

Norm Cates'

THE Club Insider

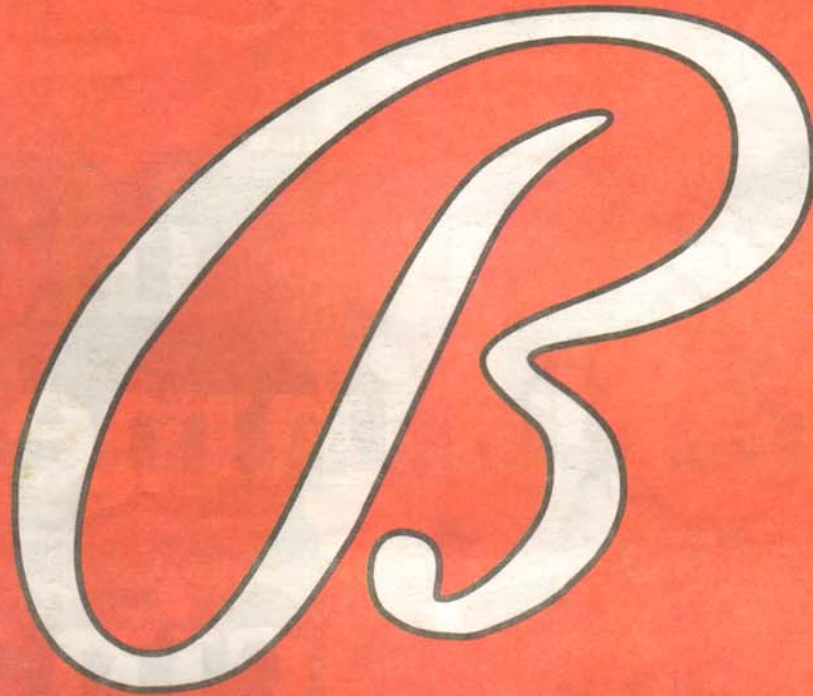
NEWS

The Pulse of the Health, Racquet & Sports Club Business

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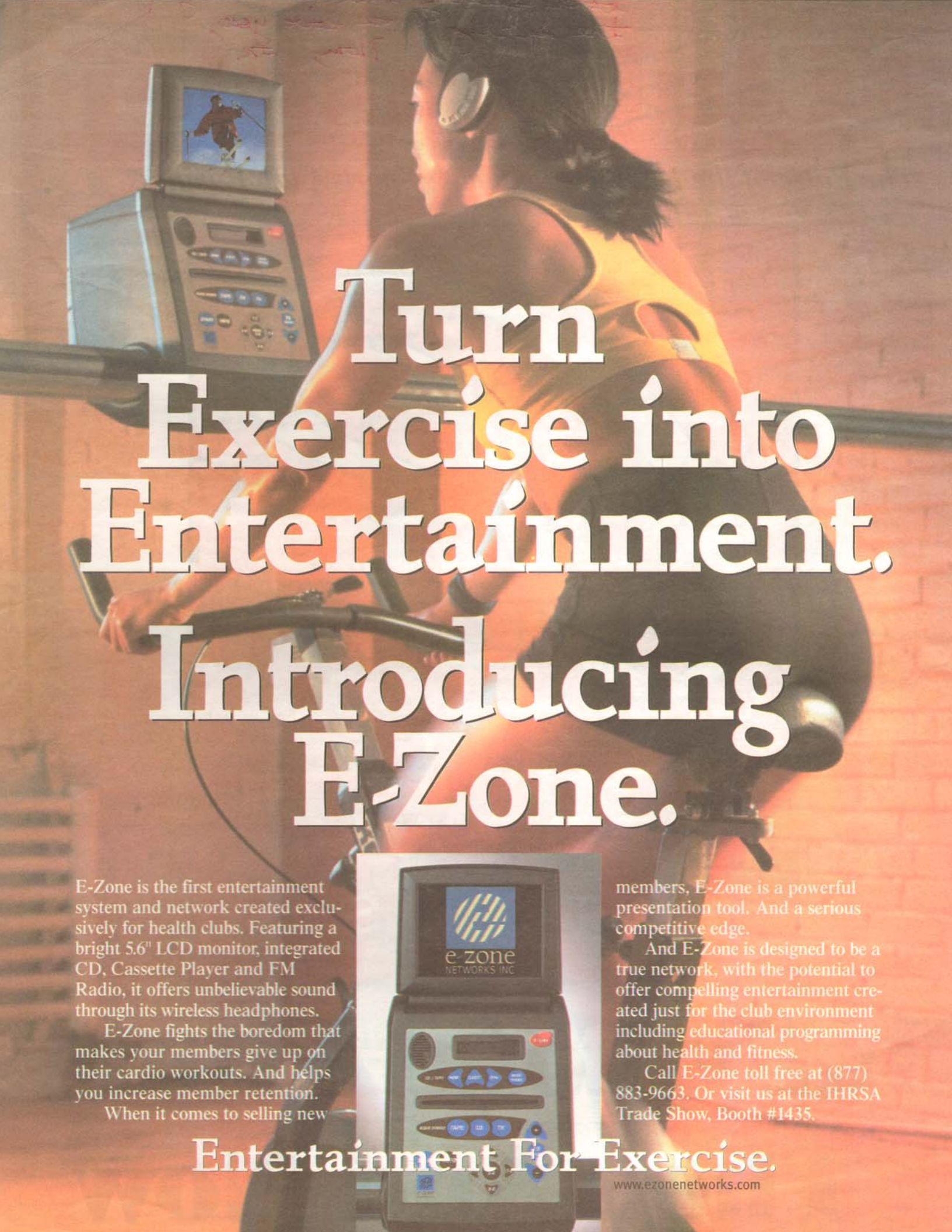
FEBRUARY 1999
VOLUME VI NUMBER 2



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THE Club Insider

NEWS

The Pulse of the Health, Racquet & Sports Club Business

BALLY TOTAL FITNESS THEN AND NOW

By Norm Cates, Jr.

Bally Total Fitness, as we know it today, is vastly different and significantly improved, from the organization it was fifteen years ago. This article is about how Bally has changed and why.

Before the Bally Health Club chain became the giant 320-location organization that it is today, it was operated as a group of club chains assembled by Donahue Wildman and Roy Zurkowski, the owners of Chicago Health and Tennis. The chains included: Vic Tanny, Jack LaLanne, Holiday Spas, Scandanavian, Holiday Health, President's First Lady, Chicago Health Clubs and others. When these various chains were acquired they retained the old names and in many cases, the former owners stayed on as part of the management

team. Two problems arose from the beginning.

There was no common brand name identity. There were no cohesive nationwide operating standards, policies or culture. The reality was that the organization consisted of eight or more different operations pretty much doing as they had done in the past, selling memberships, using 'bait & switch' advertising techniques and high-pressure sales techniques to 'make the sale today.' Service after the sale during this era of Bally was virtually nonexistent.

When the Bally Entertainment Corporation acquired the Health and Tennis Corporation of America in 1983, the organization remained largely the same. Same names for each club group. Same focus on sales, sales, sales. And, in general, the same corporate culture as before. Little was done to change the sales culture to a

sales and service culture.

'Spa Mentality' Operators

In the booming growth years of the early 1980's, independent club operators across the land competed hand-to-hand with the Bally organization's club chains. During the 1980's club boom, the independents began to understand the concept of service after the sale. Club owners across America united to form the International Racquet Sports Club Association. Through IRSA (H was added in 1994 making the Association The International Health, Racquet and Sportsclub Association), club owners shared their operational methods, values and cultures. There emerged a new mentality of club operator, a mentality that I've called the 'IHRSA Mentality.' The IHRSA

Mentality consisted of a belief that memberships should be sold on a monthly dues basis, high pressure sales techniques and 'bait and switch' advertising should be eliminated and that clubs should become good 'citizens' in their communities. All of the components of the IHRSA Mentality were totally opposed to the mentality found in the Bally clubs in the early 1980's. This writer has called the mentality found at Bally during those years the 'Spa Mentality' in honor of the history from which they came. In brief, the 'Spa Mentality' operators believe that you should do whatever it takes, including telling falsehoods, to make a membership sale. They believed that prospects should be obtained through any methods, including heavy 'Buddy-Referrals' of family members, friends and neighbors of newly hired sales

staff, and newly joined members.

These chain operators frequently hired new classes of sales staff. They were put through "Company Sales Training" and one of the primary thrusts of those sessions was to milk the new person hard for new leads from family, friends and neighbors. And often, once the new salesperson's prospects were milked dry, the salesperson would quit or be fired due to lack of production. But always, those family members that were recruited would be stuck with the long-term contracts for memberships they didn't really want or plan to use.

In essence, the Spa Mentality operators of the early Bally Total Fitness were what some health club veterans called 'Old Spa Dogs'. Anybody that has ever known an 'Old Spa Dog' knows that you can't easily change them to ethical, high-minded salespeople. They may make you think they have changed,

(See BALLY page 5)

The E-ZONE Network... More Fun For Fitness!

By Norm Cates, Jr.

The health, racquet and sportsclub industry has come a long way in the last 25 years. During that period we've seen Nautilus come into the strength training segment of the industry causing an explosion of new-selectorized strength training equipment companies. Then, along came the Lifecycle computerized

exercise bike followed by a plethora of new high-tech training bikes. Then StairMaster arrived, followed by a vast array of new stairclimbing machines. Treadmill technology advanced as well, giving club owners more and more cardiovascular equipment choices. By the late 80's the advancements in high-tech exercise equipment had club members everywhere lifting, pulling, pushing, biking, climbing, running and walking.

Club owners began to install TV's in their cardiovascular areas to give their members a diversion when they were working out on cardio equipment.

Club owners began to utilize FM tuners to provide TV sound in cardio equipment rooms. In the early 1990's CardioTheater introduced the most advanced club entertainment system yet, providing clubs with a system to tune in and lis-

ten through individual headsets feeds from TV's, FM radio, audio cassettes and CDs. Under the co-ownership and direction of Tony deLeede, CardioTheater experienced terrific success worldwide. CardioTheater has dominated and continues to dominate the club entertainment market with over 3,000 installations world-wide. However, the natural course of events seems to be continuing as an-

other high-tech entertainment system has now arrived to compete for a share of the market.

Enter the E-Zone Network

What is the E-Zone Network? The E-Zone Network is a private media-network, designed to deliver education and entertainment products and services to active lifestyle consumers. It is a specific-
(See E-ZONE page 8)

Inside The Insider

- The Problem With Complacency
- "New School" Membership Selling
- IHRSA's Government Relations Annual Report & Capitol Report
- The Business Of Credibility
- Body Pump Launches Program To Increase Traffic

Town Sports International Demonstrates Explosive Growth

NYC's Largest Health Club Owner Continues to Assert Itself in the Northeast

NEW YORK, February 5, 1999 - Town Sports International, the leading owner

and operator of health and fitness clubs in the Northeast and parent company to New York Sports Clubs, Boston Sports Clubs, Philadelphia Sports Clubs and Washington Sports Clubs, formally announced today the addition of new locations to its existing network of

clubs. Today's announcement brings the total number of TSI operating locations to 72 and significantly enhances the company's presence in the Northeast.

"These openings reflect the rapid pace at which TSI is moving to solidify and enhance its position
(See TSI page 6)

THE INSIDER SPEAKS

• EDITORIALS • "INSIDER MAIL" • COMMENTS •

THE PROBLEM WITH COMPLACENCY

Why The Fitness Industry Needs A Wake-Up Call

by Michael Hoffman

Webster's International Dictionary defines complacency as "smug self-satisfaction", and this industry is guilty of it. Managers are so pressured to make a profit that they get numbed into public relations complacency, while a tight-knit coterie of "sacred cow" experts constantly remind them that being a big frog in the fitness industry's relatively small pond is professionally admirable - a naive myth at best. The industry lacks credibility outside the fishbowl of its own self-congratulatory communications arena.

Shoddy PR work is epidemic among poorly-qualified practitioners, half-truths are intentionally propagated by power-addicted CEOs and intelligent revolutionaries are summarily dismissed for political reasons while Peter-principled middle managers are rewarded for just showing up.

The industry is sliding down the razor's edge of credibility by missing obvious image-building opportunities.

The industry could have a generous, forward-thinking reputation with Wall St. and media VIPs, but does not seem to care that it behaves more like a sales machine than

an advocate for public education and philanthropy, the two key elements of corporate social responsibility. Media has an often jaded view of the industry because most clubs, manufacturers and fitness specialty stores emphasize commercialism over socially responsible marketing. Even though the industry's national generic news output is increasing, thanks to the diligent efforts of IHRSA, its mainstream image is still not much different than it was in the past when unscrupulous gym operators were stealing away in the night with membership dollars and ThighMasters were the rage.

The stories in this article may upset those readers who secretly regret their culpability, but the stories are true and demonstrate clearly why the fitness industry needs a reputation wake-up call. Instead of patting itself on the back for perpetuating the same worn-out rituals one might expect at a lovefest for inbred myopics, the fitness industry needs professional reputation management.

Addiction to Advertising

Quick public response to advertising works on the psychology of club operators like a drug. When prospects respond to offers, a quick fix of sales results, but the rush, which lacks substance, wears

off and the club has to run more ads to get another fix. Price-and time-offer-based advertising perpetuates a mediocre image, because it generates money but does not create a positive repute. Instead, assigning half your current advertising budget to image ads and other reputation management activities including public affairs, human interest news stories and philanthropy, would create a more credible image and draw more traffic at a lower cost.

If you do not proactively manage your own reputation via the type of promoting you do, the media and the general public will do it for you. A recent survey of 25 reporters from newspapers in major areas of dominant media influence (ADIS) revealed that only 15 percent of them felt club advertising portrayed an quality image.

A Legend Speaks Out

It is a terrible indictment against the fitness industry that one of its heroes has chastised it publicly. Jack LaLanne appeared on HBO's "Real Sports" program recently, and in front of millions of viewers, said he left the club business because of the paid personal training movement. LaLanne always insisted that personal instruction be included in his clubs' membership fee, but decried the fact that in many clubs today, nobody will even talk to you for less than \$50 an hour. He said charging for personal training is unethical, because one-on-one instruction is every club's responsibility and should not be commercialized. Imagine the impact that program had on the millions of viewers who might have been considering joining a club!

LaLanne's comments, which clubs could neither ignore nor control, negatively impacted the industry's image. This is the power of the media, to paint either good pictures or poor ones. Because most fitness companies do not actively manage their media images, they are at the mercy of any story journalists choose to tell. It happens every day, and like so many sheep, our marketing directors sit back complacently counting their gross, ignoring the me-

dia at their own peril.

IHRSA Members Abandon Their Own

IHRSA's Institute on Exercise and Health (IEH) is the cleverest, best informed program ever designed to educate the media and the public about the benefits of exercise. Subscribing clubs receive monthly news releases prepared by a panel of renowned exercise scientists, preformatted for delivery to the media and community VIPs.

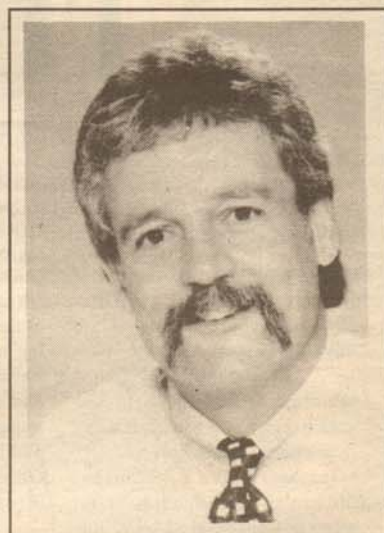
But, fewer

than 20 percent of IHRSA clubs have enrolled. Of those that subscribe, only a handful actually distribute the releases. Of 75 non-subscriber clubs, 90 percent said they did not think the program could contribute to their bottom line.

How naive! What would have happened to Volvo Auto Euro's business in 1952 if they had rejected the radical idea of building steel full-carriage frames into their cars? Not every marketing dollar has to be spend on immediate returns-on-investment. Public education projects like the IEH can foster strong media relationships and assuage the non-exercising public's often skeptical view of clubs.

Equipment Manufacturers Do They Care?

Equipment manufacturers could have an enormous positive influence on our industry's image, but most of them abdicate it. Focusing primarily on sales quotas, they fail to help clubs publicize the often wonderful results their products help members achieve. A campaign of human interest stories featuring these accomplishments could go a long way to boosting both the manufacturers' and the clubs' images, but the manufacturers appear



Michael Hoffman

more interested in spending millions developing more products and playing the acquisition game. It is not about doing the right thing, but doing the money thing. They close the sale, then leave the club operators to their own devices, which is the polar opposite of the socially responsible behavior of truly great corporations that commit huge budget dollars to public education and industry affairs.

Clubs have tremendous power and leverage to change this, if they would only use it. If they demanded public relations support as a condition of making a purchase, the manufacturers would have no choice but to provide it. Instead of competing on price, they could compete to see which of them provides the finest member and press education programs. It would be a win-win situation for the manufacturer, the club, the media and the general public. Manufacturers have the money to do this, but few have the professionally-educated staff to run serious public relations campaigns. Maybe they should send their marketing directors to reputation management school.

A Bad Time in Vegas

AS LAS VEGAS SUN reporter was recently invited to a VIP roast at an annual fitness in- (See Hoffman page 22)

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NORM'S NOTES

YEP, ITS THAT TIME AGAIN! Time to pack your bags and head to beautiful San Diego, California for IHRSA's 18th Annual Convention and Trade Show! If you are an IHRSA member and have regularly attended the previous Annual Conventions and Trade Shows you already know that this event is the single greatest learning experience in our industry in the world. For four days, **March 24-27th**, over 135 speakers will share their expertise on the club industry with you. And, at the largest club business trade show in the U.S., hundreds of manufacturers and vendors will display their latest products and services. **BE SURE** to visit our Advertisers who will be there. Their company names and Exhibit Numbers appear on this page in alphabetical order. Also, numerous honors will be given to industry leaders including: IHRSA's Distinguished Service Award to **JILL STEVENS KINNEY**, IHRSA's Person of the Year Award to **JOE GOLD**, the new IHRSA/Life Fitness General Manager of the Year Award, the IHRSA/Cybox Fitness Director of the Year Award, the Keiser 50+ Award and the IHRSA Racquetball Programming Award. The bottom line is that you will learn a lot, have a lot of fun and meet a lot of new friends during this event. It simply is a **DON'T MISS GET TOGETHER!** If your club is not an IHRSA Member, you can join today by calling IHRSA at (800) 228-4772 and ask for Meredith McLaughlin at ext.#129 or Jill Spitz at ext.#109. If you want to just attend the Trade Show, you can do that too. Just give them a

call. IHRSA membership provides more value for your investment than anything else you can do in this industry! See you by the sea in San Diego!

LEE GUTHRIE, a club industry veteran and old friend of mine, is now the Vice President of Sales for **The E-Zone Network, Inc.**, a Calgary, Canada-based company. E-Zone is a new-very high-tech entertainment and education system for clubs. In addition to being a club operator in the 1970's, Lee worked for **Nautilus** in their early years and **Lifecycle** during its early times as well. In the early 1990's Lee was a key man behind a product named **Skywalker** which experienced a rapid rise in popularity and a tough fall when the product failed mechanically and the company that manufactured the Skywalker filed for bankruptcy. While discussing the Skywalker debacle recently, Lee told me that "Sports Specific decided to make me President and CEO of the company, which really was a mistake because I wasn't ready to be a President. I knew nothing about the equity market, particularly the Canadian market. Since then I've learned a great deal and made some great friends in Canada." The reality is that Lee is right in his assessment. But, I'd like to add that while what happened-happened, I don't think Lee Guthrie had any control over it or he would have avoided what happened. Lee lost a lot of his own personal funds in the deal along with others. He is an enthusiastic survivor and a good man. I don't know anybody in our industry with more enthusiasm and his effectiveness as a sales leader is unmatched. (For example, the introduction of Skywalker at the Club Industry Show in Chicago, directed

by Lee, resulted in 2300 pending written orders for the new machine!) Lee has worked for four years on the E-Zone Network. I told Lee I believe in him and what he is doing now, as have others like **CHARLIE LINDSEY** of American Club Systems. And, I'm happy to see the care and time that E-Zone has taken before rolling out their new product. I've taken a look at E-Zone and written a report on the new product for our readers. E-Zone is a product that focuses on a subject that I've written about many times, **MAKING IT FUN** for club members. I would recommend that club owners check out E-Zone. It is very high tech and may or may not be suitable for your club. But, like the terrific **CardioTheater Systems** now in over 3,000 clubs nationwide, E-Zone should definitely **MAKE IT FUN** and more interesting in fitness clubs where it is installed.

Goodday Mate! And congratulations to **TONY de LEEDE**, owner of Atlanta's **Australian Body Works** on the opening of his 20th Atlanta area facility! The new Akers Mill ABW has the world's largest CardioTheater with 48 audio and tv stations. Tony, originally from Australia, started in Atlanta in 1982 and is one of America's top entrepreneurs. Tony has 3 or 4 other locations in various stages of negotiations and fully expects to be at 25 locations by the end of 1999. Tony is also the co-owner of CardioTheater, the great entertainment system for clubs that provides TV and Audio for cardio workout areas. Cardio Theater is now in over 3,000 locations worldwide. Tony is shown in the photo above with **ERIC ERICSON** of Unisen Corporation, makers of **Star Trac** (See Norm's Notes page 18)



Eric Ericson (Left) And Tony de Leede

CLUB INSIDER NEWS ADVERTISERS AT IHRSA SAN DIEGO TRADE SHOW

Company	Exhibit #
Affiliated Acceptance	4020
Body Pump	511
Cardio Theater	801
Club Runner	2228
E-Zone Newwork	1435
Faust Management	335
ISSA	742
KickBox Fitness	2149
Life Fitness	Entry Area
PACE Circuit	1841
Premium Performance Training	1746
SalesMakers	2233
StairMaster	601
Worldwide Fitness	236

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...BALLY

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but in most cases, once you have turned your back, they revert to their 'old ways.'

IHRSA MEMBERS REBEL

In early 1986, at an IHRSA Convention in New Orleans, a group of about 600 IHRSA members attended a meeting in a huge ballroom to protest the proposed admission of the Bally Health Club chain into IHRSA. 35 to 40 IHRSA members stood in line to speak out against the measure. After the speakers finished, it was clear that the admission of Bally into the 1200 club member IHRSA would not happen.

What was it that drove this huge throng of IHRSA members to

attend this meeting and in no uncertain terms, protest the admission of Bally into their Association, I was there and as one of the speakers, I can recall my vehement opposition to the measure. I, for one, did not want the Bally clubs admitted into our Association because of my experiences with Bally's 'Old Spa Dogs' and how they operated. The bottom line, in my mind and the minds of others, was that the operators of the Bally Health Club chain were in the business for the money and only for the money. I and others felt that the Bally Health Clubs were then giving our industry a bad name in general with their high pressure sales techniques, their 'bait and switch' advertising and in general, their lack of ethics in dealing with their customers. Most of those in that room owned and operated clubs in markets where Bally was op-

erating. So, we knew first hand what Bally was doing and how they were doing it. And, we didn't like it, nor did we want to be associated with I

LAWSUIT AFTER LAWSUIT CAUSING BAD PRESS FOR HEALTH CLUB INDUSTRY NATIONWIDE

Over the years, since that New Orleans meeting, the rejection by the IHRSA Members of the effort to admit Bally into IHRSA has been validated. Since that time, Bally has been involved in countless lawsuits brought by consumers across the country. Many of those lawsuits had been chronicled by this writer in **The CLUB INSIDER** News editions in 1994. In fact in 1994, Massachusetts, Attorney General, Scott Harshbarger, made an effort to shut (See **BALLY** page 6)

...TSI

continued from page 3

in the metro areas we serve" said Mark Smith, the company's Chief Executive Officer. "Having recently secured significant additional financing, we are very well positioned as an aggressive player in our markets, growing rapidly by both acquisitions and new openings."

New York Sports Clubs (NYSC) new clubs opened or acquired are at: 1063 Hope Street, Stamford, Connecticut, 625 Merrick Ave., East Meadow, Long Island, New York, 11 Madison Ave., Larchmont, New York and 6136 Jericho Turnpike, Commack, New York.

The New York Sports Clubs (NYSC) new club developments in presales include:

73rd & Columbus, 217 Broadway, 34 West 14th Street and 503 Broadway, Manhattan, New York and 2909 Lincoln Ave, Oceanside, Long Island, N.Y.,

Essex Mall, Bloomfield Ave., West Caldwell, New Jersey and 250 Westport, Norwalk, Connecticut. In other regions, TSI has opened its first Philadelphia Sports Club (PSC) in Society Hill, Philadelphia, and signed leases for clubs in Rodin Place, Philadelphia, and for Washington Sports Clubs (WSC) in Fairfax, VA, Sterling, VA and Alexandria, VA.

"These new club openings further demonstrate our dedication to providing the highest level of service to our members. We know we must constantly provide the highest quality of facilities and service on a daily basis due to our "commitment-free" memberships. Convenience is an extremely important component, as commuters are able to take full advantage of our facilities near their homes and offices," said Mr. Smith.

TownSports International's clubs are full-service fitness facilities, that offer the latest in technology, exercise equipment, innovative group fitness

classes (such as boxing, ballet, African dance and meditation) and an array of helpful services (including baby-sitting and massage).

Separately, the company reported revenue for the quarter ended November 30, 1998 was a record \$31.9 million, compared to \$19.1 million a year earlier, a 67 percent increase. Adjusted EBITDA increased by \$1.4 million or 30%, from \$4.8 million to \$6.2 million.

New York-based Town Sports International is a leading owner and operator of fitness clubs in the Northeast and mid-Atlantic region of the U.S. and is the largest operator of such clubs in Manhattan. The company operates fitness centers in New York, New Jersey, Connecticut, Massachusetts, Pennsylvania, Washington DC, Maryland and Virginia, consisting of over 85 health clubs, that are open or under development, with more than 179,000 members.

...BALLY

continued from page 5

down five Boston area Bally Total Fitness clubs because of over 1500 complaints to the Massachusetts Office of Consumer Affairs. Those 1500 complaints had happened after Bally had entered into a Consent Judgment settling a previous lawsuit in 1989! It became clear to this writer that unless Bally Total Fitness changed its direction dramatically, the publically traded company would go no where and would continue to damage the health club industry reputation for the rest of the 12,000 commercial clubs in the U.S. Not long after that the Bally Health Club chain made National headlines when the Federal Trade Commission announced on April 14, 1994, that Bally had agreed to pay refunds to possibly thousands of its current and former

members to settle allegations of deceptive billing, cancellation and refund practices. Bally and two of its subsidiaries agreed to pay \$120,000 in civil penalties to settle allegations by the Federal Trade Commission that the chain used harassment and misrepresentation to collect membership fees. And, Bally got into trouble with the U.S. Department of Justice over racial discrimination.

In May, 1999, Bally Entertainment Chairman, Arthur Goldberg announced that he was going to "spin-off" the health club chain from the parent company. Mr. Goldberg was quoted as saying, "The shares of Bally Manufacturing Corporation have been significantly undervalued as a result of confusion in the marketplace regarding our Health and Tennis Division." Interestingly, this announcement by Chairman Goldberg came approximately one (See **BALLY** page 14)

FRIDAY REPORTS

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Norm Cates' Club Insider

NEWS

Mr. Arthur Goldberg
Chairman of the Board - Bally Manufacturing Corporation
8700 Bryn Mawr - Chicago, Illinois 60631

April 22, 1994

Dear Mr. Goldberg,

I would like to respond to an Associated Press interview with you, published in the Atlanta newspapers on July 25, 1993. The article says: "Mr. Goldberg figures he can franchise the Bally name to health clubs in smaller towns in exchange for national advertising and centralized accounting."

Sir, I would suggest that you investigate further the national reputation of your Bally Health Clubs before you make a move into franchising. You may not be aware. Bally Health Clubs have the worst reputation in the club industry in America today. The Bally Health Club method of operation is simply to promise the moon to a prospective member and take advantage of the person's trust. The "personal" service promised by your salesmen is rarely, if ever, delivered. The culture and the system is the same nationwide.

I have enclosed four different issues of The CLUB INSIDER News with articles marked for your convenience. The articles are about Bally's legal battles across America. I am reporting the truth as provided by the those various legal agencies. The latest matter to surface is the Federal Trade Commission consent decree, announced on April 14th which further authenticates my comments here. The Bally Clubs continue to damage their own reputation. It doesn't stop there. Unfortunately, the 12,000 other clubs in the U.S. suffer everytime Bally hits the news with another legal (or illegal) action. This is because the American consumers believe that all clubs operate like Bally.

My objective is to educate the American consumers about how Bally Clubs operate. One day, American consumers will understand that Bally Clubs are operated for money and money only. They will understand that there are lots of clubs in their community who will treat them fairly and will truly care about them and their results. One day, the Bally Clubs will be unable to convince people to sign contracts because the consumers won't even walk into the Bally Clubs due to their bad reputation. When that happens, the Bally Health Clubs will NO LONGER be financially viable. It is just a matter of time. The Bally Health Club division will continue to be a troublesome segment of your overall corporate structure. It is obvious from the article that you are a gifted and successful corporate turnaround expert and it's my guess that you have not been informed about the truth about the Bally Clubs. I have an idea which might allow Bally to step out of the health club industry gracefully. The Bally Company and the American consumers will be much better off if that happens. Please call me at 800-700-2120 if you have interest in learning about my idea.

Very truly yours,
Norm Cates, Jr.
Norm Cates, Jr.
Publisher and Editor

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...E-ZONE

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cally designed entertainment system for the health, racquet and sportsclub industry consisting of: (1) The E-Zone Tower (TV, CD and Cassette functions, The E-Zone headphone, a lightweight, wireless headset with FM - 3D sound, the E-Zone Server and a private media network for delivering education and entertainment products and services. The E-Zone pricing system is structured so that E-Zone remains responsible for the ongoing service of the equipment, not the club owner. The technology combines "off-the-shelf" components such as the TV screen, CD and cassette players and integrates them into the E-Zone system using its patented wireless technology and software. The patented QSound technology, developed and owned by E-Zone founder, Danny Lowe, gives E-Zone its incredible high-quality sound and is licensed exclusively to E-Zone for use in the fitness industry.

E-ZONE FOUNDED IN 1995

The E-Zone Network was founded in 1995 by Danny Lowe, Lee Guthrie, Todd Simpson and Mark Holden, each bringing to the table many years of experience in their respective fields. Lee Guthrie, with over 25 years of experience in the fitness industry, had the vision of taking entertainment and education in the fitness industry to a new level. Mark Holden had the experience and education in the film business to create the content for the network. Todd Simpson had the engineering know-how to turn this vision into reality. And, Danny Lowe, who was at that time, Chairman of Qsound Labs, Inc., is responsible for the intellectual property and overall direction of E-Zone.

E-ZONE'S MANAGEMENT TEAM AND BOARD OF DIRECTORS

E-Zone currently employs 40 people and is projected to have 200 employees by December, 1999 as the system grows. The Marketing, Sales and Service head office is located in Napa, California. Engineering, Manufacturing and Network Headquarters and Operations functions are located in Calgary, Alberta, Canada.

E-Zone has a balanced and experienced management team. The team includes: Danny D. Lowe,

CEO, Eric Hobson, President, Jessica Abt, MBA, Chief Operating Officer, Bradley J. Thomson, C.A., Chief Financial Officer, Lee Guthrie, Vice President, Sales, Todd G. Simpson, Ph.D., Vice President, Engineering/Research & Development, Mark Holden, V.P., Content Development Dave Fior, C.A. Vice President, Management Information Systems and Isack Schwartz, Vice President, Manufacturing Operations.

The Board of Directors consists of three members: Robert W. McKenzie, Executive Vice President of MetroNet Communications Corporation since October, 1997 and a Director of MetroNet since July, 1996, J.S.A. (Jim) MacDonald Chairman and Managing Partner of Enterprise Capital Management, Inc. and Michael Hubbard, currently the President of MJH Services, a Calgary, Canada-based corporate finance consulting company.

AN EXPERIENCED FITNESS ADVISORY BOARD

E-Zone Network, Inc. has also assembled an impressive Fitness Advisory Board consisting of health, racquet and sportsclub veterans from various segments of the industry. The Fitness Advisory Board includes: Nicholas Orlando, Founder and former owner of StairMaster, Jerry Downen, Nautilus Group, Japan, Ed Trainor, Vice President Services, Town Sports International, Mike Chaet, Ph.D., President, Club Management Systems, Kevin Steele, Ph.D., Vice President Fitness Services, 24 Hour Fitness and Art Gutierrez, Director of Sales & Marketing, AFS.

BENEFITS FOR FITNESS CLUB MEMBERS

Fitness club members that utilize the E-Zone Network receive a number of benefits: E-Zone gives club members freedom of choice while training in their own personal education and entertainment zone, stimulates motivation to lengthen the duration of cardiovascular workouts, enables individuals to enhance their understanding of a subject matter that is of particular interest to them (example: how to reduce the risks associated with diabetes), the FM tuner allows members to use the headphone outside the club and E-Zone enhances the overall workout experience.

BENEFITS FOR THE FITNESS CLUB

Benefits for the fitness club include: the opportunity to increase its product offering to members through the delivery of educational content to a targeted audience, opportunity to increase membership retention levels by reducing the boredom commonly associated with cardiovascular exercise, opportunity to attract new members, the ability to deliver messages to its members over the network, opportunity to extract valuable information from the network regarding equipment useage, opportunity to generate a new profit center through the sale of E-Zone headphones and E-Zone provides comprehensive sales and service support (on-site and remote) to its customers.

E-ZONE CURRENTLY IN 8 LOCATIONS

E-Zone commenced commercial operations in the Spring of 1998. To date, the E-Zone roll-out program includes the installation of 485 screens in eight locations. The first E-Zone installation was in the North Dallas Athletic Club, Dallas, Texas and was completed September 21, 1998. Since then E-Zone has been installed in the Signature and Premier Athletic Clubs in Dallas, the Houstonian in Houston, Texas, Gold's Gym, Long Island, N.Y., Sport and Health, Alexandria, Virginia and Gold's Gym and Cory Everson Fitness in Columbus, Georgia.

Here is what some of those club operators had to share about their experience with the E-Zone Network:

Mike Chandler, General Manager, North Dallas Athletic Club says, "E-Zone offers our members a sophisticated approach to exercise boredom and dazzles members and prospects with its state-of-the-art entertainment options."

Paul Schoenberg, General Manager, Premier Athletic Club, Dallas, Texas adds, "E-Zone has created a lot of excitement in the club and members now look forward to their workouts, because it isn't boring anymore. Once you have worked out with E-Zone, it is difficult to work out without it. It becomes a habit, it's addictive in a positive way. Our members love the variety of entertainment that E-Zone pro-



(Left) Grant Guthrie, Lee Guthrie & Barbara Hickenbottom

vides."

Lori Horvath, General Manager, Signature Athletic Club, Dallas, Texas observes, "E-Zone is the next step in entertainment and has enhanced the club tenfold. It has made our club ready for the next millennium."

Susan Politano, General Manager, Gold's Gym, Long Island adds, "E-Zone takes the "work" out of "working out." It keeps our club one step ahead of the competition."

Herb Lipsman, General Manager, the Houstonian says, "E-Zone is at least a couple of levels above anything else in the market for audio-visual entertainment. It helps attract our largest growing market, the de-conditioned market, by making exercise more fun. At the Houstonian, it is important that our entertainment system works day in and day out, is dependable and has no down time. E-Zone comes closer to achieving this than anything else we have used."

Jeff Neuberg, Owner, Alexandria Sport & Health summarizes, "E-Zone is the most significant innovation in the fitness industry since the introduction of the Lifecycle!"

A Profit Center

While providing club members with a terrific entertainment system while they are in the club, there is also a bonus for the member. The state-of-the-art 3D headset produces a remarkable stereo sound and has a built in FM tuner allowing the member to use

the headphone at home, work, in the garden, while fishing, you name it.

And, the headphone sales become a profit center. The headphones are provided to subscriber clubs at a price of \$59 per unit and retail for \$99. For example, the Houstonian has sold over 2,200 headsets since December, '98, earning a substantial profit.

A MAJOR COMMITMENT FROM AMERICAN CLUB SYSTEMS

Charlie Lindsay and Tim Goodwin, the owners of American Club Systems, owner and manager of 55 Gold's Gyms and Corey Everson Fitness Centers nationwide, have placed an initial E-Zone order for 10 of their locations. The first two E-Zone installations for American Club Systems have been made in the Gold's Gym and the Corey Everson Fitness Center in Columbus, Georgia.

The E-Zone Network will be exhibited at the upcoming IHRSA Convention and Trade Show in San Diego, March 24-27th, at Booth #1435. For additional information right away contact E-Zone at: (877)883-9663 or on the Web at www.ezonenet.com.

(Norm Cates, Jr. is the Publisher and Editor of *The CLUB INSIDER* News and a 25-year club industry veteran. Cates was the 1st President of IHRSA and a Co-founder of the Association in 1981.)



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"New School" Membership Selling

By Ben Midgley

I received a call just the other day from someone who owns two health clubs. She wanted to stop selling in the "old school" manner and begin selling using "new school" methods. She felt that the old school way of selling with price specials, first-time incentives and striving for control in a presentation, was no longer producing the long-term satisfied customers that she wanted. She is right, the old school methods and selling practices are very ineffective. Looking at the big picture, old school selling lacks any real insight into the process of selling,

It pursues avenues such as persuasion and coercion as opposed to an effective and ethical sales effort. The only thing more surprising to me than the fact someone came up with all of these ideas on "how to sell" is that some people are still using these methods and practices with all their prospective customers.

As we discussed in my last article in *The CLUB INSIDER News*, selling in the fitness industry is different than selling in any other industry. That's because it requires a great amount of sensitivity and support to: (A) Make the sale. And (B) Deliver our services to the best of our ability. Let me give you some insight into "new school" selling and some ex-

amples that you can use very effectively in your club, starting today.

"New School" Selling

It is not a big secret that every health club's ultimate goal with every prospect is to turn him in to a member. Sales reps are trained to proceed in a manner that gives them a dozen or so different tools to use in order to convince a person to join. Sales reps are generally given a set of steps that management wants them to go through with each prospect. These steps are used to insure that every possible tool is being used that might help this prospect join on their first visit.

This approach is very standard, very average, very boring and becoming increasingly harder to pull off as the years go by.

Simply, this is true because of two things:

- 1) Consumers aren't stupid.
- 2) This sales approach does not match the consumer's needs with the way we are selling.

The first thing you need to realize is it's O.K. to consider changing your sales approach. Prospects nowadays shop around. And they should with all the garbage they are going to run into out in the sales world. Virtually every other health club they go to is going to use the same approach with only a few small variations.

So what differentiates your club from others? Maybe a nice pool or better equipment? Hardly enough to make a difference. And don't forget with prettier facilities comes a higher price tag. So what else differentiates your club? Your nice people? That's great, but we all know you have to be nice, because if your not, you lose members and members keep you in business.

In order to succeed year after year, you need to differentiate your club as much from the competition as you can, any way you can. All things being equal, club to club, what does your club do that is going to make it stand out in the minds of members and prospective members? Naturally your people are key. Your use of your staff needs to be compatible with your vision of the culture you wish to create.

How your club will be perceived will be determined by how you utilize the talent on your

staff.

Do you want your club to be perceived as a 'get the sale no matter what' culture? That type of club says they care about a prospect's goals but they really only care about the prospect and their goals once they decide to join. In other words, pay us and we'll care. That is very common in our industry.

Or do you want your club to be perceived as a legitimate institution of support and comfort for all your current and prospective members? A club with that culture is very uncommon in our industry.

Regardless of the direction you choose to take your club, your systems and approach to doing business will have to reflect the values that you hold as most important. If you want to learn more about creating a club culture and sales approach based upon support and comfort, while obtaining outstanding sales results, read on.

Club 'Need' Focus vs, Member 'Need' Focus

Most clubs have positioned themselves to operate in a manner that meets the needs and desires of the owners. They have developed their services completely around what they need to stay in business and to stay profitable. Then these clubs take their services to market in a form that suits their needs, but may not necessarily meet the needs of their potential clientele. So, when all does not go as smoothly as it seems it should, multiple and sometimes down right confusing sales techniques are used to get that sale. The problem here is you are selling a service that may not be packaged correctly for your potential market's needs and you are selling it to them in a way that they don't see all of its merits as you see them. Therefore, they do not buy as often as you had originally hoped.

To fix this problem you need to do two things. First, assume the role of the consumer and re-examine your service through the eyes of the consumer. Does the way this service is being offered to you fit what you are looking for? Are there enough options in your



Ben Midgley

structure for the various lifestyles in your market? Do you have something you can sell to anybody? If you answered "yes," then that's good. If you answered "no," then that's not good. Today's consumers have such a range of lifestyles, preconceived notions and concerns about joining a health club that to have only two or three options is severely limiting your sales income potential. If you don't already have them, consider such options as 1, 3 and 6-month memberships, automatic billing memberships void of a contract, requiring only a short and convenient method of cancellation, one-year prepaid memberships and offer 30-Day, 100% money back guarantees. Now your talking something for everybody!

Of course these options and rates for each need to be thought out carefully. You should have an enrollment fee for long-term memberships but not for short-term memberships. Structure your rates to be more expensive for members who only want to join for 1, 2 or 3 months. If they are going to be at your club for more than three months, then your rates should make more economical sense for them to go on a longer term membership. The four major reasons to have all these options are: 1) People love options, (you love options too; I know you do! 2) You can't argue with basic logic. If it makes financial sense to go on a billing system or pay for a year in advance, it is very easy for your salespeople to sell because you eliminate the price

(See Ben Midgley page 26)



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IHRSA'S CAPITOL REPORT

IHRSA's Capitol Report is published weekly by IHRSA and shared here courtesy of The Association.

HEALTH CLUBS RAISE \$35 MILLION FOR CHARITIES & SCHOOLS

A common rebuttal heard by club operators when they question a YMCA or another tax-exempt fitness center sounds something like this: "But look at all the good work they do!" Often, what they really mean is "Where's your charity?"

Now you can tell them. According to a recent survey, IHRSA clubs raised an estimated \$35 million for charities and schools in 1998.

Surveying 264 health clubs in the United States, IHRSA estimates that its members raised \$24 million for charities and \$11 million for schools in 1998.

The average club in the survey raised \$18,120 for charity and \$8,194 for schools.

IHRSA developed the \$35 million national estimate by projecting that the Association's other member clubs raised half the amount of money that was raised by survey participants, according to Bill Howland, IHRSA's Publications and Research Manager.

"It's a conservative estimate," Howland said.

Most clubs gave to multiple groups, but charity clearly begins at home for the survey participants.

The largest groups receiving contributions were local schools (chosen by 73% of study participants) and charities (chosen by 78%). Many clubs gave to more than one beneficiary in these groups. The most popular national charities were the American Heart Association (57%), the American Cancer Society (42%), and the National Arthritis Foundation (26%).

All this, of course, is in addition to the millions of dollars in local, state, and federal taxes paid annually by the commercial health club industry.

SUN, SAND, AND COMMON SENSE

The Speaker-elect of Hawaii's House of Representatives has proposed extending the state's general excise tax to cover all nonprofit organizations that are currently exempt from the levy. In Hawaii, commercial health clubs pay the general excise tax on all revenue, while nonprofit fitness centers do not.

Speaker-elect Calvin Say tried last year to eliminate the general excise tax-exemption for nonprofits, but the proposal died in the Senate. Say's rise to House Speaker should increase the proposal's chance of passage, however, strong opposition is expected from the nonprofit community.

NEW TAX COMMITTEE HEADS NAMED

Representative Amo Houghton (NY) has taken over as chairman of the House of Representatives's Ways and Means subcommittee that oversees the Internal Revenue Service. In the Senate, Senator Orrin Hatch (UT) is the new chairman of the Finance Committee's taxation and IRS oversight subcommittee.

IHRSA will be contacting these two lawmakers to make sure that they are aware of the unfair competition that taxpaying fitness clubs face from tax-exempt organizations. IHRSA encourages its members to contact Rep. Houghton and Sen. Hatch as well. Explain how tax-exempt competition hurts your business and ask them to support IHRSA's efforts to strengthen the unrelated business income tax (UBIT)-law.

Write: The Honorable Orrin Hatch, United States Senate, Washington, DC 20510 and The Honorable Amo Houghton, U.S. House of Representatives, Washington, DC 20515.

THE "REAL DOLLAR" IMPACT OF UNFAIR COMPETITION

Think about your market. Who is your biggest tax-exempt competitor? How much revenue does the local tax-exempt fitness center generate? Does it target your members?

The following eight examples are from IHRSA members who documented their experiences with unfair competition. IHRSA is using their stories and others like them to make the case to Congress and the IRS that unfair competition is a serious threat to the fitness industry. Consider:

1. When the Texas A & M University recreation center opened, Aerofit in Bryan, Texas lost more than 1,000 student members, 100 individual members, and 50 family memberships. The club lost \$130,000 per semester plus \$7,400 per month. Four out of seven taxpaying clubs in the area went out of business within 12 months of the recreation center's opening.

2. Since the Washington Regional Medical Center for Exercise opened in Fayetteville, Arkansas, attrition at the nearby Fayetteville Athletic Club has soared from 10% to 44%. In November 1998, the club's revenue

decreased by 6% from the previous month.

3. When the Phoenixville YMCA opened, Body Transit in Collegeville, Pennsylvania lost 10% of its members or \$65,000 in revenue for the year.

4. When the Northwest Community Healthcare Wellness Center opened in Arlington Heights, Illinois, the Continental Athletic Club lost 60 of its 800 members for a loss of \$39,600 per year in revenue.

5. The Pulse Corporation in Raleigh, North Carolina has been negatively impacted by three tax-exempt fitness centers: the YMCA, Rex Wellness Center, and East Carolina University. Pulse estimates a total loss of more than \$600,000 per year in revenues or 900 memberships.

6. Murray Hill Health & Racquet Club in Murray Hill, New Jersey experienced substantial losses (10%-15%) in revenues due to competition from less expensive YMCA/YWCA's within a 5-mile radius.

7. Decatur Athletic Club in Decatur, Illinois has lost approximately 200-300 memberships each year to tax-exempt competition in its market. That's an annual loss of about \$225,000 in revenues per year.

8. The East Side Athletic Club in Milwaukie, Oregon suffered a \$22,599 loss in swim program revenue (-28%) after the local park district opened a 45,000 square foot aquatic complex. The club also suffered a loss of membership revenues due to adult and family terminations and downgrades of membership status.

Faced with obvious unfair competition, each of these IHRSA clubs found ways to survive—some have even prospered. However, that in no way diminishes the damage wrought by tax-exempt competition. Rather, it is a testament to the hard work, business acumen and entrepreneurial spirit of these fine IHRSA operators.

FAIR COMPETITION VICTORY! PANEL REJECTS TAX-EXEMPT FITNESS CENTER

(Palos Heights, IL) IHRSA members won an important victory on January 7 when the Illinois Health Facilities Planning Board denied the certificate of need for the Palos Community Hospital's proposed \$14.5 million, 80,000 square-foot fitness center.

The Board's decision marks the third time that the fitness center project has gone before the planning board. In August, the Board tabled the project. In November, the board voted its "intent to deny" the measure, setting the stage for the Board's January action.

For Mike O'Donnell, co-owner of the Riviera Country Club, the final vote represents a significant victory. O'Donnell and other area club operators had asked the hospital to operate the fitness center on a taxpaying basis.

With financial help from IHRSA's Fund, O'Donnell submitted a brief to the Planning Board including a petition signed by more than 700 residents that opposed granting special tax breaks for the hospital fitness center.

Pam Taylor, Chairperson of the planning board, summed up her concerns this way. "I am having a very hard time looking at \$14 million for a fitness center for people who are entirely well, who are perfectly capable of handling their own health regimen . . . \$14 million should go for health care of the ill and the sick."

The Board voted 9-3 against the project. O'Donnell said that he would not be surprised if Palos Hospital's next move is to sue the state.

"If that happens," he said, "it could set an important statewide precedent."

QUOTE OF NOTE

"The days of a good-hearted missionary running a YMCA are gone."

- Brian Cormier, Chief Executive of the YMCA of Winston-Salem, North Carolina. Cormier has grown the Y's revenues from \$900,000 in 1979 to nearly \$13.3 million today, mostly from fitness memberships and other fee based programs.

MORE CLUBS DOCUMENT UNFAIR COMPETITION

In response, to the reports above, IHRSA heard from several other clubs. For example:

The Cincinnati Sports Mall reports that it has lost 50 members, on average, in each of the last two years as a result of competition from two major hospital-based multipurpose fitness facilities. Estimated revenue lost: \$104,300 over two years.

(See Capitol Report page 17)

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...BALLY

continued from page 6

month after this writer wrote to him urging him to do something to stop the Bally Health Club chain from continuing to hurt the reputations of all of the other commercial health clubs in America. (See reprint of that letter on page #6).

After the spin off, we began to see some change and movement on the part of management of the Bally Health Club chain. Mike Lucci, the COO and President at the time, commissioned a rework of the Bally sales practices and began an effort to retrain the people in the Bally sales organization. Lucci also created and began to implement a program called the 'Friendly Oasis' which was a thrust to teach all Bally employees to be friendly and helpful to all members and guests.

However, in addition to the 'Spa Mentality' that permeated Bally, one of the biggest problems that Lucci had was the worn out and deplorable condition of many of the Bally clubs at that time. In short, some of the clubs were just down right 'shot' and very unattractive to both members and prospective members alike. The chain continued to lose money and little cash was used for upkeep and upgrades of the facilities and equipment.

What the organization

needed, in addition to a reverse in the operating mentality, was a major capital infusion to remodel and re-equip the worn-out facilities and equipment lines. This kind of money could only be raised through a public capitalization effort put together by a very savvy financial operator.

Lucci admitted himself that was what was needed and that he wasn't the person to do it. And, he added that he thought that Lee Hillman was, due to his background in the world of finances.

LEE HILLMAN & the BTF EXECUTIVE MANAGEMENT TEAM-THE RIGHT PEOPLE FOR A TOUGH JOB

In October, 1996, it was announced that Lee Hillman, 42, would take over the helm of Bally Total Fitness as CEO and President. Hillman, a CPA and graduate of the University of Pennsylvania's Wharton Business School with an MBA from the University of Chicago, had spent time as a partner in the Ernst and Young accounting firm. Prior to taking over BTF, Hillman served as the Chief Financial Officer of Bally Entertainment Corporation under the tutelage of

Arthur Goldberg. Hillman is not willing to be placed in the spotlight for his accomplishments at Bally Total Fitness. Instead, he places the credit for the BTF successes with his Executive Management Team consisting of: John Dwyer Executive Vice President and Chief Financial Officer, Paul Toback, Senior V.P. Corporate Development, Bill Fanelli, Senior V.P. Operations, John Wildman, Senior V.P. Sales & Marketing, Harold Morgan, Senior V.P. Human Resources, Jason Conviser, V.P. Clinical Services, Mike Karoff, V.P. New Product Marketing, Rebecca Lucci, Director, Franchise Ops and Quality Control, Greg Geisler, Audit Manager and Joan Yankowitz, Assistant V.P., Marketing and Dave Southern, Public Relations Director.

This writer had the opportunity to spend a full day at Bally Total Fitness Headquarters in Chicago. After spending time with this team, it is easy to see why Bally Total Fitness is making a turnaround. Lee Hillman has a realistic plan that is clear. He has the people to work that plan. And, he and his team are working the plan everyday. In short, the team and their enthusiasm for their challenge is excellent. They all seem to be very dedicated to the company goals and are working dili-

gently to reach them.

TIME HAS PASSED AND BALLY IS CHANGING

For the first time in its existence, since 1994 when the spinoff happened, the Bally Health Clubs names were all the same. The new nationwide Bally Total Fitness identity was an important first step toward establishing a true name brand for the organization. And, it was the step that began the efforts by the Executive Management Team toward eliminating the 'Spa Mentality' and changing the organization's culture to one that represents more than just a sales machine.

When Hillman took over, he immediately established rules and policies for his managers, area directors and district managers and all club level employees relative to day-to-day operations. The policies involved the behavior he expected from them and their employees, especially the sales staff members in the over 320 clubs across America. During the early periods of his leadership Hillman terminated a significant number of employees that had failed to adhere to the rules. Purely and simply, he intended to make breaking the company rules a firing offense and he backed up his policy with action. Hillman's objective was to inject integrity into the operation at all levels. In an interview with the **CLUB INSIDER** in June, 1997, Hillman was commenting on his strict adherence to his policy of enforcing the rules and said, "I don't know if you are aware of it or not, but we've had some considerable turnover coming out of this office. I've let quite a few people go that didn't adhere to policy. There are instances where the sales practices or sales policies are not adhered to. And they are ugly incidents. With 15,000 people, with thousands of sales people across the country in 323 locations, there's going to be a few times that people do things that they are not supposed to do. My answer to that can only be is that when they are identified, they are not going to be here any longer. And, if they do something that is illegal, they are going to be prosecuted to the fullest extent of the law. At our urging. At our insistence. We are holding to that Norm. I commit that to you."

Today, while discussing the progress made by Bally Total Fitness, Hillman reiterated his commitment to instilling integrity throughout the organization and once again affirmed his promise to dismiss those that strayed from the

standards he had set for the company. He said, "As I've mentioned to you before, I feel that integrity is a real key to what we're doing. Somebody was saying to me the other day that there is still 30-40% of the industry that just doesn't get it. That we're not the same company as in the past. You know, we've got 15,000 employees out there. And when we discover someone breaking the rules we identify who they are and then they are gone. You'll always have people who think they can break the rules and get away with it, but when we find them they are terminated."

In addition to the changes that have been taking place with the line staff, Hillman embarked on numerous efforts to improve Bally Total Fitness' standing as a good citizen in the community. As part of the remodeling program where 250 of 320 Bally Facilities are being remodeled or upgraded, Hillman began an equipment donation program, giving the used equipment to schools, fire and police departments, park districts and many other organizations across the country. In 1998 Bally purchased over \$25 million in new equipment and nearly all of the old equipment has been recycled.

NEW INITIATIVES TO GROW THE COMPANY

Hillman concluded early on that in addition to remodeling the clubs and installing new equipment he wanted to find new initiatives to generate additional revenues from the nearly 4 million club members of Bally Total Fitness. His theory was simple. He wanted to sell new services and products to the 120,000 or more members that utilize the Bally clubs on any given day.

The variety of new initiatives included: establishment of Rehabilitation Clinics operated by Continucare in Florida BTF Centers (Feb. '97), introduction of Bfit Nutritional Supplement line to be marketed in BTF Centers (March '97), introduction of a Co-branded Mastercard Program with Metris Companies (April '97), entered into promotional agreements with "Baywatch" and ESPN (February '98), established a Sports Medicine Advisory Board (March '98), developed and installed a minority scholarship program (March '98), acquired eight clubs in the San Francisco Bay area (May '98), entered into an agreement with Kessler Rehabilitation to open up to 100 clinics in BTF centers (August '98), entered into

(See **BALLY** page 16)

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...BALLY

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a magazine distribution agreement with Time Incorporated bringing 23 titles to Bally's cardiovascular floors (October '98), entered an agreement with Sports Display, Inc. to coordinate in-club advertising programs (Nov. '98), entered into agreement with Target stores for distribution of in-home PowerFlex (Nov. '98) and entered into an agreement with Chamberline Chiropractic Corporation to develop and operate chiropractic sports rehabilitation clinics in BTF centers throughout the San Francisco Bay and Southern California areas (Feb. '99). Whew!

While putting all of those deals together over the last two years, Hillman also reached out to capital markets to secure funding for the major overhaul and re-equipping of 250 of the 320 BTF facilities. In August, '97 \$90 million was raised through the sale of 8

million shares of stock, in November '97, a \$70 million credit facility was completed, in May, '98, \$89 million was raised through an offering of 2.8 million new shares of stock and in December, '98 \$75 million was raised through the sale of subordinated notes.

Through the remodeling and re-equipping program and these new initiatives, Hillman is changing the Bally Total Fitness organization for the better as fast as I could imagine anyone could and the business is showing marked improvement because of it.

FINANCIALS LOOKING STRONG

Since Lee Hillman took over, Bally Total Fitness' financial performance has consistently improved. Bally Total Fitness' 1998 operating income of \$52.8 million, more than doubled the prior year's operating income of \$19.9 million. Operating in-

come before depreciation and amortization ("EBITDA") improved 39% to \$101.1 million compared to \$72.8 million in 1997. Net income was \$13.3 million (\$.59 per basic share and \$.51 per diluted share) for 1998 compared to a loss before extraordinary item of \$23.5 million (\$.51 per basic and diluted share) for 1997. Since Hillman stepped into the leadership role the Bally Total Fitness stock, traded on the New York Stock Exchange, increased ten fold in value to 35 until the stock market slide of last summer. Bally Total Fitness stock is now holding at around 22 - 23.

Lee Hillman commented on the most recent Bally Total Fitness financial report. "We are pleased with our quarterly and full year results. Our results underscore the success we have had in achieving key benchmarks toward the long-term business strategies we established two years ago when we began efforts to re-invent Bally Total Fitness. In 1998, we made great progress improving margins by growing revenues from our core fitness center business. In January, 1999, we achieved another critical goal well ahead of schedule, generating significant positive cash flows from operations which we believe are sustainable in future periods due to the significant growth in collection of financed membership initiation fees and dues and the success of our new product and service offerings. You can see why we like our prospects going forward."

Hillman continued, "During 1998 we spent approximately \$54 million to upgrade and expand our business - constructing new fitness centers, major remodeling and upgrading of existing fitness centers, and acquiring an additional 10 fitness centers. We met our goal of opening 50 new BFit EssentialsSM retail stores, bringing us to 100 stores inside our fitness centers by year end. And, with the introduction of licensed branded products - such as PowerFlexTM by Bally Total Fitness and the Bally Total Fitness line of portable exercise equipment - carried in retail outlets like Target, Galyan's and Dunham's, and development of strategic partnerships with companies like Visa, MasterCard, Time Warner, Coca Cola, Interpublic Group and Sports Display, Inc., we continued to grow and build our dominant brand position."

Looking ahead to 1999, Hillman concluded, "We enter the year well positioned to grow our business further and sales have been brisk, so far. With current plans to build and open at least 20 new fitness centers this year

in addition to continuing our selective acquisition of existing clubs, we are committed to building upon our industry leadership position for the long-term."

ACCOUNTING METHODS ATTACKED UNDULY

In the aftermath of that stock slide last summer, Bally Total Fitness' accounting methods were attacked in an article published in the Wall Street Journal. In the opinion of this writer, that article was biased and did not really tell an accurate story. Subsequent to that article, two prominent stock trading firms, Merrill Lynch and Ladenburg-Thalman, stepped forward and published rebuttals to the Wall Street Journal article.

Merrill Lynch published a Company Update on Bally Total Fitness which issued a Long Term recommendation of BUY. Comments from Merrill Lynch included "BFT shares have fallen sharply since July, due in part to what we believe is confusion about the company's accounting methods. Both we and Merrill Lynch's accounting consultant, David Hawkins, view BFT's methods as both appropriate and conservative. As investors begin to understand BFT's numbers, we expect the stock price to move higher, and given its projected strong EBITDA growth, free cash flow generation and a compelling valuation, we continue to recommend purchase of BFT shares. While we would argue these factors would lead to an improved valuation, even with no multiple expansion over the next 12 months, the shares should reach at least \$30 (65% upside growth from current levels), based on our 1999 EBITDA estimate of \$135 million. The report goes on to provide illustrations of BFT's accounting practice for membership sales and debt service ratio and other accounting practices by BTF.

Ladenburg-Thalman also published a Company Update on Bally Total Fitness. The headline on the update reads: The Skeptics Need To Take More Time to Understand the Facts - Bally's Accounting Explained. It reads: In this report we have attempted to explain in detail, Bally's accounting methodology. We believe that once understood, investors will see that Bally's accounting methods fairly reflect its operating results. During the past 12 months, according to plan, cash memberships have declined while financed memberships have substantially increased. Renewal dues pricing is increasing as planned - up 6.5% year over year. With a

solid turnaround underway, Bally has begun to grow its units by building and buying new clubs. We reiterate our Buy rating. Based on 10X 1999's EBITDA of \$133.9 million, our 12-18 month price target is \$40, appreciation is about 150%. The report also continues by explaining BTF's accounting methods.

IHRSA AND BALLY - OPPORTUNITIES TO BE HAD

While the Bally Total Fitness operation is in the process of change with the remodeling, re-equipping and new initiatives, there are still some skeptics within the IHRSA member organization that object to the admission of Bally Total Fitness into the Association.

I do not disagree with their right to object. I simply now believe that IHRSA, Bally Total Fitness and the industry at large would all be better off if the members of the Association took another look at this time at the idea of admission of Bally Total Fitness into the Association.

First, I've talked to a number of IHRSA member club owners that in the past vehemently opposed the admission of Bally Total Fitness into IHRSA, but now agree that now is the time to at least look at the reasons why Bally Total Fitness should be considered for IHRSA membership.

But, before I go on, let me emphasize that Lee Hillman and his Executive Management Team have made it clear that while they would certainly consider joining IHRSA if invited, they are going to proceed with their plans regardless. I believe that IHRSA does not need Bally as a member, but would be better off in the long run if they were. Nor do I believe that Bally needs IHRSA, but I think Bally will be better off in the long run if they are IHRSA members.

Consider the opportunities:

(1) Government relations. We all know that when the government gets involved in our business, we are all worse off. Bally Total Fitness would add significant impact to all of IHRSA's thrusts in the governmental arena. (See this edition, page #20 which contains a summary of the successes obtained by IHRSA clubs in 1998 in the governmental arena.) For example, Lee Hillman personally assisted John McCarthy when John went to Washington to talk to Congress about scrutiny of charity operated health clubs competing unfairly with taxpaying businesses. The result, on October 15, 1998, Congress instructed the IRS to review its standards to ensure that

(See BALLY page 17)

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charities that operate health clubs or provide fitness services do not compete unfairly with taxpaying businesses. The governmental arena is a tough one and the IHRSA cause would definitely be improved with Bally Total Fitness as an IHRSA member due to their size and lobbying power.

(2) Human Resources. Back to the government again. Due to the fact that it is a public company, Bally Total Fitness must operate under very rigid human resources procedures. In fact, BTF has one Executive whose entire focus is on human resources issues, Harold Morgan, formerly with the Hyatt Hotels. These issues are not going to get easier for clubs and IHRSA clubs could learn a great deal through sharing with BTF in

this area.

(3) Marketing and Sales. IHRSA has embarked on a plan to lead the industry to 50 million health club members in the U.S. by the year 2010. That folks, is going to be a real challenge! It means that in the next 11 years, we will have to find 27.5 Million new members in the U.S.! Where are we going to find them? I think it will be in that 80% of our population that do not exercise regularly. Where are we going to get the promotional power to reach those people? The last time I checked, Bally Total Fitness spends about \$60 million per year on advertising!

If the Bally Total Fitness organization were an IHRSA member, I think they would naturally want the public to know that. So, if all of Bally's TV and print ads included a brief mention that BTF was an IHRSA member, don't you think that would

help everybody? I can remember back in 1984 when the Holiday Health Clubs came to Atlanta. Their advertising for one and one half years during their pre-sales helped my club's sales tremendously. I think everybody benefits when Bally advertises because more of those 80% people come into the market. With the great creative minds we have in IHRSA, I simply can't believe that this aspect of BTF joining IHRSA would be anything less than positive.

NO EXERCERA HERE

The last time I climbed up on my soapbox about an important issue at IHRSA was when the Board of Directors voted in 1993 to change the name of the Association to 'Exercera'. Upon hearing of that vote, I wrote in my inaugural edition in December,

1993, that while I was not particularly fond of the new name, I thought it would work IF THE MEMBERS APPROVED OF IT AND WANTED IT TO WORK. It turned out in that situation that in fact, the vast majority of IHRSA members didn't like the name, nor did they believe that the reasons for changing the name were being solved with Exercera. I began a campaign on behalf of the IHRSA members that opposed the name change and at the Reno, Nevada IHRSA Convention in 1994 an Open Forum meeting was held in which 32 people spoke to the group of about 300 about the issue. Of that 32, 31 spoke out against the name change to Exercera. 1 person spoke in favor of it. A few months later, the IHRSA Board of Directors voted to rescind the name change and instead, to change the name from IRSA to IHRSA by adding Health. (International

Health, Racquet and Sportsclub Association).

Well, I'm on my soapbox again. This time it is not to unequivocally endorse the admission of Bally Total Fitness into IHRSA. Instead, I am simply saying that I think now is the time for the Association to get to know the Bally Total Fitness organization better and to consider admission of BTF into IHRSA. And, like I said when I heard of the Exercera deal, if the members like the idea after they have all of the facts, then it should be done. If they don't after hearing all of the facts, then it should not be done. Simple right? Stay tuned.

(Norm Cates, Jr. is the Publisher and Editor of The CLUB INSIDER News and a 25-year club industry veteran. Cates was the 1st President of IHRSA and a Co-founder of the Association in 1981.)

Capitol Report

continued from page 12

IHRSA HELP AVAILABLE WHEN YOU NEED IT

Visit IHRSA Government Relations on the Internet. Updated several times each week, you will find all back issues of Capitol Report, current state legislative alerts, fair competition news and much, much more. Using your IHRSA membership number, you can download legal briefing papers and fair competition publications from our "member-only" section. Available to you free of charge 24 hours/day, 7 days a week.

TWO STATES INTRODUCE FAIR COMPETITION LEGISLATION

IHRSA members in Texas and Montana have set the stage for fair competition legislation to be seriously considered by their respective state legislatures. The latest news on each follows:

THRSA LOBBIES HARD IN TEXAS

The Texas Health, Racquet & Sportsclub Association (THRSA) has built a coalition with the State chapter of the National Federation of Independent Business (NFIB) and the Texas Public Policy Foundation (TPPF). The coalition will lobby for legislation similar to that enacted in Pennsylvania last year. A Pennsylvania YMCA is currently being sued under that law.

Ramiro Galindo of Aerofit Health & Fitness says that legislators have been sympathetic to the

plight of small businesses facing unfair competition. "Our legislation is being well received."

The Texas bill, which will be introduced soon, would prohibit a tax-exempt institution from operating or subsidizing a commercial business that is unrelated to its charitable purpose. Under the measure, a small business could file a complaint with the attorney general against a tax-exempt institution which is in violation of the law. If the Attorney General fails to act, the business could ask the courts to consider the matter.

MONTANA GOES FOR TWO

Ron Muri of Billings Athletic Club has been working closely with IHRSA and Representative Larry Grinde, the majority leader in the Montana House of Representatives. As a result, Grinde has introduced two bills aimed at protecting small businesses from unfair competition.

The first, House Bill 515, would prohibit state or local government entities from providing goods or services in competition with private companies that provide similar goods or services.

The second, House Bill 516, would eliminate the state income and property tax exemption of any public charity that operates a commercial enterprise on an ongoing basis. If passed, this measure would have to be approved by voters.

House Bill 516 defines a 'commercial enterprise' as providing products, services, or use of equipment or facilities to the general public:

a) for payment of a price, fee, or periodic dues;

b) in direct competition with for-profit businesses;

c) in a manner that bases prices on pricing formulas commonly used by for-profit businesses;

d) using common promotional materials and commercial catch phrases to promote

sales;

e) by advertising goods and services;

f) during the same hours as for-profit businesses; and

g) using paid staff rather than volunteers.

The bill considers a person a member of the general pub-

lic if their primary relationship with the charitable institution or non-profit corporation is to receive products, services, the use of equipment, or the use of a facility in return for paying a price, fee or periodic dues.

"We have an 80 percent chance of getting a bill passed," said Muri.

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"I'm delighted with the way you have enlarged your opportunity, and especially pleased with the way you will be positioning your company as 'the online pro shop for the industry'. You have wonderfully thought through this opportunity." John McCarthy, Executive Director of IHRSA (International Health, Racquet and Sportsclub Association).

Dallas, TX. Tell any responsible health and fitness club or spa owner that they can now market their properties on the worldwide web for free—plus, make a healthy commission on retail sales, without having to "do the selling" - and you may have to receive them with smelling salts!

WellnessGroup of Dallas, Texas, launched www.TotalWellness2000.com on January 1, 1999, and the health and fitness business is changed forever.

TotalWellness2000.com

is the brainchild of David Tiller, WellnessGroup Chairman/CEO and Don Roberts, President/COO, who combined their backgrounds in marketing/public relations and computer programming to create the monster, marketing website.

On the wholesale side of the site, WellnessGroup works with providers of health and fitness related products and services, including exercise clothing and equipment, vitamin and nutritional supplements, adventure travel packages, spa vacations, banking services, and more, which, in turn, drives this traffic to TotalWellness2000.com.

An easy-to-follow, on-line, web-page construction template walks club owners through the process, putting their club on the web for free - in less than one hour! Once they're on-line, they can then begin promoting their services over the web and start earning

sales commissions by referring club members to TotalWellness2000.com.

When a club member logs on and purchases a product or service over the site, the sale is traced back to the referring club or spa, who automatically earns a commission on the sale. No direct selling of any kind is required. If the visitor is not affiliated with a participating club, the visitor is automatically referred to the nearest participating club as a potential new member.

All business conducted over the site is secured using the latest e-commerce technology. And all visitors, as well as club and spa owners can communicate 24 hours a day on-line as part of their experience at TotalWellness2000.com.

"It's a win-win situation for everyone," says Tiller. "Manufacturers get their products in front of a global audience, clubs and spas promote their properties and serve members using the world-wide web, and visitors to the site find

great bargains on the latest merchandise, plus plenty of interesting content to keep them browsing."

The new "supersite" features training tips and words of encouragement from guest commentators, such as Greg Lamond, world champion cyclist, and Francie Larrieu-Smith, Olympic track star. In addition, there's a free health risk analysis, composed by a panel of physicians, along with cookbook recipes, late-breaking news, research, and other valuable tidbits for visitors to enjoy while touring the site.

Visitors can log-on from any PC, 24-hours a-day. Or, they can visit TotalWellness2000.com directly from their local club or spa lobby, using an on-premises, Internet-enabled kiosk, also provided at no charge by Wellness-Group to participating club and spa owners.

The kiosk also features a built-in ATM, providing visi-

tors instant access to cash, and a handsome display case, to promote goods and services on-site.

"TotalWellness2000.com is the newest Internet supersite, built on the concept of Commerce in Support of Community," Tiller says. "Our community is the health and fitness industry. And TotalWellness2000.com is the commercial vehicle servicing a very broad spectrum."

Find out what health and fitness marketing looks like in the next millennium. Visit www.TotalWellness2000.com or call Wellness Group directly at (214) 521-3511, or toll-free at U-R-ProActive (1-877-762-2848) for more information.

(Publisher's Note: Although TotalWellness2000.com will not be exhibiting at the upcoming IHRSA Convention in San Diego, David Tiller will be there March 24-27th and may be reached at the Marriot Marina Hotel, the convention's primary hotel.)

Norm's Notes

continued from page 5

treadmills and other cardio equipment.

ROGER and ELAINE RALPH, owners of **The Bel Air Athletic Club**, Bel Air, Maryland, inform me that they have just completed renovations totaling over \$300,000 to their 90,000 square foot facility. They expanded their fitness floor 17% to 11,039 s.f., the Women's Fitness Center 53% to 2,300 s.f. and they added an **All Body Cycling (ABC) by Life Fitness**, as well as 24 more pieces of cardio and five pieces of strength training equipment and 11 additional TVs. The Ralphs, once again, have demonstrated willingness to reinvest to maintain their dominance of their market. Congratulations Rog and Elaine!

Be sure to make plans to attend **JazzJam '99** which will happen in San Diego this August 5-8th. To register call: (760) 434-2101.

SEHRSA, the **Southeast Health, Racquet and Sportsclub Association**, an Association for Florida club owners is pushing hard to defeat a State membership sales tax in Florida. **GEOFF DYER**, one of the Directors of SEHRSA along with **BOB KARSHNER** and **JOE CIRULLI**, informs me that they have raised \$25,000 to date with

IHRSA contributing an additional \$10,000 and they have retained lobbyists, **BONNIE BASHAM** and **BRIAN BIBEAU** to help them argue the cause at the upcoming **Florida Legislature Session**. However, they still need to raise additional funds for the cause. So if you are a Florida club operator or an equipment manufacturer or service provider and have not chipped in, call: (813) 264-1711 to learn how you can help the cause. This is a cause worth fighting for for sure!

JOHN COFFEE owner of **Coffee's Gym** in Marietta, Ga. for over 20 years, has become partners with **MARK MONTGOMERY** in Coffee's new location in Marietta and has joined the Gold's Gym network of over 500 locations in America. Best of luck John and Mark!

AMY REDFEARN, the President of **Innovative Concepts & Consulting**, a Gainesville, Florida-based PR consulting firm, informs me that she has merged her company with **Summers & Associates Public Relations Counseling, Inc.**, a Lakeland, Florida-based firm. Amy and her new partner **STEVE SUMMERS** may be reached at: (941) 688-7881.

Speaking of **JILL STEVENS KINNEY**, she and her husband John have just completed the acquisition of two San

Francisco Bay area **Royal Courts Clubs** and 16 corporate fitness centers bringing their **CLUB ONE** group to 11 clubs and 30 Fitness Centers!

CHARLIE LINDSEY

and **TIM GOOD-WIN** are the owners of **American Club Systems**, a health club management firm based in Columbus, Georgia. They own and operate 55 **Gold's Gyms** and **Corey Everson Fitness Centers** nation-

wide and have just moved into new digs at their Columbus base. I had the pleasure of attending the Grand Opening of their impressive offices this month. For news on their growth plans, Stay tuned.

(See Norm's Notes page 28)

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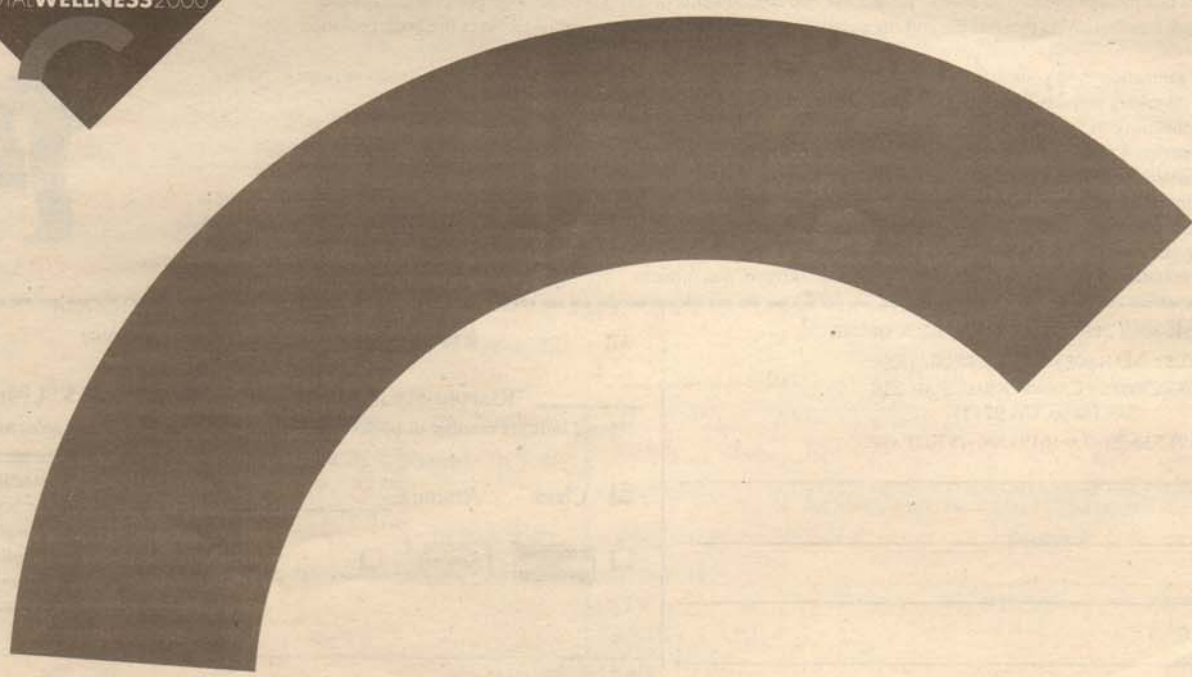
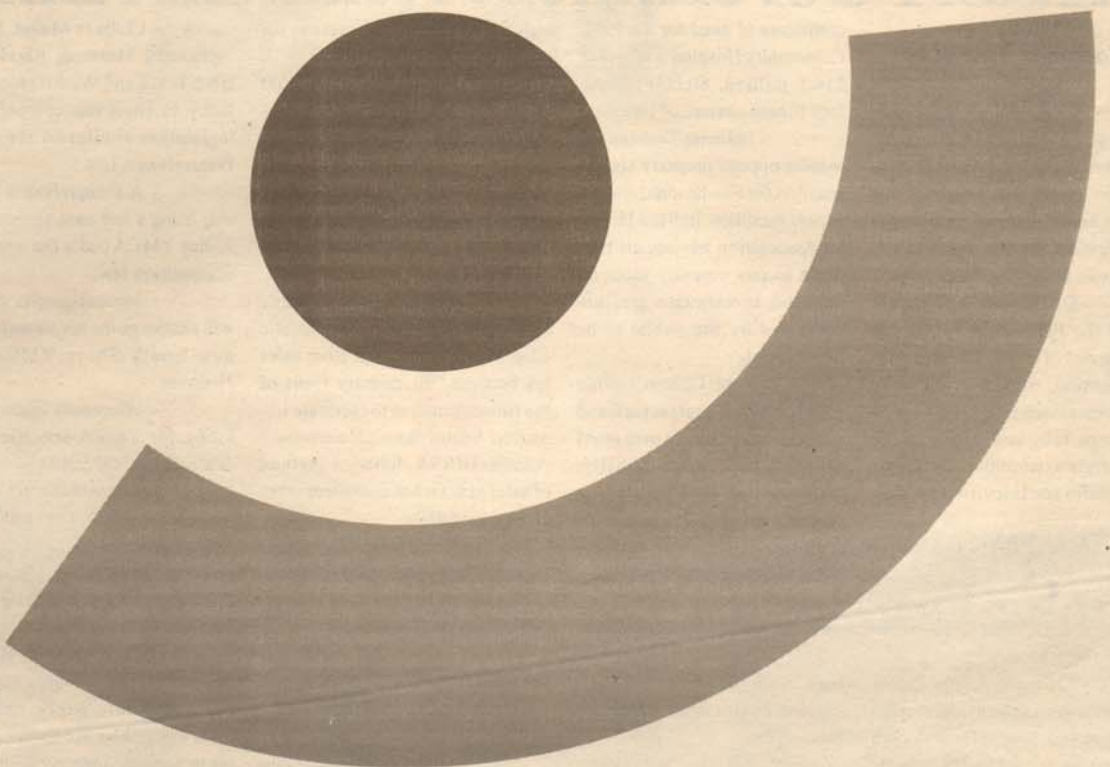
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IHRSA Government Relations Annual Report

National Victories

- **T**hrough legislation approved on October 15, Congress instructed the IRS to review its standards to ensure that charities that operate health clubs or provide fitness services do not compete unfairly with taxpaying businesses.

- On October 7, Congress passed the Fairness in Music Licensing Act of 1998. The first music licensing, reform in 22 years gives businesses more recourse to challenge fees and expands the "homestyle exemption" for licensing of radio and television music.

State Victories

- **C**alifornia: Legislature declares October to be Workplace Fitness Month.

- Georgia: Clubs defeat consumer protection legislation which would have allowed club members to cancel their contracts for any reason with 30 days' notice.

- Illinois: Illinois Health Facilities Planning Board denies a

certificate of need for the Palos Community Hospital's proposed \$14.5 million, 80,000 square-foot fitness center.

- Indiana: Two tax assessors oppose property tax exemption for two hospital-owned fitness facilities. Indiana Hospital Association advises all hospitals to pay property taxes on business investments that are perceived by the public to be noncommercial.

- Iowa: Citizen's group files complaint against park and recreation department over plans to build recreation facility, claiming that land isn't being properly developed. Union pulls campaign funds from city councilor who fought for the facility, ending councilor's quest for statewide office.

- Kansas: Clubs kill legislation which would have limited health club initiation fees.

- Maine: Clubs defeat an attempt to tax health club dues.

- Massachusetts:

IHRSA wins legal protection for women-only health clubs.

- Maryland: Clubs that collect monthly dues win exemption from state registration renewal fee.

- Michigan: Legislature prohibits grants for recreational facilities that compete with private health clubs.

- Missouri: State Supreme Court rules that Columbia Athletic Club's dues are exempt from sales tax because "the primary focus of the fitness center is to facilitate improved health through exercise." Another IHRSA club wins a refund of sales taxes it has collected; other clubs may follow.

- New Hampshire: Clubs win amendment to state health club consumer protection law and expand bonding exemption.

Anticipated State Legislative Initiatives

Clubs in Florida, Ohio and Washington will attempt to repeal the sales tax on health club memberships.

- Clubs in Maine, Massachusetts, Montana, Rhode Island, Texas and Washington will lobby to enact fair competition legislation similar to the new Pennsylvania law.

- A Pennsylvania club will bring a test case against the Ridley YMCA under the new fair competition law.

- Massachusetts clubs will challenge the tax status of the new South Shore YMCA in Hanover.

- Wisconsin clubs will lobby for YMCA-specific fair competition legislation.

- Illinois clubs will challenge a tax-exempt hospital fitness center.

- New York: Clubs defeat two onerous consumer protection bills.

- Pennsylvania: Bill is enacted which prevents institutions of purely public charity from using their tax-exempt status to compete unfairly with tax-paying businesses.

- Wisconsin: Clubs eliminate state property tax ex-

emption for hospital-based fitness centers.

Current Initiatives

- **I**HRSA has just introduced Capitol Report, a weekly publication about all legal and legislative developments that impact the industry.

- The Case for Fair Competition in the Fitness Industry has just been updated and reprinted.

- IHRSA will submit a report to the IRS on unfair competition with recommended changes to the rules governing tax-exempt fitness centers.

- IHRSA will develop an on-line "Fair Competition University."

- IHRSA will produce an interactive fair competition communications manual.

- IHRSA will establish an e-mail listserve to instantly communicate fair competition victories and strategies.

- IHRSA will produce an informational fair competition video.

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

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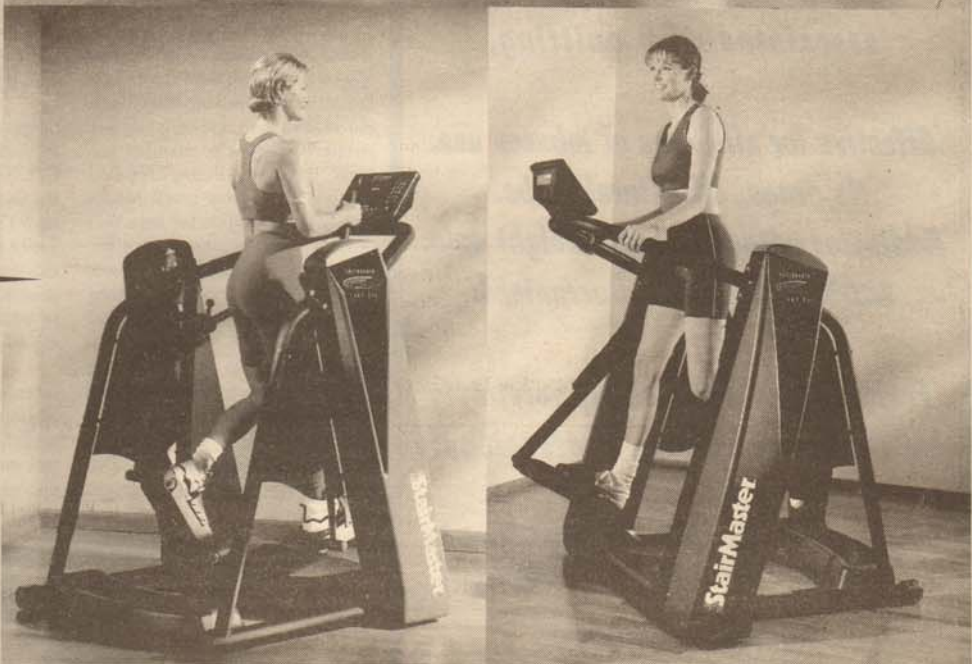
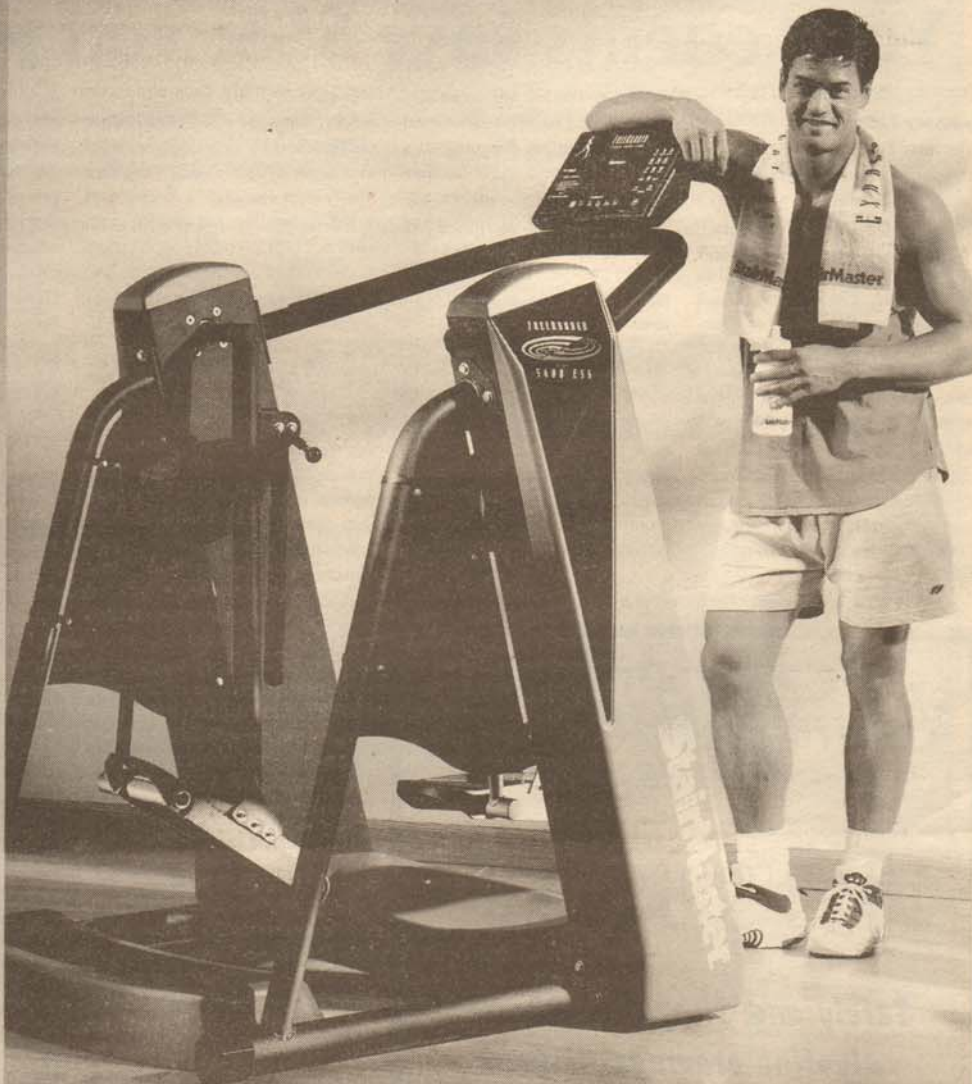
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Personal Trainers & PACE Group Exercise: Your clients save \$\$\$; you make more \$\$\$.

By Rande LaDue

"This is a win-win deal" an owner of a Gold's Gym told me recently as we spoke about putting a PACE circuit into another club he owns. The current circuit is actually owned by his head Personal Trainer, who is given space in the gym in return for his generating new memberships with his PACE Group Exercise Program™ and PACE Weight-Management Program™. "This is like found money for me; after their PACE Program is over, we convert many of them into full service membership."

Bruce Cline, the infamous

Personal Trainer we were discussing, has been so successful in implementing his program, that he wants to share his formula with others. So, we appointed him a PACE Rep for Florida. His first sale was to another Personal Trainer in Southern Florida, Kelvin Nedd, who also worked out of a Gold's Gym. Kelvin, by the way, is now also a PACE Rep for South Florida. Both Bruce and Kelvin agree that since PACE is fun and non-intimidating. It's easy to market to those people who normally do not join health clubs (seniors, the overweight, deconditioned, busy executives, etc.).

"It's a no-brainer when you look at the numbers" says

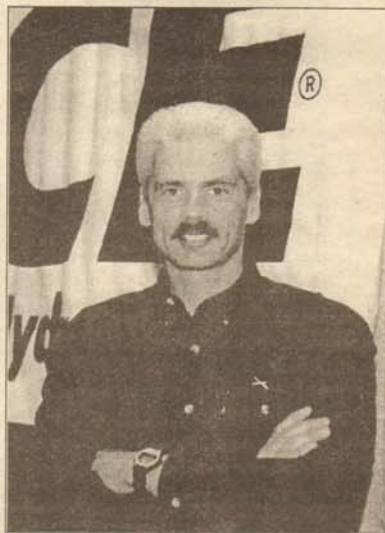
Kevin's wife and partner, 'Stacy Nedd, "Let's say a Personal Trainer charges \$50 per hour for one client at a time. With a PACE Program, the Trainer can offer a discount of say, \$35. per class fee and can work with 8, 10 or even 20 people at the same time. Plus these people become friends and bring in other friends" "Even at the low end, \$35 X 8 for a half hour to 45 minute class is a lot more than \$50 for one client". The Nedd's have even invested in a trailer to be able to take their circuit on the road to show clients and bring to schools, corporate centers, etc. Kelvin says "One of the first questions a customer will ask is where can I see it? If he/she cannot come to our facility, we go to theirs."

Bruce says the keys to the PACE Program™ and the PACE Weight-Management Program™ is fun, safety, inspiration and fast results. "People like working out with their friends, especially if they are in the same shape as themselves. Each of my instructors has his/her own following. That's another great thing about PACE, you are not

locked down to a set format every workout. Safety is not an issue with PACE's hydraulic resistance; there is no negative resistance, so there is no muscle soreness (the machines are designed by Henley Healthcare, the manufacturer for rehab purposes also); plus with double positive resistance, each machine works twice the muscles as two air resistance or weight stack machines. Every PACE class is a positive experience from day one. And the personal attention and motivation one Trainer is able to give to every client during a class is what sets

PACE apart from other group programs."

"As far as results go, I have a client who will soon be under 200 pounds for the first time in 27 years (she started my program a few months ago at 280)! PACE and The PACE Weight-



Rande LaDue

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refusal to cooperate with the media demonstrates poor corporate citizenship, plain and simple. No wonder equipment manufacturers generate so little national news.

Lack of News Is Bad News

Even some of the industry trade associations ignore their obligation to keep the media and public properly informed. The Fitness Products Council for instance, part of the Sporting Goods Manufacturers Association, entered 1998 with a public relations budget of hundreds of thousands of dollars.

The FPC was in a perfect position to have a big impact on the media and the public's understanding of how exercise products were positively affecting club members' health. However, instead of building a feature story campaign based on examples from the manufacturers, the FPC hired an inept public relations company and managed to produce only few uninspiring statistics-laden news items on exercise trends. They also updated and republished the same type of statistics booklet they had distributed in the past.

The result was that no specific manufacturers received the media attention they wanted and at the Super Show, the FPC's best PR platform, no significant fitness (See Hoffman page 23)

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...Hoffman

continued from page 4

dustry trade show. The show's PR manager thought it would give the reporter a unique insight into the workings of a successful chain and possibly generate a good news story, because the roaster was the founder of one of the country's largest club chains.

Unfortunately, the event turned into an image disaster. Not one of the people who roasted the founder mentioned anything about the chain's philanthropic efforts, public education or member service. Instead, every speaker bragged about how much money they had made under the founder's tutelage. This two-hour greed-fest sounded more like a multi-level marketing seminar than a testimony to a well-rounded business leader.

After 45 minutes of this inane braggadocio, the reporter was totally fed up, turned to the PR manager and said, "if this is the best you people have to offer, I have no further interest, permanently!" This was the worst thing a PR person can hear and put a quick end to that show's short-lived media plans. The saddest part of the whole story is that this club chain actually considers itself a leader, when its only real accomplishment is financial and geographical expansion. When it comes to developing a quality image, size doesn't really matter.

Hiding from the Truth

Last year, the U.S. Federal Trade Commission cited three equipment manufacturers for false advertising. The news appeared around the country, creating another black eye for the industry. All three companies could have faced the charges, but instead paid their fines to avoid costly legal battles and hoped the story would just fade away.

A journalist called all three companies to find out what they intended to do to comply with FTC regulations, since, by paying the fines, they admitted wrongdoing. The first manufacturer was very forthcoming about its plans, explaining that it intended to double and triple-check all claims to workout results before preparing advertising materials.

The second manufacturer could not be reached for comment, but it was the third manufacturer that painted the perfect picture of how arrogant and uncooperative these companies can be. When the reporter asked how this company planned to comply, the public relations manager impolitely refused to give any information and actually criticized the reporter for asking. The fact that the manufacturer was not legally required to disclose any information is not the point. The re-

Life Fitness Announces New Customer-Oriented Organizational Structure

FRANKLIN PARK, ILL. - Life Fitness announced a new organizational structure that segments the company into two divisions: Commercial and Consumer. Life - Fitness' goal with the new structure is to better serve its customers with a dedicated focus on them and their individual market requirements.

Herman P. Rutgers, Ex-

ecutive Vice President, has been named general manager of the Commercial Division in Franklin Park, Ill., and Jerry Dettinger, Vice President, is now general manager of the Consumer Division in Ramsey, Minn. Both will report directly to Life Fitness President Augie Nieto.

"Our commercial and consumer customers have differ-

ent needs. The new structure will allow Life Fitness to concentrate on each customer segment individually, and will enable us to develop reliable, high-quality products specifically for them," said Nieto.

Under the new structure, which took effect Jan. 1, 1999, all sales, marketing and product management will be segmented under each division. The two divisions, however, will continue to share cer-

tain resources within the company, such as engineering, manufacturing, customer service and marketing services.

About Life Fitness

Life Fitness, a Brunswick company, is the global leader in designing and manufacturing a full line of reliable, high-quality fitness equipment

for commercial and consumer use. Its cardiovascular and strength training products, including the renowned Lifecycle exercise bike, are used in health, fitness and wellness facilities, as well as in homes, worldwide. The company is headquartered near Chicago and distributes its equipment in more than 120 countries.

...Hoffman

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product news was generated, even though this show has the heaviest media attendance of any in our business. To make matters worse, the manufacturers who sat on the Board of the FPC never called the organization to task for this pathetic performance.

Are Things Really So Bad?

Yes, and No. Though IHRSA's level of national media

coverage is increasing annually under PR director Cathy McNeil, media relations still take a back seat to sales promotion at most clubs. Profit is a still a greater motivator than public service. The largest companies in our industry have almost entirely abdicated their responsibility for helping us improve our image.

However, there is a small core of reputation pioneers who deserve immense credit for leading the new movement to social responsibility. Among these are Ken Germano, who single-

handedly has made a success of Operation FitKids; Helen Durkin of IHRSA who has made lobbying for progress a practical behavior for all clubs, the late Vicki Berry who initiated the Canadian fitness industry's first press release campaign-, Dennis Keiser, who has long championed education for the 50+ age group, and Dr. Massimo Massarini who is responsible for TechnoGym's sole sponsorship of IHRSA's Institute on Exercise and Health. Not a single U.S. or Canadian company would help.

These people are our real leaders. They persist in the face of

an industry that would rather make a buck than make friends with a journalist. There are countless others, too, working hard in their communities to build a good relationship with local press and community VIPs. But, until our industry's biggest companies start throwing serious budget monies at public affairs, individual clubs must take all the burden on themselves.

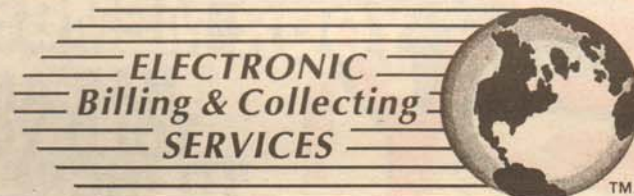
Hard News vs. Soft News

Fitness information is

normally based around trends, or "soft" stories, rather than hard-hitting, time-critical types of stories like natural catastrophes, financial downturns or political events.

So how do clubs generate news? One way is to focus on human interest. There are countless tales of people who have overcome impossible fitness odds to achieve better health. By explaining how the club staff worked with the member to help them succeed, the club can create a compelling story. Journalists are notoriously soft for human interest stories-, they find

(See Hoffman page 24)



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...Hoffman

continued from page 23

them a welcome respite from so much of the bad news that must be reported.

Clubs should also promote their efforts at public education and philanthropy. Though not hard news, these projects have the same "good news" value that reporters welcome. All it takes to create human interest and socially-responsible stories is a little planning time, some basic sound writing and the development of media relations skills. While VIPs like LaLanne may hurt clubs with their comments on network television, and while manufacturers may ignore their PR responsibilities, each individual club really is in control of its own local visibility.

Shooting The Sacred Cows

Club operators are subjected to too much repetitious information in trade periodicals and at shows from the same basic insider group. These writers and speakers may be qualified, but they're stale. To progress intellec-

tually, the industry must draw new inspiration and information from outside experts.

However, publishers and show managers actually suppress new content, because they promote speakers and writers who use their appearances to solicit clients. Unlike professional authors and lecturers, these "experts" are willing to work for virtually nothing, in hopes of generating business.

And what can you expect to get for nothing? A close look at the past few years' magazines and show calendars reveal mostly the same tread worn topics, yet clubs fail to use their leverage by demanding fresh new authors and speakers. If clubs boycotted shows and publications that failed to innovate, you would see a quick turnaround in the quality of writing and speaking.

Of course, the magazines and shows would have to pay professional speaker and writer fees, which would cut into their profitability, but so what? Isn't their job to educate the clubs? It's time they ruffled a few feathers by questioning supposed authority and bringing in

some high powered thinkers with reputation track records outside the fitness fishbowl.

The Surgeons Did Not Think of Us

Last year's United States Surgeon General's Report on Public Health meeting at Johns Hopkins School of Medicine was further proof that the fitness industry does a poor job of creating value awareness. Surgeons General dating back to 1952 were invited to share their views on problems with popular medicine and public health.

Each Surgeon General made recommendations on how the public could be better inspired to practice preventive healthcare, but the fitness industry was never named. Instead, they mentioned HMO'S, public schools, insurance companies and the media as the groups most likely to boost public awareness of health. The fact that the fitness industry has so little share of mind among the most influential medical personalities in the nation is a serious indictment of our professional credibility.

The most poignant statements were made by Dr. Leroy Burke, who served as Surgeon Gen-

eral under President Dwight Eisenhower in the 1950's. Burke is in his '80s and visibly feeble, but very sincere. He explained how he and his wife were living in a senior care center. He bemoaned the lack of quality human contact there and said that the healthcare industry needs to get back to basics - to warm personal contact between individuals - rather than being so obsessed with making a profit. Enough said.

A Paradigm Shift In Marketing

The fitness industry needs an immediate and committed paradigm shift in marketing practices from commercialism to top notch corporate communications. The broad philanthropic and educational campaigns conducted by most Fortune 500 companies are excellent models. They spend millions to educate consumers about topics ranging from seat belt usage to pesticides, and these campaigns are not expected to return a profit. When companies like Nike and Reebok pull out of traditional events like the SuperShow, you have to wonder what else they have decided to do with the money

they save.

Here are ten things clubs can do immediately to affect how the fitness industry conducts business. Your reputation depends on it.

- 1) Patronize only those manufacturers that provide PR support and practice philanthropy.
- 2) Demand expert speakers and authors from outside the fitness industry.
- 3) Insist that periodicals publish investigative journalism.
- 4) Shift from price-based advertisements to image ads.
- 5) Put 40-50% of your advertising budget into reputation management.
- 6) Institute a community advisory board.
- 7) Educate yourselves on reputation management and media relations skills.
- 8) Use IHRSA's IIEH materials.
- 9) Militate for local and national healthcare reform.
- 10) Speak out against shoddy marketing practices.

(Michael Hoffman is the President of Heart Communications, a Dana Point, CA.-based PR Firm. He can be reached at: (949) 489-0301.)

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The Business of Credibility

Developing Sincerity, Conviction & Reliability

By Philip Wilson

Your credibility as a professional is priceless. If you are regarded as credible by your colleagues and clients, your advice will be respected, your counsel will be sought, and your standards will be emulated. You will make important contributions to the lives of others and the advancement of your profession.

Where does credibility come from? How does a fitness or health expert become a dependable and authoritative professional? There is no magic formula, but here are five steps to consider.

Step 1. Be Honest.

Never tell a lie. One lie leads to another lie, and eventually you are in a hopelessly deep hole of evasions and complications.

Do not tell a staff member who is performing poorly that you are satisfied with the job that he or she is doing. Do not tell your super-

visor that you can handle all your assignments if your workload is unreasonable. Do not tell an insecure or out-of-shape client that fitness and weight management are easy to achieve. Be honest, even when the truth is unpleasant. Address problems. Outline solutions.

Step 2. Walk the Talk

As a fitness professional, you must be a role model for health and fitness. You must be a regular exerciser, and within the boundaries of your body composition, be fit. The use of tobacco products and excessive alcohol consumption are also unacceptable. Your credibility depends in large part on the unspoken example that you set. If "walking the talk" is difficult or impossible for you, then you are in the wrong profession.

Step 3. Get Educated.

Whatever your goals in the health and fitness field, there are necessary education requirements. Set your sights high. The better jobs require the most edu-

cation. A four-year degree is a must if this is your chosen career.

Depending on your goals, an advanced degree may also be necessary. You may work in the field of exercise science for years and then decide to study for an additional degree to achieve a new goal. Regardless of your age or position, pursue educational opportunities to learn more and stay current.

Step 4. Certify Your Skills.

Fortunately for fitness leaders and participants alike, certifications are now available in most specialties to confirm inax you meet stringent standards and can be trusted to provide safe and effective instructions. As existing certifications expand and new certifications become accepted, the need to be certified will be paramount. However, you must exercise caution and participate only in quality certified programs managed by respected authorities.

Certifications that are easy to obtain and maintain are

probably scams. Warning signs include mail order arrangements, no required examinations, no required demonstration of skills, and no prerequisite of a specified number of hours of experience or educational background. Your education, in conjunction with respected certifications, will say volumes about your knowledge, skills, and perseverance and reinforce your credibility.

Step 5. Join Professional Organizations.

Be active in one, two, or maybe even three organizations dedicated to the advancement of your profession. These organizations usually operate at the state, regional, and national levels, giving you a variety of outlets. Pay your dues and attend the meetings. The benefits will far outweigh the costs of your annual membership fee and the expenses of traveling to meetings and conventions. Volunteer for committee assignments, and get involved by meeting other people in your area of interest. Learn about new programs, the lat-

est equipment, supplies, and education materials. These factors contribute to your stature and credibility in your place of employment.

In summary, your credibility as a health and fitness expert is self developed by your love for and interest in your profession. If your interest is sincere and significant, you will be straightforward, you will "walk the talk," you will seek the education you need, you will obtain certifications, and you will regard professional association memberships as valuable to your work. You will consider these requirements as essential components of your credibility as a health and fitness professional.

(Philip Wilson is a member of the American College of Sports Medicine (ACSM) Advisory Board and writes a monthly column for the ACSM Newsletter. This article first appeared in the ACSM Newsletter in Sept./Oct '97 and was reprinted in the January '98 issue of the National Fitness Therapy Association Newsletter.)

...Midgley

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objection. The rate structure itself exudes common sense to the prospect. This leaves your salesperson with only one thing to do, make the prospect feel comfortable with him and your service. 3) If someone is strictly a short-term prospect for whatever reason, you don't want to waste time trying to convince him otherwise and you don't want to lose the potential income, so have short-term options. 4) Short-term memberships are an excellent feeder program to long-term memberships for those who are too timid to take the plunge the first time in.

Now that you have created a rate structure that is built around the customer, your club has become a more customer-friendly business, thus making your club easier to do business with than your competition. Your club is now one up on the competition! Why not go two up?

MAKING YOUR SALES APPROACH CUSTOMER FRIENDLY

The next step is to make

your sales approach as customer-friendly as your rate structure. But how can you have a customer-friendly sales team that still puts the big numbers up on the board? It is much easier than you would think. All you need to do is put a different spin on your salespeople's presentations.

You need to begin by setting expectations correctly. Meaning you need to explain to your sales staff the importance of being a complete salesperson, not just a salesperson. A complete salesperson understands that everything they do needs to be based on long-term thinking. Every experience you have now with a prospect effects future experiences that will happen with that same prospect. The next experience with the prospect (or possibly member by that time) can be positive or negative. It depends how the first experience goes.

Sales staff should be taught not to look at only the short-term potential for the sale and ensuing commission. They should be taught to look at the long-term potential of all members. This simple change of focus will effect, for the better, the

demeanor of a salesperson's entire presentation with a prospect. When a salesperson is working with a potential member and they come across to that prospect as intent on following the prospect's agenda and eager to listen to and help the prospect, it communicates clearly that you are working for them. The prospect can sense that you sincerely do want this to work for them and in turn they warm up to the salesperson very quickly.

DELIVERY OF THE CONCEPT

Now you know the concept, let me tell you about the delivery. When a prospect walks through the door, your first move is a warm and friendly greeting. A warm handshake, gentle look in your eye and an introduction followed by simply asking "What can I do for you today?" Of course you have to mean those words because you asked "what can I do for you?" not "what can I get you to do for me today?" Wait for their reply and proceed to follow their lead. Even though you are following their lead remember your objectives. There are three of them: 1) Make the prospect feel totally comfortable

with you and the surroundings. 2) Provide the information he is looking for in a sincere and straightforward manner, always remembering that you are the expert. 3) If at all possible, make the sale.

BUILD RELATIONSHIPS!

While you are going through the tour, don't just be a tour guide. Reference different aspects of the club, but don't dwell on them. Occasionally, when the timing is right, use feature benefit selling like, "you mentioned you wanted to lose weight, you can do it with these elliptical machines. Try this for a minute". How does that feel? Remember, while conducting the tour, your #1 objective should be to try to find a common interest with the prospect. Get them talking about themselves. Have a real conversation, let them into your life a little bit. It doesn't matter if you spend forty-five minutes talking about their dog and don't even walk through the club. You are establishing a bond and if someone feels comfortable enough to talk to you about anything remotely related to his per-

sonal life, he surely will feel comfortable enough with you to buy a membership from you. (Also don't forget long-term thinking. By being sincere and genuine, you are setting yourself up for future referrals right from the first time you meet this person.)

USE COMMON SENSE

As you are moving on in the conversation with the prospect, be sure to use common sense when approaching their fitness program. Try to set forth realistic expectations of what they should expect to accomplish and on what time line. Be the voice of comfort and the voice of reason. All this makes you appear very real to the prospect. Someone he would want to do business with. Once you have discussed his program needs and potential goals, you are now ready to discuss rates. By this time, due to your conversation, you already know what type of membership he should purchase, but don't suggest anything. Suggestive selling is just as bad as feature-benefit selling. Simply cover the different options slowly, thoroughly and completely. Make
(See Midgley page 28)

Norm Cates'
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NEWS

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Norm's Notes

continued from page 18

According to LOU OFF, Sportslife co-owner, Sportslife in Atlanta and Crunch Fitness are still negotiating the sale of Sportslife to Crunch. Still no completed deal at press time, so STAY TUNED!

The Vertical Club in New York had been operated by Bally Total Fitness under a management

...Midgley

continued from page 26

no suggestions at all unless the prospect looks to you for advice at this point. Then, by all means, give him advice. But be sure it is based on what you think will benefit him most, taking into consideration all you know about his situation, goals and level of confidence. The rates presentation should be more of a mini conversation all of its own, not just 'these are the rates, will that be Visa or Mastercard?'

(Assumptive selling is worse than, suggestive or feature-benefit.) You should not feel any apprehension during the price presentation. The price presentation and the joining of the member is only a natural ending to the time the two of you have spent together.

WHERE THE MAGIC IS

Now, this is where the magic is. If you have indeed structured your rates to be as flexible, but well thought out as mentioned earlier, the prospect will come to the conclusion of long term membership on his own at least 70% of the time. The reason for this is: 1) By

contract for years until April, 1998, when the Sports Club Company took over the operation. Now, the Sports Club Company has shut down the club until January 2000 for remodeling. The problem is that membership sales for cash up front continued up until the shut-down. (Under the new ownership and management of The Sports Club Company). Now, both parties, the Sports Club Company and Bally Total Fitness are pointing fingers at each other disclaiming the responsibility for

making the prospect feel comfortable with you, the 'I don't like the salesperson' objection is gone. 2) In most cases the 'I need to talk to my spouse objection' is also gone because if someone feels that comfortable with the salesperson and his club he will have confidence in his decisions. Plus, there is a 30 day money back guarantee if there are any extreme objections from the significant other. 3) The price objection is gone because the longer term option is economically logical. The worst case scenario is that the member joins short term and in a month or two you convert him to a long-term member when his confidence builds up. If the salesperson did what we talked about earlier and created that bond, the potential member will know that your club is the best place for him. Down the road the salesperson continues to build bonds with new and existing members and the referrals begin to roll in. Good luck!

(Ben Midgley is the General Manager and Corporate Membership Director of Saco Sports and Fitness, Saco, Maine. Ben was the 1995 IHRSA Sales Person of the Year. Ben may be reached at: (207) 284-5953.)

what went on. I can only say this. This situation is nothing but BS and both The Sports Club Company and Bally Total Fitness ought to get together, figure out who did what and immediately refund money to those members that prepaid in the months just before the shutdown. Or, both companies have multiple New York City locations and at least alternative sites should be provided in lieu of refunds for those members that would be happy with that. Our industry simply doesn't need anymore of this crap! I'm going to try to find out more on this story. The right things should be done to take care of all of those members!

The Gold's Gym in Marietta, Georgia has announced promotions of LESLIE AUSTIN to Director of Exercise, ALLAN BISHOP, new General Manager of the Douglasville Gold's and KYLE DIXON to Director of Public Relations.

How about the news that Nike, Reebok and L.A. Gear

pulled out of the Super Show in Atlanta?

LIN CONRAD, Executive Director of The California Clubs of Distinction informs me that JULIE MAIN of The Santa Barbara Athletic Club has been elected President, GALEN MILLER of Salutory Sports Clubs, Inc. Vice President and RUTH KU, of Paradigm Sports, Inc. Treasurer. The CCD now has 160 member clubs! Also, GALEN MILLER, MICHAEL MARINELLI And PATRICK KING have been elected to 3 year terms on the Board of Directors. Congratulations to all!

Best wishes to JIM 'CATFISH' HUNTER, baseball Hall of Famer and former Yankee pitcher, as he battles LOU GEHRIG'S DISEASE.

ED WILLIAMS, one of the partners of CLUB SPORTS INTERNATIONAL informs me that CSI has recently entered into a consulting agreement with the Starwood Hotel

Chain for development of the Hotel chain's Spa operations in 30 of the Starwood Hotels. Also, speaking of CSI, the lovely ANNBETH ESCHBACH looks terrific on the cover of this month's IHRSA Club Business International Magazine. She is clearly the most beautiful President IHRSA has ever had! (And the only female President in the 18 years of the Association's existence). Happy Birthday Annbeth. You don't look a day over 30!

Congratulations to TASSO KIRIAKES of Bodez by Tasso in Ormond Beach, Florida, as he has been named by the Ormond County Chamber of Commerce as the Citizen of the Year! Tasso was honored for his efforts during last Summer's firestorms in Florida.

The New England Health, Racquet and Sportsclub Association (NEHRSA) is holding a Career Expo March 2nd from 12 to 3pm and 5 to 7pm at the Lombardo's Conference and Function Facility at 6 Billing St., Randolph, Massachusetts.

THE Club Insider
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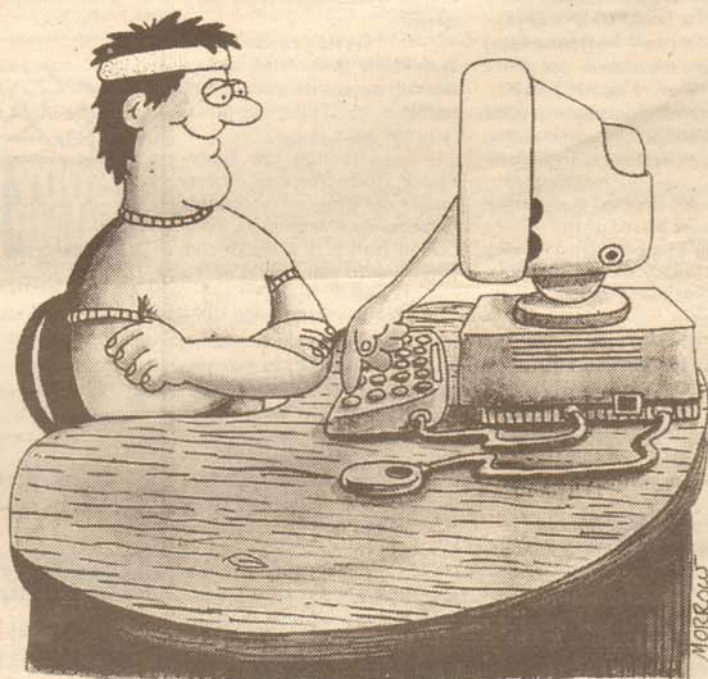
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BODYPUMP LAUNCHES PROGRAM TO INCREASE GUEST TRAFFIC IN HEALTH-CLUBS

As BodyPUMP approaches 1,000 health clubs in the US, The STEP Company prepares to launch a BodyPUMP Home Workout System that turns each consumer into a potential health club member.

Here's How it Works

The BodyPUMP Home Workout System includes a coupon that can be redeemed at any participating licensed BodyPUMP facility. The club can choose to offer either a single-visit or a complimentary one or two week pass. The consumer selects a local health club by visiting the BodyPUMP web page club locator (www.bodypump.com) which lists the address and phone number of every licensed facility. The consumer prints out the guest pass and brings it into the club that he has chosen along with the coupon.

All licensed BodyPUMP facilities are placed on the website after they have completed training making it easy for a prospective guest to find a local health club with the program.

"We have tripled the amount of hits we have received on our website in the last six months and it's already increasing guest traffic in BodyPUMP facilities", says Rich Boggs, President of The STEP Company.

Why a BodyPUMP Home Workout System

Boggs says that just like the retail STEP drove consumers into the health clubs to try an actual class and caused the STEP explosion in the early 90's, the BodyPUMP Home Workout System will do the same thing today.

"The BodyPUMP Home Workout System will create awareness and excitement about the BodyPUMP program and drive consumers into clubs to try the real thing", says Boggs.

The BodyPUMP Home Workout System features a barbell set and a 45-minute workout tape led by Dr. Jackie Mills and the five International Master Trainers in the world who created the BodyPUMP program in New Zealand in 1990. Dr. Mills is a medical doctor who is responsible for driving and overseeing the anatomical and physiological content of the program, ensuring that they are both safe and effective. The workout is a modified version of the one found at thousands of health clubs in over 40 countries worldwide.

As a bonus, The BodyPUMP Home Workout System also includes a 10-minute technique class led by head BodyPUMP choreographer Mike McSweeney and Dr. Mills to ensure a safe and effective Workout.

The STEP Company plans to hold the launch of the Home Workout System until BodyPUMP is offered in approximately 1,000 clubs, projected for mid-year 1999.

Bollinger, a leader in home workout equipment sales since 1993, is the distributor and sales agent of the BodyPUMP Home Workout System and plans to release the product to all major retailers.

"We fully expect that the BodyPUMP Home Workout System will surpass the sales and the impact of the STEP on the fitness industry", says Boggs.

Although the BodyPUMP Home Workout System makes the program accessible immediately to consumers, a successful launch in a health club takes three to four months once a club commits to the program.

BodyPUMP instructors must undergo extensive training to qualify to teach the program including 24 hours of initial training over three full days.

Instructors must then send a video of themselves teaching the program within 90 days of completing training for assessment. Assessment exists to ensure class participants enjoy a consistently high standard of instruction and ultimately a safe, simple and effective workout. The entire training system is designed to provide instructors who are competent to teach exciting classes thereby maximizing participation in the clubs in which they teach.

"Launching BodyPUMP successfully requires ample time as Instructors need to be fully prepared to teach the program and clubs need to plan carefully to generate maximum excitement", says Boggs.

(Publisher's Note: Once again, Rich Boggs and The STEP Company have established a program that will undoubtedly generate thousands of new member prospect leads for their participating clubs. This new program should enable clubs to increase their penetration into the approximately 80% of the North American population who does not exercise on a regular basis. That clearly is where the club membership growth potential exists.)

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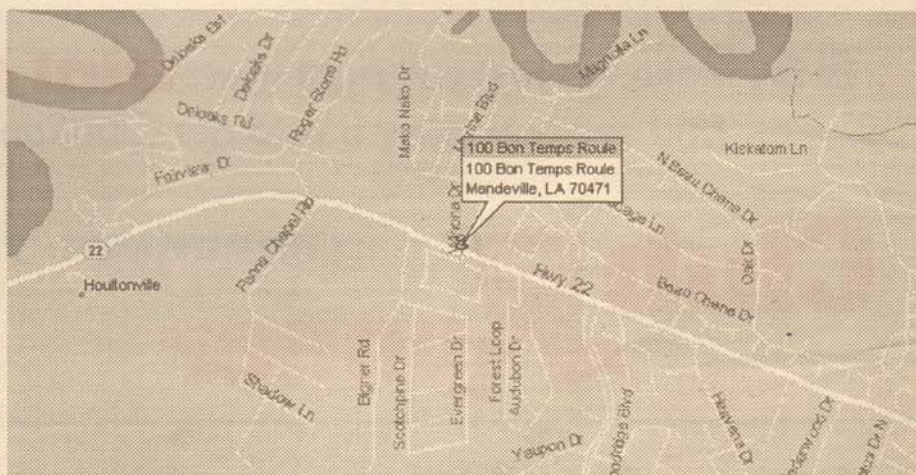
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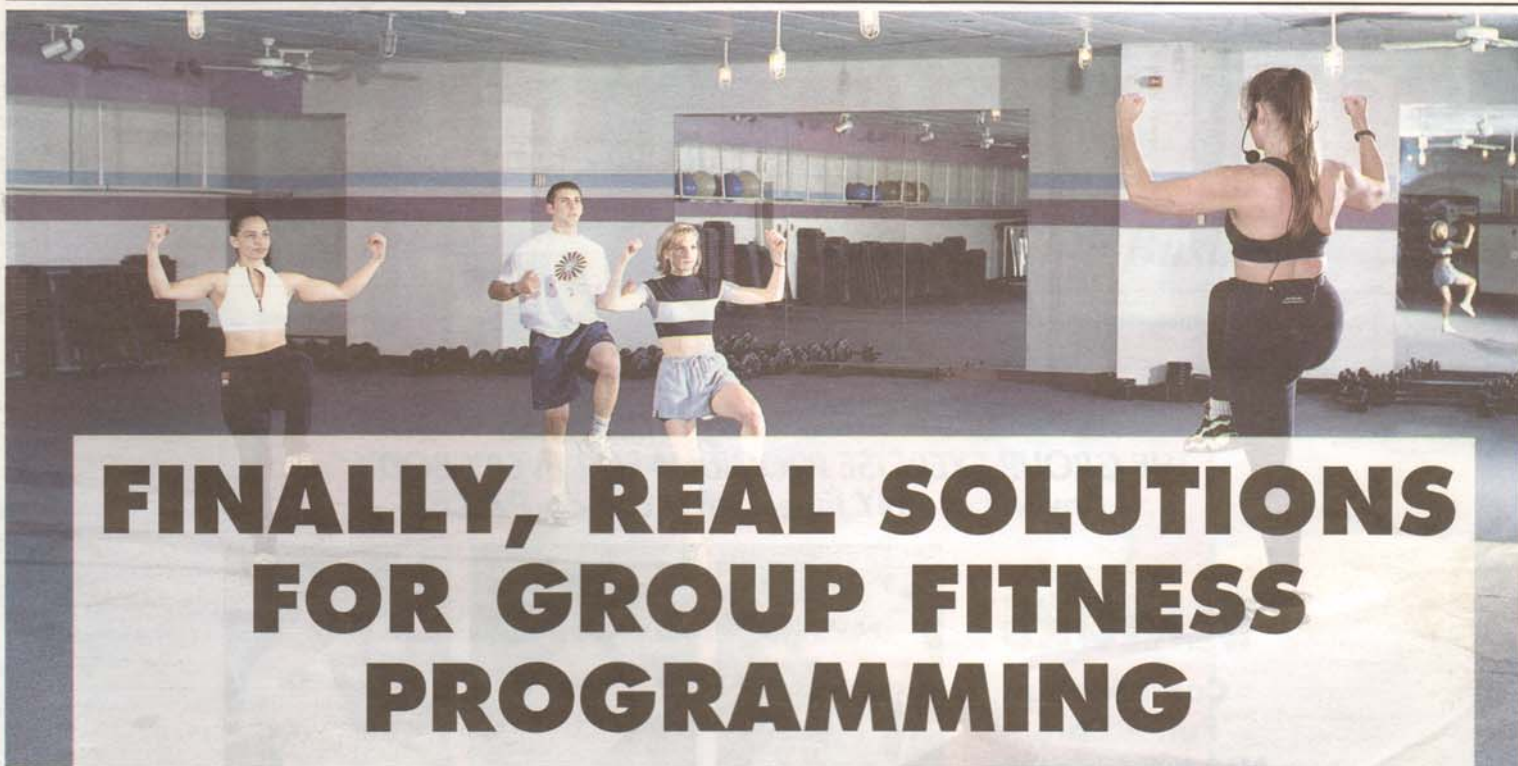
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BodyPUMP Web Page Club Locator



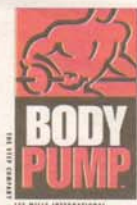
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