“Natural” Product Attributes Catapulting Consumer Self-Care Growth

Abstract

Not all natural products are created equally. Not all are plant-derived, and many contain synthetic ingredients but are nevertheless positioned as “natural” or “better-for-you” because of what they don’t contain. Any way you slice it, “natural” sells. In this paper, Information Resources, Inc. (IRI) and Kline take a stab at defining “natural” and then compare the sales trend of a subset of natural OTCs versus the total OTC universe to confirm that natural attributes drive sales growth.

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Background

Consumers are attracted to products that are clean and natural and do not contain harmful ingredients. This is true for many consumer product categories including foods and beverages as well as consumer healthcare. Consumers are increasingly aware of ingredients and seek transparency in labeling for products that will be applied topically or ingested. Environmental concerns, green consciousness, and sustainability are important to consumers who are driving strong growth of natural products in both the personal care and natural OTC markets. The U.S. market for natural personal care products has grown more than 7% recently, and the U.S. market for natural OTC medicines has grown more than 11%, driven by growing consumer awareness and interest in using these products, according to Kline & Company. Similarly, at the retail level in food, drug, and mass outlets, IRI pegs growth of natural OTCs at close to 9%, while the traditional OTC market was up about 2% in 2018.

In a recent survey of American adult consumers, Kline found that the use of natural OTCs over time has increased, with half of consumers indicating more usage now than one year ago and nearly two-thirds noting they buy and use natural OTCs more now than they did five years ago. The natural concept is also making waves across various product categories in the beauty and personal care markets. Consumers are becoming increasingly aware of specific ingredients that have become known as "harmful." As a result, they increasingly opt for products that are natural or, at least, are perceived to be natural due to brands' claims of inclusion of naturally derived ingredients or exclusion of "bad" ingredients.

Natural personal care and OTC products are no longer niche (that is, found only in natural and specialty stores). These brands have mainstreamed, and the majority of sales are now through drug stores, mass merchandisers, and online. In these mass channels, natural OTC and personal care brands are merchandised alongside traditional, non-natural brands.

But not all natural products are created equally. Not all are plant-derived, and many contain synthetic ingredients but are nevertheless positioned as "natural" or "better-for-you" because of what they don't contain.

Definitions

Natural OTCs, for purposes of this paper, generally:

- Are drug-free
- May contain natural, plant, or herb-based ingredients or vitamins and minerals
- Can be homeopathic
- May contain ingredients that are made synthetically
- Often make claims of support, prevention, maintenance, and/or treatment of minor conditions

In this paper, the terms "OTC" and "nonprescription" are used interchangeably and refer to any medicines that are used to treat minor ailments and can be obtained from retail outlets without a prescription from a physician.

Traditional OTCs are also used to treat minor ailments but contain nonprescription drugs as their active ingredients.

- Traditional OTCs must be approved through either a new drug application (NDA) to the Division of Nonprescription Drug Products (DNDP) of the U.S. FDA or via the OTC Monograph and carry drug fact labeling.
- Traditional OTCs often contain ingredients that are generally medicinal in nature, while natural OTCs generally do not.
- Natural products and nutritional supplements do not usually require pre-approval by the FDA before they can be marketed.

Truly natural: contains only natural ingredients, sourced naturally with no or very little synthetic ingredients

Clean: contains primarily natural ingredients, although some may be produced synthetically; no unnecessary additives

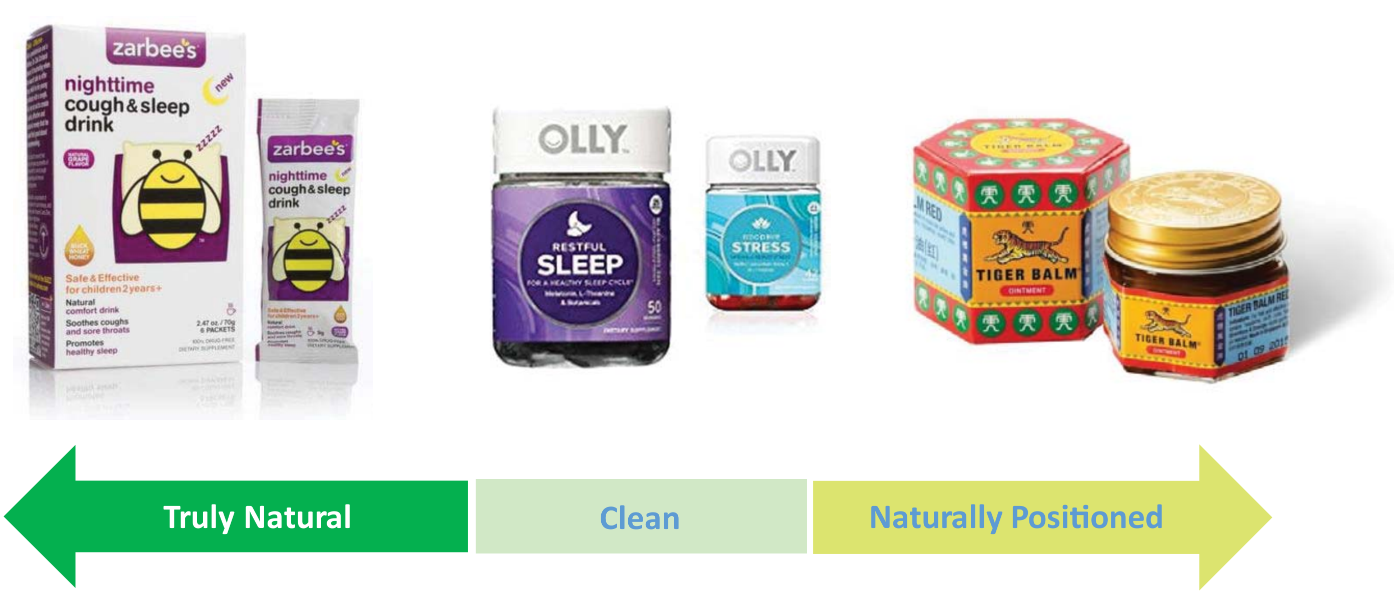
Naturally positioned: contains both natural and synthetic ingredients, but brand is marketed as natural

Brands along the natural continuum

With these definitions in mind, Kline and IRI have collaborated to select major brands that are perceived as "natural" along the continuum which ranges from truly natural to clean to naturally positioned, as shown in the graphic below and in the chart listing the brands included. By examining the ingredients contained in each brand, the following classifications were made. This was not completely clear-cut in all cases, but any brands that do not contain all-natural ingredients were examined further and placed into either "clean" or "naturally positioned" classifications.

See Table 1 in the addendum at the back of this paper that shows each brand analyzed, its ingredients, and its placement along the continuum.

Natural Products Continuum

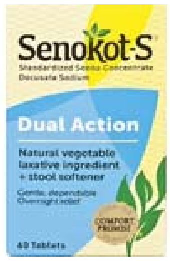


For example, the Zarbee's line, which consists mainly of honey-based brands, is considered truly natural, as illustrated on the continuum graphic, since the products, for the most part, do not contain synthetic ingredients.

Olly Goodbye Stress is a product classified as "clean" on the continuum because it contains both natural and synthetic ingredients such as gamma-aminobutyric acid (GABA), lemon balm extract, and L-theanine.

On the other hand, some brands that are perceived to be truly natural such as Rainbow Light supplements and Tom's of Maine toothpaste, in fact, are classified on the continuum as naturally positioned because certain products in these lines contain synthetic ingredients.

Other more traditional brands such as ZzzQuil sleeping aids and Senokot laxatives are using marketing messages or herbal ingredients to position these brands as natural in consumers' minds. Products like these are also classified as naturally positioned on the continuum.



Natural products' market performance

Having defined "natural" in the broadest sense, Kline and IRI chose to include the brands previously described in what we are calling our Natural Index. As stated earlier, we realize that the definition across our clients for "natural" varies widely. But when Kline and IRI are asked by so many clients to provide a point of view on "natural," we needed to put a stake in the ground to form the basis for our thesis. Creating and tracking the sales of these brands as a collective index is a start. Much like a stock index, this listing of brands is intended to be representative of how the sum total of natural products is behaving in the market.

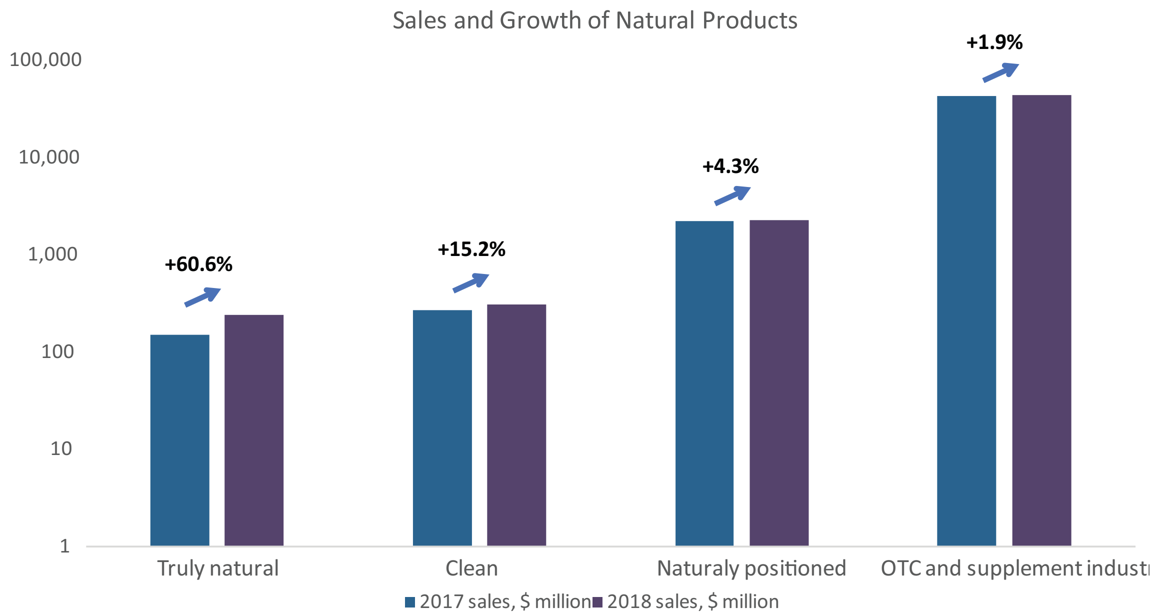
Using the classifications described earlier, the sampling of brands chosen to represent the truly natural segment has had strong success over the past year, with sales growth of 60% from 2017 to 2018. However, the sales base just over $200 million is relatively small. The naturally positioned brand segment is much larger in size at $2.3 billion in retail sales but grew at a slower pace of 4.3%; still, this is 2.3 times the growth rate of the overall OTC and supplement industry universe. Clean brands were up 15.2% over the same time frame, as shown in the data table and chart that follow.

Sales and Growth of Natural Products

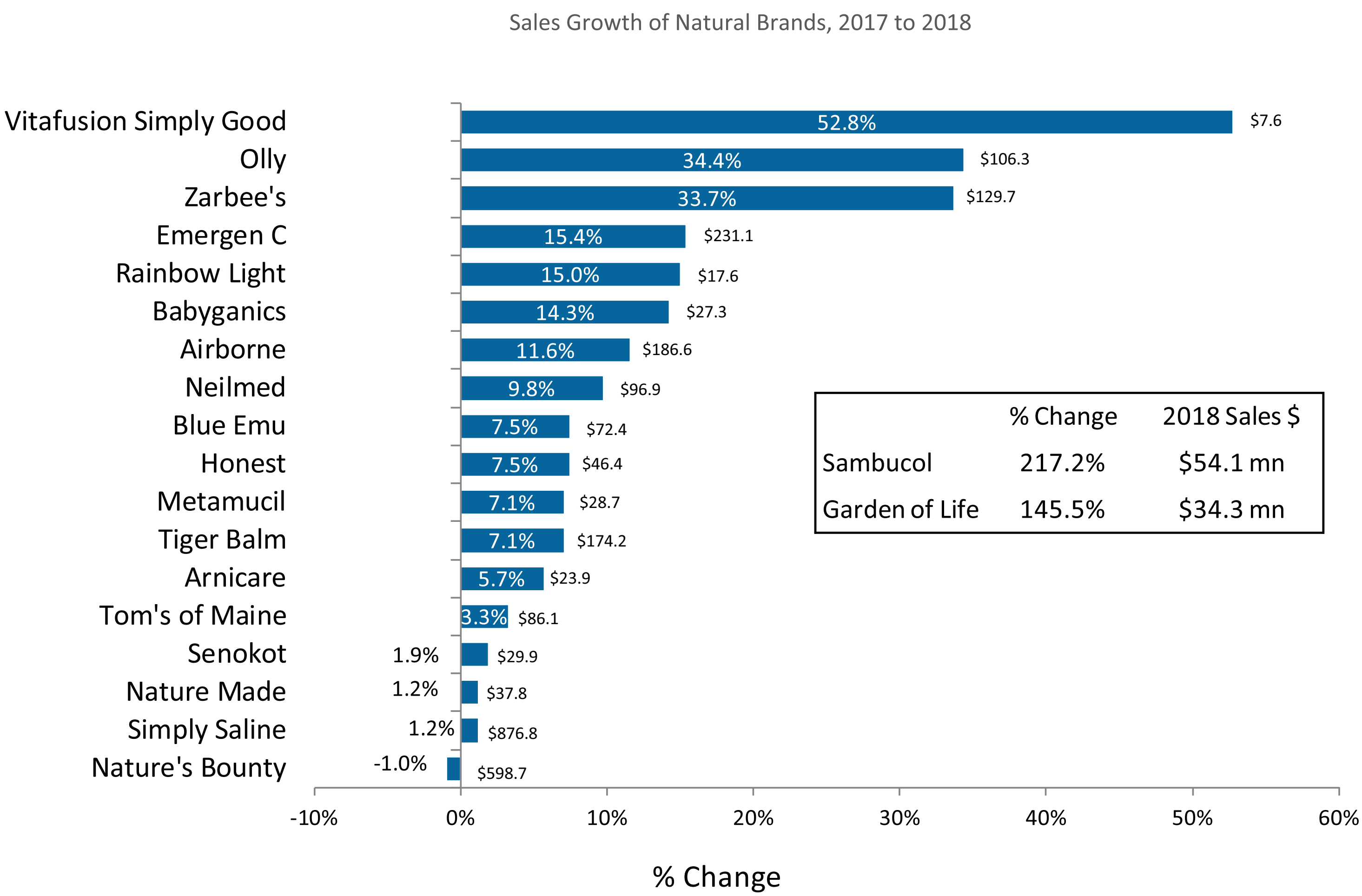
	$ million		
Index position as a group	**2017 sales**	**2018 sales**	**% change**
Truly natural	151	242	60.6
Clean	272	314	15.2
Naturally positioned	2,228	2,323	4.3
Total-a	**2,651**	**2,879**	**8.6**
OTC and supplement industry-b	43,755	44,608	1.9

SOURCE: IRI MULO retail sales data, 52 weeks ending 12/30 of each year

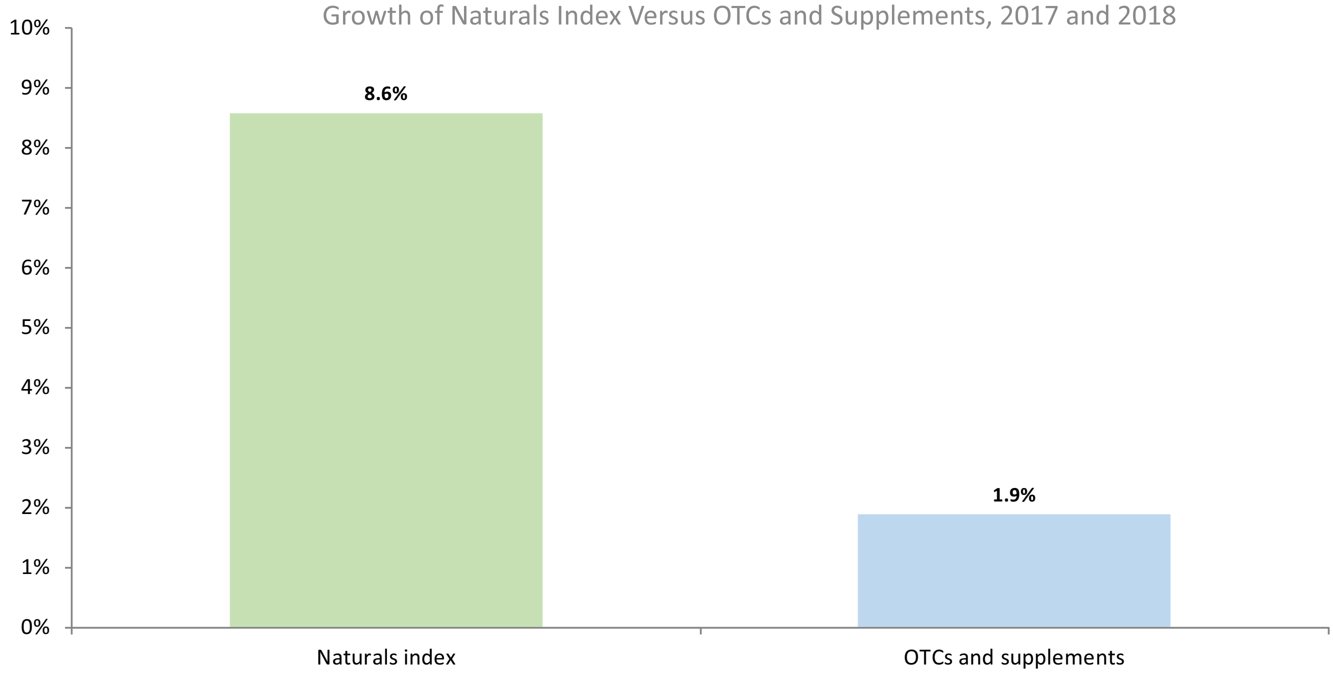
a- Includes IRI MULO retail sales of select natural brands that are on the continuum.
b- The OTC industry is made up of nonprescription medicines used to treat minor ailments such as cough, colds, allergies, digestive ailments, pain, headache, skin rash, itching, or to help with occasional sleeplessness. The dietary supplement industry includes products such as multivitamins, single letter vitamins, minerals, and herbal products that are taken to improve or maintain health and wellness



SOURCE: IRI MULO retail sales data, 52 weeks ending 12/30 of each year



Overall, natural products are growing at a pace four times higher than that of traditional OTCs and supplements.



Conclusions and outlook

Traditional OTC brands that are positioned as or in fact are more natural should be able to drive gains capitalizing on consumers' desire for less artificial ingredients in nonprescription products. Strong gains of truly natural, clean, and naturally positioned brands are expected to continue; however, there will be some moderating of growth rates over the next five years.

Today's consumer has embraced regimen use products aimed at maintaining good health and prevention of disease. In fact, IRI's third survey of consumers measuring their self-care behaviors, which was completed in the fall of 2018, confirms that prevention has become an ingrained behavior of a wide portion of the U.S. population, with natural products preferred by roughly 15% of consumers. Therefore, we expect consumers to opt more for natural products that are intended to be used daily rather than more medicinally based OTCs that are used for treatment of ailments. Furthermore, the children of today are being raised to be mindful of what they ingest and to scrutinize product labels for number of ingredients and less harmful ingredients. Therefore, as this new generation reaches adulthood, we expect to see natural products being the norm. However, there is certainly room for both natural and pharmaceutical-based self-care products now and in the future.

It will be interesting to see how the growth rates change in the future. As more and more use of truly natural and clean products continues, we expect the growth rates there to somewhat moderate. And of course, if additional Rx-to-OTC switches are brought to market, traditional OTC market growth will expand. Over time, we intend to continue to monitor these natural products, categorized as done here, and their respective growth rates.

Strong sales gains are often coming from smaller, naturally positioned brands, and large OTC players have taken notice. In some cases, large players have chosen to acquire small, rapidly growing natural companies in order to capitalize on this trend. For example, in July 2018, Johnson & Johnson acquired Zarbee's Naturals, and in April 2019, Unilever announced intentions to acquire Olly.

Consumer products that contain cannabidiol (CBD) derived from hemp is another rapidly growing and changing trend that will have significant impacts on natural products and the OTC market. Currently, these products are in a legal and regulatory gray area; however, consumers and retailers such as CVS and Walgreens are expressing interest in using and selling these products. In a recent Kline survey of adult Americans, 46% report use of CBD for stress and anxiety; 44% use CBD to help with chronic pain such as arthritis, joint or back pain; and 41% use CBD for help sleeping. Further, IRI intelligence on CBD indicates that nearly 50% of CBD users say they reduced their use of OTCs as a result of using CBD, and 37% say the same for Rx medications. As the legal issues are clarified and products are regulated, CBD indeed has the potential to be a very strong natural segment.

In conclusion, while there are drivers and inhibitors of natural product growth, as illustrated below, interest in natural products to maintain health and wellness will prevail, especially as consumers further espouse self-care behaviors. Retailers, in turn, will continue to prominently feature such products to meet consumer demand. In particular, we see benefit-based products aimed at improving immunity, heart, brain, and joint health continuing to be popular and driving future sales growth. However, some of the "newness" effects and natural brand's ability to drive strong gains via increased retail distribution will level off.

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

Addendum

Table 1: Natural brands, ingredients, and position on continuum

Brand		Ingredients	Position on Continuum	Retail sales, $ million 2018	% change, 2017 to 2018
	Zarbee's Naturals Cough Syrups	Dark honey	Truly natural		
	Zarbee's Naturals Cough and Mucus	Dark honey, ivy leaf extract	Truly natural		
	Zarbee's Naturals Nighttime Cough and Mucus	Dark honey, ivy leaf extract, and melatonin	Truly natural		
	Zarbee's Naturals Complete Cough Syrup + Immune	Dark honey, elderberry	Truly natural		
Total Zarbee's line				**129.7**	**33.7**
	Arnicare	Arnica montana	Truly natural	**23.9**	**5.7**
	Sambucol	Black elderberry	Truly natural	**34.3**	**145.5**

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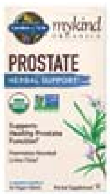
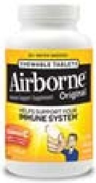
Brand		Ingredients	Position on Continuum	Retail sales, $ million 2018	% change, 2017 to 2018
	Garden of Life myKind Organics Herbals Prostate Herbal Support	Organic Flowens whole cranberry, organic guava fruit extract, organic turmeric root, organic Panax ginseng root extract, selenium, organic rosemary leaf extract, zinc, probiotic blend	Truly natural		
Total Garden of Life				**54.2**	**217.2**
	Honest Baby Diaper Rash Cream	Zinc oxide, sunflower seed oil, castor seed oil, beeswax, coconut oil, shea butter, olive fruit oil, grapeseed oil, jojoba seed oil, tamanu seed oil, tocopherol, and ciary oil	Clean	**23.9**	**5.7**
Total Honest lineline				**72.4**	**7.5**
	Olly Sleep	L-theanine, chamomile extract (flower), passion-flower extract (aerial parts), lemon balm extract (aerial parts), melatonin	Clean		
	Olly Stress	Gamma-amino-butyric acid (GABA), lemon balm extract, L-theanine	Clean		

Brand		Ingredients	Position on Continuum	Retail sales, $ million 2018	% change, 2017 to 2018
	Olly Beauty	Biotin, keratin, Vitamin C, Vitamin E	Clean		
Total Olly line				**106.3**	**34.4**
	Neilmed Sinus Rinse	Sodium chloride and sodium bicarbonate	Clean		
Total Neilmed line				**96.9**	**9.8**
	Simply Saline Extra Strength Nasal Rinse	Sodium chloride and sodium bicarbonate and water	Clean		
Total Simply Saline line				**37.8**	**1.2**
	ZzzQuil Pure Zzzs Melatonin Gummies	Melatonin, chamomile flower extract, lemon balm leaf extract, valerian root extract, and lavender aerial part extract	Naturally positioned		
	Vitafusion Simply Good Men's Complete Multivitamin	Vitamins A, C, D, E, niacin, vitamin B6, folate, vitamin B12, biotin, pantothenic acid, calcium, iodine, zinc, chromium, molybdenum, sodium, boron, lycopene	Naturally positioned		
Total Vitafusion line				**7.7**	**52.8**

Brand		Ingredients	Position on Continuum	Retail sales, $ million 2018	% change, 2017 to 2018
	Babyganics Diaper Rash Cream*	Zinc oxide, shea butter, cocoa butter, almond oil, glycol stearate, jojoba oil, tocopherol, polyglyceryl-3 polyricinoleate, sodium polyacryloyldimethyl taurate, tomato seeds, sunflower seeds, cranberry seeds, black cumin seed oil, red raspberry seed oil, aloe vera, calendula extract, beeswax, hydrogenated polydecene, trideceth-10, aluminum tristearate, sodium benzoate, gluconolactone	Naturally positioned		
Total Babyganics line				**27.3**	**14.3**
	Tiger Balm Extra	Camphor, menthol, cassia oil (cinnamon)	Naturally positioned		
Total Tiger Balm line				**28.7**	**7.1**
	Blue Emu Original Cream	Emu oil, MSM, chondroitin, and aloe vera	Naturally positioned		
Total Blue Emu line				**46.4**	**7.5**
	Emergen-C Super Orange Dietary Supplement	Vitamin C, vitamin B	Naturally positioned		

Brand		Ingredients	Position on Continuum	Retail sales, $ million 2018	% change, 2017 to 2018
Total Emergen C line				**231.1**	**15.4**
	Airborne Original Citrus Tablets	Vitamins A, C, D, magnesium, zinc, selenium, manganese, and sodium	Naturally positioned		
Total Airborne line				**186.6**	**11.6**
	Rainbow Light Vibrance Women's Multivitamin Plus Balance and Energy	Vitamins A, C, D, E, thiamin, riboflavin, niacin, vitamin B6, folate, vitamin B12, biotin, pantothenic acid, iron, iodine, selenium, zinc, copper, manganese, chromium, molybdenum, and many organic extracts for balance and energy, organic antioxidant fruit and vegetable extracts, pre- and probiotics	Naturally positioned		
Total Rainbow Light line				**17.6**	**15.0**
	Nature Made Hair, Skin and Nails Dietary Supplement	Vitamins A, C, biotin, zinc, copper	Naturally positioned		
Total Nature Made line				**876.8**	**1.2**
	Nature's Bounty Energy Gummies	Vitamin B12, herbal blend of green tea extract, guarana extract, kola nut extract	Naturally positioned		

Brand		Ingredients	Position on Continuum	Retail sales, $ million 2018	% change, 2017 to 2018
Total Nature's Bounty line				**598.7**	**(1.0)**
	One-A-Day Nature's Medley	Multivitamins plus antioxidants	Naturally positioned		
Total One-A-Day Nature's Medley				**2.3**	**-**
	Meta- whole line	Psyllium fiber	Naturally positioned		
Total Metamucil line				**174.2**	**7.1**
	Senokot laxatives	Sennosides, docusate sodium	Naturally positioned		
Total Senokot line				**29.9**	**1.9**
	Tom's of Maine	Sodium monofluoro-phosphate, glycerin, water, calcium carbon-ate, hydrated silica, xylitol, sodium lauryl sulfate, carrageenan, sodium bicarbonate, zinc citrate, natural flavor, benzyl alcohol	Naturally positioned		
Total Tom's of Maine line				**86.1**	**3.3**

*While some products in the Babyganics line are truly clean, this particular brand is naturally positioned given the mixture of synthetic and natural ingredients it contains

About the IRI/Kline alliance

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 service the worldwide, OTC drug and overall consumer healthcare industries. This powerful alliance will provide 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 will contribute its granular, widely recognized, point-of-sale (POS) market data, related insights, and thought leadership. Meanwhile, Kline will provide 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, and new product innovation, as well as trends and issues in international and emerging markets within the OTC drug industry.

About IRI

IRI is a leader in delivering powerful market and shopper information, predictive analysis, and the foresight that leads to action. IRI goes beyond data to ignite extraordinary growth for clients in the CPG, retail, and especially the OTC 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.

About Kline & Company

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 60 years.
For more information, visit www.KlineGroup.com.

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