

Digestive Health Products Far Outpacing OTC Market Growth: Probiotics Lead the Way

Introduction

The market for digestive health products has undergone massive changes over the past several years. Once only known for the benefits of digestive health, these products now claim benefits of immune support, women’s health benefits (Ph benefits and vaginal health), nutrient absorption improvement, and even products that help with brain and cardiovascular health.

Moreover, there is a wide variety of probiotic supplement forms available, such as drinks, sodas, chews, cubes, gummies, and prefilled straws. Furthermore, whole food sources of probiotics, as well as new snack foods, such as chips, chocolates, and others, are all becoming popular with today’s increasingly demanding consumers. Even topically applied skin care products are making waves in the market. Skin care brands such as Tula have introduced probiotic-based skin care. We define the digestive health market to include the following types of products:

- Probiotic supplements (refrigerated and shelf-stable supplements including those that combine prebiotics and/or digestive enzymes, with probiotics)
- Probiotic beverages (including select kombucha and kefir brands)
- Digestive enzymes

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To be clear, digestive health products are different from traditional OTC digestive remedies in that they help users maintain a healthy gut and often make vague claims about digestive health and immunity. OTC digestive remedies are monograph products, such as antacids, laxatives, and anti-diarrheal medications, sold without a prescription that are used to treat minor digestive ailments. These traditional OTC digestive remedies have claims of treating mild or infrequent heartburn/acid indigestion/sour stomach, periodic constipation, and episodic diarrhea and are not included in this analysis.

While the U.S. OTC market has struggled to find real growth in recent years, digestive health brands have grown rapidly, by double digits year over year in the recent past; as a result, it is important for marketers of traditional OTC brands to understand the impact of these products on their business.

Probiotic supplements are available in shelf-stable forms or forms that require refrigeration, which allows more bacteria to remain alive. Refrigerated probiotic supplements typically contain more strains of live bacteria than most shelf-stable products and are significantly more expensive, retailing between \$25.00-\$50.00, almost double the price of shelf-stable probiotic brands. Both shelf-stable and refrigerated probiotics contain live bacteria which introduce good bacteria into the digestive system.

Probiotic beverages are the second-largest digestive health market segment, behind probiotic supplements, but beverages are the fastest-growing segment. These include kombucha and kefir brands. Kombucha are fermented teas that contain yeast and bacterial cultures, while kefir is made from the milk of cows, goats, or sheep, coconut, rice, or soy, and is fermented at low temperatures with bacteria cultures. Probiotic beverages require refrigeration and tend to be sold through more traditional mass channels of distribution, such as food stores and mass merchandisers.

Digestive enzymes are a small but familiar segment of the digestive health market, known to help with the digestion of food by aiding in the breakdown of nutrients. While additional health benefits of digestive enzymes are being studied, research indicates that enzymes such as lactase help digestion, reduce gut inflammation, reduce gas, and boost immunity.

Key findings

Consumer awareness

- Initially more popular in Europe, the use of probiotics in the United States has grown significantly over the past decade, in line with the holistic approach to self-care, which involves eating healthy and organic foods, taking supplements, exercising, and managing stress.
- Probiotics are increasingly considered supplements for maintaining healthy lifestyles due to the added benefits of digestive health, increased immunity and maintenance of Ph balance, and nutrient absorption.
- U.S. consumers initially learned about the benefits of probiotics from large-scale advertising campaigns for functional food such as yogurts. One important campaign—Dannon’s massive consumer campaign for Activia featuring actress Jamie Lee Curtis—has made a significant impact on consumers’ awareness about the benefits of ingesting probiotics.
- At the same time, retailers have embraced and featured this growing digestive health market segment. Scores of drug stores, mass merchandisers, supermarkets, and health and specialty stores stock probiotics on their shelves. Even traditional supermarkets shelve probiotic drinks, such as kefir or kombucha.

Increased research and link between probiotics and other health benefits

- Research supports the use of probiotics for minor digestive ailments including constipation, diarrhea, particularly during treatment with certain antibiotics, treating heartburn and indigestion, and speeding treatment for intestinal infections.
- Some findings even indicate that probiotics help with Irritable Bowel Syndrome.
- Some studies also support the use of digestive enzymes to help with lactose intolerance.
- Women's health is also at the forefront as research has explored the link between probiotics and reducing the incidence of urinary tract infections (UTI) and vaginal infections. As a result, probiotics targeted at women's health have proliferated.
- Additional research studies show a connection between probiotics and immunity. Studies show that bacteria found in probiotics assist in the maturation of immune cells and helps reduce undesirable bacteria in the body. Digestive health brands are increasingly making immune-boosting claims.
- Skin care products, such as the Tula line, include superfood and probiotic ingredients and make claims of hydrating, nourishing, and repairing skin.

Dairy-free probiotic beverage sold at supermarkets and specialty stores.

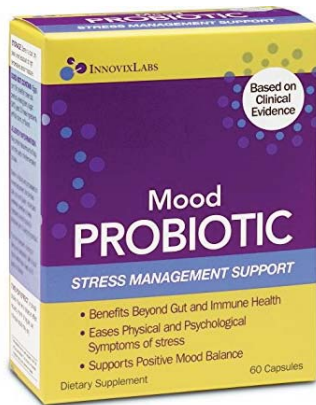


Tula's probiotic skin care line

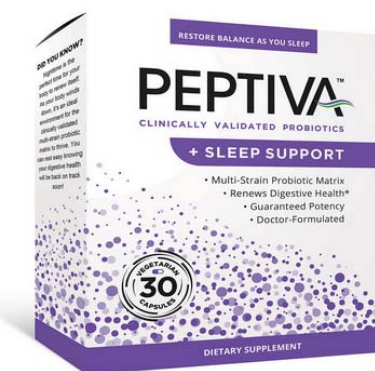


Select probiotics with added benefits

InnovixLabs Probiotic that claims to enhance one's mood and ease physical and psychological symptoms of stress.



Added benefits of sleep are now offered with Peptiva, which offers Sleep Support.



Herbalife has announced a new probiotic featuring Ganeden's BC30 strain.



Next big trend: microbiome

- Products that focus on the gut microbiome are likely to become the next big thing in digestive health. The gut microbiome is made up of an ecosystem of organisms, such as bacteria, yeast, fungi, viruses, and protozoans, that live in each person's gut.
- Increasing research suggests that certain mental health issues and brain diseases can be diagnosed by analyzing gut bacteria. These germs are considered to be mood-altering "psychobiotics" and may have a positive effect on the mind.
- In addition, the gut microbiome is said to influence athleticism, immune function, inflammation, allergies, and weight and metabolism.
- Other research suggests that the microbiome is linked to post traumatic stress disorder and is said to potentially help diagnose and slow the progress of degenerative brain diseases, such as Parkinson's and Alzheimer's.
- There are numerous prebiotic products and probiotics on the market that claim to help the gut microbiome. This segment is currently small as the research on microbiome is nascent. However, if research shows that such products can impact the microbiome and positively help impact weight, metabolism, allergies, immunity, inflammation, or brain/mood disorders, this segment could experience exponential growth.

Select probiotics with microbiome claims

ThinkBiome has the Biome PLUS product



Microbiome markets Microbiome Plus+ Gastrointestinal (Probiotic and Prebiotic Combo)



Targeted health benefits

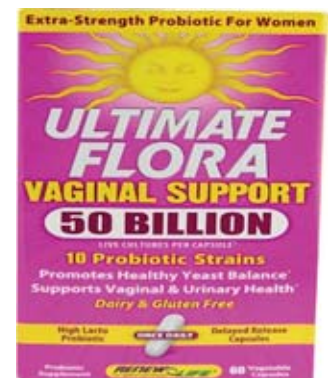
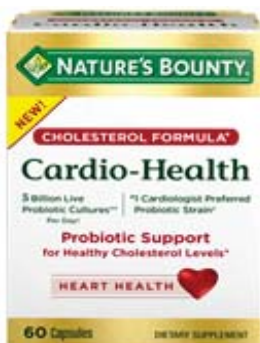
- Increasingly, manufacturers are segmenting their probiotic lines to target individual consumer needs by offering a customized approach to digestive health and added benefits for other health conditions.
- Brands such as Ultimate Flora (Renew Life Formulas) and Dr. Formulated (Garden of Life) offer products specifically for women, men, prostate health, and many other conditions.
- Family Flora markets a pediatric probiotic that claims to help support ear, nose, and throat health in children ages 2 and over.
- Nature's Bounty launched a new probiotic aimed at improving cardiovascular health and healthy cholesterol levels.
- Even CVS' private-label probiotic line includes several customized products, including immunity defense, aging, and active living formulations.

Select probiotic brands with targeted health benefits

Nature's Bounty Cardio Health

America's Naturals Launches E.N.T Care

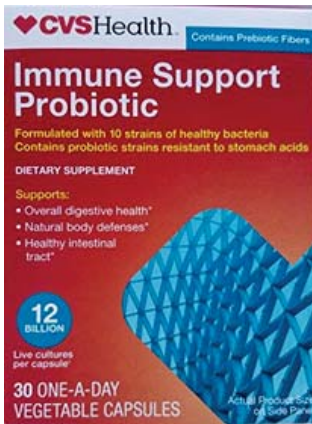
Ultimate Flora Vaginal Support



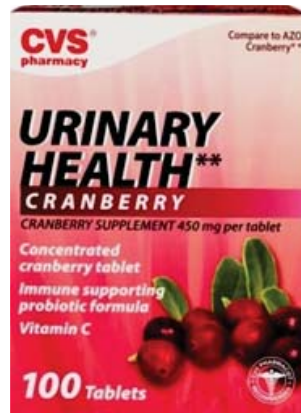
IRi
Growth delivered.

Select probiotic brands with targeted health benefits (Continued...)

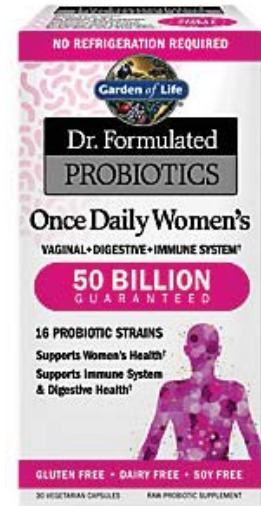
CVS Immune Support Probiotic



CVS Immune Support Probiotic Formula for Urinary Tract



Dr. Formulated Probiotics for Women

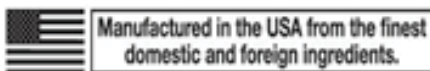


Claims

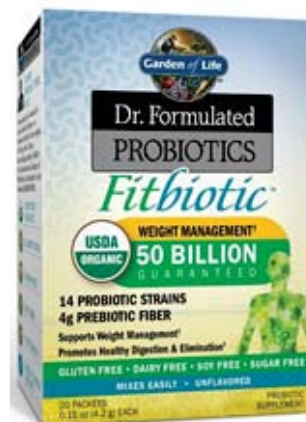
- The FDA regulates probiotics as supplements. There is no monograph for probiotic ingredients, indications, or claims.
- Many probiotics, like other supplements, make general claims such as “supports immune health” and “maintains digestive health,” but all include the standard disclaimer that, “The claims have not been evaluated by the FDA. The product is not intended to diagnose, treat, cure, or prevent any disease.”
- It can be said that the FDA’s stance on digestive health brands’ claims has been hands-off, as long as companies do not make outlandish health claims.
- Moreover, given the preventive nature of probiotics, there are relatively few consumer complaints about the products to the agency.

Select claims made on probiotics

Probiotic manufacturers' disclaimer of statements not having been evaluated by the FDA.



Dr. Formulated Probiotics makes claims of weight management.



Digestive enzyme claims of supporting hard-to-digest carbohydrates and help reduce bloating and abdominal discomfort.



New delivery forms of probiotics

- There are many new forms of probiotics on the market, with marketers becoming innovative in their offerings and appealing to consumers' tastes in different formats.
- While the majority of probiotics are still in capsule form, new delivery forms include drinks, sodas, chews, cubes, liquids, gummies, effervescent powders, and prefilled straws.

Select probiotics in various delivery forms

GoodBelly Probiotic Straight Shot



GT's Living Foods launched Alive Probiotic Ciders line



Lifeway launches Elixir line of non-dairy sparkling organic beverages



Nature's Bounty Chocolate



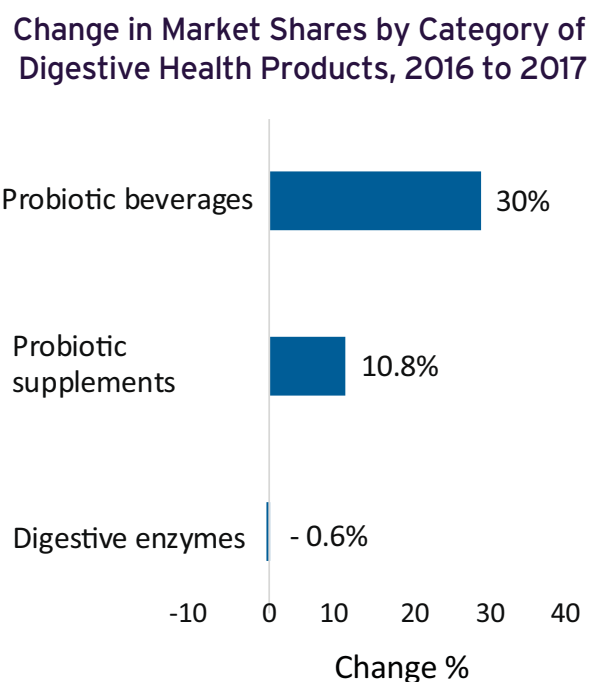
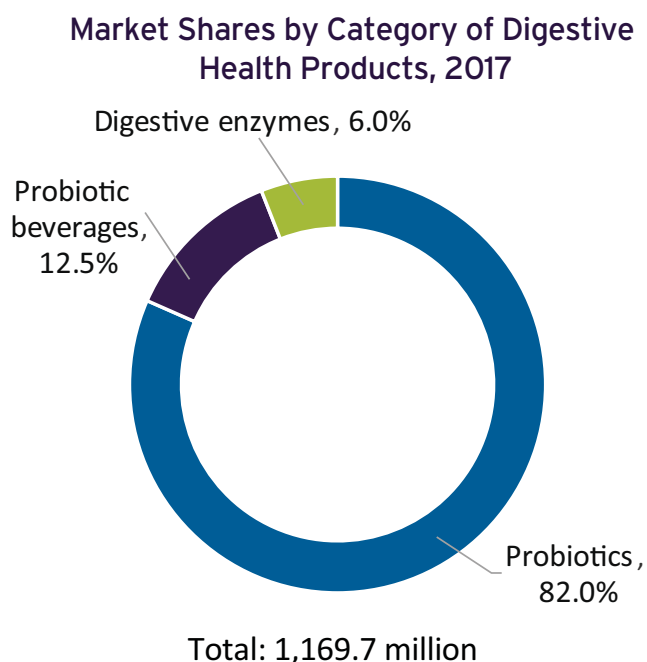
Schiff Digestive Advantage Probiotic Gummies



Market size and growth

- Manufacturers' sales of digestive health products in the United States are estimated at \$1,315 million in 2017, up 12.4% from \$1,169.7 million in 2016.
 - Probiotics is the largest category in the total digestive health market with a market share of 82%, with probiotic beverages and digestive enzymes following, at 12.5% and 6.0%, respectively.

Market Shares and Change by Category of Digestive Health Products,



SOURCE: Kline & Company's *Digestive Health, Immunity and Probiotics: U.S. Market Analysis and Opportunities*.

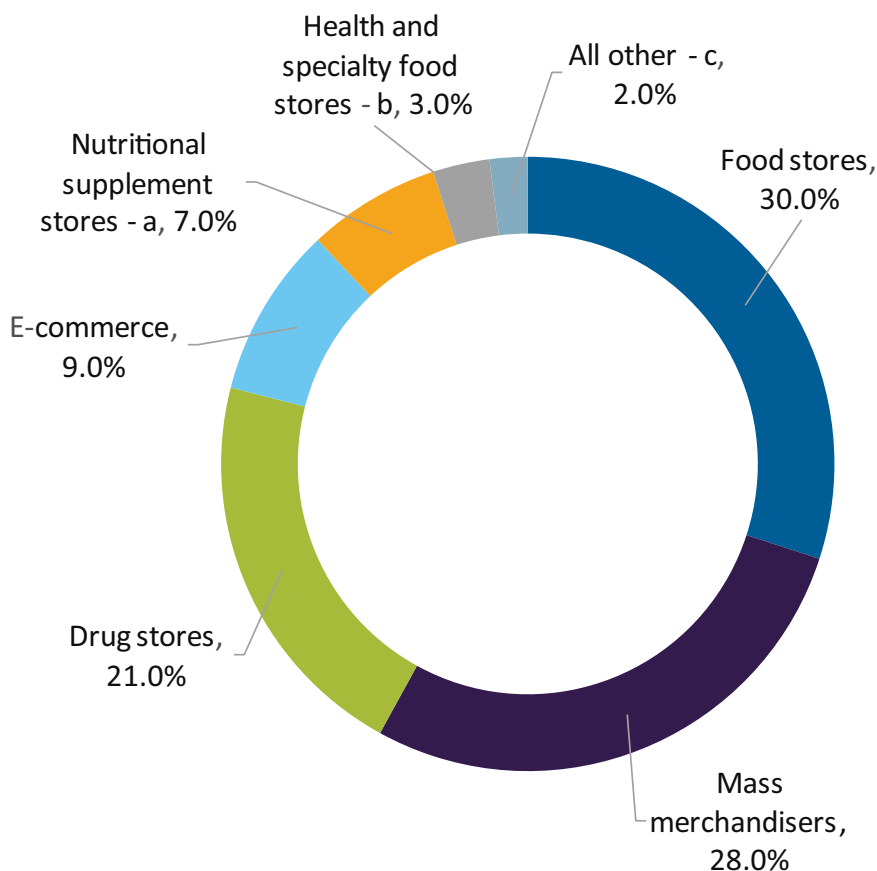
Competitive landscape

- The market for digestive health is highly fragmented, stretching from small, independent brands, such as Suja Life and Health-Ade, which record approximately half a million in revenues at the manufacturers' level to Royal DSM, the largest company holding the biggest proportion of the market, with its Culturelle and UP4A Happier Inside brands.
- Major marketers in this category include Royal DSM with Culturelle, Procter & Gamble with Align, Bayer markets the Phillips Colon Health and One-A-Day Trubiotics lines, and Pepsi Company with its Kevita and Tropicana Essentials brands.
- A number of consolidations has taken place over the past several years, which resulted in some large CPG companies to become major players in digestive health products, especially probiotics. In 2016, Clorox purchased Renew Life, The Pepsi Company purchased KeVita brands, Clarion Brands purchased Florajen, and Royal DSM acquired iHealth, UP4 A Happier Inside, Amerifit, and UAS Labs.

Retail distribution

- Food stores constitute the largest proportion of the retail distribution, accounting for 30.0% of sales and growing at 4.5%.
- Most mass channels, such as traditional drug stores and big box retailers, carry only shelf-stable probiotics since most retailers in these channels do not have committed refrigerated cases in health and beauty category (HBC) aisles.
- Shorter expiration dates associated with refrigerated probiotics are another barrier to stocking these probiotics, since short expiration dates put pressure on retailers to turn the products quickly.
- Furthermore, the higher price points of refrigerated brands are not suited to mass channel retailers.
- Consumers desiring high-potency products to treat severe or chronic digestive health issues are more likely to purchase a refrigerated probiotic product and are willing to pay more.
- Thus, beauty and wellness specialty stores and more health-oriented stores, which devote space to refrigerated probiotics and have knowledgeable sales personnel available to consult with consumers, are gaining share in the premium segment.

Market Shares and Change by Category of Digestive Health Products, 2017



a-Includes retailers such as GNC and the Vitamin Shoppe.

b-Includes retailers such as Whole Foods, Sprouts, Fresh Thyme, and regional health food stores.

c-Includes warehouse clubs, mail order, convenience, wellness and natural beauty (such as Pharmaca), dollar stores, direct marketing, and other channels.

SOURCE: Kline & Company's *Digestive Health, Immunity, and Probiotics: U.S. Market Analysis and Opportunities*.

Select stores shelves with probiotics

Probiotic beverages at Whole Foods



Shelf-stable probiotics in the drug channel



Outlook

- The market for digestive health products is expected to record almost 10.0% growth in 2018. Key factors driving growth are increased consumer awareness combined with scientific research supporting probiotic supplements.
- Chronic daily use and high price points will also help contribute to future sales gains for this category.
- Probiotic beverages are expected to continue being the strongest-growing segment, recording over 20.0% growth through 2018, with the entry of major players such as the Pepsi Company into the category through the acquisition of KeVita and various launches of probiotic beverages by either up-and-coming independent brands or conventional brands looking to gain some market share in the growing category.
- Probiotic supplements are expected to post strong gains of 9.0% over the next few years although this is a continued reduction in this segment's growth rate as the market matures.
- The category is expected to face competition from functional foods and may be affected by consumers' desire to get their nutrients from foods, such as yogurt, kimchi, and whole foods.
- The current proliferation of all forms of probiotics, particularly an over-proliferation of condition-specific products competing with general probiotics, could hamper the category and lead to a shakeout with retailers cutting back space to concentrate on the highest-performing products.
- More acquisitions are expected over the next five years, given the high growth exhibited by these products.
- OTC and beverage companies will look to grow their businesses by marketing probiotics.
 - This will lead to some consolidation, but, as a result, stronger lines will be given more marketing support, which should benefit the overall probiotic category.

References

1. <https://www.thedailybeast.com/the-truth-about-the-new-probiotics-trend>
2. <http://www.nutritionaloutlook.com/herbs-botanicals/2017-ingredient-trends-watch-food-drinks-and-dietary-supplements-ginkgo>
3. All market data, sales, market shares, and distribution by channel are sourced to Kline & Company's *Digestive Health, Immunity, and Probiotics: U.S. Market Analysis and Opportunities*, published in July 2017.

About the IRI/Kline Alliance

Information Resources, Inc. (IRI) the global leader in innovative solutions and services for consumer, retail and over-the-counter healthcare companies, and Kline, a global market research and management consulting firm, have established an exclusive alliance to serve the worldwide, over-the-counter (OTC) drug and overall consumer healthcare industries. This powerful alliance will provide a higher level of data accuracy and an unparalleled, global range of thought leadership on stimulating topics in the consumer healthcare space.

As part of this collaborative relationship, IRI will contribute its granular, widely recognized, point-of-sale (POS) market data, related insights, and thought leadership. Meanwhile, Kline will provide its unmatched historical database, global network, and 360-degree view of the complex OTC drug market, including its comprehensive channel coverage and vast expertise in the area of Rx-to-OTC switches.

The collaborative thought leadership will manifest through white papers like this one on such topics as Rx-to-OTC switch, merger and acquisition activity, new product innovation, as well as trends and issues in international and emerging markets within the OTC drugs industry.

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IRI is a leader in delivering powerful market, consumer and media exposure information, predictive analytics and the foresight that leads to action. We go beyond the data to ignite extraordinary growth for our clients in the CPG, retail and over-the-counter health care industries by pinpointing what matters and illuminating how it can impact their businesses. Move your business forward at www.iriworldwide.com.

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