



# After Corona

How the sector may be different and never be the same again - and why this may not be all bad news

*This is the 3rd article written by Herman Rutgers for publication on the EuropeActive Covid-19 webpage and is based on recently published material from Deloitte, McKinsey, The Economist, FittInsider and various talks with leading international CEO's from the fitness sector.*



***For some organizations, near-term survival is the only agenda item. Others are peering through the fog of uncertainty, thinking about how to position themselves once the crisis has passed and things return to normal. The question is, 'What will normal look like?' While no one can say how long the crisis will last, what we find on the other side will not look like the normal of recent years.***

These words were written 11 years ago, amid the last global financial crisis, by Ian Davis managing partner of McKinsey. They ring true today but if anything, understate the reality the world is currently facing.

## Introduction

Although most European countries are still deep in lockdown, a few are beginning to discuss publicly how to restart their economies. Austria announced that, starting in mid-April, some shops will be allowed to reopen. The Czech Republic is doing something similar—and also allowing some sports activities. Denmark and Norway are opening some schools end of April. For most countries, however, any significant loosening is at least a few weeks or months away. The exceptions are Sweden and Finland where schools and health clubs are open and never were completely closed.

Exiting from lockdown will be more complicated than entering it was. The risk of resurgence will have to be continually managed, including increasing the capacity to care for critical patients if necessary. Protecting lives depends on minimizing the risk of infection to the most vulnerable (the elderly, the immune compromised, and those with serious conditions) while keeping the health system functioning. At the same time, given the complexity of the issue, European authorities need to be developing detailed plans to reopen their economies to secure people's livelihoods well before easing lockdown restrictions begins to be possible.



## Learning from Asia's lockdown-exit strategies

When it comes to enabling people to emerge from their homes to shop, travel, and entertain themselves, some Asian countries are ahead of the curve, particularly China, Singapore and South Korea. They have implemented measures in two broad categories to manage a gradual release from lockdown: refining physical-distancing rules and applying effective, large-scale testing combined with contact tracing to contain contagion chains via apps on smartphones. Both sets of measures aim to stimulate demand by getting consumers out of their homes and businesses back to work.

In China, restaurants have been allowed to reopen in some areas, but only at 50 percent capacity to ensure physical separation between customers.

In major cities like Shanghai fitness clubs have been reopened during the last 2 weeks, under certain restrictions and government approval and business is slowly returning to "normal". Many factories, malls, fitness facilities and restaurants have installed thermal scanners at their entrances; people with high temperatures are denied access.

The Alipay Health Code, use of which is compulsory for those who want to leave COVID-19-affected areas, is an app that allows users to track their health status. Users with green codes can move freely, while users with amber or red codes must go into quarantine for seven or 14 days, respectively. Governments in both China and South Korea are using apps, location data, and other means to enable contact tracing and to enforce compulsory quarantines.

Europe's public-sector leaders are evaluating these initiatives in order to identify the best ideas, and then determine how to adapt them to local norms and culture, which are very different. Governments are building their testing capacity and looking for technology tools that can help them trace contact. Some are beginning to develop protocols that provide the framework for physical distancing as economic activity picks up, such as those for segmenting the workforce and creating physical separation over both time and space.

A variety of technological approaches that seek to take into account the European context, particularly the challenge of data privacy, are also in development. One example is the Pan-European Privacy-Preserving Proximity Tracing platform, to which governments have no access. Apps built on this platform do not store location data, but they do note if two people were in proximity. If one later tests positive for COVID-19, the other is informed.

There is no consensus yet on the most effective way to trace and isolate people exposed to COVID-19 while protecting their privacy. Given the scale of innovation under way, however, there is reason to be optimistic that a variety of effective approaches will be devised and adopted.

## Initiatives in various countries to request government to reopen fitness facilities

EuropeActive has been producing materials to support operators in these difficult times ( see website under "Covid-19" ) and will from a pan-european point of view support operators and national associations in their public policy activities. In Germany, DSSV has written a letter to Angela Merkel to ask for approval to reopen

fitness facilities under certain conditions. Also NLactief in The Netherlands, ANIF in Italy, FranceActive and the Belgian federation Fitness.be have made similar requests.

The most detailed request has in the last days been submitted by leading European operator Basic-Fit with very detailed plans for safeguarding the health and safety of employees and customers. The plans entail drawings of redesigned club lay-outs to ensure 1,5 meter distances and limitations on number of people at one time per club and the closure of showers and locker rooms. Also detailed cleaning instructions for the facilities as well as the machines after each use are programmed. Basic-Fit has been so kind to share this detailed document with EuropeActive and it has been translated this into English in the meantime.

Reactions from the authorities to these initiatives are not yet known today but expects believe that (partial) reopening in Europe will not happen before the middle of May or June.

## **Summary** of key points to consider for the fitness sector “Post Corona”;

### **A. Overall business environment**

1. Many countries will be in a recession resulting in a squeeze on consumer spending- more unemployed and less disposable income
2. Business plans for 2020 and beyond will need to be revised; short and long term strategic reviews will take place
3. Companies will be in crisis mode for the foreseeable future
4. Fewer clubs/further consolidation; depending on the country, 10-15% fewer clubs is an uneducated guess....Chain operators may take this opportunity to weed out loss making locations and not reopen those at all....( interview with Mr Duncan Bannatyne, HCM April 7, 2020)
5. Obtaining financing will be more difficult and at higher cost- In spite of what they tell us, banks are very prudent
6. Companies will focus less on growth per se, but will focus more on stabilizing their business, obtain profitable growth, work with more conservative balance sheets and improve cash flow
7. Companies will have to work with somewhat larger reserves for doubtful accounts/uncollectables
8. More attention to costs, fixed versus variable relationship more critical
9. Leadership; the great and good ones have already shown their capabilities in a storm ( or not)
10. Brand Image; Some operators have dealt with this situation very well and gained sympathy and brand loyalty; others lost it
11. Intermediaries are severely hit- revenues dropping to zero and high expenses, low profits, and heavily financed

### **B. Fitness Operations**

1. Digital developments were already on the radar, but lockdown accelerated implementation / more live streaming and on-demand videos
2. Wearables could be used as early warning for detection of corona virus
3. Less pay-as-you-go; innovative membership packages will emerge
4. Layoffs and small operators closing their business offer opportunities to search for talent for the surviving clubs



5. During lockdown teams learned how to work together at a distance ( and across departments and borders) and have engaged in agile working and as a result may have become stronger
6. Many operators have used the downtime to provide their staff with online educational programs for upskilling and personal development
7. Reopening may not take place on a national level but be organized region by region, depending on the severity of prevalence of Covid-19
8. Hygiene; less physical contact, no handshaking (“namaste”), use of masks, cleaning of touch points of machines
9. Cleaning; more frequent and provide supply of sanitizers, etc.; higher costs
10. Physical distancing; “ 1,5 meter – economy” is here to stay; need to re-arrange machine layout of clubs

### C. The Fitness Consumer

1. Biggest question; Will the consumer have trust and confidence in going into a confined space and sweat and be close to other people in a group?
2. Will the consumer go back to his/her “pre-corona” fitness routines?
3. Many consumers will have experienced for the first time home fitness during lockdown and may like it and want to continue using online fitness
4. May have developed the use of the apps of his club and started to use more functionalities
5. Will be more price sensitive
6. May be more sensitive to engage in longer term contracts and study the small print more
7. Might have developed a higher awareness for the health benefits of fitness
8. Will appreciate the social aspects of the sector more
9. Personalization will become more important

#### D. Suppliers of the sector

1. Digital services providers are thriving
2. Online education in higher demand
3. Home fitness equipment and accessories doing very well
4. Commercial equipment suppliers may have a tough 2020
5. Hygiene products are in high demand and short supply
6. Intermediaries and platforms are hurting ; B2C Classpass laid off 22% of their workforce, B2B Gympass 1/3 ( both corporate clients cutting budgets and clubs closed) and Mindbody laid off 30% of their workforce

## Final Comments



*The future of our sector after corona is very difficult to predict today. For sure it will not be black or white...what tone of grey it will be will depend in which country you are and in what kind of segment of our sector. One thing is for sure; it will not be business as usual....*

Herman Rutgers

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#### 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"

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