

Industry Partner Newsletter

Volume 9, February 2005

The **HARTMAN** Group

The Hartman Group's 10 Trends to Watch in 2005: Fragmentation of the Household Diet

Increasingly, we find that there is no longer such thing as a "family diet" in many American homes. The most divisive forces at play here are individualized food preferences that have forced primary grocery shoppers around the nation to develop complex shopping lists to satisfy divergent food preferences within their households. The most popular of these individualized orientations are:

1. Illness or symptom-based orientation to food (e.g., food allergy, heart disease, diabetes),
2. Preventive health orientations to food (e.g., anti-cancer, anti-hormone, anti-additive, heart healthy foods) and
3. Moralistic orientations to food (e.g., vegetarianism, environmentalism).

Marketing food to the family no longer works. Marketing to communities of food orientation does. *More info at:* <http://www.hartman-group.com>



Report Back from the SF Fancy Food Show

The West Coast Fancy Food Show, this January 23rd through the 25th, brought the latest and tastiest gourmet foods to San Francisco's Moscone Center. Beyond an amazing array of samples ranging from Fair Trade Certified and single-origin chocolates to flavored sea salts, the show offered key resources and workshops for the Specialty Industry and a great opportunity to build community. SPINS was delighted to share the exhibit floor with and sample the wares of such a wide variety of fine food vendors from all over the globe. Thanks to all of you who stopped by our booth this year. We look forward to another productive (and delectable) show in Chicago this May!



Beverage Trends in the Spotlight for '05

Enhanced waters and soft drinks, specialty teas and coffees, and re-marketed liquors top the "what to watch" lists of United States beverage industry pros for 2005.

"I think we will see increased innovation around enhanced waters, and increased marketing activity around diet carbonated soft drinks," noted Gary Hemphill, senior vice president of Beverage Marketing Corp., a New York-based research and consulting firm. "There is an overriding focus on health and wellness in the beverage category. I think we'll see some health and wellness component, whether it's low-carb or something else. There's certainly an aggressive focus on healthier, better-for-you products today." *More info at:* <http://www.nrn.com/foodtrends/index.cfm?ID=4942004358>



Whole Foods Markets Animal Foundation Announces Its New Director

Anne Malleau has been named executive director of Whole Foods Market's new Animal Compassion Foundation, created to help meat producers achieve a higher standard of animal treatment in their operations while maintaining profitability.

In a statement, Whole Foods Markets said the foundation's goals include:

- Searching for innovative ranchers and farmers who raise their animals with the well-being of the animal rather than producer productivity;
- Creating a worldwide network comprised of animal-compassionate ranchers and farmers to share knowledge, to learn and improve together, and an online library to help other interested ranchers and farmers successfully convert to animal-compassionate methods;
- Providing research money to animal scientists at universities around the world to address challenges faced by producers trying to raise animals more compassionately.

Retailer News

Big-Box Orthodox: It's Kosher, but...

Jewel is a well-established supermarket chain that caused no heartache and invited no wrath until a couple of months ago, when it suddenly bought a huge billboard on Chicago's North Side to announce the opening of a gleaming kosher food department at a nearby store.

To Jewel and its parent Albertsons, the move was a straightforward play for customers and profits.

To the family-owned kosher shops along Devon Avenue and in nearby Skokie, it was a threat and an affront.

"I've definitely lost a fairly significant percentage of business," said Chayim Knobloch, proprietor of Kol Tuv Kosher Foods, a store and deli located across the street from the billboard. "I've begun trimming expenses and staff." [...]

The struggle being played out in north Chicago is part of a larger play for Jewish shoppers -- and the growing ethnic food market -- nationwide. Large companies including Albertsons, Wal-Mart, Safeway and Costco are seeking competitive advantage in a crowded sales sector by catering to specialty audiences.

Roughly 18,000 supermarkets carry products prepared according to Orthodox Judaism's dietary code, fueling a market that has been growing by 12 to 15 percent for nearly a decade, according to Kosher Today, an industry trade paper.

Source: *The Washington Post*



Older Americans Spending Proportionately More on Food Consumed at Home

Older Americans are spending proportionately more on food that they consume at home, according to "The U.S. Market for 55+ Consumers," a new report by market research publisher PackagedFacts. Those between the ages of 65 and 74 allocate 8.9% of their expenditures to food at home, while those ages 75 and over allocate 9.2%, significantly higher than the U.S. population at large, which allocates around 7.6%. The report goes on to show that overall spending by consumers in the 55+ age group for food at home totals over \$101 billion annually. The food industry is just one of many that will reap the benefits of an aging U.S. population that is 64 million strong and has \$2.4 trillion in buying power. The report also found that the work, rather than age, is a defining factor among the 55+ crowd. For example, attitudes and behavior of 60+ workers are closer to people in their late 50s than retired people. Also, workers in their 60s are more likely than retired people to have credit cards, new car loans, home mortgages, and life insurance.

Source: *PR Newswire*

Retailers Cite Supply Chain Efficiency Key Industry Issue for 2005

Retailers will be focusing on supply chain efficiency in order to stay competitive this year, according to new research by the NRF Foundation and BearingPoint, Inc.

Some key findings of the study include:

- *Almost 25% of retailers plan for half of their merchandise assortments to be private label.*
- *In the next 12 months, more than half of retailers (57%) plan to replace or upgrade their point-of-sale systems.*
- *While 38% of retailers will focus on domestic expansion, 17% will focus on international expansion.*
- *This year, 33% of retailers will focus on redesign and relocation of stores.*
- *More than one in five retailers (21%) list outsourcing as a priority for 2005.*

The study suggests several approaches retailers can use to provide competitive advantage and generate robust prospects for profitability:

- *Create true supply chain visibility with a synchronized demand network that eases inventory pain by providing trading partners with optimal flow through of product and near-real time sharing of forecasts and demand signal;*
- *Link disparate systems for common connectivity to aid in retailers' streamlining of operations.*
- *Target and segregate high-value customers from low- and no-value customers and provide the right combination of product and services to earn loyalty.*

Source: *The National Retail Federation*

Retailer News Continued...

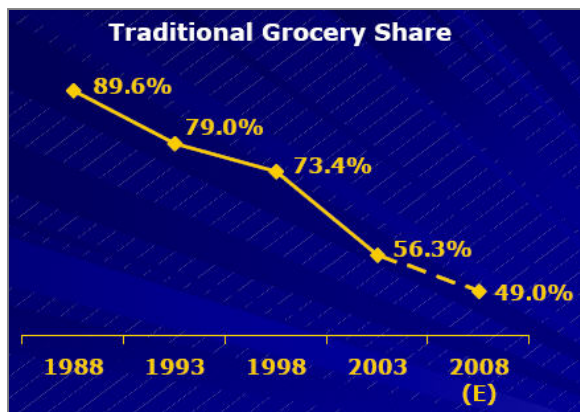
New Formats Edging Out Traditional Supermarket

The popularity of the conventional grocery store, a mainstay of food retailing for half a century is on the wane. In 1988, traditional grocery formats accounted for nearly 90% of grocery and consumables sales. By 2003, these retailers, which can be found under a variety of banners, accounted for only a 56% share.

By 2008, that share is expected to drop to just 49% according to data released at The Outlook for Food Retailing Through 2008, a webinar featuring Willard Bishop Consulting (WBC), and The Food Institute, an Elmwood Park, NJ-based food industry information association. [...]

Don't count out traditional grocers just yet, however. One area of growth is limited-assortment stores where brands are beginning to find ways to systematically displace private label by delivering more of what the retailers "want to give to their customers." In addition, there is also some strength below the surface within conventional supermarkets where we see the growth of the natural/health food supermarkets.

"It's evident that traditional retailers must find and deliver on meaningful points of difference. We can expect a lot of emphasis from traditional retailers on differentiation strategies while, at the same time, they place less emphasis on products and prices that'll be available across the market," commented Bill Bishop, of Willard Bishop Consulting. [...]



Companies Cut Sugar, Add Vitamins

After spending millions on advertising their processed food products to children, the nation's food manufacturers are now attempting to appeal to parents worried about childhood obesity and unhealthy eating habits.

Hitting grocery store shelves: Goldfish crackers and Hershey's syrup, both enriched with calcium; reduced-sugar Cocoa Puffs; and scores of other products that emphasize their whole grain and vitamin content alongside their cool packaging and sweet taste.

"What we're trying to do is provide a nutritional profile that appeals to moms and a taste profile that appeals to kids," said Juli Mandel Sloves, a spokeswoman for Campbell Soup Co.

Margo G. Wootan, director of nutrition policy at the Center for Science in the Public Interest, a consumer activist group that this week called for curbs on junk food advertised for kids, said reduced-sugar cereals is a good first step. But "fortified junk food is still junk food," Wootan said. "Is it better to give your child crackers fortified with calcium, or carrots or an apple?"

In the end, it's not the amount of sugar or added calcium that will determine whether these new products are successful, said Tom Wong, senior vice president of Strotzman International Inc., an Irvine, Calif., youth and family-marketing firm that advises many food firms: "Taste is what matters."

His company's studies have shown that children resist foods marketed as healthy; they assume good foods taste bad and bad foods taste good. For these new products to sell, Wong said, "kids will have to start to care about all of this."

Source: *The Washington Post*

Manufacturer News



Kettle Foods to Sell Low-fat Chips at U.S. Schools

Source: *Statesmanjournal.com*

Salem's Kettle Foods has joined Stonyfield Farm's Healthy Vending Machine Program to sell its lower-fat Krisps Gourmet Baked Potato Chips in school vending machines, officials from both companies said.

Stonyfield Farm, the nation's third-largest yogurt brand, started its Healthy Vending program in fall 2003. The program sells low-fat, organic and natural snack foods to schoolchildren.

It has grown from a few vending machines in Rhode Island to a nationwide program with machines in Connecticut, Massachusetts, California and Illinois schools. [...]

All profits generated by the vending-machine program go directly to the host school or are split between the school and the vending operator, company officials said.

Source: *The Statesmen Journal*



Kraft Creates New Nutrition Czar Post

Continuing its high-profile nutrition initiative, Kraft Foods announced it has created a new, executive-level position devoted to health and wellness, and has appointed a veteran scientist to fill it. The global manufacturer of branded foods and beverages has named Richard Black vice president, nutrition, effective Feb. 28. Black will be responsible for developing and leading companywide nutrition programs. In addition, he will support Kraft's Worldwide Health & Wellness Advisory Council of independent experts in key health and wellness disciplines. Black currently is executive director of the International Life Sciences Institute, North America, in Washington.

Source: *Kraft Foods*

Fast-food 'Natural' Chicken Takes Wing on Safety Fears

Fast food's next better-for-you twist has wings: "natural" chicken. That's chicken with no additives. Some say it's tastier and healthier. It's certainly pricier. Arby's is about to announce plans to be the first national fast-food chain to sell only natural chicken. The move comes at a time when chicken of all types has emerged as fast food's hottest growth area.

More fast-foodies are expected to follow Arby's. Two fast-casual chains, Panera Bread and Chipotle, are testing natural chicken. A few regional chains have sold it for years, including Chick-fil-A and Chicken Out. [...]

Growing consumer interest in natural chicken and other natural meats has one key driver: safety concerns. Health concerns about everything from mad cow disease to E. coli bacteria have consumers seeking higher-quality meat, even at a fast-food joint. "Consumers want more information about what's going on with the food they eat," says Dennis Lombardi, executive vice president at WD Partners, a restaurant development firm. [...]

"We're not making a claim that Arby's is the natural restaurant," Pike says. "But we're responding to how people shop and eat."

The problem as more chains join in might be finding enough natural chicken. Others also responding:

- **Panera Bread.** The sandwich chain began testing natural chicken about a year ago. In November, it rolled out natural chicken systemwide in some sandwiches and salads. And it eventually plans to sell only natural chicken, says Scott Davis, chief concept officer. Because the natural chicken costs Panera more, it is charging about 25 cents more for dishes made with it.
- **Chipotle.** The Mexican chain sells natural chicken in the Washington area, New York and parts of Atlanta and Ohio. In some — but not all — areas, it charges about 25 cents more for the dishes.

Source: *USA Today*

Content Development Corner

From the desk of Kerrin Rourke (krouke@spins.com), SPINS' Natural Products Expert



Mainstream Seafood Producer Goes Trans-Fat Free

January 2005 - Leading frozen seafood brand Gorton's announced last week that it had removed trans fats from all its product lines. Gorton's Seafood is now able to produce its whole range of 56 foods without using any trans fats, while maintaining quality and taste.

Gorton's began making this transition last year and completed it just in time to align with the new Dietary Guidelines that were released in early January. The guidelines recommend that Americans keep trans fats to a minimum in their daily diets. The new guidelines also emphasize healthy protein choices such as fish and shellfish as an important part of a balanced diet.

Gorton's could be leading a new trend. In the coming months we will most likely see more and more companies coming out with trans-fat free products and product lines. With the new awareness coming about from both the media and the government more Americans will be choosing more trans fat free options going forward.

Good Water With A Great Cause



Ethos™ is a natural spring water company with a powerful social mission: *Drink Ethos™ water and help families all over the world get clean drinking water.* Ethos™ realizes the vital importance of having clean water to drink. Life literally depends on it. The company is also aware of the clean water shortage in many parts of the world. That is why Ethos™ plans on using 50% of its profits to support clean water projects in five countries, including Bangladesh, the Congo,

Ethiopia, Honduras and India. This January, at the N.A.S.F.T. Fancy Foods Show, Ethos™ proudly displayed a book full of beautiful pictures documenting the work they have already done helping to build wells for communities in need. Ethos™ is dedicated to its cause and hopefully the company will inspire other natural products manufacturers to launch similar campaigns. For more information, please visit

<http://www.ethosinternational.org>.

The White Tea Revolution



On January 23, Revolution Tea, creator of the T-Box Revolution™ single serving box and the T-Pot Revolution™ Retail Tin, introduced the *first* all natural unsweetened bottled white tea to the West Coast at the National Association for the Specialty Food Trade's (NASFT) 30th Winter Fancy Food Show.

The teas contain a blend of premium white tea and a splash of fruit fresh fruit. The best part about these teas is that they provide a very sophisticated and refreshing flavor without any sugar, calories or preservatives. Ready to drink White-T comes in four different flavors, blackberry, key lime, tangerine and raspberry. The teas taste as good as they look. They are packaged in attractive white glass bottles with the fruits that flavor the drinks pictures on the label. The packaging is clean and modern which is very appealing to specialty consumers. For more information go to:

<http://www.revolutiontea.com>

Chocolove Introduces It's New Line of Chocolatour Bars



January 2005 - Boulder based Chocolove is gearing up for Valentine's day with Chocolatour, it's new line of single origin, vintage chocolate bars. Chocolove and other premium chocolate companies are leading this new trend in gourmet chocolate.

Similar to fine bottles of wine, Chocolatour bars are aged for years and only made in limited quantities. In fact some bars may be available only once in a few years. For instance, 2004's production was limited to only 5,000 bars of each region. The cocoa beans were harvested and made into chocolate in 1999. The bars were then aged and melted, then packed back into bars in December of 2004. The aging is key in enhancing the flavor and reducing the bitterness of the chocolate. For more information visit <http://www.chocolove.com>.

SPINS Events

NATURAL
PRODUCTS
EXPO
WEST

Anaheim, CA
March 17th – 20th, 2005
Visit SPINS at Booth #4722!

SPINS' Retailer Partnership Seminar



3/17/2005
3:30 PM - 6:00 PM
Anaheim Marriot Hotel
FREE

Retailer Partners, you are cordially invited to an exclusive SPINS seminar on key industry trends, insights into the marketplace, and quantitative information on the Natural Product consumer. Join us for cocktails and conversation after the seminar with SPINS' staff and your fellow retailer partners from 5:00 - 6:00 PM.

Topics will include:

Market Trends | Consumer Trends | Retail Partnership program details | SPINS Category Management

RSVP to Shep Kroner by Friday, March 11th at shepkroner@spins.com. We're looking forward to seeing you there!

HOT New Products



With Bob Burke, Jeff Nibler, Chris Buckler, and Michelle Sayer
3/18/2005
8:30 AM - 10:00 AM
Room 204A/B

A "heads up" before hitting the show floor, this must-see presentation provides an overview of exciting new products and categories in the natural products industry. Experts will highlight emerging trends based on store visits and interviews with key buyers, brokers and manufacturers—a personal approach that speaks volumes. Take advantage of collective wisdom and insight with information that spans all categories.



Trade Spending Management,

With Bob Burke and the Natural Products Consulting Institute
3/2/2005

9:00AM – 4:30PM
Marriot Hotel, Burlington MA

More info: <http://www.npcinstitute.com>

This seminar is ideal for Owners, CEOs, CFOs and Senior Sales and Marketing Professionals. Trade Spending (promotional allowances, slotting, ads, etc.) often represents 20-25% or more of total sales and is a significant expenditure for a company of any size. Managing this investment more wisely and reducing any fraction of a percentage of these dollars is vital.

SPINS' own Shep Kroner will be available to answer your questions about maximizing the use of sales data.

Topics Include: Trade Spending Overview, Evolution of Trade Promotion Spending, Impact on Pricing, Marketing and New Products, Trade Spending Management Process, Spending Communication, Trade Spending Tracking, Promotion Analysis, Customer Profitability, Forecasting & Planning, Retailer Demands & Priorities, Resolving Outstanding Deductions, Web Based Management System Demo, Identifying & Quantifying Opportunities, and Taking Action.

SPINS Clients: Take advantage of a \$100 discount!

RSVP at 978-975-9902 or BobNPCI@aol.com by February 25th.

SPINS News

Meet New SPINNERS Dave, Kristi and Angie!



Dave Munson, our new Chicago-based Senior Systems Engineer is focusing on our system and network stability as well as network security. Dave comes to SPINS from ACNielsen Global where he worked as Senior Operations Engineer for their online portal, providing customers with real-time access to Nielsen data and reporting. Prior to ACNielsen, Dave was Operations Manager for Dantis, a web hosting provider and an Operations Engineer for IBM's Global Services.

Kristi Gutierrez joined Spins in November as an Administrative Project Coordinator for the Accounting Department. Kristi most recently worked in HR and Accounting for a French cosmetic company in New York city.

Angie Alvarez is the latest addition to our Content Development team. She comes to SPINS from MetaReward, where she analyzed email performance by campaign and overall trends, delivery, bounce rates, and QA accounts. Prior to MetaReward, she spent 5 years with at **Whole Foods Market** as a buyer/team member. Here she worked on the "Nutrition Team", selling supplements, body care, books, and housewares.

Join us in giving Dave, Kristi and Angie a warm welcome!

SPINS Charitable Contributions

Oxfam's Tsunami Relief Fund

Oxfam continues to send supplies and staff in response to the Asia tsunami, making a real difference to the lives of hundreds of thousands of people hit by the disaster. Oxfam is working to reach more than 600,000 people across Asia with water, sanitation, food, shelter and other essential relief items, according to need.

More info at:

http://www.oxfam.org/eng/programs_emer_asia_sitrep_050113.htm

GRIP

GRIP is an outreach program based in Chicago, serving at-risk, inner city youth.

More info at:

www.grip-youth.com

Natural Products Marketplace and Consumer Reports

Did you know that 95% of US Consumers Purchased a Natural Product and 46% Bought Organic Last Year?



The NPMR provides key sales trends, growth drivers, forecasts, and over 50 case studies on leading industry players. Consumer purchase dynamics, attitudes and demographics are also discussed in the NPMR and are fully developed in the NPCR.

Contact Amy Jacobsen to purchase or to learn more about these reports at 415.957.4410 or ajacobsen@spins.com