



The impact of natural within core categories

Why sitting on the sidelines is no option.

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Discussion Topics

- Defining the term “natural”
- Factors driving sales growth
- Retail and brand strategies
- Predictions to ponder
- Questions and wrap-up

What is natural?

Defining the term natural

- Complex issue
- Limited standards
- Varies by shopper
- Inconsistent experience

Adding to the complexity

- The term “natural” on food packaging is entirely unregulated by the government.
- Since the U.S. Food and Drug Administration hasn't yet issued an official definition of "natural" consumers have different understandings of what the term means.



Consumer confusion

- 40% of respondents to a FONA International survey don't trust a "natural" claim on a label, and 45% read labels to decide whether the natural claim fits their personal definition of what "natural" means.
- Nearly 48% prefer that food firms no longer use the term, and shift instead to claims such as "no preservatives" or others citing just one attribute of a product.

*Source: 2018 Trend Insight Report, FONA International
FONA creates and produces flavors for many of the largest food, beverage, and nutritional companies in the world*

Consumer confusion

- Participants in a GNT Group study responded that in order to be considered "natural," food products must be "free from" preservatives as well as artificial colors, flavors and sweeteners.

Consumers may view self-care and personal care items in the same light.



*Source: What 'Natural' Really Means To Consumers, GNT Group
GNT is the leading global manufacturer of food and beverage ingredients made exclusively from fruits, vegetables and edible plants.*

Organic Defined

- Basic definition means living and used to define carbon-based life forms
- “Organic” is a description of the agricultural methods used rather than the product itself



Natural OTCs

- Refers to self-care products that consumers use to prevent or treat minor ailments that are:
 - ✓ Drug free
 - ✓ May contain natural, plant-, or herb-based ingredients
 - ✓ Vitamins & Supplements
 - ✓ Homeopathic (in most cases)



Source: "Natural" Trends and Drivers in the Self-care Space, IRI/Kline Alliance, 2017

Free-from movement

- At what point do consumers eventually suffer from stamp fatigue?
- Will shoppers begin to view these important value- and health-driven identifiers as mere marketing ploys creating unnecessary noise on a package?





What's driving growth?

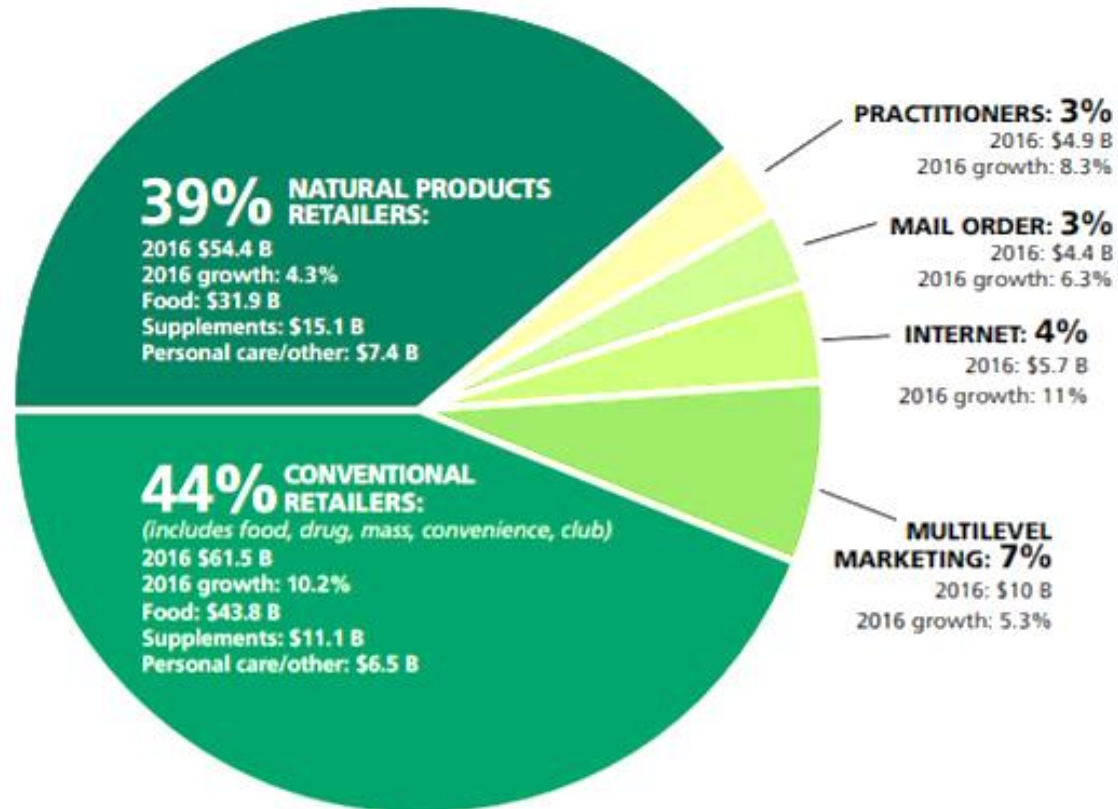
Consumer demand

- Where are consumers shopping for natural?
- What are they expecting?
- What factors influence purchasing?



Source: Key Ingredient Trends in FMCG – What Consumers are Saying, GlobalData Consumer, 2017

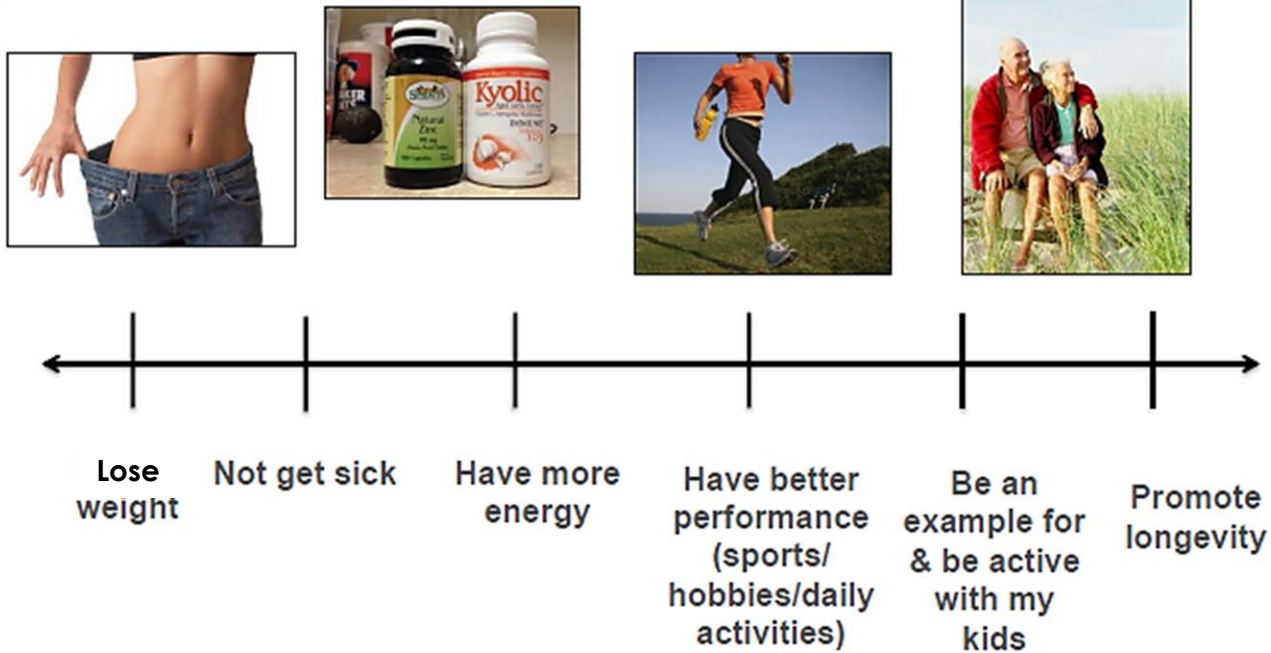
Where consumers shop



Internet sales may not be fully reported in this chart. What do you think?

Source: 2017 Natural Foods Merchandiser Market Overview

Healthful choice factors



Shopper insights

Natural Medications vs. Over-the-Counter Medications

Challenges

- Where do natural medications stack up versus OTC medications on a mom's radar?
- Are moms more inclined to buy natural medications for some ailments, and OTCs for others?
- What are the underlying barriers and motivators?
- Where does convenience fit in?

Source: Persuadable Research, August 2015

Shopper insights

Natural Medications vs. Over-the-Counter Medications

Insights

- Most moms, who are inclined to buy natural medications, understand benefits of natural alternatives and worry about the long term impact of OTC medications. *Paradoxically, every mom uses OTC medication to some extent!*
- Natural medications are surrounded by mystery. There is too often a lack of information about ingredients, brands, etc. Word of Mouth is extremely powerful in this category.
- Almost every mom tends to be light green moms, but are eager to graduate to dark green.

Source: Persuadable Research, August 2015

Shopper insights

Natural Medications vs. Over-the-Counter Medications

Action

- Develop short range and long range targets for the brand.
- Identify natural products in the innovation pipeline that would hold the most potential in the marketplace.
- Ensure product claims resonate among natural medications where moms may seek long term solutions over convenience.

Source: Persuadable Research, August 2015

Shopper insights

- Shoppers are open to—and are in fact seeking—brands to motivate them to be healthy and well so they can reach their goals at any life stage.
- When it comes to purchase behavior, health and wellness is a factor at the point of decision, and how brands speak to consumers up to that point influences their choices.
- Health-conscious shoppers prefer to live in their motivations, as well as aspirations, and brands that engage from this angle will be more successful in building lasting connections.

Source: What Women Really Want: From Health & Wellness; Anthem; 2013

Discovering new items

- Natural OTC ingredients are claiming to help support, maintain, and alleviate common conditions such as cough and colds, allergies, hot flashes, insomnia, pain, digestive issues, and skin conditions



Source: NIH, National Center for Natural and Integrative Health

Discovering new items

- Dan Lohman suggests: “Natural brands need to remain lean, flexible, and agile to survive and grow.”
- Convergence is occurring across the playing field – and it all depends on consumer perceptions



Source: Daniel Lohman; Organic & CPG Industry Strategic Advisor, Category Management Solutions



How do you win at retail?

Placement for success

- Does a successful merchandising strategy involve integrating or segregating your natural product mix?
- Are customers only interested in natural items or do they shop to buy both conventional and natural items?



Placement for success

PROS of integration

- If customers purchase both conventional and natural choices, then having items in a separate section may cause them to overlook other items.
- Integrating natural and conventional gives customers the opportunity to compare items side-by-side and then choose what's best for their needs.

Placement for success

CONS of integration

- If customers rarely purchase natural, an integrated set may be confusing and cause shopper angst.
- Those who ARE used to purchasing natural products in non-integrated sets will have to 'hunt and peck' all over the store for them
- Becomes more challenging to differentiate natural from conventional items.

Placement for success

Segregated Integration

- May provide the best of both worlds.
- Allows customers to view options within the natural segment and compare-and-contrast to conventional items.
- Helps to educate shoppers and provide options to trade-up and try natural products.

Actions steps for retailers

- Take advantage of fast growth across children's relief products, personal care, preventive care, pet products, and combination solutions
- Cross-merchandise natural products, especially during cold and allergy seasons, at the checkout, in vitamins/minerals, or near the pharmacy
- Add homeopathic, natural, and organic cough and cold remedies to the mix

Action steps for retailers

Demonstrate your commitment through action

- Stock a broader (and correct) assortment of natural and organic options
- Improve in-store navigation, signage, and access to expertise in the aisle
- Consider ancillary services you could provide your shoppers (e.g., nutritional guidance, personalized solutions, etc.)

Actions steps for brands

- Don't forget your packaging – sustainability, clean labeling, and convenience matters
- Take the time to get the message right – you have less than 5 seconds to convey the product's key attributes
- Use blogs, social media, online media and key publications aimed at mothers and other consumers
- Get your online assets in order (digital images, descriptions, and SEO-friendly content)
- Ensure compliance with labeling and claim guidelines

Action steps for brands

Emphasize transparency and quality

- Clearly communicate the benefit of your item(s)
- Create excitement with ingredient choices, flavors and forms, and convenient delivery options
- Tell the story of your brand (could have listed this as the first step ... it is a high priority!)

Action steps for both

Balanced messaging is essential

- New-to-natural shoppers may need navigational guidance and product education
- The experienced natural purchaser may find some messaging too elementary

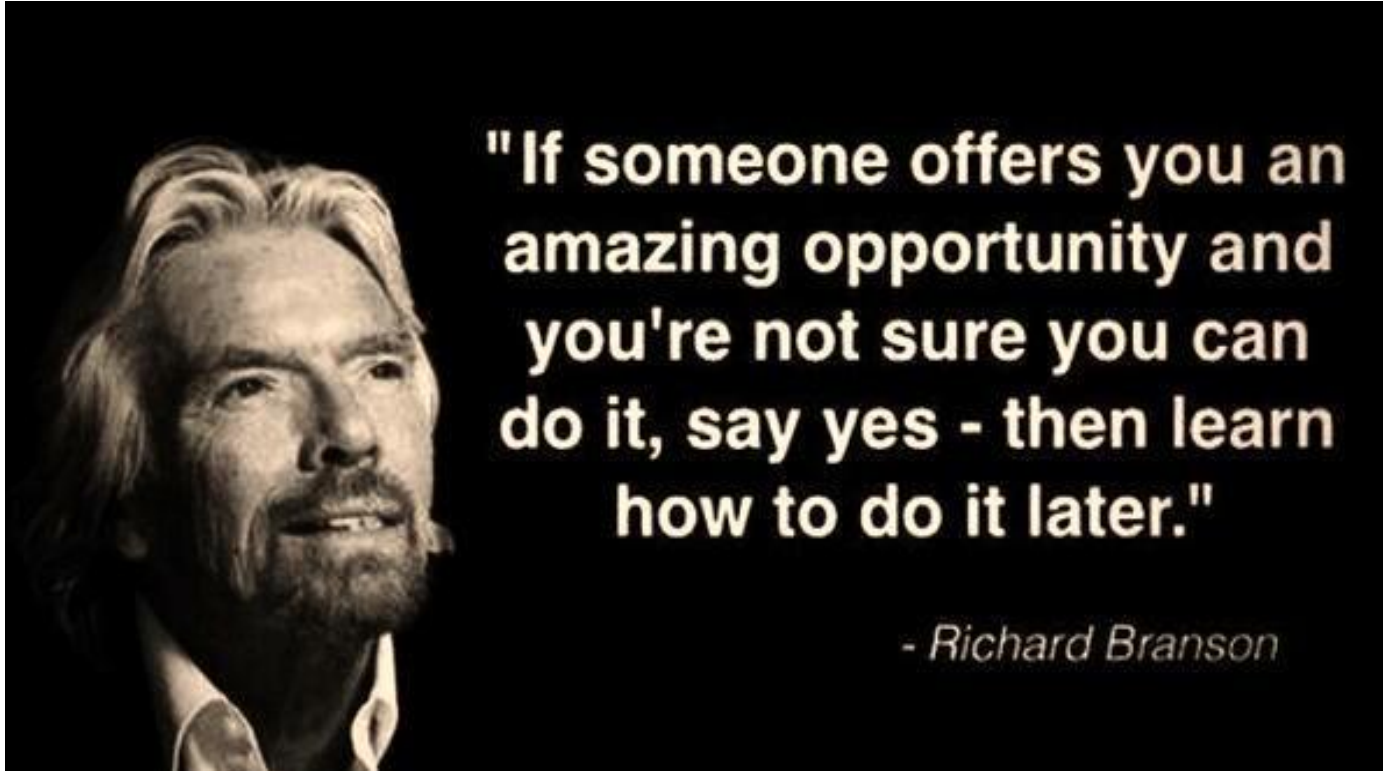
Action steps for both

Health is not limited to one category

- Understand the depth of knowledge of your target shopper – and connect where it matters most
- Know the values your customers appreciate and what they are looking for from your brand
- Elevate your role in their health journey through resources, tools, and education



What does the future hold?



Predictions to ponder

- Natural as a term will continue to lose its luster
- Traditional categories will be deconstructed and reconstructed
- Self-monitoring devices, mobile apps, and biometric tests will drive more personalized product choices
- Solutions and ingredients will inspire new product innovation
- CBD (hemp-derived cannabidiol) will come of age... projected to be a \$2.1 billion dollar industry by 2020
- Pharmacies – and pharmacists – hold unrealized potential
- Acquisitions and mergers are far from over
- Augmented reality may pave way to authenticity

How are you approaching natural?



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