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Consumer healthcare

New prescriptions for the consumer goods business

Consumer healthcare

Fueled by consumer needs, the health and lifestyle segment is emerging as an engine of innovation. Other product categories can learn from the pioneers' business models.

By Martin Lösch, Stefan Rickert, and Sandra Welchering

For some time now, the growth ambitions of leading consumer goods groups have increasingly focused on one segment in particular: consumer healthcare (CHC), the business with health and lifestyle products. *Procter & Gamble* acquires the division for non-prescription drugs from the pharmaceutical group *Merck* for EUR 3.4 billion. *Nestlé* sells its US confectionery business to *Ferrero* and acquires the Canadian vitamin producer *Atrium Innovations* together with a majority interest in *TerraFertil*, a producer of organic, plant-based food. Back in 2017, *L'Oréal* acquired the medical skincare brands *CreaVe*, *AcneFree*, and *Ambi*. The same year, *Reckitt Benckiser* acquired baby food producer *Mead Johnson*, and later established the new business unit RB Health in January 2018.

The market: wide-ranging and trending

Consumer healthcare is changing with a dynamism unequaled in practically any other consumer goods segment. The domain of pharmaceuticals companies for decades, the category is now increasingly edging into the consumer goods and technology sector. Recent acquisitions by leading players and the CHC activities of many tech companies, from start-ups to *Amazon*, underscore the current trend.

This growing interest in consumer healthcare is hardly surprising, given the large spectrum of products that are good for health: pain killers and cough soothers, vitamins and energy drinks, medical shampoos and anti-aging creams, smart toothbrushes and fitness trackers are winning over more customers every year. And many consumer goods segments can tap into the revenue pools: CHC categories now span non-prescription drugs to nutritional supplements, to personal hygiene

and cosmetics through to sports articles. Worldwide, business with health and lifestyle products has reached a market volume in excess of USD 450 billion (*Exhibit 1, page 3*). Of that amount, only half is attributable to the traditional CHC segment (over-the-counter medicines, vitamins, weight management products).

The consumers: driving the trend

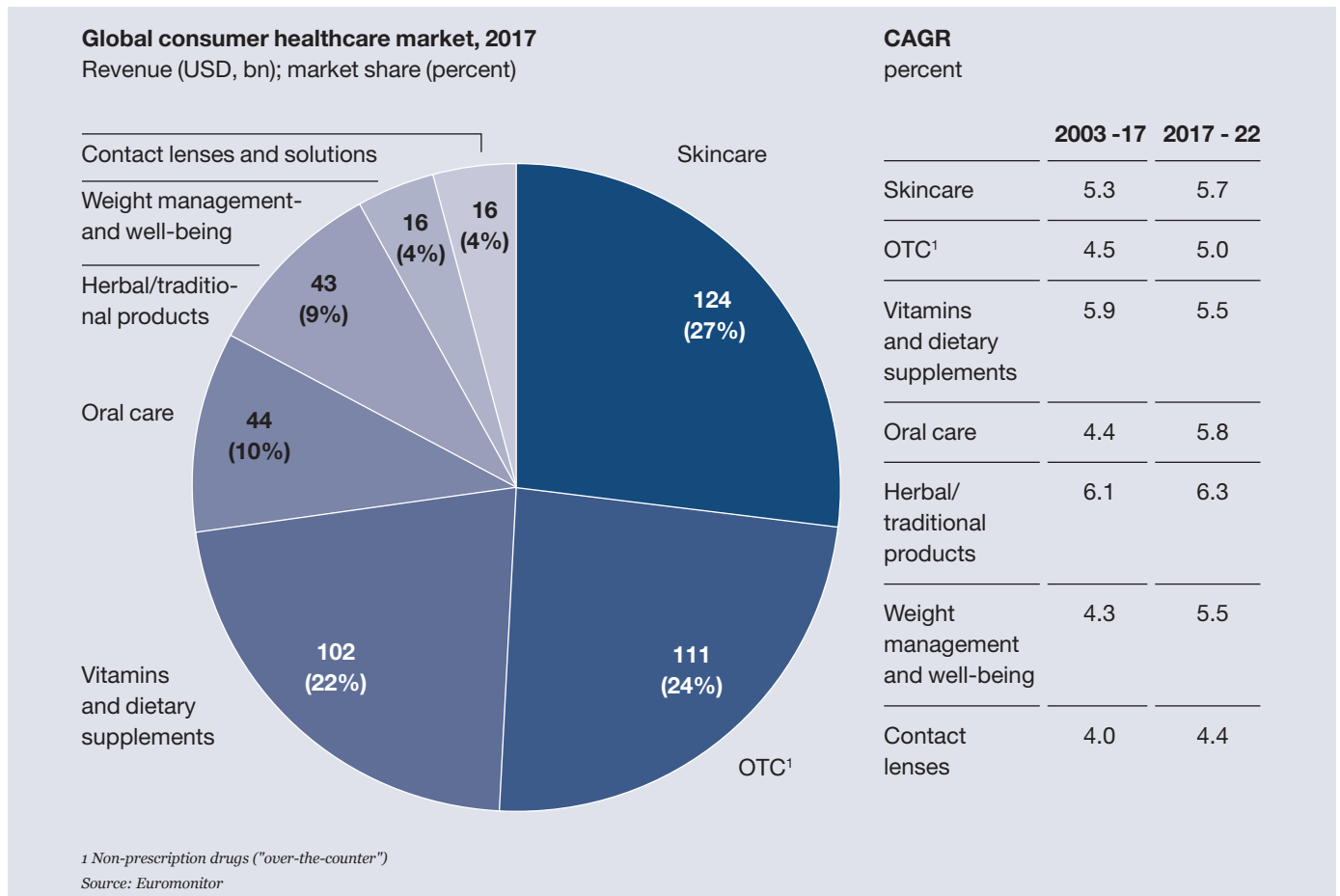
It's consumers who are driving the trend for the most part: longer life expectancy, new health awareness, and changes in consumer behavior are vitalizing the CHC business. By 2050, the number of over-65s worldwide is set to double to 1.6 billion. And demand for products, aids, and services that benefit health is growing accordingly – an enormous market.

That said, it's not just the powerful baby boomer generation that holds potential, but millennials as well. They are the ones leading the trend for a more conscious lifestyle through healthy nutrition, fitness, and wellness activities. Today's 18- to 35-year-olds actively take care of their personal wellbeing and invest more in raising their quality of life. That concerns in particular alternative and innovative offers outside the mass production market. "Better for you" is the underlying message: health-conscious consumers systematically seek products that are "better for them" – that is, free of chemicals, solely plant-based, or enriched with probiotic additives. It is millennials who buy every second organic care product; the market research institute *Nielsen* expects the segment to grow 9 percent p.a. by 2025.

Add to this consumers' growing desire for bespoke solutions for their health management: they are enthusiastic about personalized vitamin plans or shampoos, snacks enriched based on their health data or fitness trackers linked to coaching apps. Personalization is turning into a megatrend for which millennials in particular are will-

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1. Global consumer healthcare market generates revenue of more than USD 450 billion – with growth rates above 5 percent



ing to dig deeper into their pockets. Their willingness to pay far higher prices in some cases for personalized products and solutions is almost twice as high as that of the baby boomer generation before them.

The Internet is having a major impact on this new consumer behavior. Easy access to information and the wide range of products and services on offer has led to the emergence of a new consumer archetype. Today, every fifth *Google* search relates to a health topic. Sovereign consumers in the digital age are developing independent purchase preferences based on their research, they share their experience and ideas on social media, and they are thereby actively setting trends and inspir-

ing companies to come up with new products and service offers.

The growth model: digital, personalized, multi-product

Changes in the preferences and behavior of consumers are creating completely new opportunities for the consumer goods industry in the contested fast-moving consumer goods (FMCG) business. CHC is on its way to becoming the industry's next engine of growth. At the same time, the segment is setting new standards when it comes to methods for bolstering growth further – thus setting an example for other consumer goods categories. Three developments in particular are at the core

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The screenshot shows the Japanese website for Nestlé's Wellness Ambassador program. At the top, there's a navigation bar with the Nestlé logo and the slogan 'あなたのほっとするひと時と笑顔のために CHOOSE WELLNESS CHOOSE NESTLÉ'. Below this is a search bar and a '検索' (Search) button. A yellow banner indicates '商品合計4,000円(税込)以上で送料無料' (Free shipping on orders over 4,000 yen including tax). The main content area features a large image of two women in a kitchen setting. Overlaid on this image is text in Japanese: 'Nestlé Wellness アンバサダー', 'ひとりひとりに合わせた健康習慣、はじめませんか?' (Personalized healthy habits, don't you want to start?), and a call to action: 'まずはLINEで友だち登録 / 無料の検査が受けられるコースも!' (First, register as a friend on LINE / There's also a course where you can get free checkups!). At the bottom of the banner, it says '「ネスレ ウェルネススムージー ケール&フルーツ」が新登場!' (Nestlé Wellness Smoothie Kael & Fruits is newly available!).

With its Wellness Ambassador program, Nestlé offers in Japan lifestyle and nutritional advice. More than 100,000 subscribers already use the service – despite an annual fee of about USD 600.

of the growth model typically adopted in CHC: firstly the use of digital sales channels, secondly the offer of personalized products and services, and thirdly the expansion of the traditional product portfolio into an ecosystem comprising innovative high-tech solutions and a combination of digital products and services.

Digital sales channels. The ubiquitous digitization is not just affecting consumer behavior, but also the sales channels for health and wellness products. Worldwide, the CHC sector is reporting the highest growth rates in the online retail channel, relative to sales trends at pharmacies, drugstores or grocery stores. In order to attract even more customers to the digital channel, leading online retailers such as *Amazon* are already offering same-day delivery of over-the-counter medicines in Germany – with Munich as pilot region.

The buoyant e-commerce market is creating opportunities for major consumer goods suppliers such as *Reckitt Benckiser* to enter new sales markets and engage in direct business with consumers: the corporate group has set up its own e-business unit to manage its online sales across major platforms and is working with digital marketing specialists such as *HookLogic* to place advertising on the websites of leading retail chains, among

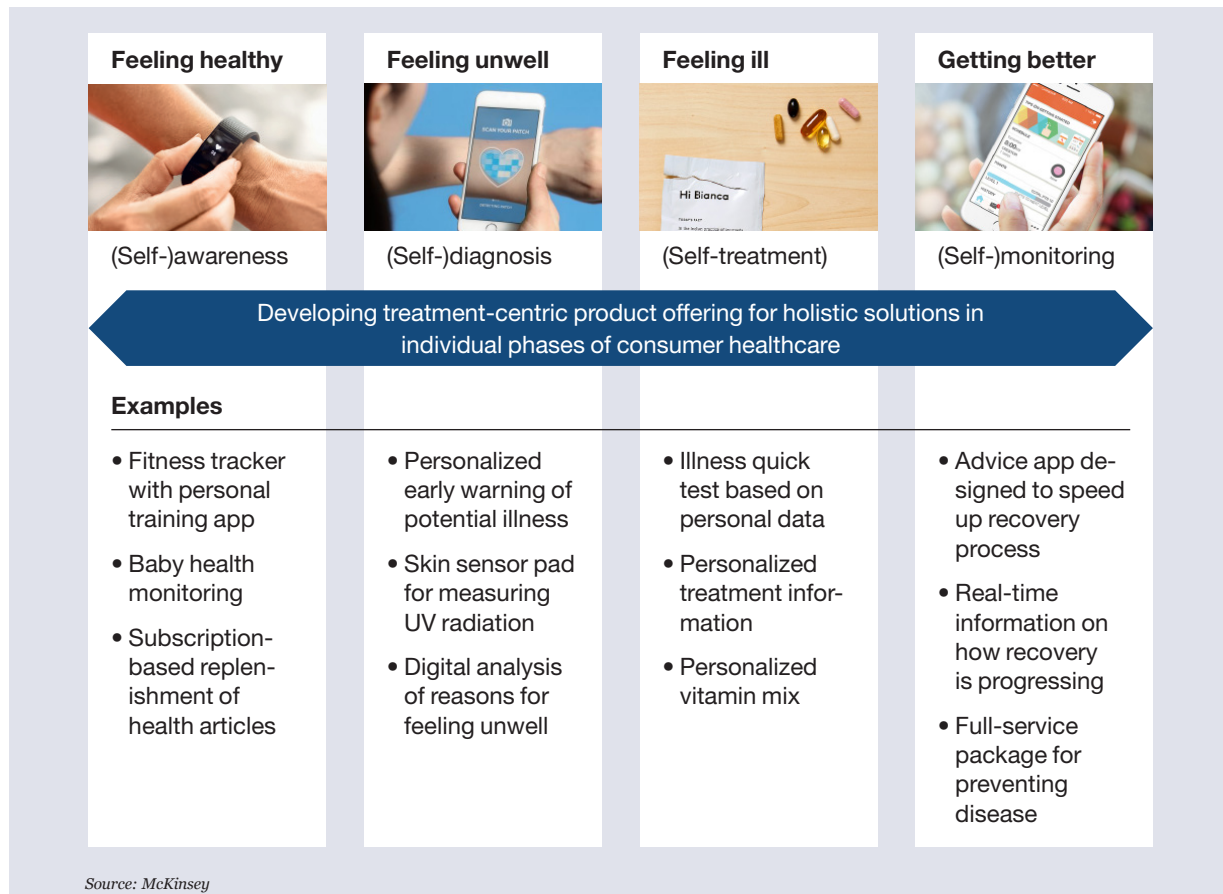
them *Walmart*. And in China, where 35 percent of all product sales are already made online, *Reckitt Benckiser* is one of the first companies in its industry to sell a classic CHC product directly to end customers on a subscription basis – the condom brand *Durex*. Last year, the number of visitors to the website doubled to more than 20 million.

Personalized offers. The personalization of CHC products is the second major trend that is transforming the segment. Some leading consumer goods companies have already taken up the personalization trend: *Procter & Gamble* has developed an app around its *Oral-B* product brand that enables personalized dental care. *Nestlé* is working with the app developer *Medisafe* to help patients with the administration and dosage of its Impact Advanced Recovery supplement. Cosmetics manufacturer *L'Oréal* has developed a sensor pad that measures UV radiation on the skin and informs consumers about the need for sun protection. Aside from the big corporations, numerous start-ups are jumping on the personalization bandwagon, a development we explore in more detail below.

Portfolio expansion into an ecosystem. Closely related to the trend toward digital and personal offerings is the

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2. Comprehensive product and service offerings are needed in response to trend toward consumers self-managing their health



combination of products with technical aids and services. Companies are using state-of-the-art technologies such as the Internet of Things (IoT) and connected health to provide customers new experiences with smart solutions throughout their end-to-end health cycle (*Exhibit 2*). McKinsey Global Institute estimates the market potential of connected health at as much as USD 1.6 trillion – primarily in the medical sector, but also in the growing health, fitness, and wellness segment.

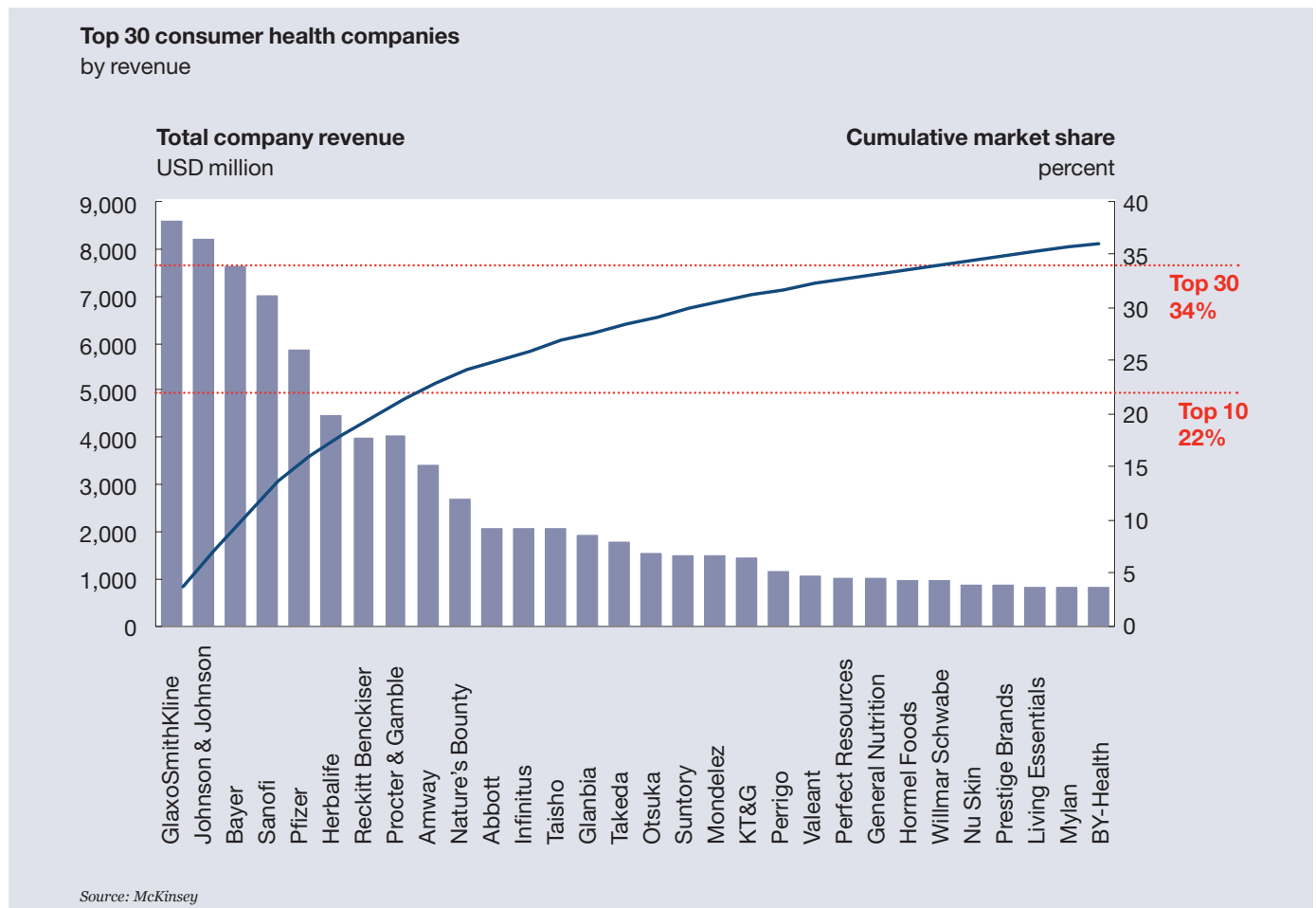
The expansion of the classic CHC portfolio to include additional digital services is gradually creating an ecosystem comprising smart products, equipment, and services. For some time now, manufacturers of sports

articles such as *Under Armour* and *Adidas* have been working to create personalized experience environments based on big data and digital analytics – from smart running shoes to app-based fitness advice.

Other categories are now following suit: a few months ago, food manufacturer *Nestlé* launched in Japan the *Nestlé Wellness Ambassador* program – an online platform that offers customers lifestyle and nutritional advice based on their eating habits and health data. Subscribers can use an app to upload photos of their meals so that algorithms can screen them for missing nutrients. In addition, users are provided testing sets that allow them to conduct their own blood and DNA analyses. Based on the results, customers are offered

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3. Consumer healthcare segment is highly fragmented – 10 largest providers only make up a fifth of market



personalized food supplements such as teas, smoothies, or snacks enriched with vitamins and minerals. The combination of health products with digital analysis and advice services is resonating with Japanese consumers: despite the annual fee of USD 600, the *Nestlé* program already has more than 100,000 subscribers.

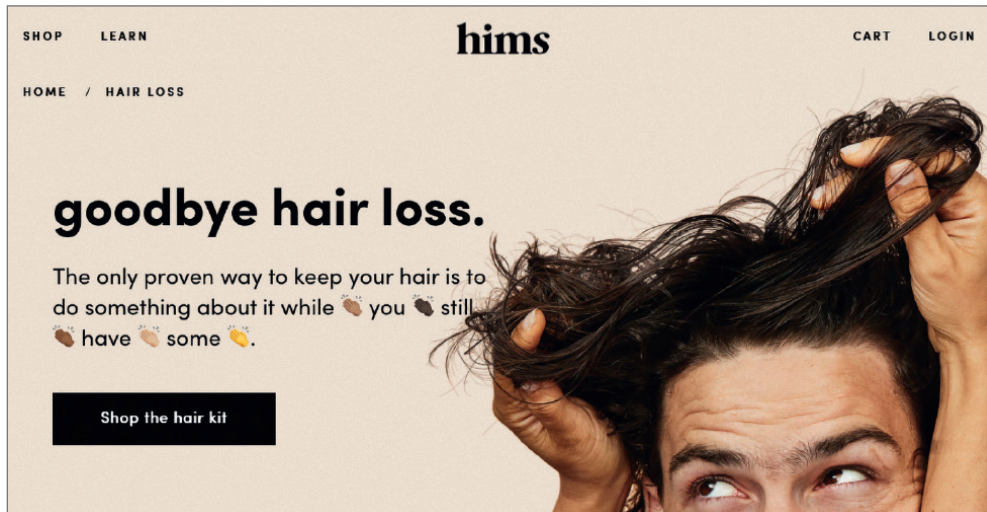
The source of impetus: new competitors

For the consumer goods sector, the expansion of the CHC segment offers attractive growth opportunities, but it also comes with new competition. That is because the market is highly fragmented: in the over-the-counter medicines business – the strongest CHC segment –

the top ten companies generate just 22 percent of global sales, the top 30 barely more than a third (*Exhibit 3*).

This leaves an opening for competitors and newcomers from outside the industry to conquer market shares with alternative offers and business models. Take *Amazon*: with its recently announced purchase of the US online pharmacy *PillPack*, the world's largest online retailer has become an active player in the health business – and a formidable competitor. *Amazon* is playing out its power primarily through pricing and product placements. Pain killers are already offered up to 40 percent cheaper on the US platform and are also prominently

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Creative start-ups are providing new momentum in the consumer healthcare segment: hims helps men fight hair loss, 23andMe clarifies genetic health risks.

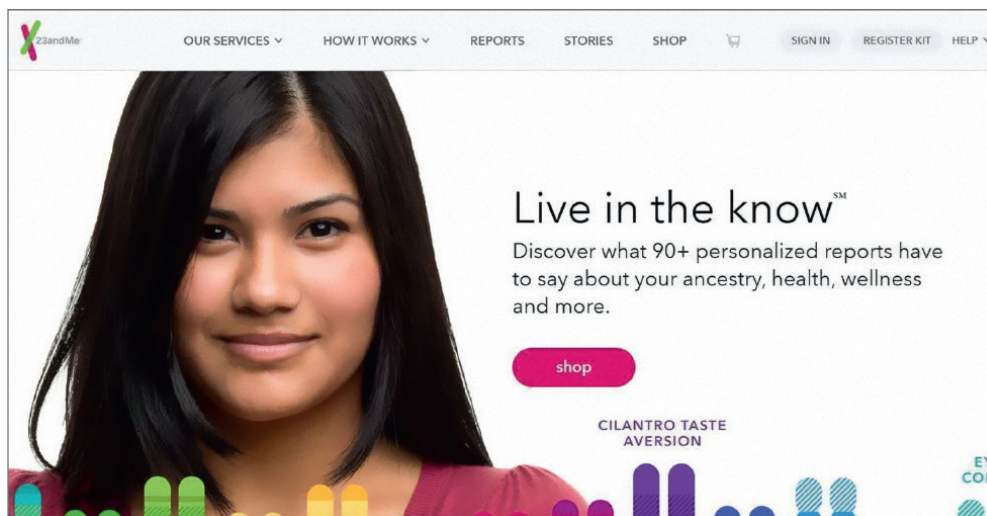


Photo: www.forhims.com, www.23andme.com

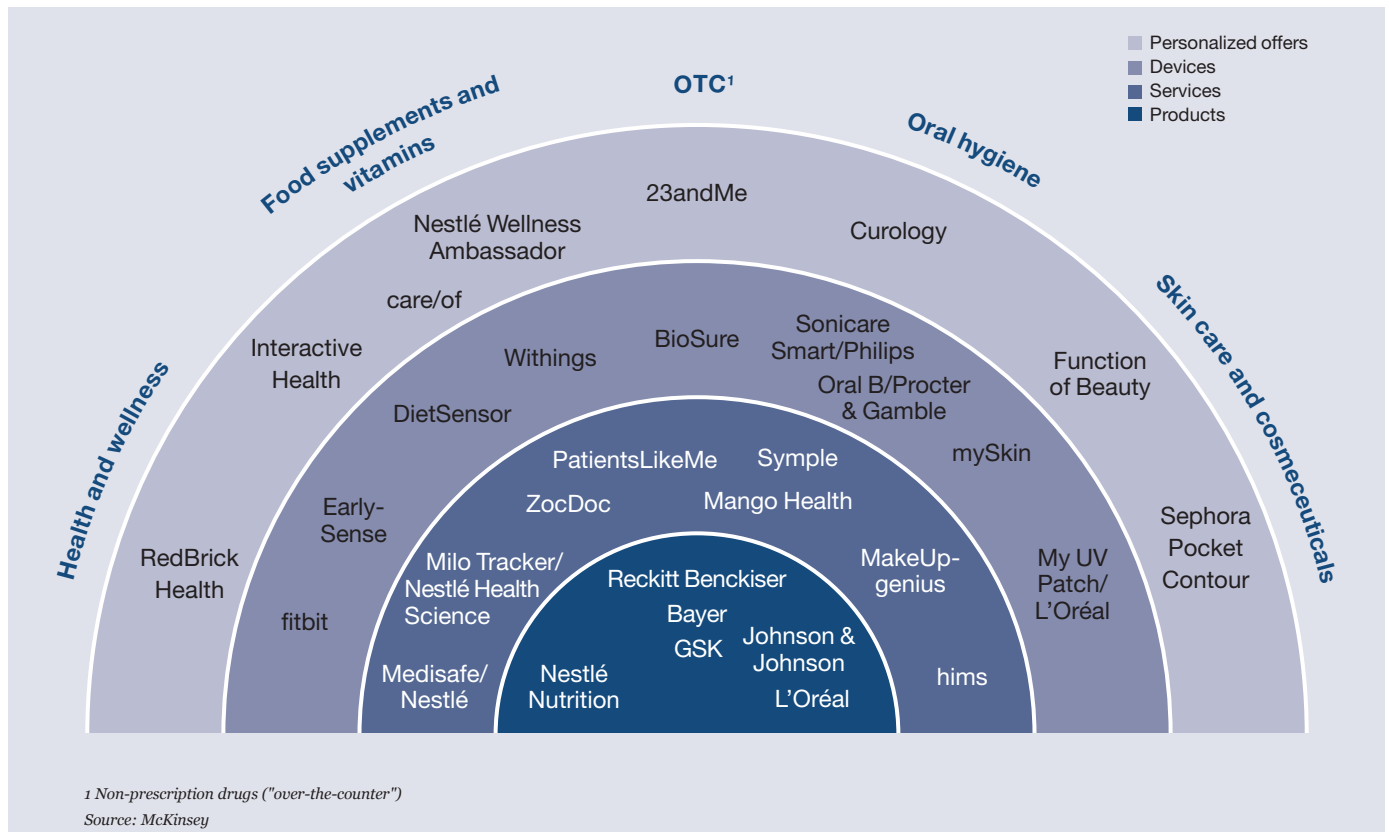
positioned on the website – turning the screws on more expensive branded products. Industry observers expect that the margins of health products with a low level of differentiation (over-the-counter drugs, vitamins) will collapse in the next two years from the current 20 to 30 percent to between 5 and 15 percent. Experts refer to this phenomenon as the “Amazon effect” – a challenge, especially for established brand manufacturers, to use online channels even more effectively than before.

At the same time, nascent players are bringing new impetus. Small companies, many of them start-ups, are

driving growth in the CHC segment. In the United States, the “fledglings” account for 19 percent of sales, but 53 percent of growth, according to *Nielsen* research; in Europe and Australia the share is even higher at 59 percent. The secret of the newcomers’ success lies in their innovation power, their creative use of social media, and their close ties with customers. Take the cosmetics segment, for instance: with revenue climbing 16 percent per year, the “young rebels” are growing four times faster than incumbent competitors. Beauty start-ups are systematically gearing their business model toward interactive channels such as *YouTube*, which

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4. Incumbents and start-ups are growing their CHC portfolio to include digitally connected products, devices, and services



allows them to build a community with strong emotional ties to their brands. Taking advantage of rapid innovation cycles, they are also constantly launching new products that do not target the mass market.

The health and personal care sector is also teeming with new players that focus less on the product and more on customer experience in order to address their customers' needs: the start-up *care/of* delivers personalized vitamin packs to its customers. *23andMe* sells home DNA testing to educate consumers about health risks. *Hims* offers men products for combatting hair loss on a subscription basis, while *Function of Beauty* creates personal hair care products according to their wishes. Investors, too, are inspired by the ideas of the young companies, and their success – as they grow up to five times faster than traditional companies: venture capital companies have

already invested more than USD 2.2 billion in digital health start-ups, a quarter of which in consumer-oriented business models – a clear indication of the potential that capital markets foresee for the CHC segment.

Inspiration for the entire industry

The growing desire for a better quality of life and well-being is by no means a transitory fashion, but a steady trend that will continue to shape consumer behavior for years to come. Pioneers in the CHC segment are pointing the way for other consumer goods companies likewise seeking to meet these needs (*Exhibit 4*). After all, it is possible to transplant to all other categories their formulas for success: among them technology-driven innovation, expanding the portfolio into digital packages that combine products and services, personalization and the creation of customer experiences, and not least

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the use of omnichannel solutions to gain direct access to consumers.

The conventional FMCG business can also learn from these formulas, provided companies invest in building the necessary resources and capabilities to successfully implement them. This includes systematic use of big data and advanced analytics as well as agile working methods and processes to respond quickly to new customer and channel trends. Not all competencies can be developed from within organizations; in many cases, it is more expedient to partner with tech companies or to acquire digital expertise through start-ups.

Companies should take advantage of the opportunities emerging in the health segment. Consumer healthcare has the potential to radically revitalize the traditional consumer goods business. Thanks to its innovation power and future prospects, it can set an example for many in the industry seeking to create stable long-term growth with new business models and thereby secure their competitiveness.

**Do you have any questions or comments?
The authors look forward to hearing from you.
Please email: stefan_rickert@mckinsey.com**

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Core statements

1. The market for consumer healthcare is increasingly edging toward the consumer goods and technology sector, where consumers are driving its development into the growth segment of the future.

2. Large and small pioneering companies are heralding with their innovative CHC offers a new era for the consumer goods industry – as it transitions from product-oriented business models to service- and data-driven models.

3. With its portfolio of digital, personalized, and multi-product solutions, consumer healthcare can serve as an example to the wider consumer goods industry of how to create entire ecosystems and thereby lock into future growth.

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