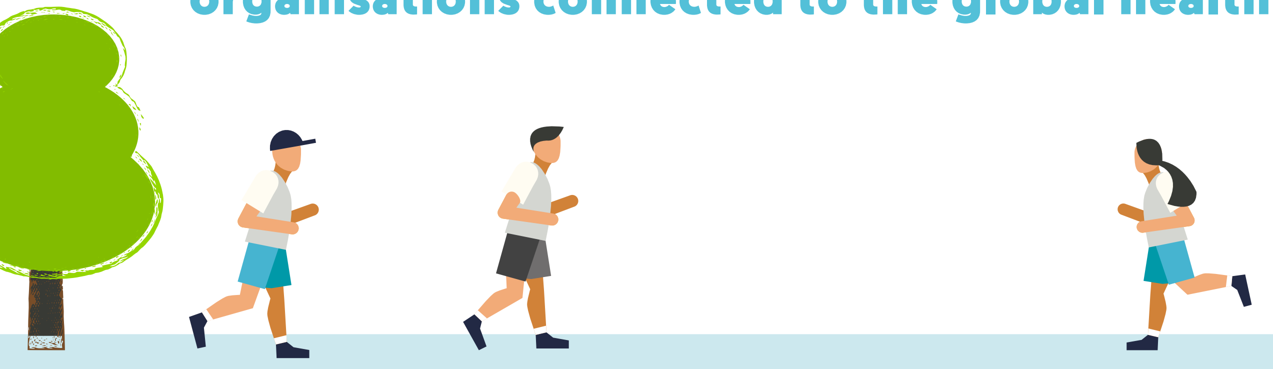
Health club industry mid-market report

– investigating how brands are repositioning in an era of rising competition

Researched and written by Ray Algar, Managing Director, Oxygen Consulting, UK. December 2015

Oxygen Consulting – compelling strategic business insight for organisations connected to the global health and fitness industry



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Researched and written by Ray Algar (MBA), Managing Director, Oxygen Consulting, UK

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FOREWORD BY PRECOR

We are excited to co-sponsor the health club industry mid-market report from Ray Algar of Oxygen Consulting. If you are a club operator who feels 'caught in the middle', this report is for you. It is becoming increasingly more difficult to find the right balance between delivering a differentiated experience and driving value chain efficiency.[1] This report focuses on insights mid-tier operators can employ to encourage long-term success; however, the lessons in creating perceived value are beneficial to all. Specifically, this report delves into how the current consumer landscape is bifurcating into **transactional** (self-service) and **experiential** (supported) service providers.

This is true in restaurants, hospitality, retail and fitness. If you want to not only survive, but thrive as an experiential service provider, you must commit to consistently delivering your brand's value promise.

Unfortunately there is no magic bullet. What works for one club or fitness team may not work for another. Ray Algar has done a great job of putting together a collection of case studies, industry insights and interviews. Our goal with this study is to challenge, inspire and educate.

In The Precor Creed, our set of core values, (we) believe in mutual respect and the overwhelming returns of sharing. We are pleased to share this practical, action-oriented report with you. We hope this helps you to better serve your members and achieve continued success. Thank you for sharing in the fitness journey of making the world a healthier and happier place.

THE PRECOR CREED

I desire a life without limits.

I believe fitness is key to living the life I desire.

I believe in the power of the human spirit.

I believe the human body is an amazing thing.

I believe tomorrow will be even better because of my actions today.

I believe in the importance of doing things right versus first.

I believe in mutual respect and the overwhelming returns of sharing.

I am the heart and soul of Precor.

Brian Kane
Senior Manager, Commercial Management and Customer Insights

Chris Torggler
Global Sales Director – Strategic Accounts

1. The process or activities by which a company adds value to a service or product

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FOREWORD BY REX ROUNDTABLES FOR EXECUTIVES

REX Roundtables for Club Executives™ is pleased to co-sponsor this report. REX is dedicated to helping club owners improve the performance of their businesses by orchestrating small groups of club owners and executives who meet three times a year to help one another learn and improve their clubs. With over 25 years of chairing club roundtables for 250 of the world's top club owners worldwide, we have learned that most clubs are better at operating on a day-to-day basis than they are on making improvements and changes. Sometimes changes are driven by the founder's dream of a beautiful facility or multiple locations or serving a particular style of fitness. Over the last two decades, however, the rate of change in our industry as well as all industries has accelerated to a point where it is very difficult to maintain a competitive advantage. As in any industry, improvements are quickly shared through conferences, magazines and word of mouth. The era of continuous change appears to be upon us.

When the new millennium dawned, we began focusing daylong discussions in its roundtables on the emergence of low-cost clubs and micro or boutique studios. Some of these early ventures did not deliver the same programmes or services that we were used to seeing in our clubs. So it was easy to be dismissive. Whenever one of these brands struggled or failed, it confirmed our beliefs that theirs was not the direction that we should be following. Some 15 years later I can report that more than 50% of REX members worldwide have developed low-cost or niche products. In some cases they have shifted their entire business focus in this direction; others have added a new division. Being in a small peer group that meets regularly with a professional facilitator has enabled new ways of thinking and competing to emerge. This is a rather dramatic change that gives me great pride in our REX member clubs. Management consultants and business schools continually warn us that industries change or even disappear because of an invasion by a new product or service from outside your industry. Think desktop computers and the typewriter, Facebook Messenger and email, or Uber and taxis. Clayton Christensen, Professor at Harvard Business School and frequently cited by publications such as the Wall Street Journal as one of the world's most influential business thinkers, built his reputation and practice on the concept of disruptive innovation and he believes that is what is happening in the health club industry.

In my first 10 years chairing REX Roundtables, I had fears that outside disruptors might dramatically harm our health club industry. Now I believe that our industry has shown it can disrupt itself and learn to continuously change to stay on the crest of a wave. In part this is due to the character of the business leaders in the health club industry and being able to explore and be challenged in their peer REX Roundtable to new ways of thinking and acting.

We hope this report stimulates your thinking as a club owner, executive or investor to stay ahead of the curve of competition.

Will Phillips
Founder

Eddie Tock
Partner

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WELCOME BY RAY ALGAR

MANAGING DIRECTOR
OXYGEN CONSULTING

Welcome to the first edition of The Health Club Industry Mid-Market Report. The purpose of this report is to capture some of the recurring ideas and themes that have featured in my work over the past few years. Consequently, this report discusses several themes:

- How the way consumers engage with clubs continues to evolve.
- The role that big 'strategic moves' play in changing how the fitness industry develops.
- How rising competition, substitutes and alternatives are challenging the industry to create and demonstrate meaningful value for its stakeholders.
- How generic and mediocre fitness experiences are verging on redundancy.
- How I see the industry forking along either a 'self-service' or a 'supported' pathway.
- How selected club brands in the United States, the United Kingdom and Germany, the world's three largest club markets,[2] are evolving in response to the evolving competitive landscape.

Some of the club brands in this report will be familiar and others not. I have written about them on the basis that there are things to be learnt from the decisions senior management and owners have made over the years. 'Curves', for example, is a brand that most will have some knowledge of but perhaps not fully understand how it was able to unlock new demand from women who had never before considering 'joining a gym' and then why its success in some countries could not be sustained.

Report structure

The report is structured into a strategic overview, interviews, case studies, concluding remarks and so can be read in several sittings. However, I do urge you to read to the end as this is where you will find the recommendations.

To the numerous contributors

I wish to thank the many people who generously gave their time to this report. A report is always enriched when others share their experiences.

Precor and REX Roundtables

I wish to thank Precor and REX Roundtables for Executives for supporting this report. Both organisations have provided considerable assistance over many months to improve the report's structure and content. We have collectively agreed that the entire report be available free of charge, so that everyone has the opportunity to benefit from its content.

I do hope you find this report informative and that it explains how the health and fitness industry is evolving. More importantly, that it helps to create a better understanding of the meaningful role your organisation can play in enriching people's lives.

Ray Algar MBA
Managing Director Oxygen Consulting

2. Measured by the number of clubs and revenue

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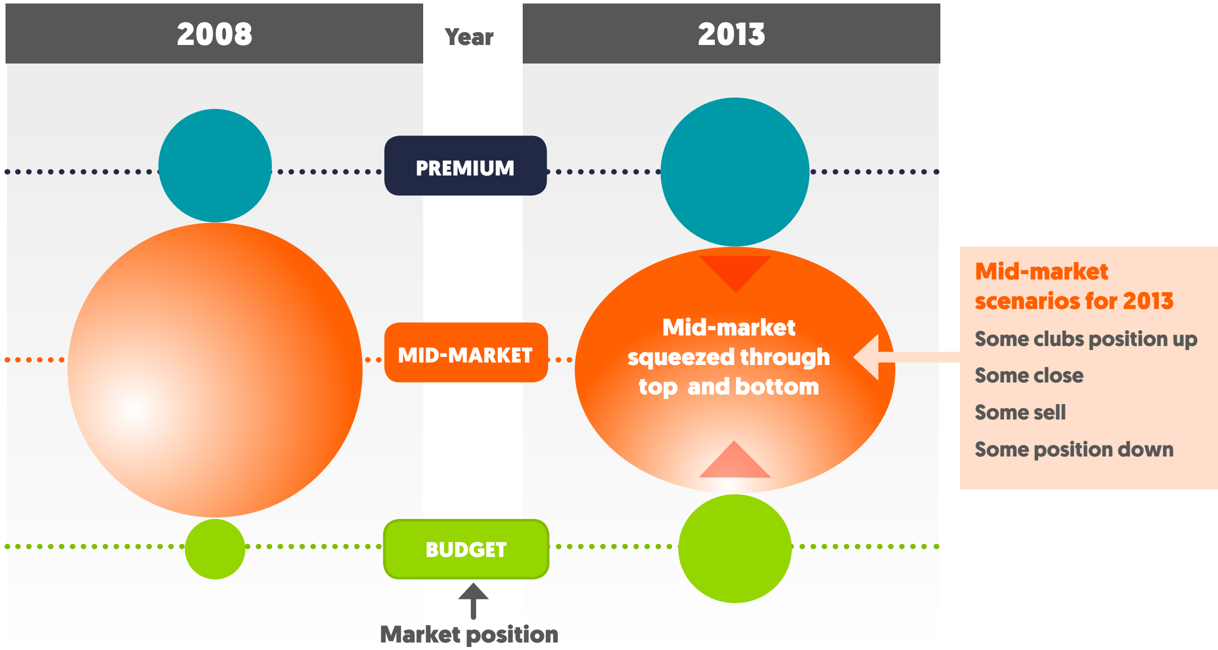
AN EVOLVING INDUSTRY

In early 2008, I wrote an article for a UK magazine titled ‘Price war on the gym floor’. The article discussed the emergence of the UK’s first low-cost gyms and the effect on the ‘mid-market’.

Written before the global financial crisis, the article discussed how British consumers were beginning to embrace low-cost providers from many industries – hotels, airlines, clothes retailers, supermarkets and health and fitness. Consumers were beginning to realise that ‘discount’ or low-cost providers were not peddling ‘inferior’ products – easyJet, for example, may be a low-cost airline but has always had one of the newest and most fuel-efficient aircraft fleets of any airline. So low-cost gyms began emerging to serve this new ‘savvy’ and value-conscious consumer and I wanted to understand the future consequences for the wider industry. In order to visualise the potential disruptive change, I created the following image.

Figure 1:
UK private health clubs: present and future market structure



It is a simple image but with important implications for all stakeholders from owners, investors, employees, members, suppliers, communities and others. It visualised what I saw as the future shift, where both the opportunities and the threats existed. I can vividly recall conversations with some of the new low-cost gym CEOs, who were excited by the opportunity that lay ahead. They had the established 'mid-market' gyms in their sights and believed they had a new product that was ideally synchronised with a value-seeking consumer and a deteriorating economic backdrop that was prompting people to think more carefully about their purchases. One UK low-cost CEO confidentially predicted that the mid-market would disappear within five years – not a part, but all of it. Well the mid-market, where the majority of clubs operate, has not disappeared, but it has been fundamentally challenged and over the course of this report I wish to explore why they are being challenged and how they are responding.

STRATEGIC MOVES

When a new business comes along does it compete to attract customers already using the industry's services or does it appeal to people who have previously not considered the industry? I analysed significant events in the development of the UK health and fitness industry over a ten-year period (from 2005). During this period there were more than 67 events that captured the industry's attention. Below are just eight:

- PruHealth[3] partners with Holmes Place health clubs to provide discounted gym membership for customers buying its private medical insurance (2005)
- BC Partners acquires Fitness First (2005)
- FitSpace launches the UK's first low-cost gym (2006)
- Nuffield Hospitals acquires Cannons Health and Fitness Clubs (2007)
- Anytime Fitness open their first UK club (2010)
- PayasUgym launches an online platform that allows consumers to locate a gym and buy a single pass (2011)
- Sports Direct PLC launches a new health club division (2014)
- NorthEdge Capital acquires Total Fitness[4] (2015)

When reviewing these events, which can be assessed as genuinely market-creating, where the offering unlocks new demand from customers who have previously not seen themselves as users of the industry? Many of the events that I witness are not market-creating but simply similar offerings designed to attract existing industry customers, resulting in more rivalry between providers.

3. Now rebranded to VitalityHealth
4. A chain of 17 large-format clubs operating in the North of England

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For me, the move by FitSpace in 2006 and PayasUgym in 2011 are the two events that stand out. FitSpace with its contract-free memberships provided at up to 70% lower than the market average price for a private gym and PayasUgym offering access to a large network of clubs on a pay-per-visit basis helped to reduce industry barriers and attract new customers to the industry. However, these significant market-creating moves are infrequent, which is why operators are experiencing a rise in competitive intensity. Going further back, David Lloyd, the former British tennis player, kickstarted the UK private health club industry in 1982 with the launch of large-format tennis and health clubs. For the first time people had an alternative to public leisure centres, which at the time suffered from under investment.

The Grondahl brothers have been very successful in attracting new and low-use gym industry members to their fast-growing Planet Fitness brand. In 1992 they repositioned a loss-making independent 'mid-market' club in the state of New Hampshire in the North East of the United States and it has since grown to more than 1,000 clubs and 7.2 million members.[5]

Five years later, entrepreneur Rainer Schaller, believed a simpler, low-cost gym offering would stimulate new demand across Germany and so McFit was launched. The brand has since grown rapidly and now has 230 gyms with 1.2 million members across five countries.[6]

Eleven years following the launch of David Lloyd clubs, Mike Balfour founded Fitness First with the idea that more British consumers could be attracted into the industry by offering smaller, more community-oriented and affordable clubs priced at £29 per month.[7] This fledgling business resonated with British consumers and grew rapidly.

These entrepreneurs with ambitious ideas that help to redefine the industry's boundaries and attract new first-time customers do not come along very often. However, it is these people with their contrarian and original views that create a step-change in how the health and fitness club industry develops.

5. Quarterly report for the period ending June 2015

6. Germany, Austria, Italy, Poland and Spain. At October 2015

7. $43.50 at 1993 exchange rate. The typical price to join David Lloyd in 1993 was at least £40 per month

MATURING MARKETS

The largest health and fitness markets such as the United States, the UK and Germany show several characteristics of maturity. There are high levels of merger, acquisition and restructuring activity as it becomes more challenging for operators to grow organically.[8] Competition[9] is intensifying, which makes it challenging for many undifferentiated operators to raise prices.[10]

LA fitness (UK)

" We have LA fitness clubs charging less than they did 10 years ago "

Martin Long, CEO, LA fitness (UK). Interview January 2014

[Pure Gym, the budget operator, subsequently acquired the 43 LA fitness clubs in May 2015. LA fitness was once listed on the London Stock Exchange]

This means in the UK as an example, private sector membership subscription grew at an compound annual growth rate (CAGR)[11] of less than half of one percent for the period 2010 to 2014, much slower than the nation's annualised gross domestic product (GDP).[12] Meanwhile in the United States compounded membership growth of 1.9% for the four-year period to 2014 has not kept pace with the growth of new facilities over the same period (5.2%). Consequently, average members per club in the United States has been declining since 2011 as increasing numbers of clubs compete to attract members.[13] This maturity of the market is changing the structure and composition of the industry as some providers attempt to identify a point of difference which is apparent to consumers who are awash with choice. However, clubs do not only need to compete with other clubs, but substitutes and alternatives as well.

8. European merger and acquisitions have been rising every year since 2011 in Europe – seven transactions in 2011 rising to 19 deals in 2014 (source: Merger Market, Deloitte)
9. Nine out of ten people in the UK now live within two miles (3.2 kilometres) of a private or public centre
10. REX Roundtable club members reported that it is relatively easy for new competitors to enter the market due to the availability of abundant and affordable property
11. Defined as the average year-on-year growth rate over the period
12. It was approximately 0.5% whereas UK gross domestic product was averaging 1.5% between 2010 and 2014
13. CAGR of 0.5% for the five-year period 2009 to 2014. Average members per club totalled 1,568 in 2014, down from a peak of 1,716 in 2011

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COMPETITION, SUBSTITUTES AND ALTERNATIVES

As fitness markets mature, so competitive rivalry intensifies.[14] This situation is often amplified as the boundaries of the health club industry are defined and then reaffirmed by operators, media and other commentators.[15] However, as clubs wage battle against each other, I have observed the increasing threat from substitute offerings.

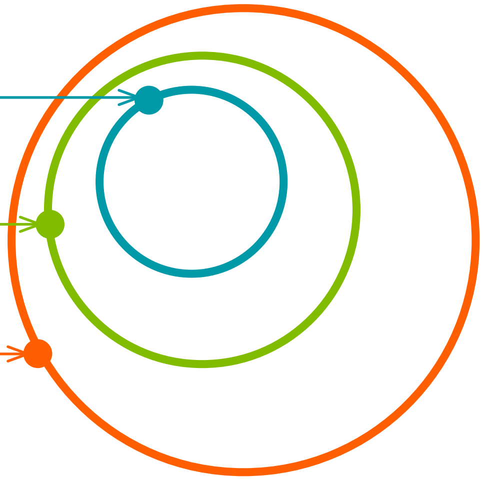
Figure 2
Competitors, substitutes and alternatives

Legend:

Competitor
- same form
- same function

Substitute
- different form
- same function

Alternative
- different form
- different function
- but same overall purpose



Competitors tend to be easy to identify because they possess the same core form and operate in similar ways. So most would agree that 24 Hour Fitness competes with Planet Fitness in the United States and Virgin Active with Fitness First in the UK. The scale and scope of what they provide may vary, but their fundamental form and function is the same. This also means they are identified and measured by industry reports as forming part of the supply side of a recognised industry. This helps to provide an understanding of the degree of competitive rivalry that exists. So while competitors are audited, analysed and benchmarked, substitutes can often operate under an industry's radar.

14. Many club owners operating in a mature fitness market rate the level of competitive intensity relatively high to very high on a zero to ten scale
15. The accepted rules upon which clubs compete to attract customers

British Military Fitness [BMF][16] launched in the UK in 1999 to attract people out of gyms and into parks where former military instructors take groups of people through intensive one-hour classes using the tagline 'serious fun'. BMF operates with no building infrastructure and was conceived by Major Robin Cope as a substitute for the gym.[17] The established club industry often pays little attention to these substitutes because they sometimes may be viewed as inferior and inconsequential. A club operator's perspective, if aware of them, may be, 'exercising in the park does not compare with the extensive facilities we offer.' Those taking part, however, describe a fun and sociable experience as well as a demanding class run by friendly and professional instructors.[18] The local health club has just been substituted and this phenomenon is becoming more prevalent as consumers consider different and varied ways to become more active. Meanwhile British Military Fitness is given the opportunity to quietly grow where its reach is now more than 56,000 participants each month across 140 UK parks.[19]

> “It is easier to fight the enemy you know than one you don't”
>
> Nirmalya Kumar, Visiting Professor of Marketing, London Business School

Zumba in the community is another interesting example of an influential substitute that has repackaged fitness and infused it with fun. Zumba now claims to be the largest fitness brand in the world, with 15 million participants taking part across 200,000 locations in 180 countries.[20] They want to grow this number to 25 million participants.

An interesting dynamic exists between Zumba and the health club industry. When Zumba first launched, clubs rejected it and so Alberto Perlman the CEO and his team identified alternative venues such as community halls, churches, nightclubs and schools. Self-employed Zumba instructors can deliver their classes anywhere and the very best talent can decide where they deliver, harnessing the Zumba global 'find a class' portal. The dynamics have now shifted and perhaps clubs now need Zumba more than Zumba needs clubs.

There are myriad other fitness and exercise substitutes, including sports clubs, mobile personal trainers, wearables, phone apps, Nordic walking, digital in-home streaming services and community runs.[21] These are just a few examples and demonstrate the changing options now available to consumers seeking to become more active. So I believe the threat from substitutes is high right now – not in five years, but now. So how much attention does your business pay them?[22] Clubs of all formats need to take time to research them through a neutral lens and understand what it is about them that consumers find compelling. Only then will you be in a position to consider what strategic response, if any, is required.

16. See britmilfit.com

17. It states this clearly on their website

18. Participants tell stories of how British Military Fitness has changed their lives. Read stories here bit.ly/BMF-stories

19. Company statistics at October 2015

20. Company statistics at October 2015

21. One of my favourites is GoodGym, a UK organisation that enables group of runners to get fit by doing physical tasks that benefit a local community. See goodgym.org

22. Magnus Lindkvist, the trend spotter who spoke at the IHRSA convention in 2015, suggests we all consider how we feed our brains, believing we should all be provoked by a new idea, concept or person at least once a week. I see it as paying attention to how people are changing the way they interact with the world

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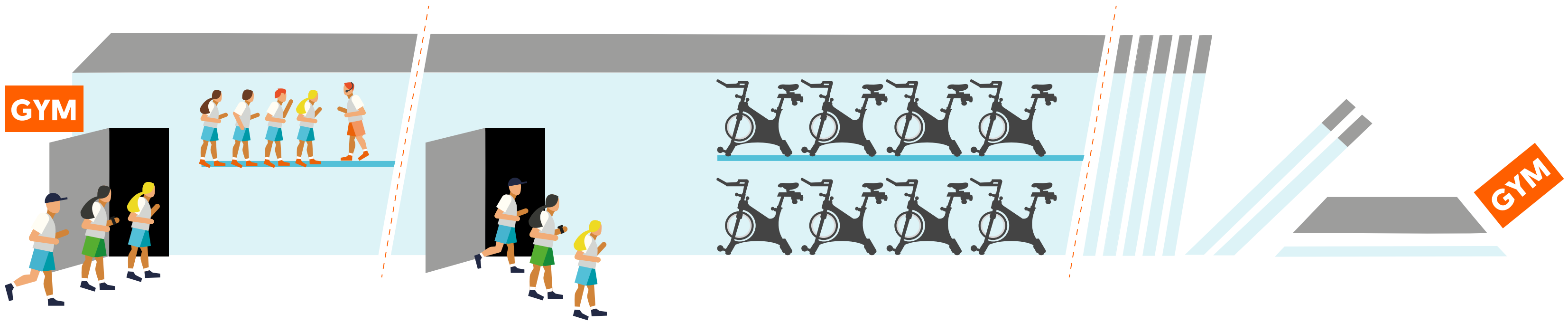
USA

“In 2014, studio facilities (e.g. sports-specific, indoor cycling/rowing, yoga/Pilates/barre, etc) captured 42% of consumers, while the appeal of more traditional club models (e.g. multipurpose and fitness-only) has remained relatively steady… in the process of industry growth and maturity, the club landscape has forged new business models that will allow it to prosper in a new world of consumer behavior. The challenge is for traditional fitness clubs to continue to maintain relevance as studios and specialized facilities continue to grow.” IHRSA Health Club Consumer Report, 2015



The impact of these ‘salami-slicers’

The idea of a multipurpose or ‘generalist’ club that provides a broad range of services under one roof being slowly ‘salami-sliced’ by nimble and highly focused substitutes should be front of mind for those responsible for navigating a club’s future.

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Table 1 reviews the financial impact if just five salami-slicers each attract a small number of people away from a club, resulting in them cancelling their membership.[23] Remember this represents just five potential substitutes and is before the impact of new competitors such as a low-cost gym that comes along and takes a slice of those members simply requiring a 'machine-only' experience.

Table 1
Revenue impact from five salami-slicers

Impact of five salami-slicers	Members lost	
	%	Total
Indoor cycle studio	2.5%	39
Outdoor boot camp	2.0%	31
Zumba in local church	2.0%	31
Members buy fitness tracker/join community park run	1.5%	24
Subscription to DailyBurn streaming service $13 per month	1.5%	24
Total	**9.5%**	**149**
Revenue lost over 12-month period		**$135,852**

What is a salami-slicer? A highly specialised fitness offering which excels in one thing that attracts away a significant minority of members from a 'generalist' club that provides a broad range of services under one roof.

UK fitness market club closures

The UK fitness market captures details on all clubs that go out of business. Around 2% or one in every fifty private clubs in the UK goes bust.[24] However, it is the small independent clubs that make up the majority of these business failures, totalling 75% in 2014/2015. Operating with an average of just 49 exercise stations, they were unable to build a viable membership or raise prices. Xercise4Less, the UK low-cost operator, has recently opened a new club in Milton Keynes[25] with 600 exercise stations, probably the largest low-cost gym in Europe. So a small club is never going to win an equipment battle or a price war. Instead it has to find ways to translate its smaller resources[26] into different experiences that people will genuinely value.

23. Using IHRSA average club membership of 1,568 and monthly membership fee of $76, which is the average fee for an American commercial multipurpose club
24. Similar number of club closures each year over the last five years
25. 55 miles (88 kilometres) north west of London
26. People, equipment and other tangible and intangible assets

Cycle studios and cocktails

Julie Rice, the co-founder of SoulCycle, gave an insightful interview to the Wall Street Journal in 2013. One of the questions asked was: why are classes so expensive ($34 for a 45-minute class?) She replied that a cocktail in New York could cost $17 so a SoulCycle class is the price of two cocktails. This reply helps to shed some light on how consumers invariably think – what are the alterative ways in which an evening can be spent? SoulCycle is not just competing against other studios and substitutes, but against all the alternative ways in which a consumer can utilise their time. Tomorrow evening should I go to the cinema, catch up with friends at a local restaurant or go to SoulCycle? Three very different alternatives, but all with a common purpose – an enjoyable evening that enhances our wellbeing. Many clubs use the price of rival operators as a reference when pricing their services, while Julie Rice uses a cocktail. Additionally, this premium price makes SoulCycle accountable for delivering an exceptional experience; as Rice says, 'when you pay $34 per class, you expect a $34 experience every time.'

An end of the temporary monopoly

The new commercial reality is that health and fitness clubs no longer enjoy the 'temporary monopoly' they enjoyed 10 – 15 years ago. At this time, the health club industry was 'front of mind' for many consumers seeking a supervised exercise experience. One key event to erode this monopoly was the invention of the World Wide Web by Sir Tim Berners-Lee in 1989. The web enabled health and fitness expertise and competencies, once locked away in clubs,[27] to be liberated, repackaged and distributed in different and often more convenient formats. Some 'legacy'[28] club operators may refute the idea that a church hall or even a park can substitute for their club, but the new battleground is more about consumers seeking out remarkable experiences, wherever that may be.

> “The part that the industry keeps perpetuating is this concept that we can operate clubs and 'own' members. We cannot. There are people that are wanting to get fit and they want to do it in the easiest, quickest way and have the best experience.”
>
> Rob Gregory, Managing Director, LTH

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27. Staff as well as programmes
28. Which I define as founded before 1999

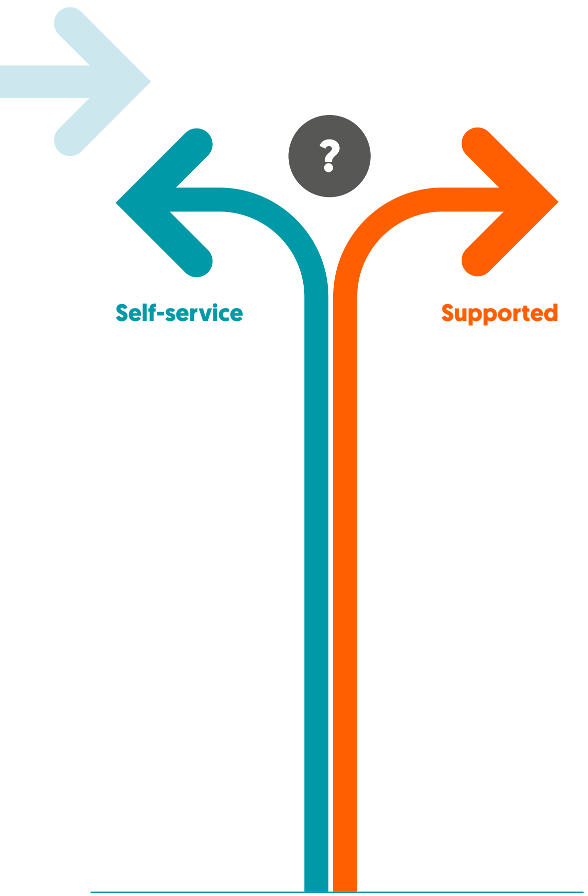

Figure 3
Bifurcating market – self-service versus supported pathways

Bifurcating Market

For several years, I have been paying close attention to the emergence of the global low-cost gym segment. I understand the business model and how they compete to win customers and the pressure they apply to many 'legacy' or established operators. However, it was only after taking a step back that a broader perspective emerged and I realised that mature health and fitness markets seem to be bifurcating or forking along two distinct pathways, which I describe as 'self-service' and 'supported'. Many consumers have steadily been taking control of activities once outsourced to others – self-scanning groceries, using apps to book hotels and flight tickets – and enjoy the empowering feeling of serving themselves. Low-cost gyms have very effectively tapped this phenomenon, attracting members seeking a 'narrow' fitness experience who are competent exercisers and content to serve themselves. However, perhaps less evident is the second 'supported' pathway, where customers seek and pay for a more guided experience. This is where the very best micro gyms and studios are to found, purposely engaged in helping customers reach a desired health and wellbeing aspiration. So one pathway serves up outputs (facilities, equipment, programmes etc) and the other outcomes (creating a meaningful difference in a member or customer's life).

If we look back, there are pivotal inflection points, which trigger the emergence of these pathways. For example, a few years prior to the emergence of the UK low-cost gym segment, Fitness First was seeking ways to reduce operating costs and took the decision to replace salaried gym instructors with freelance personal trainers.[29] The result was a significant reduction in payroll costs, but a clear signal to the market that Fitness First was moving more towards a 'self-service' operating philosophy for its gym experience. However, with no reduction in its typical monthly fee of £29, Fitness First would become twice as expensive as low-cost rivals. I see it as caught between the two pathways – an uncertainty about what the brand really stands for. Such a decision creates a short-term win, but is strategically flawed because it creates an opportunity for low-cost operators to offer superior value if consumers are content to serve themselves. It allows these budget brands to communicate a powerful message to the market that says, 'why are you paying twice as much for support you are not receiving?'

If a club is stuck between these two pathways it is a vulnerable position because it creates a sense of confusion, not just among existing and new members, but also staff and other stakeholders. Also the experience the member receives may not be aligned with the price – members may feel they receive little or no valued support and yet are paying two or three times more than a low-cost, self-serve experience. Journalists, if at all interested in the business, would also struggle to understand what the club believes in and what it excels at.

29. Typically paying a monthly 'rent' to the club

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FITNESS CONSUMERS ARE BECOMING MORE PROMISCUOUS

An interesting trend which is presently better evidenced in the United States is the growing number of consumers choosing to hold membership of multiple clubs or instead opting for a 'pay-as-you-train' relationship taking advantage of class and gym pass booking platforms such as MINDBODY Connect and ClassPass[30] – PayasUgym offers a similar service in the UK.

It suggests that some consumers are seeking a more open relationship with fitness providers, one based on a 'best-in-class' approach to their health and fitness regime. This means they ask themselves 'where is the best indoor boot camp experience in Boston on a Thursday evening?' – not the closest, but the best. This phenomenon begins to erode the idea that a single fitness operator can 'monopolise' a consumer's health and fitness experiences. Consumers, especially Millennials,[31] often do not want to be shackled to one provider, and this is coming through in American data from IHRSA[32] where just under three in every ten members of multipurpose clubs[33] also hold a second membership. Also, eight in ten American consumers using indoor cycling studios were users of at least one other facility, rising to almost nine in ten for boot camp and high-intensity studios. These multiple membership numbers have all increased since the 2014 report. This behaviour is more akin to a retailing experience and begins to undermine the long-term membership model, which the legacy health club industry has been built on. Digital aggregators such as ClassPass, FitReserve, PayasUgym and MoveGB[34] and many others are making it easier for consumers to discover and enjoy the most remarkable fitness experiences a city has to offer, without the need to 'join' the venue. It poses a challenging question to a club operator, which is: 'why join your club when I can experience a different and remarkable fitness experience every night of the week?' There may sometimes be an uneasy tension between these new digital fitness aggregators and venues, with some operators believing they are not receiving sufficient revenue,[35] but consumers will flock to them, just as they do with other industry aggregation platforms.[36]

I believe this 'de-coupling' phenomenon between clubs and members will intensify unless a compelling rationale for membership, rather than casual visitation rights, is articulated.

30. ClassPass has raised $54 (£36 million) in four rounds according to CrunchBase (at November 2015). It works with more than 2,750 studios across the United States, the UK and Australia, offering a membership programme to an unlimited number of classes. Sixty-five percent of their US members are said to be new to fitness (Source: TechCrunch interview with Payal Kadakia, ClassPass founder). The one month price for ClassPass in the UK is £79 ($119) and $125 for American cities such as Boston and New York

31. Which I define as those born between 1980 to the year 2000, so aged 15–35 at the time of this report

32. Their excellent consumer report, the 2015 Health Club Consumer Report based on analysis of 10,778 online interviews discusses this phenomenon in detail. See **bit.ly/IHRSA-ConsumerReport**

33. Defined as a gym, studio with racquets or a swimming pool (e.g. Lifetime Fitness in the United States and David Lloyd in the United Kingdom)

34. MoveGB provides British consumers with the ability to bundle multiple providers into a single monthly membership from £8 ($12) per week under the tagline: 'One membership to hundreds of local gyms, studios and classes.'

35. Fitness operators agree a price with the aggregator each time a consumer attends which is below the normal advertised rate

36. Kayak.com for plane tickets, Hotels.com for hotels and OpenTable for restaurants

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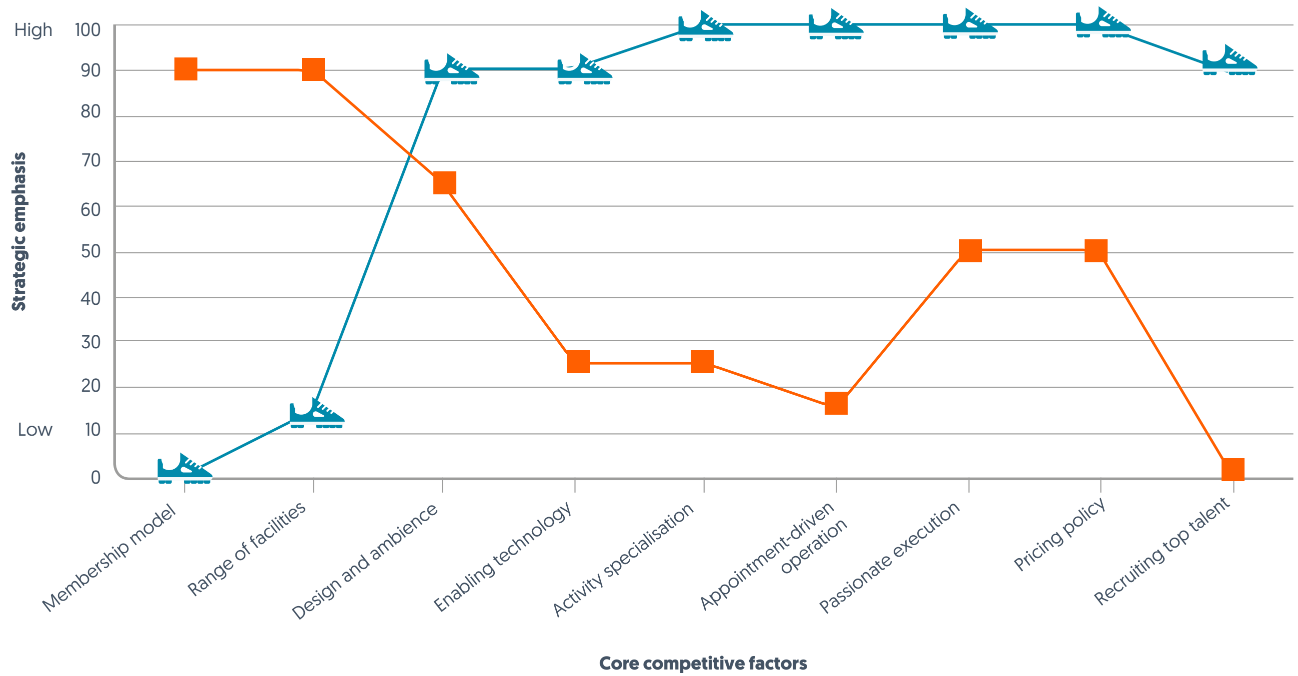
CREATING MEANINGFUL VALUE

During the growth phase of the health and fitness industry, creating meaningful value for members was relatively easy. Clubs were built in convenient locations, equipped with new and often novel amounts of equipment, classes provided and staffed by professionally competent personnel. Club membership typically grew, even before the official opening, because competing venues and substitutes were sparse. Now most recognise that the market landscape has changed and the operating model of many clubs has converged such that it is often challenging for consumers to discern one club brand from the next – similar facilities, design and layout, membership pricing, vendors and programmes. It is as though club operators experience some sense of comfort that their brands are similar. Similar offerings may be good enough when there is significant geographic distance between clubs but can be disastrous as the distance between clubs shortens. Owning a club brand that looks and operates likes many others is challenging on many levels – the general public will struggle to understand what the business excels in, staff are underwhelmed by the lack of a distinctive business mission and investors are frustrated that the operating profit trend is flat as it struggles to increase members and prices. However, look at the impact when a low-cost gym or boutique studio comes along and tears up the industry rulebook. Figure 4 shows the distinctive way that a specialist studio brand[37] creates value for its customers.

Figure 4
Strategy canvas for a studio versus multipurpose club

Studio
Multipurpose club



37. Examples such as SoulCycle, Barry's Bootcamp, OrangeTheory

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The figure shows nine core factors on which a typical multipurpose traditionally competes. The orange line illustrates the club and the emphasis placed on each of these nine factors. A higher score means the club invests more to provide extra to members. The multipurpose club therefore invests in a range of facilities and programmes to try and provide 'value', built upon the traditional membership model. It aspires to be a competent and consistent 'generalist'.

The strategic profile for a studio is very different, and critically, consumers, the media and other stakeholders notice this. The studio deliberately chooses to eliminate the membership model, which it believes to be unnecessary in forging engagement with customers. A studio believes that removing membership reduces barriers and so makes it easier for customers to try the experience. The range of facilities is reduced so that all peripheral areas and their associated costs are removed. Next, it raises its strategic emphasis in six factors upon which the studio wishes to build its reputation. More resources are invested in design because the studio aspires to create a distinctive brand image that communicates to customers that they are stepping into an environment that looks and feels more like a retail store than gym. The use of enabling technologies is increased, which provides customers with a greater sense of autonomy which is very empowering – check online for class availability, select a preferred bike or place in a class, book, pay and charge ancillary items such as rental items, food and water to a stored payment card, creating a simple and cashless experience. Activity specialisation is critical because the studio's long-term success is dependent on it developing a deep expertise which is difficult for others to imitate. Unlike most gyms, the studio is appointment-driven, which drives efficiency but also forms part of its purposeful environment – customers are here to experience some meaningful activity. Passionate execution is driven from the reality that whether someone returns is based on the experience over the next hour – there is no safety net from selling minimum-term memberships.

Studios have created a new competitive factor around the recruitment of top talent, recognising that the instructor is a vital component in creating the difference between a mediocre and a remarkable experience. Many top studio instructors have 'rock star status' both in studio and online, having stretched themselves to reach the top of their profession. The result is that a very different strategic profile is created, which allows studios to break free of low prices, discounts and year-round promotions. This is because it exudes a confidence in its ability to make a meaningful difference in the lives of its customers.

CONSUMER SENTIMENT

Of course, the proof is in how consumers react to these experiences. Are they left in a tired state of euphoria, desperate to book the next class, or instead viewing the next gym workout more as another evening 'chore' than an enjoyable event? Take SoulCycle, which now has 48 studios open[38] across the United States. SoulCycle does not aspire to have satisfied or merely contented customers, but sets the bar far higher. Instead it sets out to create legions of evangelists who spend their waking day thinking about their next class. Julie Rice, the co-founder, writes in the Wall Street Journal:[39]

> “ organic growth marketing only works if your customer leaves not only happy, but so overwhelmed at the experience or product that you delivered that they feel the need to tell two friends about it. Reward those customers, they are your influencers. Task yourself and use your resources to create and continue to evolve a product that is not just good, but Saturday night, out-to-dinner conversation worthy. ”

398 people have posted reviews on Yelp covering[40] SoulCycle studios across New York State and four out of five stars is the most frequent rating. The reviews can be mixed because the brand polarises opinion,[41] with some people curious to try their first class but left unconvinced by the experience and the cost. These reviews will not unduly concern SoulCycle (unless about staffing and housekeeping issues) because it helps to define and determine its authentic community of riders. The company does not publish a net promoter score,[42] but I think I know how typical SoulCyclists would answer the question: 'How likely is it that you would recommend us to a friend or colleague on a 0 – 10 scale?'[43] The new reality is that consumers do not just 'like' these salami-slicers, they 'love' them, which means the bar for all other providers is rising.

38. At October 2015
39. March 2015
40. Read a sample of reviews here bit.ly/SoulCycle-UnionSquare
41. See the interview with Richard Hilton, CEO of GYMBOX, who discusses this polarising topic
42. The net promoter score (NPS) categories users as detractors (unhappy), passives (unenthusiastic) or promoters (enthusiastic fans) of a brand/service using a 0 – 10 scale where a score of 0 – 6 is a brand 'detractor', 7 – 8 a 'passive' and 9 – 10 a 'promoter'. The actual NPS score is calculated by taking the percentage of customers who are promoters (9 – 10) and subtracting the percentage that are 'detractors' (0 – 6). Passives are ignored on the basis they are indifferent/neutral to the brand/experience
43. Net promoter scores for mainstream clubs vary widely. For example, a UK study recorded a range of minus 27 to plus 45% for private club chains, plus 25% – 70% for private independent clubs based on more than 200,000 member responses and 27% for the entire industry (The Retention People, 2013). So a score of 45% means there are 45 more promoters than detractors for every 100 members. By way of comparison, the North American industry NPS is plus 43 based on 103,000 responses (The Retention People/IHRSA survey at February 2015). Further details here bit.ly/IHRSA-TRP

THE QUEST FOR MEANINGFUL AND VALUED EXPERIENCES

In the United States alone there are now more than 35,500 clubs, which equates to one venue for every 8,225 Americans.[44] However, if we were to plot the 'value curve' of many of these clubs on a strategy canvas and remove the brand names, it would be difficult to discern any noticeable difference. However, success is not necessarily a pursuit to be 'different', but instead a journey to intelligently position the club into the lives of members by providing meaningful and valued experiences. In this regard, I believe there is much to be learnt from a park fitness provider who strips away contemporary industry 'props' such as buildings, equipment and other paraphernalia so that the entire focus is on people and the interactions with the group. If someone can report having a life-changing experience in a park on a dark, cold and wet Wednesday evening, then just think what should be possible inside the walls of a purposeful and mission-driven club.

44. Based on a population of 292 million people aged over six. Remember that no country is presently able to capture all fitness venues, especially small studios/microgyms, so this does not paint the full picture

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INTERVIEW CHUCK RUNYON

CEO, ANYTIME FITNESS

THEME:

BUILDING A GLOBAL BUSINESS SERVING THE 'MID-MARKET'

RA *What is the core purpose of Anytime Fitness and what does the brand stand for?*

JR Everything we do is centered around helping consumers 'Get to a Healthier Place' both inside and outside the club. This requires a mindset and the tools to be less gym-centric and more consumer-centric by thinking about fitness beyond the limits of the club.

RA *You say that Anytime Fitness owners 'out care their competition every day'. Can you elaborate and explain how this manifests itself?*

CR We make significant investments to increase the emotional intelligence of our owners to improve their listening skills, empathy, body language and to be 'surprisingly personable'. This helps us connect with members, overcome their fears and unlock their potential. It's all about trust and genuinely caring about our members as individuals.

RA *You have said that as our competitors race to be the biggest or the cheapest, Anytime Fitness strives to be the most human. Can you elaborate and explain how this supports your brand proposition?*

CR Flashy clubs, cheap prices and rows of equipment may get people to join, but to achieve results the majority of members need three things: education, coaching and compassion. If we care, members will listen to our education and we can gain their trust and permission to coach and to hold them accountable. This is why Anytime Fitness has the most remarkable member transformational stories the industry has ever seen.

RA *Can you explain how the Anytime Fitness member proposition has evolved more recently in response to the growth of budget gyms?*

CR Over the last few years, all competitors – not just budget clubs – have intensified our obsession to improve the consumer value proposition. Every facet of our brand is under scrutiny and we will continue to evolve club design, programming, consumer technology, customer service and antiquated industry practices.

RA *Can you explain the importance of Anytime Health, your online platform, and if deeper engagement with members away from the club remains a vital strategic imperative?*

CR In short, lifestyle trumps gym usage and if we don't influence our member's healthier habits outside the club, then they won't see results and frustration will eventually push them to quit. By becoming a digital 'healthy angel' on their shoulder, we can deepen engagement, help them experience results and monetise those services.

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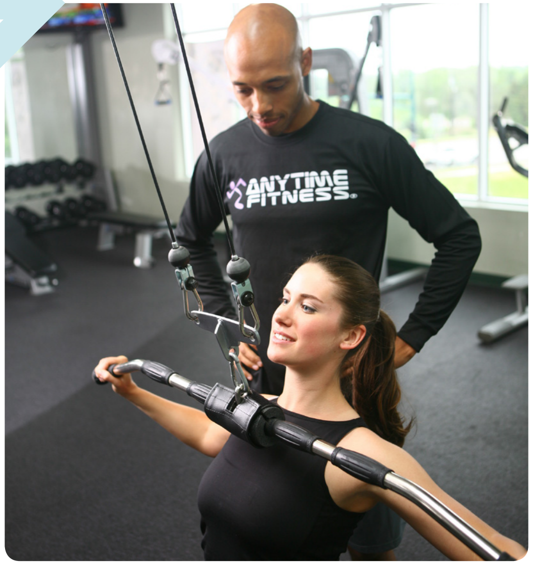

About Anytime Fitness

Anytime Fitness was founded in 1992 in the American state of Minnesota and operates as a franchise. The concept is built around small-scale 24-hour 'neighbourhood-style' clubs. Clubs range in size from 2,500 – 5,000 square feet (232 – 465 square metres). There is also a smaller Express club format. Membership pricing is mid-range for each country. (For example, typically £35 ($52) per month in the UK on a 12-month contract. In November 2015 the brand achieved the remarkable milestone of 3,000 clubs open and presently operates in 22 countries.

Further information: Anytimefitness.com

RA *What distinctive value do you believe franchise ownership brings that members and staff can genuinely see and value?*

CR Passionate local ownership is a valuable asset for Anytime Fitness and our owners regularly invest time and money into charitable causes and community events. That type of community leadership provides indirect monetary benefits, but more importantly, it's currency for the soul – because running a business should be more than just making money.

RA *We hear much about the challenge for businesses across many industries operating in the squeezed mid-market but Anytime Fitness is flourishing and making its future here. What remains attractive about operating in this part of the industry?*

CR Convenience is still a driving factor for consumers and they want a club that suits their lifestyle. For Anytime Fitness, that convenience is a blend of location, 24/7/365 access, global reciprocity to any club in the network and less hassle with every gym visit. Convenience also means close parking, no waiting lines for equipment and an overall faster workout experience. Additionally, our members get a clean, well-designed club, top-notch equipment, fitness programming options and support from 'surprisingly personable' club staff members who actually know them. Look at other industries such as hotels, automotive or restaurants and the consumer does not always go with the cheapest. Overall value is a combination of many factors.

RA *What advice do you have for independent club operators who feel their business being salami-sliced and threatened by an increasing number of competitors?*

CR Get brutally self-aware of your business. To do that, seek feedback from current, previous and potential members and analyse usage, financial, competitive and business data to understand the strengths, weaknesses and opportunities for your business. Once you have that information, put together a candid, smart, creative and savvy team to devise strategy and tactics for your business to thrive. Moderate that room with a whiteboard, no hierarchy and little regard for the status quo.

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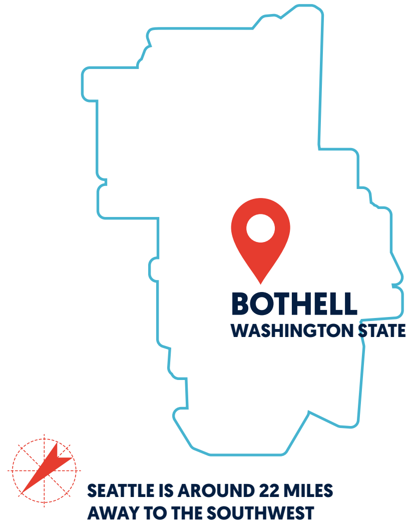
CASE STUDY



GOLD'S GYM
BOTHELL USA

THEME: Making a strategic move with conviction

JOHN HAMILTON
HAS OWNED AND OPERATED HIS GOLD'S GYM SINCE 1994.

Originally operating from a shopping centre in the city of Bothell in Washington State, the club moved to a new purpose-designed 23,000 (2,137 square metres) building on the edge of the city in 2000. Seattle is around 22 miles away to the southwest. Forming part of the part of the Seattle metropolitan area, the population was 33,505 comprising 13,500 households at the 2010 census. Before the 1990's, Bothell was a commuter city with many residents taking jobs outside of the city, but over the past two decades this has changed as a range of bio-medical, technology and telecommunications businesses such as Google, Phillips Medical Systems and T-Mobile have established a presence in the city. John was attracted to Bothell because it is a prospering city[45] with an increasing and well-educated population.

Competitive intensity

He describes the market his club operates in as mature and noticed a step-change in new club openings around 2002 and 2003. This is when other national brands such as LA Fitness and 24 Hour Fitness, Curves and smaller specialist studios all started up. On a zero to ten scale of competitive intensity, John believes the area now rates an eight.

The growth phase

The competitive environment was not always this way. When the club first moved to the new property, situated on a prominent highway, it prospered. The club, which has a well-equipped fitness floor, childcare, sauna, Les Mills group exercise programme and personal training offered what the community was seeking. 'It's not a lot of bells and whistles. You've got a great selection for cardio', a great selection of machines. It's airy, clean and well equipped', says Hamilton. The club was charging $35 – 39 per month and was trading well. The building was mortgage-free and the club profitable. Money was re-invested to ensure the club remained fresh and up-to-date.

The environment begins to turn

When working in a business it is sometimes challenging to recognise the subtle changes occurring around you, but the environment in Bothell was changing. More competitors were arriving and the economy was deteriorating. Other clubs were beginning to take a noticeable 'bite' out of the Gold's gym membership and Hamilton was also spreading his time across two other clubs he owned.

45. Estimated median household income in 2013: $74,793 versus $58,405 for the wider Washington State (City-Data.com)

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A move to a low-cost operating model

By 2011, the US was recovering from the global economic crisis and was out of recession.[46] Although Washington State fared better than other states, its residents were deeply affected, losing jobs,[47] homes and, for many, a sense of hope for the future. Membership growth was stalling and John was searching for a solution to turn to reinvigorate the club. At the same time, the wider Gold's Gym organisation was investigating how it should respond to the rising threat from low-cost operators. Its American club franchisees, which operated in 42 American states, were losing members from their 'full service' clubs to brands such as Planet Fitness. The solution was to create their own low-cost brand named 'Gold's Gym Express'. These would be smaller clubs starting at just 10,000 square feet (929 square metres), offering less amenities and staff support, but at a $9.99 monthly price point. 'It will provide Gold's Gym International and our new and existing franchisees with another option to grow. From city centres to small towns, this concept is nimble enough to thrive in any setting, and the incredible value combined with Gold's Gym expertise will help us attract more members than ever', announced Jim Snow, President of Gold's Gym International, in March 2011.

John recalls discussions with staff in the Gold's corporate head office who suggested the solution was to switch the club to a low-cost gym operating model, the rationale being that the lower membership tariff would be offset by a substantial increase in new members. They spoke of a 500 – 700 monthly increase in members. This significant strategic move in the club's history seemed compelling and so in May 2011 the club issued a press release announcing the change. 'Your Fitness, Your Way' was how the change was described. 'We've listened to the community and we're excited to present a new membership structure that allows our customers to choose the plan that best fits their health and economic needs. This is revolutionary change that will help our community as a whole become healthier and more fit for years.' The Bothell public were offered two options. Pay $9.99 per month[48] to access the gym only or $18.99 per month[49] to include group exercise classes, unlimited tanning services and discounted cold drinks. The only change made to the club was to remove the childcare facilities, complimentary towels and eliminate some of the group classes – everything else remained the same.

The community response

The response to this move from one of the city's most established clubs was mixed. New members did join and seemed delighted with this new affordable option. 'Friendly staff, no long-term contracts which is great. Also the $10 membership option is awesome since I only use weights and cardio and just need a clean gym where everything works!' was the view of one Google reviewer. John saw a spike in membership for a few months, but members were not joining in the numbers that he was expecting.

46. The recession ran from December 2007 to June 2009 (Economic Opportunity Institute)

47. Unemployment in Bothell went from 3.5% in 2007 to a peak of 8.8% by 2010 (City-Data.com)

48. Month-to-month and no requirement for a 12-month contract

49. Both required a one-time enrolment fee of $49

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Some in the community did not see the price drop as positive, believing there must be something wrong with the club. At the same time, existing members were concerned that the club would see a large surge in new members and some were upset that the childcare facilities had been removed. 'Been a member for three years, and they abruptly dropped towel service, closed the kids club, and got rid of the morning exercise classes...actively shopping for a new gym in the area!' was how one member summed their feelings in another Google review. Of course, existing members could also take advantage of the new tariffs so long as they paid the $49 enrolment fee.

For the next year, the club persisted with the change but John was conflicted by the change as it was not putting the club or members in a materially different and better position. 'There were some people that were upset and I think a lot of them were worried about what's going to happen to the club, was it going to become overcrowded?' explained John. What also came as a surprise was that people were joining for $10 a month, but not maintaining their membership as long as previous members on higher tariffs. There was an assumption made that people would just let the $10 membership run in the background, regardless of their level of attendance. 'Everybody thought it's so cheap, everybody will join and did not, or it's so cheap they will never cancel their membership. We found that people still cancelled'.

The overall sense of community and atmosphere at the club was also changing, which is to be expected when the way in which the club had operated for 11 years was suddenly altered.

'Your Fitness, Your Way' is abandoned

About one year after the change, John took the brave, but necessary, decision to reposition the club back to the higher membership tariff ($34.99 per month with no enrolment fee or contract)[50] and reinstate the services that had been removed. 'Looking back, I should never have done it. I should have just waited out the impact of the recession and probably left everything the way it was – just tried to put more upgrades into the club.' The key thing was that he took decisive action. 'I've got to tell everybody I have made a mistake, but it was not too tough to do. We did it overnight and nobody really noticed', recalls Hamilton. Today the club is trading well as a 'full service' club and has reasserted its identity within Bothell.

KEY LEARNINGS

John looks back and believes this low-cost tariff was poorly matched to this relatively affluent neighbourhood.

> “Don't do it in the mid to upper income area and you have to have a lot of density, a lot of rooftops. Without that it is difficult to get volume. If you have a nice club and it's smaller, $35 is still inexpensive. I think it comes down to the old-fashioned customer service, keeping it clean, keeping it well maintained, a good staff. If you can hold out, I think you can beat these low-cost multiples.”

I am left with the sense that John Hamilton's club is now more synchronised with the type of business he wishes to own and operate; a club he believes in and is proud to be associated with. Converting an existing club to a low-cost model involves far more than a drop in price and so requires a wholesale conviction to the new operating model. This requires a disciplined approach to eliminating and reducing elements not core to the proposition, while creating and raising elements that will support the strategic move (see figure 4). These are big moves being made that can have far-and long-reaching consequences so best to proceed with care and always with conviction.

Further information: Goldsgym.com/bothellwa

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50. $29.99 per month with no enrolment fee on a 12-month contract

INTERVIEW NIELS GRONAU

EDELHELFER GERMANY

THEME:
HOW THE GERMAN HEALTH AND FITNESS MARKET IS CHANGING

RA *How has the German fitness market evolved over the past five years?*

NG **Over the last five years, the German health and fitness market has seen strong membership growth. According to DSSV, the German health and fitness operators association, the number of members has increased by 2.1 million to a total of 8.6 million at the end of 2014, a compound annual growth rate (CAGR) of 5.8% over the five years.[51] However, despite this increase in membership, total revenues grew by a CAGR of 4.3% during the same period. This is due to the lower average revenues driven by the increasing share of low-cost operators in the market. This is not just McFit, the market leader, but also other national players like clever fit, easy fitness and Jumpers Fitness as well as smaller regional budget brands. In total, more than 40 brands with more than three clubs operate in the German low-cost segment today. Together they have increased the number of budget clubs by 133% from 300 in 2009 to more than 700 by the end of 2014. Germany as with other countries is also seeing a rise in 'functional fitness' gyms, which are either integrated into an existing club or operate as a stand-alone small studio concept. They provide the opportunity to exercise alone or as part of a small group-functional training and are a strong trend across Germany. For example, the number of CrossFit boxes has increased from zero to approximately 150 over the past five years in Germany.**

RA *How do you define a mid-market operator in Germany and how would you assess their progress over the past five years?*

NG **In our work, we define 'mid-market' fitness offerings based on the realised average membership fee. Following this operational approach, operators with a price between €30 and €60 are described as 'mid-market'. Of course, this definition has its limitations because every local market can be different and the brand/price positioning can change relative to the competition.**

In Germany, the larger mid-market operators are Fitness First Germany with 86 clubs and Kieser Training operating 115 clubs. Kieser has reduced its clubs by four and Fitness First by 16 over the past five years.

51. CAGR is the constant year-by-year growth rate over the time period. This analysis excludes smaller gyms and studios of less than 200 square metres (2,153 square feet), which are often excluded from official German statistics

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Fitness First has been restructuring, which began with its rebranding from the Fitness Company. It has also been closing non-profitable clubs and repositioning existing and new clubs to a higher-end product. Kieser has also reacted to its weaker club growth. The Swiss franchise company, founded by Werner Kieser, has a very strong positioning as a holistic health and exercise provider, especially in helping people manage back pain. However, perceived as a health offering for elderly people only, the company revised its strategy in early 2013 and is now marketing to a broader and younger audience.

RA *Germany has a strong and growing specialist small studio market. Can you explain why studios are so popular in Germany and how they differentiate themselves?*

NG There are a number of successful specialist studio operators in Germany. The leading companies are Mrs.Sporty (432 clubs), a women-only circuit-training concept and Bodystreet (177 clubs), an offering focused on electronic muscle stimulation (EMS). These concepts, along with CrossFit, have a clear and simple positioning which their target group understands – customers know what the product stands for and what to expect. This is not always the case for 'larger', more general operators. Another relevant factor for these studios is the personal atmosphere, especially in the woman-only concepts like Mrs.Sporty and Curves. These smaller studios can also be located close to business communities and residential neighbourhoods, which makes them easy to access.

While CrossFit is a licence concept, the two other concepts are franchises. This also explains their strong growth as the individual licensee or franchisee should understand their local market and know where to open a studio. Also their small size opens up more possible locations. Lastly, there are more than 500 cities in Germany with more than 25,000 inhabitants, which supports the strategy of rolling out a smaller business format.

RA *How do you believe independent mid-market clubs are now positioning themselves in the German market to attract and retain members?*

NG Mid-market chains and independent clubs are facing increasing competition from the low-cost operators. These general players normally offer a wide range of offerings with the focus on the 'hardware' – facilities and equipment. Compare this to the specialised players who attract their customers with strongly focused offerings.

What I am currently seeing is that other operators as well as Fitness First are trying to differentiate from the low-cost operators through a 'premiumisation' of its offering. This is expressed through more exclusive facilities and including wellness, sauna etc.

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But more importantly, operators started to revise their ideas around customer support and service. In focusing on a higher level of service the more expensive players see the chance to position themselves differently from the low-cost operators, which are focused on limited and self-service.

RA *A high percentage of independent clubs belong to a franchise in Germany. Why is the franchising model so popular in Germany?*

NG Along with Mrs.Sporty, Bodystreet and Kieser, the other major franchise brands are Injoy, clever fit and easy fitness. Together these six brands comprise a total of approximately 1,150 studios and clubs in Germany and contribute a major part of the German franchise segment. McFit and Fitness First are the only two corporate-owned national players. I believe these franchise concepts have been successful due to the combination of a well-defined concept with a local entrepreneur. The entrepreneur knows their local market, the competitive environment and property, but potentially cares more about the specific needs of their customers than an anonymous marketing manager in a head office. The German fitness landscape is not concentrated on a small number of major cities. In fact, it is spread over the 80 cities with at least 100,000 residents and a large number of much smaller municipalities, which is very difficult for a centralised management team compared to other countries.

RA *McFit is a dominant player in Germany. How do you believe McFit is changing now that the company is 18 years old?*

NG The core offer of McFit has changed little since starting 18 years ago and has now grown to become Germany's largest brand, with more than 166 clubs.[52] At the beginning of 2012, the company announced the 'evolution' of its gyms. It introduced new offerings such as cyber-training and functional areas were integrated into completely redesigned facilities. It also began refurbishing existing clubs. Following this makeover, McFit raised its membership fee by €3 to €19.90 ($22).

Earlier in 2015 McFit started a new club concept call 'High5',[53] which has a strong functional fitness focus in a smaller facility. It also integrates the rather Anglo-American model to offer independent personal training for an additional fee. The headline price is just €9.90 ($11) based on a 24-month contract, which is very competitive pricing, being around 50% cheaper than most other brands. Fundamentally, McFit remains a self-service brand as it always has been.

52. McFit also had 10 gyms in Austria, 28 in Spain, 20 in Italy and three in Poland at July 2015, giving a total of 227

53. See high5.com

RA *As more low-cost operators launch in Germany, how are they differentiating themselves?*

NG At first it was typical for new operators to simply model themselves on McFit with a focus on strength and cardio machines. Now they are attaching more importance to design, raising the quality of their facilities and integrating additional components into their product. An operator like FitX[54] now offers dedicated fitness areas just for women, free drinks and classes taught by qualified trainers to attract a wider range of customers, and all for just €15 – ($16) per month. The launch of High5 by McFit was a response to FitX.

RA *What would be your advice to independent mid-market club owners who are facing increasing competition from McFit, FitX and other low-cost brands?*

NG I believe it is essential for independent club owners to focus on improving the quality of their relationships with members. In a period where 'hardware' is increasingly getting better at low-cost gyms, the real opportunity is optimising 'software' – the interactions with members. This is the way to create a meaningful difference.

About Niels Gronau and edelhelfer

Using the analogy of the super-domestique[55] (edelhelfer in German) in cycling, the edelhelfer is an assistant, helping a customer towards their goal. The customer takes centre stage as the captain while edelhelfer focuses on preparation and execution. Commercial tasks span various stages of business development from market analysis, strategic positioning or the acquisition of capital.

Further information: edelhelfer.eu

54. See **FitX.com**

55. A domestique (servant) is a road bicycle racer who works for the benefit of their team and leader by riding in front and creating a beneficial slipstream

CASE STUDY

BLACK AND WHITE INJOY FITNESS

WORMS GERMANY

THEME: Raising prices in response to low-cost rivals

GEO HESS
BLACK AND WHITE INJOY FITNESS

Worms is a small German city with a population of 80,000.[56] It is situated on the Rhine river and located about 60 kilometres (40 miles) south-southwest of Frankfurt. Since 1986, Geo Hess has operated the Black and White Injoy Fitness club.[57] Geo has a lifelong passion for health and fitness which began with an interest in strength training as a teenager. His first career was as a financial consultant with the German Revenue Service, and as a member of various health clubs, he believed the clubs were not being well operated and therefore not reaching their full potential.

This was the catalyst for the Black and White studio, which opened with 900 square metres of facilities (9,688 square feet). Six years later the club expanded and then in 1996 Geo moved Black and White to a new purpose-designed 6,000 square metre (64,586 square feet) building and a large rooftop terrace. The core facilities are extensive cardio and strength training areas offering more than 400 exercise stations, crèche, squash and four group exercise rooms offering more than 100 weekly classes and other courses. There are also sauna and relaxation areas, but no swimming pool. A fitness-only[58] membership costs €97 ($108) per month based on a six-month contract.

Philosophy
INJOY's philosophy is summed up by the quote that appears on the club's website by Arthur Schopenhauer, the influential 19th-century German philosopher, 'health is not everything, but without health, everything is nothing.' The club believes not simply in the human desire for physicality, but in the harmony between activity and passivity, saying that 'movement and relaxation is our goal'. The club aims to be perceived as friendly, spotlessly clean, always available to support members and helping them to 'feel well in their leisure time'.

Competition is intensifying
Geo has witnessed a significant increase in the number of clubs opening in Worms over the past decade. McFit, the European giants of low-cost gyms, launched a club in Worms in 2006, just a six-minute drive away where membership costs €19.90 ($22) per month.[59] This was followed by FitnessKing, a 24-hour low-cost gym at €17.99 ($20). Later in 2015, FitX, a third low-cost, 24-hour gym opens and will be a little cheaper at €15 per month ($16). Other brands such as the 26-club chain easy sports opened in Worms, but the club is now closed. With a population of just 80,000 and the budget gyms aspiring for around 3,000 – 4,000 each, the city is presently engulfed in promotional activity desperately trying to capture the population's attention. Geo presently feels the competitive intensity rates a nine on a ten-point scale.

56. At 2013
57. The club became part of the INJOY fitness club franchise in 2013
58. Access to the fitness and group exercise areas, but excludes squash and the sauna/relaxation area
59. 12-month contract and one-time card activation fee of €19

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INJOY'S RESPONSE

INJOY's response is clear; continue focusing on the factors directly under their control so that the club's 2,700 active members will recognise and value belonging to the club. The club employs 70 full-time and independent staff who focus on delivering the club's holistic approach to health and wellbeing – weight management, nutrition and back care programmes to name just a few. The club believes its staff, and its extensive course and programme offering is where it creates real value for its members. It has also worked very hard to build strong community partnerships. Presently 27 local sport associations are engaged in a talent development programme. This allows each organisation to nominate five gifted athletes who can use the club's facilities without charge. These athletes could be from track and field, basketball, boxing and other sports. The programme has been operating for four years and so is not some sudden reaction to the arrival of low-cost gyms. This community support allows INJOY to reach into the entire associations' network comprising other athletes, coaches, administrators and parents.

Menu pricing

The club has also adopted a menu-based approach to its services to ensure that members only pay for facilities they use and value. So all the services are unbundled, with members then choosing what they will use, starting with a squash-only membership for €51 ($56) per month. If members simply want to use the club to relax and unwind, then they may select the sauna-only membership at €72 ($77) per month.[60] While other clubs are competing to offer the lowest prices in Worms, INJOY's pricing has remained consistent and actually rises each year by €1 so that funds are available to reinvest in the club.

Geo is looking to end 2015 with a net increase of 300 members, which will be a remarkable achievement for him and his team as the club navigates through this highly competitive landscape.

Further information: injoy-worms.de

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60. All require a 12-month commitment

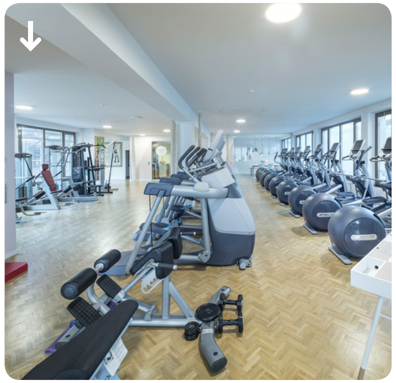
CASE STUDY

MY SPORTLADY
MUNICH GERMANY

MUNICH IS GERMANY'S THIRD LARGEST CITY AFTER BERLIN AND HAMBURG

THEME: Focus on what we can control which is delivering the club's everyday mission

JASMIN KIRSTEIN
FOUNDER AND CEO
MY SPORTLADY



Jasmin Kirstein has owned and operated My Sportlady since 1984. Inspiration for the club came after Jasmin visited Women's World, a Boston-based women's-only club in the United States. She was tempted to bring this American franchise to Munich but eventually decided to create a new brand tailored to German women. The German market at this time was dominated by masculine offerings, which were unappealing to many women. Jasmin, a former model and competent exerciser, found these gyms overly competitive and intimidating. She believed there was an opportunity to create a club that would genuinely support women, not just on a fitness level but more holistically – helping members to also relax, re-energise and achieve more balance in their lives. The original club opened in just 300 square metres of space (3,229 square feet) with a simple offering that comprised a small gym, group exercise studio and sauna. Over the past 31 years, My Sportlady has evolved and at the same time witnessed transformational change in the German club market and yet continues to flourish, but why?

Beyond physicality

Rooted in the My Sportlady philosophy is the belief that the club should provide more than an activity experience and offer more guidance on what a member really needs. This is when a member visits the club and thinks the best use of their time is to take part in an intense 60-minute class (enrich the body) when in fact it would be more beneficial to simply relax and re-charge (enrich the soul). Jasmin tells the story of a member she observed who brought her young child into the club crèche and then simply spent the subsequent hour in a relaxation chair, disconnected from all the demands of daily life. At this moment the club was there to provide the mother with tranquillity, not physicality.

During the 1990s the club began evolving and becoming more than a fitness environment, adding a spa, treatment rooms, a crèche and a cooking school. Partnerships were also formed with doctors, osteopaths and a midwife to support members through a pregnancy. The club's aim is to support every aspect of the person – fitness, nutrition and health for the body and relaxation for the mind and soul. Their cooking school has become the club's most lucrative profit centre. Today the club operates from 2,000 square metres of space (21,528 square feet), serving 1,800 – 2,000 members.[61]

61. Dependent on season

Competitive intensity

Munich is Germany's third largest city after Berlin and Hamburg. Home to 1.5 million people, its resident population is forecast to rise to 1.6 million by 2018. It is a diverse and cosmopolitan city where foreign nationals comprise a quarter of its population.[62] It is a prospering city, powered by a strong services sector and an unemployment rate below 5%. This means companies, including My Sportlady, have to compete to attract and retain talented employees. This economic backdrop provides an ideal environment for a wide array of gym brands, ranging from low-cost gyms, personal training studios and other specialist providers such as Pilates and electrical muscle stimulation (EMS) stores.[63] Over the past 30 years Jasmin has witnessed a wide spectrum of club rivals. On a zero to ten scale of competitive intensity, Jasmin believes the area now rates an eight.

Before McFit launched in 1997 and kickstarted the low-cost trend, My Sportlady would compete with high-end, full-service club brands. During this early period, Jasmin admits to spending considerable time thinking about these other clubs, believing that winning was about keeping up with them and trying to match their facilities. As My Sportlady matured and its philosophy developed, this fixation on other clubs subsided as it became clear that the team's focus should be on delivering the club's everyday mission, something they could control – helping women to feel well and gain a sense of balance in their lives.

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62. Source **muenchen.de**

63. For more information on EMS stores see Bodystreet – **bodystreet.com**

Building authentic connections

Although most people in Munich are now employed, this was not the case during the recent global financial crisis. Members began coming to the club to cancel their memberships. Jasmin did not believe this was the right thing for members to be doing because ceasing to attend a club that some had belonged to for many years would just provide more instability in their lives. So she decided these members could use the club for free or simply pay what they could afford until they secured new work. The back office team needed convincing, but Kirstin believed it was the right thing to do. Further acts of compassion are evident when members experience serious illness such as a cancer diagnosis. After such a diagnosis, a member would typically approach the club to cancel their membership, believing they would be too unwell to attend. During treatment, My Sportlady waives the membership fee and encourages the member to visit the club when they believe a visit would be beneficial. They may visit once in a month but know always that the club is there to support them. This capacity for a club to simply do what intuitively feels right resonates with all stakeholders but especially with staff, who feel immense pride in working for such a compassionate business.

When trying to understand what motivates a business to put the interests of members before short-term profit, it often helps to look back into the founder's life journey. In Jasmin's case it was the experience of seeing her young daughter, Anna-Marisas, battle leukaemia. Her daughter made a full recovery but it left Jasmin with a deep sense of gratitude. Her daughter went on to pursue a career in nutrition science and is now involved in the club's cookery school, where she advises on nutrition and healthy living.

Philanthropy

For five years My Sportlady has been supporting mothers whose children are receiving cancer treatment at the nearby hospital. The children's hospital is a centre of excellence and so attracts families from across Germany. The mothers are living between the hospital and a nearby hotel so My Sportlady offers complimentary access to their club. The hospital issues a 'club prescription' which mothers redeem at the club, allowing them precious time to suspend, just for an hour or so, the distress of witnessing a child battle with cancer. The club's wider philanthropic activities are now administered through the My Sportlady Foundation, a separate not-for-profit organisation set up in 2009. The mission of the Foundation is to help women and children across Germany and overseas. 'Eat for Smart' is just one programme that offers free nutrition courses at schools and kindergartens across Munich.

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This programme has now grown and is now supported by the local government and health insurers. Another overseas programme is providing support continues to an orphanage in Colombo, Sri Lanka. The rationale for the Foundation is that the business should be more than 'just a members club' and has the capacity to use its influence and expertise beyond the walls of the club.

Pricing strategy

My Sportlady believes it offers a supportive and nurturing experience for its members, reflected in the programmes and services it provides. The club also believes they have a shared responsibility to help a member achieve a specific health and wellbeing objective. Although there are many budget gyms in the catchment, Jasmin no longer pays attention to their pricing structure.

Membership at My Sportlady ranges from:

- €79 – €99 per month ($89 – $112).
- The cheapest is a two-year option for €79 per month
- A one year contract is €89 per month
- A 6-month option for €99 is available for those seeking more flexibility[64]

The club is presently being reconfigured and improved, with a new day spa, children's facilities, new member changing rooms and studios. Membership prices will be reviewed in 2016 with any change clearly reflecting the value their club creates for members, rather than being influenced by the pricing decisions of other local clubs.

Would this club be missed?

The test of a great club is knowing it would be genuinely missed by members, staff and the wider community if it were to permanently close. I believe My Sportlady is one such club, but this special affinity is no random act of good fortune but instead the result of a persistent determination to forge a relevant place in the lives of members.

Further information: My-sportlady.de

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64. Students can join for €59 per month ($66)

INTERVIEW RICHARD HILTON
CEO, GYMBOX

THEME:
CREATING A DIFFERENTIATED GYM BRAND THAT MEMBERS LOVE

RA *Why the GYMBOX brand was created in 2001 and what does it stand for?*

RH I lived in America in the 1990s[65] and there were very distinctive gym brands over there. I used to go Crunch and the classes were unique. When I came back to the UK in the late 1990s, I was shocked to see that the offering was relatively generic. You had Cannons and Holmes Place, which were good products appealing to the higher end. The difference between them and Fitness First/LA fitness was they tended to have swimming pools. So one was put into a premium end and one in the 'budget' end. There was very little product difference, so if you took a sign off a Holmes Place or a Cannons and put a member in there they would have a hard time telling them apart. Although they were trading successfully, no operator had attempted to create a differentiated brand proposition. So when I came back to London I put together a business pitch for a new gym concept different in look, style and tone. I was trying to create a brand that spoke the language of fitness-'savvy' Londoners aged 18 – 35.

RA *How did Fitness First become an early investor in GYMBOX?*

RH I think they recognised that there was going to be room in the market for a distinctive operator and we were coming to deliver it, so why not create your own competition and have a stake in it? Why fight something when you can own it? They were only in for a year and a half. Not because the business was underperforming but because they were moving from a public to a private company. Also the private equity firm that was taking it over (Cinven) had a different strategy of focusing more on Asia.

RA *You believe that GYMBOX is a polarising brand – you either love it or hate it. Can you elaborate?*

RH We believe if your brand and tone is generic you will not stand out from the competition or more importantly find a place in the hearts and minds of your members. GYMBOX would rather be truly loved by 50% of our audience than have a 100% that think we are just fine – we want to create an emotion.

RA *Can you tell me how the emergence of low-cost gyms and boutique studios has sharpened your thinking and shaped the GYMBOX proposition?*

65. Hilton worked in New York between 1990 to 1997

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RH We have not changed our thinking based on the competition. The low-cost gyms offer great value for money. GYMBOX also offers great value for money by offering distinctive product differences. We believe the key is to offer value for money, no matter what price is being charged. Regarding the boutique studios, GYMBOX believes if you can offer the same service and excellence as a boutique operation, but with more disciplines under one roof, we will retain our members. The big box gym is still a very strong model – we strive to be best in class across every aspect of our offering (spin, dance classes, functional training, changing facilities, weight training) and if you do everything really well, you will not be threatened by the 'micro gyms'. You have to hire the right people and put in the right resources.

RA *You describe the class programme as the brand's heart-beat. Why do you believe this and how does it contribute to the success of GYMBOX?*

RH If you ask many people on the street what GYMBOX stands for, classes will be their first or second answer. If you ask our members what makes GYMBOX different, classes always feature very highly.[66] That is what we are known for. We would prefer people were in an instructor-led class because they develop special communities and relationships. Forty percent of our members are interacting with classes, which is quite a high percentage for most gyms. We design all our own classes and change the timetable every quarter, introducing four or five new creative slots each time. Classes have always been key to our brand.

66. As an example, a new GYMBOX opened in East London during March 2015. The 1,858 square metre (20,000 square feet) club operates classes across three dedicated studios and also in multi-purpose training areas designed for functional and martial arts training. 120 – 150 members could therefore be engaged in instructor-led group training during a single peak-time hour

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RA *Why does it seem so challenging for others in this industry to create meaningful brands that staff, members and other stakeholders can really connect with? Has your advertising background helped here?*

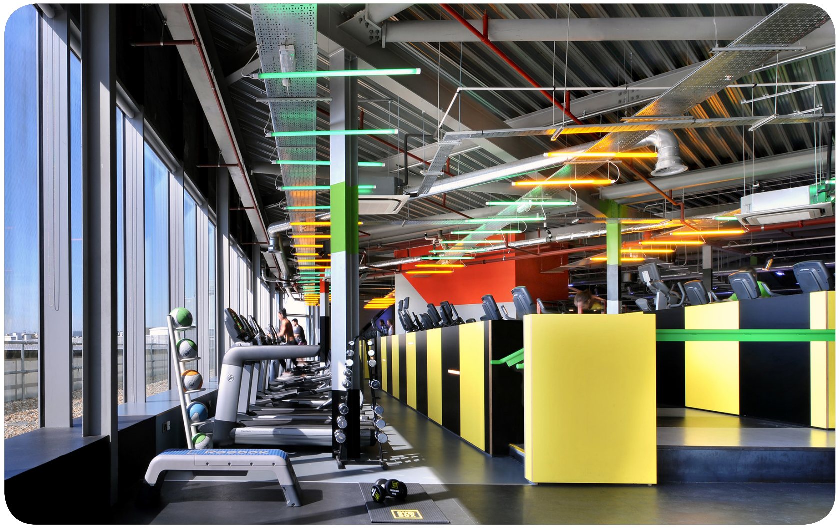
RH Yes, my advertising background has undoubtedly helped. However, marketing is only the 'sizzle' and if the 'steak' was not correct members would quickly see through us. I believe the key to developing a good brand is to develop a unique proposition, find a tone that suits the proposition's uniqueness and then just be consistent.

RA What is your perspective on the need for GYMBOX to evolve and develop as a brand?

RH We have a formula that works but we are always changing the formula – aspiring to be better and moving the bar up. Profits at our Holborn (London) gym, which has now been operational for 12 years, have been consistent because we have refreshed it and reinvented it several times – all the resistance machinery came out and functional training went in. You have to move with the trends. Likewise in some of our other clubs we had boxing rings. Mixed martial arts (MMA) is popular, so you take the rings out and put in a cage. You have to constantly reinvent the formula, but hang it off the same principles. I would never change the principles of what we are trying to achieve.

RA *What advice can you provide to club operators who are struggling to regularly engage members and are indifferent to their membership?*

RH Figure out what will make you unique and why people will want to come back to you time and time again. If others have your unique selling point, or if it is easy to copy, rethink it.



ABOUT GYMBOX

Founded in 2001, GYMBOX was initially kickstarted with a £2 million ($3 million) investment from Fitness First, with the first club opening in central London in 2003. Often described as a 'boutique gym brand' because it has fused a contemporary building design with a distinctive fitness experience, it is listed as one of Britain's coolest brands by Coolbrands, along with Virgin Atlantic and Pret a Manger. It secured £10 million ($15.6 million) of growth capital from the British Growth Fund in July 2015 to expand in London and other major UK cities. There are seven clubs open at July 2015. Membership is approximately £84 to £91 ($126 – $137) per month based on a 12 and 6-month contract.

Further information: GYMBOX.com

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CASE STUDY

ACTIVE4LESS
STEVENAGE

THEME:

The strategic journey of an established independent health club and its conversion to a low-cost business model

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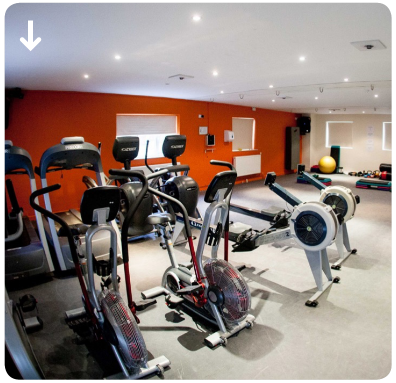
DECLAN RYAN
DIRECTOR ACTIVE4LESS



In 2010, I wrote[67] about Declan Ryan's decision to convert his struggling R3 Leisure club to a low-cost operating model called Active4Less. Five years later I caught up with Declan to discuss the club's progress.

Background

Declan Ryan founded R3 Leisure in 1999. The company purchased a 1,400 square metre (15,069 square feet) squash club in Stevenage, a small town 50 kilometres (30 miles) north of central London. The club was refurbished and reopened with the normal mix of fitness facilities found in a 'dry' club. The three squash courts were retained to maintain a link to the club's heritage.

Declan and his partners set the membership price at £33[68] per month and focused on rebuilding the membership. For the next six years, they worked to establish the R3 Leisure club among the 57,657[69] adult residents of Stevenage.

Declan is honest in admitting these were tough times. The management structure was top-heavy, new competitors were arriving and membership was growing slowly. The club responded by creating various offers and large discounts for members prepared to sign three-year contracts. The result was that average membership yield was no more than £20 per member per month, nearly 40% below the club's published price. Total membership plateaued at 800. The club persevered but during 2006 Declan decided that the club had to fundamentally change if it was to survive. So began the process of changing strategic direction and converting to a low-cost model inspired by brands such as FitSpace, Planet Fitness and McFit.

He wanted to set the new membership price at £9.95 per month with no contract, but settled on £12.95.[70] In 2007, the club was rebranded to Active4Less, and new members were encouraged to join online in order to streamline costs. Having a single membership type and price was seen as critical because memberships were only available online and had to be simple to understand. Online joining meant that the club had email addresses, which enabled rapid and cost-effective member communications. Staffing levels among sales and administration roles were reduced. Contracts were abandoned in order to lower joining barriers and remove the need for the business to pursue debts from members cancelling their contracts early.

67. See 2010 UK Low-cost Gym Sector Report at bit.ly/Oxygen-store
68. Approximately $49 based on a 1999 exchange rate of $1.48 to the pound
69. Adults aged 19 or over at 2001 census
70. Approximately $19 – $25 based on a 2007 exchange rate of $1.96 to the pound

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Declan decided to retain many of the club's existing facilities, which meant that members could enjoy more than a gym-only experience. This saved money in the short term from not having to de-commission facilities. Declan believed that retaining facilities for an independent low-cost operator created value, not only for members, but also for staff (retaining the ability for staff to work and experience a multifacility club).

Following the changeover, membership sales began to rise, sometimes remarkably. In some months, the club saw a four-fold increase in sales compared to the same period in the previous year. The member yield settled at around £14[71] per member per month once a £17 enrolment fee was factored in. Secondary revenue also climbed, given the significant increase in membership.

An early low-cost gym operator

Operating a UK low-cost gym in 2007 was unusual, which meant that Declan was an early pioneer of the business model. This meant the club had a distinctive story but there was a considerable amount of explaining and educating required in his local market. Declan and his partners also had to accept they were fundamentally changing the nature of the original club. The small-club ambience eroded as membership numbers increased. Declan accepted that he had little chance of really getting to know all his members. However, this was balanced by the realisation the club was now helping substantially more people to embed exercise into their lives due to the affordable pricing.

If you are considering changing to a low-cost model, this is what Declan recommends:

" Seek the advice of someone who has overcome all of the challenges of a transition to low-cost. Make sure you have a detailed business plan, and ensure you have the support of your staff team. Discuss the proposed strategy with your bank and other funders. Rebrand the club to emphasise the change; do not get sentimental about the old name or logo as your catchment will simply identify this with your old pricing model and operation. Simplify your membership types and review your processes (How will members join? What will your position be on contracts?) Finally, strive hard to deliver both great value and service. "

71. $27 per month at 2007. Enrolment fee of £17 was around $33

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Five years on

When I speak with Declan during September 2015, it soon becomes clear that the club's strategy has shifted once again. Competition has further increased and on a zero to ten scale of competitive intensity, Declan believes Stevenage now rates a nine. Not only has the quantity of competing clubs increased, but also the price for a monthly membership in the town has continued to decrease. While, at a national level, one in every 12 people[72] belongs to a private health club, Declan believes Stevenage to be far higher. Other purpose-designed low-cost gyms have setup, offering similar facilities from £17.99 ($28) per month.

Declan also discovered that his club did not always have sufficient facilities to cope with the large influx of members, especially during peak-time hours. The car park, for example, became a constraint and so the club decided to create versions of its membership from standard, premier and premier+. Prices have been increased with 'standard' available for £19.95 ($31) per month, which provides access to the gym and 50 weekly class programme. The 'premier' membership bundles in free protein and electrolyte drinks and priority booking benefits for £23.95 ($37), while 'premier+' for £28.95 ($45) also includes free small-group personal training and access to more specialised group classes.

How does the club now define itself?

Declan reflects back and believes the original low-cost price point of £12.95 per month was not ideally suited to their building and infrastructure. The mantra of a successful low-cost operator is to reduce and narrow down what they offer, but perfectly execute everything they do, at all times. Declan found some members began drifting away, attracted to other local clubs that were simply more convenient and easier to use.

Active4Less is no longer the cheapest operator in Stevenage and Declan seems content to pass this accolade to others. In fact, I now believe that this original strategic move did not synchronise well with the beliefs of Declan and his partners, drawn into the industry by a desire to proactively support people to achieve their health and wellbeing objectives and foster a sense of belonging to a private-operated community club. There are clues in the reluctance to remove facilities when the changeover took place and also moving to a self-service gym experience, which is critical if operating costs are to decrease. In fact, as the Active4Less membership began to increase, Declan began adding back gym instructors to provide more support. His club may have been moving to a new operating model, but it seems he was reluctant to decisively abandon the club's past. Perhaps this is the difference between the mindset of an owner-operator versus a more 'arm's length' corporate owner.

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72. 2015 State of the UK Fitness Industry Report

A club with personality

Declan believes the club has shifted from a low-cost to what he describes as a 'value proposition'. He explains that this transition began taking place during early 2014. Recognising that the club's infrastructure would inhibit its capacity to become the dominant low-cost player in the town, he began to invest more into group exercise and raise prices via the new membership structure. The club's new marketing slogan is changing to 'a club with personality'. The intent is to rekindle and harness the power of being an owner-operated club and create an experience that feels different to the 'cookie-cutter' approach of a national brand.

I sense that Declan wants to try and recapture some of its previous heritage as a sports club – no longer just a faceless gym and not a place where people visit simply to interact with a few machines and then leave. He wants to now continue building their expertise in group exercise as well as licensing many well-known programmes. They have created 'Tribe', a new heart rate-based programme which is helping to build engagement with members and staff.

Declan's advice to other independent clubs is to create a deep expertise in an area that owners and staff are passionate in. This is wise advice because people are no longer sold simply on convenience and are becoming increasingly intolerant of bland and mediocre experiences.

So what does your club believe in and what is your story that will have people seeking you out?

Further information: Active4less.com

CASE STUDY

THE CURVES STORY

THEME: Unlocking new demand among people new to the club industry

GARY & DIANE HEAVIN
FOUNDERS

Early beginnings – before Curves

Perhaps the industry that Gary Heavin would find himself devoting a major part of his life to was preordained. As a young boy aged just 13 he woke one morning and discovered his mother had died in her sleep, aged just 40. She had battled with depression, high blood pressure and obesity. Later Heavin would come to learn that the conditions his mother, Doris Joy Heavin, had struggled with could have been better managed had she been able to embrace a healthier and more active lifestyle. Just seven years later he was managing a gym in Houston, Texas owned by his brother. The gym flourished and Heavin discovered an aptitude for sales. However, in a move designed to differentiate the gym he decided to offer memberships just to women and so the business was renamed: 'Women's World of Fitness'. It seemed a smart move and over the next 11 years, the business grew to 14 locations, with 50,000 members across Texas. However, overhead costs were spiralling out of control as clubs became bigger with more amenities. In a desperate move, clubs were reopened to men but it was futile and in 1986, the business went bust. As well as losing his business, he was forced to sell his home and his wife divorced him.

Curves emerges

Loving the fitness industry, Heavin remained involved by selling fitness equipment. He also remarried, to Dianne, a former member of Women's World of Fitness. Together they begun thinking about a second iteration of Women's World of Fitness, but this time things would be different. The new business would return to the women's-only strategy and there would be more operational discipline – less equipment, no showers and more limited operating hours. The first Curves opened in 1992 and so began the story of what would become the world's largest fitness club brand, by both members and clubs.[73]

73. Coincidentally, this is the same year that Planet Fitness, the low-cost gym brand, was emerging from a single club purchased by brothers Michael and Marc Grondahl

The Curves club

In order to tap into the opportunity of creating successful clubs just for women, the Heavins considered the following:

- Why were women being put off joining other clubs?
- What do women who are above their ideal weight need from my club?
- How do we wish women to perceive our brand?
- Is there a new and attractive market position that we can claim to help unlock new demand?

What they created was a sharper and more refined version of Women's World of Fitness. Clubs were smaller, some just 1,500 square feet (139 square metres). The core or 'engine room' of the club would be a circuit of custom-made hydraulic equipment typically consisting of 12 upper and lower body machines. Women moved every 30 seconds from one machine to the next with aerobic exercise in between, such as in-situ jogging on a springy recovery board. The workouts are led by an instructor providing advice, support and encouragement. The workout is completed in 30 minutes, which appeals to time-poor women. All time-sapping amenities such as showers and sunbeds are eliminated, allowing women to turn up, work out and leave. In a way, Curves was following some of the principles found in 'no frills' or 'low-cost' providers – stripping away the superfluous back to the core experience and everyday mission of the business.

Neighbourhood-style clubs

Given the relatively small size of a Curves club they can be situated in smaller communities unable to support larger-scale multi purpose clubs. A club can be situated in an area with a population ranging from 5,000 to 60,000,[74] meaning they have the potential to become authentic neighbourhood-style clubs fostering a sense of belonging and community.

74. Curves International Inc franchise disclosure document issued April 2015

Creating a blue ocean

Curves featured as a major case study in Blue Ocean Strategy, the immensely popular strategy book published in 2005. It was held up as a business that had created a 'blue ocean', a metaphor for an uncontested market space. This provided the freedom to focus on serving its members and franchisees rather than fixate on every tactical move made by a competitor. The book's authors wrote:

> “Yet at its inception, Curves was seen as entering an oversaturated market, gearing its offering to customers who would not want it, and making its offering significantly blander than the competition's. In reality, however, Curves exploded demand in the U.S. fitness industry, unlocking a huge untapped market, a veritable blue ocean of women struggling and failing to keep in shape. Curves built on the decisive advantages of two strategic groups – traditional health clubs and home exercise programmes and eliminated or reduce everything else.”

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Figure 5 shows the original strategy canvas showing its distinctive value curve compared to a typical club or exercising at home:

Traditional club

Curves

Home exercise

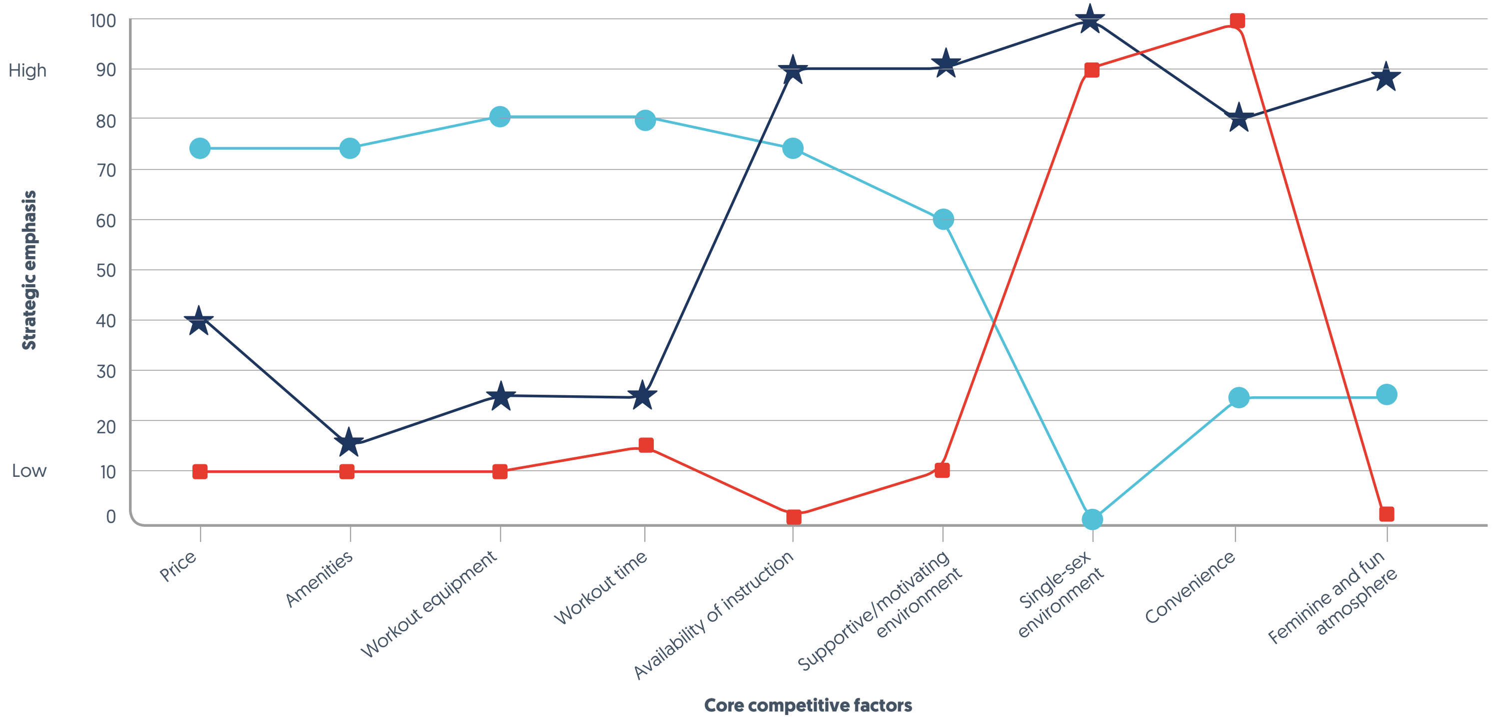

Figure 5
Strategy canvas for Curves vs home exercise and a typical health club

The figure shows nine core factors on which these 'strategic groups'[75] traditionally compete. Curves created a compelling member experience by first reducing the factors less valued by women. Many amenities found in traditional clubs were removed, creating a more focused exercise experience centred on the instructor-led circuit. This reduced workout time and also allowed Curves to reduce its monthly pricing[76] below that charged by larger clubs. Meanwhile the availability of instructors was increased to ensure that all circuit sessions were supported. Also, making the clubs women-only environments reduced the intimidation barrier for new members – these were comfortable and welcoming places to belong to. Yes, Curves was more expensive than exercising at home, but it was much more fun and women could not resist the adverts proclaiming:

> "Discover a gym where women change their lives 30 minutes at a time."

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75. Curves International Inc franchise disclosure document issued April 2015
76. Curves was charging approximately $30 per month back in 2005

Scaling the brand

For the first three years, Curves operated 'corporate' or owned clubs where it tested and refined its systems. The Heavins had ambitious plans for Curves but along with the challenge of raising growth capital Gary Heavin believed deeply engaged people would be the key to unlocking stellar growth. He believed ownership rather than management would be the difference this time: 'I believe you can teach a manager to care enough to make a pretty good cup of coffee,' Heavin says. 'But it's hard to make a manager care enough to run a fitness club. Only an owner will care enough to do the job.' So franchising would become the corporate structure to develop and scale the brand and for this they turned to Gary Findley, a franchising specialist, who would later join Curves as its President and Chief Operating Officer. But what was driving this desire to grow Curves? The Heavins were now financially comfortable and the failure of Women's World of Fitness had faded. Perhaps the answer lay in a talk Heavin gave one day on weight management to a group of women and the realisation that while speaking he had been scanning the crowd for the face of his mother, who was now long deceased. 'I had the epiphany that what my life had been about was healing women because of my mother,' he says, 'and that was what my destiny was going to be.' The final building block was now in place, a clarity of purpose, and with Findlay's expertise, Curves the franchise accelerated, with 44 clubs open just one year after franchising commenced.[77]

Explosive growth

With the mission set, Curves grew rapidly. Curves members often become franchisees attracted by the opportunity to take greater control over their lives, limited operating hours and the modest start-up costs.[78] Remember the clubs were small, the initial franchise fee of $39,900[79] was modest[80] compared to many other franchises and the Curves circuit equipment could be leased. Curves clubs began opening in shopping plazas, urban centres and suburban settings – in fact anywhere with a reasonably sized community of women. The brand soon begun breaking franchising records, reaching 6,000 franchise locations in just seven years – a feat that took McDonald's took 25 years to reach. In 2001 the Guinness Book of World Records named Curves as the world's largest fitness centre franchise. In 2004, it was ranked number two on Entrepreneur magazine's Franchise 500 list.[81] The brand was even parodied in the Simpsons when Marge was inspired to launch a successful gym franchise called 'Shapes'. Ten years after beginning franchising, Curves was reporting 9,000 worldwide over four continents, with more than four million members.[82]

77. Curves International Inc had no corporate owned clubs of its own in the United States by the end of 2008

78. The majority of franchisees are owned and operated by women

79. At 2015 with the ability to repay over time

80. Curves also charges a monthly fee equivalent to 5% of gross revenue, presently capped at a maximum of $795 per month

81. This is across all industries

82. Company website archive at 31st December 2005. Membership numbers are not independently verified

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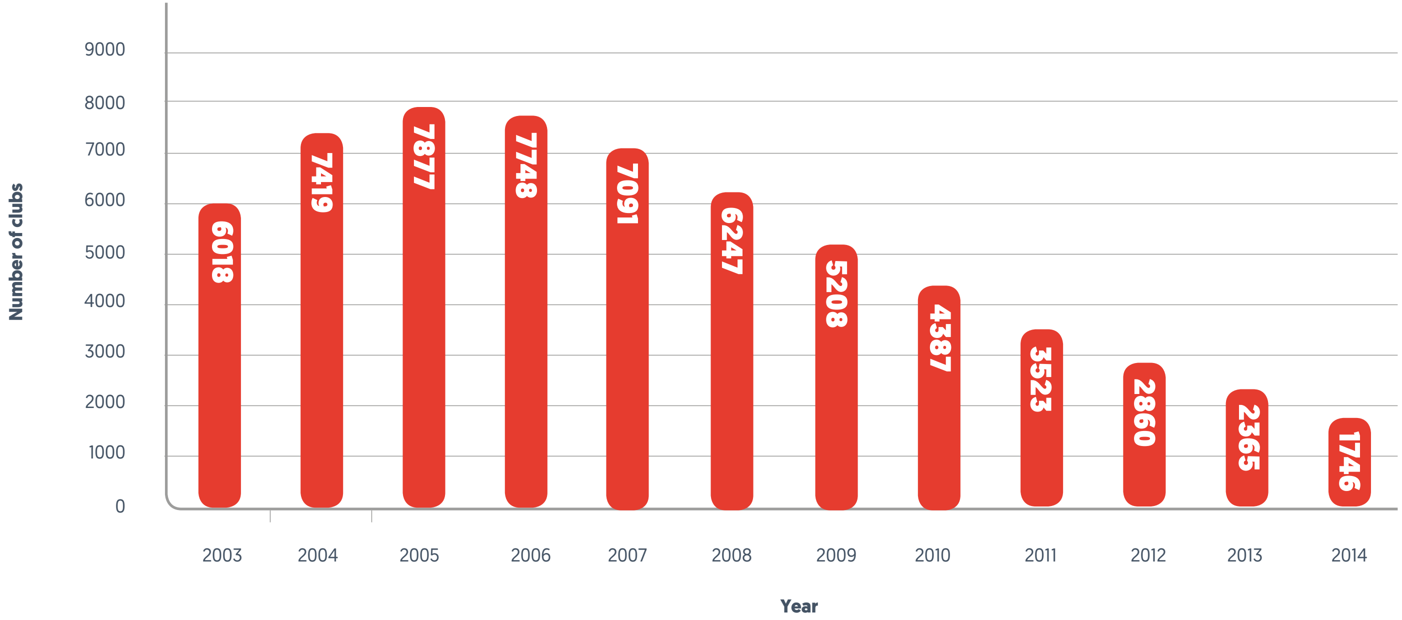
Fault lines appear

Ten years after the start of franchising, the Curves network stopping growing in the United States [see figure 6]. Club closures began rising and in 2005 reached 100 for the first time in a single year. The franchise transfer rate[83] began spiking, with 890 U.S. Curves changing owners during the course of 2005, representing just over 11% of the entire network.[84] The North American Curves network has been declining at a compounded annual growth rate [CAGR] of 10.6% from 2003 to 2014.[85] So what was changing?

Figure 6
Curves USA club network – clubs open at year-end for the period 2003 – 2014



83. This is where a club remains open but is legally transferred to a new owner

84. In 2003, 421 U.S. Curves franchises were transferred, representing 7% of the year-end network

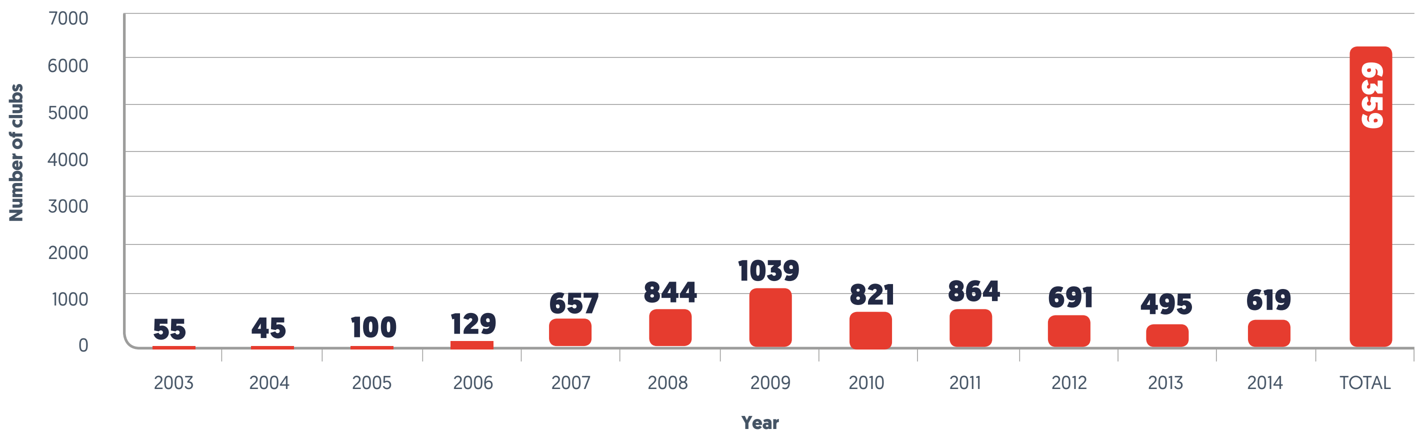
85. The rate of decline has been most acute from 2012 to 2014, with a CAGR of 21.8%

The answer perhaps lies both inside the Curves network as well as in the shifting external landscape. As the network grew, so did the appetite for people wanting to secure a slice of the action attracted by the idea of operating an 'easy' business which sold itself, as well the potential to sell on the franchise and net a sizable windfall at some future point. There is a complex dynamic at play in the franchisee/franchisor relationship – the network needs to keep growing, but ultimately it is the quality of the franchisee base that ensures its long-term success. During the early years of the business the Heavins could 'interview' potential franchisees and assess someone's driving motivation for wanting to get involved. 'We tend to shy away from people that are going to be investors', Heavin has said, meaning that 'active' hands-on rather 'passive' franchisees were preferred. Unfortunately, as the secondary market for existing Curves clubs grew, more of these 'opportunistic' investors were attracted to the network.

Competing with other Curves clubs

Potential franchisees are made aware of competitive threats but are also at risk from other Curves clubs, as no exclusive rights are granted to a specific geographic territory. A Curves territory is defined predominantly by population, which starts from just 5,000 'people'. In fact the North American Curves disclosure documents specifically warns of competition from other Curves clubs and other brands controlled by the company.[86]

Figure 7
USA Curves club annual closures



86. For example, in November 2013, North Castle Partners, owners of Curves, acquired the Jenny Craig weight management business, which operates more than 600 company-owned and franchised centres across the United States, Canada, Australia, New Zealand and Puerto Rico

A core issue was that the international network of clubs was growing faster than a resilient corporate infrastructure to adequately support franchisees. 'McDonald's has a well-defined management structure, well-defined methods of operation in different countries, with levels of autonomy worked out and information technology systems,' said Mike Raymond in 2006, the company's former director of marketing, who became president after Findley stepped down. 'We're working toward that now.'

A common criticism from international franchisees was they felt unsupported once the US-based induction training had been completed because ongoing franchise support was initially provided from the head office in Texas.

Franchises harness the 'power of the owner', but this only works if owners are passionate, competent and present. It is difficult for an owner to be present when they take on multiple clubs or simply choose to employ a manager.

Member expectations

As we saw from the earlier strategy canvas, Curves successfully unlocked new demand by looking across the home exercise and traditional health club offerings and created a new proposition. The brand was able to connect with legions of inactive women who for the first time felt comfortable exercising in a commercial fitness setting, seduced by the idea of 'a gym where women change their lives 30 minutes at a time.' However, in reality, what can members expect to achieve, and are all party's expectations synchronised? In 2005, the American Council on Exercise (ACE) funded a study undertaken by researchers from the University of Wisconsin.[87] It was an observational study as Curves in 2005 made no health claims about its workout.[88] The research team recruited 15 healthy women from two US Curves clubs, aged between 26 and 55 years old. Researchers found that the total 30-minute Curves workout burns an average of 184 calories, saying, 'Intensity-wise it's similar to walking four miles an hour (for 30 minutes) on a flat treadmill. They also acknowledged a beneficial strength training effect due to using the hydraulic machines. This one small study is referenced simply because it helps to raise the complex relationship that exists between many clubs and their members – why are you here and to what extent can the club support you? If it is predominately for weight management then meaningful difference will require a change of lifestyle and not just a few weekly workouts.[89] If this 'lifestyle contract' is unclear then members and clubs will begin to decouple.

87. Read the ACE findings at bit.ly/ACE-Curves
88. The Curves website now states: 'The 30-minute full body workout burns up to 500 calories' – accessed July 2015
89. The Curves website states that members can expect to lose, on average, 5 lbs over a 20-week period. However, membership should also provide other psychological and physiological benefits

Reinvigorating the brand

A core challenge for all businesses is understanding how to renew and refresh a business while maintaining the essence of what first made it successful. Curves has wrestled with this challenge for several years. The core Curves experience is the 30-minute circuit, but over time this can become monotonous, so in 2011 the company partnered with Zumba Fitness in an attempt to reinvigorate the experience and tap the global popularity of Zumba. Some franchisees felt shackled by the circuit, believing it was stifling innovation, but the power of a franchise is consistency, so what emerges is significant tension between the franchisor and franchisee.

In 2011 Gary Heavin advised media outlets that the company was 'reinventing Curves', citing a new weight-loss programme,[90] improved training for franchisees and employees and an online 'university' to teach nutrition. Then in 2012 Chip Baird, founder and managing partner of North Castle Partners,[91] the US private equity firm, said after acquiring Curves, 'we are excited to partner with the company's founders, Gary and Diane Heavin, to reinvigorate this world renowned company by applying our knowledge and experience in fitness and wellness from our current and prior investments, including International Fitness, Equinox Fitness, EAS and Octane Fitness.'

Ten years after the authors of Blue Ocean Strategy first wrote about the explosive growth of Curves they were writing that 'it is time for Curves to reach for a new blue ocean.' This is because the Curves value curve has now converged with new North American rivals such as Anytime Fitness and Snap Fitness, who also wish to become the de facto neighbourhood club.

90. Called Curves Complete

91. North Castle Partners focus exclusively on health, wellness and active living companies

THE FUTURE FOR CURVES AND LEARNINGS

When competitors began encircling Curves clubs offering longer, sometimes 24-hour opening, more amenities and lower membership fees, some franchisees wanted to respond. Some requested a move away from the instructor-led workout sessions to allow unsupervised access. Heavin, back in 2011, was clear: 'Curves is about providing a supportive environment for women and an empty room filled with machines in the night is not my idea of a supportive environment.'

Heavin was right back in 2011 and I believe this still holds true in 2015 as this 22-year-old brand, just like many other legacy fitness brands, rediscovers how to remain relevant at a time when there is an abundance of health and fitness offerings. Monty Sharma, who has been the Curves CEO since October 2012, is continuing with this supportive strategy, reinforced as North Castle begin integrating the Jenny Craig and Curves brands into a single unified centre.[92] This means members are provided with what the company describes as a 'comprehensive food/body/mind approach to healthy weight management that includes three essential success factors: creating a healthy relationship with food, building an active lifestyle and developing a balanced approach to living.' This is a core part of how the Curves brand will be reinvigorated in North America for new franchise locations. However, it is less clear how and if the established Curves clubs can be turned around. Of course, providing a 'supportive environment' should apply as much to the franchisee owner network as to members, and this is where the strategic focus should now be if there is a significant turnaround in the North American business. Many franchise owners believe that their interests and those of Curves International Inc. have not been aligned – the tension between the company wishing to maximise its income and the franchise owner free grow a local business. The principle of any network is that they flourish when nurtured rather than controlled from head office.

The Curves brand is less tainted[93] in many overseas markets and has the opportunity to experience significant growth. For example, Curves Japan has 1,533 clubs open,[94] which means that during 2016 it will most likely exceed the size of its United States network.

Further information: Curves.com

92. Sharma stated there should be around 60 of these combined Curves/Jenny Craig centres by the end of 2015. See an example at bit.ly/Curves-Jenny
93. There is a considerable online discussion from Curves franchisees – example here http://bit.ly/Curves-franchise-feedback
94. Curves franchise disclosure document April 2015

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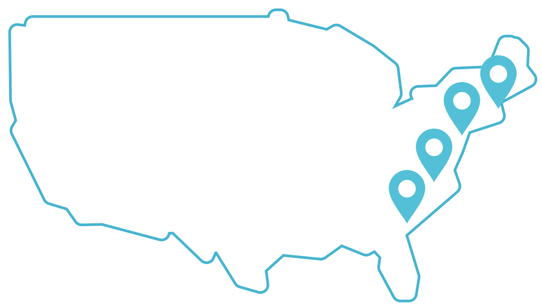
CASE STUDY

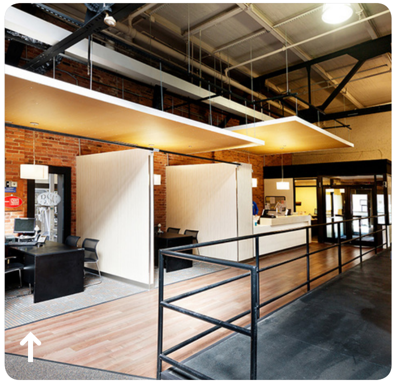


USA CLUBS		
	27	BOSTON
	105	NEW YORK
	13	WASHINGTON
	5	PHILADELPHIA

TOWN SPORTS INTERNATIONAL

THEME:

42-year-old mid-market club chain transitions to low-cost operating model



Town Sports International (TSI) is a US-based mid-market health club chain. Founded in 1973, the company is now the largest owner and operator of fitness clubs in the Northeast and Mid-Atlantic regions of the United States and the third largest fitness operator of fitness clubs in the United States.[95] The company listed on The NASDAQ Stock Market in June 2006.

TSI operates 153 clubs servicing 534,000 members.[96] Clubs are based in four major US cities – New York (105, including two high-end boutiques), Boston (27), Washington (13) and Philadelphia (5). The company also operates three clubs located in Switzerland. The clubs are a mix of 'dry' fitness clubs with well-equipped gyms, group exercise studios, massage, steam, saunas and towel service and children's facilities. Multi recreational clubs comprise racquetball, squash and a swimming pool. The 'dry' fitness clubs average approximately 21,000 square feet (2,106 square metres) and the multi recreational clubs average 37,000 square feet (3,437 square metres).

Over the last two years, TSI has faced increasing competition from the low-cost providers such as Planet Fitness and premium operators such as Equinox. Its membership numbers declined 5% from 510,000 in 2012 to 484,000 in 2014, while membership income reduced from $378 million to $355 million. However, the bottom line did not decrease proportionally and the company lost $69 million in 2014.

The worsening financial performance and share price drop from $14.71 in December 2013 to $4.01 in August 2014[97] has resulted in shareholder frustration with the management team and increased pressure on the management to change course. Consequently in the second half of 2014 the company changed strategy and moved many of its clubs to a low-cost pricing model or what it described as 'High Value, Low Price' (HVLP). The price to join a single club was reduced from $69.99 to as low as $19.95 per month.

In February 2015 Daniel Gallagher was appointed as the new CEO. Gallagher is a long-standing TSI employee joining in 1999 as Vice President of Finance and instrumental in crafting the HVLP strategy.

The beginning

TSI started as a squash club chain, opportunistically converting to fitness centres when squash diminished in popularity. By providing a range of facilities the company aimed to provide healthy lifestyles, catering both to busy young professionals in cities and to families in suburbs. Gaining expertise in gym management, TSI acquired and converted underperforming clubs to provide a varied gym experience – from cardio and weights through group exercise to additional facilities such as swimming pools and racquet courts.

95. Measured by the number of clubs
96. At September 2015
97. See interactive share price chart bit.ly/TSI-Shareprice

Strategic positioning

TSI's members have traditionally included a wide age demographic, from the student market to the active mature market. For many years, the target market was focused on the population with annual income levels of between $50,000 and $150,000.[98]

TSI's main advantage arises from 'clustering' its clubs – approximately 65% of TSI's members have historically been 'Passport', which provides multi-club access. TSI clubs are usually based in densely populated major metropolitan areas. The chain serves populations by clustering clubs near the highest concentrations of target customers' areas of both employment and residence. The company aims to locate these clubs close to transportation hubs, office or retail centres.

In 2014 TSI started to expand the target market on both ends. On the one hand, TSI has introduced HVLP strategy to target members that prefer a lower-priced membership. The HVLP strategy offers the same current level of service and amenities but at a lower price point. On the other hand, TSI ventured into boutique offering, opening high-end 'BFX studios', which offer luxury indoor cycling, master classes and personal training. The studio pricing structure is pay-as-you-train, starting at $30 per class.

Financial performance

TSI has experienced consistently declining revenues since 2012. Membership revenue has reduced by $23 million (6%) from $378 million in 2012 to $355 million in 2014. This was driven by a 5% fall in membership numbers from 510,000 in 2012 to 484,000 in 2014. Although TSI did see an increase in ancillary revenue such as personal training fees, this did not make up for lost membership income and consequently total revenue declined by 5.5% over the 2012 – 2014 period. TSI has also experienced rising costs, especially over the last financial year ending December 2014. It has experienced payroll increases due to greater engagement of personal trainers and membership consultants. Moreover, TSI spent $2 million on advertising its new HVLP policy as well as an additional $8.5 million in rent and utilities due to new openings and higher leasing costs.

2014 was a challenging year for the company. The company produced just $752,000 in operating income on total revenue of $454 million[99] and a net loss of $69 million. This contrasts with a $12.3 million profit recorded for 2013.

The company is highly leveraged, with $300 million in debt, 2.7 times greater than its cash, which is around $110 million. TSI leases rather than owns its real estate, resulting in $620 million in operating lease costs. Given the recent move to the HVLP strategy, the company can expect increased financial pressure in the short term due to lower average membership fee income and higher advertising costs.

98. Median U.S. household income was $51,939 in 2013 (U.S Census Bureau)

99. Calculated as revenue less costs and before interest payments

Marketing and sales

Previously TSI offered three membership types. 'Passport' providing unlimited access to all clubs, 'Core' to one club, while 'Restricted' offered access to a single club during off-peak hours.

Table 2 shows membership prices before and after the move to a low-cost business model for a New York City customer. The single club membership has now been rebranded from 'Core' to 'Premier' and can be purchased from $19.95 per month.[100]

Table 2
Town Sports International – Price change (New York City)

Town Sports International – Price change for New York City			
	2014	**2015**	**Year-on-year change**
Passport (multi-club access)	$99.99 per month	$79.95 –$89.95 per month	
Core/Premier (single-club access)	$69.99 – $79.99	$19.95 – $39.95[101]	
Joining fee	$49.99 (yearly contract) $128.99 (month-to-month)	$0 – $99.5[102]	
Annual maintenance fee	$39.99	$49.95	
Annual income from Core/Premier	$930	$389	**-58%**
Annual income from Passport (assume lower price per month chosen in 2015)[103]	$1,290	$1,109	**-14%**

Member sentiment

The member sentiment towards TSI has historically been typically negative across several consumer review websites. On Customer Affairs[104] the business has been reviewed 244 times and 71 people have rated the brand. The average rating is one from five stars. Members predominantly complain of difficulties with membership contracts and the cancellation policy.[105] Other issues are around housekeeping (lack of cleanliness) and the unprofessional attitude of some staff.

100. Excluding 4:30pm – 7:30pm
101. Month-to-month pricing requiring no contract
102. Zero if a higher monthly price paid or promotional offer
103. Using lower monthly fee
104. Read reviews here bit.ly/TSI-ConsumerAffairs
105. A member needs to attend to cancel a membership or give 30-days' advance written notice

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The move to high-value, low-cost

TSI decided to transition to a low-cost pricing structure in response to budget operators aggressively capturing market share. The company's 2014 annual report management explains the rationale: 'The number of competitor clubs that offer lower pricing and a lower level of service have continued to grow in our markets over the last few years. These clubs have attracted, and may continue to attract, members away from both our fitness-only clubs and our multi-recreational clubs. As a means of facing the shift in fitness industry, we are in the process of introducing the HVLP strategy to most of our clubs where we believe we have a higher value-to-service proposition with reduced monthly dues under month-to-month membership plans.'

The TSI management believed its 'superior' club estate with group exercise and some offering a swimming pool and racquets facilities offered the company a strategic advantage that would allow it to recapture market share. By March 2015, 124 (83%) of the clubs had transitioned to the HVLP strategy. The remaining 34 clubs[106] were to remain exclusively for 'Passport' members.

The reaction to the HVLP pricing has been varied. Some members have criticised the move: they were confused which New York gyms were part of Passport, felt resentful the single club fee is similar to Planet Fitness and complained about 'dumbing down' classes to accommodate new members. Members online discuss the move as a 'promotion' rather than as something communicated as a change of strategic direction, which is concerning. Passport members who use several clubs report a deteriorating experience.[107]

Results so far

TSI has managed to stem the loss of members with its pricing move. In the third quarter of 2015 total membership increased 14,000[108] to 534,000 compared to a decrease of 9,000 in the same quarter for 2014. Monthly membership attrition remains comparable to 2014 and was 4.4% at the end of September 2015 (4% for the same 2014 quarter), even though more members are now on month-to-month agreements.

Revenue was $104 million for the third quarter of 2015, a decrease of 8% compared to the same 2014 period. This short-term pressure on revenues is expected as some members switch from higher-price memberships to month-to-month, while new members join on lower-priced tariffs.

Club EBITDA[109] for the September 2015 quarter was a loss of $6.1 million compared to a positive EBITDA of $15.7 million for the same 2014 period.

106. Ignoring the BFX studios

107. Read a selection of reviews at **bit.ly/TSI-Yelp**

108. There has been a 55,000 net member increase for the first three quarters of 2015 as the low-price strategy attracts more joiners

109. EBITDA is earnings before interest, tax, depreciation and amortisation. The September 2015 quarter includes a fixed asset impairment charge of $12.4 million

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Analyst reaction

Remember that TSI is a public company, so its strategic moves and progress are carefully analysed. So far analyst sentiment has been predominantly negative. Some analysts call the HVLC move 'a strategic error' and do not like the fact that TSI, with its legacy facilities, is waging a price war with highly efficient low-cost competitors. They think the company should increase advertising, reinvest in its clubs and enhance its strong brand.

The analyst's reasoning is as follows: TSI has higher operating costs[110] compared to its competitors given its urban concentration. Its offering is not sufficiently compelling for members of alternative gyms to switch. Given its high costs, TSI will need significantly more members as some switch to low-cost tariffs – as many as 755,000, a 221,000 rise from the current 534,000. This puts the 55,000 net membership increase for the first nine months of 2015 into perspective. The analyst concludes, 'trying to compete on price in a competitive industry with little cost flexibility and a levered balance sheet is a recipe for disaster.'[111]

Making a move, but is it the right one?

Should we commend senior management for making this move into HVLC and into boutique studios? At the end of the first quarter of 2015 it had $111 million of cash on its balance sheet and could have stayed on the same strategic historic path. Or has management misunderstood what is required to execute a low-cost strategy? Low-cost members of Planet Fitness or Crunch do not switch to a new club at a similar price because it has a racquetball court for one simple reason; they do not value the court. Some TSI members report some clubs looking tired, with old equipment, which means that the underlying fundamentals are not in place,[112] whatever the price of membership. Member sentiment towards the brand experience is poor and needs to be understood and rectified.

TSI seems to have reduced top-line revenue but not significantly altered its cost structure. Clubs and staff have remained in post – perhaps explained by the company still needing to provide a full service to its 'Passport' members. How can you operate a low-cost business with the expenses of an urban multi recreational club?

Why was it necessary to roll out HVLC to more than three quarters of all clubs? Sometimes the ideas of a CEO need to be challenged, but more importantly, tested. The best online businesses are constantly testing, basing future decisions on evidence rather than intuition.

Unfortunately Dan Gallagher, CEO and architect of this strategic move, was removed from his post in June 2015, after just four months in his new role. The company has since appointed Gregory Bartoli as a new Chief Operating Officer and Michelle Ryan to the post of Chief Marketing Officer as the company continues executing this strategic move.

Further information: Mysportsclubs.com

110. Property rent comprises 24% of the company's costs
111. Read the analyst commentary at bit.ly/TSI-Analyst
112. The company is investing up to $34 million during 2015 but nearly one third of this relates to new clubs and its studio brand

CASE STUDY

Fitness First

THEME: THE REPURPOSING OF FITNESS FIRST

Fitness First

Fitness First is a remarkable story of growth, decline and now reinvention. When launching its first club in Bournemouth on the south coast of England in 1993 its purpose or reason to exist was clear and understandable. The UK fitness market at this time was polarised – join a premium or high-end private club such as David Lloyd[113] or use a 'tired' sports club or public leisure centre where facilities were dilapidated and limited. Fitness First wanted to change this and offer a private members club experience at just £29[114] per month, far cheaper than typical prices at the time and with no requirement to sign an annual contract. They were positioned as the 'affordable fitness' brand, similar to how low-cost gyms promote themselves today.

They championed the right for consumers, regardless of their socio-economic background, to join and enjoy a well-equipped, well-staffed club.[115] These early clubs were modest in size, but competed by combining personalised fitness advice in a friendly environment.[116] 'We are building a chain of clubs that provide what we believe to be the most utilised facilities,' Mike Balfour, the founder, would tell journalists. This new company with an everyday mission to democratise fitness for the majority was enthusiastically embraced as it moved from town to town and then into cities. It had created a new blue ocean and was tapping into a large cohort of people joining a club for the very first time. Six years following its launch, the company was listed on the London Stock Exchange[117] and by 2001 had become Europe's largest independently owned operator, with 164 clubs across 13 countries with 375,000 members.[118] New clubs would build membership quickly[119] and often reached break-even after just three months. During 2002, it opened 110 clubs worldwide, more than two each week. In 2003, it was taken private after issuing a profit warning that led to a halving in its share price. Cinven, the private equity company, acquired the company and the moderated expansion continued.

By 2005, just 12 years after launching and now owned by BC Partners, a European private equity group, Fitness First announced it had become the largest operator of wholly-owned health and fitness clubs in the world, with 1.1 million members across 424 clubs and 15 countries:[120] a phenomenal achievement for Mike Balfour, the company's founder, from a single loss-making independent club acquired in 1993.

113. Requiring a joining fee of several hundred pounds and signing a 12 – 18 month contract

114. $44 in 1993

115. These early Fitness First clubs comprised a large air-conditioned gymnasium with a wide variety of cardiovascular and resistance equipment, a large aerobics studio and luxury changing facilities leading on to a health spa consisting of a large sauna, steam room and whirlpool bath

116. Members were offered three 30-minute sessions with an instructor and membership also provided complimentary soft drinks, tea, coffee and a free video lending library allowing members to take films home

117. February 1999

118. Facts from publicly issued company statements

119. Management at the time described this as the 'fill rate' with no reference to members or people

120. 166 clubs in the UK, 172 in Continental Europe, 44 in Asia and 42 in Australia

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Growing but not serving

As the company grew, its attention shifted away from its members and became an investor-centric business – the business now existed to maximise return for shareholders. Membership prices rose and contracts were introduced to lock-in members. Some facilities such as the whirlpool baths were removed, with the company citing health and safety concerns. Perhaps one of the most significant steps taken was to remove salaried staff from the gym floor and begin replacing them with self-employed personal trainers. This move was designed to reduce costs but had the effect of signalling to members and to the wider market that shareholder's interests were to be put first. Unknowingly, management was steadily turning Fitness First into an expensive self-service experience. This made the brand vulnerable as by 2006 the UK was witnessing the start of a new breed of 'affordable fitness' operators when low-cost gyms arrived, inspired by McFit in Germany. FitSpace launched first and also chose the south coast of England for its first club, offering memberships from just £13[121] per month. As competition intensified, tension between what was in the best interest of investors versus members continued to surface. In 2008, the UK Office of Fair Trading (OFT)[122] required Fitness First to alter its membership contract terms so that members with medical issues who where unable to use the club could cancel their membership.

121. $22 in 2006

122. Government department established to protect consumers and ensure markets work efficiently, now superseded by the Competition and Markets Authority

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This was the first of several clashes with the OFT. Member sentiment towards the brand was changing in many of the markets in which it operated, with Asia possibly the exception. The company began retrenching and in 2010 sold its 57 Benelux clubs[123] to HealthCity International. A year later HealthCity acquired 45 further Fitness First clubs in France, Spain and Italy, leaving its 80 German clubs as the only evidence of its once grand move to bring 'affordable fitness' to European consumers.[124] In 2012, its UK business was also restructured, resulting in the sale or closure of 67 clubs. However, the company was still struggling to service debts of approximately £600 million ($929 million) and on the verge of defaulting with its lenders – this iconic legacy fitness brand was on the edge of going bust. The solution was for lenders to write off their debts for a majority equity stake in the business and for these new owners to provide new funds to finance this now 20-year-old company's reinvention. 'A lot of brands lost touch with why they started in the first place', said Fitness First's UK marketing director David Jones in a 2014 Marketing magazine article. 'Fitness First absolutely fell in that category. Without that focus on the customer, it's no surprise that gyms have been struggling over the past few years…we have a choice: we can either continue to build clubs, and let members get on with it, or we can get back to the real reason why Fitness First came into existence 20 years ago.' Andy Cosslett, the former chief executive of Intercontinental Hotels Group (IHG),[125] was brought in to lead the brand on the next stage of the brand's transformation. 'In addition to our strong cash generation, we have capital available from our new owners which will allow us to invest in our remaining clubs and radically improve the experience of our customers. Fitness First is a great brand that is going to get even better', said an upbeat Cosslett to the UK press in 2012.

Reinventing Fitness First

Cosslett's very honest assessment after settling into his role was 'a company that was going nowhere.' He believed the moral compass of Fitness First and other parts of the private sector required resetting. 'From an outsider's point of view, it has always struck me as strange that an industry that should be seen as a paragon of virtue in society was not portrayed that way.' said Cosslett. 'We're saving people's lives, making them happy, helping them fulfil their dreams and go further in life, yet the industry's reputation was nothing like that. It was way down the pecking order in terms of appeal to executives to join it; the Office of Fair Trading was all over it for its overcomplicated contracts and terms and conditions; and there was little trust from the public. And as an observer and user, I agreed with a lot of what was being said. Fitness First in particular was a brand with quite a lot of reputational damage.'

Cosslett first wanted to understand why the company, along with other brands, was failing to forge meaningful relationships with its members who were sometimes leaving after just a few months of membership.[126] 'The gym industry might be great at fitness, but it has never been very good at connecting with its customers', Cosslett said, and he was eager to understand why.

123. 57 clubs across Belgium, Luxembourg and the Netherlands

124. The German business was put up for sale in 2014, but this was abandoned in June 2015 after offers were seen as too low

125. Where he oversaw the operations of IHG in over 100 countries

126. 88% retention rate after three months among a cohort of 343,000 UK members drawn from a cross-section of private and public sector brands – The UK National Retention Report, Paul Bedford 2013

The company began collaborating with Professor Stuart Biddle, Professor of Physical Activity and Health at Loughborough University in the UK. 'We peeled it right back to two questions', said Cosslett: 'why don't people get involved in the first place and when they do get involved, why do so many stop coming?' Biddle's recommendation was for Fitness First to begin putting in place the people and products that would support members' motivation to exercise and encourage long-term adherence. 'Most think motivation to exercise is down to willpower, but it goes much deeper as we need to meet psychological needs to maintain the habit. Specifically, we need to feel that we're making progress (the need for personal growth), that we have choices (a sense of autonomy and control), that we're socially connected (a sense of belonging) and in a positive environment', explains Biddle.

Cosslett had previously taken the 3,200 Holiday Inn brand through a four-year change programme and recognised that Fitness First required a radical overhaul, not just a superficial makeover, saying 'when you move a brand on, you can't do it in bits. As someone once said to me, you can't jump a chasm in three easy steps. You need to take the whole brand and the whole business to a different place.'

Funds are now available to update the entire global Fitness First club brand and estate spanning interiors, equipment and new training areas. Staff are also being retrained[127] so that they can once again play a more proactive role in delivering the member experience. For example, functional and freestyle training areas now feature more prominently, with staff leading complimentary small group training sessions. It is one way in which the brand is communicating that it wishes to move away from a box of equipment where the members are left to drive the visit experience – more playground and less 'rack and stack gym' is how they see it. 'We need to educate members, and spot the signs of where our intervention can help to motivate people', says David Jones.

Staff intervention is also a key part of its BEAT microgym project. Converting one of its former London clubs, BEAT operates solely as a group exercise concept, running 14 sessions a day around five different class options, all employing POLAR heart-rate transmitters tracking and monitoring progress live on screens situated around the studio. The BEAT strapline is 'never have an average workout again' and forms part of Fitness First's plans to position staff once again at the centre of the consumer fitness experience and so create a point of difference with the low-cost 'self-service' experience. The BEAT programme, which can operate with up to 16 members, has subsequently been embedded into an existing London Fitness First club to encourage more members to engage ingroup exercise.

127. The ambition is for every global team member including the CEO to have a certified fitness qualification so that any member of staff can potentially add more value when interacting with members

Fitness First is no longer the world's 'affordable fitness' operator, having relinquished this position to low-cost operators who now spar amongst themselves to provide the cheapest membership.[128] So how do they define themselves now?

"We're still affordable, but service and support is a critical part of what we offer, so whilst we are not necessarily the cheapest out there in all markets, we are offering the best pound-for-pound support and motivation you can get."

"We believe that fitness gives people the confidence to go further in life, and we are here to inspire people to lead that healthier, fitter lifestyle. Of course the clubs, technology and products play a big part in that, but it's really people that inspire people. Churn in unsupported or self-service fitness – be it unsupported fitness apps, or an unstaffed club – is enormous. It's the people, the human element, that makes the difference and at Fitness First you'll find great people who genuinely care."

David Jones, Fitness First, marketing director

Jones confirmed that member sentiment towards Fitness First is beginning to improve, with a 10-point increase in their global net promoter score since December 2013.[129] Also, previous Fitness First members are now returning and now represent one in five of all new joiners.

Whether the transformation of Fitness First into a more people-centric and outcome-driven business transpires will now rest with its new owners and the belief of its new CEO. Andy Cosslett has recently stepped down as CEO, where for three years he led an urgent and significant 'reboot' of a brand that was verging on irrelevancy. Oren Peleg, a former Managing Director at Oaktree Capital Management, the new owners of Fitness First, assumed the CEO role in July 2015. Peleg does not come from a background of hospitality but from corporate finance. Peleg and Oaktree must see through the transformation of Fitness First if the brand is to have a sustained long-term role in the global health and fitness industry, so let us see what its next strategic move is.

128. The average Fitness First month-to-month price is £69 across its 46 London clubs and £49 based on a 12-month agreement. Pure Gym as a comparison most frequently charges £22.99 across its London clubs (at July 2015)

129. Fitness First regularly tracks its net promoter score by surveying a sample of 20,000 members

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Figure 8

Fitness First timeline of key organisational events and milestones

1993

Fitness First
Founded

1996

Lists on Alternative Investment Market at £0.40[130]

1999

Lists on London Stock Exchange

2001

Now Europe's largest operator with 200 clubs

2002

Shares now trading £4.00 valuing the company at £460m

2003

Leaves Stock Exchange following profit warnings. Cinven acquire business for £404m

2005

Cinven sell to BC Partners for £835m ($1.5bn) [131]

Fitness First claims to now be the world's largest owner and operator of clubs (424 clubs in 15 countries)

2006

The company announces it now has 500 operating clubs

2008

Fitness First enters India

2009

Mike Balfour, the company's founder, leaves the business following disagreement over strategy

2010

Fitness First Benelux (57 clubs) sold to HealthCity

X Failed independent public offering (IPO)

2011

Fitness First exits

France

Spain

Italy

£ selling 45 clubs to HealthCity

2012

Fitness First creditors agree company voluntary arrangement (CVA) and so avoid administration[132]

Distressed investment funds Oaktree Capital and Marathon take control of the company, swapping their £600m debt for equity

2014

Fitness First Germany, comprising 80 clubs, put up for sale. Its disposal would mark the brand's complete exit from continental Europe

80 CLUBS FOR SALE

2015

Oaktree Capital, owners of Fitness First, abandon sale of its German subsidiary after offers deemed too low

Andy Cosslett steps down after three years as CEO. Oren Peleg from Oaktree is appointed new CEO. Does this mean the transformation programme is being abandoned?

130. AIM is the London Stock Exchange's international market for smaller growing companies

131. $ exchange rate at 2005

132. A company can only propose a CVA when the alternative is administration and it must offer a better return to creditors. The Fitness First CVA was estimated to generate a return of 25 – 35p in the £1 for the landlords, versus less than 1p in the £1 in an administration

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CONCLUDING REMARKS AND RECOMMENDATIONS

This report represents a six-month exploration into how the fitness industry is evolving. During this journey, I have studied the strategy of many club brands, read numerous industry reports and interviewed operators and analysts. In taking a step back from the report to view its entirety, this is what I see:

Market-creating events are infrequent

Entrepreneurs with new and bold ideas that truly unlock demand from customers new to the fitness industry are infrequent, which is why membership growth is stalling. Tinkering with existing business models will not propel the industry forward – at best, they create marginal gains.[133]

Recommendation

Make time to identify and understand how entrepreneurs across a range of industries have challenged conventional wisdom to redefine the boundaries of an industry to unlock new demand.

Pay attention to substitutes and alternatives

Remember, clubs do not simply compete with other clubs but with myriad substitute offerings – the 'salami-slicers'. Substitutes operate in a different form, which is why they can be difficult to identify. However, their function or core purpose is the same. They will often not be captured in industry reports so can operate in 'stealth mode' for some time, quietly building a large community of enthusiastic followers.

Recommendation

- Identify an individual in your business who becomes the expert in understanding the experience provided by substitutes. All must be experienced first-hand so that a first-person perspective is gained. Set aside the fact that they are different – the objective is to understand why and how they attract and engage people.
- Consider scenarios where different 'salami-slicers' potentially infiltrate your catchment area and the strategic response you would make.

It is easy to reduce prices

I believe that it is easy to reduce the price of something, but much harder to increase it again. These decisions are big signals to the market and so need to be taken intelligently with the long term in mind. It surprises me that there are now UK multipurpose clubs,[134] built at an original cost running into millions of pounds, that command just £20 per month ($30).[135] Paradoxically, there are low-cost gyms in the same city charging more. The fundamental difference, of course, is that the operating cost structure of the low-cost gym was designed to accommodate this price point – not true for the multipurpose club.

133. According to Clayton Christensen, Professor of Harvard Business School, many companies suffer from 'marginal thinking'. They are inclined to protect what they already have, making small incremental adjustments to the pre-existing business. The danger is that companies become myopic to the threat from highly disruptive competitors

134. Including extensive gym, group exercise, swimming pool, café, spa etc

135. In the United States 21% of members of commercial multipurpose clubs (which also include either a swimming pool or racquets facility) are now paying less than $25 per month (£16) for their membership (Source: 2015 IHRSA Health Club Consumer Report). £20 is also a typical price for a 45-minute class at a specialist studio in London

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Advice when responding to a new competitor

“Do not over react. If a low-cost competitor moves into the market, do not automatically feel that the way to compete is to lower your prices. One of the ways that a lot of clubs lose to competition is reacting emotionally versus coming up with a true plan and then executing based on facts.” (US club operator and REX Roundtable member)

Recommendation

Before making any significant price changes, step back and define clearly what sort of fitness business you and other stakeholders want to be. Clarify your core area of excellence and synchronise this with the team’s passion. Think about testing, ‘good’, ‘better’ and ‘best’ versions of your membership offer, ensuring there is meaningful value between the different options.

Where is your business positioned as the market forks?

I see the fitness market forking along two pathways, which I define as ‘self-service’ and ‘supported’. Low-cost gym brands are, at their core, fundamentally a self-service experience, while a boutique studio provides a supported experience. These providers, in different ways, each create meaningful value for their respective customers. However, there are other providers that through past management decisions now find themselves stuck in the middle – neither a self-service nor a supported experience – which results in members over paying for the service they are receiving.

Recommendation

- Create a more sophisticated understanding of why members attend and their core motivation that is driving their interest in physical activity.
- Understand where the club is genuinely creating value for members by creating your own strategy canvas **(see figure 4).**
- Undertake sentiment analysis of members by adopting the Net Promoter Score to understand if your business has a legion of fans (promoters) or soon-to-be ex-members (detractors).[136]
- If the everyday mission of the business is to provide a supported environment, then how will you be infusing more value into the membership experience?

136. Clubs across North America can participate in the IHRSA-The Retention People NPS survey, free of charge

Some members are decoupling their allegiance to a single club

A growing number of members are choosing to hold 'membership'[137] at more than one provider. Clubs have long won customers on the basis of location and convenience but consumers are now willing to travel further to access a superior experience.[138] This means the days of potentially 'monopolising' a member's physical activity experiences may be ending. When Richard Hilton, CEO of UK-based GYMBOX, was asked how he would feel if some of his members were slipping away on a Tuesday evening to train at a nearby indoor cycle studio, he responded by saying it would challenge them to ramp up the experience they provided.

Recommendation

Consider how your business will respond to this decoupling phenomenon. The starting point is to first understand the extent to which your members are already using other providers. As always, the important question is 'why'.

Make a strategic move with conviction

Three of the case studies in this report tell the story of a strategic shift to a low-cost operating model. However, after writing up the cases, I was left thinking that something was missing and I believe it was the degree of real conviction and belief in the decision. Changing the business operating model is a big decision and is not just simply about exploiting an opportunity. I believe the operating model also has to synchronise with the beliefs and values of senior management and especially owner-operated businesses. For example, the core competency of a low-cost gym business such as Planet Fitness is operational efficiency whereas for Anytime Fitness it is customer intimacy – they have to choose and cannot be both.

Recommendation

- Big strategic moves that change the scope and direction of your business need to be made after careful deliberation and when executed must be undertaken with an unwavering and long-term conviction.

Moving to a new business operating model requires organisational alignment

Along with conviction and belief in the decision, the business needs to align itself with any new operating model. A multipurpose club that has historically charged $49 per month and then decides to 'convert' to a low-cost club and do nothing other than reduce its pricing to $20 per month is not an authentic low-cost club – it remains a multipurpose club now running a permanent price promotion.

137. Membership in this context also refers to paying for sessions at specialist providers that only sell on a pay-as-you-train basis

138. Think about how many are prepared to walk further to visit a favourite café, trading off many others that are closer

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An authentic and disciplined low-cost operator, by contrast, eliminates all non-core elements so out goes the swimming pool, racquets, kids club and other ancillary areas. The future focus will be on the 'core' gym experience. Staffing is reduced to align with the 'narrower' member experience and technology use is raised to drive greater efficiency (a complete move to online joining for example). Property leases are potentially renegotiated and the number of vendors reduced, and so it goes on. Perhaps the business is also rebranded to convey to all internal and external 'stakeholders'[139] the strategic change. This is why conviction to the new operating model should be comprehensive and not simply misunderstood as a tactical pricing issue.

Recommendation

Before moving to a new operating model, consider the following:

- What will be entirely eliminated?
- What will be reduced?[140]
- What will be created for the first time?
- What will be raised (improved)?

Testing alignment to a low-cost operating model

How would you answer the following?

- Has the facility offer been reduced and built around a great gym (cardio and strength) experience?
- Has the joining process migrated online to reduce cost and to allow members to take control of their accounts?
- Have opening hours changed to 24-hours or at least been extensively increased in order to smooth out demand?
- Has salaried staff been substantially reduced to reflect a move to a self-service member proposition?
- Do payroll expenses represent 25% or less of total revenue?[141]
- Has the club membership tariff reduced by at least 50% of the country average price?
- Can the club's infrastructure accommodate a two-to-three-fold increase in membership during peak time hours?

139. Defined as any person or organisation who impacts or is impacted by the club

140. Michelin star chef Gordon Ramsay in his 'Kitchen Nightmares' TV programme would often observe struggling restaurants making the same mistake. They offered too broad a menu and lacked a standout signature dish. There is a valuable lesson here for club operators

141. Planet Fitness, the world's leading low-cost gym business, operates payroll expenses at between 13% and 22% across the 44 corporate-owned clubs in its network (at 2014)

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JULIE RICE
ELIZABETH CUTLER
FOUNDERS
OF SOULCYCLE

Believe in something

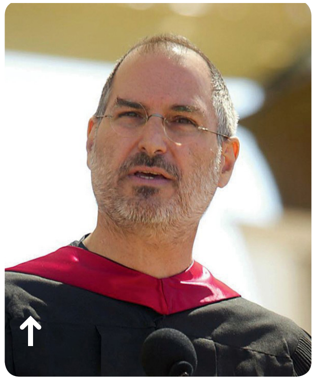
Julie Rice and Elizabeth Cutler founded SoulCycle in 2006 because they could not discover an indoor cycling experience that captivated them. So they decided to create their own experience and this initially boot-strapped business has arguably kickstarted the entire high-intensity boutique studio segment.

When starting the business, their ambition was to create a remarkable fitness experience which they describe as 'joyful, inspiring and helping people connect with their true and best selves', using indoor bikes as the prop or tool. Nearly one decade on, cycling remains the core and only experience and their passion. They could have evolved their studios into multi discipline places where all the latest fitness fads are served up, but my intuition is that had they pursued this strategy they would not now be preparing to become a public company in the United States.

Recommendation

In a world awash with mediocre offerings, commit to making your business remarkable in a chosen discipline that you and other stakeholders are truly passionate about.[142]

142. Remarkable businesses and experiences create legions of fans and followers. During 2014, SoulCycle, which is still a relatively small business, received more than 10,000 unsolicited print and online mentions (company document). Remember this is an indoor cycling experience, but it must be a 'remarkable' one



STEVE JOBS
CEO OF APPLE

The pursuit of great work

In 2005, Steve Jobs, CEO of Apple, was invited to speak to graduating students from the University of Stanford in California. It is a mesmerising speech given six years before his death.[143]

Although he was speaking to an audience of students about to journey into the world of work, there were several observations that apply to those running a business; here is one, around ambition and the pursuit of great work:

> “ You have got to find what you love... your work is going to fill a large part of your life, and the only way to be truly satisfied is to do what you believe is great work. And the only way to do great work is to love what you do. If you haven't found it yet, keep looking. Don't settle. ”

Notice that Jobs did not say 'good work' but 'great work'. Many may believe that 'great' is beyond them, which is probably why the world is brimming full of 'good' brands, 'good' services and 'good' experiences. But being 'good' or 'competent' is no guarantee of long-term success, because consumers can smell the lack of ambition – in Net Promoter Score terms it may get you a score of seven or eight from 10. Contrast that, however, with what happens when something altogether more remarkable comes along, activating not just existing but new-to-the-industry consumers who enthusiastically rally around the experience.

The health and fitness industry may be mature and parts of it wrestling with commoditisation but there will always be a place for the rebel who wants to rewrite the rules, so go find it and don't settle.

143. Make time to watch the video here bit.ly/SteveJobs-2005

ABOUT THE AUTHOR

I am the Managing Director of Oxygen Consulting, a UK-based company that provides compelling strategic business insight for organisations connected to the global health and fitness industry. Until recently, I was also the Chairman of Wave Leisure Trust, a UK social enterprise operating health and leisure centres in the South East of England.[144] I was involved for more than six years and experienced its transition from a start-up to a highly influential leisure organisation making a significant social impact on the communities it served. My previous industry reports include:

- 2015 UK Boutique Fitness Studio Report
- 2014 Review of the UK Health and Fitness Industry and an Outlook for 2015
- 2014 Fitness Sector Social Good Report
- 2013 Review of the UK Health and Fitness Industry and an Outlook for 2014
- 2012 UK Low-cost Gym Sector Report
- 2011 Global Low-cost Gym Sector Report
- 2011 European Health Club Industry Web and Social Media Report
- 2010 UK Low-cost Gym Sector Report

All these reports can be purchased from the Oxygen Consulting Knowledge Store.[145]

GYMTOPIA

In July 2013, I launched Gymtopia,[146] a digital platform that shares stories and insights about how the global health and fitness industry is creating positive social impact. Please take a look, and be inspired.

When not publishing reports, I am engaged on strategic consulting assignments for a range of clients seeking a clear understanding of how the industry is evolving and advice on how to position their business so that it creates meaningful value. I also present my research and ideas at conferences in the United States, Latin America and Europe. The presentation topics span strategic marketing, technology, research, health and web-based themes. 'Thought-provoking', 'challenging' and 'forward-looking' are typical comments I receive. If it does not stimulate a reaction, what's the point?

If you are inclined to know more about me and my work, then browse over to my website – **Oxygen-Consulting.co.uk**

Ray Algar MBA
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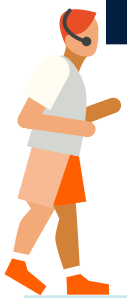

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THE END

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