



# Selecting the Right Revenue Model for Your Fitness Business



*"At AFS one of our biggest priorities is connecting our members so they can leverage the combined experiences of each other to maximize their growth potential."*

– Josh Leve, Founder & CEO, Association of Fitness Studios



ASSOCIATION OF  
FITNESS STUDIOS

# Selecting the Right Revenue Model for Your Fitness Business

Revenue is the engine that drives profitability. No matter what else you do with your business, generating a recurring stream of revenue, in excess of what it costs you to run the business, is the key to growth and profitability. We have all heard the saying, “a penny saved is a penny earned,” but without a recurring stream of revenue, saving money does nothing more than reduce your losses.

The process of generating a recurring, and growing stream of revenue begins with identifying the revenue model for your business. What is a revenue model? A revenue model is the framework for how your business, in this case your fitness studio, will generate revenue. This framework involves understanding among other things: what your offering will be, how you will package that offering, how will your offering be priced, and finally, how will you drive usage of your offering.

## Where to Start?

Historically speaking, the health/fitness industry is entering a new era of packaging its product to generate the highest level of appeal and purchase intent from consumers. Initially, the industry followed a subscription model, or membership model, where people could access an offering by subscribing to access for a given period of time; for example a day, a month or even a year. It was believed at the time that unless you made customers commit to a subscription (e.g., membership) for a set fee, the product would not generate sufficient usage to create a predictable level of revenue generation.

In this Guide we'll look at the three most popular revenue models and provide insight into the benefits and risks of each.

### ■ *Membership Revenue Model*

The membership model remains the most popular. The benefits of the membership model include:

- For the client, it provides access to the offerings of a studio for one fixed price (e.g., weekly dues, bi-monthly dues, monthly dues, annual payment). Clients feel a degree of security with this model knowing they will not have to dip into their wallet every time they want to participate.
- For the client, signing a contract forces them to make a greater commitment to leverage their investment. If they don't use it, they lose it. As a result, the client is more likely to engage in the activities offered by the studio.
- For the studio operator it provides a consistent and predictable stream of revenue.
- For the studio operator it lessens the reliance on the inconsistent usage patterns of clients, something that often leads to widely fluctuating cash flow.

The primary risks of the membership model include:

- Clients sometimes feel “trapped” or “chained” to the studio. Clients can feel they are paying for something they don't use, and if they use it infrequently, the perceived cost of their investment rises. This risk is one reason the health/fitness industry experiences such high levels of attrition.
- Clients sometimes feel that they don't have options - having to use whatever the membership offers without having the ability to pick and choose.
- For studio operators, the membership model brings with it the constant pressure to sell memberships, and the equally daunting challenge of trying to keep clients involved when they don't visit the studio.



The typical membership model involves establishing a set fee that provides clients with certain privileges for a specified period of time. The period of access, as well as the membership privileges is established by the studio operator. The period of access typically ranges from one month to one year, while the privileges depend on the specific offerings of the studio.

#### ■ *Pay as you Play Revenue Model*

The pay as you play model is the least used of the three basic revenue models. The primary benefits of the pay as you play are:

- For the client it allows them to pay only for what they use, not what they don't use.
- For the client, especially the connoisseur, pay as you play allows them not only to select what appeals to them, but to also to pursue their interest with others of like interest.
- Clients don't feel "chained" to something they might not fully leverage.
- For studio operators pay as you play allows them to charge a premium for the experience knowing that they are appealing to a niche audience (e.g., connoisseurs).
- For studio operators it eliminates the constant stress of selling memberships and fighting attrition.

The primary risks of pay as you play include:

- For the client there is the risk the studio will close its doors suddenly because it does not have a large enough or regular enough client base to support the ongoing expenses of the business.
- For the studio operator, this model provides no predictable stream of revenue. Revenues can rise and fall depending on the season, as well as the lifestyle patterns of the clients.
- For the studio operator, while you don't have to sell memberships, you do have to market and sell pay as you play services, individually and bundled, which sometimes leads to customer confusion.

With this model the operator must establish pricing for each service offered. For example, if you offer individual and group personal training you need to establish pricing for each service. Furthermore, if you decide to bundle personal training and group training offerings, then you need to identify the specific bundles and the prices associated with each bundle.

At Soul Cycle, a chain of group cycling studios based in New York City, they offer individual and bundled pay as you play packages. For example, a client of Soul Cycle can purchase a single class for \$34; a package of 10 classes for \$302; a package of 20 classes for \$600, or even a package of 30 classes for \$850. Each of their packages has an expiration date that requires clients to use the package within a given timeframe. While Soul Cycle does not share its financial statements with the public, sources with knowledge of the business say a studio can generate revenue in excess of \$2 million dollars annually.

#### ■ *Integrated Revenue Model (Membership and "Pay as you Play")*

The integrated model for revenue generation leverages aspects of the membership model, allowing for a regularly recurring stream of predictable revenue, with the added flexibility of the pay as you play model which allows individuals to upgrade and personalize their experience by paying additional fees for the offerings that appeal to them. Studios can approach this model in two ways. The first approach requires clients to pay a minimal membership fee for access and then allows

##### Types of Layers

- Simple Access (workout on your own)
- Team Training/Large Group Training (boot camp – 20 to 25 people)
- Small Group Training (less expensive PT option, 2-4 or 3-5 at a time)
- Private (one one one training)

##### Examples:

- Simple access to the equipment costs \$39/month.
- A layer would be to add team training on top of simple access for \$99/month. (Team training sessions could be offered eight to 12 times a week)
- For \$139/month, the customer gets simple access, unlimited team training and unlimited small-group training
- For \$249/month, a member gets all previously mentioned benefits, plus five one-on-one sessions per month.



them to purchase additional services on an ala carte basis. The second approach allows clients to choose to purchase a membership and then pay additional for certain services, or to only pay for services as they need or want, or they can purchase a membership only. The benefits of the integrated model include:

- For clients who purchase a membership it gives them predictable access to the core privileges they want; a sort of security blanket. In many instances they can select the type of membership option they desire.
- For clients, whether they purchase a membership or not, it allows them the additional flexibility to tailor their experience to suit their interests and objectives.
- For the studio operator it provides a consistent and predictable stream of revenue.
- For the studio operator it provides additional sources of revenue to augment membership revenue, and when times are challenging, it provides a second source of reliable revenue.

The primary risks of the pay as you go model include:

- Clients may feel “chained” to the studio. Clients may feel they are paying for access, but discover that each time they visit they are paying additionally for a customized service. They begin to wonder if this makes sense.
- Clients may feel that the studio’s focus is diluted.
- For the studio operator this model can be difficult to execute, especially if they don’t have a fully differentiated experience.

With the integrated model the studio operator has to establish pricing for membership, as well as for the services it will be selling independently and in bundles. Furthermore, the operator will need to determine if they offer special discounts on these services to members.

An example of a studio that uses an integrated approach is Exhale which operates approximately 20 mind/body yoga studios and spas throughout the U.S. At Exhale in New York you can purchase a membership to access all of its Core Fusion and yoga classes for \$265 a month or you can select from several pay as you go options (drop-in classes). For example a single yoga class is \$26, while a bundle of 10 classes is \$240. Concurrently a single Core Fusion class would be \$37 and a bundle of 10 would be \$315. If you are a frequent user then purchasing a membership is the way to go, but if you are an infrequent class participant then you can take the pay as you go option. In the end, Exhale generates good revenue from membership, but they also generate significant revenue from those who just pay for classes.

### **How Will You Structure your Business to Generate Revenue?**

Nothing can give operators greater heartache than determining the “right” price for their offering. It is no secret that how you price your offering impacts your ability to generate new business. All too often, the fitness industry relies on pricing as a measure of value and point of differentiation. Unfortunately, nothing could be further from the truth. Warren Buffet said, “Price is what you pay. Value is what you get.” In other words, price is not the same as value, only a reflection of value in the consumers’ eyes.

Furthermore, price is not a differentiator, except possibly for those who operate in the low end of the pricing spectrum (e.g., budget clubs). The point is, price is only one reflection of your studio’s value to the client, and when you mess up pricing, you either slice away your profits or damage your reputation. It should also be clear that pricing plays a role in marketing, sometimes too much of a role, despite the fact that most marketing experts would tell you otherwise. Whenever a business, discounts, two for one offers, complimentary sessions, or a month for free, it is leveraging price in its marketing efforts.

In this Guide we wanted to obtain a picture of how fitness studios price their core products, feeling this would provide a general framework for how they believe consumers equate the value of their offering.

**Below are three examples (and many more can be found within other industry leading AFS Market Research Reports).**

Figure 36  
2015 Average Price for a Single Personal Training Session by Studio Size

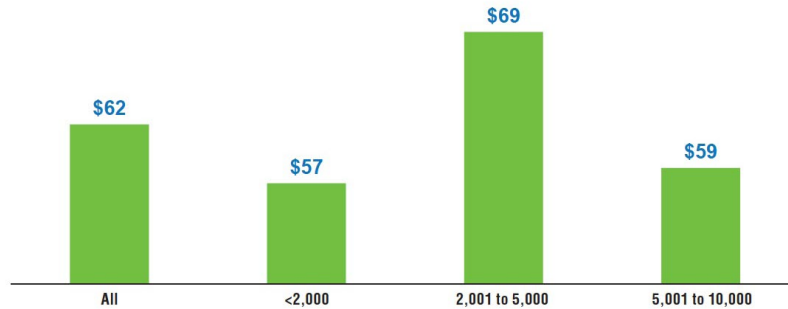


Figure 38  
2015 Average Price for a Single Individual Small Group Training Session by Studio Size



Figure 41  
2015 Average Price for a Single Individual Group Exercise Class by Studio Size



How you price your offering is a direct reflection of your businesses value proposition. Not only does pricing reflect your value proposition, it is the foundation for the revenues your studio will ultimately generate. As already mentioned, pricing is as much an art as it is a science, which means it's not a perfect process. Yet, as imperfect as the pricing process is, it plays an incredibly powerful role in how consumers perceive the value of your brand, and consequently, the sales generated by the studio.

And while pricing is not a direct element of marketing, it is perceived by consumers as reflective of the value you offer, which in turn impacts whether it appeals to them, and whether they will buy. Consequently, studio operators should be as strategic with their pricing as they are with their marketing, otherwise mixed messages will be communicated to consumers.