

TIMES & TRENDS

A Snapshot of Trends Shaping the CPG Industry

THE HEALTHY EATING EVOLUTION

GETTING AHEAD OF CONSUMER DEMAND TO ACCELERATE CHANGE



November 2007

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EXECUTIVE SUMMARY

- ▶ Consumers' transition to healthier lifestyles has been slow and gradual, as evidenced by continued alarming obesity rates, spending that still heavily skews towards indulgent products, and failure to meet dietary guidelines
- ▶ CPG manufacturers and retailers can accelerate the pace of change through initiatives addressing consumer hurdles to healthier eating, including price, time constraints, taste, availability and information – benefiting consumers while growing brand, category and store sales
- ▶ Consumers are woefully behind in whole grain and fruit and vegetable consumption relative to dietary guidelines; innovative new products and marketing have been introduced to address these gaps, but there is a long way to go and plenty of growth potential
- ▶ Functional food and beverages are set to soar as consumers increasingly recognize wellness benefits of specific ingredients; products contributing to heart health, digestive health, cancer protection and energy levels show particularly strong potential
- ▶ While the market for healthier products is broad, there are several segments with unique needs that warrant targeted product development and marketing: Boomers, chronic disease sufferers, lower-income consumers and kids



INTRODUCTION

CPG manufacturers and retailers can accelerate consumers' shift to healthier lifestyles – benefiting consumers and sales.

Change is hard. A review of consumers' progress in shifting to healthier lifestyles is a testament to that fact.

Yes, consumers have made some changes, increasing spending on fruits and vegetables, "light" products, and functional foods and beverages, for instance.

But, as a whole, these changes are not enough. Nearly two-thirds of U.S. consumers are still overweight or obese, and consumption of fruits, vegetables and whole grains are dramatically below where they should be.

CPG manufacturers and retailers have addressed growing consumer demand for healthier products through heavy investment in new product development, health and wellness marketing and consumer education on websites and in-store.

The next phase will be more about getting *ahead* of consumer demand -- stimulating new demand by making healthy eating easy, affordable and accessible to all.

We have already seen companies "ahead of their time" reap big rewards, while delivering health benefits to consumers. Dannon Activia yogurt, which aids in digestion, was one of the most successful new products in recent history, despite an introduction before most consumers were on board with "functional" foods.

Safeway's new Eating Right brand is one of the first private label health and wellness brands that cuts across numerous categories – making healthy product selection easy for consumers who have developed brand trust. This line is mimicking the performance of their highly successful O Organics line.¹

Hannaford Brothers' bold experiment in providing nutritional ratings for products on shelf tags paid off with significantly higher sales among select healthier products.²

CPG manufacturers and retailers are well-positioned to accelerate the pace of change – benefiting consumers, as well as brand, category and store sales.

1. Safeway Q3 2007 Earnings Call
2. The New York Times, 9/6/07



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THE HEALTHY EATING EVOLUTION OVERVIEW: CONSUMER ATTITUDES

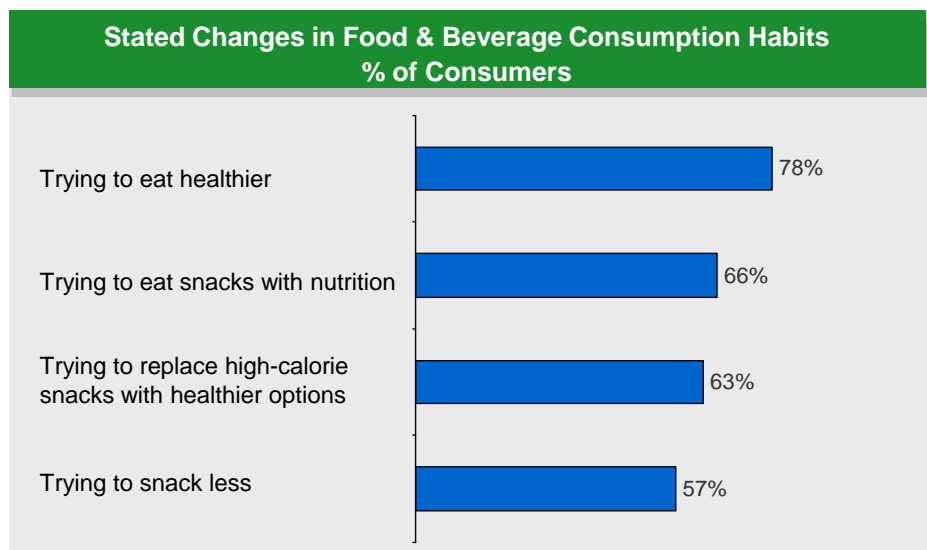
Consumers recognize a need to change their diets, but change has been slow and gradual.

Consumers are bombarded with messages from numerous sources - the media, the medical community, schools and best-selling books - telling them essentially the same thing: there is a dire need to change our eating habits to improve our current health and future health prospects.

These messages are sinking in. Three-quarters of U.S. consumers report that they are making changes in their diets in an effort to eat healthier. As outlined in the chart below, these changes include 1) increasing consumption of foods offering nutrition – ie vitamins and minerals that the body needs, 2) replacing high calorie snacks with healthier alternatives and 3) snacking less.

Shifts in consumer attitudes towards healthier eating are driving new opportunities for CPG manufacturers and retailers, as products that are “light”, natural/organic , nutritious and offer functional benefits outpace total CPG growth.

However, as highlighted throughout this report, the shifts underway are following an evolutionary, not revolutionary process. Changes have been slow and gradual.



Source: IRI Consumer Snacking Study 2007



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THE HEALTHY EATING EVOLUTION OVERVIEW: CONSUMER SPENDING

Despite an increased focus on healthier eating, consumers continue to spend heavily on indulgent products.

Consumers balance the desire to eat healthier with a passion for more indulgent products.

This balancing act is clearly evident in consumer spending on snacks, where two-thirds of spending is allocated to indulgent snacks, with the remaining allocated to “healthier” snacks (ie snacks with inherent nutritional value and snacks made healthier through the removal of fat or calories).

In fact, even the heaviest “healthy” snackers still allocate over half of their spending to indulgent snacks.

Among factors influencing food and beverage purchases, overall, taste still trumps healthfulness,

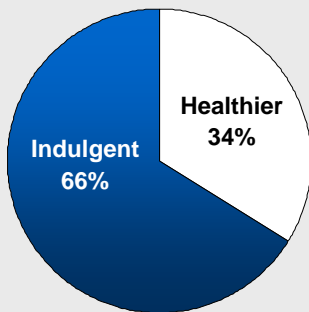
with 88% citing taste, and 65% citing healthfulness.¹

Without question, there is significant growth potential among healthier products. The IRI 2007 Consumer Snacking Study, for instance, found that growth rates among healthier snacks were three times the growth rates of indulgent snacks.

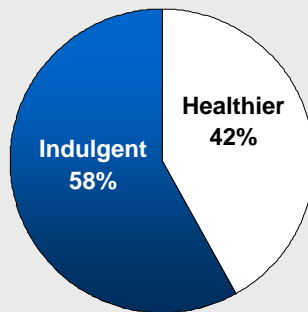
While this report focuses on growth opportunities among healthier food and beverages, it is important to note that there is still room for growth among indulgent products.

Healthy vs Indulgent Snacks: Segment Share of Total Snack Spending

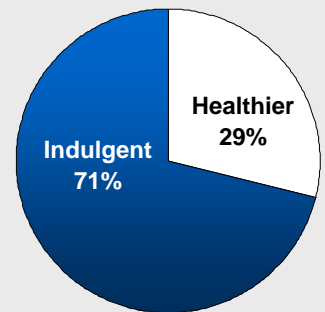
All Households



Heavy “Healthier” Snackers



Heavy “Indulgent” Snackers



Source: IRI Consumer Snacking Study 2007

1. International Food Information Council



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GROWTH OPPORTUNITIES ESSENTIAL NUTRIENTS

Consumers are woefully behind in meeting dietary guidelines.

The issuance of the 2005 Dietary Guidelines for Americans drove increased awareness of the failure among most consumers to obtain the basic nutrients required for a foundation of good health.

In particular, consumers are woefully behind in their consumption of both whole grains/fiber and fruits and vegetables.

Whole Grains

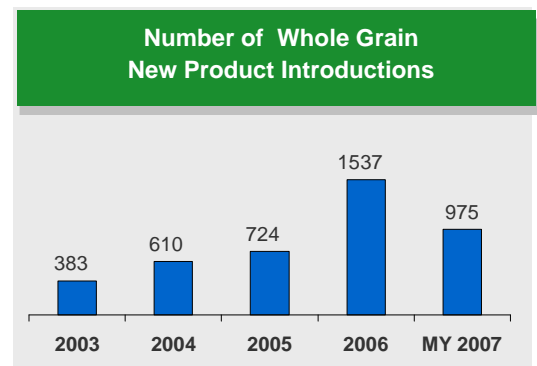
Whole grains are recognized as good sources of fiber, calcium, potassium and magnesium and are considered to have preventative properties for chronic diseases, such as heart disease and obesity.¹

The latest dietary guidelines recommend that half of grains consumed be whole grain, but only 35% of consumers meet their total grain intake recommendation today, and only 4% meet their whole grain recommendation.²

IRI's MedProfiler survey reveals that roughly one-third of consumers are trying to address this glaring gap by eating more whole grains.

For CPG retailers and manufacturers, whole grains represent an enormous potential growth opportunity, but capitalizing on this potential will require increasing availability of great-tasting whole grain products, education regarding whole grain benefits and clear identification of whole grain products in the store. CPG marketers are making strides on each of these fronts.

Recognition of this gap has driven increased demand for foods and beverages delivering these nutrients and a wealth of innovative new solutions, with many more on the horizon.



Source: Mintel

The number of new whole grain products has soared over the past few years. According to Mintel, while the majority of these products have been within the bakery and cereal aisles, the trend is extending into other categories, such as side dishes and baby food.

Further, CPG marketers are increasingly investing in consumer education. Sara Lee, for instance, launched the Sara Lee Soft & Smooth Bread Ultimate Lunch Switcheroo contest -- a promotion that encourages kids to switch to whole grain products in their lunch. The company also offers a website listing the whole grain content of their breads and competitors' breads. (www.thejoyofeating.com)

A 25-year study tracking dietary habits of over 10,000 doctors found that those who regularly ate whole grain cereal for breakfast showed a significantly lower risk of heart failure.³

1. USDA
2. National Health and Nutrition Examination Survey
3. Physicians Health Survey



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GROWTH OPPORTUNITIES ESSENTIAL NUTRIENTS (Cont'd)

Consumers are embracing fruit and vegetable products – fresh, frozen and in new packaged snacks.

Only one-quarter of consumers eat five or more servings of fruits and vegetables each day.

– IRI MedProfiler Survey

Fruit & Vegetables

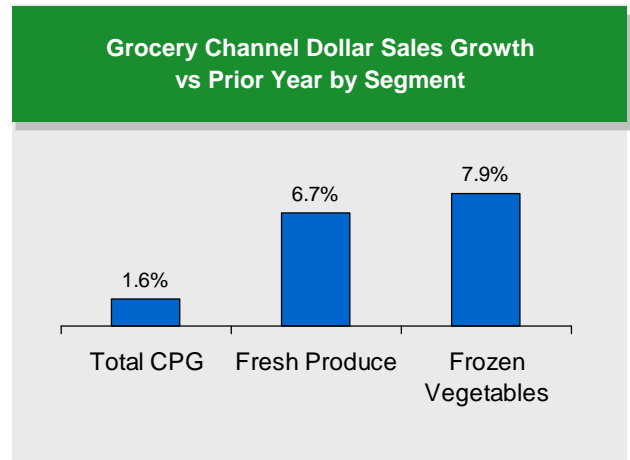
The USDA recommends that individuals consume 8-10 servings of fruit and vegetables each day, yet the majority of consumers fall significantly short of that goal; in fact, only one-quarter of consumers eat five or more servings of fruit and vegetables per day, according to the IRI MedProfiler survey.

U.S. consumers are spending significantly more on fresh produce versus last year -- sales are growing at more than three times the rate of CPG products. They are also buying more frozen vegetables and packaged products that offer the benefits of fruit and vegetables but with longer shelf lives than fresh. Innovative new products have helped pave the way for growth.

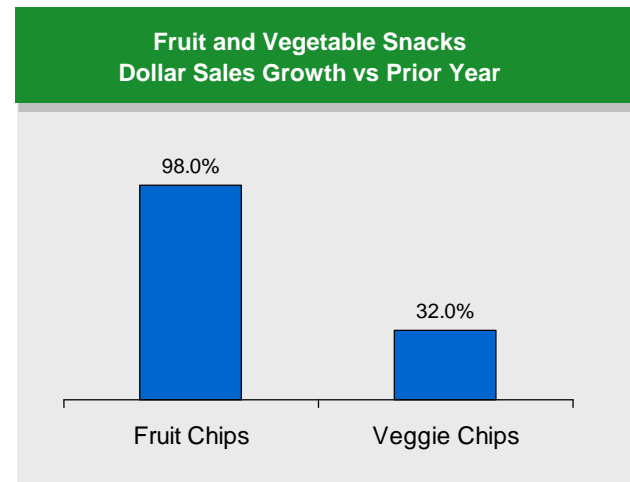
In frozen vegetables, for instance, Birds Eye Steamfresh, which enables consumers to steam cook vegetables right in the package via the microwave, was one of the top ten new products introduced last year.

Within frozen entrees, vegetables are becoming a more important focus area, as well. Several Lean Cuisine Spa Classics varieties, for instance, offer twice the vegetables of an average frozen meal.¹

Within snacks, fruit and veggie-based chips are enjoying rapid growth, as illustrated in the bottom chart. Frito Lay's new Flat Earth



Sources: IRI InfoScan® Reviews; FreshLook Marketing, 52 weeks ending 8/12/07



Sources: IRI InfoScan®, 52 weeks ending 10/7/07

baked fruit and veggie crisps were a major driver of category growth. These snacks deliver a half serving of real fruit or vegetables in every ounce and are sold in the produce aisle as well as other locations throughout the store.

1. Dallas Morning News, 6/5/07



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GROWTH OPPORTUNITIES FUNCTIONAL NUTRITION

Consumers are ready for functional food and beverages.

Functional

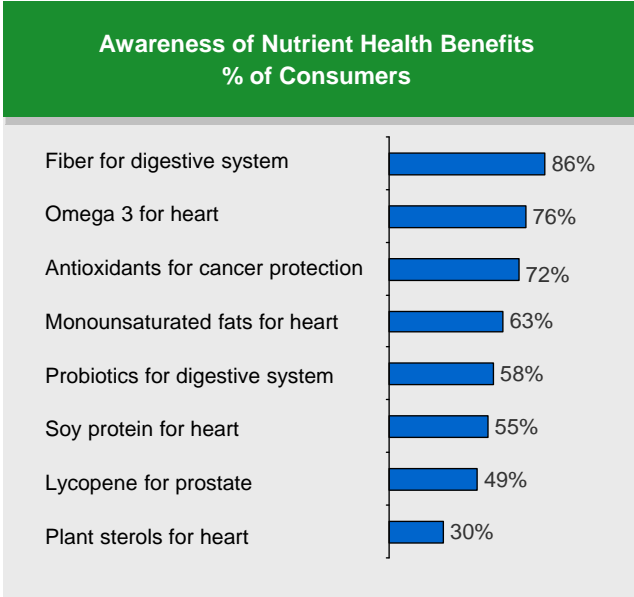
Functional food and beverages, which provide health benefits beyond basic nutrition, are catching on. Consumers increasingly recognize the power of specific ingredients in disease prevention and promotion of general well-being, as illustrated in the upper chart.

As a result, functional foods and beverages are on a tear, with projected growth of 67% between 2006 and 2009, to reach \$60 billion.¹ As highlighted in the bottom chart, categories such as energy drinks, soy milk, tea and enhanced water are enjoying solid growth.

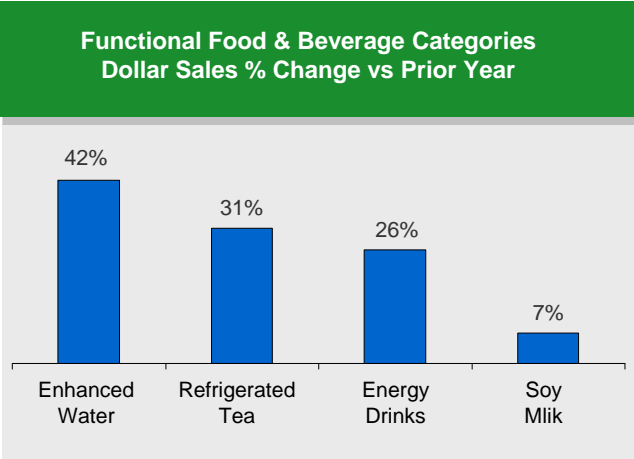
Manufacturers are tapping into this trend with a wealth of new products. In 2006, for instance, over 8,000 new food and beverages containing “superfruits”, which deliver antioxidants, hit the shelves globally. That number is expected to top 10,000 this year.²

Dannon’s Activia yogurt with probiotics that aid digestion, was one of last year’s most successful new products, earning \$128 million in year-ones sales, and opening the doors for other functional products by proving that consumers are ready and waiting.

1. Institute of Food Technologists
2. Mintel



Source: International Food Information Council



Sources: IRI MarketInsight™; IRI InfoScan®
 Note: Enhanced water reflects food, drug, mass channels excluding Wal-Mart; all others include Wal-Mart



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GROWTH OPPORTUNITIES NATURAL/ORGANIC

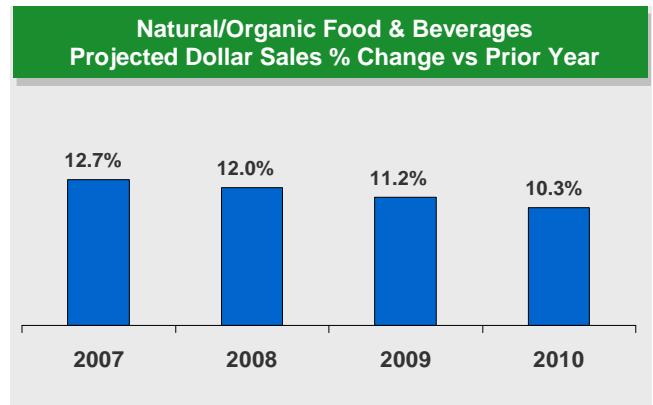
Store brands are tapping into continued strong growth potential among natural/organic products.

In addition to seeking products with the right ingredients to foster health and wellness, consumers are also more actively avoiding products that may contain harmful ingredients, as evidenced by continued strong growth in natural and organic products. According to a recent Harris Interactive poll, three-quarters of consumers believe that organic foods are healthier than non-organic. A recent study by Newcastle University found that up to 40% more antioxidants could be found in organic fruits and vegetables vs non-organic.

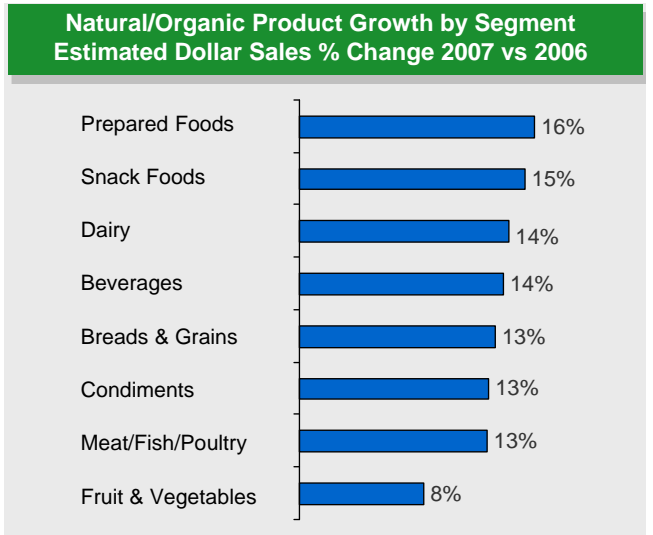
Natural /organic products are also receiving a boost from a growing environmental consciousness: the same poll found that 79% of consumers believe organic food is better for the environment.

As a result, natural/organic product growth is extending throughout the store, from fresh produce and meats to packaged snacks, and store brands have been capitalizing on this growth potential.

A lack of major national brands with organic offerings across many categories, combined with the wide range of categories impacted, and relatively high price points of existing organic offerings have enabled strong private label development. Numerous leading retailers have introduced organic lines,



Source: Nutrition Business Journal



Source: Nutrition Business Journal

including Safeway's O organics, Kroger's Naturally Preferred line and recently-expanded organic offerings under the Private Selection brand, and SUPERVALU's Nature's Best.



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GROWTH OPPORTUNITIES WEIGHT MANAGEMENT - OBESITY RATES

CPG marketers can help consumers tackle obesity through lifestyle solutions.

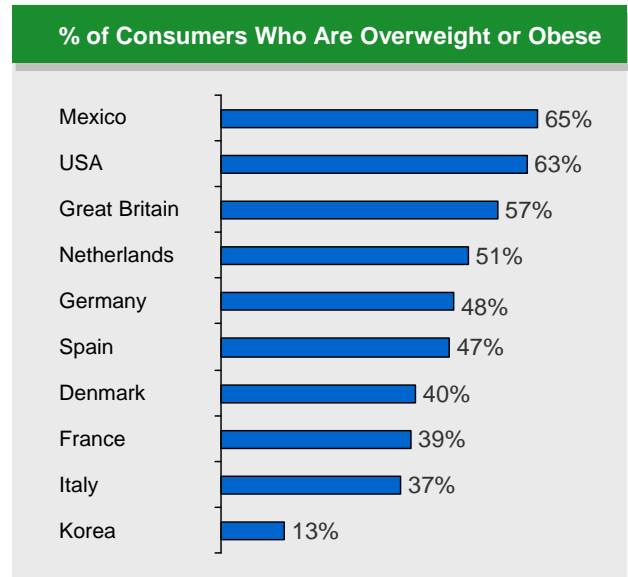
The magnitude of the obesity epidemic in the U.S. is abundantly clear when obesity/overweight rates are compared across countries. According to the recently-published Global Obesity Report from Europanel, in partnership with IRI, nearly two-thirds of U.S. consumers are overweight or obese, compared with just over one-third in France and Italy and only 13% in Korea.

Differences in the prevalence of obesity across countries highlight the influence of lifestyle, which includes not only what we eat, but how much, how often, and how it is prepared, as well as activity levels.

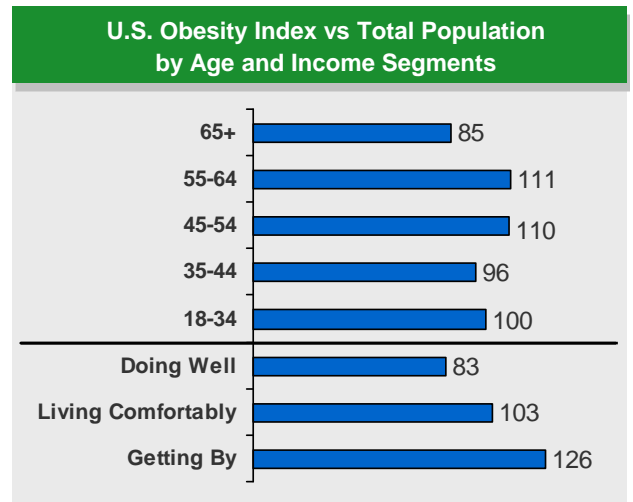
As lifestyle changes are required to address obesity, retailers and manufacturers who provide lifestyle solutions -- including consumer education, easy identification of products consistent with a healthy lifestyle, multi-category product lines and promotions among healthier foods, and value-priced healthy options -- will be well-poised to help consumers win this battle.

These initiatives are particularly important in markets with a high mix of Boomers, who have an above-average incidence of obesity, and in markets with a high mix of lower-income consumers, whose high obesity index likely reflects budget constraints that limit purchases of healthier foods and potentially more limited availability of healthier products in urban areas.

Boomers and lower-income consumers are more inclined to face obesity than other consumer groups.



Source: Global Obesity Report, Europanel/IRI



Source: Global Obesity Report, Europanel/IRI
100 = Average



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GROWTH OPPORTUNITIES WEIGHT MANAGEMENT – PRODUCT TRENDS

Food and beverage products with weight management benefits are outpacing total category sales.

CPG products with weight management benefits, including portion control, low fat and reduced calories, are outpacing total CPG sales by a significant margin. Low carb products continue to decline as consumers gravitate towards more balanced approaches to weight management.

Products achieving the strongest growth provide additional benefits beyond weight management. For instance, portion control products enable guilt-free consumption of favorite snacks and take-it-with-me convenience.

A surge in the availability of 100-calorie products, with 90 on the shelves as of July 2007-- nearly triple the number available just two years ago -- is contributing to continued strong growth.¹

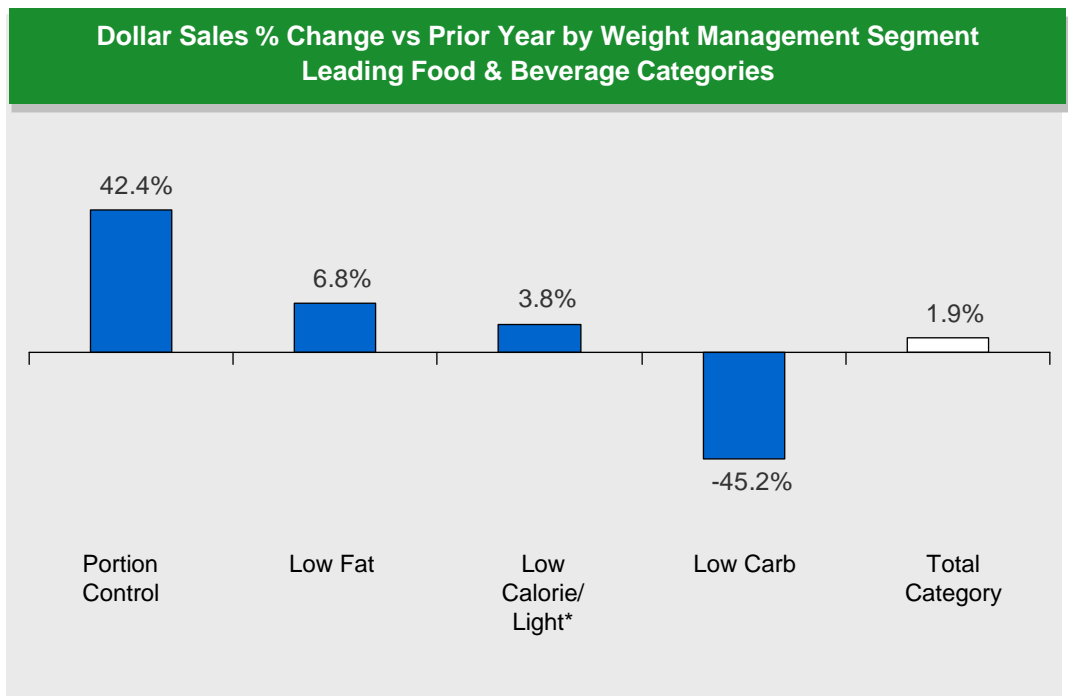
Low fat products appeal not only to consumers watching their weight, but also the growing number of consumers concerned with heart health.

Manufacturers engaged in product development in this space should explore adding multiple health benefits beyond weight management.

Methodology

Based upon an analysis of over 1,000 brands referencing specific dietary benefits in the brand name and/or are known light, low fat or low carb brands across top 20 food and beverage categories.

*Note: The low calorie/light growth trend excludes carbonated beverages, as the total category is experiencing declines as consumers switch to non-carbonated drinks. With carbonated beverages, low calorie/light product sales grew 1.9%



Source: IRI InfoScan © Reviews; 52 weeks ending 9/9/07 and prior year



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GROWTH OPPORTUNITIES WEIGHT MANAGEMENT: FOOD

Light/low fat product development varies widely across categories.

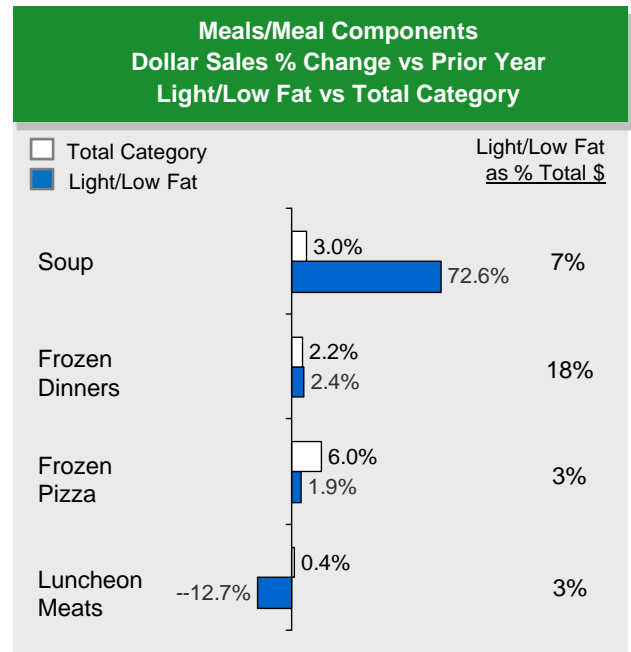
Across food categories, products with weight management benefits have had mixed results.

Among meal solutions and meal components, as highlighted in the top chart, light/low fat soup has experienced exceptional growth. Many of these products are positioned as a healthy option overall – not only for weight management. This healthy lifestyle message seems to resonate with consumers, and multiple benefits beyond weight management broaden product appeal. For instance, Campbell's successful Healthy Request line is low fat but also low in sodium.

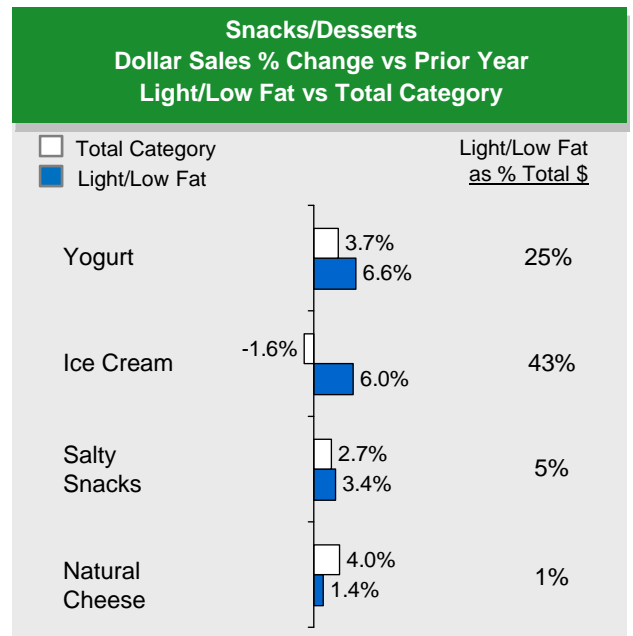
In other meal solutions categories, such as frozen dinners, frozen pizzas and luncheon meats, light/low fat product growth was at or below total category growth rates. However, strong year-one sales for new light products in frozen dinners, including several from Stouffer's Lean Cuisine, illustrate the market potential. Additional innovation in this segment will bolster growth rates.

Among snacks and desserts, there was solid growth among light/low fat products in established categories, such as yogurt and ice cream. Consumers have embraced these products and want more.

By contrast, in salty snacks and natural cheese, light/low fat products have yet to make major inroads. Don't rule out this market, however. Several baked salty snacks are performing significantly better than the category average.



Source: IRI InfoScan® Reviews; 52 weeks ending 9/9/07; FDMx



Source: IRI InfoScan® Reviews; 52 weeks ending 9/9/07; FDMx



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GROWTH OPPORTUNITIES WEIGHT MANAGEMENT - BEVERAGES

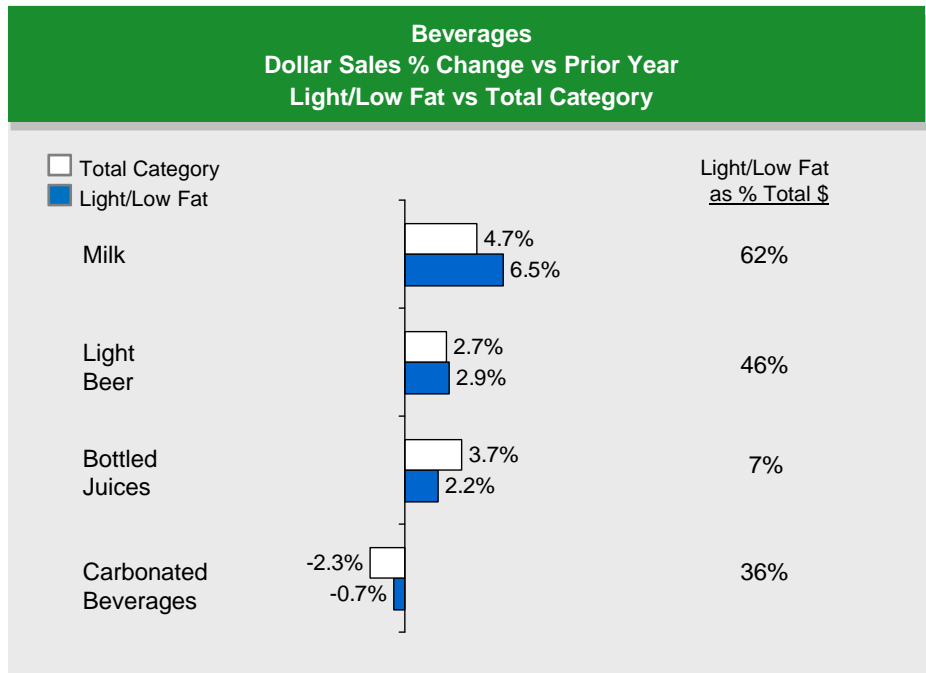
Light alternatives are well-established among major beverage categories.

Light alternatives are well-established among several major beverage categories, including milk, beer and carbonated beverages.

Given the relatively high share of light products across many beverages relative to food, it appears that consumers may be more likely to target beverages for calorie reduction than foods. In addition, the wide availability and variety of light beverages and heavy brand-building investment have contributed to segment development.

Across these categories, growth trends among light options are slightly more favorable than total category growth trends.

Bottled juices are an exception. Comprising under 10% of the market, light products are trailing total category growth. Successful products such as Ocean Spray Light may encourage further new product development in this space that will stimulate new growth.



Source: IRI InfoScan ® Reviews; 52 weeks ending 9/9/07 and prior year; FDMx Beer category sales for food and drug channels combined



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GROWTH OPPORTUNITIES HEALTHY KIDS

Retailers and manufacturers are well-positioned to help parents fight childhood obesity.

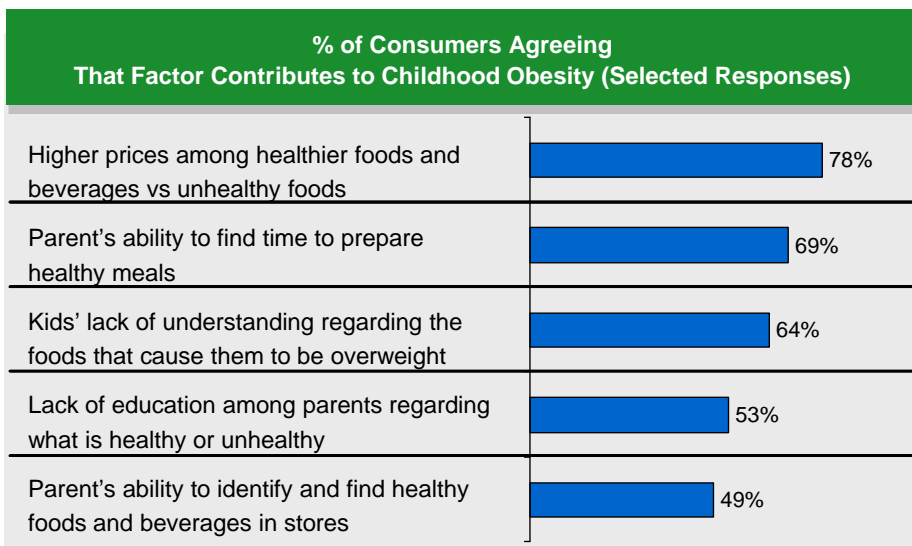
One of the most alarming trends related to the obesity crisis is the rising number of children who are impacted. According to one study, 50% of U.S. kids will be overweight by 2010 if current trends continue.¹

IRI's upcoming Healthy Kids II report identifies parental concerns related to this issue, including the factors that parents believe contribute to childhood obesity. (The Resources section of this report provides more information regarding the Healthy Kids II study.)

A number of these factors, highlighted in the chart below, are areas that CPG manufacturers and retailers can address – helping

parents maintain healthy weights for their children, while also delivering new brand, category and store growth opportunities. CPG marketers should consider the following:

- Increased availability of lower-priced healthy options, particularly among products targeting kids
- Increased availability of fresh, healthy, prepared meals and meal components that appeal to kids
- Education of both parents and children regarding what foods, beverages and lifestyle choices are optimal to promote healthy weight
- Easy identification of healthy products in stores and on packages



Source: IRI Healthy Kids II

1. International Journal of Pediatric Obesity



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GROWTH OPPORTUNITIES HEALTHY KIDS

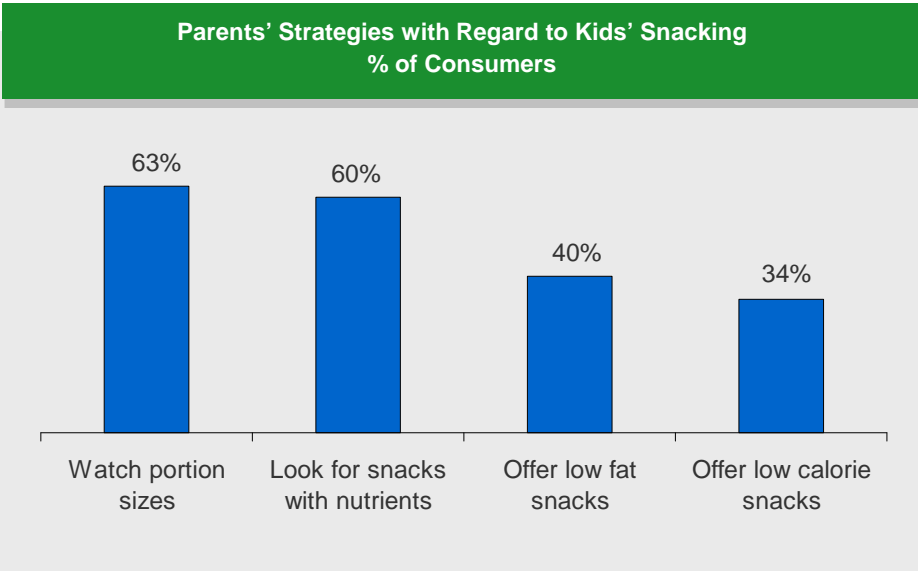
Parents strive to promote overall healthy eating habits among children – not only weight management.

As evidenced by the key factors influencing parents' snack choices for their children, per chart below, parents are more focused on promoting overall healthy eating habits -- including portion control and consumption of foods and beverages offering nutrients -- than on choosing foods and beverages with traditional weight management benefits.

With over one-third of parents choosing low fat or low calorie snacks for their children, there clearly is market opportunity for kid-friendly products with these benefits. The bigger opportunity in weight management, though, appears to be in teaching parents and children about appropriate portion sizes, and continuing to offer convenient portion-controlled snacks.

Further, there is major growth potential among nutritious products that appeal to children. Several manufacturers and retailers are already tapping into this potential. For example, Disney Consumer Products has launched Disney Garden, a new character-themed fruit and veggie snack line for kids. Kroger exclusively offers Disney Magic Selections, a multi-category line including healthy foods and beverages, which contain a "thumbs-up" indicator on package fronts to highlight healthy options.

Leading retailers are also offering nutrition education. Wegmans, for instance, offers "Veggie Patch" classes for children to teach them to make healthy choices.



Source: IRI Consumer Snacking Study 2007



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GROWTH OPPORTUNITIES DISEASE MANAGEMENT

Food and beverages with disease management benefits are poised for growth.

As the population ages, a growing number of consumers will suffer from chronic disease. Incidence of several major ailments increases with age, as noted in the chart below.

For many of these conditions, such as high cholesterol, high blood pressure, osteoporosis and diabetes, special diets are often a key part of the treatment plan.

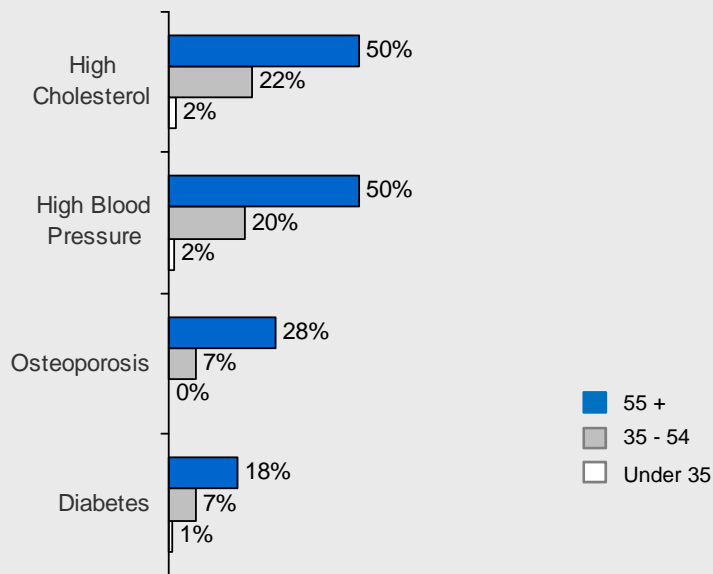
Food and beverage products with disease management benefits, such as reduced fat to aid in cholesterol management and reduced sodium to help with high blood pressure,

are poised for growth. Availability of these products, as well as educational materials, and targeted marketing and merchandising will be particularly important in markets with a high mix of consumers aged 55 and over.

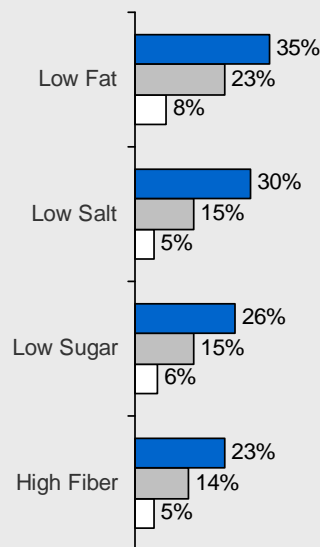
Further, disease management marketing should entail a total store approach, linking the pharmacy with other related products throughout the store. (See the April 2007 *Times & Trends* for additional details.)

Percent of Consumers Suffering from Ailment /Following Specific Diet by Age Group

An aging consumer base will drive a higher incidence of chronic ailments with dietary implications....



..and a higher proportion of consumers following specific diets...



Source: IRI MedProfiler VI; Note: Osteoporosis percentages for females only



CONCLUSIONS CPG MANUFACTURERS

Manufacturers seeking to develop effective brand strategies vis-à-vis consumer health and wellness trends should consider the following action items:

- ▶ Explore new product development opportunities
 - Nutritious products containing servings of fruit, vegetables and whole grain; offer “on-the-go” convenience
 - Products aiding in weight management, particularly those with multiple benefits (eg. convenience benefits of portion control; heart health benefits of low fat, etc.)
 - Natural/organic products, which offer dual positioning of better-for-you and better-for-the-environment
 - Functional food and beverages; strong potential among products contributing to heart health, digestive health, cancer prevention and energy
 - Products with disease management benefits for high-incidence conditions including high-cholesterol, high blood pressure, osteoporosis, diabetes; consumers aged 55+ strong target group
 - Nutritious products and convenient portion control for kids
 - Value-priced healthy brands to reach lower-income consumers

- ▶ Develop/enhance health and wellness marketing campaigns
 - Develop educational awareness campaigns regarding healthy lifestyles as well as specific health benefits of product ingredients
 - Develop targeted marketing campaigns and packaging for high potential segments, eg. Boomers, ailment sufferers, kids
 - Partner with key accounts to tie brand marketing to total store health and wellness initiatives, with links to the pharmacy and health clinics as appropriate

- ▶ Develop/enhance health and wellness merchandising campaigns
 - Leverage shopper insights to assess shopping patterns of healthy brand buyers to identify optimal shelf placement, adjacencies and promotions
 - Cross-merchandise healthy brands with other healthy options to provide solutions to consumers



CONCLUSIONS CPG RETAILERS

Retailers seeking to develop effective strategies vis-à-vis consumer health and wellness trends should consider the following action items:

- ▶ Offer a wide assortment of healthy products, tailored by market
 - Nutritious products containing servings of fruit, vegetables and whole grain
 - Products aiding in weight management – particularly important in markets with a high mix of Boomers and lower-income consumers
 - Natural/organic products, which offer dual positioning of better-for-you and better-for-the-environment
 - Functional food and beverages; strong potential among products contributing to heart health, digestive health, cancer prevention and energy
 - Products with disease management benefits, targeting high-incidence conditions including high-cholesterol, high blood pressure, osteoporosis, diabetes – particularly important in markets with a high mix of 55+ consumers
 - Nutritious products and convenient portion control for kids
 - Value-priced healthy brands to reach lower-income consumers
 - Healthy prepared meals and meal components, including meals with kid-appeal
 - Multi-category health and wellness private label line

- ▶ Develop/enhance health and wellness marketing campaigns
 - Develop lifestyle-based total store marketing campaign, including store signage highlighting healthy products and specific benefits, kiosks with healthy recipes, healthy lifestyles classes for adults and children, etc.
 - Develop targeted marketing campaigns for high potential segments, eg. Boomers, ailment sufferers, kids
 - Build tie-in marketing and promotional programs with the pharmacy and health clinics for products with chronic and acute ailment benefits

- ▶ Develop/enhance health and wellness merchandising campaigns
 - Leverage shopper insights to assess shopping patterns of healthy brand buyers to identify optimal shelf placement, adjacencies and promotions
 - Cross-merchandise healthy brands with other healthy options to provide solutions to consumers



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RESOURCES

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

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 MedProfiler Health & Wellness Survey

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

IRI Healthy Kids II Report

In 2006, IRI released its highly-publicized report, *Understanding Health Trends within Kid-Driven Food and Beverage Categories* that identified a multi-billion dollar health & wellness “sweet spot” revenue growth opportunity for both food retailers and manufacturers.

Available in December 2007, *Healthy Kids II* helps retailers and manufacturers design a wellness platform that will drive sales and loyalty from households with children. The report establishes better-for-you standards across 20 kid-driven categories and also provides a deeper understanding of parent attitudes toward child health issues and potential in-store wellness initiatives.

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TIMES & TRENDS

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MORE INFORMATION

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