HOW TO NAVIGATE A CONSOLIDATING WELLNESS MARKET

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A GUIDE FOR BUYERS NAVIGATING FUNDINGS, MERGERS, ACQUISITIONS AND CONSOLIDATION IN WELLNESS

INTRODUCTION

The corporate wellness industry is growing up. And with maturity comes mergers, acquisitions and a flurry of opportunities that can lead to advances in technology and innovation.

Eventually.

Today, the landscape is confusing. Especially for HR and Benefits buyers charged with navigating it.

HERE'S WHY:

- Large wellness providers are merging with each other to get bigger
- Aggressive funding rounds are pressuring companies to innovate and grow quickly to meet investor expectations
- Large wellness providers are acquiring niche solutions to market
- Providers are building functionalities that go beyond traditional wellness program capabilities

Even if you've seen this scenario play out in other HR categories, you probably feel overwhelmed with all the change.

But it might be easier to keep up than you think.

IN THIS WHITE PAPER, WE COVER:

- The current state of wellness (and why it matters)
- What we can learn from other HR categories
- What's next in this fast-moving category
- Three areas to focus on today

CURRENT STATE OF WELLNESS

Corporate wellness had its breakout year in 2006 when Limeade and similar companies launched enterprise technology to help employees live their best lives.

Why? Because companies that invest in their employees' well-being see improved health outcomes, greater employee engagement, enhanced workplace cultures and measurable returns on investment. Engaged employees – those who go the extra mile because they have real emotional connections to their work – are proven to produce more, cost less and stay longer.

THE DATA TO SHOW IT

A study published in the January issue of the Journal of Occupational and Environmental Medicine tracked the stock performance of 45 publicly-traded companies that earned top scores on employee health and wellness scorecards.

The study found the high scorers outperformed the 500 largest U.S. companies listed on the S&P 500 index by

235%

OVER A SIX-YEAR PERIOD.

Two additional studies published in the same issue showed similar results.

Today, great leaders know they can't treat people in distinct "health," "work" and "life" silos. They realize that physical, mental, social and even financial factors are hard to separate. Well-being is a whole-person thing.

Employers now expect wellness technology solutions to take a holistic approach that embraces this view of the whole employee — not just health risks.

But savvy HR leaders, vendors and investors see a roadblock up ahead: The market is heavy on stand-alone solutions, and light on seamlessly connected user experiences.

Services for learning, performance management, engagement, analytics, recruiting, rewards, recognition and wellness (and the bigger concept of well-being) are competing for the hearts and minds of our employees.

WOULDN'T IT BE NICE TO CONSOLIDATE THEM INTO A SINGLE, INTEGRATED SOLUTION THAT TOUCHES ALL AREAS OF EMPLOYEE ENGAGEMENT?

Of course – and solid platforms with integration capabilities exist in all of these areas. But it's important to remain cautious (and patient). We're still years away from a comprehensive solution that effortlessly weaves all these elements together. And the risk of implementing a half-baked wellness solution is too great for most organizations.

WHY ARE ENGAGEMENT AND WELL-BEING ON A COLLISION COURSE?

Research from Gallup shows that engaged employees are healthier and that employees with better well-being are more engaged. So which do companies focus on? The answer's simple: Both. A strategy that focuses on increasing the well-being of employees while engaging them more meaningfully in their work can lead to real improvement for your people and your business.

Engaged employees exercised more and ate better —and companies with healthier employees saw

20%

LOWER TURNOVER.

WHAT CAN WE LEARN FROM OTHER HR CATEGORIES?

Corporate wellness certainly isn't the first HR category to see wild fluctuation periods.

All technology markets move through cyclical waves of change, which follow a surprisingly consistent cadence:

- **A PERIOD OF INITIAL GROWTH.** Companies launch to compete with one another with similar solution sets, vying for popularity and mind- and market-share.
- **A PERIOD OF GROWTH STYMIES.** Growth hits a standstill due to economic conditions or market saturation.
- **A PERIOD OF CONSOLIDATION.** Larger players acquire market-share and technology enhancements through partnerships and mergers.

The HR world saw this cycle play out with integrated talent management systems in the early 2000s.

Back then, many different providers sold recruiting, performance management and learning technologies. Hundreds in each category competed with one another, and dozens attracted significant funding to try to dominate the market.

In 2007, the talent management market hit its peak. Companies consolidated, some went out of business, and eventually, we were left with a few dominant providers — SAP, Oracle and IBM.

What did these leaders do right during the industry's tremendous growth cycle? They mastered their core platform capability before moving on to the next stage of an integrated platform.

So SuccessFactors, (now a part of SAP), hitched its wagon to performance management and built a complete vision before expanding its talent management offering. Taleo (now with Oracle) and Kenexa (now with IBM) did the same with recruiting and learning, respectively.

Other talent management providers jumped on the integration bandwagon too early. They tried to cover everything — but weren't good at anything. They couldn't differentiate themselves in a crowded, shrinking market. Most were shut down or acquired.

BREAKING OUT OUR CRYSTAL BALL: WHAT'S HAPPENING NEXT?

We don't know if corporate wellness will follow this exact path. But the history of enterprise technology indicates an inevitable tipping point.

Our predictions for what's to come:

- **CONSOLIDATION ISN'T GOING AWAY.**
  It's clear we're in a phase of consolidation. Larger companies and private equity buyout firms are acquiring smaller companies, and we expect even more mergers and acquisitions to close the capabilities gap across wellness solutions.

- **THE PRESSURE'S ON FOR HEAVILY VENTURE-CAPITAL-BACKED FIRMS.**
  Investors see a ticking clock in front of them. Many want their payoff, and they want it fast. The period of market consolidation doesn't last forever — and the opportunity to quickly expand to get bought is often made at the expense of product stability, support and internal innovation. Exit pressure increases later in the life of a venture fund as well (for all but the most long-term investors).

- **PROVIDERS WILL JUMP INTO UNFAMILIAR WATERS.**
  Companies with niche offerings will try new things. Recognition providers might add well-being and learning services, and performance companies might try to add analytics tools. But merging different companies, cultures, customer-facing teams and approaches can be difficult and time-consuming, and potentially confusing for employees. Even when providers acquire companies that already specialize in purely complementary capabilities, the devil is in the details. Every acquisition takes time to integrate, and every new feature set takes time to develop.

- **BUYERS WILL BE FRUSTRATED WITH ALL OF IT.**
  If you're looking for stability and measured outcomes, then the wrong provider can be a nightmare of new account representatives, technology change and product difficulties. Remember what we said before: Corporate wellness as a category has room to grow into solutions that embrace the whole employee. Choose wisely.

THREE THINGS CORPORATE WELLNESS BUYERS SHOULD FOCUS ON

Here are some best practices to follow when you're purchasing technology in an unsteady environment:

1. **PRIORITIZE YOUR NEEDS AS AN ORGANIZATION.**
   What major issue is your organization trying to solve? In a crowded market, many challenges and solutions exist — but you need to prioritize what's critical to your success. What key capabilities do you need to meet your overarching business goals? What features aren't as important?

2. **ADDRESS THOSE NEEDS.**
   This seems obvious, but broader platforms often lure buyers into making decisions that compromise on critical areas. The solution you choose should have excellent bench strength in your highest priority area. If your main goal is improving employee well-being, look for a partner that specializes in it — not a benefits provider with one small well-being feature.

3. **CONSIDER INTEGRATION CAPABILITIES INSTEAD OF ONE-SIZE-FITS-ALL.**
   One positive development of the consolidation phase? Companies want to make it easy for you to connect with all of your vendors. Choose the (integration-ready) one you love — and customize it to meet your own unique needs.

CONCLUSION

Mergers, acquisitions and funding drive innovation and growth — but it's not all fun and games for clients and buyers.

FOCUS ON WHAT'S IMPORTANT TO YOUR ORGANIZATION

- What's going to improve your employee experience the most?
- Who has the capabilities and people to guide you to your desired outcomes?
- What do you need right now, and what can you wait a few years for?

You're the only one who can answer these questions for your organization. When you do, you'll find the corporate wellness provider that aligns best with your business strategy — and your employees' needs.