2013 Market Overview

Natural Continues Strong Gains • Organic Grows Even Amid Confusion • Supplement Sales Figures Maintain Progress
Competitive drive leads to success

You are about to dive into the numbers that define natural products retail. But the whole picture makes a difference in this increasingly competitive environment. It’s about coalescing as an industry, meeting consumer needs and improving stores for the good of health, that of our customers and our businesses.

When we look back at 2012 and 2013, the natural foods retail community will likely remember one thing: That’s when growing health awareness fed a frenzy of competition.

The headlines we’ve run throughout the year tell the story. Conventional grocers and even convenience stores are taking up the mantle of serving good health. Kroger sells it under a clean private label—Simple Truth—and offers the services of nutritionists in its health and beauty areas. Walgreens stores now feature improved grocery offerings and healthy grab-and-go options along with growing clinic assistance for well and sick care.

In our own natural foods space, Whole Foods Market and Natural Grocers by Vitamin Cottage are selling natural and organic to Wall Street with gangbuster growth plans. And seemingly natural-starved Americans are lining up (we’re talking tailgating at store openings).

Scott Roseman, Renee Southard, Gail Graham and Diane Lahodny know it well. You’ll read more about how these natural leaders have something more than competitors coming to their markets in common. They have invested in and improved their businesses to meet or beat the competition—and even their personal competitive bars—and reached higher-than-8-percent-average growth rates in 2012.

That’s what this annual Market Overview edition is all about—the benchmarks and best practices that make the natural market a continued success, a growing industry that consistently outpaces conventional grocery and broader retail market numbers.

Competition has even bruised the organic industry, which has felt overshadowed by the rising non-GMO movement and undermined by viral stories such as the Stanford University study declaring no additional nutrition benefits from cleaner food choices. The Organic Trade Association plans to change this story by emphasizing research as an integral part of its mission. It announced its first effort during the OTA annual dinner at Natural Products Expo West. Thanks to a $50,000 grant from UNFI, The Organic Center has partnered with the U.S. Department of Agriculture’s Agricultural Research Service to understand the presence of arsenic in organically grown rice.

These stories certainly don’t end here. The Organic Center will strive to better tell the organic tale under the recently created position of director of science programs and its new scientific advisory panel. And we’ll continue to follow the trends, companies and people that make the business of natural health retail one of the best, most exciting industries.

Let us know how you’re faring and what you are seeing in your markets and marketplaces. Feel free to email me at christine.kapperman@penton.com, or contact our senior editor, Kelsey Blackwell, at kelsey.blackwell@penton.com.

We’re here to listen, help and, hopefully, inspire.
To your success.
Staying ahead

Natural foods retailers like Scott Roseman of New Leaf Community Markets continue to find success despite increasing competition. Learn what’s driving 10 percent industry growth and how independents plan to keep it up.

NFM’s

2012 By the Numbers

A collaboration with Nutrition Business Journal, the 2013 NFM Market Overview reports 2012 sales statistics from 400 respondents who answered questions about their operations.

<table>
<thead>
<tr>
<th>Sales</th>
<th>2012 (B)</th>
<th>2011 (B)</th>
<th>% growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total natural sales in retail</td>
<td>$80.62</td>
<td>$73.08</td>
<td>10.3</td>
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<tr>
<td>Total natural sales nonretail</td>
<td>$18.45</td>
<td>$16.83</td>
<td>9.6</td>
</tr>
</tbody>
</table>

41% NATURAL PRODUCTS RETAILERS:
2012: $40.98 B
2012: growth 9.7%
Food: $23.64 B
Supplements: $11.79 B
Personal care/other: $5.54 B

40% CONVENTIONAL RETAILER:
(Includes food, drug, mass)
2012: $39.64 B
2012: growth 11.0%
Food: $26.15 B
Supplements: $9.25 B
Personal care/other: $4.24 B

PRACTITIONERS: 4%
2012: $3.51 B
2012 growth: 10.0%

MAIL ORDER: 3%
2012: $3.27 B
2012 growth: 9.0%

INTERNET: 4%
2012: $3.51 B
2012 growth: 15.0%

MULTILEVEL MARKETING: 8%
2012: $8.17 B
2012 growth: 7.6%
A
sk retailers of natural and organic products to choose
one word to define their industry in 2012 and chances are
they’ll bring up one word: Competition.

“That’s what is on everyone’s mind right now,” says Corinne
Shindelar, CEO of the Minneapolis-based Independent Natural Food
Retailers Association. “There are just so many more players getting into
the game at multiple-store levels.”

According to Natural Foods Merchandiser’s 2013 Natural Retailer
Market Overview Survey, 31.5 percent of natural retailers saw a
competitor open in their region in 2012—up from 24 percent in 2011.
The good news, for now at least, is that most retailers are surviving
despite the increasingly competitive landscape. In fact, store closures
dropped from 6.5 percent in 2011 to 1.5 percent in 2012, as the
recession subsided and survivors began to dig in and do what it takes
to stick around for the long haul. Thirty percent remodeled their stores
in 2012, 9 percent added on and 11 percent say they plan to add one or
more locations in 2013.

“What we really saw this year was the post-shakeout breath-
holding,” says Jay Jacobowitz, president of Brattleboro, Vt.-based
consulting firm Retail Insights. Jacobowitz notes that many “legacy”
independent retailers who opened up shop in the 1970s but did not
update or expand began fading away in the 2000s—and the recession
was the final nail in their coffins. “The weaker competitors have now
disappeared,” he says.

But taking their place are potentially stronger retailers, backed
by shareholders or venture capitalists, eager to get a slice of a natural
and organic pie that soared 10 percent to $98.9 billion in U.S. sales
across all distribution channels in 2012, according to the NFM Market
Overview.

Lakewood, Colo.-based Natural Grocers by Vitamin Cottage is
one of numerous natural chains scaling up. The company raised $54
million in July 2012 via its initial public offering and says it will use
the money to expand to 1,100 stores nationwide from its current 63 in
12 Western states. Natural Grocers already has signed leases for new
stores in Texas, Oregon, Montana and Kansas. Meanwhile, its publicly
traded rival, Whole Foods Market, has extended its reach with more
than 340 stores, placing particular emphasis on smaller footprints. A
recently added Whole Foods location in Brookline, Mass., is just 8,000
square feet, larger than the average health food store but small for the
supernatural market.

In April 2012, New York City–based Oak Hill Capital Partners
bought a majority stake in Asheville, N.C.-based Earth Fare,
promising to expand the 25-store chain across the Midwest. And
Phoenix-based Fresh Thyme Farmers Market (backed by Grand
Rapids, Mich.-based Meijer Companies) quietly began planning its
2014 launch, with a promise of 48 value-based, farmers market–type
stores over five years across the Midwest.

“The floodgates are open and everyone wants a piece
of the pie,” Jacobowitz says.
“People are starting to realize that they will need to be responsible for their own health and longevity.”

—Christine Bushway, Organic Trade Association

### Growth & competition

<table>
<thead>
<tr>
<th>Total</th>
<th>Natural products stores</th>
<th>Health food stores</th>
<th>Supplement stores</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>% that added onto one or more existing facilities in 2012</td>
<td>9</td>
<td>10</td>
<td>8</td>
</tr>
<tr>
<td>% that renovated/remodeled one or more existing facilities in 2012</td>
<td>30</td>
<td>37</td>
<td>29</td>
</tr>
<tr>
<td>% that added one or more locations through a new build or acquisition in 2012</td>
<td>5</td>
<td>8</td>
<td>3</td>
</tr>
<tr>
<td>% that closed one or more locations in 2012</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
</tbody>
</table>

### 2013

<table>
<thead>
<tr>
<th>Total</th>
<th>Natural products stores</th>
<th>Health food stores</th>
<th>Supplement stores</th>
</tr>
</thead>
<tbody>
<tr>
<td>% that added onto one or more existing facilities in 2013</td>
<td>8</td>
<td>9</td>
<td>6</td>
</tr>
<tr>
<td>% that plan to renovate/renovate model one or more of existing facilities in 2013</td>
<td>28</td>
<td>34</td>
<td>23</td>
</tr>
<tr>
<td>% that plan to add one or more locations through a new build or acquisition in 2013</td>
<td>11</td>
<td>15</td>
<td>8</td>
</tr>
<tr>
<td>% that plan to close one or more locations in 2013</td>
<td>2</td>
<td>2</td>
<td>1</td>
</tr>
</tbody>
</table>

| None of the above | 60 | 53 | 66 | 66 |

Source: NFM/NBJ

### Profit & expense

<table>
<thead>
<tr>
<th>Total</th>
<th>Natural products stores</th>
<th>Health food stores</th>
<th>Supplement stores</th>
</tr>
</thead>
<tbody>
<tr>
<td>Avg. revenue</td>
<td>$1.55 M</td>
<td>$3.15 M</td>
<td>$817 K</td>
</tr>
<tr>
<td>Cost of goods sold</td>
<td>69%</td>
<td>69%</td>
<td>68%</td>
</tr>
<tr>
<td>Storewide gross profit margin</td>
<td>31%</td>
<td>31%</td>
<td>32%</td>
</tr>
<tr>
<td>Payroll expense</td>
<td>15%</td>
<td>17%</td>
<td>14%</td>
</tr>
<tr>
<td>Benefits</td>
<td>2%</td>
<td>3%</td>
<td>1%</td>
</tr>
<tr>
<td>Advertising and promotion</td>
<td>3%</td>
<td>2%</td>
<td>3%</td>
</tr>
<tr>
<td>Other expenses</td>
<td>6%</td>
<td>6%</td>
<td>7%</td>
</tr>
<tr>
<td>Net profit margin</td>
<td>6%</td>
<td>4%</td>
<td>8%</td>
</tr>
</tbody>
</table>

Source: NFM/NBJ

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**Demand surges**

Consumer demand for natural and organic products continued to increase in 2012. One powerful force driving growth was the change in shopper demographics. The millennial generation, roughly defined as people born in the 1980s and 1990s, has come of age, and these consumers now have their own children and make their own purchasing decisions.

While Generation X rejected the “free love and granola” ethos of their baby boomer parents to a degree, tech-savvy, globally thinking millennials are embracing sustainable living wholeheartedly, Jacobowitz says. “The millennial generation is the first digital-only generation,” he adds. “They have had access to this vast body of knowledge from an early age and have been able to connect what they do and buy at home with the larger world.”

As the price spread between natural, organic and conventional has begun to narrow, this too has brought new shoppers into the category. “We have gotten more efficient as an industry in our production and distribution, and that has lessened the big price spread,” says Christine Bushway, executive director of the Organic Trade Association.

Many larger retailers have rolled out their own lower-priced, private-label natural and organic brands. Meanwhile, smaller independents have joined forces through INFRA to collectively negotiate better prices from their suppliers, which they can then pass on to consumers. And some big players are slashing margins in hopes of boosting volume. “Safeway recently reduced organic produce prices across the board, and they are selling more organic produce across the board,” notes Maryellen Molyneaux, founder and president of Harleysville, Pa.-based Natural Marketing Institute.

Another contributor to natural growth has been recent food scares, such as last year’s pink slime debacle and massive Salmonella-tainted peanut butter recall. These and other events have prompted people to take a closer look at their food sources and, in doing so, often cross over to natural and organic, says Maureen Lawer, vice president of business development for SPINS.
“Increased awareness of specific health issues such as celiac disease, digestive disorders and gender-specific needs are also driving consumers to be more educated about what they put in their bodies,” Lawer adds.

Media coverage of the Affordable Care Act has also motivated people to focus more on their health and wellness, Bushway says. “One thing helping to fuel growth is the big national debate over health care,” she explains. “People are starting to realize that they will need to be responsible for their own health and longevity.”

These and other forces are benefitting sales of natural and organic products throughout all retail channels. According to NFM 2013 Market Overview research, sales of natural and organic products (including dietary supplements) grew 9.7 percent to $40.9 billion in the natural channel last year. In comparison, natural and organic sales among mass merchandisers increased 11 percent to $39.6 billion in 2012.

Most retailers experienced sales growth. In fact, 81 percent of stores surveyed by NFM reported an increase in sales in 2012. The average sales spike was 11.2 percent.

A look at SPINS data shows that sales within some standout categories went through the roof last year. Natural body care shot up nearly 21 percent across natural and conventional channels. Coffee increased 40 percent, baby food rose 34 percent, shelf-stable fruits and veggies grew 27 percent, and shelf-stable meats, poultry and seafood soared 26 percent.

Given these growth rates, Jacobowitz estimates that by 2030, half of all food sales could come from the natural and organic category, up from 41 percent in 2012. Now the million-dollar question is: As the number of stores grows to meet soaring demand, how can independent retailers stand out in the crowd?

“By really knowing who they are,” says INFRA’s Shindelar, who recommends that retailers take a hard look at their pricing, category management, aesthetic and mission and be sure these meet the needs of their unique communities. “Independents have the ability to marry business acumen with social responsibility in a very unique way because they know their communities so well,” she says. By reaching out to those communities in unique and creative ways, many retailers are not just surviving, but thriving in the face of competition.

Independents ramp up

In the run-up to Whole Foods’ July 2012 opening of its first Iowa location, Des Moines airwaves and newspapers were flooded with coverage. “The buildup was unbelievable—we called it ‘the second coming,’” recalls Diane Lahodny, whose 3,000-square-foot Campbell’s Nutrition store is located less than a mile from the new Whole Foods.

Rather than fret, or complain, Lahodny got busy. She aired her own TV commercials, reminding viewers of her family business’s 75-year history in the area. She tightened up inventory, getting rid of poor sellers and stocking more of the items that might lure her customers to Whole Foods. “I heard people saying, ‘I can’t wait to see what chocolate they’ll have,’” so we upped our chocolate offerings and put them on endcaps,” Lahodny says. And in areas where she knew her competitor was weak, such as books and supplements, she made a point of becoming stronger.

All of these efforts paid off handsomely. In 2012, Campbell’s Nutrition posted a 12 percent boost in sales across its two Des Moines stores.

In Santa Cruz, Calif.—one of the most saturated markets in the nation for natural and organic retail—New Leaf Community Markets is also holding its own after decades in business.

It posted 9 percent to 11 percent growth in 2012, opened a seventh...
The 2013 edition of Natural Foods Merchandiser’s annual Market Overview represents the 33rd year the magazine has presented statistics on store operations and the state of the natural products industry. From $1.9 billion in 1980 to $41 billion in 2012, 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 15th year NFM has collaborated with Nutrition Business Journal, a New Hope Natural Media sister publication and Penton Media property.

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 included.

The primary vehicle for collecting data for the Market Overview is NFM’s annual store survey of 400 respondents covering a representative segment of the natural products retail industry, including, but not limited to, natural products stores, health food stores and supplement stores.

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 11,210 independent and chain stores and $25 billion in sales. 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.

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. 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 2013.

Data on mass-market sales and other sales channels are derived from several sources. Data from the nonretail channels are 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 2012 performance and sales are directly comparable with 2011 results printed in the June 2012 issue of NFM, as certain adjustments have been made.
Organic gains

How much can organic grow amid continued consumer confusion?

By Lisa Marshall

Last year was another banner one for the organic industry. SPINS tracked a 12 percent increase in sales of organic products across all channels, and the Organic Trade Association reported that a whopping eight in 10 parents now buy organic at least some of the time. “I would characterize the industry as exploding,” says OTA Executive Director Christine Bushway. “It was an incredible year of double-digit growth across many categories.”

Although there are many positives, the news is not all good for organic. Some industry observers—and several recent surveys—point out that mainstream consumers still don’t grasp what the USDA Organic seal means or how it benefits them, and many view it with suspicion. If this problem isn’t solved, the organic bubble could burst, fears Maryellen Molyneaux, founder and president of Harleysville, Pa.-based Natural Marketing Institute. “Consumers are very confused, and it is not getting better,” she says.

New categories and newcomers

Looking first at the good news, industry observers say organic’s steady postrecession return to double-digit growth has been driven significantly by longtime organic consumers broadening their purchases across more categories, such as textiles, body care and supplements. “People interested in organic are considering not just what they put in their bodies, but also what they put on their bodies,” Bushway explains.

For instance, organic mattresses and cotton textiles are “going gangbusters,” she says. With organic cotton retail sales rising 20 percent, from $4.3 billion in 2009 to $5.16 billion in 2010, according to the 2010 Global Market Report on Sustainable Textiles. “Now you can buy reasonably priced organic bed linens at Target and Walmart.” Also, according to SPINS, sales of organic body care products climbed a jaw-dropping 34.9 percent across natural and conventional channels in 2012, while organic vitamins and supplements increased 20.2 percent.

Besides committed consumers buying more, organic continues to slowly attract newcomers, many of them parents drawn to the U.S. Department of Agriculture’s Organic seal out of concern for their families’ health. According to the OTA’s U.S. Families’ Beliefs and Attitudes study, 81 percent of surveyed families say they buy organic (up from 73 percent) in 2009. Forty-one percent are “new entrants” to the market, and nearly half say they buy organic food because it is “healthier for me and my children.”

As for what items these shoppers are buying, 97 percent said they purchased organic fruits or vegetables in the past six months, while 85 percent bought breads and dairy.

Organic baby food spiked in 2012, driven in part by the massive mainstream expansion of Plum Organics and its squeeze-pack baby food. (Plum brought in $80 million in 2011 and made the Inc. 500 list of the nation’s fastest growing companies.) “With organic baby food, parents are really getting on board,” says Kurt Jetta, CEO of the TABS Group, a Shelton, Conn.-based consumer analytics company.
Organic sales

<table>
<thead>
<tr>
<th>Natural and conventional channels</th>
<th>2012 (B)</th>
<th>2011 (B)</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dairy</td>
<td>$4.4</td>
<td>$4.1</td>
<td>7</td>
</tr>
<tr>
<td>Fruit &amp; vegetables</td>
<td>$9.9</td>
<td>$8.8</td>
<td>13</td>
</tr>
<tr>
<td>Breads &amp; grains</td>
<td>$2.7</td>
<td>$2.5</td>
<td>8</td>
</tr>
<tr>
<td>Meat, fish, poultry</td>
<td>$0.8</td>
<td>$0.7</td>
<td>13</td>
</tr>
<tr>
<td>Beverages</td>
<td>$3.1</td>
<td>$2.8</td>
<td>10</td>
</tr>
<tr>
<td>Snack foods</td>
<td>$1.3</td>
<td>$1.2</td>
<td>15</td>
</tr>
<tr>
<td>Packaged/prepared foods</td>
<td>$3.2</td>
<td>$2.9</td>
<td>10</td>
</tr>
<tr>
<td>Condiments</td>
<td>$0.9</td>
<td>$0.8</td>
<td>16</td>
</tr>
<tr>
<td>Total</td>
<td>$26.3</td>
<td>$23.8</td>
<td>11</td>
</tr>
</tbody>
</table>

Source: NBJ

Consumer confusion and retailers retreating

Baby food might be booming, but overall, Jetta does not believe organic has spread to the mainstream as much as some are touting. In fact, he says some mass merchandisers are actually considering scaling back their organic offerings. “A typical mainstream retailer is dedicating 10 percent of its space to organic, but that’s representing only 3 percent of sales,” Jetta says. “I’ve heard multiple mainstream retailers say that organic does not deliver enough sales or profit in relation to how much space they devote to it.”

Molyneaux says many consumers confuse natural with organic, mistakenly thinking natural is the one that requires third-party certification. Others are skeptical of both terms. “Consumers are buying, but not with understanding,” she says. “When the challenge comes, and they have to make a trade-off because of budget concerns, they may make their choice based on wrong information.”

This already might be happening in the United Kingdom, where, according to The Guardian newspaper, sales of organic products fell by more than 1.5 percent over the past year, as mainstream retailers cut back their offerings in the wake of a recession that turned many new organic buyers away from organic.

Molyneaux isn’t seeing huge numbers of newcomers gravitating toward organic either, and she fears that interest among newbies could be fleeting if they don’t clearly understand what they’re buying. NMI’s most recent survey of health and wellness trends found that only 33 percent of the general population recognizes and understands the USDA Organic seal—a slight decline in recognition from previous surveys. Three-quarters say organic is too expensive. Two-thirds say they question its authenticity. Four in 10 say the benefits of paying a premium price for organic are not clear. Even more concerning: When consumers were asked what attribute in a food they look for most (great taste, nutritious, grown without pesticides or GMOs, natural, from sustainable farms, etc.), USDA Organic ranked dead last, with fewer than 18 percent ranking it as very important.

Bright future

Despite these challenges, both Molyneaux and Bushway say they have great hope for organic. They believe it can continue its double-digit growth—as long as retailers are mindful of pricing and the industry keeps educating people about its benefits. Both are banking on the proposed Organic Research and Promotion Order, which would establish an industry fund, administered by USDA and governed by an independent board, to launch a marketing program for organic along the lines of the successful “Got Milk?” and “The Incredible Edible Egg” campaigns.

“In my mind, there is one and only one challenge facing this industry, and that is educating the consumer about what organic delivers,” Bushway says. “We have made progress but we have a long way to go.”
When asked what’s driving supplement sales in 2013, Cheryl Hughes, owner of the Whole Wheatery in Lancaster, Calif., keeps it simple: “Dr. Oz, Dr. Oz, Dr. Oz.”

Hughes is not alone in touting the power of Dr. Mehmet Oz and his hugely popular daily TV program, “The Dr. Oz Show.” In Natural Food Merchandiser’s annual survey, retailers overwhelmingly pointed to Dr. Oz and other health personalities as the most important factor impacting supplement sales. The “Dr. Oz Factor,” as it’s known, isn’t a new phenomenon. But retailers have become more adept at leveraging Dr. Oz’s influence—and navigating the challenges he sometimes presents.

The dietary supplement industry is thriving, with retail and direct-to-consumer sales topping $32 billion in 2012, according to NFM’s 2013 Market Overview survey. That’s a 7.4 percent increase over 2011, compared with 7 percent growth the previous year.

“The supplement sales rate appears to have stabilized since the early 2000s and likely will continue on a similar path for the next five years,” says Carla Ooyen, New Hope Natural Media’s director of market intelligence.

Dr. Oz isn’t the only reason supplement sales continue to grow at solid rates. NFM survey respondents say the market also is being fueled by health concerns such as joint pain and heart ailments, as well as the aging baby boomer generation. “We are certainly seeing more people coming into the stores and supplement aisles who haven’t been there before,” says Jeff Wright, owner of Wright’s Nutrients in New Port Richey, Fla. According to Wright, alongside Dr. Oz viewers, these new shoppers include everyone from those looking to supplements to help offset rising health care costs to young men being proactive about health and wellness. As a result, Wright has seen single-digit growth in most supplement categories, with a few areas, namely fish oils, multivitamins, joint health supplements and cardiovascular health–related products, breaking the 10 percent mark.

The secret to keeping sales surging is to “know your product and educate yourself,” Wright says. Here are ways to navigate the opportunities and risks of the current supplement market.

The Oz factor
Many supplement retailers have a love–hate relationship with the Dr. Oz phenomenon. On one hand, the doctor’s focus on natural remedies and supplements has drawn legions of customers to natural retailers’ aisles who wouldn’t otherwise shop there. “It has been the best advertising we haven’t paid for,” Hughes says. On the other hand, not all of the products mentioned on the TV show meet natural retail standards. And sometimes Dr. Oz’s viewers, motivated by a vague recommendation from the TV doctor, don’t have complete information or know quite what they’re looking for when they enter a store.

That’s why Jon Fiume, vice president of retail operations at Wadsworth, Ohio–based Ritzman Pharmacies, advises other retailers to prioritize serving shoppers over chasing short-lived fads. “Don’t lose focus on your commitment to quality just because there is demand or you want to grab onto that quick sale,” he says. Instead, promote the products and categories you’re willing to stand by, and make sure your staff is trained to add insights to the bits and pieces of information folks are gleaning from Dr. Oz, Fiume adds.

Wright points to another risk associated with the television show: Oftentimes, within a few hours of Dr. Oz mentioning a supplement, local supplies sell out. And by the time new shipments arrive, the doctor has moved on to new recommendations. That’s why Wright avoids going overboard by ordering extra cases of every hot Dr. Oz–endorsed product.

Instead, he keeps some stock on hand because he knows that once excitement over a given product has died down, Dr. Oz often cycles back to previous recommendations.

Familiar sales boosters continue to drive purchases at Jeff Wright’s Florida store and in supplement sections across the nation. He and others talk about the market and opportunities.

By Joel Warner

By Rebecca Wilson Studio
Impact of health care costs

No matter their political affiliation, consumers are turning to supplements in the wake of rising health care and health insurance costs, retailers say. “I have talked to so many people who say they cannot afford to go to the doctor,” says Rhonda Miller, president of Health Foods Unlimited in Dayton, Ohio. “I think people are buying supplements to stay healthy or avoid the doctor.” Miller says these people often seek supplements designed to help with colds and flu, diabetes, blood pressure, arthritis or acid reflux, because medicines for these ailments are facing significant price increases.

At Ritzman Pharmacies, Fiume and his colleagues take a proactive approach to health care concerns. The company partners with local hospitals, universities and other organizations on “Live Healthy Summit County,” a community health initiative that promotes and offers resources for healthy eating, active lifestyle choices and tobacco cessation. By participating in the program, Ritzman doesn’t just help local communities but also positions itself front and center as a destination for health products. “You can’t just operate in your own little box,” Fiume says. “You have to get out there and drive some of these initiatives. What are you doing to get involved in the bigger initiatives that directly impact your community? Those efforts are also going to impact your business.”

Aging baby boomers

The baby boomer generation has reached an age at which its members are increasingly turning to supplements to help with a variety of health concerns and ailments. But as Fiume points out, these customers, in their 50s and 60s, are very different than those in their 70s and 80s, many of whom have been placed on specific medical plans by their physicians.

By contrast, baby boomers want to be proactive about health and wellness, and supplement retailers are in the perfect position to help. “We are starting to see baby boomers come in and say, ‘I’m retired, but I still want to live a healthy life,’” Fiume says. “They check prices, expect us to have information for them and are keyed into relationships.” Along with supplements associated with general wellness, these shoppers seek products to help with joint health, heart health and weight control, Fiume says. And while they’re already well informed, they still have pointed questions, such as how supplements might interact with medications, which require the help of knowledgeable staff and pharmacists. This is one of the reasons why Ritzman Pharmacies recently installed digital information kiosks designed by the Portland, Ore.-based Aisle7. The kiosks let both shoppers and staff have constantly updated medical databases and other relevant information at their fingertips.

Increased diversity

Baby boomers aren’t the only ones shopping for supplements these days. “More and more young people are coming in all the time,” Hughes reports. Some hope to avoid the health concerns facing their parents, so they’re looking for general supplements like multivitamins and fish oils. Others are shopping for natural solutions for their children, as well as diet and energy products associated with active lifestyles.

Hughes, like many of her retail peers, is also seeing an uptick in male shoppers. “Men seem to be taking better care of themselves,” she says. This has led to increased sales of products relating to testosterone, prostate problems and erectile dysfunction, Hughes adds.

More male shoppers are also turning to natural retailers for bodybuilding and other sports nutrition products, such as workout boosters and recovery supplements. It’s easier than ever to stock these items now that manufacturers are formulating more natural sports nutrition supplements that contain fewer synthetic ingredients. “We had lost the sports supplement market to the gym,” Hughes says. “It’s nice to see it coming back.”

Simpler formulas

Another key trend, herbal combinations, are losing ground for simpler, more targeted formulas. “People are zeroing in on single herbs to address specific symptoms,” Hughes says. Take the anti-inflammatory category. As shoppers increasingly realize that inflammation is a root cause of disease, they’re no longer buying complicated, multi-ingredient anti-inflammatory products, Hughes says.

Instead, they’re turning to single herbs like boswellia and turmeric. “The turmeric market has been blown open huge, and people are getting really good results from it,” she says.

Joel Warner is a freelance writer based in Denver, Colo.

Supplement sales influencers

<table>
<thead>
<tr>
<th>Health personalities such as Dr. Oz</th>
<th>Health conditions (such as joint, heart or immunity)</th>
<th>The aging population</th>
<th>Food-based nutrition interest</th>
<th>Regulatory actions and changes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small impact</td>
<td>Medium impact</td>
<td>Large impact</td>
<td></td>
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</tr>
</tbody>
</table>

Source: NFM/NBJ

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Supplement industry girds itself for Dietary Supplement Safety Act

The supplement industry must always watch pending legislative and regulatory changes. This year, all eyes are on Sen. Richard Durbin (D-Il.) and his proposed Dietary Supplement Safety Act. This legislation would require supplement companies to submit to the Food and Drug Administration amounts of all dietary ingredients in their products’ proprietary blends. It would also mandate expanded warning labels listing potential adverse effects identified by the FDA and the Institute of Medicine. This act failed last year, but Durbin has indicated he plans to reintroduce it—and many aren’t happy about it.

“This is really a nonstarter for us,” says Steve Mister, president and CEO of the Council for Responsible Nutrition. “It’s a way to scare consumers. We don’t think it would provide valuable information, and it would be a terrible burden to the industry. Quite frankly, we have a really good safety profile.”

Although Durbin has used the fact that supplements don’t have to list caffeine totals as proof that his act is necessary, CRN recently issued voluntary guidelines that call on manufacturers to disclose total caffeine levels. “Caffeine was one Achilles’ heel for us on this issue,” Mister says. “So the voluntary guideline was one way to get in front of Durbin, to show that the industry can be responsible.”

Still, John Shaw, CEO of the Natural Products Association, believes CRN’s effort might not be enough to stop Durbin’s legislation. “We think he’s being provided faulty information by competitor industries,” Shaw says. “Big Pharma, Big Medical—they don’t like that everyday Americans know supplements are beneficial to health and wellness.” Shaw thinks retailers, which could face consumer confusion and concern if Durbin’s act passes, not to mention increased supplement prices to offset the cost of the new requirements, need to do their part. “Retailers should reach out to their local Congress members to educate them about their concerns,” he says.

-J.W.
With so much advancement in natural and organic personal care, it’s no surprise that this emerging industry continues to thrive. Mounting awareness of harmful chemicals in conventional products is driving consumers and retailers to demand better, safer personal care. These pleas have even caught lawmakers’ attention, as Congress last year held the first hearing on cosmetics safety in more than three decades and is now considering the Safe Cosmetics and Personal Care Act of 2013, which would require more safety measures and transparency.

Regardless of legislation, natural and organic likely will continue to influence the entire personal care industry. As more consumers shunned conventional products and more efficacious nontoxic options hit the market, natural and organic personal care experienced 9.8 percent growth in 2012—the largest increase since 2007—and now reaches $9.6 billion in sales, according to NFM’s 2013 Market Overview Survey.

“It’s very clear that consumers are getting more savvy and knowing what to look for in terms of safer and organic ingredients,” says Jessica Walden, technical specialist for Quality Assurance International (QAI), a certifying agency that leads natural and organic personal care efforts. “The green sector in personal care seems to be one of the fastest-growing [personal care] markets.”

But this growth also can cause growing pains for natural retailers. Stores

### Personal care market

<table>
<thead>
<tr>
<th>Natural and conventional channels</th>
<th>2012 ($)</th>
<th>2011 ($)</th>
<th>% change</th>
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<td>$0.5</td>
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<tr>
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<td>Hair products</td>
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<td>Total</td>
<td>$9.6</td>
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</table>

Source: NBI

Lauren Bartel of Mississippi Market Natural Foods Co-op has experienced the power of category management to boost health and beauty sales at double-digit rates. Here’s what you should consider to do the same.
that have long stocked better-for-you personal care products now must compete with conventional retailers that have begun allotting more shelf space to natural, nontoxic alternatives.

So how can natural retailers give their health and beauty aid departments a competitive advantage? Category management—including product selection, merchandising and education—is key to maintaining a successful department, capitalizing on emerging trends and ultimately competing with conventional stores, says Lauren Bartel, wellness manager of Mississippi Market Natural Foods Co-op in St. Paul, Minn.

“We need to share with our customers exactly what makes our products different,” Bartel says. “Perhaps it’s that a hair care line is not only salon quality but is also certified organic. Or maybe it’s discussing the positive impact a company has had through fair trade in addition to how great its lotion is. We aim to provide the full package and explain the benefits.” This approach is working for Mississippi Market. The newer of its two locations, now in its fourth year, is experiencing 20 percent health and beauty growth.

Stand out with product selection
Mississippi Market’s original location, which opened in 1979, also saw success over the past year thanks to a major category management project in the HABA section led by Bartel. Making room for “fresh, new products,” she phased out slow sellers and focused on categories such as skin care showing the strongest growth.

According to Nutrition Business Journal, natural skin care was once again the biggest dollar contributor to natural and organic personal care sales in 2012, bringing in $3.7 billion (followed by hair care and bath and soap products). Categories notching the greatest growth were cosmetics, hair care, fragrances, and bath and soap products. Essential oils, still somewhat exclusive to natural retail, and baby care products, which have major potential to snag crossover consumers, are two more areas in which natural retailers can stand out from the competition.

“As retailers, we need to be open to new lines and trends and pay close attention to what our customers are looking for now,” Bartel says. Such efforts include gathering data on product performance, both storewide and regionally, and tracking customer requests, which can indicate where gaps exist.

In addition to focusing on top product categories, natural retailers are paying close attention to ingredients. Strict ingredient policies such as those of Whole Foods Market and Natural Grocers by Vitamin Cottage, which prevent allergens and potential carcinogens from landing on shelves, earn consumer trust by ensuring product purity. And stocking items that use research-backed ingredients may help convince customers that the products will work and they should give them a whirl.

“We look to clinical trials or research, testing of ingredients and final products,” Bartel says.

Finally, offering a range of prices within the HABA department can help natural retailers compete with low-cost products sold at drug stores as well as higher-priced items from salons, spas and department stores. “Remember, 80 percent of the department sales will come from 20 percent of the product selection,” says Cheryl Bottger, former HABA merchandiser for Nature’s Fresh NW in Portland, Ore. “Within that 20 percent, you need a variety of price points to meet different consumers’ needs.”

Appeal with merchandising
High-priced HABA products might be the toughest for natural retailers to sell, since many customers aren’t used to purchasing these items at health food or grocery stores. Still, top-dollar goods present a significant opportunity because your shoppers, in general, may be willing to pay more for quality. Facilitating a unique, satisfying shopping experience in the wellness department can only help push purchases.

“Category management and creative merchandising are the keys to building sales, no matter the department size,” Bottger says. “Stocking what is new and on-trend will keep the department fresh and grow sales.” She recommends creative endcaps, color blocking and cross-merchandising—such as integrating topical beauty products with supplements—to lure more customers into the department.

Even if you’re not growing your department in size or adding more SKUs, effective merchandising means maximizing exposure of existing products. “We widened the aisle, decreased the size of the wellness counter to add more shelving, and increased shelf height,” Bartel says of Mississippi Market’s category management project. The result: a more comfortable, boutique-like appearance that differentiated the wellness department from the rest of the store and helped bring dwindling sales back up to double digits in 2012. She says the most important move was to allocate ample shelf space to “emotional” products such as skin care. “Picking out the perfect day cream for your skin type is a different process than finding a vitamin D supplement,” Bartel says.

Educate to build loyalty
No doubt, more consumers are purchasing natural and organic personal care. But your educational efforts can determine whether they buy these products from your store or somewhere else. “The more we showcase and teach the value and effectiveness of natural ingredients, the more customers we bring into the market and keep there,” says Renee Southard, owner of Organic Marketplace in Gastonia, N.C.

Education starts with employees, says Bottger, who recommends that owners and department managers educate staff about ingredients on a weekly basis. “Learn two ingredients a week, and you will know 100 in a year’s time,” she says.

When it comes to conveying this information to consumers, focus mostly on various ingredients’ benefits, Bottger advises. In-store demos and partnerships with aestheticians are great ways to show that products can meet customers’ specific needs.

In addition to explaining ingredients and benefits, offer consumers clarity about labels and certifications. A key one to focus on is organic. In 2012, sales of products containing 70 percent or more organic content grew 23 percent and brought in $40 million in natural stores, according to SPINS. In the conventional market, they grew 60 percent to hit $72 million.

To capitalize on this booming category, natural retailers should communicate the meaning of USDA Organic and NSF/ANSI 305 certifications. Developed specifically for personal care, NSF/ANSI requires 70 percent organic content but allows some processes prohibited under USDA Organic certification—a food standard. Now appearing on more than 300 products, many with complex, sophisticated formulations, this seal has potential to convince customers of both purity and efficacy—that is, if they recognize and understand the seal. Communicating these messages requires collaboration between certifiers, retailers and vendors, according to QAI’s Walden.

“It’s a ripple-down effect,” she says. “We work with our manufacturers—provide them with educational materials so they can bring those to their retailers and they can then educate the consumers.”

For a complete list of personal care labels, including NSF/ANSI 305, and what they mean go to newhope360.com/beauty/guide-personal-care-labels
As the ‘free from’ market grows at natural foods stores and specialty outlets like Bridget Reilly’s The Bite Market, a question arises: Why are we more allergic to our food?

Parents of young children know that when introducing solid foods, the “big eight” allergens—milk, eggs, peanuts, tree nuts, fish, shellfish, soy and wheat—should be avoided for at least the first year. Then, once kids are comfortable eating single-grain cereals, parents can gradually give them allergen foods one at a time, paying close attention for any adverse reactions.

But what if this practice were all wrong? Since the American Academy of Pediatrics introduced this guideline nearly 15 years ago, allergy incidence has continued to grow. Could shielding babies from potential allergens actually be exacerbating the problem? Unfortunately, researchers and doctors simply don’t know. While there are many different theories as to why food allergies are increasing, experts agree that a decrease, or even a leveling off, is not on the horizon.

Therefore, as more parents address their kids’ allergies—and perhaps discover their own food intolerances—the market for free-from products continues to blow up. We’ve seen clear evidence of this in recent years: Sales of nondairy beverages increased 21 percent in the natural channel to $43.6 million, up from $36 million, in the year ended February 2012, according to SPINS. Certified-gluten-free foods showed similar growth, rising 21.8 percent to $241.2 million, up from $198 million.
While the number of grownups living with food sensitivities is not currently tracked, “practically everyone has some kind of [food] intolerance,” says Charles Cattano, MD, a gastroenterologist and chief of medicine at Anne Arundel Medical Center in Annapolis, Md. But of these people, how many actually realize their intolerance and also take action? Apparently, enough of them to positively impact free-from product sales.

**What’s causing the increase?**

The hygiene hypothesis, introduced in 1989, remains the most research-backed and widely accepted theory to explain the increase in food allergies. Essentially, it states that we’re too clean. Because we’re not exposing children to enough germs, their immune systems aren’t trained to tell the difference between harmless and harmful agents. “This really holds up when you look around the world and see that allergies are very uncommon in underdeveloped countries,” says Robert Wood, MD, professor of pediatrics and chief of pediatric allergy and immunology at Johns Hopkins Children’s Center in Baltimore.

To better equip young immune systems, the American Academy of Pediatrics did a U-turn in 2008 and began advising parents to introduce allergen foods as early as 4 months. However, the previous recommendation of one year has already been so widely adopted and remains largely unquestioned, says Alan Greene, MD, a pediatrician at Lucille Packard Children’s Hospital in Palo Alto, Calif., and author of *Raising Baby Green* (Jossey-Bass, 2007).

Consumer advocates also agree that the hygiene theory is likely only one piece of the puzzle. “If you’re going to address the issue from this Purell angle, you must also look at how foods are produced,” O’Brien says. “The fact is we’re pouring chlorine on the animals we eat. What is that doing to our immune systems? We just don’t know.”

Genetically modified foods, which are artificially injected with bacteria, viruses and other genes to promote specific traits, are another unknown. Because these foods are so pervasive, it’s practically impossible to conduct human trials on the effects of consumption. Although European animal studies have linked eating GM foods to allergenicity, this research has largely been dismissed in the U.S. because of inadequacies in design, reporting or analysis.

Still, wary researchers say it’s hard to ignore that the dramatic increase in food allergies, which started in the 1990s, coincides time-wise with GM crop introduction. “Again, it begs the question: Are we allergic to the food, or are we allergic to what we’ve done to it?” O’Brien says.

Lack of vitamin D because more children now play indoors and receive too much folate in utero is another theory as to why we’re seeing an increase.

**Meeting consumer demand**

On the bright side, more questions about food allergies and intolerances spell more opportunities for natural products retailers. Take Bridget Reilly, who, after discovering her own food intolerances, opened The Bite Market in Orange, Calif., in 2010. The 100 percent dairy- and gluten-free store caters to food-sensitive shoppers hunting for information and meal solutions.

From the start, Reilly built relationships with local nutritionists and doctors who now refer clients to her store. Her business continues to grow, and it’s not just thanks to the gluten- and dairy-free crowds. Shoppers with all types of food sensitivities are drawn to The Bite because the store values their needs.

Reilly knows firsthand that shopping with a food sensitivity can feel like a chore, so she works one-on-one with customers, listening to their stories and helping them identify products that align with their dietary needs. “When people first come in, they often have the deer-in-headlights look,” she says. “Most have been eating everything much of their lives, and now they’re on a restricted diet. That can be scary.”
Stocking for what’s next

Reilly regularly sees shoppers who have sensitivities beyond the big eight allergens, such as aversions to cinnamon and even rice. But she says another culprit is coming up more frequently: corn, which many say is an obvious next major allergen.

“Corn popped up pretty early on in my research and is what caused me to start looking at genetically modified foods,” O’Brien says. “It was totally underreported.” While there is little data on the prevalence of corn allergies, it’s not because they don’t exist. Rather, they often go unrecognized, Greene says. Unlike gluten or even soy, corn is not easily detected on food labels because it can appear as more than 50 monikers in various ingredients, so consumers can’t as easily pinpoint the source of their problems.

Of course, corn won’t be able to fly under the radar for long. Even if it’s never considered a top allergen, if consumers start associating corn with the myriad symptoms that accompany food intolerances, they’ll soon start hunting for corn-free products. If that happens, manufacturers will drive the market by labeling the ingredient themselves, Greene suspects.

But corn is just the tip of the iceberg as far as which new allergens and intolerances we might see in the future. “The big eight is definitely outdated,” Greene says. “It’s been around for as long I’ve worked in this field. We now know that consumers with one allergy generally have multiple, and we’re starting to see previously unheard-of combinations. This again begs the question of why.”

The most obvious answer points back to the hygiene hypothesis. Our bodies simply are not equipped to break down and digest new foreign foods, O’Brien says. A 2008 study published in the Journal of Allergy Clinical Immunology supports this idea, showing that children in England are 10 times more likely to have peanut allergies than kids in Israel. After following up with parents in each country, researchers discovered that it’s common practice in Israel to give babies foods that contain peanuts before they are 6 months old.

Trials currently being conducted in the U.K. and Australia are splitting children into two groups, giving one group highly allergenic foods at an early age. Results are anticipated early next year, and depending on the findings, Greene suspects manufacturer-developed “allergen foods” may not be far off. Such products may encourage American parents to consider introducing these foods at an earlier age.

“We certainly believe that the most important role of our industry is to give babies a diverse offering of foods may be the most immediate solution,” he says. “Currently, there are no allergens in baby foods, but I think it may be time to adjust our thinking.”

Keeping up is a key opportunity for natural products retailers.

### Non-dairy beverage sales

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<tr>
<th></th>
<th>52 weeks ending Feb. 16, 2012 (M)</th>
<th>52 weeks ending Feb. 18, 2012 (M)</th>
<th>% change</th>
</tr>
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<td>Refrigerated nut based beverages</td>
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<tr>
<td>Refrigerated other nondairy beverages</td>
<td>$7.02</td>
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<tr>
<td>Refrigerated rice beverages</td>
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<td>Refrigerated soy beverages</td>
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### Gluten-free certified plus 10 top categories

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<th>52 weeks ending Feb. 18, 2012 (M)</th>
<th>% change</th>
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<td>Chips pretzels &amp; snacks</td>
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<td>Cold cereals</td>
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Source: SPINS

### Gluten-free plus 10 top categories

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<th>52 weeks ending Feb. 18, 2012 (M)</th>
<th>% change</th>
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<td>Energy bars &amp; gels</td>
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<td>Soup</td>
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Source: SPINS