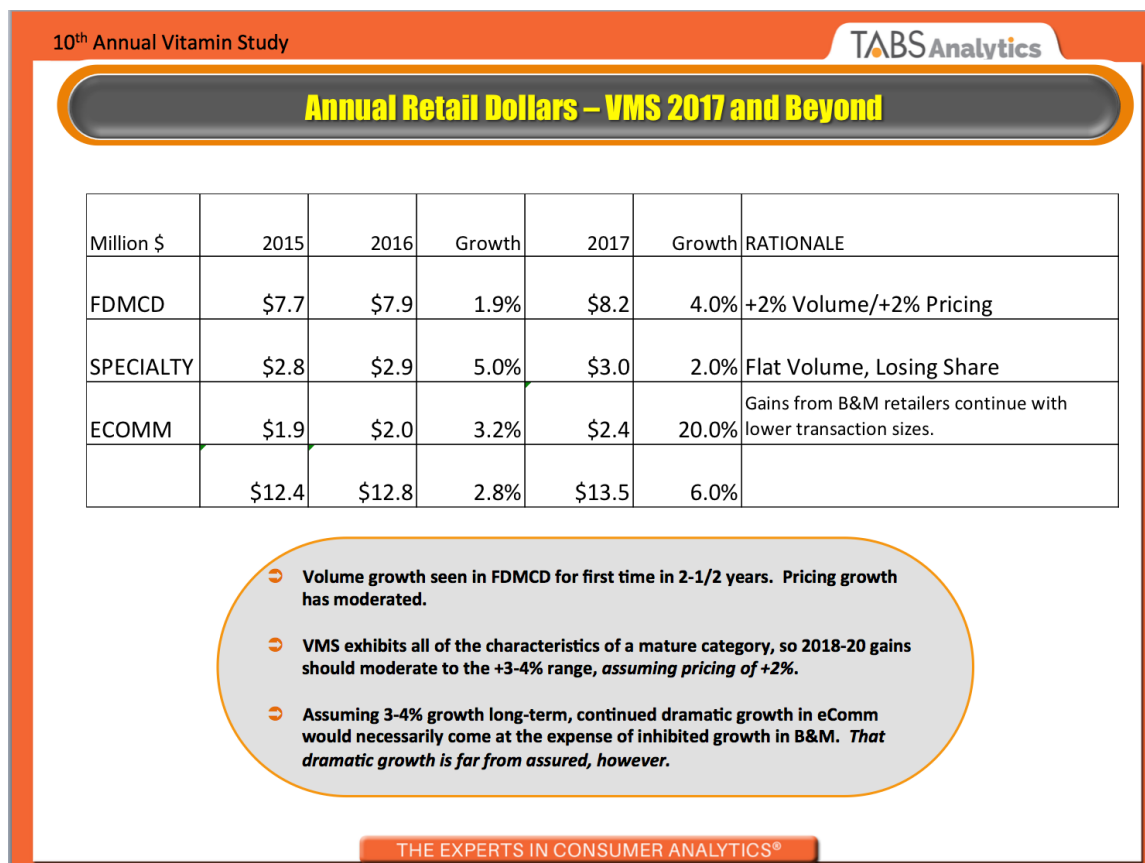


2017 TABS Analytics 10th Annual Vitamins, Minerals and Supplements Study

Executive Summary

In Spring 2017, TABS Analytics conducted a comprehensive survey to understand shopping patterns for the \$13.5 billion Vitamins, Minerals and Supplements (VMS) market. TABS sought to examine trends regarding what types of vitamins, minerals and supplements are purchased, how frequently they are purchased and the outlets at which they are purchased.



With the benefit of 10 years of data, this report offers validated insights on long-running trends in the VMS market.

Key Findings

- **ECommerce sales are strong and growing** – Online sales for VMS grew dramatically, but not at the expense of brick and mortar retailers. In fact, web sales by brick and mortar retailers fueled significant gains in this channel, led primarily by Walmart.
- **VMS category shows signs of maturity** – Over the past several years, growth has been modest, with the exception of the recent surge in eCommerce. There have been no new types of VMS products that have exhibited sustained growth, and channel shifts have moderated overall.
- **VMS sales volume surges** – VMS category purchase penetration reached an all-time high for the TABS study. Following two years of relatively flat growth, VMS sales volume increased slightly as a result of greater purchasing by heavy buyers and higher penetration from those who purchased just one or two types of products regularly.
- **Heavy buying gains momentum** – Heavy buying increases were driven by very heavy buyers who purchase more than six types of VMS products, younger buyers (ages 18-54) and women.
- **Income not a deciding factor** – Unlike in the baby products market and other CPG categories, income doesn't have a material impact on VMS purchases, except in the lowest income group.
- **Adult multivitamin reverses declines, with niche products making first-time appearances** – Adult multivitamins increased last year, reversing a three-year decline. This year's survey also includes two new categories - hair/skin/nail multivitamins and brain supplements.

Methodology

TABS Analytics conducted a survey to learn about the VMS market. The survey panel included 1,010 geographically and demographically dispersed consumers. TABS worked with the Caravan Panel of ORC International. This was the 10th year that the VMS survey was conducted. It was first conducted in spring 2005 and was later conducted in 2008, and has now been done every year since 2010.

The goal of the survey is to discover:

- How many types of vitamins and nutritional supplements did consumers purchase?
- What types were purchased, and which were purchased regularly (three or more times per year)?
- At which outlets do consumers purchase vitamins regularly?

VMS Survey Glossary

Channel – The outlet in which a VMS product is sold.

FDMCD – Food, drug, mass-market, club and dollar stores.

Mass market – Same as FDMCD.

Online – The online retailers selling VMS products. These include pure play (those without a brick and mortar presence, such as Amazon), as well as the online extension of a brick and mortar retailer (Walmart.com, Target.com, etc.).

Share – The share of occasion, in the sense of how often consumers buy via a particular channel. This specifically does not mean market share or share of wallet. It is strictly a measure of frequency. There is a high correlation between share of occasion as identified by the panel and validated share of occasion in the market data, making this a highly reliable metric to use in calculating an additional metric, "share of outlet mentions."

Specialty brick and mortar – Nutritional specialty stores (such as GNC), natural food stores, catalogue, multilevel marketing, practitioners, military and other.

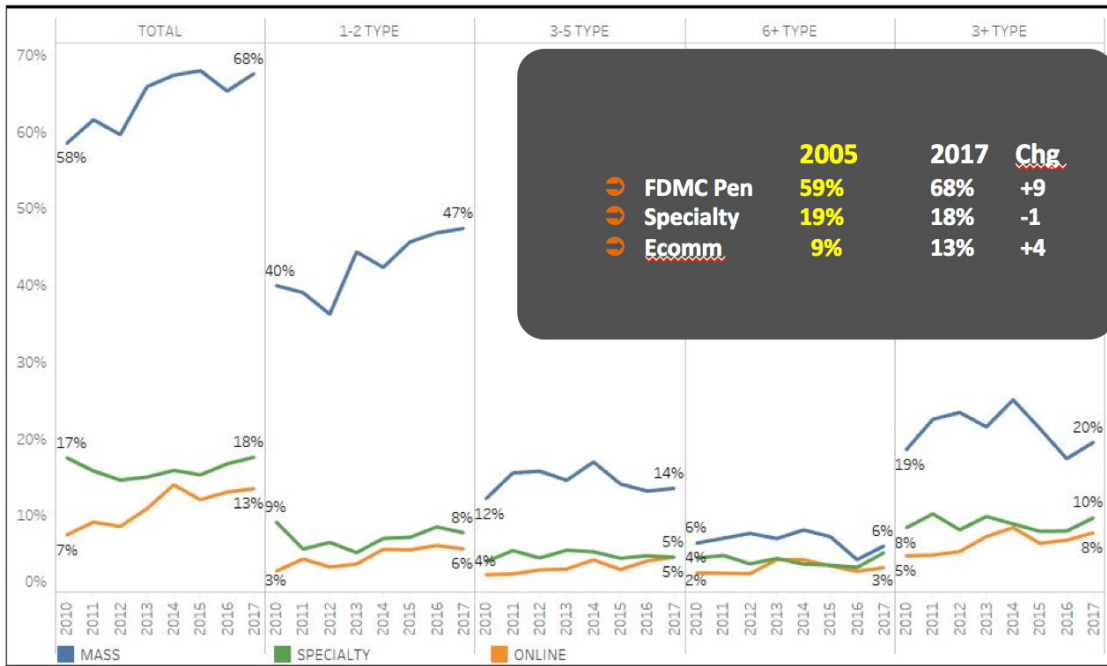
Type – A specific segment or form within the VMS category.

VMS – Vitamins, minerals and supplements, as defining the category.

eCommerce Grows, But Not to the Detriment of Brick and Mortar

While many may lament that eCommerce is replacing brick and mortar sales, this is not the case in VMS, which continues to see growth in both channels.

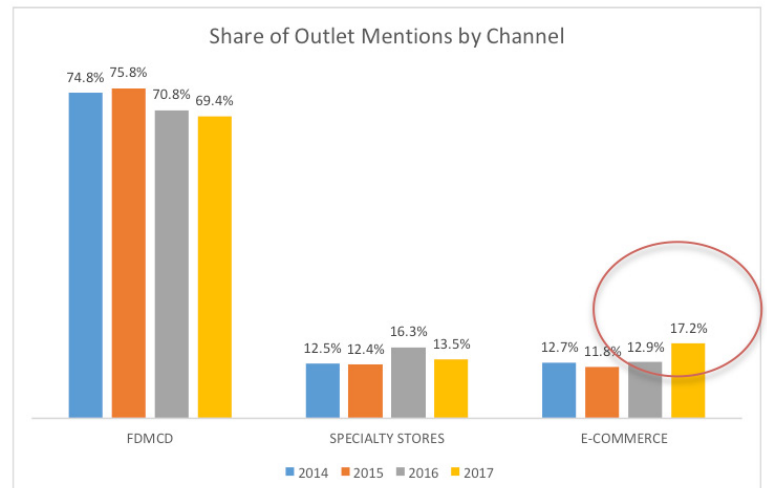
Channel Penetration by Buyer Group



Mass market VMS sales have continued to grow, with a 9 percent increase in the 10 years this survey has been conducted. Mass market accounted for 59 percent of sales in 2005, and has grown to 68 percent in this year.

Online VMS sales also grew dramatically. ECommerce accounted for just 9 percent of sales in our first survey, but has grown to 13 percent this year. However, it was not at the expense of brick and mortar retailers. Much of the gain in online sales was fueled by Walmart, which has not only picked up substantial eCommerce share in VMS, but also in baby products, as seen in our study earlier this year. Walmart’s growing importance in the online channel is corroborated by its recent earnings report, which **showed its online sales rising 63 percent** in the company’s first fiscal quarter.

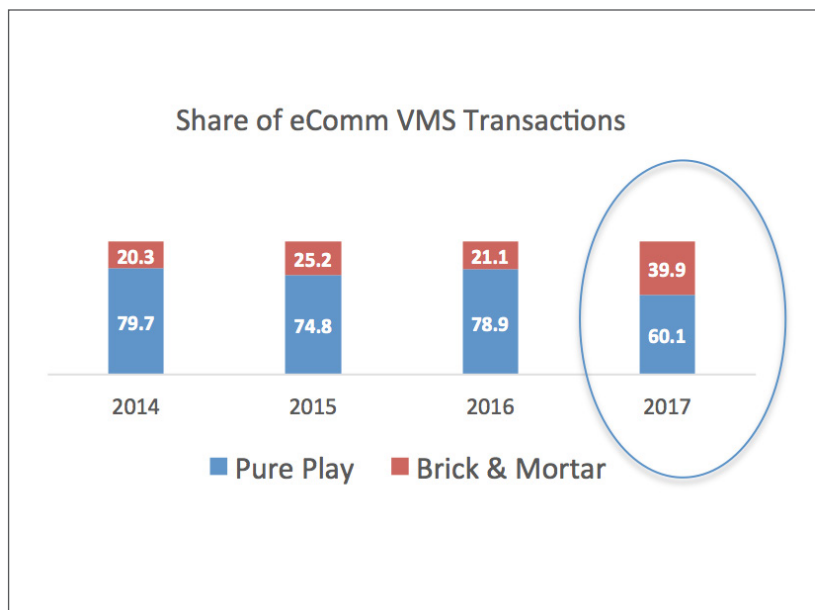
All totaled, eCommerce penetration has nearly doubled since 2010, with share now at 17 percent.



In terms of the eCommerce mix between pure play and brick and mortar, pure play channels are dropping as a percentage of transactions, from nearly 80 percent in the past to 60 percent in 2017.

While Amazon saw the number of VMS transactions rise, it lost share as these gains weren't able to keep pace with traditional retailer websites. Among brick and mortar retailers, Costco was a winner in terms of share of mentions – growing to nearly 8 percent – thanks to the generally larger transaction sizes.

Losers in share of mentions included CVS, down to 9.1 percent; food retailers, dropping to 7.8 percent; and Vitamin Shoppes, which saw an anomaly in 2016 with a 1 percentage point bump tied to promotional deals, but dropped back to a 2 percent share in 2017.



VMS Showing Signs of Maturity

Over the 10-year course of this study, there have been some noticeable ups and downs – particularly from 2010 to 2013. However, in the past four years, growth overall has been modest, with the exception being the recent surge in eCommerce. Overall category penetration has seen a slight uptick, but we do not expect to see gains in the near future exceed the 4 percent range.

Other signs of market maturity include the fact that no major new types of VMS are sustaining demonstrable growth, and channel shifts seem to have moderated.

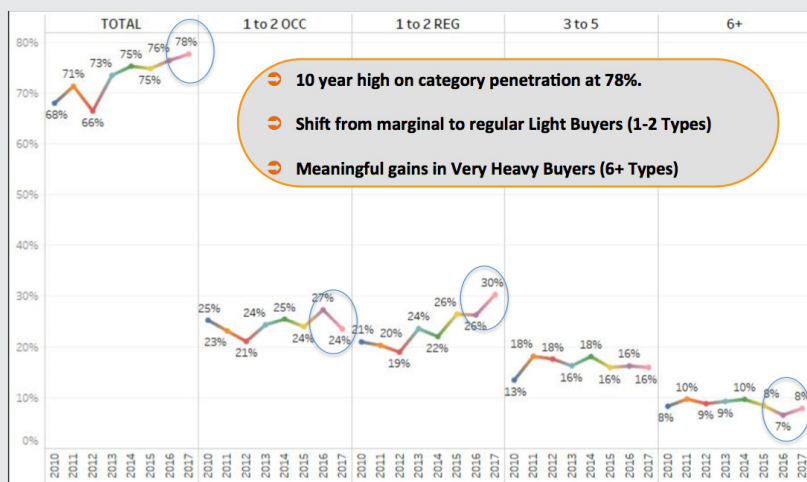
VMS Sales Volume Surges

Hitting 78 percent this year, the VMS category reached an all-time high for the TABS study.

Following three years of relatively flat growth, VMS sales volume have increased 2 percent as a result of greater purchases by heavy buyers, which we will discuss in greater detail in the next section.

The sales growth also was stimulated by a higher penetration of those who purchased just one or two types of products regularly. This group showed a 4 percentage point growth, from 26 percent of sales last year to 30 percent in 2017.

Category Penetration by Number of Types Purchased



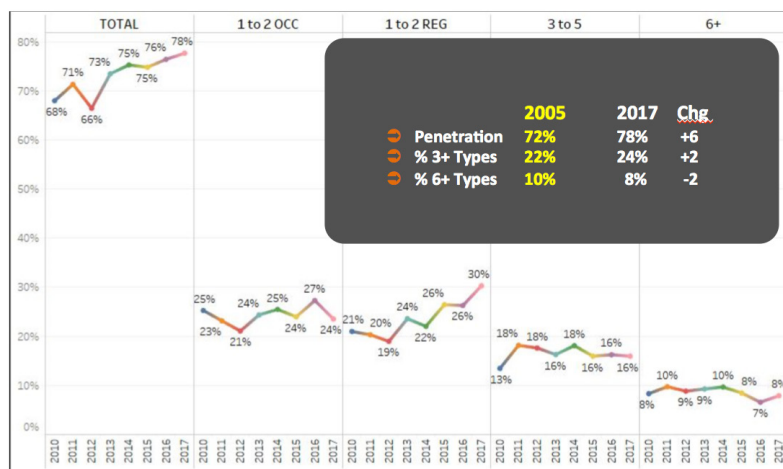
- 10 year high on category penetration at 78%.
- Shift from marginal to regular Light Buyers (1-2 Types)
- Meaningful gains in Very Heavy Buyers (6+ Types)

Momentum Grows Among Heavy Buyers

There were three segments that attributed to the increase in sales volume by heavy buyers:

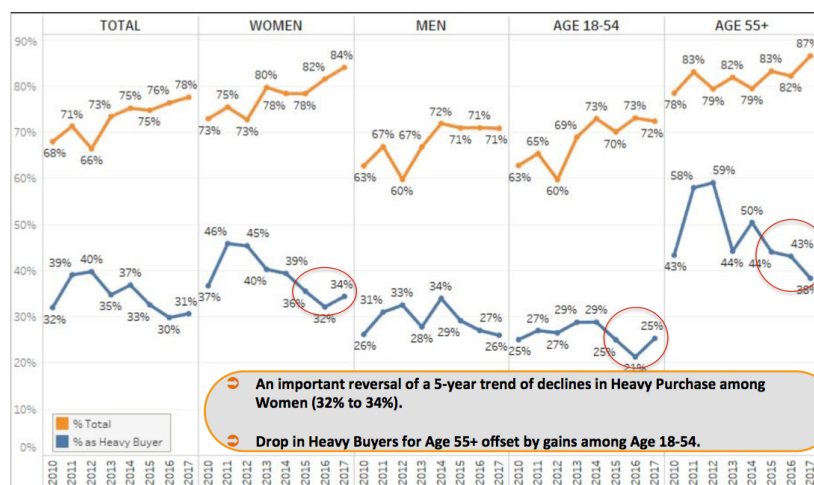
- **Very heavy buyers** - Those who purchase more than six types of VMS products increased to almost 8 percent of adults, from 6.6 percent last year.

Category Penetration by Number of Types Purchased



- **Buyers ages 18-54** - This age range saw an increase of 4 percentage points, growing to 30 percent in 2017.
- **Women** - This year marked a reversal in the five-year decline in heavy purchasing by women, growing to 34 percent from a low of 32 percent in 2016.

Category Penetration and Regular Purchasing by Age and Gender

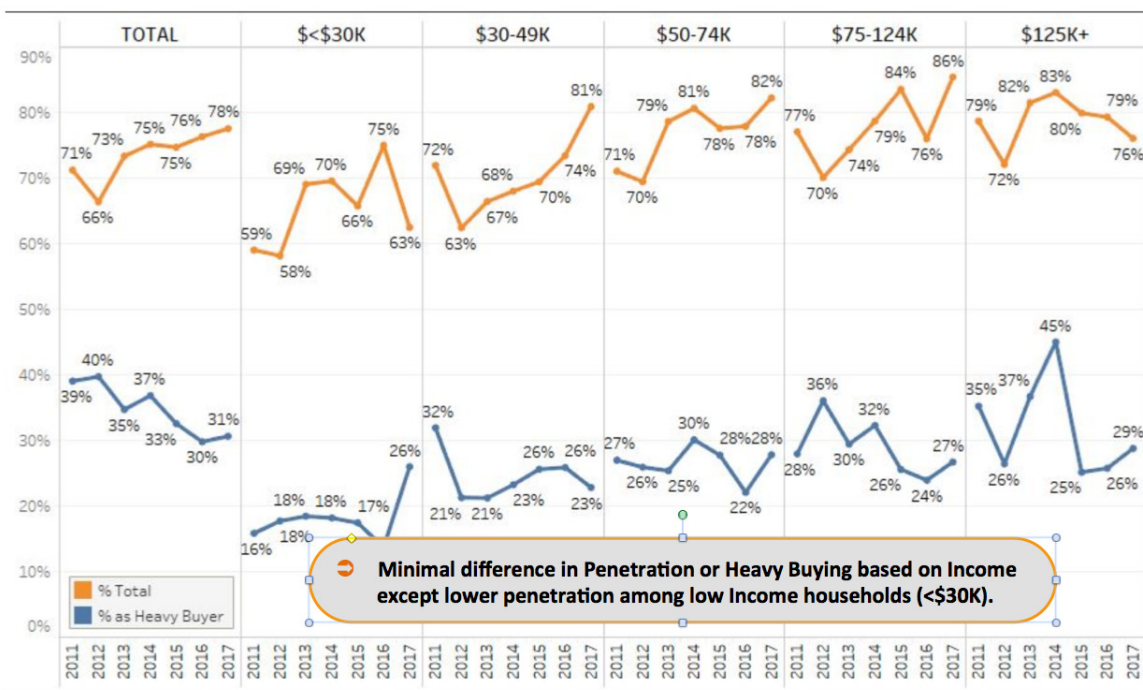


The combination of growth in heavy purchasing by those ages 18-54 and women, offset the losses seen in the age 55+ group, which declined 5 percentage points year-over-year.

Income Not a Factor in Purchasing Decisions

In our 2017 Baby Product Study, we found that affluent customers - those with income of \$150,000 or more - were the only group to show increases in penetration, while all other income levels declined by double digits. This trend - which we refer to as the bifurcation of the market - is also seen in other CPG categories.

Category Penetration and Regular Purchasing by Income

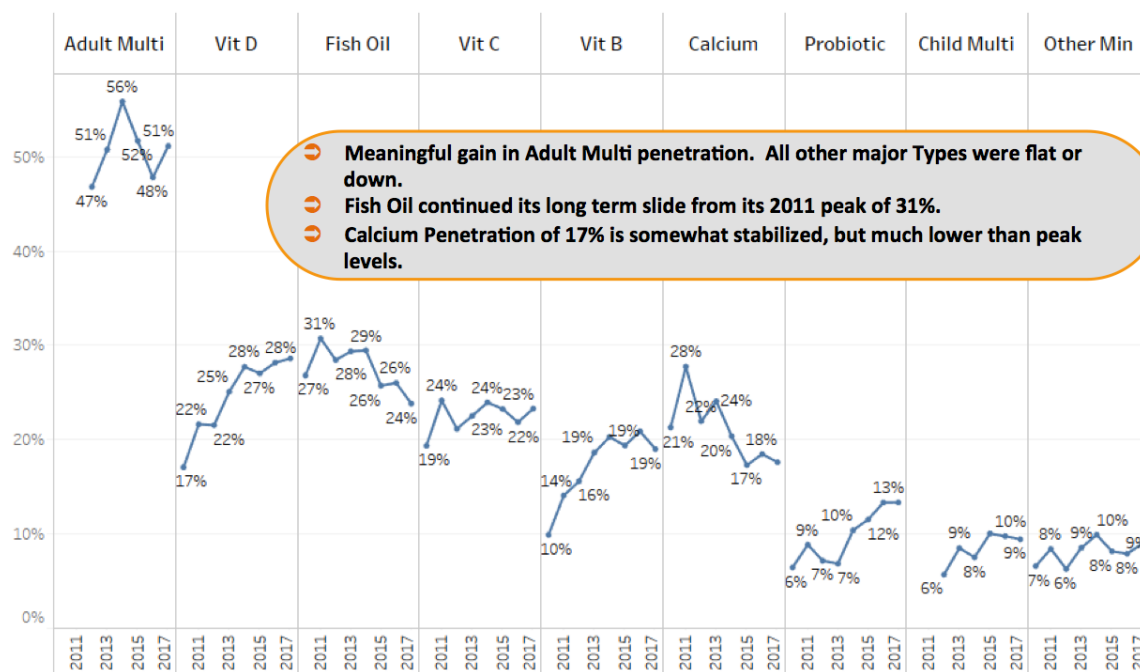


However, here, we find that income doesn't have a material impact on VMS purchases overall. There was a minimal difference in penetration or heavy buying based on income, except lower overall penetration for those with incomes under \$30,000, which experienced year-over-year declines of 8 percent, but an increase of 9 percent in those who were heavy buyers.

Adult Multivitamin Reverses Declines and Niche Products Make First-Time Appearances

Since 2013, adult multivitamin penetration was on a downslide due to some bad press around efficacy studies. However, more segmentation around specific users (men, prenatal, women, etc.), has reversed the trend this past year as penetration grew to 51 percent, up 3 percentage points from last year.

Penetration by Type



Also seeing a comeback was Vitamin E and melatonin. Vitamin E grew 2 percentage points to reach 9 percent in 2017, thanks in part to greater sales to those ages 18-54. Melatonin saw an uptick this year, after hitting a high-water mark of 8 percent in 2014, then declining in 2015. This stabilization at around 8 percent is another sign of maturity in the market. Many other products – like calcium, probiotics, joint relief and child multivitamins – were stable in terms of penetration, which is common in a more mature market as well.

In this year’s survey, we began tracking two new types of VMS – hair/skin/nail multivitamins and brain supplements. With 8 percent penetration, hair/skin/nail was on par with melatonin, while brain supplement purchasing was very low, at 2 percent.

Conclusion

- VMS is a bellwether category for eCommerce success in CPG, with share now approaching 20 percent.
 - A major factor in eCommerce growth is the surge of brick and mortar retailers – predominantly Walmart – that have seen dramatic increases in their online VMS sales. TABS Analytics expects that brick and mortar retailers offering VMS products online will be the eCommerce growth driver, not Amazon.
 - While Amazon saw VMS transactions rise, it lost share because its gains did not keep pace with retailer websites.
- eCommerce growth is not going to come at the expense of brick and mortar retailers.
 - Share winners – Costco, retailer websites
 - Share losers – CVS, food retailers
- VMS volume sales have turned around – growing after two flat years. Gains appeared to result from a resurgence of heavy buyers (those who buy 3 or more types of products) – including those who buy 6+ types of products, an increase in younger buyers and a turnaround in purchasing among women. Higher penetration from committed, marginal buyers (1-2 types of products regularly) also impacted sales volume.
- VMS category is showing signs of maturity and is becoming more mainstream.
 - The channel is shifting out of specialty outlets to mass market and online. In addition, we see a greater contribution to sales from lighter buyers, rather than the heavy buyers who may typically dominate growing markets. Further, no major new types of products have shown signs of sustained growth.

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