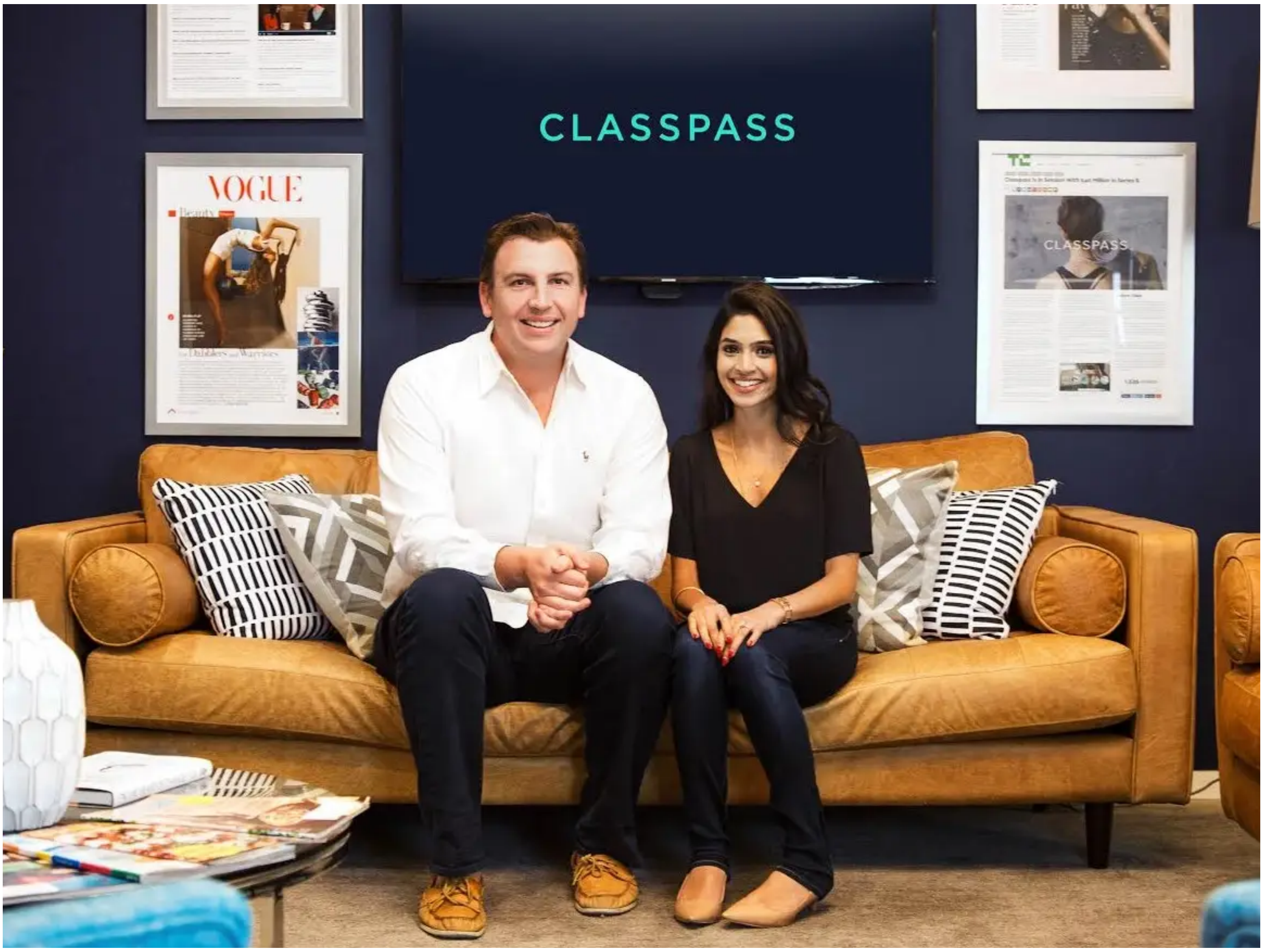
HOME > TECH

Fitness startup ClassPass sees IPO as its 'next meaningful milestone' despite losing 95% of its income in the space of 10 days at the start of the pandemic

Amy Borrett 24 minutes ago



Fritz Lanman, CEO of ClassPass, with ClassPass founder and executive chairman Payal Kadakia. ClassPass

Revenues in the fitness industry have become "nearly obsolete" due to lockdown restrictions, according to Andrea Wroble, senior analyst at research firm Mintel.

ClassPass said it lost 95% of its revenue in the space of 10 days at the start of the pandemic, and pivoted to digital as countries went into lockdown.

ClassPass says it's seeing green shoots emerge as economies reopen, but says there is still uncertainty about the timing of a full recovery.

Some studios are unhappy with ClassPass' model, with one studio chief saying the startup gouged his client base and delivered him less revenue.

Visit Business Insider's homepage for more stories.

Fitness subscription startup ClassPass still sees an IPO as its next major milestone, despite the fitness industry taking a hammering from the pandemic.

"Traditional revenue streams from gyms and fitness facility have become nearly obsolete due to non-essential
business closures," says Andrea Wroble, senior analyst at research firm Mintel. "As shelter-in-place restrictions continue, fitness facilities are challenged to stay relevant with their members."

This has had a significant knock-on impact for fitness subscription unicorn ClassPass, a platform aggregating classes from over 30,000 fitness studios for a monthly subscription of $19 to $79.

"The impact of COVID on the fitness industry has been, in the short term, catastrophic," says Chloe Ross, VP international at ClassPass. "In the space of 10 days, [we] lost over 95% of our revenue. This came at a point at which we were in this incredibly rapid growth phase."

which has been used by some 4,000 studios. It decided to forgo its commission on live stream classes until June to help struggling studios.

This is consistent with a surge in digital fitness offerings. According to a survey by wellness app Mindbody, over 80% of its consumers are using live streamed workouts during the pandemic, compared with only 7% in 2019.

But, studios still rely on in-person classes to make the bulk of their income, so reopening fitness facilities is critical for startups like ClassPass.

"The industry will recover, and it will recover leaner and stronger as it comes out to this period," says Ross. "The only uncertainty is on what timeframe."

The first signs of recovery are beginning to show as some economies open up.

"We have been pleasantly surprised with the rapidity at which studios reopen and at which consumers come back to their old routines," says Ross. "[But] obviously it's not come bouncing back yet to pre-COVID levels."

A survey by Mintel in July found that only 21% of US customers said they were comfortable going to the gym, compared with 55% who they were not comfortable.

Finessing the business model

The timing has slowed the pace of the ambitious global expansion ClassPass started in 2018. Over the past two years, it has launched into 26 new markets and at some points in 2019 it was entering a new market every 2 weeks.

But, ClassPass still has big aspirations: It plans to continue scaling its global operations and sees an IPO as the "next meaningful milestone," according to Ross.

successful business model that it believes will lead to profitability further down the road.

This comes after the startup spent years finessing its subscription model.

When ClassPass was first established, users could pay a monthly fee for an unlimited number of classes. In 2018, this was changed to a system of credits, which allows the platform to differentiate the price of the most in-demand classes and drive users towards those at less popular studios and times.

The model has also changed for the fitness studios ClassPass partners with — to some backlash.

Where before they were paid a pre-negotiated fixed rate, now a dynamic pricing algorithm is used to maximize the price paid to fill empty slots.

London-based Sweat IT cut ties with ClassPass in October 2019, saying its model slashed revenue.

CEO and founder Ben Paul said the changes that ClassPass made to the pricing of Sweat IT classes undercut his business and cannibalized his customers.

He said he was given very little control as ClassPass changed the model so that it could decide who to sell the credits to, how many spots to offer, and at what price.

"They are effectively in direct competition with the studios," Paul says. "Yes, ClassPass might drive you more revenue, but they're literally gouging your own client base and then delivering you back less money overall."

He adds: "I guarantee they will be the death of a lot of studios that remain on them.

Other studios have made similar complaints, per a February report from Vice.

ClassPass told Business Insider the new dynamic pricing model is aimed at maximizing revenue for the studios.

"[It] is really the hangover of the old broken business model that we had," said Chloe Ross in relation to the criticism, adding that 95% of partners stick with them annually.

"This is a way to make sure as many slots get filled and done so the highest price any user is willing to pay for it," she continued, adding that higher prices creates higher lifetime value for ClassPass. "This is really a model that aligns our incentives with the studios' because the more revenue we send to them, the more we're able to make as a company."

NOW WATCH:

More: BI Prime ClassPass COVID-19 Fitness