

# WHAT IF APPLE MAKES A TREADMILL: OR DOESN'T!

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## ABOUT THE AUTHOR: ROBERT SAWHNEY

Robert has had a varied career spanning health and fitness, consultancy, and academia. Currently he works in a regional director role for one of the largest fitness solutions providers in the world. He has BSc in Sports Science and Management from Brunel University and an MBA from the University of Lincoln. He did his doctoral studies at a university in Hong Kong.

He is the author of 2 books. *Marketing Professional Services in Asia* (Lexis Nexis, 2009) which was called one of the most indigenous books on Asian marketing by Professor Oliver Yau (Chair Professor of Marketing at City University HK) and *Developing a Profitable Practice in Asia* (Ark Group, 2010). He has also published over 50 articles in various newspapers and magazines on the topics of strategy, marketing and leadership. He has spoken at numerous events as a keynote speaker or panelist around Asia.

His strengths lay in strategic thinking, action and execution. Having worked with and supported some of the largest key accounts in the world, he also has the in-depth practical experience of achieving targets and helping those around him succeed.

Robert is a keen sportsman having played professional football. He still hits the gym 5x week and plays rugby.

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# EXECUTIVE SUMMARY

- The health and fitness industry is ripe for disruption and the acceleration of both digital acceptance and health awareness present both opportunities and challenges
- Operators and equipment manufacturers are likely to experience this disruption in different ways and someone is going to be the Nokia in this story
- The acquisition of Precor by Peloton is just the beginning
- Big Tech firms such as Apple, Amazon, Google and Facebook have made no secret of their plans to enter this market. With their vast resources in big data and analytics plus access to cheap capital, they are set to redefine the industry
- Apple are best positioned to leverage platforms and eco systems as profitability shifts from hardware to software. By claiming a 'greater share of attention', Apple will revolutionize the way people interact with and consume fitness
- Apple will redefine the business model of selling and profiting from fitness equipment. In the process they will make irrelevant the incumbent firms and their legacy ways of doing business
- The Apple watch will be the focal point. Big data, data analytics, AI, machine learning, behavioural economics, psychology, and the best brains on the planet will create a platform for Apple to dominate first fitness, then the health industry
- Fitness equipment manufacturers will either have to play ball or go the way of Nokia, but likely worse, and assuming they have a choice
- Even if Apple don't ever make a treadmill, the parallels with the car industry are clear. The battle ground is moving to software and Apple wants to dominate that in everything you do



# INTRODUCTION

This is both a love story and a murder mystery. Whoever Apple decides to buy is going to swoon, the opposite is going to be true for the one that they don't. Someone is likely to be the Nokia in this story.

COVID may have accelerated the fitness industry's focus on 'digital' and content in the last year or so but these trends have been going on for some time. When I say fitness industry I mean both the provision of fitness services through clubs, home etc and also those who produce equipment that is sold to either businesses or consumers.

Some new buzzwords have entered our day to day lexicon such as hybridization and phygital – words frankly I don't like. This is because they narrow the focus of the value shift that needs to occur in our industry to serve the vast majority of people who don't go to a gym (or use equipment) and the reasons why they don't go. To think that offering an on line and off line component driven by content misses the mark. What we need to do is drive behaviour change within people and a mind set change within ourselves that it is not really about fitness for most people, it is about health and wellness, or perhaps wellbeing which seems to be the next in word. Lululemon released its global wellbeing index recently, physical health only factored 15% as part of wellbeing.

If overall exercise participation is well over 50% in most developed countries but gym penetration rates barely exceed 20% in the most mature markets, something is wrong. That something is a mix of the services/environment being offered by commercial facilities, the business model which relies on 'sleeper members' and the equipment installed in those facilities. Equipment that is essentially undifferentiated chunks of metal and plastic that do very little to enhance the exercise experience of the average Jane or Joe and offer nothing palpable in demonstrating ROI for an operator.

This is both an exciting and perilous time in the fitness industry. Exciting because of the numerous innovations and new entrants we have seen come into the market in large part rocket launched by COVID. Also due to the fact that we have a real opportunity to finally reach and help that massive segment of the market who don't exercise regularly. Just the cost of obesity alone in the US is expected to be over US\$150bn.

The entrants and innovations are also a cause of concern for incumbent firms. The purchase of Precor by Peloton, only a US\$50m company back in 2017 when Precor had annual sales of over US\$500m, signals how fast things can change. I believe Apple will buy Peloton this year and if they do, this will be truly disruptive. This is just the beginning and legacy players need to start transforming now. Change takes time and the market will radically change within 5 years, the clock is ticking...

# HERE COMES BIG TECH



Apple Fitness+, Amazon Halo, Facebook wearables/watch, and the recent purchase of Fit Bit by Google are all clear statements of intent. Even Microsoft has built health data management on top of its cloud computing platform Azure.

Long before Tim Cook announced in 2019 that Apple's greatest contribution to mankind will be health, Big Tech has made no secret of their plans to come after the health industry, and more recently that includes the fitness industry.

As Scott Galloway states in his entertaining new book Post Corona, the health industry is ripe for disruption. High margins and low NPS score industries are just waiting to be eaten. Amazon has been targeting the health industry since 2000 with the failed investment in drugstore.com. It also failed recently in the JV effort with JP Morgan Chase and Berkshire Hathaway to streamline healthcare insurance. That won't stop them. Jeff Bezos (even though no longer CEO) is famous for his attitude to try and fail and keep going (don't forget the Amazon phone). Company culture is one factor as is access to cheap capital. One of the benefits of being a trillion dollar company.



I am not saying that the fitness industry is a high margin business. Gross margins for manufacturers have traditionally been well below 20% and the size of the industry hardly seems attractive for behemoths like Apple or Amazon. Depending upon what sources you look at, global sales for ALL fitness equipment is less than US\$15bn whilst the health club market is around US\$100bn (gross margins of less than 20% globally). Compare this to Apple with over US\$280bn of sales in 2020 with by far the highest margins in the industry of plus 60%. Amazon had sales of over US\$380bn in 2020 with margins of over 20%.

Those targeting the home consumer market have become different animals during Covid. Peloton expects sales of over US\$3bn in 2021 with margins exceeding 40% and is now ranked only behind Apple in brand relevance (according to the 2021 Prophet brand relevance index). They have over 1m subscribers and a retention rate of plus 90%, the industry average for health clubs is around 50% depending upon the period of measurement. Whether Peloton and other home equipment manufacturers (such as Tonal, Echelon,

Nordic Trac) can continue this momentum remains to be seen. Clearly with Pelotons purchase of Precor they believe so. Will be interesting to see how their strategy evolves into the commercial space once they resolve their production and lead time issues. One thing is for sure, like Net Flix and Amazon Prime, they have proven that recurring revenue models are viable in the equipment market if the content is right. The problem I believe is that content will be table stakes soon, how that content is managed using AI to enhance the experience of users and perhaps more importantly, the efficacy of the workouts, will be the long term differentiator. Peloton already does partly what's needed through leader boards and other social initiatives guided by AI. The real proving ground will be when the battle ground moves to the platform and eco system in the health market, not the fitness market. Nautilus has just updated their JRNY platform which utilizes AI to guide progressions based on the exercisers previous workouts, it learns.

The kind of technology being used by Tonal and Vitruvian (AI driven) is exceptionally interesting. AI and machine learning will play a massive role in the success of Big Tech in health as the billions of data points they collect will have of sorts of impacts on health and fitness. We have seen many different wearables that have gone far beyond tracking to assess sleep, hormone levels, disease, exercise form, progression, nutrition etc. The Apple watch has been testing ECG capability and Covid tests, this, with Apple Fitness+, and their ability to leverage eco systems is where Apple can dominate the health and fitness industry if they desire.

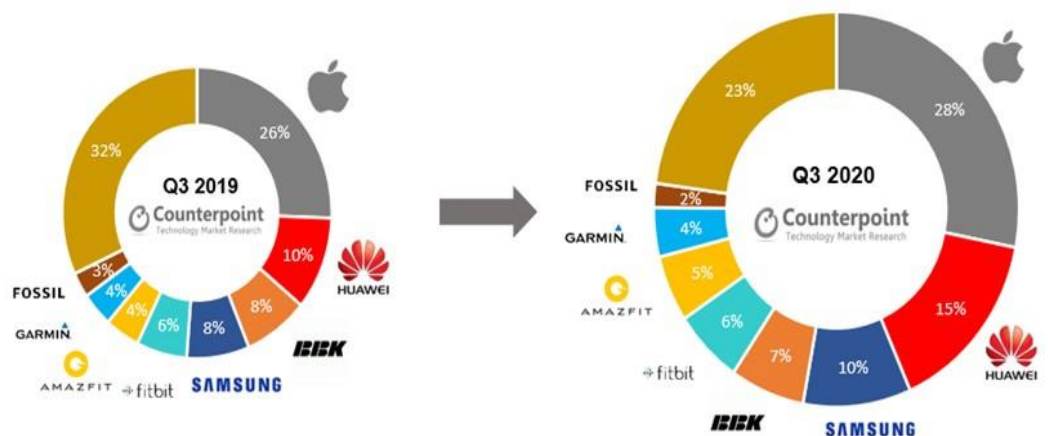
To think that someone like Apple would never 'bother' with making cardio equipment misses the point. Firstly, it is not about the fitness industry but the health industry. Secondly, it is not about making money on hardware (such as a treadmill, although I am sure an Apple could re-configure the business model – more on this below - of producing and selling equipment to make it a viable proposition for their shareholders), it is about reaching a highly valued consumer base and adding to their share of 'attention'. In the future, the battle ground for manufacturers and operators will not be the hardware, it will be the platform and the eco system.

The 4<sup>th</sup> industrial revolution and the Industrial Internet of Things (IIOT as it is known in the manufacturing world) is already changing the way traditional manufacturers deliver value. Sometimes known as the outcome economy, firms like Rolls Royce and Caterpillar are willing to put their money where their mouth is by offering outcome based contracts based on quantifiable cost savings and efficiencies they can offer through the benefits of industry 4.0, and we, in the fitness industry, can't even fix a treadmill before it breaks down! Even before the IOT, firms like GM were offering remote diagnostics. This is what Dr Horst Kayser (Chief Strategy Officer of Siemens) states: "you may see hardware but what you actually buy today is performance that is enhanced and optimized digitally". Business as at the speed of thought anyone?

# ENTER APPLE

Firstly, why not Amazon, Google or Facebook making a treadmill? Simply speaking, they are not manufacturers and they don't have the brand equity at the prestige end of the market that Apple has. Nor do they have the experience in distributing products that they manufacture and servicing these in country through their network of dealers and owned shops. They could buy a manufacturer which is what I think Apple will do, but the integration would be much more challenging for them than for Apple. Finally, no one has the platform and eco system that translates better to the fitness industry than Apple does. They have the ability to bundle a whole host of services whilst leveraging the content available on their eco system which now includes Apple Fitness+. If you think that Apple is more of a lifestyle brand than a consumer electronics brand, the association with health and fitness makes more sense.

Apple has not so secretly been running experiments around workouts and exercise for some years now in their invite only exercise lab. Back in 2017, this what they told The Independent: "Our lab has collected more data on activity and exercise than any other human performance study in history," Jay Blahnik, Apple's director of fitness for health technologies. "Over the past five years, we've logged 33,000 sessions with over 66,000 hours of data, involving more than 10,000 unique participants." Apparently, they are now at over 100,000 hours of data. Together with the launch of Apple Fitness+ which syncs with all the health and fitness data they can collect on the Apple watch, this could become the de facto fitness product of the century – here is why.



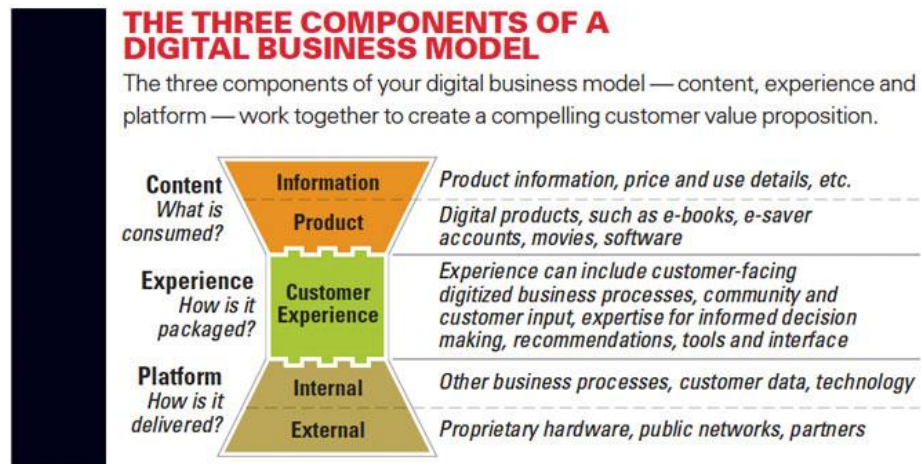
Smart watch market share (Source: Counter Point)

The hardware business for Apple has been facing declining margins for some years whilst the services division has continued to contribute a significant portion of earnings. The services business has grown at a CAGR of over 20% for the last several years whereas the iPhone has been around 7%. Forbes believes that services could generate more profit than the iPhone by 2025.

The services division for Apple consists of:

- iTunes
- iCloud
- Apple pay
- App store
- Apple care
- Licensing
- Apple TV+
- Apple Fitness+

To continue to make money from services Apple needs access (eyeballs) and share of attention. The console on a piece of cardio equipment is the ideal access point. If there is some link between share of attention (time spent on Apple products) and services revenue, this model makes sense. If the health market is the major target of Apple, then the equipment placed in the home or commercial setting becomes the hub in the Southwest Airlines model of profitability (hub and spokes). That piece of equipment has a state of the art console with the Apple eco system built in and connected.



Source: Weill, P, and Woerner, S.L (2013). *Optimising your digital business model*. MIT Sloan Management Review, Spring 2013, Vol 54, No. 3.

Let's start with the share of attention and revenue link. What Apple has done exceptionally well is create a platform that others provide the content for. The app store and Apple music are of course obvious examples and they are now producing a substantial amount of original content for both Apple TV and Apple+. Apple also benefits from what is known as network externalities. This many sided market creates increasing returns to scale as more and more people use it. The fact that Apple stuck to one technical platform (compared to Nokia) and focused on premium pricing for a small number of iPhone models has allowed it to claim some 70% of phone sales profit from less than 25% market share.



# Attention Economy

**3.17 Hours**  
Average daily time spent on smartphone in the US



**48 Days**  
Time spent on smartphone per year

**1.08 Hours**  
Average Daily Workout Time in the US



**16 Days**  
Time spent working out per year



**64 Days**  
Annual time spent with Apple products



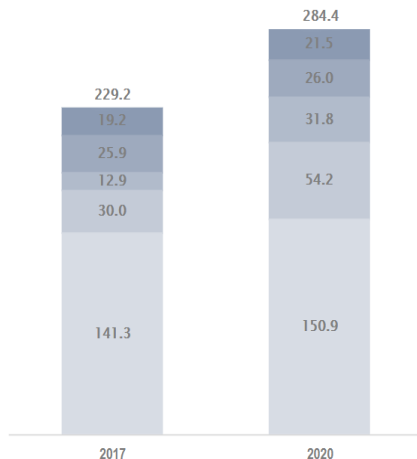
Source: MyProtein, eMarketer, Section4 analysis.



If the above analysis (from Section 4) is even roughly in the ball park as it relates to exercisers use of cardio equipment, then accessing consumers when they exercise gives Apple another 30% of mind share. How does this translate to revenue? That's hard to say but based on mobile use which has grown from around one hour per day in 2012 to over three hours per day, it could be substantial. The below chart shows the huge movement in services revenue for Apple and that growth is expected to continue. Scott Galloway (of section 4) believes that Apple will buy Peloton this year. With a market cap of US\$30bn, the purchase of Peloton would give the US\$2T Apple even greater access to one of the most attractive market segments it already owns.

Note: Apple's FY ends September.

Apple Revenues



Source: Fortune, Feb 25<sup>th</sup> 2020.



### WHAT IS BIG?

(1) iPhone	\$150.9 billion	(53%)
(2) Services	\$54.2 billion	(19%)
(3) Other Products	\$31.8 billion	(11%)
(4) Mac	\$26.0 billion	(9%)
(5) iPad	\$21.5 billion	(8%)

TOTAL Revenues in 2020 \$284.4 billion

### WHAT HAS CHANGED?

From 2017-2020

+ Change in iPhone	\$9.6 billion
+ Change in Services	\$24.2 billion
+ Change in Other	\$18.9 billion
+ Change in Mac	\$0.1 billion
+ Change in iPad	\$2.3 billion

TOTAL Change 2017-2020	\$55.1 billion
+ Apple's Revenues in 2017	\$229.2 billion
= TOTAL Revenues in 2020	\$284.4 billion

Additionally, if Apple can continue to offer hardware platforms beyond just the iPhone to their many app developers they limit the potential for multi homing. More importantly, if the unique fitness content they produce is offered through more channels, this will offer the best instructors the motivation to stick with Apple as Apple can pay both top notch salaries (as Peloton have done to steal

away talent from traditional bricks and mortar players) and expose them to many more users, building their own personal brand equity and secondary revenue sources. This will create even greater network effects.

Another potential benefit for Apple increasing their reach is building the subscriber base of Apple music. Reportedly now around 60m users vs some 140m for Spotify. The problem for Spotify is that many of those users are loss making. Music has become increasingly important to content driven exercise as it has been for years in GX. Fitt Insider has explored the concept of music as a moat. Deep pocketed firms like Apple could create partnerships (as it did with a curated play list for the NBA) with any number of performers and buy music aggregators essentially locking others out of the game. If you don't have great music with your content you are dead in the water. Apple also has other content such as pod casts etc that could be leveraged through a wider platform base.





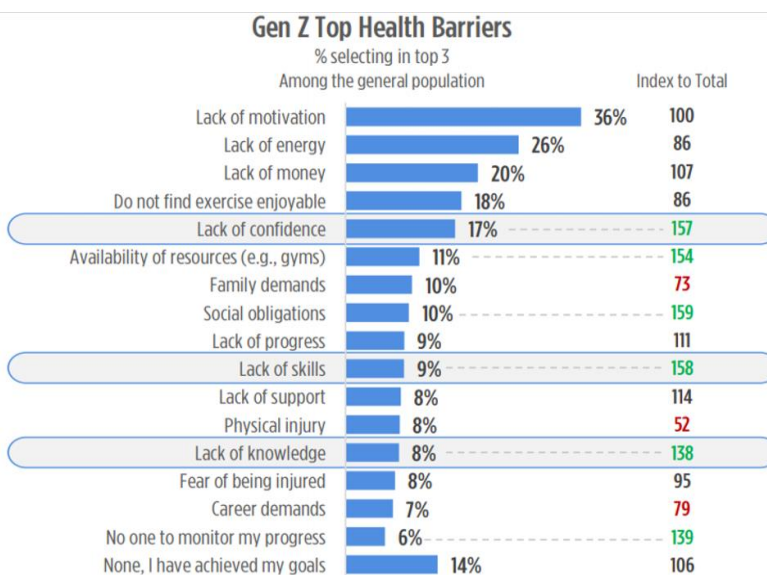
# HOW WOULD THE APPLE BUSINESS MODEL WORK?

First and foremost, Apple will buy an existing manufacturer who has access to a large home and commercial market. They are then most likely to revolutionize the way equipment is sold, monitored, repaired, distributed, and utilized.

1. **Channel disintermediation** – due to the brand name pulling power of Apple, they will sell to both consumer and commercial customers directly through e commerce channels. By skipping out the distributor that most commercial manufacturers utilize they will invoke major cost savings for the commercial customer. Service and installation will be done by the local teams that currently service the hardware that Apple already sells. Warehousing and storage will benefit from scale economies by utilizing existing spaces. In addition, Apple can use their network of shops to show display items if needed but frankly who will care? It's a god damn Apple treadmill!!
2. **Manufacturing scale and scope economies** – in combination with their current manufacturing scale and scope, is there potential to drive cost efficiencies in the manufacturing of cardio equipment? If they gain sufficient share they can certainly benefit from scale economies. A cost leadership position would cause serious problems for incumbent firms, especially if they adopted an aggressive or freemium pricing strategy.
3. **E commerce site** – the site will be state of the art with the ability to configure, choose colours, and design your gym space on line. Financing will be approved online at the time of ordering. They may also tie up with 3<sup>rd</sup> party suppliers of other non cardio equipment that are needed to fill out a gym. Similar to the DBS car market place business model, Apple will be the one stop solution for cardio and finance needs.
4. **Lead times** – by leveraging their knowledge base in manufacturing, data analytics, machine learning, and supply chains, Apple will slash the costs of manufacturing. By utilizing their existing warehousing facilities and cheap access to capital they will be able to keep significant amounts of stock in each country. Rather than the normal 3 months lead times, customers can have their goods in weeks if not days.
5. **Repair and maintenance** – using state of the art sensors, AI, machine learning, and the IOT, Apple will create prescriptive analytic models that will allow them to repair equipment before it breaks down maintaining 100% up time for customers. These are aligned with part inventory systems and mapped to actual parts in country. The data collected leads to learning which further improves future products and diagnostic capabilities.
6. **ROI for operators** - will be quantifiable as Apple, similar to John Deere, Siemens, or Rolls Royce, can advise commercial customers on the best way to minimize energy usage etc whilst maximizing member retention levels through the use of predictive analytic models of exercisers health and fitness behavior inside and outside of the gym.
7. **Rundling** – Apple won't sell equipment outright in the future, they will create recurring revenue bundles (rundles as described by Scott Galloway) with their various services that will contribute the vast majority of their income going forward. They will either accept the hardware as a loss leader to gain significant penetration into the commercial market or, using highly accurate total cost of ownership models (TCO), offer the hardware and the software at an all inclusive monthly fee. Once the term is up (say 5 years) they will offer the upgraded model to you, and/or the new console, or the option to buy the equipment outright. They will probably team up with Amazon to take back and shift the 2<sup>nd</sup> hand equipment!!!
8. **Console** – the console will be a mirroring console which means you can display your phone contents directly on the console. The eco system of Apple will be accessible directly through the console or through the mirroring platform. Services revenue for Apple generated through in facility console use can be a source of new revenue streams for the operator who take a percentage. This could even be apparel as Peloton start to

tap this area. More importantly, the console will be directly tied into the Apple platform collecting and accessing the billions of data points collected as customers use their solutions. Once you tap on the console with your Apple watch, the world will open up as never before. Siri, change the incline to 2% please!

9. **Apple watch and Fitness+** - how will the watch and Fitness+ fit into this? In many customers minds, cardio equipment has become commoditized and the only differentiating factor is the console and what's on it (excluding factors such as after sales service). The problem is, no manufacturer has been able to tie their content nor digital solution in any quantifiable way to operator ROI. Not only could Apple change what's on the console beyond all recognition, they could change how it is used. For example, the typical member journey of a club consists of an induction, a program and then the attempt to sell PT. Since most members do not buy PT (80% or more), for most this is where the journey ends. The average Jane or Joe continues to come for the first 6 months or so until a lack of confidence, control and autonomy (through knowledge and support) leads to either cancellation or sleeper status.



Source: Murphy Research

The future will look significantly different as will the role of PTs (as Daniel Susskind points out in his fascinating book *A World Without Work*, AI will take away many more jobs than people ever envisaged). Users will walk up to a console and tap their Apple watch. Based on their sleep, nutrition, heart rate variability, hormone levels, past exercise habits, health checks etc, the AI will suggest a workout identifying parameters related to intensity, form and exercises. Over time it will get better at this as it learns what you, and other people like you, did to achieve their goals. Utilizing the benefits and motivating capabilities of social, the AI will connect you with people anywhere in the world who are facing the same challenges as you. The system will be intelligent adding progression levels and recording every single slice of your health related activity. It will provide advice on nutrition and wellbeing whilst linking to the multitude of service providers on the eco system, including insurance and health care providers. Based on your workout, needs, goals and status, your food will be automatically ordered for you and ready when you get back home or to the office. It will be a self reliant member journey providing all the interaction and touch points needed to enhance your outcomes and adherence. Driven by psychology, behavioral economics and realms of data, it will provide 1000x more information and value than any trainer ever could. Does this mean the end of trainers? No, but their role will need to dramatically evolve. Should the operator worry about decreases in PT penetration? I don't think so for 2 reasons. This vastly new AI enhanced member journey will exponentially increase retention levels adding more to the bottom line than most PT revenues. Additionally, a more active engaged membership will lead to increased secondary revenue spend in others areas, and maybe even PT. If the PT can evolve their knowledge base and skill set beyond the 'traditional rep counter', the opportunities are vast.



# PARALLELS WITH THE APPLE CAR AND MAYBE APPLE DON'T MAKE A TREADMILL...

Apple started working on an EV back in 2014 under Project Titan with some 1000 employees. Even though this took a back seat for some years due to internal strife, things have taken off again. There has been lots of talk regarding self driving cars and more recently the Apple Car. Danny Fortson, senior business reporter for The Sunday Times, called this a “gold rush” in the electric vehicle market. “If you look at a Tesla, in many ways, it feels like an iPhone on wheels”. Stephanie Link, chief investment strategist at Hightower states that although the profitability is low for a car and Apple is unlikely to make one, she thinks they are more after the driving experience using hardware, software, and services. Although no one seems sure of the link with Hyundai, the Financial Times believes Apple is likely to focus on design whilst outsourcing production to companies such as Hon Hai Precision, a Taiwanese electronics manufacturer. Apple has a history of hardware and software integration which started with the iPod and has expanded into the ‘i’ universe of products we know.

Apple has already been successful working with most major manufacturers in using car play bringing iOS to the car. Do Apple really want to build and make money from cars or is this more about learning? According to Tim Barjarin of Creative Strategies Inc “what if Apple was able to present to car makers a rich solution behind iOS that connects sensors and cameras along with music, apps and services that helps them create a car that has multiple cameras as well as a 360-degree camera on top so there are never any blind spots? Sensors inside and out could be used to add additional safety features, including collision avoidance and the like. Add to that the music and entertainment features that are part of iOS, as well as the fact that iOS is a platform app developers could create apps for a car. Apple could create the architecture that sits at the centre of all future smart cars”.

Next to being at home and work, people spend a considerable amount of time commuting. Dominating the share of attention in the car gives Apple another slice of the pie in the attention economy. If the Apple software becomes the dominant operating system for the next generation of EVs due in part to consumer pulling power, then perhaps they could do this in the fitness equipment market where people spend the next chunk of time. If you don’t use the Apple operating system and are not compatible with all the data that comes from the Apple watch and supporting eco system then you become irrelevant. So maybe Apple don’t make too many treadmills but they do become the standard operating system for manufacturers who want to stay relevant.

How would this work? Again, the focal product would be the watch. Apple can offer you any number of tiered offers including different services such as Apple TV, Fitness+ etc. Once you buy the watch, you are offered a range of bundles that includes 'access' to gym chains. So, for say \$29.99 a month, you get access to Fitness+, Apple music and gym access (those gyms that have the iOS as the console standard). Manufacturers would have no choice but to be iOS driven as consumers pull the product through the channel – be there or be square. Operators receive a cut of the \$19.99 every time a non member Apple subscriber uses their gym. Once Apple reaches scale and benefits from network effects, the wheels grease themselves. Even better, don’t sell me anything, just give me my watch, home work out equipment, Fitness+, music, and gym access pass for an all in \$99/month.




# APPLE AND THE HEALTH MARKET

In 2017, Apple tapped Dr. Sumbul Desai, the executive director of Stanford Medicine's Center for Digital Health, to be Apple's vice president of health. The company has also acquired a number of wellness startups and collaborated with major research institutions on a range of projects. As I said earlier, the health care industry is ripe for disruption and the application of AI could play a major role in this. Take for example prescription drugs, new research published early this year by the Ohio State University shows scientists have achieved success using a machine learning method to determine whether or not certain drugs can be repurposed for new uses. "This work shows how artificial intelligence (AI) can be used to 'test' a drug on a patient, and speed up hypothesis generation and potentially speed up a clinical trial," according to one of the authors (Ping Zhang PhD). Apple has already made numerous investments in the health industry (see below) and with the fitness slice of the pie the circle begins to complete. Their capabilities in data science backed by huge amounts of money essentially places them to take any position in the health and fitness market they wish.


- **June 3, 2019:** Apple executives announce at the company's annual developers conference that Apple Watch and iPhone users will soon be able to monitor menstrual cycles and symptoms, hearing health, and activity levels over time.
- **June 6, 2019:** Ruston-based Northern Louisiana Medical Center begins allowing patients to access their medical data through Apple's Health Records app.
- **June 28, 2019:** Apple begins allowing hospitals and health systems with compatible EHRs to self-register for its health records project, which provides patients access to their health records directly from their iPhone.
- **July 30, 2019:** The University of Tennessee Medical Center in Knoxville begins providing its patients with access to their health records via Apple's Health records app.
- **Aug. 7, 2019:** Apple partners with Eli Lilly to determine whether health data from the iPhone and Apple Watch can detect early signs of dementia and later found that people with cognitive decline typed slower, sent fewer messages and relied more on support apps than the control group.
- **Aug. 7, 2019:** El Dorado-based Medical Center of South Arkansas allows patients to access their medical data on iPhone via Apple's Health Records application.
- **Aug. 14, 2019:** Springdale, Ark.-based Northwest Health begins offering its patients access to their medical information through Apple's Health Records application.
- **Aug. 22, 2019:** Apple Health Records makes itself available to Allscripts Sunrise, TouchWorks and Professional EHR clients and their patients.
- **Sept. 3, 2019:** Quincy, Ill.-based Blessing Health System gives its patients access to their health information on their iPhones through Apple's Health Records feature.
- **Oct. 3, 2019:** Apple Health Records grants access to Meditech's Expanse and 6.0 EHR clients.
- **Oct. 7, 2019:** Devoted Health, a start up health insurer for Medicare plans, begins providing the Apple Watch at a discount as a fitness benefit to its members in Florida.
- **Nov. 14, 2019:** Apple opens enrolment for three health studies, each designed and conducted in partnership with leading academic and research institutions, via its new Research app.
- **Dec. 13, 2019:** Apple partners with genetic testing company Color to provide employees with free genetic screenings at Apple's on-site health clinics.
- **Feb. 25, 2020:** Apple and Johnson & Johnson open enrolment for their joint "Heartline [Study](#)," in which they will test whether the iPhone and Apple Watch can speed detection of atrial fibrillation in users aged 65 and older.

*Source: Beckers Hospital Review, June 17<sup>th</sup> 2020.*



## WHAT DOES THIS MEAN FOR COMMERCIAL EQUIPMENT CUSTOMERS?

Whatever happens the news is likely good for operators who can evolve to meet customer needs. COVID has brought on a huge spike of awareness in the general health and wellness and this should increase the overall size of the market. According to Research and Markets, the industry is still expected to grow at over 7% CAGR over the next few years. If more people engage in exercise it is reasonable to assume that some of these people will 'bleed' into the penetration rate for health clubs. Revenue sources will diversify through the link up with the Apple eco system and overall experiences for customers will improve. There will still be completely non digital clubs (I for one have never tracked a workout and never will) but for the average Jane and Joe who feel neglected by the experience within traditional health clubs, the Apple driven experience will create a whole new feeling. As I mentioned, clubs will need to change the way they manage their membership journeys and how their trainers interact with users. The good thing is the technology will be a massive enabler and the number crunching algorithms will solve many of the problems that operators currently face.



## WHAT DOES THIS MEAN FOR EQUIPMENT MANUFACTURERS?

The news will not be so good for one or two commercially focused manufacturers. "Can anyone catch the cell phone king" was a Forbes cover story back in 2007 about Nokia. Clearly someone did! If Apple decide to literally give away the hardware or refuse to license the software, the business models of traditional manufacturers becomes obsolete. They can either accept lower margins competing at the budget end of the market or focus on OEM manufacturing by leveraging core competencies they have in certain processes related to making components (think Samsung and the glass screen they sell to multiple phone manufacturers). They could do both of course but either way they can't expect margins to be what they are now. This also assumes they have distinctive competencies.

The major barriers facing incumbent firms are culture, mind set and investments tied to existing business models that are hard to cannibalise in the name of seeking new opportunities that may not even be apparent to them. Think about the traditional firms that have been disrupted by Uber, Airbnb, Amazon, Netflix, and of course Apple vs Nokia. Could this now happen to equipment manufacturers like it may happen to the auto industry?

The products are certainly becoming commoditized and one of the disadvantages that commercial B2B manufacturers have is they don't have the brand association with customers that exist in consumer markets. One thing you tend to notice with incumbent firms is their focus on making 'better' products when clearly the customer value proposition has changed. Nokia and Rubbermaid are two classic examples. In many traditional manufacturing industries (such as construction equipment or transportation), B2B customers want proof of ROI, customer success has been a major focus of SaaS and now it is for physical products. Unfortunately, not a single manufacturer can demonstrate top or bottom line impact. This is not even about data analytics and the IOT, it is about simple account management.

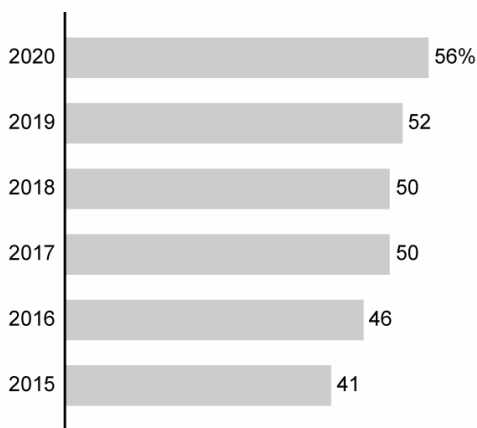
When firms face these 'new age' competitors the response is predictable. Firstly, they tend to dismiss these threats as blips on the radar that will never reach them. Secondly, they baton down the hatches and do more of what they have

done in the past, focus on product development and incremental innovation. Unfortunately, being efficient is not the same as being effective. How can an incumbent firm compete in the world of big data against behemoths like Apple or Amazon who have armies of the best data scientists in the world and they don't even have one! Executives are going to need to run in two parallel directions. One to continue to make money today based on existing business models and incremental innovations. One based on lean start up concepts that values agility, contrarian view points, transformation over status quo, and the willingness to adopt a different view of strategy. If your handbook is *Playing to Win* (published by HBR in 2013), you are playing to lose (see why [here](#)).

Marco Iansiti and Karim R. Lakhani (in their new book *Competing in the Age of AI*) call this clash between old and new as strategic collisions. In the case of Apple vs any current fitness equipment manufacturer it would be more a case of David vs Goliath. As in the phone industry, profits will start to migrate from the hardware to the software layer, the ecosystem. The authors suggest in the auto industry, similar to the choices Nokia faced, manufacturers will have two options, either scale and challenge or work with the new kid on the block. Challenging may be an option in the auto industry due to the sheer size of some of the incumbents. I don't see how that is an option in the fitness industry where the biggest manufacturer barely sells US\$1bn a year. Where economies of scale dominated the business models of the past, these hub companies dominate through scale, scope, and speed of learning.

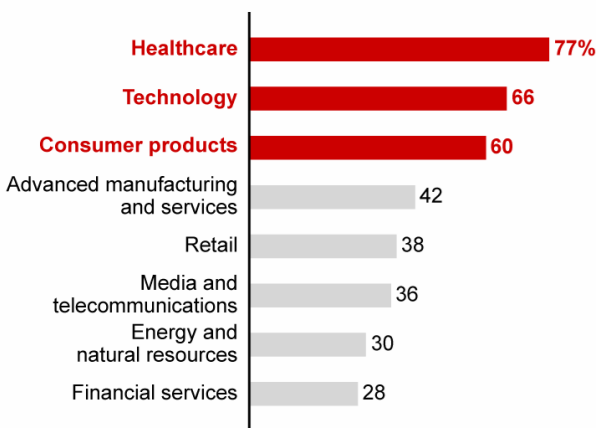
**Rising share of scope deals over the past five years ...**

**Percentage of scope deals**  
(strategic deals greater than \$1 billion)



**... driven mainly by healthcare, technology, and consumer products**

**Percentage of scope deals,**  
2015–2020



Notes: Top 250 strategic deals of the year from 2015 to 2019 and top 131 deals from 2020 (January–September) identified by excluding nonstrategic deals, such as asset or property acquisitions, financial investment deals, government acquisitions, internal reorganizations, or minority stake acquisitions; deals classified by rationale using a proprietary classification framework, as per stated strategic rationale at the time of announcement  
Source: Bain M&A deal database, 2020

Source: *Expanding M&A Opportunities for New Capabilities*. Bain & Co, Feb 16, 2021.

Apple is buying a company every 3-4 weeks according to the BBC. The above chart shows where scope deals are happening (not specific to Apple). So, will Apple buy a fitness manufacturer? Why not? The health care industry is clearly a target for Big Tech and ripe for disruption. Let Amazon target it from the top through prescription drugs and let Apple come from the bottom through health, wellbeing, and fitness. Whatever happens, it is gonna be one hell of a ride!



