

Australasian Leisure Management | July/August 2008
102 Taiyul Road
Narrabeen, NSW 2101 Australia

Media Contact:
Mark Daly, National Media Director
mark.daly@anytimefitness.com
(651) 438-5008

With consumer spending set to decline, business interest in fitness clubs has never been higher. **Nigel Benton** explains

Survival of the Fittest

By NIGEL BENTON

The first Australasian Fitness Industry Survey (summarised in the article 'On the Up?' in the last issue of the magazine) highlighted fitness as a buoyant industry that has enjoyed significant growth in size, operations and professionalism over the past decade.

Yet with the state of the economy in the forefront of much mainstream news **these days, some are suggesting that** fitness clubs may well be facing tough times if economic conditions deteriorate.

Recent articles in both the Australian Financial Review and Business Review Weekly (BRW) have suggested this, with BRW indicating consumer spending on fitness will halve in this new financial year, while a recent feature on domestic budgeting in the New Zealand Herald newspaper, even went as far recommending people to "give up the gym membership" as a way to reduce household spending. (In an article that enraged many club operators in New Zealand, other suggestions of things to forego were foreign holidays and morning lattes!).

Analysis from business information group IBISWorld backs up these predictions of reduced consumer spending on fitness. While showing that 1.7 million Australians spend an estimated \$735 million a year on club memberships and that turnover of fitness clubs had risen by an average of 15% a year since 2003, IBISWorld's study suggested that turnover is expected to slow to around 6% in the coming financial year. Such slowing links to the Australasian Fitness Industry Survey's findings that most clubs had reported no net growth in membership in the last 12 months.

Against this backdrop, it would be easy to imagine that business interest in fitness would decline. However, the reality is very different as new chains and franchises, both international and homegrown, announce opening and expansions in Australia and New Zealand.

Perhaps the most high profile of these new arrivals, Sir Richard Branson's Virgin Active fitness chain (which currently has 165 clubs in Britain and Europe with a total of 900,000 members) is expected to open its long awaited first club in Brisbane before the end of the year, to be followed by others.

Virgin Active are not alone. US-based Anytime Fitness, Inc, the fastest-growing fitness club franchise in the world, has announced plans to enter the Australian and New Zealand markets, with 350 clubs planned to open in the next five years.

Launching with a lower profile, UK franchise Feelgood Fitness has opened its first Australian club in the Melbourne suburb of Pakenham while another UK-franchise, SHOKK, whose youth gym franchises tag-on to existing adult facilities, has opened its first site as part of the World Gym complex in the Melbourne suburb of Sunshine. SHOKK master franchise holders Workout Workshop now have plans to develop further stand-alone or tag-on sites in Australia's major cities.



Among local operators, Curves, Fernwood Female Fitness and Fitness First continue to lead the market. Fitness First are now Australia's largest operator with 75 clubs and over 350,000 members while, among the franchisors, Contours has expanded over the last year to 204 franchises (increasing from 147 franchises 12 months ago) and more than 50,000 members while Fernwood has 80 franchises with over 83,000 members.

Yet the scale of these operations has not deterred would be rivals.

Jetts Fitness, which began franchising its '24/7' clubs in 2007, has eight clubs in operation in Queensland and Western Australia. With a further 22 sites secured or under negotiation and the group securing around 10 to 15 territories per month across Australia, Managing Director Brendon Levenson, explains that "we have recently adjusted our 2009 end of year goal of 50 clubs in operation upwards due to strong uptake in territory sales and multi-club growth through existing store owners."

For two years in succession, Beach House Fitness have made the top ten of BRW's 'fast franchise', their 48 clubs having reported a remarkable 141.51% average annual revenue growth over three years.

A newer entrant to the market is FitStation. Developed by Exercise Australia, in conjunction with celebrity exercise physiologist Ben Nowlan, FitStation aims to present an integrated approach to fitness using motivation and support as a key element of its service. With the first FitStation studio open in Sydney's Double Bay, this club concept is set to be franchised across Australia.

Yet not all Australian development is via the franchise model, notwithstanding franchising being a business model Australians adore (it often being said that Australia is the most franchised nation in the world).

In the corporate world, having purchased Queensland-based Goodlife Health Clubs for \$59.7 million in September last year, the Macquarie Leisure Trust Group acquired a portfolio of ten health clubs and one development site from Zest Health Clubs in April this year. The \$7.4 million Zest acquisition representing, according to Group Chief Executive Greg Shaw, "a strategic opportunity for Goodlife Health Clubs to enter the South Australian market with a dominant position."

While holding the master franchise for SHOKK, Workout Workshop have attracted private equity to develop their fitness brand, of large 20,000 metre² clubs for general exercise. With clubs already open in Sunshine and the Sydney suburb of Penrith, the chain will open news sites in Victoria at Box Hill, Rowville, Narrewarren and Essendon before the end of 2008.

Also new to the Victorian market are Fenix Fitness Clubs, operating four former Genesis Club sites and two new sites.

So how does this major growth in facilities equate with predictions of a reduction in consumer spending on fitness? Surely, the contradictory evidence indicates somebody is wrong?

Wayne Mailing, Managing Director of Workout Workshop believes it is the financial media and business information groups. As he explains, "what such predictions fail to take into account is that fitness club membership and spending on activity is no longer just an item of discretionary spending. For most fitness consumers, their fitness activity is an essential part of their well being and overall health and as a result has become an important part of their lives."

Tony de Leede, outgoing Chief Executive of Fitness First, sees "fitness clubs emerging as a preferred 'third place' for people. The first and second being the home and the workplace and the 'third place' being a place people go to escape. In years gone by in Australia this third place was the pub or the RSL, but increasingly I see the fitness club as a place where people choose to go."

Another key factor is market penetration. Over recent years, the penetration rate for Australian fitness clubs has grown from 9% to 12% - around 1.7 million people. Although early this year the second Deloitte/International Health, Racquet and Sportsclub Association (IHRSA) Asia Pacific Market Report suggested a penetration rate of 19% - a figure more in line with that of the USA. While the IHRSA figure seemed surprisingly optimistic to many in Australian fitness, it does indicate the potential of the Australian market and it is that potential that the arriving and expanding fitness operations are aiming to exploit.

What is significant about the growth in Australian fitness is how many operators are aiming their operations at specific market segments. During a recent visit to Australia, Gary Heavin, co-founder and Chief Executive of Texas-based Curves (the largest fitness franchise in the world), explained his belief in a 'blue-ocean' market strategy. This strategy sees markets being increased by division into ever-smaller segments through diversification and specialisation.

Consistent with this are Fernwood, Contours and Curves' women-only clubs while SHOKK facilities for the youth market. Feelgood Fitness (which includes a specific ladies only suite) aim for the de-conditioned over 40s market with an appropriate 'Not Trendy, Just Friendly' slogan while Jetts Fitness, Anytime Fitness and Curves (again) offer simple, paired down and generally unattended facilities with 24 hour access.

As Jetts Fitness' Brendon Levenson explains "our research conducted prior to launch indicated that members at many clubs simply did not have time to use pools, steam rooms and the other premium facilities. Rather than have members pay for things they never use, we provide equipment that most people use on a regular basis, such as resistance machines, treadmills, bikes, cross trainers and free weights."

As a result, Levenson believes "Jetts has created an exercise experience appropriate for today's market. Our clubs are never closed, have easy access, and memberships are half the rate of traditional operators."

The approach of Jetts, Anytime and Curves means that the low start up costs of these franchises make them appropriate for small markets and local catchments another way in which the market penetration of fitness clubs can be expanded by operating in often new geographical areas. As Gary Heavin says, "we can set up a gym in a very small area with very low start-up costs."

Another major opportunity for fitness clubs comes from the steady rise in rates of obesity. This presents clubs with a unique market for whom their services are ideally suited. (See the article 'Fat Chance').

Another growth area is in corporate fitness with employers providing on-site health facilities or subsidised gym memberships to employees as both a staff benefit and to improve employees' health and fitness with resultant benefits in terms of lower absenteeism, improved performance, productivity and staff morale. On site fitness facilities are now a common feature in office developments.

Then there is the lure of Asia.

Many international chains already have Asian operations; Fitness First with clubs in Bahrain, Dubai and, as of this year, India while SHOKK has a site in Saudi Arabia and later this year will be opening the world's largest standalone youth fitness centre in Guangzhou, China.

Asia's large populations, expanding and increasingly affluent middle classes largely unaffected by economic downturn, and minimal market penetration are also proving attractive to Australian-owned operators.

Earlier this year Fernwood Fitness Centres announced its plans to enter the Indian market, Chief Executive Stephan Herzog explaining that "in the first five years of operations in India, we intend to set up about 60 fitness centres across 35 major cities in the country."

Similarly, Jetts Fitness goal of 500 clubs includes plans to open franchised clubs in Singapore, Hong Kong, India and China.

This changing face of fitness, with brands growing ever more powerful is likely to impact on independent operators, Contours Chief Executive David Hundt believing that these businesses will suffer. As Hundt recently stated "they (independent clubs) are going to struggle to compete in the long term as the bigger brands are able to mass market to the consumer."

However, consolidation may be the answer, as IBISWorld General Manager Robert Bryant explains, "many in the industry believe the fitness sector is now ripe for consolidation, with a number of smaller centres likely to be bought out and rebranded in a bid to compete among the major players."

So rather than struggle as a result of reduced consumer spending, it seems likely that increasingly strong and diverse fitness brands clubs are set to increase their business penetration by reaching a range of new markets.

And while much of this will be achieved with little public fanfare with the mainstream media perhaps again recommending that people should "give up the gym membership" it may well be the launch of Virgin Active's first Australian club that will generate the most attention.

When this happens, it is easy to imagine the ever publicity-hungry Sir Richard Branson indulging in a high profile media event to coincide with the launch - Spinning on top of Brisbane's Storey Street Bridge perhaps?

Such an event will not just benefit Virgin Active. It will also be a publicity boost for every other fitness operator.

Nigel Benton is Publisher of Australasian Leisure Management.

For more information on the Australasian Fitness Industry Survey contact Ezyppay on 1300 300 553 (in Australia) or 0800 399 011 (in New Zealand).