

# Are Doctors' Offices, Salons and Gyms the Next Big Retail Channels?



One of the biggest mandates in the retail industry right now is reaching consumers wherever they are and through whichever formats they prefer. Take that to its logical conclusion and the importance of “influencer” channels—like doctors’ offices and salons—isn’t so far-fetched. As more and more consumers come to expect customized products and experiences tailored to their wants and needs, channels that service a specific community of highly involved consumers may be the next big investment opportunity for private equity firms.

Why? First, there’s the difficulty of investing in product brands that are battling it out in traditional channels. In traditional channels, such as grocery, mass and department stores, power brands owned by strategics dominate many categories and benefit from the scale of their parent business. Private label plays a big role, turning a brand’s retail customers into direct competitors. And most retail channels are overstored, with the resulting margin pressures transferred from retailers to brands.

As a result, private equity opportunities in traditional channels are often limited to secondary brands struggling for share, few of which have the heritage to mount a comeback.

In contrast, brands flowing through influencer channels offer distinctive investment opportunities and a potential new angle for private equity sponsors to consider when assessing potential deals. Example channels include:

- > Specialty sporting goods (including golf/ tennis clubhouses, specialty running shops and gun clubs)
- > Health and wellness (GNC, Vitamin Shoppe and thousands of independents)
- > Pet care (PetSmart, Petco and thousands of independents)
- > Hair salons (chains and independents selling hair treatment products and accessories)
- > Dermatologists’ offices (for skin care products)
- > Physical therapists’/chiropractors’ offices (for pain relief products and exercise equipment)

> **Dance studios (for costumes, footwear and practice apparel)**

> **Recreational sports teams (for uniforms and equipment)**

Unlike traditional channels, which offer mainstream assortments to a broad audience, influencer channels appeal to a niche group of consumers and are known for their innate expertise and distinctive assortments. Consider the respect people have for their trusted doctor, golf pro and hair stylist and how that respect can reflect positively on brands they recommended.

The dynamics for brands in influencer channels are quite attractive. The channels are surprisingly large and growing. (See Exhibit 1.) Competition is fragmented, supporting strong brand margins. And for channels like doctors' offices and recreational groups whose reason for being is not retailing, this incremental profit stream is often underdeveloped. Helping these new influencer retailers to succeed creates incredibly sticky relationships.

From an investment standpoint, attractive brands operating in influencer channels will demonstrate four characteristics.

#### EXHIBIT 1:

Industry	Influencer Channels	Sales (\$Bn)	CAGR
Durable Medical Equipment	Specialty service providers (via doctor's prescription)	\$29.7	3%–5%
Pet Care Products	Pet stores	\$14.2	2%–4%
Nutritional Supplements	Health food stores, health practitioners	\$11.2	5%–8%
Athletic Footwear	Specialty running stores	\$3.7	2%–3%
Hair Care Products	Hair salons, specialty hair care retail	\$1.9	-1%–1%
Skin Care Products	Dermatologists' offices, specialty skin care retail	\$1.9	11%–15%
Guns & Ammunition	Specialty gun stores, gun ranges/clubs	\$1.8	20%–24%
Tennis Apparel and Equipment	Tennis pro shops, specialty tennis stores	\$0.4+	6%–8%

## Credibility is often the very foundation of brands operating in influencer channels.

**Credibility.** Credibility is often the very foundation of brands operating in influencer channels: These brands thrive because their customers trust their expertise and in turn recommend the brand to other consumers. The credibility of Clean Bottle, a manufacturer of water bottles targeted to cyclists, is certainly central to the company's success. The founder is an avid cyclist who designed a better water bottle that has been adopted by many professional racers. The brand markets at many bike races and 10% of profits go to charities favored by cyclists. These factors bolster the brand in the eyes of independent bike shops and devoted cyclists.

**Quality.** Consumers in influencer channels are passionate about their purchases and expect very high-quality products. This demand for quality helps drive higher price points, which is a critical factor in influencer channels given their cost structures. The importance of quality can be seen in Merrick Pet Care food products. The high-end brand touts its all-natural ingredients and boasts of ingredients derived from superfoods, with de-boned meat as its main ingredient, and is made in the U.S. with no ingredients from China. As a result, Merrick is well positioned to tap into the super-premium and natural pet food segments, which are already at \$6.2 billion and are growing faster than the rest of the pet food category.

**Differentiation.** Consumers in influencer channels also expect the latest, most innovative products. Influencer channels embrace offerings with limited distribution—they want brands consumers can't get anywhere else. For example, Inov-8 minimalist running shoes realized dramatic growth by tapping into the rapidly growing CrossFit training trend. This footwear was hard to find in traditional channels but took off through specialty running stores. In fact, a Kurt Salmon survey of these specialty running stores found that Inov-8 was recommended for CrossFit more often than any other competitive brand, including much larger brands like Brooks, Nike, Asics and New Balance. This observation, among others, led Kurt Salmon to conclude that Inov-8 can achieve 100% to 150% unit growth over the next five years.

**Go-to-market capabilities.** Influencer channels are often highly fragmented and distributors hold significant sway. So, to be successful, brands typically need two distinct go-to-market capabilities. One involves developing effective relationships with key distributors. The other requires creating deep bonds with the influencer retailers themselves. This includes product training, business support (teaching influencer “retailers” like doctors and dance studio owners how to run a retail business) and cultivating relationships with influencers (such as educators of physical

therapists or hair stylists) so that eventual advocates are introduced to the brand preemptively.

In nutritional supplements, for example, educating store associates on the value of a brand is critical since consumers often rely on store associates' advice. Sales associates at independent nutritional retailers are more likely to recommend a brand like New Chapter because it deployed more sales reps than its competitors to train store associates on their products' benefits.

Brands possessing these traits will likely grow readily as their influencer channels expand, but private equity sponsors can drive even stronger returns several ways:

**Drive for share.** Private equity firms can fund key growth drivers. First, they can enhance go-to-market capabilities by investing to create a telemarketing capability or funding sponsorships at prominent teaching or training institutions. They can also fund new product development. And private equity investors can leverage their experience to reduce sourcing costs and plow the resulting savings back into shared growth initiatives.

**Channel transition.** Some brands will grow so much that they or their derivatives can enter larger traditional channels (directly



or via licensing). But traditional channels are very different from influencer channels and are often difficult to navigate. Private equity firms, especially those with traditional channel experience, can help capture this new revenue stream in ways that manage the risk of alienating existing influencer channel customers.

**Management transition.** As these brands grow, they may surpass the experience of their entrepreneurial management teams. Private equity sponsors can again draw on their experience and network of executives to ensure proper guidance and smooth transition to new managers as needed.

Operating outside the confines of traditional channels can be lucrative for certain brands and their private equity sponsors. As more consumers demand personalized, high-quality niche products, the importance and allure of influencer channels will only continue to grow. ❖

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