

An Analysis for Evolutions Fitness & Wellness

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This report is the result of an analysis conducted by Fitness Management & Consulting on behalf of Evolutions Fitness & Wellness. The report addresses the areas of concern requested by the club.

The intention here is not to criticize the current management or staff of Evolutions Fitness & Wellness but rather to objectively report our findings after analysis.

Video links included are unlisted and are only made available in this presentation.

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Fundamental facts about the gym business:

What kind of business is it?

The U.S. gym business has a unique combination of distinctive characteristics. Among them are the following:

It is a **retail business**. Almost all gym business is conducted on a walk-in basis. As such, all the rules of retail apply. Location, visibility, accessibility, and appearance are critical success factors.

It is a **hospitality** business. Typically, when people come to a gym, they spend as much time as they would in a restaurant. Therefore, the friendliness, warmth, energy, helpfulness, and efficiency of the staff are vital.

It is a **convenience** business. Because frequency is crucial to the benefits of regular exercise, gyms need to be convenient. This means that they need to be as close as possible to where people work or live.

It is a **health promotion** business. Exaggerated though this may sound, there is no medicine known to man that has the protective power of regular exercise. Regular exercise reduces the risk of premature death from all causes. It lowers the risk of heart disease, type 2 diabetes, hypertension, and some forms of cancer. It relieves depression, anxiety, stress, insomnia, etc. It lowers the resting heart rate, reduces cholesterol, increases metabolic efficiency, and is essential for weight loss and weight management. Further, for almost all chronic illness, regular exercise is a recommended therapy. Conversely, a sedentary lifestyle substantially increases the risks of all the aforementioned health conditions.

It is a **weight management** business. For millions of Americans, regular exercise is a central strategy for weight management and weight loss.

For millions of young Americans, their gym is an integral part of their desire to **look as good; feel as good** as they possibly can. For young American men and women, being lean, being firm, and being strong are important and their gym is where they work on these goals. Plus, their gym is where they work on these goals. Plus, their gym becomes an obvious meeting ground for like-minded young men and young women.

It is an **entertainment** business. Because exercise, left to itself, can be boring, gyms do as much as they can to make the exercise experience as interesting and entertaining as possible.

From an economic perspective, the gym club business is a business with favorable **unit economics**.

It is also a business with high **operating leverage**.

It is a **fixed cost** business. Almost all of the expenses incurred in operating a club are either fixed or semi-fixed. As such, once clubs cover their fixed costs, 75% or more of every dollar they receive goes straight to the bottom line.

It is a business with **low barriers to entry**. It is still possible to open a small (5,000 sq.ft. or less) health club with less than \$200,000.

It is a **dues-based** business. Most people pay for a gym membership on the basis of fixed monthly dues that are adjusted upwards on an annual basis. Currently, 85% to 90% of most clubs' revenues come from these dues.

It is a **high-turnover** business. 30% to 50% of the members at most health clubs let their membership lapse every year. There are two basic reasons for this: first, many members let their membership lapse either because the location of their workplace or their home has changed; and, second, many other discontinue their membership because of the inherent difficulty of developing a habit of regular exercise.

A large percentage of people who allow their memberships to lapse, either rejoin the same club or join another club within a short period. Over the past several years, 54% of all "new" club members had previously been club members at the same or another club.

It is a **sales-driven** business. Because clubs experience high membership turnover, and because clubs become profitable only after they reach a break-even number of memberships, gyms need to stay focused on membership sales at all times. Clubs that continually work to perfect the quality and skills of their sales personnel are among the most successful and profitable clubs in the country.

P&L review with KPI's Budget and Business Plan

Evaluation of Current System

The club has done a good job of streamlining the budget. In addition to growing sales, which will be covered in another section, the things to consider would be the growth and participation of group exercise, front desk and nursery..

Scenarios for Improvement

The primary focus on the budget should be a system that allows the participating department head to think like the GM or owner. For example, when designing the various department budgets, the department could receive a bonus opportunity for coming in under budget. For example, if they come in \$500 under budget, they would receive a \$250 bonus. The club wins and the employee wins.

One of the key philosophy's in running a club...is to take as much off the back of the manager as possible to allow them to focus on driving foot traffic and increasing sales.

The use of interns to help with marketing and in the nursery would help reduce fixed overhead each month.

Attachments; Sample Gym Budget Template

[Click here](#) for an overview of P&L's and KPI

Sales Process and Sales Staff Sales Training, Sales Systems

Evaluation of Current System

While there is an awareness that the club wants and needs to produce new sales, there is no definable system in place to accomplish this goal. The current sales format is based on selling features and prices, which only invites comparison. There is more focus on educating the customer than selling the customer.

This is an area where the club could expect to see significant improvement.

Scenarios for Improvement

The club is in need of a proven system of selling. The club needs a system of sales accountability. The club and staff need regular and consistent sales and systems training.

The best format is "Super Objective" selling which focuses more on the needs and desires of the customer as opposed to simply pointing out the equipment in the club.

Attachments: Telephone Inquiry Script, Price Presentation, Friends Helping Friends

[Click here](#) for an overview of sales process, sales staff, sales trainer and sales system

Membership Pricing

Evaluation of Current System

This strongly relates to selling and sales training. When we sell features and price the ability to sell long term programs will be difficult. When we are focused on solving problems and providing solutions for people and when value exceeds price, people will buy longer term programs.

Scenarios for Improvement

Here is some national data based on member behavior:

1. Members that purchase a month to month membership will stay for an average of 6 months.
2. Members that purchase a 12 month agreement will stay for an average of 15 months.
3. Members that purchase a 24 month agreement will stay for an average of 27 months.

However, we must be able to “sell” down the road and focus on solving problems for the customers.

[Click here](#) for an overview on membership pricing

Retention Programs and Member Attrition

Evaluation of Current System

The club does not currently track member attrition as a percentage. However, the club does track the net gain /loss each month. Nationally clubs will range between 36% - 50% attrition, which means they are losing nearly half their member each year, so it underscores the importance of a good member retention program, customer monetization, member experience and new membership sales.

Scenarios for Improvement

The first step is to begin a new member retention campaign. We suggest a format whereby you get your new members to attend the club in some fashion 20 times the first 60 days.

Second would be to monitor closely your daily workouts, you want it to be 25% of your total member base.

Revenue growth at clubs that invested 8% or more is 34% higher than clubs that reinvested less than 8%. The following is a generally accepted reinvestment model that approximates the following:

- Every year, reinvest approximately 4 – 5% of sales
- Every 3 – 4 years, reinvest approximately 15% of sales
- Every 6 – 7 years, reinvest approximately 25% - 30% of sales

Attachments: Club Enhancement Letter

[Click here](#) for an overview of Retention Programs and Member Attrition

The metrics that have the closest statistical relationship to retention include:

- Member usage. Research shows a closely related relationship between frequency of usage and membership retention. The more frequently that members use the club, the more likely they are to remain members. The less frequently that members use the club, the more likely they are to resign.

- Early stage usage. Research shows that frequency of usage during the first 90 to 120 days of membership is closely correlated with retention, both during the first few months and after more than one year.
- Member satisfaction. Data shows that the higher a club's "net promoter score" (percentage of members who rate you as a five on a five-point scale, minus those who rate you a one, two or three) the better a club's membership retention levels are.
- Additional services revenue per member. The more money a member spends in a club, especially during the first 90 to 120 days of membership, the more likely they are to remain a member.

The following metrics are valuable since they can be easily measured, are easily communicated and are easy to grasp. They also can be influenced by the entire staff once they know your targets.

- Percentage of membership using the club daily. Management should understand that a percentage of the total membership visits the club daily. The higher the percentage of daily visits, the more engaged the membership is. A good number to shoot for is above 25 percent.
- Percentage of members using additional services. The higher this percentage is, the more engaged the membership is. Although the percentages partially depend on your club's business model, achieving greater than 20 percent penetration will positively affect retention.
- Average additional services spent per visit. This number, especially if measured daily, can help management and staff zoom in on new approaches to generating spending and improving retention.
- Percentage of members who use the club less than four times per month and more than eight times per month. These two variables have the most reliable relationship to retention. If you can decrease the percentage of members who use the club less than four times per month and increase the percentage of members who use the club at least eight times per month, you will positively influence retention over the long haul.

The following are some informational metrics that you can act upon immediately once you know the numbers:

- Current members who use the club less than four times per month. Contact these members and identify strategies and actions to get them more involved.
- New members from the past month who have used the club less than four times. Implement strategies for helping them connect more effectively with the club.
- New and existing members who have used the club at least eight times in the last month. Knowing who these members are, allows you to recognize and reward them.
- New members who have not spent money in the club in the last 90 days. If you learn the names of these members, you can focus on getting them engaged in club services.

**Advertising, Marketing and Promotion including web site
Marketing to an uncontested market
SEO and Content marketing**

Evaluation of Current System

The current system is not likely to accomplish the goals of club growth. The staff is more reactive than proactive when it comes to marketing, promotion and prospecting.

Scenarios for Improvement

The most cost-effective method of advertising for single club operators are: direct mail, member referral campaigns, web traffic through proper pay per click marketing, click funnels, email programs, corporate offering, press releases and community involvement. These programs allow you to market to your customers in your target area without wasting the dollars by going outside your trade area.

Each month the club should run a membership "special" that has a strong call to action, such as "must respond with 48 hours." This will help with telephone response, email and walk in traffic. It will also aid the salesperson in making more sales on the first visit.

The "sales staff" should be held accountable for daily prospecting activities that are laid out by the GM.

It is important not to resort to trial and error attempts on marketing and outside promotion and advertising. It is important to follow programs that have a proven track record of success.

Attachments: Prospecting, Business of the Week, Month-end Fitness Party, Closeout Procedures

[Click here](#) for an overview of Marketing, Advertising and Promotion

Recruiting and Retaining Personnel Payroll and Commission Structure

Evaluation of Current System

There needs to be a constant recruiting effort underway, not much different than the constant recruiting for new members. This not only will keep current staff on their toes, but will keep the club from being “held hostage” by any staffer who begin to feel they are irreplaceable.

The biggest reason clubs keep underperforming employees is because they don't have a ready replacement and as result the club ends up sending a message to everyone about lower expectations.

Scenarios for Improvement

The two primary jobs of any club are to produce the numbers and to produce the people (staff).

It is important for the club to have a specific plan of action for recruiting. This POA should be implemented each month. The idea is to never find yourself short staffed. In addition, you always want to be replacing the weak producers.

Attachments: Recruiting Flyer, Recruiting Letter

[Click here](#) for an overview of recruiting, staffing and training

Accountability And Implementation

Evaluation of Current System

Clear lines of responsibility and accountability need to be established. While everyone appears to have a general understanding of what should be happening, there is no apparent system in place to create the accountability.

Scenarios for Improvement

All department heads should be required to complete weekly reports based on department criteria and decisions are made based on this information.

“Sales staff” should be aware on a daily, weekly and monthly basis of where they are regarding sales and sales performance. Appointments, show percentage, point of sale referrals, closing percentage, etc.

There should be an evaluation of each missed sale to better understand why the sale was missed and what can be done next time.

“Sales people” should make daily call in to report production numbers. Simply put, they must be made to feel accountable for their individual and club sales production.

Attachments: Top 10 Rules for Successful Club Management, A Plan of Action, Tour Log, Daily Productivity Report

Front Desk

Evaluation of Current System

The days of membership dues being able to underwrite each department have largely faded. As such, the front desk must stand on its own and produce enough revenue to cover the cost to run the front desk.

Scenarios for Improvement

The department should be set up on its own P&L with quota expectations for revenue and cost control. Regular sales training is a must.

Such things as selling advertising, punch cards, gift certificates, collecting past dues, retail supplements are all examples of front desk revenue production,

Group Exercise

Evaluation of Current System

In the past history of the gym business, the membership fees could underwrite programs like group exercise, but that's no longer the case. The group exercise program must be able to generate enough revenue to at least cover its cost.

Scenarios for Improvement

It is suggested that group exercise be run on its own P&L so to speak. The department is expected to bring in enough revenue to offset expense. Any profit in the department would be split with the group x director.

Such specialty programs and Women on Weights, Survival of the Fittest, special community events, etc. are proven methods to bringing in the required additional revenue.

Personal Training

Evaluation of Current System

The idea of rent paying trainers is a good one and great way to bring in revenue and to help simplify operations. It should be expanded to include a head trainer and recruiting quotas to help grow the department.

Scenarios for Improvement

Rent paying trainers combined with exchange trainers will provide the ideal complement of growing revenues and potentially lowering payroll costs. A head trainer needs to be established to in charge of policies and recruiting to include quotas.

Exchange trainers (rent for time) should be added to handle new member orientation and the like. In addition, this will help improve member service as well as provide a funnel for new rent paying trainers.

Attachments: Personal Training

[Click here](#) for a review of personal training

Nursery

Evaluation of Current System

Much like other departments, the childcare must produce enough revenue on its own to cover cost. The nursery needs to be a profit center and produce revenue or you will need to come up with creative ways to reduce the cost (such as interns, etc.)

Scenarios for Improvement

Local programs with the police department such as KidSafe would be a good place to start for generating revenue. Treating the childcare much like a pre-school program with picture day, Easter Egg hunts, pictures with Santa, special projects are all good ways to increase revenue. The department will need a quota and regular training on how to market, promote and sell their program.

The effective use of interns and bartering for club memberships with others that do babysitting can significantly reduce the operating expense of the nursery.

Website

Evaluation of Current System

The current website is a great source of information for prospects and members. In a sense, the website is a really nice online brochure.

Scenarios for Improvement

We suggest the club conduct a redesign of the web site to make it more of a lead generator rather than an online brochure. Having the proper web design person is critical. You will need a submit information section on each page with 3 call to actions and testimonials. Since nearly half of all web sites that are viewed are done on mobile devices, it's crucial that your web site be mobile friendly.

[Click here](#) for a website review

Recommendation and Proposal

Management and gym development is a long-term process based on exposure and diverse experience. Crash courses are not available for detecting problems or solving them once they have surfaced. Nor is there a “quick fix” to the predicament of building the gym dues base while generating sufficient cash sales. For this reason, the following proposal is offered:

1. Install and assist in implementing a sales system at Evolutions Fitness and Wellness
2. Assist in the development of systems accountability
3. Assist in the development of sales operational structure
4. Act as resource center and sounding board for other necessary changes (as they occur)
5. Assist in sales management training (act as mentor)
6. Assist and help coordinate monthly marketing schedule for Evolutions Fitness and Wellness.
7. Includes scheduled teleconferencing session, unlimited email and the occasional 5-minute power call.

Fee Structure:

If it is agreed that consulting/training services would be beneficial, this is a month to month agreement (with 30 day written notice to quit) and the fee is \$599 per month and includes three (3) one-hour teleconferencing sessions per month along with the

occasional power call (5 minutes) and needed and unlimited email. Payment may be made here: www.paypal.me/fitmanagement/599.00

Note: This may be paid in advance for 6 months and receive an additional 20% discount. Total for the 6 month period is \$2,875.20. Payment may be made here: www.paypal.me/fitmanagement/2875.20

This may be paid in advance for 12 months and receive an additional 30% off. The total for the 12 month period is \$5,031.60. Payment may be made here: www.paypal.me/fitmanagement/5031.60

All fees are paid in advance.

I am aware of the urgency of the project and am prepared to begin immediately.

So that we can get started on a timely basis, please click on your preferred program in the above links and we can get started immediately.

All programs are subject to availability.