

Norm Cates

THE Club Insider[®]

NEWS

The Pulse of the Health, Racquet & Sports Club Business AUGUST 1995

MEGA BUCK DEAL!

By Norm Cates, Jr.

In a transaction across the Atlantic valued at \$300 + million, the giant WHITBREAD PLC has entered into a definitive agreement to purchase the DAVID LLOYD LEISURE PLC. David Lloyd Leisure is the leading tennis, health and fitness club operator in the United Kingdom and the Directors of Whitbread believe its future growth potential will be significantly enhanced with the backing of Whitbread.

Coming on the heels of the merger in the U.S. of the 2nd and 3rd biggest club chains, Family Fitness Centers and 24 Hours Nautilus, based in Southern and Northern California, this transaction demonstrates that the health, racquet and sportsclub industry is

booming globally.

Whitbread will pay \$632 in cash for each David Lloyd Leisure share. The transaction will be conducted by Barings of London.

WHITBREAD PLC

Whitbread is a major UK company listed on the London Stock Exchange with market capitalization of approximately \$4.75 billion, consolidated net assets of over \$3.4 billion and sales in excess of \$3.78 billion. Pre-tax profits year to date on February 25, 1995, were over \$434 million. Whitbread owns and operates some of the best known brands in the UK food, drinks and leisure sectors. These are managed in four divisions. Whitbread Restaurants and Leisure Division manages the Whitbread Group's leisure retailing business in restaurants, hotels and shops in the UK and abroad. This

includes: 270 Beefeater Restaurants and Pubs, 17 T.G.I. Fridays, 239 Pizza Hut Restaurants, 83 Keg Restaurants in North America, 1,602 Thresher Off-Licenses including Wine Rack and Bottoms Up, 61 Churrasco and Mareo Steakhouses in Germany, 79 Travel Inns, 30 Country Club Hotels which include 12 Country Club Resorts with integral leisure clubs and golf courses. Additionally, on August 7, 1995, Whitbread announced the acquisition of 16 hotels in the U.K. trading under the Marriott brand name.

Whitbread is well known as the UK's leading pub retailer. Whitbread Inns manages some 1,600 pubs throughout the country, each dedicated to the specific needs of its local market. Whitbread Pub Partnership leases 2,200 franchise pubs, mainly on twenty-year leases and leases an additional 750 pubs free of the

partnership to multiple pub operators. The Whitbread Beer Company brews and distributes a strong portfolio of ales, stouts and lagers including Boddingtons, Murphy's Irish Stout, Heineken and Stella Artois as well as distributing a wide range of other drinks.

DAVID LLOYD LEISURE (DLL)

David Lloyd Leisure was founded by its Chairman, David Lloyd, in 1980. The first club was developed as an indoor tennis and leisure facility and opened in 1982. The emerging concept of combined tennis and leisure services at an inclusive price experienced great success and since 1982 has grown to 16 facilities, including two golf clubs and one holiday club in Portugal. In March, 1983, DLL went pub-

lic. In 1994, DLL reported pre-tax profits of \$12 million on a gross annual income of \$38.7 million. Consolidated net assets of DLL in 1994 were \$632 million. DLL has experienced annual growth of 27%. To meet the growth demand, DLL has been rapidly expanding and has already opened three new clubs in 1995 and intends to open two more clubs in the next six months. DLL has also been active in securing planning permission and potential sites for further expansion. The Whitbread offer will provide DLL with a financially strong parent enabling the acceleration of the expansion plans.

David Lloyd will continue as Chairman of DLL following the acquisition. The Board of Whitbread intends that the existing employment rights, including existing pension rights, of all management and employees of the DLL (See *Whitbread* page 4)

Fitness Holdings Takes Off!

By Norm Cates, Jr.

In our July edition we reported on the merger of the second and third largest fitness chains in the country, Southern California based Family Fitness Centers and Northern California based 24 Hours Nautilus. Since then, the leadership of Fitness Holdings, Inc. has conducted its first meeting of the new Board of Directors.

The CLUB INSIDER

News contacted the new management leaders of Fitness Holdings, Inc. to hear how things are going and to learn some things that are of interest to our readers.

Ray Wilson, the founder of Family Fitness Centers, who will continue his involvement with the business as the Managing Director of Family Fitness and as a member of the Board of Directors of Fitness Holdings, Inc. said, "I couldn't be happier with how things are going. Things are happening exactly as represented."

Mark Mastrov, co-founder

of 24 Hour Nautilus and the new Chief Executive Officer of Fitness Holdings, Inc. commented, "We are gathering momentum..... all across the board people are excited. We've started construction and pre-sales on our 35th - 24 Hour Nautilus location and we plan to start one new location per month for the rest of the year!"

When informed that the CLUB INSIDER News was receiving calls from club chain owners wondering about who to speak with relative to club chain acquisitions, Mastrov said, "You can tell them to call me.....we are excited to talk to people who are wanting to sell." Mark authorized The CLUB INSIDER News to publish his direct line: (510) 416-3197.

The CLUB INSIDER also spoke with Ival McMains, the (See *Fitness* page 20)



Ival McMains (left), Craig Pepin-Donat (right) and Mark Mastrov (Standing)

• Inside The Insider •
•How The CLUB INSIDER Is Produced
•A Look In The Mirror
•Don't Forget The M.D.
•Attacking Hidden Costs - Part I

THE INSIDER SPEAKS

• EDITORIALS • "INSIDER MAIL" • COMMENTS •

How The CLUB INSIDER Is Produced

By Norm Cates, Jr.

Now that we have expanded our circulation to over 12,500 clubs each month, I feel that it is a good time to fill you in on how this publication is produced each month. My reasons for providing this information are: (1) We want you to understand why we need YOUR HELP through the support of our advertisers and the securing of new advertisers. (2) We want you to understand why we may not be as efficient in responding to your requests for additional copies, fax copies of articles, etc. as we would like to be. (3) We want

you to understand that this is a publication for the entire health, racquet and sportsclub community nationwide and as such, why we need to hear from you with news tips, contributing articles and other input for publication.

This is the 21st monthly edition of The CLUB INSIDER News. Now that I have returned from my first vacation in two years to find myself scrambling to meet this print deadline, I have come to realize that I must make some changes and I want to ask for your help.

You already know that I am the Publisher and Editor of The CLUB INSIDER News. What you don't know is that I have NO EMPLOYEES. Each

month, I do the following: • writing of articles • all data input of every word we print • answering the phone • recording of new and renewed subscriptions in the computer • all mailing and faxing functions including mailing of additional copies, all paid subscriptions each month, advertising invoices, advertiser copies, renewal invoice preparation and mailing, etc. • all advertising sales • all advertising account management • contributing writer recruiter and coordinator • accounting including all bank deposits, subscription data input • layout of newspaper on paper prior to final computer layout • double proof reading of each issue each month • monthly trip to Walton Press for final paper layout with ads and photos prior to printing • second trip to Walton Press for pick up of copies for mailing to paid subscribers and advertisers at Atlanta post office • all collection functions.

and lays the newspaper out. She then prints out each page for final web plating. As you can see from the fine quality of the monthly layouts, she is very talented and she does a fantastic job. Ron Hudspeth is the Publisher of the Hudspeth Report, the Pulse of Atlanta's restaurant and entertainment scene and through his generosity, we are able to prepare for publication each month with the use of his computer systems. He is a friend of 20+ years and without Ron's and Cathy's support, we would have a tough time continuing.

The second key person wishes to remain anonymous. Suffice it to say..... he is the REAL editor of The CLUB INSIDER News as each month I fax every page of The CLUB INSIDER News to him for final proof reading. Since I flunked English Composition 101 in college, it is needless to say that his work is crucial to the quality we have delivered to date. Also, he refuses offers of compensation as I believe he views The CLUB INSIDER News as important to the industry and he has been giving his vast knowledge and expertise to our industry for years now.

While I do all of the jobs above without any salaried employees, there are two key people who are critical to our monthly production.

The first key person is the lovely Ms. Cathy Brown of Atlanta's Hudspeth Report. Each month Cathy takes my hand written page layout and the computer disks containing each month's copy

and finds a fantastic printer for your newsletters or slick color brochures, I can assure you that Walton Press will provide you with a very competitive bid and first class work.

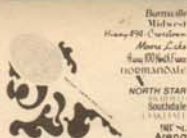
So, now you know how The CLUB INSIDER News is produced each month.

While I am as busy as a one-armed paper hanger, I LOVE publishing The CLUB INSIDER News for you. However, I must WORK SMARTER and this is where YOU can become involved if you want to. Here is how:

(1) ADVERTISING SALES REPRESENTATIVES - I hope to develop a nationwide system of advertising sales representatives who are willing to work part-time on a commission basis to sell advertising for The CLUB INSIDER News. If you are interested, call me at (800) 700-2120 for details.

(2) SUBSCRIPTION SALES REPRESENTATIVES - It is my opinion that we have just begun to scratch the surface with our subscription sales. EVERYBODY who is earning a living in the health, racquet and sportsclub industry should be on our subscriber list. This means YOU could help us reach many folks who are not currently subscribing. The market potential is significant. People who are considering a career change to the club industry should be subscribing. All club owners, managers, assistant managers, sales directors, programming directors, marketing directors, aerobic and fitness directors should be subscribing. So, who knows how many people in your organization should be subscribing? If you are interested in involvement in part-time commissioned subscription sales, call me at (800) 700-2120.

In closing, let me just say that I am excited about the idea of involving YOU in The CLUB INSIDER News SALES TEAM and I look forward to hearing from you real soon! Thanks for reading The CLUB INSIDER News!



July 11, 1995

Norm Cates
 Publisher
 The Club Insider News
 P.O. Box 671443
 Marietta, GA 30067-0025

Dear Norm:

I want you to know how much we appreciate your publication, The Club Insider News.

Your newspaper fills a need for up to date information and what's happening in the club industry. It's "must" reading for everyone involved in this great business.

Keep up the good work.

Good Health,

Jerry Noyes
 Executive Vice President
 Northwest Racquet, Swim and Health Clubs, Inc.

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NORM'S NOTES.

RON HUDSPETH's Villa de Papagayo is nothing short of a work of art. Settled serenely on the side of the mountain in El Ocotol, Costa Rica, overlooking the Pacific Ocean, Villa de Papagayo is a fantastic setting for you and your staff to enjoy a working retreat or a group vacation. I just returned along with a group of about 60 Atlantans who went down to help our friend celebrate the "house-warming" of the new villa. Ron was a terrific host and a better time has never been had! I've had the pleasure of traveling a lot, and the Villa is located in one of the most beautiful settings I have ever seen. Check out the photos of Villa de Papagayo in the July issue.

CLUB INDUSTRY in October and **IHRSA** in December. Don't forget to mark your calendar for these two important industry events. The four-day **CLUB INDUSTRY** conference and trade show will be October 18 - 21 in Chicago. For registration and information, call (800) 541-7706. The 10th Annual **IHRSA** Sales and Marketing Conference and Trade Show will be held December 6-9th in Atlanta. For registration and information, call (800) 228-4772.

LEE GUTHRIE, President and CEO of Canada-based Sports Specific International, tells me that they have selected a new resistance system to replace the original hydraulic systems that were specified for the **SKYWALKER**. He says he is totally confident that this choice will be the right one. Lee also says that the shipping schedule mentioned in last month's article has been pushed back because of the new resistance system, but he expects to have everything ready in time for the **CLUB INDUSTRY** Show.

BRAD SCHUUP has founded a new company called **SPORTSMITH** to provide health and fitness facilities with quality equipment parts and electronics repairs. Schupp had founded SportsTech Services in 1989 and served as its president until March, 1995, when he sold his interest to form **SPORTSMITH**.

For information and color catalog, contact **SPORTSMITH** at (800) 713-2880.

STEVEN SCHWARTZ, President of Tennis Corporation of America tells me that TCA has landed a contract to manage a new \$10-million Corporate Fitness - Rehabilitation Center which is being developed by the Henry Ford Health System and General Motors. He says the new facility will be 60 - 70,000 square feet and will be the rehabilitation destination for the Detroit Tigers, Red Wings and Lions and will have sport facilities, such as an indoor pitching mound for the athletes. TCA has also recently taken over the management of the huge Sporting Club at Windy Hill (NW Atlanta) and Steve Gallagher has been appointed as the General Manager.

BINAY CAHN of the Chicago PR Firm of Edelman and Associates tells me that at press time today, LifeFitness has not released any information on their recent acquisition of the High Tech Professional Strength Systems of Paso Robles, Ca. It is rumored that this acquisition has been made by LifeFitness as a preparatory move to compete with the huge Italian company, TechnoGym. We will report more to you next month.

CONTRIBUTING WRITERS for The **CLUB INSIDER** News have been responding to my little ads. Thanks to each of you who have called to volunteer. I am looking for people to provide articles on topics that can help club operators everywhere to improve their bottom line, or as Brother **CURT BEUSMAN** writes in this edition: "to survive." You can reach me to discuss a possible role as a contributing writer at (800) 700-2120. Also, don't miss reading this month's **INSIDER SPEAKS** where I outline the plan for an Advertising and Subscription Sales Organization.

WILL CLEVELAND is the General Manager of the Wildwood Tennis Club in Fort Wayne, Indiana. Will has experienced great success with the new indoor lighting system called

BEST LIGHTS advertised in The **CLUB INSIDER** News. Next month we will outline for you the energy savings and improved lighting results that they have obtained from **BEST LIGHTS**.

TONY DeLEEDE, owner of the Australian Body Works chain in Atlanta tells me that it looks like his club group will have expanded by 50% in 1995! In March, he opened his 11th facility, his first Cardio Theater Express, he is under construction with his 12th location, a women's-only club in a suburb called Kennesaw, he has signed a lease and will soon begin construction of #14 in the new Health and Fitness Mall being developed in Northeast Atlanta and he just took over a club which had recently closed down, called Reflections. And, he is on the verge of inking another deal which if consummated would put him at 15. Plus, his sales of the Cardio Theater, of which he owns 50%, are skyrocketing. Combining all of this with his role as the Envoy to the Australian Olympic Team in the 1996 Olympics, it looks like his schedule will be a busy one for some time to come.

Congratulations to the people at **ACE** - The American Council on Exercise as they celebrate their 10th Anniversary! Also, congratulations to **JAY KELL** of The Sports Clubs of Canada and to **DR. DAVID UPTON**, President of the David Upton Company in Dallas, Texas, for their selection to the Board of Directors of **ACE**.

WAYNE GRETSKY, without a doubt, one of the greatest hockey players in the history of the game, has announced that he will build a huge indoor ice skating and ice hockey arena, complete with a fitness center..... guess where? Coral Springs, Florida!



Norm Cates, Jr.

Just what **DEAN KATCHEL**, range Athletic Club, does not want to hear!



Norm Cates Jr.
 Club Insider
 P.O. Box 671443
 Marietta, GA 30067-0025

Norm,

Just a note to let you know how much we've enjoyed your publication! The articles are well written and straight forward. The issues are well researched and informative to anyone in this industry. The features are great - it's always nice to learn more about who's doing what, and where!

In today's hustle and bustle world, it isn't often people take time to say "Thanks for a job well done". We'd like to change that and say "Thank You" and the Club Insider. As you know, Sales Makers has been in business for many years. At different times we have advertised in various trade publications, newsletters, and via direct mail, but have NEVER had the results that we've had since placing our ad in Club Insider. Not only are we getting many interested inquiries, but they are better qualified and more informed than ever.

You can count on our business - and continued support of your efforts with the Club Insider! Keep up the good work!!

Respectfully,

Ray
 Ray Gordon
 Sales Makers

MICROFIT'S HEALTH CARE CONNECTION DON'T FORGET ABOUT THE M.D.

By Neil Sol, Ph. D.

Ever since the Health Care Connection Column has appeared in *The CLUB INSIDER* News, club managers and owners have been contacting me concerning issues pertaining to positioning their individual clubs to benefit from a relationship with a health care provider. Slowly, club owners/managers are realizing the profit potential for the health club within the changing health care paradigm.

However, in almost every conversation, the club owner continues to wonder if it is important to develop a relationship with a local physician. If a health care connection is your objective, a relationship with a physician is of paramount importance.

A supportive physician will not only be an excellent referral source to your club for membership of his/her patients in need of preventive (wellness) services; a physician will give you immediate access to the larger health care institutions such as

hospitals or MCO's as well as other opportunities within the health care community. The physician is sure to be acquainted with the decision makers in those institutions and can be an excellent resource in arranging a meeting to discuss possibilities available to you both.

Sometimes affiliations with physicians are based on financial relationships; however more often than not, physician's affiliation with clubs are based upon a mutually beneficial symbiotic relationship of the physician and the club. The fact is that as health care continues to shift to a prevention focus, physicians and large health care institutions will require our support. For the club that has not initiated a health care relationship, a physician affiliation could be the easiest and most efficient method to get involved with health care quickly.

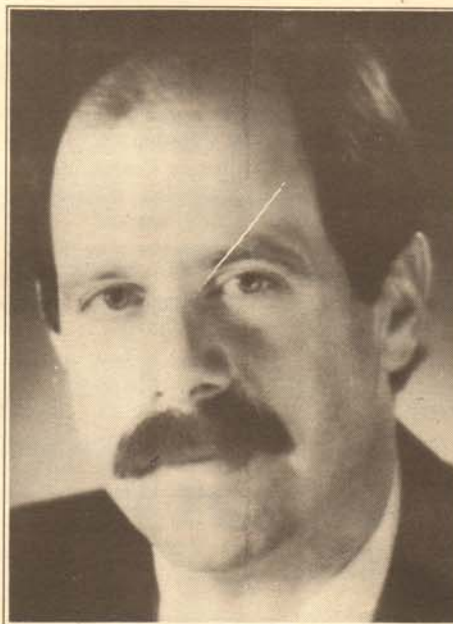
I recently had the opportunity to discuss with physicians how they viewed the role health clubs play within health care and how they feel about preventive health services for their patients.

I was not surprised to learn that physicians are open and have a favorable view of the health club as the community provider of preventive services.

The primary care physician focus continues to be in the delivery of traditional medical care to his/her patient and he/she realize they have little, if any, time to offer health promoting direction to their patients.

In a time of expanding managed care and capitation, they realize that preventive medicine practices, which include wellness and exercise services may be the means to reducing the demand for health care.

It was apparent that the physicians are aware of the research promoting the benefits of early disease detection, lifestyle modification and physical activ-



Neil Sol, Ph. D.

ity and are interested in providing these services to their patients. But, they are also aware that to be effective, regular and periodic leadership is necessary. The physicians know they do not have the time to follow up with their patients in areas of exercise, nutrition counseling, smoking cessation, etc. They also know that if their patients could obtain these services, their health would improve.

As more and more physicians become employees of capitated health insurance plans, they are becoming corporately motivated, actually directed by their employer to enhance the health of their patients/subscribers. Limited by time constraints, but driven by the directive to improve the health of the subscriber, a need for certified health and fitness professionals is growing to offer wellness services to support these physicians. Physicians express a sincere concern about their patients in need of wellness services and obtaining these services from pseudo-professionals that provide services not based on scientific premise or quality control. It was obvious that the physician has a level of comfort with the quality health club as the prevention provider to their patients.

The physician who historically may have felt threatened by clubs and their professionals usurping control of their patients, now understands and desires the support that the club can offer their medical practice.

So, how does a club develop an affiliation with a physician? The following are methods for your consideration:

(1) There is probably a physician in your club membership who, if approached with the idea of entering into a symbiotic role with the club, would be very receptive. A letter or lunch

invitation could be the beginning of a great relationship.

(2) Hold an open house in your club for the physicians of your community. Develop print material that expresses your philosophy of preventive health and how you see the club working in concert with physicians. Meet and greet the physicians. You are sure to find one or more who are interested in a relationship.

(3) Communicate with the physicians of your community by mail. Express your philosophy and your interest in working together. A follow-up call and an invitation to lunch, should yield positive results.

A relationship with one or more physicians will be mutually beneficial to the physician and the club and should be initiated and nurtured as soon as possible.

If a health care connection is your club's objective, you can begin and expand from a foundational relationship with an MD.

(Neil Sol is the President of Health Vantage, Inc., a Houston, Texas - based club consulting firm. Neil is one of the industry's leading experts in the field of health care as it relates to clubs. Neil can be reached at (713) 494-5550.)

Whitbread...

continued from cover

Group will be fully safeguarded.

Peter Jarvis, chief executive of Whitbread said, "Identifying new trends is the key to success in large consumer markets and Whitbread has a strong track record. We are recognized for the big part we have played in developing the markets for take-home beer, pubs for families, pub food and budget hotels. All of these growth markets were created by changes in people's lifestyles, and family memberships of health and fitness clubs is yet another. DLL PLC is the leader in this sector and its acquisition will provide Whitbread with both a strong business and an important development opportunity."

Steve Philpot, Strategic Marketing Director of Whitbread commented, "Through our Country Club Resort Hotels, Whitbread is already a significant player in the leisure market. David Lloyd is the strongest brand in the sports and fit-

ness sector and at a point in its development where our large scale retailing and hospitality skills can play a big part in accelerating its future growth."

In the United Kingdom, \$191 billion is spent per year in the leisure field. Sports and fitness is one of the fastest growing segments of the leisure business with projected growth of 31% by the end of the decade. DLL is the brand leader with \$47 million in annual sales. A typical DLL club provides indoor and outdoor swimming pools, a gym, dance studio, a bar and restaurant, twelve indoor and six outdoor tennis courts. Average club membership in DLL clubs is 3,700.

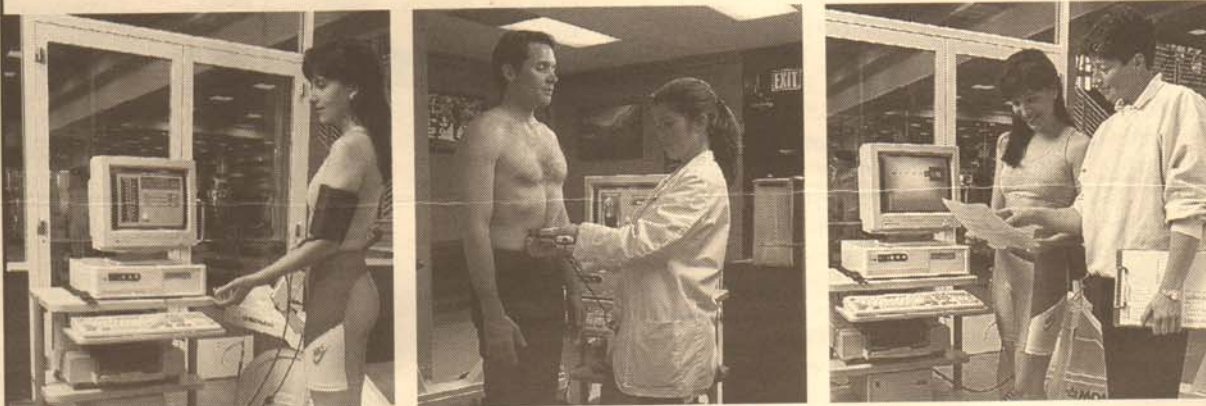
There are an estimated 2,200 private clubs in the UK with a fragmented supply and no major multiple players. Club memberships are at approximately one third of the U.S. levels which would mean nearly 7 million members nationwide. The UK market is a major "lifestyle" mar-

ket and the people are willing to pay a premium for high quality facilities and environments. DLL clubs have been IHRSA (International Health, Racquet and Sportsclub Association) members for years. David Lloyd is the current captain of the British Davis Cup Tennis Team.

For the past several years, Doug Miller, the European arm of Sales Makers International, has been working with the Whitbread PLC in the area of membership sales and promotions. During this time, Doug has aided the Whitbread PLC in the addition of 6,000 new members generating an increase in annual revenues of \$4.5 million. It is likely that those result have had a positive effect on the thinking of the Whitbread Board in their decision to make this acquisition.

(Norm Cates, Jr. is the Publisher and Editor of *The CLUB INSIDER* News)

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A LOOK IN THE MIRROR

By Gerry Faust

One of the most challenging problems for any company is complacency. Complacency that our systems are okay, that our customers are happy, that our employees are motivated, etc., etc. Conversely, one of the most productive things a company can do is to stop and take stock of how they are doing. The annual diagnosis has become a prime mover in many forward thinking organizations. A diagnosis is like an annual

physical. It can be used to learn how you're doing and can provide an opportunity to plan and commit to improvement.

"SUNRISE, SUNSET, SWIFTLY FLOW THE DAYS. ONE SEASON FOLLOWING ANOTHER..."

As the song suggests, it's easy to let time roll by with each day being a replication of its predecessor. The challenge is there is so much going on and so much is changing that it is easy for an organization to get out of touch with the market. Profits can slowly erode

until the organization is in trouble. In a recent meeting a manager was heard to say, "How did we get in trouble so fast?" "You didn't," a colleague was heard to reply. "We got in trouble a little more each day for a long time." Subtle changes are hard to recognize, especially if we are close to them.

A researcher once put a frog in a pan of water. The pan had low sides and the frog could easily have jumped out. But, as the researcher slowly turned up the temperature, the frog never moved. He sat there (probably thinking it was only getting a bit hotter and probably would get cooler soon) until he cooked to death. Many businesses, like the frog, have continued to do what they have always done, until it is too late.

The annual check-up, when done properly, can cause an organization's leaders to step back from the day-to-day, see some new data in a new light and have some fresh insights into their business.

SOME KEY FACTS

1. If you could take the sum total of the knowledge of all people in an organization, you would probably know all you need to know to understand the organization, its customers, processes and products enough to run the organization



Dr. Gerry Faust

well.

2. No one person knows it all.

3. Different people see the same challenges differently.

An organization is like a giant beach ball and each person stands somewhere on that beach ball. But, wherever they stand, no one can see all of the beach ball.

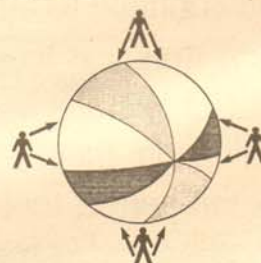


Figure 1. Beach Ball Effect.

However, if each person reported what they saw, you could get an idea of what the entire beach ball is like. To do an effective diagnosis, you must collect data from many people and create a common understanding of that data. The common understanding will allow the organization to balance points of view, set agreed priorities and provide a base for committed action.

AN EFFECTIVE DIAGNOSIS WILL:

1. Collect data from

around the beach ball whenever possible.

2. Focus on identifying areas where "what you have is not what you want." There are "clues" to understanding your organization and its opportunities for improvement.

3. Look broadly at the organization and consider:

- External Environment • Culture • Planning and Direction • Structure • Information and Control Systems • Reward and Recognition Systems • Customer Interface system (includes sales and marketing) • Operations, Facilities and Equipment • Human Resources • Financial Resources and Money Management • Important Outcomes (customer satisfaction, morale, sales, profits, image in community)

4. Develop agreement on a few prioritized areas of needed change.

5. Create specific action plans for improvement that focus on those limited number of important areas.

If done well, a diagnosis will create energy. It will be a time of openness and honesty, but will also clear the decks for forward action. The energy comes from the focus, direction and agreement that it generates.

There are tools and methods that can help you conduct a successful diagnosis either on your own (the Business Analysis Kit) or with an expert facilitator (Executive Insight® and ODQ). Whatever the approach you take, make a diagnosis a regular event in your organization. It's a great way to take charge of your organization and drive it to success! (Call Faust Management Corporation at (619) 536-7970 about its suite of diagnostic products TODAY!)

(Editor's Note: Dr. Gerry Faust is a professor and highly regarded speaker. His organization provides numerous opportunities specifically designed for club owners and managers to improve their businesses.)

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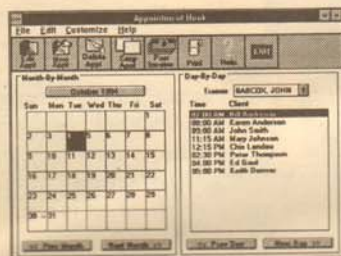
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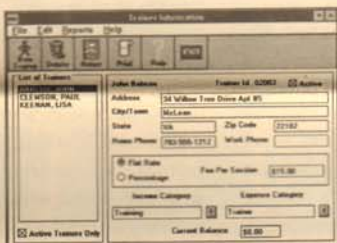
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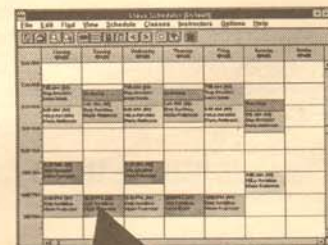


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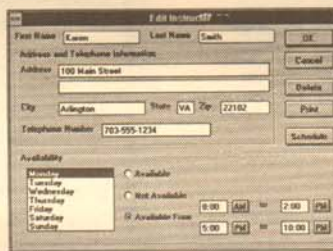
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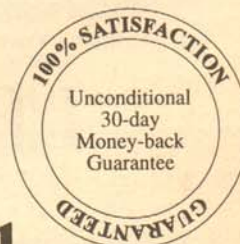
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ATTACKING HIDDEN EXPENSES - Part I

By Rick Caro

(these articles over the years.)

(Editor's Note: This is Part I of a four part series on ATTACKING HIDDEN EXPENSES which is reprinted from the June, 1994 edition of The CLUB INSIDER News. Parts II, III, IV will be reprinted in the next three editions. Rick Caro is the club industry's most recognized authority and expert on cost control. The information provided in these four important articles could help you reduce your total annual operating expenses by 5-15% if carefully studied and applied to your club situation. We urge you to retain and use

What is the ideal place to save on club expenses? Any category where the total savings all flow to the bottom line and where the member never sees any change in the club's operation. Furthermore, if the above situation occurred with a state-mandated expense, that is a world-class win for the club.

WORKERS' COMPENSATION INSURANCE

Workers' compensation insurance is just such a cat-

egory. It is a required insurance based on total payroll. It must be paid on a timely basis. If the insurance lapses or is not paid on a timely basis, the club owners and senior management can be held personally liable.

Most club owners and general managers just accept this type of insurance as a necessary evil without a great deal of scrutiny. In some states, the government has had to create a pool because all of the private insurance companies stopped writing there. Apparently, in those cases, the state legislatures had not approved appropriate rate increases over time and the claims created a bottom line loss for all of the insurance companies. They simply decided to leave the state.

In other cases, there are discounts offered up front as part of the premium calculation. In a few locales, there is a workers' compensation safety group in existence where a dividend is paid to all in the group if the premiums exceed the claims. On another note, the club industry has seen an increase in claims over the last five years. Generally, there is one catastrophic accident injuring an employee every 5-6 years in these safety groups.

SCENARIO # 1: A club has an annual workers' compensation audit scheduled. The club's bookkeeper is told by the General Manager to turn over all payroll records to the club's outside accountant. The audit takes place at the accountant's office and about 6 weeks later, the club receives an audit bill for \$14,000. So, the club owes another \$8,000 beyond what it had already deposited. The insurance company refused any payment terms; so the club had to pay the extra \$8,000 within 30 days after the bill was received. Since switching companies would not solve this surprising dilemma, the club paid it reluctantly.



Rick Caro

But, much worse, the insurance company then imposed a much higher deposit based on the new audit. So, within 90 days of the audit, the club paid both the \$8,000 overage for the audit and an extra \$6,000 in advanced deposits for the current year. All staff and owners were incredulous at this \$14,000 negative swing.

SCENARIO #2: One year later, the same club had a total workers' compensation premium - with the same insurance company and with \$75,000 more in total annual payroll - of only \$6,500. The only difference was the club's ownership hired a consultant intimately familiar with both the club industry and that state's workers' compensation regulations. The \$7,500 savings went straight to the bottom line along with much reduced advanced deposits on future years.

Each state governs its own workers' compensation policies and procedures. In some states, there are a variety of categories for clubs - Tennis Clubs, Racquetball Clubs, Tennis Clubs N.O.C. (Not otherwise covered), YMCA's, Country Clubs, Exercise/Fitness Institutes, etc. Clubs need to know the categories and the definitions of each.

In New York State, there was no category for a tennis or

racquetball club until three years ago. Instead, such racquet-sport and multi-sport clubs were placed in the Amusement Park/Recreation category. Imagine the frequency of employee injuries with those mechanics and handymen working on parts for ferris wheels and roller coasters. The rate amounted to 10.9% of total payroll. The immediate lesson was to learn how to get permission to classify as many club employees as possible in other categories which would cost less. The long-run situation was to go to the State Workers' Compensation Rating Board and create a new category. That happened to take 5 1/2 years, but it got created.

VARIETY OF CLASSIFICATIONS

The goal was to properly place as many categories of club employees in other classifications and pay for them at lower rates. Some of the categories used were: • Clerical • Executive • Sales • Child Care • Restaurant/Bar • Retail.

The prevailing rigorous jobs in a club- fitness and aerobic instructors, tennis/racquetball/squash pros, maintenance (house-keeping and repairs) all fell under the main category (Amusement Parks). However, the club was able to shift the others successfully. Bookkeeping, computer operators, member processing, front desk, member service, programming/activities, etc... all fell under Clericals. All department heads and above were placed in Executive. Pro shop was under Retail. Sales staff went under Sales one year and then moved to Clericals the next.

The advantage was overwhelming. A staff member classified under the Amusement Park category cost the club 10.9%, while a Clerical cost .6%. The savings on \$100,000 of payroll in a simple re-classification was \$10,300. The savings on \$300,000 in actual shifting for this club was \$30,900.

(See Caro page 17)



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DOLLARS AND SENSE ACCOUNTING

By Curtis Beusman, Ph.D.

Health and Fitness clubs are businesses just like other ventures. We may think we're different, but our clubs really aren't. Often, our staff thinks our business is out-of-the-ordinary, not like other commercial ventures. It's up to owners and managers to teach them some simple rules of business.

At a recent NEHRSA meeting, I asked a room full of club managers and owners: "What's the single most important goal of our clubs?" Answers were predictable - great member service, a clean facility, good equipment, friendly, supportive staff. The answers focused on operations, not finances. Ultimately, someone said, "Make a profit." But, I maintain that it's even more basic than that: Our single, most important goal is SURVIVAL. Staying in business, folks - meeting payroll, paying the bills, paying the bank and hopefully, paying ourselves something for our own efforts. Simple survival is the first and foremost goal.

How does a business survive? With a positive cash flow. That's the message that has to get out to our employees: clubs survive by generating positive cash flow.... Owners who have to meet loan and mortgage payments know this. Accountants and controllers know this. But our staff workers - the people who have the greatest influence on our cash flow - generally do not understand the idea of cash flow.

At our three clubs, I have given seminars to key staff people explaining the importance of cash flow, and what cash flow really is. We start with basic accounting terms and ideas. I like to reduce the ideas to simple English. For example, "Assets" become "Things we own", "Liabilities" become "Things we owe" and "Depreciation" becomes "Paying for old stuff." You'd be surprised how difficult it is to turn accounting language into simple English.

We talk about the difference in a Balance Sheet, with Assets, (Owned), Liabilities (Owed) and Owner Equity (Left-Over profit) - and an Income Statement, with Income (Money we collect), Expenses (Money we've spent) and Profit. We talk about the difference between an operating expense and a capital expense and where they each appear on the financial reports. Mostly, we try to understand what constitutes a positive cash flow.

In basic terms, a positive cash flow means cash left over after all the bills are paid, including interest on loans from the bank or investors, plus paying all lease costs and bank repayments of principal, known in accounting lingo as amortization. If you have a positive cash flow, you survive. If you don't, you are slowly dying - and you will soon need more cash from somewhere in order to continue in business. It's simple, but it's not so easy sometimes.

At our three clubs, we distribute monthly income statements by the 10th of the month. They are broken down into team or department form, with each team getting their income credits, their expense bills and a team contribution (team profit) as the difference. We don't charge health benefits, federal taxes or social security on the team payroll. Each team captain gets the information under his or her direct control. Some teams have both income and expense, like front desk (guest fees, court fees, sunbed tokens) while others are pure expenses teams like maintenance and housekeeping. Every general ledger account has a place in the monthly income statement. The business office assumes the indirect charges. And each team is compared to the budget or profit plan that was created at the beginning of the year by the team captains compared to what they had planned for that month. Any difference or variance has to be explained and a plan or strategy to correct the difference has to be put into play.

There are dangers in having your team captains prepare the profit plan. They might understate their income and overstate their expenses in order to make sure they're on target during the year. They may not generate enough contribution to cover the interest and mortgage payments. That's where the General Manager and the owners have to step in to find creative ways to insure a positive cash flow. However, when your team captains understand the importance of positive cash flow, you don't have nearly the difficulty in making adjustments and improvements to meet the survival goal.

In the monthly income statement, we calculate a Net Operating Profit including all the expenses that are under the control of the team captains. We do not include things like interest on loans, depreciation, owner's salary or owner benefits. We also exclude real estate taxes. Accountants may find this distressing, but

I want our people to focus on things they can influence and not have an excuse for missing a profit goal.

These ideas are not new. If you want a good education, get Jack Stack's best-seller: "The Great Game of Business". Stack took a loser business in Springfield, Missouri and converted it to a winner by training his people in financial matters. He calls it "Open Book Management". By sharing the financial information with your people, you will energize them and make them true stakeholders in your club. Get the book and read it.

There are a few other simple rules that we use at Saw Mill River Club and our two Sportsplex clubs.

1. For monthly reports, fast is better than accurate. This one comes from Gerry Faust. Your office manager/accountant person will always want to get every last bill into the last month report. But if you lose the ability to make a change during the month due to slow report production, you've lost your response time.

2. Add from left to right. This goes counter to what we all learned in school. Forget it - leave adding up the pennies to your accountant at the end of the year. Get each team captain to look at \$3,876.27 as "Thirty-Eight Hundred". My rule is: if you take care of the hundreds, the pennies will take care of themselves.

3. SHARE THE GAINS. In "CLUB INSIDER" September, 1994 edition, I suggested that all employees should benefit when the club exceeds its planned profit, not just the owners. Gainsharing is an old concept and it has worked for us at Saw Mill. We are going to introduce it at the other two clubs next year. (For more on this, get "Gainsharing" by Graham-Moore and Ross in the library or from your bookstore.) With gainsharing, everyone wins as business improves. Gainsharing also rewards expense control and income enhancement by employees.

To sum up: It's time we taught our employees about financial matters. They shouldn't be secret..... hidden from view. The more they know about what it takes to make your club be successful and to survive, the more they can help make it survive and create a positive cash flow that everyone can share. Never for-

get the First Rule of Business: "Get and Keep a Positive Cash Flow."

(Curt Beusman, Ph.D. is a veteran and globally respected club operator. Curt was one of the founders of IHRSA and serves on IHRSA's Advisory Council. He owns and operates the Saw Mill River Club in Mt. Kisco, N.Y., and SPORTSPLEX clubs in Stamford, Ct. and Hudson Valley, N.Y.)



Curt Beusman, Ph.D.

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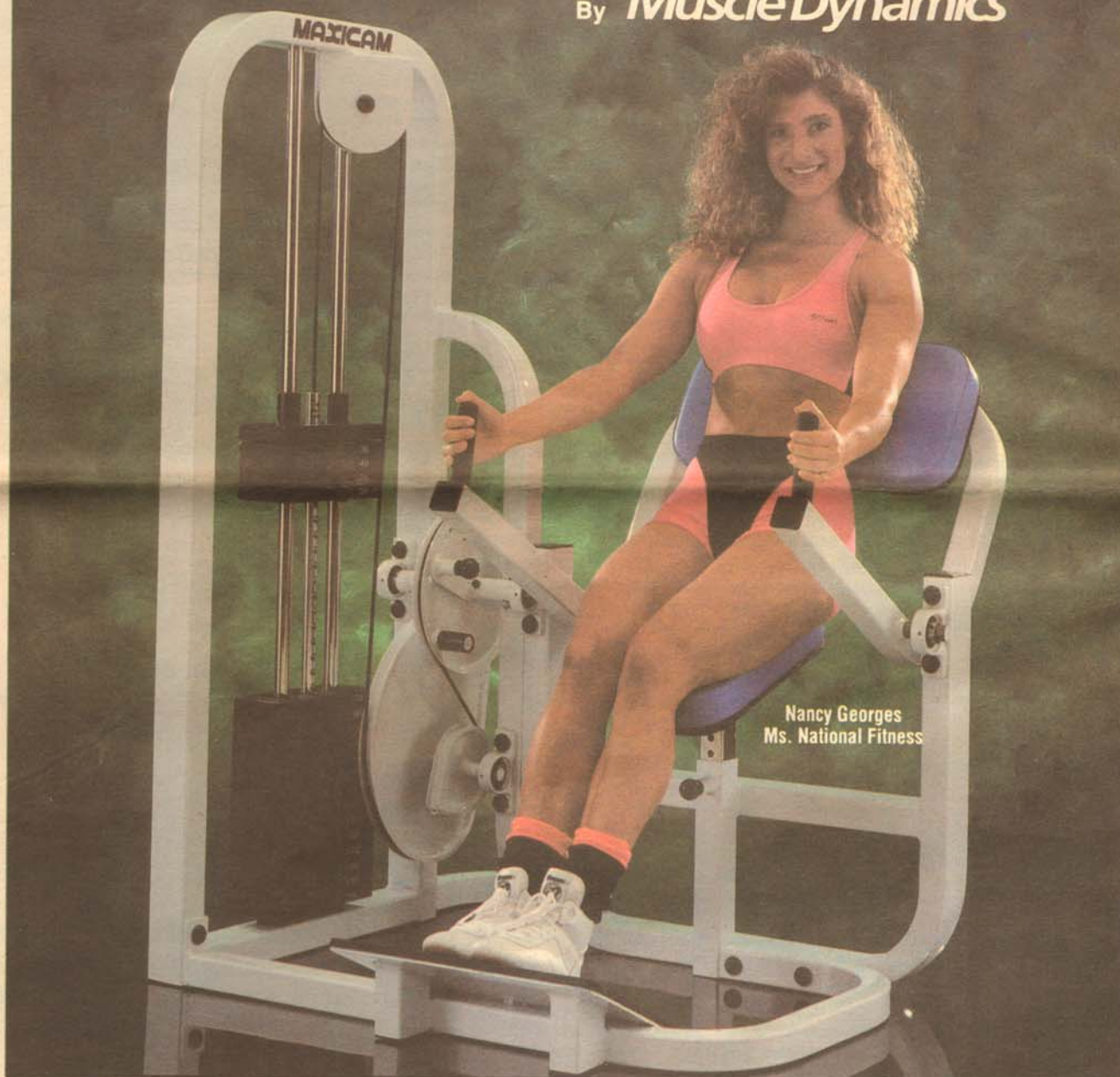
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Neil Sol, Ph. D. ...A Healthcare Visionary

By Norm Cates, Jr.

Neil Sol is the fellow who has authored Microfit's Health Care Connection column each month since its inception in our February, 1995 issue. This is about Neil and his vision for the future of the health club industry.

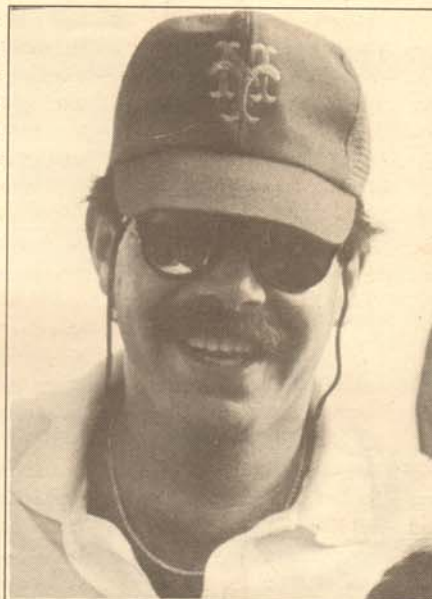
A graduate of high school at age 16, (he skipped 2nd and 8th grades) Neil entered Brooklyn College. Graduating from college before he turned 20, he entered graduate school at the University of Massachusetts where he earned a Master's Degree in Exercise Science. He went to work in 1974 for the Huntington YMCA on Long Island. This was one of the first YMCA's in America that offered stress testing as a component of their physical fitness program. Neil worked there for three years in that role. At age 24, he enrolled at Kent State University to obtain his Ph.D.

in Exercise Physiology. Upon graduation at age 28, Neil went to work at George Williams College in Chicago. He was retained to assemble the Master's Degree Program in Preventive and Rehabilitative Exercise Science. After spending some time "in a small office and at low pay" he left George Williams to go back to "the real world." He accepted an opportunity to work in Memphis, Tennessee in a hospital cardiac rehabilitation position which paid him twice what he was earning at George Williams.

Neil had a vision when he arrived in Memphis and in 1982 he created a total health promotion program for the hospital. His job grew to place him into the role as the systemwide person responsible for all health promotions for the hospital system. While employed at the hospital, many hospital consulting opportunities came his way. To date Neil has counsulted with over 75 hospitals in the area of health pro-

motion. Neil recalls, "this was the timeframe in which hospitals were attempting to turn to health clubs for preventive health services, but the health club operators were not ready for nor interested in hospital relationships." This experience has stood out in his mind since then as he now is one of the primary leaders of the effort to unite hospitals and health clubs in America.

In 1989, Neil wrote and published a book entitled: "Hospital Health Promotion". He began to travel and speak. For a time, he also contributed his efforts to a magazine called "Optimal Health..... Strategies In Integrated Health Care Systems." The magazine was published by Gretchen Kelsey (Brown), who is also the publisher of Athletic Business



Neil Sol, Ph. D.

Sports Medical Industries to a Texas oil man. An opportunity arose for Neil and he moved to Dallas, Texas to take the position of President of Nautilus Medical Products Division. However, this job turned out be a short-lived situation as 1 1/2 years later, Nautilus was again sold.

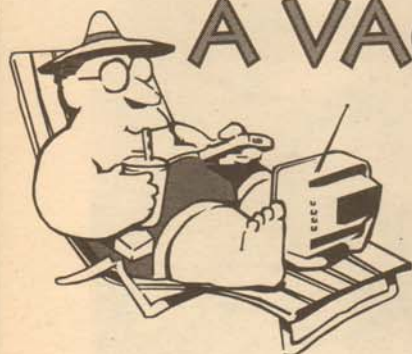
In 1988, the Houstonian Club which had opened in 1978, was continuing to fail as a club.... never having made a profit. About that time, Jill Stevens Kinney, now a principal of Club Source in San Francisco, had a consulting contract for the Houstonian. In her role to help the Houstonian Jill helped recruit Neil

as the General Manager of the Houstonian and the effort to turn the Houstonian around was quite successful. The first year of Neil's tenure as the G.M., the Houstonian fi-

(See Neil Sol page 15)

Magazine. This experience and these efforts began the resurgence of the effort to bring hospitals and health clubs together. Not long thereafter, Arthur Jones sold the Nautilus

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Neil Sol...

continued from page 14

nancial performance was reversed from a significant 6 figure loss to approximately a \$1 million profit. For the next several years the Houstonian averaged \$1.0 to \$1.5 million per year in profits.

Neil says, "excellent staffing and club programming was the key to this success. With great people like Laurie Cingle, IRSA Fitness Director of the Year in 1992 leading the way, the Houstonian's revenues rose from \$7 million to \$10 million per year."

While at the Houstonian, Neil had developed what was called the Houstonian Institute which was a management consulting and health care connection consulting firm. Upon departure from the Houstonian, Neil took this business

with him and today operates it as Health Vantage, Inc.

Along the way, Neil has been involved with the American College of Sports Medicine for 20 years. In 1991, he served on the committee that edited and published the "ACSM Health/Fitness Facility Standards and Guidelines." In 1986 he was President of the Association of Fitness and Business which is now known as the Association of Worksite Health Promotion, a Northbrook, Illinois trade association.

In 1994, Neil received a high honor as he was inducted into the Healthy American Fitness Leaders group. Among its 120 members are former President Ronald Reagan, Astronaut Jim Lovell, Dr. Kenneth Cooper and IHRSA Executive Director, John McCarthy. The award is presented by the U.S. Junior Chamber of Commerce to those

who have contributed significantly to health and fitness in the United States.

Neil views the future with great optimism and believes that health clubs will continue to be an integral part of the shift toward preventive health care. He also believes that if clubs do not take advantage of the opportunities coming their way in healthcare that hospital systems and insurance companies with large quantities of cash will begin to build and/or buy clubs in a big way in their search for health programming for people. Neil says, "My future vision or wish is that the club industry will assume its rightful place within the healthcare continuum. We (the club industry) believe in our own importance within this continuum and attempt to contribute to improving the the health of Americans."

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My Dad has been taking me around to some clubs lately and I noticed all the clubs have the same stuff. No one is trying to tell there own story. My Dad calls it " the me too syndrome. "

I thought the idea was to get people to join the club.

Q-1 - If it is still the goal, isn't it better to have each machine with its own story of Perfect and Unique Isolation like The GLUTE MASTER or The KNEELING LEG CURL or maybe a ROTARY TORSO that actually works where its suppose to. It just makes more sense, doesn't it ?

Q-2 - I heard a lot of clubs talking about the de-conditioned market as a target that sounded good, but why if the market to go for is the de-conditioned 40+ Market are people looking to design more complex machines ? Shouldn't they be trying to make them simpler like HOIST ?

Thank You,

SEAN
Sean

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- A member does us a favor when they come in. We aren't doing them a favor by SERVING THEIR NEEDS.
- A member is part of our business - not an outsider.
- A member is not just money in the cash register. They are human beings with FEELINGS like our own.
- A member is a person who comes to us with their needs and wants. It is our job to FILL THEM IN.
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Caro...

continued from page 8

The preparation was substantial for the audit to be successful. All of the main categories of jobs were summarized into a 4-line job description. Then, each job was put in the relevant workers' compensation category (e.g. Clerical, Child Care, Executive, Amusement Park, etc.) and was given a code letter ("A" or "B" or "C" etc.) A separate list was prepared of each individual employed over the course of the year with his name, code letter (for his classification) and for his gross earnings. At no time did the auditor need to go through the detailed records of each payroll period or

each employee's wage history.

The first year of this audit, the insurance auditor wanted to interview a sample of employees to verify the accuracy of the classifications of the positions. Since most were involved in the creation of their 4-line job description, they were comfortable in meeting with the auditor and confirming the accuracy of those descriptions.

The other area of savings in the worker compensation area is the insistence that all independent contractors buy their own insurance. Technically, clubs pay tennis pros, personal trainers, aerobic instructors, massage therapists and a host of others as independent contractors. In most cases, many of those who are being paid as independent

contractors do not qualify for this status and should instead be paid as employees. If they did qualify, they must buy their own workers' compensation insurance and provide a certification of coverage to the club. If the auditor sees such a certificate, he will not hold the club accountable. Without it, he will bill the club.

Workers' compensation is really one of those hidden costs which the club can impact and achieve some real savings.

(Rick Caro is President of Management Vision, Inc., a consulting company to clubs and an acknowledged expert in club finances, operations, valuations and sales. Management Vision, Inc., can be contacted at (800) 778-4411.)

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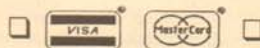
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10 EASY MEMBER RETENTION IDEAS

By Fern Pessin

to treat members just like they would a good friend coming to their home for a visit.

crease your member's attendance and regularity of workouts will invariably improve your club's member retention.

lent results. Emphasize friendliness throughout your club. All club staff positions should be filled with people who are naturally friendly and display a happy personality. Remember that your members will come back much more regularly if they look forward to dealing with your friendly and happy staff than if they must deal with a sour puss in your club!

on that day. This is an excellent time for members to meet members and for staff and members to become better acquainted. Remember, the more names that are known in your club, the greater feeling of belonging and fun will be.

1. Have aerobic instructors wear big t-shirts or baggy shorts over their leotards. While we in the fitness industry think it's important to show our members what they will look like if they stick to their program, some of our members are saying, "I'll go there when I look good!" If we emphasize comfort in club dress they will be more comfortable and relaxed from the beginning and will become involved more easily. If everyone in your aerobic classes look like they could be an aerobic instructor, then you are missing a huge potential market.

2. Have front desk staff greet people by name. Teach your reception staff to memorize names and faces with the use of membership cards and your check-in computer if available. Adding a quick comment about something personal will bring a smile to a member's face and will generate a lot of good will. And, last..... don't forget to say goodbye to each member as they depart. In short, teach your people

3. Teach your fitness staff to approach every member with a greeting during the warm-up phase of the workout. Always attempt to approach the member during his/her warm-up or cool down phase when they aren't as focused on their heart rate and specific exercise. Ice-breaking comments can include a personal greeting if the fitness staff member knows the member or an offer to help with any aspect of the member's program if not. The key is to **MAKE THE CONTACT!**

4. Promote buddy workouts whenever possible. For new members it is especially important that they be introduced to the members who are usually in the club when they plan to workout. Creating a network of support partners for your members will increase their workout adherence. Tennis and racquetball playing members stay at clubs longer because they have partners who hold them responsible for showing up. Using the "buddy system" to in-

5. Improve your swimming pool utilization by inviting your members to wear bike shorts/leggings and t-shirts in the pool for water aerobic classes. Encouraging your instructors to do the same will make your members more comfortable in doing so. You can call it the "No Bathing Suit/No Wet Hair Pool Workout." The reasons why some people won't utilize your pool are different than you might think. While they may use other excuses for not using the pool or pool classes, often, they are thinking about how they look in a bathing suit or whether they have shaved their legs or not. The more comfortable they are made to feel, the higher your pool utilization will be.

6. Hire friendly, outgoing, upbeat people for front line positions. The right combination of personality and specific job training will go a long way to providing your members with excel-

7. Hire people that reflect the ages of your members. When your members are all in their 50's they will not relate to high school or young college staff as well as they will someone more their age. If your membership has a wide range of ages, attempt to hire staff of ages similar to your membership.

8. On holidays or other special times, provide free coffee or treats for your membership. Create graphically pleasing motivational signs and display them in high traffic areas. Remember to change the motivational messages on a regular basis.

9. Promote a "monthly name tag day" and provide name tags for all members

10. Whenever you conduct a seminar or instructional class for your members at your club, always have each member in attendance at the class to introduce him/herself. This technique is popular at business functions because it helps people to relax and it promotes networking which is as valuable to future business as the topic or lecture. The more friends the person has in your club, the more likely they will enjoy coming to your club and the more difficult it will be for them to leave.

All of these ideas will cost you next to nothing, but can increase your profitability by leaps and bounds. Adapt these ideas at your club and see how it works for you! Good Luck!

(Fern Pessin is President of Programming For Retention and the publisher of Program Forum, a quarterly program guide for fitness facilities. Fern can be reached at (301) 929-3306. This article was reprinted courtesy of NEHRSA News.)

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Fitness...

continued from cover

new President of the Family Fitness Division of Fitness Holdings, Inc. Ival said, "This merger is a great challenge..... it will allow us to reach our goals. Mr. Wilson will be able to do what he wants to do and, we now will have a strong financial partner to back our growth. We are very happy to have made this deal. It will allow us to finance new growth without having to rely on "The Bank of Wilson" for financing. This is a great industry to be in!"

The **CLUB INSIDER** spoke to Craig Pepin-Donat, formerly with The New York Health and Racquet Clubs. Pepin-Donat will serve as the President of the 24 Hour Nautilus Division of Fitness Holdings, Inc. Craig explained, "We are going to have a lot of people needs. We are now interviewing internally for promotions within, but we will also be hiring new people. The growth

success will be all about getting the right team of people." Pepin-Donat also outlined the new training programs that he is developing and implementing. He explained that he is working with Ival McMains to share some of the training systems already in place at Family Fitness Centers. He explained that for people who are looking for a new opportunity, they will offer growth, fun and high income potential! Pepin-Donat re-emphasized the commitment to training that Fitness Holdings, Inc. has made and said he would be involved in making sure that a serious training system is in place.

The merger of these two California giants has left many club operators wondering when and where they will expand to next. There also is now a lot of speculation about the possibility of Fitness Holdings, Inc. going public in the near future. Comments relative to these two issues were not made, but The **CLUB INSIDER** News will be watching the situation carefully and will keep you informed on further developments.

BENETTON AD CAMPAIGN HIGH PRICED - BUT LOW RENT

By Norm Cates, Jr.

One of the world's most provocative advertisers is rolling out its first campaign for Benetton Sportssystem. The company owns Prince racquets (also Ektelon), Nordica and Kastle ski equipment and 50% of Rollerblade.

The \$27 million ad campaign theme is: "Do you play?" Print and outdoor ads promoting Asolo climbing boots depict Jesus on the cross with the words: "Do you play alone?" scrolled across the face of the ad. The text of the ad then reads: "When there is nothing between you and the mountain, don't feel abandoned: You have something strong to believe in."

Another sleeve-ball ad shows the image of sperm racing

toward an unfertilized egg. The script reads: "It's the first race in life."

In a world where children are constantly exposed to television, print and billboard messages which depict sex and violence, it seems that the last thing we need is a sport equipment company coming up with an ad campaign full of trash. At least one prominent club owner, Lehigh Valley (PA.) Racquet and Fitness Centers owner John Brinson strongly opposes these ads, and these same Benetton ads have been banned recently in a German court. So, maybe, if all tennis and racquetball club owners would boycott Benetton products, company President, Alessandro Benetton, might "see the light." However, John Brinson disagrees..... his hope is not for Benetton to "see the light" but instead, to go out of business.

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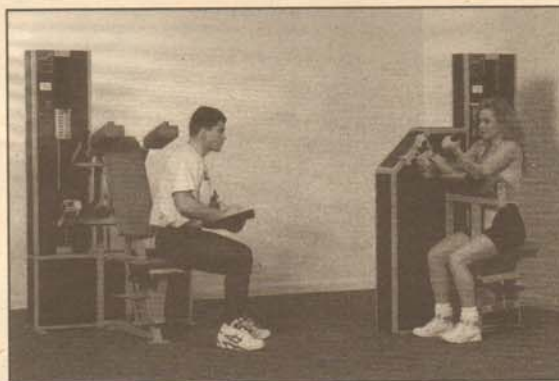
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