McKinsey & Company

The evolving Fitness consumer - What will stick? What will keep changing?

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Presenting today

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Fitness Focus: The future of fitness is different, but not drastically shaken

How do you see the future of fitness?

- A Digital-first
- B Digital-dominant
- C Split evenly between digital and physical
- D Physical-dominant
- E Physical-first

Innovations accelerated as customers need digital solutions and communities

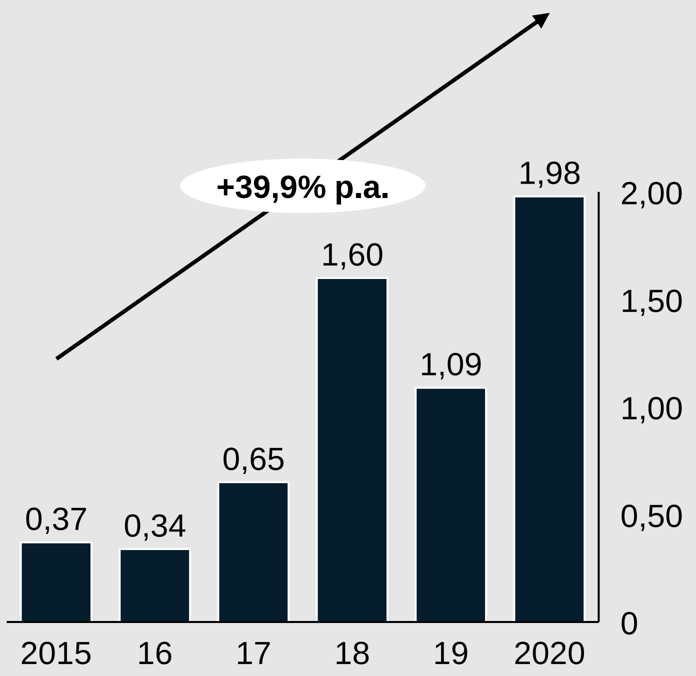
Digital fitness has been on the rise pre-COVID. With lockdown restrictions on gyms, **COVID accelerated fit-tech investment in both hardware and software, including apps**

Worldwide, **+71,000 new health & fitness apps have been launched** last year with downloads from India, Germany and Brazil leading the way. **Consumers also spent 45% more** on these apps than they did in 2019[1]

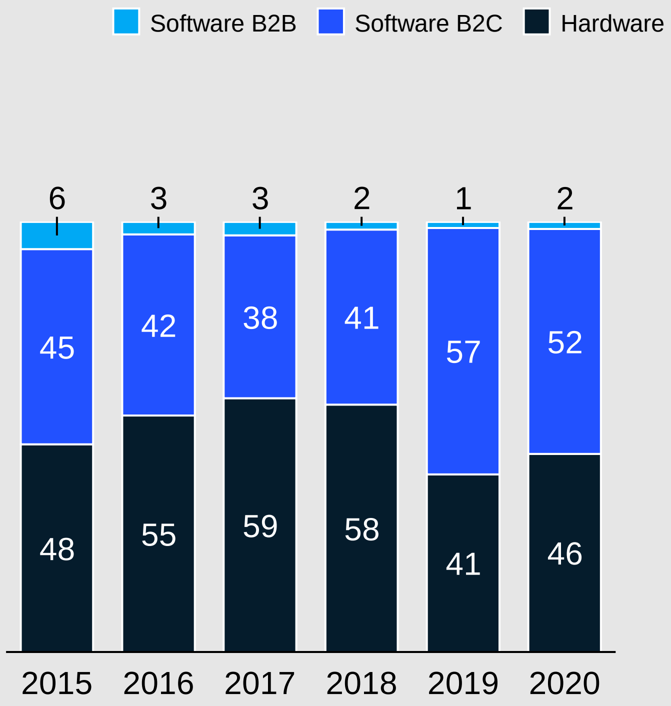
Fitness Players need to connect more with the universe of connected fitness and ecosystem and tap into the **growing digital communities**

In 2020 fitness-tech raised a record funding in a history, with a dominant investment in B2C software

Funding amount in global fitness-tech
USD, bln



Funding distribution by segment
%



Source: SportstechX Fitnesstech Report 2020, State of Mobile Report 2021

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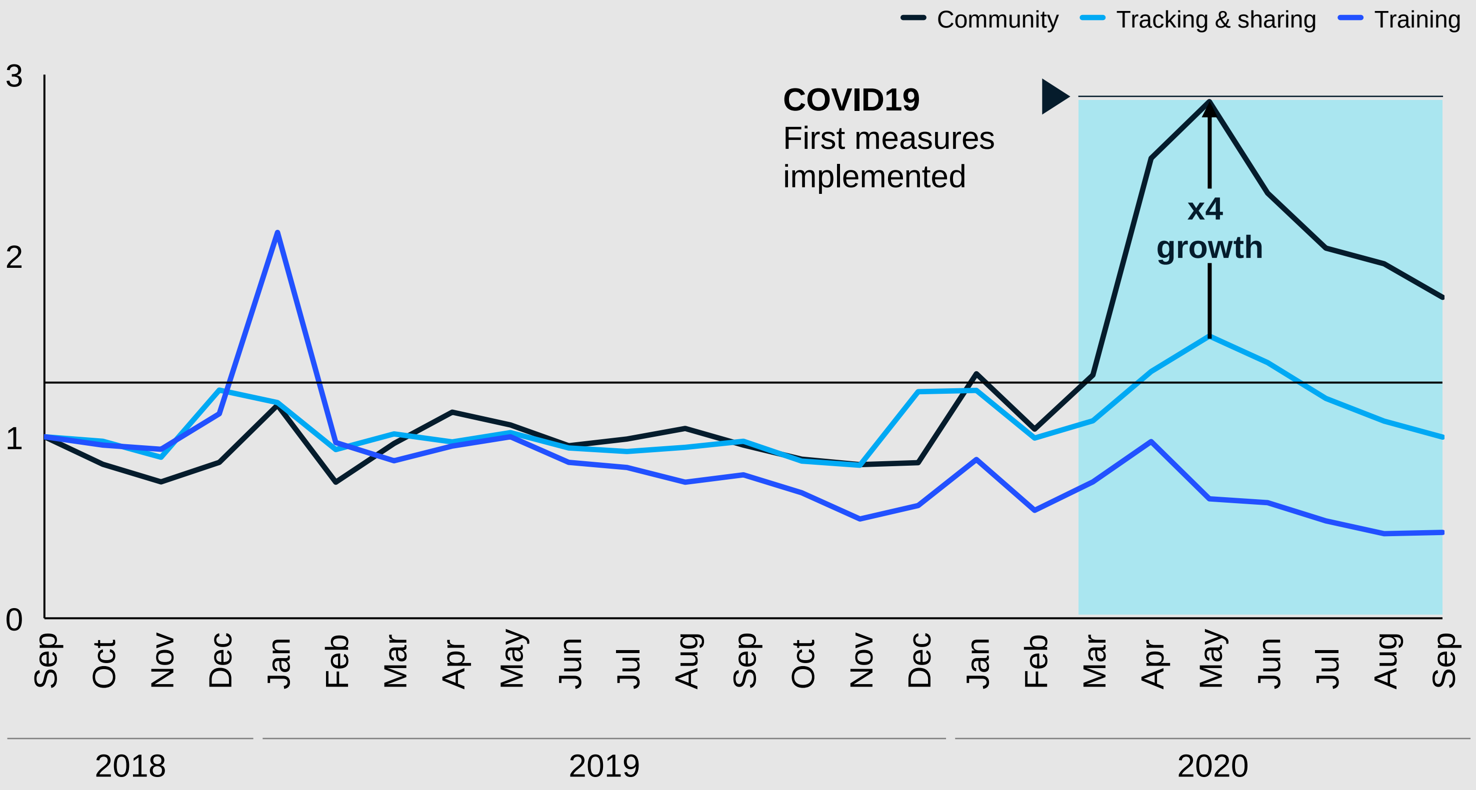
The most successful fitness apps offer a community element

Fitness & health apps downloads, Sep 18-Sep 20
Indexed



Note: Downloads include Google Play Store as well as Apple App Store
1. Peloton, Aaptiv, Seven – 7 Minute Workout, Fitbit Coach, adidas Training and Running by Runtastic, Nike Training Club, Nike Run Club, Zwift
2. Komoot, Bikemap, Wikiloc Outdoor Navigation, Outdooractive: Walks & Biking, ViewRanger, Strava
3. Garmin Connect, Cyclemeter, MyFitnessPal, Fitbit, Polar Beat

Source: State of Mobile Report 2021, Airnow Data

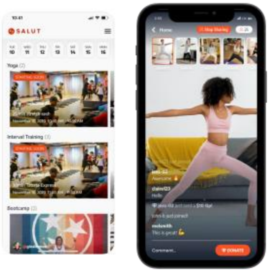
Innovations cluster around at-home coaching, connected equipment and health

At-home coaching for all budgets and preferences

From one-on-one video coaching to live-streaming and on-demand, guided exercising at home is booming with a variety of new entrants

Example: SALUT

"Twitch of Fitness" with coaches live-streaming classes for $5-10 per person



Other innovators:

FUTURE
High-touch and virtual with real-life coaches

CALIBER
Premium ($200-$400/mth) virtual coaching

FREELETICS
"AI-Powered" fitness programs

PRESENCE
Real-time AI-enable tracking

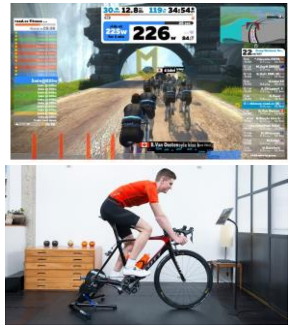
BOLD
Senior-focused coaching platform

Riding the "Peloton wave" of connected at-home fitness equipment

Connected and smart fitness equipment enhance the at-home experience beyond the Peloton

Example: ZWIFT

Virtual platform for immersive and gamified cycling races and training



Other innovators:

MOTOSUMO
Peloton-like experience for any spin bike

keep
Connected-equipment ecosystem unicorn

JAXJOX
Connected home-gym with mirror and weights

Beyond fitness innovations focus on health areas complementary to exercise

Connected and smart fitness equipment enhance the at-home experience beyond the Peloton

Example: coa

Emotional fitness studio offering live classes and 1-on-1 therapy led by therapists

Other innovators:

wellory
Platform matching users to nutritionists

WHOOP
Fitness tracking with emphasis on recovery

ZERO
Intermittent fasting coaching and community

While at-home dominates today, it is not the only future

Digital solutions will stick into post-COVID routines - users returning to gyms are expected to complement their routines

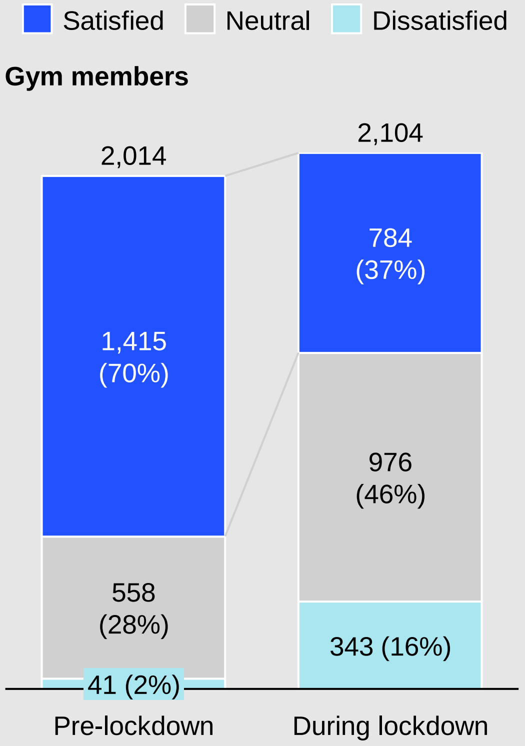
McKinsey Consumer Sentiment Survey shows that **gym goers miss their gym as much as they miss meeting their friends and family** throughout the pandemic

63% of regular exercisers in the US say they will likely **prefer a mix of working out at a gym or studio and at home** in the future

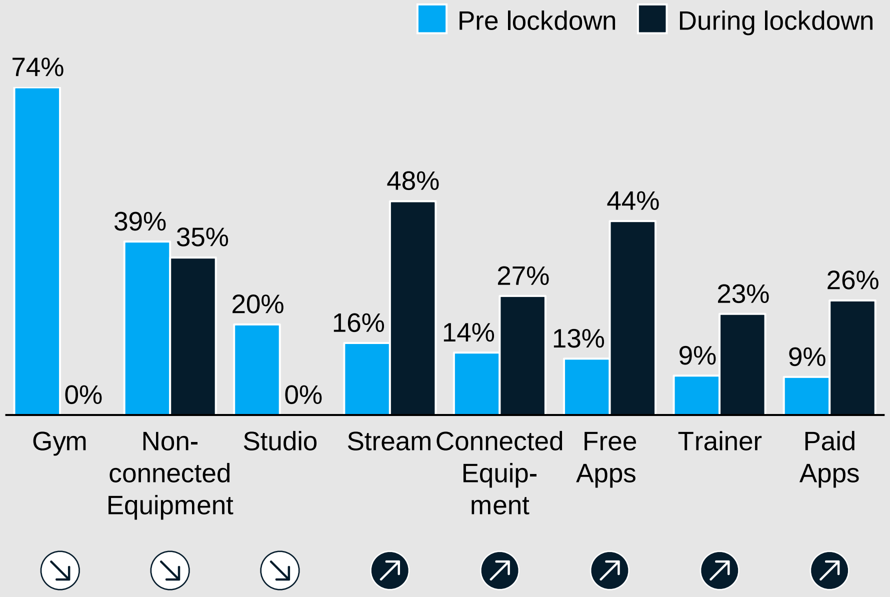
30% of the US customers went to the gym or studio at least once in the first 2 weeks of February 2021

After gym closures, many consumers engaged with digital fitness tools

Satisfaction towards fitness routine[1], % of respondents



As consumers could not access the gym, they started using digital fitness tools, % of respondents engaging in each activity (members of a US gym chain)



When the gym closed I both lost my regular fitness routine and the spirit of community I had with my training buddies

– Gym user

Source: Fitness Survey (N = 2,855 Completes) as of 4/16/20; McKinsey & Company COVID-19 US Consumer Pulse Survey 2/18–2/22/2021, n = 2,076, sampled and weighted to match the US general population 18+ years

Consumer segments are more distinct than ever, each representing different needs and values

We distinguished **4 types of fitness customers** clustered around elements like **motivation, personalization, price consciousness, time sensitivity, and desire for innovation**

In order to win in the future, **fitness players should know their clients' archetype and fulfill the customers' needs**

Wellness enthusiast (23%)

- Mental & physical wellbeing as a priority in life
- Motivated by performance, identity or balance

Researcher-experimenter (10%)

- Looking for innovation and unique experiences
- Early adopters of new products or services

Traditionalist (11%)

- Loyal to their sport routines and habits
- Do not adjust easily to changes

Passive participant (55%)

- Fitness is not a priority, but can try some fitness offering
- After building intrinsic motivations, change into one of the other archetypes

Winning in the next normal

Pre-COVID, many companies were riding a wave of increased sports participation. However, **COVID-19 has raised the bar for** winning

In the next normal, **winners will be characterized by:**

- Strong presence in growing segments and sport categories
- Direct connection to consumers, through (digital) communities
- A purpose-driven retail footprint
- Marketing optimized for digital channels
- Agility in planning and budgeting

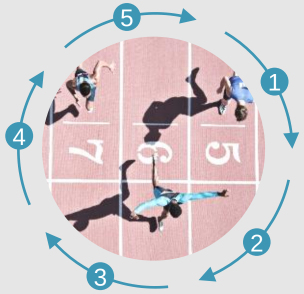
Winning players will enter a virtuous cycle. Players that fail to make the necessary changes may find themselves stuck in a vicious cycle

Players with attributes of winners will enter a virtuous cycle – players without may find themselves falling behind in vicious cycles

Virtuous cycle

Funds for investment in strategic priorities

Fixed cost digression



Increase in net sales with higher GM

Differentiated consumer offering

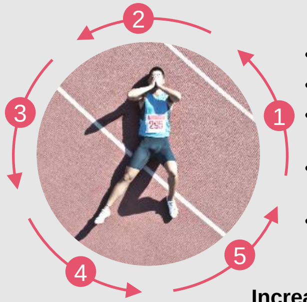
Excellence in strategic priorities

- Presence in growing segments
- Working DTC business model
- Direct connection to consumers e.g. in form of communities
- Purpose driven retail footprint
- Credibility on sustainability
- Revisited supply chain with built in agility
- Sports marketing optimized for digital channels
- Agility in planning and budgeting

Vicious cycle

Loss of differentiated consumer offering and falling behind competitors

Loss in net sales



Negative fixed cost digression

Increased resource constraints and less funds for investment in strategic priorities

Lack of excellence in strategic priorities

- Presence in growing segments
- Working DTC business model
- Direct connection to consumers e.g. in form of communities
- Purpose driven retail footprint
- Credibility on sustainability
- Revisited supply chain with built in agility
- Sports marketing optimized for digital channels
- Agility in planning and budgeting

Players entering the vicious cycle will not have enough funds or focus to achieve attributes of winners and thus fall behind competition losing relevance for consumers

Gyms and studios must define their role for the new fitness customers

Not exhaustive

1 The community hub

Connect people in physical and digital spaces

- Build a **fitness ecosystem** by yourself or through partnerships
- Take **a central position** in organizing the community by curating a complete offering across different channels
- **Engage community** in order to **build loyalty**

Strategy to win Wellness enthusiast

2 The package curator

Let customers choose and try things

- Create **your own package of services** and **personalize it** for each consumer coming
- **Specialize** but not to the extreme
- **Be conscious about pricing** and membership conditions

Strategy to win Researcher-Experimenter and Passive Participants

3 The specialist

Offer high quality and professionalism

- Develop an **unique differentiated service** with a sustainable advantage
- Focus on **limited offering** but keep **high standards all the time**
- Understand how you fit in the fitness ecosystem and **be a part of it** - don't manage it on your own

Strategy to win Traditionalist and Wellness Enthusiast

Questions & Answers

Disclaimer

These are suggested practices, in many cases adopted by companies across sectors. We do not offer recommendations on sufficiency, adequacy or effectiveness of these measures.
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