

# Times & Trends

A Snapshot of Trends Shaping  
the CPG and Retail Industries



## APRIL 2009

- 03 Executive Summary
- 05 Introduction
- 06 Wal-Mart Performance
- 08 Drivers of Growth
- 13 Shifting Shopping Patterns
- 18 Shifting Purchase Patterns
- 19 Conclusions
- 21 Resources

## Walmart Stores

*Helping Consumers Navigate a Transforming Economy*



### Walmart: A Lesson in Continuous Improvement

It's no surprise that Walmart is faring well in the current recession. Its relentless expansion and focus on low prices plays perfectly to the growing number of shoppers in distress. But Walmart's success story is much more nuanced than simply a focus on low prices.

By the mid-2000s, Walmart's omnipresence had begun to work against increasing sales and income as cannibalization became a concerning issue. Walmart needed a new plan. The strategies management enacted represent an outstanding example of a retailer with an acute sense of shoppers' evolving needs and the ability to change to meet those needs.

Walmart has redefined and rewired many of the ways it touches shoppers, focusing on layout, convenience, new media and sustainability. Just a few examples of the retailer's new approaches are:

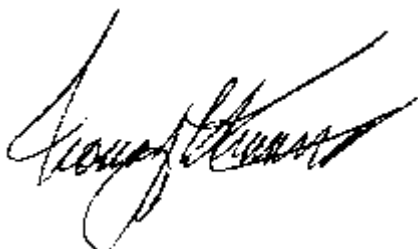
- Walmart's "Win, Play, Show" merchandising strategy has improved the efficiency of assortment and merchandising investment.
- "Fast, Friendly, Clean" demonstrates Walmart's renewed focus on speeding up checkout time, ensuring associates are friendly and providing a less cluttered shopping experience.
- A leader in recognizing the potential of new media, Walmart has created the ElevenMoms network of influential bloggers. In addition, multiple beta sites on Walmart.com focus on issues and solutions important to shoppers, and its presence on Twitter, Facebook and LinkedIn touch younger shoppers tapping into social media.
- Walmart's aggressive sustainability goals include becoming 100 percent supplied by renewable energy, creating zero waste and selling a greater range of sustainable products.

In addition, Walmart has redoubled its private label strategy. Its "Great Value" label is the nation's largest food brand, with products across more than 100 categories. Great Value combined with Walmart's other private label brands account for just under 25 percent of Walmart dollar sales.

It is easy to dismiss Walmart's success as based solely on its "Everyday Low Prices" focus. While this is a critical component of the retailer's success, it is just one of many. Walmart's management has done a superlative job of understanding shopper attitudes and behaviors and continuously evolving Walmart's value proposition to meet changing shopper needs. This is especially evident during today's recession. Walmart continues to post healthy penetration and average basket gains.

Walmart's continuous improvement offers shoppers another benefit: it forces other retailers to strive to meet the standard Walmart creates. As the company continues its growth and success, IRI will continue to report on the strategies Walmart managers execute and their relevance to the greater CPG community.

As the current recession continues and shoppers face unrelenting challenges, I look forward to continuing our dialogue on creating new approaches to bring value to beleaguered consumers.



Thom Blischok  
President, Consulting & Innovation



## EXECUTIVE SUMMARY: TURNING INSIGHTS INTO ACTION MANUFACTURERS

### INSIGHT

- » Despite a recessionary economy, Walmart continues to post healthy sales gains, driven by increasing household penetration, more frequent purchase occasions and higher per trip basket rings
- » Though gas prices have moderated, CPG prices remain high; Walmart continues to capture an increasing share of CPG spending among consumers seeking to save money in a recessionary economy
- » Over the past year, Walmart captured increasing share in 59 of the top 100 CPG categories, most of which are key growth categories and categories which have experienced particularly high price increases over the past year and a half
- » For the second straight year, Walmart posted share gains across key meal ingredients, meal components and convenience meals, evidence that Wal-Mart is playing an important role in helping consumers navigate a difficult economic climate
- » Though Walmart share of private label sales is largely flat versus year ago, the retailer has sharpened its private label focus and is in the midst of a major re-launch of the "Great Value" brand

### ACTION

- » Partner with Walmart to understand key consumers at the market level and optimize assortment and promotional programs against these segments
- » Develop best-in-class marketing, pricing and promotion strategies to ensure maximum relevance and impact among fiscally weary U.S. consumers
- » Explore category and brand development opportunities within Walmart
- » Evaluate partnership opportunities with Walmart and competing retailers to offer consumers affordable meal solutions
- » Re-evaluate pricing strategies to ensure alignment against value needs of key consumer segments



## EXECUTIVE SUMMARY: TURNING INSIGHTS INTO ACTION RETAILERS

### INSIGHT

- » Despite a recessionary economy, Walmart continues to post healthy sales gains, driven by increasing household penetration, more frequent purchase occasions and higher per trip basket rings
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- » For the second straight year, Walmart posted share gains across key meal ingredients, meal components and convenience meals, evidence that Wal-Mart is playing an important role in helping consumers navigate this economy
- » Though Walmart share of private label sales is largely flat versus year ago, the retailer has sharpened its private label focus and is in the midst of a major re-launch of the "Great Value" brand

### ACTION

- » Increase frequency and focus of consumer and market assessments; identify and implement strategies to drive trips and basket rings among key consumer segments
- » Develop best-in-class marketing, pricing and promotion strategies to ensure maximum relevance and impact among fiscally weary U.S. consumers
- » Drive purchase behavior through solutions-based promotional and merchandising strategies with a clear value proposition
- » Develop optimal assortment and merchandising focus by market to reflect changes in purchase and consumption rituals
- » Reassess private label merchandising strategies to identify categories most relevant to key consumer segments



## INTRODUCTION

***Walmart's "Save Money. Live Better." mission resonates well with consumers struggling to balance the needs of everyday living with the harsh realities of a recessionary economy.***

For several years, Wal-Mart pursued an aggressive supercenter expansion plan which contributed heavily to remarkable global sales performance. After a time, though, the plan began to bring increasing cannibalization of existing stores. The time had come to regroup.

And the retailer did just that: Wal-Mart began charting a new plan for growth. While selectively reducing domestic expansion efforts (the company continued aggressive international expansion), the retailer began placing a heavier focus on driving growth within existing operations-- more efficient inventory systems, more competitive pricing strategies, and more aggressive in-store marketing initiatives.

Then came the recession. For nearly a year and a half, the United States has been struggling its way through the worst recession since the Great Depression.

Over the past year, penetration, purchase occasions and per trip expenditures have increased as U.S. shoppers across income segments turn to Walmart for low prices on everyday items.

Throughout the recession, Walmart has maintained focus. A new merchandising strategy, 'win, play, show,' is enabling the retailer to focus on the most promising categories and products in order to drive scalability. And 'fast, friendly, clean' is aimed at creating "the ideal customer experience."

Walmart is heavily focused on spreading a value message. Several innovative communication initiatives are underway with the goal of attracting new shoppers and increasing purchase activity among the existing customer base.

Walmart's mission statement, "Save Money. Live Better.," is well-suited for consumers struggling to balance the needs of daily life with the harsh realities of a recessionary economy.

This report explores Walmart's role in helping consumers navigate through difficult economic times and what this means for manufacturers and competing retailers.

### Editorial Note

- Wal-Mart refers to Wal-Mart Stores, Inc.
- Walmart refers to Wal-Mart's United States based retail operations

# Times & Trends

A Snapshot of Trends Shaping the CPG and Retail Industries



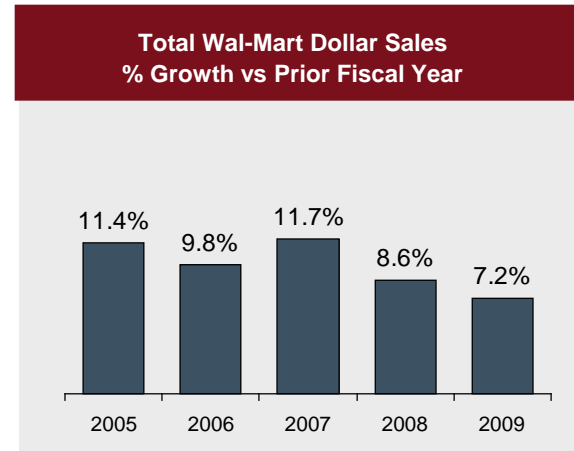
**Wal-Mart International continues to play a key role in driving company growth.**

## WAL-MART PERFORMANCE TOTAL COMPANY

On a global basis, Wal-Mart Stores, Inc. posted 7.2% sales growth for fiscal year 2009, reflecting solid sales growth across all divisions.

Walmart Stores (U.S. retail division) posted sales growth of 6.8% despite a difficult economy. The retailer attributes U.S. growth to strong performance across grocery categories, and successful seasonal sales throughout the year. The entertainment department also contributed positively to overall U.S. gains.

Wal-Mart International continues to play a key role in driving company growth despite a difficult fourth quarter of 2009. For the quarter, international sales were negatively impacted by a lower value of currency versus the U.S. dollar. Nonetheless, the division went on to post 9.1% sales growth for the year.



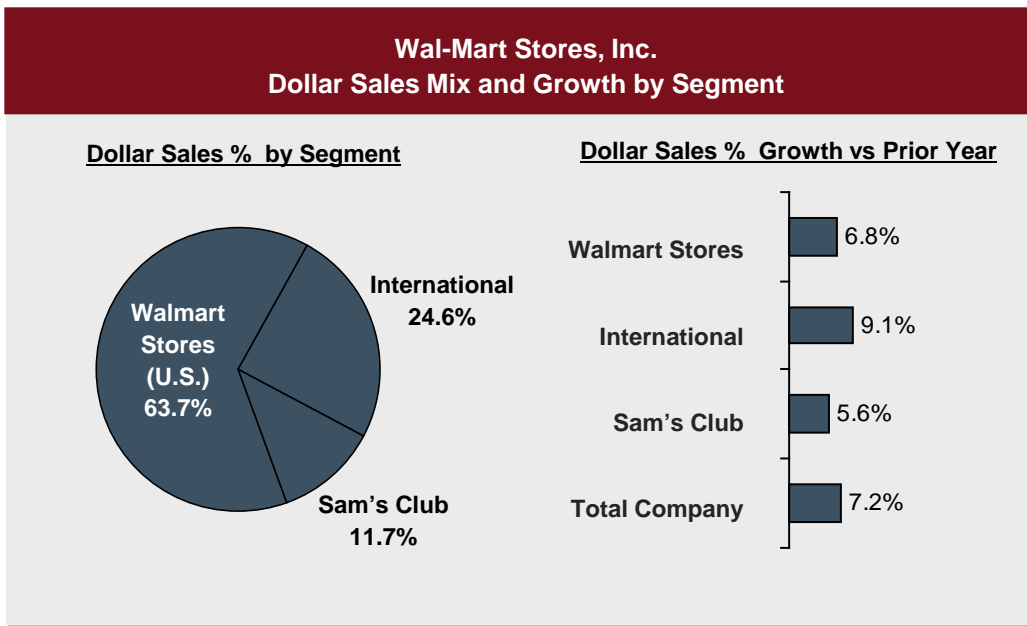
Source: Wal-Mart Annual Report; Note: Fiscal year ends January 31

The United States has been in a recession for well over a year old now. Though there are glimmers of hope, the recession will likely not end before late this year, or perhaps next year.

This report details the impact of Walmart strategies to serve consumers in a recessionary economy.

Over the next five years, capital expenditures will be fairly balanced, with 53% dedicated to emerging markets, and 47% to mature markets. Within the United States, funds will focus most heavily on remodels and upgrades to information systems.

-MMR, 12/15/2008



Source: Wal-Mart Annual Report; Fiscal Year ends January 31



## WAL-MART PERFORMANCE WALMART STORES DIVISION - OVERVIEW

**Walmart continues to focus on driving costs out of the supply chain in order to offer consumers lower prices without negatively impacting margins.**

Walmart U.S. continues to follow a slower, more deliberate pattern of new store growth. For fiscal year 2009, net new store openings totaled 112.

Over the same period, sales and revenue figures experienced accelerated growth. U.S. store division revenue grew 6.8%, and comparable store sales posted the strongest growth in five years, at 3.2%.

Walmart executives attribute these trends to increased customer traffic and increases in average transaction size per customer. These measures are detailed later in this report.

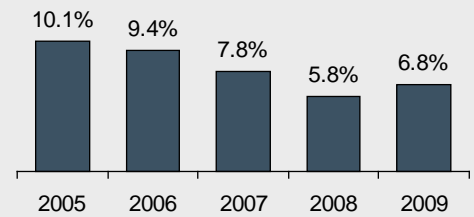
U.S. consumers continue to face extremely difficult economic conditions. Unemployment is on an upward march, credit is crunched, and price inflation is high. Consumers have been forced to rethink what they buy, when they buy, and how to manage their daily needs—from eating, to maintaining health and wellness.

Walmart is aggressively targeting budget-strapped consumers. In addition to Everyday Low Prices (EDLP), For example, “rollbacks” are to “pass cost savings on to the customer by lowering prices on selected goods” and Walmart’s “Save Even More” strategy seeks to meet or be below a competitor’s advertised price on key value items<sup>1</sup>.

Wal-Mart has been heavily investing in supply chain initiatives aimed at reducing costs. The retailer relies on these cost savings as a competitive advantage providing the ability to offer low prices and still maintain margins. Supply chain focus remains strong for fiscal year 2010, as Walmart continues to strive for a price leadership position.

**U.S. revenue growth is gaining traction.**

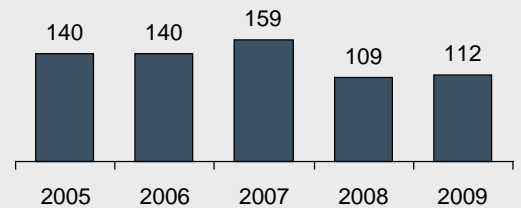
Walmart Stores Division (U.S.)  
Fiscal Year % Change in Revenue vs Prior Year



Source: Wal-Mart Annual Reports

**Net new store openings continue at a slower, more deliberate pace.**

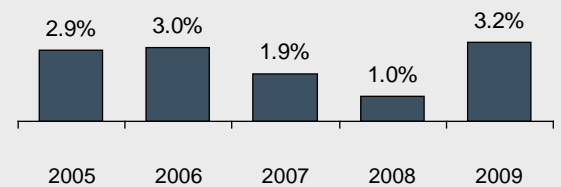
Walmart Stores Division  
Net New Store Openings vs Prior Fiscal Year



Source: Wal-Mart Annual Reports

**Same store sales show healthy 2009 growth.**

Walmart Stores Division  
Comparable Store Sales % Change vs Prior Year



Source: Wal-Mart Annual Reports

<sup>1</sup>Wal-Mart Annual report



## U.S. DRIVERS OF GROWTH ECONOMIC ENVIRONMENT

**Consumers across income segments are having difficulty meeting basic needs, such as buying groceries.**

The United States has officially been in a recession since November of 2008. According to the National Bureau of Economic Research, the recession began in December of 2007. The impact of this recession on U.S. consumers is has been profound.

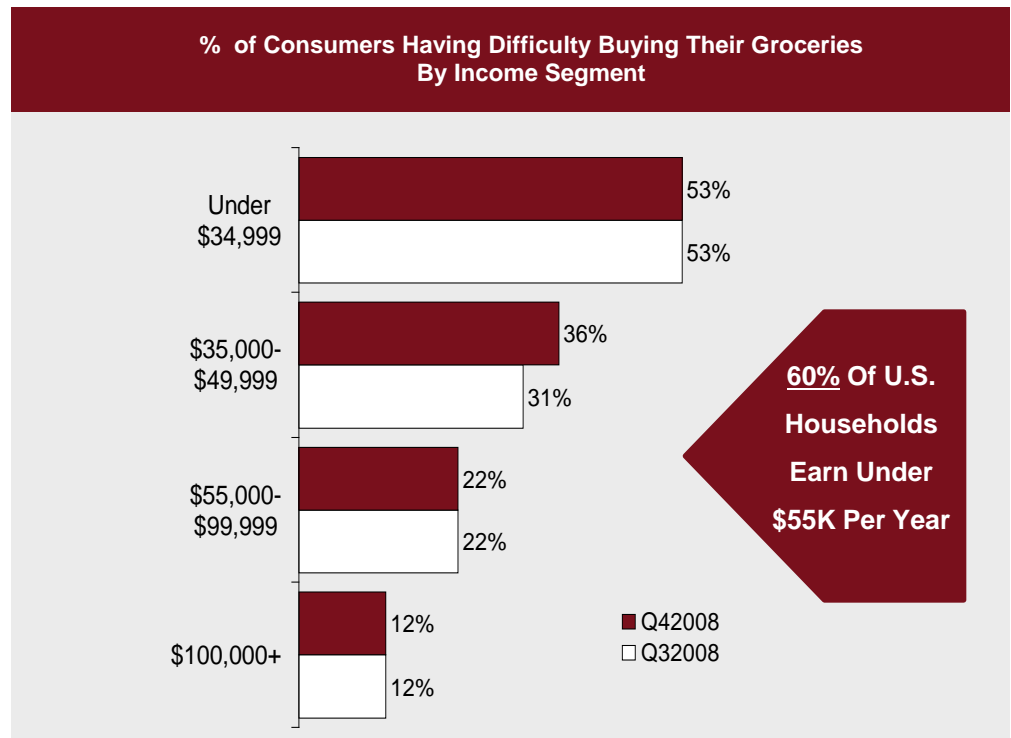
A staggering number of Americans across all income segments are having difficulty putting food on the table. For lower-income shoppers, the situation is dire. It is no surprise that consumers are rethinking the importance of every dollar spent.

There is a desperate need for affordable solutions for U.S. shoppers.

Walmart is on a mission to meet this need. As noted earlier in this report, the retailer's grocery department performed well in U.S. markets over the past year.

But, Walmart's competitors are not giving up. Retailers across channels are stepping up efforts to meet the needs of shoppers in crisis. On the pages that follow, we will explore Walmart performance across a full range of CPG categories over the past year.

We will also examine new and evolving strategies embraced by Walmart as the retailer competes for share of the increasingly precious consumer CPG dollar.



Sources: IRI Economic Trend Database™, IRI AttitudeLink™ Survey of 1,000 Consumers, U.S. Census Bureau



## U.S. DRIVERS OF GROWTH ECONOMY: IMPACT OF RISING CONSUMER PRICES

**Despite falling gas prices, budget-strapped consumers continue to allocate an increasing share of CPG spending to Walmart.**

Walmart has been capturing increased share of CPG spending since the start of this current recession. When gas and CPG prices spiked at the end of 2007/beginning of 2008, Walmart share of spending soared.

At the end of 2008, gas prices dropped sharply. The decline actually served to reinforce Walmart share gains.

First of all, Walmart stores are generally located away from urban areas, meaning a bit of extra driving is required to get to the retail store. As gas prices fell, shopper inclination to make the drive increased.

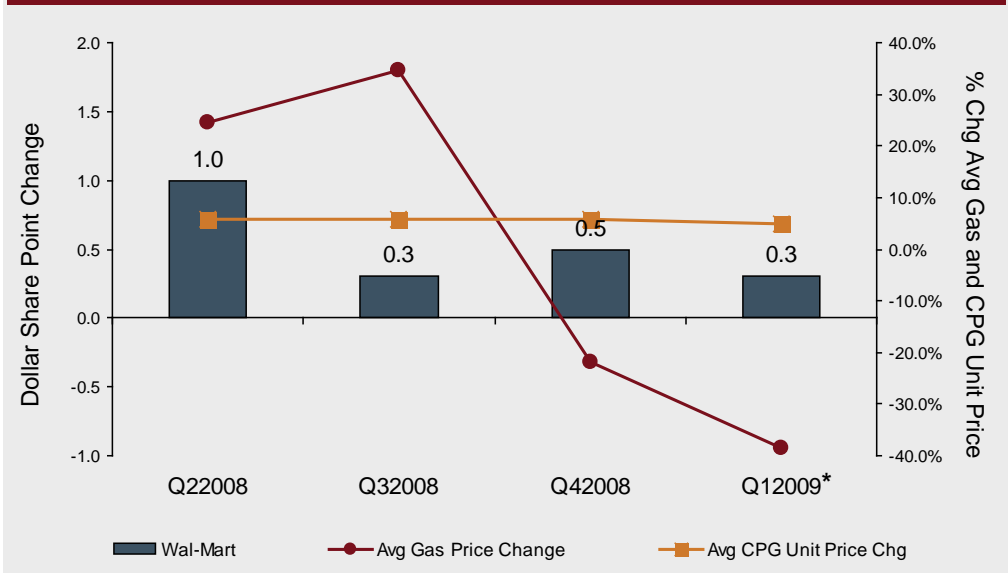
Secondly, Walmart shoppers are historically lower income shoppers. So, when gas prices soared, these shoppers were hardest hit. With gas

price declines, these shoppers suddenly have more money to spend.

And, Walmart's shipping costs were also positively impacted by falling gas prices. Because Walmart keeps minimal inventory, they tend to ship more frequently. With lower gas prices, Walmart's shipping costs have receded, meaning more opportunity to roll back prices without hampering margins.

CPG manufacturers have significant opportunity to boost sales volumes within Walmart's U.S. locations. Reevaluation of distribution strategies within this chain are warranted to ensure optimal breadth and depth of product, particularly within key Walmart categories, which we will examine on the pages that follow.

**Walmart Total CPG Dollar Share Point Change vs Prior Year and % Change Total CPG Unit Sales & Average Regular Gas Price**



Source: IRI Economic Shopping Behavior Longitudinal Database™, IRI Consumer Network®, U.S. Department of Energy. \*Note: average CPG unit price change for Q12009 is for 12 w/e 3/22/09 versus prior year



## U.S. DRIVERS OF GROWTH WAL-MART STRATEGIES

**“Project Impact” is Wal-Mart’s new three year growth initiative, focused on improving the customer experience and strengthening merchandising strategies.**

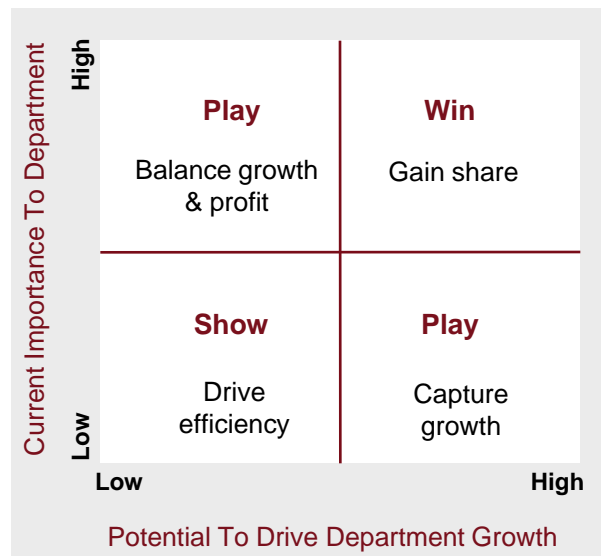
“Save Money. Live Better.” is the mission behind Wal-Mart’s new three year growth plan, dubbed “Project Impact.” It is a value proposition that is supported by a two-pronged program to fortify merchandising strategy and improve the customer experience.

### Win, Play, Show

Wal-Mart’s new merchandising strategy is a framework that defines category focus, assortment and visual presentation. It is based on the current importance of a category (vis-à-vis scale and customer relevance), balanced against the category’s potential to drive growth within the department.

The strategy is keenly focused against improving efficiency of assortment and merchandising investment. Within “win” and “play” categories, Wal-Mart will invest to grow through increased assortment and improved visual presentation. “Show” categories will be maintained for the sake of one-stop shopping, but suppliers and assortment will be rationalized against potential return on investment.

### Illustration of Win/Play/Show Roles



Source: Bank of America Investment Conference (9/15/08) presentation

**“Our ‘win, play, show’ merchandising strategy has resulted in greater clarity of our offerings across the entire store and therefore cleaner assortments. We will continue to accrue benefits from our ‘win, play, show’ strategy this year.”**

Eduardo Castro-Wright  
Vice Chairman, Wal-Mart Stores, Inc.

### Fast, Friendly, Clean

‘Fast, friendly,’ clean is reflective of the ideal customer experience at Wal-Mart. The term refers to faster checkouts, friendlier associates and cleaner (ie, less cluttered) stores.

Store conversion will occur over the next three years. During this time, Wal-Mart is also working to develop “high-efficiency stores” that will allow the retailer to play in markets they have not been able to penetrate in the past.

Within the United States, the move to more effective merchandising and an enhanced customer experience is well-timed. During difficult economic times, Walmart (U.S.) is seeing increased traffic by a wider range of consumers seeking low cost CPG solutions. The retailer is seeking to build and fortify relationships now that will continue well after the recession has passed.

Sources: Company Web site; Bank of America Investment Conference (9/15/08) and Morgan Stanley Retailer Conference (11/18/08) presentations, MMR, December 2008



## U.S. DRIVERS OF GROWTH WALMART STRATEGIES

*Walmart is leveraging new and enhanced marketing tools to break through the clutter and enhance relevance among consumers.*

*“The organic nature of the web means that when you are the world's largest retailer, people will talk. And we're OK with that.”*

Wanda Young  
Senior Director, Digital Media  
Walmart

Walmart is employing innovative marketing strategies in order to build differentiation and break through advertising clutter.

### Social Media

The social media scene is slowly gaining momentum among CPG marketers. Walmart is among CPG marketers already playing the game. One of the retailer's first offerings was an internal social network where employees can share ideas and get answers to questions. But, the idea led to a new program: free classifieds on Walmart.com. The initiative to date has successfully driven traffic to the site, paving the way for bloggers and online message boards, which now provide unsolicited content about money-saving opportunities.

Other social media initiatives include:

- **ElevenMoms**, a network of 12 blogging mothers (it started as eleven, but was expanded to include a highly regarded money-saving blogger) that populate the site with tips on saving money.
- **SoundCheck**, a digital music site, which provides high-definition videos of music performances and behind-the-scene footage of music artists. Packaged goods companies such as Unilever are sponsoring free downloads and streaming music videos, and cross-merchandising their products with new music releases in Walmart stores.

There are also several beta sites on Walmart.com, including Baby Buzz, Meal Center, Healthy Living and Connect & Share.

### SmartNetwork

Walmart is raising the bar on in-store marketing activity. The retailer is in the process of fitting all store entrances with a 57-inch screen which will function as a digital billboard (ie, displays video, but does not have sound).

Screens will also be placed throughout key departments, offering advertisers an in-store opportunity to connect with shoppers. Select end-caps will have smaller screens, projecting messages that tie with featured merchandise.

Walmart will charge advertisers for space on this network, and will offer tools to measure and monitor performance.

Sources: Company Web site; Advertising Age, March 30 and April 13, 2009; Drug Store News, October 20, 2008



**Sustainability is more than environmental stewardship for Walmart; it is also a growth platform.**

***“We continue to focus on the “live better” side of the mission. We will accelerate and broaden our commitment to sustainability. It is a permanent part of our culture.”***

Mike Duke, president & CEO,  
Wal-Mart Stores, Inc.

## U.S. DRIVERS OF GROWTH WALMART STRATEGIES

Walmart is keenly focused on leveraging sustainability, not only as environmental stewards, but also as a platform for growth.

### Sustainability

Walmart has established three broad sustainability goals: to be 100% supplied by renewable energy, to create zero waste, and to sell products that sustain resources and the environment. But the retailer's *Sustainability 360* initiative goes beyond these goals to include engaging suppliers, associates and employees in environmental stewardship as well. Key highlights of the program include:

- **High-Efficiency Store Formats:** High-efficiency (HE) stores will be 25 to 30 percent more efficient and emit 30% fewer greenhouse gasses versus traditional supercenters by 2009. Several generations of high-efficiency stores have already been opened, including HE.5 (Las Vegas), which is expected to use 45% less energy than a typical supercenter.
- **Alternative Energy To Power Facilities:** In 2007, Walmart purchased solar power to provide renewable energy to 22 facilities in California and Hawaii. In December of 2008, Walmart purchased wind energy that will supply up to 15% of the power necessary to run 360 Texas retail stores, plus accompanying facilities.
- **Energy-Efficient Transportation Fleets:** Walmart seeks to improve the efficiency of its transportation fleets by 25%. The retailer has retrofitted all “overnight trip” vehicles with auxiliary power units (APUs) which enable the driver to regulate cabin temperature and operate communication systems while the vehicle is not running. The retailer is also testing two new types of heavy-duty commercial hybrid trucks and two different alternatively fueled heavy-duty trucks.
- **Sustainable Packaging Network:** Walmart has committed to reduce packaging by 5% by 2013. The retailer has developed a packaging scorecard to track progress toward this goal. Key areas of focus to date have been liquid laundry detergent (Walmart reached its goal of selling only “compact” liquid laundry detergent in October of 2007); produce (leveraging Nature PLA, which reduces gasoline usage and greenhouse gas emissions); digital media packaging, and private label products.
- **Plastic bags:** Walmart seeks to reduce global plastic shopping bag waste by 33% by 2013. The retailer is selling two levels of reusable bags (at \$0.50 and \$1.00, each) to encourage shoppers to reduce reliance on plastic shopping bags, and recycles used bags for shoppers.

Sources: Company Web site; Wal-Mart Annual Reports; Electrical Whoesaling, December 1,2008



## SHIFTING SHOPPING PATTERNS WALMART STORES IMPACT

**[ Walmart is successfully bringing consumers into the store more often and building baskets on each trip. ]**

***“Walmart U.S. had an extraordinary year. Our stores have differentiated themselves even more this year from others in the market place with our strong value messaging in every merchandise category.”***

Mike Duke, president & CEO, Wal-Mart Stores, Inc.

In 2008, 80% of U.S. households shopped at Walmart stores. Illustrated in the top chart on the right hand side of this page, penetration increased steadily over the course of 2008. In the first quarter of 2009, penetration gains moderated slightly, but still increased more than one point.

Within Walmart stores, purchase occasion growth was largely flat in the second and third quarters of 2008. Nonetheless, the retailer did out-perform other channels. On an all outlet basis, purchase occasions fell 3% and 1%, respectively.

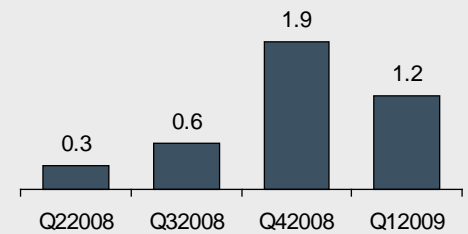
In the fourth quarter of 2008, and the first quarter of 2009, purchase occasions at the all outlet level rebounded, climbing just over 3% each quarter. Likewise, purchase occasions within Walmart increased more than 2% each quarter.

Walmart is also successfully building basket size per trip. Shown in the bottom right chart on this page, average basket size spiked nearly 6% in the second quarter of 2008. As illustrated earlier in this report, this was a period of significant gas price increases, and per trip expenditures climbed across channels as consumers minimized driving. But, at the all outlet level, dollars per trip increases were more than 1 point lower. For the remainder of 2008, and the first quarter of 2009, Walmart continued to outpace all outlet dollar per trip growth.

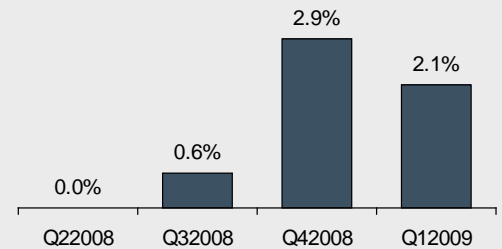
Competing retailers must carefully monitor their value proposition vis-à-vis Walmart. Marketing will play an integral role in communicating value and affordability to financially weary consumers.

Walmart recognizes this and has stepped up their marketing efforts, increasing advertising spending in the fourth quarter of fiscal 2009 to reinforce their value message.

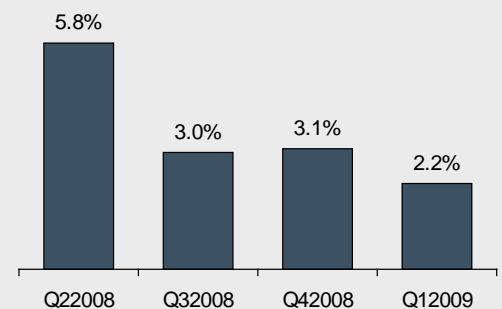
**Total U.S. Walmart Stores Division  
Shopper Penetration Point Change**



**Total U.S. Walmart Stores Division  
% Change CPG Purchase Occasions**



**Total U.S. Walmart Stores Division  
% Change Average Dollars per Trip**



Sources: IRI Economic Shopping Behavior Longitudinal Database™, IRI Consumer Network™



**Walmart holds above-average dollar share in 44 of the top 100 CPG categories.**

## SHIFTING PURCHASE PATTERNS SHARE SHIFTS BY CATEGORY

Last year's June report of Times & Trends reported that Walmart had posted share gains in 84% of top CPG categories. Performance over this past year appears to indicate that the upward surge in share of key categories at Walmart has moderated.

Summarized in the matrix at the bottom of this page, though, Walmart continues to capture increasing share in 59 of the top 100 CPG categories. As detailed on the pages that follow, these gains are across key growth categories and across categories which experienced particularly high price increases over the past year and a half.

Growth in these areas appears to tie well with the retailers 'win, play, show' strategy, as detailed earlier in this report.

Across the remaining top CPG categories, Walmart share of sales is falling.

Included in these declines is a strong representation of health and beauty/personal care items, which is an important shift, given consumers' increased focused on self care in a recessionary economy.

But, healthcare and beauty/personal care unit sales growth trends over the past year has been largely negative, as consumers stretch usage and prioritize spending to manage shopping budgets.

| Walmart Stores Division (U.S.) CPG Category Performance<br>Walmart Dollar Share & Share Change vs Prior Year |  |   |
|--|--|---|
| Above Average Share  | <p><b>Losing Ground</b><br/>27% of Categories<br/>(Eg: Dog Food, Laundry Detergent)</p> <ul style="list-style-type: none"> <li>✓ High representation of health care and beauty/personal care</li> <li>✓ Category performance largely flat-to-negative</li> </ul> | <p><b>Protecting Position</b><br/>17% of Categories<br/>(Eg: Toilet Tissue, Choc. Candy)</p> <ul style="list-style-type: none"> <li>✓ Several key foods categories, and staple categories</li> <li>✓ Category performance largely positive</li> </ul> |
|  | <p><b>Limited Focus</b><br/>14% of Categories<br/>(Eg: Bottled Water, Salty Snacks)</p> <ul style="list-style-type: none"> <li>✓ Food &amp; beverages</li> <li>✓ Category performance largely positive</li> </ul>  | <p><b>Up &amp; Coming</b><br/>42% of Categories<br/>(Eg: Fresh Bread &amp; Rolls, Natural Cheese)</p> <ul style="list-style-type: none"> <li>✓ Category performance positive</li> <li>✓ Several high price increase categories</li> </ul>             |
| Below Average Share  | Decreasing Share   | Increasing Share  |

Source: IRI MarketInsight™; 52 weeks ending 3/22/2009; Top 100 Categories



**Walmart is demonstrating an ability to capture increased share across key meal component and ingredient categories.**

## SHIFTING PURCHASE PATTERNS CATEGORY: WALMART PROTECTING POSITION

While non-foods continue to play a key role in Walmart's growth, the retailer is demonstrating an ability to capture increased share across key meal ingredient and component categories as well.

As illustrated below, Walmart posted sizable share gains across several key food categories over the past year, including fresh frozen poultry, shelf-stable dinners and luncheon meats.

These meal-related categories are enjoying increased attention these days, as they have become a key tool in consumers' battle to save money in a recessionary economy.

Across all of the categories in which

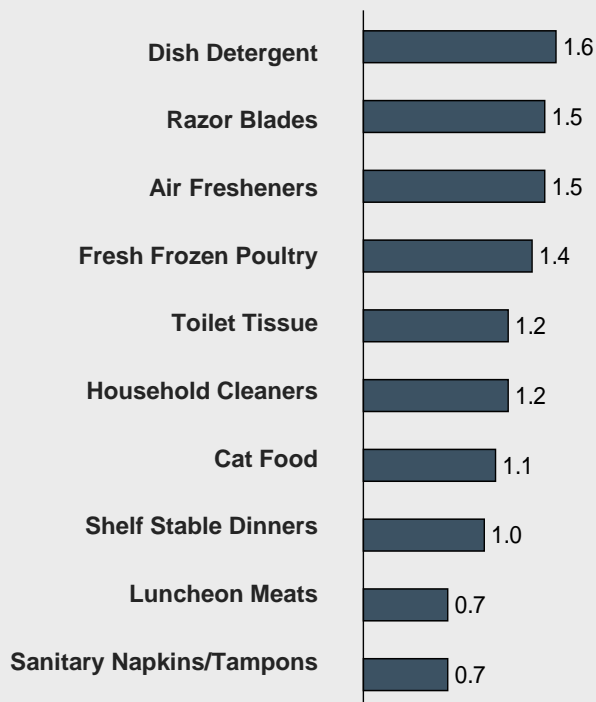
Walmart is currently protecting position, food and non-food, there is a common theme: increasing prices.

CPG prices were up an average 5.5% in 2008 versus prior year on a national level. In some cases, though, price increases are significantly higher.

For instance, dish detergent and cat food categories each saw average national price increases of 13% over the past year. Toilet tissue is up 10% over the past year, and more than 16% over the past year and a half.

Walmart's aggressive pricing strategies are resonating well across a range of CPG categories.

**Walmart Protecting Position: Above Average and Increasing Share  
FDMW Dollar Share Point Change vs Prior Year**



Source: IRI MarketInsight™; 52 weeks ending 3/22/2009 (FDMW = Food, Drug Mass Incl. Walmart)



**Walmart is heavily focused against the grocery segment and answering the call for low-cost meal solutions.**

## SHIFTING PURCHASE PATTERNS CATEGORY: WALMART UP AND COMING

Within 42 of the top 100 CPG categories, Walmart's share of dollar sales is below average, but on the rise. For Walmart, nearly all of these "up and coming" categories are food and beverage categories.

Walmart gains cut across prepared meals (dry packaged dinners), ingredients (creams, margarines, processed cheese), and meal components (shelf stable seafood).

As detailed earlier in this report, the ability to afford groceries is a major struggle for many Americans. Walmart is heavily focused against the grocery segment and answering the call for low-cost meal solutions.

But, opportunity remains for other channels to compete in this area. To save money, consumers are increasingly planning their menus and shopping trips ahead of time. IRI's recent *Consumer Dynamics* survey indicates that three-quarters of shoppers are planning their purchases before arriving at the store.

CPG marketers must rewire their marketing strategies: It is absolutely critical to reach consumers in their homes. Messages touting affordable solutions to mealtime dilemmas are highly relevant in today's economic climate.

**Walmart Up and Coming: Below Average and Increasing Share  
FDMW Dollar Share Point Change vs Prior Year**



Source: IRI MarketInsight™; 52 weeks ending 3/22/2009 (FDMW = Food, Drug Mass Incl. Walmart)



## SHIFTING PURCHASE PATTERNS CATEGORY: WALMART LOSING GROUND

**While some areas of share loss are likely the result of conscious strategy decisions, Walmart is also feeling the pressure of competitors' stepped up health and beauty-related initiatives.**

In 27 of the top 100 categories, Walmart has above average, but decreasing share of dollar sales. These categories are historically Walmart "stronghold" categories, but analysis indicates that some of these share slides are likely the conscious result of Walmart's new 'win, play, show' strategy.

On average, CPG units fell about 2.8% over the past year. A majority of the categories in this quadrant experienced unit sales declines sharper than the industry average.

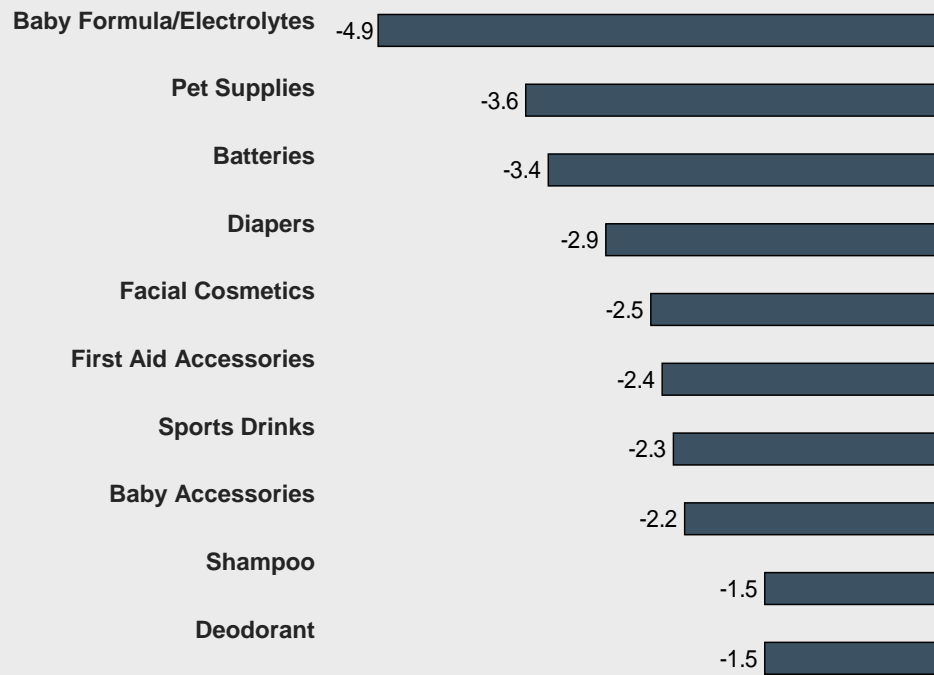
But, several categories in which Walmart share has fallen are health and beauty care categories. While Walmart has identified these categories as an area of focus, other

channels are also striving hard to build share in health and beauty care departments.

Drug stores' close-to-home locations were highly leveraged for fill-in trips during periods of high gas prices. And, over the past year, drug stores have been particularly focused on health and beauty categories, stepping up merchandising and promotional efforts in attempt to capture share of consumer's renewed self-care health and beauty strategies.

These areas are likely to be a source for ongoing competitive pressure in the coming months as self-reliance continues to play a role in consumers' survival strategies.

**Walmart Losing Ground: Above Average and Decreasing Share  
FDMW Dollar Share Point Change vs Prior Year**



Source: IRI MarketInsight™; 52 weeks ending 3/22/2009 (FDMW = Food, Drug Mass Incl. Walmart)



## SHIFTING PURCHASE PATTERNS WALMART PRIVATE LABEL

**Walmart focus on private label has increased, and private label is expected to play an increasing role in the retailer's value proposition on a forward basis.**

**"Through our Great Value brand re-launch, we are delivering on our promise to provide customers with the quality products they need and want at a price they can afford to help them save money and live better."**

Andrea Thomas  
Walmart Senior Vice President,  
Private Brands

Walmart carries a wide range of private CPG labels, including "Equate," "Ol' Roy," "Sam's Choice," and "Great Value," among others. These brands represent a little less than one-quarter of Walmart dollar sales.

Walmart is well-known for its everyday low price (EDLP) strategies. As such, consumers have historically turned to Walmart for low prices on national brands more so than private label options. But, over the past year Walmart's focus on private label brands has increased, and private label is expected to play an increasing role in Walmart's value proposition going forward.

"Great Value" is the nation's largest food brand, representing over 100 categories. The brand has become a central aspect of Walmart's strategy to gain a larger share of grocery spending.

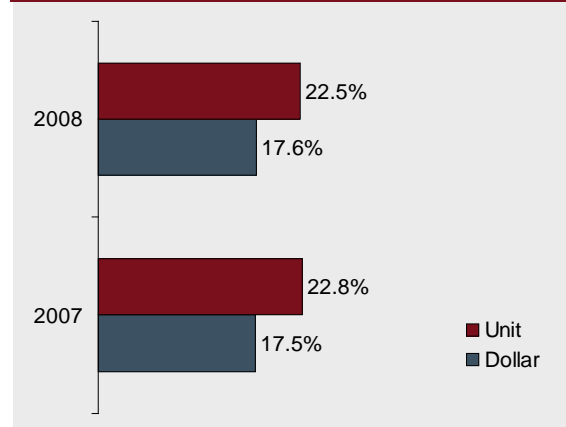
To that end, Walmart has decided to re-launch the Great Value brand. More than 750 items have been reformulated. Eighty new products, from pizza to ice cream to organic eggs, have been introduced. Packaging has been reduced and redesigned<sup>1</sup>.

New products began to hit the shelves in March of 2009, and the rollout is expected to be largely complete by the end of May, 2009.

The move to escalate private label activity is noteworthy. Walmart has an established and large, customer base, and outstanding brand awareness. With scale and marketing prowess, the re-launch of a brand this big by a retailer this strong has the potential to significantly impact brand name and private label sales across all categories in which the "Great Value" brand competes.

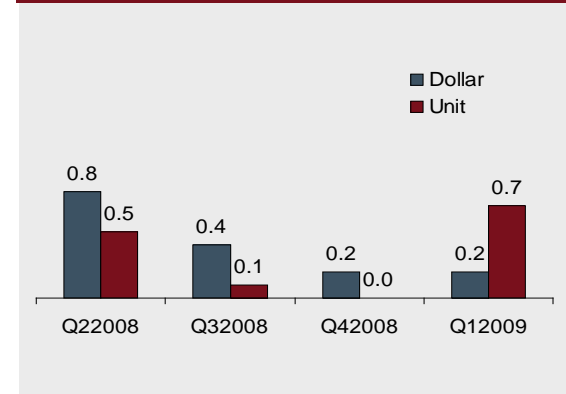
<sup>1</sup>Company Press Releases

**Wal-Mart Private Label All Outlet Dollar/Unit Share Point Change vs Prior Year Total Panel**



Sources: IRI Consumer Network™, 52 weeks ended 12/7/2008

**Wal-Mart Private Label All Outlet Dollar/Unit Share Point Change vs Prior Year - by Quarter Total Panel**



Sources: IRI Economic Shopping Behavior Longitudinal Database™, IRI Consumer Network™



## CONCLUSIONS CPG MANUFACTURERS

Manufacturers seeking to capture incremental growth within Walmart should explore the following action items:

- » Invest to understand changing consumer rituals
  - Frequent analysis is warranted due to a rapid rate of change
  - Identify the needs of key consumer segments through granular market level analyses
  - Understand emerging Walmart private label trends by category by consumer segment
  
- » Align strategies with shifting shopping and purchase patterns
  - Work to secure optimal shelf space and placement within supercenters
  - Demonstrate category/brand value and basket-building potential
  - Manufacturers of meal ingredients, meal components and low-cost convenient meals should explore a partnership with Walmart to design multi-category, affordable meal solutions
  
- » Leverage sustainability as a growth vehicle
  - Invest to understand rapidly evolving consumer attitudes toward sustainable CPG
  - Evaluate opportunities to make core brands and products more earth-friendly (e.g. ingredients, manufacturing processes, packaging)
  - Partner with Walmart to drive awareness and purchase of green products through cross-marketing/cross-merchandising programs centered around key brands/products



## CONCLUSIONS CPG RETAILERS

CPG retailers should consider the following action items within competitive strategies with respect to Walmart strategic initiatives and growth trends:

### » Invest to understand changing consumer rituals

- Frequent analysis is warranted due to a rapid rate of change
- Identify the needs of key consumer segments through granular market level analyses
- Understand emerging Walmart private label trends by category by consumer segment

### » Align strategies with shifting shopping and purchase patterns

- Protect and grow share of trips through a focus on staples and affordability in advertising, promotions and product mix
- Implement basket-building strategies to maximize store visits, including cross-merchandising among related categories and multi-unit discounts
- Invest to win across high-demand meal ingredients, meal components and low-cost convenient meals as consumers go back-to-basics in meal preparation and assembly; localize by market, as “affordable” meal solutions will vary by income

### » Leverage sustainability as a growth vehicle

- Invest to understand rapidly evolving consumer attitudes toward sustainable CPG
- Evaluate opportunities to embrace earth-friendly business practices; clearly highlight sustainability initiatives across marketing platforms
- Partner with key manufacturers to develop and execute cross-marketing/cross-merchandising programs centered around green products/brands most heavily purchased by key consumer segments



## RESOURCES

To gain insight into opportunities and risks related to Wal-Mart growth trends and strategic initiatives, contact your IRI client service representative regarding custom analyses leveraging the following resources:

### IRI MarketInsight™

Proprietary model-based sales tracking service providing superior coverage of channels, including Wal-Mart, for which point-of-sale data are not available. Reflects sales across IRI InfoScan® Reviews CPG categories.

### IRI Consumer Network™

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

## IRI Competing in a Transforming Economy

This ground-breaking series reveals fundamental changes in where consumers shop, what they buy, and even how they eat in response to shifting economic conditions. The study presents specific recommendations for retailers and manufacturers to successfully compete within this environment and includes a monthly tracking service to empower industry participants to get ahead of emerging trends.

For more information, contact your client service representative or John Porter at [john.porter@infores.com](mailto:john.porter@infores.com)

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A Snapshot of Trends Shaping the CPG and Retail Industries



## >>> MORE INFORMATION

Please contact Susan Viamari at [susan.viamari@infores.com](mailto:susan.viamari@infores.com) with questions or comments about this report.

## About IRI

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