Times & Trends

2012 CPG Year in Review:
Finding the New Normal

February 2013

SymphonyIRIGroup

Insight.
Innovation.
Impact.

Today's Economy: Still Searching for a Firm Footing

When SymphonyIRI prepared last year's *Times & Trends* report for the "2011 CPG Year in Review: The Search for Footing in an Evolving Market," we described an economy characterized by doom and gloom with some exciting trends on the horizon.

We forecasted for 2012 that shoppers would continue to define value largely based on price, manufacturers and retailers would pass ongoing commodity price increases on to the shopper, and private label sales would continue in their current ranges. These predictions largely came to pass.

Indeed, 2013 will resemble 2012 in many ways: Shoppers will remain frugal and there will be continuing signs of economic recovery and strengthening. On the one hand, we expect 2013 GDP growth to remain constant at 4.1 percent, and the consumer price index will hold steady at 2.1 percent. However, more positive signs come in the form of unemployment, which is anticipated to drop from 8.1 percent in 2012 to 7.7 percent this year.

Among the trends SymphonyIRI identified in 2012 that we forecast will continue into 2013:

- Shoppers will reduce the number of channels they visit. Those who shop at fewer than five channels grew three percentage points between Q1 and Q4 2012, and we believe this will continue as shoppers limit spending to channels that offer the best value.
- While an increasing number of positive economic signs are emerging, count on shoppers to remain intensely focused on value. There is enough negative news about the federal budget deficit and costs of the new healthcare law, for example, to reinforce shoppers' frugal behaviors left over from the last recession.
- Millennials are becoming the new baby boomers. Millennials are a 50-million-strong shopping group now forming habits and loyalties. Tailoring offerings to this group and providing outstanding service will pay dividends for decades to come, both literally and figuratively.
- "New" media is rapidly becoming traditional media. The trend of shoppers leveraging the Internet for information and deals is growing and will continue to gain momentum, as millennials age and a new generation that is even more tech savvy than millennials enters the market.

We look forward to an exciting 2013, as continuous change often translates to a continuous stream of new opportunities to excite shoppers. I hope you will accept my invitation to continue this discussion at our 2013 SymphonyIRI Summit Conference, April 15-17 at the Wynn Las Vegas. Registration is open now at www.CPGSummit.com!

Best regards,

Piyush Chaudhari
President Americas
SymphonyIRI Group

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Executive Summary: Turning Insights Into Action

INSIGHT	ACTION
On average, CPG unit sales slipped slightly in 2012, and dollar sales growth was driven largely by inflation; grocery and drug channel performance lagged industry average, while the convenience channel was relatively strong	Leverage frequent and granular market assessments to maintain a clear understanding of economic, channel and consumer shifts, and use that knowledge to align marketing programs and/or re-align on-the-fly, as needed
Trends around channel shifting point to a redirecting of CPG spending to fewer channels, specifically those that consumers perceive as offering the greatest value	Develop and prominently tout a value proposition founded on the needs and wants of primary and high-growth consumer segments
Categories that support key consumer rituals, such as self-driven health and beauty care and home-based eating, were among the strongest-performing categories in 2012	Invest to develop and maintain a 360-degree understanding of your most important shoppers, then develop products and/or highly targeted marketing programs that are geared toward protecting and growing share and loyalty among these best shoppers
Private label is experiencing pockets of growth across channels and departments, but national brands are quite competitive and dominating in other areas	National and private label marketers must look for opportunities to develop products across the value spectrum to drive appeal across a broad range of consumers and align attributes, pricing and messaging closely to the needs and wants of the target audience
The future of the CPG industry is being shaped by a variety of interdependent factors, including a changing demographic landscape, new and evolving technologies and a nascent post-recession economy	Constantly re-evaluate marketing programs based on evolving market conditions to ensure ongoing relevance and maximize impact

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Introduction

Three years after the official end of The Great Recession, the new world of consumer packaged goods (CPG) presses on. June of 2010 marked the beginning of the recovery. From the start, few, if anyone, thought the recovery would be quick and easy. Some, perhaps, understood the long and difficult road to recovery, and what a long trip it has been!

The country has certainly made progress toward full economic recovery. In 2012, signs of progress were evident—the Dow Jones Industrial Average passed 14,000 for the first time, the unemployment rate moderated, and economic activity percolated.

But, the country is far from having a firm foothold on growth and stability, and consumers and marketers alike are very aware of this reality.

As a result, 2012 was yet another year marked by conservative consumer behaviors. The pursuit for value is as intense as ever, and it has served to amplify industry competition.

Consumers' conservative mindsets are placing considerable downward pressure on industry growth trends. Marketers, in turn, are revving up their engines in an effort to stimulate growth.

Innovation that supports key consumer rituals—those around self-driven, home-based living, for instance—is being well received in the marketplace and, in some instances, is helping to spur growth.

Private label is showing growth in some channels, categories and retail banners. But, in other areas, national brands are standing strong—even showing growth.

New technology is evolving on a seemingly daily basis, and these technologies are impacting all of the Ps of marketing—products, pricing, promotion and placement (distribution).

This is the story of an evolving consumer packaged goods industry. It is an industry that is moving toward a new tomorrow.

But, to move ahead effectively, it is important to begin by reflecting on the past. After all, history is the best teacher.

The year 2012 certainly provided many lessons for CPG marketers. This issue of *Times & Trends* explores those lessons through the lens of economic, channel, department and category performance. The report is intended to help CPG marketers understand those lessons and resulting market opportunities and risks by benchmarking performance versus the industry.

Economic Overview: 2012 Performance / 2013 Projections

Economic Snapshot
2008-2013P

Economic Measure	2008	2009	2010	2011	2012	2013P
GDP (% chg)	1.9%	-2.2%	3.8%	4.0%	4.1%	4.1%
Unemployment (%, SA)	5.8	9.3	9.6	8.9	8.1	7.7
Consumer Price Inflation (% Chg)	3.8%	-0.3%	1.6%	3.1%	2.1%	2.1%
Retail Sales (% Chg)	-1.2%	-7.1%	5.5%	8.0%	4.9%	3.1%
Residential Permits, Total (Mil)	3.6	2.3	2.4	2.5	3.2	4.8

Source: Moody's Economy January 2013

The United States economy is showing signs of positive momentum but several hurdles threaten to quickly derail the recovery, tempering expectations for a strong growth in 2013.

In 2012, the U.S. economy continued a slow march toward more stable footing. Gross Domestic Product (GDP), the broadest measure of economic activity within the United States, inched in a northward direction, ending the year at 4.1%. The Dow Jones Industrial Average was strong, on a fairly consistent upward march. The unemployment rate fell to 8.1%, inflation slid to 2.1% and new home starts inched up to 3.2 million, supported by exceptionally low interest rates.

While this is certainly progress, two measures of our nation's economic health remain uncertain. Underemployment, which measures the share of the workforce that is employed but not in the desired/optimal capacity, remains quite high and close to the 2011 level of 15%.[1] And, our burgeoning debt remains unaddressed. The "fiscal cliff" was averted at the end of 2012, but this was accomplished by pushing back deadlines to later in 2013. It is now up to the newly elected Congress to achieve legislation that will allow the country to meet its needs and wants while managing/ alleviating the debt situation.

Reverberations from this economic rollercoaster have been felt throughout the CPG industry for several years now, and 2012 was no exception.

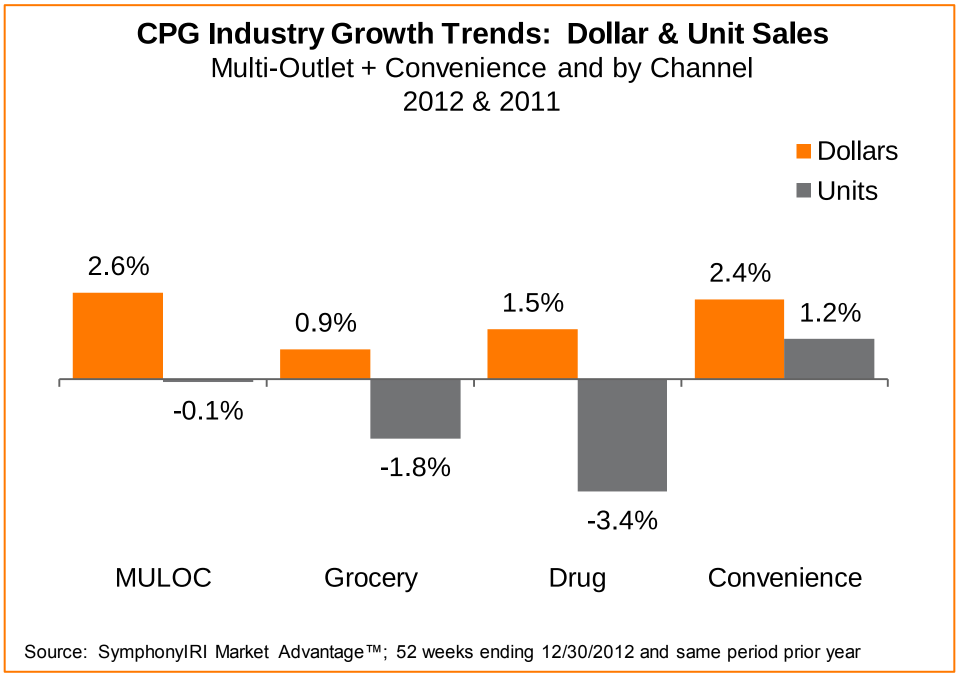
According to SymphonyIRI's MarketPulse survey, 43% of consumers feel that their situation has deteriorated during the past 12 months and 45% feel that their financial situation is stagnant, unchanged from a year ago. Additionally, 73% expect that their financial situation will deteriorate or remain unchanged in the coming year.

Heavily influenced by this ongoing economic instability, Downtrodden and Cautious and Worried shoppers, the most financially strained and pessimistic among SymphonyIRI's Economic Segmentation, still account for nearly 40% of U.S. households.

In an attempt to ease budgetary strain, consumers are embracing a wide variety of money-saving strategies. These strategies are impacting all phases of the CPG purchase cycle, from planning to consumption. The pages that follow provide insights into the behaviors of today's capricious consumers and the impact those behaviors are having on CPG growth trends.

[1]Source: Economic Policy Institute; [2] The Fiscal Times, July 2012

Industry Performance: Total CPG Growth Trends



In 2012, CPG industry unit sales trends were was largely flat, but channel level trends varied, with the convenience channel standing out as a top performer.

In 2012, unit sales across the multi-outlet geography slipped slightly, while dollar sales, aided by inflation, grew 2.6%. To be explored on this page and the pages that follow, trends vary rather notably across channels, departments and categories.

For the year, the convenience channel outperformed competing channels by a wide margin as the only channel to win both dollars and units.

Detailed in the December 2012 edition of *Times & Trends*, growth within the convenience channel has been supported by a number of factors. First, convenience stores are growing in population (+0.7% in 2012, and +1.2% in 2011), and this increased density is making the channel readily available to more and more shoppers. Secondly, the convenience store format is well-suited to accommodate consumers' quests for quick and easy on-the-run food and beverage options, often with the added benefit of fueling up the automobile at the same time.

Unit sales slid most sharply in the drug channel during the past year. Illustrated later in this report, part of this decline is attributable to a 2.7% decline in trip frequency. Another, perhaps related, contributor is increased competition—both online and traditional brick and mortar—that is impacting all CPG channels.

"We're seeing new competition emerge [outside of the drug channel] that we have to recognize and anticipate."

~ Greg Wasson, Walgreens president and CEO

Of particular note vis-à-vis drug channel share is the fact that the dollar channel has shown strength during the past year. And, because the drug channel shares many similarities with the dollar channel—store footprint, geographic proximity, some aspects of assortment—it is particularly susceptible to cannibalism.

The grocery store channel also saw unit sales decline during 2012, though not quite as sharply as the drug channel. Like the drug channel, though, trips to grocery slid during the year.

The grocery channel is also struggling against growing competition, as retailers across channels broaden assortment of food and beverages and place increased focus on health, beauty and home care, as well as their store brand programs.

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Industry Performance: Channel Share Shifts

According to SymphonyIRI's MarketPulse survey, nearly a quarter of consumers are having difficulty affording weekly groceries. Among the nation's youngest shoppers, the struggle is even more widespread, with 30% of millennials finding it hard to keep the household stocked.

Given the pervasiveness of budgetary duress these days, it's no surprise to see buy rate, measured by volume sales per 1,000 households, growing across most CPG value channels and sliding across the more traditionally priced channels.

In the supercenter channel, widely viewed as less expensive versus other CPG channels, buy rate increased 4.1% in 2012. Dollar and mass merchandise channels also saw buy rate increase for the year. All other measured channels experienced declines.

Despite a 2.7% decrease in the grocery channel buy rate, grocers still hold 40.7% dollar share across the multi-outlet geography. But, both buy rate and share have been on a negative trajectory for the past several years, a telltale reminder of the increasingly competitive nature of the CPG marketplace and a movement toward formats that allow for more of a one-stop shop.

In the drug channel, buy rate slid 6% during 2012, following two years of very strong growth. To be explored later in this report, the channel struggled across a number of departments last year, in particular, stronghold health and beauty care aisles.

The convenience channel was able to maintain its share of 18.2% in 2012. Factors impacting this trend will be explored throughout this report and in greater detail in a special convenience channel edition of *Times & Trends*, to be published later this year.

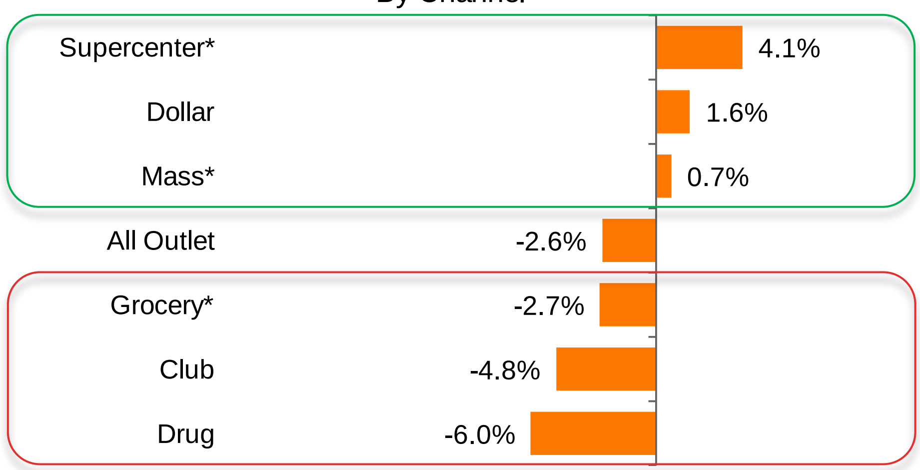
CPG Dollar Share Shifts by Channel

	Channel Share 2012	Share Point Change 2012 vs. 2011	Share Point Change 2011 vs. 2010
Grocery	40.7%	(0.7)	(0.5)
Drug	6.6%	(0.1)	0.0
Convenience	18.2%	0.0	+0.1

Source: SymphonyIRI Market Advantage™; 52 weeks ending 12/30/2012 and same period prior year

The grocery channel lost more than one-half share point in 2012, while drug and convenience share remained flat.

Buy Rate
Volume Sales Per 1,000 Households, % Chg 2012 vs. 2011
By Channel



* Excludes Walmart
Source: SymphonyIRI Consumer Network™; 52 weeks ending 1/13/2013 and same period prior year

Changing buy rate trends indicate a migration to value channels, including mass merchandise, supercenter and dollar stores.

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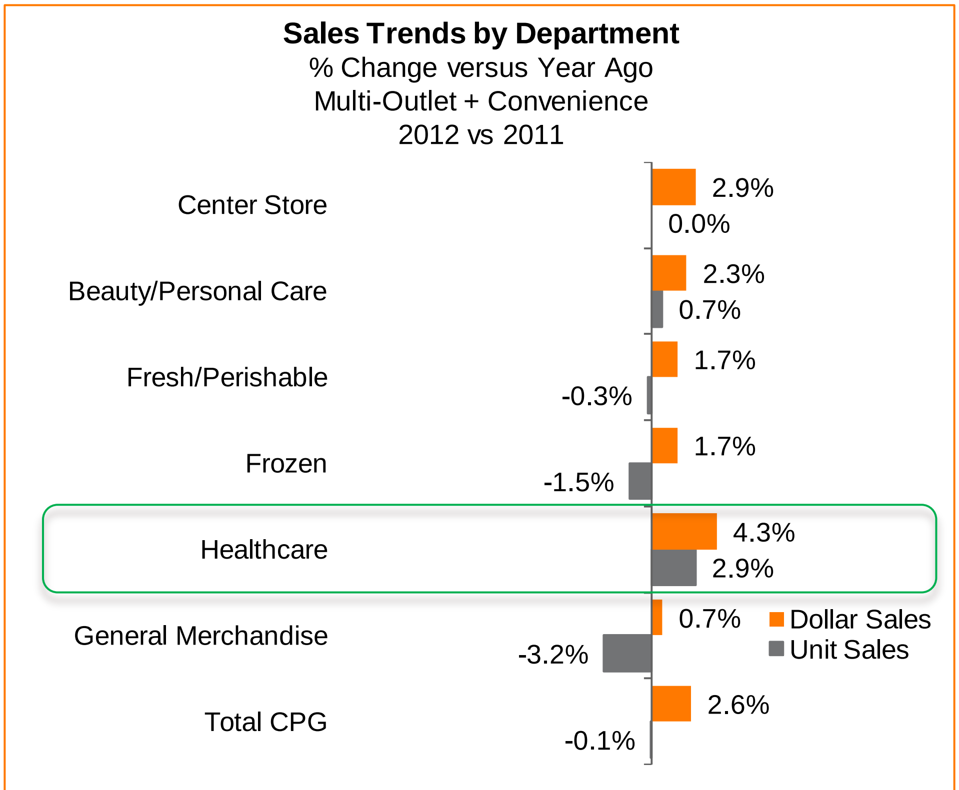
Category & Department Growth Trends: Department Level Growth Trends

Self-driven healthcare has become a cornerstone of consumers' efforts to save money during the course of the economic downturn. In fact, 40% of consumers are self-treating for simple ailments today in an effort to save money on visits to the doctor.[1] Among millennials and Gen-Xers, self-reliant healthcare is even more commonplace.[2]

Rituals in the area of home-based prevention and treatment have opened the door to significant opportunity for CPG marketers and have helped to propel unit sales growth that far outpaces industry average growth. For the year, healthcare unit sales increased by 2.9% across the multi-outlet geography. Three-quarters of healthcare categories experienced positive unit sales growth.



Source: SymphonyIRI Market Advantage™; 52 weeks ending 12/30/2012 and same period prior year

Healthcare department sales outpaced industry average and surrounding departments by a wide margin in 2012.

Among the strongest performers are weight control/nutritional liquids/powders and vitamins, which posted unit sales growth of 12.7% and 5.4%, respectively. These categories will be discussed in more detail later in this report.

The general merchandise department continues to struggle against sizable unit sales declines, sliding 3.2% during 2012. This department has been particularly hard hit by consumers' efforts to reduce or eliminate purchases not deemed "essential" for several years now. In 2012, 62% of general merchandise categories experienced unit sales declines, including declines in four of the department's largest five categories.

Across other areas of the store, trends are mixed. The only department aside from healthcare to see positive traction was beauty and personal care, where unit sales inched up 0.7%. In this department, strong performers, such as nail cosmetics, soap and skin care, enjoyed respectable increases which helped to offset declines in other sizable categories, including diapers and toothpaste.

Detailed in the December 2012 edition of *Times & Trends*, the center store outperformed the industry average by a small margin. For the year, center store unit sales were flat. In center store, categories that helped serve pervasive consumer rituals, including beer/ale/alcoholic cider and snack/granola bars, which serve home-based dining and entertaining rituals, are among top performers.

[1]Source: SymphonyIRI MarketPulse Survey, Q4 2012; [2] SIC

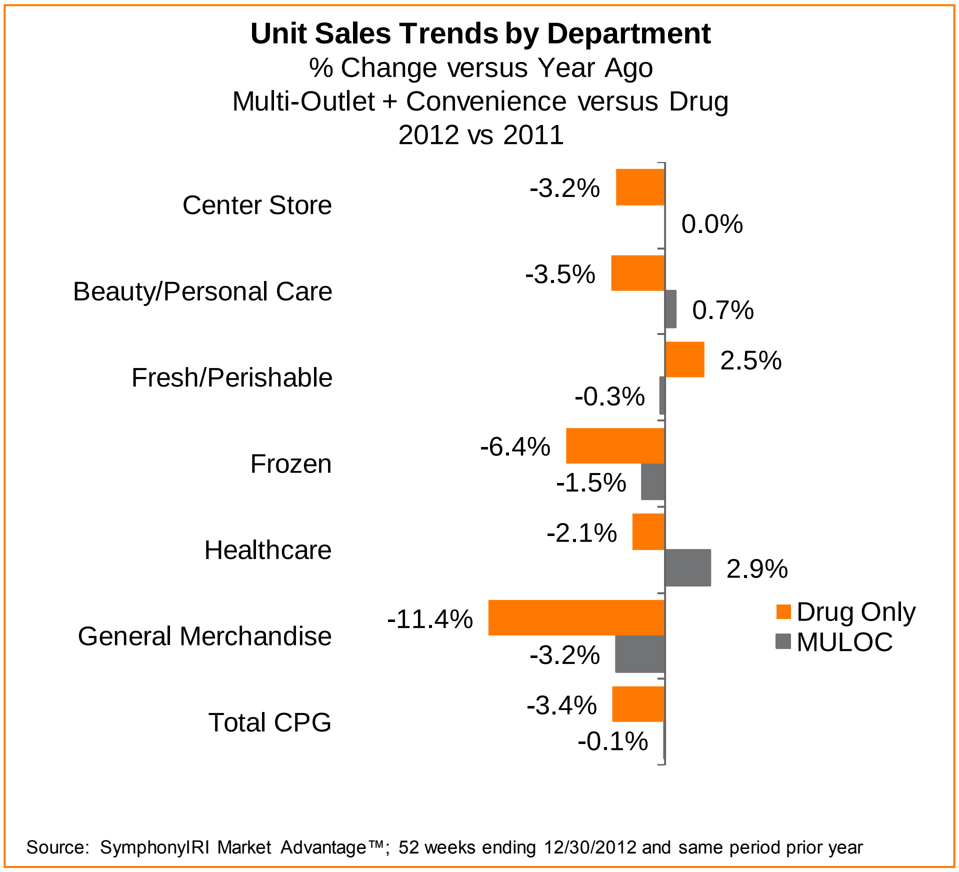
Category & Department Growth Trends: Drug Channel Growth Trends

Mentioned earlier in this report, drug channel sales trends lagged industry average by a noteworthy margin during 2012. The channel's performance gap spanned a majority of departments.

Still, sizable gains are being made across some of the channel's largest fresh/perishable categories. For instance, refrigerated fresh eggs saw unit sales increase more than 12% for the year and natural cheese grew more than 7%. These categories are key staple categories, and ideal for quick trip and fill-in missions—trip missions for which drug retailers are well positioned to compete based on a relatively small footprint and convenient locales.

The drug channel lagged industry average by a wide margin in the healthcare and beauty and personal care departments. In beauty and personal care, drug retailers saw unit sales decline in 83% of categories, including eight of the 10 largest categories. The healthcare department performed only slightly better, with unit sales falling across 66% of categories and seven of the 10 largest categories.

Each of these departments accounts for more than one-quarter of drug channel sales. These have long been stronghold departments. But, they are under threat from increasing competition.



Drug channel performance lagged industry average across most departments in 2012.

Detailed later in this report, trends point to a future where consumers direct their CPG dollars to fewer channels—those channels that offer the best value on the items they need. To this end, as mentioned earlier, value channels have picked up momentum during the past year.

Mentioned earlier, the dollar channel is well-positioned to compete for key drug channel shoppers due to similar geographic profiles and store footprint, as well as some commonality vis-à-vis assortment.

And, detailed in the August 2012 edition of *Times & Trends*, dollar retailers have captured share in both healthcare and beauty and personal care during the past year.

Category & Department Growth Trends: Top Ten Category Growth

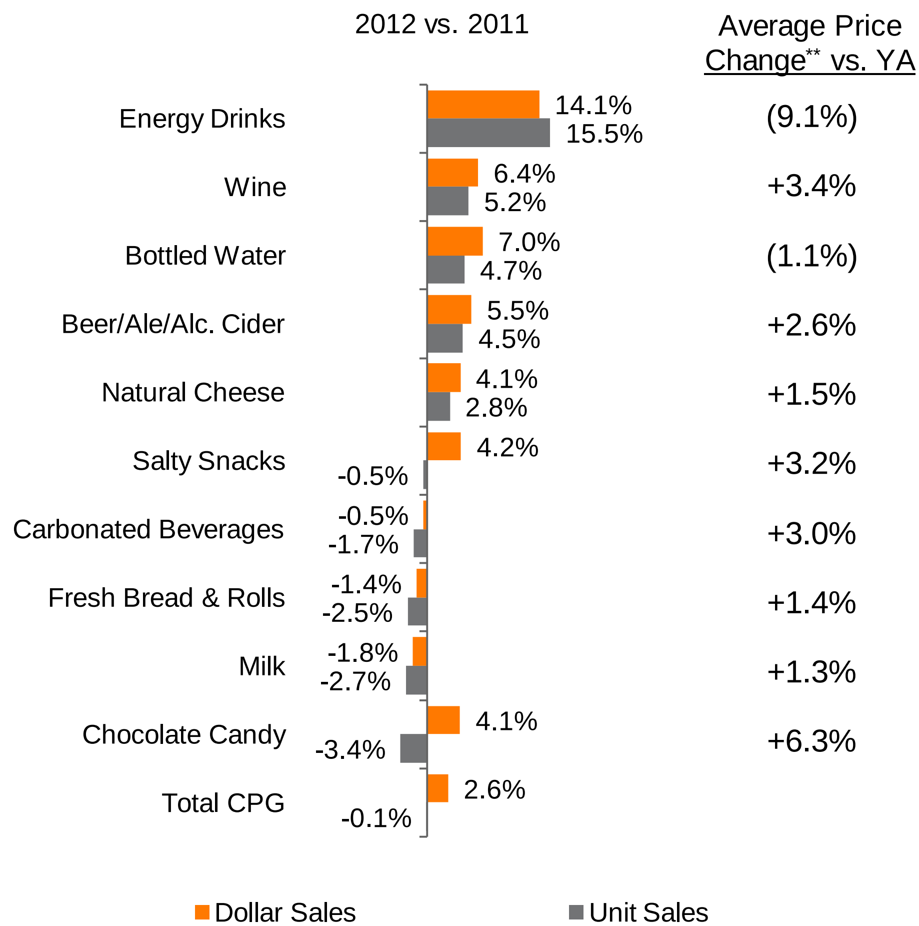
Performance across the 10 largest CPG categories was mixed during the past year. Five of the 10—energy drinks, wine, bottled water, beer/ale/alcoholic cider and natural cheese—enjoyed solid traction during this timeframe, supported by on-the-go convenience and home-based eating and entertaining and, for energy drinks, evolving lifestyle trends.

According to SymphonyIRI's MarketPulse Survey, more than one-third (36%) of consumers go out with family and friends for entertainment less today than they did before the economic downturn began. Socializing in the home, after all, is generally less expensive versus meeting out at a restaurant or bar. So, despite the fact that wine saw average price per volume climb 3.4% and beer/ale/alcoholic cider experienced an average price increase of 2.6% in 2012, purchasing these products through CPG channels for home consumption is generally less expensive than purchasing them on premise for dine-out consumption.

New product introductions, too, are helping to support growth across these categories. In fact, nearly all of the five categories that are showing growth will be represented among the ranks of SymphonyIRI's 2013 New Product Pacesetters, an analysis of the best-selling product launches of 2012. The New Product Pacesetters report will be published in April of 2013.

In bottled water, natural cheese and energy drinks, marketers are effectively

Top 10 Categories* Dollar & Unit Sales
% Change versus Year Ago
Multi-Outlet + Convenience
2012 vs. 2011



*Based on multi-outlet dollar sales. ** **Average price change based on price per volume analysis.
Source: SymphonyIRI Market Advantage™; 52 weeks ending 12/30/2012 and same period prior year

Performance across top CPG categories is split with half outperforming industry average and the other half lagging.

connecting with consumers and delivering value by stepping up merchandising support. Share of volume sold with merchandising support increased more than two points in energy drinks and more than one point in both bottled water and natural cheese.

Some of these efforts hit on multiple pervasive consumer rituals. For instance, Nestle Waters recently ran a "scare off your thirst" free-standing insert (FSI), which featured a money-saving coupon for its "Minis-to-go" 8- ounce bottles—quenching thirst on the run![1]

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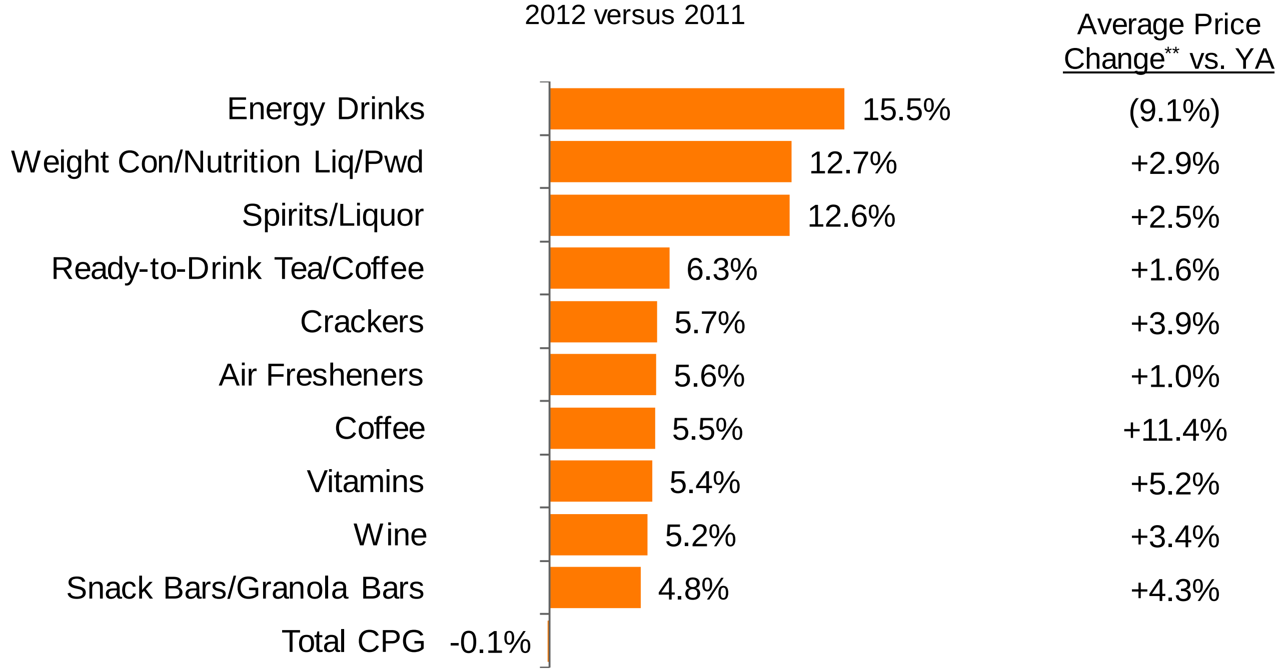
[1]Source: Path to Purchase Marketing Institute Website

Category & Department Growth Trends: High-Growth Categories

Top 10 Growth Categories
Based on Unit Sales % Change versus Year Ago
Multi-Outlet + Convenience
2012 versus 2011



*Based on multi-outlet dollar sales. ** **Average price change based on price per volume analysis.
Source: SymphonyIRI Market Advantage™; 52 weeks ending 12/30/2012 and same period prior year

A majority of the fastest-growing CPG categories satisfy consumers' quests for on-the-go satiation, and beverages are well-represented in the ranks of strong performers.

The top-performing categories of 2012 tell the story of today's consumers. Many of these categories cater to consumers' desires for a home-based, but on-the-go approach to eating, while others are helping consumers manage and/or improve their health and, hopefully, save money along the way.

The fastest growing category of the year is energy drinks. This category has shown strong growth for a number of years now, supported by a steady stream of successful new market entrants, including smaller-sized packaging, which has helped to drive down average price.

Innovation is playing a key role in driving growth among a number of other categories, as well. For instance, Ensure with Revigor and Pediasure SideKicks helped to propel the weight control/nutrition liquids/powders category last year, and single-cup coffees continue to accelerate growth for the coffee sector.

Two alcoholic beverage categories, spirits/liquors and wine, are among the fastest-growing categories of 2012. These categories are benefitting from consumers' home-based dining and entertaining rituals.

Additionally, wine is enjoying increased penetration based on a younger segment of consumers entering the marketplace and their taste for some of the sweeter wine varieties, and the spirits category is seeing innovation in 80-proof spirits, particularly with flavors, as well as new types of pre-mixed cocktails.

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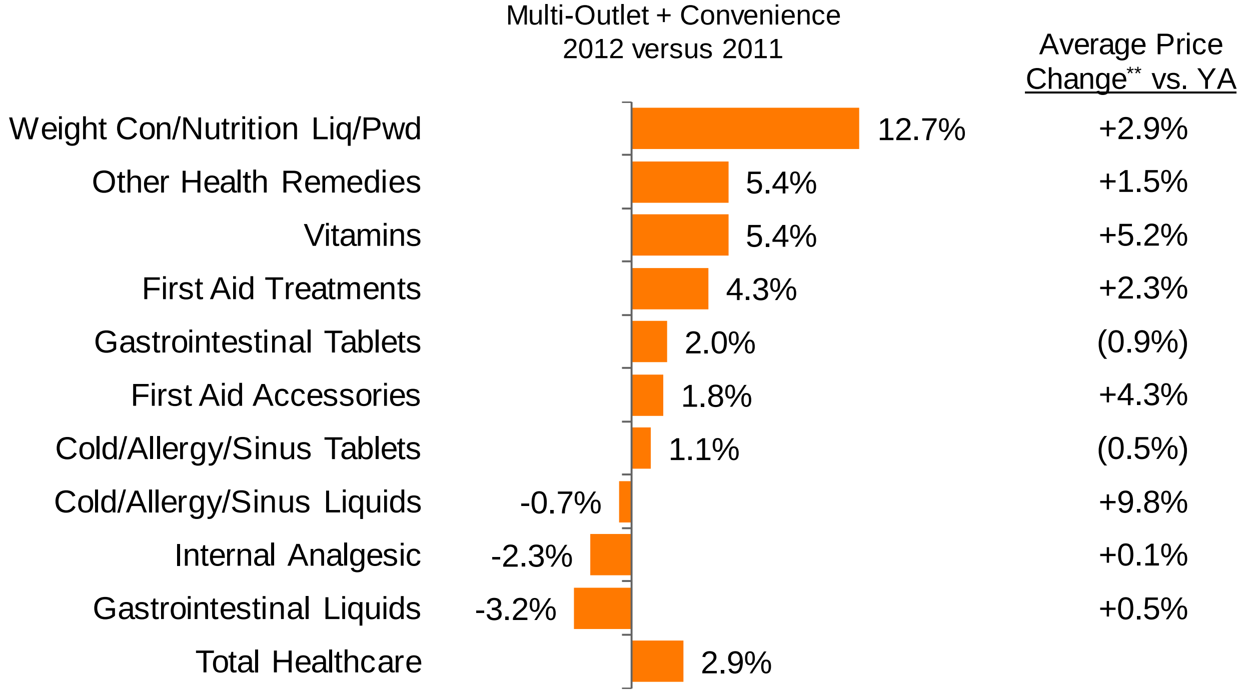
Category & Department Growth Trends: Drivers of Growth - Healthcare

Top 10* Healthcare Categories
Unit Sales % Change versus Year Ago
Multi-Outlet + Convenience
2012 versus 2011



*Largest categories, based on dollar sales. **Average price change based on price per volume analysis.
Source: SymphonyIRI Market Advantage™; 52 weeks ending 12/30/2012 and same period prior year

Four of the top 10 healthcare categories outperformed department average in 2012.

The healthcare department has been a bit of a beacon throughout the downturn, outperforming the industry and other departments on a fairly consistent basis throughout the last several years.

In 2012, healthcare department unit sales grew by 2.9%, outpacing industry average and other departments by a wide margin.

A major reason for this strength is the fact that consumers' self-reliant approaches to healthcare continues, with many efforts focused on prevention and overall healthier lifestyles. Also, mentioned earlier in this report, many consumers are self-treating for simple ailments in order to trim back visits to the doctor, saving time and money. An equally important influencer, of course, is the fact that the U.S. population is aging.

Detailed in the September 2012 edition of *Times & Trends*, the healthcare department accounts for more than 5% of CPG spending, on average, and increases as consumers age. This is a sizable budget line item, and one that consumers are actively managing. So, while consumers are practicing self care, they are doing so with a frugal approach, and this is having a negative impact on growth trends.

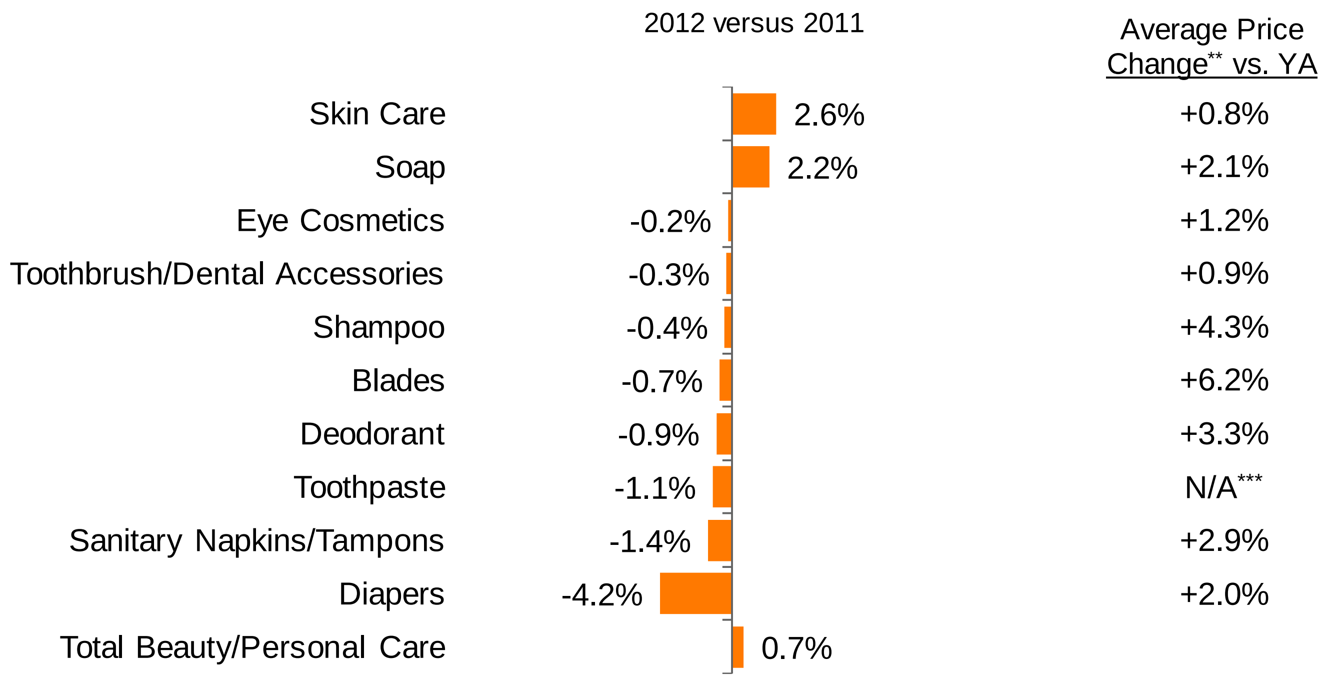
Today, 35% of consumers are trying to cut back on use of over-the-counter medications.[1]

This eye toward conservation is evidenced by the fact that, though the healthcare department as a whole is strong, six of the 10 largest categories failed to achieve department-average pace of growth. Still, for the year, seven of the 10 largest healthcare categories enjoyed positive unit sales growth, a reminder of the opportunity to be had in aligning to serve widespread consumer rituals.

[1]Source: SymphonyIRI MarketPulse Survey, Q4 2012

Category & Department Growth Trends: Drivers of Growth - Beauty & Personal Care

Top 10* Beauty/Personal Care Categories
Unit Sales % Change versus Year Ago
Multi-Outlet + Convenience
2012 versus 2011



*Largest categories, based on dollar sales. **Average price change based on price per volume analysis. ***Because a number of different volume equivalencies are present within this category, volume measures are not available.

Source: SymphonyIRI Market Advantage™; 52 weeks ending 12/30/2012 and same period prior year

A majority of top beauty and personal care categories experienced unit sales declines during 2012, despite the fact that the department as a whole saw a small growth uptick.

Nearly 60% of beauty and personal care department categories experienced unit sales declines during 2012, including eight of the 10 largest categories. Nonetheless, the department, on average, eked out a small unit sales uptick. For the year, beauty and personal care department unit sales increased 0.7% across multi-outlet geographies, slightly better versus industry average.

As discussed with regards to the healthcare department, beauty and personal care categories are being influenced by conflicting forces. Sales are benefitting from pervasive home-based, self-administered beauty and personal care practices. But, consumers are approaching beauty and personal care very conservatively.

For instance, 39% of consumers are trying to make beauty care products last longer through less frequent use and similar strategies, and 30% of consumers are sharing more products amongst household members rather than buying specialized products.

Innovation that enables consumers to achieve salon/professional-like results helped to boost performance in skin care, nail care and soap, which were among the department's top-performing categories for the year. Several launches in these areas achieved the ranks of SymphonyIRI's New Product Pacesetter and will be explored in greater detail in the April 2013 edition of *Times & Trends.*

In beauty and personal care, another of the top performing categories for the year was nail cosmetics, which also received a significant boost from innovation that caters to the at-home salon. Gel strips, nail stickers, and magnets have taken home-based nail care to a whole new level.

Category & Department Growth Trends: Pricing – High-Increase Categories

According to the U.S. Department of Agriculture (USDA), prices on food at home climbed an average 2.5% in 2012, driven, in part, by drought conditions in the Midwest. Due to the lag time in commodity prices hitting the retail marketplace, the full effects of the drought are expected to have a more significant impact on 2013 inflation, which is predicted to end the year at 3.0% to 4.0%.[1]

Crop circumstance played a strong role in extremely high price increases in the peanut butter category, by far the segment experiencing the highest price per volume increase in 2012. The peanut crop was off in the 2011-2012 season, but lingering effects shook through the retail marketplace during the past year. Crops this past season were quite strong, and this will likely help to ease retail peanut butter prices in the coming year.[2]

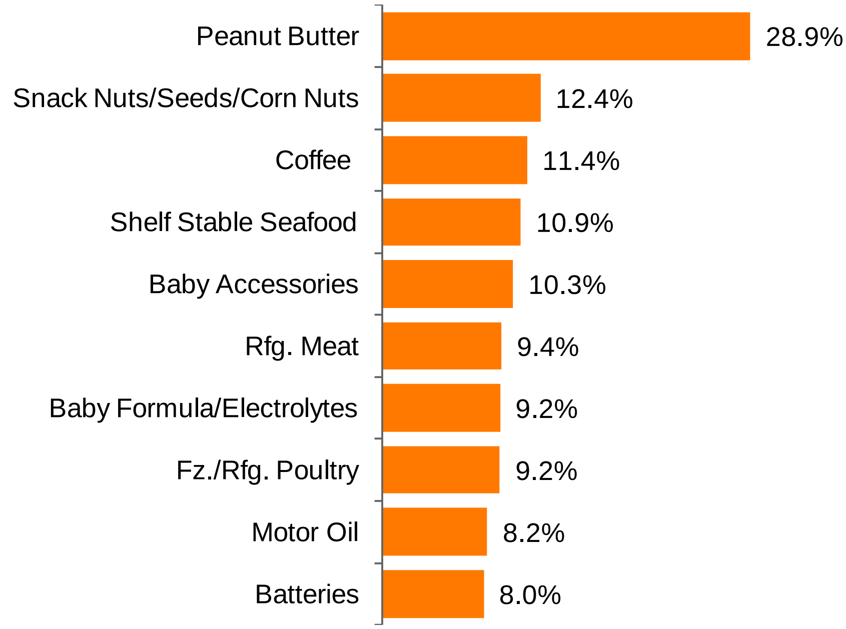
Trends in level of merchandising support across the highest price increase categories was mixed for the year, with six of the 10 categories seeing increased support and the others seeing declines. Each of these categories, though, experienced a noteworthy decline in lift from merchandising support.

Detailed in the January 2013 edition of *Times & Trends*, decelerating sales lift is quite widespread today. In 2012, 80% of categories saw diminished lift. This trend speaks volumes about the need for CPG marketers to re-evaluate their merchandising programs, investing the time and money to study the variety of new tools at their disposal today and how the marrying of those tools with already-established tools can add punch to programs and invigorate sales.

Categories with the Largest Price Increases*

Multi-Outlet + Convenience

2012 versus 2011



*Among top 100 SymphonyIRI Reviews categories, based on price per volume analysis.
Source: SymphonyIRI Market Advantage™; 52 weeks ending 12/30/2012 and same period prior year

Price increases across some CPG categories were significantly higher than the industry average rate of inflation of 2.5%.

In some of the categories that saw substantial price increases last year, including shelf-stable seafood and refrigerated meat, private label made noteworthy share gains.

Discussed frequently in *Times & Trends* during the last couple years, store brands offer consumers an opportunity to save considerably. And, through SymphonyIRI's 2012 Brand and Retailer Loyalty survey, virtually all (94%) of consumers feel that private label products offer the same or better value versus their national brand competitors. As a result, nearly half of consumers, on average, are buying more private label products today than they were before the downturn. And, in several consumer segments, including households earning less than $35,000, millennials and moms, an even higher share of consumers has stepped up private label purchase activity. Private label will be discussed in greater detail on the pages that follow.

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[1]Source: The Food Institute; United States Department of Agriculture; [2] SIC

Category & Department Growth Trends: Private Label Share Trends

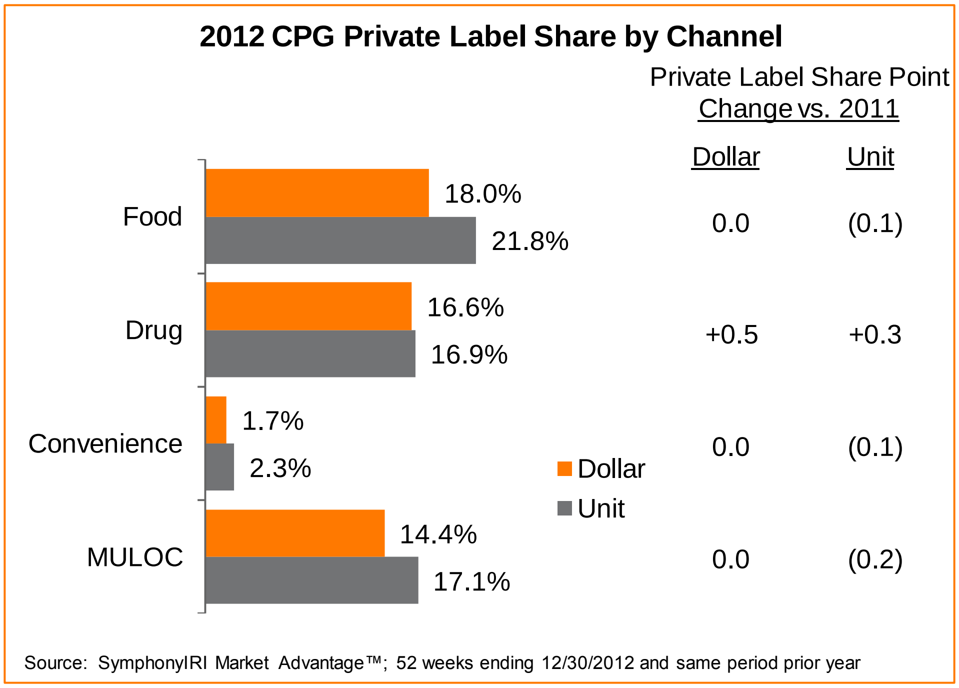
Private label penetration is nearly 100% as consumers have clearly made private label part of their repertoire. And, during the course of the economic downturn, SymphonyIRI's MarketPulse survey indicates that many consumers have stepped up private label purchase habits.

Yet, during the past year and at the multi-outlet level, private label share of unit sales slipped slightly while dollar share remained unchanged.

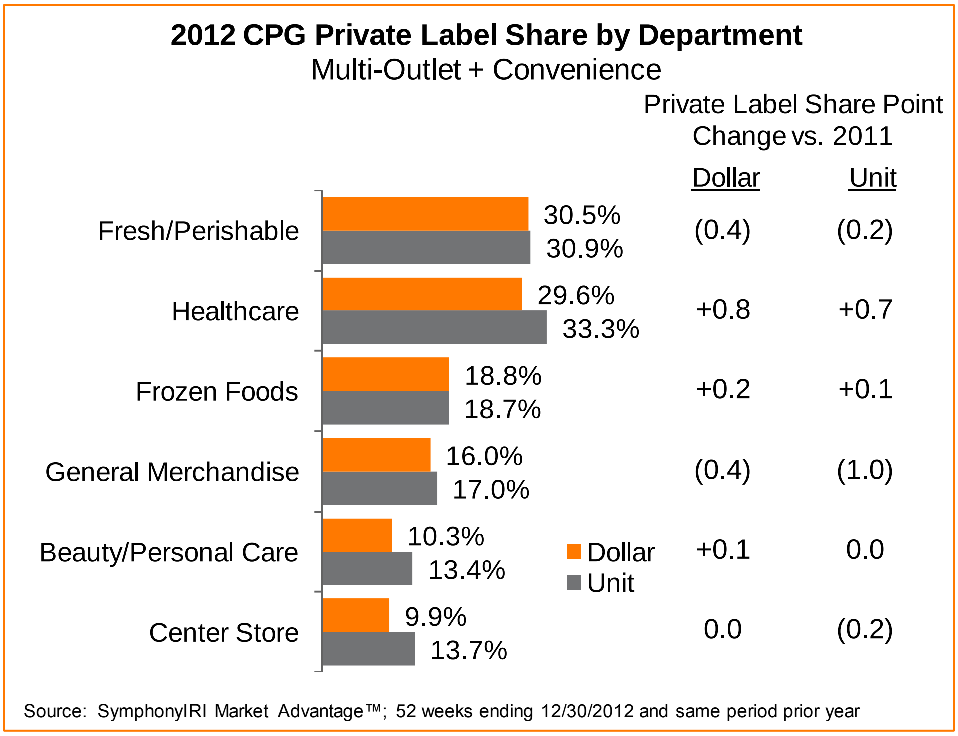
Today, private label accounts for 17.1% of unit sales and 14.4% of dollar sales at the multi-outlet level. The grocery and drug channels hold above-average private label share, while convenience channel share was considerably lower, at 2.3% of unit sales and 1.7% of dollar sales.

The charts on the right-hand side of this page illustrate the story told in the November 2012 edition of *Times & Trends*—that private label is experiencing pockets of growth across channels and departments, but national brands are quite competitive and dominating in other areas.

Growth is strongest in the healthcare department, supported by strong growth in key categories, such as cold/allergy/sinus tablets and internal analgesics. Even in this department, though, national brands are winning share in some key categories. Weight control/nutrition liquids/powders and vitamins, for instance, are categories in which national brands are winning.

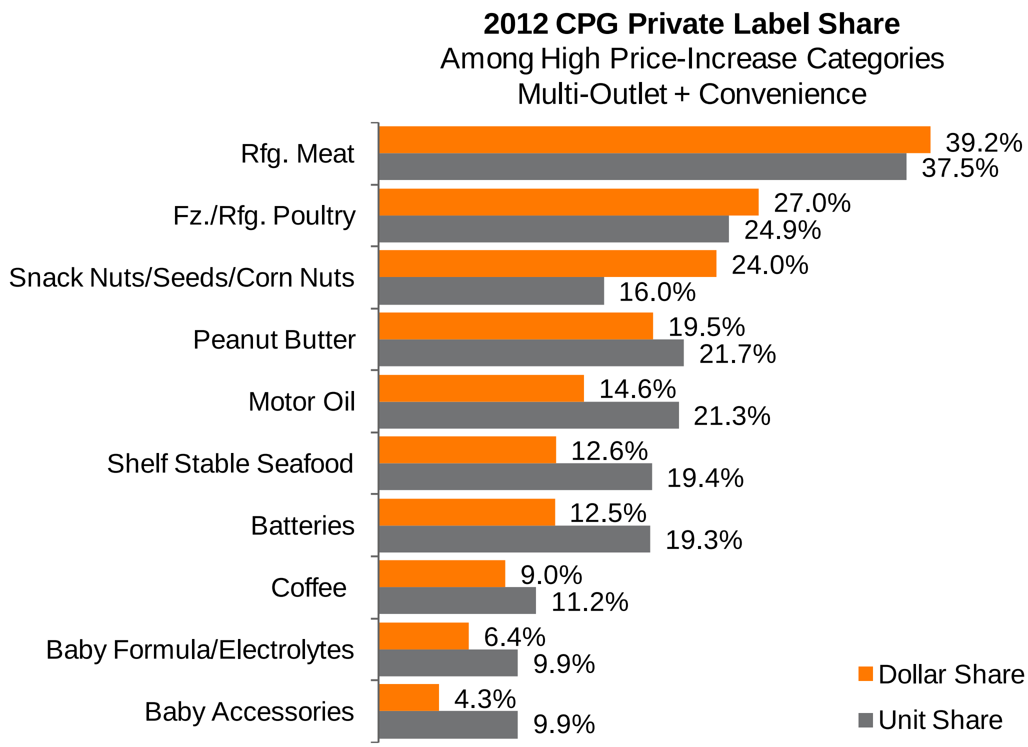


Private label share is highest in grocery, but the drug channel is showing momentum.



Private label traction varies across departments and is strongest in the healthcare department.

Category & Department Growth Trends: Private Label Share Trends



Private Label Share Point Change vs. 2011

	Dollar	Unit
Rfg. Meat	(1.2)	(1.9)
Fz./Rfg. Poultry	+0.6	+0.7
Snack Nuts/Seeds/Corn Nuts	(0.2)	(0.1)
Peanut Butter	+0.1	(1.1)
Motor Oil	(0.1)	0.0
Shelf Stable Seafood	+1.4	+2.2
Batteries	+0.1	(0.5)
Coffee	(1.1)	(1.1)
Baby Formula/Electrolytes	(0.1)	+0.5
Baby Accessories	(0.1)	(0.7)

Source: SymphonyIRI Market Advantage™; 52 weeks ending 12/30/2012 and same period prior year

Private label share trends across high price increase categories were mixed, with share slides attributable to national brand efforts to elevate their value proposition as well as new product innovation.

Even among the categories experiencing sizable price increases during 2012, private label share trends are mixed. In fact, private label share fell across six of the 10 largest price-increase categories.

Share losses were sharpest in the refrigerated meat category. In this category, private label unit share fell by 1.9 points to 37.5%. Because this category serves home-based eating rituals, it makes sense that national brands refrigerated meat marketers are focused on protecting and growing share.

While overall refrigerated meat volume sold with merchandising support slipped slightly, price-only actions became more prevalent, today accounting for nearly 14% of volume, versus 12% in 2009.

Even outside the food and beverage arena, marketers are using merchandising to influence consumer purchase decisions. Baby accessories and batteries are two additional examples of categories that have stepped up merchandising and are winning back share from private label.

Private label share losses were also significant in the coffee category. In this category, innovation has been a key mitigator of private label. Single-cup coffee, in particular, has enjoyed serious momentum for several years now.

In 2006, single-cup coffee represented less than 2% of coffee category dollar sales. By 2011, single-cup share of category sales soared beyond 11%.[1] National and private brand manufacturers alike remain intently focused on this category, and this will likely impact private label coffee share throughout 2013.

In other high price-increase categories, private label gained share. Gains were most notable in the shelf-stable seafood category. For the year, private label gained 2.2 points of unit share and 1.4 dollar share points, influenced by private label marketer programs that have successfully increased buy rate.

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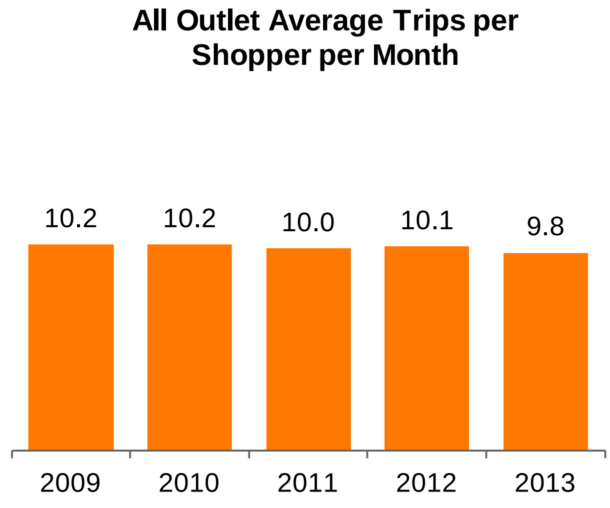
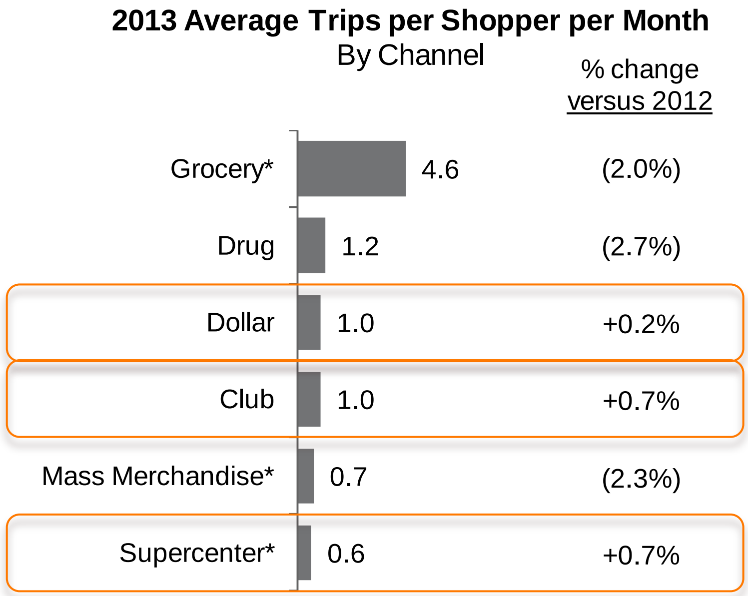
[1]Source: SymphonyIRI 15 Years of New Product Pacesetters

Shopping Behavior: Shopping Patterns





Source: SymphonyIRI Consumer Network™, 52 weeks ended 1/13/2013 and same period prior years * Excludes Walmart

Though overall trip behavior has slowed during the past several years, trips to several value channels increased during 2012.

At the all outlet level, trip behavior has been on a slow decline for several years. But, a more granular assessment of trip behavior tells a more complex story.

The grocery channel still clearly holds the lion's share of CPG trips, with an average of 4.6 trips monthly but, this channel, like most CPG channels, saw frequency decline in 2012.

These declines are caused by a number of factors. The economic downturn and fluctuating—sometimes very high—gas prices have left an indelible mark on shoppers, and many recession-driven efforts to conserve money have become long-standing CPG habits.

Additionally, mentioned earlier in this report, competition for share of spending has escalated as retailers hone assortments and store formats in an effort to win over shoppers and, ultimately, find new ways to grow in an evolving marketplace.

During the past year, several value channels have experienced increased trip frequency.

In club and supercenter channels, trip frequency increased by 0.7% during the past year, while dollar channel trip frequency grew at a slower pace, up 0.2% for the year.

Some of the momentum these channels are experiencing can be explained by changing trip mission strategies. As detailed in the August 2012 edition of *Times & Trends*, pantry-stocking missions, shopping trips in which consumers purchase relatively large baskets of goods in an effort to stock their pantry for the upcoming week, have shown some signs of recovering from significant declines that occurred early in the economic downturn. Club and supercenter channels are key pantry-stocking channels.

Dollar channel growth is being supported by a number of factors, including increased store population, beefed-up assortments, and store remodels that are helping to increase channel appeal among middle- and upper-income consumers.

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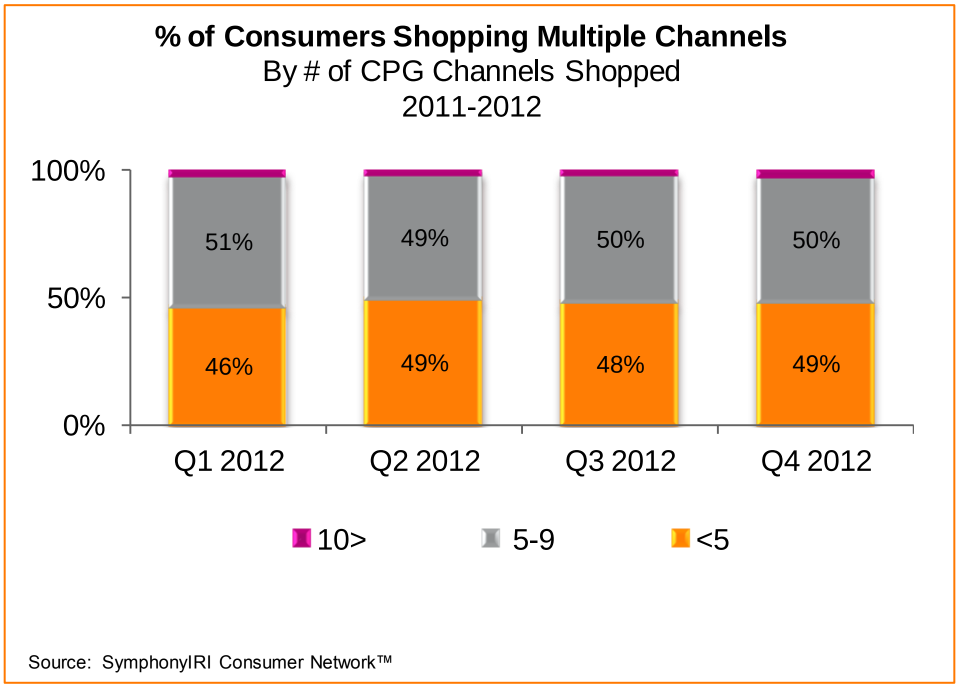
2013 Outlook

"Advancing technology, evolving demography and a transforming economy are coming together to catalyze an industry revolution like none before. An intimate understanding of all of these market forces and how they impact a marketer's most important shoppers is a required foundation for building a bridge of near constant and real-time communication with these shoppers that will drive purchase behavior and solidify long-term shopper loyalty."

~ Piyush Chaudhari, President of the Americas, SymphonyIRI Group



Trends around number of channels shopped are hinting at a world where consumers limit their spending to fewer channels and select those that offer the greatest value.

Simply Satisfied

It is not uncommon for consumers to shop multiple channels. As evidenced by the fact that 44% of consumers choose the stores they shop specifically because they offer the lowest prices on needed items, saving money is a key driver of cross-channel shopping behavior.[1]

But, while consumers want to save money, many are also operating on very tight time constraints. Single head of household and dual-income households are quite commonplace, putting the squeeze on free time and making household chores, including grocery shopping, a bit of a burden.

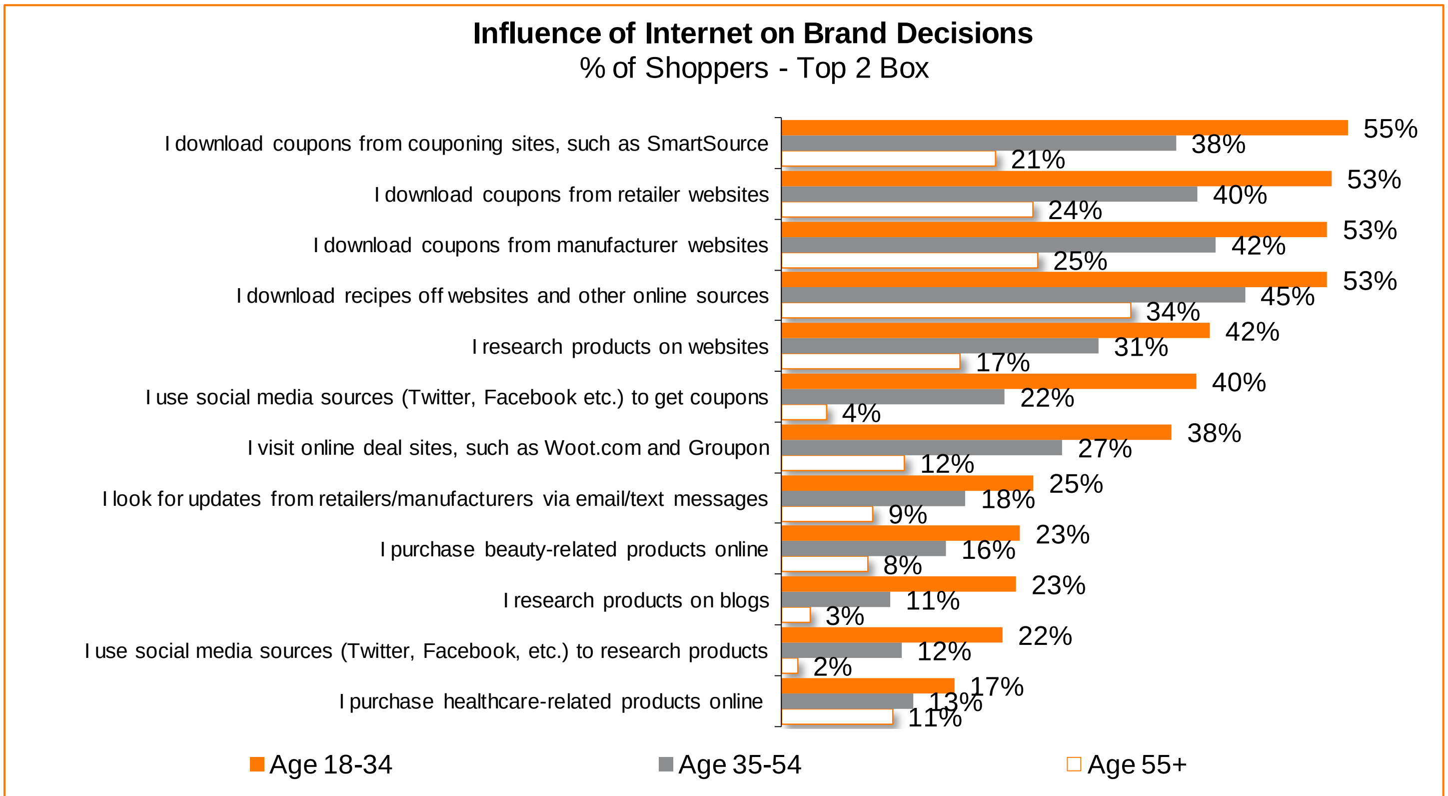
Likely, at least in part, to pressures on time and money, the number of consumers who shop fewer than five channels is slowly—and steadily—increasing, at the expense of those visiting five or more channels. This may well indicate that shoppers are taking a laser-precise approach to grocery shopping, limiting their spending to the channels offering the greatest value.

Riding the Next Wave

This trend will likely be reinforced by the rise of a new consumer segment—the millennial shopper. SymphonyIRI MarketPulse survey results show that this group is struggling more than most when it comes to making ends meet. Nearly one-third are having difficulty affording weekly groceries. And, at more than 50 million strong, the millennial segment will play a formative role in defining the CPG industry of the future. Now is the time that, as shoppers, they are forming habits and loyalties. Now is the time to begin serving these shoppers superbly.

[1]Source: SymphonyIRI Brand & Retailer Loyalty Survey 2012

2013 Outlook



Source: SymphonyIRI MarketPulse Survey Q4 2012

The Internet already plays an integral role in helping consumers make smart choices, particularly among the nation's youngest shoppers.

Two Worlds into One

The coming of age of the next generation is feeding the convergence of the online and offline worlds. This is truly great news for CPG marketers, for there are new and growing opportunities to reach out and touch consumers.

Smartphones and tablets have achieved solid penetration in the United States, and consumers are using those and other digital tools to inform their purchase decisions.

Not surprisingly, though, the younger segment of the marketplace is more ingrained than others in the digital world. For instance, more than half of millennial shoppers download coupons from various online sources, versus about a quarter of shoppers over age 55 and about 40% of Gen Xers. Millennials are also much more likely to purchase beauty and healthcare products online.

Illustrated in SymphonyIRI's recent *Inside the Heads of Today's Millennials* infographic, because this group is so tech savvy, they not only use the digital universe to find information, they also quite freely share information about their brand preferences and purchase experiences with others. Millennials truly can be fantastic brand evangelists—or, if their experience is poor, the exact opposite.

The tentacles of technology are already broad reaching. A vast majority of consumers, across age segments, are already at least experimenting with some form of online shopping. As millennial shoppers age, and as other groups get over the adoption curve, these behaviors will deepen and spread, and the impact of digital media on shopper decisions will only increase.

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Conclusions: CPG Manufacturers

To thrive in a new and still-transforming economy, CPG manufacturers should consider the following action items:

- Identify opportunities and risks
  - Closely track the evolving competitive set at the channel and retailer level, including the traditional brick-and-mortar markets as well as online arena, to ensure appropriate alignment of distribution strategies
  - Use value-oriented pricing and promotion programs to protect and grow share, particularly across categories that demonstrate strong and/or growing store brand presence
  - Monitor technological advances within and outside the CPG environment; be on the lookout for new and innovative opportunities to reach and resonate with key consumers

- Evaluate pricing and promotional strategies
  - Invest to understand trends around packaging/pack size shifts across your category's/brand's most important shoppers to ensure your products are aligned properly
  - Continually re-assess and adjust pricing to maintain optimal price gap between private label and name brand offerings
  - Adopt everyday pricing strategies that underscore your value proposition, and rely on promotional pricing to address short-term tactical opportunities

- Enhance new product development initiatives
  - Constantly evaluate product development opportunities at both ends of the product spectrum, including those that address key consumer trends
  - Explore opportunities to partner with key retailers to develop complementary national and private brand assortments across key categories to address the goals of core shoppers, retailer partners and your own corporate objectives

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Conclusions: CPG Retailers

To thrive in a new and still-transforming economy, CPG retailers should consider the following action items:

- Identify opportunities and risks
  - Closely track the evolving competitive set at the channel and retail banner level, including the traditional brick-and-mortar markets as well as online arena, to ensure appropriate alignment of assortment strategies
  - Use value-oriented pricing and promotion programs to protect and grow share, particularly across categories that are most closely aligned with the needs and wants of key shoppers
  - Monitor technological advances within and outside the CPG environment; be on the lookout for new and innovative opportunities to reach and resonate with key shoppers

- Evaluate pricing and promotional strategies
  - Invest to understand trends around packaging/pack size shifts across your category's/brand's most important shoppers to ensure your assortments are aligned properly
  - Adopt everyday pricing strategies that underscore your value proposition, and rely on promotional pricing to address short-term tactical opportunities

- Enhance new product development initiatives
  - Constantly evaluate private label product development opportunities at both ends of the product spectrum, including those that address key consumer trends
  - Explore opportunities to partner with key manufacturers to develop complementary national and private brand assortments across key categories to address the goals of core shoppers, manufacturer partners and your own corporate objectives

Resources

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

SymphonyIRI Market Advantage™

Powered by SymphonyIRI Liquid Data, Market Advantage enables better, faster decisions with a broader level of marketplace insight than ever before by delivering all edible and non-edible categories in multiple business views, ranging from total store, departments and aisles, to eating occasions, corporate portfolio and brand franchise—all drillable to the individual UPC level—as well as the ability to customize category definitions and detailed product segmentations.

SymphonyIRI Consumer Network™

This nationally representative panel of households tracking purchases with hand-held barcode scanners delivers extensive demographic profiles to enable in-depth analysis of purchase behavior across standard or custom-defined consumer segments across channels.

FOR MORE INFORMATION

Please contact Susan Viamari at Susan.Viamari@SymphonyIRI.com with questions or comments about this report.

About SymphonyIRI Group
SymphonyIRI Group, formerly named Information Resources, Inc. ("IRI"), is the global leader in innovative solutions and services for driving revenue and profit growth in CPG, retail and healthcare companies. SymphonyIRI offers two families of solutions: Core IRI solutions for market measurement and Symphony Advantage solutions for enabling new growth opportunities in marketing, sales, shopper marketing and category management. SymphonyIRI solutions uniquely combine content, analytics and technology to deliver maximum impact. SymphonyIRI helps companies create, plan and execute forward-looking, shopper-centric strategies across every level of the organization. For more information, visit www.SymphonyIRI.com.

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