

2014

FOODS & BEVERAGES

SUPPLEMENTS

NATURAL LIVING



next

THE NATURAL PRODUCTS INDUSTRY FORECAST

WHY US, WHY THIS PARTNERSHIP, AND //

Why This Report

NEXT: THE NATURAL PRODUCTS INDUSTRY FORECAST 2014 IS A JOINT VENTURE BETWEEN NUTRITION BUSINESS JOURNAL (NBJ) AND STERLING-RICE GROUP (SRG).

NBJ and SRG partnered on this strategic report because both companies have important stakes in the natural, organic, and healthy products market. The project team included researchers, strategists, designers, writers, trend-spotters, and editors from both organizations who collectively synthesized and analyzed the results to produce this report, which is the premier guide to where the natural products market is now—and where it is headed. NEXT identifies the products, people, and macro forces that will shape and create the greatest opportunities for tomorrow. In addition, this report is intended to get you thinking about where the natural products industry could go, the implications the industry will have for mainstream CPG companies, and the problems it could potentially help solve.

NBJ is the leading market research and publishing firm in the natural products marketplace and has been tracking the industry since 1996. NBJ's parent company, New Hope Natural Media, is the founder and operator of Natural Products Expo East, Natural Products Expo West, Organic Summit, NBJ Summit, and other events targeted to the natural, organic, and healthy products market. Along with NBJ, New Hope publishes *Natural Foods Merchandiser*, *Functional Ingredients*, and *Delicious Living* and is the company behind newhope360.com, a leading digital information resource for the natural, organic, and healthy products market. Based in Boulder, Colorado, New Hope also provides high-level custom research and proprietary market intelligence and strategy work.

To learn more about New Hope Natural Media, visit newhope360.com or call Dave Kingsbury or Tara Burkley at 303.939.8440.

Nutrition Business Journal® 
Strategic Information for the Nutrition Industry


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natural media

SRG is a Boulder, Colorado-based integrated strategy and creativity firm that works with many of the greatest brands around the globe. The firm grew up in the natural and organic world nearly 30 years ago and continues to work with industry pioneers and innovators on its central focus in health and wellness—food, beverage, personal and home care, dietary supplements, and ingredients. With a deep bench of culinary expertise, SRG has counseled and supported many of the leaders in the natural products industry as well as seven of the top 12 food manufacturers in the country.

To learn more about Sterling-Rice Group, visit srg.com or call Rick Sterling or John Grubb at 303.381.6400.


sterling-rice group

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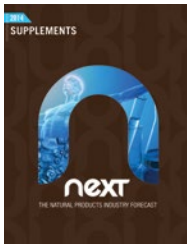


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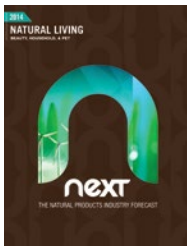
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10 MACRO FORCES SHAPING TODAY + TOMORROW

EXECUTIVE SUMMARY

TOMORROW'S YESTERDAY: **A ROAD MAP FOR THE FUTURE OF THE NATURAL PRODUCTS INDUSTRY**

If you don't believe the world is changing dramatically and rapidly, then you're probably not paying enough attention. The natural products industry is now positioned as a leading crucible through which we can watch the world unravel at its edges and rebuild itself anew. But it's not the only one. Movements within the food world toward simple, clean, sustainable sourcing of real, whole, safe ingredients present secular change that's grown infectious at most every level of society and commerce. The old ways of doing business bear little relevance to the new ways, and this forecast seeks to open a few doors and turn on a few lights inside your strategic mind as you approach that uncertain future.

The future of food looks a lot like natural products, and the future of natural products looks a lot like the food we ate 100 years ago. But it's not that simple. We now carry with us the insights, technologies, great successes, and terrific damages wrought over the past century, and tomorrow's yesterday is the type of world companies will spend millions of dollars and millions of manhours trying to decipher. There's no easy answer, and so this forecast presents many answers to help you navigate that terrain.

Change, particularly at the rate it is occurring now, can be unsettling. Fortunately, however, the trends are pointing in the right direction, and all you need to do is get onboard. Be sustainable. Be good. Promote health.

Let us help you get there.

3

MACRO FORCE #3

ANCIENT WISDOM

ANCIENT WISDOM

10 MACRO FORCES SHAPING TODAY + TOMORROW

When systems promote excessivity, they become unsustainable.

When systems become unsustainable, they break down. They then have to revert to find safer ground, a process known in nature as the “renewal cycle.” This is how the ecological world and its species adapt and evolve. Welcome to the renewal cycle for American business, now disrupting your best laid plans with nary a concern. We are evolving as consumers into a new food world, one with much of the shape and color of a world just three generations removed, before the advent of modern food science.

Our food future looks a lot like our past. Listen to Michael Pollan on *Good Morning America*: “The conversation of culture—which is to say the wisdom of your mother and your grandmother and your great-grandmother—has more to teach us about how to eat well than all the scientific studies in the world so far.” And Tom Aarts of Nutrition Business Advisors: “This entire supplements industry is based on raw materials that are processed and engineered. Ingredients get powdered, extracted, manipulated. We add excipients, magnesium stearate, and binders. We stick it all in a pill or softgels with gelatin from bovine sources. All this stuff that we do to get nutrients in our bodies is not necessarily the best way for our bodies to receive them.”

The movements in food toward raw, vegetarian and vegan, paleo and ancient grains, these are reversions in search of simpler, cleaner products. They are nostalgic efforts to navigate the grocery store and cook a safe, nutritious meal for our children. So are backyard chicken coops and rooftop gardens. At sufficient scale, these trends might also become directly competitive, if not antithetical, to large, established industries with decades of proven success—industries like functional foods and supplements—that now need to refashion their proposition or risk falling tragically off-trend.

Evidence of tomorrow’s yesterday—looking back to revert in forward-thinking ways—exists across the natural products world. Brad’s Raw Foods caught our eye at Natural Products Expo West with its raw snacks featuring kale and flax. Vitamix—85 years old by the way—is now enjoying a resurgence among lifestyle shoppers thanks to its

Our food future looks a lot like our past.



How is your organization attempting to “revert in forward-thinking ways”?

whole-food approach to liquid nutrition. Standard Process—not to be outdone at 117 years of age—won a *Nutrition Business Journal* achievement award for its longstanding commitment to organic farming. The company has now supplied pill-poppers with upwards of 6.5 million pounds of organic produce and serves as a bastion for the supplement industry’s ability to migrate away from trans-this-or-that toward whole foods. The list goes on, but the trend is the same. Some of those old faces in natural products—here’s looking at you, Bob’s Red Mill—suddenly look brand-new again. The new faces kind of want to look like the older ones, too.

As we selectively re-examine the advances proffered by modern food science, pillars of the established industry will come under serious and sudden attack. Widespread pesticides like 2,4-D and glyphosate no longer have that history-of-use on their side. Same goes for artificial colors and flavors, pink slime, and any number of mainstays in the world of food additives. The renewing system in search of adaptive evolution is much bigger than any single trend, industry, or company.

Here’s a useful rubric to bake into your business strategy from now on: X percent of the next 20 years will be spent undoing the past 50. Solve for X. Now consider your business and reposition accordingly. As you consider, here’s a hint: X is greater than zero, less than 100, and it’s a growing number.



ANCIENT WISDOM IN ACTION

- FB16** The Wholegrarian Revolution
- SP26** Mother Nature Takes on Bioengineering
- NL16** Toxic Overload

2014



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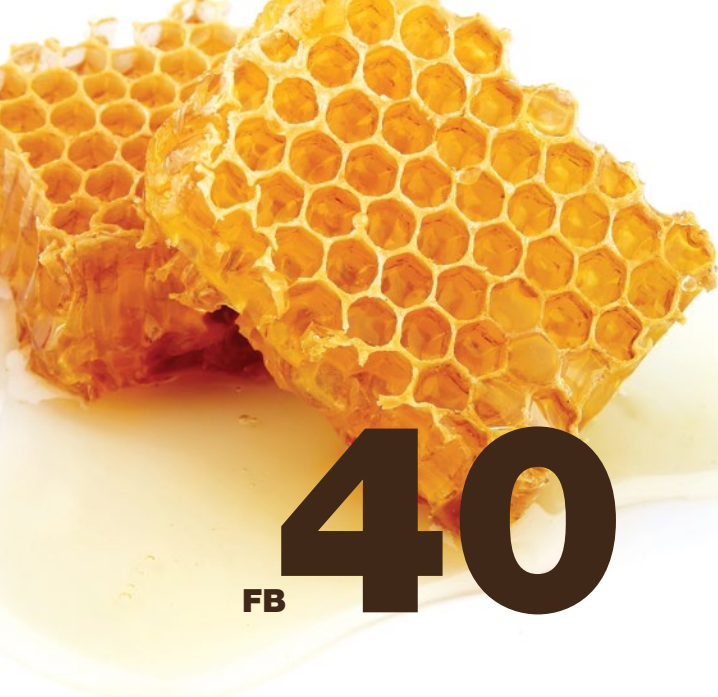
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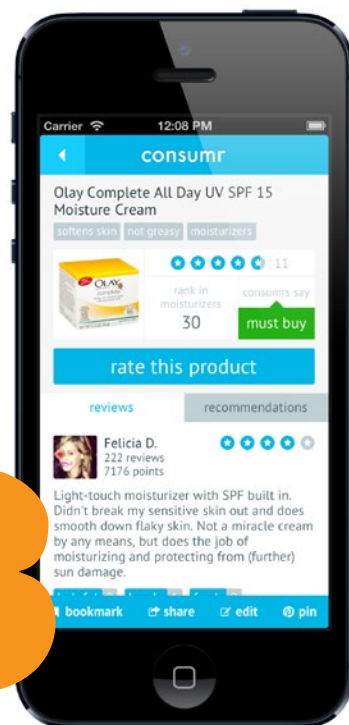
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FB 7  **Fooducate**
eat a bit better™



FB20

3

INFLUENCER

THE ORGANIC FARMER

As Americans have become more distrustful of industrialized food, we've put more value in knowing where our food comes from and how it was produced. Wanting to put a face to food production has helped to raise farmers—particularly local organic farmers—to near rock-star status with a growing number of consumers. Organic farmers are authentic. Organic farmers are the good guys (and gals) who want to help us return to a healthier, more sustainable way of eating while building stronger communities.



ORGANIC FARMER INFLUENCE IN ACTION

- FB24** Organic Valley
- FB25** Shelton's Market Garden
- FB45** One Degree Organic Foods

4

INFLUENCER

AUTHENTICITY

Authenticity may be in the eye of the beholder, but it's pretty difficult to be viewed as authentic if you're hiding behind hyperbolic product claims, flashy but meaningless marketing, or the many forms of "label washing" that exist today: green-washing, natural-washing, health-washing... the list is growing. Such smoke-and-mirrors messaging may have worked in the past, but consumers are becoming increasingly wise to it. So, you might as well be transparent, honest, and good—because the world will know the real you soon enough if you're not.



AUTHENTICITY INFLUENCE IN ACTION

- FB29** Lotus Foods
- FB35** Manitoba Harvest
- FB47** Upton's Naturals

5 INFLUENCER

MILLENNIALS

The face of the U.S. marketplace—and of the people who buy natural products—is rapidly changing. Baby boomers are still important, but an even larger demographic group—millennials—is rising to prominence. Although the 50 million Americans between the ages of 18 and 32 currently lack the spending power of their parents and are less persuaded by marketing, they have much greater affinity for natural and organic, are starting their own families, and are changing the way companies approach branding.



i MILLENNIALS INFLUENCE IN ACTION

- FB43** 'Tude Juice
- FB17** Dang Coconut Chips
- FB47** Beyond Meat

6 INFLUENCER

INFORMATION AND TECHNOLOGY

Do your products contain inputs you'd rather not promote to shoppers? Is your company the target of false advertising lawsuits you'd like to keep quiet? Would you rather consumers not know where you source your ingredients? If so, good luck. Such secrets are a thing of the past, thanks to the unprecedented amount of information about your and other companies people can now access via Google, social networks, and the growing number of shopping apps that force transparency with the scan of a product bar code.



i I+T INFLUENCE IN ACTION

- FB23** Consumr
- FB23** Fooducate
- FB25** BrightFarms

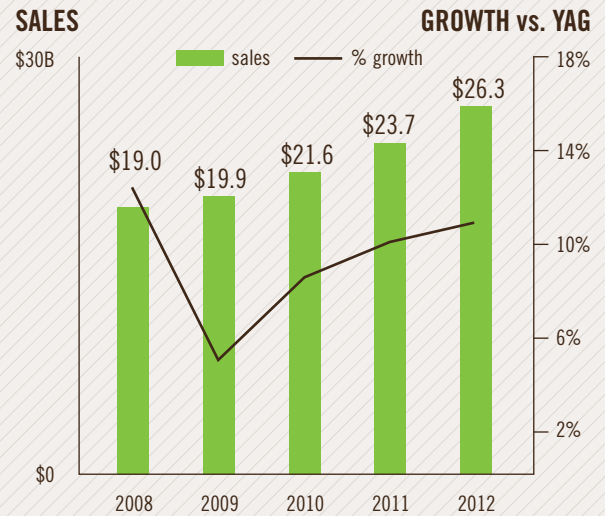
ORGANIC

BRUISED BUT NOT BEATEN

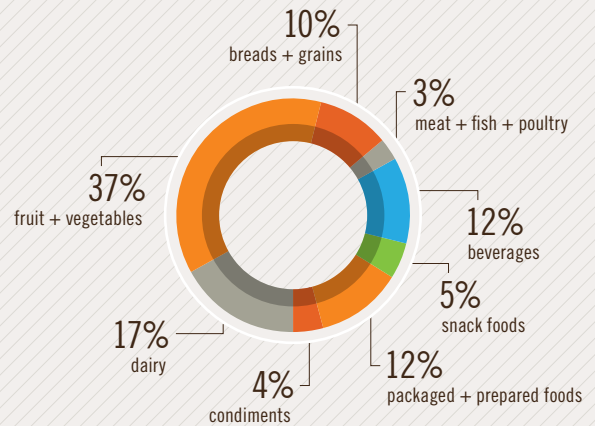
Organic: It's worth it—or so the Organic Trade Association's recent campaign says. But are consumers buying the message? Yes—and no. U.S. consumer sales of certified organic foods and beverages jumped nearly 10 percent to \$28.2 billion in 2012.¹⁰ Although this is impressive, this growth—particularly following the beating organic took during the heart of the recession—still pales in comparison to the almost 18 percent expansion rates the organic category achieved five years ago.¹¹

Also, as many companies and retailers have learned, consumer loyalty is hard to gain these days through USDA Organic certification alone. With the exception of single-ingredient items (such as Earthbound Farm's frozen fruit and vegetable line), many new packaged and prepared foods emphasize other key attributes—or go “beyond organic” with ingredient standards—to appeal to consumers. Compared with qualities such as local or vegan, USDA Organic holds less emotional appeal as a lifestyle choice because of the certification's complexity and, ironically, because of its own success. Organic is now a big business, and some core natural consumers distrust that.

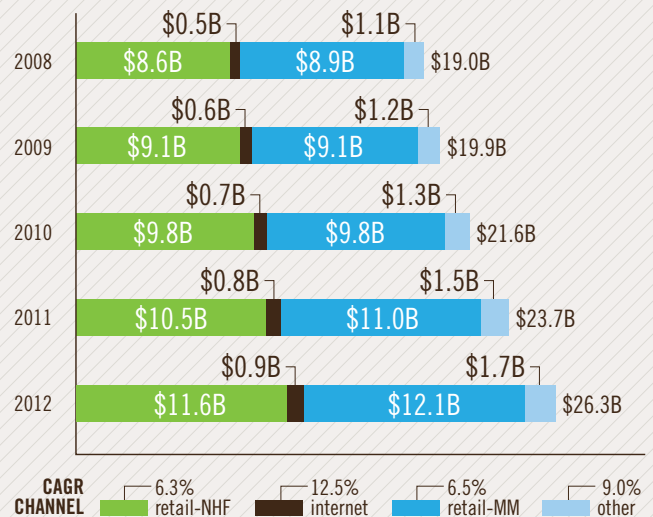
Contributing to organic's current problems is a deep misunderstanding of the many benefits delivered through organic certification. This was painfully demonstrated by the 2012 Stanford University study, which spurred media buzz with its conclusion that organic is not more nutritious than conventionally grown food.¹² What the flawed study missed, of course, is analysis of the many other health and environmental benefits of organic agriculture. Such studies hurt organic because of its price point (organic is typically more expensive, but for very good reasons¹³) and the lack of comprehensive consumer education. Organic *is* worth it, in our opinion, but the average American still doesn't understand why. It's up to organic companies, farmers, and supporters to tell a unified story to consumers about the benefits of organic and why it matters as a starting point for healthy products.



U.S. Organic Food and Beverage Sales and Growth: 2008–2012



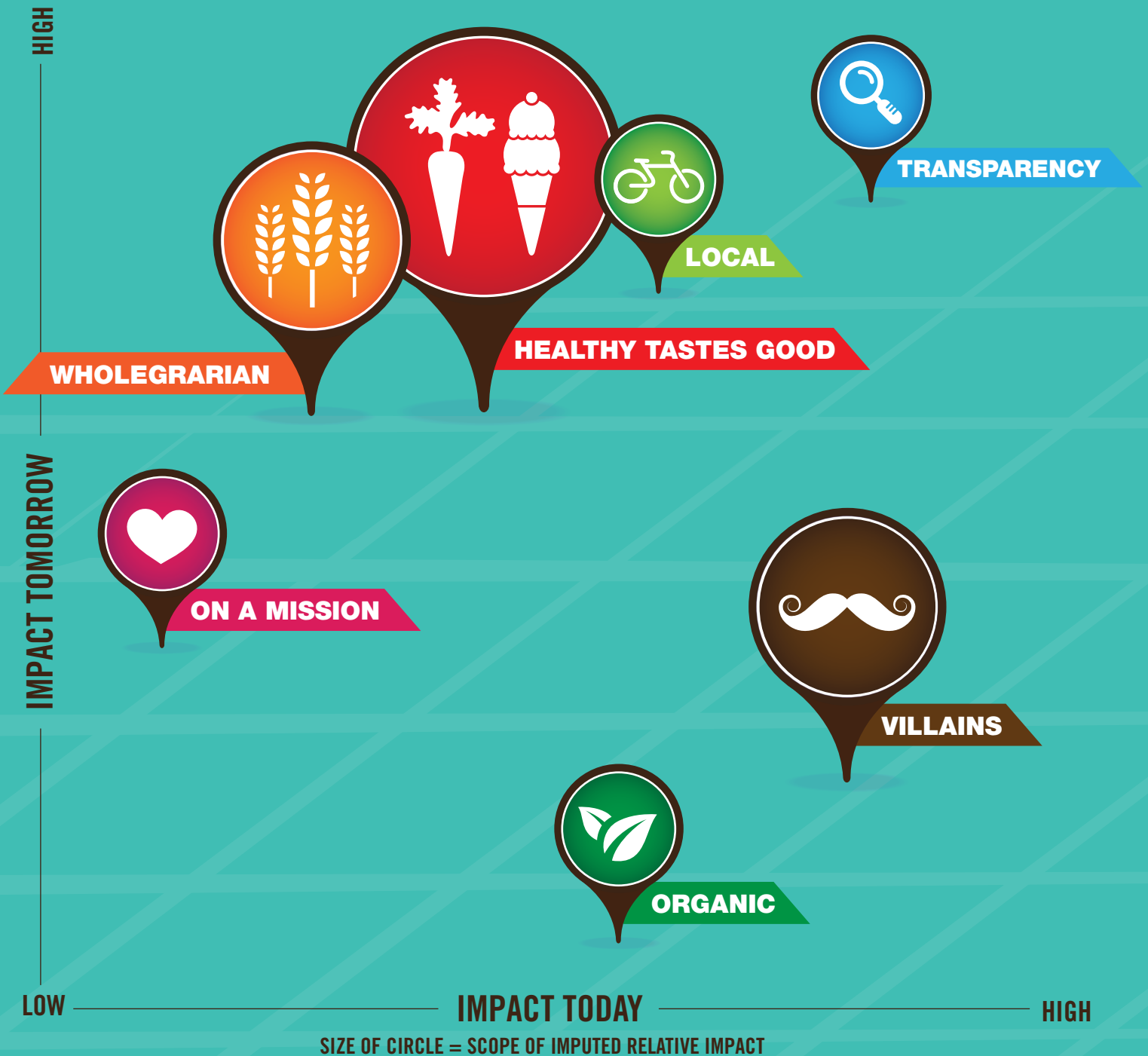
2012 U.S. Organic Food and Beverage Sales by Product Category



U.S. Organic Food and Beverage Sales and Growth by Channel: 2008–2012

7 TRENDS

SHAPING THE
NATURAL,
ORGANIC, AND
FUNCTIONAL
FOOD AND
BEVERAGE
CATEGORY





Positioned to meet this shift in consumer preference are numerous emerging beverages that deliver sustainable energy through whole-food-based nutrients rather than through caffeine, taurine, and engineered ingredient blends. We're even seeing new natural energy products positioned for the conventional market. Case in point: The Campbell Soup Co. launched a line of V8-V Fusion Energy Drinks and V8 Energy Shots made with "ingredients people and know and trust" to provide a "natural energy boost."⁵ Guess who Campbell is targeting with the product? Women and people 35 and older who traditionally have rejected the energy drink category.

CURRYING FAVOR

Could an ancient herb be the antidote to the aches and pains we all experience as we get older? According to a surge of recent research, the answer could be yes. Of more than 1,000 studies published in 2012 on curcumin, a healing compound found in turmeric, many showed that regular consumption could improve chronic degenerative disease states brought on by inflammation.⁶ Of course, the fact that turmeric has been used for centuries in Ayurvedic and Chinese medicine to treat everything from joint aches to sprains and liver disorders, only bolsters its credibility. While curcumin can be taken in supplement form, the good news for food manufacturers is this functional ingredient actually also tastes delicious. American consumers have already grown accustomed to eating turmeric in Indian curries so there's no need to mask its smoky flavor.⁷

Additionally, as the American population ages (by 2030, 20 percent of us will be 65 or older) more consumers are looking for preventative solutions to manage health and avoid doctors bills. Turmeric's inherent benefits are sure to capture the attention of the wholegrarian consumer looking for natural remedies to ease aging pains—at least, that's what innovative food manufacturers are counting on. At Natural Products Expo West 2013, turmeric was the star ingredient in a handful of new beverages, including a line of herbal infusions from Zingiwel that utilizes Java turmeric to support wellness. The San Marino, Calif.-based brand also offers a potent turmeric-curcumin shot to boost immunity and add "zing to your life." Turmeric-fortified foods may not be the fountain of youth, but at this point they may just be the next best thing.

PRODUCTS

NATURALLY FUNCTIONAL

SEEDING SALES MANITOBA HARVEST

Manitoba Harvest is one company leading the charge in moving hemp seeds beyond their use in protein powders to being added as a whole-food-based functionality booster for foods and beverages. The company's Hemp Hearts, for example, are positioned as easy add-on nutrition for people looking to eat simply and clean.



A NATURAL BOOST SAMBAZON ENERGY MOCHA JAVA



This blended energy drink offers a natural boost using whole-food ingredients, including açai, yerba maté, fair-trade coffee, and green tea extract. It's also Non-GMO Project Verified, Certified B Corp, certified organic and vegan—proving it has nothing to hide.

CURRYING FAVOR TURMERIC ALIVE

Turmeric was a hot spice at the show, but no food or beverage company leveraged its anti-inflammatory properties better than Tumeric Alive. Dubbed "yoga in a bottle," Tumeric Alive combines turmeric with Ayurvedic ingredients, such as ginger, cardamom, lemon, and spearmint. Sweetened only with honey, agave, or coconut nectar, depending on the flavor. The result is a spicy sipper that invigorates—worthy for a post-Bikram refresh. We're loving the front-of-package ingredient list as well.



LEARN MORE ABOUT THIS OPPORTUNITY

TRENDS

- FB16** The Wholegrarian Revolution
- FB20** Beware! Food Villains are Everywhere
- FB22** Transparency Rules



Millennials, the 50 million Americans between the ages of 18 and 32, are particularly attracted to such branding. It's often said that millennials don't gravitate to brands, but that's not really accurate. It's true that millennials aren't typically attracted to or influenced by colossal brands the way their parents are, but these younger consumers do seek out brands that convey authenticity and make them happy.³⁸ When millennials want to interact with brands, they do so via social media. One recent study found that 53 percent of millennials use Facebook and other social networks to explore and learn about brands. In comparison, only 37 percent of non-millennials do the same.³⁹ Innovative brands understand this and are successfully using social media to demonstrate their product benefits and company values to build loyalty, especially with younger consumers.

CREATE AN EMOTIONAL CONNECTION

Revelry Brand's founder and CEO Brendan Synnott recently sent a letter to his investment partners and friends detailing the evolution he's seeing in consumer values and behaviors⁴⁰ and how these changes affect how natural products companies should interact with consumers. We cite this letter because we believe it addresses crucial points related to natural food branding and authenticity. As Synnott notes, consumers (particularly core natural products consumers) no longer make product purchasing decisions solely on practical needs or "personal gratification, disregarding long-term or external implications," Synnott writes. "Consumption is driven by a sense of collaboration, connection, and empowerment that often weighs environmental or societal implications as heavily as personal need."

If companies want to converse with this next generation of conscious consumers, they must foster a similar evolution within their organizations. Producing a best-in-class food or other product is still a must—but it isn't enough. Companies must also be driven by strong values, a clear mission, and the willingness to communicate openly and honestly with the marketplace. Revelry Brands is working to help Sigg's Yogurt, Evol, Pact, and the other companies it has invested in to follow this approach to consumer engagement. As Synnott says, staying in tune with the evolving consumer will do more than just grow sales—it is also going to help save the planet.

PRODUCTS

UNABASHED AUTHENTICITY

EMBRACE WHO YOU ARE UPTON'S NATURALS



Upton's packaging may get graphic inspiration from old-town butcher shops, but their products are far from meaty. Their delicious varieties of seitan stand out from the rest, just like their packaging. We love their brown butcher paper and hand-drawn graphics paired with the quirky mustaches.

RAW BRANDING FARMHOUSE CULTURE

These raw, organic, local-ingredient krauts and kimchis use an old-school process to create kicky flavors like Ginger Beet and Spicy Wakame Ginger. Even cooler: The raw, fermented foods are packaged in a BPA-free pouch that has a small valve to let out the naturally occurring gases without introducing oxygen—the first such fermented-food package innovation in the U.S.



CREATE AN EMOTIONAL CONNECTION BEYOND MEAT



You don't have to be meat-free to get behind Beyond Meat. More than a surprisingly convincing chicken substitute, which has built a loyal following among vegans and vegetarians, the company was founded to improve consumers' health, impact climate change,

conserve natural resources, and respect animal welfare. It was recently featured in Bill Gates's new documentary on the future of food.



LEARN MORE ABOUT THIS OPPORTUNITY

TRENDS

- FB18** Healthy Tastes Good at Last
- FB22** Transparency Rules
- FB28** Brands on a Mission

TRACKING & PREDICTING

THE CATEGORY'S CHANGING VALUES



TASTE
SPROUTED
FERMENTED
PROTEIN
RAW
VEGAN
NON-GMO
FIBER



GLUTEN-FREE
PALEO



NATURAL
FAIR TRADE
ORGANIC CERTIFICATION



SUGAR
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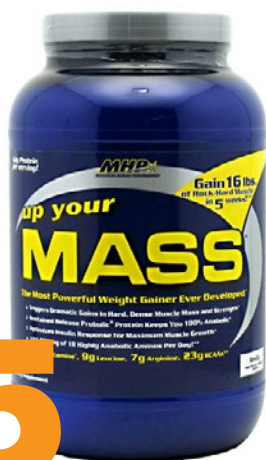
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CATEGORY BOTTOM LINE

WHAT AND WHO YOU NEED TO KNOW TODAY TO PLAN FOR TOMORROW

Supplements are seen as a necessary dietary component for more than half of all Americans. People turn to supplements to stay well or ward off disease, because they are fearful of prescription drugs, want help shedding a few pounds, or are following the recommendation of a celebrity physician on TV.

With \$32 billion in 2012 sales, supplements are becoming big business in the United States—even though the category does still pale in size to the \$310 billion prescription drug business. Although the supplement industry remains lucrative and continues to provide opportunities for many companies, it also is wrought with challenges—some of which are becoming increasingly significant.

If you're in or evaluating the supplement business, more than ever you need a map because the path to the future is filled with potential potholes, disastrous detours, and seductive side roads that lead to nowhere. To understand which way to go, you need to follow those influencers that are setting the course to tomorrow.

Here are nine influencers we think are particularly impactful for the supplement industry and 27 organizations, products, or people connected to them.

1

INFLUENCER

DR. OZ

Mehmet Oz, MD, and his talk show recommendations send consumers flocking to supplement aisles, often in search of products many retailers have never heard of. Apple pectin, andrographis, glucomannan, raspberry ketone, and forskolin, among others, have all been subject to the “Dr. Oz effect”—a bump that sends individual product sales into the double and triple digits, if only for a brief interval. While some bemoan Dr. Oz’s influence as dangerously faddish, his focus on integrative medicine and holistic, natural approaches add legitimacy to an oft-marginalized industry.

Glucomannan

GREEN
COFFEE
BEANHEALTHY
DIRECTIONS

DR. OZ INFLUENCE IN ACTION

- SP17** Glucomannan
- SP21** Green Coffee Bean
- SP33** Healthy Directions

2

INFLUENCER

THE PREVENTION IMPERATIVE

Since its inception, the supplement industry’s bread-and-butter trend has been self-care. Nothing has propelled growth in this market more than self-motivated consumers taking an active interest in their long-term health. Trends toward a growing distrust of pharmaceuticals and a long-term focus on chronic disease prevention have pushed consumers to natural alternatives for over half a century—and have kept U.S. supplement sales growing in the mid-single digits for the better part of the last decade. Now, with healthcare costs spiraling out of control, it’s time for everyone to get serious about prevention. Taking care of oneself is no longer a choice but a necessity—and an increasingly mandated one at that.

Dr. Andrew Weil’s
SEASONAL
THERAPEUTICS™ZocDoc
Get well sooner.

PREVENTION IMPERATIVE INFLUENCE IN ACTION

- SP21** Innate Response Seasonal Therapeutics
- SP31** Walgreens
- SP31** ZocDoc



WE CAN'T SLEEP

Want a disturbing look at our nation's dystopian present? Take a gander at some chilling statistics from the National Sleep Foundation's 2011 Sleep in America Poll. Two-thirds of Americans aged 13 to 64 say their sleep needs are not being met each week. Sixty percent of us wake up repeatedly, and 43 percent rarely or never get a good night's sleep on weeknights.²¹

And it's not just all the caffeine, late nights, stress, anxiety, and discomfort. Of all of the Sleep in America survey participants, 95 percent use an electronic device a few nights a week in the hour before bed. All this exposure to artificial light suppresses the brain's natural release of melatonin, delaying our descent into sleep. Can anyone say melatonin supplements? Yes. In 2011, U.S. sales of melatonin cracked \$200 million, growing over 25 percent.²²

WE NEED A BOOST—NOW!

As a functional health benefit, energy remains a highly compelling proposition to consumers. In 2012, U.S. sales of energy drinks rose 16 percent to \$8.7 billion.²³ Shots saw diminished growth in 2012, climbing just 3 percent to \$1.7 billion. The market's 800-pound gorilla—5-hour Energy—seems to have finally reached the edges of its bucket, though plenty of smaller companies are prepared to vie for share of the market.

Both shots and drinks are finally feeling the strain of a major caffeine controversy, which began in 2011 following the death of 14-year-old Anais Fournier, who suffered a heart attack after drinking two 24-ounce cans of Monster Energy. In the first quarter of 2013, Monster reported sales growth of just 7.3 percent, well below the 16.6 percent growth recorded in the previous year's quarter. According to CEO Rodney Sacks, sales for the overall energy drink market were below average that quarter, in part because of negative publicity surrounding the space.

PRODUCTS

AMERICAN LIFESTYLE

WE ARE STRESSED P.L. THOMAS ZEMBRIN

The first patented and clinically studied extract of scelletium tortuosum, an African herb used for stress relief and mood enhancement, Zembrin entered the U.S. market via P.L. Thomas in 2012. With solid science, an NDI notification, and centuries of use to its name, scelletium is bound to become a household herb.



WE CAN'T SLEEP TWINLAB MELATONIN DOTS

Nobody likes a gargantuan tablet, especially before bedtime, but everyone could certainly use a good night's sleep. Twinlab's Melatonin Dots meet consumers in the middle, offering a small format with a solid dose of sleep-encouraging melatonin. Meeting your sleep requirements without an upset stomach—that's a win-win.

WE NEED A BOOST—NOW! CHROMADDEX PUREENERGY



Bonded with wonder-antioxidant pTeroPure, ChromaDex's new caffeine ingredient PUREENERGY offers a healthy boost of pterostilbene bonded with America's favorite stimulant. Expect to see this new caffeine ingredient start to pop up in premium and natural energy drinks.



LEARN MORE ABOUT THIS TREND

EMERGING OPPORTUNITIES

SP30 The Prevention Imperative

SP34 Clean Performance

SP36 The Low-Hanging Fruit



PRODUCTS

MOTHER NATURE TAKES ON BIOENGINEERING

DEFINING THE WHOLE-FOOD SUPPLEMENT MOVEMENT AMERICAN HEALTH MORE THAN A MULTIPLE

The whole-food supplement category, a fast-growing segment desperately in need of a formalized definition, has its share of hangers-on. More Than A Multiple Whole Food Concentrates from American Health (an NBTY subsidiary) stretch the de facto definition somewhat by combining a “Whole Food Energy-Rich Complex” along with a standard suite of vitamins and minerals from synthetic sources. Not the strongest product but one that’s bound to sell.



VEGAN WORKOUT The market is moving away from artificial, “hulk guy” sports supplements. Vega explains how it is filling the void with its clean, vegan line of pre-, during, and post-workout products. www.nextforecast.com/vega1

SUPPLEMENTING THE VEGAN LIFESTYLE GARDEN OF LIFE RAW PROTEIN



Using a hodge-podge of plant proteins—rice, pea, hemp, cranberry seed, etc.—and the right messaging, Garden of Life’s Raw Protein hits all the right vegan buttons and has quickly become a leader in the meal supplement market.

ORGANIC VS. NON-GMO UNPA

With Whole Foods Market’s announcement that all products it sells will require GMO labeling by 2018, many supplement sellers were left scratching their heads. The United Natural Products Alliance has teamed up with key manufacturers to help make the transition and clear up an opaque supply market typically run as a waste stream for ag companies.

ORGANIC VS. NON-GMO

The U.S. biotech industry has a lot to lose in the consumer war with GMOs. And the biotech industry fuels much of the ingredient innovation this industry so sorely needs. What’s a chemist to do? And now that Whole Foods Market has announced full GMO transparency on all products it sells by 2018, the supplement industry better get moving on naturalizing its supply chain.

It can be worthwhile for suppliers since finished products are getting certified at an accelerated rate. Full lines from Nordic Naturals, Rainbow Light, Natural Vitality, Flora, NutriGold, and New Chapter are Non-GMO Project Verified, while protein powders from Garden of Life, Nutiva, Manitoba Harvest, and even hardcore sports nutrition company Metabolic Response Modifiers all use the Non-GMO Project seal as well. By comparison, certified-organic supplements are a sleeper category, and despite new launches, non-GMO may become more viable in the supplement space in the near future. Organic adds new costs and complexities to the manufacturing equation and targets a pretty small niche of consumers, while non-GMO certification paints away the “engineered” stigma with a broader stroke.

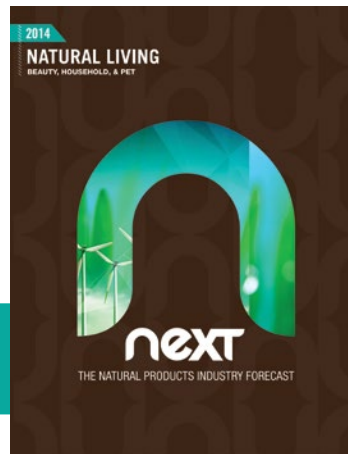


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2014



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**THE CATEGORY
NOW**

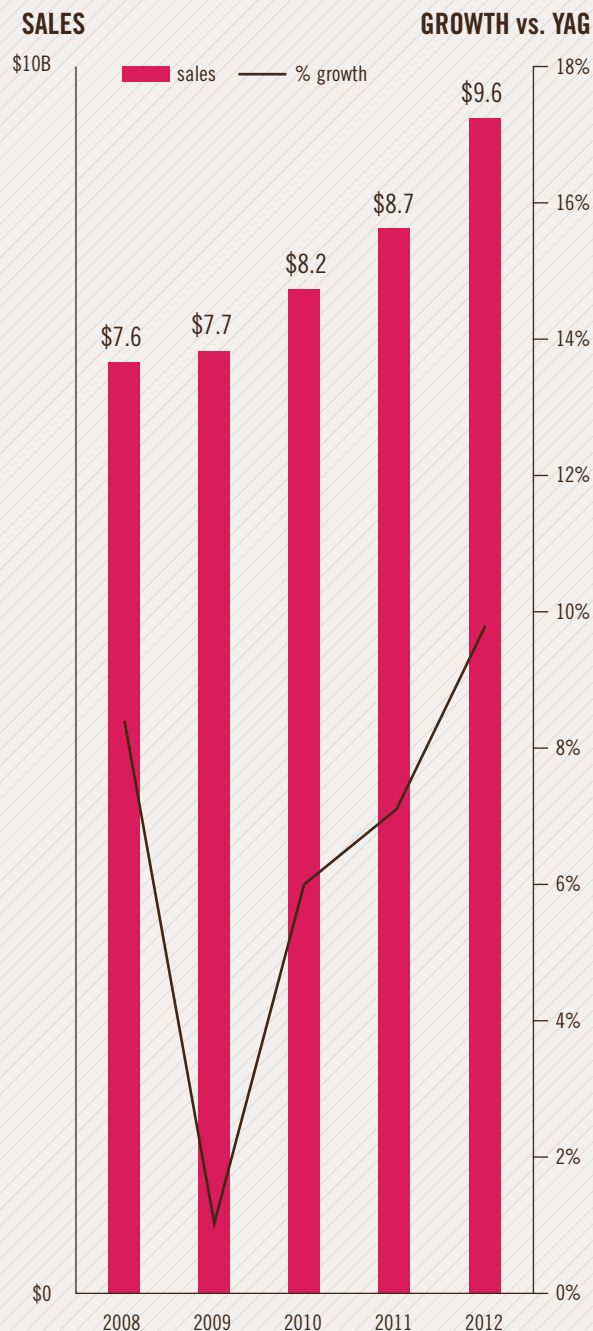
Personal Care

THE NATURAL BEAUTY TIPPING POINT

Thanks to increased awareness about toxic ingredients¹ and improved efficacy of natural beauty products,² Americans choosing cleaner foods are also being more critical about their personal care purchases. The natural and organic personal care industry is now valued at \$9.6 billion and saw a 9.8 percent boost in sales last year. Skin care, rife with innovation, was the biggest contributor to sales and experienced the most growth (11 percent). Also experiencing double-digit growth were cosmetics, bath and soap products, and natural fragrances.

But sales are just one way to gauge natural beauty's recent impact on the entire personal care industry. Natural companies and consumer-safety groups nudged Congress to finally meet on cosmetics legislation³ last year and encouraged self-regulation in the natural products industry, such as Whole Foods Market's organic labeling policy⁴ and the Campaign for Safe Cosmetics' Compact for Safe Cosmetics.⁵

Even the conventional cosmetics industry is adjusting its practices: International powerhouses Johnson & Johnson, Procter & Gamble, and L'Oreal⁶ have rolled out sustainability initiatives that touch on everything from plant-based sourcing to decreasing animal testing and investing in green chemistry. In theory, these efforts could make green resources more available and cheaper for the entire industry. But in light of the many limitations on these corporate makeovers,⁷ are these corporations



U.S. Natural and Organic Personal Care Sales and Growth: 2008–2012



“We’ve seen a huge shift in public awareness and certainly pressure to regulate the [cosmetics] industry.”

—Stacy Malkan, Campaign for Safe Cosmetics

SEAL OF APPROVAL

Certification saturation is the main source of confusion in the personal care industry, but one seal continues to resonate with consumers seeking pure products: USDA Organic.

The NSF/ANSI 305 “contains organic ingredients” label, which was launched in 2010, is slowly gaining recognition as well. But the food-based USDA Organic seal continues to be the most commonly recognized and sought-after standard in personal care products, most likely because consumers relate it to their food purchases.⁵ Although it’s not easy for personal care products to meet this standard, brands such as Dr. Bronner’s, Nourish Organic Food for Healthy Skin, and Intelligent Nutrients have led the crusade, proving it’s possible and paving the way for other brands seeking this organic seal.

PRODUCTS

TOXIC OVERLOAD

LESS IS MORE EVANHEALY



The idea that just a few potent plant-based ingredients can support skin health has never seemed more relevant, and skin care company evanhealy’s “radical simplicity” concept proves it right. Products including moisturizers and tonics source organic ingredients—think lavender and green tea—from small farms in Washington and France. Add in the company’s homeopathic and Ayurvedic philosophies, and evanhealy supports a trifecta of health, wellness, and beauty.

REFORMULATIONS BOOST CONSUMER CONFIDENCE

AUBREY



Reformulating to become a cleaner, safer product isn’t the only shift personal care manufacturers are making to boost credibility and improve their lines, as shown by industry veteran Aubrey’s recent skin care relaunch. Long dedicated to nontoxic products, Aubrey’s full lineup of updated SKUs is touted as being more targeted and more effective, with botanical ingredients aimed at specific skin types and issues, including aging, sensitive, and blemish-prone skin.

SEAL OF APPROVAL

VERMONT SOAP GREEN GOLD ORGANIC HERBAL MOISTURIZER

This down-home Vermont brand first made a name for itself with plant-based liquid soaps and detergents 20 years ago. It recently entered the beauty category with this ubersoothing USDA Organic salve that has an equally simple appeal for skin care purists. The green and white seal, along with the company’s years of experience mastering no-frills formulations, helps distinguish Green Gold, which uses only five ingredients: shea butter, hemp seed oil, calendula, St. John’s Wort, and rosemary.



LEARN MORE ABOUT THIS TREND

EMERGING OPPORTUNITIES

NL30 Putting Organic into Perspective

NL36 Beauty School

NL38 Go Green Chemistry



to ensure products are free from trace ingredients, such as lead, which was recently found in 400 lipsticks.⁴

BEYOND ORGANIC

It isn't easy for natural personal care companies to become USDA Organic. That's why for a long time, consumers could only find the seal on super-simple formulations like pure oils, bar soap, and lotions made with just a few agricultural ingredients. The reality is that for USDA Organic and NSF/ANSI 305 certifications to thrive in the personal care department, the labels must appear on various product types and certified products must perform at a high level. Fortunately, we're now seeing the product diversity and innovation necessary for organic personal care's success.

Aubrey recently launched a USDA Organic hair spray made with quinoa protein, an ingredient certified under NOP standards. We expect to see even more unique organic beauty ingredients now that USDA Organic products may use European organic ingredients.

Proving that even high-performance skin care can also go organic, Sophyto's Tocotrienol Super Skin Concentrate sports the NSF seal and Intelligent Nutrients and Acure feature plant stem cells in USDA Organic products. This ingredient will continue to thrive because, as Rechelbacher notes, plant stem cells are 1,000 times more potent than the whole plant, which you don't have to kill to manufacture the product. The challenge is getting the organic community to understand that plant stem cells can be organic, even if they're cultivated in a lab, he says.



AVEDA AND INTELLIGENT NUTRIENTS Founder Horst Rechelbacher discusses the opportunities—and challenges—associated with manufacturing high-performance organic personal care products. www.nextforecast.com/intelnut1

PRODUCTS

PUTTING ORGANIC INTO PERSPECTIVE

NSF/ANSI'S HOUR AVALON ORGANICS

Rather than ditching organic from its labels in response to Whole Foods' organic labeling requirements, Avalon Organics reformulated to get the NSF/ANSI 305 "contains organic ingredients" certification for each of its products and redesigned its packages to promote the seal. We think this move is good for Avalon and for the NSF/ANSI 305 certification.



SAFETY TRUMPS CERTIFICATIONS BEAUTY COUNTER



New skin care company Beauty Counter formulates with high safety standards and uses an intimate social-selling platform to spread that message. Its ingredient criteria are based entirely on health (it will not use any of the 1,300 chemical ingredients banned in the E.U., in addition to the 11 banned in the U.S.). Beauty Counter puts all other ingredients through "The Screen" process, which evaluates each ingredient on skin irritation, carcinogenicity, reproductive toxicity, and cumulative exposure.

BEYOND ORGANIC INTELLIGENT NUTRIENTS

This brand from Aveda founder Horst Rechelbacher offers a vast selection of beauty and lifestyle products focused on organic and performance-driven bioactives. The line includes antiaging serums, supplements, home-purifying scents (or as Intelligent Nutrients calls them Air Nutrition), and pet products. Each features high-potency, certified-organic botanical blends in modern packaging.



LEARN MORE ABOUT THIS OPPORTUNITY

TRENDS

NL18 Children: The Future of Natural Personal Care

NL20 Delivering Safety and Efficacy

NL22 Taking on Greenwashing

PRODUCTS

THE HUMANIZATION OF PETS

EVEN FIDO HAS A SPECIAL DIET

Manufacturers are also shifting toward artisan treats that cater to pets' special dietary needs, a byproduct of American consumers' understanding of their food allergies. Pet allergies to gluten, wheat, corn, and certain proteins like chicken and beef are also on the rise.

Gluten-free was among the first claims on pet foods; but more companies are now featuring grain-free and corn-free products¹³ with vegetable carbohydrates. Most conventional manufacturers even have lines with these claims. Brands such as Max & Ruff's introduced highly controversial¹⁴ vegan dog treats. May & Ruff's offers flavors such as Molasses Explosion 1919, Mother Quinoa's Pumpkin Patch, and Sweet Potato & Alfalfa.

Other companies creatively cater to the picky pet with alternative pet-food deliveries. Puppy Dust is a wheat- and corn-free powdered treat in Peanut Butter & Honey and Bacon Cheddar Cheese meant for sprinkling atop food to encourage pups to eat.

LEAN-PROTEIN BOOST

Because protein is considerably more expensive than low-quality carbs like corn, many mass-produced pet foods pack in entirely too much cheap grain. As a result, many dogs and cats get too many carbohydrates and not enough protein from conventional packaged foods.

While dry extruded pet foods have typically included about 15 percent to 30 percent protein, natural brands such as Freshpet and Whole Life include 80 percent or more protein in fresh or freeze-dried products. And with functional ingredients, even dry-extruded pet foods are bulking up on protein. Glanbia Nutritionals' OptiSol 9000 allows for the inclusion of 50 percent or more meat in low-grain, high-protein dry extruded pet diets.¹⁵

Lack of protein is one issue conventional products face; protein quality and source are two more. Even many early *natural* pet foods didn't use hormone- and antibiotic-free meats, allowing newer companies that focus on free-range and organic proteins to really stand out. And because pets can develop allergies to chicken and beef, unique alternatives have entered the space: wild game, including bison, venison, kangaroo, and duck; and fresh seafood, such as cod and salmon.

A NATURAL SHIFT

"I AND LOVE AND YOU"

Natural products industry veteran Brendan Synnott, formerly of Bear Naked granola, recently launched this complete natural pet line, which takes natural pet products to the next level. Among its offerings are raw and dehydrated food, pet treats, grooming care, supplements, and flea and tick protection. Plus, the company's mission is to "green up the pet industry" with sustainable business practices.



EVEN FIDO HAS A SPECIAL DIET

KODA BY KEYS OMEGALIFE 369 VEGAN OIL SUPPLEMENT



Vegan omega-3 oils are hot with humans; now they've made a splash in the pet space. Koda by Keys' naturopathic dog remedies is a relatively new line from a company that has been around for nearly a decade in the natural skin care business. Among its first pet products is this supplement that caters to the vegan pooch (or at least to its vegan owner).

LEAN-PROTEIN BOOST

WELLNESS CORE GRAIN-FREE

Wellness is staying on top of the grain-free pet food trend through its recent launch of a new line of CORE Grain-Free foods for cats and dogs. It's not just the grain-free attribute that's getting the well-known natural pet food company's attention: Wellness also uses only lean proteins such as salmon and turkey in this new line.



LEARN MORE ABOUT THIS TREND

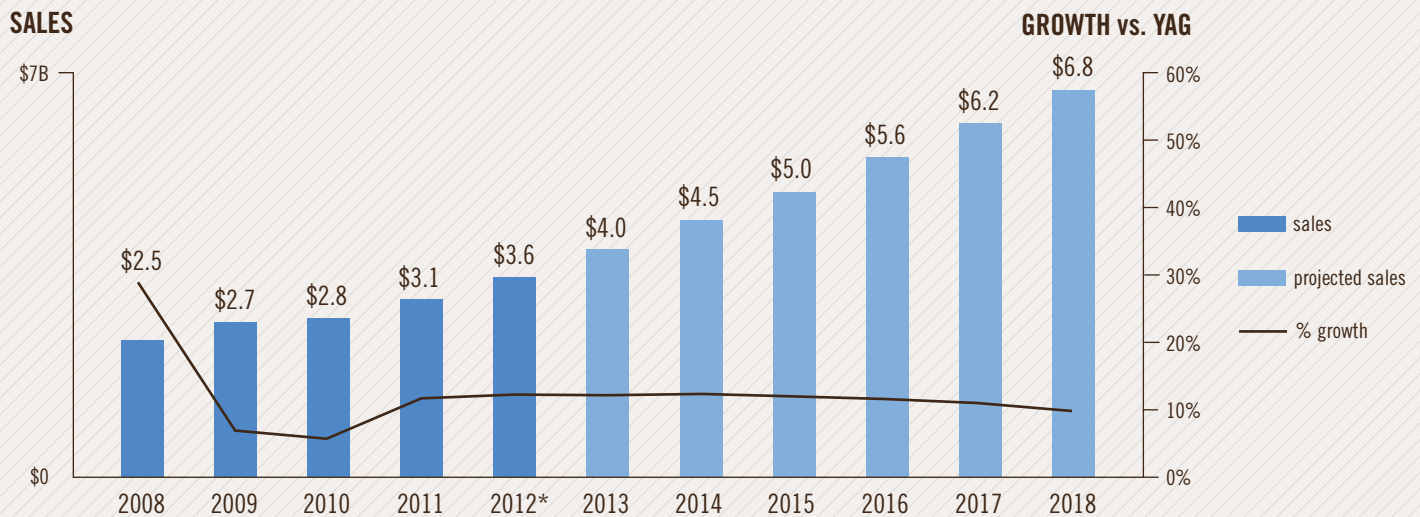
EMERGING OPPORTUNITIES

NL50 Prevention for Pets

NL52 Closer to the Source

“New ingredients, which satisfy green chemistry and are also from renewable plant-based raw materials, will drive the growth of the natural personal industry.”

—Kantha Shelke, principal, Corvus Blue LLC



U.S. Natural and Organic Household Sales and Growth: 2008–2012 | Forecast through 2018

*Preliminary sales estimate.

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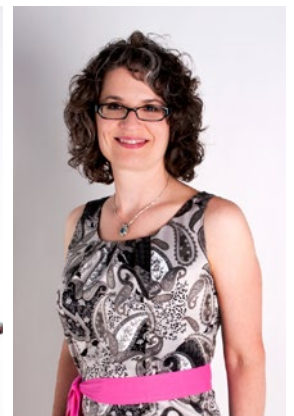
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Many minds were involved in creating the NEXT Forecast 2014. The project team included researchers, strategists, designers, writers, editors, trend-spotters, and branding experts who collectively spent hundreds of hours producing what we hope is a valuable report for you and your business.

////// **ACKNOWLEDGEMENTS**

**THANK
YOU**

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