

TIMES & TRENDS

A Snapshot of Trends Shaping the CPG Industry

THE NEW WAL-MART

THE RETAIL POWERHOUSE IN TRANSITION



May 2006

- 02 Executive Summary
- 03 Introduction
- 04 Growth Trends
- 05 Shopping Trends
- 06 Share Trends
- 11 Consumer Profile
- 13 Growth Strategies
- 18 Conclusions
- 19 Resources



TIMES & TRENDS

A Snapshot of Trends Shaping the CPG Industry

EXECUTIVE SUMMARY

- ▶ Despite continued aggressive supercenter expansion, Wal-Mart's top-line growth rate has steadily decelerated
- ▶ Two underlying trends in consumer shopping behavior are driving the slowdown: Wal-Mart supercenters are no longer bringing in new Wal-Mart consumers, and growth in trip frequency is tapering off
- ▶ While Wal-Mart's CPG share gain was modest this past year after several periods of sizable gains, the company has substantially increased share among numerous high-growth CPG categories (eg. sports drinks, frozen dinners and yogurt) and among several categories that have recently experienced price hikes (eg. coffee, sugar, food & trash bags)
- ▶ Wal-Mart has embarked upon a major transformation effort to reduce dependence among core shoppers – the top one-third represent 80% of CPG sales. These consumers skew lower-to-middle income and under age 55; the company has several initiatives underway to increase sales among the upper-income and 55+ shopper segments
- ▶ Efforts to increase appeal within the upper-income segment include experimentation with new store layouts and premium merchandise, new advertising campaigns and a significantly increased focus on organic products
- ▶ Wal-Mart is leveraging healthcare initiatives to attract and retain consumers aged 55+. Projected to grow 30% between 2005 – 2015, this segment is critical to Wal-Mart's future growth



TIMES & TRENDS

A Snapshot of Trends Shaping the CPG Industry

INTRODUCTION

Wal-Mart's transformation will create new opportunities and risks for CPG manufacturers and retailers.

Change is underway at the world's largest retailer, and, as history has shown, when Wal-Mart changes, the industry changes:

"What is going on at Wal-Mart these days cannot be denied. Wal-Mart is a company in transformation..It means real changes that improve the lives of real people and get great results for our company."

Lee Scott, Wal-Mart CEO¹

Wal-Mart's growth rates, while still extraordinary, have steadily decelerated over the past five years. Supercenter expansion, the company's primary growth engine, is no longer netting new consumers. And, core lower-income consumers have been forced to decrease discretionary spending due to rising gas and heating costs.

In true Wal-Mart fashion, the company has responded to this situation with a comprehensive transformation plan.

In addition to highlighting Wal-Mart's growth and share trends, this report explores key Wal-Mart growth strategies, including the following*:

- ▶ Drive growth among the higher-income, "selective shopper" segment through new store layout, advertising, and merchandise initiatives, including a significantly expanded organic product offering
- ▶ Drive growth among consumers aged 55+ through healthcare initiatives
- ▶ Protect and grow business among core consumers

The insights provided in this report are intended to help CPG manufacturers and retailers

See potential new category, brand and store growth opportunities and risks that will arise from changes underway at Wal-Mart

Act on these opportunities with speed and confidence and

Win at the shelf.

*This report focuses on the Wal-Mart Stores Division, which includes U.S. supercenters, discount stores and Neighborhood Markets.

1. CNN Money, 4/19/2006



TIMES & TRENDS

A Snapshot of Trends Shaping the CPG Industry

WAL-MART PERFORMANCE GROWTH TRENDS

Despite aggressive new store openings, Wal-Mart's growth rates have decelerated.

The pace of net new Wal-Mart stores in the U.S. has held steady over the past several years at 138 additional units per year, as the proportion of supercenters increased from 39% in 2002 to 60% today.

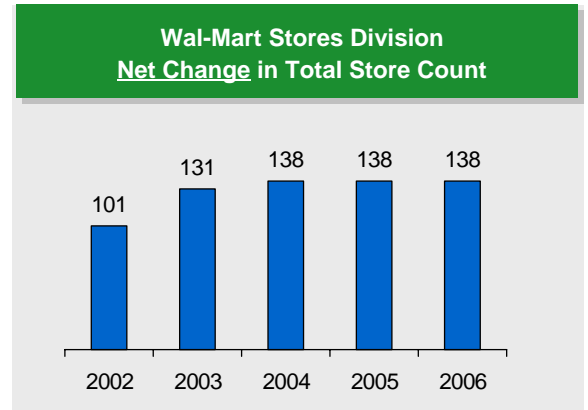
Yet, despite a steady run of new store openings, Wal-Mart's revenue growth rate has decelerated. While still strong at 9.4% in fiscal year 2006 (year ending January 31), revenue growth dipped below double-digit rates for the first time in five years. Improved growth rates for first quarter, 2007 (ending April 30, 2006) may signal a turning point.

The world's largest retailer is facing a large stumbling block in its growth path: supercenter expansion is no longer delivering the growth that Wal-Mart has become accustomed to, as size requirements prohibit expansion into many urban areas and other markets are beginning to reach saturation.

In addition to finding urban solutions, Wal-Mart must now turn attention to substantially improving same store sales growth.

As detailed throughout this report, the company has a number of strategies at work to achieve this goal.

Wal-Mart has added roughly the same number of net new stores for the past several years....

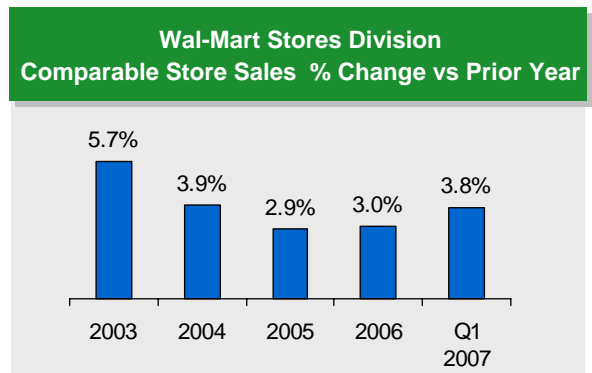


Source: Wal-Mart Annual Reports

But growth rates have steadily decelerated.



Source: Wal-Mart Annual Reports, Q1 Earnings Release



Source: Wal-Mart Annual Reports, Q1 Earnings Release



TIMES & TRENDS

A Snapshot of Trends Shaping the CPG Industry

WAL-MART PERFORMANCE SHOPPING TRENDS

Wal-Mart is no longer bringing in net new consumers.

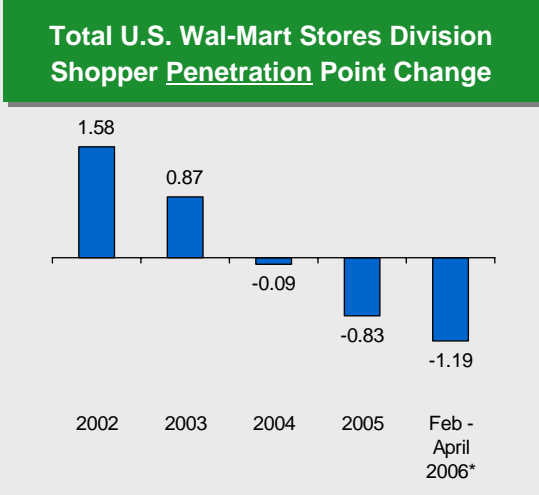
Changes in consumer shopping patterns underlie Wal-Mart's slowing growth rates.

As illustrated in the top chart, Wal-Mart is no longer bringing in net new consumers; in fact, shopper penetration has decreased slightly.

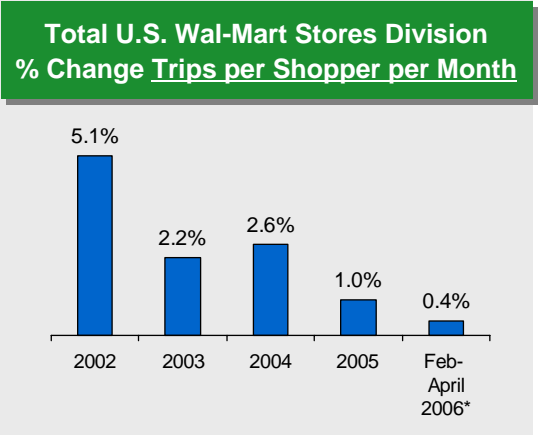
It appears that Wal-Mart's supercenter expansion has provided more convenient locations for existing customers, who have increased their shopping frequency and dollars spent per trip.

Reduced growth rates in trip frequency over the past few years – particularly last year – are likely driven in part by lower-income consumers' need to conserve trips due to rising gas prices. Trip conservation would also explain the relatively sharp increase in dollars per trip.

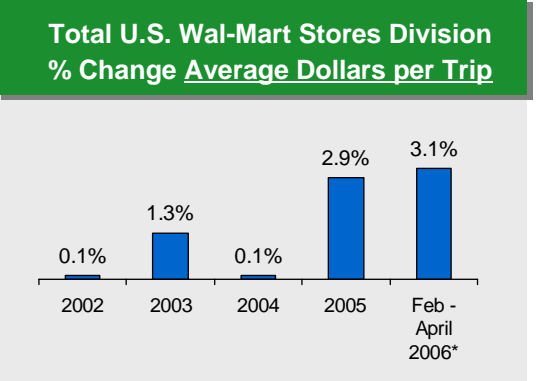
As brand sales growth within Wal-Mart will increasingly come from existing, rather than new store customers, effective merchandising will become increasingly critical to capturing shoppers' attention.



Source: IRI Consumer Network®



Source: IRI Consumer Network®



Source: IRI Consumer Network®

*Note: February – April 2006 represents Wal-Mart's first quarter, fiscal year 2007



TIMES & TRENDS

A Snapshot of Trends Shaping the CPG Industry

WAL-MART PERFORMANCE SHARE TRENDS – TOTAL CPG

Wal-Mart's CPG share gains have slowed as traditional grocers regain traction.

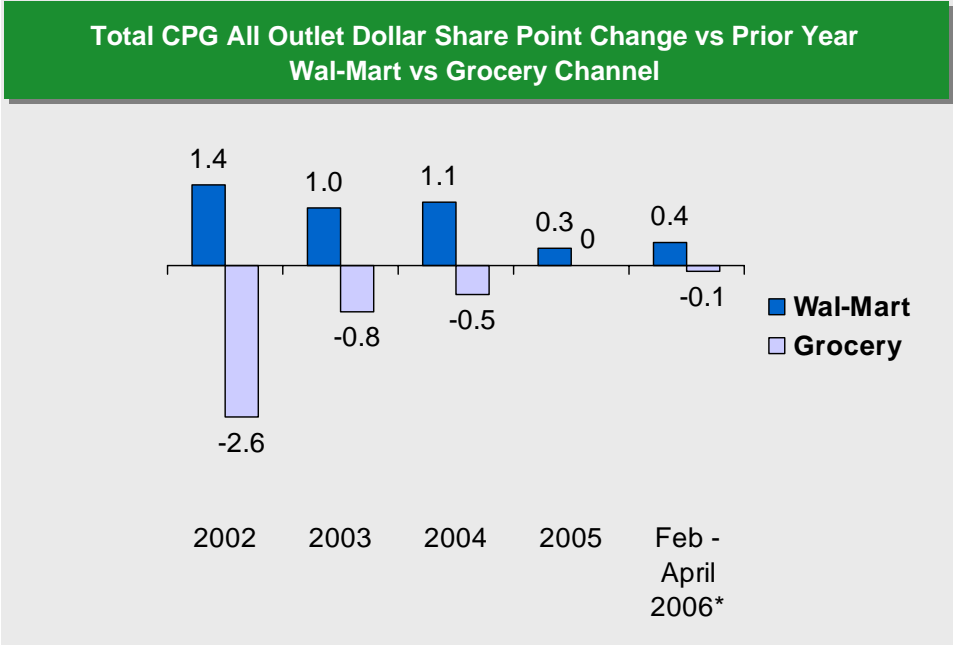
Wal-Mart has historically achieved sizable CPG share gains each year – largely at the expense of the grocery channel.

Last year was an exception. Wal-Mart share increased only modestly and was derived from the mass and club channels. For the first time in the past several years, the grocery channel maintained share. This trend continued into Wal-Mart's first quarter.

A number of factors drove this shift. Discretionary spending reductions among lower-income consumers facing budget constraints hit Wal-Mart harder than many grocers. But, proactive measures among traditional grocers also played a large role.

Through new store formats, such as Safeway Lifestyle Stores, expanded organic offerings and a focus on fresh and prepared foods, several leading grocers have successfully carved out a niche – one that has been somewhat insulated from Wal-Mart competition.

As discussed in detail in the Wal-Mart Growth Strategies section of this report, Wal-Mart's new focus on a more upscale consumer may challenge traditional retailers' newfound success.



Source: IRI Consumer Network®

*Note: February – April 2006 represents Wal-Mart's first quarter, fiscal year 2007



TIMES & TRENDS

A Snapshot of Trends Shaping the CPG Industry

WAL-MART PERFORMANCE SHARE TRENDS - PRICE-SENSITIVE CATEGORIES

Wal-Mart is securing large share gains among CPG categories experiencing price hikes.

As significant price hikes take hold across a number of major CPG categories due largely to fuel-related cost increases, consumers are buying more at Wal-Mart within these categories. Among the top fifteen CPG price-increase categories, Wal-Mart increased share within eleven.

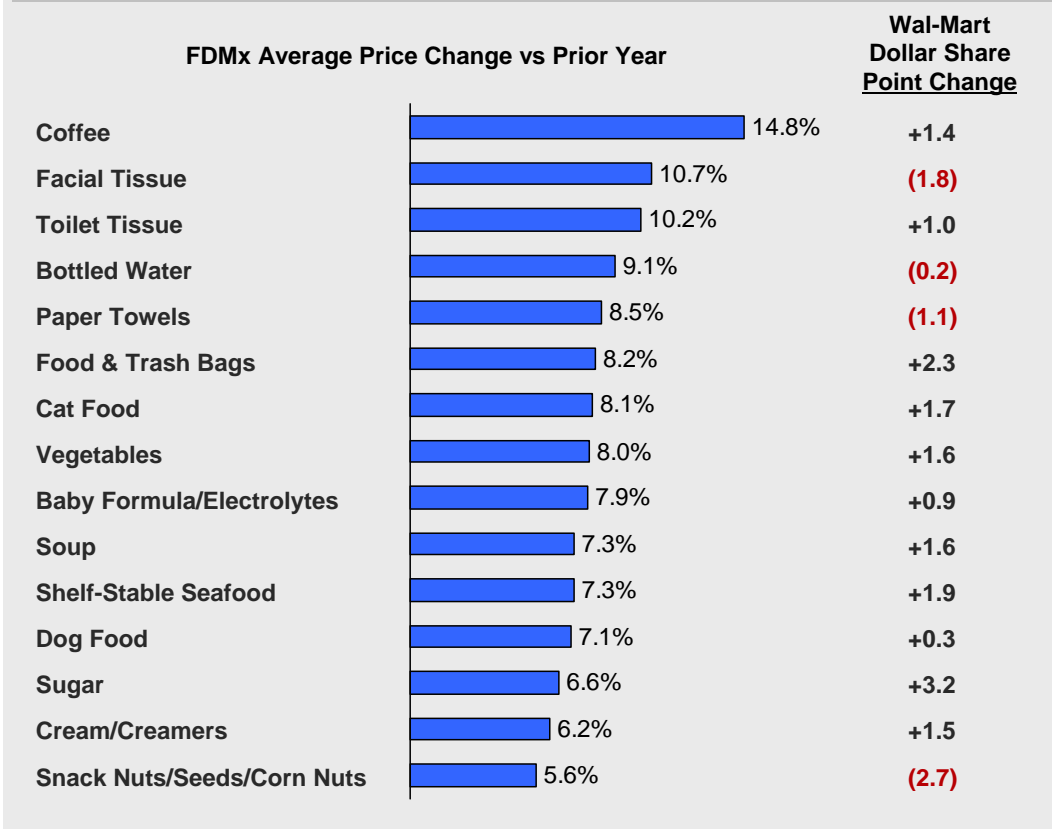
Shelf-stable foods including vegetables, soups and sugar were the exceptions, with penetration benefiting from supercenter expansion.

Going forward, Wal-Mart has an opportunity to gain incremental share by advertising low pricing in these highly price-sensitive categories to bring in new category consumers – a strong potential threat to competing retailers.

Across a majority of these categories, share gains were derived from existing Wal-Mart category consumers – penetration did not increase.

Wal-Mart share increased among 11 of the top 15 CPG high-price-increase categories.

Average FDMx Category Price Change/ Wal-Mart Dollar Share Point Change 52 Weeks Ending 3/19/2006 vs Prior Year



Source: IRI MarketInsight™; IRI InfoScan® Reviews (FDMx = Food, Drug Mass Excluding Wal-Mart)



TIMES & TRENDS

A Snapshot of Trends Shaping the CPG Industry

WAL-MART PERFORMANCE SHARE TRENDS - HIGH-GROWTH CATEGORIES

Wal-Mart is successfully capturing share among high-growth CPG categories.

Wal-Mart's growth has outpaced the industry, resulting in share gains in twelve of the fifteen fastest-growing CPG categories, based on dollar sales.

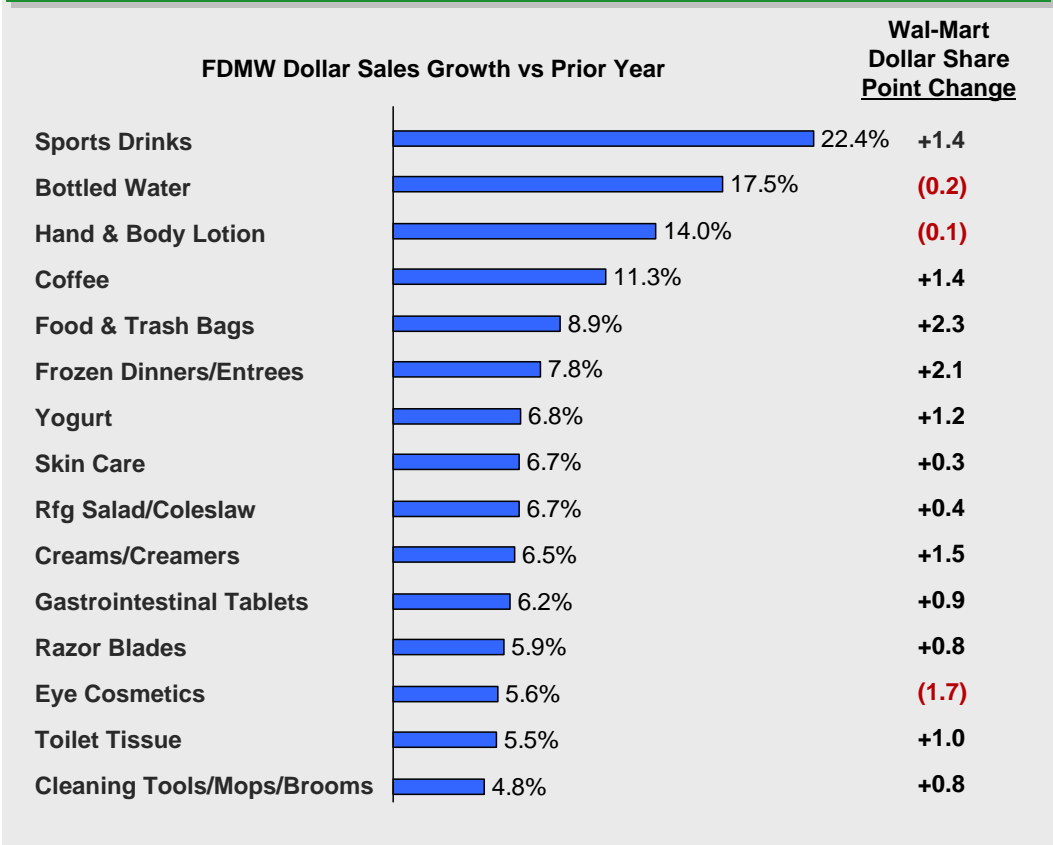
Within many of the high-growth food and beverage categories, Wal-Mart's share increase reflects penetration increases, which were bolstered by supercenter expansion.

Across the high-growth non-food categories, however, share growth was derived from more frequent/larger purchases among existing category customers.

Competing retailers seeking fair share of growth in these categories should consider targeted promotions, particularly within stores with a high mix of Wal-Mart consumers.

Wal-Mart has increased share in 12 of the top 15 FDMW growth categories.

FDMW Dollar Sales Growth: Top Fifteen Categories 52 Weeks Ending March 19, 2006 vs Prior Year



Source: IRI MarketInsight™ (FDMW = Food, Drug, Mass Including Wal-Mart)



TIMES & TRENDS

A Snapshot of Trends Shaping the CPG Industry

WAL-MART PERFORMANCE SHARE TRENDS – DECLINING SHARE

Wal-Mart is decreasing focus on declining non-food categories

Among categories in which Wal-Mart is losing share, thirteen of the top fifteen are non-foods, and ten of the top fifteen are declining categories.

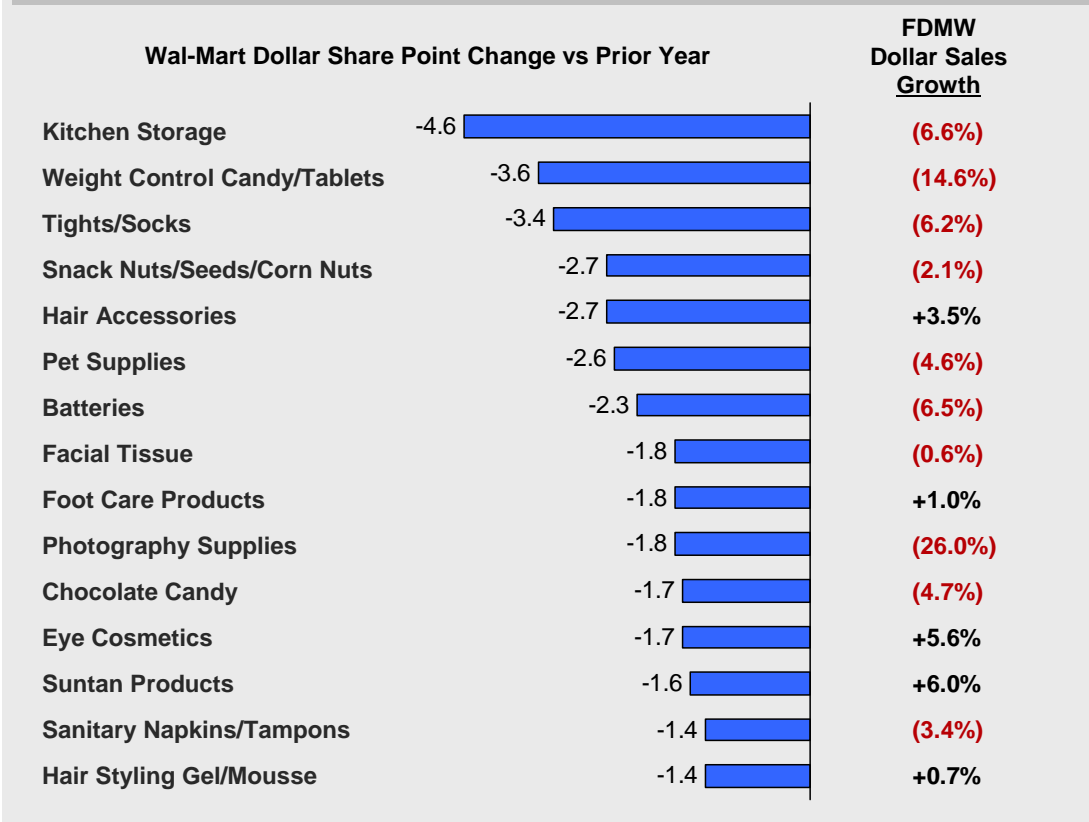
Two factors are likely driving the share losses: 1) Wal-Mart is decreasing focus on declining non-food categories, as the retailer is increasing focus on food and beverages and 2) Wal-Mart's lower-income consumer base is reducing spending on

discretionary purchases, including items such as kitchen storage, tights/socks and hair accessories in response to tightening budgets as gas prices continue to rise.

CPG manufacturers across these and other categories that are declining or are more discretionary in nature may face a reduced presence within Wal-Mart, while competing retailers will experience reduced competitive pressure.

Ten of the top 15 categories with Wal-Mart share losses are declining categories.

Wal-Mart Dollar Share Losses: Top 15 Categories 52 Weeks Ending 3/19/2006 vs Prior Year



Source: IRI MarketInsight™ (FDMW = Food, Drug, Mass Including Wal-Mart)



TIMES & TRENDS

A Snapshot of Trends Shaping the CPG Industry

WAL-MART PERFORMANCE SHARE TRENDS - PRIVATE LABEL

Wal-Mart CPG private label exceeds industry averages.

Private label has been an integral component of Wal-Mart's CPG value proposition for the past several years.

In fact, Wal-Mart's private label dollar and volume share now exceed industry averages. Private label is particularly well-developed within healthcare at Wal-Mart – comprising nearly one-third of product sales.

At the category level, staples and healthcare items dominate the list of high-share private label categories.

After a period of share gains, however, Wal-Mart private label share held steady over the past year. While Wal-Mart is increasing focus on private label across other departments, such as apparel, there does not appear to be an intensified focus in CPG.

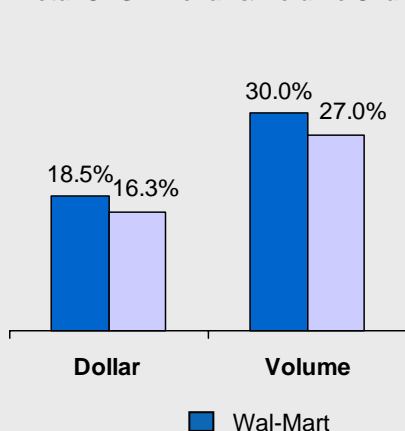
Wal-Mart Top Private Label Categories Share Index vs Total CPG Share

Sugar	408
Milk	393
Bottled Water	292
Vitamins	275
Shortening & Oil	233
Natural Cheese	223
Tights/Socks	211
Snack Nuts/Seeds/Corn Nuts	210
Cold/Allergy/Sinus Tablets	209
Fz Plain Vegetables	207
Internal Analgesics	207
Moist Towelettes	190
Food & Trash Bags	188
Dog Food	187
Vegetables	186

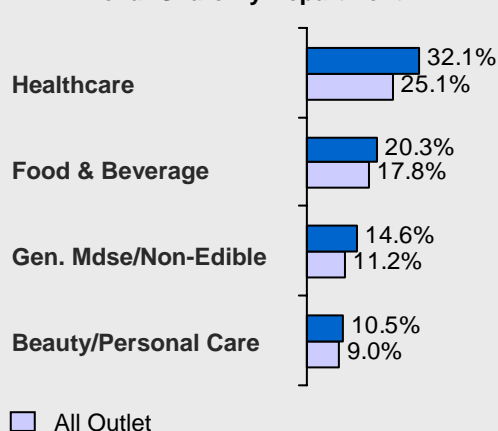
Source: IRI Consumer Network®

Private Label CPG Share 52 Weeks Ending 3/12/2006

Total CPG – Dollar & Volume Share



Dollar Share By Department



Source: IRI Consumer Network®



TIMES & TRENDS

A Snapshot of Trends Shaping the CPG Industry

THE WAL-MART CONSUMER HEAVY SHOPPER PROFILE - INCOME

The top one-third of shoppers represent 80% of Wal-Mart CPG sales.

With 85% of consumers shopping at its stores, Wal-Mart clearly has broad appeal across consumer segments.

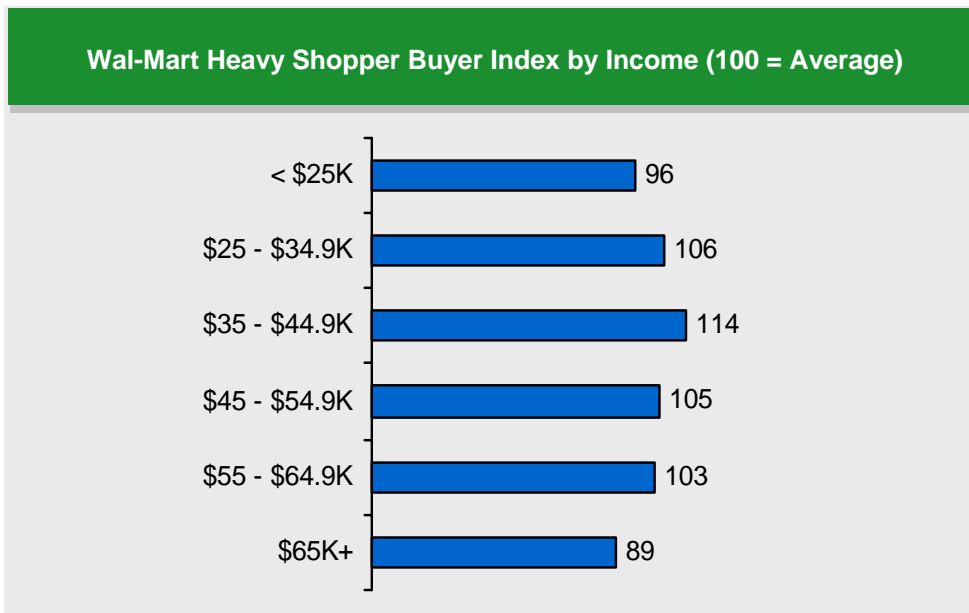
The vast majority of company sales (80%) however, are derived from the top one-third of shoppers. These heavy shoppers skew lower/middle income and younger to middle-aged.

Wal-Mart has served these segments exceptionally well --earning 38.5% share of heavy shoppers' total CPG spending, vs 16.5% across all households.

Too much reliance on this heavy shopper segment, though, may dampen long-term growth potential.

As Wal-Mart and other discount retailers encountered this past year, lower-income consumer spending, particularly on discretionary items, is highly susceptible to budget squeezing as other costs, such as gas and heating fuel, rise.

Wal-Mart's lower-income consumer base is more susceptible to budget constraints.



Source: IRI Consumer Network®; 52 Weeks Ending March 12, 2006



TIMES & TRENDS

A Snapshot of Trends Shaping the CPG Industry

THE WAL-MART CONSUMER HEAVY SHOPPER PROFILE - AGE

Wal-Mart has a strong position among young adults but is less entrenched among the high-growth 55+ segment.

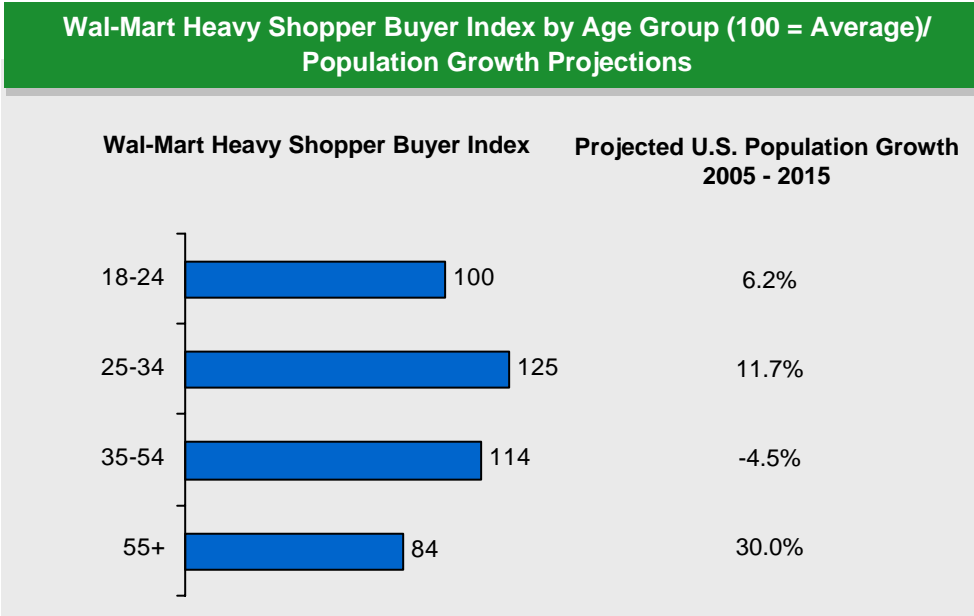
Wal-Mart has developed a solid position among the growing young adult/young family segment. These consumers, who comprise the Echo Boom generation, grew up with supercenters and allocate a much higher-than average share of spending to supercenters than the average household (21% vs 12%). Further, the segment is on the verge of significant CPG spending growth as these consumers begin and grow their families.

Wal-Mart's ability to attract and retain young adult consumers bodes well for future growth; however, this positive effect could be mitigated by a loss of share within the 55+ market.

Wal-Mart is less entrenched among the 55+ consumer set - which will be by far the fastest growing segment over the next ten years.

In fact, IRI research has shown that as consumers move into their "empty nest" years and age into their senior lifestage, spending shifts away from mass and supercenters towards drug stores, which offer convenient, smaller formats.

In recognition of these trends, Wal-Mart has recently embarked upon a number of initiatives designed to drive future growth among less-developed consumer segments. These growth strategies are discussed in more detail in the sections that follow.



Source: IRI Consumer Network®; 52 Weeks Ending March 12, 2006; Census Bureau



WAL-MART GROWTH STRATEGIES

UPSCALE CONSUMERS: MARKETING AND MERCHANDISING

Wal-Mart is testing new marketing and merchandising platforms to drive sales among higher-income consumers.

Wal-Mart has begun to explore store layout, product mix and advertising campaigns to appeal to the higher-income, “selective” shopper.

Manufacturers with brands targeting this segment should explore opportunities to partner with Wal-Mart in these initiatives, while retailers with a high mix of middle-to-upper income consumers in their stores will likely face a new level of Wal-Mart competition.

High-End Supercenter

In March 2006, Wal-Mart opened an experimental upscale supercenter in Plano, Texas, a market with an average income of \$140,000 – triple that of the typical Wal-Mart market.¹

“With the opening of this store, Wal-Mart is adopting an active approach to understanding and meeting our customers’ needs, particularly those of the selective female shoppers...The store will function as a laboratory for testing a range of new ideas.”

John Fleming, Wal-Mart EVP CMO

The store features 2,000 premium items in wine, dry grocery, meat, cheese, and produce that are new to Wal-Mart Supercenters. In addition, the store layout reflects department adjacencies that are more conducive to the way consumers shop. For instance, consumables, pet food and health and beauty aids are near grocery.²

Wal-Mart has not announced plans to roll out the format across its stores but will instead leverage it as a learning ground for understanding more affluent shoppers.

Advertising

Wal-Mart is also changing long-term advertising messages and strategies to move away from a pure low price image.

The company launched a new ad campaign in February 2006 encouraging consumers to “discover Wal-Mart as a shopping destination which offers unexpected...solutions that go well beyond basic necessities.” The ads target upper-income consumers who may buy food and cleaning supplies at Wal-Mart but not apparel and home furnishing.

More changes are likely, as Wal-Mart has officially put its advertising account up for formal review, for the first time in over thirty years.

“Wal-Mart Stores is sending its strongest signal yet that it no longer intends to do business as usual, by placing its advertising account in review.”

New York Times, 5/4/2006

1. Datamonitor, 3/23/06

2. Wal-Mart Press Release



TIMES & TRENDS

A Snapshot of Trends Shaping the CPG Industry

WAL-MART GROWTH STRATEGIES UPSCALE CONSUMERS: ORGANIC PRODUCTS

Wal-Mart's intensified focus on organics is designed to appeal to higher-income shoppers.

With double digit-growth rates expected through 2010, organic product growth is far outpacing the total CPG industry. Specialty retailers such as Whole Foods and Wild Oats have helped to drive the trend, and traditional grocers have significantly stepped up their organic presence over the past several years – reaping large benefits.

Wal-Mart has been relatively slow to enter the fray, given a potential disconnect with their core lower income-consumer. That strategy has changed. As organic products continue to go mainstream and Wal-Mart seeks to increase appeal to higher-income consumers, the retailer is aggressively expanding organic offerings – with plans to double the number of organic food selections this year.¹

Given Wal-Mart's low share and penetration within organic products, the potential upside is huge.

Wal-Mart's presence in organics is likely to broaden the market by introducing value-priced organics to new consumers while taking some share from grocers and specialty stores.

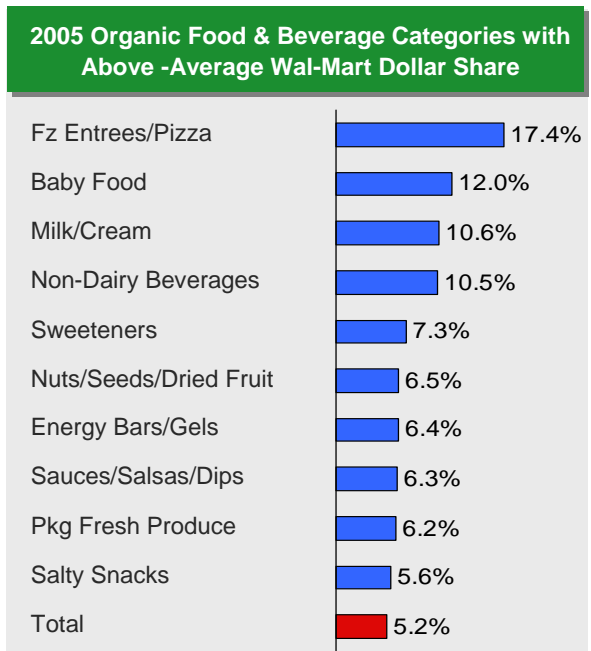
Manufacturer brand loyalty within Wal-Mart will face new challenges against lower or comparably-priced products with organic benefits. In the short term, competition is likely to be most intense in well-developed Wal-Mart organic categories, listed to the right.

2005 Organic Food & Beverage % Households Buying		
	2005	Point Change vs 2004
Wal-Mart	8.1%	+1.6
All Outlet	53.6%	+3.6

Source: IRI/SPINS

2005 Organic Food & Beverage Dollar Share Index by Income (100 = Average)		
< \$25K	64	
\$25K - \$34.9K	80	Core Wal-Mart Consumers
\$35K - \$44.9K	91	
\$45K - \$54.9K	100	
\$55K - \$64.9K	136	
\$65K+	152	

Source: IRI/SPINS



Source: IRI/SPINS

“Today, it is all about organics and ‘going green’ at Wal-Mart...as the company strives to expand its profit margins, find new growth opportunities and appeal to less price-sensitive consumers.”

CNN Money

1. CNN Money, 5/1/2006



TIMES & TRENDS

A Snapshot of Trends Shaping the CPG Industry

WAL-MART GROWTH STRATEGIES 55+ CONSUMERS: HEALTHCARE

Wal-Mart's healthcare initiatives target the high-growth 55+ consumer segment.

Wal-Mart appears to be leveraging healthcare services as a cornerstone in efforts to step up appeal to 55+ consumers.

Individuals face a sharp rise in the incidence of chronic disease as they age, and Wal-Mart's in-store and online pharmacy services targeting specific chronic disease conditions, such as diabetes, are well-suited to this segment.

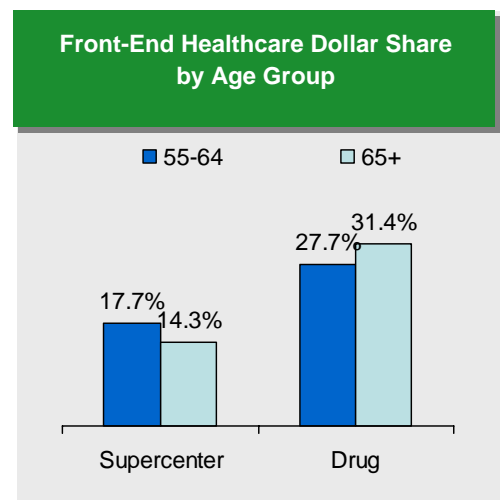
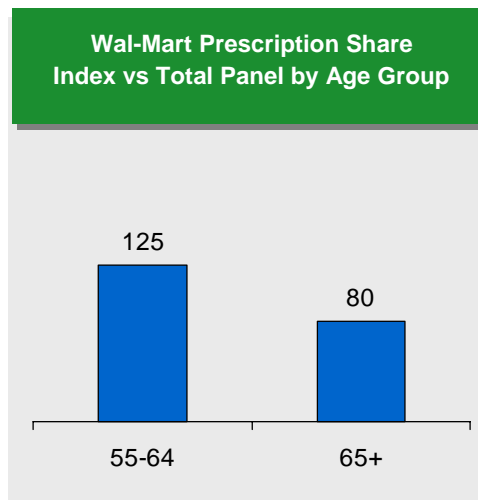
Wal-Mart has also put forth a substantial effort to protect and grow prescription share among seniors – millions of whom recently gained insurance access through Medicare Part D. The company has invested in extensive pharmacist training and educational materials to help seniors understand the new plans, enroll in the best plan and fill their prescriptions.

Catering to 55+ consumers is an imperative for Wal-Mart. In 2005, the retailer held an above-average share of prescriptions among the 55-64 year old segment but a below average share of the 65+ market. In addition, supercenters earn a higher share of 55-64 year old front-end healthcare spending than that of 65+ consumers, who allocate more of their spending to drug stores than their younger counterparts. If the current 55-64 year old consumers follow in the footsteps of today's seniors, Wal-Mart is at risk of losing both Rx and OTC share.

Further, Wal-Mart's current position among 65+ consumers could be compromised as these consumers gain insurance access if Medicare Part D marketing efforts are not successful. IRI research has shown that uninsured seniors allocate a significantly higher share of front-end spending to supercenters than insured seniors.

"We want all seniors that have not enrolled in the [Medicare Part D] program to know their local Wal-Mart and Sam's Club's pharmacists are standing by to help them as the [enrollment] deadline approaches."

Art Alderson
Vice President, Pharmacy
Wal-Mart



Source: IRI RxPulse™; IRI Consumer Network®; 52 weeks ending 12/18/05



TIMES & TRENDS

A Snapshot of Trends Shaping the CPG Industry

WAL-MART GROWTH STRATEGIES

PROTECT AND GROW CORE: ESTABLISHED CATEGORIES

Manufacturers should explore continued brand development opportunities within well-established Wal-Mart categories.

Wal-Mart will continue to invest in core consumers, despite the pursuit of growth opportunities across new consumer segments.

Among the categories below, Wal-Mart holds an above-average share of heavy shopper spending. These categories are integral to Wal-Mart's ability to retain core consumer business.

Manufacturers within these categories should work with Wal-Mart to ensure an adequate assortment and brand presence. Competing retailers should consider featuring these categories in promotions within Wal-Mart markets to protect share and attract Wal-Mart consumers.

Wal-Mart Heavy Shopper High Share Categories – Dollar Share Index*

<u>General Merchandise</u>		<u>Beauty/Personal Care</u>	
Pet Supplies	162	Eye/Contact Lens Care	169
Tights/Socks	162	Adult Incontinence	158
Cleaning Tools	142	Mouthwash	156
Diapers	139	Skin Care	156
Air Fresheners	137	Cosmetics- Facial	153
Cat/Dog Litter	136	Deodorant	152
Dog Food	135	Hair Coloring	152
Light Bulbs	132	Toothpaste	146
Household Cleaner	131	Moist Towelettes	146
Pest Control	131	Soap	145
Fabric Softener Liquid	130	Hand & Body Lotion	143
Cat Food	129	Sanitary Napkins/Tampons	142
Laundry Care	129	Shampoo	139
Food & Trash Bags	128	Hair Conditioner	136
Batteries	127	Women's Fragrances	122
Baby Accessories	124	Facial Tissue	119
Dish Detergent	120	Toilet Tissue	116
Laundry Detergent	115		
		<u>Healthcare</u>	
		Weight Control Candy/Tablets	167
		Gastrointestinal Tablets	159
		Internal Analgesics	147
		Weight Control Liq/Pwd	144
		First Aid Accessories	143
		Cold/Allergy/Sinus Tablets	142
		Vitamins	125

* Note: Share index = Wal-Mart share of all outlet category sales/ Wal-Mart share of all outlet total CPG sales among top one-third of Wal-Mart shoppers; 100 = average.



TIMES & TRENDS

A Snapshot of Trends Shaping the CPG Industry

WAL-MART GROWTH STRATEGIES

PROTECT AND GROW CORE: UNDER-DEVELOPED CATEGORIES

A number of food and beverage category development opportunities remain among heavy Wal-Mart shoppers.

Even among Wal-Mart's heaviest shoppers, a number of category development opportunities remain – predominantly within food and beverages.

Wal-Mart's share of heavy shopper spending is significantly below average within the categories below.

These categories represent strong upside potential for Wal-Mart. Manufacturers have an opportunity to partner with Wal-Mart in category development initiatives, including expanded assortment and incremental merchandising.

Competing retailers should focus on promotion and assortment strategies to protect their position vis-a-vis Wal-Mart across these categories.

Wal-Mart Heavy Shopper Low Share Categories – Dollar Share Index*			
<u>Shelf-Stable Food & Beverage</u>		<u>Frozen Food & Beverage</u>	
Soup	85	Processed Frozen Poultry	84
Baking Mixes	84	Frozen Plain Vegetables	83
Fresh Bread & Rolls	81	Frozen Appetizers/Snack Rolls	78
Spices/Seasonings	81	Frozen Pizza	78
Dry Packaged Dinners	81	Frozen Novelties	78
Carbonated Beverages	80	Frozen Meat	71
Pickles/Relish/Olives	79	Ice Cream/Sherbet	61
Salad Dressing	77	Frozen Seafood	55
Vegetables	77		
Beer	61		
		<u>Refrigerated Food & Beverage</u>	
		Milk	85
		Breakfast Meats	83
		Natural Cheese	79
		Frankfurters	76
		Dinner Sausage	76
		Rfg Salad/Coleslaw	67

* Note: Share index = Wal-Mart share of all outlet category sales/ Wal-Mart share of all outlet total CPG sales among top one-third of Wal-Mart shoppers; 100 = average.



TIMES & TRENDS

A Snapshot of Trends Shaping the CPG Industry

CONCLUSIONS

- ▶ Wal-Mart's transformation will drive significant new opportunities and risks for CPG manufacturers and retailers, who should closely monitor the progress of this effort and ongoing impact on their businesses

- ▶ Wal-Mart will face an uphill battle in driving increased sales among upper-income consumers; however, change will occur. Brands targeting high middle-to-upper-income consumers should explore opportunities to partner with Wal-Mart on this initiative. Retailers in Wal-Mart markets with a high-mix of these consumers will require solid retention strategies focused on high-purchase categories

- ▶ Wal-Mart's increased focus on organic products will have a ripple effect throughout the industry, with the following results likely:
 - Grow Wal-Mart sales among upper-income consumers
 - Expand the total organic market by providing affordable access to a broader mix of consumers
 - Reduce overall pricing of organic products
 - Cut into recent gains made by traditional retailers in organics (less impact likely for specialty retailers in the short term who have less overlap with Wal-Mart's current consumer base)
 - Increase competitive pressure against non-organic brands

- ▶ Wal-Mart's ability to retain the current 55-64 year old consumers as they cross into the senior lifestage and capture a greater share of the newly insured 65+ market will have a dramatic impact on the healthcare market; in particular, drug stores may not see the share gains expected as 55-64 year olds become seniors. Wal-Mart's prescription and OTC sales trends within these segments must be carefully tracked

- ▶ Wal-Mart will continue to invest in core consumers. Manufacturers in under-developed heavy shopper categories, such as soup, carbonated beverages and frozen pizza should explore category development opportunities, while competing retailers should leverage these categories in competitive strategies vis-à-vis Wal-Mart



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 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.

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 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/SPINS Natural/Organic Tracking

IRI/SPINS' Joint Consumer Reports combine SPINS' knowledge of the natural & organic products industry with IRI's household panel data, helping retailers and manufacturers better recognize trends and opportunities in both traditional retail outlets and natural/organic specialty retailers.



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