



WELLVEST CAPITAL

Wellness Investing™

*"LEARN THE FUNDAMENTALS OF THE GAME
AND STICK TO THEM. BAND-AID REMEDIES NEVER LAST."
— JACK NICKLAUS*

LIFE AFTER INFLATION OR *WHAT HAPPENS WHEN I CAN NO LONGER TAKE PRICE*

NO REST FOR THE WEARY

June 19, 2024

The health and wellness industry has faced considerable challenges over the last many years. At an industry level, companies and their financial backers have done exceptionally well adjusting along the way. The post-pandemic era washed away the hype and over-investment in all things “health and wellness” while clearly demonstrating what happens when weak business models are exposed. The subsequent surge in demand for goods and services in the sector, coupled with general supply disruptions, resulted in a very difficult operating environment for all market participants. Following in the footsteps of that disruption was a rapid rise in inflation. Companies were forced to address pricing strategies that had until then been an afterthought. Which brings us too today. Wellvest believes we are entering a new phase in the inflation narrative, specifically for health and wellness companies. This change will have a lasting impact on consumers, brands, manufacturers, retailers, and investors.

Consider the laws of supply and demand which ultimately impacts prices; with a tip of the hat to price elasticity. At a foundational level, the demand for something will go down as the price goes up. For health and wellness companies this dynamic is very much in play, for some more than others. Low-income consumers are feeling the brunt, cutting back on discretionary spending, while high-income consumers are turning to cost-saving measures like shopping at Walmart. The peak in prices has likely passed for many sectors, and a downward trend is emerging. McDonald's has introduced a \$5 value menu, Target is cutting prices on 5,000 items, Walgreens announced cuts in prices on 1,300 items, and Aldi and Ikea are also reducing prices. These moves are indicative of a shifting of the tide. The end consumer is the ultimate arbiter of prices, and they are speaking loud and clear. Price increases are no longer acceptable, companies can no longer mask weak demand. The illusion of growth through higher prices but lower unit sales is dissipating.

*CONSUMERS ARE PUSHING BACK
UNIT VOLUMES TELL THE TRUE STORY*

IT HAS NEVER BEEN ABOUT PRICE

The genesis of today's health and wellness industry dates back to the social revolution of the 1960's. Fed up with corporate America and the lack of "natural" alternatives, the youth of that generation created food, supplements, beverages, and healthcare products that addressed their needs on their own terms. Healthy, natural, sustainable, non-corporate was the rally cry of this period. It was never about the lowest cost product; it was always about the mission driven "value proposition". Sound familiar?

In today's evolving inflationary and social landscape, the development of a "value proposition" should not be outweighed on the price element. The headline news on Main Street and Wall Street is an endless stream of inflation data and Federal Reserve speculating. Superficially leading one to believe that price is the only determinate in consumer behavior. Wellvest believes that it's much more nuanced than that, especially when it comes to health and wellness. Similar to the 1960's consumers are increasingly discerning, seeking products and services that address the immediate need as well as align to their personal values, which at times can be the top decision criteria. The Starbuck and Bud Light boycotts are case studies in the impact of social issues on brands with price pushed out of the discussion.

Cash strapped consumers, social and political unrest, and climate change are creating a witch's brew of mayhem; creating a "deer in the headlights" moment for companies and their investors. Raising prices to cover shortfalls in unit volumes is no longer viable, Pandemic-induced scarcity is over. From a brand messaging perspective, social issues amplified by social media has become the third rail for commerce. The best course of action is to marginalize these elements and stay with the fundamentals of the game.

Companies must emphasize clear product value and differentiation to maintain and grow their customer base. For investors, this environment will punish the "me too" brands. Following on the latest hot trend; plant based, energy-everything, CBD; is unlikely to yield the returns that this approach may have produced in the pre-pandemic heydays. To succeed in this ecosystem health and wellness companies must focus on:

- **Differentiated Products:** Unique offerings that stand out in a crowded market.
- **Reason to Exist:** A clear, compelling product attribute and/or purpose that resonates with consumers.
- **Soul of the Brand:** Authenticity and integrity in brand messaging and actions.

PRICE ALONE IS NOT THE MAGIC BULLET

A CLEAR BRAND VALUE PROPOSITION AND AUTHENTICITY IS REEMERGING

RENEWED FOCUS ON FUNDAMENTALS

It's easy to get fixated on the short-term. Endless news cycles, social media and influencers keep the next shiny object front and center. For health and wellness companies and their investors a long-term view generally yields the best results. Below is Wellvest's thinking on how best to navigate the emerging inflation narrative where price is no longer a tool to drive growth.

1. Value Proposition Over Price

Unless your brand is a commodity, price should not be the primary value proposition. A compelling "reason to exist" that addresses long-term consumer needs is crucial. Brands need to articulate why they matter and how they contribute to the consumer's life in meaningful ways. Price should align with this value proposition, offering a balance between affordability and the intrinsic value of the brand.

2. Focus on Unit Volumes and Gross Margins

In a post-inflation world, focusing on unit volumes and gross margins is more sustainable than merely chasing sales growth through price increases. This approach involves optimizing product mix and enhancing operational efficiency to maintain profitability while offering a compelling value proposition.

3. Authentic Brand Narrative

Authenticity is paramount. Consumers are increasingly skeptical of inauthentic brand messaging. A genuine, transparent narrative that reflects the brand's core values and commitment to its customers can build trust and loyalty. This narrative should be consistently communicated across all channels and touchpoints.

4. Adapt to Changing Consumer Values

Companies must stay attuned to shifting consumer values at the demographic level. For Gen Z social responsibility is a priority while fading as a priority for overstretched Millennials. For brands targeting a younger audience, they should highlight their ESG initiatives, ensure transparency in their supply chains, and engage in practices that resonate with socially conscious consumers. This alignment can strengthen brand loyalty and attract a dedicated customer base provided it is authentic to the brand. Consumers are very attuned to "green washing", don't fake it.

5. Innovation and Differentiation

Innovation remains a key driver of growth. Developing new products that meet emerging consumer needs, leveraging technology for better user experiences, and differentiating through unique product benefits can set a brand apart. For health and wellness companies avoiding the pitfalls of "me too" products and marginal product features are just as important as creating the next great thing.

STICK WITH SOUND BUSINESS FUNDAMENTALS

BUILD LONG TERM INTRINSIC VALUE

Coil the Spring – be prepared

As we navigate the aftermath of inflation and the changing economic and social landscape, both challenges and opportunities will present themselves. Health and wellness companies must adapt to a consumer base that is increasingly discerning, socially conscious, and value-driven. By focusing on differentiated products, authentic brand narratives, and a clear value proposition, companies can position themselves for success in this changing environment.

The era of inflation-driven price increases is fading, and the future belongs to brands that can offer genuine value, align with consumer values, and maintain authenticity. In this new reality, the Law of Supply and Demand remains a guiding principle, but the determinants and drivers of demand are evolving. Companies that understand and adapt to these shifts will not only survive but thrive in the post-inflation economy.

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