

## INVESTMENT ATTRACTIVENESS OF WELLNESS SECTOR

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### Abstract

*Wellness has become vital to our daily life. The sector is rapidly growing and evolving and turning into a megatrend. This megatrend is cutting across sectors ranging from personal care to well-tech and many more. Several factors are contributing to the growth of this sector in the last years such as digitalization that is altering its landscape progressively. The wellness sector is full of new trends and those trends and innovations keep the sector moving ahead as they help in maintaining the interest of the consumers as well as establish investments. The current pandemic has revealed the importance of wellness tourism and switched, even more, the focus toward it. During the last two years, we have noticed an accelerated need for health and wellness tech solutions, so it has speeded up the funding in the field. All this resulted in a newly formed subsector, named well-tech, aiming to help its users' maintaining good health and better well-being levels, using innovative digital solutions. The wellness sector is flourishing and continues to be attractive to investors. This paper aims to examine in detail the current state of investments in the sector and to evaluate if it's worth investing in it or not.*

**Keywords:** investments; wellness; digital adoption

**JEL Codes:** Z32, O30, G24

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### 1. Introduction

The COVID-19 pandemic has highlighted the crucial importance of investment in innovations related to both health and wellness. In the past several years, the health and wellness sectors have been an important focal point for investors. According to Deloitte report, funding for health tech innovators amounted to more than \$7.4 billion in 2019 alone. Furthermore, 2018 and 2019 saw rapid increases in investments into well-being and care delivery innovators, as well as innovators leveraging artificial intelligence (AI), machine learning (ML), and the Internet of Things (IoT) to enable their products and solutions (Deloitte, 2020, p. 2). A separate analysis, conducted by Pitchbook, noted that venture capital funding in wellness technologies in 2019 resulted in \$2.6 billion itself (Pitchbook, 2021). These numbers speak alone of the importance of wellness in our everyday life. The wellness sector is increasingly intertwined with technology nowadays and the aforementioned statements of

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investments' flow can only re-confirm that. Health and wellness are highly attractive fields for investors due to the high yield, ensured by the widespread use of health and wellness technologies, applications, and devices. The main scope of wellness investments is undoubtedly in the new digital solutions. Wellness tourism is gaining traction, as it stands for approximately 17% of global tourism expenditures. More and more people choose to travel for wellness, given the numerous benefits associated with it. The tourism digital adoption has changed and exceeded travellers' expectations to other heights, so technology is no longer distant in the future opportunity but a mandatory condition for development. Most of the tourism industry's spending comes from beauty/personal care, clean eating, wearable fitness devices, and wellness tourism which makes those areas highly appealing to investors.

## **2. Wellness sector development in terms of digitalization**

There has been an outbreak in the health and wellness sectors over the last years as more consumers demonstrate a willingness to invest in wearable devices and technology-enabled fitness gear. People keep trying to understand how to optimize their nutrition, exercise habits, mental health, sleep, and stress levels properly and efficiently. The emerging trends in the wellness sector in the last couple of years include virtual fitness training, intuitive eating, and mental wellness. All-new digital solutions related to that sector require solid funding. To dig deeper into the topic, firstly, we need to systematize the top technology trends ahead of health and wellness sectors, as follows:

- All kind of smart technologies and devices;
- Wide scope of technology solutions – a huge number of investors are actively exploring investments in technologies that address previously underserved conditions, such as devices and apps based on behavioural science that can help us control anxiety or sleep more restfully;
  - Virtual/augmented reality - the potential of innovative devices utilizing virtual or augmented reality (VR/AR) technology is quite a discussable and attractive area for investors. VR/AR-based devices are already widely being used in different therapies associated with physical/ psychological or pain relief;
  - Artificial intelligence (AI) – AI has the potential to radically transform the health and wellness space and dramatically improve health outcomes;
  - Robust data sets — at the same time, the effectiveness of AI, VR/AR, and other innovative technologies are ultimately dependent on the quality and applicability of the data sets that are used. For investors, data aggregators are at the center of that effort;
  - Human-centered design - “tech and touch” is the mantra for developers of the next generation of health and wellness technologies (Zhou, 2020);
- Blockchain;
- Internet of Things connection;

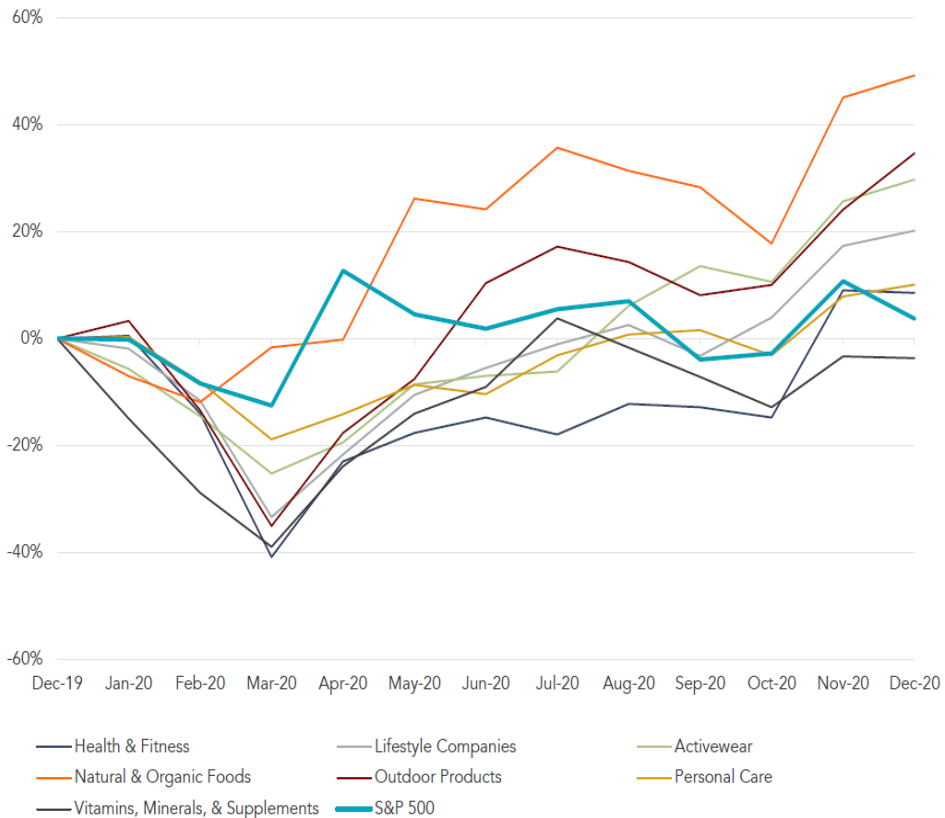
- Digital connectivity;
- Robots.

Everything said so far, directs us to a newly formed well-tech sector that can be described as an ecosystem of technology, connecting us to support our goals and strive for health, happiness, and well-being. Obviously, the health and wellness sectors are one of the broadest, including health supplements, wearable devices, tech applications, nutraceuticals, etc, all geared to help people in their wellness journey. All subsectors have been in the spotlight since 2020 during the coronavirus spread, as people have become more aware and concerned about their health and well-being. As the pandemic has spread, research found out that wearable fitness trackers designed to help people monitoring general health may also help detect symptoms of Covid-19 and bolster public health efforts (Scripps Research, 2020). According to PwC research of 2018, wearable devices are the new wellness movement, especially when used properly for their fitness-related functions. Fitness wearable devices offer users essential data concerning their heartbeat, stress levels, number of calories burned, steps taken, oxygenation levels, and many more. Additionally, they also serve as personal fitness coaches, since they can encourage people to be more active, while also precisely tracking their physical activity and food intake. The PwC report has determined that the wellness wearables market will reach \$27 billion by 2022. Based on that study, 70% of respondents expect their wearable devices to help increase their lifespan, 63% expect it will help them keep healthy body weight, whereas 62% would like their devices to reduce the cost of insurance premiums (PwC, 2018, p. 20-45).

We can conclude that wearables are mostly purchased for their health and fitness tracking functionalities, rather than other purposes. Along with wearable devices, home fitness solutions have achieved better popularity. Fitness equipment manufacturers had a rough time keeping up as gyms were forced to close and people sought better home fitness equipment. Sales of Peloton home spin class equipment and subscriptions were up 172% during the pandemic and Peloton posted its first-ever quarterly profit in September. Home fitness companies became household names: Soul Cycle, Mirror, and more. To keep up with orders, Peloton in December of 2020 acquired global fitness equipment manufacturer Precor in a 420\$ million deal. In the second half of 2020, Lululemon acquired subscription-based home fitness platform Mirror for \$500 million. And tech-driven Tonal home fitness scooped up \$110 million in additional funding- including investments from Amazon and others (SDR Ventures, 2020).

These examples are confirming that health and wellness devices are booming the market as people have developed new health focuses. At the end of 2020, the global medical app market was estimated at \$4.2 billion, with the U.S accounting for more than a third. By 2027, analysts predict the global market will reach nearly \$21 billion, with substantial growth in China (PRNewswire, 2020). Many of the subsectors of health and wellness made a significant profit during 2020.

*Figure 1. Health and wellness segments vs. S&P 500, Segment Market Cap Performance vs. YE 2019*



Source: SDR Ventures

Figure 1 gives us a glimpse into a growth in each of the aforementioned subsectors, where we can summarize all reached better performance compared to 2019. Companies focused on personalized food and nutrition, diagnostic trackers, and stress management are among those likely to see more growth from consumers and investors alike in the future, as those areas are where innovations and investments are flourishing. The idea of personalized nutrition has lasted for quite a while now, even that it hasn't reached widespread adoption yet. There are already several companies that use online assessments to provide a comprehensive overview of a client's body gut health. Then, the client has an option of ordering personalized vitamins, supplements, and probiotics all tailored to individual goals or deficiencies. Along the same lines of understanding how inputs like food impact each of us differently, investors have zoomed in on the metabolic health area as a key to growth in the

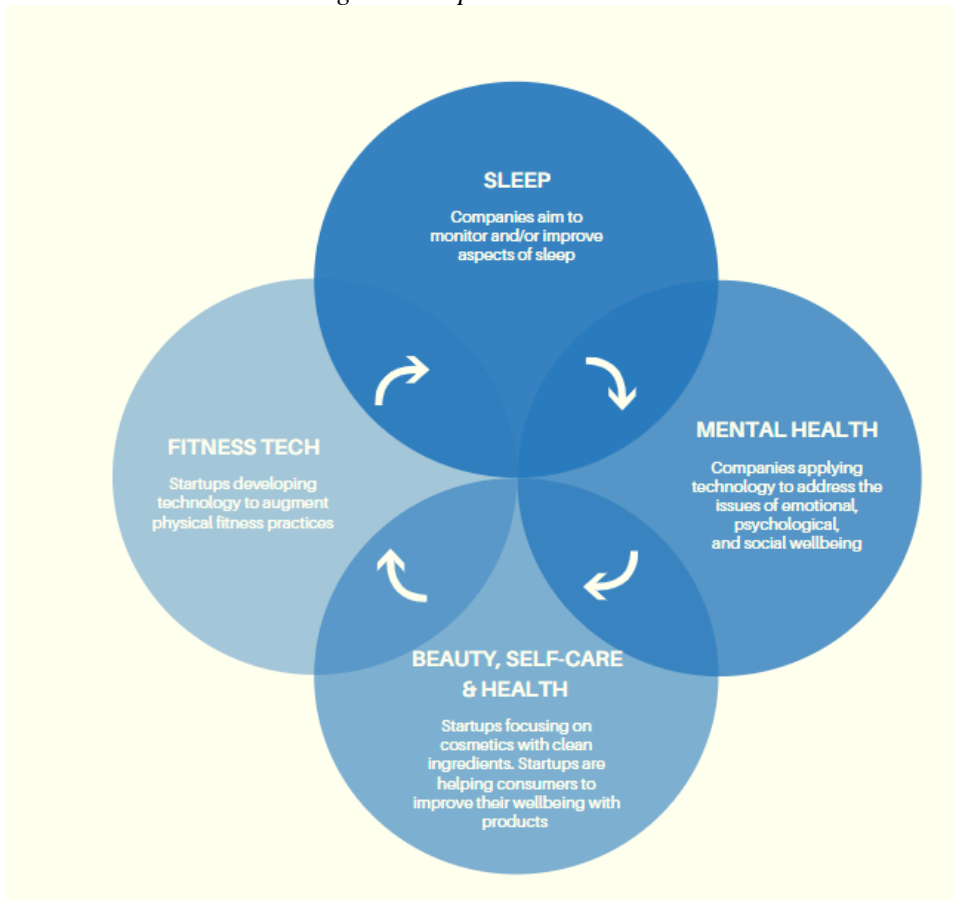
wellness market. A great example of a company in that field we can mention is Levels. It is a company that makes a ‘bio-wearable metabolic sensor’ that enables people to receive data on how foods impact blood sugar levels.

The last couple of years have brought with it massive amounts of capital into the sleep and recovery area. A huge number of companies are seeing big capital infusions to help people solve many of the common sleep problems, resulting in billion-dollar valuations. That area of the industry had been pretty much focused on mattress height or sleeping positioning previously now has evolved into one where biometrics and data measurement dictates new changes in mattress temperature and comfort. The last two years have revealed and switched the focus to another area such as mental health. Covid-19 has accelerated the deterioration of our collective mental health and well-being. The pandemic has exposed the wide gap between mental health needs and mental health resources, as well as our vulnerability to mental distress even when we do not have a diagnosed mental illness (World Health Organization, 2020). This disturbing statement is an alert for us and for the business world to put more focus on it. According to GWI, the global mental wellness industry was worth \$120.8 billion in 2019. Further details are given, and sleep is the largest subsector, which amounted to \$49.5 billion, followed by brain-boosting nutraceuticals & botanicals (\$34.8 billion) and self-improvement (\$33.6 billion). Meditation & mindfulness is the smallest subsector, at \$2.9 billion but it is important to keep in mind that millions of people practice meditation, but only a small fraction of them spend any money on the practice (GWI, 2020, p. 39). All listed examples show us the direction of development of this type of tourism, which is closely linked to new technologies.

### **3. The current state of investments in the wellness sector**

The current pandemic has certainly increased our dependence on telemedicine, remote diagnostic, and wellness technologies. Home-based health and wellness solutions are very much common and consumer preferences for virtual or home-based care have been growing for years since it provides more options for actively engaging with health and wellness professionals. Funding for health exceeded US \$7.4 billion in 2019 and funding data shows that investors continue to be interested in investing in the health and wellness tech fields (Deloitte, 2020, p. 3). Well-being and care delivery are the main focus of those investments. Fundings aim to enhance care quality, reduce costs, improve access, facilitate communication and interaction with users. Taking everything into account, we can outline the following wellness subsectors as the most appealing to investors, respectively the most demanded from consumers’ point of view: **sleep, fitness tech, mental health, and beauty & self-care.**

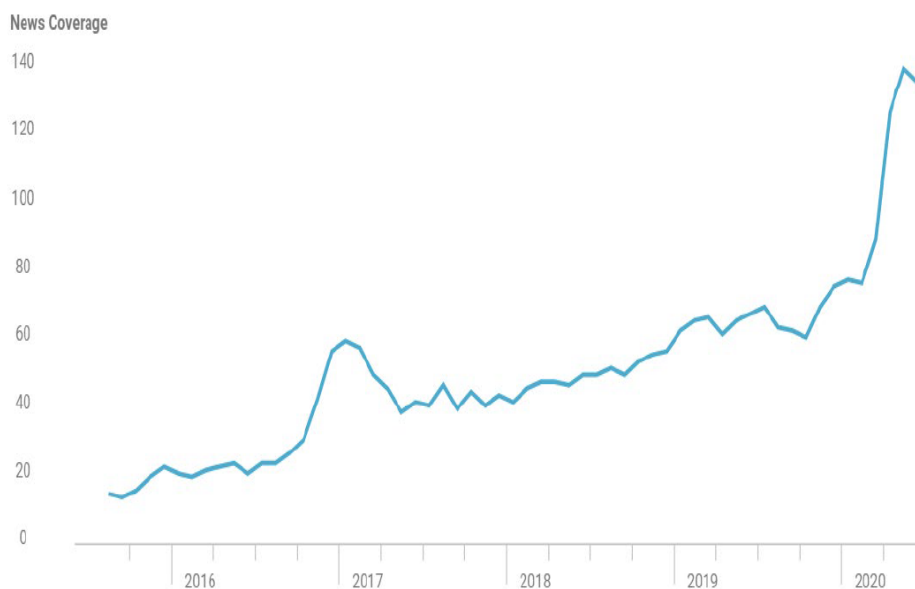
Figure 2. Top wellness subsectors



Source: Author

In this paper, we already discussed why the fitness tech field of wellness, including its wearables and smart devices, is coming to the forefront. Mental health start-ups realized over \$1B in funding in the first half of 2020, which automatically turned it into one of the most important subsectors of wellness tourism. Investors have flooded \$1B into mental health and wellness start-ups so far in 2020 (CB Insights, 2020, p. 7). To provide a better understanding of the investments' movement in the wellness sector, we will have to take a deeper look into each of the mentioned subsectors. Fitness tech deals rebound, and wearable devices seem to be at the core of it. In 2020 we see a huge boost in mental health funding, which comes as no surprise due to the coronavirus and its effect on the population. Beauty deals hit the lowest level of funding in recent years, such as the self-care companies see a decline. Despite the funding shortfall, self-care, and health interest are still on the rise in terms of media interest (CB Insights, 2020, p. 10-57).

Figure 3. News coverage of self-care and health, August 2015- June 2020

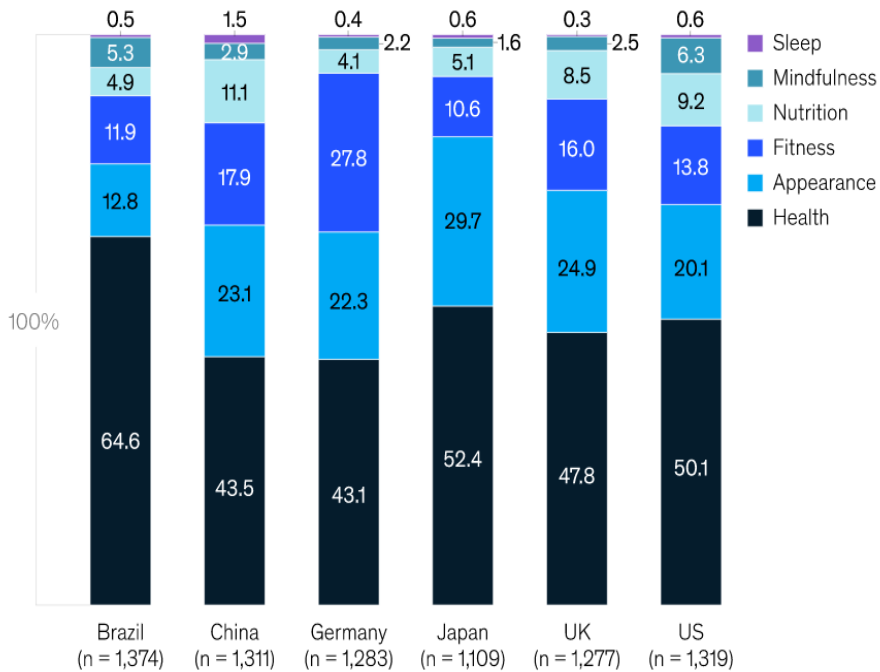


Source: CB Insights, 2020

In our point of view, we can expect the entire wellness industry to grow with top subsectors such as fitness tech, mental health, and sleep health. There is an ongoing interest in wellness tourism that will last. Investors' attention to digital and at-home wellness solutions grows in the wake of Covid-19. The pandemic has accelerated the trend of bringing wellness products and services, from sleep to fitness tech, into the home as individuals seek to reduce infection risk from visiting physical businesses in general. Technology solutions will be a critical enabler in the future of health and wellness. Tech-enabled wellness solutions are rising fastest, including business models focused on mental health/wellness, fitness, women's health, sleep, beauty, and personal care. To sum up, despite the huge economic fallout of coronavirus, and for investors, and an initial pivot towards caution, in 2020 the wellness industry continued to experience an influx of venture capital, mergers and acquisitions (M&A) deals, and successful crowdfunding campaigns. According to us, tech innovators focused on the future of health and wellness will likely continue to receive the lion's share of funding in 2021 and beyond.

When assessing the area of new investments, one of the most important parameters for pre-verification is current trends, supply gaps, and consumer demand. To gain a profound understanding of the current topic, we need to pay special attention to customers' needs and their demands. Customers' spending is an essential barometer of the current demand, so the data depicted in the figure below give us the needed information.

Figure 4. Wellness spending split by category, % of annual spending on wellness products and services



Source: McKinsey Future of Wellness Survey

The data is displayed per country, but we can notice a general trend of spending in health, appearance, and fitness fields. Nutrition, mindfulness, and sleep take the lowest share, contrary to the massive flow of funds in sleep devices and solutions. Maybe the investors discovered a new field for improvement and expect to popularize it with cutting-edge technology and advanced marketing. In overall spending, consumers expect to increase their purchases of both wellness products and services over the next year. We can expect a greater shift toward services, especially those such as personal training, nutritionists, and consulting. The global wellness market is healthy and growing. Most consumers have the plan to increase their spending, especially in some categories, including memory/brain enhancers, anti-aging products, beauty supplements, non-invasive cosmetic procedures, nutrition, and meditation/mindfulness offerings. The future of wellness is promising and digital.

#### 4. The importance of investing in wellness tourism

Modern people tend to pay attention to their health and wellness levels. Rising healthcare costs, medical systems struggling, overwhelming stress associated with modern-day living have only given us added vitality toward better living. The investment we make in our well-being can only have a positive effect on our overall



health, longevity, and energy levels. The combination of travel and wellness, partially driven by the aging world population or the failure of conventional medical systems, or even occurred due to the increased globalization of healthcare and the rise of chronic diseases aims to provide relaxation, good overall feeling, and well-being. There are numerous benefits we can extract from wellness tourism. The spectrum of wellness is so broad that there are available products and services for all needs that wellness tourists may have that will guarantee them recharging afterward feeling out of the stressful living we are all facing. Considering that chronic diseases have reached epidemic levels, wellness opportunities in tourism are designed to create moments that remove people from everyday stress. The development of an immense, international wellness market reflects consumers' changing relation with the health care sector. Perhaps more people are prioritizing lifestyle, making health a priority, and spending money on their own well-being. Consumers' health awareness and disappointment with health care options are the main factors pushing people to experience wellness services. The future of wellness is shifting towards selling consumers a holistically healthy lifestyle, integrating various products and services. Just like the way technology has become a new value driver in many industries, so would wellness impact industries and reshapes consumers' expectations. We are witnessing tourist demand of a new type, which in its scale, trends, and essence is the results of the growing strictness of customers and the entry of new competitors, working with innovative models. The new market conditions provide a development only to those destinations and even separate organizations that are flexible to the changing environment and able to anticipate the needs of their customers (Velikova, 2018, p. 65)

According to us, wellness is worth in investing as it helps people to improve their health and enhance their lifestyle, all in all. Wellness tourism will continue evolving and we expect even a higher influx of investments in the next years for fields such as well-tech, sleep, and mental health. The tech world is creating a future that promises to entertain consumers, save them money, and help them live healthier lives. Technology companies' interest in health and wellness has sparked the creation of a myriad of devices and tech solutions, from fitness bands that monitor activity and sleep patterns to flexible patches that can detect body temperature, heart rate, and more. This potential is fuelling venture capital investment in digital health and wearable tech.

According to CB Insights, the number one reason why start-ups fail is that there is no market need (CB Insights, 2021). It is important not only that the business solves a customer's pain but there is a shout for that. A business solution that could have a strong positive impact on someone's life has a higher chance of ensuring profit. Another important factor that guarantees you prosperity is sector attractiveness. Not all sectors are created equal, but wellness is one of the most attractive in the last decade. Well-tech has over 9.4K start-ups that comprise companies that provide

solutions that help consumers maintain their physical and mental well-being. Fitness and well-tech are some of the most active sectors for investors, with overall funding of USD 12.1B in over 1.5K companies. More than half of the fundings has been raised in the last 2 years (Tracxn, 2021).

## 5. Conclusion

Wellness investors offer strong evidence of how innovative technologies continue to bring new and effective health and wellness solutions to market, while also helping to reduce healthcare costs and to improve access for all people. Future investments in innovative technologies are vital in supporting the ongoing transformation of the wellness sector. By making targeted investments in emerging health and wellness platforms, we support users' health and innovative approaches of a new generation of developers and entrepreneurs. Wellness, together with digitalization will make a genuine difference in the quality and effectiveness of health and wellness technologies and services in the 21st century. As the health tech market continues to grow, successful innovators should move beyond pilots to demonstrate a market opportunity to their customers through improved quality, decreased costs, and/or a better experience. Innovators, investors, and developers take important responsibilities towards the entire wellness sector in general. Providing capital, investors take the role of coach and help to move the sector to a new level. The pandemic accelerated funding in alternative forms of care delivery, such as remote monitoring, virtual health, wearable devices, tech sleep remedies, and home fitness solutions. We conclude that the major focus areas for 2021 and beyond include on-demand health, outside of traditional health care settings, mental health, fitness, and wearable devices. The wellness sector has huge attractiveness to both investors and tourists, it will continue growing and evolving, together with the technology, and it is worth investing in it.

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