



SPRING 2023

The State of Natural Beauty

Unpacking the Natural Products Industry's Next Growth Frontier



Alice Mintz, DAAP Integrated Solutions Director
Kelly Marion, DAAP President



Natural Products are reshaping the Beauty Industry at a rapid pace

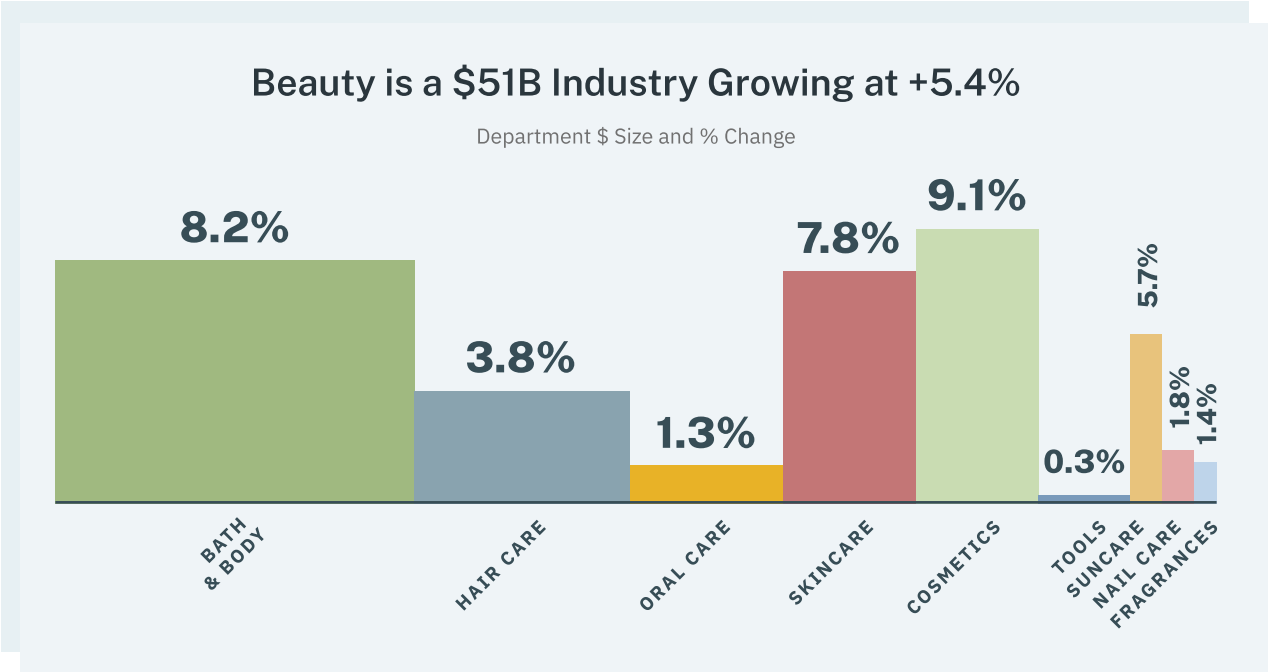
Natural Products have surpassed their niche origins and emerged as an indispensable segment of retailer assortments. The establishment of Natural in Food and Beverage has paved the way for the ascendancy of Natural in Beauty. Consequently, the development of Natural Beauty mirrors the historic trajectory of Natural Food and Beverage.

As the momentum of Natural Beauty intensifies, companies must seize the opportunity to capture their share in this burgeoning landscape. We can apply learnings from Natural Food & Beverage to the Natural Beauty Industry. Success in the Natural Beauty Industry rests with retailers and manufacturers who build consumer trust through certifications, embrace approachable innovation, and prioritize product efficacy. **With consumer access to information unhindered and reduced barriers to product distribution, Natural will reshape the Beauty Industry at a pace that surpasses the transformative shifts witnessed in Food and Beverage.**

The Beauty Industry continues to be redefined and revolutionized

Beauty constitutes a unique segment of the Consumer-Packaged Goods (CPG) industry. It has a dynamic correlation with fashion, holds paramount importance in terms of hygiene and caters to vanity-related pursuits. Given the perpetual evolution of this industry, SPINS and DAAP have forged a partnership aimed at elucidating the contemporary landscape of the Beauty Industry.

Beauty has been defined by 9 Departments: **Bath & Body, Hair Care, Oral Care, Skincare, Cosmetics, Tools & Accessories, Suncare, Nail Color & Care and Fragrances.**



Beauty is a \$51B industry growing at 5.4% in the past year. Bath and Body remains the largest department with a 31% share, driving almost half of the total Beauty industry growth. The size of each department can be connected to the penetration of product use across the consumer landscape. Skincare and Cosmetics, which have been traditionally marketed towards women, are the 4th and 5th largest departments.

The Beauty Industry has been responsive to evolving societal perspectives on gender identity. Brands are emerging with gender-neutral and male-oriented products within categories that were historically associated with female consumers. The industry is experiencing the unlocking of a previously untapped segment of consumers, leading to anticipated shifts in category shares within Beauty.

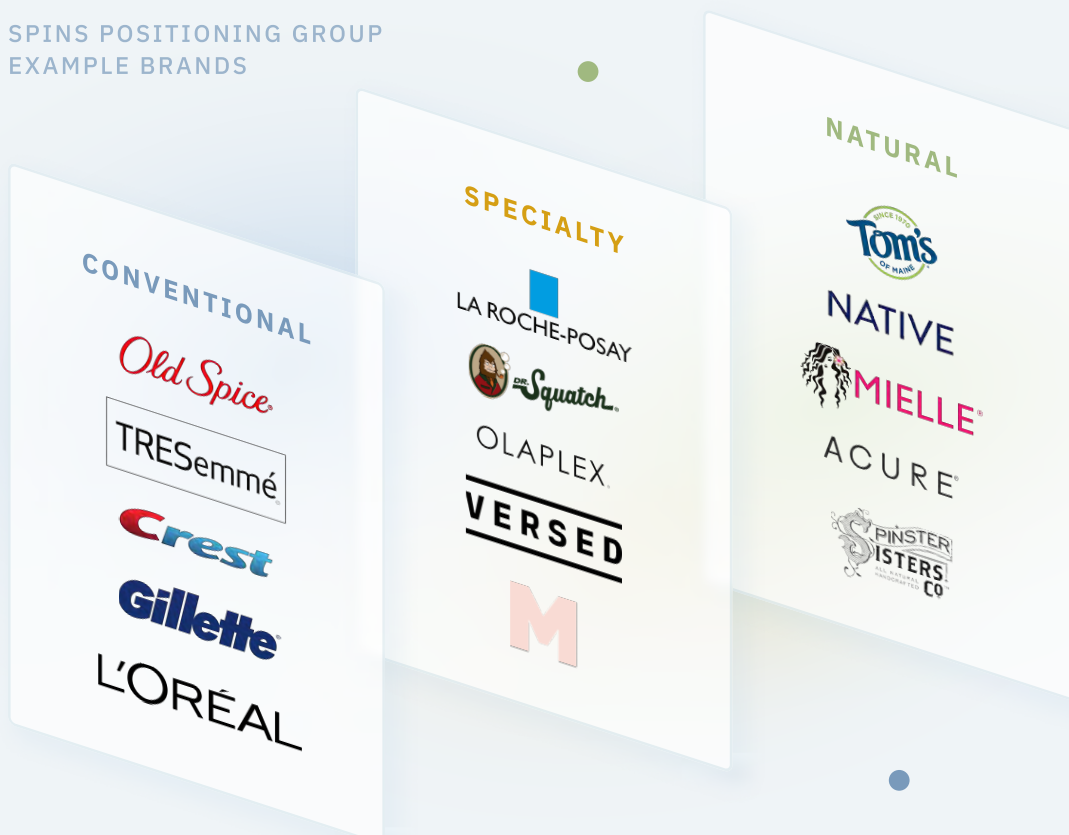
Source: SPINS Satori. Beauty Sales by Department. Beauty Industry defined by DAAP. Excludes Private Label. 52 weeks ending 1.29.2023. Total US- Natural Channel and MULO powered by IRI.

Natural Products are driving **21% of Beauty Industry growth**

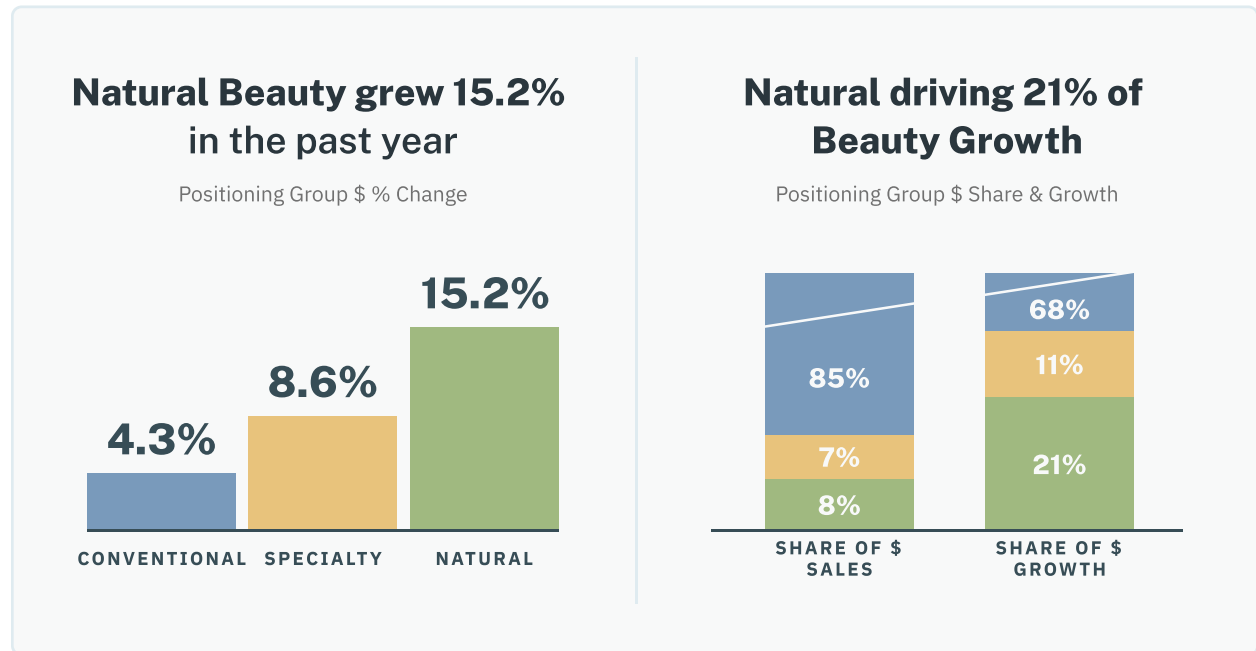
The Natural Products Industry emerged in response to consumer concerns about industrial farming practices and the use of artificial and chemical additives in mass-produced products. Producers in this industry prioritize cultivation practices that consider the well-being of both people and the planet, resulting in minimally processed goods that harness the powerful properties of nature.

Recognizing this cultural shift, SPINS developed a proprietary segmentation called SPINS' Positioning Group. This holistic assessment accounts for factors both on and off the label to understand how brands position their products in the marketplace. SPINS' product experts review each brand in their database and classify them into three competitive spheres: Natural, Specialty and Wellness, or Conventional. This segmentation helps the industry understand a brand's ethos and market perception. These brands often carry certifications such as fair trade or organic content and cater to shoppers seeking health, wellness, and environmentally friendly products.

SPINS POSITIONING GROUP EXAMPLE BRANDS



The Natural Beauty Industry has grown 15.2% in the past year to reach \$4.3B in sales. Natural products only hold an 8% share of the Beauty Industry but are outperforming their Conventional counterparts by +10.9 points. As a result, **Natural Products are driving 21% of Beauty Industry growth.**



The acceleration of the Natural Beauty space can be attributed to the ease with which consumers can educate themselves about product formulations. This development is closely tied to the rise of social media, which has evolved from a platform for connection to an accessible teaching tool. Influencers have formed impactful relationships by authentically demonstrating their routines and product interactions. The establishment of social media accounts is free, allowing anyone to provide their perspective through compelling visual imagery, videos, and voiceovers.

Social media has democratized access to industry thought leaders and medical professionals who were previously guarded by elite institutions and insurance companies. Knowledge sharing has become a core principle of social media platforms, with content creators actively denouncing gatekeeping and sharing information to foster trust with their audience. Influencers and knowledgeable individuals are now sharing their perspectives on the ingredients commonly found in the Beauty Industry. Consumers are actively seeking alternatives to products with formulations they consider problematic.

There are **three critical principles** to follow and capture Natural Beauty growth

1. BUILD TRUST WITH CERTIFICATIONS & FREE-FROM FORMULATIONS

In the early stages of the Natural Products Industry, access to information was limited. However, the industry gained traction in the Food & Beverage sector when retailers took a stand for product purity. Whole Foods, for example, created a list of prohibited ingredients. The development of SPINS' Proprietary Natural Channel was an attestation that retailers were adopting a new assortment approach to cater to conscious consumers. Retailers were pre-screening products, allowing consumers to shop freely.

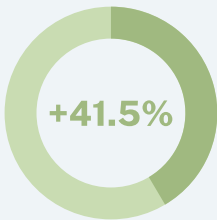
The same notion has emerged in Beauty Retailing. Specialty outlets, like Credo or The Detox Market, only stock products that meet stringent standards. Sephora has developed its own Clean Standard, which features a comprehensive list of "without" ingredients. Mass retailer Target has also embraced this approach with the introduction of the Target Clean symbol. **As Natural products enter traditional retail outlets, certifications and formulation callouts become increasingly crucial for consumers to find the products that align with their preferences.** When examining performance across the retail landscape our analysis looked at certifications that were established, with 52 week sales over \$1MM and outperforming the Natural Beauty growth rate. The outperformance of these attributes asserts the notion that consumers care about free-from formulations and ethical business practices.

Brands that fail to leverage certifications run the risk of being passed over on crowded shelves. Retailers that fail to align to a stringent list of allowable ingredients will struggle to build trust with consumers regarding their authority, interest and intelligence of the accelerating Natural Beauty space.

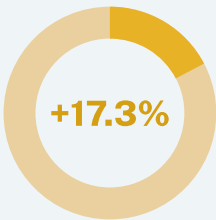
Natural Beauty Growth Platform: **Product Purity**

Established and Outperforming Attributes

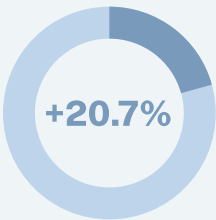
CERTIFIED B CORP*
(HAIR CARE)



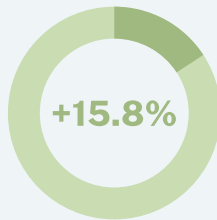
LABELED
SLS FREE*



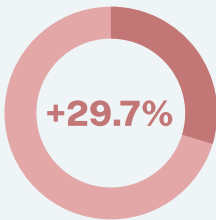
LABELED ORGANIC
(HAIR CARE)



LABELED PROPYLENE
GLYCOL FREE*



LABELED
ALUMINUM FREE*



*See Appendix for Details

2. LEAD WITH INCREMENTAL INNOVATION

In the realm of Natural Food & Beverage, successful innovation requires the balance between the concepts of "Free-From" and "Functional With." These two notions work in tandem: the addition of new components frequently compensate for the removal of others. This synergistic approach is imperative to the formulation of products in the Natural Beauty sector.

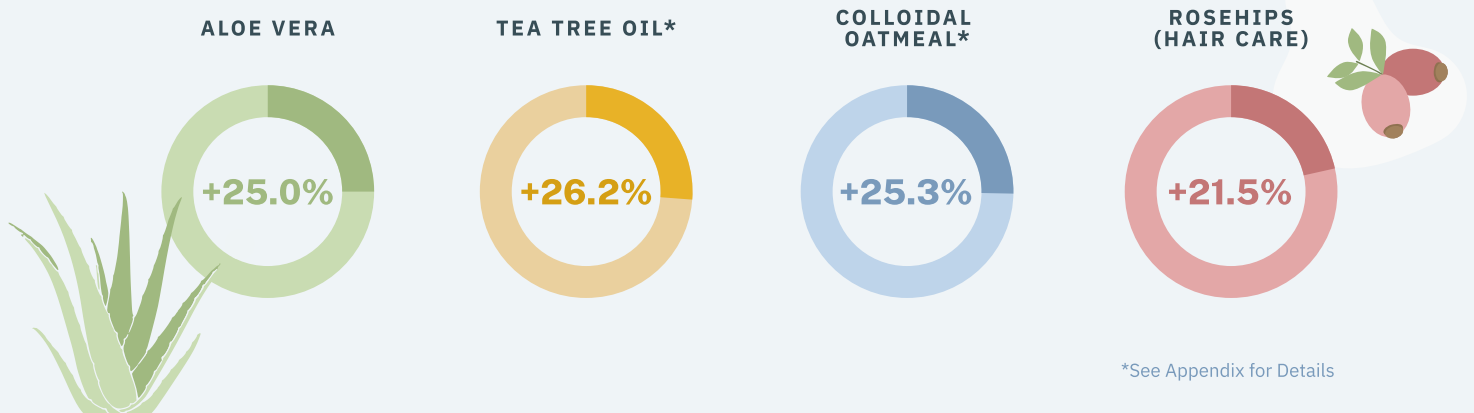
Brands operating in the Natural Beauty space are capitalizing on the functional properties offered by botanical ingredients. By harnessing the potency of plants, these brands are able to differentiate their formulas from both conventional and specialty beauty products. Additionally, **plant-based ingredients possess a distinct advantage in terms of consumer perception. They are more easily identifiable and readily understood by consumers, aligning with the desire for product purity and transparency.**

Furthermore, products formulated with plant-based ingredients are likely to enjoy long-term relevance within the social sphere. As consumer preferences and values continue to evolve, plant-based formulations provide a particular future-proof quality. Their association with natural origins and sustainability resonates with a broad range of conscious consumers who prioritize ethical and environmentally friendly products.

Natural Food & Beverage rose to CPG prominence by making well-known products "better-for-you." Their approach focused on enabling consumers with approachable products that had upgraded ingredients. Disruptive Natural brands didn't have to teach consumers how to use their products; they seamlessly integrated into consumers' routines. This principle also applies to the Natural Beauty Industry. Beauty is an established industry where consumers already have certain expectations about product usage. While a drastic change in format may be innovative, it can present challenges in establishing a brand with the ability to scale across the entire industry.

Natural Beauty Growth Platform: **Flora Functionality**

Established and Outperforming Attributes



3. EFFICACY RULES THE ROUTINE

Natural Food & Beverage Products had to reach taste parity of their Specialty and Conventional counterparts before they could establish themselves as mainstays in the CPG industry. Just how taste remains the supreme determination of if a Food & Beverage product becomes an assortment mainstay, product performance is of utmost importance in Beauty. There's always a concern that a beauty product may fall short of its advertised claims, and the efficacy of Natural Products has been a significant obstacle in gaining consumer trust and adoption. This concern is amplified in color-oriented categories such as Cosmetics and Nail Color.

Natural Beauty can incorporate science backed ingredients into their formulation without compromising ethos. As medical practitioners begin to share their expertise online and through social channels, consumers are becoming aware and confident in developing their own routines. Because of this education, **consumers are seeking out active ingredients that promise performance. Products that incorporate acid in their formulation are driving growth within Natural Beauty.**

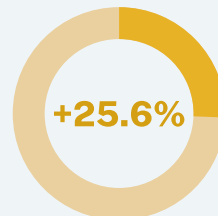
With Natural Beauty still in its infancy it is important that retailers and brands bring forth products that encourage consumer trial and enforce routine integration as the Beauty industry notorious for consumers lacking loyalty and willing to switch outlets and products.

Natural Beauty Growth Platform: **All About the Acid**

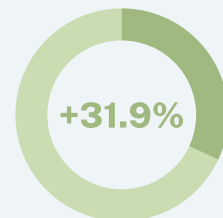
Natural and Outperforming Attributes



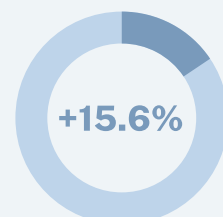
HYALURONIC ACID
(SUNCARE)*



RETINOL*



BAKUCHIOL*

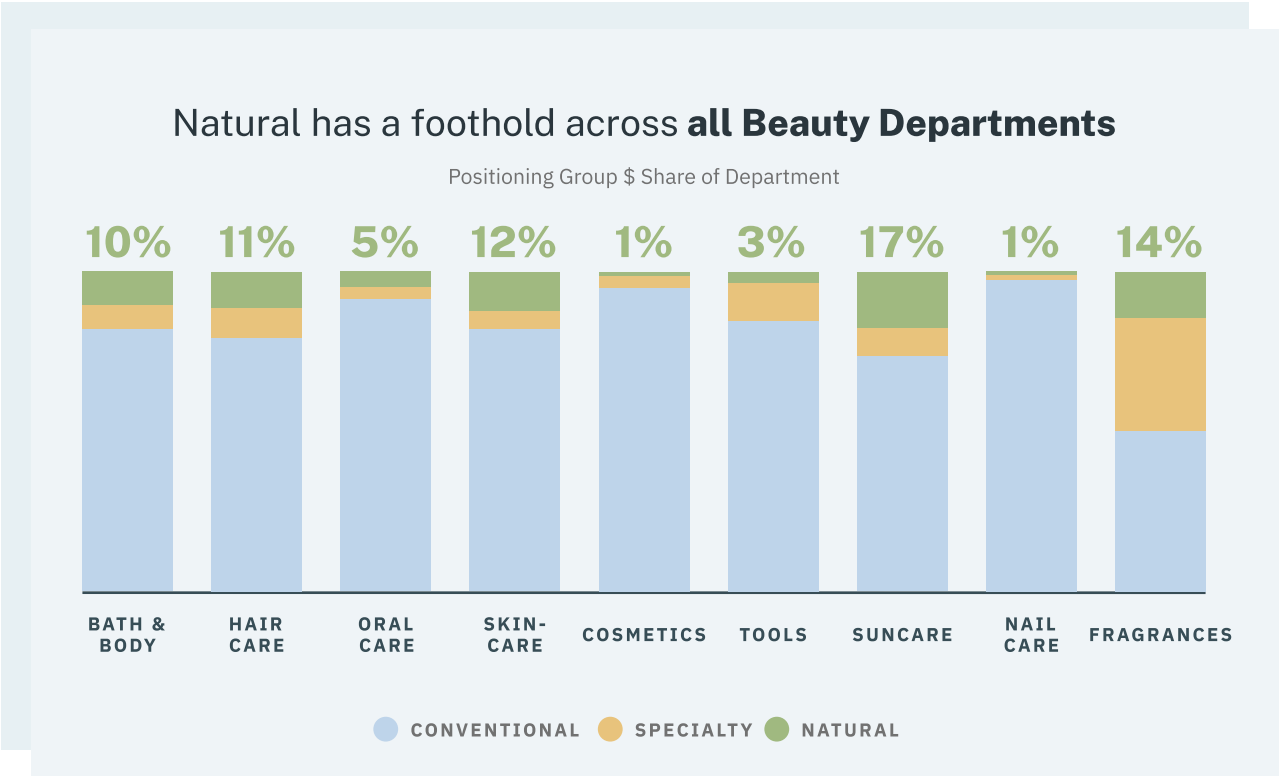


*See Appendix for Details

Natural has the potential to **capture at least 17% share** of the Beauty Industry

There have been departmental share shifts within Natural Beauty over the past two years with Hair Care gaining ~2 share points at the expense of Bath & Body and Skincare. **Shampoo & Conditioner is driving growth** within the segment with a 17% contribution. Deodorant and Toothpaste are overcontributing to growth of Natural, with shares of 9% and 6% respectively, but contribution to growth of 16% and 15%.

The growth of these categories can be attributed to the core principal framework that was learned in the development of the Natural Food & Beverage Industry. The conversation regarding potentially harmful chemicals in these products, such as aluminum and sulfates, was reignited by social platforms. In response, brands and retailers started introducing products that were free from these ingredients. They also incorporated botanical ingredients known for their soothing and anti-fungal properties, which demonstrated the effectiveness of tapping into the free-from/functional approach. Consequently, this led to an easy incorporation of these products into people's lifestyles, offering an effective Natural Product experience.



Source: SPINS Satori. Positioning Group Share by Beauty Department. Natural defined by SPINS Product Intelligence. Beauty Industry defined by DAAP. Excludes Private Label. 52 weeks ending 1.29.2023. Total US- Natural Channel and MULO powered by IRI.

SPINS and DAAP are your partners in the transformation of the Beauty Industry

The expedition of influence and routine incorporation, also known as influence purchase cycle, has rapidly accelerated. The democratization of information has had parallel growth with lowering barriers of product distribution. Consumers can quickly activate against social media influence. The rise of e-commerce allows for consumers to easily find and purchase products across the internet's endless aisle. Brands are launching online, no longer beholden to retailer reset cycles and buyer biases. Aided by the contraction of shipping times, online is the new impulse aisle.

DAAP helps retailers and brands measure their performance across the dynamically changing CPG industry. DAAP creates custom hierarchies across harmonized datasets. DAAP harmonized datasets bring together data from online, brick-and-mortar direct to consumer, international, distributor and portal data sources. DAAP Custom Hierarchies are typically tailored to align with evolving consumer behaviors and retail assortments. With a clear picture of shifting consumer preferences, DAAP Partners can accurately measure their cross outlet share and tailor their products to meet market needs.

With the expected acceleration of Natural Beauty, it is critical for companies to identify how they can capture share in an emerging environment. **Retailers and manufacturers who build trust with certifications, innovate approachably, and do not underscore the importance of efficacy are upon a pathway to success within the Natural Beauty Industry.** Acceleration of the influence purchase cycle is why Natural Beauty will transform at rate faster than Food and Beverage.



About the Authors



Kelly Marion has been the president of DAAP for 7 years after holding leadership positions at CPG manufacturers and running a consulting practice. Dissatisfied with market analysis being run in channel silos, Kelly developed machine learning technology to harmonize disparate data sources to standardized structures. Founded with Tony Olson (CEO/Founder of SPINS), DAAP leverages proprietary engineering solutions to integrate, harmonize and customize data in a way aligned to organizational goals. Today, DAAP is the largest CPG Data Warehouse in North America and is the only company that can harmonize syndicated CPG Data.



Alice Mintz is Integrated Solutions Director at DAAP, a data innovation subsidiary company of SPINS. With experience working within the Consulting divisions of IRI and SPINS, Alice excels in leveraging data for insights to craft compelling product narratives. Alice has extensive experience advising brands on their marketplace positioning, innovation opportunities, and strategic growth frameworks. In her current position, Alice develops custom harmonized hierarchies that are reflective of shifting consumption patterns across the consumer-packaged goods landscape. Alice's work is focused on the cultural dynamics impacting the evolution of contemporary taste.

Appendix

BAKUCHIOL

Bakuchiol is the extract from leaves and seeds of the *Psoralea corylifolia* plant. Rich in antioxidants, it has been used as a natural retinol alternative sought for its ability to generate collagen production and cell turnover in skin.

CERTIFIED B CORP

B Lab's "B Corporation" program identifies companies and brands meeting social and environmental standards, public transparency, and legal accountability to balance profit and purpose.

COLLOIDAL OATMEAL

Colloidal Oatmeal is very finely ground oat kernel that is readily absorbed in water. In 2003, the FDA approved colloidal oatmeal as a skin protectant. Due to its natural anti-inflammatory abilities, it is used as a topical treatment for various forms of dermatitis such as psoriasis and eczema.

HYALURONIC ACID

Hyaluronic acid is a type of sugar (polysaccharide) that is present in body tissues, such as in skin and cartilage. It is able to combine with water and swell when in gel form, causing a smoothing/filling effect. When applied topically, hyaluronic acid helps to plump the skin by adding moisture.

LABELED ALUMINUM FREE

Aluminum salt ingredients are often viewed as controversial when found in antiperspirants because they reduce the production of perspiration at the site of application by blocking the sweat pores.

LABELED PROPYLENE GLYCOL FREE

Propylene glycol is a synthetic alcohol that attracts and absorbs water. In personal care, it is used in a wide variety of products as a humectant.

LABELED SLS FREE

Sodium Lauryl Sulfate, or SLS, is a surfactant added to personal care products as a foaming agent. As a detergent, Sodium Lauryl Sulfate may be considered "harsh" as a detergent and cause some irritation to the skin.

RETINOL

Retinol is a synthetic form of Vitamin A and is used in the personal care industry as an anti-aging ingredient. There is some controversy around the use of Retinol, both as a possible skin irritant and speeding the development of lesions and skin tumors per the FDA

TEA TREE OIL

Tea tree oil is used as an antiseptic and for treating stings, burns, acne, wounds, and skin infections.