



# WELLVEST CAPITAL

Wellness Investing™

*“SHOW ME THE INCENTIVE AND I WILL SHOW YOU THE OUTCOME.”*

— CHARLIE MUNGER

## PATHS TO RETAIL SUCCESS

### *WHAT INCENTIVE IS YOUR BRAND PROVIDING*

AN EMBARRASSMENT OF RICHES

August 3, 2021

At the start of the natural foods movement in the 1970's the options for health-conscious consumers was very limited. The products that were available in the “natural” category in many cases did not taste all that great when compared to mainstream counterparts. In these early days better tasting products won the day. Over time the taste-race steadily narrowed, moving the competition to ingredients; anyone remember the “low-fat” race to the bottom? When the dust settled the battle-of-the-badges started. Attributes like organic, GMO-free, vegan, keto-friendly and fair trade sprung into the limelight. Today the battle-of-the-badges has narrowed as well. The health and wellness category has reached a place where great tasting, organic, clean ingredients, on-trend attributes, and nutritionally dense products are widespread, readily available, and often competitively priced. For consumers it is an embarrassment of riches. While this is outstanding for shoppers it makes for a very competitive and challenging marketplace for companies that make and market these products. For brands to stand out in the crowd they need an “unmatchable claim” that sets them apart in other ways and avoids commoditization and “me-too” approaches.

Consumers' expectations in the health and wellness category have achieved a new high. They expect products to taste great, be on-trend regarding GMO-free, Kosher, gluten-free, low sugar, high protein, vegan, dairy free, keto-friendly, organic, fair trade, and the list goes on. Coupled with this is packaging that delights, is convenient, eco-friendly and provides information in a quick, easy, and digestible way. Wow...this sounds like a lot and for brand owners, it is, but this is just the new table stakes. If a brand does not have these fundamental features, they will already be behind. It is important to realize that all these elements address the demands of the end consumer. But what about the needs and wants of the other players in the path of getting products from the factory floor into the hands of the end consumers? For all but a few 100% DTC dedicated brands, Brokers, Distributors and Retailers are the customers. A key part of a brand's “unmatchable claim” is how it meets the needs of this group not just the end consumer. These players are in the business of selling, which is primarily incentivized by their share of revenue; all things being equal they will prioritize products that make them more money.

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*THE “TABLE STAKES” FOR H&W BRANDS IS HIGH*

*BEING ON-TREND IS NO LONGER ENOUGH*

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## WINNING AT THE MARGINS

**“Incremental to the Category”** The math is simple. In the health and wellness category there are only two ways for revenue to increase; win market share from competitors or bring in new consumers. Gaining market share is great for the brand but can be a mixed bag for its supply chain partners. For the brand owner both market share gains and expanding the category (by bringing new buyers into it) has the same results. A unit was sold, revenue is made and hopefully profits as well. The perspective is different for retailers and other supply chain partners; expanding the market is better for them. In the case of market share changes, the outcome can be good, the same or bad depending on the margins. The better outcome occurs when new customers bring incremental sales and all parties benefit; brands, retailers, and supply chain partners. Brands that drive incremental sales have a competitive advantage that end consumers may not appreciate but merchants certainly do.

Incremental sales have a halo effect for stores that goes beyond the incremental penny profits made on higher margin products. This effect is driven by consumers’ shopping behavior of making impulse purchases. Consider grocers’ historical struggles with the middle aisles. Frozen food, dry goods, baking products, beverages and canned goods have historically not been hot beds of innovation and shopper excitement. Brands that reimagine these categories through innovation, sharp marketing and exceeding consumer expectations have an exponential impact. Once in the aisles human nature takes over, resulting in the shopper’s basket being fuller, and the retailer making more money. Bottom line; adding incremental sales to a category provides a huge tailwind for brands, retailers, and their channel partners.

This goes much further than the grocery channel. All retailers, distributors and brokers in the health and wellness space benefit from more customers. Drug chains like CVS and Walgreens, mass retailers like Walmart and Target, and specialty stores like GNC, and Vitamin Shoppe are seeking brands that attract and retain the incremental marginal shopper. Brand managers need to keep this top of mind as they develop and execute on growth strategies; asking, “What value am I bringing to my supply and channel partners?”. Leveraging solid data analytics utilizing reputable sources such as SPINS, IRI and Nielsen will support sound decision making. Additionally, this analysis demonstrates to partners your unmatched claim of delivering increase profitability for all parties. Aim to make the pie larger!

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*AIM TO MAKE THE “PIE” LARGER*

*BRINGING NEW CONSUMERS TO A CATEGORY PROVIDES TAIL WINDS TO  
RETAILERS AND SUPPLY CHAIN PARTNERS*

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**“Understand the Category”** What drives consumers to a category? Smart phones created new efficient ways to communicate, express ourselves, and gather information. This created huge incremental sales, where in the past homes had one telephone line, they now have a cell phone for every member of the family. For some categories, especially in the health and wellness space consumer preferences change over time. Carbonated Soft Drinks (CSD), “soda”, unit sales have been declining for over a decade due to consumers’ concerns with high sugar content and artificial ingredients in many of the leading products. Innovative brands that address these issues have brought consumer back to the category created benefits for channel partners. In the frozen food aisle brands like Amy’s have addressed legacy ingredient issues and taste challenges, generating incremental growth. In the vitamin and supplement business “gummies” have delivered a user experience that attracted consumers that avoided capsules and tablets. These are all great examples of solving challenges that kept consumers away from a category resulting in a larger pie for all parties.

*Coil the Spring – be prepared*

Brands that have proven that their unmatched claim delivers incremental growth to a category will have an advantage with retailers and distribution partners as compared to those that rely on taking market share. This applies to food, beverage and consumer packaged goods including health and beauty, supplements, and consumer healthcare. As retailers compete with ecommerce, they are hungry for products that will bring foot traffic into stores. A holistic approach that prioritizes drawing in new users will help avoid commoditization and competitive pricing pressure. Digitization and ecommerce have leveled the playing field between brands and retailers, it is now up to brands to prove they are good partners by adding value for retailers, distributors, and channel partners.

