



WELLVEST CAPITAL

Wellness Investing™

“A BODY IN MOTION STAYS IN MOTION”
NEWTON

NOW WHAT? HEALTH AND WELLNESS AFTER THE COVID SPIKE

THE “FREE BOGO” WILL END SOON

May 25, 2021

“Buy-One-Get-One”, the venerable BOGO is the hammer of the marketer’s toolkit; always at the ready and suitable for almost any job. But, like a hammer, it’s a blunt tool that usually comes with a high price tag. For most health and wellness (H&W) consumer product categories 2020 was that very rare occurrence where the BOGO cost nothing! Well not exactly. The COVID pandemic created a dramatic spike in consumer demand across multiple consumer product categories from hand sanitizers to vitamins and supplements. At the same time brands were unable to execute on many planned marketing campaigns including sampling, discounts, coupons, and yes actual BOGOs. This resulted in strong profitability as unit sales volumes increased, discounts and allowances decreased, and marketing spend was sharply reduced; a “free bogo.”

Fortunately, we are at the tail end of the pandemic resulting in a “reopening” of the economy. This return to normal is anything but; it’s a bumpy ride with fragmented impacts across states, consumer sectors and timelines. However, progress is being made. As the economy recovers it is important to acknowledge that the heightened consumer demand, predominately unsupported by promotions and marketing, will not go on forever. The free bogo is going to end soon. Consumers’ transition will not be a complete 180 back to pre-COVID times, it will be a transition to something different, a transition to the “New Normal”.

The COVID demand spike has positioned many H&W CPG brands extremely well to take advantage of what is coming next. Building on this should be the primary focus going forward. It is too early to tell exactly what consumers will do; will in-home consumption stay strong, how large will the return to travel really be and how will it be different, will consumers remain loyal to new brands discovered during COVID or return to legacy products? Protecting newfound gains and building off a higher level of demand will be mission critical in the days ahead. One truth is certain – consumers are entering this “New Normal” with a heightened awareness of the importance of Health & Wellness.

BOOM TIMES FOR H&W BRANDS DUE TO COVID

NEW NORMAL NOW EMERGING

SECTOR CONSIDERATIONS AND TACTICS

“VMS in a Sweet Spot” Vitamins, Minerals and Supplements (VMS) had one of the best growth periods on record with 2020 sales growth of ~12% as compared to a pre-COVID forecast of 5-6%. Immunity led the way as consumers took greater control of their health. Wellvest believes that a new demand level has been reached in the VMS categories. Major CPG brands like Nestle, believe this as well and are making significant investments in VMS; the acquisitions of Vital Proteins and The Bountiful Company are timely examples. VMS brands will need to focus on consolidating their recent gains by reengaging with consumers to showcase their value proposition, differentiation, and unique community. Along with renewed promotion and marketing, distribution channel strategies will require updating, applying a forward view. The rapid acceleration of ecommerce and the blending of ecommerce with bricks and mortar retail necessitates VMS brands adapt quickly and thoughtfully. Consider the success of digitally native brands like Ritual versus powerhouse marketers like Nestle’s Nature’s Bounty; where do you reside in this spectrum and why? Regardless of where brands sit today, near term future success will be predicated on meeting consumers expectations and demands across the user experience however it evolves. Now is the time to go off-site, take a deep dive into the data, assess how COVID has changed your business and adjust the growth strategy to what’s ahead, not what was.

“Food & Beverage in Flux” Food and beverage brands with material exposure to in-home consumption experienced tremendous uptake from pantry loading and supply chain disruptions. During COVID consumers have stocked up on what was readily available and healthier. Counter to this, food service suffered dramatic drawdowns. Ecommerce and alternative distribution (delivery services, remote pick up, etc.) also took center stage. Where we go from here is still to be determined but its clear that foodservice will make some level of come back. Wellvest believes that health and wellness will continue to stay top of mind for consumers in food and beverage. In addition, the pandemic and other societal changes have reinforced the desire of consumers to support brands that match their personal values, be it sustainability, diversity, or other social cause. Brands that align best to this desire for healthy products and strong social values will continue to gain traction.

The wildcard for food and beverage is where and how they meet their consumers. Brands that rely heavily on in-home consumptions should expect a natural deceleration of growth rates due to the restart of food service. Regardless, the blending of traditional channels and ecommerce requires new promotional, marketing and distribution strategies and tactics. Taking stock of COVID related gains and how they were achieved will greatly inform what new approaches will

VMS AT NEW DEMAND LEVEL, TIME TO CONSOLIDATE GAINS

*MANY OPPORTUNITIES FOR FOOD & BEVERAGE BUT CHANNEL DISRUPTIONS
WILL PRESENT CHALLENGES FOR SOME*

be successful under the New Normal. Actions that reinforce loyalty from new customers be it promotions to community outreach are well placed investments in building brand equity; the unique dynamics of 2020 will not repeat in 2021. Now is the time to reinvest some of the gains from 2020 to ensure the balance of 2021 and beyond are fruitful.

Coil the Spring – be prepared

It is human nature to take a moment to relax and enjoy the benefits of hard-won accomplishments, but now is not the time. The impacts of the pandemic are still being felt and still evolving as consumers navigate their way to the New Normal. Brands that have been fortunate enough to benefit during this period, now is the time to assess and plan. Going back to the pre-COVID playbook will not yield the same historical results. The world has changed too much and too quickly. It's impossible to predicate with certainty how things will progress but being prepared to adapt and take advantage of the opportunities is at the heart of excellent management and long-term value creation.

