TIMES AND TRENDS

Taking Stock of CPG Past and Future: Gear Up Now for a Year of Growth

JANUARY 2016

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Inside

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IRI is a leader in delivering powerful market and shopper information, predictive analysis and the foresight that leads to action. We go beyond the data to ignite extraordinary growth for our clients in the CPG, retail and over-the-counter health care industries by pinpointing what matters and illuminating how it can impact their businesses. Move your company forward at IRIworldwide.com.

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Executive Summary: The Winds of Change Are Blowing

The CPG Industry Is Still Struggling to Find Growth: Across CPG channels and aisles, growth is still proving hard to come by even several years after the end of the Great Recession.

- Dollar sales are growing, driven largely by inflation and declining merchandising activity; volume trends are weak across CPG channels, driven by a highly conservative consumer marketplace
- Edibles is outpacing non-foods by a slight margin
- Consumers will continue to rely on preplanning and online and offline deal-seeking strategies to keep CPG spending in check throughout 2016

Several Trends Offer Growth Opportunities in 2016 and Beyond: Myriad of new and existing trends will shape the CPG industry in 2016. Three trends hold particular promise for growth.

- Circle the Wagons—The Internet will account for about 50 percent of industry growth in the next few years; CPG marketers must act now to capture their fair share of this $28 billion opportunity
- Melting Pot Gets Hotter—Win in tier-two Hispanic markets and see growth of up to 10 percent
- Do More with Less (Media)—Refine media exposures against household-level purchase propensities to increase media efficiencies by 10 to 40 percent

CPGs Looking to Win Will Work to Overcome a Variety of Challenges: There is no question that change is hard. But the marketplace, technology and data science are quickly evolving, so CPGs need to embrace change as an opportunity for growth.

- The path to purchase has changed drastically during the past decade, and CPGs do not have a clear understanding of how consumers operate in the omnichannel retail world
- Lack of granularity has prevented marketers from maximizing opportunities across an increasingly diverse consumer landscape
- Excessive demographic-based targeting focuses on exposures, rather than impact, feeding information overload and creating media inefficiencies

Framework to Win: IRI has developed a comprehensive data integration platform and multidiscipline team of analytic experts to help you understand how key trends are impacting your brands and develop finely tuned strategies that will set the stage for growth in 2016.

- Redeploy media resources to high-impact sites to increase awareness and shopper conversion
- Enhance targeting, brand development and assortment strategies to drive Hispanic sales at the retailer/market level
- Tailor and target your media exposures against your highest-propensity households

The CPG Industry Is Still Struggling to Find Growth

CPG Volume Is on a Negative Trajectory; Dollar Growth Is Being Fed by Inflationary Prices

The CPG industry has been searching for growth for several years now, plagued by a challenging economy and conservative shopper behaviors. During the past year, the struggle has continued. Volume sales are sliding, and dollar sales growth has been fed largely by inflationary pricing trends (see Exhibit 1).

The picture is similar across channels. Mass/super, though, posted sharper-than-average share declines, feeling the impact of consumers choosing to make more but smaller shopping trips, and intense competition from other brick-and-mortar retail channels, such as dollar, and online providers.

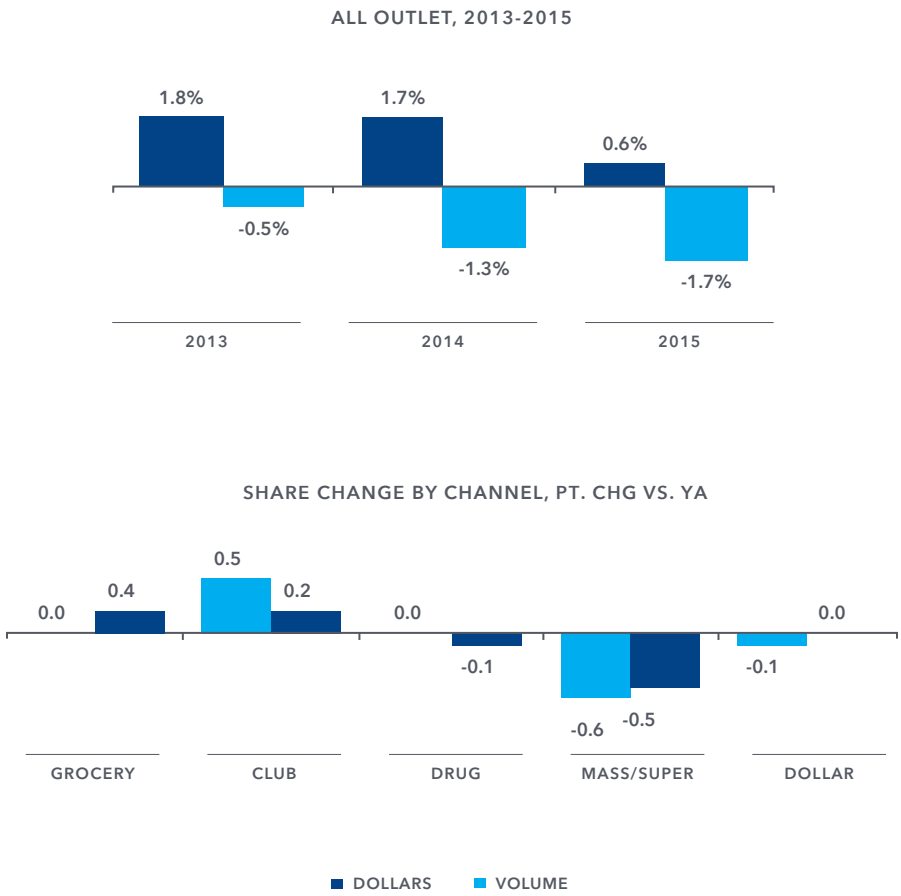
Despite an uptick in smaller shopping trips, the club channel is showing resilience. For the year, volume share ticked up 0.5 points, modest but well above industry-average performance. Major club retailers, including Costco and BJ's, are steadfastly focused on answering key consumer trends, including food-from-home and healthier-for-you fare. Costco is also continuing to look to drive traffic and their bottom line with the expansion of "treasure hunt" sundries and more frequently purchased lines, including food and beverages.

The grocery and drug channels are holding share volume flat. In the grocery channel, dollar share inched up 0.4 points, driven by an increasing focus on higher-end selections, such as natural and organic products—an effort undertaken by several larger grocers that are looking to protect against competition from high-end specialty retailers, such as Whole Foods Market and Fresh Market.

EXHIBIT 1

The CPG industry is struggling to generate solid volume growth; similar trends are playing out across retail channels.

Industry Growth



*Note: Grocery, excluding Walmart; and mass/super, excluding Walmart

Source: IRI CSIA™ 52 weeks ended October 4, 2015, and same period prior years

Grocers Are Standing Strong Amid Stiff Competition

The grocery channel continues to capture a lion's share of CPG spending (43 percent) (see Exhibit 2). Across the competitive landscape, share changes were slight, but grocery did successfully capture 0.4 points—a noteworthy accomplishment, given the high levels of competition from brick-and-mortar and online stores alike.

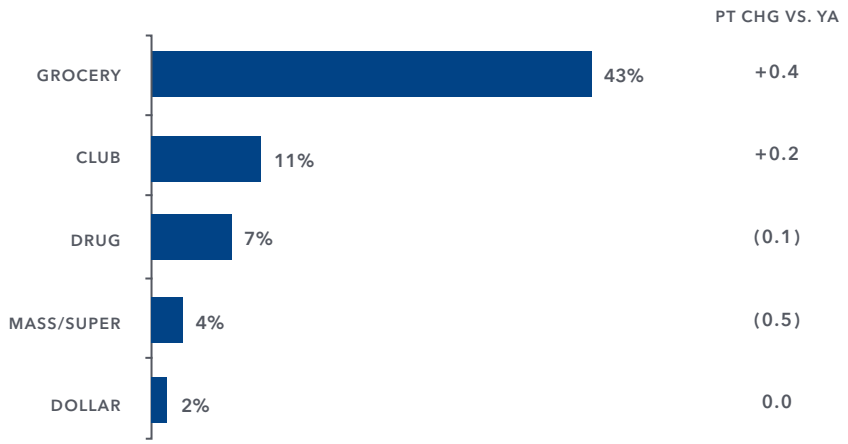
Across edibles, grocery share is notably higher than that of competing channels, at 55 percent. As mentioned earlier, among the successful strategies being employed by grocery retailers is the expansion of higher-end and healthier-for-you assortments, including natural, organic and GMO-free solutions. This strategy continues to be critical to the ongoing success of mainstream grocery retailers. The Nutrition Business Journal estimates that the natural and organic food and beverage space will show 75 percent growth between 2014 and 2019, reaching $107.7 billion.

The drug channel captures 7 percent of total CPG spending and 13 percent of non-food outlays. Though share has edged down during the past year, the channel has succeeded in slowing declines by enhancing store brand selection and notching up trade promotion activity.

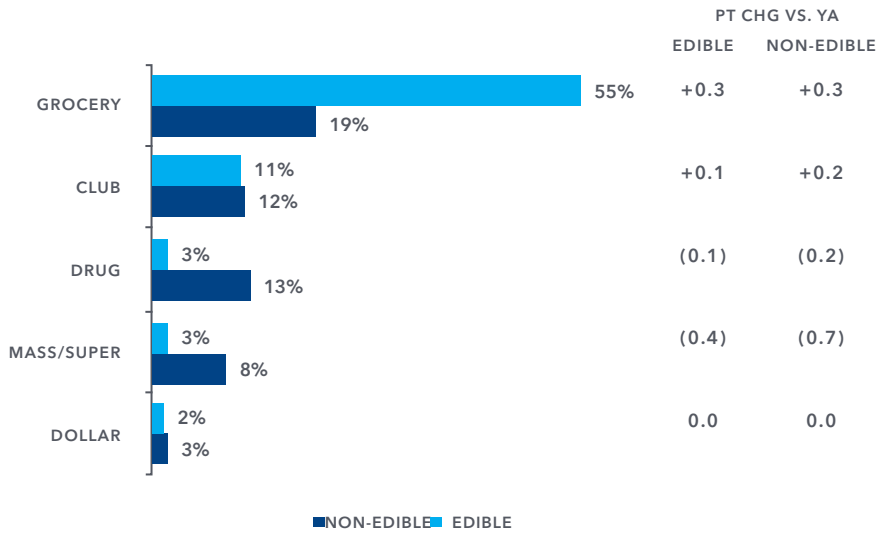
EXHIBIT 2

Grocers continue to capture the largest share of CPG spending, and the channel has successfully stemmed share losses across food and beverage and non-food aisles.

CPG Dollar Share – By Channel



CPG Dollar Share – By Channel, Edible vs. Non-Edible



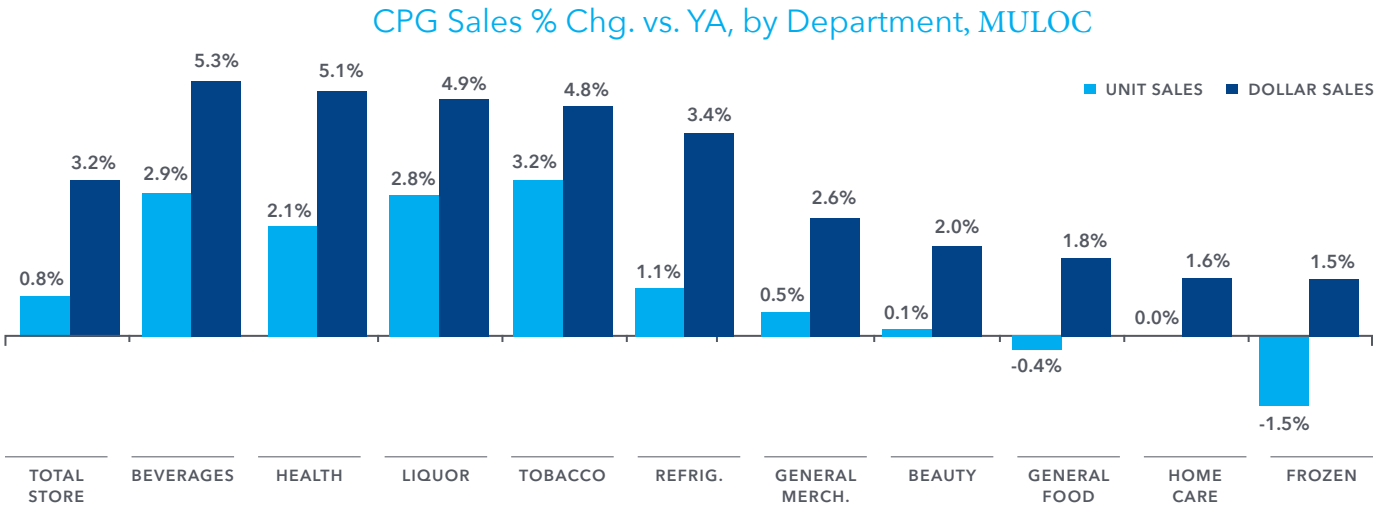
*Note: Grocery, excluding Walmart and mass/super, excluding Walmart

Source: IRI CSIA™ 52 weeks ended October 4, 2015 and same period prior year

Sales Momentum Is Low Across CPG Aisles, But Edibles Is Outpacing Non-Edibles

EXHIBIT 3

The beverage department has been a standout during the past year; still, sales momentum is low across CPG aisles.



Source: IRI Market Advantage™ 52 weeks ended November 1, 2015, and same period prior year

Edibles account for about two-thirds (64 percent) of CPG sales across IRI's multi-outlet geography. Sector growth is supported by trends around home-based eating, but it is also feeling pressure from conservative purchase and consumption behaviors and pressure from competitors outside the realm of CPG (e.g., restaurants).

During the past year, these forces have combined to bring lackluster unit sales across edibles departments (see Exhibit 3). Performance was weakest in the frozen foods sector, where unit sales declined 1.5 percent, and strongest in beverages, where unit sales increased 2.9 percent.

The frozen foods sector is struggling to turn around the general perception that frozen foods are less healthy than nonfrozen alternatives. Frozen dinners/entrees and frozen pizza, for instance, saw sharp unit sales declines during the past year (4.6 percent and 3.6 percent, respectively). "Healthier" categories, such as frozen fruit and frozen seafood, are seeing growth, but that strength has not been enough to offset declines elsewhere in the freezer.

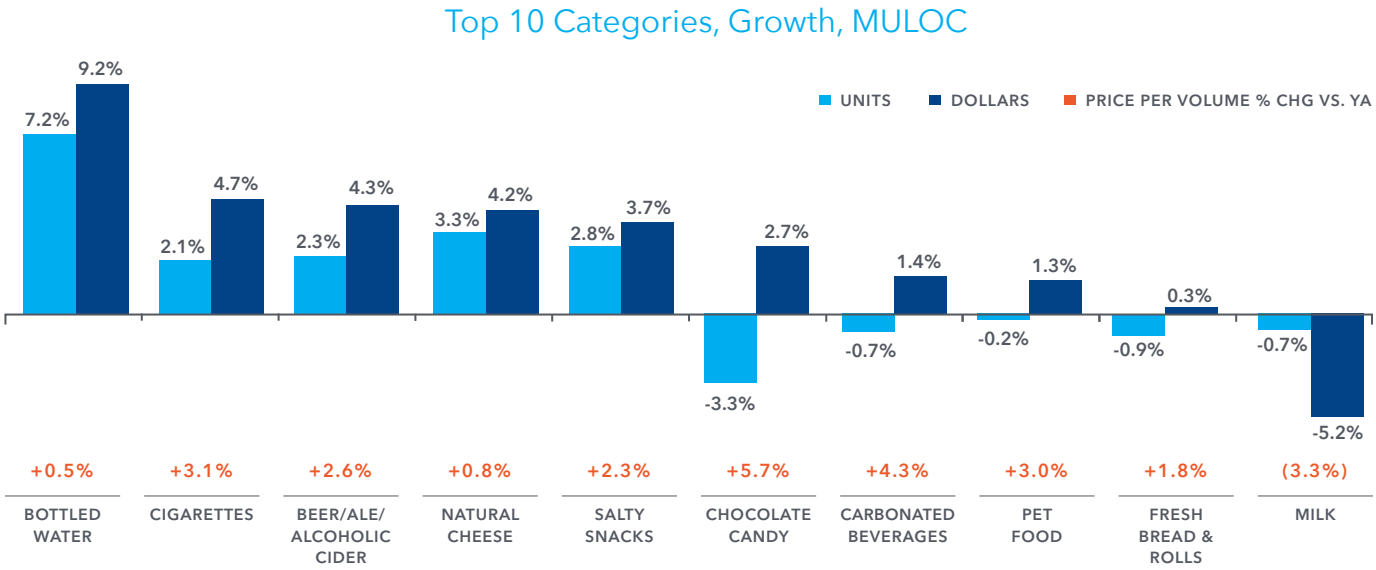
Beverages have been a standout, supported by select categories, including ready-to-drink coffee and tea. The category grew 10.3 percent, benefitting from a healthier-for-you appeal and a flurry of innovation activity. Energy drinks and sports drinks also posted strong unit sales gains, feeding off of benefits around health and wellness and on-the-go energy/satiation.

While none of the non-food departments posted negative unit sales gains, growth was weak—flat-to-up-slightly. Electronic smoking products grew 23.9 percent for the year, boosting tobacco sector performance. The health care department also stood apart from other non-food sectors, showing growth of 2.1 percent for the year, supported by a number of powerful IRI New Product Pacesetter launches. Both of these departments will be explored in more detail on the pages that follow.

Unit Sales Are Down Across Five of the 10 Largest CPG Categories

EXHIBIT 4

Even the 10 largest CPG categories are challenged for solid growth, though inflation and declining merchandising activity are pushing dollar sales trends northward.



Source: IRI Market Advantage™ 52 weeks ended November 1, 2015, and same period prior year

The struggle to stimulate growth momentum manifests itself across a majority of CPG categories, including five of the 10 largest categories (see Exhibit 4). Inflationary prices are heavily contributing to this trend.

Detailed in IRI's recent Merchandising for Growth: Connecting the Dots for Maximum Activation, reduced merchandising activity is one of the key contributors to escalating prices. However, the proliferation of premium products and increasing costs of inputs are also at play.

The dairy sector has been a hot-bed of activity during the past year. Dairy marketers are introducing new flavors and new packaging and upping their focus on healthy-living themes to drive engagement and sales volume.

The natural cheese category met with some success. For the year, units climbed 3.3 percent and dollars gained 4.2 percent, propelled by the introduction of high-end premium solutions and options that make meal preparation quicker and easier.

Meanwhile, milk units slid 0.7 percent and falling milk prices contributed to sharp dollar sales declines for the year. White dairy milk continues to dominate the overall milk category. However, consumers seeking healthier options and more variety are driving growth in nondairy milk and flavored milk segments. And, while 2015 dairy price inflation is expected to be quite low, less than 1.5 percent, USDA Economic Research Service (ERS) 2016 expectations call for an uptick, with inflation for the year coming in at 2.0 to 3.0 percent, which will provide some support to dollar sales trends.

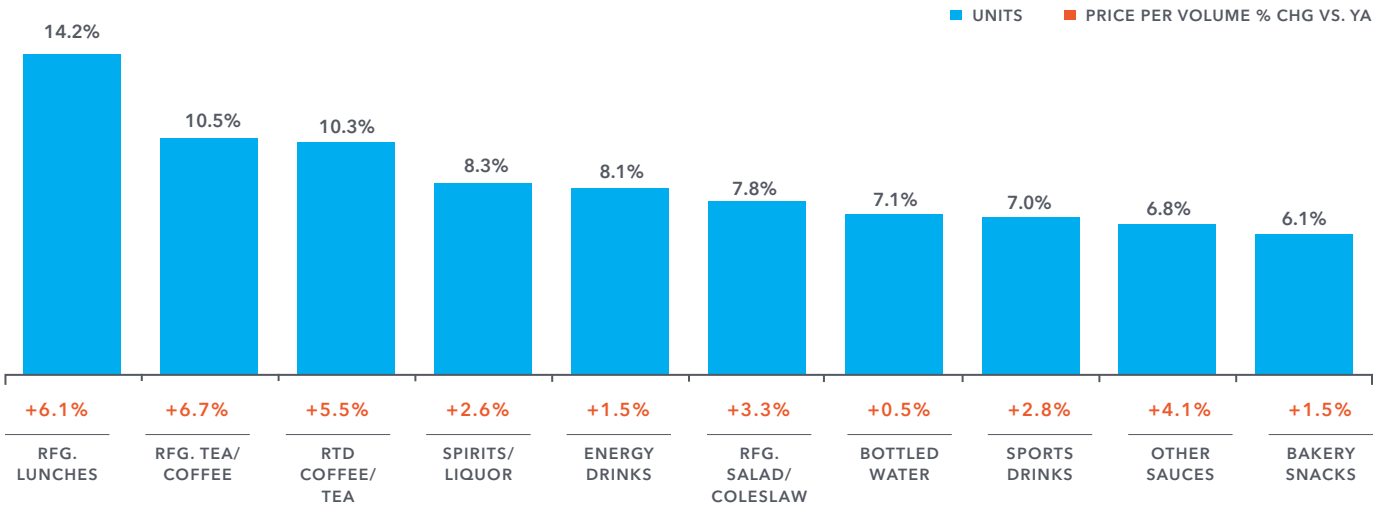
In the meantime, dairy marketers across the board must focus first and foremost on providing innovative solutions that offer a combination of convenience and healthier-for-you. These are the types of dairy products that will resonate with consumers and fuel segment growth.

On-the-Go Eating and Healthy Eating Are Key Food & Beverage Trends

EXHIBIT 5

Food and beverage growth is strongest across categories that provide quick and "healthier" solutions for on-the-go consumers.

Fastest-Growing Food & Beverage Categories, % Chg. vs. YA, Unit Sales, MULOC



Source: IRI Market Advantage™ 52 weeks ended November 1, 2015, and same period prior year

Top-performing categories hail from across food and beverage aisles, marked by themes of healthier living and on-the-go refueling (see Exhibit 5).

Within edibles, refrigerated lunches posted the strongest unit sales growth for the year, up 14.2 percent, versus overall refrigerated department sales increases of 1.1 percent. Unit sales growth came despite significant price increases, which were spurred by inflationary prices (meat prices, in particular, rose 9.2 percent in 2014 and are predicted to increase 2.5 to 3.5 percent for 2015) and only minimal increases in merchandising activity.

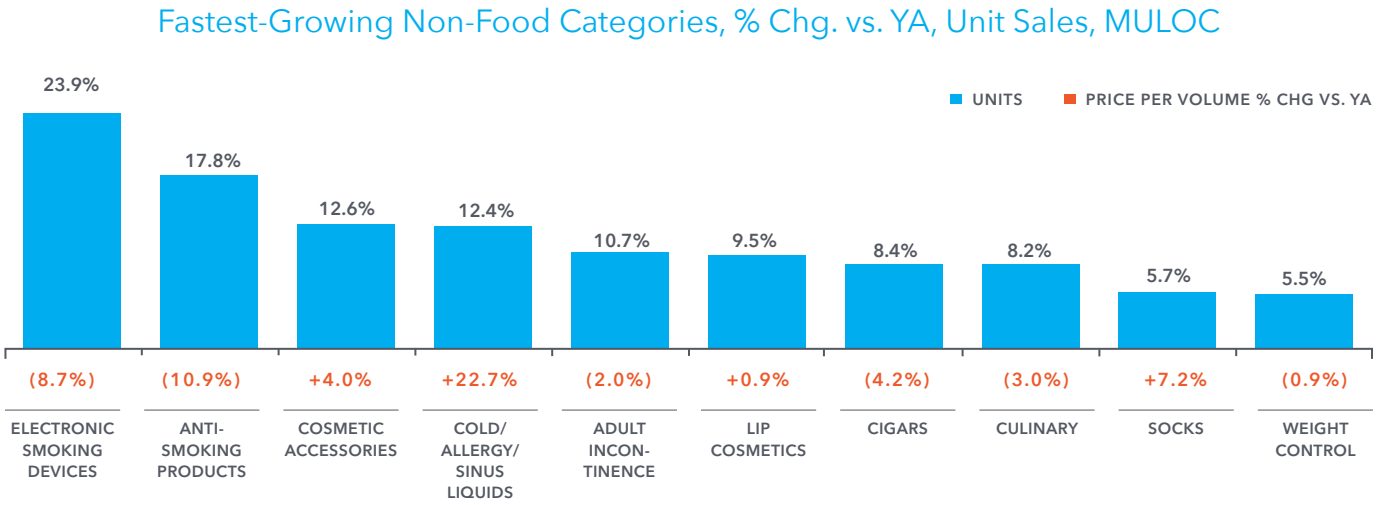
Providing a big boost to the category is IRI's New Product Pacesetter brand, Kraft Lunchables UPLOADED, the top new product launch of 2014, which raked in more than $143 million in its first year. Through the first 11 months of 2015, the brand earned more than $130 million across IRI's multi-outlet geography, posting growth of more than 5 percent versus the prior year.

The bottled water category saw volume sales increase 7.8 percent during the past year, amid relatively flat (+0.5 percent) prices and the proliferation of enhanced bottled waters, such as 2014 IRI New Product Pacesetter launch Glaceau Fruitwater and sparkling water alternatives. Healthy eating and easy-preparation trends are helping to support growth across a number of categories, including refrigerated salad/coleslaw, which saw unit sales increase 7.8 percent for the year. IRI Rising Star launch, DOLE Chopped Salad Kits blends bite-sized pieces of colorful, unique lettuces and veggies with a mouthwatering mix of flavors and textures. This line has made a big splash in the market during the past year by answering consumers' call for healthy and easy and adding flavor and texture excitement along the way.

Antismoking and Self-Help Are Prevalent Across Non-Food Aisles

EXHIBIT 6

Across several key non-food aisles, unit sales growth is occurring despite escalating prices.



Source: IRI Market Advantage™ 52 weeks ended November 1, 2015 and same period prior year

The fastest-growing non-food category was electronic smoking devices, which rang up nearly $850 million in sales across IRI's multi-outlet geography, a 23.9 percent gain versus the prior year (see Exhibit 6). This significant jump came despite an 8.7 percent decline in average price per volume.

This category has seen a lot of innovation during the past several years as CPG marketers look to answer consumer demands for alternatives to traditional cigarettes. FIN e-cigarettes, for instance, captured more than $19 billion in its first year on the market as a product that looks and feels like a traditional cigarette but has no lingering odor or smoke. The brand won designation as an IRI New Product Pacesetter for 2014.

In a similar vein, the antismoking products category, which includes a variety of antismoking solutions, including gums and patches, was the second-fastest-growing category during the past year. The category posted more than $900 million in sales despite a 10.9 percent decline in average price per volume, thanks to strong unit sales growth.

Cold/allergy/sinus liquids grew 12.4 percent during the past year, getting a huge lift from powerful new products, such as Nasacort Allergy 24HR and DayQuil/NyQuil SEVERE, that last longer and work harder than earlier solutions. These brands also sell at a significant premium as compared to traditional cold/allergy/sinus solutions, thereby contributing to a 22.7 percent increase in average price per volume sold and driving dollar sales in a northerly direction.

The adult incontinence category is also seeing strong growth, with unit sales up 10.7 percent amid an average price per volume decline of 2 percent. Adult incontinence has become more widely discussed in recent months, and marketers have been embracing technology to introduce new solutions, such as Always Discreet and Poise Thin-Shape pads, which allow consumers new options in dealing with a common ailment. Strong growth of these launches demonstrates the power of dialing in on key consumers' desires to handle life's simpler (and sometimes more private) ailments without—or with fewer—visits to the doctor.

Private Label Share of Overall CPG Spending Has Changed Very Little During the Past Year

On average, private label accounts for 14.7 percent of industry dollar sales and 17.1 percent of CPG industry dollar sales. Share is highest in the grocery channel. During the past several years, share changes at the channel level have been minimal.

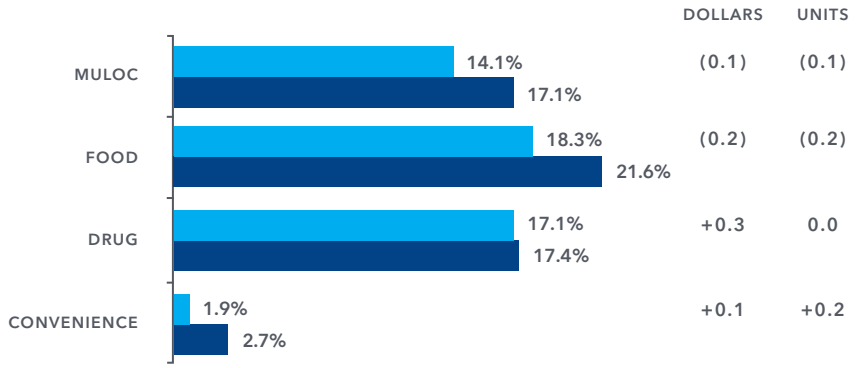
Across most CPG departments, private label share remained relatively unchanged during the course of the past year (though category-level changes are taking place). In the health care department, private label share fell about one-half point, heavily influenced by share losses in the three largest health care categories: vitamins, cold/allergy/sinus tablets and internal analgesics, as national brands deliver innovative new formulations, product forms and packaging that are hitting the mark with today's shoppers.

Meanwhile, in frozen foods, private label share climbed about one-half point. Dollar share increased across eight of the 10 largest frozen foods categories, including seafood and poultry, two categories that had higher-than-average inflation last year, encouraging cost-conscious consumers to search for lower-cost alternatives to some name-brand solutions.

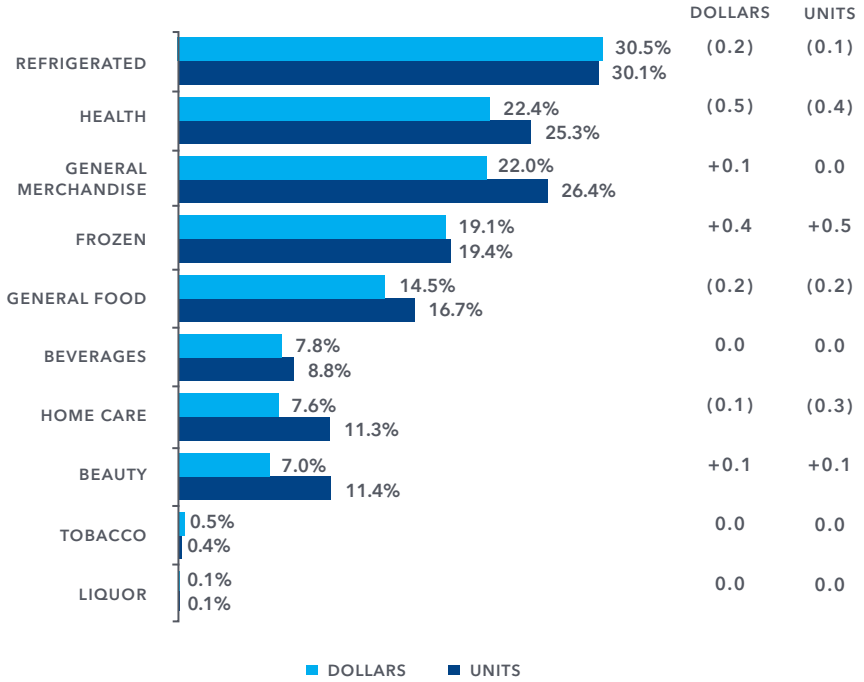
EXHIBIT 7

Private label share of CPG spending is highest in grocery; share has remained largely unchanged during the past year.

Private Label Share by Channel



Private Label Dollar Share by Department

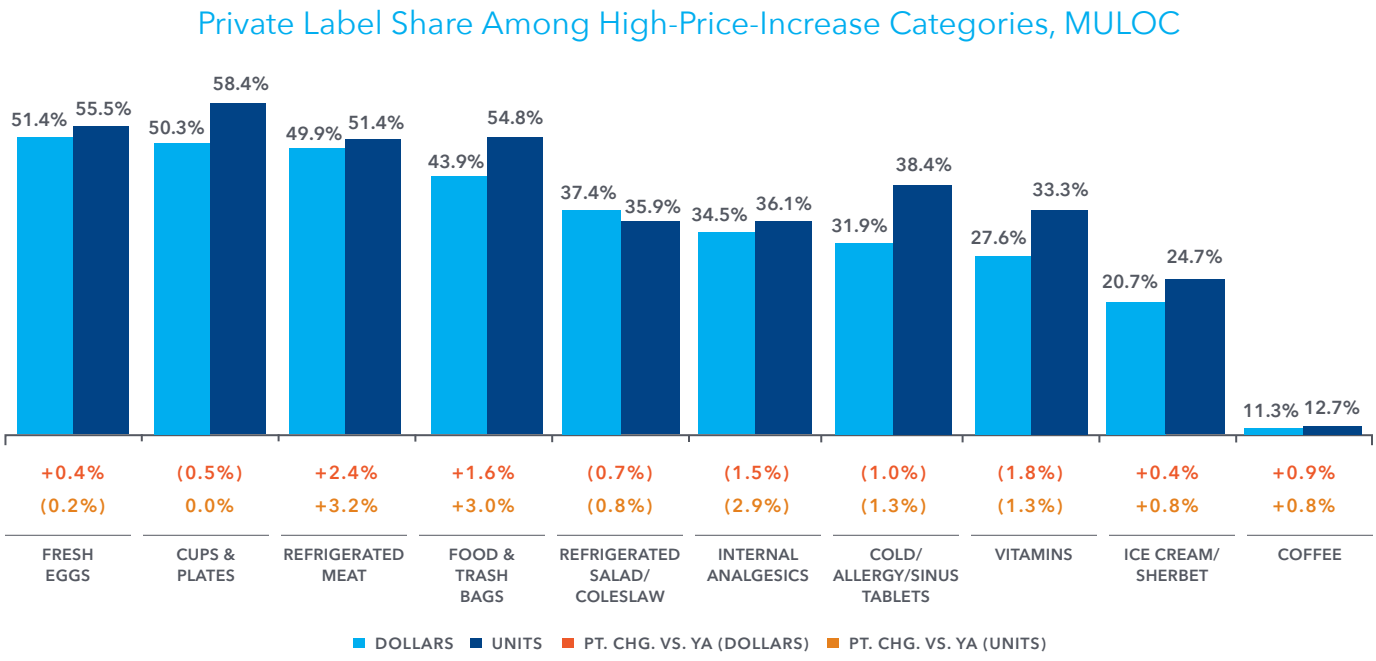


Source: IRI Market Advantage™ 52 weeks ended November 1, 2015, and same period prior year

Pockets of Private Label Growth Exist Across CPG Aisles

EXHIBIT 8

Private label trends vary markedly across high-price-increase categories.



Source: IRI Market Advantage™ 52 weeks ended November 1, 2015, and same period prior year

Though private label share is relatively flat at the total store level, some CPG categories are showing notable share changes (see Exhibit 8).

For instance, private label accounts for about half of refrigerated meat sales. During the past year, dollar and unit share gains were sizable, driven partly by high price inflation in 2014 (9.2 percent, according to the USDA, ERS database), placing increased pressure on consumers' already tight CPG budgets. In 2015, inflation is expected to increase, ending the year at 2.5 to 3.5 percent. Making it even easier to justify trading to private label to save money, assortment of private label refrigerated meat, especially value-added solutions (such as pre-marinated selections), has been expanding.

In the food and trash bags sector, private label solutions also capture half of units and 43.9 percent of dollar sales. This category has seen average price per volume increase nearly 5 percent during the past year. At the same time, merchandising activity has declined. Commoditization has been a challenge for national brand food and trash bag manufacturers, but they are looking to turn the tide with premium tier innovations (such as Glad's Odor Shield and Force Flex lines).

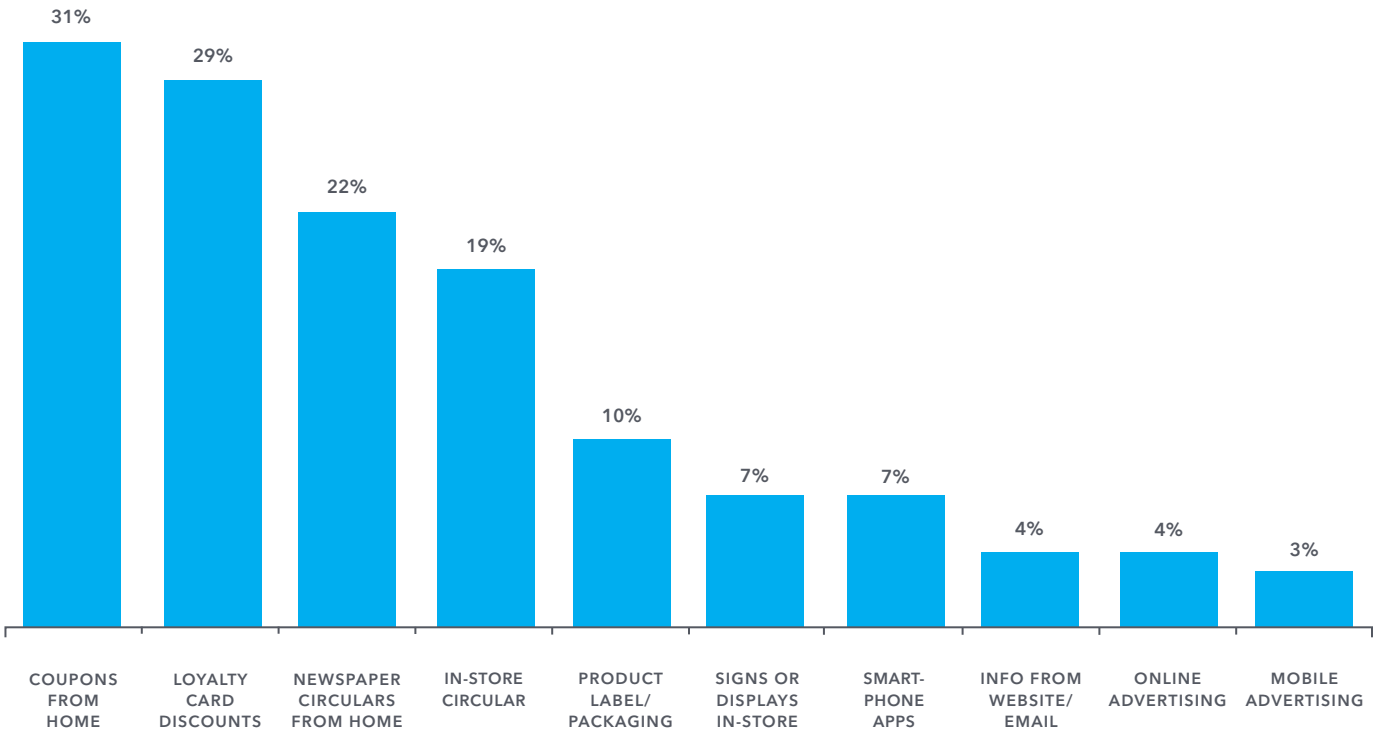
At the other end of the spectrum, private label share has been on the decline in several large health care categories, including internal analgesics, cold/allergy/sinus tablets and vitamins. Declines are attributable to innovation, particularly in the cold/allergy/sinus sector (detailed earlier in this report). Across targeted vitamin solutions, such as bone, heart and joint health, private label is also struggling to keep pace. In analgesics, private label saw an uptick in activity throughout the McNeil recall. Those products are now back on the market, and share trends are adjusting accordingly.

Despite Slowly Growing Optimism, Consumers Will Remain Conservative throughout 2016

EXHIBIT 9

Consumers will continue to look online and offline for money-saving opportunities.

2016 Money-Saving Behaviors, % of Consumers



Source: IRI MarketPulse Survey, Q3 2015

One-third of Americans (34 percent) feel that their financial situation will improve in 2016. After years of lagging, millennial shoppers are showing strong signs of optimism—57 percent of these consumers expect better financial health to come their way this year.

Nonetheless, consumers will remain entrenched in conservative purchase behaviors. More than half (57 percent) of consumers will decide on most of the products they will buy before they enter the retail store, so CPG marketers must continue their efforts to engage shoppers early in the CPG planning process.

One-third of shoppers (31 percent) will choose brands based on coupons that they obtained at home. Nearly as many, 29 percent, will make their selection based on shopper loyalty card discounts (see Exhibit 9).

In addition to these traditional offline money-saving strategies, consumers will continue to leverage a wide variety of Internet-based tools, such as smartphone apps and online advertising and promotions, to keep their grocery budget in check in 2016.

Several Trends Offer Growth Opportunities in 2016 and Beyond

CPG Will Be Shaped by Some Existing, Some New Trends

10 Key GROWTH DRIVERS for 2016 IRi

CPGs looking for growth in 2016 must hit the ground running as the new year begins. The trends illustrated here will have a profound impact on the industry throughout this year and beyond. CPG marketers that can stay on top of or ahead of these trends, truly understanding how the trends impact their own brands and embracing strategies that turn opportunity into growth, will excel in the marketplace in 2016 and beyond.

1 Circle THE Wagons

Omnichannel retail is turning the CPG industry on its ear. Harness in-depth insights about where consumers are going online to provide valuable insights into the new path to purchase and drive in-store growth.

2 MELTING POT Gets Hotter

The growth and transformation of U.S. households are altering shopper attitudes and behaviors. Keep a finger on the pulse of increasing ethnic diversity and the explosion of nontraditional families.

3 Doing More WITH LESS (MEDIA)

Consumers are constantly barraged with marketing messages. Cut through the noise in the marketplace and focus on quality versus quantity.

4 Lean & Mean GROWING MACHINE

Manufacturer consolidation will continue as CPGs look for new revenue streams. Consider specialized acquisitions to fill white space growth opportunities.

5 BIG OPPORTUNITY IN Small Packages

The urbanization of America will drive growth of smaller-footprint stores. Meet urban shopper needs with localized specialty outlets.

6 ON THE Highway to Health

Consumers are embracing a wide variety of healthier-living strategies. Look across CPG aisles for new ways to deliver healthier options for shoppers and the environment.

7 Get Real

Consumers want to know what they're putting into and onto their bodies, what they're feeding their pets, and exactly what is making their houses cleaner. Answer consumers' thirst for transparency and authenticity.

8 Snack Attack

On-the-go lifestyles continue to have a profound impact on consumer eating behavior. Tap into grazing, the new sit-down meal.

9 Go Smart OR GO HOME

The focus on big data is rapidly giving way to smart data that will drive smart growth. Marry big data with technology and analytic know-how to pave the way to growth.

10 Growth COMES FROM Within

There is no shortage of retail outlet options, so driving growth by adding stores is an ineffective strategy. Find growth by improving efficiency and productivity from within current stores.

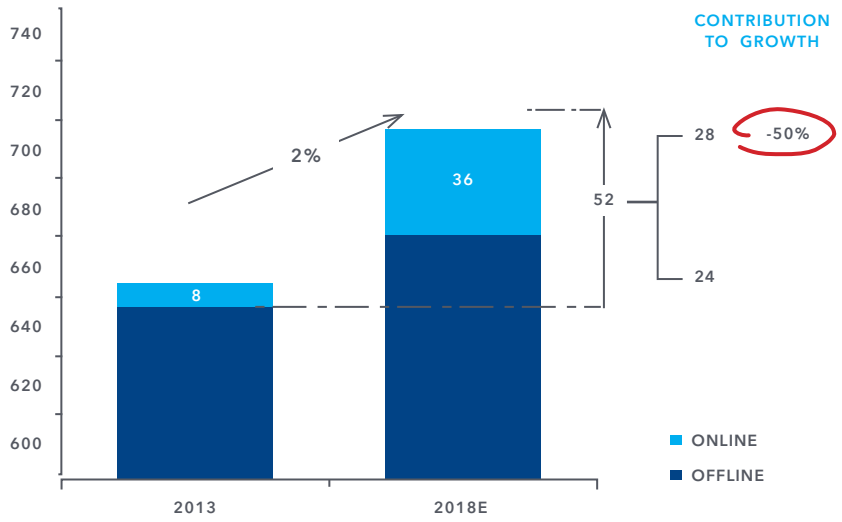
Circle the Wagons

Harness Deep Insights About Online Traffic to Understand the New Path to Purchase

EXHIBIT 10

The Internet will account for about 50 percent of industry growth in the coming years, and CPG marketers must act now to capture their fair share of this $28 billion opportunity.

CPG Dollar Sales, $ Billion



Source: IRI, Wells Fargo, BCG Analysis

We operate in an omnichannel marketplace that looks drastically different than the marketplace just a few short years ago. There is no doubt that the Internet is playing a significant role in defining the new CPG reality.

Online CPG sales are still quite small, accounting for less than 2 percent of overall industry sales (see Exhibit 10). But growth of online CPG is explosive. In fact, average annual growth of online CPG spending has topped 15 percent since 2010. Between 2013 and the end of 2018, the Internet will account for about 50 percent of industry growth, or $28 billion.

In addition to capturing an increasing share of overall CPG spending, it has been well documented by IRI that e-commerce is playing a significant role in defining how consumers approach shopping. Today, three-quarters (76 percent) of all shopping trips begin online. These visits are often made in the spirit of pre-shop planning, including product research and price comparisons.

CPG marketers must invest to ensure a comprehensive understanding of the online path to purchase for their most important consumers and target shoppers and use this knowledge to better deploy resources to build awareness and gain conversion to sales.

In return for these efforts, CPGs will capture above-average share of the $28 billion in e-commerce CPG while also enhancing offline engagement.

CPG Marketers Do Not Have a Clear Understanding of the Consumer Path to Purchase

The explosive growth of e-commerce has left CPGs with a muddy (at best) understanding of where consumers go and how they "travel" from site to site during their online journey. Do they click links? Type in search words? Simply stated, CPGs do not have a clear understanding of the digital space and/or how shoppers operate in the online environment. As a result, CPGs' digital marketing programs are weak. Click-through rates are suffering and conversion opportunities are missed.

To maximize e-commerce growth opportunities, CPG marketers must elevate their digital expertise. They must learn how consumers travel in the online world, so that they can improve traffic and response with highly targeted media campaigns.

IRI's Path to Purchase Is a Solution to this Complex and Critical Challenge

EXHIBIT 11

Illustration: IRI's Path to Purchase analysis allowed Client X to better understand the path its consumers are taking online to better deploy media to high-value sites, significantly increasing click-through and boosting conversion by more than 33 percent.

1 A client approached IRI, requesting support in understanding how e-commerce is impacting omnichannel retail and brand choices.

2 IRI conducted an extensive analysis of target consumers to determine online traffic patterns/behaviors.

3 IRI worked with the client to develop a highly targeted online media campaign, based on the Path to Purchase assessment.

4 Client's click-through rate increased by 75 percent, and conversion jumped 33 percent.

As a result of this jump, the brand was able to double its share on Amazon versus its multi-outlet share, becoming the #1 Amazon brand.

Through advanced analytics, IRI tracks and observes online behaviors at a microscopic level. This allows clients to reallocate media resources to high-gain sites, resulting in increased awareness and significant jumps in conversion.

In a recent client engagement, click-through increased 75 percent and conversion jumped 33 percent, resulting in the client's Amazon sales growth for this brand being more than two times greater than its Amazon category (see Exhibit 11).

Forrester estimates that every dollar spent online translates to five dollars spent in-store, because online shopping builds awareness even among shoppers who do not ultimately buy online.

Melting Pot Gets Hotter

Tap into Tier-Two Markets to Accelerate Growth in the Hispanic Market

The Hispanic population has been a key target for marketers during the past several years. Rightly so. There are more than 54 million Hispanic consumers in the United States today, and the population is growing at three times the national average. And, by 2020, Hispanics are expected to represent more than half of the U.S. population growth. A handful of markets are demonstrating particularly strong growth (see Exhibit 12)

Marketers that demonstrate a detailed level of understanding of common needs/wants and shopping patterns within this market are well-positioned for growth in the coming years. By better aligning with growing numbers of Hispanic consumers, brands can expect to add up to 10 percent to their top line and categories can expect growth of up to 1 percent, which translates to over $1 million for categories like household cleaners (see Exhibit 13).

Focusing efforts on traditionally "strong" Hispanic markets such as Dallas, TX; Chicago, IL; and New York, NY; has proven successful in the past. However, new tier-two markets across the United States, such as Oklahoma City, OK; Orlando, FL; and Seattle, WA, are seeing growth in the household cleaners category consistent with shifting demographic trends.

EXHIBIT 12

Hispanic population growth is estimated to be the largest in tier-two U.S. markets.

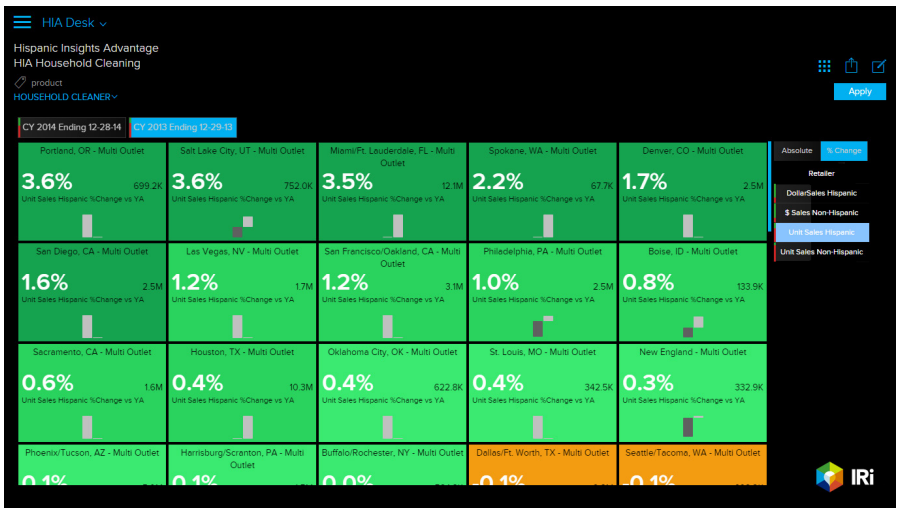
15 Largest Markets by Hispanic Population, % Growth 2000-2013

- Charlotte, NC
- Raleigh/Greensboro, NC
- Atlanta, GA
- Orlando, FL
- Ft. Myers/Naples, FL
- Oklahoma City, OK
- Tampa/St. Petersburg, FL
- West Palm Beach, FL
- Seattle/Tacoma, WA
- Baltimore, MD/Washington, DC
- Las Vegas, NV
- Minneapolis/St. Paul, MN
- Kansas City, MO
- Salt Lake City, UT
- Austin, TX

Source: IRI U.S. Bureau of the Census, estimate for July 2013, 2010–2010 Census

EXHIBIT 13

Illustrative Example: Household cleaner brands that perform well in key Hispanic markets stand to capture growth opportunities of up to 10 percent.



Source: Masked IRI Hispanic Insights Advantage™, 2015

Lack of Granularity Plagues CPG Marketers Who Serve this Broad and Diverse Market Segment

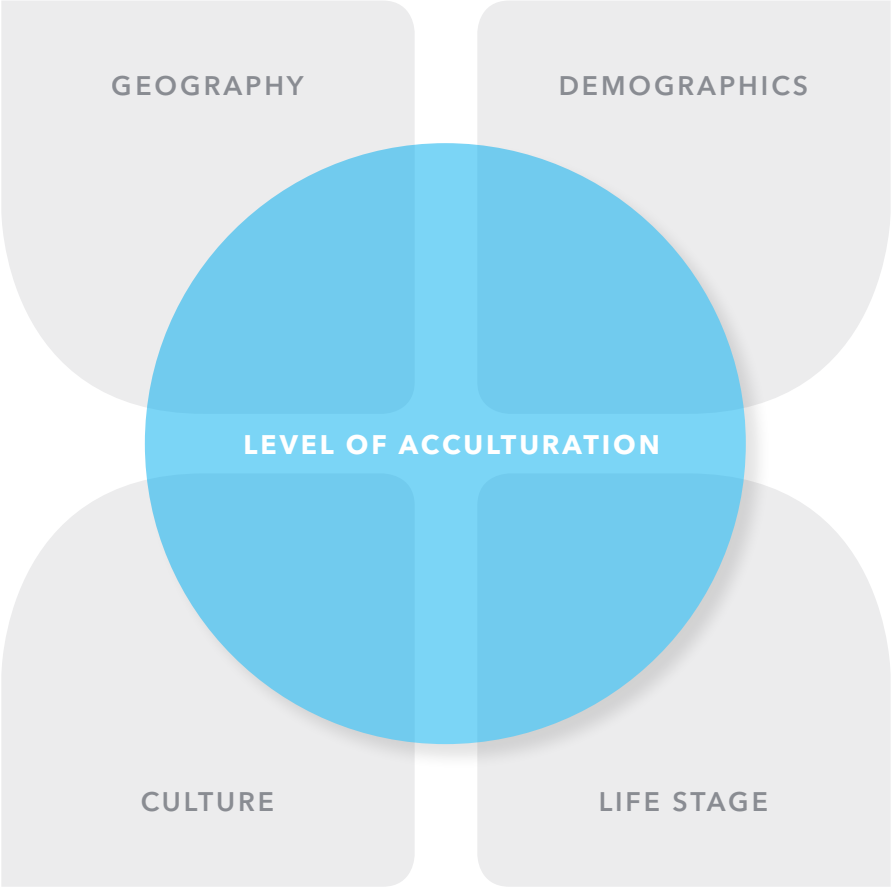
In the past, CPG marketers have approached the Hispanic segment as a homogeneous group of consumers. This has been an ineffective strategy, and the strategy is becoming even more ineffective as the Hispanic population grows and becomes increasingly diverse.

To fully capitalize on Hispanic opportunities, CPG marketers must embrace the diversity of the market and demonstrate a forensic understanding of each group's demographics and cultural norms, overlaid with segmentation by level of acculturation (see Exhibit 14).

Marketers have also lacked ready access to detailed information on specific sales and marketing performance of Hispanic consumer segments in key categories. Store-level understanding has been further challenged by difficulty in gaining visibility into specialty markets such as independent stores, called bodegas.

EXHIBIT 14

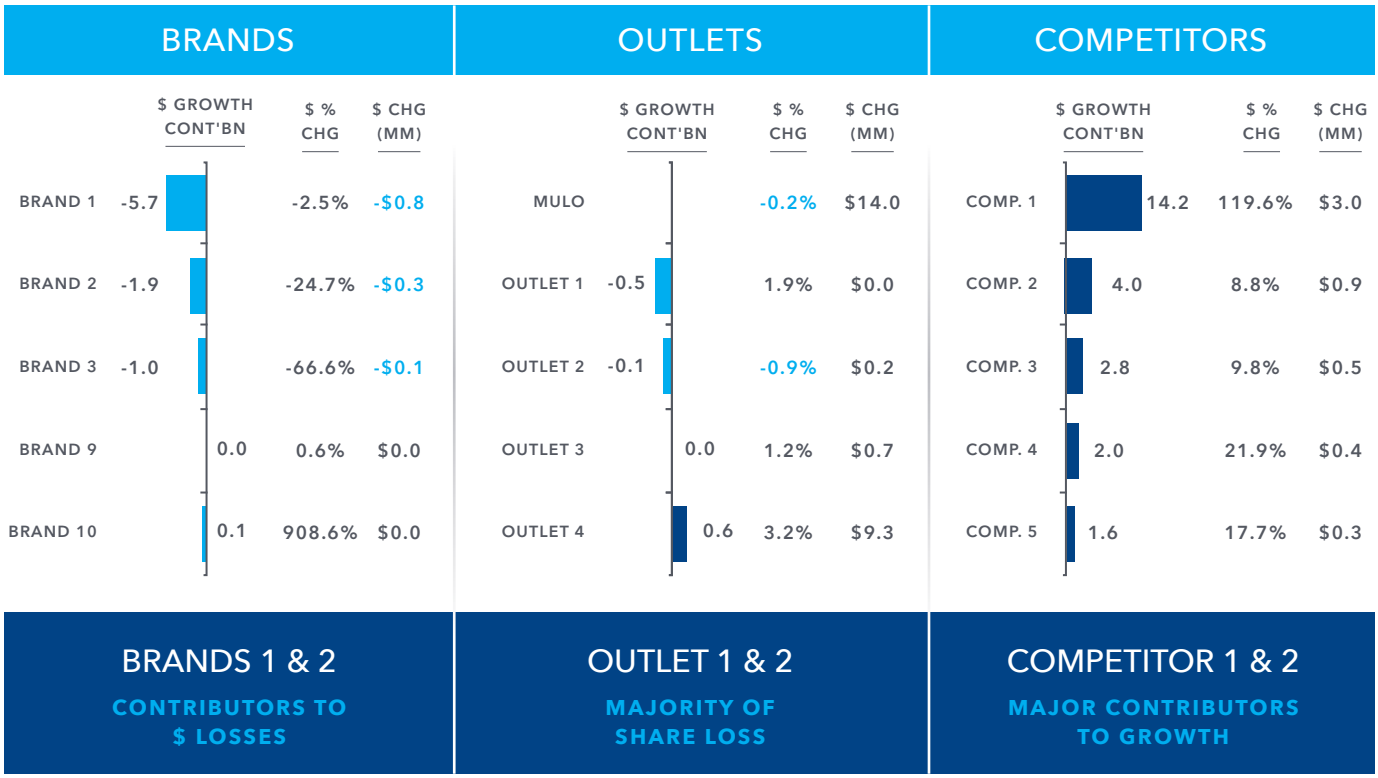
CPG marketers must invest to understand Hispanic shoppers across a deep and wide spectrum of attitudes and behaviors.



Tap into Hispanic Performance Tracking to Find Granular Growth Opportunities

EXHIBIT 15

IRI's Hispanic Insights Advantage™ platform couples granular tracking data with powerful data science to provide precise performance measurement and estimates and surgically uncover pockets of growth.



Source: Masked IRI Hispanic Insights Advantage™, 2015

By developing a detailed understanding of common shopping patterns for Hispanics groups versus the rest of the market, CPG marketers can identify opportunities at the region, brand and customer level and adjust any or all aspects of their marketing strategies to compete more effectively.

For example, Exhibit 15 at the top of this page provides an overview of the granularity of insights delivered by IRI's Hispanic Insights Advantage™. For this brand, Outlets 1 and 2 are the biggest contributors to dollar share loss, while Outlet 4 paints a picture of growth.

Because this illustrative brand is a sizable brand with a national footprint, HIA's powerful estimation algorithms also provide a deep understanding across major chains and sizable independent retailers.

As a result, marketers can align distribution, marketing, pricing, and promotion strategies to address performance gaps and/or reinforce gains across a very broad spectrum of retailers and respond to competitive performance, maximizing contribution to overall growth.

Doing More with Less (Media)

Move Away from a "More Is Better" Approach to Media

As detailed in IRI's recent **Changing Face of Retail**, consumers are profoundly different today than they were just a few years ago. Shoppers seek experience-oriented retail engagements. They take pride in being savvy shoppers. They have clearly taken control of their shopping experiences.

During the course of the past several years, hastened by challenging economic conditions and the explosion of technology, preplanning has become an integral part of the purchase process. In fact, Forrester Consulting and Google Shopper Science recently noted that the average shopper consults 10.4 sources before making a purchase. This is double the number of sources as compared to just two years ago.

Also hastened by changing technology is the explosion of ad exposures. In 1970, consumers viewed an average of 500 ads in a given day. Today, consumers viewed an average of 5,000 advertisements each day.

Not surprisingly, this jump has resulted in "information overload" for consumers and a lot of marketing waste for marketers. It's time to make media work smarter, rather than harder. It's time to do more with less media.

CPG marketers have the opportunity to lead the charge, moving from maximum exposures (impressions, CPMs) to maximum impact. In other words, CPGs need to strive for maximum media efficiency.

Getting there is difficult but not impossible. All it takes is the right data, the right insights and the right experts to help chart the path. That path begins by understanding the highest-value shoppers for your brand.

THE TOP 20% OF SHOPPERS EQUAL:

The top 20% of shoppers account for a majority of sales dollars.

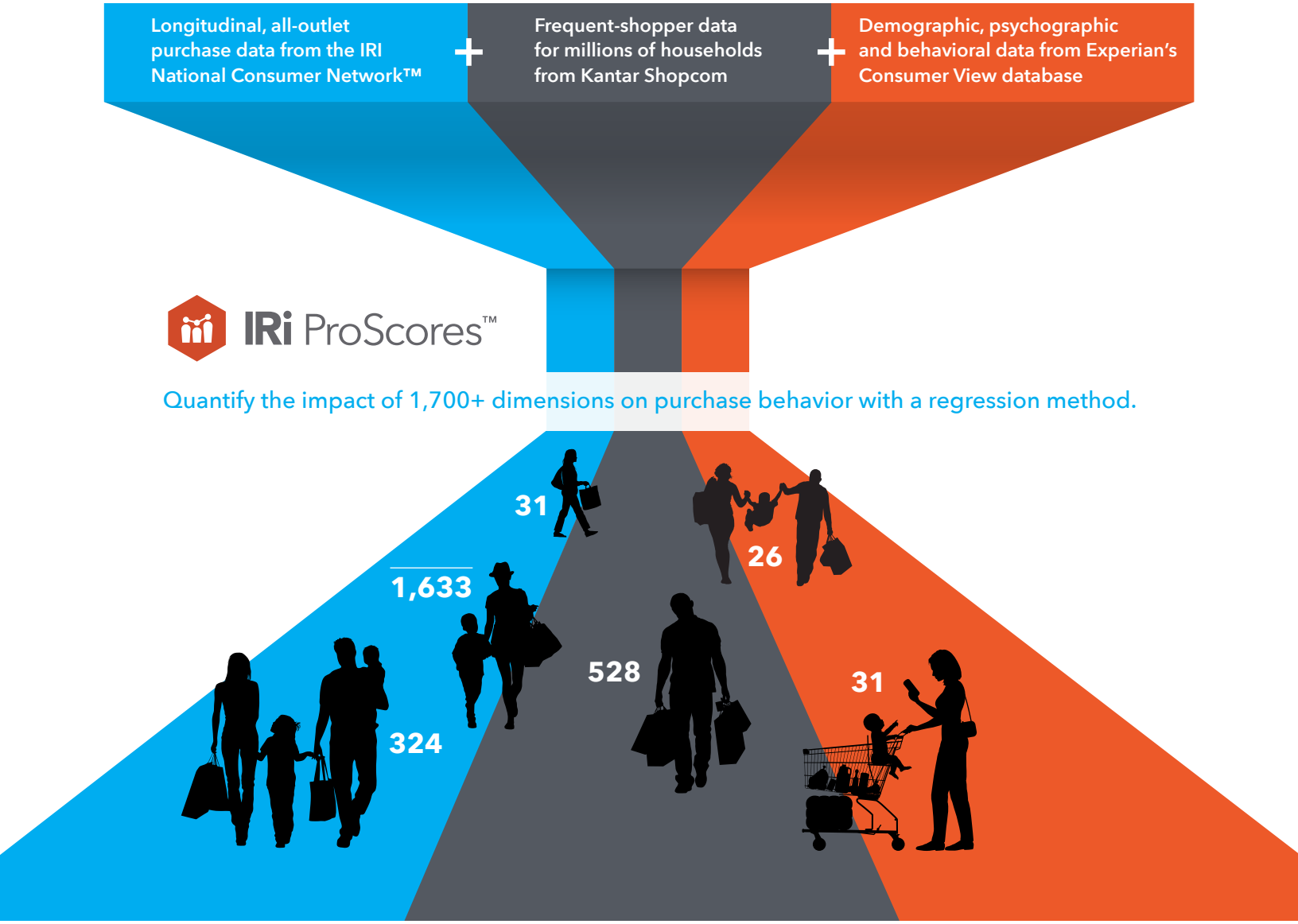
Demographic-Based Targeting that Seeks to Focus on Maximizing Exposures Is No Longer Effective

For years now, CPG marketers have aimed their advertising message at demographic targets like "women ages 25-54." These demographic traits have ultimately served as a proxy for purchase behavior.

Today, though, big data and powerful data science are opening the door to newer and more impactful micro-targeting methods.

Specifically, CPG marketers now have the ability to identify their most valuable shoppers through the examination of current and future sales potential.

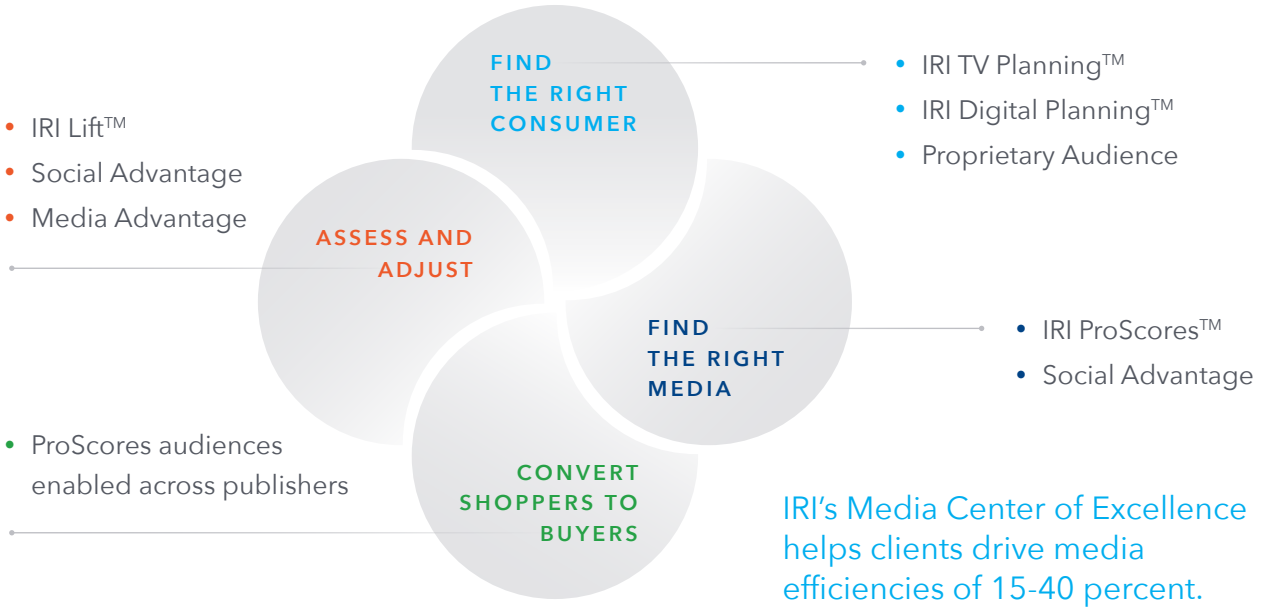
IRI ProScores leverages robust purchase data from the National Consumer Network™. Through advanced analytics and IRI's unique big data capabilities, we integrate those data with comprehensive demographic, psychographic and behavioral data from Experian's Consumer View database plus detailed frequent-shopper data for millions of households from Kantar Shopcom, so that we can quantify the impact of thousands of dimensions on purchase behavior. The result is a purchase propensity score, known as IRI ProScores.



Effectively Communicating with High-Value Shoppers Is the Key to Successful Media Campaigns

EXHIBIT 16

IRI's media solutions help clients move from maximizing exposure to maximizing impact by linking cross-channel media exposure to purchase at a granular level to enable clients to plan, target, activate and measure all media.



IRI's Media Center of Excellence is built on a foundation of vast sums of cross-media and cross-channel purchase data that is integrated across multiple platforms. These solutions link exposures to purchase at a granular level, enabling clients to plan, target, activate and measure all media (see Exhibit 16).

At the core of our planning expertise is IRI's ProScores algorithm, which uses predictive models, advanced analytics and data mining techniques to estimate spend for every U.S. household across thousands of CPG categories, subcategories, brands and retail banners.

With household-level insights into purchase propensities down to the UPC level and an understanding of which media reach consumers with the highest propensity scores, IRI is able to help clients understand where target consumers are located and how they are engaging in media, allowing for strategic allocation of media resources. The granularity of the data further increases efficiency, allowing advertisers to engage high-value CPG households where they are (online or offline) and deliver relevant messaging.

Clients also benefit from real-time measurement of gross rating points (GRPs)* and impressions, so that marketers can adjust on the fly and continually improve program impacts.

With these purchase propensity-based insights, IRI has optimized numerous brand campaigns, identifying 15 to 40 percent cost efficiencies for reallocating media spend to reach the right targets.

* Gross rating points (GRPs) measure of the size of an advertising campaign by a specific medium or schedule, specifically quantifying impressions as a percentage of the target population.

Customer Success Story

More Detail Enables Better In-Store Performance

IRi Lift™ Granular Understanding of Each Store Leads to 1 to 2 Percent Sales Boost

THE CHALLENGE

A leading CPG manufacturer was looking to develop strategies to defend against an imminent private label launch. A marketing mix analysis demonstrated that digital media (especially targeted) was very effective, and the client preferred to stick with that tactic. However, the client also indicated that it wanted to better hit its target consumers.

APPROACH

IRI worked with the client to create a consumer profile and ProScores segment for private label buyers and identified media consumption by segment. This allowed IRI to identify DMAs with the strongest concentration of high-propensity private label targets. By transforming the consumer targets into a digital audience, the client was able to execute a program with WebMD and online video.

RESULTS

IRI worked with the client to activate a digital media campaign across a targeted audience of 20 million households, versus the historic pool of 8 million households from the client's previous vendor.

IMPACT

The expanded and optimized program yielded a 250 percent increase in online audience reach, bringing in nearly $3 million in incremental revenue opportunity.

Framework to Win

Several years after the official end of the Great Recession, the CPG industry is still struggling to find true and consistent growth. It has been challenging, to say the least. But 2016 presents exciting opportunities for CPG marketers. Some of these opportunities have been around for quite some time. Some are new opportunities, brought about by changing market dynamics and advances in analytic technologies and know-how.

IRI's advanced data science teams will help you understand how key trends are impacting your brands and develop finely tuned strategies that will set the stage for growth in 2016.

1 Establishing and maintaining a clear understanding of the consumer path to purchase has become more challenging and more critical than ever. By closely monitoring how consumers "travel" in the online and offline worlds and understanding how those two disparate but increasingly interrelated worlds interact, CPG marketers can reallocate media resources to increase awareness and shopper conversion.

2 Understanding similarities and differences in common shopping patterns (whether clear-cut or nuanced) across the Hispanic marketplace will be critical to winning with this huge and growing consumer segment. By analyzing Hispanic and non-Hispanic sales at the UPC level and store levels, CPG marketers can enhance targeting, brand development and assortment strategies to drive Hispanic sales at the retailer/market level.

3 Developing media programs that drive purchase behavior is critical to long-term success. This requires getting those media exposures to the consumers who are most likely to purchase your products. You can reduce waste and maximize impact by tightly targeting your media efforts across your highest-propensity shoppers.

Resources

FOR MORE INFORMATION

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

If you enjoyed this report, you may be interested in the following IRI products and services, which work cooperatively to provide actionable insights and recommendations that will help you gear up now for a year of growth:

For sales and channel management that goes beyond the "what" to deliver the "how" and "why," tap into **IRI Market Advantage™**

Powered by IRI Liquid Data™, IRI Market Advantage™ speeds time to decision by 10X to 100X by providing a broader level of marketplace insight than ever before and delivering all edible and non-edible categories in multiple businessviews, 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.

To fuel iterative consumer and shopper analyses on the fly, turn to **IRI Consumer and Shopper Insights Advantage™**

Leveraging the revolutionary IRI Liquid Data™ platform, CSIA enhances speed, flexibility and simplicity by synthesizing hundreds of product, household, and trip attributes and distilling them down to the most meaningful views that match our clients' business models to better inform brand marketing decisions and protect and grow business at retail.

For a granular understanding of high-potential Hispanic shoppers, rely on **Hispanic Insights Advantage™**

Hispanic Insights Advantage™ is a POS-based module for IRI Market Advantage™ that helps marketers capture growth of up to 10 percent by better understanding brand preferences and sales insights of Hispanic consumers across all available geographies and retailers using precise data science methodologies while harnessing the leading-edge power of IRI's Liquid Data™ platform.

To identify high-value targets based on actual purchase behavior, rely on **IRI ProScores™**

IRI ProScores™ is a proprietary audience-targeting and segmentation methodology that predicts the magnitude that each individual U.S. household spends in every CPG category, subcategory and major brand. IRI ProScoresenables CPG marketers increase media efficiencies by 15 to 40 percent by focusing on the households that spend the most money in defined categories, subcategories and major brands.

To link media exposure to actual sales, turn to **IRI Lift™**

IRI Lift™ seamlessly integrates IRI's vast point-of-sale, frequent shopper, causal and media exposure data to empower marketers to fully understand actual in-store sales lift impact of ad spend in real-time throughout a campaign. By fusing loyalty card program data with IRI's proprietary shopper panel and a host of other data assets at the SKU and shopper level, IRI Lift delivers the industry's most granular and most accurate multi-channel projection to help drive growth in real time.