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The limitless potential of naturality

The global economy is going through a period of immense upheaval. Over the past year, we have witnessed new developments emerging as well as the acceleration of existing trends. In recent years, consumers had already been showing a growing interest in health and wellness and there had been a significant increase in the number of people focusing on their physical and mental wellbeing. In 2015, 3i identified “naturality” as a growing trend spanning numerous industries. 3i Partner Rémi Carnimolla and Director Rupert Howard discuss this theme in more detail and explain why 3i finds it attractive.



Rémi Carnimolla
3i partner

For a number of years consumers have sought organic food products. However, in many cases these options have fallen short of the mark. Naturality goes further than simply using organic ingredients. Following the mantra “you are what you eat”, today’s consumer has a strong aversion to artificial additives and increasingly looks for ingredients that they can recognise and trust.

In the five years since we began to home in on this theme, naturality has extended its reach into categories such as pet food, cosmetics and even apparel. This has been driven by millennial and Gen Z consumers, who are digitally savvy and highly connected in terms of social media use. Through these channels, virtuous echo chambers develop, generating a huge amount of news and excitement. That brand exposure is part of why naturality has become much more of a mainstream trend in the last few years.

Naturality in practice

At 3i, we invested in a French company called Havea (previously Ponroy) in 2017. That business

has a number of brands with unique product lines including Aragan (cosmetics), Vitavea (vitamins and supplements), Dermovitamina (dermatological skincare), Biolane (babycare) and Naturé-Moi (haircare and hygiene). The common thread that ties all of these separate brands together is naturality.

More recently, in November 2020, we backed the UK premium natural pet food manufacturer MPM, which owns the brands Applaws, Encore and Reveal. Just as consumers are more conscious of the food they put into their bodies, so too are they paying greater attention to what they feed their pets. With MPM, we also recognised that sustainability is a core tenet of the business that is led from the top. The proof of that is in the progress they have made in heading towards becoming a B Corp certified company.

Sustainability, please

Having a natural product range is one thing, but sustainability is equally important. Millennial and Gen Z consumers are conscious of where and how products and materials are sourced, which



Rupert Howard
3i director



influences their buying decisions. For example, palm oil is a natural product, but it can be linked with deforestation and loss of habitat for endangered species.

As with any due diligence process, you have to go back to the source – having visibility in the entire supply chain from resource extraction to retail is key. If sustainability is a key tenet of the product proposition, you have to independently confirm that it is actually sustainable because this is exactly what a savvy consumer will do. If the products predominantly use natural products there are, almost by definition, fewer ingredients that go into them and therefore it's typically easier to confirm their provenance. As an investor you have to make sure that you are 100% comfortable with this and ensure the supply chain is totally traceable.

This also extends to the packaging that's used. For example, whether it is recyclable or uses single-use plastics, and the manufacturing process in terms of water treatment and low-energy consumption. All of this needs to be taken into account and is not only being driven by consumers but also retailers, which have their own ambitious sustainability targets to reach.

Building brands consumers can trust

Corporates in the fast-moving consumer goods (FMCG) space have recognised the importance of naturality and have been building out their product portfolios accordingly. We see, however, that there is a high degree of scepticism among millennial and Gen Z consumers about the social and environmental values of these large, established corporates, which can struggle to develop their own brands in-house. Because of this they will often target nascent brands that can be acquired once they have reached a sufficient scale. This is especially true in the cosmetics sector.

Although large FMCGs are altering their products to become more natural, this can be a tricky prospect. If they are not careful and overpromise on naturality, they can undermine their credibility and be seen as “greenwashing”, similar to the way many companies' sustainability credentials are scrutinised.

Companies that are prepared for scrutiny and which can prove their bona fides will stand out amidst those which merely use naturality and sustainability as a marketing gimmick. Sticking to the proposition is going to be a key differentiator.

How private equity can add value

There are numerous ways private equity can add value. One is the portfolio effect of sharing best practices between companies in which we are invested. As we back more businesses focused on naturality, we can help them understand what has worked in the past – and what hasn't.

There is also a huge upside to be gained from the internationalisation of a brand. Creating brands that are as appealing in the US as they are in Europe or Asia will dramatically increase value. That is an area in which we can help our companies because of our large geographic footprint and global connections.

Digital marketing and direct-to-consumer (D2C) initiatives are another point of focus and the value of e-commerce has really been brought home over the past year of the pandemic. Most of the time, we have found that companies underestimate the value of their data. We have been opening our portfolio companies' eyes to the commercial value of this data and helping them understand how they manage and use it. This is especially the case when it comes to becoming more targeted and efficient in their marketing through a better understanding of their customers, what they want and when they are likely to want it. ■