HealthFocus Trend Survey

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- **The HealthFocus International (HFI) Trend Survey is the 1st global health and nutrition consumer trend study.**
  - 30 countries in Latin America, Asia, Europe and USA.
  - Based on the longest running consumer health and nutrition survey in the USA, started in 1990.
- **A syndicated study, updated every 2 years to track trends.**
  - Clients add confidential questions to the questionnaire to gather data on proprietary interests.
- **Plays a critical role in health and wellness strategies for the most successful multi-national, national and local marketers.**
- **Aside from the wealth of information about shoppers today, past and future waves of this research will show how attitudes, expectations and behavior evolve over time.**

HealthFocus Trend Survey

The HFI Trend Survey is conducted in 30 markets. Comprehensive reports on each country are available.

1. Argentina **	11. Indonesia	21. Russia
2. Australia **	12. Italy	22. Saudi Arabia
3. Brazil **	13. Japan	23. Spain
4. China **	14. Malaysia	24. Sweden
5. Denmark	15. Mexico **	25. Thailand
6. Finland	16. Netherlands **	26. Turkey
7. France **	17. Norway	27. Ukraine
8. Germany **	18. Philippines	28. United Kingdom **
9. Greece	19. Poland	29. USA**
10. India **	20. Portugal	30. Venezuela

** Multiple waves to collect trend data.

HealthFocus Trend Survey

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The HFI Trend Survey has 5 primary objectives:

- To identify current issues in consumer health and nutrition behavior and attitudes
- To assess the trends in consumer priorities regarding nutrition issues such as fat, calories, vitamins, etc.
- To understand where shoppers are headed in their behavior towards their health and diet
- To show what nutritional issues will be important over the near horizon
- To provide detailed data on regional and global differences/commonalities, and track trends worldwide.

Trends in Consumer Priorities

- **TASTE IS KING, AND PLEASURE IS QUEEN.**
  Remember healthy products are only as good as they taste. Shoppers are less willing than ever to compromise taste for health benefits.

- **POSITIVE NUTRITION.**
  Deliver Positive Nutrition with little or no downsides (sugar, sodium and other dietary negatives are coming back on the consumer radar screen). Focus on increasing intake of nutritionally desirable foods and nutrients.

- **NUTRITIONAL INDIVIDUALIZATION.**
  Beware of one-size-fits-all nutrition advice. Most shoppers (71%) believe everyone has different nutritional needs from everyone else.

- **AGE OF ENTITLEMENT.**
  There is no either/or proposition. Its about great taste *and* nutrition, luxury *and* affordability, natural *and* convenient, fresh *and* fast, fat *and* fit.

Trends in Consumer Priorities

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- **FUNCTIONAL NUTRITION.**
  From oats and oranges to fortified water and whole grains, consumers find nutritional solutions believable. They are looking for ways to help their body's natural systems to work/function better.

- **LOOK GOOD TO FEEL GOOD.**
  Looking good is about being at your best and the resulting sense of confidence and self esteem. Two out of three shoppers agree healthy eating improves their appearance.

- **EXTENDING THE MIDDLE YEARS.**
  Boomers remain confident in their ability to manage their health as they move into their mature years. Their focus is on extending middle age and improving quality of life during these years.

- **LESS TO WORRY ABOUT.**
  Simplify increasingly complex and complicated health and nutrition choices. Natural and organic mean less to worry about for many consumers.

THE PURSUIT OF HEALTH HAS EVOLVED FROM…

- Seeking the absence of disease (1980’s-1990’s)

TO…

- Seeking wellness and feeling good: physically, emotionally, mentally, spiritually (2000’s)

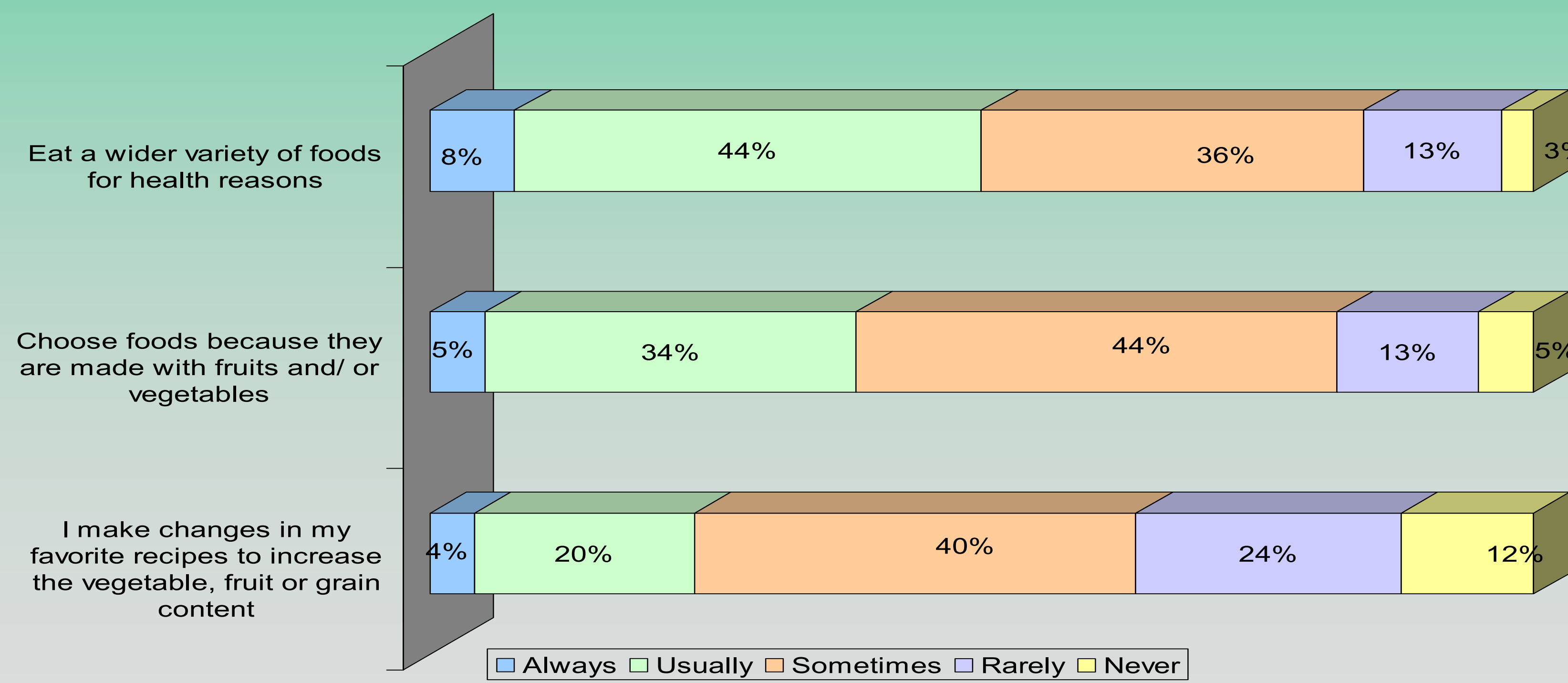
Better For You Good For You Right For You

Deliver positive nutrition with little or no downsides.

Eating More Fruits and Vegetables

Healthy eating means greater variety, and choosing whole grain products, and foods offering fruits and vegetables.

About half of US shoppers always or usually eat a wider variety of foods for health reasons. Shoppers are also choosing foods because they are made with fruits or vegetables, or modifying recipes to increase the vegetable, fruit or grain content. These behaviors have remained relatively stable since 1998.



Food Concerns

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Food concerns are declining somewhat, but remain strong. Pesticides in foods is still a top concern, second only to salmonella and E coli in ground meats.

Extremely/ very concerned	1996	1998	2000	2002	Change
Salmonella, E Coli in ground meats	-	-	-	62%	NA
Pesticides in foods	**63%**	**63%**	**59%**	**60%**	-3 pts
Highly processed foods	-	51%	47%	50%	-1 pts
Antibiotics/ growth hormones in meat and poultry	**48%**	**45%**	**44%**	**47%**	-1 pts
Food preservatives	45%	45%	43%	39%	-6 pts
Genetically engineered foods	**-**	**-**	**36%**	**36%**	0 pts
Foods produced with biotechnology	39%	39%	34%	36%	-3 pts
Artificial sweeteners	-	-	-	30%	NA
Overdosing on nutrients from fortified foods and beverages	-	-	33%	29%	-4 pts
Food colorings	-	-	-	26%	NA
GMO's	-	-	25%	24%	-1 pt

Organic Use

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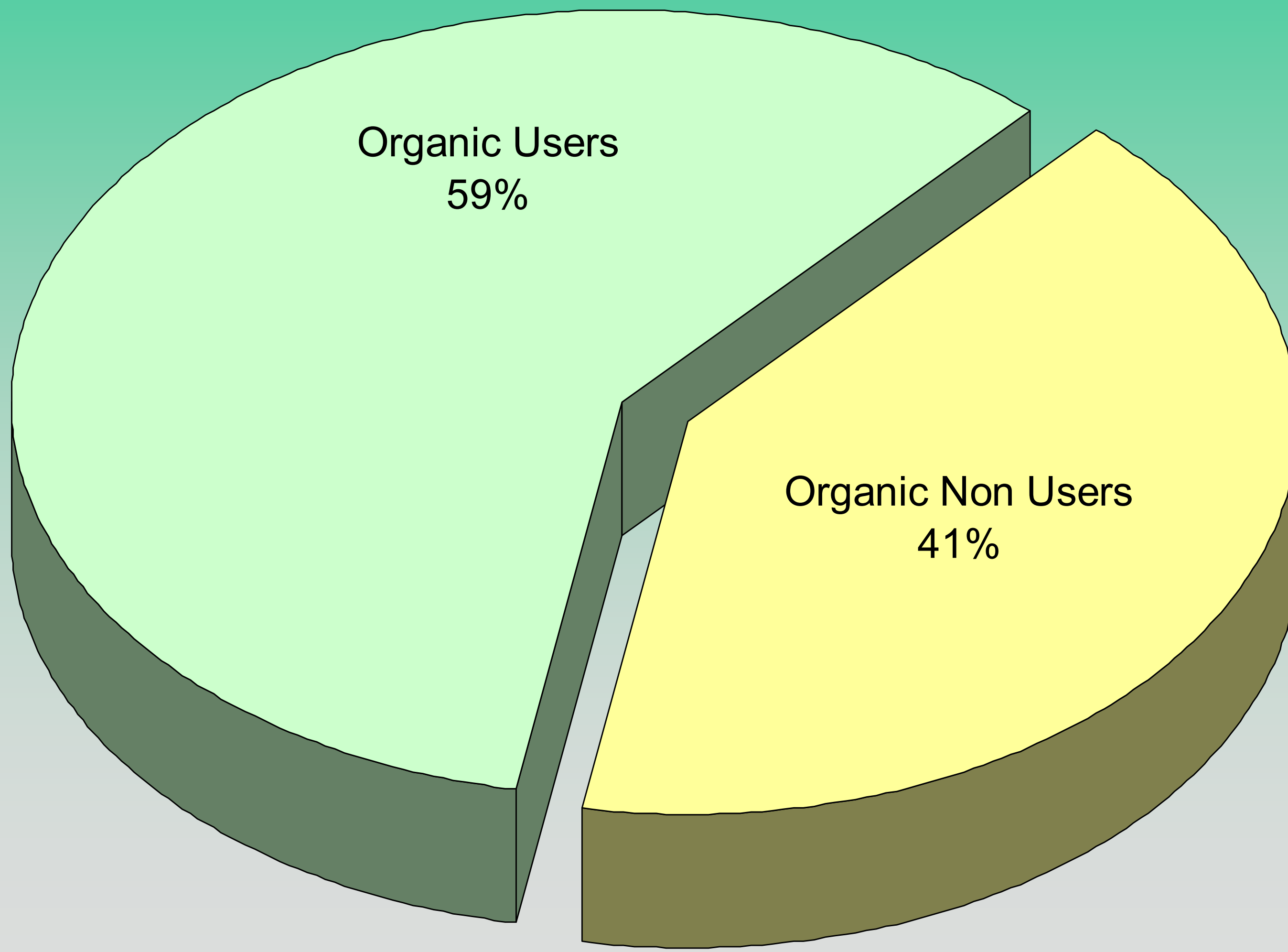
59% of all US shoppers use organic products.



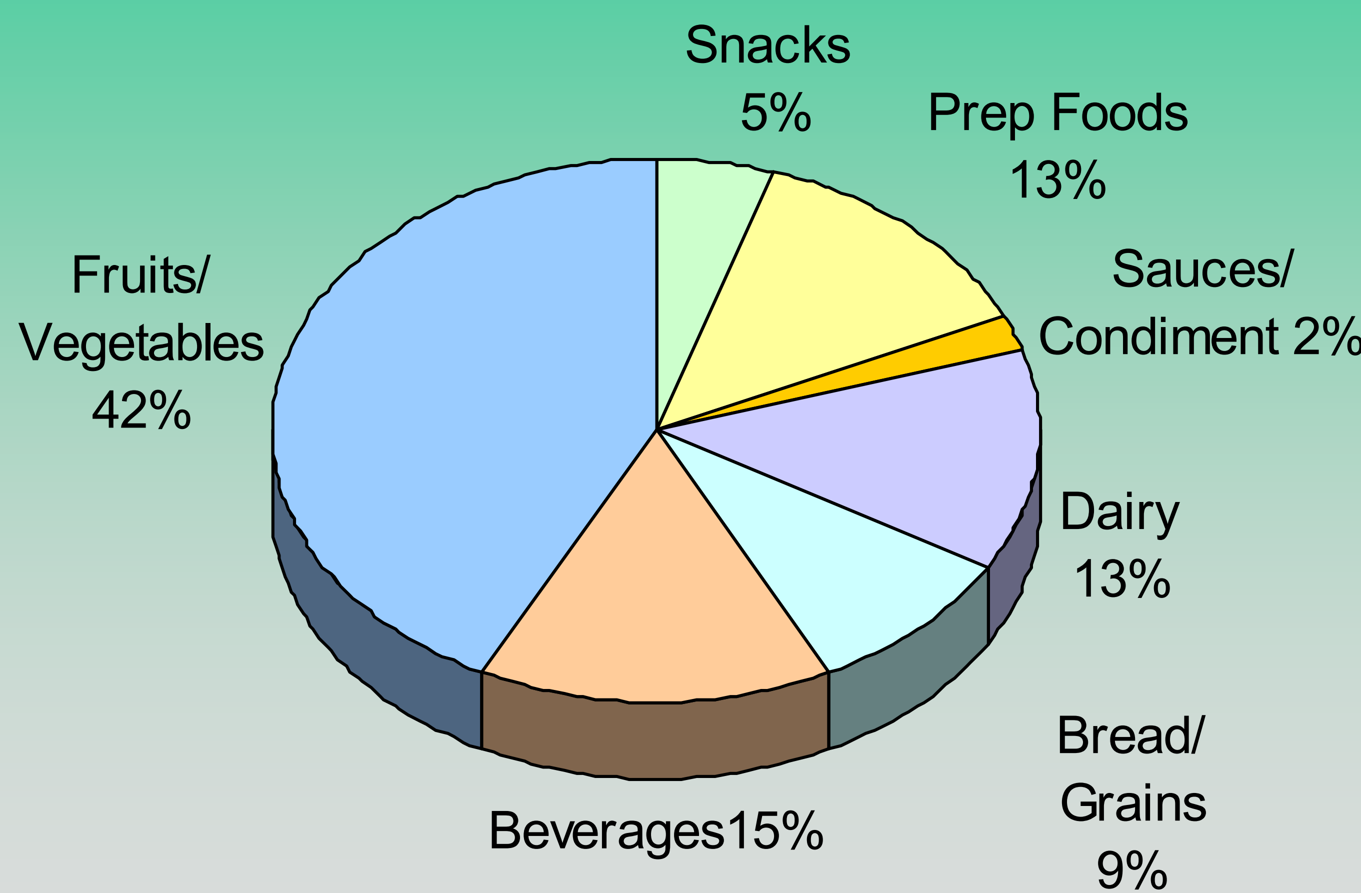
Organic Benefits

US shoppers believe organic foods are 'grown without pesticides', are 'chemical free', and are 'safer' for the environment, for farmers, and for consumers.
The value of organics is increasing as more consumers are willing to pay a 'slight premium for' organics, up 5 points from 2000.

Apply to organic foods	1990	1992	1994	1996	1998	2000	2002	Change
Grown without pesticides or herbicides	84%	86%	83%	82%	82%	74%	77%	↓ -7 pts.
Chemical or residue free	82%	84%	80%	81%	77%	69%	74%	↓ -8 pts.
Safer for the environment	81%	82%	82%	73%	75%	68%	71%	↓ -10 pts.
Safer for farmers	74%	77%	76%	68%	68%	60%	63%	↓ -11 pts.
Safer to eat	76%	76%	76%	68%	67%	59%	61%	↓ -15 pts.
Worth paying a slight premium for	**---**	**---**	**---**	**---**	**---**	**48%**	**53%**	**↑ +5 pts.**
More nutritious	60%	66%	63%	57%	54%	48%	46%	↓ -14 pts
Better quality	---	---	---	56%	51%	46%	49%	↓ -7 pts.
Fresher	49%	52%	52%	53%	45%	41%	42%	↓ -7 pts.
Better tasting	40%	34%	38%	49%	38%	34%	33%	↓ -7 pts.

Organic Sales

$10.4 Billion in US Organic Foods in 2003



Source: Nutrition Business Journal

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US Organic Sales and Growth Trends

- 2003 Sales
  - **$10.8 billion in 2003 ($10.4 billion in food, $440 million in non food), 20% growth**
- Growth rates
  - **Organic food growth @ 17% - 21% from 1997-2003, while food only grew at 2-4%**
  - **Expected to grow at 15 – 20 percentage points higher than foods**
- As a Percent of Total Food Sales
  - **Organic food penetration rose from .8% of total food sales (sales of $3.6 billion) to 1.9% of US food sales in 2003**
  - **Estimated to grow to 3.5% in next 5 years and 5 – 10% in next 10 years**

Organic Industry - Positive Influences

- Pioneered by small companies (farms, manufacturers and retailers) with a connection to environmental and social issues
- Becoming more "mature" yet striving to maintain integrity
- Greater vertical integration along any levels of supply chain
  - Organic produce distributors offering packaged salads
- Consolidation as large companies acquire successful small brands
  - Dean Foods buys Horizon and White Wave and creates new division with Dean National Brand Group (Marie's, Hershey's and Land O Lakes)
- Mass Marketers both buying brands and extending franchises
  - Frito Lay Organic Snacks
  - Campbell's Organic Tomato Juice
  - General Mills to go all whole grain by 2005

Organic Industry – Positive Influences

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- **Mass market manufacturers and retailers capitalizing on the "good for you" trend**

- **Organics playing a greater role in Private Label**
  - **Natural product stores' capitalizing on organic as part of their heritage and gaining mass market consumers**
    - **Whole Foods 365 Organics**
  - **Mass Market Retailers creating private label organic products (few brand leaders in organics)**
    - **Safeway Select Organics**
  - **Natural products retailers teaming up with mass market retailers**
    - **Wild Oats and Stop and Shop**

- **More farmland being converted into organic**

- **All levels becoming more professional**
  - **From Farmers to Retailers**

Consumer Perspective – Organics are Hot

- Awareness growing, especially with mainstream consumer
  - More trigger points hitting (pregnancy, children, illness, aging, safety concerns, peer advocacy)
  - Raising benefit profile
  - More advertised brands
    - Silk advertising over $20 million
- Greater retail accessibility
  - Mass market retailers offering more products
- More organic products available
  - In every food category as well as clothing fibers, pet foods, personal care, cleaning
- Addresses safety concerns
  - Mad Cow, avian virus, toxins in fish
- Higher Quality
  - Private label enhanced by organic aura
- Price Dropping (?)
  - Trader Joe organics sometimes cheaper
- Increased Confidence
  - USDA label

Hot Categories

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- Meat, poultry, seafood (livestock and aquaculture products)
  - Safety issues
  - Low carb fad
- Snack Foods
  - Newman's, Frito Lay
- Beer and Wine
  - Organic Vintners
- Cereals
  - Kashi Organic Promise
- Eggs
- Frozen and refrigerated foods
- Ready to eat
- Weight Management
- Body Care
- Beverages

Organic Benefits

Organic benefits are category specific for those consumers who are growing the organic category.

- **Purity:** This attribute is especially important in baby foods, pet foods, personal care products, herbal products and supplements.
- **Premium Quality:** This attribute is especially important in gourmet and specialty foods such as coffees, juices, pancake mixes, jams and other products featuring premium ingredients.
- **Wholesome Nutrition:** This attribute is especially important in nourishing foods such as pastas, cereals, crackers, vegetables and fruits.

Who's Buying Organic?

- **High Nutrition/Environmental Awareness:**
  Organic shoppers are significantly more likely than other shoppers to say their
  - **diet is very important (66% vs. 56%)**
  - **food choices are influenced by environmental issues (46% vs. 22%).**

- **Age is the Deciding Demographic:**
  Younger shoppers are the key market for organics.
  - **48% of shoppers 18-29, 43% of shoppers 30-39, and 42% of shoppers aged 40-49 are organic users.**
  - **69% of Organic Shoppers are under fifty years old.**

- **Vegetarian Aware Shoppers:**
  Consumers who choose organic ingredients are more likely than other shoppers to be eating:
  - **meatless meals at least twice a week (20% vs. 12%)**
  - **soy foods (31% vs. 10%)**
  - **meat substitutes (32% vs. 15%).**

Organic Product Use

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One in five US shoppers uses naturally raised meat or poultry once every two weeks or more often. About one in five uses organic produce or organic grains as often.

Use once every two weeks or more often	1994	1996	1998	2000	2002	Change
Naturally raised meat or poultry	19%	23%	24%	24%	24%	+5 pts.
Organic produce	18%	24%	24%	20%	21%	+3 pts.
Organic grains (pasta, rice)	17%	25%	21%	20%	19%	+2 pts.
Organic processed foods	15%	16%	18%	14%	12%	-3 pts.
Organic breakfast cereal	---	14%	12%	12%	15%	+1 pt.
Organic breakfast cereal (hot)	---	---	---	---	9%	NA
Organic breakfast cereal (cold)	---	---	---	---	10%	NA
Organic dairy	---	---	---	14%	16%	+2 pts.

Organic Defined

"…**An ecological production management system that <u>promotes and enhances biodiversity, biological cycles and soil biological activity</u>. It is based on minimal use of off-farm inputs and on management practices that restore, maintain and enhance ecological harmony.**

…**A labeling term that denotes products produced under the authority of the Organic Foods Production Act. The principal guidelines for organic production are to use <u>materials and practices that enhance the ecological balance of natural systems</u> and that integrate the parts of the farming system into an ecological whole.**

Organic agriculture practices cannot ensure that products are completely free of residues; however, <u>methods are used to minimize pollution from air, soil and water</u>.

Organic food handlers, processors and retailers adhere to standards that maintain the integrity of organic agricultural products. The primary goal of organic agriculture is to <u>optimize the health and productivity of interdependent communities of soil life, plants, animals and people</u>."

The Organic Foods Seal & Labels

1. **100 Percent Organic**

may carry USDA Organic Seal

2. **Organic**

at least 95% of content is organic by weight (excluding water and salt) and may carry the USDA Organic Seal.

3. **Made With Organic**

at least 70% of content is organic and the front product panel may display the phrase "Made with Organic" followed by up to three specific ingredients. (May *not* display new USDA Organic seal)

4. **Less than 70% of content is organic**
and may list only those ingredients that are organic on the ingredient panel with no mention of organic on the main panel.
(May *not* display new USDA

Organic seal)

Certification is the Backbone of Organic

Approximately 90 U.S. organic certifying agencies provide verification that growers, processors and handlers (including distributors and retailers) are complying with organic standards. These organizations have been approved by the USDA. Generally, these organizations certify within their own state or region, but a few provide services internationally.

The seal of a particular certification agency may appear on a food label in conjunction with USDA's organic seal. The appearance of a certifier's seal indicates that the certifier verifies the integrity of the organic ingredients listed on the product's ingredients panel through inspections, testing and documentation.

Fresh is a Key Driver

Fresh is a Key Driver

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‘Fresh’ is the most important label claim in all countries, globally. In Brazil, ‘grown without pesticides’ follows, whereas in Mexico and Australia ‘all natural’ claims are next.

‘Certified organic’ and ‘made with organic ingredients’ has more impact in Mexico, followed by Australia and Brazil.

Less than a third of the US are affected by ‘Certified organic’ labels.

There is a lot of room for growth!

Extremely/very important on labels	USA	Brazil	Mexico	Australia
Fresh	68%	72%	74%	76%
Grown without pesticides	**51%**	**71%**	**66%**	**46%**
All natural	37%	65%	72%	66%
Certified organic	**31%**	**42%**	**57%**	**46%**
GMO free	20%	50%	58%	31%
Made with organic ingredients	**NA**	**42%**	**59%**	**36%**

Brand Influences

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‘Containing organic ingredients’ is not a significant trial generator in the US.

Organic as a benefit for new products is significantly more important in Mexico, followed by Brazil and then Australia.

Extremely/very important influence to try a different brand	**USA**	**Brazil**	**Mexico**	**Australia**
Grown without pesticides	43%	63%	67%	59%
Contains only natural ingredients	32%	57%	72%	48%
Contains organic ingredients	**23%**	**38%**	**55%**	**33%**

Organic Benefits

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The most known organic attributes are 'without pesticides', 'chemical free', and 'safer for the environment'. While only half of US shoppers will pay the premium, almost three quarters or more in Brazil, Australia and Mexico will pay more.

	USA	Brazil	Mexico	Australia
Apply to organic foods (base of those who have heard about organics)				
Grown without pesticides or herbicides	**77%**	**81%**	**80%**	**92%**
Chemical or residue free	**74%**	**78%**	**76%**	**90%**
Safer for the environment	**71%**	**78%**	**79%**	**89%**
Safer for farmers	63%	74%	75%	82%
Safer to eat	61%	75%	79%	80%
Worth paying a slight premium for	**53%**	**73%**	**82%**	**73%**
More nutritious	46%	71%	76%	70%
Better quality	49%	74%	71%	65%
Fresher	42%	71%	77%	55%
Better tasting	33%	67%	70%	56%

Choosing Organic Foods

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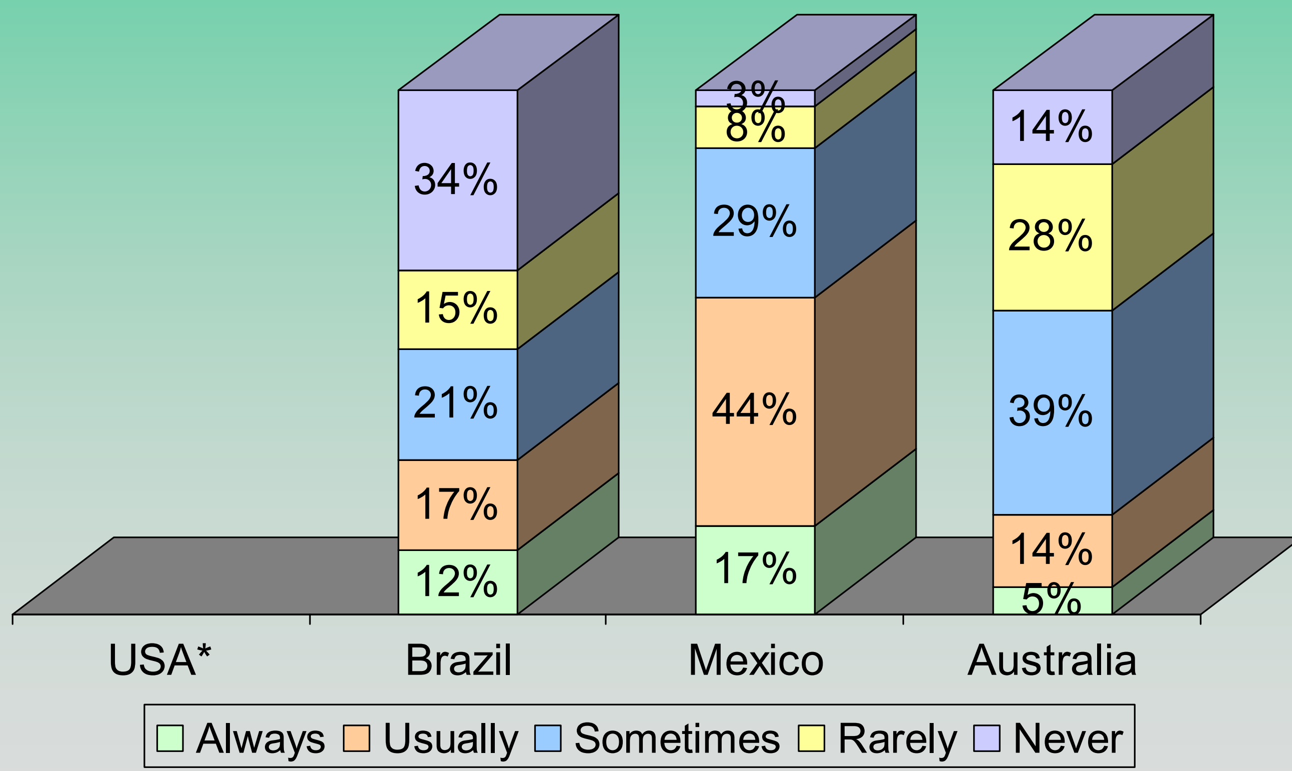
Mexican shoppers are most likely to choose products because they contain organic ingredients. Over a third of Brazilians make this choice and less than 20% of Australians always/usually make this choice.



Choose foods/beverages because they are made with organic ingredients

*Question not asked in the USA

Increasing Use of Organics

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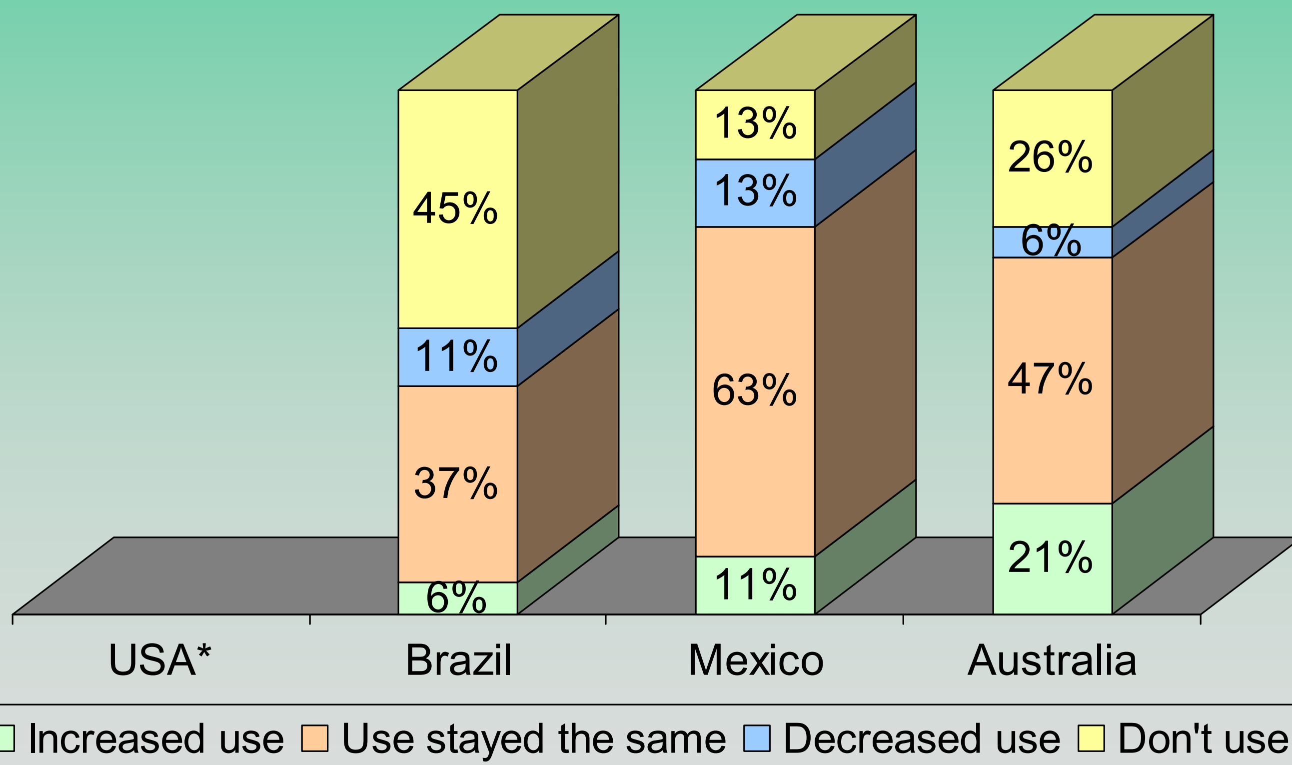
Australians are using more organics. Organic Use in Australia has increased to over 20% in the last two years, compared to only 6% in Brazil and 11% in Mexico.



In the past two years have you increased or decreased your use of organic foods?

***Question not asked in the USA**

Organic Usage

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In all markets, a significant opportunity exists to continue to increase the penetration and frequency of use or organic products, particularly organic cereal and dairy.

How often do you use:	USA	Brazil	Mexico	Australia
Organic cereal				
Twice a week or more	7%	3%	11%	11%
Once a week	4%	5%	16%	6%
Once every two weeks	4%	4%	20%	6%
Once a month or less	12%	13%	21%	16%
Don't use	84%	76%	32%	61%
Organic dairy				
Twice a week or more	7%	3%	13%	6%
Once a week	5%	7%	23%	5%
Once every two weeks	4%	6%	18%	7%
Once a month or less	8%	14%	18%	13%
Don't use	76%	70%	29%	70%

Fresh is a Key Driver

Like other shoppers, 'fresh' is a key driver for these markets as well.
Italians are most concerned about 'fresh', 'natural' and 'organic' label claims.

Extremely/very important on labels	**France**	**Germany**	**Italy**	**UK**
Fresh	57%	66%	70%	64%
GMO free	50%	51%	51%	32%
Grown without pesticides	48%	62%	73%	48%
All natural	36%	31%	61%	33%
Certified organic	**23%**	**24%**	**40%**	**16%**
Made with organic ingredients	**22%**	**33%**	**41%**	**17%**

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‘Containing organic ingredients’ is a trial generator for around a third of shoppers in in Italy and Germany, less so in France and the UK.

Extremely/very important influence to try a different brand	France	Germany	Italy	UK
Grown without pesticides	44%	55%	59%	42%
Contains only natural ingredients	38%	37%	49%	35%
Contains organic ingredients	**24%**	**31%**	**35%**	**19%**

Organic Benefits

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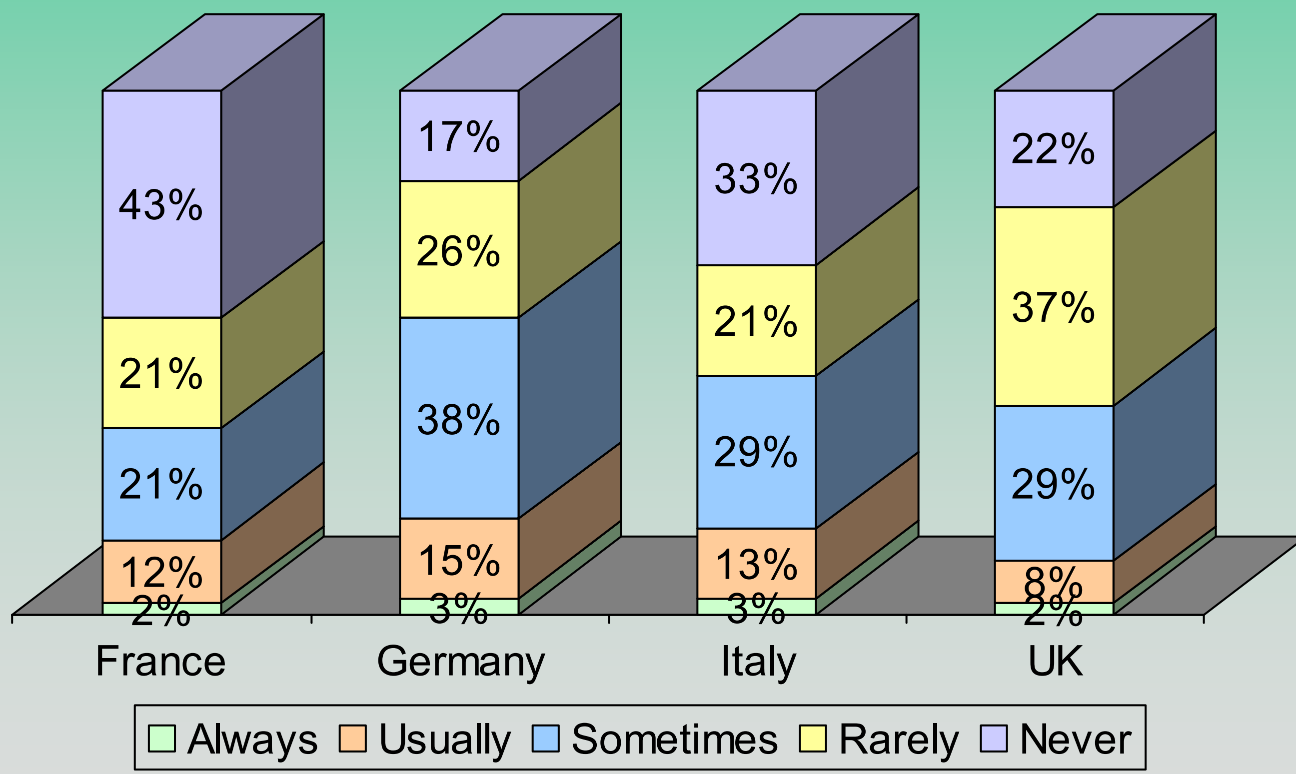
German shoppers are more likely to attribute many benefits to organic foods. They are also more likely to consider organics 'worth paying a slight premium for'. Around two thirds of Italians and France feel organics are worth more, whereas just more than half of Britain shares this belief.

	France	Germany	Italy	UK
Apply to organic foods (base of those who have heard about organics)				
Grown without pesticides or herbicides	**86%**	**93%**	**83%**	**88%**
Chemical or residue free	**77%**	**79%**	**81%**	**81%**
Safer for the environment	**87%**	**87%**	**84%**	**78%**
Safer for farmers	69%	64%	80%	74%
Safer to eat	69%	84%	76%	66%
Worth paying a slight premium for	**61%**	**79%**	**63%**	**53%**
More nutritious	27%	70%	53%	55%
Better quality	73%	78%	75%	53%
Fresher	37%	59%	54%	46%
Better tasting	56%	61%	48%	51%

Choosing Organic Foods

German shoppers are more likely to make food choices because they are made with organic ingredients. They are followed by Italy, the UK and France.



Choose foods/beverages because they are made with organic ingredients

Increasing Use of Organics

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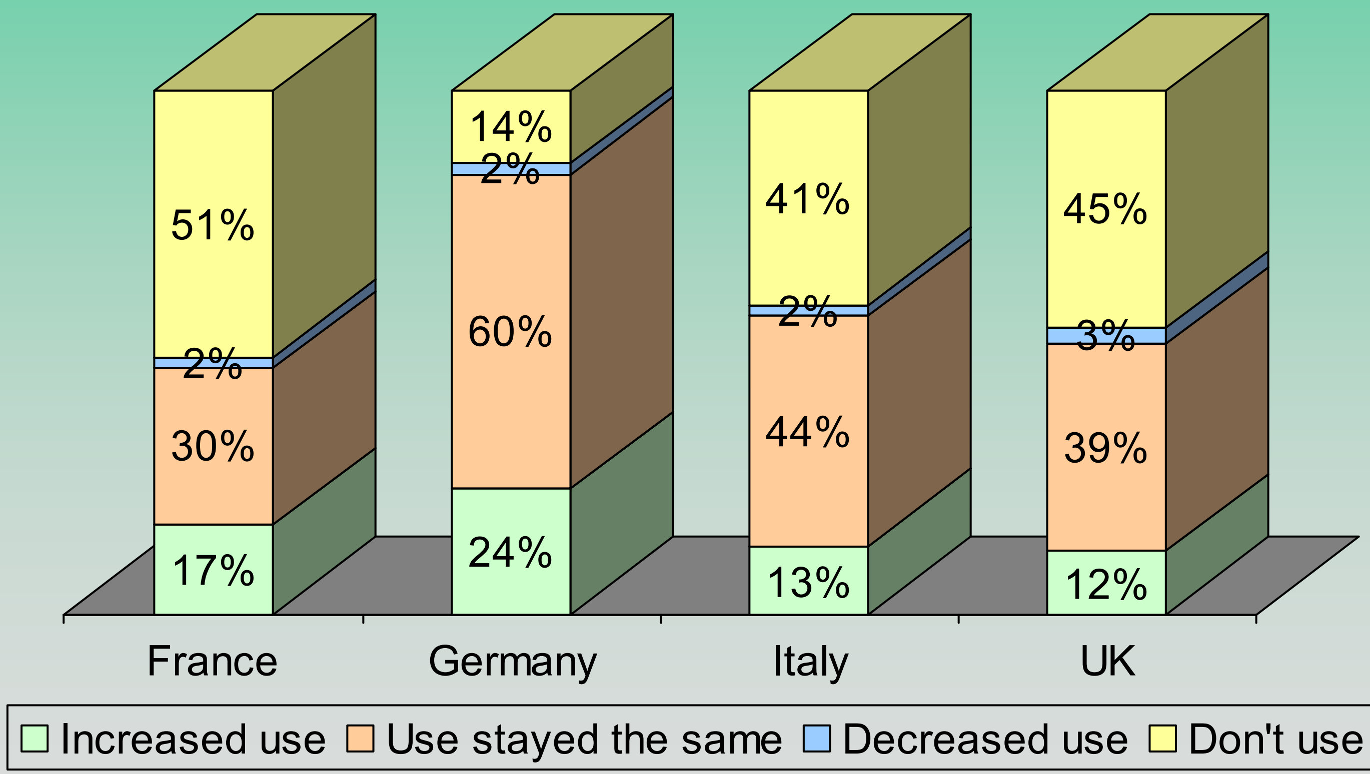
It's encouraging to see that these Europeans are increasing their use of organic foods. Germany is leading the way, followed by France and then Italy and the UK.



In the past two years have you increased or decreased your use of organic foods?

Organic Usage

**There is significant room for growth.
Once a week or more usage of organic cereal and dairy is just over 20% in Germany and is less than 10% in France, Italy and the UK.**

How often do you use:	France	Germany	Italy	UK
Organic cereal				
Twice a week or more	5%	8%	3%	4%
Once a week	2%	14%	5%	5%
Once every two weeks	4%	14%	4%	4%
Once a month or less	4%	21%	10%	9%
Don't use	85%	43%	79%	78%
Organic dairy				
Twice a week or more	4%	11%	3%	4%
Once a week	5%	12%	5%	5%
Once every two weeks	4%	12%	5%	5%
Once a month or less	11%	21%	11%	9%
Don't use	76%	44%	76%	77%

Factors Driving Organic Agriculture

- Soil Health & Fertility
- Ground Water Protection
- Reduction of Exposure to Toxic Chemicals
- Conserve and Promote Species Diversity
- Energy Savings
- Increased Nutritional Value
- Increased Consumer Choice

Trends Supporting Growth

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Consumer Trends Supporting Natural and Organic Growth

- Entitlement to Quality
- Importance of Fresh
- Reliance on Label & Content Claims
- Demand for Gourmet, Ethnic Foods
- Interest in Point of Origin
- Increased Access to Natural & Organic
- Values-based Consumption
- Values Alignment with Consumer

In Summary

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In Summary…

- Consumers Want Quality Products (Fresh, Healthy, Natural, Organic, Point of Origin)
- Increased Consumer Access to Natural and Organic Foods Will Drive Growth
- Label Content <u>Does</u> Matter
- There are Numerous Ways to Create Product Differentiation
- Values-based Consumers are Core Natural and Organic Foods Customers
- Alignment of Corporate Values with Consumer Values Builds Brand Equity

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THANK YOU!

- **For more information, please visit the HealthFocus website at:**

  www.healthfocus.com

- **For information about research reports or the *2003 HealthFocus International Trend Survey*, please call:**

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