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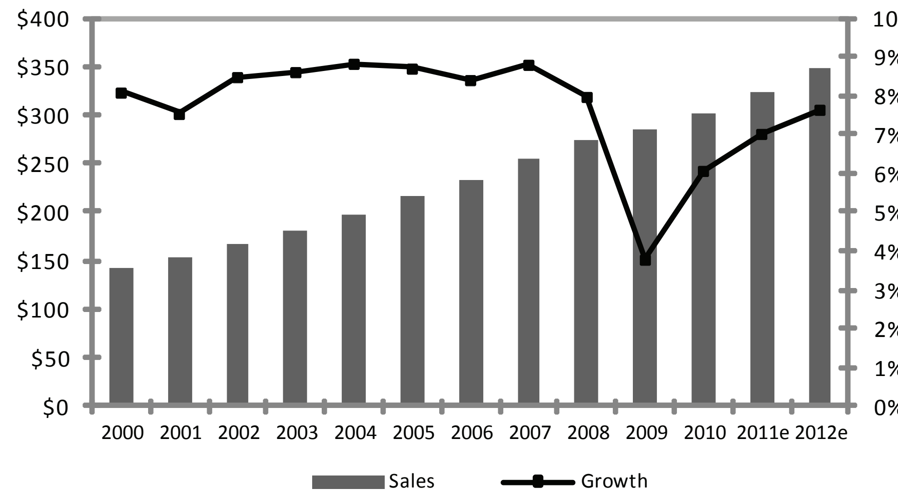
Global Nutrition Industry Sales & Growth, 2000-2012e



Source: Nutrition Business Journal *estimates ($bil., consumer sales). Derived from a variety of sources, including* NBJ *company interviews and surveys, Euromonitor, Nicholas Hall, FiBL, IFOAM, U.S. Commercial Service, IADSA member associations, Organic Monitor, James W. Dudley and many others.*

A Tough Recipe for 6% Growth

Weak dollar, extreme weather, fragile economies & emboldened regulators stack the odds against it, but global nutrition grows nonetheless

In its 2011 half-year update, **Lonza** shared some good news—strong operating performance in custom manufacturing, particularly for biologics, with 300 active projects in the pipeline, asset utilization approaching 80% and groundbreaking on a new manufacturing hub in Singapore. The company's sales and earnings grew nearly 5% at constant exchange rates, despite significant levels of inflation in raw materials.

Here's the bad news: Exchange rates were far from constant. The strength of the Swiss franc, relative to the U.S. dollar and the euro especially, led to a CHF 44 million dent in earnings, dragging that 5% growth to a net decline of 21%. According to Lonza: "In the short term, the disadvantage of the strong Swiss franc is being mitigated in Visp and Basel by instituting longer working hours in cooperation with social partners." The short term grows ever longer, however, as CEO Stefan Borgas spoke of the same challenges—"the strong Swiss franc and higher raw material costs"—in October's Q3 update.

Executives interviewed for this story put currency at or near the very top of their list of global industry concerns. "The decline in the U.S. dollar has made it very challenging—and expensive—to source product offshore," says George Pontiakos of **BI Nutraceuticals**. "The industry likes to point fingers at regulation, but the No. 1 issue for me right now is currency. Monetary policy in this country has killed our ability to buy product at a market-competitive rate."

Depending on comparative currencies, the U.S. dollar has lost as much as 35% of its relative value (Australian dollar) and as little as 10% (euro) from recent highs in early 2009. A growing chorus of leading economists and politicians now point more emphatically to the weak dollar as a primary cause of the inflationary pressures facing domestic pricing as well as key imports ranging from fuel to agricultural commodities.

Global Sales Up, Weather Down

The global nutrition industry posted 6.1% annual growth in 2010, with natural & organic food (7.5%) and natural personal care (8.7%) the strongest performers. Functional food (4.8%) and dietary supplements (5.4%) saw more modest growth, but growth nonetheless—in a world awash in severe weather, economic crisis and regulatory uncertainty. Given the number of uncontrollable macro-trends now working against industry, it's a wonder that nutrition grew at all.

But grew it did, and grow it will. The world population passing seven billion in October 2011 plays no small part in this, as escalations in demand from China, Brazil and India fostered double-digit growth in those regions. Mature markets in Western Europe—thanks, Germany and Italy—posted the weakest regional growth at 2.4%. *NBJ*'s early estimates for 2011 indicate continued growth of approximately 6% for supplements globally, with China and

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Latin America particular bright spots. With the exception of Australia & New Zealand (12% growth in total nutrition sales), the developing world is fast solidifying its role as the driver of future success for the industry.

Unfortunately, the developing world suffers more than its fair share of extreme weather and catastrophic weather losses. Climate has clearly become a fickle and frightening friend to farmers and suppliers in nutrition. In 2010 alone, industry weathered the following, no pun intended:

- Russia suffers its hottest July on record, prompting wildfires and a disastrous winter wheat crop, 30% below anticipated yields
- Flooding in Pakistan submerges 1/5 of the country, prompting long-term food shortages affecting 70% of the population
- Seventeen countries—most in Southern Asia and Africa, the burgeoning next wave of low-cost manufacturing for the industry—set high-temperature records over the summer
- The Amazon Basin dries up and the rainforests experience drought—once-in-a-century events—for the second time in six years
- The **National Oceanic & Atmospheric Administration** rates the summer of 2010 as the hottest ever recorded in the Northern Hemisphere
- The temperature in downtown Los Angeles reaches 113°F on September 27

This trend continues into 2011, of course, with severe drought in East Africa—13 million people still face the risk of starvation in Horn of Africa; flooding in East Asia; heat and drought in Texas—not to mention 14 separate weather events in the United States causing more than $1 billion each in losses; flooding in Brazil and Central America; and the Tōhuku earthquake and tsunami leading to nuclear meltdown in Japan. Many are quick to sound the global-warming alarm here, but not all. At press time, world leaders had gathered in South Africa to determine the ultimate fate of the **Kyoto Protocol**, with such major economies as China, Canada and the United States threatening abstention. "I would argue that there are cyclical events that occur in any agricultural period," says Pontiakos. "We just happen to be in one that's swinging wildly from heavy rains to significant droughts." Proponents of biotechnology and GMOs will surely take note here as well, as "feeding the world" carries more heft and agency as the tenuous nature of food stocks grow more tenuous and the instability in food pricing grows more instable.

A quick review of world economies and regulatory bodies paints no better picture. Iceland's banking system broke, Southern Europe's is breaking, the Baltic states remain on loan to Sweden, Ireland and Portugal face major debt downgrades, and the U.S. economy itself remains somewhere between stuck and shrunk in a jobless recovery that puts $10 billion in holiday bonuses in the hands of **Goldman Sachs** while the youth of America, and the world, protests in tents and passive occupation.

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The hard line drawn by the **European Food Safety Authority** around health claims, use limitations imposed on major supplement categories by **Health Canada,** and heavyhanded guidance on new dietary ingredients from the **U.S. Food & Drug Administration** lead *NBJ* to an obvious conclusion: 6% global growth is a bit of a gift horse, one the industry should not look too closely in the mouth.

The remainder of this cover story will move across the globe to discuss sales and trends affecting the major markets for nutrition products by region, and we'll begin right here at home in the United States.

Global Nutrition Industry Sales & Growth, 2009-2010

By Product Category	2009	2010	2010 Growth
Vitamins & Minerals	33,100	34,800	5%
Herbs & Botanicals	21,600	22,500	4%
SHM&S Supplements*	25,500	27,200	7%
Total Supplements	**80,200**	**84,500**	**5%**
Natural & Organic Food	78,500	84,300	7%
N&O Personal Care/HH **	28,500	31,000	9%
Functional Food	97,200	101,800	5%
Total Nutrition Sales	**284,400**	**301,600**	**6%**

By Region	2009	2010	2010 Growth
United States	110,600	117,100	6%
Western Europe	77,100	78,900	2%
Japan	39,600	42,400	7%
China	13,300	15,000	13%
India/Rest of Asia	13,200	14,700	12%
Canada	7,100	7,600	7%
Latin America	8,400	9,400	12%
Australia/New Zealand	6,100	6,800	10%
Poland	1,100	1,200	7%
Eastern Europe & Russia***	4,600	5,100	9%
Middle East	1,700	1,800	8%
Africa	1,400	1,500	9%
Total Global Market	**284,400**	**301,600**	**6%**

*Source: Nutrition Business Journal, derived from a variety of sources ($ million, consumer sales). *Sports, Homeopathic, Meal Replacement & Specialty Supplements. **Natural & Organic Personal Care and Household Products. *** Eastern Europe & Russia sales cited here do not include Poland. Secondary souces for global data include Euromonitor International, Nicholas Hall's global OTC database, DB6 2011, FiBL, IFOAM, United States Commercial Service, IADSA member associations, Organic Monitor, James W. Dudley, Zenith International and many others.*

United States: That's Not Honey

As we reported this summer in our U.S. market overview, times are tolerable for nutrition companies, even robust for the organic ones. Supplement sales grew 4% in 2010 to reach $28 billion, with early estimates suggesting a similar growth performance in 2011. Natural & organic categories grew 8%, however, as an increasing segment of consumers migrated away from science- and claim-intensive propositions toward the pastoral, pure messaging of organics.

Here's one reason for that retreat to quality: Honey's not honey anymore. Extensive reporting and testing by *Food Safety News* hit the newswires in November after 75% of tested products from such major retailers as **Safeway**, **Costco**, **Walmart** and **Target** failed to contain trace levels of pollen. Without that pollen, honey cannot be linked back to its source, and food safety authorities such as the **World Health Organization** and the **European Commission** cannot vouch for its legitimacy. Speaking to *Food Safety News*, Mark Jensen, president of the **American Honey Producers Association** (AHPA), says: "Elimination of all pollen can only be achieved by ultra-filtering, and this filtration process does nothing but cost money and diminish the quality of the honey. In my judgment, it is pretty safe to assume that any ultra-filtered honey on store shelves is Chinese honey, and it's even safer to assume that it entered the country uninspected and in violation of federal law."

Honey watchdogs suspect China of laundering product through various Asian markets unaffected by a 2011 anti-dumping tariff from the **Federal Trade Commission**, all in an attempt to flood the U.S. market with product—product likely adulterated with antibiotics and heavy metals, no less—before the North American harvest and drive down wholesale prices. According to AHPA, honey exports from India alone surged in the first half of 2011 to 60 million pounds, a number only explained by illegal transshipments from China. Europe banned honey imports from India outright over adulteration concerns in June 2010.

The drama in commodities continues for U.S. wildcrafters of herbs and botanicals, as a picker shortage in Washington State for the apple harvest proved emblematic. Pontiakos again: "It's no secret that a significant population of the manual harvest in this country is challenged to prove documentary legitimacy. Whenever **Customs** or **Border Patrol** wants to park a van in front of a collection site, they can absolutely disrupt a crop. Last year, they killed the saw palmetto harvest in Florida. This year we saw the same issues with Cascara in the Pacific Northwest." And while we're on the topic of hazy legalities, consider the acreage now devoted to marijuana, medicinal or otherwise, and its effect on domestic agriculture. "It's more profitable to grow marijuana than cohosh or saw palmetto berry," says Pontiakos. "Look at the Pacific Northwest and Appalachia. Those economies are now kept alive by growing marijuana."

Still on the supplements front, a renewed showdown among the major brands seems well underway with **Pfizer**'s introduction of condition-specific

Health Canada on Digestive Enzymes: 'For Occasional Use Only'

In September 2011, **Health Canada** released new guidance on the use of enzymes in natural health products that questions the safety profile of the ingredients and places a three-day limit on usage. The very real possibility exists that a wide range of popular supplements—including multis containing digestive enzymes—will require new labeling in Canada in early 2012 to warn consumers as follows: "For occasional use only. Consult a healthcare practitioner for use beyond three days."

For an industry built on consumer faith in the preventative health benefit of long-term supplementation, that kind of labeling certainly runs anathema to good sense and good business. "This is a great example of regulatory creep," says Al Powers of **NOW Foods**. "We put enzymes in everything nowadays for the synergies and digestive benefit. This could be disastrous for the industry." At **Atrium Innovations** based in Quebec, Yvan Bourgault is also concerned. "This announcement created some turbulence in the industry, for sure," he says. "Most of these enzymes have been on the market for 30-plus years, so we know they are safe."

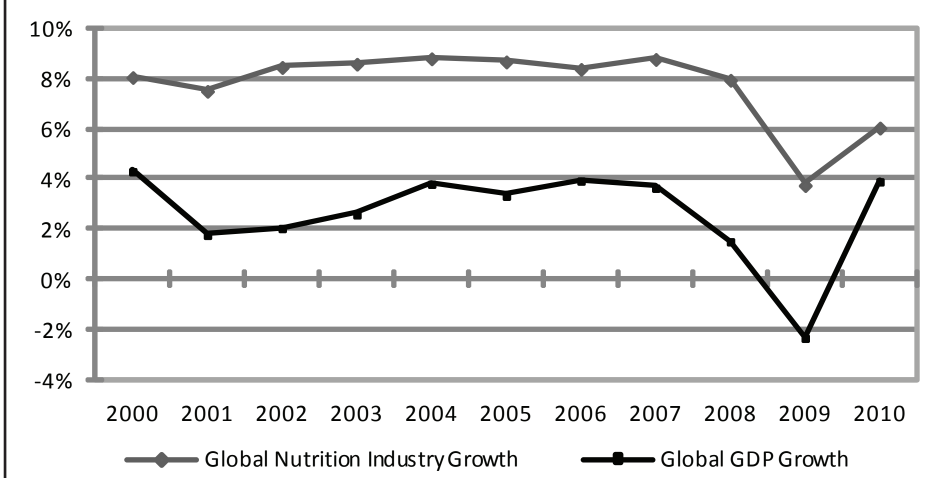
In a technical notice from the **Natural Health Products Directorate** (NHPD), regulators concluded the following: "It has been established that the long-term safety of most enzymes in oral form for digestive purposes is not supported based on the concern that the chronic use of digestive enzymes may decrease natural enzyme production." NHPD reviewed the current scientific literature and consulted one naturopath—that's right, one—in reaching its decision. As for the specific enzymes of concern, pancreatic enzymes, stem bromelain, fruit bromelain, papain, fungal proteases, amylase, lipase, cellulase, alpha-galactosidase, trypsin and chymotrypsin all made the list.

William Morkel is an expert in regulatory affairs at **Dicentra**, a Canadian consultancy. "We knew that Health Canada was working on these labeling standards," he says, "but the actual contents came as a real surprise. The bulk of enzyme products here do not have product licenses, so NHPD is now free to take enforcement action at any time they choose. If they want, NHPD can issue stop-sale notices to companies, they can caution retailers that sale of these enzyme products is illegal, and they can notify customs agents at the borders to look out for enzyme shipments coming in. If they're really concerned, the **Inspectorate** can request a recall, or they could even put out media postings. I'm sure no company would want their particular brand or product featured on the six-o'clock news over this." According to Morkel, NHPD has always taken the position that expert opinion, in and of itself, is not sufficient proof of safety. "NHPD has routinely declined those kinds of applications from industry," he says, "but now, seemingly out of the blue, they base an entire labeling standard on one expert opinion alone." Both Powers and Bourgault expressed tepid optimism that comments to Health Canada over the winter could better right the ship, but not so for Morkel. "Industry should be very careful when challenging the conclusions here," he says. "NHPD is making a big concession by allowing enzymes to even stay on the market. I've spoken to them directly on this topic, and they essentially told me that it's this or nothing."

As the list of regulatory grievances piles ever higher on industry's global desk, this is clearly one to register a bit higher on the radar. Says Powers: "Canada is so important because it's still the North American market, and **FDA** does coordinate efforts with Health Canada. If we don't view what happens in Canada as serious, that sets a precedent for regulatory activity around the world. Whether or not you do business in Canada, this gains momentum and pushes us closer to pre-market approval in the United States. It will come knocking on your doorstep, if you allow it to happen."

formulations of its popular *Centrum* multi to compete with comparables from **Bayer**'s *One A Day*. *Centrum Specialist* hit store shelves in September with four varieties targeting prenatal health, vision, energy and heart health. In addition, a new line of "natural" supplements launched under the *ProNutrients* brand. Omega-3s, probiotics, and a wholefood fruit and vegetable blend got the ball rolling with profligate media exposure including national TV commercials in prime time. This appears to be further evidence that 1) the condition-specific approach to marketing supplements remains the best game in town, and 2) whole foods sell, even in pill form. See **MegaFood**'s sales momentum in recent months and the product expansion and TV marketing of **Nature's Way**'s *Alive!* for further evidence of these trends writ large in the marketplace.

Global Nutrition Industry vs. GDP Growth: 2000-2010



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Western Europe: Stay Away

Mature, tired, caught in the vise grip of tough regulators and rough economies—all apt descriptors of the Western European market for nutrition, where sales rose just 2% for supplements in 2010 and 2.4% for total nutrition. Sports nutrition and natural & organic food were the big winners, with Germany the big loser as the only nutrition market we track to shrink in size from year-ago levels.

Pierre Fitzgibbon of **Atrium Innovations**, a frequent acquirer of global supplement brands and manufacturers, puts it this way: "If we buy something, we will stay very focused in one country. I want us to be cautious. To buy a company with a pan-European platform right now—not knowing the outcome of EFSA's stance on allowable claims—I think that would be suicidal." Atrium maintains a strong presence in Germany (particularly with its *Wobenzym* brand), the Benelux countries, and Central and Eastern Europe, with smaller footprints in Spain and Italy. According to Fitzgibbon, the company hopes to develop a more robust pan-European strategy, but the complexity and uncertainty of the regulatory environment precludes meaningful movement on this front.

At the **Soil Association**, the U.K.'s leading trade advocate for organics, sales are down. Organic food slipped another 6% in 2010 after a 13% decline in 2009, according to association research that pegs the poor results to broader economic fears among consumers.

As both a harbinger of things to come in the United States—where industrial agriculture now dominates the livestock trade of poultry, cattle, pigs and (through aquaculture) even fish—and a nostalgic glimpse back from whence we came, the Soil Association continues to lock horns with a proposed "mega dairy" of 8,000 cows in Nocton, Lincolnshire and a "mega farm" of 25,000 pigs in Foston, Derbyshire. The perceived threat is a total collapse of the family farming industry in those commodities, not to mention environmental and animal welfare concerns. As of press time, the planning petitions on both facilities were either withdrawn or stalled over objections raised by the U.K.'s **Environment Agency** and **Health Protection Agency**.

Carrefour, one of the world's top-three supermarkets behind Walmart and **Tesco**, introduced "Reared without GMOs" labeling in Europe on more than 300 items in October 2010. The move comes as more than 90% of consumers in multiple surveys indicate a similar desire for labeling in the United States, and petitioning campaigns build at both the state and national level. In France, the debate over genetically modified crops—specifically **Monsanto**'s maize seed MON810—grew heated as the **State Council** overturned a three-year-old ban, only to elicit the following rebuke from President Sarkozy: "The French government maintains and will maintain its opposition to the cultivation of the Monsanto 810 maize on our soil." New safety clauses from the environmental and agricultural ministries to legislate exactly that should follow in 2012.

Latin America: Go Now

"Popular thinking is that China is the place to be," says Pete Zambetti of **Capsugel**, "but if I was starting a business, I'd put my money in Brazil. There's an exploding middle class with discretionary income and a fascination with appearance. Brazilians are looking for any advantage there, so beauty-from-within has really taken off for us." Such major cosmetics players as **Estée Lauder** and **Avon** are building or expanding facilities in the market, and better yet, there's a softening regulatory climate.

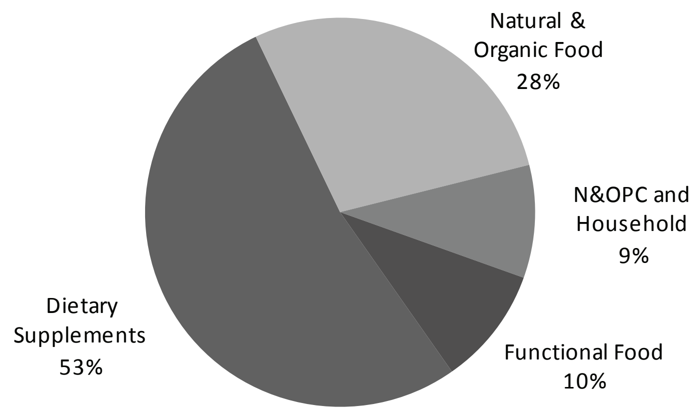
Zambetti also serves as chairman of **IADSA**, the international authority on supplement regulations. He spoke to *NBJ* of a sea change at **ANVISA**, Brazil's version of the FDA, in July 2010, whereby the agency adopted base limits for vitamins and minerals instead of a science-based risk assessment model.

"ANVISA changed their process to basic notification in July 2010," says Zambetti, "and immediately Pfizer reformulated *Centrum* to lower levels and sold it through department stores and supermarkets overnight." By lowering dosage thresholds but easing market access, Brazil's willingness to adjust a severe regulatory framework to better meet consumer demand contributed to 13.3% supplement growth for Latin America in 2010. The regional market now stands at just shy of $5 billion, and the bright skies extend beyond supplements to double-digit growth in natural & organic food (12% in 2010) and natural personal care (12%).

John Venardos, also of IADSA and VP of worldwide regulatory, government and industry affairs for **Herbalife**, points to upticks in requests from companies in Paraguay and Peru. He also highlights IADSA's work to establish the regional supplement association **ALANUR**, the Latin American Responsible Nutrition Alliance, in October 2010. "Outside of Brazil, the regulatory bodies are very weak—even impotent," says Venardos. "New, national supplement asssociations in that region will certainly help to create capacity." Herbalife added Dr. Tatiana Pires, formerly of **DSM**, to its regulatory staff in December to focus exclusively on the area.

Finally, Atrium's Fitzgibbon hopes to expand a small footprint in the region, limited to modest distribution arrangements in Venezuela. "Brazil offers big possibility, no question," he says, "and we are looking at new distribution arrangements there. We will not necessarily acquire, but grow organically to sell our brands. South America is of more interest than Central right now, but Colombia and Mexico do offer opportunity for organic growth, again through our brands."

$9.4 Billion Latin America Nutrition Industry Sales in 2010



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Russia: Science & Graft

Eastern Europe and Russia posted strong sales in 2010, with 9% growth for supplements and 9% growth for total nutrition, including an impressive 10% growth in natural & organic food. According to Zambetti, Eastern Europe continues to grow faster than Russia proper, with Poland, Hungary and the Czech Republic shining brightest. Romania presents a small but interesting market, as the creation of a government institute to regulate supplement products beyond simple vitamins and minerals opens the door a bit for outsized growth in such guaranteed wins as echinacea, CoQ10 and glucosamine. Supplements in Romania remain the almost exclusive purview of pharmacies, and their presentation to consumers reeks of pharmaceuticals—with placement behind the counter, high prices and blister-pack packaging.

Graft remains a major concern, however, especially in Russia. "I know U.S. companies that ship mixed cases to Russia, so that some of each product will actually get to the client," says Zambetti. "You regularly lose a percentage of each shipment to graft. It's just a question of how much." On a brighter note, Zambetti highlights the quality of science and research underway in the country. "The work Russia does on supplements is second to none, but the problem is that it never gets outside the country." High-caliber probiotics research—an obvious area of focus, given Dr. Élie Metchnikoff's discovery of the category at the turn of the century—has just begun to surface at international conferences in recent years. *Bifiform* from **Ferrosan**, a Danish manufacturer of supplements recently acquired by Pfizer, and *Acipol*, from domestic pharmaceuticals giant **Pharmstandard**, remain popular growth products in the category, especially among Russian pediatricians.

India: Protectionism Prevails

NBJ sizes the supplements market in India at approximately $2.2 billion now, up dramatically from $1.4 billion just five years ago. A broader measure of "Rest of Asia" sales lands at $7.6 billion for supplements and $14.7 billion for total nutrition, according to *NBJ* research. These represent 10% annual growth and 12%, respectively. "If there's one place that dodged the weather bullet, it's India," says Pontiakos, referring specifically to the psyllium crop.

The Indian food industry has moved squarely into the global spotlight in recent months. On the regulatory front, the Indian government approved and then tabled reforms in its retail sector this December that would have opened up the channel to significant foreign direct investment (FDI). Market researchers place India's protectionist grocery market fourth in size behind the United States, China and Japan. The debate over FDI grew heated in short shrift, with small-business proponents fearing the rapid demise of the kirana sytem—local, independent retailers—at the hands of multinational food producers with streamlined supply chains and lower prices. Later provisions to require these manufacturers to source 30% of wares from Indian companies and to restrict FDI retailers to the major urban centers fell short of the mark. At press time, the great deregulation of Indian grocery remains uncertain at best.

The outlook for organic farming in India is much clearer and brighter. The **Ministry of Agriculture** codified a **National Project on Organic Farming** in 2004, with subsidies to boot, and the category has grown from 42,000 hectares at commencement to 4.4 million hectares in 2010. *NBJ* tracks 14% growth for natural & organic food in the region, and analyses by the **Organic Trade Association** indicate that India became the world's leading producer of organic cotton in 2010, followed by Turkey and Syria.

China: Moving Beyond TCM

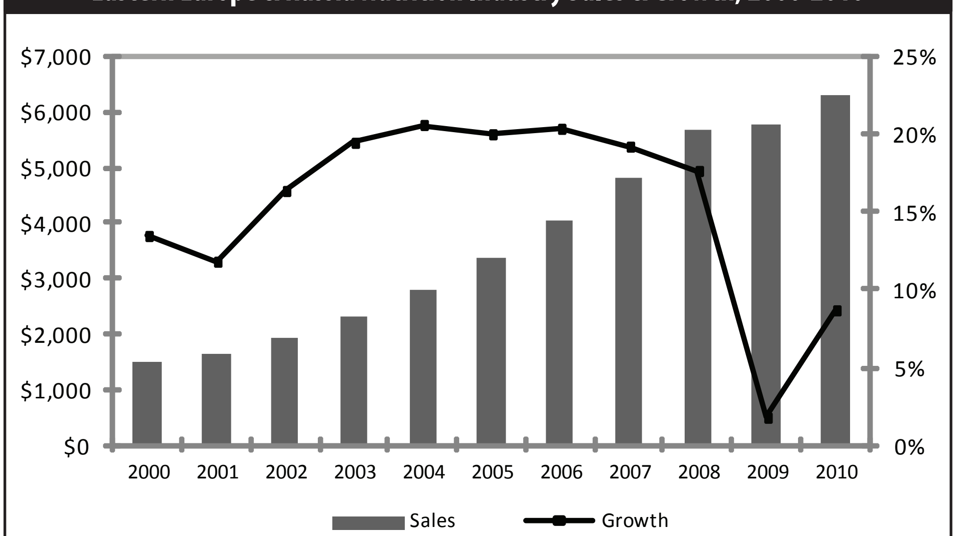
NBJ dives deep into the opportunities and challenges presented by China in a series of articles beginning on page 16. Supplement sales in China grew 10% in 2010 to reach $9.5 billion, positioning China just a stone's throw behind Japan ($10.5 billion) and a few more stones behind Western Europe ($15 billion) in the race for top global markets. Total nutrition sales in China grew 13% in 2010 to reach $15 billion.

For a glimpse into the Chinese consumer's psyche, Jeff Crowther, executive director of the **U.S.-China Health Products Association** based in Beijing, offers the following: "From a marketing perspective, China looks pretty juicy, but remember this industry is just not developed here. The demographics skew older—age 50 plus—and those consumers have no concept of health products and dietary supplements. Chinese medicine they know, but popping a pill? Not so much." As the domestic market in China grows more educated about nutrition and more receptive to pills, an interesting countertrend surfaces in the United States—a noticeable uptick in start-ups seeking capital through **Nutrition Capital Network** for functional products built around the principles and ingredients of traditional medicine. It's a small, flat world indeed.

Japan: 'Yuki' Grows 18%

The beleaguered Japanese economy contributed to flat sales of supplements in 2010—up 1% to $10.5 billion—while natural & organic foods enjoyed 18% annual growth. This in advance of the irradiation concerns that would plague the island in the aftermath of an earthquake and tsunami that triggered meltdown at the **Fukushima** nuclear plant. In 2009, the **Japanese Ministry of Agriculture, Forestry & Fisheries** launched a three-year campaign to both boost consumer awareness of organic products and demystify rampant confusion in the domestic market between products certified to an organic **Japanese Agricultural Standard**, and natural products from "integrated" farms with reduced exposure to pesticides. More to point, Japan landed on the EU's **Third Country Establishments List** in May 2010 to provide regulatory equivalency with trade partners and promote a more open market for "green" goods. *NBJ* wonders if this dramatic growth will continue, or even escalate, in 2011, after the nuclear crisis in the country's eastern provinces—rice paddies aplenty—reduced Japan's food self-sufficiency ratio to just 39%. According to the **USDA**'s **Foreign Agricultural Service**, Japan is the world's largest importer of food, with U.S. imports alone amounting to $12.4 billion in 2009.

Eastern Europe & Russia Nutrition Industry Sales & Growth, 2000-2010



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Middle East: Luxury Over Health

Nutrition experienced solid growth in 2010 throughout the Middle East as a consumer base drawn to luxury and the allure of premium pricing continues to migrate toward the category. It stands to reason that personal care products would outperform in the region, and that they did with 9% annual growth. Supplement sales grew a respectable 9% to $800 million, while natural & organic food saw slower growth at 6%.

According to Nils El Accad, CEO of the **Al Accad Group**, with healthfood stores in the United Arab Emirates and Bahrain, "Our sales dropped in the recession, as with all luxuries. The market dynamics here are quite different. Most people living in the UAE are expats. They're here to make money, so they hold on to what they earn. Price is less of an issue in the United States or Europe than it is here." Al Accad points to a local population drawn more to "pills for my ache" than organic foods, with European brands selling well. "Supplements are highly regulated and tough to import," he says, "so we carry a lim-

Global Supplement Industry Sales & Growth in 2010

Region	2010 Sales	Growth	% of Total
United States	$28.070	4%	33%
Asia	$27,590	7%	33%
Western Europe	$15,290	2%	18%
Latin America	$4,960	13%	6%
Poland/Eastern Europe & Russia	$3,730	9%	4%
Australia/New Zealand	$1,850	4%	2%
Canada	$1,530	5%	2%
Middle East	$830	9%	1%
Africa	$660	9%	1%
Total Global Supplements	**$84,500**	**5%**	**100%**

Source: Nutrition Business Journal, derived from a variety of sources ($ million, consumer sales). Secondary souces for global data include Euromonitor International, Nicholas Hall's global OTC database, DB6 2011, FiBL, IFOAM, United States Commercial Service, IADSA member associations, Organic Monitor, James W. Dudley, Zenith International and many others.

ited range, mainly **BioCare** from the U.K. With personal care, it's the German brands like *Dr. Hauschka*." When it comes to food, Al Accad points to **Nature's Path** and **Amy's Kitchen** as two of the larger in-store U.S. brands he stocks.

Dr. Moataz Bellah Ahmed is assistant regional manager for **Dr. Nutrition Center**, a supplement retailer owned by **Al Ghaith Holdings** with more than 40 branches across the Arab states of the **Gulf Cooperation Council**. Dr. Ahmed signals out "slimming teas & creams" as his most popular product category, and such brands as **Source Naturals** (U.S.), **Helan Laboratories** (Italy), **Bolero** (Bulgaria), **Balance** (Belgium) and **Neodoce** (Portugal) as top sellers throughout the stores.

Turkey, the proverbial gateway between East and West, is counting its lucky stars for the prolonged lack of clarity surrounding its entry into the European Union. As that union bursts at the seams, Turkey's vibrant, business-friendly economy provides an ever more fertile platform for expansion into the Middle East, and, with the right partnerships in place, a viable market for Western products. MLMs such as Herbalife, **Amway** and **Oriflame** have found success in the market, as long as they build a robust local presence. "As it has been proven by quite a few cases," says Hakki Ozmorali of **DS Consultancy**, "a direct-selling company without a physical presence only hinders its growth in Turkey."

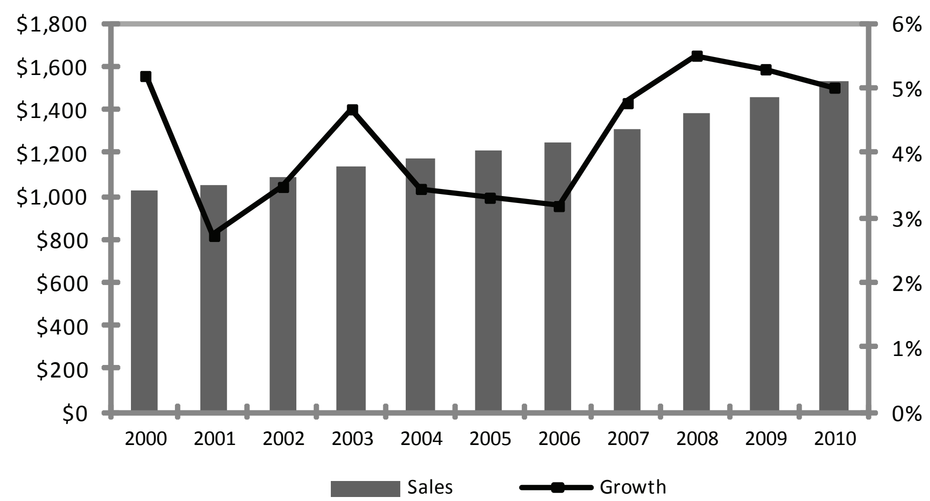
Africa: GMO Battleground

Africa saw steady growth of approximately 9% in 2010 for both supplements and broader nutrition sales. The market remains highly fragmented, with an emerging middle class in South Africa the most obvious target for such discretionary products as supplements and health food. According to Zambetti, the northern countries still feel like the Wild West—"there's a lot of opportunity there, but it's not going to be easy."

With famine raging across Horn of Africa in the east, Africa continues to serve as something of a crucible for the biotechnology industry and its promulgation of genetically modified crops to better feed the world. In July 2011, Kenya joined South Africa, Egypt and Burkina Faso in allowing the import and production of GM seed. Tanzania, Uganda, Malawi, Mali, Zimbabwe, Nigeria and Ghana continue to investigate the issue, with Ghana worthy of special focus after **WikiLeaks** exposed cables from U.S. embassy officials in Accra requesting canvas funds for a visiting biotechnology expert in advance of the Ghanaian government's consideration of a biosafety bill. U.S. producers supply roughly one-third of Ghana's rice, according to this cable, with total food exports to the country of $86 million.

As rural populations come to the cities, adapt to industry, and begin to demand better wages and conditions, low-cost manufacturing appears to be leaving China and India for expansion considerations in Northern Africa and Southeast Asia. Sources for this article mentioned Chad, Sudan and Kenya as areas of increasing focus, and Indonesia as a clear winner in the very near future. **Nestlé** announced investments in Indonesia ($200 million) and Thailand ($120 million) this September for the construction of a new factory and a new quality control center. The facility in Karawang, Indonesia will be the company's fourth in the country upon completion in early 2013.

Canada Supplement Industry Sales & Growth, 2000-2010



Source: Nutrition Business Journal *estimates ($mil., consumer sales). Derived from a variety of sources, including* NBJ *company interviews and surveys, Euromonitor, Nicholas Hall, FiBL, IFOAM, U.S. Commercial Service, IADSA member associations, Organic Monitor, James W. Dudley and many others.*

Australia & New Zealand: Glum

Good news for food producers here, as natural & organic posted 13% sales growth in 2010, only to be outdone by 14% growth in functional. Supplements posted a more tepid 4% growth to reach just shy of $2 billion in annual sales.

The future is less rosy, however, after new research by the **Australian Food & Grocery Council** (AFGC) posits a loss of 136,000 sector jobs by 2020. Fifty-five percent of survey respondents were negative about the industry's future, thanks to a too-strong Australian dollar, excessive concentration in retail (**Coles** and **Woolworths** enjoy a combined penetration surpassing 80% in many supermarket categories) and volatile pricing in global commodities. The federal government's institution of a carbon tax beginning in July 2012 clouds the outlook further, as AFGC estimates its impact on certain industries—dairy and meat, specifically—at 11% of pre-tax profits.

In New Zealand, **Fonterra** grew weary of the vicissitudes in organic dairy, scaling back operations and, in effect, abandoning the category. "Consumers are gaining more confidence that everyday products are being produced more sustainably and are more acceptable," says Group Director Kelvin Wickham in a statement. "They no longer see the need to pay the premium for most organic products."

Canada: Cold-Fx to the Rescue

Canada's growth rates closely tracked the U.S. in 2010, but one product sprung to the top as a true market differentiator in supplements. *Cold-Fx*, a ginkgo immunity booster from **Afexa Life Science**, runs $50 a bottle or more, but that hasn't stopped it from becoming the No. 1 cold & flu seller in Canada. "*Cold-Fx* is a major, major product up here," says Ian Newton of **Ceres Consulting**. "It was launched in the States, but I don't think it ever really made it off the ground. The product is very expensive, but when the cold season comes around up here, people ask for it by name."

'Coke and Fries' Debacle a Setback for Integrative Medicine

In October of this year, a peculiar misstep in the Australian supplement market shed light on the chilly reception that supplement makers continue to face in the world of conventional medicine.

In September, **Blackmores**—Australia's leading supplement company—made public its partnership with the **Pharmacy Guild of Australia**—an organization representing 94% of Australia's pharmacies—to introduce a line of four supplements for pairing with pharmaceutical prescriptions. Dubbed the *Companion* line, the supplements were specially formulated to complement antibiotics and drugs for blood pressure, cholesterol, and gastrointestinal problems. Computer prompts were to remind pharmacists to offer advice on *Companion* products whenever consumers purchased the matching prescriptions—a statin prescription, for example, would initiate a recommendation for Blackmores *STAT Companion* CoQ10/vitamin D3 product. Blackmores estimated that the supplement line could ultimately be matched with up to 58 million prescriptions a year. On paper, the deal held great promise for the further integration of natural products into mainstream medicine, not to mention a handsome new income pool for pharmacists.

According to Tom Aarts, principal at **Nutrition Capital Network** and chairman of *NBJ*'s advisory board, the deal looked like the future in action. *NBJ* published an editorial by Aarts in July, wherein he envisioned a time when supplements and medicine would share common ground. "The medical establishment will move towards an integrative approach," he wrote of an idealized future. "Doctors will accept key nutraceutical products as alternatives to drugs or in concert with drugs to prevent disease and reduce healthcare costs." Doctors and pharmacists, however, weren't so impressed by the initiative, and accused the Guild of scheming with Blackmores for economic gain. Medical leaders questioned the supplements' scientific merit and the ethics of putting words in pharmacists' mouths.

Then, in what's sure to go down as one of the most tragic healthcare analogies ever spun into a sound bite, Blackmores CEO Christine Holgate told Australia's *Pharmacy News* in late September that the *Companion* line offered the "Coke and fries" to pharmaceutical drugs' proverbial burger, adding that it would generate an important new revenue stream for pharmacies. Australian newspapers ran with the "Coke and fries" headline, positioning the *Companion* line into a "**McDonald's**-like" profit-mongering scheme, inciting furor from both consumers and the medical community.

"I think the evidence for Coke and fries is about the same as the evidence for these [supplement] products," said **Australian Medical Association** head Steve Hambleton in the *Sydney Morning Herald*. **Chemist Warehouse**, a chain of large-scale pharmacies, put up signs in all of its 189 stores proclaiming, "Our pharmacists' recommendations are NOT FOR SALE." Some independent pharmacists even jumped ship from the Guild.

Blackmores tried their hand at damage control. "The *Companion* range is four products that are backed by scientific evidence and they have been developed in response to specific consumer needs," wrote company chairman Marcus Blackmore in a public statement. "Any criticism of their potential benefit highlights the need for further healthcare professional education on medicine-related nutrient deficiencies." After continued pressure and public outcry, the Guild reneged on the *Companion* line on October 5.

Wayne Coote, managing director of Australian ingredients supplier **Pathway International**, calls the situation a disaster, and suggests that Blackmores' efforts at being transparent were only a hindrance. "They were doing well in pharmacy anyway," he says. "You don't have to put it on the radar." By that logic, maybe the world isn't quite ready for the open marriage of supplements and conventional medicine, an unfortunate implication considering the deal's promise.