The Dawning of a New Era for the Health/Fitness Club Industry

“There has never been a time of greater promise, or greater peril.”
Klaus Schwab, founder World Economic Forum
Introduction
The health/fitness industry has entered a new era, a period in which “creative destruction” is exerting an incredible toll on heritage value propositions, and it’s just begun. Creative destruction is an inevitable consequence of capitalism, or as Joseph Schumpeter, world renowned economist from the 1940’s said, “Creative destruction is the essential fact about capitalism.” The underlying currents of capitalism dictate that every industry, every business, must deal with these storms of creative destruction; innovations and disruptions that either change the course of business, or upend it entirely. Schumpeter said of creative destruction, “Situations emerge in the process of creative destruction in which many firms have to perish that nevertheless would be able to live on vigorously if they could weather a particular storm.” Welcome to the greatest period of capitalistic storms our industry has every weathered.

Today’s storms of creative destruction are driven in part, or entirely, by a host of different socioeconomic and cultural forces ranging from the Internet of Things (IOT) to craft consumerism to tribal consumerism to generational shifts (e.g., emergence of Millennials), and of course the maturing of global capitalism. Each of these forces, either on its own or synchronized with the others, is exerting profound destruction on the way business is done, including the arbiters of health and fitness. To paraphrase Joseph Schumpeter, these capitalistic storms will drive some in our industry to the precipice of extinction; others will hang on but find their way of doing business permanently altered; and finally, a few will emerge stronger, more dynamic and ready to feast on the remnants left behind by these capitalistic storms.

In this article, we briefly address these five storms of creative destruction that are presently changing the landscape of our industry, or are just now throttling up, ready to cause further disruption and destruction. These five storms are budget gyms, boutique fitness studios, In-
club virtual training, In-home virtual training, and Internet middlemen. In each instance, we will look at how they are impacting the industry and how operators can respond.

The Five Storms of Creative Destruction Sweeping through the Health/Fitness Industry

Budget Gyms

The budget gym, or high volume low price value proposition, emerged as a destructive storm in the early part of the 21st Century. Fueled by the volatile mix of a deep global recession and a maturing club industry, budget gyms went from a nascent industry segment to now the traditional industry’s largest value proposition segment. As of year-end 2015, approximately 41% of all health club consumers in the U.S. indicated they were members of a club or gym that fell into the budget category (IHRSA 2016 Health Club Consumer Report). From 2014 through 2015, the budget gym segment has grown by 70%, compared to 2% growth for mid-market clubs. Today the 10 whales (largest players) of the global budget gym segment operate over 2,800 clubs and the count is growing.

Budget gyms are a natural consequence of capitalism in a mature industry mired in a sea of sameness. These two forces of capitalism, maturity and sameness typically result in competitors using price as a differentiator. With price emerging as the key differentiator in a mature market, budget gyms took off, forcing many mid-market and premium operators to reconsider their value propositions. The emergence of budget gyms as an attractive consumer alternative to more traditional and costly clubs also spurred private equity to begin investing in what they viewed as the next industry “homerun”. The phenomenal growth of Planet Fitness, Crunch Fitness, Basic Fit, Pure Gym, Smart Fit the Gym Group, YouFit and others is a result of these capitalistic forces.
Why are budget gyms such a disruptive force today?

- In an industry that is fighting for an edge in a stupefying sea of sameness price, can become a powerful short-term differentiator. Given the fact that the vast majority of clubs and gyms appear the same on the surface, consumers will gravitate to the lowest price.

- Budget gyms tend to be more easily scalable than other business models because of their self-directed approach to fitness that leans entirely on three commodities (facilities, equipment and technology). Being easily scalable with a reasonably low cost of capital is a recipe for rapid growth, an investors dream.

- Consumers, especially those with an economic slant in their buying paradigm, perceive value in low price, and for them low price is a significant value differentiator. To paraphrase a quote from Oscar Wilde “Nowadays people know the price of everything and the value of nothing.”

As to whether budget gyms will remain a force of creative destruction is yet to be seen. Already we see the playing field among budget gyms swelling, a condition which is likely to lead to consolidation among the leading players (think merger of Dollar Tree and Family Dollar in retail a few years back and the proposed but failed merger of the U.K.’s two largest budget operators Pure Gym and the Gym Group) and a thinning of the ranks among the more marginal players. It is a good bet to say that this creative storm may need to be downgraded to a tropical storm, or even tropical depression, as the segment consolidates and becomes more of a main stream player. One thing we can say to operators who compete against this segment of the traditional club industry, establish a relevant and unique value proposition that leverages something other than price as a differentiator or else be prepared to lose share.
**Boutique Fitness Studios**

Since 2012, boutique fitness studios have blossomed into a powerful storm of creative destruction for the health/fitness industry, upending many traditional club operators from mid-market to luxury. From 2013 to 2016, this brick and mortar segment has grown by approximately 75% compared to 5% over the same time for more traditional commercial clubs (IHRSA 2016 Health Club Consumer Report). According to data gleaned from IHRSA’s 2016 Health Club Consumer Report, more health club consumers belong to boutique fitness studios (35%) than any other traditional club type (fitness-only, multipurpose or nonprofit).

Today, consumers, traditional club operators and investors are stoked by the potential of this rapidly evolving industry segment. Private equity has emerged as a force in the fitness studio segment, with significant investments in large-scale studio franchise operations such as Orange Theory, Barry’s Boot Camp, Body Street, CycleBar, Flywheel, Pure Barre, 9Round and Club Pilates. Like budget gyms, fitness studios, are a direct result of capitalistic forces emerging from a maturing industry and changing consumer demand.

Why are boutique fitness studios such a powerful storm of destruction to the traditional fitness industry?

- They offer consumers a “craft-like” fitness experience that speaks to authentic, genuine and local. In the beer industry, craft beers have grown from under 10% of the market a decade ago to approximately 23% today. Craft experiences, which are what
most boutique fitness studios are, do a more effective job than traditional offerings at capturing the hearts, hands and wallets of consumers.

- They speak to tribes. Today, consumers are seeking out more tribal-like experiences where they engage in experiences with like-minded enthusiasts. Consumers have moved away from mass-produced and marketed commodities toward more tribal experiences. Boutique fitness studios speak loudly to this cultural wave.

- They provide a highly specialized, intuitive, no think, just do environment. Today’s consumers assign greater value to experiences they see being led by experts. Furthermore, consumers want experiences which they can immerse themselves in without having to think about what to do. Consumers want to show up, be inspired, be led, and leave feeling they accomplished something. Studios leverage this very well.

- They provide a high-touch experience. Studios, far more than traditional clubs, offer consumers a chance to be guided and inspired by a person who cares about them, rather than intimidated and lost in a sea of equipment.

- They are convenient. By specializing on one or two areas and leveraging technology, fitness studios provide consumers with a very convenient platform for pursuing their fitness lifestyle.

Boutique fitness studios still appear to be evolving compared to budget gyms which are reaching saturation. As a result, fitness studios seem positioned to exert greater destruction over the short term, and possibly even the long term than budget gyms. The fitness studio segment appears to be tracking along two diverging paths. First, are the scalable fitness studio franchises fueled by big money (Club Pilates, Barry’s Bootcamp, Pure Barre, Orange Theory, 9Round, etc.) and second, are independent fitness studios operated by entrepreneurs. The jury is out whether the scalable franchise fitness studio model is a short-term storm that will evolve into just another traditional industry segment mired in sameness, or a growing storm of destruction. As for independent fitness studios, it appears they will
continue to be a storm of disruptive proportions due to their ability to leverage elements of consumer purchasing behavior that many scaled models tend to lose focus on. As for what a traditional club can do to offset this storm, two primary options exist:

- Create your own boutique fitness experiences. A word of caution regarding this option. It appears that embedding the boutique fitness experience into a traditional club environment doesn’t work very well. To leverage this approach, clubs need to create a new business model with a new genome, one that operates outside the four walls of the parent club.
- Refine your value proposition so your club takes on the feeling of a boutique experience, meaning it is seen as authentic, craft, tribal, specialized, convenient and high-touch.

**In-club Virtual Training**

From 2013 to 2016, the presence of in-club virtual training grew nearly 300%. In 2017, 17% of commercial clubs and 10% of all facilities indicated they offered some form of virtual training (e.g., group classes or personal training) for their members. In-club virtual training first emerged with the introduction of group exercise platforms such as Fitness on Demand, Wexar, Wellbeats and Les Mills. These platforms allowed clubs, in particular budget gyms, to offer members group exercise experiences without having to staff up with instructors. These virtual group exercise platforms are emerging as integral elements of the budget gym value proposition and are beginning to make headway with many mid-market and premium operations. Recently, My Zone announced it will offer virtual group fitness solutions to its client clubs. In-club virtual fitness instruction and personal training has recently joined ranks with group exercise as a powerful virtual training tool for clubs. Industry providers such as Aktiv and TRX now offer virtual fitness instructor platforms with their equipment solutions. Several major industry players are in the process of introducing their own customized
platforms for in-club virtual personal training. According to an article that recently appeared in Club Business International, several industry manufacturers are now considering taking virtual training to the next level by introducing virtual reality platforms to engage the end-user or exerciser.

Why is virtual in-club virtual training a storm of creative destruction to the traditional fitness industry?

- It offers consumers an alternative form of training that allows them to avoid more costly high-touch offerings such as fee-based personal training and fee-based small group training. This holds the potential to reduce income streams from more traditional forms of personal training and small group training.
- It offers gyms a perceived value ad at a lower price. Many consumers, especially Millennials, may gravitate toward these virtual high-touch experiences over traditional high-touch experiences. Consequently, a club or gym could deliver a perceived high-touch experience at lower cost to the consumer.
- It offers an alternative monetization strategy that builds on existing approaches such as personal training and group exercise. For example, at Crunch and Equinox, members can leverage both high-touch and virtual domains as part of their experience.

In-club virtual fitness is still in its infancy. While in-club virtual training has yet to make a significant impact on the way business is done, we suspect that within the next few years it will. We believe it will impact the traditional industry business models in two ways:

- First, virtual training has the potential to become another commodity in the fitness industry. By this we mean for clubs to remain relevant and compete they will need to embed virtual training into their value proposition.
Second, virtual training may serve as the impetus for an entirely new business model, what we might call a digitally self-directed fitness club, not unlike a self-driving car where every touchpoint of the member journey involves virtual engagement.

**In-Home Virtual Training**

In-home virtual training is emerging as the next frontier in bringing fitness to the masses. While in-home training has always been a competitor to engaging in fitness at a club; today’s virtual platforms make staying home to exercise a far more immersive, engaging and entertaining experience. According to research done a few years back by Gallup, an estimated 9% of consumers use a virtual coaching and training app (about 50% of the population who visit clubs to pursue fitness). The in-home virtual training model is not considerably different than the in-club approach, and in many instances, involves the same cloud-based platforms and instruments. Over the past three to five years, downloadable fitness applications that provide either personal instruction or group exercise instruction have grown rapidly. One of the largest platforms for delivering live in-person training services is Wello, owned by Weight Watchers. In regards to in-home virtual classes, Beachbody, developer of the highly popular P90X program now offers a monthly subscription for streaming and digitally downloadable group exercise content (DLC). Some less well-known, but popular streaming online group exercise programs include Barre3, Buti Yoga, Daily Burn, EMG Live Fitness, FitnessGlo, Physique 57, and Crunch Live.

The most recent innovation in in-home virtual training is Peloton, whose website says, “Join studio cycling classes from the comfort of your home.” Peloton offers live (streaming) and on-demand classes across a wide range of workouts from intense and inspirational to entertaining and fun, all led by world-class instructors. Recently, Flywheel, a franchise operator of boutique fitness studios announced it will launch an online streaming and DLC platform with
a high-end studio cycle similar to Peloton’s. The authors are also aware of a California-based group that is developing similar streaming and DLC platforms for rowing machines and treadmills. These new in-home programs that combine great equipment and streaming/DLC platforms represent an entirely new approach to fitness in the home.

Why is in-home virtual training a storm of creative destruction to the traditional fitness industry?

- It offers consumers an alternative form of training that can be pursued outside the club or gym; in essence a direct competitor to the in-club experience. In many cases, it provides a relevant and appealing alternative to the traditional club setting.
- It is a highly appealing alternative for digital and mobile natives such as Millennials and Generation Z, who prefer to engage with friends online rather than in-person.
- It brings an in-club feeling into the home, lessening intimidation while providing a level of inspiration and coaching felt in some of the best boutique fitness studios.

In-home virtual training, while in its infancy, continues to grow rapidly. The introduction of platforms such as Peloton, and the recently announced platform and bike by Flywheel, speak to a new competitive force facing traditional clubs. One of the newest virtual activity platforms involves leading-edge VR platform Virtuix Omni, which immerses people in VR gaming experiences while working up a sweat. According to a poll done a few years back by Gallup, 52% of club members indicate they also use online workouts at home. We believe the in-home virtual training will have an impact on the way traditional clubs do business in the future, and are likely to require traditional clubs to adopt virtual training platforms or miss out entirely on appealing to the next generation of fitness consumers.
Internet Middlemen

Internet Middlemen represent a unique storm of creative destruction that has the potential to completely disrupt how consumers engage with brick and mortar fitness clubs and studios, not unlike Uber’s disruption of the traditional cab industry. Internet Middlemen, or internet aggregators as some reference them, are cloud-based platforms that give consumers the power to either book and attend classes or visit gyms without having to become a member. Under the Internet Middleman business model, consumers can subscribe to the designated platform which then allows them to access classes and gym floor time at multiple clubs, gyms and studios in a given market (purchase a predetermined number of classes/sessions/visits). The most well-known Internet Middleman platform is ClassPass which presently represents over 8,000 fitness studios and clubs, while serving between 200,000 and 250,000 monthly subscribers. Other lesser known players in the U.S. include FitReserve and Dibs. In Europe, there is PayasUGym based out of the U.K., along with lesser known platforms such Somuchmore in Germany and Gymlib in France. Recently the Internet Middleman platform GymPass of Brazil entered the European market. According to data from the 2016 International Fitness Industry Trend Report, 13% of health/fitness facilities indicate they are involved with an Internet Middleman platform. Just this past year, MindBody, an industry-leading software provider for over 60,000 fitness studios and clubs, entered into a relationship with Google called Reserve with Google that allows consumers to discover, then book classes, sessions and visits at fitness studios, gyms, clubs and spas. This platform which doesn’t require a subscription brings an entirely new dynamic to the Internet Middleman field.

Why are Internet Middlemen platforms a storm of creative destruction to the traditional fitness industry?

- It allows consumers to discover exciting fitness classes and gyms then book and pay for access without having to deal with the membership sales process.
It disrupts the membership business model by allowing consumers the flexibility to purchase the fitness experience they want, when they want, and in some cases for what they want without ever stepping foot in a gym or studio.

It places control of the fitness experience purchase in the hands of the consumer, not the club or studio.

It changes the paradigm in respect to how fitness businesses must market and sell their wares. In some instances it makes it even more challenging for a club, gym or studio to differentiate itself since it can be seen as part of a larger network.

Internet Middlemen have been around for approximately five years. While the business model has yet to prove itself a profitable one for the platform investors, it has shown itself to be incredibly disruptive to the business models of many clubs and studios. Like many other internet-based business models, it’s only a matter of time before the leading platforms hone in on the proper approach to serving customers and generating a profit. When they do, it will represent a sea of change in how the industry looks at marketing and selling its wares. Our guess is that the younger generations (Millennials and Generation Z) will deem Internet Middlemen as the only way to purchase a fitness experience, or at least their initial fitness experience. Concurrently, clubs, gyms and fitness studios will need to find ways to leverage the upside of these platforms to reach more consumers, while maintaining price points that align with their value proposition and generate a profit.

**Let Us Help You Deal with these Storms of Creative Destruction and Come Out a Winner**

At ClubIntel, we pride ourselves on providing services and solutions that will allow today’s club, gym or studio operator address these storms of creative destruction so their business can
thrive well into the future. Some of the solutions we can bring to bear for businesses seeking to ride out these storms and come out ahead include:

- **Facilitating qualitative research with consumers and customers.** We use in-depth interviews, focus group ideation, clue scanning and anthropological observation to help understand the emotional responses and the tangible elements of the consumer/member experience that triggers them. This research can be used to frame a customer value proposition that can thrive in the wake of these capitalistic storms.

- **Conducting quantitative research such as surveys and data analytics.** We use surveys to provide quantitative and qualitative understanding of the emotional consequences of the customer/member journey and data analytics to understand the corresponding behaviors. Together it helps us map out a brand’s experience such that it captures what is most important to the potential customer of the business.

- **Conducting brand health studies involving a variety of research approaches.** We use interviews, focus groups, clue scanning and online surveys to explore consumer sentiment toward brands and the corresponding personalities and attributes those brands speak to. By exploring consumer perceptions around brands, we can help brands be more effective at framing their value proposition, and the elements that comprise it, thereby providing a strategy for delivering a uniquely differentiated offering and competitive advantage in the marketplace.

- **Leading constructive ideation sessions with teams to flush out a brand’s purpose, promise, positioning, attitude, voice, and strategy.** We take what we’ve learned from our research and assist operators flush out their brand purpose, brand promise, brand positioning, personality and voice. This work forms the foundation for creating a business strategy that can result in a highly differentiated and relevant value proposition for competing in today’s marketplace.
For more information on developing a customized Customer Experience Map for your club or studio, visit our website at www.club-intel.com or email SteveT@club-intel.com or MarkW@club-intel.com.
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 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.