

LEISURE CLUBS – DATA INTERPRETATION

Introduction

This is a case study based on a real case that OC&C worked on in 2007, assessing the market for Leisure Clubs as part of a strategy review for a major UK hotel chain. This is typical of a 'data interpretation' case study that you may be asked to attempt – requiring analysis of data presented to you, alongside some creative and logical thinking.

Case Background

Our client runs a major chain of health clubs in the UK, alongside hotels and casinos (which are not the focus of this case). The health clubs are large out-of-town sports centers offering a gym, Jacuzzi, swimming pool, etc. They are relatively expensive, about £30-40 per month for an individual membership. As part of a broader strategy review, the client wants to know what they should do with their leisure clubs division – should they sell it, rapidly build more clubs (if so, what sort), or maybe acquire another player? Your specific task on this case is to look at the market trends and assess competition in the leisure clubs industry.

Demand for leisure clubs

The first key question is – what factors might you analyse to determine what is going to happen to demand for leisure clubs? (In consulting terminology, we are looking at the 'drivers' of demand in the industry)

The Good Answer will name some of the following factors, with some (prompted) discussion of the associated issues:

- Trends in society towards more or less participation in sport – Whilst more participation in sport generally may be positive for demand, increases in popularity of sports not offered at health clubs may have a negative effect (e.g. people may play football instead of going to the gym).
- Trends in obesity – if the population is getting more obese, there are two possible implications of this. One is that people are getting more obese because they are not exercising (i.e. declining demand for leisure clubs). The alternative interpretation is that an increasingly obese population will create demand for facilities to exercise more.
- Trends in available leisure time and money. If people have more spare time, they are likely to use health clubs more. National income / state of the economy – leisure clubs are likely to be a luxury good, for which demand will decline if there is a recession.
- Demographics – Younger people are more likely to be members of gyms. Therefore, if the population as a whole is getting older, demand for leisure clubs is likely to decline

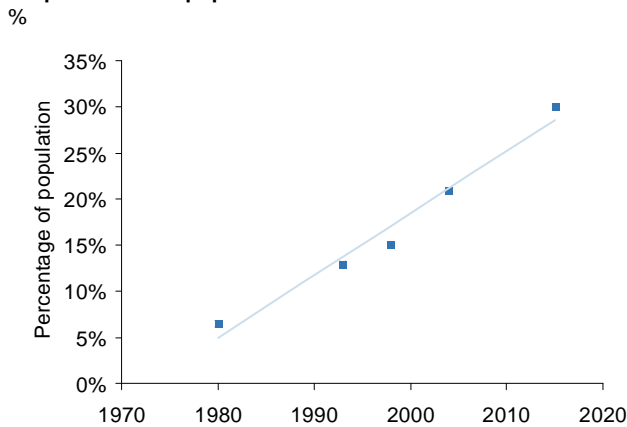
The Excellent Answer will name most of the above factors, with more explanation of why they are important, and may include other sensible suggestions e.g. "sales of Slim Fast would be a good indicator of what has been happening to demand for leisure clubs, because people who buy Slim Fast are the type of people who would use leisure clubs". An excellent candidate will also be able to defend sensible answers when questioned or pushed on why a particular factor is important; often it is at this point in the case study where excellent candidates differentiate themselves.

Interpretation of data – demand factors

The interviewer would then present five charts (including the two charts below; the other three charts would not provide useful information but serve as ‘distraction’) for interpretation by the interviewee, who would be asked to explain what the data showed, and what that meant for the demand for leisure clubs.

Exhibit 1: Obesity in the UK

Proportion of UK population classified as obese – 1980-2015E



Source: Department of health; The Times

Exhibit 2: Percentage of UK people who would exercise more regularly if they wished to lose weight

Income group	Percentage
AB	71%
C1	69%
C2	68%
D	59%
E	38%
Total	63%

Source: Mintel

Second question: what is likely to happen to demand for leisure clubs?

The good answer: “The charts clearly show that obesity has increased rapidly over the past two decades, and this trend is forecast to continue into the future. This means that demand for leisure clubs will increase, as people will have an increasing need to exercise.”

The excellent answer: “The first chart shows that obesity has increased historically, and this trend is forecast to continue. However, from the first chart it is not clear whether people are becoming more obese because they are not exercising enough (which would indicate declining demand for leisure clubs), or whether an increasingly obese population will exercise more and hence create increased demand. If I combine the two charts, however, you can see that most people are likely to exercise more if they wished to lose weight, and this is particularly true of wealthy people (who are likely to be our target customer anyway). On the assumption that most obese people want to lose weight, we can say that an increasingly obese population will create increased demand for leisure clubs”.

Interpretation of data – market outlook

Having seen the data, the candidate should come to the conclusion that demand for leisure clubs is likely to be strong for the next few years. He will then be shown a chart showing the competitors' plans for building clubs, demonstrating that the number of leisure clubs is forecast to rise from 150 today to 500 in 2010.

Third question: what is the critical issue for our client?

The good candidate would indicate that their market may become saturated, as supply grows faster than demand.

The excellent candidate would say: "The important question is whether supply in 2010 is greater than demand (i.e. there are more spaces available in leisure clubs than can be filled by people wanting to visit clubs). In this situation, there is likely to be price competition, which may make the business unprofitable. However, not all of the 500 clubs will compete with our client – we need to differentiate between different club types."

Market Segmentation

Fourth question – In order to better understand the competition, we need to understand what differentiates leisure clubs? (This may be phrased in consulting jargon as "How might we think about segmenting the leisure club market?")

The good candidate will point to some of the following:

- Price – the type of customer who uses a premium club (£50 per month) is unlikely to switch to a budget club (e.g. Council-run gyms costing £2 per visit).
- Location
 - Geographic – customers will only travel a limited distance to go to a club, so clubs in London do not compete with clubs in Sheffield, for example
 - In town / out of town – out of town clubs may be 'destinations' (primarily aimed at families, for example), whereas in town clubs are likely to appeal because they are 'convenient' (e.g. to office workers).
- Customer Group – different clubs are designed to attract different types of customer e.g. pre-family (~20-30 year olds), fitness fanatics, female-only, family-oriented, etc.

The excellent candidate will name all the above factors, with maybe some others (e.g. sports offered), and will elaborate more on each.

Conclusion

(This phase will probably only be reached by excellent candidates)

So we know that demand for leisure clubs is growing, but so is supply. We know that not all of the 350 new clubs will compete with our clients' business, since clubs differ based upon price, target customer and location. Applying our segmentation to the 350 clubs, we found that most of them do fall broadly into our segment (i.e. premium price, similar target customers). So we started to think about the geographical dimension, and considered where we should build our new clubs. The competition was planning to build in the large cities; however, we recommended that our client build its clubs in smaller towns, which only had populations large enough to sustain one leisure club. Why do you think this was?

The excellent candidate: "By placing your club in the smaller towns, you will insulate yourself from competition. Because you have built your club first, you will attract members who will then be loyal to your club. When the competition considers where to build their next club, they will not build in that town, because they will see that there are not enough 'available' customers for their club to be profitable, and they know it would be difficult to attract customers away from your club. Hence, even though in later years there may be excess supply at a national level, you will have local monopolies, and thus be protected from potential pressure to lower prices."