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Customer retention development plan for a fitness center

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Thesis abstract

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This thesis outlined a customer retention development plan, which aimed at identifying targets for improvement in the services of a fitness center. The development plan was drafted based on a thorough analysis of the current status of the case company, using the metrics of a business intelligence system, customer satisfaction surveys, and interviews conducted to gain a deeper insight into the specific needs of the customers. This data was analyzed using industry insight and the theoretical background of the existing literature on the formation of customer relationships.

Customer acquisition requires more resources than customer retention, and in preparation for customer acquisition inevitably slowing down, a retention plan is needed. Based on a literature review, it became apparent that building good rapport between the fitness center's staff and its customers is an important element for achieving loyal, long-term customer relationships. Previous customer satisfaction surveys and the results of an interview conducted for this thesis show that customer service and the staff at the case company are highly valued, but regardless of this, the customer retention rate is showing a declining trend. The data was used to identify and define some specific areas which needed development and based on them, the case company received recommendations for future actions that have potential to help improve customer retention.

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Tässä opinnäytetyössä laadittiin asiakaspysyvyyden kehittämissuunnitelma, jonka tarkoituksena oli tunnistaa kehitysalueita kuntokeskuksen palveluissa. Kehityssuunnitelman pohjana käytettiin yrityksen Business Intelligence -tietoja, asiakastyytyväisyyskyselyitä sekä tätä opinnäytetyötä varten tehtyjä haastatteluita, joiden tavoitteena oli saada tarkempi käsitys asiakkaiden tarpeista ja toiveista. Tietoja analysoidaan hyödyntäen sekä alan tuntemusta että teoriapohjaa, joka perustuu asiakassuhteiden muodostumista koskevaan kirjallisuuteen.

Asiakashankinta vaatii enemmän resursseja kuin olemassa olevien asiakkaiden säilyttäminen, ja koska asiakashankinta väistämättä muuttuu haasteellisemmaksi lähitulevaisuudessa, asiakaspysyvyyden kehittämissuunnitelma on tarpeellinen. Kirjallisuusanalyysin pohjalta voi päätellä, että kuntokeskuksen henkilökunnan ja asiakkaiden välille on tärkeää muodostaa hyvä ja ystävällinen suhde, jotta saavutetaan uskollisuuteen pohjaava, pitkäkestoinen asiakassuhde. Kuntokeskuksen aiempien asiakastyytyväisyyskyselyiden sekä tätä opinnäytetyötä varten tehtyjen haastatteluiden tulosten perusteella asiakkaat ovat hyvin tyytyväisiä yrityksen asiakaspalveluun ja henkilökuntaan. Siitä huolimatta asiakaspysyvyys on laskussa. Siksi käytettävissä olevien tietojen perusteella tunnistettiin ja määriteltiin tarkkoja kehitysalueita, ja näitä alueita varten suositellaan kuntokeskukselle toimenpiteitä, joilla on potentiaalia parantaa asiakaspysyvyyttä.

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1 INTRODUCTION

A fitness center offers a service that benefits everyone. Bold statement, perhaps, but is it wrong? It is a local business, an employer. Exercising brings health benefits for the individuals who patron the fitness center, which is beneficial for the public health and may reduce the resources needed for health services. As a complex business it in turn patrons other local service providers, which creates revenue for the local economy. The more customers a fitness center serves, the more health benefits it provides. This also enables the fitness center to potentially employ more people. This thesis includes a customer retention development plan for a fitness center so that it can help as many individuals as possible to stay healthy and enjoy exercising.

1.1 Case company and the fitness industry

The case company is a fitness center that was founded in 2009. It operates under a licensing agreement from an established Finnish franchise as one of its 30 fitness centers throughout the country. The case company is an independent business unit that is not owned by the franchise but has an owner/entrepreneur and it has the right to use the brand through licensing. It currently employs two salaried employees and cooperates with four freelancer personal trainers as well as a changing number of group class instructors.

While the current climate for the fitness industry is very positive, and after the dramatic effects caused by the COVID-19 pandemic the industry is regrowing strongly, a lot of resources and attention are being spent on customer acquisition. As the market keeps saturating, it will become harder, especially for industry leaders, to grow their business based on acquisition only (Macon, 2020, p. 16). This is also supported by Hurley (2007, p. 27) who mentions that the focus needs to be shifted from constantly seeking new customers to retaining the existing ones.

Fitness centers, including the case company, rely on monthly fees as their main revenue stream. This means that retaining existing customers becomes more important, and reducing churn (customers lost in a specific time period) gains more significance. The case company's current sales (acquisition) numbers are showing a rising trend, but the retention

rate is declining. In preparation for a situation where the market becomes more inundated and new customers become harder to acquire, a plan is needed to keep the business growing – and developing customer retention plays a crucial role in this plan.

1.2   Customer retention

 Acquiring new customers requires more resources than retaining existing ones, which has become generally acknowledged especially after Frederick Reichheld's extensive research on the topic (Reichheld, 1996; Reichheld & Kenny, 1990; Reichheld & Sasser, 1990,). As Reichheld and Sasser (1990, p. 106) explain it, in the acquisition process for new custom-ers, there are one-time costs such as advertising and promoting, which are not present in retaining customers. Watts adds to this (2012, pp. 8–9) that a retained customer will also place less service demand on the company as the service has already become more fa-miliar to the customer, which will also save resources for the company. Losing a customer will lose the company the revenue from that customer's monthly fees, but as Watts points out, the company will also lose that customer's potential for generating more revenue through referrals, because customer retention may also have an impact on customer ac-quisition and these two concepts do not need to be completely separate from each other. This notion is also supported by Brown et al. (2005, p. 125), who remark that positive word of mouth behavior acts as a liaison between retaining and acquiring customers. In short, this means that a retained customer may increase customer value even if they do not buy any additional services, by bringing more customers to the company.

1.3   Objective for the thesis

For these reasons, the case company now wishes to gain more insight into customer re-tention. The objective is to reduce customer attrition and improve customer retention from the aspects that the case company has power over – after all, not all reasons for attrition can be affected, for example some customers may leave because they move out of town. The case company now aims to keep growing its market share both by acquiring new cus-tomers but also by retaining more of its existing customers, to build a stable customer base. This requires information about the customers, their satisfaction rates, and develop-ment areas to improve customer satisfaction. While there is extant literature concerning

customer retention in fitness centers, the information needed for this purpose is company-specific and needs to be investigated separately and in detail.

The previously researched aspects of include building retention strategies for fitness centers, as studied by Macon (2020) who found that customer relationship management is a crucial point in customer retention. Macintosh and Doherty (2007) placed more emphasis on the organizational culture and values of fitness centers and studied if these have an impact on customers' intentions to stay. Watts (2012) examined the predictability of customer retention and discovered that perceived service quality was a strong indicator for retention likelihood. Ferrand et al. (2010) discovered a connection between the need to improve frequency of attendance and investing in qualified staff, who are capable of building interpersonal relationships with customers. The importance of personnel's interpersonal skills comes up in most of the extant literature, including Pradeep et al. (2020), Torkzadeh et al. (2022), Bartha and Perenyi (2015), Tsitskari et al. (2014), and Hurley (2004). A bachelor's thesis was written concerning customer satisfaction in the case company in 2020 (Försti, 2020). However, as the case company has since relocated, most of the information discussed in that paper has since become obsolete, and I will only refer to the still relevant parts of it in my master's thesis.

This thesis aims at discovering development areas in the case company's services that could potentially improve customer retention. Identifying what needs to improve in order to keep customer satisfaction on a high level and what needs to be kept on a high level will provide solutions for the case company.

1.4   Outline of the thesis

Because most extant literature about customer retention in fitness centers highlighted the importance of the staff's interpersonal skills, I will begin my thesis by outlining how customer relationships are built. I will look at factors such as customer satisfaction and loyalty and how they affect retention and how customers form affectionate relationships with companies. To deepen my understanding of affective commitment, I will summarize the effects of employee empathy and complaint management on the customer relationship and a customer's perception of the company. As my aim is to improve the satisfaction levels of

customers in the case company, I will also look at dissatisfaction as a factor in customer retention. Finally, I will discuss social customer relationship management (social CRM) as a crucial part of customer service in the 2020s.

After gathering theoretical background information about customer relationship building, I will move on to gathering data about the case company's current situation and development of relevant metrics. Most of the data will be gathered from the case company's business intelligence system and some is compiled from customer satisfaction surveys. In addition, some empirical data will be used in the form of two interviews conducted in order to define the needs and demands of the case company's customer base. The data is analyzed and discussed based on extant literature and my own expertise in the fitness industry.

Once the data is analyzed, it will be used to draw conclusions regarding the customer base's satisfaction and demands. After a brief outlining of the results, I will provide the case company with recommendations for future actions based on thoroughly analyzed data and empirically gathered information about its own customer base.

For the case company, this thesis will provide a development plan to improve customer retention. Because this development plan will not include a follow-up of results, I will also recommend some future research to be done after an implementation period.

2   CUSTOMER RELATIONSHIP DEVELOPMENT

To support developing customer retention, it is important to understand how customer rela-
tionships in service companies are formed and what are crucial factors in developing trust
and loyalty in customers. A fitness center falls into the relational category on the contin-
uum drafted by Dwyer et al. (1987, pp. 12–15), which suggests that services have either a
transactional nature or a relational nature, depending on the levels of motivational interest
in buyer-seller relationships. To summarize, a transactional service is characterized by lim-
ited communication and the content of the customer-company encounter is confined to a
brief transaction only. In contrast, a relational service encounter is not a single, isolated
transaction but a relationship that transpires over time. In a relational service encounter,
the customer and the company engage in social exchange and as a result, the encounter
produces noneconomic satisfaction on a personal level.

In a transactional service, the primary focus of customer encounters is on the substance of
exchange and there is no consideration for the future of the customer relationship. In a re-
lational service, there is significant focus on the exchange between the customer and the
company with planning for future exchanges (Dwyer et al., 1987, p.13). When both the
seller (company) and buyer (customer) have a high motivational investment in the relation-
ship, it is maintained bilaterally, which produces a relational service encounter. Transac-
tional services are characterized by low motivational investment on both sides (p. 15). A
fitness center acts as an example of a relational service, where the customer visits fre-
quently, has a continual relationship with the company and due to the personal nature of
the service, is inclined to develop affection for the company. In contrast, an example of
transactional service could be a kiosk that a customer only visits because of acute need
and convenient location. This type of exchange is unlikely to develop into an affectionate
bond.

In the case company, there is no on-going customer loyalty program in place. This can be
explained by a relatively low monthly membership fee and good price-to-quality ratio. It is
also an industry standard, not to include loyalty schemes in fitness center memberships
and to only use occasional perks (such as discount codes to cooperative partner compa-
nies) as an incentive to retain the membership and to recommend the service to friends

(and get compensation as skipping a monthly charge should they join). Because the case company's business model is focused on the ease of service and no fixed term memberships are sold, the only perk from not canceling the membership altogether is not having to pay for another starting fee when renewing the membership at a later time. Loyalty in customers therefore needs to be built through other means than financial perks. As a relational service, this responsibility falls onto excellent customer service and answering to customers' needs.

The case company conducts customer satisfaction surveys on a regular, automated basis (see Chapter 3.2). The overall satisfaction rate is high, and one aspect specifically receives the most positive feedback: the staff. Customers find the personnel such an important feature of the fitness center's atmosphere that it is often highlighted in the received feedback, and this is why it is important to research the formation of a customer-firm relationship. A positive interpersonal experience can be hypothesized to have a significant effect on customer loyalty and therefore retention. In a highly competitive market, customer retention is such an important aspect of business that it deserves its own strategy or development plan. Developing customer satisfaction through effective relationship building may be what separates the case company from its competitors.

The next few chapters look into various studies concerning the development of customer relationships.

2.1   Customer satisfaction and retention

Customer satisfaction is generally a desired outcome from any customer relationship. Patel (n.d.) mentions factors such as perceived product quality and value, convenience, customer expectations, and communication that influence how customers feel about interacting with a company and that are ultimately how customer satisfaction is measured. How customer expectations are met is a very influential factor that should be considered in building customer relationships. Patel also mentions the importance of the staff's professionalism and courtesy on customer satisfaction and suggests giving staff a degree of autonomy and flexibility by which it is possible to show customers in small acts of kindness how the customer comes first, and rigid rules come second.

There is numerical data to support the claim that customer relationship management does improve customer satisfaction, as a study by Almohaimmeed (2019, p. 428) has shown. In this study, the links between customer satisfaction, loyalty, profitability, and customer retention were researched quantitatively. The results (p. 429) show a clear connection between customer loyalty and profitability, which means that a loyal customer is willing to pay a premium price for this exact service but not for a competitor's similar service, for example. However, while there seems to be a significant relationship between customer satisfaction and customer profitability, the evidence shows no quantifiable, direct link between customer satisfaction and customer retention (p. 429).

2.2   Customer-firm affection

The lack of a significant relationship between customer satisfaction and retention leads to suggest that there is perhaps a non-quantifiable element to customer retention. Yim et al. (2008, p. 743) have concluded that customer-firm affection is a potentially viable construct to link satisfaction and retention. According to their research, customers form strong affectionate relationships with companies in the service sector. Affection towards the company is built through favorable experiences with the company, and the research suggests that a leading factor in building this type of affective commitment begins with the frontline staff: a customer first forms an affectionate relationship with the staff, which they call customer-staff affection (p. 744), which then builds up to customer-firm affection. They also suggest that this affection is driven by exceptional service, and highlight the salience of passion, intimacy, and commitment in forming customer relationships in such a manner that supports customer retention. Considering the case company, receiving good service, receiving timely responses to questions and feedback, having a tidy environment, and feeling heard and seen are factors that drive the customer-firm affection.

According to Yim et al. (2008, pp.743–744), customer-firm affection reflects an enduring bond that is formed through a flow of several positive experiences and interactions with the firm, which forms a holistic affectionate bond. The study suggests that customers develop some deep emotional connections to service companies but only if the company allows them to define themselves or to express themselves. Customer-firm affection relates to positive emotions specifically, and this complements the customer relationship beyond

customer satisfaction. This theory seems appropriate in the case company because the relationship between customers and firm is often long-term and the interaction with the two parties is frequent and quite typically positive in nature. The customers seek fitness services to feel better on their own terms and this nature of the relationship would support the theory of building an affectionate bond with the company.

Yim et al. (2008, pp. 752–753) discuss the effects of customer-firm affection as potentially being the missing link between customer satisfaction and loyalty. The affectionate relationship complements trust and satisfaction that the customer feels towards the service provider, which then leads to commitment and loyalty. Even while these findings suggest that customer relationships are partially built on emotional, unquantifiable reasons, service quality is a factor in all favorable experiences and cognitive reasoning is still very much a part of forming opinions. However, as the affectionate relationship starts to form, affect transfer may cause the customers to perceive service quality differently than in a non-committed service situation. From a service provider's point of view, this is still a desirable outcome. Based on their findings, Yim et al. (2020, p. 753) propose a change in the management of service loyalty. Whereas most loyalty programs are focused on the satisfaction paradigm where satisfaction levels are monitored, service failures reduced, and customers "locked in" with various programs, the authors suggest adding an element of excitement to the service delivered, which will enhance the customer-firm affection levels. They do not suggest the previous loyalty management procedures to be abandoned, as it is obviously important to monitor satisfaction levels, but their findings support adding another layer to the service encounter. This further highlights how frontline staff succeeds in representing the company in a positive manner and suggests that the staff's excellent interpersonal skills are a requisite in building a successful customer retention strategy in a service company.

2.3   Employee empathy

Bahadur et al. (2018, pp. 3–5) studied employee empathy and how it affects different variables in customer relationships and loyalty. They studied how empathy as a characteristic of an employee affects the customer's service experience, and the results (pp. 15–16) show how empathy as a part of daily service processes forms an image that the company

has a pro-customer mindset. It can be deduced from the results that empathic behavior is what creates a favorable service experience, which in turn improves customer satisfaction and loyalty. Customer affective commitment, as well as perceived service quality, much like previously discussed, have a positive impact in developing customer satisfaction. These factors, according to Bahadur et al. (2012, p. 15) are dependent on the service employee's empathic behavior. Having experienced an empathetic encounter prompts customers to adopt loyalty intentions, such as positive word-of-mouth and repurchase intentions. To build trust, the employees need to also portray characteristics such as expertise and reliability.

Bahadur et al. (2018, p. 16) see also the findings as a tool for improving service strategies and suggest companies focus more on interactions between the frontline employees and customers. To improve the service encounters, it is recommended that managers should hire such frontline employees who are capable of understanding and sensing the customers' expectations and respond to their thoughts, feelings, and intentions, which would help build a positive brand image. The pleasant service experience is a prerequisite for creating satisfaction, loyalty, and long-term customer relationships.

2.4   Dissatisfaction

While building customer-firm affection in a relational service context is an important aspect, not all customers develop such an emotional relationship with a fitness center. This could be a consequence of several factors, such as lack of interpersonal encounters between the customer and staff or unwillingness to include in person interaction with exercising. Frontline staff is not present in a fitness center during all of its opening hours, which as a natural consequence prevents the formation of affection, if we approve the premise that customer-firm affection is mostly a product of positive in person encounters with the staff, as discussed previously. For such a customer, who lacks an emotional connection, continuing a membership is purely practical. Since it is completely economically non-viable to have staff present in the center during all opening hours, this is an unavoidable consequence that may affect customer retention.

Service failures are also inevitable, mistakes happen even for the most highly rated customer service agents. How these situations are handled (for example, with or without empathy and a sense of accountability) may affect how severely the customer reacts to potential mistakes. In PriceWaterhouseCoopers' (2018, p. 9) customer experience survey, 47% of all respondents globally say they will stop doing business with a brand they loved after several bad experiences. 32% would stop doing business after one bad experience. In a highly competitive environment, customers may feel that they have plenty of options and take their business elsewhere based on even one unfavorable experience. Dissatisfied customers may also resort to negative word-of-mouth behavior, where they relay their experiences further. Arora et al. (2021, p. 47) recognize helping others by letting them know about potential harms as a motive for negative word-of-mouth behavior. If a company or a brand is a recipient of repetitive negative word-of-mouth, it may eventually suffer financially. In the case of a fitness center, it could lead to problems in customer acquisition and retention. What makes it difficult for companies to respond and react to dissatisfaction is that a majority of dissatisfied customers do not complain, and according to Barlow (1996, p. 58), more than 80% remain silent and take their business elsewhere without complaining.

2.5   Complaint management, feedback, and satisfaction surveys

Barlow and Møller (1996, pp.1–2) describe complaints as a feedback mechanism that gives the company an opportunity to learn something about their services that perhaps they did not know. Complaints can be seen as a strategic tool and an asset in marketing research, and as Barlow highlights, handling a complaint may be one of the primary ways that a company directly communicates with a customer. Complaints, according to Barlow and Møller (p. 11) are a way for a customer to let a company know when their expectations have not been met, but as a feedback mechanism, complaints also give an organization an opportunity to fix the issue, to satisfy the dissatisfied customer. Because a complaining customer still remains a customer. Barlow and Møller suggest (p. 13) that even though in several cases it would be easier for the customer to simply leave without voicing their dissatisfaction (and an overwhelming majority does), when they do complain, they signal that they still have some confidence left in the organization and wish to have their feedback heard and responded to. Well-executed complaint management may even

strengthen a bond between the customer and the organization. This, in turn, may promote positive word-of-mouth behavior, and bring in more customers.

Barlow and Møller (1996, p.13) encourage organizations to view complaints as a gift, and to adjust the staff's attitude towards complaints to reflect this mindset. Separating the message from the emotion of being blamed helps an organization to understand the disappointed customer. Complaints should be welcomed and used as a tool for learning. In addition to this, conducting surveys help understand the customers' needs and give the organization an opportunity to satisfy its customers.

The case company conducts automated customer satisfaction surveys. The questions in the survey track the overall customer satisfaction, the customer's willingness to recommend the fitness center, and the customer's willingness to retain their membership. These three factors are also present in Allen's (2004, pp. 33–35) operational definition of loyalty, which as an attitudinal measure helps in predicting future customer behavior. According to Allen (p. 33), tracking more measures than just overall satisfaction can help form a more holistic view and, as a result, predict for example the relationship breadth and depth as well as attrition rates. Figure 1 represents loyalty as a composite measure of overall satisfaction, willingness to recommend, and willingness to repurchase (or in the case of fitness centers, likelihood to retain membership).
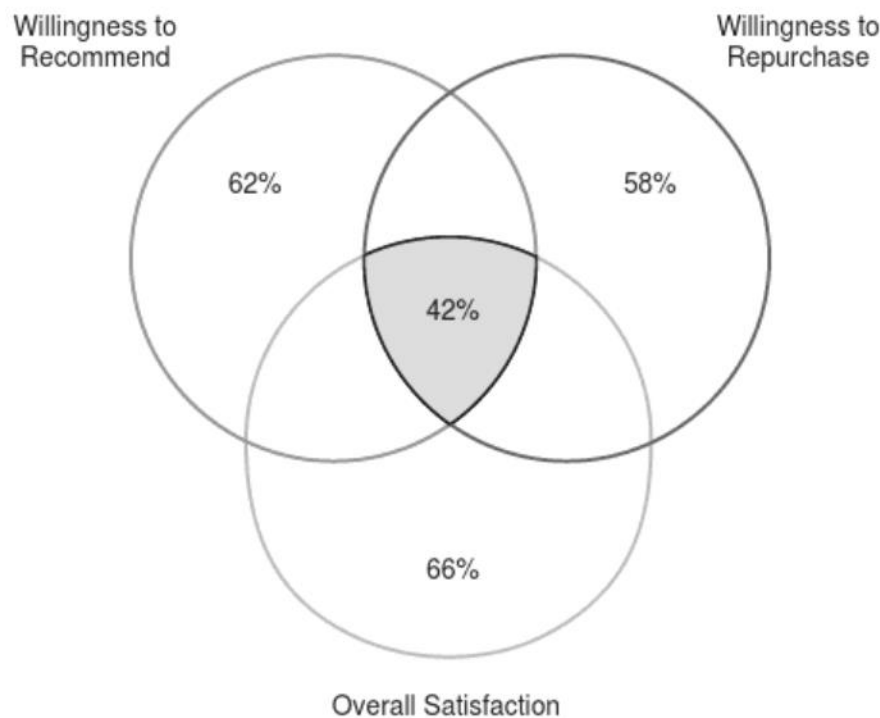
Figure 1. Operational definition of loyalty (Allen, 2004, p. 34).

Loyalty as a measurement tool and a predictor of future behavior, according to Rao and Chandra (2013, p. 53) and it is a result of the quality and strength of the customer relationship. One outcome of a strong customer relationship is that existing customers are more likely to advocate for the company, which advances the company's communication and impact the brand reputation (pp. 53–54).

2.6   Customer relationship building in the fitness industry

To further deepen the understanding of customer relationship formation and building, it is important to review the topic from an industry-specific perspective. In this paragraph, I will examine some studies on the topic of customer relationships and retention in the fitness industry specifically.

As Watts points out (2012, p. 2), the fitness industry has a rather complex nature, and this is why customer retention strategies from other industries cannot be applied as such. The complexity comes from for example the different reasons and motivations for customers to

join a fitness center and what the different customers perceive as benefits gained from the service. Someone may join a gym with a weight loss goal, which is a tangible, measurable goal, which can be served in both tangible (offer equipment for exercising) and intangible (advice from coaching to achieve psychological change that enables weight loss) manners (Watts, p. 21). In contrast, another may join the same fitness center with the main goal of relaxation, which is an intangible goal that can be reached through the tangible offering of equipment and intangible offering of advice. In addition to these two contrasting examples can be dozens of varying motivations and levels of tangibility of goals. Compared to many other service industries, this level of complexity makes it necessary to also analyze the fitness industry separately. However, the universality of all research needs to be considered from a cultural perspective as well: for instance, different cultures have different perceptions about service quality (Bang et al., 2005; Guesalaga & Pitta, 2014). This is also supported by Ahmad and Buttle's (2002, p. 151, 159) analysis of how context influences business practices and needs to be taken into account when planning customer retention strategies.

Customers in any organization assess the service against their own needs and expectations, as Tsitskari explains (2012, p. 515). This is why it is important to be informed about what these needs and expectations are, and to some extent, also manage the expectations, because they have an effect on how the customers perceive the service quality. If there is a discrepancy between perceptions and expectations, this may lead to dissatisfaction (Parasuraman et al., 1988, p. 16). In the case company, the customer satisfaction levels are monitored on an automated basis, but understanding the needs and expectations needs a more personal approach than an anonymous, numerical survey.

As suggested by the previously mentioned theories about customer relationship formation, several studies have confirmed that also in the fitness industry, the behavior of the front-line staff may have a positive effect on the customers' willingness to retain their membership (Hurley, 2004; Macintosh & Doherty, 2007; Macon, 2020; McCarthy, 2004), if they manage to build a rapport with the customers. The customer relationship that goes to a deeper, affectionate level may enhance the perceived service quality, increase loyalty behavior, and increase the customer lifetime value as well as financial value, as the customer may refer other customers to the fitness center (Hurley, 2004, p. 28). This is supported by

McCarthy's suggestion (2004, p. 19) that the frontline staff should be considered an important factor in fighting against losing customers and their importance should be highlighted. According to him, if a center has a staff culture where all customers are appreciated at all times, this may play a part in customer retention. Macon (2020, p. 78), in turn, recommends that fitness center management should train their staff in both customer engagement and conflict management in addition to customer service. Customer engagement skills may prevent customer attrition.

In addition to the service elements, the organizational culture and values can have an impact on the members' willingness to retain their membership. Macintosh and Doherty (2007) studied the effects of 9 organizational values on members' satisfaction and willingness to retain their membership. These values were integrity, fitness, peak attitude, communication, performance, trust, care, and passion. The findings show that the perceived integrity of the organization, manifested by how the staff follows through on their promises, if they do as they say the will, and take responsibility for their actions, had a strong link to the members' intention to cancel or retain their membership (p. 285). Trust, peak attitude, and innovation were also deemed to have an effect on customer satisfaction, but they had only a moderate association to the members' intent to leave or stay. This is in line with Al-mohaimmeed's (2019) results in part 2.1. Macintosh and Doherty explain (p. 286) the importance of understanding how the underlying organizational culture in addition to the service elements, such as equipment, is seen by the customers and how they respond to this culture element.

It has been reiterated that customer satisfaction does not always lead to retention. In Macon's study of fitness club managers (2020), the sub-themes of customer satisfaction and loyalty were discussed. In both of these aspects, the respondents highlighted the importance of engaging and interacting with the customers on a personal level (pp. 71–74). The discussion suggested that loyalty is a result of building a personal relationship between the customer and the fitness center.

However, as Watts points out (2012, p. 11), loyalty does not equal retention, similarly as what was previously said about customer satisfaction. Customer retention, according to Watts, is a more objective metric than loyalty because it can be measured. Retention

should be considered a manifestation of loyalty, but these two terms are not interchangeable.

2.7   Social customer relationship management

As social media outlets have become increasingly popular, it is equally necessary for companies to utilize them in both relaying information and connecting with customers. Social customer relationship management or social CRM is a relatively new concept that combines companies using social media outlets to manage interaction with customers and help build long-term relationships (Kotler, 2017, p. 91). The difference between traditional and social CRM is that the traditional CRM typically consists of a one-way communication whereas social CRM includes a dialogue. Traditional CRM utilizes communication methods chosen by the company and the communication is initiated by the company, whereas social CRM is initiated by the customer in their preferred method. As Kotler points out (p. 92), social media marketing and social CRM are different concepts but inevitably interlinked. While social media marketing is informative, social CRM also includes resolving the customers' issues.

Using social media as a platform for customer service is imperative in today's fitness centers. According to the respondents in Macon's study (2017, p. 71), social media was considered an important avenue for the customers to express how they feel about the fitness centers. Customers also tend to expect service to be available through their preferred channels. However, the opportunity to enhance customer engagement through social media channels can be seen as an opportunity to build better rapport, which can in turn be utilized in face-to-face encounters as well.

3 DATA GATHERING AND ANALYSIS

In this section, I will present the methods of gathering the data that is needed for drafting a customer retention development plan. I will go through the appropriate metrics of the case company and analyze their impact on customer retention. The data presented in this thesis is provided by the case company's business intelligence system. Once the current status has been explained, I will move on to an interview that enables customers to give feedback, in order to find out which of the service areas need further development to enhance customer retention. Finally, the responses to this interview are analyzed.

3.1 Development of customer numbers and churn between years 2020–2022

During the years 2020–2021, the case company suffered a significant loss of customers due to the COVID-19 pandemic. As the business intelligence data from the case company shows, from the beginning of the pandemic in March 2020 to August 2021 the company lost 28% of its total customers. The fitness center was allowed to stay open throughout the entire time with only some limitations in services and with social distancing practices in place. This means that the new membership sales never stopped fully, and some canceled memberships were recovered with new acquisitions. In mid-August 2021 the company relocated to new premises, which coincided with the pandemic restrictions being loosened, and the customer number started to climb back up. In figure 2, the decline starting in early 2020 can be seen with a slight rise in the August peak season but continuing to decline right after. The lowest number of the pandemic time was August 2021, when the member count was 892. In the graph, the new and canceled memberships follow the scale on the left-hand-side Y-axis and the total customer count follows the scale on the right-hand-side Y-axis.

Figure 2. Membership development 2020–2022.

Before the pandemic (starting in March 2020), throughout the pandemic (March 2020 through late 2021) and in the "post-pandemic" period, the average yearly percentage of cancellations has remained roughly the same. Based on a yearly average, the cancelled memberships make up ~6% of total memberships, as can be calculated from tables 1 and 2: in 2020, the yearly average number of cancellations was 67 memberships per month and average total memberships was 1 092, which gives us an average churn rate of 6.14%. In 2022, the average number of cancellations was 82 memberships per month and average total memberships was 1 359, which gives us an average churn rate of 6.0%. Even though there seems to be a slight decline in the average churn rate, without a longer monitoring period, we cannot tell if it is a trend. Since the difference is so small, it could be deferred that it is not significant, and both can be rounded to the same percentage of 6%. Figure 3 below depicts the churn rate development from 2020 to 2022.
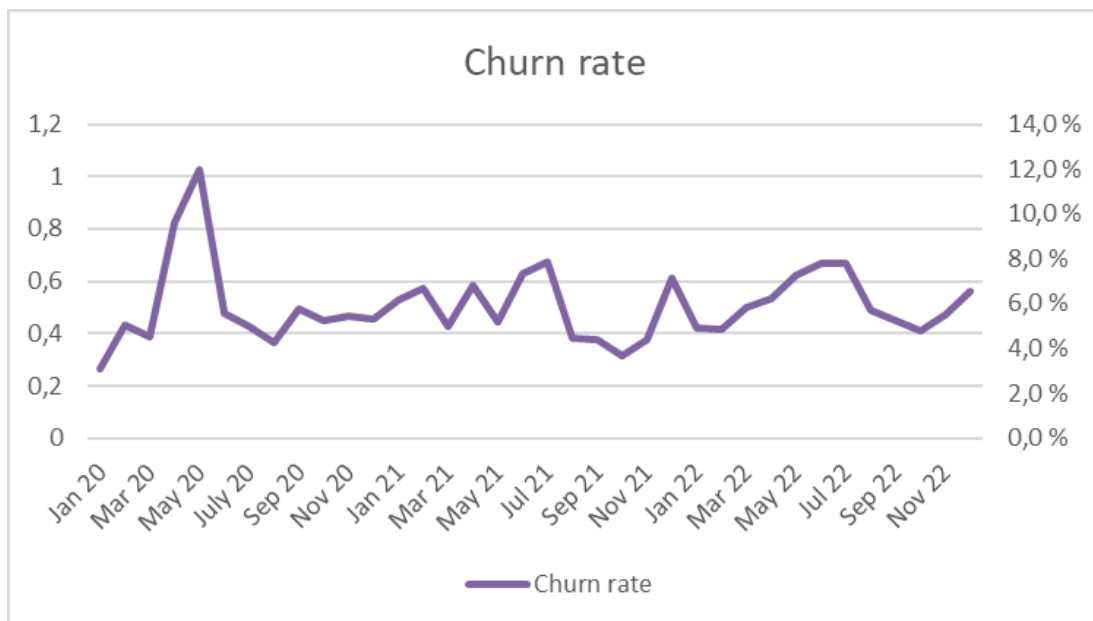
Figure 3. Churn rates 2020–2022.

Even though the membership numbers have been rising, and continue to rise in 2023, the case company wishes to improve customer retention and aims to diminish the percentage of cancellations, because losing 6% of the customer base every month is too much. The customer retention rate on a 12-month average is 54%, which means that after 12 months, 46% of members have canceled their membership. This rate shows a moderate declining trend, as in a 6-month period it has gone down by 2 percentage points. In the whole franchise, this rate varies from 34% to 66%, while the average customer retention rate is 52%.

It is nowadays generally believed that acquiring new customers is more expensive than retaining existing customers (Franklin, 2022; Gallo, 2014; Kumar, 2022; Reichheld, n.d.; Reichheld & Sasser, 1990; Watts, 2012), and therefore the case company wishes to improve customer retention rather than spend resources on marketing to acquire new customers. In table 1 are listed the reasons why customers have decided to cancel their memberships in the year 2022. The answers are gathered from customers who cancel their membership in the online system that prompts them to give the company a reason for cancellation (exit survey). Not every member chooses to answer this question, and because of this, the list is not exhaustive and does not include all cancellations.

Table 1. Reasons for cancellation in 2022.

Reason for cancellation	Number
Unsatisfied with achieved results	118
Financial situation	94
Moving out of town	89
Lack of time	44
Sickness or accident	18
Unsatisfied with the center's services	12
Other	7
No one to work out with	1
Working out is boring and/or difficult	1

Out of the given reasons, some are such that the case company cannot influence. These reasons are, for example: [the customer's] financial situation, moving out of town, lack of time, and sickness or accident. In contrast, some of the reasons that the case company may have influence over are, for example: unsatisfied with achieved results, unsatisfied with the [fitness] center's services, and working out is boring and/or difficult. The company could possibly also offer solutions for the answer "no one to work out with" by upselling a membership that includes group classes to these members.

3.2 Types of memberships and members

The case company offers two types of memberships for new customers that both include a different combination of services for a different price. The membership types are dictated by the franchise chain and their contents or prices cannot be changed individually for the various fitness centers. The first membership type includes access to the gym but not group classes, and access to one gym only. The second membership type includes access to the gym, group classes, and online services as well as access to all other fitness centers in the franchise. The membership types were changed in August 2020, when the currently existing types were introduced, and all previously existing members were

awarded with a "superior" membership type that cannot be bought afterwards: it includes all of the services in the second, more expensive membership type, but for the price of their original membership, which, at the time this thesis is written, is 15 euros cheaper than the second membership type. This was presented as a reward for the existing customer at that point as a thank you for not cancelling during the first months of the pandemic. The membership type ratios are presented below in figure 4. The different membership types can be used to distinguish between member types to an extent using simple metrics: holders of the first type of membership have no access to group instructed classes so they only use the gym, whereas the second and superior membership holders have access to both gym and group instructed classes and may use both services. Although there is data concerning the percentages of different membership types, this does not thoroughly explain how the members utilize their memberships. However, based on empirical observations gathered from fitness center personnel, there may not be a distinction to be made based on membership type only.
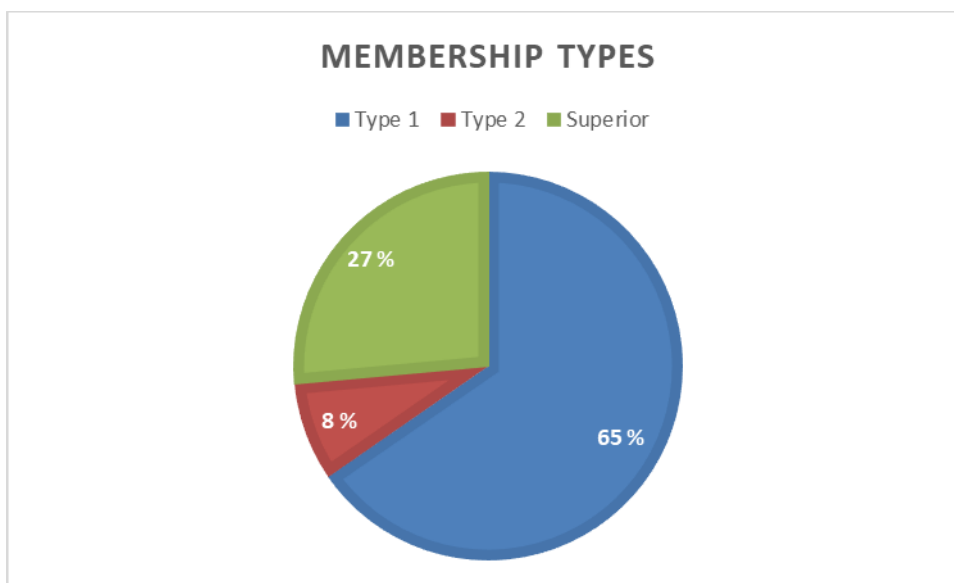
Figure 4. Membership type ratios.

As a long-term employee of a fitness center, I found it important to also signify that a certain membership type does not necessarily explain what type of needs a customer may have. In my opinion, this aspect needed to be clarified for the purposes of this thesis. To understand the needs of different types of members, I gathered empirical observations from the personnel of two fitness centers: the case company and another fitness center which was selected because of its similar organization structure and the location in the

same area. The data was gathered in an informal open interview, where the fitness center employees were asked to define what kind of different groups they could distinguish based on their experience and observations from working in fitness centers. As pointed out by Brinkmann (2013, p. 47), a qualitative interview is the most natural way of mapping out the individual experiences of interviewees. This interview is conducted to help in defining different member types in fitness centers and is not the main interview to produce data for this thesis. The interviews were conducted in March 2023, and the answers were transcribed into a written list of various features. There were 12 respondents, whose answers are not based on any kind of metrics and therefore cannot be used in defining ratios. This would require a quantitative study, which is out of the scope for this thesis, but which might be useful for future research on the topic of customer retention. Based on the answers, two main groups stood out. This distinction does not cover exhaustively all members and member types but is intended as a guideline for understanding how using membership type as an only metric does not explain different behaviors or varying needs of customers. The two main groups of member types were classified as group A and group B as follows:

- Group A: the members in group A are people for whom fitness is not a lifestyle, but who exercise for their health and because it is recommended. This type of member typically has no specific fitness goals and quite often does not have a program for using the gym. This group includes both members who go to group instructed classes as well as members who only use the gym. A social aspect is also important for this group, and they rarely exercise alone – they either go to group classes or exercise with a friend or friends. Typically middle-aged, Generation X; also millennials.
- Group B: the members in group B are people who exercise with set fitness goals. These members use gym programs drafted by trainers and some buy personal training services. They are more passionate and target-oriented about the fitness lifestyle and almost always exercise by themselves. This group hardly ever uses the group instructed class services. Typically young, Generation Z, but not exclusively.

The two different member groups have very different needs as fitness center customers. Group A needs more support in defining goals for exercise and based on the personnel's observations, are more likely to cancel their membership if they find the amount of support insufficient. This group also consists largely of members who are more prone to form

bonds with the fitness center and/or its frontline personnel because they find the social aspect of working out important.

Group B consists of independent, experienced gym-goers, who are also typically rather self-sufficient when it comes to exercise planning. For them, the social aspect is virtually non-existent, and the most important elements of the fitness center service are adequate equipment and reasonable pricing. Even though this group largely consists of people who are rather passionate about fitness, the passion is targeted towards their own goals and not the location where these goals are worked on. Thus, they are less likely to form bonds with the fitness center and/or its personnel. Members in this group may cancel their membership to try out another fitness center without a specific reason. Member types are summarized in table 2 below. This summary is intended to provide a stereotype.

Table 2. Member types summarized.

Member type A	Member type B
Needs support in exercising	Self-sufficient
Exercises for health	Exercises for passion
Gym and group classes	Gym
Social aspect in exercises	Solitary exercises
Gen X, Millennials	Gen Z
May cancel if feels unsupported	May cancel if unsatisfied with equipment or just to try out another gym

This distinction between the main types of members is important to make because it goes beyond the metrics of different membership types and explains the different needs of customers. This also helps understand the nature of personal, affectionate bonds between customers and the fitness center as discussed in chapter 2.

3.3 Changes in age distribution

There has been a significant change in the age distribution of members in the case company customer base. Changes in age distribution often signal changes in overall needs of the customer base, as different age groups have different exercise styles and tendencies. In the year 2020, the age distribution was as presented in figure 1. The largest groups are 21–30-year-olds with 33% and 31–40-year-olds with 30%. The age group 16–20 makes up only 5% of the customer base and all ages above 41 make up 32%. Change in age distribution between 2020 and 2022 is illustrated in figure 5.
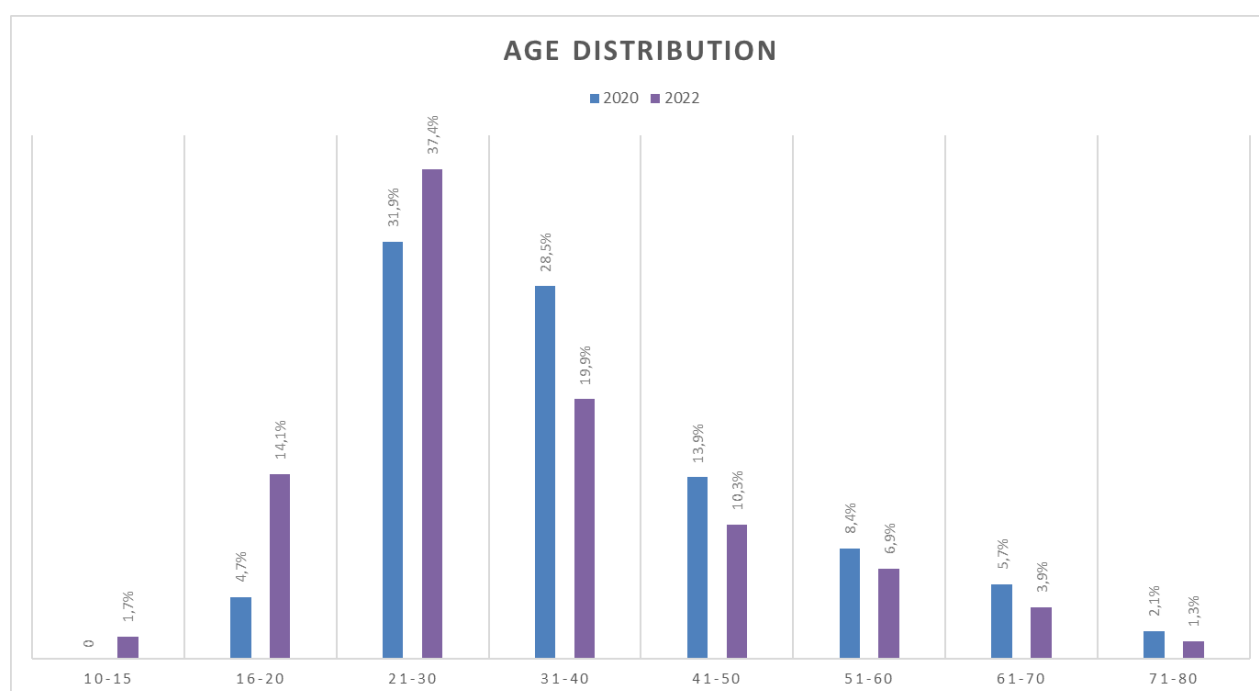
Figure 5. Age distribution in 2020 and 2022.

The recent rise of social media influencing in the fitness world has influenced especially the younger population, and this is quite evident from comparing the age distribution charts between years 2020 and 2022. In figure 5, the age distribution from the year 2022 shows a significant rising trend in the age group 16–20, which rose to 15%. This equals roughly 170 more members in that age group. Also, the age group 21–30 rose to 39%, which means roughly 230 more members in this group. In addition, the franchise decided to add a child membership for the age group 10–15 who are only allowed to exercise under parental supervision, and this age group makes up 2% of the customer base. Altogether, this means

that 56% of the case company's customer base is 10–30 years old whereas in 2020, this percentage was 38%. This is a very significant shift, and the trend is ongoing.

When the age distribution data is combined with the empirical information gathered about the different member types, this trend in growing ratio of younger population can be interpreted to also reflect growth in the ratio of members in group B: the independent, self-sufficient gym-goers who tend not to associate the social aspect very heavily with their exercise. When this is examined from the theoretical standpoint of building a customer relationship, the solitary nature of many customers in group B can prove retaining members through affectionate relationship building harder than it would be for the more sociable group A. However, the premise still stands, and the task must be interpreted as finding ways in which the members of group B can be convinced of the superiority of this fitness center above others. To find out what are the needs and wishes of both member groups and most members, it is important to go directly to the source and ask them via for example customer satisfaction surveys, in person discussions, and qualitative interviews.

3.4   Automated customer surveys

The case company performs automated customer surveys in two manners. First, a survey link is sent to all new members after 8 weeks since their membership started. At a later point, a slightly different survey link is sent to all members who have retained their membership for 6 months and on a regular interval after that. This survey acts as a net promoter score survey (NPS).

3.4.1   Automated new customer survey

This survey contains 10 questions, all of which are optional. Most of the questions are closed or multiple choice, and two of the questions are open-ended where the customer gets to give feedback in their own words. The survey questions are presented in table 3 below.

Table 3: Automated new customer survey questions.

	Automated new customer survey	
	Question	Scale
1	First, choose your own center	n.a.
2	How well has your membership started?	1-10
3	Which factors affected your answer?	open-ended
4	Personnel	1-5 stars
5	Facilities	1-5 stars
6	Services	1-5 stars
7	Equipment	1-5 stars
8	Cleanliness	1-5 stars
9	Open-ended feedback	open-ended
10	Do you want to be contacted regarding your answers?	Yes/No

The survey for new members serves two purposes. First, the survey collects data from the new customers' satisfaction with the fitness center and several of its features. The open-ended questions 3 and 9 may produce important, anonymous feedback that the customers would otherwise not give using their own name.

Secondly, question 2 about how the membership has started in the new member's opinion is both a caring signal sent to the customer, aiming to build a relationship, and a prompt to stay active, because the franchise expects passive members to be more likely to cancel their memberships after a period of inactivity. A higher usage rate may, according to the franchise, correlate with improved retention, but there is no business intelligence data from the franchise to support this assumption. However, it is supported by research conducted by Sobreiro et al. (2021, p. 8), in which it was statistically shown that non-attendance was an important factor in predicting cancellations. In addition, Ferrand et al. (2010) have found a link between frequency of attendance and intention to repurchase. In figure 6 below, the case company's inactivity rates are presented from a 6-month period between October 2022 and March 2023. This data has not been gathered from before October 2022. Inactivity is flagged by the system if a member has not logged into the fitness center in 14 days or more.
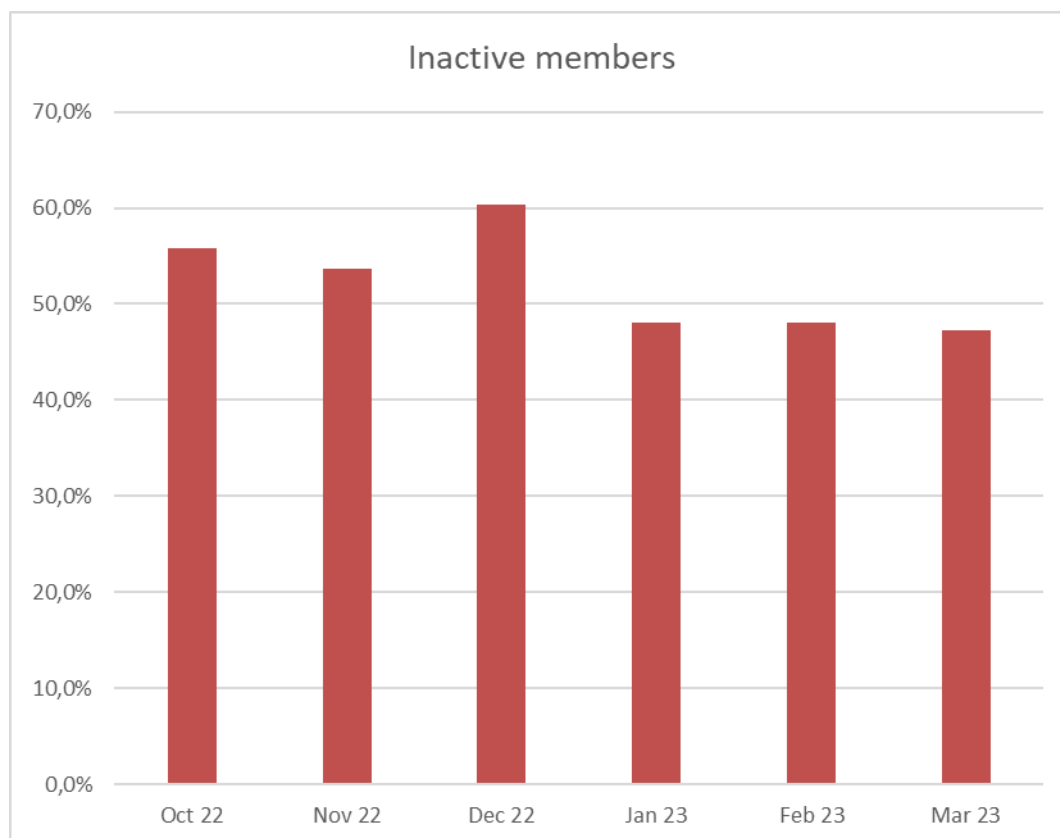
Figure 6. Inactive members from October 2022 to March 2023.

The automated new customer survey scores from a 6-month period between July 2022 and December 2022 were collected and the average scores were calculated. The average scores are presented in table 4, from which it can easily be seen that the overall scores are rather high, and the customer satisfaction levels are good. The survey link was sent to 646 new members and the total number of responses to the survey was 47. This gives us a response rate of 7.3%

Table 4: Average answers to new customer survey.

New customer survey question	Average answer
How well has your membership started	8.1
Personnel	4.7
Facilities	4.2
Services	4.2
Equipment	3.9
Cleanliness	3.8

The lowest scores are given for equipment and cleanliness, which are both key areas in customer satisfaction and based on the survey, can be classified as a development area.

The highest score is given to personnel (customer service, trainers, and group class in-
structors), which is indicative of a good relationship between personnel and members right
from the start. The score that the new customers give for the start of their membership is
8.2, which may seem satisfactory, but also signals some level of insecurity in the begin-
ning phases of the membership, which may well lead to cancellation if not addressed.

3.4.2 Automated net promoter score survey

The automated net promoter score survey differs from the automated new customer sur-
vey by only one question, number 2 as can be seen in table 5. In this survey, it is replaced
with the net promoter score question: How likely will you recommend [the franchise] to a
friend or colleague. While it is noteworthy that the question is phrased to not represent the
individual fitness center under the franchise, the scores are collected per individual center
based on the customer's selection in question 1.

Table 5: Automated net promoter score survey.

	Automated customer survey (NPS)	
	Question	Scale
1	First, choose your own center	n.a.
2	How likely will you recommend [the franchise] to a friend or a colleague?	1-10
3	Which factors affected your answer?	open-ended
4	Personnel	1-5 stars
5	Facilities	1-5 stars
6	Services	1-5 stars
7	Equipment	1-5 stars
8	Cleanliness	1-5 stars
9	Open-ended feedback	open-ended
10	Do you want to be contacted regarding your answers?	Yes/No

According to Bernazzani (2021), the net promoter score is typically used by companies to
benchmark customer satisfaction and loyalty as well as measure, evaluate and improve
them. The score is calculated by first categorizing the respondents based on their score:
scores 0–6 are called detractors (unhappy customers, who are likely to cancel their mem-
bership but also spread negative word of mouth), scores 7–8 are called passives (indiffer-
ent customers who may become promoters or switch to a competitor), and scores 9–10
are called promoters (enthusiastic, loyal customers who are likely to recommend the com-
pany and bring in more customers through positive word of mouth). The passives are

considered neutral to the scoring and are not involved in the calculation. The percentage of detractor responses is subtracted from the percentage of promoter responses to calculate the score, which can range from -100 to 100. The higher the score is, the more willing the customers are to recommend the company in question. At the time this thesis is written, the case company's individual net promoter score is 70. The average NPS score for the entire franchise is 37.

The responses to the NPS survey that were analyzed for this thesis were also collected from a 6-month period between July 2022 and December 2022 and the average scores were calculated. The average scores for each question are presented in table 6 below. The survey link was sent to 1124 existing members and the total number of responses to the survey was 72. This makes the response rate 6.4%. The average scores show a continued high level of customer satisfaction with very little differences to the new customer survey.

Table 6: Average answers from the NPS survey.

Net promoter score survey question	Average answer
How likely will you recommend [the franchise] to a friend or a colleague?	9.2
Personnel	4.8
Facilities	4.1
Services	4.3
Equipment	3.8
Cleanliness	3.7

The two lowest scores regarding equipment and cleanliness remain similar to the new customer survey and this is taken as a development suggestion even without any open-ended feedback. To bring these areas up to the same level with other satisfaction parameters needs to be a priority in developing customer retention.

3.4.3 Open-ended question responses

The responses to the open-ended questions were gathered from both the new customer survey and the NPS survey from the same 6-month period. The answers were categorized based on the area of service that they regarded, and the number of positive and negative

feedback was counted per each category. The number of positive and negative feedback or development suggestions received per category is collected in table 7. The number of open-ended feedback is expectedly rather low, but all responses are valuable information for the development of customer retention as they point out development areas rather precisely.

Table 7: Open-ended feedback areas.

Area of service	Positive	Negative/development suggestion
Customer service	7	0
Cleanliness	2	1
Equipment/positioning	0	5
Dressing rooms/showers	0	3

From the open-ended feedback it becomes even more apparent that customers are the most satisfied with customer service, which receives regular praise. Whereas the numeric scoring about equipment only shows that the customers are not fully satisfied with them, the open-ended feedback tells the company exactly what about the equipment is unsatisfactory to the customers. This is where the "complaint is a gift" mindset's usefulness is very evident as now the company knows exactly what to address to improve customer satisfaction as a part of developing customer retention.

To further widen and deepen the understanding of the specificities of customers' needs, more open-ended feedback is required. Because numerical surveys with singular open-ended questions are likely to not produce very much open-ended feedback, only quantitative data, a qualitative approach is important to be added. By conducting qualitative interviews, it is possible to gain more insight about the detailed needs and wishes of customers. In a highly competitive environment, developing customer retention may be a matter of finding out what the customers are missing, and providing it to them. In part, qualitative information can be gained through informal discussions at the fitness center, but because some customers do not wish to engage in this type of social behavior, it may be necessary to use a more structured approach and hope to gain useful responses that represent the customer base as thoroughly as possible.

3.5   Qualitative interview

To deepen the understanding of customer satisfaction and customer needs, and to give the case company tools on how to develop customer retention, a qualitative interview was conducted. The primary objective of the interview is to hear what the customers find important about the topic and to allow them to express their views in their own words. The interview is semi-structured: it presents the same questions to all respondents, but all questions are open-ended. The interview is conducted in a written form, and the respondents can choose for themselves how long and detailed their answers are. The respondents are told that the interview is for a master's thesis whose topic is customer retention. A total of 20 respondents gave their answers to the interview.

The interview questions were chosen to be as non-leading as possible, and this is why the Start, Keep doing, Stop method was chosen. DeLong (2011) credits psychology professor Phil Daniels from Brigham Young University as the creator of this feedback technique also known as the SKS method or Start-Stop-Continue method. It is considered highly effective because it challenges the respondent to think about the topic critically, but it does not lead the respondent's thoughts to a certain direction, which is quite often problematic with interview questions.

The SKS method consists of three questions:

- What should the case company **start** doing?
- What should the case company **keep** doing?
- What should the case company **stop** doing?

These three questions prompt critical thinking but only lead the respondent to think about what they feel like is missing from the fitness center and should be added, what they feel like is positive in the fitness center and should continue, and what they feel like is not up to standard in the fitness center and should be eliminated. In the original SKS method, according to DeLong (2011), the respondents are allowed to answer each question with three bullet points, but in this interview, the respondents' answers are not limited. This is to give the respondents a chance to express their opinions without limitations and to gain as much feedback as possible, and to relay the message that all feedback is welcome.

3.5.1 Choice of respondents

The respondents were selected to represent the gender and age distribution of the existing customer pool. The age distribution is already presented previously in figure 5 and the gender distribution is presented below in figure 7. The gender distribution shows a slightly higher percentage of female customers over men. The appearance of unknown gender happens when the customer does not have a Finnish social security number entered into their customer information. Most often this is because the member is a foreign national but in some cases this information may have been omitted for clerical reasons.
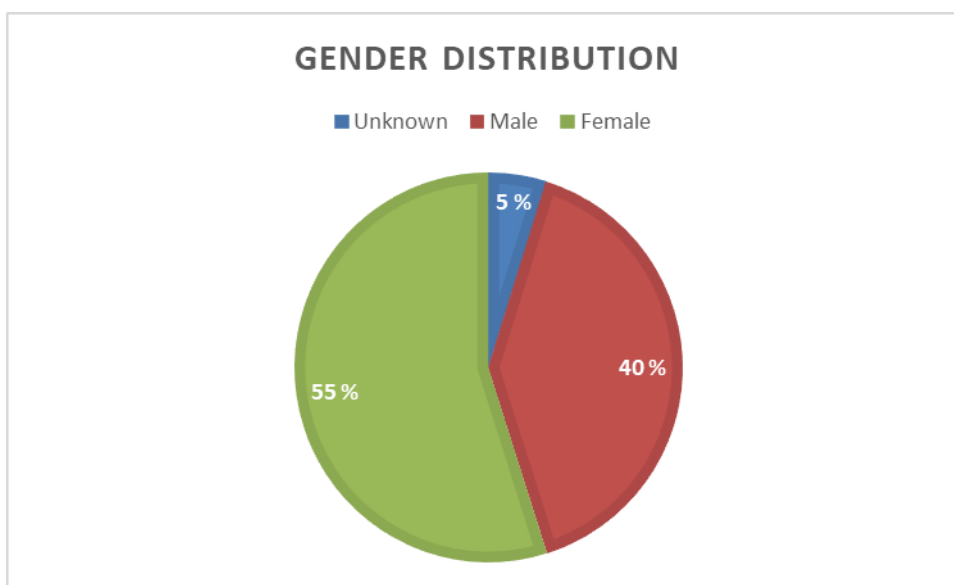
Figure 7. Gender distribution 12/2022.

Based on these distributions, the qualitative interview questions were presented to 3 members from the under 20-year-old group (2 female, 1 male), 8 from the 21–30-year-old group (5 female, 3 male), 4 from the 31–40-year-old group (2 female, 2 male), 2 from the 41–50 year-old group (1 female, 1 male), and 3 from the 51–80-year-old group (2 female, 1 male). This distribution gives a small but rather accurate sample of the entire customer base. Scaling up the numbers would be very time consuming and out of the scope for this thesis but perhaps something that the fitness center could gather data on, on a regular basis, for their own development purposes and for another student to analyze at a later stage as a follow-up.

3.5.2 Interview situation

The interview was conducted in person with the interviewer present but in writing. This is to eliminate any missing data from transcriptions and for the presence of the interviewer to help with any potential queries. The respondents are first approached by the interviewer in an informal setting at the fitness center to scope their willingness to participate. The willing respondents can then choose whether they would like the interview to happen at the fitness center imminently or if they would prefer to respond at another time. All respondents chose to answer the questions at the fitness center at the time when they were approached. The interviews were conducted in March and April 2023 on the case company premises.

3.6 Interview responses

Even though the respondents were chosen to represent the age and gender distribution of the case company's customer base, the answers are not segmented based on these distributions because the overall service offered by the case company is not directed at any individual group. The answers are, instead, segmented based on the area of service that the feedback relates to and then analyzed in order to discover ways in which to resolve potential issues that arise.

In table 8, I will present the findings from the interview answers in a table with a short summary of the issue at hand. I will use some demonstrative quotes to clarify the type of answers that were given. The answers that were originally given in Finnish have been translated into English. I will then continue on to analyze the findings in comparison to the numerical survey data and open-ended responses that have already been gathered from the automated surveys that were discussed previously.

Table 8: Summary of interview responses.

Feedback area	Summary	Demonstrative quotes
Equipment	- Warm-up equipment positioned awkwardly - Excellent quality equipment - more of certain equipment needed - missing a certain equipment completely	"Start: more treadmills needed during the busiest times in the gym." "Keep: Thank you for the excellent deadlift spot (that was apparently very expensive too), it is a game changer." "Stop having the all the treadmills in such an overt place as some people may not feel confident running in full view of people inside and outside the gym."
Assistance in exercising	- does not know how to use equipment - does not know what to do at the gym	"Start: Assistance with gym equipment is needed as many do not know how to operate them." "I come to exercise but do not have a plan, so I feel like there is no progression and therefore I am not satisfied with the results."

Personal training	- buying personalized gym programs too expensive	"Start selling more affordable training packages, I cannot afford to pay for personal training."
Facilities	- excellent new facilities with lots of space - air conditioning sometimes problematic	"I went to the sauna at first but the airflow is insufficient, so I have stopped going." "Thank you for keeping the gym nice and roomy, this is especially important during gym rush hour."
Group classes	- good selection of classes - excellent instructors - LesMills classes are appreciated - no mother+baby classes	"Keep the excellent selection of LesMills classes, both live and virtual are in active use here!" "Start doing a mother+baby class for new mothers. Lack of this type of activity makes another center more tempting."
Cleanliness	- more customers means more dust build-up - touch screen panels gather dirt during the day	"Start doing: more vacuuming in spaces where people lie down to stretch or exercise (virtual rooms and group classroom), because there are so many customers now that the dust is visible from the floor level and it does not look appealing."

Customer service	- staff members are appreciated - assistance always available when needed - multilingual staff members can help all customers	"The most important factor: lovely staff and excellent customer service, who always have time for a quick catch-up, this is why it is so nice to come to your center!" "Thank you for making sure we non-Finnish speakers are also so well looked after." "Even if the customer service hours are not that extensive, I feel like I can always reach the staff and get my issues handled easily because you make it clear that I'm always welcome to ask and you are very flexible with requests."
Other	- free parking appreciated - social media is informative but not pushy	"The free parking makes up for the price difference compared to a cheaper gym nearby." "Continue: I find lots of important information on social media, which is very convenient."

3.7   Analysis of interview responses

I will now analyze the interview responses from the point of view of the fitness center with probable causes and practical reasoning. This will act as a basis for outlining recommended actions in the next section, as it is not reasonable to fulfil all customer feedback by actions taken. I will use the same segmenting of feedback areas in the analysis as was used for the response summary.

3.7.1   Equipment

The feedback regarding equipment was both positive and constructive. The selection of equipment is rather extensive, and the fitness center uses industry leader Technogym's (Seeking Alpha, 2020; World economic forum, n.d.) gym equipment, which makes certain that the quality of equipment is very high. However, some of the equipment is the original stock that was purchased as the fitness center was founded in 2009, which means that some of it is ageing and needs more maintenance. The case company is also tied to using the Technogym selection because of the franchise contract, which means that customers may wish for some equipment that is not available in the selection at all. The specific wishes for new equipment that the interview responses produced were to add more treadmills, as the existing ones are often all reserved during peak hours, and to add an assisted pull-up machine with a weight stack. In addition to the demand for additional equipment, the feedback showed that several customers were not fully satisfied with the positioning of all equipment, specifically the warm-up equipment. The current positioning of the treadmills is such that they are very visible from both inside and outside the fitness center, which may make some members uncomfortable, according to the feedback.

The feedback concerning equipment was one of the most frequent responses in the interview, as out of the 20 respondents 6 made comments about this topic, which is in line with the numerical data received from the automated surveys, where equipment is one of the least satisfactory segments (see tables 5 and 6).

3.7.2 Assistance in exercising

Assistance in exercising is a topic that is related to the feedback regarding equipment because using the equipment seems to be somewhat daunting to some customers. All memberships include an advisory consultation with a trainer (which is also a sales opportunity for the trainer), but only a small fraction of new members choose to utilize this opportunity. There is no numerical long-term data about the percentage of members who make a free-of-charge appointment with a trainer at the beginning of their membership, but according to the call logs kept by trainers in the case company, an estimated 30–35% of new members make the appointment. The large percentage of members who do not utilize this opportunity is likely to cause this type of feedback, as it is understandable that gym equipment may seem complicated for first-time users without guidance. The perceived lack of guidance may lead to the members' activity levels to drop and eventually to cancellation of membership. Another assistance-related feedback type is that without a personalized plan, the members struggle to formulate a routine for themselves and thus become disappointed with the achieved results, which is the highest scoring reason for cancellation in the case company, as can be seen in table 1.

3.7.3 Personal training

Personal training is an extra service that is available for an additional payment. The only personal training service that is included in all memberships is the free-of-charge consultation that can be used to draft a recommendation for exercise frequency and types, as well as to assist in getting started with using the gym equipment. Personal training services include exercise programs, diet planning, body composition measurements, small group training, and of course, the one-on-one training sessions. The one-on one personal training package prices start at 89€ (includes one training session per month) and for example a package that includes 4 training sessions per month is priced at 279€/month. All packages are personalized according to the customer's needs. Training in themed small groups is priced at 79€/month (includes 4 training sessions). Themed small groups typically gather for two months.

Personal training is considered by some customers (2 respondents in this interview commented on this topic) to be too expensive and therefore unavailable for all. As the case company represents the lower price point of fitness centers, some of its customer base inevitably chooses this fitness center over others based on price. Therefore, they are not likely to buy additional services and as such are not potential personal training customers.

3.7.4 Facilities

In general, the feedback regarding the facilities is good. The new location that the fitness center moved into in August 2021 was extensively renovated and the space is clean and roomy, according to customer feedback. However, as the membership numbers have gone up, the space becomes more crowded during peak hours. Only one respondent in the interview had a specific development suggestion regarding the facilities and this feedback was in reference to the air conditioning, which in fitness centers is statutorily mandated to fulfil certain criteria (Land Use and Building Act 132/1999). These criteria were followed in the pre-relocation renovation.

3.7.5 Group classes and virtual classes

The group classes generally receive very good feedback. The members seem very happy with the selection and frequency of currently offered classes. The case company offers two evening group classes Monday – Thursday every week for members who have access to group classes (membership types 2 and superior). In addition, there is one gym circuit class each week during daytime, where a trainer plans a circuit training and supervises the participants during the exercise. The instructed class selection is extended by the virtual classes that are available for all members. Virtual classes consist of 42 different instructed exercises in Finnish, produced by the franchise (with 2–7 variations of each class), and of 3 different Les Mills classes that are original Les Mills licensed classes (with 8 variations of each class). The virtual classes were used by 717 separate customers 3101 times in 2022. Out of the interview respondents, 1 customer suggested a new class to be added to the selection: namely a mother and baby class for new mothers, which is currently not available (nor has it ever been available) at the case company. The feedback specifically mentioned that the lack of this type of instructed class is causing the member to think about

cancelling their membership to move to another fitness center that does offer/specializes in this service.

3.7.6 Cleanliness

The interview responses regarding cleanliness were constructive rather than negative. 3 respondents mentioned cleanliness in their responses, and the specific nature of the feedback is very insightful for the case company in understanding why the scores in automated surveys are not as high as in other areas, as discussed earlier in part 3.4. The interview produced feedback regarding the dust build-up in general and specifically in areas where stretching and exercise is done on floor level: namely the group class and virtual rooms. These are also closed spaces where the dust is more visible as it gathers into corners. Other specific feedback regarding cleanliness was received concerning the touch screens that are used to operate warm-up equipment. Frequent touching by many people may leave the screens dirty and potentially unappealing.

3.7.7 Customer service

The case company has received good feedback previously for their customer service in the automated surveys, and the responses to this interview support the earlier results. All feedback regarding customer service was positive, and 13 respondents mentioned it in the "Keep doing" part of the interview. The staff is well appreciated and especially the language skills along with flexibility received praise from the respondents. In a previous customer satisfaction survey conducted by a student in collaboration with the case company (Försti, 2020, p. 27), customers were asked if the customer service opening hours were important, and the majority of respondents in that survey felt that the opening hours did not matter as long as long as the customer could reach customer service as needed. This appears to still be the case, as the respondents highlighted the flexibility of customer service and the quick response times even outside customer service hours received praise.

3.7.8 Other

In the "Other" category is collected some feedback that was received which did not match the main areas. This feedback is mostly positive in the "Keep doing" category that reflects customer satisfaction. An example of this is free parking in the town center, which is not available for most central services. For a customer who drives a car, this benefit can bring the total costs of fitness center membership lower than in a center that has smaller monthly fees, but a member needs to pay for parking, possibly several times a week. Another feedback point was the case company's social media outlets, which are informative and entertaining but do not produce too much content to be considered pushy or annoying. Information relaying through social media may be considered an aspect of customer service and the entertainment value may play a role in creating a relationship with a customer, even the more independent ones who may not engage in person as much. As the social customer relationship management is an important aspect in building rapport with fitness center members, which was also pointed out in 2.7, utilizing social media channels in customer service should be considered a key aspect of customer service. This is supported by Macon's study (2020, p. 71), where all of his respondents considered social media to have an impact on improving customer retention. As a two-way method to engage customers, it may provide a solution to forming a deeper relationship with those members who are harder to connect with interacting in person.

4   RESULTS AND RECOMMENDATIONS

The objective of the interviews and data gathering in the previous section has been to identify the main development areas in the case company's services, which gives the case company important insight into what would help retain more customers and lessen the churn rate. In this section, I will draw conclusions from the interview response analysis and other gathered data to define what the results are. Based on the results I will continue to recommend actions that have potential to improve customer retention in the case company.

4.1   Results

The responses to the interview give the case company very specific information about what the existing customers are happy with, what they feel is missing, and what is not necessary. As summarized in table 8 above, the results show several areas for development. Based on the interview response analysis and data regarding the reasons for cancellations, I would suggest that the most important area from the customer retention aspect are assistance in exercising and focusing on the equipment. These two areas may have the most effect on customer retention based on the reasons for cancellation that former members have given in the past in the exit survey. This need for assistance quite possibly reflects the needs of member group A as described in section 3.2 and the demand for more focus on equipment relates more to the member group B.

4.1.1   Assistance in exercising

The most frequent response in the exit survey in 2022 was that the customer cancelled their membership because they were not satisfied with the achieved results. In the interview conducted for this thesis, 9 respondents gave feedback regarding the feeling of inadequacy in their exercise. This reflects the customer's inability to utilize the equipment and facilities to their full potential and is not as such an indication of the fitness center's insufficient services. Most fitness centers, and certainly the lower price point ones, do not offer free assistance in exercising beyond an individual appointment with a trainer to get started: personalized assistance takes a lot of resources and without additional compensation it is

not plausible to be offered to all willing takers. To help improve retention rates, however, the number of members who are unsatisfied with the results that they achieve must be reduced through some kind of assistance in their exercise routines. To keep even the inexperienced gym goers active will help in both forming a positive relationship with them as well as improving their impression of achieved results. This is in line with Macon's findings (2020, p. 73) where it was also mentioned that fitness centers may feel intimidating. I will suggest solutions for this in the recommendations section below.

4.1.2 Focus on equipment

In the interview, a total of 10 respondents made comments about the equipment. It is not unexpected to get requests for new or more equipment, and especially as there are more members who are experienced in exercise and training, they request specific equipment to perform their specialized exercise routines.

In addition to new purchases, the feedback regarding equipment has to do with placement in the fitness center. While the original layout has been planned with a professional, the customers who actually use the equipment are the ones who can tell if the layout is convenient in practice. Chelladurai and Chang make a similar note (2000, p. 10), remarking that the customers are the ones who have first-hand experience about the quality of a service, since they are the ones using it. Taking action on this specific feedback has potential to improve the customer experience and thus help improve customer retention.

4.1.3 Other feedback areas

Cleanliness is a feedback area that continually comes up as one of the least satisfactory aspects of the case company. With only the numerical survey results, specific targets of this feedback have not been available, but the interview responses have now given the fitness center some more precise information. With the beneficial responses it is now possible to make a plan on how to keep the specified rooms and surfaces cleaner and thus improve the customer experience and perceived service quality.

4.2   Recommendations for development actions

Based on the feedback received from the interview respondents, from the automated customer satisfaction surveys, and other data gathered, I will now outline recommendations for developing the services in a manner which have potential to improve customer retention. While these developments are a priority for the case company, it must be understood that there are limited resources for the realization of plans, and therefore my recommendations will be moderate. Because the case company belongs to a franchise, this limits the options for major changes. The main objectives are to improve the customer experience in the fitness center so that the experienced dissatisfaction in the exercises and achieved results will no longer be the leading reason for cancellations, to improve the opinion about the equipment so that the scores for this area will no longer be significantly lower than other areas, and to improve cleanliness to bring customer satisfaction to the same high level as it is on other feedback areas.

4.2.1   Assistance with equipment

The case company offers one free-of-charge training consultation for all members. The consultation includes a 45-minute face-to-face meeting with a trainer who will, based on the member's background and goals, draft a recommendation for a weekly exercise routine. The consultation time may also be used for going through the equipment and how they are used. The new members are informed about the available consultation in their welcome letters and have a chance to book the consultation online. The personal trainers contact new members who haven't booked the consultation to offer it to them. According to the call logs, only roughly 30% of the new members choose to book the consultation. To improve the inexperienced members' level of confidence in using the gym equipment, this percentage needs to be higher. Reasons for this may be that either the members find the name of the consultation somewhat vague, or they do not think that they need any personal trainer advice when they are just getting started, or they fear that by signing up for a consultation they are agreeing to purchase additional services. A solution to this would be to change the name to reflect the fact that it can include equipment assistance as well. However, as this term comes from the franchise and is a part of the licensing agreement, it cannot be changed, nor can the case company change the description of the consultation

on the website. This means that the only viable channel to enhance the bookings of training consultations is to improve the communication towards the new members. Another automated message after the welcome letter that would talk about the consultation, what it can be used for, and instructions on how to book one or a quick response button saying, "I am interested, please contact me". This is a cost-efficient added measure. Communication efforts should also be enhanced in social media and customer service to mention the consultation and "sell" them to the new members.

The personal training team in the entire franchise has recently adopted a mobile application that they use for sharing materials with their customers. This application has potential to be used as an instruction video bank and is not in any way limited for use by personal training customers only. I would suggest that the case company films videos of how to use the equipment correctly, in the case company facilities so that the equipment and environment looks the same in the videos and in real life to avoid any confusion, and posts the videos in the application. The use of the application can then be extended for all members of the gym. The case company could potentially also create quick read codes (QR codes) for the equipment that the customers can read with their smart phones and the code directs them to watch an instruction video. Free tools for generating QR codes are available online so this would not add any financial strain for the case company. Filming the videos takes some resources but the existing platform should be utilized to its full potential as it does not add any costs for the case company. The case company could also offer the videoing of the instruction videos as a potential assignment to for example physiotherapy students in the local university of applied sciences, which could potentially be a mutually beneficial solution as it saves resources from the case company and offers a student a topic for an assignment.

Significant communication efforts for getting all members to use the application are required and a communication plan for this purpose needs to be drafted. To get the information to all new and existing members requires different types of communication, which should also be noted in drafting a communication plan.

However, these efforts would be a step forward in helping inexperienced members get more information on how to use the equipment even if they do not book a consultation

appointment. This could potentially lead to fewer cancellations due to the members being unsatisfied with achieved results and because they find exercising to be too difficult. It would also be an added service for all members, which adds value to the price that they are paying and may improve satisfaction in the equipment when it is made clear how to use it.

4.2.2 Assistance with exercise planning

Another assistance-related recommendation has to do with exercise planning. An important factor in why some members are not satisfied with achieved results and why they find exercising difficult is that they do not know how to formulate an exercise routine. This problem is also not solved by the assistance with using equipment as suggested in part 4.2.1. However, the same mobile application platform could be utilized to offer help to all members with their exercise planning.

As the franchise offers a platform for sharing training materials to customers already, and the platform could be utilized in sharing this information with all members, I would recommend it be used in also sharing some simple exercise routines at the gym. I would recommend these routines/gym programs to be quite general full body exercises and not targeted at any specific areas because giving out specialty advice free of charge might have an effect on personal training sales. However, general programs would help the inexperienced gym-goers decide what to do at the gym and feel more comfortable in exercising as well as more satisfied in the results. I would start with 2–3 different exercise programs offered in the application, to offer some variety and keep the exercise from becoming boring. I would also recommend that these simple programs be changed every 2–3 months so that the members would feel like there is potential for progression, which would enhance the feeling of accomplishment and add satisfaction to the achieved results.

Drafting these programs would not require a lot of resources from the case company, as a professional trainer can draft them very quickly. Sharing the programs on the application is included in the licensing fees. This would be another cost-effective way to add value to the membership and give the members a reason to stay. Sharing programs through a bespoke application would give the members a sense of security as well, seeing as the internet is

full of information and misinformation. Having a trusted party to share this information would allow the members to feel more confident in following the programs.

In conjunction with the gym programs, I would suggest that the case company adds information in the application about booking a training consultation where a trainer will recommend a weekly routine for exercising. This way these two assistance-related new developments would feed each other, and the maximum potential benefits could be reached.

As in the previous part 4.2.1 concerning assistance with the equipment, this added service would require significant communication efforts. Drafting a communication plan is beyond the scope of this thesis, but if both of these recommendations are added to the service, it should be decided whether it will be done at the same time or at separate times, and how these developments will be communicated to the customers.

4.2.3 Equipment positioning

The positioning of the equipment has received some constructive feedback. As the fitness center relocated relatively recently in late 2021, the challenges of the positioning and the potential of the new facilities have now become apparent over the course of 1.5 years. Therefore, now would be a good time to explore the possibilities of moving some equipment based on both customer feedback as well as the staff's experience of the functionality and flow of the placement. What needs to be noted regarding moving gym equipment is that they are extremely heavy, may need professional moving equipment and movers, and some of the equipment needs to be bolted to the concrete subfloor. This means that moving gym equipment is not something that can be done without thorough planning and high level of expertise. What also should be taken into account is that while some customers feel that the positioning of some equipment is awkward, an overwhelming majority has not expressed any concerns. While all feedback should be taken into account, the urgency of moving equipment needs to be considered thoroughly.

I would suggest that the case company conducts a customer survey about the placement of equipment. This would allow the case company to get more specific data about this exact feedback area and a sense of how urgent the new placements are from the customers'

point of view. The survey should only cover the aspect of moving equipment and not ask for opinions about purchasing more equipment or give the assumption that the fitness center is contemplating purchasing more equipment, perhaps even stating explicitly that this survey is not about new equipment but about the existing. This is to avoid any misunderstandings and giving any false hope for customers about additional purchases. Based on the responses, the staff can then decide, which of the positioning feedback is valid and urgent, and if this feedback is enough to warrant changing the positions of some equipment. As mentioned, these decisions need to be made based on strong reasoning because they cannot be reversed easily.

4.2.4 Equipment purchases

The feedback concerning acquiring more equipment should be considered separately from the positioning feedback even though these two are interrelated. if purchases are made for new, large equipment, this will inevitably affect the positioning of previously existing equipment. For this reason, purchasing more equipment needs to go through the same consideration process as moving equipment in the previous section.

Based on the feedback and on the current member count, some new equipment will be necessary to purchase. The feedback from the interview conducted in this study as well as previous customer feedback will be taken into account. In addition, the staff's observations from the gym during peak hours should be considered in order to make a fully informed decision about what equipment is truly needed. In the interview, especially warm-up/cardio equipment was mentioned frequently: during peak hours this equipment is often all reserved and people have to wait around for their turn. This is something that will instantly set a tone for the entire workout and may reflect negatively onto the perceived service quality of the fitness center. Some other equipment was mentioned, namely additional crossover cables and bench press sets. The acuteness of these purchases seems rather high based on the feedback, and I would recommend that the staff have consider adding more of this equipment, which the fitness center already owns but appears to need more of.

The feedback also suggested a demand for some equipment that the fitness center currently does not have but the customers wish for. Most of these suggestions have been presented before in previous customer feedback, such as an assisted pull-up machine. These requests are recurring but isolated. While the objective is to increase customer satisfaction as much as possible, it needs to to assessed carefully, whether these additions are actually necessary or not (for example, assisted pull-ups can be done without a specific machine that is a rather large investment and takes up valuable space in the gym). I would suggest that the case company's administrative personnel keep a record of all customer wishes for new equipment purchases and defines a limit for when the frequency and number of specific demand becomes so high that the need for the acquisition can be called acute, and at that point considers making new purchases. Not all of the wishes from customers require large investments and often the experienced gym-goers wish for various handles and other smaller additions. For these purchases, less consideration needs to be made considering moving equipment or the financial aspect.

While more equipment is needed to fulfil the needs of higher visitor numbers to the gym, the requirement for free space between equipment must also be taken into account. This is a fine balance between having enough equipment for everyone to use during peak hours and having enough free space within the confinements of existing space.

4.2.5   Information about peak hours

During the latter half of 2022 and in the beginning of 2023, the case company has experienced a rather significant rise in visit numbers, which is relational to the rise in membership numbers (these numbers depict how many times the fitness center was visited in total, not single visitors). Figure 8 below depicts the development from 2021 to the first months of 2023. Especially in the beginning of 2023, the rise in numbers has been significant. January is typically high season in fitness centers, which means that comparing December and January to each other may give a rather distorted image of the rise in numbers. However, if we compare the highest number in 2022, November, when 5556 logins were recorded, to March 2023, when 6904 logins were recorded, there is a 24% rise in visitor numbers. Comparing March 2022 to March 2023, the rise is 43%.
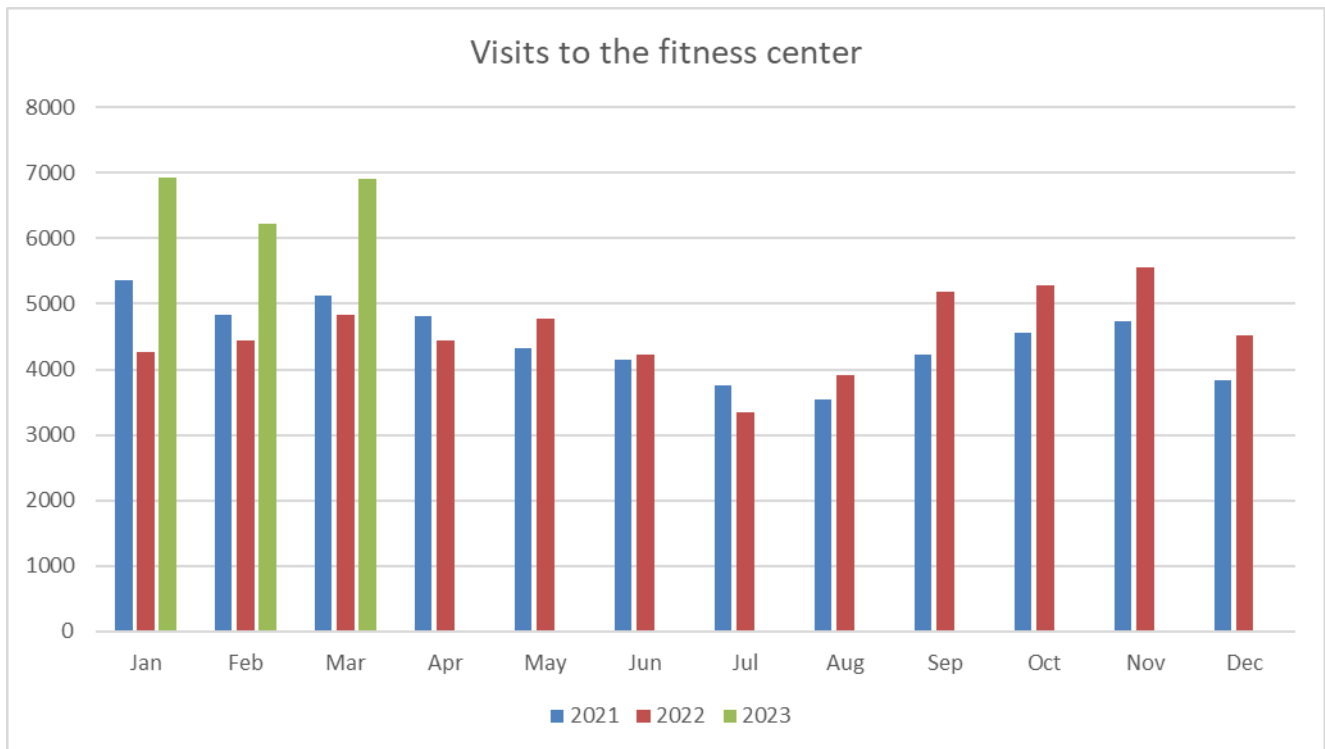
Figure 8. Development of visits to the fitness center 2021–2023.

The rapid growth in the number of visits means that during peak hours the fitness center will be more crowded, which may affect the perceived service quality in some customers. This is why it is important to share information about the peak hours and when it would be advisable to visit the fitness center in order to avoid the most crowded times. This may help in dividing the visits to a longer period of time and thus alleviate the peak hour rush.

I recommend that the case company includes sharing the busiest times in the fitness center in their communication plan and posts about it regularly in social media. The business intelligence system tracks the visits and in figure 9 below is an example of how the system depicts this information in a highly illustrative manner.
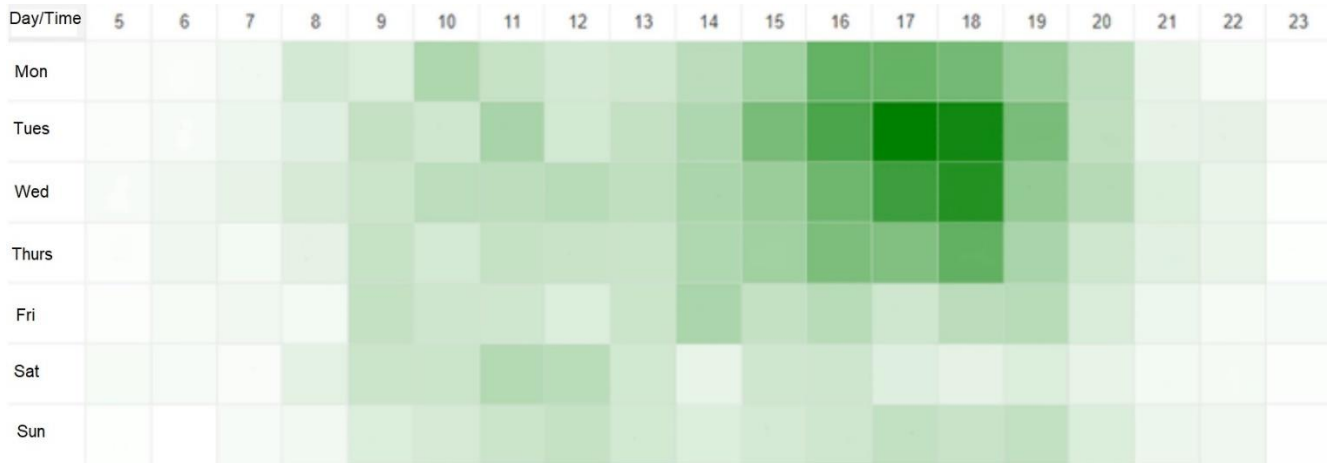
Figure 9. Peak hour illustration.

In this illustration, the busiest times are marked with a darker color and the lighter the color, the fewer visitors come at that time. This information is updated in real time in the business intelligence system, and I would recommend it to be shared monthly to keep instructing members and prompting them to think about choosing a less busy time, if possible.

4.2.6 Mother-baby activity

In the interview, and in the "Other" section of exit surveys of the case company, the lack of a mother and baby activity has been criticized. The case company has a policy to pause the membership during and after pregnancy at the expecting mother's wishes, but many of them still choose to cancel their membership entirely because they already have decided to join another gym that offers mother-baby activities and even specializes in them. Because this activity is likely to evoke strong emotions, there is a risk that the mothers who join another gym only for the mother-baby activities, will not return to the case company even after the time for these activities is over. Their bond and loyalty may change towards the other service provider.

While the case company does not plan to specialize in mother-baby activities, I would recommend that it considers organizing a mother-baby group on regular intervals. This would give the expecting mothers a feeling that the case company is interested in their well-being after giving birth, which could lead to fewer expecting mothers cancelling their

membership. The case company currently employs a maternity physiotherapist as a personal trainer.

4.2.7 Cleanliness

As cleanliness is a recurring theme in constructive customer feedback, it must be addressed in some ways. As the number of visits to the fitness center has grown, maintaining a satisfactory cleanliness level is equally more challenging as the amount of dust, fingerprints, and trash has grown proportionally. This means that the amount of cleaning efforts also needs to grow in proportion to the growing number of visits.

In the numerical satisfaction surveys, cleanliness has only been a number that signals a need for some development. The interview responses in this thesis, however, have given the fitness center specific development areas where the cleanliness needs more attention. The only solution to this is to add cleaning efforts, starting with the feedback areas, and potentially expanding the efforts to other sensitive areas as well. This will require resources but is a crucial customer satisfaction point where I would not recommend trying to find the cheapest alternative.

4.2.8 Prompt message for inactive members

Based on the inactivity rates presented in table 6 in section 3.4.1, I would suggest that the case company adopts a prompt message for inactive members. As the research shows, inactivity is likely to lead to cancellation. Balancing between prompting for more activity and being too pushy can, however, be a fine line. This is why the prompt message needs to be designed carefully and perhaps trialed on a small sample of members before going full scale. The correlation between inactivity or non-attendance and cancellation links to dissatisfaction with achieved results. More visits to the fitness center also give the case company a chance to showcase its features for the member, which may help in building a relationship. While a prompt message may for some members seem caring, some may feel it is annoying and that the case company should not be tracking their visits. This is why I would keep the message rather impersonal and preferably use email as the

contacting channel, because text messages or social media messages may feel too personal and pushy for the recipient.

4.2.9 What to keep doing

As the final point in my recommendations, I would draw the attention from the constructive feedback (stop doing) and demands (start doing) to the positives (keep doing). Equally important as responding to the constructive feedback is to keep doing what the customers already enjoy and appreciate. As customer service consistently receives high marks, it is extremely important to keep the standard high, even when inevitable staffing changes happen. I would suggest that the case company drafts and adopts a recruitment plan where the crucial attributes of potential recruits are delineated. Based on the interview responses, two of these attributes must be personability and language skills. Social skills of an employee may be what turns the customer-firm relationship into a loyalty-inducing one and what makes a difference in retaining customers in the long term. As Macon points out (2020, p. 71), engaging and interacting with fitness center customers makes their experience better. Feeling heard makes a customer want to retain their membership and may help in bringing in new customers. This is why ensuring that the customer service remains at a high level is very important for the customer satisfaction and therefore customer retention rates. To make sure that all customers get the same experience, excellent language skills are required of any potential new recruits.

In addition to customer service, it is important to keep the social media presence as informative and entertaining as it currently is, which is what the customers appreciate. In Macon's study, the importance of social media as a form of customer service and a factor in customer satisfaction was highlighted not only because of the information and entertainment value but also because it gives customers a way to express how they feel about the company.

4.3 Summary

To summarize the results and recommendations of the interview and analysis of other data, I would conclude that the case company has an opportunity to develop several areas

with actions that require only minor resource usage. Adding services such as assistance with equipment and with gym programs has potential to enhance the perceived service quality in a way that may help inexperienced customers feel better about their exercises. Moving and adding equipment will need to be considered carefully, and the customers should be involved in the decision-making process especially concerning the relocating of items, to make sure the case company has all the essential practical information from the actual users of this equipment. Because responding to the equipment-related is likely to serve the more experienced gym-going members, this has potential to reduce the number of members who cancel their membership just to try out another fitness center, if the case company can offer them what they need and want. Both member types will benefit from more information regarding peak hours and enhanced cleaning efforts as well as from the continued high standard of customer service and social media. Providing the customers with a communication channel that they identify with is important (Macon, 2020, p. 79) and this is why social customer relationship management must be considered an area of customer service.

The suggested timeline for implementing the recommended developments should be considered based on the perceived acuteness. I would start developing the assistance-related suggestions as soon as possible as well as planning for the potential need for reorganizing and purchasing equipment. The added cleaning efforts should also be adopted right away seeing as this does not need any further research.

5 CONCLUSION

This thesis focuses on finding solutions for customer retention in a fitness center. As has been established, acquiring new customers is more expensive than retaining existing ones (for example Reichheld & Sasser, 1990; Watts, 2012), and the lifetime value of retained long-term customers is higher, seeing as retained customers can help in acquiring new ones (Watts, 2012, p. 8). The problematic aspect of relying solely on acquiring new customers to grow a business is that once the market is saturated, it becomes increasingly difficult for market leaders to acquire new customers. This is why increasing customer retention needs to be a priority, even when the acquisition is still going well. Unfortunately, there is no one-size-fits-all solution to this, but the solutions need to be drafted individually per each fitness center and that has been outlined in this thesis for the case company.

To support developing customer retention, I had a look at extant literature about how customer relationships are built and how personal connections between customers and front-line staff help in establishing a customer relationship that becomes loyal, both from a general point of view and from the specific point of view of fitness centers. The literature review suggests that in a service company, which a fitness center is, it is important to keep the members active and to find ways to engage them in a personal manner, whether it be in person or via the members' favorite social media channels, for example. Encompassing social customer relationship management into the concept of customer service is an important method for accomplishing this, especially concerning the younger generations.

By gathering data from the case company's business intelligence system, I was able to identify the main reasons for membership cancellations, which has given me an idea of what kind of challenges this customer retention development plan needs to tackle. An important distinction was made between the membership types and member types, which made it clear that the needs of customers cannot be made solely based on what membership type they have chosen. While one of these member types may be more vocal about their needs (group A), the other is currently growing strongly and is therefore a crucial part of the customer base (group B) whose needs also need to be considered even if they are not as vocal about expressing them. Forming connections with both member types is

crucial, to maximize customer satisfaction and create loyalty, and thus gain referrals to help in acquiring new members through existing ones.

Utilizing the existing data from the case company's automated customer satisfaction surveys for both new and existing members, which also gather Net Promoter Score data, I was able to identify some initial development areas from the lowest scoring areas, which were equipment and cleanliness. However, as this data is numerical, it does not give the case company any specific information concerning what about these areas is not fully satisfactory to the respondents. As such, the numerical data can only be a starting point for examining the development areas, but to fully draft a development plan, some more specific responses were needed.

To this end, a miniature sample of the case company's customer base was selected to answer what they wish the fitness center would START doing, KEEP doing and STOP doing. This method gives the case company some valuable, specific information about parts of the service that are satisfactory, parts that need developing, and parts that need to be changed entirely. Because this feedback method does not lead the respondents to think about any specific area of the service, the responses have potential to be franker than for example the open-ended questions in automated surveys (whose questions may lead the respondents to only consider areas mentioned in the survey).

The results from the Start, Keep doing, Stop responses were in line with the earlier survey results but with the added benefit of detailed development points rather that vague development areas. I was able to identify the main development points from the perspective of customer retention, which were lacking assistance in exercising, added focus on the equipment, and specific spots in the fitness center that need more cleaning. Helping the members feel more confident in their exercises is a key point that relates primarily to the members in group A, the more inexperienced and less passionate gym-goers. This is why I suggest utilizing the existing mobile platforms to provide more assistance for all members of the fitness center, at a reasonable cost to the case company but potentially a factor in helping retain customers who would previously feel like exercising is too complicated and who used to not be satisfied with the achieved results. If, for a reasonable cost, these members feel like they are better taken care of by the fitness center, this will be a worthy

investment because this was the main reason for cancellations in the case company in 2022. Retaining these customers will also give the fitness center personnel a chance to form a bond with them, which will make it more likely for the customers to retain their membership for longer and bring in more customers through referrals.

To cater to the needs of the largest member group, the under 30s, who also largely represent member type B, it is important to focus on the adequacy of gym equipment. While purchasing new equipment and relocating equipment in the gym needs to be done only after careful consideration, not all of the wishes for new or additional equipment are large investments financially nor large in size. Providing as much variety as possible in the equipment may prevent this member group from cancelling their memberships just to try out another fitness center, if the perceived service quality is high enough. For this member group, it is also likely that social CRM needs to be on a high level for them to engage and connect with the case company more. This is why I also recommend spending resources on social media and social CRM.

For the case company, this development plan gives specific information about the development areas, some of which were already known but rather vague. I believe that the case company should repeat the Start, Keep doing, Stop feedback on a regular basis, in addition to the numerical surveys. In my experience, the customers were very willing to answer questions and I believe that asking them these questions made them feel like they have an opportunity to influence the service provided. I was prepared to write this thesis based on a smaller number of responses and was pleasantly surprised to get such a good response from customers. I don't know if the willingness of the respondents was because they were approached personally and if turning the interview into a regular survey would affect the willingness, but this type of information is so valuable for the case company that it should be gathered regularly.

I feel very strongly about the feedback method and the non-leading nature of the questions because it is extremely difficult to come up with ways to find out customers' opinions without unintentionally feeding them ideas. Because these questions can be asked without an interviewer present, and the responses could be limited to a fixed number, the amount of data could be manageable even in if the questions were presented in a survey form.

Admittedly, this would be an extra task for the administrative staff of the case company. The benefits, in my opinion, would still exceed the occasional need to use extra resources on going through the data.

When I started this process, I had a rough idea of what type of feedback I would receive but was pleasantly surprised at the detailed responses the respondents were willing to give. My assumption was that the answers would be short and less informative. Perhaps my presence as an interviewer affected this, which is another reason why turning the questions into a survey may not work quite as well. However, I believe that this could be interpreted by the customers as a way of building a relationship: the case company reaching out and hearing what they have to say, and the company needs to find a way to "sell" this sentiment to the customers when presenting the potential survey. If this is successful, the customers may be as willing to give the open-ended feedback, even though it requires more effort than just simply selecting a number on a survey form, even in the absence of an interviewer who encourages them to.

During the course of data gathering and analysis for this thesis, I came across some topics that would benefit from further research in the case company alone and quite likely on a larger scale as well. It would be useful for any fitness center to be able to define their member types outside of the realm of membership types, and this could be turned into a qualitative study, perhaps on a large scale – for example respondents from the staff of all fitness centers in a certain region or within a town. In my thesis, I did a small-scale interview with the staff of two local fitness centers. I feel like this is an important topic for fitness centers in general because, as mentioned, the membership types alone cannot explain the needs of different member types. My classification in this thesis of member types A and B could be used as a starting point.

Once this definition is complete, it could be turned into a quantitative study where a customer base is analyzed using the member types. In my opinion, this would give a fitness center a rather realistic understanding of what areas of service their customer base is likely to value highest. While using this type of analytical tool, however, asking customers for feedback should not be forgotten.

For the case company, this thesis provides a plan for developing customer retention. Without a follow-up, the efficacy of the recommended measures cannot be evaluated. As the implementation of the recommendations that include technical elements may take some time, and as the recommendations regarding equipment require careful consideration, I believe the effects of the recommended actions will only be seen perhaps in a year or two.

The purpose of this thesis is to provide the case company with some realistically useful options for improving customer retention. The objective has been to keep the recommendations such that implementing them will not require so many resources that would render them unusable. In drafting the recommendations, I have been able to utilize my own expertise and experience from working in a fitness center and I believe that without this experience, understanding what is realistic and what is not, would have been very difficult. With help from my recommendations, the case company now has potential to retain more of its customers, helping them feel better and adopt healthy habits – allowing it to keep benefiting not only its patrons but also the local community and economy.

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