

Internal marketing and the effect on customer retention in the health & fitness industry

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Abstract

This paper reports on a study of the effect of internal marketing on customer retention in the Irish health and fitness industry. The findings are extracted from a broader study examining the practice of relationship marketing from which the internal marketing findings are highlighted. The findings indicate the need for a change in culture with greater emphasis on staff training and development to ensure a high level of service to aid customer acquisition and retention. The industry appears to have a high rate of staff turnover and therefore staff recruitment and training issues need to be examined. Customer service is rated poorly and elements of this, including the provision for increasing member/staff interaction as an aid in building loyalty need to be further investigated. Customer defection and the implementation of exit analysis, calculation of the financial value of a customer and greater awareness of the value of lifetime customers also require greater attention if customer retention levels are to increase in the health and fitness industry.

Internal Marketing Defined

Kotler (1991: 45) defines internal marketing as “the task of successfully hiring, training and motivating able employees to serve the customer well”. The successful service company must therefore “sell” the job to employees before it can sell its services to customers (Sasser, 1976). As a result, the objective of internal marketing is to create an internal environment in which customer consciousness proliferates among personnel at every level (George, 1990; George and Gronroos, 1989; Gronroos, 1981).

Rationale for the Study

As a long-term repeat purchase business with a high degree of customer involvement, it seems clear that relationship marketing is a very appropriate strategy to apply to the health and fitness sector. This paradigm offers the potential to inform thinking on issues of new customer recruitment, customer retention and even brand/company loyalty. Furthermore, since most research on relationship marketing has been completed in financial services industries, the health and fitness industry offers a new market arena in which research of this nature may be applied.

Method

A mail survey was sent to two hundred and ten health and fitness operators in Ireland. 59% of those surveyed were private gyms, 6% were leisure centres, 3% were community/corporation centres, while hotel leisure centres and sports centres accounted for 20% (10% each). 12% were classified as other which included casual drop in centres offering community leisure activities on a voluntary basis. A 39% response rate was recorded.

Results

Staff Turnover

63% employ between 1-5 full time employees and 22% employ between 6-10 full time staff. 56% employ 1-5 part time staff while 16% employ 6-10 part time employees. Part time employees accounted for over half of all those employed in organisations with between 1-5 employees, which would indicate that the industry relies heavily on part time staff. It would be reasonable to assume that this has implications for the high turnover of staff in the health and fitness industry and that it may also have an effect on customer retention levels. Over half (57%) of those surveyed viewed staff turnover as a major problem in the health and fitness industry. 64% reported a loss of 1-3 staff members annually while 12% lose 5-8 per year. Christopher and Mc Donald (1993) note in their study how companies with higher than the industry average of staff turnover tend to be poor performers in terms of customer service.

Staff Recruitment Costs

The results of the study indicate that 21% of facility operators surveyed spend 6-7 days per year recruiting new staff, 19% spend 8-9 days and 16% spend between 2-5 days. 33% spend £101-£200, 19% spend £201-£300, 12% spend £401-£500 or less than £100, while 10% spend £301-£400 annually on staff recruitment advertising. These results highlight the cost factors involved in the constant search for staff replacement and perhaps staff turnover could be reduced if greater attention was paid to staff training and development.

Staff Training & Development

Only 4% and 7% of those surveyed use team building exercises and staff appraisals respectively. The low proportion of those reportedly using paid training, cited as 19%, is a cause for concern, especially when education has been highlighted by Conrad (1999) as a useful method of enhancing customer retention in the health and fitness industry. The importance of these staff development programmes may be crucial to the success of any retention strategy since a stable team of staff members will prove more adept at enhancing customer relationships. Webster (1999) in a study on "Why Members Quit" demonstrates a very high correlation between member retention and the quality of staff employed. These findings support the work of Gronroos (1988), and George (1990) who found that satisfied employees provide a much higher level of service quality to the external customer. In addition, another important consequence of good internal marketing practice is increased organisational commitment of employees (Tansuhaj et al, 1991). This in turn should result in increased job satisfaction, increased job performance and lower rates of staff turnover (Jenkins and Thomlinson, 1992; Mathieu and Zajac, 1990; Schlessenger and Haskett, 1991) thereby facilitating the interactive process. Ennew & Binks (1999) also note in banking how branches with above average employee retention had 91% customer retention compared to 72% for those with below average employee retention.

Customer Service

When respondents were asked to list the distinguishing characteristics of their clubs, the service and facilities were listed by 40% and 51% respectively. The low rating attributed to service as a distinguishing factor is surprising given that service is capable of providing a key differentiating strategy for any service industry. 98% of respondents in the study identified equipment as the most important distinguishing factor, while 95% listed classes as the key distinguishing element. These results were unexpected given that most health and fitness centres now offer broadly similar equipment and classes and these are therefore unlikely to represent a significant means of differentiation. 81% attributed atmosphere as the most distinguishing feature of their business while only 73% noted staff as a distinguishing factor. This is surprising given the contribution that staff can make to customer service. This is consistent with the findings of Kelly and Davis (1994) who discovered that health club customers receiving higher levels of service quality are more committed to the health club than those whose service experience was average. 94% of those surveyed stated to always greet their customers while 91% always concluded the visit with a farewell. 66% used programme supervision as a means of promoting staff/customer interaction while classes accounted for 51%. Social activities were adopted by only 25% of the health and fitness clubs surveyed as a means of promoting customer interaction.

Customer Retention

Only 14% of customers were found to stay with the club for at least three–six months while the drop off rate was considerably lower in the one – two year period (27%). This indicates that the longer a client remains a member, the greater the chance of retaining this customer as a member in the long- term.

Customer Defection

According to Reichheld (1996) companies need to study failure to reveal the deep-rooted causes of customer defection. Despite these recommendations, only 52% of those surveyed questioned why customers leave their club. Of this 52% , most relied on standard methods of sourcing this information including letters (19%) and surveys (25%). Only 22% reported using telemarketing.

Discussion

The findings represented have implications for the promotion of customer retention in the health and fitness industry. A high incidence of staff turnover may prove a limiting factor in promoting the internal marketing aspect of health and fitness clubs and ultimately customer retention. Staff can play a crucial role in the implementation of retention strategies and therefore further investments in team building exercises, paid training, incentives and regular staff appraisals may prove worthwhile. It would appear that customer service is still not receiving the recognition it deserves but could be used as a key sustainable competitive advantage for health and fitness operators in the future. By increasing the number of points of contact with customers, employing personal methods to develop customer relationships, providing for social activities, tracking non-attending members, and completing exit analysis reports, employees can contribute greatly to improving customer service elements. As a result of a properly executed customer service policy, customer retention and referrals may follow thereby increasing the lifetime and financial value of retained and loyal members in an increasingly competitive health and fitness market arena.

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