nual growth rate (CAGR) of 5% – a rate that exceeds that of the past 7 years.

In a time when the vast majority of consumers are currently "somewhat" or "very confident" in the safety, quality and effectiveness of supplements according to CRN, a CAGR of 5% may be seen as too conservative.

Still, nationwide usage of dietary supplements has remained steady with approximately 80% of adults buying supplements at least once a year, indicating that without an unforeseen and dramatic product innovation, government subsidy or healthcare revolution, supplement industry growth will track just ahead of population growth.

It is also possible dietary supplements will surface in the food safety debate. Trade groups and others are keeping a close eye on Congress. Food safety legislation, such as the "Food and Drug Import Act of 2007" (H.R. 3610) introduced Sept. 20 by House Committee on Energy and Commerce Chairman Rep. John Dingell, D-Mich., would not only affect the ingredient, supplement and food industries.

The lawmakers interested in food safety are also interested in supplements, which could make the fact the majority of dietary ingredients are sourced from China explicit to consumers.

According to Israelsen, there is a good possibility supplements will become a case study in food safety hearings because dietary supplements are already on the agendas of Reps. Dingell and Henry Waxman, D-Calif.

"If they can wrap us into the same hearings where they pick up some of the food issues and other things that are bugging them … That's an efficient use of resources," he pointed out in an interview in early September.

Manufacturers are already showing a greatly increased interest in ingredients' country of origin and auditing of foreign firms, according to suppliers.

The Cost of a Quality Product

Interestingly, *NBJ* market research found the average price of a supplement declined in the U.S. compared to 2003. Consumers paid $11.22 for a 90-count bottle of supplements, down from $11.92 in 2003. This is a concerning trend given the high cost of making a quality product.

Vitamins were the only product segment that saw an increase in prices, while minerals, sports, meal, specialty and herbs/botanicals all experienced price declines. The mineral segment remained the steadiest, priced down only 13% from $7.76 per bottle in 2003.

Meal supplements fluctuated most wildly, with an average price for a 4-pack of RTD product down 40% from 2003 prices to $12.44 in 2007, due primarily to a decline in the price of certain low-carb meal replacements.

> ***Overall, 2006 U.S. consumer supplement sales totaled $22.5 billion and NBJ forecasts sales of $23.6 billion in 2007.***

A willingness among consumers to pay more for products, could be a benefit of the increased attention to quality and safety, Israelsen suggested.

The current environment offers firms doing a good job a "great chance" to demonstrate that, he said. "The incentive will be more of a marketing and branding exercise: how can you demonstrate you're really a top-end player? I think people are willing to pay a bit more than they're paying today for a product they really have a whole lot of trust in," Israelsen added.

"It's the **Whole Foods** phenomenon. People spend a lot of money when they shop Whole Foods – premium pricing – because they trust what's there. And I think if that phenomenon goes national that people should expect to pay more for supplements generally. But, I've been saying for years we're not paying enough. If you know what goes into making a high quality product, the average pricing is just too low," he said.

HealthFocus International Shares Insights on Consumer Segments, Trends

HFI General Manager Steve Walton on untapped markets, consumers' concerns in 2008, more

NBJ: Would you tell me about the HealthFocus segments identified in the "2007 HealthFocus Trend Report" and how manufacturers can use these segments as they develop products and marketing?

SW: Today almost all shoppers are health active (96% select foods for healthful reasons), a figure that has increased six points since 1990. However, the propensity for certain healthy foods, shopping patterns, eating behaviors and belief systems can diverge widely. **HealthFocus International** has identified a set of six relatively distinctive consumer segments – or groups – that can form the basis of a relevant target audience strategy:

Healers (13% of shoppers) feel compelled to follow a healthy diet because of current health problems or because of risk of health problems in the future.

Managers (40% of shoppers) make healthy choices for daily benefits and look for immediate positive results. Their positive attitude about their future health and well-being is directly related to their positive attitudes toward healthy choices.

Investors (24% of shoppers) prepare for the future making healthful choices now and believe that ensuring future good health requires forethought and attention.

Disciples (5% of shoppers) consider their dietary choices to be of extreme importance and they are obsessive about eating healthy.

Strugglers (14% of shoppers) find it difficult to make healthy choices and tend to look for a quick fix for health and diet problems.

Unmotivateds (4% of shoppers) rarely or never base their food choices on health considerations.

Since each group exhibits distinct but rather homogeneous patterns within each segment, manufacturers can develop brand strategies, product development programs, marketing and in market executions that are most relevant, motivating and meaningful.

It is important to note that while some of the groups are distinguished in part on demographics, the foundation for selection into each segment are more meaningful attitudinal and behavioral patterns that are more important in driving product adoption and usage.

NBJ: Were there any findings you thought were particularly interesting, notable or surprising in the "2007 HealthFocus Trend Report"?

SW: One particularly interesting finding in 2007 was the result of our study in the Health & Wellness Attitudes and Behaviors of Hispanic Shoppers in the U.S. Among other findings, we conclude that U.S. Hispanic Shoppers are much more food involved and more in touch with the emotional and physical impact of food and its relationship to health and family.

The U.S. Hispanic population represents a fertile market opportunity in health and wellness, with less need to convince targets of the nutritional and functional benefits of healthy foods.

Traditionally, U.S. brand manufacturers have thought of the U.S. Hispanic shopper as a 2nd or 3rd tier marketing opportunity after mainstream shoppers, whereby a retrofit of the existing brand positioning could drive incremental sales and profits.

The challenge has been the notion that the Hispanic population is not one homogenous group but represents a multitude of cultures, languages and behaviors that require different marketing strategies to be effective. The US Hispanic population represents fertile emotional grounds, with less need to convince targets of the nutritional and functional benefits of healthy foods.

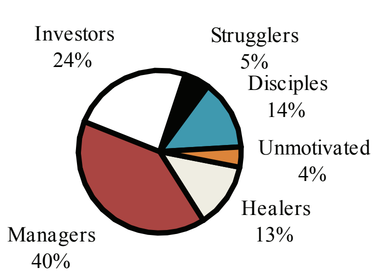
The U.S. Hispanic population represents a fertile market opportunity in health and wellness, with less need to convince targets of the nutritional and functional benefits of healthy foods.

NBJ: What will be key concerns for consumers in 2008, and how should manufacturers act on this knowledge?

SW: Two that are worth mentioning are 1) obesity and 2) food as more than nutrition:

65% of the U.S. population is overweight; however, only 8% of consumers rate weight as the primary reason for choosing healthy foods (ranked 5th); only 35% of shoppers consider themselves overweight, yet over 60% of shoppers have been on a diet in the past year. A couple of implications are a) this is not a trend that can be ignored b) consumers are moving more towards "system approaches" to weight reduction c) there may be an important marketing and behavioral distinction between weight reduction and weight loss d) manufacturers need to carefully consider their product ingredient list to address any that contribute to obesity.

2007 HealthFocus Consumer Segmentation



Source: 2007 HealthFocus Trend Report

Food is increasingly seen as providing health benefits beyond simply satisfying basic nutrition. Seventy-six percent of shoppers strongly agree/agree that "some foods contain active components that reduce the risk of disease" and 56% strongly agree/agree that "foods can be used to reduce my use of some drugs and other medical therapy." Combined with 92% who strongly agree/agree that "my short term health depends on how well I take care of myself", and we see a merging of traditionally two different industries: pharma and food manufacturers. Besides the obvious opportunities for product development, this implies to us the potential restructuring of the traditional competitive set for both food companies and pharma companies as well as some very interesting strategic relationships.

NBJ: Would you elaborate on what some of these strategic relationships might be?

Check out the Oct. 24 *Wall Street Journal* (**Dow Jones & Company**) section A14 **Cargill** ad: "to fight cholesterol we are looking beyond the pharmacy."

Some brainstorming ideas for the future to drive further discussions and activity in the areas of co-branding/product development:

- Prescription foods
- Foods enhanced on the basis of pharmaceutical sciences and product engineering (e.g., the likes of "Migraine-Free Chocolates")
- Foods that are officially endorsed under approved medical treatment plans (such as "an American Diabetes Association approved" product for diabetes management)
- Foods and diets address consumers' genetic predispositions (reflecting insight from new genomics technologies), such as propensities toward breast cancer or stroke

Are there any health benefits that consumers are starting to gravitate towards more?

Personal health for consumers is increasingly about positive attitude, not just physical health. Being healthy today is about the power to choose to be happy and enjoy life. (79% of shoppers strongly agree/agree that "eating healthy foods make me feel good about myself"). Health benefits need to connect with consumers on an attitudinal or emotional level more than just on the physical or rational level.

While taste is the cost of entry for any food item (41% of respondents maintain they rarely or never give up good taste for health benefits), taste alone may not be sufficient to build market share. In health & wellness:

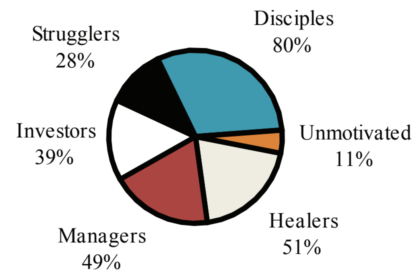
- 31% Always/usually choose foods just because they taste goood
- 33% Always/usually choose foods to improve daily performance
- 37% Always/usually choose foods for specific medical purposes
- 44% Choose foods because they contain desirable nutritional qualities

NBJ: It seems from your research that Gen Y is turning out to be a group that is particularly receptive to natural and organic products. Would you talk about some of your findings in this area?

SW: Gen Y, children of the baby boom generation aged generally 18-29, account for over 48MM people and are expected to soon exceed the spending potential of the boomers, providing a challenge to the hegemony of the boomers on the economy. They marry later, have children later, many move back home after university, grew up in a time of uncertainty, are demanding and ambitious – though work is not the only thing in their lives.

- 66% always/usually eat healthy foods, up from 56% in 1994, and 61% always/usually select foods for healthy reasons, up from 52% in 1994.
- 43% of Gen Y shoppers claim that Certified Organic is a strong/ moderate influence on food labels compared to 37% of boomers while 37% of Gen Y uses organic products at least once a week compared to only 24% of boomers.
- More Gen Y Shoppers compared to the general population believe that organic tastes better (44% vs. 40%), more believe organic is fresher than non organic (54% vs. 47%) and more believe that organic is more nutritious (63% vs. 57%).

"I choose foods because they contain desirable nutritional qualities (vitamins, fiber, antioxidants)."



Source: 2007 HealthFocus Trend Report

NBJ: We've heard a lot about the market potential of the Boomers. What can HealthFocus add to this conversation?

SW: Besides the well known demographic characteristics of boomers, it is important to distinguish between older boomers and younger boomers. Each group has very different health concerns and needs. Expecting to market to them as one group in health & wellness could be a mistake. More relevant is where they fit within the HFI attitudinal segmentation groups as discussed above.

Another interesting point to understand about boomers and their view on life is that while 25% of shoppers aged 18-29 say the primary reason for making healthy choices is to ensure future good health, this number is 32% among shoppers 50-64.

NBJ: How can manufacturers help consumers turn motivation into action?

SW: Understanding the target audience- not just from a usage or demographic perspective- but from an attitudinal and emotional perspective, and do not limit this just to the market in question. Understand your prospect's basic belief system that drives behaviors. This is the foundation of the HFI attitudinal segmentation discussed above and why it is so relevant to manufacturers to turn motivation into action. Although health and nutrition products are often formulated to address specific health needs, benefit based communications are more compelling for shoppers.

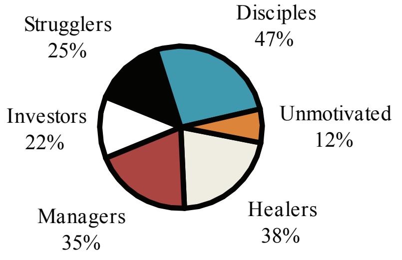
HFI has developed from our work eight benefit platforms for positioning health and nutrition products. These are:

- Well being-balance, moderation and feeling good
- Natural-simplicity, purity, and wholesomeness
- Cosmetic-looking good and enhancing self esteem
- Pleasure-feeling good, and eating for greater personal satisfaction
- Nurturing-caring for the health and quality of life for others
- Performance-active participation in life and meeting physical challenges
- Weight management-having a healthier body image
- Prevention-health management and reduction of risk

In summary, focus on the benefit and tie it clearly and appropriately to the product benefit chain a) product function (i.e., glucosamine) b) functional benefit (i.e., joint pain relief) c) emotional benefit (i.e., to allow me to enjoy the active life I choose).

NBJ: You talk about "negative" and "positive" nutrition in the "2007 HealthFo-

"I choose foods because they are fortified with extra vitamins, minerals and other nutrients."



Source: 2007 HealthFocus Trend Report

cus Trend Report." Are these divisions equally forceful in consumers' minds? What is the motivation behind each one?

Negative nutrition includes such things as sugar, fat, carbohydrates, salt or food ingredients or additives that many shoppers avoid in order to eat healthfully. Positive nutrition we define as increasing one's intake of calcium or vitamins, for example, where the focus is on food ingredients that provide health benefits.

In 2006, 40% of shoppers always/usually chose "foods because they do not contain undesirable nutritional qualities" down from 46% in 1996, while 44% of shoppers always/usually chose "foods because they do contain desirable nutritional qualities. The balance has clearly shifted in the favor of positive nutrition.

The motivations for this are shoppers' choice of foods for healthful reasons such as appearance, productivity, feeling good about myself and ensuring my future good health, which is the No. 1 primary reason shoppers eat healthy (30%).

NBJ: How do you communicate product benefit to consumers effectively?

SW: The food label is considered the most useful source of health and nutrition information (38%) more than physicians (36%), Health Magazines (31%), Friends (31%) and TV/Radio (28%). 37% of shoppers strongly agree/agree that "I do not believe many of the health claims made on packages" down from 54% in 1992 who do not believe claims.

NBJ: What impact will food and import safety consumers have on consumers in 2008?

SW: Purity, organic, sustainable, local, fresh, fair trade, food safety and triple bottom line (profits, community and environment) are all things that we see greater consumer attention to and manufacturers need to play careful attention to. "Minimally messed with and where did it come from."

In brand selection, 44% of shoppers strongly agree/agree that environmental issues have influenced food product selection while 46% prefer to buy from companies that support social, community or environmental interests. Sixty-three percent are extremely/very concerned about pesticides in foods, 66% about mercury levels, and 52% about preservatives.

NBJ: What do manufacturers need to do to make consumers confident in the safety and quality of their brand?

SW: They need to instill confidence in two dimensions: 1) food ingredients and 2) production processes. Manufacturers need to provide transparency on the sourcing of their products and ingredients, and they need to provide reassurance to consumers regarding their production methods including safety and integrity.

HealthFocus International, a subsidiary of Irwin Broh and Associates, is a consumer market research and consulting firm specializing in consumer health and nutrition trends. With over 20 years of experience working with the most successful food, beverage and pharmaceutical brand marketers and business leaders, HFI is the authoritative resource for companies who need to understand consumer attitudes and behavior toward health and nutrition choices. Their HealthFocus Trend Survey is conducted biannually in 31 countries.

Brazilians Look To Functional Foods As Health, Wellness Concerns Increase

By Mary Tabion, Latin American Research Manager, Euromonitor International

As health and wellness issues increasingly make headlines across Latin America, consumers are actively seeking out products that can address their concerns about obesity and nutrition. More consumers are making a direct link between diet and health, and seek out foods that can help with weight control, disease prevention and stress management. Functional foods are making inroads into Latin American diets with their promises to improve health and nutrition as dairy producers step up research and development.

Dairy products already enjoy a healthy reputation among Latin American consumers, as they perceive milk, cheese and yogurt as rich in protein and calcium. Yogurt in particular has a positive image, and is often eaten as part of a weight loss program, after school snack or with fortified breakfast cereals. Dairy producers are working to transform yogurt into a superfood through the introduction of functional yogurts.

Functional yogurts can include probiotic or pre-biotic cultures, as well as additional fiber. Active cultures are promoted as protection for the immune system and aides to digestion. Furthermore, the addition of fiber such as inulin can improve calcium absorption, while other types of fiber can improve digestive tract function. Functional yogurts often are further fortified with additional levels of calcium or antioxidants, such as vitamins C or E.

Functional products have accelerated growth within yogurts, an expanding category within Latin America's dairy industry. Functional drinking yogurts retail value sales are projected to rise 15% in 2007; functional spoonable yogurts are forecast to soar 60%. Yogurts as a whole are projected to gain 16%, while dairy products should grow at a more moderate 12% in 2007.