2013 REVIEW OF THE UK HEALTH AND FITNESS INDUSTRY AND AN OUTLOOK FOR 2014

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Purpose of this document

This document summarises the key events that shaped the UK health and fitness industry during 2013. It then discusses the industry's outlook for the year ahead.

KEY REPORT HIGHLIGHTS

2014

- The overall structure of the industry will continue to evolve. At the end of 2014, I estimate there will be eight 'focused' low-cost operators listed in the UK's top 30 private gym brands. In 2010, there was just one.
- The market share of low-cost gyms among the UK's top 30 private brands is forecasted to rise from 14% to 25%, measured by clubs.
- David Lloyd Leisure is due to make an announcement about its 'DL Studios', its high street concept, during the first quarter of 2014.
- LA Fitness will announce the results from its move into the premium segment with its new LAX brand. Will this new brand guide the company's future?
- The mid-market will continue being squeezed, but 18 of the top 30 brands will still be operating in this segment. Some of these operators such as Fitness First and LA Fitness will become increasingly difficult to classify in the future as they test operating low-cost, mid-market and premium-priced clubs.
- Colin Waggett, the former CEO of Fitness First, is entering the indoor cycle studio segment in London during the first quarter of 2014 with the launch of 'Psycle'.
- The UK's leading leisure trusts and leisure management operators such as GLL, DC Leisure and Parkwood Leisure should see a growth year as cash-strapped councils seek ways to keep leisure centres open at lower cost to the local taxpayer.
- Private and public operators both make progress in turning their venues into health and wellbeing hubs rather than final destinations as they continue to embrace the web and technology.
- Clubs stuck in a lazy 'we are good enough' mindset will face being substituted by new and nimble operators who deliver enjoyment and results.

2013

- The Office of Fair Trading (OFT) concluded its investigation into membership contracts. Consumers enjoy simpler contract terms and conditions, including easier cancellation.
- A 'leaner' and debt-free Fitness First re-invested in its UK clubs.
- Consumer sentiment and opinion towards the industry was very mixed according to an ongoing survey of Net Promoter Scores.
- CCMP Capital Advisors completed a secondary buy-out of Pure Gym, the low-cost gym operator.
- Several mid-market operators such as LA Fitness and Bannatyne Health & Fitness adjusted membership fees in an effort to stimulate new joiners and in response to the growing presence of low-cost operators.
- Phoenix Equity Partners completed a secondary buyout of The Gym Group, the low-cost gym operator.
- Xercise4Less, the low-cost gym operator in the North West of England, announced a £5 million investment from the Business Growth Fund PLC (BGF).
- TDR Capital acquired David Lloyd Leisure (DLL).
- Triodos Bank collaborated with GLL to raise £5 million through the issue of a new five-year 'leisure-impact' bond.

A REVIEW OF

2013

I have written the review around key 'topics' and ordered them in some sense of chronological order.

CHANGES IN THE MID-MARKET

There was significant activity during 2013 at the low-cost and premium end of the market, which I come to later, but what was happening in the middle? Well, the Office of Fair Trading (OFT) announced in March that Fitness First and Bannatyne Fitness[1] had agreed to change the terms of their membership contracts. The OFT investigation focused on making future gym contracts simpler, while also improving cancellation rights. It will now become easier for a member to cancel their gym contract if their personal circumstances change, triggered by an injury, sickness, redundancy or significant relocation. Notice periods to cancel contracts were also reduced in Bannatyne's case, from three months to one, but David Lloyd Leisure will still be asking members to provide three month's notice, once the initial contract has run its course.

Then in September, the OFT announced it had also reached agreement with LA Fitness and Dave Whelan Sports[2] to also revise their membership contracts. In a final step, the OFT then sent an open letter to UK health and fitness operators requesting that they review their membership contracts to ensure they are reasonable and fair. This brought to a close a 19-month OFT investigation.

The OFT has been taking a keen interest in gym contracts since 2002[3] and I really do believe we should be reaching the end of opaque and 'unfair' contracts. Consumers do not want them and enforcement agencies do not like them; case closed.

A NEW 'LEANER-LOOKING' FITNESS FIRST

We saw a new and leaner looking Fitness First at the start of 2013 as it emerged from a successful Company Voluntary Arrangement (CVA).[4] This financial restructuring of its UK business saw the sale or closure of 67 clubs, while property rents were renegotiated with the majority of the UK clubs it retained. Now debt-free, Oaktree Capital Management, the new owners, announced in March that an initial £20 million was being made available to begin the process of updating the 80 retained UK clubs. ***'Gym of the Future'*** was the exciting claim from the press release. So in 2014 look out for hot yoga studios along with interactive 'activity walls' and 'virtual' personal trainers. Poole in Dorset, where it all began for Fitness First back in 1993, became the first club in April to see the new-look gym.

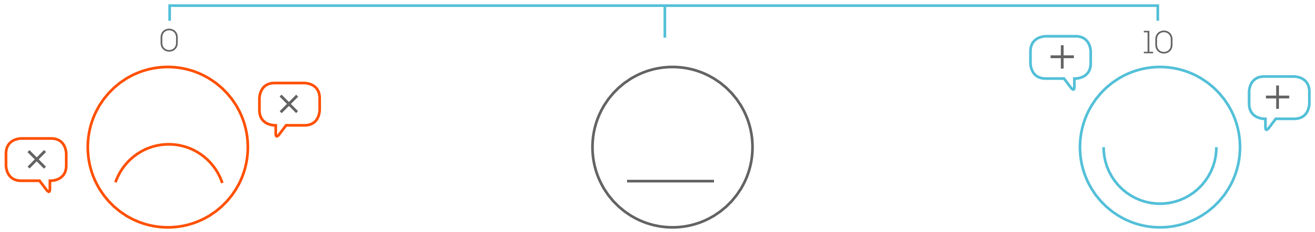
1. Along with David Lloyd Leisure
2. Along with Harlands Group which provides provide Direct Debit collection and other membership administration services to health clubs
3. Publishing 'Are they fit to join? A guide to health club membership terms'
4. A CVA is a legally binding agreement to repay a proportion of monies due to creditors over an extended period of time

CONSUMER SENTIMENT TOWARDS THE INDUSTRY

The Retention People were conducting very interesting member research during 2013, based around the Net Promoter Score (NPS).[5] NPS asks one simple question:

'How likely is it that you would recommend this gym to a friend or colleague?'

A 0–10 scale is used to categorise responses as follows:



SCORE
0–6

DETRACTORS
Unhappy customers who can damage your brand and impede growth through negative word-of-mouth

SCORE
7–8

PASSIVES
Satisfied but unenthusiastic customers who are vulnerable to competitive offerings

SCORE
9–10

PROMOTERS
Loyal enthusiasts who will keep buying and refer others, fuelling growth

5. *Read more here – http://bit.ly/TRP-NPS*

A REVIEW OF
2013

CONSUMER SENTIMENT TOWARDS THE INDUSTRY

UK HEALTH AND FITNESS INDUSTRY NET PROMOTER SCORES – THE RETENTION PEOPLE (01/12/2011 to 30/11/2013)

Circa 200,000 member/customer responses

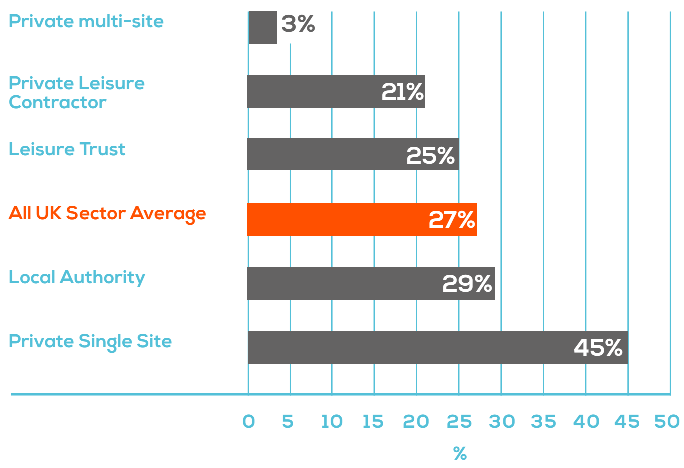
	Overall Industry NPS Score	Private Single Site	Private Multi Site	Local Authority	Leisure Trust	Private Leisure Contractor
UK AVERAGE	27%	45%	3%	29%	25%	21%
BEST	70%	70%	45%	45%	54%	28%
WORST	-27%	25%	-27%	8%	0%	16%

The Net Promoter Score is calculated by taking the percentage of customers who are 'Promoters' and subtracting the percentage that are 'Detractors'. 'Passives' are ignored on the basis that they are unenthusiastic and indifferent to the business. Take a look at the private multi-site brands that are averaging an NPS of 3%. This means if I take the scores of 100 members, we could have a distribution or spread that looks like this: Passives: 43. Promoters: 30. Detractors: 27. How would you feel if you were a stakeholder in a business with these scores? The clubs with large negative NPS scores need to urgently up their game or permanently close their doors.

By way of comparison, research I conducted of The Gym Group members during 2012 produced an average NPS of 45%.[6]

The 'legacy' or 'traditional' operators have consistently found it very challenging to generate significant numbers of 'promoters'. Promoters tend to 'love' rather than 'like' the businesses they interact with and so fostering deeper emotional connections must be a top-order priority in 2014.

AVERAGE NPS SCORES BY SECTOR



6. A survey was sent to 90,000 members during September 2012, with 11,660 responses

THE UK NATIONAL RETENTION REPORT

During September, Dr Paul Bedford published The UK National Retention Report. The membership records of 343,000 people drawn from all parts of the UK fitness industry were analysed. Covering a four-year period, the research answers the critical question: ***How long does a person retain their membership?*** Take a look at the following figure and read the graph from left to right. Starting from 100% of members, individuals progressively begin disconnecting, with 88% remaining after three months.

That represents just over 41,000 members who are leaving to join another club or perhaps quitting the industry altogether. After 12 months 52% remain, which means that just under 165,000 have left. Coincidently, 165,000 is the same number of people who globally have applied for a one-way ticket to join the Mars One space mission in 2023, so it is a big number. As the months roll on, so the trend continues, as the slippery slope to the exit door continues.

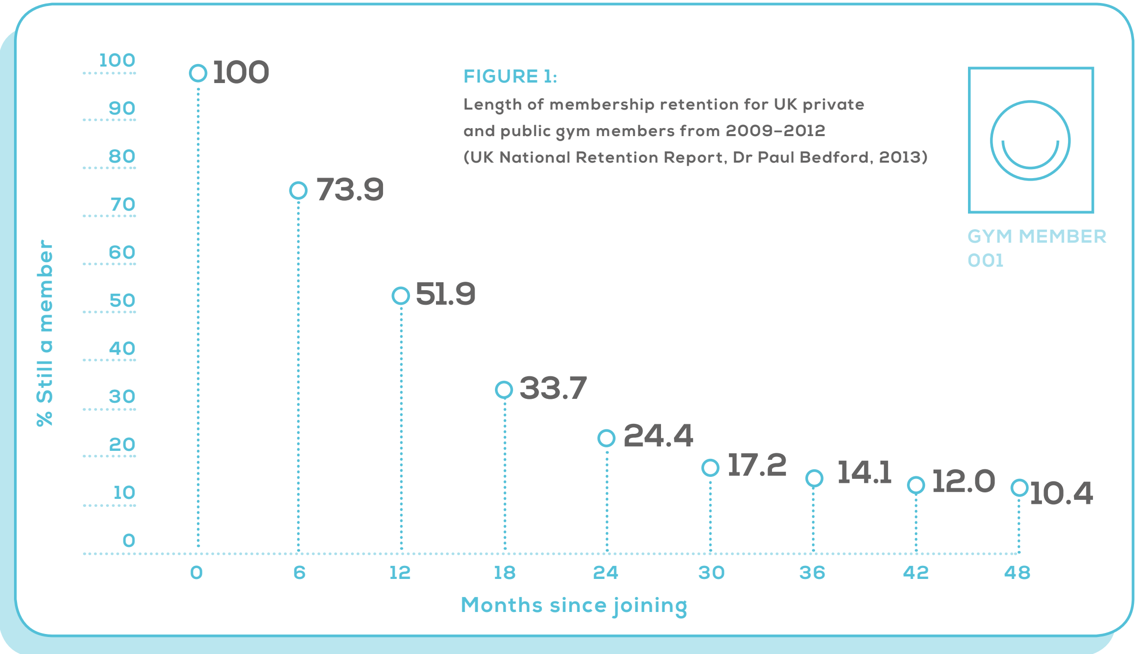


FIGURE 1:
Length of membership retention for UK private and public gym members from 2009–2012 (UK National Retention Report, Dr Paul Bedford, 2013)

I am continually surprised how easily people slip in and out of their gym memberships. These people are not choosing where to buy basic goods such as petrol for their car, but supposedly are on a journey to a healthier and more active future – perhaps they still are, just not with these gyms.

A REVIEW OF
2013

STRATEGIC MOVES BY EXISTING INDUSTRY PLAYERS

Several mid-market operators such as LA Fitness and Bannatyne Health & Fitness were adjusting membership fees in an effort to stimulate new joiners and in response to the growing presence of low-cost operators. For example, the LA Fitness club in Orpington, Kent underwent a £2 million refurbishment programme in July. This stunning club, complete with new swimming pool, is now £37 per month (with no joining fee), based on an 18-month contract. This is £12 less than the average monthly fee for private clubs in the South East of England.[7] It was not so long ago that a club like this would have been priced at £49 per month. Clearly, LA Fitness still believes in membership contracts with incentives to sign longer agreements. Complete flexibility comes at a price, with a monthly, contract-free membership at Orpington rising to £60. Meanwhile, in the West Midlands you could join the LA Fitness Birmingham club for £20 per month with a 12-month contract.

During September, the Huffington Post[8] published an article discussing the impact that Duncan Bannatyne believed a reduction in membership fees was having on the atmosphere at some of their clubs. This coincided with the publication of 'Riding the Storm', his new book. Initially, membership was reduced from £42 to £29 per month with no long contract commitment at three Bannatyne clubs, but this has since been extended to at least five clubs.[9] Bannatyne felt conflicted by the price drop, believing memberships were worth more than £29, but knew it was necessary to try to revitalise the fortunes of some of his clubs.

Reducing prices is such a simple move to make, but almost impossible to reverse. During 2014 we will discover if this was the best move.

LAX LAUNCH

During October, LA Fitness announced the launch of LAX,[10] a new premium club brand which it is testing in central London. This beautifully designed club focuses on functional training and instructor-led group exercise classes rather than simply traditional 'machine-based' programmes. Spanning three floors, the new club was developed for approximately £2.5 million.[11] Membership is currently priced at £69 per month, based on a 12-month contract. This compares with £44 per month at other 'traditional' central London LA Fitness clubs.

7. £48.75 per month is the average fee for private clubs across the South East of England according to the 2013 State of the UK Fitness Industry Report, produced by The Leisure Database Company.
8. Read the article here – http://bit.ly/Bannatyne-pricedrop
9. Birmingham, Blackpool and three clubs in Manchester
10. See LAX.co.uk
11. Watch the short LAX video here – http://bit.ly/LAFitness-LAX

A REVIEW OF

2013

CORPORATE ACTIVITY

In May, CCMP Capital Advisors completed a secondary buyout[12] of Pure Gym, the low-cost gym operator founded by Peter Roberts in 2009. CCMP Capital is a global private equity firm, founded by former investment professionals from JPMorgan Chase, which invests in four distinct portfolio areas. This investment sits within their retail/consumer portfolio. Pure Gym had 45 locations and approximately 240,000 members at the time of the deal, averaging 5,333 per gym. CCMP Capital has since announced £50 million to finance further UK expansion.

'With Pure Gym's relatively low market penetration and the widespread appeal of a high-quality, low-cost fitness option, we believe there is a significant opportunity to expand Pure Gym aggressively across the UK.' — **Thomas Walker,** *Managing Director, CCMP Capital Advisors UK, II Limited (May 2013)*

Just a few weeks later, Phoenix Equity Partners also completed a secondary buyout of The Gym Group. Phoenix specialises in mid-sized businesses valued at up to £200 million across six sectors. This deal falls into their focus on leisure and retail. Bridges Ventures, who has funded The Gym Group since its inception in 2007, retained a 25% stake in the business. When the deal was announced, The Gym Group had over 200,000 members and 36 gyms located across the UK, averaging 5,555 members per gym. Phoenix only invested in two companies during 2013, so this represented a big seal of approval for the low-cost gym sector. £50 million of new funds were announced to finance further expansion and to revamp existing gyms, given that some of their gyms are now five years old.

'We are excited about continuing to build The Gym Group and welcome our new partner Phoenix alongside our existing partner, Bridges. This combination will allow us to fully capitalise on the opportunities in the rapidly growing low-cost gym sector. This investment further strengthens our balance sheet and covenant strength making us an even more attractive tenant for both our existing and prospective landlords.' — **John Treharne,** *CEO, The Gym Group (June 2013)*

I often refer to the UK low-cost gym sector as 'new' and 'emerging', but FitSpace opened the country's first authentic low-cost gym back in 2006, so the sector is now more than seven years old. Perhaps I should now say 'established' as it is an influential and permanent part of the industry.

12. A secondary buyout is where both the buyer and the seller are either private equity firms or another type of institutional financial sponsor

A REVIEW OF

2013

BUSINESS GROWTH FUND SAYS YES

When most of us were spending the summer packing our Speedos and bikinis ready for some sun, Xercise4Less, the low-cost gym operator in the North West of England, was announcing a £5 million investment from the Business Growth Fund PLC (BGF). BGF was founded by five banks[13] in 2011 and has up to £2.5 billion of its own funds to invest in small and medium-sized companies. Jon Wright, founder and CEO of Xercise4Less, described this deal to me as one of the company's major achievements in 2013, along with their success at the National Fitness Awards.[14] Xercise4Less had approximately 80,000 members at nine gyms at the time of the deal, averaging 8,888 members per gym. A few months later, they strengthened their management team with the appointment of Peter Boddy, former Managing Director of Fitness First UK.

'Xercise4Less is an exciting brand with a very simple but attractive consumer offering… We have no doubt that they will be capable of growing and managing the business on a much larger scale.' — **Richard Taylor,** *Business Growth Fund (August 2013)*

This company is pursuing very large format gyms of up to 40,000 square feet (3,716 square metres) that can accommodate 400 pieces of equipment.[15] So as well as packing your gym kit, you will need a map. This is an interesting example of a business whose first strategy as a 'mid-market' gym did not really work. The business began generating real momentum after pivoting to the low-cost model in 2009.

A few weeks before announcing the BGF deal, Xercise4Less confirmed an interesting deal with Tesco to embed a gym inside a Tesco Extra store in Stockton-on-Tees, County Durham. This 32,000 square feet (2,972 square metres) gym is now open with contract-free peak-time memberships costing £19.99 per month. Xercise4Less has agreed terms on three further Tesco Extra stores. Presently, there are 238 Tesco Extra stores around the UK, so this represents an abundant supply of potential sites. I should add that this is not an exclusive deal, but Xercise4Less is seen as the preferred partner.

'As part of our plans to make our Stockton store an even better retail destination for our customers we are delighted to partner Xercise4Less in this exciting new venture. Our store will continue to offer everything our customers need for their weekly shop with the added benefit of a gym to help our customers lead a healthy lifestyle.' — **Doug Wilson,** *Tesco Corporate Affairs Manager (July 2013)*

13. Barclays, HSBC, Lloyds Banking Group, RBS and Standard Chartered
14. See Nationalfitnessawards.co.uk
15. I used to believe a 28,000 square feet (2,601 square metres) low-cost gym was large

A REVIEW OF

2013

DAVID LLOYD LEISURE MOVES TO NEW OWNER

At the end of the summer came news that David Lloyd Leisure (DLL) had been acquired by TDR Capital, a private equity firm whose other previous well known investments included Pizza Express, which it exited in 2007. At the time of the deal, DLL was operating 80 UK and 10 European clubs,[16] with a membership of approximately 440,000, averaging 4,888 members per club. No financial terms were disclosed but Google thinks the price was around £750 million, the equivalent of £8.3 million for every club. So, what is the next strategic move for DLL in the UK? I return to this question later.

'We look forward to investing capital in order to further improve the member experience and to attract new members. We believe that David Lloyd Leisure will be a great first investment for our latest fund, drawing as it does on our experience of growing first-class leisure businesses in the UK for the benefit of members, staff and investors.' — ***Manjit Dale,*** *Founder, TDR (September 2013)*

LEISURE-IMPACT BOND

The other significant funding story in 2013 was Triodos Bank collaborating with GLL to raise £5 million through the issue of a new five-year bond. The bond will be paying 5% gross fixed interest per year. The funds will be used to make two London 2012 Olympic venues available to the public including the iconic Aquatics Centre designed by Zaha Hadid. So far, more than 300 individual and institutional investors have committed £2.5 million to the bond offer, which closed on 20 December 2013. GLL's 6,000 employees were eligible to participate in the bond with a minimum investment of £200 (£2,000 for others).

'We are proud to be working with a market leader like GLL who demonstrate how sports and leisure facilities can benefit the whole community. An investment in the GLL Bond promises to deliver a decent financial return and positive social impact.' — ***Dan Hird,*** *Head of Corporate Finance at Triodos Bank (September 2013)*

GLL is the UK's largest leisure-focused charitable social enterprise, operating more than 120 sports and recreation centres across London and the South East of England. Triodos is an ethically driven bank focusing on projects that create positive social, environmental and cultural change. If successful, these 'leisure-impact bonds' could become an innovative mechanism for health and fitness operators to regenerate facilities with direct financial support from the communities they are looking to serve.[17]

16. Clubs in Belgium, Holland, Republic of Ireland and Spain
17. To provide some context, £5 million is broadly equivalent to GLL's projected net surplus for 2014 (Source: GLL/Triodos Investment Memorandum, 2013)

TIMELINE 2013

JAN FEB MAR APR MAY JUN JUL AUG SEPT OCT NOV DEC

FEB

OPEN

DAVID LLOYD LEISURE opens its second DL Studio, a small group training concept for the high street

MAR

OFFICE OF FAIR TRADING reach agreement with **BANNATYNE HEALTH & FITNESS**, **DAVID LLOYD LEISURE** & **FITNESS FIRST** to change their contract terms to make them more transparent and give their members better cancellation rights

FITNESS FIRST announces £20m investment to update its UK clubs

MAY

DAVID LLOYD LEISURE secure exclusive rights to the fast-growing American Orangetheory Fitness group training concept

CCMP CAPITAL ADVISORS completes secondary buyout of **PURE GYM.** Announces £50m to fund further expansion

JUN

PHOENIX EQUITY PARTNERS complete secondary buyout of **THE GYM GROUP** providing £50m to fund further expansion

AUG

BUSINESS GROWTH FUND invest in **XERCISE4LESS** for £5m

THE GYM GROUP selected to represent UK in the 2014 European Business Awards

SEPT

TDR CAPITAL ACQUIRES DAVID LLOYD LEISURE.

DEAL VALUE CIRCA **£750m**

EQUIVALENT TO CIRCA **£8.3m/club**

OFFICE OF FAIR TRADING reach agreement with **LA FITNESS/ DAVE WHELAN SPORTS, HARLANDS GROUP** to change their contract terms to make them more transparent and give their members better cancellation rights

BANNATYNE HEALTH & FITNESS reduce monthly fees from £42 to £29 at selected clubs

TRIODOS BANK teams up with **GLL** to raise £5 million through new five-year bond. The funds will be used to develop an Olympics legacy

OCT

LAX

LA FITNESS launch new premium LAX club in London. **SEE LAX.CO.UK**

DEC

PURE GYM & THE GYM GROUP

★ RANKED ★ **23 & 25**

IN THE SUNDAY TIMES VIRGIN FAST TRACK 100

2014 OUTLOOK

When discussing the year ahead with Rob Gregory, Managing Director of Lifetime Health, he reminded me that we often have a tendency to over-estimate the rate of short-term change. We can often envision a different future (think paperless office), but delivering it is entirely different. Perhaps this explains why I am often left a little underwhelmed by how an industry looks on the first day of the year compared to the last. So, keeping this firmly in mind, what seems plausible for the year ahead?

2014

OUTLOOK

THE CHANGING STRUCTURE OF THE INDUSTRY

The overall structure of the industry will continue to evolve. Back in 2010, FitSpace was the only low-cost gym operator listed in the UK's top 30 private brands. At the end of 2014, I estimate there will be eight 'focused'[18] private low-cost operators.

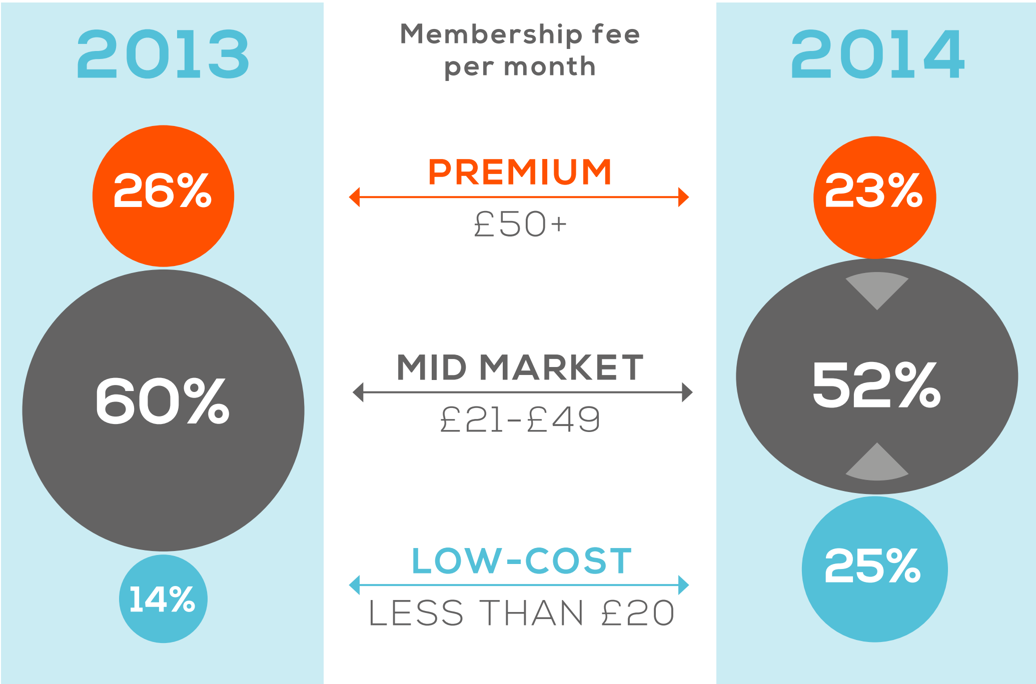


FIGURE 2: Analysis of UK top 30 private club operators – market share by clubs (2013 v 2014 estimate)

A brand has historically needed nine clubs to secure a place in the top 30. This means that come the end of 2014, low-cost brands such as Xercise4Less, easyGym and Simply Gym will feature for the first time.

The mid-market continues to be squeezed, but there are still 18 of the top 30 brands who operate in this segment. Some of these operators such as Fitness First and LA Fitness will become increasingly difficult to classify as they test operating low-cost, mid-market and premium-priced clubs. Fitness First, for example, now classifies its 77 UK clubs according to six tiers. Currently, it costs £70 per month to join its Baker Street, London (tier 1) club on a 12-month contract versus £15 per month, with no contract, at the York club (tier 6).[19]

Other brands such as Anytime Fitness, the fast-growing American franchise, are basing their entire strategy on a mid-market proposition. With more that 2,300 clubs globally, 2014 should see them build on the 20 UK clubs they now have open.[20] These small clubs of around 3,229 square feet (300 square metres) operate 24-hours and are designed to be embedded deep into the heart of a small community. Currently, I can join their Crawley, West Sussex club for £33 per month, with a 12-month contract. There should be at least 35 Anytime Fitness clubs open in the UK by the end of 2014.

18. 'Focused' means where the company is pursuing a low-cost strategy as opposed to a mid-market operator reducing prices at some of its clubs
19. Prices at January 2014
20. Correct at January 2014

2014

OUTLOOK

GROWING REACH OF LOW-COST GYMS

I have already reported that low-cost operators such as Pure Gym, The Gym Group and Xercise4Less secured significant new funding during 2013, so in 2014 they will be using it to extend their portfolios. Building a greater geographic reach is the next strategic move for all of them. Xercise4Less, for example, will be moving out of the North West of England to open clubs in the South West of England and Wales. Pure Gym and The Gym Group are each planning on opening an average of two gyms every month during 2014, so mediocre operators peddling poor value need to up their game or get out of the way – permanently. The Gym Group is also launching a weight management programme for members during 2014, so the idea of low-cost being a simple self-service concept gym concept is evolving.

If pricing has been a genuine barrier preventing more people from becoming more physically active, then the widening reach of low-cost gyms is a good news story for the entire industry. With the public sector providing comparable fitness facilities for £28 per month,[21] affordable indoor fitness is a growing reality for more people. This means the industry should continue shedding the perception that it serves a narrow social stratum. This is vital if the industry is to be perceived as integral to government's ambition to create a more physically active nation. However, affordable fitness is only part of the equation; 'effective', results-centric fitness is the next. As Dave Stalker, CEO of ukactive said to me via email: ***'Having genuinely evidence based interventions that can support totally inactive people to get moving will be a necessity.'***

'We have LA Fitness clubs today charging less than they did 10 years ago. The consumer perception now is that £50 a month is a lot of money for membership.' — ***Martin Long,*** *CEO, LA Fitness (January 2014)*[22]

TESTING AND VALIDATION OF NEW CONCEPTS

David Lloyd Leisure has now opened three 'DL Studios', its new personal training and group exercise 'micro club' for the high street. These 1,500 square feet (139 square metre) studios have been in 'evaluation mode' for more than 15 months, so we can expect an announcement around March about their future. Scott Lloyd, the David Lloyd CEO, wanted at least six months following the opening of the third London studio before making a decision about their future. With a fit-out cost of around £200,000, Lloyd believes they could open at least 20 each year, so a significant high street presence for David Lloyd Leisure is a real possibility. That's if the pilot sites deliver exciting results for customers.

During the year, LA Fitness will be reviewing its new premium LAX brand, but at £2.5 million per club, it may decide to follow David Lloyd Leisure down the small studio rather than beautiful club route. Of course, what it needs to first prove is that the new brand does more than simply deliver a great visual experience; as always, content and compelling member experience is what really matters.

21. £27.67 per month was the average cost for a public sector fitness membership according to the 2013 State of the UK Fitness Industry, The Leisure Database Company
22. Interview with Health Club Management, January 2014

2014

OUTLOOK

DEDICATED INDOOR CYCLING STUDIOS

Indoor cycling studios have been on the rise since Julie Rice and Elizabeth Cutler founded SoulCycle in New York City back in 2006. In a city where you can join a Planet Fitness gym for £6 per month ($10), SoulCycle was offering a single 45-minute indoor cycle class for £20 ($34). Great ideas inevitably spread and so similar concepts such as BOOMCYCLE have since opened in London.

Colin Waggett, the former CEO of Fitness First, is entering the indoor cycle studio segment in London during the first quarter of 2014 with the launch of 'Psycle'.[23] Taking inspiration from SoulCycle, Waggett told Health Club Management that ***'Psycle will feel nothing like a gym, or your typical indoor cycling class'.***[24]

I think what consumers really like about these concepts are that they are highly focused and 'purposeful'. The individual also drives the purchase, being able to book online on a pay-as-you-go basis. So you hop on and off, with the experience driven by lifestyle rather than the terms and conditions of an inflexible contract.

These new focused studios are great examples of 'salami-slicing' concepts, which I touch on later.

NEW OPPORTUNITIES FOR THE PUBLIC SECTOR

This should be a growth year for the UK's leading leisure trusts and leisure management operators such as GLL, DC Leisure and Parkwood Leisure, as cash-strapped councils seek ways to keep leisure centres open at lower cost to the local taxpayer. Steve Philpott, Chief Executive of DC Leisure, which has now converted from a private leisure management operator to a social enterprise,[25] told me via email that 2014 is going to be the year they aggressively bid for new long-term contracts to operate local authority-owned leisure centres.

'We have expanded our Business Development capability to meet the increasing flow of new tenders from Local Authorities as they have realised the only way to save money and retain quality in this austere government spending environment is to outsource to companies like us.' – **Steve Philpott,** *Chief Executive of DC Leisure (January 2014)*

23. See Psyclelondon.com
24. Read the interview here – http://bit.ly/Waggett-Psycle
25. Following the 2012 acquisition of DC Leisure by Places for People, the property group

2014

OUTLOOK

CLUB AS THE HUB

Many readers would have heard that The John Lewis Partnership, which operates 40 department stores across the United Kingdom, has just posted record results for its in-store and online business for the five weeks to 28 December 2013.[26] JohnLewis.com accounted for 32% of all business during this period. What struck me about this 150-year-old business was that it seems to have figured out how to integrate an online shopping experience with its traditional bricks and mortar stores. Rather than retreat from the high street, this retailer plans on opening another 25 stores, while it expects half of its future income to come via its website. This multi-channel shopping experience seems to contrast strongly with current thinking about how the health club experience is 'consumed'.

'Our shops and our online channel, bricks and clicks, came together and it's a story of the two being hand in glove and that giving the customer what they really wanted and then we got the pricing right on top of that.' — ***Andy Street,*** *Managing Director, John Lewis Partnership (January 2014)*

So, is 2014 the year the club becomes the 'hub' rather than the ultimate destination? An example of this is the Nuffield HealthScore,[27] launched at the beginning of 2013, which is an 'anytime, anywhere' digital combination of a wearable device and smartphone app. This then creates a dynamically updated score from 1 to 1,000 (if you are scoring a 1 make sure your phone is on to take a call from the club).

Many 'steady' members visit their club twice per week, so these innovations are an effective way to start making a deeper, more frequent and meaningful contribution in people's lives.

'It's about merging digital with the brick and mortar store. The [gym] chain that can bridge the gap between a physical location and life, they'll win.' — ***Chuck Runyon,*** *CEO, Anytime Fitness, Forbes (August 2013)*

'During 2014, we will be working hard to increase the use of technology for Supporters (customers) not just in-venue but out-of-venue too.' — ***John Oxley,*** *Managing Director, Active Nation (January 2014)*

26. See trading statement – http://bit.ly/JLP-Xmas
27. See – http://bit.ly/Nuffield-HS

2014
OUTLOOK

ARE CLUBS REALLY PAYING ATTENTION?

Health and fitness clubs have a tendency to fixate on what other clubs are doing. It is a natural tendency in business to be primarily concerned by others who operate in the market boundaries that have historically been drawn. They are paying attention, but not always on the right things. So clubs who believe they are solely competing against other clubs are unlikely to prosper. With this myopic mindset there is a real threat of being substituted or 'side swiped' by an alternative fitness solution provider.[28] They may limp through 2014, but their longer-term outlook is not good.

I used to believe that health clubs had a monopoly on instructor-led exercising programming and advice, but the web and technology innovation has ended that. So now we have more informed and discerning customers seeking out richer and more 'authentic' exercise experiences. For example, a low-cost gym is authentic because members clearly understand they are buying into a self-service experience. What this means for the industry is not necessarily a race to ever lower prices, but more a race to discover and deliver fitness experiences that people love, because this takes care of engagement, results, retention and reputation.

LOOK OUT IN 2014 FOR...

- *Virgin Active investing a further £50 million across its 113 UK clubs during the year in readiness for a potential future flotation*
- *National TV campaign during the first quarter from PayasUgym, the company that sells online passes to a network of 1,600 gyms*
- *Smaller leisure trusts merging to compete with larger rivals*
- *Independent clubs 're-inventing' themselves so that the public understand what they stand for and what they excel at*
- *New overseas operators once again looking at opportunities as the UK economy continues to recover*
- *Mid-market clubs returning to a genuine 'service-included' operating philosophy in a robust long-term response to the low-cost rivals*

28. Think outdoor fitness operators, personal training studios, TV fitness channels, online fitness streaming etc

2014

OUTLOOK

BEWARE THE MARCH OF THE SALAMI-SLICERS

The idea of the traditional health and fitness club being slowly 'salami-sliced' by nimble and highly focused operators was very powerful when Frank Napolitano, CEO of HealthFit, sketched the image on a blackboard during a conference we were speaking at in Barcelona. The simple idea was to take a traditional operator who provides a broad range of services under one roof. Then along comes a new specialist operator with a concept that focuses solely on group exercise; –slice– 200 members walk out of their existing club because all along, what they really wanted was just a great group exercise experience. Next, a low-cost gym comes along and –slice–, another 400 members leave because all they wanted was a simple 'machine-only' experience. Slice after slice until what is left is simply not viable.

'Operators need to understand what differentiates their business from the competition and then become exceptionally good at it. This means really understanding customers coupled with constant innovation. At the same time operators must appreciate where they fit in a consumer (not a club) centric model and how they work with other solutions. A strong technology base is also now a pre-requisite for success.' — **Rob Gregory,** *Managing Director, of Lifetime Health (January 2014)*

So what to do about the salami-slicers? Well, dropping prices is one move, but often feels rather reactive and lazy – easy to do and nearly impossible to reverse. Instead, I hope that 2014, the year in which the web becomes 25 years old, is the year when large parts of the industry and especially the independent clubs begin to reconfigure their future. Change is hard, really hard, but running an irrelevant business is no fun at all.

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ABOUT THE AUTHOR

I am the Managing Director of Oxygen Consulting, a UK-based company that provides compelling strategic business insight for organisations connected to the global health and fitness industry. Until recently, I was also the Chairman of Wave Leisure Trust, a social enterprise operating eight leisure centres in the South East of England.[29] I was involved for more than six years and experienced its transition from a start-up to a highly influential leisure organisation making a significant social impact on the communities it served.

Previous industry reports that I have published include:

- 2012 UK Low-cost Gym Sector Report
- 2011 Global Low-cost Gym Sector Report
- 2011 European Health Club Industry Web and Social Media report
- 2010 UK Low-cost Gym Sector Report

Presently, I am completing a new report called the 'Fitness Sector Social Good Report'. The report investigates the wider societal impact that the industry can play, beyond simply looking after its immediate customers.

In July 2013, I launched **Gymtopia,**[30] a digital platform that shares stories and insights about how the global health and fitness industry is creating positive social impact. Please take a look, and be inspired.

When not writing, I spread my time between strategic consulting assignments and conference presentations in the United States, Latin America and Europe. The topics tend to span strategic marketing, technology, research, health and web-based themes.

'Thought-provoking', 'challenging' and 'forward-looking' are typical comments I receive. If it does not stimulate a reaction, what's the point?

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

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BACK TO CONTENTS