

GROCERY HEADQUARTERS

May 2009

CENTER STORE

Sweet success in the candy aisle

FOCUS ON FRESH

A bowl full of cherries

SELLING WELLNESS

Drink to good health

NONFOODS FOR PROFIT

General merchandise update

TECH SOLUTIONS

Digital billboards

EQUIPMENT, DESIGN & OPERATIONS

Merchandising marvels

RETAILER
of the YEAR

HyVee

Pictured from left to right:
Ric Jurgens, Chairman, CEO, President
John Briggs, Senior VP, CFO, Treasurer
Sheila Laing, VP, Human Resources
Ken Waller, Executive VP, Chief Administrative Officer
Randy Edeker, Executive VP, Chief Operating Officer

Drink up

BY CAROL RADICE

Consumers are increasingly looking at functional beverages to address health and lifestyle needs.



BASED ON THE VARIETY AND QUANTITY OF FUNCTIONAL BEVERAGES LAUNCHING THIS YEAR, it seems as if consumers are finally seeing the important role beverages can play in their health beyond simply quenching thirst.

Data from the New York-based Beverage Marketing Corp. shows that there is plenty of consumer interest to support the wave of new functional beverages hitting the shelves. The market research firm reports that smaller beverage categories, especially those emphasizing functional benefits, experienced solid growth in 2008, while traditional beverages were down 2%. Energy drink volume increased 9% and flavored and enhanced water grew by 8.3%.

Aside from health, flavor and quality, experts say today's natural beverage consumer is also attracted to aspects such as organic, fair trade, whole ingredients and sustainable packaging.

"Consumer interest in health and wellness products has been growing for nearly a decade and there's no indication this will slow down," says Scott Stevens vice president of marketing for Fruit2day, part of the WhiteWave Food family of brands, based in Broomfield, Colo. "People's

lives are busy and they are looking for more convenient ways to eat healthy and make good choices. Today's mainstream consumer understands the value and role smart food and beverage choices can serve as a proactive health measure."

Stevens says given that most people struggle to eat the recommended servings of fruit, his company saw an opportunity to develop a fruit-based product in a convenient beverage format. "Knowing that nearly a quarter of the fruit most people buy gets thrown away, with Fruit2day we set out to create a simple, unique, compact, portable fruit snack in a convenient format," he says. "The drink contains two servings of fruit and features fruit bits, all natural juice and puree. It's basically a healthy fruit snack they drink and chew, which gives people a better sense of satiety and satisfaction."

Since the product is made from real fruit, Stevens says that Fruit2day sells best when placed in the produce department, based on his experience. "People view it as a value-added fruit solution and so it makes sense to sell it near where other fruit is sold."

WhiteWave officials are also debuting two new functional beverages this spring under its Silk label—Silk Heart Health and Silk Omega-3



DHA & Calcium. According to company officials, Silk Heart Health is the only beverage that combines the health benefits of soy protein and plant sterols, both of which have been proven to help reduce the risk of cholesterol and heart disease. Andrea Carrothers, a registered dietitian with Silk, notes that people of all ages are embracing functional foods at a rapid pace, but interest from older consumers has been a large part of the growth. "More than 50% of the U.S. population suffers from high cholesterol, one of the major risk factors for heart disease and stroke," says Carrothers, who notes that Silk Heart Health has been clinically shown to help reduce cholesterol by 7% in four weeks.

JOIN THE NATURAL SET

Tom First, founder of O Beverage, based in Concord, Mass., may have started his company a little more than three years ago but he's not new to the beverage business. First launched Nantucket Nectars and sold the company to Cadbury Schweppes a few years ago. As First explains, his initial intention was for his product to sit alongside other beverages on the grocery shelf, but he quickly changed that strategy.

"We feel the best fit for our product in terms of exposure, facings and shelf placement is in the natural set and not alongside traditional beverages. For a smaller, emerging brand you can show off your product much more effectively here than in other areas of the store," says First.

Natural buyers, he also notes, tend to be more open to embracing smaller companies.

"It also comes down to what consumers are looking for when they shop different sections of the store and the perception and value they equate with each. Our consumer wants value in what is in the bottle as well as price," he says. "People that shop the natural section put a lot of emphasis on that and we are looking to help fulfill this need."

To generate awareness and promote the brand beyond the natural set, First says quarterly promotions are a must.

However, even for a founder with lots of experience and a good product, immediate acceptance from grocers isn't always a given. "Typically although our products are often

embraced, we are still asked to prove ourselves region by region," he says.

Consumers of functional products look for high-quality ingredients and Pacific Natural Foods, based in Tualatin, Ore., is known for its careful attention to sourcing. Marketing director Kevin Tisdale says the company stayed true to this mission when it recently launched 12 ready-to-drink organic tea, mate and coffee beverages. "We know our consumers care about where the product comes from and how important it is to them that the ingredients we use come from high-quality sources," says Tisdale.

"Simply Tea is our new low calorie green tea-based drink which comes in Kiwi Mango, Tangerine, Peach, Wild Berry and Unsweetened flavors. The antioxidant-rich beverages are made in small batches with the finest green teas from the world's premier tea gardens. Using a patented brewing process ensures the teas retain their flavor and healthy benefits."

The second new drink, Simply Maté, is made from yerba mate and is available in Peach Passion, Lemon Ginger, Citrus Lychee and Traditional flavors. "It's made in small batches from a proprietary blend of traditionally smoked and naturally air dried mate which we felt would help it appeal to a broad range of consumers. This is a calm energy beverage that offers steady alertness without that jittery feeling or the spike in energy," Tisdale explains.

Simply Coffee is an iced coffee beverage available in Plain, Vanilla and Mocha. "Ready to drink organic coffees are an emerging segment that up until now has been dominated by traditional, large brands. We felt there was an opportunity to offer an organic, fair-trade certified coffee drink," says Tisdale, noting that the drink features a dark-roast coffee, two percent organic milk from their own dairies and is sweetened with organic cane sugar.

Houston-based Innovative Beverage Group has seen interest in its drank brand of functional beverage increase in the year it has been on the market. Billed as the first extreme relaxation beverage, drank is a lightly carbonated grape flavored drink formulated with natural calming agents including melatonin, rose hips, and valerian root. "The grim economic conditions are definitely working in

concert with this relaxation product, helping us achieve record breaking sales growth each quarter," says CEO Peter Bianchi. "We're essentially the opposite of an energy drink, intended to alleviate stress and help consumers relax."

Its widespread appeal also plays to its favor, notes Bianchi. "drank is a mainstream beverage that appeals to a broad consumer demographic from road warriors to stay-at-home moms or dads." Bianchi adds that drank, as with many functional beverages, is considered a grab-and-go item and is best served cold so it can be consumed on the run. "In grocery and convenience stores, drank is typically merchandised in refrigerators, coolers or anywhere they can be stored cold and ready to serve," he says.

SHAKING UP FORMATS

mixl beverage company, best known for its all-natural enhanced protein shake, recently introduced its hi-antioxidant fiber drink, which company officials say, offers the equivalency of nine servings of fruits and veggies through a broad spectrum of antioxidants, complemented with 8 grams of soluble fiber and nine grams of whey protein isolate. "For us, it's all about trying to make it easier for people to make good, healthy choices," says Todd Berg, vice president of marketing for Boulder, Colo.-based mixl.

While he is pleased the functional beverage category is expanding, Berg says, so too is consumers' wariness. "Increasingly, people are feeling duped because they've discovered some of their past choices were not as functional as they claimed to be because they included high amounts of sugar and multiple servings per container," he says. "Many are educating themselves about nutrition and closely read labels and increasingly understand the difference between perceived and real ben-



efits. As a result, they are beginning to gravitate toward choices that perform the best.”

However, he says as much as consumers have grown in their knowledge of what constitutes a good choice there is still a lot of confusion, especially when it comes to understanding how ingredients interact with each other. “Functionality is on everyone’s radar and people want choices that make sense. They are looking for antioxidants and protein, but often don’t necessarily understand the intricacies of how all of these ingredients work together or how much of each is necessary,” says Berg, noting that retailers who help guide consumers in making good choices will build sales in the category. “Our company founder is a naturopathic physician with a background in nutrition. He saw first hand the issues of helping people eat better and discovered if he could create something that was nutritious and tastes great, but was more convenient to consume compliance rates would rise.”

SPORTS ORIENTED

Given the product’s appeal with sports enthusiasts, Berg suggests retailers place mix1 beverages where other sports nutrition products are sold. “Our consumers are bike riders, runners, triathlon participants and the like. They look for products like these where they find other sports-related items. Safeway and Kroger have each created sports/fitness sections and we envision more retailers will follow,” notes Berg, who sees the second wave of consumers attracted to mix1 beverages as moms. “They are the gatekeepers of health for the family, but they are also the ones with the least amount of time to eat a healthy meal. Products that are good for you and offer the best bang for their buck are rising to the top.” Berg believes retailers who educate the consumer about the true benefits of functional beverages and simplify the shopping experience will create a loyal customer base.

ZredT debuted its line of ZT organic ready-to-drink teas at Expo West in March. The company’s teas are made from the rare rooibos plant, which only grows in the Cederberg Mountains of South Africa. Company officials note the teas feature a naturally smooth, complex flavor and each bottle of ZT provides both magnesium and natural fiber, is low in calories and contains no caffeine or sugar.

According to Jim Tonkin, acting CEO for the Baton Rouge, La.-based company, in addition to the rooibos tea, each ZT flavor contains all-natural organic ingredients including purified water, organic inulin, organic clarified brown rice syrup and natural flavors. “Bottled teas are one of the natural beverage segments continuing to grow,” he says. “Consumers are looking for more healthful beverage choices, so it made sense to offer one that included antioxidants.”

Tonkin points out that ZT is available in four flavors: Unsweetened, Lemon, Vanilla, and Ginseng Honey. “We wanted to be able to offer consumers the first full line of ready-to-drink rooibos teas with multiple flavor profiles beyond a single SKU,” he says. “We don’t see this as a fringe product, but one that appeals to mainstream consumers. We feel the time is ripe to appeal to consumers looking for new, healthy beverage options with improved taste profiles.”

Tonkin says the most logical placement for ZT is near other natural and organic bottled tea products. “The consumer who our product appeals to are brand loyal, label readers, concerned about the types of products they eat and drink, are health conscious and active, willing to trade up to more expensive food and beverages if they can see the added benefit and functionality, at a reasonable price point,” he says.

Earlier this year, Seattle-based Jones Soda, launched a new line of natural beverages under the Jones GABA label. According to Mike Ginal, a brand manager for the company, GABA is a naturally occurring amino acid that enhances mental focus, balance and clarity. He says the company created the beverage based on findings from extensive consumer research asking consumers what they were looking for in a natural drink.

“We have a lot of contact with our consumers and they told us at the end of the day they are looking for new and unique offerings

that taste good so we searched for something we could offer than would enhance their daily lives and landed on GABA,” he says. “This is a well-known ingredient in Japan and we are the first ones to bring the all-natural form of GABA to the U.S. in a beverage.” The company launched the drink in four tea-juice flavors, including Fuji Apple, Nectarine, Lemon Honey and Grapefruit.

Despite the benefits, Ginal says it has been both an opportunity and a challenge creating awareness of the brand and introducing a beverage with an ingredient people have never heard. “Going into this we knew a key piece of this would need to be getting published studies into the hands of grocery buyers and educating them on what GABA is so they could see for themselves the unique benefits drinks such as this one offers,” he says. “Everyone at our company—from the receptionist to someone in finance—helps us develop our flavors. We all have a hand in development.”

Ginal, who advises the item be placed in refrigerated cases where other beverages are sold, notes the slim can was selected over other packaging to create a strong point and enhance the product’s portability.

Officials at Wellness Tonics, based in Hawthorne, Calif., have recently introduced a line of organic raw functional beverages designed to give people live nutrition in a bottle. Company founder Ryan Jackson, says the tonics were created as healthy alternatives to energy drinks, sports drinks and sodas. As he explains, each tonic is a naturally effervescent probiotic drink containing live enzymes with agave nectar. The live enzymes from the organic coconut water predigest the agave nectar and the by-product is natural carbonation. Jackson says the tonics provide organic sources of protein, antioxidants, vitamins, minerals and electrolytes.

“People are looking for quality, healthy drinks that are not over processed,” notes Jackson, who points out that all of their ingredients are plant based and are either organic or wild crafted. “These tonics are a great way for people to get the nutrition they need in a convenient, portable form.” Jackson suggests merchandising Wellness Tonics in the dairy department coolers as well as ready to go coolers near the front of the stores or in the produce department where other fresh drinks and juices are displayed. □