

Consumer Packaged Goods Practice

Feeling good: The future of the \$1.5 trillion wellness market

Our new survey shows that a rise in consumer interest and purchasing power presents opportunities across markets, especially as consumer spending rebounds.

by Shaun Callaghan, Martin Lösch, Anna Pione, and Warren Teichner



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The concept of wellness has been around for a long time. Remember Jane Fonda workout tapes, neon legwarmers, and the “cookie diet”? These days, consumers view wellness through a much broader and more sophisticated lens, encompassing not just fitness and nutrition but also overall physical and mental health and appearance. They also have more choice in the types of products and services they buy and the way they buy them.

Our latest research shows that consumers care deeply about wellness—and that their interest is growing. In a survey of roughly 7,500 consumers in six countries,¹ 79 percent of the respondents said they believe that wellness is important, and 42 percent consider it a top priority. In fact, consumers in every market we researched reported a substantial increase in the prioritization of wellness² over the past two to three years.

We estimate the global wellness market at more than \$1.5 trillion, with annual growth of 5 to 10 percent. A rise in both consumer interest and purchasing power presents tremendous opportunities for companies, particularly as spending on personal wellness

rebounds after stagnating or even declining during the COVID-19 crisis. At the same time, the wellness market is getting increasingly crowded, creating the need to be strategic about where and how companies compete.

In this article, we’ll reveal what our survey data tell us about changing consumer attitudes and behavior toward wellness. We’ll couple these insights with the best strategies for companies—both established players and new entrants—to meet consumer needs and preferences in this strong and growing market.

How consumers define wellness

Since views of wellness are constantly evolving, companies must understand the market from a consumer perspective. Our Future of Wellness survey revealed the categories that interest consumers most (Exhibit 1).

- **Better health**, probably the most traditional category associated with wellness, extends beyond medicine and supplements to include consumer medical devices as well as personal-

Exhibit 1

Today’s consumer views wellness across six dimensions.



Better health

Extends beyond medicine and supplements to include medical devices, tele-medicine, and remote healthcare services, as well as personal health trackers



Better fitness

Was steadily increasing over time before experiencing some upheaval over the past year, with many consumers struggling to maintain pre-COVID-19 fitness levels



Better nutrition

Has always been a part of wellness, but now consumers want food to help them accomplish their wellness goals in addition to tasting good



Better appearance

Primarily relates to wellness-oriented apparel (“athleisure”) and beauty products (skincare and collagen supplements), but also includes service-oriented offerings like nonsurgical aesthetic procedures



Better sleep

Now goes beyond traditional sleep medication, like melatonin, to app-enabled sleep trackers and other sleep-enhancing products



Better mindfulness

Has gained mainstream consumer acceptance relatively recently, with meditation-focused apps and meditation-oriented offerings

¹ McKinsey’s Future of Wellness Survey was conducted in August 2020 with consumers in six countries: Brazil, China, Germany, Japan, the United Kingdom, and the United States. Consumer health and wellness encompasses a variety of experiences that promote well-being, as well as industries linked to health and wellness (but excluding, for example, healthcare products and services such as visits to doctors, medications, and insurance). Estimates of spending use product-level data and average spending per customer in each country. The currency exchange rates used by the survey are those of September 15, 2020. Exact number of respondents in each country: Brazil, 1,374; China, 1,311; Germany, 1,283; Japan, 1,109; UK, 1,277; US, 1,319.

² The net increase in the prioritization of wellness ranged from 27 percent to 65 percent across countries.

health trackers. Consumers are increasingly taking their health into their own hands: we are seeing a rise in targeted, data-driven care, apps to help consumers seamlessly book their medical appointments or obtain the prescriptions they need, and devices that help them monitor their own health and symptoms between doctor's appointments.

- **Better fitness** has been challenging over the past year. Many consumers struggle to maintain pre-COVID-19 fitness levels when they can't go to their gyms as frequently or participate in sports in the same ways as before. For instance, a UK study found that a majority of consumers worked out less after the pandemic lockdowns began, and many did not return to their previous exercise levels even as those lockdowns were eased or lifted.³ However, fitness goals persist. Creative offerings (such as Peloton, Mirror, and Tonal) that meet the needs of consumers in their homes have seen unprecedented growth in the past year.
- **Better nutrition** has always been a part of wellness, but now consumers want food not only to taste good but also to help them accomplish their wellness goals. More than a third of consumers around the world report that they "probably" or "definitely" plan to increase spending on nutrition apps, diet programs, juice cleanses, and subscription food services over the next year.
- **Better appearance** primarily involves wellness-oriented apparel ("athleisure") and beauty products (such as skincare and collagen supplements). A number of service-oriented offerings in this area have sprung up recently for nonsurgical aesthetic procedures, such as microneedling, lasers, and oxygen jets.

- **Better sleep** is a relatively new category popular with consumers—and maybe that's no wonder, given the stresses the pandemic has unleashed. Traditional sleep medications such as melatonin now have company: app-enabled sleep trackers and other sleep-enhancing products (for example, blackout curtains and gravity blankets). Half of consumers around the world reported a desire for more products and services to meet the need for higher-quality slumber.
- **Better mindfulness** has gained mainstream consumer acceptance relatively recently, in the form of meditation-focused apps, such as Headspace and Calm, and relaxation- and meditation-oriented offerings, such as Travaasa and Soothe. During the COVID-19 crisis, reports of mental distress have increased globally; more than half of consumers in each of our surveyed countries said they want to prioritize mindfulness more. Half of the consumers said they wished that more mindfulness products and services were available, indicating an opportunity for companies.

Each of these six categories is important for consumers across our survey countries. Better health consistently appears as the most important wellness dimension (and the one with the highest level of spending) across every market we researched.

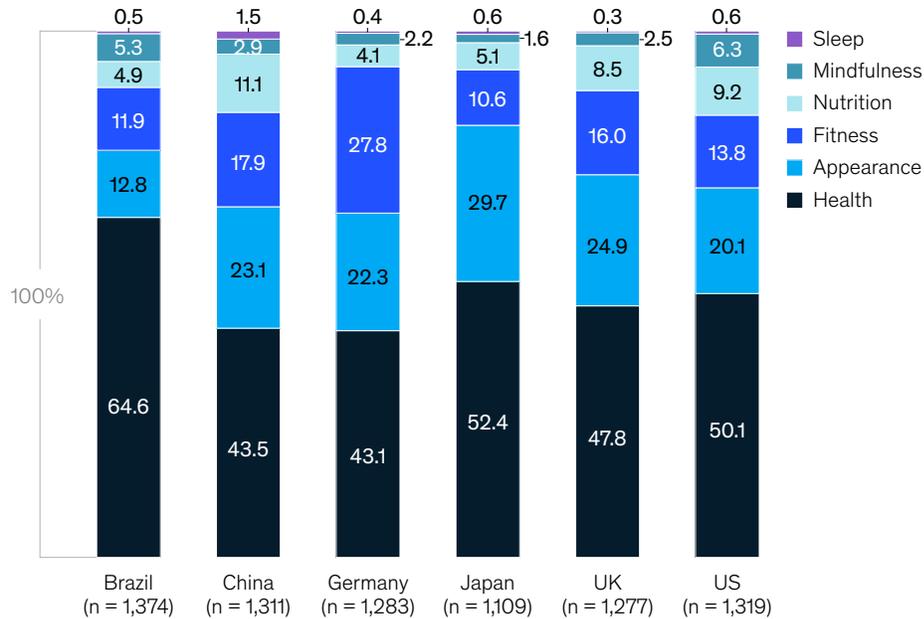
At the same time, relative responses vary in other categories. For example, consumers in Japan prioritize appearance while those in Germany emphasize fitness; respondents in Brazil and the United States are most interested in mindfulness, those in China and the United Kingdom in nutrition (Exhibit 2).

³ Gretchen Reynolds, "How the pandemic is changing our exercise habits," *New York Times*, October 7, 2020, nytimes.com.

Exhibit 2

Consumers in every country spend the most money on products and services that promote better health.

Wellness spending by category,¹ % of annual spending on wellness products and services



¹Question: Approximately how much money have you spent on each of the following in the past 12 months? Figures may not sum to 100%, because of rounding. Source: McKinsey Future of Wellness Survey, August 2020

In overall spending, consumers expect to increase their purchases of both wellness products and services over the next year. We expect a greater shift toward services, especially those (such as personal training, nutritionists, and counseling) that emphasize physical and mental health (Exhibit 3).

Finally, companies should understand that wellness consumers aren't a monolithic bloc with lockstep preferences. Our survey showed that they tend to fall into distinct groups that behave very differently. *Wellness enthusiasts* are high-income consumers who actively follow brands on social media, track new-product launches, and are excited about innovations. The *socially responsible* prefer (and are willing to pay more for) brands that are environmentally sustainable and with clean/natural ingredients. *Price-conscious consumers* believe wellness products are important but meticulously compare features and benefits before purchasing to get the best deal.

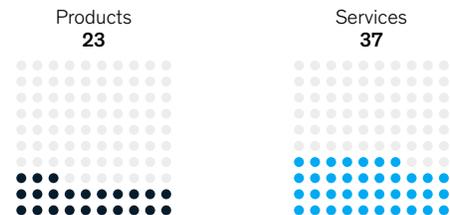
Exhibit 3

Services account for roughly 30 percent of wellness spending, and that number could increase.

Spending on wellness products vs services,¹ % of total wellness spending



% of respondents who expect to spend more in the next year²



¹Question: Approximately how much money have you spent on each of the following in the past 12 months?
²Question: How do you expect your spend on each of the following to shift in 12 months from now assuming COVID-19 has been resolved and in-person services are available? (Global average across relevant products and services tested.) Source: McKinsey Future of Wellness Survey, August 2020 (n = 7,673)

Loyalists prefer to stick with their current routines and the brands they know, while *passive participants* are only marginally involved with the wellness category and don't actively follow brands or new products. We found that wellness enthusiasts and socially responsible consumers are the biggest spenders. The loyalists and passive participants spend far less than people in the other groups.

While consumers in each market are motivated by a unique set of brand-loyalty drivers, all have some motivation that's connected to price and lifestyle compatibility.

Consumer trends and how companies can respond to them

The research unearthed that consumers' reported improvements in wellness levels have fallen behind

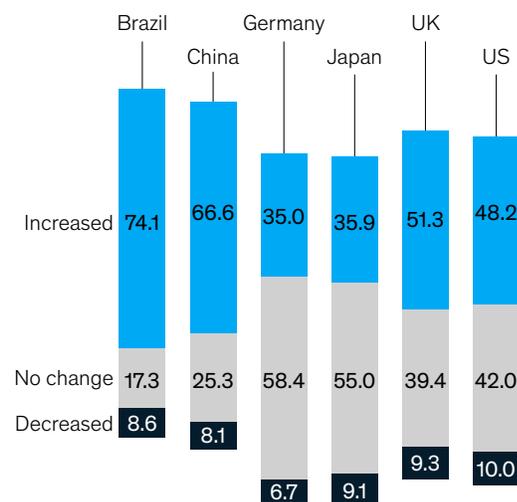
their hopes and expectations in every country except China and Brazil, suggesting that the market may be underserved. Most consumers around the world report that their personal wellness levels are stagnating or even declining (Exhibit 4).

The research also revealed six consumer wellness-related trends that have been gaining momentum over time. Overall, these trends have implications for industry players across the sector, from traditional consumer healthcare to fitness offerings and nutrition to beauty, apparel, and retail. A number of strategies, applied correctly, can help companies meet the consumer's needs and capitalize on the rapid growth of this sector.

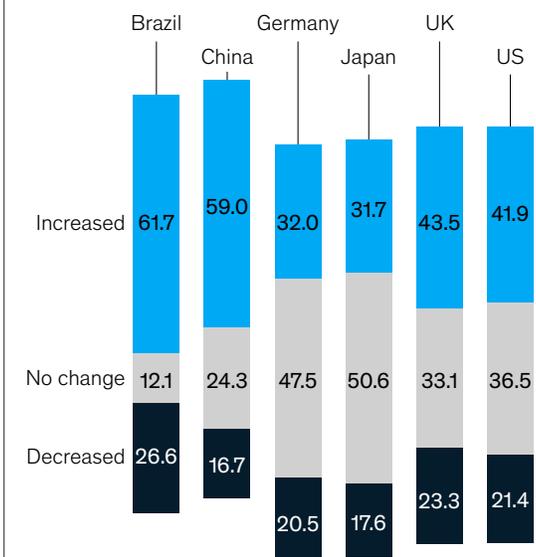
Exhibit 4

Wellness is rising as a priority, outpacing how consumers view their own wellness levels.

Change in wellness prioritization compared with 2–3 years ago,¹ % of respondents



Change in overall wellness level compared with 2–3 years ago,² % of respondents



¹Question: Thinking about how you prioritize wellness, how has your prioritization of wellness changed compared to 2–3 years ago?

²Question: How has your overall level of wellness changed compared to 2–3 years ago?

Source: McKinsey Future of Wellness Survey, August 2020; Brazil, n = 1,374; China, n = 1,311; Germany, n = 1,283; Japan, n = 1,109; UK, n = 1,277; US, n = 1,319

Trend 1: Natural/clean products get their day in the sun

Consumers are keen for natural/clean products in an array of areas, such as skincare, cosmetics, multivitamins, subscription food services, and sleep enhancers. The magnitude of the shift is striking. Consumers overwhelmingly indicate a preference for natural/clean products, particularly in Brazil and China.

In the case of dietary supplements, consumers around the world said, by 41 percent to 21 percent, that if they had to choose between more natural supplements and more effective ones, they would choose the more natural option. Same with skincare: by 36 percent to 21 percent, consumers said they would choose the more natural option over the more effective one.

Potential strategy for companies. Reevaluate your development road map to consider whether you have more opportunities to introduce natural or wellness-oriented products or to acquire natural/clean product lines. This strategy could look different by segment: in apparel, products designed with organic/natural materials and sustainability in mind; in consumer health, natural/clean beauty products; in retail, merchandising with an eye to products that resonate as authentically natural.

Zarbee's Naturals focused on providing a solution for parents seeking natural remedies for their children; Sephora's private-label brand has launched clean makeup products⁴ and has significantly expanded its clean makeup presence in its stores.

Trend 2: More personalization, please

While many respondents told us privacy is still a concern, many (particularly in Brazil and China) are more comfortable trading privacy for personalization. Furthermore, a substantial majority of consumers around the world say they prioritize personalization now more than they did two or three years ago. In the United States, the United Kingdom, and Germany, more than 88 percent of consumers report prioritizing personalization as much as or more than they did two or three years ago.

Potential strategy for companies. Develop personalized marketing capabilities to target the precise consumer segments that may be most interested in your products, with messaging and storytelling tailored to those consumers. Consider introducing personalized or semipersonalized offerings to your product road map.

A wellness start-up, for example, provides personalized vitamin and supplement subscriptions based on information that consumers submit through a quiz. A fitness-tech company created a fitness tracker that collects physiological data to provide personalized sleep and fitness information to users. Membership includes the tracker, access to daily analytics and coaching, and the ability to join online communities.

Trend 3: The future is digital

The shift to digital channels is happening at the speed of "a decade in days." Our research suggests that the change will be sticky: a majority of consumer categories will continue to project more growth in e-commerce than in other channels over the next several years.

We do see traditional channels holding for certain product categories: fortified foods, multivitamins, and skincare still largely sell through brick-and-mortar stores. Other breakout categories (such as fitness wearables) are almost entirely online native. Consumers in China report the highest share of wellness spending online, followed by those in Japan and trailed by those in Europe, the United States, and Brazil.

Potential strategy for companies. Create seamless omnichannel and digital offerings to ensure that you meet your consumers where they are. Beyond building channel partner relationships, consider developing a supply chain, package sizes, marketing, or the like specifically for e-commerce. For service offerings such as gyms, use a holistic online strategy to build app-enabled features that keep consumers engaged throughout the ecosystem.

⁴ Ellen Thomas, "Sephora collection launches clean makeup products," WWD, August 14, 2020, wwd.com.

For example, one vitamin brand sold only online and known for being sustainable originally offered vitamins for women but has expanded to include products for men and children. Its ecosystem includes the company's app, which is integrated into Apple Health, as well as an active social-media presence.

Trend 4: Under the influencers

Influencers are a key part of the wellness market, and one that traditional companies have had to learn how to leverage for connecting with consumers. In the United States, Europe, and Japan, 10 to 15 percent of consumers say they follow social-media influencers and that they have already made a purchase based on an influencer's recommendation. A much higher percentage say they definitely or probably will consider doing so in the future.

In China and Brazil, the percentage of consumers who say that an influencer has driven their purchasing decisions is much higher, at 45 to 55 percent. This trend applies consistently across both large-scale social-media influencers (defined as 100,000 followers or more) and small-scale influencers (less than 100,000 followers). In unwelcome news for celebrities, their influence appears to be waning among most consumers, particularly in the United Kingdom.

Potential strategy for companies. Use influencers to win with your consumers across social channels, partnering with agencies to identify people who will be a natural fit with your brand and resonate authentically with your target consumer base. For instance, one European fitness-apparel company heavily utilizes influencer marketing on Instagram and YouTube to reach its target audience of young fitness enthusiasts.

In 2015, McKinsey data showed that social media influenced 26 percent of purchases across all product categories,⁵ a percentage that has increased since then. Our survey shows that wellness is no exception: in every market we researched, more than 60 percent of consumers report that they will "definitely" or "probably" consider a brand or product posted by a favorite influencer.

Trend 5: The rise and rise of services

Services has been a growing part of the wellness market: experiences are increasingly available as offerings. We see this trend reflected across countries—consumers are shifting toward services that address physical- and mental-health needs (for instance, personal trainers, nutritionists, and counseling services). We see services as an enhancement to—not a replacement for—the overall wellness space. Products remain a consistent and critical part of the segment, at roughly 70 percent of self-reported consumer wellness spending globally.

Potential strategy for companies. Consumer healthcare companies could consider diagnostics or coaching offerings that support a direct connection to the consumer. One company partnered with a telemedicine provider to introduce an app that gives parents immediate video access to healthcare providers for their children. Fitness companies could consider offerings such as connected devices and virtual communities—products and services beyond gyms and exercise equipment.

Peloton expanded its service offering to include subscriptions for its fitness app, in-person studios, and live virtual classes, allowing it to reach consumers who may not own Peloton workout equipment. The company's sales soared in 2020 as the popularity of home workouts increased during the COVID-19 pandemic.⁶

Trend 6: Category lines continue to blur

With the above trends in mind, companies are considering how to play across the health and wellness categories and channels. It's critical to identify the areas where consumers are open to giving these companies permission to extend their brands.

A majority of consumers report that they don't want a single solution or brand to help them with all facets of wellness, suggesting that targeted extensions are a more effective approach for companies.

⁵ Jacques Bughin, "Getting a sharper picture of social media's influence," *McKinsey Quarterly*, July 1, 2015, McKinsey.com.

⁶ "Peloton sales surge as virus boosts home workouts," BBC, September 10, 2020, bbc.com.

Potential strategy for companies. Assess M&A opportunities to gain entry into more categories within the wellness ecosystem. With this approach, it is important to ensure that any acquisition has a clear strategic rationale and makes sense in view of the acquirer's existing equity, skill set, and capabilities. If those pieces are in place, we find that a well-defined and executed programmatic M&A strategy can help build resiliency and yield excess returns to shareholders over time.⁷

Lululemon's acquisition of Mirror, for example, gave it a digital offering to supplement its core fitness-apparel business. It has also experimented with nutrition, mindfulness, and fitness offerings in stores through studios and community-based classes. These moves seem to align with the company's brand messaging. Meanwhile, other mindfulness and fitness apps have expanded into "sleepcasts" or moved into personalized health coaching and disease management to promote better health outcomes.

Winning in the wellness market

The global wellness market is healthy and growing. In every category we surveyed, more consumers said they were going to spend more on wellness than those who said they would spend less. The majority of consumers planning to increase their spending was especially large in some categories, including memory/brain enhancers, anti-aging products, beauty supplements, noninvasive

cosmetic procedures, nutrition (sports nutrition, juice cleanses, nutrition coaches, fortified foods), and meditation/mindfulness offerings.

This market offers room for growth to all sorts of industry players: traditional "nutraceuticals" companies with experience in regulatory and licensing requirements; global entrants with extensive value chains, marketing capabilities, and deep channel relationships; regional consolidators with local knowledge and partnerships; and emerging brands with digital know-how, integrated consumer data, and an agile operating model.

At the same time, the wellness sector is getting more competitive, so companies should think critically about strategies to engage consumers and whether an ecosystem model might make sense. Companies will want to be purposeful about where to play and how to win with an effective delivery model—whether that model is end-to-end ownership, strategic partnerships, outsourcing and co-manufacturing, or marketplaces.

Wellness is here to stay as consumers across nations plan to increase their spending on personal health, appearance, fitness, and more. If the pandemic has taught us one thing, it's that physical and mental health will remain a priority for millions of people across the globe for a long time to come.

⁷ Jeff Rudnicki, Kate Siegel, and Andy West, "How lots of small M&A deals add up to big value," *McKinsey Quarterly*, July 12, 2019, McKinsey.com.

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