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VIRGIN ACTIVE:
GLOBAL EXPANSION THROUGH LOCAL INSIGHT

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April 2016
Jacqui Walter, Head of Customer Experience of Virgin Active South Africa, had just received high praise for her successful efforts to turn Virgin RED into a consumer-centric growth engine in South Africa. In addition to this praise, however, new majority share owner Brait SE had also given Walter a tall task – do the same in Asia Pacific. Driving to the airport to catch a flight to Singapore, she pondered this new challenge with equal parts excitement and apprehension: How could she launch a gym targeted at Asia’s growing middle class? Which countries present the largest opportunity? Are the Asia Pacific markets ready for a new kind of gym? Boarding the flight, Jacqui began a mental checklist of the myriad factors that she would need to consider in order to steer her management team and business’ growth strategy in this new frontier.

**Virgin Active & Brait SE**

The Virgin brand was created in 1970, when 20-year-old Richard Branson launched Virgin Mail Order, a discount record delivery service. Branson originally created Virgin Mail Order to fund a magazine that he was operating at the time, but its success led him to expand by opening a record shop in London, and later a recording studio in Oxfordshire, England. With the recording studio, Branson was able to create Virgin Records, signing notable artists such as Mike Oldfield and the Sex Pistols. As these artists released hit and hit throughout the 1970’s, the Virgin brand grew and Branson amassed enough wealth to invest in a variety of business ventures. By the early 1980’s, The Virgin Group was born.

Today, The Virgin Group is an international venture capital conglomerate with investments in over 200 companies in industries ranging from travel to mobile telephony to entertainment. Notable ventures include airline Virgin Atlantic, wireless communications company Virgin Mobile, financial services company Virgin Money, and, most recently, commercial spaceflight company Virgin Galactic. The Virgin Group employs 50,000 people in more than 50 countries around the world, and was recently valued between $5.5-6.2 billion.

In 1999, the Virgin Group launched Virgin Active, an international health club and fitness company. Starting with a single club in the UK, Virgin Active has since expanded to 272 clubs in 9 countries. Boasting membership of 1.3 million, company revenues eclipsed $1.05 billion in 2014. This growth was achieved through successful customer-focused campaigns and strategic acquisitions. The company’s acquisition strategy focused mostly on South Africa, the UK, and Italy. Throughout the 2000’s, Virgin Active acquired competitors such as South Africa’s Health and Racquet Club, the UK’s Holmes Place, and the UK’s Esporta. These acquisitions have enabled Virgin Active to become the biggest health club chain by revenue in the UK and Italy, and a self-proclaimed “clear No.1” in South Africa, where it now has 114 outlets.

In April of 2015, South African Investment firm Brait SE bought an 80% stake in Virgin Active for $773 million, valuing the company at $1.47 billion. Brait decided to keep the original management team at the helm of Virgin Active. CEO of Virgin Active Paul Woolf stated that:

*The Virgin Active management team’s* investment strategy is to build businesses of scale and *that* this sometimes means accessing external capital to build them further through sales of stakes to partners or through the public markets.

In 2015, with newly available funds from Brait and a successful business in Africa and Europe, Virgin Active turned its attention to expanding into Asia Pacific. Virgin had entered Singapore in late 2013 with one high-end gym and Thailand in 2014 with three high-end gyms. With these two beachhead positions in place, the company was ready to grow.
Health and Fitness Industry

The health and fitness industry has evolved over time to accommodate consumer trends, paying close attention to behavioral economics. This evolution has resulted in diverse innovations to attract different types of gym-goers. The casual gym-goer is attracted by gyms that look more like hotel lobbies and feature services such as juice bars and spas. Many of these gyms have a cross-subsidization business model that assumes most members will not show up. More serious gym-goers are now more likely to use niche services such as CrossFit or SoulCycle, which create a strong sense of community through group fitness classes and are more expensive to join.

Another trend has been the rise of low-cost gym models, such as Blink and Planet Fitness. These gyms pride themselves on offering a low price point through a no-frills model with few employees, 24-hour accessibility, and no group classes. These gyms use effective real estate, ensuring their branches are strategically located in high traffic areas, and have the benefit of scale to enable expansion. To date, these gyms have seen strong results, with Planet Fitness posting revenue growing at a 32% CAGR, and Blink planning to open 300 new locations by 2020 through a franchised business model.

Virgin RED: A Tool for Entry

Virgin Active’s success has been driven by a keen focus on market research and customer segmentation. To drive membership across socioeconomic classes, Virgin Active offers three unique gym experiences. The Classic Collection includes high-end luxury centers with spas and health food cafes to target individuals with high-income levels. Virgin Active’s second format, the Life Center, is a medium-tier offering with standard features such as gym equipment, a pool and full locker rooms. In 2014, Virgin Active launched its third format, Virgin RED, in South Africa. Virgin RED targets lower-income individuals and includes workout equipment and drop-and-go locker rooms. This tiered structure allows Virgin to offer price points and gym features that appeal to customer segments of varying socioeconomic status.

Virgin Active has capitalized on these fitness industry trends to expand its model effectively in South Africa. It has an established brand attracting the casual gym-goer with Virgin Active, which targets high income and high traffic areas. This is the same model that is used in the UK for Virgin Active, and has proved successful with strong expansion. In 2015, the company also launched a new line of gyms, Virgin RED, capitalizing on the growth of the South African middle class and their desire for accessible gyms. This is driven by two key trends: a large and growing middle class, and a high obesity rate. At 12.3 million people, South Africa has the second largest middle class population in sub-Saharan Africa in absolute terms (after Nigeria), but the largest in proportion to the total population, and it is expected to grow at a 2% CAGR over the next 10 years. This rise in a middle class lifestyle has been accompanied by a rapid increase in obesity rates in South Africa, with 61% of South African’s now considered overweight or obese by the South African Medical Research Council. Businesses have been keen to capitalize on the urgent need to get South Africans healthy, with a popular insurance program, Discovery, providing discounts for many health-focused services and products.

In response to this need, Virgin RED created a low-cost gym model similar to the Planet Fitness and Blink models in the United States, which costs R199 ($13USD) a month, as compared to the Virgin Active fee of R670 ($44USD). This low cost is possible due to a no frills approach to the Virgin Active experience. The RED locations feature a “Grid” system that makes it easy for people to direct their own workouts, providing detailed instructions at machines, instructional videos instead of personal trainers, and video-led classes. These cost-efficient tools are combined with quality locker rooms and free wifi to provide an overall positive workout experience. These Virgin RED gyms are strategically located in growing suburb and urban areas with a higher concentration of middle class South Africans. Belonging to
a gym has become an aspirational token of middle class life for many South Africans, and Virgin RED is able to offer an affordable and quality proposal for these customers.

The early results of these gyms show a great success, with the first two locations in Soweto quickly becoming the most successful in the Virgin Active South Africa portfolio. The development of this model has been enabled by the Brait acquisition, which has provided Virgin Active the needed capital to invest in these new gyms and expand further, with two more RED gyms expected in 2016.

**Asia Pacific: The Next Frontier**

The current boom in the fitness and weight loss industry is attributable to a number of recent trends in the Asia Pacific region. As was the case in South Africa, the most significant of those trends has been the steady growth of the middle class. With greater disposable income, an increasing number of people are choosing to join a gym. Gyms have also benefited from the recent rise in obesity, which is now growing at a rate comparable to that of the US and the UK. Finally, widespread pollution is having significant negative health effects on the population, further incentivizing positive lifestyle changes. This convergence of factors is driving demand in the region, with some speculating that the industry could grow by nearly 13% in the next year.

**The Middle Class Boom in Asia**

In 2009 the middle class included 1.8 billion people with the highest number of middle class individuals residing in Europe (664 million), Asia (525 million), and North America (338 million). The size of the global middle class will continue to expand, with the majority of growth coming from the Asia Pacific region. It is estimated that by 2030, Asia will represent 66% of the global middle class population and be responsible for 59% of middle class consumption. Considering the emerging middle class in the Asia-Pacific market, Virgin Active looked to expand in the following countries: South Korea, Singapore, Vietnam, Indonesia and Thailand.

**South Korea and Singapore: High Income Countries**

In South Korea, middle class families accounted for 67.1% of the population in 2013. Though GDP has nearly tripled over the past few decades, real wages have risen at less than half that rate, and some households are trapped by slow income growth and increased expenditures. Slowing growth in China, South Korea’s biggest export market, has also taken a toll on South Korean industrial output. On top of this, South Korea has a growing aging population, with forecasts showing that 38% of the population will be elderly by 2050.

Singapore is ranked as one of the most pro-business and open economies in the world. However, the economy expanded by only 2% in 2015, the weakest performance since 2009 when the country was hit by the global financial crisis. Singapore’s economy was negatively affected by the slowdown in the Chinese economy and has had slow growth in its manufacturing sector. Despite this, the nation continues to aspire to be Southeast Asia’s leading financial and high tech hub.

**Thailand: Upper Middle Income**

Thailand has historically had a strong economy, but has experienced sluggish growth in more recent years. Following the May 2014 coup d’état, tourism decreased by approximately 7%. The economy is still struggling to reestablish its previous rate of growth and ongoing political uncertainty has plagued the country. The country has well-developed infrastructure and pro-investment policies.

**Vietnam and Indonesia: Lower Middle Income Countries**

Since Vietnam joined the World Trade Organization in 2007, its exports and investment have driven economic growth. Vietnamese consumers are incredibly family-oriented and are also active
Internet users. It is estimated that by 2020 Vietnam’s middle class will be two-thirds the size of Thailand’s middle class.\textsuperscript{xiii} However, corruption and inflation remain a challenge for the country.

29% of Indonesians are considered middle class and this is expected to double by 2020.\textsuperscript{xviii} Indonesia still struggles with poverty, unemployment, inadequate infrastructure and corruption, but is also said to have some of the most confident consumers. Individuals are very focused on family and education.

**Consumer Insights**

Mobile technology has remarkably high penetration in Asia Pacific; four of the top five countries that spend the most time looking at screens are in the region.\textsuperscript{xxix} In response to this trend, a number of fitness-related apps have been developed, such as Jaha, KFit, Class Cruiser, and Guavapass. Some of these applications provide users with real time information about nearby group fitness classes while others operate as a Tinder for fitness, allowing users to view others’ profiles to find a workout buddy.

As evidenced by the types of apps that have been developed, fitness is a highly social activity in the Asia Pacific region. A majority of the population prefers group exercise and structured classes to independent workouts. Gyms in the region have accommodated these preferences by offering a wide variety of classes and employing a large number of highly trained fitness professionals to lead them.

Although some gyms have experienced success by offering classes, exercising in public spaces has long been a regional trend and it remains very popular today. This is evidenced by the fact that only 5% of the Asian population has a gym membership, compared to 15% and 30% in Europe and the United States, respectfully\textsuperscript{xix}. This trend is largely a function of limited real estate for gyms, especially affordable real estate, in urban areas of big cities. A study by INTAGE Co., Ltd. showed that convenience is the number one priority for people in the region when choosing a gym, which makes real estate an especially significant obstacle for gym chains as they attempt to expand.\textsuperscript{xx} According to the same study, price is not a significant deterrent for the Asian population, with most people willing to pay a high price so long as the location and offerings meet their needs.

**Competitive Environment**

Virgin Active is not the first chain of gyms to see the potential value in the Asia Pacific market. In Thailand alone, there already exist 480 gym operators.\textsuperscript{xiii} Most chains, however, have struggled to achieve scale due to the region’s real estate constraints. Instead, most locations are small, independent operators who offer a limited number of specialized services for particular segments of the population. The exception to this trend is Fitness First, a gym chain with nearly 100 gyms in the region and plans to open 27 more, primarily in the fast-growing markets of Thailand and Singapore, by the end of 2016.\textsuperscript{xiii} The success of Fitness First has been built around “freestyle group training,” which provides customers with structured group workouts that require little time - both critical factors for gym-goers in the region.

**Virgin Active’s Decision**

As Jacqui got on the treadmill at her Singapore hotel’s gym, she began to brainstorm a business model that would be tailored to the Asia Pacific market, just as the Virgin RED model was tailored to South Africa. Which countries and regions should be prioritized? What are the most important economic and cultural trends to consider? How could Virgin Active differentiate itself from the competition? Jacqui knew that finding answers to these questions would not be easy. But she also knew that they would ultimately determine the success of the brand that she had worked so hard to build.
Appendix

Virgin Group Investments

Location and Concentration of Virgin Active Gyms

Source: Virgin Active Website
Virgin Active and Virgin RED in South Africa

Virgin Active (child care facilities and swimming pool)

Virgin RED (High capacity and video-led classes)

Source: Virgin Active South Africa. www.virginactive.co.za
Asia Pacific Demographic Indicators

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<th>GDP</th>
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<th>Poverty Rate</th>
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<td>Indonesia</td>
<td>$2.839 trillion</td>
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<td>11.3%</td>
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Source: CIA World Factbook

Global Middle Class Consumption

Source: OECD
Mobile Fitness Apps in Asia-Pacific

**Jaha** is a fun, free location-based app that helps you meet people nearby interested in the same fitness or sporting activities as you.

**KFit** is your guide to a more active and exciting lifestyle. Discover new things and plan your day by browsing thousands of curated fitness, beauty and wellness activities in your city. Zoom into what’s happening nearby -- from yoga to sweat spas, manicures to hairdos, massages to acupuncture treatments. With handy features like filters, immediate confirmation and cashless payments it’s never been so simple to plan your day.

**ClassCruiser** is a new kind of gym membership that grants you access to hundreds of different classes at studios and gyms in Hong Kong.

**GuavaPass** is a healthy-living app with all-day schedules of exciting and unique group exercise classes at premium boutique fitness studios and access to expert partners in the health and wellness space across Asia and the Middle East.
Fitness Industry Valuation

Fitness First Vision in Asia Pacific


Ibid.

Virgin Active Singapore

Virgin Active Thailand


Ibid.