Special COVID-19 Series: Recession-Proof Your Business

PART 7 – DEFENDING AND RECAPTURING THE SHELF

Offering the Right Assortment to Shoppers

July 6, 2020
The Latest COVID-19 Reports and Insights from IRI (click to see full report)

**The Changing Shape of the CPG Demand Curve**

**Special COVID-19 Series:**

**PART 1 – THE CHANGING SHAPE OF THE CPG DEMAND CURVE**
- COVID-19 Impact on CPG Retail
  - April 24, 2020

**PART 2 – THE CHANGING SHAPE OF THE CPG DEMAND CURVE**
- PART 2 – THE CHANGING SHAPE OF THE CPG DEMAND CURVE
  - PART 2 – THE CHANGING SHAPE OF THE CPG DEMAND CURVE
  - PART 2 – THE CHANGING SHAPE OF THE CPG DEMAND CURVE

**PART 4 – RECESSIONARY LESSONS TO APPLY TO PRIVATE LABEL TODAY**
- PART 4 – RECESSIONARY LESSONS TO APPLY TO PRIVATE LABEL TODAY
  - May 18, 2020

**PART 5 – BUILDING BRANDS DURING RECESSIONARY TIMES**
- PART 5 – BUILDING BRANDS DURING RECESSIONARY TIMES
  - June 5, 2020

**PART 6 – INNOVATION LESSONS FROM THE GREAT RECESSION TO APPLY TODAY**
- PART 6 – INNOVATION LESSONS FROM THE GREAT RECESSION TO APPLY TODAY
  - June 23, 2020

**PART 3 – HOW BIG BRANDS PERFORMED DURING THE GREAT RECESSION**
- PART 3 – HOW BIG BRANDS PERFORMED DURING THE GREAT RECESSION
  - May 11, 2020

**PART 4 – RECESSIONARY LESSONS TO APPLY TO PRIVATE LABEL TODAY**
- PART 4 – RECESSIONARY LESSONS TO APPLY TO PRIVATE LABEL TODAY
  - May 18, 2020

**PART 5 – BUILDING BRANDS DURING RECESSIONARY TIMES**
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  - June 5, 2020

**PART 6 – INNOVATION LESSONS FROM THE GREAT RECESSION TO APPLY TODAY**
- PART 6 – INNOVATION LESSONS FROM THE GREAT RECESSION TO APPLY TODAY
  - June 23, 2020
Plan for the Recession: Choose the Right Assortment for Retailers and Consumers

Executive Summary

Every recession varies in scope and duration, but COVID-19 is ushering in unique behavioral changes, including how consumers choose products.

A combination of manufacturers suspending SKU production and retailer out-of-stocks has led to significantly reduced choice.

However, as states open, shoppers will seek greater variety, and manufacturers will need to both ensure productive assortments and refine them for changing shopper needs.

How Can IRI Help?
IRI’s Assortment Optimization, Demand Space Consulting, and Segment-Specific Incrementality

1. The Right Assortment Matters
   - Focus on productive SKUs to avoid out-of-stocks and other consequences.
   - Eliminating SKUs could mean missing out on sales. Retailers that grow assortment typically increase market share.
   - As larger brands trim SKUs, smaller brands are gaining share with the choices they offer.

2. Assortment Best Practices
   - Reintroducing variety geared to and across channels will be key for growth post-COVID-19.
   - Manufacturers and retailers will need to align assortments and leverage innovation around key shifts in attribute preferences, value, pack-sizes and occasions.

3. Optimal Assortment
   - Factors for cutting assortment include both incrementality and velocity.
   - A focus on loyal shoppers can lead to increases in a brand’s shelf space and positioning.
   - The right assortment can lead to at least 2-5% sales and retail category growth.

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SECTION 1

The Right Assortment Matters
COVID-19 Saw Variety Decline via Both Manufacturer Production Shifts and Out-of-Stocks at Retail, But Consumers Sought Out the Products They Wanted

Total Store UPC Count % Change vs. YA


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**Consumer Reaction to Out-of-Stocks**

- **34%** went elsewhere
- **20%** went back later
- **14%** bought something else
- **33%** didn’t buy it

**Miguel Patricio, Kraft Heinz CEO**
“… what we are doing is actually reducing the number of SKUs that we are producing, so we can have better productivity in our lines.”

**John Furner, Walmart U.S. CEO**
Even before stay-at-home orders, the company focused on a “simplification of the product line with a significant reduction in SKUs, which it feels will cut down on decision fatigue for shoppers.”

**Mark Smucker, J. M. Smucker Co. CEO**
“Retailers and food companies over the past several months have convened calls on which they decided food makers should cut back on options, streamline supply chains and concentrate production on the most-demanded goods.”
Apart from Isolated Spikes, Nearly All Categories in Grocery and Mass Saw a Drop Due to Out-of-Stocks and Production Suspensions

### Unique Number of Items Sold / May 2020 vs. YAG

<table>
<thead>
<tr>
<th>Category</th>
<th>Grocery</th>
<th>Mass</th>
<th>Conv</th>
<th>Drug</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beer/Alcoholic Cider</td>
<td>-5 (-1%)</td>
<td>3 (1%)</td>
<td>7 (4%)</td>
<td>2 (2%)</td>
</tr>
<tr>
<td>Wine</td>
<td>13 (2%)</td>
<td>20 (7%)</td>
<td>1 (3%)</td>
<td>7 (5%)</td>
</tr>
<tr>
<td>Carbonated Beverages</td>
<td>-12 (-3%)</td>
<td>3 (1%)</td>
<td>-1 (-2%)</td>
<td>1 (1%)</td>
</tr>
<tr>
<td>Bottled Water</td>
<td>10 (4%)</td>
<td>13 (7%)</td>
<td>1 (3%)</td>
<td>-2 (-2%)</td>
</tr>
<tr>
<td>Energy Drinks</td>
<td>16 (17%)</td>
<td>24 (21%)</td>
<td>10 (11%)</td>
<td>5 (11%)</td>
</tr>
<tr>
<td>Coffee</td>
<td>3 (1%)</td>
<td>1 (0%)</td>
<td>0 (0%)</td>
<td>1 (1%)</td>
</tr>
<tr>
<td>Cheese</td>
<td>-2 (-1%)</td>
<td>-5 (-2%)</td>
<td>0 (0%)</td>
<td>0 (7%)</td>
</tr>
<tr>
<td>Milk</td>
<td>-3 (-2%)</td>
<td>1 (1%)</td>
<td>-1 (-4%)</td>
<td>-1 (-5%)</td>
</tr>
<tr>
<td>Bread &amp; Rolls</td>
<td>-6 (-3%)</td>
<td>-1 (-0%)</td>
<td>0 (1%)</td>
<td>-1 (-9%)</td>
</tr>
<tr>
<td>Breakfast Meats</td>
<td>-3 (-4%)</td>
<td>-5 (-4%)</td>
<td>0 (9%)</td>
<td>0 (4%)</td>
</tr>
<tr>
<td>Fz Dinners/Entrees</td>
<td>-14 (-3%)</td>
<td>-110 (-22%)</td>
<td>0 (1%)</td>
<td>1 (3%)</td>
</tr>
<tr>
<td>Ice Cream</td>
<td>-14 (-4%)</td>
<td>-29 (-13%)</td>
<td>0 (0%)</td>
<td>2 (3%)</td>
</tr>
<tr>
<td>Cookies</td>
<td>-13 (-4%)</td>
<td>-12 (-3%)</td>
<td>-4 (-10%)</td>
<td>0 (6%)</td>
</tr>
<tr>
<td>Cold Cereal</td>
<td>-14 (-5%)</td>
<td>-17 (-8%)</td>
<td>-1 (-5%)</td>
<td>-1 (-2%)</td>
</tr>
<tr>
<td>Spices/Seasonings</td>
<td>-22 (10%)</td>
<td>20 (5%)</td>
<td>0 (7%)</td>
<td>3 (42%)</td>
</tr>
<tr>
<td>Salty Snacks</td>
<td>-11 (-2%)</td>
<td>-14 (-3%)</td>
<td>-7 (-4%)</td>
<td>-5 (3%)</td>
</tr>
<tr>
<td>Chocolate Candy</td>
<td>-13 (-4%)</td>
<td>-24 (-4%)</td>
<td>-5 (6%)</td>
<td>-11 (3%)</td>
</tr>
</tbody>
</table>

**Total Edible**

-494 (-3%)  -1074 (-4%)  -39 (-2%)  -63 (-3%)

<table>
<thead>
<tr>
<th>Category</th>
<th>Grocery</th>
<th>Mass</th>
<th>Conv</th>
<th>Drug</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diapers</td>
<td>-5 (-5%)</td>
<td>-20 (-8%)</td>
<td>0 (-5%)</td>
<td>-5 (-11%)</td>
</tr>
<tr>
<td>Nail Cosmetics</td>
<td>11 (11%)</td>
<td>20 (5%)</td>
<td>0 (-2%)</td>
<td>44 (22%)</td>
</tr>
<tr>
<td>Culinary</td>
<td>28 (18%)</td>
<td>50 (8%)</td>
<td>0 (4%)</td>
<td>-2 (-17%)</td>
</tr>
<tr>
<td>Kitchen Storage</td>
<td>6 (6%)</td>
<td>-7 (-2%)</td>
<td>0 (5%)</td>
<td>-1 (-10%)</td>
</tr>
<tr>
<td>Candles</td>
<td>19 (10%)</td>
<td>-6 (-2%)</td>
<td>0 (10%)</td>
<td>1 (4%)</td>
</tr>
<tr>
<td>Laundry Detergent</td>
<td>-16 (-10%)</td>
<td>-16 (-6%)</td>
<td>0 (1%)</td>
<td>7 (1%)</td>
</tr>
<tr>
<td>Household Cleaners</td>
<td>-30 (-15%)</td>
<td>-27 (-9%)</td>
<td>0 (6%)</td>
<td>0 (-1%)</td>
</tr>
<tr>
<td>Air Fresheners</td>
<td>2 (1%)</td>
<td>10 (2%)</td>
<td>0 (1%)</td>
<td>5 (8%)</td>
</tr>
<tr>
<td>Vitamins</td>
<td>2 (1%)</td>
<td>-16 (-3%)</td>
<td>0 (0%)</td>
<td>9 (3%)</td>
</tr>
<tr>
<td>Weight Control</td>
<td>1 (1%)</td>
<td>1 (0%)</td>
<td>0 (4%)</td>
<td>-5 (6%)</td>
</tr>
<tr>
<td>Cold/Allergy/Sinus Tablets</td>
<td>-18 (-17%)</td>
<td>-26 (-14%)</td>
<td>-2 (-22%)</td>
<td>-46 (-26%)</td>
</tr>
<tr>
<td>Toilet Tissue</td>
<td>-10 (-24%)</td>
<td>-17 (-34%)</td>
<td>0 (0%)</td>
<td>-10 (-42%)</td>
</tr>
<tr>
<td>Paper Towels</td>
<td>-11 (-37%)</td>
<td>-12 (-42%)</td>
<td>0 (4%)</td>
<td>-4 (-34%)</td>
</tr>
<tr>
<td>Soap</td>
<td>-17 (-3%)</td>
<td>-7 (-1%)</td>
<td>0 (3%)</td>
<td>-6 (4%)</td>
</tr>
<tr>
<td>Hair Coloring</td>
<td>11 (10%)</td>
<td>1 (0%)</td>
<td>0 (3%)</td>
<td>26 (18%)</td>
</tr>
<tr>
<td>Pet Food</td>
<td>-11 (-2%)</td>
<td>-20 (-3%)</td>
<td>0 (-7%)</td>
<td>-2 (-5%)</td>
</tr>
<tr>
<td>Pet Supplies</td>
<td>-10 (6%)</td>
<td>-5 (-2%)</td>
<td>0 (8%)</td>
<td>0 (1%)</td>
</tr>
</tbody>
</table>

**Total Nonedible**

-263 (-4%)  -1232 (-4%)  -11 (-4%)  -903 (-8%)

---

1. Average Items per Store Selling refers to average number of unique SKUs on shelf across all tracked stores in a channel. Source: IRI POS Data ending May 31, 2020.

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Typically, Cutting Assortment Based on Velocity Alone Can Cut ~2.5% of Annual Growth

Cutting Refrigerated Dough SKUs on Velocity Alone Would Have Cost the Retailer 2.4% Sales $ Growth for the Year


Transferable
The portion of sales that will migrate to another product when removing the item

Incremental
The portion of sales lost entirely when removing the item

Unique

Velocity Only
Drives a more productive assortment, cutting slow-moving SKUs that appeal only to niche shoppers

Incrementality and Velocity
Drives a more productive assortment, but also ensures a higher portion of impacted shoppers have an acceptable alternative option, boosting velocity of remaining items as well
Cutting Out Means Missing Out: Focus Solely on Velocity Would Have Caused the Beer/Wine/Spirits Category to Miss the Hard Seltzer Boom When It Began in 2018

Incrementality Maintained Presence in a Product Segment That Has Grown $1B Since 2018

- Several Beer, Wine and Spirits (BWS) manufacturers were rethinking their investment in hard seltzers in 2018, due to low velocity.
- However, hard seltzers contributed significant incremental sales, driving new consumers into the category.
- Velocities in the hard seltzer category are now some of the highest across all malted beverages.

2019 Hard Seltzer Source of Volume

- New BWS Buyers: 13%
- New Seltzer Buyers: 27%
- Increased Volume: 10%
- Brand Switching: 50%

$400MM
2019 SALES
$1.4B
2018 SALES

2018 Malted Beverage Landscape
Category segment indexed to total malted beverage sector velocity and incrementality

<table>
<thead>
<tr>
<th></th>
<th>Domestic</th>
<th>Import</th>
<th>Domestic Value</th>
<th>Craft</th>
<th>Seltzer</th>
<th>Cider</th>
</tr>
</thead>
<tbody>
<tr>
<td>Index</td>
<td>Velocity</td>
<td>140</td>
<td>130</td>
<td>115</td>
<td>110</td>
<td>65</td>
</tr>
<tr>
<td></td>
<td>Increment</td>
<td>130</td>
<td>150</td>
<td>115</td>
<td>100</td>
<td>200</td>
</tr>
</tbody>
</table>

Source: Disguised IRI Client Case Study, IRI Assortment Optimization Database, ending 12/2018, / 2019 Calendar Year/ IRI Hendry Market Structure 2019

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During the Great Recession, Retailers That Grew Their Assortments Also Saw the Strongest Growth in Dollar Sales

**Assortment vs. Food and Beverage Sales Growth of Regional Grocers**

<table>
<thead>
<tr>
<th></th>
<th>2008-2010 CAGR</th>
<th>2010 vs. YA</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>WINNERS</strong>*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>51% of F&amp;B Dollar Sales</td>
<td></td>
<td></td>
</tr>
<tr>
<td>% Change Average Items per Store</td>
<td>0.7</td>
<td>0.5</td>
</tr>
<tr>
<td>% Value Sales Growth</td>
<td>5.3</td>
<td>4.3</td>
</tr>
<tr>
<td><strong>AVERAGE PERFORMERS</strong>*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>19% of F&amp;B Dollar Sales</td>
<td></td>
<td></td>
</tr>
<tr>
<td>% Change Average Items per Store</td>
<td>0.3</td>
<td>-0.7</td>
</tr>
<tr>
<td>% Value Sales Growth</td>
<td>1.4</td>
<td>-0.1</td>
</tr>
<tr>
<td><strong>LOSERS</strong>*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>28% of F&amp;B Dollar Sales</td>
<td></td>
<td></td>
</tr>
<tr>
<td>% Change Average Items per Store</td>
<td>-1.4</td>
<td>-2.4</td>
</tr>
<tr>
<td>% Value Sales Growth</td>
<td>-4.4</td>
<td>-5.4</td>
</tr>
</tbody>
</table>

*Winners: those with 2-yr CAGR >0.2SD from the mean; losers: those with 2-yr CAGR <0.2SD from the mean. / Source: IRI ILD (POS) 2 years and 52 WE 11.28.2010

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Smaller Brands Are Gaining Share of Total CPG Sales

Many Large Brands Lost Share to Smaller Companies After COVID-19 Stock-Outs

Share of % Total Store Sales

<table>
<thead>
<tr>
<th></th>
<th>2020 Pre-Peak</th>
<th>2020 Peak</th>
<th>2020 Post-Peak</th>
</tr>
</thead>
<tbody>
<tr>
<td>% Share for Small CPG Manufacturers</td>
<td>21.2</td>
<td>21.0</td>
<td>22.4</td>
</tr>
</tbody>
</table>


To ensure product makes it to the shelf, manufacturers have been focused on producing their best-selling products and foregoing production of less-efficient and less-profitable varieties.

Smaller companies with more specialized assortments are proving to be the go-to for consumers looking for their favorite flavors or other attributes.
SECTION
2
Assortment Best Practices
Categories That Increase Variety Have Tended to Drive Higher Gains in Overall Sales, Even During the Pandemic

*Dollar Sales Performance / May 2020 vs. March 2020*

% GROWTH IN $ SALES vs. % CHANGE IN VARIETY

Source: IRI Assortment Optimization Data ending March and May, 2020

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To Win Back the Shelf, Understand Emerging Shopper Preferences

Changing Attribute Preferences
Value Sales Growth Index vs. YAG

<table>
<thead>
<tr>
<th>EDIBLE</th>
<th>Pre-COVID-19 (L52 WE 2-23-20)</th>
<th>COVID-19 (L12 WE 6-14-20)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Meat First Ingredient</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Healthy</td>
<td>-5</td>
<td>111</td>
</tr>
<tr>
<td>Craft</td>
<td></td>
<td>110</td>
</tr>
<tr>
<td>Extra Lean</td>
<td>-150</td>
<td>140</td>
</tr>
<tr>
<td>Local</td>
<td>18</td>
<td>171</td>
</tr>
<tr>
<td>Made in USA</td>
<td>-148</td>
<td>411</td>
</tr>
<tr>
<td>Moisturizing</td>
<td>16</td>
<td>83</td>
</tr>
<tr>
<td>Smoothing</td>
<td></td>
<td>592</td>
</tr>
<tr>
<td>Hydrating</td>
<td>32</td>
<td>189</td>
</tr>
<tr>
<td>Nontoxic</td>
<td>24</td>
<td>202</td>
</tr>
</tbody>
</table>

Oreo has been particularly successful at driving up both prices and margins…

Traditional Oreo Cookies
The basic, classic cookie sells at $0.18 per ounce

Oreo Thins
Capitalizing on the desire for a more healthy, portion-controlled alternative, Thins sell at $0.30 per ounce

Fudge-Dipped Oreo Thins Bites
Responding to shopper tastes with a fudge-dipped variety increased the price to $0.56 per ounce (3x the price of traditional Oreo cookies)

…and traditional lunchbox mainstays, like Hostess, are seeing key wins

Twinkies
The lunchbox mainstay sells at ~$0.20-$0.25 per ounce

Bakery Petites
Similar products, with better packaging and frosting, sell at $0.47 per ounce

Source: IRI Growth Consulting
During the Great Recession, Successful Health and Beauty Brands Anticipated the Growth of At-Home Indulgence and Innovated to Capitalize on It

A large segment of personal care innovation in the 2000s involved “away-from-home / salon experience” positioning for at-home indulgence.

“Going Pro” vs. All Other Launches as % of All Health, Beauty and Personal Care New Product Launches, 2001-2010

Consumers were positive about the ability to have high-quality products at an affordable price vs. salon / luxury items.

Olay ProX, highlighting professional dermatology design for at-home usage, was the 6th largest nonedible IRI New Product Pacesetter of 2010

NOTE

“Going Pro” includes Rx-to-OTC medications and “professional” products across dermatology, salon products and dental categories.

Source: “Gaining the Competitive Edge”, IRI Summit 2011. IRI New Product Pacesetter Reports, Food and Non-Food, 2010

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Value Channels, Which Increase in Popularity During a Recession, Also Require Specific Assortments Tailored to Their Shoppers’ Needs and Price Positioning

In recent years, the Dollar channel has migrated to larger packs…

Dollar Channel Share of $ Sales Refrigerated Coffee Creamers

<table>
<thead>
<tr>
<th>Size</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>12 oz</td>
<td>35.9%</td>
<td>25.8%</td>
<td>19.3%</td>
</tr>
<tr>
<td>16 oz</td>
<td>64.1%</td>
<td>73.1%</td>
<td>80.7%</td>
</tr>
<tr>
<td>32 oz</td>
<td>0.0%</td>
<td>1.1%</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

…as the most popular size in Grocery (16 oz) has too high a price per ounce to meet the needs of the Dollar channel shopper

Dollar & Grocery Assortment, Average Non-Promoted Price Refrigerated Coffee Creamers

<table>
<thead>
<tr>
<th>Size</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>16 oz in Grocery</td>
<td>$2.29</td>
<td>$2.38</td>
<td>$2.56</td>
</tr>
<tr>
<td>32 oz in Dollar</td>
<td>$3.58</td>
<td>$2.88</td>
<td>$3.02</td>
</tr>
</tbody>
</table>

Difference per oz.: – 22% – 39% – 53% – 41%
Even Singles See a Similar Shift in Pack Size, with Value-Oriented Channels Carrying Larger Offerings That Provide a More Attractive Price per Ounce

### Dollar Channel vs. Convenience Singles Assortment / RTD Coffee

<table>
<thead>
<tr>
<th>Brand</th>
<th>Larger Pack (Dollar Assortment)</th>
<th>Smaller Pack (C-Store Assortment)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Average Price (non-promoted)</td>
<td>Average Price (non-promoted)</td>
</tr>
<tr>
<td>Starbucks</td>
<td>$2.74</td>
<td>$2.57</td>
</tr>
<tr>
<td>Frappuccino</td>
<td>13.7 oz Single</td>
<td>9.5 oz Single</td>
</tr>
<tr>
<td>Monster</td>
<td>$2.25</td>
<td>$2.64</td>
</tr>
<tr>
<td>Java</td>
<td>15 oz Single</td>
<td>11 oz Single</td>
</tr>
<tr>
<td>Doubleshot</td>
<td>$2.70</td>
<td>$3.08</td>
</tr>
<tr>
<td>Energy</td>
<td>15 oz Single</td>
<td>11 oz Single</td>
</tr>
</tbody>
</table>

Discount per oz. vs. C-Store:
- 26%
- 36%
- 38%

Source: IRI ILD POS data ending December 1, 2019, MULO+C

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SECTION 3

Optimal Assortment

IRI is well-positioned to help manufacturers defend and recapture the shelf, and then reintroduce variety.
IRI Recommends an End-to-End Approach to Tailoring Assortments at a Granular Level, Making Trade-Offs and Selecting Most Cost-Effective Options

**STEP 1**
Identify High Incrementality SKUs
Avoid Eroding Demand for the Overall Category
- Calculate portion of incremental vs. transferable volume, by SKU, retailer, and store
- Highlight differences in incrementality across shopper segments, leveraging loyalty card data
- Segment out the SKUs that contribute significant incremental sales

**STEP 2**
Integrate Retailer’s Shopper Loyalty
Align with Retailer’s Most Valuable Consumers
- Overlay sales contribution from each retailer’s most loyal shoppers
- Build out local demand clusters to reflect regional preferences and geographic variations in loyals
- Determine level of impact to the retailer’s most loyal shoppers from delisting, based on popularity

**STEP 3**
Shift Assortment to Capitalize
Strengthen Productivity and Sales by Retailer
- Incorporate COGS and potential triggers to achieve cost savings from streamlining the assortment
- Shift assortment to focus on highly incremental SKUs popular with the retailer’s most loyal shoppers
- Quantify the potential benefits to both the manufacturer and retailer

**STEP 4**
Drive Buy-In and Compliance
Quantify and Share the Business Case
- Create scenarios for additional benefits from greater shelf space and / or facings
- Craft a compelling sell-in specific to each retailer, showcasing how the plan drives a broader strategy and vision
- Showcase the financial benefit for them, including potential contingencies, articulating how you will help achieve it

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IRI Assortment Optimization Solutions Helped an International Dairy Manufacturer Grow Cheese Sales ~$5MM in Its Top Retailer, Despite SKU Rationalization

Case Study

A key retailer launched a SKU rationalization effort in cheese, setting up key criteria for its new assortment…

New Assortment Requirements

- Eliminate the long tail of small feta and soft-ripened brands, streamlining the assortment to only two national brands for each
- Maintain a strong Private Label presence for both types of cheese
- Standardize to the top four crumble and top two chunk for the remaining brands

...however, IRI’s Assortment Optimization helped a dairy manufacturer grow, despite these challenges

- Quantified how much brand volume from rationalized brands and SKUs would transfer to the remaining assortment
- Replaced SKUs with low incrementality in the two remaining national brands with higher incrementality SKUs that met the retailer’s size and flavor standards
- Built value case for the retailer by simulating the full category impact of delisted vs. added SKUs by ACV

IMPACT

The New Assortment Grew the Client’s Feta Sales by $3.3MM (13%) and Soft-Ripened Sales by $1.6MM (12%) in the Retailer

Source: Disguised IRI Client Case Study
IRI Helped Premium Frozen Foods Brand to Incorporate Both Incrementality and Loyalty into Its Assortment Decisions

Case Study

The Brand Grew Its Dollar Sales by More Than 10% and Secured Additional Shelf Space in Its Top Retailers

While incrementality drove a much more productive assortment for the brand, overall…

The brand was able to dedicate greater shelf space and inventory to products that drove unique volume sales in the category

Increase in sales among the most loyal shoppers was 2-3x as high as among the overall shopper base in most channels

<table>
<thead>
<tr>
<th>Buyers</th>
<th>Dollar Sales</th>
<th>% chg. 2019 vs. YA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Light</td>
<td>51% 20% +9.5%</td>
<td></td>
</tr>
<tr>
<td>Medium</td>
<td>30% 55% +5.6%</td>
<td></td>
</tr>
<tr>
<td>Heavy</td>
<td>19% 14% +14.0%</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>100% 100% +10.8%</td>
<td></td>
</tr>
</tbody>
</table>

Source: Disguised IRI Client Case Study

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Manufacturers Have to Focus on Each Retailer’s Loyal, Valuable Shoppers, Who Can Comprise Half of All Trips and Generate More Than 60% of Sales

**Heavy Buyers (Top 20% of Shoppers) – Trips and Dollar Share / 52 WE 6/14/20**

<table>
<thead>
<tr>
<th>Retailer</th>
<th>Trips Share</th>
<th>Dollar Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL GROCERY</td>
<td>48.7%</td>
<td>61.7%</td>
</tr>
<tr>
<td>Kroger</td>
<td>58.5%</td>
<td>71.7%</td>
</tr>
<tr>
<td>Safeway</td>
<td>68.7%</td>
<td></td>
</tr>
<tr>
<td>Publix</td>
<td>64.6%</td>
<td></td>
</tr>
<tr>
<td>Walmart</td>
<td>61.7%</td>
<td></td>
</tr>
<tr>
<td>Target</td>
<td>71.7%</td>
<td></td>
</tr>
</tbody>
</table>

Source: IRI Custom Panel Data, 52 WE 6/14/20
Leveraging Loyalty and Incrementality Will Best Position Assortments for Success and Further Entrench Brands Among Their Retailers

Framework for Finding Assortment Opportunities

**PROTECTORS**
- Maintain distribution in stores with higher spend from highly loyal, valuable shoppers
- Replace with more incremental products in stores with lower share of spend from highly loyal shoppers
- Satisfy shoppers’ total basket needs to make the store their trip destination

**GROWTH DRIVERS**
- Broaden distribution, growing the overall category and securing the most loyal shoppers
- Target stores with higher share of spend from the most loyal shoppers for each retail banner

**DELISTERS**
- Shift space to SKUs that drive more unique demand or better align with needs of loyal shoppers
- Refine attributes or positioning to better differentiate these SKUs

**DIFFERENTIATORS**
- Strengthen distribution due to higher levels of unique demand
- Target stores with lower share of sales from highly loyal shoppers for easier retailer compliance

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Source: IRI Growth Consulting

© 2020 Information Resources Inc. (IRI). Confidential and Proprietary.
IRI Provided End-to-End Guidance to a Cookie Manufacturer, Nearly Doubling Sales of Its Brand, Helping It Recover from Recent Declines

Case Study

Specialty cookies were in decline in a high priority retailer, with a long tail of slower-moving niche SKUs...

Item Productivity and Loyalty by Brand

- To attract new shoppers to the category, the retailer overhauled its assortment, more than doubling SKUs to add variety
- Unfortunately, these new items only grew sales by 12%

...however, IRI guided the client to replace these SKUs with much stronger assortment, serving loyal shoppers

• Demonstrated that client’s products were not only highly incremental, they were vital to the retailer’s loyal shoppers
• Replaced eight competitor SKUs with highly incremental client SKUs

Source: Disguised IRI Client Case Study

New SKUs Grew the Client’s Sales by 83% and the Retailer’s Category Sales by 22%, While Growing Appeal to Loyal Shoppers

IMPACT

Only two brands were truly delivering for the category

% of Exclusive and Loyal Buyers by Brand

Brand 1 (Client)
Brand 2
Brand 3
All Others

% Brand Exclusive Buyers
% Sales from Retailer’s Loyal Buyers

The client was not only critical to category buyers, but also with the retailer’s most loyal shoppers
By Leveraging Loyalty Card Data, IRI Helped an Additives Client and One of Its Key Retailers to Return Sugar Substitutes to Growth and Regain Loyal Shoppers

**Case Study**

After a reset in sugar substitutes, a retailer lost nearly 15% of annual sales in the category…

**Reset Context and Results**

- Eliminated a series of national brand sugar substitute SKUs, based solely on dollar sales velocity to drive a more productive assortment
- Assumed nearly all sales from the delisted items would shift to remaining packs or Private Label
- Saw only 20% of sales on delisted items remain in the category, causing it to decline 15%

…however, both incrementality and loyalty card data helped return it to growth

**% of Incremental vs. Transferable Demand**

<table>
<thead>
<tr>
<th>Top 5 Remaining SKUs</th>
<th>Top 5 Delisted SKUs</th>
</tr>
</thead>
<tbody>
<tr>
<td>SKU 1</td>
<td>18% Incremental</td>
</tr>
<tr>
<td>SKU 2</td>
<td>13% Incremental</td>
</tr>
<tr>
<td>SKU 3</td>
<td>27% Incremental</td>
</tr>
<tr>
<td>SKU 4</td>
<td>34% Incremental</td>
</tr>
<tr>
<td>SKU 5</td>
<td>8% Incremental</td>
</tr>
</tbody>
</table>

- Showed the delisted SKUs had high incrementality overall, and even more so among the retailer’s most loyal shoppers
- Reinstated the most incremental of delisted SKUs, replacing lower incrementality SKUs remaining after the reset

**IMPACT**

Reinstating Critical SKUs Not Only Regained Lost Sales, But Also Improved Productivity Enough to Grow Sales by an Extra 8%

Source: Disguised IRI Client Case Study
By Leveraging Loyalty Card Data, IRI Helped a Client and One of Its Key Retailers Drive Category Growth by Focusing on the Needs of High Value Shoppers

Case Study

Loyalty card data used to identify underdeveloped need states important to high value shoppers...

**Category Need State Identification and Evaluation**

![Graph showing need state performance index across key metrics](image)

Discovered a key under-assorted need state at the retailer with high SKU productivity that was also the most important need state for high value shoppers for the retailer (client did not have a SKU in this need state at this retailer)

...which IRI’s client used to gain distribution of existing SKUs not currently in distribution at that retailer

**Item Productivity and Loyalty for Potential New SKUs**

![Graph showing item productivity and loyalty for potential new SKUs](image)

Using IRI’s Shopper Loyalty data, IRI identified which potential SKUs to be added at retailer to fit into target need state, and of those which have high loyalty and velocity

**IMPACT**

Adding Two New SKUs Grew Client Sales by 4% and the Overall Category Through Increased Engagement of High Value Shoppers

**Source:** Disguised IRI Client Case Study

© 2020 Information Resources Inc. (IRI). Confidential and Proprietary.
To Drive Similar Results, IRI Has a Suite of Offerings to Reclaim the Shelf in a Downturn, from End-to-End Consulting to Automated Alerts and Granular Analytics

**IRI’s Assortment Planning Solutions**

- Delivers a fully automated personalized decision-making platform
- Harnesses IRI’s advanced store-level modeling to determine granular, retailer-specific impacts
- Simulates full category results from assortment and space decisions, accounting for demand transfer
- Allows contingency and scenario planning, along with ongoing monitoring and tracking

**IMPACT**

- >2-5% sales growth
- 2-5% retail category growth

**Demand Space Consulting**

- Provides end-to-end guidance to strengthen assortment productivity and capture shopper demand
- Incentivizes desired trade-up and trade-down behaviors
- Streamlines assortment to reduce costs while mitigating impacts to sales and shopper loyalty
- Builds win-win for retailers and manufacturers to drive engagement and compliance

**IMPACT**

- >5% growth in sales
- 3-6% category growth

**Segment-Specific Incrementality**

- Enables more strategic assortment planning based on securing higher-value shoppers by retailer
- Targets assortment opportunities that resonate with most valuable shoppers
- Strengthens position as a strategic advisor to retail
- Decomposes demand transfer across tailored consumer segments for each retailer

**IMPACT**

- 3-6% growth in sales
- 5-10% improvement in basket size
IRI’s Assortment Planning Solutions Provide a Rigorous Analytical Foundation for Faster, More Accurate Decision-Making at Scale

<table>
<thead>
<tr>
<th>Solution</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assortment Optimization</td>
<td>Maximize category performance due to items carried</td>
</tr>
<tr>
<td>Innovation Incrementality</td>
<td>Measure contribution of in-market innovations and planned product introductions</td>
</tr>
<tr>
<td>Aisle Optimization</td>
<td>Maximize aisle sales due to category-level space allocation and category adjacencies</td>
</tr>
<tr>
<td>Category Shelf Principles</td>
<td>Optimize intra-category shelf layout, including adjacencies, category flow and shelf blocking</td>
</tr>
<tr>
<td>Display Optimization</td>
<td>Increase impact of in-store displays by optimizing their design and execution</td>
</tr>
<tr>
<td>Store Group Analysis</td>
<td>Provide cluster-level recommendations for shelf blocking and space, in-store promotion, new item and package testing, and demand for product attributes</td>
</tr>
<tr>
<td>Metrics That Matter</td>
<td>Prioritize in-store merchandising and trade execution opportunities</td>
</tr>
<tr>
<td>Front-End Redesign</td>
<td>Update and refresh the front end for evolving behaviors and shopping trips</td>
</tr>
<tr>
<td>Portfolio Rationalization</td>
<td>Simplify brands and items on shelf for manufacturers and retailers</td>
</tr>
</tbody>
</table>
Insights and Strategic Guidance for Better Decisions

IRI’s Online Resources Include Real-Time Updates and Weekly Reports That Track the Impact of the Virus on CPG and Retail

The IRI COVID-19 Impact
Includes COVID-19 impact analyses, dashboards and the latest thought leadership on supply chain, consumer behavior and channel shifts for the U.S. AND international markets.

IRI CPG Economic Indicators, Including the IRI CPG Demand Index™, IRI CPG Supply Index™ and IRI CPG Inflation Tracker™
Accessible through the insights portal to track the daily impact of COVID-19. This includes top-selling and out-of-stock categories across the country and consumer sentiment on social media.
The Latest COVID-19 Reports and Insights from IRI (click to see full report)

IRI COVID-19 IMPACT ASSESSMENT REPORTS

- Updates Covid and Retail Impact of Covid-19
- Tracking the Dramatic Pivot of U.S. Consumer and Shopper Behavior
- Covid-19 Impact on CPG and Retail
- Consumers Provide a Pessimistic View of Coming Months
- Covid-19 and Managing the Fast Lane
- Anticipating Life After Covid-19

THE CHANGING SHAPE OF THE CPG DEMAND CURVE

- Part 1: The Changing Shape of the CPG Demand Curve
- Part 2: The Changing Shape of the CPG Demand Curve
- Part 3: The Changing Shape of the CPG Demand Curve

LESSONS FROM THE GREAT RECESSION

- Part 1: How the Great Recession Reshaped the CPG Demand Curve
- Part 4: Recessionary Lessons to Apply to Private Label Today
- Part 2: Maintaining Pricing Discipline During a Recession
- Part 5: Building Brands During Recessionary Times
- Part 3: How Big Brands Performed During the Great Recession
- Part 6: Innovation Lessons From the Great Recession to Apply Today
The IRI CPG Demand Index™ provides a standard metric for tracking changes in spending on consumer packaged goods. It measures weekly changes in consumer purchases, by dollar sales, against the year-ago period across departments, including fixed and random weight products, grocery aisles and retail formats. The IRI CPG Demand Index™ is available for eight U.S. regions, all U.S. states, UK, France, Italy, Germany and the Netherlands.
The IRI CPG Inflation Tracker™ provides the well-known price per unit metric for tracking changes in pricing of consumer packaged goods. It provides weekly changes in consumer prices, price per unit against the year-ago period across departments, including fixed and random weight products, grocery aisles and retail formats. The IRI CPG Inflation Tracker™ is available for eight U.S. regions, all U.S. states, UK, France, Italy, Germany and the Netherlands.
The IRI CPG Supply Index™ provides a standard metric for tracking changes in product availability (i.e., in-stock rates) in stores for consumer packaged goods. It measures weekly changes in product availability against the baseline across departments and retail formats. The IRI CPG Supply Index™ is available for eight U.S. regions, all U.S. states and Italy.
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