ACOSTA

SALES & MARKETING

Health & Wellness 360°

HOT TOPIC REPORT

June 2014

What has been a rapidly evolving CPG landscape is about to move even faster. A bold statement, but look around. From changing consumer and shopper attitudes to new product innovation that is winning in the marketplace, the retail landscape is evolving before our eyes. Understanding where to place your bets in a changing environment can be challenging.

A few mega trends are shaping the future. Recognizing and responding to these trends will drive future results and help paint a clearer picture of the new normal. **Health and wellness** is not only a mega trend, it is an industry imperative for CPG manufacturers and retailers. It is both a responsibility to create a healthier society and an opportunity to create more consumer and shopper loyalty for brands.

Companies are launching bold health and wellness initiatives. One large retailer recently announced plans to carry a line of organic food branded by another retailer. A major drug store retailer announced it will stop selling tobacco products later this year because the products don't align with the company's values and growth strategy of being a health care company.

In this latest report from Acosta Sales & Marketing focused on health and wellness, we will explore the many facets of this mega trend and focus on solutions that will result in *healthier* consumers, *healthier* shoppers, *healthier* shopper loyalty, *healthier* sales, and *healthier* profits for the CPG industry.

There are multiple facets of health and wellness and each are influencing the growth of this mega trend.

Nutritional – Fresh, natural, organic and gluten-free are among the fastest growing healthy food trends. Shoppers are looking for healthy options and need help in the way of education and information to ensure they make good choices.

Social – Health and wellness is clearly a social phenomenon. Those around us have a significant impact on our health and wellness and we have a significant impact on theirs as well.

Environmental – Health and wellness is not just about the food we put into our bodies but also how we maintain our environment. In 2013, there were 47% more new item introductions claiming the product is friendly to the environment and 21% more new items with claims of packaging environmentally friendly.

Emotional – Mental health is as important as physical health. Over 50% of Millennials report having "high anxiety" or "being stressed," and stress is suspected to contribute to certain diseases and even life expectancy.

Spiritual – While spiritual wellness means different things to different people, it results in people feeling their lives have meaning and harmony. This can be achieved in many ways including volunteering, social responsibility, religion, and a strong, personal value system.

Physical – Physical activity is integral to good health, contributing to better physical health, less disease, improved mood and better sleep. According to Acosta's *The Why? Behind The Buy Spring 2013,* 60% of total U.S. shoppers report exercising at least 2-3 days per week.

Health & Wellness in the U.S.

The Centers for Disease Control and Prevention's latest released report on the current state of health shows the majority of Americans consider themselves in very good or good health. However, there are challenges, especially obesity.

Much of the discussion about health and wellness in the U.S. centers around the obesity problem for good reason. The U.S. is the most obese nation in the world. According to the 2013 Gallup-Healthways Well-Being Index, 27.1% of Americans are obese, and an additional 35.6% are overweight, which represents the majority of our population. A variety of factors contribute to obesity, including genetics, age, economic situation, health conditions/disease, lack of exercise, poor diet and culture.

Medical science has proven that obesity can lead to a variety of diseases, such as hypertension, heart disease, type 2 diabetes, and various forms of cancer. In addition, there's growing evidence that obesity contributes to many other chronic medical conditions such as asthma, autoimmune disease and reproductive problems.

The U.S. Healthcare Cost of Obesity: $147 billion annually

Medical costs are 42% higher than those of normal weight patients

Shopper Attitudes & Behaviors

Health and wellness concerns are top of mind when shoppers head into the store. Fifty-eight percent of those surveyed* by AMG Strategic Advisors said they have always been interested in healthy eating and always will be. The top priorities for shoppers:

- Reading food labels for ingredients: 61%
- Taking vitamins/supplements: 57%
- Buying fresh foods instead of frozen: 56%
- Buying products from established, trusted brands: 55%
- Buying foods that DON'T HAVE unhealthy ingredients: 54%

*self-reported

Seventy-eight percent of shoppers say they Always or Sometimes read the labels. What do they look for?

Package Claim	% Total U.S. Respondents
Whole Grain / Wheat	53%
Low Fat / Fat Free / Reduced Fat	42%
Sugar Free / Low in Sugar	41%
All Natural	40%
Low Calorie / Reduced Calorie	36%
Heart Healthy (i.e. Omegas)	34%
Organic	34%
No Additives / Preservatives	33%
No High Fructose Corn Syrup	32%
Low Cholesterol / Cholesterol Free	31%
No Saturated Fat	30%

Source: Spring 2014 The Why? Behind the Buy™ Shopper Survey, Total U.S. Shoppers

Top barriers to eating healthy (in addition to budget/cost):

Taste 34%
Changing eating habits 28%
Motivation 24%
Meal preparation time 21%
Determining which foods are healthy 20%

Fifty-two percent of shoppers are eating more fruits and vegetables in their pursuit of a healthier lifestyle. Additionally, 34% of shoppers are eating whole grain foods and 28% are avoiding salt.

Top 3 Vitamins / Supplements Shoppers Seek To Add To Their Diets:

Vitamin D – 37%
Vitamin C – 36%
Calcium – 33%

Source: Spring 2014 The Why? Behind the Buy™ Shopper Survey, Total U.S. Shoppers

Which Of The Following Do You Regularly Purchase?	Total	Reason for Purchase						
		Weight Loss	Diabetes	Heart Health	Gastro-Intestinal Health	Inflammation Or Pain Management	General Health	Increased Energy Or Stamina For Sports Or Activities
Whole Grain Products	66%	71%	70%	78%	73%	64%	71%	71%
Fat-Free Food Items	45%	57%	51%	55%	46%	44%	46%	54%
All-Natural Food Items	44%	48%	40%	49%	53%	46%	46%	55%
Organic Fruits / Vegetables	35%	38%	35%	39%	47%	43%	38%	45%
Salt-Free Food Items	33%	35%	46%	45%	43%	39%	34%	39%
All-Natural Cleaning Products	24%	27%	21%	30%	33%	31%	25%	36%
Organic Meats / Fish / Poultry	23%	25%	26%	29%	32%	27%	25%	36%
All-Natural Personal Care Items	21%	23%	17%	26%	29%	29%	23%	32%
Organic Dry Goods (Bread, Pasta, Etc.)	21%	21%	23%	27%	30%	28%	23%	34%
Organic Snacks	19%	23%	26%	24%	30%	25%	20%	28%
Organic Frozen Foods	18%	19%	17%	24%	28%	21%	19%	25%
Organic Sauces / Soups	13%	14%	10%	19%	22%	19%	14%	23%
None Of The Above	9%	6%	6%	5%	8%	7%	10%	5%

Source: AMG Strategic Advisors, U.S. Health & Wellness Consumer Survey - March 2014

Generational Differences: Age influences everything from how shoppers research health and wellness topics to what motivates their interest in health and wellness. Younger shoppers tend to be more passionate about health and wellness, are more likely to try new health and wellness behaviors and value transparency in the products they buy.

How do you Google? An interesting way to understand health and wellness by generation is to take a look at how different generations Google search health and wellness topics. (To be fair, Millennials are more than twice as likely than Baby Boomers to use the Internet to research health and wellness topics. Younger generations also use more information sources than their older counterparts.)

Millennials Google tips on healthy eating and recipes, and look for diet information.

- Specific food items like chia seeds, soy beans, etc.
- Healthy meal ingredients
- Quick, cheap healthy meals
- Find blogs related to healthy eating, like Earth Friendly Mama

Older Boomers Google diet information, and information on natural products and GMOs.

- Gluten-free foods; which preservatives are harmful; what are GMOs; does all meat contain antibiotics?
- What is the proper way to make different foods
- Specifics in a food label that I don't understand or question
- Diet center programs
- Low sugar products, low salt products, healthy eating
- Source of ingredients, manufacturing process, additives

Source: AMG Strategic Advisors, U.S. Health & Wellness Consumer Survey - March 2014

Affordable Care Act (ACA) Implications: Consumers are planning for increases in healthcare costs, and indications are the ACA may lead to more business for OTC medications and medical services provided by retailers. Two in five households expect their budget for health insurance, currently 8% of their total budget, to rise over the next year. Consumers, particularly those 18 to 34 years old, perceive benefits from ACA to increase the need for OTC products. Nearly 20% of consumers say OTC pain medication and cold and flu medication purchases will increase.

One-third of shoppers indicate they are comfortable with medical services provided by retailers and about 25% plan to use them. Consumers, 25 to 44, are most likely to use retailer medical services while those 45 and older are least likely. Younger consumers are most likely to receive medical services at a Drug retailer while older consumers (45+) are more likely to use services at a non-Drug retailer like Walmart or Kroger.

Today the Drug and Mass channels fill three of every four prescriptions and more shoppers expect to increase purchases. For Mass, this will translate to 15% of consumers shopping there more in 2014, but only 8% expecting to shop Drug more. Retailers will benefit from related purchases. Younger consumers, 34 and under, indicate they are more likely to purchase a greater variety of items when filling prescriptions.

More than one-third of consumers express interest in receiving helpful information from a pharmacist or wellness assistant.

Industry Response: Retailers

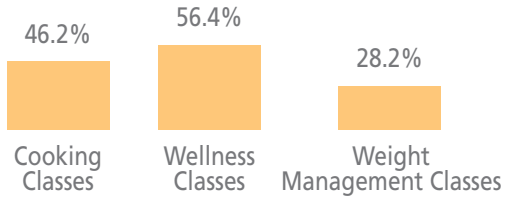
Retailers have made a variety of in-store changes to help shoppers in their pursuit of health and wellness. Some have added walk-in clinics and wellness consultation areas. Many have expanded key categories such as OTC medicine and supplements, gluten-free offerings, natural/organic foods, healthy snacking, etc. Additionally, retailers have launched many different types of health and wellness programs, including:

Over one-third of employed dietitians are working in retail stores.

- Comprehensive wellness programs coordinated by on-staff dietitians
- Nutrition education, including lectures and cooking demonstrations
- Individualized healthy meal planning
- Budget planning and coupons to help support healthier meal planning
- Community outreach and collaboration with schools, hospitals, adult living facilities, etc.
- Advertising, promotions, healthy living newsletters, shelf labeling, posters, etc.
- Mobile and internet-based nutrition education and marketing programs
- Wellness-themed reward programs

Supermarkets Providing In-Store Classes

Percent of Store Respondents



Source: FMI Survey Report, Retailer Contributions to Health and Wellness

Labeling at the Shelf: According to a study published in Food Policy, the nutrition guidance program Guiding Stars influences grocery shoppers' selections, significantly increasing demand for products that are rated more nutritious. Food rating systems like Guiding Stars and NuVal seem to be most effective with younger shoppers. More than 40% of Millennial and Gen X shoppers reported they find rating systems 'very to extremely' useful.

Front-of-packaging labeling has been widely accepted by the CPG industry. Early this year the GMA and FMI announced a national consumer education campaign to increase awareness and understanding of this initiative. Facts Up Front labels take important information from the Nutrition Facts Panel on the back and sides of packages and display it in an easy to use format on the front of the package. A recent online survey conducted by Harris Poll on behalf of GMA found that more than nine in 10 grocery shopping decision makers agree that Facts Up Front makes nutrition information easy to find and use (93%), and that it is simple to understand (92%).

Category Growth: With health-oriented retailers like Whole Foods Market at the top of the growth spectrum and new healthy grocers expanding into the market, traditional retailers and grocers are pushing expansion in health and wellness categories. Some are developing more organic, natural private label products while others are proactively expanding key products (think gluten free and non-GMO) to build health and wellness variety in store.

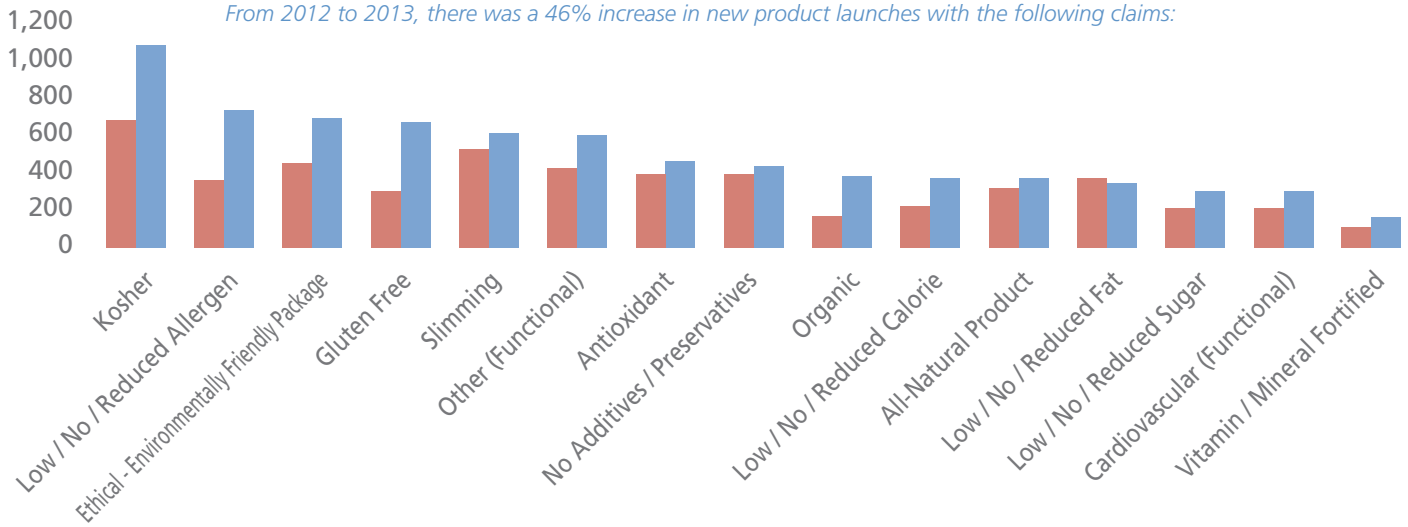
Industry Response: CPG Manufacturers

In 2013, seven out of the top 10 food and beverage launches by CPG companies* focused on the 'better for you' aspects of the product. For most CPG companies, health and wellness is a primary opportunity for growth for the foreseeable future. Consider that the natural/organic food category has outpaced the growth of the total industry, growing an average 12% over the past 15 years compared to under 9% for the total industry.

Source: IRI New Item Pace Setters

Top 15 Functional Claims of Newly Launched Food & Beverage Products

From 2012 to 2013, there was a 46% increase in new product launches with the following claims:



Source: Mintel Functional Food & Beverage Product Launches, 2012-2013

Beyond Food

The ripple effect of the health and wellness mega trend has impacted categories as diverse as personal care, household, vitamins/supplements, pet care, food, snacks and beverages. Product development in these categories will continue to focus on added benefits and the absence of negative attributes, for example:

- Shampoos that nourish the scalp and create the right foundation for strong, beautiful hair
- Mouthwashes with dentist-clean feeling and anti-tartar ingredients for cleaner, brighter teeth
- Pet food that supports weight control and heart health

Healthier Snacking:
Snacking is a big business. Mintel predicts the snacking industry will grow by 31% to $28.6 billion by 2018 spurred largely by healthier snack options. Today 30% of U.S. consumers choose popped potato chips for their lower calorie and fat content.

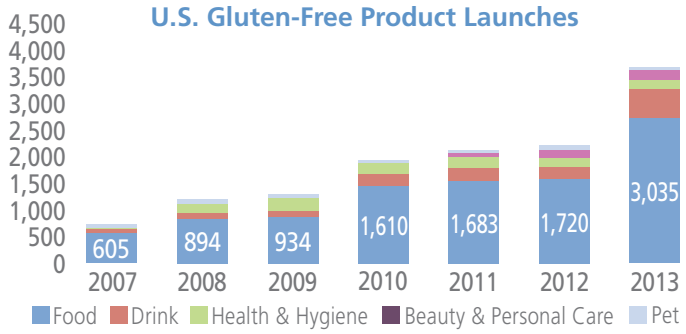
A Healthy Approach, More or Less: Taking a 'more or less' approach seems to resonate with shoppers. Consumers look for positive attributes (usually key ingredients) as well as the absence of negative attributes when selecting products. The idea of adding the good stuff and subtracting the bad is influencing both CPG product development and marketing. Promotion of health attributes are found even in high indulgent categories like ice cream and alcohol (ie. no high-fructose corn syrup, lower calories, no sugar). Front-of-package labeling is very effective for marketing these positive/negative attributes (ie. more fiber, less fat).

Shoppers seek the following top three positive attributes and avoid the following top three negative attributes:

Positives	Negatives
Whole Grain / Fiber	Fat
Natural / Organic	Sugar
Heart Healthy	Calories

Source: Spring 2014 The Why? Behind the Buy™ Shopper Survey, Total U.S. Shoppers

Gluten Free: Gluten free has become a trend within the health and wellness mega trend that shows strong potential for continued growth. Sales of gluten-free food have grown 44% between 2011 and 2013 to an estimated $10.5 billion. Over the next three years, the gluten-free market is expected to grow another 48% to reach sales of $15.6 billion in 2016.



Source: Mintel, Gluten-Free Product Claims, 2007 - 2013

The Gluten-Free Shopper:

- *More than half of Americans who eat gluten-free foods for reasons other than intolerance or sensitivity (65%) eat them because they believe them to be healthier alternatives.*
- *27% of Americans eat them for weight loss.*
- *Some 24% of Americans say they, or someone in their household, currently eat gluten-free versions of foods that typically contain gluten.*

The Government Role

Lately there is a ratcheting up of both federal and state government efforts in the health and wellness area, from the introduction of the "Let's Move" program to fight childhood obesity to new bills mandating labeling of foods with GMOs.

Genetically Modified Organisms (GMO): Much debate surrounds the health of GMO crops. GMOs have been in the food supply for 20 years and the majority of the scientific community contends that they are safe. In fact, some argue that GMOs improve food supply by making super foods possible, for example. The use of GMOs is increasing, and while the U.S. government regulates food from genetically engineered crops, it does not require labeling of GMOs unlike in Europe and other countries. In 2013, a growing segment of U.S. consumers became more vocal about the need for GMO labeling on products, and they are having an impact. States such as Vermont, Maine and Connecticut have passed food labeling bills. Whole Foods Market announced plans to label GMO products by 2018, Chipotle Mexican Grill announced plans to stop using GMO foods and some CPG brands are reformulating certain products without GMOs.

A Natural Dilemma: Closely tied to the GMO debate is the issue of 'natural' labeling on foods. Since the FDA does not regulate the use of 'natural' claims on food products, there is not a clear definition of the 'natural' claim. It has consumer advocacy groups warning consumers they shouldn't trust 'natural' labeling. However, studies show 'natural' resonates well with consumers and 77% tend to trust the claim. Of course there's no simple answer to ensuring 'natural' means natural. The FDA's official response to the question of what's natural is that natural foods lack artificial or synthetic additives. Meanwhile lawsuits contending misleading claims on 'natural' foods are escalating and it's hard to imagine a neat and tidy fix to the 'natural' dilemma will come any time soon.

Recommendations

The Health & Wellness mega trend is an opportunity for retailers and CPG companies to support shoppers' efforts to live healthier, mindful and more enriched lives. Key opportunities include:

Affordable: One of the barriers to healthy eating is price, or more specifically, the perception that healthy eating costs more. Healthy and affordable meals can be made at home for less than the cost of an unhealthy fast food meal. Education is needed about the affordability of eating healthy.

Re-education: There's a deep need for sound advice and guidance on healthy eating and lifestyles. Years of fad diets and unproven theories have confused consumers. Shoppers welcome education, guidance and services to help them and their families live well. Educational programs may include store tours, cooking classes, nutrition counseling, menu planning, better product labeling, store signage, newsletters, web-based nutrition programs, etc.

Fuse Health and Wellness with Convenience: The two greatest motivators for shoppers shouldn't be mutually exclusive. Find ways to make health and wellness convenient for shoppers and you win the sale.

Innovate for Good: Shoppers are no longer satisfied with 'new and improved.' Innovations need to offer more benefits and fewer negatives. Give them a super-snack food that's packed with vitamins but has less fat. Show them how to make an organic smoothie that even their kids will drink using just three ingredients. Introduce a microwaveable meal in a BPA-free container that complies with MyPlate guidelines.

Transparency: Trust is earned. CPG companies and retailers who want to earn shoppers' trust should make a strong commitment to transparency. Some solutions include videos on how products are made and proactive (not government mandated) product labeling.

Think Holistic: As a mega trend, health and wellness is not just about what we eat. It's impacting where we shop, how we clean our homes and bodies, what we feed our pets, which companies we support, how we exercise, how we relax, where we vacation, how we medicate, etc. CPG companies and retailers need to take the same 360° view to understand how their products fit into healthy lifestyles.

About Acosta Sales & Marketing

Acosta is the sales and marketing powerhouse behind most of the trusted brands seen in stores every day. The company provides a range of outsourced sales, marketing and retail merchandising services throughout the U.S. and Canada. For more than 85 years, Acosta has led the industry in helping consumer packaged goods companies move products off shelves and into shoppers' baskets. Visit Acosta.com.

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