What is the fastest way to grow your gym's revenue?

Are you feeling the pinch? Today's fitness market is more competitive than at any time in history. Everyone, from the largest chain to the single facility, is grappling with how to squeeze out every last dollar of revenue. But how should you go about doing it? Of the myriad of options, what is the best strategy to use?

When faced with the task of improving our revenue stream, the first place to which everyone's mind turns is sales. More sales equals more money, right? Of course, this is true. But that's really not the question. Sheer revenue generation can be accomplished in a number of different ways. You would certainly generate more revenue if you built another facility. But, would the additional revenue outweigh the expense of the building? Maybe so, maybe not.

If you are looking to improve your bottom line, you have to begin by asking a different question. Instead of only looking at what generates the most revenue, you need to ask:

> *What is the most **efficient way** to generate more **profit**?*

In order to answer this all important question, let's look at two strategies for generating revenue, explore the research, and do some simple math to determine which one is most effective in growing a profitable bottom line.

Sales

First, let's explore the most obvious: membership sales. As we have already discussed, increased sales always appears to be the best way to grow revenue because of the simple formula in our head, more members equal more money. It seems fundamentally obvious. **But, is pouring your resources into increasing membership sales really the most efficient way to generate more profit?**

It's critical to remember that sales don't just happen; they come with a cost. You may need to hire additional front desk staff or sales reps. You'll need to invest marketing dollars to to drive the additional sales. Maybe you will have to pay for additional sales training for your staff.

To explore this idea further, let's say John, the owner of a single facility franchise, wants to boost his membership sales. In order to drive more folks into his facility, he decides to spend $20,000 on a slick new marketing campaign. From that campaign, he surfaced

100 new prospects and 50 of them became members. Now, if those new members paid $30/month and kept their membership an average of 10 months, the net revenue gain would be $15,000 (50 new members x $30/month x 10 months = $15,000). But remember, they spent $20,000 on the marketing campaign to generate those sales. The gym drove sales, *but they lost money in doing so*!

This illustration points out that the $15,000 in increased revenue is really meaningless. Again, we need to stop making the mistake of thinking of strategies in terms of the sheer revenue they generate. The *only thing* that is truly important is the true revenue gain, the profit or loss, on each new member.

In order to calculate this profit or loss, we must measure the Customer Acquisition Cost (CAC) and the Lifetime Value (LTV) of each member. Very simply, the **Customer Acquisition Cost** is the amount of money it takes to bring a new member into your facility. From the example of John, his $20,000 marketing campaign brought in 50 new members. So, their Customer Acquisition Cost is $400 ($20,000/50 = $400).

The **Lifetime Value** is the amount of membership revenue generated by the average member during their membership life. Turning to the previous example again, the members paid $30/month and stayed an average of 10 months. Thus, their Lifetime Value is $300 ($30/month for membership x 10 months = $300).

Now, it's simple to figure the net profit or loss on each member. All we need to do is subtract the Customer Acquisition Cost from the Lifetime Value of the member. In this case $300 (LTV) - $400 (CAC) = -$100.

> *What this means is that the gym actually **lost $100 on each membership they sold**!*

Now let's translate that to the real world. Research has shown that the average Customer Acquisition Cost for fitness centers around the United States is $118. Let's couple that number with a study that we just completed on over 1.5 million fitness center members from multi-purpose facilities all over the United States. We tracked each of those members and measured the amount of time between their join date and membership termination date. The result showed that the average fitness center member stays 11.4 months before terminating.

Now if we assume the average monthly recurring revenue from those members is $30/month, then we can figure the Lifetime Value and true revenue gain for each member using our formulas from above:

> *Lifetime Value = $30/month of membership x 11.4 months =*
> ***$342/new member Lifetime Value.***

So, for every new member that joins we should expect to receive $342 over the lifetime of that membership. But remember, it cost us $118 to acquire each member, so the net revenue from each new member is actually $242:

> *Net Revenue = $342 (LTV) – $118 (CAC) = **$224/new member***

Retention

Now let's take a look at a strategy that oftentimes gets far less attention: member retention. If you are a typical facility owner or executive, member retention is floating around somewhere in your head as something you probably need to address. But, as far as an actual strategy that can be executed in your facilities, it's on the back burner. This is likely because it seems more nebulous and less tangible than sales. You might even question if retention is even possible. As such, it's typically relegated to second tier status as a revenue generating strategy. But should it be?

In order to answer that question, let's run the same equations that we did for a strategy of focusing on membership sales. First of all, we need to be convinced that membership retention is even possible. If it is possible, then we need to know how effective it is.

In order to determine this, we recently followed the lifecycle of over 20,000 new fitness facility members and tracked the effectiveness of a research-based onboarding process. We found that this onboarding process **increased the length of stay of a new member by 134%.** It more than doubled the time a member spent at the facilities before they terminated their membership. Applying this retention strategy to new members increased their average length of stay from 11.4 months to 26.7 months.

> *This is an **average of 15.3 additional months** for every new member who joins.*

Now, let's compare. We've already seen the results of the sales strategy, you gain an average of $224 of *additional* revenue for every new member you bring in. Now let's explore how much ***additional*** revenue would you gain for every member you retain.

First, let's determine the additional Lifetime Value **(the value <u>above</u> the $224 you would already expect with no retention strategy applied).** We've seen that you can expect an *additional* 15.3 months for each retained member, so the additional Lifetime Value is:

> *Additional Lifetime Value = $30/month of membership x 15.3 additional months = **$459/retained member***

Already the retention strategy shoots ahead.

But, another important factor in a retention strategy is that there is no additional Customer Acquisition Cost. You apply the strategy to people who have ***already joined*** your facility. Even if you apply the cost of staff time spent on retention, the impact is minimal. Our best-practice process calls for an investment of two hours of staff time for each new member. If those staff members are being paid $15/hour, the total net revenue gain is:

> *Net Revenue Gain = $459 (Additional LTV) - $30 ($15/hour x 2 hours) =* ***$429/retained member***

In what is probably a big surprise to most, a strategy of retention is **almost twice as effective** in revenue driving efficiency than a strategy of increasing sales.

A Revenue Multiplier

Let's look at this data from one more angle. Imagine sitting at the front desk of your facility watching new members join. Every new member is in essence writing you a check: an expected revenue that this member will give you over their lifetime at your facility. **As we have seen, if you are an average facility, that check is for $224** (the net revenue for that member).

But, as you sit at your desk, if you knew that each of these new members was entering into a proven retention process, the story would be different. Remember, their average length of stay would increase from 11.4 months to 26.7 months. So, even after you factor in the cost of acquiring them ($118) and the staff hours to onboard them ($30), **each new member would be writing you a check for $653!**

> 26.7 months x $30/month - $118 (CAC) - $30 (staff hours) = **$653/member**

Each new member is almost three times as valuable to you as they were without a solid onboarding process. And this does not even factor in the money they will spend on additional personal training, programs, supplements, etc. because they stayed longer at your facility.

Conclusion

We've discovered something unexpected. **When seeking to grow your bottom line, a solid strategy for retaining your members should not be an afterthought, but the**

first place you turn. This is especially true in today's ultra-competitive market where simply outselling the pace of member attrition is no longer possible.

The power of a strategy of focusing first on retention is highlighted by the Harvard Business Review when it says,

> *Depending on which study you believe, and what industry you're in,* ***acquiring a new customer is anywhere from 5 to 25 times more expensive than retaining an existing one****… If you're not convinced that retaining customers is so valuable, consider research done by Frederick Reichheld of Bain & Company (the inventor of the Net Promoter Score) that shows* ***increasing customer retention rates by 5% increases profits by 25% to 95%.***[1]

Brent Darden, the former Chairman of the Board for IHRSA agrees when he states,

> *It costs* ***9x as much to acquire*** *a new member than it does to keep an existing one." Thus, when it comes to driving revenue, "retention must always take first place.*[2]

Given the revenue generating power of member retention, what is utterly stunning is that most fitness facilities either have a retention strategy that has never been proven effective, such as extended email follow-up campaigns, or have no retention strategy at all. Operators, owners and leaders should make developing a well-thought-through, research-based retention strategy a priority because it offers one of the greatest opportunities in the industry today for getting ahead of your competition and growing your bottom line.

To discover more about how MobileFiT can help you grow your revenue by helping you develop and execute a research-backed retention strategy visit us at: [*https://engage.mobilefit.com/mobilefit-info/*](https://engage.mobilefit.com/mobilefit-info/)

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[1] Amy Gallo, "The Value of Keeping the Right Customers," Harvard Business Review, Oct. 29, 2014, https://hbr.org/2014/10/the-value-of-keeping-the-right-customers.

[2] Brent Darden, "Member Engagement and Retention," Club Industry, accessed March 14, 2018, http://www.clubindustryshow.com/clb17/Custom/Handout/Speaker0_Session1018929_1.pdf