NEW PRODUCT COMPETITION
2018 CHALLENGE:
DEVELOP A DAIRY-BASED SNACK THAT ANSWERS THE
EVOLVING NEEDS OF TODAY’S SNACKING CONSUMER

August, 2017

* The statements made and information provided in the current and subsequent slides are based on consumer insights and cannot be used to make product claims. Claims must be truthful and not misleading, supported by scientific data and aligned with regulations in the current marketing environment.
DISCLAIMER

THE USE OF BRANDS AND IMAGES OF BRANDED PRODUCTS IS INTENDED ONLY TO PROVIDE EXAMPLES OF CONCEPTS BEING DISCUSSED, AND DOES NOT IMPLY ENDORSEMENT OF ANY BRAND OR PRODUCT
SHIFTS IN OUR LIFESTYLES, EATING CULTURE, AND FOOD VALUES HAVE LED TO CHANGES IN OUR UNDERSTANDING OF THE ROLE, REACH, AND PURPOSES OF SNACKING

Key Shifts Affecting Snacking:
- Upending of traditional, daily food rituals
- Changing wellness & culinary trends
- Growing accessibility to food and food types

Past and Traditional

<table>
<thead>
<tr>
<th>Values</th>
<th>Wellness-Driven Shift in Food Values</th>
<th>Fresh &amp; Real Defines Quality</th>
<th>Fresh, Global, Experiential Take Prominence</th>
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</thead>
<tbody>
<tr>
<td>Home as Epicenter of Food Management: Industrially Processed Food Delivers Reliable Convenience</td>
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<td>- Snacking is infrequent</td>
<td>- Snacks become a shared pastime – diversion, fun, fill-in to meals</td>
<td>- Moralistic management of snacking as consciousness of fat/salt/sugar</td>
<td>- Snacks increasingly fluid, undefined, and ubiquitous</td>
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<tr>
<td>- Meals are central and drive eating</td>
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<td>- Cracks in the dominance of meals</td>
<td>- Meals at times displaced by snacks though still valued</td>
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Role of Snacking/Meals

- • Snacks are for kids – treat only
- • Snacks become compatible with and enablers of wellness

“Everyone eats so differently these days. That’s why it’s kinda confusing, because to a lot of people now, breakfast is just a slice of toast, a cup of coffee, and maybe a fruit on the way out the door. But to me those are snacks.” — Audie (49)


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MODERN SNACKING FRAMEWORK ORGANIZES AROUND 3 KEY DRIVERS: NOURISHMENT, OPTIMIZATION AND PLEASURE

NOURISHMENT: 56% of snacking occasions reflect some need for daily sustenance, long-term wellness, or health management
- Hunger Abatement: Bridge meals and prevent the distraction of hunger pangs
- Hydration Management: Reaction to “thirst trigger”; but increasingly proactive and habitual
- Sustained Energy: Proactively snack to maintain one’s reserves to meet the demands of life
- Condition Management: Provide structure intended to help consumers manage health/diet

PLEASURE: 49% of Snacking fulfills emotional desires for enjoyment, craving, and comfort
- Comfort & Craving: Physical experience and/or emotional gratification of experiencing desired tastes and textures
- Indulgence & Reward: “Treating” and self-care, delight on the palate, and celebration of big or small achievements
- Variety: Diversity of flavor and texture that keeps eating and drinking interesting
- Discovery: Food exploration into food types, provenances, preparation methods, food purveyors, & new products

OPTIMIZATION: 34% of all snacking occasions reflect need to fulfill physical and mental performance demands
- Quick Energy: Bring energy back to one’s baseline or even provide an extra boost of strength and vitality
- Recovery & Rejuvenation: Restore equilibrium by recovering lost nutrients, fluids, and depleted energy levels
- Mental Focus: Perform at a high level cognitively, or simply “be present” while engaging in life, work & play
- Stress Management: Relief of systemic imbalances and a chronic state of stress and fatigue


ONE THING THAT ALMOST ALL CONSUMERS AGREE UPON IS TASTE IS PARAMOUNT - 96% OF CONSUMERS SAY THEY CHOOSE SNACKS BASED ON TASTES THEY WILL ENJOY

Source: IRI Report; 2017 State of the Snack Food Industry

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**NOURISHMENT: DISTINCTION BETWEEN “EMPTY” VS. NUTRIENT-DENSE FOODS GUIDES DESIRED PRODUCT ATTRIBUTES FOR NOURISHMENT**

Minimal processing and inherent nutrients are key to products that go beyond satisfying basic hunger and hydration and towards meeting sustained energy and condition management.

<table>
<thead>
<tr>
<th>Key Product Attributes:</th>
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<tr>
<td>Water</td>
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<td>Whole grains</td>
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<tr>
<td>Fiber</td>
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<tr>
<td>Protein</td>
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<tr>
<td>Fat</td>
</tr>
<tr>
<td>Probiotics</td>
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<tr>
<td>Minimal sugar</td>
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</table>

Because of their toothsomeness and ability to inherently deliver many of the desired product attributes, a **wide range of FOOD categories** are top of mind for nourishment.

However, **WATER-BASED beverages** satisfy hydration and are replacing more sugar- and calorie-laden choices of the past.

**SMOOTHIES** and **nutrient-dense beverages** allow consumers to straddle the needs of hydration with satiety in unique ways.

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**CONSUMERS DEFINITELY WANT SNACKS THAT DELIVER ON THEIR NUTRITIONAL NEEDS**

- **60% want additional health benefits beyond nutrition (e.g. antioxidants)**
  - Up 8 points vs. 2016
- **59% of consumers want snacks that contain vitamins & minerals**
  - Up 2pts. vs. 2016

*Source: IRI Report; 2017 State of the Snack Food Industry*

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**Consumer Product/Brand “Hall of Fame”**:  
- (Greek) yogurt
- **KIND** nut and granola bars
- Whole fruits & vegetables
- Grain chips and crackers with healthy dips
- **RTD tea, water, and smoothies**

*Consistently mentioned in consumer interviews as reflective of nourishment-driven needs and occasions*

*Source: The Hartman Group, The Future of Snacking - 2016*

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PLEASURE: INDULGENT TRADITIONAL FAVORITES MEET CONTEMPORARY REINVENTIONS

As snacking evolves with food culture, consumers are seeking more contemporary and nuanced experiences of pleasure. And while purely indulgent experiences have their place, consumers now expect pleasure to be compatible with nourishment or optimization.

Key Product Attributes:
- Good taste
- Unique flavor/texture
- Iconicity/nostalgia
- Surprise & delight
- Beauty/design
- Global
- Interactive

Sweets and salty snacks and the carbonated soft drinks that accompany them are not only symbolic of pleasure but are enduring bastions of traditional “snacking.”

With the rise of future snacking considerations and a diversifying food landscape, such products are being joined by less traditional products that provide a spin on traditional indulgences, either through disruptive flavor, texture, interactive design, and product narratives or through a unique straddling of multiple snacking drivers.

Retail Trends:
- Within Indulgent, the growing halo around whole-fat dairy has spurred growth within Ice cream/sherbet & ice cream novelty categories
- 65% of consumers state Sweets are more of a treat than salty snacks
- Products with chocolate are outpacing overall Food & Beverage growth

Source: IRI Report; 2017 State of the Snack Food Industry

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Evolving perceptions of performance and optimization and scrutiny of the type of products and ingredients in them to help manage and target needs. Old standbys of energy, such as caffeine and sugar, still play a role but are gradually being supplanted by emerging alternatives.

Key Product Attributes:
- Protein
- Fat
- Fiber
- Caffeine
- Condition-specific vitamins and minerals
- Antioxidants
- Botanicals (plants, herbs, and extracts)
- Adaptogenic botanicals
- LOW sugar

Nutrient-dense FOODS that have notable amounts of high-quality and clean(er) sources of protein, fat, and fiber help serve optimization.

While pure water, coffee, and tea are stalwarts for optimization, the diversifying BEVERAGE space is relevant for targeted functionality:
- fortification with additional vitamins, minerals, and botanical extracts
- easy, palatable inclusion of obscure ingredients
- quick consumption and easy absorption by the body

Consumer Product/Brand “Hall of Fame”*:
- Meat protein snacks
- Energy & sports drinks
- Energy & granola bars
- Coffee
- Kombucha
- Functional beverages and ingredients

*Consistently mentioned in consumer interviews as reflective of optimization-driven needs and occasions


RETAIL TREND: Portability was a theme within the growing Healthier categories and Snack time anywhere presented opportunities for growth

Source: IRI Report; 2017 State of the Snack Food Industry

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THE MODERN ERA OF SNACKIFIED EATING HAS FULLY EMERGED TODAY, 50% OF ALL EATING OCCASIONS ARE SNACKING

Snacks are both complementing and replacing meals, increasing the need for them to fulfill traditional meal functions. 21% of consumers are snacking more than they were 5 years ago ... Of that number, 42% have done so while cutting back the number of meals eaten in a day.

SNACKING DRIVERS CHANGE IN PRIORITY ACROSS THE DAY

**Consumer aspirations for healthy eating** take prominence in the morning. **Midday fatigue** may set in, and consumers consequently look for choices that are either comforting or that give them the energy to make it to dinner. Evening snacks figure as **vehicles for pleasure**, as a reward to balance out healthier eating through the day, or as part of a social experience.


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➢ Consumer perception of “energy”, “healthy”, “natural”, etc., may differ from the scientific and regulatory views.

➢ The regulatory definition of “energy” is calories (food energy).
➢ The regulatory definition of “healthy” is defined. Additionally, FDA is providing enforcement discretion here.
➢ “Natural”/“All Natural”/“Made With Natural Ingredients” is not defined, but is being reviewed by FDA. A cautious approach is recommended.

➢ Products in the marketplace convey energy benefits in a variety of ways including by product name, ingredients or images.

Therefore
✓ Substantiation of product benefits must include supporting all express and implied claims

✓ The substantiation must be truthful and not misleading and include a review of the totality of the scientific evidence and reflect the strength of the science at the time the claim is made

✓ Substantiation may include proprietary (non-public) research results

✓ For further considerations, please see this link

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