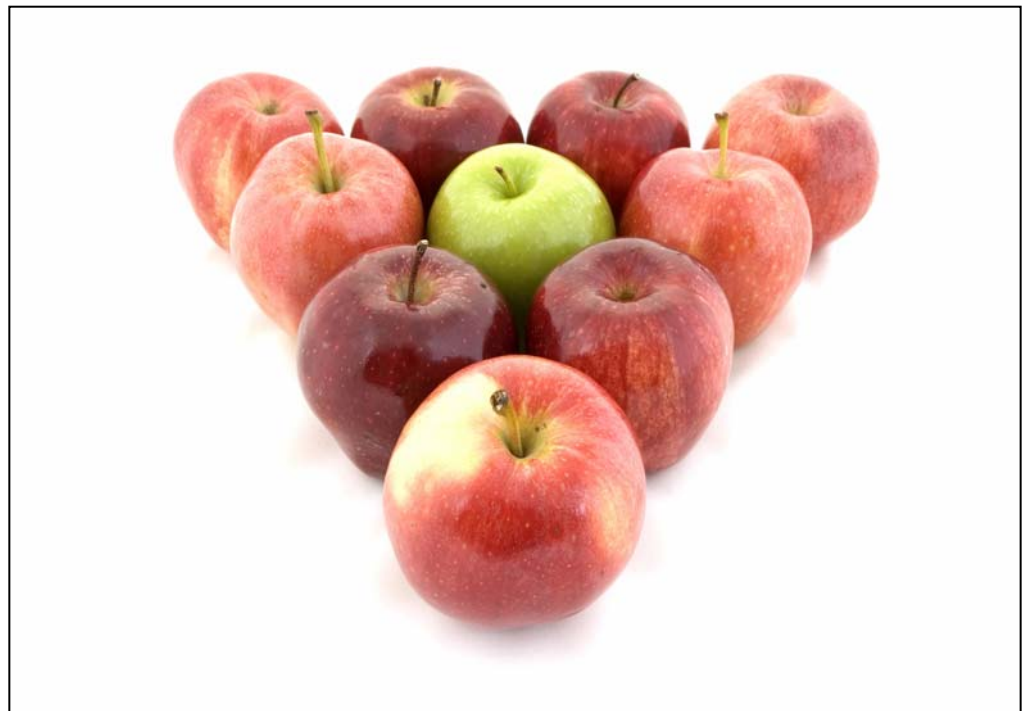


# TIMES & TRENDS

A SNAPSHOT OF TRENDS SHAPING THE CPG INDUSTRY

## HEALTHY EATING TRENDS

INNOVATIVE SOLUTIONS TO EVOLVING CONSUMER NEEDS



January 2006

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## EXECUTIVE SUMMARY

- ▶ New government healthy eating guidelines and labeling requirements have spurred an extraordinary level of innovation across CPG categories
- ▶ Consumers have embraced many “healthier” new products, but overall, dietary changes have been slow and gradual
- ▶ Consumers with health conditions manage their diets more aggressively than mainstream consumers and represent strong target markets for healthier products
- ▶ There is significant upside potential within “light” beverage, snack and dessert product segments, which are outpacing total category growth but currently represent a small share
- ▶ Traditional retailers’ innovative new formats and private label lines are transforming the high-growth natural/organics segment and increasing reach among consumers

## INTRODUCTION

**Innovation has enabled the CPG industry to take a huge leap forward in delivering against health and wellness needs.**

The past few years have been marked by an extraordinary level of innovation across CPG food and beverage categories in an effort to deliver against consumer health and wellness needs.

The reformulation of products to remove trans fat, creation of new ingredients to provide whole grain benefits without sacrificing taste and introduction of innovative packaging to help consumers manage caloric intake have enabled the industry to take a huge leap forward in providing healthier alternatives to consumers.

And, several new “healthier” product introductions have been embraced by consumers – illustrating the strong market potential.

As leading CPG marketers recognize, however, translating “better for you” initiatives into profitable sales growth requires an understanding of the complexities of consumer eating behavior and ongoing identification and monitoring of untapped opportunities.

This report is designed to help manufacturers and retailers:

See new product development and marketing opportunities by exploring consumer attitudes and behavior with respect to healthy eating and identifying emerging high-growth markets.

Act on these opportunities through new product development and fact-based marketing and advertising strategies that resonate with consumers.

Win at the shelf with the right products in the right markets targeting the right consumer.

**The complexities of consumer eating behavior create significant challenges for marketers of healthier products.**

## DRIVERS OF CHANGE CONSUMER MOTIVATION

The CPG industry has taken major steps to improve the health benefits of existing products and increase the availability of healthier alternatives. Ultimately, though, consumers will set the pace of change with their purchase and consumption selections.

As illustrated in the chart below, consumers' healthy eating behavior falls on a continuum, with the vast majority of consumers mixing in healthy foods and beverages with less healthy fare.

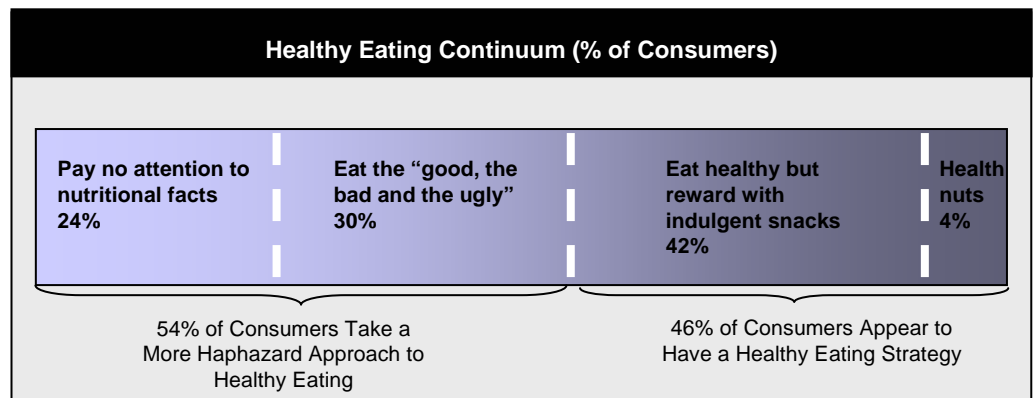
Roughly half of consumers seem to approach food and beverage selection with a healthy eating strategy in mind (42% eat healthy

but reward themselves with indulgent treats, and 4% are self-proclaimed health nuts), while the remaining half eat more haphazardly.

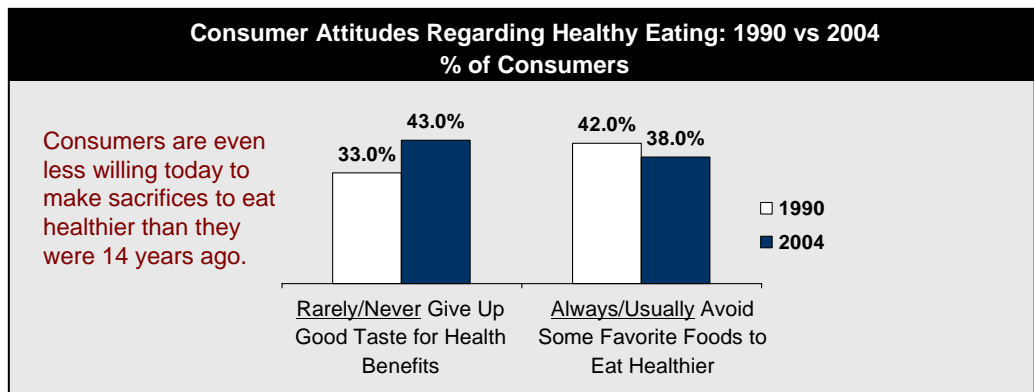
While consumers want to eat healthier, most are not motivated to make major sacrifices to do so.

Changes in eating patterns will continue to be very slow and gradual. For most consumers, healthy eating is not a hard and fast rule, but is situational.

The complexities of consumer eating behavior create significant challenges for marketers of healthier products to assess true market opportunity and to develop marketing messages that will resonate with the mass market.



Source: Based on findings from *Parade Magazine* 2005 "What America Eats"® Survey



Source: HealthFocus International®

## DRIVERS OF CHANGE HEALTH FACTORS

**A growing number of consumers control their diets to manage specific health conditions.**

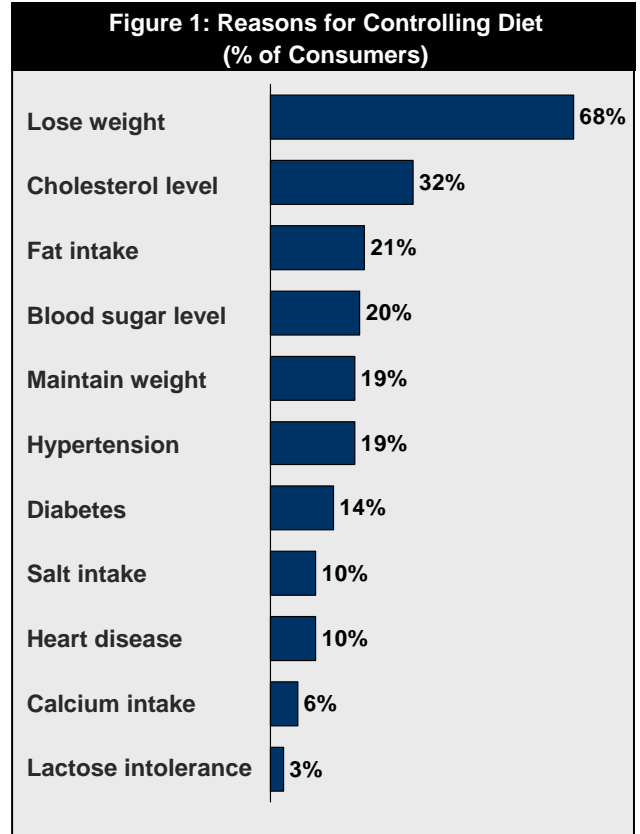
In addition to general population efforts to “eat healthier,” there are sizable sub-segments who are following specific diets to manage health conditions.

Weight management is the number one reason that consumers control their diet (Figure 1), as evidenced by a significant proportion of consumers who follow low fat, low calorie and to a lesser extent, low carb diets (Figure 2).

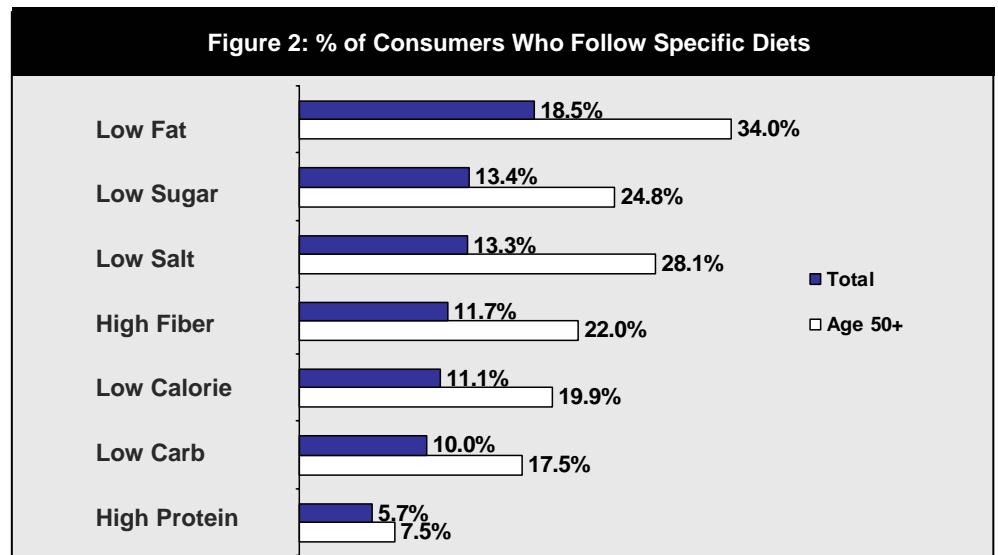
Diet is also an important tool in managing other health conditions, such as high cholesterol, diabetes and heart disease that will become even more critical as the 50+ population burgeons as younger Boomers age.

As detailed in the “Industry Impact” section of this report, foods and beverages with weight and disease management benefits represent sizable and growing markets.

**The proportion of consumers following a specific diet will grow over the next decade as 45 million “younger Boomers” turn 50.**



Source: Mintel/Simmons NCS Fall 2004; among the 34% of consumers controlling their diets; multiple responses allowed



Source: IRI MedProfiler V Health & Wellness Survey

## DRIVERS OF CHANGE GOVERNMENT REGULATIONS/GUIDELINES

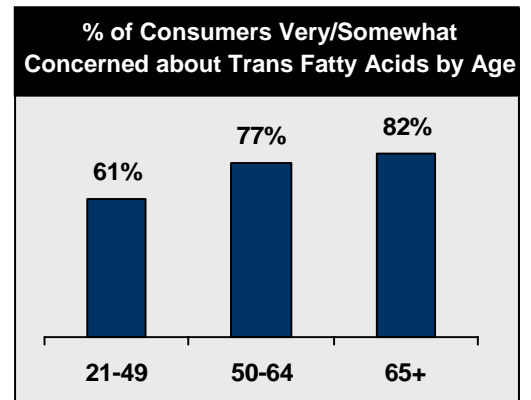
**New government guidelines and labeling requirements have impacted consumer behavior and industry innovation.**

Over the past year, there have been major new government initiatives designed to help consumers eat better and make informed purchase decisions. New labeling requirements for both trans fat content and the presence of food allergens went into effective January 1, 2006.

In April 2005, the USDA issued the new food pyramid, MyPyramid, which reflects the new 2005 Dietary Guidelines for Americans. These initiatives have had and will continue to have a significant impact on consumer consumption behavior and industry innovation.

### Trans Fatty Acids

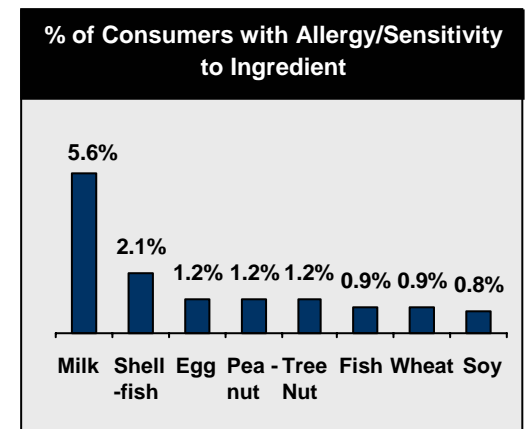
As a majority of consumers indicate that they are very or somewhat concerned about trans fatty acids in foods, trans fat content will likely be a differentiating factor in product selection if other factors, such as taste, are comparable. However, massive industry efforts to remove trans fat from foods will level the playing field within the next few years.



Source: IRI MedProfiler V Health & Wellness Survey

### Food Allergens

Rising incidence of food allergies (the number of children with food allergies has quadrupled over the past few decades<sup>1</sup>) and growing awareness due to media attention and the new labeling requirements will drive growth in "free-from" products targeting food allergy sufferers. While the proportion of consumers suffering from allergies is relatively small, the presence of allergies in a household often influences whole household consumption behavior.



Source: IRI MedProfiler V Health & Wellness Survey

1. Datamonitor

## DRIVERS OF CHANGE

### GOVERNMENT REGULATIONS/GUIDELINES (CONT'D)

**While the new USDA MyPyramid guidelines are not followed to the letter, they do exert directional influence on consumer behavior.**

#### USDA MyPyramid

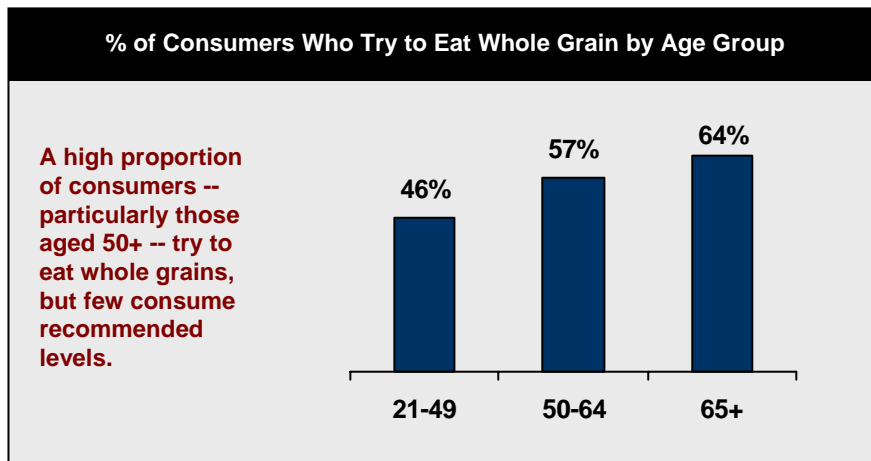
In addition to advocating a more personalized approach to nutrition, the new food pyramid issued by the USDA (updated from the original guidelines issued in 1992) highlights the need to reduce saturated and trans fats and consume more whole grains.

The new guidelines recommend three daily one-ounce servings of whole grains, which, according to the Whole Grain Council, have been identified as a source of protection against cancer, cardiovascular disease, diabetes and obesity.

While consumers admit that they do not strictly follow the pyramid, they are trying to make changes in their diet – however small or gradual. For instance, a high proportion of consumers – particularly those over age 50 – are making an effort to eat whole grain foods.

However, research has shown that they have a long way to go. According to *Nutrition Research Reviews*, only 8% of adults eat the suggested three servings of whole grain per day, and kids and teens eat less than one serving per day. There is an enormous opportunity to help consumers bridge this gap – provided that taste is not compromised.

**54% of Americans say they are familiar with the USDA Food Pyramid but only 34% actively incorporate aspects of it into their diets. – Parade Magazine**



Source: IRI MedProfiler V Health & Wellness Survey

## INDUSTRY IMPACT PRODUCT TRENDS -WEIGHT MANAGEMENT

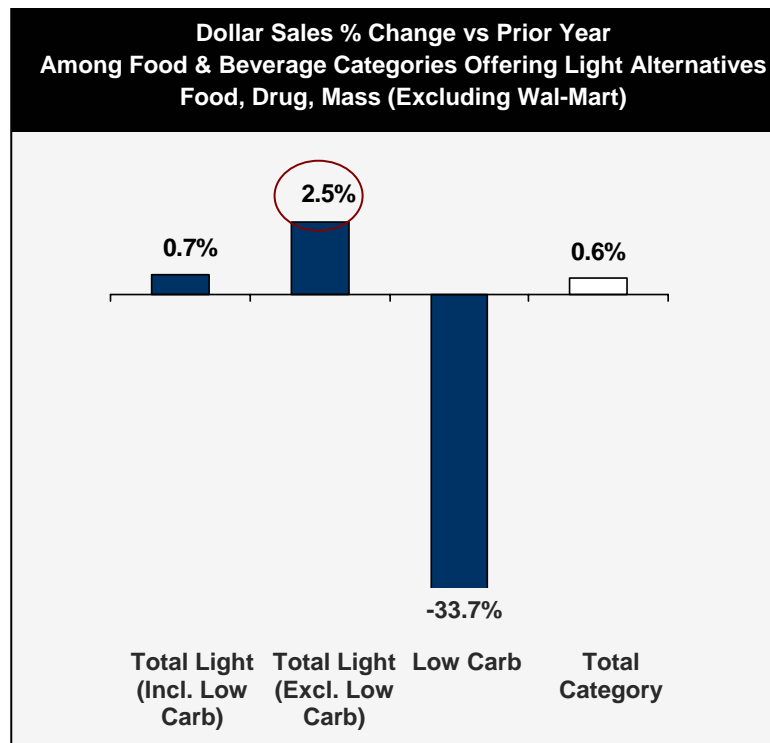
**“Light” products are significantly outpacing total category growth.**

As reported in the July issue of *Times & Trends*, “The Enjoyment Factor”, as a whole, consumers continue to eat many favorite foods that lack nutritional value and/or may be counter to weight management efforts. However, they are increasingly gravitating towards “light” product offerings.

An analysis of 17 major food and beverage categories offering “light” alternatives found that light product sales growth (while still modest) is far

outpacing total category growth, when low carb products are excluded.

As detailed in the following sections of this report, across most of these categories, light products offer strong continued growth potential in otherwise slow/no growth markets.



Source: IRI InfoScan® Reviews 52 weeks ending 11/27/05

### Methodology

Based upon an analysis of over 1,000 brands referencing specific dietary benefits in the brand name and/or are known light or low carb brands across 17 product categories, including beer, bottled juices (rfg), bottled juices (shelf stable) canned juices, carbonated beverages, chocolate candy, cookies, fresh bread & rolls, frozen dinners/entrees, ice cream/sherbet, milk, natural cheese, processed cheese, salty snacks, snack bars, soup, yogurt

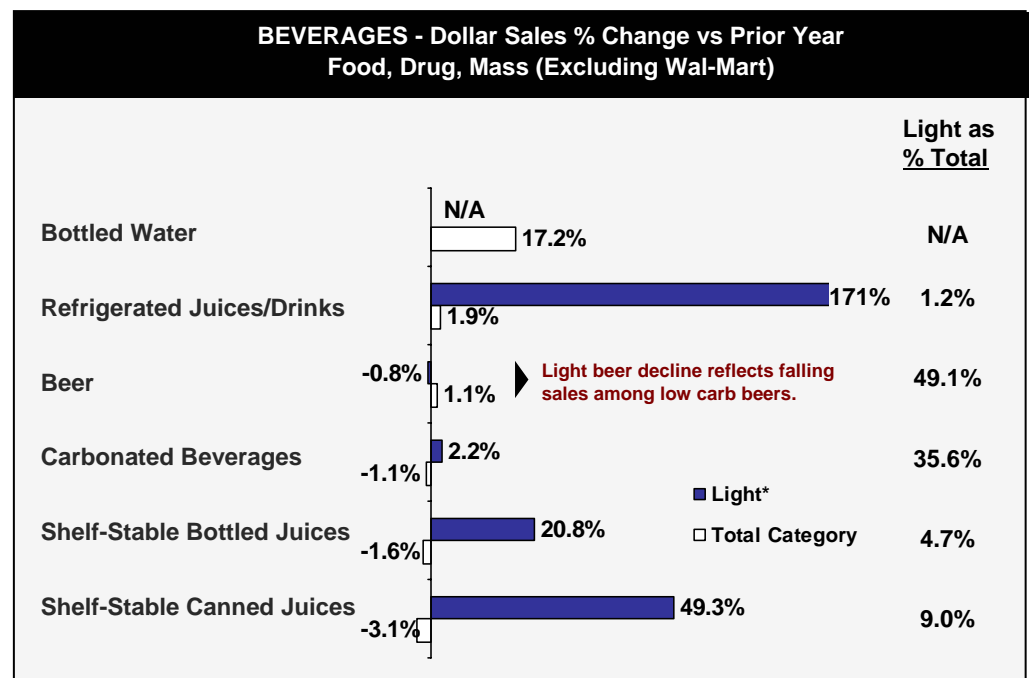
## INDUSTRY IMPACT BEVERAGE PRODUCT TRENDS

**There is significant market opportunity in light beverages – particularly among under-developed juice categories.**

Across most of the beverage categories analyzed, light products are experiencing relatively strong growth in slow/no growth markets, while bottled water continues its strong growth trend.

Within the beer category, the unusual decline in light beer reflects the impact of waning sales among several low carb beers that had amassed large sales gains over the past few years.

Light shelf-stable and refrigerated juices/drinks are relatively undeveloped markets with continued growth potential. The juice/drink segment is one of few product groups in which low carb products grew in 2005. Sales among these low carb products are expected to slow in the coming year.



Source: IRI InfoScan® Reviews 52 weeks ending 11/27/05; Beer sales include food & drug channels only.

\*Light products include low carb options; light carbonated beverages include reduced calorie/sugar products, as well as diet soft drinks.

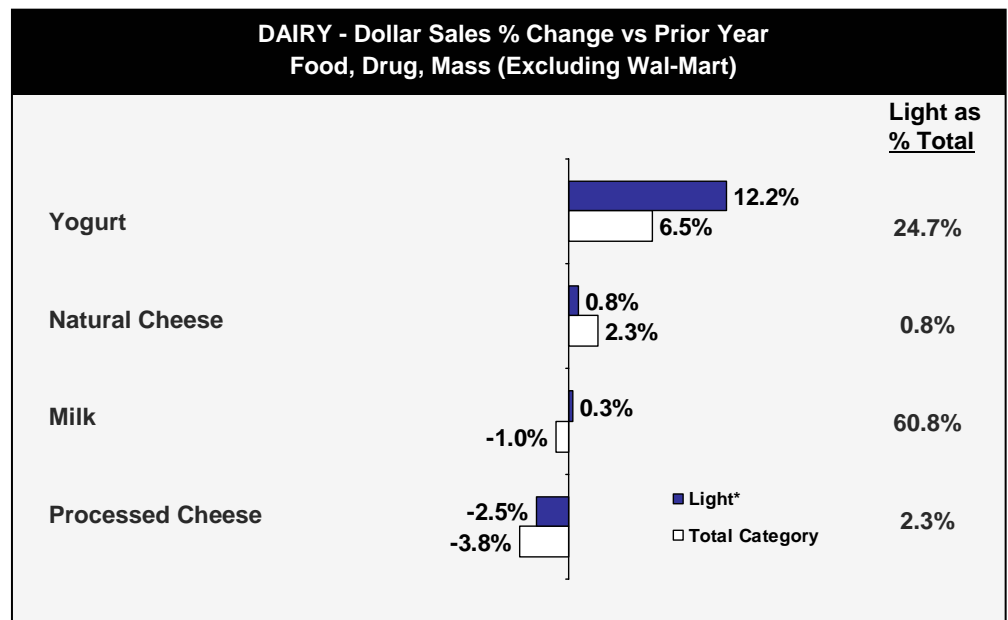
## INDUSTRY IMPACT DAIRY PRODUCT TRENDS

**Despite a strong presence in other dairy categories, light options have not gained traction in cheese.**

Within the dairy section, a high proportion of consumers have purchased lower fat and/or lower sugar alternatives of milk and yogurt for some time, enabling “light” products to garner a high share of sales.

While light milk has plateaued, light yogurt has enjoyed double-digit growth as the category continues to reinvent itself with innovative new products.

Across both processed and natural cheese, by contrast, light products have gained little traction. The high share of light alternatives in other dairy categories and high growth of light options across non-dairy categories suggests a viable market for light cheeses, but current product offerings may not yet have cracked the code on taste and/or texture.



Source: IRI InfoScan® Reviews 52 weeks ending 11/27/05

\*Light products include low carb options

## INDUSTRY IMPACT SNACK & DESSERT PRODUCT TRENDS

**“Light” snacks and desserts have experienced strong growth with significant upside potential.**

“Light” versions of snacks and desserts (excluding low carb offerings) have experienced strong growth in otherwise flat markets.

Major successful new product introductions have helped to bolster growth trends, including Frito Lay Light Chips, Dreyer’s Edy’s Slow Churned Ice Cream and Nabisco’s 100 Calorie Packs including Oreo and Chips Ahoy Crisps.

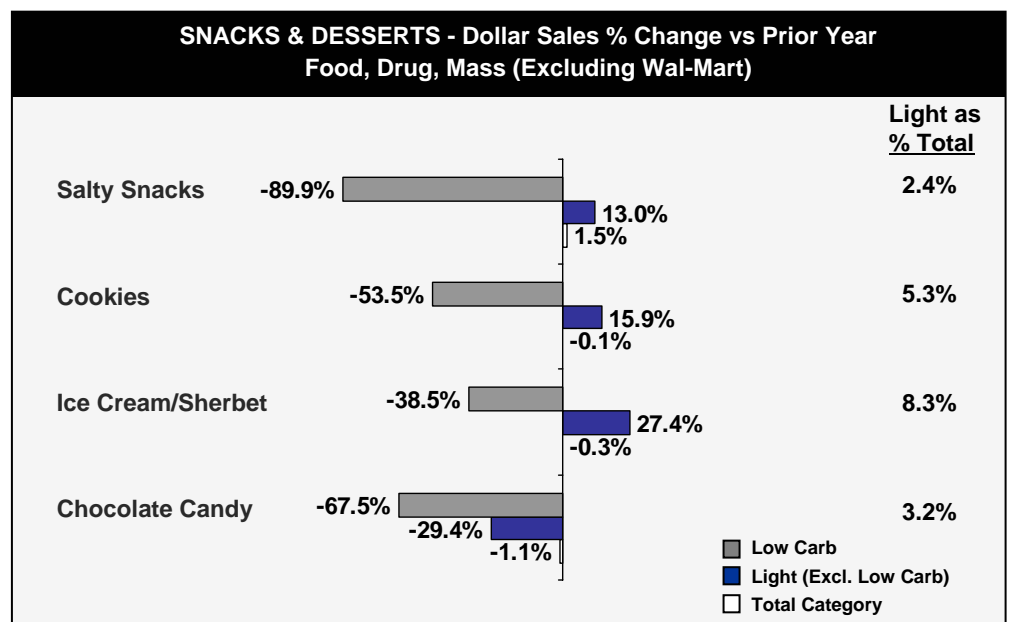
Given the low share that light products currently hold, there is strong upside potential.

Chocolate candy is an exception. Major declines across light products – even those without an explicit low carb positioning, were still likely impacted by the phase out of the low carb diet, as many dieters opted for sugar-free products.

Expect to see a wealth of new portion-controlled packages among snacks, desserts and other categories. In fact, a number of additional new portion-controlled products are already coming on line, including Kellogg’s 100 Calorie Right Bite cookies and General Mills’ 100 calorie microwave popcorn packets.

The variety of healthier snacks will also expand. For instance, Frito-Lay has announced plans to introduce veggie and fruit chips.<sup>1</sup>

In addition, snacks with inherent health benefits, such as snack/granola bars continue to grow; food drug mass sales (excluding Wal-Mart) increased 6.5% when low carb offerings were excluded.



Source: IRI InfoScan® Reviews 52 weeks ending 11/27/05

1. Dallas Morning News, 10/13/2005

## INDUSTRY IMPACT NATURAL//ORGANIC PRODUCT TRENDS

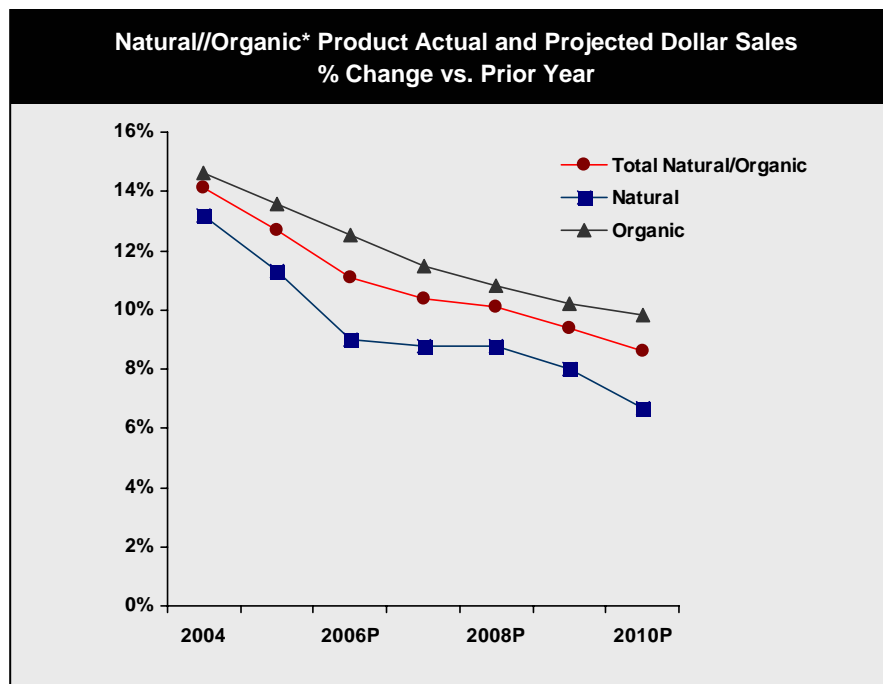
**Organic product reach will expand over the next few years as a result of increased availability and lower priced products.**

Natural and organic product sales continue to rise at double-digit rates, with high single-digit growth expected through 2010.

Growth in natural/organic products is attributed to a combination of factors, including increasing household penetration (which has reached 46% for organic products and 94% for natural products) and increased repeat purchases among existing buyers.<sup>1</sup>

Reach will expand over the next several years, driven by increased focus among traditional retailers and greater availability of lower-priced organic offerings, including private label.

**While growth rates will slow from current double-digit levels, both natural and organic product sales are expected to flourish for at least the next five years.**



Source: Nutrition Business Journal

\*Note: "Natural" products include products made with all natural ingredients, no preservatives, no artificial flavors or coloring. "Organic" products are at least 70% organic, per FDA definition.

1. IRI/SPINS

## INDUSTRY IMPACT PRODUCT TRENDS – TRANS FATS

**The industry has embarked upon a massive effort to eliminate trans fats.**

The CPG industry has responded to consumer concern and new labeling requirements with a massive effort to eliminate trans fats from products and drive awareness of products that do not contain trans fats.

In the short term, lack of trans fats will be a differentiating factor in product selection. For instance, Kraft Foods has stated that the reformulated Triscuit crackers have earned double-digit growth.<sup>1</sup>

Longer term, it will cease to be a source of competitive advantage as more companies come on line with trans-fat-free products. However, companies gaining new trial now will likely accrue longer term benefits, and consumer health benefits will be lasting.

### MAJOR MANUFACTURER INITIATIVES (EXAMPLES)

#### Frito-Lay, Inc.

- ▶ In 2002/2003 eliminated trans fats from core products and began labeling trans fat content well in advance of FDA requirements

#### Kraft Foods, Inc.

- ▶ Reformulated 650 products, leaving only 2.5% of products (mostly meat and cheese) with trans fats

#### ConAgra Foods, Inc.

- ▶ Removed trans fats from Orville Redenbacher and Act II microwave popcorn (120 products) as well as soft margarine brands

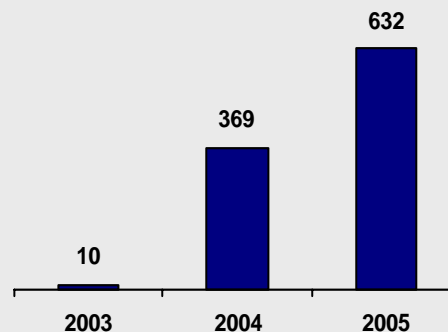
#### Nestle Prepared Foods Co.

- ▶ Cut all trans fats from 87% of Lean Cuisine and Stouffer's frozen meals

Sources: Time Magazine, Primedia Insight, Company Press Releases

### Number of New Products Introduced Claiming Low or No Trans Fat

**The number of new products with no/low trans fats has skyrocketed.**



1. Datamonitor

Source: Mintel

## INDUSTRY IMPACT PRODUCT TRENDS - WHOLE GRAIN

**The number of whole grain new product introductions doubled.**

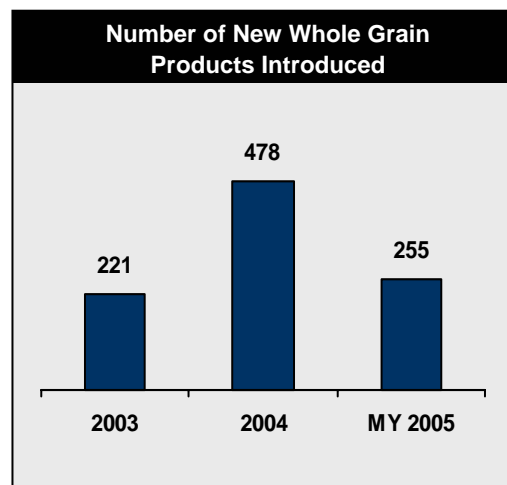
The number of whole grain new product introductions doubled in 2004 and remained strong throughout 2005.

Recent focus on the benefits of whole grain and the large gap in current versus recommended consumption levels has highlighted a sizable under-developed market. As a result, whole grains are appearing even in unexpected places, such as cookies and other snacks and are now ubiquitous in the cereal aisle.

The challenge for manufacturers has been to deliver whole grain goodness without compromising taste and texture – which is critical to capturing interest among mainstream consumers.

Recent innovations seem to signal the crossing of this hurdle.

For instance, ConAgra Foods spent “at least eight years and several million dollars” developing Ultragrain, which delivers whole grain benefits with the taste of white flour.<sup>1</sup> Sara Lee leverages Ultragrain in the Soft and Smooth bread line, which is the “best selling loaf of bread in America since its July 2005 launch.”<sup>2</sup>



Source: Mintel

**“Nearly every...major bread and cereal manufacturer has reformulated products or introduced new ones to take advantage of consumer interest in this health trend.”<sup>3</sup>**

1. Maryland Gazette, 10/29/05  
2. Ibid  
3. just-food.com

## INDUSTRY IMPACT PRODUCT TRENDS – HEALTH CONDITIONS

**Chronic disease segments represent strong target markets for new product development and marketing.**

CPG manufacturers are recognizing the value in targeting chronic disease sufferers with specific products and programs that help address health needs.

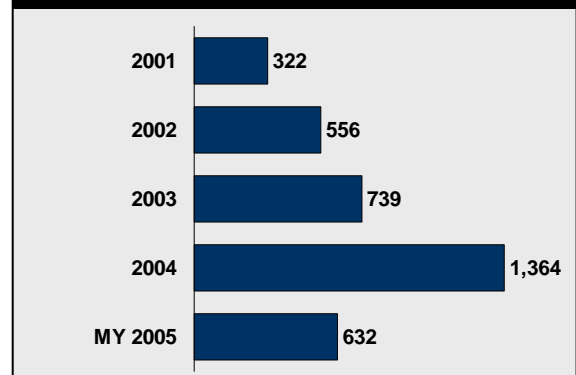
Products targeting diabetics have experienced solid growth for the past several years, and there has been a proliferation of new products, fueled in part by the increased availability and acceptance of Splenda®.

A large number of products highlight heart health benefits on packaging and in marketing campaigns; however, while relatively few exclusively target the heart health segment, recent product introductions have met with strong success. For instance, Sara Lee's Heart Healthy line of bread products earned a spot on IRI's New Product Pacesetters's list of the most successful product introductions last year.

Other successful products directly addressing heart health concerns include Minute Maid Premium Heartwise Orange Juice, Yoplait Healthy Heart yogurt and Breyers Heart Smart ice cream.

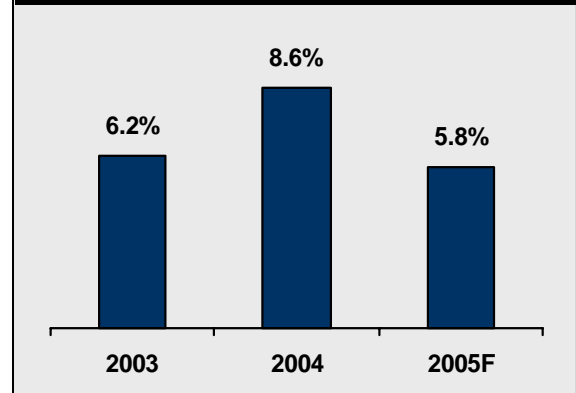
(Please see IRI's June 2005 *Times & Trends* issue for a more detailed analysis of market opportunity across chronic disease segments.)

**Number of New Sugar-Free, Low-Sugar And Diabetic Products Launched in the U.S.**



Sources: Mintel/GNPD

**Sugar Free Food & Beverage Dollar Sales Growth vs Prior Year**



Source: IRI InfoScan® Reviews, Mintel Food, Drug, Mass, Excluding Wal-Mart

## INDUSTRY IMPACT RETAIL

**Retailers are responding to consumers' efforts to develop healthier eating habits.**

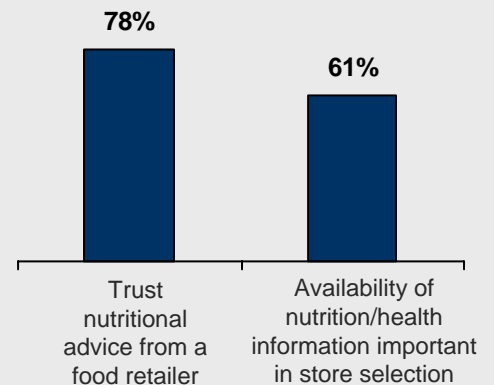
Retailers have instituted a broad range of innovative programs designed to help consumers in their quest to eat healthier foods – ranging from nutritional information and recipe kiosks to entirely new store formats.

And, according to a recent FIND/SVP study, consumers want retailers to assume this role. Consumers not only trust retailers' nutritional advice but also consider it in store selection.

Further, a focused health and wellness positioning may provide traditional retailers with a competitive edge versus value channels.

Examples of recent and planned major health & wellness retail initiatives include the following:

### Consumer Perceptions of Retailer Health Initiatives (% of Consumers)



Source: FIND/SVP

**“Analysts believe that any conventional operator who can highlight healthful shopping might have a chance of taking share of stomach back from Wal-Mart.”**  
– Supermarket News

### MAJOR RETAIL INITIATIVES (EXAMPLES)

#### NEW FORMATS

- ▶ Safeway's new Lifestyle format is designed to attract upscale shoppers with “wood floors, organic produce and exclusive brands”; the vast majority of Safeway stores will reflect the Lifestyle format by the end of 2009
- ▶ Stand-alone competitively-priced natural and organic food stores are being launched by traditional retailers, including Supervalu's Sunflower Markets, Basha's Ike's Famer's Market and Publix's GreenWise

#### PRIVATE LABEL

- ▶ Several major retailers have introduced or are slated to introduce natural/organic private label lines, including Stop & Shop, Kroger, Safeway and Supervalu
- ▶ 7-Eleven has introduced Formula 7, a private label line of energy drinks, fitness beverages and nutritional bars fortified with vitamins, minerals, herbs, antioxidants and amino acids

Sources: Contra Costa Times, 12/15/2005; The Columbian, 12/6/2005; Private Label Buyer, 10/2005

## CONCLUSIONS

- ▶ Health-focused product development and marketing strategies should be segmented by consumer approach to healthy eating (ie those with a plan vs. those who eat haphazardly), presence of health conditions, and age
- ▶ The market for products targeting specific health conditions (eg. diabetes, high cholesterol, heart disease) is poised for growth
- ▶ Beverage, snack food and dessert manufacturers should explore additional product development opportunities offering low calorie benefits; portion control packages will continue to offer growth potential
- ▶ Manufacturers have a window of opportunity to capture growth through the addition of whole grains (before the market peaks as focus dissipates) and the elimination of trans fat (before all major competitors have completed this process and lack of trans fat will be a “cost of entry.”)
- ▶ The natural/organic product market offers continued strong growth potential for the next five years; however, pricing pressure will accelerate as more private label offerings are brought to market

## RESOURCES

To gain insight into health and wellness opportunities across specific categories, consumer segments, channels or retailers, contact your IRI client service representative regarding custom analyses leveraging the following resources:

<b>IRI Consumer Network®</b>	Nationally representative panel of households tracking purchases with hand-held barcode scanners; extensive demographic profiles enable in-depth analysis of purchase behavior across standard or custom-defined consumer segments across channels.
<b>IRI MedProfiler Health &amp; Wellness Survey</b>	Annual syndicated survey of healthcare attitudes and conditions across panel of 27,000+ household/70,000+ individuals; enables the creation of custom target groups that can be used to track purchases across specific attitudinal/condition segments.
<b>IRI Attribute Drivers</b>	Consumer choice model that measures the impact of various product attributes on base sales volume; enables marketers to assess which health attributes among new or existing products are most influential with consumers.
<b>IRI BehaviorScan</b>	New product testing service offering complete tracking and analysis leveraging store scanner and household panel data.
<b>IRI AttitudeLink</b>	IRI's custom survey capability that can be executed via mail, telephone or Internet; the ability to link attitudes with actual purchase behavior enables clients to track sales across custom attitudinal segments.

## MORE INFORMATION >

Please contact Sheila McCusker at [sheila.mccusker@infores.com](mailto:sheila.mccusker@infores.com) with questions or comments about this report.

### ABOUT IRI

Information Resources, Inc. (IRI) is the world's leading provider of enterprise market information solutions and services, empowering its clients to grow their business profitably in a complex marketplace. Driving the transformation of the consumer packaged goods (CPG), retail and healthcare industries, only IRI provides a unique combination of real-time market content, advanced analytics, enterprise performance management software and professional services. The company's portfolio of services, solutions and technology enable leading retailers and their suppliers around the globe to see what they are missing, act faster and with greater confidence and win at the shelf. Ninety-five percent of the FORTUNE Global 500 in CPG and retail leverage IRI to power their business. For more information, visit [www.infores.com](http://www.infores.com).

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