The ClassPass Paradox: Partner or Competitor
Over the past year, ClassPass, an online subscription portal that extends consumers the opportunity to engage in unlimited fitness classes a week at over 3,000 studios, has gone viral capturing the attention and engagement of numerous club/studio operators. With its announcement earlier in 2015 that it had raised $40 million in Series B funding, bringing its total raise to $52 million since launch, its founder and CEO, Payal Kadakia indicates the company now has a market cap of approximately $200 million and growing. One could say that ClassPass is the Cinderella story of the fitness industry, not to mention one of the tech feel good stories of the year. Accompanying its incredible success in the financial markets has been its equally successful enrollment of clubs and studios across the country. Presently ClassPass has enrolled over 3,000 studios and clubs in over 33 markets and booking over 1.5 million reservations a month according to a February article that appeared on techcrunch.com. Those numbers are likely to grow significantly as it pursues its goal of being in at least 100 markets in the next year. At the most recent IHRSA Convention in Los Angeles, ClassPass was all the rage, garnering a significant amount of buzz.

Like any innovative new business model that promises to be your partner in success, it’s worth the time to assess the benefits and risks. In this white paper we will explore the ClassPass story, what it offers the club and fitness studio industry, possible hidden risks, and stories from other similar business models that can possibly shed light on what ClassPass can mean to the future of a studio or club.

What is ClassPass?
According to its founder, Payal Kadakia, ClassPass is a monthly membership offering that extends consumers a unique opportunity to work out at multiple clubs and studios, and for operators, brings them enhanced market awareness and traffic. At its core, ClassPass is an online portal (website and mobile application) where consumers can subscribe for $99 a month and gain the ability to reserve space in an unlimited number of classes a month (was initially capped at 10 classes a month) at multiple clubs and studios in 33 markets across the country and
internationally. By purchasing a membership subscription for $99 a month, a consumer can go online and reserve a spot in a class from among various clubs/studios (e.g., barre, dance, Pilates and yoga) in their market who have enrolled in the program. The only caveat for the consumer is that they are limited to three visits at any one particular studio. In essence, the consumer gets convenient, guaranteed access to a class of their choosing for a discounted price. If you take IHRSA’s 2014 health club consumer data that shows a typical studio user participates between 90 and 100 times annually (7 to 8 times a month), this would bring the average cost per class for a ClassPass member to $12 to $14, a considerable discount on the average studio fee ranging from $15 to $35 in most markets. Posted on the ClassPass Press page are a series of wonderful articles and interviews from leading press publications and blogs that offer further insight into this viral fitness phenomenon, with quotes such as “Bypass gym membership, all you need is ClassPass” (Bloomberg.com), “This is the only way you should work out in 2014” (Racked.com) and “It just may take the place of my gym membership for good.” (POPSUGAR). For fitness consumers it’s an incredible deal!

ClassPass as Partner
The story behind ClassPass speaks to being a great brand awareness builder and furthermore, an outstanding tool to help consumers discover your business among a teeming ocean of competitors. Clubs and studios that enroll in the ClassPass program are told that the program will generate a significant level of guest traffic, fill classes that are not presently 100% occupied and furthermore, generate high quality new member prospects. If you take the most recent numbers shared in the press by ClassPass, which is an estimated 600,000 reservations a month at slightly over 3,000 studios, it equates to an average of 200 visits per month (50 per week) for a studio of club. When seeing numbers like this, it almost looks too good to be true.

In addition to generating increased traffic to a club or studio, ClassPass pays a nominal fee to the business for each guest who visits. While ClassPass does not share the specifics of what it pays, an online search shows that most studios receive an amount that ranges from as low as $5 per visit to as high as $25 per visit. According to an article written by Sophia Li on Quora.com, a
question-and-answer website, she indicates the fee a studio receives is typically a percentage (e.g., 50%) of the lowest quoted price for the largest package offered by the studio. In essence a club is providing a 50% plus discount on a class to generate a user and member prospect. For example, if your studio/club charges $25 for a single class and $400 for a package of 20 classes (equivalent of $20 per class), chances are you will receive in the neighborhood of $10 for the ClassPass visit. Based on the average number of visits per month a studio/club might expect (using empirical data derived from the various articles about ClassPass), this could equate to $2,000 or more a month in incremental revenue for a studio. Add to this incremental revenue the opportunity of converting these unique visitors to members paying the studio’s full price, then the value of ClassPass increases exponentially and this is before you consider the economic value associated with their marketing your brand. Finally, in a recent story that appeared in techcrunch.com, CEO Payal Kadakia describes the company’s plans to invest capital into studios by helping them build out new locations and offering advanced analytics on consumer behavior. Taking all of the above into consideration, ClassPass definitely offers studio and club operators an appealing value proposition.

**ClassPass as Competitor**

Believe it or not, ClassPass may be as much competitor as partner for the fitness industry, more desirous of attracting prospects and members away from your business as bringing them in. How can we say that? To begin with, go back and read the quotes in the previous sections and you’ll discover that ClassPass is not organized to be just a real-time reservation and lead generation service like Open Table (a software platform and online/mobile portal that allows consumers to make reservations at the restaurant of their choosing in return for which the restaurant pays a monthly subscription and a fee for each reservation seated). Instead, it’s a membership subscription business that provides an offering of real-time reservation and prospect generation while building its own membership base. In a quote that appeared in the Washington Post in the fall of 2014, the author says, “It’s tough to compete with the diversity of options available through ClassPass.” So let’s get that out of the way; ClassPass is as much your competitor as they are your partner. Now, what about member
conversion, after all if you are getting an additional 100 to 300 guests each month, surely you will convert a reasonable percentage of them into permanent fans of your studio/club. Well, conversion is never an easy thing, especially when you are converting consumers/users from an experience that is potentially a greater value than what you presently offer. A great example of the conversion and monetization strategy where businesses are attempting to convert a user is the free-to-pay (F2P) gaming industry. According to data provided by numerous market research firms, including SuperData, deltaDNA.com, and Playnomics, the average conversion rate for F2P games falls in the range of less than 1% to 5% with an industry average of around 2.5%. Furthermore, in the F2P market, data shows that 53% of gamers who convert, do so within the first week. Can’t relate to the F2P gaming market, how about Dropbox and Skype who also offer complimentary services, and like game publishers and studio operators want to and need to convert their users to premium fee-based services? At Dropbox and Skype the conversion rates are 4% and 6% respectfully. While F2P gaming, Dropbox and Skype are not ClassPass, they do have a lot of parallels, including the fact that the business is trying to monetize the consumer experience by getting them to convert from what they already enjoy at a lower cost, or in the case of F2P gaming for free, to a yet unfounded experience at a higher cost. Remember, consumer behavior is eerily similar no matter the product or offering when it comes to conversion and monetization. What makes ClassPass a potential threat to member conversion, and thus a competitor to your business? First, they sell a membership subscription that your prospect is already a member of. Need we tell the sales people out there how hard it is to convert a prospect when they are already receiving functional, economic and potentially emotional value from an existing product? Second, they, like you, have the member’s detailed information, actually more information than you do (they know what types of classes the member takes, when they take it and how frequently they take it). ClassPass is not likely to let that valuable member get away without giving it their best effort, neither would you, nor should they. Furthermore, what is the chance that through all the WOM and buzz ClassPass receives, that they won’t entice members to leave your studio and join them? We call this customer switching, and research into the switching behavior of consumers shows that if an offering with similar attributes and benefits is available at a considerably reduced cost, consumers will not hesitate to switch. Consequently, ClassPass could not only reduce your chances of converting new prospects, it could potentially cause existing clients/members to switch. Another consideration is ClassPass’s impact on your
businesses value proposition, which unfortunately is likely to be detrimental. Like Amazon did to retail, ClassPass could do to clubs/studios. By offering access to classes at a considerably lower price, ClassPass is telling consumers what your service (i.e. fitness class) is worth, and over the long term this can diminish the perceived value of your offering, making it difficult for your business to maintain its price point without experiencing a decline in its client base. As one studio operator expressed in a recent nytimes.com article, when you start to undercut the price point of your product, it’s going to negatively affect the business long term. Finally, if it wasn’t enough that ClassPass could impact your businesses value proposition, how about its potential impact on your existing member/client experience. A recent article from nytimes.com indicates that ClassPass has caused overcrowding in many studios, an experience that diminishes from the boutique experience, which is based on an intimate sense of community. ClassPass has raised a significant amount of venture capital and its investors expect a significant return on their investment, so ultimately they will be inclined to follow the path that generates the greatest return on their investment, which is likely at some point to conflict with a studio’s long term objectives.

Final Insights
As reflected in the aforementioned discussions, ClassPass is both a partner and a competitor of clubs and studios that choose to leverage their offering. As a partner, they have clearly demonstrated the benefits they bring to the table. First, ClassPass has shown it can generate increased consumer traffic for clubs and studios (recent reports say approximately 1.5 million reservations a month and growing). Second, ClassPass pays for each guest who takes a class and when combined with increased traffic, this can amount to significant incremental revenue a club or studio may not have received otherwise. ClassPass by the very nature of its business model, and thus the large investments it has received, has also positioned itself as a competitor to your studio, and in doing so is leveraging your studio to build its value proposition and consequently, its competitive advantage. They understand the power of their value proposition and the incredible challenge it presents for its competitors (clubs and studios) desiring to convert ClassPass visitors into their own and furthermore, the potential enticement the program offers for existing members on the prowl for a more satisfying and less costly fitness experience. They also understand that if consumers are going to convert, it will occur quickly or not at all, and
consequently the power of their value proposition on the front end. As with any business decision, business owners must weigh the benefits (partner) and risks (competitor) of engaging with ClassPass. For some the opportunity to build brand awareness on someone else’s dime and generate additional short-term guest traffic and incremental revenue will prove to be the ultimate business aphrodisiac. For others, the potential of losing existing members to ClassPass, of sacrificing their value proposition (reducing the perceived value of their offering through price discounting) and finally, not converting a sufficient number of existing ClassPass users (inability to effectively monetize the opportunity) will prove to be a risk that poses a challenge to their future profitability. Our objective in writing this White Paper was to put forward the facts so that whatever decision you make, it’s an informed decision that will benefit your business.
ClubIntel is the club industry’s leading member and brand insights firm. Using a unique approach to understanding the club consumer, we help 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.