

Norm Cates'

THE Club Insider[©]

NEWS

The Pulse of the Health & Sports Club Business

February, 1994

Red Lerille's Health And Racquet Club CASE STUDY

By Norm Cates, Jr.

PART ONE

You are about to be exposed to an in-depth INSIDER



RED LERILLE'S HEALTH
AND RACQUET CLUB

examination of one of America's leading health and racquet clubs. Red Lerille's Health and Racquet club has been in operation in Lafayette, Louisiana for 31 years. This Club Case Study will examine all aspects of one of America's most successful multi-sport clubs. This Study is the first of what will

be an ongoing series which will be published each Quarter by The CLUB INSIDER.

RED LERILLE'S HEALTH AND RACQUET CLUB CASE STUDY

PART I

(1) Red Lerille... the Boy... the Dream... the Man... the Legend.

(2) The Expansion History of Red Lerille's Health and Racquet club.

(3) Red Lerille's Management Team.

(4) Red Lerille's Club Financial Picture and Employee

Benefits.

PART II - Coming In March

(1) RED LERILLE'S

Members... the people with
"THAT FEELING."

(2) An interview with
RED LERILLE and his family.

Red Lerille... the Boy...
the Dream... the Man...
the Legend

Lloyd Joseph "Red" Lerille was born in Harvey, Louisiana in 1935. When Red was 10-years-old, he was inspired to take up weight lifting by his uncle, Harold Lerille, who was in the

military at the time. Each time Harold would come home to visit, Red was impressed with uncle Harold's "new" muscles. At age 10, Red took up weight lifting, building his first weights himself using paint buckets filled with concrete attached to a bar. At an early age, Red began a lifelong habit of cutting and placing a picture of his goal on the wall where he could look at and be motivated by it. As a boy, Red placed a picture of a Mr. America contest winner on the wall and used that as his driving motivation to become Mr. America some day. His goals seemed simple to him. He wanted to someday become Mr. America and (See Red Lerille page 4)

What's Love Got To Do With It? A Future For Our Industry

By Warren Wertheimer
Owner, Rolling Hills Club,
Novato, California

A.) What Business Are We Really In?

An enormous opportunity exists in our industry for those who recognize the essential nature of the industry and begin to make choices based on that understanding. There are various ways to describe this essence of our industry but let me start out by sharing our written business purpose which is: "To create an environment in which people feel loving and loved."

In his best selling book of

the early 1980's, Megatrends, John Naisbitt indicated that the more technology we introduce into society (high-tech), the more we will need to balance this with connections with other people (high-touch). "People want to be with people and the more technology we pump into society, the more people will want to be with people...The more high technology around us, the more the need for human touch."

Since the book was written, we have moved and continue to move toward a "high-tech" society (automated teller machines, the Home Shopping Net-

work, interactive TV, etc.) and the need for increased "high touch" has correspondingly increased. WE ARE UNIQUELY POSITIONED TO PROVIDE THE HIGH TOUCH WHICH PEOPLE CRAVE and this is the essential nature of the business we are in.

By and large, the activities which are carried on at our clubs could be carried on by our members without paying us significant sums of money to belong to our clubs. The thing that can make us not only highly important in people's lives but indispensable, is to create an environment in which people feel nurtured, supported, appreciated, accepted or in other words, feel loved.

There do not seem to be many places that people can go these days to receive that. It's a connection experience. Being with friends, being greeted, being in familiar, warm, attractive surroundings, being respected, listened to, accepted by others involved external connection. Doing

things you enjoy, things which result in your feeling good afterwards, physically, emotionally and psychologically involves internal connection, a connection with self.

Perhaps it used to work to have the "experts" tell others what was best for them and to have them follow like sheep. That time is passing — it undermines people's sense of self-worth to have them told that they don't know what's good for themselves, and it is this lack of self-worth which results in the destructive choices that many people make. No one knows what is the appropriate path for anyone else.

What is replacing the old way is to empower people to trust and respect what is so for them, whether or not it is in line with the common wisdom. Out of this can come a population that will begin to make healthier and more effective choices in all areas of their lives rather than just putting temporary band aids on the symptoms which then reappear in the same

or different forms.

There are millions of people who will never join our clubs if they think we are about exercise or fitness or health or even wellness, even if we convince them it is good for them. For them, this represents more opportunity to be reminded of what they are doing wrong, of how they fall short.

These same millions may well choose to join our clubs if they feel that we provide places which support them in their own empowerment and accept them as they are, places to relax and have fun, places to be with friends, to be at peace, to experience a respite from an increasingly hectic, stressful and impersonal world. If true, what does this mean in terms of the decisions to be made in order to successfully operate our clubs?

B.) Choices Based on view of the Industry

1. Hiring
(See Wertheimer page 6)

• INSIDE THE INSIDER •

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- Club Shopper
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- How To Close A Club Successfully
- Bally Sued In Wisconsin
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- Club Membership Creed
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THE INSIDER SPEAKS

• EDITORIALS • "INSIDER MAIL" • COMMENTS •

The Insider Speaks
Page will be dedicated to editorial

commentary, "Insider Mail", and reader comments received on our Hotline (1-800-700-2120) or 24

Hour Fax 1-404-933-9698. We welcome reader editorials and will publish them when appropriate.

Those who wish to express their views are encouraged to do so through letters, faxes, or

phone calls. Don't hold back. Let the CLUB INSIDER publish your view.

WHERE DOES IRSAGO FROM HERE?

By Norm Cates, Jr.

Now that I've been accused of BIASED REPORTING

and of being UNFAIR to the IRSAGO MEMBERSHIP by IRSAGO Board Member, Rob Goldman, I guess I have arrived. Rob's memo to me, shown on this page, fairly well illustrates the "mind-set" of those people who are currently direct-

ing IRSAGO. However, I do not believe that the "mind set" of this current group of IRSAGO Directors is in tune with the desires and ideas of the majority of the IRSAGO Membership.

I think that the IRSAGO members still want an Association that will focus only on helping them make more money in their clubs. I don't think that the IRSAGO membership is interested in an Association which has as its vision: "to foster an industry recognized for its professionalism and to play a leading role in the promotion of health and wellness worldwide."

In the January Edition of Club Industry Magazine, it was announced on page 10 that IRSAGO had changed its name to EXERCERE. The article cited the new vision as the reason why the name was being changed to EXERCERE. I am curious to know HOW and WHY Club Industry Magazine, which competes with IRSAGO in many ways, has announced in January that IRSAGO's name was changed when all of the IRSAGO Members had just received NAME CHANGE BALLOTS which were due to be returned not later than February 9, 1994?

Regardless of what it is called, WHERE DOES IRSAGO FROM HERE? The rumblings that I hear from the Western Region of the U.S. is that there is significant dissatisfaction with IRSAGO's focus and new direction and movement is afoot to establish a NEW CLUB ASSOCIATION which will continue to focus on the needs of its member clubs. I have heard other people expressing the same sentiments from around the country. What a shame it will be if this name change brouhaha ends up destroying IRSAGO, The Association of Quality Clubs!

One way or the other, there will always be an Association like IRSAGO. The club owners and operators of America and the world know what they want and need from their Association. They have gotten what they want from

IRSAGO for the past 10 to 11 years. No one can kill that memory or that spirit no matter what they do!

My reaction to Rob Goldman's accusations? Simply this. Rob, why should I have printed your side of the story on the name change when NOT ONE WORD from those that opposed the name change had been printed by IRSAGO anywhere in the IRSAGO CBI Magazine or the FIVE direct mail pieces sent to the membership? (Including numerous name change propaganda pieces which were sent along with the ballot to member clubs.) I also want to ask Rob, how in the world can you accuse me of being

UNFAIR to the IRSAGO MEMBERSHIP, when it has been the current Board of Directors of IRSAGO who has only told the IRSAGO members what the IRSAGO Board WANTED them to hear relative to this name change issue!

My advice to IRSAGO is:

(1) Go back to basics for our clubs... forget this world vision thing!

(2) Hold a meeting in Reno with all members present and LISTEN to what our members say about the current direction of the association. Maybe you will then be able to steer clear of the rocks ahead!



Dear Norm:

Congratulations on your wonderful newspaper, The Club Insider. I was delighted to receive a copy, and my subscription check is forthcoming in the mail. Your newspaper fills a definite need in our industry... and that is more people to people sharing of information. I am also impressed that those of us who do not always agree with our trade association's direction have an alternate method of expression.

I was quite surprised to realize that there are others besides me who oppose the IRSAGO name change to EXERCERE. I voted against the name change. Canon is still a niche-market club, in that we are tennis and swim only. While IRSAGO was cumbersome, the new name is much worse. It certainly does not apply to our club. I believe IRSAGO members should first have been able to vote whether or not to even change the name. I thought Club Business International was an all-inclusive name which was easy to say, and required no explanation. I am concerned that IRSAGO is also changing direction, and I agree with those comments which you published.

Regarding your Treadmill survey, I am not filling it out because we do not yet have a fitness center. I would like to continue to participate on your consumer panel for whenever I can honestly provide feedback. I am working on a feasibility study for adding on a fitness center, so the results of your survey will come in handy. Keep up the good work!

As time allows, I will write again with more ideas, comments, suggestions and praise. I have been maintaining a low profile as I've been working on yet more refurbishing and upgrading of our present facilities. My next project is draining and resurfacing the swimming pool in March. Thank you for providing us with the opportunity to say what we are really thinking... as you put it in your recent letter.

I hope all is well with you, and I look forward to seeing you in Reno. Someday, I will actually write that Spa Wars story for you. Promise!

Sincerely,

Judith L. Neeley
Judith L. Neeley
General Manager

135 Mitchell Drive • Fairfax, CA 94930 • (415) 457-7766



Date: 2/8/94

From:

ROB GOLDMAN

rgf/ldr

To: NORM

I have asked the fitness director at our largest club to complete & fax to you the treadmill survey. I applaud your efforts & look forward to seeing the results. It will be useful to see what a randomly selected group of club operators say.

It is unfortunate that you didn't use a similar process in reporting industry reaction to the IRSAGO name change issue. Your very biased reporting was not fair to the staff Board who, in good faith, have labored over the name change for the past 2 years & it was especially unfair to the great membership who deserve to see the full story.

10221 Wincopin Circle, Suite 100 • Columbia, Maryland 21044 • (410) 715-3121

• Norm's Notes •

WARREN WERTHEIMER, one of the club industry's true visionaries, has begun to get awful close to the mark in his analysis of what the club business needs to do for prolonged club longevity and excellent financial production. Warren has figured out the same thing that Red Lerille has figured out. If you want to have a highly successful club, you had better love your members and have a deep and honest desire to give them a good value and a high level of satisfaction from their membership. Anything short of that will fall short sooner or later. Warren may have been viewed by some as being a radical thinker in years past. I submit for your review this month's CLUB INSIDER article written by Warren Wertheimer and entitled: "What's Love Got To Do With It?... A Future For Our Industry." Warren has shared some of his brilliance with us in this writing.

RED LERILLE'S CLUB CASE STUDY is the front page story in this Edition. Don't miss this first ever club case study on Red Lerille's great club! This case study will give you a model for long term success in your club!

KEN ESTRIDGE has written a riveting article entitled: "How To Close A Club Successfully." Ken Estridge, Founder and President of The Joy of Movement Fitness Centers in Boston, Massachusetts, now spends his time as a small business advisor and mentor. Don't miss this incredible article by Ken as he shares his dramatic experience.

ARTHUR JONES, the inventor and former Chairman of Nautilus Sport Medicine Industries and currently the owner of MED X, has done it again with a line of 5 rehab testing machines and a full circuit of 16 MED X weight machines. Arthur is now conducting his world renowned training and teaching sessions in Gainesville, Florida. **JIM FLANAGAN** is the General Manager of MED X. **JOE CIRULLI** of Gainesville, Florida has teamed up with Jim & MED X to install a state of the art Sports Medicine and Rehab Center inside Cirulli's very nice GAINESVILLE HEALTH AND FITNESS CENTER. Cirulli's Sports Medicine and Rehab Center is doing a brisk business, while his Health and Fitness Center, which houses the

Sports Medicine and Rehab Center, is also thriving. Cirulli's 34,000 square foot club and his other ladies only location have 20,000 members and daily workout traffic of about 3,600! I predict that Jim Flanagan will build the MED X line of weight machines into the #1 spot just as he and Arthur did with Nautilus before it was sold. Arthur Jones, the world's greatest inventor of exercise and physical therapy equipment, also happens to be one of the world's greatest conversationalists. If you are in the club business and you want to make some excellent financial gains in the 1990's, with Sports/Medicine Rehab Center or new weight machines for your club, you should plan a trip to visit MED X to attend one of the twice monthly presentations on MED X Rehab Machines or MED X Exercise equipment which are conducted in conjunction with the University of Florida. Disney World is nearby so you can plan your trip to allow for time with your family. Call Jim at 1-800-582-9771 to check on the schedule of sessions. You will be glad you did!

ARNOLD SCHWARZENEGGER apparently has made a deal to sell the WORLD GYM chain back to its Founder, Joe Gold. Word is that a number of the World Gym owners are still expecting to see the changes and improvements made in the World Gym system that Arnold had planned.

SANDY COFFMAN, that dynamo of energy and personality, has signed on with RICH BOGGS and the STEP COMPANY to be a key person with the STEP'S new LEAP program. Sandy has been teaching and sharing her knowledge of programming for clubs since the 1970's when I attended her training school at TED TORCIVIA's West Allis Athletic club near Milwaukee, Wisconsin.

AUGIE NIETO has teamed up with Life Fitness with Nintendo to introduce the latest concept in fitness and entertainment, called EXERTAINMENT INTERACTIVE FITNESS system. It consists of a new model home Lifecycle with video game controls mounted on the handlebars and connected through the Nintendo system to your home

T.V. to provide the first truly interactive home fitness video game. The debut for the new product will be at the consumer electronic show in Vegas in June and it will be rolled out to market in the Fall. Importantly, this is the first time Life Fitness has ever introduced a home product before first testing it in the club market. Life Fitness already has a tract record in home exercise equipment and everybody in the world knows Nintendo. Sounds like Augie has found a good way to put some FUN INTO FITNESS.

And, the Life Fitness folks advise the customers to look before they LEAP. The LifeCenter Interactive Fitness System is designed to make personal trainers more effective, electronically track all member workouts and give members instant touch code access to all LifeFitness machines and make workout cards obsolete. The LifeCenter consists of a host 486 computer housed in an attractive pedestal stand with a CRT and a Keyboard. Members can enter the system with an express check in card and then perform their Life-Circuit workouts by entering their I. D. number on the machine console. Plans are later in the year to go wireless and tie the Life Fitness cardio machines to it. It is especially targeted at busy people, at trainers who supervise more than 30 people per day and at seniors, deconditioned and rehab people who need extra attention. The interactive system is currently being field tested in large Chicago clubs. The system will be showcased at the IRSA Convention in Reno. Thanks to MICHAEL HOFFMAN for this information.

THANKS TO JOHN BRINSON for refreshing my memory about what went on during the famous effort to admit Bally into IRSA a few years back. John Brinson teamed up with GEOFF HAMPTON to produce and distribute the flyers to hundreds of members at the New Orleans convention. There was a huge turnout of over 700 people and the idea of admitting Bally was put to bed right there. Only problem was a bunch of us missed the cruise on the Steamboat due to the meeting lasting longer than we expected!

SUZY STEWART, the entrepreneurial lady who started the Athlete's Edge Fitness Apparel Consultants Company has a good idea. Her idea will help club operators save lots of money on quality

staff apparel, make money on camp, event and team merchandise and will generally rally your club's pro shop to greater profits. Suzy will be at the IRSA Reno Trade Show at Booth #552 to show her concept to club operators. If you would like to receive information on her program call Suzy at 914-591-5645.

TOP 50 CLUB OWNER'S AND OPERATORS:

Last month I mentioned that the CLUB INDUSTRY MAGAZINE is publishing a club owners and operators Top 50 List in their May Edition. I suggested some possible nominees for that honorable list. However, I left off a few names that I would like to suggest: **TIM RICHARDS** - Orchard Hills Club, Leominster, MA, **TED TORCIVIA** - West Allis Athletic Club, West Allis Wisconsin, and **ED & ZOE VEASEY** - Cedardale Athletic Club, Haverhill, MA should all also receive some consideration. If you are interested in making a nomination, contact CLUB INDUSTRY at 215-957-1500.

1990. To order a copy of this 10-page article contact the Harvard Business Review at 617-495-6192.

MARK PELLEGRINI sells a machine called The Buttblaster which is a heck of a machine. For information call Mark at 800-766-5347.

BALLY AT TWO AND COUNTING - I now have two Lawsuits in my possession filed by the State Attorney General of Massachusetts and Wisconsin against the Bally Health clubs. That leaves 48 to go! In case you missed it, last month's Front Page article entitled **MAS-SACHUSETTS BOOTING BALLY** gave the details of that state's efforts to **SHUT THE BALLY CLUBS DOWN**. This month, don't miss the article about Bally's Vic Tanny Clubs being sued for selling contracts beyond the time frame allowed by State Law.

CLUB TOURS OF AMERICA

THE HARVARD BUSINESS REVIEW has published an article written by Ralph Stayer who is the man that took his Johnsonville Sausage Company to astronomical sales and business success by empowerment and profit sharing. The article number is entitled: "How I Learned To Let My Workers Lead," article #90610 and was published in the First Person section of the **Harvard Business Review** in November - December, (See Norm's Notes page 13)

Norm Cates'

Club Insider

NEWS

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...Red Lerille

continued from cover

then to open his own health club. Fourteen years later at 24, Red Lerille reached part of his childhood dream... he WON the 1960 Mr. America contest. A couple of years later, he founded Red Lerille's Health Club in a small store on Johnston Street in Lafayette, Louisiana. His original location was started with a \$250 loan from his father. With that money, Red built his own benches and racks and he was up and running with one of the first health clubs ever built in Lafayette. From that meager beginning, Red's place has grown to 120,000 square feet sitting on 15 acres and producing in excess of \$5 million per year in revenues!

Red Lerille is a dedicated fitness enthusiast who has gone from being Mr. America and Mr. Universe to being a highly successful businessman. Red still puts up pictures of his goals on the board in his pro shop... and when he puts a picture up, he will always reach that goal. Goal setting, determination and dedication combined with being a very hard worker have been the keys to Red's success. Red's total dedication to his family, his club members, his employees and his community have carried him a long way. There are a number of habits which distinguish Red Lerille from just about anyone you will meet anywhere. Red still is a devoted bodybuilder hitting the iron at 4:15 a.m. four days a week. He rises daily at 3:45 a.m. and pedals his bike to his Club, which is located about one and one half miles from his home. Red finishes his workout on weights daily by 6 a.m. and then goes immediately to St. Mary's Catholic Church for morning Mass and Communion. From there, he pedals home, has breakfast and usually goes to the airport to check on his antique airplane collection. By 9 a.m., Red Lerille is stationed in his club's pro shop, on time and ready to work. By 9 a.m., Red Lerille has already done

more than most people do in an entire day. He works a regular split schedule Monday thru Friday from 9 a.m. to 2 p.m. and from 4 p.m. to 7 p.m. in the evenings. From 2 to 4 p.m. he will usually go back to the airport to fly his planes or he will be in his shop in the garage behind his home applying "dope" (airplane paint) to one of his airplane wings.

Red Lerille has NO OFFICE. Never has had an office. He feels that if you are locked in an office, then you can't do what you need to be doing, which is tending to the needs of the club and its members. The closest thing he has to an office is a corner table in the snack bar area where he will sit briefly to talk to members and guests. Red sells memberships everyday and on an annualized basis, he sells about one half of all new memberships sold. He also vacuums the carpet, picks up towels, cleans the lockerroom, picks up scrap trash anytime he sees it. It is Red's daily presence and dedication to totally clean and well kept facilities which makes Red's club remarkably clean for a place that is 31 years old and that has between 2000 to 2400 in daily traffic.

**A CHANGE OR
IMPROVEMENT FOR THE
CLUB EVERY MONTH**

When Red first started his club, he made a vow to himself which he has kept religiously. That vow was that he would make a change or improvement to the club EVERY MONTH. Some changes might be small and some might be huge, such as the addition of his huge basketball gym/running track facility. For 31 years change has been a key to his success. Red attributes a great deal of his success to this constant change and improvement process. Every year, Red puts a large percentage of his profits back into the business. This

constant commitment to change and improvement has been influenced by Bill Pearl, one of Red's friends and a boyhood idol of Red's. Long ago, Bill Pearl told Red: "Don't get greedy. Take one thing and make it successful." Red has heeded and followed that advice carefully. When asked about opportunities to expand to additional locations, Red says: "I am only one man... I can't really operate two clubs."

**THE MEMBER IS BOSS...
DON'T FORGET
TO SAY "HELLO"
AND "GOOD BYE"**

Red believes and teaches his staff to believe that his members are the real bosses of his club. He does everything he possibly can to make each and every one of them feel cared about. He teaches his staff to remember always to say "Hello" to each member when he/she arrives and "Goodbye" to each member when he/she departs. Red explains that this constant warm and friendly greeting for members and guests boils down simply to: "It just means be nice to people." Red IS nice to EVERYBODY. He is even nice to his members who are unhappy and want a refund of their money. Red believes that if a member is ever dissatisfied and wishes to be released from his one year membership agreement before the term is complete, then Red is the first to want that person's obligation to be cancelled and that member to have his money back. This philosophy of accommodation has served him very well over the years. He says that many people who have quit and asked for their money back end up coming back and joining at a later time. He firmly believes that if he had enforced his contract and not given the member his money back when the member was unhappy, he would have never been able to get them to join later. Another factor in Red's success has been his temperament with those who have not paid their bills. In the mid 1980's, the city of Lafayette was hit by massive layoffs in the oil based economy. Many people were moving out of town and Red was losing members at a record pace. Some people who wanted to remain as members of Red's found themselves unable to afford to pay their club bill due to their own economic problems. Red extended credit to some of his members for as long as one year so that they could continue to exercise throughout their period of economic duress. This caring and giving policy by Red Lerille endeared him to many in the com-

munity. Red donates his time to his community delivering 35 or so public speaking engagements. His presentation and slide show that he gives to civic groups is outstanding and is highly motivational to people who attend. He credits this regular community outreach program with being one of his keys to success. While the presentation lasts for about one hour, it is full of wisdom and anecdotes by Red. In his presentation, Red teaches the **"10 HINTS For Getting Into and Staying in Shape"** and he teaches the **"Five Suggestions For A Successful Life"** that he would share with his son. Both are shown below:

**RED LERILLE'S 10 HINTS
FOR GETTING INTO AND
STAYING IN SHAPE**

- (1) Pick a regular time to exercise and stick to it;
- (2) Find a partner to exercise with - "misery loves company and you should have someone there to enjoy the fun," says Red;
- (3) Stick to a high carbohydrate diet, one that is high in fruits and vegetables and low in "meat, chicken, fish and eggs;"
- (4) Get regular cardiovascular exercise at least four times a week for a minimum of 20 minutes per session;

(5) Write down your goals; Red says it is good to put a picture of how you want to look on the wall.

(6) Participate in weight training three times a week;

(7) Get into the right attitude for exercising by dressing to "sweat;" Red says you should go in with the right mental attitude and commitment;

(8) Find a method of checking your progress such as weighing in daily; Red weighs every day and if he is up on weight, he adjusts his diet and/or exercise program to compensate for it.

(9) Don't miss a workout; Red says: "It only works when you do;"

(10) JUST DO IT!

**RED LERILLE'S FIVE
HINTS FOR SUCCESS**

- (1) Show up on time and ready to work;
- (2) Say "hello" and "goodbye" to everyone;
- (3) Make a change every month;
- (4) Learn as much as you can; and
- (5) Stay in shape the rest of your life.

When discussing his generosity Red explained that he tries

to give to his church and community whenever he can. He estimates that he gives away to worthy causes around \$80,000 per year. He explained that he often has had employees and even members come to him in the past for small loans. He says he always tries to help younger people whenever he can and often he never gets his money back. Red has established a Profit Sharing Program for his key full time employees which gives them a vested financial future with his organization and he has established what amounts to an employee credit union for small loans for autos, boats, etc... More will be shared later in the financial report on Red's Club.

When quizzed about his involvement in the financial matters of his club, Red confessed that he doesn't spend a lot of time thinking about or worrying about the club's financial performance. He even admitted that his staff sort of keeps the club's cash position a "little secret" from Red to combat his spending it all on club improvements for his members. Red feels that he has the greatest job in the world and he wouldn't trade it with anyone. The thing he cares about the most is that he is able to do what he wants to do.. he says: "I was put on this earth to run a gym and as long as I'm alive, I will." Red loves his work and his play. In addition to his hobby of collecting and totally restoring pre-World War II airplanes, he and his wife, Emma, enjoy riding their Harley Davidson Motorcycles on extended road trips across America. Also, Red is the proud owner of an awesome white 25th Anniversary Collector's Edition Lamborghini which causes major head turns when Red drives around town.

Red has had some interesting experiences. Years ago, he bought the first Nautilus Machine that Arthur Jones ever built. Arthur was traveling across America with a U-Haul on the way to California and stayed with Red in Lafayette for a couple of weeks. Since then, Red has bought over a hundred Nautilus machines and the new Med X equipment invented by Arthur. Recently, Red had a visit with Frank Borman, former Astronaut and chairman of Eastern Air Lines. He came just to get a ride in Red's incredible Waco Bi-Plane. Red has had two aircraft accidents. The first was when he flipped one of his planes while landing. He walked away. The second was when he was on the landing roll with one of his planes when the wing strut collapsed, sending the plane into a ground loop. His son Mark, was watching at the time and actually saw the accident in which Red was seriously injured. Red was taken to the hospital and had to

(See More Red Lerille page 7)



Red Lerille

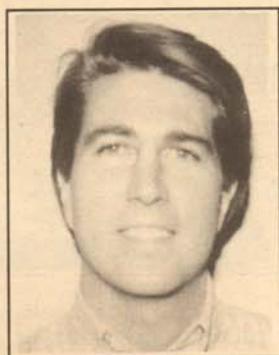
Club Shopper Service Starts

By Norm Cates, Jr.

Have you ever had a friend or other person tell you a horror story about how they were treated when they came to your club? Do you expect your staff to always perform their duties in a professional and energetic manner? How do you know if you are getting the kind of performance that you expect?

Now, there is a new service for club owners and operators which will provide you with those answers and more. CLUB SERVICES is a division of Restaurant and Hotel Services, a Fairfax, Virginia based company. CLUB SERVICES uses seven years of experience in the restaurant, bar and hotel business to provide important services for club owners who want to know the real "inside story" about their clubs. The truth is that you may not know what is going on in your club.

CLUB SERVICES main focus is the "mystery shopper service" which will give club owners and managers a full evaluation and report of the sales presentation cur-



Stokes

rently provides. The report will give a detailed summary involving the pre-visititation phone call; the greeting and tour of the club; the selling and closing techniques used during the membership sale; the follow-up; and finally, the transition from "new member" to "first workout." Also, if desired by the club owner, an "undercover member" service is available. This allows for a more in-depth and detailed evaluation of the full operation of that facility.

When a "mystery shopper" visits the club, he/she will consider a number of additional key factors. In general terms, those areas are: the condition of

the facility itself, including all things that lend to the appearance of the facility; the quality of service; and level of hospitality. The objective is to allow owners to be able to employ the reports to uncover positive as well as negative information.

Mitch Wald, the key man at Smith Club Management which operates four Washington, D.C. area clubs ranging from 25,000 sq. ft. to 120,000 sq. ft., says: "the mystery shopping service allows us to analyze from the prospect's point of view how the presentations are done... it gives us a really good check on our procedures. We have started with one club, but our plan is to involve the program in all four clubs on an ongoing basis."

By employing the "mystery shopper service" on a regular basis, the club can cause those employees who are inclined to stray from standard rules and guidelines to re-examine their behavior. The shopper service becomes a preventative measure and deterrent to dishonest behavior. Other benefits can include:

- Improved customer relations
- Disclosure of safety

hazards

- Consistent employee professionalism
- Uncover theft or dishonest staff
- Improved employee training

should be treated. Therefore, the adaptation to this role was natural for him. In addition to his six years with Holiday, Jeff has worked for other local clubs in the Washington D.C. Metropolitan area.

In general, CLUB SERVICES provides a winning opportunity for club owners and operators to help improve the quality and sound reputation that you seek for your club. By rewarding the good employees and providing the information necessary to identify and terminate the bad and dishonest employees, CLUB SERVICES provides a new, independent set of eyes and ears for your operation. When you consider the things that can go on in any club, that's not a bad idea! To learn more, contact Jeff Stokes at 800-777-6699.

OUR CLUB MEMBERSHIP CREED

Our Members are the most important people in our club.

Our Members are not dependent on us. We are dependent on them.

Our Members are not an interruption of our work. They are the purpose of it.

Our Members do us a favor when they come into our club. We are not doing them a favor by servicing them.

Our Members are partners in our business, not outsiders.

Our Members are not just money in the cash register; they are human beings with feelings.

Our Members are people who come to us with wants, needs and desires. It's our job to satisfy them.

Our Members deserve the most courteous attention and service we can give. They are the lifeblood of our club. They pay our salaries.

**Without them, the club
would cease to exist.**

Don't ever forget it!

What's Happening Down Under

By Tony Deleede

The health club scene in Australia has evolved and matured rapidly over the past few years. Australia is nearly the size of the United States in area and has a population of 18 million. There are approximately 1000-2000 clubs in the country with the heaviest concentration of clubs in the three largest cities: Sidney (2000 Olympic Games), Melbourne and Brisbane.

While always strong in programming, most leading Aussie clubs are now spending more time, money and energy on marketing/promotions and sales. The number of new health clubs in the major Australian cities has grown 40-70% over the past five years while the population growth has been only 15-30%. Most Australian clubs are small in size when compared to American clubs. The largest clubs are in the 40-50,000 square foot range.

The days of "order taking" sales of short term memberships or "casual visits" are rapidly being replaced by annual memberships and monthly dues.

The leading health club association in Australia is called the "Network of Fitness Professional." The annual convention is called Network '93 and was held in November, 1993 on the glorious "Gold Coast." Over 1200 health club representatives and aerobic enthusiasts attended this world class event. The conference attracted delegates from over 20 countries as well as featuring top Australian and U.S. presenters. The "Network" organization has recently consummated an arrangement whereby Aussie clubs can get a special international rate with I.R.S.A. (The Association of Quality Clubs). Look for a large group of Aussies to attend the Reno I.R.S.A. Convention in March.

On the equipment front, most major U.S. brands of both strength and cardiovascular equipment are now sold in Australia.

With new clubs opening constantly and many clubs undergoing renovations, equipment sales are surging despite being nearly twice as expensive as in the U.S. At the recent Network '93 show, the new MEDX line was very well received. The "Cardio-Theater" system was showcased on two booths at the trade show and has already been installed by many of the key clubs in Australia. The just released Tetrix "Bikemax" also received strong reviews.

(Tony Deleede is originally from Australia and now lives in Atlanta, Georgia. He is the Founder and Owner of Atlanta-based Australian Bodyworks, a chain of 10 clubs. A frequent speaker in the club industry, Deleede recently acquired a 50% stake in the "Cardio Theater" Company. Deleede filed this report after a recent visit of two weeks in Australia with fellow American club operators, Victor Brick and Joe Cirulli and Canadian Dave "Patch" Evans.)

ANGEL IN AGONY

By Norm Cates, Jr.

Imagine going to work one day in perfect health and ending up paralyzed, in absolute agony and unable to walk. That's what happened to Bonnie Patrick of Clearwater, Florida.

Bonnie Patrick is a vibrant, beautiful tall blonde with blue eyes. She now is the manager of the Health Club at Stouffer's World Class VINOY RESORT in St. Petersburg, Florida. She is dedicated to health and fitness and has her own Instructor and Consumer Education business called: "Broadway Bodies International." Bonnie Patrick has been through an incredible journey to reach this point. This is her story.

Bonnie was a professional actress and dancer and was with the national touring company with the Broadway Play - "42nd Street." The touring company was in San Francisco. She loved her work, which often involved two shows per day. Plus, she was getting heavily involved in her personal fitness program, running the huge San Francisco hills, often wearing ankle weights. On some days, she would even do the hill at San Francisco's Coit Tower twice in one day... afeat which would be tough for anyone. She had been dancing for ten years at the time of her problems.

The "42nd Street Show" had 13 dances. One day, on the first dance of the show, Bonnie felt a sharp pain in her lower back. She pressed on even though the pain persisted throughout the show. One

the last dance of the show, one in which all performers were required to freeze in place... she collapsed and fell on top of her partner, unable to stand. She got to her feet after the curtain was pulled and she went home, took Tylenol and went to bed hoping that she would be O.K. the next day. She wasn't. She woke up and was unable to move from the waist down. She contacted Dr. James Garrick of the St. Francis Hospital who told her to rest in bed until the next day to see what happened. The next day, she was still unable to move. She contacted the doctor and he told her to get to the hospital. Her roommates literally carried her to a taxi cab in which she rode to see the doctor. She says the pain was so bad during the trip that she screamed all the way. Dr. Garrick examined her and decided to refer her to a specialist, Dr. Alvin Loosli. He examined her, did x-rays and a CAT scan, gave her a cortisone shot and prescribed muscle relaxers. Additional tests confirmed that she had suffered from two herniated discs in her spine. The doctor put her on bed rest with a special position designed to relieve the pain. Unbelievable, he made two house calls per day for three days! The treatment did no good so the doctor ordered her to be hospitalized, this time he put her into a traction arrangement called Gravitational Lumbar Reduction (GLR).

Her GLR traction treatment lasted for an incredible 10 months! One month in the hospital

we are in. Aside from the fact that by telling the truth I feel less stressed and more positive about myself, it seems to me that caring about people means always being totally honest with them.

c. Right and wrong is not a relevant consideration. We do not explain or defend ourselves or attempt to show a member that he/she is mistaken. Rather our goal is for them to feel heard, appreciated and significant.

EXAMPLE - The facts are that I have just checked the pool temperature and it is exactly where we tell the members we will keep it. A very upset member now approaches me having just gotten out of the pool.

SCENARIO ONE

Member - "What kind of a blankety-blank club are you running? The water's freezing."

WW - "Hey, I just checked the temperature and it is

tal and nine months at her mother's home in New Jersey with an average of eight hours per day of traction. This period of treatment was incredibly difficult for one who loved to be fit and active. Her muscles, especially in her legs, were shot. During the nine months of traction treatment in New Jersey, Bonnie consulted with five different doctors in New York City. She was introduced to Dr. Charles Goodwin of St. Luke's Hospital in New York City whose specialty was to work with injured pro athletes. Dr. Goodwin recommended surgery on her spine and told her she had a 50 - 50 chance of coming out of it well and healthy. The surgery which she endured was called a Lumbar Laminectomy. During a five hour operation at St. Luke's Roosevelt Hospital, her V5S1 disc was removed. Four days after the back surgery, she sat up in bed. A day later, she took her first step. After another week in the hospital, she began physical therapy treatment. She had to use a walker to get around. Walking and doing small tasks such as carrying a bag of groceries had to be learned all over again. She had physical therapy sessions 3-4 times per week at the Eastside Sports Medicine Center in New York City. The physical therapy sessions lasted for one year with renowned therapist Marika Molnar.

This experience not only influenced her body, it affected her mind. During the ordeal, she sought psychotherapy and was

perfect."

Member - "Don't tell me - I was in the water and it is so cold that I can't swim."

WW - "I'm sorry but you're wrong - the temperature's just right."

Member - "Don't tell me whether I'm cold or not; I can't swim in it and if I can't swim, I'm not paying my dues."

WW - "I've got the thermometer right here; let's go take the water temperature."

Member - "Storming off angrily "Blank you."

Conclusion - You were right and you possibly lost a member.

SCENARIO TWO

Member - "What kind of a blankety-blank Club are you running? The water's freezing."

WW - "Gee, Burt, I'm really sorry if the pool is too cold for you."



Patrick

treated by Dr. Vivian Diller for two years. The combination of physical therapy and psychotherapy provided her with the help she needed to start her life over and to launch a new career. The career that she chose and that she loves is fitness... and what a career she is having!

Her first step in her comeback was to go to college to find a program to augment her degree from the University of Maryland. She enrolled in the Fitness Specialist Certification Program at Marymount Manhattan College. After graduation from the certification program she was invited to rejoin the "42nd Street" show on Broadway. She started to dance again and she started her own personal training business. The touring company went to Europe for two years during which she totally enjoyed Vienna and Paris. And, she was able to continue her involvement in fitness through her personal training business and as an aerobic and fitness instructor in Paris.

In May, 1990, Bonnie returned to the U.S. and located in Clearwater, Florida to be near her

Member - "Well, it is. How am I supposed to get my swimming in?"

WW - "I hear you Burt. If that pool is too cold, there's no excuse for it."

Member - Yeah, well swimming's very important to me, and I'm not the same person if I can't get my swim in."

WW - I know it Burt, and I admire your dedication and your commitment to taking care of yourself."

Member - "Yeah, Well..."

WW - "Let me get someone on this right away to see if we can't do something about this."

Member - "Oh, well, don't bother, Warren, I guess I'm really not in the mood to swim."

WW - "Burt, I want to thank you for sharing your feelings with me."

Member - "Don't mention it. Say, have I told you how great a job you guys do running

Mom who had moved there. She got in on the ground floor of the Stouffer Corporation's \$93 million remake of the VINOY, a 69-year old hotel property which is on the National Historic Register. The Stouffer people have created a fantastic place with 360 luxurious rooms, a golf course and a health and fitness facility with 20,000 square feet indoors, 16 tennis courts featuring four different surfaces and a beautiful outdoor pool and deck area.

But, serving as manager for Stouffer's VINOY Health Club is not all that she does! She is on television locally with Channel 8 of Tampa, Florida on their noonday show as the health and fitness guru and she appears on Fitness Equipment Infomercials on the Home Shopping Network with a national audience of 60 million people! But, we can't stop here. In addition to the above, she is a consultant and CEO provider for AFAA and Step Reebok and serves as a consultant for SLM, INC., of New York City for the development of fitness products and toys for children.

The incredible story of Bonnie Patrick is one which should motivate all of us and make us thankful for our health! Here is a lady who has endured more pain and suffering in her short life than most of us will ever suffer. She has shown that to keep trying and to never give up is the answer. She plans to use the rest of her life to teach fitness and health. And, she wants to be one of those who elevate the image of the health and fitness industry by the medical orientation and quality of her work. The CLUB INSIDER wishes her the best.

this club?"

WW - "Thanks, Burt."

Member - "Yeah, it is a terrific club. As a matter of fact, the dues are kind of low here - isn't it time for a dues increase?"

Conclusion - A great connection with a member who now feels significant. I did not make him wrong about feeling cold and I did not compromise my integrity by lying about the pool temperature. Would you rather be right or would you rather be happy?

d. Whenever someone is upset, they are really upset with themselves and not with you. They are in pain and acting out of that pain. Therefore, there is no need to blame anyone or to defend yourself and hopefully, this will make it easier to listen without the feeling you have done something wrong and taking the apparent attack personally.

e. We keep our commitment (See More Wertheimer page 13)

• LAWSUIT OF THE MONTH •

The State of Wisconsin has filed a complaint prepared by Attorney General James E. Doyle and Assistant Attorney General, Mark E. Smith, against VIC TANNY INTERNATIONAL of WISCONSIN, INC. and HEALTH AND TENNIS CORPORATION OF AMERICA, d/b/a BALLY'S HEALTHCLUB SERVICES, case # 94CV0160 dated January 18, 1994, for violation of Wisconsin's State Laws regulating health clubs.

The complaints states: "These proceedings are instituted pursuant to sec. 134.70(15) (a), Stats., to restrain, by temporary and permanent injunction, defendants from conducting business operations in violation of sec. 134.70, Stats., to obtain restitution for persons suffering loss because of violations of sec. 134.70, Stats.; and to obtain civil forfeitures from defendants to the State of Wisconsin in the amount of not less \$100 nor more than \$10,000 for each violation of sec. 134.70, Stats., together

with the penalty assessment required by sec. 165.87, Stats."

The OFFENSES CHARGED in the complaint are as follows:

1) Defendants' solicitation and sales practices are in violation of the law in that contracts for fitness center services exceed two years in length, or fail to specify their contract length. 134.70 (5).

2) Defendants' salespersons describe fitness center contract lengths as 3 year or 36-month contracts while also taking the contractual position that said contracts are one month contracts, thereby engaging in deceptive or misleading representations. 134.70 (14) (a).

3) Defendants' solicitation or sales practices have represented to customers that renewal rates or monthly dues for fitness center services will not increase in the future, and later defendants represent to members that higher

renewal or monthly dues must be paid in order to renew memberships, thereby making false, misleading or deceptive representations, in violation of sec. 134.70 (14) (a), Stats., and thereby failing to perform in accordance with contractual provisions providing for a fixed renewal or dues rate as required by said contracts.

The DEMAND FOR RELIEF sought by the State of Wisconsin is as follows:

1) That a temporary and permanent injunction be issued to enjoin defendants from conducting business operations, in violation of sec. 134.70 (5) and (14), Stats., and to enjoin defendants from enforcing contracts which violate said statute.

2) The court award civil forfeitures to the State of Wisconsin in the amount of not less than \$100 nor more than \$10,000 for each violation of sec. 134.70, Stats., together with the penalty assessment required by sec. 165.87, Stats.

3) The court award restitution to any fitness center member or solicited suffering loss because of violations of sec. 134.70, Stats.

Last month, The CLUB (See *Lawsuit of Month* page 15)

LAWSUITS FACTS

Source: *The American Institute of Certified Public Accountants*

SMALL BUSINESS LAWSUITS: Overall exposure to legal liability during the past five years.

Increased - 57.0%; Remained The Same - 35.0%; Decreased - 4.2%; Don't Know - 3.8%

SOURCES OF GREATEST EXPOSURE TO LEGAL LIABILITY:

Contract Managers - 28.3%; Personal Injury Claims - 22.6%; Product Liability - 21.2%; Employment Claims - 12.8%; Malpractice - 9.3%; Other - 5.8%

STEPS TAKEN IN RESPONSE TO LITIGIOUS ENVIRONMENT:

Increased Selling Prices - 50.8%; Dropped Product/Service Lines - 23.8%; Terminated Employees - 19.0%; Withheld New Products - 11.1%; Enacted Safety Programs - 6.3%; Closed Facilities/Office - 4.8%; Rigorously Screened Contract - 4.8%; Expanded Research/Testing - 4.8%; Ended Research Programs - 1.6%; Other - 14.3%

Note: Respondents were asked to select all that apply.

More Red Lerille

continued from page 4

RED LERILLE'S HEALTH AND RACQUET CLUB EXPANSION HISTORY

1963	Red Lerille opened Red Lerille's Health Club on Johnston Street in Lafayette, Louisiana.	1981	4 additional racquetball courts and aerobic exercise room were built.	1992	room. Went "in-house" with the computer system. Resurfaced the parking lot.
1965	4,000 square foot health club was constructed at 301 Doucet Road and moved to that location.	1984/85	A basketball gym (two basketball courts), indoor jogging track, 3,500 square feet of additional gym space, aerobic exercise area, expansion of men's and women's locker room, children's swimming pool, nursery, accounting office and new lobby were added.	1993/94	Converted a racquetball court to New Youth Training upstairs and co-ed free weights downstairs. Expanded Women's Gym. Refurbished the bar. Resurfaced 3 outdoor courts.
1968	A health food store, Snack Bar and small vinyl swimming pool were added. The health food store and snack bar were leased and operated by Boyer Coe.	1986	Converted two racquet ball courts to men's free weight area and expanded women's work-out area.		
1973	3 indoor tennis courts, 2 racquetball courts and the Pro Shop were added. The name was changed to Red Lerille's Health and Racquet Club.	1987	Converted racquetball court to additional men's free weight area. Tennis cabana built.		
1975	6 outdoor tennis courts and two more racquet ball courts were added. A permanent swimming pool and lounge were built.	1988	Converted racquetball court to men's workout area. Constructed cardio equipment room. Refurbished the nursery.		
1978	4 lighted outdoor tennis courts, four racquetball courts, additional gym space and separate women's locker and workout areas were built.	1989/90	Added a large number of new bodybuilding pieces to the men and women's weight rooms and new cardio equipment to the cardio equipment room. Added graphics to the carpet. Resurfaced the pool deck and outdoor track. Added an overhang providing shade to the pool cabana.		
1980	6 outdoor tennis courts, 3,000 square feet of additional gym space, outdoor jogging track and junior Olympic size pool were added.	1991	Introduced STEP aerobics. Added 12 treadmills to the cardio-equipment		

receive several hundred stitches on his face and head. Through all of that, Red missed only two days of work and two workouts! When Red decided to install a gym for kids aged 9 to 14, he had specially sized weight machines made up by his friends down the road at Bodymaster. Red predicts that weight training will be the single largest draw for clubs in the 1990's. His weight training areas total close to 20,000 square feet currently, so he is well prepared for the future. Red at age 59 is in incredible physical condition... testimony to his lifestyle. He demonstrated how strong he actually is by lifting himself into a rigid handstand on top of two handgrip devices attached to metal poles. (See page 16 photo.) In 1987, Red was named by IRS, The Association of Quality clubs as the Person of the Year. This was just one of many awards and honors that he has earned.

Connie Tomino, one of Red's five top managers, has summarized the philosophy of Red Lerille and his organization in a simple statement. Red Lerille and his team live by this concept... it is not new... it is as old as time.

"TREAT PEOPLE THE WAY THAT YOU WOULD LIKE TO BE TREATED (OR BETTER) AND EVERYTHING ELSE WILL TAKE CARE OF ITSELF."

they all had to pull together in 1986 when the oil based economy dropped dramatically in Louisiana in 1986 causing Red's club to lose 1300 members in one year.

In the early 1980's Red was expanding his club extensively. With the addition of new facilities and services came management tasks and challenges that Red had not experienced before. Red came to realize that he had to do something about his club's management structure, because everything always seemed to come back to him and him alone. He wisely came to realize that his management structure, simply no longer could cope with the new and expansive management challenges his rapidly growing club was presenting. He sought a way to modify his management structure so that the load would be spread amongst his top people. Instead of a vertical flow of decisions and communication which always ended up with him involved, Red sought a horizontal structure which would place the burden and the authority on his key people to make the necessary decisions to operate their departments without always involving him. This portion of the case study involves Red's Management Team and begins with an interview with Dr. Michael Berard, a Clinical Psychologist, who assisted Red with his Management.

RED LERILLE'S MANAGEMENT TEAM

Red Lerille's Club is managed and operated by a team of key people who have been with the club for a long time. The roll call for this team in terms of the number of years of experience they have had together and the accomplishments they have achieved is amazing. There are 13 employees which have nine or more years with Red's with the average tenure of each being 18.7 years. Red's Senior Management Team has 31, 26, 21, 19 and 19 years respectively. This team of people has weathered significant interactive growing pains during Red's major expansion years and

Dr. Michael Berard

In February, 1981, Red went to one of his members of many years, Dr. Michael Berard who is a (See *More Red Lerille* page 10)

How To Close A Club Successfully

By Ken Estridge
President, Joy of Movement

On Saturday evening, March 23, 1991, I changed the locks on the doors of all my fitness centers and closed and locked them for the last time. In one act, I ended 17 1/2 years of my life's work in a painful defeat that catapulted me from a net worth just a few years earlier of over \$3 million into corporate and personal bankruptcy. This act not only wiped me out financially, it destroyed my reputation which I had carefully built over the years as a leader in the dance and fitness field in Boston and New York.

While it may have appeared to my members and to the public that I had callously shut the doors and walked away with the cash and to other club owners in the area that I had acted without regard for the impact closing my clubs would have on their business, nothing could be further from the truth. Closing marked the unexpected and unplanned end of a long battle for survival that I had fought over the previous two years.

During those two years, I borrowed heavily from my friends and relatives to invest in my clubs. I borrowed \$105,000 from my mother, \$100,000 from my uncle and \$225,000 from my best friend. I had pledged my car as collateral for loans. In 1988, I had increased the mortgage on my Cambridge building by \$400,000 to finance the construction and equipment of my Copley Square Fitness Center and in 1990, I refinanced the building again to provide additional working capital. Now, with \$1.2 million in loans outstanding, the bank wouldn't lend me any more money.

I had aggressively expanded throughout the 1980's. I reinvested every dollar that we earned plus as much as I could borrow. My business had grown from \$1 million in sales to \$3.7 million. My expansion had included opening two clubs in New York and a new club in Boston's Copley Square. During the years from 1984 to 1990, I invested over \$1 million in facilities and equipment. Throughout most of these years, I enjoyed great financial success and lived accordingly. Then in early 1989, my business began to go downhill dramatically. With this decline came huge operating losses.

At the time, I attributed our decline primarily to increased competition and a bad economy. With hindsight, it was also due to many of the decisions I had made in the process of growing my business, which proved to be wrong moves in the long term.

I had stayed with prepaid annual dues when the industry was switching to initiation fees and monthly dues. We stayed with this membership structure primarily because we needed cash to finance our growth and couldn't afford the loss of revenue that switching to monthly dues would have entailed. Also we catered to students and young professionals who moved often. Given the high cost of obtaining new members, we wanted their firm commitment for at least a year's membership.

I believed that in order to compete effectively with the big chains that were entering the market, we needed many clubs to share and strengthen our advertising. I decided to build many small clubs (6,000 sq. ft. to 15,000 sq. ft.) instead of growing one large full service club for several reasons: (1) I was getting a good return on investment and was trying to develop a concept that I could franchise nationwide. (2) I considered Joy of Movement to be a niche player catering primarily to women and to aerobics enthusiasts ages 18 - 35. Our members didn't demand posh locker-room facilities, pools or racquet sports. They primarily wanted the best teachers and great studios at an affordable price. I underestimated the attraction that multisport facilities would have for our members. (3) I never had the capital to build a single major full service club and I had many good locations at attractive rents, none of which had room for expansion.

I invested heavily in advertising to get new members, instead of employing more staff to provide better customer service. I never developed a customer retention staff or procedure for "closing the back door." Although I improved our facilities and equipment over time, I didn't allocate sufficient funds to keep our facilities and equipment competitive with the new clubs that were being built nearby, thus giving them a competitive edge. I permitted my wife, who was VP of Sales and Operations, to foster a culture that rewarded sales, more than service excellence. She believed that there was an endless pool of potential new members and that existing members were likely to drop out

regardless of what we did to keep them. Her approach to sales and management came from her years of experience with health spas such as Gloria Stevens and Woman's World, which had long since gone out of business. But instead of insisting on a service oriented culture, I gave in to what had worked for her in the past and what was producing immediate cash flow for our company.

Ultimately, as competition increased, members left our clubs for newer, bigger, better equipped clubs that offered better facilities and better service at a lower price. Once we began to lose our members, it was very hard to stem the tide of losses. Our advertising dollars fell on deaf ears.

There were also changes in the marketplace that I failed to respond to. In 1988, the trend switched from high impact aerobics to low impact aerobics. Members were demanding Lifecycles, Stairmasters and treadmills instead of more aerobic classes. In 1989, all the women's magazines were featuring new workouts that involved free weights, not Nautilus or aerobics classes.

A World Gym equipped with lots of cardiovascular equipment and tons of free weights opened next door to my New York Joy of Movement. I had no room for more equipment or free weights without removing my aerobic and dance studios on which I had built my reputation. I had a big investment in Nautilus equipment that I did not want to abandon. Instead of changing with the times and filling a studio with free weights and cardiovascular equipment, I stayed with what had worked in the past and lost members to my new competitor. Sales declined by 25%. This loss of sales resulted in New York going from being a profitable club to one which broke even, but contributed nothing to central overhead. I responded by adding a professional dance program during the daytime hours which generated good revenue, but it never replaced the profits I had lost.

In 1989 I had leased a new facility in New York on Park Avenue in which construction costs had run way over budget. With all the problems that were draining my cash, I was never able to complete the planned construction and ended up closing the club in 1990 before it was

ever complete or fully equipped. I had sold memberships to this club and was partially open for classes during construction. Fortunately, I was able to move most of the members to other clubs or our downtown club. The rest were given refunds. The closing of this club hurt morale and reputation of my other New York Club and severely affected our business. Sales were off by 50% in the downtown club the month after we closed Park Avenue.

In Boston, my Kenmore Square Fitness Center had always been my most profitable facility. At its peak it had grossed \$932,000 in 8,000 sq. ft. and earned over \$300,000 pre-tax. During the years from 1988 to 1990 it declined by 46% to around \$500,000. At this level, it barely broke even and contributed nothing to central overhead. Some of this loss was attributable to the opening of our new Joy of Movement in Copley Square, about 1/2 mile away, in 1988. Copley was a higher priced facility that had been designed to cater to a more upscale, affluent clientele (Yuppies vs. students). However, because it offered many of the same classes and teachers in a more attractive facility, it drew some members away from Kenmore.

Kenmore's woes were compounded by the opening of a Gold's Gym two blocks away and Healthworks 6 blocks away (a beautiful facility for women only). My clientele had been 85% female. Both of these clubs were bigger, better equipped, newer and less expensive than my club. I was faced with the problem of selling a membership to my 8,000 sq. ft. club which was built and equipped in 1982 and which had previously been priced \$549/year to consumers who now had a choice of joining a brand new, fully equipped 18,000 sq. ft. Gold's Gym for \$25/month with no initiation fee or an 18,000 sq. ft. Healthworks for \$44/month with no initiation fee. To make matters worse for Kenmore, The Allston Squash Club had created a very large aerobic studio with a much bigger capacity than my studio and were outbidding me for the city's best aerobics teachers. Teachers who had worked for me for \$20 or \$25 per class were now able to earn \$50 - \$75 per class teaching for them. Because my teachers were all independent contractors, I soon found many of my best teachers - teaching for the competition. I ended up dropping prices from \$549 to \$299 and still lost members to my competition. My sales declined

and my profits disappeared!

My Cambridge Dance and Fitness Center had lost about 10% of its business to Bally's Holiday Health which opened a bigger, better equipped club with much fanfare, heavy TV advertising and very low price promotions. We had also lost business to a new fitness center in Kendall Square and to the Y.M.C.A. which went through a \$1 million renovation. My rent was dramatically higher because I had borrowed money against my Cambridge building to build Copley Square, Park Avenue and Newton. The combination of higher rent and lower sales made Cambridge unprofitable.

My Watertown facility had lost business to The Mount Auburn Club and to World Gym. Its sales had declined by 17% while the rent had been doubled by the landlord. My Wellesley Fitness Center had been pushed into the red by a landlord who between 1982 and 1989 had increased my rent from \$57,000 to \$157,000 when my sales in that club were less than \$400,000 per year.

All told, I was fighting losing battles everywhere and my resources were rapidly being exhausted. With New York and Kenmore no longer supporting central overhead, there were no funds to support me, my wife, my controller, my bookkeeper, my secretary, etc...

I tried everything to reverse declining sales and earnings. I increased advertising and ran price promotions. I added new programs. I borrowed money to add new equipment and install better aerobic floors and sound systems. I reduced central staff expense to the minimum, even to the point of doing all the bookkeeping myself. I eliminated the controller, the bookkeeper, the secretary, the fitness director, the director of public relations, the director of franchising, etc... Club operating expenses were also trimmed to the minimum. I reduced payroll, cleaning, repairs, maintenance and use of supplies. I placed a freeze on all wages. Despite my best efforts, I kept showing losses.

The straw that broke the camel's back was when I tried to become more competitive in 1989 by combining my Watertown and Wellesley clubs into a new 16,500 sq. ft. club to be opened in Newton in January 1990. This facility was well located midway between Watertown and Wellesley and less than 3 miles from each. I hired top

(See Ken Estridge page 9)

Ken Estridge

continued from page 8

notch architects and drew up plans to make this our best facility and a showcase for our franchising efforts.

I negotiated a 14-year lease with the Newton landlord who, in exchange for a \$90,000 letter of credit from me, agreed to put up \$340,000 for construction that would be amortized over the first 8 years of my lease. He promised to have me open for business by January 2, 1990 and I gave notice to my Watertown and Wellesley members that we were closing those facilities and moving to Newton.

He succeeded in doing a little of the anticipated work and opening one studio plus a small weight room and some bathrooms; however, the facility was not ready for occupancy as promised in January. The landlord ran into problems with the Building Department which stated that the building, which was a large two story brick and beam mill building, needed to be subdivided into two smaller buildings for fire reasons. We also ran into problems regarding parking capacity and occupancy limitations. The landlord had promised me the use of all the parking spaces after 5 p.m., reserving a portion of the spaces for office tenants prior to 5 p.m. The City said that this was illegal and that we couldn't share the parking facility. They didn't want to give me the occupancy capacity promised by the landlord in my lease and required by my operation.

These problems were the beginning of a nightmare because my landlord did not own the building. He was a subtenant of the previous tenant who in turn had a lease with a landlord in California. That made me a sub-sub tenant who now required approval of the sub-tenant, the tenant and the owner of the building to make dramatic structural changes. After months of negotiating, I got permission to do the required construction based upon my commitment to restore the building to its original condition at the end of my lease. By the time we calculated the new cost of construction, it exceeded \$600,000. The Newton landlord refused to build the club unless I put up \$260,000 towards construction which I didn't have and couldn't borrow. We tried for several months to negotiate a resolution to our conflict. We were unsuccessful and ended up in litigation.

I found myself embroiled

in a no-win law suit with my Newton landlord over construction which cost me \$57,000 in legal fees and dragged on for over a year. I had sold memberships to Wellesley and Watertown in 1989 before I moved to Newton, and in 1990, I was selling memberships for the new club in Newton after our opening there on the expectation that the facility would soon be complete. Because of construction delays and incomplete facilities to offer, Newton sales were disappointing. Many of the over 1500 members from Watertown and Wellesley were furious and demanded their money back. Although many refunds were given, I didn't have sufficient funds to give money to all the members who requested refunds. This resulted in numerous complaints to the Attorney General, who in turn put pressure on me.

I couldn't retreat to Wellesley because I had already given notice to my Wellesley landlord of my intention to vacate my existing facility and terminate my lease with him. He decided to go into competition with me and offered all my teachers raises if they agreed to stay and work for him. Many teachers, including my fitness director, accepted this offer. He then turned to my members and said get your money back from Joy of Movement and pay me if you want to continue using the Wellesley facility and taking class with your favorite teachers.

I reopened Watertown on a limited basis but all the equipment and classes had been moved to Newton which was operating out of 4,000 sq. ft. of our anticipated 16,500 sq. ft. Watertown had never had locker rooms or showers and did not appeal to the more affluent members who we had moved from Wellesley. Now, without any equipment, Watertown didn't offer a full service facility. I had to pay rent for Watertown, and give refunds to Wellesley members, while fighting the battle in Newton.

For 8 months before closing, I worked without salary and lived off savings and borrowed funds. When I told my wife that I wanted to borrow money against our house (in which we still had over \$380,000 of equity) to save our business, she refused and filed for divorce. She put liens on all of our collective assets (2 houses, 3 cars, boat, investment real estate, etc... as well as all of my fitness centers so that now I couldn't sell them without removing the lien). She then bad mouthed me to anyone who would

listen, including many of my staff, blaming me for all the problems the company was having. This was the final blow. I was now all alone in my efforts to save the business.

I advertised for business partners, continued to try to borrow money and then tried to find a buyer the business. But no one wanted to buy a club that was losing money in a highly competitive environment with a bad economy. Especially, one plagued by numerous requests for consumer refunds. I ran a "two for one" promotional sale in February as I had done every year before, but if failed to raise enough money to keep the business going. Up to the last day, I believed that I would find a buyer or a new source of capital to keep going. Three days before I closed, I deposited \$37,000, all the money I had, into the business to cover payroll taxes and payroll, only have it seized by the bank to cover credit card refund requests which were coming in about as fast as new sales. The day before I closed, the bank notified me that I could no longer deposit Master Card or Visa sales into the bank because of the numerous refund requests and the New York Attorney General said I couldn't sell memberships for more than \$100 unless I posted bond for refunds with the State of New York. I found myself without any personal or corporate funds. My best efforts to save the clubs had failed.

I sought bankruptcy counsel and they said to close the clubs immediately to avoid consumer fraud for misrepresenting to new members our ability to deliver services. I closed the clubs on Saturday evening and the world exploded with criticism. How could I have sold memberships the day before? How could I have run a sale to raise money? How could I not have known that the business would close? I had lost everything and in everyone's view, I was the bad guy!

Reflecting back, there were many things I could have done differently if I had seen the picture more clearly. Perhaps the most important thing would have been to admit much earlier, that I couldn't save the business and plan for its closing, instead of charging fearlessly ahead and running into a wall.

If any of you who read this article were injured by the closing of my clubs, I offer you my sincere apology. It was never my intent to cause injury to my members or the club industry, but rather, it was always my intent to survive and to continue to provide the services promised to my members.

I loved both dance and fit-

ness and had pioneered many of its developments in Boston. I developed the first club in Boston that offered aerobics and Nautilus in the same facility. I introduced aerobics classes to many of the racquetball and tennis clubs in the area including Cederdale, Boston Athletic Club and Wellesley Racquet Club. They all subsequently became multisport facilities. I lectured at IRS on aerobic programming and how to maximize return per square foot in your club. I provided suggestions for introducing variety in club programming. I brought social and artistic dance to multisport clubs. In some ways I helped to build my ultimate competition. I created fitness programs for many companies in the Boston area including Arthur D. Little, American Science and Engineering, Bank of Boston, IBM, Polaroid and many of the large Harvard affiliated hospitals.

My successes over the years had been great. I developed five clubs in Boston and two in New York. Sales exceeded \$3.7 million. They were the only clubs to offer dance and fitness classes plus fully equipped workout rooms. I had received the Key to the City of Boston and the declaration of Joy of Movement Day in Boston by Mayor Kevin White, for our contributions to Boston's cultural community. I received two Best of Boston Awards from Boston Magazine for the best Disco classes in 1979 and best aerobics classes in 1984. I was elected Business Man of the Year by the Central Square Business Men's Association for bringing in the most business from outside of Cambridge into Central Square. I created the Dance Umbrella, a non-profit dance production organization which became the largest producer of dance events in New England. It still exists today and receives substantial funding from the National Endowment for the Arts and the Massachusetts Council on the Arts. I served as a member of the Cambridge Arts Council. I had been a guest on numerous television shows. Many articles were published praising the quality and variety of our program offerings and our contributions to the communities in which we existed. I was one of the original founders of Workout Plus, a large health club in Dedham, which won a Best of Boston Award in 1993.

Despite all this activity, closing my clubs attracted more press and media attention that all my best efforts to generate publicity over 17 years combined,

and it was brutal! I had suddenly gone from hero to villain, star to disaster. I was on the front page of the Boston Globe business section and the front cover of Boston Magazine, not to mention every major TV news channel and National Public Radio, and several New York newspapers. I hadn't just closed. I was like a passenger train that had crashed at full speed into a wall of stone killing thousands of people. Thousands of members were furious. The staff was outraged and didn't understand. I couldn't have closed in a worse way. Three days later, the Attorney General in Boston filed a class action lawsuit against me and all my clubs for \$1.4 million in consumer damages. This lawsuit tied up every asset in my possession and forced me into personal bankruptcy.

I have often asked myself how did I let things get to the point where I had no other choices. What could I have done differently? Why did things end up so badly? What advice would I give someone if they asked me what they should do with a club that is in trouble? This article is for all of you who have ever faced or will ever face this painful decision. I hope it saves you some of the pain I experienced.

NEED A PLAN

The first and most important conclusion I have to share is that I didn't plan on failing. It has been said that if you fail to plan, you plan to fail. Well, I failed to plan because I deeply believed that I could save my clubs. I never believed that I would be forced to close until I found myself with absolutely no operating cash. Weeks before closing I was searching for additional investment capital from every source I knew. I had just run a "2 for 1" membership special to raise money from my members. I had closed two of my clubs in February, 1991, hoping to keep the other four alive. Once you close one club in a chain, you shake the confidence of both consumers and staff. Consumer confidence is won slowly over a long period of time. It is lost very quickly when you close a single club and is very difficult to regain once it is lost.

So, here is some planning advice:

(1) AVOID A SURPRISE CLOSING!

Plan to close as far in advance as possible so that you can minimize the shock to your members and staff. Before you close your members are an asset. Once you close they become a liability.

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local psychologist. Red explained his dilemma to Dr. Berard who agreed to help Red and his organization. While I was in Lafayette conducting my research for this case study, Dr. Berard shared that experience with me. In an interview of about 45 minutes, Dr. Berard provided me with information which I believe can be very valuable to anyone in the club business. I have decided to transcribe that interview word-for-word because of the potential value to you and so that I would be sure of communicating all of what he had to say.

CLUB CASE STUDY INTERVIEW WITH DR. MICHAEL BERARD, CLINICAL PSYCHOLOGIST

Q. Dr. Berard would you explain your field of psychology so that our readers will have a feel for what you do?

A. I'm a clinical psychologist. It's sort of a twist from what normally occurs in organizations whereby industrial psychologists are consulted to provide input to organizations. I assume that Red asked me to become involved in helping them because of our relationship that extends back to the late sixties. I've been a member since the very early days. In fact, I was actually part of the growth process from moving from one structure to next structure and witnessed the unfolding of this facility that we utilize today. It's beautiful.

Q. When did you become involved on a consultation basis with Red's?

A. I became involved as an advisor for Red's in February, 1981. I worked with them a little over two years - maybe 2 1/2 years. We began in dealing with simple management concepts such as identifying the mission of this organization. A mission statement needed to be formulated and I think Red formulated the mission statement after receiving input from most of, if not all of the employees.

Q. What Happened after the Mission Statement?

A. Subsequent to the mission statement, we devised an organizational structure involving the particular departments with specialized duties and functions with employees meeting a certain set of

criteria in accordance with job descriptions. All of those employees including the top management people of this organization needed to be educated about this entire management process. And, after this was done, we also devised a personnel performance evaluation format where employees were evaluated at different stages of that growth within the organization. These evaluation forms were based on identified behavior. We tried to leave out all attitudes and feelings when evaluating an employee. While all of this training and development was going on, we were also involved in (they didn't realize it at that time) support group therapy. I didn't perceive that would happen initially, but there were a lot of fixed ideas about what this organization was supposed to produce and how the individuals were going to fit into the organization. We were simply dealing with what we referred to as "the human factor" in organizational structure because what happens in organization structure, many times people are focused on concrete issues and are not really sensitive to employee needs. The problems that already existed in making the transition with the organization and getting involved in these group sessions began to surface. I think the end result was beautifully evolved because I think that initially if you or I were told that we are going to meet with Dr. Berard and he's a clinical psychologist and uses psychopathology... well, we'd hit a brick wall. The resistance would be incredible. We had some real sensitive sessions where people would cry and it was done in a very beautiful - humanistic fashion through the use of interpersonal therapy techniques breaking down those walls... these barriers that build resistance... keeping people from growing, thus inhibits the growth of the organization; therefore, in essence, never meeting the mission statement of that organization.

ORGANIZATIONS ARE MADE OF PEOPLE

Organizations are made of people... unless you really understand the people that you are working with, at least on a personal-social-interpersonal level, people develop some type of distrust... and they get somewhat paranoid. Therefore, those ideas, although they are probably not real, are the basis of their judgment and their decisions within these organizational positions. When one makes a decision based on that type of thinking, one is not utilizing appropriate judgment. And, of course, when I begin the day's work with some hidden

agenda about people I work with, I am going to not only effect the people I work with in terms of systems analysis, I'm going to effect the client... the reason for my job, in this case... the club member. We were witness at times to some erratic mood swings where people were slightly irritable and I could see it because I was a member too. So, I could see what was going on and I could witness the non-verbal behavior... how they communicated to members and to other employees, so it was a phenomenon. When we would have our meetings, we began to get into this. Once a week for the educational part and then as time went on, we put the organization teaching thing aside because that was simply learned and we dealt more with the interpersonal human factor of the personalities of the organization. That's the key. The human factor in organizations is the key in the success of people arriving at the mission statement set forth by the administrative personnel.

A very important by-product involved setting in place management meetings and department head meetings with people under their supervision. At the time when we began to meet and discuss all these principals and the human factors, there were a lot of changes going on. And, change threatens people in many areas. And the way that one encounters the fear is through knowledge, so as soon as information is received about a change, it's important for the organization to disclose that information in order to deal with the human factor. People were resistive... they resisted change of their job description... they resisted simply knowing they were going to be evaluated according to a specific criteria. It was totally foreign to everyone. There was attrition due to this process, but I think the attrition was part of a necessary outcome. The people and the positions that were unable to be flexible and to shift in order to grow would have been in too much emotional pain. They made the decision to resign. It was kind of a Mom and Pop type of organization and there was a lot of intimacy on a social level that was established which really bonded people as people. But, when the organization began to expand and decisions had to

TREADMILL UPDATE

We mailed a 21 question survey on TREADMILLS for our independent panel of club professionals to complete and to date we have received approximately 30% of those surveys back. We decided to delay the report until the March Edition of The CLUB INSIDER News so that the report will have more data and therefore will be more meaningful. We thank each of our independent panelists who have already sent in their survey and remind those who have not to please send or fax the survey as follows: FAX 1-404-933-9698 or mail to CLUB INSIDER News, P. O. Box 671443, Marietta, GA 30067-0025.

Also, in case you didn't notice it, there will be a TREADMILL MANUFACTURERS FORUM at the IRS Reno Convention on Friday, March 25, 1994 from 10:45 a.m. to 12 Noon. We will provide more details on that Forum in the March Edition along with the survey results.

be made in order to grow with what had to be done, those bonds began to be threatened. And, that's why some people did not perceive that the bonds might still exist but in a different form. In order to be part of the system, one would have to shift and be flexible and move from point A to point B. They were so threatened about the bonding issue not persisting, that they decided to take an exit. There was territoriality... and a lot of it had to do with a lack of knowledge, so once everybody began to realize what in fact we were attempting to do and how they were going to be more a part of this system than ever, then the resistance began to dissolve.

Initially, in order to shift from a totally unorganized system to a management oriented system, the charge was very concrete and specific and sort of inflexible. In other words, this is what we have to do and we need to do this, meaning A, B & C. We're not talking about A+ or A-, we need to do A... so they can understand and have some direction and have something to hold onto. In so doing, we became very technical - even to the point where we used instruments to screen applicants for new positions. The instruments were basically simple instruments that provided information about personality patterns. For example, if someone is an extrovert - loves to be with people - and wants a job in the accounting section - you see what I mean, you try to fit the person to the job description. The scientifically based to help them make the choice. So, from the beginning, the new employee coming into the system is being trained with a new orientation that this is an organization. These people will do A, B and C before I get employed. And, once I get into this position, I have a job description. And my performance is measured in these time frames (3 months - 6 months) according to observable behavior patterns set forth on a form. These form... these guidelines are very specific. What I think was very wonderful for everybody is that they participated from the get-go... participatory management techniques is what I was utilizing. They devised...

they contributed... they finalized the job descriptions, so the more you work, the more you end up taking ownership and being responsible and the more you are going to comply. So, with that type of process going on they had an instrument, they had a guideline that they could go to which would relieve the pressure from them on a personal level to make a decision about someone else that they might have a personal relationship with and a bonding that was beyond just simply employee-employee dynamics. (Example: I'm sorry Tom, I like you as a person... we've been friends for 20 years, but this is the criteria. You have to work these hours and this is the job description and this is what we measure.)

Once we began to work through this and work through the resistance... this is where the sensitivity issues came about. It was not easy... and it took a lot of time and effort. People were very emotional.

Q. Once you would have a very emotional session, would these emotions carry over and linger for a long while?

A. The clinical training that I had assisted the process of recovery before the end of the very emotional sessions. They would be given some homework assignments to give them something concrete so they would not dwell on the obsession. I'm very careful about what goes on. I maintain a sense of dealing with important issues as it relates to what the mission statement identifies. It was wonderful.

(Editor's note: Our sincere thanks to Dr. Michael Berard for taking the time out of his busy day to sit down for this interview.)

Each of Red's five key managers has at least 19 years with Red. The key to Red's success seems to be in how he has treated his employees and his members and these interviews with Red's key players help illustrate that point.

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GARLAND BARRAS

Garland Barras has been employed by Red's since 1963. He has been with Red since he first opened, first as a member for six months and then ever since then over the last 30+ years. Garland is in charge of facility operations in this awesome club. Before coming on board with Red's, Garland was an X-Ray technician. He came from a very structured working environment, having worked in a clinic with 40 doctors. Policies were in place. What you were to do was set for you. He says: "When I came to Red's, my job was sort of the opposite of the clinic. Even after Dr. Berard, I was still kind of lost. I didn't know to what extent I could take the responsibilities. Until one day I woke up and said this is what you have to do. I started with Red as a body builder... my only concern then was how to get big muscles. I know I had a job to do, I just wasn't sure what it was. So, you may wonder, how did we learn how to do what we do... Red, by example, will get the gist of what he wants. Just from being around him and from day to day dealings with the club is how I learned how to do what I do. Dr. Berard is when we first began to get job descriptions. Red would say, you will do what I used to do. I assumed those responsibilities. I think my job is now called Operational Manager... Now at this point, I really have fun in what I do. I hate to not have a project going on; the more projects I have going, the more I enjoy my work. It is hard to relate how we made the transition to managers because I don't think any of us were trained as managers. After working with Dr. Berard, it was 4 or 5 years before we all got over the emotional aspects of the new management structure. For a while, it had gotten very tough. It was really hectic. Now, Red would rather have us handle things and he gives us the ball and we can run with it. He's not going to crucify you if you make a mistake. Red had to go through a really tough time in being able to let go of his baby... I mean this is the #1 thing in his life. You have to appreciate the fact that we know this guy and this is the #1 thing in his life and he is saying you take care of it. I felt a lot of pressure. I felt like I had to produce... under those conditions, it was a do or die thing. I feel that I'm doing a good job and I'm having a great time doing it! I like to joke around a bit and I tell them, life is

too short to be serious. We all have a special little bond as managers. We feel close. It's true, but we are like family and it took a lot of work to get to where we are. But, I feel like we are great for it. We've come a long way."

BUDDY LEBAS

Buddy has been with Red's club for a little over 20 years. He started as a member while he was employed as a physical education teacher for the local school system. Buddy is in charge of Red's 20,000 square feet of workout areas and supervises four full time people and seven college students who work part time at Red's. Buddy LeBas also happens to be a person who does not have to work because his father won the Louisiana Lottery of \$22,000,000 and Buddy shares that equally with his father and two other family members. He receives \$200,000 per year from the lottery. When asked why he continues to work at Red's he simply says because he enjoys working there. Here are some other key points made by Buddy LeBas:

(1) The key to success for Red's Club is that they always provide quality service, they never allow that quality to drop and they always treat their members as #1.

(2) In discussing the two year period while the Management Team was working with psychologist, Dr. Michael Berard, Buddy says: "It was a key accomplishment. It was a trying and emotional time." He explains that for a while after working with Dr. Berard, the management team became more formalized, but since then (1983) things have gotten "back to the way we were - we went from meeting once a week to meeting twice a month to meeting once a month." He explains: "For a while, we had to invent things to talk about in the meetings... I mean, how complicated is this business?"

(3) On Red and the club, Buddy says: "Red is a unique man and provides unique leadership for us. I think the people here are dedicated to their work and they are almost family... It has grown like a family rather than a business. Not only is it a family of club workers, it is a family of members and community because of the longevity of the staff and the longevity of the members and a feeling of belonging."

(4) On selecting and training employees he says: "The best way to get a good employee is to hire a good employee... hire motivated people... people must learn from doing the job."

(5) On membership growth in Red's club he explains that: "We are in a third generation of members now. Our older members have grown old with us. If a person has three kids, if two of them stay in Lafayette, then we get two more members. If their kids have three kids, then we may get two more from their family and so on."

(6) On teaching people how to work out and get results: "We don't do a lot of testing... we feel testing sets barriers for people. Most people's workout programs look a lot alike; we just help them enjoy their program and stick to it by paying personal attention to each of them. We even have an employee workout lottery which rewards financially, employees who workout on a regular basis with a cash drawing every two months for those who have hit a minimum number of workouts during the previous two months."

(7) On value in the club membership he says: "Red's is the best value in town... I mean we charge about \$90 per month for a family with kids. That means that the entire family can use Red's EVERYDAY of that month for \$90. When I take my family out to dinner and a movie... it costs at least that much!"

(8) When asked by others if he is going to use his new found fortune from the lottery to build his own gym, Buddy responds: "Now, why would I do that when I already work at the best gym there is?"

CARLA MONJU

Carla has been with Red's for 17 years. She began as a part-time worker for 4 or 5 years. She then took charge of the pool, then the tennis department, then the aerobics department and later the check in desk. Now, as the Activities Director, she is in charge of all programs and activities for Red's club plus she hires and supervises the front desk staff. She explained that the major problem facing Red's is how to manage and control the hundreds of kids who descend on Red's when school's out in the summer. In regard to the transition with Dr. Berard she says: "We had no management type structure and when Dr. Berard came in to help us, I became part of the five person management team. We met every Friday morning at 7:30 a.m. In the initial stages we had lengthy meetings... some of us even cried... we are a very close knit organization. Sometimes we didn't all agree and I don't know how we would have done it without Dr. Berard there... he served as kind of a mediator."

He helped us set up the whole management structure and helped us decide who should be in charge of what area." On hiring she says: "We never advertise for employees... we hire a lot of members... usually it is word of mouth with people telling their friends." She was involved in the profit sharing plan from the beginning and when asked about that she said: "I couldn't believe it and still can't believe it actually, because it is quite incredible." When asked what kind of boss Red is she says: "Exceptional, unique, he's definitely different... a lot of us say it's hard to take a check... to get paid to do this because it is so much fun to work here. Everybody who comes here is happy... they want to be here, the people are always friendly, we're real lucky... it's just a very pleasant place to be. I think a lot has to do with him always being here though, the upkeep, the quality of work and our attitudes all just kind of feed off of him, I really do... it's just him being here I think that makes this place so successful. We really work hard for him because he is here a lot and puts in a lot of hours and works... you see him pick up towels, you see him clean toilets, you see him pick up trash... I think that means a lot to employees and a whole lot to the members. I think it is the whole package... the profit sharing is a great benefit for us... it is the whole package... its the atmosphere... he pays us very well... he takes care of us very well. We definitely look forward to coming to work."

CONNIE TOMINO

Connie has been with Red's for 19 1/2 years. She started part time after being rescued from Burger King by Red. She began working in the pro shop. In 1977, she took over the bookkeeping job with no previous bookkeeping experience. She now supervises two other bookkeepers (they have not hired a bookkeeper in over ten years) and she is the aerobics director, does payroll, supervises the nursery and she also produces the monthly newsletter. In reflecting on the transition to the current management team with Dr. Berard she recalls that: "It was exciting and scary all at one time... it was kind of relieving, because we were all experiencing such growing pains, not only Red, we all were and just the fact that he had the faith in us made it exciting... I remember taking work home... study-

ing... writing job descriptions... it was wonderful to see the birth... a new birth. Just the fact that he had faith in us to do this because none of us had management skills, training or background... so he taught us... and I think you know I've been here 19 years... we've all been here so long... we are all just little clones of Red and we have learned the way he does things. We treat people the way you would like to be treated... it is the way Red has taught us to do things. During the transition with the team with Dr. Berard we had shouting matches, crying sessions and I guess he came up with some things that we had never thought of that were difficult such as you two guys do the same two jobs, you can't do this anymore, so that meant that one of us had to totally change his job. Dr. Berard for a long time led us. We went from weekly to now monthly. More casual. I volunteered myself to be the administrator and take notes on a flip chart. We later moved to little cards for notes." In regard to Red's financial policy regarding membership dues collections and past due bills, etc... Connie shares Red's basic philosophy and that is to "take care of them." She says when she sells a membership she says to the person: "This is a personal contract between you and Red's for one year... if you want out, we are the first one to want you out of this contract, you just let us know and its over with... we don't sell it to a bank and that's our feeling, we never refuse to release someone from a contract."

For past dues she says: "We have a little procedure where we send them a notice at 30, 60 and 90 days... we don't call anybody." Collections are pretty good. During the oil bust days in the mid 1980's, we had a very influential man who was going through hard times who actually came here and cried and told us about his financial problems and how he wanted to continue with the club because it was important to his family and his business. Red let that man ride for over a year without paying dues knowing that the man would make a comeback... that man brought us a lot of new members since that time." I asked her to characterize the philosophy of the place and she said: "Red is just a down to earth - good old boy and he's taught us to be that way and we walk in his footsteps and we're that way and our members treat us good and we treat them good and it kinda doesn't get much better than that I guess." In regard to the job: "Red's smart, he's very smart... I can't leave this job and go and reproduce what I've got. I mean there's several of us who are in the position where we maybe don't have to work... this job

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is wonderful... it's not like work... my husband's an attorney, Myra's husband does real, real well, she doesn't have to work, Buddy's a millionaire, he doesn't have to work! But, I can't imagine giving it up! Why give this up... it's really a wonderful place to work... it's like your family... it would be like a divorce I guess if you quit. But, don't get me wrong... my goal in life is to be a Red Lerille's Member!"

MYRNA AYO

Myrna will celebrate her 16th year with Red's this summer. She was a member and a teacher before coming to work with Red's. She had finished her Master's Degree and had the summer off when she mentioned to Red that she was getting bored. He hired her to work part-time. She continued to work as a teacher and began by working Saturday's at Red's.

"When you work here, most people who come are in great moods and if they are not in a good mood, most of the time they are within one hour, and Red is a great guy to work for. We all know that most people don't get paid what we get paid in most places... but, Red's that kind of person, he practices what he preaches... he enjoys what he is doing... he listens. When we first started as a management team, he needed some people to help him out, I guess we were in the right place at the right time. He gave us that opportunity... I came in with no management experience and he shared the profits of his success. Red is the kind of person that it's not often that he makes mistakes, I hate to admit that, we try not to let him know that! You know when he puts something up on that board, he usually gets it. We enjoy working here... Red spends a lot of time in my department in the pro shop. He asks for the input of all of the workers.. He shares his philosophy with us. Red is always here to deal with problems. When certain members complain... we have some members who complain all the time, we've just learned to listen to them and deal with them in a way to make them happy. Red can handle it sometimes... only Red can say some things. We always try to let them feel they are right. We don't have a suggestion box... Red believes... he wants the members to come to us. And that's always been the situation, we either have an answer then or we tell them we will find the answer and will call

them back or will do something about it. We try to get our members to come to us. sometimes I don't know how Red stays on top of all of it, but he does. You know the two most important things: telling the members Hi and Bye and keeping the club clean. I can remember when Carla and I came on board... I can remember Red showing Carla and I how to clean commodes... back in those days we did ALL the cleaning before we had a cleaning service.

Reflecting back on the experience with Dr. Berard: "That was a tough time. We took a group that didn't have management skills... we took people who were basically like a family... we were very sensitive... easily hurt when someone made a comment or suggestion to the other... we took it more personally than we should have. Red had families working... we even had a nepotism clause put in... my children can't work here... none of our children can work here... we don't let husbands and wives work here. We would all admit that we had trouble with that. Dr. Berard worked a lot with us learning to handle each other... I could barely get into a conversation with Garland without crying... we just had a hard time telling each other what we thought... what we believed and agreeing on something and sticking to it. Dr. Berard worked a lot on job descriptions, just a lot of working with each other that we actually, as time went, began to work as a family as opposed to as individuals and now we can sit and make suggestions and discuss problems without getting upset. We all made an effort to work on Dr. Berard's suggestions. We lost some of the people who could not take the change (three). They were not used to having a boss besides Red. It was hard for both Red and Red's wife, Emma. Emma made the decision to step out of the pro shop and let me take it over... I know it was very difficult for her. After Dr. Berard left, we went through a period where we had to settle in on the things that Dr. Berard wanted us to do and that we felt we could do over the long haul. When questioned about the experience in 1986 when the Louisiana oil business went bust Myrna said: "That's the only time I've seen Red scared. But he handled it well. Our jobs were not at risk, but we all had to pull together. We spent the extra time it took to get the job done without the members knowing about it. There's not one of us that didn't put in extra hours to get the job done. It was a great experience to have behind us. We learned a lot

during that time which helps us until this day. Red is the kind of person who will share anything with anyone. People can take advantage of him. He gives away a huge amount each year through donations to worthy community causes. He is extremely generous."

RED LERILLE'S FINANCIAL PICTURE

Red Lerille's financial picture is outstanding. Probably the most important thing to remember about Red's business form a financial point of view is that he gives back most of what he takes in by making constant improvements, he pays his employees extremely well and he provides the best benefit package in the club industry with a profit sharing plan, an employee loan program, a 401 K Plan and great job security. All of this boils down to a solid business which is managed with an eye for doing the right things for the customers and the employees with a confidence that the financial situation will take care of itself. I had the opportunity to spend some time with Suzanne Lavergne who is in charge of finances and the employee benefit package at Red's. Suzanne has been with Red's for ten years and before that, she was employed at the CPA firm that handled Red's financials. Here are some very interesting comments that Suzanne has shared:

RED'S PROFIT SHARING PLAN

Suzanne Lavergne administers Red's profit sharing plan and the 401K Plan. Each year, Red sets aside a percentage of the club's profits to be divided up amongst his employees who have worked 1,000 or more hours the previous year. The profit sharing is based upon a person's total pay as it compares to the overall club payroll. These funds are kept in safe vehicles such as C. D.'s or other secure holding places. The profit sharing plan has a vesting formula which guarantees that each year after the third year of employment, the employee has a higher percentage that will be his/hers should he/she elect to leave Red's. The formula shown below is the vesting formula.

VESTING FORMULA

Less than three years - 0%
Three years but less than 4 years - 20%
Four years but less than 5 years - 40%

Five years but less than 6 years -

60%

Six years but less than 7 years -

80%

Seven + years or more - 100%

RED LERILLE'S MEMBERSHIP NUMBERS

1984 - 5,422

1985 - 5,459

1986 - 4,723

1987 - 4,977

1988 - 5,056

1989 - 5,088

1990 - 5,117

1991 - 5,298

1992 - 5,568

1993/94 - 5,814

Red's also has a loan program with the profit sharing plan which will allow the employee's who are 100% vested, to obtain a car, boat or other personal loan. Employees who are vested may borrow up to 50% of the amount they have vested up to a max of \$50,000. The rate that they pay on the loan is 2% over whatever the prime rate is. The loans have a five year term limit and a written agreement signed by both the employee and his/her spouse requires that the loan will be paid off in full should the employee leave the club.

Red's 401K Plan allows each employee to contribute up to \$9,000 per year to the retirement fund without paying any federal or state taxes on the income. The employee then administers these retirement funds by placing the money in financial vehicles that are self chosen as opposed to the vehicles selected by Red's for the profit sharing plan. This allows the employee to become involved in mutual funds and other opportunities if he/she so desires. The 401 K contributions are subject to social security taxes.

**RED LERILLE'S FINANCIAL PICTURE
11 YEAR GROSS REVENUES**

Total Revenue	% Profit
1983 - \$3,838,232	13.82%
1984 - \$3,932,935	12.82%
1985 - \$4,441,200	14.12%
1986 - \$4,445,878	11.51%
1987 - \$3,885,902	8.1%
1988 - \$4,115,226	5.4%
1989 - \$4,200,604	6.7%
1990 - \$4,444,164	10.0%
1991 - \$4,806,271	9.26%
1992 - \$5,009,564	8.8%
1993 - \$5,327,326	9.0%

MAJOR ECONOMIC DOWNTURN THREATENS RED'S

In 1986, the Lafayette, Louisiana area experienced a serious downturn in its oil based economy. This downturn resulted in a mass exodus of people from Lafayette due to the loss of jobs. Approximately 10,000 left the area population of 100,000 negatively affecting every business in the area, including Red Lerille's Health and Racquet Club. Red Lerille's Club Membership number dropped by 1300 accounts in 13 months!

1984 - 5,422

1985 - 5,459

1986 - 4,723

1987 - 4,977

1988 - 5,056

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1993/94 - 5,814

Red approached this huge problem for his club in an organized and business like manner. He called a meeting of all of his full time workers. He told them that they had to make some changes in what the club was spending and he needed each of them to make a serious effort to come up with cost cutting ideas and to come back next week. The guidelines that he gave them were:

- (1) He didn't want the members to notice or be affected.
- (2) A salary reduction would not be considered at that time.

When his team got together to combine their ideas, they had come up with cost cutting efforts that reduced Red's operating expenses by \$350,000 over the following year. It was this plan created by his team that enabled Red's to ride out this tough time. Here are some of the changes they made from the workers suggestions.

- (1) All full time workers added 5 hours per week to their schedule without a pay increase.

(2) When someone quit, they were not replaced. No one was to be laid off.

(3) Club began closing at 10 p.m. until 11 p.m.

(4) No overtime pay.

(5) No pay for meetings.

(6) No Christmas Party. (This one day event usually lasted from 5 a.m. to 10 p.m. and would attract 4,500 to 5,000 people and would cost \$25,000 to \$30,000 per year.)

(7) Brought the club newsletter back in house.

(8) Some full time people devoted more time to the front desk hours.

(9) Cut back to one person at entrance front desk in the evenings.

(10) Pro Shop Inventory was cut back. Ordered lower quantities and less choices. They replaced part of the inventory with consignment goods.

(11) Cut back on workers during slower hours in all areas of the club.

(12) Dropped paper goods with the club's logo printed on it to reduce costs. Eliminated free drinks for employees and began giving a 35% discount to employees.

(See *Final on Red Lerille* page 13)

Norms Notes

continued from page 3

INSIDER News!

GEOFF HAMPTON

has relaunched his sales consulting business and is available to help you crank up the numbers in your club. This guy knows his stuff. And, he knows how to do it right for the long haul, meaning he is not

...Final on Red Lerille

continued from page 12

(13) The lounge used one person on Friday instead of two.

(14) Maintenance - replaced full time person with a part time person.

(15) Put all air conditioners on an energy management board (50 A/C units).

(16) Went to plain white towels for members instead of Logo

into the "promo" sales programs which rely simply on impulse buyers, 97% of whom never come back after the purchase.

JUDY NEELEY of The Canon Tennis Club in Fairfax, California writes: "I voted against the name change for IRSAs. I believe the IRSAs members should first have been able to vote whether or not to even change the name." Sounds logical to me... it sure would have saved a lot of time,

towels.

(17) The lights on the outside tennis courts were kept off in early morning and at night except when in use. Three courts would be left on to help light the outdoor jogging track. This saved on electricity and bulbs.

(18) Accounting office lost two part timers who weren't replaced.

(19) Donations were reduced by about \$150 per month.

(20) Used twelve fewer lifeguards in Summer.

(21) Negotiated a reduc-

tion of their bank note of \$3,000 per month.

In 1987, Red's reduced the full time workers schedules by the 5 hours per week increased earlier. A few part timers were hired to take up those hours. Began paying for meetings and CPR classes again in 1988. Most of the other things have not been reinstated.

One of the key things Red's has been able to accomplish was the consolidation of the club's debt to reduce dramatically the monthly payments to their bank.

To that end:

a. We have no secrets and each staff person (and member) is entitled to know everything about our business, including financial information and compensation of everyone. We want them to feel included.

b. One of our goals is that staff members only do what they truly enjoy doing and we encourage them to take responsibility for bringing this about. Perhaps, we can find someone else to do what they do not enjoy doing or perhaps, we decide that we don't need to do it. (Of course, once a staff person agrees to do something, we expect them to keep their commitment until they have been relieved of that responsibility.) We hope that staff will learn to only agree to do that which they really want to do. Our experience is that if people love doing something, they will do it well and with enthusiasm.

c. Every staff member is encouraged to share feelings in order to minimize personal frustration, and staff members are expected to listen to the feelings of others. Note the difference between sharing feelings (I feel upset, frustrated, etc.) and attacking (You are selfish, inconsiderate, etc.) ("I feel you are a jerk" is an opinion, not an expression of feelings).

d. Not only do all staff members have the opportunity to give input on what goes on around the Club, often we will only make decisions after there is unanimous agreement of those involved in the decision. (This process will

work well if participants are willing to share feelings rather than opinions). This empowers more people and increases the likelihood that they will take responsibility for carrying out whatever decision is made.

e. We have profit-sharing for all regular employees who have been with us for at least a year. If we do well, they do well. On the other hand, we do not have automatic raises so that staff shares the risk of our not doing well. Most positions have a top salary level and once the employee reaches that, they will receive additional compensation only if we do well and there is profit-sharing.

f. We have two psychologists who trade discounts for members and staff in exchange for use of office space. We pay for up to three visits for staff members when they are experiencing great stress or are going through a traumatic situation. The General Manager and I meet monthly with one of them to clear out any unresolved feelings between us, and we call her in to meet with staff members who are having difficulties getting to a loving place with each other. Underlying these meetings is a belief that once feelings are expressed, they lose their hold on us whether or not the other person responds to them. This clears the way for a staff member to return to a place of caring with his/her fellow staff member.

C. Results
Does our approach work? It does for us. During our

consultant is vast. It has been printed in a style which is suitable for framing or simply hanging on your staff bulletin board.

DEAN AND M. J. KACHEL, owners of the Quadrangle Athletic Clubs in Coral Springs and Clearwater, Florida, report that despite the opening of a new and glitzy club just 1/2 mile down the street in late December, their Coral Springs club had a terrific January, DOUBLING new

membership sales over last January. Dean is in the midst of a major facility expansion and remodeling program and the market is embracing his 15th year of operations with open arms. In just three months, Dean has proved that the only thing you have to fear is fear itself when it comes to the decision to take out racquetball courts in order to expand weight and cardiovascular training area. Congratulations Dean and M. J.!

duced his monthly debt payment from \$80,000 per month to \$54,000 per month when the oil bust hit Louisiana, probably saving him from financial failure during that great time of loss. Red's debt will be paid off in the year 2004 as he now owes approximately \$3.3 million on a club and 15 acres of land which are worth conservatively in the range of \$8 million to \$10 million.

When asked about Red Lerille's style of management, Suzanne Lavergne said: "Red has a kind of calming quality on all of us."

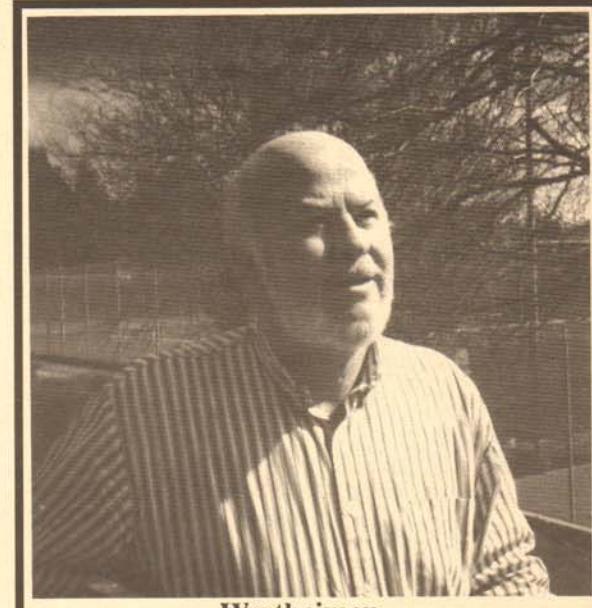
END OF PART I

a staff that keeps getting stronger and more self sufficient and seems to genuinely appreciate the way they are treated.

D. Conclusion

Our business is about high-touch. We seek to create a place for people to relax and have fun. (People who enjoy themselves are healthier. See "Healthy Pleasures" by Ornstein and Sobel).

We are about empowering people by accepting them as they are, nurturing and caring about them, in short, by loving them no matter what. In so doing, not only do we expect even more significant profits, we also believe we are making a significant contribution towards creating a happier, more loving, more peaceful society.



Wertheimer

More Estridge

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(2) IDENTIFY WARNING SIGNALS!

To be able to identify and plan well in advance for closing, you need warning signals. I've listed Early, Medium and Critical Warning Signals for this purpose.

EARLY WARNING SIGNALS:

(a) Sales are declining and you can't turn them around

(b) Profits are declining

(c) Staff morale is declining

(d) Competition is increasing and they are BIGGER, BETTER and CHEAPER!

(e) Costs are increasing, especially normally fixed costs like rent

(f) Cash reserves are decreasing

(g) Bank loans have increased

(h) Accounts payable are increasing

(i) Advertising dollars are increased to stimulate sales and they don't produce the desired results

(j) Clubs receive fewer inquiries per advertising dollar spent than in the past

(k) Sales goals are set at the same levels as last year despite the impact of inflation

(l) Less dollars are being charged for the club's Initiation Fee or Dues than a year ago

MEDIUM WARNING SIGNALS

(a) The club is losing money

(b) The club can't pay important bills on time and asks for extended terms

(c) Vendors insist on C.O.D. terms

(d) Advertising sources insist on advance payment for ads

(e) The club's bank says no more credit

(f) The club has to cut back on services and payroll to survive

(g) Competition is getting stronger and more aggressive versus the club

(h) The club's owner asks his friends and family for money and even thinks of taking a home equity loan to help save the business

(i) The owner's spouse gets very nervous that they may lose everything

(j) Cash reserves don't exist and sales dollars go to pay

yesterday's bills

CRITICAL WARNING SIGNALS

(a) Can't pay payroll taxes

(b) Club is late on rent

(c) Club is late on telephone and electrical bills as shut-off notices are awaited

(d) The owner even reduces or eliminates his salary

(e) The owner struggles to pay payroll every week

(f) The owner tries to sell the business and finds no buyers

(g) The owner asks himself how did he get in this mess and how does he get out!

(3) BE OBJECTIVE IN VIEWING YOUR BUSINESS

In order to clearly see what is going on in your business, you need to be objective and few of us are. So here are some tips:

(a) Know yourself and your biases: The optimism that enabled you to grow and expand in good times may work against you in bad times. There are times when it is very dangerous to be optimistic!

(b) Know the key staff and their biases: When is their fear based on a reality the owner can't see or refuses to see?

(c) Listen to the members: They will always tell the owner and staff what is wrong and needs to be changed. Never ignore or cut yourself off from their feedback. They are the most important allies. They want the club to survive and be better!

(d) Listen to your spouse: She/he may be more objective and her/his concern may be real concerns.

(e) Re-examine your values: When the club owner's back is against the wall, it puts your values to the test. Do you have to do things you don't feel good about to survive. If so, rethink survival.

(4) BE PRO-ACTIVE, NOT REACTIVE

Act early to preserve the club's options. (I waited until I had no choice except to close!)

(5) COMMUNICATE

Communicate what is happening to the key staff and long term members. Gather allies in the battle. Share the pain. Get help from those who care about the owner and your club.

(6) KNOW THE VALUE OF THE CLUB AS A GOING CONCERN

In liquidation (especially in bankruptcy), it is worth practically nothing. In my case, \$300,000 worth of exercise equipment was sold for \$44,000. I received nothing for over \$1 million of leasehold improvements because I lost my leases.

(7) ACT EARLY

It takes a lot of time to sell a club, especially if you want to get a decent price. The club owner has to start trying to sell at least six months before there is a closing. In my case, I started too late and couldn't find a buyer fast enough.

(8) THE CLUB'S MEMBERS ARE AN ASSET

Other clubs spend advertising and sales dollars acquiring members. The owner can always find clubs who will take them for nothing. Never close and desert them!

(9) HAVE THE CLUB'S FINANCIAL RECORDS IN IMPECCABLE ORDER

The club's financial control system will provide the owner the early warning signals that he needs. In my case, my records were a disaster. In an attempt to hold on, I had fired my bookkeeper and controller and was trying to do everything myself. Don't do this!

(10) UNDERSTAND THE SOURCE OF THE CLUB'S PROBLEMS

Why is it failing? What, if anything can be done about it? What could the best experts in the industry do about it? Seek help in solving your problems.

(11) GET THE OPINION OF OBJECTIVE OUTSIDERS

Have a real Board of Directors and listen to them. Don't assume the owner has all the answers.

(12) REMEMBER THE BASIC LAWS

The laws of Cause and Effect. There is a reason why clubs fail. Understand the real

reasons for the Club's struggles.

(13) HAVE A BACK-UP PLAN

What will you do if the current plan fails? How and when will you sound the retreat?

(14) BE PREPARED TO LOSE THE BATTLE IN ORDER TO SURVIVE AND WIN THE WAR

This is especially true for multi-club owners. I made the mistake of trying to hold on to everything and it weakened me to the point where I lost everything. By acting early, I could have saved at least one club to have a base for re-building. A good general always know when to sound the retreat. A great chess player know the moment he has lost the game. He doesn't wait to get annihilated piece by piece. Early retreats save lives and resources!

(15) ALWAYS KEEP A CAPITAL CUSHION

When it dwindles below a critical level, sound the alarm. Focus on finding additional reserves as quickly as possible. Don't ignore it and hope it will change. Cash is the key to survival when a business is in trouble.

(16) BORROW

Borrow when you don't need to. Clubs can't borrow when they're in a crisis. Guard the credit rating. It's easy to establish good credit. It's also easy to lose it. Once it's lost, it's very hard to re-establish it.

(17) INVESTOR PARTNERS

If there are investor partners, be very clear about the terms of the deal, especially as to what happens if losses occur and more dollars are needed.

(18) SPOUSE

If the owner works with his/her spouse, be very clear about both parties respective goals and values. Have a clear understanding about the decision-making process, especially on critical issues like closing a club or mortgaging the house. Have an agreement about how disputes will be resolved. Agree to accept the recommendations of the club's Board of Directors if the spouses can't agree between themselves. In my case, this was the straw that broke the camel's back. When times got

very tough, my wife bailed out and divorced me. By placing a lien on my house, car, buildings and businesses and not agreeing to the procurement of a home-equity loan, she made it impossible for me to borrow any additional funds or to sell my assets. This ultimately caused the bankruptcy of my business. When I closed my business, we had \$350,000 of equity in our home, 3 cars and a summer house. Because of our divorce and the fact that we owned things jointly, I couldn't borrow \$1 to save the business. Needless to say, this turned out to be a worst case solution for both of us.

So, let's assume that you take my advice. What do you do about it?

When you experience EARLY WARNING SIGNALS, do the following:

(1) Cut costs both in your business and in your personal life; tighten your belt and get ready for trouble ahead.

(2) Borrow long-term dollars for a war chest before cash needs become critical and you can't borrow.

(3) Get professional help and find out what's really wrong and what you can do about it.

(4) Determine the value of your club and consider selling it now before things get worse.

(5) If you have multiple clubs, do a very critical review of the prospects for each; get rid of the losers that you don't believe you can fix.

(6) Talk with your spouse and discuss the alternatives and make sure you have an agreement.

(7) If you have investor partners or investors, meet with them and share your concerns. Reach agreement on what you plan to do.

(8) Let nothing drain your cash and make no unnecessary expenditures.

(9) Prepare for worse times ahead!

When you experience MIDDLE WARNING SIGNALS, do the following:

(1) Sell something and raise as much cash as possible.

(2) Stop the bleeding, even if it means closing something now.

(3) Find an investment partner who believes in you and is prepared for a struggle.

(4) Plan your retreat. Seriously consider selling your club(s) and maybe you will come out of it with your shirt on your back and your reputation in tact.

(5) Don't finance your (See Estridge Final page 15)

Estridge Final

continued from page 14

business by not paying payroll or payroll taxes. This should be your last source of borrowing. I closed my clubs three years ago and still owe the IRS for payroll taxes I didn't pay. Even personal bankruptcy does not eliminate this obligation.

When you experience CRITICAL WARNING SIG-
NALS, do the following:

(1) It's too late to save your business, so save yourself.

(2) Pay payroll and pay-
roll taxes before you pay anything else! This means before anything else - rent, telephone, electricity, etc... It will take your landlord several months to evict you.

(3) Carefully plan what will happen to your members. Find clubs that will take them if you can't find another buyer for your club.

(4) Plan to liquidate your assets on favorable terms and don't wait for a bankruptcy auction.

(5) Negotiate your way out of leases. Your landlords don't want to be tied up in a bankruptcy.

(6) Eliminate any payables for which you are personally responsible, such as equipment leases that you have personally guaranteed. Try to get other clubs to take over the lease payments in exchange for the use of the equipment.

(7) Do the best you can for your employees. Make sure they understand that you have tried your best to save the club. Provide them with letters of recommendation for future jobs. Even call other owners to make introductions for them.

(8) Make sure that you are familiar with the Consumer Protection Laws in your state and that you have complied. If you are unable to give refunds mandated by law, meet with the Attorney General's Office in advance of closing and explain to them your financial situation and what you have done to take care of consumers.

(9) If there is a requirement that you have a Bond posted for refunds to consumers, make sure that you comply.

(10) Figure out how to support yourself and your family after you close!

(11) If bankruptcy and liquidation is the only remaining choice, try selling your club to your manager and staff with a payout over time from earnings. Also, consider forming a Member's Cooperative to take over the club.

(12) Make bankruptcy a last choice! Most companies that go into a Chapter 11 Reorganization end up in a Chapter 7 Liquidation.

Good luck to all of you. Let's hope you never have to close. But, if you do, plan carefully how and when you will close and you will save yourself enormous pain and suffering. Let's learn from each other and all will be better off - owners, staff, consumers, government agencies and the public at large.

Editor's Note

Ken Estridge is a veteran entrepreneur with a B. S. Degree from Massachusetts Institute of Technology, a Master's at the Sloan School of Management and Doctorate of Business Administration from the Harvard Business School. Ken is the Founder and President of the Boston based Enterprise Development Group, a management consulting firm which provides business plan development, sales and marketing programs and assistance in raising investment capital. Ken is currently conducting extensive research in the Family Entertainment Center industry. Ken Estridge is available for club consulting assignments for marketing and sales. He is also available to provide experienced and expert advice in one of the toughest challenges in the business, the closing of club(s). Ken Estridge is a brilliant individual who has experienced a trauma which would have destroyed many individuals. He has summoned a huge amount of courage in writing this article and sharing his experience. I think Ken Estridge has spoken the unspeakable and he should be respected and thanked for doing so.

To reach Ken: 617-524-5437 or FAX 617-524-7038 or write to: 72 Robinwood Avenue, Boston, MA 02130-2168.

The Frog's Deadbeat Bulletin

Once Upon a time, there was a Wide Mouth Frog hopping down a country road. He came upon a field. And in the field there was a Mare with her colts. The Wide Mouth Frog croaked loudly, "What do you feed your babies?"

The Mare whinnied, "I feed my babies milk, oats and hay." The frog croaked "OHHHHHHH" and hopped on down the dusty road.

Soon the Frog came upon another field and in the field he saw a cow. The frog boomed, "What do you feed your babies?" The cow mooed, "I feed my babies milk, oats and hay." The Wide Mouth Frog croaked "OHHHHHHH" and hopped on down the winding road.

Then, the Wide Mouth Frog came upon a stream and spotted a big, black snake. The Frog, opening his huge mouth, shouted, "What do you feed your babies?" The snake hissed, "I feed my babies Wide Mouth Frogs." The Frog, with tight lips, whispered out of the corner of his mouth, "Is that Soooo?"

The Wide Mouth Frog story is not just my "down home" trademark story that I've told with vigor and animation for years; rather, the saga of the Wide Mouth Frog is important to club owners and operators because:

1) A lot of us have a perception that everyone we encounter is benign.

2) We usually don't recognize danger before it's too late.

3) When we seek help in making deals, we often don't ask the right people the right questions.

Caveat Emptor - Let the buyer beware!

The Cates Club Insider News will publish The Frog's Deadbeat Bulletin each month as a service to our subscribers. We



hope that you who've had these unfortunate experiences will share what you've learned, hopefully blowing the final whistle on the deadbeat person or organization responsible. Folk lore has it that Gods often speak through Frogs and Snakes. In this column, you will speak through the now enlightened Wide Mouth Frog, sharing your wisdom. Anonymity upon request. Here is our story for the month.

This month's Frog's Deadbeat Bulletin is about a major embezzlement from a major U.S. club. The amount of the theft: \$250,000!

The owner of this club is a kind, giving and generous person with precious time, resources and energy. The owner has chosen to remain anonymous and has requested that neither the club or the owner's identity be revealed. The CLUB INSIDER will comply with those wishes, but prints this report with the hope that others will be able to avoid such an unfortunate experience.

The employee involved was in the sales and marketing department for this large club. The employee involved, on the behalf

of the owner, arranged a marketing contract with a firm from another state. This embezzlement lasted for 8 months. The \$250,000 which was siphoned away from the club was used to pay gambling and other debts for this employee who had a serious gambling addiction. It turns out that the location where the payments were sent was where the bookie for the club employee had operated his business.

The employee who stole the money has been arrested and will be prosecuted. It is not known if the bookie on the other end has been arrested.

If and when the owner of this club wishes to release more details, the CLUB INSIDER will report those details to you. Before then, CAVEAT EMPTOR - "Let the buyer beware!"

Story after story can be told about bad deals. If you are willing and wish to share your unusual situations with the rest of the industry, write to: The Frog's Deadbeat Bulletin, c/o Club Insider, P.O. Box 671443, Marietta, Ga. 30067-0025, or call 1-800-700-2120 and ask for The Frog!

...Lawsuit of the Month

continued from page 7

INSIDER News reported on MASSACHUSETTS BOOTING BALLY.

That report was about the lawsuit brought by Mass. Attorney General Scott Harshbarger suing Bally in an effort to shut down and close forever the five Boston area Bally clubs due to repeated violation of a 1989 Consent Decree in which Bally promised to cease vio-

lation numerous consumer laws. From the time of the Bally Consent Decree until the latest Harshbarger suit, there were 1450 additional complaints filed by Massachusetts consumers.

In last month's report on Massachusetts Booting Bally, I provided all readers with a blanket authorization to reprint the reports on Bally whenever needed to use in consumer education in your market. I firmly believe that Bally Clubs disregard the consumer laws everywhere they operate. These constant violations of the State Laws regulating health clubs leaves those

who do operate within the law at a distinct disadvantage. The use of these articles to track the Bally Clubs will help level the playing field on which the ethical club operators of America compete.

Continued reporting by people like Mr. Jim Karr of Club Universe in Wisconsin will help in the continued compilation and documentation of Bally Clubs violation of State Laws. The consumers of America deserved to be treated better than the Bally Clubs treat them!



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