

Global Wellness Industry Outlook

Fall, 2018



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Introduction

Health and wellness have entered the mainstream, both in consumers' lives and in their wallets. More consumers have become willing to spend more time and money on products and services aimed at making them happier and healthier – from gym memberships and nutritious foods to Fitbits and ClassPass – than ever before. Over the past few years, wellness products and services have woven their way into many regular consumers' daily lives. This has created a large and growing global market for health and wellness products and services.

In response to several different definitions put forth by organizations on the “wellness” industry, Redwood Advisors developed a unique, definition and robust taxonomy of sub-segments. Redwood defines the global wellness market as products and services that consumers purchase with the intent of being happier, healthier or more productive (excluding institutionalized medicine). This report identifies, sizes and characterizes six key segments of that market. Based on market research and analysis, Redwood Advisors estimates the **Global Wellness Industry at \$631B in 2018, growing to \$757B in 2021, a ~6% annual growth rate over the period.**

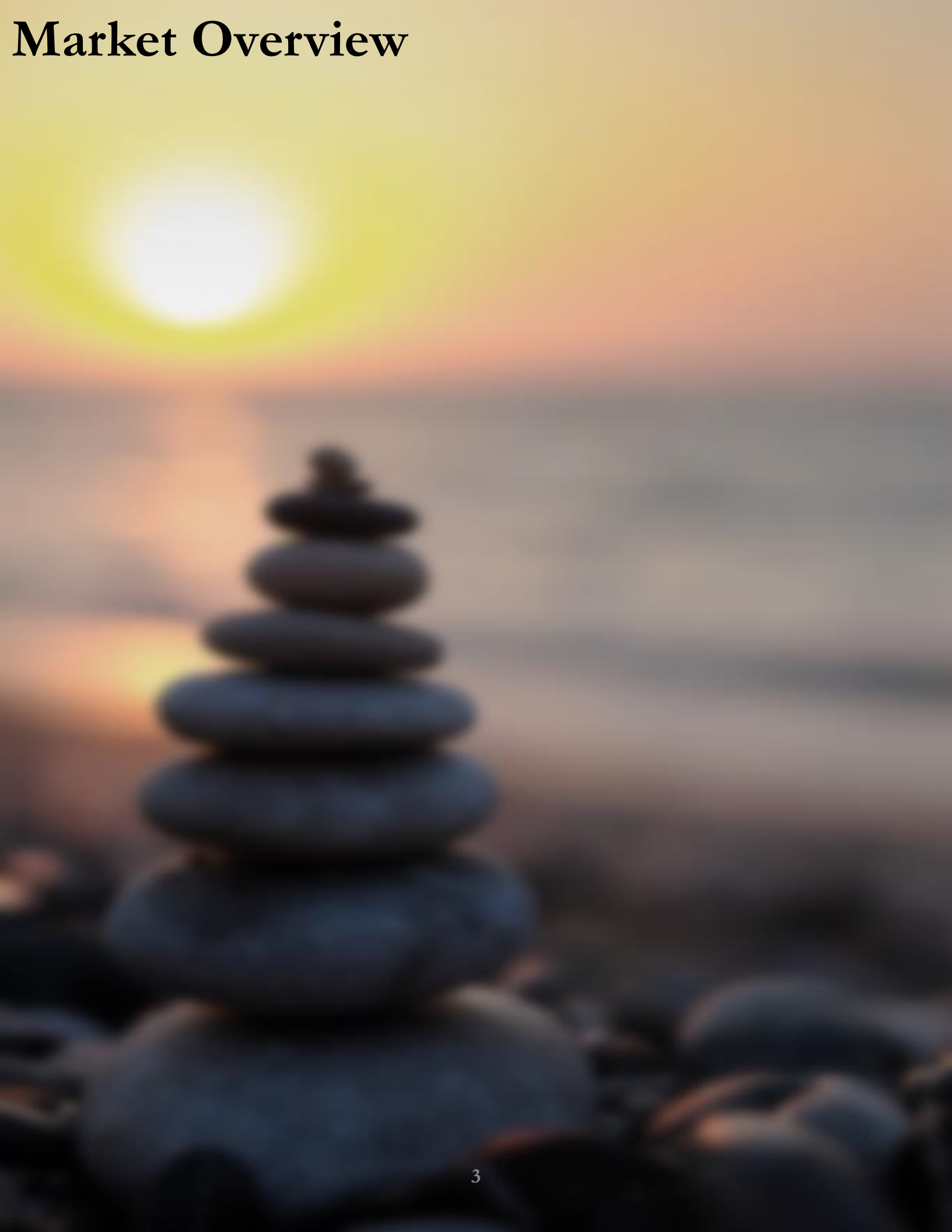
The increasing wellness market size reflects continued growth in traditional segments, such as nutrition and fitness centers, and fast growth in new segments, including wellness-related IoT (Internet of Things) devices such as Fitbit. Increasing public interest, shifting attitudes and disruptive innovations all contribute to creating a dynamic and growing health and wellness market. Corporations and investors have taken notice with many scrambling to invest and secure positions in this space.

As wellness continues to grow and as players innovate and compete, providers will need to successfully tackle several big challenges to unlock significant growth and market share including repeat engagement, personalization and data-enabled or data-driven business models to succeed in the wellness market.

This report provides a summary of the market size, key market segments, industry insights and emerging trends in the health and wellness industry. To that end, the report excludes market segments associated with traditional hospital or clinical-based medicine (e.g., doctor's visits, pharmaceuticals, medical wearables etc).

Redwood Advisors identified five key market insights that help guide the report:

- A) As it stands, **traditional wellness segments still dominate the market**
- B) **Wellness has it a tipping point** and increasingly become a standard concern
- C) **Engagement has surfaced as the key challenge** for providers
- D) **Personalization has become critical** to compete in the market
- E) **The age of wellness data has begun**, driving market changes



Market Overview

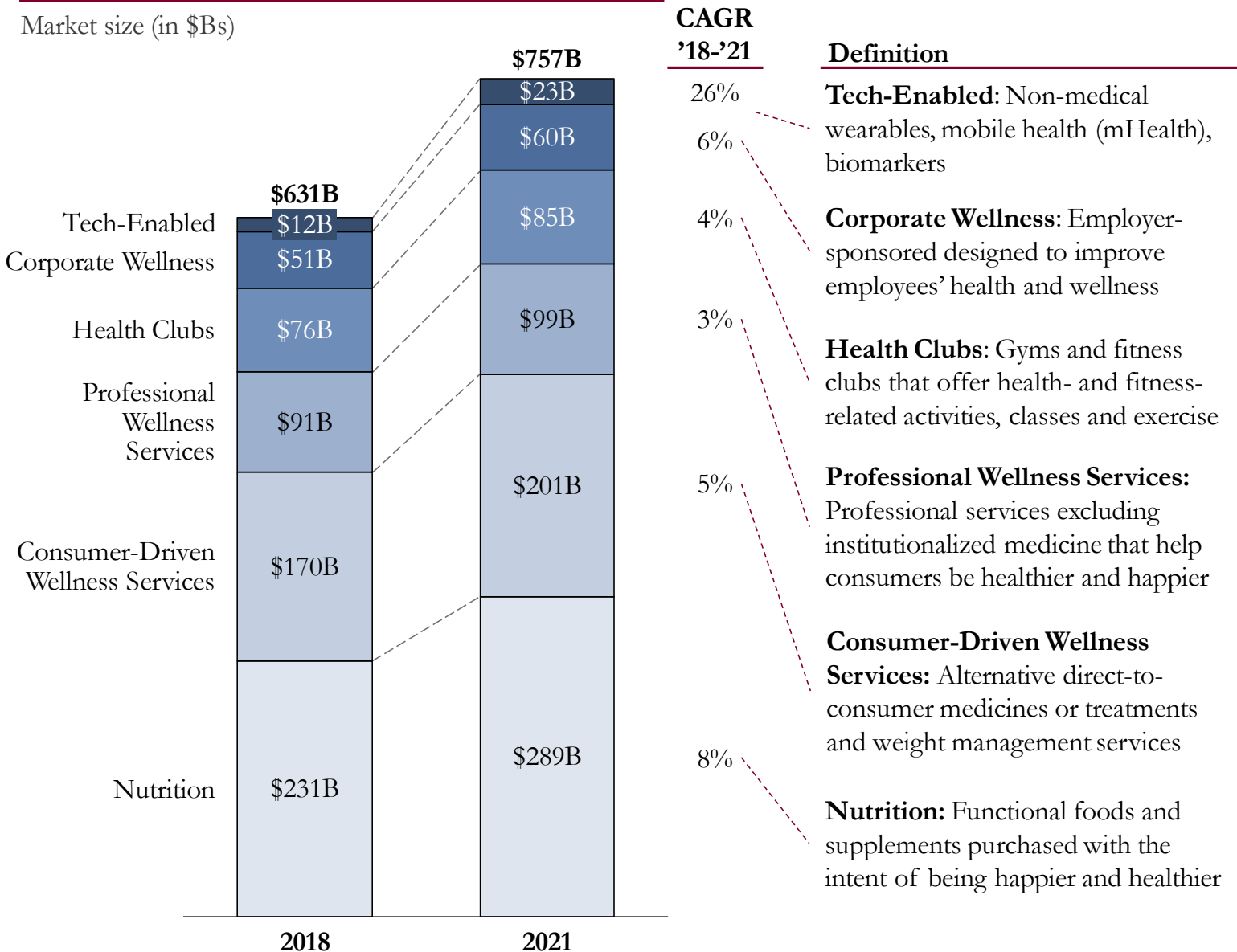
Market Overview

Individual wellness is defined as the quality or state of someone’s holistic health, happiness and productivity. This report defines the global wellness industry as **products and services – excluding institutionalized medicine (e.g., physician care, surgery, pharmaceuticals) – that consumers purchase with the intent of being happier, healthier or more productive.** We estimate the global wellness industry at \$631B in 2018 growing to \$757B in 2021.

Global wellness industry estimated at \$631B in 2018 growing at an annual rate of 6.3% to \$757B in 2021

Global wellness market growth by segment, 2018-21

Market size (in \$Bs)





Nutrition (\$231B)

The Nutrition segment consists of functional foods, functional beverages and fortified dietary supplement products (e.g., vitamins, minerals and herbals), deliberately purchased with the intent of being healthier.

Functional foods are those that have a positive effect on health beyond basic nutrition. Many companies continue to find new ways to enrich foods by adding nutrients (e.g., omega acids, protein, vitamins) to common foods, aided by developments in food science. This has created nutraceuticals, or foods fortified with health-giving additives. These enriched foods help consumers meet their daily nutritional needs in simple, convenient packages (e.g., **Rx** and **Clif bars**, smoothies). Functional foods offer clear benefits to consumers and will continue to grow with the global trend toward healthier lifestyles and eating habits among some population segments.

The Nutrition segment is estimated to grow 7.8% per year from \$231B in 2018 to \$289B in 2021 with functional beverages leading the growth at 8.4%.

Functional food

Functional foods are defined as foods containing one or more of these ingredients: vitamins, minerals, dietary fiber, probiotics, omega-3 fatty acids, proteins, peptides or phytochemicals. This segment is estimated at \$75B in 2018, projected to grow to \$95B by 2021.

Functional beverage

Functional beverages are categorized in the same manner as functional foods. Some examples of these include Vitamin Water, Gatorade or Koia. In 2018, this segment is estimated at \$83B, growing at an 8.4% annual rate to \$106B in 2021.

Dietary supplements

The dietary supplement segment includes vitamin and mineral supplements and is both the smallest and slowest growing within Nutrition. Estimated at \$73B, supplements still constitute a large market, but are projected to grow at just 6.8% annually to \$89B in 2021, slightly slower than functional foods and beverages.

Consumer-Driven Wellness Services (\$170B)

The Consumer-Driven Wellness Services segment consists of alternative consumer health (alternative direct-to-consumer medicines or treatments) and weight management services.

Not to be confused with pharmaceuticals or medical products, the primary purpose of consumer-driven wellness services is to improve a person's well-being outside of institutionalized medicine. To distinguish between institutional and consumer-driven, determine whether the service is essential or optional -- if it is optional, then it is likely a consumer-driven wellness service. Global consumer-driven wellness services are projected to grow 4.9% per year from \$170B in 2018 to \$201B in 2021, making this the second largest segment of the global wellness industry.

Alternative consumer health

Alternative consumer health includes yoga, alternative medicines and treatments (e.g., herbal remedies, acupuncture) sought out by consumers to achieve a health benefit. In contrast to institutional medicine, alternative consumer health does not require clinical trials or regulatory approval. This segment has increased in popularity as around the world, consumers are increasingly looking to treatments perceived as more 'natural' to improve chronic conditions and ailments (e.g., aches and pains). Several popular tourist destinations have capitalized on this trend by incorporating alternative therapies into tourist attractions or excursions, a trend being called wellness tourism. These can range from destination spas and yoga retreats in the US to luxury overseas spa resorts such as Ananda in the Himalayas, which offers authentic Ayurveda treatments and specialized yoga classes in the ultimate relaxing setting.² Global alternative consumer health is projected to grow 17.2% per year from \$65B in 2018 to \$104B in 2021.³

Weight management

Distinct from the Health Clubs segment, weight management includes equipment, diets and other services that help consumers manage their weight (e.g., **Weight Watchers**). Weight management services have been around for some time, and consumers continue looking to external service providers to help manage their weight. Although obesity continues to be a major global issue, particularly in North America, actual weight management services are losing steam – services like Weight Watchers are no longer as prevalent as they used to be. Global weight management is projected to shrink 2.6% per year from \$105B in 2018 to \$97B in 2021.⁴



Professional Wellness Services (\$91B)

Professional wellness services are services delivered by a non-institutionalized medicine professional (i.e., professionals with an advanced certificate or Masters degree but not a medical doctorate) to consumers who seek help in being healthier, happier or more productive.

Popular wellness services sought out by consumers include behavioral therapists, psychologists, marriage counselors, personal trainers and dieticians. The U.S. drives a majority of this market, as many Americans seek out services to aid personal wellness.

Behavioral therapists

This industry includes health practitioners primarily engaged in the independent practice of psychotherapy designed to eliminate undesired and potentially self-destructive behaviors. Behavioral therapy is a general term for specific types of therapy that treat mental health disorders. The market segment is estimated at \$7B and is expected to grow minimally, at 1.1% per year.⁵

Psychologists, social workers, & marriage counselors

This segment lumps together three separate but related industries. While these are distinct from one another, each helps treat mental and emotional trauma through various strategies. As a combined segment, these are estimated at \$17B and likely to grow past \$18B by 2021.⁶

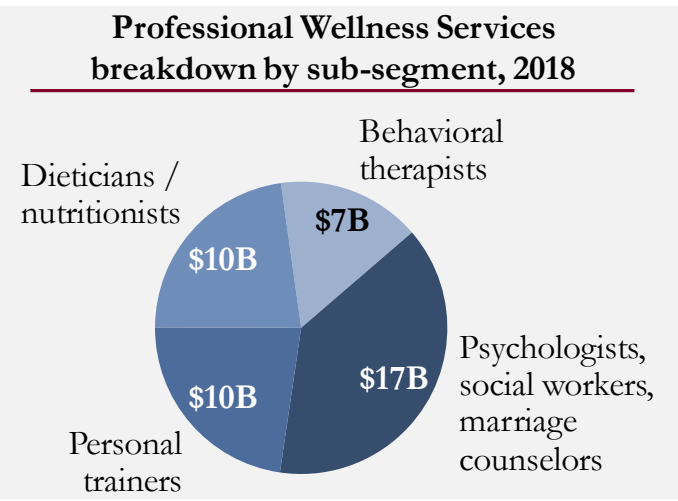
Personal trainers

Personal trainers are defined as individuals who offer one-on-one and small-group fitness training. These trainers may also provide personalized diet programs as part of their offering. Personal trainers are often employed by gyms, fitness studios and hospitals, but can also be self-employed. Large-group instructors and professional athletic trainers are not included as part of this industry. This segment is estimated at nearly \$10B, growing just below a 3% rate.⁷

Dieticians / nutritionists

Dieticians and nutritionists are those that provide nutritional advice for customers. These professionals have a deep understanding of their clients' health and nutritional needs. This segment is estimated at \$10B in 2018 and is expected to grow 2% annually to nearly \$11B by 2021.⁸

The entire global professional wellness services segment is estimated at \$91B in 2018 and projected to grow 3.1% per year to \$99B in 2021.



Sources: (5) Kelsey Oliver, IBIS; (6) Jack Curran, IBIS; (7) Anya Cohen, IBIS; (8) Kelsey Oliver, IBIS





Health Clubs (\$76B)

The Health Clubs segment includes gyms and fitness clubs visited by consumers to exercise, take classes and engage in health- and fitness-related activities (e.g., swimming, rock climbing).

The gym and health club market has been surprisingly innovative in recent years as both traditional players (e.g., **Gold's Gym**) and new entrants (e.g., **SoulCycle**) try to take advantage of new trends in the market, including increasing consumer demand for unique experiences (e.g., SoulCycle's cycling classes) and choice (e.g., **ClassPass**). As these new segments grow, the traditional gym model – offering traditional weights and cardio machines for a monthly access fee – has become a smaller share of the overall market. Many high-growth players (e.g., **Lifetime Fitness**) have begun to focus as much on offering unique, compelling experiences as traditional exercise spaces. Exclusive memberships, wide menus of fitness classes, spas and healthy food options have contributed to a more interactive and engaging environment in many of today's growing health clubs, helping transform them from locations into lifestyles. The global health club industry is projected to grow 3.4% per year from \$76B in 2018 to \$85B in 2021 with share trending towards more innovative offers and away from the traditional gym model.⁹



Corporate Wellness (\$51B)

Corporate wellness consists of programs sponsored by companies designed to improve employees' health, wellness and ultimately productivity.

Corporate wellness programs range from in-office activities and services to online platforms. Many corporate wellness programs incorporate incentives to encourage participation. These programs can be developed and deployed in-house, outsourced to industry specialists or delivered through partnerships. The most common types of corporate wellness programs include fitness services, health risk assessments and stress management. Global corporate wellness is projected to grow 5.5% per year from \$51B in 2018 to \$60B in 2021.¹⁰



Tech-Enabled (\$12B)

The Tech-Enabled segment includes non-medical wearables, mHealth (e.g., mobile wellness apps) and biomarkers that focus on improving the lives of consumers.

With the recent growth in the Internet of Things (IoT), the still nascent Tech-Enabled segment appears to be on the verge of substantial growth. More and more consumers look to digital innovations to stay on top of their wellness (e.g., step counters, DNA tests). These technologies can track fitness activity, offer personalized health recommendations, or create a community of users. Given its rapidly expanding user base and recent innovations, the tech-enabled space is projected to nearly double by 2021, growing 25.7% per year from \$12B in 2018 to \$23B in 2021.

Wearables

Wellness wearables are devices worn on the body equipped with activity monitoring sensors, often including mobile and wireless networking capabilities. Wearables have an extensive array of health-related functions including location and speed tracking, heart rate monitoring, rest and sleep rate, body temperature, and calories burned. Wearables are often paired with software that analyzes collected data and offer fitness-related recommendations (e.g., reminders to move around, sleep quality improvements). The global wellness wearable industry is valued at \$10B in 2018, projected to grow 25.8% per year to \$20B in 2021.¹¹

mHealth

mHealth includes mobile applications used for the purpose of being happier and healthier. These apps are designed to support other wellness activities (e.g., weight management, fitness tracking) but exclude applications used for institutionalized medicine. More and more mHealth apps are being designed to be compatible with wearables, and several major companies have designed their own proprietary apps for their devices (e.g., **Fitbit**, **Apple**). Global mHealth is projected to grow 25.6% per year from \$1.5B in 2018 to \$3B in 2021.¹²

Biomarkers

Biomarkers include direct-to-consumer genetic testing services that provide information related to family lineage, disease risks and personal traits. While a smaller space, companies like 23andMe have made biomarker testing increasingly accessible and affordable. In addition to providing information, many companies are also providing services to analyze and interpret the results. The global biomarker market is still small, but projected to grow 19.4% per year from \$120M in 2018 to \$140M in 2021.¹³

Customer Overview

The wellness industry consists of three key players: **consumers**, **providers** and **payors** (i.e., the person and institution that pays for a given service -- the individual, employer or insurance company). Each group has a unique role in the ecosystem and a different set of incentives.

Consumers generally select and then consume health and wellness products and services. In general, consumers want to see improvements in their health, happiness and productivity by consuming products and services in the health and wellness space.

More than **75%** of US adults want to be in better shape but only **31%** make exercise a regular “habit”¹⁴

Providers are responsible for creating the products and services in the wellness industry across segments. For many companies, consumer engagement (or retention) often represents the #1 challenge. This challenge pushes some providers to offer high, up-front payments when consumer engagement and interest is high (e.g., **HeadSpace**’s one-time lifetime subscription versus the more common annual fee). This both helps company’s bottom-lines while incenting repeat engagement by reducing the marginal cost of sustained consumption significantly or totally. Other companies have tried to ‘gamify’ their offers to drive repeat engagement (e.g., **Fitbit**’s step tracker) or create cult-like experiences and cultures that keep people coming back time after time (e.g., **SoulCycle**).

The **payor** segment includes three major categories: **Individual**, **Corporate** and **Insurance**.

Individuals: Individual customers value their holistic personal health, understand and believe will act to their benefit. However, a key challenge is engagement: individual payors tend to have low switching costs, and providers struggle with individual customer retention.

Corporate: Companies are incentivized to keep their employees happy, healthy and productive in order to operate more efficiently and effectively. More and more corporate wellness programs have been established in recent years, with corporate wellness estimated at \$51B globally in 2018. Corporate wellness programs are increasingly being viewed as less of an optional perk, and more of a table-stakes offer. For example, Bay Area tech companies (e.g., **Google**, **Facebook**) competing for top talent have begun to offer a wide range of wellness programs to their employees, from gyms to yoga classes to healthy food options, given the link to employee satisfaction and retention.

Customer Overview

Insurance: Insurance companies have some incentive to drive healthier, more active lifestyles among their customers. For example, some have provided customers with new tech-enabled devices. **Aetna** has partnered with **Apple** to supply customers with Apple Watches to incentivize healthy decisions. The data provided by these devices can also be leveraged by insurance companies to make smarter and more effective choices (e.g., track trends, adjust pricing models, minimize payouts). However, insurance interest in the up-stream benefits of health and wellness investment remains limited as payors have little financial exposure to customers over the long-term. Notably, some insurance companies (those that offer Medicare Advantage plans) do have more skin in the game as they receive per person, capitated payments that make them fully responsible for financial costs above the provided amount. This incentive is compounded by the retention of some customers over a number of years. But this remains the exception to the rule as the insurance industry largely has limited financial incentives in the long-term health and wellness of their beneficiaries. It remains unclear what role insurance companies will play in the industry.

More and more insurance companies are shifting toward technology-based services

“Insurers of the future will play more of a risk avoidance role and less of a risk mitigation one.”

– **Andrew Rose**, CEO of Compare.com, a US-based insurance comparison website¹⁶

Key Insights

A. Traditional wellness segments still dominate the market

B. Wellness has hit a tipping point

C. Engagement has surfaced as the key challenge

D. Personalization has become critical

E. The age of wellness data has begun

Traditional wellness still dominant (1/3)

Traditional wellness segments still dominate the market

Traditional segments of wellness – Nutrition (\$231B) and Health Clubs (\$76B) – constitute the largest share of the market, at an estimated 49% of the global health and wellness market in 2018.

Traditional wellness segments (Nutrition and Health Clubs) constitute 49% of the global market

Nutrition

Nutrition continues to be the largest market segment as consumers spend significant amounts on fortified food and drink. Most consumers typically eat and drink several times each day, offering providers of healthier foods and drinks an easy way to plug into consumers' pre-existing behaviors. This contrasts with other segments (e.g., tech-enabled wellness) where the use cases – and consumer needs – are less clear.

One key trend in nutrition: consumers are increasingly choosing to eat healthier rather than go on a diet. Data from Food Insight's 2018 Food and Healthy Survey show that only 36% of consumers follow a specific diet plan or eating pattern, but 61% indicate they value healthy options when purchasing food and beverages.¹⁷

Only **36%** of consumers follow a diet plan while **61%** value healthy food options

A number of companies have succeeded in building large businesses with innovative approaches to the traditional nutrition markets. Take **Clif Bar** – Clif started as a small business out of a home kitchen in 1991 and now controls 33% of the \$6B+ health and lifestyle bar market¹⁸. Clif helped create and accelerate the trend toward nutrition bars to be eaten on the go, which has spawned a number of other successful brands including **Luna**, **Kind** and **RXBar**. Specialty beverages branded as healthy, alternative options to soft drinks and coffee (e.g., **La Croix**, kombucha) have also attracted strong, sometimes cult-like followings.

Areas of innovation in Nutrition

Though this is the largest, most traditional segment, we continue to see innovation in the space. A number of unique, “healthy” niche dining options have emerged that attract customers with distinctive and healthy menus (e.g., **Snap Kitchen**, **Modern Market**). Some restaurants have even introduced new and unconventional business models. LA-based **EveryTable** has a single, high-end menu adjusts prices according to the socioeconomic status of the community where the restaurant is located – their mission is “to make good food available to everyone”. While food may relatively less innovative than wearables or mHealth, good ideas and pioneering models continue to win.

Sources: (17) Food Insight's Food and Health Survey 2018

(18) Renee Frojo, San Francisco Business Times

Traditional wellness still dominant (2/3)

The National Restaurant Association's 2018 Culinary Forecast identified the top ten culinary trends, including: hyper-local, natural ingredients / clean menus, veggie-centric / veggie-forward cuisine, locally sourced meat and seafood, locally sourced produce and farm / estate-branded items.¹⁹ The report also found that 70% of adults say healthy menu offerings would persuade them to choose one restaurant over another.²⁰

Health Clubs

Traditional fitness and wellness centers (e.g., gyms) have sustained their popularity and continue to grow (albeit at slower rates), in large part due to an increased level of care and interest in health.

57 million

Americans own a membership to a gym or health club, around **a fifth of the adult population**

In the United States, more than 57 million Americans own a membership to a gym or health club – around a fifth of the US adult population. However, global membership is much lower; only 162 million (~2%) of the world's population has a membership. The United States continues to stand-out for the proportion of its population belonging to a health club.²¹ Growth in the health club segment is being sustained in part by Baby Boomers. As they age, these individuals become increasingly health-conscious and seek out gym memberships. The Bureau of Labor Statistics has reported that gyms are tailoring some personal training services to the aging population.

The traditional business model for gyms remains successful with many billion dollar players offering traditional, membership-based models (e.g., **24 Hour Fitness**, **LA Fitness**). Newer, smaller but growing businesses such as **ClassPass** and **SoulCycle** also employ similar subscription-based models but often offer distinctive services (e.g., access to multiple gyms, highly distinctive classes) with a fresh brand and approach. The traditional membership model remains the bread and butter of the gym segment with most innovative players changing out the offerings but keeping the underlying subscription-based approach. In this regard, the health and wellness industry is a good example of the larger macro trend towards the “subscription economy.”

National Restaurant Association's 2018 Culinary Forecast, Top 10 trends¹⁹

- 1 Hyper-local (e.g. restaurant gardens)
- 2 Natural ingredients / clean menus
- 3 Veggie centric / veggie-forward cuisine
- 4 Environment sustainability
- 5 Locally sourced meat and seafood
- 6 Locally sourced produce
- 7 Simplicity / back to basics
- 8 Farm / estate-branded items
- 9 Grazing (e.g. small-plate sharing and snacking)
- 10 Nose-to-tail / root-to stalk cooking

Traditional wellness still dominant (3/3)

Areas of innovation in Health Clubs

Four major areas of innovation characterize health clubs in 2018: (1) Delivery of the traditional experience in novel ways, (2) Boutique experiences, (3) Value-add services and (4) Relocation as part of the upscale lifestyle ecosystem.

Delivery of the traditional experience in novel ways



Increasingly, health clubs are looking to improve traditional models with novel features and experiences. **Equinox Fitness** is a leader in the luxury health club space; its “super luxury” E gyms are designed to provide clients with state-of-the-art fitness experiences, including treadmills fitted with O2 vaporizers, cryogenic wraps, on-site valet and fresh, eucalyptus-infused towels. However, their members pay for the luxury – the initiation fee varies from \$300 to \$750 with a monthly fee of \$150 to \$350+, nearly seven times the industry average. This may scare away most gym-goers, but Equinox seems to have found a niche market to support its luxury brand.

Boutique experiences



Some newer players offer specialized, niche experiences that deliver a fitness outcome for their customers while maintaining a distinct allure and feel. **SoulCycle** is a leader here, immersing customers in a spin class that engages the mind and body, and has been described as having a “cult-like” atmosphere. SoulCycle has grown quickly from 40 locations in 2015 to 87 by mid-2018.²³ Recently, the company has begun to roll-out new offers, including SoulFundamentals for beginners, and SoulAnnex, a free weight and stretching class. SoulCycle’s popularity has helped spur the growth of other players such as **Peloton**, an indoor cycling machine setup.

Value-add services



In addition to the traditional “gym in a box” with cardio equipment and weights, many gyms have been adding services to their members. **Lifetime Fitness** has new Life Clinics that provide sports medicine, chiropractic and physical therapy services in about 20 locations²⁴. Members can also relieve tension through cryotherapy or hydro-massages and engage in preventative health measures, including blood tests and personalized nutrition plans. These extra amenities create the perception that Lifetime serves as more than just a health club, but an integral part of the member’s lifestyle.

Relocation as part of the upscale lifestyle ecosystem

Some clubs have begun relocating (e.g., to shopping malls) to more fully integrate with consumers’ lives. For malls, this works in two ways: first, gyms fill vacant retail space as retailers across the nation close their doors, and second, gyms bring in foot traffic for other businesses. Today, 44% of **Phillips Edison & Company**’s 340 shopping centers have gyms, and over half of **Westfield**’s 33 shopping malls have a health club.²⁵ Others have pursued more fully integrated lifestyle options, including Lifetime’s shared office space (Lifetime Work) and Equinox’s luxury Equinox Hotel.²⁶

Wellness has hit a tipping point and increasingly become a standard concern

Consumers and companies exhibit increased awareness of wellness activities and a growing desire to be more health-conscious beyond merely joining a gym, although some key indicators (most notably obesity) suggest the actual population may still be becoming less well.

Awareness and adoption have increased

Awareness and adoption of healthy lifestyles has increased in recent years as there is a clear and pervasive interest among the public to lead healthier lives. A recent survey of companies noted that 70% of employees are interested in taking proactive steps towards living healthier.²⁷ Consumers are also broadening their definition and understanding of wellness beyond the traditional indicators like physical condition -- nearly as many people associate mental health (75%) with wellness as they do with physical health (77%).²⁸

70% of employees are interested in taking proactive steps towards living healthier

Products and services that were considered “bleeding edge” just three or four years ago (e.g., biomarkers, fitness watches, meditation, etc.) are now becoming mainstream. This can be seen with the widespread adoption of products and services like 23andMe, Fitbits, Apple Watches and Headspace. Each of these is now used by millions of customers, suggesting that wellness is indeed becoming a standard concern.

Supporting trends in traditional fitness

The overall trend towards a more health-conscious lifestyle has impacted the amount of global gym memberships as many consumers view signing up for a gym or health club as the first step in the right direction toward healthfulness. Over the past several years, global gym membership has steadily risen from 120 million in 2009 to 162 million in 2017.²⁹ In the United States alone, health clubs served more than 70 million people in 2017 and in total, U.S. health club visits have jumped from 4.3 billion visits in 2008 to 5.9 billion in 2017.³⁰ Not only are more people joining health clubs, but people are using their memberships more often as well. These trends signify a commitment to fitness among consumers.

Supporting trends in workplace wellness

Modern corporate wellness programs began in the 1950s with the formation of Employee Assistance Programs (EAPs), which were designed to address alcoholism and mental health issues among employees. By 1994, 80% of enterprises offered educational activities to increase employee health awareness and 44% of employers offered fitness facilities in-office.³¹

Wellness has hit a tipping point (2/4)

Despite differences in benefits, funding and incentives, wellness programs are now often seen by both businesses and employees as crucial expenditures rather than optional perks. A top-notch wellness program can help attract and retain top talent, while also keeping employees healthy and motivated at work. In 2008, 58% of employers offered wellness programs³², and by 2014, that figure was up to 76%.³³

This trend has been well-received by employees. Deloitte's 2018 Health and Wellness Progress Report found that 1.6 million employees participated in health and wellness programs, up 26% from the prior year.³⁴ Employees are increasingly buying into the incentives and benefits of wellness programs as employers increasingly offer them, contributing to an overall happier, healthier and more productive work environment.

Supporting trends in mental health

A new wave of mindfulness and wellness apps is helping individuals improve their mental wellness. Meditation apps in particular have gained a wide following, and investors are taking note.

In 2016, 20+ startups raised over \$150M for mindfulness apps and tools.³⁵

In 2016, 20+ startups raised **\$150M** for mindfulness apps and tools

Headspace is the poster child for why and how mindfulness apps receive so much funding. Since it was founded in early 2010, the company has raised \$75M over several rounds of funding, and investment seems to be paying off.³⁶ Headspace has over 400,000 paying subscribers, and the app has been downloaded over 11 million times. Today, the company generates ~\$50M in annual revenue and has an estimated valuation around \$250M.³⁷

Calm has also enjoyed breakout success over the past year; the mindfulness and meditation app was awarded 2017 App of the Year by Apple. In 2017, Calm more than tripled its sales and the app currently sits among the top 50 grossing apps with annual revenues of \$60M (Headspace is ranked lower at #116). A recent round of funding led by Insight Venture Partners put the company's valuation at \$250M, solidifying Calm's position as an industry leader.³⁸

Other players are helping improve mental health in other ways. **Big Health** tracks data to offer highly personalized behavioral programs through its program Sleepio, which digitally delivers Cognitive Behavioral Therapy online and via mobile devices to improve users' sleep.³⁹ Since its founding in 2010, Big Health has raised \$15M.⁴⁰ Mindfulness is on the rise and the recent success of these players illustrates a growing presence of consumers paying attention to mental health.

Supporting trends in tech-enabled wellness

Over the past four years, mHealth apps and wearables have gone from novel and unfamiliar technologies to common, everyday accessories. Today, the two markets combine for a small fraction

Wellness has hit a tipping point (3/4)

(~2%) of the larger wellness industry. However, the high projected growth rates (~26% annually)

Apple's Ventures into Health & Wellness

Apple has been a key leader in tech-enabled and corporate in its recent ventures. ResearchKit gathers user data for medical researchers, while CareKit provides a framework for apps geared towards understanding medical conditions.

The Apple Watch has gained significant traction and is conveniently paired with smartphones to maximize its utility. In spring 2018, Apple opened AC Wellness clinics, designed specifically for its employees. These clinics are transforming care by hiring specialists (nutritionists, exercise specialists, nurse practitioners) rather than doctors. Many hires come from health-tech startups as, unsurprisingly, Apple is focused on pairing healthcare with its cutting-edge technology.

demonstrate how tech-enabled wellness is booming. As companies innovate, wearables and mHealth will become cheaper, more accessible, and ultimately, more widespread.

Apple has taken steps to secure a first-mover advantage in this market. Their Health app and HealthKit (released in 2014) come pre-installed on all iPhones, exposing over 85.8 million iPhone users to the world of mobile wellness. In comparison, UnitedHealth Group has 47.5 million enrollees – just over half of Apple's reach.⁴¹ Apple has continued its ventures into health and wellness with ResearchKit, an iPhone software for medical professionals to conduct research, and its Apple Watch. In Q2 2018 alone, Apple sold 3.5 million of these watches, which have increasingly become less novel and more standard for consumers.⁴²

Sleepio is another key innovator in the tech-enabled space. Its personalized program incorporates sleep science (e.g., Cognitive Behavioral Therapy) and offers features including a sleep diary, progress tracker, sleep stats, personal reading lists and email reminders, all for \$300 a year. Sleepio may be a cheaper and more natural alternative for individuals suffering from sleep disorders – clinical trials show a 58% boost in daytime energy and concentration, 62% fewer awakenings at night and 54% reduction in time to fall asleep for users.⁴³

However, wellness outcomes have not improved so far

Despite the rapidly increasing awareness and adoption of wellness services, wellness outcomes have not necessarily reflected the growth of the industry -- people are still increasingly unwell, shown through rising obesity rates and instances of mental health episodes. The lack of improvement thus far may be partially explained by the fact that outcomes require time to see change, and they often act as a lagging indicator.

Obesity continues to be a major issue facing the United States. According to the CDC, around 93.3 million or 39.8% of US adults were considered obese in 2016, up over 5% from 34.3% in 2006.⁴⁴ This trend has been observed in children as well – obesity rates for youth increased from

Wellness has hit a tipping point (4/4)

15.4% in 2006 to 18.4% in 2016. Obesity can be highly expensive to treat and is a key driver of other preventable chronic diseases with estimated annual medical costs ranging from \$147B to \$210B.⁴⁵ On average, obese individuals pay \$1429 more in medical costs per year than those of normal weight.⁴⁶ The US continues to face a major public health issue in obesity.

**Nearly
40%** of US
adults were
obese in 2016

12.8% of teens
were diagnosed with
a Major Depressive
Episode (MDE) in
2016, up from
7.9% in 2006⁴⁸

Mental health has been another issue of growing importance in the US. While the medical community is engaged in an ongoing debate on whether more people actually have psychological illnesses than past generations or whether awareness of mental health issues has driven the increase,⁴⁷ there is no question that diagnosis of mental illness has increased. According to the World Economic Forum, mental health costs are expected to reach **\$6 trillion by 2030**, surpassing the cost of respiratory disorders, cardiovascular disease and cancer.⁴⁹

It's worth noting that mental health can also be a major driver of physiological changes. Dealing with persistent stress leads to production of cortisol by the adrenal glands, which ramps up the motivation and desire to eat, leading to the effect known as "stress eating". The combination of insulin and cortisol from stress eating often results in adverse health effects. In addition, mental un-wellness tends to coincide with sleep loss, lack of exercise and binge drinking, which all contribute to excess weight gain.

How much do we spend on being unwell?

Average annual medical expenditure due to...

Smoking: **\$422B**⁵⁰

Diabetes: **\$825B**⁵¹

Cardiovascular Diseases: **\$922B**⁵²

Obesity: **~\$150B - \$210B**

Engagement has surfaced as the key challenge, and opportunity exists for today's players

Engagement is a pivotal hurdle for the wellness industry to overcome. The overall success of the industry -- and the general wellness of the population -- depends on providers being able to keep consumers interested and dedicated to their wellness goals. So far, providers have been largely unable to solve this hurdle, as an issue with engagement persists across segments.

Health Clubs

Many consumers join a health club highly motivated to pursue a healthier lifestyle – “working out more” is a common New Year’s Resolution. However, interest tends to wane after a few months and by the second week of February, 80% of people who joined a gym to meet a New Year’s Resolution goal have already quit.⁵³ Many who do stick with it do not take full advantage of their memberships either; statistics show that 67% of gym memberships go unused.⁵⁴

80% of people who joined a gym to meet a New Year’s Resolution quit by the second week of February

mHealth & Wearables

Exciting new segments like mHealth and wearables have not proven able to keep users engaged. **Pokemon Go**, a mobile game turned accidental health app, is perhaps the most cogent example of this phenomenon. In summer 2016, Pokemon Go became a global sensation with over 45M users, and inadvertently became a huge driver of physical activity – the game encourages users to walk around and “catch” Pokemon in a virtual reality. The game’s popularity and enormous audience put it among the most effective health apps ever made. However, engagement quickly waned, as the active user base dropped 33% from its peak of ~45 million to ~30 million in just one month.⁵⁵

Pokemon Go lost **33%** of active users in just one month

Other examples of this trend include Fitbit and Apple. **Fitbit** has sold over 60 million devices including over 15 million in 2017.⁵⁶ However, it sports an active user base of just 25.4 million as of the end of 2017, up only marginally from 23.2 million at the end of 2016.⁵⁷ These figures illustrate that most Fitbits are getting replaced or sitting unused. In 2015, **Stanford** and **Apple** partnered to conduct a study on cardiovascular health through an app on the Apple Watch. Anyone 18 or older was eligible to download the free app and participate, prompting 49,000 people to join. However, the number of people who stuck with the app dwindled to 4990, (~10%), within seven months.⁵⁸

Issues with engagement and importance of retention

Tackling the engagement problem will require providers to first get consumers to take more proactive measures toward wellness. Most consumers desire to look and feel their best – in a recent

Engagement has surfaced as the key challenge (2/3)

survey, over 75% of Americans said having a good shape and looking good are important to them, but only 37% considered themselves “in good shape”.⁵⁹ This illustrates a disparity between consumers’ desires and actions with regard to reaching their health goals.

75% of Americans say looking good is important, but only **37%** consider themselves in good shape

Solving the engagement challenge could be quite powerful, especially when considering the compounding effect of retention. The difference between a 60% annual retention rate versus 80% over just three years is stark: 22% of the original user base remains in the 60% scenario versus 52% in the 80% scenario. Experts have begun thinking about solutions to this dilemma, both from a consumer engagement standpoint and from a business model standpoint.

One solution lies in behavioral economics. A 2008 study published in the Journal of the American Medical Association demonstrated the power of behavioral economics to affect weight changes. In the study, researchers examined the effect of common decision errors on weight loss intervention. Participants were challenged to lose four pounds a month over four months and randomly assigned into one of three conditions: 1) promise to lose weight; 2) wager \$90 and receive your money back in double if the weight is lost, 3) be entered into a lottery with a 5% chance to win \$100 if the weight is lost. Participants in groups 2 and 3 lost an average of 13 and 14 pounds, respectively, with half of participants in both groups meeting the full target of 16 pounds. In group 1, however, participants lost an average of just 4 pounds after 4 months; only ~10% hit the 16 pound target.⁶⁰ Incentives proved to be a clear difference-maker.

The findings of this study align well with recent developments by other players in the space. **StickK**, a personal commitment contract startup, recently conducted an internal analysis of 125,000 contracts and found that contracts signed without stakeholders putting money on the line or naming a referee resulted in a 29% success rate versus an 80% success rate for stakeholders with skin in the game.⁶¹

NovuHealth also uses behavioral economics to help employers and consumers make healthier choices. The company utilizes predictive analytics to identify members most likely to engage in specific programs.⁶²

Opportunities to capitalize on consumer trends

Companies and providers in this space have several options to overcome the engagement challenge. One potential business model involves creating a “cult-like” following that repeatedly engages with the product or service. Having a strong brand and a committed, loyal user base lends itself to a sense of community and belonging among users -- consumers are motivated to engage in

How can companies increase engagement?

StickK found a **29%** success rate when nothing was on the line compared to **80%** when something was at stake

Engagement has surfaced as the key challenge (3/3)

order to be part of the group. In addition, a strong group and culture holds members accountable. Boutique fitness clubs such as **SoulCycle**, and popular yoga groups such as **Wanderlust** are good examples of this type of community succeeding.

Another option from the provider side is to capture a large portion of customer value upfront. This approach capitalizes on the consumer's initial enthusiasm and works well with organic high-value, up-front products, such as fitness equipment or biomarkers. Companies like **23andMe** already implement this model with a single up-front fee. Alternatively, the same strategy can be applied by synthetically creating high-value purchases upfront. For example, **Headspace** offers an annual subscription fee or a lifetime membership in addition to its monthly subscription model, allowing consumers to commit long-term for a discounted rate while securing value for

Peloton's unique business model has captured consumers, and is now valued at

\$4B+

Headspace. The service has reached a \$250M valuation despite converting 11M downloads into only 400,000 active, paying customers. Gyms apply the same logic by often locking new members into year-long contracts, knowing that in most cases, the services being paid for will go underutilized.

Peloton, while also leveraging the desire for group workouts and capturing up-front value by selling stationary bikes, has also catered to consumer's desires for convenience. Peloton creates a cult-like experience through video workouts, providing users the engagement and community of a group class with the ease and comfort of their own home. Peloton recently received a \$550M investment, valuing the company at over \$4B.⁶³

Personalization has become critical (1/2)

Personalization has become critical to compete in the market

Major winners across segments in the health and wellness industry have transitioned away from a general, “one-size fits all” approach to a more personalized, “this size fits me” approach.

Personalization is an increasingly critical success factor for wellness companies today.

Several companies are already bringing highly tailored, personalized solutions to market for wellness consumers. In some cases, data-driven digital platforms are replacing personal coaching – **Arivale** and **Forward** are coaching substitutes that give personal recommendations once per quarter in a 30 minute session. These types of models give tailored, personalized suggestions while minimizing providers’ cost of delivery.

Arivale and **Forward** have embraced the personalization wave through highly tailored fitness recommendations

New digital business models are helping companies meet consumers at their convenience and offer a tailored experience to each. This trend can be observed through innovations in both traditional segments of the market (e.g., diet and exercise) and other emerging segments (e.g., mindfulness, mHealth) that did not have a large base to begin.

Emerging segments

The ongoing trend of personalization has largely been ingrained in newer, emerging segments like tech-enabled wellness from the start. Part of the distinctive power of tech-enabled wellness stems from the fact that technologies are attached to individual users and can quickly create and leverage personalized data. For example, **Headspace** offers daily, personalized meditation and mindfulness lessons based on a wide variety of options. Even simple activity and health tracking – such as the data collected by **Fitbit** and **Apple Health** – can be enormously powerful for users.

Biomarkers are inherently personalized as well and growing in popularity. The success of **23andMe** and other genetic testing services is an example of the power of personalization – these companies have consistently won by providing users with their own personal genetic composition, patterns and vulnerabilities (e.g., to disease, etc.) with only a simple, relatively inexpensive test.

Traditional segments

Diets have been around for years, both in generic types and more personalized options that all promise to have the answer for weight loss. However, sticking to a given diet plan has always been easier said than done, especially when healthier food options are often not as tasty. Innovative companies, such as **DayTwo** and **Habit**, offer solutions that create a custom diet plan designed for an individual’s personal cravings and palate. These companies use biomarkers and predictive algorithms to build a customer’s diet profile backed by lab-tested metrics and analysis. Despite

Personalization has become critical (2/2)

being in its early stages, this revolutionary way of dieting has piqued interest from big investors, collectively raising around \$20-40M in funding.^{64 65}

ClassPass is a subscription service search engine allowing users to sign up for classes that interest them across a variety of gyms and boutique fitness studio locations. This works to the benefit of

ClassPass has received **\$154M** in funding to provide users better access to a multitude of gyms and studios

smaller fitness providers – these specialty studios often team up with ClassPass to increase foot traffic at their locations. Members can purchase different packages that allow them to attend a certain number of classes each month, from boxing to yoga. To date, the company has made 45 million reservations and amassed a network of over 10,000 gyms and studios worldwide.⁶⁶ Investors have certainly taken notice – ClassPass received a \$70M series C in June 2017, which brought their total funding amount to \$154M.⁶⁷

WeTrain takes another approach to physical fitness, offering consumers the option to set up an appointment with a certified personal trainer at any requested time and place. The company brings an intense, personal workout to a location that best suits the client. Through innovative virtual working training sessions, clients receive the same guidance and intensity of an in-person class via live video stream. WeTrain utilizes up-to-date online platforms and technologies to further push its customer value proposition; instructive and professional fitness at one's convenience.

Daily Burn brings fitness to the user; the company has a streaming platform that provides subscribers with home workout programs at any time and any place. Users can play these video workouts on any connected device (e.g., phone, computer, TV). Based on individual fitness level and goals, a Daily Burn online coach curates a personalized workout and diet plan for each subscriber to follow. In addition, the company's distinctive online community is full of users committed to motivating and holding each other accountable to reach their goals.

The most successful players in both emerging and traditional segments have been able to distinguish their product from the competition through strategic means of personalization.

The age of wellness data has begun (1/3)

The age of wellness data has begun, driving market changes

With the proliferation of tech-enabled wellness (e.g., connected devices, mHealth apps), wellness has begun to develop an information ecosystem. Connected devices are constantly accumulating data and thoughtfully collecting and recording subjective measures, creating a wealth of information that can be used to drive better wellness outcomes. This trend can be seen in two key areas: in the proliferation of startup and investing activity in mHealth apps, and in tech companies (e.g., Apple) working with big health (e.g., Aetna) to collect user data.

Startup and funding activity

Although connected wellness apps and devices remain a small part of the market from a revenue standpoint, this segment will derive much of its value in the long term from the customized user data generated by these technologies. Mobile tech devices are already becoming an integral part of treatment in the healthcare industry: an estimated 65% of healthcare facility interactions will be made through mobile devices in 2018. Furthermore, around 80% of doctors use smartphones and medical apps in their healthcare provision.⁶⁸

Wearable device deals reached their second-highest total ever in the second quarter of 2017. Funding in 2016 reached nearly \$2B, driven by a mega-round of \$794M for Magic Leap, and fitness tech companies outside of the US have raised ~\$722M since 2013.⁶⁹ With this amount of funding, investors have shown significant confidence in the space's potential.

The number of fitness wearables in circulation is projected to grow in volume from 61M in 2016 to 187M in 2020.⁷⁰ **Fitbit**, founded in 2007 and reaching IPO in 2015, is a key market leader in the wearables market. Fitbit's revenues have exceeded \$2B, although growth has declined over the last few years as the user base has reached some level of saturation.⁷¹ Beyond just the devices, Fitbit also offers consumers a paid companion app with insights on training and nutrition for \$50/year. The device and app work together to collect and analyze user data, generating personalized recommendations for users.

Fitness wearables are projected to **triple** in volume from **61M** in 2016 to **187M** in 2020

“Winning companies will need to do more than follow technological trends and innovation. They will need to lead them. Innovation is a vital component of a digital transformation.”

– **McKinsey & Co.**

The age of wellness data has begun (2/3)

Other players have also emerged with innovative wearables. **Misfit**, recently acquired by fashion company **Fossil Group**, came out with the Shine, an elegant personal activity tracker that syncs wirelessly with a smartphone just by placing the device on the screen.^{72 73} Prior to the acquisition, Misfit raised \$64.4M in funding.⁷⁴ **Motiv** focuses on creating products that are both beautiful and easy to use. Its key product is the activity-tracking Ring, a low-profile and subtle wearable. Motiv has raised \$16.4M in funding since its founding in 2013.⁷⁵

Currently, the major downside to wearables stems from their novelty – the use cases are not yet strong enough for all consumers to invest money and effort to commit to a wearable ecosystem. The technologies are not perfect and several gaps exist (e.g., inaccurate sleep tracking). However, as the use cases get better and as the market continues to expand, providers should make real improvements in both technological accuracy and style.

The World Health Organization (WHO) estimates that lack of regular exercise increases risk of mortality by **20-30%**

A key danger to the success of wearables is their marketing. Wearables with better branding may outsell higher-quality products given the importance of lifestyle, which could disincentivize technological research and development. In response to this risk, the FDA is currently working with nine tech firms on a digital health software pre-certification pilot program that will ensure proper marketing of quality products.⁷⁶ Pre-certified organizations will be able to go to market faster, streamlining the process for more advanced products.

The positive news is that fitness trackers have huge potential to positively impact consumers' health and longevity. The World Health Organization (WHO) estimates that lack of regular exercise increases an individual's risk of mortality by 20-30%. Fitness tracker ownership may encourage preventative measures through increased activity. According to the analyst firm Gartner, by 2021 10% of wearable technology users will have changed their lifestyle to some extent, in turn lengthening their lifespan by an average of six months.⁷⁷

By 2021, **10%** of wearable technology users will have changed their lifestyle to some extent – Gartner Inc.

Large tech companies partnering with healthcare providers

Large tech players like Apple are beginning to work with big health in partnerships focused on collecting user activity data and creating an information ecosystem to lead to better health outcomes. Apple partnered with Aetna this year to give away 500,000 Apple Watches to Aetna's members and are also working on co-developing apps that Aetna can use to provide its members with incentives to make healthier decisions.⁷⁸

The age of wellness data has begun (3/3)

Apple's ability to connect a vast amount of apps and devices is a significant advantage that will continue to differentiate it in the marketplace, should it pursue health and wellness. Using its user data, Apple hopes to figure out how the Apple Watch can detect chronic illnesses. The company also recently teamed up with Stanford University to assess whether the Apple Watch can accurately monitor a user's heartbeat for irregularities, and looking to the future, Apple has shown interest in glucose monitoring as well.⁷⁹ Apple has also added a new feature to the Health app for storing medical records and has partnered with clinics, hospitals and healthcare systems worldwide to self-register for the medical record feature.⁸⁰

Since 2009, **940+** clinical trials recorded by the National Institute of Health have used watches or mobile devices

If mobile apps and wearables can help clinicians monitor patient conditions, these devices will certainly lead to better health and wellness outcomes for all consumers. Over 55% of the most

“Digital technology and the data and analysis it makes available give insurers the chance to know their customers better.”
– McKinsey & Co.

popular health apps now interpret sensor data to track human health.⁸¹ In the future, innovation in sensors will grow beyond wellness management to detection of vital signs to diagnose disease. Since 2009, at least 940 clinical trials recorded by the National Institute of Health have used watches, smartphones or other mobile devices. Of those trials, 290 were registered in 2017.⁸² Many researchers are turning to health related technologies to detect epileptic seizures, cardiovascular disease and help U.S. combat veterans get accustomed to civilian life.

The age of the wellness information ecosystem has arrived, and many organizations are focused on bringing digitally-driven solutions to create meaningful change in the lives of individual consumers.

Key Takeaways

The health and wellness industry is rapidly transforming.

Historically, large, traditional segments, like nutrition and fitness, dominated and defined the industry. Although these continue to be the larger segments, new innovations and funding trends signal an industry-wide shift towards a new generation of health and wellness. Notably, the tech-enabled industry continues to innovate and experience rapid growth, driven by their ability to deliver personalized solutions and collect vast amounts of user data. Traditional segments are each undergoing strategic shifts that capitalize on key trends of personalization, experience and community.

Tech is currently small from a market share standpoint, but is starting to have a big influence on the future of the industry.

Mobile health apps and wearable devices have enormous potential to change the way consumers monitor and improve their health. However, the biggest challenge facing these technologies is traction and engagement, which is leading to stagnating growth among some industry leaders (e.g., Fitbit). The tech-enabled space has received an incredible amount of funding and investment, and businesses are working diligently to transition products into daily essentials.

As a result of this dynamic tech-enabled space, consumers face the new wellness information ecosystem. Apps and devices are carefully tracking and storing a wide array of data. In the future, interpretation of user data will change industry dynamics and engender useful solutions; businesses will be able to identify user patterns to generate personalized recommendations and data will be made available to health experts to drive research in illness prediction, detection and response. Corporate wellness programs in particular have compelling incentives to provide consumers with wearables to accelerate the data collection process while some insurance companies are shifting in this direction.

Successful companies and business models will win by building communities and utilizing them as a retention mechanism to combat consumer tendencies to rush onto the next fad.

Different approaches for driving this engagement have emerged in the market, with some of the most promising being strong communities and user convenience. Communities can be used as a retention mechanism to combat consumer tendencies to rush onto the next fad, and some companies may try to create cult-like experiences like SoulCycle or organize marquee events like the Wanderlust Festival. Whatever the case, the end goal remains the same – engagement and retention are the answers to the question of driving forward a new age of health and wellness.

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Thank you for reading the Global Wellness Industry Outlook 2018. We are happy to respond to questions on this report or to present its content. If you have any questions, comments, inquiries, or requests to present this material, please contact us here:



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