

Coronavirus COVID-19: Implications and Action Planning for Health Clubs and Fitness

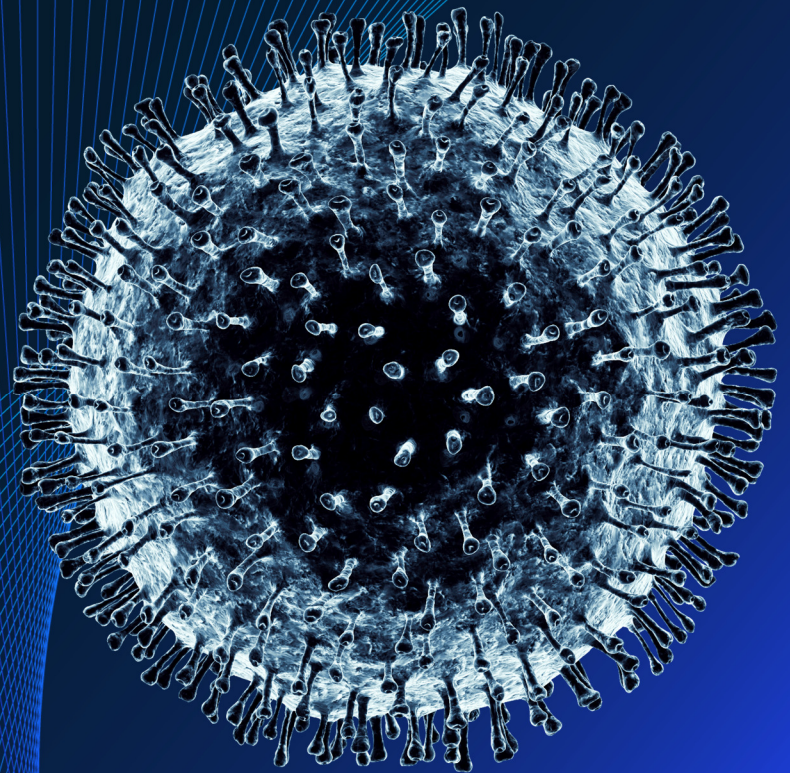
ACTION PLANNING GUIDE

Updated: March 1th, 2020

Consumer Practice + Global Health + Crisis Response

**DOCUMENT INTENDED TO PROVIDE INSIGHT AND BEST
PRACTICES RATHER THAN SPECIFIC CLIENT ADVICE**

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COVID-19 is, first and foremost, a global humanitarian challenge. Thousands of health professionals are heroically battling the virus, putting their own lives at risk. Governments and industry are working together to understand and address the challenge, support victims and their families and communities, and search for treatments and a vaccine.

Companies around the world need to act promptly. This document is meant to help senior leaders understand the COVID-19 situation and how it may unfold, and take steps to protect their employees, members, and financial results.

For more detail on the outbreak and potential economic scenarios visit <https://www.mckinsey.com/business-functions/risk/our-insights/covid-19-implications-for-business>

Materials provided

Current effects of COVID-19 on fitness

How can health clubs respond

Closing thoughts and what to look out for

The COVID-19 pandemic has led to developments in changes in fitness and wellness

Examples of how COVID-19 has affected the fitness space

NON-EXHAUSTIVE

Amidst regulations and cautions to social distancing, gyms and studios have...

Seen members drop their memberships – Still TBD on share of members who will quit (started last week or so in NA and EU)

Experimented with implementing a **capacity rule** (e.g., every other bike must be vacant) and eventually **announced closures** (e.g., Barry's Bootcamp decided to close several locations)

Periphery outlets have also closed, (e.g., Nike, Lululemon) with a promise to pay employees throughout closure

Live-stream for at-home workouts on social media



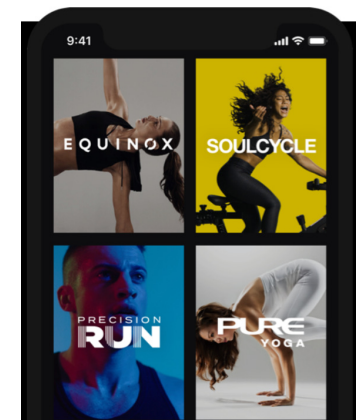
Studios, trainers, and fitness magazines have posted at-home workouts, including live-streaming sessions to guide consumers through workout sessions

Digital aggregators putting in better policies for consumers



Classpass announced a free “pause” in membership for consumers, and instituted full rollover of credits through June 1, 2020. If members are concerned about COVID-19, they can cancel a class late and get the cancelation charge waived


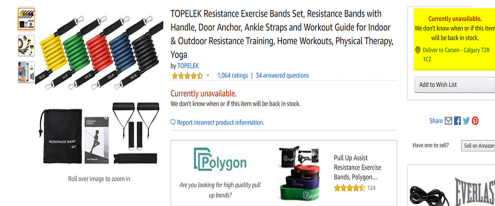
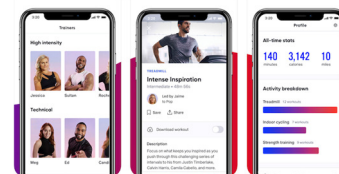
New at-home and digital offerings



Equinox launched Variis, a streaming service that provides access to on-demand Equinox classes (e.g., SoulCycle, Precision Run, Pure Yoga, etc.)

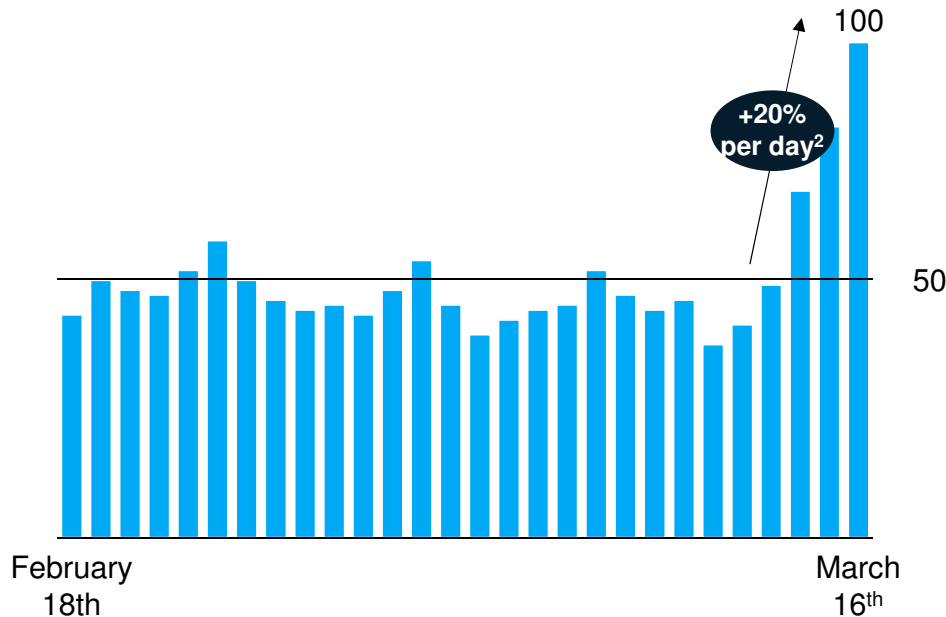
Soulcycle launched an at-home bike on March 13 for \$2,500

Social distancing and self-isolation have already shown to be an opportunity for at-home fitness solutions

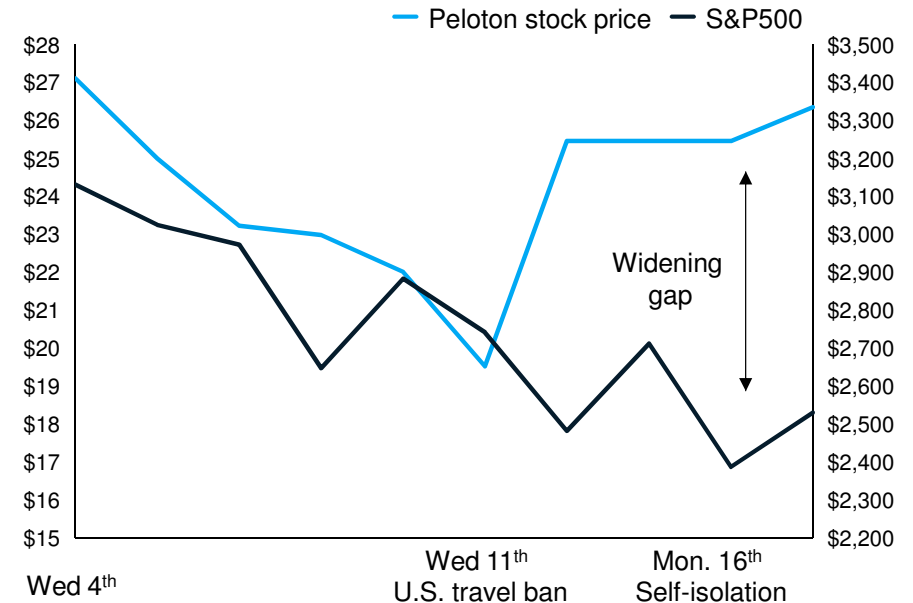
Sector	Effect	Examples
Connected residential equipment	<p>As health clubs and studios shut their doors, at-home connect equipment popularity have risen, as seen reflected in Peloton's stock price and Google searches (<i>details follow</i>)</p> <p>Connected equipment provides a solution to maintain a sense of community and group-motivation</p>	
Non-connected residential equipment (e.g. balls, ropes)	<p>Non-connected residential equipment provides a lower-cost alternative to maintain fitness habits</p> <p>Sales have boomed, with certain vendors selling out</p> <p>Maintaining clean supply-chains and delivery options has been imperative to the safety of customers</p>	 <p>“Currently unavailable. We do not know when this item will be back in stock”</p>
Application-based movement and nutrition solutions	<p>Free and subscription-based apps are promoting at-home or outdoor equipment-free solutions</p> <p>Applications can offer solutions to continue sharing results</p>	

The rapid rise in Peloton's popularity shows how fast customers are willing to adapt to maintain their valued fitness habits

Google search interest for "Peloton"¹, Index=100



Peloton stock price versus the S&P500, \$USD



1. Search interest relative to the highest point on the chart for the given region (U.S.) and time (last 30 days). A value of 100 is the peak popularity for the term. A value of 50 means that the term is half as popular. A score of 0 means there was not enough data for this term
2. In last 4 days since March 16th

Social distancing and self-isolation have had a broader effect on wellness

Effects on mental health include loneliness, anxiety and depression

Consequences of social distancing and isolation

Short-term mental health impact

- Lack of social contact increases stress
- Social distancing can lead to / exacerbate anxiety, loneliness and increased risk of substance abuse

Long-term mental health impact

- Prolonged isolation periods can lead to loss of relationships and problems processing information
- Chronic social isolation can increase health risks of depression and dementia

Increased physical health problems over prolonged periods

- Including weight gain, inflammation and heart disease



How companies are responding

Creation of support networks, leveraging live chat and streaming tools, can provide people with somewhere to turn for support and can dampen the negative mental health effects of isolation

- Flow Yoga is hosting zoom gatherings and classes by donation to allow for social interaction and fitness

Enabling at home movement and exercise is a critical part of maintaining mental health and reducing stress

- Planet fitness is offering “Home Work-Ins” – free fitness classes streaming live

Providing ways to maintain a healthy diet, supporting mental health, while in isolation

- Meal kit subscription companies are ramping up to meet demand of the growing population in isolation (Blue Apron’s stock rose to \$15.00 on March 18th, up from \$2.61 on March 9th)

- High priority /urgency
- Medium priority /urgency
- Low priority/urgency

“We are working through many scenarios to ensure you’ll get nourishing food when you need it most”

– Daily Harvest Founder

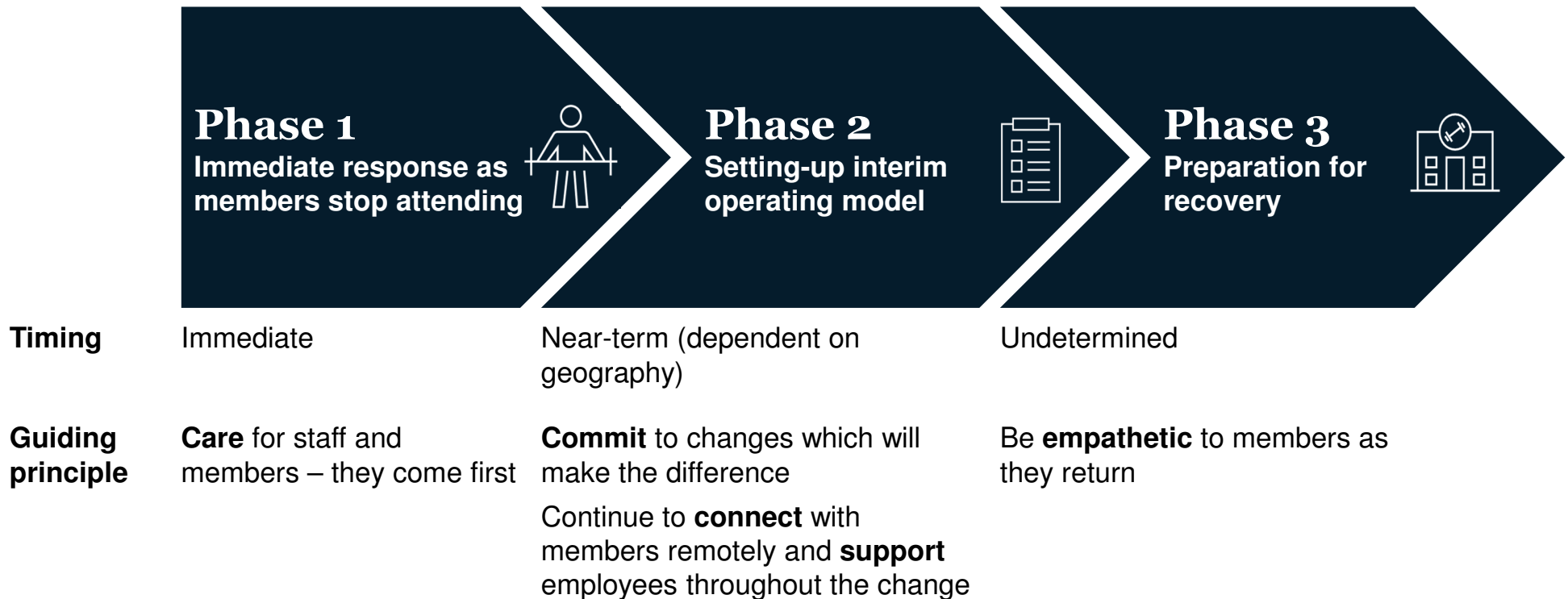
Materials provided

Current effects of COVID-19 on fitness

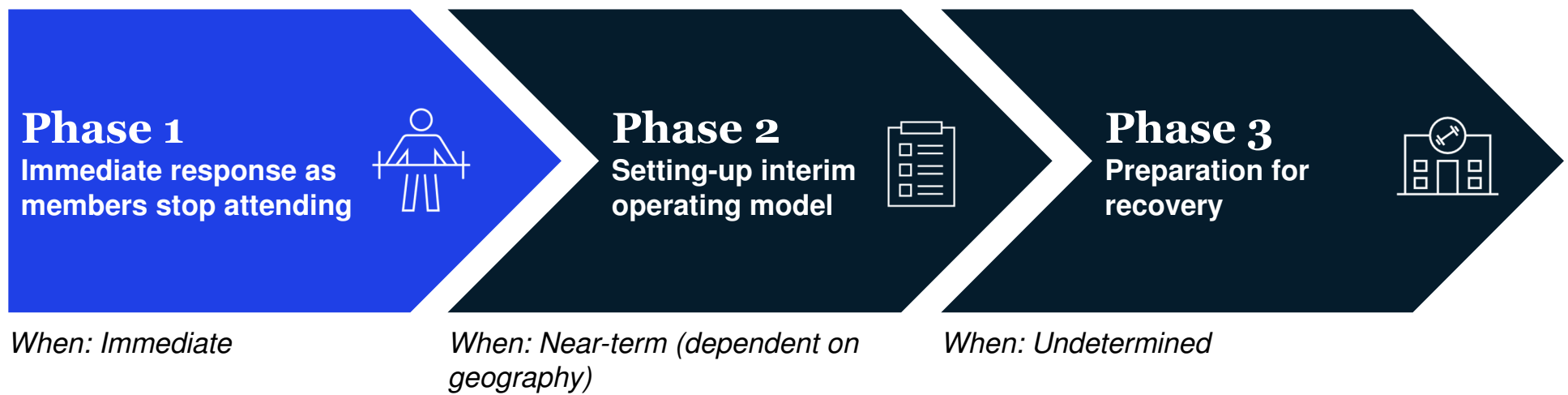
How can health clubs respond

Closing thoughts and what to look out for

Health club operators could follow a 3-stage path in response to COVID-19



You can find a great article on leadership in a crisis at: <https://www.mckinsey.com/business-functions/organization/our-insights/leadership-in-a-crisis-responding-to-the-coronavirus-outbreak-and-future-challenges>



Immediate actions to consider as members stop attending

For the organization...

1

Align with or go beyond WHO and Government **recommendations for employee and members safety** (e.g. closures, deep surface cleaning every 2 hours, signage, hand sanitizer)

Set-up a “nerve center” to guide organization through planning and actions (*details follow*), including a strict and in-depth look at cash management in sustained lower revenue period

For staff...

2

Protect employees by adjusting **travel policy** and beginning **remote working** and/or A/B team models, staggered breaks/lunch, etc.

Determine how club **staff will be compensated** during a shut-down period (e.g., voluntary unpaid leave), **showing compassion for those affected or exposed**

For members...

3

Stress member safety by clearly communicating an action plan for site closures and frontline hygiene













Determine how **members will be compensated** for location closures (*decisions to hold memberships should be made rapidly to mitigate loss of membership as members attempt to limit their discretionary spending to adjust to the new economic climate*)

Track membership data to **identify member’s behavioral patterns as crisis evolves** in order to

Inform **membership cost response** (e.g. account credits, membership holds, membership extensions) and

Enable financial planning (e.g. payroll, financing of new online activities, marketing and communication campaigns)

Examples: Immediate safety-measures

Sector	Players	Country	Illustration
Gym			Lifetime is among the biggest gym chains to close, the length of which will be dependent on governmental guidance. Members will be credited for the number of days the club is closed, and team members will be compensated.
Gym			<p>Cliffs is asking members to continue their membership to help to company in it's continued commitment to paying all our part-time and full-time staff as long as possible.</p> <p>Members that do want to freeze accounts can do so at no charge by filling out an online form.</p> <p>For anyone who keeps their membership active, Cliffs is committed to giving a gift card with you're the value of dues paid during closure to use towards retail, concessions, instruction, outdoor trips, or donation to a non-profit of the members' choice.</p>
Gym			Club Fitness is still open but to adhere to state guidelines on public gatherings, they are making sure only 25 people are working out at one time, canceled their group exercise classes.
Gym			Memberships will be extended for the same period that clubs will be temporarily closed.
Gym			Equinox will put all memberships on freeze at no cost with no action from the customer required, they will offer a credit for unused membership time when the club re-opens, credit cancelled sessions and extend the expiration date of any unused packages and gift cards.
Studio			SoulCycle opened a blog on their company website where they post multiple time per day to keep riders aware of closures and other safety/community updates. Effective March 16, all studios in the US and Canada will be closed and UK studios will be closed effective March 17.

Examples: Communication to members

Cliffs Climbing and Fitness communicated across multiple platforms

Email

To The Cliffs Community,

For the past week, we have struggled with doing what is right for our staff and you, the community. It's time for us to say that we are going to close effective today, Monday, March 16, at 8pm. This closure is temporary through the end of March at which point we will re-asses the situation. At this time, we are committed to paying all of our part-time and full-time staff as long as possible. Therefore, we are humbly asking that you continue your membership to help accomplish this.

If you want to freeze your account at no charge, just fill out this [form](#) and we will gladly process your request. For anyone who keeps their membership active, we are committed to giving you a gift card with your dues paid during our closure which you can use towards retail, concessions, instruction, outdoor trips, or donate the money to a non-profit of your choice.

During our closure, we will be keeping you updated with daily #quarantraining to keep our community moving and training together in the comfort of their own homes:

- Climber Conditioning workouts designed specifically with climbing-related technical moves in mind, hosted by our LIC Assistant Manager Kristi Ann Schopfer, certified PT, CES, iCAT & Nutrition Specialist.
- Instruction tips for indoor and outdoor climbing, hosted by TJ Ciotti, Director of Instruction and AGMA Certified Guide.
- And more!

We also look forward to hearing and sharing how you are staying active while practicing #socialdistancing over the next couple of weeks.

Thank you for all that you do to make the climbing community what it is. We can't wait to climb with you again soon.

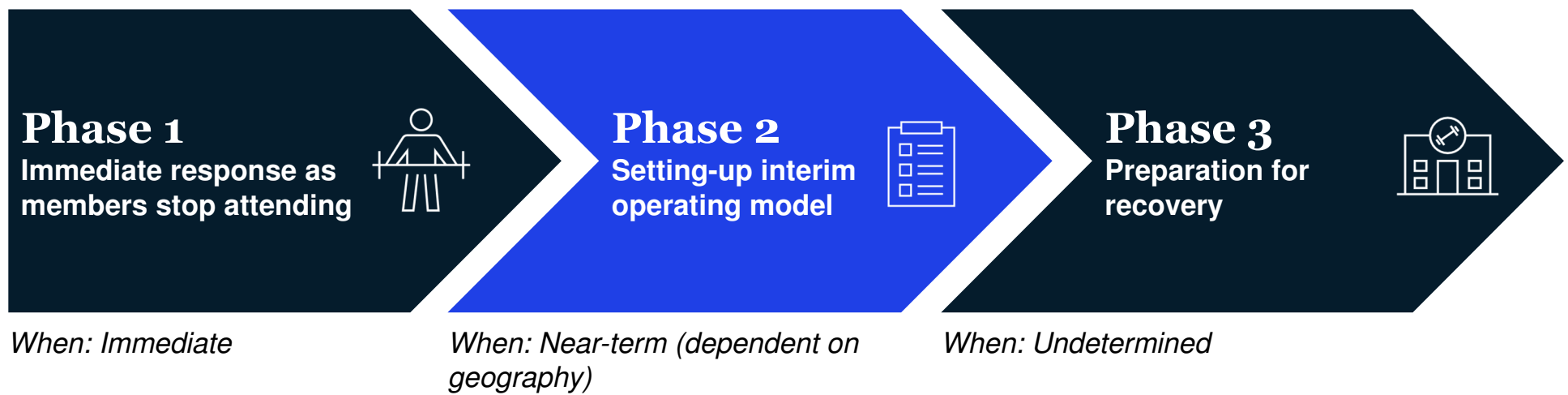
Stay healthy and wash those hands. Please reach out with any questions.

Sincerely, Mike Wolfert
Founder, The Cliffs Climbing + Fitness

Encourages sustained membership while showing caring for staff members

Social media





Actions to consider to set-up an interim operating model

Details follow

Situation

Most facilities have closed for an undetermined period

Active members remain engaged with their fitness routines, while **less active members withdraw and lapse into bad habits**

Withdrawn members become **de-motivated or frustrated by a slowdown in progress towards health goals**

When breaking routines people will **start filling times with other activities increasing chances of abandon**



Actions to consider during this phase

- 1 Set-up a **crisis response “nerve center”** to guide the organization through planning/actions
- 2 **Implement alternate activity sources** (independently or through partnerships) to keep members engaged with the club during site closures
- 3 **Rewire club/studio operating model** across staffing, scheduling, potential permanent closings
- 4 **Manage for cash** – seek to create near-term flexibility and potential to “go on the offense” to invest and drive growth coming through crisis

Encourage members to maintain their fitness routine (e.g. online workout schedules at the same times as regular classes, motivational videos from coaches, video conference sessions with PTs) while **being mindful of considering members’ limitations** (e.g. reduced home spaces/equipment)

Provide continuous updates on membership fees and gym location closures as the situation evolves

Continue to **create a sense of community, group-motivation and result-sharing** through social media (e.g. posting pictures of members, encouraging challenges, etc)

Become a source of health and wellness information to **maintain contact with members** (e.g. tips on nutrition and combating in-activity/anxiety during home-isolation)

1 Nerve Center steers the organization, serves as “single source of truth” information center, manages risk and aligns stakeholders

Range of immediate actions Fitness operators should consider

Establish Nerve Center

- 1 **Identify a response leader** with the right temperament, values, experience and reputation
- 2 **Appoint point-people** for required roles (*details follow*)
- 3 **Define the crisis organization and ramp up nerve center** – keep it focused, agile, cross-functional, independent, and well-funded; position it at C-suite/CEO-1 level
- 4 **Establish the nerve center as the “single source of truth”** regarding crisis initiatives, with all identified risks and interventions running through it
- 5 **Ensure that this nerve center has the right level of peer review and accountability** so that it doesn’t become a black box (or overpromise/underdeliver)

Control & Plan

- 6 **Define the values that will guide the team** through the response
- 7 **Define timing and exposure level for primary threats** that you face (operational, technical, financial, legal)
- 8 **Identify how stakeholders will likely react to primary threats** (customers, partners, competitors, regulators, employees, government, suppliers)

Stabilize Stakeholders

- 9 **Put in place an intel gathering system** that allows you to stay abreast of an evolving situation and separate fact from fiction
- 10 **Establish a communications plan, process, roles and tools** to drive key messages with key stakeholders (i.e. customers and capital markets)
- 11 **Appoint a single point of accountability** (from business, not communication) to connect with key stakeholders

Address Primary Threats

- 12 **Conduct scenario analysis**, identifying the most likely scenarios of COVID-19 development and their impact on the markets served as well as regulatory requirements in stores
- 13 **Define parts of the business that need to slow down or stop** given the high risk environment
- 14 **Put in place emergency protocols to provide crisis funding** while ensuring compliance with provisioning requirements
- 15 **Hire battle-tested third parties**, if necessary (i.e., crisis communication firms, legal counsel, etc.)

Mitigate Root Cause

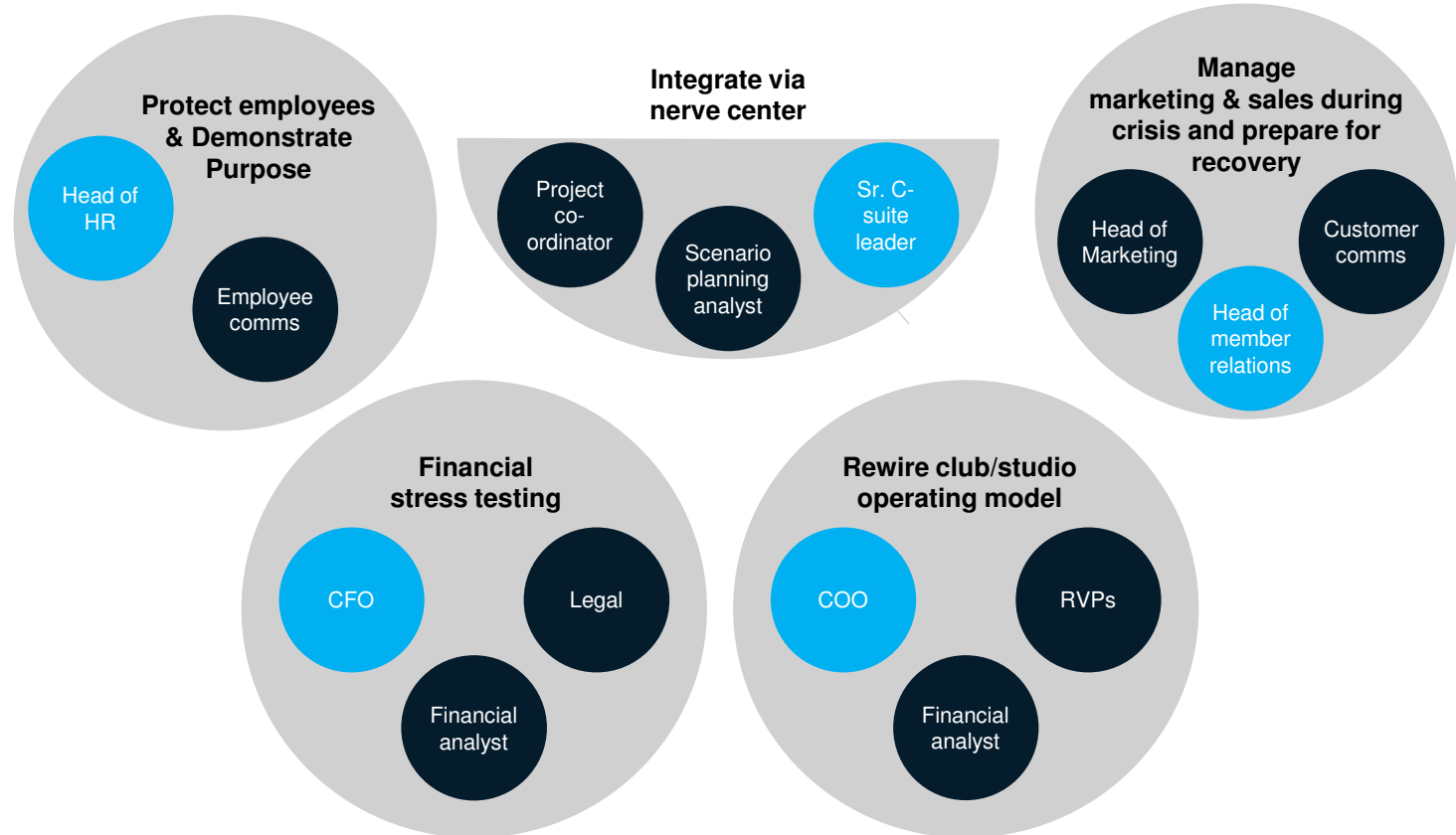
- 16 **Initiate a review of crisis response measures** conducted in various departments; define carefully how the team wants to scope it, who should lead it, and how independent and transparent it should be
- 17 **Identify and kick-off implementation of resilience-building measures and crisis responses processes** based on lessons learned from review of COVID-19 crisis response

Each function of the organization should have a point-person to serve as the decision-maker

How can health clubs respond

1 Example nerve center organization – key roles

● Point-person ● Other members of work center



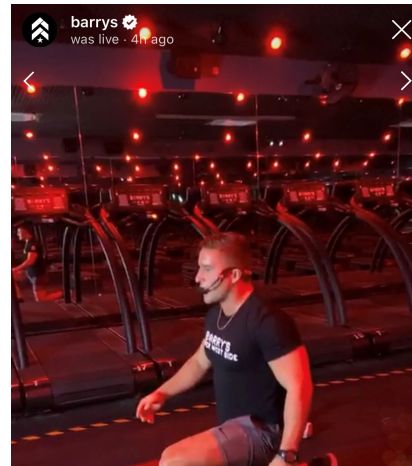
2 Fitness companies have shifted their content to feature at-home workouts and online communities



Free fitness content

Big box gyms such as Crunch are offering members free access to their content platforms (e.g., Crunch Live)

Peloton has offered new users a free 90-day trial of the Peloton app for users to stream Peloton workouts for any bikes and treadmills



Live stream of at-home workouts

Led by trainers and coaches (e.g., Barry's), these at-home workouts gather a community at a set time several times per day.

These at-home workouts require little to no equipment

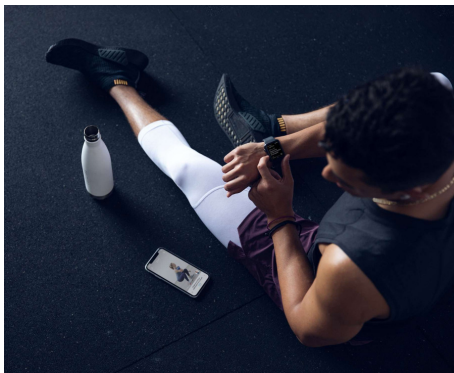


Focus on community

Gyms and studios have launched forums (e.g., Mile High Run Club's Runner's Forum) on Facebook, Instagram, and other outlets to provide a space for members and coaches to interact, share workouts, and post motivational messages

2 Select companies have provided special programs and new offerings directly in response to the COVID-19 pandemic

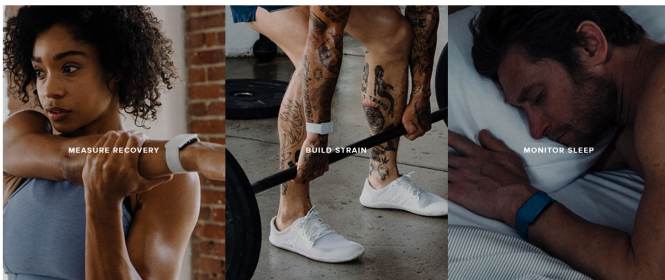
// FUTURE × 24HOUR FITNESS



24 Hour Fitness announced a partnership with Future, where members gain access to the Future personal training app and a free Apple Watch at a discounted first month of training at \$19 (87% off).















Future is a remote personal training app that pairs users 1-on-1 with an expert coach. Trainers design custom workouts, keeps the user accountable for doing the exercises, and tracks progress with a free Apple Watch.

WHOOP












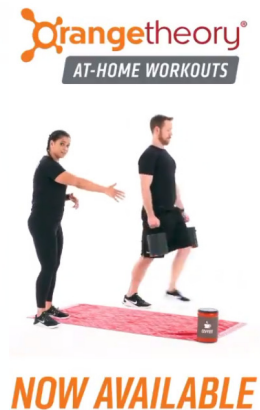
Whoop provided an updated feature that allows users to toggle whether they have COVID-19. The feature allows users to gather data on how different behaviors affect their data, with a goal of gathering feedback on how COVID-19 potentially affects data before, during, and after infection. Whoop hopes to share de-identified data and learnings back to Whoop population

2 Other examples: Alternate activities (1/2)

Sector	Players	Country	Illustration
Gym			Planet Fitness (has yet to announced total closure) is offering free, live at-home workouts via Facebook to members and non-members. The workouts are archived so viewers can join in later, if they can't watch live.
Studio	 x 		Pole Dance Boutique Studio partners with online fitness app to organize streaming live pole dance, stretching and strength trainings that are available for people after installing the app, paying for its subscription and sending the confirmation to the studio.
Applications			Obé Fitness, a fitness digital platform offering live workouts, teamed with Kidz Bop to create videos for both parents and kids to stay active together (four videos with cardio dance and strength set to Kidz Bop music).
Connected equipment			Peloton is offering a 90-day free trial of their yoga, meditation, strength, cycling, running, and other fitness classes that anyone will enjoy to use.
Personal training	Spanish fitness trainer		Viral Spanish fitness trainer teaches neighbors to stay fit with group workouts from a rooftop, with people joining his class from their balconies.
Gym			Nautilus is offering unlimited access to it's own custom online platform with hundreds of training programs, videos and recipes during undetermined period of country-wide site closures.
Gym			CSS took it's extra flooring to create an outdoor studio space where members can workout at a safe distance during partner or personal training sessions. Outdoor spaces also allow for the use of harsher equipment cleaning products.

2 Other examples: Alternate activities (2/2)

Sector	Players	Country	Illustration
Applications			Down Dog, the highest-rated app for at-home yoga, announced that it made its Yoga, HIIT, Barre, and 7 Minute Workouts apps completely free until April 1, 2020 (versus memberships cost of \$7.99 per month or \$49.99 per year).
Gym	 X 		24GO app audio coaching and classes made available free for members (vs. \$3.99 to \$9.99 monthly value). 24 Hour Fitness also partnered with Trifecta, a leading organic meal delivery service, to offer 30% off of a first order with a coupon code.
Studio			Orange theory created at-home workouts mimicking their HITT-style classes (available free on their website) and are releasing words of encouragement from their network of coaches.
Studio			Boutique Pilates Studio organizes online trainings in the exclusive Facebook group for its members or people eager to pay for the training.





Actions to adjust club/studio operations

How can health clubs respond

3 Range of immediate actions health clubs could consider

- ❑ Look to reduce club staffing levels (with absentee hedge) and rethink minimum shift requirements – in the near-term, providing enhanced customer experiences may be less important in cases where clubs are still open
- ❑ Create transparency and flexibility around available job shifts, call-outs, etc. – both to reduce staffing levels and to backfill in the case of absenteeism
- ❑ Reduce hours where possible; consider temporarily closing most highly impacted areas (or, permanently closing locations that are already known to be on the “keep/close” bubble)
- ❑ Consider reviewing landlord contracts – exogenous event clauses may allow early termination, and hence closure of unprofitable locations, with the possibility of minimizing penalties or recovering deposits
- ❑ Consider re-purposing your temporarily closed locations (e.g offering your to the community as shelter, testing centers, etc...)

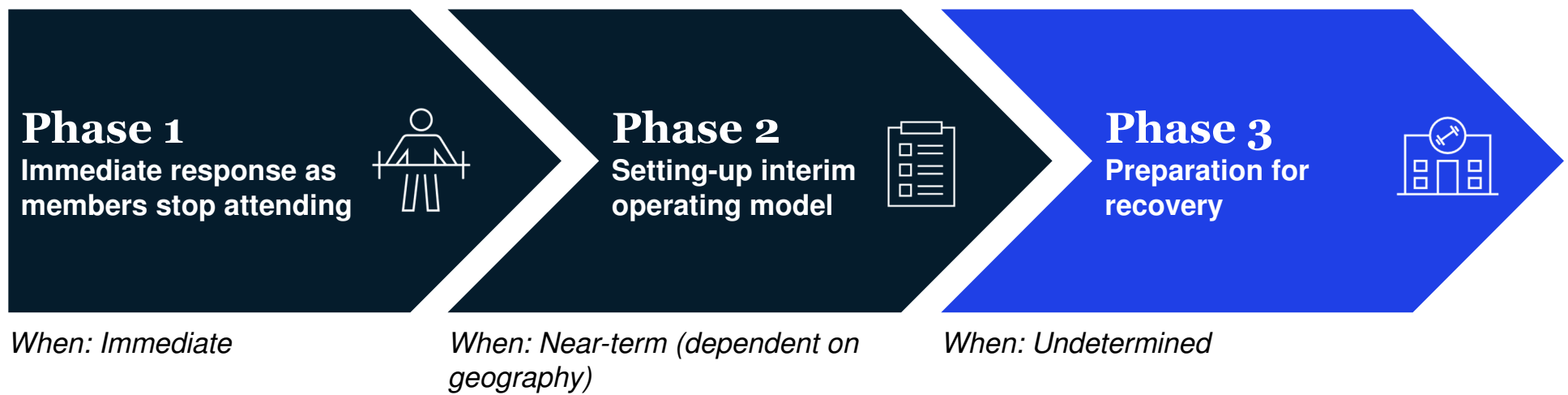


Actions to manage for cash

How can health clubs respond

4 Range of immediate actions health clubs could consider

- ☐ Elevate cash flow models to project impacts as business responds to changes in demand; conduct regular cash flow reviews to support exceptions to planned purchase, promotion, or pricing decisions
- ☐ Use spend control tower to scrutinize every dollar spent to preserve cash near-term (e.g., defer projects, cut discretionary/travel, sweat non-working marketing spend, etc.)
- ☐ Negotiate longer payment terms with landlords and suppliers or establish consignment arrangements over duration of crisis
- ☐ Negotiate with banks for extended payment terms for lines of credit. Work with governments/ retail councils to negotiate tax reprieve, ease unemployment insurance regulation for employees
- ☐ Identify and monitor working capital thresholds where greater scrutiny and controls to support a longer than planned slow down; assess covenant headroom, and build scenarios for critical KPIs
- ☐ Consider freezing capital expenditures and hiring across the organization
- ☐ Prepare balance sheet by negotiating with vendors/banks for favorable terms (e.g., interest payments, supplier payments, extending current credit lines and/or applying for new credit)
- ☐ Consider financing of strategic suppliers to avoid bankruptcies and long-term disruptions stemming from COVID-19 outbreak (e.g., through advance payments or acceptance of price increases)



Member behavior as health clubs recover will vary based on engagement levels prior to the crisis

Members who...

Will likely...

Worked-out

+12 to 8 times/month
(~25% of members on average)



Maintain modified fitness routine with creative at-home or outdoor options

Return to health clubs once crisis has passes

Worked-out

4 to no times/month
(~75% of members on average)



Drastically **scale back on physical activity and proper nutrition** during self-isolation restrictions

Very rapidly will come **at-risk of membership cancellation**

Actions to consider as health clubs recover

Expand on scope of crisis response “nerve center” to build out **contingency scenarios, define competitive strategy to be enacted as the path of COVID-19 becomes more clear**

Develop **strategies to win if COVID-19 triggers more sustained downturn** and/or industry shake-out

Encourage renewed engagement through marketing campaigns and incentives

Adjust class intensity based on member’s level of activity during isolation (e.g. if haven’t been active for >2 weeks, start slower)

Set a higher standard for cleanliness – Allocate additional resources and supplies and implement incentives (e.g. paid bonuses) to motivate all club employees to help manage the risk at hand

Ensure your members see and understand your efforts. Issue new surveys that solicit member feedback regarding cleanliness, and act on the feedback

Showcase your club’s community as you return to your club by posting testimonials and videos

Goal:



Build competence as an operator, member confidence and trust as members will be hesitant to return to the club

Materials provided

Expected effect of COVID-19 for health club operators

How are health clubs and other fitness companies responding

Closing thoughts and what to look out for

Closing thoughts and what to watch

A set of immediate decisions and actions must be made...

- **Govern like a major change program**
- **Protect employees and customers while updating the operating model; overcommunicate**
- **Plan in two horizons**

... while we look ahead to the intermediate future

- **Continued path of the virus and resulting scenarios**
- **Prepare and plan for the crisis but don't take your eye off of recovery and strategies to win**

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