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That next new product hit is just around the corner, and while retailers are certainly interested in pushing the next hot item through their checkouts, they'd rather not wade through the 99 product duds to find the one that sells. So what are they looking for exactly?

In a nutshell—promotion, promotion, promotion. Drive those consumers through the doors, and the retailers will take care of the rest through savvy merchandising and on-shelf education, they say. And while a steadfast and steady marketing

campaign may be par for the course among larger companies, smaller companies may have to rely on more cost-effective, yet still far-reaching, methods.

For example, Internet advertising is on the upswing reported one online retailer. And guerrilla marketing may be another successful-but-inexpensive strategy.

Similarly, local print media may not only entice the larger retailers in some of their more significant markets, but also may be a sound strategy to reach significant regional operators.



Jeff Fernandez, buyer HPC consumables, Amazon.com

Drug Store News: How do your customers shop the nutrition category?

Fernandez: Online, the shoppers that are looking for nutritional wellness, they usually shop first by condition and then by ingredients. ... They're searching a lot by brand, so they already know [about the product]. Mass media can play a big part in that. For example, last year when Oprah mentioned [the weight-loss supplement] Zalestra, everyone immediately searched online and our sales went through the roof here.

Drug Store News: When you're considering picking up on a new item, what are some of the telltale signs of a potential success?

Fernandez: The first thing, if it's a larger pharmaceutical company, how much money are they spending on that brand. Some of the bigger companies spend millions of dollars on big marketing and advertising campaigns ... you know there's going to be awareness out there. Number two, which is more applicable to my business, is how far [is the vendor] willing to go to deliver the message online? Is part of that big massive spend going to be directed toward online awareness? ... When you combine links, Web sites and e-mails, the awareness that's there will create the demand online that usually leads to a successful [launch]. ... Success, depending upon price points, can be anywhere from \$100,000 to \$500,000 in first-year revenue per item.



Teresa Thompson, buyer of diabetes, diagnostics, vitamin and diet, Costco Wholesale

Drug Store News: How do your customers shop the nutrition category?

Thompson: How we have it mapped out in our aisles [is] we have it set up by category—all of the multis are together, all the joint supplements together, etc. So [customers] would first shop by condition, but what we offer is very limited. So they are [shopping for] products they [already] are buying in the marketplace, and they're coming into our warehouse and purchasing the larger sizes at a greater value. We don't offer everything, just the top five in [each] category. So first by condition, and then by brand.

Drug Store News: When you're considering picking up on a new item, what are some of the telltale signs of a potential success?

Thompson: First, it has to have success in the marketplace. We gauge success by the volume that the item is generating in food/drug/mass. We're looking for items that are typically doing more than \$50 million in the general market. Success for us is stipulated by what category [the product] is in ..., but if it's doing well in the marketplace, we should also share in that success.



Phil Burke, OTC buyer, Bartell Drug Company

Drug Store News: How do your customers shop the nutrition category?

Burke: We're evolving into making this decision mainly by condition. We've come to the realization that our customers don't really know anything about our manufacturers, no matter who they are. ... The average customer doesn't necessarily know that a vitamin C from [Supplier A] is necessarily better than a vitamin C from somebody else. So, what we're trying to achieve at the shelf is to educate the customer through better signage. We're trying to carve out areas related to condition needs—for example, a heart-health area, diabetes, calcium, [and] women's and men's multivitamins. Within those sections, there are really good pieces of information that explain to a customer what these items are all about. ... This is geared to attract new customers to the category.

Drug Store News: When you're considering picking up on a new item, what are some of the telltale signs of a potential success?

Burke: If this is a brand new launch, ... we're asking the questions about what's happening with this product. Where can I do some research to [validate the vendor claims]? We're looking for clinicals. How does the manufacturer intend to market the product? How much funds are being placed behind the launch? Those decisions are easier made for me with companies [with whom] I have a track record. ... All the retailers want to be first on the shelf with the next home run.



Troy Claussen, OTC buyer, Lewis Drugs

Drug Store News: How do your customers shop the nutrition category?

Claussen: It's by condition. If they have joint pain, they're going to be looking for glucosamine/chondroitin probably in the [joint] section. Consumers have a pretty good idea of what they're looking for. We merchandise by brand, and then within that by condition.

Drug Store News: When you're considering picking up on a new item, what are some of the telltale signs of a potential success?

Claussen: The biggest consideration is how much the manufacturer is going to support the new product. ... Somehow, they've got to [get] the message out on what the item is [and] why it's unique. There have been a lot of products that have been brought to me in the past that were probably overpriced, but the products did very well because the manufacturer did a good job of presenting it to the consumer. ... There are a lot of items [that can be supported regionally], where a vendor does some specific newspaper ads in the Sioux Falls, S.D., area targeted against Lewis Drugs. Those have been very successful in the past.

Aging boomers spur supplement sales

The aging of the baby boomers is certainly one of the chief factors driving the dietary supplement business today—two of the hottest segments within the category include heart-healthy supplements and bone-joint health. Both conditions feed what is referred to as the specialty supplements sector, which represents some 15 percent of the entire category reported Mike Kirshenbaum, senior consultant with the TABS Group, a consulting firm that serves the dietary supplement industry. “That particular sector has been showing double-digit growth for [some] four years,” he said. “Within that, that’s where all the fish oils and co-Q10s are.”

And it’s projected to grow even further, especially as more and more baby boomers come to the realization that old age will catch up to them.

It’s partly for that reason that many dietary supplement manufacturers are leaning toward marketing their wares by condition rather than by ingredient or age and gender demographics. It’s how the consumer may be shopping the category—as more and more retailers are moving from generic brand blocks to condition-oriented sets that highlight conditions like heart health, diabetes or bone-joint health.

Within heart health, both essential fatty acids, otherwise known as fish oils, and co-Q10s are growing at significant double-digit rates. “Given the fact that the three [fastest grow-

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ing] segments of the category are all heart related, [including] fish oil, cholesterol reduction and Co-Q10, heart health is the overall emerging [category],” remarked Mike Miller, vice president of information for Pharmavite. Both fish oil and co-Q10 fast are becoming \$100 million segments, Miller said.

And the base market for heart health only is going to get bigger. More than 24.7 million Americans have been diagnosed with heart disease, still the leading cause of death in the United States. But the number of people who are at greater risk for heart disease is much greater—almost 140 million Americans are carrying extra weight, 20.8 million Americans have been diagnosed with diabetes and more than 54 million Americans have a condition known as pre-diabetes, according to the American Diabetes Association.



Bone/joint health is the largest segment within dietary supplements by volume after multivitamins, and it will continue to grow as baby boomers age.

Glucosamine and chondroitin, the largest segment within dietary supplements by volume outside of multivitamins, also continues to trend well. The results from the Glucosamine/Chondroitin Arthritis Intervention Trial, conducted by the National Institute of Health, was issued in spring 2006, but met with mixed reviews. While supplementing with glucosamine and chondroitin appeared to reduce pain in patients with moderate to severe osteoarthritis versus placebo, critics charged that that sub-group of patients

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Value versus service: extreme retailers win

The middle ground is no longer the optimal position for dietary supplement and natural health vendors as more and more players slide to one extreme or the other—trading either on every-day-low-price or a greater-degree-of-service-means-higher-margins paradigm. In other words, you’re either setting yourself up to compete with Wal-Mart on one end or GNC on the other.

“The ones who are winning from a retail perspective are the ones who are at the extremes,” commented Mike Miller, vice president of information for Pharmavite. “On one extreme you have clubs, which provide extreme value [and] EDLP. ... Then you have the other extreme,” he said, “when you walk into Whole Foods where somebody is right there to provide consulting and service [for a] high dollar ring. The service seems to overshadow [price].” Consequently, retailers either need to play the EDLP game, supplementing margin with volume, or chase after higher margins with a labor-intensive personalized service.

On the side of mass retailing, Wal-Mart’s gains in the dietary supplement category can be linked to the commoditizing of the category; when brand becomes less important than ingredients, it seems, consumers are more likely to shop the category strictly on value.

The specialty retail channel, including GNC, Vitamin World and Vitamin Shoppe, is performing exceptionally well, hav-

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ing carved out an expertise niche in diet aid supplements, sports nutrition and specialty supplements.

GNC’s recent announcement that it is exploring either a possible sale or initial public offering is probably more of a reflection of Apollo, the investment equity firm that now owns GNC, pursuing a return on its initial \$750 million investment than it is a harbinger of poor operations.

In a November conference call, GNC chief executive officer Joe Fortunato commented, “GNC continues to build momentum as we progress through 2006, and we are significantly outpacing industry growth. These positive trends signal the significant health of the business and continued growth potential of the company as we move into the final quarter of 2006.”

“I am pleased to say that we are meeting or exceeding expectations in every major operating area of the business, as well as with every critical financial indicator.”

Domestic same-store sales for GNC increased 11.7 percent for the third quarter ending Sept. 30. Of the

three, only Vitamin World, owned and operated by NBTY, presently is closing locations, and that’s more a factor of poor location than a poor retail climate, commented Scott Van Winkle, an analyst with Canaccord Adams.

The three major drug store retailers have pursued a similar

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Walgreens recently expanded its Theragran-M brand beyond multivitamins.

Three trends you MUST know

1 Heart health is hot
Aging baby boomers are expected to continue

to take the dietary supplement category—already estimated at more than \$2.4 billion in chain drug, according to figures from Information Resources Inc.—to new heights, driven not only by the positive news behind glucosamine and chondroitin but also heart-healthy supplements like fish oils and co-Q10s. Already, for the 52 weeks ended Dec. 3 across food, drug and mass (minus Wal-Mart), IRI has reported 30.5 percent growth in chain drug in the sale of fish oils and other essential fatty acids, reaching \$131.8 million, and 16.4 percent growth in co-Q10s, which recorded \$62.6 million in mass market sales.

Heart-health supplements ought to realize a bigger boost in the coming years because more baby boomers will become interested in supplementing their diets.

2 GAIT—had some impact
In spring 2006, the National

Institute of Health released the results of its highly anticipated GAIT study, which measured the efficacy of glucosamine and chondroitin versus placebos and the cox2 inhibitor Celebrex in a six-month, multiple-center trial involving some 1,500 osteoarthritis patients with mild to severe pain. An abstract of the study, posted on the American College of Rheumatology Web site concluded, “the combination of glucosamine and chondroitin is effective in treating moderate to severe knee pain due to osteoarthritis.”

Overall, 60 percent of patients responded to placebo, 70 percent to Celebrex, 64 percent to glucosamine, 65 percent to chondroitin and 66 percent to the two supplements together. Since then, sales of glucosamine-chondroitin supplements are up 3.5 percent in mass retail, reaching more than \$300 million.

3 Supplement use cuts health care costs

A study commissioned by the Dietary Supplement Education Alliance released in 2006 found that seniors could reduce \$5.6 billion in health care costs over a five-year

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Category Buzz

Government, industry look to put the bloom back on the rose

By MICHAEL JOHNSEN

Both supplement industry advocates and lawmakers are putting into motion early this year initiatives that finally will apply a little credibility to an often-criticized industry. Two industry groups—the Dietary Supplement Education Alliance and the Council for Responsible Nutrition—will be kicking off media campaigns this spring to better educate the press on supplement issues. And Congress in late December passed legislation requiring serious adverse events associated with nutritional supplements be reported to the Food and Drug Administration—an initiative that is expected to inject a jolt of much-needed credibility back into the industry.

The dietary supplement industry certainly has had a rocky relationship with the press, which has been credited with both boosting the industry through the late 1990s as media picked up on the latest supplement claims and crashing the industry of late as media has picked up on a number of stories critical of those same claims. For example, the faulty vitamin E meta-analysis in 2005 that linked high doses of vitamin E to increased mortality rates created a 30 percent decline in vitamin E sales in the months following that release. Those stories seem to overshadow any good news in the press, such as the GAIT trial results published in spring of 2006 that found supplementation of glucosamine and chondroitin helped treat moderate to severe pain among people with arthritis.

It doesn't help that the industry is often referred to as either unregulated or loosely regulated. While industry advocates contend this simply isn't true—the FDA successfully pulled the supplement ephedra off the market in 2004—the agency's delay in establishing good manufacturing practices has been credited with feeding that reputation. "[The industry still] has a black eye to some degree, but not quite as much as in the past," reported Mike Kirshenbaum, senior consultant with the consulting firm the TABS Group. "There's a lot of unscrupulous suppliers in this business—people making ridiculous claims," he said, and that helps fuel the notion that those players represent the industry as opposed to being the exception to the rule.

Congress last month passed legislation that will require a mandatory reporting system for capturing serious adverse event information associated with the use of nutritional supplements to the FDA. If signed by President Bush, as is expected, this legislation will align nutritional supplements with the adverse event reporting requirements already in place for OTC medicines under New Drug Applications. "CRN commends Congress on the passage of the adverse events reporting bill into law," stated CRN president and chief executive officer Steve Mister. "This law is something responsible industry has supported for a long time. ... With this law, consumers can be assured that if they report to a manufacturer a serious adverse event they believe may be associated with a supplement product, that the agency that regulates this industry—the FDA—will be made aware of that report."

In October, Congress passed the Older Americans Act Amendment of 2006. The legislation marks the first time Congress has recognized the benefits of multivitamin use in a statute, and encourages all seniors and service providers to consider a multivitamin supplement that is in compliance with government quality standards.

"This legislation is a tremendous step in the right direction," stated Connie Barry, president and co-chief executive officer of Pharmavite, pointing to the language in the bill that specifically speaks to supplementation: "While diet is the preferred source of nutrition, evidence suggests that the use of a single daily multivitamin-mineral supplement may be an effective way to address nutritional gaps that exist among the elderly population, especially the poor."

In addition to the legislative initiatives, two trade groups early this year plan to pursue major media campaigns in an attempt to color the industry in a more positive light.

CRN in September announced plans to tout the benefits of dietary supplementation in a new ad campaign. The association partnered with the National Advertising Division of the Council of Better Business Bureaus on a new self-regulation initiative that will increase monitoring of advertising for dietary supplements. The initiative was brought about by the lack of credibility associated with the industry.

"Like all industries, we rely on the bond of trust between consumer and marketer," Mister stated. "That bond has been stretched by companies that are clearly ignoring advertising laws that exist to protect the public, as well as responsible companies that abide by those laws."

As such, the initiative is anticipated to address not only comparative advertising claims among makers of dietary supplements, but also substantive claims that are deceptive or misleading and clearly go beyond what's supported by research and allowed by law—claims that feed the public's distrust of the supplement industry, Mister said. "While CRN has taken individual actions in the past to stop particularly egregious advertising claims, we felt it was time to become even more proactive to protect our industry's image. This initiative will help ensure our industry's customers can have faith that the advertising they see is truthful and not misleading."

Also in September, a number of industry organizations, including the American Herbal Products Association, the Consumer Healthcare Products Association, CRN and the American Herbal Products Association, partnered on an initiative called Standardized Information on Dietary Ingredients, which plans to publish a comprehensive list of responsible raw ingredient manufacturers online to help drive legitimacy in the raw ingredient market.

"All four of the supplement industry trade associations recognized there was a need to address this issue collectively and are committed to developing an effective process to help reduce mistakes and inaccurate information," said Andrew Shao, CRN's vice president, scientific and regulatory affairs who also will serve as spokesman for the SIDI initiative.

And DSEA is working with the consulting firm Walker & Company on developing a comprehensive branding and marketing approach for the alliance. DSEA will spend initially between \$1.5 million and \$5 million on marketing that may be tested in a few of the following markets—Houston; Indianapolis; Phoenix; and both Orlando and Tampa, Fla. According to the alliance, these are the markets with significant store penetration, as well as favorable demographics and psychographics.

Once the test-run is validated, the alliance hopes to raise as much as \$20 million to fund a national media campaign promoting the dietary supplement industry.

Top 20 best-selling dietary supplement ingredients

Supplement	Dollar sales in millions	Percent change
Adult multivitamins	\$636.2	0.4%
Glucosamine/chondroitin	301.2	3.5
Calcium	248.9	-8.1
Fish oils	131.8	30.5
Vitamin C	125.8	0.4
Children's multivitamins	109.3	7.4
Vitamin B	78.7	5.5
Vitamin E	73.4	-15.5
Co-enzyme Q-10	62.6	16.4
Vitamin B complex	55.5	6.3
Iron	50.3	4.5
Probiotic/acidophilus	23.2	20.8
Garlic	22.9	-14.3
Vitamins A & D	21.2	10.1
Amino acids	20.3	5.4
Antioxidants	19.1	-8.7
Melatonin	19.1	6.4
Cranberry	19.1	20.5
Saw palmetto	17.8	-8.3
Magnesium	16.8	11.0
All supplements	2,360.5	1.0

Source: Information Resources Inc. for the 52 weeks ended Dec. 3 across food, drug and mass channels (excluding Wal-Mart).

Vital Basics



Vital Basics, a science-driven nutraceutical company, is introducing two new additions to its product line.

FLEXOfactor, a powerful joint support "system" that combines glucosamine, chondroitin, hyaluronic acid, MSM and omega-3 fatty acids in easy-to-swallow softgels, is used in conjunction with a pain relief cream for the relief of arthritis pain and joint/muscle aches.

CoQfactor offers an easy way to supplement the body with 100 percent natural coenzyme Q10 in great-tasting chewables available in 100mg, 200mg and 300mg forms.

Vital Basics will develop and market FLEXOfactor and CoQfactor through a dual-channel marketing model of integrated direct-to-consumer advertising campaigns and through television, radio, print and Internet.

Cytosport



It's no secret that poor diets and childhood obesity are growing national concerns.

For moms who want to provide their kids with healthy, and tasty, snacks, CytoSport, a company on the cutting edge of sports nutrition science, has come to the aid with its recent introduction of Mighty Milk Nutritional Drink.

Lactose free and with only 4 grams of sugar per serving, the beverage also contains protein, carbs, vitamins and minerals and is available in chocolate shake and cookies 'n cream shake flavors.

Slimquick Laboratories



Slimquick Laboratories has recently introduced Slimquick to its product line and is marketing it as "the female fat burner."

Slimquick is targeted for women ages 25 to 49 years old who want to lose weight as quickly as possible. It works in six ways to address the physiological barriers women face when losing weight, including hormonal balancing, minimizing water retention and stress reduction.

WELLNX is planning all-new creative national television and print campaigns throughout 2007 to promote Slimquick.

Pharmavite



Pharmavite will make its first foray into the nutrition bar market early this year with the introduction of SoyJoy bars. Baked with whole soy and dried fruit, the new SoyJoy line began shipping to select accounts in December and the company expects to reach national distribution by March.

Available in apple, berry, mango-coconut and raisin-almond flavors, SoyJoy bars contain no trans fats, hydrogenated oils, artificial sweeteners, high-fructose corn syrup, gluten, artificial flavors, preservatives or colors.

A four-market test last year surpassed the company's expectations after only 12 weeks. Initial indications found that 49 percent of sales were incremental to the segment. Furthermore, SoyJoy exceeded the category purchase cycle by two days, Pharmavite reported.

Boomers

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was too small to extrapolate any meaningful conclusions. The authors of the study recommended more research, specifically on that subgroup, needed to be done.

Since, sales for glucosamine and chondroitin have climbed 3.5 percent, cresting a dollar volume of more than \$300 million, making bone-joint health the leading category behind multivitamins.

Like heart health, arthritis is

another population segment that is only going to get larger. According to the Centers for Disease Control, more than 43 million American adults have been diagnosed with arthritis. That population is projected to expand to 67 million adults by 2030.

Value

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strategy — exclusive supplement brands. Rite Aid has long had a relationship with GNC, peppering a GNC department in 1,201 of its locations, according to GNC. Rite Aid, which is looking to grow its GNC partnership significantly should its bid for Brooks-Eckerd succeed, frequently references those GNC departments as a strong driver within its stores.

Earlier this year, CVS expanded its exclusive partnership with Life Fitness, a brand perhaps best known for its line of high-end fitness equipment, featuring some 74 SKUs of vitamins

and supplements.

Walgreens in 2005 purchased Theragran-M from Bristol-Myers Squibb, and recently has expanded that brand beyond multivitamins.

For drug chains there is an opportunity at the pharmacy counter, where the pharmacist can be more aggressive in suggesting supplementation as a way to counter nutrition depletion associated with many pharmaceutical therapies. For example, statins deplete the heart-healthy co-Q10 enzyme, while oral contraceptives deplete B vitamins like folic acid.

It's an opportunity that new pharmacy retailers, like Pharmaca in Colorado and Elephant in Northern California, are actively pursuing.

Trends

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period by supplementing with omega-3 fatty acids and lutein and zeaxanthin supplements.

A similar study, both conducted by the Lewin Group, found that widespread supplementation with folic acid and calcium would deliver a \$15 billion savings in health care dollars over a similar five-year period.

"With health care costs for Americans 65 and older expected to reach \$16 trillion by the year 2030, the need for innovative and preventative health care solutions is clearer than ever," stated Elliott Balbert, president of DSEA and chief executive officer of the supplement manufacturer Natrol.

Another positive for the industry is an expected resurgence in confidence — the

long-awaited dietary supplement good-manufacturing practices are expected to be published sooner than later now that FDA commissioner Andrew von Eschenbach has been confirmed.

Publishing the dietary supplement GMPs "will reinforce that we are a regulated industry," explained Steve Myster, president and chief executive officer for the Council of Responsible Nutrition.