Chew, Drink & Melt Your Way to Health

New delivery formats change the game for supplements

Poor Alice. One pill made her larger, and another made her smaller, but she never was offered any alternative formats at all. Today, she might have a powdered drink to boost her immunity, a gummy chew for heart health, a dissolves-on-the-tongue "melt" that helps her relax. She might puff a shot of energy, twist a capful of vitamins into her water, or dunk a probiotic-laced straw in her milk. But one thing is nearly certain: She wouldn't line up a dozen pills and two glasses of water on the kitchen counter.

"If you rewind the clock two years, classic CPG companies like **Church & Dwight, Procter & Gamble** and **Reckitt Benckiser** (RB) took a less than positive view toward the VMS category. They thought of it as a commodity category with little room for real brands, driven by trade promotion rather than classic advertising," says William Hood, managing director of the consumer, food & retail group at **Houlihan Lokey**. Hood is the investment banker who advised Avid Health—home to Vitafusion and L'il Critters branded gummies—on its $650 million sale to **Church & Dwight**, as well as the sale of **Emergen-C** to **Pfizer**, the purchase of **Airborne** by **Schiff** and the subsequent sale of Schiff to RB. "In the past two years, there's been a paradigm shift in that thinking," says Hood. "They've woken up to the fact that VMS is one of the largest categories in the U.S.—$30 billion—and growing 5 to 7% per year. You can challenge any executive at any CPG company to name another category that large and growing that rapidly. Laundry detergent is growing at GDP at best."

But the real story isn't in the category as a whole—it's in the new formats that manufacturers and consumers are now embracing. "Sales of capsules and tablets are flattening, and manufacturers see that and are trying to figure out what else they can do," says Jeff Hilton, co-founder and chief marketing officer at **Brand Hive**, the Salt Lake City-based agency formerly known as **Integrated Marketing Group**. "There's definitely a push on the manufacturer side to come up with inventive ways to bring excitement to the category." There's also a pull from consumers for convenience. They're seeking out products that combine nutrition with snacking opportunities to fit their on-the-go lifestyles. "Consumers want to consolidate," says Hilton. "A convergence of foods, beverages and supplements is a lot of what's driving this."

"It almost becomes a treat," explains Claire Polson, sales and marketing manager for **Hero Nutritionals**, a maker of gummy vitamins. "People are taking vitamins to be healthy and extend their life, but it's a little reward for them too. They think, 'Hey, I'm taking care of myself and it tastes good."

Gummy game changer

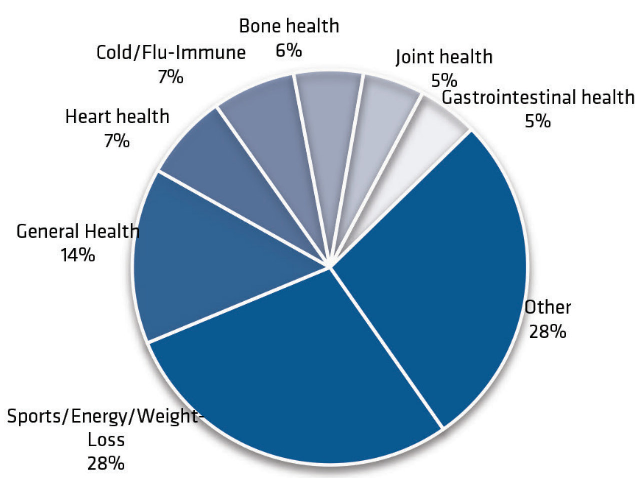
Gummy vitamin formulations—modeled on gummy-bear candies— were perhaps the first product to turn the pills-only proposition on its ear. Though gummies predictably captured the kids' market early on, people in the industry have been astonished by their popularity among adults. Gummies have moved past multivitamins into almost every segment, including fiber, heart health, vision health, prenatal, "silver," vegetarian and sugar-free formulations. It's no longer a question of whether the phenomenon is real, says Hood. The question is: "How big will it get?"

It's a fair question. In the 52 weeks ending in April 13 examined by **SPINS**, dollar sales of gummy vitamins increased more than any other format—by 35.3%. Liquids and powders posted strong jumps of 7.5% and 10.2%, respectively. In contrast, tablets declined 0.3%.

"Gummies transcend all ages," Hood says, because they offer a pleasurable, fun experience, combined with efficacy and convenience. Gummies and other alternative formats help the medicine go down, so to speak. "I think what's happened is pill fatigue," says Hero's Paulson. "People have these huge pills they've got to swallow, and they're tired of it." Consumers just find it easier to chew, drink or dissolve a supple-

CONTINUED ON PAGE 34

U.S. SUPPLEMENT MARKET BY CONDITION IN 2012



Source: Nutrition Business Journal estimates (consumer sales)

"Consumers want to consolidate. A convergence of foods, beverages and supplements is a lot of what's driving this." –Jeff Hilton, Brand Hive

ment. That's especially true for older adults, who may experience difficulty swallowing so-called "horse pills" as they age.

Younger people like that too, says Hilton. "With millennials, these new dosage forms are really a sweet spot because they're always running and gunning. If they're feeling a little off, they want something they can take, but they don't want to get up and take 20 pills. Manufacturers are thinking about this because they're the next generation coming up in the supplements market, and they're not pill folks."

An energy suck

Perhaps no one understands that better than the people behind **AeroLife Energy** (previously **AeroShot Energy**), which debuted in 2012. This air-based delivery system is packaged in a slim lipstick-sized plastic cartridge. When users hold the cartridge in their mouths and gently breathe in, the product—a powdered blend of caffeine, B vitamins and flavoring—lands on the tongue, delivering a nutritional and sensory hit at the same time without adding calories or a full belly to the mix.

Eric Freedman, vice president of marketing at Cambridge, Mass.-based AeroDesigns, says **AeroLife** consumers skew male in the 25-34 age group, and tend to be early adopters. "They live incredibly busy, productive and social lives." As a result, he says, "They expect convenience, control and the benefits of on-demand experiences." Freedman notes that the company's core consumers primarily use the product at work to boost mental focus and acuity.

AeroDesigns is already looking to the future. "The Aero nutrition system has been designed so it can deliver a broad range of foods, nutrients, flavors and sensations, so the applications are quite boundless," Freedman says. The company just launched the RE, a sleek metallic mouthpiece that accepts reloadable capsules containing chocolate, coffee, vitamins and other nutritional contents.

In March, another sucking sensation hit the scene when **Unistraw** launched its Tubulars Vitamin Milk Straws at **Expo West**. The straws contain spherical pellets carrying vitamins, minerals and nutrients such as probiotics, which dissolve gradually as liquid passes through the straw. The straws come in flavors that blend well with milk: chocolate, peanut butter, strawberry and banana. With their marketing tagline, "Abso-sucking-lutely!" it seems improbable the straws' appeal will be restricted to children enjoying vitamins with their milk and cookies. For the more mature crowd, the company recently launched Electric Energy Straws, currently available online only, though the company says it is identifying prospective retail partners.

Melting records

If gummies were the alt-format pioneers, and suckable supplements are the future, the present belongs to melts. **Pharmavite** launched VitaMelts in its **Nature Made** line last fall and anecdotal reports indicate that they're selling like popsicles on a hot summer day.

Though the line of dissolvable flavored tablets initially comprised six products, Pharmavite has added a multivitamin and a hair/skin/nails product. "The multivitamin is obviously the cornerstone of the line—three-quarters of vitamin users take a multi," says Pharmavite Marketing Director Joshua Marder. "We know that the melts consumer has an interest in beauty products," says Marder, who notes that melts buyers skew slightly younger and more female than overall VMS consumers.

While Pharmavite appears to dominate the category, similar products are making strides. Canadian manufacturer **Jamieson** offers tongue strips with melatonin, and **Purebrands**' Sheets tongue strips are available in energy and sleep formulations.

The category, which SPINS calls "lozenges," increased 9.6% from April 2012 to April 2013. **IRI**, a Chicago-based market research firm, reports that Nature Made sold $2.4 million in 1- and 2-letter VitaMelts vitamins in the 52 weeks ending May 19, 2013. Both reports may barely reflect the impact of the brand's marketing campaign, which began in January.

"They're on the trajectory that we expected," says Marder about the melts. "It matches the research. Like other new forms, they need to be explained to people. We're investing to do that—to support our retailers and to help our consumers find them." Marder says those efforts are paying off. "The repeat numbers on these are phenomenal. If we can invest our time and energy in awareness and trial, they absolutely love it and come back to the product."

People accustomed to getting their vitamins down as quickly as possible may need convincing that melts (and other formats) actually taste good, and that's where trial becomes important, according to Marder. "It literally melts on your tongue and dissolves away. There's sort of this smooth, ice cream-like feeling in your mouth." Marder's colleague, company spokesman Doug Jones, goes so far as to say that if you take a vanilla-flavored vitamin D melt and an orange-flavored vitamin C melt together, "It'll remind you of a **Creamsicle.**"

That kind of experience proved to be surprisingly positive when Pharmavite took the products to the health care community. "We expected that, potentially, they might say it seemed too candy-like. Instead, they say it helps some of their patients get past a barrier where they don't want to take vitamins."

> “Alternate delivery formats are significantly outpacing what's already robust growth in the market.” –Janica Lane, PCG

Hilton agrees that consumer education is critical, but it can’t be focused entirely on taste. “I think the marketing campaign needs to sell the efficacy—it will probably need to ramp up the science a little bit in terms of the support story. Pills and capsules are cheap to produce. Some of these other formats are not as cheap. They’re going to have to justify the value of a higher price point.”

That said, “I think that the growth curve hasn’t peaked for melts,” says Hilton. “They deliver that visceral, ‘Oh, this is working already’ sensation— the same as with shots. When I take that melt of CoQ10 under my tongue, I think it’s already in my system. They benefit from that. That perception of immediacy—it’s what we Americans have come to expect.”

That’s especially true for melts that are labeled by benefit, such as Relax or Energy. But Marder says other factors– most notably, portability—add to the appeal. There’s no need for water and, unlike gummies, they are heat resistant, so they can be kept in the car. But convenience isn’t enough. “It comes down to two things,” says Marder. “It needs to be fully efficacious. Then they are looking for something that is truly delicious and enjoyable. I think that’s a consumer expectation—consumers don’t want to compromise.”

The format future

Marder also notes that Pharmavite’s research prior to launching VitaMelts indicated a more enjoyable format would appeal to existing VMS consumers. But new users may hold the greatest growth potential.

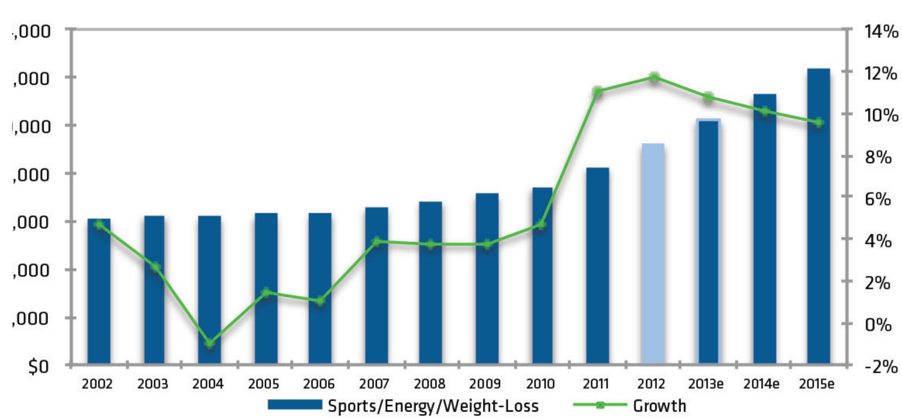
“These forms are drawing a whole new population into supplements and expanding the pie,” says Janica Lane of **Partnership Capital Growth**. That’s good news for the entire VMS category. “Alternate delivery formats are significantly outpacing what’s already robust growth in the market.” That development factored into several 2012 acquisitions and will likely be a factor in future deals. “The smart acquirers are seeing these trends and capitalizing on them—particularly when they can take a brand that already has significant sales and move it into their distribution channel, move it into accounts where they already have strong relationships, and then roll out new products and leverage new science.”

Hood agrees, and notes that while the science pushes new format development, existing technologies make acquisitions, such as the Church & Dwight deal, appealing to large CPG companies. “The manufacturing process of gummies is proprietary,” he says. “It’s very challenging. It can be expensive to set up, and takes a lot of time to get it right. So there are barriers to entry with getting into the business that are fairly significant. I would say it was partly that they liked the form and the proprietary nature and defensibility of it, and partly that they loved the Avid brands and industry dynamics and growth and customer relationships.”

Most of the growth will be in food, drug and mass outlets, rather than independent health stores, predicts Hilton. “The health channel consumers are pretty happy with capsules. I think the leading edge is FDM.” Says Marder: “It’ll be interesting to watch as consumers get comfortable with sensory formats over time. Think of **Listerine**—you had to have that bite in your mouth for years to believe it was working. Now even they have flavors.”

There’s no turning back the clock, insiders agree. “Not that pills and capsules will go away entirely,” says Hilton, “but as a segment, they will continue to erode. I don’t know at what rate or pace, but conversion to these new dosage forms is going to continue. Every consumer trend points to that. People are evolving in how they consume their supplements. It’s changing.”

U.S. SPORTS, ENERGY & WEIGHT LOSS SUPPLEMENT SALES & GROWTH, 2002-2015E



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