

Consolidation Pushes Ahead in Sports Nutrition

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With sports nutrition poised to outgrow all other major consumer health categories through 2018, it is comes as no surprise that a growing number of consumer-focused manufacturers are gaining interest in the category. Within the last six months, Dymatize and Cytosport, two of the most established players in the category's core and emerging mainstream consumer demographics, have been snapped up by packaged food companies, an industry with substantial overlap that could be poised to become a major force in sports nutrition.

Sports Nutrition to Lift Industry Growth

Though it accounts for just 4% of the US\$206 billion global consumer health industry, sports nutrition's impressive growth in the last decade has turned it into a major supplement category. From 2008 to 2013, the category grew by 8% annually (in constant, fixed 2013 terms) to US\$8.8 billion. In 2014, Euromonitor International expects growth of nearly 10%, as both established markets like the United States and Australia and rapidly growing middle-income economies like India and China continue their impressive recent runs.

In addition to the growing tendency for consumers to take a proactive approach to guaranteeing health –including a greater focus on more exercise, healthier eating and supplementation – sports nutrition has been benefitting from an accelerated shift away from the hard-core athlete and bodybuilding demographic toward casual users. This much larger and more nebulous demographic can be subdivided into two groups: casual users (mostly amateur athletes and moderate gym goers); and health and image users (brand experimenters, who are drawn in by the general health-and-wellness-slant of the category). While these users do not present the large basket and consistent resale opportunities that core users do, their sheer volume has proven enough to tempt some of the most entrenched producers to experiment with more mainstream packaging and distribution.

Packaged Foods Producers Find their Appetite for Sports Nutrition

In the last half year, two packaged foods companies joined the sports nutrition fray with acquisitions of some of the category's most recognizable names. In late 2013, Post Holdings Inc – which was spun off from Ralcorp Holdings Inc in early 2012 – completed two sizeable acquisitions in the sports nutrition category. In September 2013, it acquired the convenience-format-focused Premier Nutrition Corporation. At the time of purchase, the company expected Premier Nutrition – which sells mostly protein RTD drinks and protein bars but also owns the glucosamine drink brand Joint Juice – to contribute up to US\$140 million in revenue in its first year. Post followed its first splash into sports nutrition up with the acquisition of Dymatize Enterprises LLC, one of the category's oldest, most established producers. A mainstay in specialty retailers like General Nutrition Centers Inc and Vitamin Shoppe Inc, Dymatize maintains an expansive portfolio that operates in every one of Euromonitor International's sports nutrition subcategories. Additionally, the Dymatize acquisition came along with the Supreme Protein brand – itself acquired by Dymatize in early 2013. Based largely around bars, Supreme Protein – which was recently rebranded with a much more striking and sleeker packaging – provides greater reach into mass channels, including grocery retailers and convenience stores, increasingly important channels that Dymatize has not been able to break into. While the Dymatize acquisition immediately through Post into the mix of global sports nutrition, it followed the acquisition up by buying PowerBar from Nestlé SA. One of the progenitors of the energy and nutrition bar category, PowerBar had been pushing further into sports nutrition recently with launches of non-protein products for endurance in a variety of formats, including gels and chews, and protein powder. Though most of PowerBar's sales are generated through the energy and nutrition bar category (tracked in packaged foods by Euromonitor International), it still had formidable sales of US\$121 million in sports nutrition in 2013 (up 7% from 2012). The deal also included Nestlé's Australian Musashi brand, which has also found success in Southeast Asia.

While the Post deals seem a rational extension of the company's targeted push into what it calls –active nutrition–, the recent announcement of Cytosport's acquisition came as a bit of a surprise for many category followers. Though rumours that the company was looking to sell itself first emerged in fall 2013, few expected Hormel Foods Corp – arguably best known for its canned meats – to place the winning bid. Cytosport produces sports drinks and several sports nutrition products under its own name, but is best known as the producer of Muscle Milk, the world's best-selling protein RTD (ready-to-drink) brand. In 2013, Muscle Milk accounted for nearly 60% of the US\$766 million global protein RTD market. Though the company has established distribution partnerships in Canada, the UK, Germany and Australia in the last two years, the United States still accounts for the vast majority of its global sales. Given its hitherto limited geographic distribution and the fact that the protein RTD category is expected to grow by nearly 15% annually through 2018 (nearly double the overall sports nutrition category), Muscle Milk sales are primed for heady growth in the mid-term. Meanwhile, the company has also been ramping up its offerings to the category's hard-core demographic. The Monster Milk line, which originated around higher-protein content RTD's and powders, has expanded across the sports nutrition spectrum, including into the important pre-workout category, which is driving growth of non-protein products. While it remains to be seen how hands-on Hormel will be in Muscle Milk's day-to-day operations (it seems likely their in-house dairy ingredients

division could become an ingredient provider), it is imaginable that Hormel could push Muscle Milk to adopt more overarching health-and-wellness trends (all natural, preservative-free, naturally flavoured, etc.) as it seeks to push it further into the grocery mainstream.

Marquee Acquisitions Suggest More Consolidation to Come

These marquee deals could very well spark off a new burst of industry consolidation. Given sports nutrition's stellar growth rates, and relatively attractive pricing premiums, it would not be a surprise to see one or more of the larger independent or private-equity-backed producers be acquired by year's end. Potential acquisition targets include: Nutrabolt International, which has parlayed the phenomenal growth of its preworkout supplement Cellucor into a full line of protein and non-protein products and the launch of two parallel brands (Neon Sport and Royal Sport Ltd); Gaspari Nutrition Inc, which is one of the most established names in the sports nutrition category with very strong representation in the specialty retailer channel (though it could benefit from a greater push into mass retail); and Clif Bar Inc, which has expanded its sports nutrition offerings beyond its Builder protein bar into protein powder sachets and non-protein powder endurance chews and gels. Clif Bar's affordably premium nutrition bars could be a major draw for a company like Kellogg Co or General Mills Inc. However, the biggest prize could be Muscle Pharm Corp. One of the most intriguing major, independent producers, Muscle Pharm has grown from a garage operation to over nearly US\$150 million in retail sales in five years. The company has made big waves with its push into female supplements (the FitMiss line which is distributed in specialty retailers, as well as mass channels like Walgreens Co parapharmacy/drugstores in the US), and high-publicity athlete signings, which includes a line of supplements branded around bodybuilding legend Arnold Schwarzenegger and a recently announced sponsorship deal with Tiger Woods that could lead to his own branded line of supplements.

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