

CONSISTENCY WAS KEY TO SUCCESS: WHAT NEXT FOR iFIT?

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ABSTRACT

This is a case study about iFit, one of the largest fitness companies and how they went about to reconfigure the corporate strategy.

INTRODUCTION

Background

iFit is one of the world's largest fitness companies with millions of members in hundreds of privately held and operated clubs across America. iFit is rated on the top five in both revenue and in overall customer satisfaction by J.D. Powers and is accustomed to be listed on The Active Times List of Best Gyms in America. iFit was founded nearly 40 years ago by focusing on the concept of “always open” to improve lives through fitness. The company grew from a single center to hundreds and has experienced financial growth in a fragmented industry dominated by numerous small companies competing on price.

Business Strategy

From the start, iFit took the position of the “innovation leader” being the first mover in around-the-clock operation, month-to-month membership payment option, adopting technology for automatic electronic payment, on-line and mobile device sign-ups and with introduction of fingerprint scanning in order to do away with carrying membership cards. In executive’s view: *it’s a service business... driven by sales and marketing performance. So, you’ve got to be strong at your sales and marketing approach, and you have to be even better at servicing your team and members in order to retain them.* Recently, the CEO announced his plan to concentrate on areas with significant density to support a cluster of the company's clubs. Following that strategy, iFit sold its 19 Midwest locations: *our gyms are quite large, so a cluster of them requires a pretty significant population for our model to work. We looked at this particular part of the country and those cities are simply smaller than our threshold.*

Target Market

Core customers include members of all fitness levels and abilities and represent the most attractive demographic segments in the United States: median age of 37, median household income of \$75,000 with a perfect gender balance. iFit is the highest-gross health club in the country, has expanded into more clubs than any other privately held operator and now operates over 400 clubs in 13 states. The target customer is broad and growing. It includes tech-savvy and social millennials subscribing to latest *fitness* trends and baby boomers that recognize the importance of

healthy lifestyle. To accommodate different needs, iFit decided to break away from its one-fits-all mentality and has diversified into 5 different types of facilities: "Express," "Active," "Sport," "Super-Sport" and "Ultra-Sport" clubs. These clubs vary in size from under 5,000 square feet to the 100,000 square-foot range offering basic free weights and exercise equipment in the smaller clubs to basketball courts, swimming pools and even day spas at the larger facilities. Different club types offer varying services and respective membership fees to accommodate local customer needs.

Promotion

iFit has utilized a promotional strategy based on offering a 3-day trial pass for prospective customers before committing to membership. To receive a pass, potential members simply provide name, phone number and email addresses, which sales advisors use to follow up and for targeted email marketing. Different clubs use promotional passes differently. Some Sales managers encourage potential members to utilize the pass to workout for 3 days targeting them at the end. Other managers encourage users to trade in the pass for a slightly lower membership fee. Almost all competing fitness centers in America utilize some type of free trial through their online web portal to promote service, these passes have varying degrees of length and benefits but all require name and at least an email address from potential members. Online, iFit offers several deals through its website and integrates all of its establishments to its online web portal. All iFit locations are linked through this portal, as universal access is a vital part of corporate strategy. The value proposition employed by the company is centered on competitive pricing and convenience. Utilizing online marketing to convey deals periodically in order to grow and expand into new market segments is also crucial. SEO utilization and effective mobile optimization have further given iFit a sustainable competitive advantage in the marketing department over competitors.

Internal Analysis

iFit uses a price leadership approach, focusing on health and fitness needs of consumers at a low membership fee. It offers advanced equipment and trendy group-class activities but it is the standardization, close proximity in densely populated areas and operational efficiency that have made the company financially successful. iFit has always been tightly managed and consistent corporate leadership has been integral in establishing the company culture and vision. Management copied the business structure after fast food industry and similar to McDonald's, believes that "*consistency*" is the key to iFit's success.

Club layout and equipment are standardized but by offering five different club types in a densely populated location, iFit can tailor services to meet specific community needs. Consistency emanates from the walls of the gyms to training and support of employees. The focus on consistency benefits members but also allows employees to transfer to other locations seamlessly while allowing managers to easily recognize and correct anything out of place. "iFit has been a successful business because *"we've built it with a talented team of executives, and field and club leadership with great expertise,"* one manager declared. "In fact, the company already had a strong, established executive group when I came on board in 2014, and, because of that, our goal was to make as few changes as possible," an executive deliberated.

The company's financial sovereignty was further secured when recently reacquired by a well-capitalized investment group providing iFit with the freedom to continue its trajectory of growth. It wasted no time making a large investment in refurbishment and new equipment across the iFit portfolio of gyms. The acquisition of 32 Bally Fitness clubs established the brand's commitment to investing in markets with already strong presence, including Colorado and the Bay Area. iFit also expanded into New York and New Jersey markets for an East Coast footprint. Moody's assessment of iFit's liquidity "*will allow it to fund new club openings in 2017 without increasing debt. Rating also encompasses EBITA margins, its club revenue growth and a well-recognized brand name in its core markets.*" Indeed, the company has remained a top revenue producer in the industry for over 30 years. iFit is consistently ranked on the top 5 both in customer satisfaction and as the best clubs to work for by its employees as reported by J. D. Powers and Associates.

External Environment

The fitness industry is defined by a large number of small fragmented operators with no single company controlling more than five percent of the total market share. LA Fitness, the largest in the industry, still holds less than five percent of the market share. Les Mills suggests that location and accessibility are the most important factors for consumers choosing a fitness center. Purchasing a club membership requires both a commitment of time and efforts as well as a financial commitment. People with limited free time are less likely to commute long distances to a club consequently and companies are placing fitness centers in office buildings and in highly populated urban areas. Corporate contracts have become a growing trend in the fitness industry. Promoting health and fitness and overall wellbeing, corporations offer employees discounted gym memberships or allow gym memberships to be written off as an expense to provide health benefits to employees and to offer financial incentives to fitness companies. The growth of the fitness centers is heavily dependent on consumer demand generated by two key factors in the market: changing demographic (millennials) and psychographic trends (health and fitness awareness). The industry's target age range is 20-64. According to Les Mills study, 78% of adults currently exercise or would like to become active, broken down its 61% of Baby Boomers born (age 52-70), compared to 81% of Millennials age 18-34 and 60% of all age lapsed members (24% of adult population).

The national campaign to educate the public on the importance of physical exercise and eating habits to combat obesity and health concerns has raised the demand for fitness centers. Government media campaigns promoting a healthy lifestyle and educational programs provide fitness centers with publicity and free advertising. Additionally, the number of adults 20-64 has grown, spurring demand for gym membership. As a result, over 2017-2022, industry revenue is expected to grow as many baby boomers are expected to sign up for health club memberships with growing health-consciousness. While membership in fitness centers has been rising, not all fitness companies have profited due to the high start-up costs and low competitive prices resulting in low margins. The low profitability coupled with the fragmented industry has led to high turnover rate with companies constantly entering and exiting the industry. Fitness & health clubs outside of the top 5 providers currently account for over 80% of the market.

Direct Competition

iFit's immediate direct competitors are the other big box gyms with established brand positions and strong financial resources. Recently, the big box gyms appear to have entered détente and their sphere of influence that is seen in the industry's recent juggling and relocation of almost 100 gyms and dozens of transactions where trades were made between the large companies. For example, iFit bought 32 Ballys and Total Fitness sold 19 clubs to Genesis and 4 to Golds in consolidation trends. These transactions are leaving each company within its desired locations while indirect competitors are insignificant including the health industry centers, the "at-home" exercisers and sports players.

Case Issues

The case is designed to illustrate various strategic marketing issues of positioning, targeting, branding as well as new product/service provisioning to gain competitive advantage in a fragmented industry with complicated differentiation tools. The following details of the case benefits are discussed below.

1. **Promotion.** The current promotion strategy for iFit is to offer a free 3-day trial pass for prospective customers. Free passes have proven beneficial in two ways; first, they provide an opportunity to sell memberships on the spot, or during the trial period while the prospective customer is already in the gym. Second, they provide vital personal information that allows follow up and future contact with potential customers. One location in California was not seeing the benefits of these 3-day passes and the manager directed his sales team to focus on redistributing and personally promoting the passes. The push resulted in a good turnout with potential members showing up to use the pass. However, these transactions were not turning into as many actual sales as the manager hoped with the aim to match or exceed a 50% conversion rate. He reached out to the manager of one of the company's most successful clubs less than 20 miles away and learned that the other club reached well above the 50% conversion rate using the same strategy. The reason for this uneven conversion rate *could* be one or more of the following. First, the more successful location is located in a popular shopping area. Second, it is located close to a major university. Third, the more successful location used outbound sales advisors effectively. Finally, sales tactics used by the different gyms might cause the gap. The less successful location utilizes a more aggressive sales approach, which leads to a higher first day conversion rate while the more successful location applies a more lenient strategy with a higher overall rate of conversion by the end of the third day. However, does this finding translate nationally or is it location-specific?
2. Given the promising external environmental trend and the fact that market share is indeed an important financial strength in the sector, should iFit begin expanding through buyout of smaller companies for position consolidation and cross-benefits?
3. Should iFit completely ignore the lower health conscious states and healthier cities or are those indeed the more open and unsaturated future markets for risk-takers and first overs?
4. What new products, service, activities and items should iFit develop for competitive advantage regarding the millennial and other pertinent groups to attract new members, maintain current ones and to increase usage of existing services? Identify a growth strategy for iFit.

Figures

Basic industry statistics are provided in Figure 1. Figure 2 and Figure 3 depict total club members and membership numbers in USA over time. Figure 4 presents the top 5 clubs by revenue. Figure 6 shows the total industry's revenue over time. A selected set of competitors is presented in Figure 7. Figure 8 compares the conversion rates in two iFit locations. Figure 9 illustrates the conversion rates of a 3-day pass on day1, day 2 and at the end of the period in the two locations. Figures 10 present a picture of the exercise demographics iFit must target and Figure 11 provides a list of fittest cities in the United States of America.