5-2018

Individual Case Study: An In Depth Look into LA Fitness

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Abstract

LA Fitness is a health and fitness club chain that has locations throughout the United States and Canada. LA Fitness is a health and fitness club that has locations throughout the United States and Canada. This company has been seen as a strong competitor in the industry since its introduction, especially because of its differentiation strategy. While LA Fitness has done well for themselves during their last thirty years in business, there are some changes that could be made in order to develop a sustainable competitive advantage. The recommendations I have for LA Fitness are: 1) have longer hours of operation, 2) communicate company decisions and how they benefit the consumer, 3) train associates on customer service, 4) create a new marketing campaign, 5) expand further in the US and Canada, and 6) adjust proportions of company debt. These changes will allow LA Fitness to create and sustain a competitive advantage in the health and wellness industry.

About LA Fitness

LA Fitness is a differentiator in the health and wellness industry. They have over six-hundred locations, each of which are nearly identical since they are not franchised (Wells, 2016). “LA Fitness features diverse sports club amenities, typically including cardio & strength equipment, personal training, indoor cycling, group exercise classes, pool, spa, basketball courts & racquetball,” (LA Fitness, 2018). LA Fitness has had the highest revenues amongst larger fitness clubs for the last four years and continues to grow (Wells, 2016).

Part I: Analysis of LA Fitness

Stakeholders

Stakeholders are those who have an interest in the performance of the company, often because it will impact them in some way (typically financially). LA Fitness has both internal and external stakeholders. The most important internal stakeholders are the employees as well as the board members. LA Fitness employs a total of twenty-four thousand individuals, with fifty at each location (Wells, 2016). There are both full-time and part-time employees so many different people are impacted by the success (or failure) of the company. The board members are another stakeholder that is greatly impacted because of their stake in the company. These members are noted as having significant investments in the company, but the official amounts have never been disclosed (Wells, 2016).

There are several external stakeholders that are impacted by the operations of LA Fitness. These include the communities they are located, creditors, partners, and (most notably) customers. The communities that LA Fitness chooses to place its gyms are affected by the jobs that the company brings; with each location having a staff of fifty members, multiple health clubs in an area can create a positive effect on the economy and people there. Creditors are impacted when they choose to fund LA Fitness in their business ventures; this fitness company brings them potential profits and interest payments after the investment. LA Fitness has several companies that it has partnered with; for example, they partnered with World Instructor Training Schools in order to get their personal trainers certified (Wells, 2016). The more business and revenues LA Fitness generates, the more revenues these partner companies receive as well. Finally, the most important stakeholder to this company is the customers. The customers allow LA Fitness to continue making profits in order to sustain and grow their business.

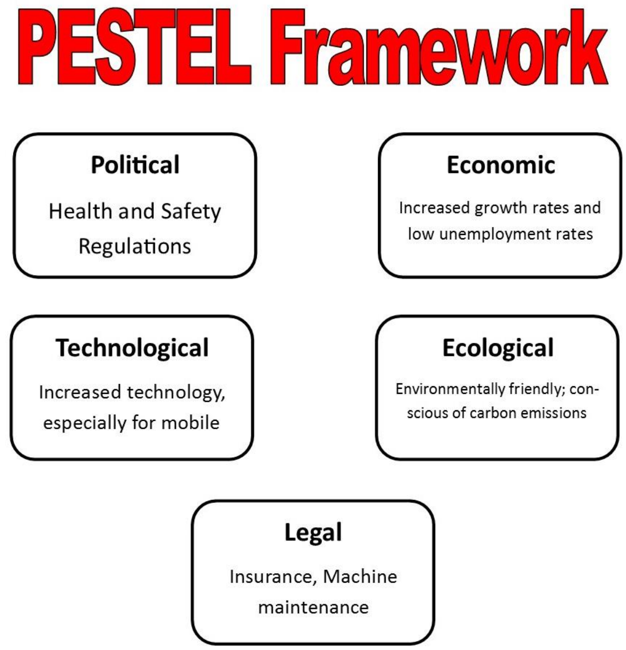
Strategic Planning

There are three main ways that a company can make a strategic plan; these include a top-down strategy, a scenario planning strategy, and a planned emergence strategy. LA Fitness has chosen a top-down strategy approach. The top-down strategy focuses company-wide decision making with the CEO, where they tend to rely on past data in order to predict and strategize for the future. It seems that there is little to no input from employees when it comes to making decisions to change any aspect of the business; executives decide and tell each branch how to implement the change properly. This allows LA Fitness to keep their goal of having every location look and function the same.

Business-Level Strategy

LA Fitness has chosen to pursue a differentiation strategy. This company offers products and services of most health clubs, but also many others that the competition does not. This includes things such as swimming pools, lap pools, racquetball courts and sports leagues (Wells, 2016). These unique services set LA Fitness apart from other health clubs in the industry. They have also chosen to not allow any franchising, which means that each gym is nearly identical (Wells, 2016). This makes them differ from the competition because customers can expect the same amenities no matter the location.

PESTEL Framework



The PESTEL Framework is a tool used for external analysis of the six main environmental factors that will impact the firm. These six factors are political, economic, sociocultural, technological, ecological, and legal. Each of these factors impacts the firms in the health and wellness industry, including LA Fitness.

The political environment has surrounding this industry has a high level of influence. There are many health and safety regulations that all gyms must follow in order to remain in business. They must keep their establishments clean and conduct regular machine maintenance. There are regular inspections that gyms must undergo and receive a rating to determine if they are meeting these set standards.

There are also many economic factors that impact the health and wellness industry. During 2016, the United States was finally beginning to bounce back from the great recession and develop a more sustainable economy. This resulted in increased growth rates, low unemployment rates, and changes in the cost of living and wages. The increased growth rates impacted this industry positively as they make it easier for firms to be able to expand and are likely to see increased revenues as a result. The low unemployment rates have a negative impact on this industry. It is more difficult to find employees with the qualifications needed; and applicants have other options available to them and desire significant perks to be swayed towards one company. Finally, there was an increase in the cost of living in many places as the economy recovered. This was then challenged because there was not a significant increase in wages. Therefore, people had less expendable income; this impacts the health and wellness industry because people began to look for the cheapest options or to shy away from formal gym memberships.

The sociocultural environment is comprised of demographics, norms, values and much more. The impactful sociocultural trend impacting the health and wellness industry is the desire to live healthier lifestyles. People are more likely to join a gym and have a regular membership as trends increase towards working out and remaining healthy. The demographics of the country are also changing, which impacts all industries. Within health and wellness, these companies need to make sure that they can accommodate as needed for differing cultures.

Technology is rapidly increasing in all industries, including the health and wellness industry. There are trends towards increasing technology in businesses, especially mobile technology. This impacts businesses because people have an expectation for technology adaptations. Within gyms, this may include being able to find classes and pay for their memberships through a mobile application. There may also be an expectation for machines to have the ability to connect to mobile phones for things such as integrating music or fitness apps.

Ecological factors involve how industries interact with and impacts the natural environment. There have been trends for all businesses to be more environmentally friendly and to reduce their carbon emissions. This would impact how businesses in the health and wellness industry run; specifically with saving resources such as water and electricity. By leaning towards this trend and making an effort to be more conscious of environmental impact, businesses in this industry are likely to be seen more positively by customers.

The final factor that influences the industry environment is legal. For the health and wellness industry, there are health and safety regulations that businesses must follow, insurance issues, regular machine maintenance, and proper training of staff members. Gyms are required to keep their establishments clean and safe in order to avoid the chance of illness or injury of customers. They must also properly train staff members on dealing with clients because of the personal nature of their roles; this would help in avoiding lawsuits from clients as well.

Porter's Five Forces

Michael Porter identified five forces that influence companies at the industry level. These forces are: 1) threat of entry, 2) the power of suppliers, 3) the power of buyers, 4) the threat of substitutes, and 5) rivalry amongst existing competitors. Investigating each of these forces and their impact on the health and wellness industry will offer insight into the positioning of LA Fitness within this industry.

The first force, threat of entry, is high for the health and wellness industry. There are a number of barriers to entry for any industry, but this industry is only impacted by three out of seven possibilities. The entry barriers that would prevent new companies are customer switching costs, capital requirements, and the threat of retaliation. Customers often sign agreements for yearly gym memberships and can have penalties associated with cancelling their membership early; this makes customers less likely to switch to a new company. There are also significant capital requirements associated with opening and running a gym. "Barriers to entry in urban markets include restrictive zoning laws, lengthy permit processes and a shortage of appropriate real estate. New entrants may also incur heavy costs when acquiring or leasing the required equipment for members and participants to use," (IBISWorld, 2018). There is also the threat of retaliation from existing businesses; these established competitors could easily initiate a price war in an attempt to drive the newcomer out of the industry. However, the other four potential barriers (economies of scale, network effects, advantages independent of size, and government policy) are not likely to deter a new entrant, which is why there is such a high threat.

Second, there is the power of suppliers, and the suppliers for this industry would mainly be exercise equipment manufacturers. For this industry, the bargaining power of suppliers is neutral to low. Health and wellness suppliers would have some power in terms of being able to transition into their own gyms and because their products may be somewhat differentiated. However, there are many different equipment manufacturers for gyms to choose from and there is often not high switching costs from one supplier to another. Additionally, these suppliers are heavily dependent on these gym sales for revenue as they are purchasing much more equipment than the average single consumer. Overall, suppliers in this industry are more dependent on the gyms they work with than the gyms are dependent on them.

The third force is the power of buyers. In the health and wellness industry, the overall power of buyers is high. The gyms are the buyers in this industry and they purchase large amounts of exercise equipment from each seller. This makes the seller more dependent on them, especially since there is little to no switching cost if a gym decides to work with another seller. Additionally, once a gym is large enough, they do have the potential to begin manufacturing their own exercise machines, if they so desire.

The threat of substitutes is the fourth force to consider, and for this industry, it is neutral to high. The viable substitute for this industry would be customers working out at home. There is no switching cost associated with this change, unless there is a fee for breaking a membership contract. It is also much cheaper than the traditional gym. However, this option is not one many people partake in because they want to be able to use the specific weights and machines to get the best workout. If consumers were to purchase this equipment themselves, they would suffer from a very high cost up-front. This is why this threat could be considered neutral or high, as there is an easy substitute available but it does not offer quite the same experience.

The fifth and final force is rivalry amongst existing competitors. In the health and wellness industry, the competition level is high. The competitive industry structure allows for high competition because there a lot of competitors, they can each establish their own prices (and possibly initiate a price war), and the barriers to entry are neutral to low. Price may be the biggest issue here, “Many operators rely on retaining and developing large membership rates to cover their operational costs. Operators also compete on the basis of price. For example, gym and health clubs that offer low initiation fees and monthly membership will attract first-time gym members in particular,” (IBISWorld, 2018). This industry is also growing very quickly as there are social trends towards healthier lifestyles. Businesses also have to make a strategic commitment when joining this industry because of the significant time and capital needed to begin. However, the overall exit barriers in this industry are low; for example, gyms can auction their equipment off to competitors when closing.

SWOT Analysis

The SWOT analysis looks at the company itself. This tool is used to analyze the strengths and weaknesses of the firm internally, as well as the external factors of opportunities and threats.

This analysis shows an overview of the company's competitive positioning and how they can improve.

Strengths	**Weaknesses**
1. Variety of amenities offered 2. Diversity of locations 3. Appeal to many age groups	1. Customer service skills 2. Pricing -- too high for many consumers
Opportunities	**Threats**
1. Expansion across North America	1. Large amounts of competitors 2. Potential for price wars

LA Fitness has three important strengths that help set them apart from their competitors. The first strength is their variety of amenities for customers. LA Fitness has set themselves apart by offering full sized basketball courts, racquetball courts, a variety of fitness classes, sports leagues, and several other amenities (Wells, 2016). This is much more than the average gym that may offer basic workout equipment and maybe a swimming pool. Also, since LA Fitness is not franchised, every club looks nearly identical and they all offer this large amount of extra amenities to members. Their second strength is their diversity of locations across the country. Their mission was to make every location easily accessible; for example, within the area of New York City there are four different gyms so customers never have to travel far for a workout (Wells, 2016). The third strength of LA Fitness is their appeal to many age groups. Their company policy allows children as young as twelve years old to utilize their gyms (with parent supervision). They also appeal to older age groups with their SilverSneakers program for seniors (Wells, 2016). These strengths have proven well for LA Fitness as they have been the leader in revenues for the past four years (2012-2016) (Wells, 2016).

While LA Fitness is performing well, there are still some weaknesses. The first weakness of LA Fitness is their customer service. There have been reports of inattentive staff members and mistreatment of guests, as well as a pushy sales mentality for membership signups (Wells, 2016). Their pricing could also been seen as a weakness. LA Fitness is in the middle of the range of gym prices with initial membership fees being between $149-249 and monthly rates between $29.99-49.99 (Wells, 2016). This means that while they are affordable to many customers, there are many more that would not even consider this fitness chain because of the price.

The most significant opportunity for LA Fitness to take advantage of is expansion across the United States. They currently have over six-hundred locations, but they are not in every state. LA Fitness is currently in twenty-four out of fifty states, neglecting most of the mid-west region. Therefore there is a large potential for expansion into these markets in the future.

The two biggest threats facing LA Fitness are the large amount of competitors and the high potential for price wars. This industry has several large competitors such as 24 Hour Fitness and LifeTime Total Fitness that are very close to the amount of revenues LA Fitness generates each year. Additionally, since these competitors are highly profitable, they can easily initiate price wars. This is a viable threat because customers are drawn to a better deal and may be likely to switch gyms in order to save money, especially because LA Fitness is a medium priced business.

VRIO Analysis

The VRIO framework is a tool that can help determine if a company has achieved a sustainable competitive advantage. In the VRIO analysis, there are four questions that need to be answered in order to determine competitive standing. 1) Is the resource, capability, or competency Valuable? 2) Is the resource, capability, or competency Rare? 3) Is the resource, capability, or competency costly to Imitate? 4) Is the firm Organized to capture value? (Rothaermel, 2013). In the case of LA Fitness, we will be looking at their main resource of their physical locations/gyms.

The gyms that LA Fitness runs are highly valuable. They are almost the entirety of the business and have thousands of dollars-worth of equipment and supplies in each one. This resource is not rare; there are thousands of fitness centers in every city and many are comparable to LA Fitness. Are these gyms costly imitate: yes. There are high levels of capital needed to open a gym, especially one that has as many additional amenities as LA Fitness gyms. Finally, the firm is organized to capture value. They create deals to draw in new customers which helps to fund their upkeep and operating costs. These answers determine that LA Fitness is currently situated at a temporary competitive advantage. They will need to make changes in order to become a rarity in order to achieve the sustained competitive advantage.

Value-Chain Analysis

The value-chain analysis is a tool used to investigate the activities of a company and determine what areas they are doing well in, and what areas need to be fixed. Within the value chain of a company, there are primary activities and support activities. Each of these areas can have either a positive or negative impact on the overall margins of the firm.

The primary activities of a firm “add value directly as the firm transforms inputs into outputs” (Rothaermel, 2013). These include supply chain management, operations, distribution, marketing & sales, and after sales service. Supply chain management, operations, and distribution seem to have positive impacts of the margins of LA Fitness. For this firm, these processes would be mostly involved when building new gyms and bringing in equipment or other supplies. Based on the rapid expansion of the company in the early 2000s, one can assume that it is a smooth system within the supply chain. However, marketing and sales have been negative for the firm. Their marketing technique has remained mainly as a word-of-mouth campaign which is cost effective but not the best way to reach the most consumers. Additionally, customers have reported feeling that the company is very sales focused and can be pushy about getting membership commitments (Wells, 2016). These activities are creating negative public feelings towards the company, thus detracting from their overall margins. Finally, the after sales service is negatively impacting margins as well. The company used to be more focused on maintaining current members, but has seemingly switched to focusing on attracting new customers (Wells, 2016). With this switch in strategy, members have noticed a lack of service from employees after they sign a membership contract (Wells, 2016). Three primary activities have positive impacts while only two are negative, these activities are increasing margins overall.

There are also support activities within a firm that add value indirectly. These include research & development, information systems, human resources, and accounting & finance. The research and development within LA Fitness is causing a negative impact on their margins. They have been relying on past data and making assumptions, rather than conducting new research to find out exactly what their customers want. However, the three remaining support activities are causing a positive impact on the margins. As for information systems, they are working towards integrating more systems in order to keep track of the customers, including email lists and mobile application profiles. LA Fitness has also chosen to only accept credit card payments for membership fees, allowing them to have a more automated system to keep track of membership fees (Wells, 2016). The human resources department has seen some issues, specifically with employees being involved in lawsuits, but they are overall positive. This is because the human resources department retains a high number of employees for the firm and has begun outsourcing some of the training for personal trainers to become certified (Wells, 2016). Finally, the accounting and finance departments are difficult to understand fully because there are no officially published documents. However, based on the estimated revenues of the company, it seems that these areas are having a positive impact. The support activities for LA Fitness have an overall positive impact on margins for the firm.

Part II: Recommendations

LA Fitness currently has a temporary competitive advantage in the health and wellness industry. While they have been doing very well, there is always room for improvement. LA Fitness could make six changes in order to move to a sustained competitive advantage and increase their corporate strategy overall. These six changes include 1) adding longer hours of operation, 2) improved communication with customers, 3) customer service training for employees, 4) creating a new marketing campaign, 5) expansion throughout the United States and Canada, and 6) adjust current debt levels.

Adding longer hours of operation would make LA Fitness more comparable to their biggest competitor, 24 Hour Fitness. While being open twenty-four hours may not be sustainable for LA Fitness, they could expand their hours in order to appeal to more customers. This may not need to be a change for every location, but possibly a choice for each one. They can look at the demographics within each location and determine if it is worth it to be open longer. This change would allow customers with an a-typical schedule to be able to choose LA Fitness for their gym membership.

Communicating with customers is a great way to help build loyalty. In the case of LA Fitness, they should be more open about some of their operational decisions and how those benefit the firm, and therefore the customers. An example of this would be the lack of towel service. This is something that customers have viewed as a standard from gyms and they can be frustrated when LA Fitness does not offer this. However, the company can explain how costly towel service is and that the decision not to have it benefits the customers through lower prices. Seemingly small issues can be explained easily, which makes the customers much less critical of the firm.

Customer service is a huge part of the business. Employees not only work to sell memberships, but also to assist current members as well. There have been customer complaints stating that the salespeople make the customers feel as if they do not have a choice but to sign up that very day (Wells, 2016). This nature of selling can be effective but it does not make the customer feel very welcomed and cared for when joining the club. Additionally, there have been complaints and even lawsuits about how employees have treated customers (Wells, 2016). Formal customer service training for every employee would be beneficial. There would be less complaints and therefore more people are likely to speak positively of LA Fitness overall.

The current marketing campaign for LA Fitness relies mainly on word-of-mouth. While this can work for a while, it is limited and may cause the exclusion of some customer segments. Creating more advertising, such as commercials or even a flier campaign, can help the firm reach new customer segments. A more intense marketing campaign will bring in more members and can assist in growing the market share for the firm.

Expansion throughout the United States and Canada would be highly beneficial to LA Fitness. They are currently only located in twenty-four out of fifty states and only two cities in Canada. There is a lot of room for this business to grow and expand. They can integrate into different markets across the country, which will help sustain them as an industry leader.

My final recommendation for LA Fitness would be to adjust their current debt ratios. The firm has relied heavily on investors for many of their expansions and acquisitions. While this an effective financing method, they have less freedom in how they choose to spend this money. The firm should look at first repaying debts and then moving towards a more independent finance structure. This would allow the company more decision making power overall.

LA Fitness is a very strong competitor within the health and wellness industry. They have an effective business model and appeal to their thousands of members across the country. However, these six recommended changes would allow the firm to become the top industry leader and to have a sustained competitive advantage.

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