McKinsey & Company

The Next Normal

The future of wellness: Connected and customized

July 2021

The wellness market is booming. Consumers intend to keep spending more on products that improve their health, fitness, nutrition, appearance, sleep, and mindfulness. In this edition, *The Next Normal* explores the fast-changing wellness industry.

In this issue

2 **Wellness in 2030**

In this video, McKinsey experts imagine the future of the fast-growing wellness industry.

5 **Looking ahead in US consumer health: An interview with Scott Melville**

Self-care, digital health, and e-commerce will all play a central role in shaping the future of wellness, says the CEO of the Consumer Healthcare Products Association.

9 **GSK's Brian McNamara on the business impact of COVID-19**

The CEO of GlaxoSmithKline Consumer Healthcare discusses the global challenges and possibilities of the next normal and the shifts now underway in consumer behavior.

13 **Connectivity with the consumer: The Honest Company's formula for growth**

In his third year as the CEO of Honest, consumer-goods veteran Nick Vlahos has big plans for the fast-growing maker of baby and beauty products.

18 **The business of fitness: Building the Tone House brand**

Digital fitness solutions aren't going away in the postpandemic era—but neither are gyms, says Shaun Robert Jenkins, head coach at Tone House, New York City's fast-growing fitness studio.

22 **Related reading**

Manish Chopra

Eric Falardeau

Scott Hayton

Jessica Moulton

Anna Pione

Emma Spagnuolo

The Next Normal | Video transcript

Wellness in 2030

In this video, McKinsey experts imagine the future of the fast-growing wellness industry.

Consumers are spending more on wellness than they ever have before. Wellness is now a $1.5 trillion market globally—and it's growing at a clip of 5 to 10 percent each year. McKinsey research shows that consumers are most interested in six wellness categories: health, fitness, nutrition, appearance, sleep, and mindfulness. Hear six McKinsey experts—Manish Chopra, Eric Falardeau, Scott Hayton, Jessica Moulton, Anna Pione, and Emma Spagnuolo—envision the future of each of those categories and the implications for companies.

Six wellness categories

New wellness products and services are hitting the market every day. So what might wellness look like in 2030? Let's look into the future.

Health

Anna Pione: I see there being a lot more offerings that let consumers triage any medical issues and take care of things mostly by themselves, so they'd only bring in a doctor when it's absolutely necessary. I also see the concept of devices moving from the doctor's office into the home. The pharmaceutical products of today will become the over-the-counter, easily accessible products of tomorrow.

Fitness

Eric Falardeau: I definitely don't see a world where there are just at-home solutions, without gyms or studios. I always like to say, "If Starbucks likes to think it can be a 'third place,'[1] then a gym can very well be a third place." We'll also see a next step in terms of giving people the ability to track their fitness: "How do I know I'm improving?" Tracking will play a very strong role in motivation, guidance, and coaching.

Nutrition

Jessica Moulton: People are reading a lot more labels; we think that will continue. They're looking to reduce sugar. They're also looking for more sustainable eating. About 35 percent of consumers in the United Kingdom, the United States, and Germany are drinking plant-based milk at least some of the time, and half of them started in the last year. That's quite a sea change—much faster than we usually see—in the way we eat, and we think it's going to continue.

[1] "Starbucks CEO: The third place, needed now more than ever before," Starbucks, May 4, 2020, stories.starbucks.com.

Appearance

Emma Spagnuolo: I think that in 2030, there's going to be an expansive amount of services offered by beauty retailers. You'll have the opportunity to get injectable services done if you want to plump up your cheeks or your lips. You'll be able to get clinical treatments, like microdermabrasion, that up until now have been done only in a dermatologist's office or a medical spa. You might be able to get a tattoo at the same place that you're buying your makeup because it's all about how you want to express yourself.

Sleep

Scott Hayton: There are new innovations, like sensors going under the mattress that can tell both how much you're moving around while sleeping and how much time you've spent in bed. Imagine if your sleep data was connected to your exercise service or your exercise bike so that when you hop on your bike, you'd be getting a class designed for someone who's had a poor night's sleep. Or imagine your fridge starting to make suggestions to you [based on your sleep data]: "Don't make coffee," for example.

Mindfulness

Manish Chopra: I believe that mindfulness—and the pursuit of mindfulness—will become an essential aspect of how we live our lives. There's a risk of overcommercialization of mindfulness, frankly, and a risk of it becoming a bit of a gimmick. But at least what's happening is that people are now more aware of mindfulness as an offering and a service. I do think technology and wearables will have a big role to play in this. In 2030, a typical day for a professional could start off with either an offline or online yoga or meditation class. At whatever time in the evening, the wearable device would start saying, "Listen, you need to quiet your mind now." It's easy to dream about these possibilities.

'Must dos' for companies

If wellness in 2030 will indeed be more tech heavy, personalized, and interconnected, what does that mean for companies? What should companies do today to be successful in 2030?

Amp up your digital strategy

Anna Pione: It's critical to think about your digital strategy in a broad sense. From a channel perspective, are you well set up to succeed, especially in e-commerce? From a marketing perspective, are you leveraging the power of social media and influencers?

Pursue data partnerships

Scott Hayton: Data is going to be the key. Having a way to tie these different data systems together is probably the best secret. Interconnectedness of data, interconnectedness of partnerships—those are going to be the real opportunities here.

Make shopping exciting

Emma Spagnuolo: By 2030, I think we'll see a completely different store experience. It's about capturing that concept of discovery, whether through services, classes, or just a curated, exciting, and gamified experience that brings the consumer in—for example, being able to see 3-D versions of your face and being able to apply different color cosmetic products to it so that you then could simply hit the buy button and have all of the products sent to your home.

Update your value proposition

Eric Falardeau: Understand how your value proposition might have changed. For example, if you're a gym, and you realize that with people having more diverse fitness routines, they're more creative about how they do cardio, you need to ask yourself, “How do I make sure I am seen as one of the solutions of today?”

Get good at ‘small’

Jessica Moulton: We think consumer-goods companies need to own the explosion of “small” in their categories. A lot of the growth is in smaller, niche products, and consumer-goods companies have all the expertise they need to excel at those; they just don’t always like the economics. Keep experimenting with ways to get great at small.

Consider the whole person

Manish Chopra: You’ve got to think about the individual as a whole person. A lot of offerings are coming at the individual as components as opposed to thinking of them as a whole human being and thinking about the arc of their day or their year and where all that might fit in it. Think about what is truly going to bring about lasting change.

Manish Chopra is a senior partner in McKinsey’s New York office, where **Anna Pione** is an associate partner; **Eric Falardeau** is a partner in the Montréal office; **Scott Hayton** is an associate partner in the Toronto office; **Jessica Moulton** is a senior partner in the London office; and **Emma Spagnuolo** is a partner in the New Jersey office.

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March 2021 | Interview

Looking ahead in US consumer health: An interview with Scott Melville

Scott Melville

Self-care, digital health, and e-commerce will all play a central role in shaping the future of wellness, says the CEO of the Consumer Healthcare Products Association.

Perhaps at no other time in recent memory have people worldwide paid more attention to keeping themselves and their loved ones healthy. Amid the COVID-19 pandemic, many companies that make or sell health-related products have experienced unprecedented spikes in demand. Consumer demand will remain high even after COVID-19 subsides, predicts Scott Melville, a 30-year veteran of the healthcare industry who for the past decade has been president and CEO of the Consumer Healthcare Products Association (CHPA). Based in Washington, DC, CHPA's 60-plus active member companies are manufacturers or distributors of over-the-counter (OTC) drugs, dietary supplements, and consumer medical devices.

In this interview with McKinsey's Shaun Callaghan, Melville shares his take on recent—and future—changes in the US consumer-health industry. The following are edited excerpts of their conversation.

McKinsey: The field of wellness has been evolving quite rapidly. What are some of the biggest changes you've seen in recent years?

Scott Melville: Wellness has evolved from an emphasis on treatment to an emphasis on prevention. And we've seen a huge demand in consumers wanting to take charge of their health. This has been driven by lots of different factors. One is technology: consumers have been empowered by technology, they're accessing more information than ever before, and they're able to make choices about their own healthcare, whereas in the past perhaps they would have relied upon their doctor to make those choices for them.

The evolution toward self-care is also being facilitated by incentives. The cost of healthcare is placing such a challenge on governments that they are incentivizing individuals to pay for more of their healthcare, and that is causing consumer behavior to change. Rather than always going to a doctor or trying to get a prescription for a product, consumers—at least in the United States—are now looking for more cost-effective options, and often, they start by looking at self-care and self-treatment. I don't see that changing, as government budgets continue to be in deficit. So, more costs being passed on to the consumer is likely to keep happening over the next ten, 20, 30 years.

McKinsey: What impact has COVID-19 had on these trends?

Scott Melville: The pandemic has certainly made self-care an even more important part of healthcare. In the past, self-care was viewed as convenient and cost effective, but this past year has shown us that it's not just a choice—it's a necessity.

Over-the-counter drugs, dietary supplements, and consumer medical devices were used for diagnosis, treatment, and prevention. And these products kept people at home safely; they allowed people, for the most part, to self-treat if they were afflicted with COVID-19 symptoms, freeing up scarce medical resources for patients who really needed a higher level of care.

Digital health is an expanding area as well. I myself had my first telehealth visit this year and found it to be very effective and efficient.

McKinsey: Consumer medical devices just became part of CHPA's expanded scope in 2020. Say more about the future of consumer medical devices and digital health. How do you see those trends playing out in a post-COVID-19 world?

Scott Melville: I think the integration of digital health into healthcare and self-care is here to stay, and we're just at the very early stages. Think of Apple Watch, which is getting better with each iteration. As consumers get more familiar with its capabilities, technology is going to be something that not just consumers but also providers rely on—for example, to keep in touch with their patients or to monitor them remotely. Digital devices will allow consumers to accurately and safely monitor their blood pressure, their cholesterol levels, and other measurements. Devices will alert consumers earlier to conditions that they can then self-treat or seek professional treatment for.

Technology could perhaps even facilitate the introduction of OTC drugs that previously haven't been available over the counter, because some of these digital devices can play the role of the learned intermediary that a doctor or pharmacist would normally play. I think digital technology can help make sure that the consumer can self-diagnose and self-treat, which is the standard for making a product available as an OTC product.

McKinsey: Another trend that we've seen during the pandemic is a shift toward e-commerce. Consumers bought OTC products online at a much higher rate than ever before. Do you think that will continue even when the pandemic is over?

Scott Melville: Compared with other consumer categories, personal healthcare has been a bit of a laggard when it comes to e-commerce. Consumers often want to go to their pharmacy to pick up healthcare products; there's a level of comfort that they get in going to the pharmacy. Obviously, COVID-19 has had an impact on that. People are now increasingly relying on e-commerce, which in the long run is a good thing.

It can level the playing field in the industry. It is tough for a small company to get on the shelf of a brick-and-mortar chain or a big-box store; there's only so much shelf space. But with e-commerce, there's unlimited shelf space, so many new consumer-health brands and products have come to market exclusively via e-commerce.

Scott Melville biography

Vital statistics
Born in 1963 in Philadelphia
Married, with two adult children

Education
Earned a JD from George Mason University and a bachelor's degree in economics and political science from Bucknell University

Career highlights
Consumer Healthcare Products Association
(2010–present)
President and CEO

Healthcare Distribution Alliance
(2004–10)
Senior vice president, government affairs and general counsel

Cephalon
(1996–2004)
Senior director, government affairs

Hoffmann-La Roche
(1994–96)
Assistant director, public policy and communications

Fast facts
Serves on the boards of the CHPA Educational Foundation and the Global Self-Care Federation

Is an avid golfer and Philadelphia Phillies sports fan

There are some negatives as well. We do see healthcare products on e-commerce that are counterfeit or stolen. Also, if people are relying on e-commerce exclusively, they could be getting advice that isn't always accurate. There are a lot of "experts" on the web giving advice on how to treat this or that, and sometimes people rely on those experts and circumvent their healthcare professional or their pharmacy. There is a long history of quackery in healthcare. People go online and believe all sorts of outrageous claims. We saw this early in the pandemic: we were responding almost weekly to new claims in the marketplace about ingredients that could make COVID-19 symptoms either better or worse.

Now, by no means are brick-and-mortar pharmacies going away. There's actually a bit of a renaissance going on with brick-and-mortar pharmacies as centers for healthcare delivery. But for day-to-day purchasing of consumer-health products, e-commerce is certainly going to be a bigger part of the market.

McKinsey: As you said, e-commerce is ushering in some smaller players. How will the competitive landscape in consumer health change in the coming years?

Scott Melville: There has been a lot of churn and change in the industry over the past few years. Many of the players who were in the industry ten, 20, 30 years ago are not in the industry anymore. There have been a lot of acquisitions and consolidation.

Companies have made conscious decisions to either move in or move out of the category. CHPA used to have nine or ten prescription-drug companies that had a consumer division. Many of those companies—Merck, Boehringer Ingelheim, Pfizer, and so on—have since made strategic decisions to get out of the consumer-health space and focus on prescription drugs.

That has opened up opportunities for more traditional consumer-packaged-goods companies and food companies to get into the consumer-health space. That's what the consumer wants; they're just following the consumer. Whether it's healthier eating or dietary supplements, it's easy to see how this movement from food and beauty products and consumer household goods into the healthcare space can happen. The consumer says, “I have a problem and I want to treat it,” or, “I want to prevent a problem,” and they really don’t care about the regulatory distinctions. Companies have to meet consumers where they are.

Having said that, there are important regulatory distinctions, both at the federal and state level, between foods and drugs and devices and services. From a regulatory perspective, you have to make sure that you stay in your swim lane. For example, if a company wants to make a drug claim, that product should be a drug—not a dietary supplement.

But consumers want choices. They want nondrug treatments when possible, so our industry is evolving to provide what they want for their particular condition. It can be a drug, a dietary supplement, or, increasingly, a device. And the one thing I can guarantee is that the industry will continue to evolve.

McKinsey: Another trend that we’ve seen in our research in the broader consumer sector is a growing preference for natural and “clean” products. Are you seeing that trend in the consumer-health space as well?

Scott Melville: Yes. The regulatory definitions of “natural” aren’t consistent across the board, but there’s certainly a demand for natural nondrug treatments and preventative products.

I think a great example is sleep. In the environment we’ve all been living in for the past year, where we’re all anxious and have a lot on our minds, it’s no surprise that sleep has been disrupted in a big way. Traditionally, sleep problems were treated with prescription products, but as science, regulation, and consumer preferences have evolved, more choices have come to market. Diphenhydramine, an OTC product, is very popular with consumers who want a nonprescription-drug option. We’re seeing devices that can enhance sleep as well, whether through music or massages or other treatments. And we’re seeing natural dietary supplements that can enhance sleep, like melatonin. So, there are many ways to treat sleep issues and promote healthy sleep, and consumers are choosing what’s best for them.

McKinsey: Thanks for your time today, Scott, and I hope you yourself are getting some good sleep. Final question: What do you do for your own health and wellness?

Scott Melville: I take a combination of healthcare products, both prescription medicines and dietary supplements. I also have a personal trainer whom I’ve been working with for the past six months as gyms have been closed. I use Zoom to have a personal-training appointment in my house.

I exercise, I eat right, and I take medicine or supplements as needed for self-care or in consultation with my physician. As a result, I’ve never felt better. I’m coming up on a big birthday in a couple of years, and I feel half my age—so I’m going to keep doing what I’m doing because it appears to be working.

Scott Melville is president and CEO of the Consumer Healthcare Products Association. This interview was conducted by **Shaun Callaghan,** a partner in McKinsey’s New Jersey office.

For more from Scott Melville, see the videos accompanying this article on McKinsey.com.

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September 2020 | Interview

GSK's Brian McNamara on the business impact of COVID-19

Brian McNamara

The CEO of GlaxoSmithKline Consumer Healthcare discusses the global challenges and possibilities of the next normal and the shifts now underway in consumer behavior.

When the pandemic started, GlaxoSmithKline (GSK) Consumer Healthcare set three priorities: caring for its people, ensuring business continuity, and being part of the solution. In July 2020, GSK Consumer Healthcare CEO Brian McNamara spoke with McKinsey senior partner Warren Teichner about the changes the company has made to adapt to these unprecedented times, the critical role of a resilient supply chain in business continuity, and the importance of staying connected with consumers. An edited excerpt of their conversation follows.

McKinsey: As we navigate through the next normal, what have been some ways you have adapted to this time of tremendous change?

Brian McNamara: As various travel restrictions began to take shape around the world, in mid-March my wife and I decided to leave our London home and return to New Jersey. I thought we would be back in the UK in four to six weeks! But the world shifted and we have remained in New Jersey, where I continue to work from home.

GSK Consumer Healthcare has adapted, too. In just a few weeks, we transitioned our 25,000 employees, with the exception of manufacturing and frontline workers, to a home-based work model. For me, the home-based arrangement has brought some positives and some challenges. The positives: incredible efficiency. Meetings are clearer and shorter. We're much more focused on decision making and have streamlined our processes to work faster.

As a leadership team, even though we're at a physical distance, we've become more connected. At the start of the pandemic, to keep everyone on the same page we met virtually in the early morning, US time, for an hour-long roundtable discussion three times per week. While these video conferences are great, I miss the in-person connections and more informal conversations. And the time-zone difference between the US and UK has certainly been an issue for me. But we've accomplished so much. I never could have predicted how well it's gone.

‘For business continuity, our focus has been how do we keep our global supply chain going to support patients and consumers who depend on our products?’

McKinsey: Looking ahead, what do you think the workplace of the post-COVID-19 future will look like?

Brian McNamara: It’s a huge debate. I hear people on both ends of the spectrum—those who say, “We need to get back to the way it was as soon as possible,” and those who say, “You know what? Let’s become a remote company at this point.”

I believe the future is somewhere in-between. Traveling less and being more focused and efficient in the way we work are certainly positives. I also think that 25,000 people in GSK Consumer Healthcare, and 100,000 for our company overall, could work remotely overnight, thanks to the strong relationships they’ve built. Some people love the flexibility of working from home. For others, it’s difficult. We’ve had much discussion and surveyed our employees to understand what they’re experiencing. The conversation will continue.

McKinsey: When you think about COVID-19, what keeps you up at night? What have been the most disruptive aspects to your business so far?

Brian McNamara: Our priorities are caring for our people, ensuring business continuity, and being part of the solution. On the people front, it was all about the health and wellbeing of our employees. Our focus has been making sure we have the right systems and protocols in place to keep our people safe. Throughout the pandemic, we’ve had more than 8,000 employees showing up to work every day in our 30 manufacturing plants around the world. We’ve encountered a few COVID-19 cases in some of those plants and are focused on disinfecting the plants and protecting the people who came into contact with anyone who tested positive for the virus.

For business continuity, our focus has been how do we keep our global supply chain going to support patients and consumers who depend on our products? How do we make sure we stay focused on our critical priorities? Although we closed the transaction with Pfizer that combined our consumer healthcare businesses in July 2019, we are still in the midst of integration and continuing to drive our innovation pipeline and the long-term programs. And despite travel restrictions, country shutdowns, and lockdowns, we also closed 31 markets in Europe after the ThermaCare divestment, in May. We also completed system cutovers in those markets.

We’re also focused on the role we can play in local communities. For example, we signed a deal with Mammoth Biosciences for a COVID-19 in-home diagnostic kit based on CRISPR[1] technology. We believe this offers tremendous potential as a platform for the future.

[1] Clustered regularly interspaced short palindromic repeats.

I’ve been proud of our performance. We simplified many steps in our financial processes and decision making. We made decisions faster and streamlined portfolios to increase output. But we also had to pause a lot of initiatives as a result of the pandemic.

McKinsey: What have you observed in China’s recovery since the original COVID-19 outbreak and what does that mean for the rest of the world?

Brian McNamara: Our team in China has been very involved, very early on, in the response to the COVID-19 pandemic there. We kept our two manufacturing plants in China going, even through part of the Chinese New Year, as we witnessed the spread of the virus. Globally, we provided guidance and a framework but enabled the local team to make decisions because they were closest to the situation. As the virus spread, the lesson of local empowerment is one we applied around the world. The resilience of our business in China has been impressive. Let’s see how it goes elsewhere. The lingering question is will the virus have a second wave and, if so, where? What will be the economic impact?

McKinsey: Supply-chain resilience has been important in the response to COVID-19. What have been the takeaways for GSK?

Brian McNamara: In some categories, consumption and demand have doubled or even tripled almost overnight. It’s difficult to have a supply chain that’s prepared for that kind of demand. Flexibility is key. It’s also important to be thoughtful about single sourcing or double sourcing key raw materials. Sourcing from China or from India, which is part of everyone’s strategy, makes sense for many reasons, but it challenged many companies as countries locked down.

We are evaluating our end-to-end supply chain—where we source from, where we build in flexibility for increased demand, and what categories we pursue going forward. We are also contemplating what categories we think will have more demand, based on consumer shifts, and considering how we can invest now to make sure we’re building capacity so we can be there for our consumers as these trends continue.

McKinsey: When you look to the future, what consumer behaviors do you think will fundamentally change as a result of COVID-19? What is the next normal?

Brian McNamara: We anticipate an acceleration in e-commerce—specifically, in the over-the-counter space. Right now, OTC e-commerce sales are only 2 to 3 percent of sales in the US, so there is lots of room for growth. As with many other retail businesses, we’ve seen a significant increase in OTC online purchases as a result of COVID-19. And I think that will stick. I don’t think it will go back to pre-COVID-19 levels. Consumers are getting used to OTC being part of their overall shopping basket.

The use of digital technologies is also here to stay—to accelerate speed to market, improve products, and enhance the customer experience. We’re happy with the way we’ve reacted to the digital transformation, and it will be more of a focus going forward.

We will also see a fundamental shift in consumers proactively managing their health, particularly in the consumption of immunity products and vitamins, minerals, and supplements products. Everything went through a massive sellout at retailers in March as people were pantry loading, and we continue to see strong trends in those categories. COVID-19 has also heightened consumer awareness of health and wellbeing, and it’s a trend that will likely stick.

We’ve also seen that bigger consumer-health brands have done better, maybe because, given their larger supply chains, they could react faster to the pandemic, but also because consumers know that they can trust the brand they’re buying and the information they’re getting.

McKinsey: As the race to develop a COVID-19 vaccine intensifies, there is still debate on how it will affect consumer behavior. What are your thoughts?

Brian McNamara: In April, we announced a partnership with Sanofi to develop a COVID-19 vaccine. The more companies that can succeed in developing a COVID-19 vaccine, the better because it's what the world needs. There are numerous variables that can affect consumer behavior, from the duration of immunity to consumer confidence and acceptance of a vaccine. I believe the trend toward self-care and proactive health management will continue, as will the memories of how COVID-19 surprised us all. Even as we get through this, we need to prepare for a future pandemic, as a healthcare industry and as a society.

McKinsey: How will driving demand change in this new world? What role will core marketing and digital marketing play?

Brian McNamara: We still need to drive demand by connecting with consumers and getting expert recommendations. The digital channels are surely accelerating how we interact with consumers. In Europe, investment in digital channels is nascent, and in the US more than half of our spending is directed to digital channels. I also see a shift toward purpose-driven brands motivated by a core mission and the need to solve a problem or meet a societal need. This is a huge opportunity to elevate the connection with consumers and make a lasting contribution to humanity.

McKinsey: GSK is clearly a purpose-driven organization. How has the pandemic influenced the decisions and actions driven by your purpose?

Brian McNamara: At GSK, our purpose is simply stated—to help people do more, feel better, and live longer. We have taken great pride in being part of the solution in a health crisis. Our products are truly making a difference, and that elevates our industry in consumers' minds. For the 8,000 employees in our manufacturing plants who continue to show up for work every day, purpose is the North Star.

Brian McNamara is CEO of GlaxoSmithKline Consumer Healthcare and **Warren Teichner** is a senior partner in McKinsey's New Jersey office.

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August 2020 | Interview

Connectivity with the consumer: The Honest Company's formula for growth

Nick Vlahos

In his third year as the CEO of Honest, consumer-goods veteran Nick Vlahos has big plans for the fast-growing maker of baby and beauty products.

Over the course of a 22-year career at Clorox, Nick Vlahos managed a variety of product categories, including laundry, food, water filtration, bags and wraps, and personal care. Notably, he led the transformation of natural-products brand Burt's Bees into a global success. That experience prepared him to take on a new kind of challenge in 2017, when he left Clorox to become CEO of a much smaller but rapidly growing disruptor in the baby-products industry: The Honest Company, launched in 2012 by actress and entrepreneur Jessica Alba. Its promise of safe and effective products resonated with new moms nationwide.

In an interview with McKinsey's Greg Kelly, Vlahos shared his thoughts on the changing consumer and the future of Honest. The following are edited excerpts. (The interview took place before the COVID-19 crisis. For a July 2020 update, see the sidebar, "Staying Honest amid a global pandemic.")

McKinsey: You rose up the ranks at a leading consumer-goods company with a long history. Now, you're leading a company that's been around for less than eight years. Some would say that's a risky move. Why did you do it?

Nick Vlahos: It made a lot of sense for me to make this move, for several reasons. An important one is that The Honest Company was a great fit for me from a lifestyle and family perspective. The brand's ethos, its values, and what it stands for align very closely with how my wife and I and our four children operate as a family.

Staying Honest amid a global pandemic

In July 2020, more than three months after Honest employees began working from home, Nick Vlahos offered these additional perspectives.

McKinsey: What shifts in consumer behavior have you seen as a result of the COVID-19 crisis? How is Honest responding to these shifts?

Nick Vlahos: We're constantly listening and responding to the wants and needs of our customers. Even through the pandemic, our internal labs have continued to innovate and to narrow their focus on product developments that respond to new consumer lifestyles. In fact, this year, we will be introducing 50 new products, several of which are in response to COVID-19 and are focused on sanitization. Looking to the future, we will double down on innovation, focusing on the importance of omnichannel and accessibility—two keys to our success both prior to and during the COVID-19 pandemic.

McKinsey: How has COVID-19 changed the way you work?

Nick Vlahos: During this time, the safety, health, and well-being of our Honest family—employees as well as customers—have been of the utmost importance to us. Due to our omnichannel strategy, throughout the COVID-19 crisis we've been able to get our products to consumers. We've been able to ensure that supply of our essential products—like diapers and baby wipes—remained strong.

On March 13, all our employees began working remotely. Connectivity and constant communication have been key to our success in this new operating model. We've made it a point to be as transparent as possible with our Honest family by sending regular updates on the status of our workspace via email, our HR hotline, Slack, and our intranet, Inside Honest. We've also been working with our partner, Thrive Global, which specializes in workplace wellness. Together, we developed a customized training session on Honest University to help our employees navigate ambiguity, deal with stress, and handle the impact of COVID-19 during this difficult time.

As we can't meet in person, we're using Honest University to host "Launch and Learns" for our employees so they can learn all about the new products we are launching, including the marketing and retail plans for those products. Our goal for these training sessions is to help our employees become true ambassadors of Honest products.

But it was also about anticipating where the consumer is going, both domestically and internationally. Think about how the packaged-food business has changed. Fifteen years ago, everything was set up for scale: new products were introduced with big marketing campaigns, pushed into stores, and stacked high. But then consumers started to become more educated and aware about what they were putting in their bodies. The health-and-wellness, "better for you" trend started to take hold. And over that 15-year horizon, organic food has become commonplace.

When I first started in the business, you'd walk into a store, and you might find a little section in the corner that was organic or natural. Today, when you walk into a store—say, Costco—every other pallet in the food section is organic.

And now, consumers are becoming more educated about not just what they're putting in their body but also what they're putting on their body—what they put on their skin, what they put on their children. I've found that the overall growth rates of natural, better-for-you, "clean" products are double the growth rates of conventional products. Consumers are spending their money on brands they believe they can trust.

McKinsey: The Honest Company started as a direct-to-consumer [DTC] brand online, but in recent years—and especially since you came on board—the company has been building its omnichannel presence. Tell us about that evolution.

Nick Vlahos: Let me just say a little bit about Jessica, because I think it's an important part of our story. She isn't a celebrity who just stuck a name on a product and introduced it into the market. She was a consumer first, and she got the idea for starting the company when she was pregnant with her first child. Why is that important? Well, the data shows that about 48 percent of new moms will change their purchase habits and their regimens when they're pregnant, and 50 percent will move toward better-for-you, clean products. That's a big insight for us. Being a digital-first brand, we educate and connect with you on a one-on-one basis during that aperture of pregnancy.

Let's talk about one of our subscribers. Let's say her name is Mary. We know that Mary has a child who's six months old and they live in Edina, Minnesota. I know that Mary is currently buying Honest diapers and wipes, but she's not buying Honest personal-care or beauty products. So when I connect with her, I want to offer her a solution set based on her needs. Her baby is going to grow, and Mary will eventually need, say, a different car seat. So I'm going to reward her with a $5 Target gift card for a car seat. The goal isn't just to get her to buy Honest diapers and wipes—it's really to create loyalty, bring added value, and have her be excited about being part of the Honest family. Ultimately, it's about providing Mary the hyperconvenient experience that best suits her needs.

By rewarding her with a Target gift card, I've now created an omnichannel experience for Mary so that she'll go to a Target store and purchase a product. And by the way, since I have year-round distribution at Target and an endcap dedicated to Honest diapers, wipes, and personal-care products, she might also buy an Honest product while she's at Target. So my point is, by giving the consumer an experience that connects with how she shops and by creating solution sets that meet her needs, we start to create "stickiness" and loyalty to our brand.

As a consumer-packaged-goods manufacturer, you can choose to look at Target or Amazon as a competitor because they sell products that compete with your products. But I look at it this way: if I can create the right level of demand and interest in my product, then where I'm putting the product—whether it's Amazon or Target or Walmart—becomes part of a consumer-oriented solution set. Consumers—especially Gen Zers and the younger groups—have become channel agnostic. What they're interested in is accessibility, ease, convenience: being able to procure a product where and when they want to procure it. They don't think in terms of channels.

McKinsey: It's true that it's no longer helpful for consumer-packaged-goods [CPG] companies to think of channels in terms of discrete shopper occasions. Still, many CPG companies are wrestling with pricing across customers. Did you make any changes to the pricing philosophy and architecture of Honest products when you started selling through mass retailers?

Nick Vlahos: No. To succeed as an omnichannel brand, you have to start with the right value proposition for your product. What price can you command every day for that product, how do you drive accessibility based on where consumers want to shop, and how can you make money doing that day in and day out?

The issue for some CPG brands historically has been that the value proposition is off—and if it's off, you have to rely on trade spending, and you have to play a high–low operating game in the marketplace. You then become disadvantaged quickly, based on how the Amazon algorithm reads your pricing or how Walmart is establishing pricing. You get tangled into a channel discussion. And you start creating different value propositions in different places that the consumer may not be interested in at all.

Nick Vlahos biography

Vital statistics
Born and raised in Chicago, youngest of 3 (has 2 sisters)
Married, with 4 children
Fluent in Greek

Education
Holds a bachelor's degree in telecommunications from Indiana University Bloomington

Career highlights
The Honest Company
(2017–present)
CEO

The Clorox Company
(2014–17)
COO

(2013–14)
Chief customer officer

(2011–13)
Vice president and global general manager, Burt's Bees

(1995–2011)
Various senior roles in sales and marketing

Helene Curtis Industries
(1990–95)
Sales executive

Fast facts
Is a board member of Tillamook County Creamery Association and has served on boards of Chabot Space & Science Center Foundation and Natural Products Association

Was included in "Glossy 50: Beauty's new guard" in 2018, a list of industry insiders driving important shifts in the beauty industry, by the publication *Glossy*

Was a guest lecturer on consumer-product strategy and operations at Fuqua School of Business at Duke University, Harvard Business School, and Kellogg School of Management at Northwestern University

McKinsey: Honest has successfully expanded into not only new channels but also new geographies: you're now in Europe. How do you decide which markets to enter?

Nick Vlahos: It's important to have the right product profile to be able to quickly get into a market. We did consumer research to understand where the Honest brand can resonate—where consumers are interested in better-for-you, wellness-oriented products. Some folks might say, "Well, Europe is further along than the United States when it comes to that trend." But if you look, for example, at how many ingredients are banned in the European Union, the number is about 1,300, whereas Honest has about 3,000 ingredients that we try to avoid—ingredients that are thought to be harmful to people's health or to the environment. The fact that we have high standards for our product formulations and our testing means we're able to play in these markets; we don't have to reformulate our product lineup.

Having the right strategic partner in every geography is also important. In continental Europe, we've partnered with Douglas, which is the largest retailer in the beauty space. And we've partnered with Boots in the United Kingdom. We've done a lot of work with our partners to localize our marketing plans. The product is common in those geographies, but the marketing elements—the social media, the influencers that we're working with—are all localized. Thanks to our targeted, multilayered approach, we're strengthening existing consumer relationships while forging new ones in new geographies.

McKinsey: What gets you most excited as you think about where the brand can go?

Nick Vlahos: One thing that excites me is that we're at the forefront of another consumer trend: minimalism. More consumers are becoming minimalists when it comes to their beauty regimens: they're not interested in doing a ten-step process to "put their face on" every day. They're busy; they're on the go. Honest Beauty products align with that trend.

From a digital-marketing perspective, what gets me pretty jazzed is creating the right level of content and community and translating that into commerce. For example, we're giving consumers "snackable" content—information in bite-size morsels and pieces—about the 40 weeks of pregnancy and what they should expect during that time period. We found five different women, different backgrounds, different geographies, with different life experiences. And we documented, over a 40-week time period, each of their lives and what they were experiencing.

So if you're pregnant and you like Kasey and her story, you can go to Honest.com to see content about her journey: How does she balance work with pregnancy? What's it like to plan a gender-reveal party? What should I do during the nesting period? That content has been really powerful for us. It's enabled us to create more of a community. We can then connect with each of our customers and offer each of them a solution set based on her unique experience.

McKinsey: What will you offer your customers next? You've talked about what people put on their bodies as well as in and around their bodies. How far do you think the brand can extend? Could you imagine Honest food or Honest air purifiers?

Nick Vlahos: Over the past couple of years, we've really focused on the on-your-body component. We have a connection with the consumer, and we have insights into what you're putting on your baby's skin, so we started thinking about what you put on your own skin and what you put on your family's skin. Going from baby products to beauty products made sense. We've invested disproportionately in the safety and performance of our products to develop everlasting trust. We spend a lot of time on our products so that we can consistently delight consumers. And we're innovating fast. In my former job, I would say the innovation process was always a two-year horizon or so. At Honest, our innovation process is six to 12 months.

As disruptors in the natural baby and beauty categories, we are constantly listening and responding to consumers' wants and needs, which will always be core to our evolution. For adjacencies to work, there has to be connectivity with the consumer and consumer behavior. Can I start talking about beauty from within and what you're putting in your body? Yes. Could I get into the food business or the supplement business tomorrow? Absolutely. But do I have the capability set to deliver the margin accretion I'm looking to deliver across my portfolio? No. That day will come, but for now I'll stay within my lane and build the brand with the consumer at the core, while focusing on the performance of the product.

Greg Kelly, a senior partner in McKinsey's Atlanta office, conducted this interview.

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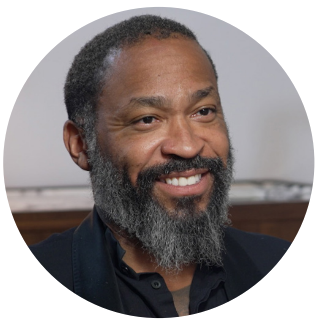
The business of fitness: Building the Tone House brand


Shaun Jenkins

Digital fitness solutions aren't going away in the postpandemic era—but neither are gyms, says Shaun Robert Jenkins, head coach at Tone House, New York City's fast-growing fitness studio.

Having built a reputation among exercise enthusiasts as the place to experience New York City's hardest workout,[1] Tone House has been growing its clientele—even when its sole location, in Manhattan, was closed for months during the COVID-19 lockdown. Tone House now also offers outdoor classes, virtual workouts, nutrition services, and a line of apparel. The brand, like its users, is gaining strength.

Shaun Robert Jenkins, Tone House senior training manager and head coach, recently spoke with McKinsey's Eric Falardeau and shared his views on how the fitness marketplace will evolve. Edited excerpts of their conversation follow.

Eric Falardeau: Shaun, how would you say the fitness industry has changed during the pandemic? Which changes do you think will last and which won't?

Shaun Jenkins: Against the backdrop of COVID-19, Tone House made a couple of important pivots. One pivot was to go from our indoor studio to the outdoors, so that we could continue offering in-person fitness sessions in a physical space. We also began to offer workouts in the digital space through Tone House TV, our on-demand platform. The physical space caters to individuals who value human interaction and are hyperfocused on making that personal connection, whereas the digital space is about delivering a constant stream of content to those unable to visit the studio in person.

[1] See, for example, Jason Kelly, "The pro athlete workout for lunchtime warriors," Bloomberg, June 21, 2017, bloomberg.com; Rachel Bachman, "The fitness classes too tough for most mortals," *Wall Street Journal*, January 3, 2017, wsj.com; and Chloe Malle, "Inside the sleek new home of New York's toughest cult workout," *Vogue*, May 17, 2016, vogue.com.

We're seeing this duality—two types of engagement persona—and there's some overlap between the two. Some of our clients who moved into the digital space during COVID-19 have been staying in that space and feel a lot more comfortable there. Other clients, those who are used to the one-on-one coaching aspect, are coming back to the studio. The time away from the studio made them realize, "I had this amazing gift that I didn't cherish before the pandemic. Now I really want to be in here."

In my opinion, there will be more focus on an omnichannel approach to training as we come out of the pandemic. We have clients who are parents of young children and can't get to the studio multiple times a week, so they use the digital space to get their workout in. But if you truly want to experience an evolution in who you are as a mental, emotional, and spiritual being, it requires a guru or a coach, and it's harder to replicate that connection without the in-person experience.

There will always be a role for digital content, but I think there's currently an overperpetuation of the belief that the digital space is the way to go in fitness. I think it's a vertical that will be successful for a select number of brands; there are several fitness brands doing a great job at digital content. But people need and want the human interaction.

Eric Falardeau: What does that mean for Tone House TV? Will it keep going even after your clients return to the studio?

Shaun Jenkins: Yes. During the COVID-19 era, our head of video production created thousands of hours of content with just a small crew. Our coaching team stepped up and performed at high levels—coaching people who were watching them on screens—even though many of our coaches had never been in front of a TV camera before. It just took off, and it allowed people to feel the essence of the brand.

Our approach is not to compete with the digital-fitness juggernauts; it's to be the best version of ourselves and really own our content. For example, we've now partnered with the Special Olympics New York to create an on-demand workout series for people with intellectual disabilities. So, Tone House TV is a viable business vertical, and we're scaling it up.

That said, the professionals who work exclusively in the digital space are actors, whereas the coaches who work in boutique studios and gyms are entrepreneurs. That's how I view them. We all get lumped together, but if you're a fitness trainer working in a purely digital space, you're an actor—you've probably taken acting classes, you're paying attention to your articulation and delivery, there's tons of bravado, but there is less personal client connection. I myself probably wouldn't be as palatable on digital media. And because I'm a coach, I want that human interaction; I prefer the in-person coaching experience.

'We are the influencers'

Eric Falardeau: I'd love to hear your take on marketing—in particular, influencers. In our research on the wellness market, we found that influencers—even microinfluencers, or those with a few thousand followers—are meaningful purchase drivers in some wellness segments. Is that true for Tone House? How does Tone House reach consumers?

Shaun Jenkins: We, the Tone House coaches, are both the product and the messengers. We *are* the influencers. Any influencer for Tone House is going to be someone who takes our classes and is part of our community. Those are the people who can speak for us in the most authentic voice.

Tone House is a community, based on teamwork and camaraderie. We call that our "special sauce"—you can't buy community, and it's almost impossible to mimic. I've never met a consumer who has walked through the door and felt like they were just a commodity. You see that in many other big-box gyms: customers feel like they're just a number. So the people in our community are our influencers.

I think about my 5:00 a.m. crew that comes into the studio. We're talking about some of the most successful hedge-fund managers in New York City, attorneys, surgeons—they all come in for a 5:00 a.m. workout. They feel better spiritually or emotionally because they've had a serotonin release after their workout. They're likely thinking more effectively; their brains are firing. That would be our version of influencers.

Would we strategically hire someone to be an influencer for us? No. We don't need to. The coaches and the community all do an amazing job of disseminating our brand message.

Not just for fitness fanatics

Eric Falardeau: For Tone House to grow, I imagine it would need to expand its customer base beyond fitness fanatics and serious athletes. Do you agree? And if so, how does the brand plan to broaden its appeal?

Shaun Jenkins: When we first entered the market, our game plan was to position Tone House as "extreme" because we had to establish our mark. At that time, there were some heavyweights—well-known fitness studios that held a large market share. But now that we've established our reputation in the community, we're moving away from that extreme image.

We have introductory courses in both strength and conditioning for an athlete who might have severe injuries, a novice or older athlete, or an athlete who might be intimidated by our advanced workouts. The majority of our clientele takes our intermediate class level. It's a big misconception that everyone who enters Tone House is an extreme or advanced athlete, plays Division 1 sports, or is an ex-NFL player. If you look at our class schedule, you'll see more intermediate classes than advanced classes.

So, we've taken this product that at one point was super niche, and we've figured out how to adapt it for the general fitness population. And we've been very successful doing that. Today, 80 percent of our community lives in the intermediate space, not the advanced space.

Expansion and brand extensions

Eric Falardeau: What's next? Where do you see Tone House in the next five to ten years?

Shaun Jenkins: Hiring more female coaches is one area we are focusing on right now. Our female coaches can command such a powerful program among both male and female athletes, and they have so much talent and charisma when they're on the microphone. So that's one main focus for us as we look to the future.

Expansion is also important to us. As long as we maintain our brand standards and values, I believe we can grow successfully. The goal is to be in every major market eventually. And there are plenty of opportunities to scale our digital platform through monthly subscriptions and other offerings.

Apparel, nutrition, and recovery are additional important verticals for us. We sell clothing, we have a registered dietitian on staff who is our “Obi-Wan” for nutritional guidance for athletic performance, and we’re currently revamping our recovery program to provide top notch in-house recovery services for our athletes.

Eric Falardeau: It sounds like Tone House is very conscious of maintaining its brand ethos but is also open to partnerships. How do you balance partnership opportunities with preserving your authenticity and not diluting the brand?

Shaun Jenkins: Our partnerships happen organically. Some brands come to us and say, “I want to work with you,” but they’ve never sweated with us. We prioritize partnering with brands that have spent time with us and that are aligned with our mission and values.

We’re not putting anything on the shelves that doesn’t provide meaningful substance to your overall athletic performance and recovery. Our partnerships are with brands that we believe are important tools for athletic performance. If we’re putting it out there, that means we’ve tried it out, we’ve tested it, and we’ve found it to be highly effective.

Eric Falardeau: Another finding from our wellness research is a blurring of the lines: consumers shop across the different facets of wellness—fitness, nutrition, sleep, mindfulness, and so on—but they don’t necessarily want a single brand providing all these products and services. What brand extensions do you foresee for Tone House?

Shaun Jenkins: Sleep is so important. There are devices that do an amazing job of monitoring your sleep; I use one myself. Mindfulness is also important. Every morning, without fail, I’m up at 3:30 or 4:00 even if I don’t have to be in the gym. It’s time to myself, I can have some coffee, the city is quiet—it’s one of those rare moments where you hear nothing in New York City. That is my version of mindfulness. I’d say I’m a nontraditional meditator.

I can see the Tone House brand taking on those types of ideologies and integrating them into our community at some level. Some years ago, we were discussing the concept of bringing in someone with a yoga background, because yoga is super helpful to the athlete for improving mobility and range of motion. So, Tone House furthering its wellness options—for the mind, body, and soul—is certainly a possibility.

Shaun Robert Jenkins is senior training manager and head coach at Tone House in New York. **Eric Falardeau** is a partner in McKinsey’s Montréal office.

For more from Shaun Jenkins, see the videos accompanying this article on McKinsey.com.

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