



WELLVEST CAPITAL

Wellness Investing™

“INFLATION IS ALWAYS AND EVERYWHERE A MONETARY PHENOMENON...”

— MILTON FRIEDMAN

HOW THE ECONOMY IMPACTS HEALTH AND WELLNESS *PERSPECTIVES ON INFLATION AND RECESSION*

ECONOMY IN TRANSITION

October 4, 2022

There is an old quip in New England that if you don't like the weather just wait a few minutes, it will change. Seems like this is a good description of the current economy; not so long ago we had pandemic lockdowns, 10% unemployment and crashing oil prices. Fast forward to today and the opposite is true, resulting in runaway inflation. The law of supply and demand never goes away, unfortunately we have both components moving in the opposite direction. Supply is going down while demand is going up resulting in increased prices. The reasons for both can be debated but the outcome is the same, higher prices and ultimately a slowing economy. How slow remains to be seen.

Like all goods and services, the Health and Wellness category is being impacted by these changes in the economy. Setting aside the COVID recession, which was offset by high demand for anything and everything that improved health, it has been a very long time since we have experienced high inflation and a protracted economic slowdown. Historically during these periods consumers have moved down market to more affordable offerings, including more value-oriented brands and private label. In other cases, they have reduced the volume of more expensive premium products and services. This is rational, given the reduction in income and asset values or the perception of a reduction to come. But a lot has changed since the high inflationary period of the 1970's/early 80's and the Great Recession of the mid-aughts.

The most dominate generation, Millennials and Gen Z have come of age and are now the largest consumer groups in America. This cohort has embraced health and wellness in multiple ways, ranging from food, beverages, supplements, and exercise equipment to digital service offerings supporting mental health, weight loss and biometric data. While the benefits are crystal clear they come at a cost, often a high one as compared to traditional and legacy solutions. For most, if not all of their adult lives this group has known prosperity and stable prices. Under this backdrop splurging on the next great version of a sustainable, mission driven, clean label product be it vegan snack chips or charity linked socks, was always within financial reach. Hard purchasing choices rarely had to be made. This is no longer the case. The question is; how will this group and the broader population react to this abrupt change of fortune?

MILLENNIALS AND GEN Z – HARD PURCHASING CHOICES AHEAD

SECULAR TREND GETS CHOPPY

The pandemic brought health and wellness to a high level of prominence, for many consumers it has become the top priority in their lives and for good reason. It's highly likely that Millennials and Gen Z, will stay committed to a healthy lifestyle during an economic slowdown or recession. What could change is where and how they spend to support that lifestyle. Look for a shift back to more at-home consumption which enables more economical choices while maintaining good health. Exercise and mental health products and services should be stable but expect growth to slow significantly and pricing to come under pressure. Brands in these categories will fight to maintain market share by offering strong value propositions and lower costs to serve. During times of economic stress comfort is derived by what one can control, healthy habits and discretionary spending being two of them.

The long-term secular health and wellness trend will remain in place and continue upward albeit at a slower pace than the COVID spike. Underlying this trend will be a degradation of the marginal buyers and marginal products with weak value propositions. Unless the consumer value proposition is extremely strong expect super-premium and premium priced products and services to experience slower growth or negative growth. Often these products pitch convenience, social causes and/or exotic ingredients. Many value oriented alternatives exist which align to the health and wellness mandate with lower financial burdens. All other things being equal, when it comes down to paying rent or purchasing a craft made, fair-trade certified coffee micro-brand, paying the rent will win the day. This may sound unfair and alarmist, but these are the choices facing consumers today and will only be exacerbated if the economy worsens.

STAYING RELEVANT

The post-COVID playbook for health and wellness brands has been to stay on trend regarding the consumer value proposition while passing on costs through raising prices. Hence, we have gotten high inflation. Over the last 12-18 months retailers willingly absorbed these price increases since consumer demand was at an all-time high coming out of the pandemic. This is no longer the case; consumer's purchasing behaviors have dramatically changed resulting in reduced revenue and margins for retailers. "Taking Price" is highly unlikely to continue to work. Consumers and retailers are pivoting to proven high velocity brands that deliver on consumers' demands for value. Case in point, major retailers Target and Walmart recently reported weaker sales, lower margins, and rising inventory of high-cost consumer durable goods.

HEALTH AND WELLNESS REMAINS A TOP PRIORITY

SUPER-PREMIUM AND PREMIUM OFFERINGS WILL STRUGGLE

For health and wellness companies staying relevant with coveted Millennials and Gen Z requires redefining the perception of what value means. The competition is not only the brand sitting on the same shelf or top page of Amazon, the competition is gas, rent and diapers. The desire to maintain a healthy lifestyle will remain strong and may even increase since it has an element of control. Top of mind will be how a product or service enables the goal of staying healthy, from clinically proven functionality in supplements to great tasting no sugar beverages. The ancillary social attributes like fair trade, living wages and charitable affiliations will be perceived as “nice to have”, not a “must-have”. Leading marketing messaging with these noble goals is admirable but may not provide the sales lift it has historically produced unless the other key value drivers are already firmly established.

Delivering on great value and health will prove to be the winning combination. Great value does not always mean the lowest cost; it means providing “more bang for the buck”. Certain categories will have an inherent benefit over others, for example bulk protein powders are more economical per dose than nutrition bars. Clear and direct messaging on “value” is needed to win and keep customers. There is a tremendous opportunity unfolding for brands to differentiate themselves as consumers pay closer attention to what they spend their money on. The propensity to switch brands will increase rapidly and dramatically. This occurred during the height of the pandemic because there was no choice, thus changing behavior patterns and opening the door to more trial. This time around the driver is financial, but the opportunity to win new customers and gain share will be even more pronounced.

Coil the Spring – be prepared

Inflation, especially in food, and economic slowdowns are painful and will force a change of purchasing habits on Millennials and Gen Z, many for the first time. While their commitment to health and wellness will remain intact their approach to how this is achieved will adjust. For some the adjustment will be forced upon them by economic hardship for others the adjustment will be psychological as uncertainty about the future takes more mind share. This dynamic will create incredible opportunities for health and wellness market participants that can address the need for high value solutions. Thriving during the pandemic required quickly adapting to a new environment, the inflationary and economic environment we are entering will require much of the same skills and offer even greater rewards.

