

## The Fitness Market



### Editorial

Dear reader,

In the fitness industry, the focus of many operators concerning strategy and operations has been lying on the acquisition of new members for years.

In times of an increasingly saturated market and, even more important, ubiquitous discount offerings, the sale at any (reasonable) price cannot be successful in the long run. Therefore, in addition to acquiring new members, binding existing members becomes of great importance for all competitors in order to gain control over enormous membership turnover rates of partly more than 50%.

The commitment to the customer must not terminate, after him signing the contract. It is rather essential for the operator to be concerned with each individual who has committed itself – at least contractually – to the provider's services over a longer period of time. This systematic management of customer relations reaches from the preparation of advertisements for prospective customers to the retrieval of lost customers and concentrates particularly on current customers. It is an essential prerequisite for high customer satisfaction which is the basis for customer retention.

In this issue, we give you a short introduction to the concept of customer relationship management (CRM) which also offers advantages for operators with already low membership turnover.

At last, we hope that you enjoy reading and we are looking forward to your comments and incitements.

Kind regards,

Niels Gronau



Niels Gronau

## Customer relationship management in the fitness industry

For years, the fitness industry has been struggling with partly enormous turnover rates. In the worst cases, more than half of the club members cancel their contracts within one year. This leads inevitably to a vast amount of resources to keep the number of members constant.

Throughout the last decade, the fitness market experienced a boom. Therefore, commercial fitness operators were able to increase the total number of memberships by one and a half million (32%) over the past five years. During this time, many operators concentrated on raising their number of memberships. After the completion of the contract, they, however, often failed to take care of their customers adequately.

The lack of relationship to customers is a major reason for the high fluctuation which becomes a serious problem with increasingly saturated markets. Exceptions, like most owner-managed studios and some chains, show that turnover rates of even less than 20% are possible. How are these clubs able to reach such a low rate?

Of course offering range, equipment and price level are essentials for the customers' satisfaction. However, in the long run, real loyalty can only be achieved by an interactive relationship between operator and member.

In this context, the supervision of the member during the training plays an important role. In October 2009, Stiftung Warentest examined studios of eight major fitness chains and reported alarming results: Most operators only received satisfactory or sufficient for their training supervision and initial introduction. Three operators even got ranked insufficient for their supervision. Furthermore,

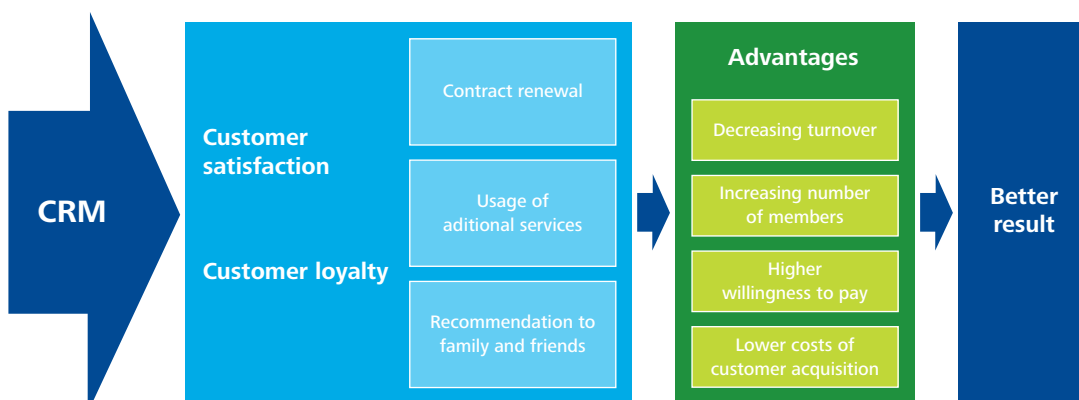
the results often were worse than those of the previous study released by the organization in 2006. It seems obvious that fitness studios have to strive for more active customer care.

The introduction of a customer relationship management (CRM) concept can help a fitness studio to increase its customers' satisfaction and to commit them to the company. A measure like this has far-reaching consequences:

- Loyal customers are more likely willing to renew their contract, or better, not even to cancel it. Good customer care also increases motivation and, thus, encourages the individual member to exercise in the studio more frequently. This counteracts his potential inactivity which is one important reason for membership termination.
- Furthermore, customers with a strong commitment to the club more probably use or buy additional services and goods offered by the provider. Thus, the operator can sell its extra services more easily.
- Customers rather recommend their studio to friends and family if they are satisfied and committed. Thereby, at the same time new customers can be attracted as word-of-mouth is a frequently used source of information for purchase decisions and has an important influence on the decision itself.

The result of a successful customer relationship strategy is a decreasing membership fluctuation, leading to economic advantages for the company.

- On the one hand, revenues increase with the number of members and the amount of extra services sold.
- Satisfied customers in the long run display an increased willingness to pay. This can enable the operators to



achieve a higher membership fee and disables competition from the discount segment through additional value perceived by the customer.

- On the other hand, decreasing advertising and acquisition costs lead to lower expenses.

CRM offers promising approaches and solutions which have already proved their efficiency in other industries. Like the first training in many fitness clubs, the metamorphosis towards a customer oriented company starts with a "health check". The existing processes, systems and data have to be analysed and the screening of the initial situation creates the basis for a CRM fitted to one particular studio or operator.

Then, similar to the preparation of the "workout schedule", appropriate CRM measures are selected, tailored to the situation and assembled to a coherent strategy. Furthermore, the implementation is designed and measures which are already able to produce a first success in the short run are identified.

Last but not least, the workout plan has to be put into reality. However, during the "training" the CRM measures and tools are not only implemented, but rather is the implementation monitored, are the results evaluated and the measures optimised and adapted continuously.

Because of our expertise in the leisure industry, we at Deloitte know the challenges the fitness sector is facing. In addition, we are able to assist the necessary metamorphosis into a customeroriented company, due to our excellent know-how in the field of CRM.

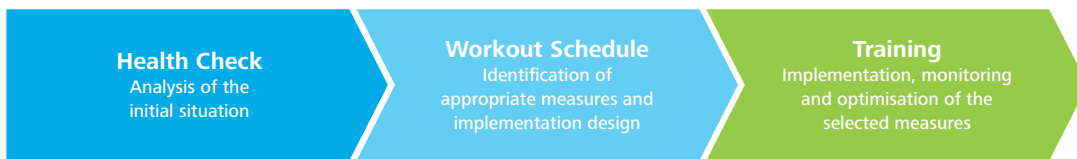


Table 1 - Development of clubs for selected operators in Germany

Operator	Clubs			Variation	
	Sep 08	Jun 09	Sep 09	Year	Quarter
INJOY	151	164	167	10.6%	1.8%
Kieser Training	120	119	119	(0.8)%	0.0%
McFit	100	108	111	11.0%	2.8%
Fitness First Germany	108	101	101	(6.5)%	0.0%
clever fit	20	28	29	45.0%	3.6%
Unternehmensgruppe Pfitzenmeier	16	18	19	18.8%	5.6%
Team World of Fitness	16	15	15	(6.3)%	0.0%
Linzenich Fitness Gruppe	10	10	10	0.0%	0.0%
Eisenhauer Training	10	9	9	(10.0)%	0.0%
jonny-m. Gruppe	10	9	8	(20.0)%	(11.1)%
Just Fit	7	8	8	14.3%	0.0%
Day-Night-Sports	6	7	7	16.7%	0.0%
Killer Sports Club	6	6	6	0.0%	0.0%
MeridianSpa	5	5	5	0.0%	0.0%
body+soul	5	4	4	(20.0)%	0.0%
Aspria	2	3	3	50.0%	0.0%
Mrs. Sporty <sup>2</sup>	190	283	299	57.4%	5.7%
<b>Total</b> (without Mrs. Sporty) <sup>2</sup>	<b>592</b>	<b>614</b>	<b>621</b>	<b>4.9%</b>	<b>1.1%</b>

Table 2 - Development of memberships for selected operators in Germany

Operator	Memberships			Variation <sup>1</sup>	
	Sep 08	Jun 09	Sep 09	Year	Quarter
McFit	650,000	780,000	800,000	23.1%	2.6%
Fitness First Germany	280,000	280,000	280,000	0.0%	0.0%
Kieser Training	252,340	251,430	247,780	(1.8)%	(1.5)%
INJOY	168,720	187,200	188,700	11.8%	0.8%
clever fit	34,000	49,000	52,500	54.4%	7.1%
Unternehmensgruppe Pfitzenmeier	42,991	47,396	50,199	16.8%	5.9%
Day-Night-Sports	25,000	30,000	31,500	26.0%	5.0%
MeridianSpa	27,150	27,150	27,100	(0.2)%	(0.2)%
Eisenhauer Training	29,530	26,700	26,700	(9.6)%	0.0%
Team World of Fitness	29,423	25,677	25,662	(12.8)%	(0.1)%
body+soul	15,469	19,768	20,269	31.0%	2.5%
Just Fit	17,000	19,191	19,370	13.9%	0.9%
Killer Sports Club	18,300	18,500	18,000	(1.6)%	(2.7)%
jonny-m. Gruppe	15,000	15,700	15,400	2.7%	(1.9)%
Aspria	n/a	13,740	14,200	n/a	3.3%
Linzenich Fitness Gruppe	11,136	12,282	12,215	9.7%	(0.5)%
Mrs. Sporty <sup>2</sup>	51,000	84,000	91,000	78.4%	8.3%
<b>Total</b> (without Mrs. Sporty) <sup>2</sup>	<b>1,616,059</b>	<b>1,803,734</b>	<b>1,829,595</b>	<b>12.3%</b>	<b>1.4%</b>

Ø Members per club (without Mrs. Sporty)<sup>2</sup>      2,739      2,938      2,946

<sup>1</sup> The calculation of the variation for the total values is only based on companies the respective numbers are available for.

<sup>2</sup> The facilities of Mrs. Sporty are only comparable to a certain extent, due to their significantly lower size.

Source: Unaudited company data as of end of September 2009; Deloitte Analysis.

### Development of clubs and memberships for selected fitness chain operators in Germany

Selected fitness chains in Germany on average displayed a growth of 4.9% in terms of the number of clubs in the last year and of 1.1% in the last quarter. Over the past quarter, the number of facilities has risen by 23 for those chains that have reported their data in full. 16 of those clubs were opened by Mrs. Sporty.

In comparison, the operators were able to increase their memberships by approx. 12.3% over the past year. From July to September, membership growth was rather low with 1.4% which is, however, not uncommon for the summer.

The largest increase in clubs was achieved by Mrs. Sporty, a concept where only women perform a 30-minute circuit training several times a week in combination with nutritional counselling. It is almost solely run on a franchise base. With an average size of just 125 sqm and about 280 members per club, there is relatively little capital necessary to launch a new facility.

At clever fit the situation is similar. The discount operator which is franchise-based also increased the number of clubs by 45% (nine clubs) and the number of members even by 54%. Day-Night-Sports did not establish new clubs, but gained five percent in memberships.

Munich-based body+soul added 31% to its memberships as compared to September 2008, the most intense organic membership growth in the market. Also in the last quarter, Aspria and body+soul are leading the premium segment in terms of membership development with an increase of 3%.

In October 2009, body+soul could extend its portfolio by two new clubs by an acquisition from Elixia which filed for bankruptcy on 14th July 2009. Having replaced two rather small clubs by opening a larger one, the company in total operates six clubs in the premium segment as of the end of October.

Table 3 - Development of clubs for selected operators in Europe

Operator	Clubs			Variation <sup>1</sup>	
	Sep 08	Jun 09	Sep 09	Year	Quarter
<b>Fitness First</b>	379	367	367	(3.2)%	0.0%
<b>McFit</b>	100	112	115	15.0%	2.7%
<b>Kieser Training</b>	150	149	149	(0.7)%	0.0%
<b>INJOY</b>	197	221	224	13.7%	1.4%
<b>ELIXIA Health &amp; Wellness Group<sup>3</sup></b>	26	39	40	53.8%	2.6%
<b>Fitness dk</b>	38	n/a	38	0.0%	n/a
<b>Russian Fitness Group</b>	42	45	45	7.1%	0.0%
<b>Strata (OrangeFitness und CityFitness)</b>	n/a	n/a	34	n/a	n/a
<b>Migros Fitnesspark</b>	15	15	16	6.7%	6.7%
<b>Mrs. Sporty<sup>2</sup></b>	195	283	320	64.1%	13.1%
<b>Total</b> (without Mrs. Sporty) <sup>2</sup>	<b>947</b>	<b>948</b>	<b>1,028</b>	<b>5.0%</b>	<b>0.8%</b>

Table 4 - Development of memberships for selected operators in Europe

Operator	Memberships			Variation <sup>1</sup>	
	Sep 08	Jun 09	Sep 09	Year	Quarter
<b>Fitness First</b>	892,000	945,000	945,000	5.9%	0.0%
<b>McFit</b>	650,000	780,000	800,000	23.1%	2.6%
<b>Kieser Training</b>	303,320	302,390	298,645	(1.5)%	(1.2)%
<b>INJOY</b>	205,870	230,150	231,650	12.5%	0.7%
<b>ELIXIA Health &amp; Wellness Group<sup>3</sup></b>	92,500	140,000	140,000	51.4%	0.0%
<b>Fitness dk</b>	121,000	n/a	125,368	3.6%	n/a
<b>Russian Fitness Group</b>	103,678	109,000	109,000	5.1%	0.0%
<b>Strata (OrangeFitness und CityFitness)</b>	n/a	n/a	60,000	n/a	n/a
<b>Migros Fitnesspark</b>	51,750	51,800	53,000	6.0%	2.3%
<b>Mrs. Sporty<sup>2</sup></b>	52,500	84,000	95,900	82.7%	14.2%
<b>Total</b> (without Mrs. Sporty) <sup>2</sup>	<b>2,418,368</b>	<b>2,558,340</b>	<b>2,762,663</b>	<b>11.8%</b>	<b>0.7%</b>

Ø Members per club (without Mrs. Sporty)<sup>2</sup> 2,554 2,699 2,687

<sup>1</sup> The calculation of the variation for the total values is only based on companies the respective numbers are available for.

<sup>2</sup> The facilities of Mrs. Sporty are only comparable to a certain extent, due to their significantly lower size.

<sup>3</sup> Numbers for ELIXIA only refer to the region of Scandinavia (Norway & Finland).

Source: Unaudited company data as of end of September 2009; Deloitte Analysis.

### **Development of clubs and memberships of selected fitness chain operators in Europe**

Regarding the European market, the growth rate amounts to 0.8% (5.0%) for the number of clubs and to 0.7% (11.8%) for the number of members in the last quarter (year).

The discount-operator McFit which had expanded intensely on the German market over the last years made a first step into Europe with the launch of four new facilities. Thereof, three are located in Vienna and one on Mallorca.

Beside its 167 sites in Germany, Injoy also operates clubs in Austria, Switzerland, Italy, Belgium and the Netherlands.

McFit was able to raise its memberships by eight percentage points more than the number of clubs. Fitness First and Fitness dk exhibited membership growth while keeping the number of clubs constant.

Over the last year, ELIXIA Scandinavia increased its number of clubs and members by approximately 50%.

## Industry Group Leisure

For almost 10 years, the Industry Group Leisure of Deloitte focuses services of one of the leading professional services firms in the world on the needs of the sports and leisure industry. Thereby, a special focus is set on commercial sports operators. Deloitte counts among its clients the largest and most influential players of the market worldwide, but also works together with smaller companies.

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- Provision of comprehensive industry knowledge

In order to continue to increase the transparency in the sports and leisure industry, Deloitte publishes market reports and newsletters on a regular basis containing com-

prehensive market data, characteristics about selected operators and the latest news from the industry. Therefore, Deloitte experts cooperate closely with the leading associations of the German and international leisure industry.

In addition to national publications, Deloitte has also published numerous international surveys on the European and Asian Pacific fitness market in recent years.

## Notice

This newsletter was written exclusively on the basis of data which was provided by the participating companies. The sample taken by Deloitte includes selected enterprises which operate sports facilities, both under franchise and in non-franchise concepts. These figures were not verified by Deloitte.

The purpose of this newsletter is merely an updated presentation of selected characteristics of the market for commercial sports facilities in Germany. The purpose and meaning of this report is not to serve as the basis for investment decisions or other asset dispositions.

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Issued 11/2009

