



IFS



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Best Practices in Nutraceuticals Fulfillment
Top 10 steps to successful fulfillment of your nutraceuticals or cosmeceuticals business

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Best Practices in Nutraceuticals Fulfillment

Forward

Sensing significant growth in the nutraceuticals market in the late 1990s, the team at Innovative Fulfillment Solutions accepted its first nutraceutical client in 1999. Since that time, IFS has become recognized for providing not only a complete, turn-key pick/pack and ship operation for nutraceutical and cosmeceutical clients, the company also provides a full-service, “high touch” Call Center to support those clients’ customers, as well.

With more than a decade of experience in fulfillment for nutraceutical and cosmeceutical clients – which translates to more than a half million shipments – IFS’ current client list includes approximately 20 nutraceutical and cosmeceutical companies with operations around the globe.

As an experienced fulfillment provider for well-known products in this category, the IFS team has written this White Paper, identifying what it believes are the 10 key steps that nutraceutical and cosmeceutical companies need to take in order to ensure their fulfillment process is successful.



Suggested Steps for Your Nutraceutical and Cosmeceutical Fulfillment to be Successful

Despite the difficult recession that hit the U.S. in 2008, it appears that the nutraceuticals industry has fared pretty well of late. Although the industry may not be recession-proof, it could easily be considered recession-resistant.

According to Darrin Duber-Smith, president of Green Marketing, Inc., and a respected author and speaker on the topic of nutraceuticals, cosmeceuticals and natural products, “Although no industry is truly recession proof, it is clear after the lengthy and painful recession and ongoing economic malaise that most natural and organic product consumers remain loyal to the category.”

In a recent comprehensive global report on the nutraceuticals market (September 2010), Global Industry Analysts, Inc. reported that the global nutraceuticals market is projected to exceed \$243 billion by 2015. The U.S., Europe and Japan dominate the global market and account for more than 85 percent market share.

In fact, a recent survey conducted on behalf of New Jersey-based Vitamin Shoppe, Inc., found that 60 percent of U.S. adults currently take a vitamin or supplement. It is interesting to note that nearly half (46 percent) of Americans who take vitamins began doing so on the recommendation of an expert. One-third (34 percent) began a vitamin regimen to improve their health generally, and one in 10 (nine percent) wanted to feel better about themselves. Multivitamins are the most popular supplement.

As defined in the Merriam-Webster Dictionary, the term “nutraceutical” – which is a combination of the words “nutrition” and “pharmaceutical” – is “a food stuff (as a fortified food or dietary supplement) that provides health benefits.” It’s important to point out that some of the country’s largest pharmaceutical and biotech companies have committed major resources to their nutraceuticals business. Those names include Abbot Laboratories, Archer Daniels Midland Company, BASF Human Nutrition, Bayer Health-care AG, GlaxoSmithKline, Mead Johnson Nutritionals, Monsanto, Nestle Nutrition, and Wyeth Nutrition, to name just a few.

Cosmeceuticals...the fastest-growing segment of the personal care industry

Similar to nutraceuticals, cosmeceuticals represent a blended combination of cosmetics and pharmaceuticals. Cosmeceuticals are topically applied, and contain ingredients to enhance or improve the appearance of the skin. Those ingredients typically include vitamins, herbs, various oils and botanical extracts.



According to Dermatologist and cosmeceutical expert Dr. Robert A. Schwarz, cosmeceuticals typically claim to improve skin tone, texture and radiance, while reducing wrinkling. With the aging of the population – and consumers’ ongoing desire to maintain a youthful appearance – the growth of the cosmeceutical industry is on the rise. In fact, Dr. Schwarz notes that cosmeceuticals are the fastest-growing segment of the personal care industry.

According to a July 1, 2011 news release by Research and Markets regarding their study “U.S. Cosmetic & Toiletries Market Analysis,” the U.S. anti-aging skincare industry has been doing well since 2006. “Alongside the naturals and organic segment, anti-aging skin care products have consistently provided strong growth in the United States.” The study notes that the total market for cosmetics and toiletries is projected to reach around \$24 billion by the end of 2015.

Baby Boomers...a big reason for industry growth

It is widely believed that a major contributor to the growth of nutraceuticals and cosmeceuticals in the U.S. is the aging baby-boomer population, who are turning to vitamins, supplements and topicals in an attempt to avoid higher expenses on prescription medications and other health care costs, as well as to look and feel younger.

With approximately 3.5 million Boomers turning 55 every year, America’s 50 and older population is expected to reach 100 million by 2012. By halfway through the 21st Century, there could be almost 142 million Americans over the age of 50.

And with a significant increase in life expectancies and more energetic lifestyles, Boomers – who are not interested in being considered “old” – appear to be turning to nutraceuticals and cosmeceuticals to help them live longer and more active lives. In fact, Del Webb’s 2010 annual survey of Baby Boomers confirmed that the concept of “old age” is simply a state of mind, and that “age is nothing...attitude is everything.”

With that information in hand, let’s take a look at the most important steps a nutraceutical or cosmeceutical company needs to take related to its fulfillment in order to ensure the company’s success.



Top 10 steps to successful fulfillment of your nutraceuticals or cosmeceuticals business

1

An e-commerce enabled website that provides helpful information and clear navigation for your customers

Today's consumers are more sophisticated than ever. That means when it comes to shopping, they frequently turn to the internet. And those shopping online for nutraceuticals and cosmeceuticals will often know exactly what they want.

As a result, having a well-designed, easy-to-navigate e-commerce enabled website isn't just something that's nice to have...it's a 'must have.' Along with well-written copy, you should employ high resolution product photographs that load quickly.

We recommend visiting other industry websites to compare your current site with your competitors. Note the ones you like the best and make a checklist of their positive attributes. Some of the most important aspects of high quality e-commerce sites include:

- Appropriate font size...remember, you're often targeting Baby Boomers whose eyesight may be getting fuzzy;
- Site search capability, by both item number and name;
 - Make sure your search results are accurate;
 - Give customers the ability to refine their search; and
 - Reiterate the terms that were used for the search.

- A shopping cart that clearly shows what is being ordered as each item is selected;
 - Although it takes some extra "back end" coordination, if possible make sure that every item that goes into the shopping cart also has inventory available;
 - Secure on-line ordering (see *Number 10 below regarding PCI-DSS compliance*). At the end of the ordering process, provide your customers with an order confirmation number to reference;
 - The ability to sort your products by size, quantity, etc.; and
 - Contact information should be easily available, and every page should have either a phone number or a link to the "Contact Us" page.

2

A "high touch" Call Center to build long-term relationships with your company's customers

Not all nutraceutical companies offer live customer service through a Call Center, but those companies that do typically insist on providing an exceptional customer experience. As a result, they tend to generate loyal, long-term customers and increased sales.

Nutraceutical customers are serious about their health. Although they typically know exactly what they are shopping for online, they still have questions about those products. If your website simply lists your products and provides no customer support, you are likely to lose customers who – despite being ready to spend – are afraid to take a chance on a new product without being able to ask someone about it. With increasingly busy



schedules, many consumers will not wait for an email response some hours or days later.

Take it from Zappos, the online retailer that became known for its obsession with exceptional customer service: customer service is “King.” In fact the company – which has been lauded for its outstanding Call Center (a big reason it was purchased by Amazon.com in 2009 for over \$1 billion dollars) – emphasizes to its employees “The Three C’s”: Communication, Consistency and Culture.” It also proudly displays its “Zappos Family Core Values” so all website visitors can see just how committed the Zappos’ employees are to their culture.

3

Temperature-controlled warehouse space to ensure the integrity of your products

Many warehouses do not offer temperature-controlled storage, yet nutraceutical and cosmeceutical products can be damaged by exposure to extreme temperatures. In fact, large warehouse structures report indoor temperatures that frequently reach well into the 90s or above during the summer months.

Since the FDA now regulates nutraceuticals, it is critically important that these temperatures be controlled, since you may be required to prove that your temperature standards have been met.

To be sure, since heat waves, power outages, and disasters happen and – despite the additional costs you’ll incur – temperature-controlled storage is a must to ensure the integrity of your products.

You simply can’t afford to risk product degradation due to extreme temperatures, resulting from a scorching summer heat wave or a winter power outage.

One more note regarding temperatures: If your nutraceutical or cosmeceutical products are ever involved in a recall, your storage temperature information will likely be critical to reimbursement from your supplier and to a successful resolution.

4

Appropriate packaging makes shipping more cost effective

Shipping nutraceuticals efficiently takes just the right packaging and that often means lightweight envelopes instead of boxes. Nutraceutical companies trying to handle their fulfillment in-house may find themselves paying more than they need to for shipping, if the packaging isn’t right. Depending on your average volume of shipments, make sure your fulfillment team uses sturdy, yet lightweight packaging material, which can save you hundreds if not thousands of dollars every month in reduced shipping costs.

It’s important to realize that the type of packaging you select will impact your choice of shippers, which in turn will determine whether or not you will be able to track your shipments. In some cases tracking may be important (e.g., for high-end, expensive products, and/or for replacing a damaged or missing order). In many cases, however, you may choose to forego tracking in order to get a more cost-effective freight price.



5

Choose a customer-efficient, cost-effective shipper

Are you taking advantage of quantity discounts? Do you regularly compare shipper options? If you are not considering any of these things, you are most likely spending more than you need to on shipping expenses.

As gas prices have steadily climbed over the past few years, shipping costs have increased dramatically. Clients of third-party fulfillment firms like IFS can often see a significant savings on their shipping expenses due to the collectively large volume of shipments they send each day on behalf of all of their clients.

But despite these savings, it may still be difficult to justify the high cost of using a large, international shipper. Although UPS and Fed Ex have solid reputations for on-time delivery, most nutraceutical and cosmeceutical products are very light weight and ship most cost-effectively via the United States Postal Service (USPS). Both UPS and FedEx have partnered with the USPS to offer reliable shipping at reduced costs. Plus the combination has proven to be extremely reliable in terms of order-accuracy and on-time delivery. Your fulfillment partner should be able to discuss these shipping options with you.

The bottom line: Using a large, international shipper that can provide you with tracking of every order can often be too expensive to cost-justify. Plus, tracking doesn't always mean "delivery confirmation." It sometimes simply means tracking it to the closest post office.

6

A customer-friendly auto-ship (subscription renewal) program can boost order volume

Want to ensure your customers re-order with you regularly, thereby keeping them for the long term? Try an auto-ship program, often called a "subscription renewal" program.

Not only is an auto-ship program convenient for your customers that have an ongoing need for a particular product, it is one of the most profitable programs you can implement. You'll no longer have to cross your fingers and hope your customers remember to either go online or pick up the phone every month or quarter to order their refills.

Here's a tip: When you implement an auto-ship program, you should consider offering some type of incentive – such as free shipping for orders over a certain price – in order to encourage customer enrollment.

7

The ability to ship in bulk to retailers and/or wholesalers, in addition to shipping directly to consumers, can open new market opportunities

Shipping directly to individual consumers is one thing, but don't overlook the opportunity to sell your products in bulk quantities to retailers, wholesalers and/or medical practitioners. Health and nutrition stores, pharmacies, physician practices or chiropractic offices also may have an interest in carrying your product.



Sure, the margins are smaller when you sell in bulk, but not only are the orders larger, retailers carrying your product give you the chance to reach a whole new market that you may never have reached online. And reaching new customers means a better opportunity for word-of-mouth selling that can be very valuable to your business.

In other words, bulk orders can be a big boost to your business, but you have to have the fulfillment capabilities to not only ship bulk orders but to do the appropriate tracking (lot numbers, etc.). Since volume shipping is an entirely different process – involving material handling equipment, different packaging materials and different shippers – consider whether or not your company is prepared to leverage volume orders in an efficient and cost-effective way.

8

The ability to up-sell and/or cross-sell to your customers can increase your average ticket amount

Want to provide an instant boost to your shipment volume? Consider training your high touch Call Center staff on up-selling and/or cross-selling other products to your customers.

Up-selling refers to encouraging customers to buy a little “something extra” or to up-grade slightly from the final purchase. Up-selling is typically done after the customer has already decided to make a purchase. For instance, if a customer has decided to purchase a particular multivitamin, you might up-sell him or her on getting a second bottle for half-price, or joining your auto-ship program.

On the other hand, cross-selling is offering something that is relevant or complementary to your product. For instance, if a customer orders a multivitamin that’s intended for “senior” women, you might consider offering special pricing on a product that contains calcium, or a product that fights hot flashes, since they are also ideal products for shoppers in this category. Note that when cross-selling those additional products, it helps to have a special price and a limited-time offer (e.g., “this week’s special”).

With either up-selling or cross-selling, encourage your Call Center team to lead with the benefits of the additional products...but not in a pushy way. When done effectively, up-selling and cross-selling can be huge opportunities for additional sales, and can boost your average ticket by as much as 50 percent.

9

Data mining your customer database leads to more targeted marketing efforts

Are you currently “mining” your customer database for additional marketing opportunities? Data mining is the process of identifying patterns from large sets of data, by using various methods of statistics and database management. It is seen as an increasingly important tool for turning digital data into business intelligence that can boost your company’s profitability.

As an example, by closely examining the purchases of a particular new product over a period of 60 days, you might recognize that the vast majority of customers appear to be men over the age of 50. This knowledge can allow you to bet-



ter target your advertising and marketing efforts going forward.

In another case, you may realize that the response from one particular email campaign performed nearly 20 percent better than another email campaign for the same product. By closely studying particular aspects of your campaign, you can likely determine if the improvement came as a result of the prospects targeted or the email campaign's offer.

These are just two simple examples of how mining your data – through close examination of purchasing patterns, customer demographics, and/or advertising efforts – can help you make smarter decisions in future marketing and advertising activities. Rather than randomly contacting prospects or customers via email, through a Call Center outreach program or with a direct mail campaign, a company can concentrate its efforts on prospects that are predicted to have a higher likelihood of responding to a specific offer.

Often, third-party fulfillment firms like IFS will have a Database Administrator on staff to assist its clients in their data mining efforts. If your nutraceutical firm is doing its own in-house fulfillment, you might consider contracting with someone to fill this important role.

10 Your Web system and service provider should be PCI-DSS compliant for processing credit cards and issuing credit when you receive returns

PCI-DSS refers to the "Payment Card Industry Data Security Standard," which is the information

security standard for organizations that handle cardholder information for major debit, credit and prepaid cards, as well as their ATM and POS cards. The standard was created to increase controls around cardholder data and to reduce credit card fraud.

There is no question today that online security of your customer information is of paramount importance. Data breaches can make or break your business. Being able to ensure your clients – and their customers – that all personal information is 100 percent safe and secure is critical to your reputation as a trusted provider.

If you haven't yet asked your credit card processor about their PCI-DSS compliance, it's important to do so.

In Summary: In-house vs. out-source... what's right for your company?

Often start-up and early-stage ecommerce companies consider taking on these important fulfillment tasks themselves while their volume is growing. While this may appear to be a viable option, there are important issues to consider.

You will need a robust – and what can often be expensive – software program to manage inventory, process and track customers orders, and collect and keep important data for marketing purposes. Additionally, you may need to lease a warehouse facility, purchase material handling equipment, buy packing materials and hire labor. Yet in the early months your shipment volume may only require fulfillment labor a few hours a day, while getting and managing that labor for the exact times needed may be difficult.



Ultimately it's very difficult to determine the right time to outsource your company's fulfillment operations. Once your sales volume increases, it can be challenging and – if not timed perfectly – a costly interruption in your ongoing business. It is crucial to find the right fulfillment provider to ensure that transition process goes as smoothly as possible.

FOR MORE INFORMATION

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