

Montana Monster Munchies

March 2007 Stakeholders Newsletter

"Knowledge has to be improved, challenged, and increased constantly, or it vanishes."

Peter Drucker
Management Guru

The following is excerpted from Progressive Grocer's March 1, 2007 Edition. Our perspectives appear in green font.

"With more people than ever trying to get or stay in shape, the introduction of better-for-you cookies would seem to be a no-brainer for enterprising manufacturers and retailers. But can such products really keep America munching?"

Data from ACNielsen's LabelTrends suggests that they can. Movement data on cookies, sold in U.S. supermarkets and featuring labels with fat, gluten, sugar, or salt content claims for the 52 weeks ending Dec. 2, 2006 showed healthy sales dollar increases.

This better-for you segment is shaping up as a business of some girth, even in the larger context of total snacks. According to ACNielsen, gluten-free cookie sales grew from a \$1.3 million chunk in 2002, to a \$5.5 million piece of business in 2006.

Gluten-free items, which the industry certainly appears to have pursued with some conviction in recent years, have performed especially well: Cookies in the segment logged a 30.2 percent sales dollar surge.

Resourceful Retailing

Resourceful retailers have helped spur greater awareness of gluten intolerance, and thus more sales of gluten-free items.

"We're very involved with the local celiac support groups, and have dedicated space in all stores for gluten-free products," says Robb Pretasky, specialty foods director at Onalaska, Wis.-based Skogen's Festival Foods, a family-owned company that operates one Skogen's Market and nine Festival Foods stores in the state. "We have gluten-free lists available for our guests to make their shopping experience easier."

More generally, the retailer has sharpened its better-for-you snack assortment. "We've been selling some healthy snack alternatives for years, but it's only been in the last three years that we've really focused on the category," notes Pretasky. "We have dedicated 16 feet to 20 feet for natural/organic chips, as well as eight feet for cookies. These sections are located in the first aisle and are highly visible."

Pretasky defines healthier snacks as those containing "low fat and sodium content, zero trans fats, no artificial preservatives and colors, no chemical additives, no artificial flavors/sweeteners, no hydrogenated oils, and no GMOs," as well as "allergen-free alternatives."

Promotion of such products is a high priority for Skogen's Festival Foods. "We're working with our vendors to promote more items in weekly ads, dedicating more end caps for displays, and looking for secondary placements such as chip racks to promote the products and increase sales," says Pretasky. "We're always looking at expanding our selection and section sizes, to accommodate the demand for new items as this category grows. We're also running an aggressive allowance program with the support of vendors."

Niche markets gain prominence

While the efforts of big manufacturers such as Kraft and Kellogg Co. to offer portion-controlled products and reduce fat and sugar content in their cookies and snack foods have been well publicized, some smaller companies are making their presence felt by focusing on more specialized health-and-wellness markets, among them consumers with the aforementioned conditions of gluten intolerance and food allergies.

The placement challenge

Skogen's Festival Foods takes a hybrid approach to the problem of placement in either the mainstream aisle or a dedicated section.

"The majority of our healthy snacks are located in our natural food section," says Prestasky. "However, we do have

some products integrated, as well as some secondary display locations. For the most part, I think our guests would prefer the items together; however major brand-name products can sometimes get lost if they're not integrated."

The future of the segment

When asked to consider the near future regarding the better-for-you snack segment, Skogen's Festival Foods' Prestasky replies: "We will continue to increase our selection of healthier alternative chips, cookies, and crackers. We will continue to promote healthy snacks both in our ads and in-store specials. The future for healthy snacks is bright."

How should our product be positioned?

It depends—upon the venue and the demographics of the venue.

MMM Pros of mainstream or dedicated section: Perhaps our brand may appeal to a broad range of consumers, including those who shop the mainstream aisle, so there are benefits of being placed in both locations since our cookies feature no artificial ingredients, preservatives, hydrogenated oils, or trans fats.

MMM Cons of mainstreaming: If we are in the mainstream cookie section, our product may get lost on the shelves. Awareness and desire for healthful food is certainly on the rise, but we are not yet in the same league as Nabisco.

In the end, we'll rely on the expertise/input of our cadre of brokers/distributors/direct to store category buyers.

Healthier options present other challenges beyond placement

Our cookies are built more wholesomely than a good number of options out there, but we certainly aren't positioning ourselves as the second coming of fruits and vegetables. The majority of healthier-positioned snacks lead with a "health" message; giving consumers the impression they're going to have to sacrifice taste. We instead lead with deliciousness. Always have, always will.

How is MMM positioned today and going forward with respect to Gluten-Free?

Good with even more positive short term trending

Summary detail:

There are two governing bodies re: Gluten-Free standards. The US Government's Food and Drug Administration (FDA) and the independent Gluten Free Certification Organization (GFCO).

On Jan 22, 2007, the FDA posted to the Code of Federal Register the Proposed Rule for Food Labeling: Gluten-Free Labeling of Foods. (Docket No. 2005N-0279).

Highlights of the Rule are listed below.

The draft ruling defines the guidelines for voluntary Gluten-Free labeling of foods in a 95-page document. We have outlined a summary of those guidelines below:

- Gluten-free labeling is voluntary
- Gluten-free is defined as less than 20 ppm gluten in food
 - Gluten-free for labeling means that foods do not contain any of the following:
 1. An ingredient that contains any species of the grains wheat, rye, barley, or a crossbred hybrid of these grains (known collectively as "prohibitive grains")
 2. **FDA is not proposing to include oats in the definition of a prohibited grain.**
 3. An ingredient that is derived from a prohibitive grain and has not been processed to remove the gluten (such as wheat flour)
 4. An ingredient that is derived from a prohibitive grain and has been processed to remove the gluten (such as wheat starch), and if the use of that ingredient results in the food having 20 ppm or more gluten.
 5. 20 ppm or more gluten in the food.
- **Misbranding:** The ruling states that:
 - Foods that carry the claim "gluten-free" and do not meet these standards will be considered misbranded.
 1. A food made from oats (or an ingredient derived from oats) that bears a gluten-free claim in its labeling would be deemed misbranded if:
 - The claim suggests that all such foods [containing oats] are gluten-free or if 20 ppm or more gluten is present in the food.
- **Determination of Compliance with the proposed regulation**
 - FDA will conduct a safety assessment study for gluten.
 - Concerns exist that analytical methods are not available that are consistent in detecting levels below 20 ppm
 - Until the safety study is completed, use of analytical methods-based approach will be used to establish 20 ppm threshold.
 - FDA tentatively determined ELISA-based methods (Mendez R-5 ELISA-based methodology) is an acceptable tentative testing method
 - Determination of compliance need not be based on analysis of a food. FDA may use a variety of techniques in the enforcement of food labeling claims. FDA may use any of these methods to enable them to determine if a food is misbranded.
 - Label reviews
 - Onsite inspections of food manufacturers
 - Analysis of food samples

NOTE: We are outreaching to the GFCO currently to have our products tested. Their ppm standard surpasses the FDA's by 10 ppm. More "News @11" as this story unfolds!