

THE WEIGHT ROOM

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THE WEIGHT ROOM

Introduction

Joe Fitzgerald sat in the office of The Weight Room, drinking his first cup of morning coffee. It was 5:00 AM and Fitzgerald had just opened the doors of his business. Normally, Joe would be busy readying the daily deposit and looking over his planner for the day's schedule of events, but this morning was different. Joe had an appointment this morning with his banker. Joe was staring out of the office window, trying to decide what he would tell her. Fitzgerald was at a crossroads with his business. He knew that the course of action that he took now would impact The Weight Room in both the short and the long-term. This decision was weighing on his mind.

The Weight Room was a small, privately owned health club that catered primarily to young male bodybuilders. The club was located in a small town in Northern California with a population of approximately 55,000. Rex Hudler, who sold the business to Joe Fitzgerald, started The Weight Room in 1980. Joe Fitzgerald bought The Weight Room in 1984 with an initial investment of \$15,000. Joe then made an additional investment of \$20,000 to make improvements to the existing facility and to upgrade the weight-lifting equipment.

As of the end of 1995, the facility's 16th year of operation, membership in the club had reached an all-time high of 1,771 members. The Weight Room was also profitable, enjoying a 1995 net income of \$87,000 on revenues of \$319,000. Growth had been rapid. Total revenues had grown at better than 16% per year for each of the past three years. Memberships and renewals had also been increasing by 16% per year.

However, as a result of the club's rapid growth, the facilities of The Weight Room were under an increasing level of stress. The physical facilities themselves were showing increasing signs of wear and breakdown, and customer complaints about the facilities and equipment were

increasing. The Weight Room was also rapidly running out of enough floor space to accommodate the activities of the club. If membership continued to grow as it had, the club would exceed maximum occupancy within two fiscal years.

History of The Weight Room

The Weight Room first opened its doors in the spring of 1980. At that time, the facility was owned and operated by Rex Hudler. It was questionable at the beginning whether or not the business would survive at all. In those early years, Hudler focused most of his attention on his job as a local firefighter. The Weight Room suffered as a result of Hudler's split attention, and the business was not profitable during its first years of operation.

During the early 1980's, the health club industry in the United States was also experiencing slow growth. Fitness and nutrition had not yet captured the national consciousness. Individuals who exercised regularly in health clubs were considered to be different or unusual. The majority of health club members at this time were only interested in weightlifting and bodybuilding. Hudler, as a result, concentrated his efforts at The Weight Room on bringing in the "hard-core" bodybuilder. One of Hudler's first customers in those early days was Joe Fitzgerald.

Joe Fitzgerald was born in 1958. He was raised in the mountains of Portugal until the age of 14, when Joe and his family moved to the United States. Joe's father began a dairy business shortly after coming to the United States, and Joe helped out on the farm as soon as he was able. Joe began working full-time for his father at the age of 17. Watching his father work long hours helped to instill a strong work ethic in Joe.

At the age of 22, Joe had a knee injury. Following reconstructive knee surgery, Joe began a long and painful rehabilitation that included weight training. Joe quickly discovered that he enjoyed lifting weights. He began to concentrate his efforts on muscle tone and mass, and very soon Joe was seeing a big payoff from his time at the gym. He began to spend a large part of each day at The Weight Room. Joe explains how he got interested in buying The Weight Room:

I blew out my knee lifting hay bails for my father. After surgery I was put through a physical therapy program to build up the muscles around the knee in hopes of stabilizing the surrounding area. At the time I was not working, so my days consisted mainly of rehabilitating my knee. My body responded quickly, and I liked the feeling I got from lifting weights. I began to think that lifting weights was something I would like to do. After my knee began to heal I sought out a local gym to pursue my new activity. After a while, I was spending five hours a day in that gym, so I finally decided I might as well buy the damn thing.

Rex Hudler, the owner at the time, took Joe under his wing and taught him about the benefits of weightlifting. Joe's knee healed quickly, and in addition, he became a serious weight lifter. Joe and Rex Hudler also became friends. Joe says, "Hudler became like a second father to me." Eventually, Joe began to think about running his own health club. Hudler, who was still losing money running The Weight Room, thought that it was impossible to make a decent living by running a gym. Hudler talked to Joe about his own experience and tried to discourage Joe. Joe simply would not let go of the idea and finally convinced Hudler to sell him The Weight Room in 1984.

When Fitzgerald took over ownership of the club, serious bodybuilders made up the majority of the membership base. At the same time, Health Clubs and similar facilities had begun to catch on with the general public. Heightened awareness regarding fitness and nutrition began to increase the popular demand for exercise and fitness facilities. Fitzgerald quickly recognized this trend and began to make plans to capitalize on it. He also began to observe from

his own customer base that the serious bodybuilding segment of the market would not grow fast enough to justify catering to their needs alone.

Fitzgerald decided to reposition The Weight Room as a complete fitness facility, rather than simply a bodybuilding gym. It was not a trivial undertaking. The transformation would require a complete overhaul of the facility, from equipment lines to the atmosphere and ambiance. Fitzgerald explained why he repositioned the business:

When I took over this business I was surrounded by bodybuilders. I could deal with that, since I felt that I too belonged to that cult. The problem was that we only had about 150 total members and I knew I could not live off the revenue that they alone produced. I looked back to why I first started lifting weights, and realized that this was something anyone could do to improve their health. Bodybuilders were typically loud, obnoxious, rude, and scared off individuals that just wanted to lift to realize the health benefits associated with it. In many ways bodybuilders are bad for business. I decided to stop catering to their needs and start bringing in real customers.

Fitzgerald spent nearly \$20,000 on new equipment and modifications to the facility after his initial purchase of The Weight Room. He bought two treadmills and a full line of Nautilus exercise equipment to cater to individuals who were not interested in the “traditional” free weights. He had an aerobics room built on to the back of the club and began offering aerobics classes at various times during the day. He aimed the aerobics classes at women who were interested in cardiovascular fitness, muscle tone and weight loss. Fitzgerald also began an advertising campaign in the local media (newspaper and radio) stressing the point that The Weight Room was for anyone interested in improving their health, as well as announcing the new and improved facilities.

By the end of 1984, overall membership at the facility had tripled to 450. The Weight Room also recognized a net income in 1984 of \$9,000, a first for the facility. Over the next four

years, the club fluctuated between 500 and 700 members. Then in 1989, as the health club industry caught on nationwide, The Weight Room's membership soared to almost 1,000. The large expansion in club membership outgrew the original location, and Fitzgerald relocated the facility to a nearby shopping center. The shopping center location was ideally suited for the facility. It was near the town's busiest intersection, already had established businesses surrounding it, and had ample parking for the expanded customer base.

From 1990 to 1995, following the relocation of the facility, membership continued to grow until it reached its current peak in 1995 of 1,771. Net income in 1995 for the club was \$87,000. The Weight Room recognized an average 16% increase in membership in both 1994 and 1995. As a result, The Weight Room is quickly reaching maximum occupancy. Fitzgerald estimates that the existing facility can only accommodate 2,200 total members.

Therefore, if club membership continued to grow at its present rate of 16%, the club would exceed maximum occupancy within two fiscal years. However, the aerobics area had already reached overcapacity, and simply could not accommodate any more traffic. In addition, customer complaints regarding the facility had increased sharply, due to deferred maintenance and increased wear and tear. Fitzgerald had recently signed a new five-year lease, with an exit clause, with the owner of the shopping center where The Weight Room was located.

Weight Room Services

The Weight Room offered a broad line of health and fitness services. The club had the largest weight room, at seven thousand square feet, in the immediate area. Free weights and dumbbells up to 120 lbs dominate the weight room. The large weight room had helped to build a loyal customer base among the hardcore weightlifters in the area. The club also carried a complete line of Icarian brand exercise equipment, as well as numerous exercise machines produced by Nautilus. Females and club members over the age of 55 tend to prefer exercise with the Icarian and Nautilus equipment. The free weights were generally more popular with males under the age of 40.

Other services include aerobic classes, steam saunas, personal trainers and childcare. The aerobic classes were taught by certified instructors, and were especially popular with female club members. The club offered a steam sauna in both the male and female locker rooms, and these were popular with their older clientele. The Weight Room also had two personal trainers on staff to assist members with their exercise programs. The personal trainers were heavily involved in recruiting new members. The club had recently begun offering free childcare to members when they use the facility.

Customer Demographics

The Weight Room membership was 60% male and 40% female. This was unusual for a health club. The other two clubs in town were in fact the opposite: between 60% and 70% females, with males representing 30% to 40% of their membership rosters. The Weight Room membership had consistently remained 60% male over the last five years. The average age of Weight Room members was also consistently lower than other health clubs. Twenty-five to

thirty-five year olds made up slightly more than 60% of the total membership base. Fitzgerald believed this group was composed mainly of young male bodybuilders.

According to Fitzgerald, the average yearly salary of an individual member of the club was \$22,000 per year. Fully 25% of his customers had an average salary of less than \$20,000 per year. The largest income group, 45%, made between \$20,000 and \$35,000 per year. The final 30% made \$35,000 or more. Fitzgerald had been actively targeting the lower income bracket and senior citizens with his membership campaigns.

Facility Location

The Weight Room was located on the north side of town in a small, but busy, shopping center. The size of their current space in the shopping center was 11,000 square feet. The shopping center was two blocks from the intersection of the town's two busiest streets. The surrounding three square mile radius, from which the club drew more than 80 percent of its total membership base, was also the most densely populated area in town. The nearest competitor, the Racquetball Club, was located one block north of The Weight Room. The club was also located two city blocks from the State University, although student membership had not currently proven to be a significant source of revenue for the club.

Adjacent stores in the shopping center helped draw attention to the club. Stores such as The Warehouse, a music store, generated foot traffic that positively impacted The Weight Room. Joe Fitzgerald said regarding this:

Many times customers will come in and view the gym after making a stop at another store. They really did not have any intention of visiting the club, but if it's right next-door then they will walk the extra twenty feet. If I can get them to come

in and start talking, then chances are that I can get them to sign their name on the dotted line. Being located next to a high traffic store like The Warehouse has really helped sales.

Fitzgerald recently signed a new five-year lease with the owner of the shopping center where The Weight Room was located. At the time of signing, he negotiated several provisions in the lease that would allow him some latitude regarding the future of The Weight Room. “I’m uncertain if the recent growth my club has experienced will continue,” says Fitzgerald, “but I want to keep my options open. Right now I’m undecided as to a course of action.” However, because of increasing customer complaints, Fitzgerald said that it was time to do something. This might involve staying at the current location, expanding the existing facility, or seeking to relocate.

Regardless of the direction Fitzgerald chose for the company, sole control over the operations at the club was his primary concern. He was unwilling to relinquish any amount of control of the day-to-day operations. It was hard for him to give power to subordinates to the extent that he already had. Bringing in a third party and giving them decision-making power was unacceptable to Fitzgerald. Fitzgerald said that he could pursue any alternative being considered, whether status quo, expansion, or relocation, without having to relinquish any amount of control over the club.

Status Quo. One option was the status quo. Fitzgerald thought that the club could survive without making a radical change. “If I makes just enough changes to keep the customers happy, they will probably stay with me,” said Fitzgerald. He thought that if he made some cosmetic changes, such as fixing the saunas and bringing in a few new pieces of equipment, that customers might be satisfied. He also estimated that the club could handle up to 600 more members, and that this increase would not be realized for at least two years, if ever.

Over the past few years the club's profitability had enabled Fitzgerald to provide a comfortable lifestyle for his family. Thus, he was reluctant to undergo any type of capital-intensive effort that would cut into the profitability of the club. He was concerned that any risk he took could end up costing him his livelihood.

Expansion. As part of his lease agreement, Fitzgerald was given the option to expand the existing facility within the shopping center. The two office spaces adjacent to the club were both currently empty, and each space consisted of 1,600 additional square feet. The expansion would give the club a potential maximum occupancy of 3,500 members. It would also give the club the room to carry enhanced equipment lines and offer an increased amount of cardiovascular machines.

An expansion would allow Fitzgerald to address most of the recent customer complaints regarding the current facilities. He would be able to expand the aerobic room to accommodate current and new members. Expansion would also give the club enough room to carry additional equipment lines. Fitzgerald's expansion also involved creating a designated area for cardiovascular equipment, such as treadmills and stair-climbers.

The total projected cost for an expansion of the existing facility was \$57,500. Fitzgerald had not looked into financing arrangements, but had an appointment with his banker later in the day. Fitzgerald was uncertain, but thought that he could secure a loan for the amount required to finance an expansion effort. A breakdown of the projected cost of expansion is shown in *Exhibit One*.

Relocation. Another provision in The Weight Room lease allowed the club to cancel the lease with one-month notice. This would be highly beneficial if the club were to relocate. Relocating to a newer, larger facility would potentially enable the club to offer vastly expanded

services and equipment lines. A relocation move would also probably decrease complaints from the club's existing clientele, and would enable The Weight Room to aggressively increase membership.

Fitzgerald said, "Part of me thinks, if I'm going to do anything at all, I might as well build the biggest and best gym around." However, due to the club's current success, Fitzgerald thought that it was important to keep the club close to its current location. A movie theater across the street from the club was currently for sale. Fitzgerald thought that this would be a good site for relocation. The building itself was 28,000 square feet, which would more than double the floor space of The Weight Room and would allow for the addition of a swimming pool.

Relocation would represent a large, capital-intensive effort on the part of The Weight Room. The proposed building would require intense internal renovation to meet Fitzgerald's exacting specifications. Relocation would also require the acquisition of a great deal of additional equipment and furnishings. Preliminary work had been done to estimate the cost for this relocation option. It was anticipated that relocation to the new facility would cost approximately \$1,224,600. The cost estimate for relocation is broken down in *Exhibit Two*.

Fitzgerald was unclear how he would finance a relocation effort. He was considering creating a partnership to help finance the project. His main objection to such an arrangement, however, was that he wanted to maintain complete control of the club. He had run the club for many years and was adamant that he would not share any of the decision-making responsibilities. He thought that a silent partnership might be a way to pursue this alternative. Also, he was aware that partnering with a large fitness chain might be a possible way to handle an expansion, but Fitzgerald stated that this was completely out of the question.

Facilities and Maintenance

Complaints about the facility and equipment had recently been increasing. While some of the customer concerns had been addressed, Fitzgerald recently began to see patterns to the complaints he had been dealing with. Fitzgerald believed that most of these issues were related to the lack of existing space at the current location.

Equipment. Many of the existing weight machines in the facility had been in service since Fitzgerald originally purchased the health club. These old machines were bulky and took up a lot of space. Fitzgerald originally intended to replace these old machines one at a time, but increased competition in the local market had now made this a top priority. Several current members were upset that Fitzgerald was slow to bring in new weight machines, and one had commented that a nearby competitor had better equipment.

The treadmills and stair climbers were also a problem. They were generally the most popular equipment at the club. Recently, individuals had had to wait up to 20 minutes to use this equipment during peak hours. Fitzgerald planned to purchase new treadmills and stair climbers to alleviate the wait during peak periods, but said he was not sure if the current facilities could accommodate the new equipment that was needed. The total cost for the replacement and new equipment that was needed is estimated at \$24,500.

Saunas. The steam saunas in both the men's and the women's locker rooms were in need of renovation, according to Fitzgerald. The saunas were the most popular item in the club with senior citizens. However, many had complained that the saunas were always broken. Several members had threatened that they would leave the club if this problem was not resolved.

Fitzgerald acknowledged that the saunas had been inoperative for nearly half of the past fiscal year. In addition, the wall tiles in the saunas were cracking and appeared rather shabby.

General Maintenance. Several club members had recently complained that the floors in the aerobic rooms had become too hard to exercise on. Fitzgerald was aware that the rooms needed renovation, including new padding underneath the floors, but was unsure how to address the issue. Even if he refurbished the floors, the aerobic rooms were still not large enough to accommodate the current membership that wanted to participate in the aerobic classes, let alone any new members.

The final issue was the club's overall appearance. The walls were badly in need of a fresh coat of paint. Floorboards in the weight room were cracked, and the weight room carpet was torn in several areas. The tile floors in the locker room, shower area and saunas were all cracked and moldy.

Management and Key Employees

Joe Fitzgerald both owned and operated The Weight Room. He presently employed 14 individuals. At one time the employee turnover rate at the club was high, but the past two years had seen a reversal of this trend. At one time, Joe Fitzgerald spent most of his time at the club. This trend had gradually changed over the past two years as Ryan Burns had taken on an increasing amount of responsibility for running the facility. Fitzgerald was very experienced at personal training with his background as a competitive bodybuilder. As a result, he spent a lot of his time each day helping club members reach their fitness goals. The rest of Fitzgerald's time was spent overseeing the day-to-day operations of the club.

Ryan Burns was Joe's second in command. It was arguable that he actually ran the day-to-day operations of the facility, though Fitzgerald cleared all financial and operating decisions. Burns had been at the club for the past two years. He originally started out working the main desk, but his responsibilities had steadily increased. Burns was currently responsible for inventory control, employee hiring, accounts receivable, and scheduling. He was also a certified personal trainer with six year of experience. Burns also spent a lot of his time working with club members.

The working relationship between Fitzgerald and Ryan Burns had been fragile, according to Burns. Ryan considered Fitzgerald to be a stubborn man who refused to change with the times. "I think he is a control freak," said Ryan. He thought that Fitzgerald constantly challenged decisions that Ryan made, but usually ended up agreeing. Ryan gave an example:

When I first came here we had a basic cash register and hand wrote each receipt. All the monthly billing was done by hand. Keeping track of any trends within the club was nearly impossible. I pushed to automate the system. Joe was very reluctant to spend that kind of money on something that was not a machine for lifting weights. It took me six months of constant prodding before he finally budged. I spent weeks preparing a feasibility study on why we should automate. He took one look at it and threw it in the garbage. He finally budged only after I told him I would leave the business if he did not automate. He is still mad at me for that, but he loves our new computer system. It also makes everyone's job easier.

Steve Johnson and Patty Duke rounded out the management staff of The Weight Room. Johnson was once considered Fitzgerald's right hand man, but that had changed since Ryan was hired. Lately, Johnson's attitude had become a serious problem at the club, according to Ryan. Patty Duke had been employed at the club for the past year and a half. Her principle responsibilities were customer service and accounts receivable. The club also had three women

whose principle responsibilities were childcare. The childcare employees were all certified in CPR, a valuable asset when promoting childcare to women.

A full-time personal trainer had only recently been added. Demand for trainers had increased dramatically over the past six months and it had proved to be too much for Ryan to handle. The trainer, Cheri Allen, was very popular with the female clientele, but was somewhat shunned by the male members. The addition of a second trainer to the staff had not lessened the workload of Ryan, who spent nearly half of his time training club members.

Most of the remaining staff at the club was made up of aerobic instructors. The turnover rate of the aerobic instructors at one point was very high, but that trend had witnessed a reversal over the past year, according to Fitzgerald. The aerobics instructors were of various skill levels and taught classes at their ability levels. The instructors were also generally well liked by club members, according to Ryan. Aerobic classes were well attended were a popular activity at the club.

The club had recently had several complaints, however, about the availability of substitutes to teach canceled aerobics classes. If an instructor was unable to teach a class, Fitzgerald generally canceled the class without any notice. A member at the club explained:

I only come to this club for the aerobics. It seems that more and more aerobic classes are being canceled. Fitzgerald does not make an effort to find substitutes to teach these classes. Other aerobic instructors at the club appear unwilling to take on any one else's workload, even for a day. I understand that emergencies come up that can cause a class to be canceled, but it just seems like this is happening at least once a week and I'm sick of it. It seems to me that Fitzgerald should get a list of available substitutes together to fill in for these "emergencies".

The club's hours were broken down into shifts. Fitzgerald, one baby-sitter, and one personal trainer staffed the morning hours between 5:00 AM to 12:00 PM. This time period was

busy in the early morning, but slowed down dramatically toward mid-morning. The next shift was between 12:00 PM and 4:00 PM. This time period was usually the slowest of the day. Either Patty or Steve staffed it, with no accompanying support. The last shift was between 4:00 PM and 10:00 PM. It was by far the busiest time period at the club. One baby-sitter and Ryan staffed it. These shifts remained the same Monday through Friday. Ryan staffed all the weekend hours of The Weight Room. On Saturday, he worked from 7am to 6pm. On Sunday, he worked from 7am to 1pm.

Advertising

An independent marketing survey conducted for The Weight Room in 1994 recommended targeting certain groups, such as retired and lower-income families. As a result of this survey, Fitzgerald formulated an advertising strategy designed to entice a greater number of individuals from these market segments to join the club. In the hopes of catching the eyes of the retired, Fitzgerald began offering senior citizen discounts. He advertised this in the local paper as well as on the radio, and was planning to begin an advertising campaign on local television as well. The local paper charged \$65 for a one-weekend advertisement. Prices for local television and radio varied depending on the specific times the ads are run.

To target lower income families, Fitzgerald began running various advertising campaigns, again using local newspapers as his primary source of media. On one campaign he dropped initiation fees for a single person from \$93 to \$40. This campaign proved to be very successful as the club brought in an additional 50 members in a one-month span.

In addition, because the marketing survey indicated that the vast majority of new health club members tried out new clubs as a direct result of word of mouth, Fitzgerald concentrated his efforts on promoting a friendly atmosphere at The Weight Room. He began stressing prompt service with all of his employees and encouraged them to spend more time walking around the facility and answering questions that members might have. Fitzgerald said that the advertising campaigns had paid off, though it has unfortunately caused a capacity problem at the facility.

Financial Status of The Weight Room

The Weight Room recognized a total profit in 1995 of \$87,867 on revenues of \$319,000. Total revenues had been growing rapidly. Much of this change could be attributed to new memberships and an increase in relapsed membership renewals. A new nutritional supplement line (primarily used by bodybuilders) was introduced in 1995, and this also contributed handsomely to the bottom line. The club had been increasingly profitable over the past five years.

Revenues for the club were broken down into two main categories. Monthly dues generated by the club membership base, renewal fees, and new membership initiation fees made up the first category. During 1995 revenues generated by the club in these areas amounted to \$271,193. Current projections for fiscal 1996 gave all indications that the club would surpass the previous year's totals. Membership totals for 1995 were up by 300 members over 1994, a sixteen percent annual growth rate. Fitzgerald was convinced this membership growth would continue.

In addition to revenues generated by memberships, the club also had a secondary source of sales. They stocked a full line of supplements, clothing lines, drinks, and also recognized sales

associated with tanning bed fees and one-day walk in memberships. The biggest change over previous year's sales in this area, as mentioned previously, was the addition of a nutritional supplement line. The club began carrying Environmental Applied Sciences supplements that accounted for \$18,000 in sales for 1995. The club also offered a variety of replenishment drinks, such as All Sport and Gatorade. Drink sales accounted for \$12,270 of total gross sales. The Weight Room's financial statements, including a five-year summary, are shown in *Exhibits Three and Four*.

For the past four years, the club had averaged a 16% annual growth rate in total sales dollars generated. This figure was a combination of both sales categories. Prior to this, the club had a poor financial showing in 1992. The poor results for 1992 were directly attributable to a decrease in sales of new memberships, and an increase in depreciation expense due to new equipment purchases.

Expenses incurred by the club had remained relatively stable until 1994, when they began to rise rapidly. Expenses for 1994 also began to increase due to a rise in advertising costs, a jump in employee wages, and the addition of an automated computer system. The automated computer system helped make the billing process easier, and was used to track all revenue and expenses incurred by the club. This system cost The Weight Room approximately twenty thousand dollars. The addition of staff to The Weight Room accounted for the rise in employee wages in 1994. Expenses in 1995 had remained at 1994 levels.

Competition in the Health Club Industry

Local Environment

The Weight Room was located in Northern California. Between 1990 and 1995 the Weight Room's hometown experienced an average 4% rate of growth per year. The majority of the existing population in the town was distributed in the areas North and West of the downtown area, extending in each direction for about 5 miles. New retail and residential developments were concentrated primarily in the Northwest area of the town, and a large portion of the area's future growth was expected to occur in this region. The Weight Room was well located to serve the Northwest area of town. The town itself was prosperous and was the fastest growing town in the county.

Competition

As of early 1996, The Weight Room had two competitors located within city limits: The Racquet Ball Club and Better Fitness. The Racquet Ball Club was located two blocks from The Weight Room. Better Fitness was located on the other side of town, and had been in business for only six months. Each facility attempted to differentiate itself from the other and cater to a different type of clientele. Currently, The Weight Room had a forty percent share of the local health club market, based on sales estimates from Fitzgerald. A comparison of the three clubs is presented in *Exhibit Five*.

The Racquet Ball Club. The Racquet Ball Club, The Weight Room's nearest competitor, attempted to capture the high-end local health club market. The club was located two blocks northwest of The Weight Room, and was also in the most populated, highest traffic area

of town. The Racquet Ball Club featured amenities such as massage therapy, a nail salon, tennis courts, and a lap pool, features usually associated with high-end clubs. Owning a membership in the Racquet Ball Club was considered a status symbol in the local community. Over 60% of the club's clientele had annual salaries that exceed \$35,000. The owner of the club, Mr. Al Belliard, offered this insight:

Over a third of my members have never even set foot in the club. They buy a membership here just to say that they have one. They do not have any real fitness goals per say, they just want to be able to say that they belong to "the" health club for prestige.

The type of weightlifting equipment offered by the Racquet Ball Club was similar in nature to that of The Weight Room. They offered a full line of free weights, treadmills, stair climbers, Icarian machines, and Hammer Strength machines. The Racquet Ball Club had 35,000 square feet of floor space, compared to only 11,000 for The Weight Room. However, despite the size of The Racquet Ball Club, their weight room was only a quarter of the size of The Weight Room. This had become a major selling point for The Weight Room when trying to compete directly with the Racquet Ball Club for the "heavy lifter". The Racquet Ball Club currently had 1,700 members.

Better Fitness. Better Fitness has only been open for six months. Better Fitness was located on the southeast side of town in an old shopping facility. The three square mile area surrounding Better Fitness, which was where clubs normally draw their membership, consisted predominately of individuals 55 years of age and older. Despite this unfavorable demographic in their immediate area, Better Fitness' clientele was largely young females. Currently, of the 800

club members at the facility, over 350 were females under the age of 35. The remaining membership base consisted largely of married couples.

Upon opening, Better Fitness secured the help of an out of state marketing agency. This agency was initially successful at raising the club's membership. However, new memberships at the facility had recently slowed sharply. Hiring the out of state marketing agency also came at a steep price. The marketing agency took twenty-five percent of the total revenue generated by the club for the next eight months. Better Fitness manager Matt Castelli offered this insight:

We knew that The Weight Room and Racquet Ball Club had been in business for quite some time and we knew that taking clients from them would not be easy. Due to this fact, we decided to hire a marketing agency to focus on expanding the market as a whole, not to go head to head with the competition. They began by sending flyers out all over the city, encouraging individuals to consider fitness clubs as a viable means of improving health. As a direct result of this we have members now who had never even thought about working out. Yes, this has ended up costing us a great deal of money. If we are able to survive the next eight months of operation then I believe we will own a secure place in this market.

Better Fitness offered a full line of free weights, Icarian equipment, stairclimbers, and treadmills. The club operated in a 14,000 square foot facility. The price structure of Better Fitness and The Weight Room were similar. Both clubs offered a variety of membership packages with prices ranging between twenty to thirty dollars a month. The club also offered certified trainers to build their members a custom workout program. Better Fitness currently had 800 members.

Potential New Entrants. There were rumors as to the emergence of other facilities within the immediate area. Talk had recently centered around the possibility of a Gold's Gym national franchise being opened in a new shopping center on the West side of town. Mr. Al Belliard, owner of the Racquet Club, had said that Gold's Gym was currently analyzing the

potential profitability of constructing a 30,000 square foot health club at the facility. Fitzgerald thought that the opening of a Gold's Gym could cost the current clubs a considerable portion of their present market share.

A national franchise like Gold's Gym could potentially offer the excellent equipment and better service than the local competitors. Gold's also had access to the financial and marketing resources of a large organization, which could possibly enable them to quickly secure a large market share in the local market. Fitzgerald said that a club of this kind could afford to drop monthly rates below the rates of the local competition, potentially starting a local price war. The addition of a national competitor like Gold's could possibly place an enormous amount of pressure on the existing clubs to maintain their clientele base. All three of the local health club owners were considering this prospect with apprehension.

National Health Club Industry

By 1996, the health club industry had become a booming market that was expected to grow at a rapid rate for at least the next five years. According to the International Health, Racquet and Sports Club Association, the total number of individuals belonging to health clubs in the United States had nearly doubled from 10 million in 1990 to 19.2 million by 1996. The industry as a whole was experiencing growth in every age segment of the market. As of 1996, the health club industry nationwide was growing 5% annually, down from 10% in the previous year.

The rapid growth in the health club industry was largely attributed to changes in the US society as a whole. Two hundred and fifty thousand deaths per year in the United States are

directly caused by a lack of physical activity, according to the International Health, Racquet and Sports Club Association. The health club industry had positioned itself to be perceived by consumers as the normative institutional setting for health promoting activities and programs. This, coupled with increased health awareness on the part of the American public, had led to a dramatic growth in the total membership base.

Of particular importance to the future of the industry was the impact of the aging United States population. Retired and elderly individuals represented a tremendous future market for the health club industry. In 1991, individuals over the age of 55 represented less than 10% of all health club memberships nationwide. However, from 1991 to 1995 this segment of the market had been averaging a 55% growth rate, according to Consumer Reports. Many of these aging individuals were turning to health clubs, based on a doctor's recommendation, as a way to improve their overall health and well being.

Key Success Factors

Several keys to survival in the health club industry had remained constant: a clean facility, polite and knowledgeable employees, and a variety of equipment to offer to members. A spacious, open facility and enough equipment to minimize waiting time were also considered important. However, it had become increasingly important for owners to recognize the requirements and demands of a changing clientele base. For instance, some clubs had attempted to bring in higher income individuals by offering luxuries like massage therapy, swimming pools, whirlpools, free personal training, and manicures. These high-end clubs had a 10 percent market share nationally, according to Consumer Reports.

Differentiation had also become a key to market success. Many new customers had become fascinated with new machines, while experienced lifters still enjoy and require free weights. Females tend to seek out clubs that offer amenities like stairclimbers, treadmills, aerobics, and indoor tracks, according to Muscle and Fitness Magazine. Males preferred machine weights as well as a full line of free weights. Older members within the market tended to look for treadmills, machine weights, and personal trainers to aid them in their health care endeavors. The industry now catered to so many different market segments with such a wide array of needs that health clubs had to offer a wide variety of services and equipment lines in order to be successful.

Future Trends

The possibilities for growth in the industry appeared to be excellent. As of 1996, there were 48,000 health clubs in the United States catering to a total client base of 19.2 million customers, according to the International Health, Racquet and Sports Club Association. Nevertheless, overcrowding in many clubs had become common. This had spurred the creation of “niche” clubs that catered to only one market segment, according to Body Magazine. These clubs had proved to be successful at taking away clientele from established facilities. They offered services like massage therapy, nail and hair salons on premise, and karate classes to help bring in specialized market segments. The future growth of this smaller, “niche” market was uncertain.

New York, Florida, Texas, Washington, and California represented the states where health clubs were growing the fastest. In California, as of 1996, there are 2,300 active clubs, according to the International Health, Racquet and Sports Club Association. This represented

4.7% of the total number of health clubs in the entire United States. California had recently experienced a moderate drop-off in total membership growth rate. It was expected, however, that this was only a small drop while the state economy shifted into renewed strong growth. California was commonly considered to be the best place in the country to open a health club.

Conclusion

The future of The Weight Room was on Fitzgerald's mind. He had an appointment with his banker later in the morning, and he needed a game plan. He knew that he needed to do something, but was unwilling to act until he had a clear idea of the overall direction for The Weight Room. Fitzgerald understood that the problems were interrelated. He had been very successful at making small changes to keep customers happy over the years, but increased competition in the local environment was placing more and more pressure on him to upgrade his efforts. "I know that I can't possibly make all the changes the club requires at once," Fitzgerald said, "but I also know that a decision has to be made soon."

Fitzgerald finished his morning coffee and turned to look at his daily planner. It was going to be a busy day.

Exhibit One

The Weight Room Expansion Costs		
New Lease Agreement for Year		\$ 17,000
Remodeling Costs		
Demolition Costs	\$ 2,500	
Construction Costs	5,000	
Lighting Installation	450	
Ventilation System	850	
Aerobic Room Expansion	1,200	
Aerobic Room Padding	800	
Mirrors	1,500	
Weight Floor Reinforcement	1,200	
Electrical Wiring	600	
Painting	700	
Miscellaneous	1,200	
Total Remodeling Costs		\$ 16,000
New Equipment Costs		
Two Treadmills	\$ 12,000	
One Stairclimber	3,000	
Icarian Decline Bench	1,200	
Icarian Smith Machine	2,500	
Iron Grip Dumbbells	5,800	
Total New Equipment Costs		\$ 24,500
Total Expansion Costs		<u>\$ 57,500</u>

Exhibit Two**The Weight Room
Relocation Costs**

Purchase Cost		
Building	\$ 700,000	
Land	170,000	
	<hr/>	
Total Purchase Cost		\$ 870,000
New Building Renovation Costs		
Cement Leveling	\$ 100,000	
Restroom Modification	37,000	
Internal Modification	16,000	
Demolish Three Walls	12,000	
Juice Bar	7,000	
Lighting Installation	11,000	
Moving Costs	3,000	
New Ventilation System	5,600	
Aerobic Room Padding	3,800	
Mirrors	4,900	
Creation of Steam Sauna	6,000	
Weight Floor Padding	2,700	
Electrical Wiring	4,600	
Painting	4,000	
Miscellaneous	10,000	
Alarm Purchase/Installation	3,200	
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Total Renovation Costs		\$ 230,800
New Equipment Costs		
Five Treadmills	\$ 32,000	
Three Stairclimbers	9,000	
Two Lifecycles	4,000	
Complete Hammer Strength Line	62,000	
Iron Grip Dumbbells	5,800	
Two Tanning Beds	11,000	
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Total New Equipment Costs		\$ 112,800
		<hr/>
Total Relocation Costs		\$ 1,224,600
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Exhibit Three

**The Weight Room
Balance Sheet For 1995**

ASSETS		
Current Assets		
Cash in Bank	\$ 6,342	
Inventory	8,800	
Total Current Assets		\$ 15,142
Property and Equipment		
Equipment	\$ 184,483	
Leasehold Improve	126,113	
Auto	16,811	
Less Accumulated Depreciation	131,784	
Total Property and Equipment		\$ 195,623
Other Assets		
Lease Deposit		\$ 5,250
Total Assets		\$ 216,015
LIABILITIES		
Current Liabilities		
Payroll Taxes Payable	\$ 1,892	
Sales Tax Payable	212	
Current Portion Long Term Dept	14,791	
Total Current Liabilities		\$ 16,894
Long Term Liabilities		
Notes Payable-Volk	\$ 7,000	
-DELTA National	31,964	
-Antonio Moitoso	44,500	
-Farmers and Merchants	20,017	
-Chrysler	4,908	
Total Long-Term Liabilities		\$ 108,388
CAPITAL		
J.H.Fitzgerald	\$ 37,606	
Net Income	87,867	
Less Withdrawals	(34,740)	
Total Capital		\$ 90,733
Total Capital And Liabilities		\$ 216,015

Exhibit Four**The Weight Room - Five Year Income Statement (In \$)**

	1991	1992	1993	1994	1995
Revenues					
Dues	152,000	167,986	195,634	216,441	229,995
New Members	52,918	26,767	14,236	19,990	22,883
Renewal Fees	N/A	N/A	N/A	16,440	18,315
Tanning	24,200	3,700	5,300	5,900	6,234
Drinks	N/A	N/A	8,327	10,326	12,270
Vitamins	1,863	1,524	1,213	991	N/A
ID Fees	N/A	N/A	N/A	N/A	6,960
Clothing	N/A	N/A	1,700	1,002	812
Supplements	N/A	N/A	N/A	N/A	18,000
Day Passes	2,600	635	1,268	2,600	3,425
Total Revenues	233,581	200,612	227,678	273,690	318,894
Expenses					
Advertising	3,526	4,300	4,739	7,645	11,430
Auto/Truck	N/A	2,200	4,300	4,000	3,427
Bad Debts	3,400	4,127	3,900	1,717	822
Bank Charges	516	777	790	817	1,056
Insurance	8,700	8,700	9,758	9,758	9,758
Dues/Subscriptions	525	551	660	900	2,088
Legal/Accounting	N/A	1,700	1,200	2,993	3,179
Office/General	3,000	3,200	4,556	26,126	11,378
Interest	4,701	3,198	2,389	118	668
Rent	70,000	70,000	70,000	70,000	66,900
Wages	22,019	26,568	27,323	36,880	45,377
Utilities	7,798	7,315	11,789	12,313	14,332
Supplies	655	701	717	6,488	10,426
Repairs/Maintenance	36,336	6,017	15,200	22,157	12,172
Taxes/Licenses	4,400	4,226	5,987	6,337	6,266
Depreciation	16,748	23,748	23,748	25,748	31,748
Total Expenses	182,324	167,328	187,056	233,997	231,027
Net Income	51,257	33,284	40,622	39,693	87,867

Exhibit Five**HEALTH CLUB COMPARISON****THE WEIGHT ROOM**

Membership Plans	Initiation Fees/Dues		Hours of Operation	
Single	\$93.00	\$20.00/month	M-Fri	5AM-10PM
Couple	\$143.00	\$30.00/month	Sat	7AM--6PM
Family	\$160.00	\$40.00/month	Sun	7AM--1PM

Club Offers: Free Weights, Icarian Machines, Treadmills, Stairclimbers, Tanning Juice Bar, Free Child Care, Complete Aerobics Classes, Personal Trainers

BETTER FITNESS

Membership Plans	Initiation Fees/Dues		Hours of Operation	
Single	\$40.00	\$20.00/month	M-Fri.	5AM-12PM
Couple	\$60.00	\$28.00/month	Sat	7AM--6PM
Family	\$80.00	\$30.00/month	Sun	7AM--6PM

Club Offers: Free Weights, Icarian Machines, Treadmills, Stairclimbers, Tanning, Personal Trainers

RACQUETBALL CLUB

Membership Plans	Initiation Fees/Dues		Hours of Operation	
Single	\$120.00	\$50.00/month	M-Fri	5AM-12PM
Couple	\$200.00	\$65.00/month	Sat	7AM--9PM
Family	\$300.00	\$75.00/month	Sun	7AM--9PM

Club Offers: Free Weights, Hammer Strength, Treadmills, Stairclimbers, Tanning Racquetball Courts, Tennis Courts, Swimming Pool, Juice Bar, Aerobic Classes