2016

FOODS & BEVERAGES
SUPPLEMENTS
NATURAL LIVING

next™ forecast™

WHY US, WHY THIS PARTNERSHIP, AND

Why This Report

NEXT: THE NATURAL PRODUCTS INDUSTRY FORECAST 2016 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, Esca Bona, 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*, *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 40 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 WhatsNextInNatural.com or contact Tara Burkley at 303.998.9319.

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.

TABLE OF CONTENTS

NEXT

EXECUTIVE SUMMARY

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.

3

MACRO FORCE #3

ANCIENT WISDOM

ANCIENT WISDOM

10 MACRO FORCES SHAPING TODAY + TOMORROW

Still ancient, still wise. Introducing celebrity plants and insects that deepen the trend.

We wrote the following a few years ago when we first posited Ancient Wisdom as the dominant macro force in natural, organic, and healthy products:

"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 propositions or risk falling tragically off trend."

At the risk of sounding immodest, we think we were right. The consumer appetite for superfoods of yore remains healthy, with ancient grains gaining widespread application in product sets across both natural and conventional retail. In recent years, we've seen quinoa achieve superstar status—a recent feature in *Harper's Magazine* about the troubled supply chain around quinoa carried this subhead: "Who owns the world's greatest superfood?"—and witnessed the forward march of nut butters, medicinal teas, vinegars, and tree waters. We've even seen Love Grown Foods bring beans into the breakfast cereal box.

The market potential for nutrient-dense, Grandma-approved food ingredients remains unparalleled, even as new markets develop along the fringes of this motif. Will Americans ever embrace insects as food in the way other cultures have for centuries? The jury's out, but with sustainability as a powerful tailwind, cricket flours, cricket bars, cricket chips, and fly larvae pâtés have already hit the market. Sprouted brown rice proteins are chipping away at whey, even among diehard sports enthusiasts, and yellow peas have found a way to replace the chicken egg and chargrilled meat.

The market potential for nutrient-dense, Grandma-approved food ingredients remains unparalleled.

We stand by the second half of the quotation too—engineered categories of nutrition, whether pill form or functionalized in food—remain misaligned with the central thesis of natural products. Ancient wisdom did not come inside a softgel, and the supplement industry continues to suffer aggressive scrutiny for this very reason. Bellwethers of the category, including its top seller (multivitamins) and its scientific superstar (omega-3s) lost luster in recent months as efficacy challenges struck a nerve in the mainstream press. One could easily argue, as we will later in this report, that those product categories closest aligned with food wisdom—namely whole-food, plant-based, and probiotic supplements—carry the brightest futures. According to research from *Nutrition Business Journal*, whole-food supplements doubled the overall category growth rate at 14 percent, and probiotics led the pack with 24 percent annual growth on $1.2 billion in 2013 sales.

ANCIENT WISDOM IN ACTION

FB16 Wholegrarian Takeover
SP28 Wholier Than Thou
NL22 Feed Your Skin

2016

FOODS & BEVERAGES CONTENTS

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

21 Kahn's Kitchen
39 Upton's Naturals
39 Jackalope Good Food Company

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

23 Applegate
41 Beyond Meat
43 Vega

ORGANIC

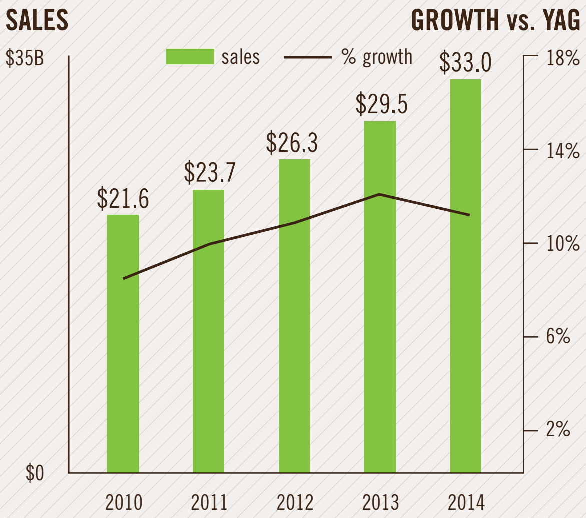
STRENGTHENING BUT LOSING GROUND TO NON-GMO

Putting the recession of 2009–2010 further behind it, the U.S. organic food and beverage market continues to experience strong expansion, growing 13 percent to $33 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 $4 billion in 2014—the highest volume sales expansion ever.

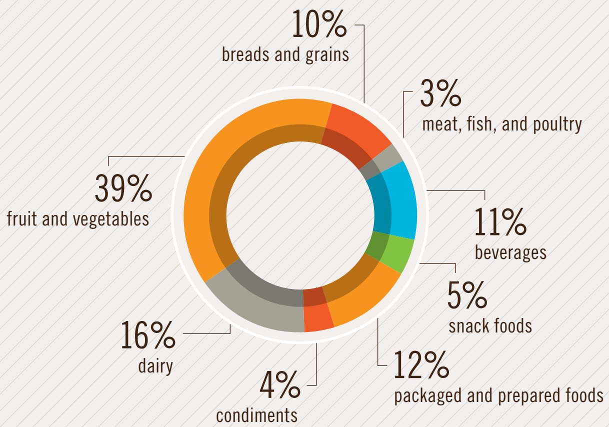
Organic food and beverage sales grew 13 percent in 2014, while conventional food sales experienced a mere 3 percent growth. Although organic continues to eat away at total market share of food products, the overall share of organic products being sold still makes up only a small piece of the total market. Organic food accounts for roughly 4.5 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.

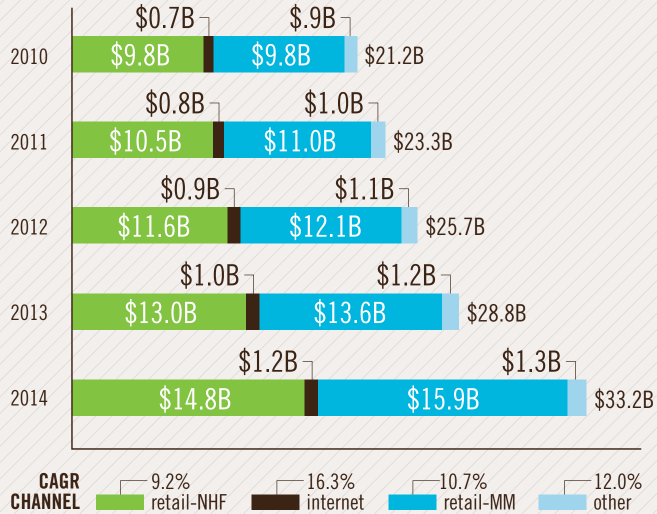
Despite the strong growth and increased education efforts, the organic continues to lose out to the non-GMO movement on some fronts as manufacturers choose Non-GMO Project Verification over USDA Organic certification.



U.S. Organic Food and Beverage Sales and Growth: 2010–2014



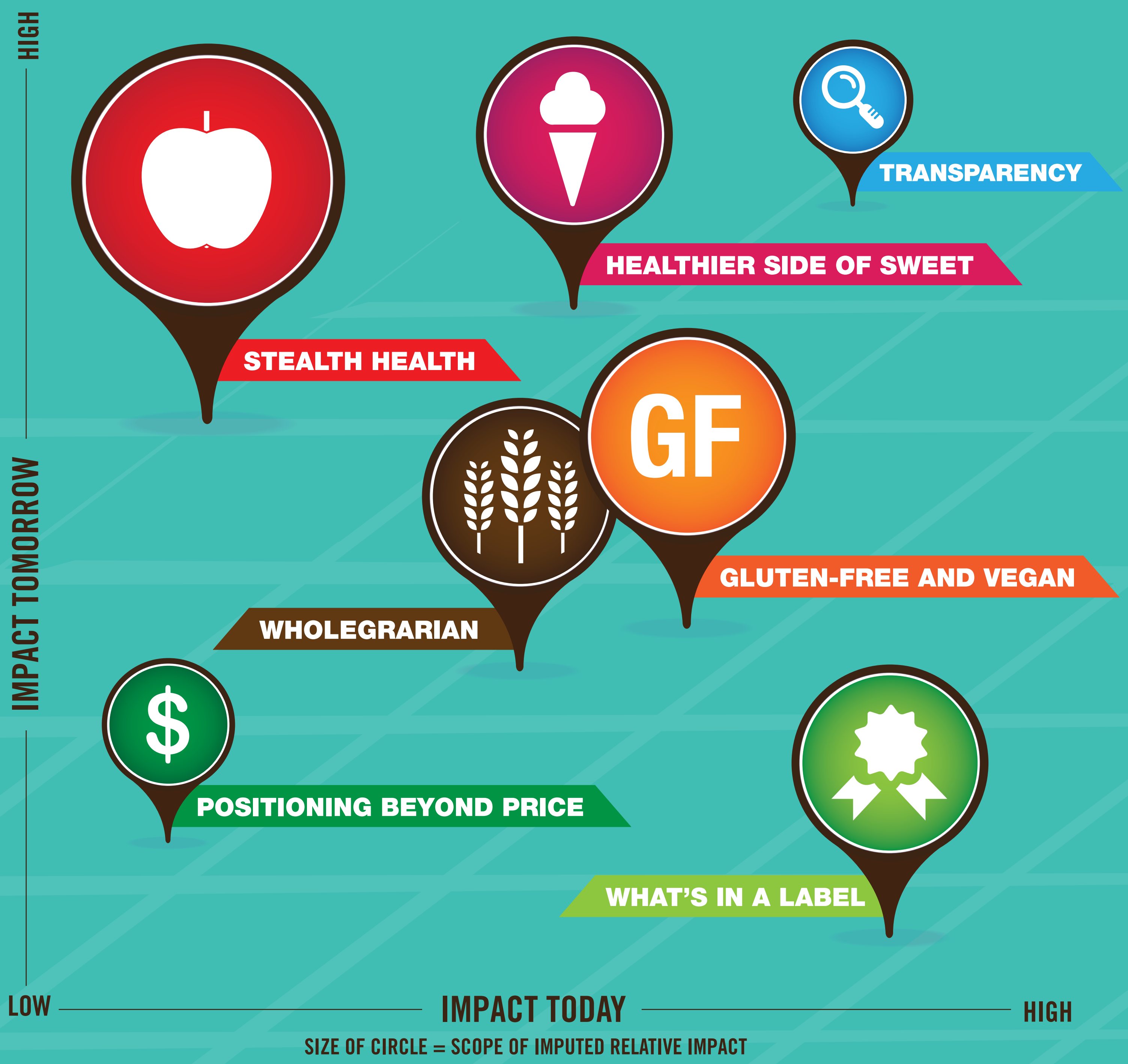
2014 U.S. Organic Food and Beverage Sales by Product Category



U.S. Organic Food and Beverage Sales and Growth by Channel: 2010–2014

7 TRENDS

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



2016

SUPPLEMENTS CONTENTS

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 marquee 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 Time Magazine
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

NEOCELL BEAUTY BURSTS

A critical protein used to support healthy skin, hair, nails, joints, and bones, collagen has been largely misunderstood and underutilized in the U.S. But with its innovative, research-backed line of collagen-based supplements, NeoCell is making the healthy-aging superstar ingredient relevant to American consumers. By investing in finished-product clinicals, new product development focused on more targeted products and palatable delivery systems, NeoCell's products are helping to redefine what healthy aging means.

FLORA SLEEP ESSENCE

Liquid supplements are making inroads to the traditional pill. Making tea is relaxing, but when time doesn't permit, we love this liquid supplement for its well-known de-stressing herbs. With a nice flavor, it's certified organic and can be more potent than tea to promote z's.

NATURAL VITALITY NATURAL CALM

Classic and constant. The country's best-selling magnesium formula is a non-GMO powder that comes in five delish flavors and provides a highly absorbable, water-soluble magnesium in ionic form—so it goes to work right away.

LEARN MORE ABOUT THIS TREND

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

TRACKING AND PREDICTING

THE CATEGORY'S **CHANGING VALUES**

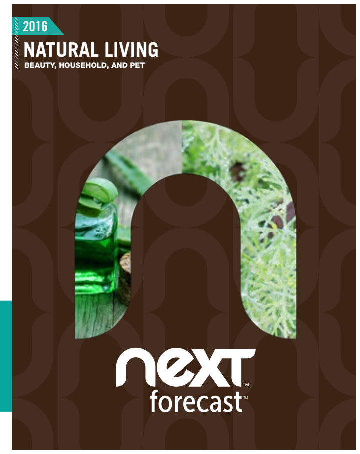
NON-GMO
TESTING
QUALITY
WHOLE FOOD
PROTEIN
PROBIOTICS
CURCUMIN

VEGAN
GUMMIES
DR. OZ

PILL/CAPSULE/TABLET
OMEGA-3S
RASPBERRY KETONES

DENDROBIUM
SYNTHETIC

2016



NATURAL LIVING CONTENTS

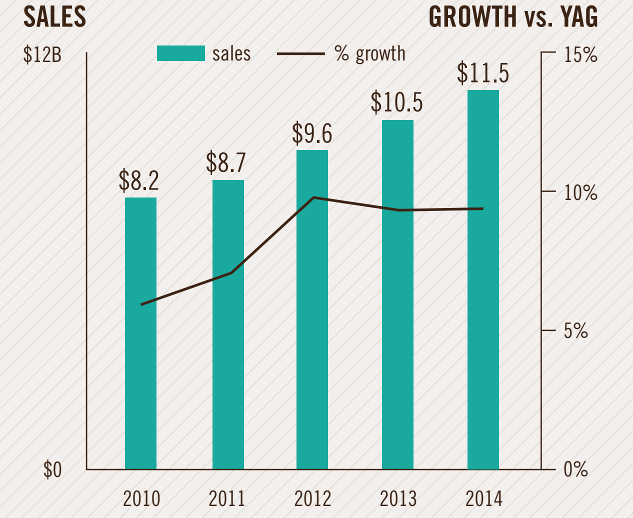
Natural Personal Care and Household Products

THE BEAUTY OF NATURALS

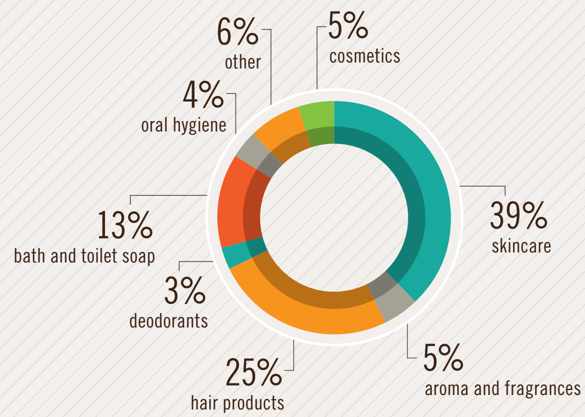
Natural personal care isn't just growing, it's evolving—from a fear- and plant-based business to a dynamic, flourishing industry excelling in innovation and authenticity. Indeed, when gauging its success by sales alone, it's clear that natural personal care and household products are bound to continue on this upward trajectory. In 2014, sales of natural and organic personal care increased by 9 percent to bring the market value up to $11.5 billion.[1] Household products, including green cleaners and organic linens and clothing, grew 12 percent for the fourth year in a row (surpassing $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]

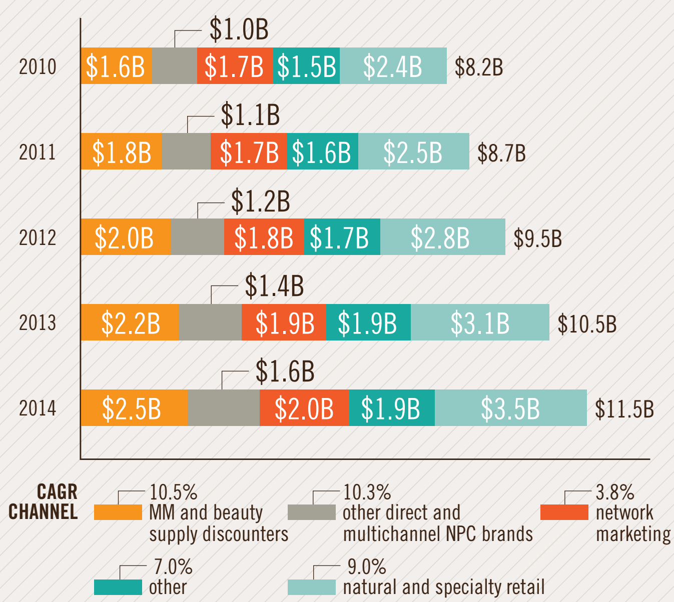
Beyond increased awareness about unsafe chemicals, advancements in product development and proactive messaging are proving to be equally, if not more, influential to the category's growth. Some of the largest conventional retailers and corporations have pledged to clean up their acts, upping the competition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



U.S. Natural and Organic Personal Care Sales and Growth: 2010–2014



2014 U.S. Natural and Organic Personal Care Sales by Product Category



U.S. Natural and Organic Personal Care Sales and Growth by Channel: 2010–2014

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

AURA CACIA BODY CARE ESSENTIAL OIL BLEND

One of the main drivers of essential oils' astounding growth is increased energy around the do-it-yourself movement (hello, Pinterest!). Aura Cacia's new essential oil blends and recipe cards make the experience not only fun but also super easy by providing all of the building blocks for luscious masks, lotions, scrubs, and more.

LIFESTINKS

Sometimes a story is so powerful it stops you in your tracks. After suffering through life-changing illnesses, the Duggan sisters went back to school to learn about homeopathic and holistic alternatives for personal care products and then created a natural deodorant that actually works—sans the icky stuff. Their wall of thank-you letters represents happy customers who had similarly undergone severe illnesses and changed their habits as a result. We call it a brand with a heart.

#MPWR

This company targets the tween and young-teen market with a meticulously formulated four-product line that addresses these young consumers' concerns with products such as an organic pimple spot treatment made with arnica and willow bark. Plus, the products are USDA Organic and the company is implementing a marketing plan that empowers young shoppers to make smarter decisions about the products they put on their bodies at a critical time in their lives.

LEARN MORE ABOUT THIS TREND

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

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

THE HONEST KITCHEN PRO BLOOM

This instant goat's milk blend is chock-full of digestive enzymes and probiotics that are key to both dogs' and cats' gastrointestinal health, which translates to overall health. Pets can enjoy it as a drink, or it can add moisture and flavor to pet food. Either way, it's an easy sell for consumers looking to easily boost their pet's diet.

EVERPUP

Functional Nutriments, which plays in the retail and veterinary spaces, gets that pets have serious health needs, too. As a result, the company has factored nearly every angle into this supplement product: a rich nutritional profile (it's filled with vitamins, supportive minerals, and an apoptogen mix to support immunity and vitality), an appealing flavor (which it gets from natural beef liver), and quality ingredients (each is 100-percent human grade and the company's labs are registered and licensed by the FDA for human-grade nutraceuticals).

CANINE MATRIX

An offshoot of the medicinal mushroom company Mushroom Matrix, this dog-focused line is another example of hot natural products trends and ingredients becoming relevant in the pet-food space. The brand's dog-targeted line includes the same high-quality, certified organic mushrooms touted for immune support and are easily sprinkled onto food of all kinds.

i

LEARN MORE ABOUT THIS TREND

EMERGING OPPORTUNITIES
NL48 Like People, Like Pets
NL50 Overcompensating

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Many minds were involved in creating the NEXT Forecast 2016. 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.

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