

NBTY One Brand Per Channel Strategy

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NBTY is a uniquely integrated manufacturer, wholesaler, retailer and direct seller of over 22,000 nutritional products, including vitamins, minerals, herbs, sports nutrition products, diet aids and other nutritional supplements.

Not only does NBTY have a unique operating platform, it also manages its brands in almost the same distinct way. Each brand line is aimed at a particular distribution channel in a particular market. Various pricing policies have been adopted dependent on distribution differences. While some are marketed subject to the company's aggressive pricing strategy, others are positioned as more premium to target high street consumers. Holland & Barrett the premium high street retailer

Holland & Barrett is registered in the UK market and operates as an independent retail chain selling products under its own name. This premium brands target well-informed UK consumers who are willing to pay more for higher-quality health and nutritional supplements.

While NBTY reported 14% growth for its European Retail operations in 2005, sales of Holland & Barrett vitamins and dietary supplements – its key retailing channel in Europe - struggled to reach just over US\$101 million due to the tough trading environment in the retail sector. NBTY expanded its Holland & Barrett stores in high street locations and invested heavily in advertising on television and in national newspapers and in frequent in-store promotions. In addition, Holland & Barrett publishes its own magazine, which includes articles and promotional material, reinforcing the brand's premium status. The company opened 13 new stores during 2005 and will continue to evaluate the opening of more stores in the UK. Nature's Bounty supplied to mass merchandisers

Nature's Bounty is a well-established brand supplied to mass merchandisers, drugstore chains, supermarket chains and other wholesalers in the US market. As one of the key brands within the company's wholesale division, Nature's Bounty recorded sales of US\$294 million in 2005, up 13% on 2004, and accounting for 22% of NBTY's sales that year. The brand is available in vitamins and dietary supplements, with the former accounting for two thirds of sales.

Despite ranking within the top six in its primary US market with a share of 2% in 2005, Nature's Bounty faces stiff competition from private label products. Consequently, NBTY initiated an aggressive pricing strategy through regular strong promotional activities to improve upon its share of shelf space, and introduced a host of new and innovative products. NBTY eventually increased revenues from its existing customers and is committed to expanding new distribution alliances to market its products. Puritan's Pride offered on-line and via mail order

The Puritan's Pride brand is sold by the company's Direct Response division, targeting price-sensitive consumers or those looking for convenience shopping. A full line of vitamins and other nutritional supplements are sold under this brand through mail order and the internet, but only in the US market. Puritan's Pride products are sold on www.puritan.com and www.vitamins.com, at discounted prices compared to similar products in retail stores.

Although volume sales of Puritan's Pride increased during 2005 through heavy marketing, the company failed to increase its value sales in vitamins and dietary supplements which declined by nearly 3% to US\$194 million in 2005. This was primarily due to the negative media coverage of vitamins and the overall stagnant market. As stated above, competition in the US market has been intensified by the presence of private label products, which have exerted considerable downward price pressure on their rivals. In order to stimulate consumer purchasing in such a difficult environment, the company implemented an aggressive low-pricing strategy to remain competitive, which subsequently dampened the brand's value sales.

Internet access is increasingly available around the world and consumers are becoming more accustomed to purchasing goods on-line. Although initial investment in logistics could be heavy, making Puritan's Pride available internationally would benefit the company's growth in the longer term. Vitamin World – a specialist retailer of niche products

Vitamin World is the brand used for NBTY's Retail North America division. It is marketed as a comprehensive range of niche and speciality nutritional products throughout the US market.

Sales of Vitamin World decreased slightly in 2005 to US\$184 million. Available in the US only, its value sales were hindered as large retailers including mass merchandisers and supermarkets offered wide ranges of speciality products at lower prices, coupled with the convenience of one-stop shopping.

In an effort to find a way to combat the progressively weakening US vitamins and dietary supplements market, NBTY opened 21 new stores and closed 36 that were struggling in fiscal year 2005. In addition, the company further reinforced

its marketing strategy of attracting consumers via its Savings Passport Programme, which is a customer loyalty programme designed to increase customer traffic and provide incentives to purchase at Vitamin World retail stores. In 2005, NBTY saw its number of customers increase by one million through this programme, complementing the damaged value sales during the year.

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