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Global Consumer Trends

The 'caring economy': Resilient growth in uncertain times

- The Covid-19 pandemic has put the spotlight on the caring economy
- New habits created in 2020 set to support growth over the coming years
- We target attractive businesses in personal care, pet care and childcare

Health and wellbeing concerns are becoming increasingly prominent in consumer spending decision making. If anything, this trend has been accentuated by the Covid-19 outbreak, with many people experiencing the detrimental impact on their health resulting from measures taken to fight the pandemic. In this context, prospects for the 'caring economy', one of the key focus areas for our Global Consumer Trends strategy in 2021, are therefore perhaps the brightest they've ever been.

The concept of the 'caring economy' is closely related to consumers' growing focus on health and wellbeing (see Box 1), and refers to an economy that cares for both people and the planet. It encompasses various sectors benefiting from steadily unfolding consumer trends, like the growing importance of healthy lifestyles, hygiene and personal care, the rising demand for childcare, elderly care and pet care products and services, and the key role of sustainability considerations now play in spending decisions of consumers around the world.

The Covid-19 pandemic has in many ways emphasized this focus on the caring economy, with the renewed attention to health and hygiene, and to sustainability issues, being examples. In some cases, the outbreak has served as an accelerator of existing trends. Moreover, new habits established during the pandemic – such as those related to cleaning and personal hygiene, for example – are expected to persist even once the pandemic recedes and social distancing measures are relaxed.

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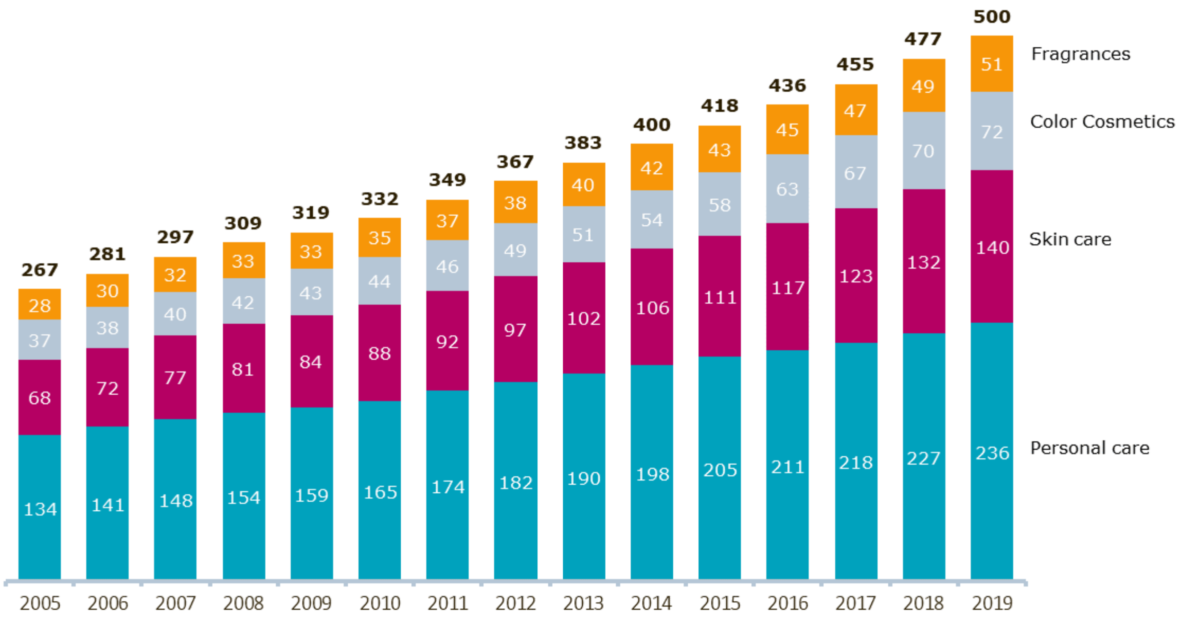
Richard Speetjens and Jack Neele,
portfolio managers.

A broad playing field for growth investors

Within our caring economy concept, **personal care products** are arguably the most established segment. This market has been growing steadily over the past decades, on the back of consumers' rising disposable incomes and increased awareness of health-related issues among the global population. Despite Covid-19-related headwinds, the sector proved relatively resilient in 2020. It is expected to recover rapidly and experience substantial growth over the coming years.

Figure 1 | The global personal care and beauty market experienced steady growth – even during recessions



Source: Euromonitor, Robeco.

The personal care market benefits from a combination of structural trends, including rising disposable incomes, especially in emerging countries, increased consumer focus on health and wellbeing, and the advent of personal grooming products for men. These trends explain why, within the personal care market, the skin care segment has proven not only more dynamic than other segments, but also more profitable and more resilient to shocks.

Pet care on a tear as ownership grows

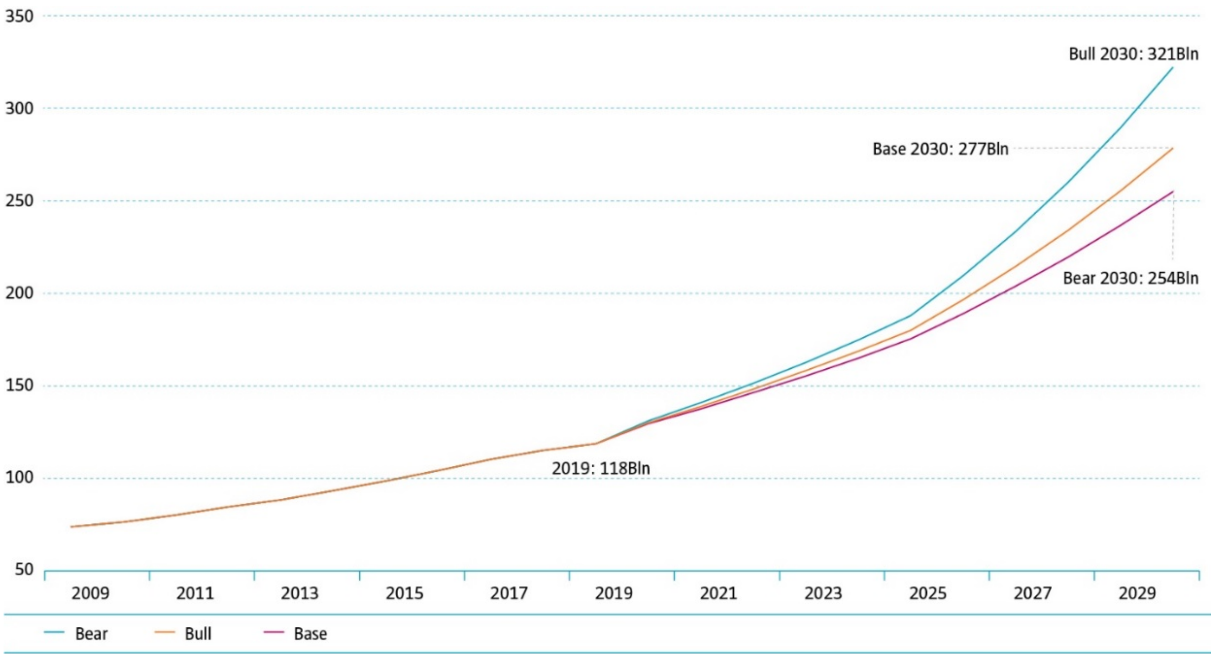
Pet care is also an important segment of the caring economy. It offers moderate but stable growth prospects, helped by a constant rise in pet ownership and increase in spending per pet. The main drivers are the rise in pet ownership worldwide and a consistent increase in spending per pet, resulting from – for example – an increased spending on fresher and healthier food or the growing prevalence of zoonotic diseases, which is driving up animal healthcare expenses.

Moreover, pet owners increasingly treat their loyal companions like family members, with all the perks and benefits this brings. Nowadays, pet food shelves are stocked with delicacies like dog ice cream, and foods for pets with diabetes or digestive problems. Other high-growth markets include veterinary care and medication for companion animals. In fact, these latter two segments are outgrowing the overall pet care market.

In addition to moderate growth prospects (see Figure 2), the pet care market also features a relatively resilient profile. In the US, for example, consumer spending on pet care grew during the 2008-2009 financial crisis, as pet owners first cut back on other non-essential items before trading down on pet food or cutting back on pet supplies. Consumer behavior appears to have followed a similar pattern in 2020, according to various surveys.[1]

[1] See: 'APPA COVID-19 Pulse Study' reports.

Figure 2 | Total US pet industry expenditure (USD bln)



Source: Bureau of Economic Analysis, Morgan Stanley Research, March 2021.

Finally, **childcare** is another increasingly attractive segment of the caring economy. This industry has grown steadily over the last decades, supported by the rising share of women in the workforce and a growing focus on early-childhood education and quality childcare. For instance, the labor force participation rate of women aged over 15 rose from 49.8% to 52.9% between 1999 and 2019 in Organization for Economic Cooperation and Development (OECD) countries.[2]

The childcare sector also has other attractive features. First, it is virtually immune to digital disruption, as it is difficult to envision childcare activities being performed online. Second, parents are unlikely to change childcare facilities often, driving the customer stickiness of these businesses. Finally, it is also a relatively stable business, because demand is driven predominantly by demographics – and not economic cycles.

Investors do have to be careful, however, when customers rely heavily on government subsidies, as policies surrounding childcare can change. It would then appear that employer-sponsored childcare is the most attractive segment in this niche. It has attractive dynamics due to its highly recurring, annuity-like revenues, as long-term contracts of sometimes up to fifteen years are typical. It is also capital light in nature, as corporate customers often provide the premises.

Robust incumbents and vibrant rising stars

As an established and mature sector, the **personal care industry** is dominated by large, diversified firms competing on a global scale. These include household names such as Beiersdorf, Coty, Estée Lauder, L'Occitane, L'Oréal, Natura & Co., Procter & Gamble and Unilever.[3] Over the past decade, however, these firms have been increasingly challenged by fast-growing local and regional competitors – in particular Asian and Latin American ones – and a rising number of disruptors with alternative business models.

One reason is that consumer preferences have been changing at rapid pace, driven by various forces, including a growing demand for health & wellness-positioned products, as well as the generalization of ecommerce. In fact, the most

[2] Source: World Bank data.
[3] The information provided in this article does not constitute an investment recommendation or advice to buy or sell certain securities or investment products and/or to adopt any investment strategy and/or legal, accounting or tax advice.

successful players in recent years have been those that have been able to buck the trend of increased interest in premium, simplified products, with natural ingredients.

To address eroding market shares in some the world's most mature regions, such as Western Europe and North America, many incumbent players have been stepping up their innovation efforts to keep their edge. Others have been directly targeting some the sector's disruptors, as the recent increase of Estée Lauder's stake – from minority to majority – in Canada-based skin care company DECIEM Beauty Group illustrates.[4]

Pet care players also have extremely diverse company profiles, from large multinational pet food manufacturers owned by even larger conglomerates to service providers with a more local profile, such as pet insurers and veterinary product delivery companies. The pet food segment, for instance, is largely dominated by a small number of diversified multinational groups, including Nestlé, Mars and Colgate-Palmolive.

Meanwhile, veterinary care is also dominated by a small number of global players, most of whom used to be part of larger pharmaceutical groups but were either spun off to form animal healthcare pure players or sold to other veterinary care groups. Examples are US-based animal health companies Zoetis and Elanco. Smaller players will often specialize in specific segments, such as veterinary laboratories, or veterinary medical equipment and consumables.

Besides food and veterinary firms, pet care also encompasses a wide variety of other businesses. Among them, the largest group by far is specialty retailers. These tend to be smaller and more local than large pet food and veterinary firms, though some have been able to expand way beyond their domestic market. A number of specialty retailers have also emerged as online retail portals. These include firms such as US-based Chewy.com and Germany's Zooplus, Europe's leading online pet retailer.

Country-specific business models in childcare

Childcare providers tend to be local players, and their business models differ substantially from one country to another, depending on domestic regulations and the type of funding sources available. In the US, for instance, Bright Horizons Family Solutions mainly runs employer-sponsored childcare centers. This can potentially be a very attractive business, as employers cover a large portion of the necessary investments.

In Europe, AcadeMedia provides childcare services in Germany, Norway and Sweden, for which parents pay for out of pocket, although these services are often subsidized by governments. In Australia, G8 is one of the largest childcare providers and has a similar model to AcadeMedia's: customers pay for the service and get support from government subsidies. Smaller players can be found in Japan and China, such as Riso Kyoiku and RYB.

Box 1: 'Health and wellbeing' takes center stage in the post-Covid world

In recent years, health and wellbeing considerations have become increasingly important in consumer spending decisions, whether they relate to nutrition, appearance, sleep, mindfulness, or fitness. In survey after survey, consumers have in recent years shown increasing interest in these aspects. This is why health & wellbeing is one of the key trends in our Global Consumer Trends strategy.

The Covid-19 crisis has put renewed emphasis on these issues, as people around the word have experienced the detrimental impact on their health of the measures taken to fight the pandemic. Numerous medical studies have reported sharp rises in depression over the past year, lack of sleep and social interaction, as well as anxiety and stress. PwC's most recent global consumer survey suggested health and wellbeing considerations have been gaining traction worldwide.[5]

[4] See: Estée Lauder Companies, 23 February 2021, "The Estée Lauder Companies to Increase Its Ownership in DECIEM", press release.
[5] PwC, July 2020, "Global consumer insights survey 2020", report.

Resilient businesses for the post-Covid world

The Covid-19 pandemic has changed many consumer habits – those automatic routines that people follow while not thinking much about the tasks they perform. We think this is particularly true of behavior related to consumer health and wellbeing, and more specifically the caring economy. For example, since the onset of the pandemic, consumers have been washing their hands much more frequently.

'The Covid-19 pandemic has changed many consumer habits – those automatic routines that people follow while not thinking much about the tasks they perform'

Empirical research shows that it takes on average 66 days for consumers to develop new purchasing habits.[6] After over a year of living through the pandemic, many Covid-19-related consumer habits are likely to have become entrenched. Such automated consumer purchasing decisions are extremely interesting from a business standpoint, and well-positioned companies are poised to benefit from them.

Soaring demand for hygiene products, such as soap, sanitizers and cleaning wipes, explains why the **personal care market** proved relatively resilient last year, despite Covid-19-related headwinds. Strong sales growth for these products partially compensated for the generally lower appetite in other segments, in times of social distancing and widespread remote working. Perfumes and cosmetics were especially hard hit.

Because the heightened hygiene habits developed over the past year won't change overnight, we expect these product categories to hold up well in 2021 and beyond, even as public health risks fade and economies reopen. Companies offering trusted premium hygiene and personal care products, like Procter & Gamble and Japan's Unicharm, or cosmetics firms like Estée Lauder, should be able to sustain their above-average organic growth trajectory.

Lockdowns boost global pet ownership

Meanwhile, **pet care** enjoyed even better dynamics last year, as lockdowns triggered a surge in pet ownership in many countries. In the US, for instance, the world's largest pet care market, a survey carried out the American pet products association (APPA) found that 10% of respondents got a new pet at some point during the pandemic. The survey also found that, despite their financial difficulties, households had, so far, not significantly changed their pet product purchasing behavior.[7]

Similar positive adoption trends have been observed in key other countries, such as the UK and Japan, for example.[8] Given the broad-based increase in pet ownership during the pandemic, expectations are that consumer spending on pets will continue to increase. For one, the combination of increased pet ownership and enhanced awareness regarding hygiene and cleaning could trigger new business opportunities.[9]

Another interesting recent development has to do with the confluence of rising pet ownership and booming ecommerce. This has led to the emergence of new types of offerings, in particular from the online retail sector. Subscription deals for regular food shipments, such as Chewy.com's 'Autoship' offering, and birthday gift boxes are a case in point. These have given an additional boost to the rise of ecommerce in the pet care segment.

In the meantime, the **childcare market** is expected to recover this year, after a difficult 2020 due to the Covid-19-triggered lockdowns and widespread remote working. The market's long-term fundamental drivers – that is, the growing participation of women into the labor and the professionalization of early-childhood education – remain intact, while the industry still offers attractive investment opportunities.

[6] Clear, J., "How Long Does it Actually Take to Form a New Habit? (Backed by Science)", blog article.
[7] See: 'APPA COVID-19 Pulse Study' reports.
[8] See for example: Ipsos Mori, 5 January 2021, "Ipsos Update - January 2021", monthly research round-up.
[9] Tognacchini, E., 18 February 2021, "Pet love will inspire new opportunities for homecare", Mintel blog article.

Conclusion

The Covid-19 pandemic has put the spotlight on the caring economy in many ways, through renewed attention to health and hygiene, and sustainability issues, for example. New habits formed during the pandemic – in terms of cleaning and personal hygiene, for example – are expected to persist even once the pandemic recedes and social distancing measures are relaxed. This should support growth in the various segments of the caring economy, including personal care, pet care and childcare.

In a period marked by an extremely uncertain economic outlook, dependent mainly on the ability of governments to keep contagion rates under control and on the speed and success of Covid-19 vaccination campaigns globally, we believe the caring economy offers investors resilient growth prospects for 2021 and beyond. We remain confident that the companies in our portfolio, which are positioned to benefit from these growth prospects, should achieve strong relative returns.

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Important Information