Packaged Facts

The Gluten-Free Food and Beverage Market: Trends and Developments Worldwide, 2nd Edition

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THE GLUTEN-FREE FOOD AND BEVERAGE MARKET: TRENDS AND DEVELOPMENTS WORLDWIDE, 2ND EDITION

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The Gluten-Free Food and Beverage Market: Trends and Developments Worldwide, 2nd Edition has been prepared by Packaged Facts. Our market intelligence reports are specifically designed to aid the action-oriented executive by providing a thorough presentation of essential data and concise analysis.

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Appendix........ i

Chapter 1 Executive Summary

The Products

What is Gluten?

Strictly speaking—the term gluten refers to both gliadin and glutenin, two proteins found in wheat. Gluten is responsible for the strength and elasticity found in dough made from wheat flour and it is easy to separate gluten from wheat flour's other major component — starch. According to legend, 7th century Chinese Buddhist monks, seeking a meat substitute for their vegetarian diet, devised a method of using water to dissolve away starch from wheat flour thereby isolating the remaining gluten. To this day, wheat gluten remains a popular food in Asia where it's available in different forms and referred to by a number of different names including: seitan, miàn jīn, nama-fu, mì căng and yaki-fu. In western food processing, gluten is used as a thickening or stabilizing agent in a variety of products ranging from ketchup to ice cream.

More commonly the term 'gluten' is used to describe not only the proteins found in wheat, but proteins with similar properties found in rye, barley and triticale (a cross between wheat and rye). It should be noted that kamut and spelt are forms of wheat and thus contain gluten.

Oats remain a controversial subject when it comes to gluten. The prevailing contemporary thought is that oats do not contain a protein which would fall under the rubric of gluten. But that they are contaminated by gluten during processing. In other words oats are milled in facilities with other grains that contain gluten and some of it rubs off on the oats. The other school of thought is that there is something intrinsically problematic with consuming oats if you have a problem with gluten. Most gluten-free (G-F) diets avoid oats; however, some products containing oats are marketed as "gluten-free."

To make matters more complicated, there are proteins essentially dissimilar from those found in wheat that are sometimes referred to as "gluten" in grains such as rice and corn. They are dissimilar on two counts: first of all they don't possess the strength and elasticity of those proteins found in wheat, rye, barley and triticale, and, more importantly, they do not trigger adverse reactions in those consumers who have problems with gluten.

This study will employ the most commonly held definition of gluten, which is the proteins gliadin and glutenin found in wheat, and similar proteins found in rye, barley and triticale.

FDA gluten-free food labeling standards are overdue

FDA gluten-free food labeling standards scheduled to be finalized in 2008 are overdue. The FDA proposal, if enacted, will standardize the maximum permissible amount of gluten (as defined above) in a food labeled "gluten-free" at 20 parts per million (ppm).

A List of Products and Categories Represented in the Gluten-free Foods and Beverages Market

- Baked goods (fresh, frozen, refrigerated: including, cookies, cakes, muffins and bread, Et cetera)
- Baking mixes
- Baked beans
- Batter mixes
- Beer
- Breakfast cereal (hot and cold)
- Condiments (including: tartar sauce, ketchup, teriyaki sauce, Worcestershire sauce, et cetera.)
- Flour
- Fresh prepared dinner entrees
- Fresh prepared side dishes
- Frozen prepared dinner entrees
- Frozen prepared side dishes
- Gravies (ready-made) and gravy starters
- Milk substitutes (soy milk, rice milk, et cetera.)
- Pancake mixes
- Pastas (fresh, dried, refrigerated)

- Pasta sauce
- Processed meats (hot dogs, baloney, salami etc.)
- Refrigerated prepared dinner entrees
- Refrigerated prepared side dishes
- Salad dressings
- Soups (canned, dried, fresh, frozen, etc.)
- Spices
- Spreads (such as hummus and baba ganoush)

Market Definition

Estimates of the size of the market for gluten-free foods and beverages vary widely, one might even say wildly. This is to be expected because market definitions also vary widely. Paradoxically, a great deal of food products that don't contain gluten, and could not conceivably contain gluten, are not part of the market for gluten-free foods and beverages, at least according to Packaged Facts' definition. For instance, fresh fruit could not possibly contain gluten, so we don't include fresh fruit as part of the gluten-free market. Even if an enterprising farmer starts slapping gluten-free stickers on his (or her) apples, we will not consider those apples to be within the parameters of the market for gluten-free foods and beverages covered by this study.

Products that Could Conceivably Contain Gluten, but Clearly Don't

Conversely, it is surprising how many products that would appear (to those unfamiliar with the market) to be gluten-free, actually do contain gluten. For instance, rice is a gluten-free grain, but until General Mills stopped using a barley sweetener, Rice Chex contained gluten. The criteria that this study uses for deciding whether a product falls within the parameters of the Gluten-Free Foods and Beverages Market is: a) whether a gluten-free product could possibly contain gluten; and b) whether a product is clearly marketed as gluten-free. So if the aforementioned Rice Chex had not publicly acknowledged that it had changed its recipe to go gluten-free when it removed the barley sweetener, we would not include its sales in our market size definition. Likewise, if General Mills had merely placed Rice Chex on a gluten-free foods list on its website and not featured its gluten-free status on its box, or in any advertising or other marketing materials, then it would fall outside the parameters of this report. Its sales would not have been included in our market size figures, and it would be excluded from any overall reference to the market.

A Summary of Market Forces from 2004-2008

Echoing the old chestnut about real estate – if one had to pick three forces that are responsible for the growth of the market for gluten-free foods and beverages between 2004 and 2008, it would be the consumer, the consumer and the consumer. The increased diagnosis of celiac disease has been a major driving force in the market but more as a catalyst than as a direct cause. Americans have a lot of health problems, limited access to health care, and a culture that drives them to resolve those problems themselves. This has led to an explosion of interest in the benefits of a gluten-free diet. Websites, books, DVDs and self-help organizations devoted to gluten-free diets have led to startup companies created by people who started on the path to gluten-free marketing not through a background in food production but through their own struggles to find gluten-free foods to eat. This activity was noticed by health food marketers and retailers, then by large scale food producers and supermarket chains that have only just begun to aggressively pursue a gluten-free marketing strategy.

2008 Finishes Off with $1.56 Billion in Retail Sales

Those factors have caused the market to grow at a compound annual growth rate (CAGR) of 28% from 2004 to 2008 with annual retail sales increasing over that time period from $580 million to the $1.56 billion mark.

Table 1-1
Retail Sales of U.S. Gluten-free Foods and Beverages, 2004-2012

Year	Retail Sales	Growth
2004	$580,000,000	--
2005	725,000,000	25%
2006	935,000,000	29
2007	1,215,000,000	30
2008	1,560,000,000	28

Source: Packaged Facts

Sales are Projected to Reach $2.6 Billion by 2012

Packaged Facts predicts that the market will continue to grow thanks to an overwhelming number of positive factors, the most important of which is that there will be more gluten-free products on store shelves not just through product introduction but through conversion of existing products to gluten-free status. However, market growth will slow substantially due to the recession, slipping to a still sizable 11% in 2009 and then bottoming out with 9% growth in 2010. After that the rate of growth will begin to increase, climbing to 16% by 2011, and then up to 20% by 2012, when the market will reach $2.6 billion in sales.

Table 1-2
Projected U.S. Retail Sales of Gluten-Free Foods Beverages, 2008-2012

Year	Retail Sales	Growth
2008	$1,560,000,000	28%
2009	1,732,000,000	11
2010	1,888,000,000	9
2011	2,190,000,000	16
2012	2,628,000,000	20

Source: Packaged Facts

Overview of Marketers: 4 Basic Types

There are four different types of marketers in the gluten-free foods and beverages market. The entry of these marketer segments into the fray can be seen as happening at four different stages:

1. The market was initiated by specialty marketers catering to dietary preferences.
2. Later health\natural food marketers joined in.
3. Then came supermarkets' private-label brands.
4. Finally, mega-marketers began selling gluten-free products.

Specialty-Marketers Still in the Majority

There's a unique aspect to the first and largest group of marketers in the gluten-free foods and beverages market. Most of these marketers began simply as consumers of gluten-free foods and beverages. Gradually, through activism, networking and then retailing, these marketers moved into production. They might be considered the founders of the market as well as its vanguard and their ranks continue to grow.

Health/Natural Food Marketers Convert to Gluten-Free

The next group to come on the scene was the health/natural food contingent. Paradoxically, these marketers also trade in whole foods, which in the case of glutinous grains, would have a higher gluten content than processed foods. But health/natural marketers do have an important role that unites products ranging from gluten-free to whole grain. They're making products for consumers who want to eat foods that will have a positive effect on their life. So it's not surprising that health/natural food marketers were quick to perceive the demand for gluten-free foods and beverages.

Supermarket's Private-Label Brands Leap in with Both Feet

Given that logic, it is not surprising that the first significant player in the third group of marketers to catch on to the gluten-free trend (supermarkets selling private-label products), was the health/natural products oriented Whole Foods chain. A number of other supermarket chains have leapt onto the bandwagon, and this trend will undoubtedly continue.

Mega-Marketers Join the Fray

Last to the party were the mega-marketers of the food and beverage industry. The first giant marketer to create a gluten-free product was Anheuser-Busch, who debuted a gluten-free beer, Redbridge in 2006. Also that year the international spice giant McCormick and Co. acquired Simply Asia Foods for $97.6 million. Perhaps more significantly, General Mills converted the half-century old Rice Chex brand into a gluten-free product in 2008.

These are three paths that mega-marketers have into the gluten-free market:

1. Creating a new product.

2. Acquiring an existing gluten-free marketer.

3. Converting an existing product into a gluten-free one.

Different Types of Retail Channels

The gluten-free foods and beverages market is highly complex and the retail situation is no exception. Of course there are the traditional outlets for food and beverages:

- **Club Stores:** Limit variety of merchandise sold in bulk with an aggressive price point (e.g., Costco, Sam's Club, etc.)
- **Convenience Stores (C-stores):** Small stores with limited product line, focusing on fast-moving merchandise (e.g., 7-11, Wawa, etc.)
- **Dollar Stores:** Low-price, no-frills stores with limited food assortment (e.g., Dollar General, Family Dollar, etc.)
- **Drug Stores:** Pharmacy and over-the-counter medicine and personal care stores with limited food assortment (e.g., CVS, Walgreens, etc.)
- **Health/Natural Foods Stores:** Specialty stores focusing on natural, organic, and sports foods, beverages, and dietary supplements (e.g., GNC, Whole Foods, Wild Oats, etc.)
- **Mass Merchandisers:** General merchandise venues with anywhere from a limited food selection to full-scale grocery stores (e.g., Meijer, Wal-Mart, Super Target, etc.)
- **Gourmet Specialty Stores and E-Tailers:** Often specialty stores carrying a unique assortment of upscale items at low prices. (e.g., Trader Joe's, Cost Plus, Fox & Obel, etc.)
- **Supermarkets:** Conventional grocery stores and superstores (e.g., Albertsons, Kroger, Safeway, etc.)

G-F Products are Retailed through Some Unusual Channels

There also a variety of outlets that are disproportionately important, or specific, to the Gluten-Free Foods and Beverages Market. They are:

- Gluten-Free E-Tailers,
- Gluten-Free Specialty Stores

- Marketer/Producer Websites & Visitor Centers

- Ethnic And International Stores & Websites

Market Composition by Retail Outlet 2008

With 30% of the market, and ideal positioning, health/natural foods stores are still the most important retail channel for gluten-free foods and beverages. But clearly the big gainers in recent years have been the supermarket and Internet/catalog sales channels, which stand at 30% and 20%, respectively. Packaged Facts predicts that the aggressive stance by supermarkets will erode the share of health food stores, and a new type of outlet that bears watching is the gluten-free specialty store which right now is grouped in the "Others" category.

Table 1-3
U.S. Share of Sales of Gluten-Free Foods and Beverages, by Retail Outlet 2008 (percent)

Sales Outlet	Share of Sales
Health/Natural Foods Stores (including Whole Foods and Wild Oats)	30%
Supermarkets	30
Internet/Catalog	20
Others: Including Club Stores, Convenience Stores, Drug Stores, Dollar Stores, Gourmet Specialty Stores, Gluten-Free Specialty Stores, and Mass Merchandisers	20

Source: Packaged Facts

The Consumer

Numerous Medical Problems are Associated with Gluten

Numerous medical problems are associated with gluten, including: gluten allergy, various types of gluten-sensitivities, autism, attention-deficit/hyperactivity disorder (ADHD) multiple sclerosis (MS), repetitive strain (or stress) injury RSI and irritated bowel syndrome (IBS).

However, the foremost medical problem relating to gluten is celiac disease. It is the only disease where medical practitioners universally agree it is triggered by gluten. Yet only 40,000 to 60,000 Americans have been diagnosed with celiac disease. Typically celiac disease is mistaken for other conditions such as irritated bowel syndrome (IBS), anemia or thyroid disease. Therefore, the number of undiagnosed celiac patients has been estimated by the Federal government to be between 1.5 and 3 million people.

Diets used for treating autism and attention-deficit/hyperactivity disorder (ADHD) eliminate casein as well as gluten. These diets are known by the initials 'GFCF,' and are disdained by the medical community. Despite a lack of current medical evidence connecting gluten with autism, ADHD, irritated bowel syndrome and various other conditions, it does not deter a public seeking self-help.

Gluten-Free 2.0

There are many forms of media, from books to DVDs, which have raised the profile of a gluten-free diet as an answer to a multitude of medical problems. But nothing has been as important as the World Wide Web. There are a remarkable number of websites (probably in the thousands) devoted to gluten-free diets and there is a virtual community that includes consumers with a wide variety of medical problems interacting together. In other words, celiacs interact with IBS sufferers, etc. The hard lines that medical professionals draw between a valid reason for a gluten-free diet and a fad do not exist among these patients and consumers.

Healthy Consumers Go Gluten-Free

Gluten-free dieting has become something of a fad among health conscious. Especially after Oprah Winfrey successfully pursued weight loss with a diet free of gluten (and numerous other ingredients). Packaged Facts anticipates that as more marketers with products that have a healthy marketing profile embrace gluten-free formulations, more and more customers will begin to see gluten-free as a positive attribute and that this will have a positive effect on sales.