A STRATEGIC INVESTIGATION INTO A DISRUPTIVE NEW SEGMENT
This report is dedicated to:

Victor Algar, my father

1928–2011
Report scope

This report’s primary purpose is to illustrate how the low-cost gym sector is emerging internationally. The report draws on some of the strategic analysis from my 2010 UK Low-cost Gym Sector Report because it remains vital that readers comprehend what is driving this trend. The report also captures considerably more consumer insight than my last report, including member attitudes towards the low-cost experience and likelihood to recommend to friends and colleagues.

The report contains a series of interviews, both from people inside and outside the health and fitness club industry. The outside sector interviews help to put the emergence of low-cost gyms into a wider societal context, while the club CEO interviews discuss strategic and operational execution.

The report captures data on the leading international low-cost gym brands, but no membership numbers. This is because I prefer to focus on data that can be independently verified. I intend updating this report and would welcome suggestions for expanding the scope of future editions.

Currency. The United States dollar (USD) is used throughout this report.
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Welcome to the 2011 Global Low-cost Gym Sector Report

Welcome to the 2011 Global Low-cost Gym Sector Report, supported by Precor. This report follows a UK study of the low-cost gym sector report that I undertook during early 2010. I detect a strong sense of excitement around this sector from numerous stakeholders including consumers, new industry entrants, finance community, industry suppliers and from some ‘legacy gyms’ looking to re-invent themselves. Legacy gyms are those clubs that pre-date the arrival of low-cost gyms.

Following the publication of my UK low-cost report, I received comments from individuals connected to the global health and fitness industry and many were asking a similar question: will or could the low-cost gym sector emerge in my country? I found this a very insightful question. Here was an individual based, for example, in India, reading a report about the emergence of low-cost gyms in the UK and using it to explore an opportunity on a continent 7,000 kilometres away.

So, this report is an attempt to capture how the low-cost gym segment is emerging internationally.

This is an ambitious report and I welcome all readers to visit my website and leave comments on how future editions of this report can be developed.

RAY ALGAR MBA
Managing Director, Oxygen Consulting

1. 2010 UK Low-cost Gym Sector Report – see oxygen-consulting.co.uk/insights
2. Visit oxygen-consulting.co.uk/think-tank
Acknowledgements

This report is only possible due to Precor’s support. Precor supported my 2010 UK Low-cost Gym Sector Report and were very excited when I suggested an international version. The company has a passion for action-oriented research and has long realised that a ‘wiser’ and more informed industry, is also a more prosperous one. They also fully endorsed my wish to publish the full report on a ‘free-to-read’ basis. Why does this matter? I believe in information symmetry and love the idea that industry insight can be liberated to flow freely.

Also, thank you to LAN MUECH, IHRSA Europe Director, HERMAN RUTGERS, Executive Director of EHFA and MELISSA RODRIGUEZ, Research Manager at IHRSA. All were very generous in facilitating introductions and advising on report content. Also, NIELS GRONAU, Deloitte, Germany for confirming data on the German market and BRYAN O’ROURKE, CEO for Integerus, for recommending I read “Treasure Hunt”, the excellent book by MICHAEL SILVERSTEIN. This led to Michael contributing to this report.

Thank you to KENNY MCANDREW, CEO of FitSpace and JOHN TREHARNE, CEO, The Gym Group who both supported my request to survey members. I cannot produce an insightful low-cost gym report without a member perspective, so a significant part of this report is due entirely to them.

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JIM SNOW, President, Gold’s Gym International
JOHN TREHARNE, CEO, The Gym Group
DICK VANDE VYVERE, CEO, JustFit
Welcome to the 2011 Global Low-cost Gym Sector Report. Our first sponsorship of Ray’s work was in early 2010 with a report focused on low-cost gyms in the UK. Despite the regional focus of the report we found gym operators from around the world eager to review the findings and engage in follow-up conversations about low-cost gyms on Ray’s blog and report forum. Further, the readership was very wide-ranging, from entrepreneurs considering opening a low-cost gym to owners of established premium health clubs looking for ways to differentiate themselves from their new competitors. It is in that spirit of broad education about low-cost gyms that Precor is proud to support this new research for the benefit of the entire industry.

As you read the report findings it will become clear that successful low-cost gyms are not just gyms with enticingly low membership fees. They are gyms that have identified unmet needs within the population of potential members and structured both their customer offering and business systems to meet those needs. Low prices are only part of their model. Premium fitness equipment to attract and retain members and a heavy use of networked technologies to efficiently manage the business are examples of other core components. The low-cost model is proven and will be a permanent fixture in our industry. It is in everyone’s best interest to understand it better. Please enjoy the report and consider sharing your own observations on the report forum.

Doug Johns
VP – Global Marketing and Product Management
When I wrote my last low-cost gym sector report, I started by writing that the health club market was undergoing an exciting period of change.

Eighteen months later and the sense of change is very evident. I often discuss and write about low-cost gyms as ‘emerging’, but in the United States, they have successfully operated for nearly two decades. The low-cost gym sector now feels more tangible, more real, to an increasing number of people who have moved beyond ‘discussing’ to ‘experiencing’ and that could be as an investor, supplier, operator, user or competitor.

4. Planet Fitness launched in 1992
Definition of a Low-cost Gym

I believe that an ‘authentic’ low-cost gym has the following characteristics:

It is the presence of these five characteristics that helps to create a new and exciting consumer proposition that fundamentally ‘disrupts’ the rules upon which the industry was first built. I appreciate that it is not always possible to achieve all five of these characteristics because sometimes a law may prohibit 24-hour opening or higher levels of staff supervision must be provided in place of remote camera surveillance. However, the essence of these characteristics are present. This means that an existing ‘mid–market’ club offering a wide range of facilities and services that suddenly decides to reduce its membership fees to match those of a new low-cost gym, is not a low-cost gym; it is simply the same club with a different pricing strategy. This is because a low-cost strategy is not simply about pricing, but more an all-embracing organisational philosophy. A fundamental part of that philosophy involves the difficult decision around what is critically core to the proposition and what is ‘frivolous’; it asks the question: what do we include and what do we leave out?

5. ‘Authentic’ means following a strategic and all-encompassing approach
For example, Rasmus Ingerslev, CEO of Fresh Fitness, the low-cost gym operator in Denmark when developing his business categorically believed that group exercise had to be a part of the consumer proposition. However, rather than looking back inside the club industry for a solution, technology was developed to deliver a virtual class programme.

Others may decide to include tanning or massage chairs. This creates slightly different variations or 'low-cost flavours', but the essence of the proposition remains tight and lean, with the club centred around a large gym. Figure 2 illustrates the approach to the facilities proposition that different low-cost gym operators take.

Figure 2: Facility-mix - Low-cost gym operators. Visual insight Ray Algar 2011
Key Market Drivers

It remains very important for readers to understand the underlying ‘drivers’ behind the low-cost gym sector. I now see six important drivers, which are illustrated in the following figure:

Figure 3: Key market drivers - low-cost gym sector.
Visual insight Ray Algar 2011

6. Digital infrastructure has been added since my 2010 report.
Introduction

Consumers are changing

I see consumers becoming less obsessed with buying brands merely as a means to demonstrate social ‘status’. Not so long ago, conspicuous consumption\(^7\) prevailed. Surrounding oneself in ‘aspirational’ items and showing them off at every opportunity helped to define our place in society. Just a few years ago, these ‘things’ seemed to matter the type of car mattered, the hotels we stayed at mattered and so did the club we belonged to. Today, inconspicuous consumption prevails as consumers seem less concerned with purchasing ‘status’ and more interested in receiving genuine demonstrable value. Increasingly, this is creating consumers who are more willing to ‘mix and match’ premium and ‘low-cost’ brands. As Michael Silverstein states in his interview for this report,\(^8\) there was a time when people did not discuss ‘bargains’ found in the local low-cost store, but now some people will broadcast their purchases on Twitter. It is now a ‘badge of honour’ to pay less; it demonstrates wisdom.

Digital infrastructure

Having the right digital infrastructure creates a ‘win-win’ for both the low-cost operator and the consumer. The infrastructure embraces such things as affordable broadband to access the web, ‘Wi-Fi’ networks, interactive websites, biometric access systems, digital surveillance and mobile platforms that allow consumers to join online, book activities, administer their own accounts and essentially serve themselves. This all makes interacting with low-cost providers easy and empowering. It means that using the website to book a class is both fun and fast and probably quicker than calling reception. Social media can also be leveraged to connect and communicate with consumers, which helps to foster a more intimate relationship. For the low-cost operator, this digital infrastructure helps to create a ‘lean’ and highly efficient organisation that ultimately helps to drive down costs allowing it to offer services at prices that consumers find very exciting.

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\(^7\) Purchases that demonstrate social status

\(^8\) See page 29
Simplicity

A low-cost gym is very easy for consumers to understand. Stripping away the facilities normally associated with a ‘full-service’ club, apart from the gym, makes the proposition very clear. Coupled to this is the pricing policy, which is normally reduced to a maximum of one or two prices. Many low-cost gyms provide a contract-free option so the decision to join becomes more straightforward, with consumers saying to themselves: “I can try for a month to see if I like it”. Compare this to a traditional club that may have many membership types/prices, requiring a sales consultant to discuss (and sell) the many options (e.g. peak single membership, off-peak, corporate peak/off-peak, peak single with/without group classes etc).

As competition in the low-cost gym sector intensifies, brands will have to avoid the notion of ‘facility-creep’, which is where additional facilities are added in an attempt to create a point of difference. Choice is often good, but too much can lead to ‘choice trauma’.

Consumer sentiment towards legacy clubs

There is also a pervading undercurrent of mediocrity in many businesses, including gyms. Paying a premium price for a cruise, hotel, restaurant meal or health club is no longer a guarantee of a memorable experience. Our service expectations are rising, while actual delivery is often merely adequate. When was the last time you were left pleasantly surprised and delighted by a leisure experience?

Consumer sentiment towards ‘legacy’ clubs is very mixed. Browse the web and read gym reviews on sites such as Yelp, Qype, Review Centre and others and it reveals very diverse sentiment. When I have investigated online gym sentiment, opinion around the tangible experience tends to be positive (what people are saying about the physical club environment, equipment, facilities etc). However, the sentiment turns sharply negative when the conversation reverts to membership contracts (especially long notice periods) and issues around staff support (e.g. updating exercise programmes, staff on-hand to provide advice, and just a general sense of being valued as a customer).

So how do consumers respond when they read about mediocre gyms? They decide to ignore the club industry altogether or instead seek out something that feels different, better, simpler and more ‘pure’.

9. Monthly leave-at-any-time price, or a lower contract price
Sporadic attendance to legacy clubs

In my previous UK low-cost gym sector report, I argued that sporadic member attendance\textsuperscript{10} drives some consumers into the low-cost sector. For example, in the UK many members attend clubs very infrequently. It can be quite common for a significant proportion of a club's members to attend only once per month, or less. Given that the average cost of membership to a UK private club is approximately $68 per month,\textsuperscript{11} this can make 'legacy' clubs look poor value. Eventually, it prompts consumers to say: "Why am I paying for a club I rarely use?"

Affordability

Many first-time gym users are attracted to try a low-cost club because the price point is significantly lower than the country 'average'. However, it also compares favourably to alternate ways of spending leisure dollars. I can hear consumers over the dinner table saying: "A week at this new low-cost gym costs me the same as a cappuccino at Starbucks". I see the affordability and simplicity 'drivers' are closely aligned. It is a coupling of a great price with an easy-to-understand proposition that helps to 'fuel' the sector.

I believe that each of these drivers is contributing to the rise of the low-cost gym sector. Some may be nascent and so less immediately evident. For example, the concept of a 'changing consumer', a consumer that cares less about 'status' and brands, will only resonate with some readers. However, over time this will become more evident. Also sporadic attendance to legacy clubs only 'drives' consumers with previous club experience to potentially try a gym alternative.

\textsuperscript{10} See Figure 3 – member visit status report from the 2010 UK Low-cost Gym Sector Report
\textsuperscript{11} Source: The Leisure Database Company
Think of a market and you will find low-cost operators

There was tremendous excitement when Tata Motors, the Indian car maker, announced the launch of the ‘Nano’ in 2009, billed as the world’s lowest price car at just 100,000 rupees. Known as the ‘people’s car’, the Nano takes the modern-day car with its ever-growing list of features and strips it back to basics, so out go airbags, power-steering, electric windows, radio, welded parts, gas-guzzling engines. They even removed the second wing mirror! Is there demand for a basic, small and featureless car? Such was the demand for the first 100,000 Nanos that the company had to create a ballot system. Who is the Nano targeted at? You would think car drivers, but in fact the core market are people looking to ‘trade-up’ from a motorcycle to a car. Car ownership now suddenly becomes a possibility for hundreds of millions of aspiring consumers. Also, it can often be the low-cost segment that creates growth and a sense of momentum when other segments are static. For example, the low-cost car market is the largest growing segment in the automotive industry and is projected to grow 500% by 2020.

Siemens has developed a low-cost MRI machine (the Magnetom Essenza) for use in small clinics and rural hospitals, using the slogan – “Easy on your budget”

I have looked at other industries and it is the low-cost segment that has the strongest growth potential and sense of momentum.

12. $1979 at time of launch
13. Nano means ‘small’ car
14. Source: Think small to grow, AT Kearney 2009
Low-cost does not mean ‘inferior’

Imagine you have just taken your seat on a Ryanair flight to Madrid. You feel like a ‘savvy shopper’ because the return flight cost just $48, the price of a Levi’s t-shirt. All is well until the cabin crew make the following announcement:

‘For those of you flying with Ryanair for the first time today and wondering how we keep our fares so low, let me explain. We operate a very old and poorly maintained fleet of Boeing 737s. We cut back on safety inspections and only replace critical airline parts when absolutely necessary. Our pilots have less flying hours that any other airline because we recruit the inexperienced ones who command lower salaries. Please recommend us to your friends, and enjoy the flight!’

AirAsia, recently voted the world’s best low-cost airline for the third consecutive year (source: Skytrax), is finalising the world’s largest ever single aircraft contract, ordering 200 A320 Airbus planes. Its vision is to serve the three billion people who are currently underserved with poor connectivity and high fares.

Does this sound like a compelling strategy for building a successful low-cost airline? You are shaking your head, because it is not. The reality is that Ryanair has an expanding fleet of new Boeing 737-800 aircraft and claims one of the youngest fleets, with its 272 aircraft having an average age of just three years. Recently, the airline reached a new annual milestone of 76 million passengers. All low-cost operators must strive for operational excellence and so for Ryanair it actually makes more commercial sense to purchase the newest, cleanest and most fuel-efficient aircraft available. To do anything less simply compromises the underlying business model. So the words that come to mind when I think of world-leading low-cost operators are: focused, efficient, disciplined and tech-savvy. A low-cost organisation’s internal motto could be: “Do less, but do it well”. However, there is a very important caveat here, and that is that low-cost should be ‘provided with humanity’. What does this mean? It means while a low-cost operator strives for operational efficiencies it needs to remain ‘people-centred’ with respect to employees and customers. Some believe Ryanair fails this test, which is why the brand polarises opinion.

15. Less flying hours
16. Source: Ryanair 2011 investor presentation
17. For the 12-month period ending July 2011
The low-cost gym sector is gaining momentum

The shift to low-cost is gaining momentum, especially as global economic austerity measures have the effect of making consumers feel less prosperous. It provides consumers with yet more reasons to test low-cost brands. ‘Can I pay less?’ is therefore an obvious question that many ‘savvy’ gym-going consumers are now asking. Also, do not expect consumers to automatically flock back to premium goods and services as economies recover, as there is growing evidence that consumers’ preference for premium goods, and a willingness to pay more, begins to erode once they have experienced the quality of low-cost products.\textsuperscript{18}

‘Worldwide, we expect to see continued growth at the bottom and top of the market and a further decline in the middle. Well-known names will be humbled by their inability to escape the middle.’

Michael J Silverstein, Treasure Hunt, 2006

\textsuperscript{18} How the recession has changed US consumer behaviour, McKinsey Quarterly 2009
CHAPTER 3

EXPERT OPINIONS ON LOW-COST

Ian Gamse
Director of Otus & Co

Professor Evgeny Káganer
IESE Business School

Henry Mason
Head of Research & Analysis at Trendwatching.com

Michael Silverstein
Senior Partner and Managing Director, The Boston Consulting Group
Interview with Ian Gamse
Director of Otus & Co

RA How do you define a ‘budget’ hotel and what part do these properties play in the structure of the European hotel industry?

IG Many people confuse what seem to us to be two different elements of hotel classification – a result of relying on star ratings. Hotels offer non-room facilities – restaurants, bars, meeting and event space, leisure facilities, shops, hairdressers and more – and the bedrooms themselves. It is quite possible for a hotel to have just bedrooms, but for those rooms to be large and luxurious. It is also possible for a hotel to have multiple restaurants, extensive entertainment and leisure facilities, but small and poorly equipped bedrooms. This is why the TripAdvisor reviews say, “No way is this place five-star...”.

So I talk first of ‘market level’ – a measure essentially of the level of investment in the bedrooms, which is reflected in their size and furnishings, and then of ‘hotel configuration’, a measure of the extent of the non-rooms facilities. A hotel at the ‘budget’ market level is one in which the rooms are small and the furnishing minimal – but that does not necessarily mean that the quality of what is provided is poor, just that the focus is on the essentials. Many of these are also ‘room only’ or ‘limited feature’ in terms of their configuration, with non-rooms facilities also reduced to a minimum – but only in locations where there is some other provision for guests to eat.

The structure of the European hotel industry is driven by demand, and the efficiency with which hotel companies can respond to changes in demand patterns.

The pure ‘budget’ sector is particularly prominent in France where Accor’s Etap and Formule 1 brands are well-established, catering particularly to road travellers who need a low-price but reliable overnight stop as they traverse the country. The hotels are predominantly ‘rooms only’, perhaps providing a pre-packed breakfast, but no more.

RA When did you first begin to see significant growth in budget hotels and what do you see as the main growth drivers for this trend?

IG The budget sector itself is well-established but small, making up about 5% of Europe’s chain hotel rooms. What is more interesting is the way in which budget hotels are beginning to appear not just at roadside locations or on business parks, but in city centres: easyHotel, for example, began offering rooms...
as small as 6 square metres\(^{19}\) in 2005 and can charge a minimum of $79 per night in central London, with no windows. The ‘driver’ is very simple. The first thing you are paying for in a hotel room is space, and the more desirable the location, the more expensive that space will be. So if all someone wants from a hotel room is a bed and a shower, why waste space and drive up costs by providing more?

An important development, particularly in the UK, is the growth of ‘limited feature’ hotels – those offering just a bar, or small restaurant, along with bedrooms. The segment has approximately quadrupled in the UK in the past decade, led by Premier Inn, Travelodge and Holiday Inn Express. There are two main drivers; first, it is very easy to find a pub or a restaurant in the UK, so hotels do not need to duplicate those facilities.

Second, as the service businesses that drive most UK hotel demand have matured, the need for hotels to function as quasi-offices has declined, reducing demand for meeting and conference space.

RA How do you distinguish between a ‘budget’ and an ‘economy’ hotel and which sector is demonstrating stronger growth?

IG We use ‘budget’ and ‘economy’ as labels for the two lowest of five market levels. The first key distinction is room size: on average, an economy room would be 18-20 square metres,\(^{20}\) while a budget room is typically 14 square metres\(^{21}\) or much less (easyHotel for example). Sizes can vary according to location; if land values are low, budget rooms can be larger, but they will be very empty! The other important distinction is the quantity and quality of fixtures and fittings. Taken together, these two give a sense of the build cost and hence the minimum pricing that can generate an investment return. So far as growth is concerned, across Europe as a whole it is the ‘economy’ segment that is stronger, with 4% annual growth in the last five years against 1% for the budget segment. But if we look at hotel configuration, it is the ‘rooms-only segment’ that has grown fastest. And the patterns are not uniform across the continent.

RA What evidence is there that budget hotels stimulate new demand rather than just encouraging consumers to trade down?

IG I am tempted to say none and leave it at that. Budget and economy hotels do not themselves drive demand in the way that a luxury resort hotel does: I doubt that many people travel solely for the pleasure

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19. 65 square feet
20. 194-215 square feet
21. 151 square feet
of being able to stay in a budget hotel. However, there is a slightly more subtle effect. In a city like London, which attracts significant numbers of both business and leisure travellers, good budget hotels, or good limited-feature hotels, provide a reliable but affordable alternative not just to the large hotels with numerous facilities, but to the cheap-but-nasty hotels, hostels, 'bed and breakfast' and worse, and that makes it much easier for the customer.

RA What has happened to the 'mid-market' as the budget and economy sectors have developed?

IG Very simple. The mid-market gets squeezed. Once you have a good quality budget or economy hotel, it will compete with neighbouring mid-market, facility-rich hotels for the customers who are just looking for a bed for the night. The mid-market hotel has higher costs and overheads, so either sacrifices margin to get the business, or stays empty. There is still demand for the premium product offered by the up-market hotels, but they too lose some transient demand to the economy segment. So the up-market hotels then compete with the mid-market for 'packaged' business – conferences, tour groups, air crew etc. So the mid-market is attacked from both sides. In the UK in particular, that has exposed a large segment of the market to a decline which is not cyclical but secular, and probably terminal.

22. An enduring and long-term decline

ABOUT IAN GAMSE AND OTUS & CO

Ian Gamse is a director of Otus & Co, which provides strategic advice and corporate finance services to many of the world’s leading hotel operators, owners and investors. Further information at: otusco.com
Interview with
Professor Evgeny Káganer
IESE Business School

RA Self-service forms a core part of many different low-cost propositions. Why do you believe consumers are prepared to engage with technology solutions?

EK There is a lot of discussion around a concept known as the ‘Consumerisation of Information Technology’. It is not new, but recently has gained a lot of traction. When you look at the workplace, what you see today is that workers are starting to bring their own technology to work. If you look back five or ten years, corporate information technology had always been significantly ahead of consumer technology, but this situation has completely changed. Today if you look at the kind of tools and digital solutions that are available to consumers in their everyday lives, they are extremely sophisticated and user-friendly tools, with a quick learning curve. This is why you see such wide-scale adoption. So when these consumers come to a commercial setting (such as a gym), the kind of technologies they see may sometimes have less features than those used in their everyday life. Combine this with a simple, easy to use and very intuitive interface and you normally have a consumer who can comfortably interact with the technology.

RA What role does the emerging ‘social web’ have in helping low-cost providers across different industries create a sense of connection with consumers?

EK The only thing the social web predominantly does is make contact easier and allow organisations to scale it faster. To genuinely create closer contact with the customer a company has to adopt a certain mindset. So the technical ability to get closer to the customer, at very low-cost, is there, but for low cost businesses to take advantage of that they have to shift their mindset. There needs to be an acceptance that they need to get closer. In my opinion, the problem with some low-cost businesses is they do not want to get too close because they have a different perspective, one that says: “we provide this service at a great price, take it or leave it.” In the past this was stipulated by significant costs that businesses had to incur to develop customer relationships; today those costs are no longer there. People are already online, socialising, discussing things and sharing experiences.
Interview with
Professor Evgeny Káganer
IESE Business School

So organisations can join these online ‘conversations’, and the cost of joining it is not significant, but first there must be a desire to do so and secondly a commitment to keep this relationship going. The opportunity is definitely there for low-cost businesses because they can break this image that they are not customer-friendly.

RA Low-cost operators across different industries proactively embrace new technologies. Why do you believe they are so receptive?

EK The explanation centres on the concept of ‘long tail’. In the past, businesses were only able to provide a service that generated a certain amount of revenue per customer. The fixed costs were such that they were not able to serve anyone below a certain threshold because it would have been unprofitable. The long tail works on the premise of a large number of customers, each generating a very small amount of revenue which becomes significant when added together. If you think about it, even companies like Google started out in the long tail by serving a large number of tiny customers. The traditional low-cost business is somewhere in the middle with technology enabling them to lower their costs. With technology what you have to do is invest in building a platform, a platform that provides various services to the customer. However, once the platform is up and running, customers can start using it on their own at virtually zero cost to the organisation. This is why low-cost businesses tend to use technology more and gravitate towards a self-service model.

RA How do you believe health and fitness professionals will need to re-position themselves as technology emerges to substitute some of the tasks that once required people?

EK This question applies to most industries today because increasingly activities are being shifted online, or they have been enabled by technology. As organisations start to automate some of their processes, you will notice that the focus is on the weakest value processes. However, not all parts of the customer experience can be automated. This means the new kind of skills you will need are people who can facilitate, moderate and support interactions with customers that are taking place online.

23. To understand more about the concept of ‘long tail’, see: changethis.com/manifesto/show/10.longTail
24. A process where the involvement of a staff member adds very little, or may even hinder the customer experience
Organisations have to figure out how to provide these online experiences because from our perspective at IESE it requires significant resources to ensure they are meaningful and valued by customers. At IESE, when we move some of the interactions around a certain course, online, it is not in place of a traditional course, but to complement it. Usually it generates a significant amount of discussion amongst participants, but it also increases the Professor’s workload. Professors have realised that we will have to continue doing this because participants expect it, but we cannot do it under the ‘traditional’ educational model. So new roles emerge such as ‘Community Managers’ who moderate and facilitate online interactions. Such Community Managers will emerge in the health and fitness industry. It could be a separate person, or someone who used to have most of their responsibilities at the gym, but now 85% of that person’s time will be allocated to interacting with members online.

**RA How do you see the health club proposition changing as new digital and mobile platforms emerge?**

**EK** I see a more ‘blended’ business model. There will still be components that are delivered in a physical environment, but the ‘gym’ experience could be complemented, extended, or enhanced with more online interactions. Fitness clubs will have to learn how to blend these two types of experiences. It will require considerable experimentation, because I imagine that not many clubs presently know how to do this. The present mode of operation is focused on distinct points of contact – a member may visit on Monday, Wednesday and Friday and there is little inbetween. However, these are not the only times a member is thinking about their health, so there are many opportunities for clubs to extend this contact. In the past, it was extremely expensive to provide digital services and probably only high-end clubs could afford to provide them, but these are no longer high-cost propositions.
Interview with
Henry Mason
Head of Research & Analysis
at trendwatching.com

**RA** Why do you believe some
consumers are now prepared to
trade off the status of premium for
low-cost goods and services?

**HM** There are two aspects to this.
As you note, status is at the heart of
much consumer behaviour. Low-cost
options can be status symbols for
consumers who want to flaunt their
ability to get good deals, but in the
context of gyms, the embracing of
low-cost is perhaps less about value,
and more about consumers being
able to say (both to themselves and
others) that for them, the gym is all
about the physical experience and
not about the additional ‘luxuries’:
the spa, the pool or the classes.
Gyms have frequently sold
themselves on these additional
services, yet for many consumers
there is a certain level of authenticity,
and therefore status, in stripping the
gym experience right back to its
essence-pure physical exertion.

**RA** What is ‘no frills chic’ and
why does it matter if someone is
developing a low-cost gym business?

**HM** ‘No-Frills Chic’ can be defined
as low-cost goods and services
that add design, third-party high
quality elements and/or exceptional
customer service to create top
quality experiences at bottom prices.
Central to ‘No-Frills Chic’ is the idea
that just because customers want low-
cost, does not mean that businesses
can get away with providing cheap
equipment or facilities. We live
in an economy where consumer
expectations remain high, even if
their willingness to spend is not.
So for low-cost gym operators,
this means that even though the
swimming pool and spa might be
removed, the vending machines
should remain stocked with high-
end energy drink brands, the
facilities remain clean and well-
maintained, and the online or mobile
booking process well designed
and efficient. In other words, the
experience must still feel high
quality. For successful operators, the
benefits of creating a ‘No-Frills Chic’
experience are clear - it will win
over some of the most cost-conscious
consumers, while also attracting
other customers away from the more
traditional, high-end markets.

**RA** As consumers, why do you believe
we are becoming more comfortable
with self-service propositions?

**HM** For consumers who have
grown up online, serving oneself is
empowering rather than demeaning.
For ‘digital natives’, self-service
offers control and convenience, as
long as it is done correctly.

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25. Cheap referring to: sub-par or inferior
26. Those people for whom digital technologies are an embedded and ‘natural’ part of their everyday lives
Low-cost operators should ensure that control and convenience is at the heart of any self-service proposition, rather than simply viewing it as a way to reduce staffing costs. Because if self-service goes wrong, brands have less opportunity to recover the situation, meaning at best a lost customer, at worse, a vocal critic.

The key to making self-service propositions work? Intelligent design and services that are comprehensive, but most importantly relevant to the consumer. Think about what your consumer wants to do, and then structure everything around that (default settings, information visibility, mobile application design, physical services etc). This is especially relevant for mobile applications because, as more and more consumers interact with brands via their mobiles, designing a user experience that is painless will become a critical success factor in reaching busy consumers on the go.

RA What is ‘Price Pandemonium’ and how do you believe it will affect the global health club industry?

HM ‘Price Pandemonium’ is our term that attempts to capture the myriad ways that businesses can approach discounts and deals offered to consumers. While consumers have always looked out for special offers and discounts, new technologies and services mean that brands can be increasingly creative in using pricing to attract and retain customers. The main driver behind ‘Price Pandemonium’ is that consumers have become more value-conscious, but discounts have also evolved. ‘Coupon clipping’ required planning and dedication, hence was not that popular with consumers more interested in the here and now. Now receiving and redeeming discounts is virtually effortless. Furthermore, looking at one’s smartphone at the sales counter, getting the latest deal via GPS, signing up to an online deal network is just smart. It is a source of status rather than shame.

How can those in the health club industry capitalise on this trend? Flash sales (deals only available for a short period of time) can spur impulse purchases, while private member deal ‘clubs’ allow clubs to target customers without damaging their brand in the same way as public discounting can. Pricing is becoming more dynamic, and with consumers increasingly broadcasting their locations, deals can become increasingly better targeted to those

27. See trendwatching.com/trends/11trends2011/#pricing
nearby. In the retail space, there are apps like Shopkick,\(^{28}\) which rewards shoppers with discounts for ‘checking in’ to stores and scanning products. This could easily be replicated by health clubs. Indeed, we have already seen the New Jersey Nets basketball team partner with Gowalla (a mobile location app)\(^{29}\) to give away points that could be redeemed against game tickets to those who checked into gyms, parks or sports bars.

**RA** What other key consumer trends do you believe the health club industry should be tracking?

**HM** We are seeing an increasing interest in people wanting to track their personal health data, in an attempt to become ‘Wellthy’.\(^{30}\) Two things are driving this trend. Firstly, good health is now as important to some consumers as having the biggest, newest or shiniest status symbols, which means that growing numbers of consumers will expect health products and services to improve their quality of life, rather than merely treating illnesses and ailments. Consumers are applying the same expectations to ‘health products’ as to any purchase: they need to be well designed, desirable, accessible, fun and/or interesting.

The other driver is that monitoring technologies are becoming portable or even wearable, cheaper and more intelligent - the consumer smart phones are now more advanced than most dedicated medical devices. This ‘consumerisation’ of medical information is enabling consumers to manage their health and more are even beginning to share their personal health data. Health clubs should be looking to embrace this, and at how they can capture users’ data and make it meaningful or fun, so that users enjoy and learn from their time in the gym.

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\(^{28}\) shopkick.com/app

\(^{29}\) See gowalla.com

\(^{30}\) See trendwatching.com/trends/11trends2011/#wellthy
Many readers appreciate that the middle market is under threat, but why? Is organisational complacency undermining the middle market?

Middle market companies have long enjoyed quiet comfortable lives. These companies in the west created ‘good enough’ product. They delivered what they delivered last year. Over the past ten years, markets have moved. They have traded-up and traded-down. No longer was it good enough to deliver ‘average quality to average consumers’. Some newly rich consumers chose to buy best goods. These goods delivered technical and functional advantages and more importantly delivered emotional benefits. At the same time, low-cost providers entered many markets.

They delivered ‘stripped down’ goods at bargain prices through the most efficient distribution. The result was a decline in the middle. I would not call it complacency. I would call it the movement of the market. It takes a lot of conviction and power to repurpose yourself as the market changes.

Why do you believe affluent consumers no longer feel a sense of stigma or embarrassment when choosing low-cost services?

I grew up in a time where you did not proudly talk about your bargains. You kept them quiet. Now social media and the internet have consumers sharing their secrets. Consumers have found they can deliver for themselves more full lives if they trade-down in categories of goods. Airlines are a good example. They have as an industry made marginal profits since deregulation. The profit has been concentrated in low-cost carriers. They have built a point-to-point network that rivals all, at high profit. Southwest Airlines in the United States for example has very high loyalty. Consumers consistently ‘sing the praises’ of Jet Blue. In Europe, Ryanair is consistently one of the highest performers. Consumers are simply saying to themselves that they are smart and ‘savvy’ shoppers. It has happened as a burst of consumer power.

When an existing organisation is threatened by a low-cost entrant, they can sometimes be unclear in their strategic response. Why does this happen?

31. The removal of restrictions around fares, routes and schedules thus promoting greater competition
Interview with
Michael Silverstein
Senior Partner and Managing Director
The Boston Consulting Group

MS All organisations have a ‘status quo orientation’. They make money by delivering more of the same. They often disregard what is different to their frame of reference. That is why the leadership team or the CEO has to play ‘what if?’ games. What if the low-cost provider takes share, what happens to us? What if we try to participate? How can we beat them at their game? What resources do we have that can translate into advantages? It is a time to ask questions.

RA As the global low-cost gym sector develops would you expect to see a net growth in consumer numbers or existing members trading down?

MS Gyms are an odd beast. They are largely fixed-cost operations. You build them and hope the consumers will come. Most of the growth has been premium gyms with heavy marketing expenditure. Curves is a big exception, building a mass market, affordable service for women. It has largely been successful. The world is facing an obesity and health crisis. Our populations do not adequately exercise. Unfortunately, this is habitual behaviour. My guess is that if low-cost gyms succeed it will be because they reach a new market. Governments have a significant interest in seeing this happen. If we can get the mass market to exercise, eat healthier diets, smoke less, drink less… the long-term health care costs decline dramatically and we get higher worker productivity, fewer sick days. The airline industry suggests growth will come from new users.

RA You believe that consumers trade-down when they see no material difference between two propositions at different prices. Why do we seem to have this disconnect between organisations claiming to be different (worth more) but consumers not seeing it?
Every organisation should get direct and specific feedback from consumers on their value propositions. They should test and understand differences in technical, functional and emotional benefits. If they have clear data, they can eliminate mistakes. This should be done on a continuous basis. With testing, they can prevent rapid deterioration of market position.

The business case for building a low-cost gym business is compelling, but many readers may wish to pursue a different and more service-oriented strategy. What advice can you give them?

I do not think the world of gyms is only about low-price. I think the real growth market is “proven results or your money back”. Measuring outcomes is the wave of the future. If you give consumers results they will deliver renewals and references. That seems to me to require skilled, empathetic service labour.
< INTERVIEWS WITH LOW-COST GYM LEADERS >

Dos Condon  
Vice President, Blink Fitness, United States

Edgard Corona  
CEO, Smart Fit, Brazil

Tony De Leede  
CEO, Fit n Fast, Australia

Jim Snow  
President, Gold’s Gym International, United States

John Treharne  
CEO, The Gym Group, United Kingdom

Dick Vande Vyvere  
CEO, JustFit, Belgium
RA: Can you describe the tipping point which triggered Equinox entering the low-cost gym segment with the launch of Blink Fitness?

DC: Equinox has a long history of innovation in the fitness space and a few years ago we saw what was going on in the low-cost fitness space. We identified the need for an affordable and well-designed fitness offering targeted at those who do not see the value in a ‘big-box’ fitness club and the 85% of the US population who currently do not belong to a gym. Following the 2008 recession, value became a primary driver in people’s consumption choices and an opportunity opened up in the real estate market to pick up great properties for good value. Finally, we knew we could leverage our core competencies in operations, marketing, branding, real estate development and fitness programming to create and deliver something differentiated and sustainable.

RA: To what extent do you leverage the Equinox brand when introducing Blink? Is Equinox a small or major part of the Blink story in communications?

DC: Certainly the Equinox brand is extremely strong. However, because the Blink brand and offering are so different we would not gain leverage, especially in light of the fact that the markets and consumers we serve are very different from those served by Equinox.

RA: How do you and your team think and act as a low-cost brand when the organisational ‘DNA’ has always been full-service luxury clubs?

DC: We think of it this way. ‘Low-cost’ defines only the price. It does not define the way we view the member experience. We have tremendous attention to detail and always will: a shared commitment to cleanliness, with equipment always in great condition, staff well trained, super friendly and helpful, motivating environment, member-centric culture and great design. Luxury is more about how you treat your customer than services you provide. While we have the best of the basics our mission is to consistently deliver an experience/product that over-delivers our member’s expectations.

RA: How are you building a sense of ‘brand’ at Blink that resonates with consumers when many components of a low-cost gym business can easily be imitated?
Interview with
Don Condon
Vice President, Blink Fitness, United States

DC Before the facility components, our brand voice was something we felt was critical to get right. With other brands singular focus being price, we see our brand as accessible, smart and fun. We want to connect with our consumer first at an emotional level as well as articulating the amazing value proposition.

As to the components, our goal was to create a very easy ‘guided experience’ for our members which includes our own workout menus, created by our fitness experts, where members can choose from different levels of a Tone, Burn or Build workout which they can pick up at the club. Also, our ‘Equipment Talkers’ (instructional placards on each piece of strength equipment) provide additional instruction in a strongly branded Blink ‘voice’. Our ‘1, 2, 3’ stretch area is also an instructional guided area with animations on both the wall and flooring which give our members a series of core and stretching exercises. One of the things we hear consistently from our members is how helpful and friendly our staff is and how clean and motivating the clubs are. The experience is key to what we do and we do it very well.

RA Can you tell me something about your ambition for Blink and the emphasis on overseas expansion once established in the United States?

DC Our ambition for Blink is big. Our plans call for opening several hundred locations over the next five years. In terms of international expansion, we have been approached by several large-scale players to partner on international development. We know there is a lot of opportunity for a quality, branded, well-operated fitness offering in multiple parts of the world, and we will definitely seize the opportunity when the timing is right.

ABOUT BLINK FITNESS
Blink Fitness launched at the beginning of 2011 and operates three clubs in the New York area. Clubs are typically 1,579 square metres (17,000 square feet), with a membership fee of $20 per month before start-up and annual fees. Further information: blinkfitness.com
Interview with
Edgard Corona
CEO, Smart Fit, Brazil

RA Why are you developing Smart Fit, your low-cost brand, when you could focus all management efforts on your successful Bio Ritmo brand?

EC Two different kinds of members means two sets of needs. This is why we have two separate companies. In Brazil, our high-end clubs are different. We offer a lot of service in our clubs. For example, we offer free group personal training so we cannot use the same team for both companies. The two companies act separately.

RA What role do you believe Smart Fit will contribute to encouraging more Brazilians to become physically active?

EC Smart Fit is more affordable so I believe we are going to attract new members into the health and fitness market.

RA Do you believe Smart Fit members can achieve health and fitness results in a self-service fitness environment with limited access to fitness instructors?

EC Brazilian law does not allow fully self-service clubs, so we provide staff and service in our low-cost gyms. The instructor provides general supervision rather than being attached to the client all the time.

RA In the future, when we are talking of your legacy to the Brazilian health and fitness industry, what would you like people to be saying about you and Smart Fit?

EC We are committed to increasing health in our country. Helping people get results and achieving a better life is our core purpose and why our clubs exist.

ABOUT SMART FIT

A chain of low-cost gyms founded on the principles of providing a good quality and affordable gym experience. Club expansion is via owned clubs and franchising. Membership cost from $28 per month, plus $99 annual fee. Further information: smartfit.com.br
Interview with Tony De Leede
CEO, Fit n Fast, Australia

RA Can you describe the 'eureka' moment when Fit n Fast, your new low-cost gym brand, was conceived?

TD There was no real 'eureka moment' in relation to the Fit n Fast concept, it was more an evolution of thinking during and after my time at Fitness First. I thought about what I would do if I was going to stay in the fitness business and I wanted to have even more of an impact in bringing fitness to the wider market. I believe the Fit n Fast model satisfies two things that are very important to the wider market - one is value for money and the other is time efficiency.

RA Why do you believe Australians are embracing Fit n Fast?

TD I think that there is an increasing number of people, not just in Australia, but globally, who are looking for genuine value for money and are also embracing the concept of 'no frills'. Just look at the way supermarket shopping habits are changing with the growing popularity of 'value' products. I think our industry is following others such as airlines and hotels that are introducing the 'no frills', self-service and 'easy in, easy out' concept that I think will continue to be relevant for more people as we move forward.

RA Why did you decide to launch the business without membership contracts and what has changed?

TD When we first launched Fit n Fast we only sold 'no contract' memberships. We have since moved on and have introduced a 12-month contract membership in addition to our no-contract product. We do reward people with a lower price if they commit to the 12 months, but in order to make it a little easier for people if they have a good reason to exit early from their contract, we have pre-prescribed and pre-stated cancellation fees (with different amounts depending on the time remaining on their contract). This makes us very open, transparent and friendly.

32. Paying and valuing only those elements that are fundamental to the product/service
**Interview with**

**Tony De Leede**

**CEO, Fit n Fast, Australia**

**RA** Why are you committing your future to low-cost gyms given that you have spent a significant part of your career operating mid-market clubs?

**TD** I firmly believe that a significant piece of our future industry will be in the low-cost gym sector. Fitness First has done a great job of catering to the mid, higher and more ‘consumer savvy’ end of the population. I think the more de-conditioned market are quite uncomfortable with the mid-to-high-end clubs. We believe that this market will be attracted by the price as well as the comfortable feeling I think our clubs have, and very importantly the emphasis we have placed on 30-minute work outs. While we tell people that a 30-minute workout one to three times weekly will not get them very fit or lose weight, it is certainly better than doing nothing, and sedentary is the present state of the majority of Australians.

**RA** What is the legacy that you hope Fit n Fast leaves to the Australian fitness industry?

**TD** We now have 10 clubs open. The great news is that 40%-70% of all people who join our clubs have either never belonged to a club before or if, they have done so, feel they have been let down by clubs in the past. For the people who typically used the ‘I don’t have time’ excuse, they find that the concept of our ‘Quickies’ (30-minute workouts) and the low cost is very appealing. I believe that as we grow our brand to 200 clubs over the next 12 to 15 years we will truly bring fitness into the mainstream for a large percentage of the Australian population and play our part in tackling the health issues related to heart disease and obesity.

**ABOUT FIT N FAST**

Tony de Leede is a 30+ year veteran of the health club industry, having launched and grown a number of successful health club chains including Fitness First Australia. Tony and a group of partners launched Fit n Fast during 2010 in response to what they believe consumers need today: fitness that is ‘Cheaper, Better and Faster’.

Membership rates start from $35 (USD), before collection and quarterly charges.

Further information: fitnfast.com.au
Interview with
Jim Snow
President, Gold’s Gym International,
United States

RA Why has Gold’s Gym decided to enter the low-cost gym segment?

JS Gold’s was looking at this for at least three years before my arrival; talking about it, studying it and our Gold’s Gym franchisees have been competing against low-cost operators. We have a lot of franchisees and we work closely with them through the Gold’s Gym Franchise Association (GGFA), so when I arrived I immediately met with our National Franchise Council (NFC). We talked extensively about the low-cost operator threat; many franchises were asking: “Do we have an option?” I would say the East Coast (United States) was where the majority of the pressure was coming from. As these low-cost operators came in, our franchisees really had to start looking at it and say: “How do we start competing against these clubs and is there an opportunity here for us to participate in this?” That was the impetus behind how Gold’s jumped into the game.

We deliberately moved slowly before jumping into the sector. We looked at the pro-formas and financial returns and concluded from an ownership model that it looked like a profitable operation, easy to run, especially as a franchisee grows. For a multi-unit operator who wants to add to their portfolio this club format looked like an opportunity to have a low-management model that could help them to protect their own market or expand their market without the same amount of additional resources.

RA How challenging is it for the Gold’s team to think and act as a low-cost organisation when for 46 years you have operated as a full service brand?

JS We are primarily a franchise organisation and so we have hundreds of owners and each has to understand the low-cost mindset. At Gold’s Gym International we are making that shift but we also have to maintain a strong focus on our full service clubs. We are creating ‘silos’ within our organisation so we have a National Gold’s Gym Express Director and dedicated marketing people working on Gold’s Gym Express. We are still in ‘test’ mode (beta testing) and developing how this gym format works best for us.

RA How did you decide what facility/service components to include in your Express gyms?

JS We first looked at it and said we wanted a high quality box that represents what we produce today as a Gold’s gym; something that was high-end, not cheaply built materials, feels good and something that would stand out. Then we said we have to maintain the low-management, low labour-cost profile which is very important to this gym model and key to its success. Predominantly, we went with a simplified fitness-only model. Then we started implementing some
unique characteristics. For example, we have developed virtual personal training in the gym, which is a very slick unit that has all the videos from the Gold's Institute, which are accessed via an Apple iPad. We also included massage chairs and tanning. They get a lot of use and it provides a competitive edge; it helps to bring customers into the gym. However, we are allowing our franchises the option of including these services or not. However, I want to emphasise that we are still beta testing.

You offer a basic membership plan from $9.99 per month. To what extent is $10 a significant price point for attracting American consumers?

I think this is a significant price point. We have been doing very deep consumer studies. We have employed McKinney, our advertising agency, and they have been asked to do studies on existing Gold's customers as well as evaluating the marketplace from multiple directions. I imagine there is nobody doing deeper consumer studies on pricing and consumer behaviours to understand what consumers are saying, how they feel, what the product looks like and the future. We believe price does drive this segment. There is a very large segment of the population that is attracted by the low-price point model. These people have the same aspirations and desires to lose weight and get fit, but they are just at a different point in their fitness journey. We think the Gold’s brand can bring a lot to the table.

In the near future, what does the Gold’s Gym Express business look like in terms of clubs open and international reach?

We are receiving 30-40 leads a month for Gold's Gym Express from potential licensees even though we are not aggressively selling it. Our international master franchise holders are very interested in Gold’s Gym Express. We like the United Kingdom and would like to see Gold’s Gym Express there. However, we have to be very cautious and understand these markets before we step in. This means relying on our master franchisees who are experts in these markets. Therefore, I would not be surprised to see some of our international master franchise holders’ step into Gold’s Gym Express and start testing it in their own markets. Some markets like India for example are interesting. Gold’s will have 200 gyms there by the end of 2013.

Established in Venice, California in 1965, Gold’s Gym operates more than 650 locations in 30 countries. Gold’s Gym Express was launched at the beginning of 2011, offering a basic month-to-month membership plan for $9.99 per month. Five clubs were open at August 2011. Further information: goldsexpress.com
Interview with

John Treharne
CEO, The Gym Group, United Kingdom

RA How has your original business strategy changed since your launch?

JT Our strategy has not altered much since inception as we carried out exhaustive research in Europe and the USA before we opened our first gym in 2008. Our focus continues to be to provide excellent, very clean and well maintained gym facilities that are amazing value for money. We are also committed to 24-hour opening and no membership contracts.

RA How have you been able to generate momentum around your brand?

JT We have 15 gyms now open, reaching 20 by the end of 2011. We are on target to reach 35 gyms open by the end of 2012. This is all being achieved whilst the UK Health Club market is ‘flat’, where there is no real growth and for the first time in my experience, the industry is experiencing a significant number of club closures. Our momentum is driven by our desire to maintain our leadership position not just by opening a large number of gyms, but also by maintaining the high quality and successful locations we have secured to date. This focus is a company-wide desire from our investors, Bridges Ventures, to our operational and property management team.

RA Why is your property strategy to develop new gyms rather than convert existing clubs?

JT We would convert existing clubs if we could find viable propositions, in the right location and at the right price. We have looked at a number of such opportunities, including ones that have now been converted into low-cost gyms, but they simply do not work for us. Presently, we are finding a considerable number of ideal gym sites to ‘fit-out’, so it is highly likely that this will continue to be our main focus as we aim to reach 75 gyms over the next few years. As has been proved by the failures that have already occurred through converting clubs in poor locations, it is absolutely clear that success is not just about opening a gym with low membership fees. As ever, as with most businesses, location is of paramount importance.
Interview with
John Treharne
CEO, The Gym Group, United Kingdom

RA: What has been your biggest single learning since setting up The Gym Group?

JT: The importance of sticking to your core values by providing service and maintenance levels that exceed member expectations, and generally exceeding the levels provided by many of the other health club operators in the UK.

RA: Why are so many of your members connecting with your brand on Facebook and what value is it creating?

JT: We now have nearly 11,000 Facebook users, which exceeds the level of many other club operators. This is because we professionally manage our social networks and fully engage with our members. It is a fantastic communication and sales tool, if used properly. However, it provides an opportunity for members to criticise as well as compliment, so it is not right for those that cannot accept valid criticism. No business is perfect, but the key is how the brand deals with problems and communicates solutions.

RA: What future do you see for mid-market gyms as the low-cost sector develops?

JT: As in the USA and mainland Europe and as has occurred with the UK hotel market, I believe the mid-market will diminish significantly and be replaced by the low-cost gym sector at one end of the market and premium brands at the other. In my view, there will be no place for inferior or mediocre clubs that deliver poor service.

ABOUT THE GYM GROUP
The Gym Group was the second low-cost brand to launch in the UK during 2008. It presently operates 15 gyms across the UK with monthly membership costing £25. Recently, the company raised $31.5 million from Bridges Ventures and HSBC to finance further expansion. Further information: thegymgroup.com
Interview with
Dick Vande Vyvere
CEO, JustFit, Belgium

RA What inspired you to launch JustFit, your new low-cost gym brand?

DV As fitness is still a very young industry in Belgium, I saw the opportunity to launch a new easy-to-access low-cost brand, offering well-designed facilities and transparent and affordable memberships. Also, to use the latest technology and the ‘web’.

RA You are a fan of Ryanair. In what ways has a low-cost airline influenced the way you operate JustFit?

DV Ryanair has a very clear communication proposition - passengers are very clear on what they get and do not get for their money. They are a very cost-efficient business with consistent rules and guidelines regarding cost reduction, as well as focusing on web and digital marketing.

RA You have considerable experience of operating mid-market clubs, so how challenging has it been for you and your team to think and act as a low-cost brand?

DV For me it was simple, but it has been a challenge for my staff. They have to adjust their mind-set towards a low-cost concept involving less service, strict rules and guidelines regarding cost reduction, as well as focusing on web and digital marketing.

RA Can you describe your international ambitions for JustFit and in what ways do you believe the concept needs to change as you begin to export the brand?

DV For the moment our focus is on the Belgium market because there is still a lot to do. I believe it is better to be strong in your home market before expanding into other regions. The concept does not require many changes, except adapting to local financial rules and requirements, but this is ‘back office’ work. Apart from this, I see other European consumers receptive to paying less for a good quality gym.

ABOUT JUSTFIT

JustFit is presently an eight-club low-cost fitness chain located in Belgium. Membership costs $21 per month based on a 12-month contract. Further information: justfit.be
An important part of this report is to help readers understand what consumers think about the low-cost gym experience.

In my previous report, 34 I spent time conducting a series of depth interviews 35 with members in one single gym. For this report I conducted more extensive research across two UK low-cost gym brands, involving both current and previous members. I am very grateful to FitSpace and The Gym Group for enthusiastically supporting my consumer research.

34. 2010 UK Low-cost gym sector report
35. These are detailed one-on-one interviews involving an individual discussing their membership experiences
What do UK Consumers Think About the Low-cost Gym Experience?

Research methodology

Two online surveys were created for existing and former members. The first survey was sent to approximately 21,000 existing members attending clubs across the United Kingdom. The survey was only sent to individuals in at least their second month of membership. The rationale was to understand what members thought of the gym experience, after they had moved beyond the initial 'honeymoon' period.

About FitSpace

FitSpace was the UK’s first ‘authentic’ low-cost gym brand, opening its first club in Southern England in 2006. There are now eight clubs with membership plans starting from $19 per month.

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36. You can read more about the research methodology in the appendix
37. See appendix for survey questions
38. Sent to ‘active’ members who had opted-in to receive emails from FitSpace
39. 18-month membership contract
What do UK Consumers Think About the Low-cost Gym Experience?

Response
A total of 309 surveys were completed. The gender profile is illustrated in Figure 4:

FitSpace Gender Profile

Figure 4: FitSpace gender profile
Visual insight Ray Algar 2011

Males: 57%
Females: 43%

Previous gym experience
Figure 5 illustrates that 20% of respondents were using a gym for the first time. This split evenly between the genders. Where members had experience of other gyms, 60% were male, 40% female.

Previous Gym Experience

Figure 5: Previous gym experience
Visual insight Ray Algar 2011

- 20% FitSpace is their first gym
- 80% Previous gym experience

Key Findings
The key findings are summarised over the following pages:
The brand experience

The following ten statements are arranged so that statements with the highest levels of agreement appear first.

How much do you agree or disagree with each of the following statements?

- 4.5 The monthly gym price is excellent value for money
- 4.2 FitSpace is helping me to become a healthier person
- 4.2 I always feel safe when using the gym
- 4.1 FitSpace provides everything that was promised on its website
- 4.1 Staff are approachable and helpful
- 4.0 FitSpace has a friendly atmosphere
- 3.9 Staff are available to provide free advice when I need help
- 3.9 FitSpace emails me with advice and information
- 3.5 FitSpace has all the facilities I need
- 3.3 I know the first name of at least one member of the staff team

There was a strong agreement around the statement: “The monthly gym price is excellent value for money”. Females (4.6) agreed more than males (4.4), as did members for whom FitSpace was the first gym they had joined (4.7). Some readers may be surprised to see a high level of agreement with: “FitSpace has a friendly atmosphere”.

40. This is a statistically significant gender difference
There was consistent agreement with this opinion across age ranges, different lengths of membership, previous club experience and gender. Why might this be surprising? Low-cost gyms operate with less staff and actively encourage members to ‘self-serve’. However, what self-service environments may foster is a strong sense of ‘member reciprocity’, where people spontaneously and freely support each other – I help Rob programme his treadmill today, while next week Rob suggests a great exercise for strengthening my lower back.

Likelihood to recommend

Members were asked to rate their likelihood to recommend FitSpace to a friend or colleague on a 0-10 scale. The overall recommendation rate was 7.9, with females reporting the highest rate (8.2).

Would they recommend FitSpace to a friend or colleague

- **Females**: 8.2
- **Members for whom FitSpace is the first gym they have ever joined**: 8.1
- **All Members**: 7.9
- **Members who have joined previous clubs before FitSpace**: 7.8
- **Males**: 7.7
- **Others**: 7.6
- **Others**: 7.5
- **Others**: 7.4

**Figure 7**: How likely are you to recommend FitSpace to a friend or colleague? Visual insight Ray Algar 2011
**Net Promoter**

Net Promoter uses the results of the above recommendation question to create a Net Promoter Score (NPS) with members categorised as shown in Table 1.

<table>
<thead>
<tr>
<th>SCORE (0 – 10)</th>
<th>CATEGORY</th>
<th>DESCRIPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>9 or 10</td>
<td>Promoters</td>
<td>Loyal enthusiasts who will keep buying and refer others, fuelling growth</td>
</tr>
<tr>
<td>7 or 8</td>
<td>Passives</td>
<td>Satisfied but unenthusiastic customers who are vulnerable to competitive offerings</td>
</tr>
<tr>
<td>0 or 6</td>
<td>Detractors</td>
<td>Unhappy customers who can damage your brand and impede growth through negative word-of-mouth</td>
</tr>
</tbody>
</table>

Table 1: Net Promoter Scale. Visual insight Ray Algar 2011

The Net Promoter Score is calculated by taking the percentage of members who are Promoters and subtracting the percentage who are Detractors (Passives are ignored on the basis that they are unenthusiastic and indifferent to the brand). Figure 7 shows that FitSpace has an overall Net Promoter Score of 28. Female members reported an NPS that was 15 points higher than males. It was the younger female members (16-24 age range) that were driving up the overall NPS, among both those who had previously belonged to clubs and those for whom FitSpace was their very first gym.

---

41. This business metric was developed by Satmetrix, Bain & Company, and Fred Reichheld
42. Read more at netpromoter.com
Putting this score in context

A 2010 study of 19,000 UK health and fitness consumers undertaken by Leisure-net Solutions and The Retention People revealed an overall sector (public and private centres) score of 21. However, the research produced a score of -16 (minus 16) for private-sector clubs. A minus net promoter score simply means a brand has more ‘detractors’ than ‘promoters’.

---

43. leisure-net.org

44. Only ‘active’ members defined as visiting the club within 28 days of the survey were used in this study

45. Example: A club has 1,000 members of which 380 are detractors, 400 are passives and 220 are promoters. Ignoring the 400 passives, the net promoter score is calculated by subtracting the percentage of promoters from the percentage of detractors: 22% - 38% = -16 (minus 16)
## What do UK Consumers Think About the Low-cost Gym Experience?

### Outside Industry Net Promoter Score Comparisons

Table 2 illustrates how these scores compare with other industries.

<table>
<thead>
<tr>
<th>COMPANY</th>
<th>CATEGORY</th>
<th>COUNTRY</th>
<th>NET PROMOTOR SCORE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apple</td>
<td>Computers</td>
<td>America</td>
<td>72</td>
</tr>
<tr>
<td>Subaru</td>
<td>Cars</td>
<td>Australia</td>
<td>35</td>
</tr>
<tr>
<td>Jumbo</td>
<td>Supermarkets</td>
<td>Chile</td>
<td>35</td>
</tr>
<tr>
<td>Citibank</td>
<td>Credit cards</td>
<td>Indonesia</td>
<td>15</td>
</tr>
<tr>
<td>Sky</td>
<td>Internet Service Provider</td>
<td>UK</td>
<td>14</td>
</tr>
</tbody>
</table>

Table 2: Outside Industry Net Promoter Score Comparisons. Visual insight Ray Algar 2011

---

46. Comparisons were taken from the official Net Promoter website and can be found at this link - netpromoter.com/np/compare.jsp
What do UK Consumers Think About the Low-cost Gym Experience?

Future membership intention

Members were asked the following question: “How likely are you to still be a member of FitSpace in six month’s time?” The results are shown Figure 9.

The results suggest that the low-cost gym experience can be ‘sticky’ for some members. By ‘sticky’ I mean that members settle into the routine of a ‘self-service’ gym experience and see themselves committing, at least their short-term future, to the gym. Females reported a higher (8.1) likelihood\(^{47}\) to still be a member in six months time compared to males (7.7). First-time gym users also reported the same score as females.

---

\(^{47}\) The difference was not statistically significant

Figure 9: How likely are you to still be a member of FitSpace in six month’s time?

Visual insight Ray Algar 2011
About The Gym Group

The Gym Group was the second low-cost brand to launch in the UK during 2008. It presently operates 15 gyms across the UK. Recently, the company raised $31.5 million from Bridges Ventures and HSBC to finance further expansion.

What do UK Consumers Think About the Low-cost Gym Experience?

Response

The survey was sent to 24,192 former members. A total of 733 surveys were completed. The gender profile is illustrated in Figure 10:

**The Gym Group Gender Profile**

- 57% Males
- 43% Females

Figure 10: The gym gender profile. Visual insight Ray Algar 2011

Key Findings

The key findings are summarised over the following pages:
Previous gym experience

Figure 11 illustrates that 17% of respondents were using a gym for the first time. Similar to the earlier FitSpace findings, this split evenly between the genders. As regards to experience of other gyms, 60% were male.

The brand experience

The seven statements shown on page 54 are arranged with the highest levels of agreement appearing first.

The strongest agreement was around the statement: “The Gym provided everything promised on its website”. I see this as supporting the notion that low-cost gyms are relatively easy for consumers to understand. In essence, it is a gym-only experience with a limited pricing matrix and often with a no-contract option. In fact, I found that first-time gym users reported a marginally higher level of agreement (4.3) with this statement than respondents with previous gym experience (4.1).

Respondents reported a high level of agreement with the statement: “The Gym would email with advice and information”. Since its launch, The Gym Group has offered online joining as the primary method of purchasing a membership. This requires a valid email address which means that electronic communication between the brand and members is simple, fast, and, as you would expect, low-cost. The ability to rapidly and cost-effectively communicate with members is a good first step, but the real value is created when content is personalised and ultimately drives an outcome i.e. I now know more (acquire knowledge), I feel better about this brand (engagement) etc.
What do UK Consumers Think About the Low-cost Gym Experience?

How much do you agree or disagree with each of the following statements?

- 4.1 The Gym provided everything promised on its website
- 4 The Gym would email with advice and information
- 4 I always felt safe when using The Gym
- 3.7 The Gym helped me to become a healthier person
- 3.7 The Gym had a friendly atmosphere
- 3.5 The Gym had all the facilities I needed
- 3.4 Staff were available to provide advice when I needed help

Figure 12: Former members - How much do you agree or disagree with each of the following statements? Visual insight Ray Algar 2011

Likelihood to recommend

Members were asked to rate their likelihood to recommend The Gym to a friend or colleague on a 0 to 10 scale. The overall recommendation rate was 7.5, with first-time gym users reporting the highest rate (8.5).

Figure 13: How likely are you to recommend The Gym Group to a friend or colleague? Visual insight Ray Algar 2011
What do UK Consumers Think About the Low-cost Gym Experience?

The Gym Group Net Promoter Score

Figure 14 shows that The Gym Group has an overall Net Promoter Score of 21. Similar to the FitSpace finding, it was the 16-24 age segment that reported the highest net promoter score (36). Females with previous gym experience reported the highest recommendation rates.

Where are you now?

Figure 15 illustrates that 31% of respondents had joined another gym after leaving The Gym Group.

Figure 14: The Gym Group Net Promoter Score. Visual insight Ray Algar 2011

Figure 15: Where are ex-The Gym Group members now? Visual insight Ray Algar 2011
What do UK Consumers Think About the Low-cost Gym Experience?

Joined another gym – gender analysis

Two-thirds of respondents joining another gym were male:

- Females: 34.5%
- Males: 65.5%

Figure 17 illustrates membership duration. When investigating just the ex-members with experience of other gyms, I was surprised that 26% stayed for no more than three months. Clearly, the low-cost ‘gym-only’ experience does not appeal to everyone, so they tried and then left. 36% of this group then went on to join another gym.

<table>
<thead>
<tr>
<th>Membership duration</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-3 months</td>
<td>27.4</td>
</tr>
<tr>
<td>3-6 months</td>
<td>34.9</td>
</tr>
<tr>
<td>7-12 months</td>
<td>26.1</td>
</tr>
<tr>
<td>More than a year</td>
<td>6.8</td>
</tr>
<tr>
<td>Unsure</td>
<td>4.8</td>
</tr>
</tbody>
</table>

I will be publishing further consumer insights on the report website.

48. Oxygen-consulting.co.uk/think-tank

Figure 17: The Gym Group – membership duration. Visual insight Ray Algar 2011
SUMMARY OF LEADING INTERNATIONAL LOW-COST BRANDS
Summary of Leading International Low-cost Gym Brands

The following figure shows the leading international low-cost club operators at August 2011.

The following factors were considered when deciding which low-cost brands to include in this international table:

- Clear evidence that a club brand is pursuing an all-embracing low-cost business model.
- Typical monthly membership price point at least 50% below the country average.
- Narrow facility mix focused predominantly on a gym and group exercise proposition.
- Extensive technology and web use.

49 Ignoring discounts and membership contracts longer than 12-months

<table>
<thead>
<tr>
<th>RANKING</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
</tr>
</thead>
<tbody>
<tr>
<td>NUMBER OF CLUBS</td>
<td>447</td>
<td>141</td>
<td>80</td>
<td>70</td>
<td>54</td>
<td>52</td>
<td>38</td>
<td>23</td>
<td>19</td>
<td>17</td>
</tr>
<tr>
<td>COUNTRY</td>
<td>USA</td>
<td>GERMANY</td>
<td>NETHERLANDS</td>
<td>SWEDEN</td>
<td>AUSTRIA</td>
<td>BRAZIL</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BRAND</td>
<td>Planet Fitness</td>
<td>McFit</td>
<td>Clever Fit</td>
<td>Easy Fitness</td>
<td>Basic Fit</td>
<td>Fitness24 Seven</td>
<td>Fit for Free</td>
<td>Smart Fit</td>
<td>Fitinn</td>
<td>Kingdom of Sports</td>
</tr>
</tbody>
</table>

Figure 18: Leading international low-cost brands - number of clubs. Visual insight Ray Algar 2011

<table>
<thead>
<tr>
<th>Brand name</th>
<th>Country</th>
<th>Franchise</th>
<th>Website</th>
<th>Join Online</th>
<th>24-hour opening</th>
<th>Membership options</th>
<th>Typical price point (per month)</th>
<th>Marketing slogan/communication theme</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planet Fitness</td>
<td></td>
<td>Yes</td>
<td>planetfitness.com</td>
<td>Yes</td>
<td>Some clubs</td>
<td>Month-to-month and 12-month contract plans</td>
<td>10</td>
<td>Judgement-free zone</td>
</tr>
<tr>
<td>McFit</td>
<td></td>
<td>No</td>
<td>mcfit.com</td>
<td>No</td>
<td>Yes</td>
<td>12-month contract</td>
<td>24</td>
<td>Simply good looking</td>
</tr>
<tr>
<td>Clever Fit</td>
<td></td>
<td>Yes</td>
<td>clever-fit.com</td>
<td>No</td>
<td>No</td>
<td>12-month contract</td>
<td>28</td>
<td>Incredibly cheap</td>
</tr>
<tr>
<td>Easy Fitness</td>
<td></td>
<td>Yes</td>
<td>easyfitness-international.com</td>
<td>No</td>
<td>No</td>
<td>12-month contract</td>
<td>28</td>
<td>Just train clever</td>
</tr>
<tr>
<td>Basic Fit</td>
<td></td>
<td>No</td>
<td>basic-fit</td>
<td>Yes</td>
<td>No</td>
<td>12-month contract</td>
<td>23</td>
<td>Only the price is basic</td>
</tr>
<tr>
<td>Fitness24 Seven</td>
<td></td>
<td>No</td>
<td>fitness24seven.com</td>
<td>Yes</td>
<td>Yes</td>
<td>12-month contract</td>
<td>31</td>
<td>Open all hours</td>
</tr>
<tr>
<td>Fit for Free</td>
<td></td>
<td>No</td>
<td>fitforfree.nl</td>
<td>Yes</td>
<td>No</td>
<td>12-month contract</td>
<td>23</td>
<td>Fitness for everyone</td>
</tr>
<tr>
<td>Smart Fit</td>
<td></td>
<td>Yes</td>
<td>smartfit.com.br</td>
<td>Yes</td>
<td>No</td>
<td>12-month contract</td>
<td>28</td>
<td>Smart academy</td>
</tr>
<tr>
<td>Fitinn</td>
<td></td>
<td>No</td>
<td>fitinn.at</td>
<td>No</td>
<td>No</td>
<td>12-month contract</td>
<td>28</td>
<td>The fat years are over</td>
</tr>
</tbody>
</table>

50. At August 2011. All prices rounded to the nearest dollar. Based on train-at-anytime membership option. Excludes any joining and annual membership maintenance fees. Maximum contract length of 12-months
### Summary of Leading International Low-cost Gym Brands

The following figure illustrates when each of these organisations was founded:

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>USA</th>
<th>GERMANY</th>
<th>GERMANY</th>
<th>SWEDEN</th>
<th>AUSTRIA</th>
<th>GERMANY</th>
<th>NETHERLAND</th>
<th>NETHERLAND</th>
<th>GERMANY</th>
<th>BRAZIL</th>
</tr>
</thead>
<tbody>
<tr>
<td>ORGANISATION</td>
<td>Planet Fitness</td>
<td>McFit</td>
<td>Kingdom of Sports</td>
<td>Fitness24</td>
<td>Seven</td>
<td>Clever Fit</td>
<td>Fitinn</td>
<td>Fit for Free</td>
<td>Basic Fit</td>
<td>Easy Fitness</td>
</tr>
</tbody>
</table>

Figure 19: Timeline showing year brand launched. Visual insight Ray Algar

51. Parent company is HealthCity formed in 1986
Facing intense competition from larger club rivals, it began to embrace a low-cost business model similar to that being pursued by companies such as Southwest in the airline industry. For 11 years, the brothers worked on refining a low-cost strategy for the health club industry, which in January 2003 led to Planet Fitness launching as a franchise, following the business model of successful brands such as McDonalds, Hampton Hotels and Snap-on Tools. The company operated just four clubs when it decided to grow via franchising.

Planet Fitness initially emerged from a small club purchased by brothers Michael and Marc Grondahl in the state of New Hampshire, in the North East of the United States, in 1992.
Club growth 2008–2010
Since adopting a franchising model, the company has expanded rapidly across the United States as illustrated in Figure 20:

![Figure 20: Planet Fitness Club Growth Visual insight Ray Algar 2011](image)

Planet Fitness Consumer Proposition
To provide a well-located ‘gym experience’ at an affordable monthly fee starting at $10 per month. Consumers can choose a month-to-month agreement or a 12-month $19.99 monthly Black Card that provides access to all Planet Fitness clubs, guest privileges, free use of sun-tanning beds and other benefits.

Consumers typically join online. Members can request a free gym induction or exercise programme review with a certified trainer. Clubs offer a selection of cardiovascular and strength training machines, free weights and a 30-minute circuit area.

52. Plus applicable sales tax, start-up fee typically priced at $29 and an annual $29 ‘maintenance’ fee
Low-cost Case Study - Planet Fitness, United States

A typical club
Located in 'strip malls', shopping centres and free-standing locations. Clubs range in size from 1,333-2,229 square metres (15,000 -24,000 square feet). Building improvements are normally in the range of $95,000-$250,000 to convert an existing gym, or $250,000-$800,000 for developing a new gym.

Business model
The majority of Planet Fitness clubs are operated under a franchise agreement, although there were 42 company-operated clubs at December 2010. As well as an initial franchise fee, the clubs pay Planet Fitness 5% of the monthly recurring subscription income. Franchise clubs may also be requested to contribute 2% towards a national advertising fund and commit to invest at least $5,000 monthly to adequately market the club.

53. A strip mall is an open-area shopping centre where the stores are arranged in a row, with a sidewalk in front (Source: Wikipedia)
54. Typically $25,000
55. Opening hours will vary according to State laws
Low-cost Case Study – Planet Fitness, United States

What consumers say about the brand

I checked the consumer reviews posted by members on Yelp\textsuperscript{56} for a single club in the Astoria neighbourhood of New York.\textsuperscript{57} I chose this club on the basis that members had written 73 reviews, which is more than other Planet Fitness clubs I could locate. The average rating across the 73 reviews was 2.69 out of 5.\textsuperscript{58} The distribution of reviews is shown in the following figure:

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{planet_fitness_yelp_ratings.png}
\caption{Planet Fitness Yelp Ratings Visual insight Ray Algar 2011}
\end{figure}

56. Read the review here yelp.com/biz/planet-fitness-new-york-2
57. Using a 1-5 rating scale
58. All data on the following figures are taken from Planet Fitness Franchise Disclosure Document, April 2011
Low-cost Case Study – Planet Fitness, United States

The following figure illustrates the membership subscription income for a cross-section of 299 Planet Fitness clubs open for at least 12-months.

Figure 22: Planet Fitness Annual recurring membership subscription income-at December 2010

EBITDA Margin

Figure 22 illustrates the EBITDA margin for three ‘corporate’ Planet Fitness clubs for the period ending December 2010. These three clubs were selected from the 42 ‘corporate’ Planet Fitness clubs operating at December 2010 and are representative of the 25-75th percentile.

---

59. All data on the following figures are taken from Planet Fitness Franchise Disclosure Document, April 2011
60. Comprising 257 franchise and 42 clubs owned and operated by Planet Fitness
61. My thanks to Bryan O’Rourke for EBITDA analysis
62. Earnings before interest, tax, depreciation and amortisation—search ‘EBITDA’
63. Clubs owned and operated directly by Planet Fitness rather than franchised
64. Calculated by ranking the 42 clubs according to their annual membership subscription income from low to high. Search ‘Percentile’ for more information
Low-cost Case Study – Planet Fitness, United States

EBITDA %

- Club - 75th Percentile: 42%
- Club - 50th Percentile: 54%
- Club - 25th Percentile: 39%

Figure 23: Planet Fitness EBITDA – three-club sample. Visual insight Ray Algar 2011

Social media channels

<table>
<thead>
<tr>
<th>Social Media Platform</th>
<th>Followers/Likes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Facebook</td>
<td>112,463 likes</td>
</tr>
<tr>
<td>Twitter</td>
<td>5,854 followers</td>
</tr>
</tbody>
</table>

Table 4: Planet Fitness Social Media Platforms. Visual insight Ray Algar 2011

65. At 28 August 2011
Low-cost Case Study – Planet Fitness, United States

I was particularly struck by the tweet shown above published by Planet Fitness on 27th August 2011 while Hurricane Irene was wreaking havoc across the Eastern coast of the United States and Canada. Such gestures demonstrate the compassionate side of a brand.

Strategic ambition

Michael Grondahl, the CEO is extremely optimistic about the company’s future and believes there is significant growth potential just in the United States, before it begins taking the brand to other countries. The company has announced that it has a development ‘pipeline’ exceeding more than 1,000 clubs and Grondahl has publicly stated an ambition to become the world’s largest fitness club company. During October 2010, Planet Fitness secured a $40 million credit facility with GE Capital to support its growth ambition.

Figure 24: Planet Fitness – Hurricane Irene tweet
Visual insight Ray Algar 2011

IN EVENT OF POWER LOSS RELATED TO HURRICANE IRENE, THE PUBLIC MAY USE SHOWER/LOCKER ROOM FACILITIES AT PLANET FITNESS IN NYC, RI, MA, & NH.

Table 5: Planet Fitness – Global 500 Franchise List

<table>
<thead>
<tr>
<th>YEAR</th>
<th>RANK</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>81</td>
</tr>
<tr>
<td>2010</td>
<td>157</td>
</tr>
<tr>
<td>2009</td>
<td>116</td>
</tr>
</tbody>
</table>

Table 5: Planet Fitness – Global 500 Franchise List. Visual insight Ray Algar 2011

Time will tell whether Planet Fitness becomes a global gym leader, but what is clearly evident is that growing numbers of American consumers are being persuaded to try low-cost gym fitness, attracted by the location, pricing and simplicity of the proposition.
However, for me, the important question is ‘why is this sector growing?’ I do hope my report helps to answer this question and provides an explanation for the momentum in the low-cost gym sector.

I have put forward six key market drivers behind the low-cost gym sector, adding ‘digital infrastructure’ since my last report. I now see the six market drivers as:

- Simplicity
- Affordability
- Changing consumer sentiment towards legacy clubs
- Sporadic attendance to legacy clubs
- Digital infrastructure
Concluding remarks

The report puts forward a definition for a low-cost gym which I believe contains five core characteristics. The definition will help readers to identify those brands pursuing a deep and ‘authentic’ low-cost strategy versus those whose strategy is vague and inconsistent.

The report looks at the different low-cost gym variations’ and ‘flavours’ that are emerging, although internationally there seems to be broad consensus that the essence of low-cost is a narrow facility offering, driven by a large well-equipped gym.

As in my previous reports, I have looked outside of health and fitness to see how low-cost operators are driving growth in other industries. These case studies are illuminating because they show that attempting to ‘out-compete’ your industry rivals is not always necessary. This is evident in the development of the ‘Nano’, the world’s lowest price car, which does not attempt to compete against other car-makers, but instead against manufacturers of motor-bikes.

Low-cost does not mean ‘inferior’

Some may believe that low-cost gyms deliver dramatically reduced membership fees by ‘cutting corners’, by offering something that is inferior and, ultimately, disappointing. This is not the case when a business has a deep understanding of the low-cost proposition. Low-cost operators are typically focused, efficient, disciplined and tech-savvy. They have simply narrowed their definition of a ‘gym experience’, but what they decide to keep in benchmarks well with higher-priced rivals.

When a consumer decides, for example, to swap a full-service club for a low-cost gym, they are trading-off the facilities they do not value; what remains must ‘feel right’, otherwise over time it will simply lead to a tension that will ultimately result in the member leaving.

The report captures the insights from a number of influential people both from outside and inside the industry. You will see that many of the interviews contain the following consistent themes:

67. See Figure 2 – facility mix
68. Technology can often improve a process and ultimately improve the member experience such as providing online booking in place of telephoning the club
69. This includes myriad of factors including club location, parking, opening hours, equipment function/availability, staff attitude and club atmosphere.

I view the low membership fee as only one part of the ‘recipe’
Concluding remarks

Low-cost does not mean ‘inferior’

- The ‘middle market’ in many industries is under attack from both the low-cost and premium segments. The ‘monopoly of the middle’ is ending.

- Consumers are becoming increasingly comfortable with the use of digital tools and self-service, which are core components of a low-cost proposition.

- Consumers no longer hide their low-cost purchases, filled with a sense of awkward embarrassment, but instead openly talk about them and ‘boast’ of their savings on social networks.

- Those parts of the consumer proposition that provide low levels of value\(^70\) are most likely to be automated. This means we should expect some staff roles to be changed or ultimately eliminated. Staff who embrace this new ‘digital future’ will be better prepared and more employable than those who try to cling to the past.

- Consumers have demanding expectations even when the price they pay might be low. In the context of a low-cost gym proposition, every element of the member experience from website usability through to the temperature of the shower water must be flawlessly executed. It is the total sum of all these ‘touch-points’ that will ultimately determine the quality of the experience.

\(^70\) For example, a staff position that focused on producing printed marketing and materials could change or disappear altogether as communications become more digitally focused – email, blog and social networks.
Concluding remarks

Consumer research
A core part of this report was to understand what consumers think about the low-cost gym experience. I hope that the insights from previous and current low-cost gym members help to explain why consumers are finding these clubs appealing. This research tells me that these low-cost gyms are ‘delivering’ on the brand promise. Members feel safe; they are getting results and they love the price. Recommendation rates were high and the Net Promoter Scores were significantly superior than reported in other UK research.

In terms of global low-cost gym brands, Planet Fitness (USA) with 447 clubs leads the table, followed by McFit (Germany) with 141 clubs and Clever Fit (Germany) with 80. This report provides a detailed case study on Planet Fitness, which has seen remarkable growth since launching from a single club in 1992.

Compound annual growth rate of its clubs has been 22.5% between 2008-2010, while earnings before interest and depreciation at a three-club sample ranged from 39%-54%.

Are low-cost gyms good for the industry?
Yes, and here is why. Low-cost gyms are injecting excitement and momentum into the global health club industry. They have a compelling story to tell which consumers, journalists and other stakeholders are finding exciting and different. They are also challenging existing clubs to re-examine their own member proposition because consumers will increasingly question why they are paying high fees if they are receiving what feels like a self-service experience. The result is that low-cost gyms challenge the entire industry to ‘raise their game’. Existing clubs unable or unwilling to do this will progressively look poor value, out-of-touch and ultimately irrelevant.

So what is your strategic response to the low-cost gym sector?
After reading about the rise of low-cost gyms, it is understandable to jump to the immediate conclusion that the future is all about ‘low-cost’. However, this is not necessarily the only future and so careful reflection and analysis is required before choosing a response that is likely to have long-term strategic consequences. Take Neil Burton, CEO at Holmes Place Central/Eastern Europe, who is thinking carefully about how the rise of the European low-cost operators are influencing his member proposition:

71. Holmes Place describes itself as a ‘premium wellness brand’ and operates 75 clubs across 10 countries
Concluding remarks

continued

‘It has focused me on our specific proposition - why become a member of Holmes Place? More than anything a premium experience relies on people to deliver it - premium brands cannot survive without exceptional teams engaging with customers. The Holmes Place vision, “Inspiring People to Live Well” engages the member at three different levels - moving, eating and feeling well. The development and differentiation of these three strands is key to define our place in the market and we are putting intense focus on how to deliver the best possible experience in these areas.’

There were approximately 133,500\textsuperscript{72} clubs worldwide at the end of 2010 and if you asked the owners of these clubs how they see their business evolving only some will be talking of a low-cost future. For while a part of the industry see a ‘stripped-down’, more leaner, low-cost self-service gym experience, others will be pursuing something more service-oriented and ‘operationally intimate’. Both have a place, a viable future, and help members to live healthier and more active lives. Ultimately, club owners will have to answer some tough questions such as:

- What is the underlying purpose\textsuperscript{73} driving this business?
- What do I want my business to stand for?
- What type of business am I passionate and excited about developing?
- What will be my personal legacy to the health club industry?
- What difference am I trying to make?

These are challenging but vitally important questions, so do not rush to the first answer. Test your answers on your team, industry colleagues, friends and family and constantly refine them. When the ultimate answers arrive, they will provide clarity and the ‘fuel’ that will inspire you and your team to make yours a truly remarkable club.

\textsuperscript{72} IHRSA 2011 Global Report
\textsuperscript{73} To clarify your club’s purpose, complete the ‘Purpose Profiler’ at - purposethebook.com/purpose_profiler/take_the_profiler
Concluding remarks

Advice for Higher-Priced Clubs Losing Significant Numbers of Members to Low-Cost Gyms

- Evaluate your service metrics - something is going wrong for members who are asking themselves: “Can I get the same or better experience or the same for a lower price?”
- Investigate the percentage of ‘walk in’ business the club is converting to sales; this often indicates performance of reception and sales staff
- Consider Net Promoter Score to evaluate your business against other service industries
- Review what people are saying about the club online
- Strengthen the perceived quality of the offering by building partnerships with other premium brands
- Harness social media and your website to enhance the brand experience via interesting and informative content

Source: Neil Burton, Chief Executive Officer at Holmes Place Central/Eastern Europe
CHAPTER 9

<interview with precor report sponsor>
Interview with
Doug Johns
VP - Global Marketing and Product Management

RA As the industry begins to embrace ‘self-service gyms’, how is this influencing Precor’s product/service strategy?

DJ Self-service operators rely heavily on web technologies to manage their businesses. Online membership registration and remote video monitoring are common examples. These are consistent with the entire emerging category of networked fitness. Precor entered this space with Preva™, our networked fitness product. Precor recognised a need for operators to monitor and manage their equipment with technology to compensate for a low staffing model. With Preva™ Business Suite operators can monitor the status of their networked Precor cardio’ equipment conveniently on a website. They can get an instant reading on usage patterns, maintenance needs, and even programme messages to appear on the equipment consoles in order to communicate with their members, all without staff.

RA How is Precor responding to the fact that low-cost gyms are attracting inexperienced exercisers, many of whom are joining a club for the first time?

DJ We are excited about the addition of new exercisers to clubs. Attracting more people to a lifestyle of health and fitness should be the ultimate goal of everyone in our industry. We all know that there is no shortage of people who need to make a lifestyle change. If we can not only attract them, but help them achieve their goals, the entire industry will expand. The Precor approach has always included a focus on the member experience to help new exercisers. The most famous example is the introduction of the elliptical machine which provided a low-impact, natural motion easily adopted by inexperienced exercisers. This year we added instructional videos as a feature within our equipment that help inexperienced exercisers learn not only how to operate the equipment, but how to get the most results. For example the treadmill video includes coaching on proper form and stride rate that applies to running both on and off the treadmill.

RA Why are low-cost gyms buying Precor equipment when cheaper alternatives are available?

DJ Two of the reasons that low-cost gyms choose Precor when they are building their businesses are a focus on member needs and a business view that goes beyond initial purchase price. On the member need side, prospective members of a low-cost gym are willing to trade
Interview with
Doug Johns
VP - Global Marketing and Product Management

RA How is Precor responding to the low-cost gym sector’s enthusiasm for embedding technology into the consumer experience?

DJ Earlier this year we launched new cardio’ equipment, the Experience Series 880 Line. This equipment features a touch-screen experience that rivals the best in personal electronics. With the rise of tablet computers and smart phones, the consumer expectation of the user interface has risen dramatically. Our new equipment delivers on that expectation not because we now have technologies like capacitive touchscreens and gesture-controlled menus, but because the way our designers used those technologies to deliver a fitness experience is so extraordinary. For example we are using the beautiful resolution of the new screens to showcase a ‘Featured Workout’ that changes daily. This new presentation is encouraging exercisers to try new things like intervals rather than following their old pattern of selecting ‘QuickStart’. We see facilities with the new technology experiencing a shift in their member behaviour to at least 35% of members using a programmed workout, which is exciting because mixing up the routine will lead to a higher rate of goal achievement.
Readers can discuss the implications of this report, download further copies, and provide suggestions for future editions. Registration is free and takes just a few minutes. The address is: Oxygen-consulting.co.uk/think-tank Please direct your colleagues to the website in order to download their own copy of this report.

Report corrections

Please leave a comment on the Oxygen Think Tank™ should you find any errors. This report can be amended quicker than it takes you to say:

‘I cannot believe that one week at a low-cost gym is the same price as a cappuccino!’

74. Oxygen-consulting.co.uk/think-tank
Depth interviews were conducted with only existing members for my 2010 report. For this report I wanted to gather quantitative data so that statistical analysis could be undertaken.

I was not granted direct access to the membership data and so I requested the following parameters when developing the sample of members to receive the survey.

Two UK-based low-cost gym operators were approached to provide access to past and current members in order to conduct an online survey.
Ex-member survey

- The survey was sent to individuals who had previously belonged to gyms in different parts of the UK.
- Members had left the gym at least one month before receiving the survey. This was because I wanted to establish if they had moved to a different club.
- Ex-members were given the chance of winning an iPod as an incentive to complete the survey.
- An email reminder was sent as a prompt for ex-members to complete the survey.
- The online survey was emailed to 24,192 ex-members.

Member survey

- The survey was sent to individuals who were members at different gyms across the UK.
- Members were given the chance of winning an iPod as an incentive to complete the survey.
- An email reminder was sent as a prompt for members to complete the survey. Members were also prompted via Facebook.
- The online survey was emailed to approximately 21,000 members.
## Member survey questionnaire

<table>
<thead>
<tr>
<th>STATEMENT</th>
<th>AGREE STRONGLY</th>
<th>AGREE</th>
<th>UNDECIDED</th>
<th>DISAGREE</th>
<th>STRONGLY DISAGREE</th>
</tr>
</thead>
<tbody>
<tr>
<td>How much do you agree or disagree with each of the following statements?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FitSpace provides everything that was promised on its website</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>FitSpace has a friendly atmosphere</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>I always feel safe when using the gym</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Staff are available to provide free advice when I need help</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Staff are approachable and helpful</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>I know the first name of at least one member of the staff team</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>FitSpace has all the facilities I need</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>FitSpace emails me with advice and information</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>The monthly gym price is excellent value for money</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>FitSpace is helping me to become a healthier person</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>
## Appendices

### How likely are you to recommend FitSpace to a friend?

<table>
<thead>
<tr>
<th>NOT AT ALL LIKELY TO RECOMMEND</th>
<th>DEFINITELY RECOMMEND</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>10</td>
</tr>
</tbody>
</table>

### How likely are you to still be a member of FitSpace in six month's time?

<table>
<thead>
<tr>
<th>NOT AT ALL LIKELY</th>
<th>EXTREMELY LIKELY TO BE A FITSPACE MEMBER</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>10</td>
</tr>
</tbody>
</table>

### Personal training session

<table>
<thead>
<tr>
<th>HAVE YOU PAID FOR A PERSONAL TRAINING SESSION SINCE JOINING FITSPACE?</th>
</tr>
</thead>
<tbody>
<tr>
<td>YES</td>
</tr>
</tbody>
</table>

### More about you:

- **ARE YOU:**
  - Male
  - Female

- **YOUR AGE:**
  - 16-24
  - 25-34
  - 35-44
  - 45-54
  - 55-64
  - 65-74
  - 75+

- **HOW LONG HAVE YOU BEEN A MEMBER OF FITSPACE:**
  - 0-3 months
  - 4-6 months
  - 7-12 months
  - More than one year
  - Unsure

- **PREVIOUS GYM EXPERIENCE**
  - Which of the following best describes your previous gym experience
    - FitSpace is the first gym I have ever used
    - I have used other gyms before joining FitSpace
    - Thank you for completing this survey.
Ex-member questionnaire

<table>
<thead>
<tr>
<th>STATEMENT</th>
<th>AGREE STRONGLY</th>
<th>AGREE</th>
<th>UNDECIDED</th>
<th>DISAGREE</th>
<th>STRONGLY DISAGREE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staff were available to provide advice when I needed help</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>The Gym had all the facilities I needed</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>The Gym had a friendly atmosphere</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>The Gym would email messages with advice and information</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>The Gym provided everything that was promised on its website</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>The Gym helped me to become a healthier person</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>

How likely are you to recommend The Gym to a friend?

NOT AT ALL LIKELY
TO RECOMMEND
DEFINITELY
RECOMMEND

0 1 2 3 4 5 6 7 8 9 10

If answer 0-8, what is the single most important thing that The Gym should do that would make you more likely to recommend us?
If answer 9-10, what is the single most important thing that makes you likely to recommend The Gym?
Appendices

Where are you now?

SINCE LEAVING THE GYM, WHICH OF THE FOLLOWING
BEST DESCRIBES WHERE YOU ARE NOW:

1. I have joined a different gym. If you have joined a new gym; have you joined a gym at:
   1.1 A lower monthly price
   1.2 A similar monthly price
   1.3 A higher monthly price

2. I have not joined another gym. If not joined a new gym, how likely is it that you will be joining a gym in the next six weeks using a 0-10 scale?

NOT AT ALL LIKELY          DEFINITELY
0        1       2       3       4       5       6       7       8       9       10

More about you:

ARE YOU:
Male
Female

YOUR AGE:
16-24
25-34
35-44
45-54
55-64
65-74
75+

PREVIOUS GYM EXPERIENCE
Which of the following best describes your previous gym experience

The Gym is the first gym I have ever used
I have used other gyms before joining The Gym

Thank you for completing this survey.
Ray Algar is the Managing Director of UK-based Oxygen Consulting, a company that provides compelling strategic business insight for organisations connected to the global health and fitness industry. Ray has been connected to the health and fitness industry for more than 20 years, and is also Chairman of Wave Leisure Trust.

Ray writes for several influential publications, including Intelligent Life (part of the Economist Group), ADMAP Marketing Journal and numerous leisure publications. He is an enthusiastic fan of the social web, launching one of Europe’s first leisure-related blogs in 2005.

In 2010, he published the UK Low-cost Gym Sector Report, the industry’s first strategic investigation into the emergence of low-cost gyms. This was followed by the 2011 European Health Club Industry Web and Social Media report, which discussed the emergence of the ‘social web’. The report includes a social media audit of Europe’s leading club chains encompassing data from 10 countries.

During November 2011, he is launching LoveTheGym.com, a website that enables consumers to review, rate and recommend health clubs.

Ray is regularly invited to speak at conferences in the United States and Europe on a range of a marketing, technology, research and web-based themes.

He has an MBA from Kingston Business School, a Masters degree in Marketing from the University of Greenwich, and an honours degree in Sports Studies and Psychology, awarded by the University of Kent. All are leading UK-based universities.

75. waveleisure.co.uk
76. oxygen-consulting.co.uk/blog
77. Previous reports can all be found at - oxygen-consulting.co.uk/think-tank
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