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2020 Bain Cup Case Competition

The Transformation Strategy of LEFIT

We are the

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Agenda

- **Analysis**
  - Overall Fitness Market
  - Specialty Fitness
  - Competitive Landscape
  - Key Trends
  - Customer Analysis
- **Strategy**
  - Customer Relationship Management
  - Store Expansion
  - Industry Cooperation
- **Implementation Timeline**

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Executive Summary: LEFIT can achieve high future growth by employing transformation strategy, keeping up with 3 key trends in the industry

Decision Stages

1 Analysis

Analyzing Dimensions

- **Overall Fitness Market**
  - Growing rapidly
  - Key drivers
- **Specialty Fitness**
  - 80's and 90's; Preference
- **Competitive Landscape**
- **Key Trends**
  - *CRM*
  - *Store expansion*
  - *Industry cooperation*
- **Customer Analysis**

2 Strategy

- **CRM Improvement**
  - Construct a new O2O model
  - Introduce elements
  - Improve the quality of courses
- **Store Expansion**
  - Adopt differentiated layout
  - Seek B2B cooperation
- **Industry Cooperation**
  - Cooperate with upstream
  - Cooperate with downstream
  - Cooperate with competitors

3 Implementation

- **Short Term**
- **Long Term**

Achieve High Future Growth in Specialty Fitness Market

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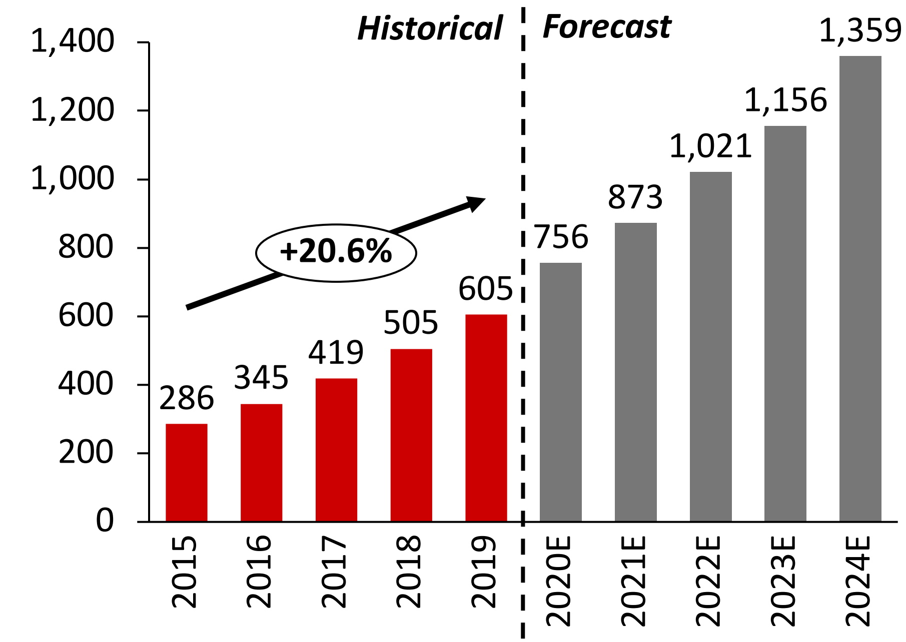
Overall Fitness Market: Rapid growth of overall fitness market is expected in the foreseeable future led by the drivers in social and economic dimensions

1 Overall fitness market is growing rapidly

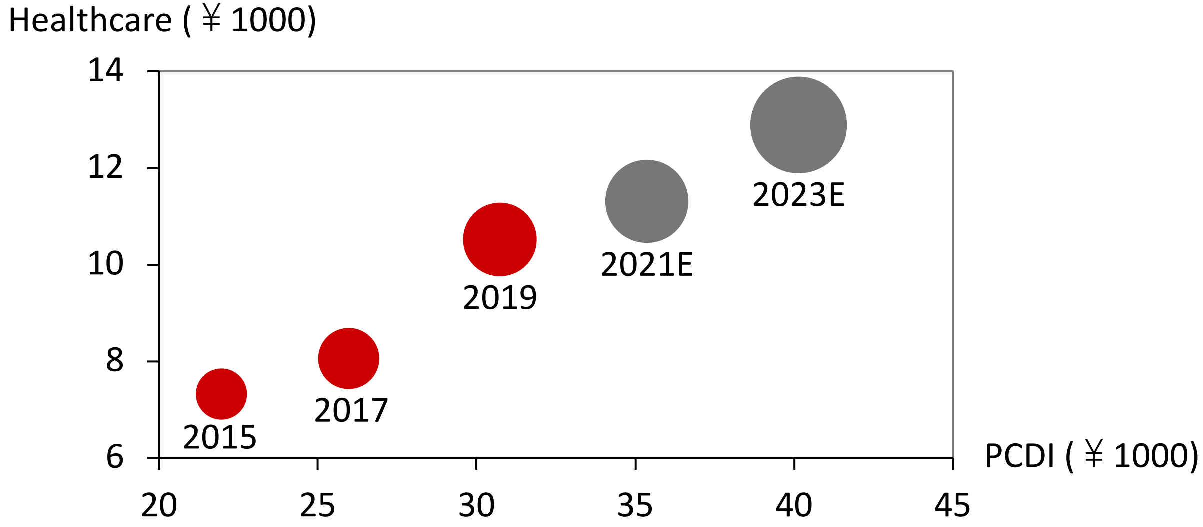
Overall fitness market size in China (￥ 100 million)



CAGR 15-19	CAGR 19-23
20.6%	17.6%

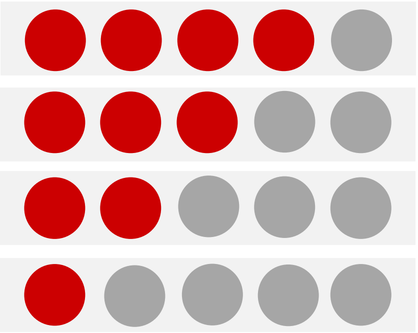
- The forecast CAGR is ***quite close to*** the historical CAGR, showing that the market growth has the tendency to ***keep high***
- China's overall fitness market still has very high growth potential, including ***rapid increase in the number of gyms and emerging new forms of business***

2 The driving effect of PCDI, etc. on overall fitness market



- ***Increasing PCDI*** improves living standard, generating ***stronger incentives for customers to pay for fitness programs (Key Driver)***

Other Drivers	**Increased health awareness**
	Western cultural influences
	National policy incentives
	Ongoing urbanization



Source: Literature Research; INSIGHTers Analysis

Note: PCDI means Per-capita Disposable Income

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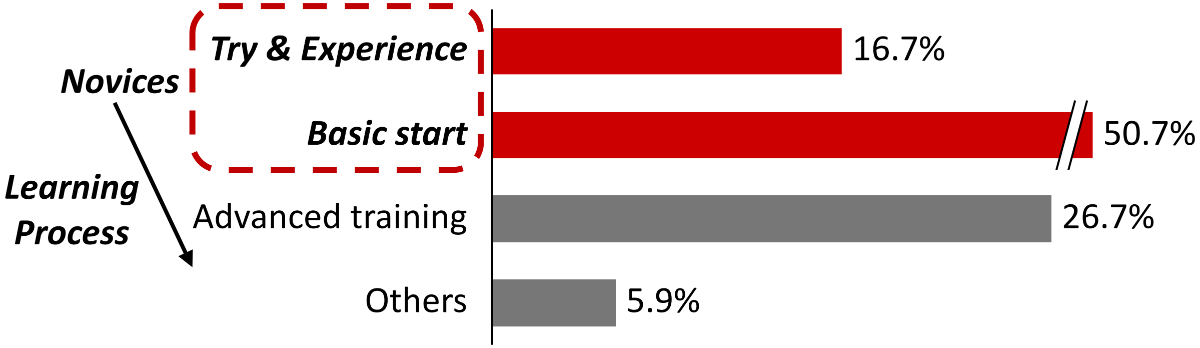
Specialty Fitness: Specialty fitness gyms can effectively tackle traditional pain points for potential fitness novices, ready to enter the period of fast-development

1 Fitness novices become mainstay of fitness market



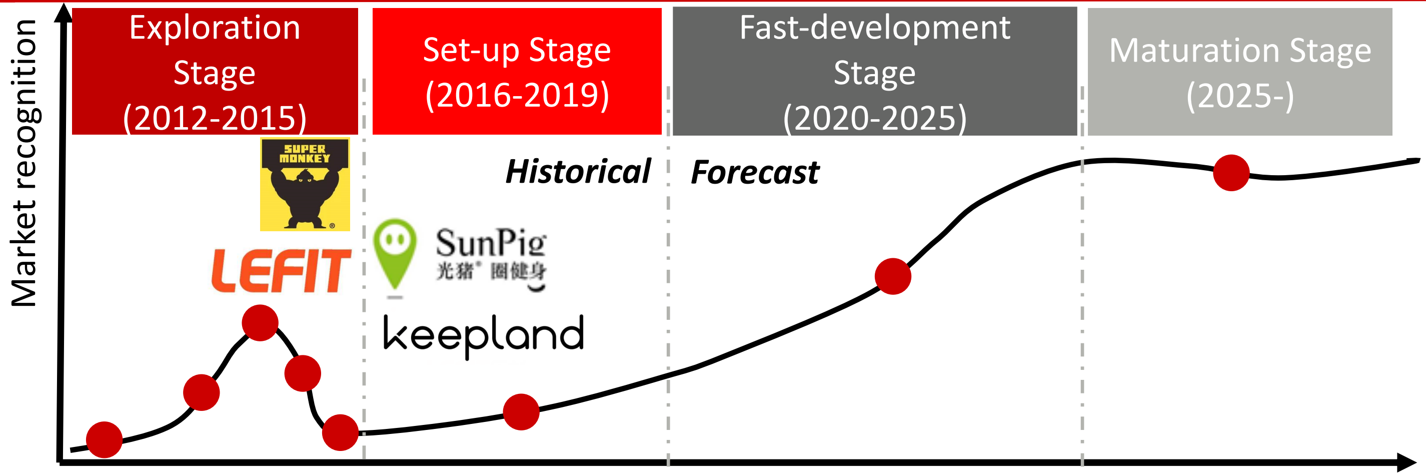
- Against the backdrop of expanding fitness market, ***junior fitness novices become mainstay*** (over 65% of market share)

2 3 main pain points for novices and corresponding solutions

	Pain Points (Traditional Gym)	Corresponding Solutions (Specialty Fitness)
Novices	High one-time cost	Monthly Card & Single Payment
	Difficult for novices	Enhance novice engagement
	Distance	Community-focused distribution

- ***Specialty fitness*** can effectively ***tackle traditional pain points for novices***

3 Specialty fitness is about to enter the period of fast-development



- Beginning in 2012, the development of specialty fitness includes 4 stages:
  - ***Exploration stage***: Shared fitness cabin(2013), Fitness container(2014)
  - ***Set-up stage***: Internet gym(2016), branding and unique style of group lessons(2017)
  - ***Fast-development stage***
  - ***Maturation stage***

- ***Key logic: Utilize distribution breadth and enhanced engagement to attract more potential fitness novices***

Source: Expert Interview; Literature Research; INSIGHTers Analysis

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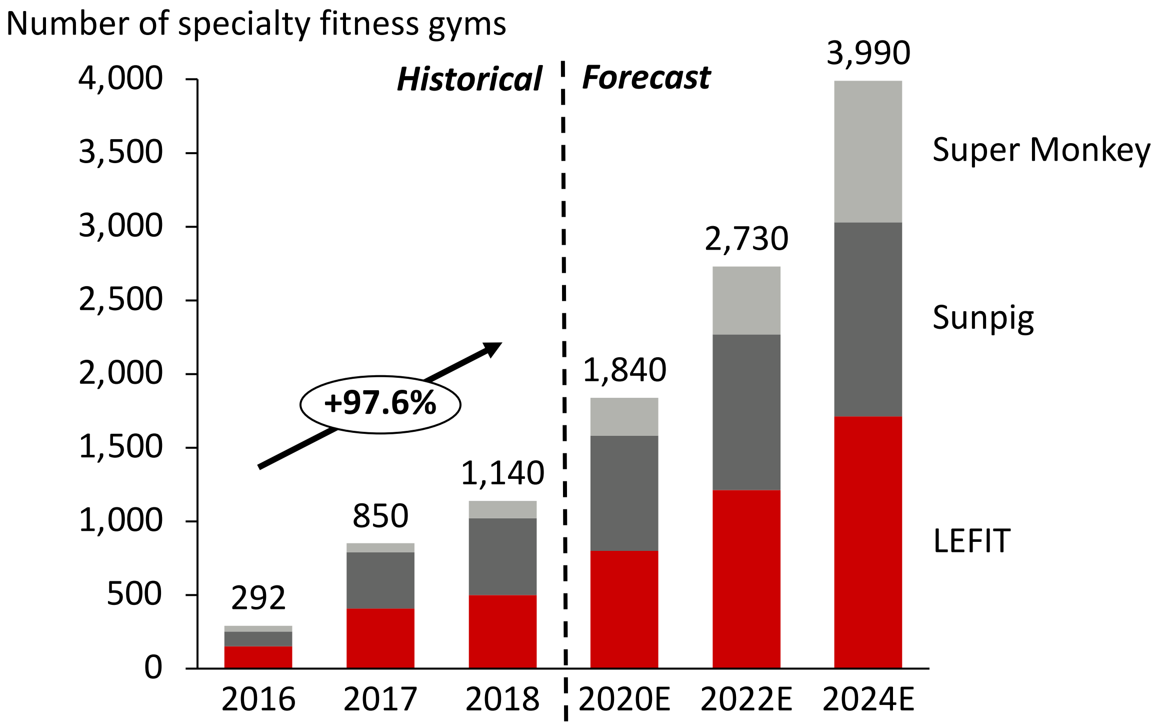
Competitive Landscape: The specialty fitness market is led by 4 companies with differentiated key characteristics

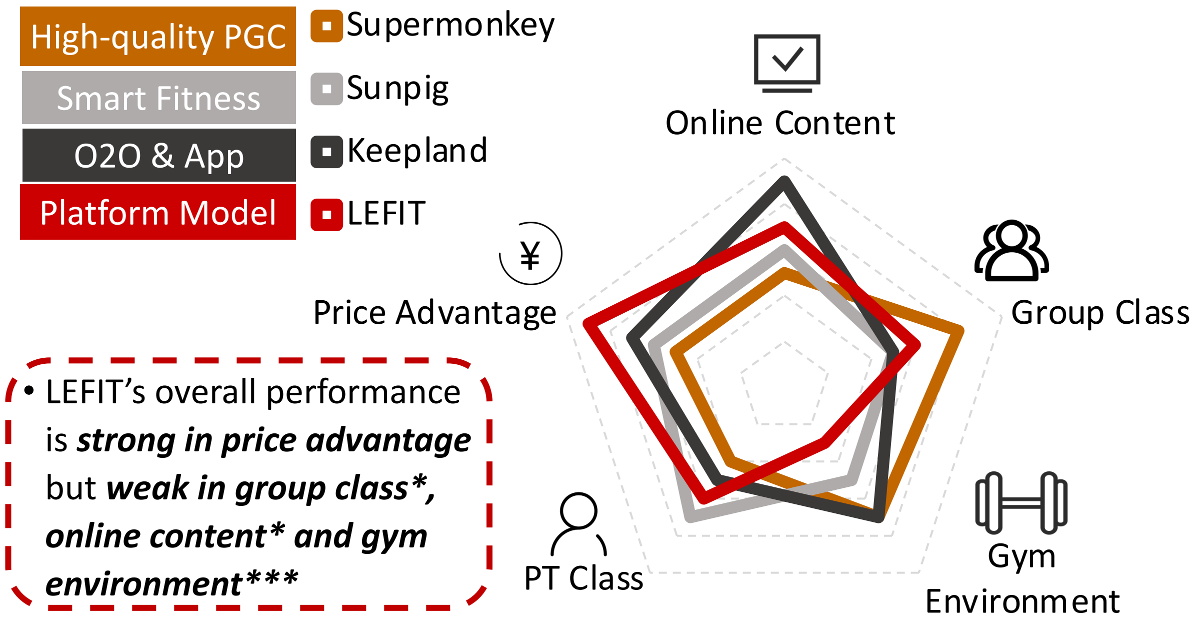
1 Top players gradually take the bulk of specialty fitness



- The specialty fitness market is ***dominated by 3 major players (by number)***, which take up ***over 60% market share***
- ***Keepland*** is both ***a profitable single store and a billboard with content,*** from an app to a showcase of outcomes, while its offline size is not so large as the 3 major players (we still place ***Keepland*** on the list of top players)

2 Competitive landscape analysis: Rivalry plays a vital role

3 Rivalry perspective: Competitive strengths and weaknesses



- LEFIT's overall performance is ***strong in price advantage*** but ***weak in group class*****, ***online content* and gym environment******

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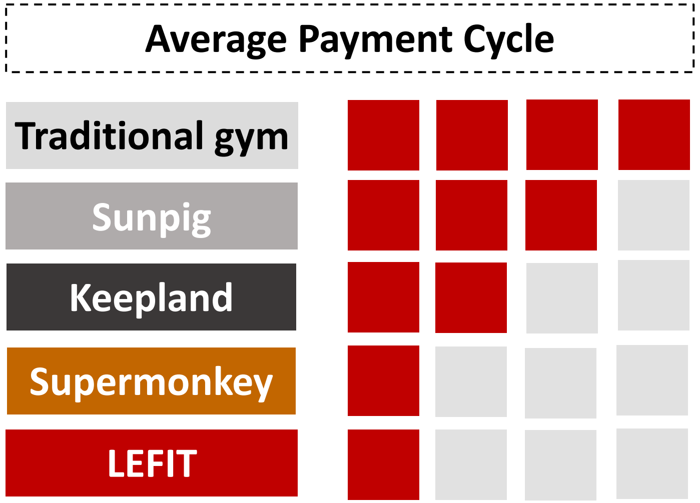
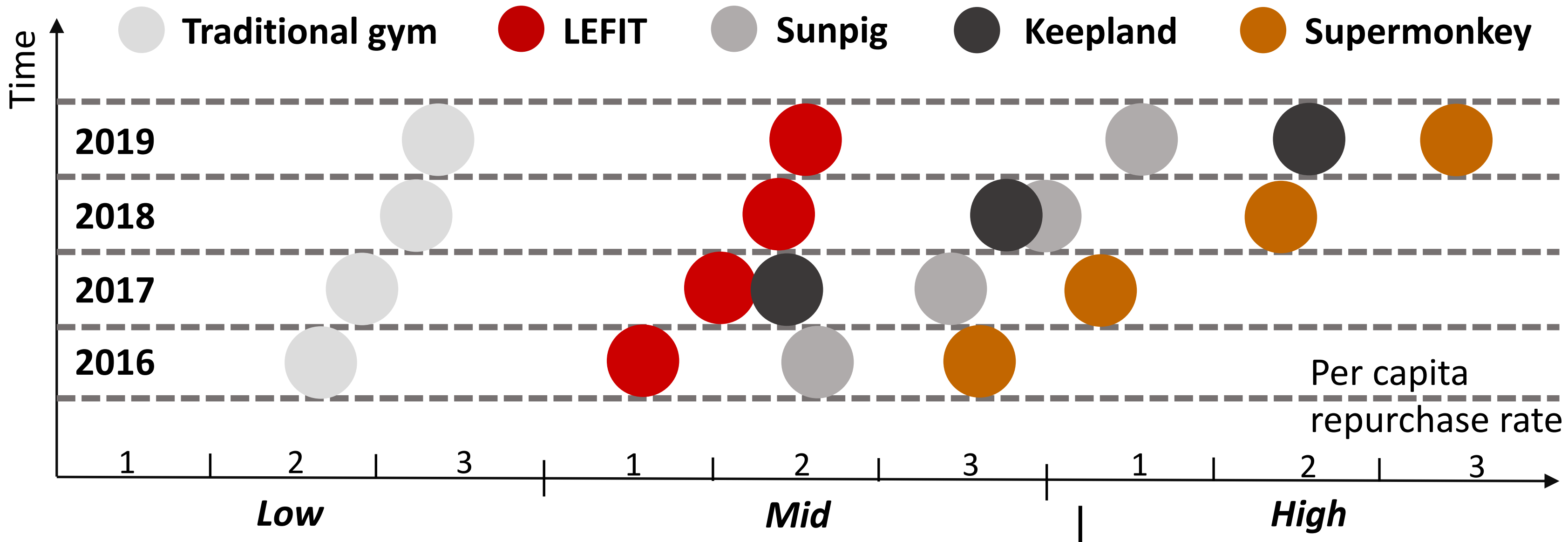
Key Trend 1: Specialty fitness competitors are focusing more on customer relationship management (CRM), while LEFIT is lagging behind

1 LEFIT has low payment cycle



2 LEFIT is lagging behind its main competitors in per capita repurchase rate



Shorter payment cycle needs ***higher customer repurchase frequency*** for stores to operate

The key trend in specialty fitness market is to ***increase customer stickiness***

Major problem of LEFIT:

– *Low customer stickiness, which indicates that **LEFIT has poor CRM***

Multiple competitors have witnessed ***increases in repurchase rates***, while ***LEFIT*** seems to be ***slightly behind***

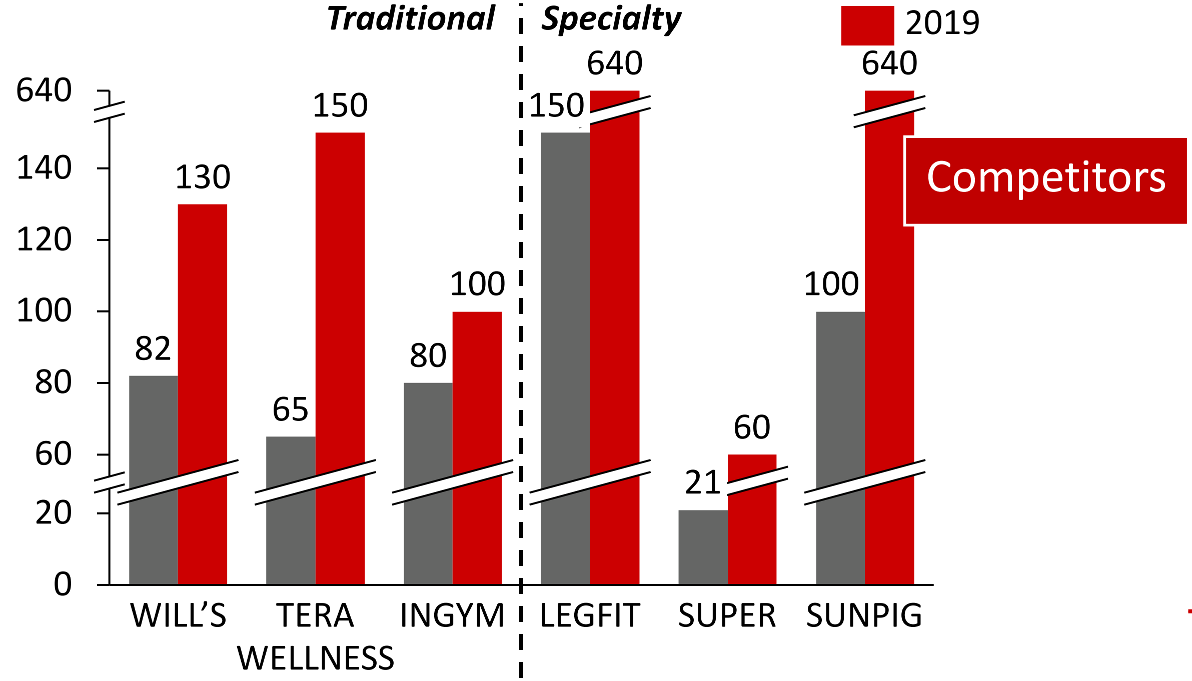
LEFIT's customer stickiness is ***comparatively lower*** than its main competitors (Sunpig, Keepland, Supermonkey)

Source: Expert Interview; Literature Research; INSIGHTers Analysis

Key Trend 2: Specialty fitness grows at a significantly higher rate than traditional gyms
Key Trend 3: Industry chain cooperation has become a major trend of specialty fitness

1 Specialty fitness stores develop at a significantly higher rate

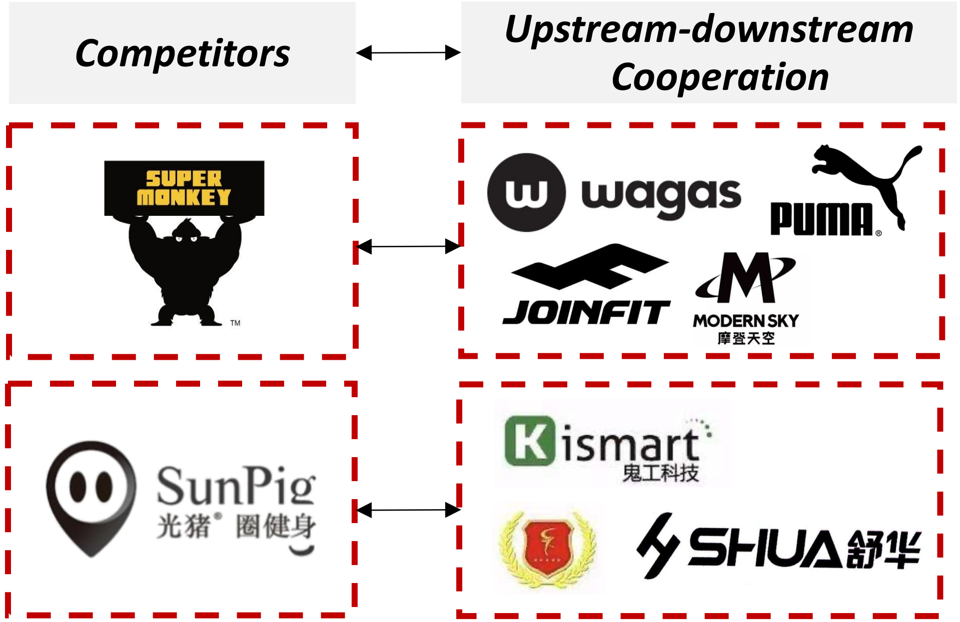
Number of specialty fitness stores



	WILL'S	TERA WELLNESS	INGYM	LEGFIT	SUPER	SUNPIG
Growth Rate	58%	131%	25%	327%	186%	540%

- In terms of ***store expansion***, the growth rate of new gyms is ***significantly higher*** than that of traditional gyms ***due to attributes such as small size and low debt ratio***

2 Cooperation between industries is a major trend



- LEFIT's competitors are enthusiastically ***improving their industry chain layout***, building an ***upstream-downstream cooperation***
  - ***Supermonkey***: "Happy Exercise + Nutritious Meals", cooperate with Wagas, Puma, Joinfit, Modernsky, etc.
  - ***Sunpig***: "Beehive Alliance", cooperate with Kismart, INT, SHUA, etc.

Source: Expert Interview; Literature Research; INSIGHTers Analysis

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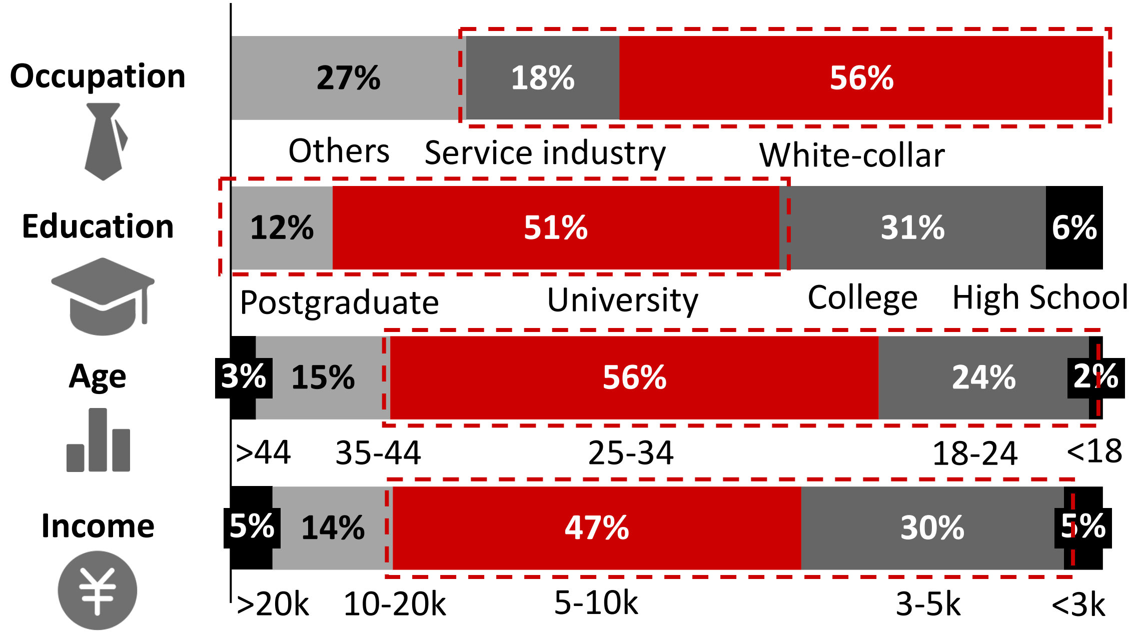
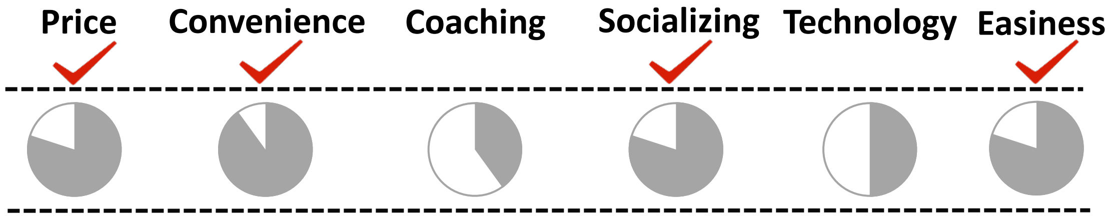
Customer Analysis: To satisfy LEFIT's target customers, LEFIT propose to provide universal, convenient, social and light fitness service

1 Profile of LEFIT's primary target customers

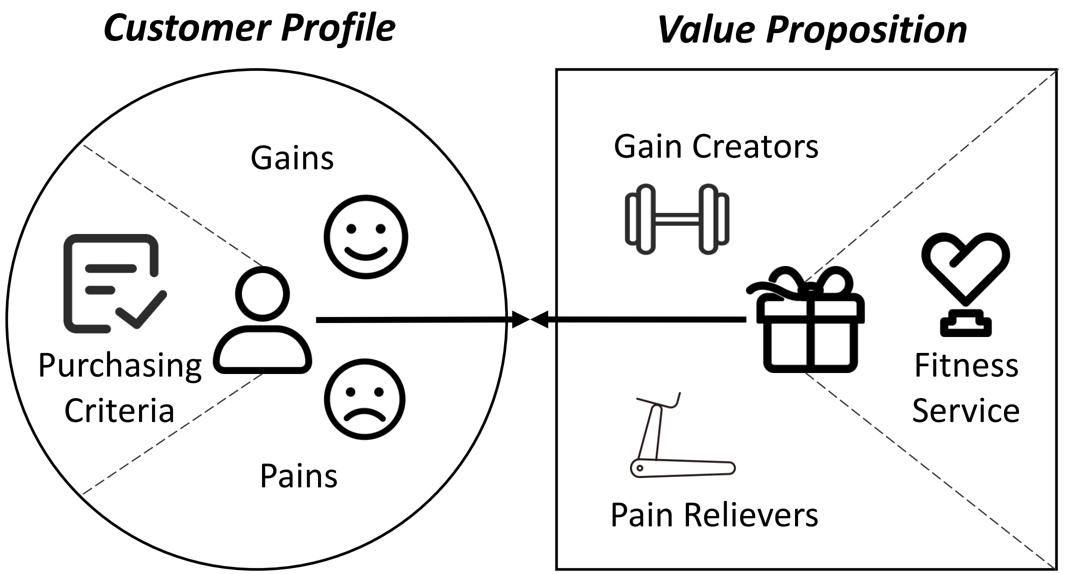


- **Profile**: *Well-educated, high-income, young, white-collar* customers

2 Key purchasing criteria of LEFIT's primary target customers



3 Value proposition: Universal, convenient, social and light



Criteria	Value Proposition
Price	***Universal*** to get
Convenience	***Convenient***, Accessible
Socializing	To meet ***social*** needs
Easiness	Simple and ***light*** training

Source: Expert Interview; Literature Research; INSIGHTers Analysis

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Strategy Overview

	Current Situation	Key Trends		Key Strategy
1 ***CRM***	- LEFIT's ***customer stickiness*** is ***comparatively lower*** than its main competitors - LEFIT has ***relatively poor CRM***	- ***Specialty fitness competitors are focusing more on CRM***	***Channel*** ***Service***	- Construct ***a new O2O model*** - Introduce ***social, competitive and novel*** elements - Create ***boutique courses*** and strengthen ***direct supervision***
2 ***Store Expansion***	- LEFIT has ***opened > 500 stores up to 2018*** - LEFIT has ***high potential to expand store number*** in China's fitness market	- ***The scale of specialty fitness grows at a significantly higher rate***	***Store***	- Adopt ***differentiated layout strategy,*** develop ***from TGI > 100 to TGI < 100*** - Seeking ***corporate partnerships*** with Internet enterprises, achieve B2B cooperation
3 ***Industry Cooperation***	- LEFIT has tried to ***cooperate with corporates in other industries*** - LEFIT has high potential to carry out ***industry cooperation***	- ***Industry chain cooperation has become a major trend of specialty fitness***	***Industry***	- Cooperate with ***upstream corporates*** - Cooperate with ***downstream corporates*** - Cooperate with ***competitors*** - ***Even do mergers and acquisitions of KEEP!***

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CRM Improvement: A new O2O model concentrating more on online platform can be an excellent channel for LEFIT to acquire customers

1 Old customer acquiring model has its problems

Comparison	High Efficiency	Low Cost	High Coach Concentration
Online-to-offline drainage	✓	✓	✓
Traditional marketing	✗	✗	✗

2 LEFIT is currently behind its competitors in online construction

Comparison	*Huawei mobile phone market downloads*	*Highest online sales of a single product*
keepland	500 million	Ten thousand level
LEFIT乐刻	3.1 million	One thousand level

- LEFIT can ***learn from its major competitors*** (e.g. Keepland) in ***online building***
- Also, LEFIT can cooperate with Keep to build complementary strengths and long-term cooperation relationship, ***even do mergers and acquisitions!***

3 LEFIT has great potential in O2O as an Internet company

Technical Capability	Big Data IoT	Information System
Team Capability	Alibaba Marketing Director	CEO of Technology Group
Corporate Capability	Internet Genes	Based on Hangzhou, O2O atmosphere

- ***Strategies:***
  - Use platforms such as Tik Tok, Kuaishou and Bilibili to ***transform some fitness coaches into Internet celebrities***
  - Export company ***products and culture*** through ***online channels***
  - Achieve ***reflow process*** through ***offline customer registration***

KOL Construction, Building Online Brand Communities

Big Data

Online: App

Customer

Offline: Stores

Reflow

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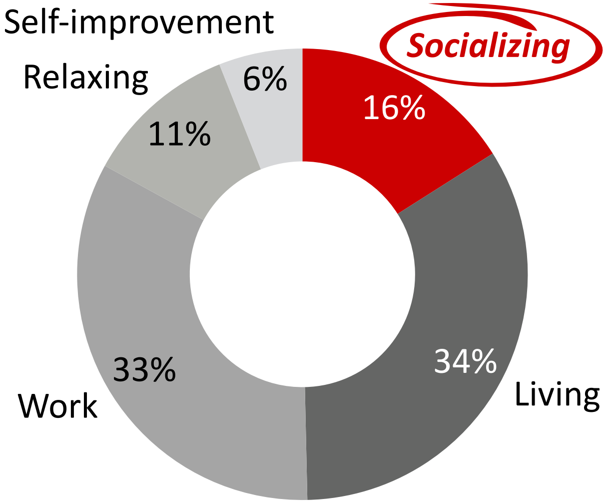
CRM Improvement: LEFIT should enhance social, competitive and novel elements of the course to meet customer preference

1 Specialty fitness customers value social elements

24 Hours allocations in one day

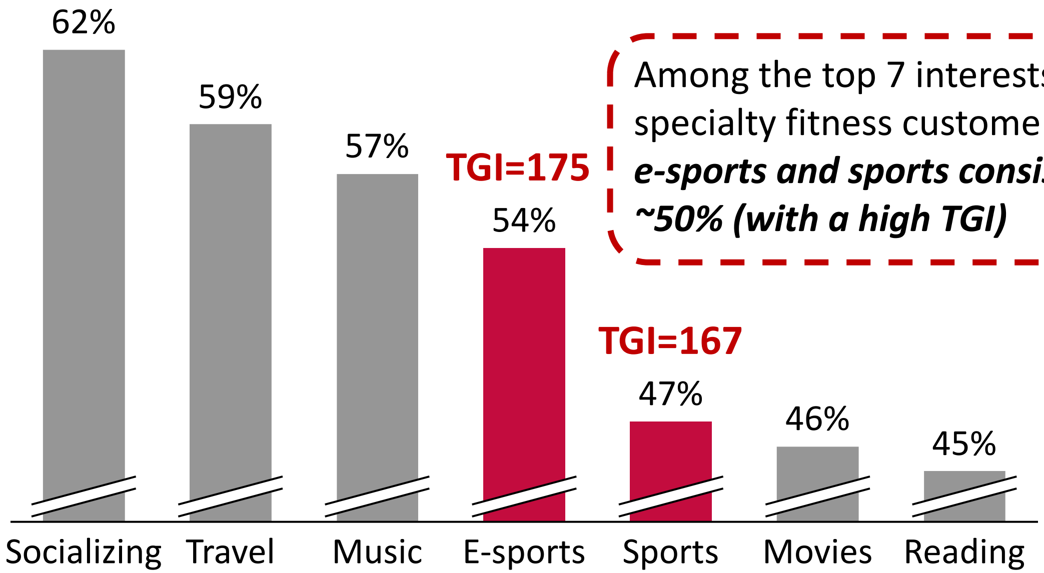


In 24 hours a day, people needs to *meet their social need for 16% of the time*

Applying to LEFIT, LEFIT customers attach great importance to the *social functions of the gym*

- ***Strategies:***
  - Increase the proportion of ***group classes***
  - Introduce more ***teamwork and group cooperation events*** into the courses
  - Enhance ***social elements*** of the ***online platform***
  - **More specifically**: Organize ***regular team events, outdoor workouts, social parties***, etc.

2 Specialty fitness customers favor competitive and novel elements



Among the top 7 interests of specialty fitness customers, ***e-sports and sports consist of ~50% (with a high TGI)***

- ***Strategies:***
  - Introduce ***group competitions, ranked competitions, point rewards*** into the course
  - Introduce more ***competitive but easy-to-access sports events***
  - **More specifically**: Through the smart bracelet, constantly monitor participants' heart rate, breathing, calories burned, etc., ***display ranking on the app or offline screen***, and record the ranking

Source: Expert Interview; Literature Research; INSIGHTers Analysis

Note: TGI means Target Group Index

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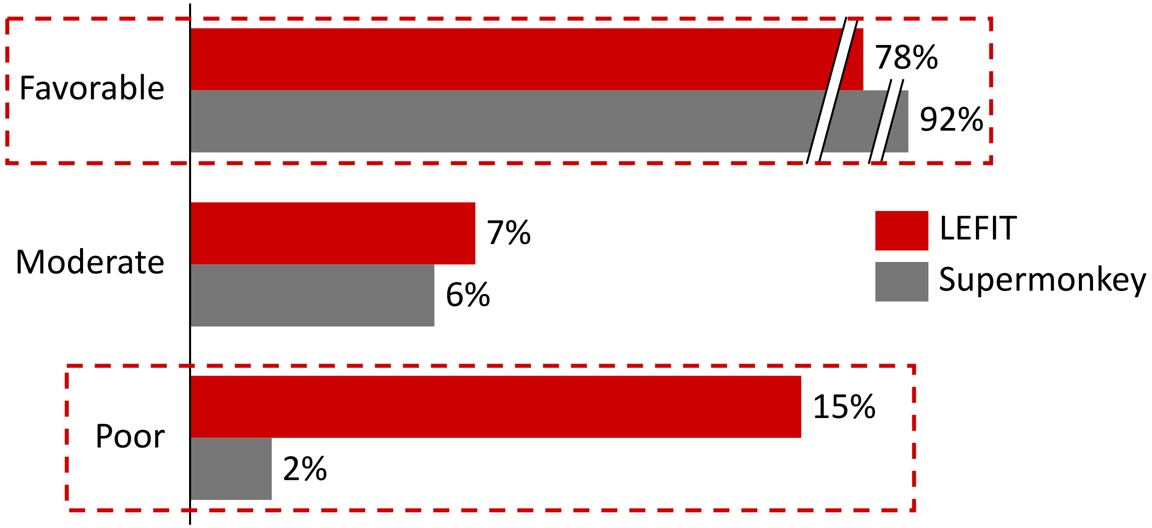
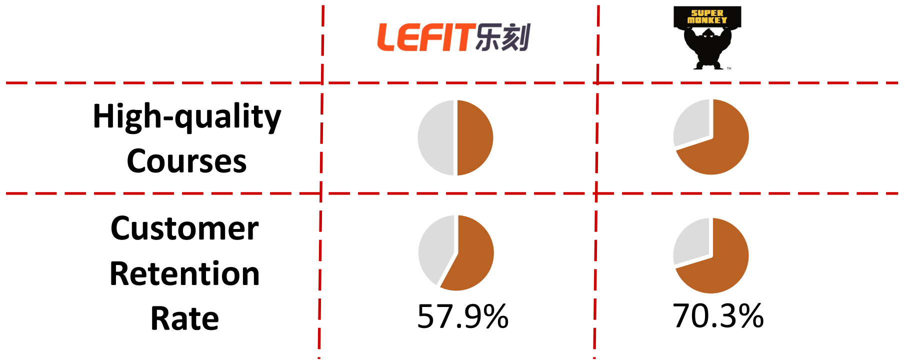
CRM Improvement: LEFIT should create more boutique courses, strengthen direct supervision of franchised stores to improve the quality of courses

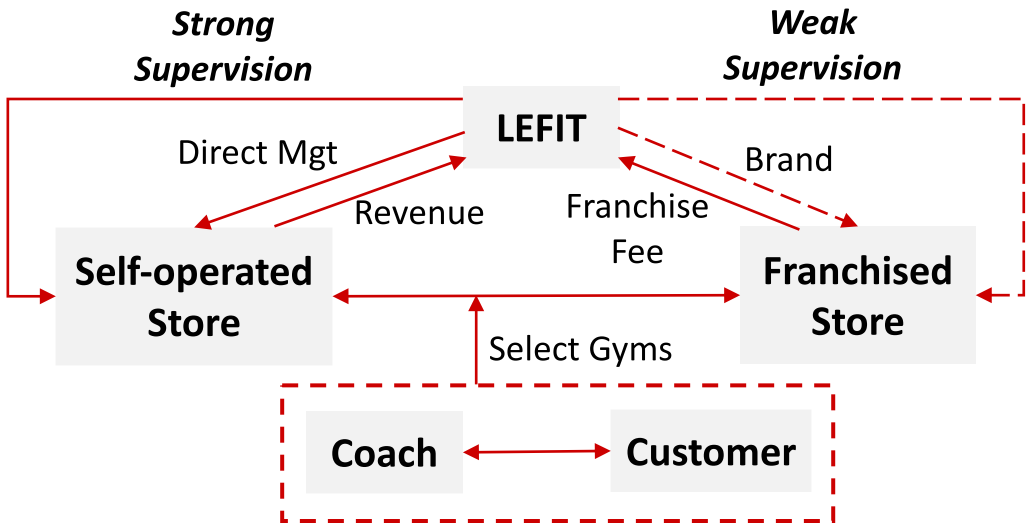
1 LEFIT has more polarized customer ratings



2 LEFIT's classes have lower quality with lower retention rate



3 LEFIT has weak supervision of its franchise stores



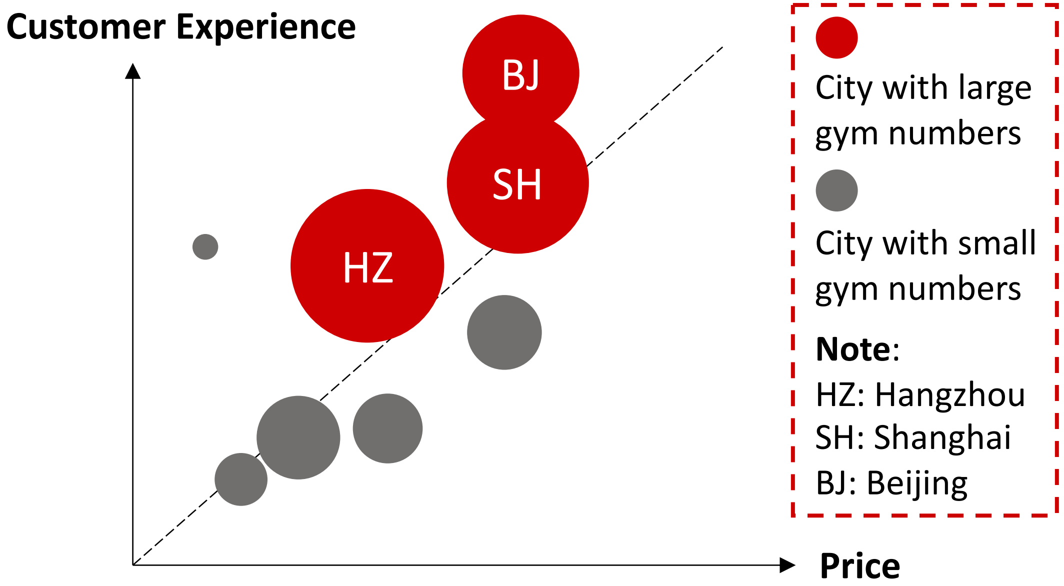
- LEFIT's ***partnership system is weakly supervised***, which puts franchise stores at ***greater moral hazard***, thus ***gym quality varies greatly***

- ***Strategies:***
  - Create more ***boutique courses*** and ***increase customer satisfaction*** with the courses
  - ***Optimize commission structure*** of franchised stores
  - ***Strengthen direct supervision*** and ***performance incentives*** for franchised stores

Source: Expert Interview; Literature Research; INSIGHTers Analysis

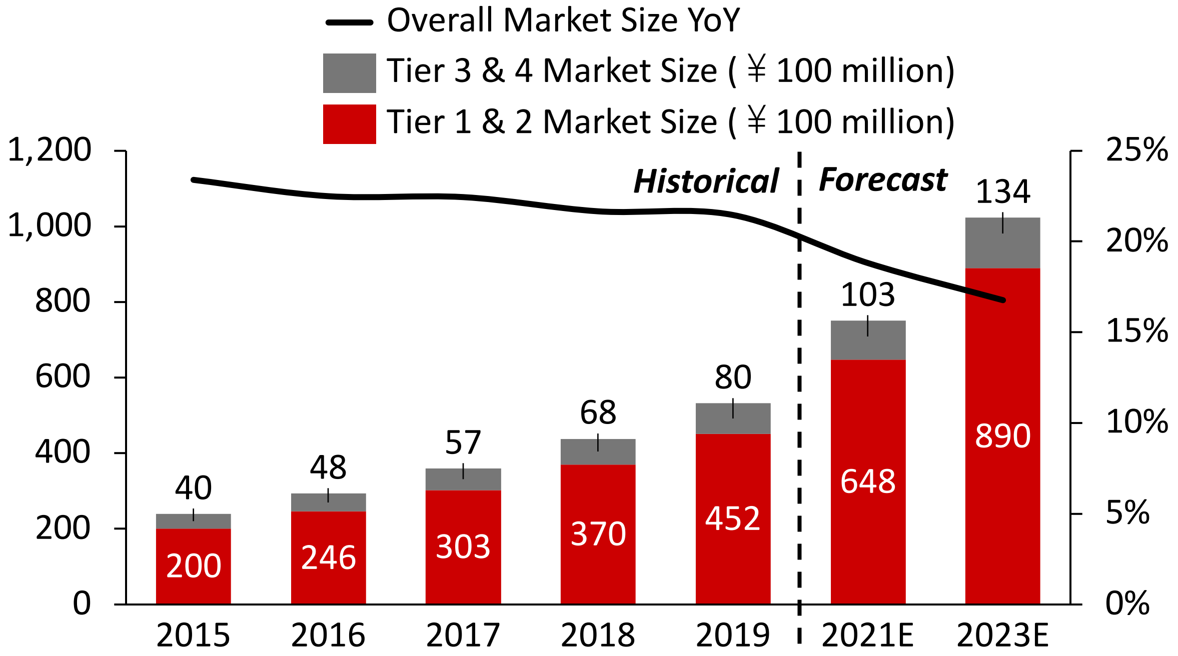
Store Expansion: LEFIT should adopt differentiated layout strategy, including increasing customer stickiness in tier 1 & 2 cities and developing rural market in tier 3 & 4 cities

1 Tier 1 & 2 cities: Increase customer stickiness



- Currently, the main layout of LEFIT is in ***Shanghai, Beijing and Hangzhou***
- LEFIT only operates stores ***in tier 1 and 2 cities***, and ***mainly at the core of the cities***
- ***Customers in tier 1 and 2 cities focus more on customer experience and market saturation is high***

2 Tier 3 & 4 cities: Develop rural market and seize market share



- ***Fitness awareness increases*** while ***coverage rate*** in tier 3 and 4 cities is still ***in its infancy***
- ***The market potential is huge and the number of gyms is far from saturated, so LEFIT has high new store opening potential***

Tier 1 & 2	*Improve existing layout* *Enhance customer experience*	← *Strategy: Differentiated Layout* →	*Open up rural market* *Increase gym number*	*Tier 3 & 4*

Source: Expert Interview; Literature Research; INSIGHTers Analysis

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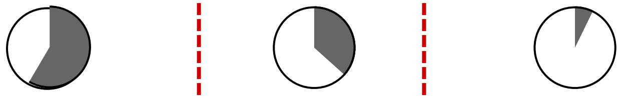
Store Expansion: Adopting B2B model and seeking corporate partnerships with Internet enterprises will become a new possibility for store expansion

1 Internet employees have a high demand for fitness

The demand for fitness has increased due to the fact that few employees are now engaged in physical work

	Entry-level	Expert	Unwilling
Willingness to get fit			



2 The welfare provision of physical activity is the most popular

Corporate Health Management Initiatives

	Exist	Planning	Not yet
Health Mgt Plan	24%	53%	23%
Corporate fitness gym	13%	81%	6%

Among corporate health management initiatives: the provision of physical activity benefits ranks first

- ***Advantages*** *of cooperation with Internet enterprises*

  Compared with corporates in other industries:

  – Internet enterprises ***value employee welfare*** and ***invest heavily in fitness and other related businesses***

  – Employees in Internet enterprises mostly ***are the target customers of LEFIT (match LEFIT's customer profile)***

  – Employees are ***open-minded***, ***keep up with the times*** and ***easily accept new things***

- ***Strategies*** *of cooperation with Internet enterprises:*

  Build corporate gyms

  Provide health management plans

  Offer discounted fitness cards

  Conduct corporate group-building events

Source: Literature Research; INSIGHTers Analysis

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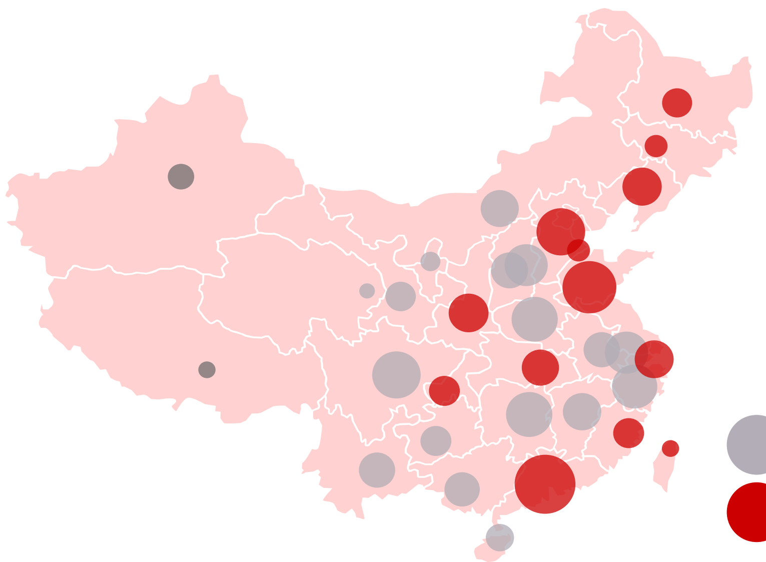
Store Expansion: The number of specialty gym stores will grow steadily over the next 5 years and LEFIT can unlock market potential by seizing KSFs, adding > 1000 stores

1 Key Success Factor 1: Develop from TGI > 100 to TGI < 100



- The key success factor for LEFIT to expand is to ***start from cities where TGI > 100*** and ***gradually spread to cities where TGI < 100***

TGI < 100

TGI > 100

2 Key Success Factor 2: Achieve B2B cooperation

Build Platform

LEFIT乐刻 — ***B2B Cooperation***

Alibaba 阿里巴巴 · 京东

網易 NEWS · Bai du 百度 · Tencent 腾讯

Employee Fitness Program

3 LEFIT can unlock new store opening potential by seizing KSFs

Comparison	Small Size	Low Debt Ratio	Low Set-up Cost	Low Risk
Specialty fitness	✓	✓	✓	✓
Traditional fitness	✗	✗	✗	✗

Year	*Additional number of specialty fitness*	*Additional number of B2B LEFIT*	*Additional number of LEFIT (except B2B)*	*Additional number of LEFIT (All)*
2020E	360	20	140	160
2021E	350	40	150	190
2022E	400	50	170	220
2023E	430	80	160	240
2024E	440	90	170	260

In the next five years, the number of gyms in LEFIT is expected to exceed 1000, tripling the current overall size

Source: Literature Research; INSIGHTers Analysis

Note: TGI means Target Group Index

Industry Cooperation: LEFIT can cooperate with corporates upstream and downstream of the industry chain, or even competitors in the same industry

1 The current industry chain of fitness market

Upstream

Apparatus

IMPULSE 英派斯健身

金陵体育 JINLING SPORTS

JOHNSON

Coach Training

ONEFIT EVERYONE FIT

匠心树人 身教为先

Midstream

Competitor

SUPER MONKEY

keepland

SunPig 光猪圈健身

Industry Competition

LEFIT乐刻

Downstream

Individual or Corporate

Provide fitness service

Courses

Related Service

2 LEFIT can cooperate with corporates in 3 dimensions

Apparatus

Coach Training

Clothing Manufacturer

Light Food Manufacturer

Competitor

LEFIT乐刻

Corporate

Our recommended cooperation landscape for LEFIT

A Upstream Cooperation

- ***Apparatus:***
  - Produce fitness equipment with ***LEFIT logo***
  - ***Direct sales of equipment*** at shopping festival to drive sales
  - As a ***content exporter***, ***load LEFIT's own boutique content*** on the fitness equipment
- ***Coach Training:***
  - Develop ***rating system*** for coaches
  - Conduct ***regular coach training***
  - Find talents in ***sports schools***
- ***Clothing Manufacturer:***
  - Co-logos and brand cooperation
- ***Light Food Manufacturer:***
  - Sell or send light meals wholesale from manufacturers

B Downstream Cooperation

- ***Corporate:***
  - Build corporate gyms
  - Provide health management plans
  - Offer discounted fitness cards
  - Conduct corporate group-building events

C Competitor Cooperation (e.g. *Keep*)

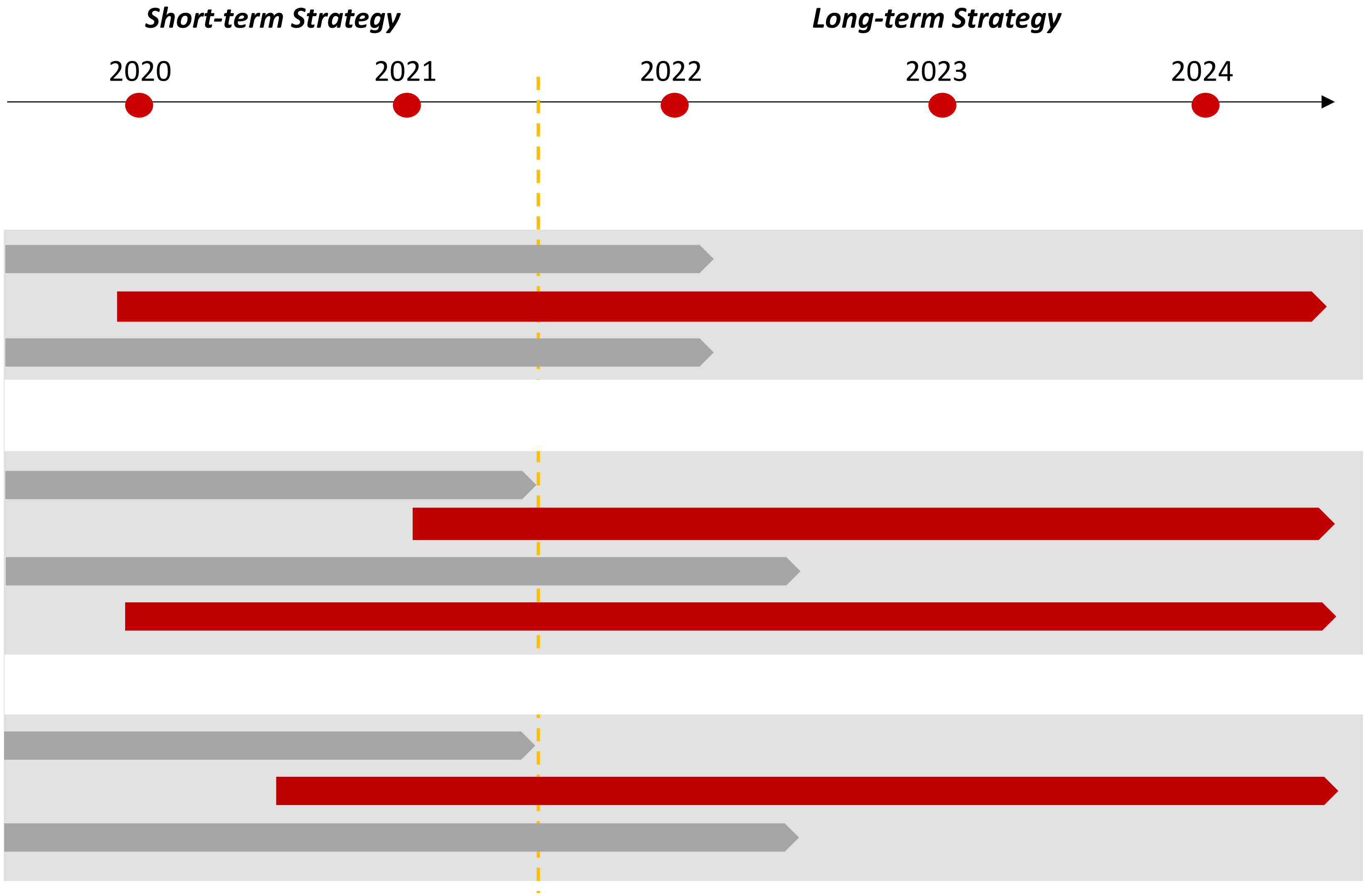
- ***Comparison:***
  - ***Keep's offline stores*** are ***weak*** but ***online market*** are ***vast***; while ***LEFIT*** invested by ***Alibaba*** has ***strong Internet genes***

KEEP

- ***Strategy:***
  - Build complementary strengths and long cooperation relationship, ***even do mergers and acquisitions!***

Source: Literature Research; INSIGHTers Analysis

Strategy Implementation Timeline



1 ***Customer Relationship Management***

- O2O model Construction
- Courses enhancement
- Supervision strengthening

2 ***Store Expansion***

- Customer Stickiness Cultivation
- Rural Market Development
- B2B Model Adoption
- Corporate partnerships

3 ***Industry Cooperation***

- Upstream Cooperation
- Downstream Cooperation
- Competitor Cooperation