The NAMA Show 2018
Meet with Convenience

MARCH 21-23
LAS VEGAS
CONVENTION CENTER

Absolutely Everything "Healthy" For Your Micro Market

Dave Grotto and John Hostetler, Kellogg Company

Where People, Products & Possibilities Meet

Your Presenters

David Grotto, MS, RDN, LDN - ***Senior Nutrition Manager, Specialty Channels and Frozen Foods***

John Hostetler – ***Director Category Management & Business Insights, Specialty Channels***

Agenda

- What is Health and Wellness?
- Shifting Consumer Behavior and Trends
- Building Your Store to Activate and Attract H&W Consumers – Focus on Bars

Agenda

What is Health and Wellness?

Definitions

"Health & Wellness": "...a state of complete physical, mental, and social well-being, and not merely the absence of disease or infirmity."
- *The World Health Organization*

"Better-for-you": No known definition

"Natural": FDA has not developed a formal definition for use of the term "natural"

"Healthy": While FDA is considering how to redefine the term "healthy" as a nutrient content claim, food manufacturers can continue to use the term "healthy" on foods that meet the current regulatory definition.

http://www.fda.gov/AboutFDA/Transparency/Basics/ucm214868.htm
https://www.fda.gov/downloads/Food/GuidanceRegulation/GuidanceDocuments RegulatoryInformation/UCM521692.pdf

The Evolution of Health & Wellness

WHERE WE STARTED	WHERE WE WERE	WHERE WE ARE	WHERE WE ARE GOING
			
Physical Fitness	Transparency	Personal Monitoring	Proactive Solution

NPD/CultureWaves®

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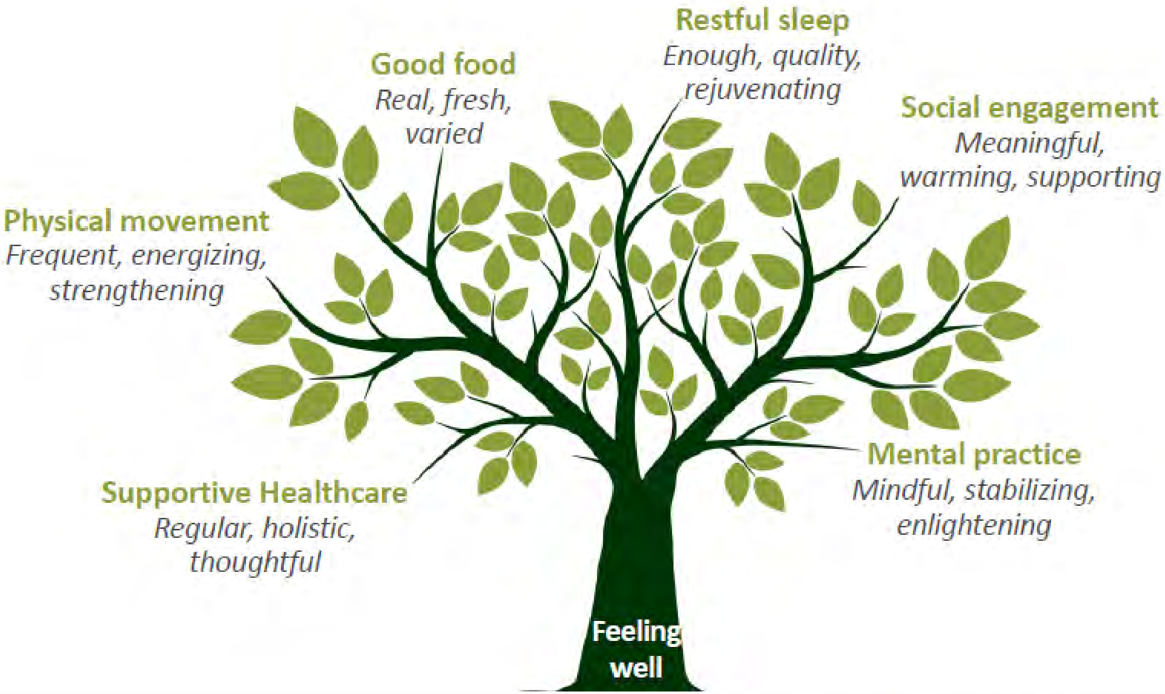
Consumers Increasingly See Health & Wellness as a Means of Nourishing a Complex Ecosystem



The Hartman Group Health & Wellness 2017 Study

What Does Health and Wellness Mean To People

Top 6 Traits People Mention When Talking About Health & Wellness

Not Being Ill

Feeling Good About Oneself

Being Physically fit

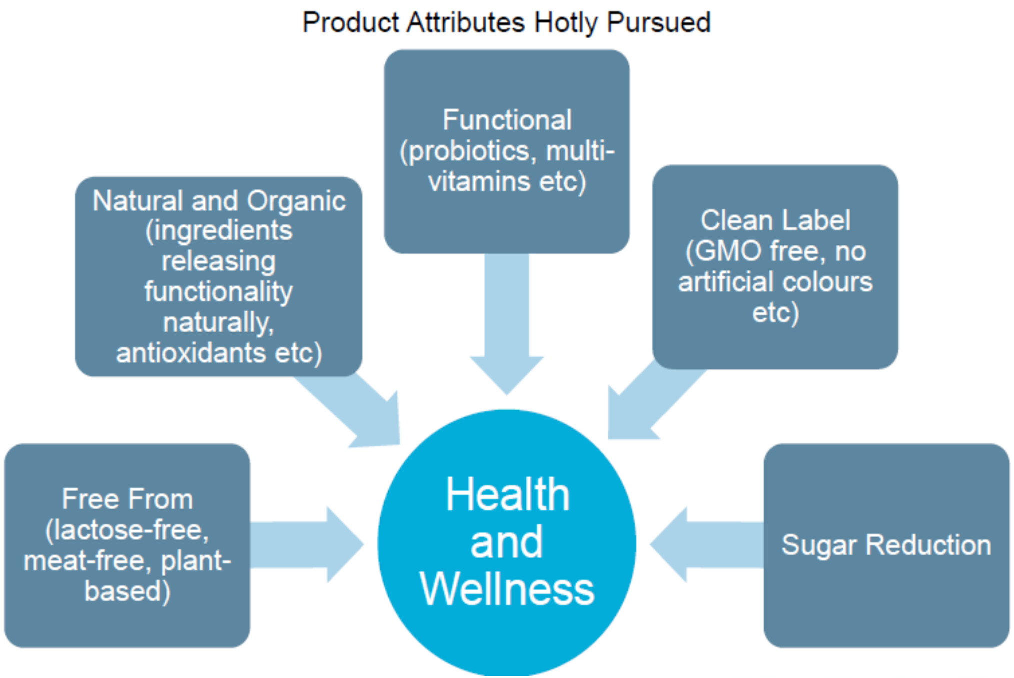
Balanced Lifestyle

Having More Energy

Reducing Stress

The Hartman Group Health & Wellness 2017 Study

Health & Wellness as it Applies to Food



© Euromonitor International 2017

Agenda

Shifting Consumer Behavior and Trends

Transparency is Key in Shopper Decision Making

94%

Nearly all respondents (94 percent) say it is important to them that the brands and manufacturers they buy from are transparent about what is in their food and how it is made.

N=1500. The 2016 Label Insight Food Revolution Study by Labelinsight

"Healthy" Eating Today is About Consuming Natural, Authentic Foods

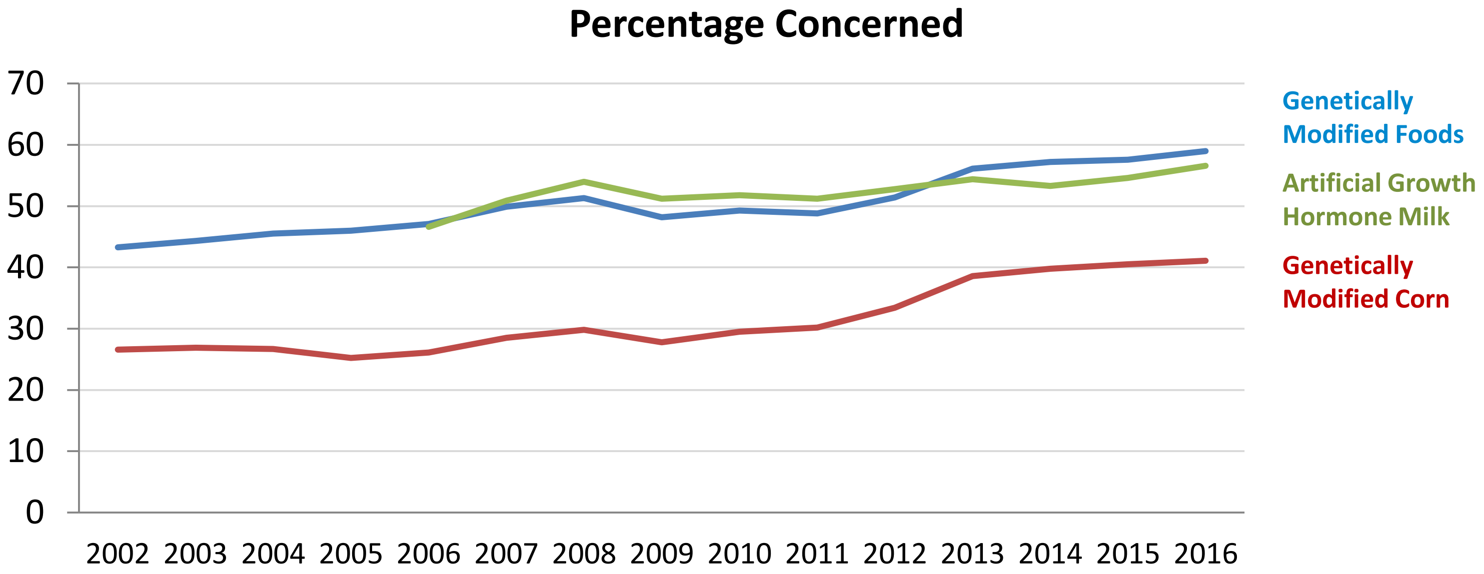
All Natural or Natural Ingredients

32%	33%	36%
2015	2016	2017

36% of eating occasions include at least one item labeled as all natural or made with natural ingredients

The NPD Group/Dieting Monitor

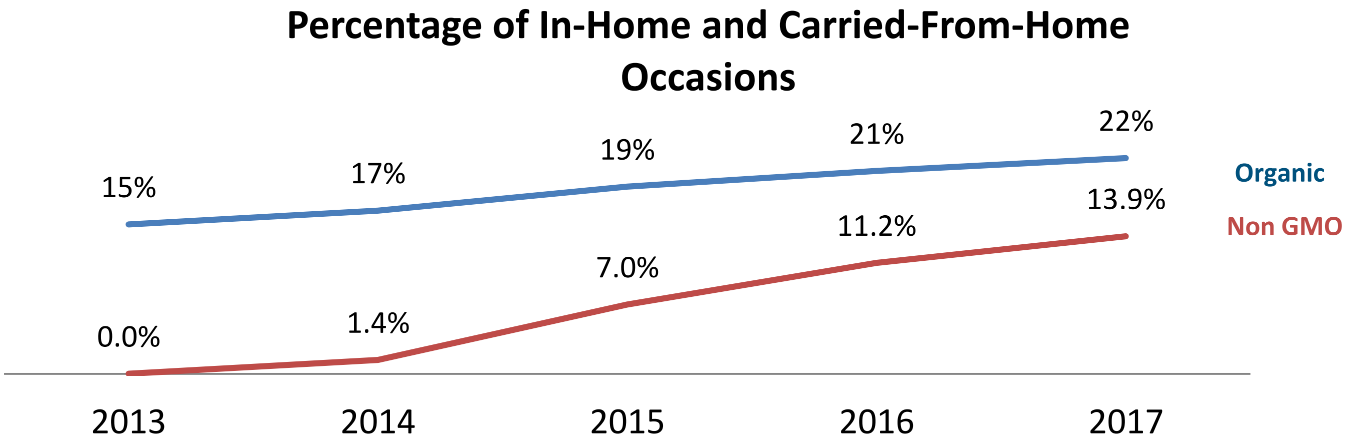
More Desire for Purity and Authenticity in Foods



The NPD Group/Food Safety Monitor '08 – '16

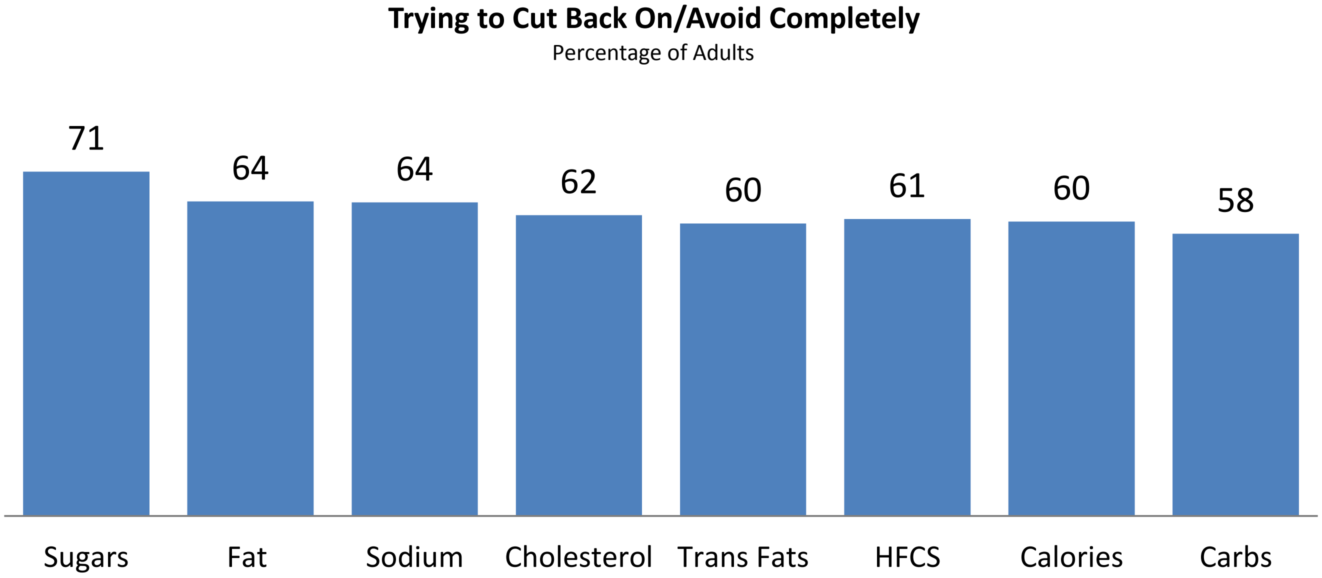
Consumers also Define Authenticity and Purity by Organic or Non-GMO Labels

These are the fastest growing special labels



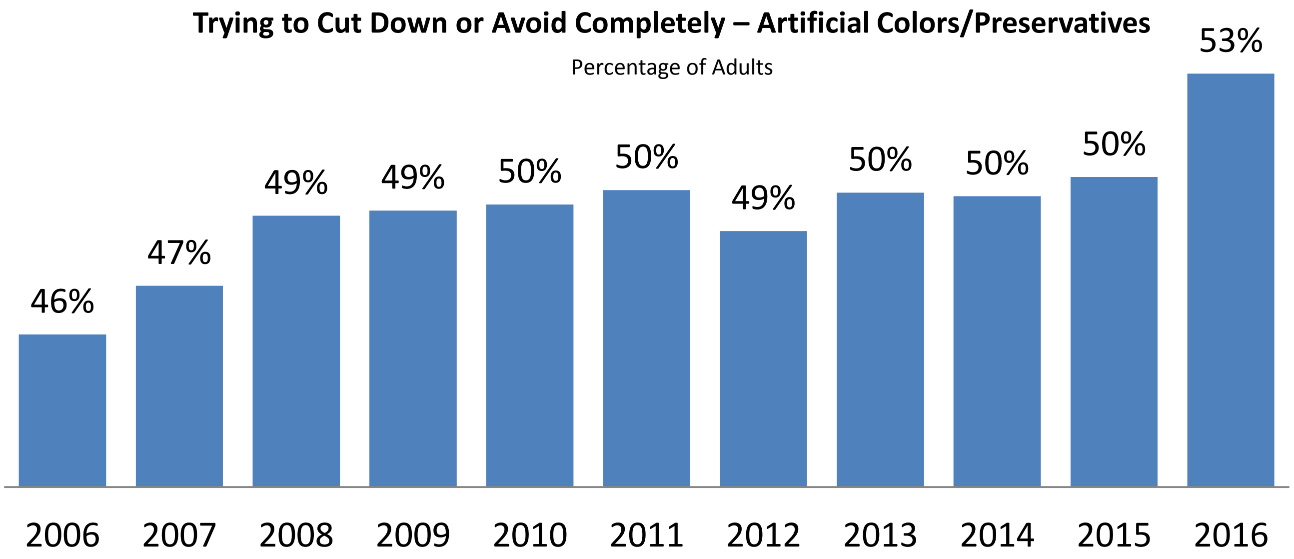
The NPD Group/National Eating Trends®, Years ending February '13-'17

The Leading Elements Consumers Want to Reduce or Avoid



The NPD Group/Dieting Monitor, YE February 2017

Consumers Seek to Avoid Artificial Ingredients



The NPD Group/Dieting Monitor, Years ending December

Americans are Concerned about Sugar, but Consume their Fair Share

Calories used to be the top item on its own, but adults are now looking for sugar on the nutrition facts label more often.

25-37.5g* Recommended number of grams of sugar/day per AHA

82g* Actual grams of added sugar the average American consumes per day.

The NPD Group/Dieting Monitor, YE February 2015

Women = 25; Men = 37.5 American Heart Association, avg. for men ad women, CDC/NCHS 2010, USDA; 4g per tsp

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Food Trends

Everyone's a foodie now, they want to know more about their food and seek positive nutrition

REAL FOOD & PROGRESSIVE BENEFITS

Minimally processed real natural food driving growth

- ✓ Organic
- ✓ No artificial/ additives
- ✓ Non-GMO
- ✓ Clean labels
- ✓ Low sugar

USDA ORGANIC

CULINARY ADVENTURES

Chef created, artisan tastes and international flavors

ULTIMATE CONVENIENCE, NO COMPROMISES

From 3 squares meal @ home to mini-meals anywhere

PERSONALISED MEALS AND EXPERIENCES

'My way' custom food both in restaurants & online

For Those who Diet, the Most Popular Diet is One of Their Own Making

Source: The NPD Group/NET®

What are Consumers Most Likely Adding into Their Diet

#1 - Fiber

#2 - Protein

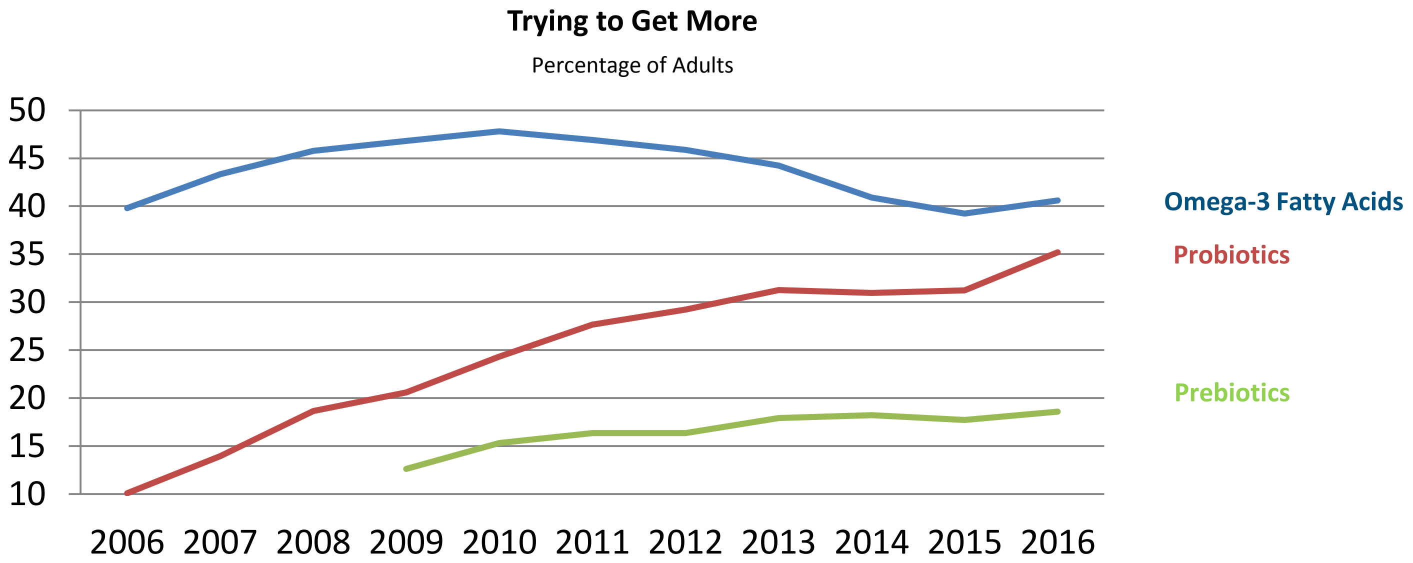
#3 – Vitamin D

#4 – Whole Grains

#5 – Nuts & Seeds

The Hartman Group Health & Wellness 2017 Study

Consumers Thinking More about the Functionality of Foods



The NPD Group/Dieting Monitor, Years ending December

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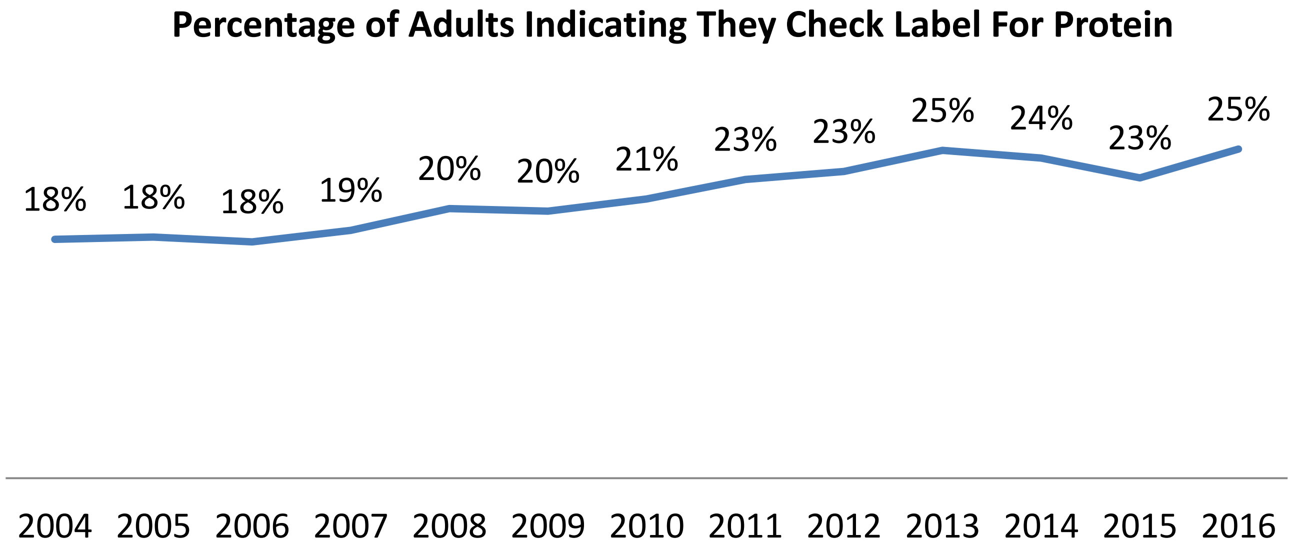
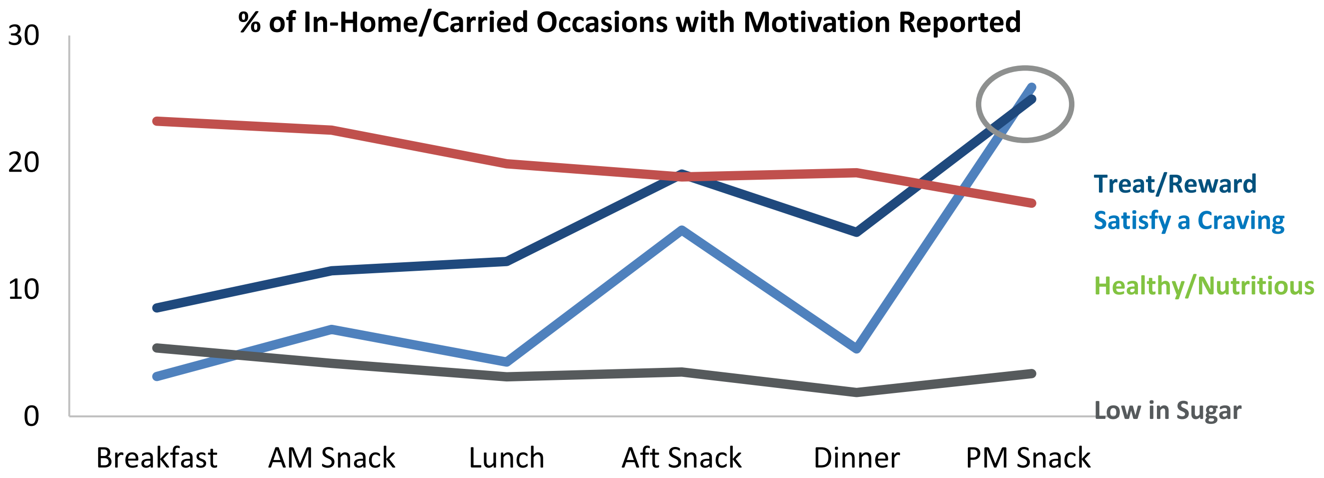
More People are Checking the Label for Protein



The NPD Group/Dieting Monitor ’09-’17

Personal Definitions of Healthy Eating Leave Room for Indulgence

Health and nutrition are our main motivations early in the day but give way to indulgence by the end of the day!



The NPD Group/National Eating Trends®; 3 years ending May 2017; Teens and adults

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Consumers Balance Health and Indulgence Daily

We choose items based on indulgence (craving/treat/reward) at similar rates to health/ nutrition. “Low in sugar” is reported as a motivation at 4% of our meal and snack occasions.

% of In-Home/Carried Occasions with Motivation Reported

Satisfied a craving/taste 13%

Wanted a treat or reward 7%

It was healthy/ nutritious 21%

It was low in sugar 4%

The NPD Group/National Eating Trends®; 3 years ending May 2017; Teens and adults

Snacks Include both Better-for-You and Indulgence

Better-For-You Snacks

Gelatin cups, refrigerated yogurt, granola bars, cereal fruit bars, cereal breakfast bars, energy/sports/nutrition/protein bars, diet bars, rice/popcorn cakes/snacks, single-serve cottage cheese cups, dried fruit, fruit cups/applesauce, fresh fruit, single-serve canned fruit, nuts, seeds

Savory Snacks

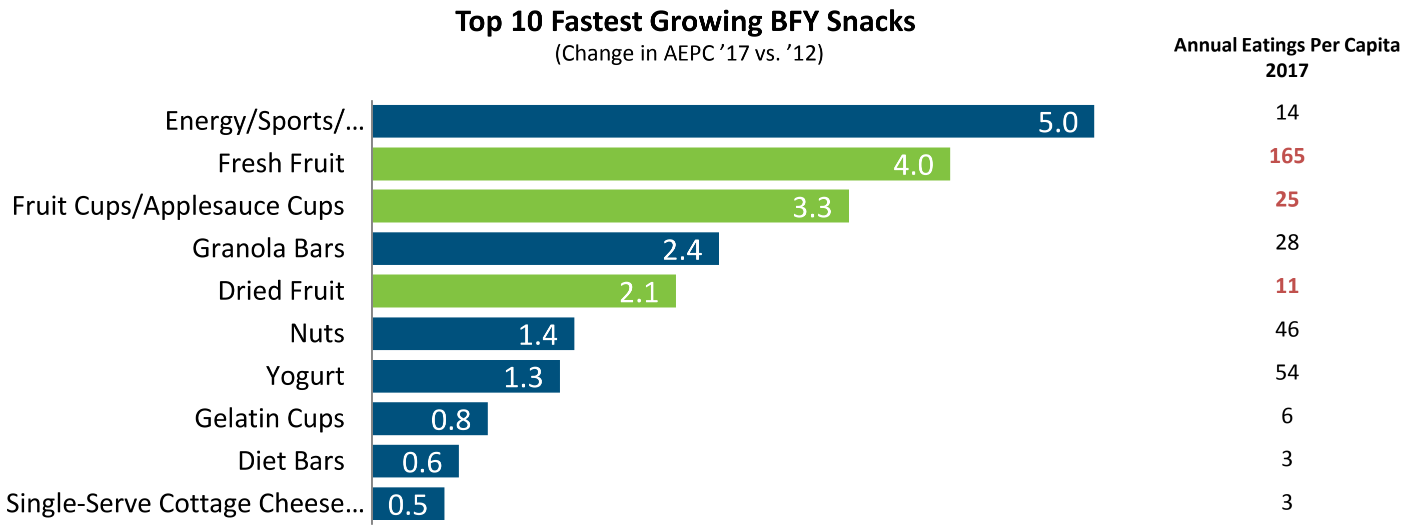
Crackers, string cheese/cheese shapes, bagels, frozen snack foods, potato chips, tortilla chips, snack/multigrain chips, corn chips and corn snacks, pretzels, cheese puffs and curls, dips, salsa, popcorn, trail/snack mix, salty snack and dip kits, meal kits, toaster pastries, meat snacks, other alternative salty snacks

Sweet Snacks

Chocolate, chewy candy, hard candy, other candy, fruit snacks, snack cake/cupcake/mini cakes, snack pies/pastries, cookies, brownies, donuts, muffins, sweet snack and dip kits, pudding cups/cheesecake cups, treat bars, ice/fudge/cream pops, ice cream bars/sandwiches, frozen ice cream cones, ice cream, frozen yogurt, sherbet/sorbets/ices

Fastest Growing Better-for-You Snacks

Fruit varieties, including fresh, individual cups, and dried, rank in the top 10 of fastest growing BFY snacks. Fresh fruit is the most commonly eaten better-for-you snack.



Source: The NPD Group/SnackTrack®, YE March 2017

Agenda

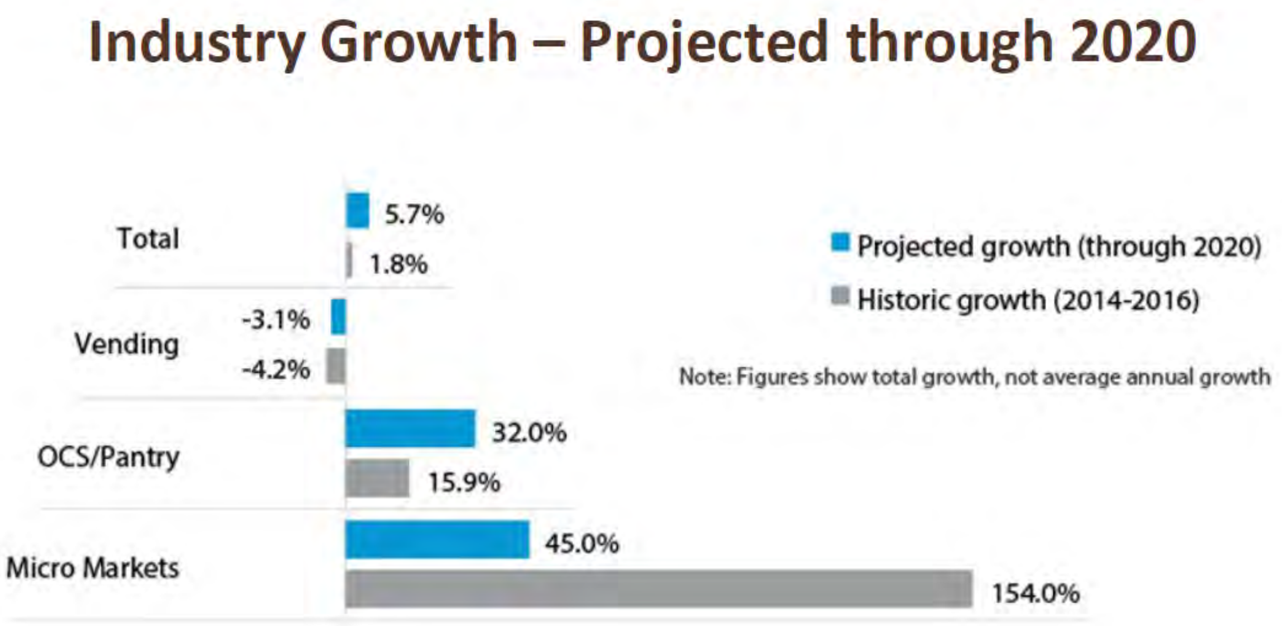
Building Your Store to Activate and Attract H&W Consumers – Focus on Bars

Micro Markets are a $1B Dollar Industry – And Have Grown 154% Since 2014

SEGMENT	2014 REVENUE (US$ BILLIONS)	2016 REVENUE (US$ BILLIONS)	VARIANCE
Vending	20.0	19.1	-4.2%
Office Coffee Services	4.3	4.9	+15.9%
▸ Pantry Services	N/A	0.3	N/A
Micro Markets	0.4	1.0	+154.1%

NAMA Industry Census Link 2014-2016 which projected growth through 2020

Micro Markets are Forecasted to Grow 45% Through 2020



NAMA Industry Census Link 2014-2016 which projected growth through 2020

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While Operators Agree the Segment is Growing, Challenges Exist

92.7% of operators feel like the Micro Market Segment is growing

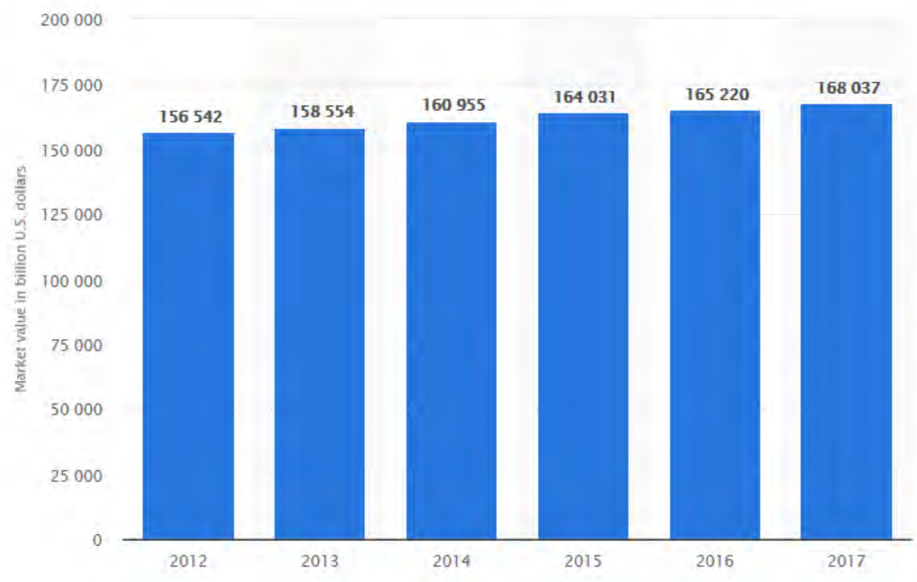
23.6% of operators believe that the top challenge in micro markets is finding better product mix

Adding additional Health and Wellness products (both fresh and shelf stable) to your Micro Market assortment mix is good way to identify gaps in product mix.

NAMA State of the Industry - 2017

Health and Wellness Continues to Experience High Growth Rates As Well – $168B Industry that has Growth 8% Since 2012

Market value of health and wellness in the United States from 2012 to 2017 (in million U.S. dollars)*



Statista – Calendar Year through 2017 Health and Wellness Food in Total US

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Micro Market Operators Continue to See the Importance of a Better For You Assortment Portfolio for Their Store

Nutrition and Wellness Trends

Important to Operators

STATEMENT	2014 % AGREE	2016 % AGREE	TREND
We promote better-for-you **beverages** in our portfolio.	65%	88%	↑
We promote better-for-you **snacks** in our portfolio.	76%	88%	↑
We promote better-for-you **prepared foods** in our portfolio.	55%	69%	↑

NAMA Industry Census Link 2014-2016 which projected growth through 2020

Understanding Evolution of Health and Wellness is Critical to Identifying Your Right Assortment and Shelving Strategy

Then

Defensive

Reactive | A war | Mechanistic | Simplistic | One-size-fits-all | Authority driven

Now

Harmonious

Preventive | A journey | Systemic | Complex | Individualized | Self-assessed

The Hartman Group Health & Wellness 2017 Study

The Great News is that Manufacturers have Embraced these Trends

The Hartman Group Health & Wellness 2017 Study

So the Question Becomes…

To Understand This, We First Need to Understand Who the Away from Home Shopper Is

A Value Seeker

Health Focused

Seeking Portability

Bridge Snacker (10AM or 2PM)

Away from Home Shoppers are Looking to Fulfill Certain Need States when Making a Purchase Decision

Meal Complement

Grab and Go

Work Bridge

These Three Need States Make Up the Largest Portion of the Away from Home Business. Capturing this Audience is the Key to Driving Overall Success in Micro Markets.

Kellogg Snacking Demand Landscape (2015)

When Looking for Food Options Away from Home, Consumers Typically Fall in One of these Buckets

Bold Explorer

Love snacking and have a passion on trying new types of snacks

Striving Cravers

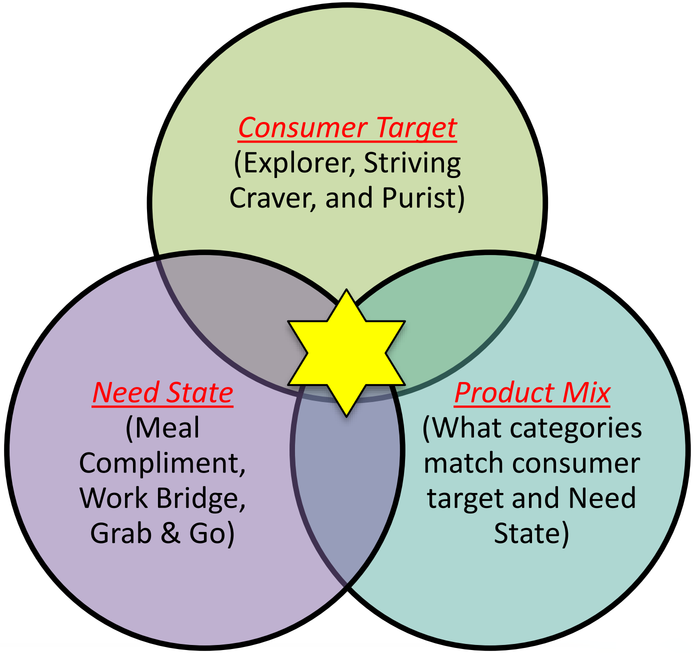
Love snacking but aspire to eat healthier – so they chose to consume healthier snacks that still taste great

Snack Purist

National/Wholesome Snack purchaser - willing to pay premium for clean labels, simple ingredients

Kellogg Snacking Demand Landscape (2015)

To Drive Success at Micro Markets – We Need To Identify the Overlap Between Consumer, Need State, and Product Categories



Kellogg Snacking Demand Landscape (2015)

Categories that Work Best for an Away From Home Shopper with Specific Need States Are…

Cereal

Vitamin D
Whole Grains

Bars

Protein
Fiber

Trail Mix

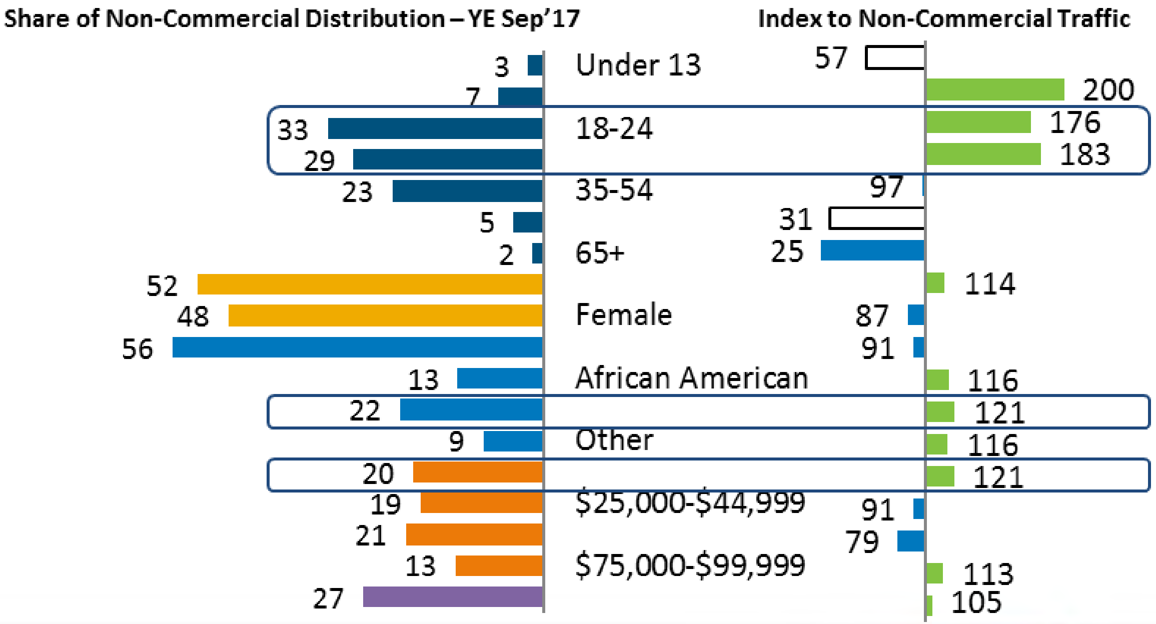
Nuts & Seeds
Protein

Let's focus on 1 and Show How We can Maximize the Shopping Experience Through Assortment and Shelf

Kellogg Snacking Demand Landscape (2015)

Adults 18-24 are the Heaviest Consumers of Bars (33%), Followed by Adults 25-34

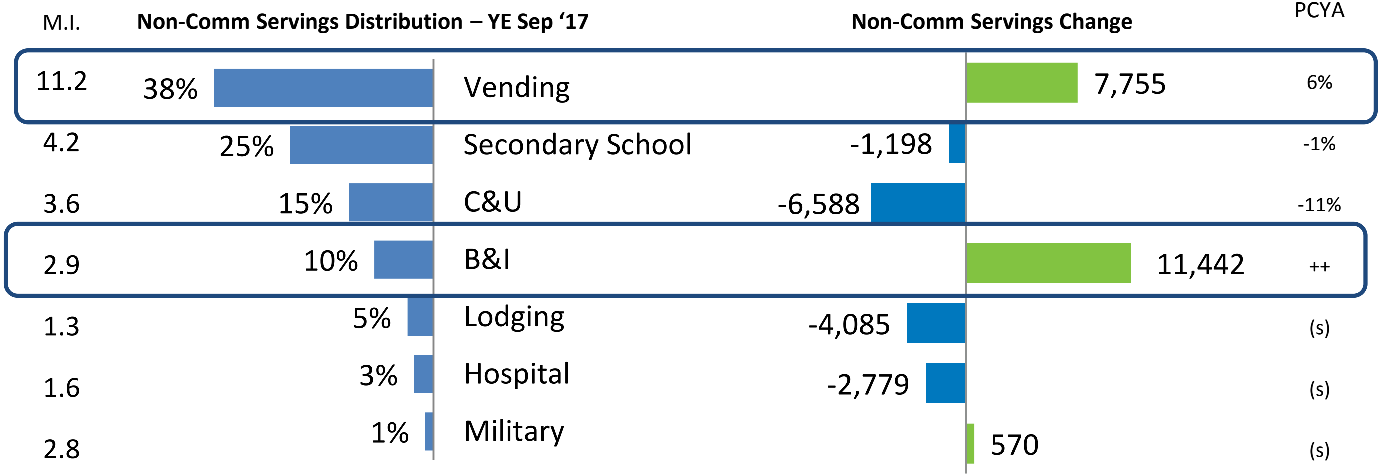
Adults 18-34, Hispanics, and incomes <$25 over index on bar consumption in Non-Commercial outlets.



- CREST OnSite® YE Sep'17 Non Commercial
- Index is to Total Non Commercial Traffic Distribution

Vending was the Second Largest Contributor to Growth for Bars in Non-Commercial Segments

Despite having only 10% share of bar servings, B&I contributed two-thirds to non-comm servings growth for the year.



Menu Importance (M.I.) = servings/traffic

The NPD Group/CREST OnSite®,YE Sep '17, Non-commercial Granola/Cereal Bar Servings

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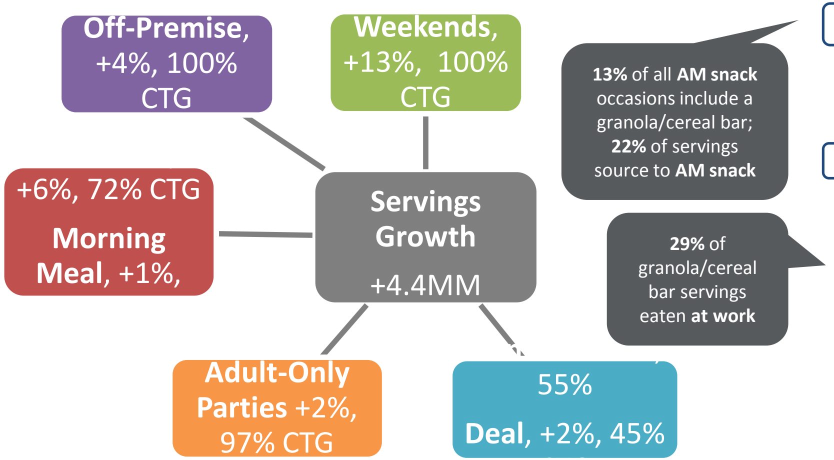
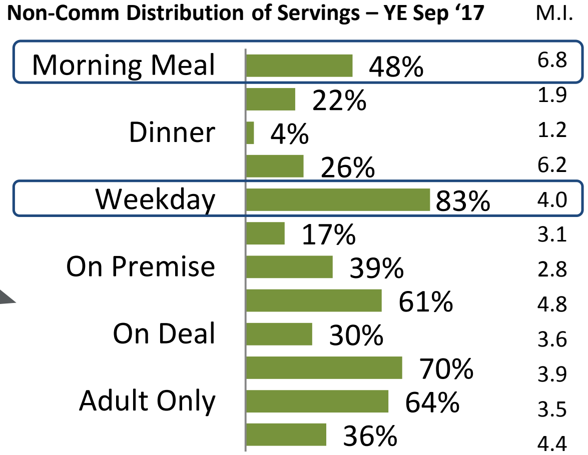
The Morning Meal Represents Nearly Half of Bar Servings, and Weekday Captures 83%

48% of Bar Purchases will happen as part of the morning meal occasion. 70% of bar purchases will be sold without a deal – suggesting consumers are willing to pay for convenience and to purchase a product that meetings there consumer need state and behavior.





Menu Importance (M.I.) = servings / traffic

YE Sep '17 vs. YE Sep '16
Business segments % contribution to change
The NPD Group/CREST OnSite®; Non-commercial granola/cereal bar servings

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The Bar Shopper can be Segmented into Four Need States

Treat — Toaster Pastry — Cereal Bars — Weight Wellness — Visible Ingredients — Lifestyle — Performance

Enjoyable Bites

Indulgent treats

"It's a treat, a reward, or a fun break."

- Can be eaten quickly, consume anywhere/OTG
- Give yourself a fun break
- eat while doing something else

Quick Mornings

Breakfast meal bars, snacks and pastries

"A great start to the day, even when it's fast. A quick, easy, convenient hunger fill."

- Just enough to satisfy my hunger and gets me going in the morning
- Something I can grab and go/consume it anywhere
- Can be eaten on-the-go

Balanced Health

Weight wellness and progressive nutrition

"Healthy all-day snacking that helps me achieve my wellness & healthy diet goals."

- Have something healthy/nutritious
- Help manage weight and balance my diet
- Emerging nutritional trends

Filling and Fueling

Energy for everyday activities

"Refuel & replenish. Healthy source of snacking energy to fuel me through the day."

- Keeps me feeling full for longer and get energy to keep going
- Provides a quick hunger fill that keeps me going until the next meal
- Replace a meal

Kellogg Snacking Demand Landscape (2016)

Recently – Kellogg's Tested Whether the Shelf Would Perform Better if We Blocked Bars by Targeted Need State

Control

8' Aisle Set
with Cookies on bottom,
breakfast options on top,
and bars in last four feet

4 – Test Cells

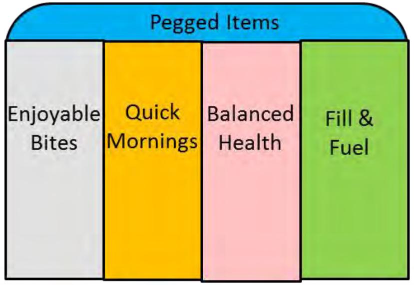
1) Bars separate from Cookie/Cracker/Toaster Pastries
2) By Consumer Need State

Hypothesis

With the right shelf set, we can drive incremental units per trip by making the aisle easier to shop.

Bars Separate

Consumer Need State



InContext Convenience Bars Test – August 2016

We Tested Virtually and Measured Behaviors and Attitudes

BEHAVIORS	ATTITUDES
• Sales of brands and category • Penetration and buying rate • Conversion funnels (awareness – pickup – purchase) • Category basket size and product mix • Time and accuracy to find products	• Reasons behind behaviors • Awareness/noticeability of in-store elements • Perceptions of brand and shopping experience • Value perception • Open-ended comments

Results Showed That Blocking a Shelf by Consumer Need State Created a Lift of 2% to Overall Base Sales for the Category

Drive the Consumer Need State Planogram

- Better shelf blocking can drive overall base sales by 1-2%
- Shoppers find the ease of shopability higher in the consumer need state set.

Create More Vertical Blocking on Shelf

- Vertical Brand Blocking creates better visuals for certain brands on shelf
- This creates additional stopping points in aisle to visit products

Place Key Brands in the Shelf Strike Zone

- Strike zone is the middle of the set – eye level
- Pop-Tarts, Nutri-Grain, and SpK Protein all have the potential to grow high single digits in the strike zone

Bites can get a sales halo by being blocked near strike zone

- Place Wholesome Bites in Balanced Health near strike zone for optimal placement
- This allows for incremental sales opportunities in Balance Health set.

Proposed Flow and Assortment Space

Quick Mornings More Whole Grains or Vitamin D focused Brands: Nature Valley, Nutri Grain, Cereal, Goodness Knows, Pop Tarts	Balanced Health Good Mix of Fiber & Protein Brands: Special K Kind Clif Larabar	Filling & Fueling Leans Heavy on Protein Brands: Quest PowerBar Power Crunch One Bar Clif Builder
Enjoyable Bites More focused on Taste/Reward Brands: Rice Krispies Treats		

For More Information, Visit us at Booth 413, or Attend Our Other Education Sessions…

David Grotto, MS, RDN, LDN - *Senior Nutrition Manager, Specialty Channels and Frozen Foods*

- *Nutrition Roundtable Thursday March 22 at 9:00am*

John Hostetler – *Director Category Management & Business Insights, Specialty Channels*

- *NAMA Learning Lab Thursday March 22 at 2:30pm*

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Thank You!!

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