

The Research on the Investment Value of Online Fitness App in China —Taking Keep as an Example

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ABSTRACT

Nowadays, more and more people prefer to use online fitness app rather than go to fitness room, when they want fitness. As the product of a combination between the technology industry and the fitness industry, the online fitness app is changing people's fitness habits from the traditional way. Other researchers focus on the effect of online fitness app on users fitness habits and drivers. However, from the perspective of investors, this research adopted the People, Opportunity, Context, and Deal (POCD) framework, which is often used on the analysis of venture investment, to study if the online fitness app in China is worth investing in and using Keep company as an example to complete the research. There are many opportunities in the online fitness industry like the convenience of application, more and more people want to start fitness, and the effect of COVID-19, but people and context are competitive disadvantages in Keep company like top managers without enough experience. The conclusion is that there are some issues in the company's business model. The customer retention rate is low, and the company earns less money than its expenditure on the advertisement. Based on these reasons, the company is not worth to be invested now. It also reflects that there are some issues in this new industry, investing it should be consideration careful.

Keywords: *Keep, Fitness applications, Online Fitness Industry, POCD framework, Venture Capital*

1. INTRODUCTION

Is there any investment value of an online fitness app? The data shows that until February 2020, the obesity rate in America reaches 42% among adults [1], and more than half of Chinese adults are overweight and obese [2]. Therefore, the fitness industry is developing and be different from the traditional way like going to the fitness room. The new way is an online fitness app which is a better idea for people who want fitness, especially beginners. Segar, the University of Michigan's professor, said that people always believe that if they cannot go to the fitness room, they are failed to be fit [3]. However, nowadays, the online fitness app is much popular. People can be fit anywhere, at any time.

In China, since the large population and house requirements, the fitness room is less and less. The scarce fitness space causes the expensive membership fee of a professional fitness room. So, most Chinese people's fitness demand is not meeting. Furthermore, other countries' online fitness apps do not appear in the Chinese market. Under the background, the Keep company exploits the opportunity to develop the first Chinese own online fitness app. Keep company is built-in 2014. The main business provides fitness solutions for beginners and sells fitness equipment, clothes, and food. The appearance of the Keep app satisfies people's fitness demand in the Chinese market and changes young people's fitness opinion. More and more people like to use the Keep app. This situation reached a peak in 2020. Because of Covid-19, people must stay at home, which

causes more and more people to transfer to an online fitness app.

There are many articles to research this industry. For example, Jeroen's team researched the persistence of using Online Fitness Communities (CFO), one of the functions of the online fitness app, between beginners and experienced users. The result shows that self-regulatory is the primary motive for beginners, but for frequent users, they pay more attention to social requirements [4]. Another example from Laurence Dessart and Maureen Duclou shows that "CFO improves fitness product choices and the persistence in daily fitness [5]." Then, another research of Keep company from daxueconsulting.com is "Keep's successfully marketing strategy [6]." The difference between these researches and our research is that these researchers pay attention to the effect of app users, the new business model, and the difference from the fitness room. The research on the Chinese online fitness industry and Keep company is rare. In this paper, we intend to research the online fitness industry in China from the perspective of venture capital. We believe that the different perspectives will lead people to consider this industry differently.

This paper will use the POCD framework, from people, opportunity, and context, to research Keep company and analyze its competitive advantage and disadvantage. Finally, we study whether this company is worth being invested in by venture investors.

2. METHODS

2.1. Introduction of Keep Company

Keep's official name is Beijing Calorie Technology Co. LTD. Since it only has one product, the Keep app, they use Keep as their brand name, and people are likely to call the company Keep. The Keep company was built in 2015 by Ning Wang, the founder of Keep. Keep app is an online fitness app with many functions, including online fitness lessons, healthy eating, making fitness plans, making friends, and selling fitness equipment, clothes, and food.

Keep's target market is fitness beginners because they are interested in fitness but lack guidance. That is why the founder wants to develop the Keep app. The mission of Keep company is to make the world move, and it believes that the development of technology will change people's life. Moreover, its vision is to become the world's largest smart sports operator. Even though Keep company is at a start-up stage, it has already gotten seven-round investments, from angle investment to F round financing, and gets \$610 million total. It shows that many venture capitalists are interested in Keep's new idea to use an online fitness app instead of going to the fitness room.

The following is Keep company's financing history. In table 1, from 2014 to 2021, Keep experiences from

Angel round to F round financing. Until now, the F round is a peak in the financing history, since Keep get 360 million dollars once. Totally, Keep has already got 610 million dollars investment, if sub all amounts from table 1. There are many investors, including BW Investment Management Center, Ventech China and BAI Capital.

Table 1. Keep's Financing History

Round	Year	Amount	Investors
Angel	2014	\$5M	BW Investment Management Center
A	2015	5M	Ventech China and BAI Capital
B	2015	1M	GGV Capital
C	2016	32M	Morningside Venture Capital, GGV Capital, BAI Capital
D	2018	127M	The Goldman Sachs Group, Shenzhen Tencent Computer System, GGV Capital, Morningside Venture Capital, BAI Capital
E	2020	80M	Jeneration Capital, GGV Capital, Shenzhen Tencent Computer System, Morningside Venture Capital, BAI Capital
F	2021	360M	Vision Fund, Hillhouse Capital Management, Coatue Management, Jeneration Capital, GGV Capital, Shenzhen Tencent Computer System, Morningside Venture Capital, BAI Capital

Sources: tianyancha.com.

2.2. Introduction of POCD Framework

The POCD framework helps investors to evaluate whether a company deserves investment. The POCD is a combination of four critical elements: People, Opportunity, Context, and Deal. The category of People encompasses individual employees and groups who perform services or provide resources for the venture. Opportunity is activities the company can have to get the future to grow. Context is the big background that would affect the outcome of opportunities. Deal refers to implicit and explicit contractual relationships between

the venture and all resources providers [7]. This paper will not mention the deal part since the related term sheets are not public.

3. THE POCD ANALYSIS

3.1 People

3.1.1 Founders

The management of Keep is not effective. There are six people in the group, Ning Wang, Wei Peng, Yuehui Peng, Chunpeng Wen, Jinyi Li, Dong Liu. However, only two, Ning Wang and Wei Peng have related working experience before, and all the six people do not have any working achievement, which can be a huge problem. Recently, their strategy has caused a big loss. Wang Ning, the company's founder, also resigns as CEO, which means he has too much power. [6] It is hard to maintain a balance in Keep. These facts show that the management group has big issues.

3.1.2 Employees

From the perspective of the people inside the company, the company's treatment of employees is very friendly and reasonable. The company retains enough public areas in the limited working space. The sports fun is integrated into every corner of the space, like simple strokes of various sports elements on the wall. Keep also provides a special method for employees called "Calories Plan," a point incentive plan. Employees can earn these points by participating in company activities, and they have a base value based on their working years. At the end of the year, employees can exchange their points for welfare and free trips provided by the company.

Keep has its own culture. The employees are called "Kippies". They have established three values: be integrity and grateful as people, be efficient and extreme at work, be innovative and open when facing the future. May 20th in every year is Kippies Day, that the company will give employees a big party to relax.

3.1.3 Consumers

With the continuous increase of people's income, they seek better entertainment after work, and fitness has attracted more and more people's attention. With the diversification of people's fitness goals, people pay more attention to the fitness methods and content that are suitable for themselves. At this time, fitness has become the first choice of people, providing sufficient motivation, and guaranteeing the development of fitness apps.

Whether beginners or experienced fitness enthusiasts who insist on it for a long time, they will have their plans and fitness habits. Because so many people want to work out, providing fitness guidance services can obtain

commercial, economic benefits. Fitness APP can record the user's various data in the training process, and the system will conduct big data analysis based on the user's situation. Finally, a scientific and reasonable training program can be customized. All users of Keep are free to register and use various practical functions of Keep for free. It provides professional guidance for users and saves many expenses for professional guidance.

3.2 Opportunity

We analyzed the opportunities of the Keep app in the market from the four aspects: economy, convenience, science, and personalization. These are the aspects that are missing in the current market. From these aspects, Keep can quickly fill the market demand to win consumers more easily.

3.2.1 Convenience

With the rapid development of the smartphone, GPS positioning, data interconnection and high-performance CPU are perfectly combined. The integration of these technologies on mobile phones enables fitness enthusiasts to enjoy the fitness guidance of professional fitness apps if they bring their mobile phones. For example, Keep can provide corresponding guidance to users at any time. Does not receive the time and space limitation, can maximize to meet the modern people's constantly changing fitness needs. In addition, the application and content layout of Keep is very reasonable and concise. Without overly complex operations and information, which can save the time cost of users.

3.2.2 Personalized Advantages

Fitness marketing apps are rich in content. They provide various functions such as fitness courses and fitness venue reservations, open a fitness data recording section, and provide humanized functions such as dietary suggestions and private customization, covering rich content. Another important piece of content for the user is to set up a fitness communication section.

3.3 Context

3.3.1 Political

In the perspective of context, firstly, in the Political part, the Chinese government supports the development of sports and health areas and implements some policies to encourage people to do sports. In May 2016, the General Administration of Sport issued the 'Sports Development Plan,' proposing that the total size of the sports industry should exceed 3 trillion yuan by 2020. 'The National Fitness Plan' issued by The State Council requires that the total scale of sports consumption reach

1.5 trillion yuan by 2020. [6] This political action plays a critical role in the awaking of national fitness.

3.3.2 Economy

In the perspective of opportunity, the Internet era can be a strong factor for Keep growing up quickly. Time is one of the most important competitiveness. Products can only be purchased when they meet and represent the future demand direction. It is the awakening of national fitness awareness and the current situation of many restrictions that provide an opportunity for the development of Keep. Thus, the new company fills the market demand and quickly occupies the market.

Secondly, in Economical part, with the fast development of GDP and per capita disposable income, Today, China's economy has made great achievements. According to the 2015 National Economic Report released by the National Bureau of Statistics, China's Gross domestic product (GDP) in 2015 was 67.67 trillion yuan, with a year-on-year increase of 6.9%, ranking the second in the world, with a per capita GDP of 52,000 yuan [8]. Not only the GDP but also the personal income of The Chinese people is increasing greatly. In Figure 1 and 2, during the ten years from 2011 to 2020, China's GDP increased by 2200 trillion yuan, and personal disposable income also increased continuously. [9]. As income grows, it is natural that more and more people are willing to spend money on personal improvement.

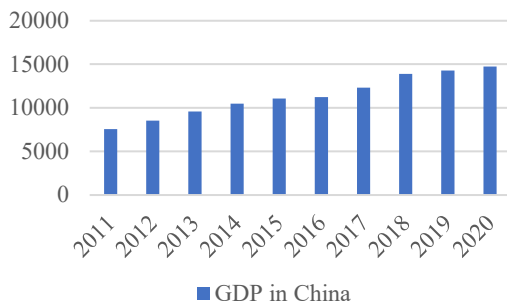


Figure 1. Gross Domestic Product (GDP) in China. Sources: The World Bank.

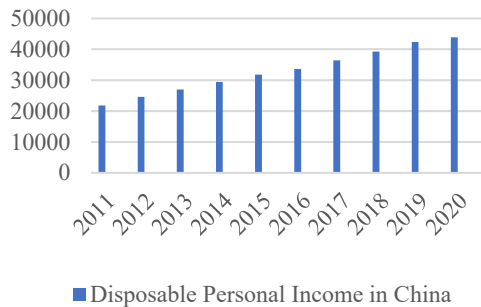


Figure 2. Disposable Personal Income Sources: National Bureau of Statistics of China.

3.3.3 Social

Thirdly, in the social part, under the development of social media, celebrities would like to share their daily life with the user to set up a fitness communication section. Users can post information like exercises on the APP. According to experience, a fitness communication platform inspired the user's interest in fitness, strengthened the user's use to APP dependence, on the other hand, raised public awareness of fitness marketing classes of APP. It is conducive to the further development of fitness marketing apps.

3.3.4 Technology

Because with technology and data analysis, Each fitness plan displayed by Keep is just right, including difficulty, type of equipment, duration, and training location. These data can well fit the user's psychology, making the user's fitness plan more scientific and reasonable.

When all sectors of society value the sports and fitness industry, competitors and substitutes will also begin to appear. Keep is certainly not the only fitness app in the market. Many similar apps are entering the market, competing for the same consumer groups and opportunities, all trying to lead the fitness marketing market. In Figure 3, according to the data which the future fitness application market forecast will continue to grow, and the increase is obviously. As a result, more and more fitness marketing apps will be on the market, backed by billions of dollars. With the expansion of the market and the use of disuse, the competitive intensity of the fitness marketing APP market will further increase [10].

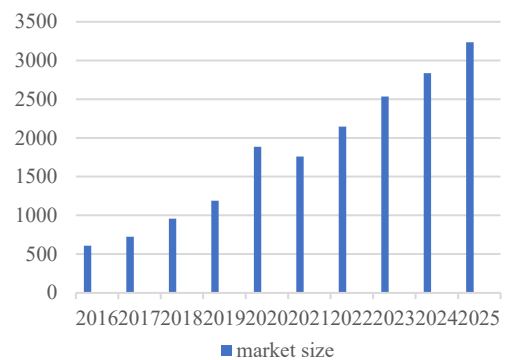


Figure 3. U.S. fitness app market size (exercise & weight loss, diet & nutrition, activity tracking). Source: The global fitness app market size.

Although the functions of fitness apps have been developed more and more perfectly and powerful, they still face threats from other fitness methods. Fitness enthusiasts can also learn fitness skills, get guidance from books and videos, and consult with fitness instructors. With the widespread popularity of gyms, reasonable prices are more attractive to fitness enthusiasts. Moreover,

gyms are more satisfying for people looking forward to socializing, meeting new people and meeting more of the same interests. Taking Keep as an example, even though the guidance provided by the software is professional, it is not as good as the face-to-face communication between members and other members or coaches in the gym. So, fitness apps are still threatened by similar functional alternatives.

4. CONCLUSION

This paper applies the POCD Framework and investigates the structure of the online fitness company Keep. We find that China's economy has achieved great progress, and under the Covid-19 pandemic, the market size became large for the Keep app. However, in the perspective of people, the management group is not effective. Issues also exist in the opportunity because citizens have no choice for exercise but doing exercise at home. Keep's opportunity is largely attributed to the restricted time. In the perspective of context, surveys conduct that fitness is a periodical industry.

Additionally, Keep now has a low customer retention rate of only 2.62%. Therefore, Keep's revenue is far from what people expected, and the cash flow would not be enough for operation. It demonstrates that Keep's ability to earn money is relatively low, and it must finance many times. In conclusion, by employing POCD Framework, Keep, or Beijing Calorie Technology Co. LTD is not worth the investment.

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