Executive Insights

Health & Wellness Consumer Analysis

2016 Health & Wellness Study

The 2016 Health & Wellness Study examines consumer spending preferences for nutritional supplements, personal care and healthy grocery products among Millennials, Gen X and Boomers.

The study looks at category engagement, drivers of channel selection and, the potential for subscription services, as well as the success factors for private-label products.

The 2016 Health & Wellness Study was conducted by **Alex Evans** and **Chris Randall**, Managing Directors in L.E.K. Consulting's Retail & Consumer practice. Alex is based in Los Angeles and Chris is based in Boston.

For more information, contact consumerproducts@lek.com.

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Three categories of consumables

We investigate three major categories of health & wellness consumables:

- Functional food & beverage
- Nutritional supplements
- Skin care

Functional food & beverage

- Healthier-for-you snacks
- Functional beverages

Nutrition supplements

- Vitamins, minerals and specialty supplements (VMS)
- Sports nutrition

Skin care

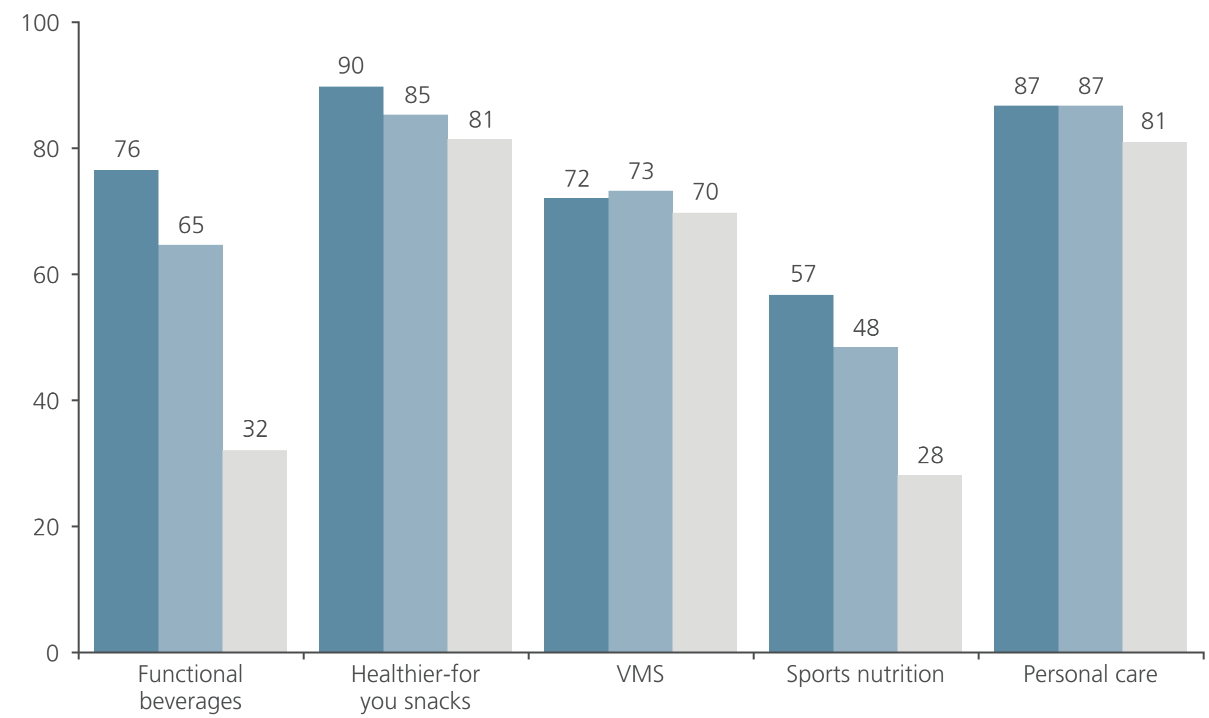
- Facial cream
- Hand cream/body cream

Underpenetrated opportunities

While some H&W categories are more "mature" in terms of generational penetration (e.g., healthier-for-you snacks and personal care), there appears to be significant opportunity to bring Gen Xers and Boomers into more complex categories such as functional beverages and sports nutrition.

Consumables engagement by category and segment (2016)

Percentage of segment who have purchased in the past 12 months (N=1,934)



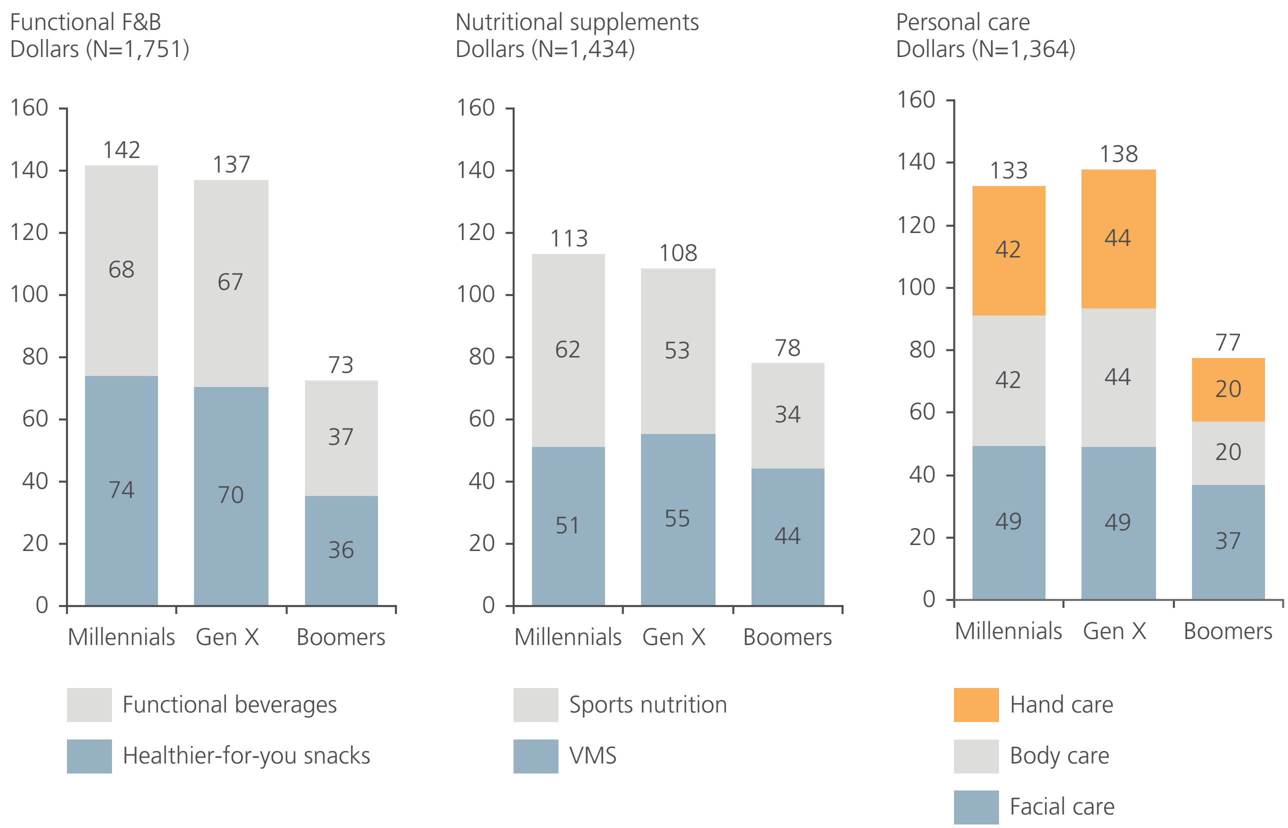
Overall	53%	84%	72%	41%	84%

Note: Q6. Have you purchased any of the following goods/services within the past 12 months?
Source: L.E.K. Health & Wellness Consumer Study (February 2016)

More room for Boomers

With the exception of VMS and facial care, at present, reported Boomer spending is roughly half the per capita rate of Millennials and Gen Xers, once again suggesting additional opportunity to drive growth within this segment.

Average spend per customer* in the past month (2016)

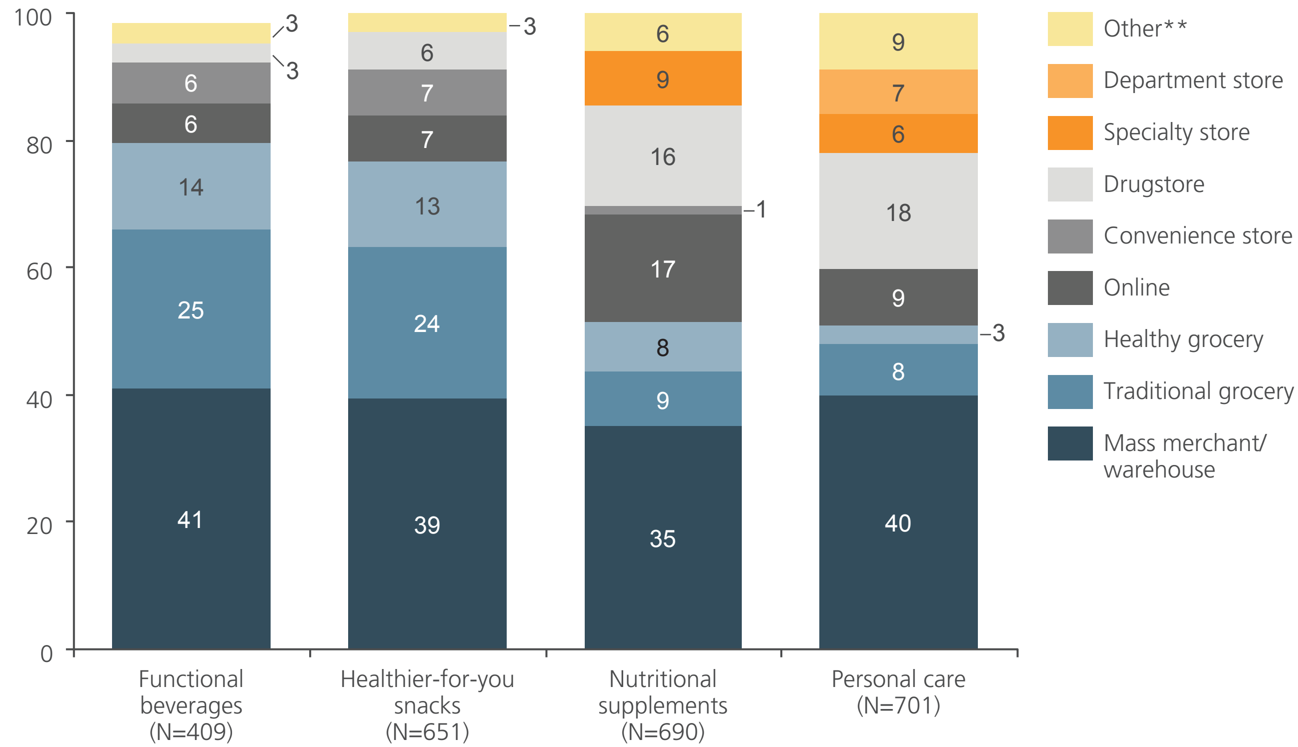


Note: Q8. In the past month, approximately how much did you spend on the following goods and services? *Among customers who have spent more than $0 in the past month in the broader category (nutritional supplements, functional F&B or skin care).
Source: L.E.K. Health & Wellness Consumer Study (February 2016)

Conventional channels are still king…

While online purchases continue to make gains (currently ranked second for VMS and third for personal care) and healthy grocery has become a core channel for functional F&B, the FDMC channels remain critical across all H&W consumable categories (at around 60%-75% of total sales).

Share of consumer spend by channel and category*
Percentage of total spend



73%	69%	59%	66%	% FDMC

*Food, drug, mass merchant and warehouse club

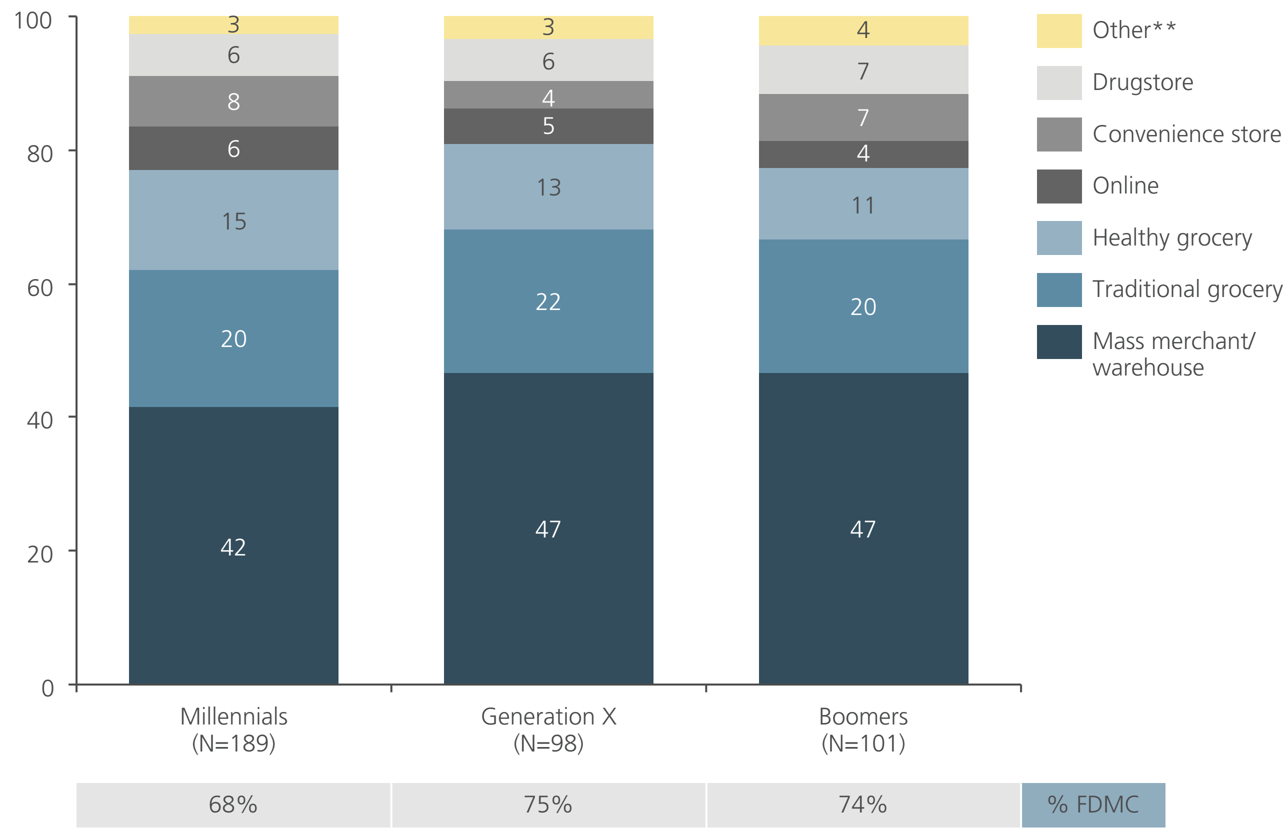
Notes: Q53. How did your spend on nutritional supplements in the past month break down across each of the following types of retailers? Q63. How did your spend on facial skin care, personal hand care or body care in the past month break down across each of the following types of retailers? Your best estimates are okay. If you have not purchased through a particular type of retailer, leave blank or enter "0"- Percent of total spend? Q76. How did your spend on functional beverages and healthier-for-you snacks in the past month break down across each of the following types of retailers?; 1 Responses are not weighted by total level of food & beverage or nutraceutical spending; **Other includes multilevel distributors, workout facilities, subscription services and other.
Source: L.E.K. Health & Wellness Consumer Study (February 2016)

… even among Millennials

Though they utilize more diverse channels than their Gen X or Boomer counterparts, Millennials still rely heavily on conventional FDMC channels (68%, compared with roughly 75% of older consumers) when shopping for H&W consumables.

Share of foodspend and beverage consumer spend by channel and customer type

Percentage of total



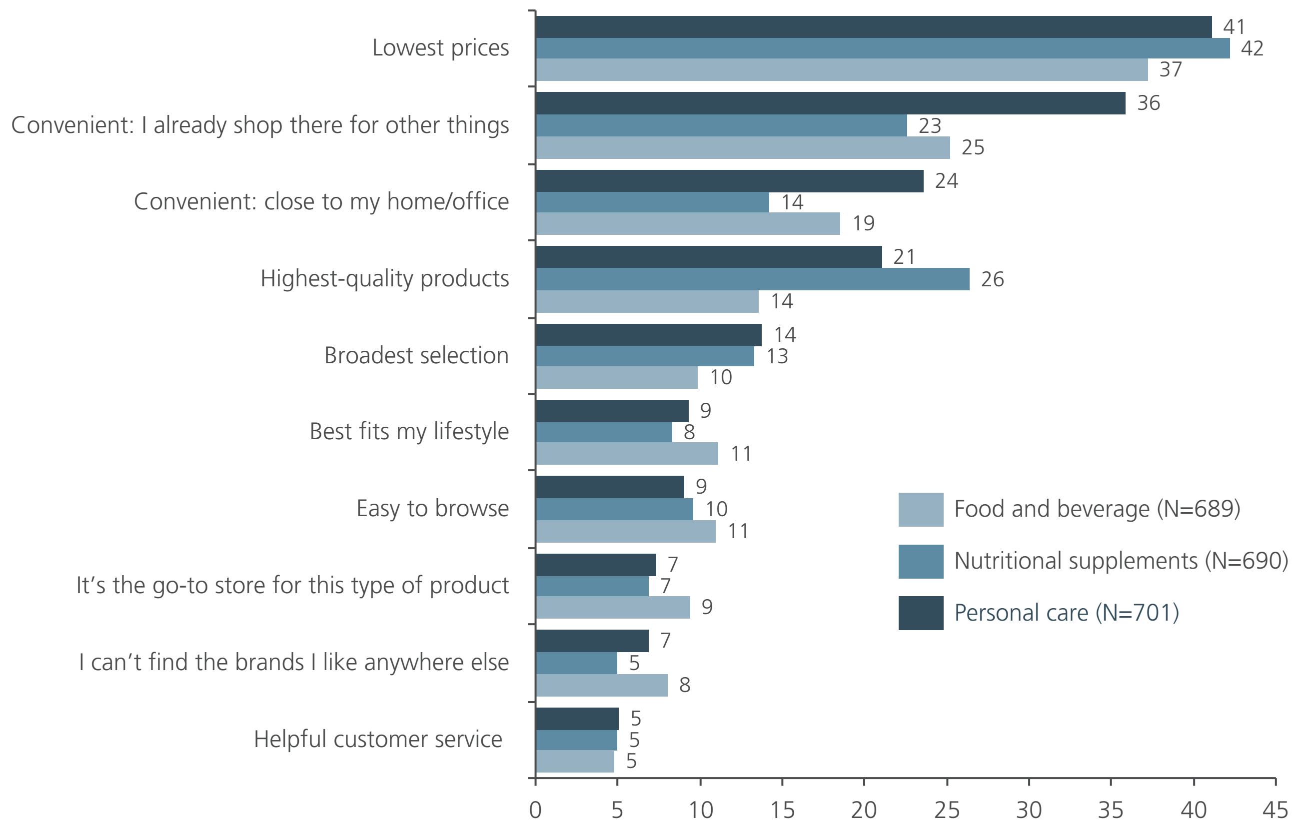
Notes: Q76. How did your spend on functional beverages and healthier-for-you snack in the past month break down across each of the following types of retailers?
**Other includes multilevel distributors, workout facilities, subscription services and other.
Source: L.E.K. Health & Wellness Consumer Study (February 2016)

Price, convenience inform channel choices

For many health & wellness categories, consumers are unwilling to take a separate shopping trip and prefer to make the most convenient use of channels where they already shop. This means that FDMC channels have the potential to capture the most share as long as they catch up and provide the right assortment.

Reasons for shopping channels, by category

Percentage of responses



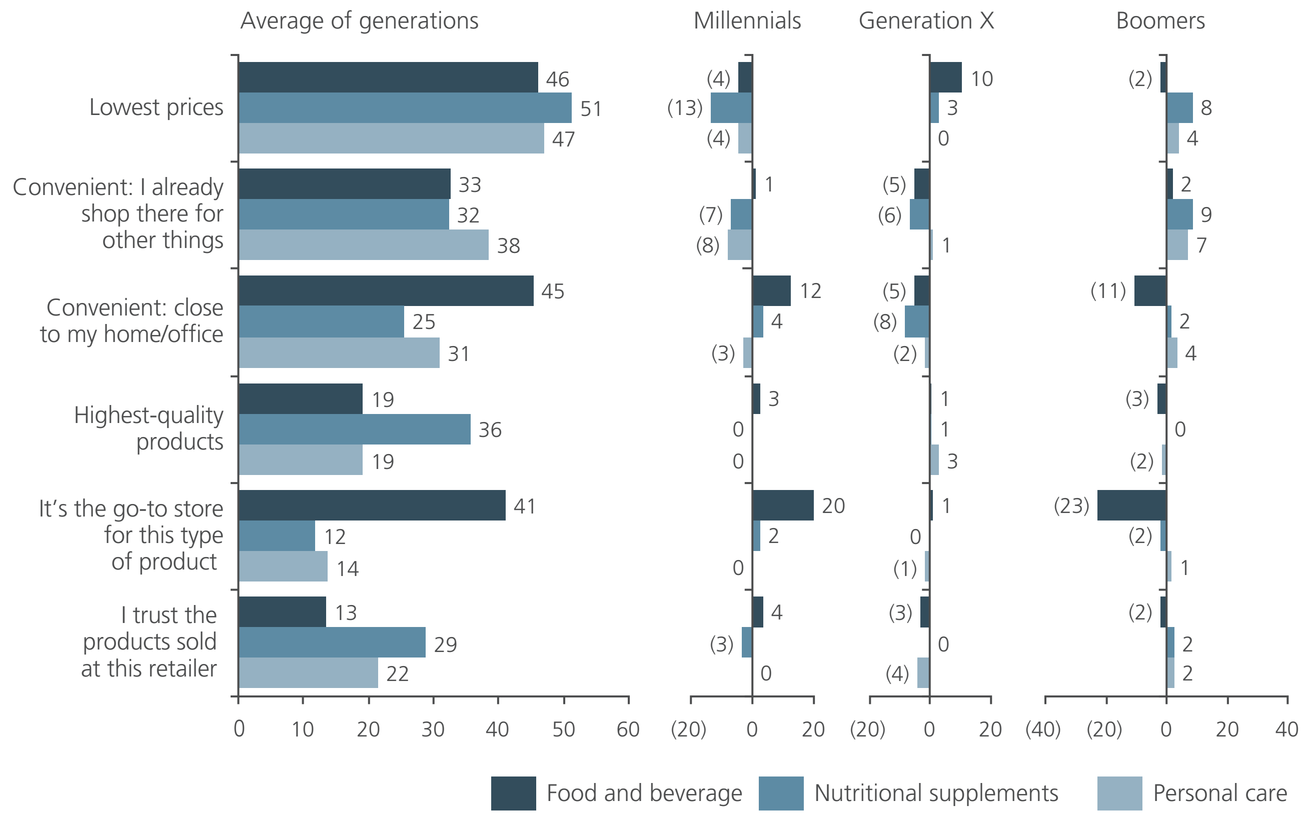
Note: Q54. What are the top reasons that you choose to purchase vitamins, minerals, herbals and specialty supplements through these retailers? Q64. What are the top reasons that you choose to purchase facial skin care, personal hand care or body care through these types of retailers? Q77. What are the top reasons that you choose to purchase functional beverages and healthier-for-you snacks through these retailers?
Source: L.E.K. Health & Wellness Consumer Study (February 2016)

Channel drivers by age

When it comes to channel selection criteria, L.E.K. Consulting's findings reveal clear generational distinctions, with Boomers/Gen X consumers preferring value (including high quality/a go-to destination at the lowest possible price), compared with Millennials, who seek channels that best match their lifestyle (both philosophically and in terms of proximity to home/work).

Reasons for shopping channels, by category

Percentage of responses

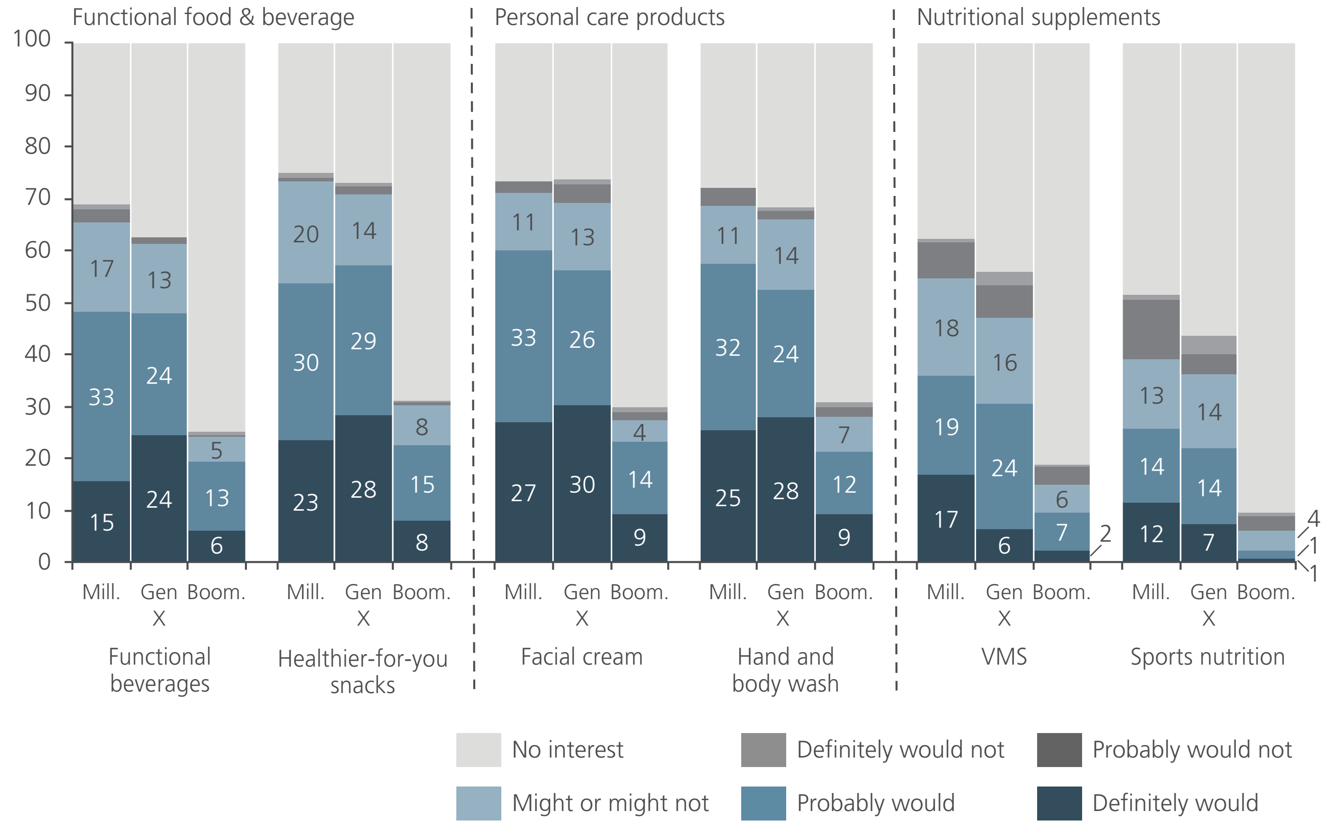


Note: Q54. What are the top reasons that you choose to purchase vitamins, minerals, herbals and specialty supplements through these retailers? Q64. What are the top reasons that you choose to purchase facial skin care, personal hand care or body care through these types of retailers? Q77. What are the top reasons that you choose to purchase functional beverages and healthier-for-you snack foods through these retailers?
Source: L.E.K. Health & Wellness Consumer Study (February 2016)

Increased interest in subscription services

Supplements notwithstanding, L.E.K. notes increased interest in subscription services across H&W categories. This excludes Boomers, however, who generally continue to focus on traditional retail models.

Likelihood to purchase a health & wellness product subscription
Percentage



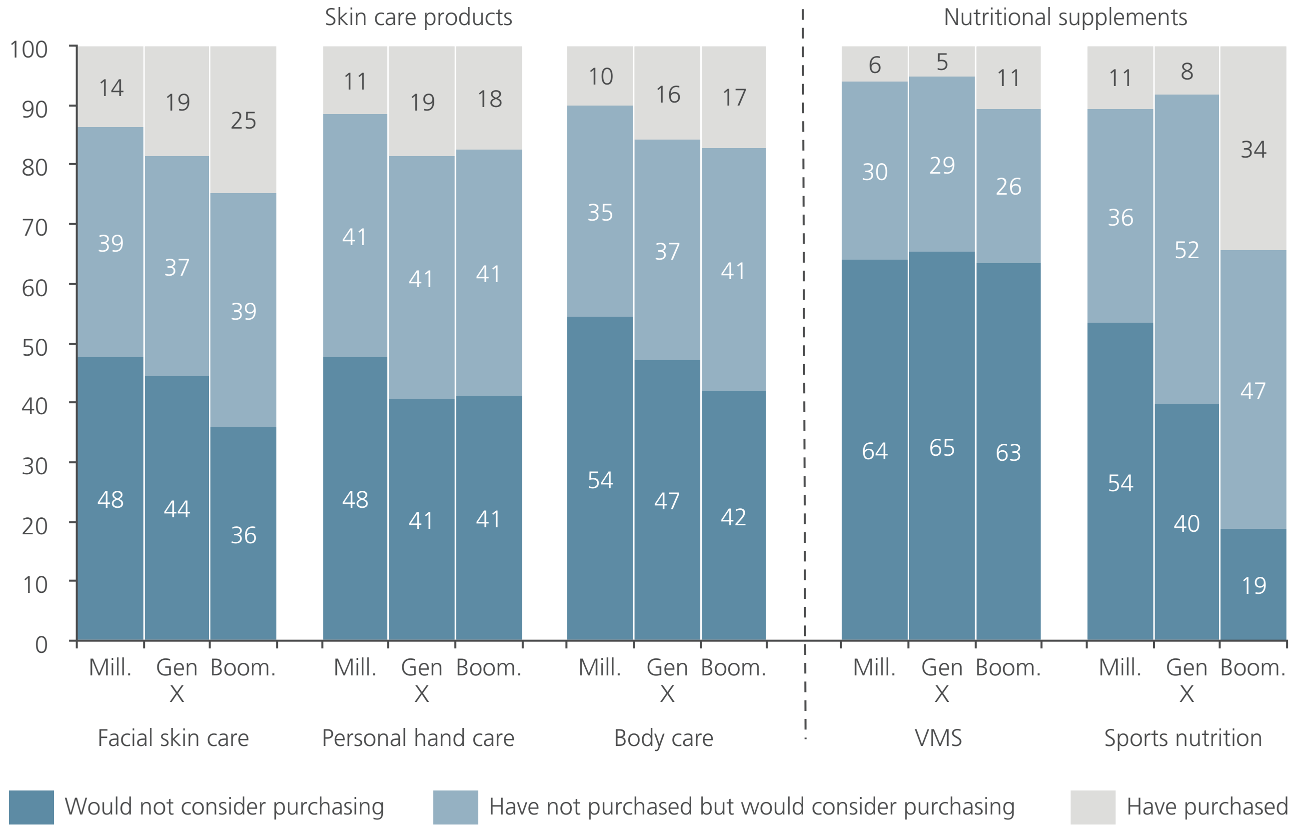
Note: Q80. If this subscription box service were available with items and products that you would be interested in and was priced at a cost that you found reasonable, how likely would you be to subscribe to a monthly membership program?
Source: L.E.K. Health & Wellness Consumer Study (February 2016)

Private-label preferences

Generally speaking, H&W consumers are amenable to private-label versions of personal care and nutritional supplement products (more than 80% have already purchased or would consider purchasing such alternatives in the future).

Once again, however, Boomers remain skeptical, and instead continue to favor trusted brands over private-label substitutes.

Willingness to purchase private-label brands, by product segment
Percentage (N=749)



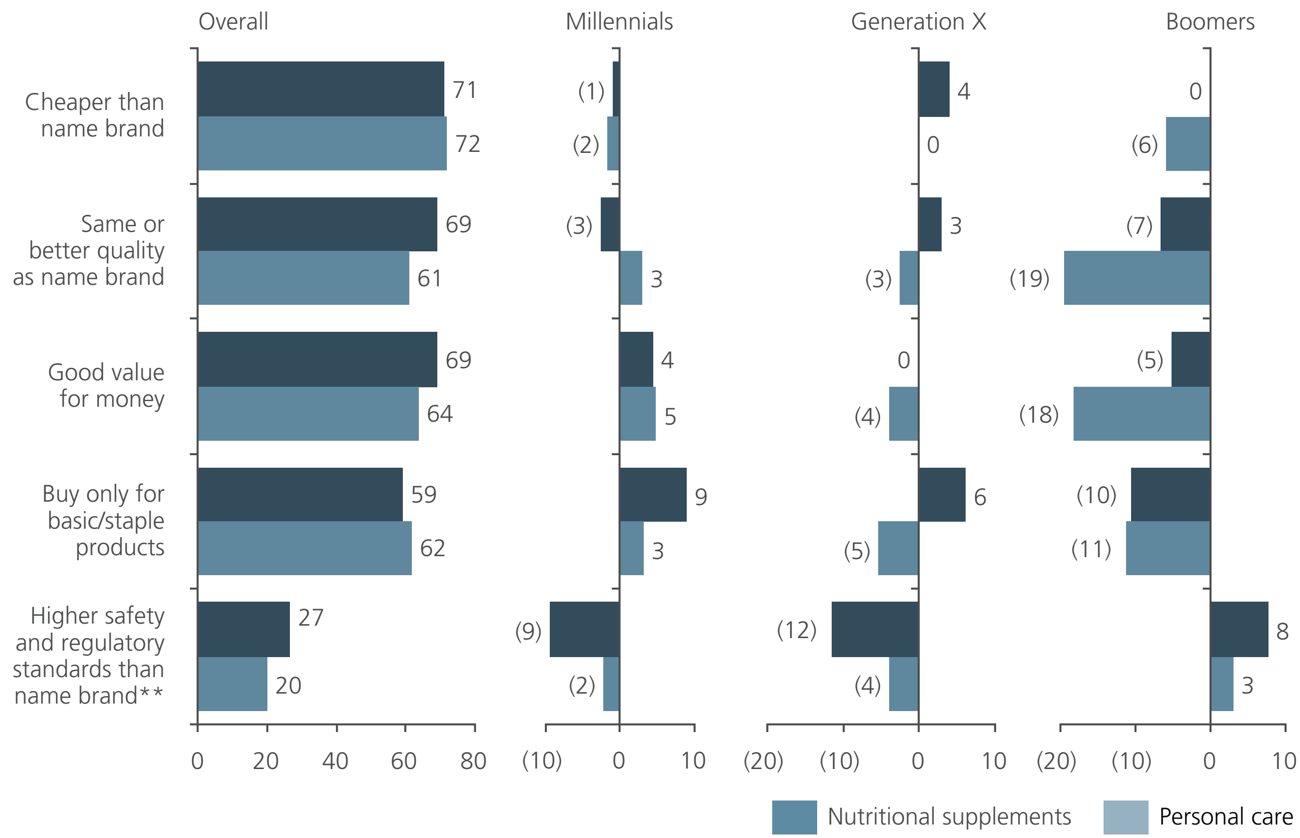
Note: Q65. Have you ever purchased any store-brand or private-label facial skin care, personal hand care or body care products? (e.g., Everyday 365, Sephora, CVS-branded products)? If not, would you consider purchasing store-branded facial skin care, personal hand care or body care? Q55. Have you ever purchased any store-brand or private-label nutritional supplements (e.g., Everyday 365, Kirkland, The Vitamin Shoppe or branded products)? If not, would you consider purchasing store-branded nutritional supplements?
Source: L.E.K. Health & Wellness Consumer Study (February 2016)

Price, quality fuel non-branded sales

While value may be key to sales of private-label nutritional supplements and personal care products, many H&W consumers believe that the quality of these alternatives matches or exceeds their branded equivalents.

To date, the majority of non-branded purchases have been limited to basic/staple offering. However, there appears to be a broader opportunity for value-added, higher-price-point private-label products in health & wellness.

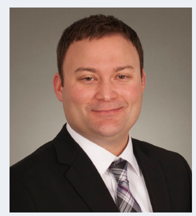
Overall: Perspectives on private label, by category
Percentage of responses*



Note: Q56. Do you agree or disagree with each of the following statements as they relate to nutritional supplements? Q66. Do you agree or disagree with each of the following statements as they relate to facial skin care, personal hand care or body care? *Percentage of responses based on respondents who answered they would at least consider purchasing private labels in Q55/65. **Percentage of responses that disagreed with the following statement: "Name-brand vitamins, minerals, herbal supplements and sports nutrition products have higher safety and regulatory standards."
Source: L.E.K. Health & Wellness Consumer Study (February 2016)

About the Authors

Alex Evans, CFA, is a Managing Director in L.E.K. Consulting's Los Angeles office. He focuses on consumer-facing sectors encompassing both retail and media. He specializes in a diverse set of verticals, including Health & Wellness, Food & Beverage, Specialty Retail, Sports/Live Entertainment, Television and OTT/Digital Media.



Chris Randall is a Managing Director and Partner in L.E.K. Consulting's Boston office. He is focused on the Retail & Consumer Products sectors, advising clients on a range of critical strategic issues, including growth strategy, retail format and network strategy, brand and marketing strategy, e-commerce strategy, international expansion, and mergers & acquisitions.

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