



NBJ
Methodology
2023

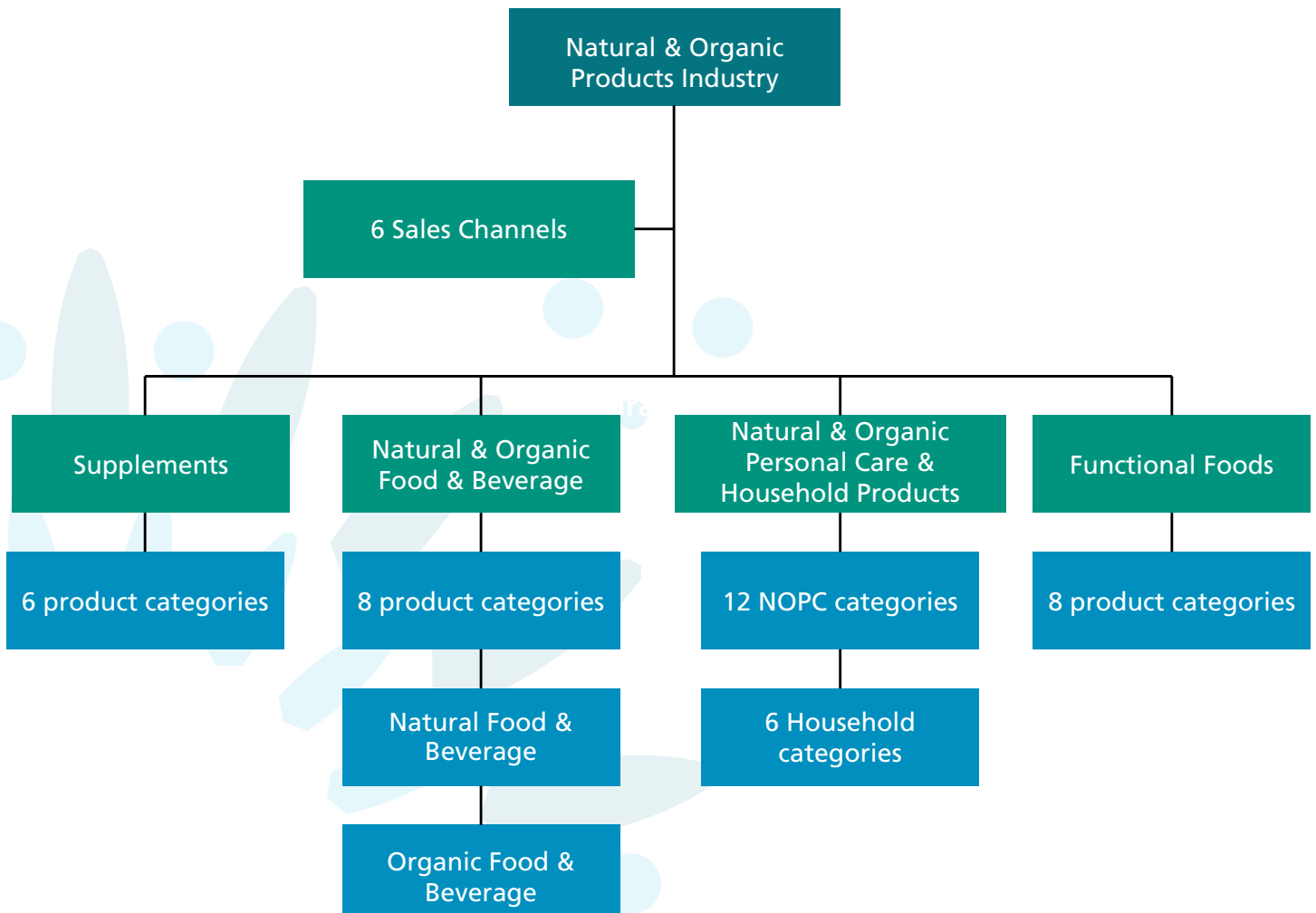
The story behind the numbers: NBJ's data model and methodology

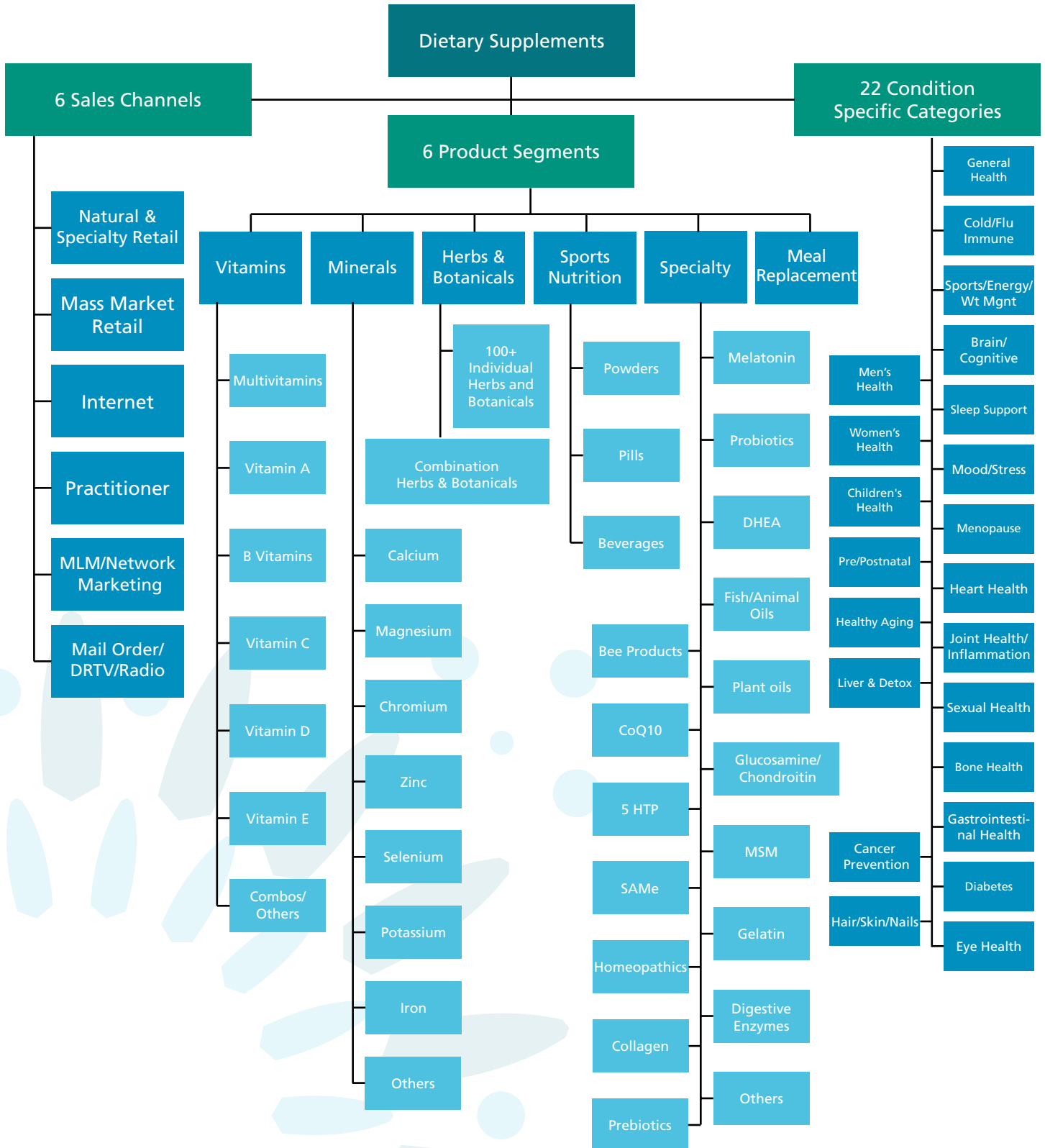
For more than 25 years, Nutrition Business Journal has been the go-to source for tracking sales and product trends in the natural and organic products industry, but the way it brings those numbers and analysis together is unique. NBJ's long-standing relationships and access to privately-held business intelligence makes this comprehensive look possible.

This document details how NBJ builds the sales estimates and projections that guide the industry.

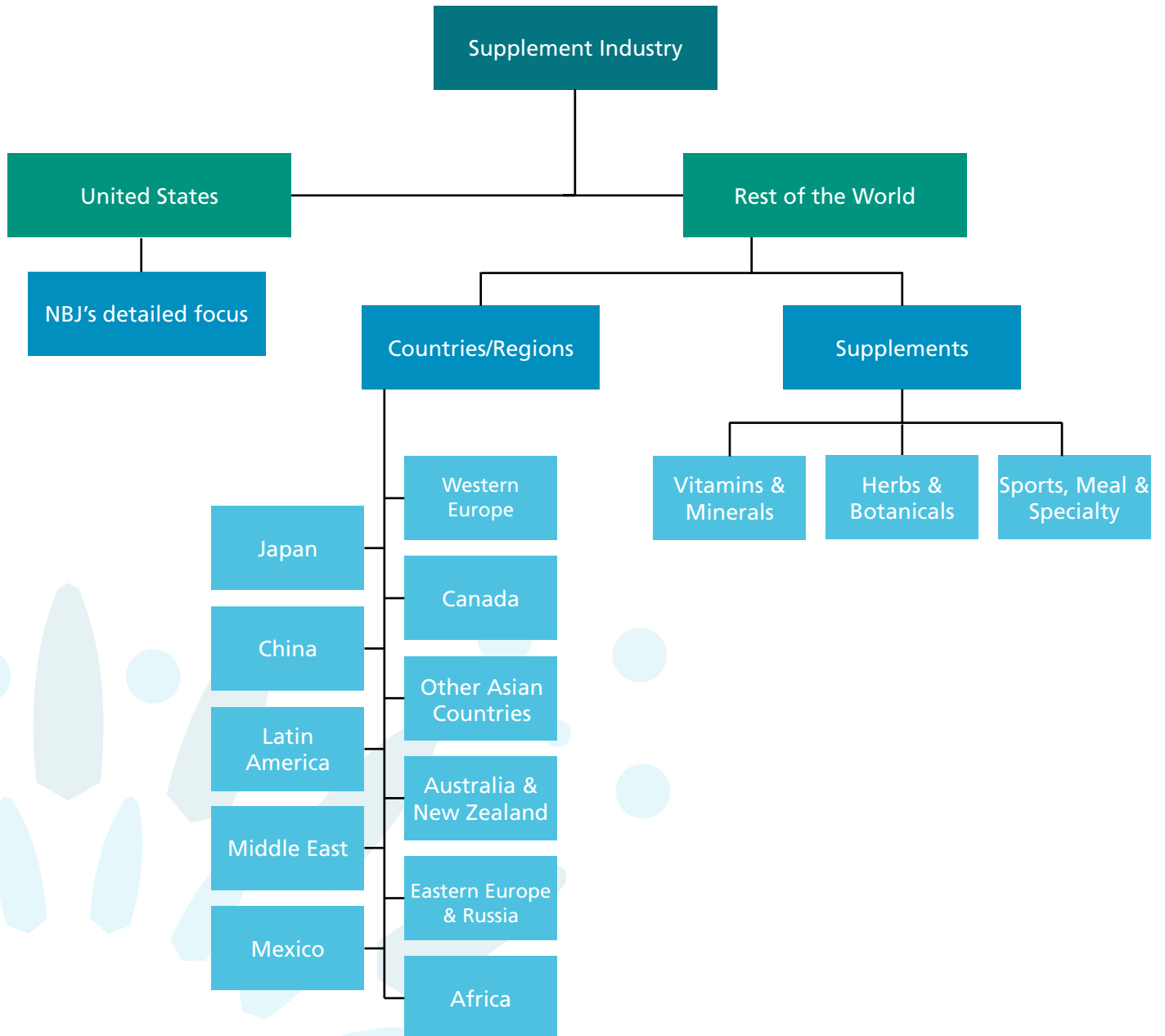
What and where is the natural and organic products industry?

NBJ defines the natural and organic products industry as including dietary supplements, natural and organic food and beverage, functional food and beverage, and natural and organic personal care and household products.





While NBJ has a deep focus on the U.S. market, the Global market view is broader with less-detailed sales breakouts.



Dedicated to Creating the Best Model Possible

NBJ's approach is designed to provide the most accurate industry estimates available. Sales estimates are fluid and are updated based on the latest intelligence from NBJ's extensive network of industry contacts. This can result in small tweaks to industry performance estimates on a regular basis, and occasionally it translates into significant re-evaluation and adjusted market estimates.

A very private industry

The challenges in gauging the size of the natural and organic products industry are many. One of the key steps to understanding the NBJ model is realizing that the industry is extremely private. It can't be compared to tracking something like the ski industry where resorts report detailed sales information or the oil industry where imports are logged at the point of entry. If it were like that, it would simply be a matter of adding up all the sales figures. The natural and organic products industry is far more challenging.

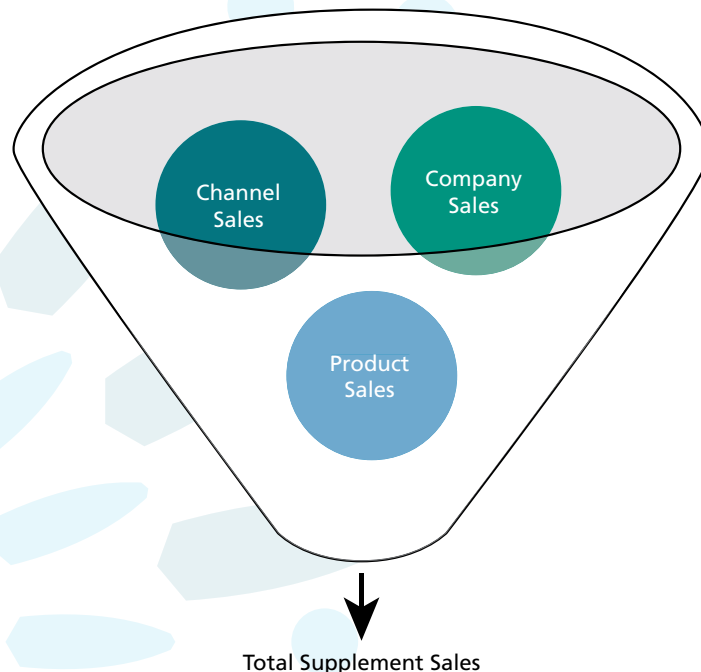
When dealing with public companies, overall sales data, and often minor regional or operating segment performance, is available to anyone who cares to download a public company's SEC filings. However, regulatory guidelines for public companies prevent them from sharing detailed sales data with NBJ or other sources.

Private companies have fewer limitations, but are often hesitant to share detailed financial information for fear of it being shared with competition.

NBJ relies on industry relationships built over decades to move beyond those barriers. However, due to the private nature of the natural and organic products industry, NBJ's performance estimates are exactly that: estimates.

Making Sense of all of the Data

Because the natural and organic products industry is private, NBJ creates its industry sales estimates in a top-down, iterative process. For instance, to determine the size of the supplement industry, NBJ tracks the sales and growth of many companies. Analysts also look at sales by channel and by product at the consumer level. Looking at product category sales alone, we might conclude that the industry grew 7%, but if sales by channel would lead us to believe growth was 8%, and maybe companies look to have grown 6%, we triangulate from those numbers to determine our final estimate.

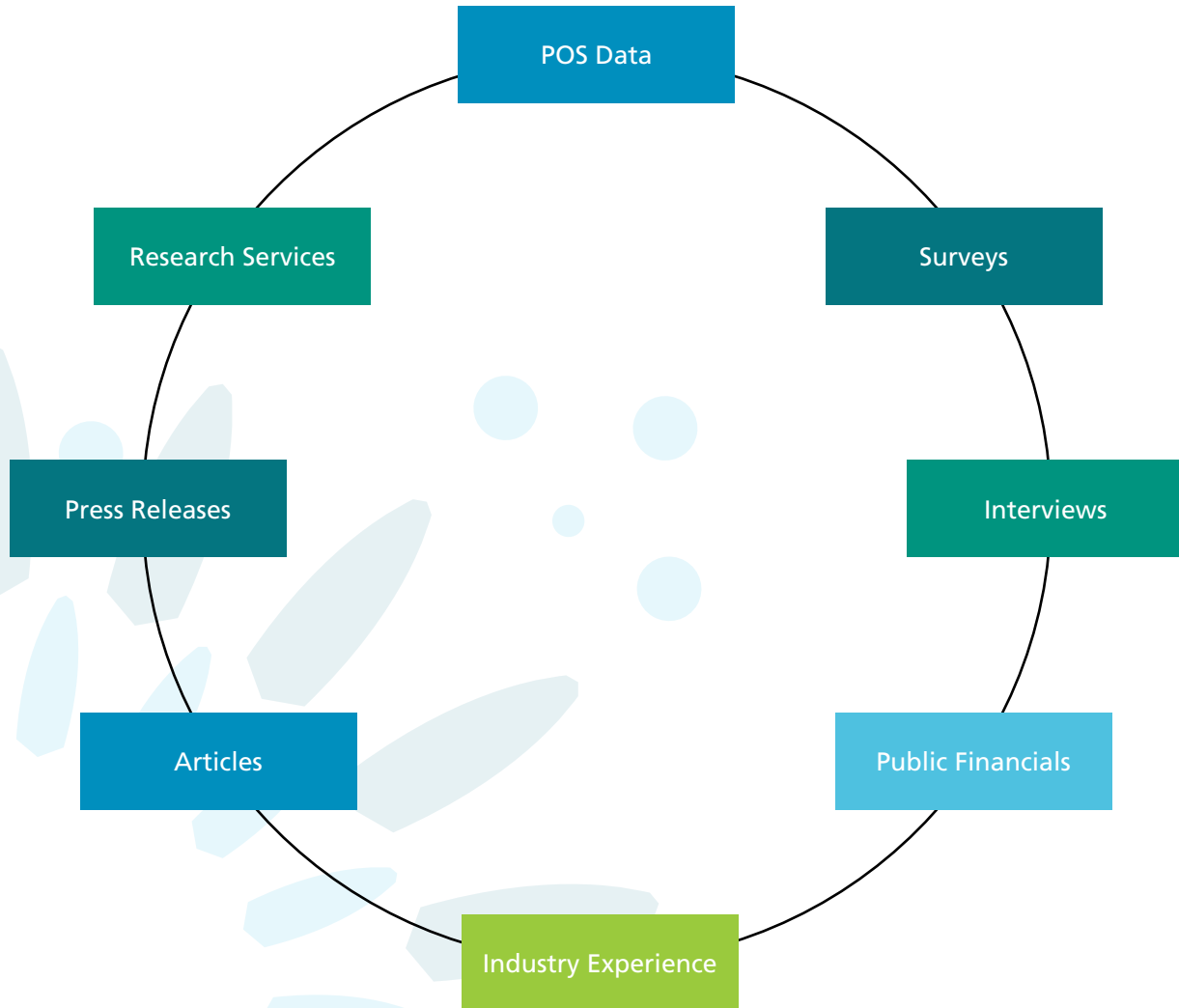


Examples of questions NBJ analysts might ask during the process:

- Did we miss companies that are newer in the field but making a large positive impact?
- Are sales in direct channels perhaps more sluggish than we thought? Maybe there was an MLM company that imploded?
- Was there a product that performed differently in a portion of a channel that we overlooked? Perhaps sales of vitamin D at Whole Foods were stronger than at other tracked retailers? Maybe direct sellers didn't do so well with Omega-3s?

We keep asking these questions, looking at the data from all angles, until a consistent and comprehensive vision of industry performance is obtained.

NBJ publishes estimates created from a deep understanding of industry dynamics, but NBJ does not claim that its sales estimates are perfect. Sales and growth statistics are a moving target subject to a great number of outside influences. NBJ methodology relies on research and rigor to build reliable estimates. If NBJ reports that sales for supplements were \$41 billion, could they really be \$40 billion? Perhaps. But they are certainly not \$30 billion or \$50 billion.



Data Sources and Building the Big Picture

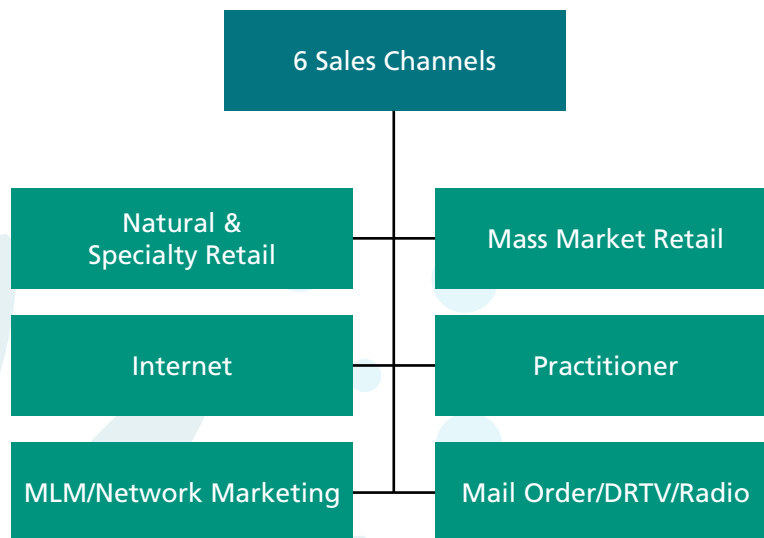
NBJ uses the wide array of primary and secondary data sources identified in this document to serve as the foundation for its industry estimates because, while Point-of-Sale (POS) data from sources such as SPINS, IRI and Nielsen and similar data from sources such as ClearCut Analytics are extremely helpful starting points for insights on sales in the retail channels, it is important to realize these sources do not cover all sales outlets. For instance, SPINS' natural retail channel estimates do not include sales at retailers such as Whole Foods or Trader Joes, or any retailer that has less than \$2 million dollars in annual sales. Mass market coverage is much more comprehensive, with Walmart data being reintroduced a few years ago. However, there are still small stores and chains that do not participate. ClearCut Analytics data provides a thorough picture of Amazon.com sales, and this data is used to extrapolate overall e-commerce performance.

NBJ also considers the estimates of research services such as Euromonitor, public company filings, press releases, and industry-related media.

All of this secondary data complements NBJ's direct-to-the-source research. NBJ has 25 years of relationship building it draws on to help obtain detailed sales survey data and reach executives and experts in retail, manufacturing and raw material supply. NBJ's external sources have a pulse on the industry and know the back stories that may not be told in point-of-sale data or general media reports.

Building the Complete Channel Picture

NBJ's general model of the natural and organic products industry segments consumer sales for the six sales channels shown below:



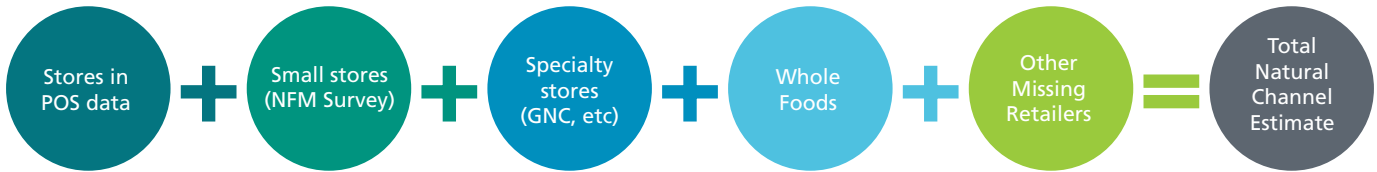
Readers will see the same sales channel breakouts for most of NBJ's data, with a couple of exceptions:

- For the Natural and Organic Personal Care and Household data deep dive, NBJ focuses on 6 slightly modified channels that more closely track where these products are sold, such as department stores or specialty shops
- At a very granular level, sales for a commodity ingredient such as Vitamin C are provided for each retail channel, but sales for all direct-to-consumer channels would be combined.

NBJ's goal is to provide sales estimates for all sales channels, whether retail or direct, and to include estimates for sales that aren't included in normal POS reporting services.

Every year, NBJ's sister publication Natural Foods Merchandiser surveys 300-400 retailers in the natural channel. Just over

half of the retailers surveyed consistently report sales less than \$2 million, indicating that they would not have been tracked by SPINS. Estimated sales for specialty stores such as GNC, sports nutrition stores and local bike shops or running gear stores are also included in the channel total. Natural channel giant Whole Foods and other missing retailers including Trader Joes cannot be ignored. In the end, NBJ’s natural and specialty channel estimates can come in several times higher than sales reported by POS services alone.



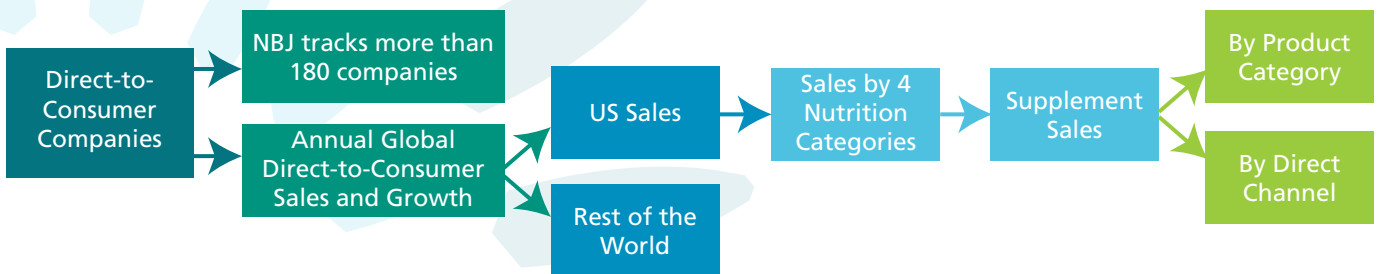
While NBJ’s goal is to be as thorough as possible in its channel sales estimates, it should be noted that restaurant and foodservice sales are not included in its estimates.

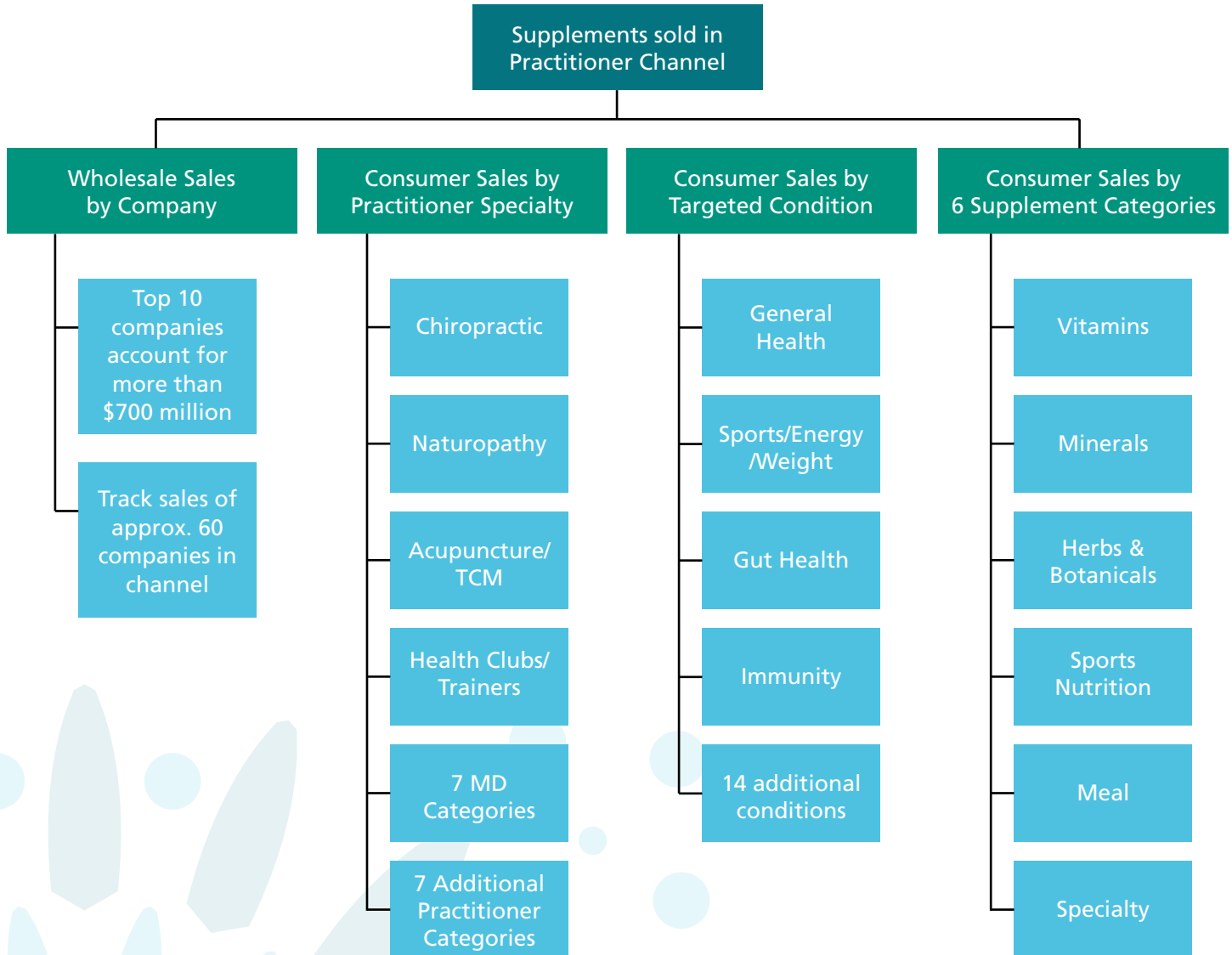
Estimating Direct-to-Consumer Sales

Direct-to-consumer sales are not tracked by any POS system, although data from ClearCut Analytics (now part of SPINS) provides a thorough picture of Amazon.com sales, and this data is used to extrapolate overall e-commerce performance. NBJ relies on surveys, interviews, and the knowledge of industry insiders to characterize this important portion of the industry. NBJ tracks global direct sales estimates for more than 180 companies participating in the natural and organic products industry. Company sales, growth, and sales allocation estimates help to build the picture of sales performance as a whole in these direct channels.

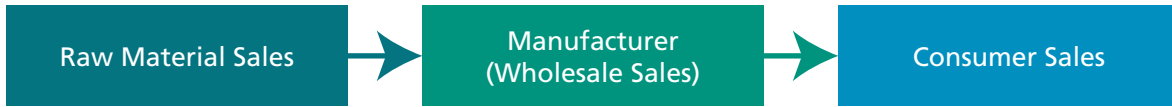
E-Commerce keeps brick-and-mortar retailers up at night, but the other channels are far from dead. While Swanson and many other direct-response companies have seen sales shift from catalog to internet, there are still many Americans who purchase through traditional mail-order channels. There are also brands that rely on sales generated via late night TV ads or home shopping programs. Andrew Lessman’s ProCaps Labs, for instance, gains from a successful relationship with the Home Shopping Network.

The multi-level/network marketing (MLM) channel is likely the most controversial of the direct sales channels. Companies often skyrocket one year and implode the next, but there are also stable industry members like Amway (Nutrilite) and Shaklee that have made a long-term contributions to the industry. While some companies are known to inflate sales, quoting lifetime sales or complete sales through company, distributor, and consumer, NBJ works with industry experts to wade through this information and establish accurate estimates.





While some have dismissed the practitioner channel as being an insignificant source of sales, NBJ and the supplement companies that focus on the channel, such as Standard Process and Metagenics, would beg to differ. NBJ estimates this channel makes up roughly 10% of supplement industry sales each year. NBJ defines this sales channel as including sales via traditional allopathic doctors and alternative healthcare providers, in their offices or through restricted-access websites, as well as sales through health clubs and the nutritionists and fitness specialists at those locations. To back up its estimates, NBJ recently conducted an in-depth study into supplement sales in the practitioner channel, looking at manufacturer sales, sales by practitioner specialty, sales by targeted condition, and product category sales.



Understanding the supply chain

NBJ recognizes that one of the best ways to understand an industry is to look at it across the supply chain. We model sales in the raw material channel, study how that converts into manufacturer sales, and finally parlay that into consumer sales. Understanding markups along the value chain and market dynamics at each level allow us to add extra checks and balances to our sales estimates. Raw material sales of \$1000 aren't likely to turn into \$1 million in finished good sales, nor are retailers that purchase \$2 billion in manufactured goods likely to sell them for \$1 billion.

Raw Material Sales

The raw material segment of the natural and organic products industry is very closely held and not tracked by the type of convenient POS systems that follow consumer sales trends. Some ingredients are commodity products tracked on exchanges or through import/export sales. However, many are proprietary, produced within a vertically integrated company, or offered as specialized and branded ingredients where full sales information is not available.

NBJ tracks the sales of raw material companies to understand growth trends in the industry. Unfortunately, NBJ is unable to provide raw material sales to the same level of granularity as it does for consumer sales.

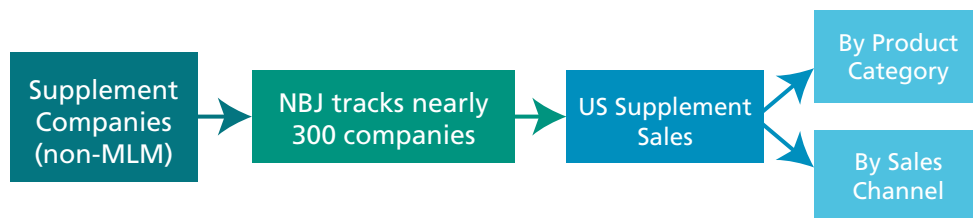


Wholesale sales

NBJ carefully studies the performance of manufacturers in order to understand product sales and growth trends. Company level performance is used as a benchmark against perceived consumer performance.

While retailers can experience pinched sales and margins at the same time manufacturers might see sales rising or falling, these two links in the value chain cannot be effectively separated. If overall consumer sales are growing at 10%, it is unlikely that average manufacturer sales will only be up 5% without some remarkable and widely reported retail price inflation.

NBJ's supplement companies tracking is the most comprehensive of any of its industry models. NBJ tracks nearly 300 supplement companies (plus MLM companies which are tracked separately) and estimates the effect of additional market players to create a complete wholesale-to-consumer sales model.



Data Model Nuances

When using and interpreting NBJ data, it is important to understand what NBJ includes or doesn't include in its model. Important practices in NBJ data include:

- **Homeopathic Products** are included as part of NBJ's supplement sales estimates under the specialty category. While the FDA regulates homeopathic products as over-the-counter drugs, NBJ has traditionally included these products in its estimates because the product ingredients and the retailers that sell the products overlap significantly with the rest of the supplement industry.
- **Sports Nutrition Supplements** only include supplements in the pill, powder, and beverage form. Products such as nutrition bars and sports drinks are NOT included in this category. These products are part of the natural and organic products industry (as functional food or natural & organic food) and are also characterized in NBJ's Sports Nutrition and Weight Management (SNWM) industry estimates. The sports nutrition supplements category included in the SNWM model is precisely the same segment of data seen as one of the six main categories in NBJ's supplement industry estimates.
- **Teas are beverages.** While many are labeled as supplements, NBJ includes teas in its food and beverage estimates because consumers more frequently use them as beverages rather than supplements.

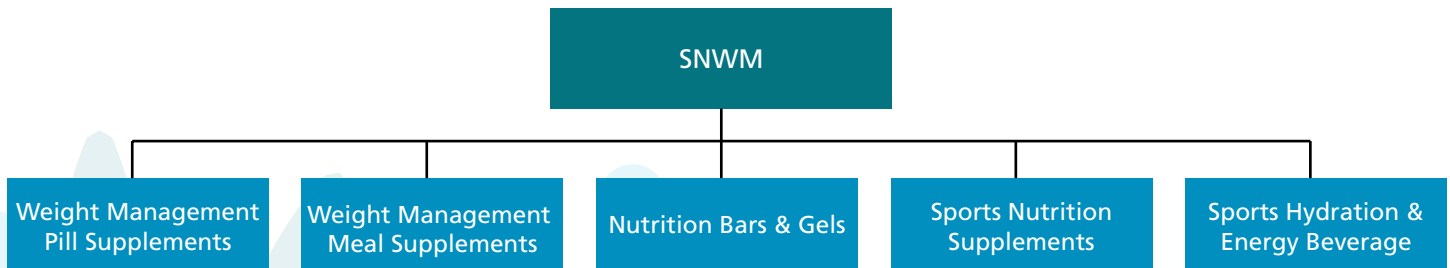
NBJ Forecasts

NBJ recognizes that you can't run your business simply by looking at what has happened in the past. Smart companies look to future market trends. Thus, NBJ estimates generally include 3 to 5 years of industry forecasts to help executives construct market-based business plans.

These forecasts are derived from NBJ's in-depth understanding of the industry. A few of the factors NBJ considers:

- **Past Performance.** While past growth isn't the whole story, it is a great starting point. Past growth and decline cycles often repeat themselves in the future. In the case of the weight loss category, a diet supplement may see a growth spike for a year or two, but that is usually followed quickly by a sharp decline.

- **Industry Maturity.** As an industry matures, it is harder for it to post the same phenomenal growth statistics it did in the early days. New dollars added each year often remain fairly consistent. Because of this factor, industry growth generally slows as it matures.
- **Media.** Media reports and celebrity endorsements can greatly affect the natural and organic products industry both positively and negatively in both the short and long term.
- **Science.** This is often tied closely to media reports, but good science on its own can make or break categories.
- **Ingredient Trends.** NBJ watches ingredient trends to see what is becoming popular and what may be on the wane.
- **Trade Shows.** Shows like Expo West help NBJ to understand what products are being introduced and see where growth is likely to occur in the future. NBJ's collaboration with New Hope Network's NEXT team and its data gathering tools offers a detailed look at trends on the Expo floor. An abundance of products, such as ancient grains or Greek yogurt, in the booths often leads to category spikes in the near future.
- **Parallel Industries.** NBJ studies trends in the mainstream analogs to the natural and organic products industry like conventional food or traditional health and beauty to identify trends that are likely to affect natural products categories in the future. We also look at penetration of natural & organic products into the mass channel and total industry.
- **Economy.** The natural and organic products industry doesn't have a direct corollary to the overall GDP, but macro trends are always considered. A down economy often reduces purchases in some areas, but it can also boost sales in other categories. For instance, during the last recession, supplement sales went up as consumers tried to avoid expensive doctor bills.



Call to Action

As a dedicated user of NBJ data and active member of the industry, NBJ invites you to share your expertise. Whether you have company-specific data to share, expertise on an industry segment, or see a possible flaw in our models, we encourage your input and feedback.

NBJ never shares confidential data or individual company results unless we gain express permission. When you permit NBJ to aggregate your information into the larger industry picture, you help to create a more accurate characterization of the industry.

NBJ also encourages your honest criticism and feedback on industry estimates. Through an open dialog, we can clarify whether the data could be presented more clearly or if the NBJ model needs to be tweaked based on the information provided.

No matter what the situation or outcome, NBJ becomes a better resource when the industry steps up as an active research partner. To create more accurate estimates and projections, take the surveys, attend our conferences, answer our interview requests. NBJ provides the best numbers in the business, but it is the businesses themselves that help build those numbers.