230 Million by 2030?

Implications for the U.S. Fitness Industry and Future Approaches to Growth

club intel

Insight Inspiration Impact

A Bold Prediction or Status Quo?

230 million health club members by 2030; at first glance it seems like quite a bold prediction. Based on IHRSA's estimates found in its 2019 Global Report, the current health club membership population of the globe is 183 million or 2.4% of the total global population (7.6 billion as of June 2016). By 2030, according to the U.S. Census Bureau's International Data Base, as well as other World databases, estimates are that based on present global growth rates the world will have slightly more than 8.5 billion people. Consequently, 230 million club members will be equivalent to 2.6% of the global population, a jump in penetration of .2% over the next 12 years. Five years hence in IHRSA's 2014 Global Report, the estimated global health club population was 138.75 million or 1.93% of the global population. This means over the past five years, total global memberships have risen from just over 1.9% of the global population to 2.4%, nearly a half a percentage point. So now our industry's bold prediction is to grow at half that rate (.2% from 2.4% to 2.6%), and not in five years, but in 12 years! Even if the industry stood still while the global population grew at its current rate, we would get to 205 million maybe 206 million members by 2030.

From the aforementioned data it seems our bold prediction for 2030 isn't so bold at all. Yes, it speaks to an industry confident in its ability to grow, but not one willing to embrace an agenda that really expands the reach of the health/fitness industry. So why put a damper on the industry's goals? It is not a damper, but a reality check intended to generate a greater sense of urgency to embrace a global agenda that is focused on changing the industry story so that a significantly larger number of global citizens, not to mention American's, embrace health/fitness club memberships.

What many in our industry don't realize is that riding global population statistics, along with tamping down previous global industry growth to come up with a not so bold prediction for global membership population in 2030 will not get us where we want to go. Instead we have to take on global lifestyle trends and choices, and the accompanying continuous unpredictable changes in generational dynamics to reframe the health/fitness industry value proposition or

U.S. citizens and global citizens will not make the choices we need them to make to grow the industry.

The remainder of this paper will look at what's happening in the U.S. that could foretell what is happening around the globe and what that really means for how we approach growing the health/fitness industry in a meaningful way; not to 230 million by 2030, but let's say 250 million.

What Does the Global Goal Mean to the U.S. Industry and U.S. Club Operators?

As of today, the U.S. membership population of 62.45 million equates to a market penetration rate of 20.8% and 34% of the global health club population. The U.S. is, at least for the moment, an influential contributor and the market leader when it comes to health/fitness club memberships. If the U.S. wants to retain its mantle of leadership and influence for the global fitness industry, then what does that mean the U.S. membership goal should be for 2030? If we are to retain 34% of the global market share, then by 2030 the U.S. would need to reach 78 million members, an increase of 15.6 million over the next 12 years or 1.33 million new health/fitness club members each year. At this pace we would not only have 78 million members, but market penetration of slightly more than 23% of the estimated 2030 U.S. population over the age of six and over. Consequentially, to maintain U.S. influence in contributing to the global goal for 2030, we need to push market penetration levels up 2.5 percentage points over the next dozen years, a feat similar to what has been accomplished most recently over the past five years (2014 to 2019). Of the 15.6 million new members needed to maintain our leadership position, 7 million will come merely as a result of population growth and maintaining our present level of market penetration at 20.8%. Simply stated, if the U.S. wants to remain the influencer it has to get a greater percentage of Americans to walk in the door of clubs and then remain. Based on the fact we are looking to achieve market penetration growth over the next 12 years equal to what has been accomplished over the past five years, one might say the task is far from daunting, and possibly a no brainer. Yet, we are saying that by 2030 we need to go from having one in five Americans being a member to one in four, which sounds a little more daunting. The daunting part may not be grounded in the percentage leap that needs to be taken; it has already occurred in the past five years. Instead, it is likely rooted in two variables; American lifestyles and lifestyle spending and second, American perceptions and behaviors in respect to the health/fitness club experience. The first variable is grounded in American lifestyles and lifestyle spending; especially non-essential lifestyle spending does not favor gym memberships. Second, industry-related research shows that consumer and member beliefs and behaviors around membership do not favor the growth of industry membership; at least not easily. In the next section we will look at studies, industry-based and non-industry-based, that have been conducted over the past several years that can shed light on the barriers and opportunities to going from 20.8% to 23.5% by 2030 in the U.S. and consequently 230 million or even 250 million globally by 2030.

Where Does Health/Fitness Membership Fall in Respect to American Lifestyles and Spending Preferences?

Over the past several years a few different studies have been released that offer insight into what the industry faces when it comes to maintaining our present leadership position in respect to the 230 million by 2030 global membership goal. Among the many studies conducted, there are four studies that shed light on the issue of lifestyles and non-essential spending. These studies include:

- The Basics Survey – Exploring the Non-essential Must Haves for the Lifestyle of Today. Conducted by True North Market Insights and supported by TD Ameritrade
- Ladder Life survey of American's non-essential spending practices
- 2016 Bureau of Labor Statistics Consumer Expenditure Survey
- American Time Use Survey published by Statista

So what are some of the more interesting insights from these various reports that point to a tough road ahead for growing industry penetration a mere 2.5% points over the next 12 years?

Insights from the Basics Survey, Ladder Life Survey and Bureau of Labor Statistics Survey

- According to the Basics Survey the average American spends $697 on non-essential lifestyle basics on a monthly basis. Millennials are the big spenders at $838 monthly and Generation X the most frugal at $588 a month. In the study released by Ladder Life which surveyed a broader audience than the Basic Survey they indicated Americans reported spending nearly $1,500 a month on non-essentials.
- Depending on which study you believe, non-essential spending ($697 or $1,497 a month) is still significantly less spend on a monthly basis than many essential spending behaviors (see numbers below from the Bureau of Labor Statistics 2016 Consumer Expenditure Study).
  - Average of $4,612 annually on healthcare
  - Average of $18,886 annually on housing
  - Average of $9,049 annually on transportation annually
  - Average of $1,116 on cats and $1,680 on dogs annually
  - Average of $484 annually on alcohol

- Gym memberships are a non-essential (see sidebar on essential and non-essential spending) lifestyle spend. Why is this important? If a lifestyle behavior is considered a non-essential spend it is exposed to two enormous forces. First, a non-essential spend will always fall behind essential lifestyle spends when it comes to how Americans spend their lifestyle money. Second, non-essential spend gets prioritized, meaning the important spend floats to the top while the less important ones tend to sink further to the bottom.
- When consumers were asked which non-essential spend was basic to their lifestyle, memberships (included gym and streaming services) were considered basic to one's lifestyle by 22% of respondents. To put this in

ESSENTIAL SPENDING REFERS TO HOUSEHOLD AND PERSONAL EXPENDITUES REQUIRED FOR LIVING. THIS INCLUDES CATEGOREIES SUCH AS HEALTHCARE, HOUSING, TRANSPORTATION, FOOD AND INSURANCE.

NON-ESSENTIAL SPENDING REFERS TO EXPENDITURES THAT ARE DISCRETIONARY OR NOT REQUIRED FOR DAILY LIVING. THESE INCLUDE EATING OUT, ENERTAINMENT, VACATIONS, COFFE AND MEMBERSHIPS.

perspective, coffee received 46%, dining out 59% and travel 61%. Memberships were toward the bottom of the non-essential's basic list. When segmented by generation, 28% of Millennials saw membership as basic to their lifestyle, while only 19% of Generation X and 22% of Boomers made the same claim.

- When the respondents were asked which of these non-essential lifestyle basics they would find it hard to live without, 16% of respondents said memberships were a basic they couldn't live without, while 37% said they couldn't do without coffee and 60% they couldn't do without a vacation or travel.
- When respondents were asked which of these non-essential lifestyle basics they wouldn't give up under any circumstance, fewer than 9% said membership.
- When respondents were asked what had the greatest influence on what they spent on non-essential items, the number one influence across generations was family and friends, with Millennials reporting out the highest at 43%. Second was boredom, second across generations and highest among Millennials at 33%. Advertising and social media had an influence, but most among Millennials at 20% and 21% respectively. Generation X and Boomers didn't seem too fazed by advertising or social media.
- When asked about their attitude on the money they spend on non-essential items, 32% indicated it served a purpose such as relaxation or was a hobby. Interestingly, 18% said it was because it made them happy.

Insights from the American Time Use Survey

- On an hourly basis, gym memberships were the most expensive pursuit of Americans at an average of just over $14 an hour (based on average hours used a month and cost of membership).
- Gym memberships cost 14 times more per hour than cable ($1.09) and was 17 times more expensive per hour than a cell phone.
- Gym memberships have an incredibly high perceived cost as the result of the combination of infrequent usage and monthly membership fees.

What Do American's Present Experiences and Perceptions of Membership Indicate about Potential Future Behavior and Perceptions?

American lifestyle choices, in particular non-essential spending practices, aren't the only variable that has the potential to impact the industry's future growth. Four studies as identified below offer insight into consumer and member behavior and perceptions around health/fitness clubs.

- Statistic Brain Research Institute Gym Membership Market Analysis
- 2017 Bare International Customer Satisfaction Industry Benchmark Study
- 2019 IHRSA Health Club Consumer Report
- 2015 IHRSA One Million Strong Report

Insights from the Gym Membership Market Analysis by Statistic Brain Research Institute

- 63% of those surveyed indicated they never used their membership after purchasing it
- 82% say they use the membership less than once per week
- 22% stopped six months in
- 31% said they would never have paid what they did if they knew how little they would use it

Insights from IHRSA's 2019 Health Club Consumer Report and 2015 One Million Strong Report

- According to One Million Strong which was completed in 2015, 67% of club members maintained their membership after 12 months. By 24 months only 44% remained and after 36 months only 20% remained.
- In 2018, industry churn, or the percent of members who left the industry entirely, was 14%, while industry matriculation (new and former members who returned to the industry) was 16%, a spread of 2 points.
- The average number of members per club (total membership divided by number of clubs) was down slightly in 2018 and for the past five years, the average number of members per club has remained flat.

- Industry membership grew by 2.6% in 2018 and on average by 3.4% over the last five years.

Insights from Bare International Study (included members from all the major industry players)

- 48.5% of club members when asked whether their current membership met their needs said **Not Really**.
- On a 5-point experiential satisfaction scale, with four being satisfied, 30% rated their club below four.
- When members were asked what the leading reason for joining was, 34% indicated price and 33% convenience.
- The higher the price point of the club, the higher member satisfaction (47% of those paying more than $100 a month rated the experience as a 5 while only 12.5% of those paying less than $40 a month rated their club a five).
- 57% of members left because it was too expensive
- 48% of former members indicated they would consider rejoining if the club was more affordable. Only 12% mentioned enhanced amenities.
- Among individuals who weren't members, 87% said they would consider joining. The leading reasons for considering joining were overall fitness (56%) and weight loss (31.9%).
- The number one reason they would consider was price (52.8%) and the leading reason they wouldn't was price (47.2%)

What are These Studies Telling Us about the Challenges Ahead?

Based on our assessment of the data provided in these various reports and studies, we believe the following to be the most important takeaways when it comes to the challenges that will face us in pursuing the U.S growth objectives that will provide the impetus to achieve the global growth goal of 230 million by 2030, or if we had a say, 250 million by 2030.

- Fitness is a non-essential lifestyle basic, not an essential lifestyle basic for the vast majority of Americans.
- Given a choice of what non-essentials lifestyle spend to keep, fitness falls near the bottom of the priority list. It isn't a top priority for the vast majority of Americans.
- Americans perceive gym membership as expensive when usage, time and cost are considered. In essence, cost is not based purely on what is charged or paid, but rather on the intertwining of what one pays and how much time one allocates toward the purchase. In the case of gym members, while they may not pay that much, they don't use their club that often or at all (spend very little time). When Americans view the cost of a gym membership on an hourly or visit basis, they perceive it as extremely costly.
- American's non-essential spend is heavily influenced by what family and friends purchase, recommend and do, and also on a need to overcome boredom and be happy. Non-essential spend is also connected to consumer lifestyle purpose.
- Health club members are far more likely not to use their club than use it; 63% in one study indicated they never used it after paying and 82% said they used less than once a week. These numbers align with the consumer perception of gyms being expensive in that after paying for it and not using, the perceptions of value drops and the cost rises.
- Nearly half of club members indicate that their membership didn't meet their needs and 30% indicated they were not satisfied with their experience.
- 57% of members in one study indicated they left because it was too expensive and 48% of former members indicate that an affordable price is the most important factor when it comes to rejoining.
- Retention levels, depending upon the tenure of membership, range from 20% at three years to 67% after one year. Other studies show retention levels for some of the top operators hover around 50% to 60% after one year when members are not bound by one-year contracts and auto-renewal.

ClubIntel's Assessment of the Challenges and What We as an Industry can Do to Foster Achievement of National and Global Membership Growth

1. *Americans and probably most global citizens don't hold fitness club or gym memberships as an essential lifestyle spend, or even an important non-essential lifestyle spend.* This may be the industry's number one challenge and opportunity, both in the U.S. and globally. It is apparent that the right story about our industry has not been shared with the public. This is an education issue and a branding issue. As an industry we need to educate the public not just about the value of fitness, but about the essential value clubs can bring to them and spin it around what inspires and motivates them to adopt gym membership as either an essential lifestyle basic or at the minimum, a high priority non-essential. If we can't be more important, or at least as important and essential as a fancy coffee, cigarette or dinner at a fast casual dining establishment, then attracting non-members to become members will be a constant uphill battle. Second, we need to establish a recognizable and valued brand around health club membership. Right now we are seen by many as a tangible, non-essential, perishable and discounted low cost commodity. The health/fitness club business, other than for our existing die hard members, is seen by the public as a cheap, dispensable and low cost commodity with minimal lifestyle value. This is an image issue, and one only the proper branding can overcome.

2. *Americans, member and non-member alike consider us cheap and low value, yet costly*. How can something be cheap yet costly? Cheap and low value reflects the price point consumers are constantly bombarded with which inadvertently tells them we don't consider our value proposition of any real value. Costly goes to the interplay of usage and time allocated to the money they spend. When more than half of members never use what they purchased, perceived cost elevates. When the majority of members use their membership infrequently, the perceived cost per visit or hour goes way up. Even a budget club can be costly if it's never used or used infrequently enough that the cost per hour or visit exceeds a Starbucks. Furthermore, when price is the primary driver behind joining, staying and returning, it really says consumers don't receive value or don't perceive they will get much

value and therefore don’t want to spend much on the experience. How does the industry address this?

- Let’s start by sharing a story that speaks to what inspires consumers rather than make price the entire focal point. If we showcase something the audience values instead of price, we might help to shift the paradigm.
- Instead of selling membership with the hope they won’t show up. Let’s find a way to get people connected so the perceived cost is less than rather than more than a Starbucks or Whole Foods muffin. This is not using the marketing pitch some budget operators use of less than a $1 a day; instead it’s providing trusted evidence that even if you only visit once a week it’s less than a cup of coffee or a muffin.
- We need to bring forward the value using language members and non-members will embrace. When consumers say it was too costly, or it needs to be less costly, what they are really saying is, “Show me value and deliver me value. If you can’t, then I am not spending my hard-earned money to try you.”

3. *Members don’t get what they expected, and when combined with low satisfaction it pushes them out and they speak to their friends and family about it.* If we want members, and former members to express favorable comments about their experience (i.e., the club met or exceeded my expectations) to friends and family, and consequently virally to the marketplace we need to deliver on expectations; not ours but the consumers. This begins with digging down at the club level and discovering what they really expect, not what we expect, and then having a mantra to fulfill those expectations. Think of it from this perspective. If we are experiencing 30% to 50% attrition a year in most clubs, and the primary reasons are because we couldn’t meet their expectations, and then they share that with family and friends, we are building an army of apostates to our brand. As an industry, we have more former members than members. If this army of non-members feel we don’t deliver, or we are too costly and don’t deliver value, at some point all the marketing in the world will not drive the level of foot traffic we desire to achieve growth rates that get us where we really want to get as an industry.

4. *Consumers are motivated to spend more on non-essential lifestyle basics if it helps them overcome boredom, fulfills a lifestyle purpose, makes them happy and family and friends are part of the story.* The cheat sheet on this is simple; at the club or gym level all we need to do get Americans more inspired and driven to spend non-essential lifestyle dollars on club memberships is:

- Take the time to understand each prospect's lifestyle purpose. If we can create a "connect" it will provide more impetus for the prospect to spend.
- Find out early on who the key family and friends are. Find a way to make them part of the story. Some budget operators allow members to bring unlimited guests. You could say this is a step toward leveraging the influence of family and friends.
- Make your club a place to pursue happy. Dr. Seuss said, "If you never did you should. These things are fun and fun is good." Well, when things are fun we tend to be happy. Maybe the answer lies in making everyone's journey with our club, online and in-person, about having fun, about trying things that are fun, and consequently feeling happy.
- Don't be boring. If the need to overcome boredom is a driver of non-essential spend, then clubs and the industry itself have to be seen as a great place for consumers to address boredom. You could say if people seek to overcome boredom, they are looking for a little exhilaration and variety. How can our industry players build and promote an anecdote for boredom; a destination of near endless choice and exhilaration?

Final Thought

At ClubIntel we are passionate about the industry. We believe strongly in the underlying value of club membership. We want the industry to become an essential part of every global citizen's lifestyle. Our mission is to help the players in the industry understand, appreciate and leverage consumers' needs, wants, and personal journeys, leading to a more novel value proposition for the industry; more members, more loyal customers, happier employees, and long-lasting profitability. This said, we feel it's important to be honest about the industry, to express our opinion when we feel industry goals may be a stretch, or in the case of 2030 not stretched enough; when we see challenges facing the industry that require a new way of thinking and acting if change is to happen, as is the case for the industry today, and when we see a need to raise an eyebrow that can create new ways of thinking and acting, we do it. This article is definitely a little of each of these.

ClubIntel (www.club-intel.com) is the club industry's leading consumer, member and brand insights firm. Using a unique approach to understand the fitness and sport consumer, we help associations; clubs, investors and equipment manufacturers understand, appreciate and leverage consumers' needs, wants, and personal journeys, leading to a more novel value proposition for the business, more loyal customers, happier employees, and long-lasting profitability. Everything we do is driven by our belief that human connections are the longest lasting and most profitable. Our services are designed to help you uncover and capitalize on the most powerful drivers of brand loyalty and the customer experience. Our approach, which is uniquely human-focused are built around:

Insight

Data can tell you a lot, but it can't speak to you. We have the instinct and experience to decode the numbers and tell you what your members and employees are really saying.

Inspiration

Finding the intangible qualities that turn members into brand fanatics, and employees into apostles, takes an empathy and passion you can only find here.

Impact

Our unique, human-focused approach has helped clubs and manufacturers across the globe reap the benefits of increased member loyalty, higher employee retention and productivity and greater business profitability.