

MarketLine Case Study

Green, natural, ethical, organic, and healthy

The small brands owned by Big
Consumer

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The logo for MarketLine, featuring the word "MarketLine" in a bold, white, sans-serif font. The "Line" part is stylized with a thick, white, horizontal bar extending from the bottom of the "e" and curving upwards to the right, creating a dynamic, swoosh-like effect. The entire logo is set against a dark blue background.

OVERVIEW

Catalyst

Various consumer goods markets have consolidated in recent years. Numerous smaller brands have been snapped up with the result that a small number of very powerful corporations dominate. Many of these corporations have acquired green, natural, ethical, organic or healthy (GNEOH) brands, and this case study looks at the various reasons for this. It also looks at the benefits, sometimes mutual, that these acquisitions deliver.

Summary

There are many reasons why a corporation may wish to acquire a GNEOH brand. Firstly, the acquisition may allow a corporation to enter the organic and/or healthy food and beverage market, which are both growing strongly. Such an acquisition may also improve the perception of the parent company; the GNEOH brand's credentials may start to rub off on the parent company. Finally, such an acquisition can act as a catalyst for change e.g. improvements in sustainability, corporate and social responsibility etc. This case study looks at two such acquisitions, both of which have very different reasons behind them. The Clorox acquisition of Burt's Bees has brought about mutual improvements in issues such as packaging, waste, water, and ingredients. PepsiCo's acquisition of Naked Juice is part of a wider strategy to increase its healthy brands.

- Acquisitions and mergers by the world's biggest companies have been numerous in recent years. However, more than ever before these acquisitions are being driven by health. The Food Institute looked at acquisitions in 2014 and found that the majority of the deals were geared toward healthy eating.
- According to research conducted in the UK by YouGov and replicated by Guardian News & Media (GNM), 86% of the GNM audience like buying products from companies that give something back to society, and 84% agree that companies should be penalized if they fail to care for the environment.
- The acquisition of Burt's Bees has brought about mutual benefits. For example, Burt's Bees products went from an average of 97% natural to 99% natural between 2009 and 2012, and Clorox has made sustainability improvements to 20% of its product portfolio since its baseline of CY2011.
- Pepsi aims to grow its sale of nutritional products to \$30bn by 2020, up from \$10bn in 2010. This suggests a continued investment in improving the nutrition of existing products as well as developing new products and possibly acquiring others.

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HEALTH AND CHANGE MAY PROMPT GNEOH ACQUISITIONS

Various consumer goods markets have consolidated in recent years, particularly the food and beverage, personal care, and home care markets. Many of these acquisitions have been of green, natural, ethical, organic or healthy (GNEOH) brands. There are various reasons for this, but two prominent ones are an increasing consumer preference towards healthy products, and the aim of improving business practices and reputation. These acquisitions are not always positive. Acquired brands may find their ethics, business strategy or ingredients watered down, and many find it difficult to maintain their integrity.

The food and beverage market has consolidated

According to the Food Marketing Institute, the average number of items carried in a supermarket in the US in 2014 was 42,214. This immense number of products gives us the illusion of a great deal of choice. However, many of these products are owned by a small number of large multinational corporations such as PepsiCo, Nestle, and General Mills.

In the global marketplace, a small number of companies have grown to become behemoths, wielding considerable power and influence over consumers. Part of what has allowed these companies to become dominant is the amount they are able to spend on advertising campaigns. For example, in one of the most expensive advertising campaigns ever, in 2002 PepsiCo spent \$8m on a commercial, first aired with the 2002 Super Bowl, featuring Britney Spears. Advertising on TV is incredibly expensive, but allows a company to reach a huge audience at once.

This consolidation is true throughout the value chain, from agricultural and food manufacturing companies, to retailers. For example, Walmart is the world's largest retailer and has a share of around 25% in the US food retail sector.

At the beginning of the value chain, a small number of companies dominate as well. Monsanto, DuPont, Dow, Syngenta, Bayer, and BASF control 75% of the global pesticides market and ADM, Bunge, Cargill, and Dreyfus control more than 75% of the global grain trade.

However, this trend is not restricted to the food and beverage market, but is a wider trend that can be seen across most consumer goods markets. For example, multinationals such as Unilever and Clorox own a number of home care and personal care brands.

Companies acquire GNEOH brands for various sales-improving reasons

There are various reasons why a company might buy a GNEOH brand. In the end, these acquisitions come down to profit, but they approach profit making from very different directions. Companies may wish to enter the healthy market, and an acquisition is a quick route to entry. A company may also want to improve its business practices, or improve the consumer's perception of them.

There have been a large number of acquisitions based on health in recent years

Health-based acquisitions have been numerous in recent years, although many depend on the consumer's confusion over what constitutes 'healthy'.

Consumers are confused about what constitutes 'healthy'

According to a survey conducted by SuperMarket News, 80% of surveyed food-industry wholesalers and retailers had sales growth in their health and wellness products, with one third reporting a 20% increase in annual sales. However, it is clear that, often, consumers are confused about what constitutes healthy, and are confused by marketing buzzwords. For example, gluten-free products, which are seen by many as 'healthy', have taken off, with an increased number of gluten-free products to be found in retailers and restaurants. This is also the case for organic foods, which grew by 11.3% to \$39.1bn in 2014, according to the Organic Trade Association. The organic food market has consistently outperformed the wider food market, growing by double digits every year since the 1990s.

According to a survey in the UK by YouGov and the Soil Association in February 2014, the top reasons for buying organic were: fewer pesticides/chemicals (37% of respondents stated this as a motivating factor); natural/unprocessed (34%); and healthier for the respondent and their family (33%). In short, health is the overriding factor when it comes to the consumer choosing to buy organic produce. However, the health status of organic food is questionable.

Researchers at Stanford University looked at 200 studies about the content and associated health gains of organic and non-organic food, and found there to be no discernable difference between the nutritional content, although critics say more research is needed.

These two examples are significant and illuminating. The strength of the perception of the health benefits of these products has overpowered research to the contrary, indicating the momentous power of advertising. In terms of this case study it helps us define the kind of acquisitions corporations are looking to make. The brand need not necessarily be healthy; what is important is that it is perceived as such. It is this perception that has driven sales and acquisitions.

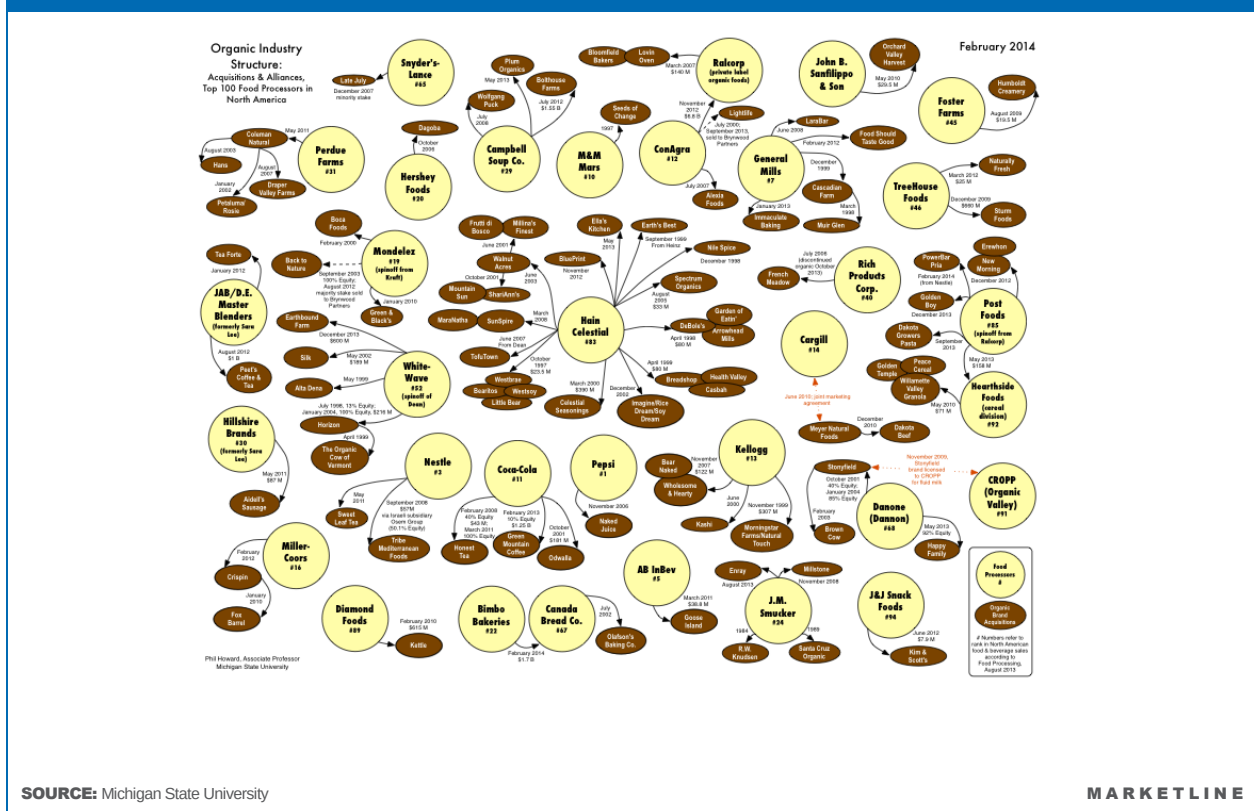
Health-based acquisitions have been rampant in recent years

The first reason why a company may acquire a GNEOH brand is to gain entry, or expand entry, into a market. In this case, it's the healthy food and beverage market. With the average consumer increasingly interested in buying healthy or organic food and beverages, the acquisition of an established company in this area allows a corporation to enter this market more easily than if it were to start a new company from scratch. Often, an established healthy brand will have a good reputation and loyal following, as opposed to corporations, which are often tainted by their legacies of including less-than-healthy ingredients, controversies, and general consumer perception of them.

Acquisitions and mergers by the world's biggest companies have been numerous in recent years. However, more than ever before these acquisitions are being driven by health. The Food Institute looked at acquisitions in 2014 and found that the majority of the deals were geared toward healthy eating. Brix Holdings was the source of two of the largest deals, of Smoothie Factory and Greenz, a small fresh salad chain. Another was Snyder-Lance, one of the largest US salty snack corporations, which boosted its stake in organic snack company Late July, from 19% to 80%.

Organic brands have been snapped up by corporations

Figure 1: Acquisitions and alliances of the top 100 food processors in North America, 1997- February 2014



The figure above looks at the acquisitions and alliances that have occurred in North America between 1997 and early 2014. 1997 was chosen as a base year because it was the first year in which the USDA National Organic Standard was drafted in place of differing state/regional standards. This was predicted to accelerate the trend of increasing consolidation in this sector. The standard was implemented in full in October 2002. The graphic shows a wave of acquisitions between the USDA's draft in 1997 and full implementation in 2002, and another wave of acquisitions since 2012, the 10-year anniversary of the standard. Multi-million dollar acquisitions have carried on into 2015. For example, Hormel acquired Applegate Farms in a deal worth \$775m, Post acquired MOM Brands/Malt-O-Meal/BetterOats in a deal worth \$1.15bn, Tyson acquired Hillshire Brands in a deal worth \$8.5bn, and Post acquired Michael Foods in a deal worth \$2.45bn. These are some of the larger acquisitions of 2015 but there are many more that have not been mentioned. This demonstrates the strength of the trend towards healthy or organic food products.

Such acquisitions allow companies to quickly and easily enter or expand into a certain market. Entering this way also reduces the risk; Food Institute's president and CEO, Brian Todd, described it as "more cost-effective" and "one that has already been vetted." The acquisition of healthy or organic brands is a safer route to these markets, as smaller established brands will already have a certain reputation and a loyal following. This is far less risky than a large corporation, which may already have a reputation among consumers as not particularly healthy, friendly to the environment, or thoughtful about sustainability issues, trying to launch an entirely new brand. Acquiring an already-existing brand increases the chances of success.

Many of these acquisitions are by Big Food, a term which refers to the large corporations in the food and beverage industry. Big Food includes Nestle, PepsiCo, General Mills, Unilever, Danone, Mondelez, and more. Such acquisitions include General Mills' 1999 acquisition of Cascadian Farm, a company that was famous for its organic cereals with "no added sugar". This was a controversial acquisition: in 2009, the company tripled its sugar count from 1 gram to 3 grams. After complaints, the company said it had returned to the recipe with 1 gram of sugar. Another big acquisition was Unilever's takeover of ice cream maker, Ben & Jerry's, in 2000. This was also controversial - in 2002 Ben & Jerry's was accused of abusing its "All Natural" label, and the company's CEO, Walt Freese, said in 2005 that his company had grown soft on continuing its tradition of social consciousness. These big acquisitions are not restricted to food companies. For example, Colgate-Palmolive bought an 84% stake in natural personal care products manufacturer Tom's of Maine for \$100m in 2006 and, in the same year, L'Oréal bought The Body Shop for \$1.3bn.

Such acquisitions can prompt positive change

These acquisitions can lead to improvements in sourcing, sustainability and business practices. This is significant because consumers are increasingly seeking this out in the companies they buy from.

Change can include improving sustainability, sourcing, and corporate social responsibility

For a large company, knowing where to start with sustainability issues or improving its corporate social responsibility may be difficult, particularly if the corporation is diversified and made up of many brands. Inspiration and help from an established brand with a strong ethic may be advantageous. Both Craig Sams from organic chocolatier Green & Black's and Anita Roddick from natural and ethical beauty brand The Body Shop believe an acquired ethical company can work from the inside to influence its new parent's corporate behavior. Green & Black's was bought by chocolate multinational Cadbury Schweppes in 2005 and Jo Fairley, who co-founded Green and Black's with Craig Sams believes the chocolatier influenced Cadbury's from within by inspiring Cadbury's to go Fairtrade, having a knock-on effect on other chocolate companies (KitKat and Maltesers followed in Cadbury's Fairtrade footsteps.) The Body Shop was bought by French cosmetics firm L'Oréal in 2006 and, according to Mark Davis, the Community Fair Trade director for The Body Shop, the retailer has successfully encouraged L'Oréal to source its products from more ethical suppliers. He helped L'Oréal launch its Solidarity Sourcing program in 2010 and now L'Oréal buys its products from the suppliers on the Community Fair Trade books.

Market force is a strong factor in enacting environmental and ethical change

Many major brands are keen to improve their business environmentally and ethically, but only if they can see that it will add to the bottom line. Fortunately, research suggests that it will. According to research conducted in the UK by YouGov and replicated by Guardian News & Media (GNM), 86% of the GNM audience like buying products from companies that give something back to society, and 84% agree that companies should be penalized if they fail to care for the environment.

Companies that are able to promote themselves and their environmental aims efficiently should see revenue growth from a consumer base that is more environmentally and ethically conscious than it has, arguably, ever been. The YouGov and GNM surveys suggest that companies can more effectively harness consumer environmental awareness and concern if they provide availability, visibility, affordability, quality, and clear communication around ethical products and services. This demonstrates the advantages a corporation can garner through this type of acquisition.

Acquisitions are not always positive

Brands with loyal followings, such as The Body Shop and Tom's of Maine, have been accused of 'selling out' after being acquired by corporations. However, brands may still generate a positive perception even if their practices have changed. It is this perception which is valuable to corporations.

Many brands have been accused of selling out

The acquisition of GNEOH brands by multinationals can sometimes be met with resistance from the brand's loyal followers. This is certainly true of Burt's Bees, acquired by Clorox in 2007; Tom's of Maine, acquired by Colgate-Palmolive in 2006; and The Body Shop, acquired by L'Oréal in 2006. All have been accused of 'selling out', with consumers worrying about how the acquisitions would affect the products as well as the companies' wider stance on sustainability, ethics, and environmental issues.

It's not surprising that they think this way. Dr Philip H Howard, associate professor of Michigan State University, conducts research focusing on the food system and has said that the acquired company frequently finds its standards watered down after being acquired by a larger company. He noted new parent corporations often reduce "commitment to organic ingredients" and look for cheaper substitutes, naming examples Odwalla Inc. after it was acquired by Coca-Cola, Silk Soymilk after it was acquired by Dean, and Peace Cereal after it was acquired by Hearthside Foods (now Post Foods.) The acquiring corporation must understand that reputation is all-important, and it must work hard at maintaining the acquired brand's reputation.

Such acquisitions walk a fine line

Perception is one of the most important aspects of this issue. Often, the brands being acquired are ethical, or organic, or healthy etc. However, this needn't be the most important feature of the brand. Put simply, the brand being acquired does not necessarily have to be GNEOH; it just has to be perceived as such.

For example, General Mills bought natural and organic food maker Annie's in 2014 in order to help General Mills' flagging cereal sales. General Mills notes that the organic and natural category is growing at a robust 12% a year, and was looking to take a slice of those growing revenues.

Figure 2: Some of the soup products sold by Annie's



SOURCE: Annie's

MARKETLINE

What is interesting about this particular case is the fact that Annie has been successful in protecting its "homespun and healthful" reputation, as The New York Times puts it. This is despite the fact that only around one fifth of Annie's products have an 'organic' label, down from all products in 2007. However, the important thing is that Annie does still retain this reputation, and it is this which holds value. The dilution of these types of brand, or the dilution of the perception of the brands, is what corporations need to avoid.

In many cases, the most successful acquisitions are where the acquired brand is allowed to go it alone. For example, Ben & Jerry's success has depended on its distinctive image, and the brand operates separately from Unilever as a whole. In fact, Ben & Jerry's often takes the opposite side from Unilever on a range of issues, including that of GMOs.

If an acquired brand's focus on natural, organic or healthy ingredients, or ethical principles, are watered down this may affect the brand, and this can be difficult to rectify.

CLOROX BOUGHT BURT'S BEES IN 2007, WITH POSITIVE CHANGES BENEFITING BOTH

Burt's Bees, a personal care company with strong ethics and use of natural ingredients, was bought by Clorox Company, a diverse multinational. The acquisition has benefited both companies, with Burt's Bees improving its products and Clorox Company improving its products and its business practices. Clorox has been recognized as having a positive reputation in recent years, particularly in relation to green issues, and this should lead to strong sales.

Burt's Bees' philosophy is 'The Greater Good'

Burt's Bees, launched in 1984, uses natural ingredients such as willow bark and beeswax to produce its personal care products, the number of which has grown significantly in the last 30 years. Burt's Bees has a strong ethical core, and runs its business in accordance with its philosophy, The Greater Good. As such, Burt's Bees has a strong, positive reputation.

Burt's Bees sells predominantly natural goods and has witnessed strong growth

Burt's Bees is a personal care company that mostly uses natural products, such as willow bark, clary sage, beeswax, and aloe. The company's products range from makeup and beauty products, to personal care products, to baby products.

Burt's Bees began inauspiciously in 1984, when, in Maine, Roxanne Quimby made candles with unused wax from Burt Shavitz's beehives. The company's larger-scale expansion began when a New York City boutique began selling the company's candles in 1989. In 1991, the company's first health and beauty product was launched: Burt's Bees Beeswax Lip Balm. The product became Burt's Bees bestseller, where it remains to this day.

In 1998, the company's first personal care product, Lemon Butter Cuticle Cream, was launched, and in 1999 the company expanded globally, opening offices in the UK, Ireland, Hong Kong, Taiwan, and Canada.

Figure 3: Burt's Bees Beeswax Lip Balm



SOURCE: Burt's Bees

MARKETLINE

The company continued to grow and launch new products. In 2006, Burt's Bees launched 30 new products and expanded into drugstores and retailer Target. In 2007, the company formalized its business model and philosophy 'The Greater Good'. The philosophy/business model hinges on three values that the company describes as their "life's work". These values are good for you, good for all, and good for us. Essentially, it means doing what's best for the consumer, their family, and the wider environment. The company describes it as "the highest ethical choice any of us can make to maximize our overall well-being."

Staying true to The Greater Good mantra, Burt's Bees uses natural products and has worked with others in the industry to develop The Natural Standard for Personal Care Products, a set of guidelines that deem whether a product can be labeled as "natural" or not.

Burt's Bees is also committed to sustainable business practices that improve the environment, as well as social responsibility practices that support the well-being and basic rights of communities.

Burt's Bees has a strong brand image as a green company

In 2011, Burt's Bees was awarded the top spot in a 2010 ImagePower Green Brands Survey as perceived by US consumers. 9,000 people in eight countries were polled in the survey, which identified emerging trends related to consumer perception and purchasing power with relation to "green" products.

The survey found that topics of concern for the average customer were climate change, energy use, and waste management, and 30% of consumers said that they planned to spend more on green products in 2011.

Burt's Bees CEO John Replogle said, "To have consumers recognize Burt's Bees for our eco-minded principles and actions is a real coup." In 2010, Burt's Bees had cut its energy use by 15.3% and cut its non-product water use by 5.5% compared to 2008. Burt's strong ethical and green credentials and business practices make it an attractive prospect for an acquisition.

2020 sustainability goal

Burt's Bees has put forward optimistic wide-ranging goals. As of the time of writing, just over 50% of Burt's Bees products are 100% natural. The company is "aggressively" pursuing the goal to make all of its products 100% natural by 2020. The company also wants to be carbon free and operate on 100% renewable energy by that time. Burt's Bees also wants its packaging to be 100% PCR/Biodegradable.

Clorox is a diverse multinational

Clorox, which sells products as diverse as bleach, filtered water, and food products, has been improving its business practices in recent years.

Clorox produces cleaning, household, lifestyle, and professional products

The Clorox Company, founded in 1913, is a global company which primarily sells household and consumer products. Its flagship and namesake bleach Clorox is joined by cleaning brands such as Green Works, which produces naturally derived cleaning products; Pine-Sol dilutable cleaner; and Fresh Step cat litter, as well as food and beverage products such as K C Masterpiece and Brita.

The company's products are sold in more than 100 countries around the world and are divided into five segments: cleaning, household, lifestyle, professional, and international.

Figure 4: Some of Clorox's International brands



SOURCE: Clorox Company

MARKETLINE

Clorox began to improve its business practices in the 2000s

In the mid-2000s, as the company was nearing its centennial birthday, Clorox began to provide consumers, who had increasingly begun to care about issues such as sustainability, health and wellness, and the environment, with assurances it would improve its business practices.

One way in which Clorox did this was by acquiring natural skincare brand, Burt's Bees. The acquisition has acted as a catalyst to improvements made throughout the value chain, ranging from R&D, to sourcing, to waste management, and the company established its first environmental sustainability strategy in 2008.

The company has also begun to issue an integrated report which contains both financial and sustainability data. These types of reports are produced to show how sustainability can affect a business's value.

The acquisition brought about mutual benefits

Since the acquisition, Burt's Bees has improved the natural credentials and efficacy of its products. Burt's Bees has also had a positive effect on Clorox's operations e.g. through introducing the company to the Dumpster Dive and improving sourcing sustainability. This has led to strong growth for both Burt's Bees and Clorox as a whole, and Clorox has also benefited from a significantly improved reputation.

Clorox has benefited Burt's Bees

After being acquired, Burt's Bees tapped into Clorox's technology and expertise as well as benefitting from the cash boost the acquisition gave them. Burt's Bees increased the size of its R&D budget by 50% and invested more in creating innovative products. Burt's Bees used Clorox's liquid salad dressing technology to significantly improve its natural lotion, which is notoriously liquid. This liquidness inhibits the products ability to moisturize. By transferring applicable technologies between the two companies, Burt's Bees was able to create a more effective product.

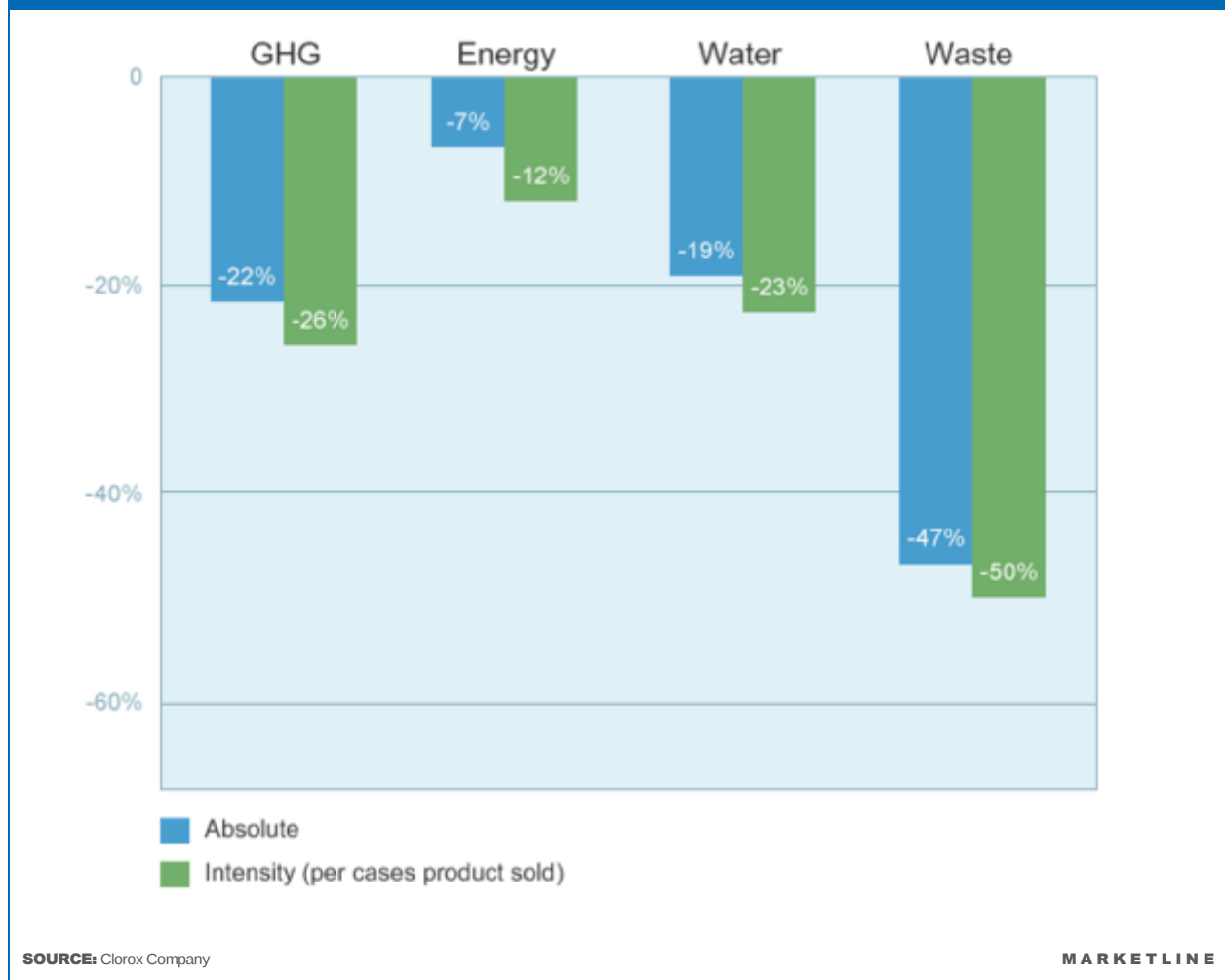
The acquisition has also improved Burt's Bees natural credentials. According to Paula Alexander, director of sustainable business and innovation at Burt's Bees, products went from an average of 97% natural to 99% natural between 2009 and 2012. This demonstrates that the acquired brand can also benefit from this type of acquisition.

Burt's Bees has also had a significant effect on Clorox's operations

Burt's sourcing manager, Shannon Hess, was moved to senior manager responsible for sourcing across the whole of Clorox. As reported in Clorox's FY2015 Annual Report, the company has made sustainability improvements to 20% of its product portfolio since its baseline of CY2011. The company had previously made sustainability improvements to around half of its portfolio between 2005 and 2011, but the new baseline was set as 2011 to account for the new 2020 goal.

What's more, the company is on track to make improvements to 50% of its product portfolio by 2020.

Figure 5: Clorox's footprint reduction summary, 2008-2014



This is impressive due to the diversity of Clorox, a company made up of many brands, with thousands of suppliers who themselves have tens of thousands of sub-suppliers.

Burt's has also introduced Clorox to the Dumpster Dive, a practice that has improved Clorox's waste management. The Dumpster Dive requires employees to sort through trash by hand, sorting recyclable and compostable waste in order to divert it from landfill. This not only leads to significant waste improvements, but also encourages employees to look for other improvement opportunities, such as locating recycling bins at key points where waste is generated. The 2015 Annual Report states that Clorox had reduced its solid waste to landfill by 30% compared to the CY2011 baseline.

The company has also reduced waste in every aspect of the business, improving productivity and saving around \$116m in FY2015. Clorox's Fairfield plant in California also achieved zero waste-to-landfill status in 2015, meaning the facility recycles 90% or more of its waste, and sends the remainder to a waste-to-energy facility.

Clearly, Clorox is working hard to improve its business practices and, in turn, its reputation and sales.

Clorox has been named a top reputable company

This broad range of changes and improvements has a significant impact on Clorox, and on the company's reputation and, as a result of this, sales. In 2015, for the fifth year running, Clorox was named among Corporate Responsibility Magazine's 100 Best Corporate Citizens List. Also in 2015, Clorox was named one of the most 100 reputable companies in the US according to the Reputation Institute's 2015 US RepTrak 100, coming in at No. 12.

This is significant, as a company's positive reputation drives sales. Brad Hecht, chief research officer at Reputation Institute, says companies with strong reputations are more likely to attract better talent and reap financial benefits. He said, "The most reputable companies see a stock performance that is two times better than the overall market, and they benefit from a 6.5% increase in recommendations every time they improve their RepTrak® score by five points."

2015 is the first year Clorox has been included on the list. In future years, it will be interesting to see if the company can improve its score, and if the company will see the financial rewards.

Burt's Bees has also seen good growth

Burt's Bees has been a driver for sales. Clorox does not produce full financials for its subsidiaries but indications of the company's growth can be gleaned. Burt's Bees has regularly had double-digit growth since its acquisition. In the nine months ended 31 March 2015, Clorox said higher shipments of Burt's Bees were a driver of the company's increased volume during this period. This helped to offset decreased from the company's other brands, such as Brita filtered water. The company's 2015 annual report describes Burt's as a "promising growth platform[s]".

In a call between Bloomberg BNA and Alexis Limberakis, Clorox's director of environmental sustainability, in April 2015, Limberakis said Burt's Bees is one of Clorox's fastest-selling brands. However, this success is not limited to Burt's. He said around 40% of the company's growth in the last five years had come from more sustainable products.

Limberakis summed up the benefits Clorox has seen from its increased drive towards sustainability: not only has it given the company a good reputation and improved employee engagement, the most significant benefit is that there has been a "direct translation to business results", such as driving innovation and cost-saving.

This is a strong statement which clearly outlines the various benefits businesses can see if they take steps to improve their sustainability.

PEPSICO ACQUIRED NAKED JUICE TO JOIN ITS OTHER GOOD-FOR-YOU BRANDS

PepsiCo, in a bid to attract an increasingly health conscious consumer, has improved the health credentials of its products and engaged in M&A activity in recent years. One of the brands that was acquired was Naked Foods, a juice and smoothie producer.

Naked Juice makes juices and smoothies

Naked Juice is a US company that produces juices and smoothies. The company was founded in 1983 and is based in California, US. The company markets its products as healthy and natural, with no added preservatives or artificial flavors.

The company was launched in founder Jimmy Rosenberg's house, and all products were made from fresh fruit, with no artificial colors or flavors, hence the name Naked Juice. Naked Juice was bought by a private equity firm in 2000, and became the Ultimate Juice Company, although this name didn't last for long. In 2007, the company was acquired by PepsiCo, while sales were reaching \$150m.

Today, Naked Juice's products are grouped in three segments: Veggies, Juices and Smoothies, and Coconut Water. Naked Juice sells four Veggie products, which include popular healthy ingredients such as kale. Juices and Smoothies have names like Berry Blast, Green Machine, and Power-C Machine, and contain ingredients such as chia seeds and acai. Naked Juice also sells three types of health product-of-the-moment, coconut water.

Figure 6: A range of Naked Juice drinks



SOURCE: Naked Juice

MARKETLINE

Naked Juice is keen to talk up the benefits its juices have to the consumer's health and to the planet's health. Naked Juice says "we only use what Mother Nature gave us" of its ingredients, and the products include no added sugar, no preservatives, and no artificial flavors.

With regards to the planet and sustainability, Naked Juice sources its bananas from the Rainforest Alliance, which commits to protecting biodiversity and providing sustainable livelihoods for farmers. Naked Juice is also the only nationally distributed juice company to use 100% rPET (recyclable polyethylene terephthalate). Naked Juice's bottling facility and office were both awarded LEET (Leadership in Environmental Design) status. The company uses as much natural light as it can to cut down on electricity. The company also reuses and composts as much waste as it can, and has installed 1,824 solar panels, which provide the equivalent of the energy needed to power 25 Southern California homes for a year.

PepsiCo wants to increase its healthy products

PepsiCo divides its brands into three categories: Good-for-You, Better-for-You, and Fun-for-You. PepsiCo has seen good growth in its Good-for-You and Better-for-You categories, and these are seen as drivers of future growth.

PepsiCo sells food and beverage products worldwide

Pepsi is one of the world's largest food and beverage companies, which primarily operates in the snacks and beverages manufacturing space.

The company was founded in 1965, when the CEOs of Pepsi-Cola and Frito-Lay combined to create PepsiCo. In the next couple of years, the brands Doritos and Mountain Dew were launched, which are two of the company's most popular brands to this day. In total, PepsiCo has 22 flagship brands which sell in more than 200 countries and generate more than \$1bn in estimated annual retail sales each. These brands include Pepsi, Lays, Tropicana, Quaker, Gatorade, and more.

PepsiCo operates through the following segments: PepsiCo Americas Beverages (PAB), Frito-Lay North America (FLNA), PepsiCo Europe (Europe), Latin America Foods (LAF), PepsiCo Asia, Middle East and Africa (AMEA), and Quaker Foods North America (QFNA).

Figure 7: A range of brands sold by the PepsiCo Americas Beverages division



SOURCE: PepsiCo

MARKETLINE

PepsiCo also divides its products into three categories based on ingredients and calories.

The Good-For-You category produces nutritious foods which meet global dietary requirements for sodium, sugar, and saturated fat, and include fruits, vegetables, whole grains, low-fat dairy, nuts, and seeds. Some of these brands include Aquafina, Müller, Naked Juice, Sunbites, and Tropicana. The Better-For-You products include lower sugar or low/no calorie beverages, whole grain snacks, and lower fat content snacks. Brands include Alvalle, Walkers Baked Stars, Lays The Oven, Pepsi Next and Pepsi Kick. The Fun-For-You group of brands are the "food and beverages making life more fun", according to Pepsi's website. These brands include Fritos, Lay's, Mountain Dew, Starbucks, Cheetos, Pepsi, Doritos, Walkers, and Tostitos.

Pepsi has grown its healthy brands

PepsiCo has grown its more healthful brands to meet an increasingly health-conscious market. In its 2014 annual report, which celebrated PepsiCo's 50th year, the company outlined four major trends and how it adapted to them in order to continue growing revenues. One of these trends was 'The Acceleration of Consumer Focus on Health and Wellness'. The annual report states that consumer awareness and focus of health and wellness issues has both challenged the Fun-For-You brands as well as creating growth opportunities for the Better-For-You and Good-For-You categories. PepsiCo states that it "anticipated this shift early on", and "future-proof[ed]" its portfolio. This future-proofing included moves to invest in research and development to improve the nutritional value of its Fun-for-You brands. This included reducing amounts of salt, fat, and added sugar, as well as eliminating trans fats. PepsiCo also acquired a number of large brands to occupy the Good-For-You space, including Quaker Oats, Gatorade, Tropicana, Wimm-Bill Dann, and Naked Juice.

Figure 8: PepsiCo's Good For You range



SOURCE: PepsiCo

MARKETLINE

In 2014, these nutritious brands accounted for around 20% of PepsiCo's net revenue, and PepsiCo claims to be "one of the top companies in the world in the growing everyday nutrition space."

PepsiCo expects these four major trends, including the increasing consumer focus on health and wellness, to continue and even increase in intensity.

One of the brands PepsiCo acquired was Naked Juice

Naked Juice was acquired to join the Good-for-You category in 2006 but, since, has lost some of its health credentials. The company was forced to drop its 'natural' description after a class action lawsuit.

Naked Juice joined the Good-for-You brand category in 2006

In 2006, Naked Juice was acquired by PepsiCo and assimilated into its Good-for-You brand category. 2006 was a big year for healthful acquisitions: earlier in the year PepsiCo also acquired sparkling water company IZZE Beverages and Stacy's Pita Chips. At the time of these acquisitions, PepsiCo's expansion of products to address consumer health and wellness needs were growing at two and a half times the rate of the rest of the company's portfolio, according to PRNewswire.

At the time of purchase, Naked Juice had a range of 25 vitamin-fortified drinks and had annual sales of \$150m.

The acquisition of Naked Juice was to boost the health credentials and offerings of PepsiCo, as well as compete with an earlier acquisition by The Coca-Cola Company, that of juice and smoothie company Odwalla, which was bought in 2001.

Greg Shearson, the president of PepsiCo's Tropicana Products North America unit said of the acquisition that Naked Juice, "strategically fits our stated plans for growth", with the products being "consistent with PepsiCo's overall health and wellness focus."

Naked Juice has dropped its 'natural' description

PepsiCo and Naked Juice's partnership has not all been smooth sailing. In 2013 a class action lawsuit over Naked Juice's misuse of health phrases including "100% Juice," "100% Fruit," "From Concentrate," "All Natural," "All Natural Fruit," "All Natural Fruit + Boosts" and "Non-GMO" led to PepsiCo settling for \$9m. Both Naked Juice and PepsiCo refuted these claims. Naked Juice said the 'all natural' claim referred to the fruits and vegetables used in the products, rather than the vitamin boosts added to some.

Lawsuits such as this are dangerous for PepsiCo's future prospects. Brands such as Naked Juice give PepsiCo a much needed boost in the consumer's perception of healthiness of PepsiCo. If PepsiCo sees the consumer as increasingly focused on health and wellness, PepsiCo needs to be careful about how its products are perceived. This lawsuit is doubly embarrassing for the company because, not only are the products not 'all natural' the consumer will perceive the brand as lying to them. Both can affect sales negatively.

PepsiCo needs to anticipate consumer shifts in preferences

The company lists one of its risk factors as being unable to keep up with changes in consumer preferences or the inability to market products effectively.

PepsiCo has recently questioned what "good" food is, in terms of healthfulness, as it sees this as a strong driver of growth. However, PepsiCo has to be able to offer products to consumers who are no longer sure what "good" really is. PepsiCo's CEO Indra Nooyi said that the company was "going through a little change", as its Q1 2015 results reported. Nooyi said the challenge it now faced was being able to provide the products its "confused" customers want.

She said that describing consumers as confused was not meant as a negative, but meant neutrally. She continued, "A few years ago people were moving to diet sodas. Now they view real sugar as good for you. They are willing to go to organic non-GMO products even if [they have] high salt, high sugar, high fat." She described this as "unprecedented", and said that the challenge lies in perhaps moving the goalposts in terms of what is defined as Good for You, Better for You, and Fun for You (PepsiCo's three sales brackets.)

If PepsiCo is not able to anticipate consumer shifts in preferences as well as demographics (for example, an ageing population), it may not be able to continue to grow at the rate it is accustomed to. PepsiCo states that, to temper these risks, the company will continue to focus on product and marketing innovations, improving its existing products and maintaining a robust pipeline of new products.

Another of PepsiCo's risk factors is damage to reputation or brand image. As well as ethical, social and environmental practices, the perception that the company's products are unhealthy could also affect revenues. As well as continuing to improve the sugar, fat, and salt content of its products, developing a broad portfolio of healthy product choices will also help PepsiCo address this risk.

Both of these risk factors, as well as PepsiCo's historic propensity to buy healthy brands, suggest that PepsiCo will continue to seek out fast-growing healthy brands and effectively market them to consumers. Not only will these increase sales, it should also improve the health reputation of PepsiCo as a whole.

Soda sales have been in decline for two decades. Down from the heyday of soda consumption from the 1960s to the 1990s, sales of full-calorie soda have dropped by more than 25% in the last 20 years in the US, and many consumers say they are actively trying to avoid the products. At the same time, sales of bottled water have shot up. In 2014, carbonated soft drinks accounted for less than 25% of PepsiCo's total global revenue. CEO Nooyi concluded, "This speaks exactly to how we've transformed and will continue to transform our portfolio to address ever changing consumer needs and preferences."

Pepsi aims to grow its sales of nutritional products to \$30bn by 2020, up from \$10bn in 2010. This suggests a continued investment in improving the nutrition of existing products as well as developing new products and acquiring other brands.

CONCLUSIONS

The acquisition of GNEOH brands can improve revenues for various reasons

The number of companies operating in the global consumer goods market has declined significantly in the last two decades. Smaller, independent brands have been bought up by multinational behemoths, leading to consolidation of the market. Nowhere is this more the case than in the food and beverage market, where corporations such as General Mills, PepsiCo, and Nestle dominate. However, this is also the case in other consumer goods markets. For example, Unilever owns numerous home care and personal care brands, including Lynx, Dove, Simple, Vaseline, Comfort, Sure, Persil, Radox, and more.

A growing movement in this wider trend of consolidation is the increasing number of small GNEOH brands being bought up by multinational corporations. As Figure 1 demonstrates, a large number of organic brands have been bought up by a relatively small number of larger corporations, and this trend is not limited to organic brands. Green, healthy, natural and ethical brands have been snapped up, too.

This case study has looked at two reasons why, and has explored some examples.

The first reason that GNEOH brands might be bought is health reasons. An increasing consumer preference towards healthiness has precipitated a great number of acquisitions, with the Food Institute finding in 2014 that the majority of acquisitions were geared towards healthy eating. One example of this is PepsiCo, which divides its brands into three segments: Fun-for-You, Good-for-You, and Better-for-You. In recent years, sales of soda in the US have plummeted and carbonated drinks now account for less than 25% of PepsiCo's total global revenue. At the same time, PepsiCo has been snapping up brands in its Good-for-You and Better-for-You segments, noting that it anticipated the shift to healthier products "early on" and so "future-proof[ed]" its business.

One of PepsiCo's acquisitions was of juice and smoothie company, Naked Juice, acquired in 2006. However, Naked Juice has been plagued by the problems that can often occur with an acquisition of this kind i.e. the acquired company's ingredients, business practices or ethics get watered down. Naked Juice dropped its 'all natural' claim after a 2013 class action lawsuit over the brand's use of certain health phrases such as "100% Fruit" and "Non-GMO". However, it's not clear how, or even if, this has affected sales, if at all. PepsiCo's 2014 Annual Report still refers to Naked Juice as an "important nutritional platform". It's clear from General Mills' acquisition of Annie's, which has lost the 'organic' label from many of its products but maintained its "homespun and healthful" reputation, that Naked Juice may not be affected by the lack of 'all natural' on its labels. If Naked Juice and PepsiCo manage to retain Naked Juice's reputation as a healthy brand, sales need not be affected.

What is clear is that PepsiCo sees healthier products as future drivers of growth, and the company needs to stay on top of what the average consumer deems "healthy". As PepsiCo cannot anticipate consumer shifts, the company will continue to innovate and improve its existing products and, presumably, continue to acquire healthy brands.

Another reason a GNEOH brand may be acquired is to provide advice, help, and inspiration to the company acquiring it. This may be in terms of business practices, sustainability, waste and energy use, sourcing, and more. One example is Clorox Company's acquisition of Burt's Bees, a company famous for its ethical practices and natural ingredients. Clorox began to look at its business practices in the 2000s, and acquired Burt's Bees as part of this.

The acquisition has been successful; Clorox has made sustainability improvements to 20% of its products since 2011, and is well on its way to its 2020 goal of making sustainability improvements to half its products. The company has also cut down on energy, water, and waste, partly through taking on practices from Burt's Bees, such as the Dumpster Dive.

This has had a positive effect on Clorox's reputation. The company was named as one of Corporate Responsibility Magazine's 100 Best Corporate Citizens List in 2015, for the fifth year running, and was also named the number 12 most reputable company in the US according to the Reputation Institute's 2015 US RepTrak 100.

This is significant, as research shows that companies with strong reputations reap financial benefits as well as attracting better talent. If Clorox can continue improving its sustainability practices and improving its reputation, it should see strong growth and the building of a loyal customer base.

There are many reasons why GNEOH brands may be acquired, but this case study demonstrates that these acquisitions are not entirely altruistic; the acquisition of GNEOH brands can bring in significant financial rewards. It is for this reason that food, beverage, and consumer goods companies are likely to continue on this acquisition path.

APPENDIX

Definitions

GNEOH – Green, natural, ethical, organic and healthy.

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MARKETLINE | JOHN CARPENTER HOUSE | JOHN
CARPENTER STREET | LONDON EC4Y 0AN
T: +44 (0)20 3377 3042 | F: +44 (0)870 134 4371
E: REACHUS@MARKETLINE.COM
WWW.MARKETLINE.COM

MarketLine