Challenges, Trends, Acquisition & Retention:

Health and fitness arena of the future

A thought provoker/whitepaper for driving the strategy discourse of operators and other eco system members

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About the Author

Robert has had a varied career spanning industry, health and fitness, strategy consultancy, and academia. Currently he works in an international director role for one of the largest fitness solutions providers in the world. He has a BSc in Sports Science and Management from Brunel University and an MBA from the University of Lincoln. He did his doctoral studies in business at a university in Hong Kong.

He is the author of 2 books. Marketing Professional Services in Asia (Lexis Nexis, 2009) which was called one of the most indigenous books on Asian marketing by Professor Oliver Yau (Chair Professor of Marketing at City University HK) and Developing a Profitable Practice in Asia (Ark Group, 2010).

He has also published over 50 articles in various newspapers and magazines on the topics of strategy, marketing, and leadership. He has spoken at numerous events as a keynote speaker or panelist around Asia and globally.

His strengths lay in strategic thinking, action, and execution, creating more agile and change capable organizations.

Robert is a keen sportsman having played professional football. He still hits the gym 5x week and plays rugby.

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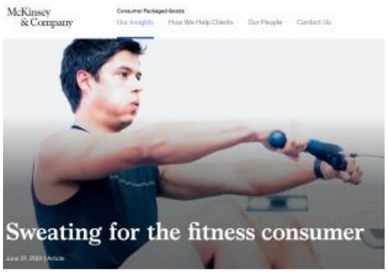
Challenges

If any industry should be purpose driven surely it is ours!

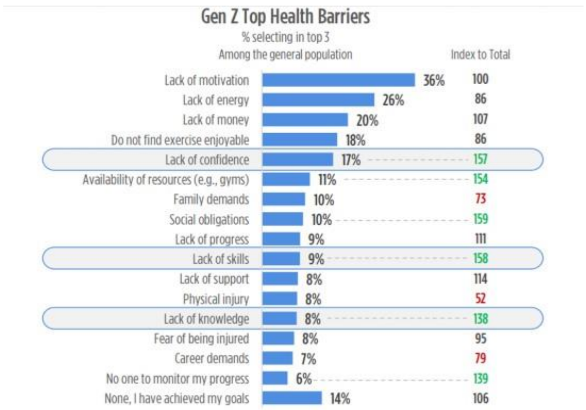
- Membership penetration rates of between .15% (India) and 20% plus (Sweden, EUR, US)
- General exercise rates of over 50% in developed nations
- 50% of members cancel within 6 month
- Retention rates of less than 70%
- Tenures of less than 4 years
- Business model that relies on sleeper members, aggressive PT sales and limited membership journey in and out of the club
- Continued growth of obesity, diabetes and other health related issues
- Focus on fitness as opposed to wellness/well being



Penetration rates in most countries have not shifted for many years and we continue to see the growth of chronic illnesses. In an illuminating study conducted by McKinsey in mid 2022 as the gyms re-opened in the US post Covid, penetration rates rose to historic levels of plus 30%, only to fall back to the normalised levels of 20% in only a few months. In a personal conversation with one of the authors of the study, he told me that the reason was quite simple, the experience did not meet the needs of this cohort. Clearly many people were looking for health and wellness solutions and we can assume a gym was top of mind for many. Whilst health and fitness (wellness) are essential, the question remains - are health clubs?

Questions to ask:

1. How can we better attract non users?
2. How can we increase lifetime value?
3. How can we meet the needs and expected outcomes of members and potential members?
4. How can improve our value proposition?
5. What in our business model needs to change?



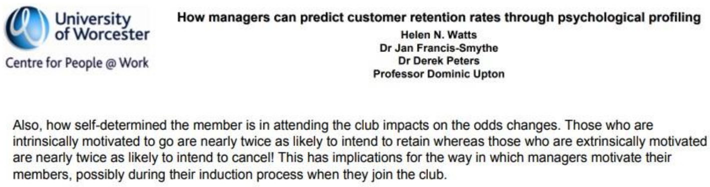
Moving from extrinsic to intrinsic motivation – how long does this take?


FREAKONOMICS RADIO

How Goes the Behavior-Change Revolution?

An all-star team of behavioral scientists discovers that humans are stubborn (and lazy, and sometimes dumber than dogs). We also hear about binge drinking, humblebragging, and regrets. Recorded live in Philadelphia with guests including Richard Thaler, Angela Duckworth, Katy Milkman, and Tom Gilovich.

Stephen J. Dubner/ Freakonomics Radio Jun 22, 2019 · 10 min read


University of Worcester
Centre for People @ Work

How managers can predict customer retention rates through psychological profiling

Helen N. Watts
Dr Jan Francis-Smythe
Dr Derek Peters
Professor Dominic Upton

Also, how self-determined the member is in attending the club impacts on the odds changes. Those who are intrinsically motivated to go are nearly twice as likely to intend to retain whereas those who are extrinsically motivated are nearly twice as likely to intend to cancel! This has implications for the way in which managers motivate their members, possibly during their induction process when they join the club.

In the first mega study of its kind, Katy Milkman (Professor of Behavioural Science at Wharton) and her team were engaged by the CEO of 24 hour fitness in the US to address retention. They created 54 variations (interventions) of a four week digital program with over 60,000 members. 23 of the programmes significantly increased gym visits with 5 of the interventions outperforming the rest (3 of these were monetary incentives).

However, at the end of the 4 week intervention, visitation levels dropped back to normal levels, meaning the intervention had no long lasting impact. This calls in doubt the habit literature that complex habits such as exercise can be formulated in 30 days. Milkman states that such complex behaviour takes at least 6 months to become a habit and hence moving from extrinsic to intrinsic motivation takes time for most people.

Questions to ask:

1. What does our member journey look like?
2. How long is our journey and what kind of interventions do we have?
3. Are we using basic motivational theory in what we do?
4. How do we overcome issues with intimidation, lack of confidence and motivation?

Trends

Global Pilates & yoga studios market is expected to grow at a **CAGR of 10% from 2021 to 2028** . (ResearchDive)

Norway and Sweden boast the highest proportion of avid gym-goers globally, with **22% of their respective populations regularly attending gyms**. Following closely behind is the United States, with 21.20% of its population engaging in regular gym visits. (Helsinki Times)

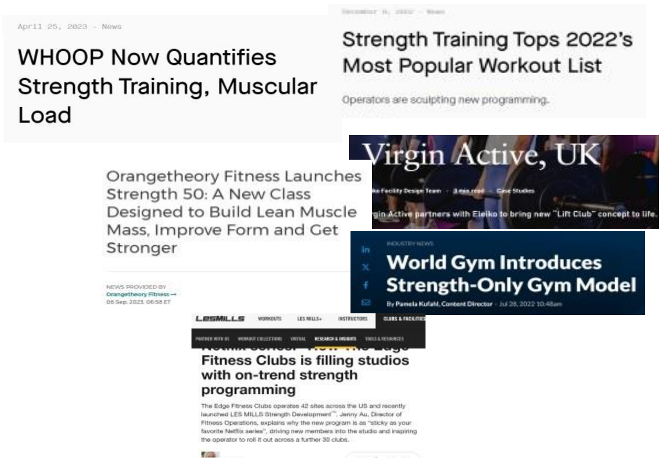
The Asia Pacific region (APAC) is projected to experience the highest growth rate (CAGR of 8.1%) in the fitness equipment market by 2030. fitness equipment market (DataBridge)

Millennials use fitness apps more than other age groups, with women using them twice as much as men. 46% want as much quantifiable data about their health as possible, and 54% are likely to buy a body-analyzing device. (Statista)

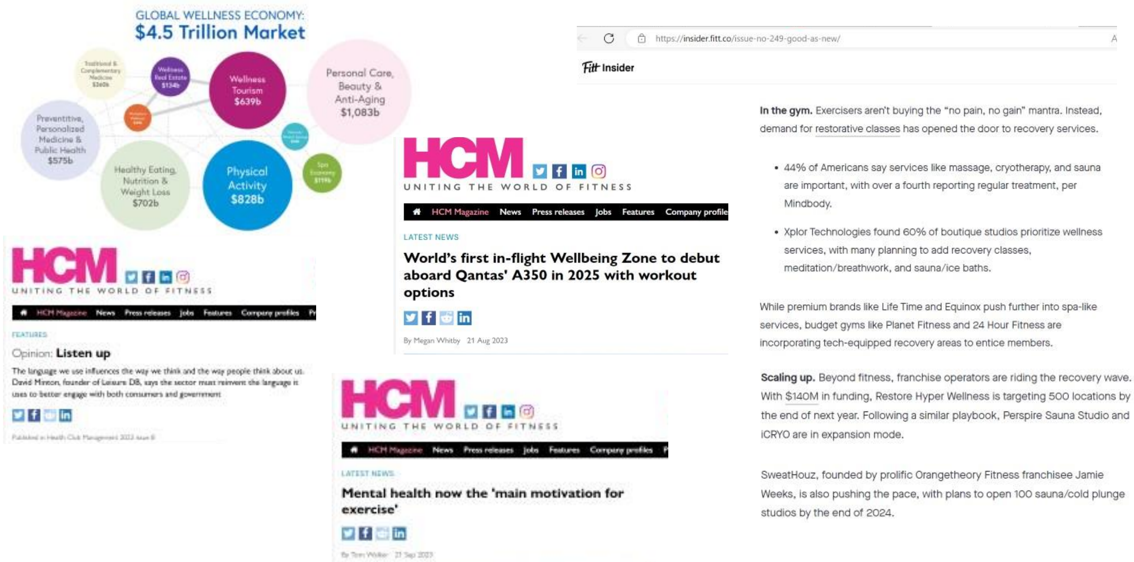
Source: State of the Industry 2022

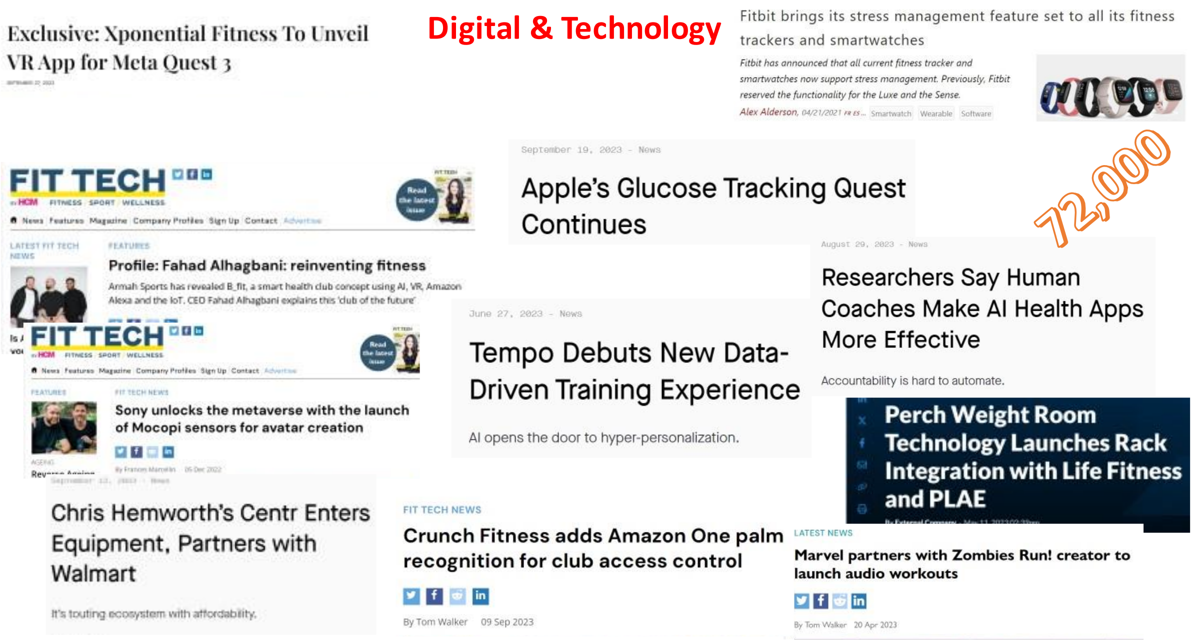
Ageing Market

Strength Training



Wellness and Recovery





The industry has certainly shifted as consumers become more focused on wellbeing with mental health being cited as the main reason to exercise by members in the UK. Strength training has garnered much broader appeal with all types of segments and has, for the first time, overtaken cardio as the primary activity for gym goers according to Murphy Research. Brands such as Virgin Active have created lifting clubs and zones whilst legacy gyms such as World Gym have created strength only offerings.

Whilst it seems the market went through a long stage of bifurcation, where the HVLP end of the market was stealing price sensitive customers from the traditional big box gym/mid market club, and the premium clubs were stealing those looking for better quality service (plus all the alternative options such as boutiques) ,it seems the momentum maybe shifting back. So called mid market clubs are offering club in club solutions targeting a broad range of users. Recovery is becoming a centre piece of many club offerings as wellness needs accelerate.

Omni channel experiences remain critical and the role of technology in managing member journeys in and out of the gym is essential. Beyond that, AI and its potential in personalizing experiences is gaining traction. I believe content will be table stakes soon, how that content is managed using AI to enhance the experience of users and perhaps more importantly, the efficacy of the workouts, will be the long term differentiator. Peloton already does partly what's needed through leader boards and other social initiatives guided by AI. The real proving ground will be when the battle ground moves to the platform and eco system in the health market, not the fitness market.

The kind of technology being used by Tonal and Vitruvian (AI driven) is exceptionally interesting. AI and machine learning will play a massive role in the success of Big Tech in health as the billions of data points they collect will have of sorts of impacts on health and fitness.

The future will look significantly different as will the role of PTs (as Daniel Susskind points out in his fascinating book A World Without Work, AI will take away many more jobs than people ever envisaged). Users will walk up to a console and tap their Apple watch or other device. Based on their sleep, nutrition, heart rate variability, hormone levels, past exercise habits, health checks etc, the AI will suggest a workout identifying parameters related to intensity, form and exercises. Over time it will get better at this as it learns what you, and other people like you, did to achieve their goals. Utilizing the benefits and motivating capabilities of social, the AI will connect you with people anywhere in the world who are facing the same challenges as you. The system will be intelligent adding progression levels and recording every single slice of your health related activity. It will provide advice on nutrition and wellbeing whilst linking to the multitude of service providers on the eco system, including insurance and health care providers. Based on your workout, needs, goals and status, your food will be automatically ordered for you and ready when you get back home or to the office. It will be a self reliant member journey providing all the interaction and touch points needed to enhance your outcomes and adherence. Driven by psychology, behavioral economics and realms of data, it will provide 1000x more information and value than any trainer ever could. Does this mean the end of trainers? No, but their role will need to dramatically evolve. Should the operator worry about decreases in PT penetration? I don't think so for 2 reasons. This vastly new AI enhanced member journey will exponentially increase retention levels adding more to the bottom line than most PT revenues. Additionally, a more active engaged membership will lead to increased secondary revenue spend in others areas, and maybe even PT. If the PT can evolve their knowledge base and skill set beyond the 'traditional rep counter', the opportunities are vast.

The savvy clubs will segment markets not by demographics, but by needs and outcomes using frameworks such as jobs to be done.


OPINION

Eight out of 10 millennials know demographics are horseshit

Millennials are no more similar to each other than they are to Gen X or Gen Z, so it's time to leave this lazy approach to segmentation behind.

By Mark Ritson | 30 Jun 2023

Questions to ask:

1. How do you segment and how well do you know your customer needs?
2. Are our trainers still version 1.0 or are we moving to 3.0? - that is knowledge workers
3. Can you A/B test solutions in club and change these based on feedback?
4. What solutions will meet the needs of your members now and in the future?
5. What HR strategies will you need to engage to execute on these new solutions?
6. How are you using data, AI and analytics to improve your member experience and ROI?
7. What can you do to leverage the wellness economy?

Eco System Future?

So where does the health club ~~fit~~ hub or spoke?

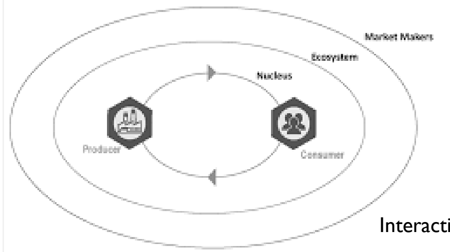
What capabilities does the health club need to become the hub – are we finally going to be in the knowledge and wellbeing industry?

The fitness industry is best described of as an arena, one that is part of the wellness and health eco system. It is clear from recent strategic moves that Big Tech are increasingly determined to explore future business models to take a slice of the US$10T health industry. How that could impact the fitness club is unclear but we have seen Apple open physical locations (health clinics) whilst Amazon has made a number of moves including setting up virtual clinics. In my whitepaper of 2021, 'What if Apples Makes a Treadmill: or doesn't! - http://strategycompetitiveness.com/2021/03/02/whitepaper-what-if-apple-makes-a-treadmill-or-doesnt/, I paint a scenario of how Apple could disrupt the club market through the manufacture of cardio machines, using the consoles as the interface point of data grab and the wellness journey.

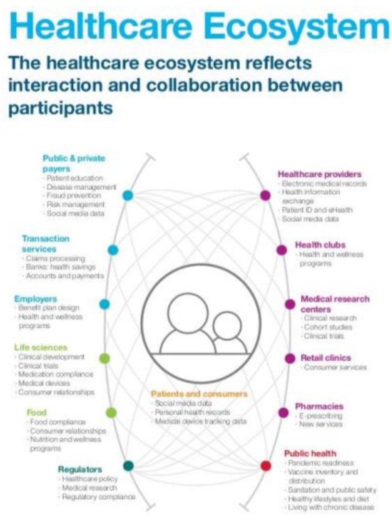
Nuffield Health in the UK acquired a number of Virgin Active sites. The firm now offers a mix of fitness and clinical services within their centres with a broad aggregation of eco system partners that sit external to the firm. Medicover do something similar in Sweden. In India, Cult Fit (owned by Tata Group) has created a unique eco system of home equipment and programming, club brands (Fitness First, Golds Gym, Cult Studios) and a digital platform offering rewards/incentives from Tata owned companies (such as retail). Insurance companies such as AIA and Aetna have well known eco system that tie into the health and fitness arena. Nike is building its own eco system with physical studio and equipment. Terra has created an API to link all wearable and app data into one source, creating one unified data hub.

Questions to ask:

1. What role in the eco system do we want to play, hub or spoke?
2. Do we want to aggregate or integrate partners?
3. What role will a platform play in our eco system strategy?
4. Do we wish to include competitors as part of an interaction field?

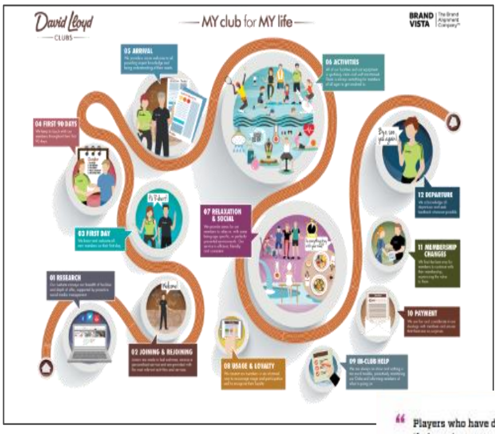


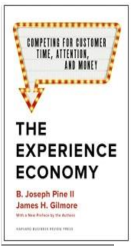
Interaction Field (*Erich Joachimsthaler, 2020*)

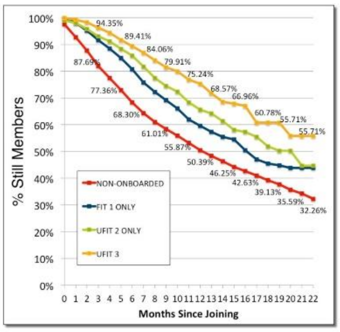


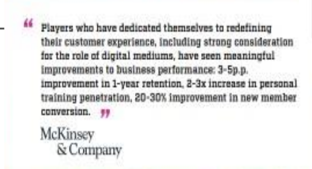
Time for experiences – rethink business models

- The days of the member journey being a free induction and an attempt to sell PT are long gone
- Great experiences do not happen by chance
- They need to be designed







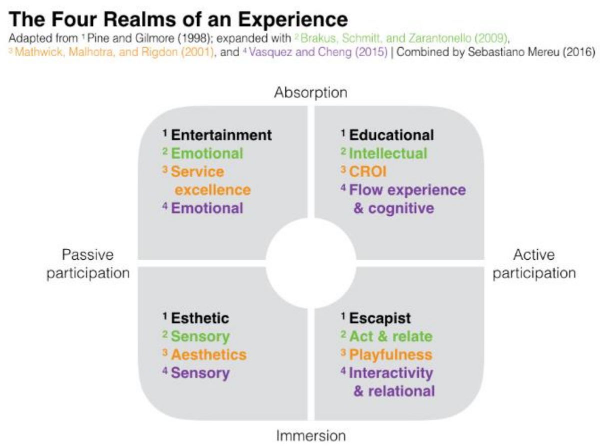


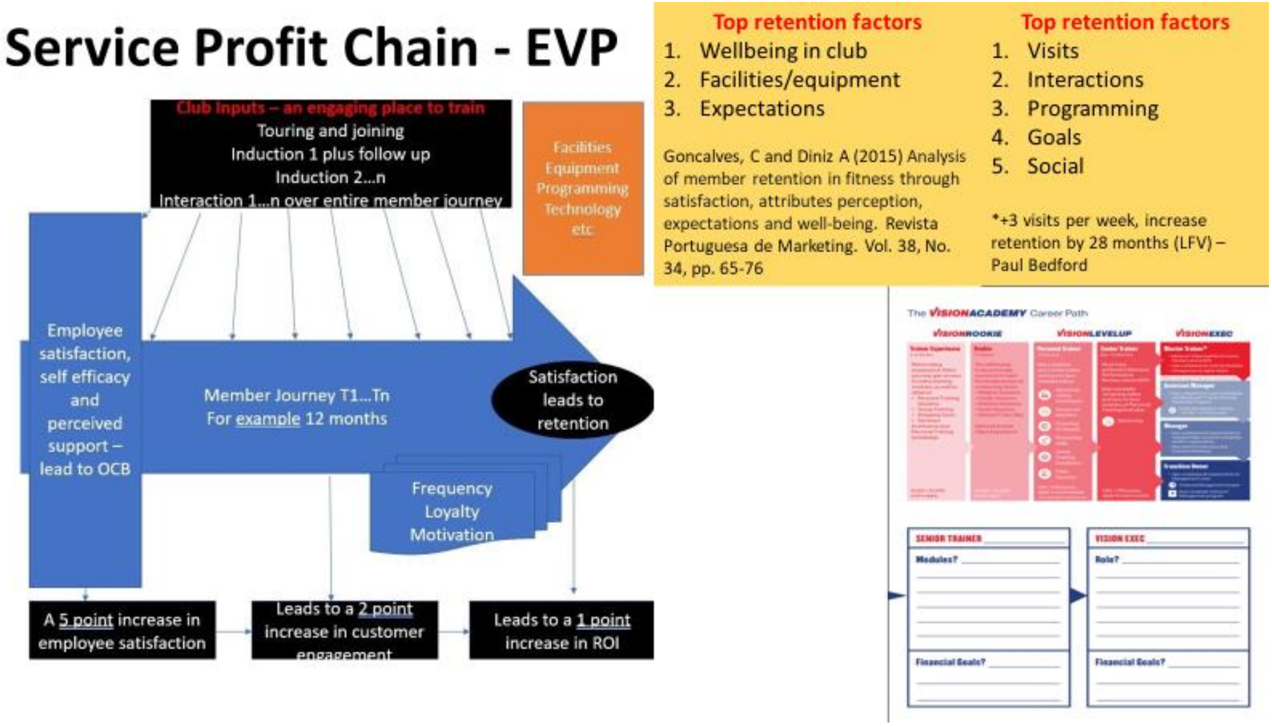
Brands which have excelled at differentiation through experience are well known to most of us and would include Starbucks, Disney, Nike, Marriott etc. If behaviour change takes some 6 months and most member journeys of a fitness club consist of a free PT session and induction with not much else, there is clearly an issue. Onboarding, the process, content, and length, are critical to member retention and the overall experience offered as are the interactions club staff have with members on a day to day basis.

Experiences are much more than just onboarding and interactions. The employee experience has a significant impact on the customer experience. It is incumbent upon the operator to ensure staff are able to deliver the experience designed, better yet, include your team in the design.

Questions to ask:

1. What types of experiences do we wish to create?
2. Can we segment according to journey desired?
3. How do we improve our employee experience?
4. Can we co create experiences with our members?
5. Who will we involve in designing the experience?





Member satisfaction and experience do not happen independently of staff satisfaction. The service profit chain is a well articulated and researched concept that demonstrates the link between employee and customer satisfaction. It has been articulated in different ways. Stan Shih (the prior CEO of Acer) called it 1-2-3, happy employees leads to happy customers which leads to profit. The relationship was quantified by Sears who found that a 5% increase in employee satisfaction led to a 2% increase in customer engagement which led to an ROI of 1%. The relationship may not be as simplistic of linear as suggested here but the idea that a company must create a compelling employee value proposition is a strong one.

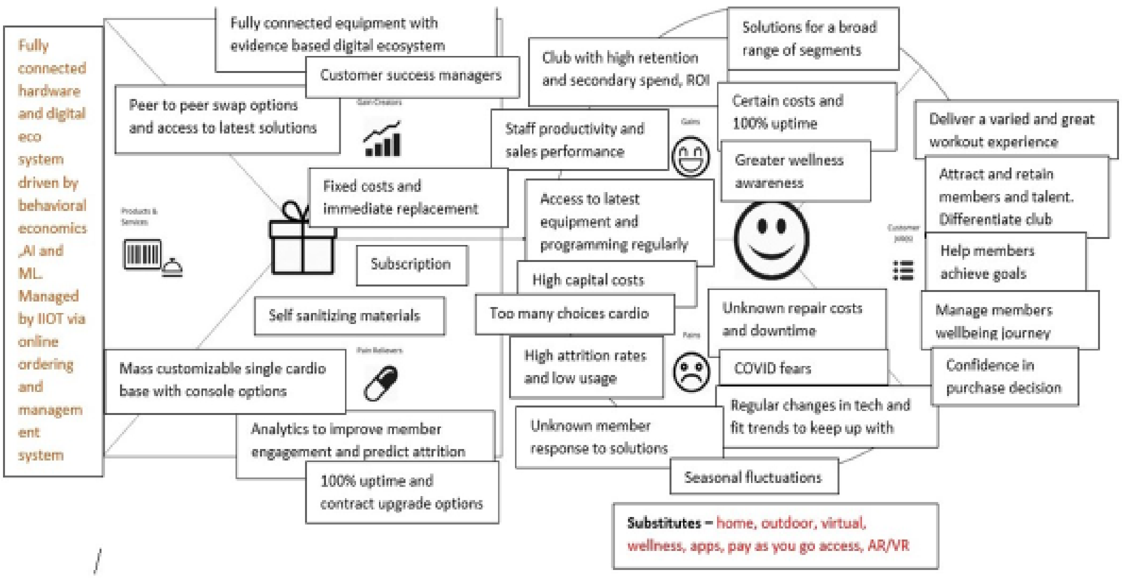
Giving employees the skills and tools they need (self efficacy) enables them to deliver the member journey and experience, i.e. service quality. Whilst the NPS (net promotor score) model has gained significant popularity in recent years for measuring both employee and customer satisfaction, it's reliability and validity have been severely questioned. Better tools exist such as CSAT, INDSERV, SERVQUAL, CES etc.

Retention relies heavily on factors such as wellbeing in club and interactions. These can only be accomplished by a well trained and motivated team. A motivated and engaged team will exhibit behaviours termed as organizational citizenship behaviours (OCB), going above and beyond to satisfy the customer on a regular basis.

Questions to ask:

1. When was the last time we conducted a full scale employee and customer satisfaction audit?
2. What is our employee VP and what needs improving?
3. Do we have a well defined/designed employee journey including career path?
4. Do we know what drives retention in our club and if that differs by segment?
5. What L&D programmes do we need to ensure our team are capable and confident?
6. Are blindly relying on NPS as our key indicator?

Value Proposition Canvas and JTBD



Harvard Business School marketing professor Theodore Levitt said, "People don't want to buy a quarter-inch drill. They want a quarter-inch hole!" Clayton Christensen said, "People buy products and services to get a job done." In his most recent book he says, "Customers don't buy products; they pull them into their life to make progress."

Alex Osterwalder states that jobs describe the things your customers are trying to get done in their work or in their life. A customer job could be the tasks they are trying to perform and complete, the problems they are trying to solve, or the needs they are trying to satisfy. Make sure you take the customer's perspective when investigating jobs. What you think of as important from your perspective might not be a job customers are actually trying to get done. Distinguish between three main types of customer jobs to be done and supporting jobs:

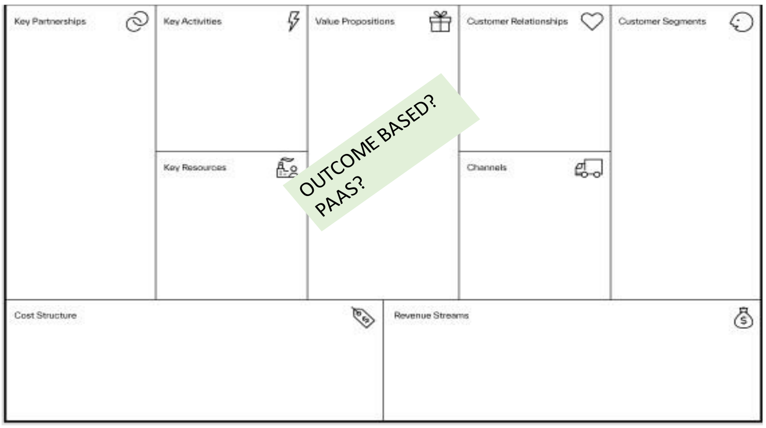
- **Functional jobs** When your customers try to perform or complete a specific task or solve a specific problem, for example, mow the lawn, eat healthy as a consumer, write a report, or help clients as a professional.
- **Social jobs** When your customers want to look good or gain power or status. These jobs describe how customers want to be perceived by others, for example, look trendy as a consumer or be perceived as competent as a professional.
- **Personal/emotional jobs** When your customers seek a specific emotional state, such as feeling good or secure, for example, seeking peace of mind regarding one's investments as a consumer or achieving the feeling of job security at one's workplace.

In the above depiction of the value proposition canvas, I have listed a few jobs that an operator would need to accomplish to serve the jobs of their customers (their needs). I have then delineated how an equipment provider should be working with an operator to support their business model and VP.

Questions to ask:

1. What jobs are my customers trying to accomplish?
2. What jobs do I as an operator need to get done in this regard?
3. How can my suppliers help support my VP and differentiate my service in the market?

New Business Models?



Source: Alex Osterwalder

PT studio
Boutique
HVLP
Ultra budget
Unmanned
Premium
Ultra premium
Invite only
Big box
Tiered
Franchise
Strength only
Access based
Open app
Club in club
Boutique in club
Full service
Omni channel
Eco system
Nike
Peloton
Airport
Age based
Pay as you go
Subscription
Success fees
Private use
Specialist
AI driven

ARCHETYPES

Add on
Hidden revenue
Revenue share
Affiliate
Fractionalized ownership
Ingredient branding
Aikido
Cash machine
Subscription
Leverage customer data
Lock in
Prosumer/Peer to peer
Performance based contract
Solution provider
Orchestrator
Integrator
Self service
Pay per use/dynamic pricing

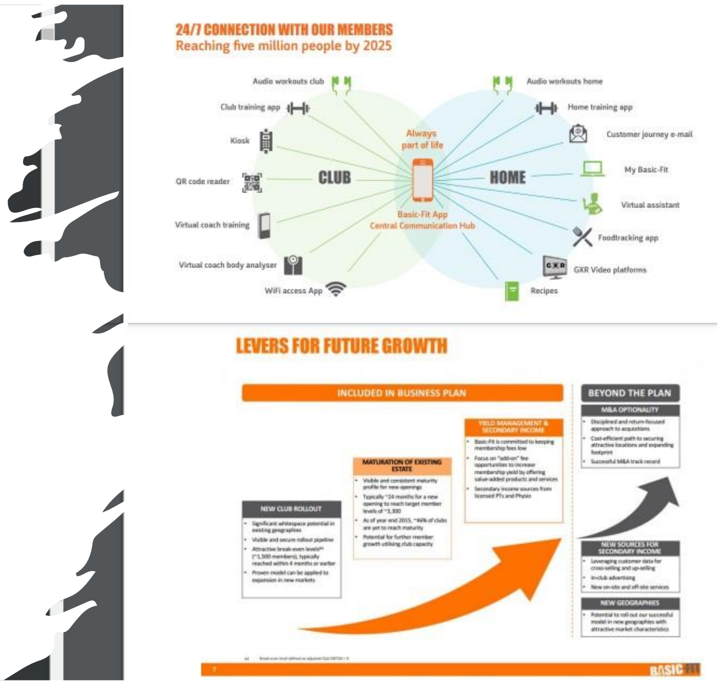
- Customer Segments are the groups of people and/or organizations a company or organization aims to reach and create value for with a dedicated value proposition.
- Value Propositions are based on a bundle of products and services that create value for a customer segment.
- Channels describe how a value proposition is communicated and delivered to a customer segment through communication, distribution, and sales channels.
- Customer Relationships outline what type of relationship is established and maintained with each customer segment, and they explain how customers are acquired and retained.
- Revenue Streams result from a value proposition successfully offered to a customer segment. It is how an organization captures value with a price that customers are willing to pay.
- Key Resources are the most important assets required to offer and deliver the previously described elements.
- Key Activities are the most important activities an organization needs to perform well.
- Key Partnerships shows the network of suppliers and partners that bring in external resources and activities.
- Cost Structure describes all costs incurred to operate a business model.
- Profit is calculated by subtracting the total of all costs in the cost structure from the total of all revenue streams

We have seen a number of different business models evolve over the years such as access based clubs and tiered memberships. There are 55 business model archetypes and many of these can be applied to the innovations we have seen. In the future perhaps outcome based models will exist combined with prevention as a service (PAAS) together with government health scores.
I have created an additional archetype called Object Adaptation:

- This is not in the 55 archetype patterns. I developed this as an amalgamation of objects at point of sale, object self service, and sensor as a service. Equipment will be fitted with heat map retail technology in order to gauge usage within club zones and help operators re-design areas to maximise usage via A/B tests.
- Programming content will not only be evaluated by attendance/usage data but also by engagement from eye sensors. Low engagement content can be removed or updated before usage data becomes evident. Highly engaging instructors and content can be targeted to the most engaged users with the opportunity to upsell services at point of consumption.

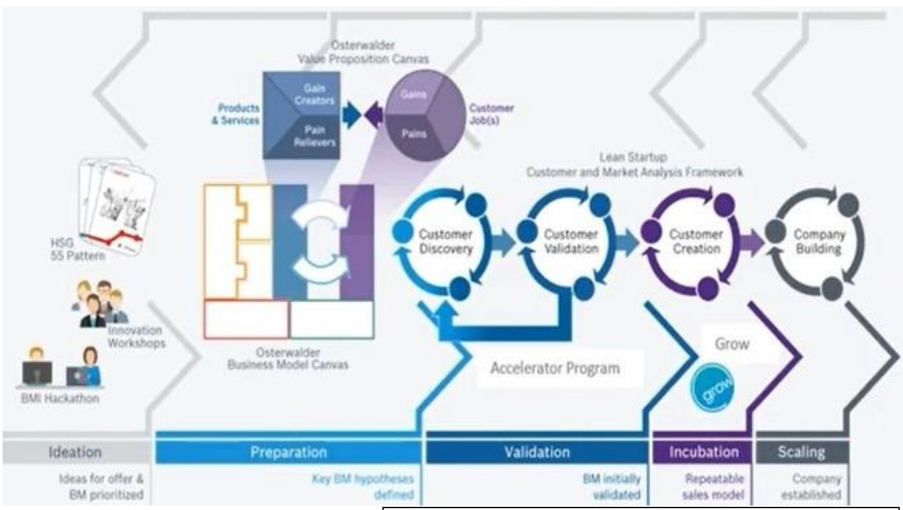
Example:

Basic Fit (NL), 1250 clubs EUROPE



Questions to ask:

1. Can we create a structured innovation process using tools such as the 55 archetypes?
2. What business model do we currently have?
3. How do we balance the tension between exploitation of our existing model vs exploration of new models?
4. What industries and firms can we learn from?
5. What will the intersection of the health arena and the fitness industry look like?
6. How can we leverage these tools to increase penetration?



Bosch Business Model Innovation Process

Co Creation

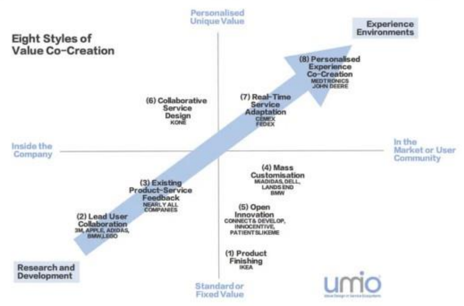
Many types of co creation:

1. Design and development of products/services
2. Collaboration with users as innovators
3. Users customizing product to own needs
4. Prosumption
5. Open business models

<u>The oft overlooked type</u>:

Customer citizenship behavior (CCB): defined as "voluntary and discretionary behaviors that are not required for the successful production and/ or delivery of the service but that, in the aggregate, help the service organization overall"

- it may lead to a more friendly service environment and better service quality, because a customer exhibiting citizenship behavior may encourage other customers to display citizenship behaviors, starting a chain of voluntary actions



The Eight Styles of Customer Value Co-Creation

Co-creating value and experiences in real time requires shifting the focus on channels and platforms where consumers are ready to engage instantly. Digital technologies, ambient intelligence, the Internet of Things (IoT) and the Internet of Everything as well as social media & mobile applications become the basis to fulfil the delivery of a brand's promise, utilising real-time interactivity.

Questions to ask:

1. What types of co creation would add value?
2. How would that impact our strategy and business model?
3. Do we have the external and brand enablers we need for this?
4. Are we change capable? What are the constraints?

Peek into the Future? – AI, Be Sci, Blockchain & Metaverse

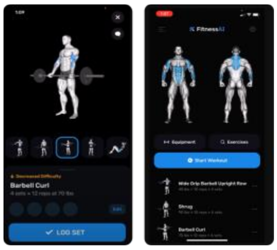

frontiers in Virtual Reality

SYSTEMATIC REVIEW

The Use of Virtual Reality to Influence Motivation, Affect, Enjoyment, and Engagement During Exercise: A Scoping Review

Brendan Mouatt[1], Ashleigh E. Smith[2], Maddison L. Mellow[2], Gaynor Parfitt[2], Ross T. Smith[3] and Tasha R. Stanton[1,4]*

Motivation – high immersive increase motivation compared to low and non, especially with competitive agent (such as avatar)
Enjoyment – high and low immersive VR increased vs non
Engagement – again increased with high immersive VR vs low and non. Positive impact of avatar in certain conditions



keepme

ClubPlanner

fitnessKPI

How about cognitive biases and use of behavioural economics?
Loss aversion
Discount future outcomes

Numerous brands are now creating some type of immersive experience in the metaverse (MV) such as Gucci, Ferrari, Adidas, Nike etc as well as fitness brands many in the industry would be familiar with such as Stages, Trib3, Go24, and Gym Aesthetics. Gym Shark was another using the MV for virtual meetings and recently Bill Gates predicted that all remote meetings will be held in the MV.

As mentioned earlier, one of the major challenges in the health and fitness industry is creating long lasting behaviour change. Depending upon which sources you look at, less than 50% of the population meet recommended physical activity guidelines. This number does not seem to have changed much over the years whilst levels of sedentary behaviour are increasing. Although happening long before Covid, the acceleration and adoption of alternative forms of access to exercise (digital apps, home equipment) outside of the traditional gym has shown there is a demand for new types of access. These may have not have had the long lasting impact some would have hoped for as access, time saving etc are only minor limiting factors. The major factors seem to include lack of knowledge, lack of motivation, and lack of enjoyment (the reader is referred to self determination theory for a more thorough review). It seems to me that many of the alternative options that popped up contributed pieces of the motivation puzzle but no one has put this together into what I would call a fully conceptualised wellness journey that leads to long lasting behaviours. The role that immersive environments can play in this seems promising.

At a simplified level, the opportunities to offer MV based wellness experiences seem obvious:

- VR based workouts
- Health and wellness events
- Community workouts using avatars
- Workout with friends using VR, AR
- Celebrity led workouts
- Compete against athletes
- Fully immersive gym or facility experiences with music, trainers etc
- M2E plays with both digital and real rewards
- Gaming tie ups
- Play before you pay (trial)
- Pay as you go and access based fees

- Product marketing
- Customer engagement
- Brand loyalty through community
- Customer education

The potential of AI in club operations is gaining some traction. The ability to intervene with at risk members before they leave can lead to higher profitability and retention. In addition, numerous apps and wearables leverage behavioural science to impact behaviour. There is a wealth of information for operators should they wish to utilise psychology and behavioural economics to achieve better outcomes.

'Behavioral science is the study of the way people make decisions and the way they form judgments, and it tends to blend psychology and economics (Katy Milkman)'

Incentives – probably the most studied aspect of inducing behaviour change. What does the science say overall:

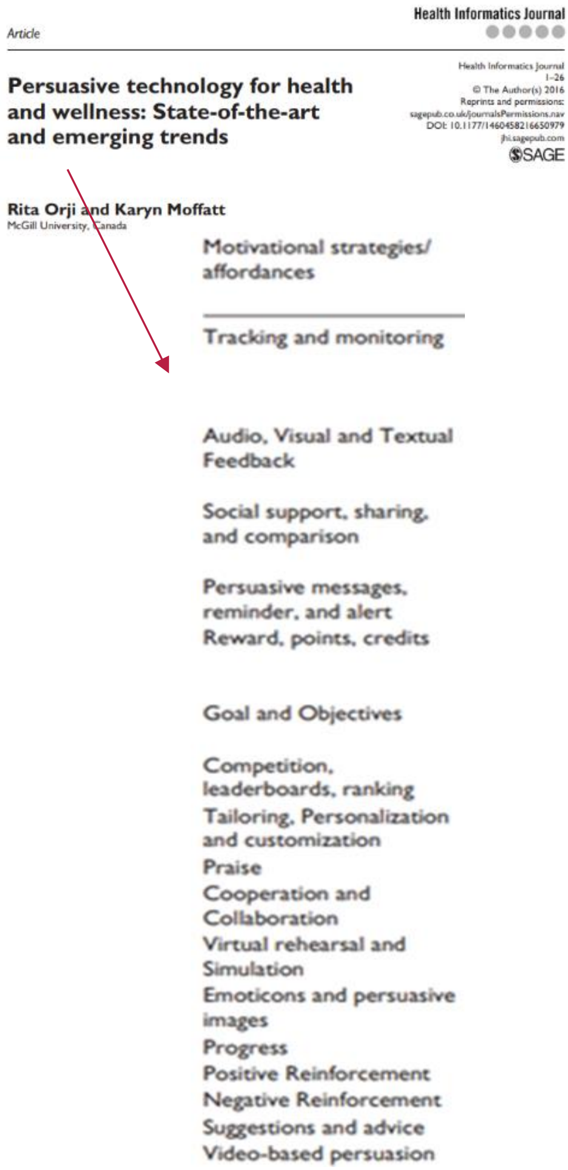
- Incentives provided immediately better than after time delay
- Loss framing more effective than gain framing
- Magnitude matters but so do odds of receiving
- Time frame to stick

Other often used approaches:

- variable reinforcement
- loss aversion
- endowment effect
- social accountability
- anticipated regret
- temptation bundling

Questions to ask:

1. Who is doing what in the MV space?
2. How could we test some of these solutions on a lean basis and iterate as needed?
3. How are we using Be Sci and could we appoint a champion to assimilate and disseminate knowledge in this area?
4. What competences do we need to develop to utilise AI and data more effectively?
5. What can we learn from other industries, applications, and companies?
6. How should our strategy evolve to work on an exploit vs explore continuum?


Health Informatics Journal

Article

Persuasive technology for health and wellness: State-of-the-art and emerging trends

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Rita Orji and Karyn Moffatt
McGill University, Canada

Motivational strategies/ affordances

Tracking and monitoring

Audio, Visual and Textual Feedback

Social support, sharing, and comparison

Persuasive messages, reminder, and alert

Reward, points, credits

Goal and Objectives

Competition, leaderboards, ranking

Tailoring, Personalization and customization

Praise

Cooperation and Collaboration

Virtual rehearsal and Simulation

Emoticons and persuasive images

Progress

Positive Reinforcement

Negative Reinforcement

Suggestions and advice

Video-based persuasion

Want to know more about strategy? The following resources also by Robert Sawhney maybe helpful:

Whitepaper – Strategy Mind Shift: changing leadership mental models and making the strategy process work

Working paper – Future Business Model Innovation for a Fitness Equipment Manufacturer: a disruptive guide for manufacturers and operators

Playing to Win: the bible of strategy, should it be in your organization?

Whitepaper – Metaverse: Implications for the health, fitness and wellness industry

The Disconnect Between Strategy Development and Execution

Different Views of Strategy

Strategy & Culture/Strategy as Culture