Top 5 Trends in Health and Wellness

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An extract of the report: The World Market for Health and Wellness Packaged Food

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Introduction

Health and wellness packaged food is growing faster than regular packaged food. This is driven by consumers preferring more natural offerings as they aim to adopt a more holistic approach to a healthy diet. The big winners of this trend are organic and free from foods, particularly in Western Europe and North America, where fashionable eating habits and health-conscious consumers are making organic and free from food more popular. This has led to rapid shifts in the category and brand portfolios of key manufacturers to meet this new demand, alongside growing innovation from smaller players.

There is a marked difference across regions however, with fortified and functional foods showing outstanding performance in emerging markets, as part of a strategy to minimise nutritional gaps. While fortified food is losing traction in North America and Western Europe, where it is perceived as artificial and processed.

Finally, digital connectivity is continuing to alter methods of doing businesses with digitally-inspired models rapidly emerging in the food industry. Internet retailing is the fastest growing channel for health and wellness foods in key markets such as Canada, UK, US, China and Germany and subscription boxes are starting to gain prominence in the Western world.

This report offers a global overview of the health and wellness industry, highlighting major trends and their future implications on the health and wellness packaged food industry.

Health and Wellness Packaged Food: An Overview

North America is still the largest market

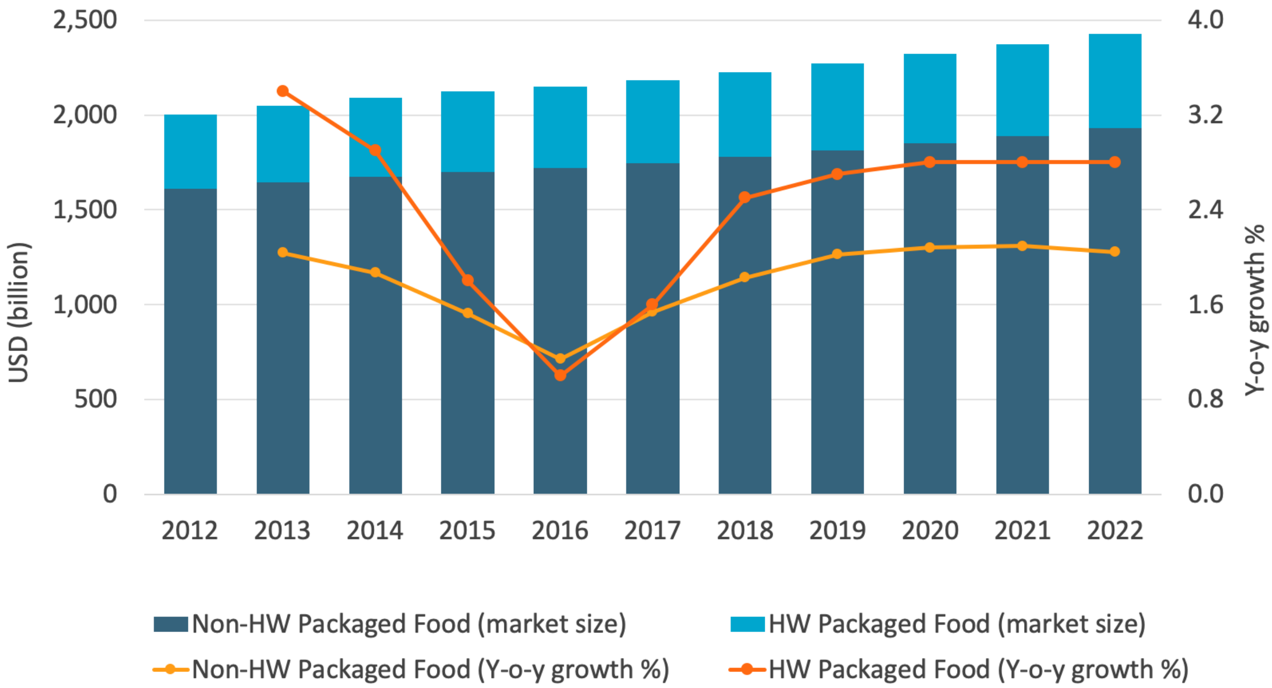
Globally, the health and wellness packaged food industry reached USD446 billion in 2018, growing at 1.8% compound annual growth rate (CAGR) between 2013–2018, faster than overall packaged food, that grew at a rate of 1.3%.

North America remains the largest market, but Asia Pacific follows closely after overtaking Western Europe in 2015. With the rising importance of emerging markets, the global economy has witnessed a paradigm shift. These changing dynamics mean the end of the Western dominance on the global stage and are transforming global consumer markets overall, with the health and wellness food industry being no exception. However, health and wellness foods are significantly more expensive than the regular offering, which makes them an expensive luxury in many emerging markets. To play in these geographies, it is key to work around sensitive product prices to define what can be delivered at an affordable price.

Health and wellness industry overcomes tough times to outperform regular packaged food

The health and wellness offering accounts for approximately 20% of the packaged food market and is expected to develop at a faster pace over the coming years. There was a sales dip in health and wellness products between 2013–2016, due to a slowdown in key markets such as China and Brazil coupled with a crackdown on probiotic health claims in the EU in 2013, which cost the yoghurt industry billions. However, a change in consumer mindset, new product offerings from big manufacturers and innovation from smaller players, has reignited growth in this space.

Health and Wellness (HW) Packaged Food vs Non-Health and Wellness Packaged Food: The Evolution of the Industry in Retail Value 2012–2022



Source: Euromonitor International

Top 5 Trends in Health and Wellness Packaged Food

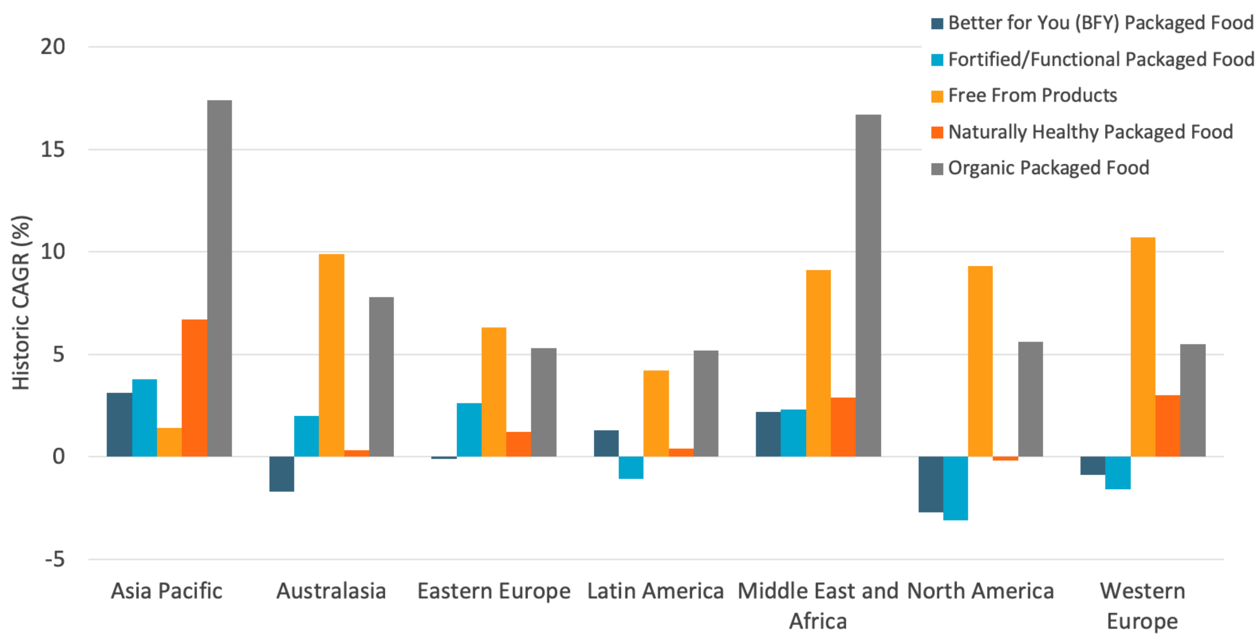
1	**HEALTHY APPETITES DRIVE GROWTH OF FREE FROM FOODS** Free from has consolidated as the category with the most dynamic growth in the health and wellness space, moving beyond intolerance. The health-conscious consumer and fashionable eating habits towards gluten- and dairy-free options are likely to keep contributing to the bright future of the free from offering.
2	**DEMAND FOR SAFE AND NATURAL FOODS SPARK OPPORTUNITIES FOR ORGANIC** Organic has gained popularity in developed markets as a more natural and sustainable offering. Although the US stands out as the largest organic market, greater growth opportunities are expected to come from France, Italy and China. However, a lack of understanding as to what organic really means is likely to drive movement to other, easier-to-understand claims around clean label and animal welfare over coming years.
3	**FORTIFIED FOODS BOOM IN EMERGING MARKETS** Although fortified / functional foods are losing traction in the Western world for their perception as a more artificial and processed offering, probiotic yoghurt is set to remain a hot trend in Asia Pacific. Moreover, micronutrient fortification is key in emerging markets to address malnutrition, which is estimated to bring further growth in the future.
4	**ENERGY-BOOSTING FOODS AS PART OF A HOLISTIC DIET** Energy is a key element of contemporary holistic lifestyles. There has been a massive movement from the concept of weight management towards the adoption of a diet to help remain energetic for as long as possible. Energy bars are a key winner within this trend and natural energy coming from plant-based protein, derived from clean label ingredients such as nuts or peas, is likely to continue to thrive as consumers seek natural snacks.
5	**HEALTH AND WELLNESS FOODS FOR A TARGETED SUBSCRIPTION MEAL KIT** While food categories that consumers choose are changing, there are also broader shifts in how consumers shop for packaged foods. Subscription meal boxes with a focus on health and wellness foods are on the rise, and spurring innovation in this space is expected to grow in coming years to differentiate in the market.

Source: Euromonitor International

Healthy appetites drive free from sales

The free from movement is strongly related to the growing perception of gluten- and lactose / dairy- free products as healthier and more natural. Intolerants have now been joined by the masses, with this consumer base expected to see further growth over the coming years. This, together with increased demand for plant-based foods for environmental and sustainability reasons, is a key contributor to the growth of dairy-free foods and meat alternatives.

Health and Wellness Packaged Food: Historic CAGR (2013–2018)



Source: Euromonitor International

In response to these trends manufacturers have launched new exciting brand extensions. Growth of the free from offering has been accelerated by new product developments, with more manufacturers entering the space and offering more innovative and appealing products to attract consumers. New ingredients have also entered the scene, with ancient grains as one of the most popular. From quinoa, to amaranth, buckwheat or spelt, they are highly nutritious and versatile, and so can be integrated in cereal-based foods or dairy-free alternatives.

Products such as the 'Enjoy Life Grain & Seed', launched by Mondelez in the US in 2017, combines three forms of the ancient grain sorghum (crisped, popped and flour), with certified gluten-free oats, alongside trendy claims such as plant-based protein, all-natural ingredients and non-GMO. It also received a Palm Oil Free Certification in April 2018.

On the other hand, Asia Pacific's free from performance goes against the general rule. China is the largest free from dairy market, in line with its high rate of lactose intolerance, and it was a decline in this country that directly impacted the regional performance of the category. Nestlé's peanut milk Yinlu is the key factor responsible, suffering a steep decline and losing nearly USD4 billion in retail sales.

A lack of product innovation and competition from soy milk and lactose-free milk in China, resulted in fading consumer interest in other milk alternatives. Increasing consumer awareness of a healthy diet also led to concerns about the high levels of sugar and additives in these products, questioning their nutritional value.

Organic food sees growth in developed markets

Consumers are increasingly looking for minimally processed or unprocessed products, in line with the clean label trend. Organic perfectly fits within these trends, as consumers perceive such offerings as more natural and healthier than regular offerings, as well as more sustainable.

Organic food surged in popularity in recent years and in response food manufacturers migrated towards greater organic production to meet consumer demand and boost profits. This is particularly true in North America and Western Europe, the largest organic markets globally. The US is the largest organic market by far, but greater growth opportunities are expected to come from China, France and Italy. Asia Pacific is still far behind in terms of size but growing massively, with China being the key market posting a 23.3% CAGR over 2013–2018.

China, France and Italy set to be the biggest growth markets for organic packaged food

China is particularly interesting as growing awareness of food health is not the only reason for growth. Safety is the key driver behind the Chinese demonstrating greater interest. Organic baby food has been a key focus area in China in relation to safety issues after infant formula contamination with melamine in 2008. More generally, higher income levels and the rise of the middle class have encouraged consumers to seek more premium organic packaged food products.

Growth in France and Italy is driven by perception of organic offerings as more natural and fresh. This is particularly relevant for struggling categories such as cows' milk and high-carb foods such as breakfast cereals and bread. It is therefore expected that manufacturer activity will continue to grow in the organic space, increasing its availability. Targeting foods that are ingrained in the culture is also crucial. A clear example is pasta in Italy, set to be the fastest growing category in the country over the next few years.

Although the organic offering is rising sharply, many consumers are still confused about what organic means, which could potentially affect the performance of this offering in the future. The organic label applies to the production process, ensuring that the product has been produced and processed in an ecologically sound manner. Many consumers associate the organic label with a natural and healthy product, which is not necessarily the case.

A few manufacturers have responded, particularly in Western Europe. Dairy giant Arla has completely repositioned its flagship organic farm milk as free range in the UK. The company has attributed this change to the fact that consumers do not really understand the benefits of organic milk, and it is not necessarily known that it comes from free range cows, suggesting that stating the latter is easier for consumers to understand.

Fortified foods boom in Asia Pacific

Shifts in consumer preferences have clearly benefitted foods that are perceived as less processed or more natural, with organic and free from foods taking the health and wellness world by storm. In addition to this, foods that are naturally healthy, for example nuts, seeds, trail mixes, honey or olive oil, have maintained a positive performance over the years.

However, not everything is bright in the industry. Fortified / functional and 'better for you' foods are the biggest losers. In addition to probiotic yoghurt's failure in the EU, an overall perception of both categories as heavily processed has led to Western consumers increasingly removing them from their diets. Artificial fortifications and foods from which salt, sugar and fat have been actively removed are no longer top of the agenda for consumers, moving towards a more natural offering.

On the other hand, the lack of interest in fortified foods is not the case in Asia Pacific, where probiotic yoghurt and fortified milk formula are leading in this space. Overall, the fortified offering is particularly relevant in emerging countries as a means of minimising nutritional gaps, and it shows great opportunities for growth over the coming years.

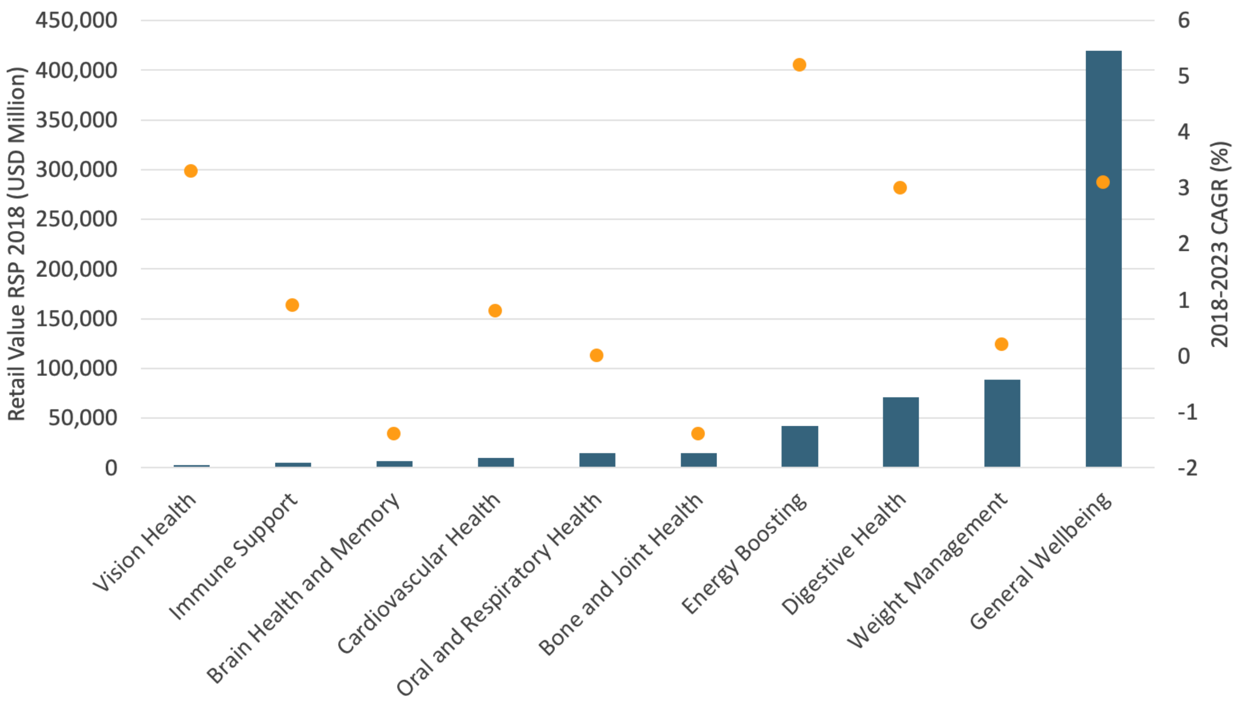
For example, food fortification has been carried out by many packaged food companies in India, making this a mature space in categories such as edible oils, sweet biscuits, baby food and dairy. In 2016 the Food Safety and Standards Authority announced new guidelines concerning the manufacture and distribution of fortified foods to help combat malnutrition in the country.

Energy-boosting is the most sought after positioning in health and wellness

Energy is a key element of contemporary health and wellness lifestyles. Consumers are moving away from the concept of weight management and adopting a more holistic approach to a healthy diet, being increasingly proactive in their attempts to remain energetic for as long as they can.

This is reflected in their eating habits and purchasing decisions as consumers increasingly acknowledge an implicit connection between energy and the foods they eat, which is driving the growth of foods with energy-boosting positioning. Other pockets of growth exist in brain health and memory and vision health, which are emerging as an opportunity to target consumers of all ages as part of this more holistic approach to a healthy lifestyle.

Health and Wellness Packaged Food by Prime Positioning: Market Size in 2018 vs Forecast CAGR (2018–2023)



Source: Euromonitor International

Looking at energy-positioned foods, energy bars is the first food category that comes to mind. Its growth is set to be positive in almost every geography globally over the forecast period. Chile, India and Slovakia are set to skyrocket, although these markets are still small for the category. The US together with other developed markets (Japan, Australia, Canada and the UK) will continue to dominate and lead innovation.

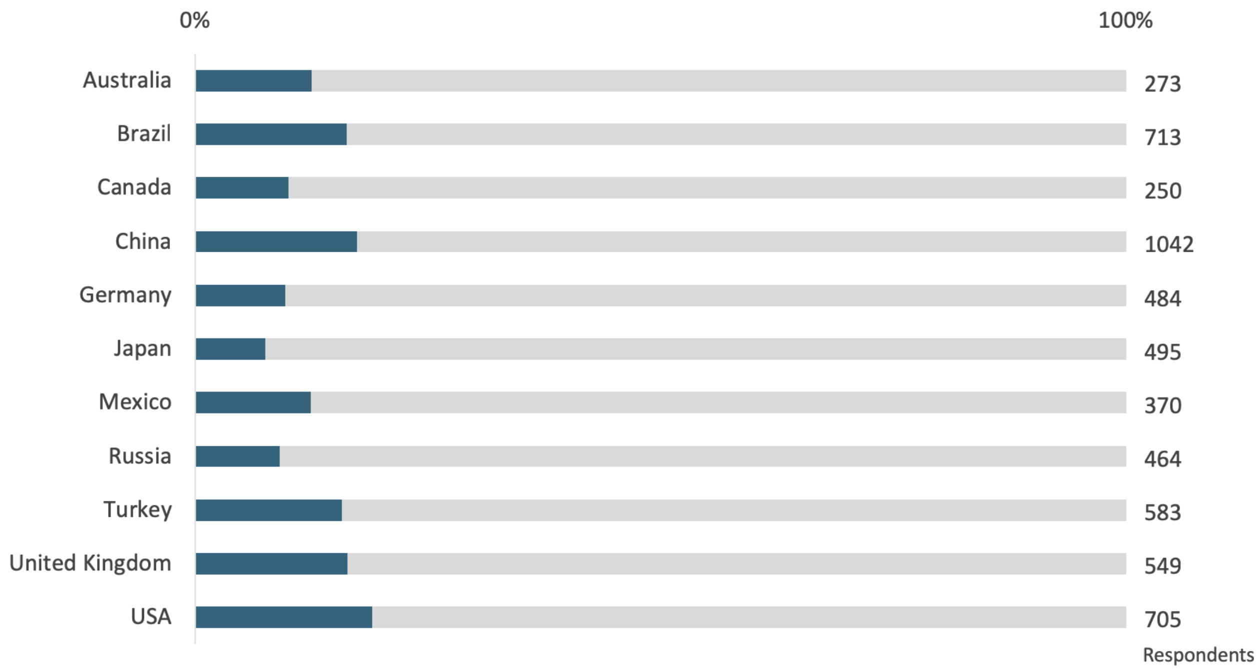
The consumer shift towards a more natural offering has also been apparent in energy bars, with new products evolving to include ingredients that are naturally rich in protein. An increasing number of manufacturers of energy bar brands, which typically relied on whey protein, now feature plant-based protein following high demand for natural ingredients, and the success of high-protein fruit and nut snacks such as Kind bars.

Health and wellness foods for a targeted subscription meal kit

Consumers' quest for ways to simplify, explore and preserve time provides a challenge for businesses to differentiate themselves. The willingness to spend money to save time drives innovation, and the openness and flexibility that the internet age has ushered in translates well to the new, ever-changing reinvention.

This has represented a major opportunity for alternative business models in the food industry, with subscription meal boxes emerging fast. In the US, 20% of respondents to a Euromonitor Global Survey have already used these services. However, competition is intensifying and more sophisticated and targeted subscription boxes towards health and wellness trends are emerging to differentiate in this space.

Consumers Who Have Used or Currently Use a Meal Kit Subscription Service in Selected Markets (2017)



Source: Euromonitor International

There is increasing innovation seeking to target consumers looking for only organic foods or dairy / gluten-free offerings, or non-refined carbs among others, which is showing a massive opportunity for growth.

Source: HelloFresh, a meal kit subscription service in the US

Although many manufacturers of meal kits are struggling to retain customers, Sun Basket has grown fast in the US. The key differentiator is its offer of recipes designed for a range of diets. Instead of just making dinner preparation easier, as more generic meal kits purport to do, Sun Basket closely follows the "clean eating" trend by helping people achieve their nutritional goals and source meals that meet their dietary restrictions. It uses organic and non-GMO ingredients and provides gluten-free, paleo and vegetarian meal options.

Unlike other meal boxes, Mindful Chef, available in the UK, offers a recipe box that is gluten-free, dairy-free and contains no refined carbs, following on consumer demand for such health and wellness offerings. This meal box is particularly targeted to the increasing number of consumers with dietary restrictions, seeking free from options.

In addition, it has recently partnered with fitness studio Barrecore as an opportunity to offer a more holistic approach to a healthy lifestyle, including physical exercise and healthy meals, to further support consumers seeking a more sustainable and healthy routine.

Conclusion

The packaged food industry is responding to consumer demand for natural, health-focused offerings. Consumers are looking for products and services which support a holistic routine and lifestyle, including physical and mental wellbeing, as well as personalised services in ways that fit in with their nutritional requirements and dietary choices.

Digital connectivity has enabled companies to reach new geographies and consumers with their offerings. In addition, an explosion of consumer data has enabled companies to more easily forge one-on-one relationships with end-consumers and provide tailored subscription services delivered to their door.

Moving forward, for big food companies looking to gain exposure to new potentially faster growing categories in the health and wellness space, M&A remains a popular route. However, making a minority investment, especially when it comes to start-ups, could be a good alternative. Big food companies are increasingly establishing in-house development and venture capital arms to support innovative young companies to help them grow, and for them to tap into evolving consumer trends and learn about more agile ways to innovate.

To learn more about the biggest trends in health and wellness packaged food as well as example from leading industry players, read the full report: The World Market for Health and Wellness Packaged Food.

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