

# Mid-Year Reflection 2017

Where's the (non-food) growth?

# Executive Summary

- Non-food CPG trends are being negatively influenced by a variety of factors, including a volatile economy and a changing marketplace.
- April showed the strongest trends of the quarter, but performance has deteriorated since then.
- The non-food sector is lagging behind industry-wide trends.
- Weak growth transcends non-food departments; the health care department fared just slightly better.
- Declines have been sharpest in middle-to-upper income and Hispanic households.
- Value remains critical and is influencing store selection and private brand behaviors.
- CPGs should tap into growth opportunities around higher-end and highly targeted non-food solutions.

Consumers' CPG-related attitudes and behaviors are being negatively influenced by a variety of factors.

- Negative Political Climate
- Weak Housing Investment
- Stubbornly Low Economic Growth
- Low Inflation
- Complex and Evolving Marketplace

Unemployment fell in 2016 and retail sales climbed.  
 Meanwhile GDP slipped and inflation ticked up.

## ECONOMIC GROWTH

Economic Measure	2012	2013	2014	2015	2016
GDP (% chg.)	4.1%	3.3%	4.2%	3.7%	3.0%
Unemployment (% , SA)	8.1	7.4	6.2	5.3	4.9
Consumer Price Inflation (% Chg.)	2.1%	1.5%	1.6%	0.1%	1.3%
Retail Sales (% Chg.)	4.8%	3.8%	4.2%	2.6%	3.0%
Residential Permits, Total (Mil.)	3.3	3.9	4.2	4.7	4.8

Source: Moody's

The CPG marketplace is complex and under pressure because of economic shifts, a changing competitive marketplace and evolving purchase behaviors.

- Economic Shifts
- Deflationary Prices
- Complex and Evolving Marketplace
- E-tail Momentum
  - Subscription-Based Buying
- Increase in Just-in-Time Buying

Source: the Wall Street Journal, Company Press Releases

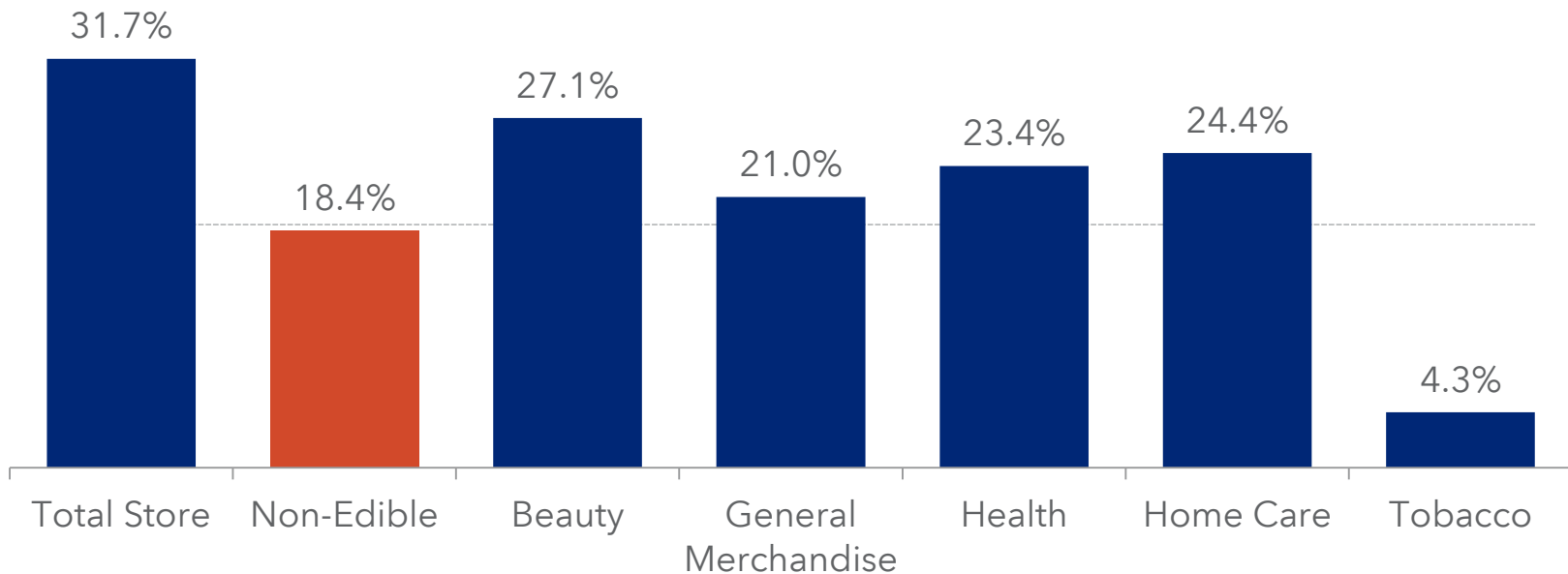
Changing assortment dynamics are also impacting sales trends.

- Increasing prevalence of premium-tier products—professional-quality results at home
- New product innovation momentum (particularly in home and personal care)
- Broader assortment of private label solutions

Source: Company Press Releases; IRI New Product Pacesetters

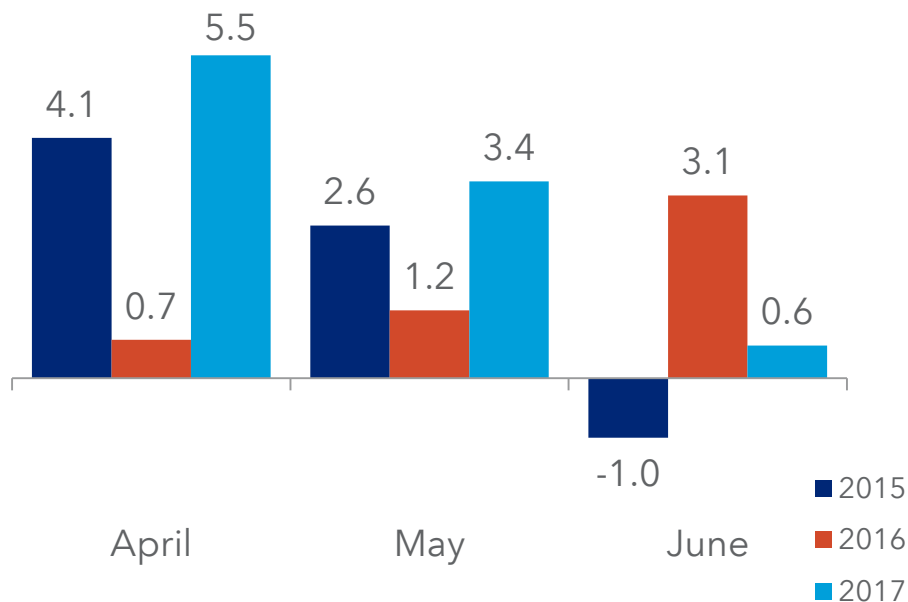
The non-edibles sector relies heavily on merchandising for product movement.

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



Lift from merchandising is following a generally negative trend, though home care lift is seeing some momentum.

### Change in Lift from Merchandising, Any Tactic Edible



### Department-level trends vary...

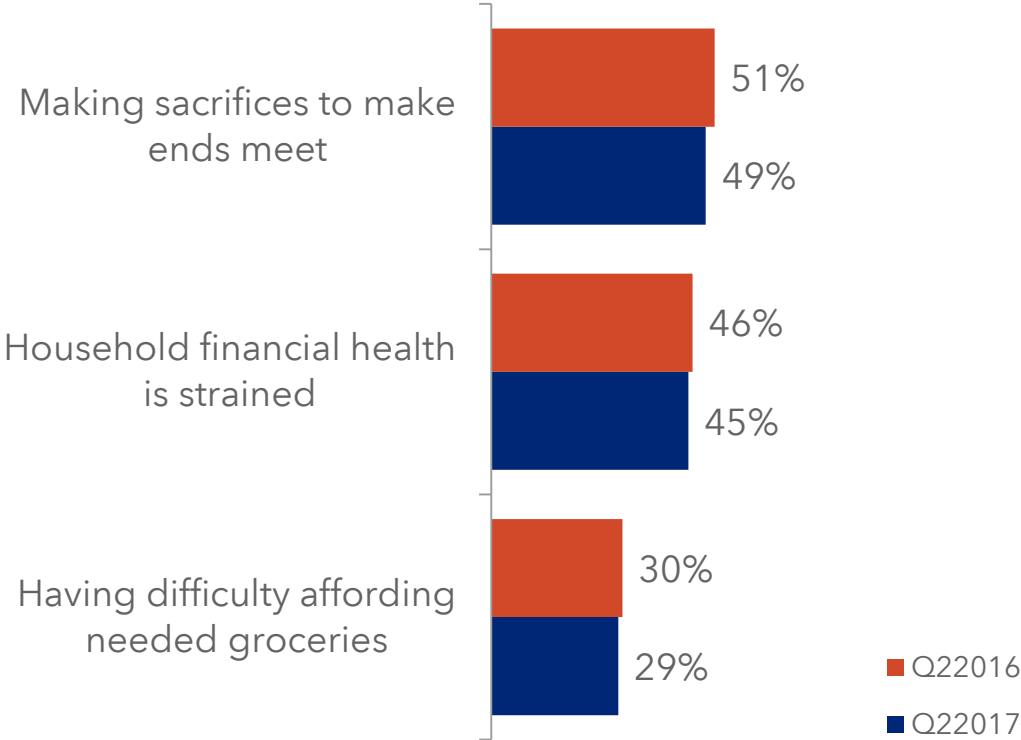
- General merchandise lift is declining
- Health care seeing reliance on merchandising ticking up; lift in Q217 is down, following two years of Q2 momentum
- Home care lift is up on fairly flat merchandising activity
- Tobacco lift is up despite flat merchandising activity
- Beauty lift has seen Q2 volatility during the past two years

Source: IRI Market Advantage™, 4 weeks ended 6/11/2017, 5/14/2017, 4/16/2017 and same periods prior two years; MULOC.



# Finances continue to be a struggle for many.

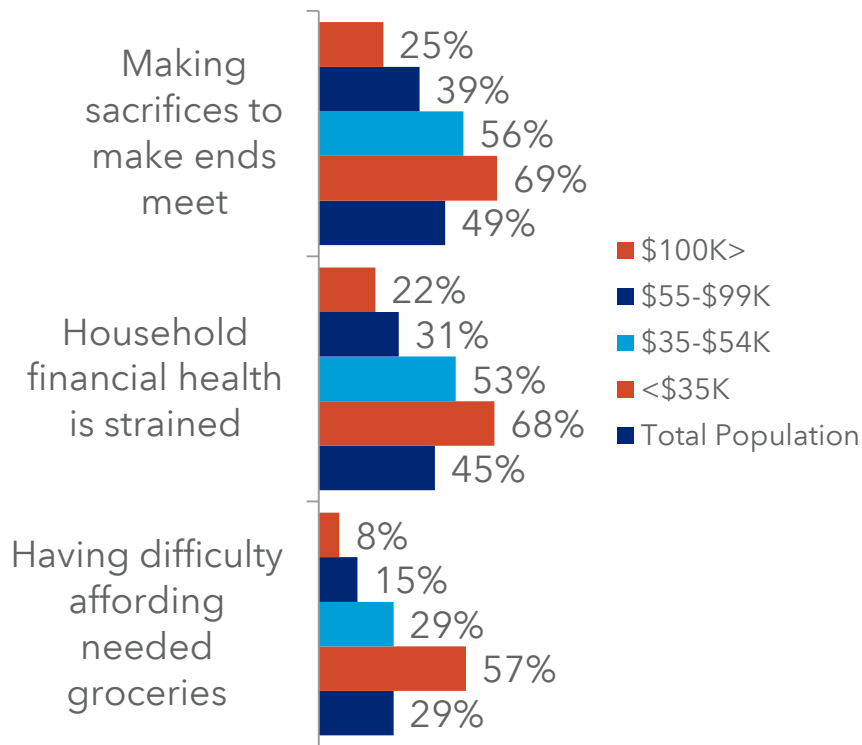
## Consumer Financial Health Total Population



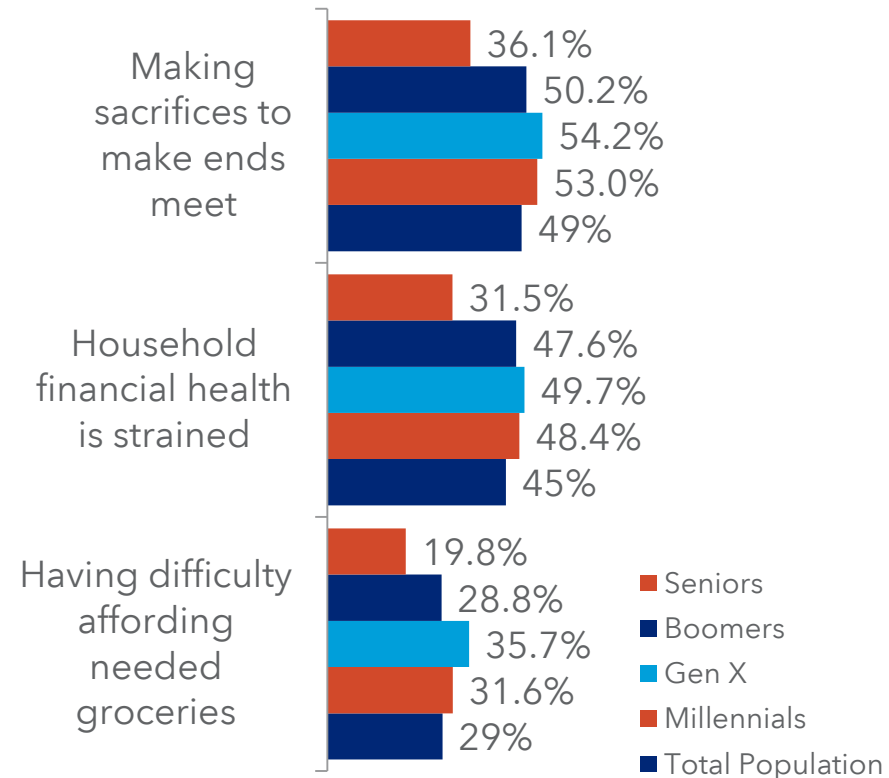
Source: Consumer Connect™, Q2 2017

# Lower-income shoppers are among the hardest hit; struggles transcend age groups.

## Consumer Financial Health by Income



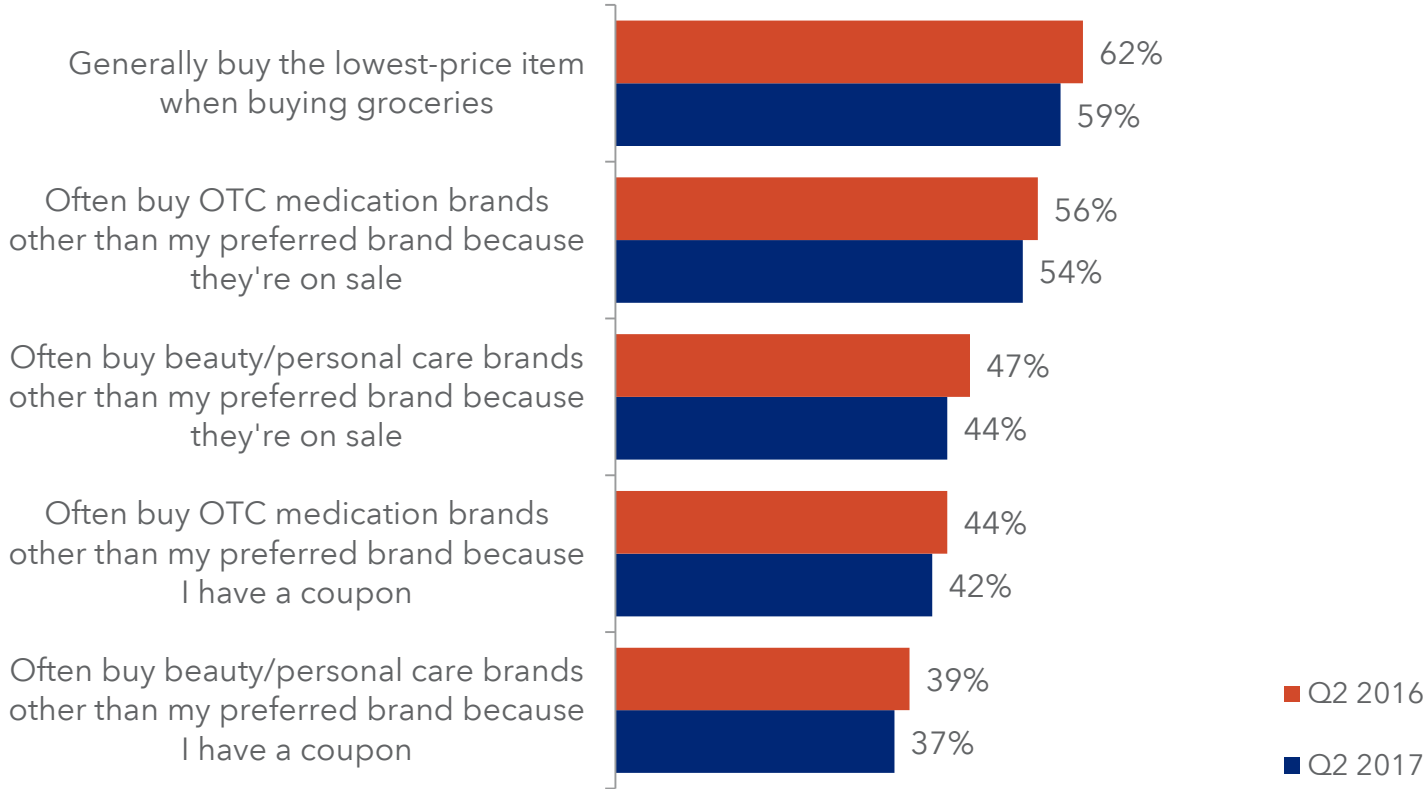
## Consumer Financial Health by Generation



Source: Consumer Connect™, Q2 2017

# Deal-seeking behavior remains high and essentially unchanged versus 2016.

## Consumer Buying Behaviors Total Population

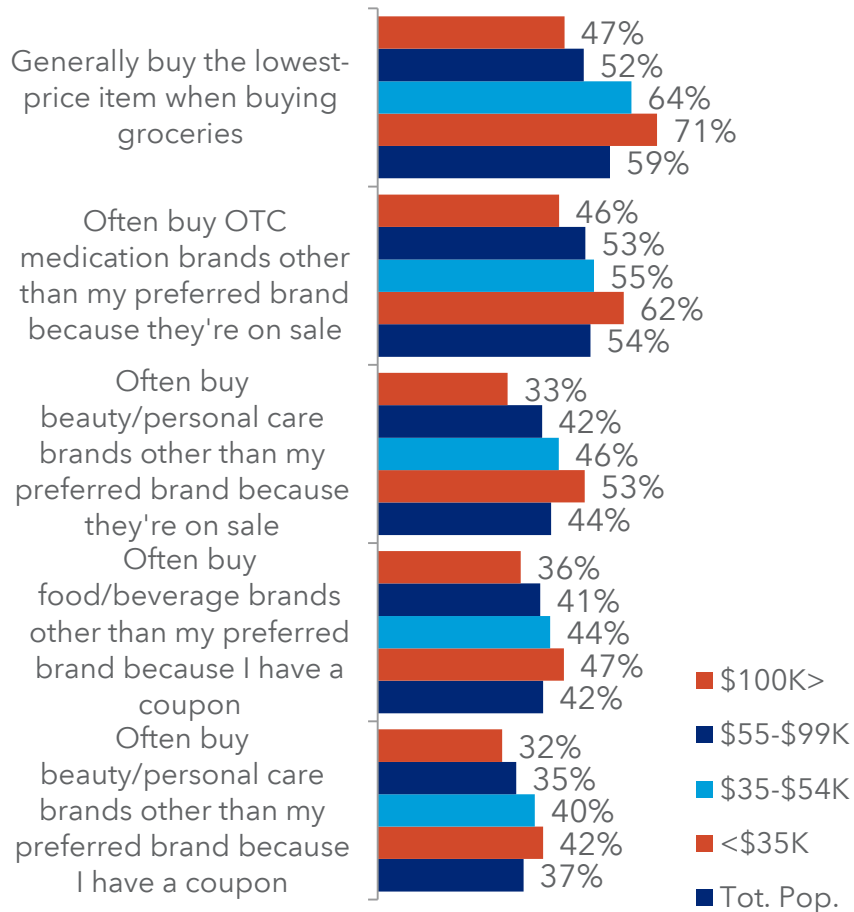


Source: Consumer Connect™, Q2 2017 & Q2 2016

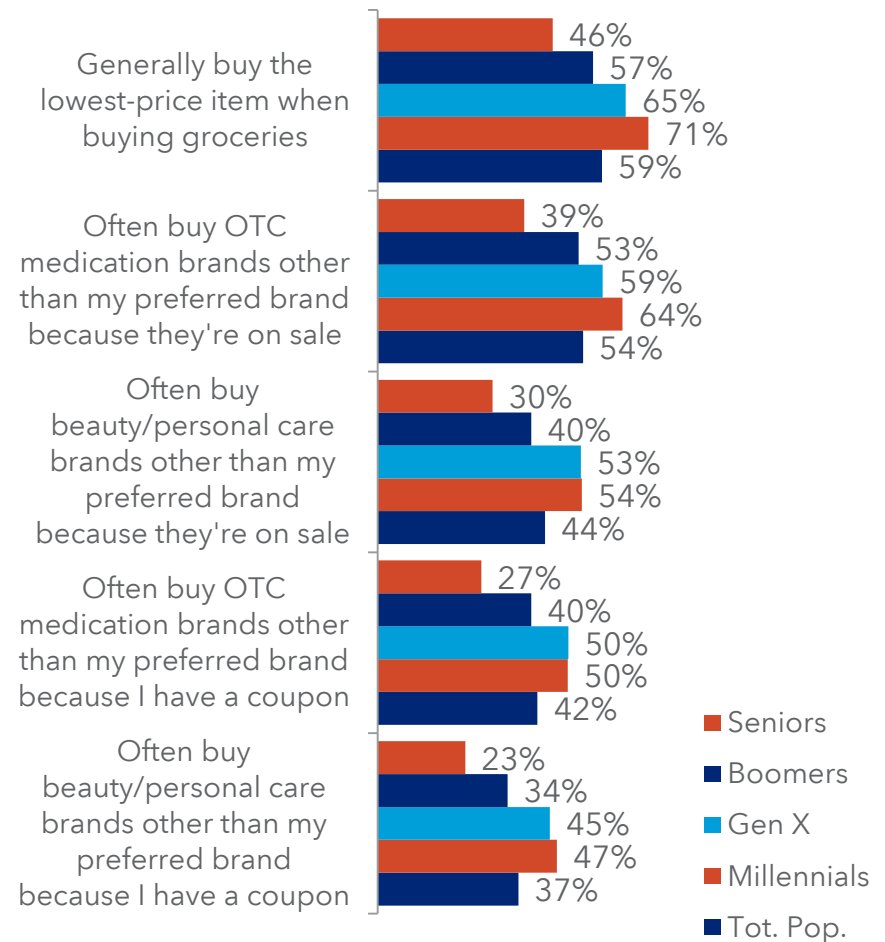


# Trade-offs are most prevalent among younger and less wealthy shoppers, least prevalent across seniors and the wealthiest households.

## Consumer Buying Behaviors by Income



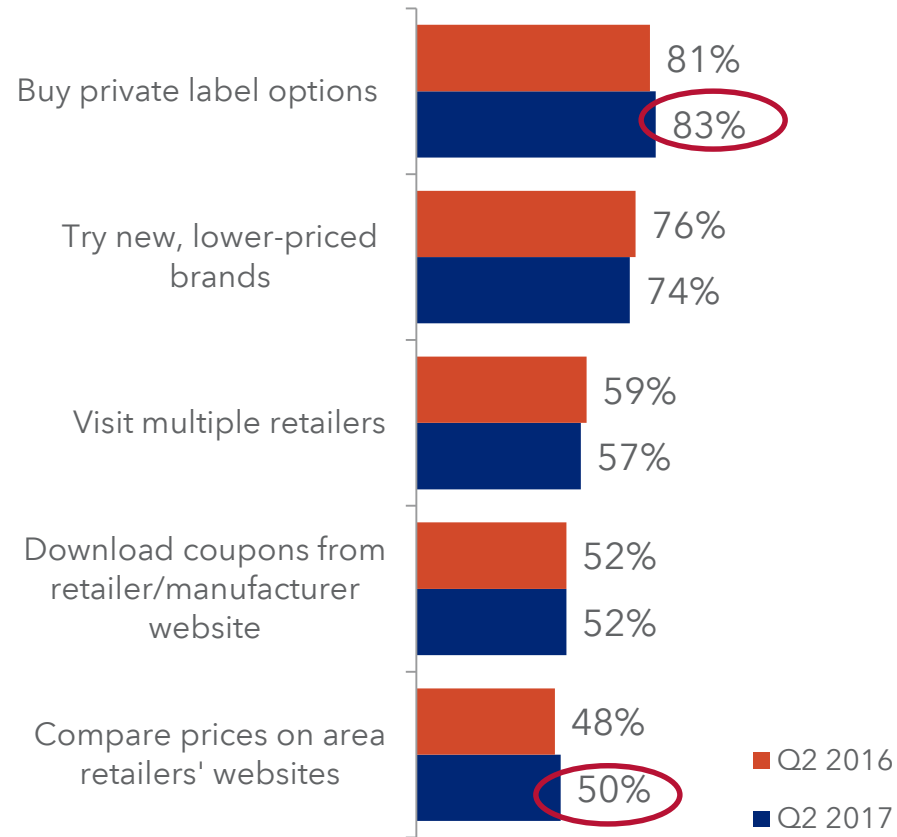
## Consumer Buying Behaviors by Generation



Source: Consumer Connect™, Q2 2017

Consumers are embracing a wide variety of money-saving opportunities; online price comparisons are becoming more popular.

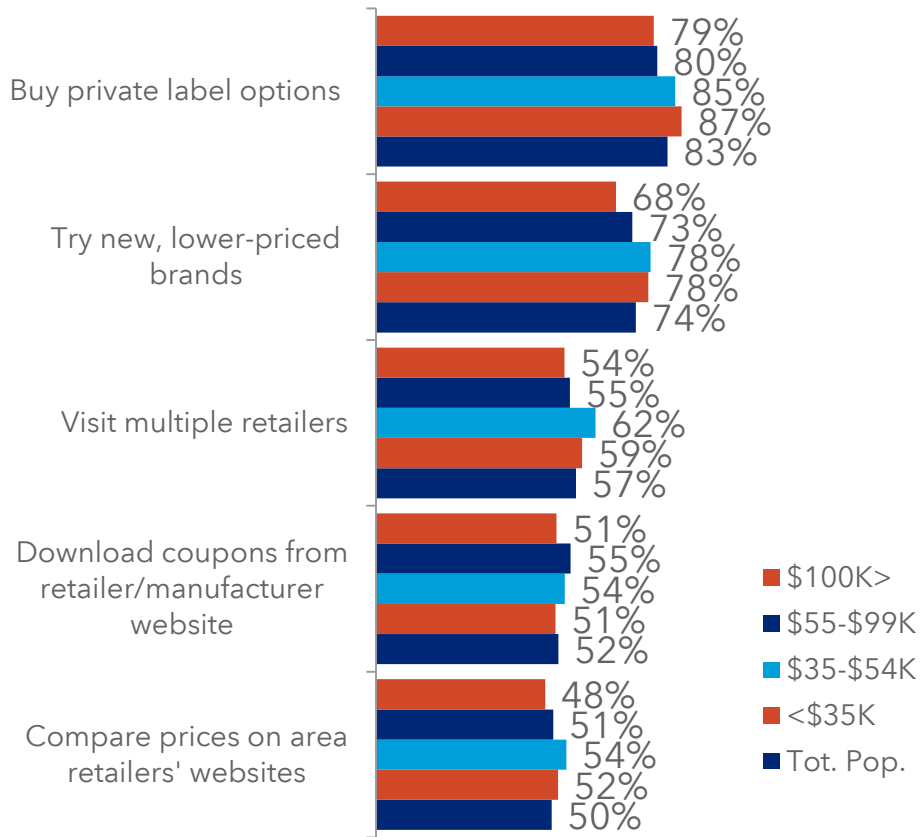
Shopping Journey Money-Saving Preparations  
Top 2 Box  
Total Population



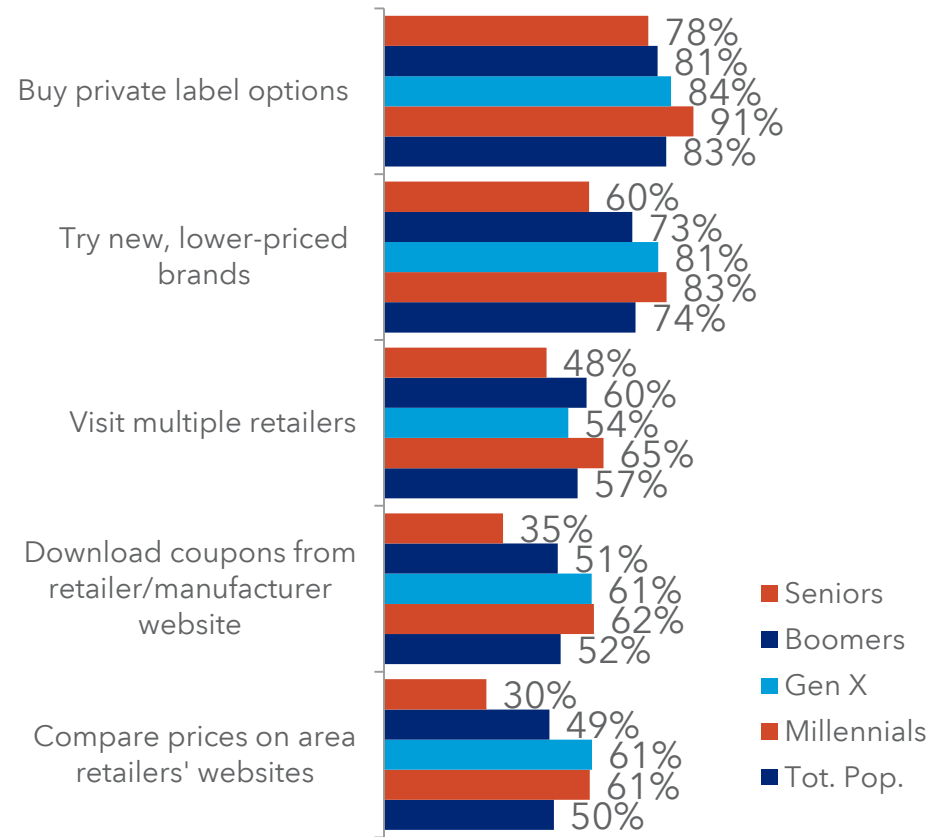
Source: Consumer Connect™, Q2 2017 & Q2 2016

# Millennials are most likely to make brand concessions; Gen Xers are as likely as millennials to seek digital savings opportunities.

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

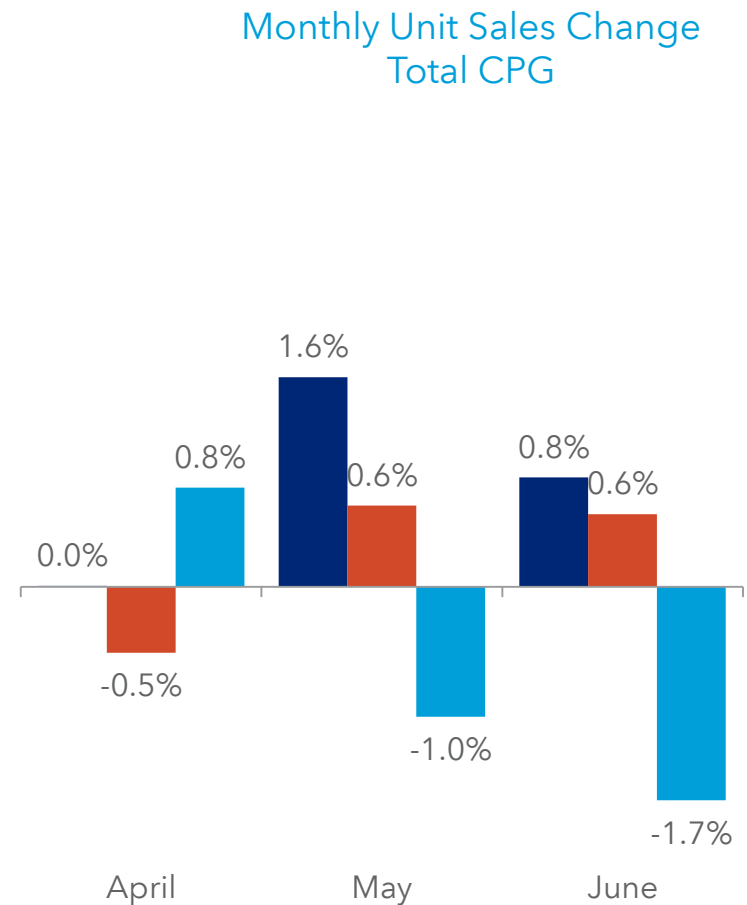
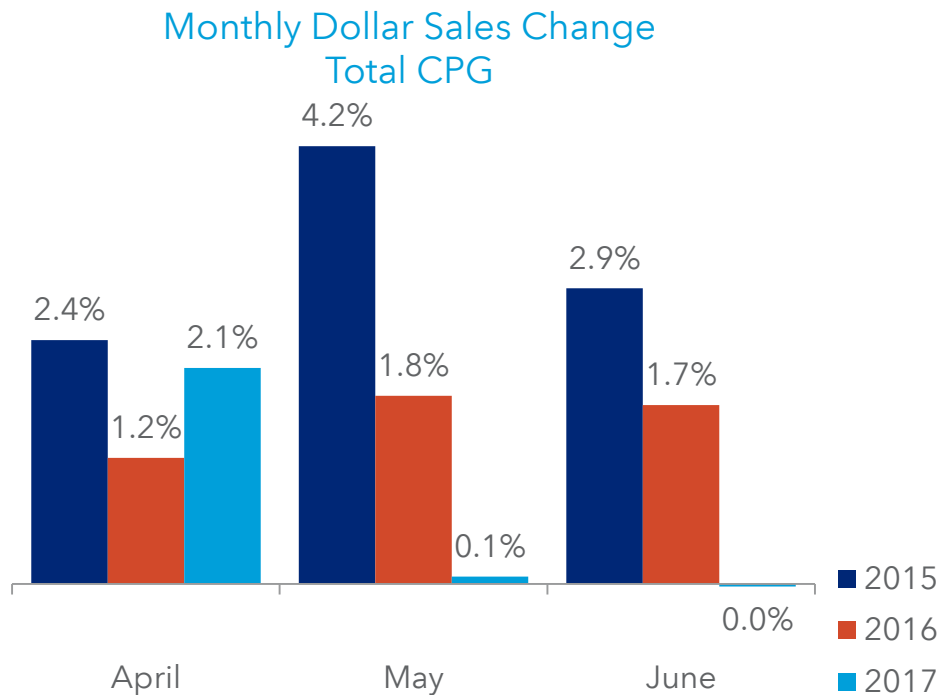


## Shopping Journey Money-Saving Preparations Top 2 Box by Generation



Source: Consumer Connect™, Q2 2017

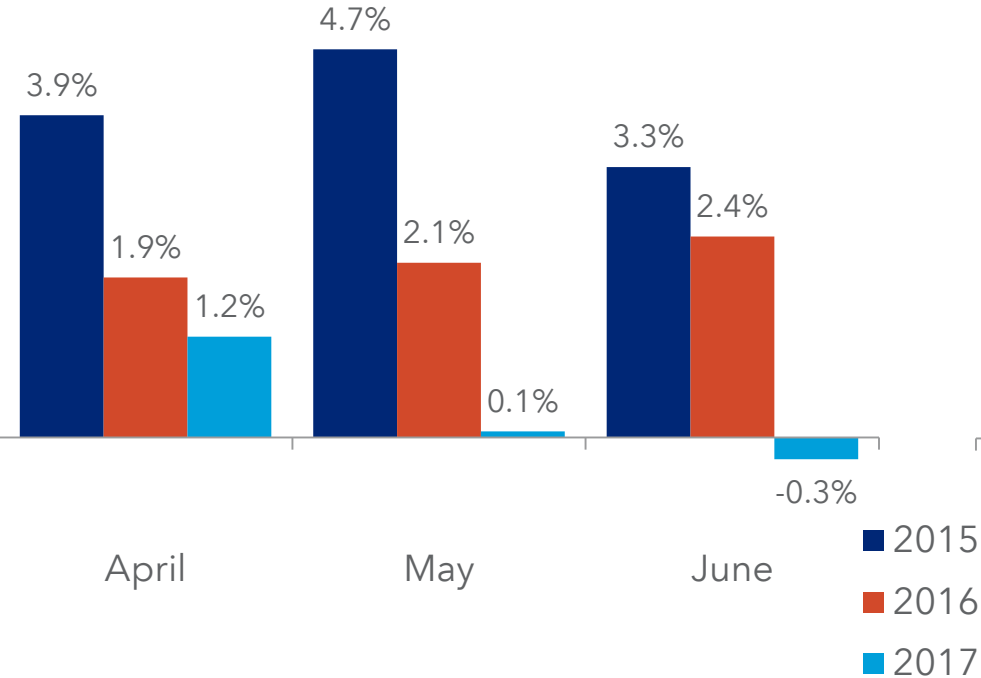
Q2 started off looking more positive than prior years, but May and June brought precipitous declines.



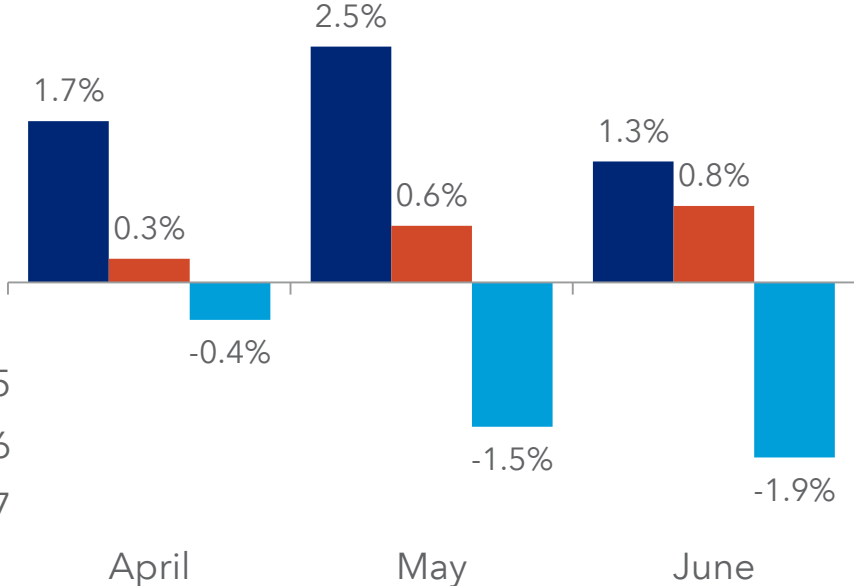
Source: IRI Market Advantage™, 4 weeks ended 6/11/2017, 5/14/2017, 4/16/2017 and same periods prior two years; MULOC.

The non-food sector slid more sharply than industry average, particularly with respect to unit sales trends.

Monthly Dollar Sales Change  
Total Non-Edible



Monthly Unit Sales Change  
Total Non-Edible

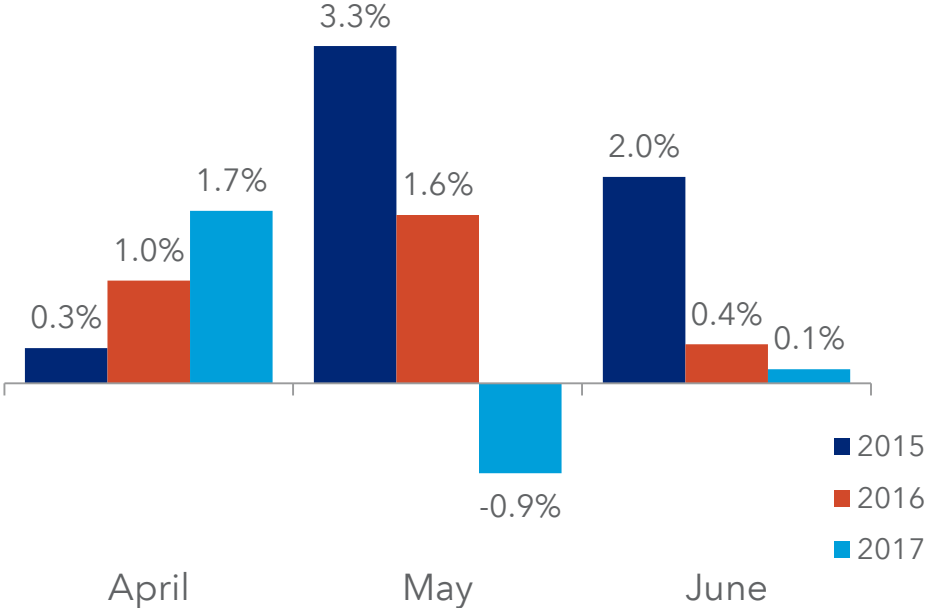


Source: IRI Market Advantage™, 4 weeks ended 6/11/2017, 5/14/2017, 4/16/2017 and same periods prior two years; MULOC.

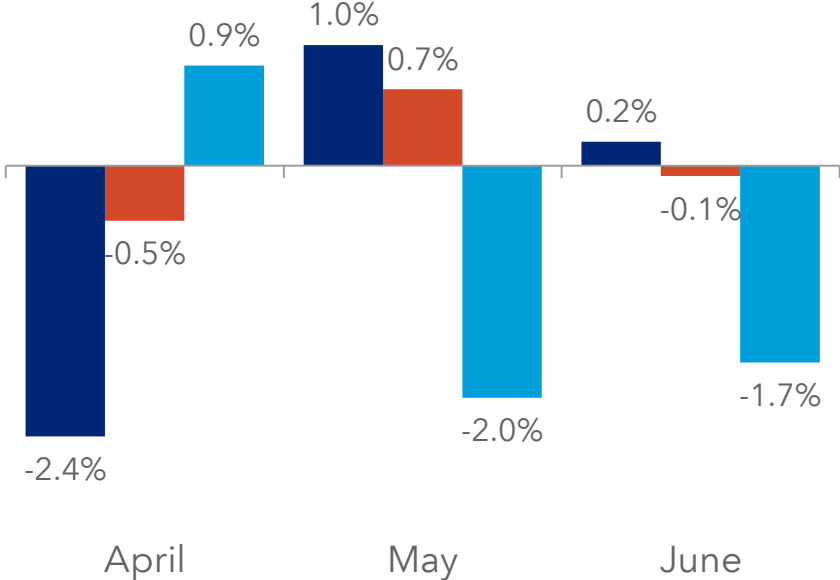


Grocery channel performance mirrored industry-level trends; dollar trends were a little less volatile; units changes were more drastic.

Monthly Dollar Sales Change  
Total CPG: Grocery



Monthly Unit Sales Change  
Total CPG: Grocery

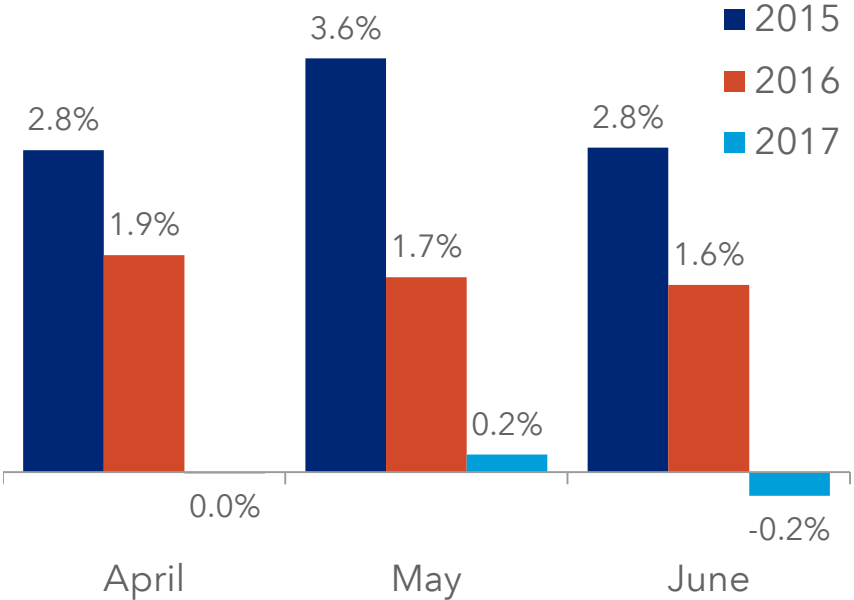


Source: IRI Market Advantage™, 4 weeks ended 6/11/2017, 5/14/2017, 4/16/2017 and same periods prior two years; MULOC.

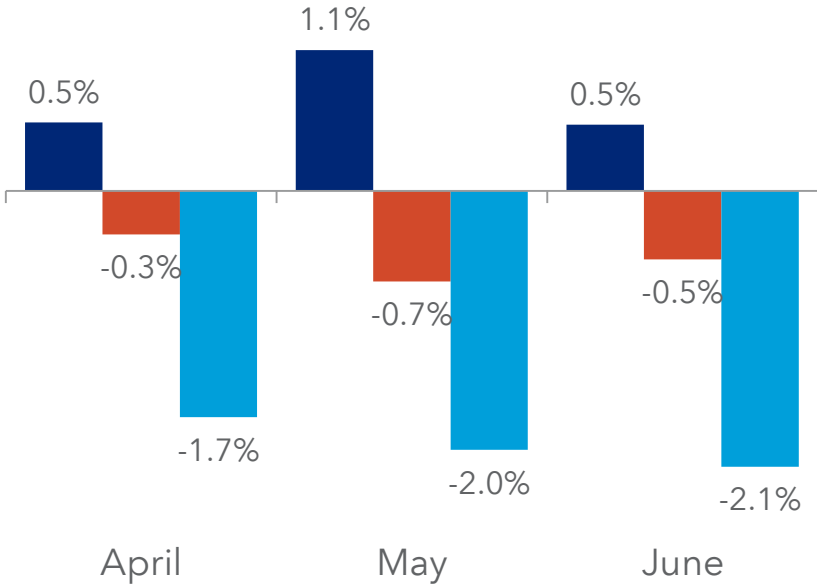


The non-edibles sector is seeing sharp declines in the grocery channel; Q2 2017 performance was down sharply.

Monthly Dollar Sales Change  
Total Non-Edible: Grocery



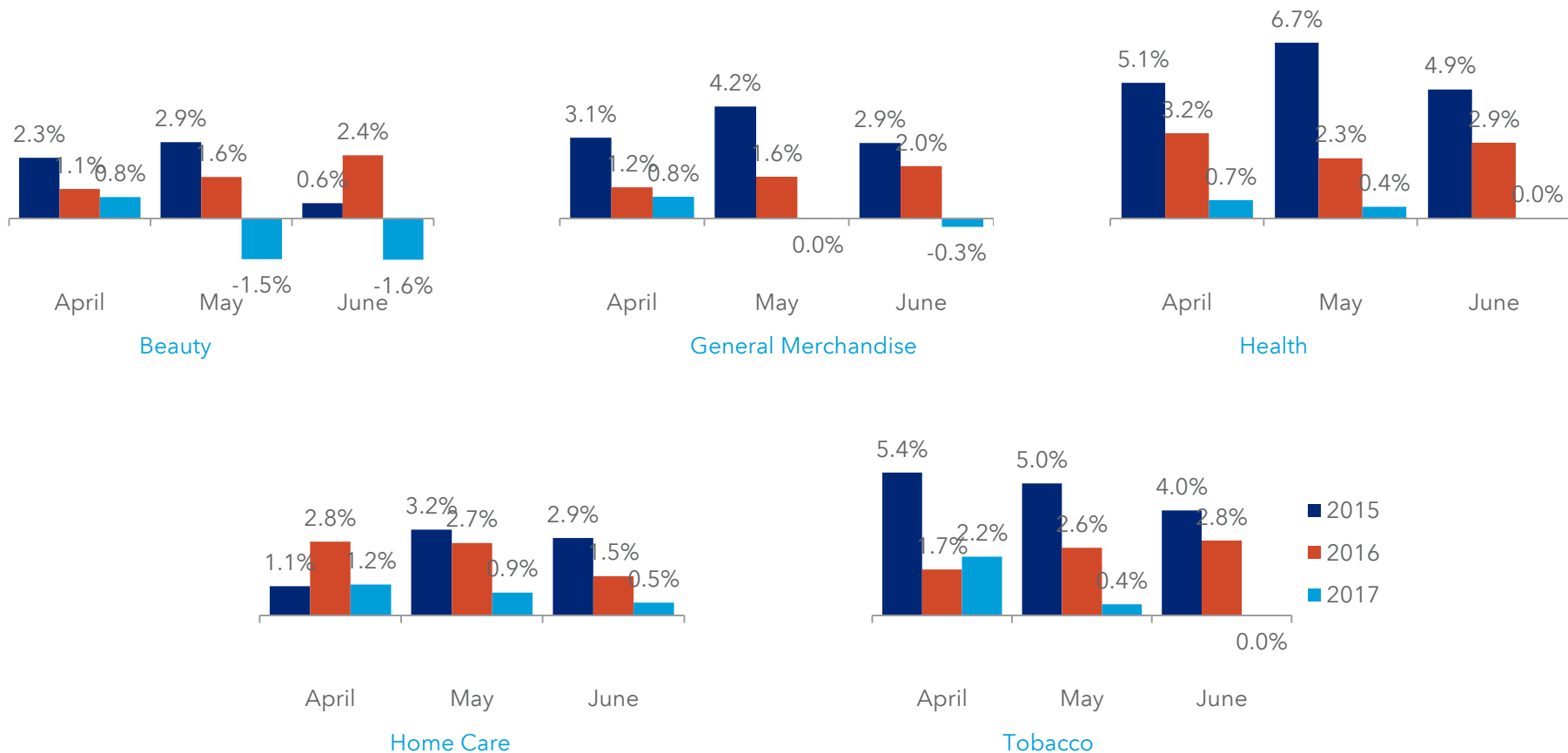
Monthly Unit Sales Change  
Total Non-Edible: Grocery



Source: IRI Market Advantage™, 4 weeks ended 6/11/2017, 5/14/2017, 4/16/2017 and same periods prior two years; MULOC.

Home care fared better than other non-food departments in Q2 of this year, though growth was weak across departments.

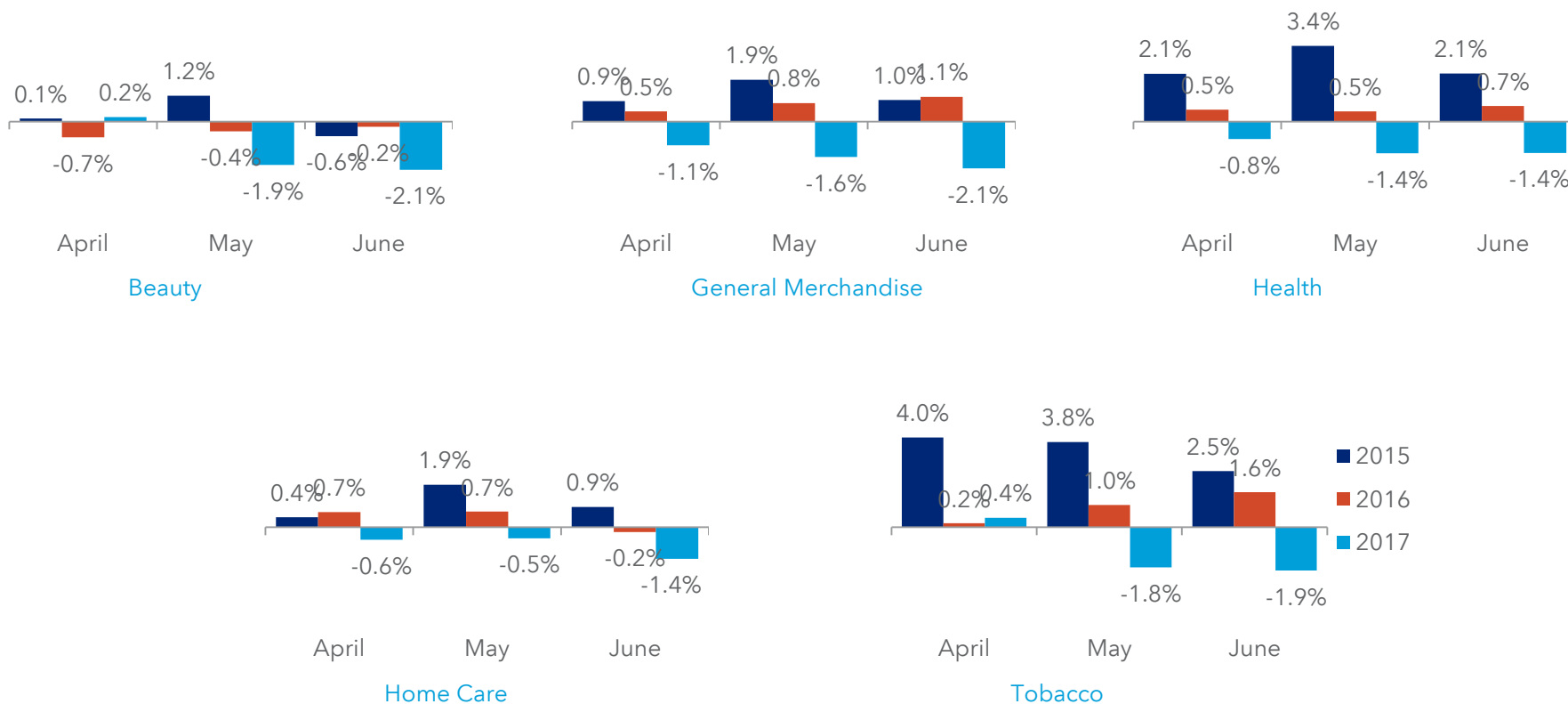
### Monthly Dollar Sales Change by Department



Source: IRI Market Advantage™, 4 weeks ended 6/11/2017, 5/14/2017, 4/16/2017 and same periods prior two years; MULOC.

Unit sales has been flat or negative throughout Q2 across non-food departments.

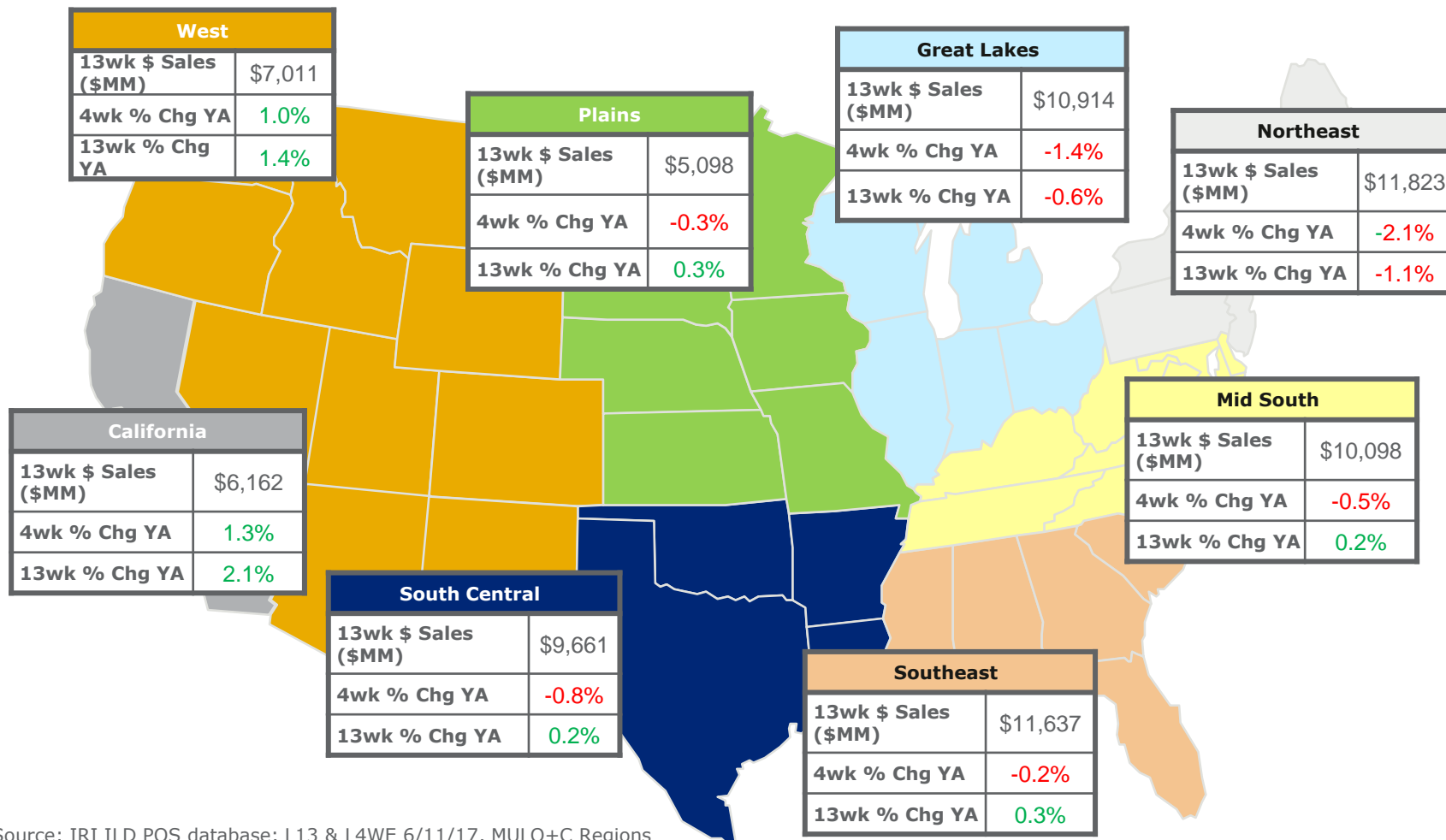
### Monthly Unit Sales Change by Department



Source: IRI Market Advantage™, 4 weeks ended 6/11/2017, 5/14/2017, 4/16/2017 and same periods prior two years; MULOC.

The West and California regions are outperforming other regions, particularly during the past four weeks.

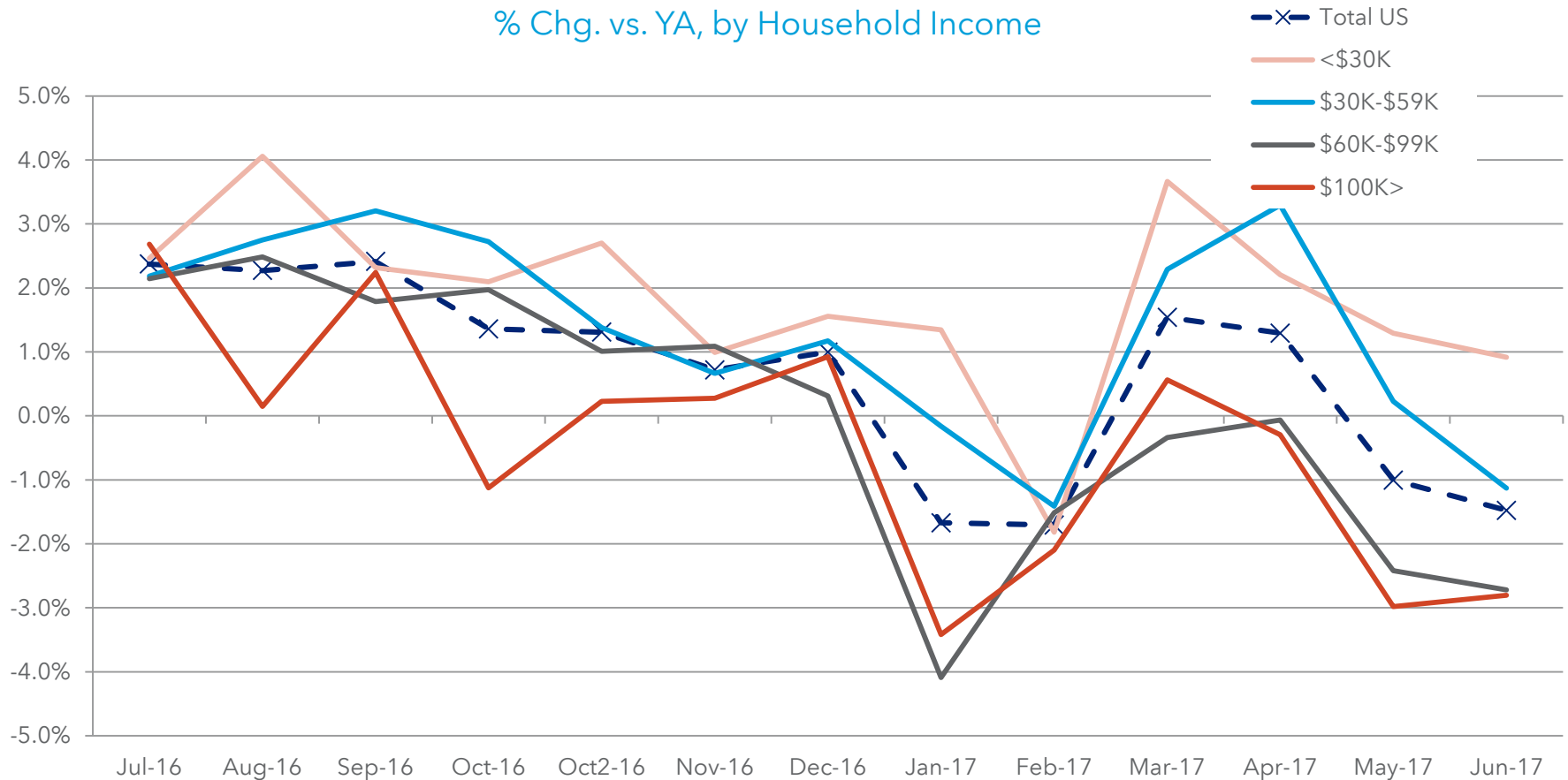
### Regional Trends for Total Non-Edible



Source: IRI ILD POS database; L13 & L4WE 6/11/17, MULO+C Regions

Non-edible spending has been sporadic during the past year; declines have been sharpest among mid-to-upper-income households.

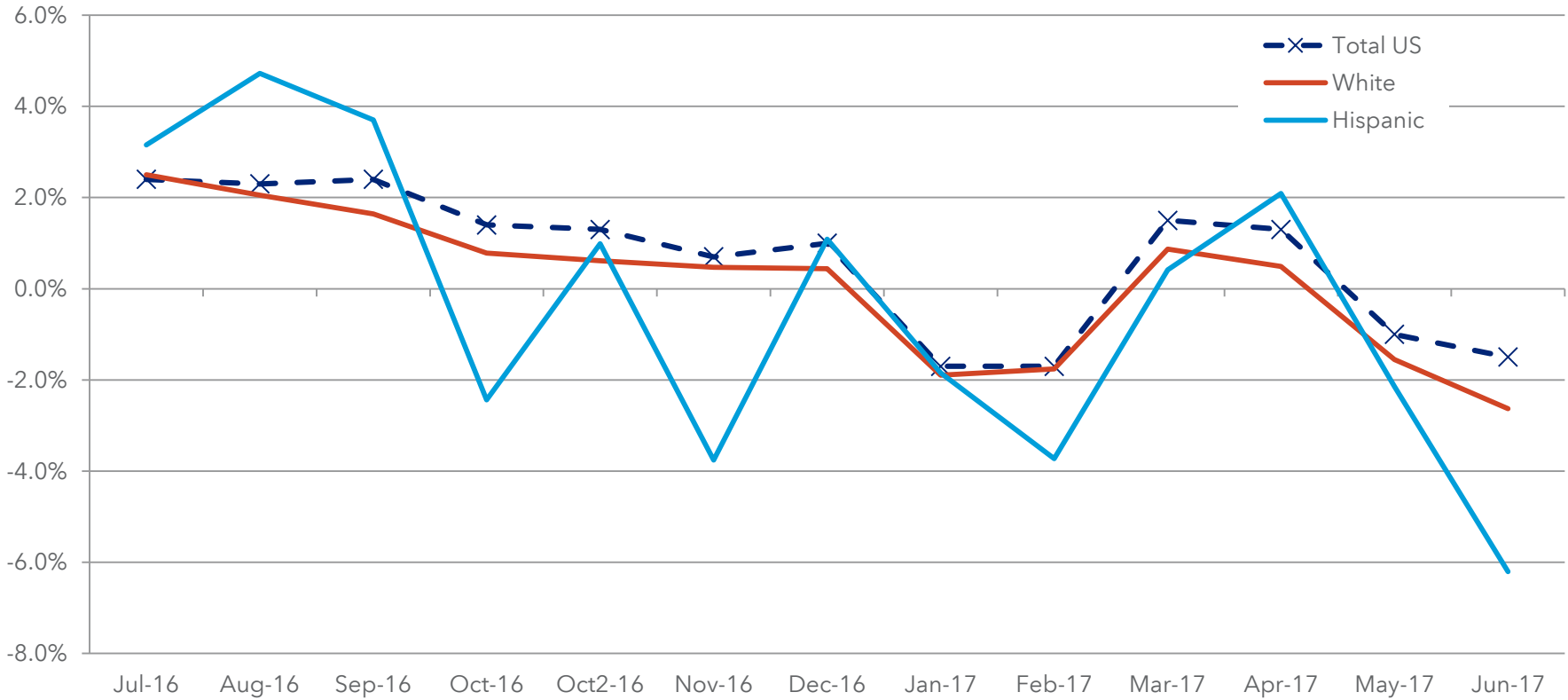
Non-Edible Dollar Sales  
% Chg. vs. YA, by Household Income



Source: IRI Consumer Network™, CSIA – Total US – All Outlets; Quad Week Data Ending 6-11-17 and preceding; NBD Aligned to Multi-Outlet

Spending by Hispanic shoppers ticked up early, but became more volatile and declined throughout much of 2017.

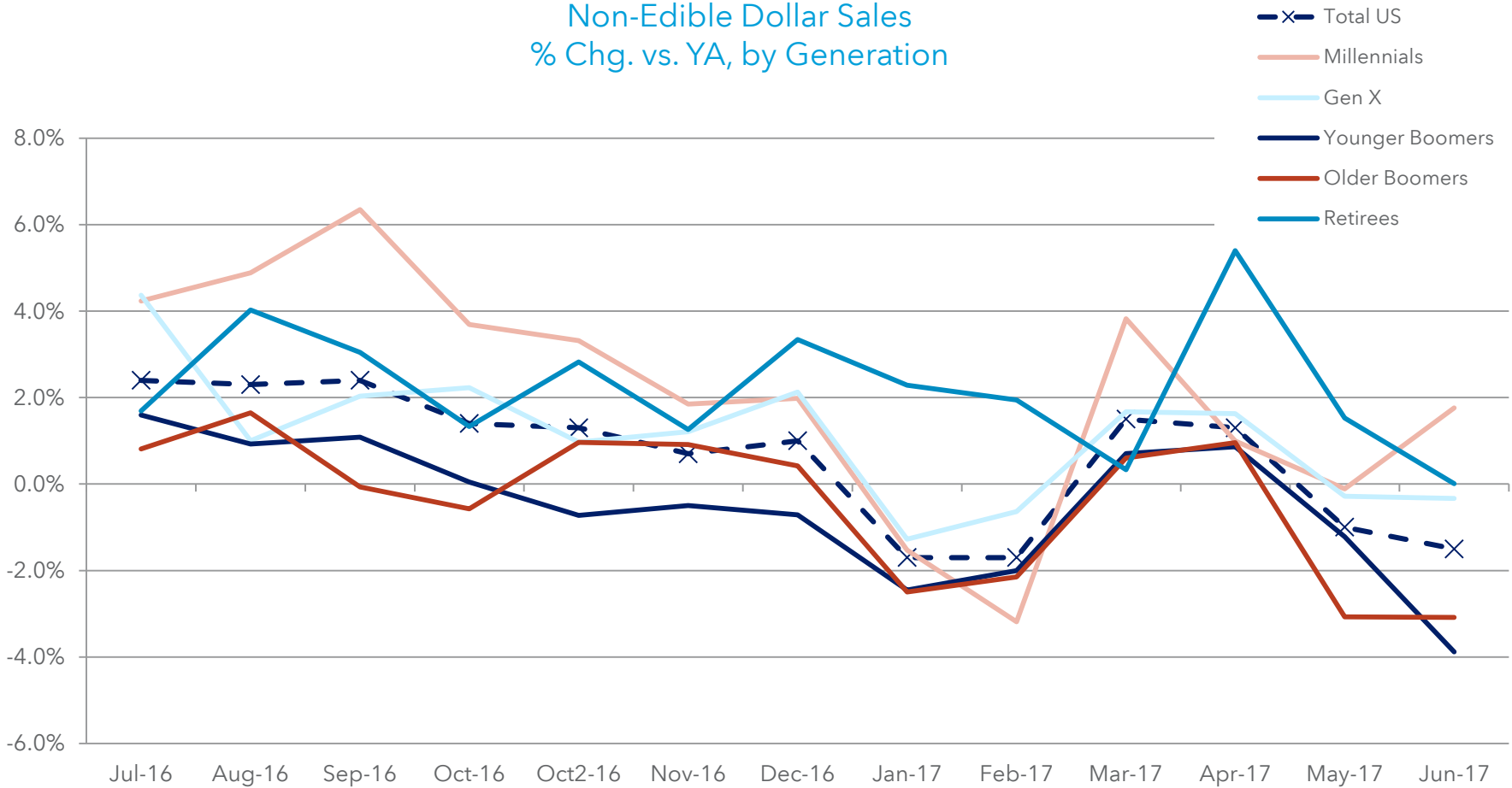
Non-Edible Dollar Sales  
% Chg. vs. YA, by Ethnicity



Source: IRI Consumer Network™, CSIA – Total US – All Outlets; Quad Week Data Ending 6-11-17 and preceding; NBD Aligned to Multi-Outlet

Non-edible spending dipped in early 2017 across generations, but millennials and retirees have generally shown stronger spending growth versus other generations.

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

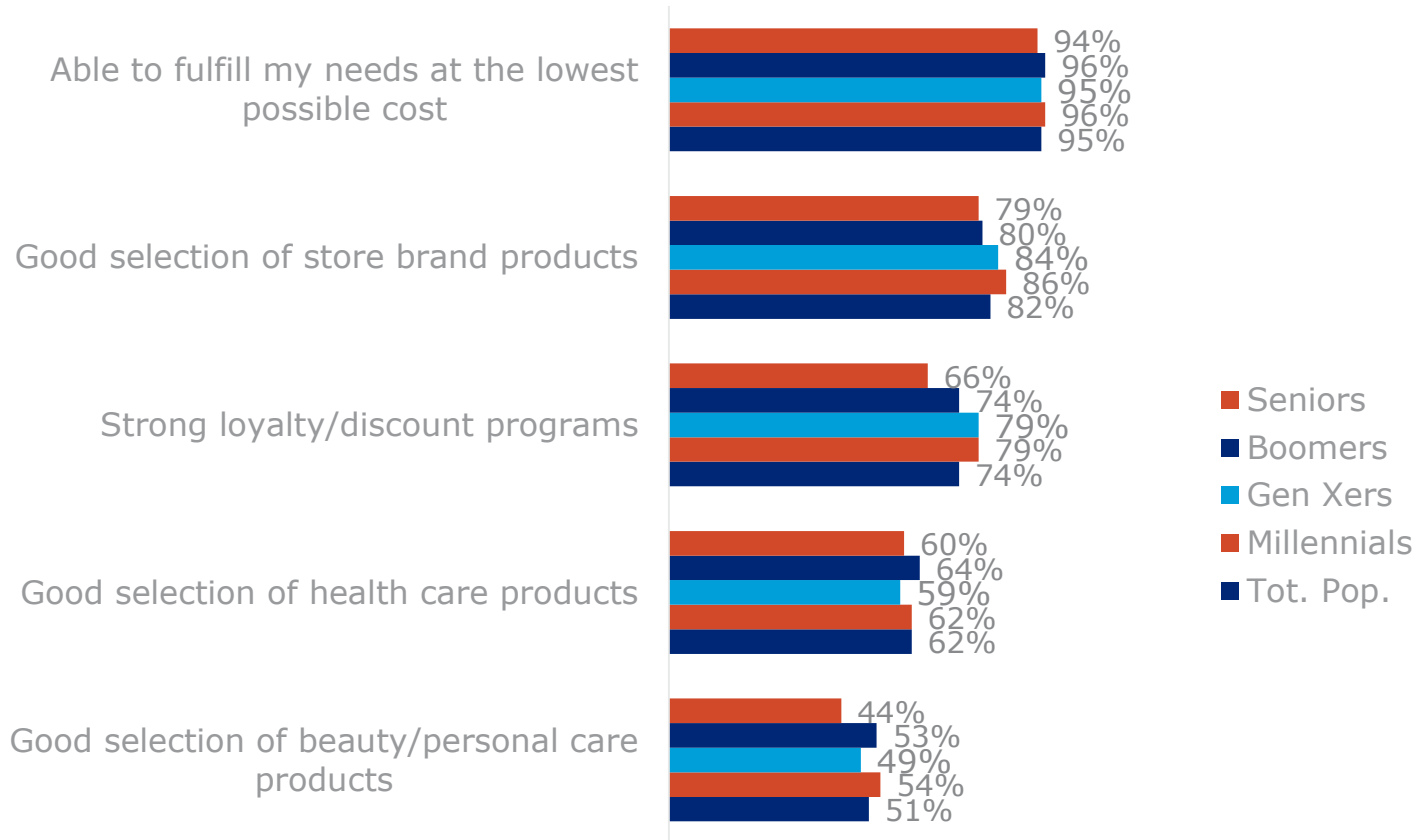


Source: IRI Consumer Network™, CSIA – Total US – All Outlets; Quad Week Data Ending 6-11-17 and preceding; NBD Aligned to Multi-Outlet



# Value is a huge influencer of store selection.

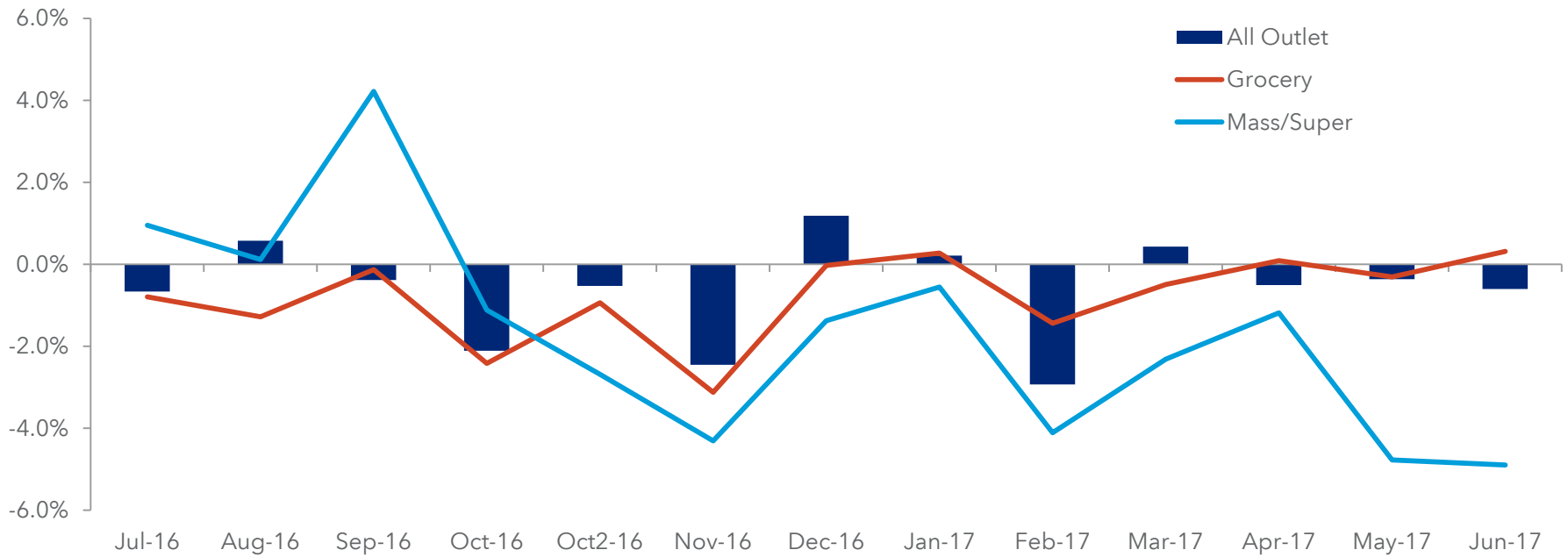
Store Selection Process  
by Generation



Source: Consumer Connect™, Q2 2017

The grocery channel has outperformed mass/super in non-edibles throughout 2017; non-edible spending in grocery has outpaced industry average.

Non-Edible Spending  
% Chg. vs. YA, Total US, by Channel

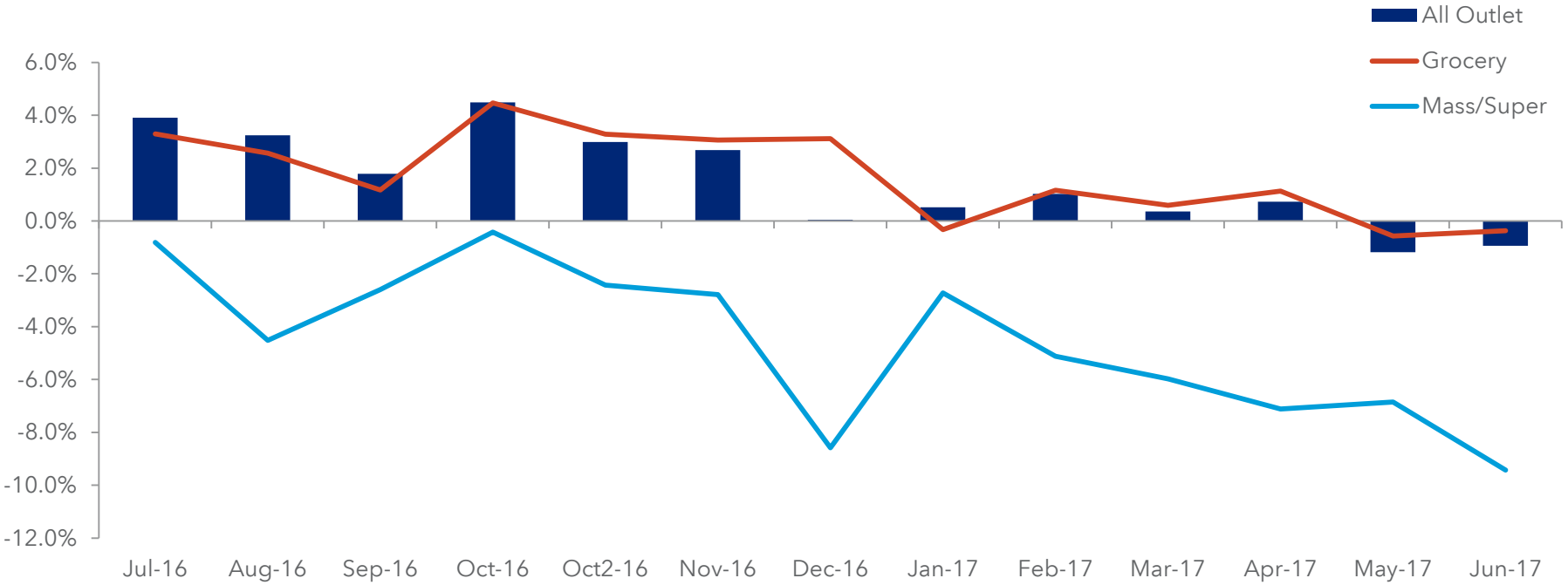


Source: IRI Consumer Network™, CSIA – Total US – All Outlets; Quad Week Data Ending 6-11-17 and preceding; NBD Aligned to Multi-Outlet, Grocery and Mass/Super exclude Walmart.



Non-edible trips to mass/super have been on a steady decline and widely underperforming industry average and the grocery channel.

Non-Edible Trips  
% Chg. vs. YA, Total US, by Channel

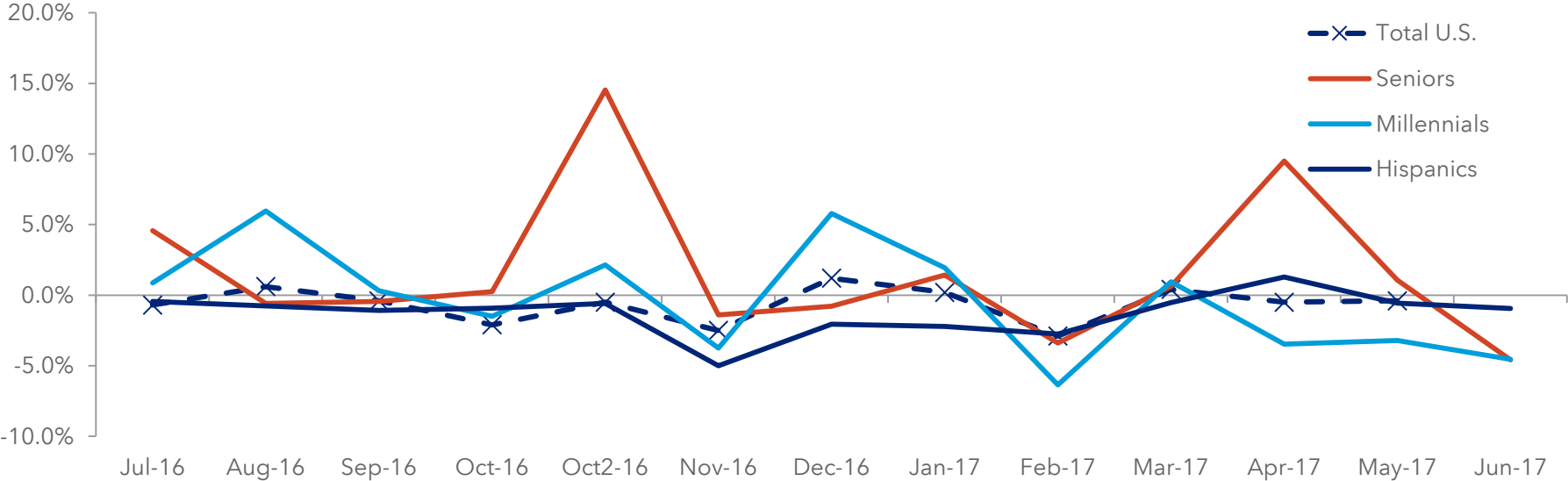


Source: IRI Consumer Network™, CSIA – Total US – All Outlets; Quad Week Data Ending 6-11-17 and preceding; NBD Aligned to Multi-Outlet, Grocery and Mass/Super exclude Walmart.



Hispanic spending on non-edibles has been fairly flat, while seniors and, to a lesser degree, millennials, have shown more volatility throughout the past year.

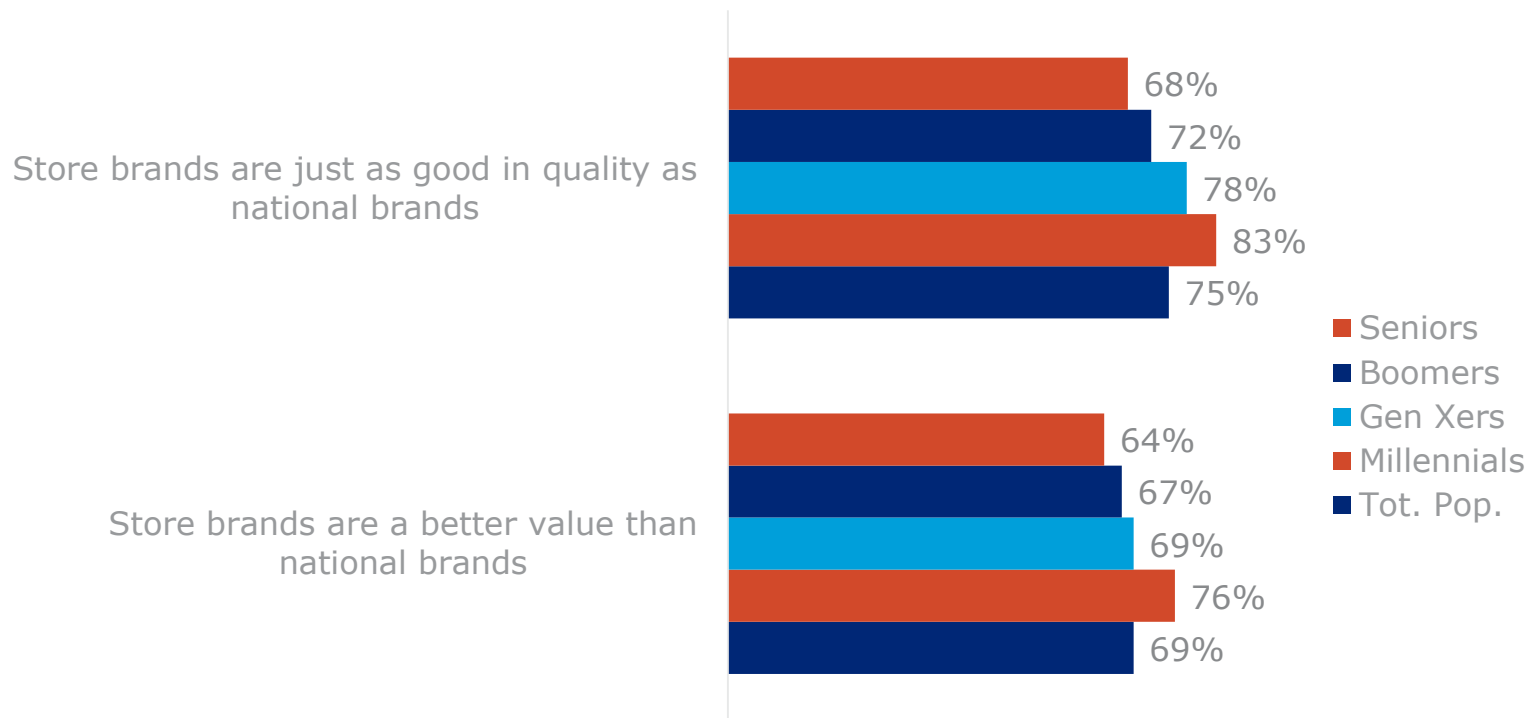
Non-Edible Spending  
% Chg. vs. YA, Key Consumer Segments



Source: IRI Consumer Network™, CSIA – Total US – All Outlets; Quad Week Data Ending 6-11-17 and preceding; NBD Aligned to Multi-Outlet, Grocery and Mass/Super exclude Walmart.

Consumers view store brands as a good money-saving opportunity; millennials show a particularly strong affinity toward store brand solutions.

### Store Brand Perceptions by Generation

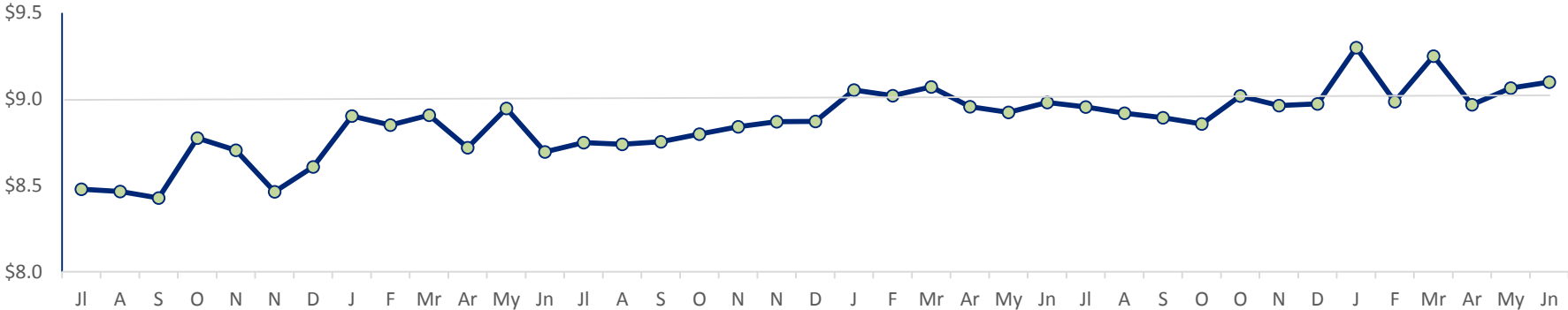


Source: Consumer Connect™, Q2 2017

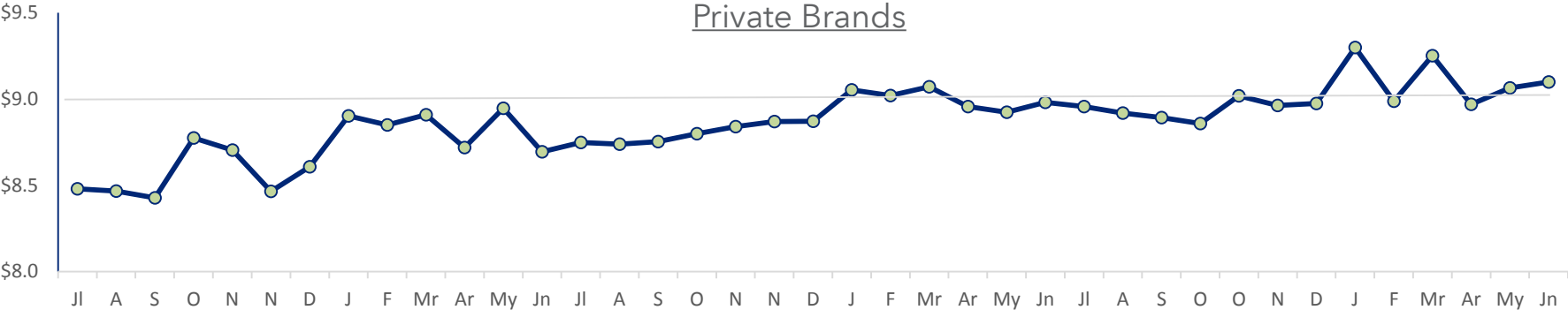
# Private brand spending outpaced national brands, but volatility was similar.

Non- Edible Spending  
Dollars per Trip

National Brands



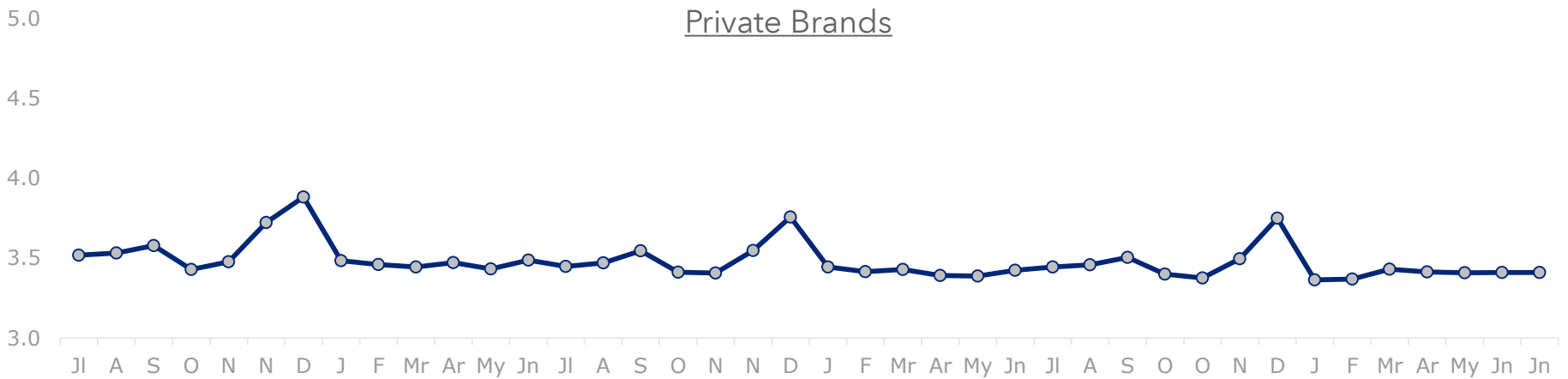
Private Brands



Source: IRI National Consumer Panel™ (CSIA) – Total US – All Outlets; 3 Yrs of Quad Weeks Ending 6-11-17; NBD Aligned to Multi-Outlet



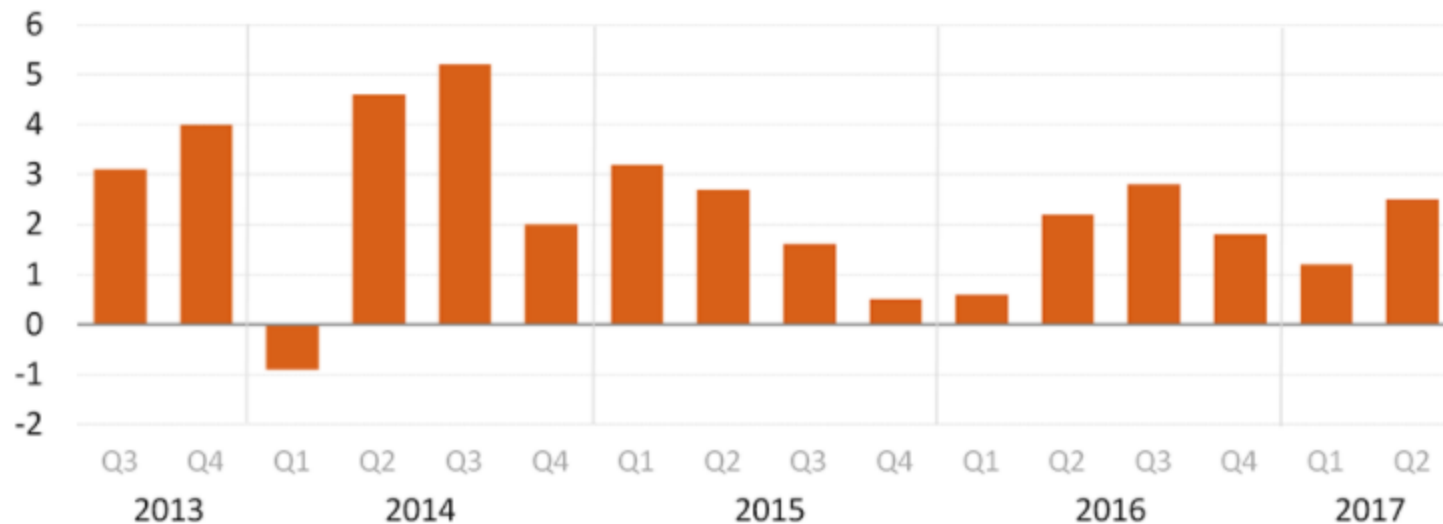
# Private brand trips were lower but less volatile than national brands.



Source: IRI Consumer Network™, CSIA – Total US – All Outlets; Quad Week Data Ending 3-19-17 and preceding; NBD Aligned to Multi-Outlet

Q2 growth ticked up, encouraged by increased personal consumption expenditures; Q2 2017 GDP is on par with 2016 but still lower versus 2014 and 2015 levels.

Real GDP: Percentage Change From Preceding Quarter



- Negatively impacted by downturn in residential fixed investments and deceleration of exports
- Positively impacted by an uptick in personal consumption expenditures

Source: Bureau of Economic Analysis



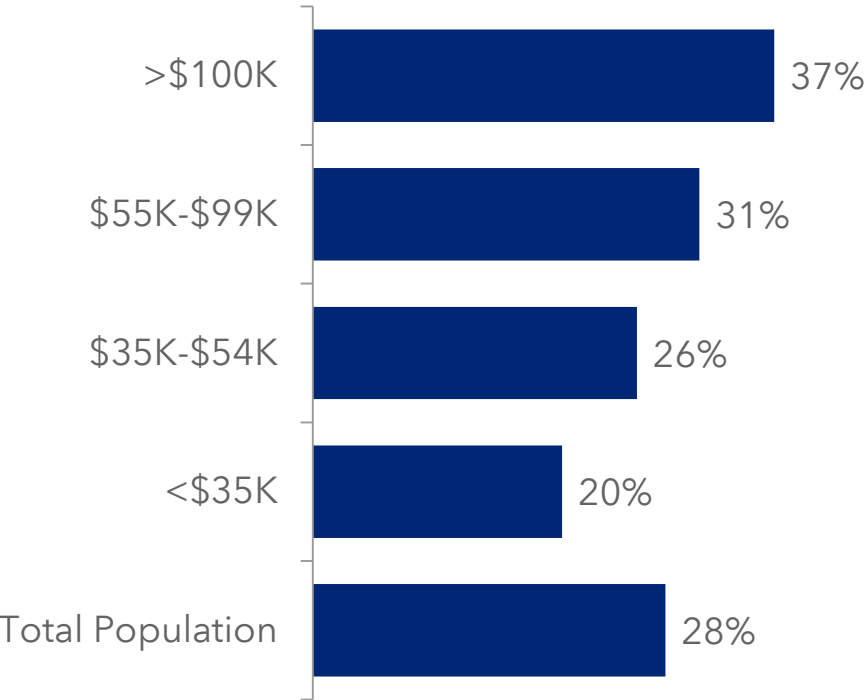
Economic growth is expected to continue throughout 2017.

Economic Measure	2013	2014	2015	2016	2017P
GDP (% chg)	3.3%	4.2%	3.7%	3.0%	4.3%
Unemployment (% , SA)	7.4	6.2	5.3	4.9	4.4
Consumer Price Inflation (% Chg)	1.5%	1.6%	0.1%	1.3%	2.2%
Retail Sales (% Chg)	3.8%	4.2%	2.6%	3.0%	4.5%
Residential Permits, Total (Mil)	3.9	4.2	4.7	4.8	5.4

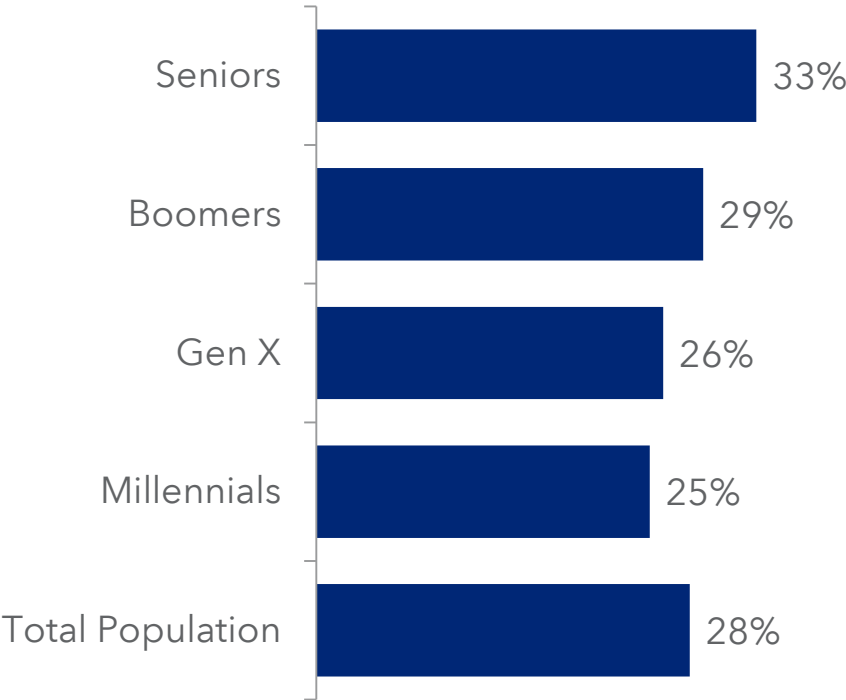
Source: Moody's

# CPGs can encourage shoppers to trade up to premium-tier solutions with carefully targeted messaging that highlights smart splurges.

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



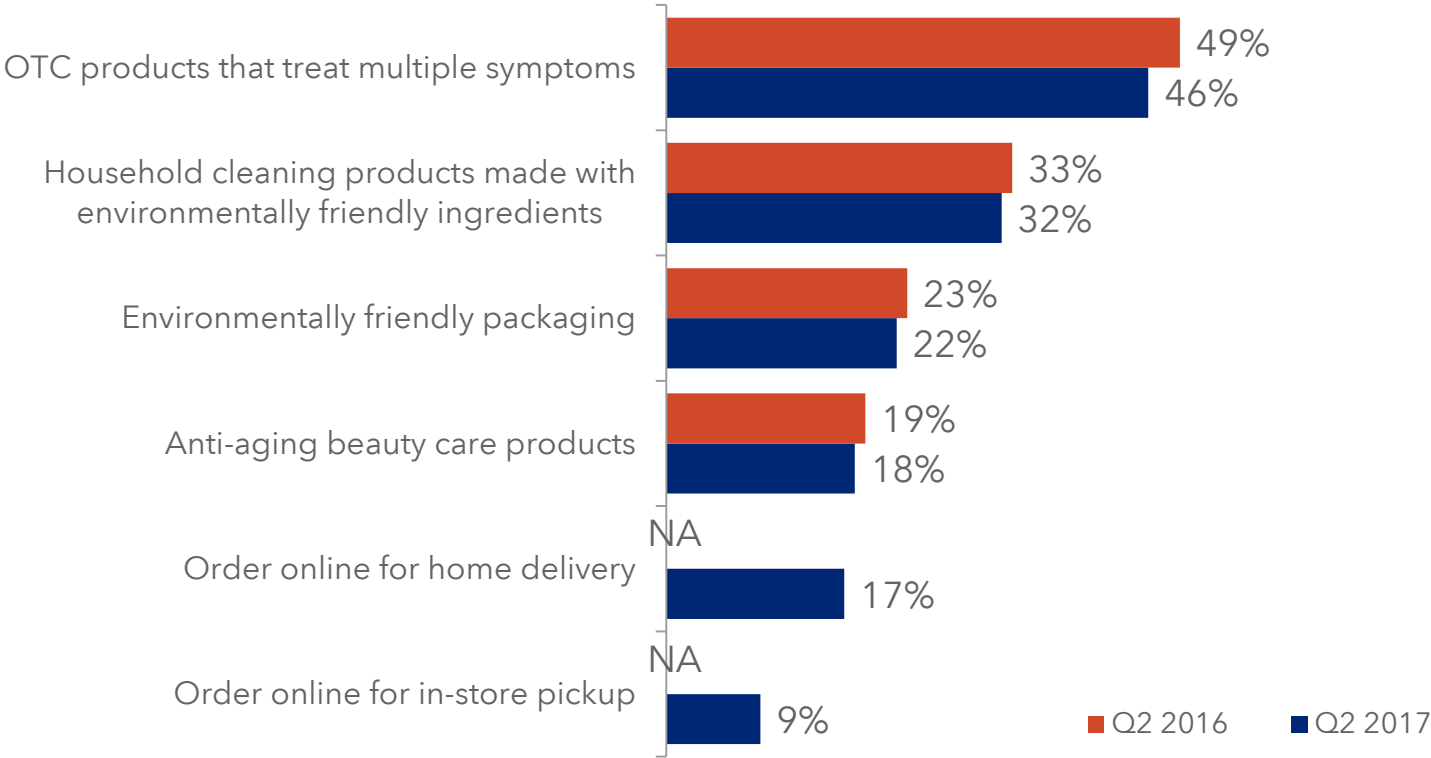
### Expect to Purchase More Premium Brands During the Next Six Months, by Generation



Source: Consumer Connect™, Q2 2017

# Consumers will pay a premium for non-food solutions that address environmental sustainability and strength.

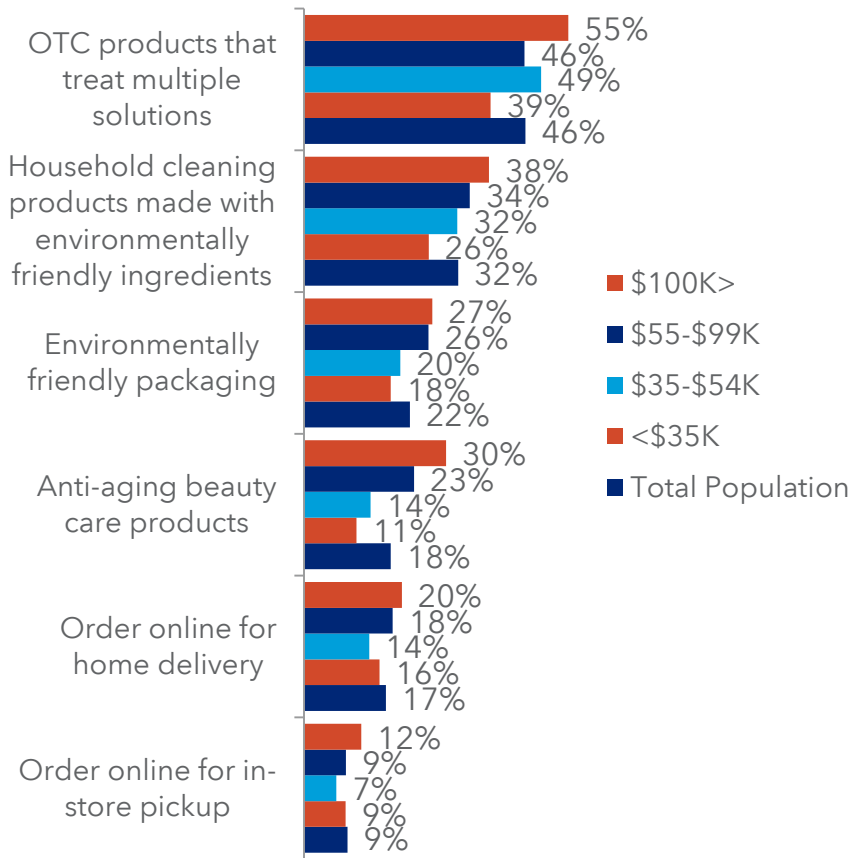
### Consumer Willingness to Pay a Premium for... Total Population



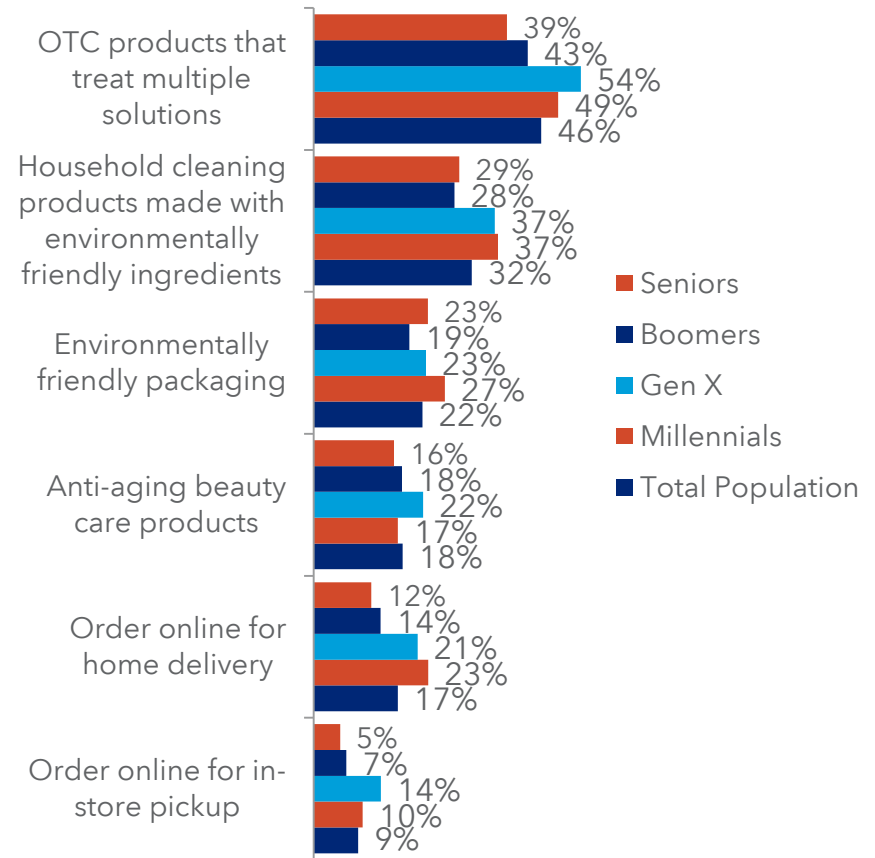
Source: Consumer Connect™, Q2 2017 & Q2 2016

Targeting against high-potential consumers is critical. For instance, millennials will pay more for online ordering with home delivery and wealthier shoppers will pay more for nutrition density and eco-friendliness.

Consumer Willingness to Pay a Premium for...  
by Income



Consumer Willingness to Pay a Premium for...  
by Generation



Source: Consumer Connect™, Q2 2017