2015

FOODS & BEVERAGES
SUPPLEMENTS
NATURAL LIVING

# next™ forecast™

WHY US, WHY THIS PARTNERSHIP, AND

# Why This Report

**NEXT: THE NATURAL PRODUCTS INDUSTRY FORECAST 2015 IS A JOINT VENTURE BETWEEN NEW HOPE NATURAL MEDIA AND STERLING-RICE GROUP (SRG).**

**New Hope 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 Forecast 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 that it will have for mainstream CPG companies, and the problems it could potentially help solve.**

New Hope Natural Media is the founder and operator of Natural Products Expo West and East, NBJ Summit, NEXT Innovation Summit, and other events targeted to the natural, organic, and healthy products market. New Hope also publishes *Nutrition Business Journal*, the leading market research publication in the natural products industry, as well as *Natural Foods Merchandiser*, *Functional Ingredients*, *Delicious Living* and newhope360.com, a supply-to-shelf digital information resource for the natural, organic, and healthy products market. Based in Boulder, Colorado, New Hope's NEXT portfolio of data and insights products and research services leverage the company's 35-plus years of market intelligence and unique positioning within the natural and organic industry to support and inform innovation within healthy products.

**To learn more about New Hope's NEXT solutions, visit nextknows.com or contact Colin Gerard at 303.998.9170.**

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 contact Rick Sterling or John Grubb at 303.381.6400.**

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10 MACRO FORCES SHAPING TODAY + TOMORROW

EXECUTIVE SUMMARY

# THE PRICE OF ARRIVAL: CONNECTING MISSION AND HEALTH IN THE MAINSTREAM NATURAL PRODUCTS WORLD

It's showtime. After decades on the fringes of both culture and commerce, natural products have arrived as a clear pivot point in the drive for purpose-built industry. Bringing mission forward in business development is par for the course inside the industry, but less so among the many new constituencies now entering into the discussion. With this mainstreaming of natural, the future health of the industry increasingly depends on how effectively it integrates these new voices—with their concomitant pressures and priorities—into the grand discussion of bettering the world through business.

We believe the industry is now entering a new phase, one shaped less by outsider status and more by a capacity to deliver on the promise. This is a unique position to occupy, equally fraught with the pressures of sales growth and building supply as the burdens of maintaining authenticity and honoring the true imperatives of consumer demand. The world needs better solutions and consumers of every stripe now know that. It's time to bring the inspiration baked inside natural products into concrete, scaled-up successes for the colliding markets of food and health products.

So, welcome to natural products in the year 2015. Times are good and the stakes are high. The industry remains one of high innovation by necessity, with many in-market trends laddering up to dominant macro forces that begin this report. As always, these forces ladder up too. To get on trend and stay there, find products and paths to market that promote health, sustainability, and the deliverable promise of a better world.

Couldn't be simpler to type and couldn't be harder to execute. We created this report to bridge that gap between aspiration and execution. Read on for the strategic insights needed in the current landscape to deliver on the promise.

# 6

MACRO FORCE #6

# HUMAN BRANDING

## HUMAN BRANDING

**10 MACRO FORCES SHAPING TODAY + TOMORROW**

### The way to market local and give food its true sense of place, not to mention a face.

Take a look at the quarts and half-gallons from Organic Valley. Or the wrapper around those chocolate bars from Askinosie. What you'll find are faces of farmers, the real faces of the real farmers engaged to bring that product in your hands to market. This is the vanguard of packaging and branding in natural products. It's human, a notch up the impact chain from such recent marketing trends as transparency, raw messaging, and minimalism.

Human branding is all of those trends and more. It's transparent by creating a direct line between consumer and producer. It's raw in that the manufacture of the product is the whole story, with no sleight of hand played by claims or slogans or mascots. It's minimal if it wants to be, but can embrace maximalism as well since that human face accomplishes all of the essential honesty conveyed by minimalism.

Human approaches to branding synch quite well with the broad advance of storytelling inside natural products, an industry full of tellable stories. With authenticity and purpose at your back, it's easy to talk about who you are and why you do what you do. People tell stories all the time. We hunger for narratives to make sense of the world in ways that make sense to us, and the stories coming out of natural products have broad audience these days. A face is a great signifier of provenance too, whether that face speaks to a localizing message (a family dairy farm) or a globalized one (coffee beans).

Consider the relationship between Uncle Matt's Organic and MegaFood. MegaFood continues to innovate on messaging because it can. The real-time webcam on the factory floor exposes consumers to the company's raw materials because those raw materials are food-based and squarely on trend. The company gets vocal and active on the GMO labeling front because it's just about the closest a supplement brand can ever hope to get to a whole food. By aligning the business objectives in this way, marketing quickly gets transparent and raw, even human.

In its latest gambit, MegaFood now heavily promotes its "farm fresh partnership" with Uncle Matt's by highlighting Uncle Matt in his organic citrus groves. It's a powerful, human way to connect that vitamin C pill to the natural health it's meant to convey.

**With authenticity and purpose at your back, it's easy to talk about who you are and why you do what you do.**

### HUMAN BRANDING IN ACTION

**FB28** Positioning Beyond Price
**FB38** Get to Know the Food Tribes
**NL16** Rediscover Fun

2015


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FB40

FB18

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FB43

yumbutter™
world changing nut butters

FB27



FB35

# 3 INFLUENCER

## FOOD TRIBES

Food tribes are close-knit communities (both in-person and virtual) of people bound by not only nutritional and health needs but also personal values, beliefs, and behaviors. They are the paleo people, the raw foodies, and the kosher and halal adherents who connect over shared medical, philosophical, or religious needs. Made up of early and passionate product adopters, food tribes exert tremendous influence within their personal and professional spheres and, through this influence, push their ideas into the mainstream population.

### FOOD TRIBES INFLUENCE IN ACTION

**FB38** Udi's
**FB39** So Delicious
**FB39** Steve's PaleoGoods

# 4 INFLUENCER

## SUSTAINABLE PROTEIN

Unlike fats and carbohydrates, protein is the one macronutrient that has never faced a backlash from consumers or nutrition professionals. In fact, the health mantra today is, "Everyone needs more quality protein in their diet." As the demand for protein rises, so has the need for sustainable, healthier protein sources. From this need, we are seeing the emergence of everything from products fortified with insect protein to plant-based egg and meat alternatives that mimic the taste, texture, and functionality of the real deal.

### PROTEIN INFLUENCE IN ACTION

**FB17** Chapul
**FB41** Beyond Meat
**FB47** Hampton Creek Foods

# 5 INFLUENCER

## THE LITTLE GUYS

Big brands are losing relevance as “microfragmentation” sweeps through the food world—and nowhere is this more evident than in the natural, organic, and healthy products market. Although they enjoy numerous competitive advantages, the food giants are losing to their smaller, more nimble competitors on two important fronts: authenticity and innovation. The little guys are pushing the envelope with big ideas that could change the food system in positive ways forever. We just need to figure out how to help more of them thrive.

### LITTLE GUYS INFLUENCE IN ACTION

**FB29** Suja
**FB43** Kuli Kuli
**FB43** Yumbutter

# 6 INFLUENCER

## THE DEMONIZATION OF SUGAR

Amid headlines accusing sugar of being toxic and studies finding the sweet stuff to be at the root of everything from diabetes to obesity to liver disease, sugar’s reputation is quickly turning sour—and more consumers are proving willing to ditch it in their quest for better health. The demonization of sugar is creating new opportunities for healthier sweeteners and contributing to the rise in the preference of savory flavors over sweet.

### DEMON SUGAR INFLUENCE IN ACTION

**FB27** Madhava
**FB37** Rx Bar
**FB27** Nutiva

# ORGANIC

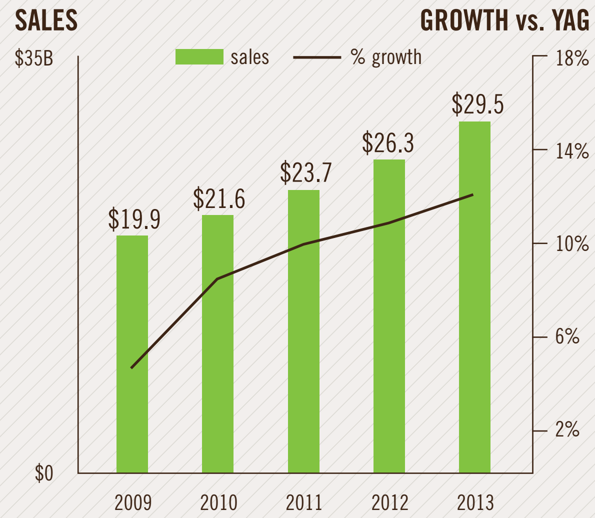
## STRENGTHENING BUT LOSING GROUND TO NON-GMO

Putting the recession of 2009–2010 further behind it, the U.S. organic food and beverage market continues to experience strong expansion, growing 12 percent to $30 billion in 2013, according to *NBJ* estimates. This market growth is the highest rate posted for organic since 2008, exemplifying the organic industry's resiliency after the single-digit growth experienced during the recession. Organic industry sales increased by nearly $3 billion in 2013—the highest volume sales expansion since 2008.

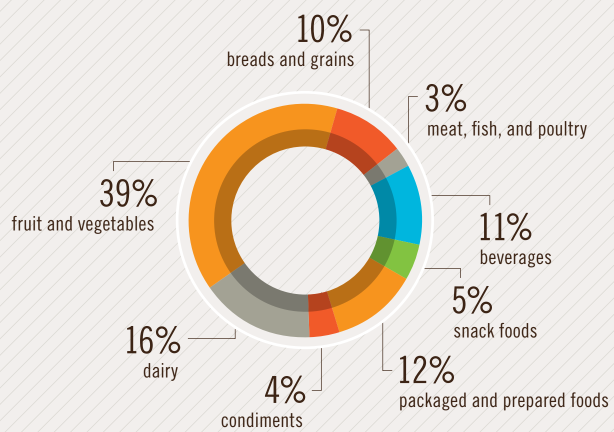
Organic food and beverage sales grew 12 percent in 2013, while conventional food sales experienced a mere 4 percent growth. Although organic continues to eat away at total market share of food products, the overall share of organic products being sold still makes up only a small piece of the total market. Organic food accounts for roughly 4 percent of total food sales (up from 2 percent back in 2003). The path to mainstream is proving to be long; however, the current low market share also signals the tremendous potential for future growth that still exists.

If supply can keep pace with demand (and this remains a big question), significant signs show that the next decade's growth may pave the way to mainstream faster than ever before. Another positive sign is that the industry itself is stepping up efforts to educate consumers on the benefits of organic, with the Only Organic campaign being one relatively high-profile example of how organic manufacturers are banding together to influence mainstream consumer buying decisions. On the retail front, organic sales continue to grow faster in the traditional grocery channel than the specialty channel, which reflects the growing mainstream embrace of organic and its role in health and wellness.

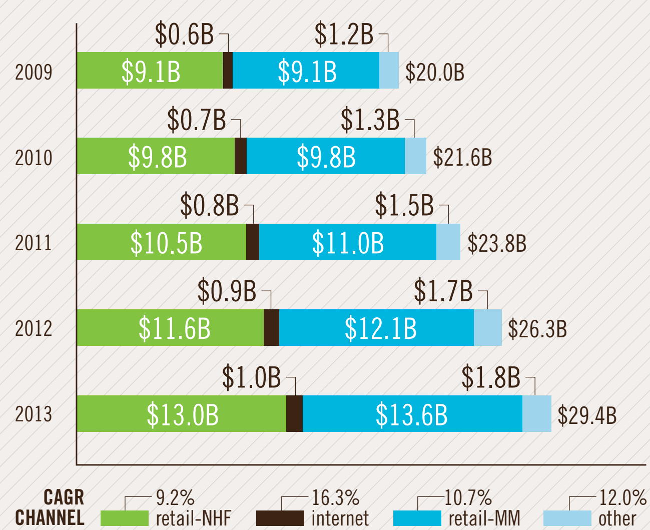
Despite the strong growth and increased education efforts, the organic continues to lose out to the non-GMO movement on some fronts as manufacturers choose Non-GMO Project Verification over USDA Organic certification.




**U.S. Organic Food and Beverage Sales and Growth: 2009–2013**




**2013 U.S. Organic Food and Beverage Sales by Product Category**




**U.S. Organic Food and Beverage Sales and Growth by Channel: 2009–2013**

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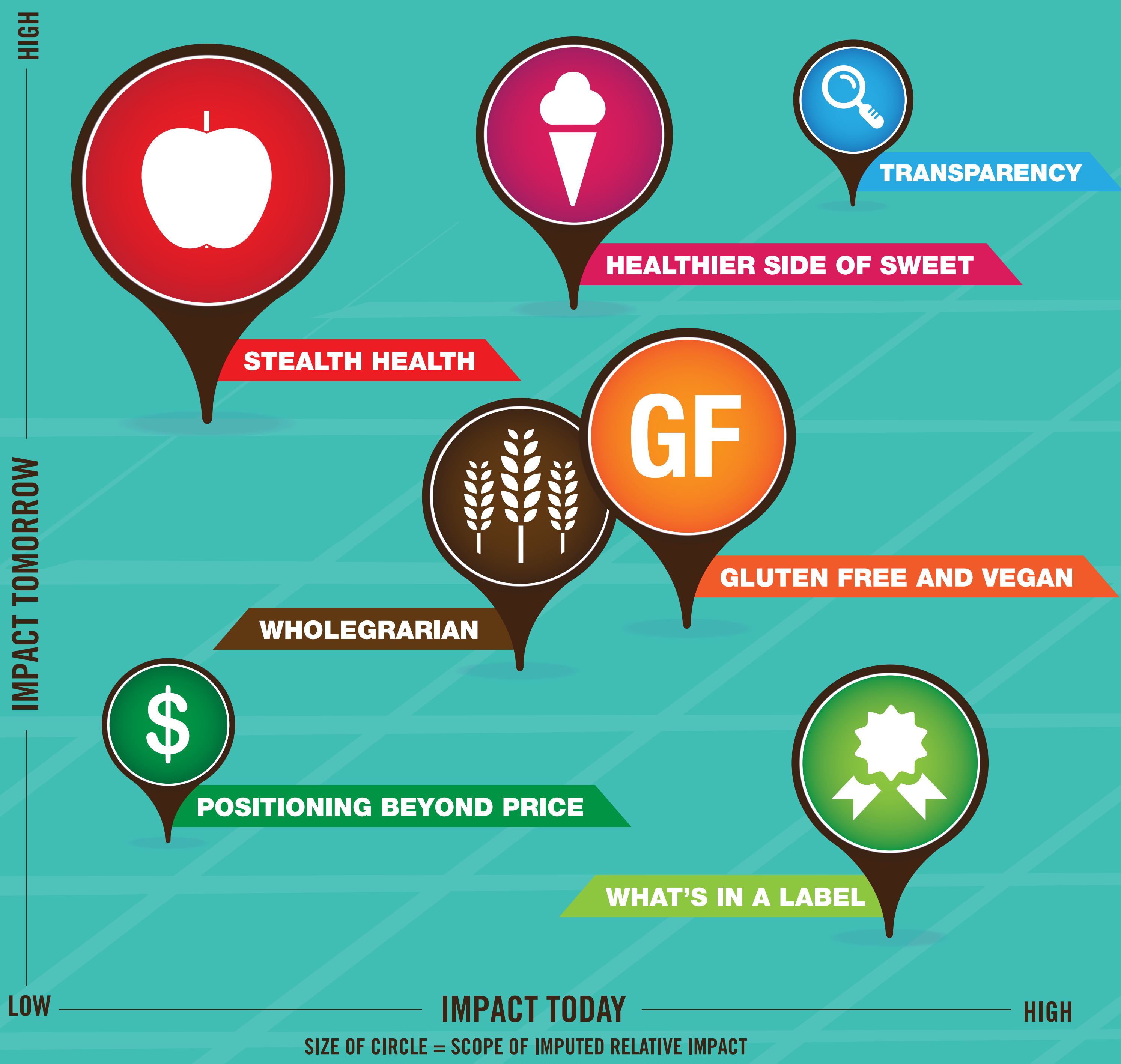
SHAPING THE **NATURAL, ORGANIC, AND FUNCTIONAL FOOD AND BEVERAGE** CATEGORY



OPPORTUNITY

# GET TO KNOW THE FOOD TRIBES

Increasingly, people don't just follow a gluten-free, vegan, or other special diet; they follow a *lifestyle*. Read *Paleo Magazine* or attend a paleo conference such as Paleo f(x) and you quickly see how true this is. Along with recipes and nutrition information, the growing paleo community uses these and other platforms to share advice on everything from parenting to mental health to sustainability.

The end result is what we call a "food tribe"—a close-knit community (both in-person and virtual) of people bound by not only nutritional and health needs but also personal values, beliefs, and behaviors. They are the paleo people, the raw foodies, the kosher, and halal adherents who often connect over shared medical, philosophical, or religious needs. Made up of early and usually passionate product and concept adopters, food tribes exert huge influence within their personal and professional spheres and, through this influence, push their nutrition and health ideas into the mainstream population (call it a mini Dr. Oz effect).

Writes Randy Shore in the March 2014 *Vancouver Sun*. "We are becoming a nation of food tribalists, defined not by where we live or the language we speak, but by what we don't eat."[11] Collectively, these food tribalists will help fuel a special-diets food market that is expected to reach nearly $26 billion by 2018, according to *Nutrition Business Journal* estimates.[12] That's a lot of allergen-free waffles, paleo nutrition bars, and vegan frozen dinners!

## IF THEY CAN FIND IT, THEY WILL BUY IT

From a business perspective, all of this is exciting because food tribalists are willing to pay a premium for products that meet their dietary or philosophical needs and desires. Case in point: A gluten-free shopper spends about three times more per store visit than the average shopper, according to Boulder Brands research. This means the gluten-free consumer spends almost $100, while the average American shopper spends about $30.[13]

A 2013 consumer survey conducted by New Hope Natural Media also found that "core special-diet consumers"—in other words, the food tribalists—are much more likely to try new healthy foods and beverages compared to "general" consumers.[14]

The trick, of course, is making it easy for a gluten-free, vegan, or other food tribalists to find and use these products—which is often easier said than done. In fact, New Hope's consumer research found that both brands and retailers are doing a subpar job when it comes to serving people who adhere to special diets. Even with the growth in gluten-free, vegan, and other special-diet product selection, both core and general consumers complain that it's too difficult to find delicious, convenient products that fit their dietary needs.[15] This spells continued opportunity in the special-diets market.

## AUTHENTICITY WITHIN A FOOD TRIBE

Perhaps more than anything else, authenticity is crucial to making it with food tribalists. For these consumers, authenticity is reflected in product quality, brand story, and company mission and involvement in the community. Small brands started from within the community to specifically serve the needs of the community are often in the best position to garner trust with food tribalists; however, larger brands can do the same with the right commitment, investment, and motivations.

**THE NEW GLUTEN FREE? New Hope editors Elisa Bosley and Jenna Blumenfeld take a tour of the many new paleo products offered at Expo West 2014. www.nextforecast.com/videos/paleo**

We've seen this play out in both the gluten-free and vegan communities. Those manufacturers that demonstrated their commitment early on through certification, product innovation, education, and community development are proving to be the big winners in the category long term. Examples include So Delicious, Udi's, Pamela's Products,

Earth Balance, and numerous smaller brands such as Sweet Earth Natural Foods, Upton's Naturals, and Dr. Lucy's Gluten Free. These brands have never treated gluten free or vegan as simply a bandwagon to jump on and have, therefore, earned the trust of their food tribalist consumers.

Alternatively, those companies that develop inferior "me too" gluten-free products that lacked certification or are not made in dedicated, certified manufacturing facilities are often deemed to be untrustworthy by the community and don't stand a chance at long-term success.

## PAY ATTENTION TO THE FRINGE

Within nearly every special-diet community reside even more "specialized" tribes of people who adhere to even stricter versions of the original diet. For example, a growing group of people suffering from autoimmune diseases follow the rigorous paleo autoimmune protocol, which is a version of the paleo diet that also includes avoidance of eggs, nuts, seeds, nightshades, alcohol, cocoa, and coffee. Similarly, committed CrossFit athletes often take their paleo lifestyle to the next level by combining paleo with the Zone diet, which calls for carefully balancing protein, fat, and carbohydrates. Dogmatic in their nutritional thinking, these people often flock together—in person and on the web.

Although highly specialized eating tribes can seem extremist and not worth targeting, they are worthy of being understood and monitored because they can serve as harbingers for the broader food world. For instance, listening to and monitoring the social media conversations of specialized food tribalists can help brand marketers better understand the often competing beliefs and philosophies that coexist within the gluten-free, vegan, paleo, raw, and other special-diet communities.

PRODUCTS

# GET TO KNOW THE FOOD TRIBES

### IF THEY CAN FIND IT, THEY WILL BUY IT

## SO DELICIOUS


So Delicious is one of the big brands that has been embraced by the burgeoning and values-oriented vegan community. The company has long earned points for not only its growing line of dairy-free beverages and other products, but also for its commitment to nutrition and sustainability education and community involvement through the Brees Dream Foundation. A large distribution footprint also makes it easier for So Delicious to connect with consumers making their first forays into dairy-free and vegan eating.

### AUTHENTICITY WITHIN A FOOD TRIBE

## STEVE'S PALEOGOODS


You gotta love a natural brand that started out with a CrossFit enthusiast's desire to provide a healthy snack for at-risk urban youth in crime-ridden Camden, New Jersey. With the original PaleoKit—a mix of jerky, nuts, and berries—Steve Liberati launched one of the first packaged products to be embraced by the paleo community. He's now building a paleo empire that includes nutritious cereals, jerky, dressings, marinades, and dried candy.

### PAY ATTENTION TO THE FRINGE

## THE PALEO MOM

Sarah Ballantyne, a.k.a. the Paleo Mom, is one of the web's most vocal, recognized, and influential supporters of the paleo diet, and more specifically, the paleo autoimmune protocol. Author of *The Paleo Approach* and a "scientist turned stay-at-home mom," Ballantyne uses her large social media networks to educate, share recipes, offer community support, and promote brands she finds authentic and true to the paleo mission.

THE PALEOMOM.COM
The Paleo Mom is a scientist turned stay-at-home mom who shares recipes, explains the science behind the paleo diet and its modifications, and blogs about the challenges of raising a paleo family.

## LEARN MORE ABOUT THIS OPPORTUNITY

TRENDS
**FB20** Not a Fad: Gluten Free and Vegan
**FB24** What's in a Label?
**FB28** Positioning Beyond Price

TRACKING AND PREDICTING

# THE CATEGORY'S CHANGING VALUES

TASTE

PALEO

WHOLE FOODS

LOCAL

NON-GMO

GLUTEN FREE

VEGAN

FOOD TECH

INSECT PROTEIN

AFFORDABILITY

SNACKIFICATION

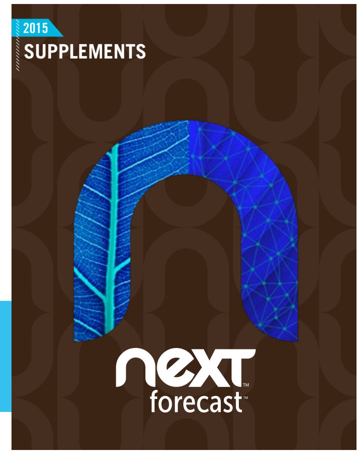
SAVORY

ORGANIC CERTIFICATION

NATURAL

SUGAR

2015

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SP39

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CATEGORY BOTTOM LINE

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

Despite numerous challenges, the U.S. dietary supplement market remains a fast-growing consumer products segment with major potential to positively impact human health. Although the supplements market enjoys a reputation for having few barriers to entry, especially compared to pharma and other health-related categories, the industry is rife with pitfalls, roadblocks, and false messiahs, and long-term business success requires much more than fly-by-night profiteering.

Opportunities abound in high-growth supplements categories with promising science, such as digestive health, anti-inflammation, and plant proteins. But external influences (such as negative media attention) and internal issues (such as economically motivated adulteration) can suppress sales growth in even the strongest product categories.

Newcomers and even old-timers in the supplement market need a strong idea of what's happening now and what's expected to happen next to find that sweet spot between innovative idealism and bottom-line realism. What formats are hot? Have I missed the boat on probiotics? How can I keep the FDA off my back? Find the answers to these questions and more in the pages to come.

Here are six influencers we think are particularly impactful for the supplement industry and 18 organizations, products, and people connected to them.

# 1 INFLUENCER

## THE HUNGER FOR PROTEIN

No doubt protein is current king of the macronutrients. Unlike its brethren, carbs and fats, protein has never been subject to massive mainstream fallout. No low-protein, no-protein movement has overtaken the packaged food market. No marquis exposés on the deleterious health effects of protein consumption have graced *Dateline* or *The Dr. Oz Show*. Mainstream consensus seems to be that the more protein you get, the better. Bodybuilders, weight-loss seekers, young adults, weekend warriors, vegans, elderly folks looking to ward off sarcopenia—all these demographics are jumping on the protein bandwagon. But does the industry have enough supply to serve them all?

### PROTEIN INFLUENCE IN ACTION

**SP13** Garden of Life
**SP13** Bug Muscle
**SP29** Activz

# 2 INFLUENCER

## THE MEDIA DRUM

Negative press forestalled growth for three major categories in the dietary supplement market over the past year—omega-3s, multivitamins, and vitamin D—and the industry has no strong mainstream media voice to help right the ship. Even Dr. Oz—whose product spots on his daytime TV show have contributed to millions in new sales dollars for dietary supplements (especially in weight loss)—can't be counted on to bring these categories back to life ever since he stopped showcasing branded ingredients and has come out as a critic of aspects of the natural products market. The question lingers—does industry have the media chops to sustain itself over the long term?

### MEDIA DRUM INFLUENCE IN ACTION

**SP16** The Dr. Oz Show
**SP17** Next Pharmaceuticals
**SP17** Consumerlab.com

“When my father started this company manufacturing pills in the early ’80s, it was 90 percent tablets and 10 percent capsules. Right now it’s probably 55 percent capsules,” says Sam Vallabhaneni, vice president of new product development at contract manufacturer Rasi Labs in New Jersey. “Our use of vegetarian capsules before 2000 was maybe 5 percent—10 percent tops—of our capsule demand. Today it’s about 40 percent.”[26]

## THE SLIPPERY SLOPE: BEVERAGES

On its face, it seems pretty obvious: If it looks like a drink, it’s a drink. And if it looks like a pill, it’s a supplement. Ahh, but leave it to the innovators and entrepreneurs who know that beverages are convenient, but supplements give greater latitude in making sly health claims.

In most cases, the only way a consumer would know the difference would be if the panel on the back of the can or bottle was listed as a Supplements Facts box or a Nutrition Facts box.

Hoping to put an end to the confusion, the FDA came out with a revised rule in early 2014 that changes their thinking on the subject. The upshot is there will be more instances of the agency holding product makers to task for putting functional ingredients in their beverages but calling it a supplement (the better to entice consumers with feats of nutritional derring-do).[27]

The first casualty of the ruling was Monster, the number two energy drink after Red Bull, which announced it was no longer marketing itself as a supplement but rather as a beverage. This was probably wise because the FDA would likely have looked once at the 16-, 24-, and 32-ounce cans and declared it a beverage, not a supplement.

It makes a difference because regulations differ for both, with less latitude for claims-making under the beverage rule.[28]

So, look for a more constricted regulatory environment with less innovative claims made in the refrigerator of your local convenience store.

PRODUCTS

# FUNCTION OR FORMAT

### GUMMY GAME CHANGER

## HERO NUTRITIONAL HEALTHY INDULGENCE


Hero Nutritional Products has combined two of our favorite things: a multivitamin and chocolate. Seriously, why did it take this long for someone to invent this? And not just any ol’ chocolate—60 percent cacao dark chocolate. For years the only chocolate supplement on the market was the mainstream calcium chocolate Viactiv from Mead Johnson. Hero has run with the concept, offering chocolate coins filled with a multitude of vitamins and minerals. For consumers, the taste is pure chocolate.

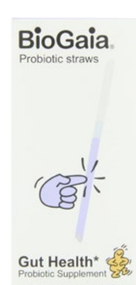
### VEGGIE CAPSULES GROWING

## OXYLENT BY VITALAH


Easily the best-tasting powdered multi, with Vitalah’s Oxylent you just tear open a satchel, put it in a glass of water, and enjoy your nutrients. Even better is the ingredient deck, featuring premium ingredients such as enhanced-absorption chelated minerals, methylcobalamin B12, a 1:1 calcium-magnesium ratio, and bioflavonoids to help with vitamin C absorption. Perfect for the elderly and the pill-weary. And it’s gluten-free and non-GMO to boot.

### THE SLIPPERY SLOPE: BEVERAGES

## BIOGAIA PROBIOTIC STRAW




Wouldn’t you love for your children to get the benefits of probiotics? But of course they can’t handle swallowing a pill yet. The BioGaia probiotic straw is a straw that’s lined with probiotic powder. Just stick the straw into any cold or room-temperature beverage and suck it down—the drink peels the probiotics off the inside of the straw and down they go. Makes you wonder what other nutrients can be used with this simple straw technology.

## LEARN MORE ABOUT THIS TREND

EMERGING OPPORTUNITIES
**SP28** Wholier Than Thou
**SP32** You Are What You Absorb
**SP38** Yes, We Cannabis

## OVER THE NEXT HORIZON

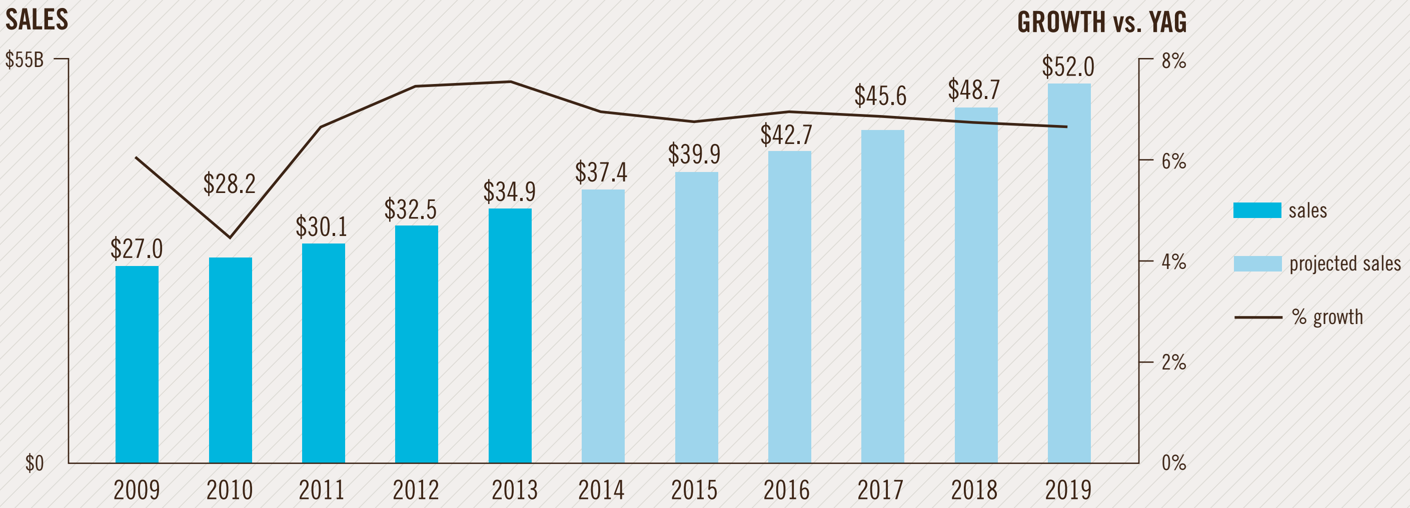
Many opportunities are just within reach for the supplement industry: innovation in nutrient bioavailability and microencapsulation; exploration of the body's inflammatory response and of safe herbs that regulate and modulate that response; a deeper dive into the whole-food supplement and green powders market and the science surrounding their efficacy.

But there are other, far more complex opportunities way, way down the road—opportunities that could change not just the dietary supplement market, but our entire healthcare and nutrition paradigm.

One such opportunity is personalized nutrition. As healthcare continues to open up to preventive therapies like supplements, there's real opportunity for companies to connect the dots here—genomics to phenomics to nutrition—in ways that pay off for patients and consumers. Under the mantra of "the right treatment for the right person at the right time," personalized medicine is capturing national headlines, and it carries the potential for supplementation to prove itself as a powerful tool in promoting health. Categories on the leading edge of this trend would have to include probiotics, B vitamins, and even the next generation of multivitamins.

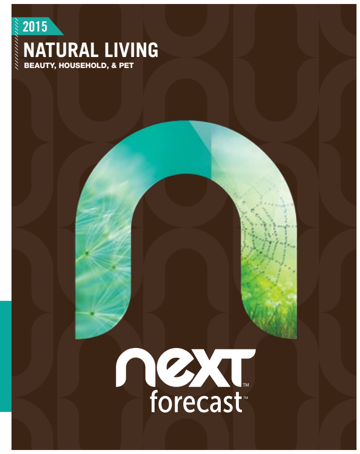
And another meta-opportunity involves the burgeoning field of microbiome science and the exploration of not just the genetics of our own bodily cells, but also the genetics of the cells in the bacteria that cover and fill our bodies. This research could change the way we look at digestion, nutrition, our built environment—even the way we perceive our own identities. (The genetic makeup of your bodily bacteria outnumbers that of your cellular DNA 10 to one.)

The chief takeaway, however, is to tread carefully toward this new horizon. The science is still nascent and the regulatory machinery has yet to be blueprinted for the supplement industry's full-fledged sortie into the worlds of personalized medicine and microbiome modulation.




**U.S. Supplement Sales and Growth: 2009–2013 | Forecast through 2019**

2015

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# THE CATEGORY
# NOW

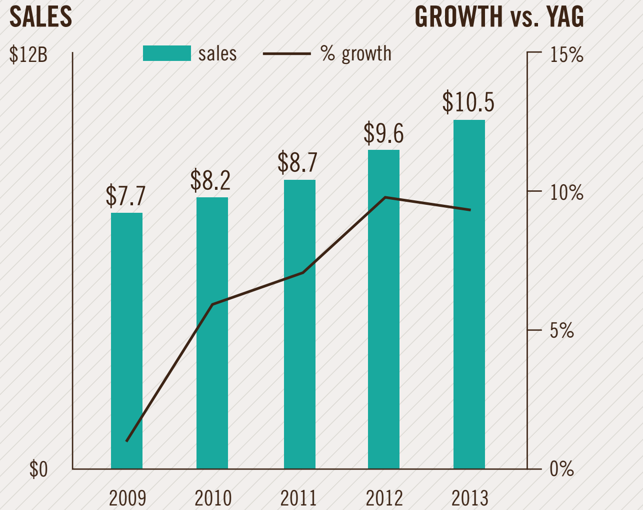
## Natural Personal Care and Household Products

# THE BEAUTY OF NATURALS

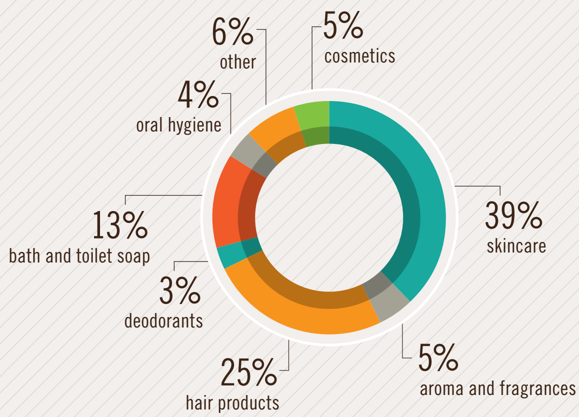
Natural personal care isn't just growing, it's evolving—from a fear- and plant-based business to a dynamic, flourishing industry excelling in innovation and authenticity. Indeed, when gauging its success by sales alone, it's clear that natural personal care and household products are bound to continue on this upward trajectory. In 2013, sales of natural and organic personal care increased by 9 percent to bring the market value up to 10.5 billion.[1] Household products, including green cleaners and organic linens and clothing, grew 12 percent for the third year in a row (reaching nearly 4 million in sales).[2]

But *why* the tides have turned for these industries is what gives them staying power: Retailers, who act as the gatekeepers for products and have far-reaching effects, are implementing stricter policies[3]; more consumers are purchasing truly nontoxic options; and large companies are committing to better-for-you and better-for-the-planet practices.[4]

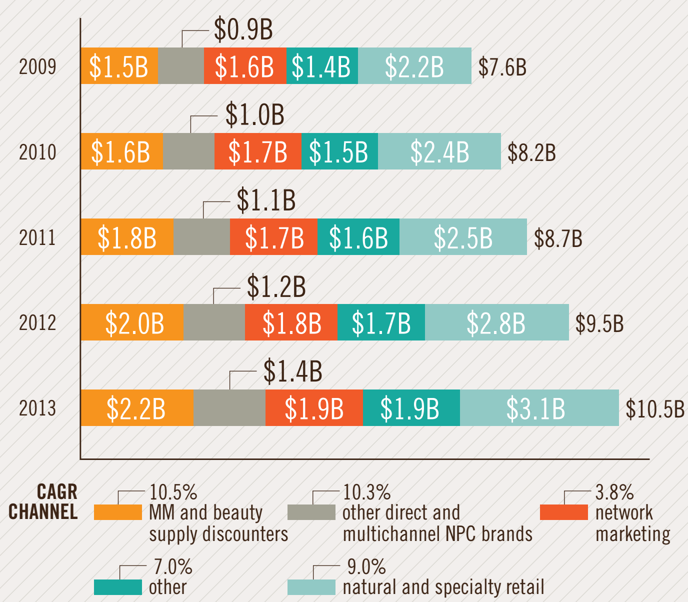
Beyond increased awareness about unsafe chemicals, advancements in product development and proactive messaging are proving to be equally, if not more, influential to the category's growth. Some of the largest conventional retailers and corporations have pledged to clean up their acts, upping the competition and encouraging more innovation from natural brands.




**U.S. Natural and Organic Personal Care Sales and Growth: 2009–2013**




**2013 U.S. Natural and Organic Personal Care Sales by Product Category**




**U.S. Natural and Organic Personal Care Sales and Growth by Channel: 2009–2013**

personal care products. Labels that explain the source, function, and benefits of each ingredient cultivate the sense of trust that helps the consumer feel good about the company and the product they're buying.

## THE TWEEN CONNECTION

Products infused with a fun, experience-driven attitude are also finding favor with younger consumer groups. While millennials seem to be the darling of marketers everywhere, the generation at their heels is a consumer force not to be ignored. Smartphone savvy, digitally devoted, and socially swayed, today's teens and tweens are a lucrative demographic. Tweens alone control an estimated $43 billion in spending power and, thanks to social media, they can be valuable brand ambassadors.[13] These consumers have also reached an age where they're forming lasting opinions about the world around them. Read: their interactions with natural products now will determine whether they turn into loyal adult consumers or ones that will be hard to win back.

Brands are reaching out to these mobile mavens with products that focus on hip, trendy, yummy, fun-to-use products that prove natural doesn't have to be boring. Glittery, shimmery colors for girls and whimsical yet sophisticated product designs resonate with these soon-to-be teens. Brands are also finding that product experience is paramount for these shoppers, who have no reservations about ditching a product that doesn't live up to their standards. Unlike adults, teens and tweens aren't as brand loyal, paying more attention to product quality than its label or message. Thus constant innovation for this market is crucial. "Trends are very important for teens, so we have to keep it fresh all the time," says Priscilla Cheung, owner of Luna Star Naturals, which makes natural facepaint and makeup for children and tweens. "If they like products, with social media and the other ways they communicate, they'll help spread the word for sure."

PRODUCTS

# REDISCOVER FUN

### THE EXPERIENCE
### CLEAN GEORGE


Improving the usability of balms and salves was paramount for Tracy Miller when she set out to make Clean George's balm and salve sticks. These superchic, über portable sticks skip the gloppy experience of a balm or salve stored in a tin. Essential oils and rich butters make for luscious products that are designed to be multiuse. A few swipes of the Skin balm, for example, can help sooth dry elbows, add a dewy touch to cheeks, or tame flyaways.

### KICK UP THE PERSONALITY
### ROOTED BEAUTY


The women who benefit from Rooted Beauty's skincare products form the personality behind this mission-driven brand. Each specific product, such as passionfruit lip butter, helps a woman, whose story is told on the company's site, escape from extreme poverty and trafficking through its Woman2Woman Project. Rooted Beauty embraces positivity by making the customer a part of these women's self-empowerment journey.

### THE TWEEN CONNECTION
### LUNA STAR NATURALS


Originally focused on natural, nontoxic makeup kits for younger girls, Luna Star Naturals expanded with nail polishes and makeup geared toward tweens. The Klee Girls and Pinki Naturali lines mimic the bold, shimmery colors of petroleum-based products but use olive oil, mango butter, apple extract, and other natural ingredients. Color names such as Pacific Sparkles and Santa Barbara Kiss appeal to trend-conscious girls, while mommy bloggers rave that the products are easily washable and safe for developing bodies.

### LEARN MORE ABOUT THIS TREND

**EMERGING OPPORTUNITIES**
**NL28** Making Natural a Lifestyle
**NL34** Man Up
**NL36** From the Ground Up

**The idea of looking and feeling your best is the fundamental concept behind eating whole, real foods and supplementing with key nutrients.**

specific" formulas, such as for acne or sun damage, will also be on the uptick. Plus, companies wanting a quick hit for consumers already purchasing natural beauty products should consider pairing topicals with ingestibles.

## SELLING PREVENTION

Most nutricosmetics companies are targeting millennial-aged women who aim to maintain their physical appearance. But much of beauty from within is based on the idea of prevention, a concept often disregarded by this important demographic, according to *Nutrition Business Journal*.[14] What role can beauty supplements hope to play in this spending? Collagen can help prevent wrinkles, but no need to consider that when you're 25 ... or is there?

Millennials are not putting their money toward supplements the way boomers do, but if there's one supplement segment that could change this, it may be nutricosmetics. Beyond education, companies such as NeoCell are focusing on making fun products that taste good and can become a daily pleasure, which is the goal of its collagen and recently launched Biotin Bursts. With flavors such as chocolate-mint and fruit punch, these nutricosmetic chews are made with plant-based colors and natural sweeteners. The company also introduced flavored collagen powders for women who enjoy a morning or post-workout smoothie. This makes the once foreign ingredient more easily integrated into an existing health regimen.

PRODUCTS

# PACKAGING HEALTH AND BEAUTY

## GLOBAL TREND, DOMESTIC OPPORTUNITY

### GLOWELLE


The "what not to do" of beauty beverages, Glowelle sought to bring a vibrant international trend to the U.S. Even with significant buzz at launch, a less-than impressive ingredient lineup (the first on the list was "evaporated cane juice") and a tremendously high price tag ($40 for seven-day stick pack) killed the Glowelle brand in less than two years. Plus, the product was sold at Neiman-Marcus rather than at natural retail, which is set up to offer the necessary wellness education to make nutricosmetic launches a go.

## KEEPING IT REAL

### NEW NORDIC


This line of beauty-from-within supplements does an excellent job of breaking down key ingredients, including the percentage of standardized extract (for example, 60 mg tomato extract standardized to 1 percent lycopene) and target benefit, presented through simple, compliant packaging and website.

## SELLING PREVENTION

### NEOCELL BIOTIN BURSTS


NeoCell is raising the bar in the beauty-from-within space to bring nutricosmetics into millennials' beauty lexicon thanks to its line of beauty bursts, which started with collagen and have expanded into the biotin category. Their clean formulation (colored by plant extracts and sweetened with monk fruit), effective dosages of complementary nutrients, and holistic, great-tasting approach provides a seamless way for the modern woman to embrace nutricosmetics.

## LEARN MORE ABOUT THIS OPPORTUNITY

TRENDS
**NL14** Beyond Natural
**NL18** Mineral Sun Care Shines On
**NL22** Feed Your Skin

**With veterinarian visits declining, even as the economy strengthens, pet owners are clearly assuming the task of overseeing their animals' healthcare.**

That menu section may also present an attractive exception to the made-in-the-USA mandate. Case in point: Emerging as a "last safe place" for products across natural and organic, the New Zealand label offers a cachet the Chinese will never claim.

### INDEPENDENT THINKERS

The launch pad for new functional treats and other natural pet products continues to be in the independent pet retailer. The same big-is-bad sentiment that has consumers wary of the Purina label translates into a higher level of trust at the neighborhood pet shop, where the consumer and shop owner can bond as fellow pet lovers. The trust between pet owner and independent shopkeeper makes that connection work.

Consumers also have come to expect a certain level of product quality, selection, and education from the independents. "These guys are really super-focused on nutrition," says Mark Kalaygian, editor-in-chief at Pet Business. "They won't carry a product they don't believe in."[7]

Smart manufacturers capitalize on this strong shopper-retailer relationship by deploying teams into the independent retail channel to educate store staff and consumers on their latest products and the benefits and sourcing stories behind these offerings.

PRODUCTS

## OWNER AS VET

### PRODUCT DESCRIPTION
### PET NATURALS OF VERMONT


Though packaging across the pet industry has moved away from the folksy country-store look of a Newman's Own-style brand, few companies in functional treats approach branding the way Pet Naturals of Vermont does. The look is clean and the product names are highly tweetable, especially Scoot Bars, described as "a delicious bar to support anal gland health." Other products include "Lawn Aid," promoted as "a formula designed to balance your dog's urine pH to prevent lawn discoloration."

### PRODUCT DESCRIPTION
### ALNUTRIN WITH CALCIUM

Alternative nutrition
KNOWWHATYOUFEED.COM

Alnutrin goes beyond China-free to cross India off the map as well, stating on its website, "All raw materials in our supplements are manufactured in the USA, Europe, and Japan" before going on to call the ingredients "human grade." The company takes the owner-as-vet concept further by advocating a "homemade diet" with extensive instructions on how to cook for cats. The supplement line is presented as mix-ins to include in company-provided recipes.

### PRODUCT DESCRIPTION
### NWC NATURALS


Anybody who has ever hidden a pill in a slice of cheese knows how hard it can be to get pets to take supplements. Many companies offer mix-ins to dust food, but NWC Naturals has figured out dosing with its Tri-Krill omega-3 spray. The instructions are simple: "one pump for every 10 pounds." NWC Naturals' krill oil supplement also includes astaxanthin, a nutritional ingredient that is becoming increasingly popular in the human supplement space.

### LEARN MORE ABOUT THIS TREND

EMERGING OPPORTUNITIES
**NL48** Like People, Like Pets
**NL50** Overcompensating

# OUR ADVICE FOR THE FUTURE

## BE TRANSPARENT

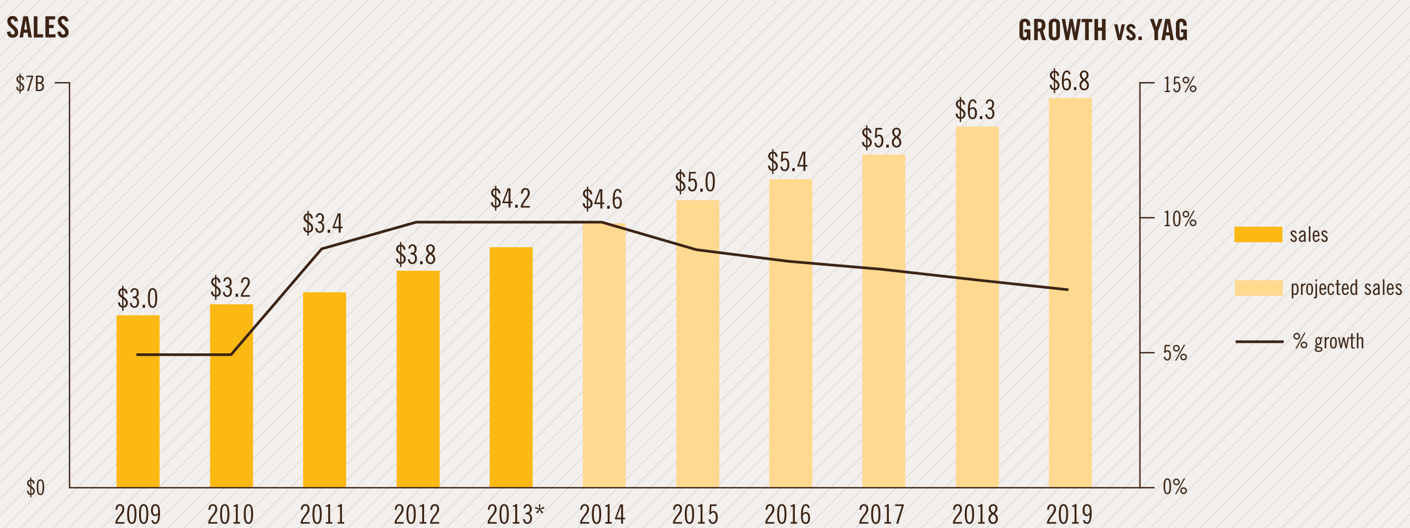
Consumers are hungry for traceability and transparency in the products they buy for themselves and their pets, too. When it comes to pets, this macro force is being driven by the continued onslaught of tainted products that end up killing dogs and cats. Companies that focus on ingredient quality and supply-chain transparency, and can find a way to clearly communicate these concepts to consumers, will certainly have a paw up.

## INNOVATE WITH FUNCTIONAL TREATS

Health-minded consumers are increasingly getting their nutrients through real food rather than processed products and are even looking for nutritional supplements that contain whole-food ingredients more closely resembling their original forms. Hence, pet companies can tap targeted healthy ingredients to leave the wholegrarian consumer licking her chops. One tactic is to bring functional treats closer to a whole-foods-nutrition model, such as what Jeffers Pet  is doing with its Barkworthies Alaskan Salmon Skin advertised as “vitamin rich, filled with omega-3s.” Products such as these may prove to be more appealing (to pets and humans) than pet supplements.

## ADDRESS THE PET OBESITY EPIDEMIC

Obesity is a growing concern in the pet world, providing ample opportunity for manufacturers to find smart, holistic solutions through natural and organic food, treats, and other healthier products. Much of this opportunity relies on education, considering that many consumers may not even be aware of their pets’ obesity issue let alone know how to manage it. Clear labeling is also key to making this concept understandable to the average shopper.




**U.S. Natural and Organic Pet Sales and Growth: 2009–2013 | Forecast through 2019**

*Preliminary sales estimate.

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