

Truth, Proof & Provenance

How Blockchain is Disrupting the Natural Products Industry

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The natural products market has come a long way since Tom's of Maine introduced the first natural toothpaste in 1975 and Whole Foods opened in 1980. The U.S. organic food industry has exploded from 1990 when it first surpassed \$1B in sales to a \$45B industry in 2017, doubling in the last decade.

In North America, the natural and organic personal care products industry continues to gain popularity with revenues that surpassed \$5B in 2018 according to Ecovia Intelligence's December 2018 report *The North American Market for Natural & Organic Personal Care Products*. There is still plenty of runway ahead as Grand View Research, Inc., projects the organic personal care market to be a \$25.1B industry by 2025.

Further evidence of how mainstream natural products have become were the 86,000 attendees from 136 countries at the 39th annual Natural Products Expo West held earlier this March. The world's largest natural, organic and healthy products event which hosted 3,6000 companies this year has exploded from its humble beginnings with 3,000 attendees in 1981. Consumers are increasingly aware of what they put into their bodies, seeking in-depth nutritional and product information demanding more from their food, beverage and beauty products than ever before.



Originally a niche fringe market dominated by smaller companies selling products at co-ops and farmers markets, and with the meteoric rise of this category, there was an influx in investment and acquisitions over the past decade from the Big Food players including: Colgate's purchase of Tom's of Maine for \$100M in 2006; Kellogg's, the parent company of Kashi since 2000, acquisition of Bear Naked granola for \$60M in 2007; and General Mills' purchase of Annie's Homegrown for \$820M in 2014. These are just a few of the corporate giants looking to broaden their appeal to Millennials and Gen Z shoppers who care not only about avoiding synthetic ingredients and chemicals deemed hazardous, but also are the biggest advocates for also avoiding animal cruelty, GMOs and unsustainable supply chains. In fact, this changing consumer behavior drove CPG behemoths to push mergers and acquisitions to a 15-year high in 2018.

While led by Millennials, this movement isn't limited to only the younger generations, according to a recent Nielsen Sustainability report, 34% of Baby Boomers, 46% of Gen Xers and 75% of Millennials consumers say they would definitely or probably change their consumption habits to reduce their environment impact.



In world where differentiation is key to driving sales, adding the word natural or organic to packaging used to help CPG brands stand out among competitors. That is a thing of past as these products have become mainstream. Consumers browsing retail aisles are bombarded with products labels claiming "Natural," "Clean," "Green," "non-GMO," "100% Organic," "Organic," "Certified Naturally Grown," "Made with Organic Ingredients," or "Contains Organic Ingredients."

Currently, $\leq 1\%$ of U.S. farmland is organic and farmers are struggling to meet the growing consumer demand. In an effort to keep up with that demand and encourage farmers to make the switch which is a 36-month process, Quality Assurance International came out with another claim "Certified Transitional," in partnership with Kashi. This notes crops grown on farmland in the process of transitioning from conventional to organic practices. During that 3-year process, the farmers are making significant investments without netting the premium prices commanded by certified organic crops. This label allows consumers to see that the products support farm transitions and allows brand to pay farmers higher rates than they would otherwise receive during their 3-year transition period.

If you weren't confused enough already, this is further compounded by the fact that the U.S. Food and Drug Administration does not have a formal definition of "natural" as they do for "organic." They only note a working assumption around the term "nothing artificial or synthetic has been included in, or has been added to, a food that would not normally be expected to be in that food." No wonder why only one-third of Americans understand what those claims mean.

The USDA plans to provide regulations this summer around "healthy" and "natural" claims, but until then the abstract nature of these labels build distrust and impact product sales. Many consumers are willing to switch and even pay more for another food product if they understand the ingredients in that product.

How can brands especially small ones without multi-million-dollar ad budgets stand out in crowded retail aisles or in the sea of products available on Amazon and at a higher price point?

The answer is Blockchain.

Blockchain taps into key attributes that Millennials and Generation Z value: authenticity, transparency, experiences and sustainability. Blockchain helps "experientify" natural products and allows brands to tell their origin and environmental impact story, helping bring clarity to consumers in this crowded and growing space.

What is Blockchain?

Most simply, blockchain is an open, decentralized ledger that records transactions between two parties efficiently in a verifiable and permanent way.

Encrypted transaction data is recorded across a network of computers utilizing blockchain code. Any changes are immediately registered on all computers. Transactions can be programmed to trigger automatically and allow participants to transfer assets across the internet directly eliminating the need of a centralized third party to broker or confirm transactions on independent ledgers. Individuals, organizations, machines and algorithms can freely transact and interact with one another with little friction. The evolution from a central authority to consensus-based authorization across an entire network will fundamentally shift how businesses operate. The power of blockchain will drive the Fourth Industrial Revolution disrupting the natural products industry as we know it.

Why is Blockchain valuable?

Blockchain simplifies operations by cutting out intermediaries, reducing costs, and increasing speed while bringing transparency to business transactions and traceability of products.

- Accelerates transactions, enabling new business models and revenue streams
- Automates multi-party business processes
- Reduces cost and risk of using intermediaries to broker and confirm transactions
- Reduces risk of fraud and cost of regulatory compliance
- Improves data quality and timeliness by avoiding offline reconciliation
- Increases auditability and trust
- Improves food safety
- Reduces the impact of food contamination by more quickly identifying the source so that only impacted products are recalled eliminating waste

How does Blockchain help natural products tell brand story?

Blockchain addresses the key issues driving global organic and natural industry growth: sustainability which means different things to consumers and growers, eco-consciousness, and trust issues in food and products.

Global supply chains are limited by flawed information because reams of data are unavailable to parties in cross-border transactions. Additionally, farmers are rightfully guarded when sharing their methodologies. Blockchain demystifies the supply chain process for businesses and consumers providing a secure methodology for documenting and transferring key information about raw materials. It allows the grower to share information with the processor, retailer and ultimately the consumer privately and securely so the technology provides the transparency consumers are craving without violating trust or revealing proprietary practices of those along the supply chain.

Blockchain is anticipated to reach critical mass for supply chains later this year meaning more widespread adoption by retailers and consumers. In fact, after an 18-month beta test with IBM Food Trust, Walmart has announced the Walmart Food Traceability Initiative. A food safety program which requires suppliers of fresh leafy greens to use the IBM Food Trust blockchain network to capture digital end-to-end traceability information by September of 2019. Albertson's just announced this month, they will be employing the technology to track iceberg lettuce across their supply chain and into their 2,300 U.S. stores. Global food retailer Carrefour also joined the IBM Food Trust Network and is slated to use the solution for all 12,000+ stores in 33 countries worldwide by 2022.

The difference in speed to incorporate blockchain while the supply chain is smaller versus the massive undertaking in will be for the CPG giants to demand widespread implementation creates a competitive advantage for small businesses. With this broader adoption, there will be a reduction in brands able to claim "natural" or "organic" without the story to back it up creating an opportunity for products that truly deliver on their natural promises.



For businesses, blockchain bridges the gap between the distribution and production teams. Blockchain can be integrated with existing ERP systems creating collaboration to ensure the transfer of goods were explicitly authorized by their relevant controllers without solely relying on the competence of a processor.

It provides accurate inventory management systems, essentially making a once arbitrary process now fully auditable. This in turn helps provide more accurate forecasting data, less waste, increased capacity, and ultimately increased profit. Most importantly it helps deliver your value proposition to consumers.

Why do Consumers care?

Transparency matters with today's buyers. Ubiquitous claims are no longer impactful, consumers want specifics around sustainability. Consumers demand more from the products they eat, wear and purchase. They want to understand:

- Where did this come from?
- How was this made?
- Was the product really sustainably farmed?
- Is this actually good for me?
- How unique is this item?
- Is this really paraben free?
- How recyclable is this product?
- How does the production of this product impact the environment?

Blockchain proves provenance. It authenticates product claims with real-time story telling through digital content and serves as an education tool for consumers on the products and services they use. Simply adding a NFC tag or QR code on packaging brings the product's origin story to life with one tap. Blockchain is used by producers and retailers to track items from seed to sale. The blockchain record can start at harvest or even with the seed. The product is assigned a hash key as a seed which is scanned at every touchpoint along its journey. Whenever the container is moved, changes transportation modes, stops for a period, passes through ports or customs or gets stored in a warehouse, it is scanned and a block is added to the chain on the distributed ledger.

As people become more focused on what goes into the products they consume and transparency from those the brands around their sustainable practices, blockchain provides the traceability consumers are seeking. Since the product information is put on the blockchain from the place of origin to the logistics, the information cannot be falsified, and all details of the transactions are in the block.

This technology can legitimize or dismiss products' "natural," "clean," "green" or "organic" claims within seconds, creating opportunities for brands truly delivering on these promises and helping grow brand loyalty among consumers.



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An agency veteran of Universal McCann, Spark Foundry, GSD&M and most recently Zimmerman Advertising, Danika has 15 years of experience leading integrated media strategy, growing teams, and driving client results across the Restaurant, Retail, Tech and Travel industries. Her client roster includes: Michaels, Starwood Hotels, AT&T, Papa John's and Anheuser-Busch InBev (formerly InBev). Her natural curiosity motivates her to seek out new and unique media opportunities for clients.

A Palm Beach County native, Danika has a sense of wanderlust that's driven her to travel the globe experiencing other cultures and hearing people's stories.

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