Strategies Natural Organic Brands and Retailers Can Use To Grow Sustainable Sales

Retailers looking to compete more effectively in any channel and in any economy need to remain laser-focused on meeting their shopper's needs. There are a lot of un-tapped opportunities to grow center store sales and make shopping there an adventure. Natural products provide an excellent way to drive shopper foot traffic and to grow sustainable sales at retail.

ECRM®

Natural, Organic & Specialty Foods EPPS
Rosen Centre Hotel (Orlando, FL)
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Category Management SOLUTIONS®

Empowering Brands | Raising The Bar

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Contributor

Questions?

- What is fueling CPG growth?
- How do retailers and brands grow sustainable sales in any economy?
- How do retailers and brands work together to support and take advantage of the "better for you" trend?
- How important is the shopper when considering different merchandising strategies?
- What does the future of retail look like?

Key terms:

Market basket

Share of wallet

Shoppers Have Choices

Personal supply chains are disrupting mass market models.

TODAY'S SHOPPER IS INTENTIONAL

"I don't have to settle for what's on the shelf. I'm going to find a solution that fits my individual needs better. If you can't help me, I'll get help elsewhere."

> WHAT THIS MEANS FOR RETAIL

Intentional shoppers are combining physical and virtual stores to create personal supply chains that are disrupting mass market retail models.

www.brickmeetsclick.com

Natural Products Gain Popularity

Source: The Nielsen Global Health and Ingredient-Sentiment Survey, Q1 2016

CONSUMERS ARE SEEKING OUT HEALTHIER FOOD OPTIONS

66%
EAT HEALTHIER NOW THAN BEFORE

64% Try to buy healthier foods

60% Quality trumps price

57% Do online research on nutrition, fitness tips, healthy recipes

Source: Nielsen two week online survey (April 2016) of 1176 respondents – chg vs. 2014

ALMOST 4 OUT OF 10 SUFFER FROM AN AILMENT

But many turn to **food as medicine** to help manage overall health

39%
Suffer from an ailment

Including some of the foremost causes of preventable death…
heart disease, stroke, type 2 diabetes & certain types of cancer

50%
Do not seek medical attention

They turn to ***OTC products, exercise, and better eating*** *to improve their situation*

75%
believe they can manage many of their health issues through proper nutrition

Source: World Health Organization; Centers for Disease Control 2012
Nielsen Ailment Panel 2015

SHOPPERS ARE ACTIVELY CHOOSING BETTER OPTIONS

53%
will pay more for foods that promote health benefits

48%
choose local, natural and organic when possible

40%
are willing to sacrifice taste for a healthier option

Source: Nielsen two week online survey (April 2016) of 1176 respondents

AMERICA, AN AGING NATION

By 2020, more than

1 in 5 adults (21%) will be age 65 or older

78 million Boomers hold:

70% of disposable income, and account for 50% of CPG sales

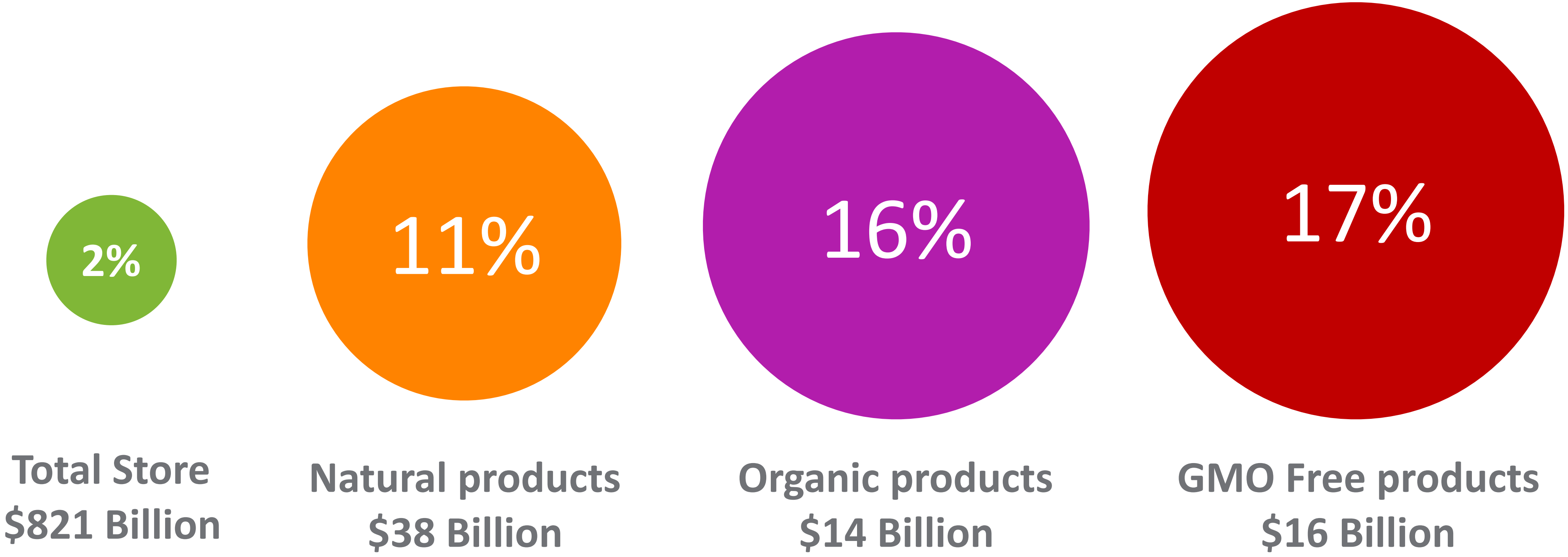
Between now and the year 2030,

every single day, 10K baby boomers will turn 65

Source: Pew Center

OVER THE LAST YEAR, HEALTH & WELLNESS CLAIMS OUTPACING RETAIL GROWTH

Dollar growth % chg vs YA



Note: Wellness claims are not additive

Source: Nielsen Answers, Wellness Track, Total U.S. – All Outlets Combined,, 52-weeks ending 1/23/2016,

HEALTHY CLAIMS ARE GROWING IN SALES, AND IN ITEM COUNTS

BIGGEST AND FASTEST GROWING H&W CLAIMS
TOTAL FOOD

NO ARTIFICIAL COLORS/ FLAVORS
+7.6% CAGR
+100 more items

ANCIENT GRAINS
+25% CAGR
+34 more items

ORGANIC
+15% CAGR
+117 more items

KOSHER
+3.3% CAGR
+645 more items

NATURAL
+11.7% CAGR
+239 more items

GLUTEN FREE
+13.6% CAGR
+433 more items

SOY
+3.9% CAGR
+170 more items

GMO FREE
+14.3% CAGR
+204 more items

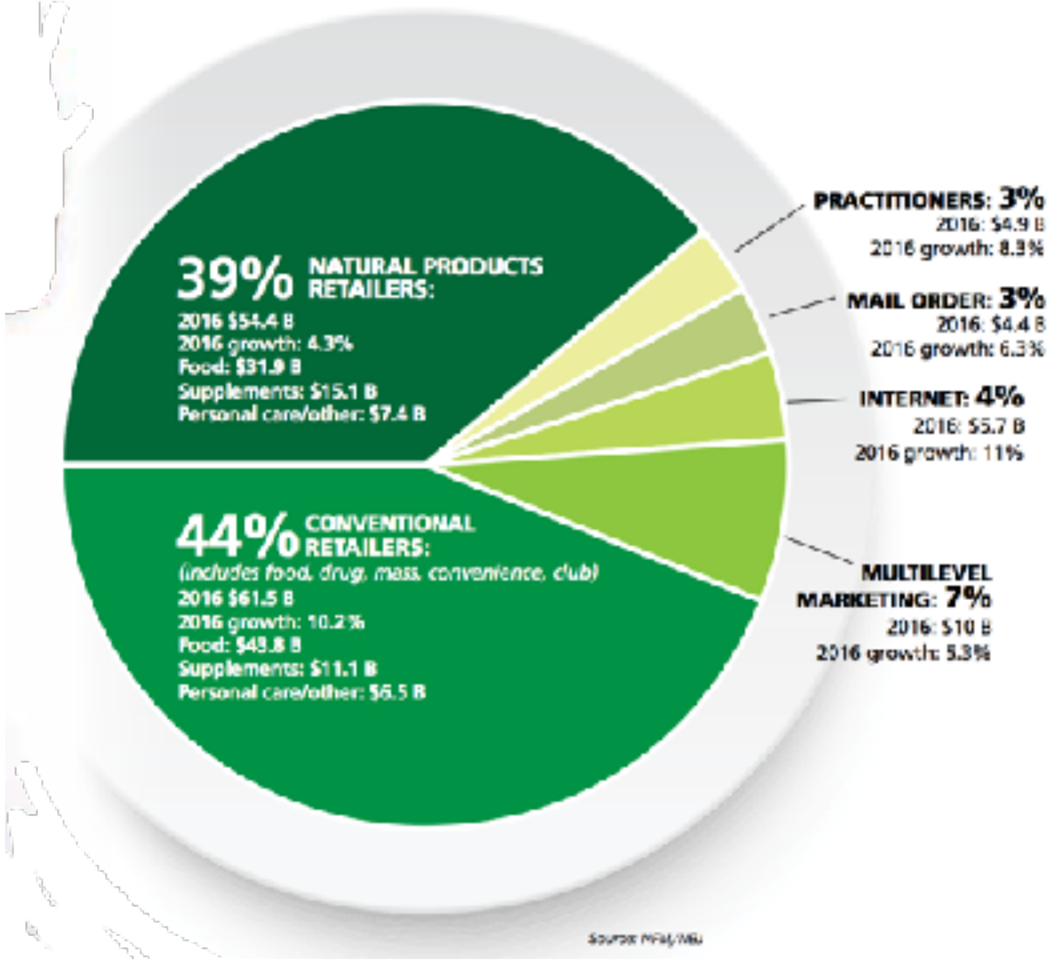
NO HIGH FRUCTOSE CORN SYRUP
+8.7% CAGR
+82 more items

NO ARTIFICIAL SWEETENERS
+4.1% CAGR
+52 more items

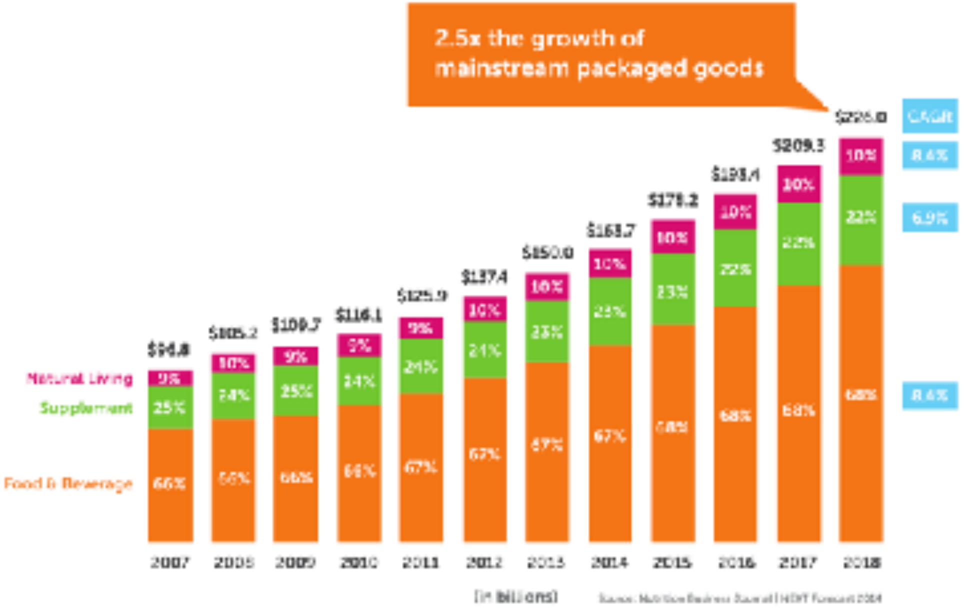
Source: Nielsen x AOC. Period Ending December 26, 2015; growth since 2012 highlighted claims present in >75% categories

Mainstream Retailers Sell The Most Natural Organic Products

2017 Market Overview



The U.S. natural products market is gaining scale and is expected to grow 8.4% annually.



Sales	2015 (B)	2016 (B)	% growth
Total natural sales in retail	$107.9	$115.9	7.4%
Total natural sales nonretail	$23.3	$25	7.3%

WITH WELLNESS A NEW FOCUS, FRESH AND HEALTHY CAN BE FOUND AND PURCHASED EVERYWHERE

SHARE OF CHANNEL SHOPPERS PURCHASING FRESH WITHIN EACH CHANNEL

DRUG

21%

CONVENIENCE/ GAS

34%

MASS/ SUPERCENTER

85%

WAREHOUSE/ CLUB

89%

GROCERY

99%

GROCERY SEGMENTS

94% VALUE GROCERY

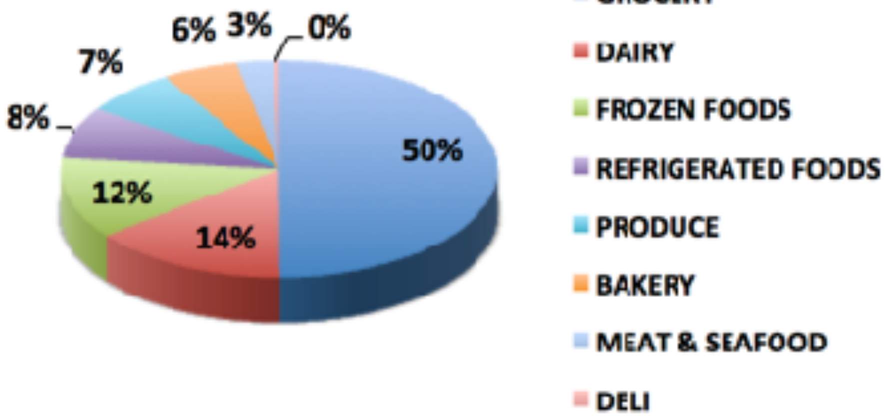
89% PREMIER FRESH

Source: Source: Nielsen Homescan Total Shopper View Specialty Panel,

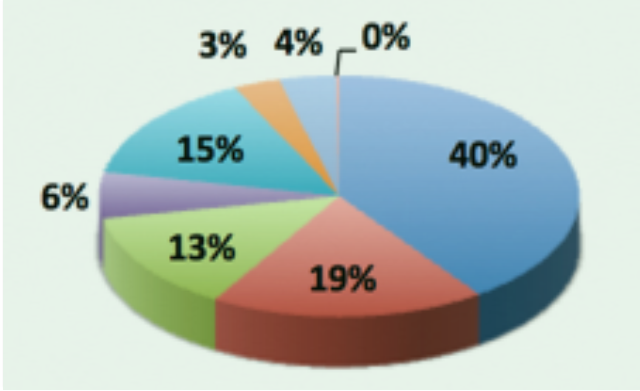
Sales Comparison by Department

Rank by Sales	Rnk US	Rnk Nat	Rnk Org	Rnk GMO Free	TTL STORE $ % Chg	TTL STORE $ Share	H&W NATURAL $ % Chg	H&W NATURAL $ Share	H&W NATURAL $ Shr TTL Store	TTL Store less N&W $ % Chg	TTL Store less N&W $ Share	TTL Store less N&W $ Shr TTL Store	ORGANIC $ % Chg	ORGANIC $ Share	ORGANIC $ Shr TTL Store	GMO FREE $ % Chg	GMO FREE $ Share	GMO FREE $ Shr TTL Store
DEPARTMENT					1.9%		11.0%		7.7%	1.2%		92.3%	16.9%		3.1%	15.8%		4.0%
GROCERY	1	1	1	1	1.8%	49.9%	9.4%	40.1%	6.2%	1.3%	50.7%	93.8%	19.0%	37.1%	2.3%	14.4%	61.0%	4.9%
DAIRY	2	2	3	2	1.5%	14.6%	12.1%	18.5%	9.8%	0.5%	14.2%	90.2%	13.7%	23.5%	5.0%	9.9%	12.4%	3.4%
FROZEN FOODS	3	4	4	4	1.1%	12.2%	8.5%	13.4%	8.5%	0.5%	12.1%	91.5%	22.3%	7.4%	1.9%	21.1%	8.5%	2.8%
REFRIGERATED FOODS	4	5	5	5	1.5%	7.7%	16.4%	6.2%	6.2%	0.7%	7.8%	93.8%	33.0%	2.9%	1.2%	12.0%	7.1%	3.7%
PRODUCE	5	3	2	3	5.4%	6.9%	11.5%	14.6%	16.2%	4.3%	6.3%	83.8%	14.4%	24.9%	11.2%	34.1%	9.0%	5.2%
BAKERY	6	7	6	6	2.3%	5.6%	6.4%	3.1%	4.2%	2.1%	5.8%	95.8%	14.1%	2.5%	1.4%	21.7%	1.8%	1.3%
MEAT & SEAFOOD	7	6	7	7	2.4%	2.7%	25.9%	3.8%	11.1%	0.1%	2.6%	88.9%	10.3%	1.7%	2.0%	11.1%	0.1%	0.2%
DELI	8	8	8	8	2.1%	0.5%	19.0%	0.2%	3.5%	1.6%	0.5%	96.5%	35.6%	0.1%	0.5%	19.5%	0.0%	0.2%

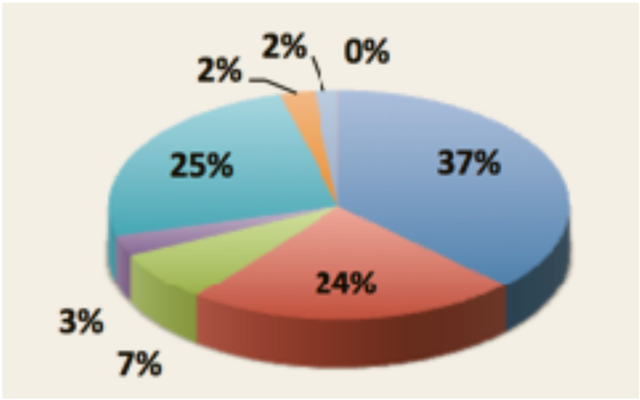
Total Store



H & W Natural



Organic



Source: Nielsen Total US xAOC Latest 52 Wks - W/E 01/23/16. All insights above come from Nielsen Answers Total US Food, Drug, Mass, Walmart, Sam's, BJ's, Dollar Stores, and Convenience.

Natural Organic Overview

Total US Food sales are up +1.9%

Total US Natural/Organic sales are up +11.0%

Natural Organic sales represent just 7.7% of total US food sales

Total US Food sales without natural organic are up +1.2%

Source: Nielsen Total US xAOC Latest 52 Wks - W/E 01/23/16. All insights above come from Nielsen Answers Total US Food, Drug, Mass, Walmart, Sam's, BJ's, Dollar Stores, and Convenience.

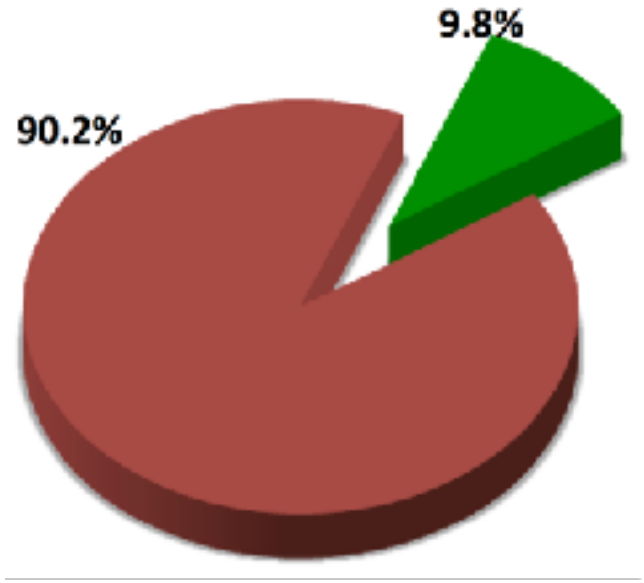
Natural Organic Overview

Total US Dairy sales are up +1.5%

Total US Natural/Organic Dairy sales are up +12.1%

Natural Organic Dairy sales represent just 9.8% of total US food sales

Total US Dairy sales without natural organic are up +0.5%



Natural organic sales are responsible for the sustainable sales and profit growth in total US food!

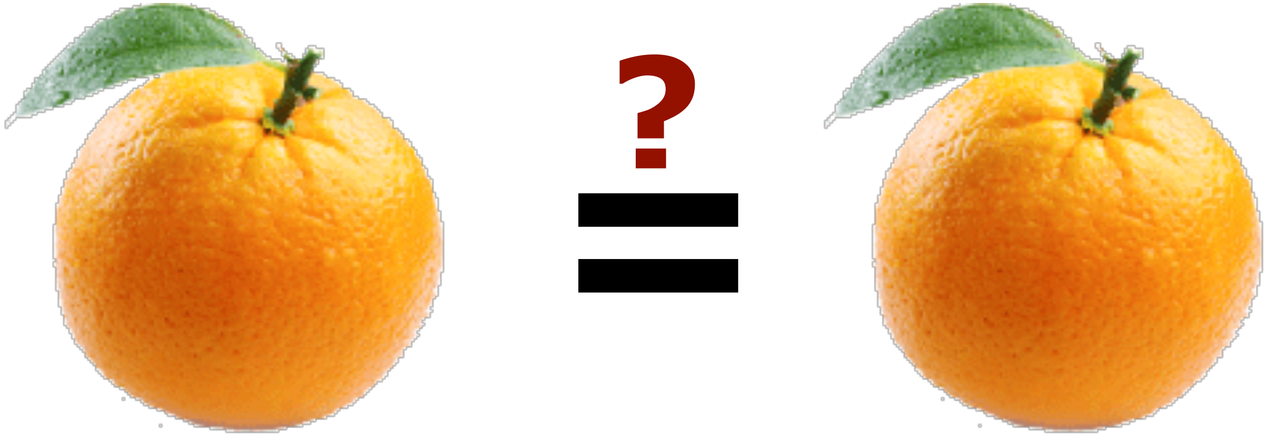
Source: Nielsen Total US xAOC Latest 52 Wks - W/E 01/23/16. All insights above come from Nielsen Answers Total US Food, Drug, Mass, Walmart, Sam's, BJ's, Dollar Stores, and Convenience.

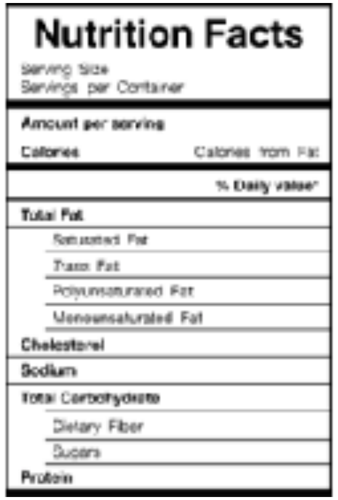
Traditional Category Management VS. True Category Management

Nothing happens until someone buys your product and shoppers can't buy what they can't find. The path to sustainable sales and getting your product in the hands of more shoppers is critical to increasing sustainable food production and sales. It is a key to more organic farming, healthy product innovation, reducing obesity and food allergies, and supporting a food ecosystem that is sustainable beyond tomorrow.

Nowhere is this more true than in natural. The competitive landscape is changing and the old strategies simply are not enough. Natural brands and retailers need to become more strategic. This does not mean compromising their principles. On the contrary, this is their strength and their principles should be at the heart of every strategy. This means focusing on the value they create and leveraging it at retail and with consumers. Consumers are willing to pay a premium for quality healthy products. Healthy products are responsible for most all of the growth across every category and across every channel.

Consumers Are Confused



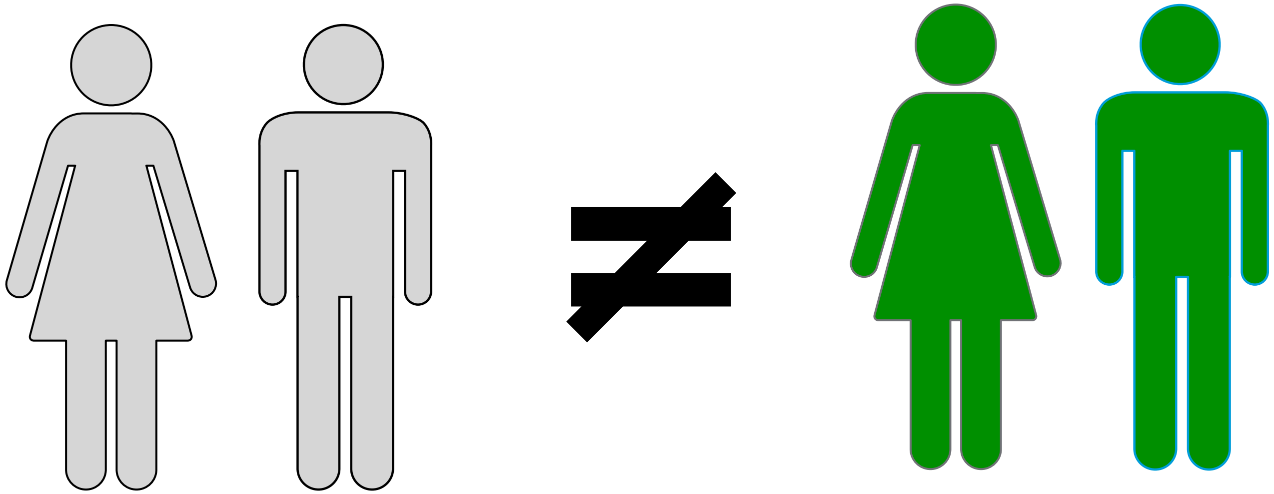


What does Natural mean to you?
What does Non-GMO mean to you?
What does Organic mean to you?
What does Clean Label mean to you?

Which is best and why?

What Does The Core Natural Shopper Look Like?

And why does this matter?



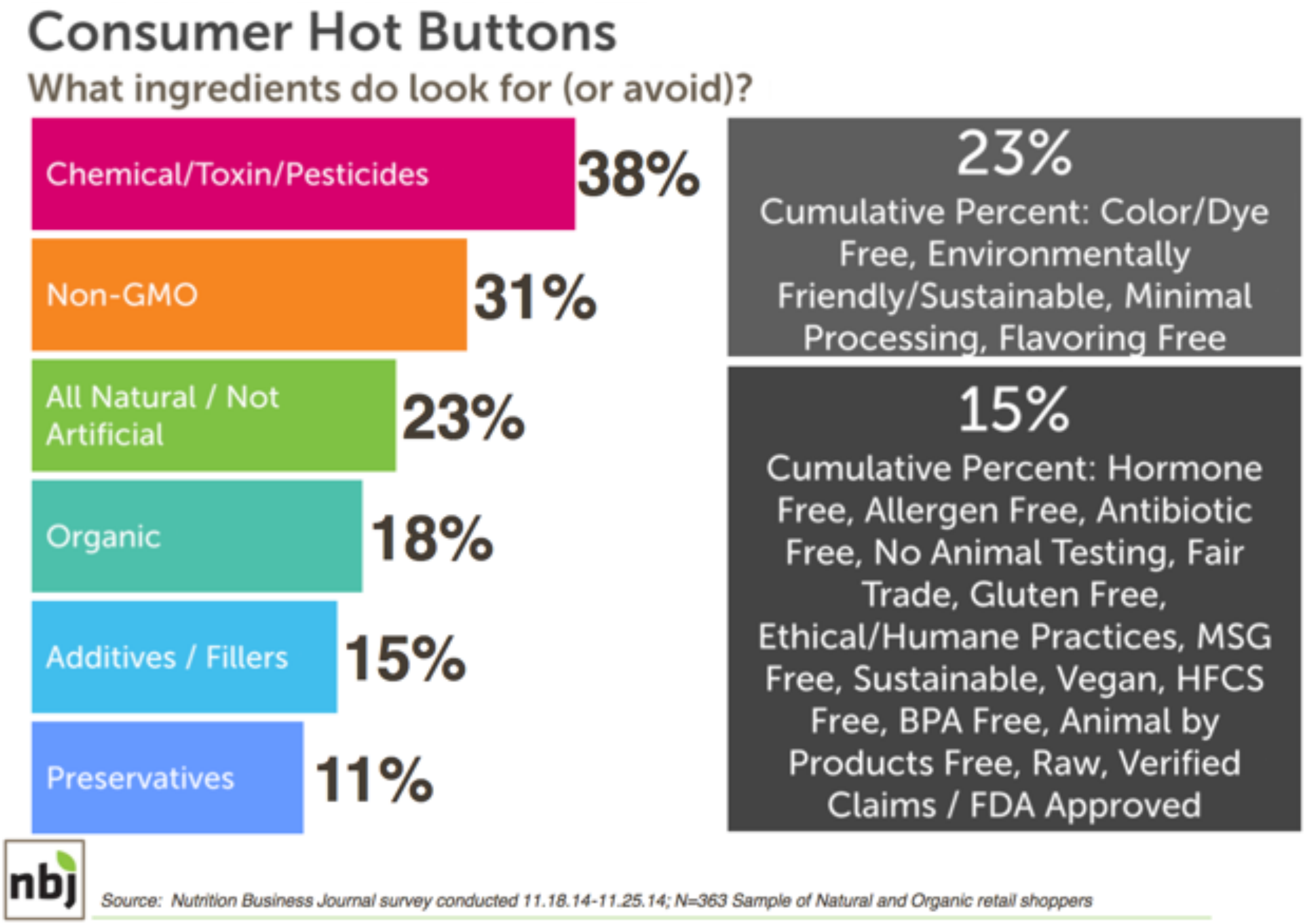
"Have you ever gotten a great deal on something you didn't like"

Committed natural shoppers do not settle. They want what they want

We are not clones!
We want quality over price

Hierarchy Of Key Store Choice Drivers

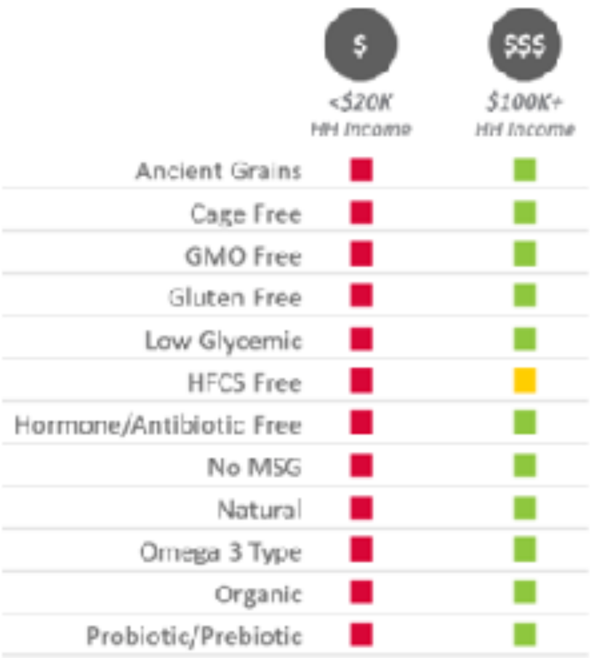
Transparency Is Key



HEALTH & WELLNESS IS NOT A ONE-SIZE-FITS ALL APPROACH

Understanding the drivers of engagement with H&W is critical

LOWER INCOME HH's UNDER-INDEX AMONG TOP WELLNESS CLAIMS



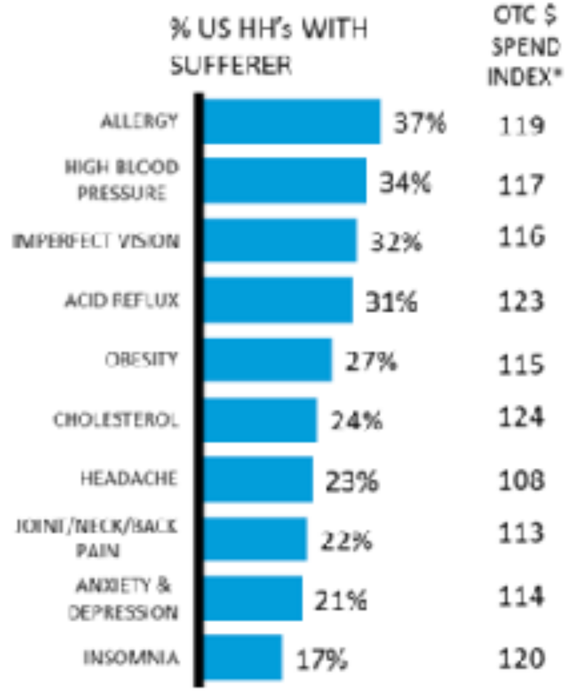
Source: Nielsen Answers On-Demand Syndicated Panel, 52 weeks ending 12/26/2015

THERE IS A DIFFERENCE IN CONSUMER ENGAGEMENT ACROSS HEALTHIER CATEGORIES

	WELL BEINGS	FOOD ACTIVES	MAGIC BULLETS	FENCE SITTERS	EAT, DRINK & BE MERRYS
Produce	134	101	90	95	85
Vitamins & Supplements	121	119	109	85	45
Water	112	100	99	99	91
Soft Drinks	72	88	112	98	116
Tobacco & Alternatives	68	82	130	80	107

Source: Homescan, NMI H&W segmentations, 52 weeks ending 12/26/2015

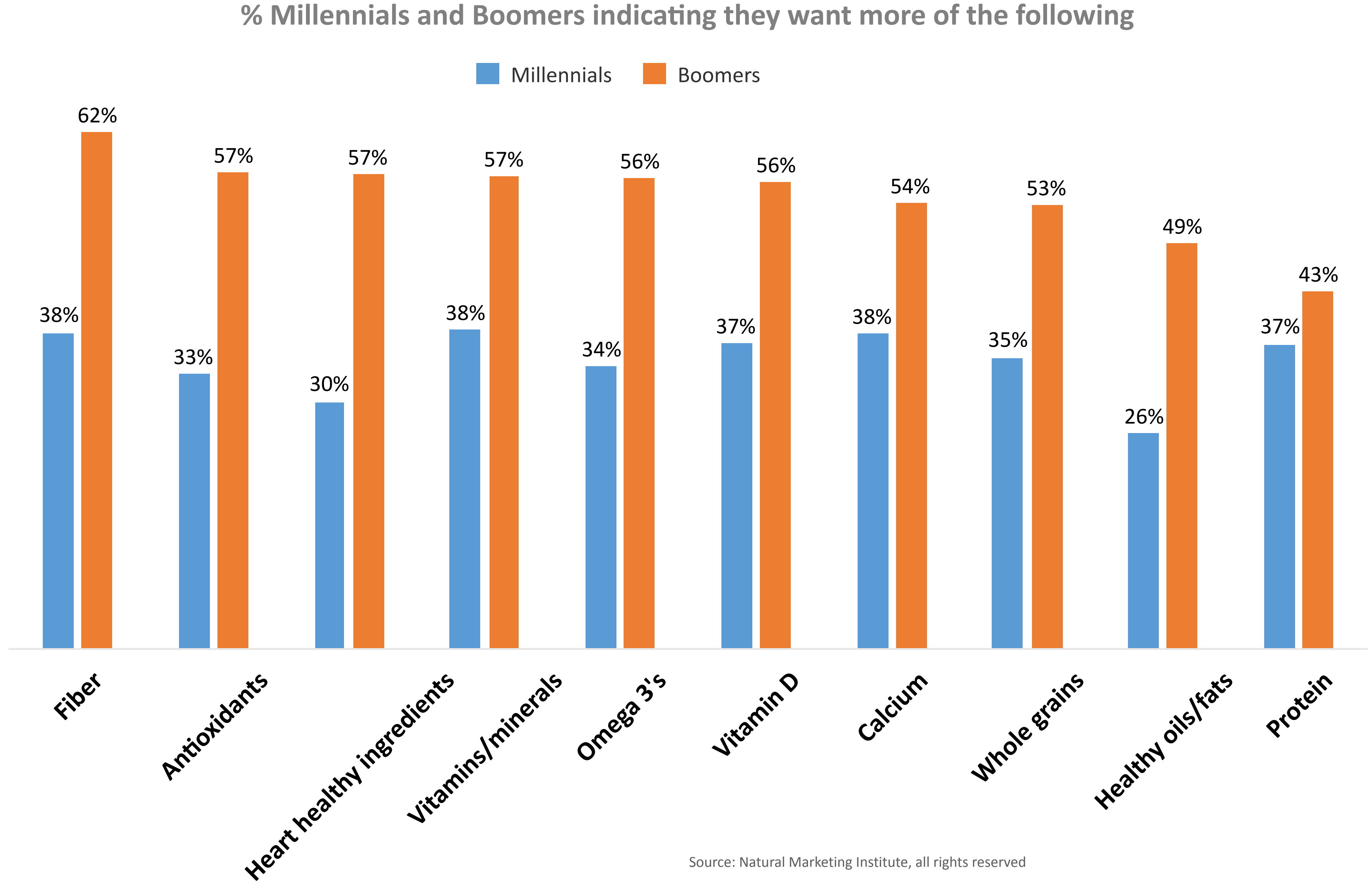
AILMENT SUFFERERS BUY DISPROPORTIONATELY MORE HEALTHCARE RELATED PRODUCTS



Source: Nielsen Health Survey 2015
*OTC $ PER HH AMONG SUFFERER GROUP DIVIDED BY TOTAL OTC $ PER HH*100
52 WEEKS ENDING JUNE 2015

BOOMERS DRIVE DEMAND ACROSS HEALTH INGREDIENTS

Fiber is the most important ingredient for Boomers



Source: Natural Marketing Institute, all rights reserved

Top 5 Ingredients Respondents Say They Avoid

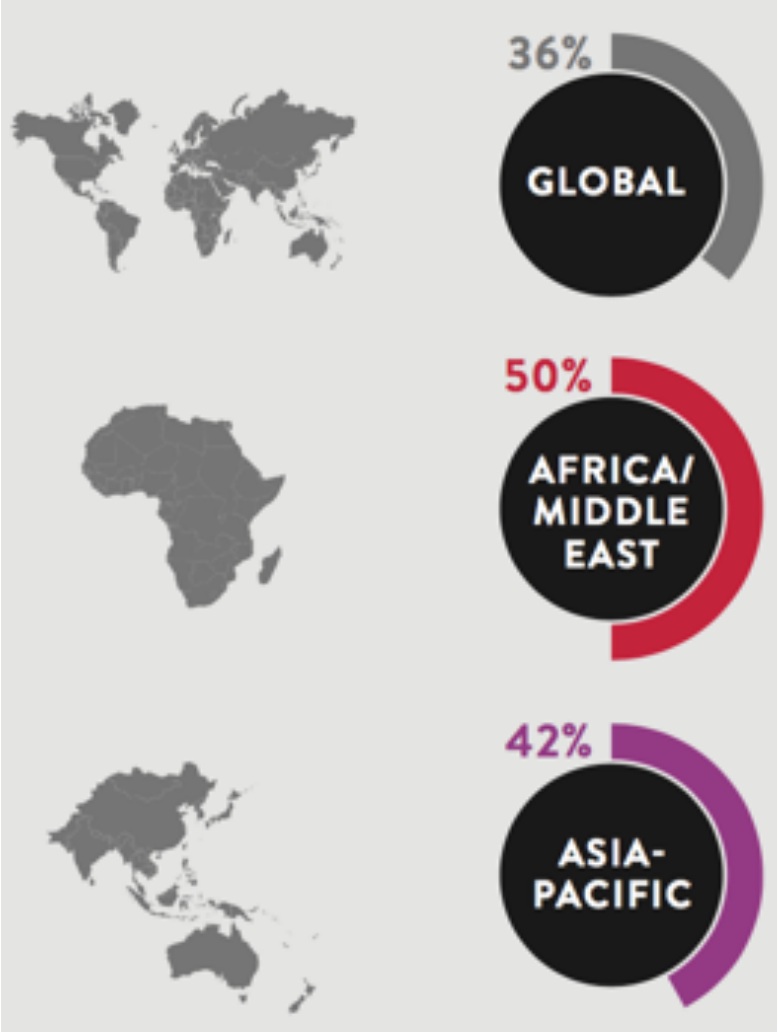
LATIN AMERICA		
1	ANTIBIOTICS OR HORMONES USED IN ANIMAL PRODUCTS	59%
2	ARTIFICIAL COLORS	56%
3	ARTIFICIAL FLAVORS	54%
4	ARTIFICIAL PRESERVATIVES	54%
5	FOOD IN A PACKAGE WITH BPA	53%

NORTH AMERICA		
1	MSG	55%
2	ANTIBIOTICS OR HORMONES USED IN ANIMAL PRODUCTS	54%
3	ARTIFICIAL SWEETENERS	54%
4	ARTIFICIAL PRESERVATIVES	53%
5	FOOD IN A PACKAGE WITH BPA	53%

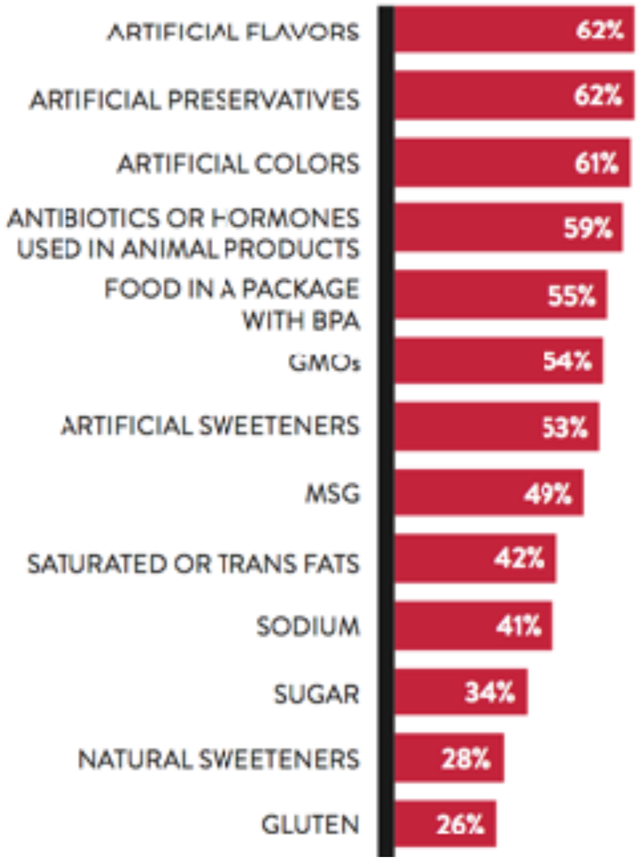
There are a similarities between North American and Latin American trends

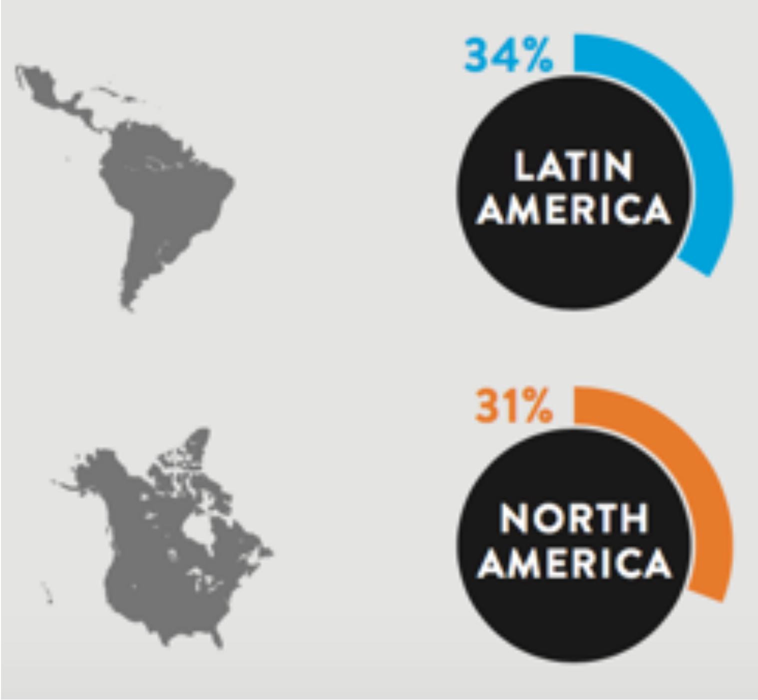
Source: The Nielsen Global Health and Ingredient-Sentiment Survey, Q1 2016

Percentage Who Say They Or Someone In Their Household Suffers From A Food Allergy Or Intolerance



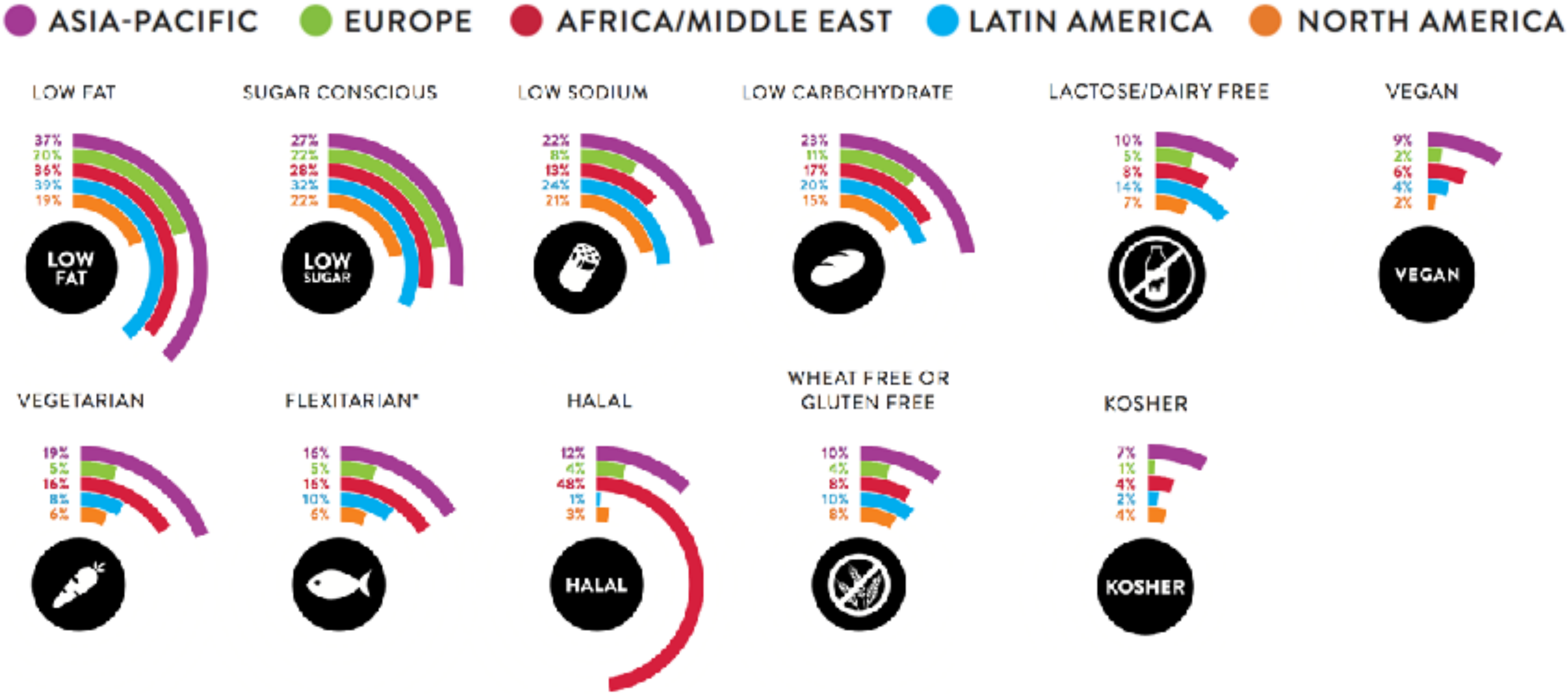
Top Ingredients Avoided





Source: The Nielsen Global Health and Ingredient-Sentiment Survey, Q1 2016

Restricted Diets Requirements Around The Globe

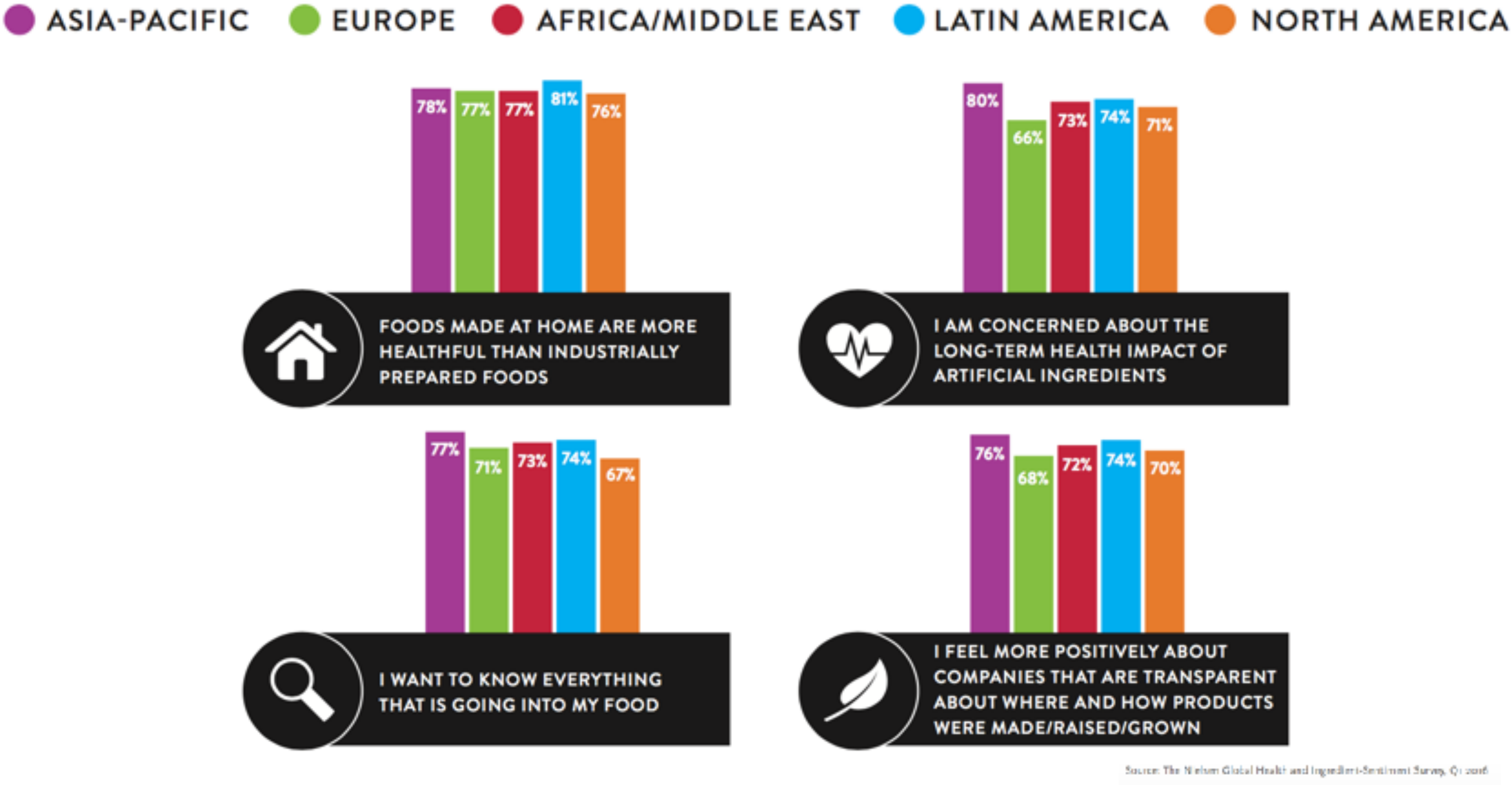


Percentage who say they follow a special diet that limits or restricts specified foods or ingredients

Source: The Nielsen Global Health and Ingredient-Sentiment Survey, Q1 2016

*Primarily vegetarian, but occasionally eat meat, poultry or seafood

Consumers Want Straightforward Sustenance



Fresh Prepared trips create additional sales in the store

% of Baskets and $ Value

HEALTH & WELLNESS BASKETS ARE DIVERSE

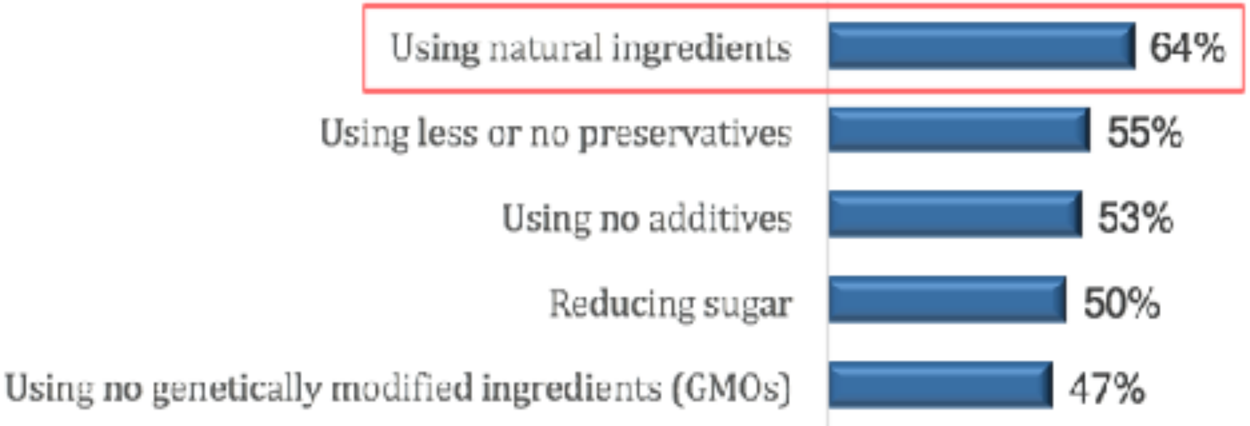
GLUTEN FREE	ORGANIC	ANTIBIOTIC FREE
SALTY SNACKS	FRESH VEG & HERBS	MILK
VITAMINS & SUPPLEMENTS	MILK	YOGURT
YOGURT	FRESH FRUIT	ICE CREAM
CANDY	EGGS	CHEESE
CREAM	NUTRITIONAL	EGGS
BABY FORMULA	YOGURT	POULTRY FRESH
LUNCHMEAT	BABY FOOD	LUNCHMEAT
CHEESE	SHELF STABLE LIQUID SOUP	FRZ ENTREES
WHOLESOME SNACKS	SALTY SNACKS	FRESH MEAT
MILK	RTE CEREAL	REFRIG MEALS

Source: AOD RMS, Total U.S. – 52 weeks ending 3/28/15
Total $ Sales and % change versus year ago reflects Total CPG Sales By Health Claim, ( ) = % of Total CPG $ accounted for by the Top 10 categories

Summary

- Natural plays an important role in how shoppers feel about a product. Most shoppers believe that using natural ingredients makes foods and beverages seem healthier.
- Over 95% of shoppers believe using natural ingredients makes products seem at least somewhat healthier—and 6 out of 10 think it seems a lot healthier.

Top 5: To what degree does each make foods and beverage seem healthier?
Top Box: A lot

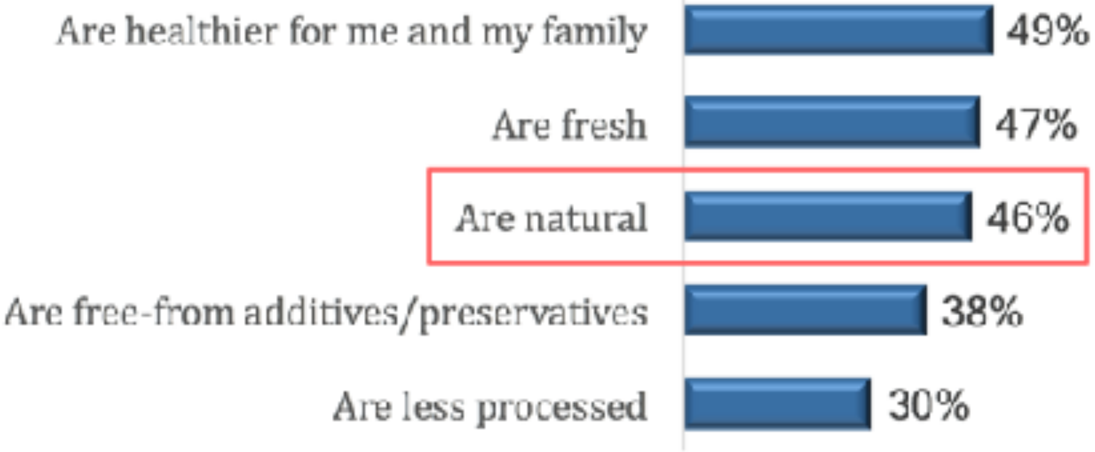


Natural ranks as the #1 reason that products seem healthier.

Summary

- The value of natural is strong with over 45% of shoppers around the world saying they are willing to pay up to 10% more for foods or beverages that are natural.
- Natural is of particular importance in Europe where it ranks as the #1 thing that shoppers are willing to pay a premium for.

I am willing to pay up to 10% more for foods or beverages that:
Top 5 – Global Total

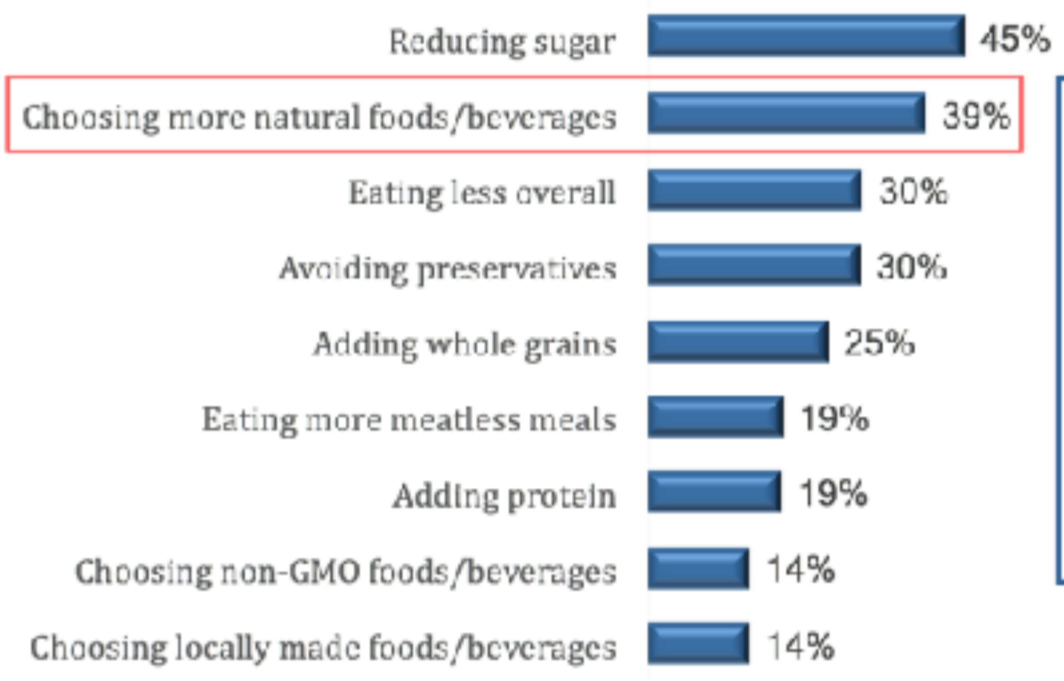


Natural ranks within the top 3 things that shoppers are willing to pay a premium for.

Summary

Which of the following have become more important in your diet over the last 2 years? (Select up to 3)

Global Total



Natural is a top priority for shoppers. Nearly 40% of shoppers selected natural within the top 3 things that have become more important in their diet over the past 2 years.

Choosing more natural foods and beverages even ranked ahead of other important dietary goals—like eating less and avoiding preservatives.

HealthFocus INTERNATIONAL

Summary

Top 10 Global Brand Influences: Extremely/Very Important

Containing only natural ingredients ranks in the top 5 brand influences globally. It ranks on par with **better nutrition** and just below **taste and price** as an extremely or very important factor in influencing shoppers to try a different brand.

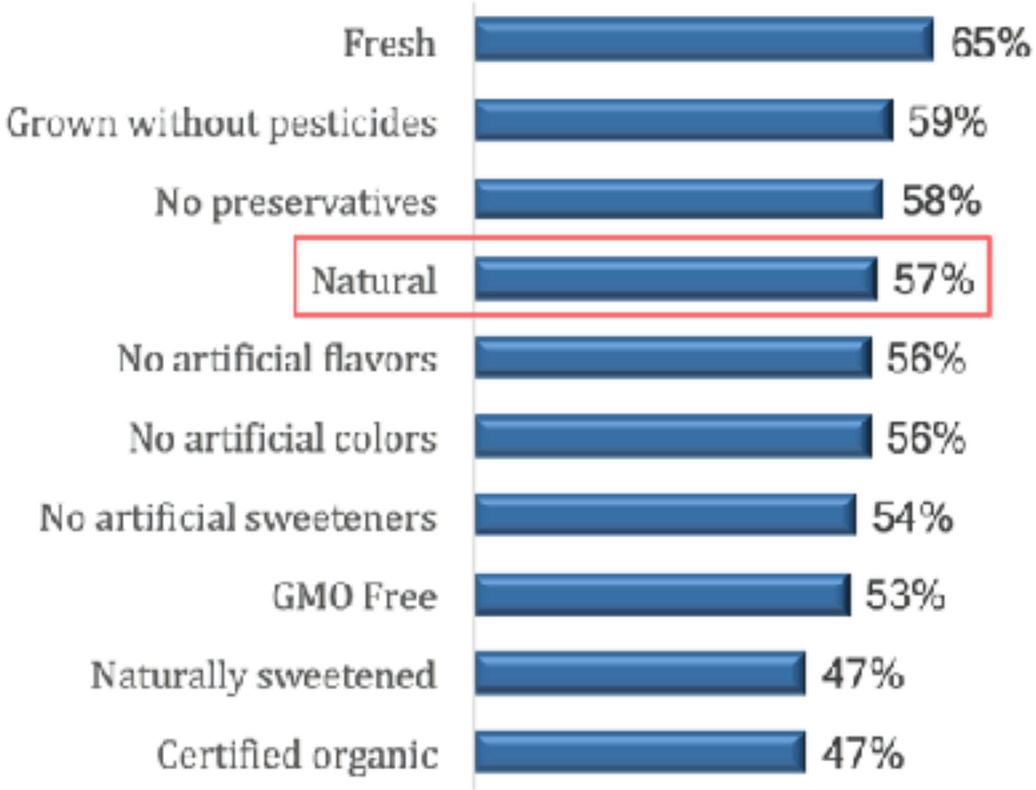
Natural has the most influence in the Asia/Pacific region where it ranks in the **top 5** brand influences.

It is also important when shopping for children. 6 out of 10 parents say natural ingredients are **highly important** in getting them to **purchase products for children.**

HealthFocus INTERNATIONAL

Summary

Top 10 Global Labeling Statements: Extremely/Very Important



"Natural" ranks within the top 5 label statements with over 55% of shoppers saying it is extremely or very important.

Natural labeling is of the highest importance in the Asia/Pacific region and is less important in the Americas.

HealthFocus INTERNATIONAL

Why This Matters

- Increased distribution and preferential merchandising

- Happy loyal shoppers
  - -Shoppers want what they want
  - -Shoppers want convenience

- Efficient trade spending
- Maximize promotions
- Category leadership
- Higher sales and profits

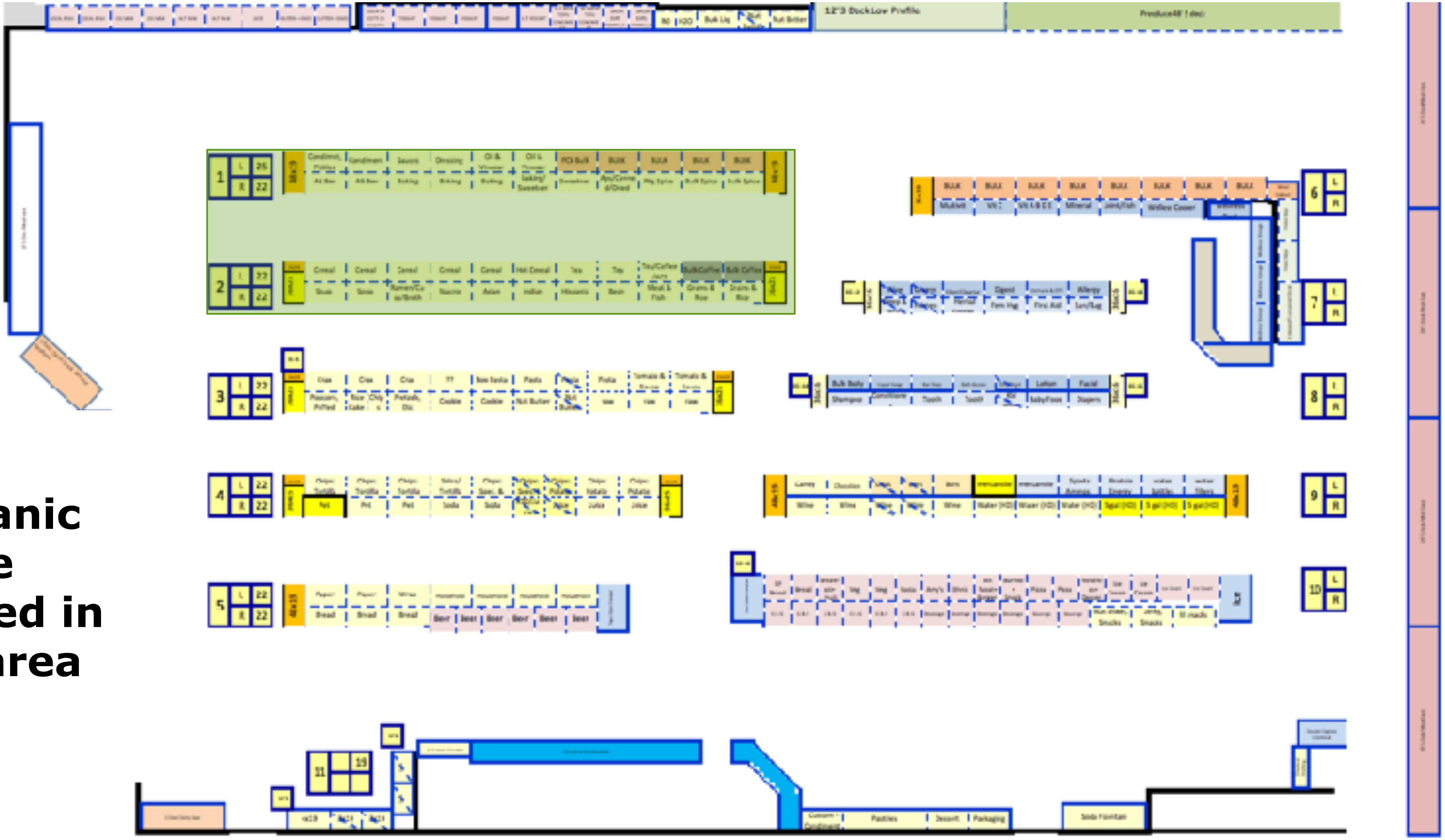
Retailers want insights!
Fact-based insights!

Savvy retailers want and need your help to produce and maintain the optimal category product assortment that meets the need of their primary shoppers

Highlight the specific problem your brand solves
What makes your brand unique and how does your brand bring new shoppers into the category?

From the consumer perspective!

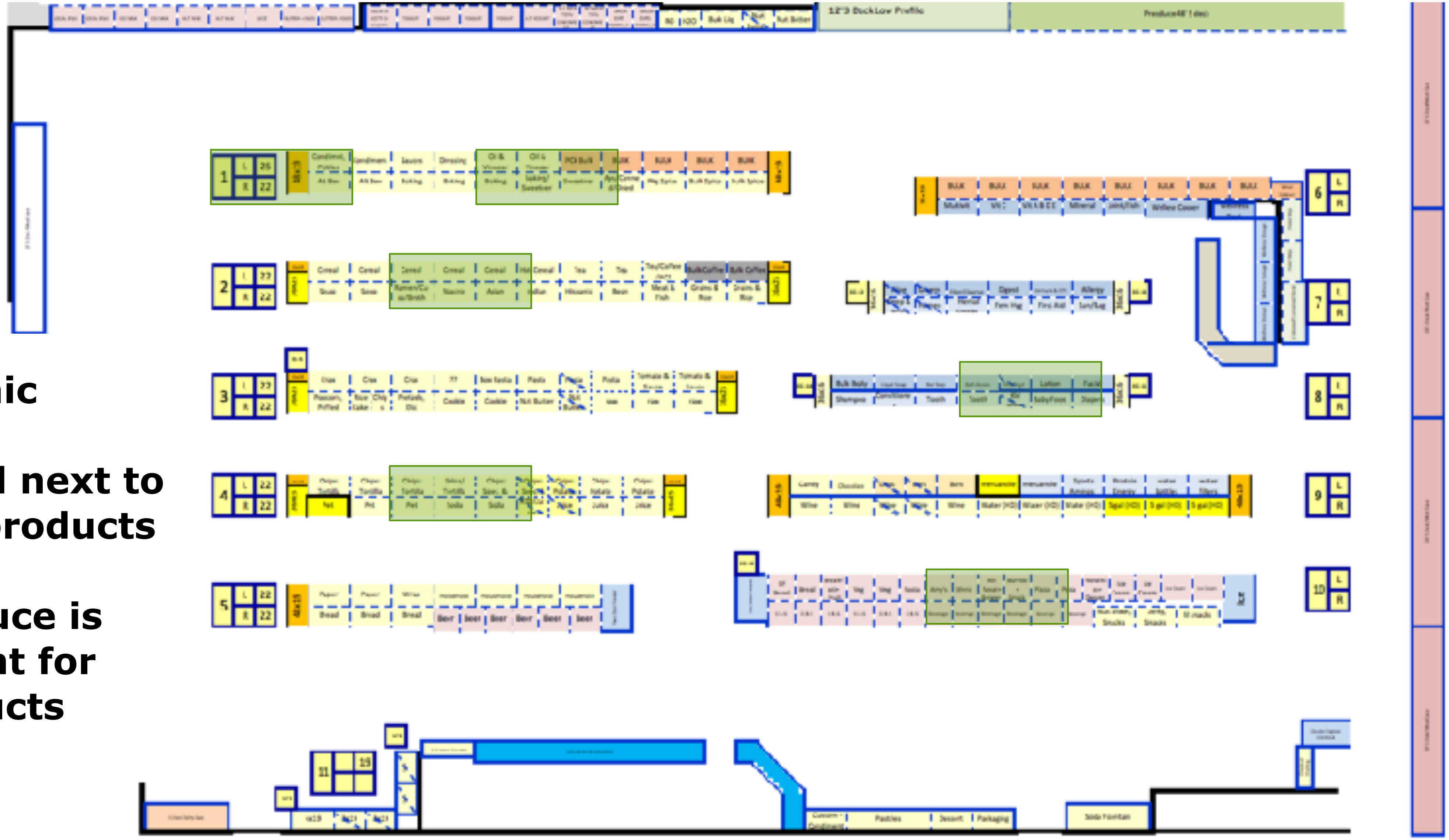
Store Within A Store



Natural

Natural organic products are merchandised in a separate area

Integrated Segregated

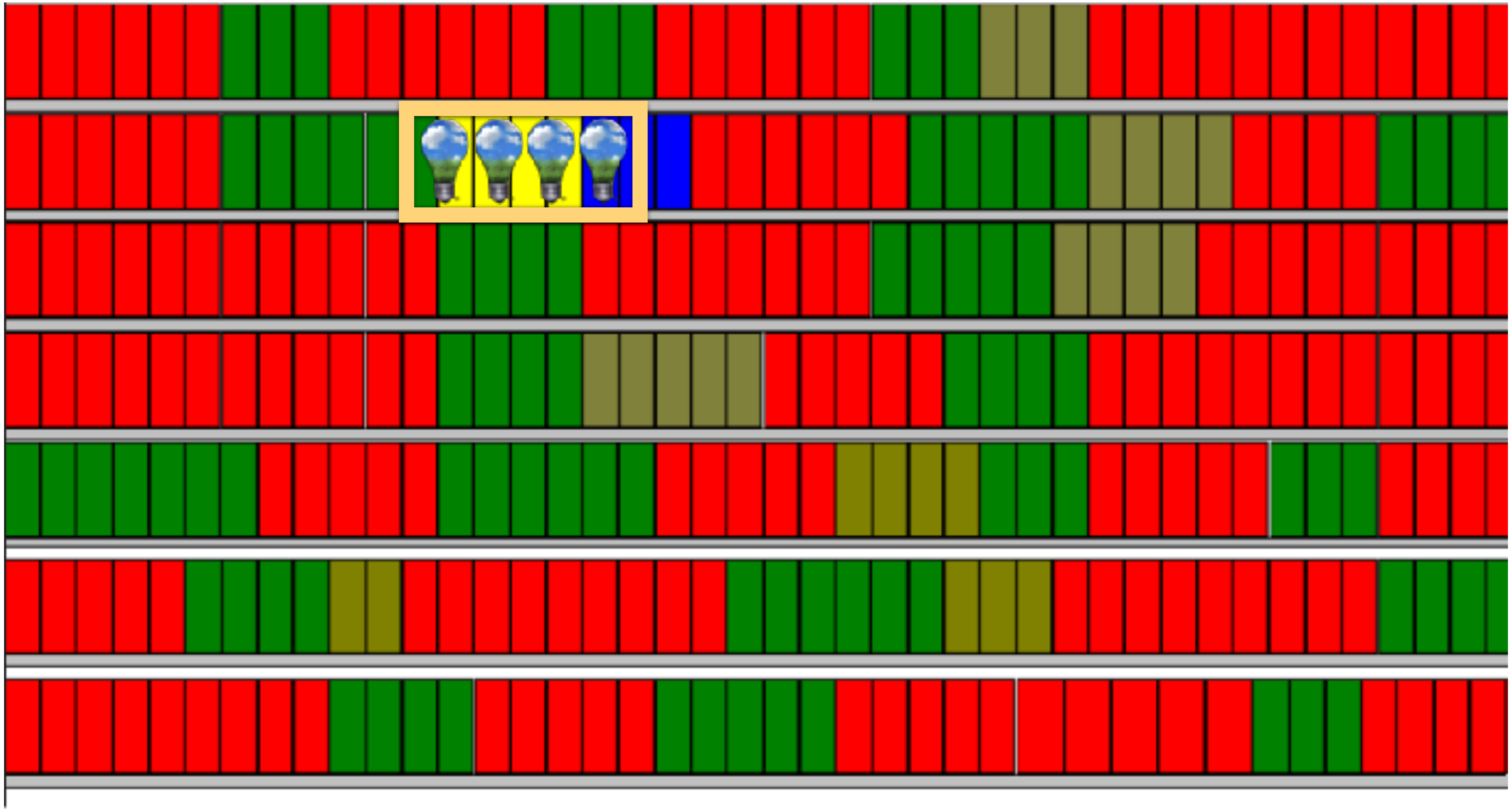


Natural

Natural organic products are merchandised next to mainstream products

Organic produce is the entry point for healthy products

Integrated Segregated



Integrating natural organic and mainstream products together allows shoppers to make the best choice to meet their needs. This is how you grow category sales.

Recommendations

The key to your success depends on how well you satisfy your shoppers needs. Shoppers can't buy what they can't find

- Product placement is key for every item and brand
  - This includes every place consumers can purchase your brand
- Integrate natural and mainstream together - focus on the way consumers shop the category
- Commitment to develop a collaborative relationship between retailers and brands
  - Become an expert on the category shopper, trends, and your completion
- Take an active role in helping your broker/distributor manage and grow your business.
- Develop scorecards to hold them accountable for your success and growth
- Education: Commit to developing your category management, sales management and trade marketing management teams by teaching them the best practices to help grow your business sustainably

Text ECRM-NATURAL to 44222 to get the presentation