

DBA DESIGN EFFECTIVENESS AWARDS

Training for life
Client: Third Space
Agency: Without

FOR PUBLICATION

A man with long hair tied back, wearing a grey hoodie and tan pants, is captured mid-air in a parkour jump. He is wearing red wristbands and blue sneakers. The background shows a city skyline with various buildings under a clear sky.

THIRD SPACE

In 2015 traditional health clubs were in retreat. Fitness First had seen membership decline by 4% a year for the 6th year running, and Virgin Active was about to reduce its estate by 55%.

Meanwhile, new boutique pay-as-you-go brands invited customers to rock up for a class-based workout with no prior experience, membership or even (in some cases) kit. Within two years, these disruptive businesses would command over 30% of the market. Traditional membership gyms were looking tired, with Third Space no exception.

Here's how the Third Space brand reshaped its business...

WITHIN 3 YEARS OF A RE-BRAND,
THIRD SPACE WOULD SEE:

TURNOVER GROW BY

38%

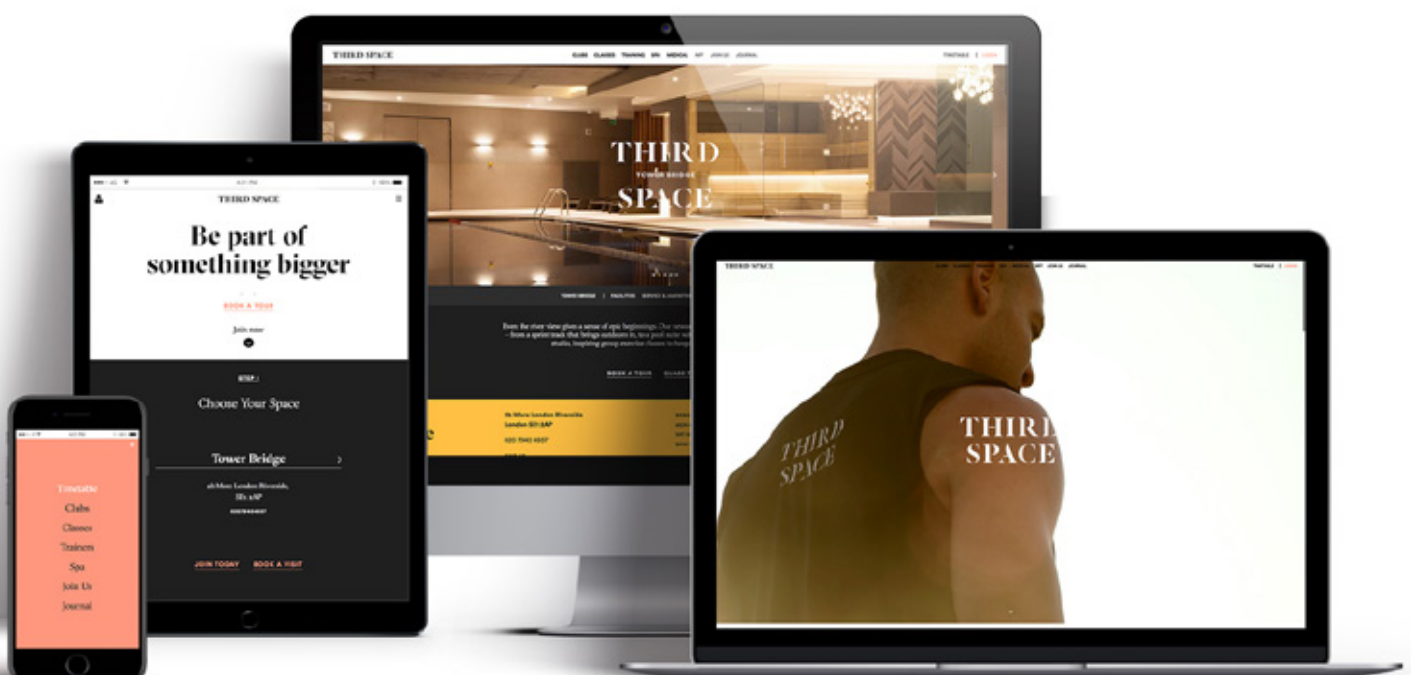
EARNINGS PER
MEMBER GROW BY

36%

A NEW REVENUE
STREAM TURNING OVER

£2m

A YEAR



THE BRIEF

One of the capital's coolest gyms when launched in 2001, Third Space (in line with others in the sector) had seen growth stall. The management team believed that the challenges faced by the sector were not for lack of potential, but more to do with the lack of compelling brands.

Acquiring two existing Third Space clubs (Soho and Marylebone) and adding The Reebok Club (Canary Wharf) and 37 Degrees (Tower Bridge), they issued a creative brief: Turn four disparate, membership gyms into a successful new brand.

Key facts

Launch date: Dec 2015

Period considered: 30 months, Dec 2015 - June 2018

Design fees: Redacted Confidential Data



Fix today...

1.

RETAIN EXISTING MEMBERS

To build a stable business, a key goal was to retain members. The management has always believed that the long term health of the business is measured in the engagement of its members. The more engaged they are, the more value they get from their membership, the more loyal they become.

2.

DRIVE MEMBERSHIP SALES

For traditional gyms, the reality of member churn (people moving away, losing motivation, injury) means that new membership sales is a year round challenge. With membership fees charged per member, maximising member numbers has an immediate impact on the bottom line.

Build for tomorrow...

3.

ADD VALUE

Given the finite capacity of gyms, once full, the business needs additional drivers for growth. Two avenues were identified: Increased prices (enabled by brand desirability), and selling additional services (such as food and nutrition).

4.

STRENGTHEN BRAND POWER

The final business goal was to build the perceived value of the brand. This was vital to growth, creating demand from potential members and desirability amongst landlords of future sites, and to attract the best talent.

“ The biggest area of growth in the UK’s fitness industry has come in the form of the many low-cost gyms that are springing up all over the country. With no long-term contracts, and fees of under £20 a month... they now account for an estimated 35 per cent of all gym memberships. Budget gyms are... enticing established gym-goers from chains such as LA Fitness and Virgin Active... the middle market, which traditionally dominated, is being squeezed out.”

*Helen Fricker, senior leisure analyst
Mintel*

OVERVIEW OF THE MARKET

Between 2015-2017 earnings per gym customer decreased from an average of £488/yr to £480/yr. At the same time, the number of gyms increased by 6%, driven by disruptive pay-as-you-go boutiques and low cost budget chains. In this period, Mintel estimated that there had been a 200% rise in boutique gyms alone.

With smaller sites, reduced facilities, and narrower breadth of services, boutique and budget chains are able to cut fees and commitment, doing away with traditional gym membership.

The competitive pressure on traditional full-service providers is borne out across the financial news pages. Between 2016 and 2017 Virgin Active divested 49 of its clubs, a 55% reduction in its estate. Meanwhile, Fitness First UK, had reported an average 4% year on year membership decline over 6 years and losses of £14.4m in 2015. It subsequently reduced its sites by 43% and its takeover two years later led to an £8m loss at its new parent company DW Sports.

“LOW-COST GYMS HAVE HUGE GROWTH PLANS. THE MIDDLE GUYS ARE GOING TO STRUGGLE, AND I THINK WE’RE GOING TO SEE THEM DISAPPEAR.”

June 2017 Daily Telegraph

Sources:

*Annual State of UK Fitness Industry Report, Leisure DB
Mintel: Health and Fitness Club report 2017
Press reports from Daily Telegraph, FT, City AM, Companies House accounts*

Project Overview

THIRD SPACE

DESCRIPTION

In initial discussions, the business strategy was clear. The market trend to low-cost gyms and pay-as-you go boutiques had shifted the conversation to fees and obligations. Third Space needed to illustrate the value of the club membership model on other terms. We would position the brand as a premium offer, with a value

proposition that went beyond cost and convenience.

Unlike the pay-as-you-go sector, traditional membership health clubs were clearly failing to speak to today's consumer. Third Space had identified three target demographic groups: Urban Cool, Bright Young Things and Global

Power Brokers. Through our own research, stakeholder workshops and experience in related sectors such as fashion and food, we identified a key trend pertinent to all: that fitness was not about offsetting your lifestyle; it was part of your lifestyle.

A FRESH VOICE




We needed to break Third Space out of the sweaty, guilt-driven language of the traditional gym. Instead, it needed to be an aspirational investment for London's urban elite: intelligent, design-led, holistic.

“

Ultimately, people don't need a place to exercise; if that's what they want, they've got their front room. What people really need from us is the inspiration and motivation to exercise – and that's the DNA of Third Space.

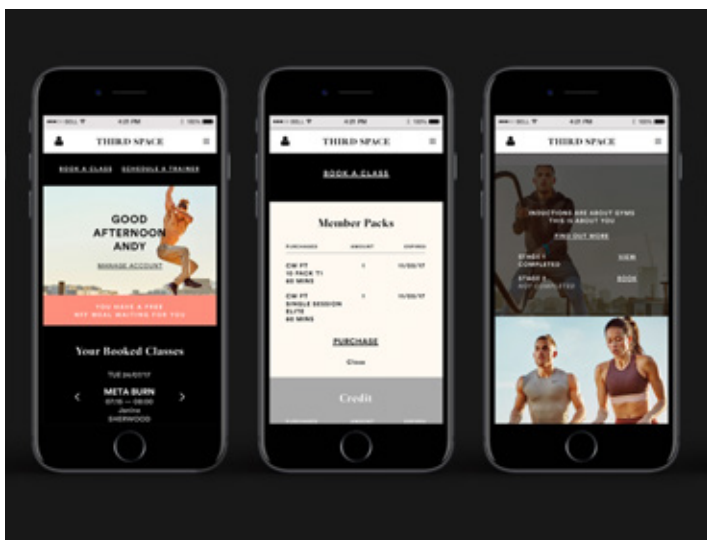
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Colin Waggett, CEO, Third Space

A man with short dark hair and a beard is performing a battle rope exercise. He is wearing a dark grey zip-up hoodie over a grey long-sleeved shirt, grey athletic shorts, and grey knee-high socks with black accents. He is holding a thick black battle rope with both hands, and the rope is arched in front of him. The background shows a city skyline with various buildings and a clear sky. The lighting is warm, suggesting late afternoon or early morning. The text is overlaid on the image in a white serif font.

This is not training
because of guilt.
This is not training
for today, gone
tomorrow.

This is training
for life.



A NEW LOOK

In the past 3 years, we have designed a new identity, implementing and extending it across all consumer touch points: Including website, fascias, interior environment, photography campaigns, welcome pack, group exercise class launches, member communications, printed POS, social media, uniforms and a re-branded food offer.

The result is a brand that's flexible in style, coherent in attitude, applied thoughtfully across every part of the customer's experience.

III

A contemporary, flexible logo

Based on serif typography atypical to the sector. Feels intelligent. Adapts to and highlights the individuality of clubs and partners, and quietly endorses merchandise.



Fresh photography

Taking health benefits beyond the gym into the city. Shot by a travel, rather than fitness, photographer.



Intelligently branded spaces

Moving away from ranks of televisions to evocative materials and interactive light-walls.



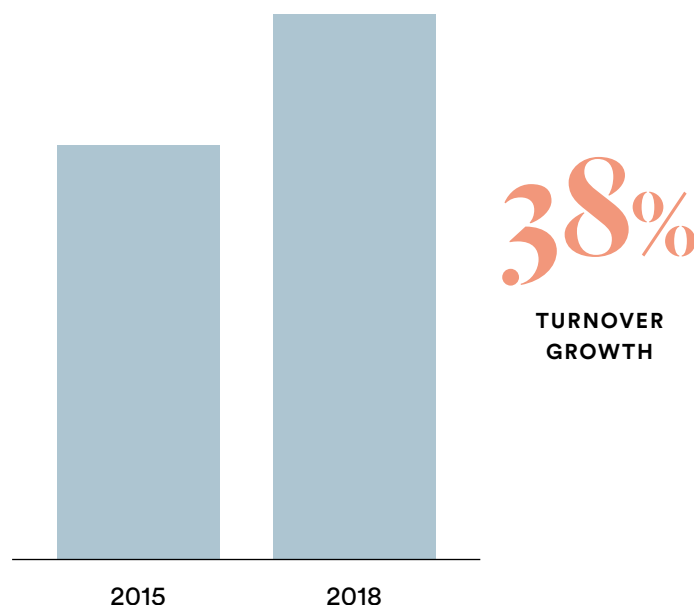
Investing ancillary services with creativity

Food and services get the A-list treatment.

Better, not just bigger. Over 30 months the brand reposition and applications have transformed performance.

In its most recent public filing (2017), turnover was £32.4m, a 13.7% increase on the previous year. From 2015 to 2018, in a market where like-for-like competitors have been retrenching, and in the face of fierce competition from niche boutiques and value challengers, **Third Space has seen turnover grow by 38%.**

Brand design across all aspects of the customer experience has delivered on goals...



1. RETAIN MEMBERS

Third Space set member engagement as a key metric, believing that the more engaged they are, the more value they get from their membership, the more loyal they become. As part of the new identity, group classes were branded as individual products, competitive challenges designed as stand alone attractions, and activity schedules featured heavily in website usability considerations.

Between 2015 and 2018, member visit increased by 20%. By 2018, 48.3% of members participated in group classes, a 35% increase from 2015. As hoped, this has turned the dial on loyalty. **The average length of member tenure has increased by 10%.**

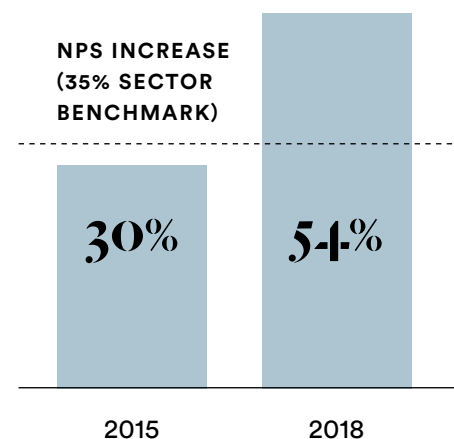
Advocacy is also on the up, with customers talking about the brand in glowing terms. In 2018, net promoter scores for the brand were 54%, up from 30% in 2015. This compares to a sector benchmark of 35%.

The brand's "social sentiment", measured as a ratio of positive to negative comments, is 19.2, powering ahead of its competitors: Virgin Active (6.3), Pure Gym (6.2) and Fitness First (5.9).

On-site Instagram opportunities, with selfie friendly branding of classes, environments, and competitive challenges have helped build an Instagram following of 37.3k, from scratch. Third Space is tagged in over 11,000 posts, with a social share of voice strongly over-represented compared to physical presence, @thirdspacelondon averages 9300 followers per site. This compares to @virginactive (514/site), @puregymofficial (200/site), and @dwfitnessfirst (160/site).

"We have twice as many social followers as members, where our competitors have half as many followers as members. That's a powerful illustration of our brand's popularity and reach."

Lauren Wilson, Marketing Director, Third Space



Source:

*On-site member login and usage data
Internally commissioned social listening studies, with 17.5k data points, Freemavens
Public data from Instagram, Twitter, Facebook and web*

2. DRIVE MEMBERSHIP SALES

While the number of clubs in the period considered has remained constant, demand has strengthened. Membership enquiries have doubled.

The new website has been a key driver in membership sales, launched at the end of 2015. Online enquiries jumped by 104% within its first 6 months (YTD comparison with the previous year on old sites), and has continued to grow. Over the period considered, demand has driven membership scarcity to a point where all four sites are now operating a “one-in-one-out” policy.

Source:
Google analytics
Internal sales figures

Membership enquiries have doubled and all four sites are operating in a ‘one-in-one-out’ policy.

3. ADD VALUE

Revenue per member has increased by 36% from 2015. It now stands at £1,990, compared to an average value of £480 across the sector. This in a period of price deflation, where average member revenue across the industry has decreased by 1.7%. Revenue growth has been driven by a combination of price increases and sales of secondary services.

Third Space is now firmly established at the luxury end of the sector. The

achievement of brand pricing power is most clearly evidenced by changes in membership fees, with demand increasing in the face of price increases. Between 2015 and 2018 average fees grew [Redacted Confidential Data], while membership continued to grow, maximising club capacity in the same period.

At the same time, revenue generated outside of membership dues has seen like-for-like growth of 36% from 2015. 33% of

group revenues are now generated from value-added services. This compares to the industry average of 22%, illustrating how Third Space has become a differentiated club brand, as opposed to a fitness facility.

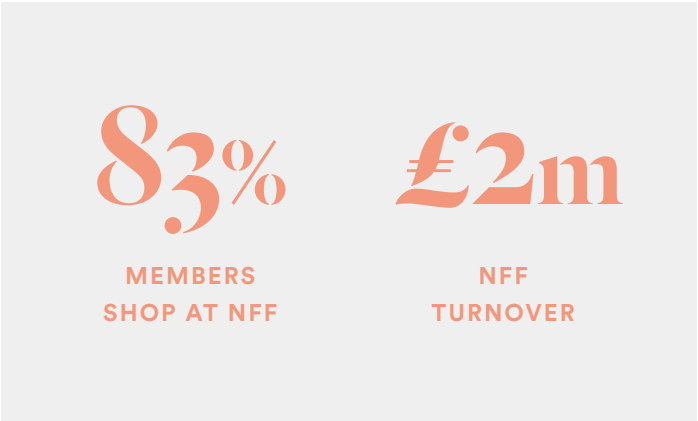
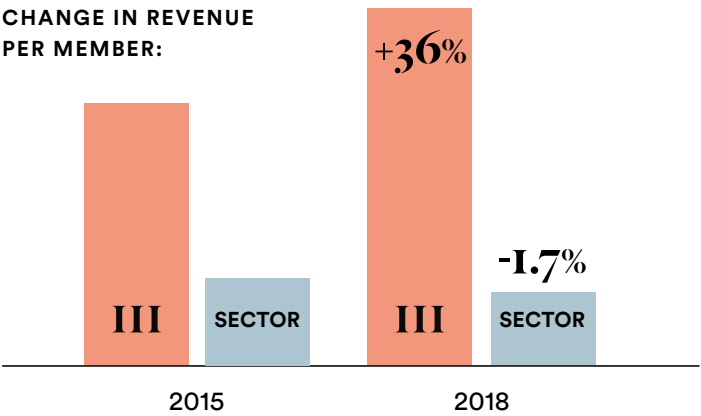
The highlight of value-added performance is “Natural Fitness Food”. Originating as simple, unbranded fridges with negligible sales, the offer was redesigned as part of the re-brand, across packaging and the retail environment. The redesign

has driven growth, with the food business now turning over £2m in its own right.

The food offer is now accessed by 83.4% of members across the group.

Source:
Mintel: Health and Fitness Club report 2017
Annual State of UK Fitness Industry Report, Leisure DB
Internal member survey 2018
Internal financial reporting

CHANGE IN REVENUE PER MEMBER:



4. BUILD BRAND POWER

The brand is now planning a programme of expansion, with a new 27,000 sqft club opening in the City of London, and a 47,000 sqft club due to launch in Islington in 2019. This will have its own junior spin-off, Little Space – the first of its kind in the UK. Ambitions are high, with a further 4 sites in final stages of exchange.

Further proof of brand desirability was illustrated by an unsolicited approach from the estate manager of a large corporate headquarters. The London office of an international consulting group ran a staff survey to canvass opinion on what they wanted most in their office. Third Space was the winner of the public vote and invited to open a facility in the building.

The business is now on a recruitment drive, adding over 100 members of staff as it plans for growth. As intended, the new brand has had a positive impact on recruitment efforts. Third Space has been able to attract high profile experts in the fields of fitness, training, and nutrition.



“We’ve found that major landlords are increasingly seeing Third Space as an anchor tenant, able to boost the value of residential and office developments. Since re-establishing the brand, we’ve seen inbound opportunities go from zero to plentiful. We now have one new club opening, one under construction, a third location signed, and a further 3 in the works, exceeding our original expectations.”

“Recruitment has seen a positive impact. We now receive over 100 applications for each instructor vacancy. This compares to a typical benchmark of 20 in the industry.”

Colin Waggett, CEO, Third Space

PRICING AND PROMOTIONS

Third Space run seasonal campaigns and offers through the year (notably around Jan). This is in line with competitors in the fitness sector, and has not changed materially from prior to the re-brand, to date. For this reason, it can be considered a constant, with equal impact across the years and benchmarks.

In addition, average fees have actually increased [Redacted Confidential Data] over the period, so we are confident that price promotions can be discounted as a driving factor in success metrics.

INTERIOR WORKS

There was investment in interior improvements in the period considered. This included major works in Tower Bridge, smaller updates to the Soho site, and cosmetic changes throughout all of the sites. To the extent that all cosmetic works, interior look and feel, and hoarding/works communications were created in line with the new brand identity, and were part of our output, we consider this to be within the scope of the re-brand.

Given the disruption of Tower Bridge works, we would expect a negative impact, but performance metrics have followed the same year-on-year positive trends across all clubs, irrespective of works.

LOCATIONS

While the brand is now planning new locations, during the period of comparison, the number of sites remained constant (4). All performance improvements have been achieved in existing clubs, allowing direct like-for-like comparisons.

PRESS & ADVERTISING

There has been no ATL marketing spend in the period considered.

For the launch of the new club in the city, a limited local campaign was run in local press and as a pop up stand in Fenchurch St. station (both designed by us in line with the brand identity). However, this was launched outside of the time period considered so will have no impact on the performance presented.

Marketing efforts have been focussed on in-house channels: CRM emails, website, social media channels, on-site posters and POS, all existing before the rebrand. Across these channels, all design, messaging and campaign visuals were created by us - a consistent and coherent continuation of the identity project.

PR activity was present before and after the re-brand, and have been treated as a constant. Recent PR efforts have made extensive use of brand visuals: from lifestyle and interiors photography to graphic branding of new classes. While press interest in the new brand has been high and positive, press coverage has not been included in our success metrics.

Google pay per click campaigns have been run prior and post re-brand, and have therefore been treated as a constant. While ads contained tone of voice work that would be considered part of the brand roll out, traffic metrics have not been included as part of our success metrics.