



# State of the Industry Panel Discussion

Thursday, June 21, 2018



# State of the Industry Panel Discussion

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## ■ Panel Introductions

- **Andrea Donsky**; Nutritionist (R.H.N.) and Health Expert, Naturallysavvy.com, City TV Toronto Breakfast Television and Cityline.
- **Christian Sood**; Ph. D, President, Reena Group, Regulatory Consulting and Laboratory Testing Services
- **Helen Long**; President, Canadian Health Food Association
- **Mike Jacks**; President, Goodness Me Natural Food Markets



## State of the Industry Panel Discussion

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# The Consumer Marketplace



## Consumer Marketplace

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### **The shaping of Consumer Perceptions regarding Natural Health Products**

- There has been some high profile negative media coverage of natural products and our industry in the last several years.
- Consumers also appear to have diminishing trust for businesses in general.



# Consumer Marketplace

## Health Canada licensing of natural remedies 'a joke,' doctor says

Marketplace gets licence for children's fever remedy with no scientific evidence

Tyana Grundig / Marketplace - CBC News - Posted: Mar 12, 2015 4:07 PM ET | Last Updated: March 13, 2015

Health Canada licensing of natural remedies 'a joke'

The video player displays a still image of a box of NIGHTON Children Fever & Pain medicine. The box is white with a blue top section and features a cartoon illustration of a pink pig wearing a blue and white checkered bandana. Text on the box includes 'NIGHTON Children', 'Fever & Pain', 'Effective relief from', a list of symptoms (Fever, Pain, Inflammation), and 'Ages 6 to 11'. In the background, there is a wooden bowl filled with lemons and a clear glass of water. A large play button is centered over the image.

00:00 / 02:00

Marketplace gets licence for children's fever remedy with no scientific evidence 2:00



## Consumer Marketplace



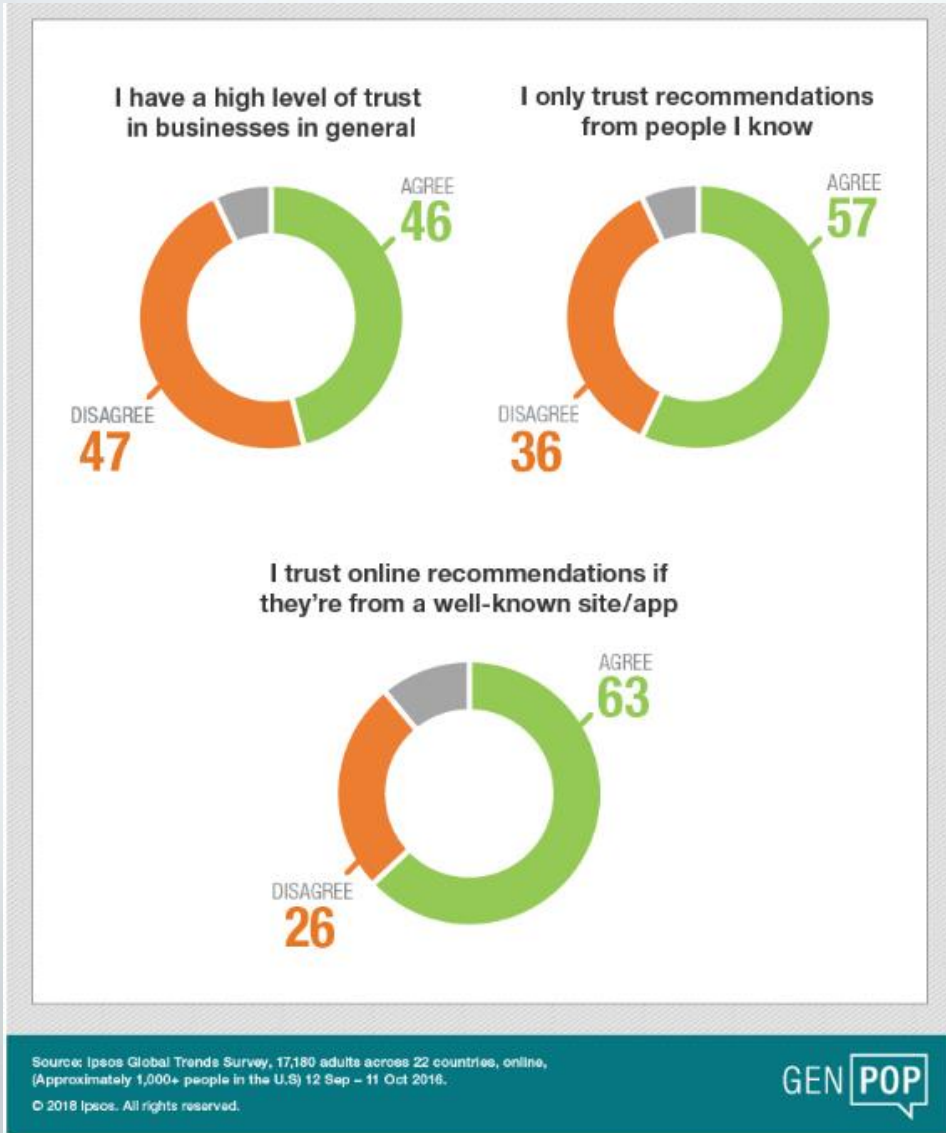
BROADCAST DATE: NOV 20, 2015

### **Vitamins and Supplements: Magic Pills**

**As many as three out of four Canadians use natural health products. From herbal remedies to minerals, vitamins and other supplements, it's a billion dollar industry that includes everyone from Big Pharma to Mom and Pop operations. They're products packed with promises, but what's actually in the bottle? Could we be taking too much? And could they actually be harmful to your health?**



# Consumer Marketplace





## Consumer Marketplace

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- **What is your perception of how this information impacts consumer perception and choice and what do you think are the general public's feelings towards natural products in 2018?**





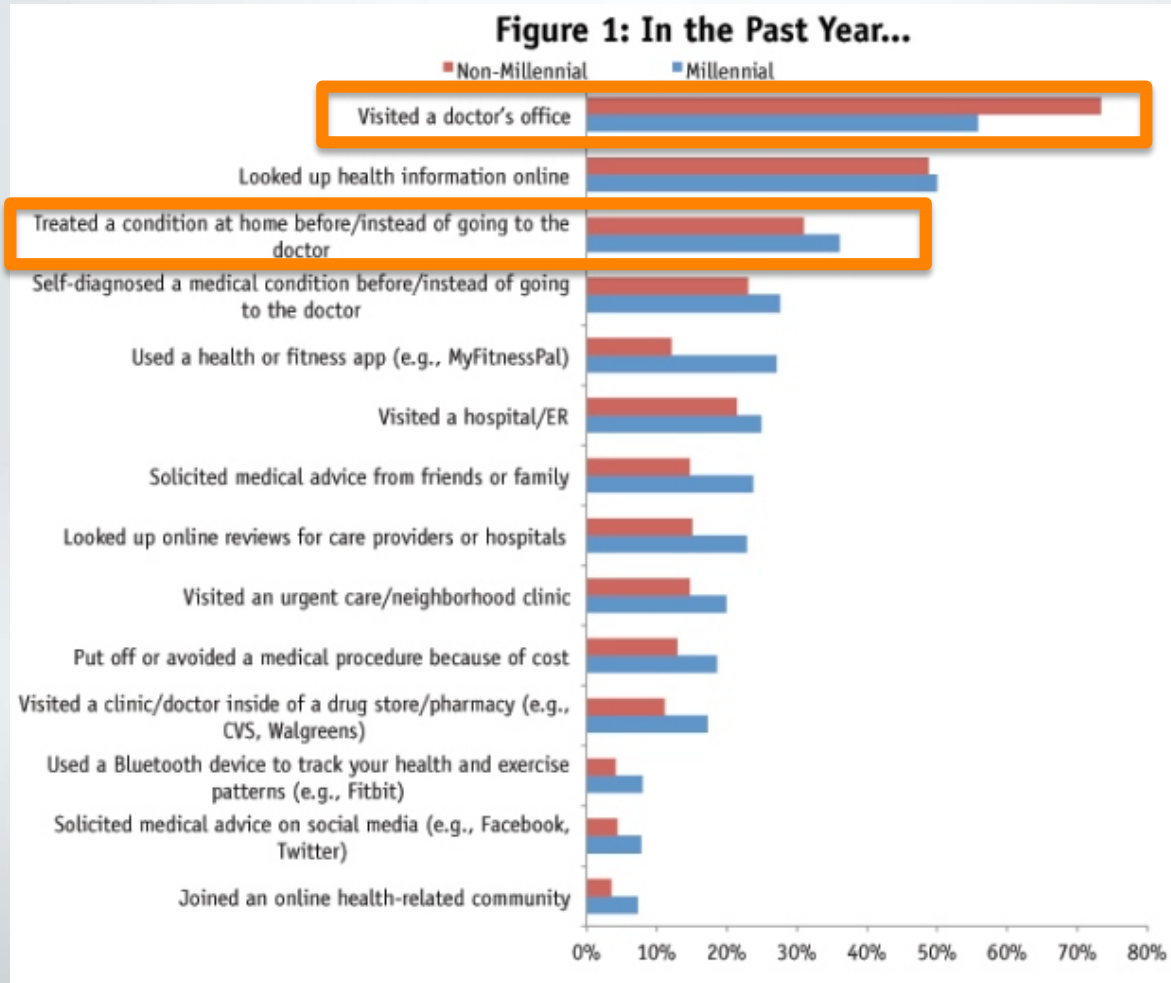
## Consumer Marketplace

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- It has been said that natural health products sit at the intersection of 2 important demographic trends.
  1. Millennials (born between 1982 and 2004), who consider wellness a particularly important aspect of health and appear disillusioned with traditional health care systems.
  2. Baby Boomers (born between 1946 and 1964), who are aging at a rapid rate and in search of a range of health solutions to deal with failing health.



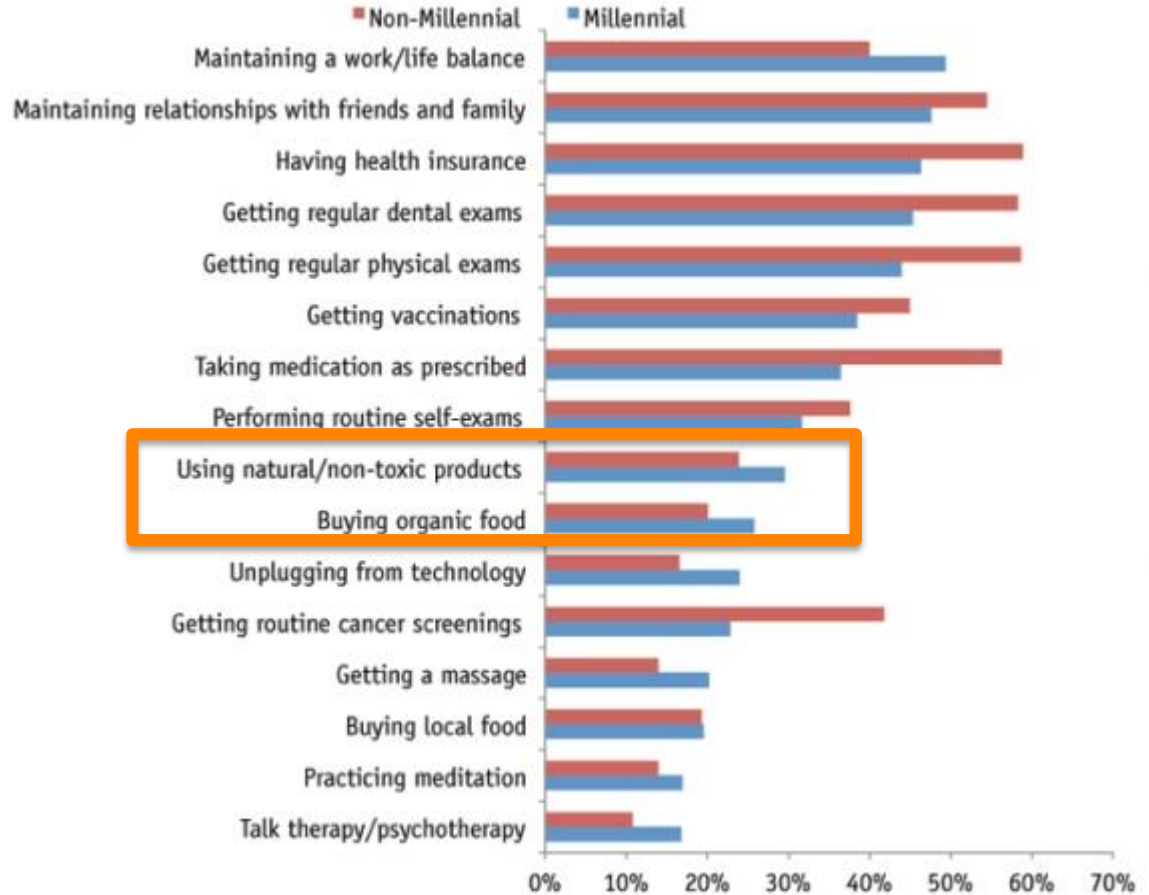
# Consumer Marketplace





# Consumer Marketplace

### Figure 2: Part of Maintaining Health & Wellness?





## Consumer Marketplace

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- Despite beliefs that baby boomers are healthier than previous generations, researchers found no evidence that the health of baby boomers is substantially different from that of the previous or succeeding cohorts.
- Assumptions that baby boomers will require less health care as they age because of better education, more prosperity, and less propensity to smoke may not be realized because of increases in obesity.



## Consumer Marketplace

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- **Do you anticipate that this convergence of health demands among both millennials and baby boomers represents an important growth opportunity for natural wellness products and our industry?**



## Consumer Marketplace

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- The consumer marketplace for natural products has become increasingly complex with a range of alternatives to typical brick and mortar retailers seeing strong growth. (e.g. Multi-level marketing of essential oils and on-line retailing of supplements).
- **What is your opinion on these alternative retail methods; be they positive (e.g. builders of product or category awareness, etc.) or negative (e.g. price cutters, credibility threateners, etc.)?**



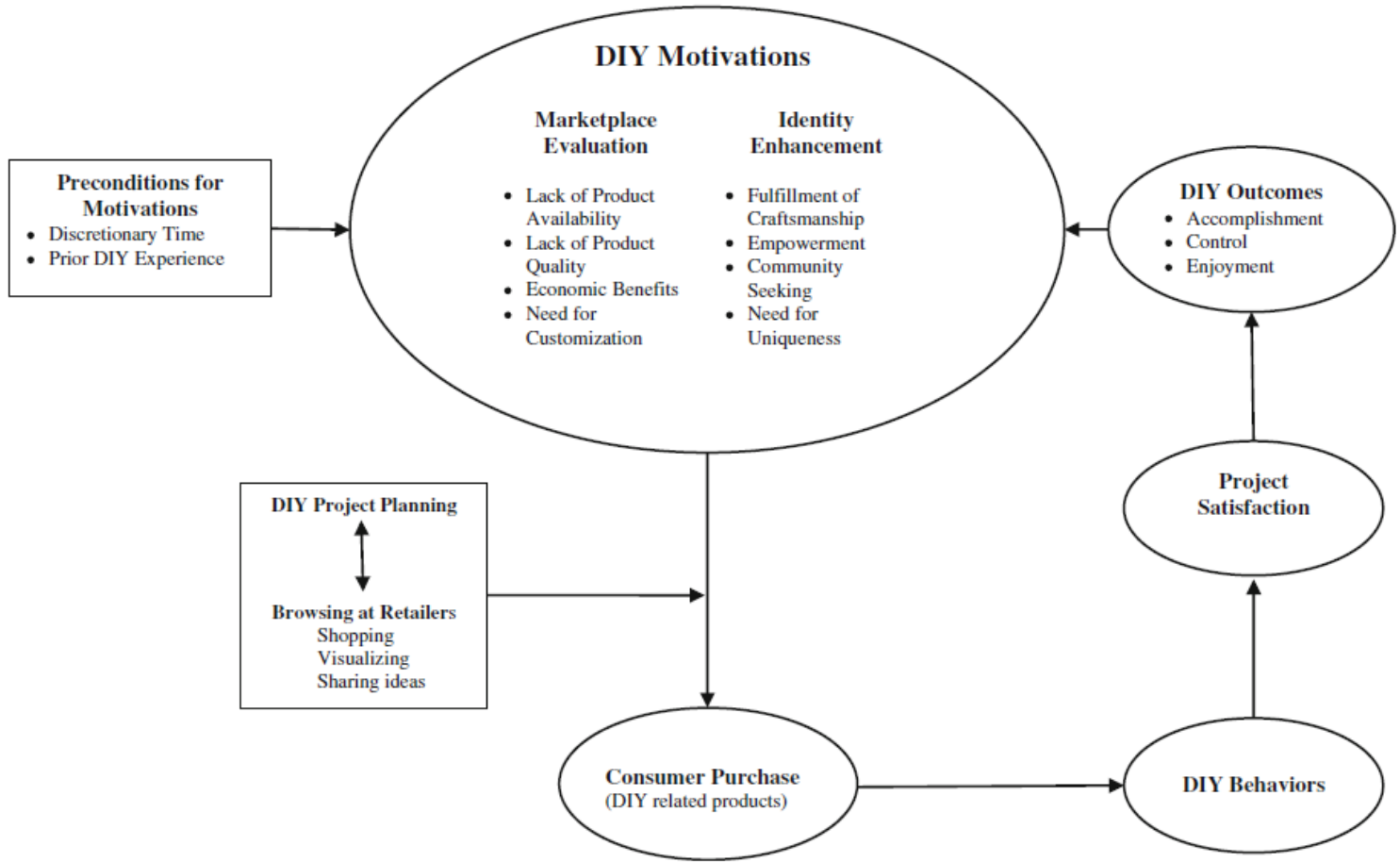
## Consumer Marketplace

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- At Puresource we have experienced a significant increase in interest for Do It Yourself (D-I-Y) products and accessories, whether it be the purchase of encapsulation materials for supplements, supplies to create and contain homemade beauty product, or searches of our recipe pages. It seems that people are searching for instructions and ideas beyond food-focused recipes.



# Consumer Marketplace



A conceptual model of the motivations and outcomes of DIY behaviors





## Consumer Marketplace

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- There are 175 million Pinterest Users
- 81% of Pinterest users are Females.
- Millennials use Pinterest as much as Instagram.
- Median age of a Pinterest user is 40, however majority of active pinners are below 40.
- Half of Pinterest users earn \$50K or greater per year, with 10 percent of Pinteresting households making greater than \$125K
- Two-thirds of pins represent brands and products.
- There are over 50 billion Pinterest Pins
- **There are more than 1.7 billion recipe Pins.**
- **72% of Pinners use Pinterest to decide what to buy offline.**

**Source:** Omnicoreagency.com, Salman Aslam January 1, 2018



## Consumer Marketplace

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- **Do you see the D-I-Y movement as having any significant impact on the natural products industry do you have and suggestions for ways that retailers can better serve the D-I-Y consumer?**



## State of the Industry Panel Discussion

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# The Regulatory Landscape



## Regulatory Landscape

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- After the many growing pains that came with implementing the Natural Health Product Regulations that were enacted in 2004, we saw Health Canada consulting on a new “Self Care Health Products” Framework last year that would result in a whole new set of regulations for NHPs.
- As per the last NNHPD presentation at the CHFA Expo West, it appears that this framework proposal has since been abandoned, but that a new plain language labelling standard for NHPs is now under debate.

# Regulatory Landscape

Product Facts	
<b>Medicinal ingredients</b>	<b>Purpose</b>
Ingredient1.....	Purpose1
Ingredient2.....	Purpose2
Ingredient3.....	Purpose3
<b>Uses</b>	
•UseA	
•UseB	
<b>Warnings</b>	
•Warning_a	
•Warning_b	
•Warning_c	
<b>Directions</b>	
•First direction	
•Second direction	
<b>Other information</b>	
•Store at 15-30°C	
<b>Non-medicinal ingredients</b> inactive ingredient1, inactive ingredient2, inactive ingredient3, inactive ingredient4, inactive ingredient5	
<b>Questions?</b>	
1-888-123-4567 www.company.ca	

<b>Supplement Facts</b>		
Serving Size 1 Tablet		
	Amount Per Serving	% Daily Value
Vitamin A (as retinyl acetate and 50% as beta-carotene)	5000 IU	100%
Vitamin C (as ascorbic acid)	60 mg	100%
Vitamin D (as cholecalciferol)	400 IU	100%
Vitamin E (as d-alpha tocopheryl acetate)	30 IU	100%
Thiamin (as thiamin mononitrate)	1.5 mg	100%
Riboflavin	1.7 mg	100%
Niacin (as niacinamide)	20 mg	100%
Vitamin B <sub>6</sub> (as pyridoxine hydrochloride)	2.0 mg	100%
Folate (as folic acid)	400 mcg	100%
Vitamin B <sub>12</sub> (as cyanocobalamin)	6 mcg	100%
Biotin	30 mcg	10%
Pantothenic Acid (as calcium pantothenate)	10 mg	100%

Other ingredients: Gelatin, lactose, magnesium stearate, microcrystalline cellulose, FD&C Yellow No. 6, propylene glycol, propylparaben, and sodium benzoate.





## Regulatory Landscape

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- **What do you feel will be the impacts of this labelling policy on the industry and do you anticipate further disruptive regulations for natural health products on the horizon?**



## Regulatory Landscape

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- It seems almost monthly that Health Canada is issuing consumer advisories regarding NHPs that are unlicensed and / or adulterated with pharmaceuticals and other undeclared substances.
- **Do you feel the current regulatory landscape is rigorous enough to address product fraud and what, if any impact, do you feel this has on consumer confidence in our industry?**



## Regulatory Environment

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- The Safe Food for Canadians regulations are expected to be finalized this year. Coinciding with growing consumer consciousness and demands for greater brand transparency, suppliers are faced with providing more information pertaining to traceability, but also processing methods and “free-from: status” (e.g. Non-GMO, Gluten-free, Vegan, etc.) For example, the Whole Foods chain has introduced a policy requiring third-party verification of all Non-GMO supplement claims for all new listings as of September 2018.





## Regulatory Environment

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- **Can you comment on the importance of activities such as supply chain traceability and claim verification from a supplier as well as a consumer perspective and the possible impacts (positive and negative) this may have on the marketplace?**

# Regulatory Landscape





## Regulatory Landscape

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- Canada is creating a whole new framework for cannabis production and sales, which may have spill over into these established industries: natural health products, food, cosmetics, pharmaceuticals, medical devices and agriculture.
- It is speculated that Natural Health Products containing cannabinoids (THC-Free) and making structure function style claims are likely to start appearing on the market in the near future.
- **What do you see as the likelihood and the timeline for approval of CBD NHPs and what do you see as the possible impacts of cannabis legalization on our industry?**



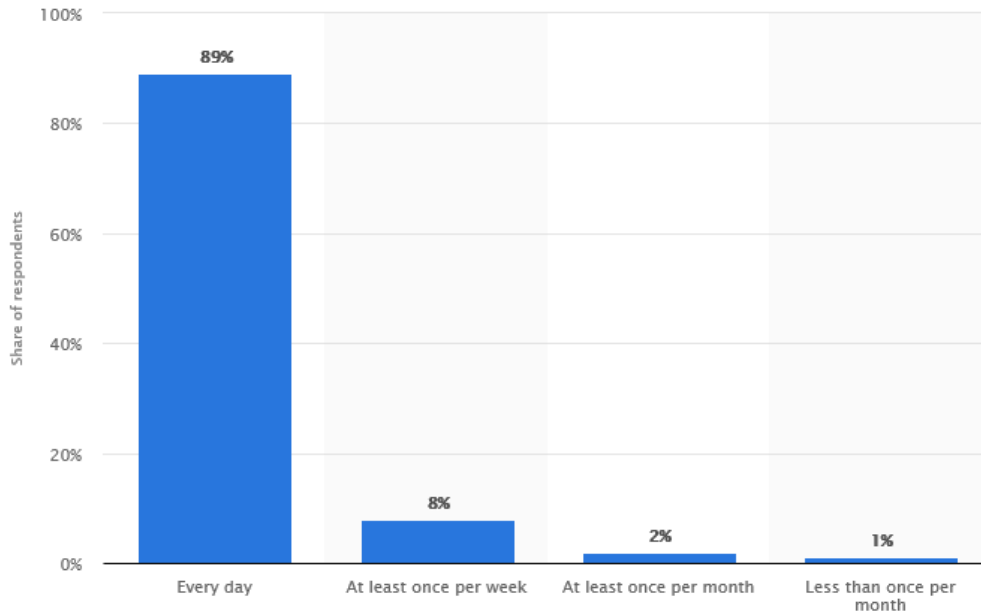
## State of the Industry Panel Discussion

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# The Business Environment

# Business Environment

## Internet usage frequency in Canada as of January 2018



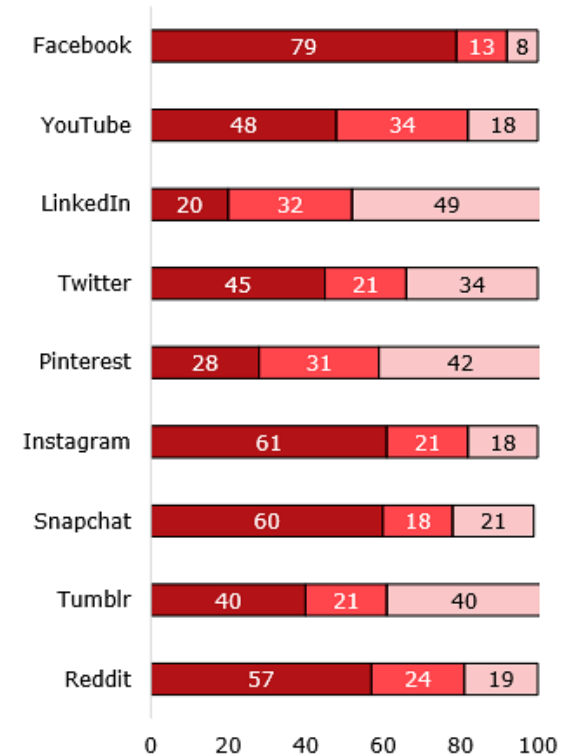
Data visualized by + a b l e a u

© Statista 2018

## Frequency of Use of Each Social Network Platform:

Amongst users of each platform, frequency of use (%)

■ Daily ■ Weekly □ Less Often



Note: All numbers are rounded to the nearest 1%.  
 Source: Survey conducted June 1–July 15, 2017.  
 "State of Social Media in Canada 2017"  
 Ryerson University Social Media Lab



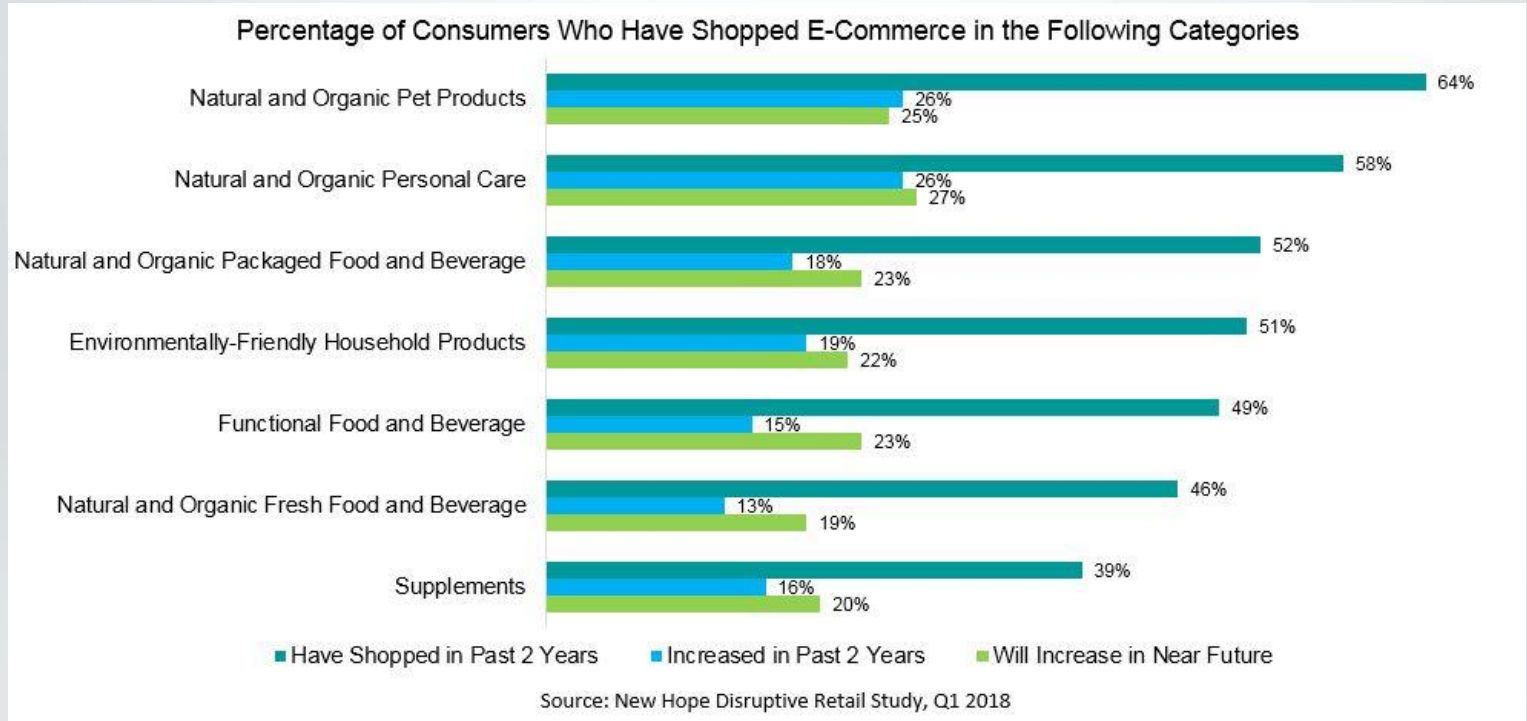
## Business Environment

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- **With the growing propensity of internet and social media use in Canada, what methods of reaching your audience do you find are proving to be the most successful (e.g. website, social media posts, smartphone apps, etc.) and do you still see a place for more traditional marketing such as Point-of-sale literature and printed flyers?**



# Business Environment



- This recently released natural health consumer survey determined that more than 20% of American natural product consumers expect to increase e-commerce purchases in the next 2 years.



## Business Environment

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- **If this same trend is repeated in Canada, how can a brick and mortar retailer remain relevant, competitive and able to cultivate loyalty among their customer base?**





## Business Environment

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- The costs of operating a health food store are escalating at an unprecedented rate with utility rates and minimum wage hikes among the many factors impacting operations.
- **What do you see as some of the greatest balance sheet challenges for today's health food retailer and what strategic steps do you suggest to combat these challenges?**



# Business Environment

## Canadian Retail Sales by Type of Store

To February 2018	\$ Billions Last 12 Months	Year-over-Year % Change			
		Feb. 2018	2018 Year- to-Date	Last 3 Months	Last 12 Months
<b><u>Total Location-Based Retail</u></b>	\$592.0	3.7%	4.1%	4.0%	7.0%
<b>Store Retail</b>	\$368.4	2.4%	3.5%	3.2%	5.4%
Food & Drug	\$168.7	0.3%	1.4%	1.6%	3.6%
Store Merchandise	\$199.7	4.7%	5.5%	4.6%	7.0%
<b>Automotive &amp; Related</b>	\$223.6	5.8%	5.3%	5.5%	9.7%
<b><u>Food &amp; Drug Sector</u></b>	\$168.7	0.3%	1.4%	1.6%	3.6%
<b>Food &amp; beverage stores</b>	\$122.2	0.8%	1.6%	2.3%	3.6%
Grocery stores	\$91.7	-0.4%	-0.1%	1.0%	3.0%
Supermarkets & other grocery stores	\$83.8	-0.6%	-0.5%	0.6%	2.8%
Convenience stores	\$7.9	2.3%	4.5%	5.1%	4.9%
Specialty food stores	\$7.5	12.1%	15.0%	14.8%	13.2%
Beer, wine & liquor stores	\$23.0	2.7%	5.4%	3.8%	3.2%
<b>Health &amp; personal care stores</b>	\$46.6	-0.9%	1.1%	-0.1%	3.7%



## Business Environment

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- After enjoying some high retail sales gains in 2016 and 2017, health & personal care stores have slowed down considerably. Their sales were actually down 0.1% year-over-year for the 3 months ending February 2018.
- Health & personal care stores at one time were the champions of the Food & Drug sector, but it appears those days are gone. (Source: <http://strapagiel.com/retail-sales-analysis-Canada.html>)
- Some pundits are predicting a 2008 – type recession based on the recent “trade wars” That have been instigated by the United States.



## Business Environment

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- **Considering your many business challenges and the negative economic indicators both foreign (NAFTA fall out) and domestic (housing and debt), what are the things that are happening in the industry or your business that give you cause for pessimism or optimism?**



## State of the Industry Panel Discussion

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**Thank you for your insights!**