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NEWS

The Pulse of the Health, Racquet & Sports Club Business Worldwide

APRIL 2005
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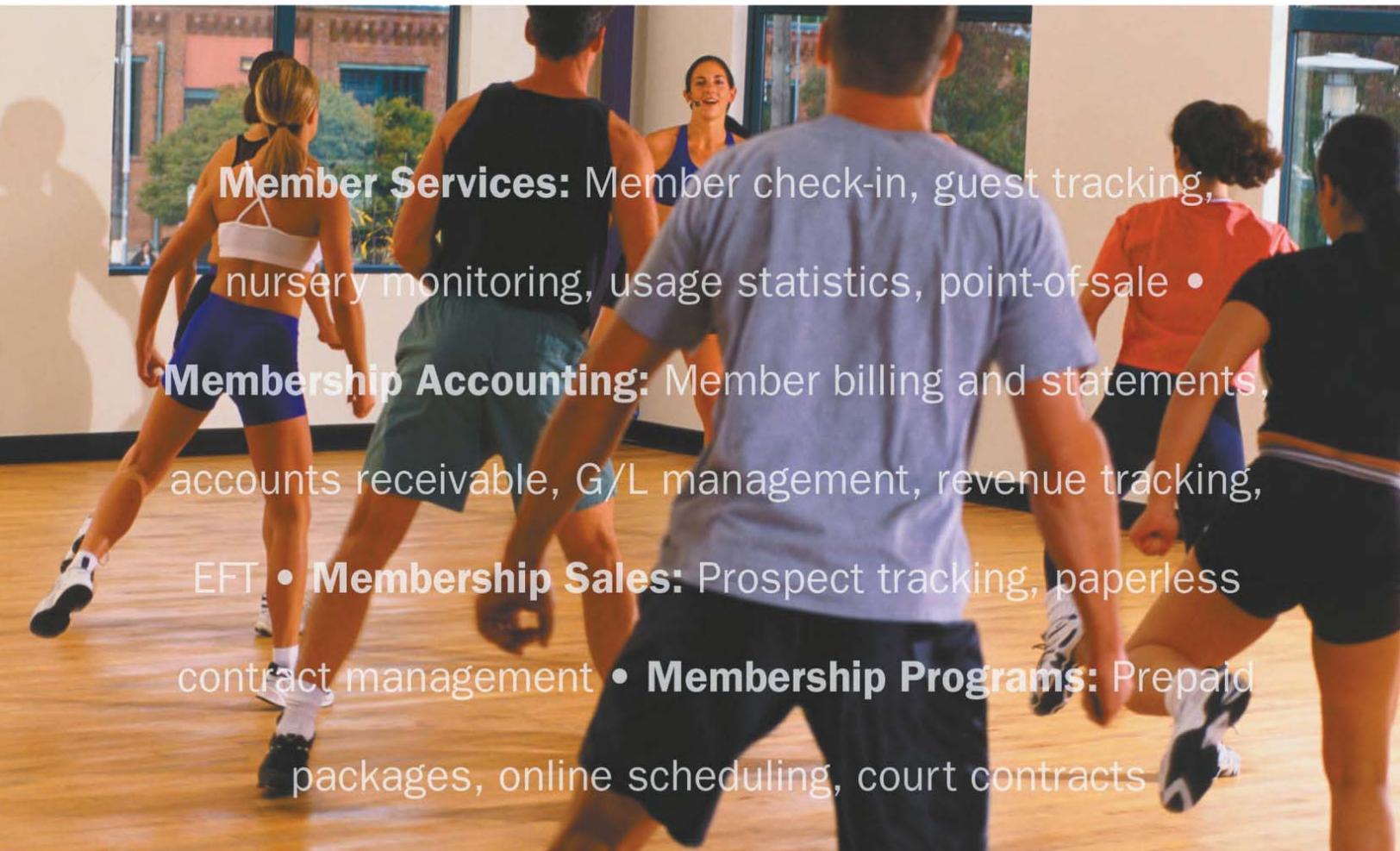
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Norm Cates' **THE Club Insider** **NEWS**

BODY TRAINING SYSTEMS ANNOUNCES

“NEW AND IMPROVED”

By: Norm Cates, Jr.

In the past I have written about “Spa Wars,” and this month I want to reveal another war that has been fought out of the public eye for the past 10 months.

This story involves my old partners from the 1970’s, Rich Boggs and Ray Irwin and their company, Body Training Systems® (BTS), which by the way, has had one of the most powerful impacts in the club industry since 2000. If you are one of the 1,200 club owners who have their systems, you understand how much BTS impacts your business. Now, here’s the

story...

Body Training Systems

In 1997 BTS, a division of The Step Company®, began providing a comprehensive group fitness solution to health clubs and instructors in the U.S. and Canada. BTS outsourced pre-choreographed group fitness programs from a company in New Zealand, Les Mills International (LMI), which supplied programs to clubs worldwide.

Since BTS had significant experience in the industry as club owners and inventors of The Original STEP, LMI approached BTS in 1996 and again in 1997 to

distribute its programs to the U.S. and Canadian markets. Upon learning more about the programs, BTS was intrigued that these programs enabled club owners to control content through pre-choreographed classes, specialized instructor training, branded programs and marketing materials. Therefore, in 1997, BTS agreed to become the North American Agent for LMI.

For the first two or three years, BTS was enthusiastic about the programs and music they received from LMI, and the club owner response was amazing. After this “honeymoon” period, BTS began to find

problems with the “one size fits all” LMI programs. Since the programs were developed for worldwide distribution, it was impossible to cater to any one country’s needs and culture.

BTS continually provided LMI with feedback on the changes that needed to be made to grow the North American market. BTS suggested reducing speed and complexity, adding more diverse marketing images, eliminating offensive music and creating market-specific programs for special populations, such as the deconditioned and older adult markets. Since LMI develops programs primarily for its “under-30” health club demo-

graphic in New Zealand, LMI programs have the ability to intimidate “fragile eggs,” or in other words, new exercisers which limit future group fitness participation.

In 2002, BTS presented LMI with a concept for a program that catered to the deconditioned market, but nothing was done to develop this program. BTS was concerned that LMI’s song lyrics, hard body images and complex movements did not resonate with the “over 50” market and were a turnoff to participants. These factors had the potential to limit both BTS’ growth as well as the success of

(See *BTS Page 10*)

“Low Cost Clubs”

How The Competitors Feel...The CLUB INSIDER News’ - “Counterpoint”

By: Norm Cates, Jr.

The March CLUB INSIDER edition contained Part I of this two-part “Point” - “Counterpoint” article combination with Michael Scott Scudder’s work entitled: “Here Come The Low Cost Clubs!” (LCC’s). This “Counterpoint” article brings forth *some* of the “rest of the story”, as viewed by the club owners whose markets have been invaded by Low Cost Club operations. The “Counterpoint” commentary contained herein was provided by five veteran health, racquet and sportsclub operators with

combined experience of 121 years. These men are time-tested, “tough cookie” club operators that we’ve reached out to, and they each have provided very interesting perspectives.

Michael Scott Scudder’s ‘Here Come The “Low Cost Clubs”’ article was partially predicated on extensive phone conversations Michael had with Mike Grundahl, the Founder and CEO of Planet Fitness. Grundahl’s Planet Fitness Corporation is based in New Hampshire and has 9 company-owned stores and over 55 franchised operations. Planet Fitness has developed a “No

attitude or judgment” concept similar to that espoused by Crunch Fitness for years. The franchise promotes the fact that it *is different*. They even promote the fact that they allow no dumbbells of greater weight than 80 pounds, presumably to ward off prospective “muscle-head” membership prospects. But, most importantly, they hammer their markets with a direct mailing of promotional postcards with their *only* message: **\$10 per month!**

“I Am Not Taking Sides Here!”

I describe Planet Fitness with two words: “Basic Fitness.” Believe it or not, “I am not taking sides on this matter.” On one hand, I certainly can see how Planet Fitness and other “Low Cost Clubs” (LCC’s) might just be a club “model” that will bring in the vast unwashed, “I’ve never exercised in my life” consumers of America. At this point, it sure

looks like that is happening, at least with Planet Fitness whose Founder and CEO, Mike Grundahl boasts of clubs with 7 to 8,000 members. I hope LCC’s do bring in the vast unwashed, “I’ve never exercised in my life” consumers across America. As we all so well know, our industry surely needs millions of new members. On the other hand, Planet Fitness and other “Low Cost Clubs” such as Fitness 19 out West, are putting huge pressure on many markets across the country with Planet Fitness monthly dues pricing as low as \$9.95 per month. But, several of the non Planet Fitness fans I have spoken to describe Planet Fitness as, “Just another way to ‘rent-out’ exercise equipment.”

Regardless, Grundahl’s Planet Fitness and other “Low Cost Club” business models strip away all the services of the typical health club model. Those services, for lack of a better term, include: sales staff, group

exercise classes, childcare services and the staff that oversee those programs. Without the cost of the discarded services, Grundahl’s Planet Fitness model is actually very well positioned ‘cost-wise’ to compete on equal footing with the YMCA’s of America and *any* commercial health club operation. In case you do not know, the YMCA’s of America enjoy an estimated 33% cost advantage over the typical commercial health club model because YMCA’s do not pay Federal, State, or Local taxes and a series of other costs. Grundahl estimates his ‘cost advantage’, without the cost of typical club model services, to be 35% less than a typical commercial health club model.

Grundahl’s Planet Fitness franchised operators include some of the industry’s long term veterans such as Bob Viani and Joe Pepe, who had operated under one of the (See *“Low Cost Clubs” Page 11*)

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- The “Insider Speaks” - The Importance of This Report CANNOT Be Understated!
- Is Your Small Club A “One-Dimensional Weakling”?
- 10 Reasons Why Successful People “Get” That Way
- Fighting Childhood Obesity
- Lifestlye F.F Launches BTS BodyCombat Program

•Norm's Notes•

Contained below are some of my opinions... I welcome yours! Get in touch with us so we may share your views or your club's news with everyone. Email news to: clubinsidernews@mindspring.com or call me at: 770.850.8506.

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•Hello everybody!
This is your friendly CLUB INSIDER Publisher since 1993 checking in!

•Boy oh boy, there is a LOT of news and things going on in our industry! Where do I start? This is ANOTHER BLOCKBUSTER CLUB INSIDER!

•Beginning this month, due to the length of Norm's Notes, I have produced my NEW

Thank You

To The Club Insider News 2005 Contributing Author Team Listed Below:

•Karen D. Woodard - President - Premium Performance Training - (303)417-0653

•Dr. Gerry Faust - Founder and President - Faust Management Corp - (858)536-7970

•Michael Scott Scudder - President - Southwest Club Services - (505)690-5974

•Casey Conrad - Communications Consultants - (800)725-6147

•Rick Caro - President, Management Vision, Inc - (212)987-4300

•Colin Milner - V.P. Sales/Marketing - Founder & CEO International Council on Active Aging - (866)335-9777

•Shawn Codd - SalesMakers - info@salesmakers.com or 800-428-3334

•Bonnie Patrick Mattalian - Principal - The Club and Spa Synergy Group - (732)236-2273 or bonniepatmat@aol.com

•Donna Krech - Founder/CEO Thin & Healthy, Inc. - (419)991-1223

•Karen Kirby - President - Health Style Services - (210)884-2620

•Richard Ekstrom - President - Retention Management - (800)951-8048

•Geoff Dyer - President & CEO - Lifestyle Family Fitness - (717)456-3100 Ext. 4076

•Raymond Long - Owner - Personal Best Fitness (386)822-4764

•Dale Dibble - Retired - Bentley Village - Naples, Florida. Email: dwdibble@hotmail.com

•John Brown - President - PCM Fitness, Inc. - (281)894-7909

•Gary Polic - Communications Consultants - 866-825-8501

Norm's "Personal" Notes Page on a variety of items in my heart that I must express. Goto: www.clubinsidernews.com and click on This Month.

•Body Training Systems has just finished a very expensive, 10-month legal battle with Les Mills International, the New Zealand-based group exercise organization that licenses its group exercise programs globally. Now a 'Group Exercise Provider War' in North America has begun! I will predict right here that my former partners in Courtsouth, here in Atlanta and the Southeast, U.S., and inventors and marketers of *The Original STEP to 18,000 North American health clubs*, are going to kick Les Mills' ass in North America! I say that because these guys and gals at the *Les Mills International group* have damaged my trust in them, and I am concerned that they may be low down, dirty dealers! If you ever

hear from them, you had better 'be careful and watch them like a Hawk' because in my opinion, after reading the pre-arbitration court settlement document, these folks from 'Down-Under' in New Zealand CAN'T BE FULLY TRUSTED to deal with you honestly and fairly. And, you all know that I "Tell-It-Like-It-Is" in all matters that could possibly hurt you and your club or our beloved health club industry! Read our Body Training Systems cover story this month slowly and very carefully. You will be amazed to learn what this Les Mills organization tried to pull on my long-time friends and former business partners, RICH BOGGS and RAYIRWIN, two of the greatest entrepreneurs and contributors to the health club industry that ever lived in North America or on Planet Earth, for that matter. Contact Body Training Systems today to become involved in their NEW



Norm Cates (L) and Jack and Elaine Lalanne

and IMPROVED BTS Programs. You will be pleased and amazed at all they've created for you now that they have already been successful in the pre-arbitration court process! I have only written one 'Bottom-Feeders' article in my almost 12 year career as a reporter for you. But, if I ever wrote one again, it would be about Les Mills International! Instead, I have written another carefully constructed document of the truth gleaned from the actual document created by the pre-arbitration court process. See page #3 and then contact Body Training Systems today! Call 800.729.7837 to learn how to make group exercise a very significant profit center for your club business instead of a costly hassle for you and your General Manager.

•The State of Florida has a problem, that if not corrected soon, could lead to an amazingly 'bad black eye' for our health club industry nationwide! See and read our page #6 "Insider Speaks" article and DEAN KACHEL'S letter about this problem. Just so YOU know, this major problem was discovered during a 90 minute conference call between Dean Kachel, the Florida Consumer Affairs Office official and myself in late February. And, so you know, the situation we were discussing with the Florida officials was the 'About Family Fitness' club and BRIAN HOMAN, the same guy who about 4 1/2 years ago, while heading his company Tools Management, Inc., CON-

VERTED \$200,000 in dues revenues his company had collected on behalf of 8 health clubs across America! Homan is the same guy that threatened the lives of Dean Kachel and me when he left a nasty, profanity-laced, life-threatening voice message on Dean's club phone answering system the first week in January '05! Yes, Dean and I did try to have Homan arrested, but the police said, "Due to exact wording of his threat, we cannot make a case!" Although I live in Atlanta, the day AFTER the message threatening Dean's and my life was sent, I went to Homan's little pre-sale club in Coral Springs (S.E. Florida) and confronted him face to face, with NO physical or verbal attack on my part. I simply told Homan, "For you to threaten the lives of Dean and me is wrong and it will not stand!" Do you know what that JACK ASS did then! He called the Police! Then when I left, pursuant to Homan's multiple demands for me to leave after being there about a total of 3 minutes, the police came. But, I was outta dodge so they did not put me in the pokey for confronting the guy that had threatened our lives. STAY TUNED!

•Bally Total Fitness' PAUL TOBACK and BILL FANELLI and new Bally CFO, CARL LANDECK, conducted a Conference Call recently in which they gave Bally investors and the world's financial analysts an update. After listening in on this 90-minute Bally conference call, Toback and Fanelli (See Norm's Notes Page 8)



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The "INSIDER SPEAKS"

The Importance of This Report Cannot Be Understated!

By: Norm Cates, Jr.

I sit here at this keyboard with a prayer in my heart.

My prayer is for help. I am praying for help in writing these words to you so that you will be sufficiently motivated, as a club owner/operator, to become involved to help cure an industry problem. Without action this problem for our industry will continue to exist, and it is just a matter of time before it will hurt all of us, one way or another. As a club owner, what I am going to write about here could literally change the future and even effect the survival of your club business. This is **SERIOUS** stuff.

Please read this entire article carefully so you fully understand how YOU may become involved in safeguarding and protecting our industry by knowing your State laws.

The problem in this particular situation I describe here is an excellent example of how a similar problem could easily exist in your state. In February, I was involved in a 90 minute phone conference with Dean Kachel, the 25+ year owner of the Quadrangle Athletic Club in Coral Springs, Florida and State of Florida Consumer Affairs officials, Mark Williams, Lisa Walker and their in-house counsel. Kachel and I learned something stunning from Mark Williams. What we learned is that the great State of Florida Legislature

has written a State Law that, according to Mark Williams and Lisa Walker, **cannot be enforced**. Therefore, although it is their *job to monitor and enforce* Florida consumer laws, they make no attempts to do so. The law is **Florida Statute #501.016** and it deals with matters related to the escrow of funds during the pre-opening, pre-sale period for health clubs. While club operators in Florida now labor under the "impression" that there is such a law and that it is enforced, we were told by Mark Williams during this mind-boggling conversation that due to seven (7) words in the Statute, the Law was, in effect, **totally unenforceable**. Therefore, the Florida officials *do not check* in any way to see if people who are attempting to build and open new

clubs are, in fact, escrowing membership pre-sales funds. Bottom line, as far as these Florida officials are concerned, is that absolutely nothing is done to even *check* to see if new club developers **have a pre-sale escrow account or if club developers are keeping pre-sales funds in such required accounts!** Apparently, Walker and Williams must think that health club owners of Florida do not read and interpret this Florida State Law that they **MUST ESCROW** pre-sales funds! Any legitimate health club owner that would read the Florida statute would believe that they **must have a pre-sales escrow account and that they must keep pre-sales funds in it until the club is completed and ready to open for business.**

The troubled portion of the Florida Statute #501.016 states clearly: "Health studios; security requirements - Each health studio that sells contracts for health studio services shall meet the following requirements: #5 (excerpted after 1-4). Each health studio **shall furnish the department with a copy of the escrow account which would contain all funds received for future consumer services, whether by contract or other-wise, sold prior to the business location's full operation and specify a date certain for opening, if such an escrow account is established.**"

Mark Williams and Lisa Walker stated unequivocally to Kachel and me that this interpretation of the sentence in the statute ending with the seven (7) words in bold and underlined above: **"if such an escrow account is established" indicates to them that the entire Florida Statute #501.016 (5) is null and void. For these two Florida state officials to say that this part of the State Statute cannot and will not be monitored and enforced, is without a doubt, the single, most ridiculous and insane thing I have ever heard of in my 32 years in the health club industry! Frankly, I could not believe my ears when I first heard Mark Williams make this statement. So, I asked Williams to say it again. He repeated the same thing. Kachel and I were both absolutely stunned.**

The truth is that **only** the lazy **"misinterpretation"** of those seven words **by two employees of the State of Florida, Mark Williams and Lisa Walker, renders the law null and void!** It is not the language, it is Williams' and Walker's misinterpretation. In fact, the misinterpretation of these seven words, **invalidating** the State Law that the State Legislators in Tallahassee most likely had put hours and hours into preparation, debate and approval by majority

vote, is an **absolute insult** to the **lawmakers of the State of Florida**. These two very key, but apparently lazy people, Williams and Walker, who are 'charged to' and 'paid for' doing the job of monitoring and dealing with those that engage in illegal activities involving consumers in Florida, must work in a **very unsupervised environment**. Their supervisor, if they have one, was never named. They simply stone walled the 'seven word issue' telling Dean Kachel and me that Statute #501.016, item #5 "is purely and simply unenforceable!" Well, 25-year veteran Dean Kachel and I think differently. We are not going to give up the fight on this.

One reason we are not going to give up on our efforts to correct this matter is that Kachel and I are dead certain, and we have absolute proof that Brian Homan, alleged consultant, for this new About Family Fitness club, has a history and track record of illegal activity while serving as President of his former company Tools Management, Inc., a club dues collection and financial services company. Tools Management, Inc., **under the ownership of Brian Homan, converted and effectively stole over \$200,000** in health club membership dues his company had collected on behalf of 8 of their club clients across the country. One club lost over \$70,000! Another club lost \$45,000. Six clubs lost amounts ranging from \$5600 to \$20,000, making the total this author has tracked more than \$200,000! The **truth** is that Homan has been the **"ring-leader"** and has been involved with this new About Family Fitness Club development for well over 2 years now. Moreover and scarily, Homan has been **soliciting large sums of money** from investors everywhere to fund the **necessary \$4 million** to build and equip this new facility. It is important to note here that this About Family Fitness has been in pre-sale for over a year now. They had been telling people for 9 months that they were opening in November, 2004. That never happened. In fact, I was at the shopping center space in early January, 2005 and the 37,500 square-foot space was **completely bare** except for a table inside the front door. Kachel recently told me that some framing, plumbing and electrical work had begun. Right after the New Year, apparently Homan was hit by a lot of angered AFF members wanting to know when the club, scheduled to open in November, 2004, would open. He became angered, and while angry, he took it out on Dean Kachel and this author by leaving a voice mail at Kachel's

(See Insider Speaks Page 7)

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Mark Williams
 Chief of Compliance Division of Consumer Services Tallahassee, FL 32314-6700

April 14, 2005

Dear Mark:

I cannot say it was a pleasure talking with you, Lisa, David and the in-house counsel within your department for over 90 minutes in February. Much to my amazement, you carefully pointed out the pitfalls and loopholes of the current Florida regulations that are supposed to protect the consumers from potential losses from disreputable operators in the health club industry. You also aptly pointed out the reactive, rather than proactive, nature of enforcement via bringing clubs into compliance only after you are made aware of a violation rather than attempting to prevent a disaster before it happens. It was obvious that your mandate is to achieve compliance, rather than to penalize violators with the remedies available to the department, i.e. up to \$5,000 fine per offense, etc.

If all Norm Cates and I did regarding About Family Fitness (AFF) and Brian Homan was to bring them into "compliance", let me say that is not comforting for the consumers and investors of my community. What astounds us are the "loopholes" that do exist in the regulations that permit AFF to jump through, and in addition, the fact that AFF can lie to you in writing, and unless there is a catastrophe resulting from their deception, your department will do nothing.

Specifically, the law states: 501.016 Health studios; security requirements.-Each health studio that sells contracts for health studio services shall meet the following requirements: 5) Each health studio shall furnish the department with a copy of the escrow account which would contain all funds received for future consumer services, whether by contract or otherwise, sold prior to the business location's full operation and specify a date certain for opening, **if such an escrow account is established.** You point out that those last seven words - **if such an escrow account is established** - basically **guts the entire provision of protecting the consumer from AFF**, since it is their **option as to whether they 'choose' to establish an escrow account**, which they had not done for an entire year of pre-selling memberships. In fact, you also stated you do not monitor an escrow account, and that in addition, a club could use the funds for build out. So, why in the world, do you even say you have an escrow requirement?!

In addition, the mere fact that AFF told you they are not selling prepaid memberships at Royal Palm Blvd and Wiles Road locations, even though I provided you evidence to the contrary, unless there are numerous complaints from consumers, you will not investigate them. Last, while you admit that Royal Palm did not obtain a Health Studio license until January 2005, the fact that they were open and operating since last August was not your problem, even though your statutes say: (7) Any person applying for or renewing a local occupational license to engage in business as a health studio must exhibit an active registration certificate from the Department of Agriculture and Consumer Services before the local occupational license may be issued or reissued. You have said this is the local government's job, even though you could have informed them, you did not think that was in your domain.

Needless to say, we empathize with your lack of power to safeguard the consumer. We believe that the State of Florida needs to make mandatory the escrow provisions and be given better guidelines to investigate possible fraud to police the industry and protect the consumer. I hope for the sake of the consumers and the health club industry reputation, this entity does not fail, because it will be a disaster that should have and could have been avoided.

Regretfully,
 Dean A. Kachel
 Owner-Quadrangle Athletic Club
 (954) 753.8900 X 205

Cc: Norm Cates- Publisher - The Club Insider News
 The City of Coral Springs - Attorney
 John McCarthy- IHRSA Executive Director

...Insider Speaks

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club with a "threat on Dean Kachel and my lives!" (See Norm's Notes) Moreover, Kachel and I have absolute proof that About Family Fitness has been violating some of the other laws of the State of Florida and Coral Springs, with respect to their pre-sale (See Kachel's Letter Page 6). But, as far as the Florida Government employees Williams and Walker are concerned, it simply does not matter!

The Leaders of the Health Club Industry In America Need To Begin To Police Their Industry Themselves! Our terrific health club industry must begin to police itself before it is too late. We must all come to realize that our industry is governed by State legislators, people that know very little, if anything, about our business. They do not know that we have crooked, shady characters like Homan and the now infamous Gold's Gym owner, Scott Therringer, from the Dallas/Fort Worth, Texas area roaming the country. They do not know that our history has a background of shady characters that *have* conducted pre-sales in empty spaces only to *take the money and run*, never opening the club for the members that bought their memberships early. They do not know that Brian Homan, a guy who should have served some jail time for his company taking \$200,000 collected from health club members for his clients of Tools Management, Inc., is "alive and well" and "doing business as usual" in the same State where he stole that huge sum of money.

The truth is somebody *needs* to tell the lawmakers in the State of Florida that there is a consumer disaster of monumental proportions just waiting to happen. Should Homan fail in his quest to get enough people to **FULLY** fund the About Family Fitness Club, imagine the possible nightmare scenario. Suppose Homan does raise a portion of the money say, \$2.5 million from the AFF investors and the pre-sales. We *all know* that if you plan to open a club with a \$4 million budget and you only have \$2.5 million, then you've got trouble... big, big trouble. Just suppose that was to happen. What is going to keep Brian Homan, an electronic savvy guy, from processing large charges in amounts of \$500 to \$1,000 to the hundreds, if not thousands, of consumer's credit cards and checking accounts that he has gathered during the over one year long pre-sale. But, imagine when Homan realizes they do not have enough money to build the club and that all the money that is put into the ground will be lost, he will end up in jail for sure this time. What will keep Homan from taking the money and skipping the country? Just think about that possibility! This could be a nightmare news story for our health club industry nationwide as the theft of a million or two from investors and consumers in Florida would without a doubt generate national CBS, NBC, ABC, FOX News, CNN television coverage, nationwide Associated Press newspaper coverage, radio talk show gab and internet coverage. What would the disaster scenario

described above do to your business as you attempted to continue selling monthly dues memberships using EFT and credit card charges while this stinky health club news story was swirling around the country?

I am telling you all that this is a potential 'train wreck', a disaster of monumental proportions, in the making. It is time for the health club industry leaders in the State of Florida to act and act fast. I cannot help except for what I do from behind this keyboard. I can only warn the great Florida club operators and give them this information. What they do with it will ultimately be up to them. And, I suggest to all of you reading this out there that you should 'make it your business' to obtain your State's Health Club laws and really study them, if you have not already. Ask your Consumer Affairs people WHAT their interpretation of your State's laws covering health clubs are. The answers from 50 States Consumer Affairs officers should be very interesting.

The State of Florida has an absolutely terrific Association called The Florida Health Club Association (FHCA). I am sincerely appealing to the founders, leaders and Board of Directors of the FHCA. I urge my friends Joe Cirulli, Geoff Dyer, Robert Karshner, the entire FHCA Board of Directors and others to step up and step up fast and GET INVOLVED in dealing with this. I am asking the FHCA to use their 'connections' in Tallahassee, Florida's capitol, to see to it that this problem and any other problems with Florida health club statutes are corrected. They should also see to it that these Florida officials, Mark Williams and Lisa Walker, who draw their pay every month from the taxpayers, actually perform the work they are supposed to do!

This disaster is on the horizon in Florida, but in a "worse-case-scenario", it could easily mean a "sunset" for lots of clubs in Florida and literally hundreds of clubs across America. I do not know how to make this statement of sincere concern more clearly, strongly or urgently. I simply will rely on what I wrote in the first sentence of this article. Please read that first sentence of this article again, and say a little prayer yourself for our industry in Florida and nationwide. And, realize that an event as bad as I have described will not hurt The CLUB INSIDER. It would just provide The CLUB INSIDER with **MORE NEWS PRODUCT** (and trust me folks, we have plenty of news product in this industry). **IT WILL ONLY POTENTIALLY HURT YOU CLUB OWNERS AND OPERATORS OUT THERE** and I am worried for all of our industry. Yeah, I know, **I worry too much!** But, if I didn't **LOVE YA'LL OUT THERE**, I would not worry about these things! **STAY TUNED!**

(Norm Cates, Jr. is a 32-year veteran of the health, racquet and sportsclub industry and the Publisher since 1993 of The CLUB INSIDER News. Cates was the 1st President and a Co-founder of IHRSA in 1980/81. In March, 2001, Cates was honored by IHRSA with its DALE DIBBLE Distinguished Service Award. Cates may be reached by email at: clubinsidernews@mindspring.com or 770.850.8506)

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...Norm's Notes

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definitely know what they are doing. Bally has some serious accounting issues that their **Board of Directors** and Toback and his team are addressing. They are still dealing with an SEC Investigation. Revised financial statements for several years are scheduled to be released on July 31st. Toback and his Bally Executive Management Team have developed a **carefully considered, comprehensive and in-depth plan** for this huge company's turn-around. They are **passionately and diligently pursuing each segment of that plan**. However, expert Wall Street observers are looking carefully at Bally's new relationship with the **Blackstone Group** as the noted 'turn-around' firm has become involved over the past few months. A prominent club industry financial expert says that Las Vegas odds makers would rate Bally Total Fitness as an **underdog** with respect to their chances of a **successful turnaround**, primarily due to Bally's huge debt of over \$700

million. Toback indicated in the conference call that they continue to seek buyers for both their **Crunch Fitness** brand and their **Sports Club of Canada** chain as possible thrusts towards reducing their huge debt. Bally's successful emergence is important, not just to Bally Total Fitness, but to the entire health club industry in North America. If Bally were to be forced into bankruptcy, I believe the event will negatively impact every health club operator in North America due to the nationwide and most likely worldwide publicity such a filing would draw. If Bally had to go through Chapter XI Reorganization, it would likely emerge as a stronger, better-capitalized company with the fundamental foundation for a more successful, long-term enterprise. **STAY TUNED** as we stay close to this story for **YOU**.

•The search for a **new IHRSA Executive Director** is underway, headed by **IHRSA Board Member, GREG LAPPIN**. Additionally, **IHRSA** is launching its **1st Annual Entrepreneurs Conference** in Las Vegas, September 8-11, '05 in

conjunction with **WALLY and MISHELLE BOYKO's National Fitness Trade Journal Conference and Trade Show**. At that event, **AUGIE NIETO**, the young man that started what is now **Life Fitness**, initially working for **RAY WILSON** when Wilson launched the **Lifecycle**, will receive the **NFTJ Lifetime Achievement Award. Congratulations Augie!**

•**RAY GORDON**, the **Founder of SalesMakers**, has a beautiful wife named **Sandi**. Some of you know her. Sandi is the Membership Director for **Fitness On The Move**, a very nice club in the bustling and beautiful city of Fort Myers, Florida. Sandi has put together a really exciting corporate membership deal with **CHICO'S**, a fine women's clothing company with over 650 locations nationwide. Working with **Chico's President, SCOTT EDMONDS**, Sandi has put together what they call **CHICO'S FITNESS CHALLENGE** for the 650 Chico's Fort Myers employees. Highlights are: Sandi and the owner of Fitness On The Move, **TROY DEMOND**, **pre-tested 329 Chico** employees who opted to participate during four

days in December. The challenge ran from January 1 through March 31, 2005. 229 participants used the club at least once. Many used it over 50 times. 78 tested about three weeks ago and total body weight loss was 540 pounds with an average of 6.6 pounds per person. Four folks lost over 35 pounds with the top weight loser dropping 44 pounds. Club attendance was used as a tie breaker. **Cash** prizes for the top placers, provided by Edmonds, who is known for his motivational generosity with his company employees, will be: **\$3000 for 1st place, \$1500 for 2nd, and \$750 for third**. Plus, Troy is providing 5 one-year memberships as prizes. The award presentation will be in late April. Out of that group, 55 people have already joined the club. **STAY TUNED** for an in-depth report from Sandi Gordon, including data that is being processed by **DR. LEN KRAVITZ**, a noted expert on body composition testing at the **University of New Mexico**.

• "**Brother**" **MICHAEL SCOTT SCUDDER** seems to be really intent on **somehow getting YOUR**

ATTENTION. This month, Scudder has even resorted to trying to piss off some of you small club owners with what he has written. But, don't get mad at him. He is really worried and he really cares about all of you in that 'big-heart' of his, as I do! In this month's article, entitled: **"IS YOUR CLUB A MAXIMUM-STRENGTH OPERATION or a ONE-DIMENSIONAL WEAKLING?"**, **Michael** urges you to **"wake up"** if **all you do in your club is to focus on new membership sales for survival!** He wants you to read and learn some new ways you can 'stay in the game and make a profit!' Also, a **big question** for the **health club industry** has arisen. While **SCUDDER** did his research for his article this month, he and I discovered a **question** to which **nobody**, not even the **greatest minds in this industry, RICK CARO and JOHN MCCARTHY have an answer to!** That is, **"How many health clubs went out of business in the U.S. last year? Or, the year before... And, how many health clubs are there still standing in the U.S.A.?** Stay (See Norm's Notes Page 17)



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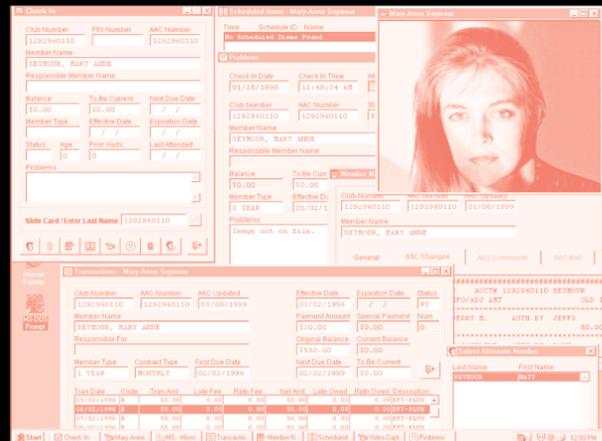
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...BTS

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its customers.

The "War" Escalates

Beginning in June 2004, BTS escalated feedback to LMI to resolve these and other issues, but BTS received no response. BTS finally got LMI's attention in late August 2004 by activating a dispute resolution clause. This clause was part of its 1997 Agreement with LMI. Basically, the dispute resolution process ultimately would allow a panel of arbitrators to rule on BTS' and LMI's unresolved issues.

On September 10, 2004, LMI's first response to BTS' numerous written requests for clarification was the attempted termination of its contract with BTS based upon two technicalities. One technicality involved allegations about the target number of clubs licensed at the end of 2001 (over 2½ years prior) and the other involved allegations about failing to adhere to non-contractual, global branding strategies.

Numerous attempts by BTS to negotiate with LMI proved fruitless. Therefore, the two companies agreed to enter into expedited arbitration to determine the validity of LMI's attempted termination. Even during the arbitration process, BTS tried repeatedly to negotiate with LMI.

By early October 2004, the reality of LMI's termination became clearer. BTS developed contingency plans involving two distinct scenarios:

1. Renegotiate its contract with LMI and proceed as the North American agent.

2. Develop and distribute their own programs to the North American market.

Two months later, BTS' path became evident. As part of the expedited arbitration, BTS and LMI both produced hundreds of documents, and their attorneys deposited key officers in each company. As a result of this discovery process, BTS learned that for some time LMI had been examining various methods to take over BTS' hard-earned North American business.

In short, LMI allowed BTS to spend substantial money over the past seven years in developing the U.S. and Canadian health club market, and LMI wanted to capitalize on this. LMI's intent to take over BTS'

business and customers would have had the following effects:

1. Hundreds of club owners who had invested in facility and operational changes based upon their experience with BTS would no longer have the support of the BTS staff and systems.

2. The 45 full-time BTS employees and 40 trainers who depended largely on BTS for their income would be unemployed.

3. Even though BTS had invested over \$5 million in the start-up since 1997, LMI had no plans to compensate BTS.

Once LMI's plans were confirmed by their CEO during her deposition, BTS knew there would be no further relationship with LMI. At that point, the contingency plan for a new and improved Body Training Systems was activated. BTS filed a suit against LMI in excess of \$11 million for damages arising from Wrongful Termination and Bad Faith Termination by LMI. A settlement was reached on February 9, 2005 that gave BTS the right to compete against LMI, sufficient time to develop its programs and a cash settlement.

BTS' NEW and IMPROVED Programming

BTS' primary focus remains on increasing group fitness participation for club owners. Over the past 7 years, BTS has proved that there is a direct correlation between an increase in group fitness participation and an increase in club profits. The following are some of the ways the new and improved BTS programs will increase participation:

1. All programs will be developed for the U.S. and Canadian markets and produced out of BTS' new corporate headquarters located on three acres in Northwest Atlanta area.

The 20,000 sq. ft. building is home to BTS', 45 and growing, full-time employees and features a large, 60-person studio designed for filming. A second studio accommodating 30 cyclists was also designed for filming. Finally, a third studio will be used for filming educational components that are so critical to providing high-quality education designed for U.S./Canadian instructors and club owners.

2. BTS is committed to adhering to industry guidelines in structuring the movement sequences for each of the five

new programs.

By reducing speed and complexity, the new programs will appeal to a much wider range of participants. This goal will be accomplished while still providing challenges for well-conditioned participants through the use of increased weight and cycle resistance, step height and options for more challenging movements.

3. Music continues to be a critical ingredient in providing the "fun" component necessary for packed classes.

BTS has entered into a long-term contract with Power Music®, the world's largest provider of group fitness music. Power Music has a wide range of recognized hits from pop, rock and Motown music from the 60's, 70's, 80's and top-40 hits. BTS has the unique rights, through Power Music, to alter both the speed and length of songs to fit each program format. Sound effects can be added for a more authentic experience.

BTS is committed to the concept that the diverse U.S./Canadian population should be able to exercise to music which does not include offensive lyrics. BTS has set up an extensive screening process to filter out such songs. BTS is committed to providing a substitute song if a decision is made to use suggestive material. Therefore, no instructor will be asked to teach music that is personally offensive.

4. BTS has selected a blue ribbon group to form its Medical Advisory Board that will review every song of every new quarterly program release to ensure maximum safety.

a. Dr. William Armstrong, M.D. Orthopedic practice specializing in shoulders and knees

b. Cathy Spencer-Browning, B.S. Human Movement

c. Ena Sorensen, Ph.D., BSc Engineering, BSc Kinesiology

d. Brad Dale, Physical Therapist.

5. Highly-Qualified Program Developers - Cathy Spencer Browning has a B.S. in Human Movement and has spent 17

**Body Training Systems' Brad Dale teaching at the new BTS training center.**

years competing, choreographing and presenting free-style classes around the world. Most recently, Cathy has spent the past 7 years as the National Training and Programming Director for BTS. Cathy heads up an experienced team of program developers from North America with an international flavor.

Several well-known names include: Marcus Irwin, who brings an extensive step and dance background; Nathaniel and Gaby Leivas, who are among the world's premier developers of martial arts-based programming; and Molly Fox, who has owned her own studio and specialized in mind-body programming for more than 10 years. BTS will be using teams of program developers to provide continually fresh, creative programming that will excite participants and deliver results.

BTS' NEW and IMPROVED Marketing

The NEW and IMPROVED BTS will present a new direction with marketing materials provided to licensees. By using campaigns that focus on age groups like the under 30, 30-50, and over 50, clubs will have more flexibility and options in matching the BTS materials to their particular demographics. The goal in the near future is for BTS to provide

a service that allows clubs to customize specific marketing materials to reach certain segments of the population.

BTS' goal is to get more people moving; therefore, BTS is using lifestyle images to show the benefits of specific programs which will be helpful in communicating a unique message to the deconditioned or non-exerciser market.

BTS is using two creative houses, Downstream and Bang Studios, to assist in the development of effective marketing campaigns and images. Downstream, located in Portland, Oregon, has clients such as Nike, Cisco, AT&T, Toyota and Hewlett Packard. Downstream has developed a unique direct mail piece for BTS whose initial tests project a response rate in excess of 10%. Bang Studios, located in Atlanta, Georgia, has worked with BTS and The Step Company for the past 15 years.

As you can see, not all battles end badly for the "good-guys". The real "war" is now on! Although both the timing and the journey were unexpected, BTS is excited to share its NEW and IMPROVED systems with its licensees and instructors. In order to find out more about the new and improved Body Training Systems, please call 800-729-7837 or visit their website at www.bodytraining.com

"Body Training Systems changed sales strategy from a price-sensitive, low-margin model to a sales model focused on the quality of service, memorable experiences and a devoted membership base. The results to date have been a \$400,000 increase in net profits and a 72% retention rate!"

John Bonica, Owner of Global Fitness Center In Leominster, MA.

...“Low Cost Clubs”

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industry's top branded club groups... World Gym International. For the veterans in these markets to drop the well established and respected World Gym brand name is remarkable. But, in my view, the Planet Fitness story is not complete and the franchising aspect of the organization lacks the “test of time.”

I say that the Planet Fitness story “is not complete” for several reasons. While several of Grundahl's Planet Fitness company-owned operations have been around for a few years, many of the new franchise operations have not stood the “test of time.” It remains to be seen if franchise operators of Planet Fitness will be as successful as Grundahl has been with his company-owned clubs. This statement is made for several reasons: There is significantly more “time-tested” competition from the veterans in the markets where Planet Fitness franchisees have located, as compared to the demographics of his New Hampshire-based clubs, many of which are in sparsely populated areas. This means that it will take more time before the actual franchised Planet Fitness operators may truly be declared successful. Moreover, the “model” of low operational costs combined with low cost membership fees depends upon very high membership volume. There is no room for error in site selection for a Planet Fitness center. For example: the same health club that has 1,000 members paying a fair \$40 per month for a “standard health club” operation with all the “frills” generates \$40K per month in dues revenue. Those same 1,000 members at \$9.95 per month generate \$9,995 per month in monthly dues. To succeed, the Planet Fitness model must be in markets that will sustain growth from 1,000 members to 4,000 members just to be equal with the club with 1,000 member club paying \$40 a month. Beyond that, in order for the Planet Fitness model to be really profitable, each Planet Fitness facility must successfully attract 7 to 8,000 or more members per club! The membership numbers of 7 to 8,000 bring into play something that these new franchisees may not have experience with: CROWDS in line in their clubs for cardio and strength equipment. Clubs with

numbers such as 7 to 8,000 members are numbers that Mike Grundahl says he is easily achieving in his organization. What Mike has not said to this writer is anything about crowds and issues created by overcrowding of the relatively small Planet Fitness models. STAY TUNED because as time passes, Grundahl's success just might not translate as well as is being represented by the franchise seller.

“Low Cost Clubs” Depend On Low Costs of Operations and High Membership Volume

The “Low Cost Club” model depends on: **1.** low club operational costs and **2.** high membership volume. Item #1 is controllable; however, item #2 is *much* less controllable. In fact, the wrong location choice with respect to demographics in the surrounding area for a new “Low Cost Club” can be a real problem. Moreover, a misjudgment of the strength, determination and competitiveness of existing veteran and established operators where a “Low Cost Club” is locating can be a real problem for a LCC. In short, there are very few “sure things” in this business and I have adopted a “wait and see” thought process on the long-term viability of all of the LCC's, not just Planet Fitness.

Only One Vote Counts... That of the Buyer!

The *State of the Industry* Report, issued on December 10, 2004 by IHRSA Executive Director, Big John “The Alliance Master” McCarthy, was entitled: “**Low-Price Providers: Only One Vote Counts.**”

In his December, '04 writing, John McCarthy drew a comparison between low-price airlines (Jet Blue, Southwest Airlines and ATA) and the club industry. He pondered the question, “Are they bad for the (airline) industry, even though ‘they’ve put a stake in the heart of United, Delta and American airlines?” McCarthy also asked the compelling question, “Can an ethical product/service that's good for consumers be bad for an industry?”

He explained that these new airline companies “fly new airplanes, have excellent on-time and safety performances, and provide friendly, courteous and efficient service. And, they do it

for half the price, sometimes less.”

McCarthy argued that if you were an investor in United, American or Delta Airlines you would say, “These folks are bad for the business, bad for the industry.” Then he asks, “But, if you are a customer, a consumer, what do you say?”

In this writing, John McCarthy, IHRSA's highly esteemed Executive Director for 24 years, attempted to bring the “hard realities of the marketplace” to his flock. He made a strong case that “in a capitalist system, there's *only one vote that counts... that of the buyer, the person that writes the check.*”

In describing the “Low Cost Club” phenomenon in New England, McCarthy, without naming Planet Fitness or any specific “Low Cost Club”, wrote: “In my part of the world (New England), you can buy a membership online in a brand new 40,000 square-foot fitness center for \$99 down and \$10 per month. No commitment, a month-to-month deal.” The membership described by McCarthy in this writing was for the Low Cost “model” that has no sales people (or commissions), no fitness people, no group exercise cost (management costs or instructor fees) and no child-care services (Thus, no childcare attendant fees). These advantages in costs provide Planet Fitness with a payroll of just 20% of sales, when many of their competitors run 38 to 40%. On an annual basis, the total overall cost advantage a Planet Fitness center enjoys over a “traditional health club model” (with sales people, group exercise instructors and childcare) is in the 35% range. The YMCA's of America also enjoy an annual cost advantage. But, their advantage of 33% comes from the YMCA's “Charter for Charity” and its tax-free standing enjoyed over all commercial clubs, “Low Cost Clubs” or not.

Comparing two great companies, Nordstrom's and Wal-Mart, McCarthy described them as “high-flyers”. He wrote, “Both are Wall Street darlings... both are trading at or near their 52-week highs.” He compared the \$6.3 billion of revenue by Nordstrom's to Wal-Mart's \$280 billion. He asked, “Is either one bad for the industry? Is either one bad for the consumer?” In this one writing, John McCarthy summarized the past in the health club industry, and he predicted the future. In his always careful

manner, John McCarthy wrote: “The health club industry is giving birth to a new wave of low-cost providers.” In essence, John McCarthy was telling his constituents to: “Batten down the hatches folks. The industry, just like other industries in America is changing.” I submit that the key and operative word of all words will rule in these matters, so be ready.” That word, “Competition.”

Nearing the end of the State of the Industry Report, McCarthy seemed to make an effort to convince his readers that, in America, capitalism rules and competition is king. He wrote “A long time ago, Ray Kroc, the Founder of McDonalds, tried to join the National Restaurant Association (NRA). The NRA told Ray he couldn't join. They told him he wasn't part of the industry. They said it wasn't a real restaurant. They said it could never work. They said he was ‘hurting the restaurant industry.’ Ray walked away. He let the customer decide.”

McCarthy closed with, “Ultimately, one voice matters, one vote counts: the voice, the vote of the man or woman who writes the check.” John McCarthy “Told-It-Like-It-Is” in this excellent December 10, 2004 writing, and after speaking to Planet Fitness Founder and CEO, Mike Grundahl and 5 of his competitors in the Northeast marketplace, it is my opinion that those competitors heeded John's writing. They are taking the new competition in stride, and they are, in fact, “battening down the hatches” by tightening up, defining their clubs to their marketplaces better and by improving their operations in any area possible. It is our hope that their comments here will help you and your operation, wherever you are.

What the Veteran Competitors of “Low Cost Clubs” Say

We contacted 5 veteran health, racquet and sportsclub operators in the Northeast. Mike Arteaga, Jamie Fairley, Dan German, Bill Beck and Tom Oakley and each had his own take on low cost competition. In these five interviews, we sought the “Pulse” of the competitors... and I must say, the “Pulse” was good overall.

In our interviews, we sought to learn several things: **1.** What level of “Low Cost Club” competition they are seeing; **2.**

what marketing methods are being used by the low-cost competition; **3.** what impact, if any, these “Low Cost Clubs” are having on their club's membership totals and **4.** any advice they would give to club operators on how to compete.



Mike Arteaga - 30-year-veteran, former IHRSA Board Member, and Founder and Owner - All Sport Health and Fitness, Poughkeepsie, New York

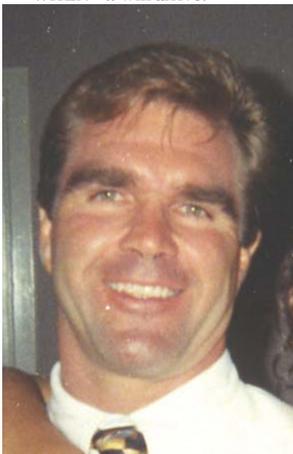
In Poughkeepsie, New York, the local World Gym owner, Bob Viani, switched his club to Planet Fitness in August, 2004. It is located 1/2 mile (3 minutes) away from my club. We asked Mike Arteaga about the marketing used by the newly established Planet Fitness. Arteaga commented, “They use direct mail. The first thing they do is send out this corporate offer for basically anybody to join for just \$10 a month. Norm, I think that low cost competition, in any industry in America, is inevitable. Somebody is going to come in and try to take the low cost road. I am amazed that it has not happened sooner in our industry. It's an inevitable fact of business. In the hotel business, you've got the high price, the medium price and the low price. The customer picks what they want. The fact that this is happening was predictable. I think the Curves thing was a little bit more of a surprise. They are not even particularly ‘low cost’ compared to these Planet Fitness guys. There are a lot of women out there that are totally intimidated by health clubs and Curves seems to appeal to them. Curves has brought a lot of women into the market and that's a good thing. I certainly don't think they are going to stay with Curves forever, but at least they (Curves) are bringing people into the health club market that have not been here before. Our industry has done a lousy job of appealing to the unfit and de- (See “Low Cost Clubs” Page 12)

...“Low Cost Clubs”

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conditioned. Certainly, these local Planet Fitness guys are no WalMart, that's for sure. Many of these “Low Cost Clubs” are not well run operations. For the first time in their careers, they are dealing with some big member numbers. Nonspecifically to Planet Fitness, low price competition is inevitable. It is going to happen. We asked Mike, “How have the local conversions to Planet Fitness impacted your club?” Arteaga replied, “We've seen a few members leave. There really has not been any major exodus, that's for sure. It really hasn't impacted us very much. I visited some Planet Fitness facilities up in Connecticut. In each of the cases I looked at, the conversions seemed to be Gold's Gyms and World Gyms that were going to be competing against an LA Fitness that had come in. They knew that LA Fitness was going to be their ‘death knell’, so they switched over to Planet Fitness. For the moment, they are holding off the wolf at the door. They are filling up their parking lots and they are very busy, but you and I both know it takes a real talent to make money in any discount business. Anyone can start out like a lion, but to make money selling any product very cheaply, like a WalMart, is quite an accomplishment. WalMart is one of the best organizations in the world. Very few people, as KMart and Sears have found out, can make money at very low price points. In the club business, once the machine maintenance and replacement, roof maintenance or replacement, etc. start coming along it will be interesting to see who is ‘left standing.’ I have no doubt in my mind that somebody is going to be really good at club membership price discounting and do it professionally. In every market there has got to be the low price delivery system, but I am not sure it will be Planet Fitness that will be around for the next 10 years. I believe that somebody really good will one day come into this industry and do a good job of it and be around for a long time.” I asked Mike to give advice to club operators that are facing new “Low Cost Club” competition? Mike replied, “I would say ‘stay the course.’ But, the problem is, if you have not been doing what you should have been doing all along, (such as club and equipment maintenance)

you're going to be in big trouble. If you have let your building become decrepit, if you've let things run down, or if you have not put money back into your facility and new equipment, you better do it now. Go to the bank and borrow some money if you have to and do a renovation. Buy some new equipment. Improve your club's interior environment and fix things in your club that you may have put off. You better have a doggone good reason why people are going to spend more money to come to you, than to go to some place that is renting equipment! Basically, what these “Low Cost Club” operators are doing is eliminating all help and just renting equipment. If I was a consumer and could get new equipment with no guidance for \$10 a month, why the hell would I pay \$50? You had better be in a situation where you are reinvesting in your club business and you're providing more than an equipment rental place! Unless you want to be a discounter yourself, you had better keep your club up and re-invest in your club's maintenance and new equipment. I think people in our industry must think long and hard about this. If they are not facing this kind of “Low Cost Club” competition now, they will be. It is not a question of “IF”, it is just a question of “WHEN” it will arrive.



Dan German - Founder and Owner - Creative Health and Fitness - Milford, CT.

Dan German indicated that he has two franchised Planet Fitness operations within 3 miles of his 20-year old club. Those operations have now been in business for one year. German's 20,000 square-foot Creative Health and Fitness Club is celebrating its 20th Anniversary in May. One is located “a couple of blocks over”, formerly a women-only facility called Venus

Fitness that was converted to Planet Fitness and the other is “about 3 miles away.” The two closest Planet Fitness locations are World Gym switchovers. A third Planet Fitness is located within a 10 to 15-minute drive of German's club. German mentioned, “My recollection is that they came in at \$15 or \$20 per month, but at one point they had dropped down to \$7.50 per month. Now, they are \$10 per month or \$15 per month with unlimited tanning.” We asked German about the marketing used by Planet Fitness and he commented, “They mostly do a direct mail postcard with \$10 per month on it. They also have a big neon sign in the window advertising \$10 per month.” When asked to describe the “operational mentality” of Joe Pepe's Planet Fitness locations, German replied, “I think it all started originally when LA Fitness came into this market. LA Fitness opened one of their “big-box” clubs about 5 to 6 miles from my club and right down the street from Joe Pepe's club. Upon learning of LA Fitness coming in, Pepe decided to change all of his clubs to Planet Fitness. Planet Fitness does most of the marketing and promotions and the owners seem to be less active. Pepe took out all his club's amenities, etc. so it strictly involves providing cardio and strength equipment access. His operations have low costs now, and he's trying to pump in thousands of people at low prices.” We asked German, “How has this invasion of three Planet Fitness clubs in your market impacted your club?” He replied, “It has affected us. We've had some switch strictly because of price. We're actually down 20% or a little bit more. It kills your market as well because people say, ‘Oh, those clubs are only \$10 per month and your clubs are \$40 or \$50 per month.’ It's *cheapening* the whole market. It is kind of ruining it. Even though they provide no service at all except access to equipment, when people join for \$10 per month, they are happy. The end result is that many members are not going to get results because they need help and coaching and they are going to get frustrated.” German's market within about a 7 mile radius has approximately 200,000 to 250,000 people, with about 50,000 in his hometown. We asked German, “What things have you done to compete?” His reply, “We've tried to capitalize

on what we do best, which is to provide a lot of excellent group exercise classes, a lot of good programming, ‘back to basics’ customer service and focused marketing. We have seen an increase in the demand for group exercise classes due to the fact that they shut that service down, and lots of those members were looking for group exercise classes. But, we're definitely seeing less overall traffic because there is a lot of competition in the area now with LA Fitness and then Planet Fitness arriving. We've held our price pretty well. It was \$49 per month (12-month commitment) and \$59 a month for “Month-to-Month.” Now it's \$39 and \$49.” I commented, “You've held your price point pretty darn well, given all this new competition.” German replied, “Yeah, we've tried too. The other club in the area, Fitness Edge, is trying to hold their price point up as well.” We asked German to give anyone experiencing such an invasion by “Low Cost Clubs”. He replied, “Like I said earlier, do what you do best. We make sure your classes are done well. We are sticking to basics, and we focus on club cleanliness. We've always had strong group exercise classes, so we're sticking with what we do best. We have also cut some costs and streamlined our expenses a little bit, being sure to avoid unnecessary expenditures.” I asked Dan, “Do you see this “Low Cost Club” competition lasting?” He replied, “You're always going to see people join at such a low cost. A lot of people want to join a place, but they don't want to pay a lot because they don't know if they will stick with it. If it's something cheap, they may give it a try, and if it doesn't work, they don't care because they didn't put up a lot of money. So, there is probably a big market for that consumer. They certainly get a lot bigger market because of their low price point. But, there will continue to be people who want more services, want attention, want coaching and want results. So, it's going to change the market for at least a while I think, but what we've seen is that the Planet Fitness clubs attract a lot of kids. We stress to people that come in to consider our club because we don't have a lot of young kids, ages 12 to 15 crowded into an equipment room. We explain that we are seeking to serve serious folks aged 30 to 50+ and that what they will find is a lot of young kids packed into their place. If a

middle age person is looking for help to get rid of 20 or 30 pounds, and they need expert advice and help, I can't imagine them going to a place like that. It's going to be crowded, uncomfortable and intimidating to the middle-age person. There really is a distinct market of 30+ individuals that we are focused on.” Congratulations Dan on your Creative Health and Fitness Club's 20 year Anniversary in May. You're one of the real veterans out there. Not many club owners have or ever will celebrate their 20th Anniversary! Way to go Dan!

Bill Beck - Founder and 27-year Owner/Operator - Club Fit.

Beck has been in business for 27 years and owns two large Club Fit (100,000 s.f. and 140,000 s.f.) locations. Bill says that “While my clubs really have not been substantially impacted, the arrival of Planet Fitness is causing me to work hard to more clearly define my clubs and promote the excellence of their facilities, equipment, programming and excellent staff to my market.” In essence, this author believes the arrival of this “Low Cost Club” product sector in Beck's market is just another ‘bump-in-the-road’ to ongoing success for Beck's strong organization. And, if my read on his comments is correct, then Bill should feel that way rightfully so.

Tom Oakley, Laconia Athletic Club - Laconia, New Hampshire.

Tom Oakley is a 13-year veteran owner of the Laconia Athletic Club, located in a 25,000 square-foot former YMCA building with an indoor pool he purchased in 1992 for just \$150,000! Oakley has since spent a significant amount of money upgrading, refurbishing and equipping his club. His Laconia, N.H. market is sparse with a 20,000 population in town and 50,000 in the surrounding areas. Tom Oakley tells me that although the ‘low cost’ competition headed his way in the form of a Planet Fitness is not opened yet, they are “aggressively promoting their \$10 per month memberships through mass direct mail. Oakley says that his 13-year old club has evolved over the years and that they are focused on ‘defining who we are and what our values are for the marketplace. We are trying to *build value* in the minds of our local consumers.” In fact, Oakley mentioned that they have (See “Low Cost Clubs” Page 14)

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...“Low Cost Clubs”

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recently refurbished his club interior (remember what Mike Artega said earlier in this article). And, inside their club they have placed a huge, colorful banner reading: LIVE FIT... MAKE A DIFFERENCE... HAVE AN IMPACT! When you read the very interesting comments below by Jamie Fairley, you will easily note Fairley, General Manager of Courthouse Plus in Vernon, Connecticut and our other veterans all seem to be reading from the same playbook! Good luck Tom with your ongoing success in Laconia, New Hampshire!



Jamie Fairley - General Manager - Courthouse Plus - Vernon, Connecticut.

Jamie Fairley is a 31-year veteran of the health, racquet and sportsclub industry. Fairley has worked for Craig Nation, owner of Courthouse Plus for 21 years and Jamie will celebrate 21 years with CHP in May. Jamie Fairley is viewed by his industry peers as an astute, thoughtful club operator who has punctuated his club's excellence with very outstanding member programming. Craig Nations founded his club as Courthouse I in 1978, and it originally opened with 12 racquetball courts and little else to offer. Like many of us racquetball club operators of the 1970's, they added 4 more racquetball courts within 18 months of opening, bringing the total to 16. Jamie recalls, "It wasn't too long after that that we started looking at those 16 courts a little differently. Now, we're down to just 1 racquetball court! We've still got a couple of those 'racquetball dinosaur members' that are saying we should change our name back to Courthouse II. In 1988, the club name was changed to Courthouse Plus to reflect the vast diversification of

the facility from 16 racquetball courts down to just one. Jamie Fairley has worked with Craig for years and operates Courthouse Plus now in a tenant relationship with Jamie, having essentially the entire responsibility and authority to run the Courthouse Plus show.

Jamie shared some very interesting comments with us. We asked, "Jamie, how many 'Low Cost Clubs' do you have within a 3 mile radius that fall under the \$20 per month or less category?" Fairley replied, "We have a Bally club and a club called 'Body Fit that is now converting to a Planet Fitness franchise. That's what their direct mail piece says, 'Coming soon! Join Planet Fitness for just \$10 per month!' We have a third competitor called 'Cardio Express' that used to be a Planet Fitness until Planet Fitness executives decided to expand their company through franchise operations. So, that owner decided to drop the Planet Fitness brand and change his club's name to Cardio Express. His club was called Planet Fitness before Mike Grundahl came along, but he really wasn't part of their franchise organization at all. He did not want to comply with their very specific franchise model, so he changed his club name to make it simple. Fairley continued, "The Bally club is about 18,000 s.f., the Body Fit is about 20,000 s.f. and the Cardio Express is 16,000 s.f., but they are moving to a new 22,000 s.f. facility about 1/2 mile from where they are now."

I asked Jamie to describe the marketing efforts he had seen employed by Planet Fitness. He replied, "You've probably heard this before, but all they do is hammer the market with direct mail with their \$10 a month offers. I think it's been effective for them as I have watched. Let me give you my overall philosophy about these things. First, we've always dealt with Bally. They are the farthest away from us, about 3 miles or a 10-minute drive. So, I have dealt with that. When the first Planet Fitness came here about six years ago with their \$10 a month price, both staff and members were sort of in an uproar, a panic saying, 'What are you going to do?' Something was odd to me about it. It took me a little while to appreciate this. The guys that wrote the book "Discipline of Market Leaders" say that for any product there are three distinct markets: the people who *really*

value low price, the people who *value the best product* and the people who *value what the book author calls 'the best solution.'* The best solution is something that's really highly customized. I looked at that and concluded that the public sees what it sees in our marketplace. The public sees the low price products and senses what they are. I am not of the mindset where a lot of people say that the low price guy is going to kill the market. I don't think that. I think that simply buying access to facilities, as long as you know what you are getting at \$10 per month going in is O.K. IF they can stay in business, that's not bad. I am supportive of it. The majority of the people in the market need a heck of a lot more than that just 'access' to exercise equipment. If you think that the purpose of a business is to be a solution to a problem and you really start asking 'what the heck is the problem?' Pretty soon you say to yourself, 'sticking with exercise takes more than just buying a ticket to the dance.' From a behavioral point of view it takes more than that. So, we've chosen to be the product leader by the *quality of our facilities, our staff and our programming.* This simply means a different kind of experience for a different group. Because it is a different experience for that particular group who value that, they tend to use the club more and they are getting results. So, we say, 'When is a low price not a good deal?' It's *not a good deal* if you're *not using your club* and you're *not getting the results* you have been dreaming about. I try not to look at it from a 'We're better than you point of view.' There are different *values* for different markets. We go after a market that *values* what we do. When people say, 'The price is too high', I say, 'Well, that's normal.' There are things that I go shop for that I really *don't value*, but a lot of things, where the price is high, I will pay through the nose for because it is what I *really value*. I think that from a strategy point of view, initially when the first "Low Cost Club" was rolling into town, I tried to educate staff, remind them of the differences and let them know there are various markets for different products. And, there is a market for a different product... we're not that product... relax... take a deep breath. I remind people it's an opportunity to really *anchor* us

in our values. The quality of the facilities, programs and excellent staff and what that means to the consumer, our specific market, is what we focus on. Then, very importantly is #2, making sure that our marketing and sales staff knows how to educate the consumer about *our values.*"

I asked Jamie, "What effect have you seen the 'low cost competition' have on your club's membership numbers? Fairley replied, "They have had no effect." I commented that "Jamie, to hold your price point at \$64 per month in a tough low cost market is a great tribute to you and your team. How your staff has responded to your teaching is clearly indicated by your club's ability to hold its price at \$64 per month." He replied, "Yeah, it does boil down to having a good solid management and a good solid team in general.

We've always put the quality of our staff #1, above everything else. To have a staff that can develop rapport and relationships and are professional in their field, particularly the personal trainers and group exercise instructors, that means better results for the members. I don't think the consumer is stupid in that regard. I think consumers know that old saying, 'You get what you pay for.' They know there is a reason why you are waiting in line for a treadmill and can't get on. There is a reason why things don't get repaired. It is no 'rocket-science' kind of thing, you know. That works for some people. I refuse to let the staff or anyone on our team to be highly critical of these low cost guys because I know people who go to those clubs, love 'em, get in shape and feel (See "Low Cost Clubs" Page 16)

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What's the power of a new idea worth to you?

To paraphrase an old classic, we are in the worst of times and the best of times in the fitness business. Getting new memberships is harder, new clubs are opening faster than new members are joining, staffing is a nightmare on even the good days, and the chains seem to be on a mad track to do as much damage as they can to the fitness business in general and to the independent operator.

We are also at one of the great turning points in the history of the fitness business. The pendulum is swinging in our direction as the consumer finally is getting what the fitness industry can offer. Just like the turning point for smoking a few years back, the consumer is seeing that fitness is real, needed and articles talking about everything from low carbs to Pilates are in every magazine and newspaper in the country.

Before we can reap the benefits from a more aware and sophisticated consumer the industry itself has to change. In the next few years in the fitness business there will be a correction. Some clubs will thrive during these changing times and others will fail unable to compete or take advantage of the newer markets.

What will separate those that make it from those that don't could be as simple as a few new ideas for your business. A single but powerful idea, such as a new way to market, more efficient sales, a key staffing tip or simply a different way to niche your business, could be what separates you from the clubs that will struggle.

The amazing thing about the fitness business is that anyone can be beat. You can learn to compete against any competitor by getting a fresh look at your business and how you run it each day. And any fitness business can make more money and improve. Remember that just because you were successful in the past does not mean that success will continue in the future without a new idea to power the change to need to make.

The Thomas Plummer Company has been the source of business changing ideas in the fitness business for over 15 years. Thousands of independent operators, from all over the world, have attended a TPC seminar seeking that one powerful new idea that could change the financial success of their business. Even if you have attended in the past don't forget the motivation and inspiration you get every time you dedicate a few days to spend working on your business and not in it.

Our company is in front of more independent owners per year than all other seminar providers in this industry combined. We are the clearinghouse for what works and what doesn't because we are getting that immediate feedback from our seminar guests and consulting clients all across the country in every market. If there is a new idea out there that works we will be teaching it in our next seminar.

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The power to make money in the fitness business

...“Low Cost Clubs”

continued from page 14

good about them. So, I have no thought about it beyond that. I do know though that the market we focus on has said that they need more support. They need help; they need a different kind of experience in order for them to get what they are looking for. So, we go after that. We felt that we wanted to choose our market. We're choosing our customer. They've chosen their customer. Now, I am choosing my customer. My customer is going to be a little bit more discriminating about these things that are important to him because it means a different kind of club experience. It means he is more apt to use it regularly. Simple. One of the things I do, that is not new or revolutionary, is I look at usage as a key economic factor in operating a health club. The

quality of the experience purchases usage, which purchases things like low attrition rates and higher renewal rates and everything else that goes with it... including member results.”

We congratulate Jamie Fairley and Craig Nations on their terrific club, Courthouse Plus and, in particular, congratulations to Jamie Fairley on his 31-year industry career. Jamie is a true and outstanding credit to our wonderful industry.

PUBLISHER NOTE: Unless you are interested in IHRSA and its past and its future, just skip this next paragraph with Jamie's and this Author's comments about IHRSA as it may not interest you. On the other hand, if you are an independent health, racquet or sportsclub owner/operator anywhere and what you have read above scares you

‘even a little bit’, I would highly suggest that you spend the next few moments reading and then thinking about what is written below. It could save your club business.

Jamie, I want to thank you and Craig for your subscription support over our first 11 and 1/2 years. You've been with us for a long time and we sincerely appreciate your support. Fairley replied, “Norm, you're welcome, and thank you very much for what you do for our industry. I've seen a lot of publications going in a lot of directions, but you know how they describe some fighters as ‘being the best fighter there is, pound for pound’, well that's you, Norm. I get the most mileage out of your publication than any other, and I sincerely appreciate the CLUB INSIDER.” I replied, “Jamie, I sincerely appreciate that. Believe me, the CLUB INSIDER is work from my heart and soul. It's not about the dollar sign as many things in the world seem to have gone.” Fairley, “You know one of the greatest things I appreciate most that you did was to save IHRSA from changing its name back in 1994 to ‘Execera!’ As IHRSA members since the beginning, we were so gung-ho IHRSA that that name change effort took a lot of us by surprise. It surprised many that IHRSA could almost take a left turn. It takes people that have been around a long time to realize what you did. It took a lot of courage for you to stand up and not blindly continue to follow IHRSA the way we were blindly following before that particular time and name change to ‘Execera’ effort. I think all the good things that have happened at IHRSA since that pivotal moment is that IHRSA, perhaps out of necessity (and I am very, very supportive of IHRSA as you are), makes something like changing the name to ‘Execera’ a minor point now. But, with that said, I am waiting for a new Association and Publication for independent club operators like me to emerge. I will always be a member of IHRSA, but there are some very specific needs of independents that maybe IHRSA cannot meet.” I replied, “To IHRSA's credit, I do think that what they have been doing for the ‘big picture’ is terrific. What IHRSA is doing with the Government Relations efforts and the amazing educational component at IHRSA, the Conferences and Trade Show, etc. are

just a few of the greatest efforts and resources available on this planet. I hear feedback about IHRSA from folks like you Jamie, and I have worked hard to get non-IHRSA member clubs and former IHRSA member clubs to rejoin IHRSA. Many of them have quit IHRSA because of the exact same feelings you are expressing right here. But, IHRSA's new Entrepreneur Magazine and new Entrepreneur Conference next September in conjunction with Wally Boyko's National Fitness Conference and Trade Show is a huge step in the right direction for IHRSA. The new IHRSA Entrepreneur Magazine and new IHRSA Entrepreneur Conference is a directly focused effort to give more and better support and services to IHRSA independent club owners and to re-enlist independent clubs that have quit IHRSA to rejoin the vital Association. For the record, I want to say, as IHRSA's 1st President and a Co-founder of the Association in 1980/81, IHRSA is headed back in the right direction with respect to its new refocus on independent clubs and its dealings with the needs and wants of North American independent clubs. I strongly endorse IHRSA's new independent club efforts. I wholeheartedly support those efforts, and I urge any and all independent club owner/operators who are not IHRSA members to join or re-join the IHRSA efforts to better serve the independent clubs around the world. I must say this as well. Any independent club owner that is not a member of IHRSA now and actively involved in the learning and professional growth opportunities IHRSA provides is essentially missing the boat! Those of you that have ignored IHRSA or left IHRSA are cutting yourselves way short, and in my view, many of you are doing so to save a few dollars which, if invested in IHRSA, would give you a huge return on your

investment! For independent club owner/operators to compete in this ‘new health club world’ that is rapidly emerging requires all the help from any and all sources you can get. And, IHRSA has been, is and will continue to be the single greatest tool and resource for independent club operators that has ever existed in this industry.”

THANKS TO THE FIVE VETERAN CLUB OPERATORS THAT TOOK THEIR VALUABLE TIME FOR THIS WORK!

Thanks very much to Mike Arteaga, Dan German, Bill Beck, Jamie Fairley and Tom Oakley for their participation and comments for this article. The future appears strong overall for these veterans. I believe that contained herein are ‘key success considerations’ shared by front-line, veteran and successful operators. These guys did not make it for 30, 20, 27, 31 and 13 years respectively without being extremely good at what they do for their markets. They have mastered the “blocking and tackling” of the health, racquet and sportsclub game and the newly arriving (new for some) “Low Cost Club” competition’ is simply making each of these veteran operators look inward carefully and make adjustments to fine tune and improve even more, their club product offerings and how they go about positioning those products to their respective marketplaces. STAY TUNED as we will have future “LOW COST CLUB UPDATES” as this new movement in the industry continues.

(Norm Cates, Jr. is the Founder, Publisher and Editor of The CLUB INSIDER News. Cates, a 32-year veteran of the health, racquet and sportsclub industry was honored in March, 2001, with IHRSA's DALE DIBBLE Distinguished Service Award. Cates may be reached at: 770.850.8506 or by email at: clubinsidernws@mindspring.com)

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...Norm's Notes

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tuned as "Brother Scudder" has launched a *research project* to determine how many clubs *went out of business in 2004* and how many *truly are still in business*. You can help this work by sending an email to Michael telling him **HOW MANY HEALTH CLUBS** have gone out of business in your market during 2004. Brother Scudders' email address is: MSS@MICHAELSCOTTSCUDDER.COM. Please copy me at: clubinsidernews@mindspring.com STAY TUNED.

• Last month, in our March "IHRSA Wrap-Up" Special Edition, I covered a lot of stuff, but I screwed up on a couple of things. First, I misspelled the name of RON POLISENO, the Director of Client Development at Check-Free Health and Fitness. I

hereby sincerely apologize to Ron for my mistake and offer the corrected spelling of Ron's last name above. Second, I failed to congratulate mention the names of IHRSA's new incoming Board Members, LAURIE SMITH, PHIL WENDEL, GENE LAMOTT and BAHAM AKRADI. Congratulations to you new IHRSA Board Members and best wishes for successful terms. I want to offer special thanks and sincere appreciation to outgoing IHRSA Board Members, MARK SMITH and CAROL NALEVANKO for their excellent service and hard work serving the Association and the industry. These folks have helped IHRSA make our industry better.

• MEREDITH POPP-
 LER is the IHRSA veteran tapped to head up the new IHRSA Business Entrepreneur Conference in Las Vegas. Meredith commented, "Besides

being a brilliant idea to combine IHRSA's education with an already established trade show, the focus of this conference is right on the money, a "Back-to-Basics" event for and about independent clubs owners. The list of speakers - all tops in the industry when it comes to improving club profits - will offer session topics entitled: "Creating Sales Superstars", "Successful Advertising and Guerilla Marketing", "Staff Training", and "Management Skills". I can think of very few club operators out there that couldn't benefit from attending a conference like this one," added Poppler. To register or for more information, visit:

www.ihrsa.org/conference, email: entrepreneur@ihrsa.org or contact Donna Lutawan, IHRSA's Conference Sales Coordinator at 800.228.2774

• CLUB INDUSTRY EAST happens June 8-11th in the

"Big Apple", New York City, the city that is so great they named it twice! The Club Industry East educational component faculty is terrific and includes, amongst about 50 speakers, RICK CARO of Management Vision, MICHAEL SCOTT SCUDDER of Southwest Club Services, RAY GORDON, EDDIE TOCK and JEFF MASDEN of Sales-Makers, SANDY COFFMAN of Programming for Profit, KAREN WOODARD of Premium Performance Training and MIKE CHAET of CLUB Marketing and Management Services, to name just a few of the greats that will share their knowledge and experience with club owners and operators. For information on the conference go to: www.clubindustryeast.com or call: 800.927.5007. I will look forward to seeing you there!

• 24 Hour Fitness is on

the auction block and it has been reported that they have four suitors who may pay as much as \$1.4 billion to acquire McCown/deLewe and MARK MASTROV's imaginative and powerful company. Also, Mastrov continues his alliance building and celebrity marketing efforts for 24 Hour Fitness, as they have entered into a partnership with JACKIE CHAN, the international movie star and fitness devotee. The partnership will include the creation of California Fitness Jackie Chan signature clubs. The first club will open in Prestige Tower in Kowloon in May, 2005. Future clubs are planned for Kuala Lumpur, Singapore and other select Asian countries and around the world.

• JIM GERBER, the President of Western Athletic (See Norm's Notes Page 27)

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“small is GREAT!”

An exclusive column featured only in Norm Cates' *The Club Insider News*

By: Michael Scott Scudder

**“IS YOUR SMALL CLUB A
MAXIMUM-STRENGTH
OPERATION...
OR A ONE-DIMENSIONAL
WEAKLING?”**

(Author's Note: I thank each and every one of you readers of this wonderful newspaper and my column for the outpouring of support during the recent personal heartbreak that Phyllis and I went through with the death of our daughter, Susan. I especially thank Norm Cates for his constant and vigilant prayers on our behalf. You are all greatly appreciated.)

Recently, I had the opportunity to hear my friend, the legendary Bill Pearl, speak about the origins of health clubs and the history of our industry. Norm Cates says Bill Pearl has become the health club industry's greatest historian. In particular, Bill spoke of Charles Atlas - to many, one of the “fathers” of bodybuilding and what has emerged as the American physical culture movement. I remember as a kid reading those dime magazines (can you believe that?) and seeing the “do you want to be bullied - sand kicked in your face?” ads for Atlas' strength-building program.

It made me think about the current scene in the U. S. health club industry...and the pressure that is on *thousands* of independent small club operators presently to contend with scores of different types of competitors of all sizes and scopes. I believe that the independent sector of our industry is literally *under siege* right now.

According to the national Yellow Pages Directory, club counts from January 2004 to

January 2005 increased by 3,300, to the current number of some 26,830 clubs... a very healthy increase of 14%. However, I have been doing my own research, and it initially indicates that *several thousand clubs* also went under last year! So, the “net growth” figure in clubs may be smoke screening a bigger happening... the disappearance of a substantial percentage of the existing club industry, likely being replaced by new facilities. I will continue to research this and report back to you in this column as soon as I have reliable numbers (See Norm's Notes).

That notwithstanding, it doesn't take a genius to figure out that the long-talked-about “consolidation” of the health club industry is **HERE NOW!** The shakeout is in progress! It ain't coming... fix up your club, buy new equipment. It's here in full force. As Norm Cates has warned many times... strengthen your market position or disappear. He is right. It's that simple.

Why did I entitle this column the way I did? Because many of you out there are one-dimensional club weaklings - trying to rely only on new membership sales to carry the day for you “as they always have”, an old theory of club operation that simply doesn't work anymore... not in the presence of *Planet Fitness* and other ‘Low Cost Clubs’ on one side - the low-priced phenomenon taking massive market share along the East Coast and across the country, or the big-box *Life Time Fitness* on the other end - 100,000 square foot plus wonders at mid-range pricing. Then, consider that *LA Fitness* is making major strides in several metropolitan/urban/suburban markets... as are many other well-

financed chains.

Do you really think, Mr./Ms. Independent Club Owner, that you can compete with these guys on their terms? If you do, you are nuts! And, don't think that you are exempt in your area. If you live in a “consumer-draw-area” of 50,000 or more people, you ain't got a prayer playing in the old style... not against this kind of competition! It's like little, local, sluggish-service, not-up-to-par local businesses here in Taos trying to compete with Wal-Mart. It can't happen! They're disappearing every month!

Fitness has matured, but somewhere in the neighborhood of 90% of the fitness purveyors (read that as clubs) *haven't*. A significant one-year club turnover in the health club industry tells us that this year we will see another 25% or more disappear off the map. Why? Because savvier, more well-financed, business-type people are coming into this industry at a record rate, offering better products, better customer experiences, always at competitive prices and capitalizing on your mistakes! Why? Because, YOU DON'T. You got lazy and sloppy in the “golden days” of the nineties.

Couple the above with the growing “chain mentality” that is permeating our business and one realizes that *the old days and the old ways have had it*. You may have no choice but to change or die.

I don't like to read the riot act. Honestly, I don't, but someone's got to. And, someone with tested experience and longevity in this business who ain't afraid to speak out. WAKE UP BEFORE IT'S TOO LATE, Mr./Ms. Independent! You better get yourself to *Club Industry East* (NYC) in June... to *National*

Fitness/IHRSA Las Vegas in September... to *Club Industry* (Chicago) in November... to a *Thomas Plummer* seminar... or to one of the reputable industry consultants/advisors like myself.

Do you think that a doctor gets his degree and then stops studying his trade? Do you think that a quality restaurant keeps serving high-fat, high-sodium, high-carbohydrate foods in a modern environment? Do you think that colleges and universities are teaching what we learned decades ago? Uh-uh. So why are you persisting in running your businesses like we did in the eighties? What are you thinking?

People like Mike Davis (*Nautilus Fitness and Racquet* in PA), Robert Dyer (*Fit For Life Centers* in TX), Gary Patti (*Gold Medal Fitness* in NJ), Dan Horan (*Hatfield Athletic Club* in PA) and others who are “with it” have upscaled and remodeled their clubs, raised their dues, added amenities, niched-out services like personal training and group fitness to the max degree, concentrated on revenue-per-member *not* number of members. These people and others like them in every area of the country are licking their chops over your mistakes. Yeah, competition is damn tough for them too, but they're not sitting back and waiting - they're acting. They're learning every day. They know that each month there has to be another “WOW factor” to keep customers participating, to keep members interested and self-motivated.



Michael Scott Scudder

You must realize that a “one-dimensional club weakling” concentrates only on membership sales and forgets the rest of the business. A “maximum-strength club operation” looks at its' core businesses - membership, retention, profit centers, service-income sources and maxes them. They manage every day for results. They are not problem-solvers, they are *solution-makers*. They do not wait for things to change, they do make things change. They do not adapt standards, they set standards. They are not trying to be good, they are working at excellence!

I have, in this column over the last several years, given you dozens of ideas on how to run your businesses better, more effectively, more profitably. Every month Norm Cates details the greatest club success case studies from this industry - his monthly effort to provide you with in-depth case studies of the greatest health club operators in the world is intended to get you to see that you too can “get out

(See Scudder Page 20)

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...Scudder

continued from page 18

of the box” with your club business practices. There is no lack of information available in this industry. There is just a lack of intelligent enthusiasm. If it were not so, we would have more than just

20% of all club operators attending conferences, subscribing to publications and hiring advisors.

It is now time. No more dress rehearsals. This is the ‘main event.’ No do-overs. No mulligans. Step up to the plate and swing. In upcoming columns, I am going

to share with you some outstanding ideas from clients of mine, successful innovative clubs that make a difference in their marketplaces and earn great profits in so doing. It’ll be yours for the taking. I hope you get it.

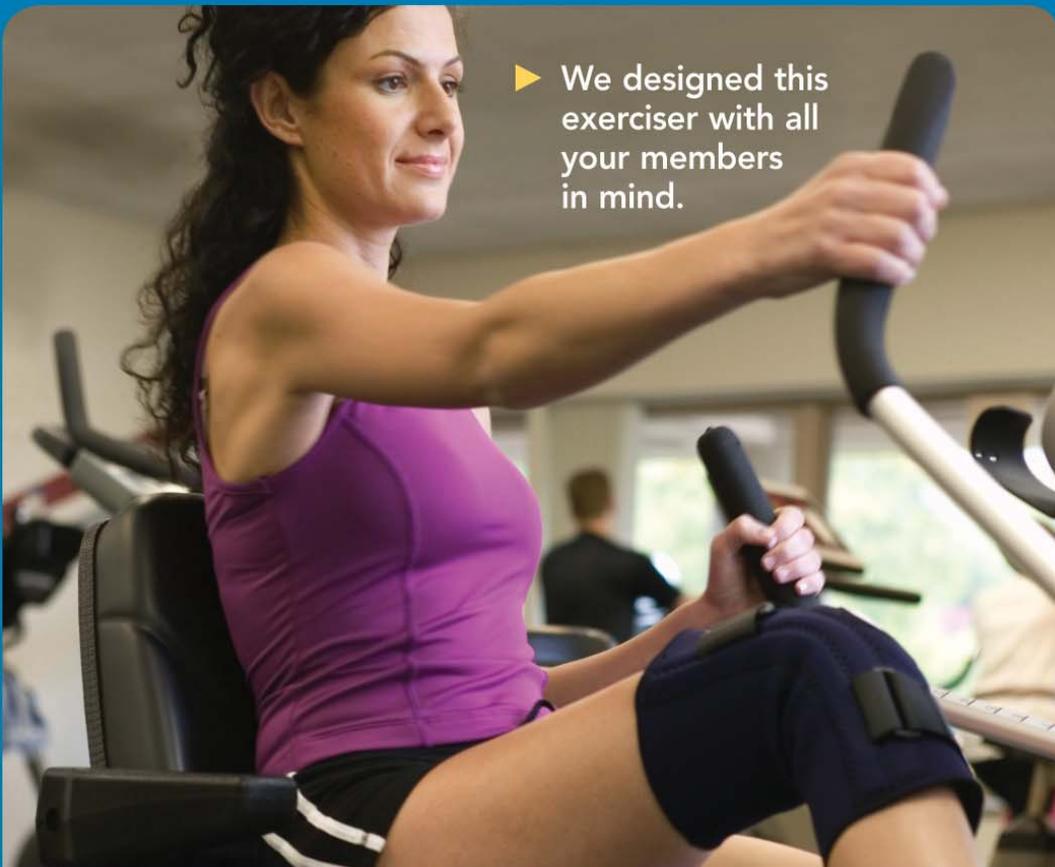
Someone once said: “To those who understand, no

explanation is necessary. To those who do not understand, no explanation is possible.” Which group are you in?

(Michael Scott Scudder, a Contributing Author for *The Club Insider News*, is a PERSONAL BUSINESS TRAINER operating FIT-

NESS FOCUS, a consulting company offering private workshops and telephone conferencing on pertinent fitness business matters. Michael can be reached at 505-690-5974, by email at mss@michaelscottscudder.com or at his web site, www.michaelscottscudder.com)

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World Gym International

Hall of Fame Awards and Banquet Was "World Class"!

By: Norm Cates, Jr.

Columbus, Ohio - March 4, 2005 - World Gym International, Inc. host Mike Uretz produced a World Class event to celebrate the induction of four men into the new World Gym Hall of Fame. The event was classy in every way. The Master of Ceremonies for this grand event was Christian Babini, and he and Mike Uretz made the evening very enjoyable.

The entryway to the event included a "live display" of a fit and beautiful woman and a handsome man (See photos this page). Approximately 200 people

packed into the hotel ballroom. Industry luminaries from across the country attended, including the amazing couple, Jack and Elaine LaLanne, the one and only, Dr. Robert Delmonteque and Al Simpson.

The 1st Annual Class of 2005 World Gym Hall of Fame Award Winners Were Honored

The 1st Annual Class of 2005 World Gym Hall of Fame Award winners were introduced, and each had interesting and warm comments for the crowd.

Upon completion of the introduction of all of the World Gym Hall of Fame members, a horde of folks scurried to be near the platform while the group of legends posed together for a group photo. The 1st Annual World Gym Hall of Fame winners were: Lou Ferrigno, Frank Zane, Dave Draper and Eddie Giuliani. The introductions were preceded by honors presented to about 20 World Gym owners from around the world.

I was honored to present The CLUB INSIDER's 2nd Annual "Health Club Pioneer of

the Year" Award to Joe Gold with Mike Uretz receiving the crystal trophy with Joe Gold's name engraved on it.

Mike Uretz was a gracious host and provided all who attended with a wonderful evening in a beautiful environment. Class. Class. Class. I see now why and how Mike Uretz has grown World Gym International, Inc. over the years to 300 locations. He does things "right" and very well. Uretz has given hundreds of people the opportunity to develop and build their health club businesses with

a solid foundation predicated on doing things the "right" way for the customers. The CLUB INSIDER's cover story entitled: "Jim Woolard and World Gym Team Providing Excellence for 30,000 Members!" chronicled the success story of 26-year veteran, Jim Woolard, owner of seven Florida World Gyms and one in Pennsylvania. What a success story!

The World Gym organization is something that is "right" about our industry and I am pleased to have attended this great event. Thanks Mike and World Gym owners!

Presentation Photos Courtesy of Mike Riedel: www.riedeldesign.com



(L to R) Frank Zane, Dave Draper, Eddie Giuliani and Lou Ferrigno

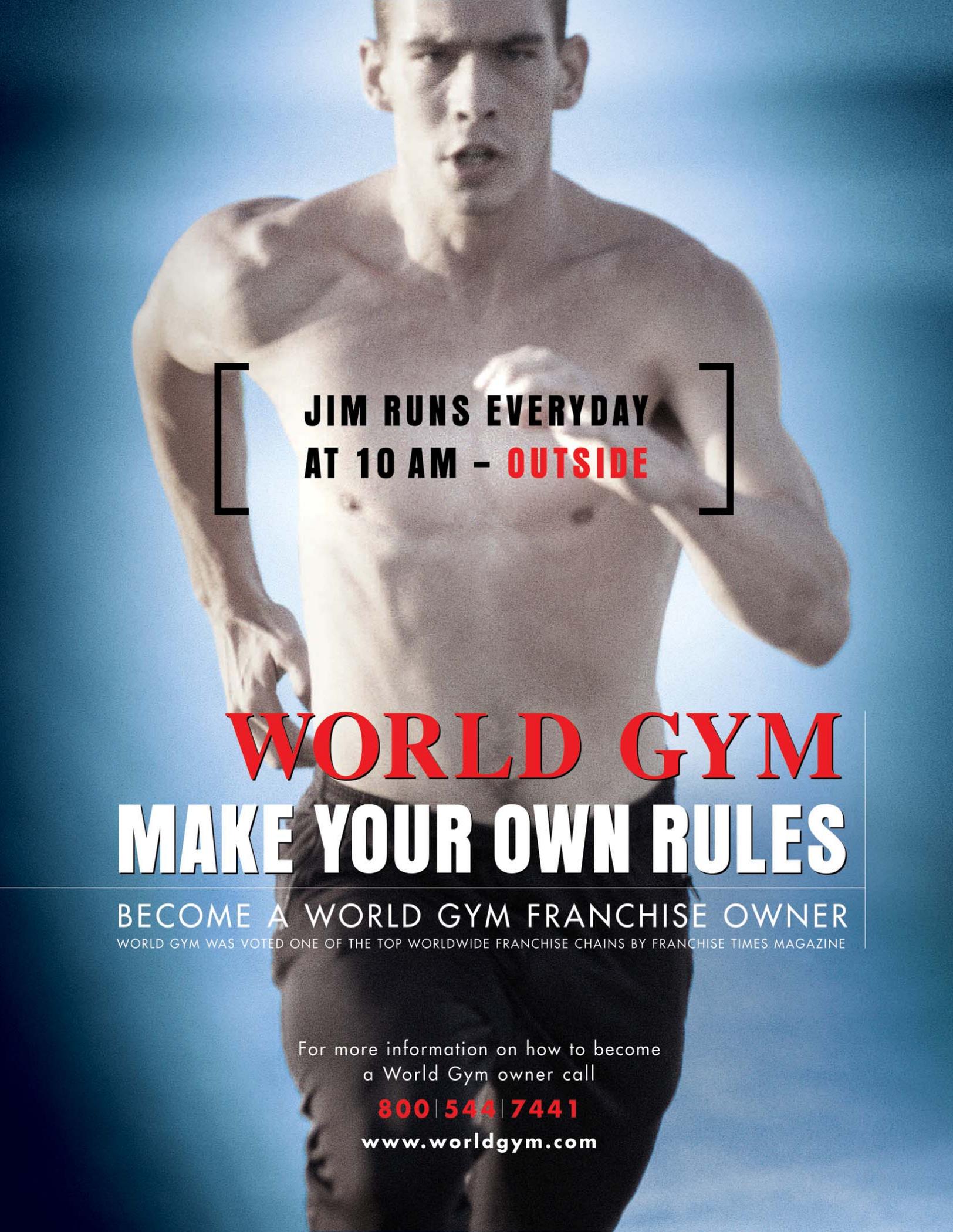


Norm Cates (L) and Mike Uretz



World Gym International

Hall of Fame Awards and Banquet



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10 REASONS WHY SUCCESSFUL PEOPLE "GET" THAT WAY

Are you one of those people?

By: Gary Polic

It is probably safe to say that everyone wants to succeed. Certainly, if success were handed out on a platter, not too many people would say, "No thanks", and let it pass them by. But, not everyone is considered successful, and there is no doubt that some people seem to have more of what it takes to attain their goals than others. The question that has stumped many people for ages is, "What is it that makes people succeed?"

For sure, it takes a quality individual that is willing to make numerous personal sacrifices to build the reputation and work experience that will take him to the height of his career goal accomplishments, but aside from sacrifices, what are the qualities of winners? This article will focus on 10 of the top reasons why people succeed and will give you some simple suggestions for how you can apply these qualities as a manager in the health and fitness industry.

1. THEY HAVE PLENTY OF DRIVE - Let's face it. In today's competitive work environment you need to portray the energy to set a pace for your people. "Speed of the Captain... Speed of the Crew" takes on a whole new meaning in this regard. Have the drive and you will pick up the activity and results.

As a manager, one way you can show drive is by taking a tour and working the phones with your sales reps because there is no substitute to leading by example; it pays BIG dividends!

2. THEY ACCEPT RESPONSIBILITY CHEERFULLY

One of the most critical factors in achieving overall success is taking full responsibility for your actions and results. I can't tell you how many times we have heard situations that were immediately solvable if the decision maker would only take proud ownership of the situation. Look yourself in the mirror, hold yourself accountable and your world will begin to make a change for the better!

As a manager, you need to take responsibility and get involved! If the sales numbers are not where they need to be and you have been barking orders for weeks now, you may want to re-evaluate your situation and go to "Plan B". Begin the recruiting process or delegate responsibility out so you can get a handle on the situation and become more involved in the sales process.

3. THEY LOOK, LISTEN AND LEARN - We've all heard the expression; "Two ears and one mouth!" It's true; listen first, then speak. As leaders, we all think we have the answers, and you may have answers, but you must first collect ALL the appropriate data by listening first, evaluating and then making an educated decision based on facts.

Next time you have a situation involving your team, collect all the facts first. Then process the information overnight and have your decision the next day. If you're not sure, investigate before making a decision. Of course, if the situation calls for an immediate

decision, go with your best instinct.

4. THEY WELCOME NEW IDEAS - It is as simple as this quote; "There is only one thing more powerful than all the armies in the world... and that is an IDEA whose time has come!" You can accomplish this "Out of the Box", thinking with your team by picking a topic and having a meeting to mastermind ideas.

As a manager, you must recognize that some of the best ideas will come from your front line people IF you ask them for input. Whether it is for guerrilla marketing or improving closing percentages, meet with your entire team, giving them the issue in advance so they can come prepared to find solutions.

5. THEY PROFIT BY THEIR MISTAKES - Profiting by failure will teach you how to make stepping stones out of all your past mistakes and failures. Not only do you learn from your own mistakes but by others as well.

In the club business, each tour and phone-in should be critiqued immediately after it is performed. By doing this, you can establish the little things you say and do in each respectively that will set you in a "constant improvement theme" overall.

6. THEY DON'T EXPECT ALL THE CREDIT - This is probably the hardest to do for some managers because they feel the recognition will earn them respect. In fact, it is giving others' the recognition that ultimately ends up creating a powerful leader. Take for example Ronald Reagan. Whether you liked his Presidency or not, he was considered a great leader. He had a quote on his desk that stated, "I got where I am today by allowing others to believe it was their idea." It's simple, give others credit and watch them grow beyond their capabilities!

In the club business, when you make departmental decisions, try involving all of the decision makers (supervisors and managers) and allow the group to provide the proud ownership theory.

7. THEY COOPERATE - Cooperation creates the value of teamwork. Coordinate your own efforts with those around you, and you will empower all involved for success. This

single-handedly will build empires!

In the club business, where staffs are traditionally small, this is more important than ever. Be a part of the solution when you expect your people to get out in the community, get on the phones and take tours. Allow them to feel like you feel their pain! Put their shoes on your feet and they will always fight for you!

8. THEY KNOW THE VALUE OF ENTHUSIASM - Enthusiasm will saturate all with whom you come in contact with to cooperate with you and your ideas. All we can say on this one is that if you don't have enthusiasm about what you do... GET SOME or GET OUT!

In the club business, with long hours and demanding customers, your people need constant leadership that is positive. Follow the principle of "catching your staff doing something right" and use kudos to create enthusiasm. For your sales team, the book by Og Mandino entitled, The Greatest Salesman in the World, is a stellar way to instill the confidence and inspiration your people need on a daily basis. Read it daily, and watch the activity of your people rise. If you don't have your people by the heart, you don't have them at all!

9. THEY CONTROL THEIR TEMPER - WOW this is a good one for all the egotistical bosses out there. This is the new millennium, not the 70's! You can accomplish what you need by addressing issues diplomatically and tactfully. Now, I'm not speaking of red-flag issues that need a little emotional back-up based on ethical or moral issues. I am talking about your general management style and how people perceive your leadership. Is it fear-motivated or inspiration-motivated?

As a manager, you need to treat people the way you would like them to treat you. Do not wear your emotions on your sleeves! The best example of this would be addressed with this question; "When was the last time you felt like giving 110% to your boss when he managed you through losing his temper on a regular basis? Think about it.

10. THEY HOLD THEIR PEOPLE ACCOUNTABLE



Gary Polic

TABILE - Successful people hold their team members accountable on a CONSISTENT basis by coaching and supporting their activities. Don't confuse business with friendship. Your people will respect you if you are consistent and give them uninterrupted time. If you are their friend, you will destroy one of the most critical characteristics of leadership, and that is the ability to discipline when things are not done as expected. Discipline is a good thing when it comes to changing others' habits, but discipline without the proper accountability is nothing more than being bossy.

One way to keep your sales team accountable is to scoreboard their sales activities. This will guarantee your ability to hold them accountable based on what matters most... day-to-day networking/prospecting, telemarketing and closing activities. Remember habits create the result one day at a time, so create a winner by creating a system (score boarding) that will support their efforts!

10 basic, but undisputable, attributes of successful people. Now that you have read through the article ask yourself, "Are you one of those successful people?" If yes, CONGRATULATIONS! If not, what are you going to change TODAY?

(Gary Polic is a speaker for Communication Consultants. You can visit Communication Consultants at www.communication-consultants.us. Gary is also the Director of Sales Training & Development for XSPORT Fitness. You can E-mail him at gary.polic@xsportfitness.com.)

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David Patchell-Evans, President and Founder GoodLife Fitness Clubs, Canada

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Fighting Childhood Obesity in Your Club

By: Rande LaDue

It is no secret that Americans have gotten fatter. Our industries have even made changes in their products to accommodate our larger sizes. Airline pilot's seats are being made wider. Automobile cupholders are made to fit jumbo drinks. Department stores specializing in larger sizes are flourishing. Even coffins are now being "supersized". Sadly, it also seems that we have also resigned ourselves to raising a generation of unfit kids. Over 25% of America's kids are considered overweight and obesity levels have tripled in the last 10 years to over 15% of our youth. Over 60% of our children do not participate in organized activity outside of school. Kid's clothing stores have added larger sizes than ever before. An incredible need exists for safe, effective

fitness programs designed to attract children into a healthy fitness lifestyle.

"Make It Safe!"

The most important component in a kid's fitness program is safety. In a conventional health and fitness club, exercise equipment may not only be too large for children, it may cause undue stress on joints and growing bone plates. Conventional fixed loaded equipment with both concentric and eccentric resistance also results in Delayed Onset Muscle Soreness (DOMS) which can discourage participation by deconditioned children. Hydraulic resistance equipment has proven to be safe on joints and bones because it offers *eccentric-only resistance* that develops lean muscle density and strength without muscle

soreness. It has proven to be successful for kids.

Elimination of intimidation is another important factor for children, especially the deconditioned. Unfit kids often do not participate in organized physical activities due to intimidation and fear of failure. Peer pressure and intimidation can be eliminated by the use of resistance equipment which accommodates the effort of the individual user. Also, the children cannot see how much weight each other can or can't lift. *Ideally*, a kid's fitness program should be set up in a separate area or room outside the general workout area to avoid intimidation.

"Make It Fun!"

Another key factor in a successful kid's fitness program must be *fun*. With shorter

attention spans, children won't stick with something unless they enjoy it. Kids get bored easily; a successful kid's fitness program must be fun and offer variety to prevent boredom. Interval circuit training, with participants moving from station to station at set short intervals, has proven to be a format that kids enjoy without giving them time to get bored. Fun cardiovascular activities can be performed between strength stations to allow heart rates to be maintained in target zones while providing coordination and stability drills. If children have *fun*, they will come back and stick with a program; the more they come back, the better their results.

"Group Exercise Is More Fun!"

Working out in a group, especially with those of your own fitness level, is more fun than

working out alone. Kids enjoy group activities with their friends. Circuit training programs offer this *fun* and *camaraderie*. Group classes should be set at those times that are advantageous for kids and their parents; late afternoon and early evening classes seem to work best. Beginner's classes should be offered for the deconditioned while more challenging classes should be offered at different times to help eliminate intimidation. Class duration should be limited to 30 or 40 minutes to avoid overtaxing kids and to increase adherence. It is recommended that "packages" of classes be sold as opposed to attempting to sell parents annual memberships. For example, a group of 18 classes (3 classes a week for 6 weeks) could be sold for \$199.00. If packaged with a nutrition component (Nutrition *(See PACE Page 27)*)

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— Gerry Faust,
Consultant to the
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- Employees learn in real time, at their own pace, in their own space
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- No cost of consultants, work time loss or travel expenses to conventions

...Kid's Pace

continued from page 26

software is available from www.exerciseandnutritionworks.com), \$299.00 for 6 weeks would be a reasonable price. Results (measured in reduction of body fat and inches lost) could actually be guaranteed with this type of program with the criteria that kids attend all 18 classes over the 6-week period and that they track their meals and snacks with daily journals. Many parents of overweight children would be happy to pay this amount for a program that offers guaranteed results that their kids will stick with.

The normal unsupervised use of conventional fitness equipment may also cause problems when used by children. An effective kid's exercise program should be supervised to ensure proper use of equipment and to provide motivation and encouragement. Circuit training equipment set up in a circle allows a single trainer to effectively coach many children at the same time while offering

supervision and encouragement.

Kids Love It and Kid's PACE Equipment Will Do The Job!

Kid's PACE Express Equipment (see Kid's PACE ad on the this page) has been specially designed and sized for the 7 to 11-year old market. Kid's PACE Equipment uses the same safe hydraulic resistance as the PACE adult line to ensure safety. With six levels of resistance settings, Kid's PE can be used by kids of virtually any fitness level. One important change has been implemented into the kid's line however; the knobs on the Kid's PE hydraulic cylinders can be removed by the trainer to further eliminate peer pressure. While most of the adult PACE programs are done on a self-training format with cues indicating when participants should change stations, the Kid's PE program is designed with supervision for children in mind. Kid's PE utilizes an interval circuit training format with fun activities such as hoppy balls, hoola hoops and jump sticks

between each hydraulic exercise machine. Six choreographed programs with upbeat music have been included with each Kid's PE package with dozens of variations possible for each program.

...Norm's Notes

continued from page 17

Clubs (WAC) and my old Black-Jack playing days pal in our early IHRSA years in Las Vegas, has announced that **WAC** will invest **\$25 million** to build a 100,000 square-foot mega-club in Carlsbad, California! Good luck Jim with the new project.

• **LA Fitness**, the company that, according to their **Vice President, PAUL NORRIS**, "wants no press coverage" for some strange reason, continues to have a **major impact** in many markets as evidenced by the comments in my page 3 article/interviews this month entitled: **'Low Cost Clubs'... How the Competitors Feel - The CLUB INSIDER'S "Counterpoint"**. Low Cost Clubs are **'shakin'** up the industry in many sectors. But, **WORLD GYM Inter-**

Kid's PE has been developed by fitness, recreation and child development professionals to ensure fun, safety and results. Every Kid's PE pro-gram includes NESTA Certification for staff members as well as a turn-key **national CEO, MIKE URETZ**, considers this phenomenon to be just part of business in America, and he expects this 'low-cost-club' movement to **fade** as those that have tried it realize what it is really all about.

• There is a **big argument going on** between the **many people and organizations** involved with **Certification of Personal Trainers** across the country. **STAY TUNED!**

• **Iron Grip Barbell Company, Cybex and Life Fitness** were among those that have been honored with recent **Nova7 Awards** presented by **Nitva Management Magazine** and selected by club owner/operator votes.

• Even as an award winner and world fitness equipment sales leader, the gigantic **Life Fitness Corporation's and Brunswick Corpo-**

marketing and training package. For more information, contact Pro*Fit Enterprises at 888-604-2244 or visit www.KidsPaceExpress.com. Canadian customers can call PACE Fitness Canada toll free at 866-519-7223.

rations (parent company for Life Fitness) executives are scratching their heads and asking the question, "How could we generate **\$660 million** in revenues in 2004 and **not make a profit?**" I ask here, could it be that **Life Fitness** has been selling its excellent, award winning products at **too low of a price, driving down all the prices for all fitness equipment manufacturers** to the point that some manufacturers are **struggling**, as publicly evidenced by the **recent Bankruptcy filing of the great Body Masters Company?**

• **Congratulations to Town Sports International's MARK SMITH and ED TRAINOR** as **TSI has installed Philips HeadStart AED's (Automatic External Defibrillator) in ALL of their 130+ clubs!** The devices resulted in one life saved

(See Norm's Notes Page 30)

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Kid's PACE Express

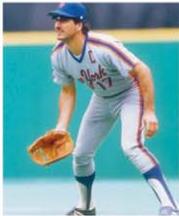
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Lifestyle Family Fitness To Launch BodyCombat In Florida

A Cardio Workout that Combines Karate, Tai Chi, Kickboxing and Tae Kwon Do

April 14, 2005 - ST. PETERSBURG, FL – Lifestyle Family Fitness announced today its launch of a new exercise class, BodyCombat®, an ultimate martial arts workout, on Saturday, April 30, 2005. The Program combines moves and stances from a range of self-defense disciplines, including Karate, Tai Chi, kickboxing and Tae Kwon Do, into cardio-pumping, muscle-defining workouts. The Program's cardio-combative workout can burn over 500 calories per class, while improving participants' strength, speed, flexibility, coordination and balance.

The Program is owned and licensed by Body Training

Systems (BTS), an Atlanta-based provider of group fitness programs. Through a motivating routine, BodyCombat shapes and tones through a series of punches, jabs, elbows, uppercuts, blocks, front kicks, back kicks and side kicks. The workout intensity can be self-regulated by participants by simply increasing or decreasing the range and acceleration of movements. Instructors are given strict guidelines for the maximum kicking heights and striking extensions considered safe. By adjusting intensity to their physical ability, participants will achieve a safe maximum workout effect.

"With the increasing popularity of martial-arts based workouts, BodyCombat's innovative program combines great music with high-energy self-defense movements that target all the major muscle groups of the body," said Melissa Class, Director of Group Fitness for

Lifestyle Family Fitness. "This program is popular because of its ability to fight fat and burn calories. In addition, women particularly like the program because of the sense of empowerment it offers."

The BTS programming is complimentary to members as

part of their membership. Class times may vary among Lifestyle Family Fitness clubs and the Program will not be available in Lifestyle's Jacksonville location. Please call 1-800-LIFESTEP or visit www.lff.com for the group fitness schedule at the club nearest you.

...Norm's Notes

continued from page 27

the first week they were installed! With 360,000 members, these AED's were a great investment! Also, TSI just announced that they had acquired the award winning Gold's Gym in Monmouth, N.J.

The club was designed by 'Fabulous Fabiano' (Rudy) and won Gold's Gym International's 'Gym of the Year' 2004 award!

• PAUL and TINA RICHARDS, the owners and operators of 9 Club Physical facilities in New Zealand returned from IHRSA San Francisco charged up by DR. DEAN

ORNISH'S keynote speech in which Dr. Ornish chronicled the fact that he had a group of 7 patients, all of whom were lined up for heart transplants. All 7 were placed on Ornish's program of regular exercise and a healthy diet. ONE YEAR LATER, writes Richards, NONE of the patients required the heart transplant! This reminds me of the totally amazing story of our good friend, DALE DIBBLE who five years ago this coming Thanksgiving had his heart problem diagnosed as no longer treatable by the Cleveland Clinic in Ohio and given 2 to 4 months to live. Our friend Dale came back home and decided NOT to believe those doctors, but instead, to increase his exercise regimen. Five years later Dale and his wonderful wife, OLIVE MAE, continue to enjoy a great life at the Hyatt Classic Village in Naples, Florida!

• Health club industry veteran, ROGER WITTENBERNS, has sold controlling interest to his 30-year old Lady of America chain of clubs to Trivest Corporation.

• KEITH ALBRIGHT has been named by Gold's Gym International as its new Senior Vice President of Franchising.

• GOD BLESS our Troops, Airmen and Seamen as they serve our country by risking their lives for us in Iraq and other places around the world. God Bless the families of our Servicemen and women as those families must make huge sacrifices as well. God Bless all of you. And, GOD BLESS AMERICA! Stay tuned!



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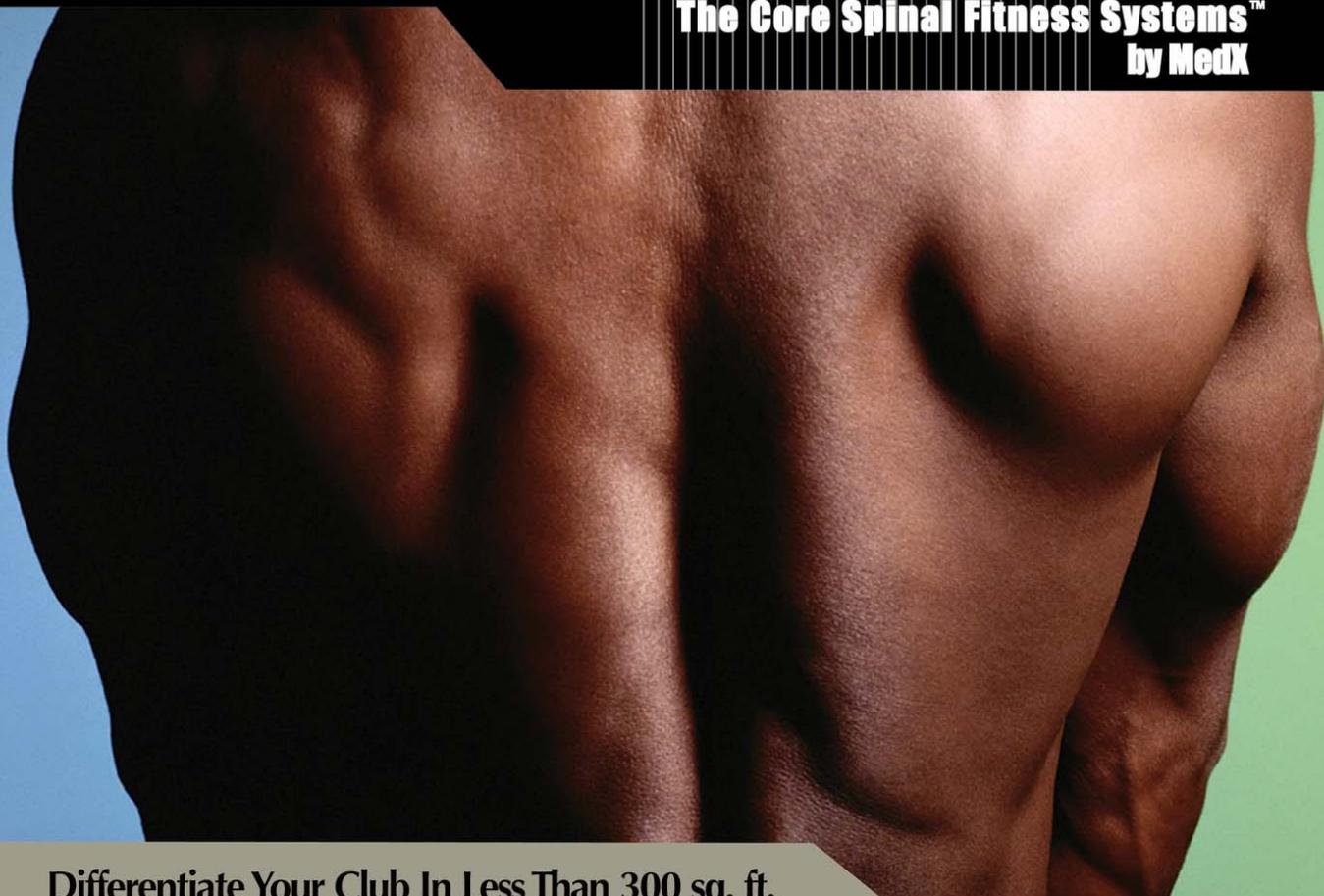
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