

Hidden Opportunities in Health & Wellness Part Two: Six Ways to Win With H&W Consumers

In the second installment of its multipart *Executive Insights* series on health and wellness trends, L.E.K. Consulting offers six actionable themes for helping clients identify which products, services and segments are most likely to achieve future growth – and why.

In Part One of our *Executive Insights* on the health and wellness (H&W) industry, we considered the varied consumer demographics and buying behaviors that render a one-size-fits-all approach to H&W strategy largely ineffective. Instead, brands, retailers and investors require a more focused game plan built on greater visibility into their most appropriate H&W target consumer segments and the nuances that distinguish each.

As a starting point for an H&W strategy that applies to all our clients, L.E.K. Consulting has identified six key themes to determine which products or segments are most likely to outperform over the near term and why.

Theme #1: Capture More Than the Core

The lion's share (56%) of available H&W revenue opportunities exists not within the most committed Core group, but among those who identify as either regular exercisers or H&W hopefuls, including some 43% of those within the mainstream Adjacent group. Accordingly, those stakeholders who choose to focus

chiefly on the upper-echelon consumer risk leaving substantial money on the table.

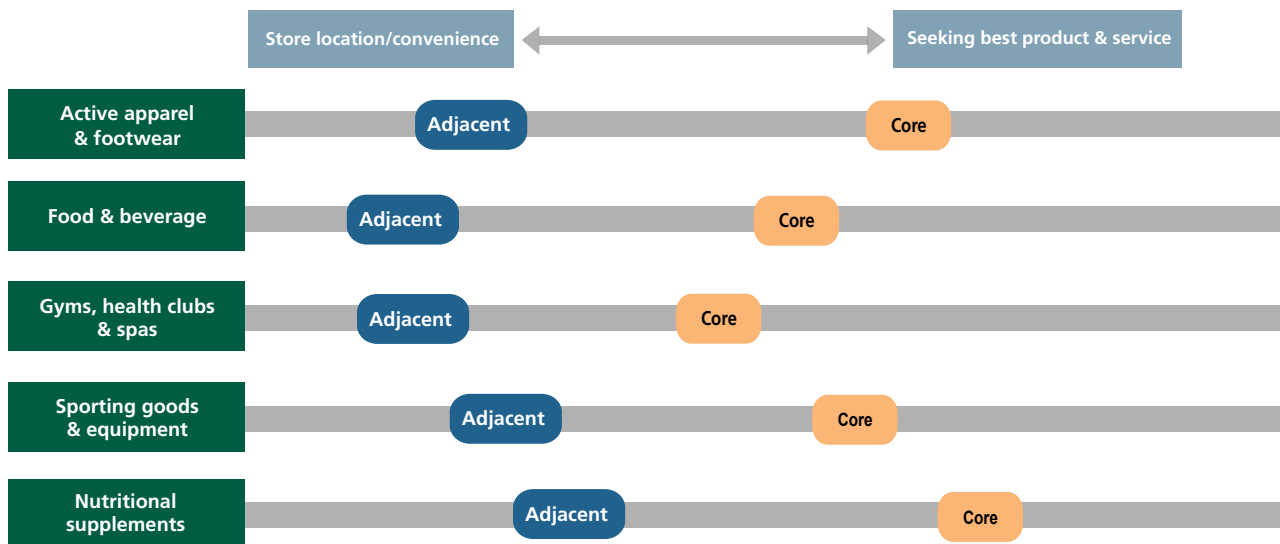
Our research bears this out: While Core users lead the active apparel and footwear segment with 48% of product spend, Adjacent consumers rank a close second at 43%. And in the food and beverage category, Adjacent consumers come in first at 46%, six percentage points ahead of their Core counterparts. Although Peripherals trail both groups across all product segments, even these less-committed consumers nonetheless represent a healthy share of both the food and beverage and the nutritional supplement intake (16% and 14%, respectively).

Theme #2: “Best” Not Necessarily for the Rest

The diversity of the H&W client base is such that the rationale for “staying healthy” often varies from one segment to the next. For instance, since most non-Core users are mainly interested in a product's weight-loss capabilities, emphasizing “best-in-class” brands or technology may only be truly effective when targeting

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Figure 1
Key Retail Selection Criteria by Sector and Consumer Segment



Source: L.E.K. analysis

Core customers. Similarly, our survey reveals that studio-fitness participation is typically limited to the “hardcore healthy,” while most other categories prefer out-of-gym exercise programs.

Theme #3: A Need for Value

Our survey data reveals that providing lower-cost H&W products and services remains a clear — and largely untapped — area of opportunity. With the exception of the Hardcore Healthy sub-group, all H&W consumer segments rank affordability as the second-most important attribute when shopping for active apparel and footwear. In the nutritional supplement category, Peripherals and Hardcore Healthy group members alike consider value-brand selection the No. 1 purchase criterion.

Theme #4: Don't Wait for the Customer to Come to You

While the truly engaged may be willing to go the extra mile for a requisite product or service, consumers farther down the chain demonstrate a greater need for convenience and broader distribution. When considering location and convenience versus best product or service, our study revealed a sharp contrast

favored brands, while more casual consumers prefer instead those products or services that are easier to find and/or closer to home. (This theme is particularly evident across the food and beverage, active apparel and footwear, and gyms and fitness centers segments — see Figure 1). Since the majority of customers make H&W purchases based on convenience, being able to reach beyond the Core and into the retail mainstream would appear to be a requirement for continued growth.

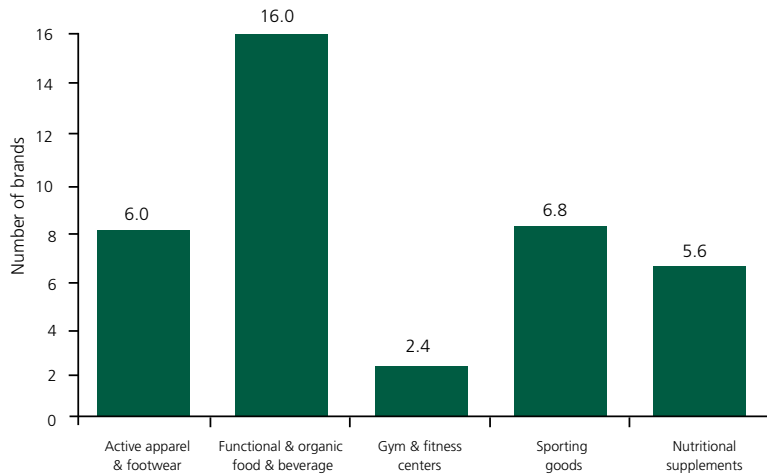
Adjacent and Peripheral consumers in particular report a willingness to trade selection for a more convenient location when buying nearly all products associated with health and wellness, including functional food and beverages, nutritional supplements, apparel and footwear, sporting goods, and gym/fitness center memberships.

This trend also signals an opportunity for retailers: Do not be afraid to build a deeper assortment around H&W. The consumer is already in your stores and would prefer to buy while there. Creating a compelling assortment is the first step to increasing your share of wallet among existing shoppers. From that point, investment in a better shopping experience can drive additional H&W product-related footfall.

Figure 2

Core H&W Consumer Segment Brand Purchases

Average number of brands purchased in the past 12 months by sector spenders in H&W segments



Source: L.E.K. analysis

Theme #5: Win With the Core Through Specialization

Although they represent just one-fifth of the H&W population, Core consumers nonetheless provide the industry with a sizeable chunk (44%) of H&W revenues. Unlike their less-devoted peers in the Adjacent and Peripheral categories, Core customers are a highly selective group who favor quality products and services over fads and trends. They are more likely to support natural and organic grocers and other specialty H&W channels, spend considerable time researching H&W brands, and be discerning about products that bear slogans like “all-natural,” “proven health benefits,” “best performance” and “great taste.”

Additionally, Core consumer spending tends to be fragmented over a wide range of brands and retailers, and includes “best-in-class” and “next-generation” products and services (see Figure 2). This poses a challenge for H&W-focused manufacturers and retailers, who must deliver a specialized or differentiated message in order to win over the well-informed Core constituent.

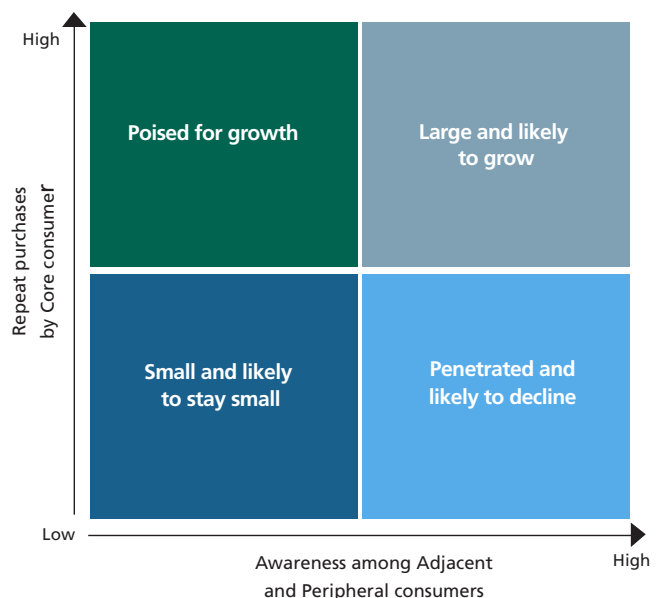
Theme #6: Future Movers

Though unique, the buying habits of the highly health-conscious can in fact serve as a bellwether for retailers seeking products with the strongest growth potential, while also helping guide investment firms in search of potentially lucrative acquisition targets. According to L.E.K.’s research on the functional snack food (FSF) segment, growth-oriented brands such as Late July Organic Snacks (led by ex-Cape Cod Chip co-founder Nicole Bernard Dawes) and Mrs. May’s had a significantly higher purchase-to-awareness ratio among Core consumers than did less visible, smaller brands such as Lundberg and Pamela’s. This data point, coupled with lower general awareness, signals the possibility of significant growth with marketing support and broader distribution.

An assortment strategy or investment thesis centered on which products curry the most favor among Core buyers — while simultaneously flying under the radar within the mainstream retail channels — is likely to highlight the brands with the most significant future growth once the brand is able to boost marketing capital and build out its distribution network (see Figure 3).

Figure 3

H&W Brand Growth Matrix



Source: L.E.K. analysis

Conclusion

The ongoing H&W movement offers manufacturers, brands, retailers and investors substantial long-term growth prospects across a wide range of consumer segments. Capitalizing on these unique opportunities requires a keen understanding of the targeted consumer and the specific needs of each segment — not to mention understanding how to formulate consumer-led strategies that will unlock the potential value of H&W tailwinds within your business and set the path to differentiated performance and value creation. The best H&W opportunities for your business may be hidden today, but a critical review of the consumer landscape can help you unearth the potential for your business tomorrow.

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