



2012 market overview

- Survey reveals continued growth
- Organic industry hits \$31.5 billion
- Natural tops mass in supplements
- Health and beauty aisles see gains
- Food sales ride trend roller coaster

The official publication
of Natural Products Expo

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Summer Auerbach's

Rainbow Blossom Natural Foods Markets shone through cloudy economic times. This year's market survey shows her stores aren't the only ones growing. See the numbers starting on page 21.

Doing well while doing good



Carlotta Mast

Editor-in-chief, *Natural Foods Merchandiser* and newhope360.com

Our annual Market Overview numbers are in, and the picture looks pretty rosy for natural products retailers. Gross profit margins are up and sales growth is rebounding, particularly in those categories hit hard by the recession. This is only a piece of the story, however—and maybe not even the most important one.

Summer Auerbach, Taylor Hamilton, Don Summerfield, Jimbo Someck and the hundreds of other natural products retailers we interviewed and surveyed for *Natural Foods Merchandiser's* 2012 Market Overview research have a lot to smile about these days. Sales of natural and organic products, including dietary supplements, within the natural channel continue to boom, and independent retailers are finding creative and effective ways to grow in the increasingly competitive and complex natural products landscape.

Growth within the \$37 billion natural channel hit 9 percent in 2011. This was better than the channel performed in 2010 but still behind the 11 percent expansion of natural product sales at mass-market retailers or the 15 percent uptick experienced within the online retail channel last year.

Yet, growth numbers are only one metric for measuring the success of natural products stores. Another is to track the positive change retailers are creating in their communities and within the broader marketplace as they work to solve real social, environmental and health problems.

A recent example is one that went viral on Facebook and actually had the power to motivate one of the world's largest consumer packaged goods companies to commit to changing its ways for the better. The retailer I'm talking about here is The Green Grocer, a 5-year-old natural products store on Rhode Island's Aquidneck Island. After reading a report detailing the pesticide residue and genetically modified ingredi-

ents found in Kashi and other natural cereal brands, The Green Grocer's John Wood decided to pull the offending products from his shelves and display a shelf talker explaining why the offerings had been removed.

Long story short, a picture of the placard was posted on Facebook, where it ignited so much consumer outrage directed at Kellogg's Kashi brand that the company announced its Kashi Go Lean cereal and Kashi Chewy Granola Bar lines would be Non-GMO Project Verified by the end of 2014. Kellogg also pledged that, starting in 2015, all new Kashi foods introduced into the market would contain at least 70 percent organic ingredients and also be Non-GMO Project Verified.

These changes are substantial—and were driven, in part, by the action of a retailer who took very seriously his responsibility to carry only those products he feels good about selling to his customers.

As The Green Grocer's Wood emphasized in an interview with *NFM*, his goal wasn't to attack Kashi or any other brand. He just wanted to do right by his shoppers and provide education on why organic and non-GMO are important. "We had people telling us that's why they trust us and come and shop with us—because of our integrity and because we are passionate about scrutinizing and being careful about what's on our shelves," Wood said.

It's this type of customer focus and values-driven approach to business that is fueling the current success of natural products retailers and that, we believe, will be even more important for the future. How are you working to improve your communities and the larger marketplace? Share your stories on the *NFM* Facebook page. As always, I'd love to hear your feedback about this issue of *NFM*. Email me at carlotta.mast@penton.com.

By *Natural Foods Merchandiser* staff | Photos by Rebecca Wilson

Natural stays on perennial path to growth



Some may be boo-hooing the economy, but **Summer Auerbach** of Rainbow Blossom Natural Food Markets and other natural products retailers are thriving. We look at what's driving their success today and offer tips for tomorrow.

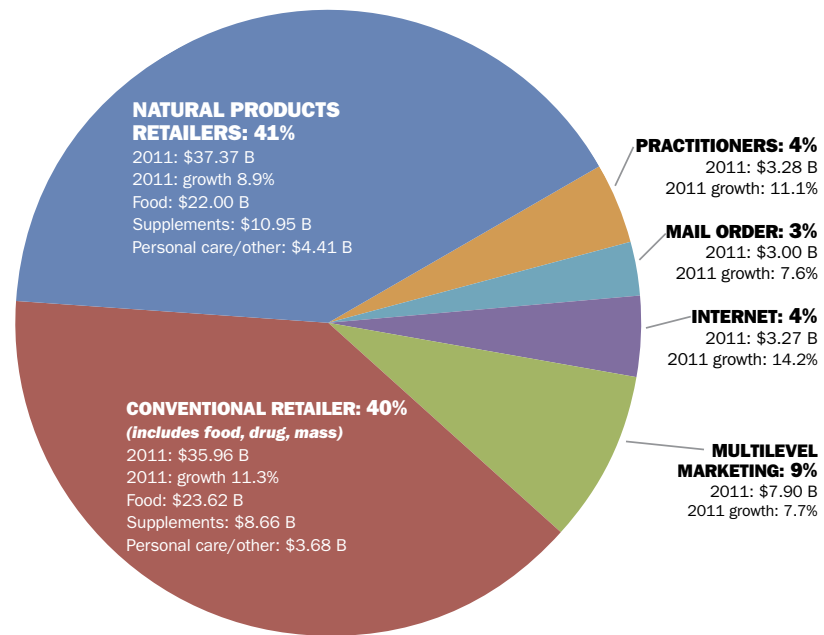
When it comes to natural products hotbeds, Louisville, Ky., doesn't make the top 10—or maybe even the top 40. But last year, the five Rainbow Blossom Natural Food Markets in the Louisville area posted 9 percent sales growth. Even more impressively, the stores—which range from 3,500 to 7,500 square feet—did this while competing with a Whole Foods Market, a new Trader Joe's and a Vitamin Shoppe for the city's natural products audience.

The fact that eight naturals stores—soon to be joined

by two more: Earth Fare and another Vitamin Shoppe—could thrive in an area that Rainbow Blossom Chief Operating Officer Summer Auerbach diplomatically calls “not the most progressive” illustrates the post-recession strength of the natural and organic industry. Indeed, *Natural Foods Merchandiser's* 2012 Market Overview Natural Retailers Survey shows that nationwide, sales of all natural and organic products (including dietary supplements) within all channels jumped 10 percent to nearly \$91 billion last year. ➔

NFM's 2012 Market Overview

A collaboration with *Nutrition Business Journal*, the 2012 NFM Market Overview reports 2011 sales statistics from 370 respondents who answered questions about their operations.



Sales	2011 (B)	2010 (B)	% growth
Total retail	\$73.33	\$66.64	10.0
Total nonretail	\$17.45	\$15.94	9.5

The natural channel (which includes independent and chain natural products retailers) continued to generate the lion's share of sales in 2011, growing 9 percent to \$37 billion. Although growth in the natural channel was better last year than in 2010 (when sales expanded just 7 percent), mass market retailers—particularly club stores—remain hot on the heels of the naturals stores and, in fact, grew their sales of natural and organic products by 11.2 percent, to \$36 billion, in 2011, according to NFM's Market Overview survey.

Conducted in collaboration with *Nutrition Business Journal*, a sister publication, NFM's research shows that growth of natural and organic products sales in all channels is being fueled by a variety of factors: consumers who are becoming more educated about health and environmental issues; foods that taste as good or better than their conventional counterparts; consistent, favorable media attention about the merits of natural and organic products; the growing foodie and farm-to-table movements; and even the rising popularity of yoga.

"The number of natural products shoppers has increased so much that stores like Whole Foods are now opening in secondary markets like Basalt, Colo. [located near Aspen]," says Steven Hoffman, managing partner of Boulder, Colo.-based consulting firm Compass Naturals. Hungry and well capitalized for expansion, Whole Foods is on track to open between 24 and 27 new stores during its fiscal year 2012 and another 28 to 32 in fiscal year 2013, the company's co-CEO Walter Robb told analysts in February.

Although it is growing like a weed, Whole Foods does not own the natural products market—not by a long shot. In fact, natural products are increasingly popping up in convenience stores and vending machines, and are becoming more available through health care practitioners and online retailers.

"You go into a SuperAmerica [convenience store] and the endcap is Clif Bars," says Corinne Shindelar, CEO of Minneapolis-based Independent Natural Food Retailers Association. "Where the growth happens in the future is going to be very interesting to watch."

Average sales per store

	Total	Natural products stores	Health food stores	Supplement stores
Avg. sales 2011	\$1.62 M	\$3.04 M	\$653 K	\$608 K
Avg. overall net sales change	7.4%	7.6%	6.9%	7.3%
% of stores with sales increase in 2011	69.8%	77.3%	62.9%	66.7%
Avg. sales increase	20.0%	14.5%	22.2%	28.2%
% of stores with sales decrease	14.0%	6.7%	17.7%	21.4%
Avg. sales decrease	-10.6%	-8.8%	-9.7%	-12.7%
% of stores unchanged	16.2%	16.0%	19.4%	11.9%

Source: NFM/NBJ

"Where the growth happens in the future is going to be very interesting to watch."

-Corinne Shindelar, Independent Natural Food Retailers Association



Natural products stores' 2011 sales by category

	Total sales (M)	% change from 2010	Category as % of total sales	Organic sales (M)	% change from 2010	% of category that is organic	Category as % of total organic sales
Frozen & refrigerated	\$1,461	8.3	3.9	\$376	3.4	25.7	3.3
Dairy	\$1,840	9.0	4.9	\$1,285	7.7	69.8	11.3
Nondairy beverages	\$732	9.6	2.0	\$480	2.2	65.5	4.2
Bulk & packaged bulk	\$1,637	11.8	4.4	\$373	12.0	22.8	3.3
Produce	\$5,468	12.1	14.6	\$3,139	10.1	57.4	27.6
Bakery	\$521	5.2	1.4	\$152	1.0	29.2	1.3
Packaged grocery	\$4,031	10.1	10.8	\$2,372	5.3	58.9	20.9
Fresh meat & seafood	\$1,292	10.1	3.5	\$226	10.0	17.5	2.0
Nutrition & cereal bars	\$842	10.9	2.3	\$138	2.2	16.4	1.2
Coffee & tea	\$487	9.8	1.3	\$309	10.5	63.4	2.7
Beer & wine	\$802	7.2	2.1	\$203	6.4	25.3	1.8
Other beverages	\$703	7.3	1.9	\$177	7.2	25.1	1.6
Food service—deli, restaurant, juice bar	\$1,269	7.4	3.4	\$320	6.0	25.2	2.8
Snack foods	\$916	10.2	2.5	\$538	11.3	58.7	4.7
Food TOTAL	\$22,003	10.0	58.9	\$10,089	7.6	45.9	88.8
Vitamins	\$4,235	5.9	11.3	\$38	8.5	0.9	0.3
Minerals	\$997	4.0	2.7	\$14	10.0	1.4	0.1
Herbs & botanicals	\$1,921	9.3	5.1	\$102	5.0	5.3	0.9
Sports	\$1,728	10.3	4.6	\$8	2.0	0.5	0.1
Meal supplements	\$305	16.0	0.8	\$10	13.0	3.2	0.1
Specialty	\$1,418	6.6	3.8	\$74	8.0	5.2	0.7
Homeopathy	\$350	6.8	0.9	\$10	8.5	2.7	0.1
Supplements TOTAL	\$10,954	7.4	29.3	\$256	6.9	2.3	2.2
Personal care (including aromatherapy)	\$3,192	8.0	8.5	\$782	9.5	24.5	6.9
Books	\$150	1.6	0.4	\$0	0.0	0.0	0.0
Household products	\$401	6.7	1.1	\$26	7.6	6.4	0.2
Pet products	\$670	4.5	1.8	\$210	7.3	31.4	1.9
Personal care & other TOTAL	\$4,413	7.1	11.8	\$1,018	9.0	23.1	9.0
2011 TOTAL	\$37,370	8.9	100.0	\$11,362	7.7	30.4	100.0
Adjusted 2010	\$34,320						

Source: NFM Market Overview/Nutrition Business Journal (Totals may not add up because of rounding.)

Key to charts

Natural channel: Natural products retailers, excluding Whole Foods Market

Conventional channel: Food, drug and mass merchandisers, excluding Walmart

B: Billions of dollars
M: Millions of dollars
K: Thousands of dollars

Charts are courtesy of retailer surveys conducted by *Natural Foods Merchandiser* and *Nutrition Business Journal*; and market research by SPINS, a natural products consulting firm in Schaumburg, Ill.



“We will continue to see investments in the industry.”

–Scott Van Winkle, Canaccord Genuity

Expansion			
	Natural products stores	Health food stores	Supplement stores
% that added onto one or more existing facilities in 2011	9.1	7.3	6.2
% that renovated/remodeled one or more existing facilities in 2011	24.0	16.3	9.8
% that added one or more locations through a new build or acquisition in 2011	5.2	6.5	5.1
% that closed one or more locations in 2011	6.5	7.6	8.9
None of the above	62.6	72.2	84.8
% that plan to add onto one or more existing facilities in 2012	5.2	6.8	4.8
% that plan to renovate/remodel one or more existing facilities in 2012	23.3	14.7	14.5
% that plan to add one or more locations through a new build or acquisition in 2012	19.1	7.8	6.3
% that plan to close one or more location in 2012	0.5	1.9	4.8
None of the above	60.0	75.7	79.4

Source: NFM/NBJ

Analyzing the data

NFM's 2012 Market Overview compiled responses from 370 retailers to create a snapshot of the industry. Among the highlights:

- Average net store sales increased 7.4 percent last year, to \$1.6 million per store.
- Almost 70 percent of retailers reported an increase in natural and organic product sales from 2010.
- Gross profit margins for natural channel retailers were down slightly: 30.5 percent compared with 31 percent in 2010.
- Not surprisingly, the Pacific region led all other parts of the country in total store sales and growth last year. But surprisingly, the South Atlantic region had the largest growth. This region encompasses Florida, Georgia, North Carolina, South Carolina, Virginia, West Virginia, Maryland, Delaware and Washington, D.C. Mary Jo Marks, retail training and education department manager at Providence, R.I.-based natural products distributor UNFI, says the combination of aging baby boomers in the South and highly knowledgeable consumers around the U.S. capital is likely driving this growth. “Michelle Obama has done a great job in the D.C. area educating on organic,” Marks says.
- Sales growth for food products in the natural retail channel (nearly 10 percent) was below the 13 percent growth experienced in the mass channel. However, supplement sales growth was stronger in the natural channel—7 percent vs. 6 percent.

Analysts say four key factors are influencing the growth in naturals retailing: the millennial generation, value-driven consumers and investors, changes in conventional markets, and increased online retailing.

Rise of the millennials

Last September, Whole Foods CEO John Mackey made an intriguing comment to analysts. Although the chain's 2011 revenues increased by 12 percent and same-store sales growth was the highest in five years, Mackey admitted that his company has trouble reaching a large group of consumers: Generation X, or those born between 1965 and 1983.

Why? As it turns out, Gen Xers are not as impressionable or as open to the idealistic message of the natural and organic industry as baby boomers, making them less likely to value shopping at natural retailers, says Jay Jacobowitz, president of Brattleboro, Vt.-based natural products consulting firm Retail Insights. Although this difficulty in converting Gen Xers into loyal shoppers may have been bad news over the last decade, a new crop of consumers is rising into prominence—the millennials—and these shoppers are likely to drive natural and organic product sales well into the future.

“[Millennials] view natural and organic as important components of a holistic, sustainable and healthy lifestyle,” Jacobowitz says. Roughly defined as people born between 1980 and 2000, millennials are now raising their own families—which is opening them up to many important natural

products categories. “They are creating a rising tide for all natural boats, from conventional grocery stores to rapidly expanding supernaturals to independent retailers,” Jacobowitz says.

Noting that the millennial generation is even bigger than the baby boomers who drove the initial growth of many natural foods retailers, Jacobowitz predicts these shoppers will give the industry its next surge. “I believe we are on the cusp of what will prove to be a decades-long growth trend,” he says. “Based on our model predictions, we predict natural and organic will make up half of total U.S. food sales within the next generation.”

But for that to happen, the industry needs to do a better job of marketing to this new generation, says Jeff Hilton, cofounder of Integrated Marketing Group in Salt Lake City. “I don't think natural retailers and manufacturers have come to grips with how to appeal to a millennial audience.” For instance, he says, unlike baby boomers, millennials grew up inundated with advertising and thus are not as influenced by brand names. Instead, they read labels, and if they see quality ingredients in a store brand, they'll buy it.

“Millennials are driving private label,” Hilton says. “My prediction is that private labels will go through the roof in the next 10 years. If I had a store, I would have a strong private label line.”

It's a mistake, however, to think that millennials won't buy higher-priced natural and organic brands—particularly supplements—because they can't afford them, Hilton says. Shoppers in their 20s will frequent your supplements aisle, just not with the same agenda as baby boomers. “They don't see any big deal in combining over-the-counter drugs, prescriptions and supplements,” Hilton says. “They are OK mixing products in order to facilitate their lifestyle.”

To support their fast-paced life, millennials gravitate toward products that improve energy and mental focus. “I could see millennials going for lifestyle products that are bundled together, like an energy supplement with

a cognition supplement,” Hilton says. Vision-support supplements also are important for a generation that's frequently hunched over computer and smartphone screens, he adds. (For other supplements trends, see “Supplement sales drivers” on page 34.)

Value pricing and investment capital

Although millennials will open their pocketbooks, they and other grocery shoppers seek to save, too. “I think the food industry has a little bit of a hangover from '08 and '09,” says Scott Van Winkle, managing director of equity research at Canaccord Genuity, a global investment bank. “Unlike, say, shopping for a TV, there are more options when grocery shopping, and consumers make more frequent trips to buy food. As a result, they're conditioned to save money in their shopping baskets—even on the lowest-priced items.”

Despite its “whole paycheck” reputation, Whole Foods has had “tremendous success” with its value-pricing initiatives over the last several years, says Van Winkle, who specializes in the healthy living investment sector. This helped the retailer to grow its sales 13 percent during the first quarter of its fiscal year 2012. “The price-value scale may have a lot to do with why independents are not growing at the same rate as Whole Foods,” Van Winkle says.

This is expected to become an even bigger factor as Whole Foods and other chains move into the smaller markets that have traditionally been reserved for independent natural retailers. “A lot of these independents haven't really looked at their pricing because they have a captive audience,” Hoffman says. Co-ops have an advantage here, Van Winkle adds, because they already have a value image.

The good news is that value pricing is likely to be easier in the future because of growing public and private investor interest in the industry. “Naturals stocks are on fire on Wall Street,” Van Winkle says. “Naturals and organics are one of the very few consumer staple, nondiscretionary categories that are posting real growth. That strength is giving investors something they can invest in.”

Although Wall Street growth is unlikely to have a direct influence on a local retailer's bottom line, it can affect manufacturers and distributors, which in turn trickle down to individual stores, Van Winkle says. For instance, investment capital infusions into packaged food companies result in bigger economies of scale, which can produce lower price premiums.

“There's very inexpensive capital out there that healthy corporations have access to, so we will continue to see investments in the industry,” Van Winkle says. That capital is even spreading to retailers, as evidenced by the recent \$300 million acquisition of the 25-store natural foods chain Earth Fare by venture capital firm Oak Hill Capital Partners.

Conventional challenges

As noted, the mass-market channel outperformed the natural channel in 2011—but not all conventional retailers are experiencing the “house-on-fire” growth the mass channel as a whole has seen over the last 10 years, says Jim Hertel, managing partner of Willard Bishop, a Barrington, Ill.-based consulting firm that works with conventional retailers. In fact, a combination of food inflation and post-recessionary worries has taken a toll on sales of natural and organic products within many conventional supermarkets.

“The middle has sagged out of the food retail marketplace in the last five years,” leaving more high-end

“I believe we are on the cusp of what will prove to be a decades-long growth trend.”

–Jay Jacobowitz, Retail Insights



Profit & expense	
	Total
Avg. revenue	\$1.6 M
Cost of goods sold	69.5%
Storewide gross profit margin	30.5%
Payroll expense	13.4%
Advertising and promotion	2.7%
Other expenses	5.5%
Net profit margin	8.9%

Source: NFM/NBJ



Business statistics

	Total	Natural products stores	Health food stores	Supplement stores
Avg. no. of natural products stores under same ownership	1.8	2.1	1.5	1.7
Avg. retail sq. ft.	3,906	6,293	2,811	1,639
Avg. no. of SKUs	4,895	6,053	5,689	2,166
Avg. wholesale inventory value	\$162,601	\$290,206	\$112,130	\$83,521
Avg. no. of customers per day				
Weekday	199	444	98	54
Weekend	208	463	100	56
Avg. sale per customer				
Weekday	\$38.30	\$37.09	\$34.57	\$46.46
Weekend	\$38.41	\$35.04	\$37.78	\$44.93
Avg. no. of distributors store works with	55	67	50	44
Avg. annual sales per sq. ft.	\$316.41	\$426.73	\$249.21	\$225.68

Source: NFM/NBJ

“(Internet presence is) the price of entry in retailing today.”

–Jeff Hilton, Integrated Marketing Group



Regional growth

Region	Sales (B)	% change from 2010	% of total
New England	\$2.77	6.9	7.3
Middle Atlantic	\$4.63	10.0	11.8
South Atlantic	\$4.63	12.4	11.6
East South Central	\$1.81	4.3	4.9
West South Central	\$5.15	4.2	13.9
East North Central	\$3.27	6.2	8.6
West North Central	\$3.02	11.3	7.6
Mountain	\$3.31	9.3	8.5
Pacific	\$8.78	11.1	22.2
Total	\$37.37	8.9	100.0

Source: NFM/NBJ

and discount consumers in its wake, Hertel says. Mass merchandisers that counted on middle-class shoppers to bolster sales in their natural aisles are now going after the coupon-clipping set instead. As a result, “conventional stores may not be dropping natural products, but as their performance deteriorates, they’re not promoting them,” Hertel says. “They no longer think natural is how they’ll thrive in the marketplace. Instead, they’re looking more at private label or low-cost items.”

Carla Ooyen, director of market intelligence for New Hope Natural Media, says the Market Overview survey echoes Hertel’s findings. “Sales are slowing at grocery stores,” she notes, “but expanded natural product offerings and stronger growth is occurring at outlets such as drugstores and warehouse clubs.”

Internet power

Although *NFM* data show that online store sales accounted for just 4 percent of the total natural and organic marketplace last year, sales within the Internet channel are rising fast—nearly 15 percent to \$3.3 billion in 2011.

Abe’s Market, a natural and organic online store that launched in late 2009, posted 500 percent sales growth last year and anticipates 400 percent growth this year, according to company cofounder Jon Polin. Abe’s inventory, which includes nonperishable food, personal care, supplements, children’s items and home goods, has grown from 50 brands and 250 products in 2009 to 900 brands and 12,000 products today.

“We’re riding the wave of two growing trends: the growth in e-commerce and the interest in natural products,” Polin says. Abe’s core audience is mothers ages 21 to 39, “but it’s really interesting to me that 40 percent of our audience is over age 40,” he adds.

Polin attributes Abe’s success to three factors: the Internet’s inherent shopping convenience, breadth of supply—Abe’s has about 6,000 more nonperishable SKUs than an average Whole Foods store, and a “just-in-time” inventory management system that allows the company to take a chance on new or unknown brands with minimal financial risk. “The element of discovering new products is exciting for customers,” Polin says.

Abe’s also has another huge factor going for it: Because the retailer shares a shipping and inventory facility with other vendors, the company’s overall expenses are “way less than half” of those of a brick-and-mortar store, Polin says.

If this news makes you depressed, take heart in the fact that there’s room for everyone on the worldwide web—including natural product stores, which haven’t harnessed the power of the Internet enough, says Hilton. “The historic reason why natural retailers have the edge is relationships, so they should be on the cutting edge of social media, but they’re not.”

NFM data show that less than 60 percent of natural retailers use an e-newsletter or other online resource to boost sales, promote events or educate consumers. And only 17 percent of retailers’ sales are online.

The reality is that such lackluster engagement will not drive natural products retailers successfully into the future. A strong Internet presence is “the price of entry in retailing today,” Hilton says. “If you don’t have one, you’ll regret it in a few years.” Why? Because millennials, Gen Xers and younger boomers are increasingly building relationships in online social networks—not store aisles.

Universe of stores

	Store size	No. of stores	Nutrition sales (M)**	% of sales
Natural food store	<=2,000 sq. ft.	1,224	\$614	1.6
Natural food store	2,001-6,000 sq. ft.	1,899	\$4,842	13.0
Natural food supermarket	>6,000 sq. ft.	996	\$10,097	27.0
Health food store	<=1,000 sq. ft.	1,342	\$349	0.9
Health food store	1,001-2,000 sq. ft.	1,727	\$908	2.4
Health food store	>2,000 sq. ft.	1,617	\$4,214	11.3
Supplements store	<=1,000 sq. ft.	1,637	\$814	2.2
Supplements store	>1,000 sq. ft.	1,337	\$1,243	3.3
TOTAL independents		11,778	\$23,085	61.8
Whole Foods		299	\$10,180	27.2
GNC		5,928	\$1,404	3.8
Vitamin World (NBTY)		440	\$219	0.6
Vitamin Shoppe		528	\$757	2.0
Other*		16,554	\$1,723	4.6
TOTAL independents & specialty		35,527	\$37,369	100.0

Source: NFM/NBJ

*Includes co-ops, specialty/gourmet, personal care (Body Shop, etc.), gyms, herb shops, mall stands, etc.

** Includes foods, supplements, other (personal care, books, household goods, etc.)



Use of technology

Total natural channel	Total	Natural products stores	Health food stores	Supplement stores
% that track sales/inventory through a computer system	64.7	77.6	52.3	61.2
% of sales coming from online	12.2	4.7	2.1	5.2
% that use an e-newsletter or online resource to educate consumers	57.1	71.8	47.8	47.6
% that use an e-newsletter or online resource to promote sales	55.9	70.2	48.9	41.5
% that use an e-newsletter or online resource to promote in-store events	53.1	68.7	43.5	41.5
% that use an e-newsletter or online resource to promote local events	45.6	61.7	36.9	31.7
% that use an e-newsletter or online resource to distribute coupons	37.8	39.8	38.8	31.7
% that use an e-newsletter or online resource to gauge consumer satisfaction	34.0	43.2	29.8	23.7
% that plan to close one or more location in 2012	0.5	0.5	1.9	4.8
None of the above	70.1	60.0	75.7	79.4

Source: NFM/NBJ

Future forecast

Despite the rise of Whole Foods and club and Internet stores in the natural products arena, the future continues to look bright for smaller natural products retailers—as can be seen in the booming success of Rainbow Blossom. In both 2010 and 2011, the store was named one of the 50 fastest-growing companies in Louisville. But that may be small organic potatoes compared to this year. Sales are very strong across all five stores, Auerbach says, and expansion may be in the cards within the next two years.

Shindelar reports that as of mid-April, INFRA has added 12 new stores to its roster this year, for a total of 77 members with 124 storefronts and \$685 million of aggregated sales. Since November, INFRA members have posted a whopping 15 percent to 20 percent average sales growth, and Shindelar expects that trend to continue or even increase as 2012 progresses.

“In an election year, the economy is pointed to local growth,” she says. “There has been a tremendous surge in interest in local and independent natural store ownership.”

Market Overview methodology

The 2012 edition of *Natural Foods Merchandiser’s* Market Overview represents the 32nd year the magazine has presented statistics on store operations and the state of the natural products industry. From \$1.9 billion in 1980 to \$37 billion in 2011, sales in the natural products retail channels have come a long way.

Just as the numbers vary each year, so does the methodology for collecting, compiling, analyzing and presenting the data. This issue marks the 14th year *NFM* has collaborated with *Nutrition Business Journal*, a New Hope Natural Media sister publication and Penton Media property, to produce the data.

The inclusion of *NBJ* allows for a more complete and robust perspective of the natural products retail industry. The sales contributions of natural and organic foods, dietary supplements and other natural products through such diverse channels as food, drug and mass retailers; multilevel marketing; health care practitioners; mail order; and the Internet are also included in the \$91 billion natural products industry figure depicted by the pie chart on page 23.

The primary vehicle for collecting data for the Market Overview is *NFM’s* annual store survey. This survey was distributed to a representative segment of the natural products retail industry, including, but not limited to, natural products stores, health food stores and supplements stores. They were asked 36 questions pertaining to store operations. Respondents from 370 stores or chains reported the results of their calendar year 2011 operations.

Most of the operations data pertain to independent and small-chain retailers divided into three categories by sales mix and eight subcategories by size. This data subset represents 11,926 independent and chain stores and \$23 billion in total sales in 2011.

The \$37 billion natural products retail channel is broken down into product category and region, and includes eight store categories plus the biggest chains—Whole Foods Market (\$10.2 billion in sales), GNC (\$1.4 billion in sales at store-owned and franchise locations), Vitamin World (owned by NBTY; \$220 million in sales), Vitamin Shoppe (\$758 million in sales)—and other specialty retailers (specialty/gourmet shops, personal care stores, health clubs, co-ops, herb shops, mall stands, etc., totaling \$1.7 billion).

Although most of the operating statistics are averaged or aggregated from the responses, estimating total product sales for the entire industry is challenging.

Total product category sales and organic sales figures were derived from statistical analysis of survey results in each of the eight natural products retailer categories. Accurate and complete sales breakdowns were reported by 370 survey respondents. Aggregate sales figures and the percentage of organic were then compiled in each product category; the resulting proportions were applied to the total sales in each category.

For product breakdowns and organic sales information, data from large-chain respondents were incorporated into their appropriate store category. To complete industry sales subtotals from smaller natural product retailers, product sales in all of these store categories were added up, totaling \$37 billion in natural products, supplements and other (including personal care, books, household products and pet products) and \$11.4 billion in organic food and nonfood products. Organic figures were also compared and reconciled against findings from the Organic Trade Association’s 2012 Organic Industry Survey data, also compiled by *NBJ* in the first quarter of 2012.

Data on mass-market sales and other sales channels are derived from several sources. Consumer-level data is compiled from U.S. government sources, The Hartman Group, The Natural Marketing Institute, SPINS/ACNielsen, Roper Starch, HealthFocus International and others. Retail sales and growth are also compared with scanned sales data from SPINS, SymphonyIRI Group and ACNielsen, as well as results of surveys published by other trade publications and individual company data. For supplements, mass-market retail sales data from IRI and ACNielsen were predominantly used, augmented with estimates for club and convenience stores not tracked by retail scanner data services, derived from *NBJ* interviews and manufacturer surveys.

Data from the nonretail channels were derived mainly from annual *NBJ* surveys of multilevel marketing companies, mail order firms, Internet sales and health practitioner sales.

Not all of the results of the *NFM* Market Overview survey of 2011 performance and sales are directly comparable with 2010 results printed in the June 2011 issue of *NFM*, as certain adjustments have been made. For a more detailed look at current and historical *NFM* Market Overview results, go to newhope360.com.

By Susan Enfield

Supplement sales drivers

Dr. Oz might boost purchases, but **Don Summerfield's** customers at Pharmaca Integrative Pharmacy look to his practitioners for practical advice. Here's what's moving supplement sales in the natural channel and beyond.



With a little help from Dr. Mehmet Oz, and baby boomers and Americans of all ages turning to alternative remedies, U.S. consumer sales of dietary supplements through retail and direct-to-consumer channels reached \$30 billion in 2011 on nearly 8 percent growth, according to early estimates from *Nutrition Business Journal*. “We saw a turnaround this year for supplement sales in the natural channel,” says Carla Ooyen, director of market intelligence for New Hope Natural Media, which publishes *NBJ*. “Sales had been growing stronger in the conventional channel; but in 2011, a number of factors—including Dr. Oz himself—helped to drive shoppers into natural food stores for their supplement purchases.”

According to *NBJ's* preliminary 2011 estimates, U.S. consumer sales of supplements in the natural channel grew 7 percent to \$11 billion in 2011, while the mass-market channel posted sales of \$8.7 billion, a 6 percent increase from the previous year. Direct-channel sales, including those rung up by online supplements retailers, were up 10 percent to \$10.5 billion in 2011.

A growing appreciation for the role nutrition plays in wellness is helping fuel supplement sales, according to veteran natural products retailers and manufacturers. “More people understand that drugs aren't the answer, and it's not a good idea to wait to get sick—so, there's more focus and attention on prevention,” says Al Powers, CEO of Bloomingdale, Ill.-based NOW Health Group, which, like many top supplements manufacturers, reported double-digit growth last year.

On a pragmatic level, many Americans are too busy to go the doctor's office—or lack health insurance—and they're increasingly seeing supplements as an effective, lower-cost way to deal with colds and other minor ailments. Indeed, at Boulder, Colo.-based Pharmaca Integrative Pharmacy, a 24-store chain that's staffed with licensed practitioners, many customers use the store as their primary point of care and source of

health information, says Don Summerfield, Pharmaca's vice president of integrative medicine.

Also driving growth are baby boomers, who want longevity and improved quality of life, and moms, who want healthy, high-quality products for their children, Powers says.

Here's a closer look at some of 2011's top-selling supplement categories—and some laggards—as well as what's looking hot in 2012 and beyond.

Dr. Oz drives sales

An endorsement on Dr. Oz's popular TV show can catapult once-obscure supplements into instant runaway hits—often leaving retailers, manufacturers and distributors scrambling to keep up with demand. “If we could get one step ahead of Dr. Oz, we'd love it,” says Mary Jo Marks, senior project manager in retail space development at Providence, R.I.-based natural foods distributor UNFI. “He's a phenomenon; he's really built up the [natural] channel. A recommendation on his show can wipe out that product in our warehouse in one day.” (A thumbs-up from media darling Joseph Mercola, MD, also can drive product sales, Powers says.)

With more than 1,500 products, NOW Health Group carries most Oz-anointed nutrients—but restocking them once their popularity explodes can take as long as two months. “Our biggest problem is keeping up with production to meet demand,” Powers says, adding that a new NOW distribution and manufacturing center opening near Reno, Nev., later this year should help remedy this problem.

For retailers, trying to ride the Oz roller coaster can present challenges. To work around the problem of frustrated customers looking for a specific product that's out of stock, store owners such as Taylor

Vitamin and supplement sales

Natural channel	2011 (M)	2010 (M)	% change
Total vitamins & supplements (natural)	\$743.35	\$681.98	9.0
Amino acids	\$21.46	\$19.04	12.7
Diet formulas	\$13.79	\$9.97	38.2
Digestive aids & enzymes	\$101.67	\$87.28	16.5
Food supplements	\$177.68	\$165.97	7.1
Meal replacements & supplement powders	\$65.21	\$54.87	18.8
Miscellaneous supplements	\$103.94	\$99.60	4.4
Sports nutrition	\$4.54	\$4.15	9.3
Vitamins & minerals	\$255.07	\$241.10	5.8
Conventional channel	2011 (M)	2010 (M)	% change
Total vitamins & supplements (natural)	\$2,479.27	\$2,310.07	7.3
Amino acids	\$24.80	\$23.18	7.0
Diet formulas	\$26.92	\$27.64	-2.6
Digestive aids & enzymes	\$241.68	\$202.56	19.3
Food supplements	\$406.23	\$383.68	5.9
Meal replacements & supplement powders	\$139.30	\$130.35	6.9
Miscellaneous supplements	\$447.73	\$427.97	4.6
Sports nutrition	\$10.59	\$8.08	31.0
Vitamins & minerals	\$1,182.02	\$1,106.61	6.8
Top categories by % growth in natural channel	2011 (M)	2010 (M)	% change
Pain & inflammation	\$1.39	\$1.03	35.6
Intimacy products	\$0.64	\$0.49	30.4
Weight loss	\$16.99	\$13.31	27.7
Eye health	\$4.45	\$3.60	23.5
Hair & skin & nails	\$10.38	\$8.71	19.2
Blood sugar support	\$2.87	\$2.41	18.8
Liver support	\$0.92	\$0.78	18.3
Digestive health	\$93.26	\$79.09	17.9
Mood support	\$13.50	\$11.46	17.7
Energy support	\$50.16	\$43.17	16.2
Urinary tract health	\$5.43	\$4.73	14.7
Prenatal support	\$8.89	\$7.87	13.0
Sleep	\$8.31	\$7.36	12.9
Health focus—nonspecific	\$295.22	\$272.52	8.3
Immune health	\$9.42	\$8.82	6.9
Prostate support	\$1.22	\$1.14	6.7
Cleanse & detox	\$10.74	\$10.29	4.4
Cognitive health	\$12.56	\$12.05	4.3
Health focus—private label item uncoded	\$55.76	\$53.73	3.8
Joint health	\$23.07	\$22.37	3.1
Cardiovascular health	\$39.64	\$38.49	3.0
Menopause	\$6.68	\$6.52	2.6
Cold & flu	\$18.07	\$17.83	1.3
Bone health	\$44.57	\$44.16	0.9
Allergy & respiratory health	\$1.26	\$1.26	-0.3
PMS	\$1.47	\$1.58	-6.5
Health focus—unknown	\$6.46	\$7.22	-10.5

Source: SPINS Note: Natural numbers do not include Whole Foods; conventional does not include Walmart.

Hamilton, owner of Tunie's Natural Grocery & Vitamin Supercenter in Coral Springs, Fla., have set up Dr. Oz endcaps featuring collections of recent recommendations. And although Oz brings in new customers, “recommendations can be short-lived in terms of excitement,” Summerfield says. “We try not to react, especially if in-house practitioners aren't convinced there's enough solid research behind a touted ingredient.” For instance, Oz's fat-burning claims for raspberry ketones were based on two small mice studies.

Weight loss gives rise to natural innovation

The natural weight-loss category may be the greatest beneficiary of the Dr. Oz effect. Weight management is a hot topic on the TV show, and the doctor loves to point out good—and bad—products to help in this area. For example, in January, Oz exposed a handful of weight-loss supplements that had been tested and found to contain the weight-loss pharmaceutical sibutramine and other adulterants. Adulteration isn't the only problem the weight-management supplement category has faced in recent months. In late 2011, the Food and Drug Administration warned retailers that it's illegal to sell homeopathic hCG (or human chorionic gonadotropin) products, which had been a hit in both the natural and conventional channels.

The good news is that a crop of cutting-edge ingredients—nearly all of them highlighted as “fat busters” on Oz's frequent weight-loss segments—have entered the market in the last few years and have helped sales of weight-loss supplements to grow 28 percent to \$17 billion in the natural channel in 2011, according to Schaumburg, Ill.-based market research firm SPINS. Considered safer than the caffeine- and other stimulant-based weight-loss supplements often sold in the conventional channel, these emerging natural alternatives “help with thermogenesis and healthy metabolism,” Powers says. “They're based more on biochemistry than a fad.”

Among the new star ingredients are safflower oil; conjugated linolenic acid, which may target belly fat; gamma linolenic acid, an omega-6 fatty acid that has similar effects; and 7-Keto, a byproduct of DHEA that may boost metabolism without being converted in the body to steroid hormones (a concern with DHEA). West Palm Beach, Fla.-based Garden of Life's FucoTHIN, made with fucoxanthin from brown seaweed, is a top-selling product, SPINS reports.

Other novel weight-loss supplements that have gotten an Oz boost and become natural-channel mainstays include the Ayurvedic herb *Coleus forskohlii*, calcium pyruvate, saffron extracts and blood sugar-control supplements that help manage cravings. In 2012 and beyond, these products will also likely start selling well in the conventional channel, where 2011 weight-loss supplement sales grew just 3.6 percent to \$32.3 billion, according to SPINS.

*“If we could get
one step ahead of
Dr. Oz, we’d
love it.”*

—Mary Jo Marks, UNFI

Whole-food supplements find love

Although supplement sales last year remained strong in the natural channel, research shows that consumers increasingly want to obtain their nutrients from food. This shift in consumer preference is helping fuel sales of whole-food-based supplements. “The data we’re seeing show this subcategory is growing at least twice as fast as regular supplements, probably 11 percent,” says Robert Craven, CEO of MegaFood, the pioneering whole-food supplements maker based in Derry, N.H.

Craven points to negative press surrounding studies on “megadoses,” generally of synthetic nutrients, as another factor pushing consumers toward whole-food supplements. He also credits Dr. Oz with talking a lot about nutrition as it relates to diet, and believes people are starting to recognize that nutrients are more efficacious when in their natural food forms.

“People equate whole-food supplements to higher quality overall,” says Kerry Watson, SPINS product library manager. Leading brands such as MegaFood, along with Brattleboro, Vt.-based New Chapter, Garden of Life and Austin, Texas-based Natural Vitality, also push the edge of other trends that natural consumers value: organic, non-genetically modified, vegan, gluten free and raw. In addition, whole-food supplements are popular with consumers because they’re easier to digest than synthetics, Marks says.

Sports nutrition strengthens

As more Americans become interested in fitness and staying active longer in life, the sports nutrition category is quickly changing—and creating opportunities for natural products retailers. In the conventional channel, strong sales continue to be driven mostly by muscle-building nitric oxide-L-arginine formulas and performance enhancers—including the troubled DMAA, also called 1,3-dimethylamylamine or geranium extract, which has come under fire from the FDA because it lacks regulatory approval, and is no longer sold on military bases. These products typically don’t appeal to health-conscious natural shoppers and aren’t found on most natural retail shelves.

But natural consumers do seek out high-quality protein powders to fuel their workouts and speed recovery—and they are flocking to natural brands such as the


Canada-based Vega, which offers plant-based, vegan protein powders made from clean, nutrient-dense ingredients. Garden of Life, with its Raw Protein Powder and Raw Meal, is another leader in this category, which continues to attract lots of new products such as New York City-based Twinlab’s soon-to-be launched Clean Fuel line.

Hydration products also are selling well in both the natural and conventional channels. Vega Sports Recovery Accelerator is part of the company’s new “complete sports performance system” that includes targeted products for before, during and after workouts. Top-selling hydration products include Seattle-based Nuun company’s Nuun and U Hydration. All of these offerings helped to grow sports nutrition sales in the natural channel 9.3 percent to \$4.5 billion in 2011, according to SPINS.

Signs of the times

Caught on a recession-fueled treadmill of stress, sleeplessness and fatigue, Americans are turning to natural products stores to find relief without the side effects typical of many non-natural remedies. Top-selling ingredients for stress and sleep include L-theanine, GABA, magnesium, melatonin, 5-HTP, L-tryptophan, and herbal poppy and valerian. Natural Vitality’s Natural Calm and Scotts Valley, Calif.-based Source Naturals’ Magnesium Serene are leading stress-relief products, SPINS reports.

Along with looking for help with stress and sleep woes, consumers are also in a constant search for energy. Top-selling natural energy boosters include mostly the usual suspects: B vitamins, yerba mate, green tea, guarana and taurine. Multivitamins with energy claims are also selling well, especially among men and seniors, SPINS reports.

As more people are diagnosed with diabetes and prediabetes every year, they may look to supplements to manage their conditions—and increasingly, these shoppers are turning to natural retailers for assistance. This helps explain why sales of blood sugar-management supplements spiked 18.8 percent to \$2.9 billion in the natural channel in 2011, according to SPINS. Interestingly, sales of blood sugar-management products in the conventional channel dipped 2.1 percent to \$9.9 billion last year. 

Standbys chart a steady course

In 2011, natural products retailers were once again able to count on several tried-and-true categories to fuel their supplement sales—even though some growth flattened.

Calcium-based formulas for bone growth remained popular with aging baby boomers. But 2011 sales in both the conventional and natural channels dropped slightly, perhaps because of negative press surrounding a major study that linked calcium supplements to heart attack risk.

Fish oil sales grew modestly across all channels in 2011, according to SPINS data, after more than five years of impressive increases. If consumers take to heart recent research that showed fish oil supplementation had no benefit for people already diagnosed with cardiovascular disease, 2012 could see a similar pattern or dip.

Probiotics continued to drive sales in the digestion category as more people understand that the gut plays a huge role in both immunity and systemic health.

Vitamin D sales appeared to plateau, at least in core naturals stores such as Boulder, Colo.-based Pharmaca, where the recent 70 percent to 80 percent annual growth vitamin D supplements had been experiencing ended in 2011. According to SPINS, vitamin D sales grew 12 percent to \$169 million in the conventional channel in 2011, but remained flat at \$15.6 million in the natural channel.

— S. E.

Organic growth rebounds

Demographics, consumer preference push industry to near double-digit expansion

By Vicky Uhland

There’s no doubt about it: The recession is over for shoppers who buy organic. For the second straight year, the U.S. organic industry saw almost 10 percent growth, and experts predict this growth pattern will continue through at least 2013.

The Organic Trade Association reports that organic product sales increased 9.5 percent last year, comparable to 2010’s 9.7 percent growth. Shoppers loaded up their baskets with 9.4 percent more organic foods and a whopping 11 percent more organic non-food products, such as supplements, personal care and linens, last year compared with 2010, according to the OTA’s 2012 Organic Industry Survey.

Schaumburg, Ill.-based market research firm SPINS reports comparable statistics: Organic food sales rose 9.5 percent in natural and conventional stores from February 2011 to February 2012, and non-food sales increased 9.8 percent. And there’s even more good news for natural retailers—growth was higher in natural stores versus conventional. SPINS reports that the natural channel posted a 9.8 percent increase in organic food sales compared with 9.4 percent for mass merchandisers, and 10.3 percent growth in non-food sales versus 9.6 percent for mass.

For the first time, U.S. organic sales surpassed \$30 billion in 2011.

The target demographic

Who’s stocking up on everything organic, from ice cream to shower gel? The surprising answer: young, nonaffluent people.

The core organic audience is parents younger than 40 who earn less than \$30,000 a year, reports Shelton, Conn.-based market research firm TABS Group in its Annual Organic Product Study, conducted in January. “Younger consumers, who typically have the least disposable income, show the greatest loyalty to organic,” says TABS CEO Kurt Jetta, PhD.

He’s seconded by Steven Hoffman, managing partner of Compass Natural, a consulting firm in Boulder, Colo. Research shows that half of all consumers younger than 40 are willing to pay more for sustainable products, he says. What’s more, this number includes very young adults—traditionally not a strong demographic for natural products stores. “It’s held steady for the past five years that people age 18 to 24 are buying green,” Hoffman says.

The target sales drivers

Along with the desire for sustainability, shoppers are increasingly attracted to organic because of concerns about genetically modified organisms and inhumane treatment of animals, Hoffman says. But these concerns carry a backlash: label confusion.

Although the OTA’s “Organic. It’s Worth It” campaign continues to educate consumers about the differences between organic, natural, local and non-GMO labels, retailers report that consumers are still perplexed. “If price sensitivity is an issue, then they’re satisfied with non-GMO rather than organic,” says Summer Auerbach, chief operating officer of Rainbow Blossom Natural Food Markets, a five-store chain in Louisville, Ky., and New Albany, Ind.

OTA Executive Director Christine Bushway says the 2012 survey shows that “manufacturers that can give consumers a combination of these

Organic purchases in the past 6 months

Products	2012 %	2011 %	% change
Any food	41.1	39.2	5
Any health & beauty	9.4	8.4	12
Any organic	41.8	39.8	5
Fresh fruits	28.0	26.9	4
Fresh vegetables	27.8	26.1	7
Eggs	21.1	17.4	21
Milk	19.5	15.6	25
Chicken	15.7	13.4	17
Red meat	9.5	6.4	48
Frozen vegetables	7.2	5.7	26
Hair care	6.8	5.3	28
Skin care products	6.5	6.6	-2
Ice cream	5.6	3.9	44
Frozen fruit	4.9	4.5	9
Cosmetics	3.8	2.6	46

Source: TABS Group Survey (annual survey completed in January)

attributes—organic, local and non-GMO verification—without a price premium can come out on top.”


The target products

Although *Nutrition Business Journal* research shows that sales of gateway organic products such as milk and baby food remain strong, shoppers are adding more variety to their carts, according to the TABS Group. Its January 2012 survey shows an 11 percent increase in the number of categories in which the typical organic consumer made purchases this year, compared to no increase in 2010 or 2011.

NBJ reports that sales in every organic food category increased last year except produce, which stayed steady. Top performers include snack foods, beverages, and prepared and packaged foods, along with the sizzling meat, fish and poultry category, which had the largest sales increase—8.2 percent—between 2010 and 2011.

Bushway attributes this growth to the simple fact that the cost of meat has gone up because of substantial increases in livestock feed costs, meaning consumers spend more in this category than any other. But meat industry expert Dave Carter, principal of Crystal Springs Consulting in Westminster, Colo., contends that consumers are choosing organic for a variety of reasons.

In the organic non-food category, OTA reports that last year’s leaders were linens and clothing, with 17.1 percent growth; personal care at 9.5 percent growth; and supplements, which posted 8.5 percent growth.

Interestingly, the TABS survey found that shoppers who frequent the health and beauty aisle are the most committed organic consumers: 92 percent of them also buy organic food on their shopping trips, compared with 21 percent of organic food buyers who purchase HABA items. 



By Jessica Rubino

Health & beauty boosters



Taylor Hamilton of Tunie's Natural Grocery & Vitamin Supercenter has seen health and beauty product sales double as natural care lines garner customer attention. Improved offerings and holistic shopping habits bolster the category.

In 2009, natural and organic personal care didn't look healthy: Sales increased a mere 1 percent over the previous year, and few categories showed strong numbers or innovation. By 2011, however, sales had increased 8 percent over 2010, according to initial *Nutrition Business Journal* estimates. More significantly, the industry finally proved it has the energy and innovation necessary for more serious growth.

"I feel that the downturn in the economy in 2008 had a major impact in regards to putting category and entire industry growth on hold," says Stacey Egide, who founded personal care companies Avalon Organics and Alba Botanica in the 1990s. "A lot of larger brands scaled back and a lot of smaller brands went away." Thanks to a bolstered economy in 2011, Egide introduced skin and hair care company Andalou Naturals, as "retailers started to branch out and look for new and exciting offerings for their [health and beauty aids] departments," she says.

A growing selection of efficacious products has helped reverse consumers' negative impressions of past offerings that tended to perform poorly, says Taylor Hamilton, owner of Tunie's Natural Grocery & Vitamin Supercenter in Coral Springs, Fla., whose HABA sales grew by double digits last year. Although some consumer skepticism of efficacy remains a barrier to category growth, sales of necessities such as

hair care and fragrance saw the greatest growth in 2011, *NBJ* reports. And the skin care category, which fell 3.2 percent in 2009, experienced a significant comeback: Sales grew an estimated 6.8 percent last year from 2010, thanks to more efficacious offerings that use research-backed ingredients. For example, plant stem cells, coenzyme Q10 and hyaluronic acid are all finding their way into natural beauty products.

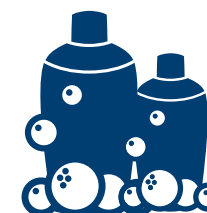
"Facial care is growing," says Michele Mader, body care category manager at Natural Grocers by Vitamin Cottage, a natural retail chain with stores in 12 states. "There are so many more choices now, and I think this category will be very important in the next few years." Plus, customers are willing to spend more on luxury products such as higher-priced facial creams and serums, which they've traditionally purchased at higher price points from salons or cosmetic counters.

Customers link nutrition and beauty

Awareness about toxins in conventional personal care, better natural product offerings and a stronger economy have prompted significant growth in natural and organic personal care. But a fundamental shift in lifestyles, which has prompted purchasing decisions to be more health oriented, will give the natural and organic personal care industry longevity.

"There are so many more choices now, and I think this category will be very important in the next few years."

-Michele Mader, Natural Grocers by Vitamin Cottage



Organic body care sales

Natural channel	2011 (M)	2010 (M)	% change
Organic body care total	\$32.63	\$28.58	14.2
Aromatherapy & body oils	\$2.90	\$2.00	45.1
Body care kits, sets & travel packs	\$0.03	\$0.03	-13.4
Cosmetics & beauty aids	\$0.05	\$0.01	287.1
Deodorants & antiperspirants	\$0.16	\$0.17	-5.0
Hair products	\$4.48	\$4.15	8.0
Oral care	\$0.31	\$0.24	27.5
Personal care & first aid	\$2.21	\$1.79	23.1
Skin care	\$8.42	\$7.30	15.3
Soap & bath preparations	\$14.09	\$12.90	9.3
Conventional channel			
Organic body care total	\$36.50	\$24.76	47.4
Aromatherapy & body oils	\$0.31	\$0.26	18.3
Body care kits, sets & travel packs	\$0.00	\$0.00	-68.3
Cosmetics & beauty aids	na	na	na
Deodorants & antiperspirants	\$0.05	\$0.07	-28.6
Hair products	\$10.50	\$4.67	125.0
Oral care	\$0.07	\$0.07	-1.3
Personal care & first aid	\$0.70	\$0.64	9.8
Skin care	\$14.57	\$9.95	46.4
Soap & bath preparations	\$10.31	\$9.12	13.2

Source: SPINS

Note: Natural numbers do not include Whole Foods; conventional does not include Walmart.

The success of now-hot gluten-free products, which Hamilton and Mader have both seen in their stores, represents how customers are connecting the dots between nutrition and personal care and making healthier choices in every aspect of their lives.

"It is a transition. Customers generally start off with purchasing natural and organic foods," says Hamilton. "We have two licensed nutritionists on staff who help customers plan not just their diets but transition them into health and beauty."

Reaching a new consumer

To capture health and beauty sales, some retailers are integrating personal care products and creative endcaps throughout their stores and to make their HABA departments—which now host products with packaging that's much more modern than it used to be for personal care—reach more customers, Egide says. "Ten, 15 years ago the personal care section was a 4-foot set in the back of a health food store. We're now front and center, which is a huge help for getting that crossover shopper."

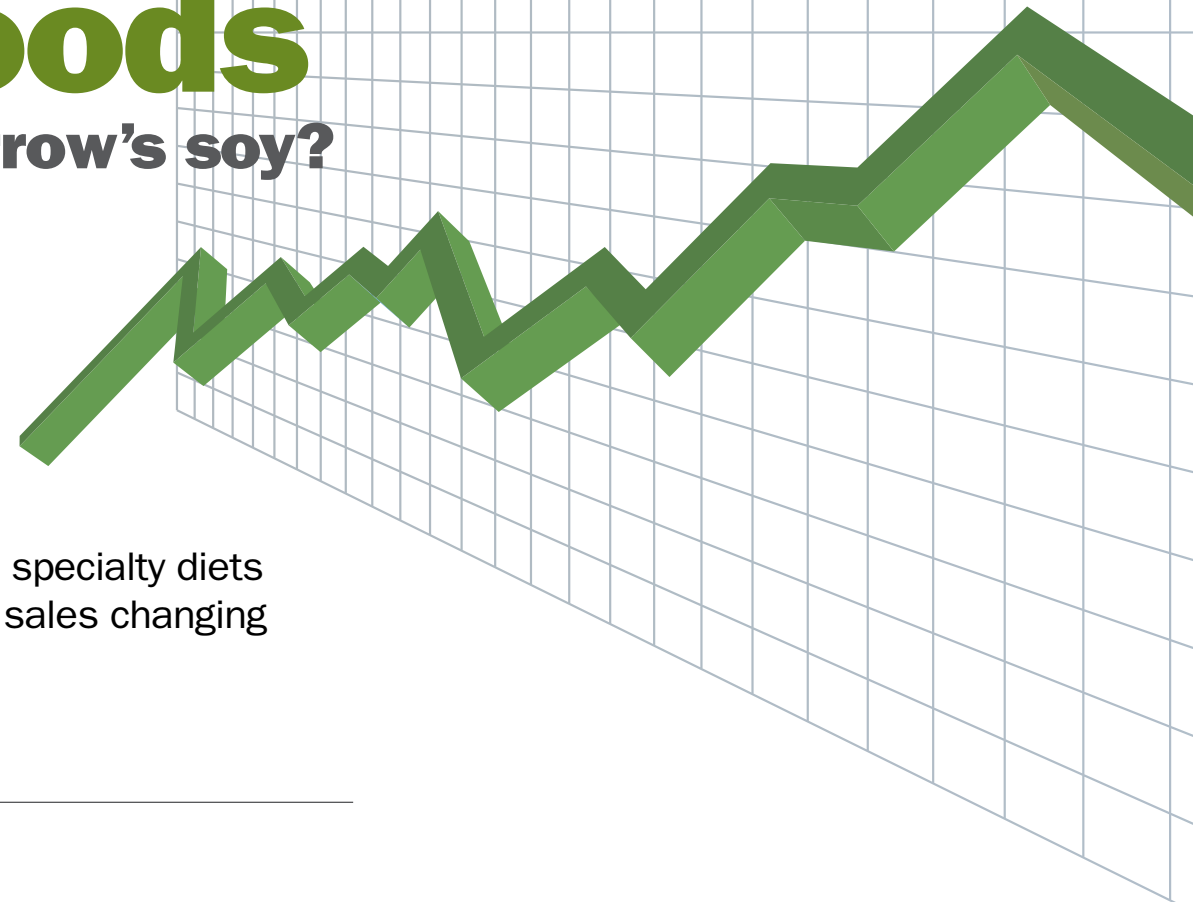
Another important reason customers are increasingly trying natural options: Moms want safer products, particularly mineral sun care, for their children. Forty percent of parents between ages 18 and 34 look for all-natural kids' personal care products, according to market research firm Mintel.

But more work is needed to stay ahead of mass retailers, where natural and organic personal care is actually growing faster and nipping the heels of natural retailers' sales numbers for the category. The reason: Many natural retailers still allot limited shelf space to non-food items, which may limit personal-care growth in natural retailers, reports market research company Organic Monitor. Plus, many natural retailers have yet to focus on the more sophisticated, spa-like merchandising necessary for higher-priced natural skin care products to compete with cosmetics sold in salons, spas and department stores, says Cheryl Bottger, vice president of sales and product development for supplement and personal care company Veria International, which launched the Veria ID and Veria SO lines at Natural Products Expo West in March.

Does organic drive sales?

In 2011, sales of personal care products bearing the USDA Organic seal showed strong growth but was stronger in mass. According to Schaumburg, Ill.-based market research firm SPINS, sales of USDA Organic personal care products were up 63 percent in conventional stores in 2011 compared with 33 percent in natural. In the mass market, where unsubstantiated product claims abound, choosing USDA Organic is an easy way for consumers to feel confident that they're purchasing a quality product. 🌱

Are fermented foods tomorrow's soy?



Hot headlines, specialty diets keep category sales changing

By Kelsey Blackwell

For many consumers, determining what constitutes a healthy diet is as baffling as ever. Genetically modified ingredients seem impossible to avoid, sugar may now be considered a toxin, and what exactly does *natural* stand for? Confusion is rarely cleared up at the shelf, because many shoppers don't trust (or even spend time reading) food labels, according to New Hope Natural Media's *The Future of Wellness: How Consumers Define "Healthy" at Retail* report. Dr. Oz has emerged as America's favorite go-to health guru who sends Americans scrambling to adopt his advice. Meanwhile, a bevy of eating plans, including the carbohydrate-cutting Paleolithic diet, have gained popularity by promising to help shoppers shed pounds, detoxify and increase their energy—something coffee-chugging Americans are seemingly starved for. Even ingredients that have long been considered healthy are now being called into question.

How have these influences played out in the natural products space? Three categories in particular have seen changes. Agave, once an emerging natural sweetener, logged flat sales overall last year and dipped 22 percent in the refrigerated juices and functional beverages category between 2010 and 2011, according to Schaumburg, Ill.-based market research firm SPINS. Sales of foods containing soy, another ingredient under the microscope, declined in many categories, but overall sales grew 0.3 percent, SPINS reports. Pickled products represented a bright spot, however, as more consumers connected fermented foods with digestive health. SPINS data show that pickled

and marinated vegetables saw a nearly 11 percent sales increase in 2011.

Here's a closer look.

New future for soy?

When soy first appeared on the natural foods scene decades ago, possibilities for the wonder bean seemed endless. The protein-rich legume was lauded for lowering cholesterol, alleviating hot flashes, preventing heart disease and decreasing breast cancer risk.

Fast-forward to March 2012, and manufacturers exhibiting at Natural Products Expo West were proudly touting new products as "soy free" to address increased concerns about soy as a top food allergen. Even soy enthusiasts such as Canoga Park, Calif.-based Follow Your Heart and Broomfield, Colo.-based Silk debuted products using soy alternatives like pea protein and almonds at the trade show. Although soy sales remained virtually flat in the frozen and grocery categories across all channels, sales of packaged soy products sunk nearly 13 percent in the natural channel in 2011, SPINS reports. Natural products stores also sold significantly fewer soy-based cookies and snack foods, nondairy beverages and cheese alternatives.

What happened?

For one thing, concern has arisen regarding the plant's heavy load of phytoestrogens—estrogen-like compounds linked to endocrine disruption.



Agave sales

Total natural channel	2011 (M)	2010 (M)	% change
Refrigerated, grocery & frozen products with agave	\$37.87	\$38.09	-0.6
70%+ organic content	\$32.50	\$33.03	-1.6
Labeled gluten free	\$19.97	\$19.65	1.7
Category			
Candy & individual snacks	\$1.61	\$1.42	13.4
Carbonated beverages	\$0.48	\$0.35	39.4
Chips, pretzels & snacks	\$0.25	\$0.23	10.1
Cold cereals	\$1.43	\$1.24	15.3
Conserves, jams & spreads	\$0.02	\$0.19	6.9
Cookies & snack bars	\$1.41	\$1.13	24.8
Energy bars & gels	\$8.74	\$7.33	19.2
Frozen desserts	\$10.88	\$11.41	-4.6
Puddings & shelf-stable desserts	\$0.97	\$0.99	-2.1
Ready-to-drink tea & coffee	\$0.90	\$0.98	-7.9
Refrigerated juices & functional beverages	\$2.43	\$3.11	-21.9
Shelf-stable functional beverages	\$0.50	\$0.43	14.2
Shelf-stable juices	\$0.34	\$0.35	-3.9
Sweeteners	\$8.57	\$9.90	-13.5
Water	\$0.21	\$0.08	160.7

Pickled and marinated sales

Pickled & marinated vegetables	\$7.93	\$7.17	10.6
Labeled gluten free	\$2.05	\$1.95	4.6
With 95% organic content	\$2.66	\$2.32	14.6
Refrigerated pickled & marinated vegetables	\$4.71	\$3.62	30.0
Labeled gluten free	\$0.28	\$0.14	95.1
70% organic content	\$2.64	\$2.11	25.5

Source: SPINS

"We want to remind people of what soy is supposed to taste like. What we're trying to do is take back tofu."

-Minh Tsai, Hodo Soy Beanery

Other worries surround the possible presence of genetically modified organisms, because 80 percent of the world's soybeans come from GM crops, according to the Non-GMO Project, a third-party certifier of packaged foods and supplements. Still, products made from other GM crops such as rapeseed (used to make canola oil) and phytoestrogenic plants like flax haven't seen sales slide as much as soy.

"In addition to these other hurdles, the soybean is very hard for many people to digest," says Kara Nielsen, trendologist at the Center for Culinary Development, a product development think tank for food and beverage companies. "Shoppers may be realizing, 'Hey, I'm eating a lot of soy, probably too much of it and likely not in the right format.'"

These realizations also have affected the alternative dairy category, says Mary Jo Marks, retail training and education department manager at UNFI, a Providence, R.I.-based distributor of natural and organic foods. The bean will likely continue to flounder as rice-, hemp- and almond-based options surpass soy in taste and are perceived as having more of a health halo, she says.

Rather than pushing soy to reclaim past prominence, Nielsen says it's time to get back to the bean's roots. In Asian countries where soy has been consumed for thousands of years, it's frequently fermented to improve digestibility and its nutrient profile. If American consumers ate fermented soy, the bean might see resurgence, she says.

Manufacturers such as San Francisco-based Hodo Soy Beanery, which makes artisan organic soymilk, tofu and tofu skin (yuba), are working to reintroduce consumers to high-quality soy foods. "We are certified organic, work directly with farms to get

our beans and don't process any of our ingredients," says company founder Minh Tsai. "We want to remind people of what soy is supposed to taste like. What we're trying to do is take back tofu."

Rethinking agave

Sweeteners have also come under fire. The 2011 *New York Times* article, "Is Sugar Toxic?" which used research conducted by Robert Lustig, MD, to implicate sugar as a toxin akin to alcohol, led many consumers to take a second look at the pantry staple. Around the same time, media began lambasting high fructose corn syrup as a primary cause of obesity and diabetes. This firestorm prompted the Corn Refiners Association to rename the ubiquitous ingredient "corn sugar" to make it sound healthier—much to many natural products consumers' chagrin.

A controversial Rodale.com article that ran in April grouped the sweetener with aspartame, sucralose and high-fructose corn syrup as one of "The 5 Worst Sweeteners to Have in Your Kitchen." Even agave, originally touted as a low-glycemic alternative, has come under scrutiny for having more fructose than most consumers realized.

According to SPINS, the 2011 numbers reflect this consumer skepticism: Agave sales went flat, with significant decreases in the refrigerated and functional beverages and sweeteners categories. Negative media attention, coupled with the popularity of the Paleo, Caveman and other diets that nearly eliminate all added sweeteners, will continue to challenge category agave growth, Nielsen suspects. "People are cautiously re-examining all of their sweetener use, whether it's artificial sweeteners or more natural options like stevia," she says. "I think they're realizing agave is processed. Maybe not in the same way as industrial sugar, but it's not as natural as once thought. It's not honey."

Consumers are still assessing sweeteners that best fit their needs, which is why purchase behavior could evolve, says Kerry Watson, SPINS product library manager. Watson recommends that retailers consider stocking other natural sweeteners. One option is lo han guo, made from monk fruit, which saw 100 percent growth in 2011.

Still, don't expect agave to disappear, counters Marks, who anticipates potential growth for the sweetener in the sugar-free category, where natural companies have traditionally lagged behind conventional. "Agave sales spiked so high that now we're seeing a leveling off. It's almost like agave-sweetened is the norm now," she says.


Fermented and fabulous

Shoppers are filling their carts with pickled products—and not just traditional favorites such as cucumbers and carrots. We're talking everything from beets to cabbage to raisins. Sales of shelf-stable pickled and marinated vegetables increased

11 percent in the natural channel in 2011, while refrigerated options grew an impressive 30 percent, SPINS reports.

Since launching in 2009, Boulder, Colo.-based MIM Local, a producer of organic canned fruits and pickled vegetables, has more than doubled the amount of produce it sources in order to meet demand. "Last year we bought over 80,000 pounds," says Jim Mills, MIM Local cofounder and co-CEO. "I think it's the quality and the taste that consumers love. We pick our produce at its peak and add very few ingredients during the canning and pickling process. We want it to taste like the best of what it is."

Dr. Oz may be to thank for a portion of this category's growth, because the celebrity nutrition advisor has recommended pickled vegetables for digestive health. Research has shown that good bacteria in fermented foods reduce the growth of harmful bacteria in the intestine. However, for consumers, the most important perks of pickled products may be that they're versatile, highly nutritious, flavorful and allowed by most diet plans—all of which may contribute to continued category growth.

"In general, the American palate is becoming more sophisticated and learning to handle more assertive flavors like the sour and pickled flavors," Nielsen says. "People are realizing pickled foods can balance a meal by tempering spice and cutting the richness of fatty foods." 



Soy sales

Total natural channel	2011 (M)	2010 (M)	% change
Total soy foods	\$175.98	\$175.45	0.3
Frozen	\$26.96	\$27.16	-0.7
Grocery	\$74.78	\$72.59	3.0
Produce—packaged	\$0.66	\$0.75	-12.4
Refrigerated	\$74.18	\$75.63	-1.9
Selected categories			
Baby food	\$0.40	\$0.46	-13.1
Cheese & cheese alternatives	\$5.70	\$6.53	-12.8
Chips, pretzels & snacks	\$1.80	\$1.94	-7.2
Condiments, dressings & marinades	\$16.91	\$15.84	6.8
Cookies & snack bars	\$1.15	\$1.51	-24.0
Crackers & crispbreads	\$0.23	\$0.23	-0.6
Energy bars & gels	\$27.45	\$24.68	11.2
Frozen breakfast foods	\$1.09	\$0.98	10.6
Frozen desserts	\$5.42	\$6.09	-11.0
Frozen meat alternatives	\$9.68	\$9.39	3.1
Frozen appetizers & snacks	\$1.24	\$1.38	-10.4
Frozen lunch & dinner entrees	\$6.57	\$6.22	5.6
Packed fresh produce	\$0.66	\$0.75	-12.4
Refrigerated meat alternatives	\$19.11	\$19.13	-0.1
Refrigerated nondairy beverages	\$14.61	\$15.75	-7.3
Shelf-stable nondairy beverages	\$9.12	\$10.56	-13.7
Tofu	\$13.74	\$13.78	-0.2
Yogurt & kefir	\$8.17	\$8.51	-4.0

Source: SPINS