EXECUTIVE INSIGHTS

# What Consumers Tell Us About Buying Supplements in a Downturn

Vitamins, minerals and supplements (VMS) are a resilient market. U.S. sales were brisk even through the Great Recession. They went from $24 billion in 2007 to $30 billion in 2011, reflecting an annual growth rate of roughly 6%. Much of this growth was chalked up to financially strapped consumers hoping supplements would prevent expensive medical treatments down the road.

That sentiment might not be enough going forward. Today, the VMS industry faces a trio of post-pandemic headwinds: supply chain challenges, rising operating costs and an uncertain consumer outlook. The supply chain is vulnerable partly because supplements often consist of many ingredients, so a problem with any one input can curtail availability of the finished product. Meanwhile, VMS brands and retailers have been hit with labor shortages, overseas plant shutdowns and other issues that are driving up production costs.

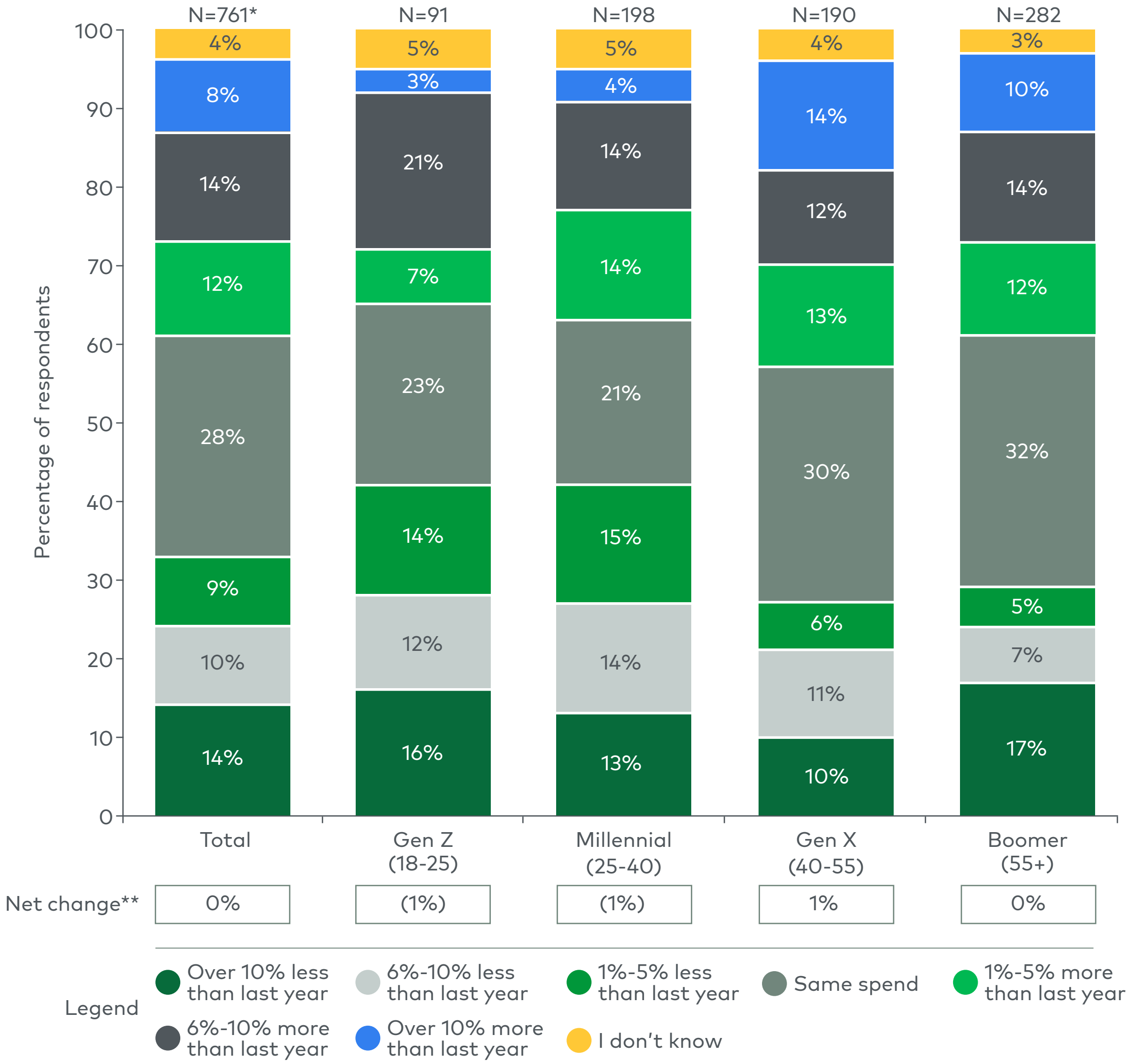
For this discussion, let's focus on the third headwind to understand how inflation and a potential recession are affecting VMS consumer behavior.

## Inflation

In a recent L.E.K. Consulting survey, roughly 60% of VMS users report that inflation has affected their overall (not just VMS) shopping patterns. Just how much of an effect varies somewhat by generation, with 31% of baby boomers saying they're not impacted by inflation. That's a significantly higher share than the Gen X (18%), millennial (12%) and Gen Z (24%) respondents who say the same. So far, though, the average VMS consumer is spending about the same or more on nutritional supplements as they did the previous year (see Figure 1).

**Figure 1**

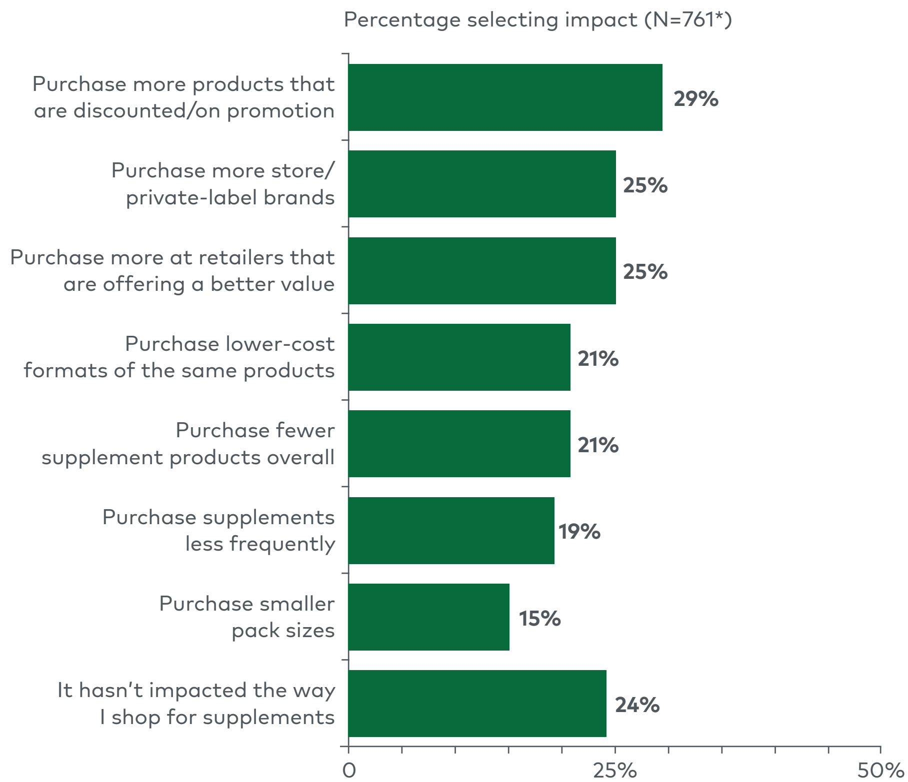
Average change in consumers' monthly VMS spend versus previous year




*Survey question: How much has the recent rise in inflation impacted your average monthly spending on nutritional supplements when comparing your average monthly spend today to your average monthly spend last year?
**Average change is calculated by taking a weighted average of respondent answers (e.g., 1%-5% less than last year was treated as 2.5%; 10%+ was assumed to be 15%)
Source: L.E.K. survey and analysis

VMS consumers indicate they're taking a variety of steps to deal with inflation (see Figure 2). The most common are to buy products on promotion (29%), look for private-label brands (25%) and shift to more value-oriented channels (25%). The last step is especially common among the largest-spending consumers — those who spend $100-plus a month on VMS — with 35% of this group saying they're purchasing more at retailers that offer a better value. On average, consumers with larger monthly budgets appear more inclined than those with smaller budgets to take steps to ease their financial burden in times of high inflation.

**Figure 2**
Inflationary impact on VMS consumer behavior

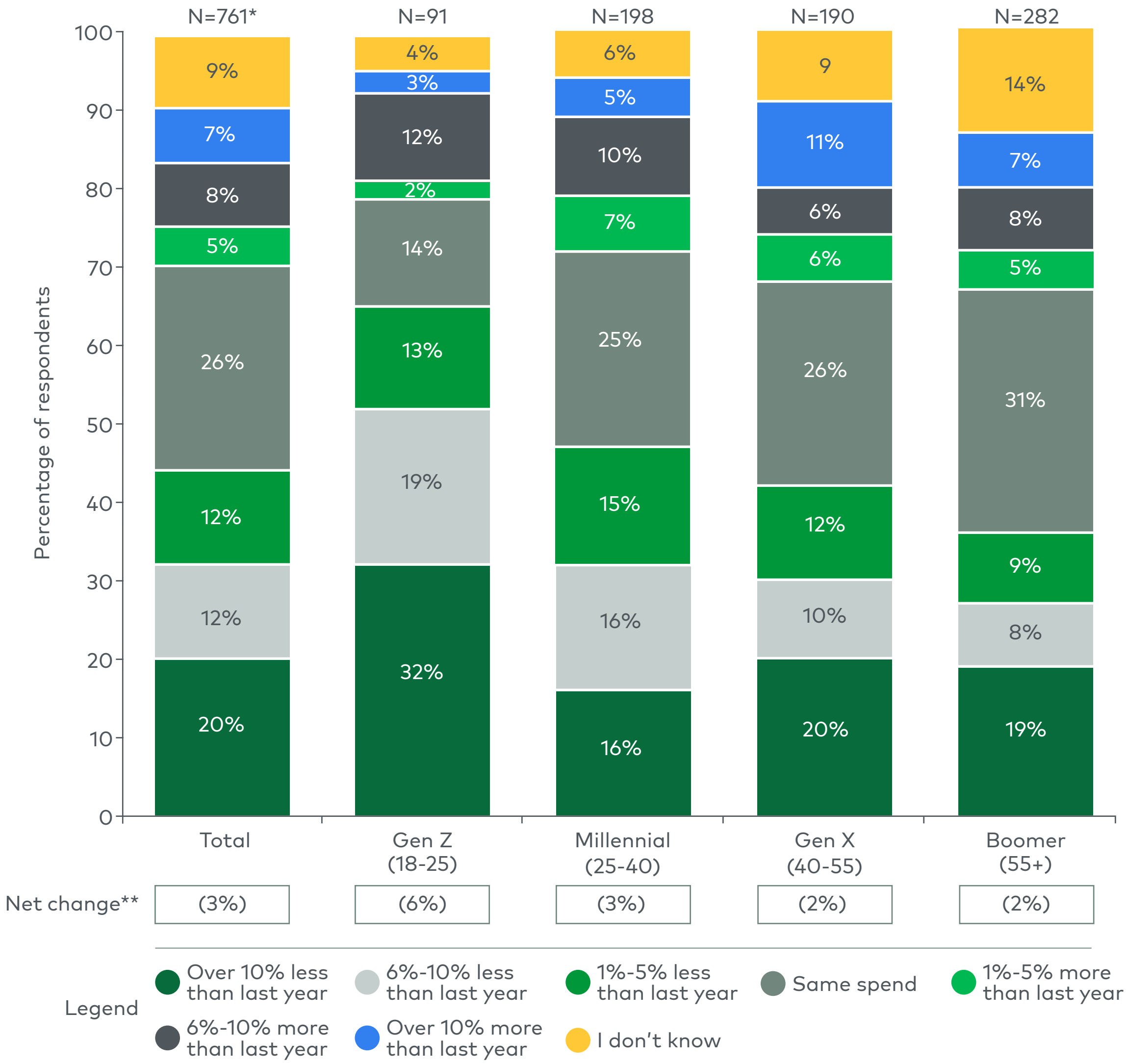



*Survey question: How has the recent rise in inflation changed the way you shop for nutritional supplements?
Source: L.E.K. survey and analysis

## Recession

Although inflation is an issue, consumers mention they worry more about a potential recession. Among survey respondents, about 70% express significant concern over the prospect of an economic downturn. If a recession does happen, the youngest consumers are the ones most likely to dial back their spend, with 60% of Gen Z consumers saying they expect to spend less on VMS and 32% expecting to reduce spending by at least 10%. Across all age groups, the weighted average consumer expects to spend about 3% less on VMS in a recession (see Figure 3).

**Figure 3**
Recessionary impact to VMS spend, by generation




*Survey question: If there were a recession, what impact do you expect it would have on your average monthly spending on nutritional supplements compared to today?
**Average change calculated by taking a weighted average of respondent answers (e.g., 1%-5% less than last year was treated as 2.5%; 10%+ was assumed to be 15%)
Source: L.E.K. survey and analysis

To deal with a recession, consumers intend to pursue strategies largely similar to the ones they're using to deal with inflation, but more plan to do so across the board (see Figure 4). Consumers currently spending the least on VMS — under $25 a month — expect to reduce their spend by 4%. That compares with an expected reduction of just 1% among the group spending $100-plus a month.

**Figure 4**
Recessionary impact on VMS consumer behavior


*Survey question: If there were a recession, which of the following changes to your nutritional supplement shopping habits would you expect to make?
Source: L.E.K. survey and analysis

## Take a page from the CPG playbook

To respond to these consumer concerns, VMS companies should take a page from the playbook of consumer packaged goods (CPG) companies, with strategies that have been effective in the past under similar economic conditions.

**Diversify points of distribution.** Establish or increase presence in value-oriented channels like mass-market retailers, warehouse clubs and dollar stores. Addresses consumers who shift to more value-oriented channels, buy more private-label brands.

**Emphasize preventive care.** Focus on claims related to preventive healthcare that can potentially limit traditional healthcare costs. Addresses consumers who purchase fewer supplements overall.

**Fine-tune price pack architecture.** Build value offerings in non-club channels like drug and grocery stores where larger packs are not as readily available. Addresses consumers who purchase smaller pack sizes, shift to more value-oriented channels, buy more on promotion.

**Double down on innovation.** Bring compelling ingredients, new formats (e.g., "many-in-one" solutions) or other novel solutions to market. Addresses consumers who buy more private-label brands, buy fewer supplements overall, buy more on promotion, shift to lower-cost formats.

**Develop more targeted marketing tactics.** Offer personalized discounts and other appeals to specific consumers. Addresses consumers who buy more on promotion, buy more private-label brands.

## VMS companies will need to prepare to ride out a downturn

Although VMS may be more resilient than other categories, shoppers say they expect to reduce spending if a recession occurs. By following strategies from other industries that have been effective during challenging economic conditions, VMS companies may be able to help consumers maintain their spend on brands they've grown to trust.

**For more information, please contact strategy@lek.com.**

## About the Authors

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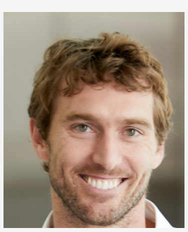

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