



Thoughts on Covid-19 "BC versus AC"

This is the 4th article in the Post Covid series written by Herman Rutgers, EuropeActive Ambassador with David Stalker, EuropeActive President.

In this article, a perspective on the trends that will affect fitness operators will be shared and some thoughts that will enable them to thrive in the "next normal" will be discussed.

Introduction

At the end of February, only 8 weeks ago, the business sentiment in Europe was euphoric. 2019 had been a good year in most countries and for fitness in particular. The first 2 months of the new decade had started in a similar mode. The economy was strong, unemployment was low, and the stock markets were booming, including those for fitness related companies.

“And then in mid-March the worst crisis that we have experienced in our sector hit us all”

What seemed to be a Chinese local problem in Wuhan developed very rapidly into a global pandemic crisis of unprecedented proportions and dimensions.

It is a health crisis (until now there are over 200,000 Covid-19 deaths globally) an economic recession (IMF is predicting a drop in GDP for 2020 of 7.5% for Europe) and a financial crisis (governments are coming to the rescue with trillions of Euro's in aid).

Stock markets have plummeted including fitness stocks, ranging from 35% to 50% drops from their highs.

Today, most European countries (and USA, Japan, Australia and most of Asia) are in lockdown and an end is not yet in sight. The peak in the number of new cases seems to have passed and some countries are loosening the restrictions and are designing an exit strategy, but we are still not looking at any real slow down until at least the middle of May. In many countries reopening of fitness facilities is not expected before June.

95% of European fitness facilities have been closed since mid-March, in some cases with only 24 hour notice from authorities. As Humphrey Cobbold, CEO of Pure Gym Group, said in a Times interview on 25th April *“it took us 10 years to build the business and 10 hours to close it down”*.

In recent days some media in the UK (The Telegraph, The Times) and in Germany (Funke Mediengruppe) have been speculating about when fitness clubs might be gradually, and under certain conditions, be opened. In the meantime, National Associations and leading operators have been developing protocols for their reopening strategy and have been rethinking their business strategy to adapt to a different world post Covid-19.

We have borrowed the terms **“BC”** (Before Corona) and **“AC”** (After Corona) to describe the 2 periods in this article. We also have tried to simplify what may be ahead of us as ‘food for thought’ for society in general and then specifically for the fitness industry following the 6 P's of Marketing categorization.

A Different World

The IMF has recently painted a bleak picture for the world economy and for Europe in particular. We must reckon with the worst recession since WW II.

With high unemployment, weak government finances, political crises in many countries and a worsened financing climate for businesses and a consumer who will be less willing and able to spend.

The acronym VUCA was first introduced in 1991 by the U.S. Army as a result of the extreme conditions in

Afghanistan and Iraq. These conditions were totally new and totally changed the nature of warfare. Today's "Corona" business environment in our view is a good summary of the current world we live in; Vulnerable, Uncertain, Complex and Ambiguous!

Now, does that mean that AC everything will be different? Of course not, but there will be a "new normal" and all businesses will have to prepare for a different scenario for this year and beyond.

In the next section we have tried to summarize the main changes we can expect and have presented them in 6 categories, better known as the 6 P's of marketing. For some we have added a bit more meat to the bone, other are just bullet points and we may come back to those in a future article



The 6 P's and what changes to expect

PRODUCT

- Multichannel/Digitalization.
The biggest change caused by the lockdowns is no doubt the acceleration of the implementation and use of online fitness, which will be here to stay.
Operators will have to develop a strong presence both "off-line" (the 4 walls of the club) and "online".
- Re-design the layout of club due to physical distancing.
- Group Exercise with less capacity.
- Cleaning more deeply and robust hygiene ("medical") protocols; paper towel dispensers, sanitizing gels at disposal masks/gloves.
- Increased Health & Safety requirements with showers and locker rooms initially closed?
- Entry controls / contactless "no touch" payments.

PRICE

- Consumer more critical - less discretionary income.
Flexibility, no long-term contracts - with a temporary close down experience people may be more cautious.

PROFIT

- 2020 will be an ugly year, be prepared for it.
- Expect pressure on margins.
- Prepare for higher operating costs (cleaning, less capacity).
- It will be more difficult to find financing and it will be more expensive.

PEOPLE

- When rebuilding club teams, rethink workforce composition. The lasting effects of the crisis call for a re-evaluation of club-associate roles, expected skills, minimum staffing levels, and other aspects of team composition. Operators may need to upskill staff to achieve the required digital fluency and cross-train employees to optimize the number of distinctive roles.
- Improve workforce flexibility. Operators should increase the agility of their workforce models to manage any potential future virus-related disruptions and to better respond to changes in club traffic, or (future) sudden closure.
- Improve training and onboarding. Digital learning tools can help facilitate training outside the traditional classroom settings. Microtraining, which consists of a series of short, focused learning modules often delivered through rich media formats, can serve as an effective training approach to accelerate onboarding and improve retention of staff.
- Retain pre Covid-19 talent. Given the scale of furloughs and layoffs (some clubs have furloughed all staff), operators risk losing some of their high performers for good. One way to minimize this risk would be to stay in touch with furloughed associates and provide regular updates on reopening plans and timelines.
- The market for finding good people will have gone from a stressed situation to a situation of more availability both from people from outside the sector as well as from within. Particularly in the area of digital savvy staff. An abundantly available pool of talented people from bankruptcy.
- Consider pay cuts for the leadership teams to show solidarity.
- Less staff.
- Staff needs to be well prepared for any new hygiene and safety protocols.

PROMOTION

- Need to build confidence and trust. Health clubs provide a very safe, clean and healthy environment for exercise where there is less chance to be infected than in public transport or cafes.
- Need to stress in all marketing the benefits of exercise in relation to a better immune system.

PLACE

- For chain operators, this lockdown presents an opportunity for rightsizing their club network, as Bannatyne's already announced. In a McKinsey survey among US fashion retailers in April 53 % of respondents said they expect to close underperforming stores in the aftermath of Covid-19.
- Interesting retail or other fitness locations that are closed permanently could become available.
- The Covid-19 crisis offers an opportunity to re-negotiate rent terms and conditions.



Every Cloud has a silver lining

Will it all be negative, all gloom and doom in the AC period?

No, we don't think so, if we look into a crystal ball for the immediate and longer-term future of our sector we can see some positives as well. The fundamentals of our business have not changed, the environment in which to operate has!

- The consumer will want face to face social contact after having been locked up in their homes with just video for social contacts and will want to come back. To illustrate this, Equinox has conducted a survey among their members in the US last week and found that 74% of members will definitely come back as soon as the doors open again. Also experiences so far in China underscore this point.
- People will better understand that a healthy and fit body results in a better immune system. Many governments, the medical community and the press have spread the word around exercise and building a better immune system.

- During lockdown people have had to use virtual fitness, when lockdown is over they will want to go back to their gym full of equipment with lots of variety and live instructors (just like Netflix cannot replace the cinema for atmosphere and quality of sound/video, or Uber Eats can replace a meal in a nice restaurant).
- Operators will, after this experience, look not only at the P&L and growth models for success but also at the balance sheet and a solid cash position and reserves for a “rainy day”.
- Many operators have treated their staff very generous in the crisis and protected their income as much as possible, this will pay back in the near future into more loyalty and a strong corporate culture.
- For those operators who come out of the crisis with a strong financial position there will be interesting M&A opportunities

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Note. During the Covid-19 pandemic it is important that you accept and follow the advice and guidance being given by your national government and health authorities. This advice may vary from country to country. Our news and stories are to help keep you informed on what is happening in the fitness sector, but they are not intended to replace, or to surpass, the advice intended for people or organisations in your country.

Earlier publications;

March 20, 2020; “The Corona Virus : how it impacts fitness operators’ short term and some thoughts to restart stronger!” (Available in Dutch, English, Spanish, Italian and French)

April 8, 2020; “Corona crisis and its impact on the health & fitness operators” (English, Italian)

April 12, 2020, “After Corona” (English, Italian)

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