White Paper

For Nutraceutical, Cosmeceutical and Nutricosmetic E-tailers

Ten Must-Have Fulfillment Solutions for Optimal Distribution and Customer Experience

www.ifssolutions.com
Leader in Nutraceutical Fulfillment

Forward

Since contracting with its first nutraceutical client in 1999, Innovative Fulfillment Solutions (IFS) has become recognized for providing a complete, turnkey pick/pack and ship operation for nutraceutical, cosmeceutical and nutricosmetic clients. Additionally, the company's focus on “high-touch” customer service – combined with its central U.S. location – have garnered IFS a reputation for being an efficient and cost-effective fulfillment service provider to the nutraceutical, cosmeceutical and nutricosmetic industries.

With nearly 20 years of experience in fulfillment for nutraceutical, cosmeceutical and nutricosmetic companies – which translates to more than 2.5 million shipments – IFS’s current client list includes nearly two dozen related companies with worldwide operations.

Top-notch fulfillment solutions are in high demand, as the industry shows no sign of slowing. The market is driven by Baby Boomers, who want products that help prevent or mitigate conditions related to aging, millennials, who want to optimize their current health and prevent poor health in the future, and women, who look to supplements for functional wellness, fitness and lifestyle.

As an experienced fulfillment provider for well-known products in this category, the IFS team has compiled this white paper, identifying what it believes are 10 key business practices to look for when selecting a fulfillment provider as you launch and expand your nutraceutical, cosmeceutical or nutricosmetic company. These business practices will streamline your business and ensure the best customer experience.
Nutraceutical Growth Opportunities

Increased Nutrition Awareness and Public Health Concerns

Consumers across all market segments are trending to be more preventative in their healthcare, and this opens an opportunity for growth in the nutraceutical (non-prescription pharmaceuticals) – fortified food or dietary supplement – marketplace. According to 2017 data from the Natural Marketing Institute’s SORD study, 60% of consumers feel they don’t get the nutrients they need in their diet. When making a decision on supplements, the study states people seek guidance from their physician (89%) or pharmacist (76%). However, labels play a big role in decision making (76%), and with social media’s growth across all demographics, its influence has increased 500% since 2009.

*Forbes* reported that what began as a fringe movement of people interested in organic food, yoga and shopping at health and specialty food stores has turned into a national trend, driven by a broad constituency of consumers of all incomes, ethnicities and genders. The result is a cross-section of shoppers seeking healthy choices that extend beyond the traditional health categories of food and beauty.

Products addressing specific health benefits are an emerging growth segment. According to the 13th Annual Food and Health Survey from the International Information Council Foundation, the top two desired health benefits in 2018 are cardiovascular health (20%), followed by weight loss/weight management (18%) and energy (13%).

Fueled in part by the growing Baby-Boomer population - 3.5 million turn 55 every year - in the United States, the focus on health and wellness has increased due to an upsurge in the occurrence of health problems such as diabetes and obesity. The World Health Organization reports the number of adults with diabetes worldwide quadrupled between 1980 and 2014, and a 2017 “The State of Obesity” report confirms that obesity remains one of the biggest threats to the health of our country with nearly 38% of adults obese and 8% are extremely obese.

The 2017 Council for Responsible Nutrition Consumer Survey on Dietary Supplements shows an all-time high for supplement usage among U.S. adults, with 76% reporting they consume dietary supplements, up five percentage points from 2016. The survey also found that 87% of U.S. adults have confidence in the safety, quality and effectiveness of dietary supplements overall. With the uptick in usage and consumer confidence, research firm Mordor Intelligence expects the ever-growing nutraceuticals industry to reach more than $561 billion globally by 2023.

Key retail brands in this growing industry sector include NatureMade, Action Labs, Sundown Naturals, Nature’s Way, Twin Labs, Life Extension, Nature’s Bounty, Herbalife, Centrum and GNC.
The Rise of Cosmeceuticals

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 the Global Cosmeceuticals Market Outlook 2020, the advent of cosmeceuticals has revolutionized the Cosmetic and Personal Care Industry by providing consumers with the ability to resolve the cause of skin imperfections rather than covering them. According to Mordor Intelligence, the increase of knowledgeable, wealthy, beauty-conscious consumers looking for cosmetic products with medicinal benefits is the reason for increased sales. Consumers are more mindful of product ingredients and avoiding chemicals, which attributes to the category’s growth.

While cosmeceutical sales suffered recession effects in 2008-2009, there has since been a significant improvement in this category as people continue to seek preventive, cost-effective ways to maintain a youthful appearance. The global cosmeceuticals market was valued at nearly $47 billion in 2017 and Mordor Intelligence reports it is expected to reach a value of more than $80 billion by 2023.

Top companies in this market sector include Unilever, Proctor & Gamble, L’Oreal, Avon, Allergan, Bayer, Johnson & Johnson and Shiseido.
Nutricosmetics: New and Growing Market

Nutritional supplements supporting the structure and function of the skin are nutricosmetics, which are consumed orally in pill and liquid forms. The ingredients used in these products act as anti-oxidants and provide anti-inflammatory protection.

Grandview Research reports the growing elderly population seeking cosmetic treatments and the rapid rise of a beauty-conscious urban population are two large drivers of this segment. Currently, the Europe and Asia-Pacific markets are the largest consumers of this product base, with the North American nutricosmetics market expected to grow at the fastest rate in coming years.

A 2018 Transparency Market Research Report states the nutricosmetics market was valued at $5.1 billion in 2016 and is expected to hit nearly $8 billion by 2025.

Top companies in the market include BASF, Solgar Inc., Nutrilo GmbH, Lonza Group and Martek Biosciences Corporation.
Top 10 business practices to look for when selecting a fulfillment provider for your nutraceutical, cosmeceutical or nutricosmetic business:

1. Systems to support a mobile-friendly, e-commerce website
2. High-touch Call Center
3. Temperature-controlled warehouse and inventory management
4. Protective and cost-effective packaging
5. Co-mingled and cost-sensitive shipments
6. Auto-ship renewal programs
7. High-volume and bulk shipment capabilities
8. Cross-sell- and upsell-minded
9. Data-mining and segmentation targeting
10. Secure and breach-resistant data

So having a well-designed and mobile-friendly e-commerce-enabled website that is easy to navigate isn’t just something that’s nice to have…it’s a ‘must have.’

Plus, incorporating basic search engine optimization (SEO) principles into well-written copy will help your customers find your site more easily when searching for your product category and ensure they have an enjoyable, convenient shopping experience.

High resolution product photographs – that load quickly – are also essential to enhancing your product image.

Take a few moments to visit 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 has inventory available;
- secure on-line ordering (see Number 10 below regarding PCI-DSS compliance);
2 A “high touch” Call Center that gives you the opportunity to build long-term relationships with your customers.

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

You know that nutraceutical customers are serious about their health. Although they typically know exactly what they are shopping for online, there may be times when they have questions about the products they are buying.

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. Remember, one of the main reasons consumers shop online is the convenience.

Don’t risk losing business by making your customers wait for an email response some hours or days later.

3 Temperature-controlled warehouse space and inventory controls to ensure the integrity of your products.

If your products can be damaged by exposure to extreme temperatures, make sure your fulfillment provider has plenty of temperature-controlled warehouse storage.

In most parts of the country, 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 are controlled. You may be required to prove that your temperature standards have been met in the event your nutraceutical or cosmeceutical products are ever involved in an FDA inspection or recall.

Protect yourself against the damage that can be caused by heat waves, power outages and other disasters. Despite any additional costs you might incur, temperature-controlled, FDA-compliant storage is a must for ensuring the integrity of nutraceutical and cosmeceutical products. You simply can’t afford to risk product degradation due to extreme temperatures.

To ensure that your product inventory is managed efficiently, your fulfillment provider should maintain a first-expired, first out (FEFO) system that directs warehouse staff to select inventory with the nearest expiration date first from your existing stock.

Also, a fulfillment inventory management system that tracks products by lot numbers and expiration dates will protect you in the event of a possible product recall.
Appropriate packaging to protect your products and make shipping more cost-effective.

To ship nutraceuticals efficiently, you need just the right packaging and that often means lightweight envelopes instead of boxes. If some of your products need to be shipped with special handling to keep the contents cool in transit, make sure your fulfillment provider can accommodate your needs by using insulated packaging or cold packs to keep product temperatures low until they reach the customer.

If you are trying to handle your product fulfillment in-house, you may find yourself paying more than is necessary for shipping if the packaging isn’t appropriate. Depending on your average volume of shipments, your fulfillment team should use sturdy, yet lightweight packaging material. This 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 other cases, however, you may choose to forego tracking an order to get a more cost-effective freight price.

A customer-efficient, cost-effective shipper.

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

However, you could experience significant savings by using a third-party fulfillment firm like IFS.

This is due to the collectively large volume of shipments we send each day on behalf of all of our clients.

Plus, a fulfillment expert can help you determine the most cost-effective shipping options. You might be surprised to know that a large, international shipper is not always the most cost-effective option.

Although UPS and FedEx have solid reputations for on-time delivery, most nutraceutical, cosmeceutical and nutricosmetic products are very lightweight 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 reliable in terms of order-accuracy and on-time delivery.

Talk with your fulfillment provider about the best shipping options available for your company.

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

Want to ensure your customers reorder with you regularly, and for the long term? Try an auto-ship program, often called a “subscription renewal” program.

This type of program is convenient for your customers who have an ongoing need for a particular product. Plus, 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, consider offering some type of incentive – such as free shipping for orders over a certain price – in order to encourage customer enrollment.
Shipping in bulk to retailers and/or wholesalers – in addition to shipping directly to consumers – can open new market opportunities.

While shipping your product directly to individual consumers is one thing, have you considered 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 can be excellent, reputable retail outlets for your products. Plus, they also may have an interest in providing your line to their customers and/or patients.

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 access a whole new market that you may never have reached online. This can also lead to more word-of-mouth selling that can be very valuable to your sales efforts.

Just make sure you have the fulfillment capabilities to not only ship bulk orders but to do the appropriate tracking (expiration dates, lot numbers, etc.). Since volume shipping is an entirely different process, consider whether or not your company is prepared to leverage volume orders in an efficient and cost-effective way.

The ability to up-sell and/or cross-sell to your customers, which 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 how to up-sell and/or cross-sell other products to your customers.

Up-selling refers to encouraging customers to buy a little “something extra” or to upgrade 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 selected a particular multi-vitamin, 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 multi-vitamin 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, a special price and a limited-time offer can increase the chances that a shopper will take notice and act more quickly (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 your sales team effectively up-sells and cross-sells your product, not only can you experience huge opportunities for additional sales, your average ticket can increase by as much as 50 percent.

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. Digital data gathered from your customers can be an increasingly important business intelligence tool that can boost your company’s profitability.

For instance, if you were to closely examine the purchases of a particular new product over a period of 60 days, you might recognize that the
The vast majority of customers appear to be men over the age of 50. Armed with this information, you can better 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, you can concentrate your efforts on prospects that are predicted to have a higher likelihood of responding to a specific offer that is designed specifically for them.

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

Your shopping cart and/or webservice provider should be PCI-DSS compliant and able to issue credit when you receive returns.

There is no question today that online security of your customer’s information is of paramount importance. Your ability to avoid data breaches can make or break your business and you need to be able to ensure your customers that their personal information is 100 percent safe and secure. Your reputation is riding on it.

Be sure to ask your shopping cart provider if they are PCI-DSS compliant. 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 ATM and POS cards. The standard was created to increase controls around cardholder data and to reduce fraud.
In Summary: Consider the best fulfillment solution for your company.

While you may think you can effectively take on these important fulfillment tasks yourself, while growing your business volume, consider the following issues:

You will need a robust – and what can often be expensive – software program to manage inventory, process and track customer 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 challenging.

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 overwhelming and – if not timed perfectly – a costly interruption to your ongoing business.

Finding the right fulfillment provider can be crucial to ensuring that transition process goes as smoothly as possible. For more information about how Innovative Fulfillment Solutions (IFS) can assist you with achieving your product fulfillment goals, contact us at www.ifssolutions.com or call 1-888-275-3000.