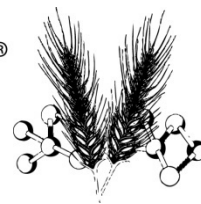


Nutrition Business Journal[®]

Strategic Information for the Nutrition Industry



Healthy Kids' Market Report: Breaking the Entry Barrier

2009

An analysis of markets, trends, competition and strategy in the U.S.
Healthy Kids Industry.

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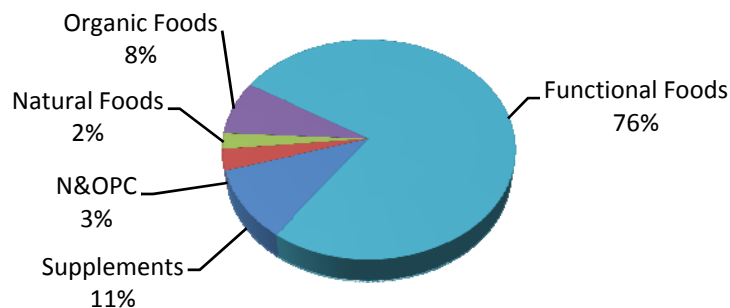
1. EXECUTIVE SUMMARY

A convergence of forces—the Obama administration’s focus on improving children’s nutrition, the childhood obesity and diabetes epidemics, parents’ growing concern over food quality and safety, and even the troubled economy—is creating a sweet spot in the U.S. children’s market for natural, organic, better-for-you and nutritional supplement products. Yes, children’s products in general are hot, but the real growth is likely to be in natural, organic and better-for-you offerings that are truly healthy and free from long ingredient lists, artificial colors and preservatives, high-fructose corn syrup and even common allergens, such as gluten and nuts. As *Nutrition Business Journal’s* research, interviews with and survey of more than 150 companies revealed, parents are proving increasingly willing to pay for such products for their kids, even if it means scrimping on something for themselves in the current economy. The economy is also driving parents to expect more “value” from the products they purchase, which could present a competitive advantage for those companies selling foods, beverages and nutritional supplementation products that pack a healthy punch.

Thanks to the Internet and magazines such as *NBJ’s* sister publication *Delicious Living*, parents are becoming much more educated about the importance of healthy eating for their children—and this is being reflected in their food purchasing decisions. Companies understand this and are launching a growing number of natural, organic, better-for-you and nutritional supplementation products formulated and/or marketed for children. Many of these were featured at the 2009 Natural Products Expo West Tradeshow, which included more than 300 companies selling products targeted to kids. Numerous exhibiting companies at this year’s Expo West showcased entire lines devoted to the infant-to-12 demographic group.

As we detail in this report, *NBJ* estimates that the U.S. healthy kids’ market generated \$10.1 billion in consumer sales in 2008, with the vast majority of sales coming from functional foods and beverages formulated for or marketed to children. Sales of healthy children’s products made up approximately 10% of total U.S. nutrition industry sales last year.

Figure 1-1 U.S. Healthy Kids’ Market by Product Category in 2008



Source: Nutrition Business Journal estimates. (\$mil., consumer sales)

The growth in healthy kids’ products comes as no surprise to *NBJ*. In November 2007 and May 2008, *NBJ* worked with Avero Research to survey more than 2,100 U.S. consumers, 197 grocery retail managers and 93 consumer packaged goods manufacturers. In this survey, both manufacturers and retailers rated “better-for-you kids’ products” as the hottest healthy foods growth opportunity. Similarly, when we polled the 250 nutrition industry executives in attendance at the 2008 *NBJ* Summit last July, we learned that concern over children’s

nutrition is seen as one of the trends offering the greatest potential for nutrition industry product development and growth.

Although many innovative healthy kids' food and beverage, dietary supplement, and personal care products have been launched over the last 12 to 24 months, numerous product opportunities remain in the children's nutrition market—particularly for truly healthy, convenient and kid-friendly products targeted to kids past the baby stage. NBJ believes that small companies are in a good position to continue filling these voids because they have been a source of innovation in the natural & organic product industry for many years. Certainly, the large food companies are stepping up to reformulate their products so that they are healthier for children, but a gap appears to remain between what manufacturers are producing and what parents' desire—and this is leaving plenty of room for companies to take some product risks and develop new offerings that offer healthy eating and balanced nutrition in new, convenient ways.

NBJ's Healthy Kids' Market Report: Breaking the Entry Barrier was created to help companies operating in, working to move in to or simply evaluating the U.S. healthy kids' product market better understand this market and its opportunities and challenges. In this 194-page report, you will find:

- A breakdown and analysis of 2008 U.S. healthy children's product sales for dietary supplements, functional foods and beverages, natural foods and beverages, organic foods and beverages, and natural & organic personal care and household products. This analysis includes an overview of total 2008 U.S. consumer sales by channel (retail, Internet, healthcare practitioner, network marketing and direct response) for each product category to provide context for how healthy children's product sales compare to overall product sales in each product category.
- A discussion of healthy kids' product trends for dietary supplements, functional foods and beverages, natural foods and beverages, organic foods and beverages, and natural & organic personal care and household products.

For each product category, this report also includes articles from:

- *Delicious Living* magazine, a prominent and well-respected health and wellness consumer publication, to provide insights from the U.S. consumer perspective on healthy kids' products
- *Natural Foods Merchandiser* magazine, the leading trade publication for natural & organic retailers, to provide a retail perspective on healthy kids' product trends and marketing strategies for each product category
- A detailed exploration of the children's supplement market from a product development and marketing standpoint. This includes a look at what is driving the growth of supplement usage by children; what products and brands are breaking through and why; and how the economy and recent negative research press are affecting sales.
- A deep dive into the natural & organic personal care market for babies, children and teens that includes product and marketing trends across a variety of product categories, including eco-friendly diapers, skincare, hair care and oral care.
- Insights on finance and investment options for healthy kids' product companies. We look at what product types and approaches are receiving funding and discuss what investors are looking for in the current economic environment.
- Q&As with executives of 10 leading healthy kids' product companies, including CLIF Bar and Nest Collective.
- Detailed profiles of 45 leading and emerging healthy kids' companies and brands in the dietary supplements, functional foods and beverages, natural foods and beverages, organic foods and beverages, and natural & organic personal care and household product categories.
- Tips and strategies for cost effectively targeting and communicating to mothers, who represent the demographic group that is most influential when it comes to purchasing kids' products.