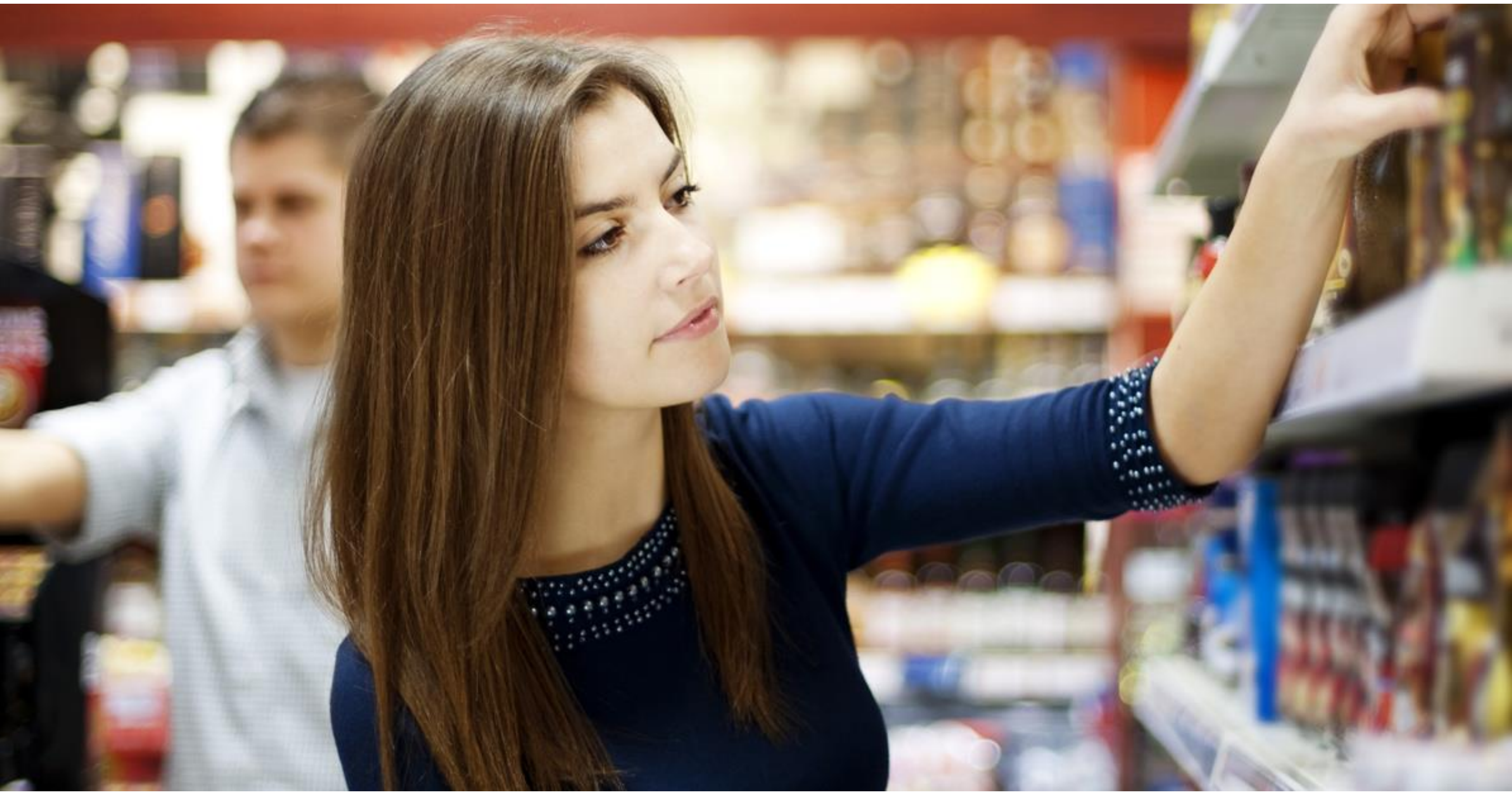


Merchandising for Growth:
Connecting the Dots for Maximum Activation

NOVEMBER 2015

Growth delivered.

Executive Summary:

Creating Growth with a Fresh Start

The CPG Industry Is Struggling to Generate Growth Despite Escalating Trade Support

CPG volume trends are flat and industry growth is largely coming from price increases. Promotional activity is being used as a lever to drive engagement, with marketers funneling more and more resources into trade to increase promotional intensity and spur purchase behavior, all the while sales lift from said programs is on the decline.

- During the past year, merchandising lift fell across 58 percent of CPG categories, including 72 of the 100 largest categories;
- Erosion has been occurring for years, yet merchandising activity is up across 40 percent of CPG categories and promotional programs are recycled year after year;
- The CPG industry is in trouble, and the time for change is now.

Ground-Up Redesign of Price and Promotion Strategies Can Yield Up to 2 Percent in Annual Growth (up to $12 billion for the industry)

CPG marketers must rebuild their strategies, beginning with the creation of a comprehensive pricing structure (price pack architecture) that cuts across the brand portfolio:

- Broad and diverse product assortment at price points to meet the appetites of a wide spectrum of shoppers
- Solid value proposition
- Lasting competitive advantage, with improved profits and margin and solid customer loyalty.

Capturing the Opportunity Requires Overcoming a Number of Challenges

Getting it right is no easy task. Manufacturers and retailers have been resistant to turning away from their "old" pricing and promotion strategies. Taking a new path, they will be facing the following three challenges:

- Price and promotion development has evolved into a highly complex process
- There is a need to decipher vast amounts of data
- There is no single clear-cut path to success

Framework to Win

To provide guidance to CPG marketers looking to redeploy pricing and merchandising strategies to support dollar sales and margin goals versus pure volume growth, IRI developed a robust Revenue Growth Management Suite™ that integrates data, technology and people to build a framework for strategies that will allow marketers to interact with consumers and each other in a powerful manner. IRI Revenue Growth Management will help you:

- Create a 360-degree brand strategy
- Understand and optimize the roles of different products within the portfolio
- Ensure ongoing alignment with evolving consumer and channel dynamics

The CPG Industry Is Struggling to Generate Growth Despite Escalating Trade Support

CPG Volume Sales Are Stagnant and Growth Is Largely Stemming from Price Increases

There is no question that The Great Recession had a profound and lasting impact on U.S. consumers and the CPG industry. Even several years post-recession, growth has proven evasive.

Since 2012, CPG volume sales have been on a flat-to-negative trajectory (See Exhibit 1). Dollar sales are up, driven by pockets of growth across some branded categories. Strong pricing moves and innovation of products and attributes for which consumers are willing to pay a premium are also playing a role.

The grocery and drug channels are experiencing sharper-than-average volume sales declines, a testament to the highly competitive CPG landscape and momentum gained by emerging channels. These trends were explored in detail in IRI's recent Times & Trends report, *Channel Migration: The Road to Growth Has Many Lanes*.

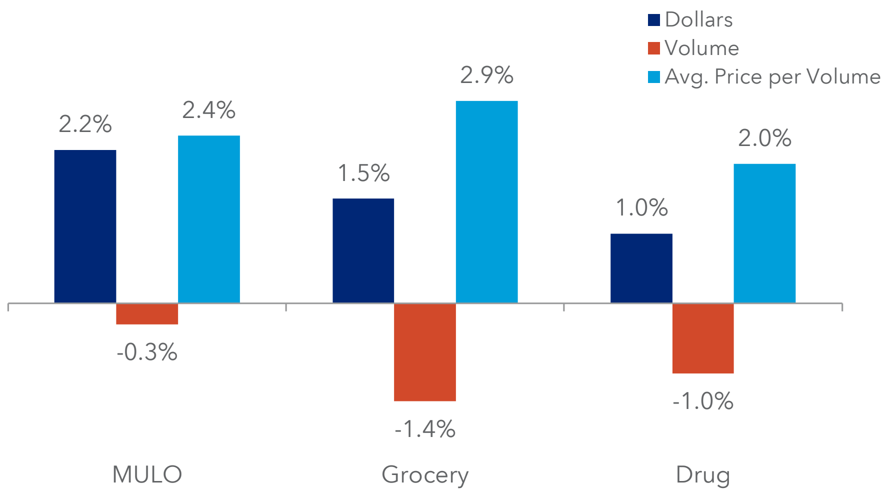
The non-food sector is faring only slightly better than food and beverage aisles.

Explored throughout this report, stagnant trends are not for lack of effort. Indeed, trade activity is strong and, in many cases, on the rise.

Exhibit 1

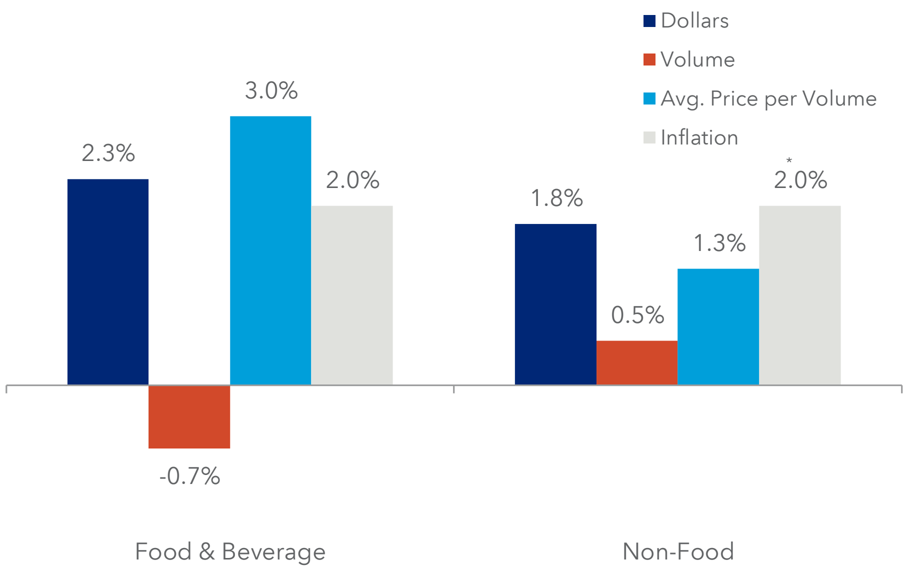
Volume sales trends are on a flat-to-negative trajectory, with dollar sales growth being driven largely by price inflation.

Industry Growth by Channel
Compound Annual Growth Rate, 2012–2015



Source: IRI Market Advantage™; 52 weeks ending 5/17/15 versus same period prior years

Industry Growth by Sector, MULOC
Compound Annual Growth Rate, 2012–2015



*Note: U.S. Bureau of Labor Statistics. Consumer Price Index for Food at Home and Consumer Price Index for All Items except Food and Energy.

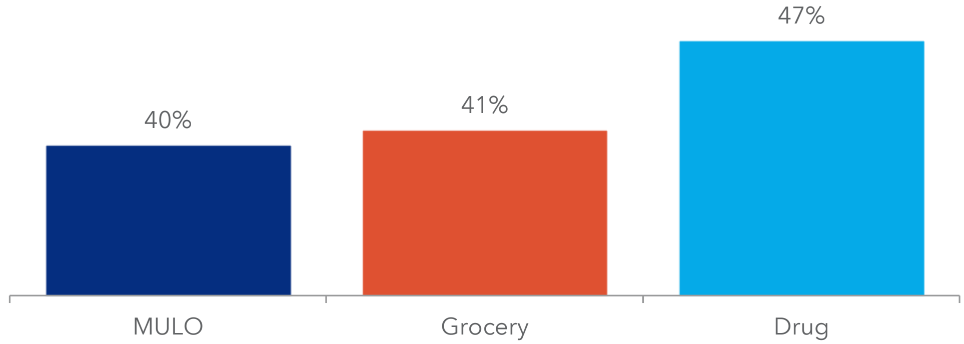
Source: IRI Market Advantage™; 52 weeks ending 5/17/15 versus same period prior years

Exhibit 2

CPG marketers have been relying heavily on promotions to drive growth for several years; 2015 saw intensity escalate across nearly half of CPG categories.

% of CPG Categories with Increasing Merchandising Activities

Based on % Volume, Any Merchandising



VOLUME SALES % CHG VS. YA*	(0.5%)	(2.0%)	(0.2%)
DOLLAR SHARE OF CATS. WITH INCREASING MERCH. ACTIVITY	39%	31%	62%

*Note: Drug channel volume change across top 100 categories, based on dollar sales.
Source: IRI Market Advantage™; 52 weeks ending 5/17/15 versus same period prior years

Volume Declines Continue Despite Intensifying Reliance on Merchandising Support

Promotions have long played a key role in informing and influencing CPG shoppers. Today, 45 percent of consumers will stock up on certain items when they are on sale and 28 percent of consumers will buy a brand other than their preferred brand when it is on sale.[1]

In packaged goods aisles, sales and promotional activity abounds. More than one-quarter of volume, on average, is sold with merchandising support, defined as feature only, display only, feature and display, or price-only tactics. These efforts are focused on many of the largest CPG categories. During the past year, reliance on merchandising activity to move volume continued its escalating trend, increasing across 40 percent of categories, accounting for 39 percent of dollar sales, with even sharper upticks in the grocery and drug channels.

The drug channel shows an above-average reliance on merchandising, with an average 39 percent of volume sold with merchandising support during the past year. Reliance on promotions is up across 47 percent of drug categories, and 59 of the 100 largest categories.

The reality is, packaged goods marketers are investing heavily in promotional efforts, in the hopes of spurring brand, category, and industry growth. Unfortunately, the results of those efforts are not what marketers had hoped—volume is flat to negative nearly across the board.

Source: [1]IRI MarketPulse Survey Q2 2015; 2015 Brand & Retailer Loyalty Survey

Escalating Support Spans Tactics; Price- and Display-Only Tactics Are Most Pervasive

While promotional activity is increasing across channels and tactics, non-food aisles are disproportionately impacted by this trend (See Exhibit 3).

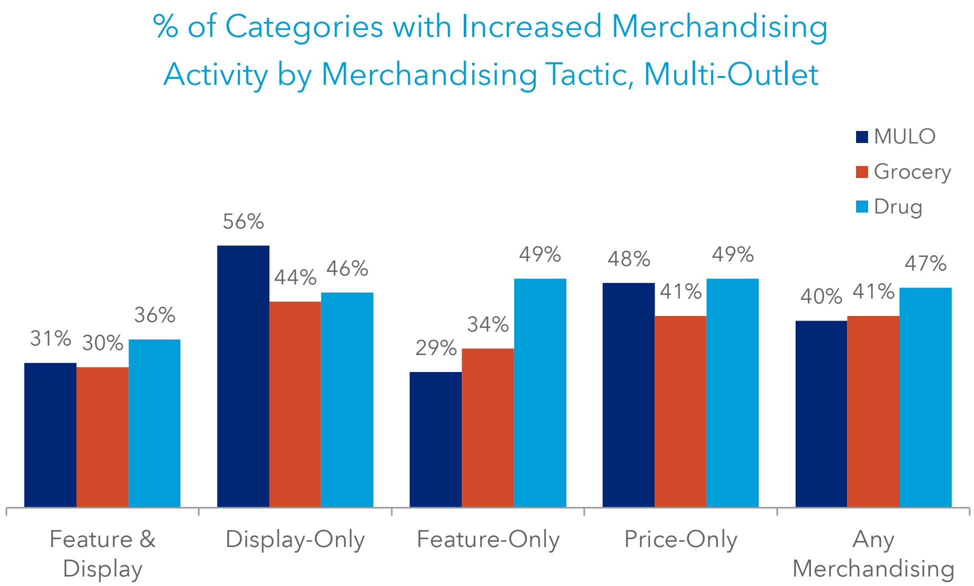
About half of CPG categories (56 percent across multi-outlet; slightly less in grocery and drug channels) are receiving more investment in display-only efforts, looking to get products placed throughout the store to get more eyeballs, compensate for abbreviated traffic flows and stand apart from competing products in their "typical" shelf location.

This trend is particularly evident in non-food aisles, where two-thirds of categories, including paper towels, batteries and dog food, are seeing more display-only actions.

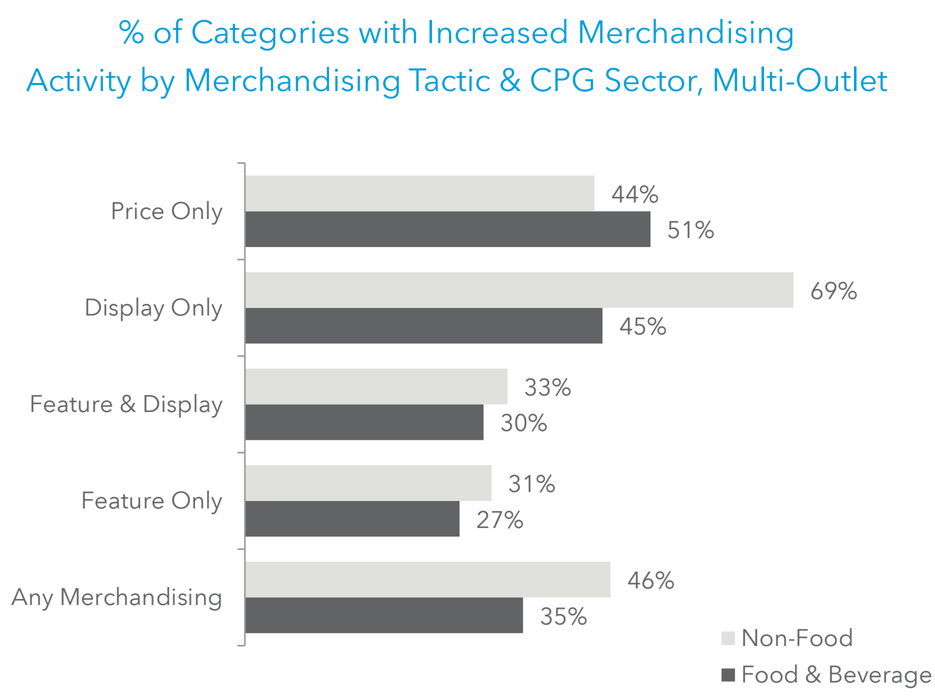
In food and beverage aisles, heightened display-only activity is surpassed only by price actions. Half of edibles categories (51 percent) moved more volume with price-only support during the past year than they did the prior year. Several of the largest edibles categories, including milk, eggs and breakfast meats, saw huge jumps in price-only actions, as marketers sought to minimize negative impacts of inflationary pressure.

Exhibit 3

Promotional intensity is escalating across tactics and channels, with food and beverage relying more heavily on price actions and non-food turning more to display activity.



Source: IRI Market Advantage™; 52 weeks ending 5/17/15 versus same period prior years

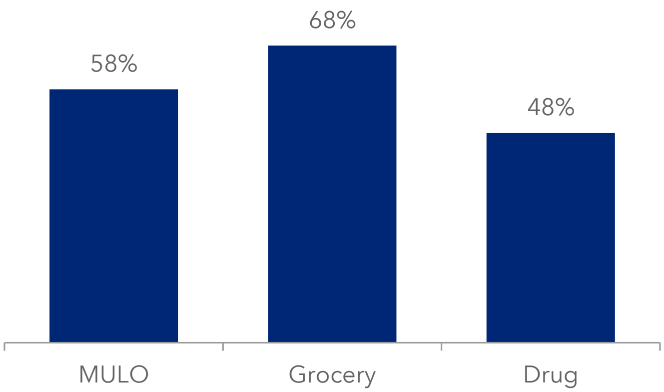


Source: IRI Market Advantage™; 52 weeks ending 5/17/15

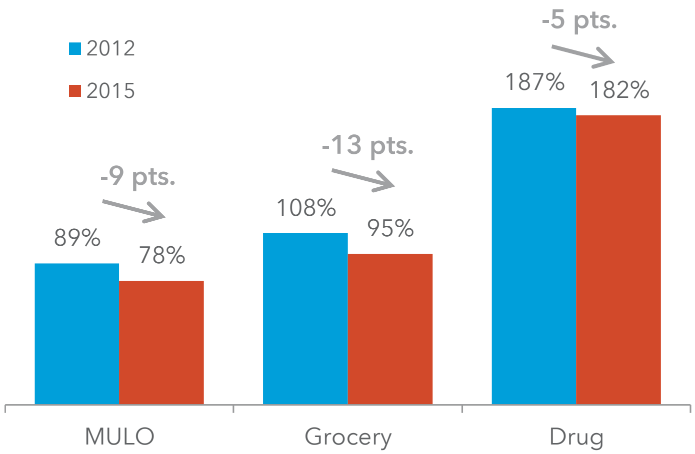
Exhibit 4

Despite increasing investment in merchandising, lift has been on the decline for several years, and there are clear indications of continued erosion.

% of CPG Categories With Reduced Merchandising Lift, 2015



Average Merchandising Lift by Channel, 2012 & 2015



Source: IRI Market Advantage™; 52 weeks ending 5/17/15 versus same period prior years

In 2012, 39 percent of categories were getting lift of 90 percent or more from merchandising efforts. Today, only 30 percent achieve lift of this magnitude.

Lift from Trade Activity Is Sliding, with No End in Sight

During the past year, lift from merchandising support declined across 58 percent of CPG categories (See Exhibit 4).

Declines are occurring across retail channels. The grocery channel, for instance, saw more widespread declines versus the industry as a whole during the past year, with 68 percent of categories seeing average lift fall. Meanwhile declines in drug were a bit more restrained, occurring across 48 percent of categories.

Erosion of lift is not new; it has been occurring for several years. In fact, during the past few years, average lift is down nine points across IRI's multi-outlet geography.

Exhibit 5

Lift is down across three-quarters of the largest CPG categories, many of which rely heavily and increasingly on merchandising for product movement.

CPG Categories With a Significant Drop in Merchandising Lift , Multi-Outlet, 2015

	% VOLUME INCREASE W/ ANY MERCH. SUPPORT	% VOLUME WITH ANY MERCH.	% VOLUME WITH ANY MERCH., PT CHG VS. YA
Coffee	-16.3	40%	(3.0)
Sports Drinks	-15.3	49%	+0.3
Breakfast Meats	-11.9	50%	+8.9
Kitchen Storage	-10.4	15%	+0.9
Paper Towels	-10.2	41%	(0.7)
Milk	-5.8	25%	+4.8
Toilet Tissue	-5.6	38%	+0.5
Beer/Ale/Alcoholic Cider	-5.3	41%	(1.2)
Soap	-5.1	31%	(0.6)
Salty Snacks	-4.0	52%	+2.0

Source: IRI Market Advantage™; 52 weeks ending 5/17/15 versus same period prior years

Falling Lift Is Widespread, and Pervasive Across the Largest CPG Categories.

Lift from merchandising support has declined across 72 of the 100 largest CPG categories during the past year. This trend is cutting across the store, with many categories seeing double-digit losses in sales lift while investment in merchandising continues to escalate (See Exhibit 5).

Breakfast meats, for instance, rely on merchandising for about half of their volume movement. Marketers in this category increased merchandising activity during the past year in an attempt to stave off losses from escalating prices. Breakfast meats met with some success, supporting volume growth of 4.1 percent.

The coffee sector saw volume sales decline 1.9 percent during the past year, following several years of rather strong growth. This sector has benefitted from trends around at-home/from-home dining and the explosive growth of k-cups. Innovation in this area continues and is well-received, as demonstrated by IRI New Product Pacesetter brand Peet's K-Cup Packs, but merchandising activity has cooled and lift is down sharply.

Exhibit 6

Even among stock-up categories, which generally receive significant lift from merchandising support, lift has been eroding.

CPG Categories by Significant Merchandising Lift, Multi-Outlet, 2015

	% VOLUME INCREASE W/ ANY MERCH. SUPPORT	% VOLUME WITH ANY MERCH.	CHANGE IN % INC. IN VOLUME W/ MERCH.
Paper Towels	128%	41%	(10.2)
Spaghetti/Italian Sauce	122%	33%	(5.8)
Chocolate Candy	121%	52%	(1.5)
SS Seafood	121%	37%	+3.2
Hair Conditioner	118%	29%	(2.1)
Pasta	115%	39%	(5.7)
Toilet Tissue	115%	38%	(5.6)
Ice Cream/Sherbet	113%	51%	(6.6)
Butter/Butter Blends	106%	48%	(30.0)
Cold Cereal	106%	38%	(6.2)

Source: IRI Market Advantage™; 52 weeks ending 5/17/15 versus same period prior years

Many Categories That Rely on Merchandising to Drive Stock-Up Purchases Are Feeling the Pinch

Some categories—often referred to as stock-up categories—tend to respond very well to promotional efforts. The chart at the top of this page illustrates examples of 10 categories that receive substantial lift from merchandising efforts (See Exhibit 6). Reliance on merchandising activity has increased across many of these categories during the past year.

The shelf-stable seafood category saw reliance on merchandising activity increase sharply during the past year, as marketers sought to alleviate pressures of rising prices. These efforts helped to maintain modest volume growth (up 1.2 percent), and lift from merchandising efforts climbed nicely.

Meanwhile, most of these high-lift categories have seen sales lift from merchandising efforts fall during the past year. One of the ongoing struggles CPGs face is evidenced here. During the downturn, consumers embraced a conservative approach to living—sharing products, stretching usage, limiting purchases to needs over wants. Consumers are not inclined to purchase more than they need simply because a product is on sale, particularly in a category like hair conditioner, where packages have been upsized in recent years.

Ground-up Redesign of Price and Promotion Strategies Can Yield Up to 2 Percent in Annual Growth

CPG Marketers Must Take a Step Back and Rewire Price and Promotional Strategies from the Bottom Up.

There is no question about it: It is time for change. But, it is critical for CPGs to view this change as an opportunity, rather than the enemy. This change is an opportunity to win.

Today, ineffective merchandising programs are leaving substantial sums of money on the table across CPG aisles. While the magnitude of opportunity lost varies by channel, category and brand, opportunity losses of tens of millions of dollars are not uncommon.

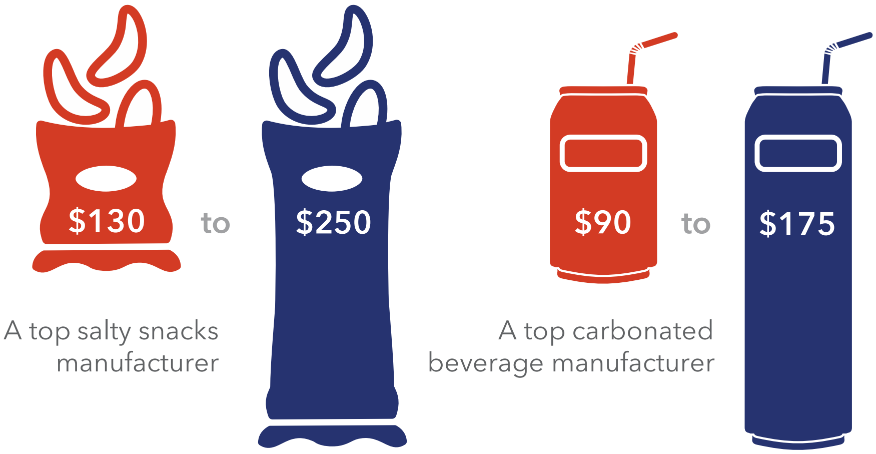
CPG marketers who rewire their price pack architecture (PPA) to deliver surgically executed competitive pricing strategies will win big–they will carve out solid growth in a slow-growth environment.

Getting pricing architecture right will drive a 1 to 2 percent increase in topline sales.

Exhibit 7

Take a step back and retool price pack architecture to increase sales revenue by tens of millions of dollars.

Dollar Value 1 to 2 Percent Boost in Revenue
Across Select CPG Categories, Multi-Outlet, $ Millions, 2015



Source: IRI Market Advantage™; 52 weeks ending 5/17/15 versus same period prior years

DEFINITION

Price Pack Architecture, or the basic pricing structure of a brand portfolio. A successful pricing architecture provides consumers a viable selection of products that meet their needs at the price points they are willing to pay, driving portfolio growth and enhancing a brand's overall value proposition.

Getting pricing architecture right will drive a 1 to 2 percent increase in topline sales, bringing hundreds of millions of incremental sales to CPG's largest categories (See Exhibit 7).

In fact, IRI estimates that getting price pack architecture right across all categories would result in industry sales lift of $6 to $12 billion.

Capturing the Opportunity Requires Overcoming a Number of Challenges

Manufacturers and Retailers Have Been Hesitant to Enter Uncharted Price and Promotion Territory

CPG marketers are reluctant to adopt a new approach to price and promotion. After all, there is comfort in the "known," particularly when it comes to complex processes such as these.

In the areas of price and promotion, there are a lot of considerations. The industry is replete with data—data about the shopper and the shopper mindset during any number of trip missions, data about products and channels, data about the entire path to purchase. But, data don't necessarily paint a clear path of effective merchandising design, ideal merchandising timing and clear customer focus.

As a result, CPG marketers often revert to making one tactical move after another, rather than taking a step back and asking how to rebuild price and trade strategy to survive in today's CPG marketplace. This is a short-term solution to a long-term problem, and its effectiveness is limited and shrinking.

To Fully Capitalize on Growth Opportunities, Take the Road Less Traveled

An Effective Price Pack Architecture Will Create True and Lasting Market Advantage

Generally speaking, today's promotion-related decisions are being made in isolation and in a very tactical manner, and this practice is feeding the downward spiral in promotional effectiveness.

To be effective in today's more nuanced and complex CPG environment, marketers need to take a step back to redevelop promotional programs. Price pack architecture (PPA) must become a first input into the system, for it ensures that the portfolio underscores brand equity across the board and creates a rising tide that lifts all boats.

Exhibit 8

An effective price pack architecture (PPA) will integrate four distinct pricing elements to clearly identify future goals and ensure effective trade spend.

Anatomy of an Effective Price Pack Architecture

PPA is influenced by four critical elements: portfolio strategy, brand strategy, channel dynamics and consumer needs.

Portfolio strategy: A product portfolio generally has a mix of products with different growth rates and different market shares. The goal of the portfolio, of course, is to help the brand and the company grow, ultimately driving share and shareholder profits. To get there, it isn't necessary to promote all brands. Rather, the portfolio strategy is to surgically assess the role of different brands within the portfolio and identify those that are most likely to benefit from promotional activity.

Brand strategy: The goal of the brand strategy is, of course, to position the brand to win in the most promising markets. Having a simple and clear value proposition is absolutely critical. For each brand, ask: what role does this brand play in the product portfolio? Is this a premium brand or a fighter brand? If it's a premium brand, it is vital to maintain a premium positioning in price. If it's a value brand, the same principle applies.

Channel dynamics: The path to purchase has changed dramatically during the past few years. This metamorphosis has made marketers' jobs more exciting, but it has also made it more challenging for marketers to build and maintain strategies that will maximize return and minimize risk. Marketers must keep a keen focus on emerging channels. They must also segment their customer base to determine which channels and which customers are most important to each of their brands.

Consumer needs: Having a clear understanding of consumer needs and wants is absolutely essential. For each brand, marketers must invest to understand which attributes are most valuable to their key consumers. Those attributes, in turn, must be reflected in all promotional efforts.

Exhibit 9

Marketers who embrace a more comprehensive approach to promotion planning will see higher lift, stronger loyalty and top-line growth of 1 to 2 percent.

Many of today's CPG marketers are relying on an old-school, tactical approach to promotion planning. They consider only a handful of elements, such as business conditions, retail terms and conditions and some tactical factors.

Effective promotional strategies must consider price pack architecture and all of the elements that influence it. Marketers that embrace this more comprehensive approach to promotional planning will enjoy higher lift, stronger loyalty and top-line growth of 1 to 2 percent.

Exhibit 10

Leverage responsiveness to base vs. promoted price to set pricing tactics for a brand, category, and product.

Everyday Price/Promo Responsiveness Quadrants

	Drive Margin	Quality Frequency
More Responsive to **Promoted** Price	**Low Base/High Promoted Elasticity** **Hi-Lo Strategy:** Enhance margin on base price (everyday) and drive share by leveraging promotional effectiveness through deeper promoted price points	**High Base/High Promoted Elasticity** **Hybrid Strategy:** Need to strike a balance with maintaining an attractive shelf-price (base price) positioning, while driving share through promotional discounting
	Price Protect	**Promoted Depth**
Less Responsive to **Promoted** Price	**Low Base/Low Promoted Elasticity** **Niche/Premium Strategy:** Conserve trade dollars and margin to enhance brand equity through appropriate marketing communications and product innovation strategy	**High Base/Low Promoted Elasticity** **EDLP Strategy:** Consumers are more focused on shelf price than on promotions, adopt an EDLP positioning with appropriate value-oriented marketing communication
	Less Responsive to **Everyday** Price	More Responsive to **Everyday** Price

CPG Marketers Can Leverage IRI's Full Suite of Elasticity Solutions to Establish a 360-Degree View of Price Elasticity

With a clearly defined price pack architecture in place, marketers can turn their focus to striking a balance between everyday pricing and trade pricing. That balance will vary across—even within—categories. After all, marketers must consider the fact that consumers are often willing to switch (including to private label) to save money. Channel and trip missions considerations will also come into play.

Investing to understand whether volume is driven by price or merchandising is critical. Again, this is not a one-size-fits-all question—all products and brands are not equal, so a surgical approach to dissecting impacts of price is essential.

Close examination of influencing factors is needed. For example, seasonal categories rely on promotions to break through the clutter and drive consumer engagement, even if promotional price elasticity is low.

Meanwhile, where promotional price elasticity runs high, it makes sense to allocate spending to trade efforts. This means investing to understand not just products to be merchandised, but also depth, frequency and timing, and the interplay of those factors on merchandising lift.

Framework to Win

CPG volume trends are flat and industry growth is largely coming from price and promotion programs. Promotional activity is being used as a lever to drive engagement, even though sales lift from promotional efforts is eroding, and has been for the last few years. The dynamics of pricing and promotion are changing. Marketers must embrace today as the start of change—an opportunity to step back and integrate pricing and promotional architecture as a key part of their price-promo strategies. IRI's comprehensive Revenue Growth Management Suite™ combines a unique combination of predictive analytical techniques, proprietary rapid modeling platforms, leading-edge automated solutions, a vast and granular CPG data set, and experienced analytics to deliver a lasting impact on the marketplace and improve the return on trade promotion investment.

IRI's Revenue Growth Management Program Will Help You Win in the Marketplace:

Create a 360-degree brand strategy

Today a lot of pricing and promo decisions are made tactically based upon the immediate market conditions. Leaders do not view these in isolation and integrate with their market positioning. There are three key elements of this: (a) the equity of the brand, (b) the unique benefit that the product provides to the core shoppers during high-gain shopping occasions, and (c) the overall channel and retailer strategy. Integrating these key elements will drive a more "surgical" price-promo strategy and improve the ROI from this spend.

Understand and optimize the roles of different products within the portfolio

Having the right portfolio strategy is key to success. This includes understanding the role of different products within your portfolio—e.g., which are the value brands that you would "fight" competition with and which are your premium brands where you would take price and build profit with. You can build growth and strengthen profits by analyzing and reallocating funds across your portfolio.

Ensure ongoing alignment with evolving consumer and channel dynamics

It is important to carefully monitor evolving channel dynamics and adjusting price-promo strategies in real time to align to these changes. Invest to establish and maintain an intimate understanding of the evolving path to purchase for your key consumers and target shoppers to ensure your touch points are woven tightly throughout the purchase process. Finally, understand the role of "traditional" and evolving channels and the impact on consumer buying behavior. Potentially divert your spend across channels toward areas with the highest impact.

Resources

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 around high-gain price and promotion strategies:

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

For robust trade analytics and planning, turn to **IRI Trade Planner™**

IRI Trade Planner's two solutions – the Event Planning Calendar and Post Event Analyzer – provide a seamless flow from post-event ROI analysis to flexible trade plan development and simulation.

To understand key factors that drive sales and impact change, count on **IRI Business Value Drivers™**

By enabling a view across time, products, markets and drivers, users can drill into the key insights to develop strategies that will replicate and amplify past successes, as well as address lost opportunities.

To gain a comprehensive understanding of your product's price sensitivities, gaps, thresholds and behavior in comparison to your competitors, rely on **IRI Price & Trade Advantage™**

Leveraging IRI's revolutionary Liquid Data Platform, Price & Trade Advantage gives insight on price sensitivities, gaps, thresholds, competitive implications, and sales volume decomposition to maximize sales and create the most effective pricing and trade plans at retail. Use these robust, simple, and integrated planning applications to get actionable insights at the execution level for continuous, repeatable results.

For advanced analytics and deep growth strategy capabilities to inform and drive your unique growth strategies, turn to **IRI Growth Consulting**

Fueled by IRI's proprietary and granular data, integrated with external data and advanced analytics, IRI Growth Consulting helps clients achieve their growth targets through identifying sustainable and profitable pockets of growth - demand spaces, shopper cohorts, channels, retailers and geographic regions - and developing organic activation and acquisition strategies to enable access to these pockets of growth.

FOR MORE INFORMATION

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About IRI IRI is a leading provider of big data, predictive analytics and forward-looking insights that help CPG, OTC healthcare, retailers and media companies to grow. With the largest repository of purchase, media, social, causal and loyalty data, all integrated on an on-demand cloud-based technology platform, IRI guides over 5,000 clients globally in their quests to remain relentlessly relevant, capture market share, connect with consumers and deliver growth. www.IRIworldwide.com.

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