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How to create a wellness startup that excites investors

Content

While many industries have been struggling to adapt to the challenges of the worldwide COVID-19 outbreak, digital health is thriving. In an acceleration of pre-existing trends, people are looking for ways to take control of their health through smarter lifestyle choices.

The evidence for this is already clear. According to recent studies, people of all generations are intent on improving their health and wellbeing, with

59% of Gen Xers saying they're eating healthier, and

48% of all generations saying they're exercising more[1]. Nine out of ten adults have also begun actively looking after their mental health while at home[2].

The wellness industry was already thriving before the Covid-19 outbreak and it has experienced a huge boost in the context of the pandemic. In addition to a rise in online subscriptions to fitness programs, we also see meditation apps like Headspace experiencing incredible growth, with a 19-fold increase in users during the last week of March 2020[3].

Even with confinement measures relaxing in many places, there is a general consensus that a prolonged fear of shared public spaces will endure, making the home a serious long-term competitor to the studio[4].

Mass lockdowns may have prompted a boom in the wellness industry, but with an uncertain future and a society increasingly accustomed to spending more time at home, the quest for home-based self-improvement looks like it may be here to stay.

[1] 2019 Food and Health Survey Special Report on Gen X Consumers
[2] GWI Coronavirus Research, April 2020
[3] The Economist, April 2020
[4] UK Covic-19 Wellness Impact Report, Balance Festival and Allegra Strategies, May 2020

1. A New Health Paradigm

In the wake of Covid-19, a strong focus on the health of the population and the continued absence of a vaccine or cure forced many to consider the notion of therapeutics beyond the traditional medical paradigm of treating illness. This has led to the medical field decentralizing away from hospitals and empowering patients as consumers.

In recent years, high costs of hospitalizations and long-term care facilities have helped spur a cross-generational desire for quality care in low-cost settings that avoids the need to visit a doctor. More significantly, studies show that clinical care has a relatively small impact on our health, and that the main factors that lead to positive health are human behavior, socio-economic factors, and the environment. In other words, the lifestyle we subject our bodies to will most likely have more impact on our health outcomes than clinical care[5].

As a result, health is increasingly seen as a continuum that extends from illness to a state of optimal wellbeing, and people are turning to wellness solutions, like fitness, nutrition and mindfulness to help them move further toward proactive health and away from medical care.

> "COVID-19 has shed a very bright light on the deficiencies in our healthcare systems. Going forward, nobody will want to sit in a crowded waiting room."
>
> Jonathan Friedman, Partner at LionBird

In this new paradigm, doctors will increasingly be health managers who help coordinate care, interpret data, and answer questions, almost always remotely. Personal health baselines will be established using digital means and continuous monitoring will enable more preventive care to take place. Continuity and connectedness in terms of health will accelerate the trend of personal empowerment, leading more to seek out new ways to enhance personal wellness.

And all this means that there are significant opportunities available for companies entering the health and wellness space – opportunities that are catching the attention of investors as well.

[5] Country Health Ranking UWPHI 2016

2. Investing in the Wellness Space

Jonathan Friedman, partner at LionBird, a venture capital firm operating in the U.S. and Tel Aviv, has watched as their focus on digital health has gone from ahead of the curve to being on everybody's radar in the space of eight years. Throughout this journey, they have met many promising companies inventing branded wellness products leveraging science, AI, design and engineering to generate unique value propositions, many of which they have included in a Branded Inventions Map.

The rising interest in fitness, nutrition and wellbeing has encouraged Facebook to dedicate resources as well. Hadas Spektor, head of the new Lifestyle & Wellness vertical at Facebook Israel, says that strong and sustained consumer interest on Facebook and Instagram led to the formation of the new business arm in January 2020.

> "We've seen a steady increase in people's awareness of wellness solutions, as well as an increase in those seeking out and then participating in personal health and wellness support groups. The conversations are happening, and they're taking action."
>
> Hadas Spektor, Lifestyle & Wellness Lead, Facebook Israel

The business unit provides growth consultation on Facebook and beyond for startups that aim to improve people's quality of life through preventative, non-medical solutions that integrate seamlessly into people's day to day lifestyles. And more than just seizing a fleeting moment, it may be that due to COVID-19, consumers have reached a tipping point when it comes to digital health. According to Hadas, even when COVID-19 eventually subsides and people revert to traditional or in-person health & wellness experiences, more innovative solutions will arrive to fill new arising health needs of the empowered consumer.

What makes a wellness solution not only appealing to consumers, but also exciting to investors? And what's the best way for new startups to market themselves in the wellness space? Hadas and Jonathan offer their insights and best-in-class case studies on what it takes to succeed as the next great wellness solution.

3. Keys to Wellness Product Adoption

According to Jonathan, LionBird's experience has enabled them to hone their understanding of what qualities are necessary for a consumer product to gain significant adoption in the marketplace. They must offer category-creating products with an efficient revue model that are **defensible**, **differentiated** and **begging to be shared**.

These elements are worth a closer look, starting with the last three attributes.

> "Consumer products that get significant adoption in the marketplace are category-creating, have an efficient revenue model, and are defensible, differentiated and begging to be shared."
>
> Jonathan Friedman, Partner at LionBird

Defensible

The first key element is *defensible*, meaning startups that resist competition or copycats by providing real intellectual property (IP) to solve consumer health problems.

An example of a company that has done this right is Peloton. At the initial launch, Peloton was an unknown brand selling a high-end product. The company needed to gain traction fast and did so by showcasing what made the product defensible – the combination of hardware (stationary bikes and screens) and live-streamed social training classes. On the creative side, they marketed their offering as a full-fitness experience, complete with a community, making it hard for competitors to effectively copy. On the business side, in order to keep user acquisition costs low despite the high product price-point, they ran Facebook lead ad campaigns, which were **67%** cheaper in terms of cost per conversion, enabling them to scale rapidly.

Differentiated

Differentiation, another key element, can be defined as the degree to which a product is perceived as better than the alternatives along the dimension that the consumer values. This may be measured not only in functional dimensions like price, time and quality, but also in terms of the deeper emotions a product or service enables users to feel.

- **Functional:** price, time, user experience, quality
- **Emotional:** be perceived as special, safety, freedom, escape, sense of belonging, self-improvement

These ways of differentiating are highly relevant to the wellness space from a customer acquisition perspective since motivations around purchasing health products, especially in the area of prevention, are triggered by an emotional belief that we need to improve our health. This causes people to seek out functional solutions that seamlessly integrate into their hectic day to day lives without consuming too much time.

SWEAT

Sweat, the Australian home fitness company led by personal trainer Kayla Itsines, showcases how a wellness startup can effectively differentiate itself in terms of both functional and emotional dimensions.

Sweat's competitors aren't just other at-home fitness programs, but also the status quo of traditional gym training. When compared to traditional gyms in functional terms, at-home Sweat workouts are less time-consuming, more convenient, and deliver similar quality at a fraction of the price of a gym membership. Sweat also compares favorably to gyms in terms of emotional benefits, providing convenient progress tracking to see improvement within the app as well as a community forum to cultivate a sense of belonging.

Kayla's fitness trainer expertise and the short exercise routines make Sweat compare favorably to its competitors in terms of the functional criteria of quality and time. Sweat also succeeds in emotional terms by offering special, customized, personal training and a strong community of over 20 million women.

In order to effectively market itself based on the factors that differentiate the app from both gyms and other fitness apps, Sweat focused on developing high-quality video ads that showcased the facts that the workouts were developed by a professional trainer, time-efficient, can be done anywhere, and are customizable.

Begging to be shared

How can companies determine ahead of time whether something has high potential to spread organically via word of mouth?

While no one can reliably predict the rate of spread of a product ahead of time, shareability may be influenced by several factors. In addition to differentiation – which may account for about 50% of the likelihood of being shared – other factors include the product's observability, how easily it can be trialed through freemium versions or low-risk installment plans, the product's relative simplicity and compatibility with existing behaviors and expectations, and finally how streamlined the decision process is.

noom

One wellness company that has successfully leveraged their understanding of these shareability factors is Noom. The personalized weight-loss and wellness app refocused their marketing on creating ads that include short, simple, benefit-driven messaging, mixing highly visual images with video testimonials by real customers. This demonstrated the simplicity of adopting its weight-loss program, the observability of results, and its compatibility with the lifestyles of regular people. Informed by their understanding and powered by mixed Facebook ad creative, Noom successfully lowered its cost per result by **77%.**

4. Choosing an Efficient Revenue Model

Building a great company requires more than just a great product or smart marketing. Establishing a lasting, large scale business requires additional innovation on the business model and distribution. Companies selling a low-margin hardware product in a one-time sale are likely to find it challenging to reach venture scale outcomes.

Subscription model

In a subscription business model, the goal is to attach a high gross margin annuity stream to a customer's account, either as an add-on to hardware or as a stand-alone product in and of itself. To build a loyal subscriber base, it's critical to successfully align the subscription service with the core value proposition of the hardware.

The most common examples of success in this model include software-as-a-service (SaaS) companies. For startups selling physical products (i.e. hardware), an effective strategy is to attach additional physical consumables to the hardware or sell content, coaching or other services on top of the hardware offering.

The general benchmark for a viable business is **15-20%** conversion to subscriptions from among the install base. However, in practice this rate can be challenging to maintain, particularly for companies marketing at scale.

According to Jonathan, when considering where to invest their money, venture capital firms consider several important key indicators.

Customer acquisition cost (CAC) payback time
A shorter time frame allows startups to efficiently re-invest their marketing dollars without raising large amounts of outside capital.

High gross margins
For startups with 70% or higher margins, it is possible to distribute their products not only via D2C but also via retailers and wholesalers who require additional margins. This allows the startup to build a multi-channel strategy.

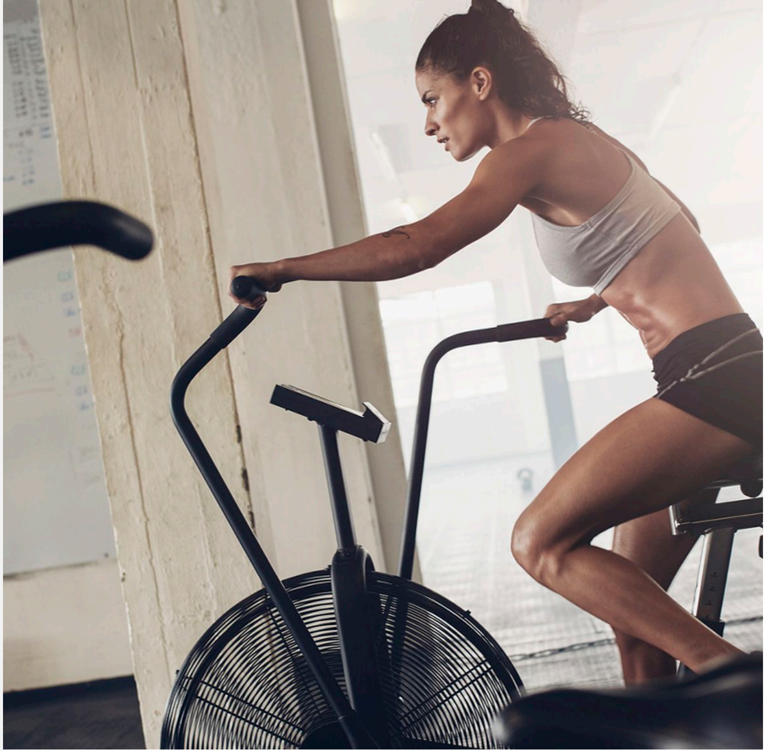
High customer lifetime value (LTV)
A higher LTV enables larger investments in customer acquisition and R&D budgets.

Proprietary, scalable distribution channels
Products with high potential to generate organic word of mouth will help amplify acquisition efforts.

Two of the primary revenue models that provide the potential for building large scale consumer wellness startups are the subscription model and the chunk model.

WHOOP

One approach worth noting comes from Whoop, a US fitness technology company offering a paid subscription fitness service. To improve their subscription sales rate, Whoop leveraged Facebook's manual advanced matching feature. This enabled Whoop to identify additional characteristics of those most likely to subscribe and better hone their marketing towards them, resulting in a **25%** increase in sales and a **38%** increase in return on ad spend.



Chunk model

Another strong business model for consumer startups, especially those selling physical products, is the chunk model. In this model, the company sells a product that makes enough money from the customer's first purchase to allow them to pay back the cost of their product and customer acquisition while keeping a significant margin in profit.

This type of model is especially relevant for startup solutions characterized by high average order value (AOV) and infrequent purchases. If a company can become cash flow positive on a customer from first purchase, this allows for reinvestment in marketing as well as the potential for layering additional product line extensions to upsell and cross sell the user base. In this way a company can couple its return on investment numbers with future growth potential through product expansions.

nectar

At a time when the luxury industry is predicted to suffer a considerable decline in annual revenues[6], Nectar has positioned its mattresses as a utility, a pillar of a healthy lifestyle. Moreover, since selling mattresses online is difficult given both the high price-point of the initial purchase and the consumer preference in this product category to "try before you buy", Nectar's marketing campaigns combine visually engaging video with the key message of a money-back guarantee.

[6] Luxury after Covid-19: Changed for (the) Good, Bain & Company

5. Category Creating Companies

The most exciting wellness companies give people new ways of living, thinking, or working, and often solve problems that people didn't know they had or left untreated because they didn't know solutions existed.

These companies don't just introduce a new product or service, they introduce a new category. They replace our current point of view on the world with a new one, and make what came before seem outdated, clunky, inefficient, costly, or painful.

From a customer acquisition perspective, creating a completely new category – and a completely new experience that solves a problem millions of people identify with – is a potential gold mine. Companies that succeed at this get to define the rules for the category, and hopefully experience uninterrupted "hockey stick growth", a phenomenon where revenue growth shoots up sharply in a curve shaped like a hockey stick.

Tips for Marketing Category-Creators

According to Hadas, category creating startups have unique challenges and opportunities when it comes to brand marketing. Here are her top tips.

Be efficient with your marketing
When you're first starting out, no one knows you exist and you can't afford to wait until they do. Your campaigns should both educate and convert.

Build a market through creative
Category creation also means audience discovery. To discover relevant interests to target, intent signals to learn from, and the right market lingo to use to attract customers, you'll need to ensure the relevant audiences self-identify as such by building a creative they will connect with.

Ran Reske, co-founder and CEO of Resident Group, the parent company of Nectar, talks with Facebook about how COVID-19 has transformed consumer perceptions and accelerated the shift to ecommerce.

Watch it now

> "The most exciting companies don't sell us better. They sell us different."
>
> Jonathan Friedman, partner at LionBird

In today's environment, Jonathan says that in addition to the potential for category creation, LionBird looks for companies in the wellness space that meet four criteria.

Total potential US market worth more than $1 billion
To excite investors, the market potential for the product must meet a minimum threshold.

Product is a necessity, not just a luxury
Companies that are "must-haves" will be more recession resistant.

Industry has low net promoter score (NPS)
Industries with a broken customer journey or poor product results provide more opportunity to improve and stand out versus the status quo.

Low supplier power
In times of supply chain disruption, companies with more leverage in terms of suppliers will be more resilient.

Target specific needs
Focus on why a person would buy your product and develop a creative that connects the customer persona to a product benefit.

UPRIGHT

Upright is a posture correcting device and trainer app that provides a solution to a myriad of lifestyle problems stemming from slouching. While the problem is hardly new, there were few existing branded solutions until Upright entered the market and created business. To build their category, Upright created focused campaigns around specific consumer motivations like improving posture for a better yoga experience. This resulted in a **10%** reduction in cost per action, which is significant for their price-point.

To learn more about Upright and other brands leveraging motivation-led creative, check out the Create for Growth webinar (in Hebrew).

Watch it now

6. Growth Segments in the Wellness Industry

While numerous wellness industry segments have seen little growth in recent decades, Jonathan and Hadas say there are now a number of areas with interesting potential for growth that are attracting investment.

Behavior and mental health modalities

Focus on why a person would buy your product and develop a creative that connects the customer persona to a product benefit.

Health manager technologies

Technology that empowers health managers to provide clear answers and information to patients by using their personal health data at any time or place. Such technologies may assist in tough and costly choices, provide holistic, contextual wellness support when needed, and are enabled by consumer-friendly health baseline monitoring solutions which are simple, fun and inexpensive.

Weight loss and fitness solutions

Potential weight loss and fitness solutions that offer scientifically proven, consumer grade interventions that are safe, passive (requiring no behavior change), affordable and easy to obtain over the counter.

7. Conclusion

Wellness is a field ripe with opportunity. According to Hadas and Jonathan, while no one can say exactly what solution to develop and how it will disrupt the health industry, these insights and success stories can help startups best position themselves to improve their chances of getting funded and to acquire customers at scale.

About the Contributors

Jonathan Friedman is a Partner at LionBird, a venture capital firm investing in pre-scale digital health companies with operations in Tel Aviv and the U.S. Since its inception, the firm has invested in more than 30 founding teams across the U.S. and Israel and now has over $100 million in AUM. If you're working on a startup in the wellness category, contact him at *jonathan@lionbird.com*

Hadas Spektor leads the Lifestyle & Wellness vertical at Facebook Israel, Facebook's business arm dedicated to supporting the growth of the Israeli wellness startup ecosystem. If your startup is innovating in this space and ready to launch its digital marketing activity, contact her at *https://www.linkedin.com/in/hadasspektor/*

Starting your own wellness startup? Investing in wellness? We'd love to connect. Please leave your details.