Looking Back So We Can See Forward

Insights from the 2016 IHRSA Health Club Consumer Report

"I know no way of judging the future but by the past."
Patrick Henry

club intel

Insight Inspiration Impact

Introduction

IHRSA, with analysis and insights provided by ClubIntel, recently published the *2016 Health Club Consumer Report* (can be acquired at ihrsa.org/research-reports). The *2016 Health Club Consumer Report*, like its predecessors, delves into the attitudes and behaviors of health/fitness facility consumers, seeking to understand the impact these practices might have on how club and studio operators shape their business in the future. In 1919, Marcel Proust, in his book "A l'ombre des jeunes filles en fleurs" was quoted as saying, "*What we call our future is the shadow that our past projects in front of us*". Well, in the case of the health club industry, the consumer behaviors brought forth in this year's report portray a vivid story of the recent past and present, providing an excellent GPS for operators to follow in 2017 and beyond.

This year's IHRSA report provides an exhaustive glaze at how consumers use their fitness facilities, looking at a host of variables ranging from what members practice to how they spend their discretionary dollars in the health/fitness facility environment. In this year's report, IHRSA explores how health/fitness facility consumer behavior tracks against larger national demographic and economic trends. In the report's last section, IHRSA brings forth ten key insights accompanied by six operator takeaways. What follows are six insights the authors believe are the most illuminating (ClubIntel's interpretation, not necessarily that of IHRSA) and what it might mean for health/fitness facility operators.

Six Takeaways from the 2016 IHRSA Health Club Consumer Report

1. *The health/fitness facility industry is experiencing a series of cultural, economic and competitive storms that are wreaking "creative destruction" on the industry.*

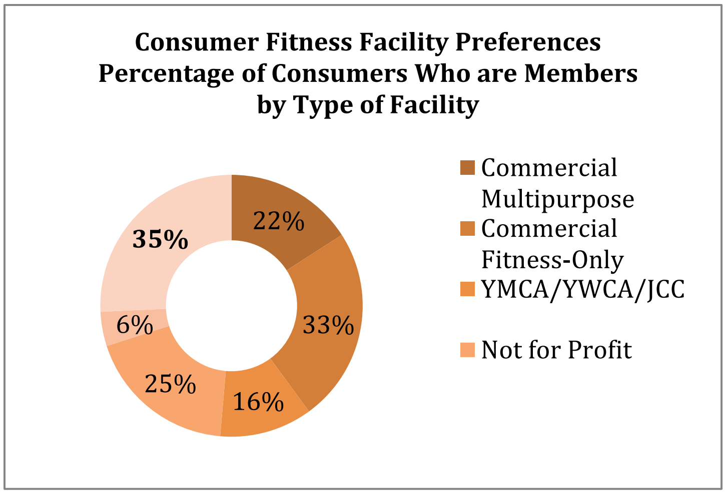
   In 2013, ClubIntel first introduced the notion that the health/fitness facility industry had entered into the mature stage of its lifecycle. When we introduced this notion, we framed it by saying the industry was beginning to show all the traits of a mature industry; (a) business growth that parallels national GDP growth; (b) leveling off of the demand and supply equation (the industry's offering potentially exceeds consumer demand); (c) downward pressure on pricing and greater pricing segmentation; and finally, (d) product differentiation and market segmentation. Well, by the end of 2015, three of the four aforementioned indicators were prominently displaying themselves:

a. Over the past three years, the industry's average membership growth has been 3.3%, seven tenths higher than the average GDP growth over that period of time. Over the past five years, the average growth rate in membership has been 2%, slightly less than the average GDP growth of 2.2%.

b. Over the past three years, facility growth of 6.2% (does not fully account for the estimated 100,000 fitness studios) has far exceeded membership growth of 3.3%. Over the past five years, the average annual growth rate for health/fitness facilities has doubled the average growth rate for membership resulting in an average of 200 fewer members per facility than in 2011. In 2015, the number of facilities grew by 7.2% compared to membership growth of 2.2%.

c. The average monthly fee paid for a health/fitness facility membership increased in 2015, moving from an average of $52 to $55, a modest increase, and not what most economists might expect from a market that is experiencing downward pricing pressure. If you examine pricing from the perspective of what percentage of members pay what, then the influence of downward pricing pressure appears - 41% of health/fitness facility members pay less than $25 a month and another 28% pay between $25 and $49 a month. When you consider that nearly 70% of consumers pay under $50 a month, it reflects the impact of a mature market and downward pressure on pricing. Despite this overall downward pricing pressure, another economic force has emerged. This other economic force is the result of new business models (e.g., boutique fitness studios) and efforts by some traditional players to reposition themselves as premium and even luxury players. Going forward, it won't be about the industry's average price, but more about what specific segments are charging for the experience they deliver, and the proportion of facilities that are playing in the low price game.

d. In this year's data we clearly see the impact of the industry's efforts to differentiate and address new market segments. In 2013, the historical commercial health/fitness club industry was the dominant product that consumers selected. In 2015, 35% of consumers indicated they were members of boutique fitness studios or use them on a regular basis. Additionally, boutique fitness studios now garner nearly four billion dollars more annually in consumer spend than commercial fitness facilities (fitness-only and multi-purpose).



The story is simple, the industry we all knew and loved has changed, and in some cases those changes are making it far more difficult to be successful.

2. *The traditional industry business model, like the Emperor, has new clothes.*
   The 2015 data shows some significant shifts in the way the industry has segmented itself, especially when viewed through the lens of the past few decades. In 2015, boutique health/fitness facilities (e.g., boutique fitness studios and micro-gyms) captured 35% of consumers and garnered four billion dollars more in consumer spend than traditional fitness facilities. The data also shows that over the past three years traditional commercial clubs (fitness-only and multipurpose) have grown at approximately 1.6% annually, while boutiques over the same two years have grown by 37% annually. Lastly, over the past two years, budget clubs have grown by nearly 70% and premium clubs by 21%, while mid-market clubs have squeaked out 2% growth. It appears in the process of weathering the storms of creative destruction, the fitness club industry has forged new business models, such as boutique studios, budget clubs and premium luxury clubs. The question arises, "How will this industry segmentation present itself in the future and what segment will ultimately be the most profitable?"

3. *The Millennial Generation's purchasing behaviors have and will continue to change the industry.*

   The 75 to 80 million members of the Millennial generation (U.S. only) have had a material impact on how American businesses operate (not unlike the Baby Boomers did in the 70s and 80s), and the health/fitness facility industry is now feeling the blunt force of these generational changes.

   The Millennial Generation has had a profound influence on how the industry packages its offerings. Boutique fitness studios, which have risen to prominence in the last few years

(35% of consumers indicate they use a studio), are being steered and supported primarily by the Millennial Generation, where the average age of a member is nearly a decade younger than the overall industry average. The Millennial's desire for entertainment, novelty, personal expression, and a tribal connection is likely the root cause for why more than 85% of clients in boutiques belong to more than one facility. The Millennial Generation, as it continues to evolve and gain purchasing power, has the capability of continually reshaping the fitness value proposition in the future.

4. *The health/fitness club industry continues to be demographically polarized.*

   Stated simply, we are an industry that appears to cater to the most affluent and well-educated citizens of our country, while in large part forgoing any real attempt to appeal to the less educated and less affluent citizens of our nation. Our industry also has seen the emergence of business models that have specific demographic appeal, where diversity, whether it is age, income, education or ethnicity, influences the choice of health/fitness facility. We have not only mimicked the U.S. drive to income inequality, but have taken it even further. When looking at data from the commercial sector, the portrait is even more polarizing.

a. Women appear more than ever to be migrating to health/fitness clubs that are targeted toward their lifestyle and engaging in an even lower percentage than previously in some traditional fitness club offerings. Boutique fitness studios, especially those that offer bare, HIIT, Pilates and Yoga, serve a client base that is composed of 70% to 80% women.

b. Having a college degree or post graduate degree is an outstanding predictor of membership. When you compare the industry's educational attainment to those of the U.S. as a whole, it becomes clear that the industry's offering is appealing to the well-educated, where those with college degrees or higher have a 70% to near 100% greater representation.

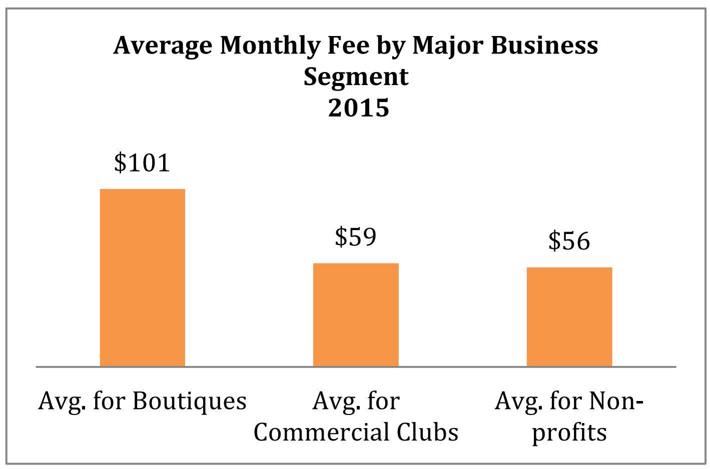
c. Health/fitness facilities are the playground of the young. No surprise that our industry appeals most to those 25 to 44 (36% of the member base). Among newer business models, such as boutique fitness studios, an even larger percentage of members are derived from the 18 to 34 year old demographic. Unfortunately, this does not mimic the larger demographic trends in the country.

5. *There is a story to tell about price and value!*

Antonio Machado once said, *"Only a fool thinks price and value are the same."* Consequently, when discussing price, it is not so much a driver of value, rather a reflection of consumer's appraisal of a health/fitness facility's value proposition. In 2015, the industry's average annual monthly dues increased; a temporary cause for jubilation. Yet this is not the real story. The real story is twofold, first is pricing polarity and second is the price/value element, which we know are not the same thing. In 2015, 41% of members paid less than $25 a month (e.g., likely the influence of a growing number of budget facilities and some mid-market clubs repositioning themselves in the budget arena), while another 28% paid between $25 and $49 a month. The data shows that the fastest growing segment of the commercial health/fitness facility industry is the budget sector. Concurrently, 6% of members paid more than $150 a month and another 5% paid between $100 and $149 a month, an industry segment that is also growing according to the IHRSA report.

It appears that a large segment of the industry has succumbed to pricing pressure and pursued a low price, high volume business model (growth of budget club chains such as Blink, Crunch, Fitness Evolution, Gold's Gym Express, Planet Fitness, YouFit and conversion of mid-market operators such as TSI to a budget proposition). Only a very small percentage of operators have leveraged the luxury approach of charging over $100 a month (e.g., Bay Clubs, Equinox and Lifetime Fitness).

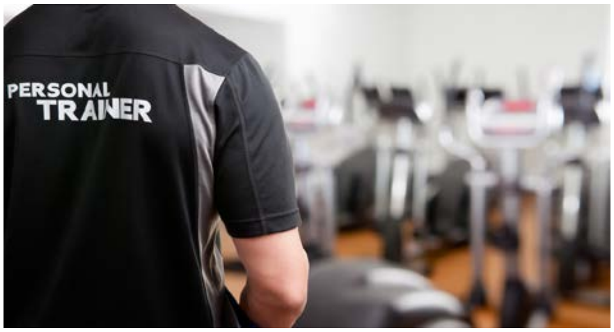
The price/value story in 2015 was about paying for what you want, when you want it and how you get it. As Warren Buffett put it, "*Price is what you pay, value is what you get.*" In the case of the fitness industry, value has many meanings, and it's the consumer who decides. Consider the fact the average fitness-only facility gets on $41 month or approximately $4.58 per visit, while most boutique fitness facilities (e.g., personal training/small group training studios, yoga/barre/Pilates, Boot Camp/Cross Training, Boxing/Mixed Martial Arts and Sports Specific), get anywhere from $11 to $16 per visit. This phenomenon speaks to the fact consumers are willing to pay more for what they want, how they want it and when they want it, especially if it addresses their lifestyle needs. Consumers appear willing to pay more for the personal interaction, seeing results, personal coaching, convenience and the sense of tribe that comprises many of the boutique fitness models, while demonstrating an unwillingness to pay much for access to lots of equipment and limited personal interaction.



6. *Personal training has declined while small group training has taken center stage*

Over the last decade, personal training has become a mainstay in the monetization formula for fitness clubs. The emergence of monthly electronic funds transfer (EFT) for personal training speaks to the importance the industry presently places on personal training. In light of the industry's laser like focus on growing personal training revenue, what does this past year's data show us?

In 2015, 12% of health/fitness facility members took at least one personal training session, a decrease from 2014 when 15% of health/fitness facility members engaged in personal training. In general business terms, this means the industry monetized 12% of its consumers on at least one occasion. While personal training penetration dropped over the past year, the average level of usage for those who purchased personal training remained the same as prior year. Not a great monetization outcome. In 2015, 2.2% of members could be considered "Super Consumers" meaning they engaged a trainer more than 50 times during the past year, a data point nearly identical to 2014.



In 2015, small group training stole some of personal training's thunder. In 2015, 31% of members reported taking at least one small group training session, 2.5x the percentage that indicated they engaged in at least one personal training session. Small group training penetration in traditional commercial fitness facilities, fitness-only and multipurpose facilities, was 34% and 31% respectively, well above their personal training penetration. While the average fee consumers pay for small group training compared to personal training is $20 less per session, when you factor in the level of member penetration, small group training may be a more productive monetization strategy for health/fitness facilities in the future.

Concluding Thoughts

The industry is experiencing an unprecedented level of disruption to its historical business model, and furthermore, is experiencing the pains associated with changes in consumer preferences. Doing business the way one always had is likely the most direct path to failure over the next few years. Hopefully the insights we've shared in this white paper provide the perspicacity and inspiration to foster a prosperous future for your fitness business.

ClubIntel is the club industry's leading consumer, member and brand insights firm. Using a unique approach to understanding the club consumer, we help associations; clubs and equipment manufacturers understand, appreciate and leverage consumers' needs, wants, and personal journeys, leading to a more loyal member base, happier employees, and long-lasting profitability. Everything we do is driven by our belief that human connections are the longest lasting and most profitable. Our services are designed to help you uncover and capitalize on the most powerful drivers of brand loyalty and the member experience. Our approach, which is uniquely human-focused are built around:

Insight

Data can tell you a lot, but it can't speak to you. We have the instinct and experience to decode the numbers and tell you what your members and employees are really saying.

Inspiration

Finding the intangible qualities that turn members into brand fanatics, and employees into apostles, takes an empathy and passion you can only find here.

Impact

Our unique, human-focused approach has helped clubs and manufacturers across the globe reap the benefits of increased member loyalty, higher employee retention and productivity and greater business profitability.