

Healthy, wealthy and (maybe) wise: The emerging trillion-dollar market for health and wellness



By Putney Cloos, Sherina Ebrahim, Tracey Griffin, and Warren Teichner

It's a demographic sweet spot of enormous potential. With the developed world (Japan, Europe and to a lesser extent, the US) getting older, and emerging markets getting both bigger and richer, the market for things that make consumers healthier is set to expand. And it is already a very big deal (see chart).

But just because there is every reason to assume that a given market will grow does not mean that the pickings will be easy. We believe that companies need to recognize, and respond to, three major trends to succeed.

1. The consumer market is changing

It's a pattern that is becoming common: Developed economies dominate spending, while emerging ones dominate growth. In 2006, for example, the average Chinese person spent about \$60 on health and wellness – just about a tenth of that of the average Canadian (\$580). But between 2006 and 2015, we expect average annual spending on health and wellness to rise more than 13% for Chinese, compared to 3% for Canadians. That will narrow the spending gap to about four to one. To look at it another way, almost 70% of over-the-counter (OTC) drug sales growth is expected to come from emerging markets, half of that from the BRICs (Brazil, Russia, India, China).

The reason is simple: When people have more money, they spend some of it on

health. And vast numbers of people are about to hit the level of income where this is happening. In India, for example, the number of households making more than \$22,000 a year has quadrupled in the last decade, to almost 4 million. The number making at least \$4,400 has almost tripled, to 28.4 million. The additions in just those two categories comprise a population greater than that of Germany. Income growth in the other BRICs is also strong; ditto for non-BRICs like Turkey and Indonesia. And in many of these markets, the population is growing, too – half of Mexicans and South Africans are under 25.

Growing wealth means that as scourges like polio and malaria begin to fade, “lifestyle” diseases increase in relative importance. Prosperity is strongly associated with better health outcomes; still, globalization and urbanization can carry health risks, too, in the form of more consumption of fatty and/or processed foods and less physical activity as people transition from bikes to motorcycles to cars. Obesity is expensive in terms of health-care costs; dealing with it is also a big, fat market.

In the meantime, the global population over 60 is growing more than twice as fast as the total population. In 1960, the world median

Exhibit 1:
Segmenting health and wellness

Consumer Health & Wellness					
Functional Nutrition	Personal healthcare	Beauty	Hygiene	Consumer Devices	Services/ Information
2010 Market size (\$ bn)					
\$225-275	\$80-100	\$200-225	\$200-225	\$20-25	\$85-125
Historic growth (2000-10 CAGR, %)					
6-10	4-7	6-8%	6-8%	NA	5-20
Projected future growth (2010-20 CAGR, %)					
5-8	3-6	6-8%	5-7%	3-6	3-15
Average profit margin (EBIT, %)					
10-20	15-25	10-20	15-25	2-10	10-30

SOURCE: McKinsey analysis, GMP, Euromonitor

age was about 25, according to the UN; by 2050, it will be close to 40. The number of people aged 70 and above is expected to rise from 269 million (in 2000) to 1 billion by 2050.

The trends all point in a single direction – more and more consumer spending on health and wellness. In fact, we believe that wellness is the next trillion-dollar industry, as employers invest in healthy living programs and as customers take more responsibility for optimizing their own health.

2. Consumer behavior and attitudes are changing

The biggest change is that advancements in science and technology allow the increased personalization of medical care. Global consumers are also ever more open to a broader set of health and wellness solutions, including non-traditional treatments. The sales of herbal remedies are expected to nearly double in next decade; already, the North American market for alternative medicine is \$16.4 billion and in Asia more than \$30 billion. People are not waiting for expert advice on many health-related decisions.

Consumers also have access to more health information than ever; fully 96% of American adults who use the Internet have used it to look up health information. And they are not just looking; they are buying. More than half of French consumers regularly purchase health and beauty online; among Americans, information collected at company/product websites is the most influential touch point over the purchase decision. About 70% of Chinese consumers research the Web before buying.

Finally, perhaps nudged by the economic crisis, consumers have tried private-label options in many health-and-wellness

categories, and they have found they rather like them. According to research by McKinsey and Euromonitor, 17% of consumers traded down in over-the-counter goods in 2011. Of these:

- 93% opted for private label/store brands
- 75% report they no longer prefer the more expensive brand
- 55% say the less expensive brand was better than expected

No wonder, then, that the US share of OTC private-label products has risen from 20% to 25% since 2007. The market for branded generics is also growing.

3. The business landscape is changing

There are a couple of trends digging in that are not exactly opposites, but that are not very similar, either. For example, in the US, the big drug-store chains (CVS, Walgreens, Rite-Aid) are all picking up market share as consolidation in the segment continues. In many EU markets, and in China, modern formats are gaining share; in most emerging markets, local players dominate. Retailers in every channel and across markets are broadening their offerings in health & wellness – everything from nutrition assessments to testing services to spas to in-store clinics to preventive screenings.

At the same time, though, a number of new and possibly disruptive players and formats are emerging. Among them: Direct selling is big and getting bigger in a number of developing markets. It is particularly important in Brazil. New players and partnerships are exploring platforms in consumer health & wellness; creating innovative solutions; and expanding definition of the space. Private-equity and companies as diverse as Nestle, DuPont, Philips and even Google are entering the sector. Nestle

is investing in gastro-intestinal health; Google in the organization of personal health information; Philips in consumer devices; and DuPont, through its purchase of DSM, in dietary supplements.

There is also interesting acquisition activity in which producers are developing new kinds of relationships with retailers. In 2005 Amorepacific, a Korean beauty company whose roots go back to the 1940s, opened a flagship retail outlet, The Gallery; four years later, it expanded its retail presence to take over Chanel's space in Lotte Department Stores, reinforcing a luxury brand presence. And in 2010, P&G's FutureWorks unit, a new-business generator, completed its acquisition of MDVIP a concierge doctor network.

Finally, the regulatory environment continues to evolve, mostly in directions favorable to the over-the-counter market, in particular. Britain is launching a five-year effort to reduce the burden of regulation on OTC; Japan is deregulating the sale of OTCs outside pharmacies; China is allowing drug-stores to open 24/7; Mexico is allowing OTCs to advertise; Sweden privatized its pharmacies in 2010, creating market dynamics designed to promote access and price competition; and America's FDA is actively considering shifting more products to OTC status.

Trillion-dollar business? That's not far off; after all, there's not a person alive who doesn't want to feel good. But even very big businesses will have losers as well as winners. The best will recognize these trends, and adapt.

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Putney Cloos is an engagement manager in McKinsey's New Jersey office, where **Sherina Ebrahim** is a director and **Warren Teichner** is a principal. **Tracey Griffin** is a director in Washington.