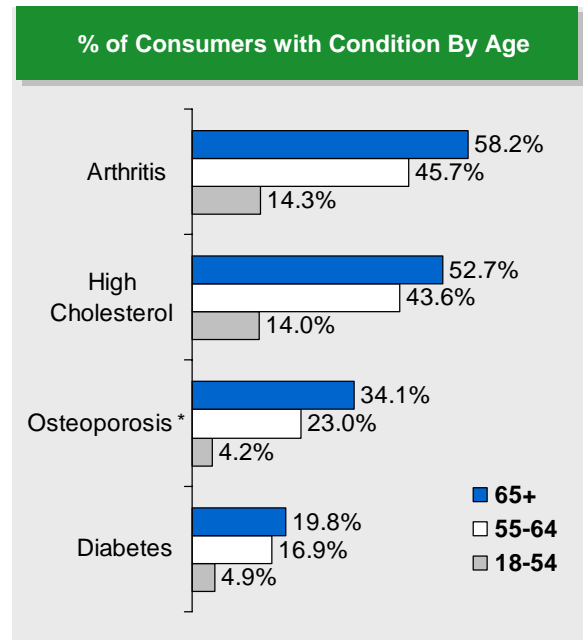
As a result, Rx and OTC remedies for the conditions represented in the upper right chart are poised for growth. Now is the time to innovate in categories offering remedies for these conditions as consumers continually seek enhanced solutions.

Similarly, as consumers become more focused on health management, they become more inclined to follow specific diets, including low fat, low salt, low sugar and high fiber.

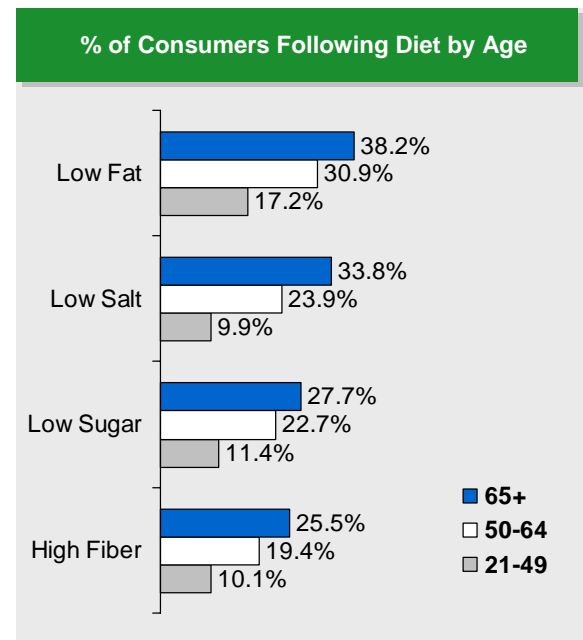
Demand will increase substantially for food and beverages offering these dietary benefits without sacrificing taste – offering significant new product development potential.

Retailers seeking to attract and retain pre-seniors and seniors should consider ailment-specific marketing and merchandising, including educational information online and in-stores, dedicated displays and signage, prescription delivery and reminder services and in-store health screening.

In addition, retailers should ensure an attractive mix of food and beverages with high-demand dietary benefits in stores with a high mix of 55+ consumers.



Source: IRI MedProfiler V *Osteoporosis female only



Source: IRI MedProfiler V



TIMES & TRENDS

A Snapshot of Trends Shaping the CPG Industry

PRE-SENIOR AGING CATEGORY OPPORTUNITY - HBC

Demand shifts across health & beauty care categories are likely as pre-seniors age.

As pre-seniors age, health and beauty care needs and preferences are likely to change.

A comparison of spending levels between pre-seniors and seniors reveals several categories in which pre-senior average household spending is significantly above or below senior spending. Across these categories, demand shifts are possible.

For instance, categories such as adult incontinence and gastrointestinal liquids

and tablets will likely see a rise in demand. These categories are ripe for innovation and are important components of retailer plans to attract and retain 55+ consumers.

By contrast, pre-seniors are likely to decrease spending on hair color and cold/allergy/sinus tablets as they cross age 65. Manufacturers within these categories should ensure that plans are in place to fill this potential demand gap with new consumer segments and/or secure a leadership position within the 55+ segment.

HBC: Dollars/1000 Household Index vs Total Panel		
	Pre-Senior (55-64)	Senior (65+)
Categories with Expected Sustained Strong Demand Among Pre-Seniors & Seniors		
Home Health Care Kits	151	158
Internal Analgesics	113	120
Sleeping Remedies	121	120
Categories with Expected Demand Increase As Pre-Seniors Age		
Adult Incontinence	118	209
Denture Products	129	186
External Analgesic Rubs	121	142
First Aid Treatment	108	123
Gastrointestinal Liquid	118	148
Gastrointestinal Tablets	113	139
Vitamins	122	145
Categories with Potential Demand Decrease As Pre-Seniors Age		
Cold/Allergy/Sinus Tablets	118	85
Hair Coloring	116	84
Nasal Products	127	96
Women's Fragrances	125	88

Note: Index = dollars per 1000 household for age segment/dollars per 1000 household for total panel; 100 = average

Source: IRI Rx Pulse™, January – April 2006



TIMES & TRENDS

A Snapshot of Trends Shaping the CPG Industry

PRE-SENIOR AGING CATEGORY OPPORTUNITY – FOOD & BEVERAGE

Food and beverages with long shelf lives will see increased demand as pre-seniors age.

Despite an increased health focus, both pre-seniors and seniors continue to enjoy favorite foods and beverages, including wine and spirits, coffee and pies & cakes – all of which are high-potential categories to promote to the 55+ segment and which will experience sustained demand as pre-seniors age.

Foods with long shelf-lives, including both shelf-stable foods (such as powdered milk) and frozen foods will likely have increased appeal to new seniors as they seek optimal options

for feeding smaller households without foods spoiling. Sufficient assortments of these products in markets with a high mix of 55+ consumers will be required.

Unlike wine and spirits, beer and cocktail mixes will face decreased demand within this segment; however, this gap will likely be easily filled by the massive number of legal drinking age young adults entering the market.

FOOD & BEVERAGE: Dollars/1000 Household Index vs Total Panel		
	Pre-Senior (55-64)	Senior (65+)
Categories with Expected <u>Sustained</u> Strong Demand Among Pre-Seniors & Seniors		
Baking Nuts	116	123
Coffee	123	123
Margarine/Spreads	111	119
Pies & Cakes	113	116
Spirits/Liquor	128	136
Wine	124	129
Categories with Expected Demand <u>Increase</u> As Pre-Seniors Age		
Cottage Cheese	114	126
Dried Fruit	109	134
English Muffins	107	122
Evaporated/Condensed Milk	103	122
Fz Desserts/Toppings	104	124
Fz Pies	108	124
Jellies/Jams/Honey	101	121
Powdered Milk	115	174
Refrigerated Seafood	111	147
Sugar Substitutes	117	127
Categories with Potential Demand <u>Decrease</u> As Pre-Seniors Age		
Beer	119	87
Cocktail Mixes	116	70

Note: Index = dollars per 1000 household for age segment/dollars per 1000 household for total panel; 100 = average

Source: IRI Rx Pulse™, January – April 2006
© Copyright 2006 Information Resources, Inc. All rights reserved.



TIMES & TRENDS

A Snapshot of Trends Shaping the CPG Industry

PRE-SENIOR AGING CATEGORY OPPORTUNITY – NON-EDIBLE

Demand for automotive and pet care products will decline among pre-seniors as they age.

Lifestyle changes are reflected in differing purchase behavior between pre-seniors and seniors across several non-edible categories.

For instance, a decline in pet ownership after age 65 will drive a significant decrease in demand for dog food, cat food and pet supplies.

Similarly, automotive categories, including automobile fluids and motor oil, have significantly lower purchase indices among seniors, versus pre-seniors. Presumably, seniors are more inclined to outsource regular auto maintenance.

Stores with a high mix of 55-64 year-old consumers should evaluate shelf-space devoted to these categories over the next few years as these consumers age, while manufacturers in these categories should align distribution strategies with store demographics.

NON-EDIBLE: Dollars/1000 Household Index vs Total Panel		
Categories with Potential Demand Decrease As Pre-Seniors Age		
	<u>Pre-Senior (55-64)</u>	<u>Senior (65+)</u>
Automobile Fluids	134	79
Cat Food	123	96
Dog Food	121	83
Furniture Polish	116	91
Kitchen Storage	119	81
Lighters	124	73
Motor Oil	115	79
Pet Supplies	114	90

Source: IRI Rx Pulse™, January – April 2006
Note: Index = dollars per 1000 household for age segment/dollars per 1000 household for total panel; 100 = average



TIMES & TRENDS

A Snapshot of Trends Shaping the CPG Industry

INSURANCE ACCESS CHANNEL SHIFTS - Rx/HEALTHCARE

Seniors shifted both Rx and front-end healthcare purchases across channels after gaining Rx insurance access.

For millions of seniors who recently gained prescription insurance access through Medicare Part D, out-of-pocket prescription costs are no longer as critical a driver of store selection as they once were.

As a result, it was expected that newly-insured seniors would follow their previously-insured counterparts and shift spending from supercenters, who offer discounted prescription prices, to the more convenient grocery and drug channels.

However, aggressive supercenter Medicare Part D outreach to seniors - predominantly by Wal-Mart - changed the "natural" course of events. These education-based

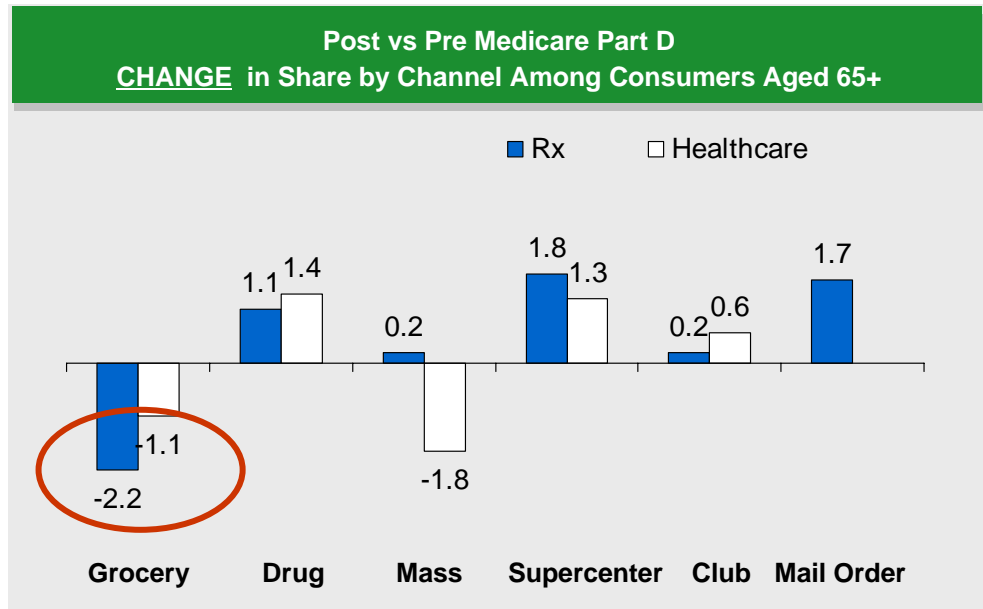
initiatives were designed to help seniors make difficult decisions regarding their insurance in a complex array of options.

As highlighted in the chart below, supercenters not only held onto prescription share among seniors, but increased share, as did drug stores and mail order.

Further, front-end healthcare sales followed suit.

The grocery channel took the hit, with sizable share losses in both Rx and healthcare. It is imperative that grocers understand the impact within their stores and quickly implement strategies to regain lost share and attract the millions who have not yet signed up for Medicare Part D.

The grocery channel took a large hit in prescription and healthcare share following Medicare Part D implementation.



Source: IRI Rx Pulse™, January – April 2006 vs prior year

*Note: Rx share based on transactions; healthcare share based on dollars



TIMES & TRENDS

A Snapshot of Trends Shaping the CPG Industry

INSURANCE ACCESS MARKET BASKET SHIFTS

Seniors have already increased spending across a number of CPG/healthcare categories as they reap savings from Medicare Part D.

With an average annual savings of \$1,100 per person from the new Medicare Part D insurance (which totals to over \$36 billion), seniors have received some long-overdue budget relief.

CPG manufacturers and retailers have a unique window of opportunity to reach out to seniors as they decide how to allocate these newfound funds.

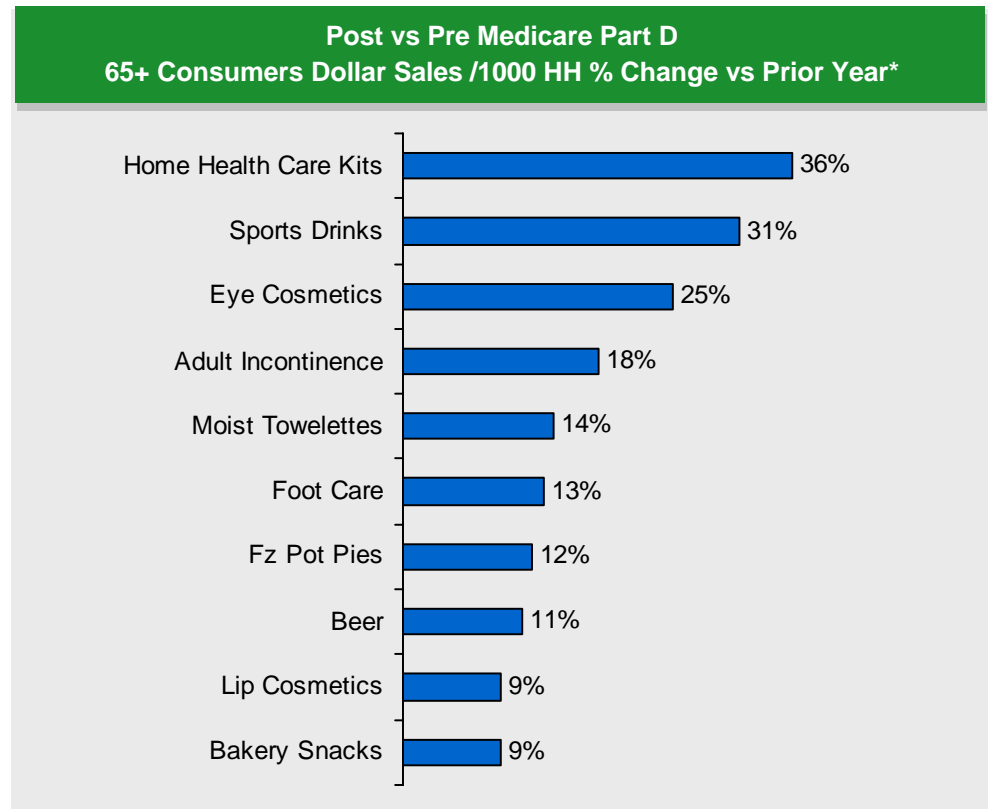
Senior spending increases are already evident across a broad range of CPG/healthcare categories.

While sizable spending increases occurred among health/personal care necessities such as home health care kits, seniors also increased purchases of more discretionary items such as cosmetics.

In addition, both well-developed senior categories (eg. frozen pot pies) and less-developed categories (eg. sports drinks) have received a boost.

Both manufacturers and retailers should explore current market position and growth potential for their brands and stores within this market.

Senior spending increases are evident among healthcare necessities as well as more discretionary purchases.



Source: IRI Rx Pulse™, January – April 2006 vs prior year

*Reflects categories in which dollars/1000 household spending increases among seniors exceed total panel.



CONCLUSIONS

Manufacturer

Manufacturers seeking growth among 55+ consumers should consider the following:

- ▶ Evaluate brand portfolios to assess alignment with 55+ consumer needs and preferences; assess potential buy or build opportunities to address gaps
- ▶ Develop/enhance targeted marketing, merchandising and advertising initiatives to grow strong 55+ brands
- ▶ Explore new product development opportunities among categories and product segments with strong 55+ purchase propensities (see pages 8-11)
- ▶ Partner with leading retailers with a high mix of 55+ consumers in the development and implementation of 55+ growth strategies
- ▶ Track category and brand-level channel share shifts among seniors and pre-seniors across channels/retailers; reflect shifts in distribution strategies

Retailer

Retailers seeking growth among 55+ consumers should consider the following:

- ▶ Identify stores with a high mix of pre-seniors (age 55-64) and seniors (age 65+) and develop targeted marketing and merchandising initiatives within these stores to protect and grow share
- ▶ Continue/enhance Medicare Part D outreach initiatives to reach the four million seniors who have not signed up and the new seniors eligible this fall; track market basket shifts (Grocers must act quickly to regain lost position)
- ▶ Feature high-potential 55+ product segments (see pages 8-11) in displays, promotions and advertising and ensure adequate shelf space allocation and assortment within strong 55+ stores
- ▶ Build total store (ie. Rx, OTC, food & beverage) ailment-centric programs, including in-store and online information, dedicated displays and store signage and targeted communications for high-incidence chronic conditions (eg. arthritis, high cholesterol, diabetes, osteoporosis)



TIMES & TRENDS

A Snapshot of Trends Shaping the CPG Industry

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 RxPulse™

Integrated longitudinal Rx and OTC panel of over 34,000 individual patient/consumers in over 15,000 households providing perspectives on demographics, lifestyles and ailments. The service provides a means to monitor total Rx & OTC drug usage on an ongoing basis across key segments.

IRI MedProfiler Health & Wellness Survey

Annual syndicated survey of healthcare attitudes and conditions across household panel; enables creation of custom target groups that can be used to track purchases across specific attitudinal/condition segments.

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.



TIMES & TRENDS

A Snapshot of Trends Shaping the CPG Industry

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.



INFORMATION RESOURCES, INC.
150 NORTH CLINTON STREET
CHICAGO, IL 60661
Telephone: (312) 726-1221