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## Low-cost gyms: *The Leisure Review* round table

The latest TLR round table discussion took the low-cost gym market as its subject and gathered some of the most senior figures in the fitness industry to consider the issues likely to affect this rapidly expanded part of the leisure sector.

In the past few years the growth of the budget gym market has been one of the most notable aspects of the fitness sector. Many of the accepted fundamentals of the fitness market have been challenged by a new group of operators offering facilities with a focus on equipment and ease of access with few of the luxuries of the traditional health club. As this part of the sector has grown many of the accepted tenets of the fitness sector business model have been challenged, bringing in new approaches to marketing and finance while reaching a new customer base. Among the questions this growth has posed are the nature of the appeal to consumers, the viability of the financial model and the extent to which the budget sector can continue to grow. Having introduced everyone round the table and set the parameters for the discussion, Marcus Kingwell, our chairman for the session, launched the debate by asking for an explanation of how the budget gym market had developed in recent years.

The first point made by way of response was that perhaps we should be referring to the 'low-cost' sector rather than the 'budget' sector, a piece of semantic precision that focused attention on the positives of affordability and accessibility rather than any negative connotations of a restricted offer to customers. It was a point that customers seem to have understood, with a number of operators around the table commenting on the new market niches that appear to have been created by low-cost gym opportunities. While there are a considerable number of customers who have been members of what might be termed 'traditional' gyms and health clubs but are looking for a better deal on their memberships, there are also swathes of people who have probably never been health club members or even thought of themselves as potential gym members, including older women, students and young people who form a transient and highly mobile sector of society. The new offer even attracts those young people who are not motivated by school sport or PE. Within the trust sector there has been an expansion of the low-cost option with significant growth but the maintenance of customer numbers within the mid-market operations would suggest that new markets have been created.

There was a feeling round the table that any lingering stigma associated with low-cost operations had disappeared from an increasingly sophisticated market used to pursuing best value options in every aspect of their purchasing experience, not least in hotels, flights and mobile phones. Some operators confessed that they had been pleasantly surprised to find how the low-cost gym offer attracted customers from right across the demographic profile and across income levels. However, it was clear that there is extraordinary price sensitivity within the gym market, with monthly tariffs in the region of £17 seeming to be an important price point. Once customers migrate to the low-cost price zone other factors will influence their decision and simplicity has been found to be a major issue for a significant number of customers, leading some operators to do away with the requirement for an ongoing membership contract.

Does this mean that the low-cost gym operator is no longer concerned about retention rates among members? A couple of operators round the table offered some figures to demonstrate that they had good rates of retention but the fact that these numbers were easily recalled suggested that they were still important. Some were not convinced that retention was as important within the low-cost market, given that the simplicity of the product meant that people could join and rejoin, come and go regularly as their work, lifestyles and finances allowed. However, all were agreed that the quality of staff and the ability to interact with the customer were still important. One operator offered one of their low-cost brands as an example: "We didn't think that we needed to engage as much with the customer but we were wrong. It makes a difference and we're

*Round the table:*

**Marcus Kingwell**

SLC Consulting, round table chair

**Steve Bradley**

Operations director, Topnotch Health Clubs

**Rupert McKenzie-Hill**

CEO, Kiss Gyms

**Jan Spaticchia**

CEO, Energie Group

**Peter Roberts**

Managing director, Pure Gym

**Ray Algar**

Managing director, Oxygen Consulting

**Andy McCabe**

Operations director, GLL

**John Treharne**

CEO, The Gym Group

**Jez Whiting**

Sales director, Precor

**Adie Meyer**

Senior sales consultant, Precor

**James Moffat**

Senior sales consultant, Precor

**Jonathan Ives**

Editor, *The Leisure Review*

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always trying to replicate the care of an owner-manager among our managed sites.”

Another operator agreed: “We’re creating a new market for people who have never been to gyms before. In one city, for example, we have a lot of students who come and go but it’s not attrition per se. However, that doesn’t mean you don’t have to look after your customers and our research shows that leavers have very high customer satisfaction.” With fewer non-essential facilities, such as bars and pools, staff are able to focus on the gym floor, working with customers to ensure that low-cost does not equate to soulless. “Good management is still the key. We see it all the time: a good manager will run a successful site.”

This prompted the question of whether the low-cost sector requires different skills from its staff than the more traditional health club approach. Around the table the ability to work with customers was felt to be even more important in low-cost operations and a number of operators are focusing their staff recruitment on personality rather than fitness experience: “You can train fitness. We’re looking for people who are able to engage customers and perform on the gym floor where it matters.”

For operators establishing low-cost gym operations and building brands, whether with national, regional or local presence, banking, finance and property are essential elements of the business. How difficult, the chair wondered, has it been to manage these aspects of the sector, particularly in light of the current economic climate?

One view was that the difficulties businesses were experiencing in raising finance were having an impact whatever the scale of the operation. Some 75% of UK gyms, it was suggested, are independents and for owner-operators the problems begin with not being able to borrow money against the asset of domestic property, an approach that has been the traditional starting point for business start-ups for many years. At the other end of the scale is the example of two very good businesses for which the operator is struggling to raise debt for expansion. While the government-backed enterprise guarantee scheme can help smaller operators and franchisees, the current attitude of lenders will mean that there will be no fitness boom as there was in the 1980s.

It was generally agreed that the 1980s boom had made banks wary of the fitness sector, not least in light of the ongoing financial difficulties of Fitness First, a brand that has expanded across the globe but is now burdened by the management of huge debts. However, there was a view that the current financial climate would encourage operators wanting to enter the gym market or expand within it to get creative and rediscover the entrepreneurial spirit. The low-cost sector could be an important element of that and may yet persuade lenders that a properly managed gym operation is a good bet.

Operators searching for new sites were also finding problems with landlords who are themselves often experiencing financial difficulties. An increasing number of landlords asked to put their buildings into good condition are finding it difficult to raise the funds required. While a lot of property is available for rent, a lot of the property available is unsuitable or in poor condition. While good property will hold its rental value, good deals can be done but how much you are paying to rent the space in which you operate your business is still one of the fundamental considerations. A number of smaller operators have got their numbers wrong and paid the price.

Within the context of the issues already discussed, what will be the key challenges for the low-cost gym sector in the coming years? Location, it was suggested, is still the biggest driver but, with operators all looking for the best sites, opportunities are becoming increasingly scarce. Providing great value for the customer will also remain central to the sector and, with everyone competing on price, it will make for a very interesting commercial environment.

The extent to which the low-cost gym market retains the capacity for expansion will be crucial, not least the extent to which low-cost is reaching previously untapped consumers. As one operator put it: “We need to continue to engage people who would never usually go to a gym. The biggest operator currently has around 170 sites but Boots the Chemist has more than 5,500 sites around the country. In terms of that retail model, we’re not even close. The low-cost sector could be the key to engage these new customers.” There was a feeling round the table that the low-cost sector was only beginning to really find out what its customers really want. Price is obviously a big issue but experiments with niching, including a focus on dance or studio-only clubs, could engage a whole

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new customer base. No-contract offers and 24-hour access have shown how innovative approaches to the gym offer can appeal to customers with unconventional lifestyles and needs.

Given that the discussion had repeatedly returned to the issue of reaching and engaging new audiences for the physical activity messages, the question of the extent to which low-cost gym operators might see themselves as having a social mission had to be asked. From the trust perspective, the answer is comparatively straightforward: "We're a social enterprise, a business with a conscience and the expectations of our landlords is that we will do a lot for their communities." The low-cost model has made a significant impact on this business, bringing in the elderly, the young, students and the less well-off in big numbers; junior memberships have been remarkably popular. This has proved good for business, particularly in some areas in which traditional gym membership has been a rarity, but also good for communities.

From a non-trust perspective any social mission comes after the realities and the concerns of a profitable business. While low-cost operators are playing a significant role in democratising health and fitness, they are there to make a return on investment. However, everyone round the table offered examples of how their sites and members were enthusiastic supporters of charitable enterprises, initiatives that not only prove hugely popular with gym users but also generate significant sums for charity.

As the formal discussion drew to a close the debate continued with questions on whether the low-cost sector will be able to survive in the event of an economic up-turn and whether the gym sector will follow the hotel market into offering a 'budget-plus' option in response to the success of the 'budget' innovation. It only remained for the chair to thank everyone for their time and their contribution to the debate, to thank Precor for their generous support and to thank the restaurant staff for bringing the coffee.

### ***The Leisure Review, April 2012***

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