

Norm Cates' CLUB INSIDER™

The Pulse of the Health and Fitness Club Industry

Todd Magazine and Blink Fitness

Striving to Make “Every Body Happy”



Todd Magazine, President of Blink Fitness

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SEPTEMBER 2016

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Norm Cates' CLUB INSIDER™

The Pulse of the Health and Fitness Club Industry

Todd Magazine and Blink Fitness

Striving to Make "Every Body Happy"

By: Justin Cates

The landscape of the health and fitness club industry today is vastly different than it was only ten years ago. At that time, the rise of the high-volume, low-price (HV/LP) segment was in its relative infancy but growing steadily on the merits of what the model proposed to its consumers. Enter the Great Recession, and the pace increased as many consumers in higher-end segments made personal budget adjustments to reflect their new economic realities. Today, well into economic recovery, there seems to be a

new HV/LP option every other week, and as would be expected, segmentation within the segment has begun.

Led by **Todd Magazine**, **Blink Fitness** strives to be the leader in the higher-end of the HV/LP segment. With its roots in luxury as a subsidiary of the renowned Equinox brand, led by **Harvey Spevak**, this makes sense. However, the young and independent subsidiary also has all the makings of a fast and nimble company focused on growth and guided by an entrepreneurial spirit. Their methods, previously only scientific in nature, have become tried and true in the wild habitat of

blink FITNESS

business, fueling growth and setting up the path to national expansion.

Growing to 50 company-owned locations under Todd Magazine's leader-

ship, Blink Fitness has begun franchising with the goal of 300 locations by 2020. The key to that number, however, is its make-
(See *Blink Fitness* Page 8)

The Science of Club Marketing *With Advice From Club Marketing Pros*

By: Justin Cates

Part II

In **Part I** of this cover story on club marketing, we heard from some long-time marketing pros:

• **Derek Barton**, Owner of *Barton Productions*;
• **Rich Boggs**, CEO; and **Terry Browning**, President, of *MOSSA*;
• **Nancy Terry**, Senior Vice President of *Marketing of Sport&Health*.

This month, in **Part II**, we complete the cover story with additional insights from:

• **Jon Butts**, President of *Muscle Up Marketing*;

• **Tracey Bourdon**, Marketing Coach at *Susan K. Bailey Marketing & Design*;
• **Daniela Spaid**, Director of Marketing and Public Relations of *Fitness Formula Clubs*.

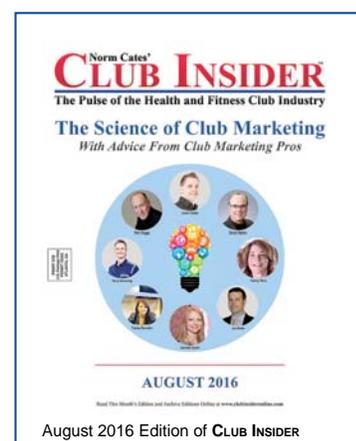
Within this cover story, we hope you find some excellent information and techniques to implement in your club business.

An Interview With Jon Butts, President of Muscle Up Marketing

CLUB INSIDER (C.I.) - Please discuss the differences between price-based marketing campaigns and other styles, such as benefits, results, etc.

Jon Butts (JB) - As you know, over the last 5 - 10 years, this industry has seen a lot of clubs struggle when they are stuck in the middle; they aren't the lowest price, and also, not necessarily the highest end with the best amenities. So, being in the middle or *average* is a dangerous spot to be. Typically, what we recommend is to identify three things that you do, or can do, better than anyone else in your market. Then, whatever those three things are, hammer them home with your marketing. You can't be everything to everyone, so you need to identify those three core strengths, let all your prospects in the market know those strengths, and then finally, execute on those strengths continuously.

(See *Club Marketing* Page 16)



Inside The Insider

- Constructing Your Plan for Sales Success: Two Critical Components - **By:** Karen Woodard-Chavez
- Guide to Preparing for the FLSA Exempt Pay Changes: Month Two, Analyze Your Pay Plans - **By:** Melissa Knowles
- Profit Designing: Designing the New Club Model for Maximizing Profits - **By:** Bruce Carter
- Things to Consider When Selling Your Club Business - **By:** Dr. Art Curtis
- The Four Critical Roles of Management - **By:** Dr. Gerry Faust
- The FLSA's "Final Rule" and How to Prepare for It - **By:** Paul R. Bedard, Esquire
- 7 Steps to Becoming a Programming Professional - Series Wrap Up - **By:** Laurie Cingle
- Crunch Franchise Announces Its Newest Location In Athens, Georgia
- And, of Course, *Norm's Notes*

Norm's Notes

•Hello Everybody! This is your CLUB INSIDER Publisher and Tribal Leader Since 1993 checking in with our 273rd monthly edition.

•Is America a GREAT COUNTRY, or what? Let me ask you a question. Are you REGISTERED to VOTE in the Presidential election on November 8th, 2016? If not, then I URGE you to register as soon as possible before it's too late. Most of the Voter Registration Deadlines across the U.S. are in early October, so if you've not yet registered to VOTE, you may be able to make it if you act now! Please REGISTER and VOTE on November 8th because America is depending on you! God bless America!

•As I type this, today is Sunday, September 11, 2016, also known as 9/11 Day. As we all know, it was on this day in 2001, 15 years ago now, that New York City, was attacked by Radical Islamic Terrorists who had hijacked 4 passenger jets crashing two of them into the twin World Trade Center Towers in New York and one into the Pentagon Building in Washington, D.C. The fourth plane, American Airlines Flight 93, was heading to an unknown destination when a group of very brave passengers, all of whom knew what had been going on with the other planes, decided to fight back. One of the leaders among those passengers who took over the terrorists making the Flight 93 plane crash in a cornfield in Pennsylvania

was TODD BEAMER. The bravery of this group will always be remembered as will the words by Todd Beamer were heard on a cell phone saying, "Let's ROLL!" as they attacked the hijackers. The rest was history. So, I say to you all today, with tears in my eyes as I write this on this special day in honor of the over 3,000 Americans and others killed on that fateful day: "Let's ROLL!"

•It was sad to see the horrible destruction in the Baton Rouge, Louisiana area with thousands of homes and businesses destroyed by flooding. BUT, it was nice to learn that the Founders of Anytime Fitness, CHUCK RUNYON and DAVE MORTENSEN, gave \$5,000 to each of the owners of four Anytime Fitness Centers in the area.

•GIN MILLER, the creator of Step Aerobics, and LYLE RAY IRWIN of The Original Step have teamed up on a new exercise device they call KUSHH!™. The KUSHH! is a first cousin to The Step in that it is approximately the same size and utilizes the same blocks and risers but employs new technology with a 4-inch vinyl enclosed top. This new top allows the KUSHH! to act as a platform for cardio, a bench for strength, a jump-box for plyometrics, a bed for Pilates and a mat for core and stretching, making it the perfect all-in-one exercise device. The KUSHH! is being field tested in several places, including Life Time Fitness in Woodstock,

Georgia (See Photo on This Page of Gin teaching a packed KUSHH! class at Life Time on a Thursday morning in August). This Note has been produced as kind of an "early release" on the upcoming new KUSHH!, so Stay Tuned! For information on the new KUSHH!, contact Ray Irwin at (877) 296 - 9990 or visit www.thestep.com.

•ASF International lost its Founder, RICHARD REED, who died on August 26th. Reed was one of the industry's true pioneers, starting way back in 1973 when he opened martial art studios. He subsequently founded ASF International to do collections for the studios when he wasn't able to find satisfactory services (See Norm's Notes Page 6)



Norm Cates



Gin Miller Teaching KUSHH! Class at Life Time Fitness in Woodstock, Georgia

About Club Insider

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...Norm's Notes

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in that realm. May **Richard Reed** rest in peace.

•**The Club Industry Show** folks, producers of the upcoming show have stated **three very good reasons** why you should attend their event in **Chicago, October 12-14, 2016**. Rather than copy their writing verbatim, here's the scoop:

Reason #1: FINALLY, we will **not** have to commute from our hotel via bus or taxi to McCormick Place, since the Show will be

held under one roof in the **Hyatt Regency Chicago**. Given what's been going on in Chicago, that's a **HUGE benefit** because we will all be safely meeting under one roof.

Reason #2: To go along with a great line up of excellent speakers, many of whom are **CLUB INSIDER Contributing Authors**, such as **BILL McBRIDE, LAURIE CINGLE, STEVE THARRETT, CASEY CONRAD** and **KAREN WOODARD-CHAVEZ**, the Show now features not just an **Opening Reception** but also a **Tradeshow Floor Networking Event** and a **Networking Nitecap Event** where you

can rub elbows with some of our industry's leaders, such as **RICK CARO, JOE CIRULLI** and **BRENT DARDEN**.

Reason #3: The Show is going to deliver several high-power tracks on company culture development, wellness/healthcare; small group training and marketing, among many others. And, whatever you do, **MAKE SURE you schedule time for yourself time at the Trade Show**. Several of our **CLUB INSIDER Advertisers** will be exhibiting, and they're listed here. I urge you to stop by and visit with and do business with them; **They'll treat you right!**

which often involves new hires. So, **here are some Hiring Tips for YOU** straight from my friends, **JEFF RANDALL** and **DENNIE NOECKER** of **JLR Associates**. Be sure to check out the **JLR Associates Ad on This Page**. They write:

"This month's tip is the *importance of checking references*. Once you get to a point where you are serious about a candidate, you will need to conduct reference checks. One important reason to check references is because an employee you hire may do something to cause your company to be sued, and without proper referencing, you could be considered negligent because you didn't conduct a proper reference check. You want to use the reference to validate information you obtained during the interview with the candidate. If a reference mentions a particular strength or skill that the candidate has, remember to ask for an example demonstrating how that skill will impact the performance of the position they are interviewing for. Ask the reference what advice he or she might give to the candidate, and if you are trying to uncover weaknesses, ask the reference to describe one thing the candidate could do or change to be more effective in their next job. You will find that strong candidates usually have good references that will talk candidly about the candidate."

Thanks Jeff and Dennie!

•**AUGIE'S QUEST** has announced enrollment in what's called the **Precision Medicine Program a/k/a the PMP 2.0. The ALS Therapy Development Institute in Cambridge, Massachusetts says this is the only Precision Medicine** (See Norm's Notes Page 7)

Company	Exhibit #
GymWipes	#1800
IHRSA	#110
Motionsoft	#2301
Sports and Fitness Insurance	#704
Club Industry	#1000
CLUB INSIDER	#608

•**I want to extend our sincere Thanks and Appreciation to LAURIE CINGLE** for the terrific job she's done as a monthly **Contributing Author for CLUB INSIDER for the past three years**. Laurie's **Programming for the Fun of It** articles have provided a terrific guideline for clubs who want to improve their club programming for their members. So, **THANK YOU Laurie, and best wishes as you continue with your career!**

•**It's that time of the year, you know, the greatest season of them all, the fall of the year when you've got to shift from the summer's slower pace to preparing for the fall and then the often hectic winter pace,**



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...Norm's Notes

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Program for any disease that is actively sharing the genetic variation with the participants in the study as the data are generated. The memo closed with, "If you know of people with ALS who are not currently participating in PMP, this newly launched PMP 2.0 may be a good fit for them." Here is the contact email should you know of someone who'd be a candidate for this program: augiesquest@als.net.

•The ROCK 'N ROLL Half Marathon in Brooklyn, New York, to raise funds for Augie's Quest, will be on October 8, 2016. For more information, visit: www.CLASSY.ORG/TEAMQUEST.

•World Gym International, LLC is celebrating their 40th Anniversary this year, and as part of that, their Outside Back Page Ads have been truly FUN and interesting because they go back in time with a series of "retro" ads depicting a number of activities people used to engage in back in the early '70s before the modern era of health clubs arrived. Also, this month, GUY CAMMILLERI, Managing Director of World Gym International, has produced another impressive and informative 8-page glossy quarterly newsletter. On the front page, next to Guy's comments appears, "A NOTE FROM JOYCE." JOYCE CAMMILLERI, Chair for World Gym International, wrote the following, and I want to share her comments with you:

"On the occasion of World Gym's 40th anniversary, I find myself imagining Joe Gold and Mike Uretz in that first gym back in 1976, when Joe was hesitant to open even a second location. So glad Mike talked him out that!

The World Gym brand today is continuing its exciting global expansion. Taiwan, Australia, Egypt, Mexico and South America have all been strong growth areas for us this quarter, and we are expecting to announce even more development in Europe, Mexico and the United States. That small facility in Santa Monica has become a global success story, and I'm so glad my family and I are part of it."

•The U.S. Government is about to irritate your life with new FLSA (Fair Labor Standards Administration) rules. So, if you're an employer, we're been doing our best to help you via two articles by Gym HQ's MELISSA KNOWLES, last month and this month, and another article about these FLSA changes by PAUL BEDARD, Esquire, another CLUB INSIDER Contributing Author and attorney at law. Check them both out in this edition and be prepared for the December 1, 2016 deadline!

•Congratulations to BEN MIDGLEY as Crunch Fitness has added another Crunch Fitness Franchise location in Athens, Georgia, home of UGA, where JUSTIN CATES matriculated! Way to go Ben! See the Crunch Press Release on #Page 19.

•ClubIntel's STEPHEN THARRETT and MARK WILLIAMSON will be authoring the upcoming 2016 Global Fitness Industry Trend Report. They invite you to complete a survey that will help them offer the best data possible. To participate, go to bit.ly/clubinsider22.

•JUSTIN and I want to say Thank You for reading CLUB INSIDER!

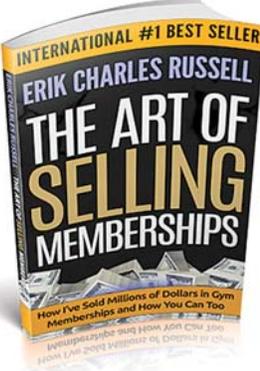
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•God bless our troops, airmen and sailors worldwide and keep them safe. Thank

you, Congratulations and Welcome Home to all of our troops who've served in Iraq, Afghanistan and around the world. God bless America's Policemen and Women and keep them safe. God bless you, your family and your club(s). God Bless America! (Norm Cates, Jr. is a 40+ year veteran of the health, racquet and sportsclub industry. Cates is the Founder and Publisher of CLUB INSIDER, now in its 23rd year of publication. Cates was IHRSA's First President, and a Co-Founder with Rick Caro and five others, in 1981. In 2001, IHRSA honored Cates with its DALE DIBBLE Distinguished Service Award, one of its highest honors. Cates may be reached by phone at 770-635-7578 or email at Norm@clubinsideronline.com)

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up. Their goal is for half of those locations to be company-owned and the other half to be franchised. This signals to all that Blink Fitness will continue to do what it does best --scouting, developing, opening and operating facilities-- while also inviting others into the system. Together, through shared learning and experience, they hope to create greater success for all under the Blink Fitness umbrella.

CLUB INSIDER is pleased to present an interview with Blink Fitness President, Todd Magazine. We hope you will read on, as he delivers the Blink Fitness story, and with it, a fresh take on the HV/LP market segment.

An Interview With Todd Magazine, President of Blink Fitness

CLUB INSIDER (C.I.) - Please tell us a little bit about yourself: Where were you born and raised?

Todd Magazine (TM) - I was born in New York City in the borough of Queens. I grew up in Long Island, where my parents and sister still live. While I consider myself a New Yorker at heart, I have actually lived outside of New York for most of my adult life as a result of school and work. I married my high school sweetheart; however, we had a 20+ year hiatus between dating our first time around and reconnecting. It was actually Facebook that is responsible for our reunion. Thank you, Mr. Zuckerberg.

C.I. - Where did you go to school and what did you study?

TM - I attended the University of Michigan in Ann Arbor for undergrad (Go Blue!) and received my MBA from the Kellogg School at Northwestern. Clearly, I'm a Big 10 guy. Interestingly, I went to Michigan with the intention of becoming an architect. For a variety of reasons, I didn't end up pursuing that as a major or as a career; but in many



Todd Magazine, President of Blink Fitness

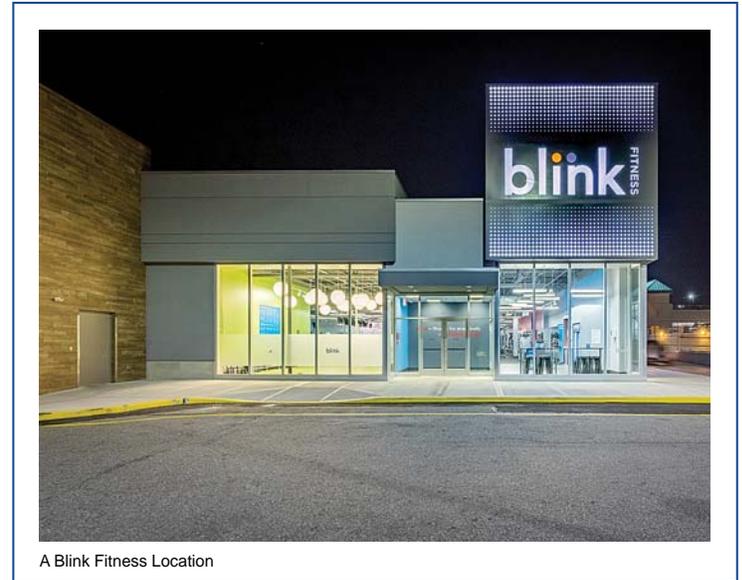
ways, things have come full circle because I am heavily involved in architecture in my current role with Blink.

C.I. - Did you play any sports? If so, which ones?

TM - I was an athlete growing up and played baseball, football and basketball during my formative years and through high school. Baseball was definitely my best sport, but I wasn't good enough to play at Michigan. One of the best parts of playing sports as a kid was being part of a team. It was an excellent forerunner for experiences I've had in the working world.

C.I. - Please take us through some of your key professional roles and experiences prior to entering the health and fitness club industry.

TM - I started my career in advertising and worked in that business for a few years. It was my first opportunity to learn about business and brand building, which really excited me. The agency side of the business is a lot of fun, but you only get exposed to a small part of the businesses you support. Because of this, and the fact that I had a liberal arts degree, I felt there were some things that I needed to learn to accelerate my career and enable me to be



A Blink Fitness Location

more of an enterprise leader. That's why I chose to get my MBA.

My first job out of grad school was at Procter & Gamble, which is an amazing training ground for marketing and leadership. I worked on a variety of well-known brands, like Jif and Cover Girl. After about a decade, I had the opportunity to work for PepsiCo, where I eventually was the President of brands like Quaker and Gatorade. I really think that's what started pointing me in the direction of health and wellness, working on businesses that are more true to who I am as an individual. After PepsiCo, I tried my hand in another part of the health and wellness space as the North American President of Pfizer's over-the-counter businesses, which included brands like Advil and Centrum. While the brands were great, the healthcare industry was a bit too conservative for me.

C.I. - When and how did you get started with Equinox/Blink Fitness within the health and fitness club industry?

TM - It was actually a Pepsi connection who introduced me to Harvey Spevak, CEO of Equinox Holdings, Inc. I was fortunate enough to be brought in to lead the new businesses, which included Blink, Soul Cycle and Pure Yoga. It was clear that Blink Fitness had tremendous growth potential, but it needed my full attention, which is why I moved into my current role. I can't believe it's been almost five years. It's been a wonderful ride so far, but the fun has only just begun.

C.I. - Given Equinox's position in the luxury club space, how did the high-volume, low-price (HV/LP) Blink Fitness brand in that space come about?

TM - As the country was entering the

recession in 2008, the HV/LP segment accelerated as millions of people traded down from mid-priced gyms. While the price of these HV/LP gyms was good, the experience was not. But, people were willing to put up with it because they had no viable alternative. The market was ripe for a brand to bring a higher quality experience to that segment. Enter Blink Fitness.

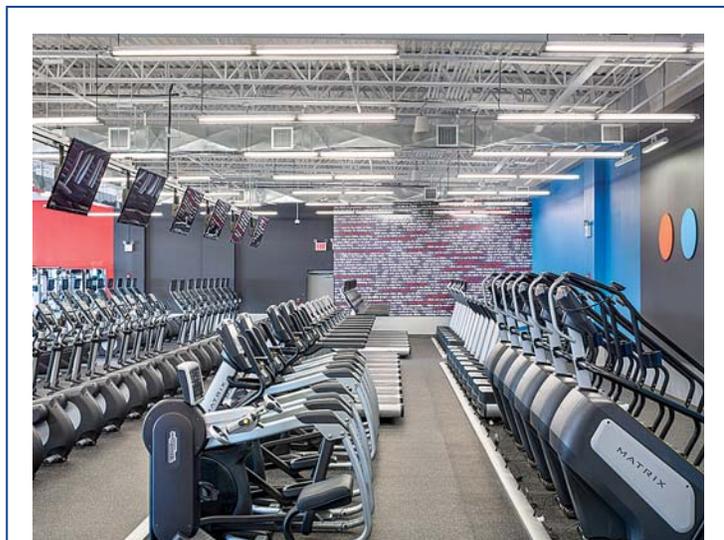
C.I. - Please tell us about a typical Blink Fitness location (size, build-out, programs, services, etc.).

TM - We target approximately 15,000 square feet, with flexibility to make our programming fit into bigger or smaller spaces. When you look at our portfolio and the configuration of our current locations, you find that almost no two are alike. That's because we have a lot of flexibility. There are some locations that are one big box, other locations that have two levels and some that even have three levels. That flexibility in terms of real estate is a great thing about our model, particularly in markets where real estate costs can be exorbitant, like Manhattan. We are able to go into spaces, such as a basement or second floor, which might not be desirable for a typical retail brand.

We describe our programs and services as 'the best of the basics.' While other HV/LP brands offer things like tanning and massage beds, our focus is on optimizing our space to accommodate the fitness needs of our members.

Early on, we learned that a traditional gym layout can cause a lot of frustration as membership grows and the gym starts to become more crowded. That's because the most popular pieces of equipment are always in demand, while others are literally collecting dust. We've done quantitative testing to determine what gets used most and least, and accordingly, have adjusted our equipment mix. This approach has enabled us to maximize

(See *Blink Fitness* Page 10)



Cardio Floor at a Blink Fitness Location



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our space and meet the needs of more members. You might find gyms in our competitive set with more square footage than ours, but because of our approach to equipment, we can actually accommodate as many members.

Other services we offer include personal training, our biggest ancillary revenue source. One of the great things about our PT business is that it was constructed with the budget-conscious exerciser in mind. Members can get a session for as low as \$27. We also offer small group training with 5 - 10 people per class. It's predominantly geared towards the fitness beginner and helps people learn the basics of exercise.

Our retail program is mostly focused on what we call *forgettable*s, like locks, socks, ear buds, etc. But, we also have a clothing line that offers both functional and fashionable options. And, we sell some food and beverage items that you would expect in a gym, including water, Gatorade, Muscle Milk and Quest Bars.

C.I. - Please tell us about the David Rockwell-inspired design, as well as the use of bright colors and lighting throughout your facilities.

TM - It was a true collaboration between David Rockwell (Rockwell Group) and the original creators of Blink. Rockwell has a tremendous pedigree in hospitality and restaurants, and they are known for

designing and creating spaces that are both innovative and highly functional.

Most value gyms try to jam in as much equipment as possible, making them feel cramped and claustrophobic. And, many overuse color and big branding devices, which creates sensory overload. We take the opposite approach. We focus on bright, open spaces with splashes of color. And, while our gyms are well-branded, we don't overdo it because our members really don't need to be constantly reminded about the name of the gym to which they belong. We're pretty sure they know.

Bright, open and colorful spaces are part of what we refer to as the *Feel Good Experience™*. When you walk into a Blink, it does not feel like any other gym at our price point.

C.I. - What is the price point for membership?
TM - Essentially, we have two membership options:

Basic (\$15): Access to one location with no commitment and a free start-up session.
Premium (\$20 /\$25): Access to select or all locations, ability to bring a guest every time, a free start-up session and a 15% discount at Modell's Sporting Goods stores. This membership requires a 1-year commitment.

C.I. - What is the target demographic for Blink Fitness facilities? I understand you have gone into some unique areas with success.

TM - The amazing thing about Blink is the breadth of the membership we attract.



Strength Training Floor at a Blink Fitness Location

In addition to a diversity of ages and ethnicities, we also get a high percentage of people who are either fitness novices or have never worked out at a gym before.

Every Body Happy

Everyone talks about intimidation at gyms; that's not a new insight. The way we approached it, though, is different. We are attracting many of these people because of the environment we have created and because of the way we have positioned our brand. Unlike typical gym advertising, which has been essentially the

same for decades --bulging biceps, 6-pack abs, thin, toned legs-- Blink's marketing focuses on body diversity and how fitness makes you feel, not just the way it makes you look. We refer to this as *Mood Above Muscle™*. And, our advertising campaign, *Every Body Happy*, has struck a chord with a much broader range of consumers than typical gym-goers. We are the first gym that I know of that has been willing to show body diversity in its advertising (see the **Marketing Pieces on This Page**).

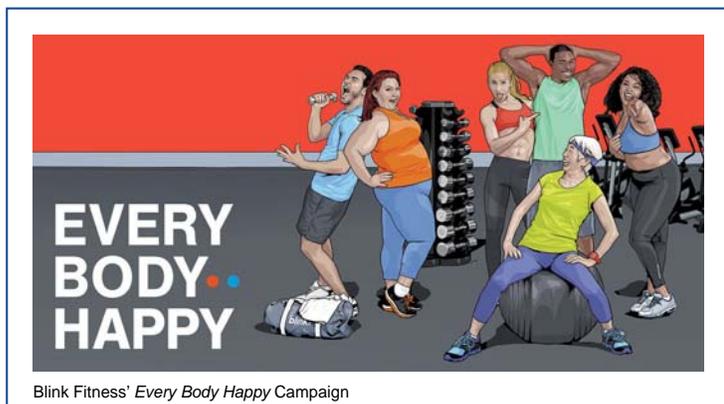
One of the most rewarding aspects of this is the way it makes our employees (See *Blink Fitness Page 12*)



Blink Fitness' *Every Body Happy* Campaign



Blink Fitness' *Every Body Happy* Campaign



Blink Fitness' *Every Body Happy* Campaign



Blink Fitness' *Every Body Happy* Campaign



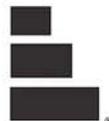
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STEPFITNESS

...Blink Fitness

continued from page 10

feel. We have some people in our corporate office who struggle with their weight and they have commented about how proud it makes them feel to work for a company that is trying to change the narrative about what fitness looks like.

C.I. - Please tell us more about Blink Fitness' *Feel Good Experience*™.

TM - The membership experience is one of the things that differentiate us from the rest of the HV/LP market. We have crafted a higher quality experience that is intended to make people feel good. Our *Feel Good Experience*™ has five pillars:

Mood Lifters™ - We hire passionate people with high energy. We don't call them staff or associates; their official title is *Mood Lifter*, which is emblazoned on their shirts. And, while they are there to help manage the gym, their primary role is to create an uplifting environment. I would challenge anyone to walk into a Blink and *not* have at least one or two people greet you with a hearty, 'Welcome to Blink!'

Inspiring Design - As noted earlier, our gyms don't look or feel like other gyms in the HV/LP segment. From color, to lighting, to space, Blink gyms have a luxury feel to them. That's why the first reaction we typically hear from people who enter our gym is, 'How is it possible that you are only charging \$15 a month?'

Everyone Cleans - Cleanliness and equipment upkeep are generally the first things to go in gyms in our segment. Not at Blink. We have an *Everyone Cleans* philosophy. So, whether you are John Doe working at the front desk, or you are the President of the company, you are re-racking weights, flushing toilets, picking trash up off the floor, etc. One of my favorite member stories is from someone

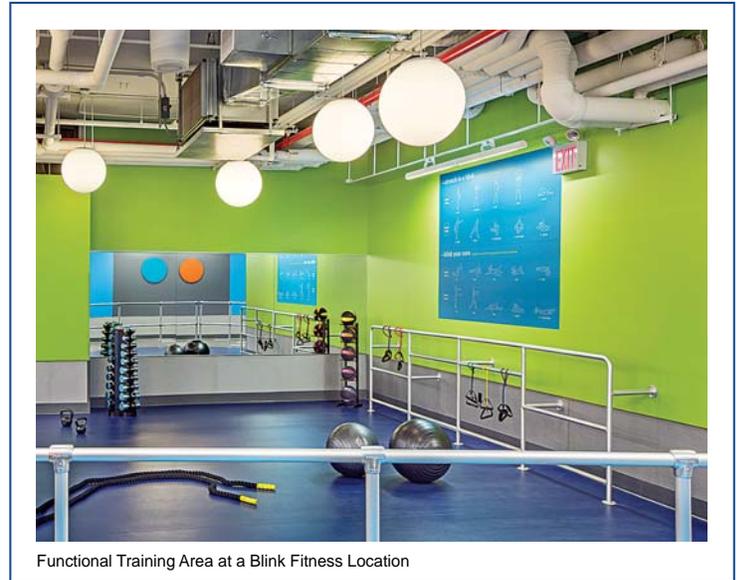
who was taking a tour of a Blink and saw the Club Manager on his hands and knees scrubbing the toilet. That person said, 'If the Club Manager is willing to get on his hands and knees to clean, that's the club for me.'

Energizing Music - We actually curate our music based on beats per minute to ensure it has a high energy feel. We don't necessarily want it to be loud because many people complain about loud music, especially if they are using headphones. But, there is something about walking into a space that has a certain rhythm that makes it feel like a place you want to be.

Training for Everybody. With prices starting at \$27 per session, we have made personal training accessible to more people. We gear our personal training to help people start their fitness journey, not necessarily to be a crutch they use for the rest of their life. We want to teach them so they can begin their journey. We offer a free personal training session to every single member who joins. With some people, that's all they do, and then they're off on their own.

C.I. - Growing from four to 50 company-owned/operated stores under your tenure, please discuss some of the keys to how this was done.

TM - We have had a very thoughtful and sophisticated approach to real estate development, but at the end of the day, real estate is as much art as it is science. Despite all the tools and technology, which we obviously use, we believe there is no substitute for local knowledge. I insist on a deep local understanding of the market from our real estate team before I will approve a location. And, I personally visit every location before I am willing to sign a lease. All of this may slow us down a bit, but it has increased our success rate, which we believe is more important than just opening a location.



Functional Training Area at a Blink Fitness Location

C.I. - In 2015, franchising was added to your model, with the goal of 300 locations by 2020. Can you tell us about the decision to begin franchising? Who are you targeting and in which territories?

TM - Our development and expansion strategy has been very measured and thoughtful. When Blink launched in 2011, we knew we were not the first movers in the HV/LP segment, but we believed we had a differentiated proposition. Where better to prove that than in New York, the most competitive fitness market in the world... With a very successful portfolio of nearly 50 company-owned locations, we believed it was time for expansion. That's why we are broadening our company-owned footprint outside of New York and have added franchising to our growth agenda. We expect to have about 300 locations by 2020, half company-owned and half franchisee.

We believe Blink is a great franchise opportunity. While we are open to both single-unit and multi-unit development, we are particularly interested in people looking for a great investment or a diversification opportunity for their existing franchise business. And, because we are still young in our development, some of the best markets in the country are wide open to franchisees.

C.I. - As Blink grows, how do you plan to organize and utilize local information and the things you will learn from your franchisees to better improve your product?

TM - As I noted earlier, local knowledge is key to picking great real estate. In many markets, franchisees will be much better equipped to pick real estate than our team. These franchise prospects will likely be from or have an existing business in that

market. Who better to know where to put a Blink than them?

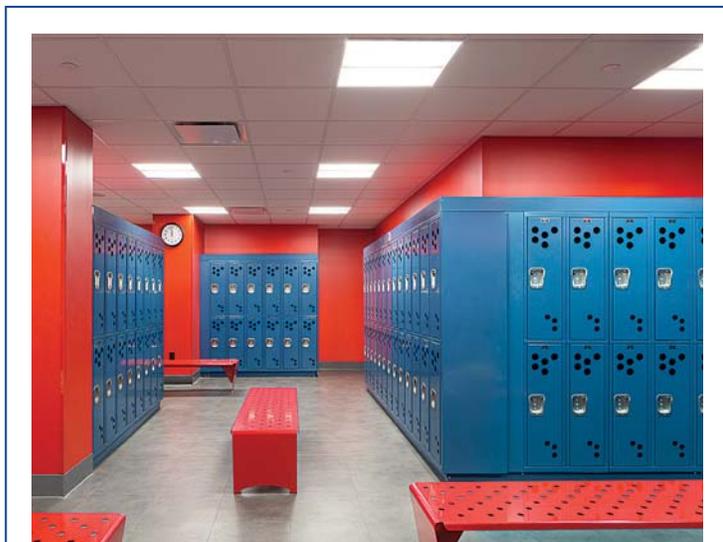
Learning from franchisees is one of the reasons we chose to franchise. As you know, many franchise companies, particularly in fitness, choose to either franchise or do company-owned; very few do both. Some start with company-owned, but they stop to focus on franchising. We will continue to do both company-owned development and franchising, because we believe it affords us a competitive advantage and will enable us to continue to improve the gym experience. Franchisees will only add fuel to this effort. I can't wait to learn from them.

C.I. - We've already discussed a lot, but please summarize what differentiates Blink Fitness from other clubs in the HV/LP space.

TM - Two things. First, we are the only brand to bring a luxury experience to the HV/LP space. Second, our *Mood Above Muscle*™ idea is a revolutionary approach in the fitness segment.

C.I. - Being a subsidiary of Equinox, how is Blink Fitness structured? Does it have its own headquarters, corporate staff, real estate group, etc.?

TM - We are a completely separate and standalone company. We have our own offices and dedicated resources for real estate, construction, operations and marketing, just to name a few. We also have a distinct and unique culture from our parent company. Our offices are much like our gyms, open and bright, with splashes of color. And, although we are intense about the business, it's a pretty laid back environment. On any given day, you might find someone playing Ping-Pong, throwing darts, doing burpees or even riding a Razor scooter from one end of the office to the other. It's so different from anything I've experienced in my career; I love it!



Locker Room at a Blink Fitness Location

blink FITNESS

(See *Blink Fitness* Page 14)

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...Blink Fitness

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C.I. - That makes sense. Especially, too, with a young company like Blink, it gives you the flexibility to be able to move fast and strike quick.

TM - Moving fast is definitely one of the things that we take pride in. Our ownership gives us a lot of decision-making flexibility, which really helps. And, because our management team is located steps from one another and has been together for a number of years, we can align and move with lightning speed. It's a far cry from my days working in Fortune 50 companies where things are slow and lumbering because of all the people who need to weigh in on decisions.

C.I. - Please introduce us to some of your key staff members. And, what are their roles and tenures?

TM - We have a seasoned and diverse leadership team who brings experiences from fitness, retail and franchising. Here are some of the key people on our team:

Ellen Roggemann, Vice President of Marketing - Ellen joined Blink in 2014 and previously held management roles at Pret

Manger, Whole Foods Market and The Coffee Bean & Tea Leaf.

David Collignon, Vice President of Operations - David assumed this role in 2016 after five years leading Equinox's strategic sourcing team. Prior to this, David held operations management positions at The Children's Place, J.Crew, Eddie Bauer and Calvin Klein.

Russ Delisi, Vice President of Design & Construction - Russ joined Blink in 2012 and previously held management positions at Foot Locker, Barney's and Tesla.

Bill Miller, Vice President of Real Estate - Bill joined Blink in 2012, and previously, held management roles at Starbucks and Jones Lang LaSalle.

Marc Benathen, Vice President of Finance - Marc joined Blink in 2013 and oversees all aspects of finance, procurement and members services. Prior to Blink, Marc held management positions at Ann Taylor and Loft along with financial leadership roles in the private equity space.

Adam Podber, Sr. Director of Technology - Adam joined Blink in 2013 and previously

held management positions at Bliss Spas and Steiner Leisure Limited.

Keith Bohns, Director of Human Resources & Training - Keith joined Blink in 2015 and previously held management roles at JC Penney, Jamba Juice and Vail Resorts.

Dos Condon, Vice President of Franchise Operations - Dos serves as the point person for franchisees in the Blink system. Prior to this role, Dos served as vice president of operations for Blink's company-owned business. Dos held various operations positions for Equinox during the previous 18 years.

Ed Yancey, Vice President of Franchise Development - Ed joined Blink in 2015 and previously held franchise development roles at Jersey Mike's, The Briad Group and Dunkin' Donuts.

C.I. - Is Blink Fitness an IHRSA Member? If so, what have been the benefits of IHRSA membership?

TM - Yes, we are proud members of IHRSA. For me, personally, and for members on our team, it has been very beneficial in terms of learning and in

terms of access to resources. Whether it's the International Convention and Trade Show or the people you meet throughout the year, there's always something you can learn and people who can help you.

• • •

A sincere **Thanks and Appreciation** to *Todd Magazine* for his time interviewing to share the Blink Fitness story. Thank you also to *Beverly Basiga* and *Jessica Ventura* for their assistance.

(Justin Cates is the Assistant Publisher of CLUB INSIDER and grew up in the health and fitness club industry. Justin was born into a club business family in 1985, and from the age of eight, he spent his non-school and sports hours in a home that doubled as CLUB INSIDER Headquarters. He has lived and breathed this industry for 31 years, since his own day one. Cates graduated from the Terry College of Business at The University of Georgia in 2007 and then went on to two years at The Art Institute of Atlanta, where he studied Interactive Media Design. Now, he is an integral part of the "Story" of Norm Cates and CLUB INSIDER. Justin can be reached by phone at 423-314-4310 or email at Justin@clubinsideronline.com)

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...Club Marketing

continued from page 3

C.I. - Can you elaborate on which styles work best given a specific business model (i.e. HV/LP, full service, etc.)?

JB - Typically, HV/LP clubs will focus on getting as many impressions as they can out in their market. Just about anyone can afford \$10 a month. However, with the full service athletic clubs, once you get over the \$80 - \$100 point, that's when you really need to start refining the targeting, to ensure you eliminate those unqualified prospects. Obviously, HV/LP is a natural fit for the price-based marketing, pounding

home the price. However, as the HV/LP arena has become more and more crowded, we have seen that strictly price-based marketing is no longer enough. There are multiple HV/LP clubs in a majority of the markets, so we are seeing that these clubs can't just go off low prices anymore. The days of dominating a market solely based on price are over. Now, it's not only price but what else they bring to the table to differentiate against the other HV/LP clubs. This goes back to what we discussed previously about having those three key competitive advantages, whether it's group fitness classes, personal training, a friendly and non-intimidating atmosphere or



anything else.

C.I. - What are the pros and cons of each?

JB - A pro for HV/LP is they usually realize the lowest price per impression on their marketing, due to targeting in saturation and doing larger quantities. Typically, there are plenty of households to focus on, so they can be aggressive every month, getting a lot of impressions out at a very low price per impression. However, because the number of qualified prospects is so large for HV/LP clubs, it is important to carefully balance the frequency and reach that each prospect is getting hit, so this needs to be carefully managed. A con for HV/LP is, because neighborhoods are usually being saturated, the quality of members can be lower. This could mean not having the disposable income to make purchases in your other profit centers or possibly going into collections after a short period of time.

A pro for full service is the average lifetime value of the member is typically going to be higher, between the increased monthly dues and all the other opportunities for spending in profit centers. So, it doesn't take as many leads before seeing a positive ROI vs HV/LP clubs. The con for full service is that, typically, price per impression is going to be higher in order to execute a campaign the right way. Certainly, you could set something up with the same saturation strategy most HV/LP clubs use. However, the best results we have seen for full-service clubs is a much more targeted and personalized approach, using a specialty named list and possibly variable data printing. Some owners can have initial sticker shock at the cost per impression of doing a campaign this way, but this really is the best way to go for full-service clubs and the cost per acquisition is almost always lower.

C.I. - Can you share some examples with us?

JB - We recently did an A/B test for a full service club, testing the effectiveness of advertising price vs. no price. We would send a mailer to demographically similar households, using the exact same creative with the exception of price. One said, 'Memberships as low as \$100/mo,' and the other one had no pricing, saying only, 'Join Today.' What we found is that the one without pricing received nearly double the response, versus the creative that included the pricing. The one thing everyone in your market knows is price. However, not



Jon Butts, President of Muscle Up Marketing

everyone has visited the different clubs in your market, nor do they know all the amenities each offer. Therefore, if you are advertising your price right off the bat, and you are not the lowest in town, that's typically not a good thing. We've seen much better results by offering a short trial, essentially just to get those people in so they can take a tour, explore all of the amenities and soak in the experience your club offers. If they learn the price after you build that value, it is not as scary for the prospect.

C.I. - More generally, please discuss the importance of having an organized and consistent marketing campaign year-round, even during slow months or times when money may be tight.

JB - The old adage, 'If you fail to plan, you plan to fail,' is so simple but so true. We currently work with about 1,000 clubs nationwide, and it's honestly scary how many we see that make marketing the last priority and wing it month-to-month. We certainly do our best to keep everyone on track, but even if we reach out multiple times over the course of a month, a good portion will still procrastinate and then try to rush something out at the 11th hour.

Not everyone is comfortable with finalizing a marketing plan for a full year, and I can respect that. However, I am a big advocate of determining your marketing plan at least a quarter at a time. If you know what you are doing a few months in advance and what that investment is going to be, not only do you have enough time to make sure the messaging and creative is exactly how you want it, but it also forces you to put that money aside to ensure you can afford to market like you need to.

C.I. - I always likened it to a club's capital expenditure fund. You know you will need it, so it has to be a priority. The same is true for putting money away for marketing. It's not an if-thing; it's a must-thing.

JB - Absolutely. If the money just hangs out in the general account and you don't know what you are doing two weeks from now or two months from now, the majority of club owners out there will find a way to spend it on something. Then, when it

(See Club Marketing Page 18)

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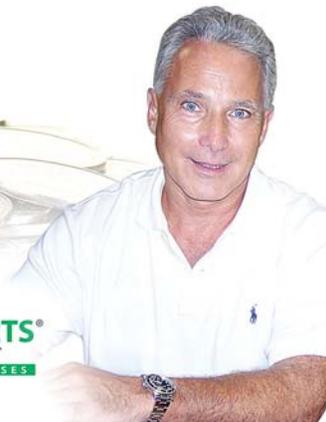
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...Club Marketing

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comes time for marketing, the money is not there. And, the day a club stops marketing is the day it starts dying.

After determining your marketing budget, I recommend automating withdrawals into a separate account, before you even see the money or have a chance to spend it on something else. This is essentially the same strategy used by so many to help save for retirement, using automatic payroll deductions to fund their 401k. This is a fool-proof system that ensures you will always have the money

needed to market properly.

An Interview With Tracey Bourdon, Marketing Coach for Susan K. Bailey Marketing & Design

CLUB INSIDER (C.I.) - Please discuss the differences between price-based marketing campaigns and other styles, such as benefits, results, etc.

Tracey Bourdon (TB) - At its core, the sole goal of marketing is to create enough interest to make the phone ring and the door swing. With that thought in mind, there are really only three things one can offer to entice an audience: **Time, Money**



and **Stuff**:

Time - Most people are more likely to buy something if they are able to try it first, risk-free. Whether it is a free trial or a paid trial is up to you, but a trial membership offers you a way to create and establish value while removing a barrier of entry. It gives you the opportunity to earn their business without high-pressure sales tactics and to show them how you will help change their life.

Money - It's the staple of low-priced clubs and the bane of those that are higher priced. Price can be used effectively, but it is a strategic move. Too many times, the club thinks their '% off' or 'pay only \$X' offer is great, but they neglect to include the perceived value of the offer. 'Pay only \$20 Enrollment, a \$200 savings!' Discounting can be a dangerous game. If practiced long enough, people will learn that your enrollment fee is negotiable, and you won't have a leg to stand on.

Stuff - This is a very effective, but seldom-used, offer. People love free stuff, especially if it's a sluggish economy where consumer confidence is low and few are buying. The strategic benefit behind this type of offer is that it gives you the ability to maintain your rates and enrollment fees, but at the same time, add value. If you utilize this offer, make certain you give something of value, not just a t-shirt. Why not a shirt, hat, water bottle and club coupons, all inside your club sports bag? Adding value using your profit centers like personal training, spa discounts, smoothies etc. is also a win-win. New members get to try your products and services complimentary or at a discounted rate and hopefully continue to purchase more sessions or products.

It's important to note that every marketing piece should have a specific goal. Is it to get a prospect to come in for a visit? Or, is it something more simple, such as just getting them to go to your website to learn more? This will affect how your piece is designed. Thinking about the strategic timing for your offers is also very important. For instance, we would never recommend free trials in January... It's a peak time of year that consumers are more open to joining. You'll fill your club with tire kickers and annoy your members.

C.I. - What are the pros and cons of each?
TB - Historically, the difference between 'price-based' and 'low-end' were synonymous, but they really aren't. With a higher price, you have to show value. The same thing still happens with a lower price. Yes, it may be low-price, but you can still



Tracey Bourdon, SKB Marketing Coach

talk about the benefits or what fitness can do. And, importantly, there is convenience. Fitness has to be convenient for people. That lower price club may offer more choice than a higher end club because there are more of them to choose from wherever the member may be. I believe a lot of the market has been of the reverse mindset.

Pros of Price-based Offers:

- It pre-qualifies the lead. Prospects are more likely to come in or call if the price is in their budget.
- Price-based offers incentivize prospects to purchase quickly before the offer expires.
- It's easy to track specific offers.
- They add choice in fitness.

Cons of Price-based Offers:

- Locally, they can create a price war. The member wins.
- Price-based turns membership into a commodity and removes the value of a membership.
- They decrease member loyalty.
- They decrease profit margins.

C.I. - Can you elaborate on which styles work best given a specific business model (i.e. HV/LP, full service, etc.)?

TB - Marketing on experience and benefits is always best. We don't sell fitness; we sell what fitness can do for them. In our opinion, price should always be the secondary message.

Low-Price - Marketing the emotional triggers as to why someone should join your club is what drives leads into a club. The challenge for low-price models is that they have less offerings, like training and other profit centers. However, we know that fitness has to be convenient or members won't stick with a program. Low-price models offer choice, possibly 24-hour convenience, etc., which provides value.

High-End - Clubs and studio on the high-end offer programming, including training, nutrition and specialty classes. They need to show the value for membership. Even if the price is high, if the consumer sees (See Club Marketing Page 20)

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Crunch Franchise Announces Its Newest Location In Athens, Georgia

NEW YORK, N.Y. - Crunch, the health club chain best known for making serious fitness fun through unique programming and cutting-edge training, announces the opening of its newest franchise in Athens, Georgia. Anticipated to open in the fall of 2016, Crunch Athens will bring its 'No Judgments' philosophy and fusion of fitness meets entertainment to the diverse and spirited community.

The health club will be in the heart of Athens at the Beechwood Promenade shopping center on the southwest corner of Alps Road and South Broad Street; located directly behind Fresh Market, the former BodyPlex Fitness space will undergo a \$1 million renovation before opening later this year. Conveniently located for University of Georgia students and faculty and the surrounding community, the world-class gym promises to cater to all levels of fitness. This 30,000 square-foot facility will boast state-of-the-art cardio and strength training equipment, tanning and HydroMassage, full-service locker rooms complete with showers and changing rooms, a functional training area and Kid's Crunch childcare services.

Co-owners Brian Hibbard, a former CPA and the Founder and Franchisor of South Beach Tanning Company, and John Armatas, Former Executive at YMCA, are excited to bring their franchise and wellness experience as the first high-value, low-price national fitness brand to enter the Athens market.

"We talked to all the chains and even considered using our own extensive infrastructure to do something ourselves, but the decision to go with Crunch was crystal clear. We couldn't be happier with the brand and their team and are honored to be a part of their explosive growth," Hibbard said. "We're passionate about this industry and making fitness an enjoyable part of members' lives. We believe in keeping membership costs affordable and taking the stress out of fitness so our members can just have fun," Armatas added.

The team has secured further development rights in Georgia and Alabama and looks forward to expanding in the coming years.

...Club Marketing

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value, they will find a way to pay for it! If you've ever shopped for a new car or a pair of shoes you HAD to have, it's easy to understand how your wants become your needs.

C.I. - Can you share some examples with us?
TB - Absolutely, here are a few:

- We love a **30-Day Paid Trial**. It eliminates several barriers to joining a club. It offers a short-term commitment and a low cost, allowing the consumer to try everything the club has to offer. The club should offer value by marketing the benefits and what's included in that 30-day membership, such as a complimentary program design, all group classes, two group training session, etc. This also allows the club more time to close the prospect over the 30-day period; it doesn't feel like a high-pressure sale.

- **August for Free** is huge right now. I know every gym owner and sales person has heard, 'I am not going to join until the fall.' Prospects feel they are throwing money away to join in a month where they are off on holidays or are active outdoors because the weather is nice. So, allowing them to join in August and not pay until September eliminates this excuse.

- **Join now to qualify for the 2016 health care reimbursement.** This offer is still allowing them to join in August, but it plays on the health care reimbursement.

- **Free 4 Week Fitness Study** - This is a free fitness program that targets the de-conditioned market. The images and message target this group, which makes up 80% of the population. Our clients have had success with this campaign because it offers four weeks of support, and the participants know that they will be starting at the beginning just like everyone else. The study requires that they don't currently work out. For more information, I invite your readers to go to bit.ly/clubinsider18.

When developing any offer, it's important to consider the market you are in and your competition. What works in Missouri may not work at all in New York City. For example, with the Fitness Study, it is truly designed for the de-conditioned market. The messages and images are tailored to that market, which makes up 80% of the population who have never stepped foot in a health club before. It makes them feel at ease. They know they will be part of a supportive group and won't be alone as the only overweight person in the club. However, when you run that in Virginia Beach or certain parts of California, they are much more fit societies, so you don't have that same 80% of the population. It doesn't mean it doesn't work, but the message and imagery will need tweaking.

C.I. - More generally, please discuss the importance of having an organized and consistent marketing campaign year-round, even during slow months or times when money may be tight.

TB - Planning ahead saves time, money and a lot of stress! The value of measuring the success or failure of your marketing efforts can never be underestimated. It can save you so much time, and money, to repeat or maintain successful campaigns and to refine and improve less successful efforts and examine why they did not work. Often, you can sow the same seeds, and they will continue to yield a worthwhile return.

Additionally, by planning ahead and printing several items at a time can buy you a better print rate. Commitment to a longer-term digital campaign also saves you money. A marketing plan also allows you to turn on a dime if needed and take advantage of great, unexpected opportunities. Plus, it lends for strong communication with your team so everyone is on the same page. All of this leads to higher sales, higher revenue, lower costs and higher retention rates.

• • •

I want to express sincere **Thanks and Appreciation** to **Derek Barton, Rich Boggs, Terry Browning, Nancy Terry, Jon Butts, Tracey Bourdon and Daniela Spaid** for their insightful contributions to this 2-part cover story on the all-important topic of club marketing. And, thank you for reading **CLUB INSIDER!**



Justin Cates, Assistant Publisher

(Justin Cates is the Assistant Publisher of CLUB INSIDER and grew up in the health and fitness club industry. Justin was born into a club business family in 1985, and from the age of eight, he spent his non-school and sports hours in a home that doubled as CLUB INSIDER Headquarters. He has lived and breathed this industry for 31 years, since his own day one. Cates graduated from the Terry College of Business at The University of Georgia in 2007 and then went on to two years at The Art Institute of Atlanta, where he studied Interactive Media Design. Now, he is an integral part of the "Story" of Norm Cates and CLUB INSIDER. Justin can be reached by phone at 423-314-4310 or email at Justin@clubinsideronline.com)

Comments From Daniela Spaid

An Interview With Daniela Spaid,
 Director of Marketing and Public Relations of Fitness Formula Clubs

CLUB INSIDER (C.I.) - From a 10,000-foot view, please tell us about your marketing efforts for Fitness Formula Clubs.

Daniela Spaid (DS) - Fitness Formula Clubs (FFC) focuses on a healthy mix of traditional advertising and current marketing trends.

C.I. - How much do you spend on marketing as a percentage of revenue? How do you organize your marketing activities by month?

DS - When you ask a marketer how much is spent on marketing, the answer will inevitably be, 'not enough.' New member acquisition costs generally fall in the range of \$50 per member. A significant percentage of our marketing spend is budgeted for advertising during the first quarter with a monthly focus on social media, member referrals and former members throughout the year.

C.I. - What styles (features, benefits, etc.) are used in those efforts, and what have the results been?

DS - At FFC, we focus on promoting an overwhelming value proposition. We are all about delivering results and rewarding our members for their efforts. We provide an exceptional member experience in a clean and healthy environment delivered by our highly trained, friendly and attentive staff. Our facilities are equipped with industry leading equipment, technology and programming. However, it is our team members who deliver on that value proposition and consistently make FFC recognized by the local media as the top option for health and wellness in Chicago.

C.I. - Has the price-based marketing style been used previously, and if so, why was the move made away from it?

DS - It has been many years since FFC used a price-based marketing style. Although the Chicago market has plenty of fitness choices, many of which offer \$0 enrollment fees or similar offers, FFC has been steadfast in our resolve to offer value over price. We always charge an enrollment fee, do not negotiate our rates and practice our core value of integrity every time we present our membership options to a new prospect.

C.I. - Can you take us through the components of creating a multi-faceted marketing campaign to increase member referrals?

DS - Every year, we run a member referral promotion called *The Summer of Sharing*. This year's campaign was a big win with year-over-year, double-digit growth. I attribute our success to a few key strategies. First, we knew we needed to make some changes to the offer, so we invited our management and sales teams to participate in a brainstorming session. When we collectively decided on the incentive, everyone was on board and excited... we were all bought in! Secondly, we created a consistent clear marketing message with eye-catching creative and carried it across multiple marketing channels... every member knew about *The Summer of Sharing*. The multi-faceted campaign included a big website presence, in-club signage, email communications, social media posts, digital assets and good old word-of-mouth. Finally, we set a collective company-wide goal, tracked our KPIs and stayed focused throughout the entire 2-month campaign.

C.I. - Please discuss the importance of having an organized and consistent marketing campaign year-round, even during slow months or time when money may be tight.

DS - Fortunately, we don't have to worry about money being tight. It is always important to be front-of-mind and reinforce the brand no matter what time of year it is. You never know when a consumer will be in the market for a new fitness solution. This year FFC's marketing campaign is *Made in Chicago*. Our members take great pride in the city they live in, and we wanted to celebrate that with them. FFC is a local Chicago company that has been serving its club communities for 32 years, and we plan to continue to lead the fitness industry in this market for years to come.

C.I. - Where does social media now fit into the marketing mix?

DS - Social media is an integral part of how we communicate with our members and prospects. It's challenging to even keep up with the changes in technology and the way people consume information these days. With social media, word of mouth has become 'world of mouth,' which can be a good thing when a campaign goes viral and the value proposition is there for delivery. As marketers, we study consumer data and are agile in terms of personalizing our messages in real-time. Social media allows us to be relevant and present with our audience, and our consistent efforts are paying big dividends.



Constructing Your Plan for Sales Success: *Two Critical Components*

By: Karen Woodard-Chavez

When you are constructing a plan for your sales success, there are two critical components that must be considered but are often left out. They include:

1. Assessing your current level of mastery with persuasive conversation; and,
2. Calculating the number of leads you have or need to create.

Does this sound like a blinding flash of the obvious? It should. However, I find myself having this conversation repeatedly with sales people who have not determined these two components.

Assessing Your Current Level of Mastery With Persuasive Conversation

Let's address assessing your current level of mastery with persuasive conversation first. This component is worthy of having an entire book written about it rather than a short section in an article (**Note:** There are numerous

excellent books to resource for growing your persuasive skills, including mine: *120 Tips to Sell More Club Memberships Now.*)

The simplest place to start with this is tracking. Most sales people do not track their effectiveness, thus they have no basis from which to grow. Start by tracking your ability to close sales based on the number of sales conversations you have in the day, week or month. If you have ten conversations in the week and close five sales that week, you have a 50% closing ratio. If you have ten conversations in the week and close three sales, you have a 30% closing ratio. Depending on what you are selling, 30% may be good. AND 50%+ is clearly better.

Once you know where you are, you can determine how you can increase your closing ratio to be more effective with your sales. *That is the interesting part... knowing what to improve in your selling process.* Is it your ability to understand exactly what will make the prospect say, "yes" as well as what will cause your prospect to hesitate? Is it your ability to customize the conversation and be

informative, inspirational and persuasive? Is it your ability to provide compelling solutions to their hesitations? Is it your ability to clearly ask for their business? Is it your willingness to persevere with gracious and creative follow-up? Is it your ability to organize and manage your sales opportunities so they do not slip away from you?

It is critical that you can objectively and clearly define what you have mastered and what you have yet to master so you can improve. This requires a presence, consciousness and awareness of your current skill level. To do this, you must measure.

Calculating the Number of Leads You Have or Need to Create

The second component in your plan for success is your ability to accurately calculate how many leads you need to successfully meet or exceed your goals. This can happen when you know what your closing ratios are. **For example:** If my closing ratio is only 30% (closing three



Karen Woodard-Chavez

sales for every ten people I speak with), I will need many more leads than if my closing ratio is 50% (closing five sales for every ten people I speak with). Let's use a 50% closing ratio for simplicity. If my goal is to have 40 sales in the month, then I need 80 prospects. As a reminder, a prospect is someone who is interested and qualified. If (See *Karen Woodard-Chavez Page 23*)

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Guide to Preparing for the FLSA Exempt Pay Changes: Month Two, Analyze Your Pay Plans

By: Melissa Knowles

Last month, we began the process of preparing for the FLSA Exempt Pay changes, announced by the DOL in May, by looking at your workforce and their duties. You can find that article and additional articles on the change on CLUB INSIDER's website (www.clubinsideronline.com/archives) or our website (www.gymhq.club). This month, we continue our preparation

for the upcoming December 1st due date for compliance with a look at employee compensation.

The single biggest change for which owners need to prepare is the new salary minimum. The salary threshold increases from \$455/week (\$23,660 per year) to \$913/week (\$47,476 per year). If left alone with no changes to the current compensation plans beyond the required salary increase, an owner's exempt payroll

will double! With payroll constituting one of the biggest expense categories for a business, this could have a major impact on the bottom line. Here are several considerations to make and examples to use while analyzing a business' current pay rates and retrofitting them to comply with the new DOL guidelines:

Calculate each exempt employee's total yearly earnings. You'll need to include all compensation including salary,



Melissa Knowles, VP of Gym HQ, a ClubReady Company

commissions and bonuses.

Example: GM Johnny has a salary of \$36,000 per year. He has a commission plan in place that pays him on any memberships sold by him directly, as well as a bonus structure based on achieving 100 new memberships per month. Looking at the six months he's been employed, it's established that his average monthly commission is \$300 and his average bonus is \$500. That gives him an estimated annual commission and bonuses payout of \$9,600. So, Johnny's estimated annual income is \$45,600.

If an employee's current base salary meets or exceeds \$47,476, no changes need to be made. If the employee is close to the earning base stipulated by the new law (\$47,476), consider making adjustments to their current compensation plan to bring it into compliance.

Continuing with the GM Johnny example: The new FLSA pay criteria stipulate that up to 10% of the first \$47,476 of the employee's income can come from non-discretionary commissions or bonuses. These are bonuses based on clear and measurable goals or a company's profitability. That means that, if we want to cap Johnny at \$47,476 for his annual compensation, \$4,747.60 of it may come from commissions and bonus. We can bring his salary up to \$42,729 and adjust our commission and bonus structure accordingly. Where he may have been earning \$300 in commission on 30 memberships; now, his plan pays him \$150. His monthly bonus is adjusted to \$250. This brings his yearly earnings from these two categories to \$4,800. When combined with his new salary, Johnny's yearly income is \$47,529. This is only a \$1,929 increase to the business for the year.

(See Melissa Knowles Page 24)

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Profit Designing: *Designing the New Club Model for Maximizing Profits*

By: Bruce Carter

There are substantial changes evolving with clubs, and this is affecting design significantly. The old standard model was primarily dues-based, where clubs offered everything for one price, and the goal was to get as many members as possible. This model usually involved some variation of cardio, free weights, machines, group exercise, and possibly, spinning. The new model is to get as many members as possible, but equally importantly, is to maximize revenue per member through results-based, tiered memberships and fee-based personal training programs, thereby maximizing the average amount of dues per member. To achieve this goal, a new design model is necessary where a club has the optimal space and programs enabling it to charge extra for a variety of different offerings.

When low-price clubs started to flourish, other competing clubs often tended to lower their price while decreasing what they offered. Low-priced clubs obviously provided something that many people wanted. The average person, knowing that they probably wouldn't stick with their exercise, became very attracted to a very low price (with a tipping point of around \$10), greatly reducing their fear of losing money on something they most likely would not use.

Then, as more low-priced clubs entered the marketplace, thus reducing the number of members for each club, many clubs started to think of how to get more money per member per month. Things started to get added back into clubs but at an added fee. Concurrently, another major change in the industry is continuing to evolve, the demand and growth of group and personal training. Combined with this is the trend of many small boutique and single purpose clubs opening, charging substantially higher amounts for specialized programming.

The lesson learned is, that although there is a significant market for the low-price, value-based gyms, there continues to be a huge market for those who value results-focused gyms, programs and training. This market is growing and will spend extra for specialized training, often substantially more than their basic dues. Wider ranges of fee-based classes have evolved, such as Barre, Pilates, suspension training, hot yoga, spinning, core training with weights, ropes and boot camp to name a few. Even virtual training is growing in clubs, offering more variety, and some clubs provide this as part of the membership, while others charge for it.

As club operators recognize the need to evolve their business model, their physical plant is set up for an outdated model, and this hinders their ability to maximize profitability. Therefore, creating a club to offer a wide range of fee-based programs must be coordinated and followed up with a staff, operations, pricing structure and sales/marketing that can fully utilize the design. If the old way of operations tries to optimize a new state of the art profit design, then much of the space will be underutilized.

As Jamie Fairley, a leading consultant specializing in fee-based programming puts it: "Today's profit-minded gyms are designed or renovated to mirror their business model, and that evolving business model is reflecting the market's desire to choose access to facilities and programs that best meet their results expectations. You can recognize these profit-focused gyms immediately because their fee-based program facilities and areas are reflected in their layout and design. These areas are now front and center, whereas traditional gym equipment is now on the peripheral looking in on all the dynamic fun and interactive fun of functional areas."

The goal with this type of profit designing is to provide different spaces/areas for different offerings with each space having a visually different personality, yet the overall effect is that everything is coordinated together. The space can be a combination of open spaces or different rooms with separate door access. Much of this is based on how you plan to market and price your programs. It should be noted that growing with this trend is technology, which has made tracking who has access to different areas much more efficient.

However, one of the dilemmas of design is always trying to fit more into a space than the space can accommodate, the proverbial trying to fit four quarts into a 3-quart container. So, priorities have to be made with what to include and what to eliminate. Here are some key questions to answer before you design for profit. Much of it has to do with how you will charge for the class and how much space you have available.

1. Will you have a separate area just for personal training or will it be done where everyone works out? The advantage to have a sectioned off or closed room for it gives the training a specialized image while also minimizing interruptions for the workout. The disadvantage is that it requires more space and apparatus, and unless it is utilized regularly, it will sit

empty much of the time.

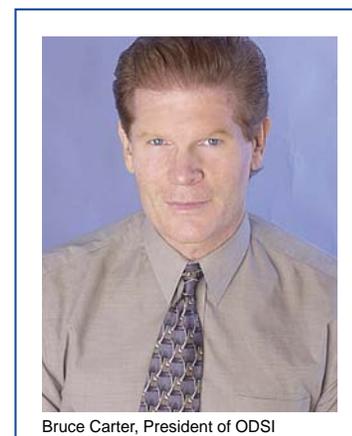
2. Will you have a separate room for group exercise classes, such as suspension training, boot camp, kettlebell or different yoga classes? Or, will this be done in an open area available to all to use when a class is not in session? The advantages and disadvantages are similar to personal training spaces.

3. Will you try to create a flex space for different types of group training to be done in the same room? This can be an excellent solution when space is limited, but it has to be well thought out. Designing for things such as suspension training, as well as Barre classes and different types of group functional training, requires a state-of-the-art experience for each option. Determining what is needed for different offerings, as well as how they all can work together takes detailed planning. For example, planning for well-designed storage options for the different items for different classes is an absolute must.

4. Are you open to having less of the traditional pin-loaded machines and Olympic free weight options to make room for more fee-based programming space?

It is important to make all fee-based training programs and spaces very visible allowing for optimal exposure and continued "marketing" of programs.

Signage and graphics are a must for communicating the programming and accent lighting, architectural features and eye-catching finishes. Colors will continually "draw" the attention to



Bruce Carter, President of ODSI

the areas.

The overall design goal of clubs with a variety of different fee-based programs and areas is excitement and professionalism. These high revenue-producing spaces need to look like they are "worth" what you are charging additional for and not something just "thrown together."

The good news is that, now more than ever, there is an increasing number of people who are taking their health and wellbeing to a new level of commitment and are willing to pay up to \$100 to \$200 per month for state-of-the-art programs and spaces. But, to accomplish this, your club needs to look like it is a dynamic state of the art center of self-improvement.

(Bruce Carter is the President of Optimal Design Systems International, and he can be reached at 954-888-5960.)

...Karen Woodard-Chavez

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I need 80 prospects, how many leads do I need? That depends on how qualified the leads are. Let's be simple, as well as smart, and say that I am seeking more qualified leads than not, so I will need 120 leads.

Some of you may be stuffing your eyeballs back in their sockets at this point in disbelief or discouragement with regard to the number of leads you may need! The reality is that this point of calculating how many leads you need is CRITICAL to your success. If you are not talking to enough of the right people, you will not meet or exceed your sales goals. The accuracy of this number is absolutely related to your closing ratios, so it is CRITICAL that you know what your closing ratios are rather than guessing at it.

You can see how these two points,

if not calculated accurately, or at all, set you up for failure. If they are calculated consistently and accurately, then you know you have the outline for a successful plan. The next steps are for you to determine what your best lead generating activities are and what aspects of your selling conversation you need to improve to be the most effective and successful sales person you can be.

(Karen is President of Premium Performance Training in Boulder, Colorado and Ixtapa, Mexico. She has owned and operated businesses since 1983 and now consults with and trains staff throughout the world. She provides her services on-site, online, by phone and through her books, CDs, DVDs and manuals. She can be reached by phone at 303-417-0653 or email at karen@karenwoodard.com)

Things to Consider When Selling Your Club Business

By: Dr. Art Curtis

You have spent many years, perhaps a couple of decades, building your club business. Now, you are facing one of the most difficult and emotional set of decisions you will ever have to make. Do I sell my business, and if so, how and when do I go about selling? There is no advice that I can give you that will make selling your club(s) easy. But, there are some things that you should consider doing that will help you prepare, making the process go more smoothly and achieve the outcome you have worked so hard for. While the specifics of every sale are unique, there are some common elements you might want to contemplate before selling that will help you to prepare yourself personally to sell your business, understand who your potential buyer might be, and finally, to make certain that your business is ready to undergo the scrutiny of a due diligence process.

Develop a set of written goals for what you wish to accomplish in selling your business. You would never consider making a major capital investment in your club business without a well thought-out plan. The same logic applies to planning

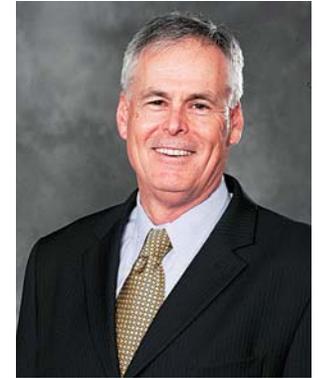
for the sale of your business. Some of the things that should be considered include:

Personal Goals - Have a clear understanding of why you would like to sell and a plan for what will come next for you personally. You have likely been immersed in your business for many years, so now what? Do not be one of those sellers who regrets selling because they did not have a clear vision of their next adventure. Here are a few things you should contemplate before committing to sell. Do you really want to completely exit your business? Would you like to have some type of continuing role, and if so, what type of role? Do you really wish to remain in charge of your business and simply take some equity out by bringing in an investor/strategic partner who will help you grow the business? If you wish to exit the business, what is your next act? Would you retire or start another business? If you chose to retire, how would you like to spend your time in a way that enriches your life? Remember, you have been very passionate about your business for many years. Do you have other passions, i.e., volunteer causes, public service, hobbies, etc. that can take its place?

People Goals - If you are like most

business owners, you probably have a loyal and dedicated group of staff who have been with you for many years and have greatly contributed to the success of your business. How do you want to see them benefit as a result of a sale? Depending on the type of buyer, *financial vs. strategic*, there will likely be many issues that will impact the future of many of your employees. Are you planning on sharing some portion of the sales proceeds with staff, and if so, to whom and how are the proceeds to be allocated? How, when and whom do you communicate the possibility of a sale? Certainly, there will be some key staff that will need to be involved with the diligence process if a sale moves forward.

Identify who should be on your team when the time comes to sell - Selling your business will require a team of professionals with specific expertise in a variety of disciplines. Always surround yourself with the most talented group of professionals whom you trust with keeping your interests at the forefront without any potential conflicts of interest. Some of the key issues that you will have to consider include deal structure, definitive agreements (i.e., Purchase and Sale Agreement, etc.), valuation guidance, a



Dr. Art Curtis, Principal at Curtis Club Advisors

variety of legal and regulatory issues, tax planning, estate planning, and perhaps, even some philanthropic planning. If you own the club's real estate, do you want to maintain ownership and lease back to the buyer or include it as part of the assets being sold? This will require a team with specialized skills within their specific profession. When considering your team of professionals, avoid generalists and focus on those with relevant experience in selling businesses. Make sure your
(See Dr. Art Curtis Page 25)

...Melissa Knowles

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If the employee's current earnings are much lower than \$47,476 per year, consider moving them to hourly pay.

Example: AM Adam has a salary of \$24,000 per year. He earns another \$10,000 annually from commissions and bonuses. That puts his annual earnings at \$34,000. While a review of his job duties indicated that his role does qualify him to be an exempt employee, the business owners have not budgeted \$47,476+ each year for his position. In order to comply with the new FLSA pay rates, Adam's pay is changed to \$11.50 per hour (his salary divided by 40-hour weeks x 52). He's required to clock-in and out and his commission and bonus structure remain the same. GM Johnny carefully monitors Adam's time clock reports to ensure he's not exceeding 40 hours per week.

*Luckily, our example gym isn't in California, so Adam is not limited to less than eight hours per day to stay out of overtime status.

If you're moving a currently salaried employee to hourly, make sure you factor in the need for and frequency of overtime hours.

Continuing with the AM Adam

Example: After reviewing the hours Adam typically works, GM Johnny realizes that he's averaging 50 hours each week. He reviews this with the club owners, and all agree that Adam is needed for the extra ten hours each week. Therefore, Adam will be earning overtime pay. Johnny will need to be careful to take Adam's commissions and bonuses into consideration. For the pay period of August 1st to August 15th, Adam worked 108 hours; 20 of these hours were overtime. He also earned another \$350 in commissions and bonuses. Here's a breakdown of Adam's pay:

- 108 hours x \$11.50 + \$350 (commissions & bonuses) = \$1,592 (straight time pay);
- \$1,592 divided by 108 hours worked = \$14.74 (regular rate);
- \$14.74 x 1/2 = \$7.37 (overtime premium);
- 20 hours of overtime x \$7.37 = \$147.40 (overtime pay);
- Total payout = \$1,739.40.

If the owner had failed to consider the tendency of Adam's position to require overtime and had set his hourly rate to \$11.50 (and made no changes to his commission and bonus plan), Adam would be set to earn \$41,745 per year, which is a lot higher than \$34,000. The cost to the business would be \$7,746 annually. By understanding the implications of overtime pay, the owner could adjust Adam's hourly rate lower than \$11.50 and/or modify his commission and bonus structure.

Considering the need for and frequency of overtime, as well as its cost, is a must when considering a future pay plan for a position.

Consider the cost of admin when deciding to move a salaried employee to hourly. Who will track the employees' hours, make adjustments when needed and police overtime? Who will ensure calculations for overtime pay are properly made? Does your pay cycle for hours align with your commission and bonus structure?

Example: Gordon pays his team for hours and salary on a semi-monthly basis, but his commission and bonus structures are based on his club's monthly sales and performance quotas. His sales rep, Samantha, consistently works overtime and Gordon knows he needs to calculate pay based on her regular rate. However, when he pays her for her hours from the first half of the month, commissions and bonuses are not available. How does he ensure Samantha is paid out properly?

For August 1st to 15th, Samantha worked 92 hours; 4 of these hours were overtime. Her hourly rate is \$8. Gordon should pay her the following on her check:

- 92 hours x \$8 = \$736;
- \$8 x 1/2 = \$4 (overtime premium);
- \$4 x 4 hours of overtime = \$16;

•Total pay for this check= \$752.

At the end of the month, Samantha has \$400 in commissions and a \$100 bonus. Gordon is able to attribute \$150 of the commissions to August 1st to 15th and splits the bonus in half as it was earned over the entire month. He then calculates the additional overtime pay due to Samantha for August 1st to 15th:

- \$200 (commission and bonus) divided by 92= \$2.17 (additional income to add into hourly for regular rate);
- \$2.17 x 4 hours x 1.5 (time and a half) = \$13.02 to be added to Samantha's next check.

Finally, a great place to start when building a compensation plan is to determine how much the position should pay when an employee performs well (if commission/bonus based) and work backwards.

As you can see, there are a lot of points to consider as you work toward December 1st. Starting now ensures you have the time necessary to put a thoughtful plan together.

(Melissa Knowles is Vice President of Gym HQ, a ClubReady Company. She can be reached at mknowles@clubready.com)

...Dr. Art Curtis

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attorney, accountant, business advisor, financial advisor, etc. are going to be up to the task ahead, and if they are not, identify the appropriate professionals who are.

Create realistic value expectations - It is important to understand how valuations are determined for clubs and the factors that can impact valuations. Most frequently, club businesses are valued as a multiple of EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization). This is pretty straightforward except that, very often, there are adjustments that are made to EBITDA that will significantly impact the resulting true multiple for a business. This often occurs when an owner has been running personal expenses through the club business, or perhaps, has either not been drawing a salary or has been drawing a salary that is considerably above market. A buyer is interested in understanding the business performance without the influence of items that are unique to the seller and that will go away following a sale. There could also be adjustments due to differences in accounting treatment for various income and expense items. A multiple has little value unless you understand exactly what adjustments will be made to EBITDA. You will find it helpful to have someone on your team that is knowledgeable about recent valuations in your market segment.

Talk to others you know and trust who have sold their business and learn from their experiences - This could be one of the most valuable things you can do to prepare for what lies ahead. Having the benefit of the experience of trusted peers who have been through the challenges of a sales process can provide insights through the eyes of a seller that you might not obtain from your team of professionals. What were the most important things they did that helped lead to a successful sale? What were their biggest challenges? What were their biggest surprises? What would they have done differently if they could?

Is there a pool of potential buyers?

There are two primary types of buyers, and they evaluate acquisitions a bit differently. Understanding the key differences will help you better understand which type of buyer best fits your situation:

Strategic buyers look for companies that can synergistically integrate with their existing business to create incremental long-term value. An example would be an existing club company who acquires another club company in order to gain entry into a new market or fill in a hole in an existing market. The strategic buyer evaluates a potential acquisition based on the potential synergies and its ability to integrate the acquired clubs into the buyer's portfolio. They will focus on the financial

performance within the four walls of the acquired clubs, since most of the back office infrastructure will be eliminated, including staff. Strategic buyers may or may not have much experience doing acquisitions, which may impact how efficient that are at conducting due diligence. There are a number of well-known regional and national chains that have grown through strategic acquisitions.

Financial buyers tend to focus on acquiring companies with attractive future growth opportunities. They look for companies that can serve as a potential platform for rapid growth. Typically, this means multi-unit/multi-market club businesses that have strong management teams and operating systems that are scalable. They may also want the founder to continue as a minority investor and remain active in the business for an extended period of time. Financial buyers have acquisitions as a core competency, so you should expect a rigorous due diligence process from a team of experienced professionals. You will want to make sure your team of professionals is not over matched. There are many excellent examples in the club industry of private equity firms, venture capital funds and family investment offices that have acquired some of the best-known brands in the industry.

Once you understand what is important to each buyer type, then you can better assess the market conditions for your business. If you are most likely a candidate for a Strategic Buyer, who are the potential candidates where you have synergies? If you are more likely a candidate for a Financial Buyer, what segments of the market are the financial buyers active? Could you be a potential add-on acquisition for a financial buyer who is active in your segment? The better you understand the potential buyers, the better you can prepare your business for a successful sale.

Is my business ready for a sale?

I would strongly suggest removing your owner's hat and taking a critical look at your business through the eyes of a potential buyer. If you were considering buying this business, how would you look at the business' performance? What would be some of the issues that would give you concerns?

Industry Trends - How is the industry trending overall, and specifically, within your sector? How have you been able to capitalize on the evolving industry trends?

Club Performance Trends - Are the recent trends for membership and profits positive? Do not live in the past. The previous success of a business is not particularly relevant if the business has been struggling lately. Buyers are most interested in recent performance, the last 12-24 months and future sustainability,

especially in a competitive marketplace. The notion that "all it needs is a little work to get back on track" is not something that will appeal to most potential buyers. If you want to achieve the best possible valuation, prove the resilience of your business by getting back on track before attempting to sell.

Competition - What does the competitive environment look like? Do you have a defensible competitive position in the marketplace, and if so, have you been able to fend off competitors? Or, have you lost market share to new competitors? Are there any barriers to entry for new competitors to enter your markets, i.e., limited and/or expensive real estate, market dominance in your segment, any proprietary programs/services, etc.? Are there future growth opportunities in your markets to grow? The more you are able to demonstrate the ability of your business to create barriers to entry and to withstand competitors the better.

Club Physical Plant - What is the physical condition of your clubs? Is your equipment inventory up to date? Are there deferred maintenance issues that need to be addressed? Are you in compliance with all relevant codes? If not, bring your clubs into compliance first or they could become deal breakers later in the process.

Due Diligence - Assuming you are able to find a suitable buyer and agree on a valuation, how prepared are you to have your business put under a microscope for several weeks by the buyer? The due diligence process, even under the best of circumstances, can be very disruptive to your business. You will need to be prepared to create a data room with all the necessary documents that a potential buyer will want to review. Examples of documents that you will likely be required to produce are verifiable financials (Income Statements, Balance Sheets, Capital Expenditures, etc.) for the past few years, leases, contracts, budgets, business plans, permits and licenses, a variety of legal documents (including any outstanding litigation or liabilities), insurance plans, benefits plans, employee handbooks, any intellectual property rights, etc. It will be critical that your back office is extremely well organized and that you either have the staff in place or are able to bring in the necessary resources that will be up to the task.

During the diligence process, you will need to be prepared to answer tough questions on your business performance, your people, systems, markets, competition, positioning, financial results, etc. Experienced buyers will often ask lots of questions in an attempt to turn up inconsistencies and red flags. Honesty and candor will help build trust with a potential buyer. Remember, the truth will likely emerge during a rigorous diligence process.

You will also need to articulate how you have been successful in the past, present and what it will take to be successful in the future. Everyone on your team that will be interacting with potential buyers must be telling the same true story.

Making the diligence process work smoothly for the buyer will increase the change of a successful closing. A little preparation of your back office prior to a club sale will be time well spent. If you are not prepared for the diligence process once it begins, then it will become a source of frustration and conflict between buyer and seller and could easily result in a failed sale or reduction of purchase price.

When is the right time to sell?

I will suggest to you that the time to sell is when a combination of these three factors discussed above come together:

- You are personally ready to sell;
- You understand who the potential buyers are, that there is a pool of potential qualified buyers and the industry trends within your market segment are positive; and,
- Your business is performing well and is as ready as feasible to undergo the scrutiny of a vigorous sales process.

While it may not be possible to have perfect alignment of all three conditions, the more they are aligned the better. If you are not ready personally to sell, then no time will be right. If the market conditions are weak in your market segment, then you will have difficulty finding a qualified buyer and are not likely to achieve a satisfactory valuation. If your business is not in top form, then take the necessary actions to improve performance. Remember, you have taken many years to methodically build your business, make sure you take the necessary time to prepare yourself and your business for a most rewarding outcome.

(Dr. Art Curtis is the Principal at Curtis Club Advisors and he can be reached at art@curtisclubadvisors.com. Art is also a former IHRSA Board President.)

**Make
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The Four Critical Roles of Management

By: Dr. Gerry Faust

This is the first in a series of articles that will present an integrated set of conceptual models that have proven, over the years, to be extremely robust and powerful in helping business leaders better understand, manage and lead their organizations. They are based on research and application with hundreds, if not thousands, of organizations around the world. We will start with a discussion of the four critical roles of management.

The Four Roles

It has been proposed (1) that, to be successful over time, an organization, whether it be a team, a department, a club, company or country, must balance four basic roles. If these four basic roles are kept in reasonable balance, an organization will be successful over both the short- and the long-term.

Produce Results (P). The first and foremost role of an organization is to Produce Results

for their organization. To be successful, an organization needs to understand what results its customers are looking for and what results the organization needs to produce to survive and thrive. The “**P**” role causes the organization to focus on “**what**” it is supposed to be doing and constantly pressures for continuous progress toward this goal. When well executed, this role ensures that the organization will be effective over the **short-term**. Organizations and people who are good at this role have drive and are results-focused.

Administer (A). It is not enough for an organization just to produce results. To be successful, it also has to produce results efficiently and consistently, and this is the purpose of the “**A**” role. To administer is to get the organization “organized,” systematized and under control. This role focuses on “**how**” things are being done and pressures the organization to optimize the use of its limited resources. It involves establishing monitoring and control systems, processes and procedures to ensure the needed efficiency and consistency in

the **short-term**. Organizations and people who are good at this role have two basic qualities: (1) logical, systematic thinking and (2) serious, close attention to details.

To **Entrepreneur (E)** is to proactively adapt an organization to future needs. It is all about looking forward, anticipating change and adapting to or taking advantage of it. This is a big picture role and requires creativity and willingness to take risks. This is the role that drives the adaptation that is necessary for organizations to succeed over the **long-term**. The “**E**” role focuses on **what** we should do tomorrow. Thus, the “**E**” of today becomes the “**P**” of tomorrow as it produces new customers, products, services, profit centers and strategies.

To **Integrate (I)** is to create the teamwork and engagement that creates **long-term** efficiency in organizations. This role is intended to take a group of individuals and make them into a team with a common sense of Mission and Vision. This is a process-oriented role that focuses on **how** we lead or manage to create consensus, teamwork, employee engagement and a great work environment. Organizations and people that are good at this role are open to the ideas of the people, encourage candor and communicate clearly what is expected of team members.

Roles, Styles and Culture

The culture of an organization can be described in terms of the relative balance of these four roles. There are companies that are growing fast, driving sales and entrepreneurial (**PAEi**), and there are others that are more staid, slow to respond to the market and conservative in what they do. They may still be aggressive in sales and very conscious of their numbers. They just aren't looking ahead or adapting to new market or worker needs or technologies (**PAEi**). In fact, there is a predictable progression of culture that organizations go through as they proceed through their life cycle, but that is a discussion we will have in one of the later articles in this series.

Different parts of the organization (e.g. departments or individual clubs within a group) often have different PAEI profiles... different cultures. Hopefully, your sales team is more “**P**” focused than anything else. Of course, we want the people in that department to be good with people, organized to some extent and creative in the way they approach their job and how they present the club. However,



Dr. Gerry Faust

the sales department should be principally focused on sales so we could describe that department as PaEi.

It could be that a good sales department is PaEi, and that's okay if the E is driven by creativity in the way we present the message, lead the club's tour or close the sale. However, if the E gets to selling things we don't have or do, or when people come to work, it might not be so desirable.

As a contrast, you probably want more **E** in programming (paEi or PaEi) and **A** in accounting (pAei). Remember, as well as being accurate, we want accounting to work hard to deliver their work on time and be reasonably good team players in the organization.

The key here is that all organizations (countries, clubs, departments, etc.) must have some degree of balance of all four roles (at least those little letters) and at the same time, because of their focus, their purpose and sometimes their circumstances, they generally have to be stronger in some roles than others.

I'll leave you to consider your other departments to decide what their profiles are or should be. However, consider this. There is probably a preferred profile or a small group of profiles you would like or should have for any department. So, if the sales team should be PaEi, and you look at yours and decide its more paei, you probably have some work to do. That could include creating better clarity of the roles, additional training or even some rearrangement of peoples' jobs.

Application

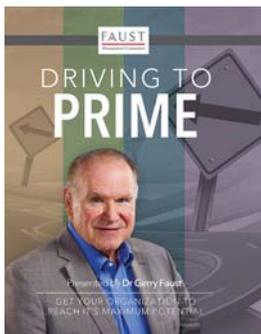
What is the PAEI profile of your organization? One interesting way to take a look at your organization, and learn more (See Dr. Gerry Faust Page 27)

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...Dr. Gerry Faust
continued from page 26

about how others see it and maybe even make some decisions about what you need to work on, is to have a PAEI discussion. For a department, that discussion could start by all those involved filling out the following form. Then, sharing your answer to #1, having a discussion about those answers; then sharing answers to #2, more discussion; and then moving on to #3. If you want some more advice on how to conduct this discussion, and for club leaders who want to have a broader discussion with their executive team, we have a discussion leader's guide available at bit.ly/clubinsider19.

In the **October Edition** of **CLUB INSIDER**, we will discuss PAEI and Management and Work Styles.

(1) Dr. Ichak Adizes, a former partner and

colleague of Dr. Faust, first presented the basics of this model in, *How to Solve the Mismanagement Crisis*, Adizes 1979. Homewood, Illinois. Dow Jones Irwin.

(Dr. Gerry Faust is one of the country's most popular business speakers and business strategy experts. His career has included founding several successful companies, professorships at the Universities of Texas, Illinois and UCLA, and consulting to hundreds of organizations, big and small, public and private, around the world. He is the developer of a family of comprehensive organizational assessments including two specifically designed for the health club industry. Founder of the first Club Executive roundtable, he has made a major contribution to the professionalization of club management and the success of many in our industry. His latest video series, Driving to Prime, is a must have for CEOs and Executive teams everywhere.)

Department Name: _____

1. PAEI Culture Should Be: _____

2. PAEI Culture Is: _____

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The FLSA's "Final Rule" and How to Prepare for It

By: Paul R. Bedard, Esquire

The fact that many employers struggle with wage and hour compliance, combined with employees having a greater awareness of their employment rights, has contributed to an already healthy boost in wage and hour disputes. A new law will almost certainly increase the volume of these disputes. The Fair Labor Standards Act's "Final Rule" takes effect on December 1, 2016. This new law dramatically raises the standard salary level for exempt employees and will further accelerate the increasing trend of wage and hour litigation.

Melissa Knowles, Vice President of Gym HQ, a ClubReady Company, has been providing valuable information to readers of **CLUB INSIDER** through an excellent series of articles designed to help fitness business owners prepare for the Final Rule. Due to the impact the Final Rule is anticipated to have within our industry, **Norm Cates, CLUB INSIDER Publisher**, has requested that I provide additional content in this regard in order to help reinforce for fitness business owners what it will take to be fully prepared for the impending legislative changes. By developing a thorough understanding of the new law, and by analyzing how it applies to your business, you can achieve legal compliance and avoid becoming a statistic tied to the inevitable increase in wage and hour litigation.

Whether due to an agency-initiated investigation by the Department of Labor (DOL), or a complaint lodged by an employee, the burden falls on the employer to demonstrate compliance within a wage and hour case. The DOL reports that, in fiscal year 2015, more than 42% of their investigations were agency-initiated. Violations were found in 79% of these investigations. The DOL estimates that the Final Rule will automatically extend overtime pay protections to over four million workers within the very first year it takes effect. Given the composition of salaries and labor within most health clubs, club owners and operators should anticipate that many of these newly protected workers are current employees. However, preparation and application can help you avoid becoming a legal statistic.

This article is not intended as legal advice. Rather, it is intended to educate health club owners and operators regarding significant changes to overtime regulations and to provide suggestions aimed at helping to achieve compliance with these changes. Widely varying state and local labor laws and case precedents specific to each jurisdiction prohibit one-size-fits-all recommendations. Please consider these comments as merely a guide to help you when you consult your attorney

for specific direction.

Within the fitness industry, General Managers, Assistant Managers and Fitness Managers are typically classified as exempt employees. The FLSA mandates that employees are paid overtime when working in excess of forty hours per week unless they are exempt employees. In order to be deemed exempt, employees must meet a 2-part test; a salary basis test and a duties test. Although the duties test has not been changed as a result of the Final Rule, the salary basis test has been dramatically altered. Worthy of note, the salary level test does not apply to outside sales professionals.

A job title alone does not determine exempt status. As far as the duties test is concerned, employees may qualify for executive exemption for duties including managing the business or a department thereof, regularly directing the work of two full-time employees, or their equivalent, and having the authority to hire or fire employees or being able to provide meaningful input as to the hiring, firing, advancement, promotion or any other change of status of other employees. The *DOL's Fact Sheet #17A* provides an explanatory overview of exemptions including Executive, Administrative and Professional exemptions. The *DOL's Fact Sheet #17B* provides information specific to executive exemption, the exemption most applicable within the fitness industry. Although the Final Rule does not change the duties test, now is as good a time as any to audit your employee base in order to confirm compliance in this aspect.

The big news is that salary basis test is being overhauled for the first time in years. Effective December 1, 2016, the standard salary level for exempt employees will rise from the current \$455 per week to \$913 per week, or from \$23,660 to \$47,476 annually. This new standard salary level is tied to the 40th percentile of all salaried employees in the lowest-wage region of the U.S., currently the South. This new standard salary level will automatically be adjusted every three years beginning January 1, 2020, to track this 40th percentile baseline.

The new regulations allow up to 10% of the new standard salary level to be comprised of nondiscretionary bonuses and incentive payments, including commissions. Should an employee's salary plus 10% fall below the statutory minimum, a 1-time shortfall payment can be made no later than the first pay period following the end of the quarter. Such a payment applies to the preceding quarter and does not count towards salary requirements for the quarter it is paid within. If an employer fails to make a shortfall payment in this scenario, the employer will owe overtime for any hours worked beyond forty per workweek.

While not of primary relevance to most owners and operators, the Final Rule raises the minimum salary level necessary to qualify for exemption as a highly compensated employee from \$100,000 to \$134,004. The DOL reports that this represents the 90th percentile of all full-time salaried workers in the U.S. These employees must still be paid the minimum salary of \$47,476, but the additional \$86,528 can be comprised of nondiscretionary bonuses including commissions and other incentive payments. The employee's primary duty must include performing office or non-manual work and involve at least one of the exempt duties or responsibilities of an exempt executive, administrative or professional employee. Should a highly compensated employee's annual compensation fall below the statutory threshold, the employer can make a shortfall payment within one month of the annual period. Any such payment applies to the preceding year's salary threshold and does not count towards salary requirements for the year in which it is paid. The *DOL's Fact Sheet #17H* provides more specifics regarding exemption criteria for highly compensated employees.

Among other strategies, employers will address the impending FLSA changes by increasing the salaries of their exempt employees, by moving some of these employees to hourly status and limiting their number of hours worked or by paying the required higher hourly rates of pay to employees for overtime work. Careful management is required here. Resetting salaries will likely require many owners and operators to evaluate their business models and budgeting processes. Regardless of the approach, owners and operators should strive for an evaluation process that can be repeated every three years rather than having to start from scratch every three years when the standard salary level is automatically adjusted.

Any changes in compensation structure or policies should be communicated formally and in writing. Affected employees should sign off on their respective salary changes, and your Employee Handbook should be updated accordingly. An experienced attorney or human resources professional who



Paul R. Bedard, Esquire

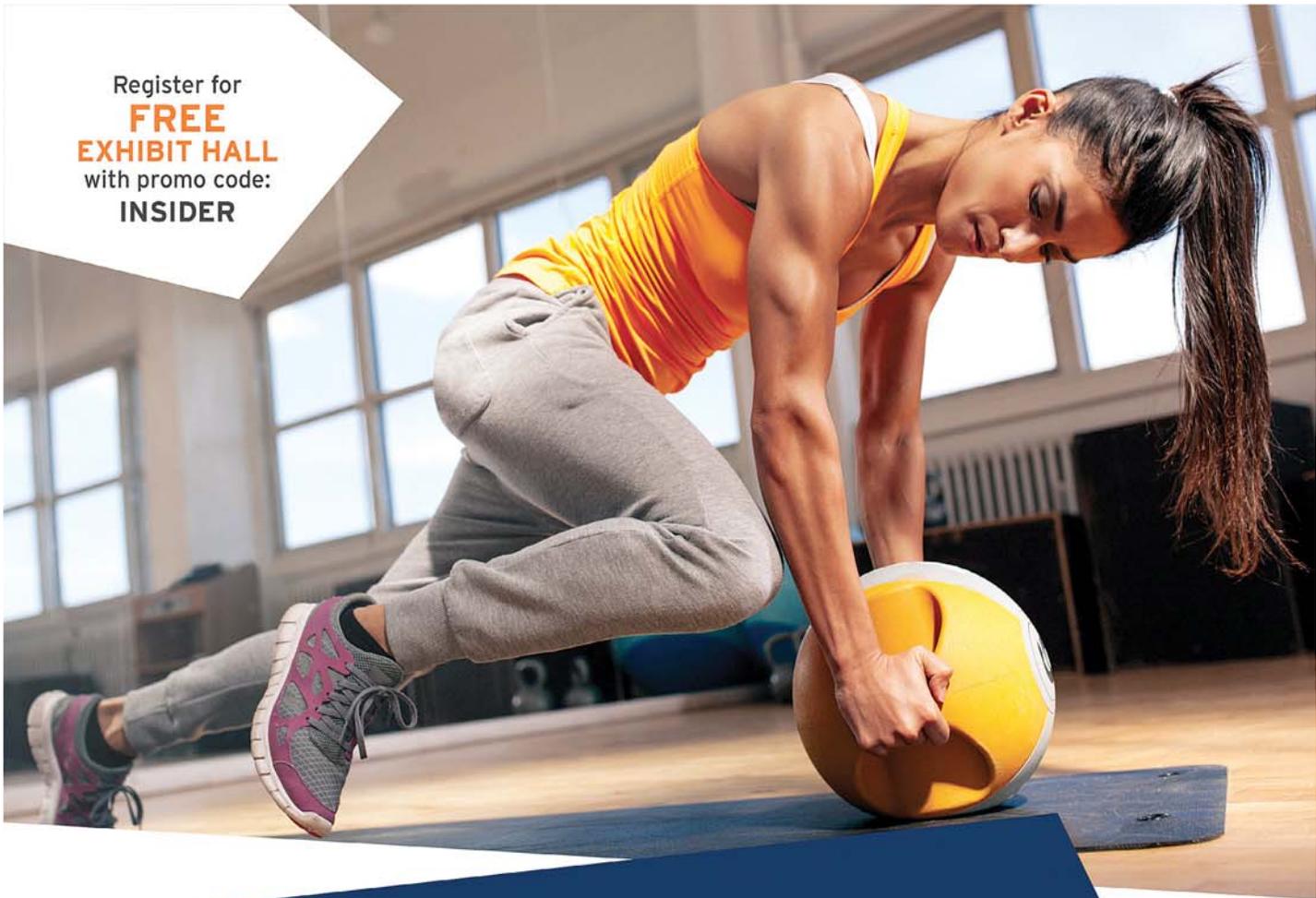
understands your local wage and hour laws should also be retained for guidance and input.

Failing to understand wage and hour requirements can result in severe legal consequences. When claiming an exemption for your employees, ensure that the minimum salary is met and that exempt employees have the duties required for their specific exemption. Consult with an experienced attorney or human resources professional and utilize the many online tools, such as Fact Sheets, that the DOL provides. Develop a process that can be easily revisited when automatic standard salary adjustments take effect. These practices will help ensure that your business remains compliant with some of the most significant changes in wage and hour laws that we've seen in years.

(Paul Bedard, Esquire, has nearly twenty years of experience in the health and fitness industry. As a practicing attorney, Paul's health and fitness industry operations experience provides him with a unique perspective when advising on or litigating matters involving health club contracts, policies, disputes or injuries. Paul strives to be active in his local community and has served on the Southington Zoning Board of Appeals and the Board of the Central Connecticut Regional Planning Agency. He also volunteers his time and fundraises for various local charities. Paul can be reached at pbedard@smddlaw.com)

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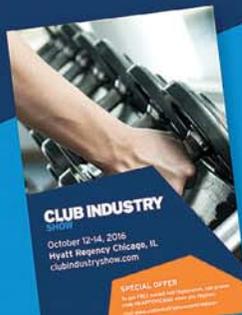
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Programming For The “Fun of It!”

7 Steps to Becoming a Programming Professional - Series Wrap Up

By: Laurie Cingle, M.Ed.

A programming professional is an expert at the skills required to implement and fill programs. There are seven steps or skills to becoming a programming professional that have been discussed in detail in a series of articles published monthly between January 2016 and August 2016. They are archived and accessible on the CLUB INSIDER website (www.clubinsideronline.com/archives).

For your reference, the list of articles below provides the article title in quotes, the month and year it was published and a description of the content. I hope the information provides you with ideas for filling your programs:

• **7 Steps to Becoming a Programming Professional, January 2016** - A comprehensive overview of the 7 steps or skills necessary for creating successful program sales and becoming a Programming Professional in a fitness center.

• **Find Program Prospects - Step 1 of 7 to Becoming a Programming Professional, February 2016** - Four strategies to creating an Active Candidate list of people to target to talk with about the program are outlined.

• **Inviting Program Prospects To Learn About Your Program - Step 2 of 7 to Becoming a Programming Professional, March 2016** - Two ways to properly invite identified prospects to find out more about your program are suggested.

• **Present the Program to Prospects - Step 3 of 7 to Becoming a Programming Professional, April 2016** - Key information about the true role a programming professional plays when planning and delivering live presentations to prospects to educate them on the program is provided.

• **Follow Up with Program Prospects - Step 4 of 7 to Becoming a Programming Professional, May 2016** - The primary reason for following up with prospects after the live presentation is detailed, including what to do

and what to say during the follow up step.

• **Enrolling Program Prospects in Programs - Step 5 of 7 to Becoming a Programming Professional, June 2016** - The consequence of applying Steps 1 through 4 is program enrollment. Learn how to help your prospect make a decision that will positively affect them.

• **Ensure Participant Success in Programs - Step 6 of 7 to Becoming a Programming Professional, July 2016** - How to set up a “Game Plan” interview with each participant at the program’s outset to validate their enrollment decision, set realistic expectations and create a checklist of items for them to commit to is described.

• **Grow Programs by Promoting Events and Additional Programs - Step 7 of 7 to Becoming a Programming Professional, August 2016** - Insights and encouragement for setting a long-term plan to enroll members who complete one program into subsequent programs are provided.



Laurie Cingle

her friends and that she will share her future with us and our readers.

(Laurie Cingle, M.Ed., is Regional Program Manager at Cleveland Clinic Akron General LifeStyle, a fitness business success coach and club consultant. Her specialties include creating successful club program champions through coaching, developing and operating non-dues revenue profit centers, establishing club market differentiation and designing programs that result in profit and retention. She can be reached at laurie@lauriecingle.com.)

Publisher’s Note: Justin and I want to express our very sincere THANKS and APPRECIATION to Laurie Cingle for her EXCELLENT article contributions to CLUB INSIDER over the past three years. Laurie now joins our long-time and great friend, Sandy Coffman, as a former CLUB INSIDER Contributing Author. But, just like with Sandy, we hope that Laurie will always call us

Thanks and Appreciation

At CLUB INSIDER, we are excited to be near the end of our 23rd Year of this home-based health and fitness club trade newspaper! The thought that this newspaper was founded to serve an industry I truly love, and so that I could become a Mister Mom for my son, Justin, is still intriguing and amazing to us. I wish to extend our most sincere Thanks and Appreciation to everyone that’s made this amazing 23-year run possible.

A very sincere Thanks and Appreciation go to Rick Caro, Dr. Gerry Faust and the Faust Executive Roundtable #1 for helping me decide in 1993 what my home-based business would be. Thanks and Appreciation to my long-time friends, Ron Hudspeth and Cathy Miller of Atlanta’s Hudspeth Report for the tremendous assistance they provided us during our first eight years of publication. Thanks and Appreciation to all of the folks at Walton Press in Monroe, Georgia. They’ve done an absolutely excellent job for us all these years and have printed every one of our 273 monthly editions! Thanks and Appreciation to all of our READERS. Sincere Thanks and Appreciation to our CLUB INSIDER Advertisers, past and present, for their kind and dedicated support of this publication. It’s amazing to know that we have several advertisers with over 15 years of continuous advertising with us. Plus, we have one advertiser, National Gym Supply, with over 23 years advertising with us! We also want to say sincere Thanks and Appreciation to all of our CLUB INSIDER Contributing Authors, past and present, who’ve contributed hundreds and hundreds of excellent articles to help our readers with their Best Business Practices. Thanks and Appreciation to IHRSA for all it does.

Sincere Thanks and Appreciation to my son, Justin, who started working part-time for CLUB INSIDER when he was just 8 years old (helping with mailings). This young man, pretty much behind the scenes for 23 years now, has truly been a fantastic partner for his Dad in CLUB INSIDER. Justin does our editing, publication layouts, all of our website design and maintenance, all of our bookkeeping and subscription processing work, as well as archive management and anything else that needs doing, including writing eight cover stories per year.

Last, but surely not least, this writer who refused to fear failure when many told him he didn’t have a chance of surviving the publishing business for even a year did survive. He would like to give sincere Thanks and Appreciation to the power that made that survival happen: God.

Very sincerely, with love in my heart for you all,

Norm Cates, Jr.

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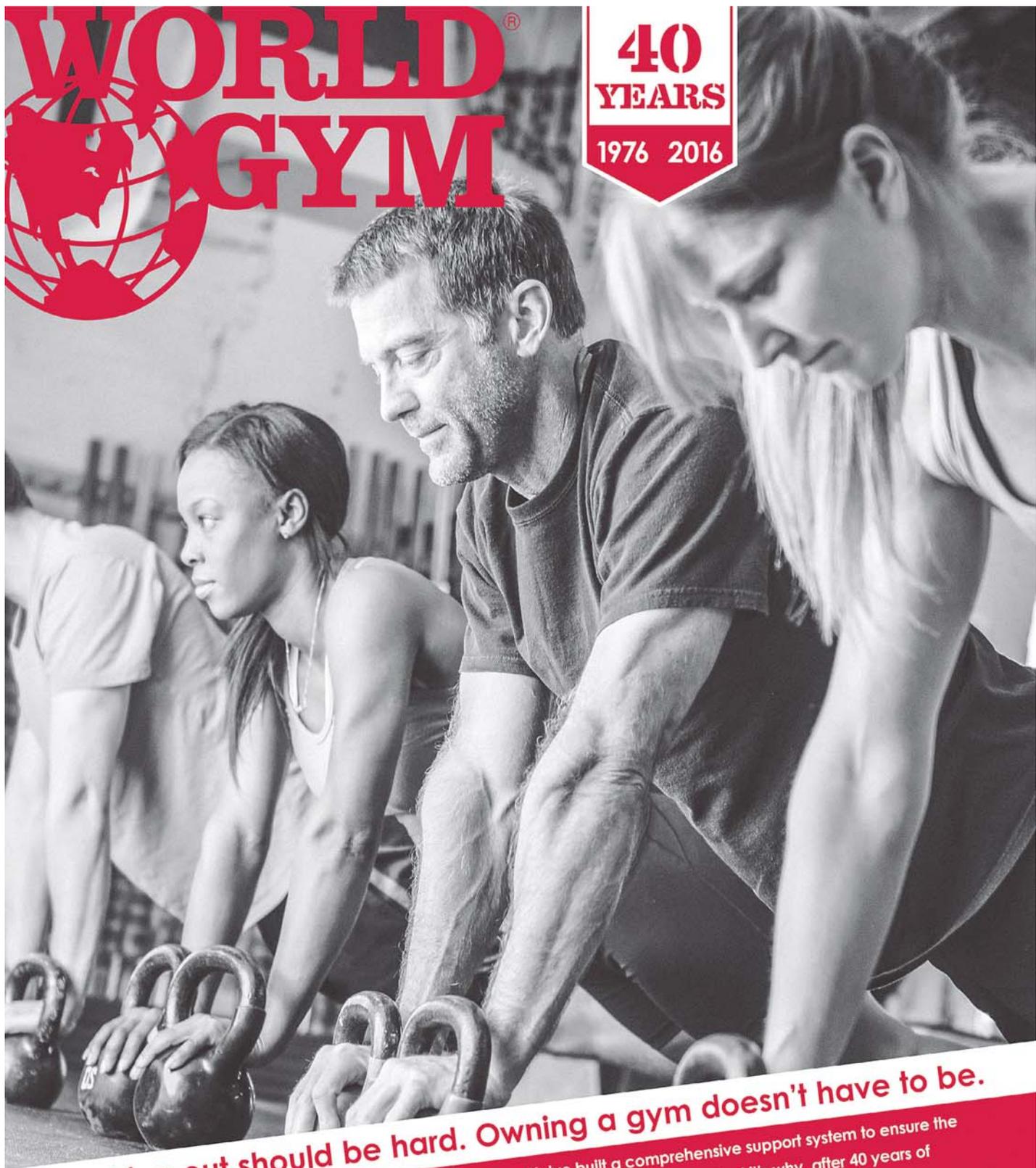
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