EXECUTIVE INSIGHTS

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# Hidden Opportunities in Health & Wellness Part One: The Many Faces of H&W Consumers

**The health and wellness (H&W) movement offers tremendous long-term growth potential, yet finding the right strategies for approaching this highly diverse market remains an ongoing challenge. In the first of a multipart *Executive Insights* series on this topic, L.E.K. Consulting examines the H&W landscape through a proprietary survey of U.S. H&W consumers and offers a roadmap for determining which segments may represent the biggest opportunity for brands, retailers and investors alike.**

A number of factors have combined to position health and wellness (H&W) among the most compelling consumer trends in the U.S., with the potential to provide ample growth opportunities for properly positioned manufacturers, brands, retailers and investors.

In a proprietary survey conducted earlier this year of more than 2,500 adults representing a cross-section of domestic consumer groups, L.E.K. Consulting found that some 70% of respondents identified with H&W themes and/or purchased H&W-oriented products and services. These consumers range from serious studio-fitness types, to casual at-home exercise buffs who use online video programs and wearable fitness technologies, to those choosing instead to focus mainly on maintaining a healthy diet that includes nutritional supplements in addition to organic ingredients, and everyone in between.

## Growth Drivers

Health and wellness momentum has been sustained in large part by an expanding base of older, active and affluent individuals. Over the next five years the earliest members of the baby-boom generation (generally defined as those born 1946-1964) will enter their 70s. As they age, boomers grow even more cognizant of the need to maintain a healthy, active lifestyle. Boomers, however, are not alone in the quest to stay fit. This year the first Generation Xers turn 50, while Millennials (born 1981-1998) will surpass boomers as the single-largest U.S. age demographic. Both groups are also expected to fuel demand for H&W products and services going forward, albeit across different categories and with varied needs and goals.

As consumers continue to become more engaged with healthy living, demand for innovative H&W products and services is also expected to trend upward. Technology is a key enabler

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of this growth and innovation is expected to continue, if not accelerate with additional investment in this space. Over the next two years, sales of global health apps are expected to reach $27 billion, a nearly seven-fold increase since 2014. Experts also see continued growth in the market for wearable technologies such as fitness bands and trackers.

## Finding the Right Consumer Target

To capitalize on emerging opportunities in the H&W sector, industry participants and investors must first gain insight into the buying patterns and motivations of various consumer types. That means considering the level of customer engagement and spending in categories including athletic apparel & footwear, sporting goods & equipment, gyms & fitness centers, functional food & beverages, and nutritional supplements. For research purposes, L.E.K. groups H&W consumers into three distinct categories (see Figure 1):

- **Core consumers**: serious fitness devotees defined by their personal level of fitness
- **Adjacent consumers**: focused on becoming healthier usually through one primary dimension of H&W (e.g., exercise or food or mindfulness)
- **Peripheral consumers**: interested in being healthy but only willing to take small steps toward achieving that goal (e.g., minimal exercise or taking vitamins)

Within each of these groups are several sub-segments of consumers with their own motivations. Core consumers are split between the "hardcore healthy" (who are deeply devoted to one or more physical activities) and "forever fit" (who view fitness as a long-term commitment rather than a fad). Adjacent consumers consist of "aspirationals" (who devote some time to exercise/healthy eating), "routine exercisers" (who maintain a basic level of fitness through exercise) and "all-naturals" (who are primarily diet-focused). Peripheral consumers, for the most part, limit their activities to either taking dietary supplements ("I'll stick to vitamins") or doing not much at all, despite having some degree of interest ("maybe someday").

**Figure 1**
**Core and Adjacent Segment Groups**

| | | % of H&W population | % of H&W spend | % Female | Average age | |
|---|---|---|---|---|---|---|
| Core | Hardcore healthy | -11 | -30 | 38 | 34 | Passionate about one or more activities and a healthy lifestyle |
| | Forever fit | -10 | -14 | 58 | 44 | Lead a fit lifestyle with a focus on appearance and nutrition |
| Adjacent | Aspirationals | -21 | -29 | 54 | 38 | Devote time to exercising but wish they had more time/discipline |
| | Routine exercisers | -15 | -7 | 31 | 58 | Long-time, routine-based exercisers; content with basic fitness |
| | All-Naturals | -11 | -7 | 77 | 56 | View diet as the primary driver of good health, more so than exercise |
| Peripheral | Maybe someday | -19 | -9 | 63 | 50 | Loosely interested in health & wellness |
| | I'll stick to vitamins | -14 | - 4 | 56 | 61 | Heavy user of nutritional supplements, largely out of convenience |

Source: L.E.K. analysis

Understanding the demographic composition of each sub-group is key to capitalizing on the buying trends among consumers. For instance, those who are more fitness-focused are typically better educated and have higher annual income; a combined 81% of those deemed "hardcore healthy" and "forever fit" are college graduates, and; 41% earn in excess of $75,000 annually). As one might expect, youth and commitment often go hand in hand: Within the Core group, the "hard core" healthy are roughly 13 years younger than their "forever fit" peers, whereas the majority of consumers in the least-involved Peripheral group are primarily individuals in their 50s and 60s. Gender is also a factor. For example, 80% of all-natural consumers are women, while 70% of routine exercisers are men.

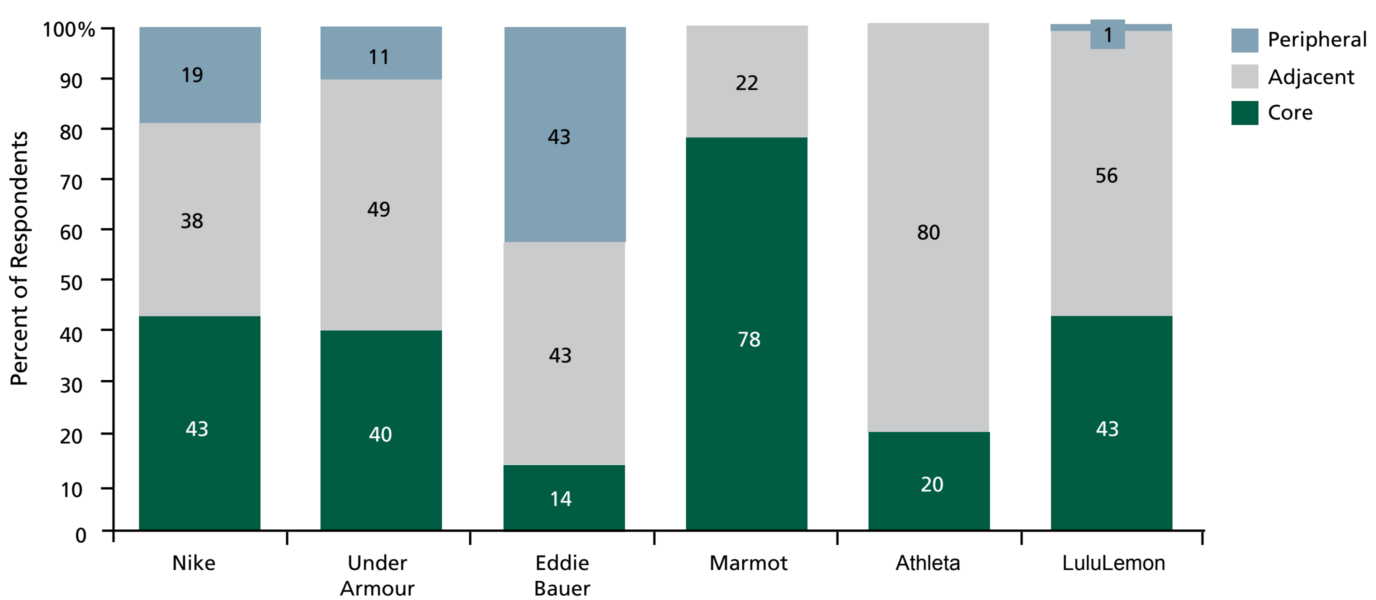
Still, one cannot make assumptions about H&W consumer groups based on demographic factors alone. While the most physically fit respondents do tend to be the youngest, those in the next tier down (including the "all naturals" and "routine exercisers") are close to age 60 on average. And while it's perhaps not surprising that those in the "all-natural" sub-group would maintain a holistic lifestyle that includes shopping for organic foods (72%), these individuals are actually overshadowed by their younger, hardcore-healthy peers, nearly all of whom (95%) regularly use organic products. Furthermore, all segments engage with nutritional supplements broadly, but they use different types, at different levels and for different reasons.

## Good H&W Strategy Starts with Your Target Consumer

Understanding each targeted consumer group's motivation is critical to delivering a winning product or service. The most important H&W consumer segments for a business will vary across sectors but also will be dependent on a given brand's or retailer's value proposition within their sector. In active apparel, the Nike consumer is different than the Under Armour consumer, but both are quite different from the consumer who buys the less technical Eddie Bauer brand or the highly specialized Marmot. We see real differences even within narrowly defined sectors like yoga where the consumer base of LuluLemon and Athleta are quite diverse (see Figure 2).

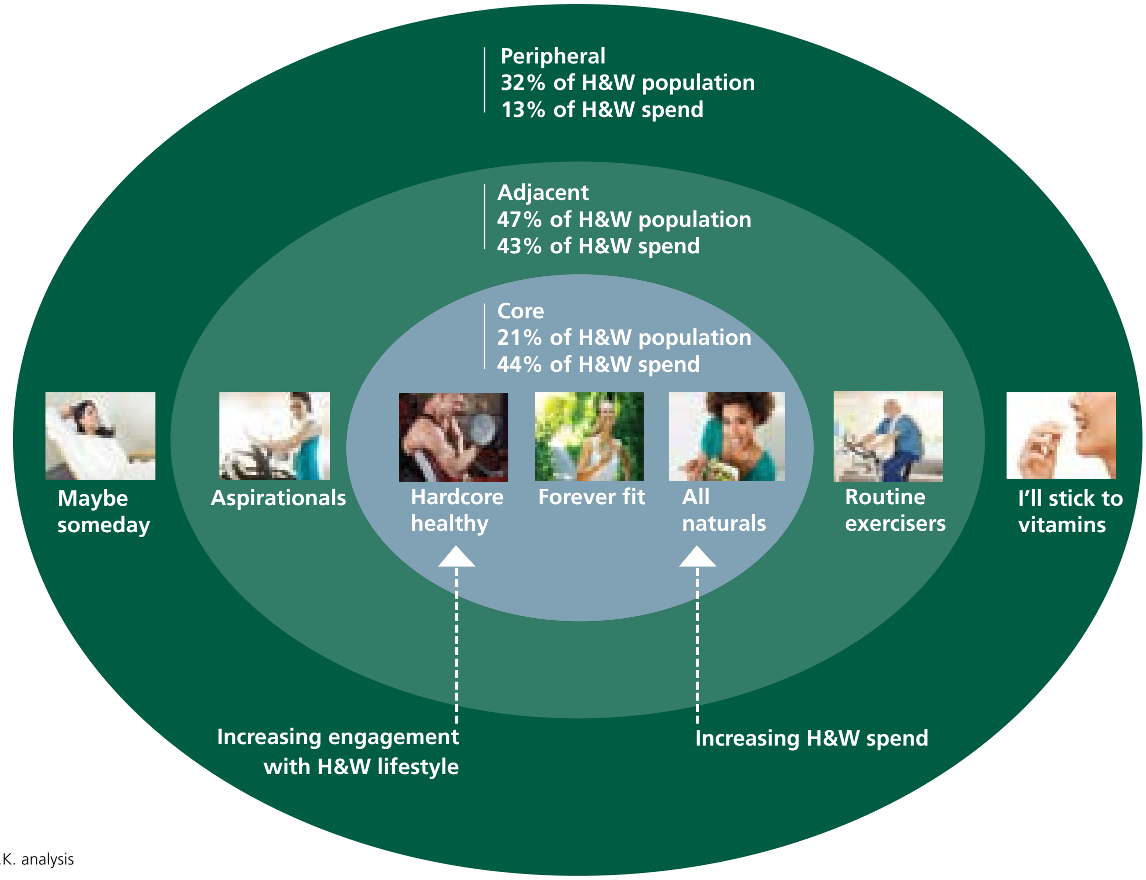
The same holds true across H&W sectors. For example, high-performance or specialized brands and retailers can (and should) focus on the Core consumer, where their message is most valued. For many others, however, the majority of sales

**Figure 2**
**Brand Share by Segment for Select Active Apparel Brands**




Source: L.E.K. analysis

**Figure 3**
**Health & Wellness Consumer Segments**




Source: L.E.K. analysis

are coming from less intense H&W segments among the Adjacent and Peripheral groups, and promotional strategies need to align with their needs, not the needs of the intense, Core H&W consumer.

L.E.K. believes a successful growth strategy must be founded in a deep understanding of a consumer business's target consumer(s) and their needs. Companies should commit substantial resources toward the development of consumer-led growth strategies in order to properly understand their consumer(s) across several dimensions. Questions to consider include the following:

- Who are my target consumers? How old are they? Where do they live? Where do they work? What is their family structure?
- How do my target consumers behave in my sector? What motivates their shopping behaviors? Where do they shop? Do they destination shop or browse? How do they choose which products to buy?
- What do my target consumers want from my business? How can I help make their shopping experience better? What product, price, distribution, marketing and service are needed to fulfil their needs and capture their loyalty?

## Strategies to Drive Growth (Part Two Preview)

As noted previously, H&W brands and retailers often tend to focus mainly on the "converted" consumer – that is, those identifying themselves as members of the Core group of H&W

consumers. For some brands and retailers this is the right strategy, but for many others this approach can risk missing significant growth opportunities elsewhere. As noted in Figure 3, Core H&W consumers are important as they comprise 21% of the total H&W population and some 44% of sector revenues. By contrast, however, Adjacent and Peripheral groups account for 47% and 32% of H&W consumers, respectively, and a combined 56% of H&W spend. Thus, many H&W or aspiring H&W businesses should give equal if not greater emphasis to capturing the hearts and minds of those beyond the H&W Core.

To capitalize on overlooked or underserved segments of the H&W market, stakeholders require a carefully constructed road map that enables them to identify and mine new opportunities. Given the dispersion in demographics, psychographics and behaviors spanning the health and wellness sector, it is clear that a one-size-fits-all approach is neither feasible nor appropriate.

In the next part of our *Executive Insights* series on H&W, we will discuss critical success factors to help clients win in the H&W arena. Specifically, we will identify a number of truths about the H&W consumer likely to present the most significant near-term growth prospects for H&W brands, retailers and investors.



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