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## Executive Summary

In the past five years, the boutique fitness studio has become a global phenomenon that is disrupting the mainstream health club industry. Flywheel, SLT, Exhale, 305 Fitness, CrossFit, Pure Barre, and Orangetheory Fitness are just some of the leaders in this sector that are enjoying increasing popularity (compared with mainstream industry metrics), with the IHRSA 2014 Health Club Consumer Trend Report showing that boutiques now comprise 21% of the \$22.4 billion U.S. health club market. According to Lifetime Fitness's 2014 Investor and Media Daily Report, the number of boutique studios in the U.S. grew by more than 400% from 2010 to 2014.

Consumer and demographic trends, underlying economics and the appeal of new fitness training experiences are driving expansion of this segment of the fitness industry. With investment capital now streaming into the space, the impact of this expansion looks set to continue. Boutique studios are here to stay, creating significant growth opportunities, and as a result the fitness industry may never be the same.

## The rise of boutique fitness studios

### Consumer and Demographic Trends

From retail to grocery, industries and business models are being channeled in two directions: high and low. The economic turmoil of 2008/09 led to a polarization of the consumer population, with a shrinking middle class and increases of people at both ends of the economic spectrum. As a result we are seeing higher-end and lower-end business concepts competing most successfully across consumer markets and the health club industry is no exception. Low-cost concepts like Anytime Fitness and Workout Anytime in the U.S. are among the franchises that continue to proliferate, while middle-market clubs like Town Sports International have suffered. In the midst of this trend over the past five years is the emergence of boutique studios, which provide high-service, focused fitness concepts that deliver rich consumer experiences.

Beyond this consumer bifurcation, the overall appeal of fitness as a status symbol is documented as an important consumer trend as well. As far back as 2011, Trendwatching, a leading trends research and analysis firm, identified "wellthy" as a key consumer trend; good health is now as important to some consumers as owning other status symbols. Another survey by the Hartman Group in 2010 reported that 73% of U.S. consumers consider being physically fit as important as being "well", and affluent consumers seeking luxury and status are willing to pay a premium for the boutique studios that deliver fitness, wellness and a deluxe experience. According to a 2014 analysis of luxury spending by Exane, increasing shares of disposable income are being set aside by luxury goods consumers to ensure they have the fitness status that they aspire to.

### Underlying Economics

Growth in traditional U.S. health club membership dues, which provide a fixed payment per month for access to a facility and its equipment, have remained relatively flat for years and many experts believe that this business model has reached maturity. By contrast, the secret to the long-term viability of the boutique studios is their ability to generate higher revenues per customer. Fees of as much as \$35 per class far exceed traditional health club monthly memberships of \$35-\$45 per month. Clearly, the boutique fitness studio model is a more profitable one.

Boutique studios also require less space and have lower relative operating costs than traditional, "all-service" gyms. This is especially true for dance-based concepts like barre studios, with their ties to classic ballet training. Unlike equipment-laden studios that are filled with expensive equipment like treadmills and bikes, barre studios, with only railing, flooring, and a sound system provide an even lower unit investment.



# The Rise of Boutique Fitness Studio Concepts

by Bryan K. O'Rourke | @bryankorourke

Recently listed as one of the fastest growing franchises in the U.S. by Entrepreneur Magazine, the largest barre studio brand, Pure Barre, now has over 300 studios with steady growth since 2012. The potential for returns as a result of this consistent growth is confirmed by the investment community: In Q2 2015, leading consumer-focused private equity firm Catterton announced a significant investment in the Pure Barre brand.

In addition to the lower capital cost, another advantage to the smaller size of the boutiques is that they enable real estate locations to be secured in non-traditional spaces that traditional clubs would have difficulty operating in. This is particularly true in urban markets where location and cost are essential to viability. Flexibility around location is another attribute that is making the studio concepts increasingly competitive from a business perspective and more appealing to consumers.

## Strength through variety

From trends like low-impact to high-intensity training, consumers seeking strength training, and cycling to bootcamps and dance, different categories of fitness and related experiences cover a range of consumer wants and needs. The era of personalization has enabled studios to identify specific consumer niches and serve them in new business formats. Higher profitability enables boutiques to create a far superior consumer experiences no matter what the format.

Of particular advantage to boutiques is the ability to recruit and retain talented fitness professionals who can be compensated very well. According to the IRSHA, the national average for full-time group cycling instructors is \$26.50 an hour.

Most boutique fitness operators aim to offer a holistic consumer experience, often taking an innovative approach. From the application of technologies, including online registration via sophisticated apps that secure exact times and even the exact location in the studio for the member, to ambiance with high-end sound systems, lighting and even candles, boutique studios work hard to give their customers a distinctive almost bespoke experience.

Arguably though, it is the communities that these brands and formats create that are of greatest appeal to fitness consumers today. Marketing guru Seth Godin has written extensively on the importance of tribes and communities to consumers. According to Godin and others, 21st century living encourages a move away from individualism toward a search for more social bonds, and communities tend to reorganize themselves into networks of people gathering homogeneously together for social interaction, often around consumption and brands. A 2014 report on global fitness trends by Nielsen and Les Mills identified that 63% of consumers attended boutique fitness studios because of the other people who were there and 47% because of the atmosphere. This is yet another notable trend behind the success of boutique studio concepts.

## Summary

Consumers are seeking community-based fitness concepts that provide an outstanding fitness experience in a convenient and effective way. The rapid expansion of these concepts, their business models, and the related attraction of interest from the investment community all underscore the sustainability and relevance of the boutique studio trend. This reinvention of fitness delivery not only creates tremendous opportunities for operators, it can do so for the canny investor too.



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## About the Author

Bryan O'Rourke serves as President of the Fitness Industry Technology Council, a consortium of leading companies working on technology standards for health and wellness which Wellbridge is a member. Bryan is also CEO of Integerus Advisors, CSO of Fitmarc and the Flywheel Group. These organizations collectively serve over 1,000 fitness facilities, dozens of organizations and over 5,000 instructor professionals. Bryan is an entrepreneur, investor and former club owner who has worked in the health club and fitness industry with his partners for 18 years. IHRSA named him one of 13 to watch in 2013. He has presented as a keynote speaker at industry and corporate conferences on four continents. He is widely published and quoted in periodicals like *Inc. Magazine*, the *Wall Street Journal* and the *New York Times*. Bryan recently contributed to a newly released book with other European thought leaders titled *Essentials of Motivation and Behavior Change*. To learn more visit [bryankorourke.com](http://bryankorourke.com) and follow him on twitter @bryankorourke.

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