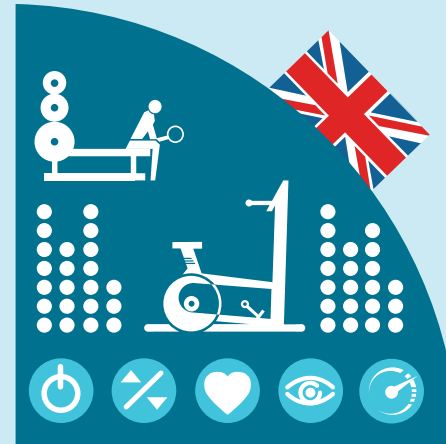


2012

UK Low-cost
Gym Sector
Report



A Strategic Investigation into a Disruptive New Segment



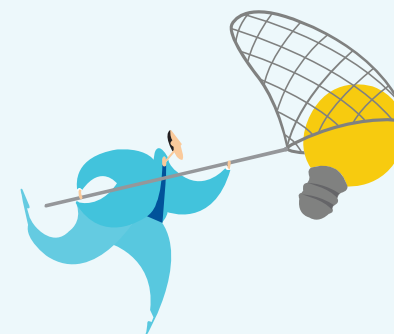
Researched and written by Ray Algar, Managing Director, Oxygen Consulting, UK

**Ray Algar** MBA

Managing Director
Oxygen Consulting



I am 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. My entire career has been connected in some way to the health and fitness industry. I will probably still be connected to it when I am eventually called to undertake a 'higher' project.



Until very recently, I was the Chairman of Wave Leisure Trust, an organisation that operates eight leisure centres in the South East of England. 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.

Several years ago I had an epiphany. I am not Isaac Newton, so it was a tiny epiphany, a sudden recognition that I should combine my passion for research with writing. You are now reading the result. This is now the fourth report in the series which runs as follows:

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

I love writing, which explains why these reports are so long! Thankfully, these are digital reports so mercifully no trees have been sacrificed. I also love the web and launched one of Europe's first leisure-related blogs in 2005.

Since then, the new 'social web' has emerged, giving all consumers an influential online voice. Recently, I decided that the health and fitness industry needed to capture the voice of gym consumers more effectively, which led to the development of LoveTheGym.com, a website that enables consumers to review, rate and recommend health clubs. LoveTheGym is at an early stage but expresses the fact that I want to focus on projects that can genuinely make a difference. '[Start something that matters](#)', the book by Blake McCoskie of TOMS shoes, comes to mind.

**Ray Algar** MBA

Managing Director
Oxygen Consulting



I have three University degrees, which is actually quite a lot by UK standards. I have 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. Why three? Well, I love learning and it should also reassure you that I take real care when I write, especially when I am trying to convince readers to take some action. 'Insight with action' is how I sum this up.

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

Platinum associate



V

Harlands aim to remain a market leader in providing efficient and flexible Direct Debit administration and management. We treat every client equally, regardless of size, and strive to provide a first-class service at a low-cost price. Never has it been so affordable and accessible to make a life change through regular exercise. We have not only embraced this change, but facilitated and driven it through our policy of paperless innovation and at a price that all businesses can take advantage of. We welcome our responsibility to keep on innovating, to the benefit of all our clients, large or small.

www.harlandsgroup.co.uk

V

MATRIX

V

Matrix Fitness, part of Johnson Health Tech, the world's fastest-growing fitness equipment manufacturer, provides premium-quality products to commercial operators, backed by the highest level of customer service. Driven by the desire to create the best customer experience possible, we listen to operators and our service technicians. We watch your customers work out and then, with painstaking attention to detail, we combine the best functionality, technology and aesthetics to address real market issues. Products such as the Matrix ClimbMill and the new generation Matrix Ascent and Elliptical Cross-Trainers demonstrate why Matrix is at the forefront of innovation.

uk.matrixfitness.com

V



V

Caburn Hope drives businesses to INSPIRE their audiences with thought-provoking marketing, ENGAGE them with the benefits of their product or service, ENTICE them to buy and DELIVER maximum profit. All the benefits of an in-house marketing department without the overheads: a team of professionals brimming with ideas, who understand what drives businesses to make an impact and succeed. The projects we complete, results we deliver, and feedback from long-standing clients speak for themselves: 'This is not the first time I have used Caburn Hope to help launch a business: truly creative thinking, striking brand work, and above all, measurable results.' John Treharne CEO, The Gym Group.

caburnhope.co.uk

V



V

Closewall Ltd is a specialist design and build contractor to the leisure, health and fitness sector specialising in new construction, alteration and refurbishment projects. A comprehensive turnkey service can be provided where necessary, from architectural design cost planning and programming through to the successful completion of the entire project. Our maintenance service then ensures your building is always fit for purpose. Projects are always completed in a timely and cost-effective manner because our team is highly organised, efficient and motivated. The bottom line is that you can always depend on us to deliver your next project.

closewall.co.uk

V



V

At Jay City Finance we provide our clients with a complete corporate finance solution to their purchasing requirements and do so in the knowledge that finance of varying types represents a highly effective way to grow their business.

One of the fastest growing sectors of our business is the provision of finance for the UK Health and Fitness Industry. In the past year alone we have successfully raised in excess of £7 million of gym-related equipment for our clients.

Our ability to give advice and efficiently provide you with proposals, combined with our extremely strong portfolio of funding lines, makes Jay City Finance a business worth taking seriously.

jct-finance.com

V



V

Matrix Consult is a project management and cost consultancy for the construction sector with extensive experience in leisure, health and fitness. Established in 2003, we offer a range of project management, cost consultancy and bank monitoring services, which ensure that projects are built on time, on budget and stress-free.

We customise our services, either dovetailing with an existing team to add bolt-on services, or leading the entire development process. Our highly-trained professionals are on hand to advise and support with all aspects of the construction process, from appointing the design team to facilitating a maintenance strategy for your completed project.

matrix-consult.co.uk

V



V

Nomical Networks works in partnership with their clients to deliver innovative solutions through the application of technology. Our team of IT certified professionals offer a diverse and distinctive range of expertise, providing access to the most up-to-date technologies within the IT industry. An all-encompassing approach underpinned by service excellence ensures we understand the requirements of our clients. Specialising in software development and new technology platforms, we build the foundations required to increase and maintain business capability. We have excellent relationships with all our clients including those within the health and fitness industry. Constantly delivering cost-effective solutions, we pride ourselves on our exceptional reputation and ability to succeed in meeting expectations for the benefit of our clients.

nomical.com

V



V

Vistec Systems, the UK's leading independent security systems specialist, offer cutting-edge security to businesses, including the fitness industry. Every client, large or small, is given the same dedicated service — independent advice tailored specifically to their requirement; on time and on budget. Committed service from planning, design and installation to after-sales care means enviable customer loyalty. Highly regarded engineering teams offer advanced solutions to each installation, delivered with outstanding service. Installations include a nationwide contract with The Gym Group, offering state-of-the-art security. Their 24-hour membership access control solution, with unique 'Portal and PIN' entry, ensures a safe environment, in line with The Gym Group's ethos and operational strategy.

vistecsystems.co.uk

V



Click to read: all page numbers, arrows, links to contents page and web links throughout this report are interactive.



02 Chapter 1

— About the Author

09 Welcome to the 2012 UK Low-cost Gym Sector Report

10 Acknowledgements

12 Chapter 2

— Introduction

18 Chapter 3

— Interviews with Low-cost Gym Leaders

19 Interview with Matthew Harris, CEO, Fitness4less

21 Interview with Peter Roberts, Deputy Chairman, Pure Gym

22 Interview with Declan Ryan, Managing Director, Active4Less

24 Interview with Jan Spaticchia, CEO, énergie Group

26 Interview with John Treharne, Chief Executive, The Gym Group

28 Chapter 4

— What UK Consumers Think about the Low-cost Gym Experience

42 Chapter 5

— Summary of Leading Private UK Low-cost Gym Brands

51 Chapter 6

— Growth Prospects for the UK Low-cost Gym Sector

70 Chapter 7

— Concluding Remarks

73 Chapter 8-9

— Further Reading and Discussion

— Appendix

— Research Methodology

74 Contact Details

An Oxygen Consulting publication

Researched and written by Ray Algar (MBA), Managing Director, Oxygen Consulting. 2012 UK low-cost gym sector report — A strategic investigation into a disruptive new segment.

First edition: October 2012

ISBN: 978-0-9553826-4-2

Price: USD: \$800 EUR: €620 GBP: £495

© Ray Algar, Oxygen Consulting 2012. All rights are reserved. Unless otherwise agreed in advance by Ray Algar, no part of this report may not be sold, passed on, communicated or disseminated in any form.





F

14	F1	Definition of a low-cost gym
15	F2	Market drivers for a UK low-cost gym
16	F3	Strategy canvas for a low-cost v mid-market health club
29	F4	Health orientation statements – current versus previous members
30	F5	Have you smoked cigarettes in the past 12 months?
30	F6	Health orientation – current versus previous members
31	F7	I visited other gyms before joining The Gym
31	F8	Main motivation for exercising at the gym
32	F9	Main motivation for exercising at The Gym – current and previous members - by gender
33	F10	Current members – Agreement with elements of the service proposition
34	F11	Current members – How long have you been a member of The Gym?
35	F12	Current members – How often have you worked out at The Gym over the past three months
36	F13	Current members attending three times weekly - by main motivation
36	F14	Previous members – How long were you a member of The Gym?
37	F15	Main reason for leaving
38	F16	Recommendation rate – current and previous members
40	F17	The Gym Group – net promoter scores
46	F18	Leading UK low-cost gym operators – Property and funding strategy
47	F19	Timeline showing year brand launched
48	F20	Most frequently used monthly membership price – all clubs
49	F21	Price range across the brand portfolio
50	F22	Nottingham – monthly membership price
57	F23	Competitive forces analysis
58	F24	Distribution of serviced accommodation in the UK, 2011 (%)
64	F25	% share of European weekly airline seats

T

29	T1	Survey response rates
32	T2	Main motivation for exercising at the gym
39	T3	Net promoter score
41	T4	Outside industry net promoter score comparisons
43	T5	Leading UK low-cost brands – number of clubs
47	T6	UK low-cost gym providers – leading players – marketing and product features
60	T7	UK grocery market share – at February 2012
64	T8	Growth of Ryanair – 2006 – 2011

Welcome to the 2012 Low-cost Gym Sector Report



Ray Algar MBA

Managing Director
Oxygen Consulting



Welcome to the 2012 UK Low-cost Gym Sector Report. This report represents a significant update on my 2010 UK report. The UK low-cost gym sector is gaining both momentum and considerable attention from a diverse section of stakeholders connected to the industry and so warrants a closer inspection.

Although 'UK' appears in the title, this report should be beneficial to any overseas reader seeking a deeper understanding of the low-cost gym phenomenon. I was delighted by the reaction from overseas readers to my last report and so have written with an international readership in mind.

As well as the report content itself, you will find many footnotes that link to external websites. These are all active hyperlinks that work so long as you have an Internet connection. If you do click on an external link, please remember to return to the report!

Report scope

This report's primary purpose is to assist the reader in understanding 'why' low-cost gyms are gaining popularity in the UK and provide a summary of the leading operators. Several of the UK's leading low-cost CEOs contributed interviews, which I hope readers will find informative. The report also contains a significant amount of consumer insight gathered from more than 14,500 completed online surveys. The report also seeks to be forward-looking and assesses how this segment is likely to develop over the next two years.

Neutral perspective

I wish to put on record that I always attempt to write with a 'neutral' perspective. Using 'net promoter' terminology, I am a 'passive'. My aim is to strategically examine and provide evidence about an emerging business model. I urge readers to do the same even if you're not a 'fan' of low-cost gyms.

Join the discussion

As always, I encourage readers to visit the Oxygen Consulting¹ website to participate in the lively discussions that take place following the publication of a new report.

1. Oxygen-Consulting.co.uk

Three years ago I had an idea about how I could research and publish informative strategic reports where the reader would not have to pay. 'Free-to-read' matters to me because I believe in 'information symmetry' and love the idea that industry insight can be liberated to flow freely and get into the hands of people that value it and act upon the contents.

This publishing model therefore only works if organisations with a commercial connection to the health and fitness industry step up and agree to financially support my reports. Therefore I wish to thank the following companies who ask nothing more than some recognition:

- Caburn Hope
- Close Wall
- Harlands Group
- Jay City Finance
- Matrix Consult
- Matrix Fitness Systems
- Nomical
- Vistec Security

Thank you to

HANS MUENCH

IHRSA² Europe Director.

HERMAN RUTGERS

Board Member at European Health & Fitness Association.

DAVE STALKER

Chief Executive at the Fitness Industry Association.

MELISSA RODRIGUEZ

Research Manager at IHRSA.

They are always very enthusiastic when I discuss new reports and generous in facilitating introductions and advising on report content.

2. International Health, Racquet & Sportsclub Association



Thank you to

NIELS GRONAU
Edelhelder GmbH

For confirming data on the German fitness market.

Thank you to

JOHN TREHARNE
CEO, The Gym Group

Who supported my request to survey current and previous members. John never asked what questions I was intending to ask or applied any constraints on the research. What I take from this is that the brand has a strong sense of belief and confidence in its service delivery.

Thank you to

NICK DELL
White Hat Media

Who along with Caburn Hope allowed me to effortlessly send survey requests to 150,000 current and previous members. My thanks also to [Megan Hurst](#) PhD researcher at the University of Sussex, who helped with data analysis and helping to draw out key insights from the member surveys.

Thank you to

ROB GREGORY
Co-founder of LoveTheGym.com

Who researched significant parts of Chapter 6 (Growth Prospects for the UK Low-cost Gym Sector). Rob is a constant contributor to my research and always ensures it is robust.

Thank you to

The following individuals for responding to interview requests:

MATTHEW HARRIS
CEO, Fitness4less

PETER ROBERTS
Deputy Chairman, Pure Gym

DECLAN RYAN
Managing Director, Active4Less

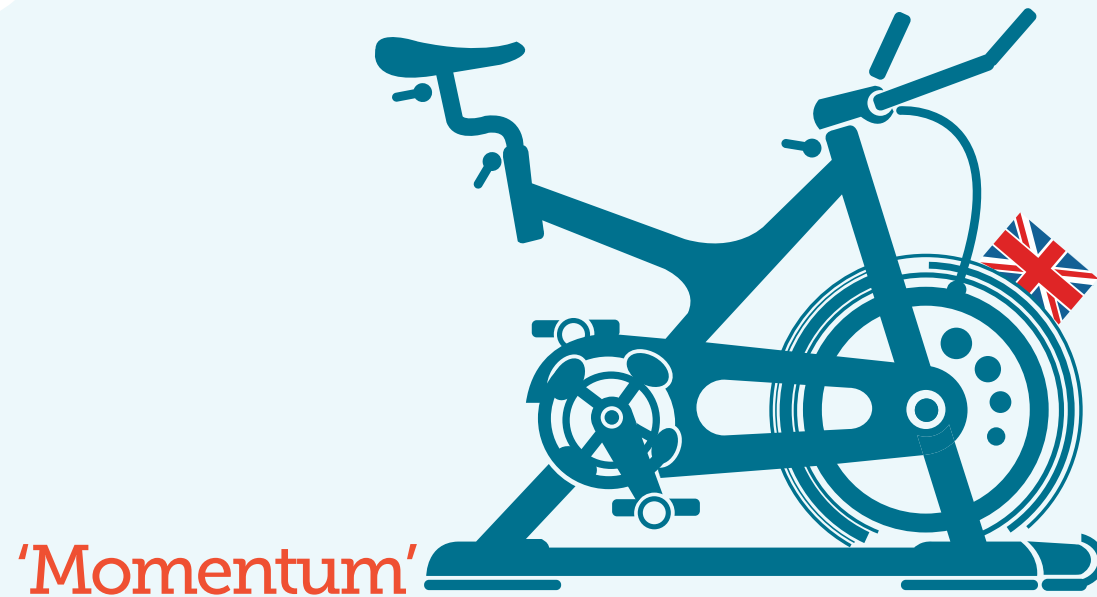
JAN SPATICCHIA
CEO, énergie Group

JOHN TREHARNE
Chief Executive, The Gym Group



02

Introduction



is a word I find myself frequently using to describe the state of the UK low-cost gym sector. This relatively new UK market segment is flourishing and generating a tangible sense of

(((Buzz))) and excitement



In 2006, when FitSpace opened the UK's first low-cost gym, it initially generated very little attention from inside or outside of the industry. Generally, this is how an established market likes things; business as usual with a tendency to ignore new entrants whose intention is to 'disrupt' the status quo. It is good to sometimes be a 'first mover', but being first also brings its challenges. There is no local market proof of concept and evidence that this new way of serving up fitness will be accepted. Kenny McAndrew, the FitSpace CEO, told me in 2010:



'The disadvantage was that no one believed me when I described the concept; investors were unsure it would work, or that there was a market. Also, there was a considerable amount of consumer education required, which surprised me'



This meant there was little public activity in the UK low-cost gyms sector during 2006/2007, but things changed in 2008 with the arrival of The Gym Group, and JJB Sports with its MiFit brand. There has been considerable activity since and so this updated report aims to bring the reader up to date with the sector's progress.

Definition of a low-cost gym

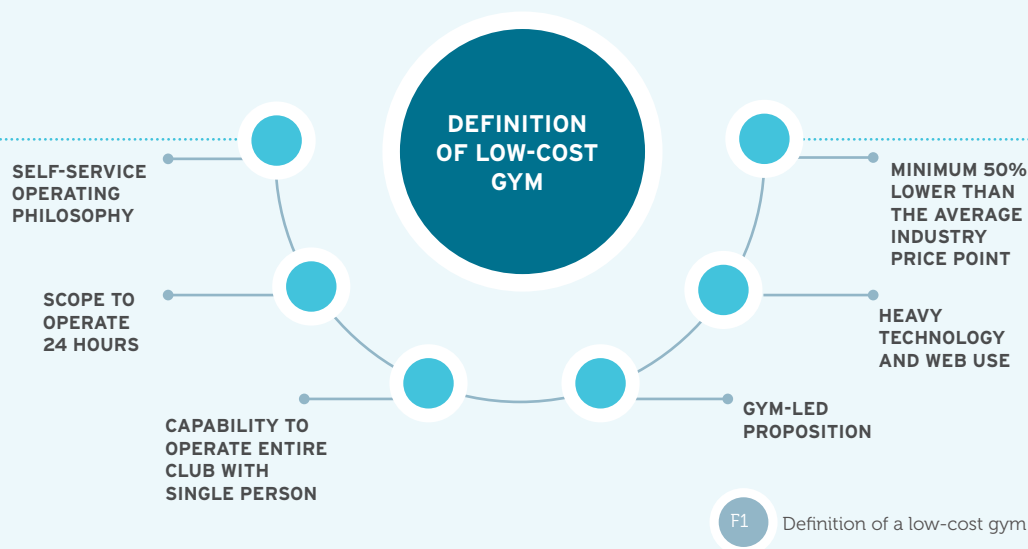
In my previous report,³ I proposed a definition for these emerging low-cost gyms because this helped to clarify the scope for the discussion. The 2010 report put forward the following five low-cost gym characteristics:

- Heavy technology and web use
- Gym-only proposition
- Ability to operate club with a single person
- Scope to operate 24 hours a day
- Minimum of 50% lower than average industry price

So, two years later, do these five characteristics remain relevant? They do, but I am finding more evidence that low-cost operators are deviating from this 'authentic' and 'narrow' operating model. There seems more variability now in how a company operates a multi-site business. Opening hours can vary by location, the facility offer differs and the idea of a single, consistent price regardless of the gym's location is eroding.

3. See 2010 UK Low-cost Gym Sector Report

Personally, I like the idea of a single, consistent price regardless of geographic location. Simplicity of concept is one of the drivers in this segment; dinner party conversations flow more smoothly when the member can quickly say it costs £15 per month rather than 'well it depends on where you live, what you want to use and the times you want to visit'. Single price propositions cut through the 'noise' that UK consumers have to deal with in their daily lives. However, I am receptive to the argument that property expenses will rise as companies move into primary, city centre locations. Later in this report, you will read that the majority of the UK's leading low-cost gym brands now have a pricing range that can vary by as much as £12 for a one-month membership,⁴ influenced by where the gym is located.



Revised definition of a low-cost gym — This is my revised 2012 definition:

It is the presence of these six characteristics that helps to create a new and exciting consumer proposition that fundamentally 'disrupts' the rules upon which the industry was first built. A self-service operating philosophy has been added to my definition because this characterises a fundamental departure from how 'legacy clubs'⁵ serve members. Low-cost gyms encourage members to 'serve

themselves' and provide the digital tools to enable this to happen. For example, need to know how busy the gym is likely to be on Wednesday at 7:00 pm? Log into the members area of the website to view usage hour by hour. This is just one simple example of how low-cost gyms encourage members to collaborate with them, creating what some members may feel is a more user-centred and empowering service experience.

4. Across gyms owned by the same brand

5. The established industry clubs

'Gym-only' has been revised to 'gym-led proposition' because it is misleading if a reader is left with the impression that a UK low-cost gym simply provides a well-equipped fitness room. Other facility variations or 'low-cost flavours' are often present such as a group exercise studio, changing rooms, vending area, and sometimes even sunbeds. However, it is the extensively equipped gym⁶ that is the core consumer attraction and 'engine room' for the business.

Some readers may challenge the staffing characteristic,⁷ but the emphasis is on the word 'capability'. This means that the entire club leverages technology and the web to automate the majority of processes that historically have required the intervention of staff. This combined with the narrower and simpler range of facilities creates the physical environment in which the club can operate with minimal staff intervention. These really can be very intelligent environments when management teams truly understand and fully embrace a low-cost operating philosophy.



F2 Market drivers for a UK low-cost gym

Key market drivers

The 2010 report proposed five key factors driving growth in the UK low-cost gym segment:

- Simplicity
- Affordability
- Sporadic attendance at traditional or 'legacy' clubs
- Consumer sentiment towards traditional clubs
- Inconspicuous consumption

To these, I add 'digital infrastructure', while inconspicuous consumption has been modified to 'Changing consumer'

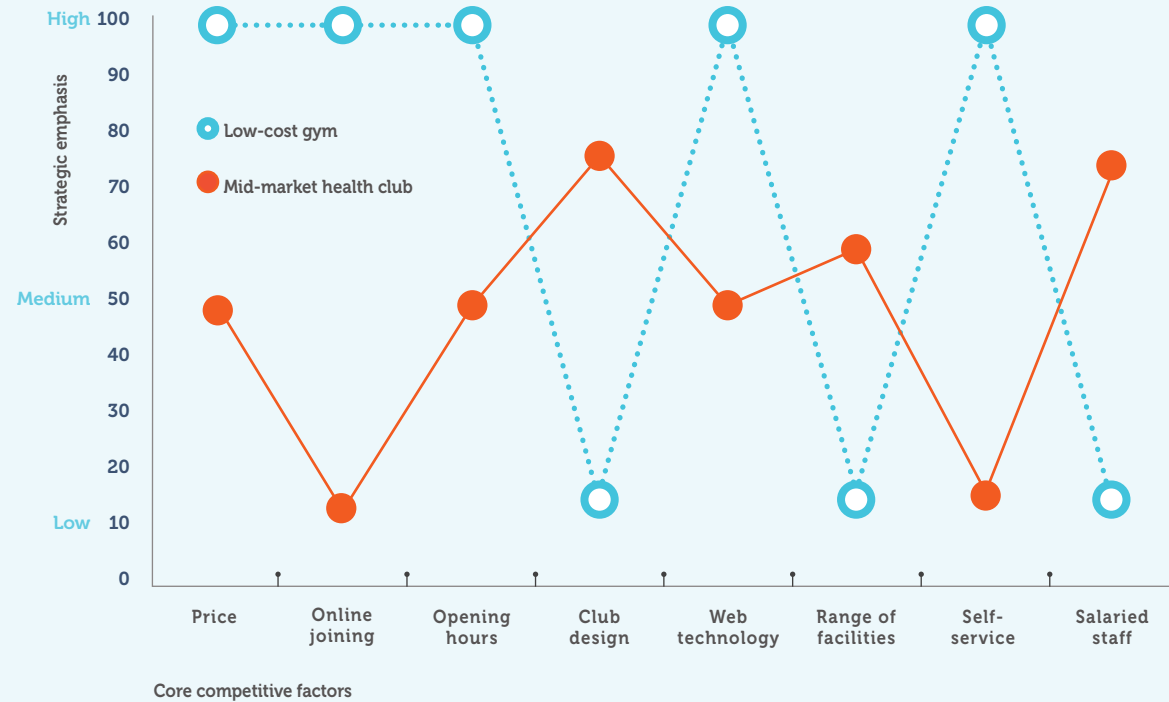
The six key drivers are illustrated in figure 2 above. See 2011 Global Low-cost Gym Sector Report⁸ for a detailed explanation of these six market drivers.

6. Some of the larger gyms have in excess of 220 exercise stations

7. Capability to operate club with a single person

8. oxygen-consulting.co.uk/think-tank

The following diagram illustrates how a low-cost gym changes the rules upon which health clubs have traditionally operated.



The figure shows eight core factors on which clubs traditionally compete. The orange line illustrates the 'mid-market' proposition and the emphasis placed on each of these eight factors. A higher score means the club invests more to provide extra to members. The strategic profile for a low-cost gym is very different. It chooses to eliminate what it views as 'non-core' facilities and invest less in building design and fit-out. It then increases use of the web and technology to create a prominent self-service environment.

The self-service environment, coupled to the intelligent use of technology and a simple gym-led product, means the club can operate with less staff. This drives the lower price that excites consumers and encourages on-, and offline, word-of-mouth recommendation.

F3

Strategy canvas for a low-cost
v mid-market health club



Attracting first-time gym users

Creating a fundamentally distinctive strategic profile results in consumers looking at a low-cost gym and saying to themselves; 'this looks very different to the view I had of gyms, I am going to give it a try'. The step from thinking to acting is also facilitated by the fact that several UK low-cost gym brands do not insist on members committing to minimum term membership contracts, making the joining decision easier. The result is that consumers new to health and fitness clubs are attracted for the first time, resulting in an increase in the market size.⁹

Dispelling some low-cost myths

When discussing the low-cost phenomenon at conferences I find myself reiterating the fact that consumers are not trading-off the quality of the gym experience to secure a lower price. Instead they are trading-off service elements they do not value which means they are purchasing a 'narrower' experience. The emphasis is on 'narrow' rather than 'inferior'. For the low-cost operator that really understands this, they will be ensuring that what remains benchmarks as well, if not better, than higher priced rivals.

This includes all elements of the brand manifestation including marketing materials, the website, the gym experience, digital communications and interactions with staff. Of course, you can probably find poorly executed low-cost businesses, but this is a failure of management rather than some fundamental weakness in the low-cost business model. Any person that attempts to discredit the low-cost sector either does not understand the business philosophy or has a vested interest in maintaining the industry status quo.

Will the low-cost gym sector last? This is another topical and frequently asked question. All I can say is that Planet Fitness has been operating a low-cost gym model in the United States for 20 years and McFit in Germany for 15. Collectively, they now have approximately 4.6 million members,¹⁰ so you decide if this looks like a sustainable (new) sector.

9. See the consumer research chapter for further details

10. At September 2012

03

Interviews with Low-cost Gym Leaders



19

Interview with
Matthew Harris,
CEO, Fitness4less



21

Interview with
Peter Roberts,
Deputy Chairman,
Pure Gym



22

Interview with
Declan Ryan,
Managing Director,
Active4Less



24

Interview with
Jan Spaticchia,
CEO, énergie Group



26

Interview with
John Treharne,
Chief Executive,
The Gym Group

**Matthew Harris**CEO
Fitness4less**RA**

You operates both low-cost and mid-market clubs with your Fitness4less and Top Notch brands. How challenging is it for you to simultaneously drive these two very different businesses?

MH

Operating two individual businesses in separate sectors is challenging, and we have found that we need to clearly focus on each one in turn as they are very different business models. Until very recently we had two different management teams, which has ensured that this has happened. Recently, as we have fine-tuned our low-cost model, we have begun pooling ideas and expertise some more. We have found it beneficial to cross-fertilise ideas, which helps both sides.

RA

How do you develop a friendly brand personality in what is fundamentally a self-service proposition?

MH

Although there are self-service elements to the Fitness4Less brand, one factor we are committed to is a friendly face on arrival and departure, someone to solve membership queries and advise on access and

online joining. In developing our brand image, we have specifically steered away from using the typical gym-based images in our advertising and website, which has been well received by our customers. Our objective is to deliver a fresh, fun and 'no-fuss' experience.

RA

Have you been surprised by how enthusiastically members embrace emergent technologies such as biometric access control, and what does this tell you about the future design of gyms?

MH

There is a large element of our membership base which is delighted with our use of new technology, and they see the sense and benefit in it. We foresee technology continuing to be dominant in our business, helping us to automate further, reduce costs and enhance the customer's experience and offer members more control.

RA

Fitness4less focuses on secondary locations when choosing gym sites. How do you define 'secondary' and why is this a core part of your strategy?



Matthew Harris

CEO
Fitness4less**MH**

Our location is driven by the property deal, i.e. rent and service charges. We consider all types of locations as long as the city or town meets our requirements. Currently we have clubs in major shopping centres and out-of-town centres. Some in small regional towns, others in major city centres.

RA

How are you growing Fitness4less?

MH

We have developed a successful model and because of this we have a lot of enquiries about franchising, and therefore have a fast developing franchise business. Going forward, we will be operating a mix of company-owned and franchise sites.

RA

How do you see Fitness4less developing new revenue streams in the future to reduce some of the reliance on membership subscription income?

MH

Strategically we are exploring ideas for the development of new revenue streams, primarily utilising our online audience. It is important for us not to deviate from the mainstay of our business, as we are passionate about its simplicity. However, provided that we carefully research before launching new developments, we are excited about some of the prospects ahead.

ABOUT FITNESS4LESS

Fitness4Less opened its first low-cost gym in Bristol (South West England) in 2009. Membership costs £14.99 per month, based on its most frequently quoted price across its portfolio. The clubs also provide group exercise classes that are free to members, which are all booked through the members' area of the website. Some clubs provide UV tanning for members and the general public. Franchises are available for a total investment of up to £450,000 with at least £65,000 of cash funds.

Further information: fitness4less.co.uk



Peter Roberts
Deputy Chairman
Pure Gym



RA

How do you assess the attractiveness of a potential gym location and does the affluence of an area matter any longer with memberships from £10 per month?

PR

We look for attractive strong socio-demographics, good accessibility and visibility within an active, unthreatening environment. Affluence is not a key criterion yet!

RA

Why does Pure Gym focus on converting building shells rather than acquiring existing gyms?

PR

We can easily tailor the layout to our exacting requirements. Importantly, it also means we do not take on the 'baggage' of failed gyms.

RA

Why would a consumer join Pure Gym and not an alternative low-cost gym at a similar price point?

PR

I think because of the quality of our product. Our gyms typically provide up to 230 pieces of gym equipment and a mix of around 80 weekly classes. The fact that we focus on the needs of our members and ensure very high standards in areas such as cleanliness, maintenance and service.

RA

What is the biggest threat facing the growth of your business and why?

PR

External economic events, which affect the confidence and financial strength of our landlords and potentially even our members.

RA

To what extent do you envisage the re-structuring of Fitness First and its company voluntary arrangement affecting landlord sentiment towards the fitness sector?

PR

I believe it will make them realise the importance of a strong covenant¹¹ of potential tenants particularly in respect of gearing levels. However, our experience with landlords is they do now understand the strength of the low-cost model.

RA

How many gyms do you expect to have open and trading by December 2013?

PR

We should have 65 gyms open.

ABOUT PURE GYM

Pure Gym launched in 2009 and operates 24-hour gyms with members paying monthly, with no contract commitment. Membership costs £17.99 per month, based on its most frequently quoted price across its portfolio. Gyms typically comprise 220 exercise stations and also offer up to 80 group exercise classes each week. They have an experienced senior management team and recently appointed Tony Harris as the new CEO.

Further information: puregym.com

11. Covenant is the financial worth of a tenant or potential tenant — a landlord's assessment of a tenant's ability to pay the property rent



Declan Ryan

Managing Director
Active4Less

RA

Why did you decide to reposition your mid-market club to low-cost?

DR

In 2006, we had been running our Stevenage club for seven years with varying degrees of success. However, a combination of factors significantly reduced our financial performance and we were forced to review the operation of the club. Following a series of sales promotions over previous years, we had gained many new members, but the cost to acquire these members was high and the yield per member, very low.

I was aware of the growth of the low-cost gym movement abroad and in other sectors and our own financial position required us to urgently address our business model. I was convinced the low-cost sector was right for our locality, however, the challenge was to convert to this operation with no cash reserves and an old converted squash club that was not ideally suited to this model.

RA

Please describe the changes in your membership profile when your first club converted to low-cost?

DR

In truth, I think there has been little change to our membership profile. We made a conscious decision to introduce a junior membership for 13–16 year olds and this has undoubtedly led to a younger membership

profile. The reduced cost and no-contract offer have enabled more teenagers and people in their twenties to join. However, we still have a broad spread of ages, broadly split between male and female and of all socio-economic sectors.

I think the fact that we have consciously developed a varied and extensive group exercise programme has helped us attract and retain female members. For a low-cost club, we buck the trend with a weekly programme of over 70 classes.

RA

Why are independent clubs deciding to license the Active4Less brand and systems?

DR

After five years of operating our Stevenage Club as low-cost, we have learnt from the many possible mistakes and refined our processes to support the low-cost model. We also now have a proven track record for helping club owners convert an existing club to low-cost with little financial impact on their existing cash flow. It also helps that our licensing costs and terms are very low and flexible.

Being part of a group also provides the clubs with a strong support network, group buying power, proven operational systems and marketing campaigns. They are now more profitable and happier running their clubs. All this also helps to create more confidence which consumers can sense when considering a gym.



Declan Ryan

Managing Director
Active4Less

RA

What underlying issues are you discovering with clubs that are converting to the Active4Less format?

DR

Generally, the existing club performance will have been fairly flat and finances tight prior to converting. When a club converts it is as important to consider the impact on existing members, while growing the membership. If you can undertake some improvements while transitioning, this will help to generate excitement and goodwill within the existing membership, who will be an important source of new member referral.

Of course, with finances being tight, you often have to be very creative about how you undertake these club improvements. The operators we work with are passionate about their clubs and very forward-thinking. They all work very hard during the initial transition period to make the necessary changes. They are aware that the health and fitness sector is in a time of great change and they want to secure the future of their club.

RA

Why do you now see your future in the low-cost sector and is it more rewarding?

DR

We are all aware of the urgent need to get people more active. However in the health and fitness sector we often get overly focused on the latest workout or new piece of equipment. Sometimes we forget that we just need

to get people up and moving, even if the circumstances or surroundings are not perfect. I know low-cost has its critics, but it does reduce many of the barriers to people joining a fitness club. There are very few fitness clubs that can claim to be anywhere near full, so there is a lot of latent capacity; converting a club to low-cost can help to fill this.

As a club owner myself, it is very satisfying and rewarding to see a full club with busy classes and a buzzing atmosphere. Money is no longer tight and we have been able to invest in improvements every year. I have more staff, they are better, better trained and have a more varied and rewarding working environment.

Our challenge is to now deliver more support to members that want it, but at a lower cost and within a club that has thousands of members. I believe low cost is a win-win for everyone; the club, the owner, members and staff.

ABOUT ACTIVE4LESS

Active4less is now expanding from its original Stevenage club via a licensing arrangement with existing independent gyms. Historically, these clubs would be trading in the mid-market but now see a low-cost future. Members pay monthly, with no contract commitment. Membership costs £15.95 per month, based on its most frequently quoted price across its portfolio. Readers should therefore note that Active4less clubs have a different property strategy compared to brands such as The Gym Group and Pure Gym.

Further information: active4less.com



Jan Spaticchia
CEO
énergie Group



RA

How important is Fit4less to the long-term future of the énergie Group and why?

JS

With 23 clubs operating under the Fit4less brand and a strong pipeline of openings for the year ahead, there is no doubt that Fit4less is a critical part of our portfolio mix, particularly in the current economic environment. Fit4less lends itself extremely well to franchising as smart technology-driven solutions are used to provide franchisees with slick and simple-to-operate systems. Whilst énergie's other brands – énergie Fitness Clubs, énergie Fitness for Women and SHOKK énergie continue to grow strongly both domestically and overseas, there is no doubt that Fit4less has driven increased growth in the UK for the group and we are confident it will continue to do so.

RA

How has the Fit4less brand evolved when compared with the first low-cost gym you opened in 2009?

JS

The first Fit4less club that we opened was in Swindon, Wiltshire and created through the acquisition and rebranding of a former Fitness First club. The club is 1,673 square metres (18,000 square feet) and is significantly larger than the footprint of the model that we are now rolling out. As the model has developed we have found that more compact clubs ranging between 464-743 square metres (5,000-8,000 square feet) provide a fantastic

return on investment whilst providing more opportunity to rollout. Fit4less clubs can enter markets with smaller populations than are required to sustain larger footprint units and in these smaller towns one Fit4less club can dominate the low-cost space. In larger cities, we are working to establish clusters of Fit4less clubs. The other key evolution since the first Fit4less club is the way we leverage technology with biometric access control, online joining, use of video to support group inductions and web-driven 'Edit to Print' marketing materials.

RA

Do you believe you can create genuinely unique elements of a low-cost gym proposition or can any new entrant replicate entirely what you do?

JS

We take great pride in the uniqueness of our brands and the understanding we have of our customer base. It is our belief that every one of our brands has a 'voice' and that this brand voice is as important as our facilities. The brand voice for Fit4less is irreverent, edgy, joyful and carefree. Our Fit4less clubs are staffed by crew recruited for their personality. Our marketing is edgy, for example, our 'Tired of Being Fat and Ugly?' campaign went viral and caught the attention of Chris Moyles on Radio 1. We may be the only fitness company in the world to retain the services of a comedy double act (McNeil and Pamphilon) who release monthly Fit4less sketches via YouTube.¹²

12. See bit.ly/PFWgOv



Jan Spaticchia
CEO
énergie Group



énergie Blast sessions, gym games and not taking ourselves too seriously is the name of the game for Fit4less. Whilst we are now operating a 'plural network' which will see us roll out clubs which are operated directly by the group, we will also continue to open franchised clubs across the portfolio. From my experience, the care and attention shown by a franchisee owner is very difficult to replicate through employed managers. So I believe that the Fit4Less brand is more difficult to replicate than other low-cost brands.

RA

How do you build a sense of service into what is implicitly a self-service proposition?

JS

In large low-cost gyms, by necessity, the experience is truly 'self-service' and whilst it is clear that this works, Fit4less is positioned differently. It is our belief that whilst stripping away the non-essential 'frills' such as saunas, steam rooms and swimming pools, can allow you to engineer incredible value for money, it does not go hand-in-hand that this means no service. It is a challenge to offer good service in the format of clubs being rolled out by our competitors because of the sheer size and volume of members. In contrast, with smaller Fit4less clubs, our crew members are always on hand to help. Along with other low-cost operators we sell programmes and personal training as an add-on service, but we **do** consider high service standards to be the right of every member.

This includes a comprehensive gym induction experience offered in group sizes of 10 or less and a unique DVD shown by a crew member **prior** to induction to ensure consistency of service. We also promise that a crew member is always on hand to assist members.

RA

How do you create a viable low-cost gym when some of the sites are only 464 square metres (5,000 square feet)?

JS

Put simply, our clubs are profitable with significantly lower 'break-even' points than our competitors, with a typical club reaching capacity at around 2,500 members. With a capital cost per club at less than a quarter than that of our competitors, operating profits in mature clubs reaching as high as 25-30%, an annual return on investment from year two of approximately 36% and a full recovery of capital within an average of 23 months, there is no doubt that the model works. With 23 clubs operating we have proven that the model is viable and highly scalable.

About the énergie group

énergie is a fast-growing fitness club franchise operating several distinct brands. These include female-only clubs, personal training studios, mid-market, low-cost and kids fitness clubs. Membership to Fit4less costs £19.99 per month, based on its most frequently quoted price across its portfolio. énergie has franchise clubs in the UK, Republic of Ireland, Latvia and Qatar.

Further information: energiefranchise.com



John Treharne
Chief Executive
The Gym Group



RA

Your business model has remained very consistent since your 2008 launch. Does this surprise you given that the first strategy of start-ups is often incorrect?

JT

Not really. I carried out a lot of research of mature low-cost operations in the United States and mainland Europe before we launched our first gym in Hounslow, Middlesex in June 2008. We have adjusted the physical product in terms of changing rooms and entrance control. The only constantly evolving aspect of the business is our website, social media and information technology.

RA

Does media criticism of the mainstream club industry help or hinder The Gym Group's growth?

JT

As over 40% of our members are first-time gym users, we are not dependent on what is happening in the rest of the health club industry. Nevertheless the fact that the rest of the market has been so flat or regressing in the last three years and the fact that people are rightly challenging the industry on contracts and aggressive sales techniques, clearly does us no harm.

RA

Why are established 'mid-market' clubs often intimidated when The Gym Group arrives in town?

JT

We offer vastly better value for money, often superior gym facilities, a no-contract environment, which is equally important particularly in the current economic climate, and the total flexibility to use our facilities when it suits the customer. Inevitably this impacts on the sub-standard service and facilities offered by some of the mid-market operators.

RA

Do you think your members are emotionally connected to the brand or merely seduced by a low price?

JT

Gone are the days of status-driven health club membership. In today's society, our members love our value-for-money offering and the fact that they have made an astute and 'savvy' choice. However, price is only one part of our compelling proposition as you have to consider the other ways we build 'connections' with our members such as great communications and the members website that allows them to self-manage their accounts. We also have more than 28,000 members interacting with us on Facebook so I think all this helps to build emotional ties.



John Treharne
Chief Executive
The Gym Group



RA

You seem very careful about managing the 'member experience' by introducing new member waiting lists and avoiding gym contracts. Why does this matter?

JT

In a no-contract environment, members can leave at any stage if they are unhappy with our facilities or service. Overcrowding clearly has an affect on retention, so when our gyms have reached capacity, we introduce a waiting list. Waiting lists are not a marketing gimmick, they are critical in managing the reputation of our brand.

RA

How many gyms do you expect to have open and trading by December 2013?

JT

We will have acquired or opened approximately 35 gyms by the end of 2012. In 2013 we expect to open a further 15–20 gyms.

About The Gym Group

The Gym Group was the second low-cost brand to launch in the UK during 2008. It presently operates 24 gyms across the UK with monthly membership costing £16.99, based on its most frequently quoted price across its portfolio. It was named 'Budget gym operator of the year' at the 2011 National Fitness Awards. Bridges Ventures has funded the business since its inception.

Further information: thegymgroup.com

04

What UK Consumers Think about the Low-cost Gym Experience



A fundamental component of this report is the consumer perspective and once again I am grateful to The Gym Group who provided unrestricted access to previous and current members. So, what do consumers think about the low-cost gym experience?



Research methodology

Two online surveys were created for current and previous members. The first survey was sent to 90,000 current members,¹³ while the second went to 60,000 previous members who had cancelled at least one month before the survey. This 'leaving' gap of one month was to allow the individual time to make alternative exercise arrangements, if any.

13. Those who had visited within 30 days of the survey

What UK Consumers Think about the Low-cost Gym Experience

Response rates — The response rates were as follows:

Survey Response Rates			
	Current members	Previous members	Total
Survey invitations	90,000	60,000	150,000
Completed surveys	11,660	2,922	14,582
Response rate	12.9%	4.8%	9.7%

T1

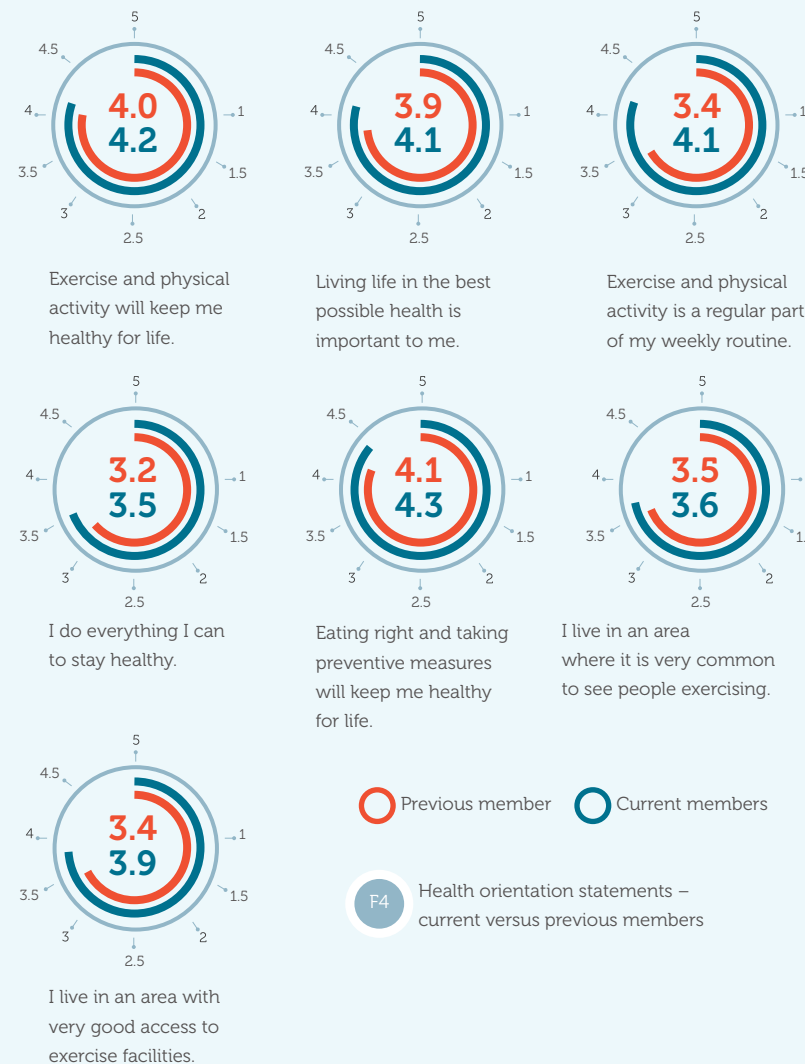
Survey response rates

How 'invested' are members in living well?

The first part of the survey was designed to assess attitudes towards health and well-being in order to better understand why someone would be attracted to a gym proposition. Both current and previous members were asked to rate their level of agreement with the following health orientation statements on a 1–5 scale¹⁴ (see figure 4):

14. 1=strongly disagree, 2=disagree, 3=undecided, 4=agree, 5= strongly agree

Health orientation statements — current v previous members



What UK Consumers Think about the Low-cost Gym Experience

Have you smoked cigarettes in the past 12 months?

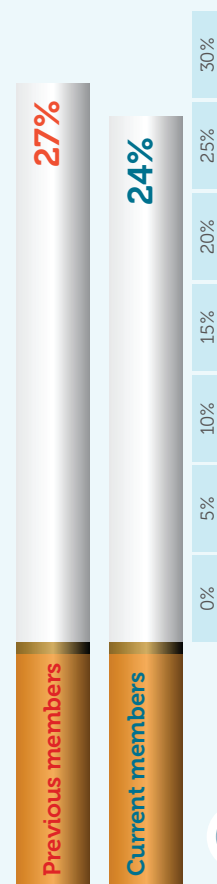


Figure 4 shows that healthy attitudes are clearly evident, but there was also evidence of unhealthy behaviours such as cigarette smoking:¹⁵

Clearly, some respondents saw no contradiction in being both a gym member and smoker.¹⁶

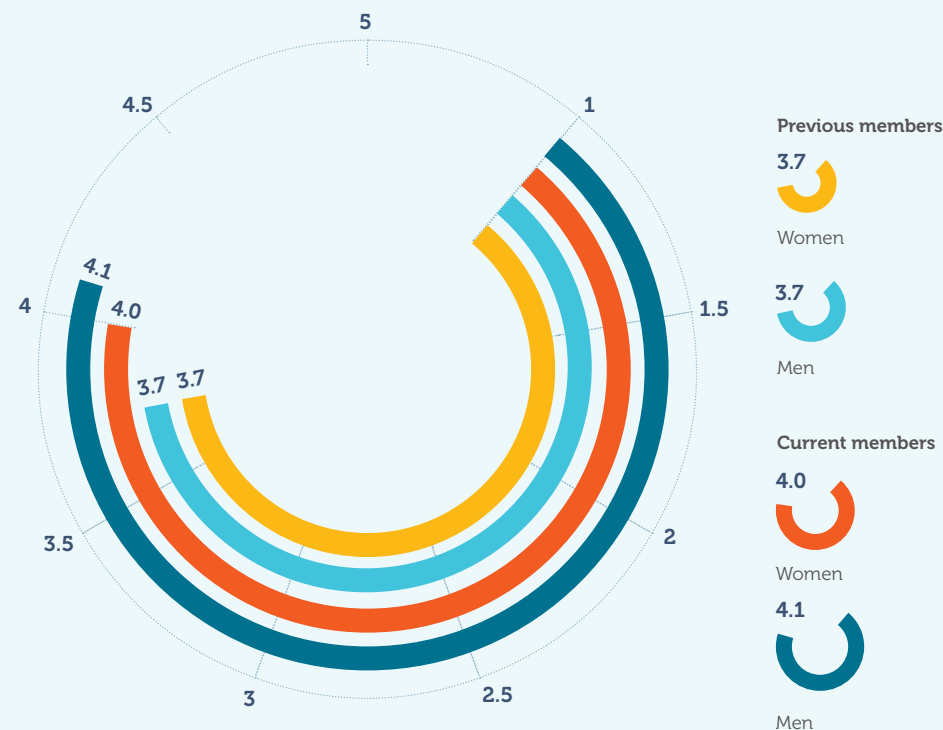
F5

Have you smoked cigarettes in the past 12 months?

Health orientation – current v previous members

The individual statements were clustered to form a 'health orientation'¹⁷ which is summarised in figure 6:

There was no difference in health orientation between genders, but there was a significant difference between current and previous members.



F6

Health orientation – current versus previous members

15. Both current and previous members were asked: Have you smoked cigarettes in the past 12 months?

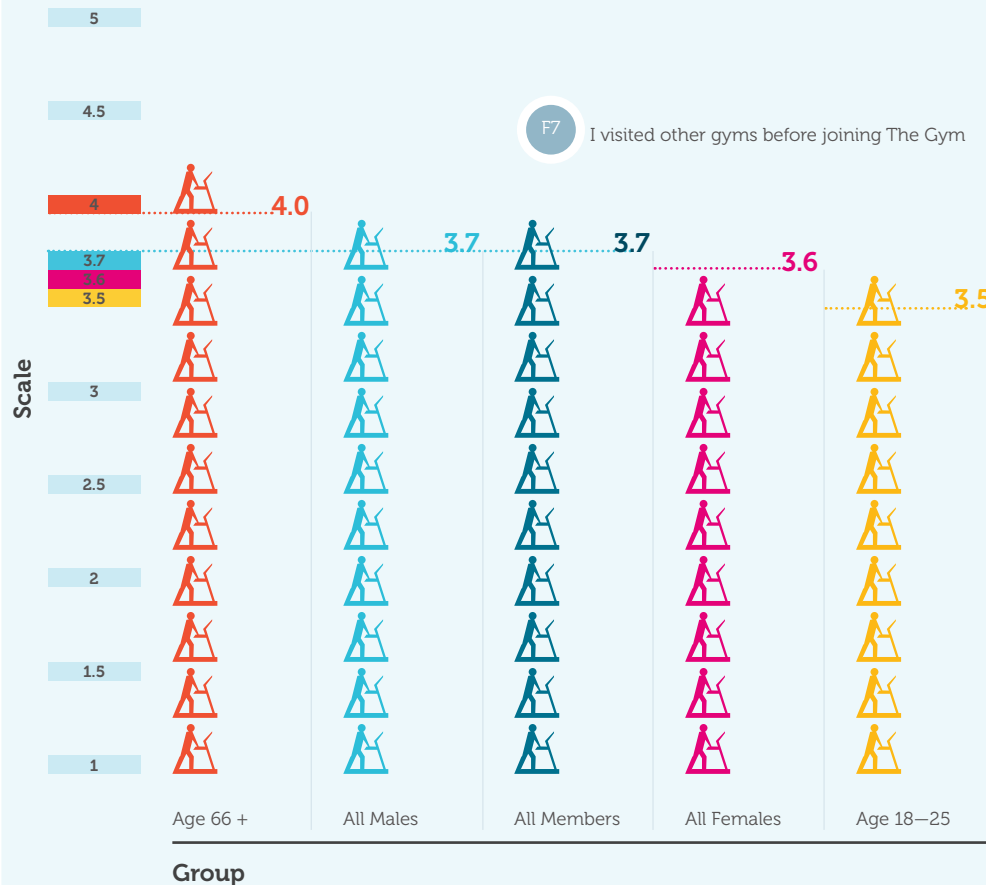
16. By way of comparison, 21% of English adults reported smoking in 2011. Source: Statistics on Smoking: England 2011, NHS Information Centre

17. The statistical robustness of clustering these statements was tested and found to be reliable, which means that a respondent rating a strong level of agreement on one statement rated high on others

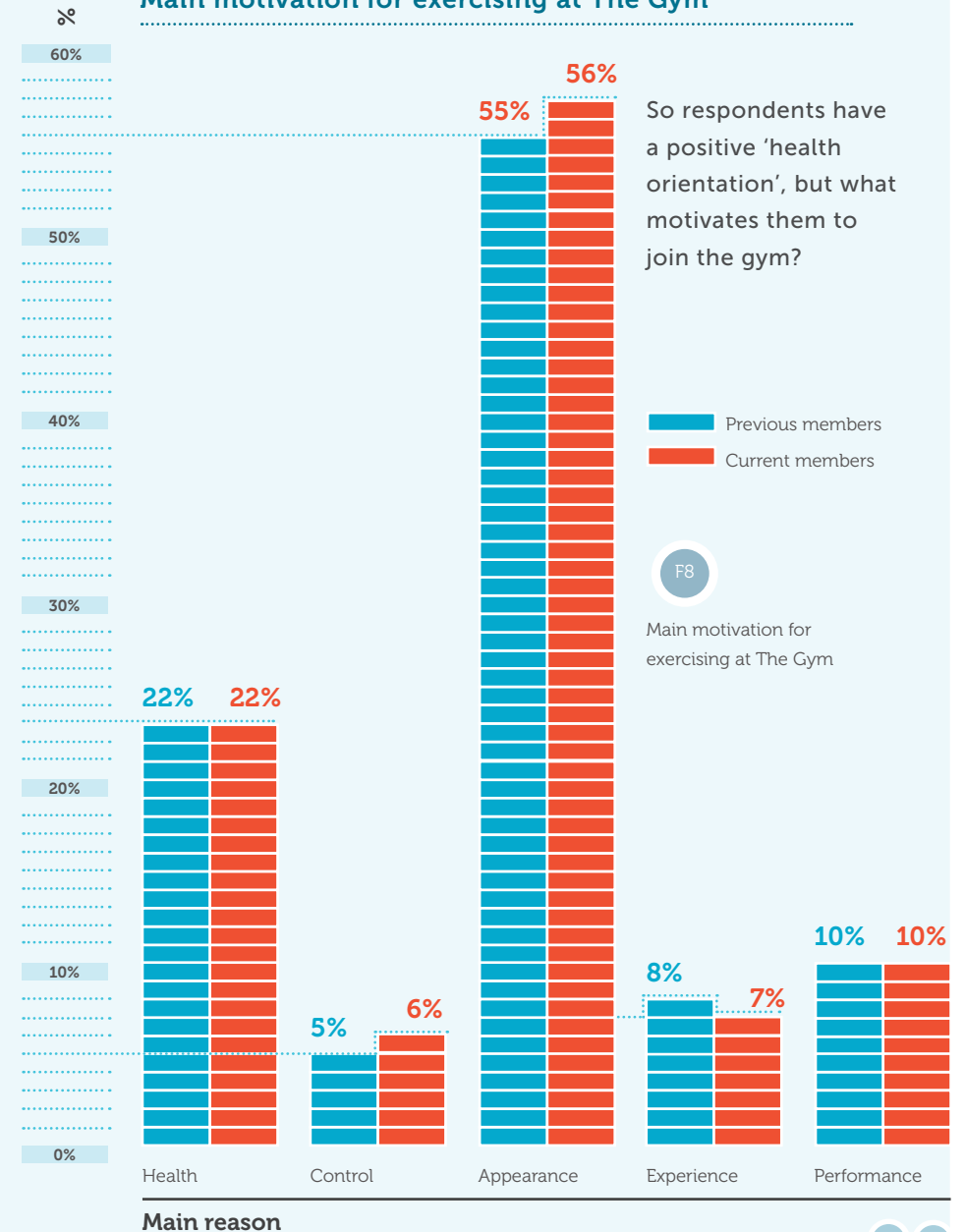
What UK Consumers Think about the Low-cost Gym Experience

Research conducted before joining The Gym

Figure 7 illustrates agreement with the amount of research consumers conducted into alternatives before joining The Gym. Members aged 66 and over had the highest level of agreement with this statement, contrasting with the 18–25 age group, who possessed the lowest level of agreement of all age segments.



Main motivation for exercising at The Gym



What UK Consumers Think About The Low-cost Gym Experience

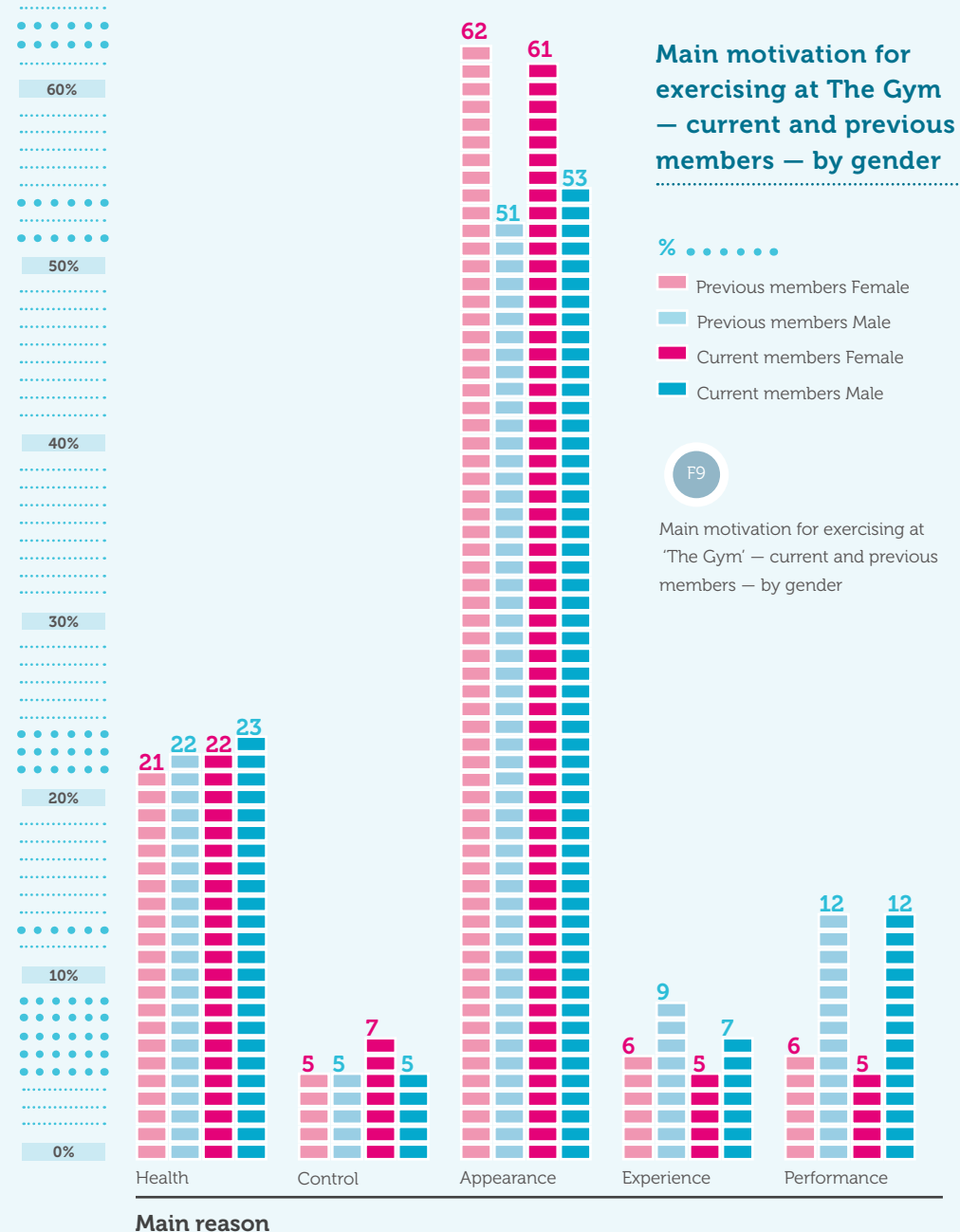
Main motivation for exercising at The Gym

Reason	Previous members
Performance	Training for a sport or a specific goal
Experience	Want to feel better about yourself or be with like-minded people
Appearance	Reduce weight/change body shape
Control	Manage daily stress and emotional ups and downs
Health	For a medical reason, or just looking after your body

T2

Main motivation for exercising at The Gym

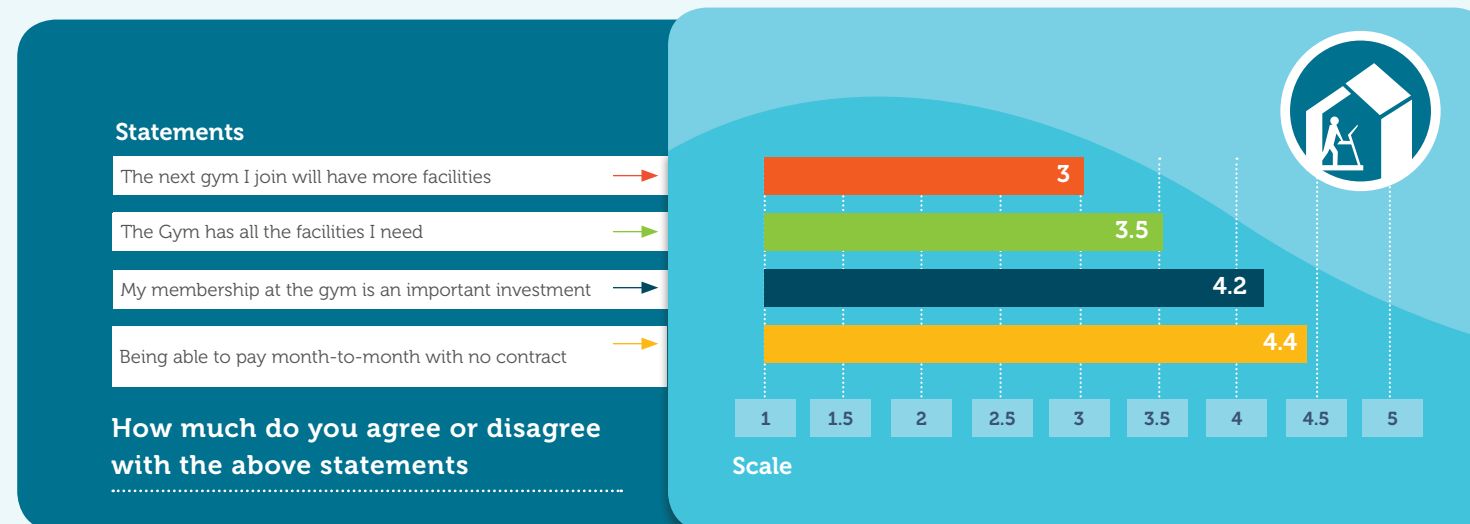
The predominant motivation cited was 'appearance' (see figure 9), which was consistent for both previous and current members. When analysed by gender, men cited 'performance' more than women (12% v 5% for current members), with this difference explained by a similar increase in exercising for appearance among women:



What UK Consumers Think about the Low-cost Gym Experience

Elements of the service proposition

Figure 10 illustrates the level of agreement among current members with a series of statements associated with elements of the service proposition, again using the same 1–5 scale:



F10 Current members — Agreement with elements of the service proposition

The ability to pay month-to-month with no contract commitment elicited the highest level of agreement (4.4 on a 5-point scale). There were no significant gender differences, with both males and females consistent in their responses. However, when the statements were tested against the main reason for exercising, there was a statistically significant difference¹⁸ between males

and females exercising for 'performance' reasons for the statement: 'The Gym has all the facilities I need'. More research is required to better understand the underlying sentiment, which seems to relate more to the 'sufficiency' of existing facilities (i.e. sufficient free weights or strength training machines) rather than the scope of facilities (i.e. a desire for a broader range of facilities such as a steam bath, sauna etc).¹⁹

18. Rating of 3.3 for male current members versus 3.6 for female current members

19. This same group of male 'exercise performers' were neutral when responding to the statement: 'The next gym I join will have more facilities' (mean score of 3.1)

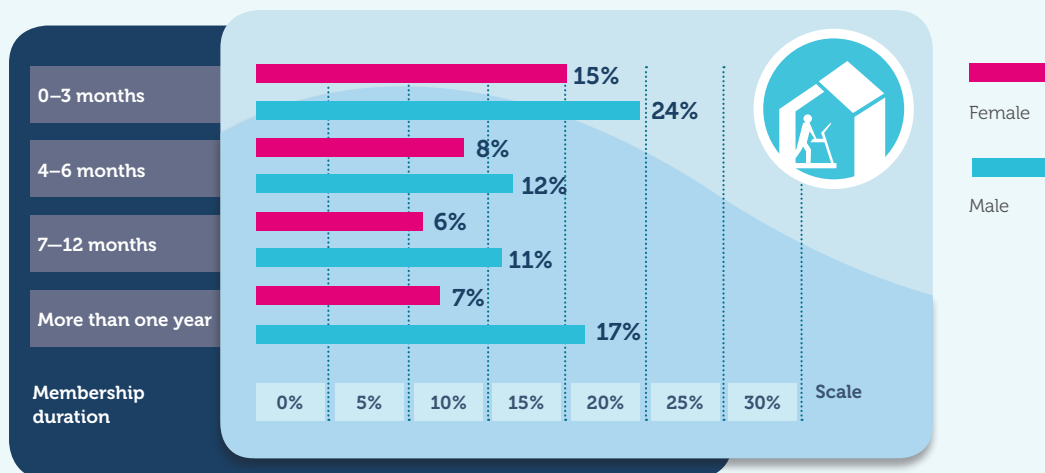
What UK Consumers Think about the Low-cost Gym Experience

How long do people keep their gym membership?

Readers should remember that authentic low-cost gyms are fundamentally a self-service proposition. This means that on completion of an initial new member induction,²⁰ people exercise in an 'unsupported' environment. Freelance Personal Trainers are on hand to answer specific questions (e.g. how do I set up this chest press machine?), but more structured and sustained instruction and coaching requires payment of a separate Personal Training fee. Some readers may believe that members may struggle to adjust to this self-service environment, so how long do people stay?

Key insight: People higher in health orientation attend the gym more frequently

How long have you been a member of The Gym?



Seven out of ten current members can be classified as beyond the three-month 'honeymoon' period. There is a significant cohort of male members who are entering their second year of membership. A closer investigation of this male group revealed that 70% were under the age of 35. It was also evident that members who have held their membership longer have a higher health orientation. Readers should also remember that The Gym Group does not ask members to sign a minimum-term contract, meaning they can leave at any time. This means that membership duration is not being influenced by contracts.

F11 Current members – How long have you been a member of The Gym?

20. The Gym Group provides a 30-minute free induction

What UK Consumers Think about the Low-cost Gym Experience

How often have you worked out at The Gym over the past three months?

Male members attending three times weekly was the segment displaying the largest difference when compared with females. Figure 13 explains the main motivation for exercising among these three-times weekly members:

Clearly, high weekly attendance coupled with a low monthly membership price,²¹ creates a dramatically lower 'price per visit' measure. This is why members report high levels of agreement with a statement such as:

"The monthly gym price is excellent value for money"²²

F12

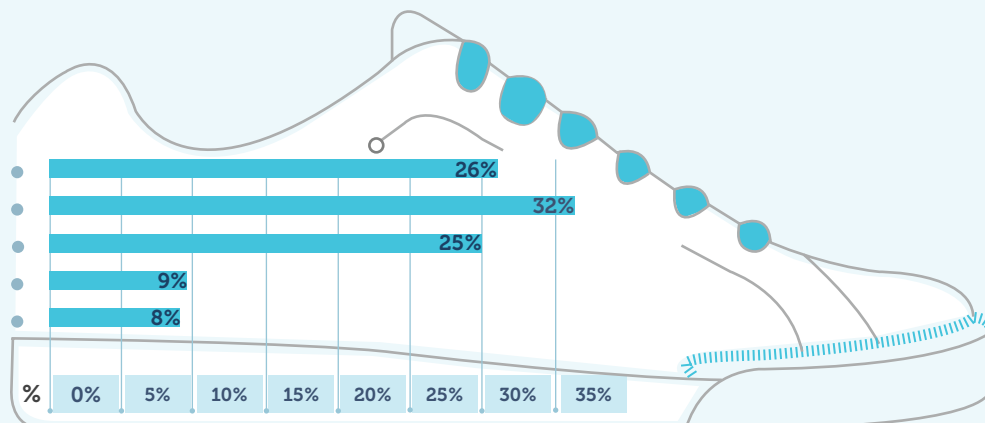
Current members — How often have you worked out at The Gym over the past three months?

Male

Female

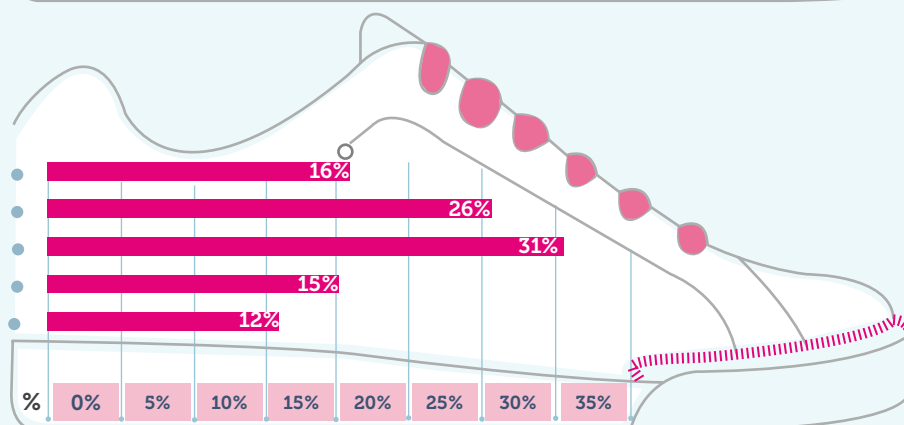
Weekly gym attendance

More than three times per week
Three times per week
Twice per week
Once per week
Less than once weekly



Weekly gym attendance

More than three times per week
Three times per week
Twice per week
Once per week
Less than once weekly

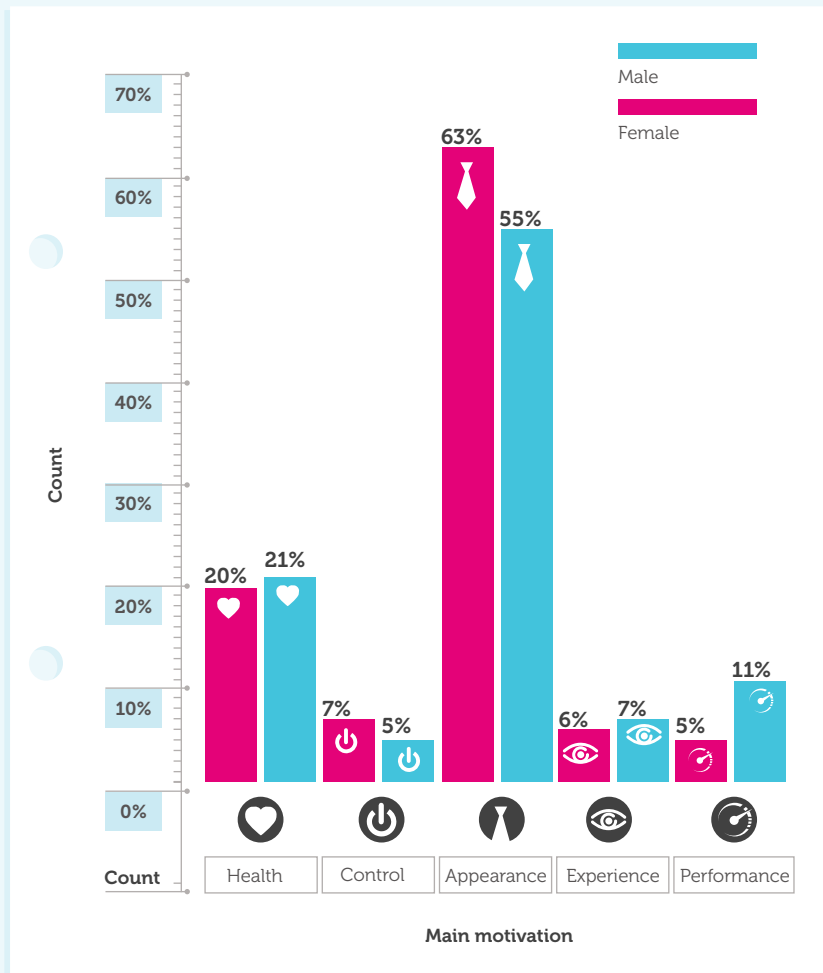


21. The Gym Group modal or most frequently published monthly membership price was £16.99 at July 2012

22. See 2011 Global Low-cost Gym Sector Report, Ray Algar, Oxygen Consulting

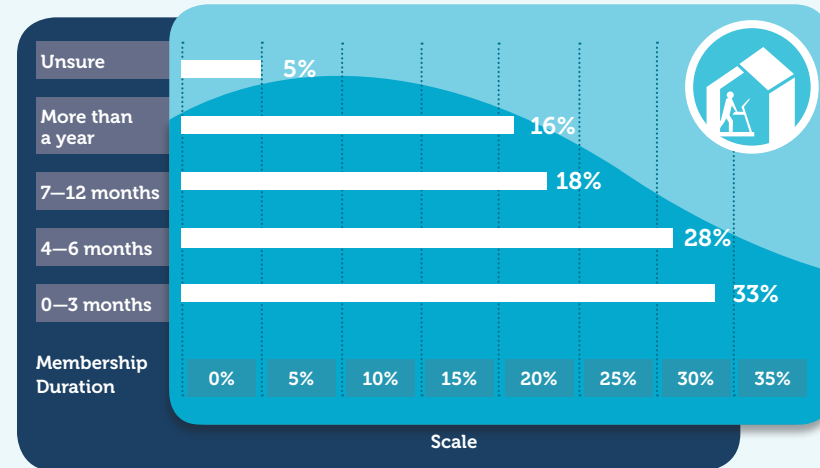
What UK Consumers Think about the Low-cost Gym Experience

Current members attending three times weekly – by main motivation



F13 Current members attending three times weekly – by main motivation

How long did previous members keep their membership?



F14 Previous members – How long were you a member of The Gym?

As in previous research, there was significant cohort of members who joined and left within three months. These members were asked about their previous experience of other gyms, which was seeking to establish if they were new to the industry or previous users. For 28% of this group, The Gym was their first industry experience.

Members stay an average of 8.8 months at The Gym based on CACI/The Retention People research, 2012

What UK Consumers Think about the Low-cost Gym Experience

However, a slightly larger cohort was members for whom The Gym was their second industry experience (30% of the total 0–3 month leavers).

These are the members who have some degree of industry experience to draw from and compare to; they were trying, but not staying. So why do members leave? Members were asked to select reasons they left The Gym from the following:

Enjoyment:

I was not enjoying my gym workouts

Facilities:

I realised that I wanted facilities The Gym did not provide

Attendance:

I was not using my gym membership

Cost:

I could no longer afford to pay my membership

Location:

I moved away from the gym

Results:

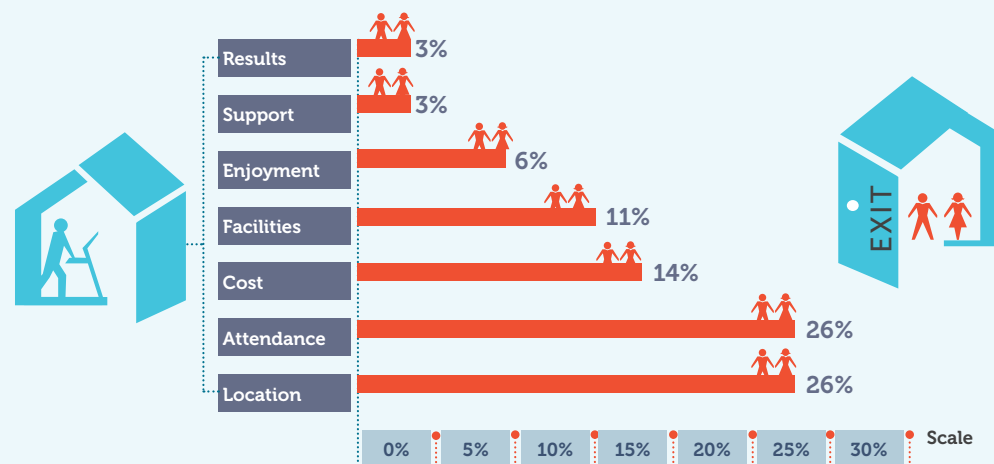
I was not getting the fitness results I was expecting

Support:

I did not get the advice/support I was expecting

Other reasons:

Figure 15 illustrates the main reason for leaving



F15

Main reason for leaving²³

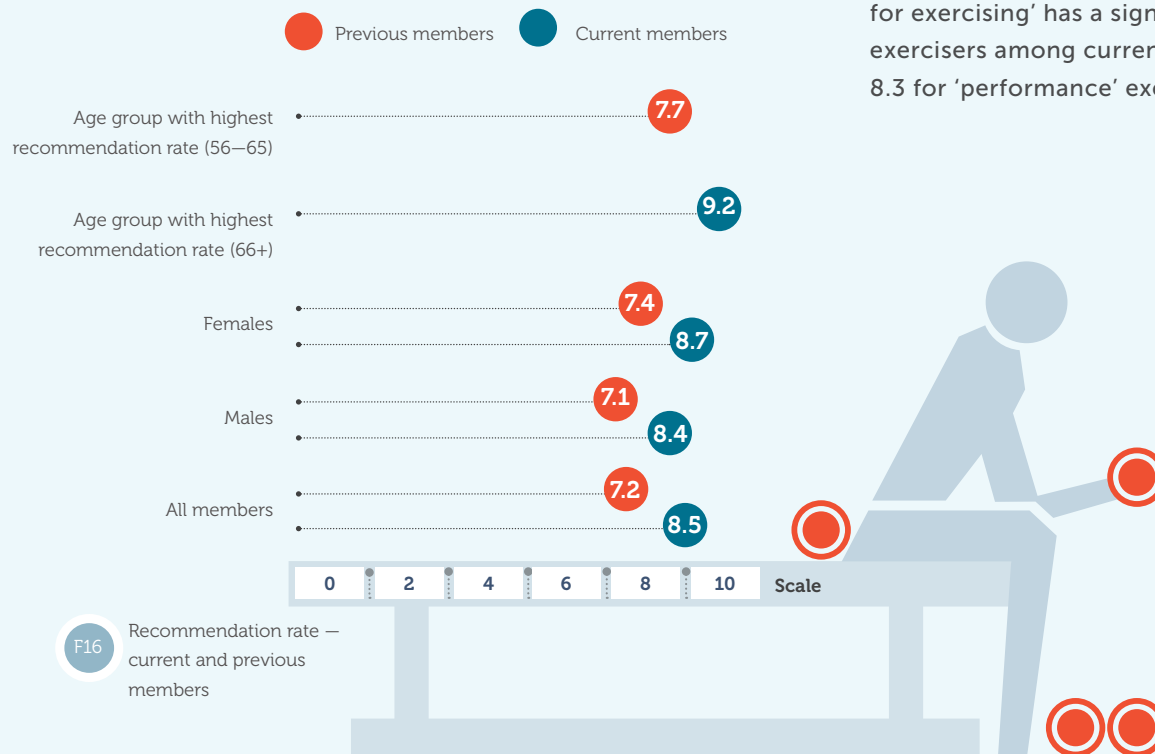
'Attendance' features strongly and refutes any potential notion that low-cost gym members are content with the idea of a relatively small fee leaving their bank each month, regardless of gym use. Clearly, some members see alternative ways of spending £16 each month. The main reason for leaving between genders was reasonably consistent.

23. 'Other reasons' (11%) have been omitted from figure 15

What UK Consumers Think about the Low-cost Gym Experience

Would members recommend The Gym?

Current and previous members were asked to rate their likelihood of recommending The Gym to a friend or colleague on a 0–10 scale. Figure 16 illustrates the key findings:



Recommendations rate — current and previous members

The overall 'mean' recommendation rate for current members was 8.5 and 7.2 for previous members. Older members were reporting the highest recommendation rates — 9.2 for example among current members aged 66 and over. Recommendation rates remained consistent regardless of membership duration, so I discovered no difference between current members in the 'honeymoon' period compared with long-term members.²⁴ However, 'reason for exercising' has a significant effect on recommendation rates, with 'health' exercisers among current members having a mean rating of 8.6 compared with 8.3 for 'performance' exercisers.

'Reason for exercising' has a significant effect on recommendation rates

24. 0–3 months compared with more than one year

What UK Consumers Think about the Low-cost Gym Experience

Would members recommend their previous gym?

Current members were asked the same question as those with experience of other gyms and reported a 'mean' recommendation rate of 5.1 on a 0–10 scale.²⁵

Net Promoter Score			
	Score	Category	Description ²⁷
How likely are you to recommend The Gym to a friend or colleague?	9 or 10	Promoters	Loyal enthusiasts who will keep buying and refer others, fuelling growth
	7 or 8	Passives	Satisfied but unenthusiastic customers who are vulnerable to competitive offerings
	0–6	Detractors	Unhappy customers who can damage your brand and impede growth through negative word-of-mouth

T3 Net promoter score

Net Promoter

Net Promoter²⁶ uses the results of the above recommendation question to create a Net Promoter Score (NPS) with members categorised as follows:

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 17 shows The Gym with an overall Net Promoter Score of 45%.²⁸

Female members reported an NPS that was 11 points higher than males.²⁹ Members where the main reason for exercising was classed for 'health' reasons reported the highest NPS score of 50%. The 'performance', 'experience', 'appearance' and 'control' exercisers ranged from 40–44%.

25. There was more variation in responses around the mean rating of 5.1 compared to the recommendation rates for The Gym. Search 'Standard deviation' for further information

26. This business metric was developed by Satmetrix, Bain & Company and Fred Reichheld. Read more at: netpromoter.com

27. Source: netpromoter.com

28. Previous research among FitSpace members produced a net promoter score of 28%. See: 2011 Global Low-cost Gym Sector Report

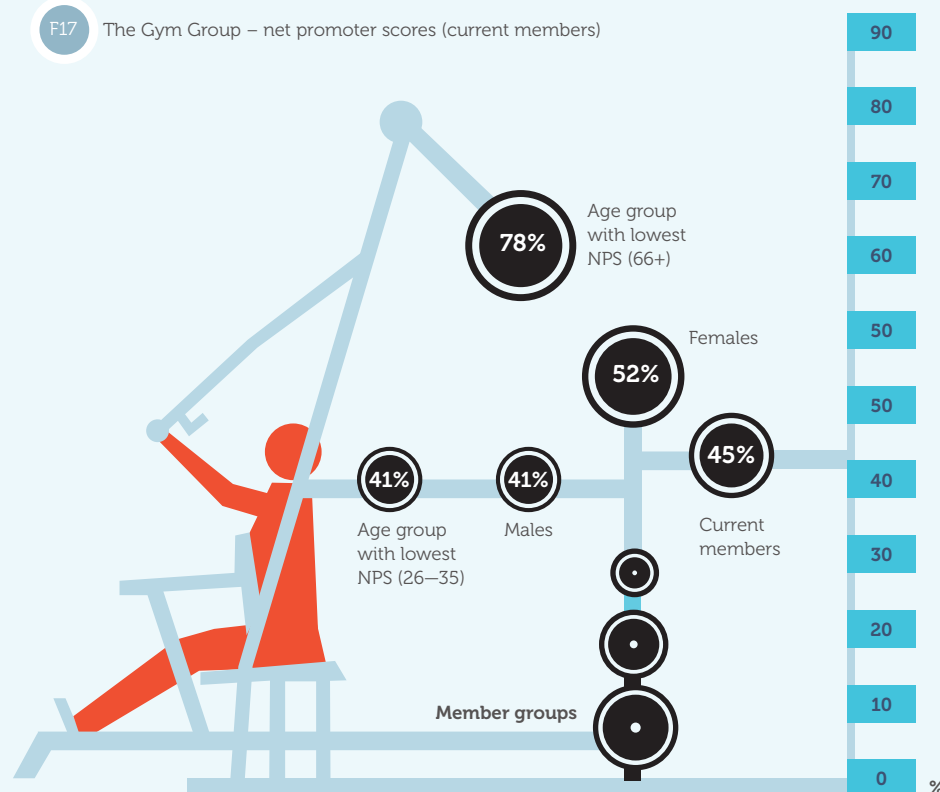
29. Again, FitSpace members in 2011 reported female members with a 15-point higher NPS versus male members.

What UK Consumers Think about the Low-cost Gym Experience

Figure 17 shows The Gym with an overall Net Promoter Score of 45%.²⁸

F17

The Gym Group – net promoter scores (current members)



Putting this score in context

The 2012 UK Health and Fitness Industry NPS Study of 34,000³⁰ UK health and fitness consumers undertaken by The Retention People and Leisure-net Solutions revealed an overall sector (public and private centres) score of 22%, up from 21% since the 2010 study.

However, the research produced a score of -1 (minus 1) for private only 'multi-site clubs'.³¹ A minus net promoter score simply means a brand has more 'detractors' than 'promoters'.³² Private 'single-site' clubs performed significantly better in this study, with an NPS of 60%.

30. At 1st December 2011. Data drawn from 511 clubs

31. An improvement on the -16 result seen in 2010

32. Example: A club has 1000 members of which 230 are detractors, 550 are passives and 220 are promoters. Ignoring the 550 passives, the net promoter score is calculated by subtracting the percentage of promoters from the percentage of detractors: $22\% - 23\% = -1$ (minus 1)

What UK Consumers Think about the Low-cost Gym Experience

Outside industry net promoter score comparisons

Table 4 illustrates how these scores³³ compare with other industries:

I should clarify that net promoter score benchmarking should ideally be undertaken against a relevant 'basket' of direct and indirect competitors.

I will be publishing further consumer insights on the report website³⁴

UK Outside industry Net Promoter Scores

Company	Category	Net promoter scores (%)
Apple	Computers	67
First Direct	Banking	61
Samsung	Television	35
Tesco mobile	Telecoms	28

T4

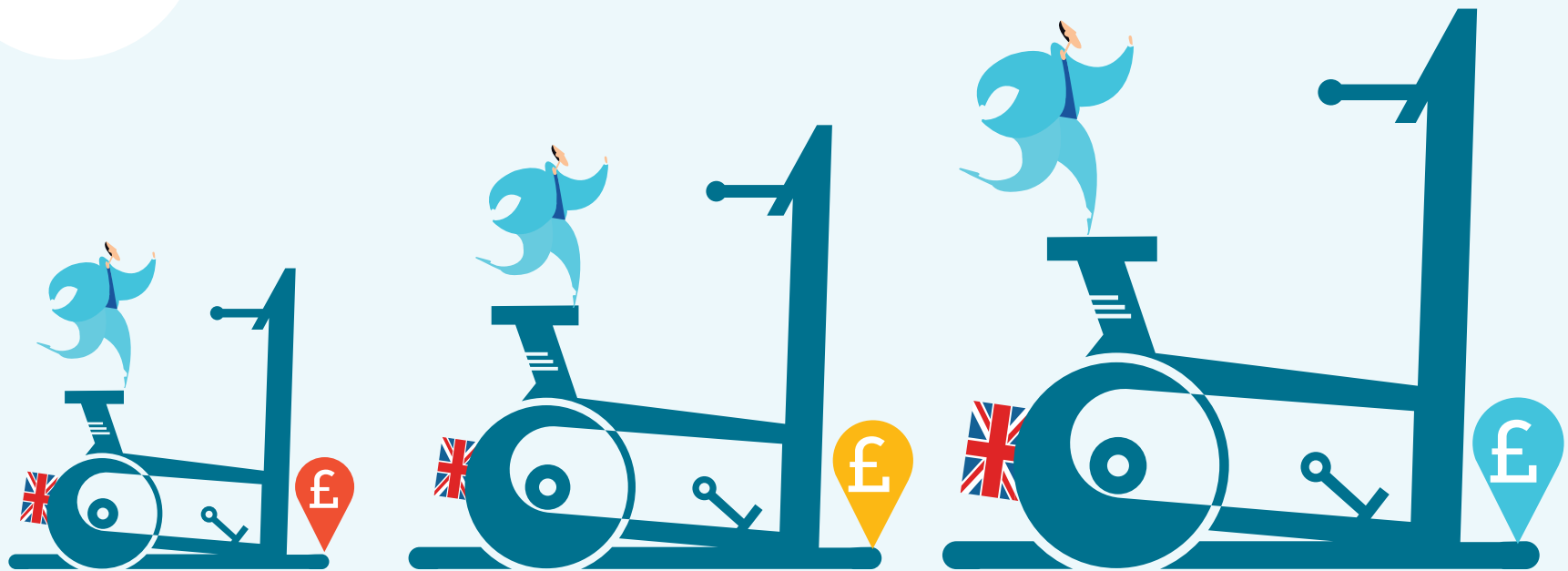
Outside industry net promoter score comparisons

33. Some scores were taken from the official Net Promoter website for 2011 and can be found at this link – netpromoter.com/np/compare.jsp

34. oxygen-consulting.co.uk/think-tank

05

Summary of Leading Private UK Low-cost Gym Brands



Summary of Leading Private UK Low-cost Gym Brands

The following table shows the leading UK low-cost club operators at 7th September 2012. The 'leading' low-brands for the purposes of this report are defined as those with at least four trading clubs.

Leading UK Low-cost brands – number of clubs			
Rank	Brand Name	Owner	Number of Clubs ³⁵
1	Pure Gym	Pure Gym Ltd	29
2	The Gym Group	The Gym Group	24
3	Fit4Less	énergie Fitness	23
4	Fitness4less	Fitness4less Holding Ltd	12
5	Active4less	Active4less	9
5	Klick Fitness	Fitness First	9
6	FitSpace	FitSpace	8
7	Xercise4less	Mr Jon Wright	6
8	Gym4all	Gym4all	5
9	truGym	truGym	4
Total			129

T5

Leading UK low-cost brands – number of clubs

Which brands and clubs are included?

This chapter focuses on 'authentic' low-cost brands which means brands that display several of the characteristics outlined in figure 1. Further details include:

- 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 UK country average of £43 per month.³⁶ I have ignored brands that offer a 'low' monthly membership price only if consumers sign a 12 or 24-month contract or is part of a short-term marketing campaign.
- Narrow facility mix focused predominantly on a gym and group exercise proposition.
- Extensive technology and web use.

35. Clubs open and trading at 7th September 2012. This means clubs in a pre-sale period have been ignored

36. See 2012 State of the UK Fitness Industry Report, The Leisure Database Company

Summary of Leading Private UK Low-cost Gym Brands

I believe low-cost gyms should be easy to join and easy to leave. Also, I have ignored those companies where some of their gyms have a 'low' month-to-month price, but other clubs under the same brand only offer a contract option and also have swimming pools.



Again, the focus of this report is on those companies pursuing a **focused** low-cost strategy. For example, readers can take a look at Lifestyle Fitness³⁷ to see the diversity within their club portfolio, or SpringsLite.³⁸ Are these low-cost brands?³⁹ You decide.

Fitness First

Klick Fitness, the new low-cost brand from Fitness First, features in this report but it does form part of the recently announced Company Voluntary Arrangement (CVA).⁴⁰ This involves the sale of 67 Fitness First clubs in the UK, including six Klick gyms. This will result in a far 'leaner' Fitness First business in the UK, but it is presently unclear if their future strategy will comprise Klick or some other low-cost project.

Public sector low-cost initiatives

In my 2010 report, I featured Gym London, an exciting project being led by GLL giving consumers access to a low-cost gym-only experience in several Boroughs across London.

There were six gyms participating in the Gym London project when I was researching my 2010 report. This has now grown to 57 at September 2012, with monthly membership ranging from £19.95 – £27.95.⁴¹ These low-cost gyms are embedded in conventional leisure centres and designed for members seeking just a 'machine experience'. GLL has also recently opened its first stand-alone low-cost gym in Bexleyheath, South East London, with monthly memberships starting from £19.95 with no contract to sign.⁴² Read more about the rise of low-cost gyms by leisure trusts and other social enterprises in chapter 6.

37. lifestylefitness.co.uk

38. springslite.com

39. Brands such as Snap Fitness, Anytime Fitness etc. are sometimes confused as low-cost, but these are 'micro' or small 'neighbourhood-style' gyms

40. You can read the official Fitness First press release at this link – fitnessfirst.co.uk/about-us/press/Press-releases/cva

41. See gymlondon.org

42. Limited to the first 1,000 members

Summary of Leading Private UK Low-cost Gym Brands

Brand watch

easyGym with two gyms now open and two more due to open by December 2012, should be on everyone's 'brand watch' list. This is because of the potential to leverage the 'easy' brand awareness and the 'Stelios' effect. I should clarify that Fore Fitness Ltd, led by Paul Lorrimer-Wing, has secured the 'naming rights' to 'easyGym' in the UK and other unspecified European markets. Sir Stelios Haji-Ioannou is not part of the Fore Fitness company, but there is a 'halo effect' from the association with Stelios and other 'easy' brands.⁴³ Also, keep a watch on Kiss Gyms,⁴⁴ which now has three clubs open, offering contract-free memberships from £14.99 per month.



Some win, some lose



Nuyuu Fitness featured in my previous report with five clubs acquired from LA Fitness. The new company then began trading in September 2009. James Caan, who found household fame as a judge on Dragon's Den, supported the new company through Hamilton Bradshaw, his private equity company. However, the company went into liquidation during November 2010. énergie fitness subsequently acquired four of the five clubs.




43. See easy.com for details on easyGroup

44. See kissgyms.com

Summary of Leading Private UK Low-cost Gym Brands

Leading UK Low-cost Gym Operators – Property, Geographic and Funding Strategy

Geographic Focus

   **Active4less**
East Midlands, South East & East England,
South West, West Midlands,

   **Fit4Less**
East Midlands, North East, Northern
Ireland, South East & East England, Scotland

   **Fitness4less**
East Midlands, South West, South East
& East England, West Midlands

   **FitSpace**
East Midlands, Northern Ireland,
South East & East England, Wales,
Yorkshire & Humberside

   **Gym4all**
East Midlands, South East
& East England, Yorkshire
& Humberside

   **Klick Fitness**
East Midlands, North West,
Yorkshire & Humberside,
South East & East England

Primary Property Strategy



Converting existing health clubs



Lease building shell to create a new low-cost gym

Main Funding Source



Privately funded



Venture capital



Pure Gym

East Midlands, Northern Ireland, Scotland,
South East & East England, Yorkshire &
Humberside, North West, Wales,
West Midlands



The Gym Group

South East & East England, East Midlands,
North West, South West, Wales, Scotland,
Yorkshire & Humberside, West Midlands.



truGym

East Midlands, South East &
East England, South West



Xercise4less

North East, Yorkshire & Humberside

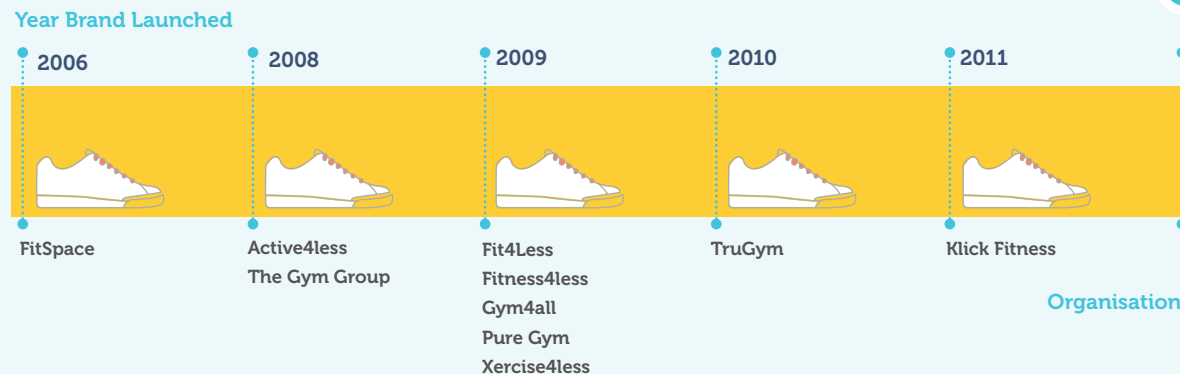
F18

Leading UK low-cost gym
operators – Property and
funding strategy

Summary of Leading Private UK Low-cost Gym Brands

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

F19 Timeline showing year brand launched



UK LOW-COST GYM PROVIDERS – LEADING PLAYERS – Marketing and Product Features

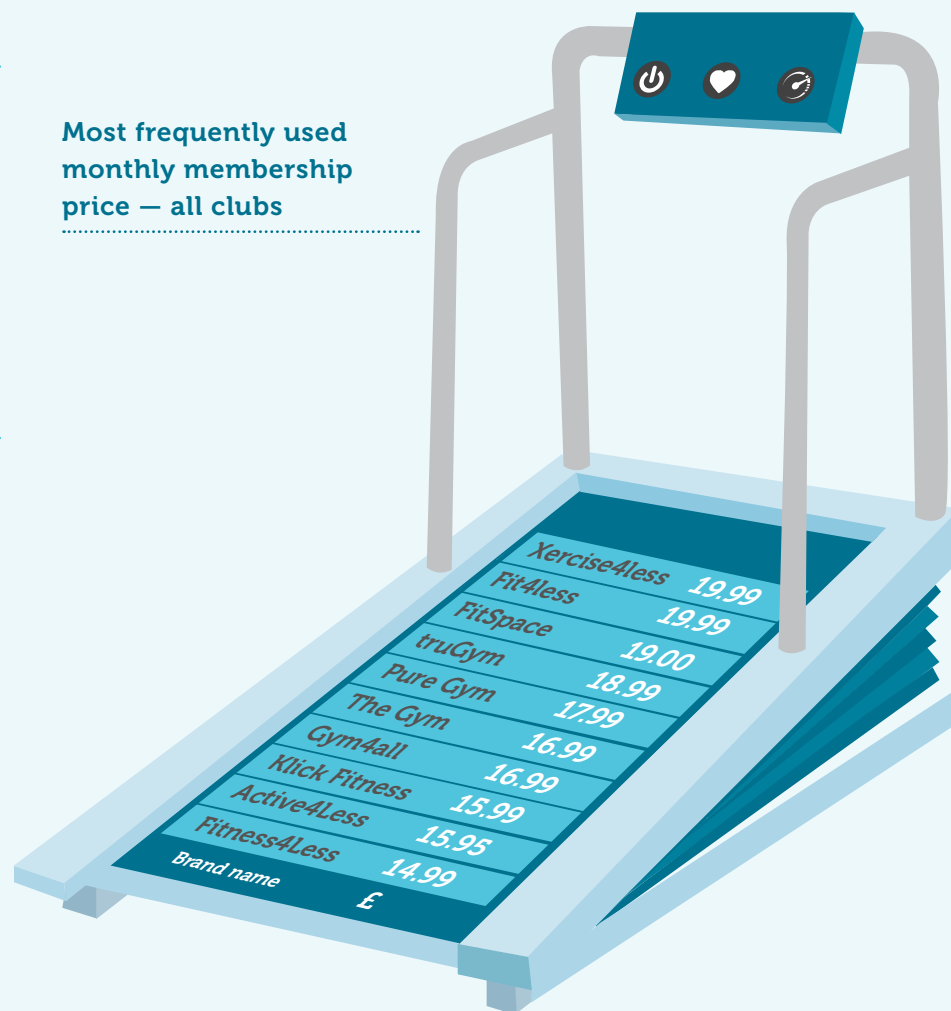
Brand name	Marketing slogan/ Communication theme	Join online	Joining Gateway	24-hour opening	Contract policy	Website
Active4less	The best value fitness clubs in the UK	Yes	ClubWise	No	None. Pay month-to-month	active4less.com
Fit4Less	The smart affordable gym	Yes	ClubWise	No	Pay month-to-month and 12-month contract options	f4l.com
Fitness4less	At just £14.99 everyone's jumping aboard	Yes	Harlands Group	No	None. Pay month-to-month	fitness4less.co.uk
FitSpace	Small price, big results	Yes	FitSpace/Clarity Software	No	Pay month-to-month and 18-month contract options	FitSpacegyms.co.uk
Gym4all	Get fit, pay less	Yes	Harlands Group	No	Pay month-to-month and 12-month contract options	gym4all.com
Klick Fitness	At Klick Fitness we've left out the extras you don't use so that we can charge you less. Simple.	Yes	Fitness First	No	None. Pay month-to-month	klickfitness.com
Pure Gym	Enjoy fitness	Yes	Pure Gym/Harlands Group	Yes	None. Pay month-to-month	puregym.com
The Gym Group	Affordable, state-of-the-art gyms open 24 hours a day, seven days a week	Yes	The Gym/Harlands Group	Yes	None. Pay month-to-month	thegymgroup.com
truGym	None	Yes	Harlands Group	No	None. Pay month-to-month	trugym.co.uk
Xercise4less	The North's leading low-cost gym operator	Yes	Harlands Group	No	Pay month-to-month and 12-month contract options	xercise4less.co.uk

T6 UK low-cost gym providers – leading players – marketing and product features

Summary of Leading Private UK Low-cost Gym Brands

Figure 20 shows the modal or most frequently used price⁴⁵ by the leading brands based on one month's unlimited use of the club. I see these prices as the ones brands wish to be publicly associated with, before any pre-opening promotional offers. These are the prices that are most likely to be discussed around the dinner table with friends.

Most frequently used monthly membership price — all clubs



F20

Most frequently used monthly membership price — all clubs

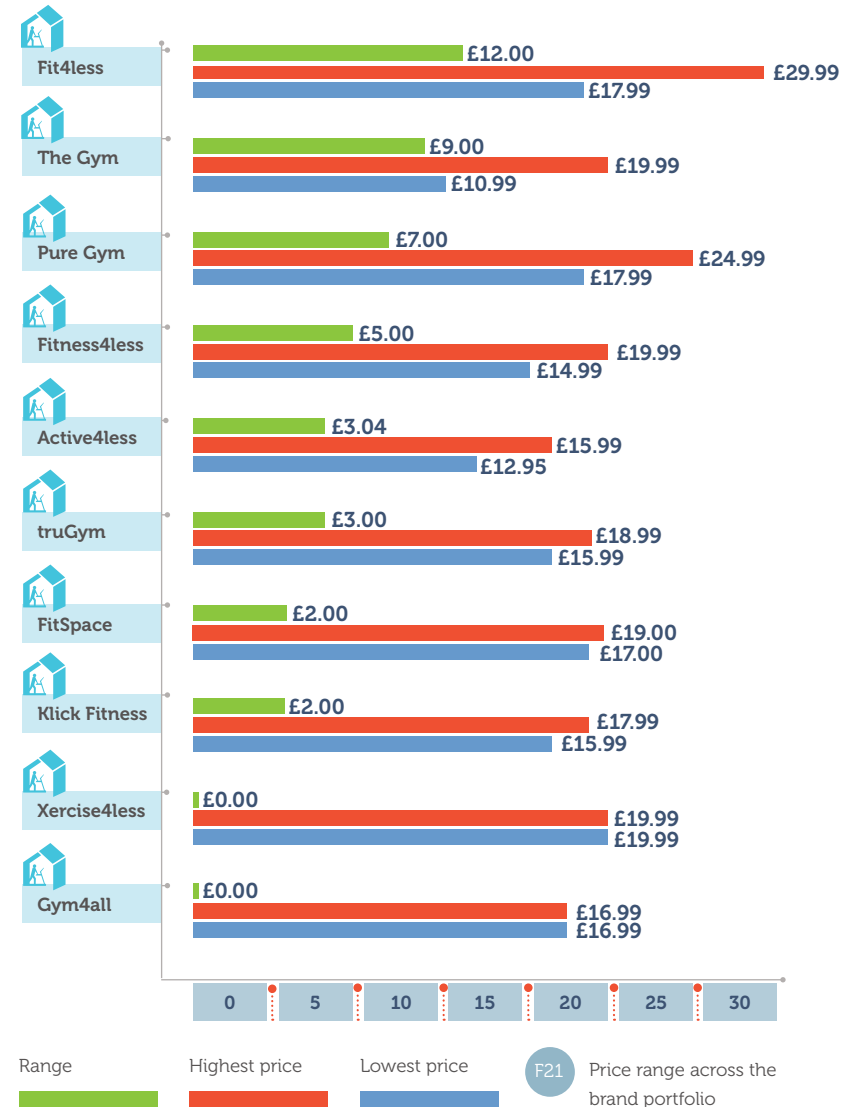
45. The price paid by the consumer so inclusive of Valued Added Tax (VAT) at 20%

Summary of Leading Private UK Low-cost Gym Brands

The figure shows that brands such as Gym4all and Xercise4less have consistent prices regardless of the location of their gyms.

Fit4less has the widest variation in price with the lowest priced at £17.99 per month while the highest is £29.99 for their East London gym, giving a price range of £12

Pricing range across the brand portfolio



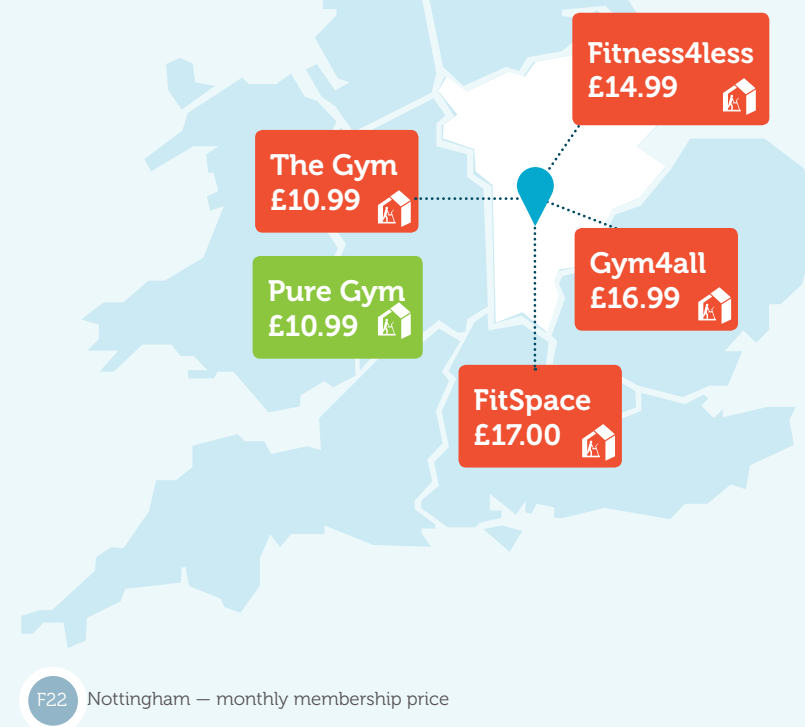
Summary of Leading Private UK Low-Cost Gym Brands

When low-cost gyms compete in the same city

An interesting scenario is presently unfolding in Nottingham⁴⁶ in the East Midlands. Four low-cost brands already have gyms open, with Pure Gym due to also open during November 2012. Pure Gym is presently advertising membership to its Nottingham gym at £10.99 per month, matching The Gym.

It will be interesting to track over time whether Nottingham can support five low-cost gyms

Nottingham — Monthly Membership Price



46. Current city population of 307,000 (Source: Nottingham City Council)

Growth Prospects for the UK Low-cost Gym Sector



A key question

I posed when writing the 2010 report was how prevalent will low-cost gyms become in the UK? The UK sector was slow to start, with FitSpace opening the UK's first low-cost gym some nine years after McFit began its transformation of the German market in 1997. However, this report confirms there is tangible change and a sense of momentum in the low-cost gym sector, but what does the trading environment look like for these relatively new operators?

The macro-economic backdrop

The near-term macro environment for the low-cost operators looks attractive as UK consumers continue to tightly manage their household budgets and seek out real value on the high street. Growth in UK real households' disposable income is at a virtual standstill and has been since the onset of the financial crunch.⁴⁷

Add to the mix a Eurozone crisis unfolding nightly on our televisions, a 'double-dip' recession here in the UK⁴⁸ and an undercurrent of job insecurity and you wonder if anyone has the confidence to open their purse or wallet. However, we know that consumers are smart and 'savvy' and can be tempted to buy when something hits the 'sweet spot'. Perhaps this is why Premier Inn, the Whitbread-owned low-cost hotel business is on track to add a further 4,500 rooms to its UK portfolio during 2012.⁴⁹

Some would find this kind of trading environment extremely intimidating; for others, it represents a once-in-a-generation opportunity to start a business

that consumers will truly value. So, while some see a challenging 'high street' and an inner voice screaming 'let's wait for better times', others see an opportunity to take advantage of potentially advantageous property terms, great staffing talent looking to join a new company that is making a difference, while facing some existing competitors who are recession-weary.

Lower gym prices⁵⁰ continue to expand the market and introduce consumers who have never previously been gym members. Direct benefits from the London Olympics are presently uncertain⁵¹ and government efforts regarding public health and physical activity remain disjointed. Fitness operators are unlikely to be part of any public health strategy until they can deliver and measure outcomes and impacts. Low-cost operators have led the industry's digital efforts in line with consumer expectations of transparent pricing and the ability to transact online with 'no contract' options. Fitness devices and mobile applications are launching at a frenetic pace that offer services that were previously the domain of fitness clubs.

47. Less than 1% a year on average between 2007–2010. Source: Office for National Statistics, 2011

48. The last double-dip recession in the UK was more than 35 years ago. It is defined as two periods of negative economic growth, followed by a short recovery and then a further two periods of negative economic growth

49. Telegraph article discusses this further — bit.ly/Q6y1rK

50. For example, The Gym Group open their Edinburgh gym during November 2012 and are offering a single membership for £10.99 per month

51. Presently, the beneficiaries seem to be Olympic sports such as rowing, cycling, triathlon etc. For example, Manchester velodrome bookings are presently up by 400%

A 2012 Lancet study named Britain as the third most inactive country in Europe, with 63% of adults not meeting minimum levels of activity, describing it as an inactivity pandemic⁵⁵

Olympic participation legacy

There has never been a bigger opportunity to get people more active. Inspired by Team GB's 29 gold medals, it is exciting to believe that London 2012 is the platform for a long-term and sustained Olympic participation legacy that benefits sport clubs, gyms and other physical activity providers. Unfortunately, it presently feels more like a broad aspiration.

Of course we have witnessed an effect; the Olympics has motivated children⁵² and adults to be more active but how is this enthusiasm now to be sustained?

A sporting and physical activity legacy is a commendable goal but the priority is improving public health. 26% of all English adults are now obese.⁵³ Just think, when your own young children reach their 40s and are of 'normal weight', they could potentially represent a minority group. The wider societal costs of obesity may reach £50 billion by 2050,⁵⁴ yet according to the Chief Medical Officer, physical activity can reduce the prevalence of chronic conditions such as obesity and type 2 diabetes by 30–40%.

To change the trajectory of this health crisis requires the alignment of government departments, local authorities, social enterprises and private organisations. Direct governmental intervention may be necessary. Denmark was the first country to introduce laws regulating the sale of trans fats⁵⁶ in food products during 2003. While New York City passed the first U.S. ban of oversized sugary drinks in September 2012. But one only has to reflect on the point that Coca-Cola, McDonald's and Cadbury's were all sponsors of London 2012 to understand the scale of the challenge. In fact Coca-Cola has been a lead sponsor of every Olympic Games since 1928.

In March 2011 the Department of Health set up the Public Health Responsibility Deal.⁵⁷ Its aim is to encourage influential businesses to make a contribution to improving public health in England. Hundreds of organisations have signed up but it is premature to understand its long-term impact. Also of significance is the reform to the health and care system and decommissioning of the Primary Care Trusts (PCTs), scheduled for completion in March 2013.⁵⁸ Theoretically, it is easy to understand how the health and fitness sector has a role, but it must be ready with an appropriate and affordable 'basket' of solutions. However, if it is to become an influential partner it has to start delivering measurable programme 'evidence' and demonstrate value for money.

52. Deloitte survey in August 2012 of 2,000 16–35 year olds found that 18% intend to take up a new sport or exercise — bit.ly/Ppq5kM

53. See Health Survey for England ic.nhs.uk/pubs/hse10report

54. See foresight.gov.uk

55. Read the study here — bit.ly/SG7Eep

56. Trans Fat Regulation — bit.ly/QtqmHT

57. Read about the project at this link — responsibilitydeal.dh.gov.uk

58. See this link for a visual understanding of the changes underway — bit.ly/PhIHUY



Technology – experiment, learn and adapt quickly

In the last decade, entire industries have been transformed through the use of technology. This has created winners and losers. Significant parts of the 'legacy' health and fitness industry have struggled to engage members via the technology.

Online or 'web sign-up' is a good example. Why has it taken so long for the health and fitness industry to put this in place? Clearly there are operational challenges in transitioning from off-to online, but the web has now existed for 21 years. Contrast this with low-cost operators who from the outset have embraced the web and positioned it at the centre of their business. Unencumbered by the baggage of sales teams, low-cost gyms have provided a simpler, and often preferable, online user experience, while reducing operating costs. Other thoughtful uses of automation have provided additional cost advantages. When core processes⁵⁹ are digitised they can be consistently delivered and then allow a business to focus on more value-enhancing activities.

Despite the advantage low-cost gyms have gained, the rate of change means they must continually innovate. Digital delivery of the 'fitness product' is well under way and the big 'players' are not health and fitness businesses. Nike in 2007 was a pioneer with Nike+,⁶⁰ recognising the opportunity to connect with its customers. This was no one-off 'special project', but the start of a journey to create the world's largest fitness community.

There are now more than 13,600 health and fitness apps on iTunes,⁶¹ while mobile-enabled fitness devices and weight management smartphone apps have dominated headlines in the 'e-health' space. These applications do much more than simply track activity; they provide programmes that are updated via clever algorithms taking into account previous performance, training advice, motivation during and after activity, leader boards, gaming dynamics⁶² and sharing through social networks. It is not only retailers who are interested in this space, but also handset manufacturers and health insurers.

The initial foray by gym operators into digital with apps that offer some utility in managing membership, class bookings and providing club information is a start.⁶³ However, the key question for all fitness operators is positioning in this digital space and establishing who owns the relationship with the customer when using third-party platforms.

59. For example, moving to a biometric entry system to enter the gym rather than using staff at reception

60. See nikeplus.nike.com

61. At April 2012. See mobihealthnews.com/research

62. See this TED talk by Jane McGonigal for further information – bit.ly/aDmAYR

63. For example, David Lloyd Leisure launched its first app for members and the general public during August 2012. See bit.ly/UWHODO





The role of video

Millions of users are exercising and dancing in front of televisions using an Xbox, Kinect,⁶⁴ PlayStation and Nintendo Wii. Wello, a start-up, allows users to have personal training sessions via a video link⁶⁵ and virtual classes are provided by many businesses⁶⁶ to clubs and individuals.



Technology's impact on the sector is not confined to apps.

Cloud computing has revolutionised the delivery of software and created abundant storage capacity and an extraordinary resource to catalyse the changes in the digital world. Virtually any object could be generating data, including our homes, cars and our bodies:

- What once seemed a shiny household appliance (the fridge) could begin to veer into the territory of a lifestyle coach.⁶⁷
- 'Buzzing' clothes could teach you to be a better athlete. Gym-ready clothes designed to improve your performance as you exercise are being developed.⁶⁸

Technology is having a profound effect on the fitness industry. For some it is happening in the background and gets little attention, for others it is an opportunity to transform their product and processes.

64. See this video trailer for Zumba Fitness 2 Rush Trailer (Xbox 360 Kinect) — bit.ly/H7tHt1

65. www.wello.co

66. www.wexer.com

67. The fridge to make you slim, Financial Times, 5th May 2012

68. New Scientist, 17th August 2012



'Me' not 'we'

The digitisation of our lives is relentless and as consumers share more information so they expect businesses to know and understand them.

Generic marketing communications are being ignored because they are becoming increasingly irrelevant.

We are also now experiencing a 'passing of the baton' from companies to consumers regarding influence as 52 million UK adults⁶⁹ race to amplify their voices using social media.



Delight them and the 'digital love' spreads rapidly; upset them at your peril.



'Surprise and delight'

The double-dip recession has had lasting effects on consumer purchase behaviour.

Often, consumers who experience low-cost propositions for the first time are left in a state of 'surprise and delight'. This means they will question the need to trade back up to similar, but more expensive, alternatives.⁷⁰ The web, of course, is helping by simplifying the shopping experience and bringing pricing transparency.

Low-cost gym operators are harnessing this opportunity with their simple-to-understand and affordable proposition and by turning their backs on membership contracts and other features of 'legacy clubs'. Importantly, there is a correlation between gym membership affordability and market penetration. Consumers on modest incomes can now afford to join a low-cost gym, and as a result are experiencing the industry for the very first time. The private part of the industry is being 'democratised' by the low-cost operators and making it more socially representative of the wider population.

69. At 2011

70. See this McKinsey Quarterly article (How the recession has changed US consumer behavior) — bit.ly/R9MRg9

Competitive Forces Analysis

ASSESSMENT OF CURRENT COMPETITIVE LOW-COST GYM SECTOR RIVALRY – LOW

- Low-cost gyms are concerned more about the vicinity of other low-cost gyms more than 'legacy' clubs
- Low-cost gyms tend to be 'net winners' when they open near to 'legacy' clubs who have high numbers of 'machine-only' members
- Limited evidence of low-cost brands having to compete in the same catchment area, though some choose to do so e.g. Nottingham



SUPPLIER POWER – LOW

- Landlords can have bargaining power when there is competition for the same property
- Providing support for asset finance helps equipment suppliers to secure deals
- Fewer staff employed means less personnel influence, but 'star' managers will be in demand
- No significant evidence yet of key suppliers integrating forward to become gym operators

CONSUMER/MEMBER
POWER – MODERATE

- Members may or may not be locked into contracts so ease of switching is mixed
- Few opportunities currently for members to switch from one low-cost brand to an alternative
- Low-cost gyms are increasing in numbers, giving consumers more choice

THREAT OF NEW ENTRANTS
– MODERATE/HIGH

- Medium/high capital requirement creates significant entry barrier
- Existing low-cost operators have some benefit of scale and covenant strength when negotiating property deals, which may deter some from entering
- Low-cost gyms unlikely to have built any significant brand loyalty yet
- Numerous geographic 'gaps' in provision of low-cost gyms, which will attract newcomers
- Response from mid and premium sectors likely, as evidenced by Equinox creating the Blink low-cost brand in the USA
- Competitive retaliation from the existing low-cost brands should be expected
- Access to technology is a potential barrier
- Government policy has some impact through tax breaks available to registered charities which could attract new players
- Evidence that low-cost gyms are increasing demand, which will support investment decision-making

THREAT FROM SUBSTITUTE
PRODUCTS – HIGH

- Mobile device and app solutions offering personalised health and exercise programming, tracking, motivation and sharing are proliferating
- Evidence that Olympic sports are gaining a boost from the London 2012 effect
- Gaming platforms and 'smart' internet-enabled TVs are making in-home exercise more engaging
- Outdoor instructor-led exercise is gaining momentum
- Micro clubs offering convenient, fast and specialised fitness solutions are increasing in popularity with consumers
- Weight management sector pose threat as many low-cost members are exercising for 'appearance' reasons

F23

Competitive forces analysis



The wider low-cost economy

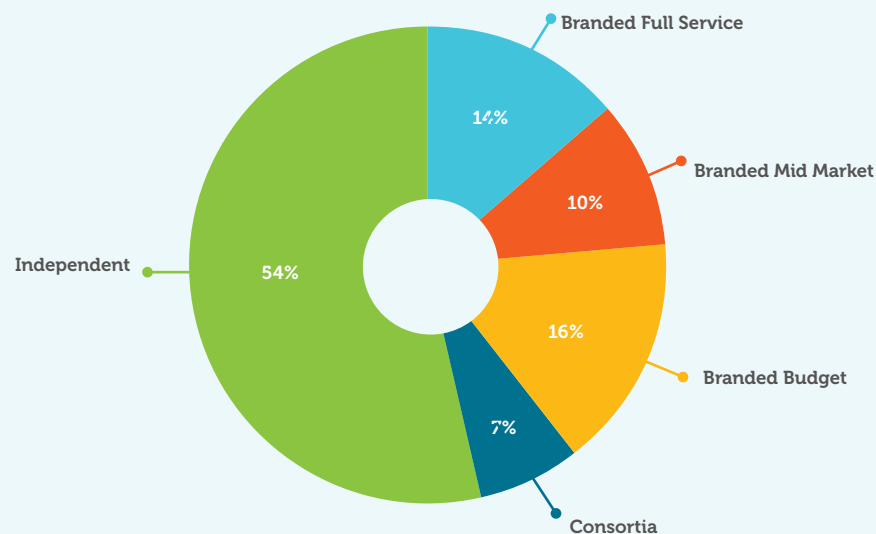
Low-cost gyms were a late entrant into the wider UK economy, but there is a rich history from other market sectors to provide context and learning. The following review demonstrates how pervasive the low-cost economy is becoming.

Budget hotels

The UK's first branded 'budget'⁷¹ hotel was built by Travelodge in 1985. Since the mid-nineties this sector has grown quicker than the rest of the market, fundamentally changing the industry. During the last decade the budget sector has grown 10% per annum and in the 1990s exceeded 20%. In the last three years, despite the economic downturn, the UK branded budget hotel sector has grown by 35%. Market share measured by number of rooms has risen from 12% at the end of 2007 to 16% in 2011.⁷²

Distribution of serviced accommodation in the UK, 2011 (%)

Source BHA Trends and Developments 2011



F24 Distribution of serviced accommodation in the UK, 2011 (%)

71. Many analysts tend to use the term 'budget' hotel rather than low-cost hotel

72. Melvin Gold Consulting Ltd — melvingoldconsulting.com



The parallel with the UK health and fitness Industry is interesting. The overall hotel market still remains very fragmented, with the 10 largest operating companies having approximately just 28% of all rooms. The Premier Inn and Travelodge 'duopoly' dominate the budget sector, with 585 and 452 hotels respectively (70%) out of a total of 1,440 hotels.⁷³ A key catalyst to the early development of the UK budget hotel sector were the 'land banks' of two leading players. Using land adjacent to restaurants and motorway services they were able to affect a rapid roll out. Holiday Inn (Holiday Inn Express) using a franchising model has become the third largest in the sector (115 hotels). Accor (Europe's largest hotel company) is in fourth place with its budget brands, Ibis, Etap, Formule 1 and All Seasons (78 hotels in total).

In recent years there have been two significant trends in the market. First, the move into city centres and secondly the increase in size and number of rooms in these locations. This has increased overall market awareness and acceptance of the budget model. The strength of the branded budget hotel sector is its brand recognition and promise,⁷⁴ consistent offer, known facilities, widespread availability and marketing power.

Interestingly, in the USA and France the budget segment accounts for 33% and 24% respectively of total supply. This indicates there is still opportunity for aggressive growth in the UK and the continual polarisation of hotel supply, squeezing out mid-market and independent brands. Competition in the budget sector in 2011 reduced average room rates by 0.7%.⁷⁵ New budget entrants include Tune Hotels, as well as Yotel⁷⁶ and Bloc Hotels.⁷⁷ These design-led 'boutique budget' hotels could provide enough added-value to differentiate from the corporate budget sector, and charge a premium. More significantly, the recent announcement of IKEA's proposed entry into the budget hotel sector illustrates that in a maturing market there can still be surprises. IKEA hopes to build hotels in markets where it is already active in commercial property projects, such as the UK. The indication is that it will not use the IKEA brand.⁷⁸

As a final comment on the budget hotel sector one has to mention Travelodge's company voluntary arrangement (CVA). This is the result of yet another overleveraged financial structure and very aggressive growth. Travelodge will recover with the landlords paying the price.⁷⁹

73. Room totals at March 2011. Great report available — Quantification of serviced accommodation supply in the United Kingdom and consideration of related issues. 2nd Edition. Melvyn Gold Consulting Ltd, March 2011. See melvingoldconsulting.com

74. For example The Premier Inn good night's sleep or your money back

75. bit.ly/QQLqpp — Hotel Britain Twenty Twelve

76. www.yotel.com

77. www.blochotels.com

78. on.ft.com/Rdqbvs — Financial Times, Travel and Leisure, August 14th 2012

79. Travelodge can blame its pain on Dubai. The Guardian bit.ly/PH4x6C



Discount grocers

According to the Kantar World Panel,⁸⁰ the 'Discount Grocers' had a combined 8.9% share of till receipts.⁸¹ The top four, Tesco, Asda, Sainsbury's and Morrisons, had a total of 76%.

However, Aldi and Lidl in particular, have consistently gained market share year-on-year and have continued to gain share at the expense of the mid-market since 2008. Both have a distinctly different format, with smaller stores a reduced range and lower prices. For the last two 12-week periods Aldi has maintained a remarkable 26% growth.⁸² Edward Garner at the research firm Kantar explains:

We are seeing big cutbacks by consumers as they continue to respond to this current period of austerity. The success of the discounters, Aldi and Lidl, is a clear example of shoppers watching their purses, with both retailers continuing to surge ahead.

Aldi and Lidl also rank first and second in the YouGov BrandIndex⁸³ Top 10 Index Improvers, in the Supermarket category. Meanwhile in the Which? Annual Supermarket Survey,⁸⁴ Aldi and Lidl ranked second and third behind Waitrose, the premium grocer. So dismiss any notion that these 'discounters' are cutting corners or trading in inferior produce.

UK grocery market share

Tesco	29.7%	Lidl (Discount)	2.6%
Asda	17.5%	Other Multiples	2.2%
Sainsbury's	16.6%	Iceland (Discount)	2.1%
Morrisons	12.2%	Symbols & Independents	2.1%
The Co-operative	6.3%	Farm Foods (Discount)	0.6%
Waitrose	4.5%	Somerfield	0.1%
Aldi (Discount)	3.6%		
		Total	100%

T8

UK grocery market share – at February 2012

80. 25,000 demographically representative households across Great Britain

81. For the 12 weeks to 19th February 2012

82. Grocery Market Share UK — Grocery Market Beats Inflation bit.ly/Qu3ch3

83. At July 2012. See brandindex.com

84. See the Which? Press release here — bit.ly/rHSPCq



Value clothing

Market share of the 'value' clothing retailers was estimated at 20% of the overall market in 2009.⁸⁵ It continues to be one of the beneficiaries of the recession as the decline in confidence means consumers are spending less and are more inclined to seek our bargains.



The winners have been specialist clothing retailers such as Primark, TK Maxx, Zara and Matalan, who have adapted quickly by improving product ranges and becoming world-class at delivering 'fast-fashion'. They have also created great store environments. For example, Zara recently paid £155 million for its flagship store on Oxford Street, London – no inferior secondary location for this Spanish retailer. Value retailers and supermarkets have become the preferred places to buy clothes in-store and are now used by six in ten UK consumers. An increase in the number of people in the 25–34 age groups, who are avid fashion purchasers, is also a positive. But as growth in the whole sector slows there have been recent casualties even at the value end of the market, including Peacocks⁸⁶ and TJ Hughes.

There are a number of fundamental shifts in the market, which all retailers have had to adapt to. For example, the increasing popularity of out-of-town shopping destinations has led to a general downturn in the high street. Online shopping has also had a big impact on retail clothing, and surprisingly Primark, which currently has 157 UK stores – still lacks an e-commerce presence.⁸⁷

85. Source: Mintel 2010

86. You can read about the collapse of Peacocks into administration here – bit.ly/yuGiUp

87. At September 2012





Affordable air travel

A UK-only review of the airline industry is difficult so the following commentary discusses the subject from a European perspective.

The European Union deregulation of air travel was the catalyst for the growth of the low-fare airlines (also known as Low-Cost Carriers or LCCs) and since the mid 1990s they have transformed the way we travel. Southwest Airlines was the precedent and its success inspired European carriers to adopt the model. Like Southwest Airlines, Ryanair launched (1985) prior to deregulation but its success only began when it adopted a true low-cost approach some six years later. easyJet started operations in 1995.

LCCs not only captured passengers from full-service airlines but also attracted completely new customers, who either travelled by alternative mode, or not all. A number of airlines entered the segment, including full service airlines. British Airways, who fearing loss of business to the LCCs, started a new airline from scratch called 'Go' in 1998. I met David Magliano, one of the Go founders, soon after their launch and it was clear they saw an exciting opportunity to embed more of an 'experience' into the Go brand rather than simply get passengers safely to their destinations. This is what Magliano said in an interview with PR Week in 1999:

The conventional thinking on budget airlines is that we are competing on price so the brand doesn't matter, but the people who travel with us are likely to be cash rich and time poor. I want a brand that fits into the rest of their shopping portfolio. I'm not saying we want to be The Ivy or Prada, but we can be Pret A Manger or Gap.

Affordable air travel continued

There are other examples of full-service or 'legacy' airlines creating a LCC, such as KLM who started 'Buzz' and Lufthansa who created 'Germanwings'. Richard Branson also had a go with Virgin Express Airways in 1996, which was integrated into Brussels Airways 11 years later. Typically, full-service airlines struggle to integrate LCCs into their business. However, charter airlines have in some cases started successful LCCs (e.g. Monarch & jet2). In fact over 20 LCCs launched in Europe in the 1990s and the next decade saw over 50 new entrants, with many more non-starters. This flood of new entrants is common in new markets and led to overcapacity, price wars and business failures. Approximately 30 of these airlines remain in the skies.

In the UK 14 LCCs have launched during the last two decades and five remain active. Four were sold and five went bankrupt. Ryanair and easyJet now dominate the LCC market in Europe.

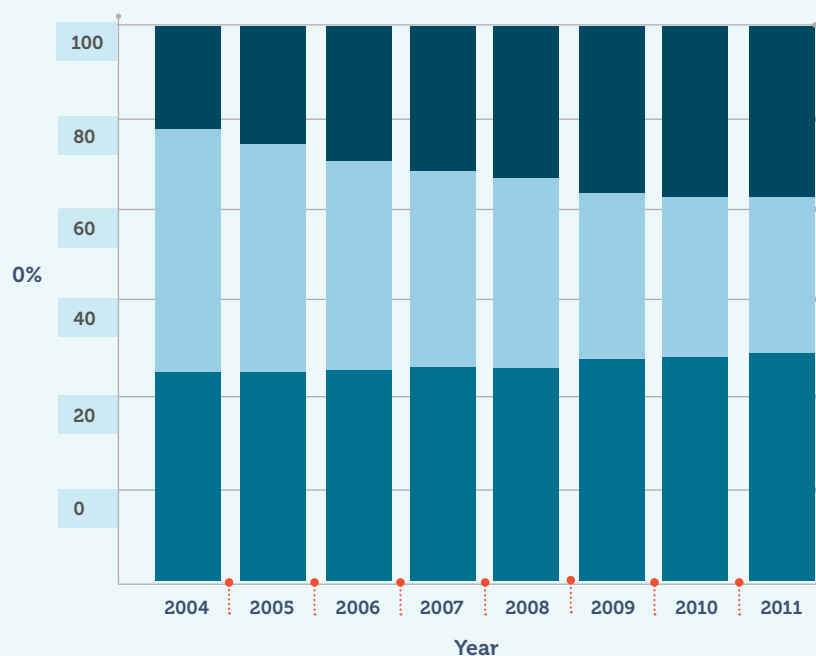
As well as cutting costs, the LCCs have rapidly embraced technology. They were the first to extensively use the web for booking and service enquiries and use smart yield-management and pricing to

ensure their planes take off with a full, or near-full, passenger load. Passenger load-factor or the percentage of available seats sold is a critical metric for an airline. Interestingly, there have been differences in market positioning amongst LCCs. Southwest is famous for its fun-loving attitude and no one has come close to emulating this in Europe, except perhaps 'Go' before being sold to easyJet in 2002. Ryanair continues to use secondary airports and easyJet has favoured bigger airports, hoping to offset higher charges with more customers and business travellers as well as recently trying to add more services.

The airline industry is a phenomenally difficult business and the LCCs have truly proved their robustness. Ryanair and easyJet dominate the market with 'airberlin' as their nearest competitor. LCCs have been consistently profitable and came through 2009 relatively unscathed. Year-on-year performance continues to deliver growth. The European Low Fares Airline Association forecasts that the LCCs percentage share on point-to-point routes could increase to 50% by 2020.

Affordable air travel continued

0% Share of European weekly airline seats



F25

% share of European weekly airline seats

- Top blue — low-cost airlines
- Middle (pale blue) — regional airlines
- Bottom blue — full-service



Growth of Ryanair

	2006	2007	2008	2009	2010	2011
Passengers (millions)	34.8	42.5	50.9	58.6	66.5	72.1
Passenger load factor (%)	83	82	82	81	82.2	83
Average fare (Euros)	41.2	44.1	43.7	40.0	34.9	45.0 ⁸⁸
Routes	436	637	860	940	1,300	1,500
Aircraft	133	163	181	232	272	294

T8

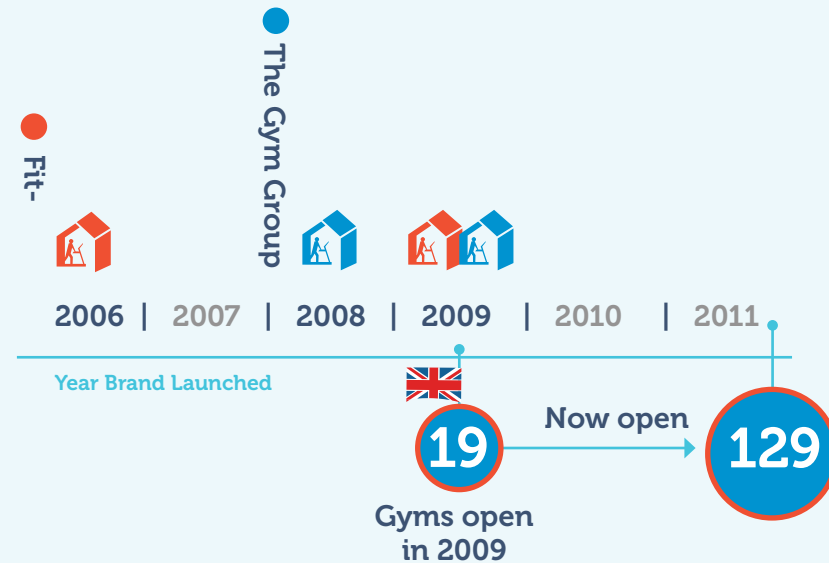
Growth of Ryanair — 2006 — 2011

88. Experiencing rising fuel costs which translate into higher passenger fares

Growth Prospects for UK Low-cost Gym Sector

So what do the growth prospects look like for the UK low-cost gym sector?

As we know, FitSpace, the UK's first low-cost operator, opened in 2006, followed by The Gym Group in 2008. With just two operators, the supply of these 'super-lean' gyms was initially very modest, with only around 19 open and trading at the end of 2009. As I write, the leading low-cost brands now have 129 gyms open and trading. Clearly this is significant progress, but to provide some context, McFit, the German low-cost operator, now has 160 gyms open at September 2012. 129 low-cost gyms represents approximately 4% of all UK private clubs, up from 1% since my last report.



Make way for new entrants

New market segments rarely emerge in a neat and orderly manner and so expect frenetic activity and numerous announcements. Inevitably, there will be a flurry of new entrants – two more during the course of writing this chapter.

Most will be competent, some not, as they sense an opportunity not be missed. The demise of Nuyuu illustrates that low-cost may look simple on the surface, but conceals a considerable amount of complexity. Cookie-cutter models tend to work best; think Starbucks, McDonald's and also McFit, whose consumer proposition has remained very consistent over the past 15 years. For example, did you know the price to join a McFit gym in 1999 was €15.90 per month and 13 years later is €16.90. Now that is consistency.

The winners in the low-cost gym market will be those with operational discipline and who have built reasonably homogenous assets. Consistency trumps size, I believe.

The arrival of Klick gyms from Fitness First in 2011 had the potential to be a significant strategic move, but this is now seemingly on hold,

given the Company Voluntary Arrangement (CVA). The majority of the Klick low-cost gyms are now up for sale, along with approximately 61 further Fitness First clubs. This provides a sizable platform for a new entrant or existing player, but it is more feasible these clubs will be cherry-picked by a mix of low-cost and mid-market operators.

The Europeans have arrived

There were no overseas brands or entrepreneurs that featured in my 2010 report, but this has now changed.

Gym4all, led by Erik van Meeteren, a Dutch national, was too small to feature in the 2010 report but now has five gyms open. Look out for 'Fit for Free', the leading low-cost gym operator in the Netherlands. Fit for Free has successfully been operating low-cost gyms in the Netherlands since 2005 where it now has 46 clubs.⁸⁹ It has an extremely experienced and competent management team and private equity backing to fund and advise on its UK strategy. Fit for Free opened its first UK ⁹⁰ low-cost club in Liverpool in September 2011, followed by a second in Bury in the North West of England. A third gym in Worcester (West Midlands) is due to open in October 2012. Full use of the gym (Unlimited fitness membership) costs £15.95 per month, based on a 12-month contract. A brand like this could make a serious 'dent' in the UK low-cost gym segment, but only if there is a determined strategic intent.

89. Correct at September 2012

90. See fitforfree.co.uk



Other foreign interest

It is difficult to currently see the attraction of further foreign operators entering the UK low-cost market, but keep watch for those 'announcements'. When I asked Rainer Schaller, the McFit CEO, if they were coming to the UK during a 2010 interview, he simply stated they were focused on Germany, Austria and Spain (G.A.S.).

Two years on and for now they seem content with building on the 1.1 million members⁹¹ they have in the G.A.S countries. However, Germany is not just about McFit, as Clever Fit⁹² has approximately 100 locations and an estimated 250,000–300,000 members, which means they have the scale to embark on other countries, if so inclined.

Also, keep a watch on the American low-cost operators, especially the franchises. Perhaps it is the franchise-powered brands that possess more inclination to 'jump the pond' and settle in the UK. If so, then keep an eye on Planet Fitness, which continues to dominate in the United States. They now have approximately 3.5 million members⁹³ across 500 gyms, powered predominantly by a franchise model, although they do have directly owned gyms as well. Will they be entering the UK low-cost sector? No announcement yet. Gold's Gym is an interesting brand as it now has Gold's Gym Express, a low-cost brand that it launched in the United States during 2011. Membership for a single gym is £6 per month, with no contract to sign.⁹⁴ During a recent interview with Jim Snow, President of Gold's Gym International, he stated an interest in the UK with entry potentially led by one of their existing international master franchise holders. Crunch Franchise,⁹⁵ owned by New Evolution Ventures, has also recently announced ambitious plans for its low-cost brand, with gyms now open in the United States and Australia.

91. Source: McFit at September 2012

92. See clever-fit.com

93. Source: Planet Fitness

94. \$9.99 per month

95. See crunchfranchise.com



Keep a close watch on the 'social enterprises'

Social enterprises⁹⁶ with a recognised charitable status have the potential to make a significant contribution to this sector. They normally benefit from Business Rates relief⁹⁷ and VAT relief,⁹⁸ giving leisure organisations with this status a significant cost advantage over 'for-profit' health and fitness club operators.

Recently, I ran a one-day low-cost strategic workshop in London and social enterprises were very well represented there. They now realise that some strategic response is required. Some will decide to enter this space and leverage their community connections and tax breaks. Kirklees Active Leisure in the North East of England recently launched 'Smart Fitness', a 110 exercise-station low-cost gym with memberships at £14.95 per month. Of course, the big potential player is GLL, the UK's leading charitable social enterprise. The new Bexleyheath gym is a potential platform for a far more ambitious low-cost project. Those that decide not to directly enter low-cost will focus on refreshing their gym experience so that it remains relevant.

Near-term sector growth

If there are no significant and ambitious new entrants, the majority of growth in the next two years can be expected from the top-tier low-cost brands summarised in table 5.

Venture capital and debt funding drives the property acquisition trail for The Gym Group and Pure Gym, but these are not inexhaustible funds.⁹⁹ Nevertheless, both companies will be collectively aiming to open at least 50 gyms in 2013, subject to a strong property pipeline. These brands are fast building credibility in the property sector, which matters when attempting to secure new deals on the most favourable terms.

96. Driven by social rather than profit-maximising objectives

97. Note for overseas readers – this is a tax on commercial property and normally a significant annual operating cost. Reductions range from 80–100%

98. You can read more about VAT relief/exemptions for registered charities at this link – hmrc.gov.uk/charities/vat/intro.htm

99. The Gym Group and Pure Gym are expected to raise further funds through partial sale or change of ownership during 2012/2013 to fund club growth

Near-term sector growth – continued

Clear location strategies for the entire low-cost brands remains essential; is a brand local, regional or national? Also, site acquisition needs to become a science, not an art – ego aside, how much rent can you really afford to pay? Poor location decisions by many of the 'legacy' operators as well as having to service high borrowing expenses have contributed to their demise.

Fit4less, Fitness4Less and Active4Less can all expect to grow faster than the remaining smaller players because of their franchising strategy, but remember that the property formats are not always comparable. For example, Fit4less opened a gym in Maidstone, Kent during August 2012 that is just 279 square metres whereas a typical Gym Group gym is at least 929 square metres.

It is encouraging to see that both Fit4Less and Fitness4Less are still building corporate sites, as leveraging the learning from both has proved effective in other retail markets. Declan Ryan at Active4Less also has considerable experience to harness given that he has been running a low-cost model at his Stevenage, Hertfordshire club for five years.

New gym openings

Taking into account new UK openings during the remainder of 2012 and smaller independent operators, 2013 should start with more than 150 low-cost gyms.

This should then rise to 200–225 by the end of 2013, based on announcements from the various brands, representing around 6–7% of all private UK clubs. As regards to membership levels, I last reported that the UK could potentially reach a position where the low-cost sector had a 25% share of all private members. This still remains a realistic ambition for the sector. Germany, by way of a comparison, is reporting that the low-cost operators now have a 30% share¹⁰⁰ of all members. However, remember that the German low-cost sector has a nine-year head start on the UK.

100. Source: Deloitte Germany 2011. I and a German colleague calculate that just the leading seven German low-cost operators have a 20% total share of market.

07

Concluding Remarks



This report provides a substantial update

on how the UK low-cost gym sector has developed since my 2010 report.

This revised report has been a look back to check up on some of the assumptions made two years ago, while also looking forward so that readers can begin to consider their strategic response.



I have revised my definition of a low-cost gym to now incorporate 'self-service operating philosophy'. This, rather than the low number of staff running a gym, better reflects the distinction with a legacy club.

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

- Simplicity
- Affordability
- Sporadic attendance at 'legacy' clubs
- Consumer sentiment towards 'legacy' clubs
- Changing consumer
- Digital infrastructure

Dispelling some low-cost myths

I always try and clarify what low-cost is and is not. Myths tend to gather around anything that is new and 'disruptive' because some people have a vested interest in maintaining the industry status quo. Try having a 'neutral lens' when evaluating low-cost gyms because this will help you to really understand them.

Interviews with low-cost leaders

People often tell me they enjoy reading the CEO interviews. I try and ask them insightful questions so that we can discover something worth reading. Take The Gym Group, which has never had membership contracts. Why is this? John Treharne, the CEO despises the idea of members being 'locked in'. He thinks they hinder the growth of the industry. So will he change his position on this at some future point? Absolutely not.

Consumer research

This report represents the largest consumer research undertaken with current and previous low-cost members. The ability to send 150,000 online survey invitations with consummate ease is impressive, but then we must remember that you cannot join an authentic low-cost gym without an active e-mail address.

I have tried to provide more psychographic or attitudinal understanding of the consumer in this report so that readers can try and get 'inside the head' of low-cost consumers. Having a better understanding of why someone attends, rather than simply how often, may lead to some breakthrough thinking.

Recommendation rates remain high and Net Promoter Scores no lower than 41%, which is twice that reported in the 2012 UK Health and Fitness Industry NPS Study.



Leading low-cost brands

Pure Gym and The Gym Group lead the 2012 table with a combined 53 clubs open as of September 2012. Europeans now feature in the top 10 and this is likely to continue, especially if Fit For Free makes a concerted push now that it has entered the UK.

Low-cost has permeated society

Hopefully the look at low-cost airlines, budget hotels, discount grocers and value clothing retailers will convince readers that this phenomenon is taking hold, regardless of what assumptions we have about consumer classification systems. Lawyers use Lidl and David Cameron, the Prime Minister, flies easyJet. 'Why pay more?' could easily have been the message printed on Cameron's holiday t-shirt.

Are you paying attention?

Many health clubs were conceived and built in the last century and must ensure they remain relevant to the lives of customers. There are numerous examples of very good businesses that get 'side-swiped' by a new entrant. Staying relevant therefore means 'paying attention' to how consumers are accessing health and fitness solutions, because the threat from substitutes has never been greater.

So, what is your strategic response to the low-cost gym sector?

I frequently ask this question. In fact, it is very easy to pose the question, but far more complicated to answer. For some readers, the answer may seem absolutely clear and that is to jump in and join the low-cost movement. For others, the idea of embracing and moving to a fundamentally self-service, high-volume 'machine-led' proposition just will not feel right. So one person decides to embrace a low-cost future and the other decides to reject it for something more 'operationally intimate'. Who is right? They both are, because strategy has to synchronise with what you deeply believe. So clarify the purpose of the business first and the profit should follow. Remember, this is likely to be a long-term journey so the 'fuel' required every day to drive the business will come from an exuberance and passion for what you are pursuing. Low-cost gyms passionately believe they are helping to 'democratise fitness' by lowering joining barriers and making it easier for consumers to embed physical activity into their lives. You may not believe this, but what does your business believe in?

We're here to put a dent in the universe. Otherwise why else even be here — Steve Jobs, Founder, Apple

Please direct your colleagues to the website in order to download their own copy of this report. Click here



Further Reading and Discussion

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

Appendix

Research methodology

The Gym Group was approached to provide access to current and previous members in order to conduct an online survey. Depth interviews were conducted with 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 requested the following parameters when developing the sample of members to receive the 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.
- Two email reminders were sent as a prompt for ex-members to complete the survey.
- The online survey was emailed to 60,000 ex-members.

Member survey

- The survey was sent to individuals who were members at different gyms across the UK.
- Two email reminders were sent as a prompt for members to complete the survey.
- The online survey was emailed to approximately 90,000 members.

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 Planet Fitness has more members than the population of Uruguay!'



**Ray Algar** MBA

Managing Director
Oxygen Consulting



Cleveland House, 42 Cleveland Road, Brighton England, BN1 6FG

Tel: +44 (0) 7747 69 88 55

E mail: insight@oxygen-consulting.co.uk

Website: oxygen-consulting.co.uk

Oxygen Think Tank: oxygen-consulting.co.uk/think-tank

 Facebook: facebook.com/OxygenConsulting

 Twitter: twitter.com/RayAlgar

 LinkedIn: uk.linkedin.com/in/RayAlgar

Do you wish to be associated with the next strategic report from Ray Algar?

There is an opportunity for one commercial sponsor or consortium to be associated with each report. For further information, and also to suggest an idea for an important piece of research that the global health and fitness industry would value, please contact: insight@oxygen-consulting.co.uk



Oxygen consulting — compelling strategic business insight for organisations connected to the global health and fitness industry

Thank you for taking the
time to read this report



THE END

Researched and written by Ray Algar (MBA), Managing Director,
Oxygen Consulting. 2012 UK low-cost gym sector report —
A strategic investigation into a disruptive new segment.

First edition: October 2012

ISBN: 978-0-9553826-4-2
Price: USD: \$800 EUR: €620 GBP: £495

© Ray Algar, Oxygen Consulting 2012. All rights are
reserved. Unless otherwise agreed in advance by Ray
Algar, no part of this report may not be sold, passed on,
communicated or disseminated in any form.