

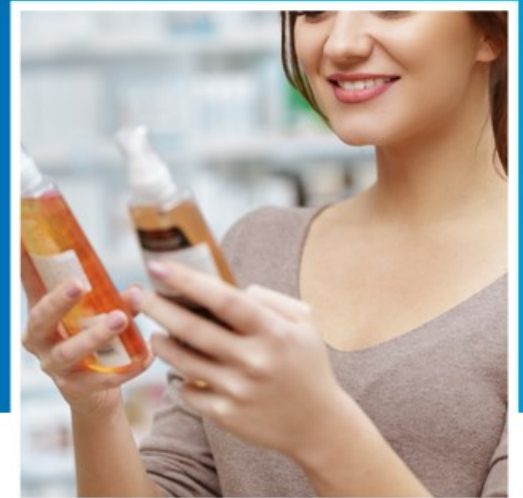
Mid-Year Reflection 2018

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# WHERE'S THE NON-FOOD GROWTH?

**Susan Viamari**  
Vice President, Thought Leadership

July 2018



**IRi**

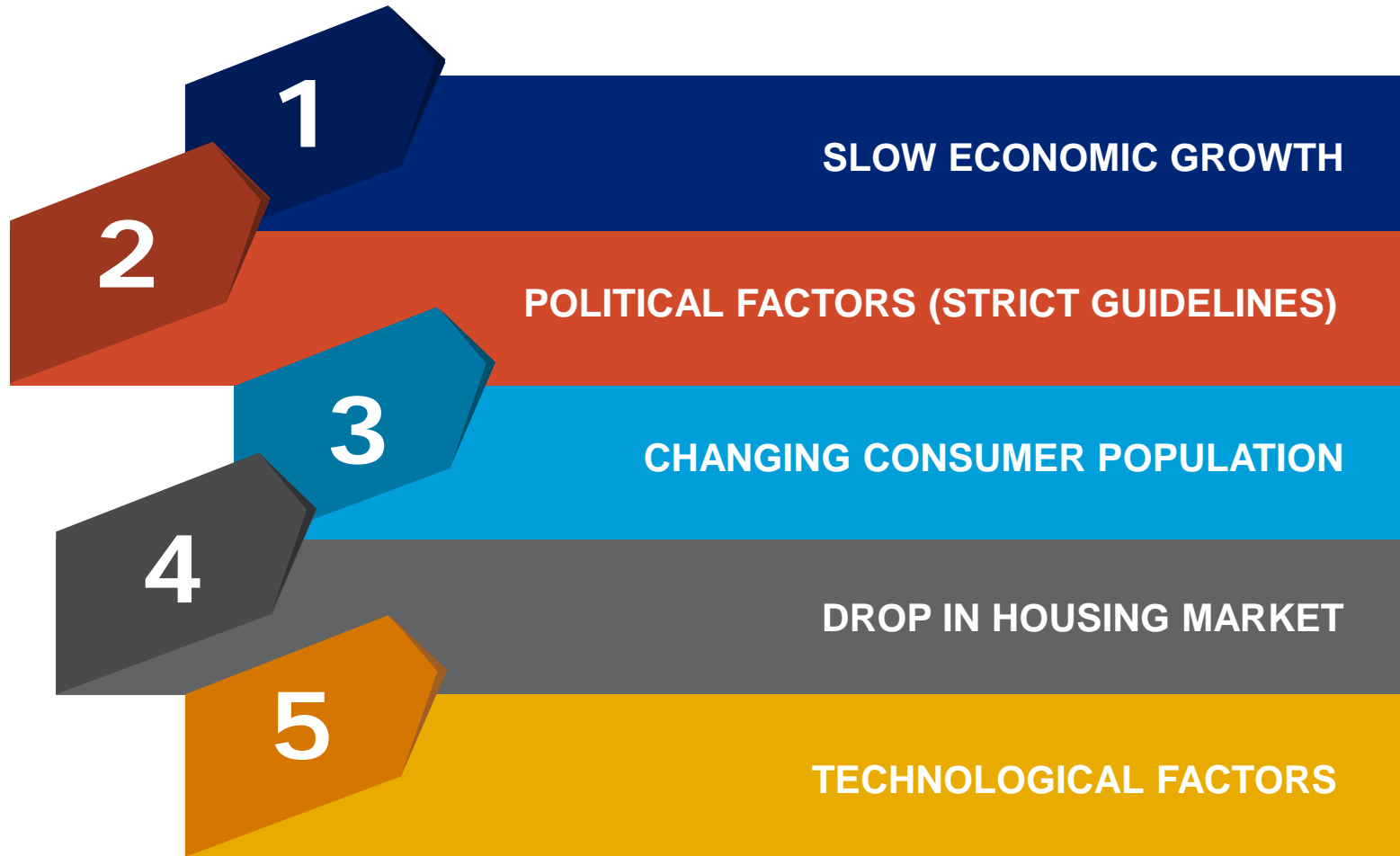
Growth delivered.

# Executive Summary

- 1** **Non-edible trends** are influenced by a number of factors, including household finances, inflation and changing consumer population.
- 2** **CPG unit sales** are largely flat; non-edible unit trends are in negative territory.
- 3** **Beauty** is a relative strong point in the non-edibles sector (monthly growth ~2.5 percent each of the last three months), and home and health departments are also seeing positive momentum.
- 4** **Non-edible trips** are seeing low-level growth, with grocery trips growing more slowly versus industry average and mass/super trips in decline.
- 5** Though the **economy** is growing at a solid clip, many consumers continue to struggle; conservative purchase behaviors and deal-seeking are prevalent.
- 6** **Record low unemployment** and low inflation are expected to boost consumer confidence for the remainder of the 2018, despite uncertainty in the political and economic conditions and high gas prices.
- 7** **CPG companies** are advised to look at new product innovation and digitization to tap growth in the sector.



# Major Components Impacting Non-Food Sector





# Opportunity with CPG Brands

There Is an Opportunity with CPG Brands with Solutions That Address Both Social and Environmental Considerations

1

Price comparison on retailers' websites.

2

Value in private label products.

3

Products that address environmental sustainability.



# Retail Sales, GDP and Inflation Ticked Up

## Unemployment in 2017 Dropped to Lowest in 17 Years

Economic Measure	2013	2014	2015	2016	2017
GDP (% Chg.)	3.3%	4.4%	4.0%	2.8%	4.1%
Unemployment (% , SA)	7.4%	6.2%	5.3%	4.9%	4.4%
Consumer Price Inflation (% Chg.)	1.5%	1.6%	0.1%	1.3%	2.1%
Retail Sales (% Chg.)	3.8%	4.2%	2.6%	2.9%	4.7%
Residential Permits, Total (Mil.)	4.0	4.2	4.7	4.8	5.1

Source: Moody's



# Key Factors in Evolving the Consumer Journey

## Accelerated Growth of Private Label

- Improving quality of private labels is blurring the difference vs. national brands across many categories.
- Store brands have better packaging and branding than national brands, supported by large in-house marketing and brand teams.
- Categories where consumers are willing to experiment.
- Consumers strive for “value” and savings in everyday consumption products.

## Surge in Gasoline Prices

- Rising fuel costs erode benefits of the recent tax cut.
- If fuel costs keep inching up, consumers may end up paying more for almost everything and will brace for price impact across categories.

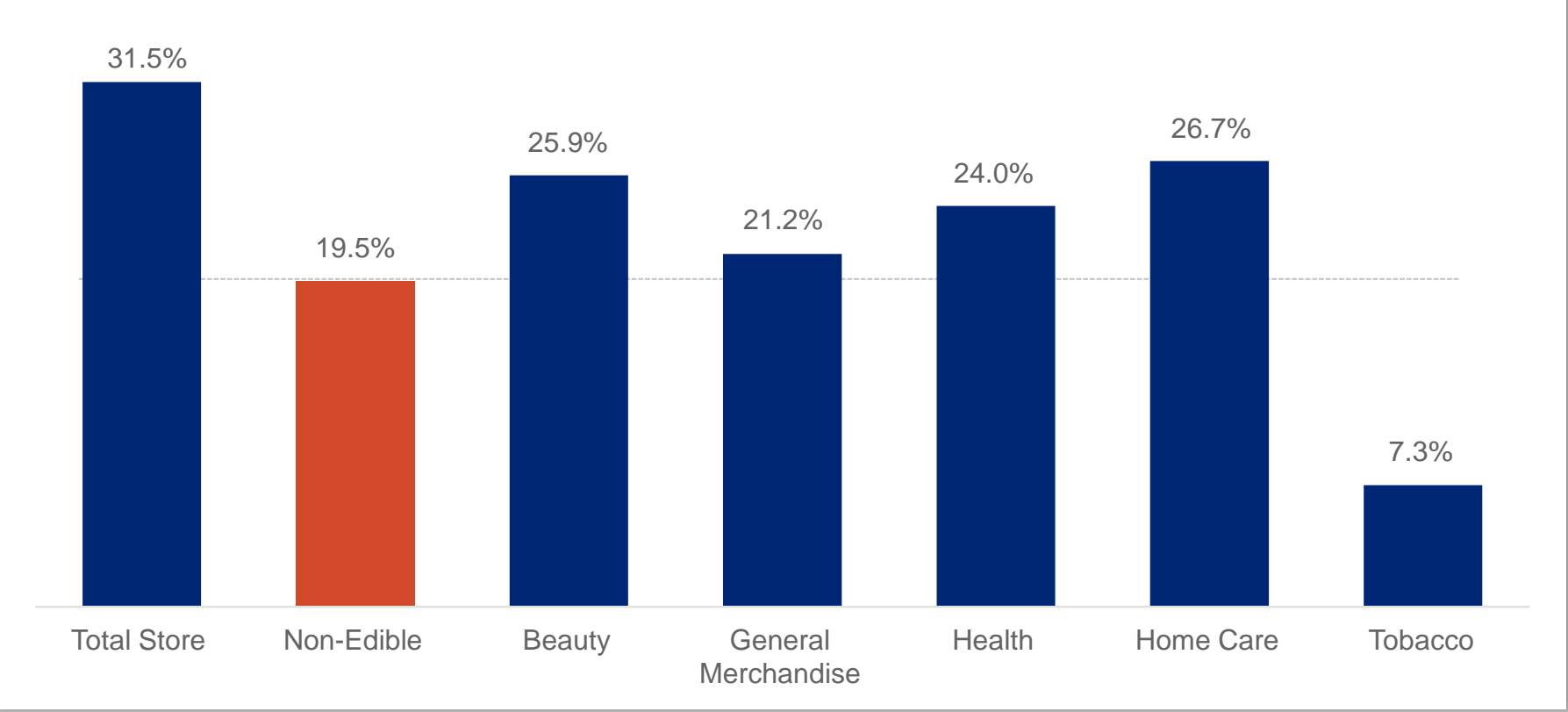
## Technology as an Enabler

- The emergence of voice ordering products. With more devices both in the home and outside enabling this functionality, 2018 will really see voice ordering emerge.
- Shoppers want products whenever and wherever they want, and that’s led to retailers providing unattended deliveries. With smart locks, orders can be taken straight to the fridge or to the trunk of a car.

Sources: IGD Retail Analysis Ecommerce Trends May 2018 Report;  
<https://retail.economictimes.indiatimes.com/re-ales/the-rise-of-private-label-brands/2241>

# Across Non-Edible Departments, Home Care and Beauty Rely Most Heavily on Merchandising for Product Movement

Reliance on Merchandising to Move Units, Any Tactic  
Non-Edible

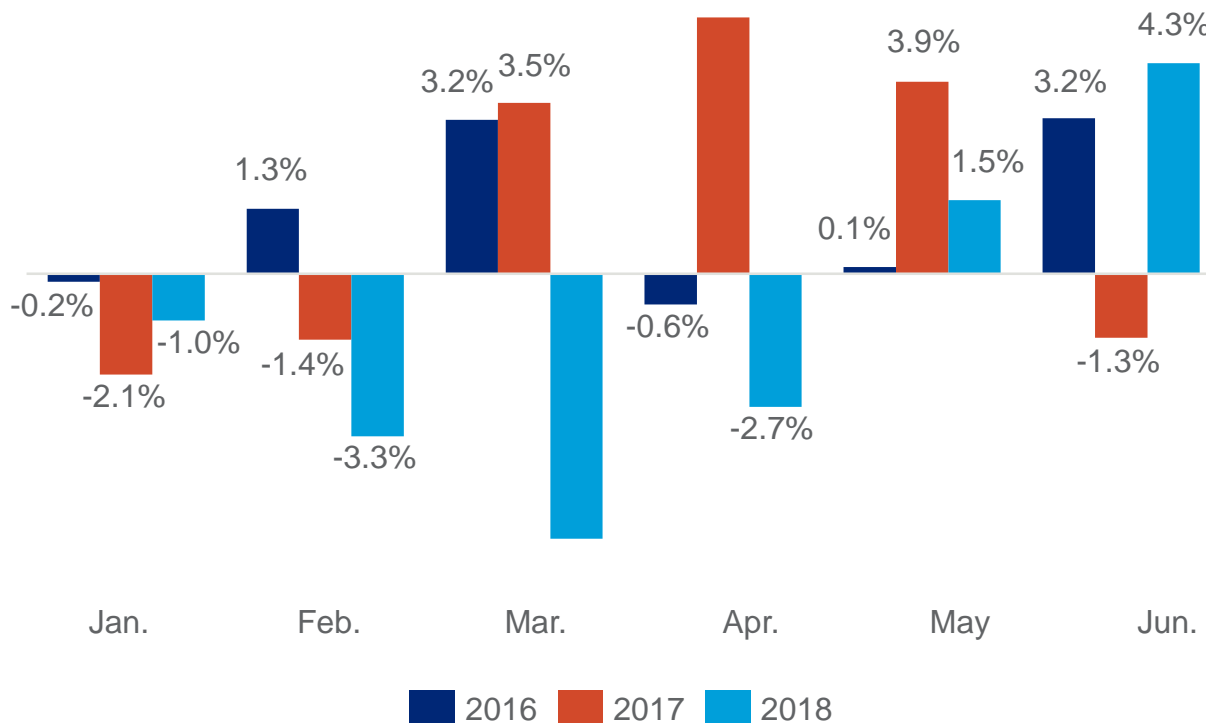


Source: IRI Market Advantage™, MULOC, Latest 52 weeks ending Jun. 17, 2018



# Lift from Merchandising Efforts Picked Up in the Second Quarter

## Change in Lift from Merchandising, Any Tactic Total Non-Edible



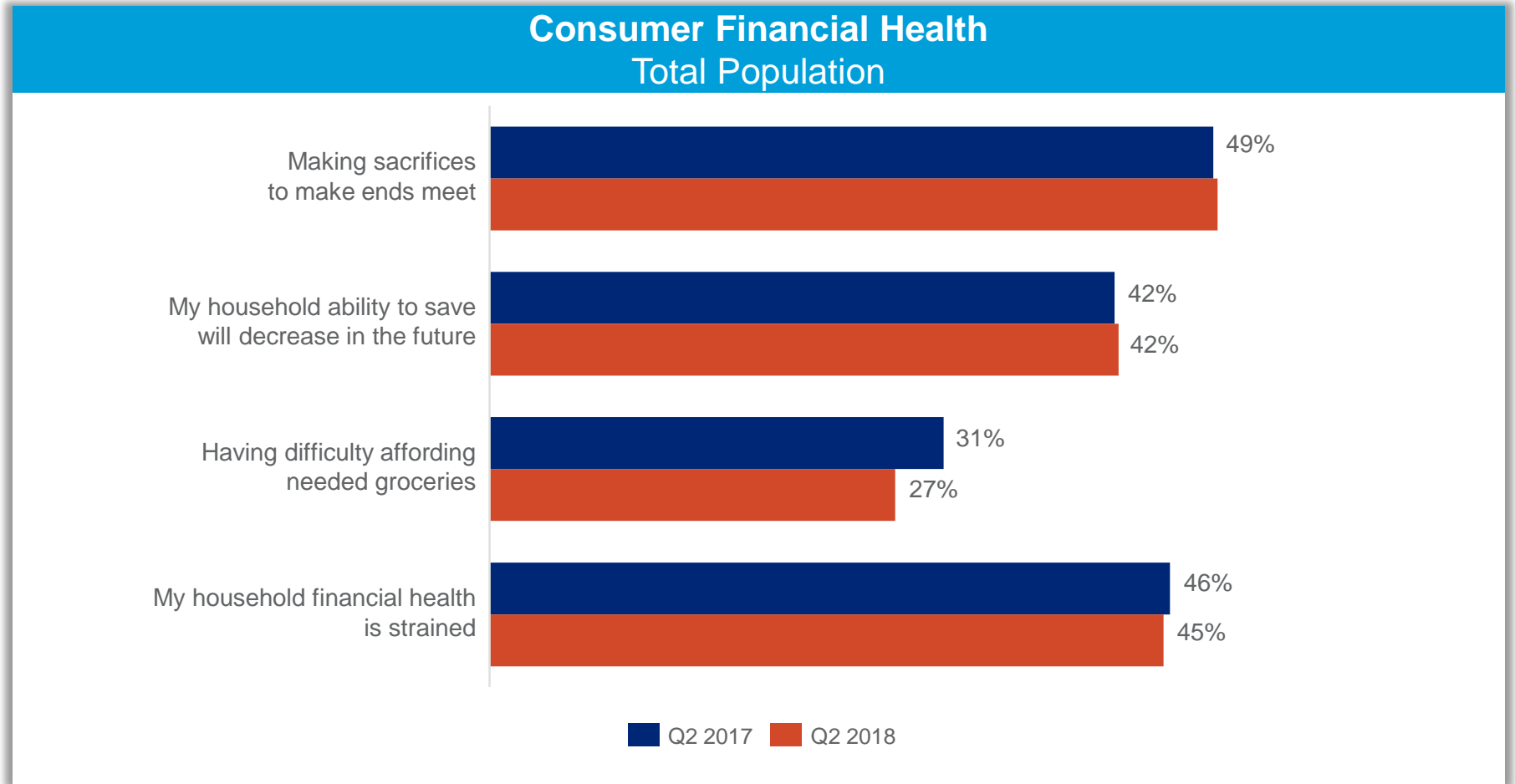
## Department-Level Trends

- Merchandising lift increased in June across home care and general departments, following two months of declines.
- Q2 growth in health care sector is primarily driven by lift from merchandising activity.
- Tobacco lift picked up in Q1 and Q2.
- Beauty experienced lift volatility in Q2, with increases in May and June.

Source: IRI Market Advantage™, MULOC, Jan.–Jun. 2018, and same periods prior two years



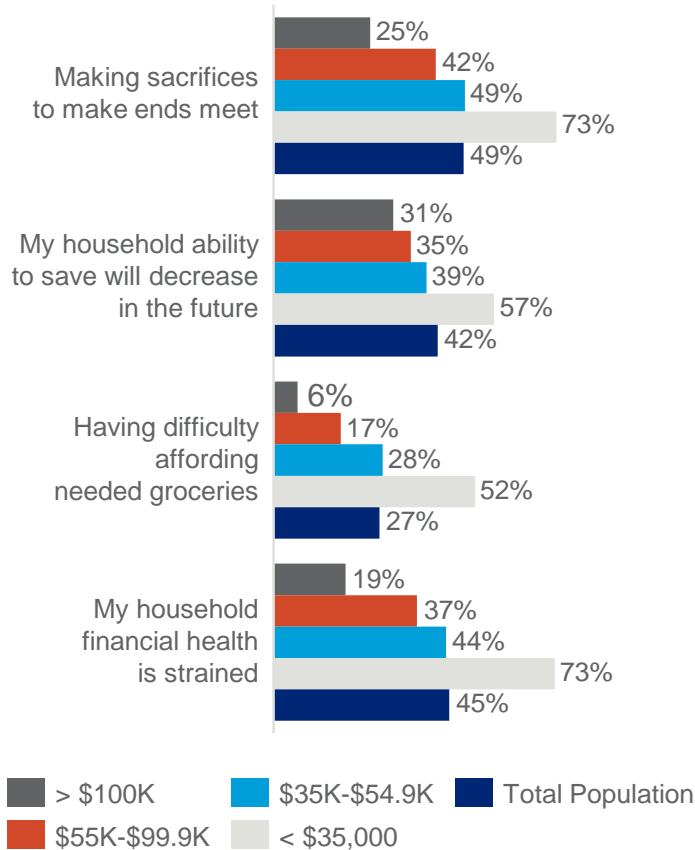
# Despite Improving Economic Conditions, Many Consumers Are Still Struggling Financially



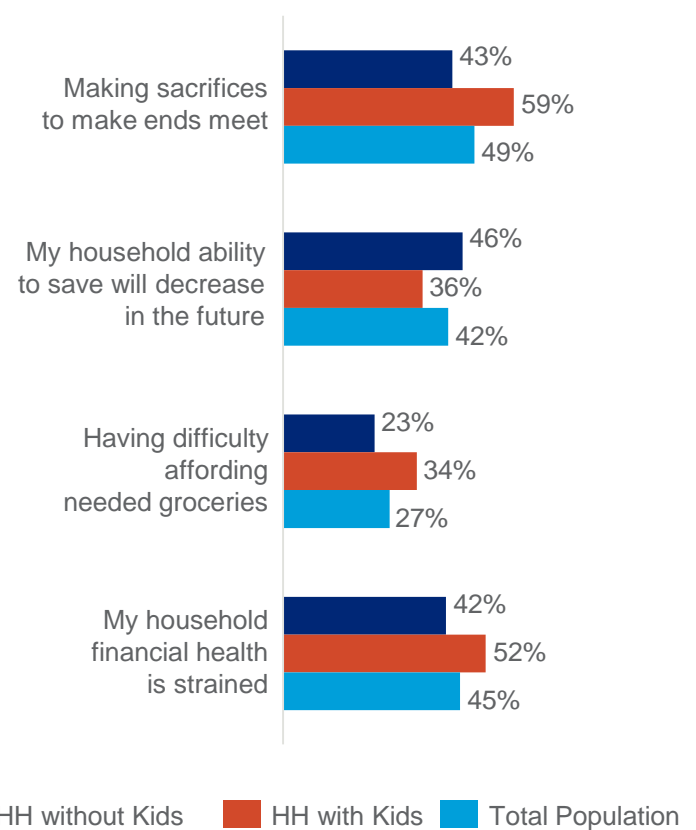
Source: IRI Consumer Connect, Q2 2017 & Q2 2018

# Low- and Middle-Income Households and Those With Kids Are Among the Hardest Hit

## Consumer Financial Health, by Income



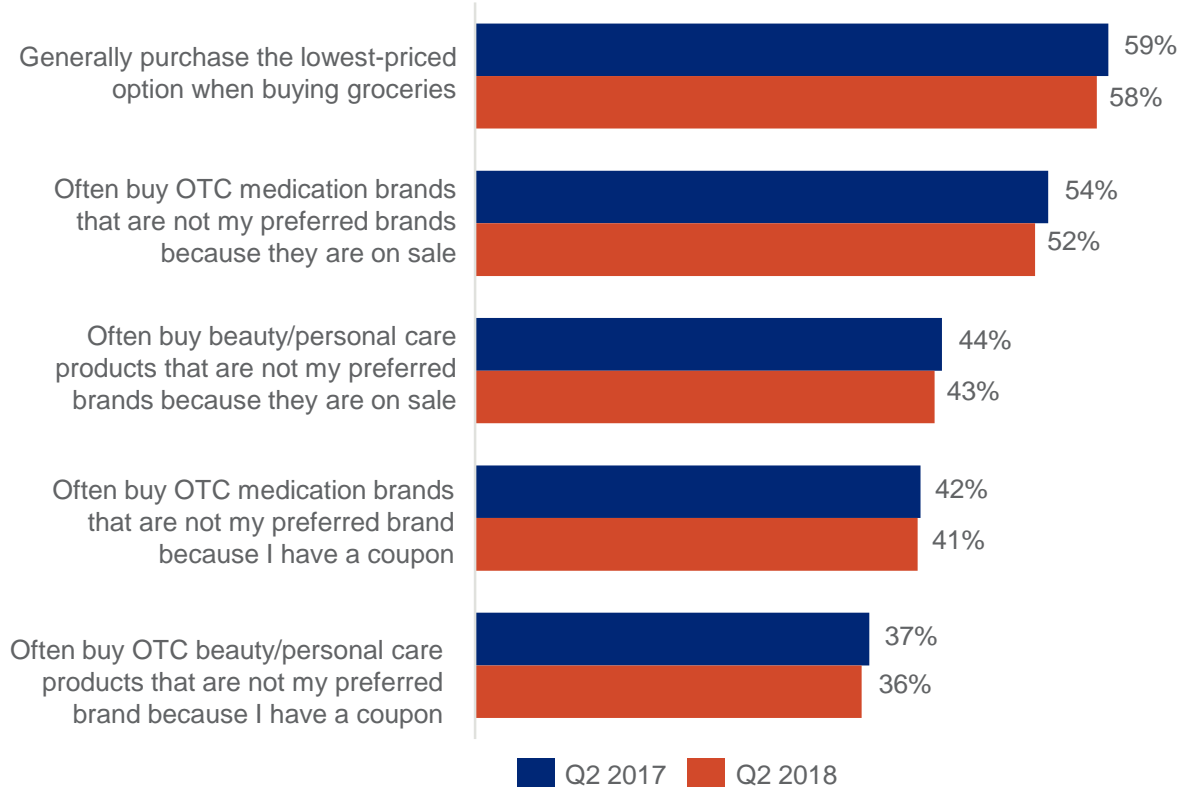
## Consumer Financial Health, by Presence of Kids



Source: IRI Consumer Connect, Q2 2018

# Deal-Seeking Behavior Is Widespread and Remains Same Versus 2017

## Consumer Buying Behaviors Total Population

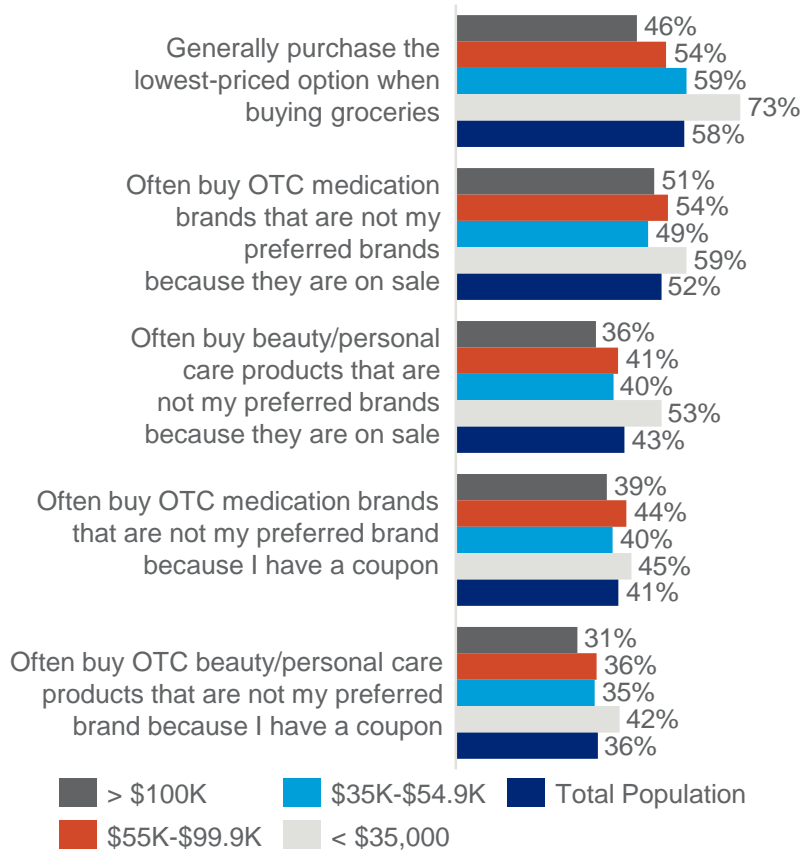


Source: IRI Consumer Connect, Q2 2017 & Q2 2018

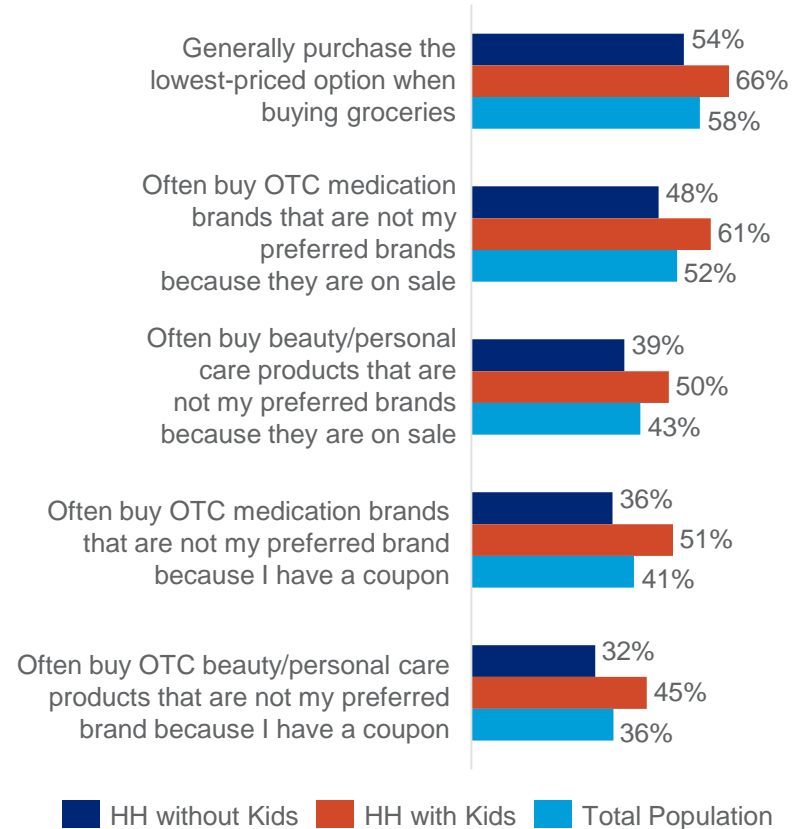


# Deal-Seeking Is Most Prevalent Among Less Wealthy Shoppers and Households With Kids

## Consumer Buying Behaviors by Income



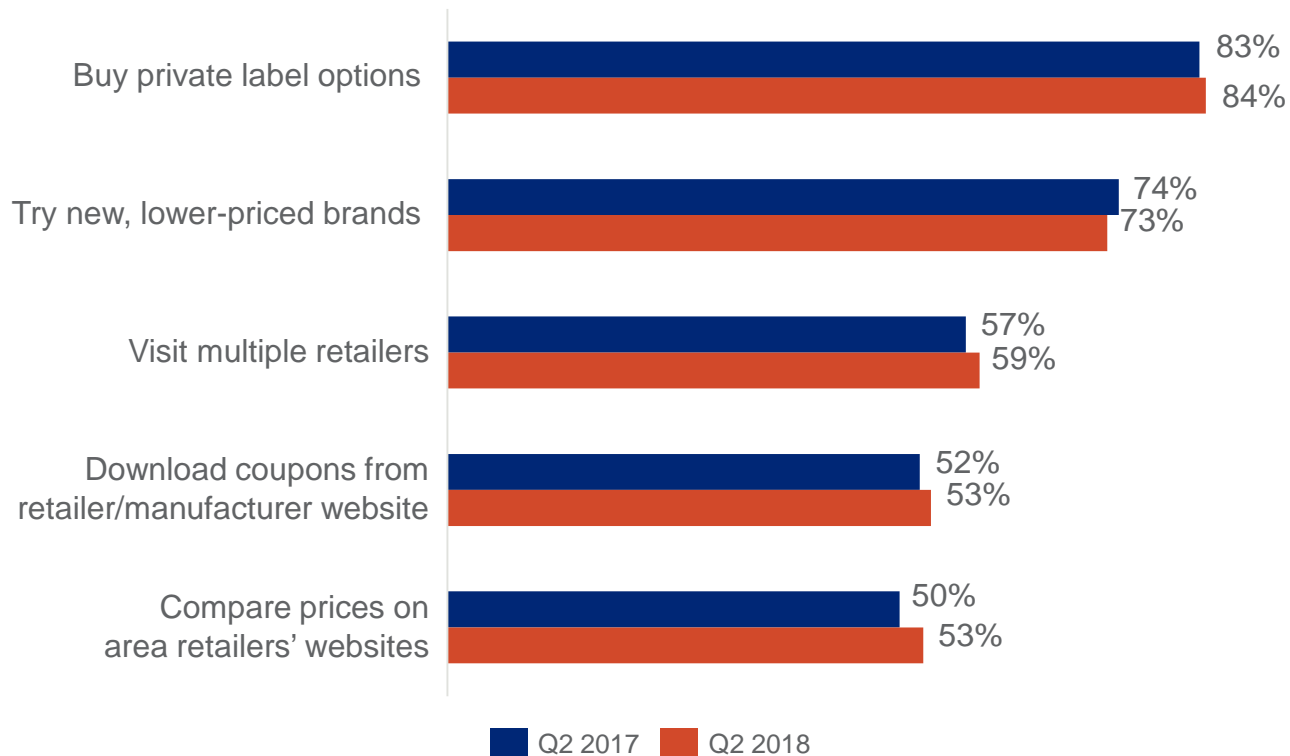
## Consumer Buying Behaviors by Presence of Kids



Source: IRI Consumer Connect, Q2 2018

# Buying Store Brands a Top Money-Saving Strategy

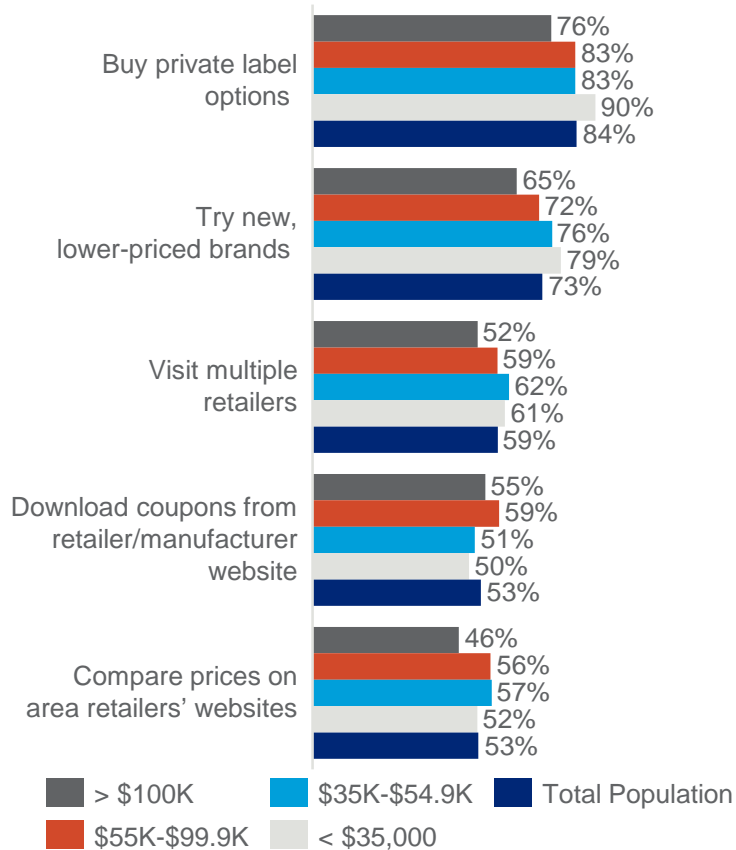
## Shopping Journey Money-Saving Preparations Top 2 Box, Total Population



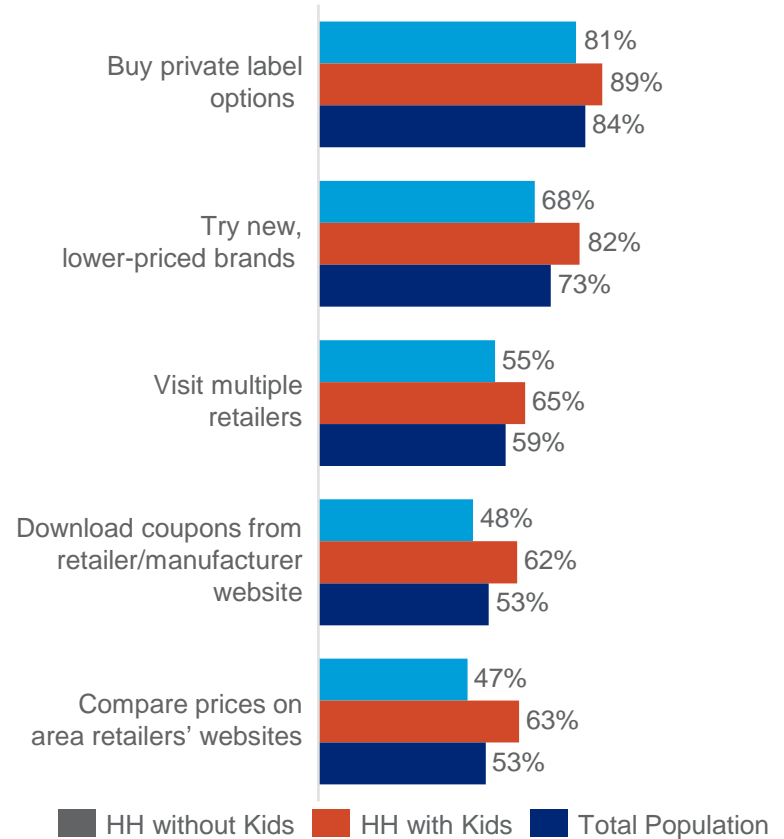
Source: IRI Consumer Connect, Q2 2017 & Q2 2018

# Less Wealthy Shoppers and Those with Kids Are Most Likely to Make Brand Concessions and Price Shop

## Shopping Journey Money-Saving Preparations Top 2 Box, by Income



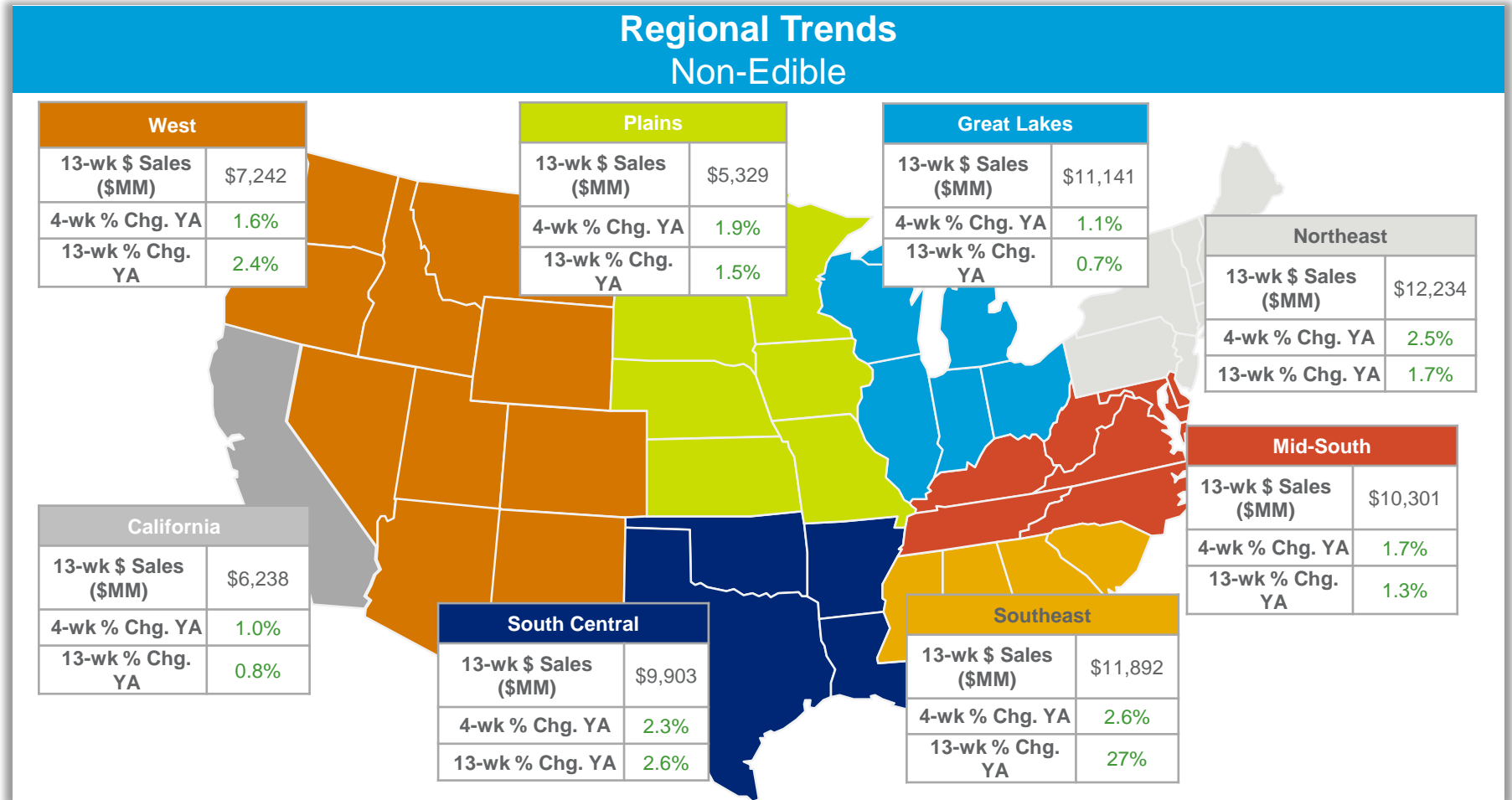
## Shopping Journey Money-Saving Preparations Top 2 Box, by Household Kids



Source: IRI Consumer Connect, Q2 2018

# All Regions Show Positive Dollar Sales Growth in the Latest 4-Week and 13-Week Periods

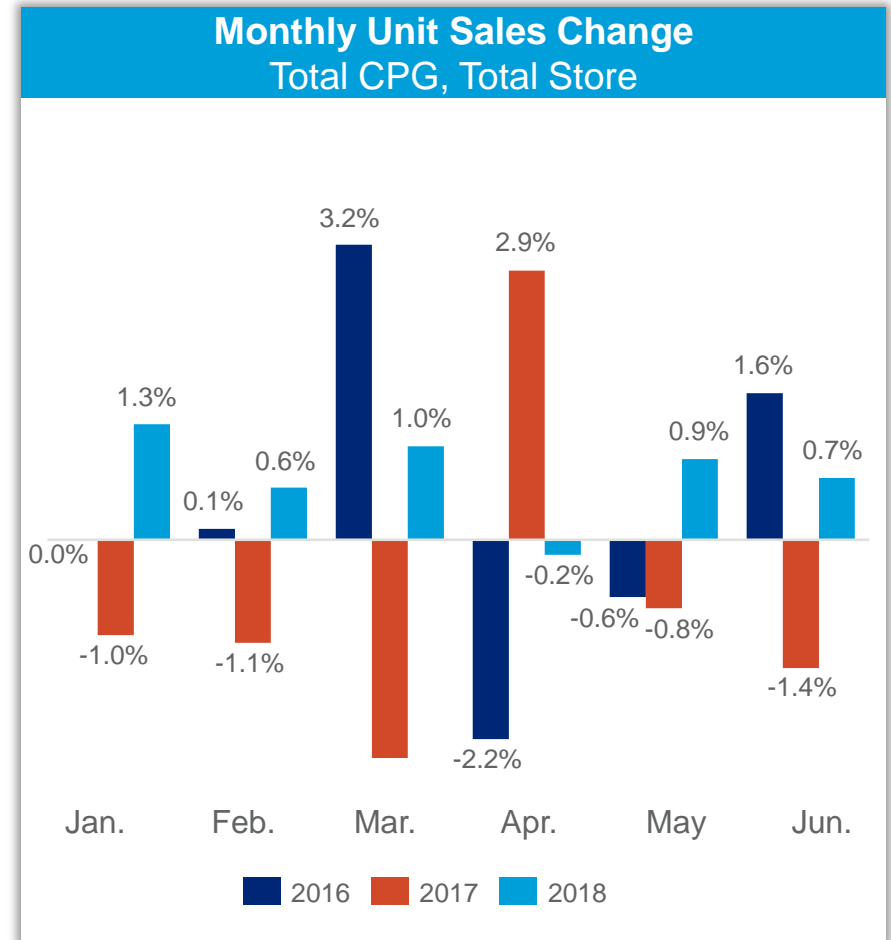
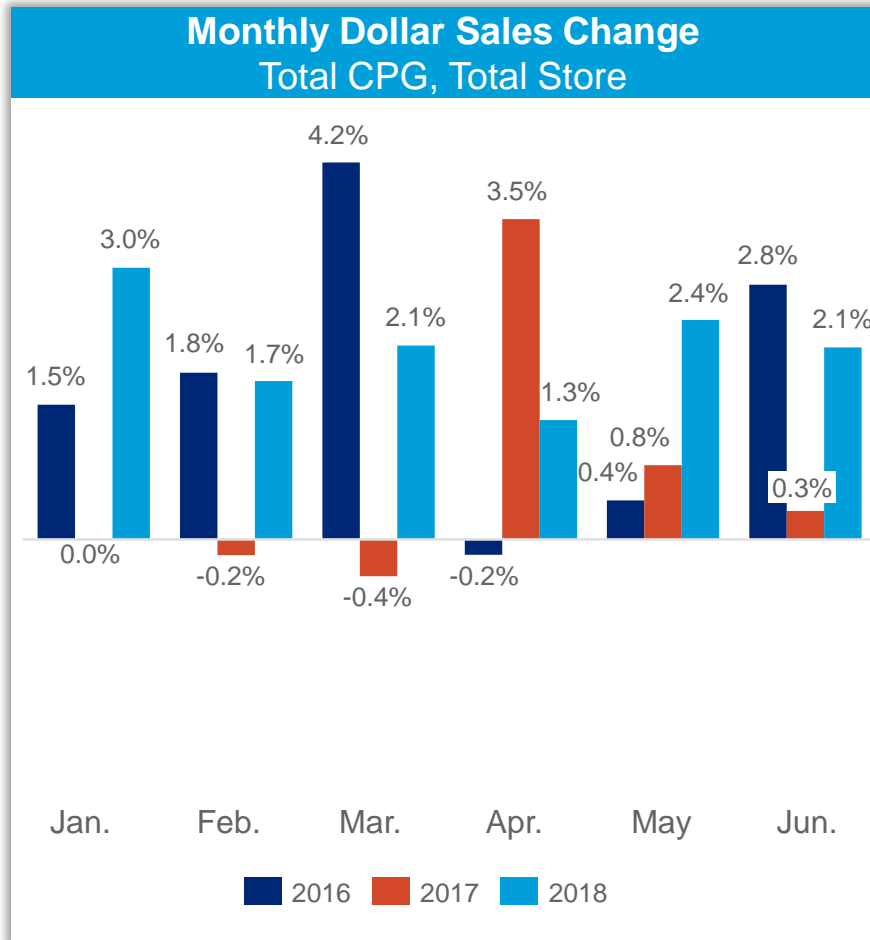
Southeast and South Central Regions Are Strongest



Source: IRI Market Advantage™, 13- & 4-weeks ending Jun. 17, 2018, MULOC

# CPG Units Are Still Struggling

Growth Is Largely Driven by Price

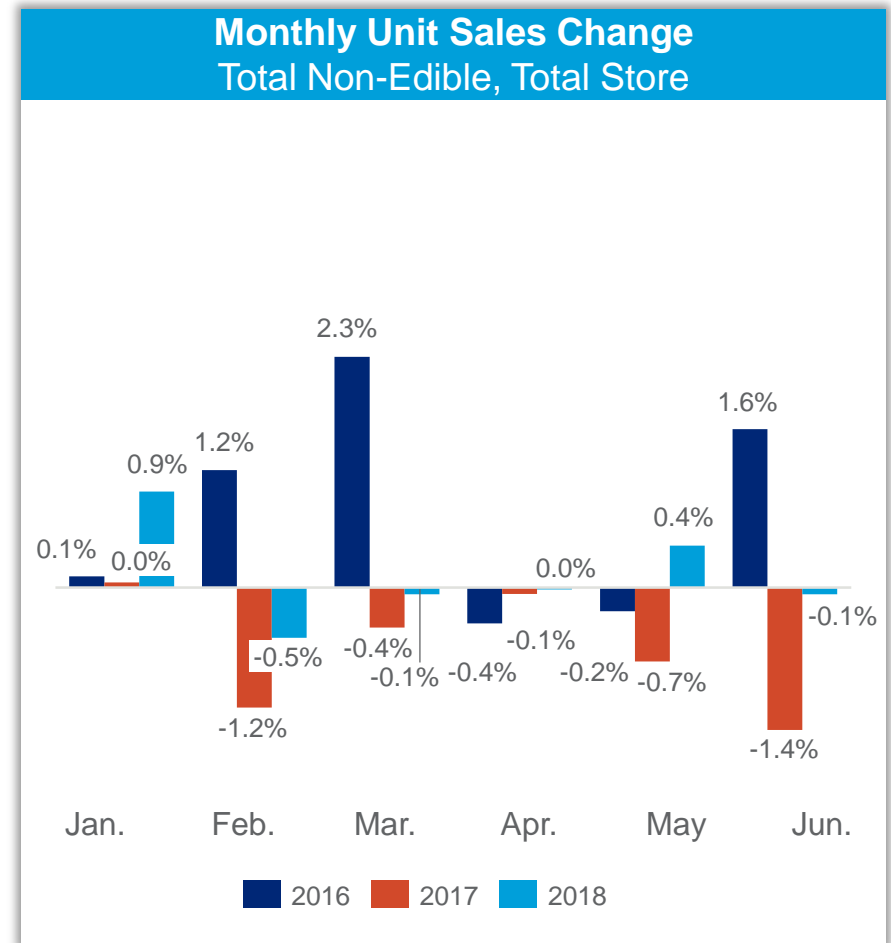
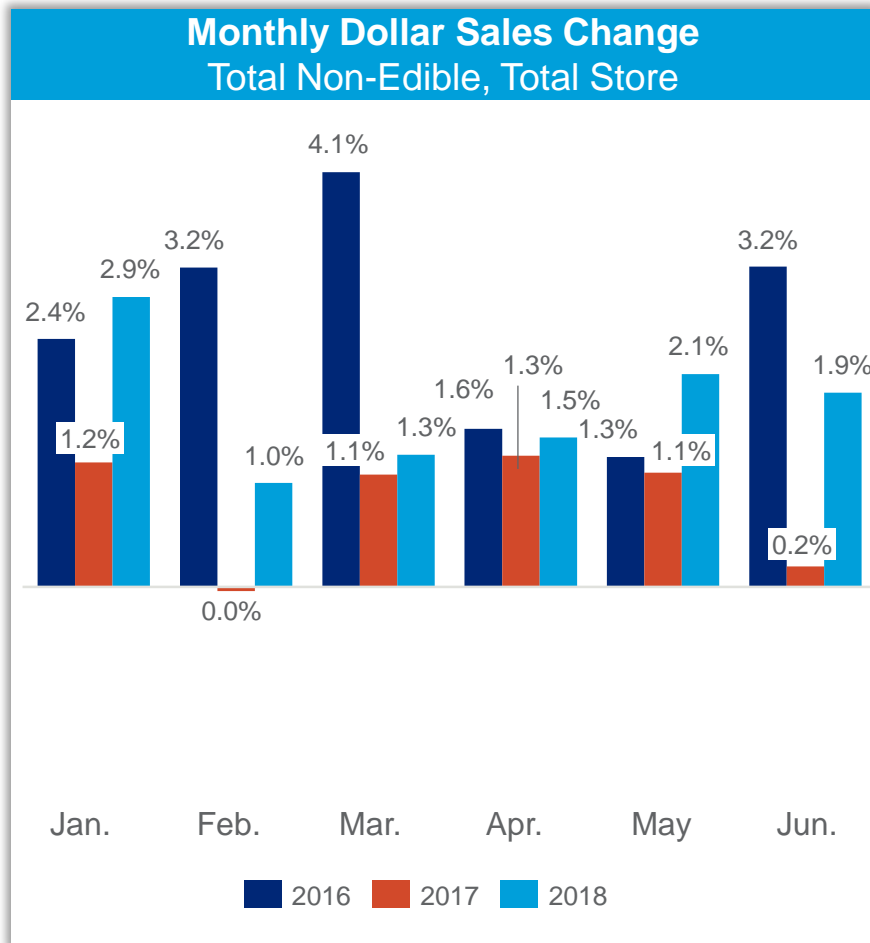


Source: IRI Market Advantage™, MULOC, Jan.–Jun. 2018, and same periods prior two years



# Non-Food Units Are Underperforming

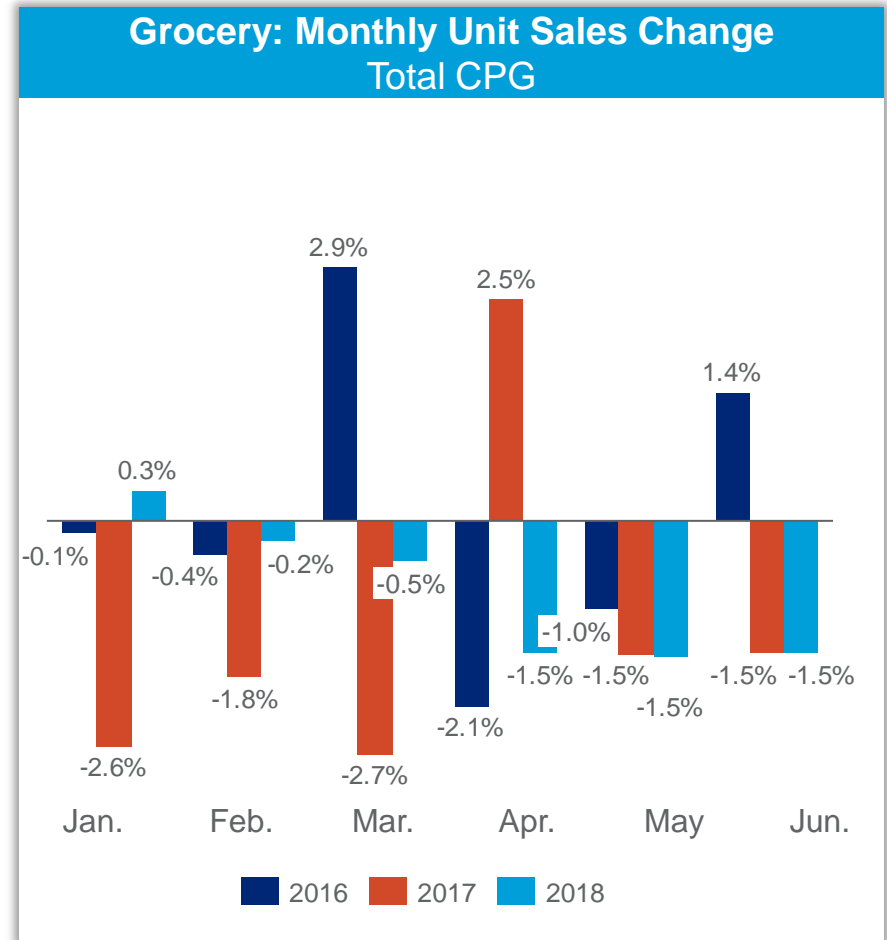
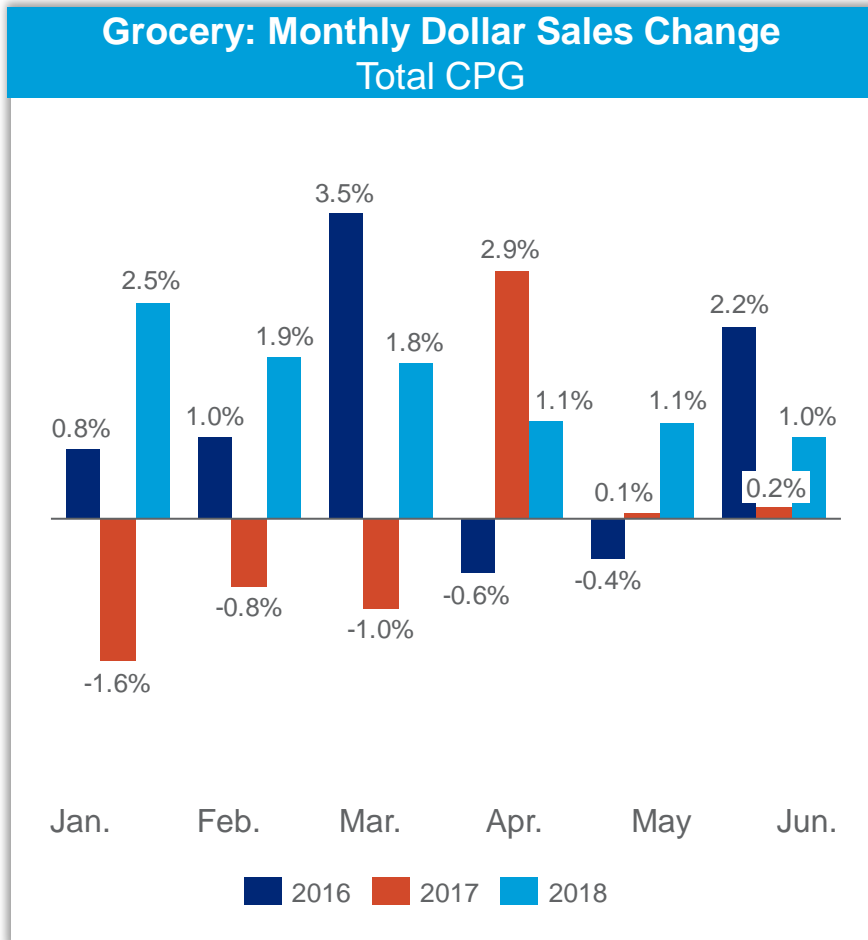
2018 Dollars Largely Mirror Total CPG



Source: IRI Market Advantage™, MULO, Jan.–Jun. 2018, and same periods prior two years

# Grocery Channel Performance Is Weak

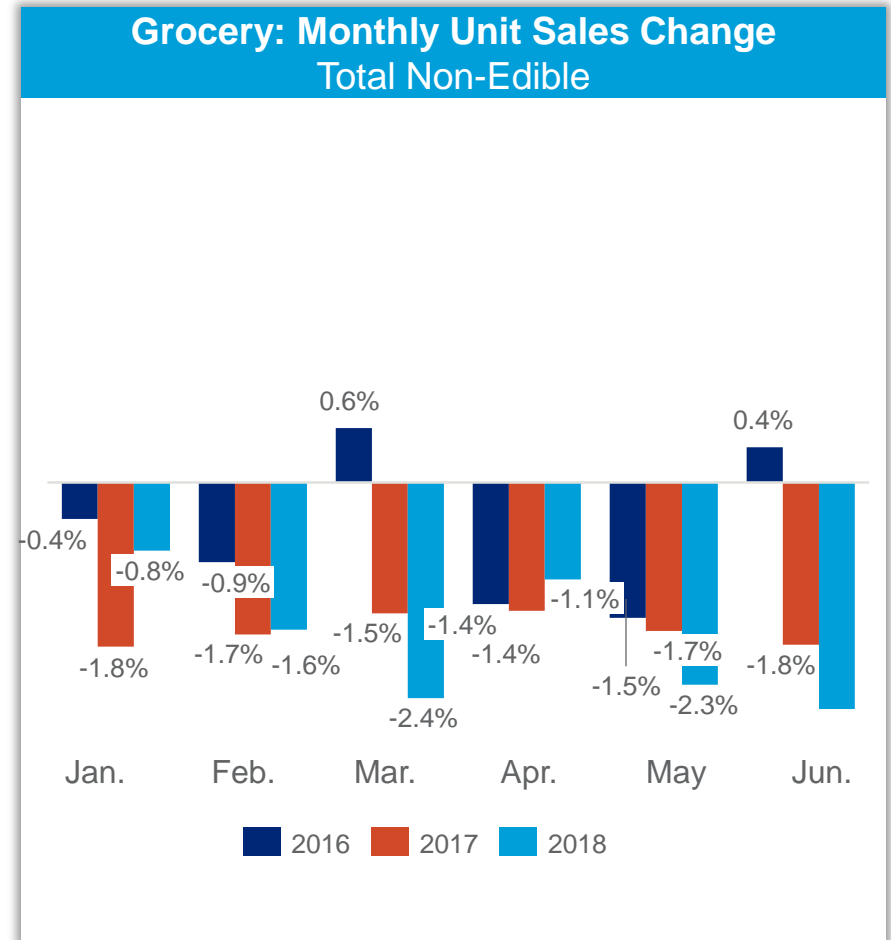
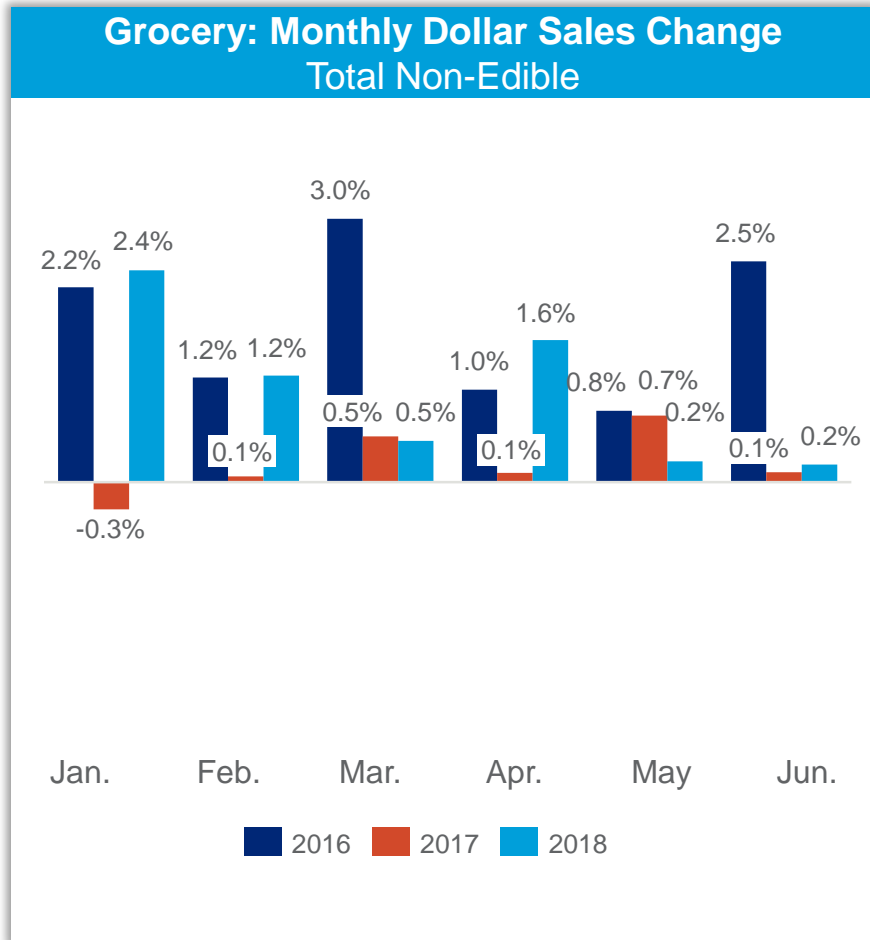
Units Have Been Down Each Month; Anemic Dollar Growth



Source: IRI Market Advantage™, Food Only, Jan.–Jun. 2018, and same periods prior two years

# In Grocery, Non-Edibles Are Struggling

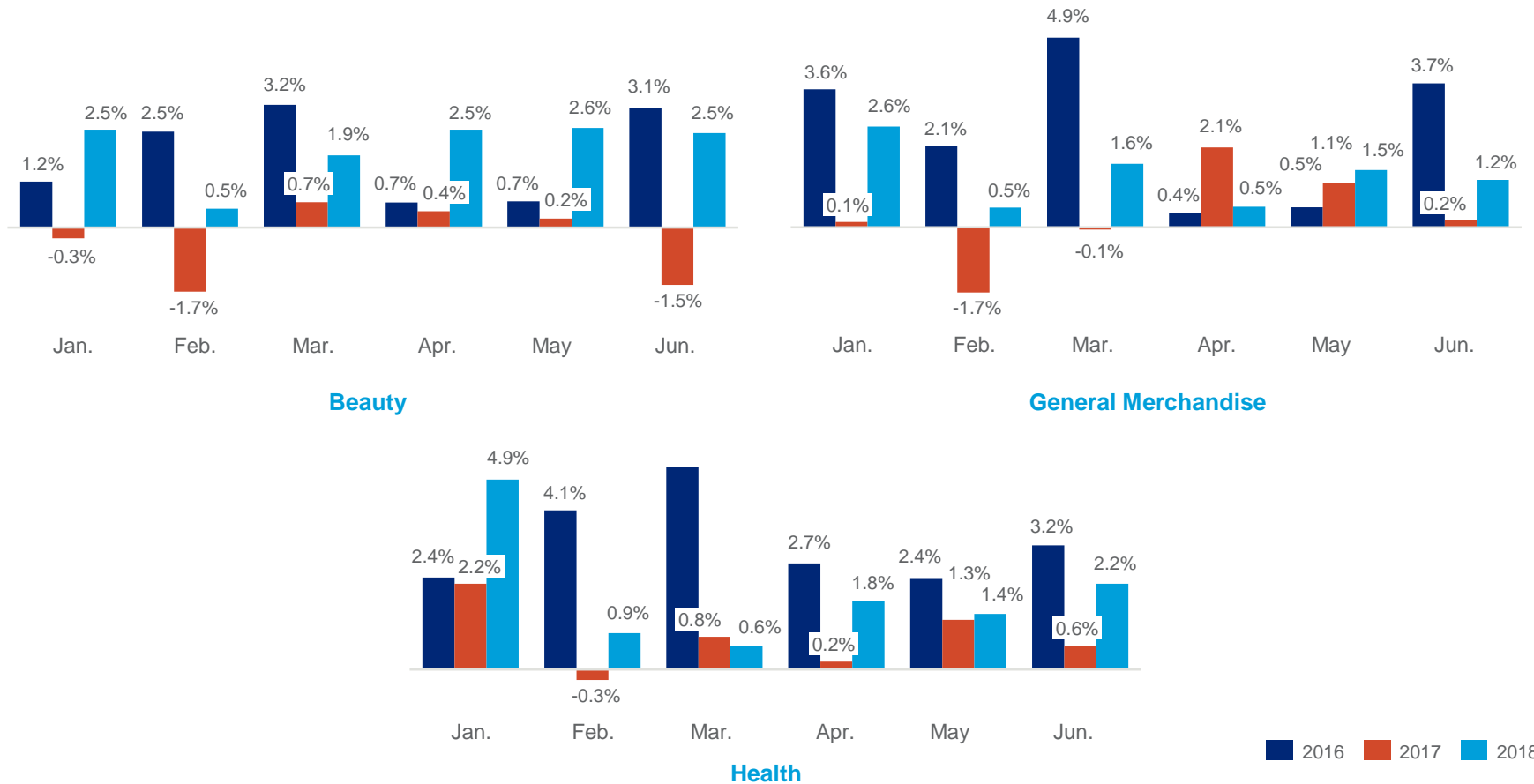
Significant Unit Sales Declines Each Month



Source: IRI Market Advantage™, Food Only, Jan.–Jun. 2018, and same periods prior two years

# Beauty Fared Better Than Other Departments in Q2

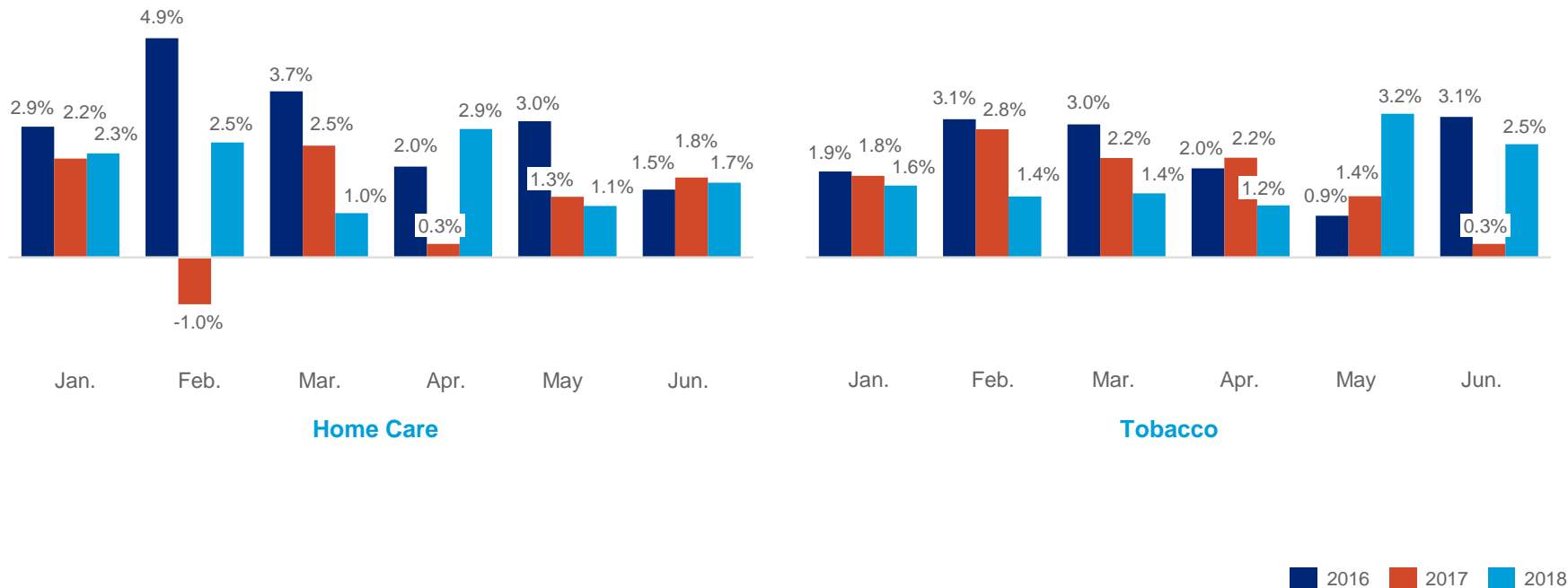
## Monthly Dollar Sales Change by Department



Source: IRI Market Advantage™, MULOC, Jan.–Jun. 2018, and same periods prior two years

# Home Care and Tobacco Performance Has Been Steady in 2018

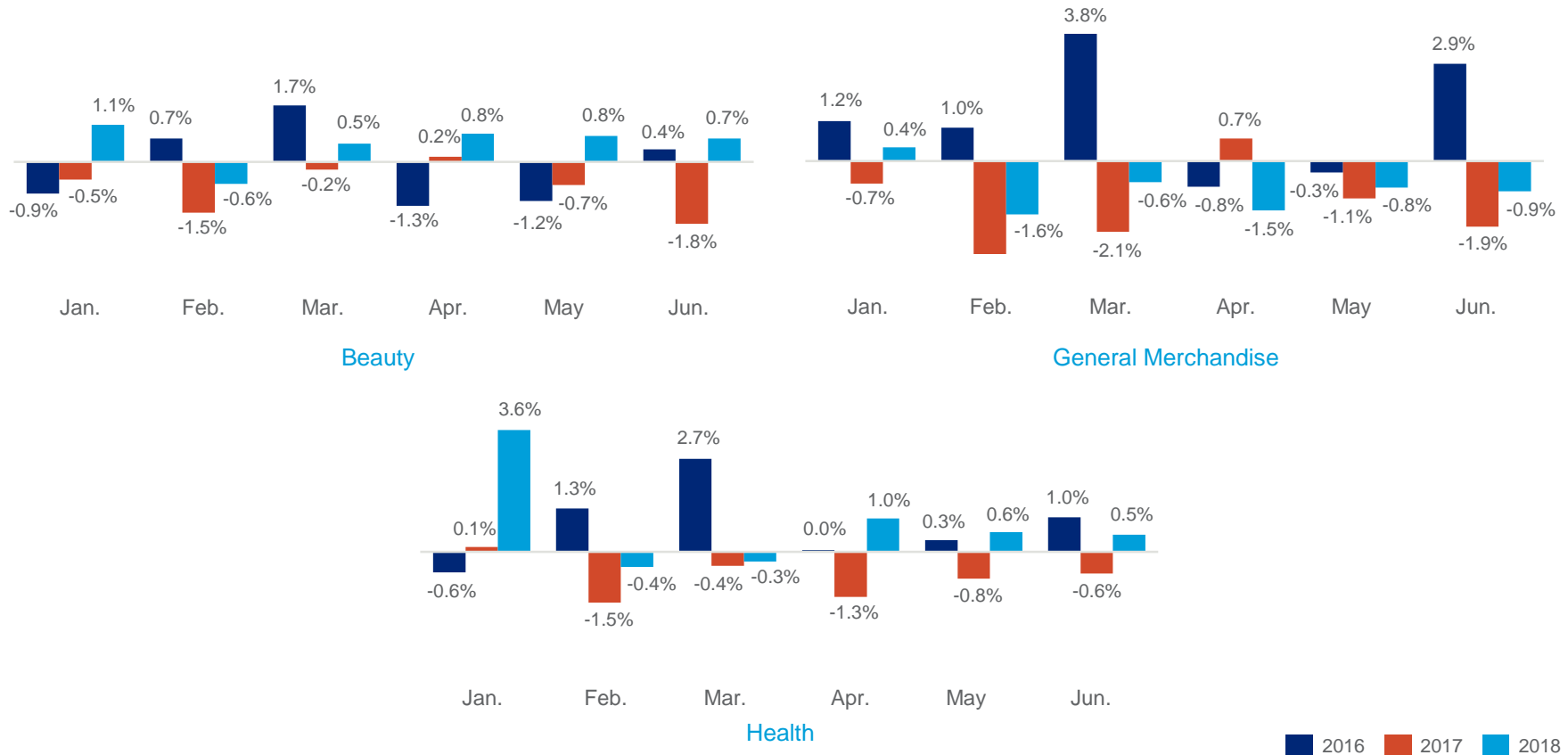
## Monthly Dollar Sales Change by Department



Source: IRI Market Advantage™, MULO, Jan.–Jun. 2018, and same periods prior two years

# In Grocery, Non-Food Units Are Flat or Declining

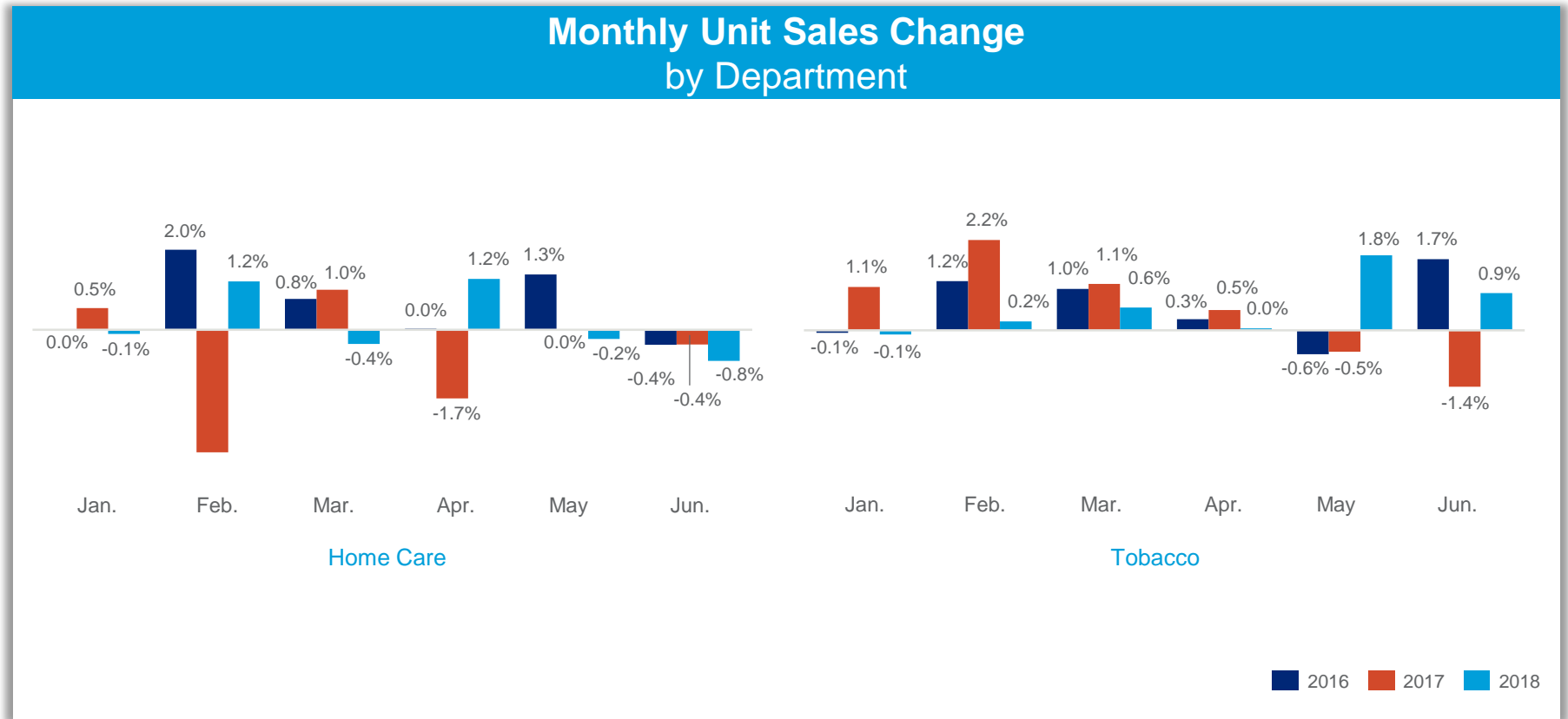
## Monthly Unit Sales Change by Department



Source: IRI Market Advantage™, MULOC, Jan.–Jun. 2018, and same periods prior two years

# Home Care Has Seen Small Increases in February and April

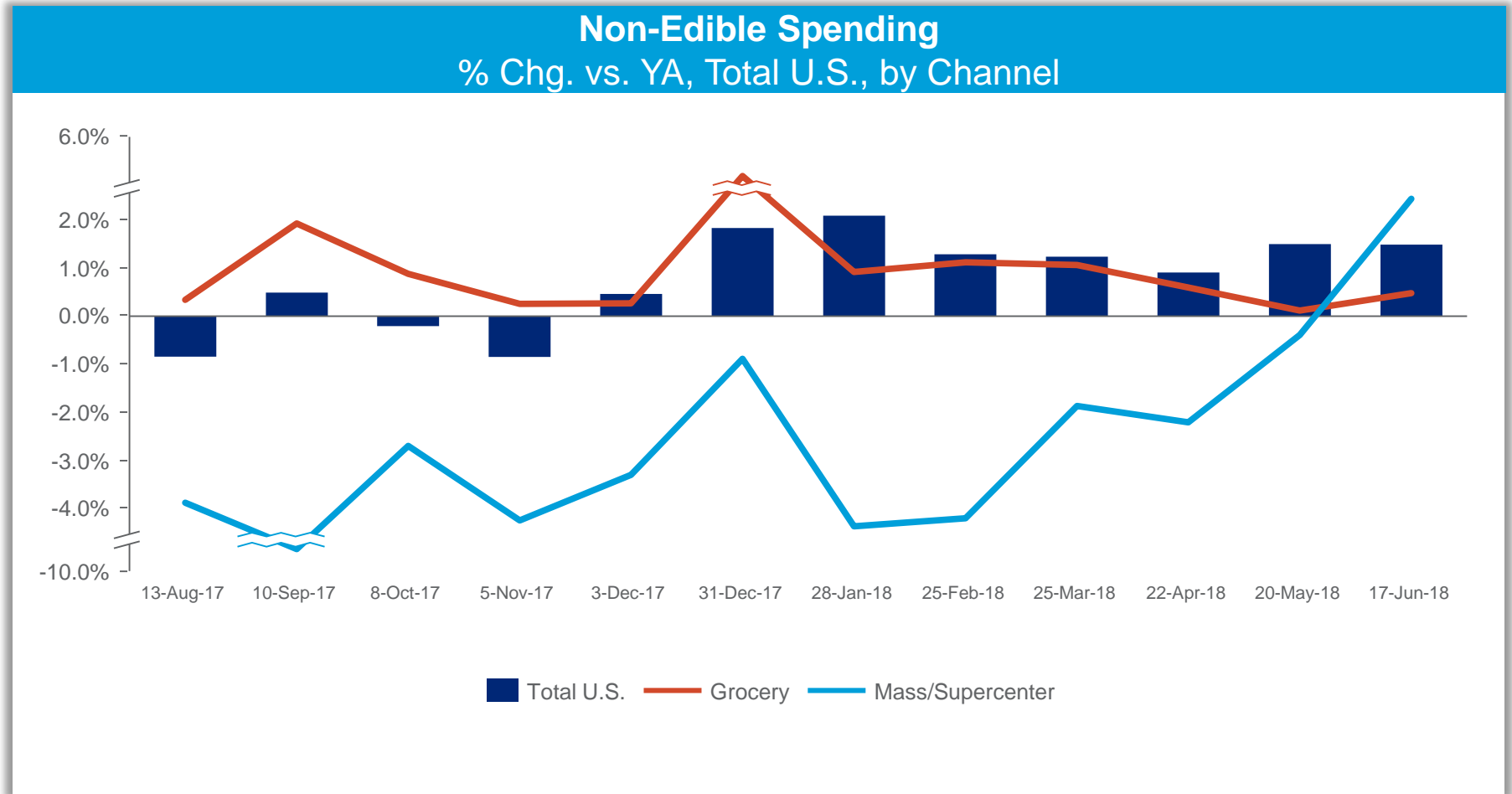
May and June Performance Has Been Weaker Versus Prior Years



Source: IRI Market Advantage™, MULOC, Jan.–Jun. 2018, and same periods prior two years

# Non-Edibles Spending Growth Has Been Low

Mass/Super Is Showing Signs of Change; Grocery Is in Positive Territory, but Weak

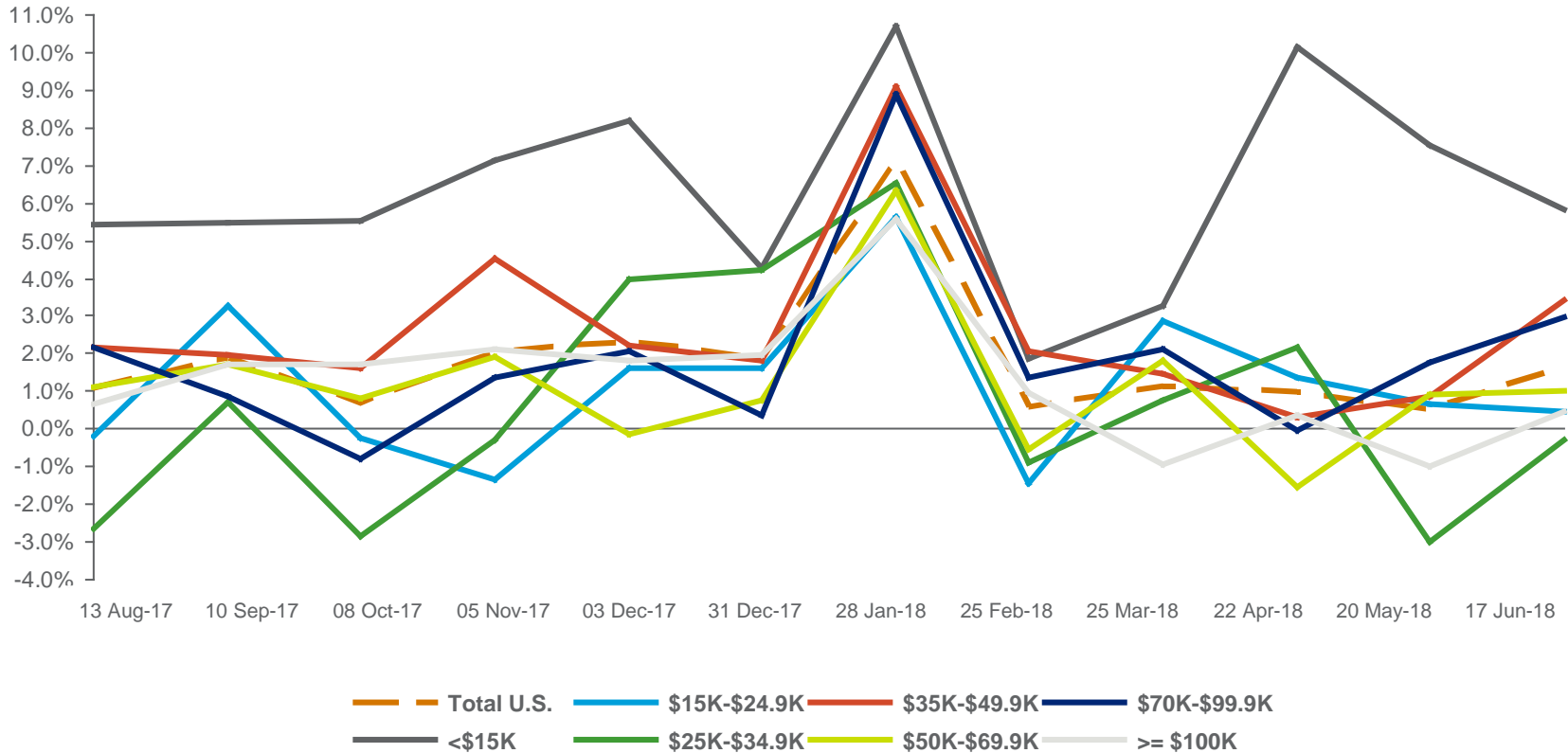


Source: IRI Consumer and Shopper Insights Advantage™, Quad Week Data Ending Jun. 17, 2018, and preceding, NBD aligned



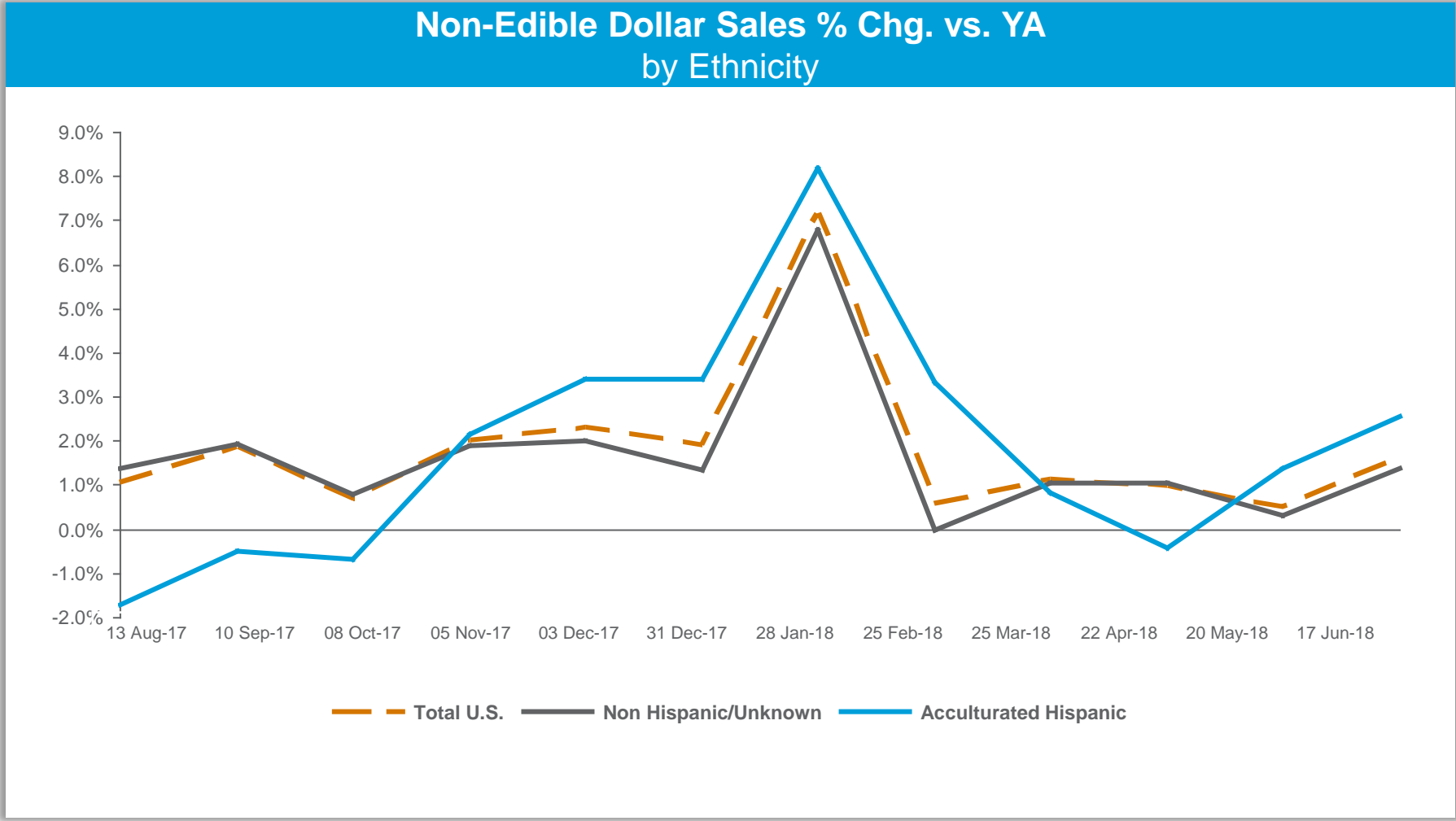
# Non-Edible Spending Is Largely Positive Across Low- and Middle-Income Households

## Non-Edible Dollar Sales % Chg. vs. YA by Household Income



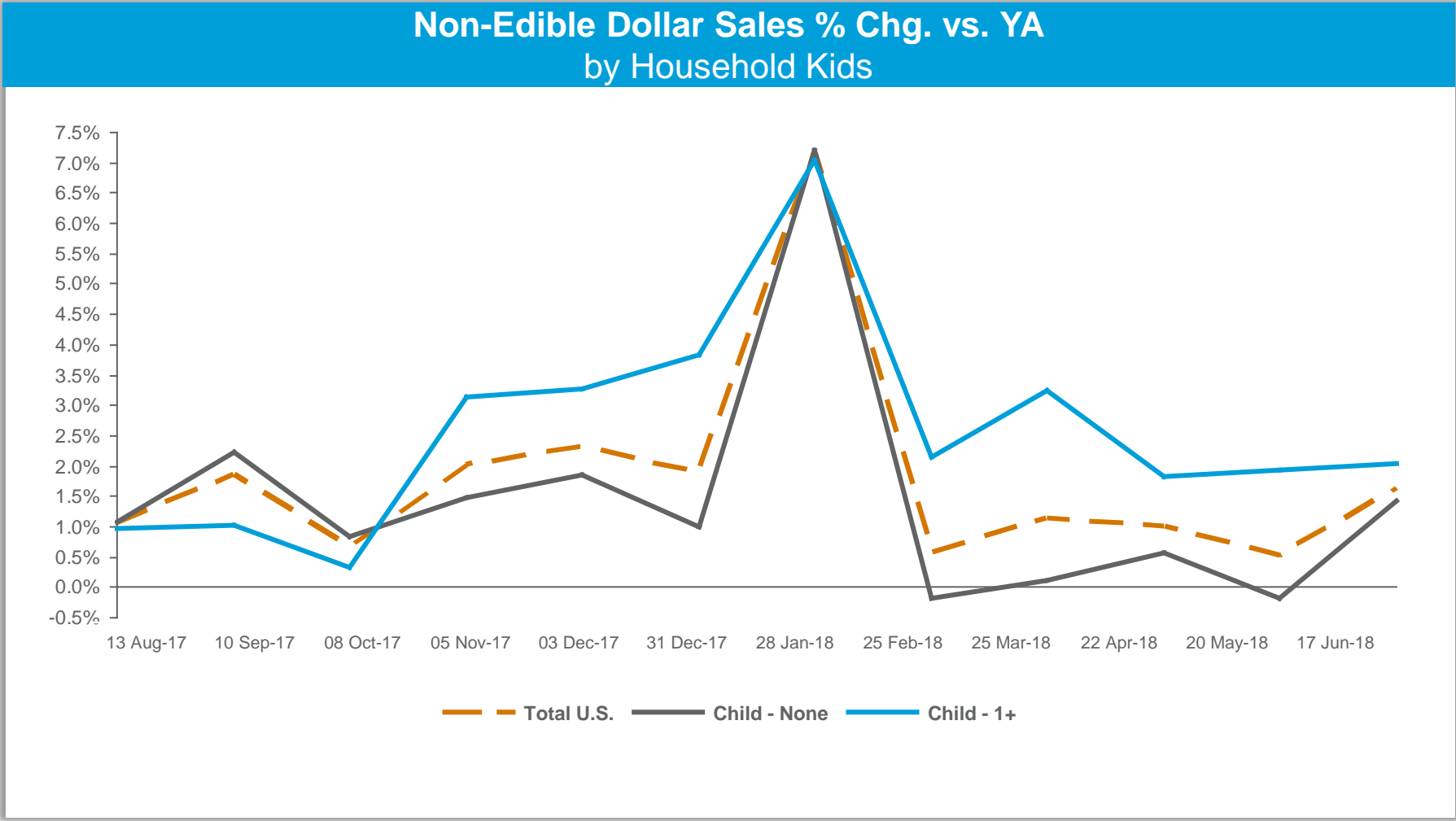
Source: IRI Consumer and Shopper Insights Advantage™, All Outlets, Quad Week Data Ending Jun. 17, 2018, and preceding, NBD aligned

# Acculturated Hispanics Are Generally Outspending on Non-Edibles



Source: IRI Consumer and Shopper Insights Advantage™, All Outlets, Quad Week Data Ending Jun. 17, 2018, and preceding, NBD aligned

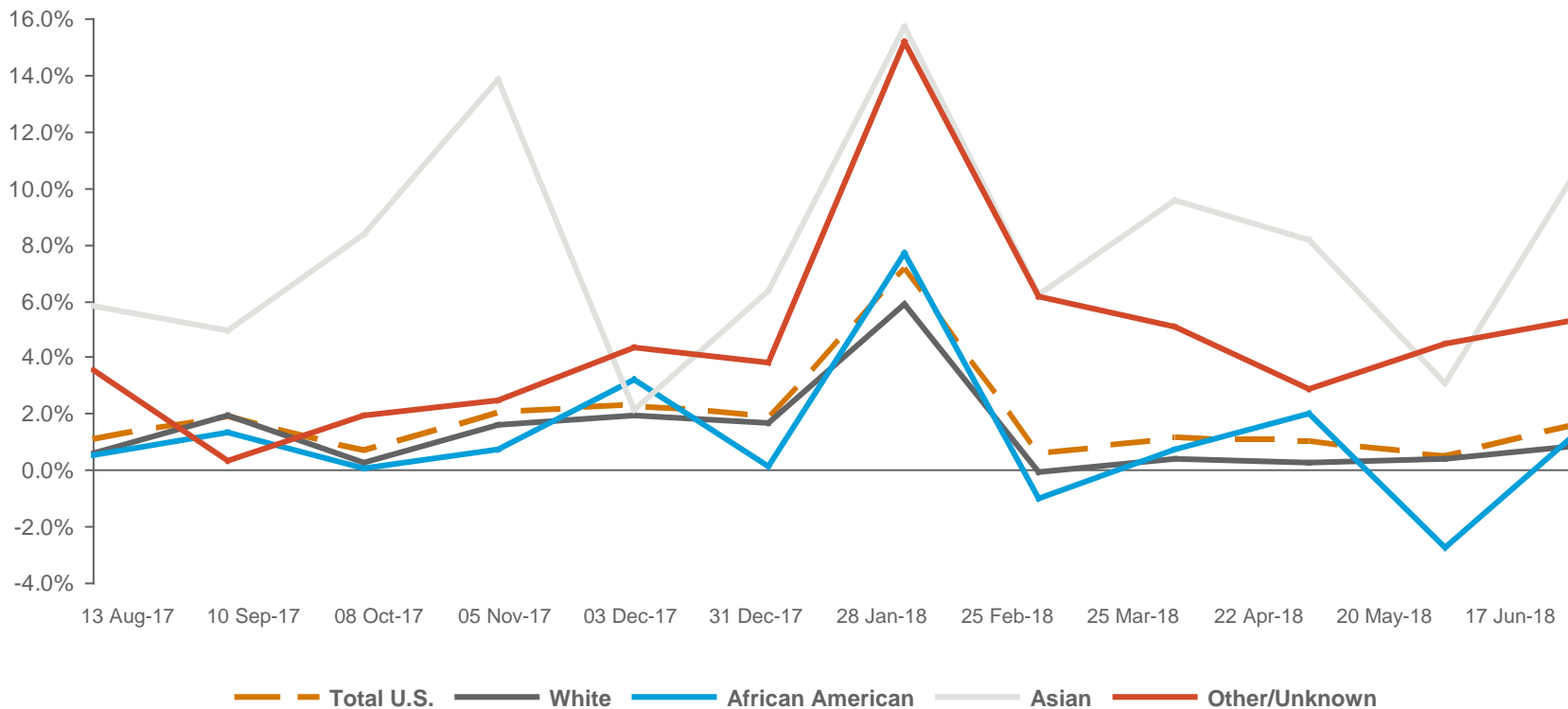
# Non-Edibles Spending Growth Is Stronger Across Households with Kids



Source: IRI Consumer and Shopper Insights Advantage™, All Outlets, Quad Week Data Ending Jun. 17, 2018, and preceding, NBD aligned

# Spending Growth Is Stronger Than Average Among Asian Consumers Versus Other Ethnicities

**Non-Edible Dollar Sales % Chg. vs. YA, by Race**

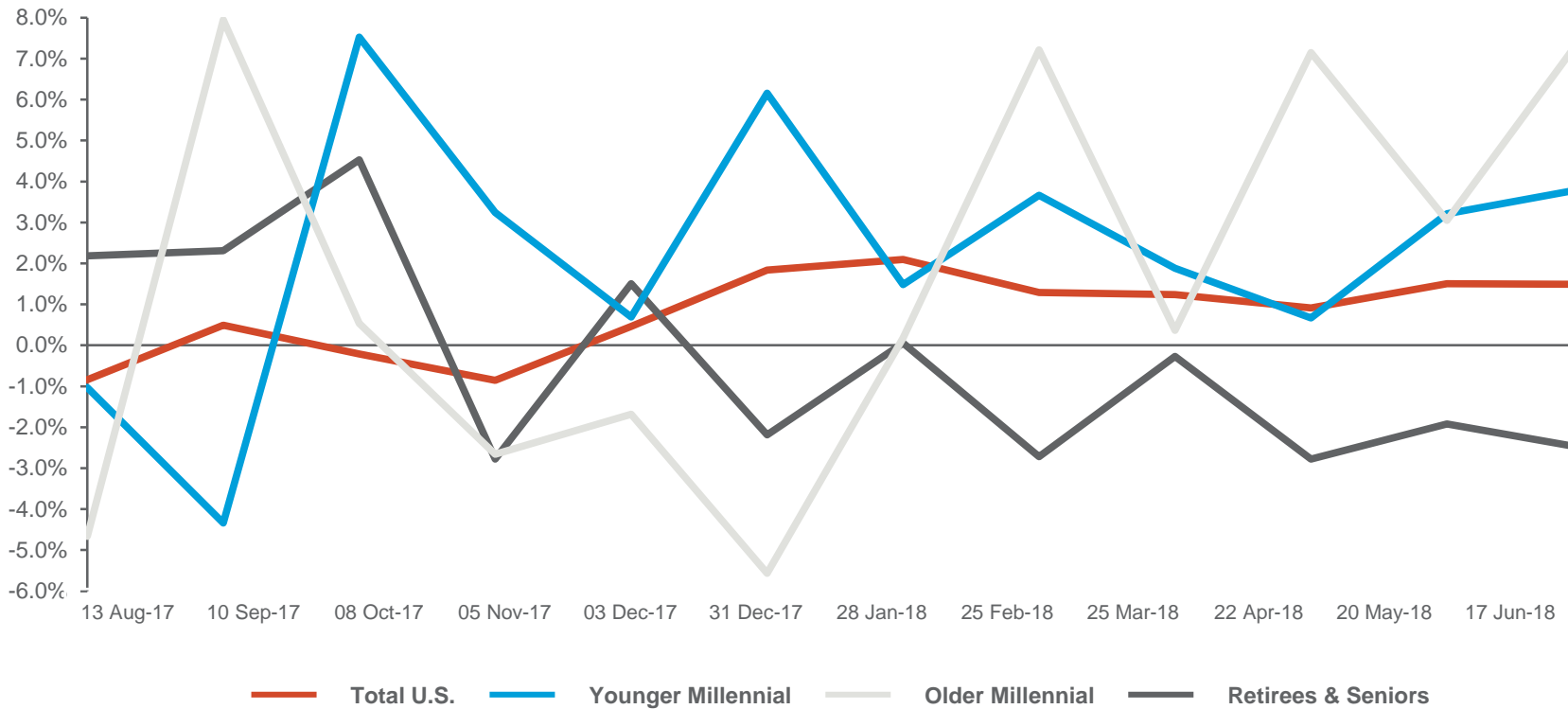


Source: IRI Consumer and Shopper Insights Advantage™, All Outlets, Quad Week Data Ending Jun. 17, 2018, and preceding, NBD aligned

# Non-Edible Spending Is Volatile

But, Largely Positive Across Younger Millennials; Seniors Are Struggling

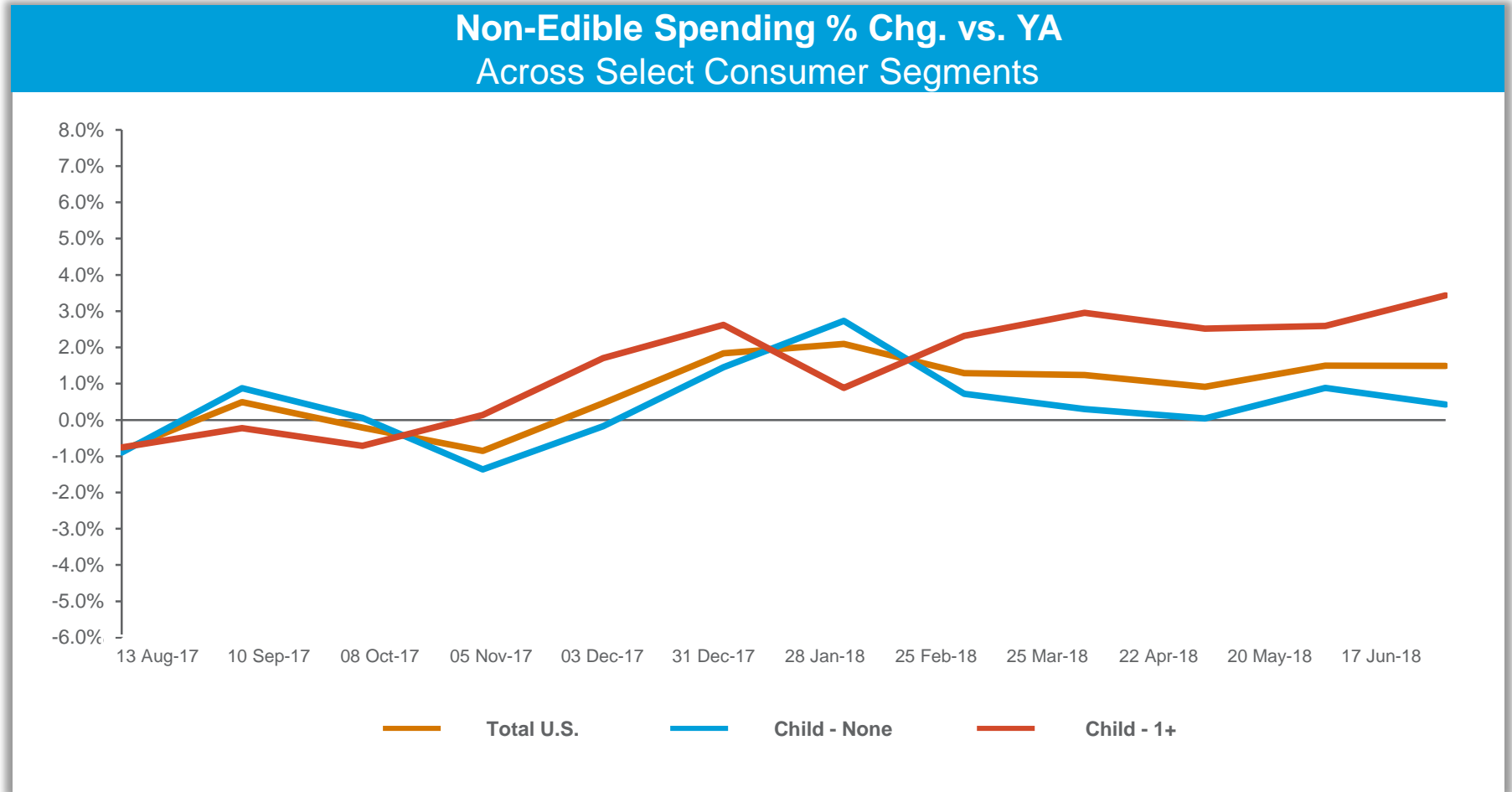
Non-Edible Spending % Chg. vs. YA,  
by Generation



Source: IRI Consumer and Shopper Insights Advantage™, All Outlets, Quad Week Data Ending Jun. 17, 2018, and preceding, NBD aligned

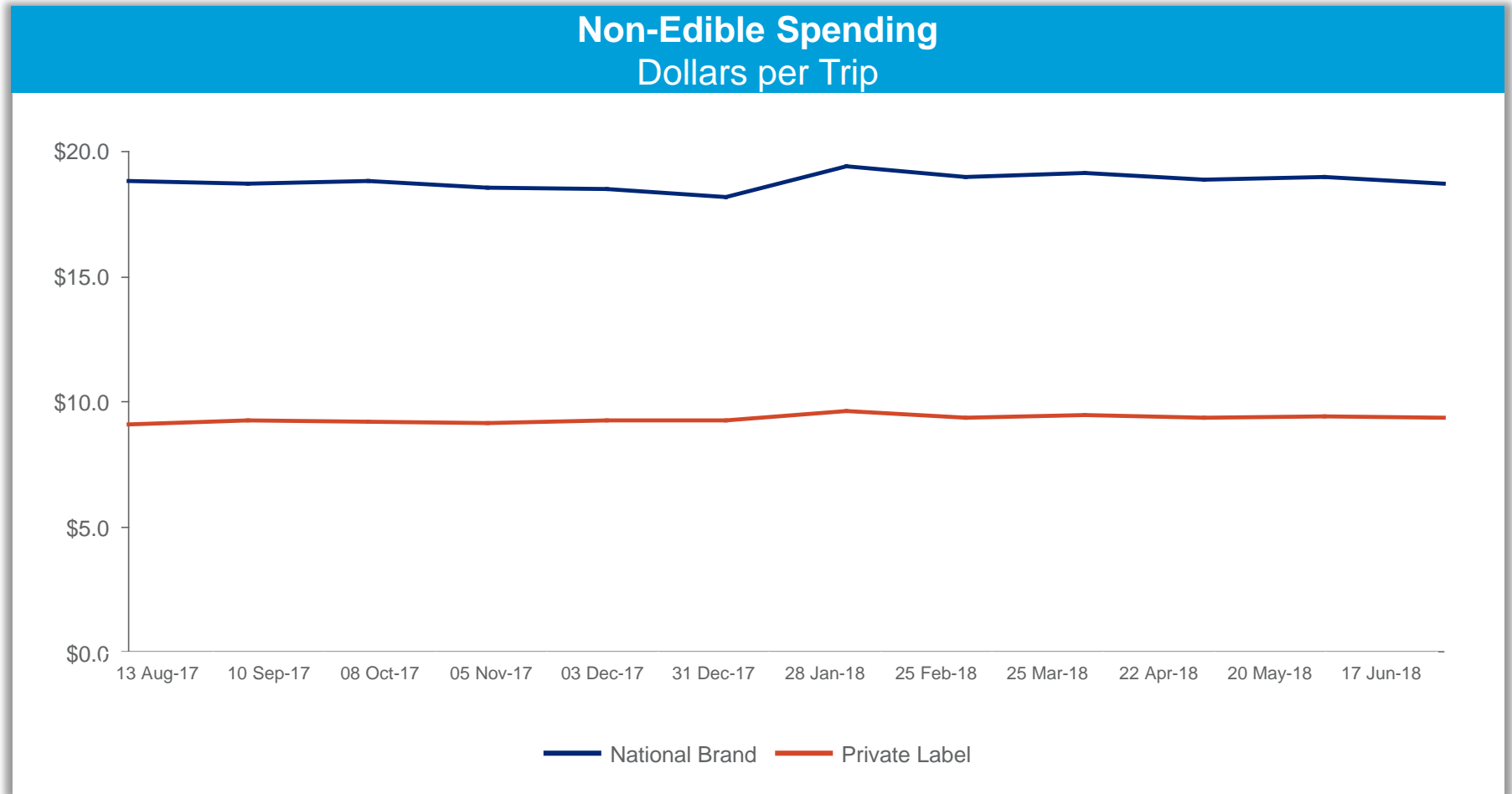
# Non-Edible Spending Growth Among Multi-Child Households Is Slow and Volatile, but Generally Above Average During the Past Year

Spending Growth in Households with Kids Has Also Largely Outperformed



Source: IRI Consumer and Shopper Insights Advantage™, All Outlets, Quad Week Data Ending Jun. 17, 2018, and preceding, NBD aligned

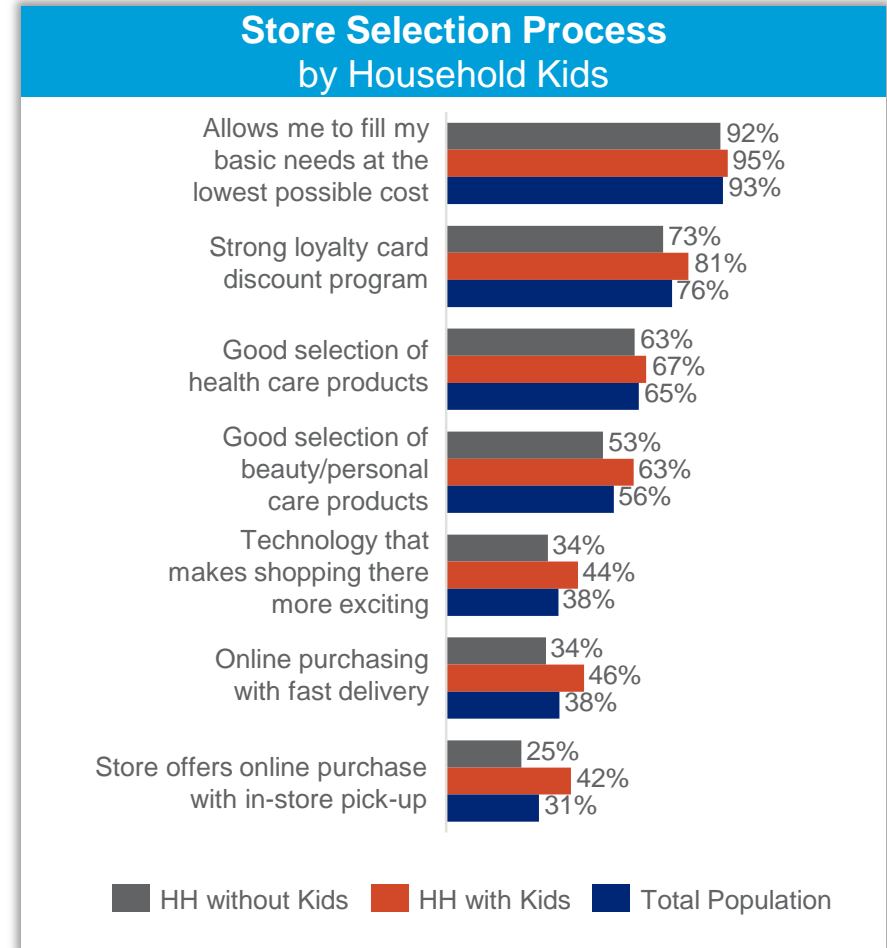
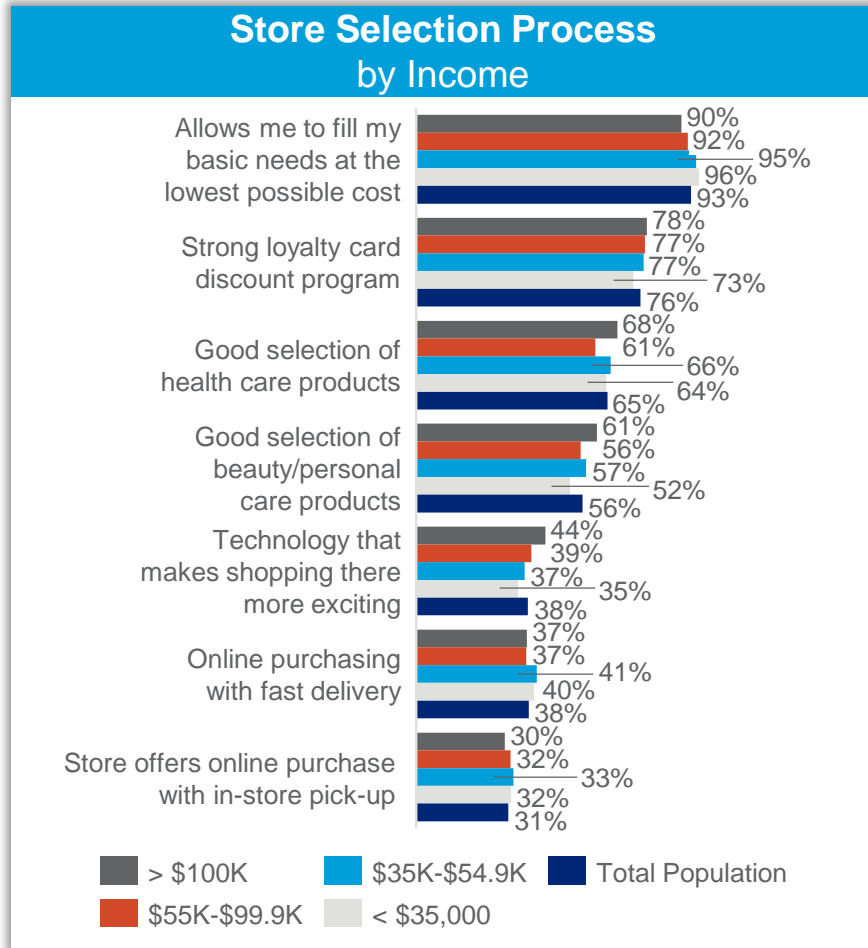
# National Brand Non-Edibles Spending Has Outpaced Private Label



Source: IRI Consumer and Shopper Insights Advantage™, All Outlets, Quad Week Data Ending Jun. 17, 2018, and preceding, NBD aligned

# Store Selection Considerations Are Rated Similarly Across Income Sectors

## Households with Kids Are More Swayed by Technology That Brings Excitement and Convenience

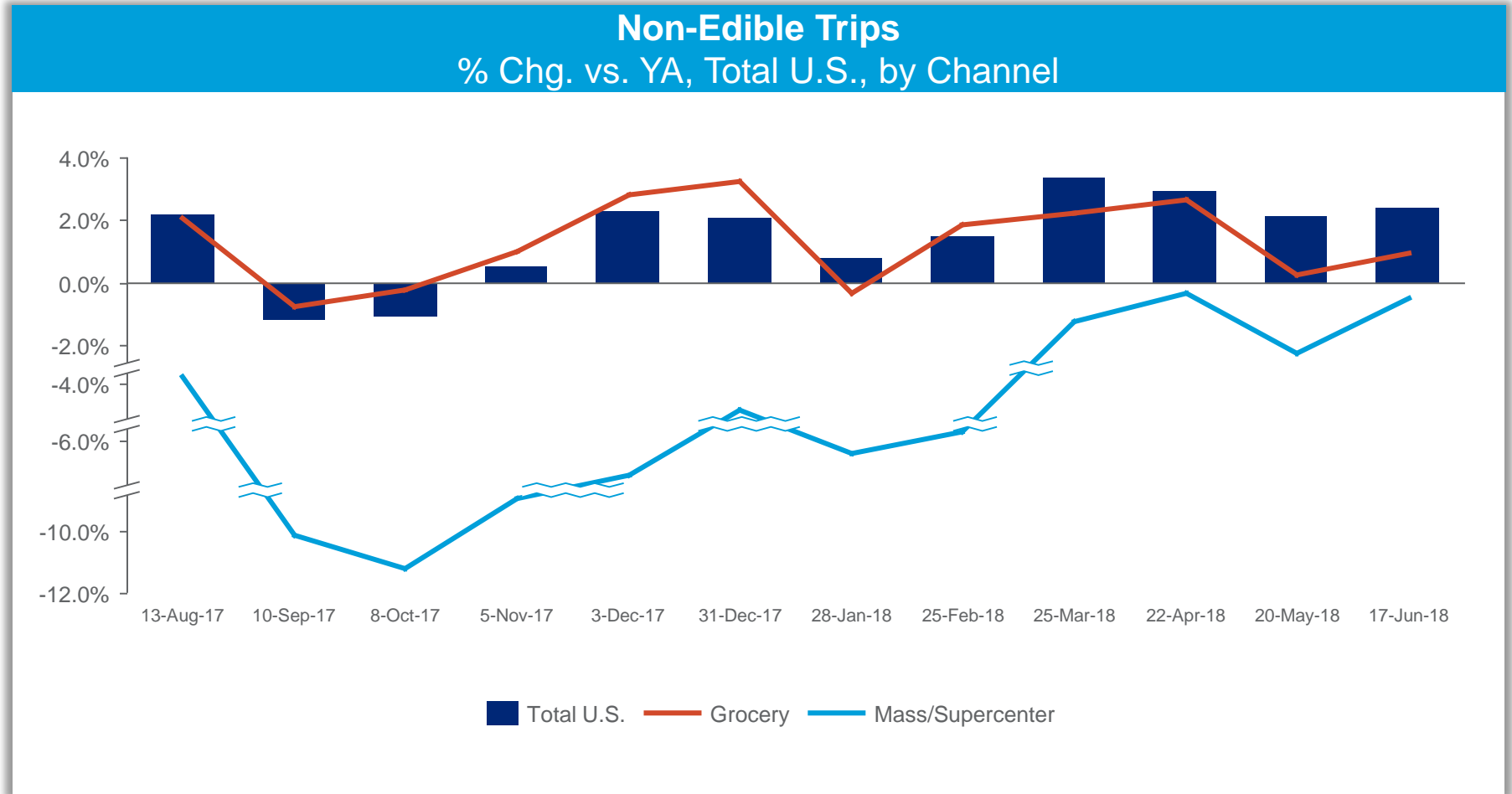


Source: IRI Consumer Connect, Q2 2018



# Trips to Mass/Super Continue to Decline

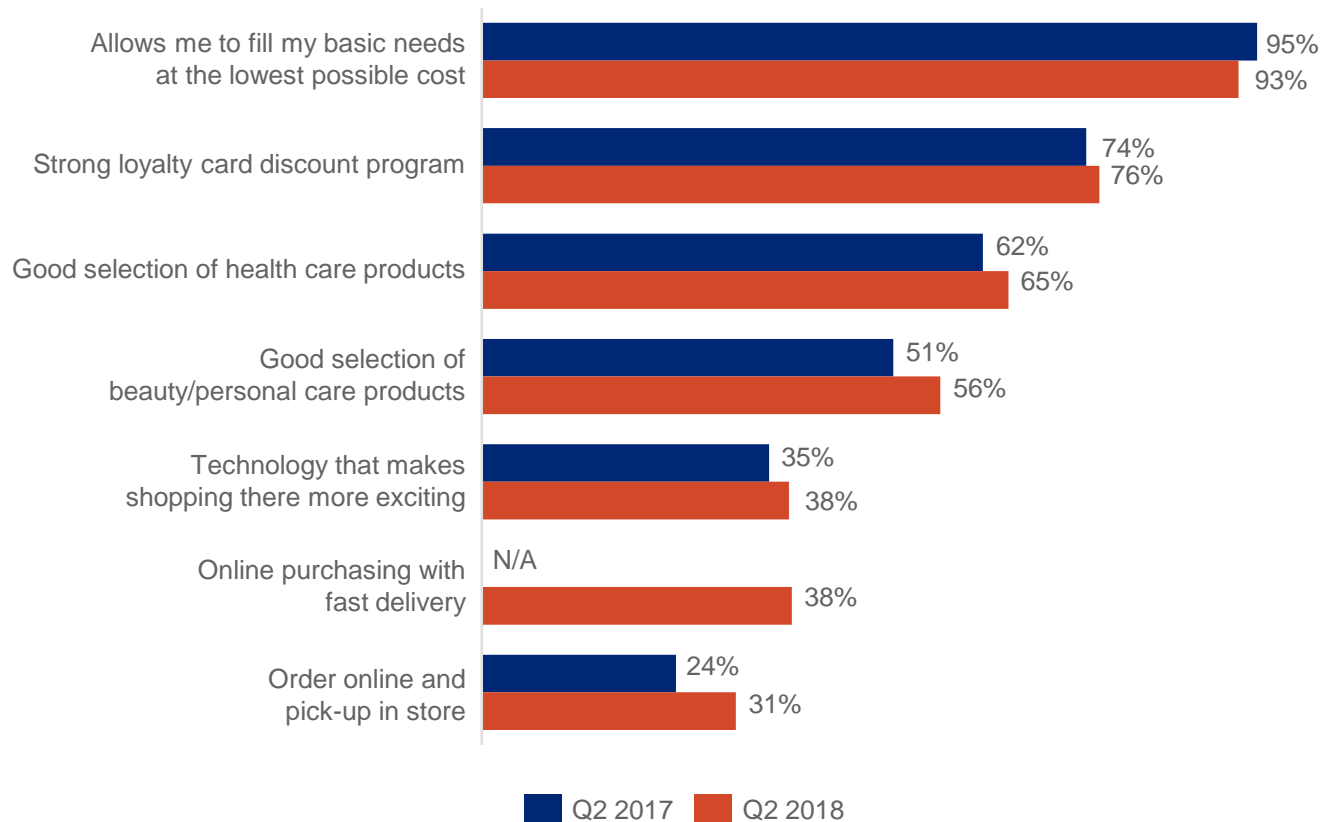
## Grocery Trip Trends Are Weak but Largely Positive



Source: IRI Consumer and Shopper Insights Advantage™, Quad Week Data Ending Jun. 17, 2018. and preceding, NBD aligned

# Grocers Can Attract Shoppers with Good Use of Technology and E-Commerce Options

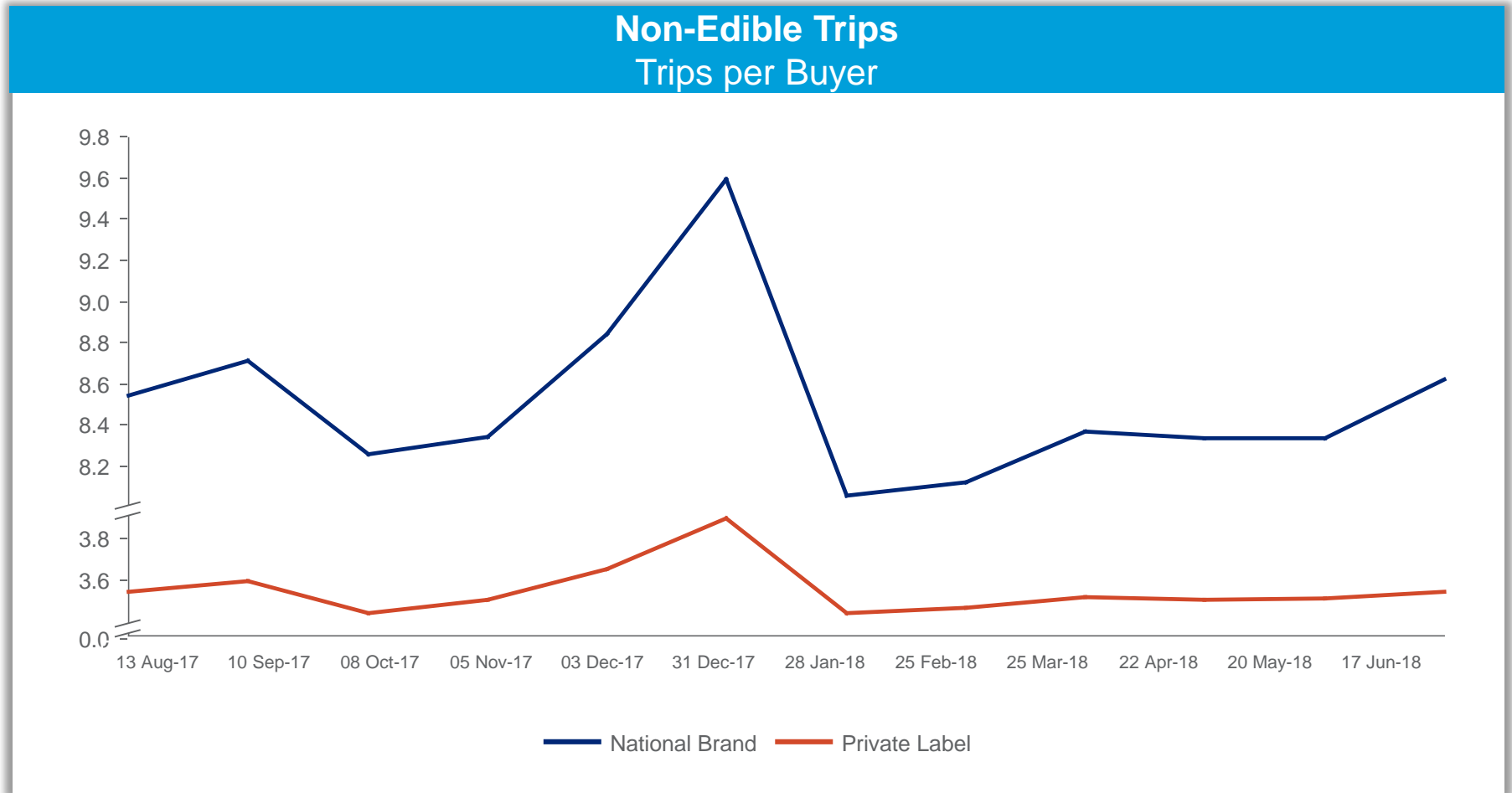
## Store Selection Process Total Population



Source: IRI Consumer Connect, Q2 2017 & Q2 2018

# Non-Edible National Brand Trips Are Seeing Upward Movement

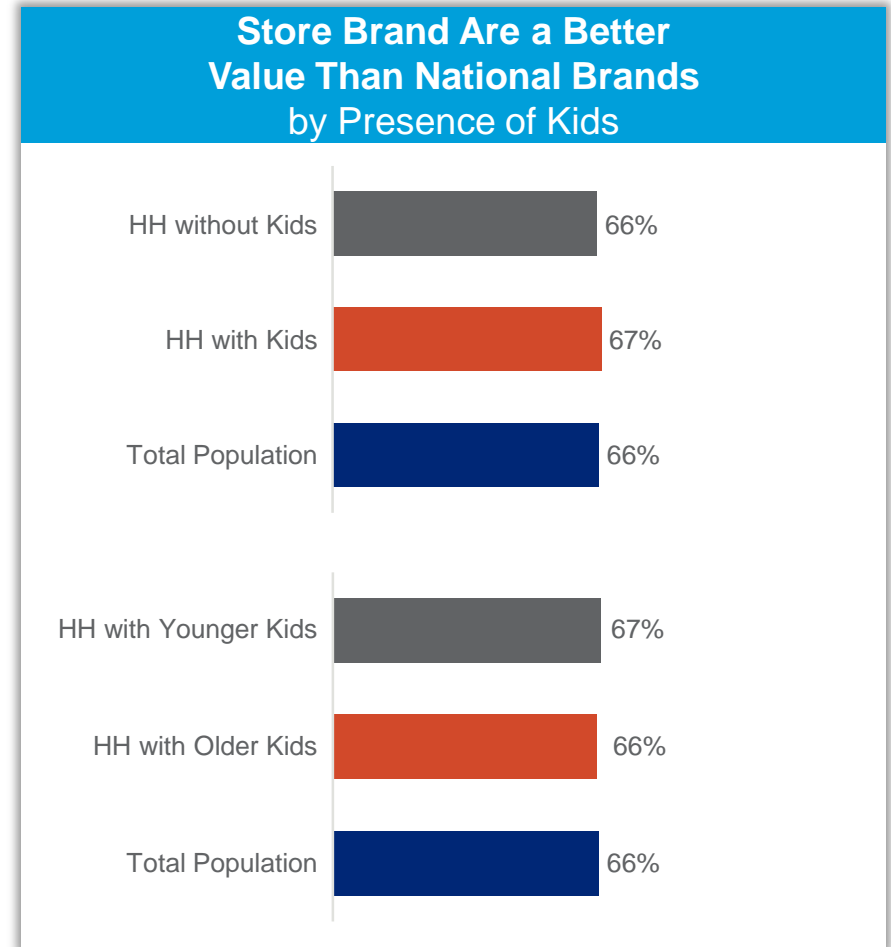
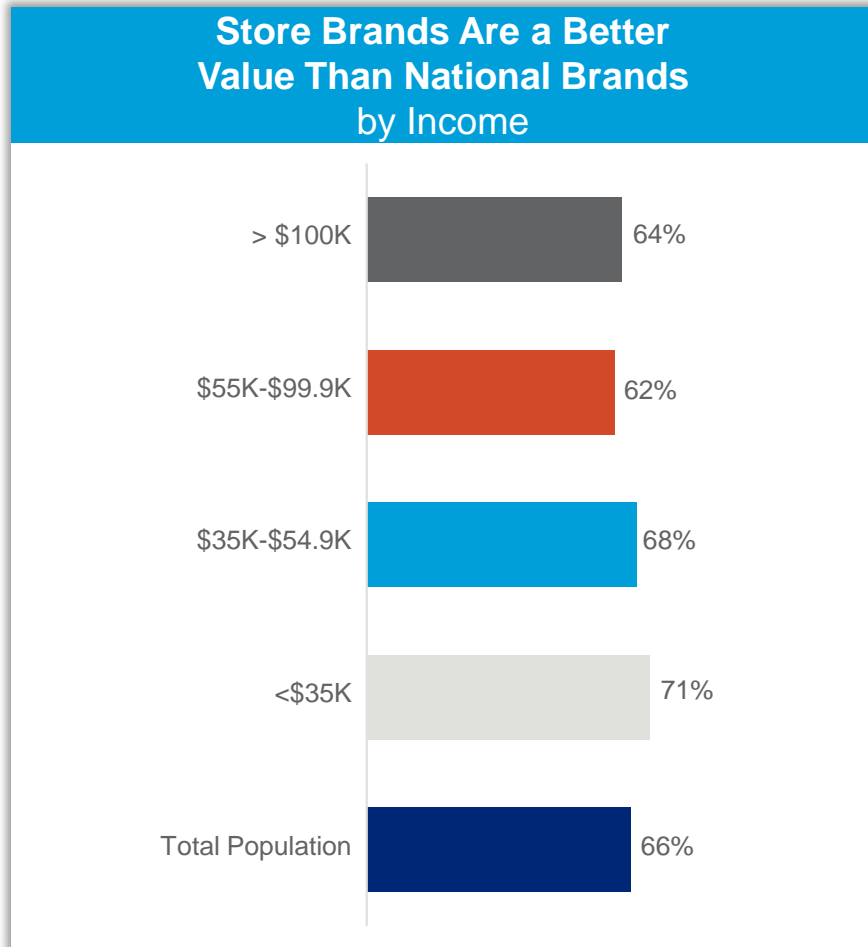
## Private Label Trips Remain Flat



Source: IRI Consumer and Shopper Insights Advantage™, All Outlets, Quad Week Data Ending Jun. 17, 2018, and preceding, NBD aligned

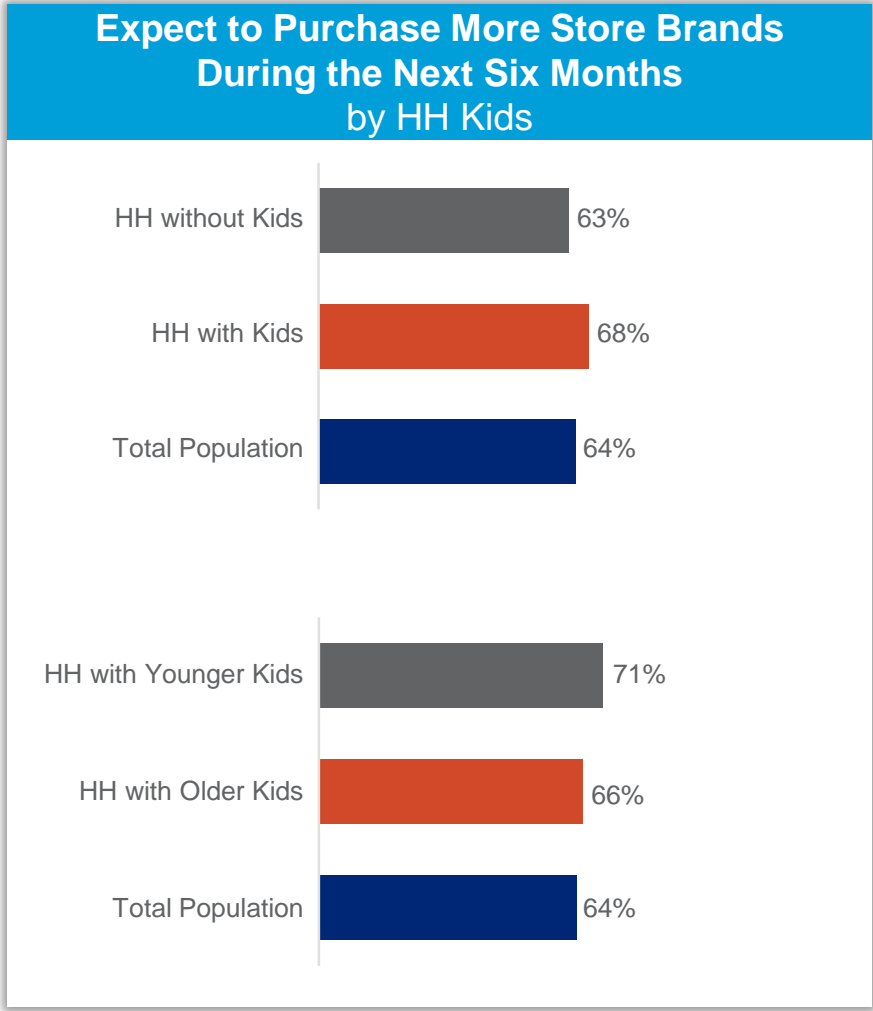
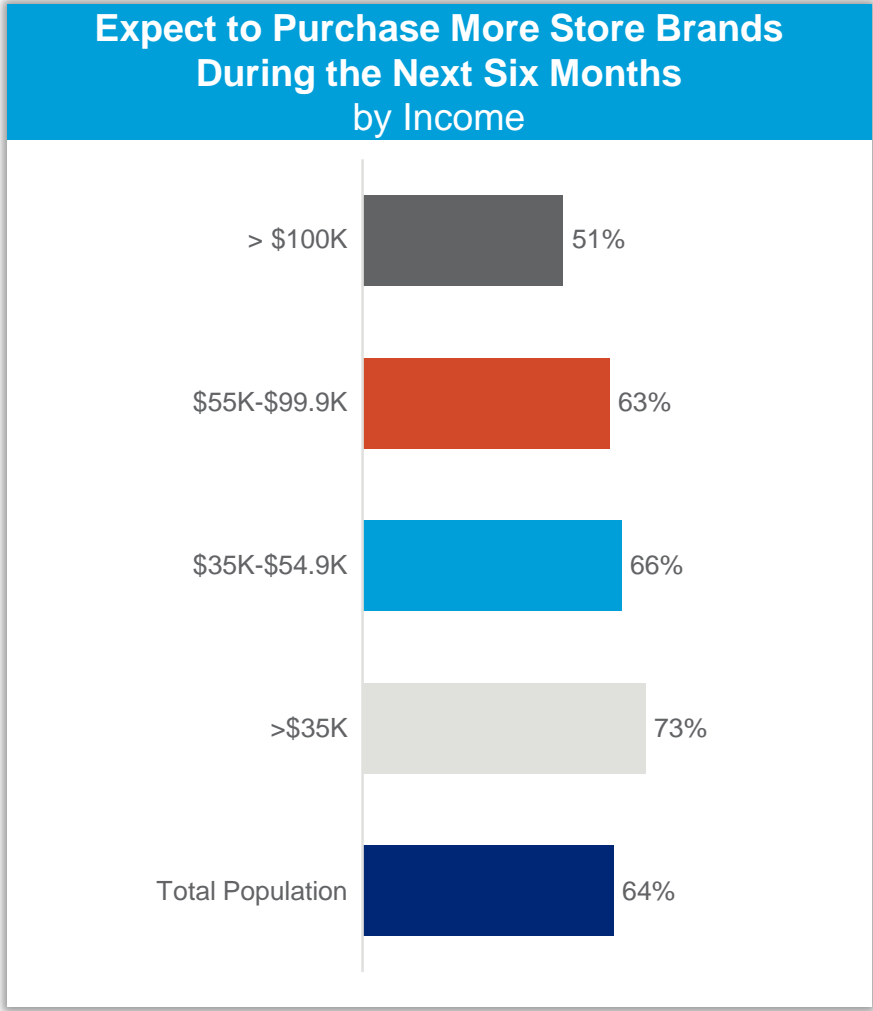
# Store Brands Are Seen as a Good Value Across Income and Household Sectors

And, Can Play a Critical Role in the Value Proposition



Source: IRI Consumer Connect, Q2 2018

# About Two-Thirds of Consumers Plan to Increase Store Brand Purchase Activity During the Next Six Months



Source: IRI Consumer Connect, Q2 2018



# Projections for 2018 Are Good; Unemployment Will Continue to Fall

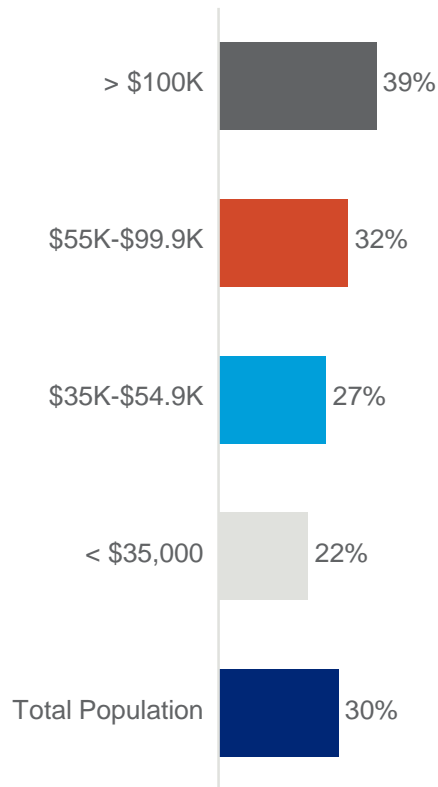
Sales and GDP Will Climb; Inflation Is Expected to Hit 2.7% by Year-End

Economic Measure	2014	2015	2016	2017	2018P
GDP (% chg.)	4.4%	4.0%	2.8%	4.1%	5.2%
Unemployment (% , SA)	6.2%	5.3%	4.9%	4.4%	3.8%
Consumer Price Inflation (% Chg.)	1.6%	0.1%	1.3%	2.1%	2.7%
Retail Sales (% Chg.)	4.2%	2.6%	2.9%	4.7%	4.7%
Residential Permits, Total (Mil)	4.2	4.7	4.8	5.1	5.6

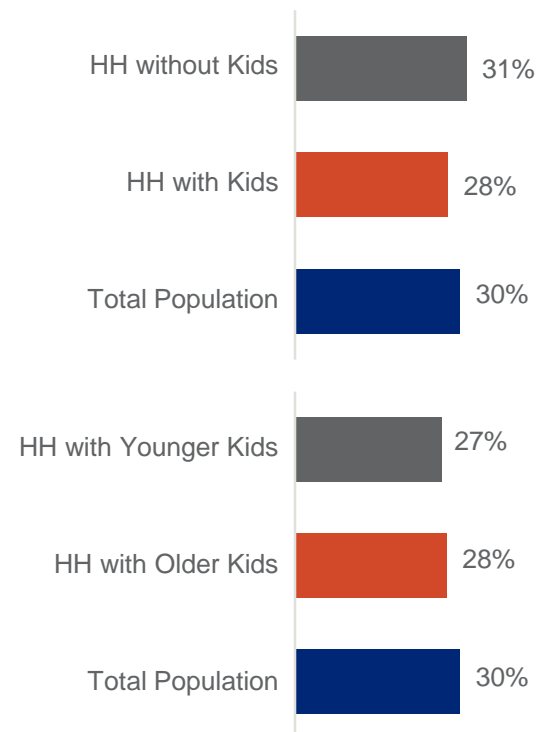
Source: Moody's

# Premium Brands Are Ripe for Growth, Particularly Across Wealthier Shoppers

## Expect to Purchase More Premium Brands During the Next Six Months by Income



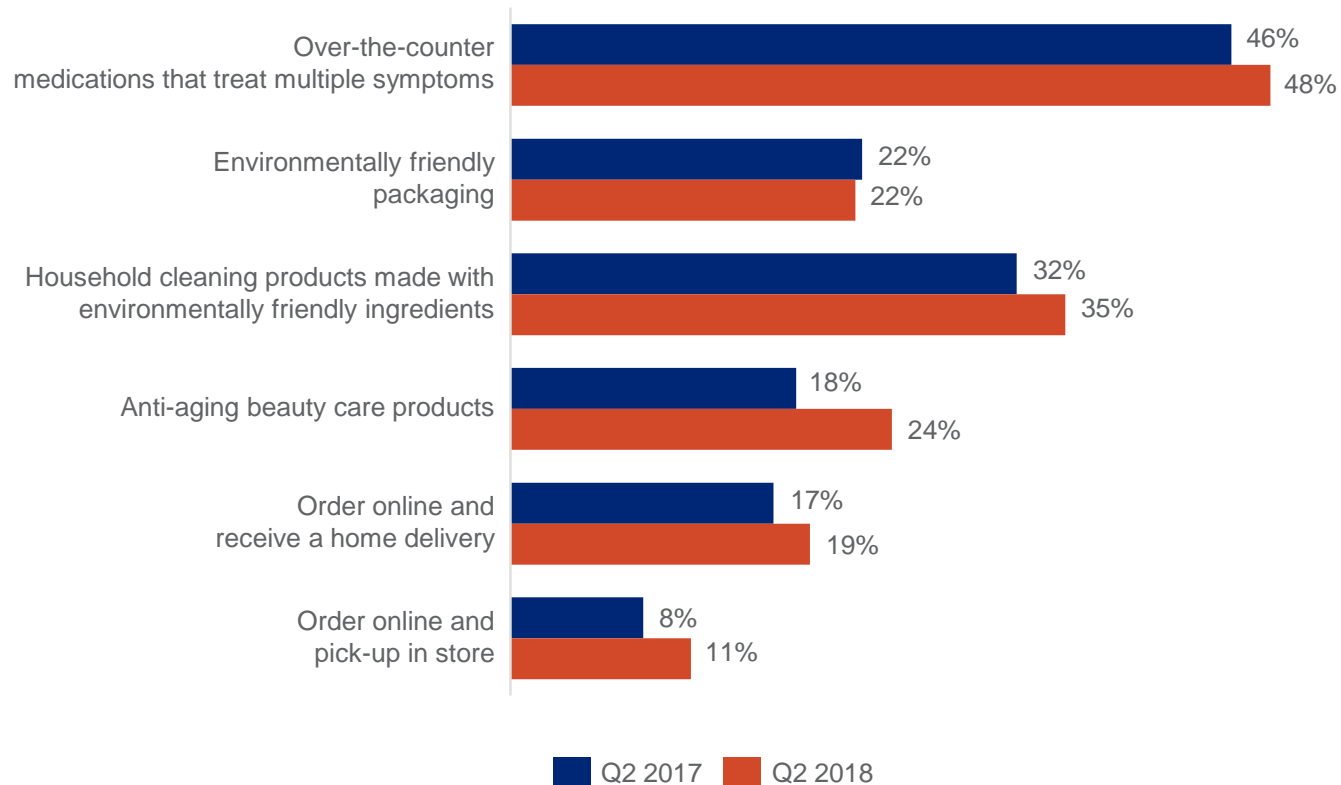
## Expect to Purchase More Premium Brands During the Next Six Months by Household Kids



Source: IRI Consumer Connect, Q2 2018

# Wellness and Technology-Driven Convenience Incent Consumers to Pay More

## Consumer Willingness to Pay a Premium for Total Population

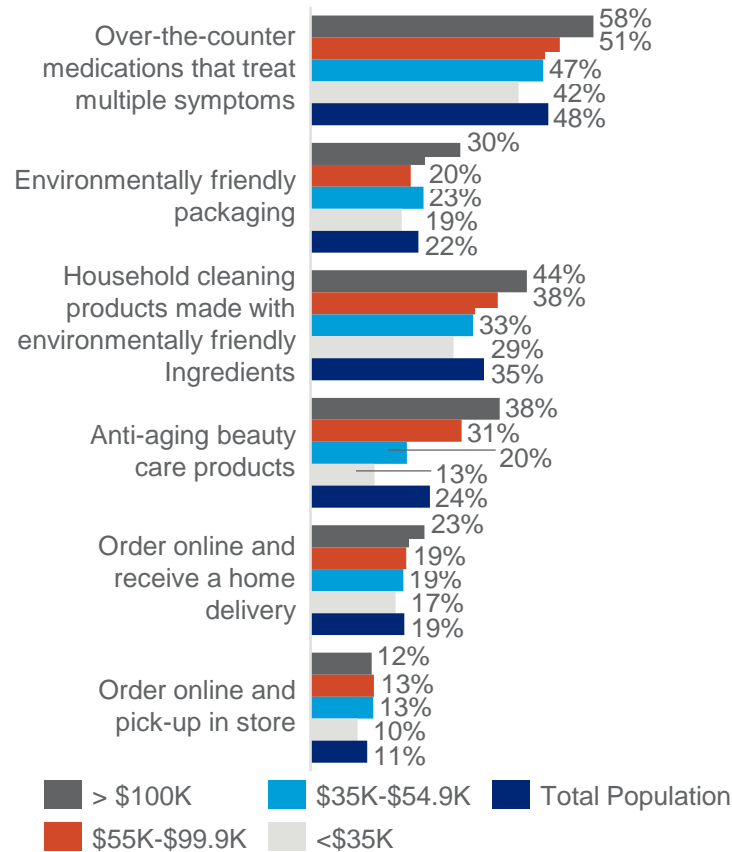


Source: IRI Consumer Connect, Q2 2017 & Q2 2018

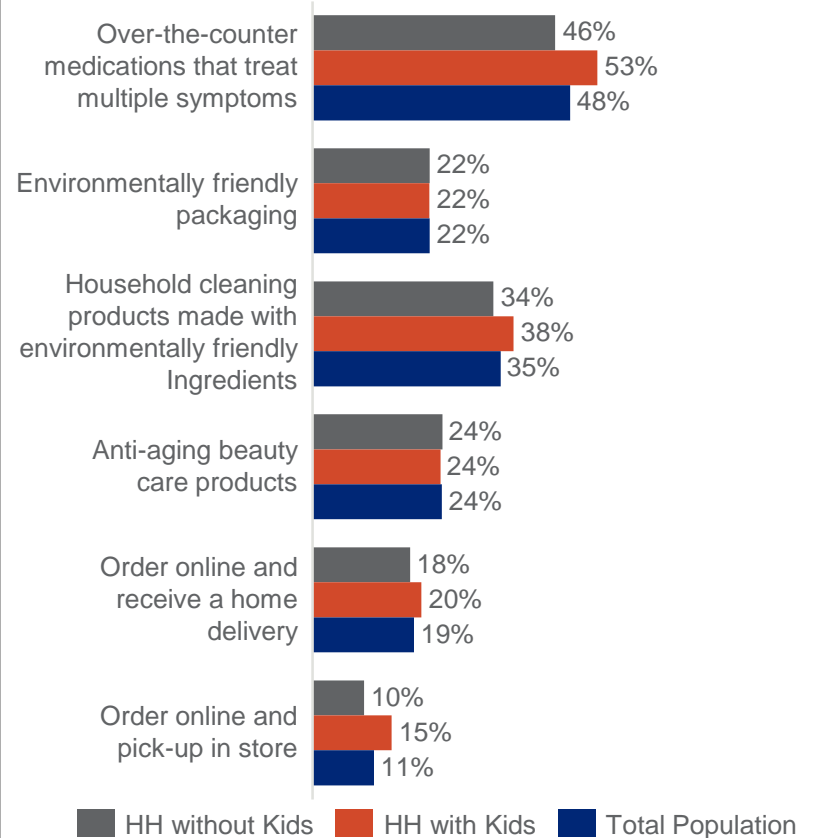


# Wealthier Shoppers and Household with Kids Are Key Targets for Upselling Against These Attributes

## Consumer Willingness to Pay a Premium for by Income



## Consumer Willingness to Pay a Premium for by Household Kids



Source: IRI Consumer Connect, Q2 2018