



# Planet Fitness

## Covid-19 Business Strategy Position Paper Presentation Spr. 2020

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# AGENDA

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**STRATEGIC ANALYSIS**

**STRATEGY FORMULATION**

**STRATEGIC IMPLEMENTATION**

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# STRATEGIC ANALYSIS



A brief description of the company and what actions it was forced to take under quarantine orders



A brief assessment of how this pandemic has likely impacted the company and/or industry in which it operates



How has the pandemic helped or hurt the current resources or capabilities of this company



## THE COMPANY

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Planet Fitness (PF) is a health club known for its exceptional low-cost membership fees (ranged \$10 – 22.99/month) made possible by focusing on non-gym goers rather than the experienced enthusiasts.

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# THE COMPANY



Each location has approx. 6,500 members with the capacity of 300 at a time and the incremental scale is the estimate of the profit of the company despite its lower membership fee. PF had initially operated with single facility in New Hampshire for 10+ years until they opened its first franchise in Florida in 2003. In the beginning of 2020, PF recorded 2,000+\* franchisees in all 50 states and a few in overseas which was regarded as a milestone to investors.

\*2,302 in Jan. 2023



The industry PF is in has been in the shakeout to maturity phase in a production lifecycle metrics with a threat of substitutes of emerging at-home fitness innovations even before the pandemic.

The franchisee across my apartment has been closed since the non-essential business closure order on Mar. 16, 2020 remarkably with all of its room lights on, now for over two months (in pre-covid times, the gym was closed on weekend nights with its lights “off”). I am assuming this is to purposefully display as a sign of the continuous business engagement with the local community.

## THE COMPANY



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The nature of the health club service is to provide the environment that allows members to access bulky machines which the most individuals cannot equip in their homes. People who share the same purpose of using these machines come together at the gym, however, the unforeseeable stay-at-home order and social distancing policy inevitably impacted the core nature of the business in the whole industry throughout the country. As a result of being forced to close the operational locations, the rumor has it that 24 Hour Fitness weighs bankruptcy, followed by the actual breaking news that the Gold's Gym permanently shut down 30+ locations and filed for Chapter 11 bankruptcy protection on May 4, 2020.

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## **IMPACT OF PANDEMIC ON THE COMPANY/INDUSTRY**





## IMPACT OF PANDEMIC ON THE COMPANY/INDUSTRY

PF is no exception that is being compelled into financial challenges this quarter. The stock price (NYSE: PLNT) plummeted from nearly \$90 at the beginning of 2020 to \$24 on Mar. 18, two days after the business closure began. As of May 19, the price climbed back up to over \$57 but of course it's all under influence of extremely fluctuating market where no one knows when the physical gym facilities will reopen.

The extended quarantine has made majority of us excessively considerate on hygiene matters with shared items. It's hard to imagine the PF members expect restructuring of the membership fee as it has already been a low-priced program to enter in the first place, but instead, the members may not feel comfortable if the sanitization drive is the same as the pre-covid standard when the restriction is lifted. So unless PF can secure the next level hygiene safety, the demand for the on-site gym operation would never be the same as before.



While Gold's Gym and 24-Hour Fitness had to consider an option for crucial financial plans towards bankruptcy, the other health clubs such as Equinox in the high-end tier and PF in the low-cost tier seem to have fewer rivalry threats among existing competitors. Furthermore, the exits of the businesses in the highly competitive mid-range gyms may become a competitive advantage for both high-end and low-cost health clubs if they survive through this pandemic.

Like most of the other industries elsewhere in the world, the transition of the business models to post-pandemic world could have been a long-overdue discussion at the same time – most of the current approach to urgent solution may not have had to require covid crisis to be in the current form of work. The challenge here is to create a new norm by leveraging possible methods to provide members various workout options without relying heavily on physical presence at the gym.

## **IMPACT OF PANDEMIC ON THE COMPANY/INDUSTRY**



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PF will have been impacted on its Operations, and Marketing and Sales elements the most if the current operation continues (without the strategic formulation taken into account to be discussed later). The gym has to construct multiple forms for the members to participate in their programs.



## VALUE CHAIN ANALYSIS



The pandemic has apparently challenged the PF's capabilities to maintain the quality of the existing services. The method of delivering services went 100% online for which the company announced it will not be charged to the members in an effort of the executives' salary cut and by suspending its corporate share repurchases. The current daily online live stream workout session on Facebook collects 100K views on average every day and the guest trainers extend to NBA players, celebrities and star instructors. In the long run, building the online capabilities during the crisis (again, even though it may have been long overdue) should help pave the way for PF to deliver exercise materials in the post-quarantine period.



## VALUE CHAIN ANALYSIS



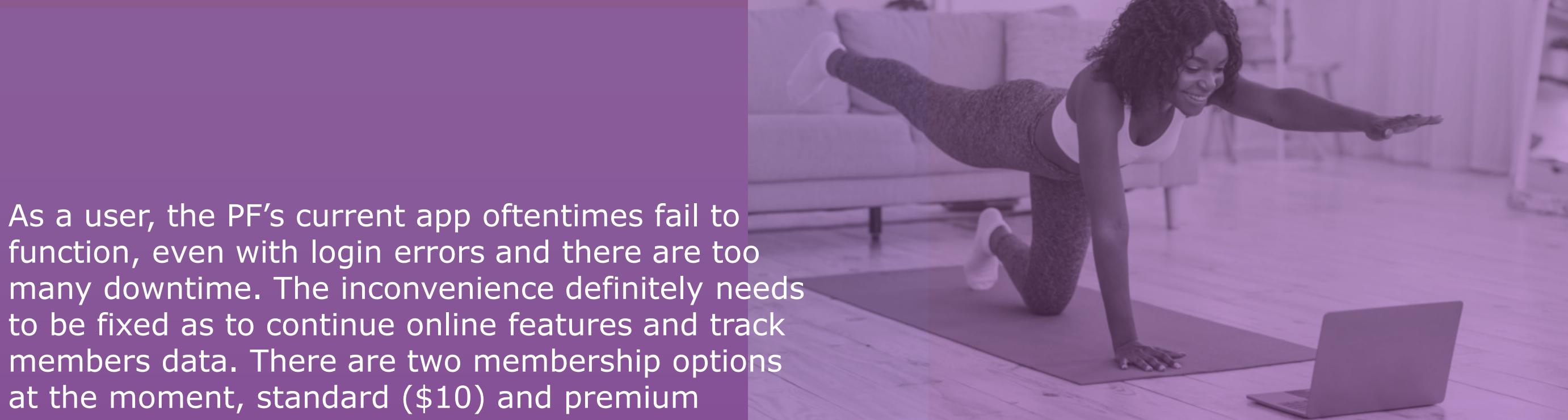


Each location will have to update their sanitization protocols and may have to outsource a cleaning unit to sanitize all equipment during and after daily operation. The machines will have to be rearranged to keep physical distance prior to reopening and the on-site staff should receive a training to monitor the suspicious acts in order to maintain healthy environment. The locations also need a temperature check station at the entrance for both employees and the club members.

## Operations

### **VALUE CHAIN ANALYSIS**





As a user, the PF's current app oftentimes fail to function, even with login errors and there are too many downtime. The inconvenience definitely needs to be fixed as to continue online features and track members data. There are two membership options at the moment, standard (\$10) and premium (\$22.99) but by the time the on-site restriction is lifted, there might be an online and/or combination (online and on-site) membership status as well by setting up the feature programs for each option.

## Marketing and Sales

## VALUE CHAIN ANALYSIS



# STRATEGIC FORMULATION



In New York, the gyms are categorized in the phase 3 reopening plan as well as the restaurants but before the school and entertainment. This means the government has the perception of virus level to be still advisory when the gyms are finally reopened. Given that, the post-quarantine strategies should strictly adhere to physical distancing and sanitation protocols, also to comply people's new hygiene awareness level. Here, I would like to offer essential concepts to formulate a successful post-quarantine strategy to retrieve PF's prior position and more as follows;



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## Promote a New Norm

The company recently issued a statement, "the safety of our team and members is our top priority, as we begin to execute a thoughtful and phased reopening approach. ...which include enhanced cleanliness and sanitation policies and procedures, physical distancing measures, reducing physical touch points in the club, and more." This approach should be properly addressed in details and delivered to the existing registrants and potential members using email marketing and display ads mainly in the areas of where the members reside.



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## Develop Online Programs Further

While most of health club competitors connect with their members only via their mobile app platforms, PF has extended its reach and launched experimental Facebook (and YouTube with 1K viewers on average) live stream every night at 7pm ET with 100K viewers as mentioned earlier. This is a great opportunity to engage and accommodate members in one place as the title of the series “United We Move” represents. Yet, the current streaming is a little beyond the recording session, the instructors call the participants names time to time but we can expect more interaction from the member side as well. There is only one session a day in which anyone in the whole world can participate, means in some areas it is held at 3am and it doesn’t make sense if this is live or not to them.



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## Collaborate with At-Home Fitness

Consequently to the above, the emerging at-home fitness products are of the advanced technology that PF should acquire to provide on-demand workout sessions. PF can expect potential partnership opportunity with these business models such as Peloton with bikes and treads, or Mirror with The Mirror which initially require users to purchase life-long partner equipment (ranged \$1,500 – 2,500, \$45 – 60/month). I would recommend The Mirror or equivalent instead of cycle machines considering the PF's original user segments and its attribute for possible home capability. If PF can tackle the payment system for the at-home fitness product in their perpetual monthly membership fee, it would make a long-term engagement.



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# Enhance Outbound Distribution

When the at-home equipment becomes available for PF, PF can contribute its current nationwide distribution channels to deliver the items to each locations and the members should be able to access the products in-person prior to purchasing. Also, with the physical locations opened, each location can send an instructor to initially demonstrate the product experience while advising their physical distancing manner.

The physical distancing also creates a batch of unused gym machines due to the limited space at each locations and I suggest to deploy those machines for rental use at outdoor mobile gathering of under 10 members of family or friends.



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# Employment Opportunity

This has been an issue during the non-essential closure order. While the franchisees had to make their own decisions to manage their employees, the corporate-owned PF gyms furloughed all their employees. However, the extension of overall online experience at PF should create rather various positions by providing employees training opportunities and thus to build strong commitment among employees. I would recommend all employees to acknowledge the roles of two or more positions, such as on-site inventory control + online exercise video generator, or on-site security management + online product management and so on, so that the PF's employees should be able to back up each other in case of emergency. Also, understanding other roles should establish internal synergy effect by respecting each other. I believe it's always people behind great services on plate.



PF's pre-covid position was at where people can casually be involved at low cost, be away from strict engagement anytime because of the low cost, and get back in the routine anytime they want without hassle. So even with the above substantial concept, the service at PF should be reasonably available and affordable to differentiate from other competitors in the industry to sustain its position.

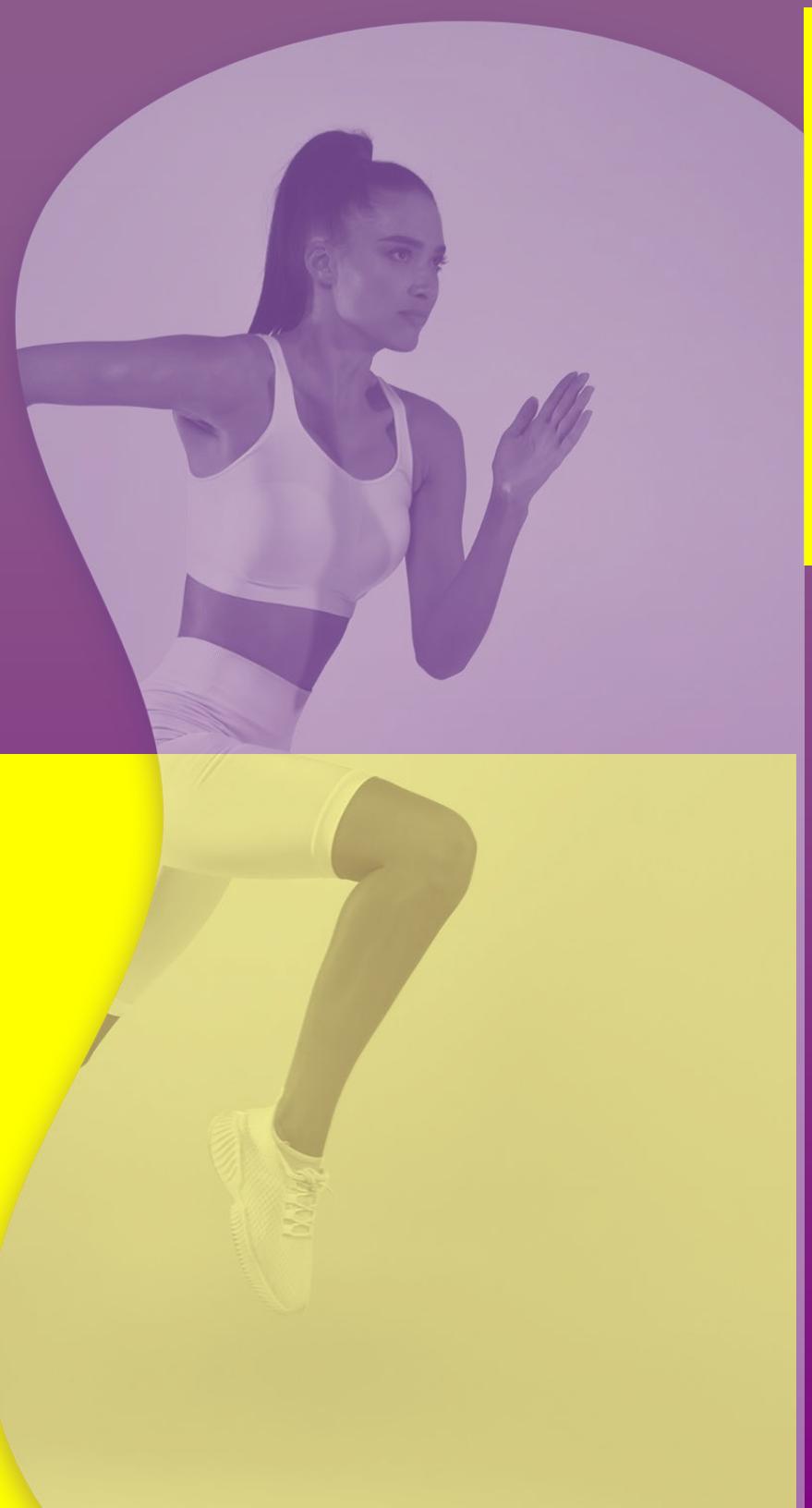


# STRATEGIC IMPLEMENTATION



For the company selected, refer to my lecture notes on the “Big 6 components of strategic implementation.” Which of these managerial components would likely present the greatest impediment to successful implementation of the strategies/scenarios described above for your firm? Explain what steps you might recommend to mitigate such an impact.





## EFFECTIVE ACTION PLANS

As much as I believe in consistency that takes a big role in achieving, I think what impedes the overall strategy is also Effective Action Plans unless it comes with contingency plan, or more casually, Plan B. Ironically, Effective Action Plans are usually composed under the condition “where everything goes right” and thus it is effective as a plan. Even the nearly perfect Effective Action Plans are very vulnerable once gone under the unforeseen circumstance – it could be either a resignation of an employee, external influence or all otherwise.



## **EFFECTIVE ACTION PLANS**

In order to implement Effective Action Plans, we have to review the Goals, Objectives, Strategies themselves and its Tactics according to the theory. But this extra review system each time a progress is reported might become an impeding process here because the reviewing may have to take us back to where we have to start over establishing the plans from scratch. In my scenario above for example, the rent of the space for gym machines used only for mobile rentals may not be covered by the rental service profit while at first it may be possible to be covered by the profit from PF's other services. But when the deficit accumulates even though there are still needs of the rental service, we may not know when to terminate the rental service if pursuing the Effective Action Plan obligatorily a purpose. So there we need extra reviews before it's too late. As a result, we would have to go back to where we have to come up with other usages for the unused machines. This is why I had to address Effective Action Plans may actually impede itself without another deferring plans to go along with.



## **EFFECTIVE ACTION PLANS**

## **PREPARING FOR UNEXPECTED**

Either way, the current situation is extraordinary that most of us couldn't predict the way it is now. But in some cases, companies who took an action prior to governments decision had earned an initial control of the situation. I believe those companies have acted upon their strong mission that underlies in their corporate culture and their core strategies that saved them. The non-essential business closure and work-from-home policy this time have revealed multiple layers of the long-standing issues we had. We just witnessed (or were reminded) that anything could happen in this world, and seen too many companies and small businesses went out of business. In this paper I learned how PF runs its business and what it is based on, and found the PF's CEO's stand point and plans for budgetary announcements, but at the same time I was not able to find any specific actions from Gold's Gym or 24 Hour Fitness except their excuses on financial performance. I am now determined how strategy building is an essential part of what it takes to survive and that we cannot omit to prosper in the future.



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