

## 2.1 Introduction

During the emergent phase of the fitness sector, the principal channel of distribution was the physical venue. The physical and tangible characteristic of the property was the primary means by which the business and the customer would connect and interact. Considerable financial resources, due diligence and senior management attention would be invested to ensure that clubs were located in neighbourhoods that tapped into an under-served need. The distribution channel was short and direct – from club to consumer – and the assumption was that the

two sides would enter into an exclusive and hopefully long-term relationship. Although this may sometimes still remain possible, this chapter explores how the distribution of health, services and experiences is evolving.



### 2.2 Services are no longer inseparable

Historically, a key distinction between a physical product and an intangible service was a characteristic defined as ‘inseparability’. This meant that a service was normally produced and consumed at the same time because, unlike a physical product, it could not be stored for later use – in delivering the service experience, the provider and the consumer could not be ‘separated’ (treated by a chiropractor, for example). Many parts of the fitness sector have been constrained by this assumption, especially legacy providers, which are those organisations created before the turn of the millennium. However, a transformational moment was Sir Tim Berners-Lee’s invention of the World Wide Web in 1989. For the first time, the Web allowed the opportunity for service producers to deliver services over distance.



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This is now having a transformational effect on how people ‘consume’ health and fitness experiences. It allows a fitness entrepreneur, such as Jeff Cavaliere, to reach a global audience with virtually no physical infrastructure. Cavaliere served as the Head Physical Therapist and Assistant Strength Coach for the New York Mets baseball team before becoming a global online fitness influencer. He now uses his formidable exercise science knowledge and persuasive communication style to educate and inspire his 6.6 million YouTube subscribers (a larger number of people than the population of Denmark). His YouTube videos have been viewed just under one billion times (at December 2018). As a comparison, 24 Hour Fitness, which is one of American’s leading club chains, with more than 400 venues, has only attracted 11,000 YouTube subscribers since 2009. Cavaliere’s content coupled with YouTube’s global distribution creates a formidable partnership which is helping to unlock new demand for fitness services.

### **2.3 Competition, substitutes and alternatives**

As fitness markets mature, so competitive rivalry intensifies. This situation is often amplified as the boundaries of the fitness sector are defined and then reaffirmed by operators, media and other commentators. However, as clubs wage war against each other, an increasing threat is emerging from substitute offerings, many of whom are redefining how consumers access their services.

## 2. CREATING A COMPELLING SENSE OF PLACE THAT CONNECTS WITH THE CONSUMER

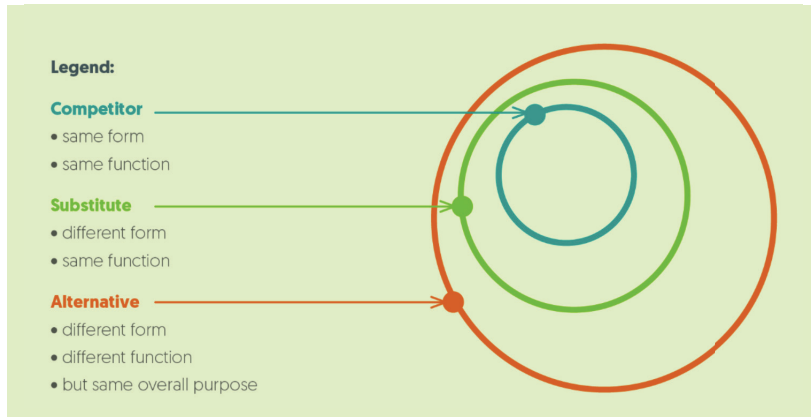


Figure 2.1: Competitors, substitutes and alternatives (Algar, 2018).

Competitors tend to be easy to identify because they possess the same core form and operate in similar ways. So, most would agree that 24 Hour Fitness competes with Planet Fitness in the United States, Virgin Active with David Lloyd in the UK and Fitness Hut and McFit in Spain. The scale and scope of what they provide may vary, but their fundamental form and function is the same. This also means they are identified and measured by industry reports as forming part of the supply side of a recognised sector. This helps to provide an understanding of the degree of competitive rivalry that exists. So, while competitors are audited, analysed and benchmarked, substitutes can often operate under an industry's radar.

Be Military Fit (BMF) launched in the UK in 1999 to attract people out of gyms and into parks, where former military instructors take groups of people through intensive one-hour classes using the tagline 'get the Nation Fit for Life'. BMF operates with no building infrastructure and was conceived by, its founder, Major Robin Cope, as a substitute for the gym – for those people who believed an indoor gym was not the right setting for them. The established club industry often pays little attention to these substitutes because they sometimes may be viewed as inferior and inconsequential. A club operator's perspective, if they are aware of them – may be, 'Exercising in the park does not compare with the extensive facilities we offer.' Those taking part, however, describe a fun and sociable experience as well as a demanding class run by friendly and professional instructors. The local health club has just been substituted. This phenomenon is becoming more prevalent as consumers consider different and varied ways to become more active. Meanwhile, Be Military Fit (now co-owned by the adventurer, Bear Grylls and NM Capital) is given the opportunity to quietly grow into Europe's largest outdoor fitness company.

Zumba in the community is another interesting example of an influential substitute that has repackaged fitness and infused it with fun. Here the typical fitness sector venues are ignored in favour of alternative settings such as church halls and even official Embassy buildings. Zumba now claims to be the largest fitness brand in the world, with 15 million participants taking part across 200,000 locations in 180 countries. They want to grow this number to 25 million participants. This ambition would not be realistic if delivery was primarily only through established fitness clubs.

## 2. CREATING A COMPELLING SENSE OF PLACE THAT CONNECTS WITH THE CONSUMER

Foley describes Peloton: “It is at the nexus of fitness, technology and media which makes it a special experience for the consumer at home.” They would admit to being technologists first, but technologists with a passion for fitness.

### **The beginning**

Founded in 2012, the team initially raised \$3.9 million in seed and Series A (first-round) funding to finance development of the Peloton bike and its digital content platform. The proprietary \$2,245 bike houses a 55-centimetre-high definition touchscreen display (equivalent to four standard iPads) which receives the live-streamed classes that are broadcast from its purpose-designed New York studio.

The Peloton ‘secret sauce’ is the combination of world-class instructors leading live-streamed classes to hundreds of at-home riders who are vying for position on the interactive leader-board, while receiving feedback from both the instructor and the bike display. If a customer cannot make it to one of the 14 daily live classes, then they select from a large catalogue of on-demand classes.

### **Subscription model**

As can be seen from the strategy canvas in figure 2.3, Peloton has created a unique in-home monthly subscription business. When consumers purchase the company’s bike or recently released \$4,000 treadmill, they take out a \$39 monthly subscription which provides unlimited access to all live and on-demand classes. \$39 is equivalent to the price of a single SoulCycle class.

Peloton, as a private company, does not disclose its subscriber base but public estimates put it in the range of 600,000 which would create recurring annual revenue of \$281,000 million. Foley has publicly discussed a monthly retention rate of more than 90% along with a claimed net promoter score of 91.

Creating a subscription model to access in-home content is a smart move because without it the customer is left disconnected from instructors, content and the Peloton community. What then remains is a typical home exercise bike.

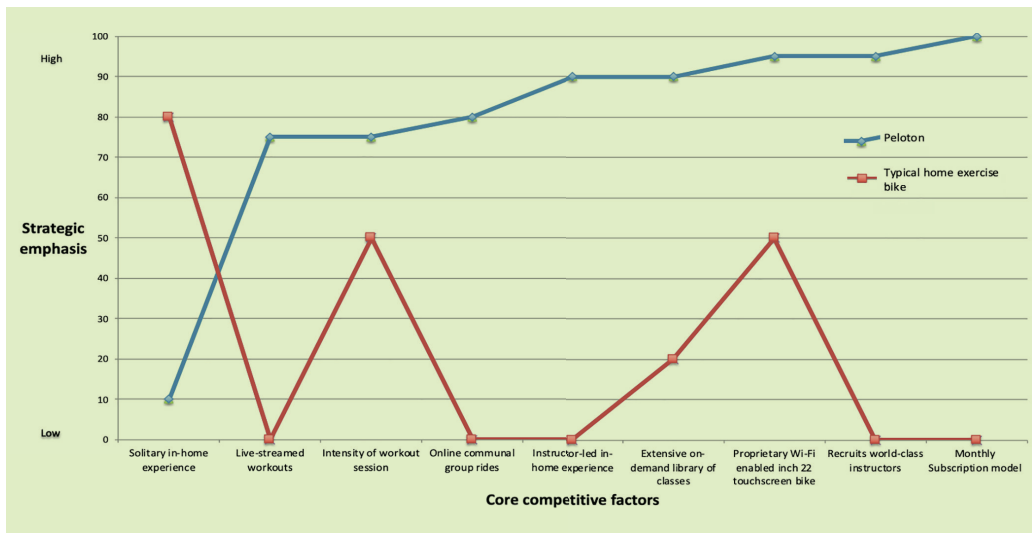


Figure 2.3: Peloton strategy canvas (Algar, 2018).