



Complimentary
Abbreviated Version

2015

Fitness Studio

Operating & Financial Benchmarking Report



ASSOCIATION OF
FITNESS STUDIOS



Table of Contents

Welcome from AFS.....	2
Acknowledgements.....	3
Understanding the Data Contained in This Report	4
Research Methodology.....	5
Disclaimer.....	5
The Emergence of Fitness Studios.....	6
A Profile of Fitness Studio Respondents.....	9
The Size and Scope of Studio Facilities and Equipment.....	13
Client and Member Benchmarks.....	17
The Impact of the Internet Middleman and Digital Coupon Sites.....	24
Fitness Studio Pricing.....	27
Financial Benchmarks.....	31
Compensation Benchmarks.....	41
Overarching Insights and Recommendations.....	46
About AFS.....	49
About ClubIntel.....	50

Welcome from AFS

“Market research such as this Report is a fundamental initiative of trade associations in any industry. We trust the data the Report contains will help you in whatever your position might be in the fitness industry.”



On behalf of the Association of Fitness Studios, it gives me great pleasure to present this 2015 Fitness Studio Operating & Financial Benchmarking Report. Never before in the history of the fitness industry has a study been produced that measures the baseline operating and financial metrics of fitness studios. Until now.

The value of this report is immense, assisting key industry segments:

- Studio owners and operators now have verifiable data to compare to their own business results.
- Aspiring studio owners can now understand the various components of developing a successful fitness business – before they jump in.
- Industry suppliers will now better understand the needs of their customers.
- Investors will be able to better evaluate the desirability of the studio segment of the fitness industry.

I'd like to thank Stephen Tharrett and Mark Williamson from ClubIntel, whose tireless efforts, assistance, and expertise were instrumental in making this project come to life.

Market research such as this Report is a fundamental initiative of trade associations in any industry. We trust the data the Report contains will help you in whatever your position might be in the fitness industry.

This benchmarking market research has been an AFS objective since our inception. We are proud to be able to present this data to AFS members, prospects, vendors, and the entire fitness studio industry.

Sincerely,

Josh Leve

Josh Leve
Founder & CEO
Association of Fitness Studios

Acknowledgements

The Association of Fitness Studios would like to sincerely thank the many people who help make this study and research report come to life.

Specifically, this significant undertaking would not have been possible without:

- The many studio owners and operators who took the time and put in the effort to complete the survey; their input was critical.
- Our generous sponsors – whose belief in this project was unwavering. We invite you to click on their ads to learn more about the valuable products and services they offer.



- Our good friends Stephen Tharrett and Mark Williamson at ClubIntel – who put in countless hours of data collection and analysis to create this report.



To all of these people and companies, we extend our most sincere thanks and appreciation.



Understanding the Data

Contained in This Report

“When it comes to running your business - you’re going to have questions. What should I be charging for a single session? What numbers should I be tracking and measuring?”

At AFS, one of our major, ongoing initiatives is market research to identify the key data necessary for studio owners, and entrepreneurial fitness professionals to make informed decisions to enhance business growth. We take the guesswork out of being a fitness business owner.

When it comes to running your business - you’re going to have questions. What should I be charging for a single session? What numbers should I be tracking and measuring? If my studio is 3,000 square feet, how much revenue should I be generating?

In this research Report we’ve identified key data to answer these questions and others that will positively impact your bottom line.

For example, you’ll learn –

- The impact of ClassPass and other Internet middlemen and our recommendations on how to address this emerging trend
- How much studios pay front-line staff
- How studio owners compensate themselves
- Measuring profitability on a per square foot basis and why it’s important
- The importance of space utilization for revenue growth and expansion
- Average Retention/Attrition rates – how do you compare?
- Understanding the pricing matrix - how it changes based on studio size
- Essential Key Performance Indicators (KPIs) you should be tracking
- Where studios are spending their money – we break it down
- Revenue per client – and how to increase it

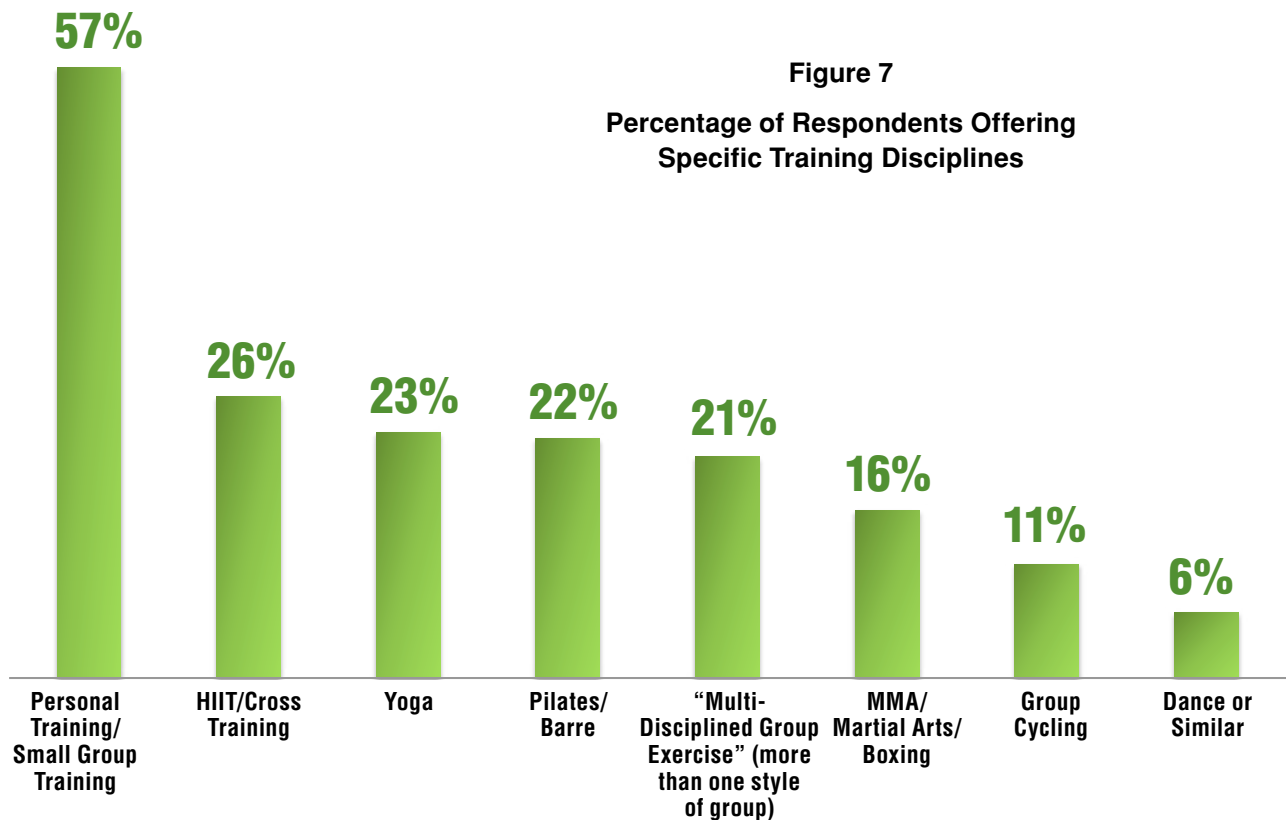
As with any market research, every business is different. We hope the information contained in this Report provides you the necessary guidelines to make a positive impact to your studio.



What Disciplines Do the Studios Follow?

One of the unique elements of the fitness studio business is reflected by the variety of programming models or disciplines that a fitness studio operator can pursue. In today's market the choices for what programming discipline to pursue are vast and include barre, cross training, cycling, dance, High-Intensity Interval Training (HIIT), rowing, personal training, Pilates, sports performance, yoga and multi-disciplined.

Approximately 57% of the studios responding to this survey have built their business around personal training and small group training (figure 7); while 26% frame their experience around High-Intensity Interval Training (HIIT). Other popular disciplines were yoga, Pilates/barre and multi-disciplinary group exercise studios.



When respondents were asked about the types of services they offer in their studios, personal training (66%) and small group training (60%) were the clear favorites, followed by functional training (42%), and HIIT which 37% of respondents offered (figure 8). A relatively small percentage of respondent studios indicated they incorporate alternative health services into their studios offerings - services such as massage, physical therapy and acupuncture.

While not a training discipline per se, a significant (33%) of responding studios offer nutritional counseling for their clients, indicating a strong opportunity for ancillary revenue growth.

How Many Clients Do Studios Serve?

The average fitness studio indicated they had 287 regular clients/members (figure 15). When the average client level was broken down by studio size (figure 16), studios over 5,000 square feet had the most regular clients with an average of 796, followed by studios ranging in size from 2,001 to 5,000 square feet with an average of 181 regular clients.

Figure 15
Client Base and Client Activity Total and Daily Visits

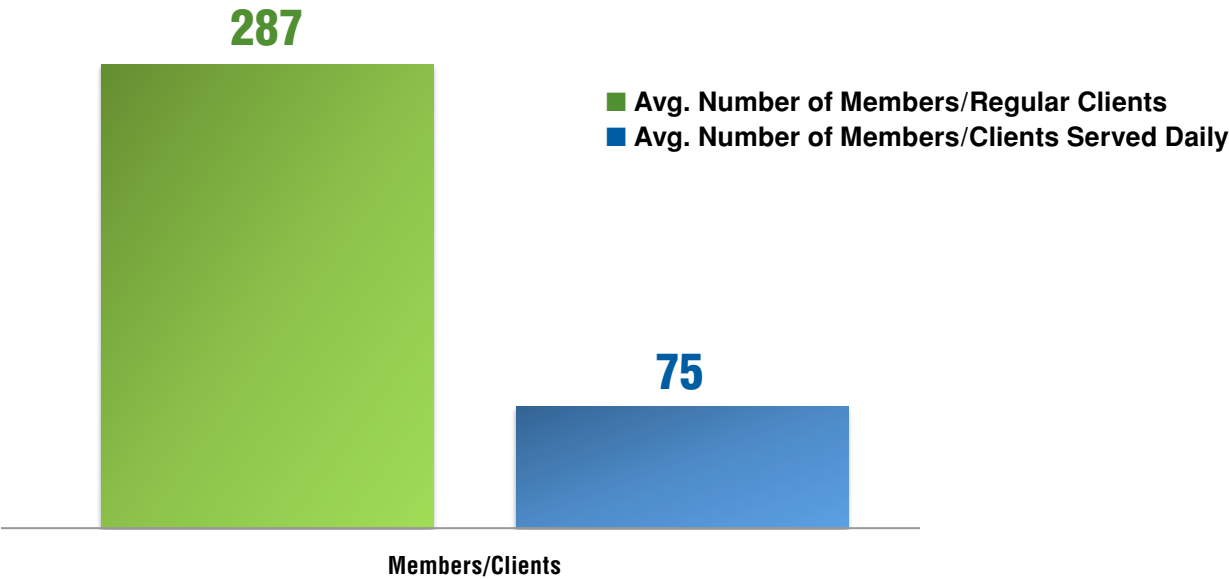
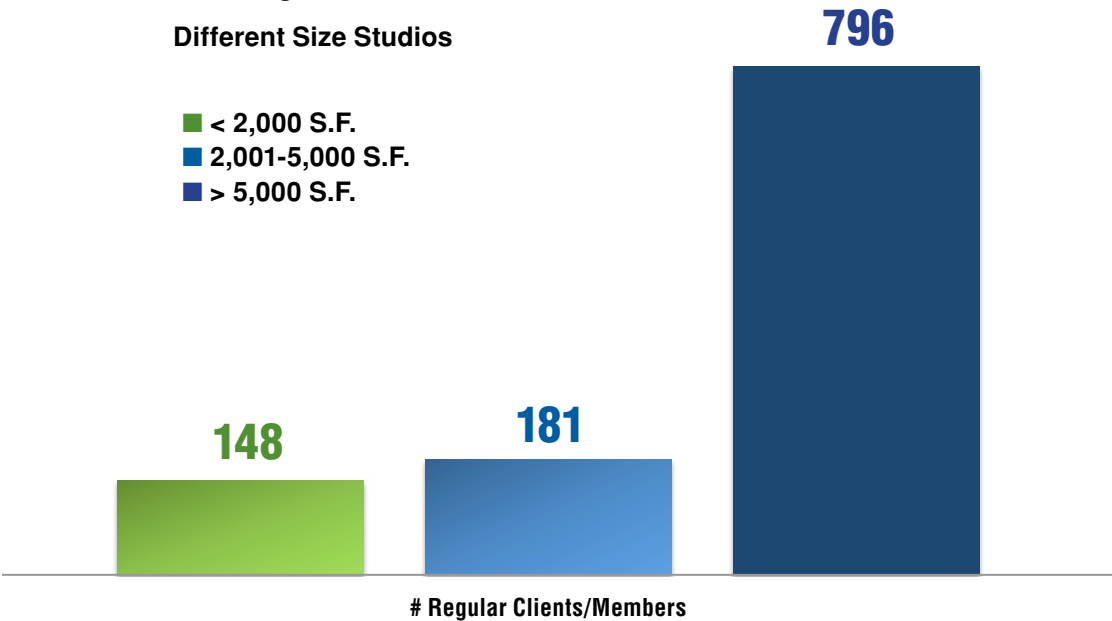


Figure 16
Different Size Studios



The Impact of the Internet Middleman and Digital Coupon Sites



One of the most disruptive business innovations impacting industry today, including the fitness studio industry, has been the introduction of “Internet middleman” and “Digital Coupon sites.”

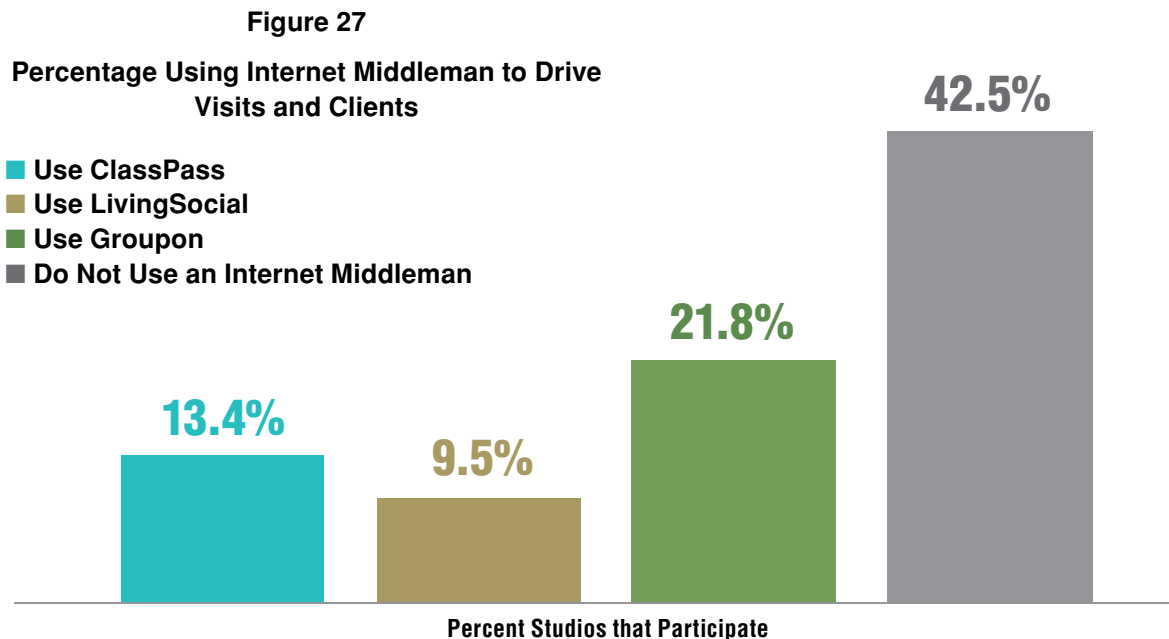
An Internet middleman is a business that leverages the Internet to offer consumers attractive alternatives to traditional shopping experiences. These “middlemen” allow potential clients to give you a “trial run” by allowing them to research your offering online then experience it without having to make a commitment to purchase from your business. The middleman “pitch” says that by generating incremental trial traffic they will significantly impact your studio’s traffic and acquisition of clients.

In return for this promise of new business, you must agree to offer your services on an ongoing basis to their subscribers at a significantly reduced cost (typically a 50% reduction), with the prospect that the cost of these trials will be more than covered by the increase in your client base. In the fitness industry, ClassPass is the market leader among Internet middlemen.

Digital Coupon sites differ from Internet middlemen in that they offer businesses a digital platform to deliver compelling promotional propositions to an enormous swath of consumers. They do not have subscribers like an Internet middleman - rather they have visitors to their sites or recipients of their emails.

When leveraged properly these sites allow a fitness studio to offer a trial experience at a reduced cost in the hope of converting that guest to a regular client or member. The two largest digital coupon sites are Groupon and LivingSocial.

Until this study, no one had definitive data on how these Internet middlemen and Digital Coupon sites impacted the fitness studio. We asked studio owners/operators if they leveraged these two unique Internet providers, to which we discovered that 58% are or have engaged (figure 27).



“The moment you make a mistake in pricing, you’re eating into your reputation or your profits.”

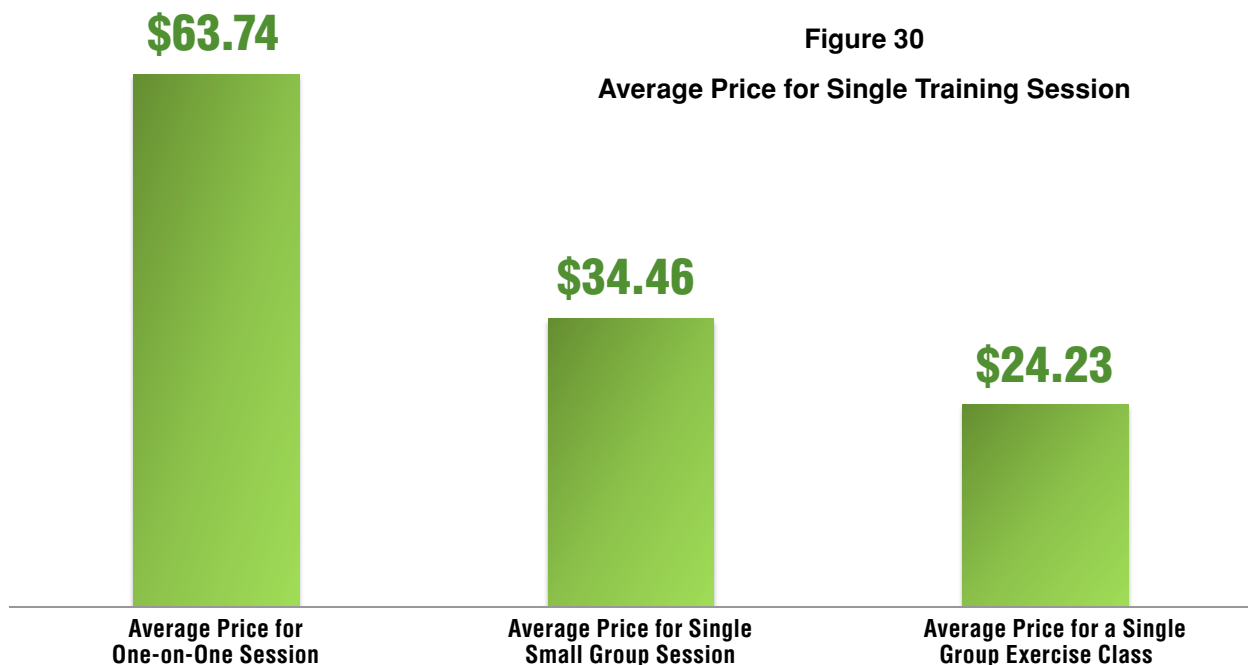
- Katherine Paine

As noted in Katherine Paine’s quote, pricing is the most crucial component to maximizing the revenue potential of your business. Studies conducted by Harvard have shown that a pricing improvement of as little as 1% can lead to as much as an 11% improvement in profits. Consequently, the pricing structures for the fitness studio industry are a critical determinant of how profitable a studio can become.

As presented in the previous section on fitness studio product bundling (figure 16), studios typically package their offering using one of the three approaches, charging for either a single visit basis, as part of a bundle or with unlimited monthly access. With this dynamic in mind, this study inquired about the pricing practices of studios when it came to these three approaches.

Pricing for Single Sessions

According to the respondents in this survey, the average price for an individual to engage in a one-on-one session is \$63.74 (figure 30). These same studios reported an average price of \$34.46 for an individual to participate in a single fee-based small group training session and for an individual engaging a single group exercise class the average price was \$24.23.



Financial Benchmarks for the Studio Industry

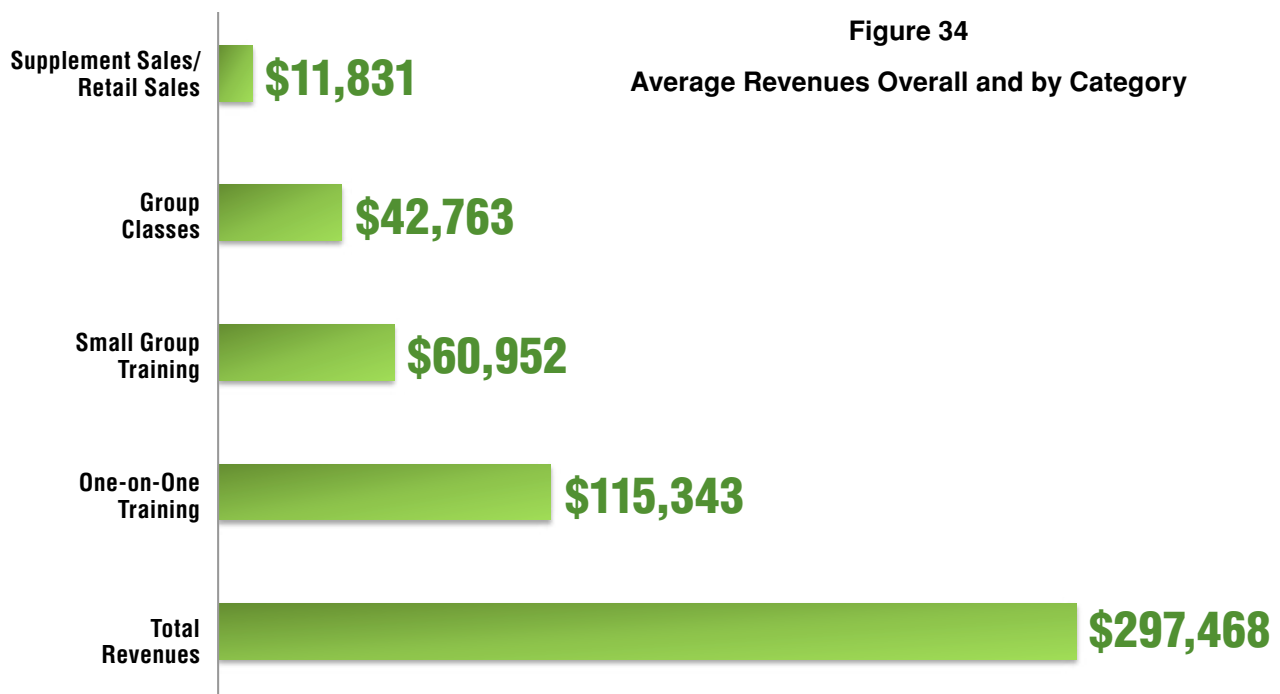
“...making profits is important because it keeps all our people in jobs and, you know, it keeps what we – what we’ve created going”

- Richard Branson

Like Richard Branson said, making profits is important on many fronts. Making a profit requires understanding the financial opportunities and risks in a business. This understanding can often be found by understanding the financial dynamics of a particular industry. In this section of we share important financial benchmarks about the fitness studio industry.

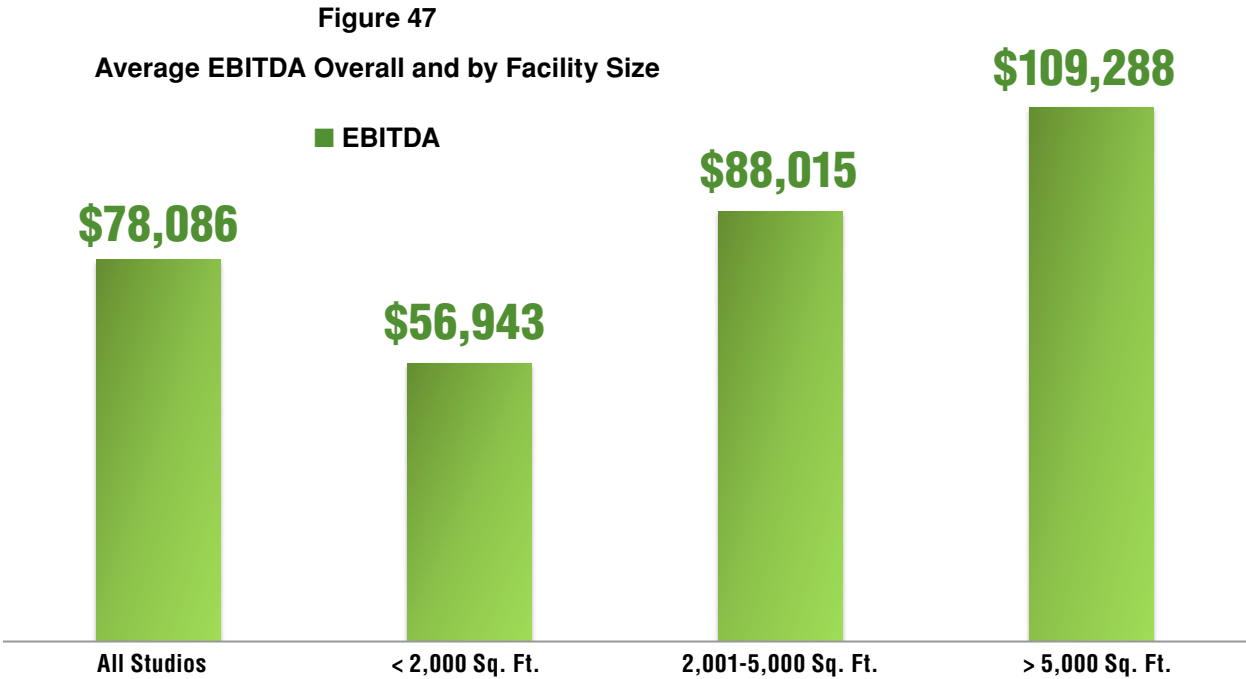
Fitness Studio Revenues in 2014

In 2014, fitness studios generated average revenue of approximately \$297,000 (figure 34), with one-on-one personal training generating the highest average portion of studio revenue at \$115,343. When studio revenues were broken down across the various size of studio segments (figure 35), those facilities over 5,000 square feet generated the highest reported average revenue at nearly \$750,000, along with the highest average one-on-one personal training revenue at \$220,379.

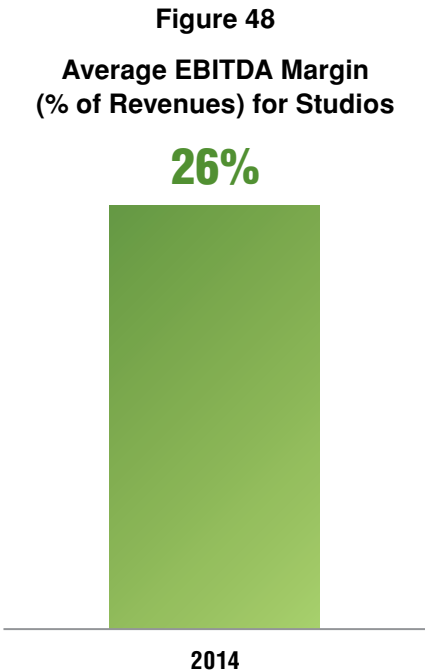


Fitness Studio EBITDA

The average reported EBITDA (earnings before interest, principal, taxes, depreciation and amortization) for fitness studios was \$78,086 (figure 47).



The larger the fitness studio the higher the average reported EBITDA (figure 47), with those studios over 5,000 square feet reporting \$109,288 and studios under 2,000 square feet reporting \$56,943. Overall, the average studio had an EBITDA margin of 26% (figure 48).



When EBITDA performance is looked at from a square footage perspective, the average club generated \$27.31 per square foot (figure 49), with the EBITDA productivity of independent studios being nearly the same at just over \$27 per square foot.

Compensation Benchmarks in the Fitness Studio Industry for 2014

“There is one rule for the industrialist and that is: Make the best quality of goods possible at the lowest cost possible, paying the highest wages possible.”

- Henry Ford

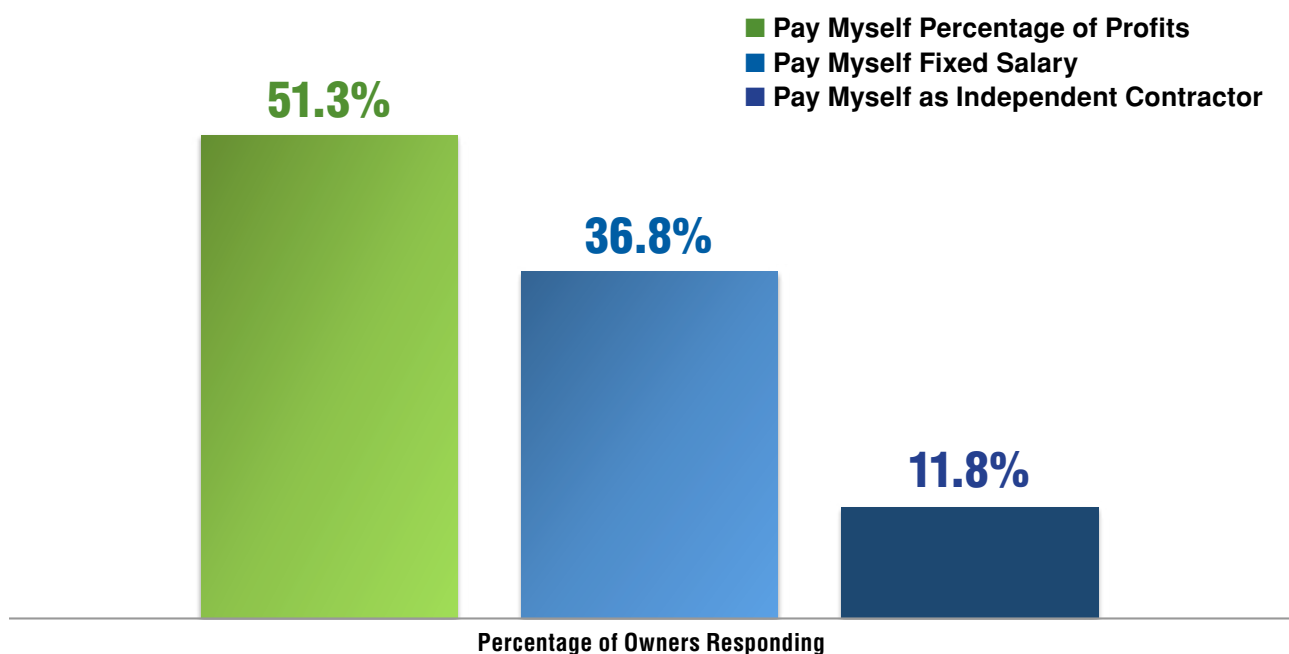
While fitness studio owners are not industrialists, they can still take a lesson from Henry Ford, which is to pay the highest possible wages and you will likely deliver the best quality experience for your clients. So, what are the highest possible wages a fitness studio operator might expect to pay to deliver the best quality experience for their clients? In this section we provide some insights in to the compensation practices of fitness studio's owners, from how they pay themselves to the rates they pay their key staff.

How Do Studio Owners Get Paid?

When studio owners were asked how they compensated themselves (figure 51), 51% indicated they paid themselves from the profits of the business, while 37% indicated they took a fixed salary. Only 12% indicated they paid themselves as an independent contractor.

Figure 51

Percentage of Owner Respondents
Payment Method Approach



Overarching Insights and Recommendations on Performance Metrics for Fitness Studios in 2014

(Note: The Insights articulated below are those of ClubIntel based on the data secured from the research study. The Recommendations articulated below are those of AFS executives based on ongoing communication with scores of studio owners and operators. AFS makes no representations or warranties with respect to the Recommendations and knowing that all circumstances are different, shall not be liable for any Recommendations that do not deliver the desired results.)

- 1. Fitness studios need to be focused on revenue productivity per square foot.** The average fitness studio was just over 4,200 square feet and 80% of studios were 5,000 square feet or less. The small footprint places a premium on every aspect of revenue generation, from pricing to client occupancy levels. The upside of having a small footprint is leveraging the potential costs savings that accompany less square footage.

Recommendation: Studio owners not focused on productivity per square foot should immediately seek professional advice to construct their normal financial operations in a manner that reflects revenue productivity.

- 2. Fitness studios must leverage revenue per client and revenue per visit.** With the average studio having only 287 regular clients (12% of the average for traditional health/fitness clubs), it places a premium on creating an experience that fosters loyalty and incremental spend.

Recommendation: Studio owners need to totally understand that it's all about the client experience – from the moment that person first walks into the studio. Client or member experience drives the business.

- 3. Internet middlemen and Digital Coupon sites remain unproven conversion tools.** Approximately 58% of studio operators have used Internet middleman (e.g., ClassPass) or Digital Coupon marketing platforms (e.g., Groupon, LivingSocial) to drive traffic to their clubs. For example, 13% of the studios reported using ClassPass which generated the most monthly visits among the tested tools with an average of 65 visits per month. Yet this program was the least effective at building a studio's core client base with a conversion rate of only 6%. This study points to the beneficial impact these strategies can have generating additional customer traffic, but also shows that they have not proven to be as effective for building a studio's regular client base.

Recommendation: Studios should be wary of the Internet middlemen and Digital Coupon sites for several reasons: (1) they are in business for themselves – not your studio; (2) when you sell your brand you are selling your soul, so understand the possible repercussions of that sale; (3) manage your expectations re. conversion – do you want a bunch of people in your studio who will never actually become customers?; and (4) if you're not careful, your membership could be cannibalized – rather than gaining clients you might actually lose them.



About AFS

The Association of Fitness Studios (AFS) is the only trade association that provides business-specific products, services, and benefits to studio owners and entrepreneurial fitness professionals, supporting their efforts and giving them the platform to effectively manage and grow their businesses.

There's a lot of noise out there. And we understand our members are going to have questions when it comes to running their businesses. What we do is take the guesswork out of being a fitness business owner. Questions such as what software platforms to use, what marketing strategies work best, if I'm 3,000 sq. feet how much revenue should I be making annually? What do others pay their front line staff?

Belonging to AFS means we answer these questions for you, saving your valuable time. Being able to leverage our research, our team of industry leaders through our advisory council, and the combined/real-life experiences of our members to reduce your business risk and get you to success faster.

AFS provides the voice for the fitness studio community.

We're out there keeping tabs on the trends and issues affecting YOUR business. The simple fact is that issues arise that demands a collective response. It could be a new app, a new law about to be passed, or a company that's having a negative impact on client loyalty and retention. We inform you about why you should care, how it could impact your business, and what we can do about it – together.

With AFS, your membership stands for something. We encourage our members to proudly display the AFS logo and membership certificate on their business cards, website, marketing materials, anywhere – to showcase their business' professionalism and credibility to their clients and to the community.

We recognize and respect the wide variety of fitness studio disciplines and business models, because when it comes to solving problems, one size does not fit all. However, by working together we can achieve far more and have a profound impact on the success and longevity of your business, than by working alone.

Our members gain access to new ideas and best practices, continuing education, new revenue streams and discounts through our partners, networking events and mentorship opportunities, and the critical research to support the fulfillment of their dreams.

When you belong to AFS, it's more than a membership, you're becoming part of a movement - with AFS, we're stronger together.





About ClubIntel

ClubIntel is member and brand insights firm founded by Stephen Tharrett and Mark Williamson. The company is primarily focused on helping clubs and studios understand, appreciate and leverage the needs, wants and personal journeys of clients, employees and members. In addition, we help health/fitness businesses understand the position and voice of their brand in the marketplace, providing a means by which they can take ownership of the white space in the market and gain a distinct competitive advantage.

Our 50 plus years of experience spanning consumer and customer insights, branding, club operations and people development represents an industry-first storehouse of human insight and research expertise that can help health/fitness businesses reach their full potential and gain a powerful competitive advantage in the marketplace. We have worked as a team for more than 20 years, spanning multiple brands across the globe, and each time we gain a deeper understanding of what makes this industry successful and profitable – understanding we can share with you.

Mark Williamson, Co-founder and Principal

Mark has more than 20 years' experience in market research, and consumer insights, including 17 years within the club and hospitality industry at ClubCorp USA, which comprises an elite collection of private golf, country, business, sports and alumni clubs. He also led Consumer Insights teams for industry-leading restaurant brands such as Applebee's, Chili's, Maggiano's, On The Border, Romano's Macaroni Grill, and Corner Bakery. Outside of the hospitality industry, Mark led the consumer insight team at match.com. He is a guest lecturer at national conferences and frequent panelist on a series of webinars.

Stephen Tharrett, Co-founder and Principal

Stephen has been a thought leader and industry advocate to the club industry for over 30 years, having worked both domestically and internationally across nearly every segment, including health, fitness, golf and country clubs both public and private. From 2008 to 2010 Stephen served as the Chief Executive Officer for the Russian Fitness Group, a privately held health/fitness club company that was at the time the largest in Russia. He spent 20 years with ClubCorp, a billion dollar private club company based in Dallas, Texas where he was a vice president of operations.

Stephen is also the owner and president of U.S. based Club Industry Consulting, a global consulting practice serving the club industry since 2006, and is a former president of the International Health, Racquet and Sportclub Association, having served as president of the international association from 1996-1997. Stephen presently serves on the advisory board for the Association of Fitness Studios and Club Industry Magazine.





ASSOCIATION OF FITNESS STUDIOS

For more information please visit
www.afsfitness.com

Association of Fitness Studios
807 Davis Street, Unit 806
Evanston, IL 60201
312-361-1144