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1.1 Executive Summary: Clear skies. Mostly

Dark clouds come in different shades, and the difference between a shadow passing over the picnic and a downpour sending the whole park running to their cars is immense.

Consider slowing growth in supplement sales as somewhere short of that cloudy picnic, perhaps a flock of sparrows interrupting the glare. Sales growth did drop in 2017, coming in at 5.4 percent, down from 6 percent the year before, but there was no dark cloud to be seen, no market-hobbling scandal, no health-scare study calling supplements worthless or dangerous.

And if you are squinting to see that dark cloud or downpour, keep squinting. The slowdown was relatively slight and Americans still spent $43.2 billion on supplements in 2017. That’s an $8 billion increase in five years.

That may not be as sunny a day as some might like, but there are no clouds closing in.

The last time the industry suffered a slowdown, there was more reason for concern. In 2014, when a barrage of negative headlines seeded public doubt, growth dropped to 5.1 percent from 7.5 percent the year before. Cause and effect seemed clear, and troubling. The Annals of Internal Medicine told readers to “stop wasting money” on supplements, and a questionable study on omega-3s linked fish oils to prostate cancer, and assorted media blips and dips added blood to the water.

No such cause and effect is obvious this year. We’d caution that brands shouldn’t overreact, but we’re not sure what they’d be overreacting to.

The story of the 2017 slowdown might be a story of channels and natural business cycles.

Brick and mortar showed drop-offs in natural and specialty, where growth fell from 5.3 percent to 3.8 percent; and mass fell even harder, with growth dropping from 5.8 percent to 3.3 percent.

And even though online sales continued a sharp climb, rising from 10.8 percent to 14 percent, the $3.2 billion in that channel is too small a piece of the pie to counterweight the drops in brick and mortar.

<table>
<thead>
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<td>Specialty/Other</td>
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*Source: Nutrition Business Journal ($mil., consumer sales)*


The category is projected to add another $X billion annually by 2021, followed closely by Herbs & Botanicals, which is projected to add an additional $X billion annually by 2021.
At least some of this is the mundane math of a mature market. Mass saw strong growth for a number of years, but few thought it sustainable. Some of those sales came at the expense of natural and specialty brick and mortar, leaving that channel in a weakened position, even before the siphoning of sales to e-commerce.

Of course, e-commerce hurt both brick and mortar channels, but the numbers there might be getting more attention and alarm than they deserve. Online sales can't entirely explain the shorter checkout lines in brick and mortar. The shortage of obvious doom or gloom is true at the ingredient level as well.

Sales growth for probiotics is far lower than NBJ had projected not long ago. Sales growth fell from 17.1 percent to 10.2 percent. But insider talk suggests the story is more about form and format than a disillusioned consumer. Probiotics are showing up in a vast constellation of food products where they were never seen before. People didn't give up on probiotics. They just expect them in food and not in a pill.

The story at the incremental ingredient level includes bright spots as well, though the size of these standout ingredient markets isn't large enough to boost sales growth overall. Collagen is on fire, growing at 30 percent, but it hasn't broken the $100 million barrier yet, coming in at $98 million. Mushrooms had another strong year at 10.1 percent growth, but it’s still among the smaller corners of the industry at $46 million.

In the filtered light of expectations and assumptions, it's easy to see those bright spots as brighter than they are and the same holds true at the other end of the alarm-and-elation spectrum with that overall sales growth slowdown.

Yes, sales are slower, but not significantly slower. It’s also a bigger and more complicated market with an increasingly intricate set of channels and consumers hopping from one to the next. That makes both predicting changes and reacting to them very difficult.

Whatever the numbers tell us about 2017, they don't say anything about panicking.

Or even reaching for an umbrella.

1.2 Thinking outside the pill

A drive for delivery format innovation challenges the industry

Remember Think Gum, the chewable cognitive health supplement? Or Aerolife Energy, the wellness shot you inhale through a tube? What about the Unistraw—that pellet-filled pixie-stick that delivers wrinkle-erasers and other nutrients when you suck water through it?

Chances are, they don't ring a bell.

These well-intentioned answers to the nation's increasing pill fatigue are among dozens that have either ended up on the scrap heap or slowly faded into the Where are They Now? file, unable to break into the mainstream retail market. The reasons for their failure are diverse, say analysts, lawyers, and fellow...

Story continued in full report.
2.1 Intro: Staying healthy

In the right context, “less than exciting” is exciting enough.

The vitamins and minerals category fits into that context in two ways.

It can be hard to get real innovation noticed in a market where everybody thinks they already know the all-too-familiar ingredients. There may be new and important science around things like K2 and several forms of B, but to consumers, vitamins are the nutritional alphabet they grew up with. Minerals can be closer to novel (how many people knew how important magnesium is?) but coaxing excitement out of what shoppers view as a staid category is difficult at best.

The other less-than-exciting feature is the growth. Make no mistake, growth is very solid for the largest category in the supplement industry. Vitamins grew by X.X percent in 2017, unchanged from the year before. At XXX billion, that’s a growth rate to be envied anywhere outside the supplement industry. U.S. car sales, for instance, were negative in 2017. Same-store sales in the fast food industry dropped by X.X percent.

Growth in the minerals category slowed in 2017, dropping from X.X percent to X.X percent.

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Source: Nutrition Business Journal ($mil., consumer sales)

Mineral sales grew X% in 2017, reaching $X billion in annual sales. The category is projected to have a CAGR of X% through 2021, reaching $X billion.
There are, however, notes that could be of interest, if not excitement. Vitamin C, likely driven by a severe cold and flu season that garnered high-profile media attention, was an important contributor to overall vitamin growth. Gummies and other “candyceutical” formats also helped. Magnesium, with consistent double-digit growth since 2007, looks to eclipse calcium by 2020. Calcium, however, limped along at X.X percent in 2017, half the X.X percent growth seen in 2016.

But overall, the story remains one of familiar characters with familiar plot points. Vitamins and minerals represent more than a third of the supplement industry, and a market of that size might be a nice place for “unexciting.”

### 2.2 The case for nutrition

The nutrition industry is missing the point on nutrition

The headline in the May 8th *Washington Post* was typical: “When it comes to vitamin supplements, more isn’t always better.” The writer went on to explain that megadoses of various vitamins were worthless, and possibly dangerous, and brought in the questionable practice of intravenous vitamin injections, generally damning the “immensely profitable vitamin industry” with a wide and careless brush.

The headlines the Post could have written?

“Nearly a third, 31 percent, of African Americans don’t get enough vitamin D.”

“American women, 20 to 49, border on insufficiency for iodine.”

“More than one-in-ten Latino children are low on iron.”

And they could have attributed all of those headlines to the Centers for Disease Control report on global nutrition and not employed a freelance writer who had her own book and a nutrition communications company to promote. Still, while questioning whether the Washington Post and mainstream media is...

Story continued in full report.

### U.S. Vitamin vs. Total Supplement Sales and Growth, 2007-2021e

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<tr>
<td>Supplements Growth</td>
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<tr>
<td>Vitamins as % of Total Supplements</td>
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*Source: Nutrition Business Journal ($mil, consumer sales)*

Vitamin sales represented XX% of total Supplement sales in 2017, down from XX% of total sales in 2010 as other categories have outpaced Vitamin sales growth.
3.1 Intro: Growing herbal medicine

DSHEA rules aside, herbs and botanicals are the medicine cabinet of the supplement industry. On the labels and on the record, that may not be stated, but it’s been part of traditional healing for centuries.

That the centuries-old tradition is gaining traction in the modern world should be a source of enthusiasm for the industry. In NBJ consumer research the contrast between millennials and baby boomers on trust in the supplement industry and distrust in mainstream medicine is striking. Millennials trust the supplement industry at nearly twice the rate of baby boomers while roughly half as many millennials trust mainstream medicine.

We see this in the numbers: millennials are a big part of the strong growth seen in the herbs and botanicals industry overall and likely in the standout ingredients. Herbs and botanicals sales grew at an encouraging X.X percent in 2017, up from X.X percent in 2016. That growth looks especially strong considering the size. Herbs and botanicals is now an $X.X billion category.

Spiking sales for specific ingredients and niches are even more encouraging. Ayurvedic herbs grew XX.X percent to reach $XXX million, much of that likely built on rising interest and applications for ashwagandha. Turmeric, tracked separately, continues to show it has passed from fad to trend status with XX.X percent growth to reach $XXX million.

Mushrooms, once an obscure corner of the herbs and botanicals world, grew at XX.X percent to reach $XX million. Resveratrol doesn’t spend as much time in the headlines as it did a dozen years ago, but it grew at XX.X percent, reaching $XX million.

Those individual ingredients aren’t just success stories for the companies that sell them. They may also portend greater success for the entire herbs and botanicals category and perhaps the whole supplement universe.

Consumers trying new things suggests those consumers are open to additional solutions as ingredient innovation and better science establish more trust and more options. The growth of the category is proof that a level of trust exists, and the millennial factors likely means that trust can grow. It’s important to remember that consumers, and millennials in particular, don’t talk in DSHEA terms, but they do talk to each other. A lot.

They know where the medicine cabinet is, and they talk about that, too.

<table>
<thead>
<tr>
<th>U.S. Herb and Botanical Sales vs. Total Supplement Sales, 2007-2021e</th>
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<tbody>
<tr>
<td>Herbs and Botanicals Sales</td>
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<tr>
<td>Herbs and Botanicals Growth</td>
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<tr>
<td>Total Supplement Sales</td>
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<tr>
<td>Supplements Growth</td>
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<tr>
<td>Herbs and Botanicals as % of Total Supplements</td>
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</table>

Source: Nutrition Business Journal ($mil., consumer sales)

Herb and Botanical sales represented XX% of total Supplement sales in 2017, down from XX% of total sales in 2007 but up from a low of XX% in 2012. Herbs and Botanicals has been one of the strongest growing categories in the industry for the last few years.
4.1 Intro: A sportin’ life

For more and more people, “sports nutrition” is simply nutrition. A protein shake can be breakfast. In certain too-busy circles, “lunch” too often consists of a banana and a Powerbar.

Such blurred lines meant good things for the sports nutrition category and possibly mixed news for meal supplements. Sports nutrition grew X.X percent in 2017 to reach $X billion. Growth in meal supplements, in contrast, slowed remarkably, dropping from X.X percent in 2016 to X.X percent in 2017. It’s still a $X billion industry, but the numbers suggest some of those morning protein shakes came at the expense of meal supplements.

Slimfast doesn’t sound nearly as athletic as a protein shake. And “athletic” sounds a lot more aspirational than “dieting.” The whole “weight loss” concept has weakened as more experts, and some consumers, view “weight management” as the more-healthy option.

Overall, the blurred lines phenomenon could be very positive for the supplements industry.

Successful products are products that fit into a lifestyle, and sports nutrition does that as well as any category. Led by protein, sports nutrition has already spread past the bodybuilding lifestyle into the general consumer sphere. Shoppers don’t need to stop at GNC for their protein tubs. They can put them in their grocery cart.

![U.S. Sports Nutrition vs. Total Supplement Sales Growth, 2007-2021e](chart)

*Source: Nutrition Business Journal (Smil, consumer sales)*

Growth for Sports Nutrition was X% compared with total growth for Supplements of X%. Sports Nutrition Supplement sales growth has been consistently higher than the industry as a whole over the past decade, and growth has slowed slightly as the category matures.
Reaching past bars and protein, however, could prove difficult. A protein shake seems far more approachable and acceptable than a pre-workout formula to the general consumer. Outside the gym, a lot of people may want more muscles, but they’re not lining up for pills and powders with muscle-boosting compounds.

That doesn’t mean getting sports nutrition to extend further beyond the gym is impossible. If nothing else, the supplement industry has shown a capacity for innovation. Consumers could easily be interested in the gymcentric formulas in friendlier formats.

The industry will always regard sports nutrition and meal supplements as distinct categories, but more consumers viewing both as basic food choices means the lines are blurring further. And the further they blur, the more room there is for more products.

### 4.2 The new age of metabolism-boosters

As consumers clamor for non-stimulant options with broader health benefits, supplement companies are thinking outside the box.

“I want to improve my metabolism. Is there a pill I can take for that?”

Desperate patients ask the question every day in doctor’s offices, weight-loss clinics and gyms across the country.

For decades, the answer was limited to thermogenic aids like caffeine and bitter orange, which have questionable efficacy and unpleasant side effects that include higher blood pressure. But as the number of people either clamoring for help addressing obesity or merely seeking information on metabolic syndrome and metabolism-related disorders has grown, so too have the offerings.

“We have seen a shift away from these crazy, stimulant, unhealthy metabolic boosters toward products that are using more natural, non-stimulant, scientifically-backed ingredients,” says Brooke Alpert, RD, a New York-based nutritionist and supplement company consultant.

In recent years, ingredient companies like Interhealth and ChromaDex have begun to explore novel ways of targeting metabolism via more sophisticated routes, with compounds that influence hormones or replenish nutrients key for healthy cellular metabolic function. Meanwhile, supplement-makers like Thorne Research have also been turning to tried-and true ingredients like protein and fiber, and milder thermogenic aids like cinnamon and capsaicin (a compound derived from hot chilis) to craft safer metabolism-improving blends.

While weight loss can no-doubt result, the benefits of having a healthier metabolism extend beyond that, notes Alexander Fleming, MD, a West-Virginia-based endocrinologist and founder of the consulting firm, Kinexum. He coined the term “metabesity” to describe a broad constellation of health problems, including neuro-generative diseases, cancers, heart disease, diabetes, and age-related decline, all rooted in sub-par metabolic function and the unhealthy byproducts—cell-damaging free radicals, accumulating fat, high blood sugar—it can reap.

*Story continued in full report.*
5.1 *Intro: Bright, shiny and stellar*

In any stellar constellation, some stars are going to shine brighter than others, but it’s unlikely that their arrangement or radiance are going to change, not in a human lifetime. For the constellation of ingredients grouped together in the “specialty” chapter, radiance is a volatile collection of dimmer switches.

The brightest star today could go super nova tomorrow while a lesser known star can become suddenly brilliant. Collectively, they shone a bit dimmer in 2017. Specialty supplements, which include fish oils and probiotics, grew at X.X percent to reach $X.X billion, down from X.X percent growth the year before.

Across this constellation, the dim and the bright tell different stories.

The brightest star in the specialty category right now might be shining well above its weight. For all the attention and buzz, and the XX percent sales growth, collagen remained in the double digits in 2017, coming at $XX million. In contrast, buzzing at a far lower frequency but with a brighter glow are bee products. The market for bee products grew by X.X percent in 2017 to reach $XXX million.

The star with the most puzzling orbit may be probiotics. Representing the biggest share of the specialty supplements at $X.X billion, probiotics have stood out in the supplement industry for years, but 2017 numbers suggest a change in star status. Growth slowed from XX.X percent the previous year to XX.X percent. That doesn’t mean probiotics are in the flame-out or flicker mode that a glance at the numbers might suggest. For starters, 10 percent is a very strong growth rate,

<table>
<thead>
<tr>
<th>$X Billion U.S. Specialty Supplement Sales by Product Category in 2017</th>
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<tbody>
<tr>
<td><strong>Probiotics</strong> XX%</td>
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<tr>
<td><strong>Homeopathics</strong> XX%</td>
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<tr>
<td><strong>Fish/Animal Oils</strong> XX%</td>
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<tr>
<td><strong>Glucosamine/Chondroitin</strong> X%</td>
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<tr>
<td><strong>CoQ10</strong> X%</td>
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<tr>
<td><strong>Melatonin</strong> X%</td>
</tr>
<tr>
<td><strong>Others</strong> XX%</td>
</tr>
</tbody>
</table>

*Source: Nutrition Business Journal ($mil., consumer sales)*

Probiotics have the largest market share of Specialty Supplements with XX% of the market, up from X% of the market in 2007 due to rapid growth over the decade.
especially for a category of this size. Also, the slowing growth is likely more about consumers choosing food formats than it is about consumers abandoning the idea of good bugs for a good gut. Probiotics are available in a expanding array of foods where they were not found before. People haven’t walked away from probiotics; they are just reaching for forks and spoons instead of pills.

Fish oil has a large market but a dull glow. At X.X percent, growth for fish changed little from 2016’s X.X percent, and the fish oil market stands at $X.X billion. While X.X percent may not seem like stratospheric growth, it marks the second straight year of positive trajectory. In 2013, fish oil sales fell by X.X percent and the ingredient remained in negative territory through 2015—all of this turbulence in a market that had grown at XX percent in 2010.

This mix of the bright and the dim, the glow and the glimmer, is to be expected in a collection of ingredients so varied. But the trick with observing this constellation is to keep watching, night after night. Stars will dim. Stars will explode in brightness. But the collective shine continues to grow.
6.1 Intro: A plan for all channels

In consumer goods, the word of the decade is “omnichannel.”

We’ll keep watch, but we suspect it could turn out to be the word of the century for all manner of commerce.

It’s not that consumers were ever loyal to one channel for all their transactions. Sears mail order catalog competed with general stores in the 1800s. Many Americans grew up with a milkman delivering to the doorstep, but dad may have stopped at the butcher or a vegetable stand to complete the menu.

Or maybe they ordered pizza.

What sets apart the omnichannel is speed and immediacy. The speed is next-day or even same day delivery. The immediacy is the constant connection between seller and consumer that’s as close and ubiquitous as the smartphone. Brands that have this spectrum of touchpoints with consumers and sellers can reach out with nudges and updates to keep connection nearly constant.

$XX Billion Supplement Industry by Channel in 2017

Natural & Specialty Retail holds the largest market share in the Supplement category, with XX% of sales, much larger than its XX% market share in the Natural and Organic Products Industry as a whole. E-Commerce also has a larger market share in this category than others, with X% of the market, up from X% in 2006.

Source: Nutrition Business Journal ($mil., consumer sales)
For now, the best channel growth for supplements is in online sales. Sales in 2017 reached $X.X billion on XX percent growth.

But where the business of the future lands is not as definitive as it would seem, and considering the size of the market, that uncertainty is important here. Supplements in the United States is a $XX.X billion industry, and e-commerce accounts for X percent of those sales. Though showing slower growth at X.X percent, multilevel marketing is more than twice the share at XX percent. The practitioner channel is growing nicely at X percent and accounts for X percent of supplement sales.

The e-commerce revolution has changed markets big and small, but nobody knows where the saturation point is for any of them. That’s because consumers might not be sure where their next purchase will be made.

In proprietary research NBJ conducted with NMI, only XX percent of consumers expect their online supplement purchases to grow in the next two years. The percentage of consumers who said their online supplement spending could drop was X percent.

All of that means that sales focus has to remain broad, and for all anybody knows, it could become broader still. The secret to omnichannel is to coordinate sales across all of them. Connecting with customers as they jump from channel to channel has simply become the way things must be done.

Omnichannel may turn out to be the word of the decade, or the century, but either way it’s a fact of life from here on out.

6.2 The road to retail

Driving from Seattle to Expo West reveals a lot about the state of retail

Few industries escape being buffeted and befuddled by the internet age. Car dealers get outgunned by online automobile sellers offering virtual test drives. Travel agents were made all but extinct by Expedia. TV networks watch their viewers move to Netflix and scramble to create online offerings to lure them back.

But perhaps no other commercial category is more existentially beset by online competition than brick-and-mortar retail. Much of that impact was felt by department stores and stores selling non-perishable items, but between outlets like Thrive Market and the black box unknowns of the Amazon/Whole Foods Market continuum, grocery retailers big and small find themselves facing a culture of convenience where the smartphone is the new shopping cart and same day delivery makes food on the doorstep practical and possible for busy families. Against that online onslaught, the channel within the grocery sector that would seem most threatened might be natural and organic, where adoption of new technology can be halting and mass has already lured away a sizeable contingent of customers. Narrowing the category into a smaller slice, the independent natural grocer, lacking the money to invest in technology, could be at the most risk of all.

Except maybe not.

To examine the state of natural retail in the Amazon age, I drove from Seattle to Anaheim for Natural Products Expo West in early March, stopping to visit natural grocers, both independent and micro chains, and talking to store owners and staff about strategies and solutions. At every stop, I saw concern.

What I did not see was surrender.

Story continued in full report.
### 7.1 Abbott Laboratories (Ensure, EAS)

Estimated U.S. Supplement Wholesale Sales ($mil.):

<table>
<thead>
<tr>
<th>Sales Channel</th>
<th>2015</th>
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<tr>
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<td>Mass Market Retail</td>
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<td>Direct/Other Channels</td>
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<td>Private Label/Contract Mfr.</td>
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<td>Total</td>
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<table>
<thead>
<tr>
<th>Product Category</th>
<th>Sales ($mil.)</th>
<th>% of Sales</th>
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<tr>
<td>Vitamins</td>
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<td>Minerals</td>
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<td>Herbs &amp; Botanicals</td>
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<td>Meal Supplements</td>
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<td>Sports Nutrition</td>
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<tr>
<td>Specialty</td>
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<tr>
<td>Total</td>
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**Company Profile**

Abbott Labs, best known for its Similac brand of baby formula, is engaged in the discovery, development, manufacture and sale of healthcare products and services. In 2017, the company marketed more than 10,000 products in over 150 countries and had net revenue of $XX.X billion, a XX.X% growth rate over 2016. The company has four reporting segments: Established Pharmaceutical Products, Nutritional Products, Diagnostic Products and Cardiovascular/Neuromodulation Products. In 2016, Abbott sold Abbott Medical Optics to Johnson & Johnson, exiting the vision industry, and in 2017, Abbott acquired St. Jude Medical, strengthening its position in the cardiovascular care market.

The Nutritionals division launched 25 new products in 2017, expanding existing lines. Net sales for the division were $X.X billion in 2017, an increase of X.X% from 2016. Abbott Nutrition brands include EAS, Similac, Ensure, Glucerna, PediaSure, ZonePerfect and Juven. Note: Abbott’s supplement products marketed under the Ensure brand name are classified by NBJ as meal supplements.

Ensure was first introduced in 1973 and is currently the category leader in the U.S. and worldwide. The product line includes its staple RTD products with a few newer condition specific options, such as Ensure Active Heart Health. There is also the Original Nutrition Powder, as well as Ensure Active High Protein Powder. In 2017, Ensure launched Ensure Surgery and Pre-Surgery clear to help patients undergoing surgery get proper nutrition. The company also expanded its Glucerna line of shakes, formulated for patients with diabetes.

The EAS Sports Nutrition brand offers powder, bar, and drink products aimed at bodybuilders, performance athletes and everyday fitness needs. In 2017, EAS launched a high-protein RTD blend under its AdvantEDGE sub-brand, a line of endurance products under its Myoplex sub-brand, and a high-protein RTD blend under its Myoplex SHRED sub-brand.
In 2017, Abbott acquired St. Jude Medical, making the company a leader in the medical device industry, as well as adding neuromodulation, a treatment for chronic pain, to Abbott’s portfolio. The company also acquired Alere Inc., a rapid-testing technology company specializing in diagnostics.

**NBJ Bottom Line**

Over the years, Abbott has maintained a strategy of successful acquisition, leveraging its production capabilities, innovation expertise and broad distribution to achieve profitable growth. Its investment in R&D has led to brand and line extensions to keep up with a changing market. Two U.S. demographic trends could provide opportunities: aging population and increasing chronic disease rates open opportunities for adult nutrition alternatives. The company has also been adept at marketing to emerging markets, and a rise in the middle-class population of these markets will provide opportunity.

**Website**

- www.ensure.com
- www.eas.com
- www.abbottnutrition.com
- www.abbott.com
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