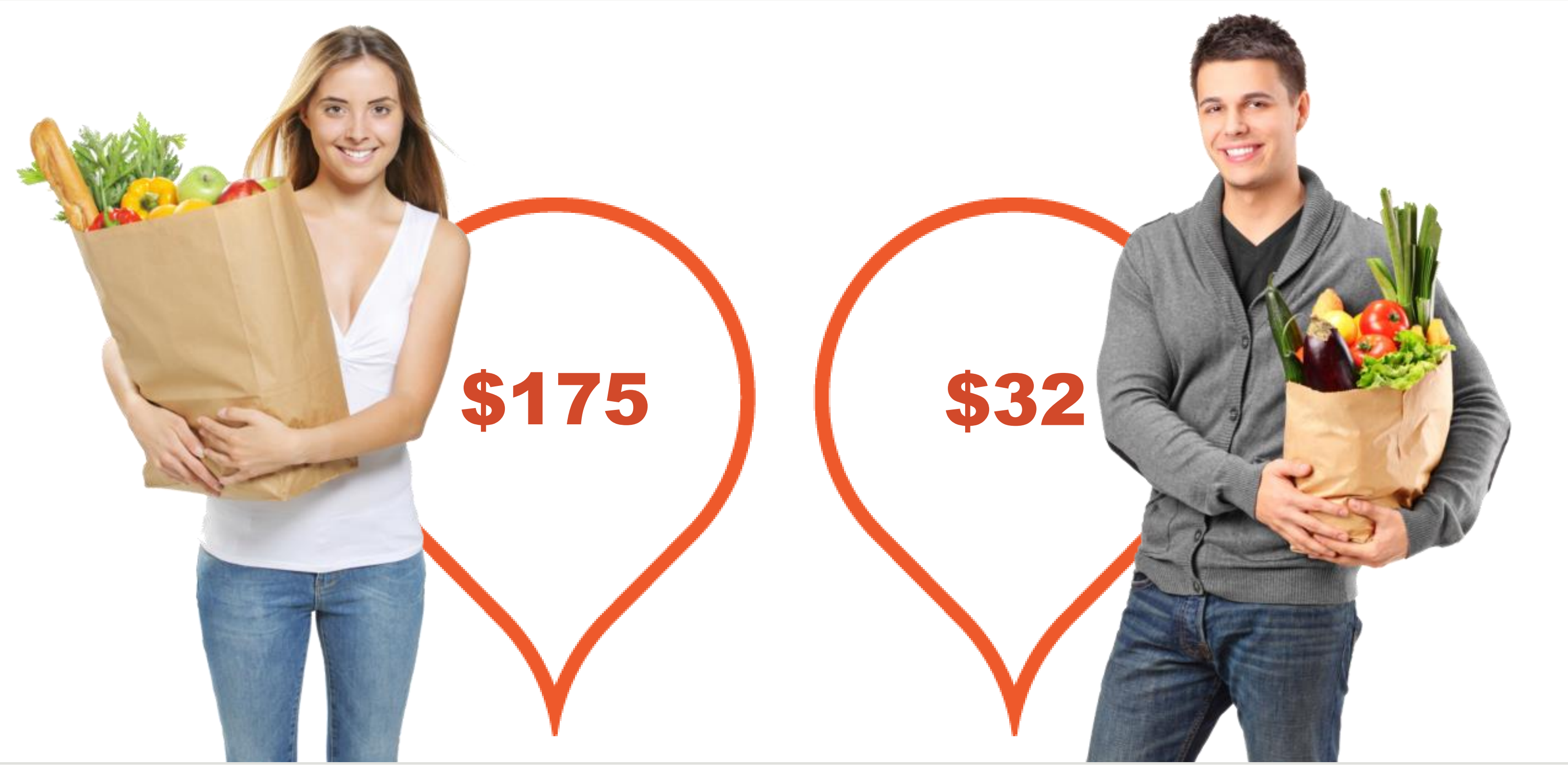
WHITE PAPER



Targeting High-Value Shoppers in CPG & Retail

The World's Smartest Companies are Driving Share Through a Disciplined Approach Focused on the Shoppers Who Matter Most

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Two different shoppers enter a store and spend $50 on food, beverages and other products for their homes. Which one is the high-value shopper? In the past, many decision makers would treat these shoppers equally, but a few more details reveal important differences in their value to the store.

One shopper is a 25-year-old, single woman. The $50 purchase is her "stock-up" for the week, as she often meets friends after work for dinner. The other shopper is a 35-year-old mother and head of household. She is shopping for her three children, and the $50 purchase is one of several "fill-in" trips that supplement her weekly stock-up, which often runs close to $150.

From this analysis, it's clear that the mother is the high-value shopper, right? Well, maybe. There's still much more to know about these two shoppers. It turns out that the mother is on a fixed income, and the $250 or so per week she spends is roughly 40 percent of her income, with purchases largely centered on private-label and sale items. The other is a newly minted attorney with a six-figure income who tosses high-margin meats, wines and other upscale products into her basket.

Who has more headroom for growth?

In today's consumer-packaged-goods (CPG) and retail world, there seems to be a laser-like focus on appealing to the shopper and understanding their every want and need, sometimes before they do. This is a trap. Trying to appeal to all shoppers is hardly a "laser-like" focus; it's more like casting a net: throw it out enough times and you're bound to snag something.

While it's clear that CPG and retail decision makers must possess an almost forensic knowledge of their shoppers, what they do with that knowledge is often less clear. The critical step after gaining knowledge of shoppers is redefining the high-value shopper, that is, the shopper that matters. These shoppers spend the most in the total market, across retail banners, in a given CPG category, subcategory or brand. To place the right bets, leaders should define shopper value as a function of both current sales and rest-of-market sales.

Leveraging granular shopper data to attract, retain and expand relationships with these high-value shoppers has become an imperative for four reasons:

- Shoppers are rapidly changing the way they make decisions
- Growth depends on stealing share
- High-value shoppers are, well, valuable
- The ability to target individual shoppers is more real than ever

Shoppers Are Rapidly Changing the Way They Make Decisions

The pace of change in shopper purchasing behavior is accelerating. The iPod shipped one million units in its first eight quarters of sales. For the iPhone, that number was twenty million. The iPad? Sixty-five million.[1] Consumer adoption of Apple's technology is simply a proxy for the market's propensity to change behavior at an increasingly rapid rate.

In addition, channel boundaries are increasingly becoming blurred. Consider these statistics: Fifty-seven percent of consumers shop and research online before making an in-store purchase. Sixty-eight percent of consumers prefer brands that are available through multiple channels. The average shopper consults 10.4 sources before making a purchase, which is double the number of sources just two years ago.[2] The expansion of multi-channel retail is nearing the point that it can be called "table stakes." Consumers are looking for more immersive, rich and relevant experiences from the retailers they patronize, including those in the mass, drug, club and grocery channels. The pace of change and convergence of channels have rapidly remade the way shoppers make buying decisions. The speed at which this change has occurred is dizzying.

[1] Apple, Q1 2012

[2] Forrester Consulting & Google Shopper Sciences

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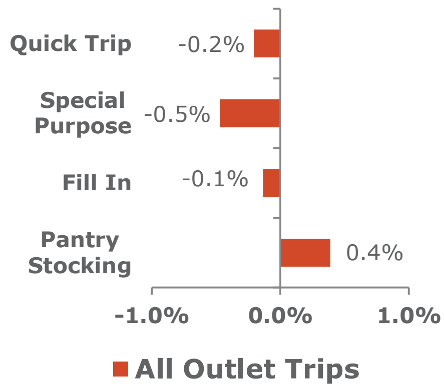
Growth Depends on Stealing Share

Analysis of IRI data reveals that CPG trip frequency and average spend per trip are both declining, but shifting shopping patterns are driving mixed results at the channel level.[3] Inflated gas prices and a slow and unsteady economic recovery have left many consumers struggling. Even during high levels of promotional activity, CPG prices remain high, and CPG unit sales growth is quite low. The key takeaway is that the "trip pie" is not expanding.

In fact, IRI's analysis shows that outlet trips are down across three of four trip missions that IRI tracks, and up only slightly for the fourth, "pantry-stocking." As trip volume declines, the impact of each individual trip grows. Thus, driving trips among the right mix of shoppers is critical. The implication for retailers and brands alike is that stealing share from competitors is the only way to grow.

All Outlet Trips (% Change vs. Year Ago)



Source: IRI Consumer Network: Q3 2012

At the macro level trip frequency and average spend are declining

% of Channel Sales Represented by Top 20% of Customers (2012)

Source: IRI Consumer Network: Q4 2012

Sales are heavily concentrated amongst the most valuable customers...

High-Value Shoppers Are, Well, Valuable

In a battle for share, winning companies are increasingly focused on their highest-value shoppers. Surprisingly, however, many CPG and retail marketers still need to be convinced that high-value shoppers matter more to revenue growth, profitability and market share. The following graphic illustrates the percent of channel sales that the top 20 percent of spending shoppers drive.

In the grocery channel, nearly half of sales are driven by just one-fifth of shoppers. That ratio is even more pronounced in the club, mass and especially drug channels, where the top quintile of shoppers drives a full 70 percent of sales.[4] In fact, this observation is not new. The concentration of sales among high-value shoppers in each of these channels has remained relatively unchanged over time.

[3] IRI, National Consumer Panel: Q3 2012

[4] IRI, National Consumer Panel: Q4 2012

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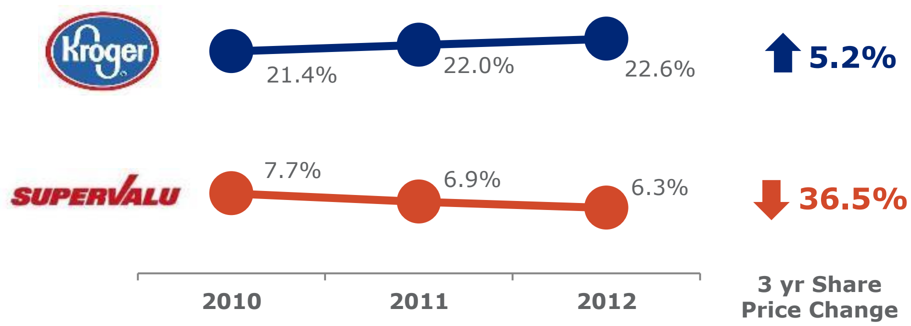
If it's clear that high-value shoppers are driving sales, it's also important to analyze how retailers have fared in attracting, retaining and expanding those relationships and the impact of that focus on their share price. Let's take a look at two sample retailers in the grocery channel. The chart below examines the three-year trend of their share of the industry's best shoppers (which we define, for this purpose, as the top 20 percent of all U.S. grocery shoppers across retail banners).[5]

Comparing the performance of two grocery firms is very telling. Kroger is driving a full one-fifth of its business from these "best shoppers" (again, those in the top 20 percent across retail banners), while SuperValu is just over six percent. Kroger's focus on extracting more from this limited pool of high-value shoppers has, in turn, driven an increased concentration of sales among this group. In contrast, Supervalu's share of sales from this same group has declined. The share prices of both companies, in part, reflect those outcomes. While there are obviously dozens of factors, both internal and external, that drive shareholder return, the impact of a focus on high-value shoppers cannot be ignored when comparing the performance of one retailer with that of another. Together, these analyses show that, at an industry level, sales are heavily concentrated among

Share of Total Sales by Top 20% Customers



Source: IRI Consumer Network 2010 – 2012.
Note: Top 20% Customer defined as those that spend the most at Walmart, Kroger, Target, Safeway, Supervalu and Dollar General

Two retailers show the impact top tier customers have on shareholder value

high-value shoppers and that improving share of those high-value households is critically important to driving organic growth and shareholder value.

The Ability to Target Individual Shoppers Is More Real Than Ever

Total shopper value is a function of both current (store sales) and potential (rest-of-market spending) contributions. Most retailers already have access to the data required to analyze the first component of that formula, which is current sales within their own banner's stores. However, few retailers and really no one in the CPG manufacturing community truly understand the second component, potential sales—until now.

IRI ProScores™ estimates spend for each and every U.S. household across thousands of CPG categories, subcategories, brands and retail banners. IRI is already using that information to drive more intelligent decisions with retail and CPG clients. Targeting high-value shoppers, and those with high potential (i.e., high rest-of-market spend, but low current sales), yields a higher marketing ROI and is critical to organic growth.

As an example, a retailer client has been applying the IRI ProScores™ methodology in combination with its own transactional data to identify high-potential shopper households based on its rest-of-market value. This retailer compares each household's total market value with the current value that the shopper is driving in the given category or subcategory. Identification of this "shopper-share gap" between potential (total market) value and current value serves as the basis for its targeted marketing

[5] IRI, National Consumer Panel: 2010–2012. "Top 20% of Customers" is defined as those who spend the most at Walmart, Kroger, Target, Safeway, Supervalu and Dollar General combined.

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efforts. As part of this program, IRI has consistently found that targeting marketing communications to high "share-gap" households generates incremental sales versus control.

To accomplish this, for every individual household in the United States, IRI builds predictive models of shopper spend for every category, subcategory and brand and most retail banners using advanced analytics, data mining techniques and the IRI Consumer Network® national panel data.

These models drive intelligence that is both broad and deep about what individual households are spending. Given a list of households for direct marketing, IRI ProScores™ can identify

which ones spend the most on the CPG categories, subcategories and brands most relevant to the business. Industry leaders are now using that intelligence to target direct marketing campaign investments at the households that are estimated to drive the biggest return on marketing investment. In addition, the presence of retailer frequent-shopper program (FSP) data gives IRI the ability to analyze the gap between potential and current sales. In these situations, the incremental sales lift from targeted marketing is even more powerful.

Taking Action with Shopper Data

That intelligence is powerful, but not useful without the ability to execute against it. IRI enables our clients to take advantage of our IRI ProScores™ through retail-based partnerships, direct mail and email campaign targeting, and now, through a partnership with BlueKai, in the digital ecosystem. This hyper-granular information enables advertisers to target high-value CPG households anywhere they are, online or off-, and deliver relevant messaging.

Our analysis for one retail client revealed that, in the laundry category, the top 12 percent of shoppers were driving 63 percent of category sales. What's more, those same households were spending more than $100 million in laundry outside the retailer's walls. Imagine having that intelligence and the ability to target each shopper for every category in your business.

Through our partnerships with retailers, CPG manufacturers and other agencies serving the CPG industry, we score millions of household records every year to enable leading industry companies to better understand which of their customers provide the best opportunity to grow, and to target those households with improved marketing, such as more tailored communications, media placement, merchandise assortments and pricing.

As inevitable and increasingly rapid social, economic and technological changes take place, it is imperative that industry players stay focused on the shoppers who matter most to their growth. That laser-like focus on high-value shoppers will ultimately differentiate the winners from the losers.

About IRI. IRI is a leader in delivering powerful market and shopper information, predictive analysis and the foresight that leads to action. We go beyond the data to ignite extraordinary growth for our clients in the CPG, retail and over-the-counter healthcare industries by pinpointing what matters and illuminating how it can impact their businesses across sales and marketing. Move your business forward at **IRIworldwide.com**

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