

# Gas Price Impact & U.S. Economic Outlook

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# U.S. Economic Outlook: How Rocky Is The Road?



# The Answer Is.....Pretty Rocky

“Economic activity expanded in the second quarter, partly reflecting **growth in consumer spending** and **exports**. However, **labor markets have softened** further and **financial markets remain under considerable stress**. **Tight credit conditions**, the ongoing **housing contraction**, and **elevated energy prices** are likely to weigh on economic growth over the next few quarters.... **Inflation has been high**, spurred by the earlier increases in the prices of energy and some other commodities, and some indicators of inflation expectations have been elevated. The Committee expects inflation to moderate later this year and next year, but the **inflation outlook remains highly uncertain...**”

Federal Open Market Committee Statement

August 5, 2008


# Forces at Work: Consumer Wallet Pressures



**Lower Spending Power**  
Falling Wealth,  
Income & Credit

- Home & stock portfolios losing value
- Tighter credit
- Flat income in existing jobs
- Unemployment rate increasing
- Weak dollar

**Average U.S. Consumers  
Getting Squeezed**



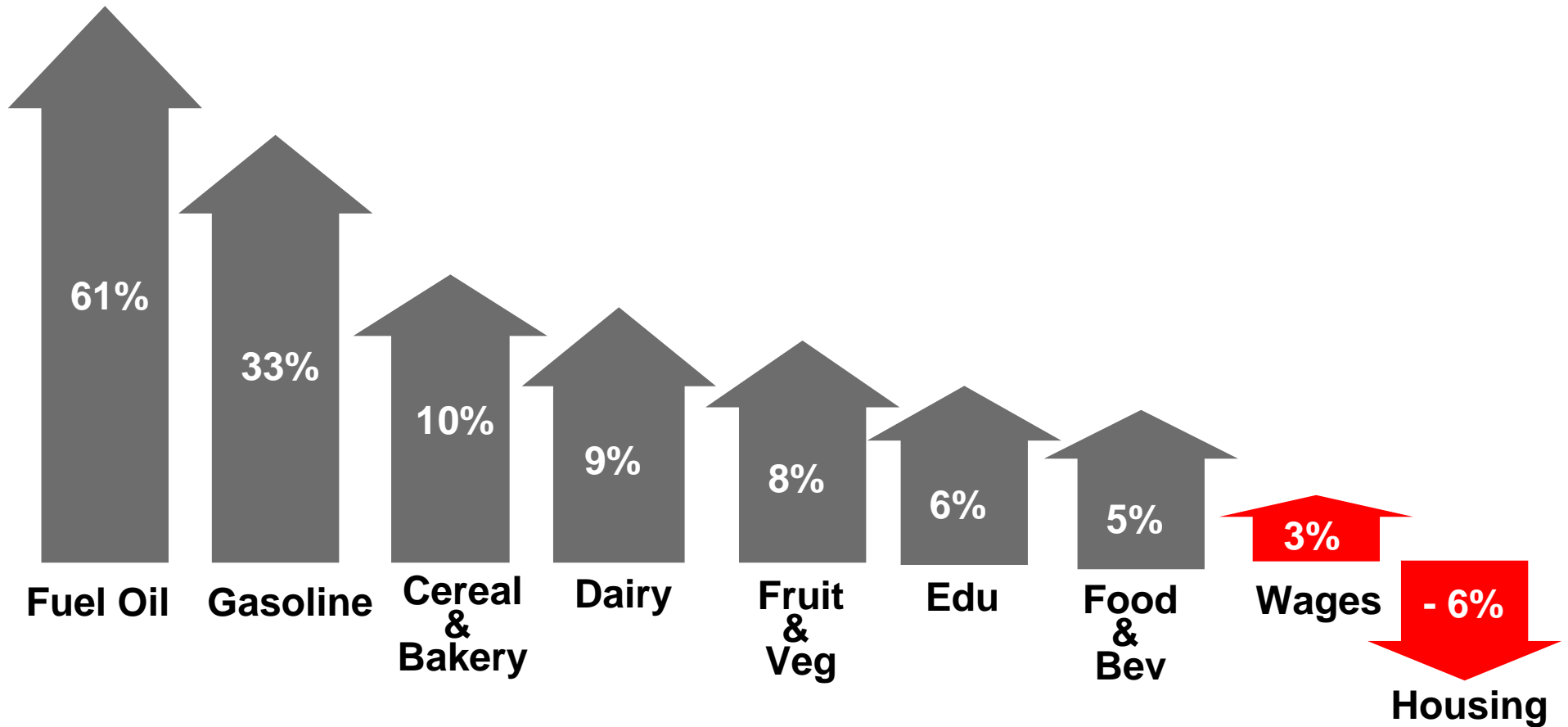
**Rising Costs**  
Rising Living,  
Household Expenses

- Personal debt servicing
- Home energy
- Transportation
- Food
- Healthcare
- Education

# Overall Cost of Living Rising Sharply

## Consumers Can Not Keep Up With Necessities

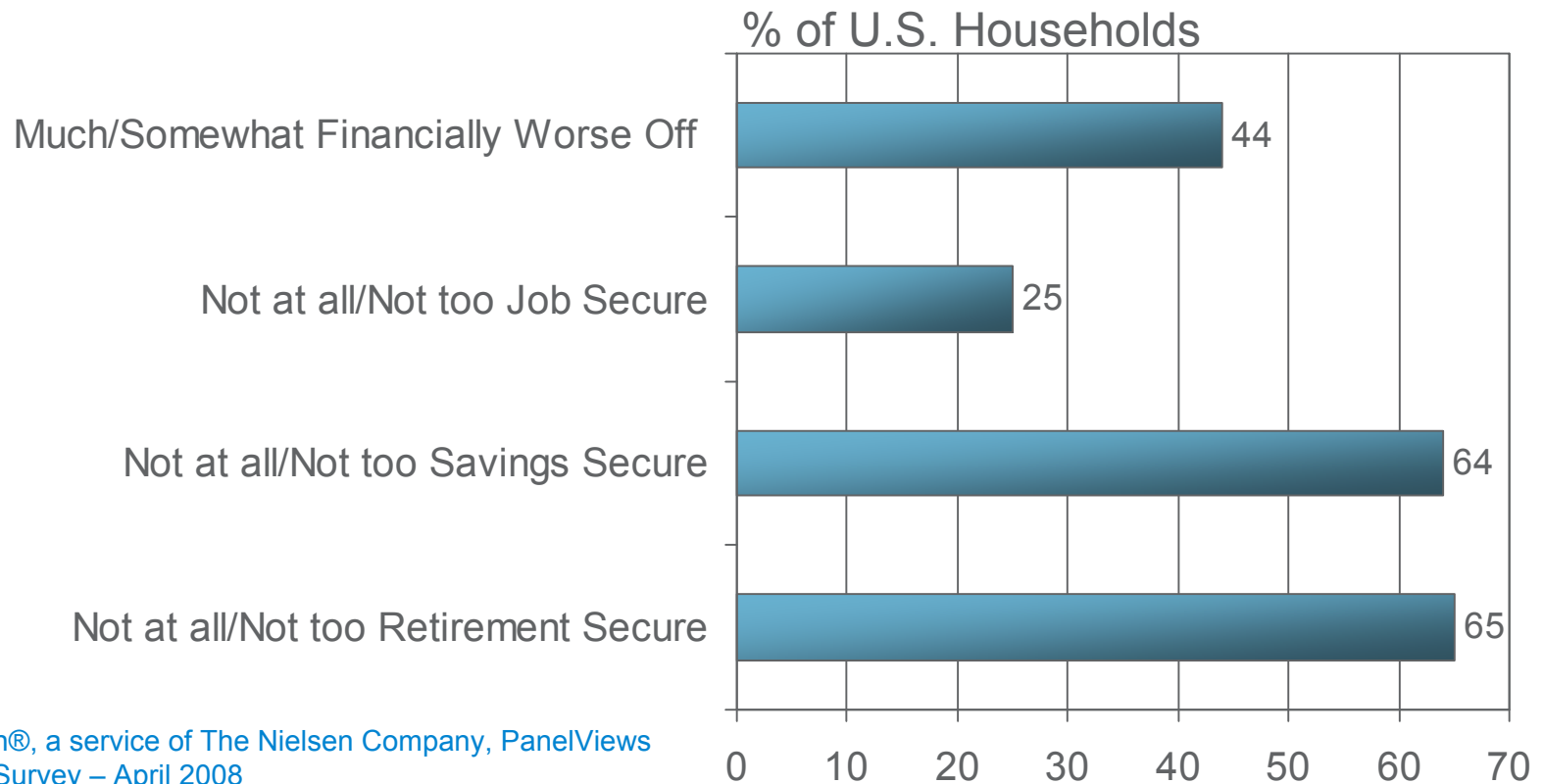
12 Month Percentage Increase, Selected Items (June 2008 vs. June 2007)



Source: U.S. Department of Labor Statistics (Consumer Price Index; U.S. City Average); USDA, NAR-home prices, BLS-Employment cost index

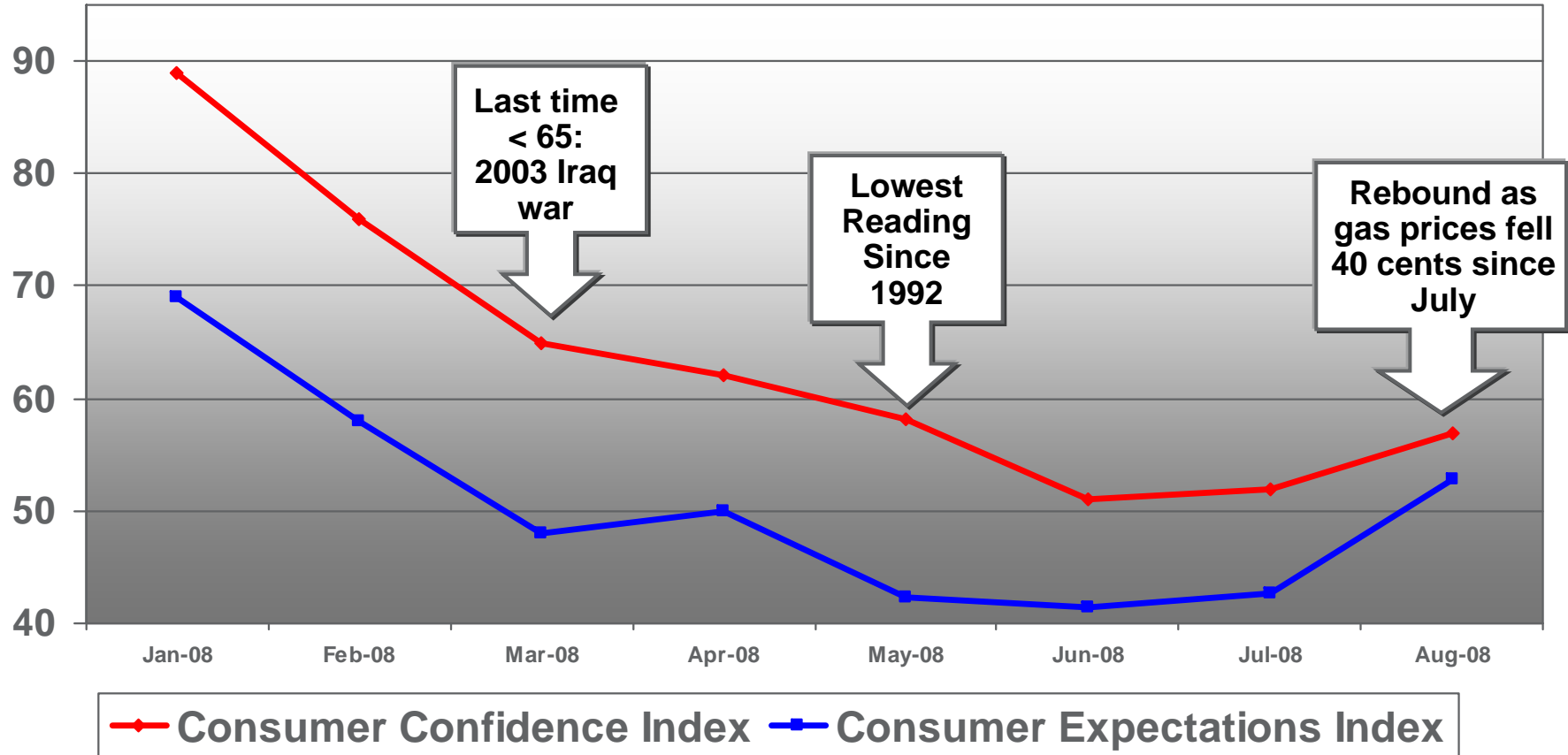
# Consumers Are Not Secure

- Almost half feel somewhat worse off financially than a year ago
- 1/4th of consumers don't feel secure they'll keep their job & two thirds don't have enough savings for potential disasters or retirement



Source: Homescan®, a service of The Nielsen Company, PanelViews  
Economic Impact Survey – April 2008

# Consumer Confidence At Relevant Levels

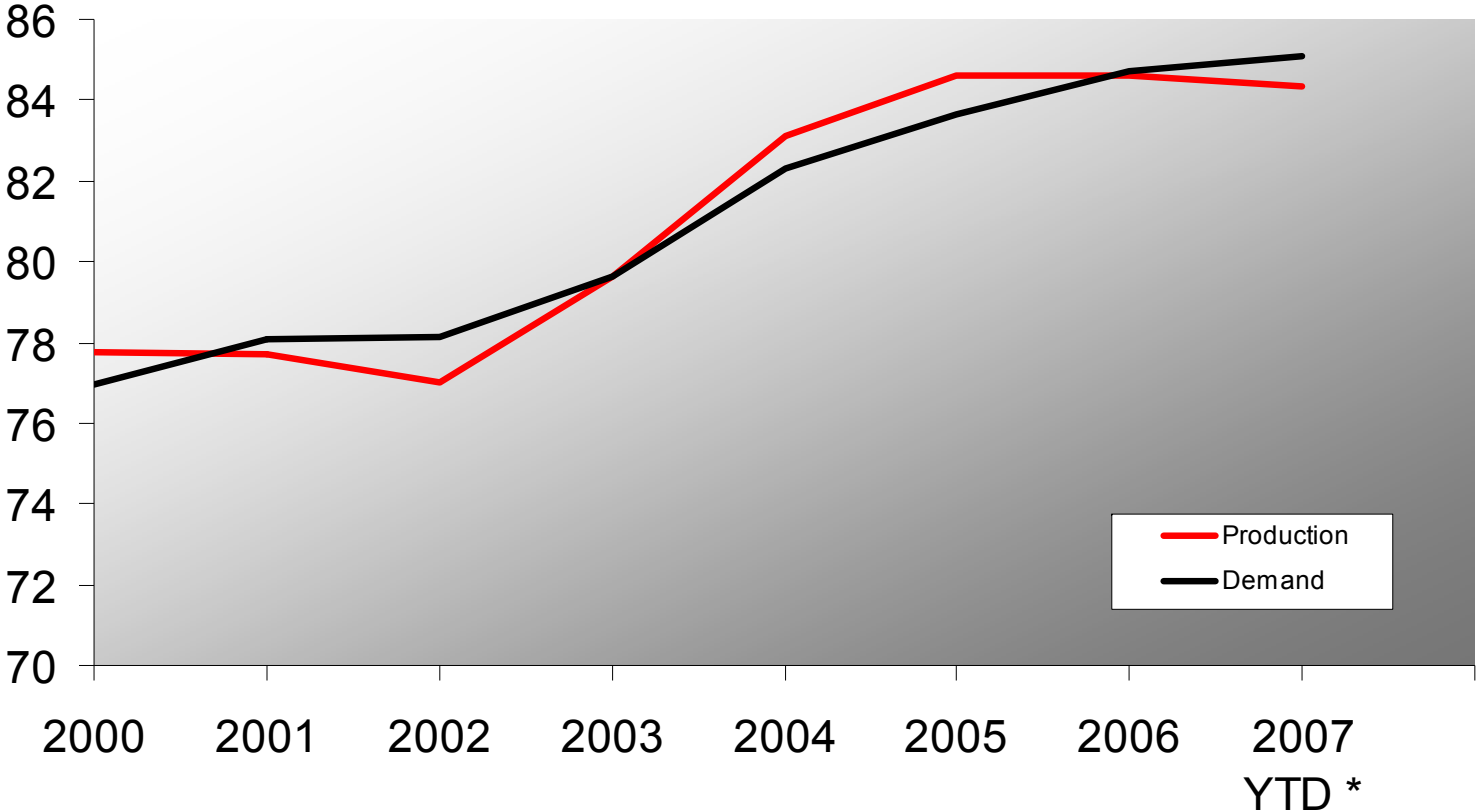


Source: The Conference Board

# Global Demand Pushes Gas to \$4/Gallon; Can \$5/Gallon Be Far Off?


## World Oil Production vs. Demand

(Millions of Barrels Per Day)



Dept of Energy


# Forces at Work: CPG Margin Pressures



**Retail Prices**  
Weaker U.S. Dollar  
Walmart growth  
Discount player emergence

- Pricing Decisions
- Value Retail Expansion—competitors must hold/lower prices in their path
- Growth of private label
- Discount food retailers

## Margin Pressures on both CPG Manufacturers & Retailers!



**Rising Commodity Prices**  
Ingredient Cost  
Transportation Cost  
Packaging Cost

- **Commodities at all time highs**
  - Barley (+47%) Corn (+59%)  
Wheat (+63%)
- **Fuel Prices at record levels**
  - transportation of goods plus pressure on the consumers wallet



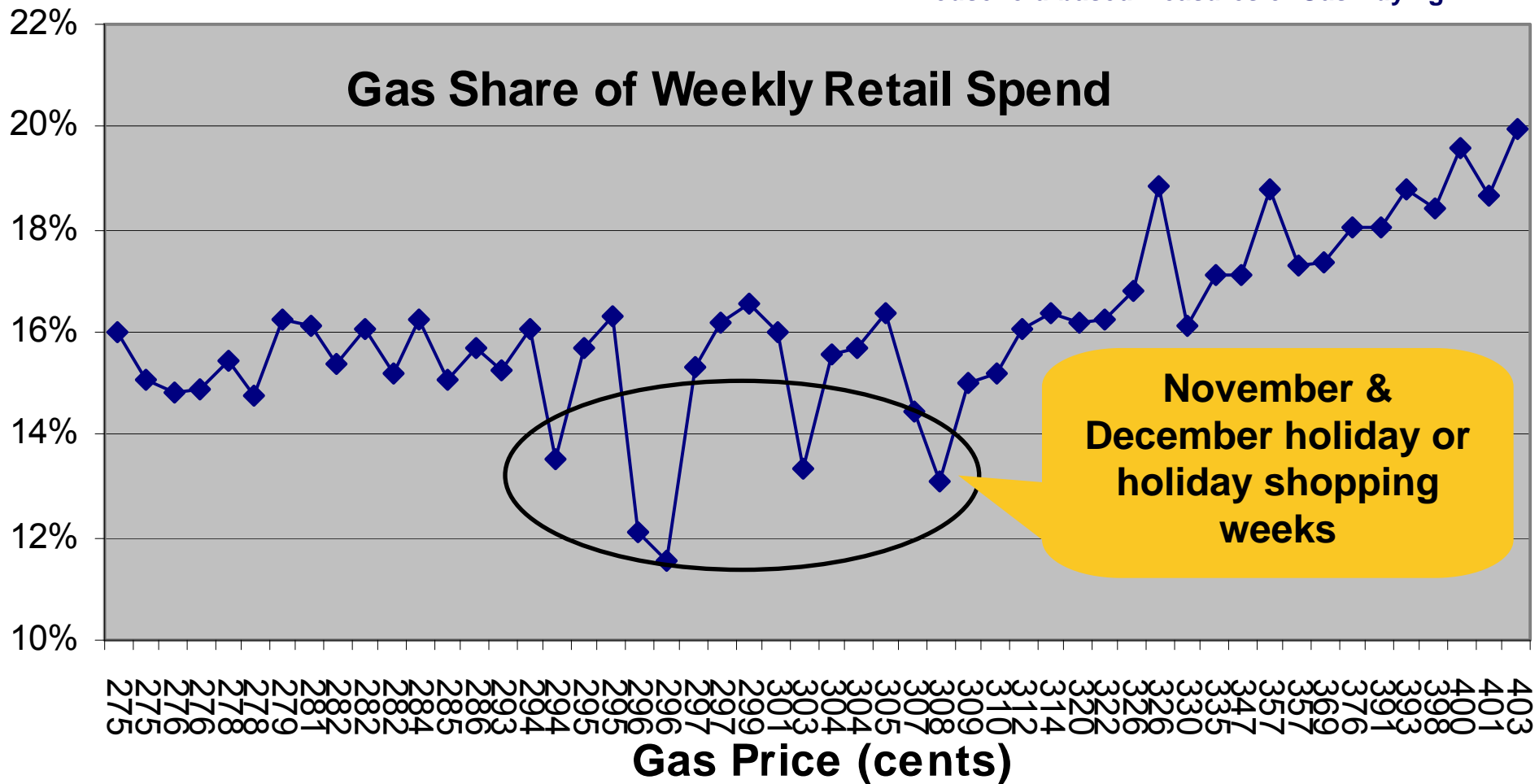
# Gas Price Monitor

Pain at the Pump!



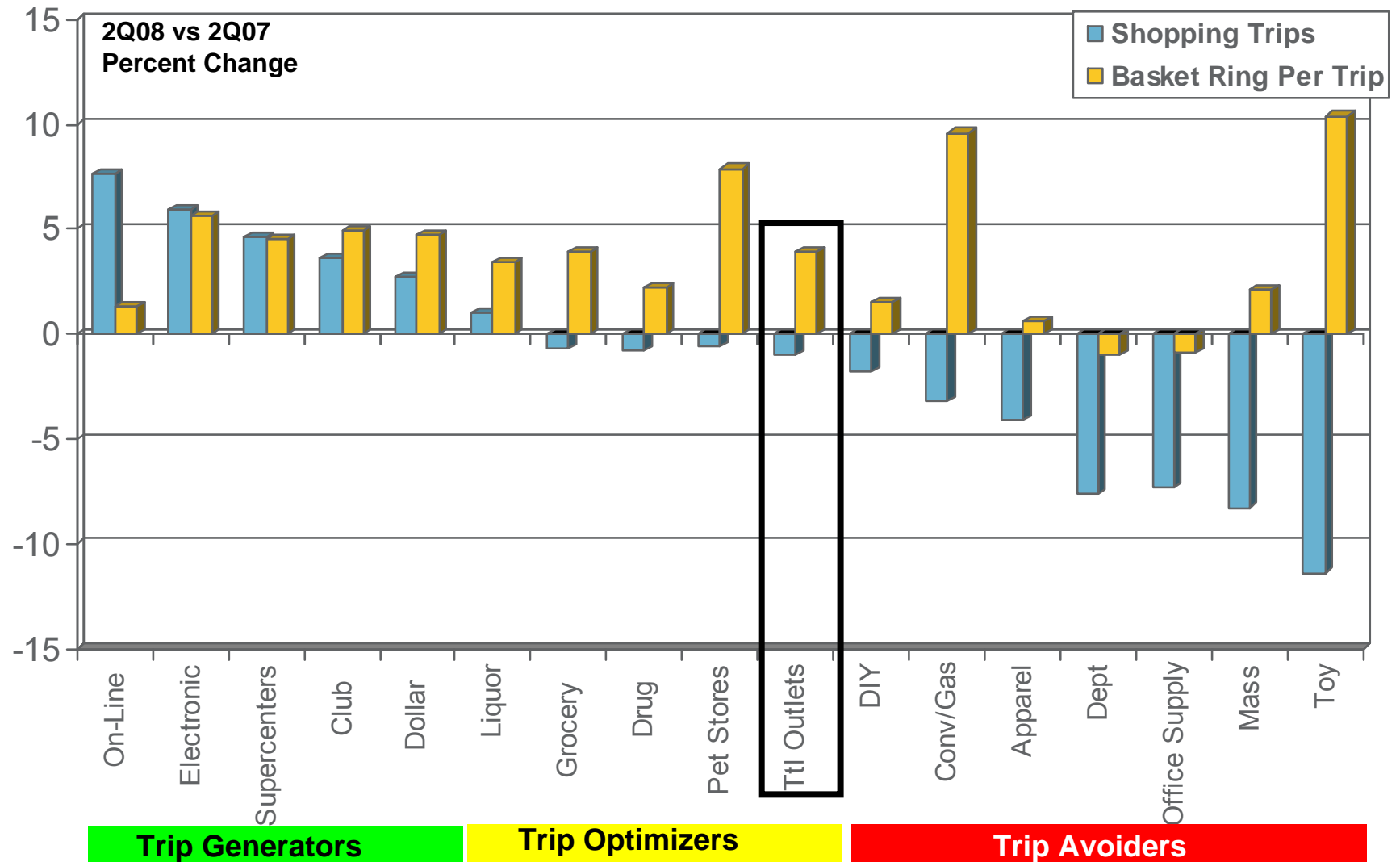
# As Prices Increase, Consumers Have Less to Spend & Must Make Trade-Offs

Household-based Measures of Gas Buying



Source: Homescan® Total ShopperView, a service of The Nielsen Company—Total US—52 weeks ending 06/28/2008;  
 Average Weekly Gas Prices [http://www.eia.doe.gov/oil\\_gas/petroleum/data\\_publications/wrgp/mogas\\_home\\_page.html](http://www.eia.doe.gov/oil_gas/petroleum/data_publications/wrgp/mogas_home_page.html)

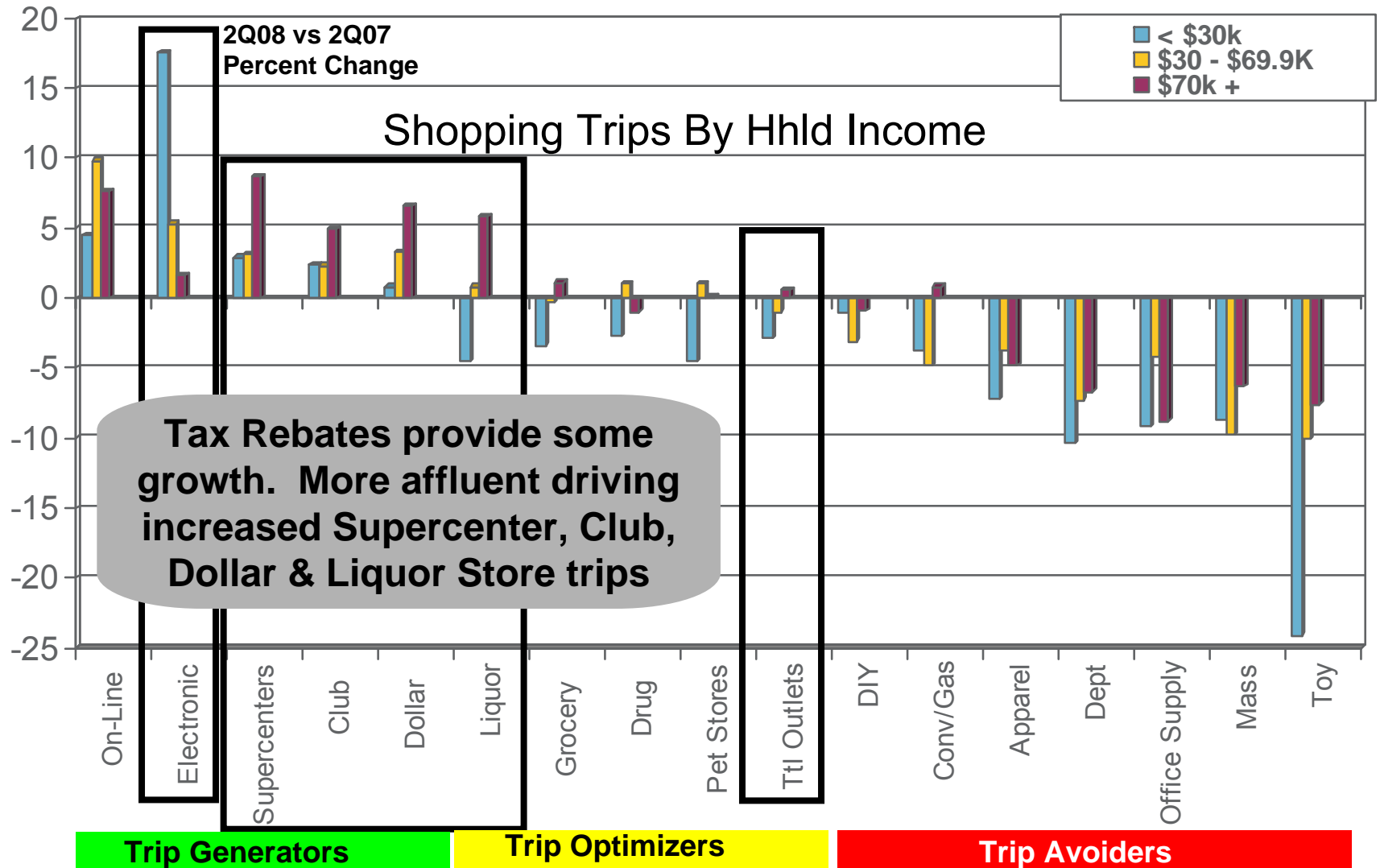
# Changing Behaviors as Economy Weakens



Source: Homescan®, a service of The Nielsen Company

Excludes gas only trips

# Low Income Taking More Drastic Trip Cuts




Source: Homescan®, a service of The Nielsen Company

Excludes gas only trips

# Retailers Performing Well In Tough Economy


- **Costco** July sales rose 14%, same-store up 10%
- **BJ's** July same-store sales up 16.7%, excluding gasoline, same-store up 7%
- **Dollar Tree** posted 12.5% increase in sales during fiscal 2nd qtr, comp-store up 6.5%
- **Kroger** 1<sup>st</sup> qtr sales up 11.5%, identical supermarket sales up 9.2% with fuel & 5.8% without
- **Dollar General** 1<sup>st</sup> qtr same-store-sales grew 5.4%
- **Family Dollar** July sales rose 7.2%, same-store up 4.6%
- **Walgreen Co.** July sales up 10.7%, same-store up 4.1%
- **Walmart** 2<sup>nd</sup> qtr sales up 10.1%, same-store up 4.5%

Consumer Motivation  = Stock-up & Save

Source: Industry e-newsletters & company web sites

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Consumer Motivation  = Value Seeking

Source: Industry e-newsletters & company web sites

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Consumer Motivation  = Value & Convenience

Source: Industry e-newsletters & company web sites

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Consumer Motivation  = Value & 1-Stop Shop

Source: Industry e-newsletters & company web sites

# Other Retailers Struggling

- **Gelson's Markets** ... "rising costs for food & fuel may have caused some customers to make some or all of their purchases from our competitors," 2<sup>nd</sup> qtr same-store sales declined 2.7%"\*
- **Target Corp.** July sales up 4.7%, same-store off 1.2%
- **Safeway's** 2<sup>nd</sup> qtr identical-store, excluding fuel, off 0.3%
- "**Whole Foods Market** weak 3<sup>rd</sup> qtr sales ... worst comp-store sales gains in 28-year history — up 2.6% — predicted comp-sales for the 4<sup>th</sup> qtr would rise 1.5%"\*

High- or higher-end retailers not immune

Source: Industry e-newsletters & company web sites

\* Source: *Supermarket News*

# Softness in Alternative & Specialty Channels

- **Circuit City** 1<sup>st</sup> qtr sales off 7.4%, comp- store down 11.3%
- **Williams-Sonoma** 1<sup>st</sup> qtr total comp-sales off 9%
- **Home Depot** sales for their 1<sup>st</sup> qtr were off 3.4%, comp-store off 6.5%
- **Barnes & Noble** 1<sup>st</sup> qtr sales up 1.1%, comp-store off 1.5%
- **Macy's** 1<sup>st</sup> qtr sales off 2.9%, same-store off 2.6%

Anyone care to forecast the holiday season for these retailers?

Source: Industry e-newsletters & company web sites



## Gas Price Impact – Attitudinal Insights



# Consumers Combining Trips, Eating Out Less, Staying Home, Cutting Spending @ Alarming Levels!

78% combining shopping trips & errands (+ 10 pts from YAGO),  
52% eating out less (+ 14 pts),  
51% staying home more often (+ 12 pts) &  
63% of U.S. consumers are reducing spending (+ 18 pts)!



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 52% eating out less (+ 14 pts),  
 51% staying home more often (+ 12 pts) &  
 63% of U.S. consumers are reducing spending (+ 18 pts)!



## Saving Money in What & How they Buy & Where They Shop

| Impact higher gas prices had on driving & spending habits? Check all | Jun/Jul '05 | Jun/Jul '06 | Jun '07 | Jun '08 |
|--|-------------|-------------|---------|---------|
| Buy less expensive grocery brands                                    | 17%         | 22%         | 19%     | 35%     |
| Use more coupons   | 20%         | 24%         | 21%     | 32%     |
| Shop more @ Supercenters   | 22%         | 26%         | 23%     | 28%     |
| Buy Larger, Economy Size   | 10%         | 11%         | 10%     | 16%     |

Nielsen Homescan Gas Impact Study

# Except for Low & High Income, Similar Response to Combining Trips, Eating Out & Staying Home

Index of Responses to Total Households

| Impact higher gas prices had on driving & spending habits? Check all | Total Hhlds | < \$20k | \$20 - \$29.9 | \$30 - \$39.9 | \$40 - \$49.9 | \$50 - \$69.9 | \$70 - \$99.9 | \$100k+ |
|--|-------------|---------|---------------|---------------|---------------|---------------|---------------|---------|
| Combine Errands & Trips  | 78%         | 91      | 101           | 103           | 105           | 104           | 102           | 98      |
| Eat Out Less   | 52%         | 91      | 106           | 106           | 106           | 106           | 102           | 90*     |
| Do More @ Home   | 51%         | 96      | 102           | 108           | 109           | 104           | 101           | 87*     |

\*Read as: Households with incomes of \$100k + are 10% less likely to eat out less & are 13% less likely to do more things at home.

Responses from affluent moving closer to the average

# Lower Income Households Making More Drastic Spending Reductions

Index of Responses to Total Households

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|--|-------------|---------|---------------|---------------|---------------|---------------|---------------|---------|
| Reduce Spending Small Degree   | 37%         | 68*     | 87            | 97            | 111           | 113           | 116           | 108     |
| Reduce Spending Great Degree   | 26%         | 120*    | 121           | 115           | 106           | 97            | 88            | 68      |

\*Read as: Households with incomes under \$20,000 are 32% less likely to reduce their spending a small degree, but are 20% more likely to reduce their spending a great degree.

**Retailers & Manufacturers serving lower income households will feel the greatest impact**

Nielsen Homescan Surveys

# Private Label & Lower-Priced Brands Should Benefit from Higher Gas Prices



- **35% of consumer looking to buy less expensive grocery brands**
  - Up 16 percentage pts from year ago
- **Manufacturers should be proactive in their defense of their “brand” space**

# Trading Down is Viable Option for 35% of Households & Similar Response Across Most Income Groups

Index of Responses to Total Households

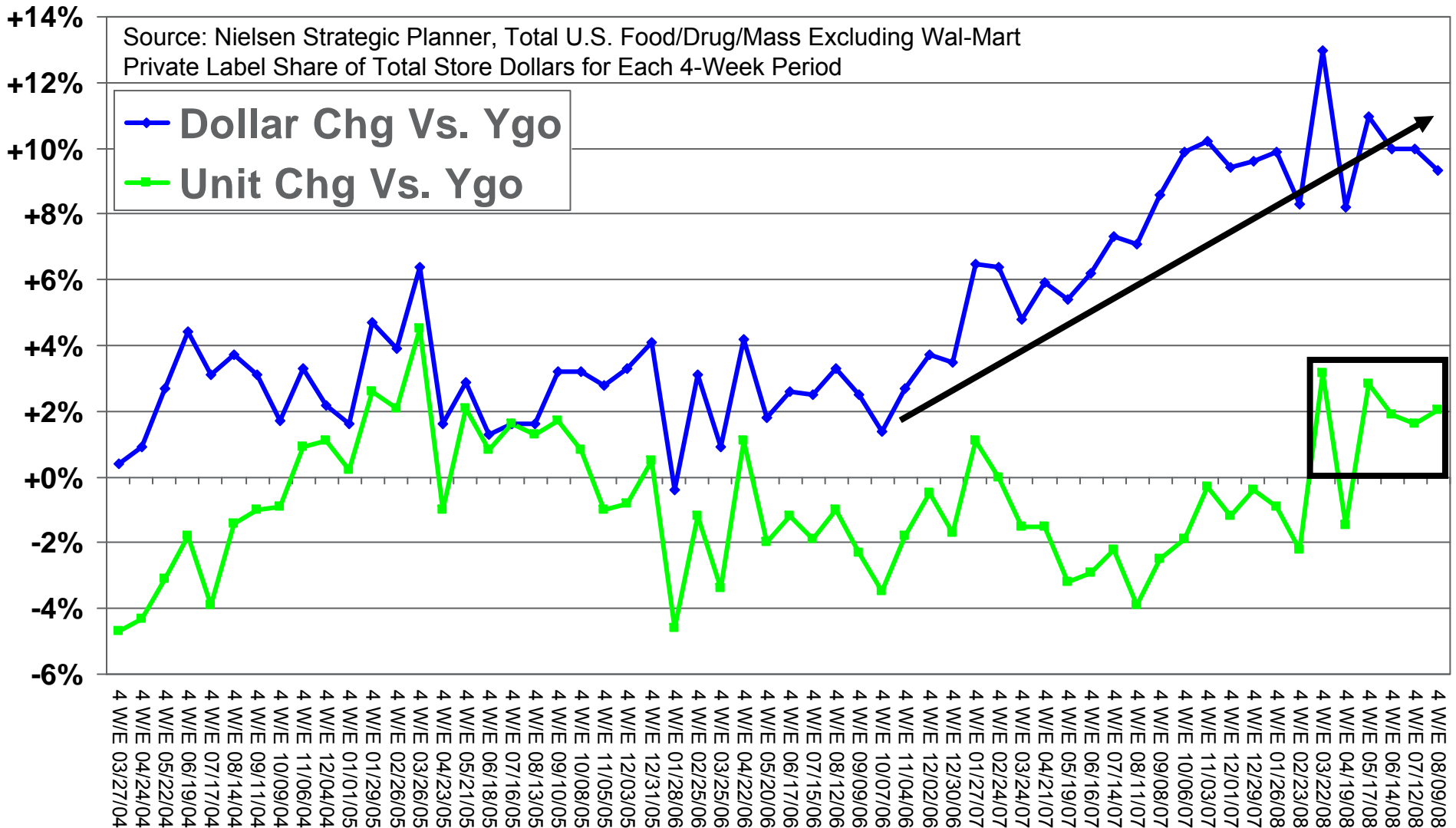
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|--|-------------|---------|---------------|---------------|---------------|---------------|---------------|---------|
| Buy Less Expensive Grocery Brands                                    | 35%         | 110*    | 116           | 113           | 113           | 103           | 91            | 70*     |

\*Read as: Households with incomes under \$20,000 are 10% more likely to buy less expensive grocery brands & private label, while \$100k + households are 30% less likely to buy less expensive grocery brands & private label.

**The majority of households will be sticking with the brands in their existing portfolio**

Nielsen Homescan Surveys

# Inflation Driving Private Label Dollar Growth; Unit Sales Flat Until Recent 5 of 6 (4-week) Periods



# Greater Absolute PL Dollar Growth in Just One Department, But Greater % Growth In All But Four

## Branded versus Private Label Absolute & % Growth

|               | Branded<br>\$ Growth<br>(000,000) | % Growth | Private Label<br>\$ Growth<br>(000,000) | % Growth |
|---------------|-----------------------------------|----------|---|----------|
| Total Dept.   | \$14,183.8                        | 3.6%     | \$7,072.5                               | 10.0%    |
| Dry Grocery   | \$6,237.3                         | 4.2%     | \$1,690.2                               | 6.9%     |
| Frozen Foods  | \$771.5                           | 2.6%     | \$682.9                                 | 10.3%    |
| Dairy         | \$2,552.8                         | 9.1%     | \$3,392.2                               | 20.2%    |
| Deli          | \$383.7                           | 7.7%     | \$254.4                                 | 17.2%    |
| Fresh Produce | \$941.0                           | 7.3%     | \$276.3                                 | 14.7%    |
| Fresh Meat    | \$297.7                           | 13.7%    | \$26.0                                  | 6.4%     |
| Packaged Meat | \$375.3                           | 3.5%     | \$53.8                                  | 3.5%     |
| Non-Food      | \$382.7                           | 0.8%     | \$257.6                                 | 3.6%     |
| Alcoholic Bev | \$1,075.8                         | 5.5%     | -\$0.8                                  | -1.0%    |
| Gen Merch     | \$249.1                           | 0.7%     | \$11.4                                  | 0.4%     |
| HBC           | \$917.0                           | 1.8%     | \$428.6                                 | 5.9%     |

Source: The Nielsen Company; Food, Drug, Mass including Wal-Mart; 52 weeks ending 6/28/08 versus prior year

# 48% of PL Growth From Dairy Department; 44% of Branded Growth From Dry Grocery

## Branded versus Private Label Absolute & Share of Growth

|               | Branded<br>\$ Growth<br>(000,000) | % of Growth | Private Label<br>\$ Growth<br>(000,000) | % of Growth |
|---------------|-----------------------------------|-------------|---|-------------|
| Total Dept.   | \$14,183.8                        | 100.0%      | \$7,072.5                               | 100.0%      |
| Dry Grocery   | \$6,237.3                         | 44.0%       | \$1,690.2                               | 23.9%       |
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| HBC           | \$917.0                           | 6.5%        | \$428.6                                 | 6.1%        |

Source: The Nielsen Company; Food, Drug, Mass including Wal-Mart; 52 weeks ending 6/28/08 versus prior year – UPC coded products

# Consumer Response Says that 2008 is an Opportunity for Coupon Incentives



- One-third of consumers using more coupons to deal with high gas prices
  - Up 11 pts from YAGO
- An opportunity for manufacturers to align coupon drops & trade events in stores serving consumers feeling the greatest impact

# Increased Coupon Usage From All Income Groups

Index of Responses to Total Households

| Impact higher gas prices had on driving & spending habits? Check all | Total Hhlds | < \$20k | \$20 - \$29.9 | \$30 - \$39.9 | \$40 - \$49.9 | \$50 - \$69.9 | \$70 - \$99.9 | \$100k+ |
|--|-------------|---------|---------------|---------------|---------------|---------------|---------------|---------|
| Use More Coupons   | 32%         | 91      | 105           | 103           | 110*          | 106           | 103           | 90*     |

**Should coupons be dropped at middle or end of the month when dollars are tighter or at beginning of the month when all consumers can spend?**

\*Read as: Households with incomes between \$40 & \$49.9k are 10% more likely to use more coupons, while \$100k + households are 10% less likely to use more coupons.

# Continued Interest in Shopping Supercenter Format – a Great Place to Save



- With continued squeeze on discretionary spending, how can this format drive growth in grocery department sales & still drive sales in general merchandise, apparel & other non-food departments?

# Continued Interest in Shopping Supercenter Format – a Great Place to Save



- Store expansion has these formats closer to more shoppers, but many shoppers drive great distances to shop
- High gas prices reduce the # of quick or fill-in trips within the format
- Format retailers need to entice non-core shoppers with stronger earning power to make more trips

# Lower Income Households Likely to Shop More @ Supercenters

Index of Responses to Total Households

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|--|-------------|---------|---------------|---------------|---------------|---------------|---------------|---------|
| Shop More @ Supercenters   | 28%         | 111*    | 115           | 114           | 107           | 102           | 93            | 72*     |

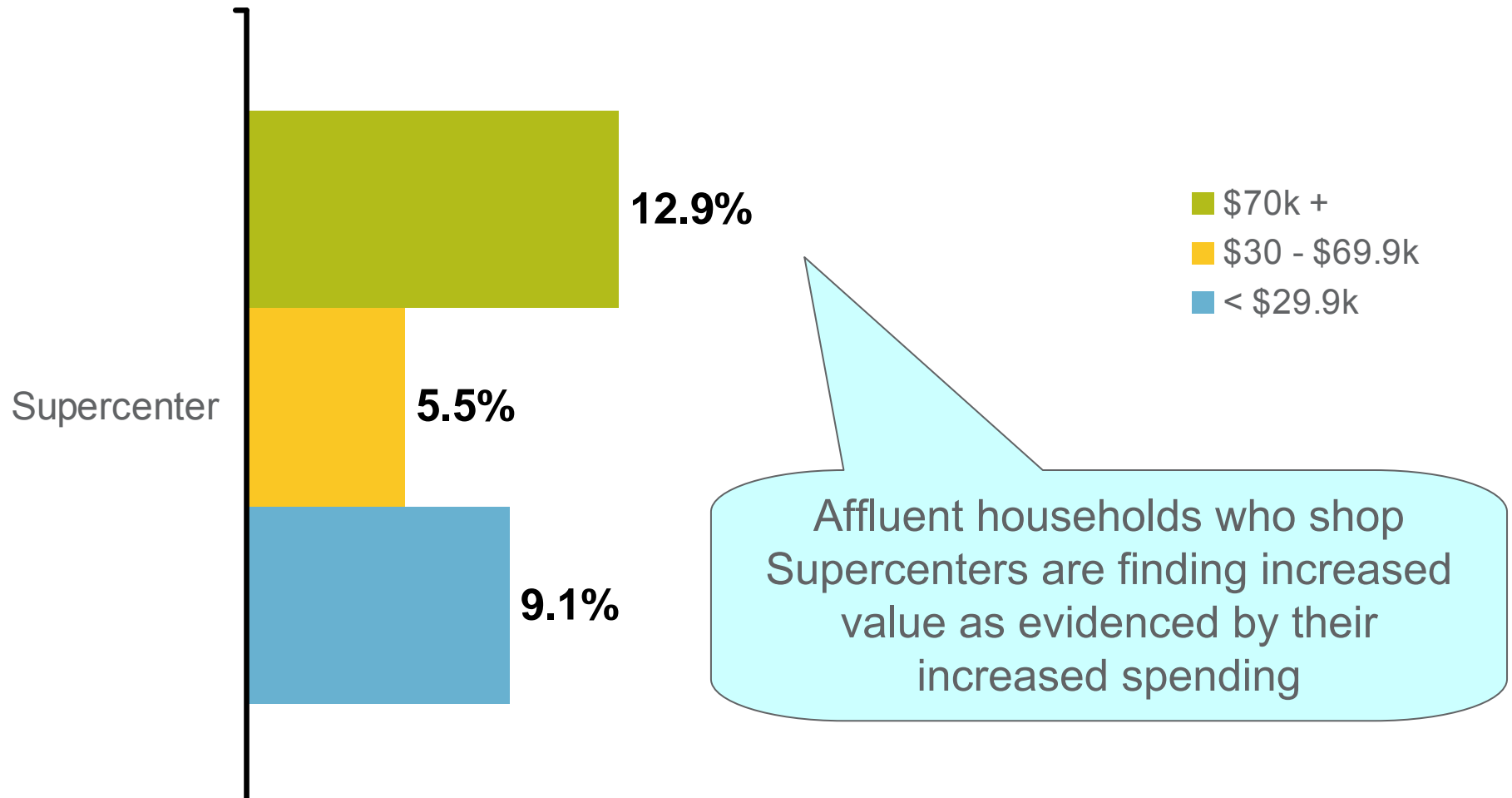
**Given need to cut spending a great degree, will low income households reduce spending on non-essentials?**

\*Read as: Households with incomes under \$20,000 are 11% more likely to shop more @ Supercenters, but \$100k + households are 28% less likely to shop more @ Supercenters.

Nielsen Homescan Surveys

# But Strongest \$ Sales Increase For Mass Supercenters Came From More Affluent Households

Annual % \$ Sales Growth



Source: Homescan®, a service of The Nielsen Company—Total US—52 weeks ending 06/28/2008

# More U.S. Households Turning to Club Stores & Internet; Carpooling & Public Transportation Helping Few

| Impact higher gas prices had on driving & spending habits? Check all | Jun/Jul '05 | Jun/Jul '06 | Jun '07    | Jun '08    |
|--|-------------|-------------|------------|------------|
| Use lower grade gas  | 16%         | 18%         | 14%        | 14%        |
| <b>Shop more @ Warehouse Clubs</b>                                   | <b>9%</b>   | <b>10%</b>  | <b>10%</b> | <b>13%</b> |
| <b>Shop more on Internet</b>   | <b>5%</b>   | <b>9%</b>   | <b>9%</b>  | <b>11%</b> |
| <b>Carpool more often</b>  |             |             | <b>5%</b>  | <b>7%</b>  |
| <b>Use Public Transportation more</b>                                | <b>3%</b>   | <b>4%</b>   | <b>3%</b>  | <b>4%</b>  |

21% of households buying more gas at locations because of incentives tied to spending levels at a grocery store where they shop

# Affluent More Likely to Shop More @ Club Stores

Index of Responses to Total Households

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|--|-------------|---------|---------------|---------------|---------------|---------------|---------------|---------|
| Shop More @ Warehouse Clubs  | 13%         | 57*     | 75            | 90            | 108           | 110           | 132           | 120*    |

**Can other retailers win with permanent or in & out club pack promotions (or multi-pack promos) targeted in stores where more affluent shop?**

\*Read as: Households with incomes under \$20,000 are 32% less likely to shop club store, while \$100k + households are 20% more likely to shop club.

# Jump in Internet Shopping Should Be Wake-Up Call for Manufacturers & Retailers



- We will not likely see a big increase in internet food sales, but non-food and health & beauty manufacturers should look for “direct-to-consumer” sales opportunities
- Now is the time to step up internet communications to attract shoppers & buyers
  - Emphasis on value, variety, convenience, & a healthier lifestyle will be prominent in 2008

# Average Internet Opportunities Among Middle Income; Above Average Among More Affluent

Index of Responses to Total Households

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|--|-------------|---------|---------------|---------------|---------------|---------------|---------------|---------|
| Shop More On Internet  | 11%         | 80*     | 92            | 94            | 105           | 99            | 112           | 115*    |

**Behaviorally, 2007 on-line sales growth was strongest among households w/incomes < \$39.9k**

\*Read as: Households with incomes under \$20,000 are 20% less likely to shop more on the internet, while \$100k + households are 15% more likely to shop more on the internet.

# Lower Income Households Not Leveraging Gas Savings Tied to Grocery Spend

Index of Responses to Total Households

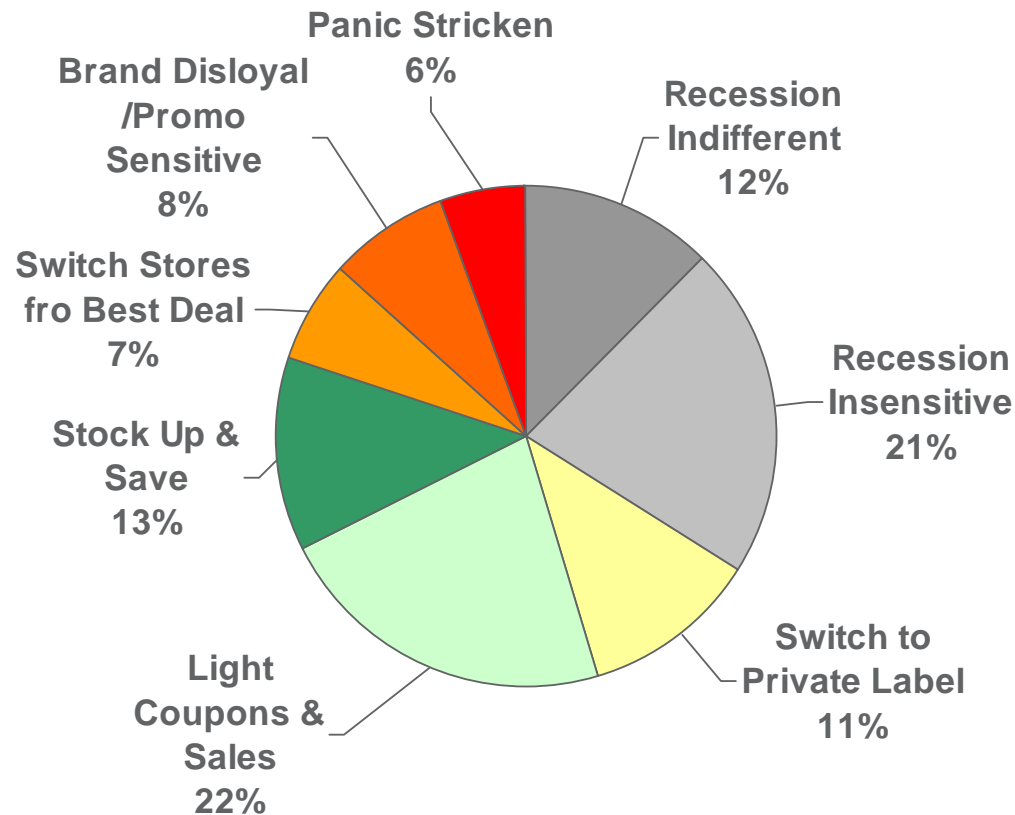
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|--|-------------|---------|---------------|---------------|---------------|---------------|---------------|---------|
| Buy More Gas Linked to Grocery Store Where Shopped                   | 21%         | 89*     | 96            | 97            | 102           | 103           | 109           | 103*    |

**Now that gas is above \$4.00, these are catching the interest of affluent households (87 index in December 2007 survey)**

\*Read as: Households with incomes under \$20,000 are 11% less likely to buy more gas linked to grocery store where shopped, while \$100k + households are 3% more likely.

# Nielsen Economic Impact Segmentation

In April 2008, 47,000 Homescan panelists were surveyed & subsequently scored into 8 segments based on their proclivity to change their shopping behavior across 36 categories during an economic downturn



Numbers reflect % of U.S. Households

# Segmentation Composite Action Scores

|  | Recession Indifferent | Recession Insensitive | Switch to Private Label | Light Coupons & Sales | Stock-Up & Save | Switch Stores for Best Deal | Brand Disloyal/Promo Sensitive | Panic Stricken |
|--|-----------------------|-----------------------|-------------------------|-----------------------|-----------------|-----------------------------|--------------------------------|----------------|
| N =                                      | (5,854)               | (10,100)              | (5,305)                 | (10,479)              | (5,868)         | (3,193)                     | (3,575)                        | (2,657)        |
| % U.S. Households                        | 12.4%                 | 21.5%                 | 11.3%                   | 22.3%                 | 12.5%           | 6.8%                        | 7.6%                           | 5.6%           |
| <b>Composite Score - 36 Categories</b>   |                       |                       |                         |                       |                 |                             |                                |                |
| Not change how I shop                    | <b>22.8*</b>          | 10.0                  | 4.5                     | 4.7                   | 1.7             | 3.3                         | 3.0                            | 1.3            |
| Switch to generic or store brand         | 1.4                   | 3.3                   | 12.6                    | 3.7                   | 4.0             | 5.5                         | 15.8                           | 15.9           |
| Switch to less expensive name brand      | 1.0                   | 3.2                   | 7.9                     | 3.3                   | 4.2             | 5.6                         | 14.9                           | 17.1           |
| Stop buying this product                 | 0.2                   | 0.9                   | 2.4                     | 1.0                   | 0.7             | 1.6                         | 1.8                            | 1.7            |
| Buy this product less often              | 1.7                   | 4.4                   | 4.6                     | 4.6                   | 5.1             | 6.6                         | 7.9                            | 10.9           |
| Limit use of this product                | 0.1                   | 0.5                   | 0.7                     | 0.6                   | 0.7             | 1.0                         | 1.1                            | 2.0            |
| Use coupons                              | 1.0                   | 4.2                   | 3.1                     | 9.7                   | 22.4            | 14.9                        | 16.8                           | 23.7           |
| Buy on sale                              | 1.4                   | 5.4                   | 4.1                     | 15.2                  | 24.2            | 18.0                        | 17.9                           | 24.3           |
| Switch stores for savings                | 0.3                   | 1.4                   | 1.5                     | 1.6                   | 4.4             | 16.3                        | 3.3                            | 22.3           |
| Stock up                                 | 0.7                   | 2.6                   | 1.6                     | 4.1                   | 9.4             | 6.6                         | 6.5                            | 13.9           |
| Do not purchase                          | 7.3                   | 9.1                   | 6.5                     | 7.9                   | 6.3             | 7.5                         | 6.3                            | 5.4            |
| <b>Avg Action (excluding not change)</b> | <b>0.9</b>            | <b>2.9</b>            | <b>4.3</b>              | <b>4.9</b>            | <b>8.4</b>      | <b>8.5</b>                  | <b>9.6</b>                     | <b>14.6</b>    |

\*Read as: Recession Indifferent segment would not change how they shop in 22.8 of the 36 categories

# Coupons & Sales an Important Tool for Many Segments

|  | Recession Indifferent | Recession Insensitive | Switch to Private Label | Light Coupons & Sales | Stock-Up & Save | Switch Stores for Best Deal | Brand Disloyal/Promo Sensitive | Panic Stricken |
|--|-----------------------|-----------------------|-------------------------|-----------------------|-----------------|-----------------------------|--------------------------------|----------------|
| N =                                      | (5,854)               | (10,100)              | (5,305)                 | (10,479)              | (5,868)         | (3,193)                     | (3,575)                        | (2,657)        |
| % U.S. Households                        | 12.4%                 | 21.5%                 | 11.3%                   | 22.3%                 | 12.5%           | 6.8%                        | 7.6%                           | 5.6%           |
| <b>Composite Score - 36 Categories</b>   |                       |                       |                         |                       |                 |                             |                                |                |
| Not change how I shop                    | 22.8*                 | 10.0                  | 4.5                     | 4.7                   | 1.7             | 3.3                         | 3.0                            | 1.3            |
| Switch to generic or store brand         | 1.4                   | 3.3                   | 12.6                    | 3.7                   | 4.0             | 5.5                         | 15.8                           | 15.9           |
| Switch to less expensive name brand      | 1.0                   | 3.2                   | 7.9                     | 3.3                   | 4.2             | 5.6                         | 14.9                           | 17.1           |
| Stop buying this product                 | 0.2                   | 0.9                   | 2.4                     | 1.0                   | 0.7             | 1.6                         | 1.8                            | 1.7            |
| Buy this product less often              | 1.7                   | 4.4                   | 4.6                     | 4.6                   | 5.1             | 6.6                         | 7.9                            | 10.9           |
| Limit use of this product                | 0.1                   | 0.5                   | 0.7                     | 0.6                   | 0.7             | 1.0                         | 1.1                            | 2.0            |
| Use coupons                              | 1.0                   | 4.2                   | 3.1                     | 9.7                   | 22.4            | 14.9                        | 16.8                           | 23.7           |
| Buy on sale                              | 1.4                   | 5.4                   | 4.1                     | 15.2                  | 24.2            | 18.0                        | 17.9                           | 24.3           |
| Switch stores for savings                | 0.3                   | 1.4                   | 1.5                     | 1.6                   | 4.4             | 16.3                        | 3.3                            | 22.3           |
| Stock up                                 | 0.7                   | 2.6                   | 1.6                     | 4.1                   | 9.4             | 6.6                         | 6.5                            | 13.9           |
| Do not purchase                          | 7.3                   | 9.1                   | 6.5                     | 7.9                   | 6.3             | 7.5                         | 6.3                            | 5.4            |
| <b>Avg Action (excluding not change)</b> | <b>0.9</b>            | <b>2.9</b>            | <b>4.3</b>              | <b>4.9</b>            | <b>8.4</b>      | <b>8.5</b>                  | <b>9.6</b>                     | <b>14.6</b>    |

\*Read as: Recession Indifferent segment would not change how they shop in 22.8 of the 36 categories

- **Recession Indifferent** – smaller households with higher income who are not likely to change how they shop. They feel more secure about their financial situation & making major purchases in the next six months. They show no desire to reduce entertainment expenses.



- **Panic Stricken** - larger 'Bustling Families' will do whatever it takes to save money . . . switch stores, brands, take advantage of deals, stock up or use less. They are the least financially secure, will greatly reduce most living expenses, & cut back in all departments across the store.



# Category Sales Opportunity & Promotion Support Required to Win in Soft Economy Varies by Segment

| <b><u>Nielsen Economic Impact Segmentation:</u></b> | <b>\$ Buying Rate Index</b> |                       | <b>Deal Index</b> |                       |
|---|-----------------------------|-----------------------|-------------------|-----------------------|
|   | Wine                        | Frozen Pizza & Snacks | Wine              | Frozen Pizza & Snacks |
| Recession Indifferent                               | 124                         | 99                    | 97                | 82                    |
| Recession Insensitive                               | 111                         | 95                    | 90                | 73                    |
| Switch to Private Label                             | 68                          | 107                   | 47                | 55                    |
| Light Coupon & Sales                                | 105                         | 94                    | 119               | 119                   |
| Stock-up & Save                                     | 94                          | 105                   | 116               | 147                   |
| Switch Stores for Deals                             | 86                          | 95                    | 105               | 117                   |
| Disloyal/Promotion Sensitive                        | 83                          | 111                   | 96                | 104                   |
| Panic Stricken                                      | 85                          | 110                   | 101               | 129                   |

Source: Homescan®, a service of The Nielsen Company  
 Total US—52 weeks ending 03/29/2008

# Summary & Closing Thoughts



# 2008 & 2009 Will Be Challenging



1. Record high gas prices, food & beverage inflation, along with declining consumer confidence will cause consumers to do more of what they have been doing:
  - Combine shopping trips
  - Eat more meals at home & do more at-home entertaining
  - Seek the right mix of value, variety, & convenience
  - BUT AT ACCELERATED LEVELS
  - SO WHAT ARE YOU DOING DIFFERENTLY?

# 2008 & 2009 Will Be Challenging



## 2. Those serving lower income groups will be especially impacted:

- Discretionary spending will take a hit – particularly in the “nice-to-have” not “need-to-have” departments & categories
- Look to value pricing, coupons, private label, & focus on food and household basics to win

# 2008 & 2009 Will Be Challenging



## 3. Profit pressures will:

- Drive increased product downsizing
- Negatively impact store expansion & remodeling efforts
- But, sustainability initiatives will thrive as retailers & manufacturers look for cost savings

# 2008 & 2009 Will Be Challenging



4. Winners will be those who seize the opportunity to minimize sales risks & maximize sales opportunities:
  - Ensure presence in trip generating channels & retailers
  - Store-by-store assortment, pricing & promotions is a must
    - Align with store trading area shopper income mix
  - Gas promotions to capture more gas trips or more in-store buying on gas trips will be on the rise
  - If you don't offer gas savings, what are your options?
    - Tie-in grocery spend w/gas vouchers in other retailers or offer savings on other department spending

# 2008 & 2009 Will Be Challenging



5. Winners will be those who recognize the offerings or categories needed to win
  - Grocers will win with focus on food, but how do they also capture non-grocery, general merchandise & HBA trips?
  - Mass-Merchandisers will win with non-food & HBA, but how do they maximize food & protect general merchandise, apparel, & household good trips?
  - Drug retailers will benefit from continued aging population through Rx & HBA, but need to protect food & general merchandise business
  - Dollar Stores should see a strong year in food & household basics, but nice to have departments will struggle
  - Conv/Gas will win with vice categories & increased focus on food service, but in-store sales will struggle when gas prices are at highest
  - Warehouse Clubs will continue to thrive (in-store & on-line)

# 2008 & 2009 Will Be Challenging



6. Winners will be those who:

– Focus on flawless execution

Thank you

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