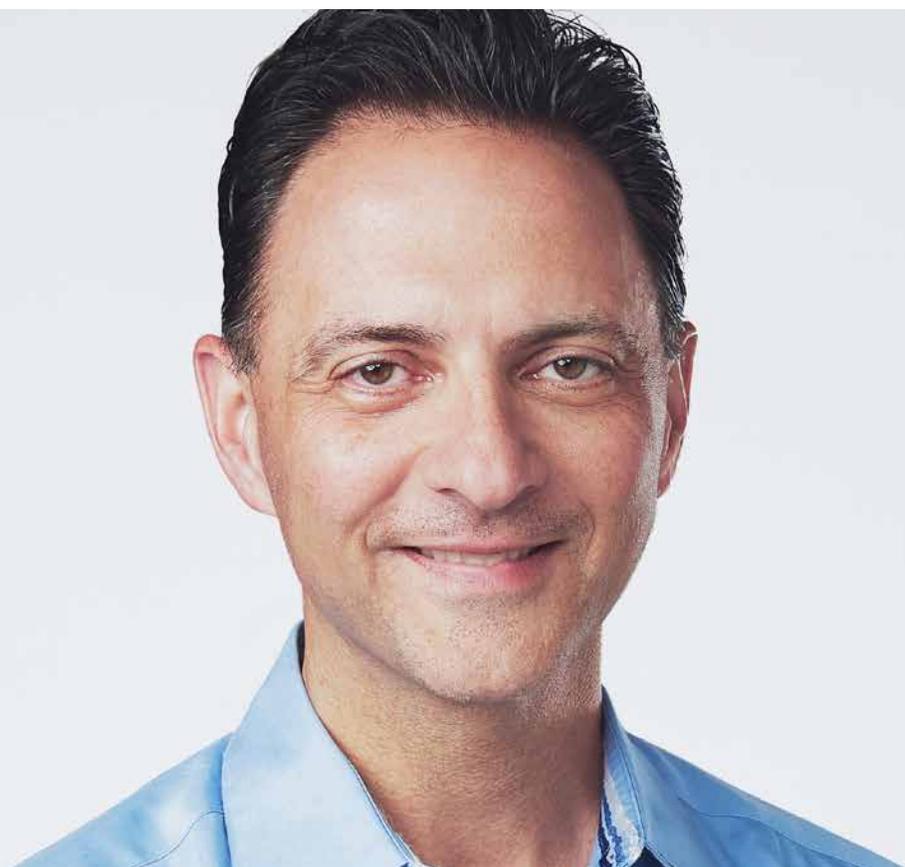


Consumer Packaged Goods

Connectivity with the consumer: The Honest Company's formula for growth

In his third year as the CEO of Honest, consumer-goods veteran Nick Vlahos has big plans for the fast-growing maker of baby and beauty products.



Photograph courtesy of The Honest Company

Over the course of a 22-year career at Clorox, Nick Vlahos managed a variety of product categories, including laundry, food, water filtration, bags and wraps, and personal care. Notably, he led the transformation of natural-products brand Burt's Bees into a global success. That experience prepared him to take on a new kind of challenge in 2017, when he left Clorox to become CEO of a much smaller but rapidly growing disruptor in the baby-products industry: The Honest Company, launched in 2012 by actress and entrepreneur Jessica Alba. Its promise of safe and effective products resonated with new moms nationwide.

In an interview with McKinsey's Greg Kelly, Vlahos shared his thoughts on the changing consumer and the future of Honest. The following are edited excerpts. (The interview took place before the COVID-19 crisis. For a July 2020 update, see the sidebar, "Staying Honest amid a global pandemic.")

McKinsey: *You rose up the ranks at a leading consumer-goods company with a long history. Now, you're leading a company that's been around for less than eight years. Some would say that's a risky move. Why did you do it?*

Nick Vlahos: It made a lot of sense for me to make this move, for several reasons. An important one is that The Honest Company was a great fit for me from a lifestyle and family perspective. The brand's ethos, its values, and what it stands for align very closely with how my wife and I and our four children operate as a family.

But it was also about anticipating where the consumer is going, both domestically and internationally. Think about how the packaged-food business has changed. Fifteen years ago, everything was set up for scale: new products were introduced with big marketing campaigns, pushed into stores, and stacked high. But then consumers started to become more educated and aware about what they were putting in their bodies. The health-and-wellness, "better for you" trend started to take hold. And over that 15-year horizon, organic food has become commonplace.

When I first started in the business, you'd walk into a store, and you might find a little section in the corner that was organic or natural. Today, when you walk into a store—say, Costco—every other pallet in the food section is organic.

And now, consumers are becoming more educated about not just what they're putting in their body but also what they're putting on their body—what they put on their skin, what they put on their children. I've found that the overall growth rates of natural, better-for-you, "clean" products are double the growth rates of conventional products. Consumers are spending their money on brands they believe they can trust.

McKinsey: *The Honest Company started as a direct-to-consumer [DTC] brand online, but in recent years—and especially since you came on board—the company has been building its omnichannel presence. Tell us about that evolution.*

Nick Vlahos: Let me just say a little bit about Jessica, because I think it's an important part of our story. She isn't a celebrity who just stuck a name on a product and introduced it into the market. She was a consumer first, and she got the idea for starting the company when she was pregnant with her first child. Why is that important? Well, the data shows that about 48 percent of new moms will change their purchase habits and their regimens when they're pregnant, and 50 percent will move toward better-for-you, clean products. That's a big insight for us. Being a digital-first brand, we educate and connect with you on a one-on-one basis during that aperture of pregnancy.

Let's talk about one of our subscribers. Let's say her name is Mary. We know that Mary has a child who's six months old and they live in Edina, Minnesota. I know that Mary is currently buying Honest diapers and wipes, but she's not buying Honest personal-care or beauty products. So when I connect with her, I want to offer her a solution set based on her needs. Her baby is going to grow, and Mary will eventually need, say, a different car seat. So I'm going to reward her

Nick Vlahos

Vital statistics

Born and raised in Chicago, youngest of 3 (has 2 sisters)

Married, with 4 children

Fluent in Greek

Education

Holds a bachelor's degree in telecommunications from Indiana University Bloomington

Career highlights

The Honest Company
(2017–present)
CEO

The Clorox Company
(2014–17)
COO

(2013–14)
Chief customer officer

(2011–13)
Vice president and global general manager, Burt's Bees

(1995–2011)
Various senior roles in sales and marketing

Helene Curtis Industries
(1990–95)
Sales executive

Fast facts

Is a board member of Tillamook County Creamery Association and has served on boards of Chabot Space & Science Center Foundation and Natural Products Association

Was included in “Glossy 50: Beauty’s new guard” in 2018, a list of industry insiders driving important shifts in the beauty industry, by the publication *Glossy*

Was a guest lecturer on consumer-product strategy and operations at Fuqua School of Business at Duke University, Harvard Business School, and Kellogg School of Management at Northwestern University

“About 48 percent of new moms will change their purchase habits and their regimens when they’re pregnant, and 50 percent will move toward better-for-you, ‘clean’ products.”

with a \$5 Target gift card for a car seat. The goal isn't just to get her to buy Honest diapers and wipes—it's really to create loyalty, bring added value, and have her be excited about being part of the Honest family. Ultimately, it's about providing Mary the hyperconvenient experience that best suits her needs.

By rewarding her with a Target gift card, I've now created an omnichannel experience for Mary so that she'll go to a Target store and purchase a product. And by the way, since I have year-round distribution at Target and an endcap dedicated to Honest diapers, wipes, and personal-care products, she might also buy an Honest product while she's at Target. So my point is, by giving the consumer an experience that connects with how she shops and by creating solution sets that meet

her needs, we start to create “stickiness” and loyalty to our brand.

As a consumer-packaged-goods manufacturer, you can choose to look at Target or Amazon as a competitor because they sell products that compete with your products. But I look at it this way: if I can create the right level of demand and interest in my product, then where I'm putting the product—whether it's Amazon or Target or Walmart—becomes part of a consumer-oriented solution set. Consumers—especially Gen Zers and the younger groups—have become channel agnostic. What they're interested in is accessibility, ease, convenience: being able to procure a product where and when they want to procure it. They don't think in terms of channels.

Staying Honest amid a global pandemic

In July 2020, more than three months after Honest employees began working from home, Nick Vlahos offered these additional perspectives.

McKinsey: *What shifts in consumer behavior have you seen as a result of the COVID-19 crisis? How is Honest responding to these shifts?*

Nick Vlahos: We're constantly listening and responding to the wants and needs of our customers. Even through the pandemic, our internal labs have continued to innovate and to narrow their focus on product developments that respond to new consumer lifestyles. In fact, this year, we will be introducing 50 new products, several of which are in response to COVID-19 and are focused on sanitization. Looking to the future, we will double down on innovation, focusing on the importance of omnichannel and accessibility—two keys

to our success both prior to and during the COVID-19 pandemic.

McKinsey: *How has COVID-19 changed the way you work?*

Nick Vlahos: During this time, the safety, health, and well-being of our Honest family—employees as well as customers—have been of the utmost importance to us. Due to our omnichannel strategy, throughout the COVID-19 crisis we've been able to get our products to consumers. We've been able to ensure that supply of our essential products—like diapers and baby wipes—remained strong.

On March 13, all our employees began working remotely. Connectivity and constant communication have been key to our success in this new operating model. We've made it a point to be as transparent as possible with our Honest

family by sending regular updates on the status of our workspace via email, our HR hotline, Slack, and our intranet, Inside Honest. We've also been working with our partner, Thrive Global, which specializes in workplace wellness. Together, we developed a customized training session on Honest University to help our employees navigate ambiguity, deal with stress, and handle the impact of COVID-19 during this difficult time.

As we can't meet in person, we're using Honest University to host “Launch and Learns” for our employees so they can learn all about the new products we are launching, including the marketing and retail plans for those products. Our goal for these training sessions is to help our employees become true ambassadors of Honest products.



Photograph courtesy of The Honest Company

McKinsey: *It's true that it's no longer helpful for consumer-packaged-goods [CPG] companies to think of channels in terms of discrete shopper occasions. Still, many CPG companies are wrestling with pricing across customers. Did you make any changes to the pricing philosophy and architecture of Honest products when you started selling through mass retailers?*

Nick Vlahos: No. To succeed as an omnichannel brand, you have to start with the right value proposition for your product. What price can you command every day for that product, how do you drive accessibility based on where consumers want to shop, and how can you make money doing that day in and day out?

The issue for some CPG brands historically has been that the value proposition is off—and if it's off, you have to rely on trade spending, and you have to play a high–low operating game in the marketplace. You then become disadvantaged quickly, based on how the Amazon algorithm reads your pricing or how Walmart is establishing pricing. You get

tangled into a channel discussion. And you start creating different value propositions in different places that the consumer may not be interested in at all.

McKinsey: *Honest has successfully expanded into not only new channels but also new geographies: you're now in Europe. How do you decide which markets to enter?*

Nick Vlahos: It's important to have the right product profile to be able to quickly get into a market. We did consumer research to understand where the Honest brand can resonate—where consumers are interested in better-for-you, wellness-oriented products. Some folks might say, “Well, Europe is further along than the United States when it comes to that trend.” But if you look, for example, at how many ingredients are banned in the European Union, the number is about 1,300, whereas Honest has about 3,000 ingredients that we try to avoid—ingredients that are thought to be harmful to people's health or to the environment. The fact that we have high standards for our

product formulations and our testing means we're able to play in these markets; we don't have to reformulate our product lineup.

Having the right strategic partner in every geography is also important. In continental Europe, we've partnered with Douglas, which is the largest retailer in the beauty space. And we've partnered with Boots in the United Kingdom. We've done a lot of work with our partners to localize our marketing plans. The product is common in those geographies, but the marketing elements—the social media, the influencers that we're working with—are all localized. Thanks to our targeted, multilayered approach, we're strengthening existing consumer relationships while forging new ones in new geographies.

McKinsey: *What gets you most excited as you think about where the brand can go?*

Nick Vlahos: One thing that excites me is that we're at the forefront of another consumer trend: minimalism. More consumers are becoming minimalists when it comes to their beauty regimens: they're not interested in doing a ten-step process to "put their face on" every day. They're busy; they're on the go. Honest Beauty products align with that trend.

From a digital-marketing perspective, what gets me pretty jazzed is creating the right level of content and community and translating that into commerce. For example, we're giving consumers "snackable" content—information in bite-size morsels and pieces—about the 40 weeks of pregnancy and what they should expect during that time period. We found five different women, different backgrounds, different geographies, with different life experiences. And we documented, over a 40-week time period, each of their lives and what they were experiencing.

So if you're pregnant and you like Kasey and her story, you can go to [Honest.com](https://www.honest.com) to see content about her journey: How does she balance work

with pregnancy? What's it like to plan a gender-reveal party? What should I do during the nesting period? That content has been really powerful for us. It's enabled us to create more of a community. We can then connect with each of our customers and offer each of them a solution set based on her unique experience.

McKinsey: *What will you offer your customers next? You've talked about what people put on their bodies as well as in and around their bodies. How far do you think the brand can extend? Could you imagine Honest food or Honest air purifiers?*

Nick Vlahos: Over the past couple of years, we've really focused on the on-your-body component. We have a connection with the consumer, and we have insights into what you're putting on your baby's skin, so we started thinking about what you put on your own skin and what you put on your family's skin. Going from baby products to beauty products made sense. We've invested disproportionately in the safety and performance of our products to develop everlasting trust. We spend a lot of time on our products so that we can consistently delight consumers. And we're innovating fast. In my former job, I would say the innovation process was always a two-year horizon or so. At Honest, our innovation process is six to 12 months.

As disruptors in the natural baby and beauty categories, we are constantly listening and responding to consumers' wants and needs, which will always be core to our evolution. For adjacencies to work, there has to be connectivity with the consumer and consumer behavior. Can I start talking about beauty from within and what you're putting in your body? Yes. Could I get into the food business or the supplement business tomorrow? Absolutely. But do I have the capability set to deliver the margin accretion I'm looking to deliver across my portfolio? No. That day will come, but for now I'll stay within my lane and build the brand with the consumer at the core, while focusing on the performance of the product.

Greg Kelly, a senior partner in McKinsey's Atlanta office, conducted this interview.

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