

Abstract

Why Fitness first can grow rapidly comparing to competitors in term of number of club and member? Today, Fitness first is the number one position in industry. It is important to know the theory and factor behind Fitness first success and what factors distinguish it from competitor. In order to answer the research question, many documents has been studied and applied with the industry. However, to obtain data, since Fitness first and main competitors are not listed in the stock market, the data is not available for public. Thereby, the data in this research is obtained from the news which Mark Buchanan, Fitness First's CEO, had been interviewed instead. It takes a lot effort collect group of data of Fitness first and main competitors to create the growth pattern of these companies. Many related documents point out that it is about managing service quality. The study found that introducing multi-club membership offer positive effect in term of benefit of members to increasing in number of member and club. On the other hand, increasing number of members has negative effect to benefit of members for single-club membership. Moreover, firm has to increase number of club continuously to support increase number of member, increase benefit to member that lead to new member joining the club and repurchasing membership decision of current member, and send the signaling to member about service quality which can be perceived by growth rate. For contribution, firm can use this research to enhance the competitiveness and growth potential of firm and improve higher service quality to member sustainably. Managing Fitness club is not the same as other firm. Increase only sale is not the good way to grow the company. Firm may consider changing policy to improve growth potential of company.

Introduction

There is significantly increasing in interest of taking care of health in the past decade. People have more money and focus more on health. It is no longer convenience to go to the park for running often because of busy living in the city. So, fitness center solve this unmet need and changing in lifestyle trend. This decade, fitness center can be found everywhere such as at almost every department store, every street, every Housing estate, and even in office but most of it is cheap, small, and non-competitive. Even though there is plenty of fitness centers everywhere, the supply still never meet demand. After California wow, which is the first large size fitness club in Thailand, come in, cause people more interesting in taking care their health. This cause large growth in fitness industry and lead the dramatically increasing the number of fitness center enter the market. According to Fernquest (2011), there are 1,011 fitness centers with 546,000 members in Thailand, including those opened in hotels and golf clubs. This increase from 800 club and 260,000 of member in 2006, data from IHRSA Asia pacific market report: the size and scope of health club industry (2006). Market size increased from 0.6% to 1% of Thai people. This shows that there is a lot of room to grow this industry, only 1 percent of Thai people are member of fitness center, comparing to the west where 15-25% is member. In 2014, the size of fitness industry in Thailand is 7,000 million baht per year increasing from 4,800 million baht in 2012 and grows at 10-20%. Because of dramatically increasing in demand from healthy lifestyle, it attracts many oversea firms to invest in Thailand.

In the past, there were 2 large size fitness center firms dominated the market which is Fitness First and California wow xperience. California wow xperience was number one. Both firm is international firm with well organize and full of experience. California had 55% market share and had 10 branches while Fitness first had 40% market share and had 15 branches. In

2012, California wow shutdown the business. In 2013, WE Fitness entered the market and opened 4 branches in California wow's locations. True fitness has only 3 branches. In 2014, Fitness first operates 26 branches and plan to expand more in the future.

The interesting question is the “why firm like Fitness first can grow that big and dominate market while other firm is small?” Many fitness centers are small and the price is low while those big firms continue to expand their branches and increase their sale. This paper tries to answer this question. The reason to choose the case of Fitness First is that Fitness First is the biggest firm in the industry who has the most number of branches and member in Thailand.

Literature Review

According to Samuelson (1954), pure private good is a good that consumption is rival and excludable and pure public good is a good that consumption is non-rival and cannot be excludable. In “an economic theory of clubs”, Buchanan (1965)'s work explain the club good to bridge the gap between pure private good and pure public good. He defines “club good” as a good that individual who do not pay for the club can be excluded and club good is rival in form of congestion. Congestion is very important to determine the club optimal size. Buchanan (1965) explain that new member continue to join club until the marginal benefit from additional membership is equal to marginal cost. Additional member joining the club will impose negative externality in form of crowding and this reduces benefit to other member. The membership cost has to be optimal, if the cost is too low, the club will be too crowded and this reduces quality of utilize the club to other member. When club's membership has reached its optimal size, the club has to expand to supplying more members. But if the club keep increase a number of member, the club has to expand its size to avoid the congestion problem.

In case of California wow, it charged very low price for life time membership where the member pay very little amount only one time and be the permanent member at the club. Moreover, some membership's types gave privilege to member to bring a friend who is not member to workout at gym. For monthly membership, the cost is half of its competitor. This attracts huge amount people to join the club. Until a point where the club's population is too crowd, people stop join the club. In 2006, there are 150,000 members for 10 branches. The club cannot make more money but have to expand more branches to increase capacity to supply more members to continue make money and reduce congestion problem but the company chose to die.

The economic function of firm is to acquiring and organizing human and other resources in order to make profit from supplying good and service to the market, Penrose. For fitness center, its product is service (California wow annual report, 2008). In order to determine how the fitness first expands so rapidly, service quality is needed to be considering as the factor that cause the firm's growth. Services are economic activities that create value and provide benefits for customers at specific times and places, as a result of bringing about a desired change in-or on behalf of-the recipient of the service (Christopher Lovelock, 1999). High service quality has effect on customer's satisfaction and led to customer loyalty. And customer loyalty led to repurchasing the service (Lim, 2006). For fitness first, its income rely mainly on current member and second is to attract new customer to grow the firm. Thus, improving service quality is the key to gain loyalty to maintain number of current member. High service quality also creates positive word-of-mouth and led to increasing in new customers. For word-of-mouth, dissatisfying customer told approximately nine to ten people about negative experience, (Sonnenberg, 1989). So, it is very important to provide high service quality to avoid negative

word-of-mouth which led to decrease number of new customer and may influent repurchasing decision of other (Lim, 2006).

How can we determine the level of service quality? Customers are not perfect information processors (Monroe and Krishnan, 1985). And market is imperfect information about service quality (Caminal and Vives, 1996). So, there must be the signal of service quality to consumer. Higher price signal the higher quality (Scitovsky, 1954). Even through the price play the important role to signal the service quality as higher is better, consumer pay attention to market share as signaling of quality more. For fitness center industry, customers are not price sensitivity; they are willing to pay more for the higher service quality (Kamalasuddhi, Lomprakhon, and Angsuvirojkul, n.d.). So, consumers prefer using market share as a signal to tell the quality of service (Katz and Shapiro, 1985). Market share provide a positive signal of quality (Caminal and Vives, 1996). For example, customer choose restaurant by selecting crowding restaurant rather than empty one because crowding one's service and food quality must be. Another example is that many brands advertise their brand and product as bestselling in any country like Cosmetic that has the number-one-selling in the Korea to signal the high quality to consumer. The simply logic is that the product and service that a lot people consume it must has high quality, if not, why do they consume it. Moreover, if restaurant increase its branch, consumer will perceive that the food and service is high quality. For firm view, there must be enough demand to support the expanding of the firm. So, large market share or share growth can be signal of high product or service quality (Hellofs and Jacobson, 1999). Large market share also create positive network externality (Katz and Shapiro, 1985). The utility that a consumer derive on consuming service depend on the number of member who also consuming it. Increasing in number of market share increase the size of network and lead to increase in utility

of exist consumer. Higher market share can provide consumer greater accessibility and convenience (Hellofs and Jacobson, 1999). For example, the more consumer use service of the bank, the more ATM available to serve more people, exist consumer also gain benefit from nearer location. For fitness center, increase in number of member lead to increase the number of Branches to support the rise in number of people using service. Exist member also gain benefit from accessibility when travel and from location nearer his or her home. There is indirect effect of positive network externality. For example, individual who is making decision buying video game platform will concern about number people using it because the amount and variety of games depend on the market share of that video game platform. Another example is that there is more application and accessory for Apple than competitor because there are people using Apple product more than competitor, this cause by attracting other firm to invest in this network. Exist consumer gain benefit from more application and accessory. Furthermore, increase in number of people using same product can lead to bandwagon effect where consumer derive benefit from how many people using it as the popular product or trend and fashion. In this case, customers perceive quality by aggregate demand. But in some product, increase in people using the same product can lead to loss of exclusivity. The example is luxury brand name good where it represents status symbol. On another hand, there is negative effect. Increase in market share can lead to decrease in service quality (Hellofs and Jacobson, 1999). This is because the resources or capacity are constrain. The increase in number of people using same mobile network can decrease the level of signal quality due to too much people using it. For restaurant, the reason is that it is hard to serve more people, so the service quality decrease. In case of fitness center, if the capacity is fixed, increase in number of member will decrease the benefit that exist member can derive cause by over utilize it. This increase congestion cost to member.

Improving service quality shifts the demand curve. Firm can choose to increase market share by selling more or increase the price or both depend on how much price charged more (Hellefoss and Jacobson, 1999). This is because when improving service quality, consumer gains more benefit from utilize higher quality service such as new fitness equipment, new training program, more branches, and everything that firm put money in which lead to increase benefit to exist member. For example, Fitness first invests 450 million baht rebranding (Mark Elliot Buchanan Managing director of Fitness First Thailand, 2014). This includes improving facility, equipment, and introduce training program created by Buakaew, using more technology to improve workout progress, and increase number of class member can join. Another example is that Fitness first invests 500 million baht to open 4 new clubs in 2015 and expect the growth of 23% (Mark Elliot Buchanan Managing director of Fitness First Thailand, 2014).

Definition of term

- **Fitness industry or health club industry** is a place which houses exercise equipment for the purpose of physical exercise. It can be categorize in to 4 types: mega club, Multi-Sport Center, Fitness center, and niche club, California wow annual report (2006).
 1. Mega Club, a large-sized gym complex with expansive cost of membership, offers both indoor and outdoor sports, restaurant, and spa. Examples of this type of club are the Royal Bangkok Sports Club and Ratchapreuk Sports Club.
 2. Multi-Sports Center is a medium-sized gym locating mostly in the large hotels or office buildings where some types of outdoor and indoor sports

are offered. Cost of membership is high. Examples of this type is Sports City

3. Fitness Center is a small-sized gym locating in the office buildings, hotels and department stores to provide highest convenient to consumer. Cost of membership is low. Examples of this type are Fitness First, True Fitness, Clark Hatch and California WOW Xperience

4. Niche Club is the club that offers specific exercise and weight control programs. Examples of this type are Body Shape, Phillip Wein, Marie France Body Line

- **Single-club membership** is the type of membership that member can join only one club that member choose to sign contract with for as long as contract life. Willing to change of club may cost the fee.
- **Multi-club membership** is the type of membership that member can join many company's club according to the type of membership and contract. This is because some club may available to more exclusive type of membership.

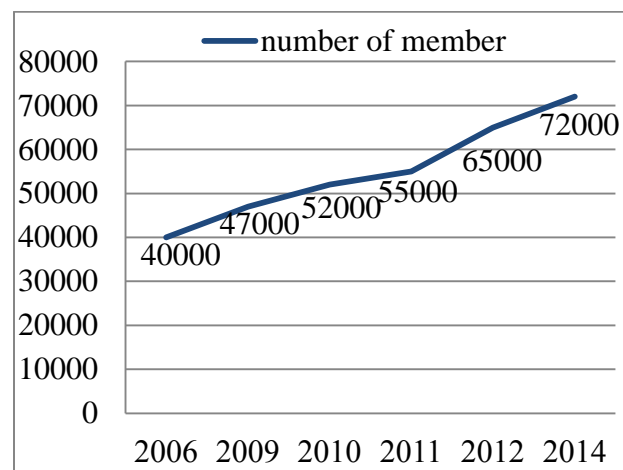
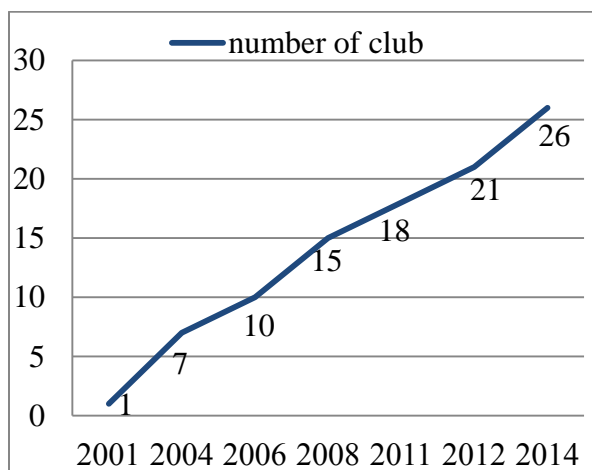
Objective

- To study the factor and theory that cause the club to expand the size
- To study why Fitness first can dominate market and grow rapidly

Fitness First Thailand overview

Fitness First is the British company operating worldwide with over 1 million members and 370 Fitness First clubs in 16 countries and is the largest privately health club group company in the world (Fitness First official website, 2014). Fitness First is also the largest health club group company in Asia operating in 7 countries. Thailand has the highest growth potential among Asian countries (Simon Flint CEO of Fitness First Asia, 2013).

Fitness First enters Thailand and operate first club in 2001. In 2014, there is 26 clubs with 72,000 members (Fitness First official website, 2014). Area per club is 600-3,000 sq. meter. Fitness First expands 2-3 clubs every year and grows at rate 10-20% per year (Mark Elliot Buchanan Managing director of Fitness First Thailand, 2014). In 2014, Fitness First offer multi-club membership which cost 2,100 per month and platinum membership which can also join platinum clubs which is more exclusive and less congestion that cost approximately 500 baht per month more (Fitness First, 2014).



Sources: Mark Elliot Buchanan managing director of Fitness First Thailand interviewing

In 2014, the main competitor is True Fitness and We Fitness. True Fitness offer single-club membership and the cost of membership in 2014 are 1,900 per month which is slightly lower than Fitness First's. True Fitness enters Thailand and officially operates first club in 2006 and operates 3 clubs in 2014 (True Fitness official website, 2014). In 2012, it had 26,000 members for fitness center and another 10,000 members for spa and plan to increase 4 more clubs in the future (Patrick Wee CEO of True Fitness, 2012)

We Fitness just enter the market in 2013 and open 4 clubs in that year. In 2014, it operates 6 clubs and will expand to 8 clubs in 2015 (We Fitness official website, 2014). The number of member is still very little because it just enters market in a few years. It is very new to market. We fitness currently do branding and marketing to attract new member. It is generally located in the old area of California wow club. The price of membership is cheaper than Fitness First and True Fitness which is 1,600 baht per month. The membership is currently single-club membership and may also offer multi-club membership in the future (We Fitness, 2014).

Methodology

To get the answer of the research question, many documents has been studied and applied with the industry. However, to obtain data, since Fitness first and main competitors are not listed in the stock market, the data is not available for public. So, the data in this research is obtained from the mostly news which Mark Elliot Buchanan Managing director of Fitness First Thailand had been interviewed instead. The group of data of Fitness first and main competitors has been collected to create the growth pattern of these companies and other data that is important to analyze to get answer.

Consumer view

Theory of club

- New member will join the club when benefit > cost
- Optimal size of member is when benefit = cost

Service quality

Asymmetric information (signaling)

- Aggregate demand(number of member)
- Grow in market share(increase in club and number of member)

Benefit:

- Derive from utilizing service
- location, convenient, and accessibility(reduce Traveling cost)
- Network externality

$$r + v(y_i^e) - p_i$$

r is the willingness to pay of consumer derive from benefit he or she expect to get

$v(y_i^e)$ is the value he or she attaches when number of member is y

p_i is the price of membership

Cost:

- Congest cost, decision cost
- Cost of membership
- Risk of changing workplace or living place

Firm view

Theory of club

- New member will join the club when $\text{benefit} > \text{cost}$
- Optimal size of member is when $\text{benefit} = \text{cost}$

Service quality

- Improving service quality increase the benefit and lead to shift demand curve

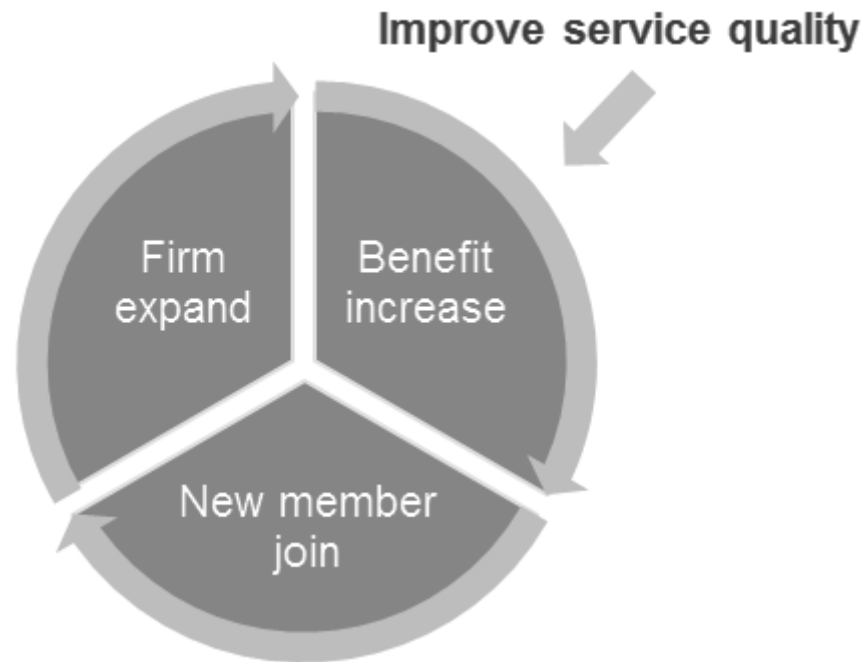
Expand the club

- Firm will expand the club when increasing in number of member creates negative network externality to exist member.
- Expand the club lead to increase benefit as accessibility, convenient, reduce travel time and cost, and flexibility of individual schedule.

Assumption: Consumer is rational

Benefit	Cost
<ul style="list-style-type: none">• Derive from utilizing service• service quality	<ul style="list-style-type: none">• cost of membership
<ul style="list-style-type: none">• Location, reduce Traveling cost• Convenient and accessibility	<ul style="list-style-type: none">• Congest cost• decision cost
<ul style="list-style-type: none">• Positive Network externality• Derive from number of member	<ul style="list-style-type: none">• Risk of changing working place or living place

Result



There are 2 factors that lead to Increase in size of the club. First, Fitness first keep improving service quality by renovate, introduce new training program, everything that the firm put money in to increase the benefit of exist member. Improving service quality shift the demand curve, benefit increase. This attract new consumer to join the club. The another effect is that when new member join, until optimal size of number of member, exist member gain more benefit due to increase in number of clubs as positive network externality. So, these two forces increase benefit to member that lead new consumer to join the club continuously.

Increasing the number of club increase benefit by reduces travel and congestion cost and member can access to more variety of club. The more number of members, the more clubs the firm need to expand to increase the capacity. Thus, benefit of member can also derive from number of member. So, benefit of member keep increasing as number of member increase.

Consumer choose to join Fitness First because consumer perceive that the benefit from being the member of Fitness first is higher than the cost of membership and this must be higher than from competitor which is True fitness and We fitness. For True fitness, the membership is single club and the price is a little bit cheaper than Fitness First. So, increase in number of member decrease the benefit of existing member as congestion cost. If consumer perceives that the future expected benefit he or she can derive from being membership will be decrease, consumer will not join the club. For Fitness first, this is opposite. Moreover, because consumer will only know the service quality when they join the club and the market is imperfect information, there must be signaling that signal the quality to consumer. Thus, consumer use aggregate demand, market share, and market share growth as signaling. In this case, Fitness first has highest market share and market share growth. So, consumer will perceive that fitness first has higher quality. In case of We fitness, the membership is also single club and may have the multi club membership in the future and the price is cheaper than True First. Because We Fitness is new entry, the business is in the first state, the number of member still little. The data cannot yet use to interpret the result. But single club membership can also apply with the same as True fitness's. Furthermore, because the contract is long-term which is 6-12 months. If member change working place or living place, and member is not Convenient traveling to the club. Even through member can still join the club, travelling cost will be higher. Member still have to pay money according to contract. Fitness center is not going to care for your problem. You have to go to lawyer to ask for help. If lawyer can help, it still has cost and takes time and you already pay for it several month. For fitness first, fitness first is multi-club membership, even though member have to move, it is high possibility that there is the club nearby. For True fitness, it is single club membership which means that if you are member at Central world, you can join only

at this branch. Even though there is true fitness nearby, member may have to pay the fee for changing club. This possibility is very little. This is same for We fitness. So, True fitness has higher risk of changing working place or living place.

Multi club membership provide benefit to member that member can still workout while travel; member can join the club nearby. When individual make decision choosing fitness club, the location is the most important. The service quality is second. And price is third. Consumer is willing to pay more for preferable location. Opening new club can also attract and create new demand to consumer living nearby to join the club. Some people may not consider joining fitness club but when there is fitness club open near their house or working place, they may consider it. So, Location provide significantly benefit to member.

Fitness first keeps increase benefit to member to maintain existing member and attract new member to join the club by improve service quality and expand the club. Multi club membership is the key to grow the business because of positive network externality of expanding the club. Because of shifting in demand curve, firm can choose to increase the price of membership or maintain the price. If the firm chooses to maintain the price, firm's size will be increase.

	Fitness first	True Fitness
Type of membership	Multi club membership	Single club membership
Number of club	21(2012), 26(2014)	3(2012,2014)
Area	Average 2000sq.meter	Average 3600sq.meter
Number of number	65,000(2012), 72,000(2014)	26,000(2012), 33,428(2014)*
sq. meter per member	.65(2012), .722(2014)	.4 (central world club 2012), .31(central world branch 2014)**
Cost of membership	2100-2300 bath per month	1900-2000 bath per month
service quality ↑	B↑→#member↑→#club↑→B↑	B↑→#member↑→congestion↑→B↓
number of club ↑	capacity↑, B↑	capacity↑, No change in B
number of member ↑	B↑, Positive network externality	B↓, Negative network externality

Data from Fitness First official website, True Fitness official website, news, and interviews.

*estimation with the growth rate (assume that grow at same rate every year)

** estimation with the growth rate and get 10,285 members in 2014 at central world club from 8,000 members in 2012

Conclusion

With the unavailability of data, the collected data in this paper is not properly done. The data is needed to be obtained from news that is reliable. The data is individually collected from each source and combine it to make a set of data to use for analyze. For the further study, the more collecting and completing data can be used to analyze deeply, completely, and accurately. The real data can be used to analyze the real growth rate and pattern of each company and the real congestion on each club. So, the study will be more completely. Moreover, the data of We Fitness in the future with the data of Fitness First and True Fitness can be used in further study for further understanding.

In the future, Fitness club industry will compete more intense and high market demand will attract new international fitness company to invest in Thailand. We Fitness has high potential to compete with Fitness First because the area per club is bigger, equipment is more and variety, technology is better, class is more which is Pilate, and flying yoga, and the management team is professional. It has to take time to run the firm at full potential. The number of club continues growing and it generally locates at strategic location. It is very interesting to see more role of We Fitness and more players in the future.

For suggestion, Increase number of member to increase revenue is the bad decision because each club has capacity. Firm should introduce Multi-club membership and increase number of club together with increase number of member can lead to high service quality and sustainable growth.

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