



Natura

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<http://www.innovation-portal.info/>

John Wiley and Sons Ltd

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(Case study based on presentations by Luciana Hashiba, Innovation Manager at Natura to the ISPIM Conferences in 2011, 2012, and 2013)

Natura's website: <https://www.naturabrasil.com/>

Natura is an international cosmetics company based in Brazil but increasingly active on the global stage. It was founded in 1969 and core values were around making people feel good about themselves but also expressing concern for the natural environment. (In this there are many similarities to the founding of the Body Shop chain in the UK by Anita Roddick).

The global cosmetics, fragrance and toiletries (CFT) industry is very attractive, especially in the Brazilian market. That represents more than half of the Latin America CFT market and was confirmed in 2010 as the world's third largest CFT market. (US\$3 7,4 billion), after only the United States (US\$59.8 billion) and Japan (US\$43.8 billion). More importantly, the Brazilian market has the highest growth rate in the world at 30.1% (compared with 1.7% in the United States and a top ten average of 6.3%)

Natura currently employs around 7000 people directly but a key part of its marketing approach is to use 'sales consultants' working on direct sales; they have around 1.4 million of these agents. The company has grown to become market leader in Brazil (with a 23.2% share) and strong brand recognition; in this it has successfully challenged global players like Avon and Unilever in the Brazilian market.

The company has extensive operations across Latin America with plants and facilities in Argentina, Chile, Peru, Colombia, Mexico; it also has a major R&D facility in France.

Natura has a portfolio of more than 700 premium products across eight segments:

- Fragrances
- make-up
- skin treatments
- sun creams
- hair care
- deodorants
- soaps
- shaving creams.

Recent years have seen significant growth – for example the company doubled in size between 2007 and 2011. Financial results have also been positive; Ebitda rose from R\$ 700 million to R\$ 1.4 billion,

with net revenue increasing from R\$ 3 billion to R\$ 5 billion. International operations increased their share from 4.4% to 9%.

Innovation at Natura

The company has an impressive track record in innovation and its approach was recognized by Forbes magazine in 2011, which ranked Natura as 8th most innovative company in the world, alongside Apple (5th) and Google (7th). Importantly the core values of sustainability are preserved in their portfolio of products and services and in their process innovations.

They make use of extensive market research and target new segments via a multi-disciplinary approach. A recent example was the launch of the Vôvó (grandpa/grandma) line of products in 2011. The brand was developed after research with grandparents and grandchildren by a Natura team in collaboration with a multidisciplinary group of researchers in areas such as anthroposophy, psychology, positive psychology, linguistics and statistics. Those specialists analyzed the importance of touch and dialogue to strengthen the relationship between generations. This is the first scientific study to show that the combination of massage and recreational activities has the potential to reduce the generational distance between grandparents and grandchildren.

The result is a line of products such as massage cream for hands and arms, deodorants and shower cream soap but the product offering also includes an element of 'storytelling'; it includes an album of memories that encourages playful dialogue, storytelling and family closeness. The album is accompanied by a funny genealogy tree, postcards and envelopes. All products were created to encourage physical and emotional closeness between grandparents and grandchildren.¹

Innovation performance

The company invests about 3% of annual net revenues in research (R\$111.8 million last year), development and innovation activities. In 2009 they introduced 103 items to the market (including new and relaunched products) among the 685 products in their portfolio. Natura monitors innovation closely and has developed an index (monitored monthly) based on the proportion contributed by products launched during the previous 24 months; this index is currently running at 67%. The table below gives some key indicators of innovation performance:

	2009	2010	2011
Investment in innovation (R\$ millions)	111,8	139,7	146,6
Percentage of net revenue invested in innovation (%)	2,6	2,8	2,7
Number of products launched (units)	103	168	164
Innovation rate (%)	67,6	65,7	64,8

¹ (more details at <http://naturavovo.com.br/sobre.php>).

Core innovation philosophy

Natura's goal is to cultivate healthy, transparent, positive relationships—between the company and its stakeholders, between those individual stakeholders, between individuals and the whole. The core idea of “bem estar bem” (loosely ‘well-being’) translates into four principles that guide their internal and external interactions:

1. Humanism:

Cultivate relationships and value them. Respect and stimulate human and individualism; this enriches diversity and contributes to society;

2. Balance:

Inspire harmony and the natural dynamic of mankind.

3. Transparency:

Conduct business in an open manner without ambiguity and discrimination. Seek quality. Recognize imperfections. Share questions and answers.

4. Creativity:

Dare to innovate. Pursue innovative relations with spirit, determination and passion, with the goal of continuous improvement, intuition, sensibility and knowledge.

These principles drive fundamental product and operational decisions. For example they do not produce hair dyes or nail polish because of their inherent toxins and detrimental effects and they source products in a way that promotes the health of the environment and the livelihoods of local growers and producers. Another example was their pioneering approach to leveraging Brazilian biodiversity as a source for innovation; over the past decade they have developed nine completely new essential oils wholly derived from the Brazilian biodiversity.

A third example is their flagship Ekos brand which consists of a range of body-care products made from exotic fruits, roots, and nuts. The raw materials come from the Amazon rainforest and other Brazilian forests or small, traditional plantations. The indigenous products offer an alternative to the destruction of fragile environments by the clearing of forests for the logging of tropical timber or for mining, cattle raising, or intensive farming of soybeans and other cash crops.

The philosophy underpins strategic documents such as their Vision 2030 (a document which projects the future and seeks to define the Company's role in this new world) . Sustainability plays a key role in this, in terms of both the content of innovations and the broader brand/storytelling behind the company. For example their recent work has been heavily focused around the measurement of their water footprint and the subsequent launch of the Amazônia Program to help with reducing this.

The threat of drinking water shortage led to what was already a major focus in reducing product impacts becoming a priority for Natura when it revised its materiality matrix in 2011. The company initiated a broad-based study throughout the production chain – from the extraction of raw materials used in manufacturing to final product disposal. This enabled them to measure the business' main

impacts, both in terms of water consumption and pollution potential and this study became Natura's first water inventory. The methodology, also known as Water Footprint, was created by WFN, the first international organization devoted to promoting the sustainable, equitable and efficient use of water. Natura has partnered with WFN since 2009 and was the first Company in the cosmetics industry worldwide to apply this technology.

In parallel, Natura invested in a series of initiatives to rationalize, reuse and treat the water used in their operations. This resulted in a 4.7% reduction in consumption per unit produced in 2011.

By recognizing the importance of the Amazon region for the country and Natura's history in this region, the company is trying to use their brand to create sustainable development proposals for the region that will benefit its inhabitants and conserve the forest. Launched in 2011, the Amazônia program expands and reinforces this commitment with view at promoting new sustainable business based on science, innovation, production chains and local entrepreneurship. These initiatives are focused on socio biodiversity and valuing traditional knowledge and regional culture. To drive the programme the company defined three interrelated action fronts:

- Science, Technology and Innovation – the aim here is to develop knowledge “in” the Amazon, “about” the Amazon and “for” the Amazon. It tries to foster new research and to help local researchers and scientists remain in their region of origin. One tangible outcome was the construction in 2012 of the Natura Knowledge and Innovation Centre in Manaus, bringing together local and Natura's researchers. The target is to connect a network of more than one thousand researchers from diverse institutions by 2020.
- Sustainable Production Chains – Natura aims to increase production in the Amazon in Benevides (Pará State), where a manufacturing plant has existed since 2007. The goal here is to stimulate the formation of a network of local extractive communities, encouraging the development of local production and social entrepreneurship. The purchase of materials from the Amazon is projected to grow from 11% to 30%, engaging 10 thousand families by 2020.
- Institutional Reinforcement – Natura wishes to develop wide-range sustainable development plans and initiatives jointly with civil organizations, local governments, national and foreign companies, financial agents and other partners. An example of this kind of articulation was the definition of priority subjects for the Amazônia Program, which involved the collaboration of around 100 people from diverse backgrounds with experience in the features of Pará, Amazônia and neighbouring States. This effort helped refine the program strategy and define our priorities: education; entrepreneurship; conservation, valuing and using biodiversity sustainability; social justice and citizenship; public policy and culture.

To develop these and other innovations, the Company invested between 2.5% and 3% of its net annual revenue in science, technology and the construction of knowledge networks.

Expanding ‘bem estar bem’ through a Direct Sales Network

As Natura expanded in the 1970’s and 1980’s, the focus was on growing by investing in healthy, mutually beneficial relationships and it was during this period that they launched their unique approach to direct sales. The direct sales model was well suited to the Brazilian market, given the lack of department stores, and good job opportunities for women. Natura invests heavily in the training of the consultants (sales representatives). Today they have a network of 1.4 million independent consultants who are fiercely loyal to the company (even as they move on). Their median monthly salary is 16 times the national minimum. They share in the profits and ownership of the company.

Their direct-sales approach cultivates powerful relationships and there is a real pride in representing Natura’s ethical standards, their high quality products, and their support of broader social causes. Importantly the direct sales model also provides valuable input for their product development effort, offering a robust channel of direct feedback, observations, ideas, and questions from customers.

The Innovation Process at Natura: Agility and Autonomy

Each of the four core business units has a product development manager. Their role is to establish a connection between the business unit, the product and packaging development team, and the science and technology team. They bring marketing information, end-consumer needs and product concepts to the product development and research teams. This manager also maximizes interaction with the “Innovation Funnel” (their portfolio of projects under development) and multi-department teams.

In addition to the development manager, each business unit gathers representatives from several areas reporting to the headquarters. That guarantees interaction between the areas on the strategic and the operational levels, by means of project teams, which are composed of people from different departments. In turn, the teams meet frequently to monitor progress, exchange experiences, and contribute with different perspectives on solutions and risks.

Natura also has Innovation Committees in each business unit, composed of the business unit director and managers reporting directly to them, which holds meetings on a monthly basis to discuss projects under development or projects that are already in the “Product Funnel”.

From the simplest of ideas to the most complex assets, initiatives that might result into a new product going through the Technology Funnel and the Innovation Funnel, two processes focused on different things, yet aligned and with regular communication between them. An Innovation Vice President is responsible for these two systems.

The Technology Funnel includes the process of identification, research and development of new raw materials and inputs (especially those found in Brazil’s biodiversity) new materials and packaging technologies, non-invasive and alternative methodologies for the use of animals in proving the efficacy and safety of our products, objective proof of well-being, and methodologies for measuring the environmental impact. This is an ongoing, long-term and high-risk process, but it is central and strategic for Natura.

The Innovation Funnel includes the development of new concepts and products from the identification of needs and market opportunities. The new products come from technologies developed in-house or obtained by means of external partnerships, with the goal of applying them to new products and packages. This is a short-term process, featuring lower-risk and defined projects, much closer to the end consumer.

The innovation process has been designed at many levels, having as its sub processes the Technology Funnel and the Product Funnel (each of them with the following sub processes: portfolio management, pipeline management, project management, network management and knowledge management), in addition to the Ideas and Concepts Funnel. The Ideas and Concepts Funnel is the process of generating new ideas and preparing the grounds for innovation. It aims at creating fragments of ideas, consolidating them through the collaboration of the widespread network, and applying different assessment filters (depending on the nature of the proposal) so that they can be turned into new projects for new markets, new consumers and even new businesses.

In addition to increasing the interaction between innovation areas and other areas of the company, the aim has been to create more agility in information flow, promote more autonomy among collaborators, and increase the strategic alignment between innovation and the business. Much of the mapping, design, and revision of the Natura innovation process took place in 2009. They approached this as a collaborative process, engaging all of the players and allowing the innovation collaborators to feel like they owned the process and that it was their responsibility.

Along with the collaborative design of the process, a training program was developed to embed the approach in the company culture. In granting more autonomy—and, consequently, more responsibility—it was crucial to support the development of new interpersonal relationship skills, and a better understanding of the business.

Training in innovation is a major priority at Natura and is carried out in an integrated fashion in order to enable dynamic, continuous and efficient innovation. They constantly search for innovation methodologies that can complement the works being developed and are partners with the most important international education centres to keep up with the latest market trends. In addition, with the assistance of major educational institutions they have created the Natura Innovation Academy with the purpose of educating all collaborators on topics related to innovation and establishing an inspiring and creative environment. The Innovation Academy courses were designed according to the innovation standards created by the Global Innovation Management Institute (GIMI). The courses are focused on three key areas: innovation strategy; innovation capacity; and organizational and leadership culture, necessary to nurture innovations.

They also established a new IT infrastructure level with information sharing tools that support and accelerate the communication flow between projects. Innovation leaders also hold monthly meetings and workshops focused on creating a standardized innovation language throughout Natura. And one outcome of this emphasis on training was the creation of an Innovation Management Certificate for different levels, covering all aspects of innovation and leadership management focused on the practice.

Ideas from Everywhere: Open Innovation at Natura

Natura believes that good ideas can come from anywhere—both inside and outside the organization. They have invested in developing a range of open innovation approaches, engaging with universities, academic research and technology centres (STCs), and companies in Brazil and throughout the world.

For ideas and innovation sourced from inside the company, they developed an innovation incubator, “Innovation in Motion,” as a structured and objective process for managing entrepreneurial projects. In this program, collaborators individually or in groups write down their ideas and prepare a business plan. Other collaborators, such as fictional investors, support the ideas they consider to have the most innovation potential. Winning projects are awarded and may have their implementation supported.

The process has received over 200 projects from collaborators to date—25 of them were considered relevant for to the company’s current direction and five of them are currently in development.

When it comes to ideas and contributions from outside the company, they pursue a number of activities. In 2006, they created a structured program of cooperative partnerships between Natura’s scientific and technological research operation and STCs throughout the world. And in 2009 they implemented Scientific Committees in the Science and Technology Management (area responsible for developing new raw materials and technologies to be applied to products), with the participation of Natura researchers, members of the Brazilian and international Academia and market experts, who meet on a monthly basis to discuss technological and social trends for the future. This has been a powerful experience in bringing Natura closer to the scientific community when it comes to topics related to sustainability, natural products, green processes, well-being and company-university partnerships.

The work with partners is part of the Natura Technological Innovation Campus Program created in 2007, which counts on the support by the National Council for Scientific and Technological Development (CNPq), the São Paulo Research Foundation (FAPESP) and the Brazilian Innovation Agency (FINEP). The institutions contribute with the joint financing of select projects, allowing investments for the acquisition of equipment and inputs for research works carried out by partner laboratories and grants for undergraduate and graduate research programs.

An important tool for this program is the Natura Campus Portal (www.natura.net/campus), established in 2007. Today they have some 262 research groups affiliated with 95 scientific and technological institutions in the network. Reorganized last year, it is designed to encourage interaction among users, connectivity with the social networks and to diversify the means for building knowledge networks. Part of Natura’s open innovation strategy, the portal provides information on science, technology and innovation. It hosts blogs and interactive communication tools enabling researchers to contact Natura and the entire network. Users have access to the program’s relationship agenda, information on relevant activities and events organized by Natura and partners, and data from research and case studies, reinforcing the company’s commitment to share learning and driving new research.

Among the topics prioritized in recent years have been sustainable technologies, product efficacy and safety, well-being and the sensorial dimensions of Natura products. Every two years they recognize

publicly and financially the best research project partnership with the Technological Innovation Award. For example, in 2008, the Passiflora project by UFSC (Federal University – Santa Catarina Campus) was one of the three winners of the Natura Campus Technological Innovation Award. The project was the first technological application resulting from open partnerships at Natura and it studied the cosmetic properties of flavonoids obtained from *Passiflora alata*, a plant found in the Brazilian biodiversity. This project gave birth to Chronos Flavonóides de Passiflora, a successful product in the anti-aging range produced by the company.