

# Health-Conscious Retail

Challenges and opportunities with  
evolving customer health and  
wellness needs



SYMPHONY  
**RETAIL**

## Healthy retail growth in a health-conscious society

Organic produce and fair-trade coffee. Gluten-free pasta and Paleo-friendly flour. Free range, sugar-free, all natural, non-GMO, locally sourced...the list of labels and standards goes on and on.

Customers are increasingly concerned with the quality and health benefits associated with the products they purchase and consume, and this emerging market trend is one that retailers must pursue proactively. It's no longer the domain of specialist retailers – mainstream supermarkets, drugstores, e-commerce and convenience stores are all chasing the opportunity to be seen as health-conscious. Today, health-conscious customers account for 25-30%\* of all grocery customers in the U.S. and Europe, but this rapidly growing retail cohort is expected to be even greater in the future.

Around the world, the numbers show just how enthusiastic consumers are about shopping with health in mind:

- By 2025, the global organic food and beverage market is expected to reach \$320.5 billion <sup>1</sup>, which is three times more than it was in 2016.
- 44% of Americans <sup>2</sup> actively try to include organic foods in their diet, and organic sales in the U.S. totaled \$49.4 billion in 2017 <sup>3</sup>, up 6.4% from 2016, reflecting new sales of nearly \$3.5 billion.
- For every £7 spent on organic food and beverages in the UK, £1 went to independent retailers over traditional supermarkets. <sup>4</sup>
- Organic sales in France grew by 17% from 2016 to 2017.<sup>5</sup>



Focusing on health must be seen as a retention strategy, as well as a strategy for growth and survival in today's competitive market.

## How can retailers meet the needs of this growing market?

It's difficult for retailers to know the best strategy for getting it "right" in the eyes of customers. And getting it right is critical – for retailers who do not actively engage the health needs of consumers, the risk is having customers satisfy those needs elsewhere, often at a competitor. Focusing on health must be seen as a retention strategy, as well as a strategy for growth and survival in today's competitive market.

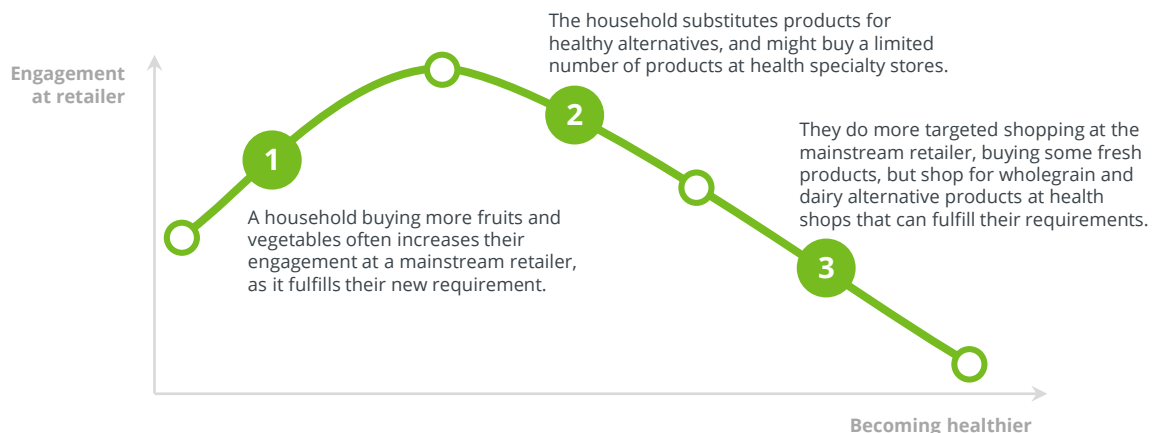
In our decades of work with FMCG retailers, we've seen the power of using customer analytics to support the implementation of a health agenda. Below, we will explore the habits of engagement for health-conscious customers, break down the various definitions of health, and explain the value of data-driven decisions based on deep customer insights. Finally, we take a look at how other retailers are responding, and discuss ways retailers can employ methods of Choice, Inspiration, Reach and Partnerships to increase health and wellness market share.

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## The journey of health-conscious customers

Engaged, health-conscious customers are valuable to a retailer because they spend more per week. But they also tend to do smaller, more frequent trips, and can be very fickle if retailers don't cater to their needs.

We have seen first-hand from our data that as a customer becomes more committed to the pursuit of health, whatever that definition, engagement will initially increase. But over time, if a customer's health needs are not adequately met, their loyalty to a retailer erodes as they look for healthy alternatives and innovative products elsewhere.



One key finding with households identifying as health-selective is that they tend to be less price-sensitive. Because of this, retailers can focus more on marketing long-term health and benefits to the customer. This might suggest that there is less of a need to invest so much in trade dollars because customers already buy into the idea of paying a premium for quality products, but there are two ends of the pricing spectrum. On the other side of the scale are customers who view price as a barrier to health – it's too expensive to buy fresh ingredients and cook at home, or it's easier to buy pre-packaged goods. With this in mind, retailers need to cater to both ends of the pricing spectrum.

## Start by defining health

The umbrella of “health” is broad, and it means different things to different people, depending on their needs, demographic and lifestyle. Health can be tied to diet for both weight loss or gain. It includes dietary restrictions, either by choice or necessity, driving consumers to buy dairy-free, gluten-free or low-sodium products. Lifestyle choices, like veganism or vegetarianism, also fall under the umbrella of health.

The idea of health also includes social responsibility, or “buying with purpose.” This can mean living more simply, supporting local, or buying products that are cruelty-free, sustainably sourced or more environmentally friendly.

We understand – it's overwhelming. How do you as a retailer choose where to focus your resources?

Considering the possible definitions of health: you must think about how those differ from region to region, city to city, or even at a neighborhood level. Products offered at a grocery store near a college campus will differ greatly from a store next to a residential neighborhood or a senior living community, for example. Needs of customers in each of those areas are different, and the product mix must reflect that.

Additionally, certain trends are more pronounced in the U.S. or in Europe. American shoppers are by-and-large more concerned with buying organic, and are also more likely to avoid gluten, whereas European customers focus on free-range products, whole grains and raw alternatives.

In some instances, having broad reach and broad appeal can be valuable, but there are 250,000 SKUs available for distribution that could potentially be relevant to any one person. Retailers can only carry about 10% of the offered products, so properly curating the right mix is a growing challenge.

Many grocery retailers do a poor job of knowing how to execute locally in-store, having an abundance of information, but for the sake of efficiency, giving everyone the same shelf planogram. Health is a local issue, and a customer issue, so it's key to give each store the flexibility to act locally.



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Deep understanding of who your customers are, where they are, and what their habits and lifestyles require can only fully be understood by looking at customer data.

## Strategize health based on data-driven customer insights

In the absence of customer data, you can't make decisions based on fact. You're limited to guess work, at best. Without data, you may stock a whole lot of mainstream products that seem to sell fast, but you won't succeed in taking care of people who are looking for health solutions.

So, a retailer's approach to a health and wellness agenda must be guided by customer data. Not just broad category data, but down to the customer level, understanding each household.

In the past, decisions were made based on velocity and volume. But now, with the right customer data, you can look at weekly customer transactions, evaluate the overall nutritional content of food purchases, and then segment customers according to their preferences. Yes, this is a lot of work, but when you consider the global trends toward healthy preferences, the potential earnings should be motivation enough to take the time for these insights.

Data can answer questions in the following categories:

- **Engagement** – How often does this customer choose us? How much do they spend? Do they shop broadly across categories? Are they willing to buy a substitute in this category? What categories are they buying outside of my store?
- **Price sensitivity** – Does the customer buy non-organic apples when incited by price, or do they only purchase organic? Does that look the same as the way they buy things like laundry detergent or paper towels?
- **Lifestyle** – How committed is this person to a healthy lifestyle? Who is buying specialty products? Where are the busy families with kids?

Customer insights lead to better decisions on carrying the right products, as well as understanding how products and particular categories are important to the customer and their purchases across the entire store. Data gives you a perspective on the whole household, not just how that household buys in one category.





## Fresh perspectives on health from leading grocers

Retailers must take steps to increase the loyalty of healthy customers shopping in their stores, and many are making an impact already.

- The Consumer Goods Forum (CGF) published a report in early 2018 that showed a 12% increase in the number of businesses cutting salt and sugar in their products.
- We see many retailers take an active stance on diet and sustainability issues, marketing their efforts to consumers as a differentiator. An example here we've seen here is REWE, which has an established focus on sustainability and animal welfare <sup>1</sup>. The group's efforts include: increasing the share of sustainable products and services, offering them at attractive prices and sourcing them from developing and emerging markets; actively working to prevent overfishing by sourcing fish sustainably; and working with animal rights organizations and suppliers to promote standards in their supply chain and product offering.
- Hy-Vee launched a dietician program <sup>2</sup> in selected stores with on-site fitness centers. Dieticians offer many services, like providing samples of nutritional products, or leading store tours to showcase items that align with a customer's particular needs.
- Earth Fare bases its business model on its pledge: "We read the food labels so you don't have to." Its "Boot List <sup>3</sup>" includes 130+ ingredients that shoppers will never find in the products the retailer curates. Shopping with this retailer, customers can be certain they won't make an unhealthy shopping choice.

These are but a few examples of how grocers are boosting programming and adjusting their product offering to meet the needs of their demographic.

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Real-world examples of healthy retail changes:

**12%**

Increase in businesses cutting salt and sugar in products <sup>1</sup>

**130+**

Ingredients in Earth Fare "Boot List<sup>3</sup>" of unhealthy ingredients



Hy-Vee.com 2018



Waitrose.com 2018

## Laying the foundation for health priorities

Health means different things to different people, but what's the best way to get started with new campaigns and initiatives? Before shifting into execution mode, lay some groundwork first.



### Perform customer health diagnostics.

Before any strategy is launched, it's important to understand the health traits of the customers in your market, as we've already discussed. This will provide guidance on the right initiatives and avoid any costly failures. Study cohorts of customers over time to understand their migration through the store, and how their interaction in-store and online changes with their health behaviors.



### Test and learn.

Identify the campaign or initiative that meets the needs of your customers, as identified through diagnostics. Run hypothesis tests in sample stores and then compare to the control group to see if the campaign had an effect. Then, roll out to a wider audience once evaluated – through customer data – as a success.



### Engage and promote healthy customers.

Building on the success of the 'test and learn' phase and keeping in mind regional differences and other customer nuances, identify your strategy. This strategy should build over time to continually engage and should be evaluated through customer data analysis.



## Four building blocks of healthy retailing

Retailers can nurture customer loyalty in four key areas. Each of these can be used as building blocks in your determined strategy to engage health-conscious customers.

### 1. Choice: Make health easier

We mentioned that loyalty erodes as households become healthier, which is why it's vital for retailers to differentiate themselves through product offerings and clear messaging. Plus, there's a perception that being healthier is more expensive, which can be addressed by presenting choices and pricing more effectively.

- Identify where you have gaps in your assortment and optimize where there is a clear intent for healthy purchasing. Then, work to make healthy selections affordable and reduce price gaps, marketing them to shoppers so they know they have options.
- Consider the right way to present healthy alternatives, which will, of course, vary by market and store location. Do you put the Annie's gluten-free mac and cheese in the same aisle alongside Kraft, or do you create a new space to present these specialty items in a special area of the store?
- Differentiate through niche and innovative healthy private brands. By 2020<sup>1</sup>, it is predicted that the percentage of supermarket revenue from private label will reach 40-45%.

Real-world example: Trader Joe's commitment to making organic products more accessible led them to offer their own brand of organic ketchup<sup>2</sup>. It's the cost of many conventional, non-organic brands, but they're able to offer the greatest quality by making and selling it themselves.





## 2. Inspiration: Identify health events

Despite the growing cultural desire to eat well, get fit, or be more mindful of our relationship with food, health and diet have negative connotations. Many people who diet, or try to become healthier, fail. With goals in mind, many consumers need a little bit of inspiration to stay on track. You as their retailer can inspire them to achieve their goals.

- Bring health and wellness strategies to life with in-store pop-up concepts that inspire, while promoting the product's breadth and range.
- Further inspire shoppers through promotional campaigns that tout health benefits, more than just a simple price reduction. Many promotions tend to be CPG-focused and less around health, so as the retailer, rise to the occasion to educate.
- Get creative in offering healthy motivation. For example, several supermarket chains in the U.S. and Canada now offer produce butchers<sup>1</sup>, whose role is to deliver convenience in meal preparation, slicing and dicing on behalf of the customer. This helps with healthy meal planning and preparation – saving shoppers' time or educating them where they may be uncertain of the proper way to cut a produce item.

## 3. Reach: Reward healthy choices

Healthy households today account for less than 25% of all carded households, but retailers have the opportunity to capture this growing segment. How can you engage them? Bring health and wellness initiatives to life through social media, apps and personalized loyalty schemes. Promote good health choices, and when you encourage a healthy basket all the way to check-out, reward accordingly. Here are some other specific suggestions:

- Subscription services for healthy meals can engage busy, health-conscious customers.
- Consider offering online or in-store nutritional and health programs, as earlier mentioned with example retailers.
- Work with nutritionists to develop unique recipes that encourage the adoption of healthy lifestyles.
- Tailor your CRM emails and revise targeted offers to suggest healthier alternatives.
- Delhaize launched a "Magical Vegetables" campaign, changing the names and packaging for 12 types of vegetables with a goal of getting kids to try them. Packages grabbed children's attention with names like "orange rockets" (carrots) and "clown noses" (tomatoes). They even consulted with several schools to make the name selections, asking children to use their imaginations and draw inspiration from fairytales and other storybooks.

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## 4. Partnerships: Act as a health advocate

Being healthy has the perception of taking a great deal of time when you stick to it. It's not only costly to your grocery budget, but the meal planning, research, prepping and cooking, week in and week out – no wonder the failure rate is so high. The opportunity here is to improve your brand communication; tell shoppers you have their back!

- Retailers can act as health advocates for their customers, winning customer's hearts and minds by making health information more accessible and creating collaborations with on-trend advocates and events.
- Charitable partnerships also aim to build an emotional connection with shoppers, ensuring their stickiness in weekly grocery trips.
- In another health initiative led by Waitrose, the retailer partnered <sup>1</sup> with a private health care company to set up health stations for checking weight and blood pressure, with health advisors on-hand for assessments and fitness advice. While not directly related to products offered in-store, this service is a reminder to customers of the retailer's commitment to prioritizing the health of shoppers.

### Health strategies are dynamic, imperative to success

We've given you some actionable examples of what others are doing in the grocery space and explained the critical nature of customer data in shaping your specific strategy. But the definition of health will continue to change as consumer needs do, and the task of aligning your retail strategies to trends will remain a moving target. To that end, a retailer's pursuit of promoting health will never be finished. You have to be ready for an ongoing relationship, one that the customer is going to drive.

If you take steps to do health retailing right, you will see a significant boost in sales. Retailers who adopt and innovate on their health and wellness strategies are well-positioned to lead in the competitive retail industry.

Source: <sup>1</sup> [Retail Gazette](#)



## About Symphony RetailAI

Symphony RetailAI is the leading global provider of Artificial Intelligence-enabled decision platforms, solutions and customer-centric insights that drive validated growth for retailers and CPG manufacturers, from customer intelligence to personalized marketing, and merchandising and category management, to supply chain and retail operations. Symphony RetailAI is innovating rapidly to drive faster, more profitable decisions through AI, machine learning and voice technologies. We are trusted by over 1200 organizations including 15 of the world's 25 largest grocery retailers, thousands of retail brands, and hundreds of national and regional chains worldwide to help solve their toughest business problems, through AI-powered customer intelligence and retail solutions.

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