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Canada

International Markets Bureau

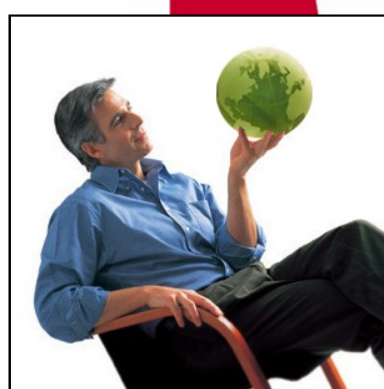
MARKET ANALYSIS REPORT | AUGUST 2010

Overview of the Global Sports Nutrition Market

Food, Beverages and Supplements

Source: Mintel

Source: Mintel



Growing Forward

Canada

EXECUTIVE SUMMARY

Sports nutrition is slowly moving from the niche markets of gyms and health food stores to mass-market outlets. Driven by new ingredients, packaging formats and changing consumer behaviour, sport products are finding their way into supermarkets and convenience stores to satisfy consumer demand for healthy and convenient lifestyle solutions. However, authenticity and efficacy remain big challenges for the sports nutrition market (Euromonitor, 2009) since consumers tend to be skeptical of the validity of the claims. Historically, consumers of sports nutrition products have been bodybuilders and athletes. This is changing as weekend sports enthusiasts and lifestyle users are creating new market opportunities for food manufacturers.

Globally, the market for sports nutrition products (excluding sport beverages) is estimated at US$4.7 billion (Euromonitor, April 2010), of which, the United States (U.S.) is the largest consumer, representing approximately two-thirds of the world market in both volume and value of retail sales. Sports nutrition products can be categorized as food, beverage or supplements. Sports food and beverages include bars, sports drinks, and gels, whereas sports nutrition supplements include performance enhancers, metabolic/fat burners, muscle builders, meal replacements, weight gainers, and energy formulas sold in tablet, powder or ready-to-drink formats. The growth rate of these discretionary products has been affected by the global recession and changing demographics.

INSIDE THIS ISSUE

Source: *Mintel, GNPD, 2020*

THE CONSUMER

Consumers are increasingly demanding healthy and convenient lifestyle solutions, and sports nutrition products are one option that meets this need. The consumers of sports nutrition food, drinks, and supplements can be segmented into four different groups—bodybuilders, pro/amateur athletes, recreational users and lifestyle users:

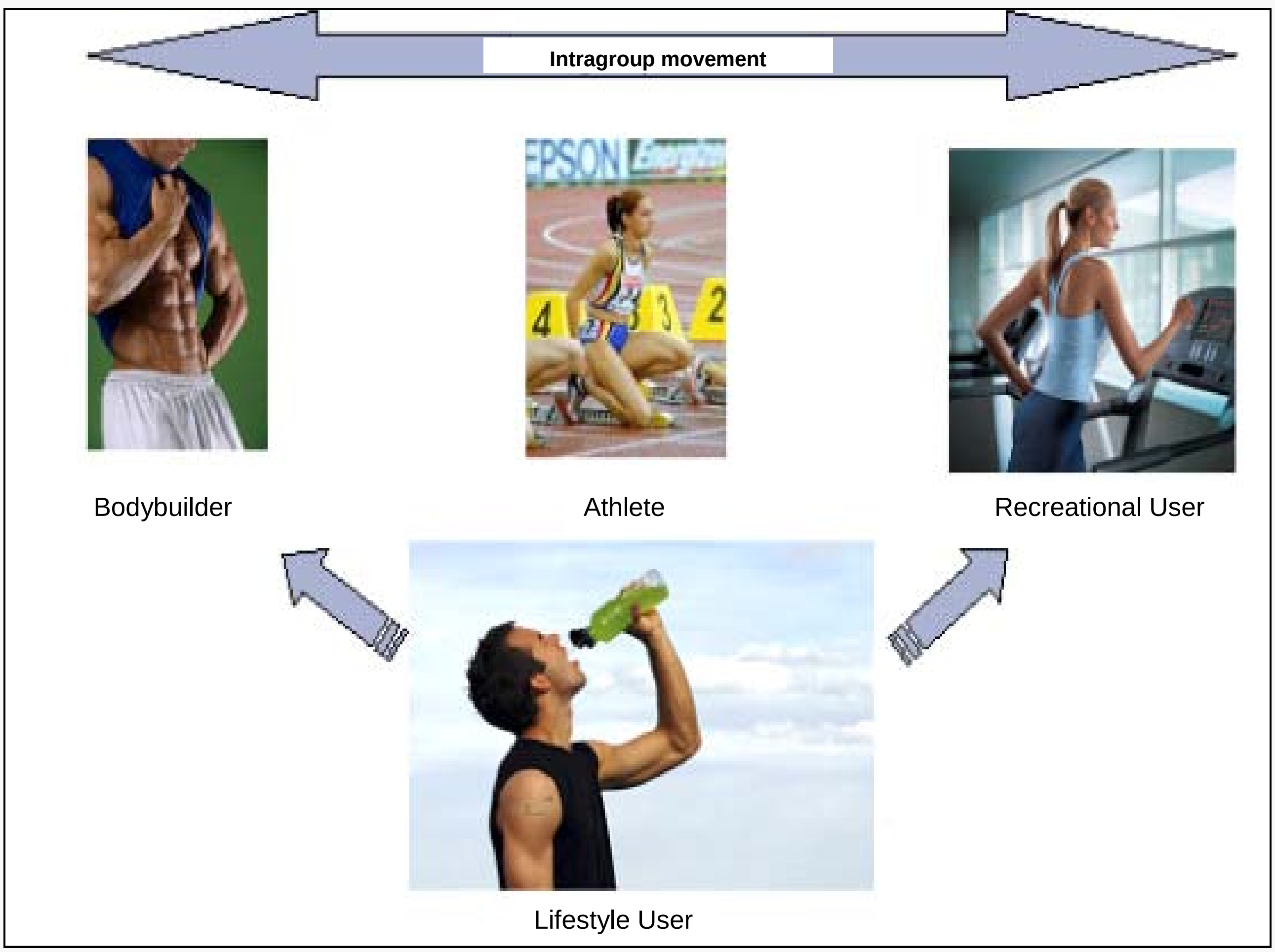
- Bodybuilders are consumers who engage in the sport of bodybuilding, which entails building up muscle through a combination of weight training and increased caloric intake.
- Athletes include all professional sportspeople, with the exception of bodybuilders.
- Recreational users represent non-professional sportspeople who do not reach the same levels of physical exertion as athletes and bodybuilders. This consumer is someone who engages in sport as a hobby on the weekend, or is a fitness enthusiast.
- Lifestyle users are consumers who do not use sports nutrition products for sports or exercise purposes. People within this group mainly consume sports nutrition products as a refreshing beverage, a quick meal replacement or simply a healthy snack. Consumers within this group may also use sports nutrition products to provide an energy boost during illness, or even when feeling tired. Lifestyle users are the fastest growing group of users of sports nutrition products and are becoming a crucial part of the market. These consumers want to feel that they are engaging in healthy practices through consumption, so products must be positioned as a great tasting, healthy indulgence (Datatmonitor, 2006).

THE CONSUMER (CONTINUED)

Bodybuilders and athletes have been the traditional consumers of sports nutrition products, particularly supplements; however, there is growing interest in these products from recreational and lifestyle users. What has become apparent is that there has become less of a distinction between the groups as illustrated in Figure 1. The positioning of sports nutrition products has increasingly shifted to the new consumer groups of recreational and lifestyle users. Sporting professionals tend to seek out more scientific, specialized product formulations. By contrast, sports and energy drinks are now increasingly associated with fewer sports-related drinking occasions and some energy drinks are even gaining popularity as a mix for alcohol. Manufacturers have placed more emphasis on attributes associated with normal soft drinks, such as product packaging and flavouring. Advertisements feature everyday consumers playing sports rather than world-famous sportsmen and women. This movement ultimately reflects the blurring of the lines between consumer groups, with products needing to offer something to satisfy all groups.

As the market moves toward better tasting products that appeal to lifestyle users, more serious athletes and bodybuilders will require more effective, targeted, sports nutrition products. These consumers will want to disassociate themselves from the recreational and lifestyle users and products, so foods and beverages targeting this market must emphasize their scientific benefits (Datamonitor 2006).

Figure 1: Consumer Segmentation of Sports Nutrition Products



Source: *Datamonitor 2006*

THE CONSUMER (CONTINUED)

The majority of Canadians perform at least some exercise on a weekly basis. Nielsen research in 2009 reported that 72% of Canadians reported exercising at least 'once or twice a week,' while only 10% claimed that they never exercised (Datamonitor 2009). As the number of overweight and obese Canadians remains fairly high, and the link between extra weight and health becomes increasingly evident, many consumers are changing their routines to incorporate more exercise. These consumers fall into the category of lifestyle and recreational users of sports nutrition products. According to a 2008 Fitness Industry Council of Canada survey, approximately 15% of Canadians have a fitness club membership. This trend is further supported by vanity and health concerns among younger Canadians, especially young, single professionals, who pay more attention to their physical appearance and body shape. These tendencies help to support sales of sports nutrition food, beverages and supplements (Euromonitor International, 2009).

DRIVERS

There are three trends driving the sports nutrition market. First, innovative, new, effective and proven ingredients which aid in building muscle and improving endurance are expected to drive demand for sports nutrition products. Bodybuilders and athletes are early adopters of such products.

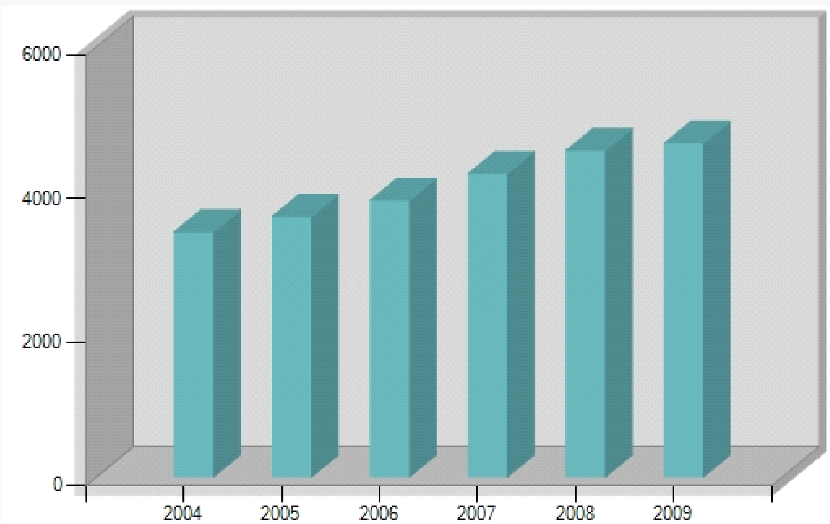
Second, health concerns and an interest in personal appearance are common to all consumer groups. Obesity is becoming one of the biggest public health concerns in North America and globally. In addition, there is increasing concern from consumers around the world regarding physical appearance. One trend that is becoming more prevalent is the targeting of consumers interested in weight management. For instance in the U.S., Clif Bar has rolled out Clif Mini Energy Bar, which is approximately half the size of a regular Clif Bar. This product targets on-the-go consumers looking to better control their portion sizes and waistlines.

Third, companies are increasingly targeting a growing consumer base of recreational and lifestyle users. Food manufacturers are creating a new demand by positioning their products for a wider consumer group, and making products more accessible through mainstream mass-market retail formats such as convenience stores, supermarkets and hypermarkets. This targets on-the-go business people, working mothers, outdoor enthusiasts, weekend warriors and anyone in between looking for a quick and easy, healthy, energy boost (Euromonitor, 2009).

SPORTS NUTRITION PRODUCTS MARKET AND MARKET SIZE

According to Euromonitor, the global market for sports nutrition was valued at US$4.6 billion in 2009 (note: these figures do not include sports beverages). Growth was nominal from 2004-2009 and reached a plateau in 2009, as illustrated in Figure 2. Overall, the sport nutrition market has been affected by the global economic recession, particularly in the U.S., which accounts for approximately two-thirds of the consumers in the market. The market for sports drinks has reached maturity, whereas there is growth opportunity in sports and energy bars as they expand their product attributes to attract new consumers.

Figure 2: Sports Nutrition Global Retail Sales – US$millions

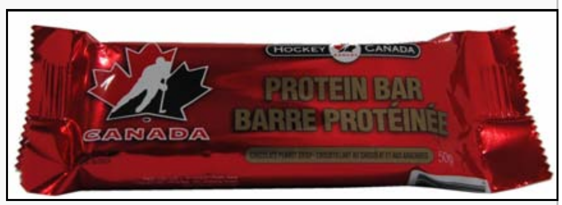


Source: *Euromonitor International 2010*

SPORTS FOOD

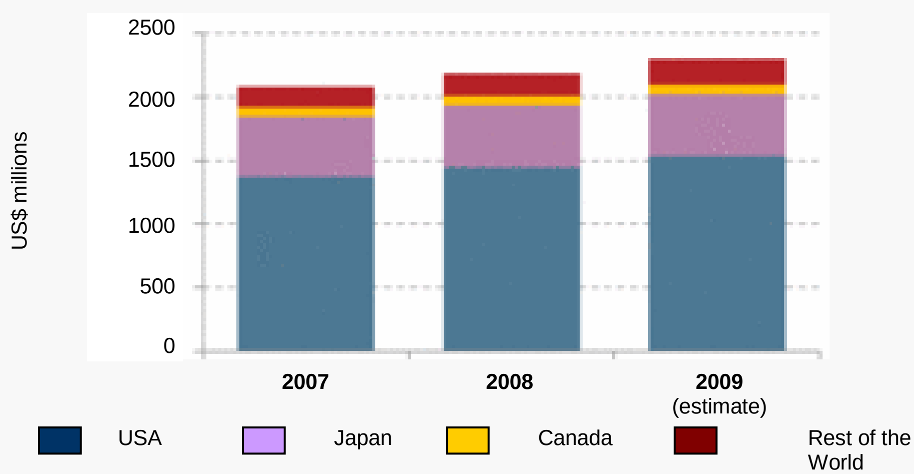
Sports food is typically found in a bar format that is nutrient dense and leverages the functional food proposition; that is, it provides health benefits that go beyond their nutritional value. These products include energy/endurance bars, balanced nutrition bars and protein bars. Energy and endurance bars maintain blood-glucose levels during exercise and contain a high concentration of carbohydrates, with typically moderate amounts of protein and fat. Balanced bars have very evenly balanced nutritional profiles which contain similar proportions of carbohydrates, protein and fat. Protein bars are targeted at bodybuilders to help them achieve their muscle mass and strength goals (Datamonitor 2006). These food products speak to the health and wellness trend and fill a need in the sports nutrition market and, therefore, retail sales of these products are somewhat insulated against the full force of the global economic downturn, particularly in the developed markets of Western Europe and North America (Euromonitor 2009).

U.S. consumers demonstrate the highest demand for energy and nutrition bars, representing two-thirds of global retail sales, while consumers in Canada rank third, as shown in Figure 3. Energy and nutrition bars have made steady gains since 2004, coinciding with the sustained rise of fortified and functional foods in general. Global retail growth remains strong, with a 5% gain expected in 2009, unchanged from the rate of growth seen in 2008. This growth is especially impressive given the comparatively high retail unit prices of energy and nutrition bars. Despite their high prices, energy and nutrition bars are still doing well because they leverage their functional food positioning to offer the widest range of purported unique selling points of any snack bar format. The category offers high protein and carbohydrate counts for aspiring athletes, while the same high protein content can appeal to dieters looking to suppress hunger, or to consumers simply looking for an energy boost (Euromonitor 2009).



Source: *Mintel, GNPD, 2010*

Figure 3: Global Energy and Nutritional Bars Retail Sales According to Country 2007-2009



Source: *Euromonitor, 2009*

SPORTS FOOD (CONTINUED)

Whey and soy are the dominant protein ingredients in sports food. Soy protein is favoured for satiety and weight management purposes and more snack bar producers are positioning soy as a naturally rich source of isoflavones, omega-3 and omega-6 fatty acids, thereby further merging naturally healthy and fortified/functional food positioning (Euromonitor 2009).

In Canada, healthy eating and convenience remained the key trends driving snack bar sales in 2009. Canadians are purchasing products that fit their hectic lifestyles, supporting the demand for snack bars. In addition to convenience, however, the health aspect of food consumption has become more important for consumers. An increasing number of Canadians are demanding healthier food products that contain lower levels of fat and sugar, as well as added vitamins and nutrients, to ensure that, although they are busy, they are able to maintain a healthy lifestyle. As a result, consumer preferences are having a positive effect on sales of many snack bars that are positioned as healthy snack alternatives in Canada (Euromonitor, October 2009).

In Canada, 2009 retail sales of energy and nutrition bars were valued at CAD$85.43 million; retail sales are expected to grow nearly 2% to reach CAD$93 million by 2014. Value growth will be achieved by higher prices, while volume sales are anticipated to decline slightly. Volume is weakening as the population of elderly grows in Canada. This shift in demographics has a negative impact on demand, as most energy bars are consumed by the younger generation. Despite the poor volume performance there continues to be an ongoing emphasis placed on healthy living, motivating greater levels of exercise. This continues to drive demand for more, higher-priced energy bars such as PowerBar Protein Plus bars. This product claims to contain higher levels of protein and carbohydrates to support heavy physical activity. In terms of distribution, energy bars have a wide distribution network and are sold through health food stores, gyms, sport clubs and other specialty stores that sell sport- and exercise-related products (Euromonitor 2009).

Source: *Mintel, GNPD, 2010*

SPORTS BEVERAGES

A sports beverage or drink is a non-alcoholic product that uses scientific analysis to claim to enhance physical performance during sporting activity and/or speed recovery afterwards. In this context, sports drinks are designed specifically to deliver both carbohydrates and fluid rapidly to the body (Datamonitor 2006). The sports beverage market is a mature market and has reached a saturation point for key consumers, specifically young adult males. This segment of the sports nutrition market will need more innovation to increase market penetration, if gains are to continue from 2009-2014. Industry is endeavouring to reach an older audience by positioning a natural, milder product that does not take the provocative marketing platform, common with most energy drinks (Mintel 2010).

In 2009, the American market was valued at US$1.6 billion and is forecasted to reach US$2.011 billion by 2014 (Mintel 2010); it represents 50% of the sports beverage market globally (Euromonitor 2009). Vitamin and mineral fortification is the dominant claim in a majority of new sports and energy drinks. The number of adults and teens drinking sports drinks remained at just under 40% during 2004-09. One way to increase sales is to develop new products with all-natural ingredients or lower calories to appeal to a healthier sports-oriented crowd. Sports drinks will face competition from a myriad of other beverages positioned as thirst quenchers, such as enhanced water, fruit juice and ready-to-drink tea (Mintel 2010).

SPORTS BEVERAGES (CONTINUED)

In Canada, sports drinks have been on the market for many years and are controlled by two major brands, Gatorade and Powerade, which are now mature. Volume sales of sports drinks declined in 2009 because Canadians were watching their budgets and curbing non-essential purchases (Euromonitor, May 2010). At the same time, market maturity and aging demographics are influencing sales. The Gatorade brand, owned by Pepsi-QTG Canada Inc., held approximately 71% of retail volume in the sports drinks category in 2009. They have kept their market share by offering different flavours and formulations that appeal to different consumer groups. Coca-Cola's Powerade brand holds 19% volume share in sports drinks. The market in Canada was valued at CAD$423 million in 2009. Functional water, as a low-calorie and low-sugar alternative to sports drinks, is becoming increasingly competitive and ingredients that burn calories rapidly are set to be added to sports drinks in order to satisfy the demand for these types of products (Euromonitor, May 2010).

Source: *Mintel, GNDP 2010*

Powerade Play Vitamin Enhanced Sports Drink is said to contain 100% more of the daily recommended intake of Vitamin C and 20% more of the daily recommended intake of vitamins B3, B5, B6 and B12, as well as zinc, than the leading sports drink. This Kosher drink also contains 25% less sugar.

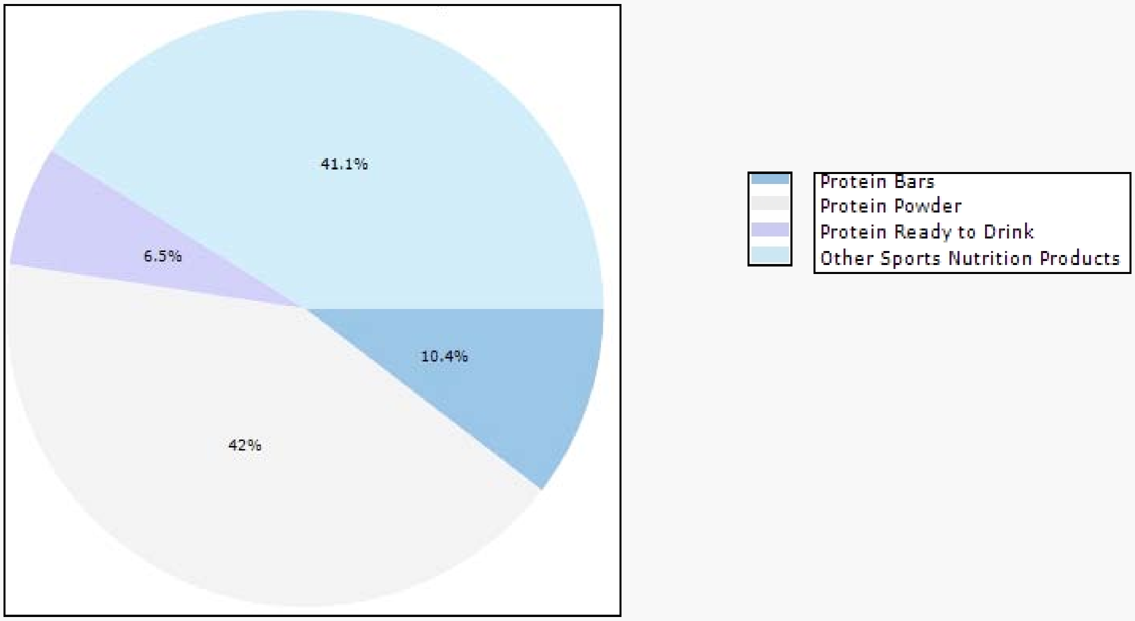
SPORTS SUPPLEMENTS

Sports nutrition supplements are used to build muscle and to provide an energy boost. These products include performance enhancers, metabolic/fat burners, muscle builders, meal replacements, weight gainers, and energy formulas and are sold in tablet, powder or ready-to-drink formats. These products are targeted at athletes and gym-goers. Typically, they contain one or more of the following ingredients: soy protein, whey protein, creatine, L-carnitine and amino acids. Historically, the users of sports nutrition products have been limited to bodybuilders and athletes, but this has now expanded to include recreational users and lifestyle users (Datamonitor 2006). Protein powders dominate the sports nutrition market with 42%, as shown below in Figure 4 (Euromonitor, March 2009).

In 2008, the global market for sports nutrition supplements was valued at US$4.2 billion. The market experienced strong growth until 2008, when growth gradually declined due to a lack of consumer confidence in spending on discretionary products, as a result of the global recession. However, annual market growth is expected to continue at 2.2%. Globally, the U.S. is the largest market for sports nutrition supplements and represents 63% of the value. Mexico is the second largest market with US$192 million in retail sales, followed closely by the United Kingdom with US$172 million. Japan has a market size of US$87 million, while China and India have negligible sports nutrition retail sales (Euromonitor 2009). Canadian retail sales of sports nutrition supplements grew by 3% in current value, and totaled CAD$114 million (Euromonitor 2009). In Canada, protein and creatine-based supplements purchased through mainstream and speciality channels are product leaders. Canadian regulations require pre-market approval and a product licence from Health Canada. Amino acids are only allowed under particular circumstances. As a result, not all products containing amino acids are legally allowed for sale. For instance, L-carnitine is banned in Canada altogether, and products containing L-carnitine may not be shipped to or sold in the country (Euromontior, 2009).

SPORTS SUPPLEMENTS (CONTINUED)

Figure 4: Global Retail Value of Sports Nutrition According to Percentage Breakdown in 2009



Source: *Euromonitor*

EMERGING TRENDS

Emerging trends in sports nutrition products are focused on providing consumers with new sensory experiences, leveraging new technology, and developing healthy and convenient nutritional products. Food manufacturers are bringing new experiences to energy and nutrition bars through new formats, and new flavours, and by combining the desire for indulgence and health with day-to-day consumption. Energy bar manufacturers are re-positioning their products to offer similar benefits as energy and sport drinks, without their usual caloric content. Augmenting the indulgence element of sport and energy bars is also becoming more important, with the industry placing more emphasis on decadent flavours, such as chocolate and new and exotic fruit flavours, to boost product appeal (Euromonitor, October 2009) and complementary health benefits (Euromonitor, December 2009).

Leveraging new technology is an important trend within the category; products with features such as faster absorbing ingredients, compounds with electrolytes, and amino acids are examples. These products can be found in either a powder or tablet format. Sports nutrition started with simple powder formats, but convenient packaging is playing an increasingly important role. Ready-to-drink formats and bars are easy to carry and consume on-the-go. Pouches and gels represent the latest development to hit the market, and appeal to consumers because they are lighter to carry and ideal for just one workout session (Euromonitor, July 2009).

Health-orientated innovation in the global snack bar market is expanding from traditional vitamin enrichment to more advanced benefits, such as antioxidant fortification, high levels of whey protein fortification for sports nutrition and energy-boosting purposes, and sophisticated weight management products. Snack bars fortified with soy protein still represent an emerging category with substantial opportunities, targeting recreational and lifestyle users. New products combining indulgent flavours and ingredients with purported health benefits are also gaining traction, as is investing in and developing healthy lines that target children and women (Euromonitor, December 2009).

MARKET CHALLENGES

Food manufacturers entering the sports nutrition market will encounter numerous challenges, ranging from the need for continuous innovation, to expanding distribution channels, to competition from substitute products within and outside the sports nutrition market. To be competitive, companies will need to move from specialized distribution channels such as health clubs, health stores and on-line shopping, to mass consumer marketing in supermarkets and convenience stores. Companies will need to constantly innovate to meet the consumer's growing demand for the latest and most effective ingredients.

Source: *Euromonitor*

In addition, food manufacturers must be able to gain consumers' confidence in the efficacy of new ingredients. Sports food will be met with strong competition from meal replacements and other slimming products. In addition, sports bars will be met with direct competition from breakfast/cereal bars and confectionery products. Sport beverages are a mature market dominated by Pepsi and Coca-Cola, making it a very difficult market to penetrate. Sports food, beverages and supplements are also all in competition with one another, creating additional challenges for companies as they attempt to differentiate their products.

CONCLUSION

Product positioning and price will be key for manufacturers of sports nutrition products as they expand their consumer base from the traditional users (bodybuilders and athletes) to recreational and lifestyle users. A "one-size-fits-all" approach will not work; traditional users will focus on the scientific benefits behind the products, while lifestyle users will view these products as a healthy convenient indulgence. Customized solutions are essential and manufacturers must focus on health benefits. Affordability is still crucial to market expansion, as these products are considered non-essential by most consumers. Sport foods, and particularly sport and energy bars, are weathering the economic recession and appear to have the greatest potential. Market immaturity for sport and energy bars, even in markets like the U.S., and mounting consumer health concerns, mean that there is significant first-mover advantage for food manufacturers, both across the category and in markets around the world.

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