



# NEXT<sup>TM</sup>

## Forecast

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### **Natural & Organic TRENDS AND OPPORTUNITIES**

FOOD AND BEVERAGE  
SUPPLEMENTS AND INGREDIENTS  
NATURAL LIVING

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# *Why Us, Why This Partnership, and Why This Report*

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New Hope Network and Sterling-Rice Group (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, trendspotters, 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, trends, macro forces, and cultural 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 solve.

## **ABOUT NEW HOPE NETWORK**

New Hope Network is at the forefront of the healthy lifestyle products industry. With solutions for the complete supply chain—from manufacturers, retailers/distributors, service providers and ingredient suppliers—New Hope Network offers a robust portfolio of content, events, data, research, and consulting services. New Hope Network helps businesses identify the people, products, partnerships, and trends that create opportunities for growing healthy markets to bring more health to people.

## **ABOUT STERLING-RICE GROUP**

Headquartered in Boulder, Colorado, SRG is a nationally recognized brand consultancy focused on creating and activating brands. For more than 30 years, companies ranging from entrepreneurial startups to many of the world's biggest brands have come to Boulder to seek out SRG's expertise in consumer insights, brand strategy and positioning, new product innovation, advertising, and design.

With a deep bench of culinary expertise, SRG works with category leaders in food, beverage, personal and home care, dietary supplements, and ingredients. The firm was a pioneer in the growth of the natural and organic food industry and today continues to be a thought leader on the future of food and wellness.

SRG has created \$10 billion in incremental value for its clients over the past five years alone and has been ranked on *Outside Magazine's* Best Places to Work list for five consecutive years, a tribute to their work and the progressive culture of the company.



**New Hope**  
NETWORK



**srg** Sterling-Rice Group

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With unprecedented access to information from computers and mobile devices, consumers are researching brands on the fly—and what they are finding is too often making trust a thing of the past.

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Consumers hack their meals into streamlined, efficient plates that minimize preparation time and maximize nutrition.

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# Category Overview

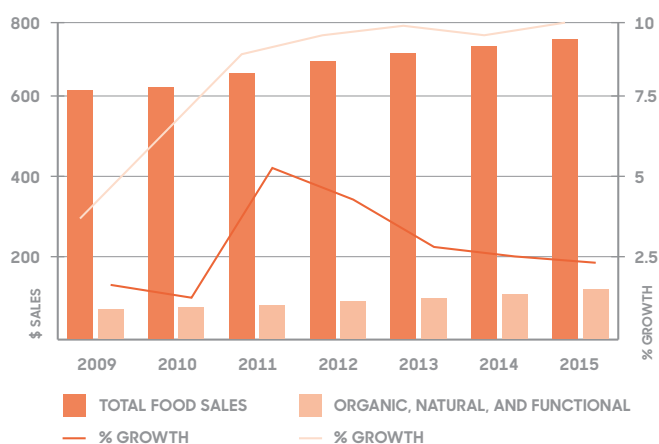


FOOD AND  
BEVERAGE



# GROWTH ENGINE NATURAL, ORGANIC, & FUNCTIONAL FOODS AND BEVERAGES

## *U.S. Natural, Organic, and Functional Food Sales vs. Total Food Sales, 2009-2015*



Source: *Nutrition Business Journal* (\$bil consumer sales)

With growth of natural, organic, and functional food far outpacing conventional food sales, the day is coming when the world will view this once-niche category as simply a food.

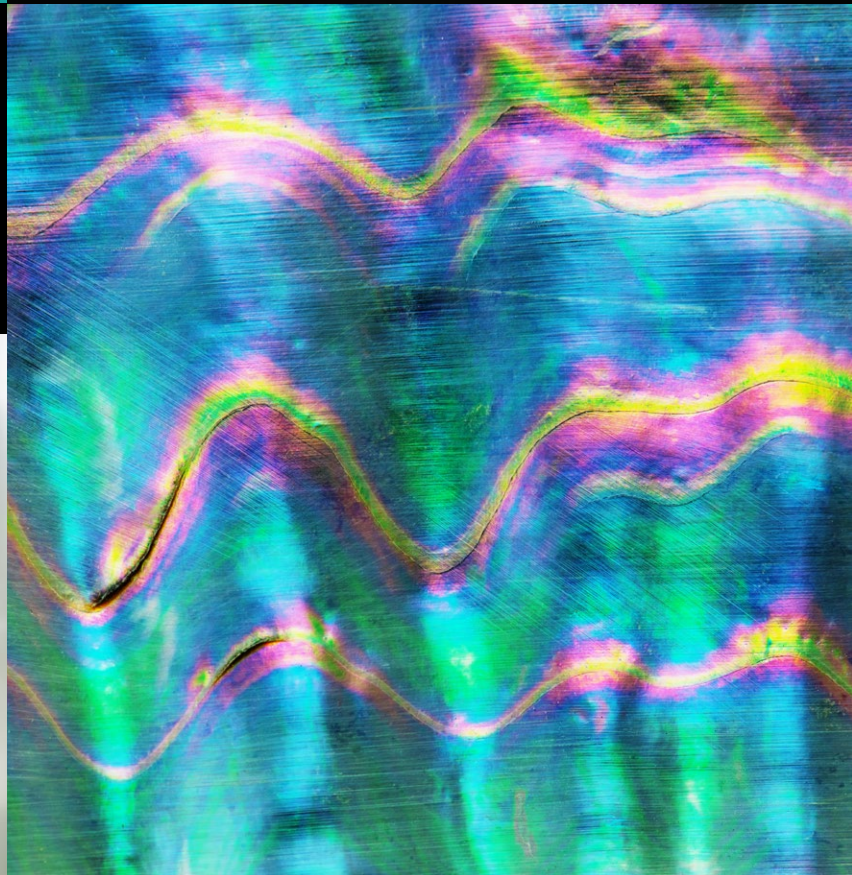
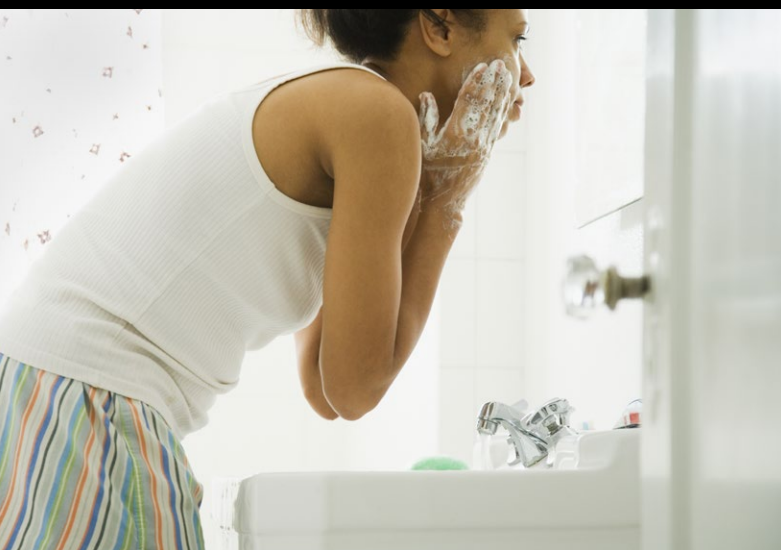
If there was any doubt, it has been erased: Giant food companies are paying close attention to—and buying their way into—healthier and craftier food trends. Campbell Soup Company may be the poster child of this movement: an iconic American company proactively reinventing itself from the ground up with quarterly announcements of healthier and fresher offerings, and increasing organic SKUs. But Campbell's is far from alone. McDonald's—speaking of iconic brands—has announced major sourcing changes that eliminate antibiotics from chicken and high-fructose corn syrup from buns, alongside the continued introduction of healthier menu items.

Improvements under the golden arches are likely met with great skepticism. Even so, whether these changes are driven by goodness or fear of market losses, the impact is huge (antibiotic use reduced in some 4 billion birds annually, for instance) and a doubtless indication of the broad influence of natural foods awareness. Disruption—or at least discomfort—is spilling into beverage aisles, too, as Pepsi and Coke—possibly two of America's most iconic brands—are losing market share and being



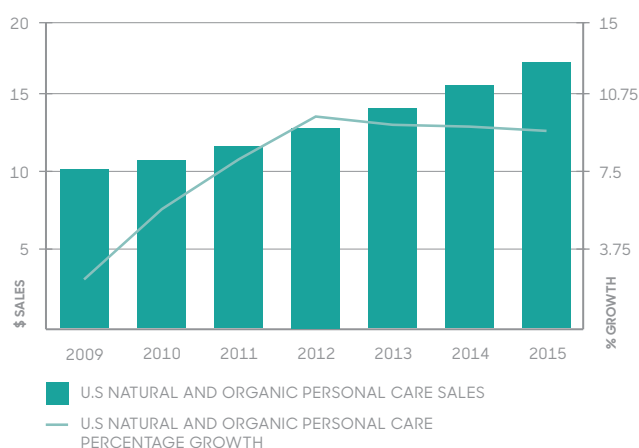
# Category Overview

NATURAL  
LIVING



# THE NEXT FRONTIER: NATURAL LIVING

## *U.S. Natural & Organic Personal Care Sales and Growth, 2009-2015*



Source: *Nutrition Business Journal* (\$bil consumer sales)

Advocacy, education and greater access to a growing range of innovative, efficacious and safer offerings are fueling sales of natural and organic personal care, household, and pet products.

For years, Americans relied on Johnson & Johnson's products to soothe babies' skin and clear complexions, to wash hair and freshen breath. The company's portfolio is reliable and practical, sort of like a best friend "on call" from your medicine cabinet. But in 2011, J&J made an announcement that would change that "best friend you can trust" persona: Under pressure from consumers and advocacy groups such as the Campaign for Safe Cosmetics, J&J agreed to remove several potentially toxic ingredients from its baby products by the end of 2013; shortly after, J&J said it would clean up some of its adult products as well.


When looking into the changing face of the personal care industry, it's hard to turn a blind eye to the significance of the No More Tears toxic overhaul. How could consumers view these iconic products, and the company that manufactured them, in the same light? And which other "trusted" brands should consumers call into question?

The alarm on food purity has been sounding for quite some time; now consumers are groggily waking up to the realities of what's in the products they put on their bodies, in their homes, and in and on their pets, too. An erosion of trust is fueling growth of these industries, which are logical extensions of the good food movement and are gaining momentum, thanks to advocacy, education, and greater availability of safer choices for all facets of life.

## *Our Changing Food, CPG and Retail Landscape*





### *Cultural Awakening*

#### /MACRO FORCES

-  Mainstream Tipping Point
-  Ancient Wisdom
-  Erosion of Trust
-  Beyond Nutrition
-  Conscious Consumption

### *Modern Life*

#### /MACRO FORCES

-  The Modern Meal
-  Disruption Through Fragmentation
-  A Climate of Change
-  Prioritizing Health

### *Tech Enablers*

#### /MACRO FORCES

-  Our Flat Earth
-  The Culture of Innovation
-  Food Tech 3.0
-  A Connected World

# CULTURAL FORCES

Shifting cultural forces are changing consumer values and behaviors and fueling the advancement of technology and innovations that are forever reshaping the CPG, food, and retail landscapes.





# MACRO FORCE

## THE EROSION OF TRUST

CULTURAL FORCE: CULTURAL AWAKENING

# THE EROSION OF TRUST

*When farming suffers, food  
supplies, and the populations  
they support, fail.*

With unprecedented access to information from computers and mobile devices, consumers are researching brands on the fly—and what they are finding is too often making trust a thing of the past.

Two kinds of businesses hinge on trust: public relations firms focused on crisis communications and every other kind of business.

Crisis communications firms profit when things go wrong. All other companies in every category, space, and segment depend on their customers' trust in their products. Consumer brands in particular build their business futures on a foundation of trust with the public. When that trust evaporates, sales decline—often very quickly.

Just ask Chipotle.

The burrito chain built its customer base on the promise of "food with integrity." Chipotle was attempting to live up to that promise in early 2015 when it stopped serving carnitas on suspicions that its pork supplier was not adhering to the company's animal welfare standards. The move earned Chipotle an aura of trust that set it above most fast-food restaurants.

That aura evaporated in October 2015, however, when a customer fell ill with an E. coli infection, the first of 60 similarly stricken customers in 14 states. Not only were Chipotle's food safety procedures automatically suspect,



/ OPPORTUNITY

The Verified  
Brand

/ OPPORTUNITY

The  
Rehabilitation  
of Science

/ OPPORTUNITY

Millennial Trust

MACRO FORCE | The Erosion of Trust

OPPORTUNITIES



## / OPPORTUNITY

# The Verified Brand

Brands with the right certifications from the right organizations have an instant advantage winning trust from consumers.

Shoppers may be reading labels, but they appreciate shorthand when it's offered. Certification can be that shorthand—instant recognition that a company is doing the right thing—but investing in the right certification for the right product and target market is required. Once upon a time, the Good Housekeeping seal or the UL logo from Underwriters Laboratory was enough, but today consumers with a variety of niche concerns will be looking for a variety of niche certification stamps.

Shoppers concerned about overfishing might look for a stamp of approval from Sustainable Fishery Advocates. Meanwhile, the Fair for Life certification, which examines every step in sourcing and manufacture of certified products, would be attractive to consumers who care about the global social and environmental impact of their purchases.

In the supplement industry, which is criticized in the media as being under regulated, smart companies are stepping up their own testing protocols to meet the demanding standards of third-party certifiers, such as NSF and the U.S. Pharmacopeial Convention. A coalition of brands is also coordinating to create a registry of products and establish baselines for quality and traceable ingredients. Labs are incorporating DNA testing into their analysis services.

Organic food companies are also beginning to highlight testing and safety procedures that go beyond the typical Non-GMO and USDA Organic certifications. Organic Prairie explains its "Safety Net," detailing everything from slaughterhouse conditions and standards for trucking companies that transport the livestock to testing for pathogens that include E. coli and salmonella.

All of these seals, stamps, and registries speak about trust. A company willing to take on the rigor and responsibilities to earn certification is more likely to be seen as a responsible company worthy of a consumer's trust.

*A company willing to take on the rigor and responsibilities to earn certification is more likely to be seen as a responsible company worthy of a consumer's trust.*

The truly responsible companies go a step further and explain what the seals mean. When consumers know what they are getting they will expect it. The brand that gives them that information looks even more responsible and transparent than a company that simply slaps it on the label.

Nature's Plus takes a whole panel of the box to explain the certification it has earned. Other brands could use a scan code to invite consumers directly to a web-page that explains the certification in detail.

When a company appears to be advocating and promoting the values inherent to the organization providing the certification, it will likely be perceived as additional transparency. That advocacy translates into a statement of corporate intent that puts values above profit, a key component in building trust.

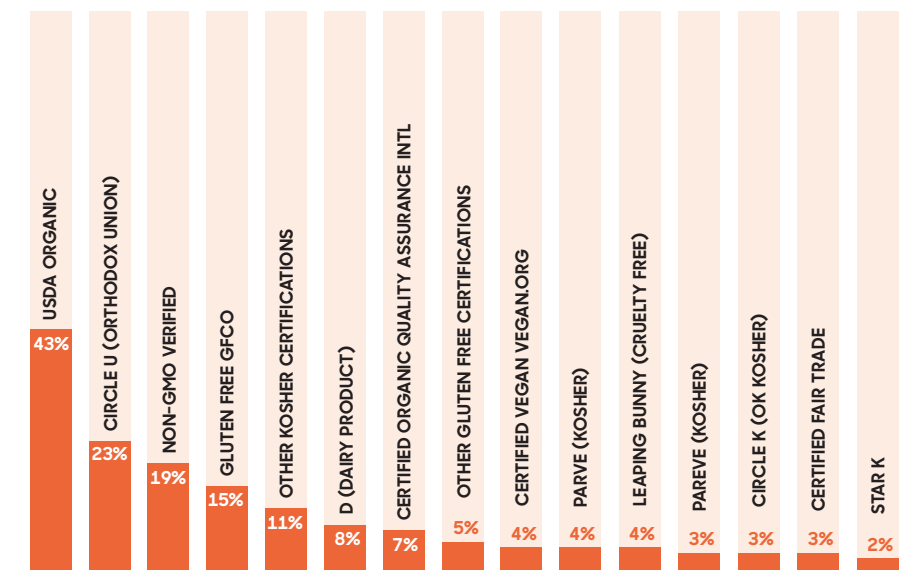


## THE VERIFIED BRAND / A CLOSER LOOK

## Certifications Play a Critical Role in Building Trust with Consumers

Top 15 Certifications  
Across All Products

Natural Products Expos 2013-2016



Source: New Hope Network's NEXT Trend Database

## THE VERIFIED BRAND / MARKET MANIFESTATIONS



### GARDEN OF LIFE

Garden of Life products boast certifications that include USDA Organic, Non-GMO Project Verified, Certified Vegan, Certified Gluten-Free, Kosher, and Informed Choice (tested for banned substances in sport). The company doesn't stop at crowding the label with a cluster of seals; each certification is explained on the back of the box. A prominent link on the Garden of Life homepage goes into detail on each certification.



### ALAFFIA

Alaffia is certified Fair For Life: Social & Fair Trade by the Institute for Marketecology. That's a mouthful, but the company takes time on its website to not only explain what that means but also goes into detail on how the principles are worked into every step of product production. Visitors to Alaffia.com will learn that the company pays 15 to 25 percent above market price for the shea butter gathered by women in the African nation of Togo and provides healthcare to all workers.



### TEATULIA

Teatulia is not only certified organic and approved by the Rainforest Alliance, the company has also gone through the rigorous requirements to earn B-Corp status. The company explains the steps it has taken on its website and tells the story of how the company works with the community, building a school for workers' children and establishing a "cow lending" program that allows women to sell milk to pay off the investment while also providing Teatulia with organic fertilizer to grow its tea.



### DOTERRA ESSENTIAL OILS

In the exploding essential oils category, one company is leading the charge and also doing important work to make sure the growing market doesn't hit any headline-grabbing bumps with ingredient impurity. On its website, doTerra lists and explains six different kinds of testing procedures, everything from microbial testing to fourier transform infrared spectroscopy and chirality testing.



## / TREND

# The Plant Revolution

Whether for heart health, climate health, ecological efficiency, or animal welfare, plants are fast becoming man's best friend.

Two in three adults are overweight or obese with one in 20 considered to be extremely obese. At the same time, nearly one in ten has diabetes and a third of America suffers from heart disease. Worse, these numbers are on the rise. High-carb diets and sugary drinks are certainly part of the problem, but when saturated fat and cholesterol enter the discussion, meat is at the top of the list of suspects.

*It takes 6,300 calories of feed to produce 1,000 calories of eggs.*

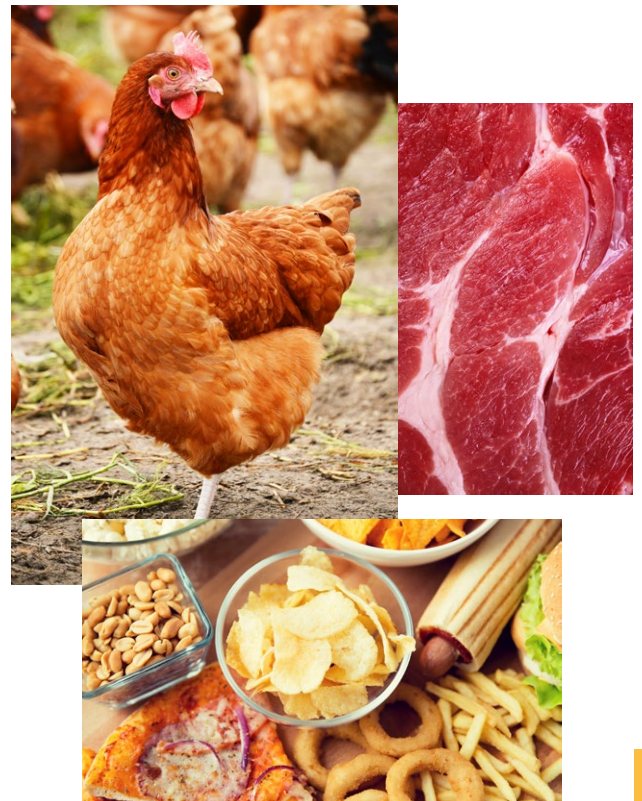
The health of the planet shows similar signs of distress when it comes to the resource consumption that goes into producing meat, especially beef. For instance, 1,557 square feet of land are required to produce 1,000 calories of beef. Compare this to 32 square feet for eggs. That same 1,000 calories of beef requires 434 gallons of water compared to only 38 for poultry. But even the better end of that spectrum is inefficient in the calories-in, calories-out department. It takes 6,300 calories of feed to produce 1,000 calories of eggs, for instance (and 36,200 to produce our 1,000 calories of beef). And then there's the calories-in, gas-out department. A remarkable 9.6 kilograms of carbon dioxide equivalent is generated in the production of our 1,000 calories of beef—nearly five times that of pork and more than six times that of eggs.

And this is to say nothing about animal welfare, the original vegetarian/vegan argument. Confinement

"ranching" and excessive prophylactic antibiotic use are among the pre-harvest problems seen in the meat industry.

Yes, animals may be tasty and certainly deliver a powerful protein punch, but they are inefficient and—unless taken in moderation—can be unhealthy.

Thus, with ecological concern on the rise, and the cultural desire to slim down holding strong, it's no surprise that the plant-based diet continues to grow. Plus, it's easier than ever with tasty meat alternatives, vegan "dairy" products and egg-free mayonnaises stampeding into the market (and Beyond Meat's beet burger that even bleeds!).







## EAT LESS MEAT &amp; DAIRY / MARKET MANIFESTATIONS



## THE BLENDED BURGER PROJECT

The James Beard Foundation's Blended Burger Project is a movement of chefs striving to lessen the climate impact of burgers (a staple on too many American menus to count) by replacing at least 25 percent of the ground meat patty with freshly chopped, cultivated mushrooms. It's not just a healthier and more sustainable way to serve a burger; it's also completely delicious, lending an improved texture and juiciness. Oh, and it's less expensive for restaurant owners.



## MIYOKO'S KITCHEN EUROPEAN STYLE CULTURED VEGAN BUTTER

You really won't believe this isn't butter: It melts, browns, and tastes just like it. Miyoko's European-style concoction is a dream, made with organic coconut oil, organic safflower oil, organic cashews, non-GMO soy lecithin, sea salt, and cultures. Note the absence of palm oil; this is the only butter alternative on the market without it.

LIGHTER



GOOD FOOD INSTITUTE

This innovative app aims to help the world eat more consciously and sustainably by making plant-based meals as convenient as possible. Grocery lists, flexible weekly menus, recipes, and recommendations are curated from top food leaders—including athletes, health gurus, chefs, working pros, and "super parents" who successfully balance work, life, and health. (Bonus: The grocery lists are organized by aisle!)

"The two big questions are, how do we feed 9 billion people by 2050, and what can we do about climate change?" says Bruce Friederich, Executive Director of the Good Food Institute. "Plant-based and cultured products are the answer to both of these questions." GFI works directly with plant-based and cultured meat brands to promote their products, help them solve regulatory and marketing issues, and assist with any other challenges they might face.



MEMPHIS MEATS

This San Francisco-based company (with roots in Memphis, Tennessee) is dedicated to creating a better, cleaner, more humane meat—by growing it from cultured meat cells. Co-founder and CEO Uma Valeti shies away from the term "lab-grown" meat: "It's more like a meat brewery," he tells *Fortune*. By eliminating the need for animal slaughter, the process is not only more climate friendly (creating 90 percent less greenhouse gases than traditional ag), it also cuts out pathogens, contaminants, and antibiotics.

TempehSure

TEMPEHSURE

TempehSure's new at-home "Protein Pod" model is engineered to incubate and pasteurize protein-rich tempeh in a metal tray with consistent results. It can even be monitored by using a simple cellphone app. Not a fan of soy? You can just as easily use a variety of other legumes, including lentils and chickpeas.

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FOOD &amp; BEVERAGE

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CATEGORY OVERVIEW: Food &amp; Beverage

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## *2015 U.S. Natural Food and Beverage Sales by Product Category*

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## *U.S. Organic Food and Beverage Sales and Growth, 2009-2015*

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