"Natural" Trends and Drivers in the Self-care Space

*Natural products are increasingly more prevalent in most consumer product markets, and the over-the-counter (OTC) market is no exception. The term "**natural OTCs**" is used broadly here and refers to self-care products that consumers use to prevent or treat minor ailments, are drug-free, may contain natural, plant-, or herb-based ingredients or vitamins and minerals, can be homeopathic, and often make claims of support, prevention, maintenance, and/or treatment of minor conditions and ailments. The term "**traditional OTCs**" refers to any medicine used to treat minor ailments and obtained in retail stores without a prescription from a physician and contains nonprescription drugs as the active ingredients.*

*Kline Research, in partnership with IRI and input from SPINS, shares findings from its recently published second edition of **Natural OTCs: Impact of Non-drug Products on the U.S. OTC Market** and what that means for the traditional OTC market.*

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Consumer Perceptions

U.S. consumers are increasingly and actively seeking to live less toxic, more natural lives by choosing natural products. These sentiments are manifested in the growth of BPA-free packaging, paraben- and formaldehyde-free cosmetics, GMO-free organic foods, and natural OTCs. While natural OTCs are more expensive than traditional OTC counterparts, consumers are willing to pay more for them, and many are using them in addition to traditional OTCs.

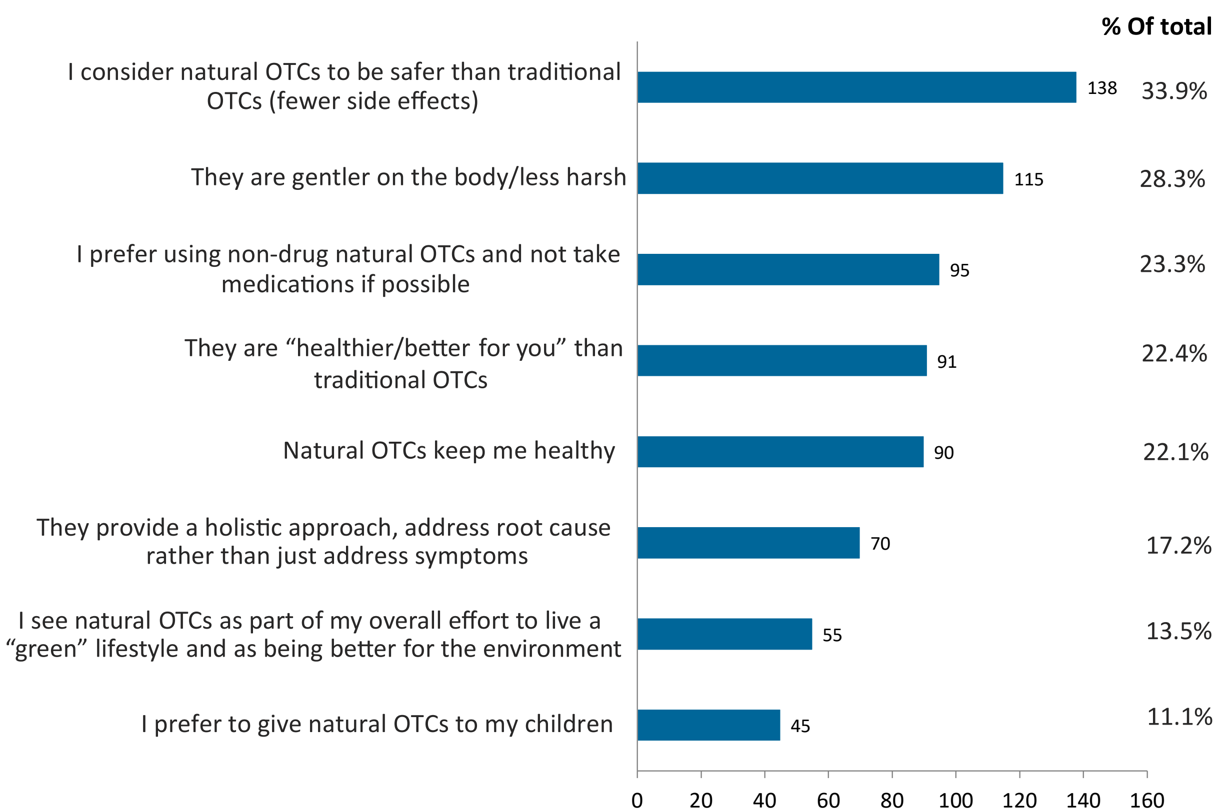
Key findings from consumer research include:

- A majority of consumers use natural OTCs for illness prevention and treatment.
- Most consumers purchase natural OTCs monthly, signaling regimen behavior.
- Key sources of information on natural OTCs include their own research, recommendations from friends and relatives, or from health care professionals.

The desire to use "safer" products with fewer side effects is a primary motivation for purchasers of natural OTCs. About 50% of the consumers surveyed perceive natural OTCs to be safer than traditional OTCs. Safety drives substantial use of natural products in the pediatric population.

Forty-nine percent of parents give natural OTCs to their children, with 72.3% giving their children natural OTCs first before administering traditional OTCs. As shown below, this is a common theme echoed by consumers.

Purchase Motivation for Natural OTC Consumers



SOURCE: Kline's **Natural OTCs: Impact of Non-drug Products on the U.S. OTC Market.**

With such emphasis on the safety of natural OTCs, we asked consumers about the efficacy of natural OTCs compared to medicated OTCs. Interestingly, 34.4% of consumers perceive equal efficacy between natural and traditional OTCs, and 32.4% of the respondents view natural OTCs as more effective than traditional OTCs. Over 40% of the respondents are more satisfied with natural OTCs than traditional OTCs, and 33.2% are equally satisfied with both natural and traditional OTCs.

With all this said, consumers still indicate that traditional OTC medicines often trump natural products when symptoms are severe (e.g., pain or fever) but acute (short-lived). Such consumer behavior sets up coexisting and complementary usage of natural and traditional health care products.

Most Commonly Purchased Natural OTC Brands Reported by Consumers*

Vitamin C

Probiotic

Topical analgesic

CoQ10

Sleep aid

Diaper rash product

Omega-3

*As reported by consumers

SOURCE: Kline's **Natural OTCs: Impact of Non-drug Products on the U.S. OTC Market.**

Purchase motivation is often driven by price, followed by convenience when choosing where to shop for these products. However, most consumers expect to pay more for natural OTCs than for traditional OTCs, with most consumers noting prices ranging from $6.00 to $10.00 and $11.00 to $15.00 being common for most natural OTCs.

While purchasing supplements, consumers increasingly seek ingredients that are sustainable, environmentally friendly, natural, and organic. Many consumers are willing to pay a premium to ensure that they are getting unadulterated ingredients.

Consumers are looking for value over price. Value can manifest through high potencies in fewer tablets or soft gels, the product providing a true benefit, and product claims backed by research.

Consumer Segmentation

Augmenting the consumer survey work of Kline, IRI in partnership with SPINS has created a segmentation of the U.S. population that applies to their propensity to buy natural products. Using the "natural lens," the U.S. population segments out into seven distinct groups, four of which together constitute the portion of consumers who are most open to purchasing and using natural CPG items. These are called "Natural Shoppers," as depicted below.

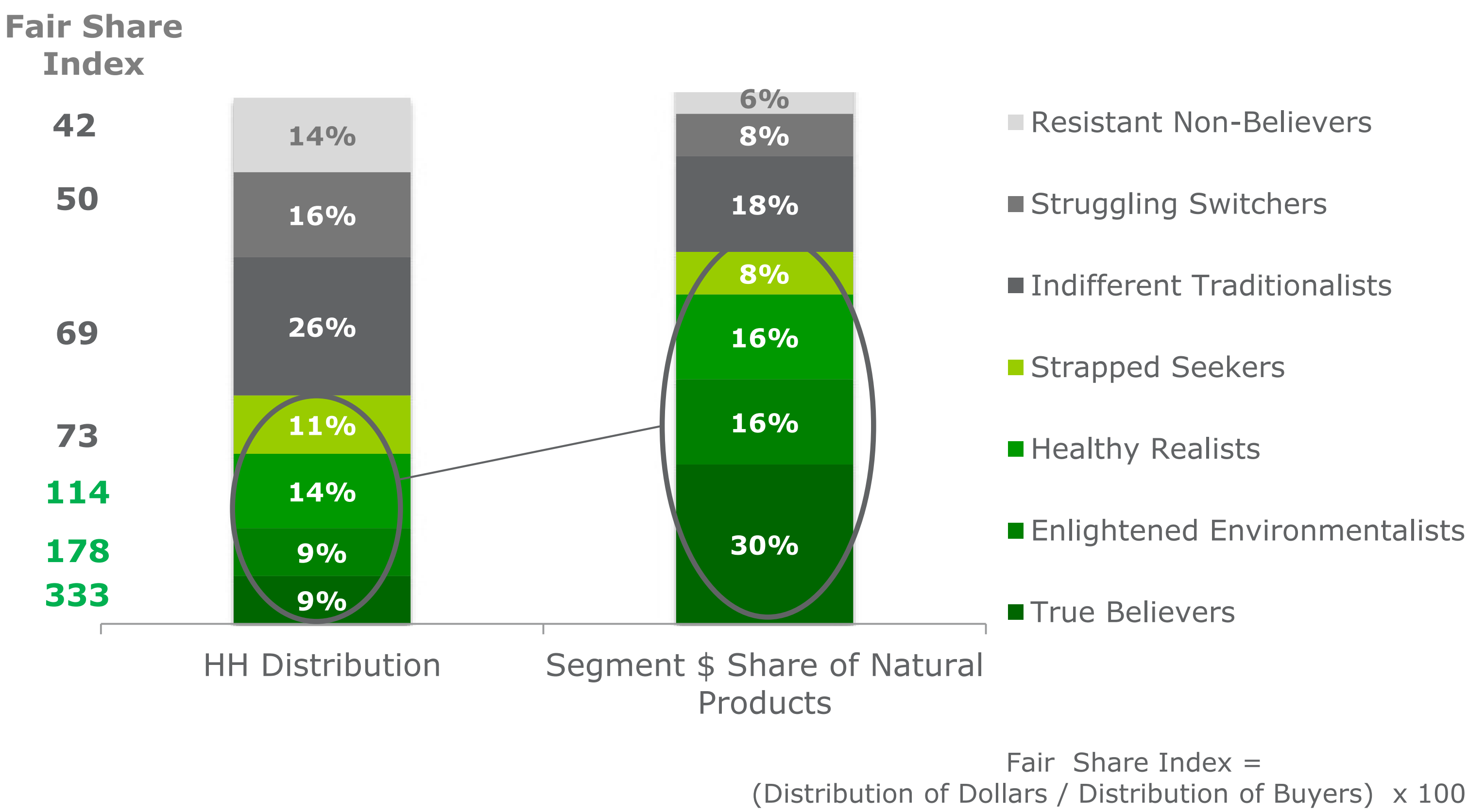
Of the seven IRI SPINS NaturaLink segments, four have an attitudinal bent towards natural products i.e. the Natural Shopper

SOURCE: IRI SPINS Natural Link Segmentation

True Believers and Enlightened Environmentalists are die-hard natural shoppers who together we call Core Natural consumers. Healthy Realists and Strapped Seekers are Aspiring Natural consumers…for whom price and sometimes the schedule and situations of life prevent them from diving into naturals as often as they'd like to. The three other segments—Indifferent Traditionalists, Struggling Switchers, and Resistant Non-believers—are simply not into or not in a position to purchase natural products. For marketers, this is the group that will be nearly impossible to convert. As a result, natural marketers would be wise to focus their efforts on Natural Shoppers across the four sub-segments outlined. Natural Shoppers way over-index for consumption and purchasing of natural products. In fact, while they only comprise 43.0% of the U.S. population, they account for a whopping 70.0% of retail sales of natural products, as noted below.

Natural shoppers comprise 43% of the population and contribute 70% of total store sales for natural products

Distribution of Households and Dollar Share of Total Store Natural Products



SOURCE: IRI SPINS Natural Link Segmentation

Competitive Manufacturer Landscape

The market for natural OTCs is made up of a large number of diffuse suppliers. Some are small, start-up organizations, such as The Honest Company and Zarbee's Naturals. Others are small to medium-sized companies focused on homeopathy, such as Hyland's, Boiron, and Similasan, while other natural companies have been acquired by large multinational companies and gain the support and resources of their new parent companies. Examples of such acquisitions include Reckitt Benckiser's acquisition of Schiff, Procter & Gamble's deal to buy New Chapter, Pfizer's acquisition of Alacer Corporation, Clorox's purchase of Renew Life Formulas, and Royal DSM's takeover of iHealth/Amerifit.

Reckitt Benckiser is the largest natural OTC company with its Mega Red, MoveFree, and Airborne brands. Pfizer ranks second among natural OTC suppliers with its natural sales stemming from Emergen-C and Emergen-Zzz.

A handful of small to mid-sized companies have double-digit growth in the mass market (Zarbee's Naturals), in specialty channels (Garden of Life), or in both (Garden of Life), and could be targets for acquisition from larger companies seeking growth in the market.

Leading Natural OTC Competitors

Company	Market share, %
Reckitt Benckiser	16.3
Pfizer	8.1
iHealth/Royal DSM	7.2
Ricola	6.5
Carlyle Group	5.5
Hyland's	5.0
Bayer Group	4.5
GlaxoSmithKline	4.4
Matrixx Initiatives	3.8
New Chapter (Procter & Gamble)	3.7
Renew Life	3.5
All other	31.3
Total	100.0

SOURCE: Kline's **Natural OTCs: Impact of Non-drug Products on the U.S. OTC Market**.

Retail Trends

Mass-market channels, such as drug, food, and mass merchandisers, garner the lion's share of the natural OTC business, with 73.0% of sales as shown in the comparison pie charts. Food and online sales of natural products substantially over-index versus traditional OTCs. This is not surprising for the food class of trade since many natural products are more closely aligned with solving health issues related to diet and the stores in this channel are generally larger and can more readily accommodate additional items on shelf.

And online sales offer extraordinary selection, convenience, information and probably the most important: reviews on these newer items. Drug and mass retailers command at least one-fourth of sales each due to convenient, plentiful locations and competitive pricing.

Sixteen percent of consumers shop at natural/specialty stores and nutrition and supplement stores for natural OTC products. These channels offer consumers the advantage of items often only exclusively available in these stores and knowledgeable sales people who can help guide selection, as well as help educate consumers on products.

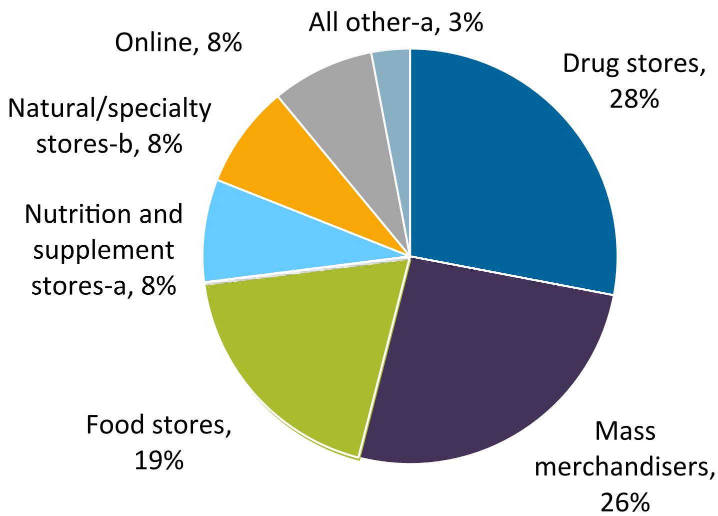
Manufacturers seeking to migrate natural OTC brands beyond the specialty stores into the mass market must weigh the upside of a broader consumer audience and sales opportunity versus the risk of damaging the reputation of a brand in the eyes of the natural consumer and specialty retailer. A crossover can alienate specialty retailers, devalue the brand among the brand's core consumer group, and lower prices and margins. Some natural and specialty products have executed this migration well, including Arnicare and Oscillococcinum (Boiron) and Tiger Balm (Haw Par Corporation).

Sales through the Internet continue to grow with more consumers purchasing products from Amazon, iHerb, and manufacturers' websites. Categories that depend on rapid relief, such as seasonal products, will continue to be sold mainly through brick-and-mortar stores since consumers purchase them as needed.

To maintain strength in the natural OTC market, like most CPG, products must be differentiated and heavily advertised and promoted. Many mature products, such as Cold-Eeze (ProPhase Labs), Breathe Right (GlaxoSmithKline), and OsteoBiFlex (Carlyle Group), can quickly lose traction without significant marketing and advertising support or new product extensions.

Smaller companies with fewer brands, such as Biotab Nutraceuticals (Alteril) and Alan James Group (Ginkoba), are particularly vulnerable when a lack of promotional support causes their products to lose momentum. Niche brands with flagging sales are targets for deletion from retail shelves.

Retail Distribution of Natural OTCs



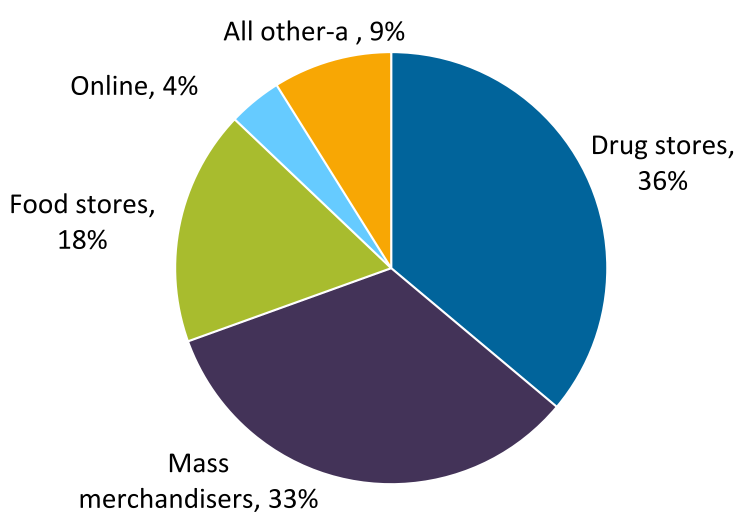
a- Includes retailers such as GNC and The Vitamin Shoppe.

b- Includes retailers such as Whole Foods, Sprouts, Fresh Thyme and regional health food stores.

c- Includes warehouse clubs, mail order, convenience, wellness and natural beauty (such as Pharmaca), dollar stores, direct marketing, and other channels.

SOURCE: Kline's **Natural OTCs: Impact of Non-drug Products on the U.S. OTC Market**.

Retail Distribution of Traditional OTCs



a- Includes warehouse clubs, convenience, dollar stores, health food stores, direct sales , among others.

SOURCE: Kline's **Nonprescription Drugs USA 2015**.

Mass Market Mainstreaming: Zarbee's

Several brands that are natural and were once limited in their retail distribution are being increasingly mainstreamed to mass outlets. Mass retailers are also allotting more shelf space for products that have a natural positioning. For example, Zarbee's Naturals has launched a number of brands initially as exclusives with retail partners and then rolled the brands out to national retail. Recently, Zarbee's Naturals introduced a number of new products under Target's exclusive "Made to Matter" program of natural and organic products handpicked by Target. The products bear a "Made to Matter" seal and are featured both in their respective aisles and special displays and endcaps throughout the store.

> *More than half of consumers use natural OTCs more now than they did one year ago and nearly two-thirds use natural OTCs more now than five years ago.*

Aggressively shopped endcap at Target, featuring Zarbee's pediatric products.

As a continuing part of the "Made to Matter" program, Zarbee's Naturals launched a new line of benefit-specific vitamin drink mixes as well. They rolled out nationally in 2016 in direct competition to other vitamin drink mix brands, such as Emergen-C (Pfizer) and Airborne (Reckitt Benckiser). The company also launched a Target-exclusive, four-item line of natural baby vitamins and supplements for infants and toddlers, again as part of Target's "Made to Matter" program.

Outlook/Conclusions

Safety is paramount and supports concomitant usage with OTCs

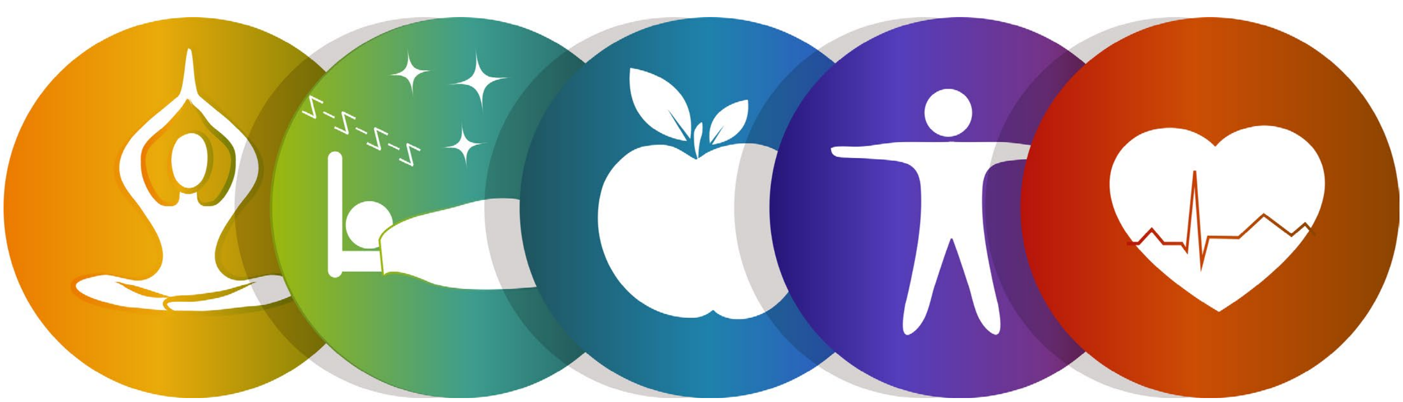
- These products, which are seen as having few or no harmful side effects, may be a preferred treatment option for individuals seeking ongoing relief from symptoms of chronic conditions, particularly when they are unable to obtain relief through conventional OTC products and/or prescription drugs alone.
- Additionally, these products can often be used at the same time as traditional OTC products. Our research shows that 36.5% of consumers use a traditional and natural OTC simultaneously.

Beyond traditional OTC benefits

- Natural OTCs that are used for prevention, such as immunity, digestive, and heart and brain health supplements, will grow significantly since they offer advantages traditional OTCs do not offer.
- An aging population concerned with maintaining their heart and brain health will fuel growth in these categories.

Reaching the key target audience is essential and efficient

- The foremost consumer segments to reach are the 43% of households of Natural Shoppers: 1) True Believers, 2) Enlightened Environmentalists, 3) Healthy Realists, and 4) Strapped Seekers.
- In general, natural OTC consumers expect to pay more for these products, and they may or may not shop in alternative retail channels. Thus broad availability, engineered in such a way as to not alienate any channels of distribution, should be the goal.
- Natural OTC marketers that use focused media aimed at these consumers who exercise regularly and are interested in organic, non-GMO products, as well as sustainability and transparency should do well.



Sales explode through mass AND specialty retailers

- Natural OTC brands that have broad distribution across all classes of trade as well as in select alternative natural retailers, such as Whole Foods, Sprouts, and Pharmaca, and, of course, online, are best positioned to realize sales and market share gains.
- As long as consumer interest remains high, retailers will expand shelf space for these products, possibly at the expense of mature natural OTC products or other slow moving items.
- Mass retailers will continue to place increasing emphasis on natural OTCs, as evidenced by Target's "Made to Matter" program and more retailers are likely to create special natural sections or weave them into existing shelf sets as consumer interest in these products grows.

Acquisition: key way for larger companies to get into "naturals"

- Natural OTC companies with strength in specific categories, such as Zarbee's Naturals, will be attractive acquisition targets for large branded OTC marketers wishing to augment their traditional OTC portfolios and tap into the "natural consumer."
- Examples of acquisition activity by large CPGs include Procter & Gamble's New Chapter, Clorox's Renew Life Formulas, Pfizer's Alacer, Reckitt Benckiser's Schiff, and DSM's iHealth/Amerifit acquisitions.

SOURCES: Kline's **Natural OTCs: Impact of Non-drug Products on the U.S. OTC Market.**
IRI and SPINS NaturaLink Segmentation data

About the IRI/Kline Alliance

Information Resources, Inc. (IRI) the global leader in innovative solutions and services for consumer, retail and over-the-counter healthcare companies, and Kline & Company, a global market research and management consulting firm, have established an exclusive alliance to serve the worldwide, OTC drug and overall consumer healthcare industries. This powerful alliance provides a higher level of data accuracy and an unparalleled, global range of thought leadership on stimulating topics in the consumer healthcare space.

As part of this collaborative relationship, IRI contributes its granular, widely recognized, point-of-sale (POS) market data, related insights, and thought leadership. Meanwhile, Kline provides its unmatched historical database, global network, and 360-degree view of the complex OTC drug market, including its comprehensive channel coverage and vast expertise in the area of Rx-to-OTC switches.

The collaborative thought leadership will manifest through white papers like this one on such topics as Rx-to-OTC switch, merger and acquisition activity, new product innovation, as well as trends and issues in international and emerging markets within the OTC drugs industry.

About Kline:

Kline is a worldwide consulting and research firm dedicated to providing the kind of insight and knowledge that helps companies find a clear path to success. The firm has served the management consulting and market research needs of organizations in the agrochemicals, chemicals, materials, energy, life sciences, and consumer products industries for over 50 years. For more information, visit www.KlineGroup.com

About IRI:

IRI is a leader in delivering powerful market and shopper information, predictive analysis and the foresight that leads to action. We go beyond the data to ignite extraordinary growth for clients in the CPG, retail, and especially the over-the-counter healthcare industries, by pinpointing what matters and illuminating how it can impact their businesses. Experience the power of IRI's mantra "Growth Delivered" at www.IRIworldwide.com.

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