2018

NEXT™ Forecast

Natural & Organic
TRENDS AND OPPORTUNITIES

FOOD AND BEVERAGE
SUPPLEMENTS AND INGREDIENTS
NATURAL LIVING

Why Us, Why This Partnership and Why This Report

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, part of Informa's Global Health & Nutrition group, is at the forefront of the healthy lifestyle products industry. With solutions for the complete supply chain—including manufacturers, retailers/distributors, service providers, ingredient suppliers and investors—New Hope Network offers a robust portfolio of content, data, research, consulting services and events, including Natural Products Expo, NBJ Summit and Esca Bona. New Hope Network helps businesses identify the people, products, partnerships and trends that create opportunities for growing healthy markets to bring more health to more 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 six consecutive years, a tribute to its work and the progressive culture of the company.

New Hope NETWORK | NEXT Forecast | srg Sterling-Rice Group

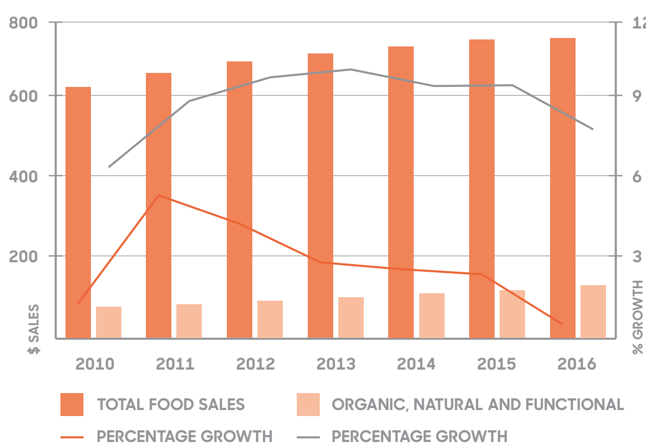
Category Overview

FOOD AND BEVERAGE

CULTURE DRIVER
NATURAL, ORGANIC & FUNCTIONAL FOODS AND BEVERAGES

The future of food is being impacted by multiple forces—the rise of the internet, consumer demand for convenience and the growing hunger for healthy and ethically sourced products.

U.S. Natural, Organic & Functional Food & Beverage Sales vs. Total Food & Beverage Sales, 2010-2016



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

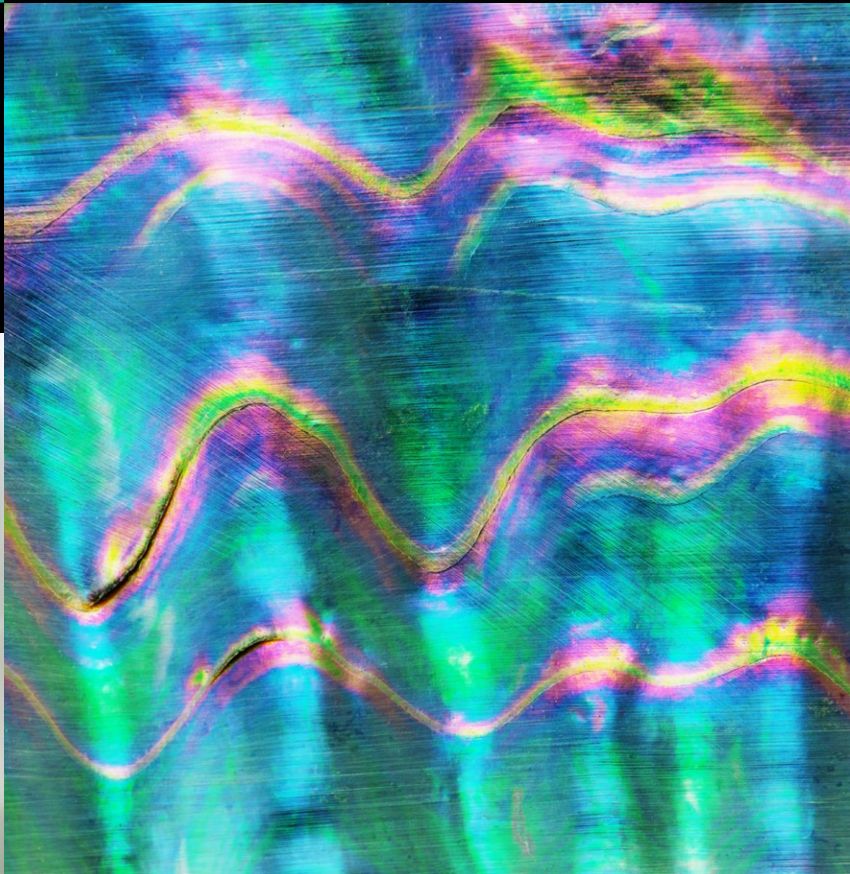
"One word," we say, paraphrasing *The Graduate*. "Meal kits!" Ok, two words are changing the way people think about dinner time. "There's a great future in meal kits!" This, young Benjamin, is demonstrated by market leader Blue Apron delivering nearly 100 million meals in 2016, brands like Purple Carrot specializing the model and Amazon following with its own meal-by-mail solution. It makes sense. The meal kit, bringing with it some top industry buzzwords (read "healthy," "online" and "convenience"), is a perfect symbol of where food retail is headed.

Yes, brick-and-mortar will go the way of canned goods, and the new healthy American diet will be brought to you by FedEx!

Not so fast. The symbolic significance of meal kits is more about its parts than the sum, and it's these parts—regardless the color of the aprons and carrots—that will drive the future of food and beverage. Here's a breakdown of the buzzwords, taken individually, as

Category Overview

NATURAL LIVING



MOVING TO MASS: **NATURAL LIVING**

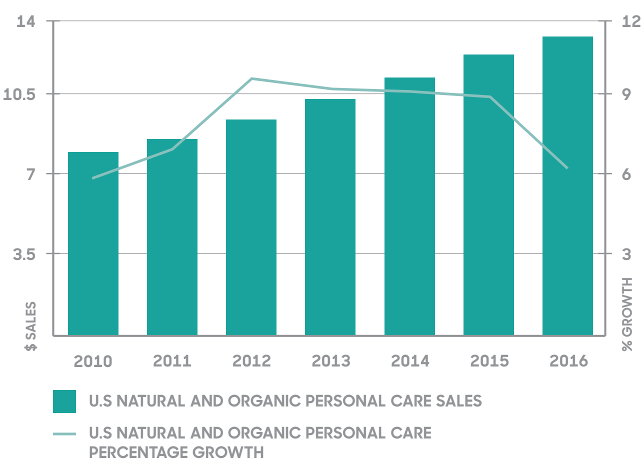
The natural channel is under pressure in the natural living categories, as mass, specialty, and internet retailers grab a larger slice of natural and organic personal care, household and pet product sales.

Gone are the days when the pursuit for wellness was limited to what consumers put in their bodies. And while health-conscious shoppers have long been stocking their pantries with natural and organic foods and drinks, natural personal care and cleaning products have finally found their way into bathrooms, cabinets, and offices; grocery stores, outlet stores and even convenience stores.

Today, the multi-billion-dollar natural and organic personal care (NOPC) industry is booming, reaching $13.3 billion in U.S. consumer sales in 2016, according to *Nutrition Business Journal*. Sales of green household products exceeded $5 billion in 2016. Products ranging from skin and hair care to cleaning products and aromatherapy are creating a wellness universe that transcends the version of "consumption" that we once knew.

While no single factor can claim sole credit for the significant boom in the natural beauty business, several forces are at play: big brands and large retailers shaping up, as new and innovative companies enter the market; healthy living influencers advocating for cleaner beauty choices; and companies making advancements in formulations to deliver higher-performance nontoxic products than ever before (with some fine-looking branding, too). Plus, the mainstream medical community and media have followed the lead of consumer advocacy

U.S. Natural & Organic Personal Care Sales & Growth, 2010-2016



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

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

MAINSTREAM TIPPING POINT

CULTURAL FORCE: CULTURAL AWAKENING

THE EROSION OF TRUST

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.

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

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

OPPORTUNITIES

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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 International 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.

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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 webpage that explains the certification in detail.

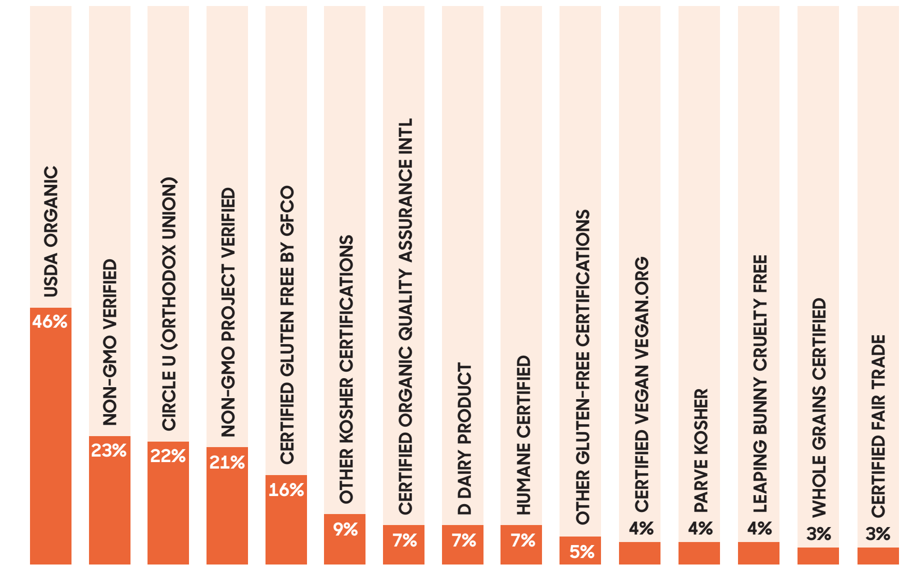
When a company appears to be advocating and promoting the values inherent to the organization providing the certification, it will likely be perceived as additional transparency. That advocacy translates into a statement of corporate intent that puts values above profit, a key component in building trust.

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 2013-2017



Source: New Hope Network NEXT Trend Database

THE VERIFIED BRAND / MARKET MANIFESTATIONS

ALL GOOD SUNSCREEN

All Good Brand personal care products are part of a story that starts at the end of a dirt road on the central California coast and with ingredients grown responsibly a few dozen yards from the founder's home. The reef-friendly sunscreen line takes that story and stretches it from its dirt road roots to every beach on the planet with activism and outreach, and ingredients that protect the earth while protecting your skin.

FAIR GAME BEVERAGE COMPANY

In an era when craft beer is disrupting the brewing business, giving consumers local and regional options to counter an overly industrialized experience, it's not surprising booze is sure to follow. Fair Game aims to bring the same authenticity to distilled spirits and wine, sourcing ingredients like sugarcane for its Agricole Rum and peppers for the Flying Pepper vodka from local farmers. On top of that transparency, Fair Game layers on a B Corp certification, which is still fairly new to the alcoholic beverage world.

NATURAL HABITATS GROUP

Palm oil is an ingredient both ubiquitous and misunderstood. It's in more products than people realize and causes more harm to environments and communities than people want to know. Natural Habitats changes all that with its Palm Done Right program. Going beyond fair trade and responsible harvesting, Natural Habitats supports farmers while they transition to organic, regenerative agricultural practices and then offers them a secure spot in the supply chain.

ECOVER

Cleaning products are rarely considered on trend, but Ecover's line of cleaners and cleansers sold in PlantPlastic bottles brings fermentation—the process behind everything from kombucha to yogurt—into the space. Touting "Science Inspired by Nature," Ecover claims the processing behind the products is cleaner, quicker and requires less energy and less water.

/ 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.

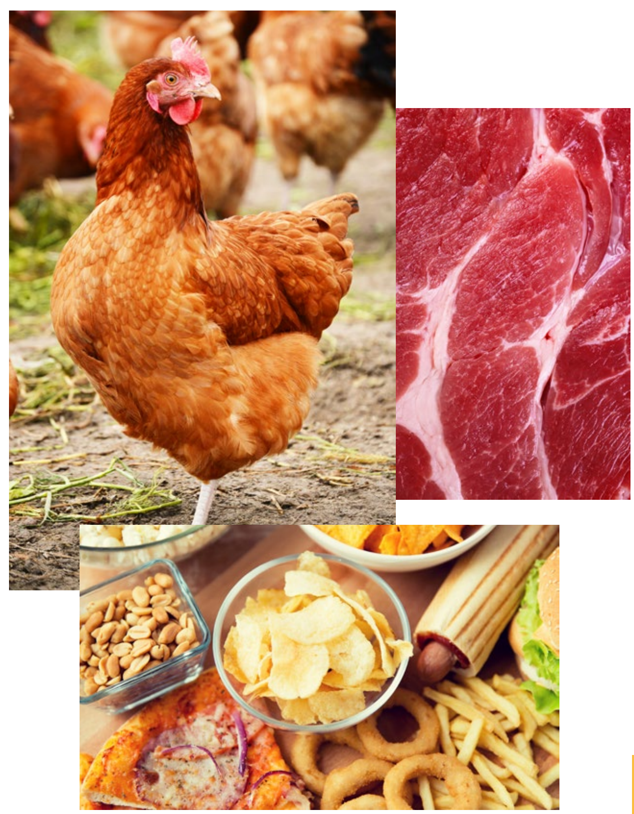
> *It takes 6,300 calories of feed to produce 1,000 calories of eggs.*

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 & DAIRY / MARKET MANIFESTATIONS

ELMHURST

The next generation of nut milk is here: proprietary cold-milling and filtering processes elevate Elmhurst's nut milks to "milked nuts" and eliminate the need for thickeners and stabilizers, which are worrisome for some consumers. Boasting up to four times more nuts per serving than others on the market means the macro- and micronutrients of their raw nuts appear in higher concentration in the final product, and according to Elmhurst, results in superior taste.

SOPHIE'S KITCHEN

Vegans and those with seafood allergies are taking notice of niche offerings from Sophie's Kitchen. This "Gourmet Plant-based Seafood" eschews the label of "alternative" often assigned to the category, preferring instead to emphasize the taste and realistic experience of their foods. Pea protein and konjac root lend themselves well to mimicking the texture of seafood for its chef-driven recipes such as Lobster Mac & Cheese and new Smoked Salmon Pastrami.

KATE FARMS KOMPLETE MEAL REPLACEMENT

When their daughter was diagnosed with "failure to thrive" at just four years old, founders Richard and Michelle developed their own formula with nutrient-dense, whole-food ingredients. With her condition greatly improved, Kate's parents were inspired to bring their meal replacement to the masses in hopes of helping others on a journey toward health. Vegan, allergen-free and featuring easy-to-digest pea and rice protein, the plant-strong recipe is balanced with healthy fats and 29 superfoods.

GRATEFUL BURGER

Although we've come a long way from the days of tasteless veggie patties of yore, some carnivorous consumers are still wary of meat replacements, but may be seeking to increase their veggie intake and reduce their carbon footprint. Bent on proving you can have the best of both worlds, Grateful Burger is a unique blended patty of 50 percent beef, 50 percent portabella mushrooms and spices. Reducing the meat content by half means "less fat, more nutrients" and a whole lot more planet-friendly.

FORAGER PROJECT DRINKABLE CASHEWGURT

True to the company's planet-friendly principles, Forager Project's vegan Cashewgurt Drink delivers a plant-based answer to the kefir craze. Ten live probiotic cultures, plant-derived lactic acid and a creamy cashew milk base lend the drink a surprisingly yogurt-like taste—with none of the animal welfare or environmental concerns endemic to animal-based products.

FOODIES ARTICHOKE BURGERS

With growing interest in plant-based eating across food tribes, a refreshing take on veggie burgers is always a welcome sight, and Foodies does not disappoint with its artichoke-based recipe. Blending wholesome artichokes, brown rice and cashews with unexpected flavor profiles such as French Herb and Tandoori Spice, Foodies' small-batch burgers with minimally processed ingredients promise to deliver big on nutrition.

COMPANY INDEX

CHART INDEX