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STRATEGIC INFORMATION FOR THE NUTRITION INDUSTRY

Still Waiting for Nutribeauty to Deliver

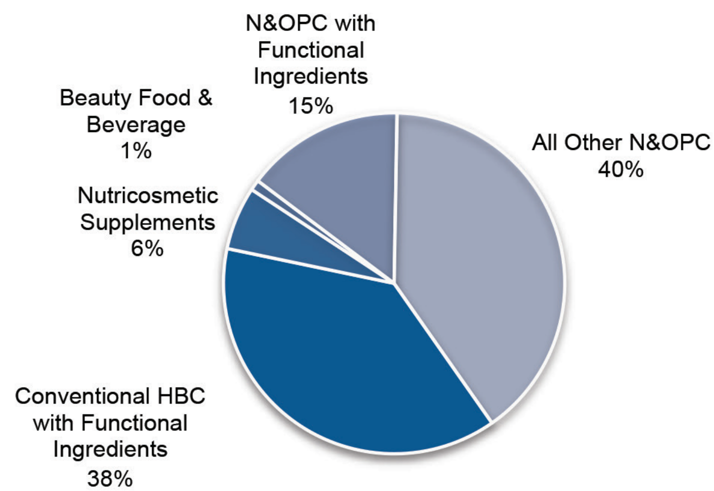
Advances in efficacy & brand positioning grow broader category, ingestibles still treading water

They say it's easier to turn a small boat than a big ship. But one of the biggest cruisers in the personal care industry, **Johnson & Johnson**, made waves last summer when it announced it was removing phthalates, parabens, formaldehyde releasers and other chemicals from its formulations. Though company officials wouldn't quite say these ingredients were toxic, they acknowledged that consumers increasingly avoid products that contain them. As a result, the company released its "Safety & Care Commitment," which it described as "moving beyond safety" and told consumers that, while science on many of the ingredients showed them to be safe, it was phasing out the ingredients anyway, "to give you peace of mind."

For much of the personal care industry, this was another indication that the tide had indeed changed. Concerns once thought to be the province of seaweed-eating, Birkenstock-wearing dark-green natural consumers had gone mainstream.

Data from **NBJ** seems to back this up. Sales of nutribeauty products—from topicals to ingestibles, from natural & organic formulations to functional ones—reached $17 billion in 2012 sales on 8% growth. Within the category, natural & organic products with added functional ingredients performed the best, growing 21% over the two-year period since our last research back in 2010.

$17 BILLION U.S. NUTRIBEAUTY MARKET BY PRODUCT CATEGORY IN 2012



Source: Nutrition Business Journal estimates (consumer sales)

IRI notes that since 2008, the number of benefits offered by non-food products has steadily increased. And anti-aging benefits were among the most common, introduced across a diverse range of products, including oral care, hair care and cosmetics. Fifteen percent of non-food products that IRI identified as "Pacesetters" in 2012 offered anti-aging benefits.

What's even more interesting is that the trajectory of nutribeauty products seems to closely follow that of other natural & organic segments. Janica Lane, a partner at **Partnership Capital Growth**, likens it to the mushrooming of supplement sales among mainstream consumers. "I'm encouraged that mainstream consumers know, for example, that vitamin D and omega-3 are important for health," she says. "Even five years ago, that wasn't the case. The consumer is starting to understand why functional ingredients are important, or at least know that if you have something like CoQ10 in a product, it's probably good. I imagine that nutribeauty is like supplements were 20 years ago. It starts out very niche-y and hippy, but gets increasingly mainstream. People are converting all the time, so the pie can get bigger."

The education effect

That's partly, if not mostly, due to the increasing health literacy of consumers. "There has been so much attention from the media and from health experts the last several years regarding what people eat," says Kimberly Bixel, a former

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Letter from nbj

Thanks to **Johnson & Johnson**, there's now a graceful way to transition from conventional to natural products. At least on paper.

In August 2012, when J&J announced its gentle retreat from carcinogens and toxins in personal care—including such villains as phthalates, parabens, triclosan and 1,4 dioxane, among others—the rhetoric surrounding the move created a model that could prove useful to any number of manufacturers of consumer goods in the coming years. Pay attention to the language here.

- "If consumers raise concerns about an ingredient, even if that ingredient meets government safety regulations and is supported by science, we'll always listen."
- "If new scientific evidence raises legitimate questions about whether an ingredient is safe, we will innovate to find alternatives and, if necessary, we will reduce it or remove it from our products."
- "Like you, we have a healthy skepticism when it comes to the use of any chemicals–whether found in nature or made in a factory."

These quotations are taken from J&J's Safety & Care Commitment, fully available online. It's a nice piece of work that, in essence, boils down to a defensible legal position—regulators say this stuff is safe—while honoring the will of consumers—but you don't seem to want it. Score one for transparency. Score one for activism. Score one for a large corporate interest respecting its customers.

This strikes me as a simple but sophisticated approach to the vulnerability of big brands faced with upstarts willing to air all of that dirty laundry as a primary point of differentiation and competitive messaging. The chemical legacy of businesses need not be the albatross that brings down the ship. Rather than throw up its hands in resignation, kerfuffled by the perceived risk of migrating toward new ingredients and formulations that risk the foundational products of its business, J&J found some courage to meet its consumers where they seem to want to be. CPGs like **PepsiCo, Coca-Cola, Nestlé** and **Procter & Gamble** should take note.

Time will tell if this is a successful strategy, but I'm optimistic. I also have two questions in mind as the transition begins to unfold. Will J&J truly move away from the suspect ingredients, or simply replace them with lesser-known toxins? And if there is real mettle to the message, will consumers come along? I'm thinking of another brave brand, **Campbell Soup**, lowering its sodium content in the name of health & wellness, only to bring it back en force when sales faltered.

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Editor in Chief, NBJ
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COVER STORY CONTINUED

partner at **Greenmont Capital** who now is an adviser to the board at **Pangea Organics**. "Until recently, the equivalent has not existed from the information side for consumers in personal care. We think people care more and more about label reading and what they put on their skin."

That education piece is so critical, Bixel says, that it was one of the driving elements in CEO Joshua Onysko's decision to transform Pangea into a direct-to-consumer company as of March 1. (See last month's issue for a full Q&A with Onysko.) She says Onysko would fly to stores around the country to train staff on the floor, only to find those people were gone a few months later. It became a frustrating—and expensive—way to communicate the benefits of nutribeauty products to consumers, says Bixel, adding that consumers are eager to get the education directly. She says that in the days when Onysko did in-store demos, "he almost always sold more dollar value in supplements than in his own products," because he would talk to consumers about the idea that healthful nutrition is the foundation of beauty, and the concept soaked in.

Similarly, in a televised interview last year, **Strivectin** CEO JuE Wong told **Bloomberg News**: "Beauty and health are really now on the same platform. If I can make your skin healthier, then you know that I am delivering on a promise that is not far-fetched."

Rodney Clark, managing director at **Canaccord Genuity**, is tracking the current closely. "There's a general trend toward health, wellness, natural, organic, better for you," he says. "That first went through food and is moving into consumer products, of which beauty is right in the crosshairs. Over the last few years, it's been gaining momentum. The concern holding it back until now has been around efficacy."

The efficacy equation

In fact, almost everyone agrees that for mainstream consumers seeking health and wellness benefits, natural formulation is necessary but not sufficient. Or, to paraphrase **Apple**, "it just has to work."

Until recently, consumers weren't ready to believe that natural products could work as well as their conventional counterparts. Now, technology and innovation are "unlocking and opening the floodgates," says Clark. "When you can marry a technology that actually delivers performance

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CONCERNING THE MEN'S MARKET

Q&A with Simon Duffy of Bulldog Skincare

NBJ: Please describe the competitive landscape for men's personal care products.
Simon Duffy: The trend we're seeing is that men—both in America and around the world—are embracing the need to look after their skin as part of an overall health and fitness program. And it's not just younger consumers who are embracing the products. Men from all generations are considering their appearance, whether that's using moisturizer or working out at the gym.

NBJ: Tell us a bit about **Bulldog.**
Duffy: The idea for Bulldog came when I was shopping for skincare products for my wife. All the products she used were natural, and when I went to buy my own, I realised there were just no natural products out there for men. A few days later I met my good friend Rhodri and told him about my idea for natural skincare products for men. By the end of the night we had agreed to become business partners. In 2006 we decided to quit our jobs and create Bulldog with no experience in the sector.

Before Bulldog, men's skincare was treated as an after-thought by the big brands. We have traditionally female brands offering generic "for men" versions of their products. We wanted to do something different. Bulldog products are designed by men for men. We are very focused on performance and results. It was very important to us that we remained transparent and honest.

We're passionate about the ingredients we use in our products and want men to care as much about what they put on their skin as the food they eat. Our products are body friendly, meaning they don't contain controversial man-made chemicals such as parabens, sodium laureth sulphate, artificial colours or synthetic fragrances. Instead, Bulldog products are loaded with essential oils and other natural ingredients to deliver superb grooming results.

NBJ: How do you succeed in men's personal care?
Duffy: We compete with massive multinationals that spend tens of millions of dollars marketing their brands. There's nothing unique about them—they all use very similar formulations, market their products in exactly the same way and really just repackage traditionally female products for men. Bulldog competes by being different. This means we challenge industry conventions on ingredients, packaging, ethics and marketing. We believe our products do the talking for us.

NBJ: What are your strategic initiatives for 2013?
Duffy: We are currently launching four new products in America this month. We originally launched our full Original range here two years ago, and now we've added some more specialist options like the Anti-Ageing Moisturizer, Sensitive Moisturizer and Shower Gel, which will be available in **Whole Foods Market** and independents. We are working on some great gifting sets and you should start to see some new options in the later part of this year. We're also working on some new face wash products, but we can't quite reveal any exact details in this area just yet.

In the UK, Bulldog is more popular than ever—we are one of the leading men's skincare brands on the market. In fact, we recently overtook **Gillette** to become the third largest men's skincare brand in the UK. Our ultimate goal would be to achieve this kind of success in America.

and health benefits and still be natural, that's when growth takes off."

Ido Leffler, co-founder of the **Yes To** brand of food-based nutribeauty products, says the fact that the raw ingredients his company sources "are coming with ridiculously good clinical backing for their benefits" is propelling sales. So, too, is the fact that he is matching or beating conventional products on price. "If we can provide confidence that we can deliver the same level or better results by using natural ingredients, then that's a much easier choice for consumers to make." He says that confidence isn't completely established yet, but it's growing—a fact he thinks will cement naturals as the preferred type of nutribeauty product. "Consumers don't want to compromise on efficacy, safety or price. Our goal from day one was to mainstream naturals, to provide a product that consumers don't need to compromise on."

Strivectin's Wong agrees that a product must do what it promises, but talking to consumers about results from clinical studies is no longer enough. "They want to know, 'What's in it for me?' When you say 80% improvement in fine lines and wrinkles, what does that mean?' "

To that end, Strivectin developed a **Facebook** app about 18 months ago designed to answer that question. When a person uploads a photo, the app uses algorithms to project an "after" photo illustrating the improvements she could see after eight weeks of using a specific product. Wong says the personalized technology resulted in consumers being much more responsive to product recommendations.

That's not to say consumers are naïve, or have unrealistic expectations. They understand that the rate of cell turnover varies, and no product is going to work overnight. "They need to cut through the clutter and the noise," says Wong, and they look for products that feel authentic. "This is a departure from just wanting natural ingredients. They want to know why a specific ingredient is effective."

The communication

Wong's statement itself is a departure from the consensus. Beyond a basic desire for natural, efficacious ingredients, most industry analysts say consumers don't seem to care whether the product uses Pycnogenol or peptides, or how it works.

Leffler says that in his Yes To line, consumers almost always purchase by type of benefit.

"The only time it's by ingredient is in a body wash," when consumers are seeking a specific scent. Or, he says, when **Dr. Oz** recommends an ingredient.

"The main reason people are buying is because they are interested in the anti-aging category, or the acne category, or have a specific concern such as psoriasis. The reason they might choose a specific product within that category is because it has an ingredient they've heard of."

"When you're talking about natural & organic products and not something created in a lab, there's usually something you need to do to make it become bioavailable," says Bixel. "You can't just rub a pine needle on your skin and have it work. The trick is doing the research to know how to make it bioavailable, and how that corresponds to a formulation that is efficacious. Putting that formulation into a package that actually speaks to the consumer is the reason that companies make the big bucks."

Indeed, in a category that is as saturated as beauty products, manufacturers need to find a way to connect with consumers, says Clark. "People are becoming more discerning about where they spend their dollars. It's harder to capture people unless you've got something different, and they understand and connect with the brand and what you're doing."

That doesn't mean they won't spend money—they just need to be convinced that it's worth it. Says Bixel: "**NUDE Skincare** is really expensive but they've created an exclusive brand with exotic ingredients, and it has a bit of Hollywood prestige attached to it, so it's a value proposition." The U.K.-based line, created by one of the founders of **Fresh & Wild** stores, uses probiotics and omega oils to promote skin health and markets them in sleek,

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Data Corner

Thanks to more stringent adherence to organic labels and introduction of new and interesting functional ingredients, the natural & organic personal care industry continues to gain share in the overall beauty market.

Carla Ooyen, Director of Market Intelligence, **@nbjcarla**

U.S. Total Health & Beauty Care Market vs. Natural & Organic Personal Care & Household Products in 2012

Product by Category	Total HBC	Natural & Organic	N&O Penetration	N&O Growth
Cosmetics	18,250	510	2.8%	10.7%
Feminine Hygiene	2,840	120	4.4%	-1.4%
Hair Care	10,610	2,360	22.2%	9.9%
Baby Care	590	180	29.1%	5.2%
Nail Care	1,080	30	2.4%	3.0%
Oral Hygiene	5,270	380	7.3%	6.5%
Bath Items	690	150	21.3%	3.2%
Deodorants	1,760	270	14.6%	7.7%
Shaving	2,040	170	8.2%	7.2%
Skin Care	10,190	3,710	36.2%	7.1%
Soap	4,090	1,230	30.2%	10.1%
Fragrances/Aromatherapy	5,930	470	8.0%	10.0%
Total N&OPC	**63,330**	**9,590**	**15.1%**	**9.8%**
Household Cleaner	16,390	850	5.2%	5.9%
Pet Food	21,870	1,670	7.6%	12.6%
Flowers	20,330	80	0.4%	7.2%
Fiber	265,080	930	0.3%	16.8%
Total Household	**323,670**	**3,510**	**1.1%**	**11.8%**
Total N & OPC & Household	**387,000**	**13,100**	**3.4%**	**10.3%**

Source: Nutrition Business Journal estimates ($mil, consumer sales, all channels) based on manufacturer, distributor and retailer surveys; interviews; Nielsen, SPINS and SymphonyIRI data.

upscale packaging.

Some consumers, of course, respond to packaging that has a more clinical feel. Strivectin certainly has that, as do products from the **Dr. Dennis Gross** line. His Alpha Beta Glow Daily Moisture product contains vitamin D, along with antioxidant vitamins A, C and E; soy protein and willow bark extract; and hyaluronic acid, the same ingredient used in dermatological fillers such as **Juvéderm** and **Restylane**.

It's possible that when purchasing products that combine clinical and natural ingredients, consumers may have more questions about the mechanism of action of specific ingredients. "I believe it is the kind of customers who gravitate to clinical or cosmeceutical skin care," says Wong. "These customers are constantly researching to know their skincare. Understanding how that ingredient works matter to them."

Betwixt & between

For a particular subset of consumers, efficacy has a different definition. **Willa** produces natural skincare products for tween and teen girls. Founder and CEO Christy Prunier recognized an unmet need when her 8-year-old daughter was taking a bath and asked why she had to use her younger sister's baby products. Prunier searched for more age-appropriate products and discovered there were few options. A few focus groups later, she discovered that girls don't like to wash their face or moisturize or use sunscreen because the products often feel greasy or sticky, sting their eyes or smell bad.

But unlike girls a generation ago, they do understand that skincare is important. "They're attuned to society now—everything's about prevention, everyone's looking at labels," Prunier says. "I think our timing is pretty prescient in that regard." Perhaps even more important, at least for creating sales, is that girls today are "incredibly aspirational," Prunier says. "They do want to be older than they are. They want that responsibility and independence. If you're creating something that makes them feel more sophisticated and is just for them, you overcome that sense of 'I'm going to live forever.' "

But back to the efficacy question: "The definition for what's effective for Willa products is that girls love to use them. This isn't an anti-aging line. We're trying to create a routine. There's green tea in every single product we could put it in, so the efficacy is there. But if it's sitting in the girl's drawer and not getting used, it's not being terribly effective."

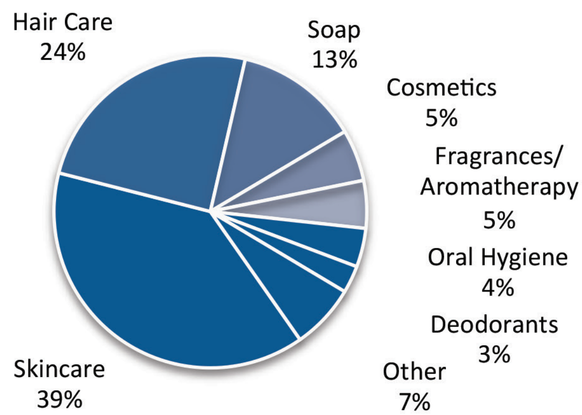
Prunier has a personal stake, beyond creating sales, in getting girls to use skincare products regularly. She was diagnosed with facial skin cancer at age 29. "All my dermatologists uttered the same refrain—Up to 80% of lasting damage happens by the time you're 18."

Whether Prunier's business plan is prescient remains to be seen, however. It's well understood that customer acquisition is one of a business's biggest expenses, and marketing to a consumer base that's going to age out of your demographic in a few years' time seems risky. "I think it's going to be difficult to scale," says PCGA's Lane, acknowledging that it could be successful if the platform can graduate up with the consumer. Bixel, on the other hand, thinks the tween/teen market is ripe for growth. "If they can acquire customers earlier, they have them for a much longer period of time. I'm confident that tween lines will expand as their customers age."

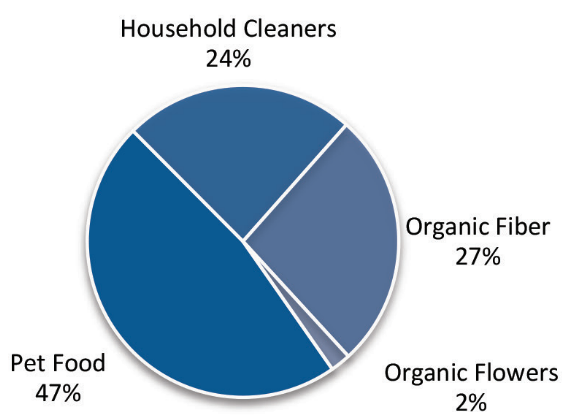
Prunier thinks that not only will her company be able to successfully evolve, but that the broader market for tween natural products will burgeon. "I do believe this is just the beginning of it. I hope there are other brands that are going to come into this space. It's not just skin—it's serving this girl in all the healthy aspects of her life, and doing it in a way that's

$13.1 BILLION U.S. N&OPC & HOUSEHOLD PRODUCT BY PRODUCT CATEGORY, 2012

$9.6 BILLION U.S. NATURAL & ORGANIC PERSONAL CARE



$3.5 BILLION U.S. NATURAL & ORGANIC HOUSEHOLD PRODUCTS



Source: Nutrition Business Journal estimates (consumer sales) speaking to her, and not some big corporation's idea of what that is— pink and sparkles and rainbows."

It's a tricky place to be in, promoting products with health benefits to kids. "If mom says it's good for you, that's kind of the kiss of death," says Prunier. "The way this needs to work is the girl needs to discover it, and tell her mom about it. She has the power of the purse, and she is approving the daughter's choice." That means efficacy isn't just about the daughter loving it, but the mom as well. "She's going to look at what the ingredients are, so it has to be safe," says Prunier. "Safety is paramount. Next, it has to be priced right, for everyday use—like toothpaste for your skin. It's not something you want your daughter to ration."

Drinking it in

The idea of creating efficacy through consistency isn't unique to tween lines, however. A subset of nutribeauty products aims to create a consistent habit of consumers drinking (and eating) their skincare.

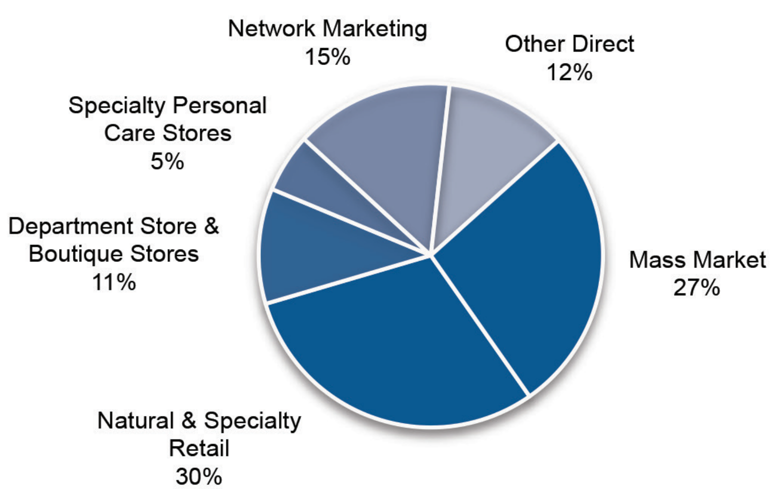
Kristina Richens, the "minister of commerce" for **Republic of Tea**, says the company's Get Gorgeous line starts with a base of rooibos tea to provide great taste and satiety. They add in anti-inflammatory and antioxidant herbs such as red clover, chaste berry and burdock to calm the skin, and the combination creates "something that's enjoyable and pleasurable that will lead to consistency so it will have that benefit." Richens says that the natural ingredients draw in a lot of mainstream consumers who are looking for natural alternatives to health and beauty. "But if the quality isn't there to make them want to have it again, it's not doing them a service. It's gotta delight and enrich their lives."

Lane thinks that ingestible products are just getting started. "When I think 'nutricosmetic,' I honestly think of consumable products," she says. Even though she acknowledges that **Nestlé's** Glowelle product flopped, Lane thinks it was more about that specific product ("it didn't taste that good") than about the delivery method. "I think there's a lot of opportunity in that market. I think there's demand."

Clark agrees, noting that ingestible nutribeauty products could have broad appeal. "We're a pretty pill-conscious society. Taking a pill or a drink rather than going through a regimen might save time or offer convenience." And that could be the factor that cuts through all the other noise in the market and connects with the consumer.

"The topical stuff certainly continues to move at a good pace, but people are continuing to try the ingestible beauty," says Clark. "It's got to be backed by science and testing and improved outcomes. People are throwing quite a bit of money at that. In China and Japan and elsewhere in the world, the market for these products is more developed than in the United State. It's going to gain steam."

$13.1B U.S. N&OPC & HOUSEHOLD PRODUCT BY CHANNEL IN 2012



Source: Nutrition Business Journal estimates (consumer sales)

TOP 10 DATA POINTS

- U.S. Natural & Organic Cosmetics was the highest growing sub-segment at 10.7% in 2012.
- U.S. Natural & Organic Skincare gained $372 million in new sales in 2012, outpacing the next closest sub-segment by $160 million.
- Natural & Specialty Retail is the largest sales channel for Natural & Organic Personal Care, accounting for $2.8 billion dollars or 29.4% of the industry.
- Natural & Organic Pet Food continued its strong momentum, growing 18% in 2012.
- Natural & Organic Household Cleaners grew 7% in 2012, continuing to pick up steam post-recession.
- U.S. Natural & Organic Feminine Hygiene was the only sub-segment to shrink in 2012, declining by 1.4%.
- U.S. Natural & Organic Hair Products have continued to grow, posting a 9.2% CAGR since 2010.
- U.S. growth in Nutribeauty in the MLM channel is expected to average 4.7% growth through 2020.
- U.S. Natural & Organic Personal Care market is expected to break $12 billion in 2015.
- Natural & Specialty Retail is expected to average 8.4% sales growth through 2020.