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Norm Cates'

THE Club Insider[©] NEWS

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

JUNE 2001
VOLUME 8 NUMBER 6



Art Curtis and Ed Williams (left to right)

Ed Williams And Art Curtis Leading Wellbridge

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THE Club Insider

NEWS

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

Ed Williams And Art Curtis Leading Wellbridge

An Interview With Wellbridge CEO - Ed Williams and COO - Art Curtis

Last month we reported that Wellbridge Corporation had chosen 29-year club veteran and Co-Founder of Club Sports International (now called Wellbridge), Ed Williams, as its President and Chief Executive Officer. Williams had been serving as "Acting" President and CEO for the past year. In 1983, Williams and Tom Lyneis Co-founded Club Sports International, a sports and racquet club management company.

Ed Williams has spent his entire career since graduating from St. Ambrose College in Davenport, Iowa, in the club business. He had gone to college on a full tennis scholarship and upon graduation became a tennis pro in Pennsylvania. Since that time, he has served in virtually every capacity in the business from one time to another.

Art Curtis, Wellbridge

Chief Operating Officer, was a two-sport scholarship athlete in football and lacrosse at Bowling Green University. Art earned his undergraduate degree in Business and a Doctorate in Physiology from the University of Maryland. Together, these two former athletes apply the lessons of focus, dedication and hard work they learned in sport competition, to the business world, as the leaders of the Wellbridge Company.

We spoke with Ed Williams and Art Curtis while they were together at the Northwest Athletic Club in Minneapolis, one of 11 facilities Wellbridge owns in that metro area. They own and/or manage a total of 43 facilities in 15 states.

"Ed, congratulations on your recent appointment as CEO and President of the Wellbridge Club Company. And, thanks to both you and Art for taking some time to speak with me today. Let's get right into this interview so you can get back to work."

Q.- "Ed and Art, please

give me a thumbnail biographical sketch of your industry resume.

A. Ed- You name it and I have done it! The only thing I haven't been able to do is hold down a full time facilities maintenance position. I have been a part-time maintenance person. In addition, I have never been an aerobics instructor. Anybody who knows me knows why.

Art- After completing my Doctorate in Physiology, I joined CSI, worked my way up and have been with CSI, now Wellbridge, for 13 years.

Q.- "In your past history, CSI (now Wellbridge) has been very successful in purchasing existing clubs and making them much more profitable. What have been the key elements of CSI's success in such take-overs?"

Art- In our first stage, we were a development company. In the second stage we were a management company. In our third stage we were really

doing work for the FDIC/RTC and large Japanese Holding Co's. So, when you take the development cycle to the management cycle, and then to the RTC cycle, it has given us a lot of different avenues of education over the past 17 years.

Q. Sort of a "Doctorate" in club turnarounds?

Ed- Yes, it really was. We had a chance to go to school and now that we are out there doing this for ourselves, we are able to use our experience to our advantage.

I'd say beside the educational experiences, the key elements would be good people, excellent service and careful management. When it comes right down to it, you can have all of the best systems in the world, but you really need good people on site to execute. We were very fortunate back during the early years to be able to identify and bring on a lot of great people, like Art Curtis, that stayed with us for a lot of years. They are the ones that got us to the level of success that we've achieved."

Q. For Art- "Ed was re-

cently selected by the Wellbridge Board of Directors to be the CEO after having served as the 'acting' CEO for close to a year. What does that decision mean to you and the Wellbridge team of employees?"

A. Well, it means a lot to all of us. All of us have a tremendous amount of respect for Ed Williams. Ed represents a very important 'link' to the CSI past, which is very important to all of us. We have been very fortunate to have many of our key Regional and General Managers to have been with us for 10 or more years. That long-time loyalty has now been strongly reinforced by the Board's decision to choose Ed as our leader.

Q. What is the Wellbridge Mission Statement?

A. Art- "To make a meaningful difference in people's lives through innovative mind, body and social experiences."

Q. Wellbridge has a variety of types of clubs (small vs. (See Williams page 14)

ClubCom Rises To The Challenge

An Interview With ClubCom, Inc. CEO and President Tom Lapcevic

The health, racquet and sportsclub industry was rocked when the merged companies, Netpulse/Ezone Networks, Inc. filed for Bankruptcy in the U.S. Court in San Francisco. On May 7, 2001, ClubCom, Inc., headed by CEO and President, Tom Lapcevic, purchased the assets of

Ezone Network out of bankruptcy. We were able to reach Tom Lapcevic and he was kind enough to provide some answers to questions that we think you would want to know. We wish Tom, CardioTheater's Tony deLeede and TSI's Mark Smith the very best of luck in this important endeavor. As stated by Tom at the end of this interview, exercise entertainment is a vital component of the product mix of the health club industry and it is good that

this effort is now a work in progress. STAY TUNED.

An Interview With Tom Lapcevic

Q: Please give me some background on how you got involved in the fitness industry.

A: I have actually been around the fitness industry nearly my entire life. When I was nine years old my father started the

first community center in our area. By the time I was fourteen, I was welding and developing our own strength training equipment. I continued this interest throughout college and law school. In 1989, I founded Strive while attending law school. After practicing law for five years, I went full time with Strive in 1995. I then started ClubCom in early 1999.

Q: It was learned recently week that ClubCom led a group of

companies to acquire all of the assets of E-Zone Networks. It is my understanding that the group includes Town Sports International and Cardio Theater. Could you please share the plan, describe the assets purchased from the Bankrupt Estate and confirm that your group paid \$2.1 million?

A: Your information is fairly accurate. ClubCom purchased all of the assets of E-Zone and then sold segments of the assets. (See ClubCom page 8)

Inside The Insider

- Key Tools To Managing Your Sales Team
- The "Golden Opportunities" - Non Traditional Markets
- The Making Of the "Perfect Plate"
- The Health Club Economic Update
- Six Ways To Survive An Economic Downturn

The STEP Company Becomes BODY TRAINING SYSTEMS

By Norm Cates, Jr.

Why would a company that had sold 7 million of a

revolutionary product, The STEP, to over 17,000 clubs worldwide, change its name? The answer is that the new, less than 3-year old Division of The STEP Company, BODY TRAINING SYSTEMS, has swal-

lowed up the parent company. So now, when you dial (800) SAY-STEP you will be contacting BODY TRAINING SYSTEMS, formerly The STEP Company. If (See Body Training page 5)

Norm's Notes

continued from page 4

UMass. The two \$5,000 faculty grants went to **HEATHER A. O'NEAL**, The Cooper Institute, Dallas, Tx. And **LORI PLOUTZ-SNYDER**, Syracuse U., Syracuse, N.Y. Congratulations to all.

•**BRIAN EVANS**, the President of **American Family Fitness Centers** in Richmond, VA., has announced that his company has raised over \$15,000 for **Children's Hospital of Richmond** through a series of fitness challenges involving 700 members and employees. The funds will be used to purchase important equipment such as the sur-

Body Training

continued from page 3

you have not already done so, you are just one YES away from joining the most powerful group exercise phenomena since The STEP was rolled out nearly 10 years ago. **BODY TRAINING SYSTEMS** is already having a huge and growing impact on the health, racquet and sportsclub industry in North America and around the world. **BODY TRAINING SYSTEMS (BTS)** now serves over 1,000 clubs in North America, but they have just scratched the surface on this continent. Globally, as reported in the June edition of **IHRSA's Club Business International Magazine**, the Les Mills BTS organization now delivers, "5 sophisticated, distinctive, prechoreographed group exercise programs to over 5,000 clubs in 50+ countries."

Do you want to make more profits in your club business?

Do you think you or your Group Exercise Director knows all there is to know about Group Exercise?

Do you know what "Cost Per Member Visit" is and how to calculate it?

Do you know what Group Fitness Cost Per Participant is and how to calculate it?

Do you think that \$250 per month is too much to pay to **DOUBLE** your group exercise participation within one year?

Do you understand the correlation between increased group exercise attendance and revenue production and ultimately bottom-line profits?

Do you think that it is smart to charge "extra" for your members to attend your group exercise classes?

Do you know that an **IHRSA 2000** report called "Why

gical microscope and heart-rate monitor they had previously purchased.

•**DICK MITCHELL**, Vice President of **CheckFree's Health and Fitness Division**, informs me that **MERRICK THEOBALD** has been named as **Marketing Communications Manager** for CheckFree.

•**The American Heart Association** has released the results of a two-year study involving 180,307,204 adult workouts at 320 clubs that resulted in 71 deaths from "cardiovascular events." Of the 71 fatalities, 61 or 86% were men with an average age of 52. One-third of the fatalities involved exercisers

People Stay, Part 2" says: "Research has clearly and consistently demonstrated that exercise adherence is improved when a sense of group camaraderie or cohesion exists. This isn't surprising given the fact that 90% of all exercisers report that they would prefer to work out in a group."

Does your club generate 40 to 50% of its annual traffic and revenues through group exercise programming?

Do you have a Group Exercise Director who is "protecting his/her territory" and keeping you from even **UNDERSTANDING** what truly professional group fitness instruction and programming could do for your club?

The Group Exercise

with known risk factors or previous cardiovascular history. 50% of the fatalities involved beginning or irregular exercisers. The report's conclusion: "These findings, from the largest database reported to date, highlight the small acute risk of cardiovascular events for adults participating in recreational physical activity."

•**BILL PARISI**, President of **Parisi's Sports Conditioning**, has announced the **Grand Opening** of a new 30,000 square-foot health club in Fair Lawn, New Jersey. The new facility in Fair Lawn combines two aspects of the industry. **The Parisi School of Speed, Strength and Power** and **Parisi Sports Club USA**. The fa-

lity is sweeping the globe. The CBI article was a terrific story highlighting the career of Les and Phillip Mills, two of the world's top fitness leaders in Auckland, New Zealand. The report gave the history of Les Mills' World of Fitness club chain and chronicled how Rich Boggs, Founder, CEO and President of **Body Training Systems**, has now brought the 5 BTS programs to North America.

We recently met with Rich Boggs, **BODY TRAINING SYSTEMS** President and CEO, and here are key points that Boggs made during that meeting.

So, if you are a club owner and operator and you have not yet investigated and carefully

looked into the benefits and results of **BODY TRAINING SYSTEMS'** group fitness programs, I urge you to educate yourself on this subject and become familiar with the real "inside" story. This article will help you get started. Read on.

only to see my possible demise come from unfair competition." Williams later comments, "The information sent by **IHRSA** was the only ammunition we had to fight the hospital's proposed fitness facility. Sooner Fitness never could have competed with **Norman Regional Hospital** legally or financially." Congratulations on that effort and success, Captain Williams. We should all thank our policemen, firemen and teachers for what they do for our society, so Thanks Captain Williams!

•Congratulations to **CAPTAIN JAY WILLIAMS**, owner of the **Sooner Health & Fitness Club** in Norman, Oklahoma, and to **SHANDI JARMAN**, Club Manager, who spoke before the local hospital's **Board of Directors** and convinced them to cancel plans for a 40,000 square-foot hospital health club to be built across the street from Williams' **Sooner Health & Fitness**. Williams, also a City Fireman, told the Board, "I have spent the last 13 years building a business with a very solid reputation,

•Thanks for reading **The CLUB INSIDER** News. Please tell your friends about our new Website: clubinsidernews.com.

•STAY TUNED.

A BODY TRAINING SYSTEMS Briefing By Founder and CEO Rich Boggs

Rich Boggs - "We all (See *Body Training* page 8)

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Key Tools To Managing Your Sales Team

By Casey Conrad

In the last article, "Key Tools to Keeping Salespeople on Track," we discussed that there were three key attributes of all successful sales teams. They are good management skills, excellent motivation and effective organization. As we learned, without all three components a sales team will often go astray. In this article, we are going to focus on key tools to manage your sales team.

When it comes to the managing of a sales team in the fitness industry one very challenging element is the present-lack of daily structure. Specifically, every single day at a health club is different because of the nature of the environment. Therefore, the lack of structure is somewhat out of a salesperson's control. This might make for interesting and fun working environments for people who hate monotony, but it brings with it some serious management issues. Without structure, how do you create consistency, how do you set expectations and how do you establish accountability with salespeople at the end of the day? One way to deal with the health club environment AND still provide good management of your sales team is to focus on three specific components; daily meetings, weekly meetings and bonuses and incentives.

Good salespeople are social beings at heart and like personal attention. One way to provide them with the personal attention they like AND give you an effective management tool is to have

daily meetings with each salesperson individually. Keep in mind that daily meetings are not long and drawn out time killers. In fact a good daily meeting will stay within a 5-10 minute period unless a major issue comes up that needs the time given to it. Like all meetings, "dailys" should have structure. Begin with looking at the salesperson's previous day's performance. If they had a great day, let them know it. If they had a tough day, inquire as to why and offer quick suggestions for future improvement. Next, check in with how the salesperson's current day is set up. Do they have the minimum number of appointments set? Have they confirmed their appointments? What is their goal for the day? As simple as these questions may sound it will help to keep the salesperson on track and help you, the manager, uncover valuable information about performance.

Once the current statistics on performance have been covered, the next thing you want to evaluate is whether or not the salesperson is on track for the month. Meaning, based on where they are with current sales will they make their goal? If not, some time might need to be taken to strategize or brainstorm ways of turning the month around. Checking in on a salesperson's projected monthly performance each day will prevent them from getting too far behind. Finally, ask the salesperson if they are having any challenges or if they need anything from you. As simple and basic as this may sound, some salespeople are afraid to ask their manager for help for fear that they will be seen

as weak or inadequate. Pro-actively asking salespeople if they need anything establishes a good relationship between a manager and staff person and conveys to the individual that you care.

The next component for good management is weekly meetings. Where daily meetings give you a chance to work with individuals, weekly meetings allow you to bring the team together and create a cohesive working environment, which is sometimes challenging with salespeople. In order to have effective weekly sales meetings some basic rules MUST be followed. First of all, weekly meetings need to be mandatory. In fact, attendance at the weekly meetings should be part of every salesperson's job description, which they sign before accepting employment. They are that important! Next, weekly meetings need to be held on the same day and at the same time each week. Without consistency on the time and day, salespeople will come up with all kinds of excuses why they can't attend. If the meeting is during a time when the employee is not scheduled to work and it was not pre-agreed to, it makes it very difficult, if not impossible to enforce.

As far as the running of the meetings themselves there are also some rules that need to be followed. One is that there are NO interruptions. Interruptions kill the energy and enthusiasm of a meeting. Therefore, make sure team members never schedule appointments during meeting times. If they do, don't let them take it (that sounds cruel but it will only happen once). Which brings us to the next rule. Whenever your sales meeting is, make sure one or more staff members are fully trained to take all walk-ins (or appointments incorrectly scheduled). This allows you to follow through with the no interruptions policy.

Further, in terms of organization, you should have a pre-printed meeting agenda that is passed out to all sales team members the day before the meeting. This allows them to prepare for the meeting, think

through any questions they might have and give input as to what might need to be covered concerning current issues or challenges the team is facing. Most importantly, having an agenda prevents the number one meeting-killer from happening—that is when a meeting turns into a gripe session. When you have a pre-planned agenda and a team member brings up a gripe issue, simply stop it dead in its' tracks by saying, "That isn't on our agenda, would you make a note to cover that at the next meeting." Of course, that item won't wait till the next meeting, rather a good manager is going to meet with that individual personally and get the problem solved.

Finally, the third component for good sales team management is establishing bonuses and incentives. It is human nature to want to be rewarded for a good job but for a salesperson it is even more important because salespeople are competitors at heart. Of course, bonuses and incentives are nothing new to the management of a sales team. However, what many clubs fail to do is establish bonuses and incentives that have the maximum impact on keeping a sales team focused. Instead of simply offering a bonus based on a month-end goal, clubs should look at creating smaller weekly goals for each salesperson. So, if a salesperson's bonus would normally be \$250 for hitting month-end goal, take \$100 of that bonus and break it into 4 weekly bonuses. Therefore, if the goal was 40 units sold for the month, the salesperson would earn \$25 each of the weeks they sold 10 units. Weekly goals accomplish a couple of important things. First, they give salespeople a short-term, very attainable goal. Second, when a salesperson only receives a month-end bonus and is having a bad month where they probably won't hit goal, they often will give up and save their leads for the following month when the work will "pay off" again. On the other hand, with weekly bonuses the salesperson will still get something for their efforts and will be less likely to "sand-bag" the month.

Another aspect of bonuses and incentives that often gets overlooked is offering salespeople something other than cash



Casey Conrad

bonuses. Although many salespeople are very money motivated, some are more influenced by prizes or getaways. Perhaps a three-day weekend to a nice local resort or a golf outing would be enticing. Maybe an electronics item or a shopping spree would be more motivating. The key is asking the individual and then creating an incentive and bonus structure that matches their values and motivational forces.

Finally, don't forget that salespeople like fun and motivating environments. Providing small daily "spiffs" for certain things can bring some healthy competitiveness to the team. And daily spiffs don't have to be big prizes. Something as simple as two movie tickets or a gift certificate for a free rental at Blockbuster Video can be seen as a wonderful perk that is easy to use. For instance, if referrals seem to be low one week, you might say to the team, "The first person to get 10 referrals today is going to get two tickets to the movies." You would be amazed at how quickly the team gets moving and tries to beat one another out for the tickets. Just the idea of winning is often enough for a salesperson to kick into a higher gear, something he or she should already be doing anyway.

(Casey Conrad has been an industry consultant for over 13 years. She is the author of numerous books, videos and audio programs including *Selling Fitness*; *The Complete Guide to Selling Health Club Memberships*. In addition to speaking and consulting, she runs Health Club University, a training center for health club sales and management, at the corporate offices in Rhode Island. Most recently she started an international chain of in-club weight loss centers called *HEALTHY INSPIRATIONS*. To date there are 15 *HEALTHY INSPIRATIONS* centers in 7 states and 3 countries.)

Norm Cates' **THE Club Insider**®
NEWS

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Healthy Inspirations Goes 'Down Under' First Australian Location Opens

Wakefield, RI-June 1, 2001-In May the newest addition to fast growing chain of HEALTHY INSPIRATIONS Weight loss and Lifestyle Centers opened its' doors in Brisbane, Australia. This brings the total number of licensed facilities to 15. Locations are now in 7 states and three countries with expansion continuing at about two new licensed locations per month.

The Australian location was opened by Jamie and Ellen Hayes, long-time multi-club operators from Sydney who recently relocated to Brisbane. The Hayes have bought the HEALTHY INSPIRATIONS distributorship rights to all of Australia. In addition to selling the program to both club operators and those who wish to open stand-alone facilities, Hayes is himself opening independent centers. Notes Hayes, "Although the markets between the US and Australia are very similar in

this global era, there are a number of cultural differences that will require small adjustments to the program. The most obvious is measurements; where the US utilizes ounces, Australia follows the metric system. Further, some product brand differences had to be researched and converted by our dietician. Nothing we change, however, in any way alters the program itself or the turn-key system that has been created. I don't need to re-invent the wheel, just modify it for our type of terrain, if you will. Having our own facilities will allow me to make any and all adjustments, ensuring that licensees in Australia are as successful as the US centers have proven to be. And, with the projected profitability of the centers I'd be crazy not to own some. Not only do they make a better ROI (return on investment) than most health clubs but they require a lot less capital investment and are easier to oper-

ate. We have had interest from club owners in nearly every state."

Hayes' location, which is located in the Kenmore section of Brisbane, is approximately 1,800 square feet of space set in the 1st floor level of a plaza. It is equipped with the hydraulic fitness equipment, the Tanita body composition scales, the Tosa Tranquillity Chair and all the standard daily visit and office areas. Hayes' entire staff went through the complete HEALTHY INSPIRATIONS week-long training course given by founder Casey Conrad via video technology. When asked about the training one staff member said, "When I was invited to attend the training I really didn't know if I had what was required to be a successful Lifestyle Consultant. My kids are at an age where I can now return to the workforce. The

training started with the diet and service side and I was really impressed. It all made so much sense, most of us went straight on the program ourselves. Finally, we finished the week with two days learning the 8 step sales process. I was surprised how comfortable it was. It made it easy for us and easy for people to understand and enroll. We all enrolled people the very first week."

Hayes plans to put HEALTHY INSPIRATIONS in rural and suburban communities right across Australia. "The Australian Medical Association reported this month (June) that over half (52%) of Australian women are overweight or obese. Obesity has doubled and diabetes (T2) has tripled in the last 20 years. Until HEALTHY INSPIRATIONS there simply hasn't been an effective long-term weight-loss solution for women in Australia. Overweight affects women in all

socioeconomic groups as well. In the lowest socioeconomic groups, 52% are overweight and in the most affluent groups its 43%. As I see it... any town or suburb that has a McDonald's needs a HEALTHY INSPIRATIONS."

HEALTHY INSPIRATIONS is a new corporation founded by industry consultant, Casey Conrad. Conrad is President of Communication Consultants, a company that provides the fitness industry's most comprehensive system of live training seminars, tapes, workbooks, textbooks, on-site club consulting and trade show lecturing, with more than 20 products in use in over 1,600 clubs worldwide. She is creator of Health Club University, a training center in RI that offers monthly sales, marketing and management programs year round. She is now President of HEALTHY INSPIRATIONS, LLC. In addition, Conrad is an attorney, licensed in the State of Rhode Island.

New, In-Club Weight Loss Program Projects 200+K Annual Profit With Using Just 750 Sq. Ft. of Space in Your Club

Casey Conrad, long-time industry consultant, has developed a complete turnkey weight loss business that's designed to be installed within health clubs that combines proven weight loss programming with sales, service and marketing systems. It's easy to fit into almost any layout. It can add a valuable service to your existing members and help you attract an additional target group within your local area. Most importantly, it is proving to be a huge profit center. It's called HEALTHY INSPIRATIONS and here are the results from three of the nine existing centers:

HEALTHY INSPIRATIONS at Westerly, RI (Stand-alone facility):	\$110,000 gross	43% cash
HEALTHY INSPIRATIONS at Contours Express for Women, Warrenton, VA:	\$42,000 gross	40% cash
HEALTHY INSPIRATIONS at Bodez by Tasso, Ormond Beach, FL:	\$92,000 gross	51% cash

Call today to receive a **FREE 12-page info-pack** that gives you an executive summary of how HEALTHY INSPIRATIONS can give you extra profits and a valuable service to your club.

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...ClubCom

continued from page 3

sets to CardioTheater and TSI. CardioTheater purchased the towers and headphones. TSI essentially purchased its installation base. I'm not at liberty to disclose the various purchase prices but the total price can be retrieved from the court records. Overall, the plan was simply to stabilize the industry. The bankruptcy of E-Zone could have severely compromised ClubCom's effort to position the fitness industry as a credible and valuable media forum. Thanks to the incredible efforts of many, especially those of Mark Smith of TSI and Tony DeLeede of CardioTheater, hopefully we have the industry's media initiative back on track.

Q: During the two or so years that both Netpulse and E-Zone were out there raising money, it was amazing that they collectively had gone through over \$100 million, maybe even \$120 million. What are the differences between ClubCom and Netpulse/Ezone in the sense of the financial model? In other words, why is the ClubCom model working so well when the E-Zone model ended in bankruptcy?

A: That's a very fair question - and one that I have had to answer many times in the investment community. Fortunately, the answer is fairly simple. It all comes down to the ratio between costs and advertising impressions. With E-Zone's business model, an enormous

and expensive infrastructure had to be built within each health club to make limited one-on-one impressions. With ClubCom, a very efficient installation within a health club yields hundreds of impressions with each broadcast. Based upon our numbers, ClubCom had more daily impressions across its initial 40 beta sites than E-Zone and Netpulse did combined across its 400 health clubs. Simply stated, the ClubCom business model makes sense; the E-Zone business model did not.

Q: How will the combined companies of ClubCom and E-Zone be packaged for the future? How will CardioTheater and TSI fit into that picture?

A: ClubCom operates private television networks for

health clubs. We are a content provider with a focus on entertainment, club promotions and advertising programs. ClubCom has been successful since it is compatible with any hardware platform - E-Zone, CardioTheater, Netpulse, BroadcastVision - it doesn't matter. Hence, we work closely with many companies to provide integrated entertainment solutions for the industry. Our relationship with CardioTheater is exceptionally strong with well-defined initiatives and commitments.

With respect to TSI, it's one of the world's leading health club organizations with an incredibly talented CEO, Mark Smith and an enormous installation base in the world's number one media market (New York City). Needless to say, I am hopeful that TSI will be a long-term network customer for

ClubCom.

Q: My recollection is that ClubCom has raised approximately \$9 million of institutional funding to date. Is that accurate?

A: We have actually raised somewhat more than that over the past year or so. Our most recent round closed a few months ago. Overall, your numbers are fairly accurate.

Q: Please share your feelings about the place entertainment has in health clubs.

A: It's an integral part of the health club product offering. We compete for people's time. We must make the health club experience enjoyable as well as productive. This starts with proper entertainment.

Body Training

continued from page 5

agree that why people join a club; to look better, to feel better, to lose weight, to tone up, etc, they come to the club initially for exercise. The survey conducted by IHRSA last

year indicated that "90% of all exercisers report that they would prefer to work out in a group."

Another fact that is very interesting is that despite the media and medical profession's attention to the benefits of exercise, we still have only 10% of the population that are members of health clubs. 25 years ago, it was 6.8%. The percentage has only moved from 6.8% to 10%, despite all kinds of positive research reports, articles, media etc. about exercise. While it is good that we now have 10% of the population as members, it says to me that our message has not resonated to that other 90%. Could they be trying to tell the industry something - 90% of the IHRSA survey wanted to work out in a GROUP - and we as an industry have this fixation with equipment. Imagine what could happen if we actually gave them what they wanted... They may refer their friends, clubs' retention rates could increase dramatically and we may appeal to 20-30% of the population.

GROUP FITNESS or EQUIPMENT

Let's look at the economic reasons why Group Fitness makes so much sense. If you look at cost per member visit (total monthly operating cost plus debt service divided by total monthly club visits), that number should fall between \$8 to \$12 for a club to be profitable.

COST PER MEMBER VISIT*

Total Operating Expenses + Debt Service divided by Total Monthly Club Visits

Average range according to The Thomas Plummer Company —\$8 to \$12. At \$12 or greater, a club will have a difficult chance making a profit. Below \$8 cost per member visit, the greater your profitability will be.

The Cost Per Member Visit clearly tells you what it is going to cost you to service every person that walks into your club. If you want to drive that cost down, you need more people coming through the door since most of your costs are going to remain pretty well fixed.

What we've got is a huge difference in the cost of servicing members. If I were a club owner looking at the economics, I'd consider this: if a club can drive more people to group fitness and deliver an outstanding product, I know my cost per servicing a person will be significantly lower.

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•Decreased cost of member service. Great Group Fitness IS the most efficient and economical way to service members. Equipment is much more costly to provide & maintain.

•Increased member referrals. A member who has a great experience in Group Fitness WILL tell their friends. When was the last time you heard a member say to a friend, "Boy, I had a great workout on that treadmill today!"

•Improved member retention. Group Fitness builds relationships and friendships. If a member has friends at a club, why

would they leave for cheap competition or switch to home exercise equipment?

•Social interaction. Part of the reason 90% of the people say they would prefer to work out in a group.

•Creates positive energy in the club.

Les Mills started his facility in Auckland in 1968. It was built in an old warehouse. They currently have 11,500 members in 60,000 sq. ft. paying an average of \$77 per month. They were at \$40 per month 4 years ago. The Mills drive their entire business through Group Fitness. Four years ago they began nearing capacity and have been raising prices. They provide 146 classes per week in four rooms, the largest of which is 8,000 sq. ft. which will accommodate 200 for BODYPUMP and 300 for other classes. Their retention on 11,500 members is stable at 75% which is one reason they are so profitable(28% EBITDA). It is amazing what they are doing. 60,000 square-feet with 20,000 of it devoted to group fitness classes. 7 to 8,000 group fitness visits per week, which is 50% of their total visits!

Gordon Johnson Gets It and Is Headed To 50%!

Gordon Johnson, the owner of 3 Gold's Gyms in Douglasville and Marietta, Ga., has seen the light and is making huge progress with his BODY TRAINING SYSTEMS Programs in his 3 clubs. His first goal was to reach 30% of his visits through Group Fitness. Gordon started at 12% and is now working on how he can get to 50% group fitness visits. He is now truly seeing and experiencing the economics of group fitness.

(See *Body Training* page 26)



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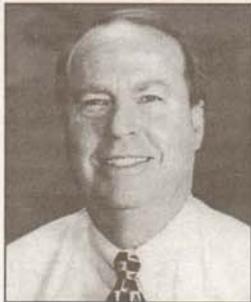


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The Making of the "Perfect Plate"

By Tom Lincir
President and Founder,
Ivanko Barbell Company

How many times have you heard the phrase, "weight is weight", or "a plate is a plate," or "how much per pound"? In my opinion, these cliches have been circulated by people who have nothing more than that to say about their plates. They want to perpetuate the myth that there is nothing more to it. An uninformed buyer is susceptible to these tactics. An informed buyer is not. Read on.

When you consider that anything made of iron will last a thousand years, a small price difference to get the best quality weight plates works out to almost nothing per year. Price is not a significant consideration. Quality is, and it is important in five areas:

- Casting Quality
- Weight Accuracy and Consistency
- Hole Accuracy and Consistency
- Workmanship and Painting
- Casting Quality.

All iron weight plates are "sand casted". Like footprints at the beach, an impression in the shape of the weight plate is made in damp sand, and molten iron is poured into the cavity. A number of factors influence the quality of the finished product: the fineness of the sand; the cleaning of the sand between castings; the moisture control of the sand, the grade and purity of the iron; the temperature control of the molten iron; the length of time the casting is left in the mold (the longer, the better). You might think that perfecting all of these factors costs money, but quality casting procedures will reduce the rejection rate ("remelt rate") and actually save money. So, you can actually get superior quality for

costs comparable to vendors with sloppy casting practices.

Once you get it right, you have to make sure the foundry doesn't start cutting corners or changing the system. This is why we require our foundries to make plates exclusively for Ivanko under our control so that sloppy procedures for competitive plates do not spill over into our process.

Weight Accuracy and Consistency

Most manufacturers claim accuracy within +/- 2% of declared weight. For a 45-pound weight plate, this means a range of 44.1 to 45.9 pounds. This is acceptable for non-calibrated Olympic plates. If you were to load three 45# plates on each side of the bar, one side could weigh 132.3 pounds and the other 137.7 pounds, a 5.4 pound or 3% difference. From my experience, this difference is too small to be noticed, and remember, this is the worst case scenario under a +/- 2% standard. That's why +/- 2% makes sense for Olympic training plates. To find out the reality of what is actually in use, I have personally weighed thousands of plates for accuracy, Ivanko's and our competitor's. I have borrowed plates from gyms, weighed them on accurate scales, and returned them. Only about 50% fall within the +/- 2% range. The rest run the gamut from slightly off to grossly off. The worst examples -- a plate marked as a 45#s that weighed 37.5 pounds, and one that weighed 59 pounds! I still have these plates in my collection.

I believe a contributing factor to underweight plates stems from pushing the foundry too hard on price. I have visited foundries in China that purposely make the patterns smaller, the weight lower, to meet some customer's low price demands.

The reduction is made in the cross section so it is undetectable without actually weighing the plate, which few buyers take the time and trouble to do. For buyers that do weigh plates, another tactic is to remove the overweight and underweight plates to meet the +/- 2% standard with the first order, which is the one most likely to be weighed. Then, they gradually slip the inaccurate plates (the "sliders") into future shipments that are less likely to be weighed.

A sure-fire way to guarantee accuracy is to own your own foundry, but as we learned, you can count on losing money for at least 10 years, and receiving a poor return on investment thereafter. Another solution is to discourage foundries from undercutting the weight by establishing pricing that leaves them with a fair profit margin. In Ivanko's case, however, I personally weigh a pallet of plates periodically to verify that our standards are being met. My supplier and good friend of 25 years does the same. We don't delegate this task. We want our employees, suppliers, and our customers to know that consistency is a CEO level priority.

Hole Accuracy and Consistency

There is no reason to accept plates with holes that are oversized, undersized, egg-shaped, or off center. The correct size range is 50.2 mm (1.976±) to 50.8 mm (1.999±) in diameter, so that the plate fits precisely on a 50 mm bar. An easy way to check hole accuracy is to place 45 pound plates on each end of a bar without collars. If the plates flop over at angles exceeding 30°, the hole is oversized and the plate is defective. There is no excuse for plates with holes that are not consistently accurate. It is not necessarily more difficult or costly to get it right. However, it

does take something that some CEO's are unwilling to do, hands-on management. You can delegate tasks, but the only way to truly guarantee consistency is to be personally involved in overseeing quality manufacturing practices. A good way to judge the CEO's commitment to quality is to check his fingernails. If he doesn't have any dirt under them, he's not involved. If his nails are manicured, save yourself a lot of problems and find a new supplier.

Workmanship and Painting

I have always believed in making weight plates that look good. If something is going to last for 1000 years, you might as well enjoy looking at it. There should be no unsightly surface irregularities, no sharp edges, and no noticeable grind marks. All it takes is a little loving care in surface preparation and quality painting practices.

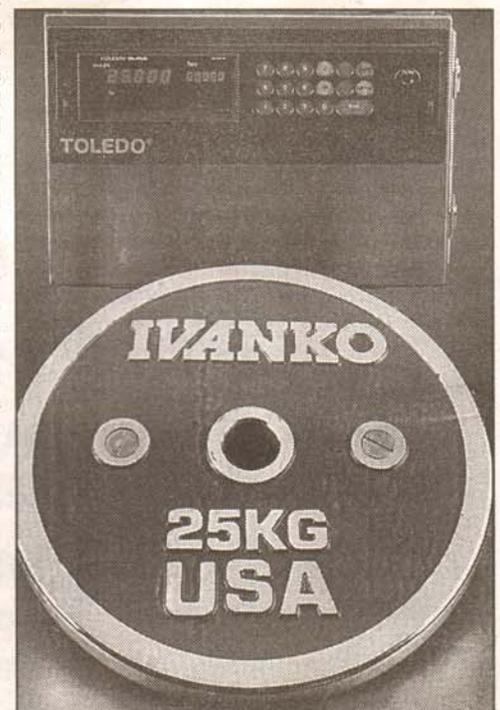
Almost all companies use too much paint. This causes the paint to chip almost immediately. And if the under surface is rusty, the paint will peel. To achieve the best results, the plate should first be sand blasted. Then, immediately after sand blasting, a high strength paint such as polyester base paint should be thinly applied. The painted plate should be baked at least one hour, then cooled completely before packaging. Cut any corners, and you've got

an ugly plate for club members to look at.

Differences Worth Choosing

It gets down to pride. There is no place in a first class operation for plates that don't weigh what they say; that don't fit snugly on the bar; or with surface irregularities, heavy grind marks, or peeling paint. When you have quality Olympic plates on your exercise floor, members will see, feel, and appreciate the difference. For a thousand years.

(Ivanko Barbell Company was founded by Tom Lincir in 1967, and it is the leading provider of professional and commercial grade barbell and dumbbell products worldwide. Your comments or questions are welcome. Write Tom Lincir, CEO, at Ivanko Barbell Company, P.O. Box 1470, San Pedro, CA U.S.A. 90733.)

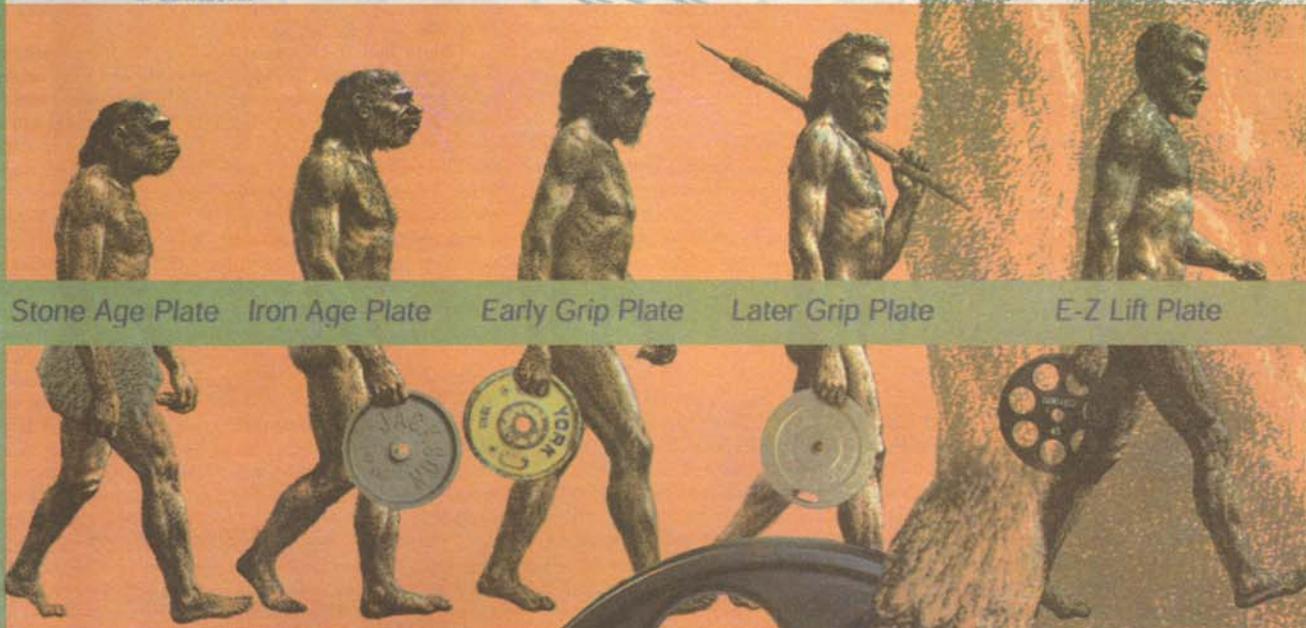


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E-Z Lift Plate

RUBBER E-Z LIFT PLATE

Ivanko's rubber E-Z Lift plate is just one example of starting with good ideas from the past and coming up with something better.

We designed this plate with more grip holes to make it easier to pick up, and therefore safer. And we kept it round for very good reasons that have stood the test of time: ease of use and exercise safety.

Finally, we covered this plate with our own proprietary rubber formulation which makes it softer on equipment and furnishings and easier to grip without slipping. Our unique sulfur-free rubber curing process also means no offensive smell in the air.

Coming up with better ideas is not just a process, it's an attitude—one of never being satisfied with the way things are, of always striving to give the marketplace something better.

To be continued.



Item ROEZ. Available in 45 lb., 35 lb., & 25 lb. sizes. Companion 10 lb., 5 lb., & 2.5 lb. sizes available without grip holes.

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...Williams

continued from page 3

large, urban vs. suburban, fitness-only vs. multi-sport vs. spa, etc.) How has it learned how to operate such very different clubs?

Ed - A lot of people call it a 'mixed bag.' I guess when you look at it, you would say that, but it just shows our level of expertise in management that we are able to operate different size facilities with different elements. We are not cookie cutters. We don't believe in putting down a 60, 70 or 80,000 square-foot box, the same box everywhere, because it doesn't work everywhere. You are always making compromises. We believe that we need to put down what the area can support, what the area demands.

Q. CSI changed its name to Wellbridge. What were the main reasons? How does the shift of corporate name relate to all of the different individual names of each club?

Ed - The main reason for the change was driven by the market and what we all read in the papers everyday. We're getting older. In case you haven't noticed Norm, you are too.

Cates - HA.HA.HA. (Sarcastically) You don't need to remind me. I hear about it all the time!

Ed - What's amazing is we pick up all these publications and they talk about 'Senior Citizens.' Then we find out they are talking about anybody over 50 and are talking about us! Seriously, I think that within 5 years or so, the market is going to go to a point where the athletic club business is going to go more into wellness. We all talk about it right now, but we don't really do it. But, we do more now than we did 10 years ago when we first started talking about wellness. I think the Wellbridge name, along with the acquisition, brings to us proprietary programming that will become more and more important as the population gets older. As to how the corporate name change affects the individual names, it really won't impact the names of the clubs that are not already called Wellbridge. We have strong brand identity in New Mexico, Minneapolis & Denver and don't want to disturb it.

Q. Where is the short-term direction for Wellbridge in the next 1-2 years? Where does it see itself in 5 years?

A. Art - I still see Wellbridge as a young and dynamic company. Now that we are at a point of critical mass, it is not growth for growth's sake.

It is growth to be stronger and be more profitable. In the next 1 to 2 years, I see us building 3 to 5 new clubs. What size those will be are 70 - 80,000 sq.ft plus facilities plus outdoor amenities. I see us acquiring \$10 million EBIDTA in the next couple of years. So, I still see us in pretty dynamic growth mode, but when you look at the size we are, that isn't dramatic growth. It is quality growth and that's what I see us doing in the next couple of years.

Ed - In 5 years? I don't know. What would you have said 5 years ago? The industry has really changed in the last 5 years. You and I have both been in the business for over 20 years. The first 5 years of that were full of surprises as have each 5-year period after that, but the last 5 years was the most dramatic we've seen. I'm not sure what I see in 5 years for Wellbridge. It's hard to imagine. I wouldn't have guessed what's happened already. There has been a lot of money put into this industry. People like TSI, 24 Hour Fitness, Sports Clubs of Canada being bought by Bally's, Equinox (not going to Albuquerque), Crunch, a lot of things you wouldn't have guessed 5 years ago, have happened.

Q. Wellbridge has more of a decentralized style of corporate management with fully responsible Club GMs and Regional Managers. How did you arrive at such a structure? What is still centralized?

Ed - That was the original structure we set up when we got into the management business. It worked this way because of all the different properties we were involved in and the strength of the people that we worked with. It works today for the same reason. The only thing that is truly centralized is Human Resources.

Q. Art, you are the Wellbridge Chief Operating Officer (COO). Could you outline the Wellbridge Management structure for me?

Art Curtis - "Sure. The top layer of management includes Ed as President and CEO, myself as Chief Operating Officer and Matthew Stevens as Vice President of Sales and Marketing and Tracey Dunlap as Chief Financial Officer. We have divided the company into East, Midwest and Western Regions. Our Regional Managers are Charisse Duroure, Eastern Region, Ric Zimmerman, Midwestern Region and Andy Gillen, Western Region. Each Regional Manager has General Managers that report to them. And we also have regional Human Resources, Health and Fitness, Sales, Controller and Facility Managers that report to them."

Q. "Art, how many employees does Wellbridge now have and what is the break out of full-time vs. part-time.

A. We have over 6,000 em-

ployees and about 2000 are full-time and over 4,000 are part-time."

Q. "Tell me more about Wellbridge management.

Ed - "About 2 years ago we started to go toward a more centralized model and we really saw that it didn't work. Especially, when you are managing multiple types of facilities. When you have, that many varied facilities, it's pretty tough to say, 'This is the way you do check in at the front desk.' 'This is the way the athletic department will be run, because in one place you may have a 30,000 sq.ft. fitness area and in another place you may have 5,000 sq.ft. It is real tough to centralize the model when you are not building the same box all over the country. We've been very fortunate to have a lot of general managers and regional managers that have grown up on the same system and really are talented enough to be able to take this and drive the facilities.

Q. Wellbridge has clusters of clubs in New Mexico, Boston, Minneapolis and Denver. And, it has one-offs in Houston, San Antonio, Tampa, etc. How does it rationalize having one-offs given its clustering? Would it still entertain one-offs?

Art - We would like to dominate a marketplace, just like a lot of other people. But, there are some very successful clubs that are one-off locations,

and they dominate their area. Take for example, the Concord in San Antonio. There you have the Racquetball & Handball Clubs of San Antonio; yet, Concord leads the marketplace and the price point says it's the leader of the marketplace. Its success says it's the leader of the marketplace. So, why wouldn't you have opportunities like that? In Tampa, you can't build that Harbor Island Club anymore. It has 15 outdoor tennis courts on 14 acres on an island. It was built 15 years ago when there was nothing there. Now, you have nothing but high end homes, 5 minutes from downtown Tampa. That club can never be replicated again, so why not acquire something like that? They are 'trophy' properties and yet, they are successful 'trophy' properties.

Q. - CSI was a very entrepreneurial-driven organization. When it attracted Starwood and Chilmark as investors, what were the major changes it had to undergo? What are the future challenges, if any, when the company has such investor involvement?

A. - Ed - The major changes were much of the same changes that a half a dozen other club companies went through that brought in Wall Street money. We had to grow up. We had been a 'Mom & Pop' business. We did what we wanted. It was fun all the way around. All of a sudden, we had to report. We now live and die by our financials. That's good and bad. Good because now, we are accountable to a 'score-card.'

Bad, because we are accountable to a 'score-card'. Before, it was kind of "Let's see what happens at the end of the year." Now, there's a 'score-card' and we adjust throughout the year. As to the future challenges? They include being able to operate under the microscope of Wall Street over an extended period of time. It will make us a stronger industry.

Q. The Wellbridge name was derived from the originally created Monsanto-owned company targeted to the 50+ market and the de-conditioned. What is still retained from the origins of the Wellbridge concept developed in Boston?

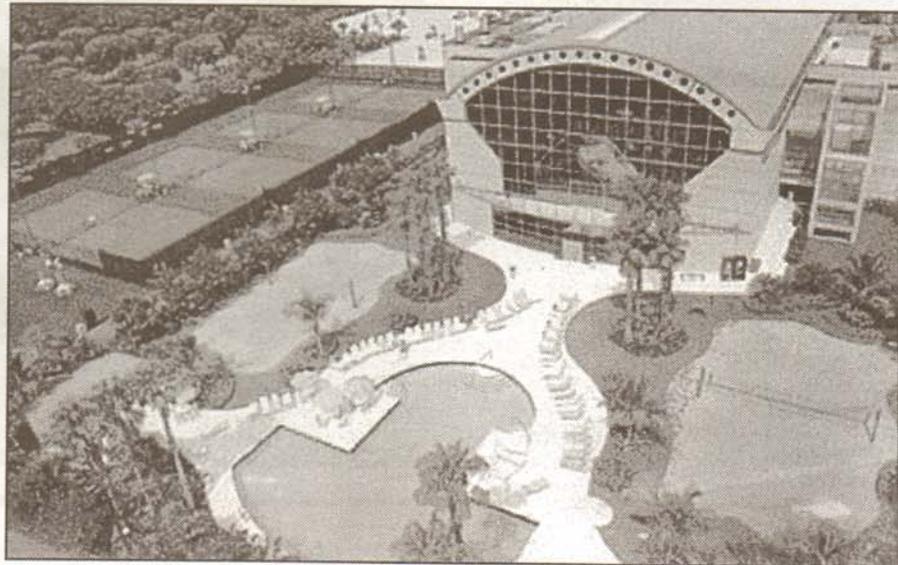
A. Ed - What lives on in Boston is now really a blend of the Wellbridge/CSI cultures. There are things from Wellbridge that we learned and retained, especially in dealing with the de-conditioned and mature population. (Which is you and I, Norm!) There are some things that they were doing that we couldn't do. It is just like with every acquisition. We learn some things and blend those with what we do. We have moved the former CSI clubs more towards the Wellbridge Boston model and moved Wellbridge Boston toward the CSI model with more emphasis on fitness and sports.

Q. If you were to describe the Wellbridge culture to outsiders, what makes it unique? What would a member or employee experience that might be different than other club companies?

A. Ed - The quality of the 6,000+ people that we have in the (See Williams page 16)

WELLBRIDGE MISSION STATEMENT

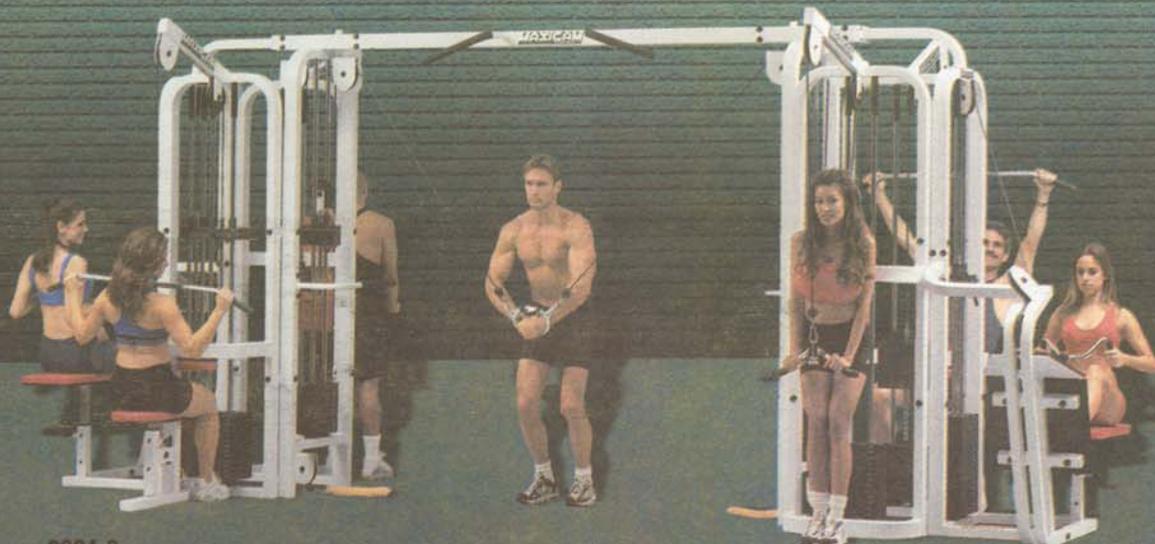
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continued from page 14

organization. The training they receive, whether it is by fire or by training sessions we provide. I think we have a very good understanding of marketing and delivery of athletics, tennis, racquetball, fitness and wellness programming. We have a very good understanding of the financial side of the business. I think that when you look at some of the other players, there are some pieces of all of those things missing because they are using a more centralized management model. Because we are decentralized and because we operate different properties, we put a lot more emphasis on people on site really knowing their business and how to drive it. So, what is unusual for anyone that would walk into one of our regional or national meetings would be the quality of the people. Our quality people deliver quality member service. Back when you and I started Norm, when we were selling memberships and setting up exercise programs for people, we were working with our peers as far as age was concerned. Now, our fitness people who are in their 20's and 30's, are writing programs for people who are over 50! There is a learning curve and special population service element that must be learned there. We want to give the people what they demand and provide them a level of service that fits the quality of lifestyle that they are accustomed to. When you walk into our doors, you are expecting to be treated a certain way. You have achieved that. You've earned it. And, we want to give it.

Q. If the economy is slowing down in certain parts of the U.S., what, if anything, is Wellbridge doing to deal with that?

A. Art - We're trying to get better. We always learn more during a downturn. We always get better. When things are easy and people are walking into our doors and giving us their money, we have a tendency to get sloppy, to get careless with expenses, actually to get kind of careless with the whole operation. But, we are ahead of this downturn. We started in October of last year tightening expenses, watching and making sure we are getting the biggest bang for the buck.

Q. In your portfolio, you have management agreements with a variety of owned clubs. How do those fit today? Would you take on new ones?

A. Art - Yes. We just took on two new management contracts. A 15,000 sq.ft. spa in Kona, Hawaii and a corporate fitness center in New York City. We have a lot of experience in 3rd party management. In the future, we are going to take quality properties that may

have some problems that need help and that have good long-term potential. Is it as profitable and is there as much out there as in the early days? No. So, we are going to be selective in the properties we choose to manage.

Q. If you were to advise other club groups about some of the lessons learned, what would be 3 key pieces of advice?

A. Ed - I don't usually give advice, but if I did it would be that there are a lot smarter people than me doing this and those are the people who should be giving advice. The only other piece of advice I can give would be that club owners should really study and understand their business and the financial aspect of their business. They should truly study and understand their numbers. I guess that in the last four years that is the thing I have had to go back to.

Q. Wellbridge and Lifetime Fitness are two very dominant club players in the Minneapolis/St. Paul market. Do you directly compete vs each other?

A. Art - We don't compete directly in our primary markets. We're competitive in that we're all in the same metro area; but if you look at where Lifetime is, we are in each other's secondary, but not primary markets.

Q. You are located in markets with strong non-profit competition (YMCAs, JCCs, parks & recreation, hospital-owned clubs). How do you succeed against such competitors?

Ed - We offer a different product. A different price point and a different product. Do I like to compete with them? No. Especially with the way the YMCA is now doing more marketing that is like the marketing that we all do.

Q. Did you read the article in Athletic Business about the YMCA's new "satellite" fitness centers of 10-12,000 sq.ft. being installed in the Chicago area?

A. Art - Yes. Regardless of what the YMCA leadership is saying, they are in our business! The YMCA is no longer about serving youth and the underprivileged. They can talk about how they use that money to serve the underprivileged, but that is not what the Y is really doing anymore. The JCCs, parks & recs, for the most part, do what they are intended to do. Some might argue that an occasional JCC or parks and rec facility is really serving the commercial markets. But, I think all and all, it might hurt you for 6 months, but after that time, they are what they are.

Q. If one of the most precious resources in this industry is quality personnel, are there any key lessons you can share in how to attract, train and retain key staff?

A. Ed - Give them a voice. I think we all feel that if we are listened to and have input, we're most likely to stay where we are. You can talk about the benefit packages, etc. all you want. But, what it really amounts to is that the people need to be respected and have a voice. That does not mean that they will always get their way. But, it is still important that they have input and be heard.

Q. You are adept at both new builds (greenfields) and acquisitions. Where is your focus now?

A. Art - Our focus is about 50-50. We feel we are very, very good at acquisitions and turnarounds. We are very good at getting the most out of anything that we might buy. It would be silly for us to focus on only new builds when we have that talent and expertise.

Q. Often, many of your clubs are the price leaders in their markets. How do you go about setting such prices and then choosing how much to raise them?

A. Art - It is very simple. We look at who is charging the most in the market and we charge more. That's a flip way of saying we believe in the product and we deliver. And, we believe what we do should be on the leading edge. With acquisitions, we look at the market demographics and the product we are delivering. We re-engineer the staff and the product and then we raise the price to reflect that new value.

Q. Who do you learn from? Others in the industry? Others outside?

A. Ed - The last four years it has really been our investors. I have learned a tremendous amount from them. I also talk to a lot of people. People like Rick Caro, Jordan Kaiser, Roger Ralph, Michael Levy and many others that have been in the industry for a long time. We've all gone through different learning stages in our lives. I think there are lessons to be learned in every stage. When you are talking about the club business, you have got to get out on the streets. When I am on the road, I still go out and see new clubs to see how they are packaged, how they are marketing and what kind of programs they are offering. For example, I was recently in Cabo, Mexico on vacation and while I was there, I visited 6 spa facilities. It is just in my blood to do that. There is a lot to be learned out on the streets

through other one off operations.

Q. If you were to measure success for Wellbridge in 2001, what set of criteria would you use?

A. Art - I guess true success would be measured if by the end of 2001 we had all of our initiatives that we are working on in place and fully effective and operational. And our people felt effective.

Q. What is it like being a CEO of one of the largest club companies and reporting to a Board of Directors? How did you react when the investors eliminated the "acting" part of your CEO title?

A. Ed - I've been involved with this company for 18 years. So, for me, a change in title is not that big of a deal. I've lived and breathed this company for a long time. And, I still do. I guess the only thing that I see now is that I have to be more of a leader as the CEO. I've been reporting to the Board for a while anyway. How did I react when the investors eliminated the "acting" from my CEO title? Well, it was over a burrito! How could I react with a mouth full of burrito with hot sauce on it? Actually, I was thrilled. We had worked pretty hard for the previous 6 to 8 months, putting different initiatives in place. Now, that decision will allow us to complete those initiatives.

Q. Ed, I've known you for 16 or 17 years now and during all of that time, I've noticed that you have kept a keen and fun sense of humor all along. How has that aspect of your personality helped you in the business?

A. I guess I don't take business personally. I think that is what has allowed me to do what I have done and what I am doing. I enjoy it. It's my life. When you have something that is that much a part of your life, you can't let it destroy you. I guess my sense of humor helps balance that. It is an enjoyable business. It is fun to go to work everyday. The people we are surrounded by are great people. They are fit people and they enjoy life. They want to be and are active. That's fun.

Q. What have you learned most in the last 2-3 years?

Ed - Working with the Board of Directors, investors, banks and financial institutions is what I've learned the most about in the past few years. It has been a steep learning curve, but a necessary one.

Q. During 1999 and 2000, your company was heavily on the market, wasn't it?

A. Ed - I wouldn't call it 'heavily on the market.' What re-

ally happened was that at some point, there were forces in play that caused us to receive acquisition calls from 6 different companies in 2 weeks. There was a lot of activity, so at that point in time, we said, 'Why not? We might as well go ahead and see what's out there.'

Q. How did that situation impact the morale of your people?

A. Art - Our main goal was to have a minimal impact on the people out in the field. We tried to do that as well as we could. But, I think anytime you are in a sale process in a public business like we are in, you are going to affect those people. There was lobbying on both sides who they did and didn't want to be a part of. The focus was really on what might happen instead of what was happening. That is the downside of being in a public auction.

Cates - Now that's gone and you're back to full speed ahead again right?

Ed - Right!

Cates - That's got to be a good feeling.

Ed - It is a GOOD feeling. When you talk about it is fun to come to work, it is now FUN to come to work again!

Q. What, if anything, is holding Wellbridge back from accelerating its future growth and success?

A. Art - The capital market. The biggest challenge we've got right now is something we can not control: the capital market. Right now, everyone looks at interest rates being down, but in reality, the industry can't borrow money cheaper than we could a year ago.

Ed and Art, thanks for taking time to share your story with our CLUB INSIDER News readers.

Ed Williams and Art Curtis are two athletes turned club business professionals. CSI/Wellbridge enjoys the lofty position of being, in the opinion of this writer, one of the premier operators of prestigious, upscale clubs in the United States. Ed and Art have done a terrific job for their company for years and it appears that they are well positioned to continue their excellent leadership role.

(Norm Cates, Jr. is the Publisher and Editor of The CLUB INSIDER News. Cates is a 27-year club industry veteran and was the 1st President of IHRSA and a Co-founder of the Association in 1981. Cates was honored by IHRSA in March, 2001, with the Association's highest honor, the DALE DIBBLE Distinguished Service Award. Cates may be contacted at: clubinsidernews@mindspring.com)

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The "Golden Opportunities" - Non-Traditional Markets

By Geoff Hampton

Today in the wellness/health industry three markets clearly stand out as the "Golden Opportunities". They are:

- Deconditioned Market
- Aging Market
- Corporate Market

Each has its own unique set of circumstances and each is hard to attract through traditional techniques and approaches. However, the rewards for the wellness/health facility operator who is willing to rethink their approach to these markets are tremendous.

Many facility operators fail to realize that these three markets are in the process of changing our industry forever. Our industry has always been about "fitness", so the type of members who come in to join are usually "fitness" minded. However, the vast number of "Baby-Boomers" are currently being educated through media sources about the importance of exercise as it relates to lifestyle and health improvement. As a result, as this group moves into the already large aging market, they will be considering joining exercise programs that are designed for "wellness" and lifestyle enhancement and not "fitness".

The current "fitness" types come and go without any real sense of bonding or allegiance. Wherever the next great facility opens, the next great price "deal" appears, the next great exercise fad appears, or their favorite group fitness instructor decides to go, so go they. Furthermore, as an industry, we are failing to give them reason to really be committed to us.

Consider the following:

One - Most new members have belonged to facility's before. They are not "new" to the fitness scene.

Two - Attrition rates, when analyzed, show that many members leave to join other facility's.

Three - According to Fitlinx Co-founder and Executive

Vice-President, Andy Greenberg, "There are more former members of clubs than current members of clubs in the country today." Sad, but true.

Why is this? As Thomas Plummer states in his book, "Making Money in the Fitness Business," "If I knew the fitness business was this hard, I'd have gotten a real job!" He astutely introduces his chapter on sales with, "Sales in the fitness industry are based on 20 years of bad habits." What he says is undeniable and true. It seems as though the most common techniques for marketing and sales are simply modified copies of everyone else's ideas. Just look at the marketing concept in most newspapers or television advertisements - sensuous female, hard body male - this concept does not appeal to the millions and millions of people in the three key markets mentioned earlier. In fact it's intimidating to them.

There will always be a market for successful "fitness" operators. That is why the chain clubs are so strong and can use the above type of advertising successfully. Of course their advertising and market budgets are larger than most independent operators annual revenue total.

This is part of the reason why there is so much consolidation going on in the industry today. Average to poor bottom-line performances signal the need to sell the small "fitness" facility. It should really be the signal for the determined operator that it's time for a change. Throw out the old and bring in the new.

The "Wellness" Wakeup Call

The "big bang" theory for our industry really should have spontaneously combusted upon the release of the report, "Physical Activity and Health" in 1996 by the U. S. Surgeon General's office in conjunction with the Centers for Disease Control and the President's Council on Physical Fitness.

The picture painted by this comprehensive report was not pretty. The direction that our industry's efforts need to be directed toward were clearly delineated in that brilliant composition. Since that time, volumes of additional newsworthy information has added fuel to the "wellness" fire, including the deconditioned, aging and corporate markets as well. The report certainly got the fire of change burning with more intensity.

The needs for these three markets are not based on "fitness". They're based in lifestyle modification with exercise as a health intervention initiative or more simply put "wellness". Interestingly, these markets, while still viewed as non-traditional, have retention rates that make the "fitness" market look very unappealing. Retention rates of 80% in "wellness" based facilities are not uncommon as are 80% retention rates for the aging population. These numbers are revolutionary to our industry. One has to be impressed. Just using simple math it is easy to quantify that increasing a facility retention rate from 60% (strong by traditional "fitness" standards) to 80% results in enormous bottom-line increases with no additional expenditures.

Example:
2000 members
Annual membership cost = \$500.00
Annual retention rate - 60%

In this scenario the facility must replace 800 members per year.

This means that the facility must average 67 new membership sales per month simply to maintain an annual growth rate of ZERO!

800 memberships lost @ \$500 = \$400,000.00 per year in "lost" membership revenues due to attrition.

2000 members
Annual membership cost = \$500.00
Annual retention rate - 80%

In this scenario the facility must replace only 400 members per year. This means that the facility must now average only 34 new membership sales per month simply to maintain the annual growth rate of ZERO.

4 0 0 memberships lost @ \$500 = \$200,000 per year in "lost" membership revenues due to attrition.

Therefore, by improving the annual retention rate from 60% to 80% the facility has a net gain of \$200,000 with no additional advertising or marketing expenditures. That's a lot of money. "Wellness" vs. "Fitness"? You get the point.

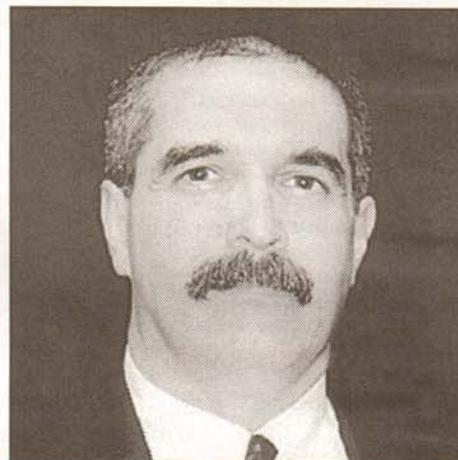
This is just one component of the "Golden Opportunities" these emerging markets represent. This one market alone is impressive. Additionally, even the cost of marketing to these three populations is much lower.

The approaches to each of these three markets moves outside of the frustrating venues of newspapers (low rate of return), radio (low rate of return) and television (low rate of return) advertising. However, facilities must rethink their basic operational philosophy. Reactive sales and service staff must be reoriented into becoming much more proactive.

Deconditioned Market

We all know this segment of the population by the less than flattering term of "Couch Potato". While this market cannot be attracted effectively through conventional methodology, they can be attracted with good old-fashioned hard work and innovation.

The basic differentiation between the "fitness" marketplace and the "wellness" marketplace



Geoff Hampton

(which is much more likely to attract and keep the deconditioned person) are readily clarified by the "Stages of Exercise Adoption".

- Pre-Contemplative - not even thinking about exercise
- Contemplative - thinking, but not doing
- Action - participating, but new to exercise
- Maintenance - regular exerciser

The "fitness" marketplace is made up primarily of "Maintenance" and "Action" types. The "wellness" marketplace includes these types but also includes a large number of the "Contemplative" group. The deconditioned individuals are attracted through education and target specific outreach programs. These types of programs also favorably impact the "Precontemplative" sector of the deconditioned market.

The "fitness" business has had a bad reputation in the general population for years. There is an industry wide improvement occurring, but the typical new "wellness" type of operation is hospital based and with that comes immediate credibility and comfort level to the general population. Obviously hospitals are viewed as a place where people go to get healthy. "Fitness" facilities are viewed as where the "beautiful people" go in the minds of the deconditioned market. And, the "fitness" operator is still viewed as the "bad guy" who is unscrupulous.

The deconditioned market can accurately be described as "non- (See Geoff Hampton page 25)



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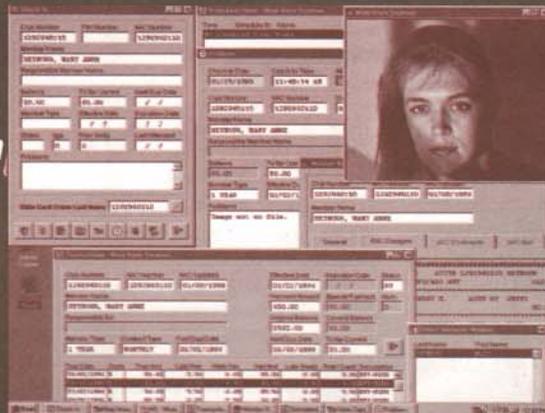
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A F F I L I A T E D A C C E P T A N C E C O R P O R A T I O N

Six Ways To Survive An Economic Downturn A Sales Professional's Survival Kit

By Paul Goldner

In case you haven't noticed, its tough out there. The headline in the January 31st issue of USA Today was "Mood Darkens on U.S. economy." On February 16th, Forbes Magazine reported that the Fortune 500 has lain off 168,234 this year alone year.

It's tough out there and these changes in the economy are going to impact your business if they haven't done so already. Here are six tips that you can use to help you survive an economic downturn.

1. Add value, add value and add more value: The easiest way to grow your business is with your existing customers. To me, the definition of adding value has two key elements. First, adding value means giving your customer things that they need that they do not already have. If you are successful at doing this, you will clearly grow your sales. Second, adding value means that your ideas, products or services have a tangible bottom line impact on the customer's business. In other words, working with you will make their business more successful. All companies are measured by one standard, profitability. Anything you can

do to increase your customer's bottom line will make you a desirable asset in both good times and bad.

2. Increase your level of new business development activity: In sales, you generally spend your time in three specific areas: customer service, new business development and non-selling activities. During an economic downturn, the time you need to spend servicing your existing customers will fall because they will be buying less from you. If you are spending less time in customer service and the same time as last year in non-selling activities, this will leave you more time to invest in new business development. Use this time wisely. If you invest in new business development now, you will not only better weather the economic downturn; you will also improve your overall sales levels when the economy starts to grow again.

3. Sharpen the saw: In an economic downturn, you will also have more proactive time available. Why not invest in some personal development? When times are good, no one takes time to sharpen the saw because they are so busy writing orders and serv-

ing their customers. When times are hard, no one takes the time to sharpen the saw because of budget constraints and because you are too busy trying to drum up some new business. To me, it sounds like we are too busy being busy! The time has never been better to invest in personal development. By investing in yourself, you will have better skills to survive in both good times and bad.

4. Re-evaluate your strategies: Sometime we just do things because we have always done them this way. Again, because you will have more proactive time on your hands, why not evaluate your approach to the marketplace. Are you positioned properly? Are you reaching out to your customers in the most effective means possible? Are you consistently differentiating yourself in a competitive market? Are you consistently adding value into your customers' sales cycles? These are not trivial questions and should be asked on an ongoing basis. But why not evaluate your overall sales strategy now so that you can hit the ground running when the economy starts to move again?

5. Look for ways to integrate technology into your train-

ing and sales process: Technology means one thing to the sales professional; leverage. Effective use of technology can help you service your existing customers more effectively. Effective use of technology can help you reach out to more prospects than you could have otherwise. (My mother tells me that people were selling before there were computers, but I don't believe her.) Technology can help you better distribute the products and services you sell. And, technology can even help you learn more effectively. In addition to traditional alternatives, make sure you consider what learning options are available over the Internet. I think you might be surprised!

6. Don't listen to naysayers: Yes, its tough out there. Yes, the economy has slowed. But we still live in the largest and most successful economy in the world. Add this to the fact that business is becoming more and more global every day and the possibilities are endless. My feeling is we have two choices. One is to do nothing and let the economy sweep us away. The other is to give it a go. Let the other sales people quit. If they quit and you don't, you might get a much larger piece of a slightly smaller pie. Remember, in selling if you do nothing, you get nothing.



Paul Goldner

I hope you find these ideas both thought provoking and motivational. I want to wish you the best of luck in implementing them and may 2001 be a Red Hot year for you!

(Paul S. Goldner is a noted author, entrepreneur and professional speaker. He is the author of *Red Hot Cold Call Selling, Prospecting Techniques That Pay Off!* (AMACOM, 1995) and *Red Hot Customers, How to Get Them, How to Keep Them!* (Chandler House Press, 1999). Paul can be reached at: (914)232-HOT2(4682), (914)232-4845, 8 Paul@REDHOTSALSAES.COM and WWW.REDHOTSALSAES.COM.)

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The Health Club Economic Update You've Been Asking For!

By Michael Scott Scudder

SO MANY of you have been asking...so this is a "quick 'n dirty" economic Update for you to bring you up-to-date on:

- 1) The economic outlook for the next few months;
- 2) Club sales through the first 4 months; and
- 3) Simple strategies to protect you from the summer doldrums.

ECONOMIC OUTLOOK

Interest rates? The Feds have cut rates 5 times in 5 months...unprecedented...but they're trying to get the economy going. The result? Consumer confidence has changed a bit for the positive, spending up slightly. It's anticipated that there may be YET ANOTHER rate cut by summer. If so, we ought to see some buoyancy in the economy somewhere in the medium-term (6 - 9 months).

Gas prices? Looks like they're stabilizing, though headed predictably somewhat higher in the next quarter.

Energy? Still anybody's guess. Looks like propane prices will go much higher - those of you who use it, please prepare.

Corporate earnings and the stock market? Second quarter earnings (reporting in July) will be DREADFUL in most sectors. Will that cause hesitancy in spending or another dip in the economy? Hard to tell NOW.

THE BAD NEWS? This slowdown ain't over yet, at all. Generally, in past recessions, the hot months were the toughest time...and that's the general prediction by most analysts for this summer. People won't stop their vacations, people

will continue to buy gas, even at inflated prices. Consumer staples will be strong (groceries, etc.); consumer cyclical (luxury purchases) will be flat.

THE GOOD NEWS? Interest rate cuts have worked in the past to stimulate our economy... should work this time too. But it is in the face of an absolutely lackluster stock market, and that is affecting people more than ever before. Looks like our economy will get stronger by the end of the year, but no bets on the in-between.

CLUB SALES

My informal survey of nearly 80 clubs from 5 U.S. regions and Canada shows the following:

Northeastern states: sales up slightly for most, a good start in January followed by lackluster February - March - April. Walk-ins and call-ins definitely down compared to 2000.

MidAtlantic states: sales up for most of the region, strongest showing was in the MidAtlantic. April was very slow, and walk-ins definitely subsiding.

Southeastern states: sales down from same period 2000; walk-in traffic very weak in many clubs; response-advertising not working like in the past. One chain player suffered 15% reduction in sales from 2000.

Midwestern states: the hardest hit - sales down substantially; walk-in and call-in traffic way down from 2000. Several clubs in real trouble.

Southwestern states: sales down slightly; year started poorly for most, picked up in March. Definite downtrends in walk-ins and call-ins. One major player cut its sales force by half in March.

West coast: got very little reporting from this region, so have nothing to tell you. Only thing I have seen is price wars in some sectors of California - not a good sign.

Canada: down slightly; walkin traffic and callins also very slow.

An interesting sidelight here was that MOST of the clubs that reported substantially down sales were in the lower-priced sector of their respective markets (under \$35/month). Higher-priced clubs (over \$59/month) were relatively stable. An omen of things to come?

Overall, we DID NOT see a significant increase in new membership sales in the first 4 months - generally a time where our business reaps 35-40% of its memberships for the year. The bad news? Usually, you do NOT make that up in the balance of the year. The good news? Many of the reporting clubs made sincere efforts at retention, and some of them doing better than 2000 by 5-8%, resulting in a "holding pattern" for those clubs.

The outlook? I think it's gonna be tough this summer... usually is anyway, but you will have to be particularly good at referral programs and retention to not slip during the June - July - August period.

THREE SIMPLE STRATEGIES

1. Retention and referrals.

Get in gear with member retention efforts; call ALL your non-users between 21-35 days - get them back in the club. Offer incentives (new programs, heart rate monitoring, usage contests) to keep people using your facilities. Educate your members about the benefits of exercise, especially in

stressful times like these.

Get serious about member referrals - you can't spend that much money for new members in the summer anyway, and results show that there's generally less traffic this year than last, so get on the beam with referrals. Start working your clients for friends, family, fellow workers. Create referral contests and get it cooking.

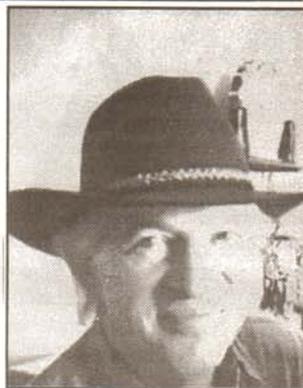
2. E- and F- marketing.

Get as many members' email addresses and fax numbers as you can. Start marketing through these media. 40% of people receiving a fax will read it through; 80% of those getting email. This is "permission marketing," will reduce your advertising costs and get you into the "programs" business - which you probably need badly. Use the slower summer months to create, and begin to market, a club web site. People in the exact-right demographic groupings are looking at club web sites at a record rate these days...you can cash in on smart marketing.

3. Control your expenses.

You MUST be diligent this summer with operations expenses of all types. Cut out unprofitable and/or poorly attended classes; cut down your operating hours; be mindful of electric, phone, gas and A/C usage. Get more out of your full-time staff and departmental management. Look for ways to fill hours with permanent personnel, rather than higher new part-timers. Create a plan to reduce expenses this summer by minimally 5% - it will pay you serious dividends by September.

In closing, I'm reminded of two old quotes. One is: "If things don't change, they'll remain the same." The other is: "You must be prepared for it to get worse before it gets better." In other words, DON'T look for an immediate turn-



Michael Scott Scudder

around... it's not likely to come! Use this as an opportunity to really fine-tune those things that you've known all along that you should have done before this.

We've been through this before, and we'll go through it again. It's not the end of the world. If you pay attention to the above, it won't be the end of your business, either.

Good luck...and keep me posted by emailing me YOUR results!

Michael Scott Scudder's FITNESS FOCUS Health Club Consulting, Training Services and Management Seminars Email: fitfocus@aol.com

Inquire about my three club strategies publications:

1. "What Health Club Operators Can Do In An Economic Slowdown" (A comprehensive economic/industry analysis and strategies on how your club can beat this recession) \$59.

2. "AeroEval" (A formulated method on how to evaluate your aerobics program from every angle, save money and increase usage) \$59.

3. "ClubHelpers" (Pages and pages of various helps such as job descriptions, employee reviews, self-teaching sales courses, budgeting tools and much, much more) \$49.

The opinions and/or information offered by the consultant in email responses are strictly private, and are not to be duplicated, copied, published or otherwise distributed in any way, without the prior EXPRESSED WRITTEN CONSENT of Michael Scott Scudder.

The CLUB INSIDER News Worldview

•**JOE CIRULLI**, IHRSA's 20th President, recently returned from a one week visit to Russia and has shared that experience with me and we will share it with you next month. Joe attended the **WORLD CLASS FITNESS CONVENTION** held in Moscow and hosted by Moscow's World Class Fitness Centers. Approximately 4,000 people attended.

•**FAUSTO DIGIULIO**, of the **Italian Fitness Federation**, informs me that the 3rd Annual In-

ternational Fitness Awards Ceremony will be held in Tortoreto Lido Tereno, Italy, June 23rd. We will have a report next month.

•**JOHN GRIEVES**, Chairman of **Esporta, Plc**, reported in mid-May that Esporta membership had grown by 11% to 163,000 by the end of April, 2001. Esporta ended last year with 34 upscale clubs in the UK and Continental Europe and had revenues last year of \$115 million, USD. Grievies is projecting 48 clubs by the end of 2002, with 4 to open in Spain by year's end.

•**SIR JOHN BARNHAM**, Chairman of **Whitebread** in the U.K. noted that memberships in **DAVID LLOYD LEISURE CLUBS** had risen 23% in the last six months. An amazing 80% retention rate on a 260,000 membership base in the 44 David Lloyd Leisure Clubs, averaging 100,000 sq.ft. and 55 Marriott Fitness Centers was also reported.

•**MIKE BALFOUR** of **Fitness First**, has reported that the leading European fitness chain has opened 5 clubs in Spain, one in Italy and by the end of

June, one in France. Last month, Fitness First broke its own one-day membership sales record, selling 370 memberships in a single day! The club in Madrid has reached 3,300 memberships in approximately four months.

•**ALAN FISHER'S Holmes Place Plc**, has been awarded the management contract to operate fitness facilities for the **Royal Caribbean Cruise Line**, the world's 2nd largest cruise ship operator. HSBC's **HUGH-GUY LORRIMAN** cited "strong demand" in Europe and

especially in Germany for cruisers with a "health and well-being product."

•Barcelona, Spain is a city of 4.2 million that is being invaded by **Fitness First**, **LA Fitness (UK)**, **Holmes Place** and **Esporta**, all of whom are entering the market with their first clubs. **DiR Fitness** will have 15-years of peace and tranquility destroyed as their 7 clubs with 50,000 members will face a huge onslaught of new competition very soon. **RAMON CANELA**, Director of DiR Fitness will have his hands full.

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Iowa Wrestler Turns Two State Titles into a Successful Career Selling Fitness Equipment to Gyms

Zach Light is the National Senior Sales Representative at Worldwide Fitness, Inc.

Zach explains, "My two state titles taught me that hard work and smart decisions create success. I carry that knowledge to my clients. I tell them, 'If I can save you \$30,000 on your next fitness equipment purchase, then you take that \$30,000 and invest it into a marketing and sales plan which brings in \$60,000 in profit in six months, what would that be worth to you?' They usually get the point."

Zach continues, "Buying fitness equipment is a business expense. The more you spend on your equipment acquisitions, the less you will have to spend in your marketing budget."

Zach Light covers all health club sales in the USA for Worldwide Fitness.



Zach Light

Zach has over 500 customers. Many of his customers claim a large part of their business success is due to the money Zach saved them when buying their gym equipment. Since Worldwide Fitness specializes in gym repossessions, Zach sees a lot of gym owners go out of business.

Zach continues, "I see too many gym owners close their doors while having hundreds of happy members. The sales were being made, but the profits just weren't there. The cash flow was going out faster than it was coming in."

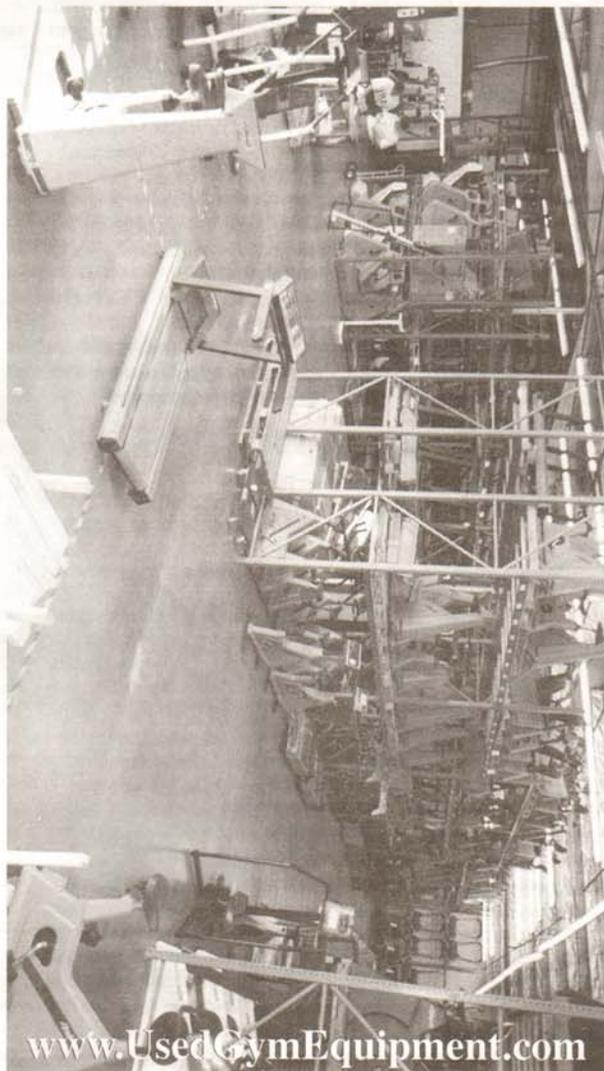
"I have seen the fitness equipment invoices from the banks when these gyms go out of business and it's appalling. The equipment investment is so big that the monthly lease payments kill the business."

In closing, Zach explains, "Now you can buy refurbished gym equipment that is only a few years old and all of your members will think it is brand new."

Zach also has a brand new line of strength equipment that rivals Life, Cybex or Icarian, but costs only a little more than used equipment. This line of **Worldwide Strength** can be seen online at the Worldwide Web site.

Contact Zach Light and get a video tour of the Worldwide facility. Let Zach know what you need. Get placed on his list and be contacted every time another gym goes out of business.

Call (714)283-0355, x16
 Email ZachL@WorldwideFitness.com
 Web site: www.UsedGymEquipment.com



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IHRSA's Capitol Report

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STATE LEGISLATIVE UPDATES

For more information on these and other bills, visit <http://www.ihrsa.org/publicpolicy/state/index.html>.

MASSACHUSETTS: Several club operators testified before the state's Joint Committee on Commerce and Labor at a hearing on Senate Bill 99. The measure would prohibit tax-exempt hospitals and institutions of higher education from: 1) selling a contract for adult fitness services to the general public unless no taxpayer offers similar services within 10 miles; and 2) charging a fee for access to adult fitness facilities unless they pay all taxes and fees applicable to a for-profit business.

Testifying in favor of the bill were: Lloyd Gainsboro of Dedham Health and Athletic Complex, Karen Toomey of Fitcorp, Jim Bunnell of The Sports Club/L.A., Jack Vhr of Cleveland Health and Fitness, and Helen Durkin of IHRSA.

"In recent years," Gainsboro told the committee, "I have seen some tax-exempt organizations use my own tax dollars to threaten my ability to exist as a small business, my ability to stimulate the local economy and my ability to provide jobs to the local population."

Those testifying against the bill included an official from the North Shore YMCA and an attorney for an association of nonprofit schools.

The committee will now report on the bill to the entire legislature.

MICHIGAN: House Resolution 121 proclaims June 2001 to be Health and Fitness Month. The legislature encourages all citizens to participate in activities that emphasize the importance of physical fitness in their communities and to consider instituting long-term fitness and recreation programs.

WASHINGTON: House Bill 1575, which would repeal the state sales tax on health club dues, was scheduled to be voted on by the House of Representatives on June 8. WHFCA is anticipating House approval by a super majority vote. From there, the bill will move immediately to the Senate where WHFCA believes it will by-pass committee. Last summer, Governor Locke promised to sign the bill when it is sent to him.

The amended version of the bill calls for actual elimination of the sales tax in July 2005. However, passage by this legislature would constitute a huge victory.

All club operators can help by getting club members' signatures on the forms IHRSA faxed to you last week. (Additional forms are available

at <http://www.ihrsa.org/publicpolicy/state/wa.html>.) Please return these forms to Scott Gilreath (fax: 206-443-2632)

CONGRESS REPEALS ESTATE TAX

Congress gave final approval to a far-reaching package of tax breaks, handing President Bush a major victory on his top legislative priority at the close of a tumultuous week in which he and the Republican party lost control of the Senate.

The tax cut, the largest approved by Congress in two decades, provides for a repeal of the estate tax, though not until 2010.

The bill will gradually raise the exemption and lower the rates for the estate tax. The exemption, now on the first \$675,000 of assets, will rise to \$1 million in 2002 and eventually to \$3.5 million in 2009. The top tax rate will drop from the current 55% to 45% by 2007. The estate tax will be repealed in 2010.

Senate Democrats who fought the plan vowed to use their new majority status — achieved when Senator Jim Jeffords of Vermont switched his party affiliation from Republican to Independent, to possibly delay or repeal parts of it. "We will revisit these issues," said Senator Thomas Daschle (D-SD), who will become the majority leader when the Senate reconvenes in June. "We will try to find ways to make corrections."

IHRSA encourages club operators to lobby against any modifications to the estate tax repeal.

PRIVATE SECTOR OPPOSES TAXPAYER-FUNDED GOLF COURSES

Groups of private golf course owners in Florida and Maryland are leading a charge against government-supported golf course development, Golfweek reports. The groups' main point of contention is that state and local governments use tax- and bond-related advantages to build layouts that compete with the private sector.

"There was a time in the history of golf when it was primarily a private-club type of thing, so there was an argument to use public money to build courses," said Ray Finch, president of the Florida Golf Course Owners Association and Board Member of the National Golf Course Owners Association. "Those days are gone. It is a business now...and government doesn't

have any business competing with private taxpaying businesses."

More and more governments are entering golf course development, many focusing on mid-to-upper scale daily fees that compete with privately-run public courses, a trend that is disturbing course owners.

"We're, in fact, competing in an unfair climate," said Finch, who owns courses in the West Palm Beach area. "They (municipal courses) don't pay taxes... plus, there's a very ample amount of public courses. It's no longer required as a public service."

The FGCOA has begun a letter-writing campaign to local government officials in Florida, voicing its opposition to new plans for course development.

Two such plans: Palm Beach County's proposal to develop an 18-hole course on a land-fill in the town of Lantana, and the city of Boca Raton's proposal to develop 165 acres it recently acquired for \$45 million into a possible "high-end" daily-fee course.

The FGCOA, in a letter to Boca Raton's city manager, stated: "The city currently owns and operates a beautiful 27-hole facility that provides the residents of Boca Raton with a very good golf experience and at a very good value...A new world-class 18-hole facility at a cost of \$50-\$60 million would not only reduce the availability of tee times by losing nine holes, but also be very unsound fiscally."

The letter went on to ask: "Why has government been compelled to financially subsidize a game with significant taxpayer dollars when government subsidies for housing, food and education are in dire need of increased funding and support?"

Another issue NGCOA members have emphasized is the risk taxpaying citizens face in subsidizing ventures that could end up losing money.

"We're not radicals or overzealous," said Curt Walker, Executive Director of the Midwest GCOA and Minnesota GCOA. "We don't oppose municipal golf. All we ask is for municipalities to demonstrate as clearly as possible the true cost of that golf course and the benefits they bring to a community."

John Shields, President of the Maryland GCOA, said if affordable golf is the issue, then "give us the same tax benefits and we can provide affordable golf too, as opposed to running us out of business. How would you like it if

you're a banker and they (government) open a new bank next to you? Well, why in the world is it right for a golf course?"

CALIFORNIA: AB 357 passed the Assembly and is now in the Senate. The measure would increase the cap on health club contracts from \$1,000 to \$3,000 per person per year. Health clubs may sell contracts obligating consumers for more than \$3,000 but must either maintain a surety bond or have been conducting business in the state for more than 3 years under the same ownership and management. Consumers obligated to contracts for more than \$3,000 would have the right to receive a prorated refund when they cancel their obligations under specified conditions.

TREASURY SAYS UNFAIR COMPETITION REPORT NOT NECESSARY

In March, we reported that Representative Donald Manzullo (R-IL), Chairman of the House Committee on Small Business, had ordered the Department of Treasury to produce the overdue report to Congress about unfair competition in the fitness industry. [In October of 1998, Congress had asked the Treasury to report by April 1, 1999 on the "statutory and regulatory changes that may be needed to assure that the health and fitness activities of these organizations substantially further the purposes for which the organization was granted tax exemption and do not constitute unfair competition with private sector, taxable organizations."]

As a result of Manzullo's letter to the Treasury demanding the report, Assistant Secretary for Tax Policy Mark Weinberger has officially responded, saying that the Treasury does not plan to do a report because it does not have any new legislative recommendations at this time. In doing so, he clearly indicated that the Treasury's present way of dealing with the Congressional concern was to publish an "Article on Health Clubs in the Exempt Organizations Continuing Professional Education Technical Instruction Program Manual for FY2000." The article, Weinberger pointed out to Manzullo, outlines "current legal standards and precedential decisions the Service uses in determining whether health and fitness activities of tax-exempt organiza-

tions... constitute an unrelated trade or business." The article also "addresses the factors that distinguish tax-exempt fitness centers from their commercial counterparts," Weinberger added.

It is unfortunate that Treasury declined to recommend substantive changes in the law or to prepare a report. Nonetheless, IHRSA regards the outcome of Manzullo's initiative on our behalf to be quite positive. IHRSA has always maintained that the CPE Article imposed tougher standards on tax-exempt facilities — that the IRS is now requiring tax-exempts to prove their claims that their fitness services are charitable by providing hard economic and demographic evidence that they are, in fact, used by the economically disadvantaged. The interpretation is borne out by a report in last week's Chronicle of Philanthropy that says the Article "for the first time gave government agents directions on how to determine when a charity's health and fitness services fall outside its mission and are subject to unrelated-business income tax."

The Manzullo/Weinberger correspondence confirms that this new, tougher approach is the operating policy of the IRS and that publishing the Article is Treasury's way of responding to the concern of the Congress expressed in the FY1999 appropriations measure.

IHRSA ADVOCATES INCREASE IN IRS STAFFING, NON-PROFIT AUDITS

Last month we reported that IRS agents reviewed just 1.3% of tax-exempt returns in 1999 for errors, fraud, and other problems.

Since The Chronicle of Philanthropy published that information, IHRSA has urged Congress and the IRS to correct the problem. In a letter to Senator Ted Stevens (R-AK), Chairman of the Committee on Appropriations, IHRSA's Director of Public Policy asked for an increase in funding for staffing levels at the IRS. "This decline in the percent of nonprofit audits undoubtedly reflects both the personnel resource limitations of the Service and the dramatic increase in the number and scope of activities of the tax-exempt sector," Helen Durkin wrote.

In a letter to IRS Commissioner Charles O. Rossotti, Durkin asked for clearer regulations and more IRS review of tax-exempt returns. "When organizations hide behind their veil of tax-exemption," she wrote, "the tax burden is transferred to those citizens and business owners that abide by and respect the tax laws of our nation."

Geoff Hampton

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are not properly motivated as to the importance of exercise as it relates to their health because of the inadequate education they have so far received about the issue. Furthermore, they live and have lived a sedentary lifestyle which is based in procrastination related healthy living and especially exercise. They need to change their lifestyle or their quality of life will continue to decline and many will meet with catastrophic illness and even premature death.

Generally speaking, this group is not interested in a traditional one-year type of commitment, so a change in venue is important as far as initial response from this group. As a result of the lack of education about the importance of healthy living and exercise they are also reluctant to pay for something that they are not sure that they will stay committed to. Think about what has fueled this group in the past. Failed weight loss programs and other "pie in the sky", unrealistic initiatives that have been packaged in a slick format.

The deconditioned market is also much more likely to initially join "programs" instead of buying a membership. They may just continue to renew the programs over and over and over again because they are comfortable with the program and/or the program administrator. Getting them involved is what matters the most. Then keeping them involved is the key. It's not a matter of membership or no membership. It's a matter of creating a relationship that can and should last a long, long time.

The person who falls into the deconditioned category is very likely to know other people who are likewise deconditioned individuals. Therefore, additional program referrals become a major source of profitable operation. Unlike media advertising, referral leads are very inexpensive and even more likely to result in a long-term relationship.

The deconditioned individual needs support once they gain the necessary education and begin to seriously consider getting involved in any exercise program. The traditional approach of an initial fitness evaluation and a brief training session on how to use the equipment is a waste of time and a recipe for failure. The low retention rates mentioned earlier and the fact that here are more former members than members are obvious proof of that. The deconditioned person needs unavoidable

on-going support. If the facility can't provide this through existing staff and the facility does not yet have the computerized fitness technology (Fitlinxx, Schwinn Fitness Advisor and Technogym, etc.) then it's time to get it. This technology is the "pied piper" of all three of these special populations (deconditioned, aging and corporate). Many times facility operators will say, "That stuff is too expensive." I try to help them understand that the initial cost is irrelevant when you realistically view the long-term return on investment (when properly applied), because in that scenario, the only question can be, "How can you afford NOT to have that type of technology in your facility?"

Aging Market

This market is also huge and growing larger as the "Baby-Boomers" pass into the aging category. The aging market has been viewed as the 50+ market, but realistically the 50 - 60 year old generally considers themselves as young and a part of the general population. They certainly don't appreciate the implication that they're "old" (not that anybody does, but this group is far from that thought process). While it is true that their mortality and susceptibility to catastrophic illness is becoming obvious through close relationship tragedies, they are still not ready to accept the role of "aging".

The "aging" market really begins with the 60+ market. By this time the realities of poor lifestyle choices is permanently ingrained in their thought process. The reality of what awaits them if they fail to modify their lifestyle is now very real. Most are not looking for a "fitness" facility. They are looking for a "wellness" facility that understands their needs specifically and who will make them feel welcome. This group literally fills "wellness" type facilities. In addition to the fact that they are drawn to a place that makes them feel welcome, they make the facility a large part of their life. They are a very social group. Additionally, their loyalty is unreal. That is why the 80% retention rate is so prevalent in these types of facilities.

One of the most common tactical blunders that facilities make when considering approaching this market is that their thinking is very limited. The limited thinking usually results in the following:

- Only offer limited programs

at limited times

- View the 60+ market as a "turn off" for the general membership

- Don't provide the needed support mechanisms

- Fail to realize the significance of exercise as the 60+ market views it - life enhancing and a necessity

- Fail to capitalize on the 60+ markets extreme social tendencies

- Interact with the 60+ member in a condescending manner or a manner that makes them feel like they are being treated like children, which they naturally find offensive

Fail to follow-up on questions or complaints from this group, which views a response to their question or request as very important

This group has a much higher expectation of performance delivery than the general membership. When dealing with this group, say what you mean and mean what you say. After all, we're in the customer service business. So, deliver the customer service. If you work hard to satisfy the 60+ market you will reap terrific dividends.

In marketing to the 60+ group, tradition is once again forgotten. It's all about environment, commitment and variety. Referrals are once again the best method to grow the market. Also, reach out for their input. It's important to see and hear what they want. No matter how much you read or study, the voices of the aging will tell you all that you need to know to be successful with them.

Corporate Market

This is not a new market, it's just one that has been ignored for far too long. This is not a "group discount" opportunity as is so commonly advanced. This is a "wellness" opportunity. Think about all of the information that is presented to corporations as quantification for the "need" for a corporate fitness program. It's all related to how the corporation will benefit. Every bit of the information presented is specifically designed to imply that the corporation's sedentary individuals are the ones that will benefit. For most facilities this is all a slickly packaged piece of "bait and switch" marketing hype. The facility tries to tell the corporation what the corporation wants to hear, but is really only thinking about how to get the money. How does the facility go about switching the bait? By offering a group discount.

When this approach is used, the corporations who participate find that really the participants are the motivated individuals who would have probably joined somewhere else anyway. Where is the big initiative to motivate the ones who the corporation wants and expects to get to get involved as a result of the "corporate relationship"?

The truth about corporate sales and the reason that a slick presentation appeals to the right person in a given corporation is that they know that they are "bleeding" through their bottom-line because of their sedentary workforce. The typical corporate presentation in our industry spotlights these individuals but fails miserably to deliver the promise.

As a result of this failure, many corporations have invested millions in on-site exercise programs. Sadly, most of these experience the same problem. The majority of the people who participate regularly would exercise anyway, so the money is not well spent by the corporation.

If you really want to be successful in the corporate marketplace then throw out the old and design the new. The time for change is now. Why are the companies that offer to buy memberships and then resell them to corporations becoming so popular? Because most facilities are tired of the same mistakes followed by the predictably same miserable results. So, because the facility is frustrated, they enter into a discount membership program whereby someone else makes the money, but the illusion is created that the facility is somehow a corporate wellness provider. This is sad. The whole concept is self-deception at it's best (or worst).

If our industry is truly to partner in the benefits of a corporate wellness program with businesses that are serious about strengthening their workforce, then all of these contemporary illusions need to be done away with. The corporation wants their sedentary workforce impacted. If you can really help them accomplish this they will pay you very well. But they are aware of the illusions and they are not fooled. They may go along with your "discount" plan so that they can look good to the individuals who do participate and who do save money, but the thought that you are really helping their bottom-line is non-existent. This is one of the areas that our industry seriously needs to clean up its act and reputation. Corporations, just as individuals, are turning their attention to true "wellness" operations.

These "wellness" operations are benefiting greatly. Not all that surprising, but most of the successful corporate "wellness" programs involve the interactive fitness technology.

The primary components of a successful corporate program are:

- Establishing a staff that deals only with your corporate development programs.

- Strong initial training for these individuals and strong management follow-up.

- Creating an effective business and marketing plan that contains the components that you really intend to offer the corporation that will benefit their sedentary workforce.

- Effective use of goal setting.

- Identifying the right person to present your program to at the corporation.

- Effectively establishing a bond or relationship with that person.

- Discovering what the employer WANTS and not what you think that they want.

- Incorporating the importance of the company contributing towards the plan financially to quantify to the employees that this is a serious initiative.

- Utilizing a contractual agreement with the corporation so that everyone's role and the expectation thereof is clear and without uncertainty.

- Working with the corporation to create a timely powerful plan designed to motivate as many sedentary individuals to participate as is possible.

- Maintain strong follow-up in order to ensure long term client retention and satisfaction which leads to strong referrals.

When the obstacles are identified and corrected, strong corporate business development becomes possible. Additionally, whenever the person who appears to be the decision maker (often the Director of Human Resources - which sometimes seems like an oxymoron when planning corporate wellness) is a sedentary or antagonistic individual, immediate action must be taken to locate someone higher up the executive ladder that understands the truth about bottom-line loss due to poor employee wellness. If the corporation fits your prospect profile, then persevere and find someone else who will listen to what you have to offer.

None of these markets are easy to develop initially, but all three offer great futures for the interested operator. All three require planning, patience, goal setting and motivated performance. If you have any questions about these three markets, please feel free to e-mail me at tngoeff@hotmail.com.

Body Training

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Gordon started with Group Fitness Management on February 18, 2000. Since that time he has installed all five programs: BODYPUMP, BODYATTACK, RPM, BODYFLOW and BODYSTEP. He has already had a 242% increase in Group Fitness participation and a 35% decrease in his cost per Group Fitness visit!

Cost Per Participant Decreases

Following is the calculation of Group Fitness Cost per Participant:

Total Monthly Instructor Wages Divided by Total Monthly Group Fitness visits. With BODY TRAINING SYSTEMS this number will be less than \$1.50 and in most cases less than \$1.00.

Les Mills World of Fitness club in Auckland averages 75 cents per participant for Group Fitness classes in Auckland with 7 to 8,000 visits per week. Using Plummer's cost per member visit, Les Mills World of Fitness cost at \$4.95 is exceptionally low. This is because 50% of his total visits are in group fitness, driving down the overall cost per member serviced.

These are the powerful economics of great Group Fitness that club owners have trouble understanding unless they have seen or experienced it.

This information is all about group exercise and club economics. It doesn't have anything to do with classes. This information is really eye-opening: 75% retention rate, 28% EBITDA, almost \$12 million revenue out of one 60,000 square-foot club. This means almost \$3 million annually from one 60,000 sq ft club!! Not bad at all. This is the business of group fitness that we didn't understand from the beginning. But, we understand it now and can help club owners like Gordon Johnson and 10 to 15 more that are beginning to really study and understand the business of group exercise and are saying, "Wow, this is really amazing!"

IT ALL DEPENDS ON GREAT GROUP EXERCISE CLASSES!

It is important for your readers to know that all of the above is totally dependent on having GREAT GROUP FITNESS CLASSES. None of these numbers could have been accomplished with bad group fitness classes.

So, the question is, "How

do you make group fitness great? There are two key components that make great classes. The instructor and the program. BODY TRAINING SYSTEMS provides these two components. Our Instructor Training is truly WORLD CLASS because it has been refined over the past 21 years. Our Programs are core programs that have mass appeal. We have 200 professionals and a budget of \$10 million annually to provide all aspects of great programs. The programs are pre-choreographed so they are consistently fun, simple and designed to get results.

The U.S. group instructor-base has become an industry of primarily "hobby" instructors that are poorly compensated and, therefore, teach classes to get their own workout and a free membership. This shows up in the quality of the Group Fitness product that is currently in most clubs today. Overall Group Fitness is down 50% in the U.S. since 1987. No wonder members everywhere are saying, "I don't want anymore of this and leave." The classes we are seeing are not simple, fun or getting results. In New Zealand, Les and Phillip Mills have learned how powerful group fitness is and committed their organization to excellence in that area. What he has to show for it is one of the most successful and profitable clubs of its size in the world.

Club owners in the U.S. and Canada have had a hard time understanding the direct relationship between bottom line profits and group fitness. Many clubs want to make Group Fitness a profit center by charging for classes. Our experience worldwide has proven conclusively that what you want to do is ATTRACT and KEEP new members because of your group fitness programs. Once you have a powerful Group program, there are many ways to generate incremental revenue directly from this area, but for most clubs, this is 3-5 years off. The U.S. health club

bucket has a hole in it that is just about the same size on the bottom as it is on the top. We are putting members in and they are running out of the bottom just about as fast. Or, we would be growing in member numbers much more rapidly. If you look at the new membership numbers that are being sold in the U.S., it is huge. I would not be surprised if our industry overall has 60+% attrition in North America. Great Group Fitness is one solution to the attrition problem!

John McCarthy, IHRSA's highly esteemed Executive Director, commented in the CBI article that; "Group exercise will make it possible for clubs to reach the goal of 100 million members worldwide, by 2010."

Take for example, Courtsouth in Knoxville, Tennessee. They conducted a BODYPUMP launch marketing program that generated \$52,000 in new membership sales in 3 clubs in just 3 days! The Courtsouth BODYATTACK launch generated \$120,000 in new membership sales. And, an amazing quote from Courtsouth is this: "We have found when a guest takes a BODYPUMP class prior to our sales presentation, our closing ratio is above 90%!"

Norm, you and I have been in the club business for over 25 years and I have never seen anything like this! Understanding and properly utilizing the power of group fitness will impact every area of the club. But, we have not done an effective job until this past year of helping club owners understand the business of Group Fitness. We actually hear club owners say, "I don't want to pay a license fee. I don't want to talk about it. My group fitness is O.K." We invite anyone who feels this way to be our guest at our Group Fitness Management Training which is held monthly in Atlanta. We have had over 500 club owners and Group Fitness Managers attend and everyone has left with a new understanding of the potential of Group Fitness. Our next Training is June 22. Call 800/729-7837 for reservations or for future Trainings.

Cates- "Well, it looks to me like you are winning the war, even with the resistance from those that I will call, the 'slow ones.' In fact, while it is your business and I am sure, not amusing to you Rich, it is amusing to me to watch how fast some of these same club owners invested big money to get into the 'e-opps' world and yet will balk at a measly \$250 per month license fee which provides huge, and I mean huge, benefits to their clubs! By that I mean, in less than 3 years you are now in 1,000 clubs. While that is not like the rapid explosion you started with the STEP, it appears to me to be a much more stable and long-term and varied opportunity than the STEP was. In other words, those 5 BTS Programs could literally provide club owners everywhere with programming excellence for the next 20 years! And, it also seems to me that as clubs install your BTS programming and the smart ones start kicking the 'slow one's' butts, that should get their attention more and more. Rich, I know a lot of people in the industry worldwide and I can honestly tell you, you and Ray (Irwin, Rich's partner) are the best prepared of anyone I know of to take this opportunity to North America. I mean, I haven't even mentioned the BTS Marketing Programs that you have developed for clubs to make membership sales in big numbers when launching BODY TRAINING SYSTEMS Programs." (See sidebar below.)

MARKETING OPPORTUNITIES

- Initial program launch
- 3 different market segments:
 - Guests & missed guests
 - Expired members
 - Current members
- 4 program releases per year
- Total Opportunities
- Programs (5) X Markets (3) x Releases
- (4) = 60 Marketing opportunities/year.

Rich, I'll look forward to future updates. BODY TRAINING SYSTEMS worldwide is providing a huge and extremely important service to the entire club industry. It is fun to watch, as the industry leaders, once again, get started first. That is why they are know in our industry as the leaders. The "wannabees" will come along later, but for some of them, it will be too late. They will be so far behind their competitors that they will never catch up.

(Norm Cates, Jr. is the Publisher and Editor of *The CLUB INSIDER News*. Cates was the 1st President and a Co-founder of IHRSA in 1981. In March, 2001, Cates was honored by IHRSA with its highest award, *The DALE DIBBLE Distinguished Service Award*. Cates may be reached at: clubinsidernews@mindspring or go to: www.clubinsidernews.com)

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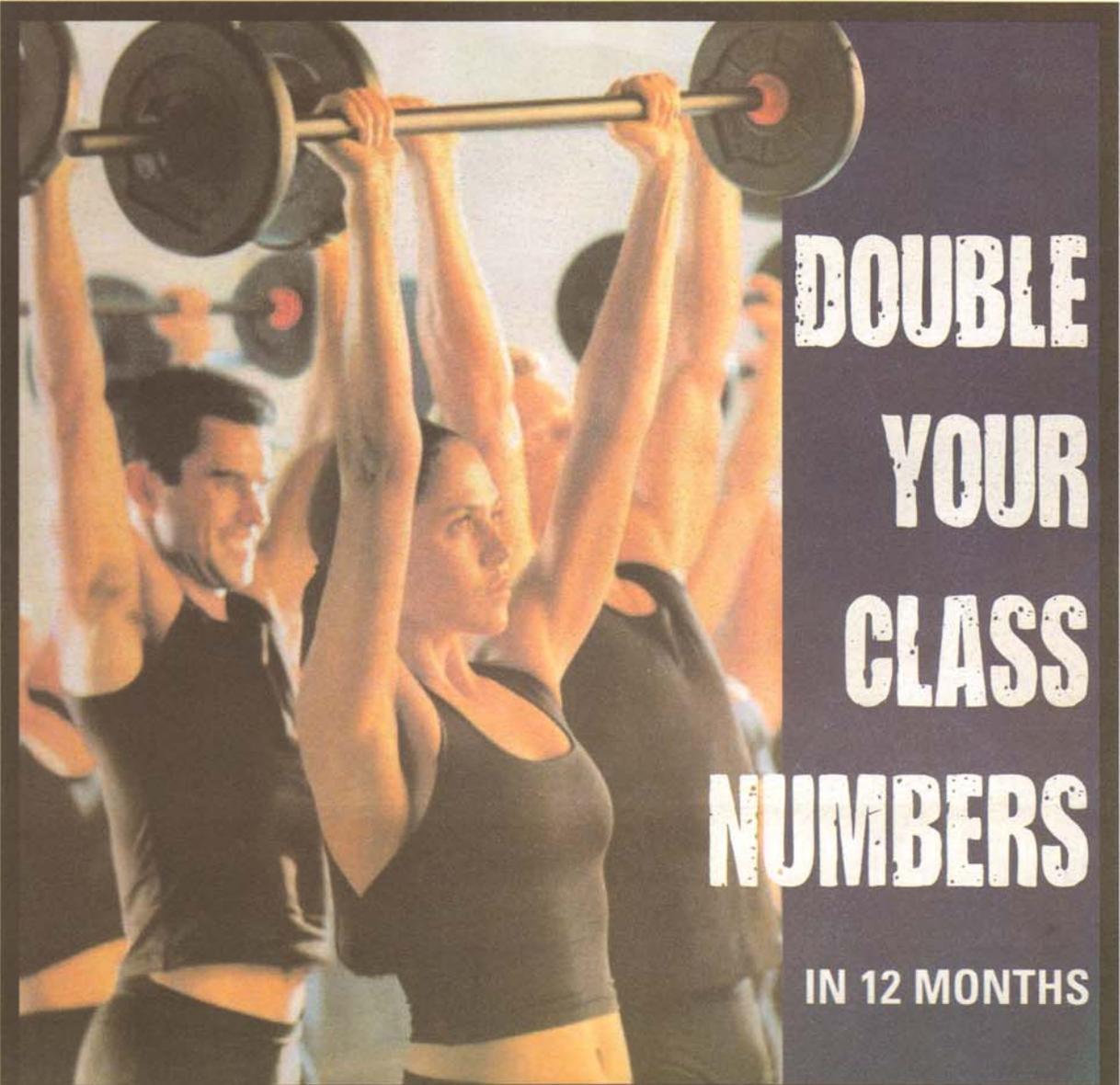
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