

Norm Cates'

CLUB INSIDER

CELEBRATING 27 YEARS OF TRUST

Steve Nash Fitness World & Sports Clubs *An Interview With CEO and President, Chris Smith*



Chris Smith, CEO and President of Steve Nash Fitness World & Sports Clubs

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CELEBRATING 27 YEARS OF TRUST

Steve Nash Fitness World & Sports Clubs *An Interview With CEO and President, Chris Smith*

By: Justin Cates

In 1959, the late **Henry Polessky** founded **Fitness World** in *British Columbia, Canada*. Over the next 50 years, the chain expanded across British Columbia, serving and bettering the lives of its thousands of members, and Henry cemented his place as an industry legend. What's more important than the business leader Henry became, though, is the example he set in his community, through his charitable works. Today, both of those hallmarks of Henry's mission and life live on. This month, **Club Insider** shares that story.

Fast forward to 2009, another industry legend who needs no introduction, **Mark Mastrov**, along with business partner **Leonard Schlemm**, and *NBA All Star*, **Steve Nash**, had created **Steve Nash Clubs**. In order to expand by acquisition, they eventually purchased Fitness World from Henry.

Merging two organizations is no easy task, especially with one having such a rich legacy that needed to be preserved. Enter **Chris Smith**, who had previously worked with Mastrov and **Jim Rowley** at **24 Hour Fitness**. During that time, moving up the ranks, he proved himself as a very effective health and fitness club executive. His task at Steve Nash Clubs became to effectively merge the two companies and cultures together. And, he did just that, all the while, keeping the legacy of Henry Polessky alive and well. It's a beautiful thing, and to take you through the full story, I welcome you to read on as **Club Insider** interviews **Chris Smith**, *CEO and President of Steve Nash Fitness World & Sports Clubs*.

An Interview With Chris Smith, CEO and President of Steve Nash Fitness World & Sports Clubs

Club Insider (C.I.) - Where were you born, and where did you grow up?

Chris Smith (CS) - I was born in Huntington Beach, California. But, we moved out of there when I was a young baby, and I lived around Bend, Oregon the first seven years of my life. Then, the balance of it was in Northern California in an area called Grass Valley, California. It's between Sacramento and Lake Tahoe, an area known as the Foothills of Northern California.

C.I. - Where did you go to school and what did you study? Did you play any sports, and if so, what lessons did you learn from them and how did they affect you later in life?

CS - I went to high school at *Bear River High School*. Sports were a huge part of my life growing up... baseball, basketball, football, track and field... I did all four. Frankly, I was blessed and gifted to be talented enough to compete in all of those at a high level, being All State in multiple sports. During that time, I had a lot of great coaches around me,

and I was fortunate to be a team captain and help lead most of the teams I was on.

After high school, I ended up playing collegiate football because I'm just a big dude. My body was built for that better than anything else. It was at a Division II school in Colorado called *Adams State*. Ultimately, I left to go play Arena Football back in the day when it was still a popular thing. The games were on ESPN back then, so it was kind of cool. My family could watch the games on TV and all that good stuff.

After I did that for a little bit, right after the season, while I was training, I went back to school to finish my degree. I was playing for a team called the *Portland Forest Dragons*, so I re-enrolled at Portland State there. I finished off my schooling there, so my degree itself was from Portland State in Oregon, a degree in *Community Health, Health and Fitness Promotion*, of all things. Who knew!? (laughing)

C.I. - What a ride! Moving on to your career, when, where and how did you become involved in the health and fitness club business? Please take us through



Chris Smith

your various roles and experiences prior to becoming involved with Steve Nash Fitness World & Sports Clubs.

CS - It actually kind of synced up with that last piece we're just talking about, which was about the offseason. A lot of the guys were figuring out what kind of jobs they wanted during the offseason, and I started asking around. I grew up around construction sites with my dad, so at the gym, I asked around to see if anyone knew of some jobs in that area. I knew the staff there, and one trainer I talked to was like, 'Dude, you should be a personal trainer.'

I told him it was funny he said that because I was studying strength and conditioning, and that's what I want to do long term. I didn't have my degree yet and wasn't certified, but I was working on that stuff through the *NSCA*. He looked at (See *Chris Smith/Steve Nash Page 8*)



**STEVE NASH
FITNESS WORLD
& SPORTS CLUB**

Inside the Insider: Edition #315

- Exercise IS Medicine! - By: Mike Alpert
- A Primer on Private Equity for Fitness Industry Professionals - By: Stephen Tharrett & Mark Williamson
- How to Pump Up Your Gym's Ranking in Google Searches - By: Jon Butts
- The Power of Persuasion - By: Derek Barton
- Searching for a Tax Preparer? Here Are Some Things to Consider - By: Kristen Deazeley
- Muscle Up Marketing Becomes UpSwell - A Full-Service, Data-Driven Marketing Agency
- Do You Consistently Meet Daily Revenue Goals? - By: Karen Woodard-Chavez
- And, of Course, *Norm's Notes*
- First Steps to Prepare to Finance your Business - By: Paul Bosley

Norm's Notes

■Hello Everybody! This is your Club Insider Publisher and Tribal Leader Since 1993 checking in with our 315th monthly edition!

■Is America a great country, or what?

■I've given considerable consideration to whether or not I should write what I am about to write. Importantly, my decision to write what follows is because, since Day One with Club Insider, I vowed to "Tell-It-Like-It-Is!" to all of you. And, I can say that sharing this private news about a recent health event in my life would do two things:

1. It will enable me to keep my promises over many years to you to "Tell-It-Like-It-Is."
2. It will also give me the opportunity to state the TRUTH with the primary goal on my part being to avoid having rumors crop up in our industry.

So, here goes, folks:

On Sunday morning, March 2nd, 2020, I got out of bed at 8:45 AM. I was doing what I always do first thing in the morning, and that is to use the bathroom. While I was doing my thing, I looked up, and low and behold, I realized that my right eye was completely BLIND! Wow, talk about a real eye opener! So, after going downstairs, I realized that I had a serious problem; I had no idea whatsoever what had happened. It was not long before I met with Dr. Shaw of the Melan Eye Group, a firm where, just the week before, I had met to discuss and schedule cataract surgery.

Dr. Shaw did a test and then told me to go to the nearest Urgent Care Center. Thank GOD I ended up at a renowned place, Kennestone Hospital in Marietta, Georgia. There, they conducted many more tests, and after examining me carefully, they informed me that I'd experienced a "Renal Stroke," also known as an "Eye Stroke." Clearly, this was not the way I would like to have spent part of my weekend. So, they operated on my eye using a revolutionary procedure. They inserted a tiny camera and cutting device into the largest artery in my groin area, and it went up the front of my body to my brain area where they went to my right eye and performed corrective surgery.

Before they started, this amazing Kennestone Team of doctors told me the procedure they were going to do had a less than 50% success rate. With that, I asked what other options there were. They explained the only other option is that I would stay totally blind in my right eye. With that, I thought for about 20 seconds before I said "YES! Do it!" They did, and I'm thrilled to report that, at this point, Thursday, March 5th, my eyesight in my right eye is currently about 30% restored. And, before the surgery, they said it could continue to improve.

SO, I need your HELP in the form of some prayers to help me through this. Before I move on to other Norm's Notes, I want to tell you that I LOVE YOU ALL! I Always HAVE. I Always WILL. DON'T EVER FORGET THAT!

Also, please say a prayer for RAY IRWIN, the inventor of The STEP and my good friend of 46 years, who is currently battling lung cancer. Ray is partners with

another good friend and former Partner, RICH BOGGS. They own The STEP Company and Mossa (See their Full-Page Ad on Page #27). Ray and I hope for and welcome your prayers, and we want to Thank You in advance for them.

■For years, our friend, **JON BUTTS**, has advertised his company, **Muscle Up Marketing**, in Club Insider. Today, we want to point out an important announcement from Jon, and that is that *Muscle Up Marketing is now known as UPSWELL*. UpSwell has been formed through the merger of Muscle Up Marketing and Mudlick Marketing to create a turnkey marketing agency offering over 20 digital and print capabilities for small and medium-sized businesses. Please be sure to check out the **Press Release on Page #7, Jon's Article about Google Search Optimization on Page #18 and UpSwell's new two-page Center Spread Ad** in the middle of this month's edition. **Congratulations and the best of luck Jon!**

■Welcome back to **David Didion** and **American Gym Trader** with his new **Full-Page Ad on Page #13**. American Gym Trader is your industry expert in health and fitness center sales. They sell boutique gyms to national fitness center chains. **Total Acquisitions Sold: Over \$100 Million**. If you are in the market to sell, David Didion and American Gym Trader should be your first call at **(571) 989 - 6375**.

■Are club sales down? I recommend **GARY POLIC** to turn those numbers around. Gary has **over 25 years experience leading two TOP 10 CLUB companies to**



Norm Cates

record sales numbers! He is professional, committed and leads by example with energy and enthusiasm! At this time, Gary is now seeking a **Multi-Club Sales & Operations position** with a growing organization. You can "Link-up" with Gary on **LINKEDIN** at [linkedin.com/in/garypolic](https://www.linkedin.com/in/garypolic) to learn more about him. Also, you can call/text him at **(708) 635 - 9522** or email him at gpolic@comcast.net. Folks, you'll be glad you did!

■This news from Boston, **IHRSA** has released the new publication, *230 Million by 2030: The Global Movement to Increase Health Club Membership & Physical Activity* as part of the initiative to provide resources and guidance (See Norm's Notes Page 7)

About Club Insider

CELEBRATING 27 YEARS OF TRUST

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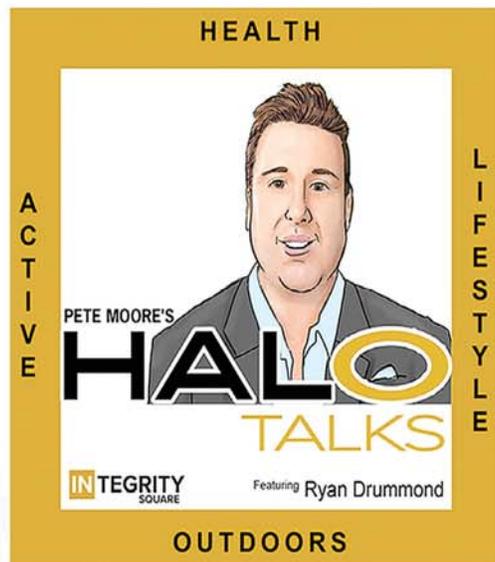
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Exercise IS Medicine!

By: **Mike Alpert**

When most people think of healthcare, their focus is most often on doctor visits, preventive care, blood and lab tests and physical check-ups. But, there are other factors such as better nutrition, reducing stress and doing things that bring happiness to our lives that are

in our personal control. And, I believe that exercise is one of these controllable factors and is highly effective at improving overall health. In my past articles, I have discussed many of these health benefits, including the prevention of certain types of cancer, diabetes, cardiovascular disease and even mortality. This month, I want to focus on the benefits of exercise on women.

Many of the health issues that women face can be improved with consistent exercise. From their first menstrual cycle until menopause, women live with a changing level of estrogen and progesterone that has a major impact on their fertility patterns and on their brain chemistry and moods. As their estrogen levels drop, as before and during their period, or as they begin menopause, they lose a natural source of the "feel good" brain chemical called serotonin. This makes them more susceptible to moodiness, depression and anxiety attacks.

Exercise counters these hormonally-triggered mood swings by releasing endorphins, which is a mood regulator. These endorphins leave women feeling happy and relaxed after a workout. Exercise may reduce or eliminate the need for medications known as anti-depressants.

Women are much more exposed to osteoporosis and bone fracture than men because they have thinner bones than men and lose bone strength more rapidly as they age due to the loss of estrogen. Hip fracture, often a result of osteoporosis, can lead to immobility and even premature death. We know that one of the best ways to build stronger bones and prevent osteoporosis is by load-bearing exercise such as weight-lifting or using exercise bands. Other types of exercise to help improve bone strength are tennis, hiking, aerobics or jogging.

Both sexes tend to gain weight as they age, but women have additional challenges. Women often have trouble losing weight during pregnancy and after delivery. Middle aged women can struggle with visceral fat during and after menopause. Exercise can counter these factors by helping women maintain and build lean muscle mass that makes them look and feel slimmer.

Finally, exercise helps to improve



Mike Alpert

sleep. Women can struggle with sleep due to a number of things that men do not have to contend with. Among these are disruptions due to motherhood, monthly hormonal changes and perimenopausal symptoms like night sweats.

I don't think most people would disagree that, in today's world, women carry a much different role than their counterparts. They are equal (although not always compensated equally) in the work force. In many cases, they are the primary person in raising children and carry much of the daily responsibilities of their households. It is critical that they take time to take care of themselves and their overall health. Exercise and social interaction are critical for them.

Exercise is Medicine!

(Mike Alpert is CEO and President of The Claremont Club in Claremont, California, and he can be reached at malpert@claremontclub.com. Check out www.claremontclub.com.)

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...Norm's Notes

continued from page 4

towards helping the fitness industry meet the global goal of 230 million health club members by the year 2030. *230 Million by 2030* is sponsored by **Gympass, Technogym and Club Automation.**

"The health and fitness industry has never backed away from a challenge," said **Joe Moore, IHRSA President and CEO.** "And, as we move into a new decade, health club owners, industry suppliers and fitness professionals need to step forward and make the case for bold action in combating the global health crisis caused by

lifestyle factors."

The report is available to **IHRSA Members** for free or **\$49** for non-members. Download your copy today at bit.ly/clubinsider84.

■ **JUSTIN and I want to say Thanks 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 Firemen and women and keep them safe. God bless you, your family and your club(s). God Bless America! Laus Deo!

(Norm Cates, Jr. is a 44-year veteran of the health, racquet and sportsclub industry. Cates is the Founder and Publisher of **Club Insider**, now in its 27th 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. In 2017, Cates was honored with **Club Industry's Lifetime Achievement Award.** Cates can be reached by phone at **770-635-7578** or email at Norm@clubinsideronline.com.)

Muscle Up Marketing Becomes UpSwell A Full-Service, Data-Driven Marketing Agency

KENNESAW, GA - Muscle Up Marketing has rebranded as **UpSwell**, offering clients an expanded range of services designed to draw a "wave" of new members. UpSwell was formed through the *merger of Muscle Up Marketing and Mudlick Marketing*, to create a turnkey marketing agency offering over 20 digital and print capabilities for small and medium-sized businesses.

UpSwell has more than 12 years of marketing experience serving over 10,000 clients, executing more than 150,000 campaigns and a track record of helping clients acquire over 10 million new customers and counting.

The combined agency will provide a more comprehensive, data-driven approach to marketing, while allowing clients to take advantage of an expanded lineup of capabilities to attract more members. UpSwell will serve as a full-service marketing agency, with the ability to execute multi-channel digital and print marketing campaigns. The agency also has improved tracking and reporting tools to help clients monitor their success and optimize their marketing budgets, recently completing a significant investment in developing a data warehouse.

"We built UpSwell to help business owners grow through hassle-free, dynamic,

data-driven marketing. We are the experts in all things local marketing, so club owners don't have to be," said Butts.

UpSwell will also offer enhanced data analytics powered by artificial intelligence. The hyper-local focus Muscle Up is known for will remain intact to ensure that clients effectively target the consumers most likely to become members. Clients will also have access to a user-friendly portal where they can manage campaigns, check analytics and make payments.

UpSwell will be led by the same experts who built Muscle Up and Mudlick Marketing into successful businesses. **Jon Butts, Founder & President of Muscle Up Marketing**, will assume the role of *UpSwell's Senior Vice President of Marketing*. **Mudlick Marketing Founder, Tim Ross**, will serve as *President of UpSwell*.

"We know business owners often don't have the time or knowledge to market effectively. With our experience and new capabilities, we're here to fill that gap and provide our clients with the tools they need to generate and retain more members," said Ross.

For more information about UpSwell, visit fitness.upswellmarketing.com or call **(866) 859 - 6988**.



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...Chris Smith/Steve Nash

continued from page 3

me and said, 'Dude, you don't need that certificate. You're huge. That's all you need. Look at you.' I was like, 'Hmmm, yea, all right!' So, I went to talk to the manager, and I got hired. I got hired at a time where the degree and certificate were things that were *nice to have* but they *weren't required*. Certainly, the industry has evolved from that.

C.I. - For sure! (laughing)

C.S. - I started at *Gold's Gym* in Portland, Oregon, and I worked there for about a year. I left *Gold's Gym*, and I actually joke with Millennials and Generation Z folks, saying, 'You guys think it's only your generation that thought they knew everything in their early 20s. No, I did too.' I left *Gold's Gym* to do my own thing, my own little PT studio. I did it for about a year. I was having fun and making money, but I was also kind of looking at it and thinking, 'I don't know how long I can really do this and find joy in it. I really do like the industry, but I think I need to align myself with a company that's growing, so I can grow with it.'

So, I started looking around the fitness landscape, and that's how I found *24 Hour Fitness*, which at that point, was still less than 200 clubs. They were still very much in the explosive growth mode, so I was fortunate to join them at the right time. That turned into an amazing ten-year run for me where I learned a ton and was able to move around the country, look at different markets and serve in different positions. It was pretty incredible.

Steve Nash

Fitness World & Sports Clubs

C.I. - When and how did you become involved with Steve Nash Fitness World & Sports Clubs (SNFW)?

CS - Coming out of 24 Hour after ten

years, I had been mentored by people like **Mark Mastrov** and **Jim Rowley** and a whole host of others who are tremendous professional people in the industry and still are. I was very fortunate to have mentors like them. And, as they exited the business, they started talking to me about other opportunities that might exist. This came up as one of those opportunities, and to be honest, I kind of looked at it for a while.

At that time, there were 14 locations. The history of the company was that **Mark Mastrov** and **Leonard Schlemm**, in partnership with **Steve Nash**, had opened up the **Steve Nash Sports Clubs**. There was another branded entity here in Vancouver called *Fitness World*, and after about a year, they acquired that brand. So, they were aggregating those two companies, and my mandate was to come up and make those two companies one, aligning everyone.

That was the original mandate. We needed one set of mission statements, one set of core values, one set of policies and procedures... It was a lot of that... organizing and kind of galvanizing everyone, and really, creating a new culture, a one-company, one-way kind of culture. We were able to accomplish that, which really facilitated the growth that we've now been able to put forward as we've continued to evolve.

C.I. - What a task! That's excellent. Going backward just a little bit with the Fitness World side, one of the taglines on SNFW website is, "*Fitness Leaders Since 1959*," which denotes quite a rich legacy of industry experience. Please take us through some of the pertinent history of the company prior to Steve Nash's involvement.

CS - Yes, I can a little bit. I'm not the perfect historian, but I can certainly share some stuff with you to give you some insight that, I think for our brand and our business, is relative. The late **Henry Polessky** started the business in 1959. At that time, originally,



Jim Rowley and Mark Mastrov

it was a *European Health Spa*. I was fortunate enough to meet Henry when I first got here. Unfortunately, at that time, Henry was sick with cancer. But, I did get to meet him, engage with him and understand his perspective as a business, the legacy he built and the charitable work he had done.

Because he has such a legacy in the business, and so had two of the three kind of primary Founders of our business, **Mark Mastrov** and **Leonard Schlemm**, I think there was some natural synergy there to have some comfort level in whom he was going to sell the business to after 50 years of ownership.

Ultimately, he did sell the business to **Mark** and **Leonard**. I think that was a tremendous deal. And, I think that, as an organization, we've continued to honor Henry in a number of ways. Primarily, we do so through the major charities we support. We do close to a million dollars of charity work on an annual basis, and the bulk of that is done with charities that Henry historically supported. We continue to support the charities that he supported, and I think that is an important part of the legacy of our business.

C.I. - Absolutely! I know my dad and Henry go way back; they're old friends. It's great to have some of that legacy in this story.

Now, going back to the Steve Nash side, as you mentioned Mastrov and Schlemm linked up with Steve Nash and branded the company with his name. Is there more to it than just the name? What has Steve Nash's role been?

CS - I came on board after the first Steve Nash Club was launched, so I wasn't here when the original deal was done. I know that Steve was very involved in the development of the Steve Nash Club brand and mission. Currently, Steve is a Board Member, we have a licensing agreement in place, and he has a voice in the business.

C.I. - That's good to hear, and it essentially answers my next question, which was: In my research for this article, I did come up on some press releases that Steve Nash's involvement has since concluded... Is that still correct? Is his name still going to be used into the future? If you're able to comment what's the status of Steve Nash with the organization?

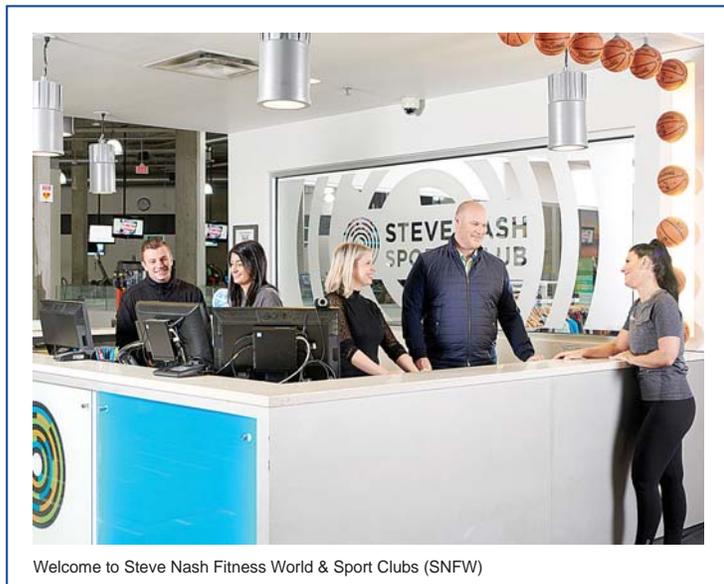
CS - I'm happy to say that the situation has been resolved, and Steve is back on board. Unfortunately, sometimes these things happen. We are excited to have Steve engaged with the clubs again as we move forward.

C.I. - Fantastic. Well, we hope this cover story will aid in making sure the record is straight.

Facilities and Differentiation

C.I. - Please describe a typical facility (preferred real estate, square footage, amenities, services, etc.). Difference between urban and suburban facilities? Do you offer different models?

CS - That is one of the things that is different here versus anywhere else I've ever been. We operate multiple models, as well as multiple brands. For anyone who hasn't (See *Chris Smith/Steve Nash Page 10*)



Welcome to Steve Nash Fitness World & Sport Clubs (SNFW)



STEVE NASH
FITNESS WORLD
& **SPORTS CLUB**



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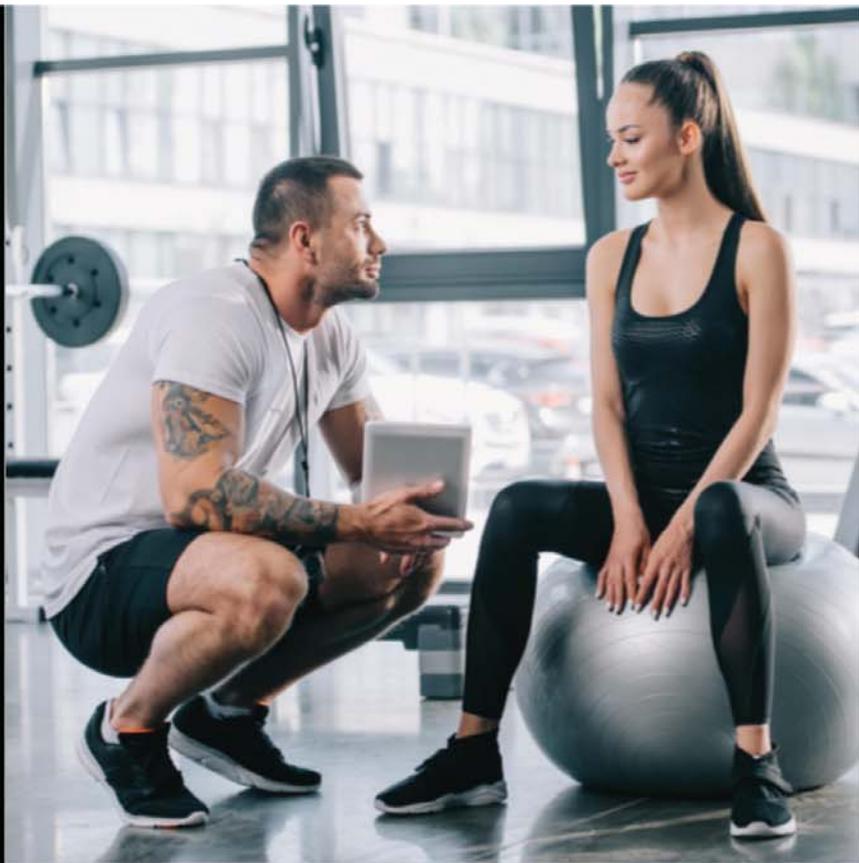
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...Chris Smith/Steve Nash

continued from page 8

seen or been to Vancouver before, it's one of the most beautiful cities in the world. It's also one of the more costly places to live, which includes real estate, including commercial real estate. So, certainly finding the right real estate is part of the equation. You still have to have a good location, and obviously, negotiate good rents. Ultimately, that comes from good landlord relationships and the things that go with that. We also have great relationships with some of the strongest developers in the city, which is really important and has facilitated the growth we've been able to accomplish.

Related to suburban clubs versus urban clubs, in urban clubs, depending on the location, we might not offer any parking. There might be zero parking for members, and I will tell you that doesn't impact our ability to sell memberships. You've got a whole different kind of member continuity experience in an urban environment versus the suburban environment. In suburban facilities, obviously, everyone's driving, so you need parking, as well as other facilities and services. In the suburban clubs, we might also offer child minding, whereas in the majority of urban locations, we do not, again, depending on how that impacts the member demographic and what's going on there. So, there are different things like that.

Our optimal square footage is 20,000 - 25,000 square feet that includes a robust set of amount offerings, including open space functional training areas. I think we were definitely one of the first brands to really bring that to market in a meaningful way over a decade ago. It wasn't hidden in a corner or something like that. We're talking about opening up 2,000 square feet in the club for functional training.

Additionally, our facilities have Child Minding, Pilates, Yoga, Group Fitness, Small Group Training, E-Gym,

Towels Service, Pools, Hot Tubs, Steam, Sauna, Recovery, HydroMassage and Tanning. The mix at each club varies across the network as each club is uniquely built out to serve that specific community.

C.I. - What do you consider your key market differentiators?

CS - There are common categories that sound the same across a lot of organizations in the industry, but the proof is in the metrics. For example, it's common to hear 'Hey, we believe in group fitness,' but we can actually show how we believe in it by the number of classes we offer (over 800 per week), the high attendance in those classes and member loyalty. Another common platform is, 'We believe in personal training,' but the fact is we created our own Personal Training Academy (a first in the industry) train our trainers to the highest industry standards. It shows in the incredible amount of personal training sessions executed across our clubs every week. Those are just some of the most common ones.

For us, though, our differentiation in the market includes client frequency, high member engagement in our business, customer-centric events, client frequency and customer service. These metrics show us that members believe in what we're doing, enjoy the customer service they are receiving and clearly shows we are practicing the things we are preaching, things that a lot of people preach but don't practice.

One of the interesting things about this business is that a lot of people look at it and try to figure out the secret sauce. I kind of tell people it's the opposite. There really is no secret sauce; it really comes down to who can build the right culture and who can execute it the best. Most people pretty much know what everyone else in the industry is up to and what they're doing, right? I think you pick and choose what fits your marketplace, your business model,



SNFW's UFC Gym

your team, your strategic plan, and then, it just comes down to execution.

C.I. - Absolutely, well said.

Crunch Fitness and UFC Gym

C.I. - You now have 24 locations in operation. Are those specifically Steve Nash-branded locations or is that also including your Crunch and UFC holdings?

CS - That's the Steve Nash Sports Club brand, what I've come to refer to as the core business. Of course, certainly, an important part of our business is the other two brands.

As the boutique model began exploding, of course, we looked at that. We had some great relationships and synergies with *UFC Gym* and the boutique marketplace. So, we said, 'Let's give that a shot, and let's see what we can do with that brand and that model.'

So, really, that was our ability to kind of say, 'Hey, it's going to come to our marketplace regardless, so why not own it ourselves and look for an opportunity to differentiate our total offering?' And, really, it was the same for *Crunch*. Because, again, there are consumers who are obviously looking for different things. As much as we do believe in our core business and our core business model, there are certainly customers who are looking for other fitness offerings.

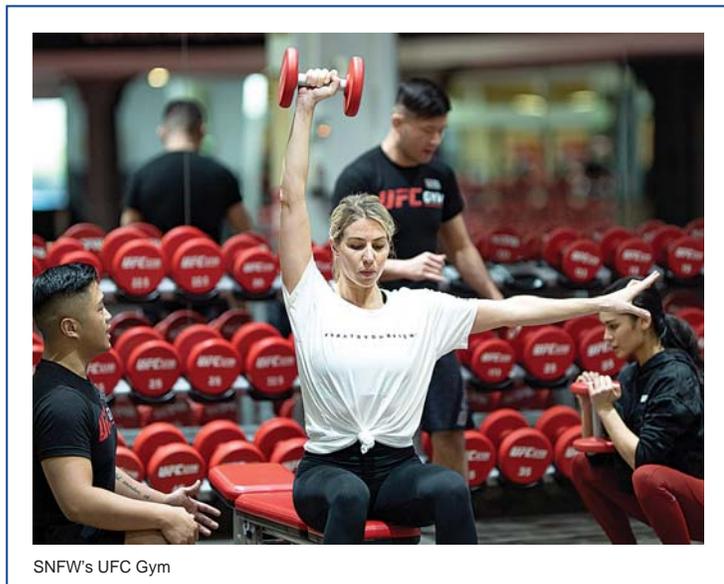
UFC Gym was our first toe in the water, if you will, in terms of differentiation

from the core business. It's a decision that we believe strongly in, and we have plans to open an additional facility this year. There's three of those currently open, so they take us from 24 to 27. We also have a *Crunch* club open now, so that's the 28th. We have another *Crunch* currently under construction, and that will open this month. We also have another *Crunch* that will be open in July this year, as well as the *UFC* I mentioned. We've got a lot of projects going, so it's a busy time for us.

C.I. - That's fascinating. Bringing those brands into the fold prevents being outflanked by others who might do so first, but how do you prevent any conflict between your core brand versus the others? Conversely, how are they used to complement each other system-wide? What are the advantages of offering multiple brands?

CS - I'd love to say that, as time goes on and we continue to build out both brands, there won't be any cannibalization, but it would be naive to think that. At some point, there will be some. However, from an overall competitive landscape, without naming any other brands, we are now able to protect our flank. If there's a vacant location two kilometers away, I typically wouldn't want to open up next to my club two kilometers away. But, from a competitive real estate standpoint, if I think that vacant location is going to become a competitor club, and I have a good relationship with the landlord, I now have flexibility with the ability to negotiate on that space with a different brand.

Whereas, if we were a single brand with a location only two kilometers away, a landlord is going to say, 'They (See *Chris Smith/Steve Nash* Page 12)



SNFW's UFC Gym



advice, etc.

This non-dues revenue model has generated nearly \$200,000! These members are also sending their friends in to join plus they continue on with the revenue generating Listen To Your Body program, which has built my receivables back up by the hundreds of thousands.

They aren't just leads. Because of 2030 FastTrack, the moment a person contacts us they are literally ready to buy from our club.

**MARY BETH
& JOHN CLARK**



“I Literally Get A Text Or Call Every Day From Somebody Wanting To Join!”

As if the devastation to our club from hurricane Katrina wasn't enough, what really almost took us out was how much competition was moving in between the big box club, a couple of smaller club chains, (one that opened at my back door) and then a new wellness center. We were trying to survive, but this left us with no leads, no revenue and certainly no profit.

At the same point in time our economy had taken a devastating hit and people were losing their jobs by the hundreds and I was even facing laying off some of my own team. I had to find something that would overcome the low-price club options, bring people through my door and save my club.

I started looking for that missing piece that would diversify us from the traditional fitness club and provide an additional revenue stream. I wanted something that would truly help people, allow me to do what I

love and still make money doing it.

You may not have had a hurricane Katrina, you may not have had a big box club take over your town or another gym open on your doorstep, but I bet the idea of having someone reach out to you every single day wanting to join appeals to you.

I started searching for options that would diversify my business from the traditional fitness club and truly help people get results. Because in the fitness business, people can exercise forever and never change. I wanted something that truly would help people see real results and at the same time, make money doing something I thoroughly love. When I learned about 2030 FastTrack I felt it was the missing piece I was looking for that was really going to save my company and set us apart from everyone. I thought to myself, if anything could save us this would. It truly was the missing piece and I was right!

Becoming a part of 2030 FastTrack did in fact save our company. It saved us financially. Remember, we were coming out of a few tough years and the revenue I was getting from my membership base had dropped.

2030 FastTrack didn't just cover its own expenses, it helped me to pay for the bills from my club as well.

2030 FastTrack has people coming to us every day ready to join. They aren't just leads. Because of 2030 FastTrack, the moment a person contacts us they are literally ready to buy from our club.

I'm not even marketing yet, it really is all coming from referrals.

Not only are people seeing amazing results from the 2030 FastTrack, this non-dues revenue model has generated nearly \$200,000! These members are also sending their friends in to join plus they continue on with the revenue generating Listen To Your Body program, which has built my receivables back up by the hundreds of thousands.

Thirty-six years ago I got into the fitness business to change people's lives... To help people to be healthy and happy. But, I did not have the formula to do it until 2030 FastTrack. Adding 2030 FastTrack has created a different model of a gym for me that has people walking through the door ready to join.

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...Chris Smith/Steve Nash

continued from page 10

already have that club, and I know the general terms of their lease. They're not going anywhere.' Versus, they say, 'Hey, there's an open spot, and we know they have multiple brands,' so that keeps my phone ringing with open real estate. Thus, strategically, we are able to protect our business. And, if we were to cannibalize some of our business, we'd rather lose it to ourselves than to a competitor.

C.I. - Absolutely (laughing). I love it; that's great. Are there any other advantages you'd like to talk about when it comes to offering multiple brands?

CS - Anytime you join a franchise business, which Crunch and UFC both are, the great thing is all the franchise support you get. I have high-level engagement with several people on the Crunch and UFC teams, **Ben Midgley, CEO of Crunch Franchise; Adam Sedlack, President at UFC Gym; and Derek Gallup of UFC Gym**, my direct contact. All of them are fantastic. So, there's the support you get. Though specific to those individual brands, I also think there's an opportunity to look at the system-wide impact they need to have and their effectiveness. So, there are some synergies there in understanding how we can be even more effective in our core business.

Some more on the UFC Gym business. To give you an example, because of the popularity of UFC as a whole, their retail business is very robust. So, when you look at their franchise support, it's a tremendous vehicle for them and even for us, internally, as a business. There's some synergy there to best practice, to lean on, to understand, to work ourselves through, and to figure out, if and when it makes sense to apply to the business. Because they are all very distinct, different business models, they speak to very distinct and different consumer bases. But, I think there

is still an overall synergy. I would also add collaboration and best practice sharing. I've got a lot of contacts in the industry I'm talking to on an ongoing basis.

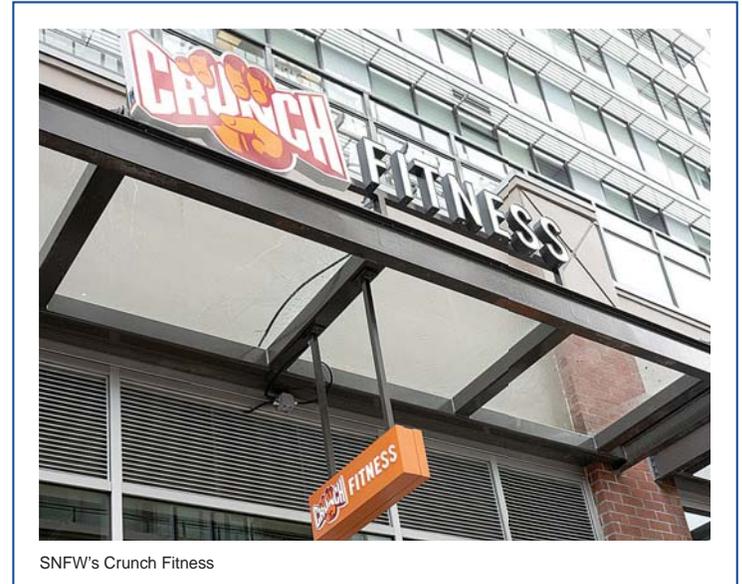
We just opened the first Crunch a couple of months ago, and it's gone incredibly well. So, within the marketplace, we are looking at how to create that Black Card experience for somebody and be able to say, 'Hey, between our three brands, if you had our Black Card, you would have access to more classes in terms of small group training and actual group fitness programming than you would have with ClassPass.' There's certainly some power in the marketplace there, so we've been talking about it. We haven't done anything with it yet, but that's certainly one of the things we're thinking about and looking at as an opportunity down the road.

The Membership and Competition

C.I. - Let's talk about the membership. To start, what are the demographics of your typical member?

CS - I think what's interesting here is that I will tell you there is no typical member because Vancouver is not a typical city. Vancouver is a very multinational, multicultural place. It's one of the very unique and special attributes of this city. To give you an example, we have our sales presentations in multiple languages. We have them in English, French, Korean, Mandarin, Punjabi and Farsi. So, if someone comes in, and their native language is one of those languages, we want to be able to communicate what the offer is and the value proposition of each of the membership options in a meaningful way to them.

We also have members from ages 15 all the way up to 80 years old. We're pretty close to a 50/50 split, male and female, from a gender perspective in terms of the mix of our membership. We don't really comment on the specific number of



SNFW's Crunch Fitness

memberships other than to say we have over 100,000 members. We've been saying that for about ten years now, and we'll keep saying it.

It's a very diverse city, and both our members and team members reflect that. The people who work in our clubs take care of our members in a fantastic way, and they are representative of their communities.

C.I. - With your demographics being so diverse, what are your membership options and price points to hit all of those different points on the demand curve?

CS - We advertise memberships starting as low as **\$9.99 biweekly**, and that's what we call our *Starter Membership*. Then, the memberships go all the way up to **\$99 per month (\$49.95 biweekly)** for what we call a *Signature Membership*. The Signature Membership includes things like towel service, unlimited child minding, unlimited small group training, discounts on supplements and retail and a whole bunch of other things. In all, there's four memberships that we offer: *Starter, MyClub, Pro* and *Signature*. Our goal is to be accessible and available for everyone, and we're also trying to let people 'choose their own adventure.' Like, what do you want to do within the facility, today?

The number one question I get from other operators is how do we control who does what within the club? Before, it was more difficult, but now, it is all done with technology via kiosks. We've leveraged technology to be the solution, and the members like it a lot better because they can do things simple and easy; they don't have to wait in line for someone to help them.

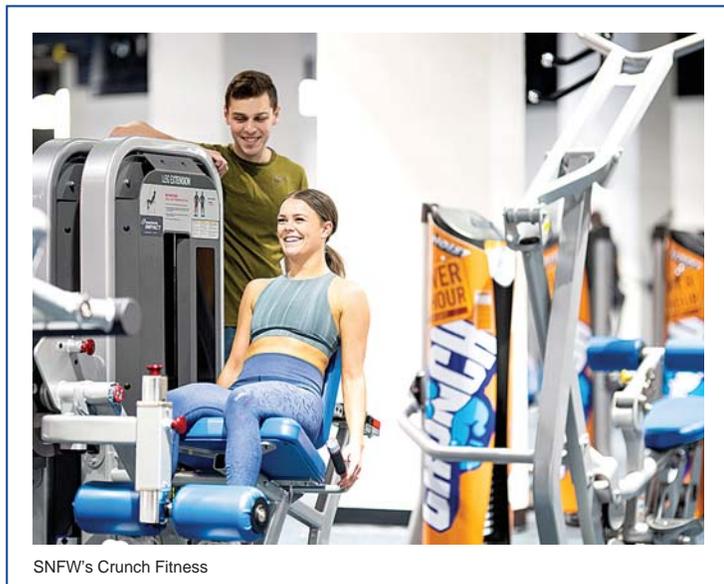
C.I. - The last thing related to membership, because of the varied demographics and membership options, how do you go about marketing to target members?

CS - Until recently, we've always kind of run our own marketing department internally. Towards the end of last year, we decided to take a different approach, and we went out to the marketplace to secure very specific strategic partners in very specific buckets. We've got folks on the creative side, folks on the digital side, people on the reputation management, PR, event side of things, so we have three main partners who are helping us do that. And, we still have some people in-house who respond to in-club needs. They are led by our *Marketing Manager, Hannah Unger*, and she does a great job.

We start by looking at our annual target for revenue. Then, we decide the percentage of gross revenue we are going to spend on marketing. From there, we focus on a very omni-channel approach. We are most successful in driving guest traffic when we have an effective omni-channel presence.

For example, direct mail is not a bad thing. It doesn't mean you do it every month, but you've got to know when to do direct mail. For us, we use direct mail and newspaper when we are really trying to communicate that something has changed in our business or we have a new program or service that we are offering. When we

(See *Chris Smith/Steve Nash Page 16*)



SNFW's Crunch Fitness



**STEVE NASH
FITNESS WORLD
& SPORTS CLUB**



PRESENTS

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Description

American Gym Trader proudly presents these premium luxury fitness clubs with 40,000 members. Everything has been done, including a massive \$5 Million renovation with new equipment and energy efficient LED lighting offering members a preeminent luxury fitness experience. These multi-location clubs are over 60,000 square feet each, offering first class amenities and services for families, including:

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Asking Price: **\$18,900,000**
Established: **2010**
Gross Income: **\$25,281,000**
Cash Flow: **\$3,545,000**
Franchise: **No**
EBITDA: **\$3,545,000**
Employees: **1,000**
Square Feet: **435,000**
FFE: **\$5,000,000 (included)**

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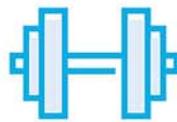
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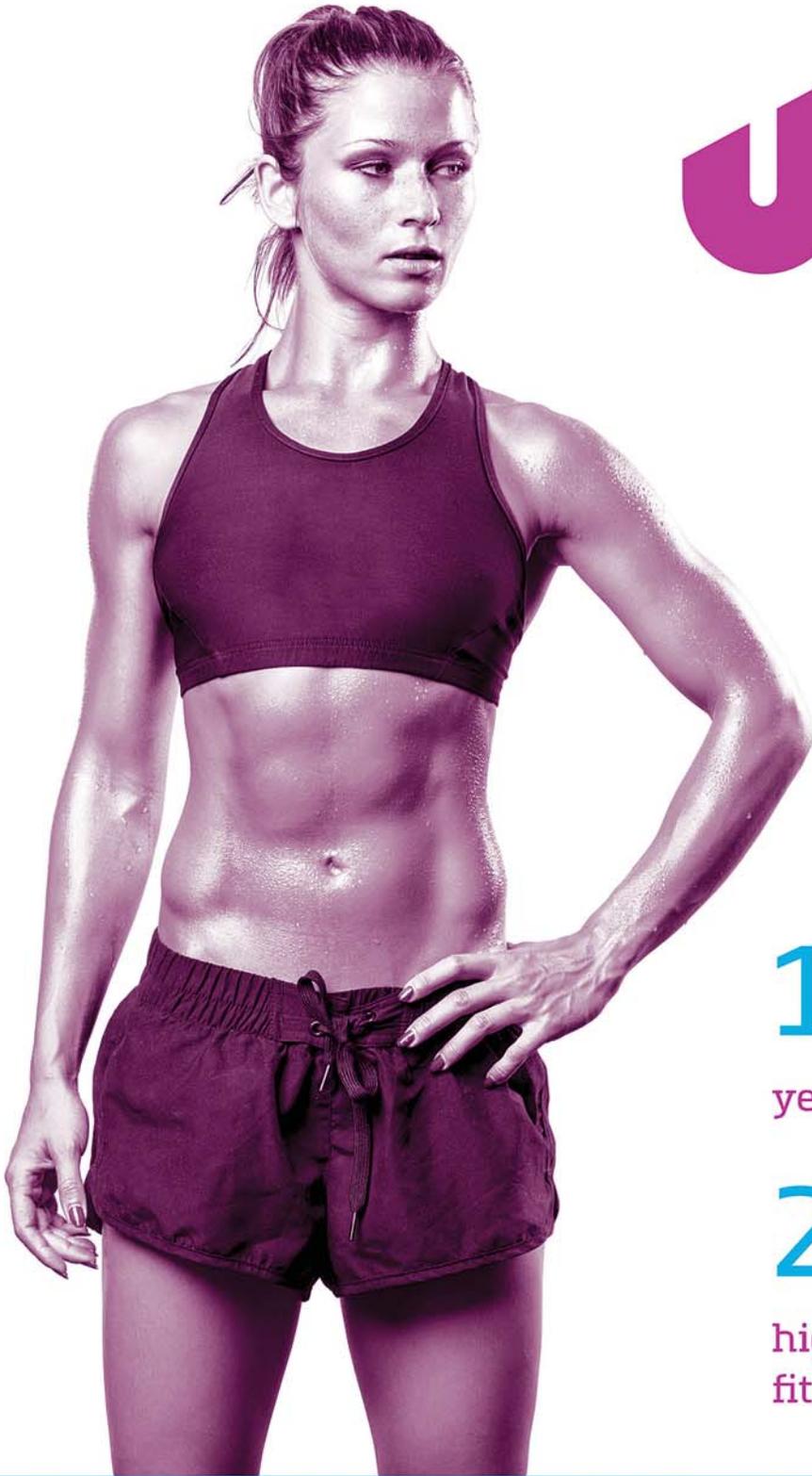
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...Chris Smith/Steve Nash

continued from page 12

want to really spread that everywhere, we will add additional channels, like radio and television. With television, we try to only target live broadcasts only, which means news. So, we really negotiate with our partners in the radio and television space to be live-read and news-related because that's when people tune in live instead of watching via DVR.

So, it's a very strategic omni-channel approach, and we're measuring it the same way that every else is measuring: overall impressions, impression shares, geofencing and other things like that. We are certainly leveraging all those tools.

C.I. - Who are your main competitors? How do view/adjust to competition?

CS - I can tell you that, every year I've been here, now coming up on ten years, there's been fifty new health clubs, including boutiques that have opened every year. Fifty, five-zero. Every year. That's a lot of competition, but at the same time, our business has continued to not only survive but thrive and grow. We've found ways to evolve and be better.

We understand that, for a club that's been there for twenty years, even if you spend money, renovating here, updating equipment there, it's still not going to be brand new, and it's not going to feel fresh and new. So, when a new competitor comes in the neighborhood, and they build a brand-new club, there is going to be some impact.

The mainstream competitors are here. *Goodlife* has a presence in British Columbia (BC). It's not huge; I think it's around eleven clubs. *Club 16* is a high-volume, low-price brand. *Planet Fitness* is now here with seven locations in BC. *Anytime Fitness* has 50 clubs in BC now. Looking at their statistics of 700 members per club X 50 clubs, that's a lot of members,

right? There's also *Orangetheory*, *F45*, etc. Then, you've got your hot yoga, boutique this, boutique that, bootcamp, all of that. They're all here in a pretty meaningful way, so there's a lot of competition.

However, it's my feeling that, if they are doing well, that's a good thing. You want the whole industry to thrive. To that end, our clubs in some areas that see increased competition are doing better than before, which is counter-intuitive. It's that old adage, 'A rising tide lifts all boats,' provided you've got good operators, good people and everyone is taking the time and attention to take care of their customers in the right ways. There being no shortage of competition is just part of business, so it's something you must navigate.

Giving Back

C.I. - Absolutely, well said. Moving on to community service, you've already mentioned that one of your ways of honoring **Henry Polessky** is by continuing with the charities that he used to support. So, please take us through that and other ways you give back to the communities in which you operate.

CS - We donate over \$250,000 a year of free memberships. Those are given out to people who might be doing silent auctions or families that are going through a crisis, like dealing with children's leukemia or something else. Specifically, we continue to partner with organizations that are cancer-related, and a lot of the things we do support are cancer-related. We support the *Michael Cuccione Foundation* out of the BC Children's Hospital. We work directly with his mother, **Gloria**, on behalf of her son who passed away. Long before I ever came to the market, it was something Henry had supported for a long time.

We support *BC Cancer Society*, juvenile diabetes in different years. We do big fundraisers, bike rides and those types of things to raise money to donate. What

we really try to do is that, whenever we are raising money, we want ALL of the money to go to the cause. We don't want money going to Executive Director pocketbooks. That can make it challenging, to be honest, but when it comes to who we strategically choose to partner with, all the money we raise must go directly to research or directly to funding a specific solution to a specific problem.

C.I. - What's on the horizon for the company as a whole over the next 3 - 5 years?

CS - We want to continue to do the best work we possibly can to have the biggest and best presence we can with all of our brands and represent them in a meaningful way. At the same time, we've already performed some due diligence outside the borders of BC. I won't mention the specific cities, but we've looked at places both in Canada and south of the border. So, certainly, at some point, at some stage, assuming we are talking three to five years, when the opportunity is right for us as a business, I think that we will grow beyond the borders of BC. But, that's down the road.

Of course, over time, we will certainly continue to evolve our offerings in the club, and we'll continue to make sure that we're relevant with what consumers are looking for. A good example of that will be the trend around recovery, so making sure we've got all the right resources there for both our team members and our members, in terms of what people are looking for and being a meaningful fitness experience.

C.I. - Chris, you're now a Freshman Board Member of IHRSA, along with **Frank Lawrence**, **Chris Stevenson** and **Greta Wagner** (all previous *Club Insider Cover Story* subjects by the way). What drew you to IHRSA Board Service? What has your experience been like so far, and what are your goals/what do you hope to accomplish during your term?

CS - I had been paying attention to it for a while, and for me, it was the issue of timing... When do you apply and what does that look like? I applied on a few different occasions and was fortunate to be selected. What drew me to service is that I've had this

career that has been incredibly good to me. I've felt I've had a broad reach and been able to help people, but I felt there was a broader opportunity for me, where I am at in my career, to give back a little bit more and to really continue to help the industry as a whole push forward and achieve what we all want to achieve, which is reducing the global obesity epidemic, cessation of smoking and all the things we know affects populations from a global perspective. That was the opportunity for me, and I just felt like I was in position to do it. What's great about the Board is everyone brings a unique set of experiences and different skill sets, and I just felt like there was something I could contribute. It's been great so far.

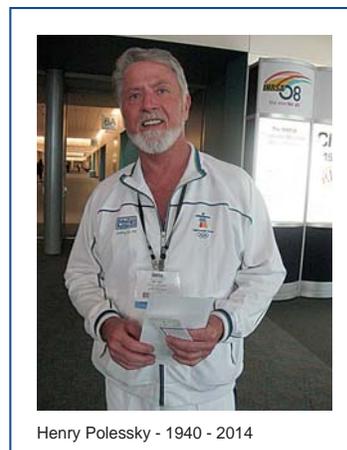
The one thing I've figured out now that I would say I didn't have appreciation for prior to being on the Board is really just how great the IHRSA staff is. I don't know if the average individual in the industry, whether they are a one-club owner or multiple-club owner or whatever, understands all the work that **Joe Moore**, **Anita Lawlor**, **Helen Durkin**, **Meredith Poppler** and everyone is doing there. Obviously, I just named four people at the Senior level, but everyone at IHRSA works tremendously hard to protect, promote and grow the industry. It's incredible what they do.

It's hard to actually put into words when I try to explain to people about how impressed I've been with their dedication to the industry and the amount of effort they constantly put forward for the business. These are businesses that they don't have stock in, they don't own, they don't get dividend checks and monthly bonuses, that's not how it works. These are just really hardworking, dedicated people who do an amazing job.

This is my own impression, my opinion, and I could be incorrect. As a Board, our job is to help them be able to do what they need to do. What do you need? How can we help you? What is slowing the IHRSA team down? And, how can the Board help support that? Ultimately, it's not about the Board; it's about the staff, and that's what I've learned so far. Looking forward to future years, it's important to ensure that it continues to be that way because that's the only way to meaningfully push the industry forward. The Board gets together a few days a year, but it's not what we do all day
(See *Chris Smith/Steve Nash* Page 17)



Ribbon Cutting of SNFW Nanaimo, BC



Henry Polessky - 1940 - 2014



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...Chris Smith/Steve Nash

continued from page 16

every day. The IHRSA staff does it all day, every day.

C.I. - If we have any readers who are not currently IHRSA Members, what are some reasons you would suggest to them for joining IHRSA?

CS - There's just so many benefits that IHRSA offers. The IHRSA Passport Program certainly jumps out and being able to leverage that for the member base and being able to draw members and guests to your clubs. It's simple, easy, low-cost marketing. There's the advocacy work the group does. There's a lot of legislation being put out there, and I don't think the average legislator knows how it's going to hit every segment of the workforce and population. Then, there is being able to get all the reports and data. You often hear of people using IHRSA Reports in financial transactions and things like that, but just having it to run your business with insights is huge. And, frankly, IHRSA has done a good job supporting Canada over the years. If someone hasn't gotten a chance to do the due diligence on whether or not to join IHRSA, get the information, and the answer will be clear. Join IHRSA. It's a no-brainer.

C.I. - Please tell us about your British Columbia Personal Training Institute (BCPTI).

CS - BCPTI provides a world class education and training program for personal trainers. We are the first in the industry to create an institute that teaches not only technical skills but all aspects of working in the industry as a personal trainer. Your readers can learn more at www.bcpti.ca/about-us.

C.I. - To close out this interview, across your already successful career, what are you most proud of? What advice would you offer to those early in their journey?

CS - I don't know if I have a most proud moment. I think, if anything, what I'm proud of is that, coming from a small town, a rural community, I've been able to take my passion that was originally in athletics, or just wellness if you will, and just being healthy, and that there's a place for me to make that a career. So, what I'm proud of is that this industry exists, and I'm able to really do something that I'm passionate about and find purpose in. I know we're making the world a better place, and that's something that's just makes it easy for me to get up, go to work and have long days. It doesn't matter because it's easy for me to do.

At the same time, that's also the same thing I try to tell other people. This is

a place where you can have a career. You can have a tremendous opportunity to be involved with people, be social and help people do things they might not otherwise do on their own or provide them with a service they might not necessarily realize they needed. They find they enjoy it, and they find your product to be meaningful. So, I just think that the fact the industry exists as a whole is something more people need to take advantage of, and I feel that's why we are seeing the explosive growth that we are seeing. The eyes are wide open at this point, right? The secrets is out, and this industry is a really cool thing. It helps people, and it's an awesome thing to be a part of at all levels. And, that is great for everyone.



My sincere thanks and appreciation to **Chris Smith** for his time and involvement helping me bring this story to you, as well as to **Colleen Kirk** for her assistance with photos and graphics.

(Justin Cates is a Partner and 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 35 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.)



Justin Cates

How to Pump Up Your Gym's Ranking in Google Searches

By: **Jon Butts**

Let's face it. The yellow pages are deader than disco. These days, people search online for the best places to eat, get the car fixed and work out. To attract the greatest number of potential members to your gym or fitness studio, your business needs to be highly visible in Google search results.

The Internet is a vast place, so how on earth do you make your local business leap to the top of search rankings? The answer is *Search Engine Optimization (SEO)*. This means setting up your business website and online listings in a way that makes them more visible to people who use search engines like Google, Bing or Yahoo.

In this article, the digital marketing specialists at **UpSwell** will discuss how you can use SEO to power up your business's presence online and have it leap to the top of Google search rankings.

Q: Why do owners of gyms and fitness studios need to care about SEO?

A: Your website is your digital storefront. Any form of promotion you do online through social media or paid ads will funnel back to your website. SEO is another way to promote your business online by helping you rank organically in search results and get discovered by more people in your community. Organic ranking is the most trusted form of digital placement. So, if your brand comes up as the answer when people search for "great gym near me" or "top yoga studios," that builds credibility.

Q: What are the benefits of SEO versus paid advertising, social media or other forms of online promotion?

A: Paid ads are paid ads. Most of your future members are web-savvy and understand the difference between paid ads and organic listings. As we said, organic listings are the most trusted form of digital advertising. In fact, 80% of people will click on an organic link rather than a paid link. That saves you money! Once you appear at the top of Google, you'll lower your ad spend and improve your conversion rate because of that built-in credibility.

Q: Can you describe local SEO and why that's important?

A: You only want to rank high for health clubs and gyms in the area where you do business. So, that's why location-based SEO (or local SEO, if you prefer) is so important. This includes optimizing not only your website but business listings, such as Google My Business, Yelp, Facebook and even voice-driven ones like Google Voice and Amazon's Alexa. There are more than 100 of these listings *Search Engine*

Results Pages (SERPs). What's more, people use their mobile GPS for search, not just Google, so location-based SEO is absolutely critical.

Q: What does it take to rank high in organic search?

A: In a word, consistency. Every single listing, including your website, needs to be exactly the same. This includes:

- Business Name: You can't be "ABC Fitness Studios" on your website and appear as "ABC Fitness Studios - Lakeside" on Yelp;
- Address: If "Ave." appears on your website address, all your other business listings must use the same abbreviation;
- Phone number;
- Hours of operation;
- Pictures;
- Promotional copy.

This consistency allows your business to "claim" dozens of result pages (the SERPs) and drive them all back to your website, creating natural and localized SEO.

Q: How else can a local business boost visibility?

A: There are lots of ways to tip the search algorithms in your business' favor. You can write articles or post content on other sites and link back to your health club's website. On your own website, create content with the town or city listed for each location. If you have multiple locations, you could create a separate page for each location. For example:

YourFitnessBusiness.com/location/atlanta;

YourFitnessBusiness.com/location/brookhaven.

Q: So, how do you get started?

A: Start with keyword research. Type your domain name and your competitor's domain name on an analytical website like www.SEMrush.com to see how they currently rank in search results. Other keyword phrases might be "fitness center near me" or "cheap gym membership."

Keyword research can be tricky because you're not only competing against other businesses just like yours but also others in the fitness space. So, if you have a club that offers group fitness, a nearby yoga studio might also be using those same keywords and competing with you to draw traffic to their website.

Once you've done your keyword research, set up and optimize your website --that digital storefront we talked about-- as well as your "Google My Business" profile. Then, you duplicate that profile information to Waze, Yelp, Facebook, YouTube and every other location where you can list your

business. The promotional copy on both your website and your business listings should be keyword-rich.

Q: Yikes, that's a lot! Any tips to make this whole process easier for busy business owners?

A: Yes, it is a lot. Running a business is not for the faint of heart, and it takes a high level of marketing expertise to succeed in the competitive health and fitness club industry. In today's digital world, that means putting your name in front of as many potential members as possible. Even more importantly, you want those high-quality leads we talked about, the ones who trust your brand because it appeared as the "answer" to their search for a "great local gym."

The best and easiest way to raise the online visibility of your business is to rely on the professionals. Just as your members use personal trainers to achieve their fitness goals, a digital marketing specialist can help you reach your sales goals by optimizing your online presence. An SEO specialist will look for keyword opportunities within your industry, track where you are versus your competition, optimize your website content for search engines and utilize strategies to help you boost your rankings.

SEO is a proven way to bolster leads and new members for all club types across America. Winning at SEO is like getting in shape... You won't see results on



Jon Butts

day one, but if you stick to the fundamentals, lean on the experts and stay consistent, you will start to experience noticeable advantages over the competition.

(Jon Butts is a Co-Founder & SVP of Marketing at UpSwell. He has over a decade of fitness marketing experience, helping over 2,500 clubs and studios increase their membership through innovative omnichannel campaigns. He has been named as a Top 40 Under 40 Marketing Professional by DM News and also the Entrepreneur of the Year by Auburn University. To learn more, visit fitness.upswellmarketing.com.)

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Searching for a Tax Preparer? Here Are Some Things to Consider

By: **Kristen Deazeley**

Tax filing season is upon us, and many people will be looking for someone to help them file a tax return. Most tax return preparers provide outstanding service, but taxpayers should choose their tax return preparers wisely. The IRS urges taxpayers to check their tax return preparer's qualifications and history. Taxpayers should ask about service fees before they give their records to a preparer. Taxpayers should review the return and ask questions before signing. This is because it's ultimately the taxpayer who is responsible for all the information on his or her income tax return. It's important for people to remember that this is true no matter who prepares the return.

Types of Paid Preparers

Different types of preparers have differing skills, education and expertise. Another important difference is a preparer's ability to represent taxpayers before the Internal Revenue Service.

There are two types of repre-

sentation rights, also known as practice rights: **unlimited** and **limited** representation.

Preparers with *unlimited* representation rights can represent clients on any matters. That includes audits, payment issues, collection issues and appeals. Those with *limited* representation rights can only represent clients whose returns they prepared and signed. They can only represent a taxpayer when dealing with revenue agents, customer service representatives and similar IRS employees, including the Taxpayer Advocate Service.

Credentialed Return Preparers

Tax return preparers with unlimited representation rights include the following professionals:

Attorneys - Attorneys are licensed by state courts, the District of Columbia or their designees, such as the state bar. They have a law degree and passed a bar exam. Attorneys generally have continuing education and professional character standards. Attorneys may offer a range of services. Some attorneys specialize in tax

preparation and planning.

Certified Public Accountants - CPAs are licensed by state boards of accountancy, the District of Columbia, and U.S. territories. CPAs must pass the Uniform CPA Examination. They completed a study in accounting at a college or university and met experience and good character requirements established by their board of accountancy. To maintain an active CPA license, CPAs must comply with ethical and continuing education requirements. CPAs may offer a range of services, and some CPAs specialize in tax preparation and planning.

Enrolled Agents - The IRS licenses enrolled agents. They're subject to a suitability check and have passed a three-part Special Enrollment Exam. The comprehensive exam covers federal tax planning, representation and tax preparation for individuals and businesses. They must complete 72 hours of continuing education every three years.



Kristen Deazeley

Annual Filing Season Program Participants

The IRS recognizes the efforts of non-credentialed return preparers who aspire to a higher level of professionalism. To that end, the IRS issues an **Annual Filing Season Program Record of** (See *Kristen Deazeley Page 21*)

Do You Consistently Meet Daily Revenue Goals?

By: **Karen Woodard-Chavez**

The title of this article presents a very simple and very important question. I am hoping your answer is Yes. However, I often see the opposite as a reality.

As you read this article, if you are a reader who answered Yes, then kudos to you and your organization. Even with a Yes answer, please read on and perhaps you will find tools to implement to make you and your organization even more effective. If you answered No, then by all means, please read on. As you read, please consider how these tools apply to both you personally and your organization, especially if you are in a position to personally produce daily revenue or you manage the organization's revenue in a more general way.

The following are some simple tools to implement if you have not done so. If you have, consider how well you implement them.

Daily goals/breakdown: Have you broken your monthly or quarterly goal down into daily production? Yes, this implies an assumption that you have monthly or quarterly goals. I am continually surprised when I work with organizations that do not set revenue goals. You are surprised as well? Creating revenue goals for every department/function that produces revenue and creating accountability for meeting them daily is one of the simplest steps to increase revenue. Let's make an assumption for the sake of this article that you and your organization *do* have monthly/quarterly goals. Breaking them down to daily goals and the *actions* that you need to take to meet or exceed those goals, such as how many new leads need to be generated, current lead follow-up, etc. and then *committing* to doing those activities is key to your success. Not doing the activities will clearly not allow you to meet or exceed your revenue goals.

Know where you are at all times: If I were to call your business and ask anyone on your sales team where they individually stand in revenue production to their goal, would they know the precise answer? Would they know where the department is in actual production to the department goal? The answer should be a resounding Yes. However (you know what I am going to say next), I am disappointed by how many salespeople do not know and simply guess. If you are the *Sales Director* or *General Manager* of the business, you should be disappointed as well. Kudos to the salespeople who *do* know precisely where they are in actual revenue production to goal. They know precisely where they are because they have a simple system to track daily production. This is *critical* to know

how to analyze and adjust performance activities. The late, great **Henry Polessky** of *Fitness World* in Vancouver, Canada implemented a tracking system called *The Four-Hour Report*. Every four hours, each of the clubs would report to Dave, the Sales Director, where they stood at that point in time in all revenue sources. If they were on track, Dave would call and say, "Kudos!" If they were behind, Dave would call and ask how he could help so the club could get caught up in the next four hours. Some of you reading this might think it is horrifying and stressful to have, "such a short leash." However, it is much *less stressful* to only be behind in revenue for four hours and have a small amount to catch up rather than be behind for a week and have a much larger deficit to catch up. Too many operators operate in such a way that, if daily revenue goals are not met today, tomorrow or the next day, nothing is done till the last week of the month when the Sales Director puts pressure on the team to hit goals. Now, THAT is stressful. What does your tracking system look like, and does it support catching up quickly when you are behind in revenue production?

Individual sales reports/one-on-one meetings: In addition to departmental tracking, each person who is responsible for revenue production needs to have his own sales report. The report needs to be designed in a simple manner to make it clear to the sales staff what they are doing well, what they need to do differently and where they need help to meet or exceed their sales goals. Your individual sales reports should have metrics for lead generation, appointment setting, appointment conversion to sales and follow up activity. Those are the basics. The individual sales report should be the backbone of the one-on-one, face-to-face meeting between the Sales Director and the salesperson. This is where the two of you can analyze and adjust performance to create a plan to meet/exceed revenue goals. Salespeople need to know that their sales reports are designed to *help* them rather than have sales reports be a pain to have to complete, give to their Sales Director and then have nothing done with the report. Please place emphasis on face-to-face rather than text meetings to maximize effectiveness and employee engagement. Are your sales reports helpful to your Salespeople? If so, kudos to you. If not, how do you need to re-design them?

In your one-on-one, face-to-face sales meetings, what kind of discussion or questions are you asking? What agreements are you coming to with your sales staff to impact performance? Questions to consider asking if you are the Sales Director:

■ What are the circumstances that occur when you meet/exceed goals?

■ When you do meet/exceed goals, what are the daily activities you do consistently?

■ What are the areas you feel competence in with meeting/exceeding goals?

■ What are the areas I can help you with to meet/exceed goals?

■ What is the plan we will both agree to for you to meet/exceed goals?

If you are reading this article and are not the Sales Director, but instead, are in a position of directly producing revenue, you can still ask these questions of yourself.

The three questions: Anyone who is responsible for revenue production needs to ask themselves three questions every day and answer them as well. The first of the three questions is asked before you even arrive at work for the day. That question is, "*What is my plan to meet/exceed revenue goals today?*" The second question is asked about three hours into the day, and it is, "*Am I doing the things I need to be doing to meet/exceed my revenue goals today?*" The third question is asked about five hours into the day, and it is, "*Am I doing what I need to be doing, am I on track to meet/exceed goals and/or what do I need to do differently for the rest of the day to meet/exceed goals today?*" Do these questions seem redundant to you? If you are not asking yourself these questions each day, I encourage you to do so for the next 30 days and see how it changes your consciousness with regard to meeting/exceeding goals. It is very simple but verrry effective.

All management needs to be engaged in the success of revenue production:

There is a behavior that happens on a very subtle and very dangerous level in many organizations, and that is that managers who are not responsible for revenue production tend to be removed from it. That is not okay. All managers need to be bought into the success of daily revenue production and be aware of where the organization is in revenue production. It needs to be discussed in management meetings and all managers need to contribute questions, thoughts and insight on how the organization can meet/exceed goals. To some of you, this might seem like a cluster you know what. I prefer to think of it as collective genius (Please refer to my last article for **Club Insider** on **Harnessing the Power of Collective Genius in Your Organization**). Do not discount the thoughts of your colleagues on what could



Karen Woodard-Chavez

be done differently. Additionally, do not neglect including them in the process.

■ ■ ■

For some of you, especially if you are hitting numbers consistently, this article might be viewed as a primer. For others, implementing these tools will allow you to consistently meet or exceed revenue goals. When goals are consistently met or exceeded, many aspects of personal and professional life change for the better. Blinding flash of the obvious, right? What isn't so obvious is that it is a *choice* to meet/exceed goals. It is a *choice* to do the work that will allow you to meet/exceed goals. Meeting/exceeding goals has *NOTHING* to do with *LUCK*. The tools in this article, if you practice them, will provide support for that choice to be more successful.

(Karen Woodard-Chavez is President of Premium Performance Training in Boulder and Vail, Colorado and Ixtapa, Mexico. Karen has owned 11 different businesses, successfully sold nine of them and continues to operate two. Karen consults with and trains staff throughout the world on sales, complete communication, management and leadership. These services are offered on-site, online and through her books, manuals and DVDs. Karen can be reached at karen@karenwoodard.com or 303-417-0653.)

Make It Fun

First Steps to Prepare to Finance Your Business

By: **Paul Bosley**

I am please to present the video: **First Steps to Prepare to Finance Your Business**. Watch it now at: bit.ly/clubinsider83.

Introduction - These are the following key concepts shared in the video to prepare to finance your new business. If you have questions, please feel free to email me at paul@businessfinancedepot.com, and I will respond to you. I hope you enjoy and benefit from this video and the series!

■ **Update your bio** - It is important to highlight your specific industry experience. The main reason is that most lenders consider industry experience key to the future success of a new venture. This holds true even when purchasing a franchise that gives the franchisee a game plan to follow. If you have no direct industry experience, highlight your portable skills including finance, management, marketing and sales. These portable skills are considered important to ensuring success in addition to industry experience. If you do not have industry experience, these portable skills will be the primary focus when evaluating an application, so tailor your bio to the new business you are launching to communicate why you will be successful. **It is all about you!**

■ **View your credit report** - It is best to view your credit report on www.experian.com, the credit reporting agency used by most lenders. If you are a homeowner, you are demonstrating your ability to service comparable credit when the loan request is a similar dollar amount to your mortgage balance. The report also demonstrates how reliable you are at meeting your financial obligations. Finally, the report quantifies how leveraged you are compared to your available credit at the time of application. They are checking to see if you are financing your new business using personal credit cards, which drives down your credit score and is very expensive in the long run. The lender is generally looking for applicants with 700+ credit scores with comparable credit usage since there is typically no business credit.

■ **View the credit reports of all prospective partners** - Owners who will own 20% or more equity in your company will be required to also personally guarantee all loans and leases. It is important that all principals of the company have good personal credit, which again translates to having a 700+ credit score. Any partner who has less than 20% ownership that is not signing on the location lease and the franchise agreement, if any, is generally

not required to submit a credit application. Periodically, spouses and minority partners who will be managing the business are asked to sign on the loan or lease.

■ **Prepare your personal financial statement** - The personal financial statement lists all assets and liabilities of single applicants and married couples. The application also lists current income and gives more detail to the assets listed. Lenders are looking closely at the dollar amount of liquid assets to evaluate the borrower's ability to provide an equity injection in the project being financed. The lenders are also evaluating the collateral available, if any, depending upon the type of loan request being submitted. The next video will review this process in detail.

■ **If you are planning to purchase a franchise, read the Franchise Disclosure Document (FDD)** - The FDD is a legal document required by law for all franchisors to submit to the states in which franchisors are attempting to sell their franchises. The FDD is also submitted to the Small Business Association (SBA) to be approved, so the franchisees can secure financing using

SBA loans. When reviewing the FDD, a prospective franchisee will learn the range of investment required to launch the new business. We offer a separate video on regarding the FDD given by an attorney who specializes in the franchise industry.

■ **Prepare the "Sources and Uses of Funds form"** - This form is used to identify the dollar amount needed and its use. Typically, new businesses require money to form the company, purchase equipment, landlord security deposits, construction and operating capital. Once the Uses part of the form is completed, the next step is to identify the various sources of money which typically includes owner's equity injection for liquid assets, gifts, equipment leases, business loans and landlord tenant improvement allowance so that the money needed is equally matched by the sources. The video after next will review the completion of this important form in detail.

■ ■ ■

For additional information and inquiries, please email **Paul** at paul@businessfinancedepot.com. Please visit



Paul Bosley

our website businessfinancedepot.com/ **media** to research the many financing articles we have written and have been published over the years. We wish you much success in your business!

(Paul Bosley is the Managing Member of Healthclubexperts.com dba Business Finance Depot. Paul can be reached at paul@businessfinancedepot.com.)

...Kristen Deazeley

continued from page 19

Completion to return preparers who obtain 18 hours of continuing education for a specific tax year. Those hours include a six-hour federal tax law refresher course.

Return preparers who participate in the Annual Filing Season Program have limited representation rights. They can only represent clients whose returns they prepared and signed. They can only represent a client before revenue agents, customer service representatives and similar IRS employees, including the Taxpayer Advocate Service. They must participate in the Annual Filing Season Program in both the year they prepare the client's return and the year they represent that client.

If a non-credentialed return preparer doesn't participate in the Annual Filing Season Program, they may prepare and file federal tax returns, but they can't represent clients before the IRS.

Here are some tips to remember when selecting a tax preparer:

Check the Preparer's Qualifications - People can use the IRS Directory of Federal Tax Return Preparers with Credentials and Select Qualifications on IRS.gov. This tool helps taxpayers find a tax return preparer with specific credentials or qualifications. The directory is a searchable and sortable listing of certain preparers.

Check the Preparer's History. Taxpayers can ask the local Better Business Bureau about the preparer. There are additional organizations to check license status and disciplinary actions for specific types of preparers:

■ **Enrolled Agents:** Go to the verify enrolled agent status page on IRS.gov.

■ **Certified Public Accountants:** Check with the State Board of Accountancy.

■ **Attorneys:** Check with the State Bar Association.

Ask About Service Fees - People should avoid preparers who base fees on a percentage of the refund or who boast bigger refunds than their competition.

Ask to e-file - The quickest way for taxpayers to get their refund is to electronically file their federal tax return and use direct deposit.

Make Sure the Preparer is Available - Taxpayers may want to contact their preparer after this year's April 15 due date, so people should avoid fly-by-night preparers.

Provide Records and Receipts - Good preparers will ask to see a taxpayer's records and receipts. They'll ask questions to figure things like the total income, tax deductions and credits.

Never Sign a Blank Return - Taxpayers

should not use a tax preparer who asks them to sign a blank tax form.

Review Before Signing - Before signing a tax return, the taxpayer should review it. They should ask questions if something is not clear. Taxpayers should feel comfortable with the accuracy of their return before they sign it.

Review Details About Any Refund - Taxpayers should make sure that their refund goes directly to them, not to the preparer's bank account. The taxpayer should review the routing and bank account number on the completed return.

Ensure the Preparer Signs and Includes Their PTIN - All paid tax preparers must have a Preparer Tax Identification Number. By law, paid preparers must sign returns and include their PTIN.

Report Abusive Tax Preparers to the IRS. Most tax return preparers are honest and provide great service to their clients. However, some preparers are dishonest. People can report abusive tax preparers and suspected tax fraud to the IRS by using Form 14157, Complaint: Tax Return Preparer.

(Kristen Deazeley is a Public Affairs Specialist at the Internal Revenue Service, and she can be reached by email at Kristen.K.Deazeley@irs.gov.)

The Financial Fuel Behind the Fitness Industry's Growth in the 21st Century

A Primer on Private Equity for Fitness Industry Professionals

By: **Stephen Tharrett & Mark Williamson**

Part I

In 2019, the global fitness industry generated an estimated \$94 billion (U.S.). This represents 38% growth over the past decade. During this same time period, the number of fitness clubs grew by 72% and membership by 56% (See **Figure 1**). If we narrow our perspective to only the U.S. market, 2019 revenues were an estimated \$35 billion, which represents 84% growth over the past decade. During this same decade (2009 to 2019), the number of U.S. fitness facilities grew by 32% and membership by 37% (See **Figure 2**).

During the last decade, and particularly during the past five years, a considerable part of the fitness industry's growth has come from two heated segments: budget clubs (franchises and corporate-owned firms such as Basic Fit, The Gym Group, Planet Fitness and Smart Fit) and boutique fitness studio franchises (Club Pilates, Core Power Yoga, CycleBar, Pure Barre and Orangetheory). The global and U.S. fitness industry contributions to their respective economies, expressed as a percentage of global and U.S. GDP, are extremely small (.16% and .11% respectively, as compared to industries such as healthcare whose contributions are approximately 7.2%).

Why share this information on industry scope and growth in a discussion of private equity's role as a significant player in the financial fuel behind the fitness industry? It demonstrates that the global fitness industry, especially the U.S. fitness industry, is growing with respect to revenues and units. We believe this growth, and consequently, the industry's emergence as a growing economic contributor on the U.S. and global stage, can be traced in large part to private equity. We also believe that, over the next decade, private equity will play a pivotal role in the industry's continued growth. This is not to

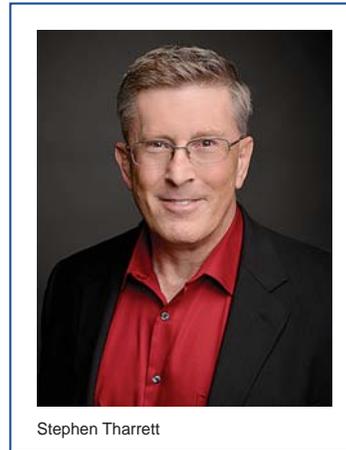
say private equity is the sole financial fuel to the fitness industry's growth. Bank debt has also played an essential role in the industry's growth, while angel investments have also played a role in the startup of many fitness businesses (e.g. fitness studios). That said, a significant portion of the other financing instruments (debt) contributing to the industry's growth are a consequence of private equity's ability to attract debt at favorable rates.

The goal of this two-part article is to provide club operators with a highly abbreviated, or Cliff Notes approach, to understanding what private equity is, how it pursues investment, what it looks for when it invests and what it means for fitness club operators who are partnered with and/or considering partnering with private equity.

Private Equity for Non-Financial/ Investment Professionals

Private equity refers to firms that invest other peoples' money and their own in public companies, non-public companies and physical assets like real estate. When private equity invests in a business, the firm (or fund) gains either a majority ownership position (50.1% or greater) or a substantial minority ownership position in the business. For example, during my time as *CEO of the Russian Fitness Group*, our private equity investor, *Alpha Capital Partners* (a \$200 million fund), held a 37.5% stake, making them a substantial minority owner. Whether they own a majority or minority position, the private equity firm (fund) will have an influential role in decisions around the business. The end game for private equity is to earn a significant return on their investment, both for themselves and their investors, or as **Thomas G. Stemberg** said, "*The role of private equity as fiduciaries is certainly to make money.*"

The private equity business model first arose on Wall Street in 1946 with establishment of the first two private-equity firms: the *American Research*



Stephen Tharrett



Mark Williamson

and *Development Corporation*, and *J.H. Whitney and Company*. It wasn't until the 1980s that private equity became incredibly popular on Wall Street, entering the investor lexicon. This explosion of a relatively dormant business model in the 1980s was due in large part to the founders of *Kohlberg Kravis Roberts (KKR)*, *Jerome Kohlberg, Jr.*, *Henry Kravis* and *George Roberts*.

Starting at the turn of the 21st Century, private equity firms began to multiply like rabbits, experiencing 143% growth from 2000 to 2014 (This is also when private equity began playing a larger role in the fitness industry). In *Private Markets Review 2019*, published by *McKinsey and Company*, it shows the number of private equity firms in the U.S. grew from 4,000 in 2006 to approximately 8,000 in 2017. While the growth of private equity firms over the past few years has not been as explosive as the two periods highlighted previously, the number of firms in the private equity industry continues to grow.

According to *Bain's Global Private Equity Report 2019*, the five-year period ending in 2018 was the strongest five-year stretch in private equity investment history, with deal values rising from under

\$400 billion in 2013 to approximately \$600 billion in 2018. According to a report by *McKinsey and Company*, entitled *Private Markets Review 2019*, the net asset value of private equity funds has grown sevenfold since 2002, more than double the growth seen in public equity net asset value. In 2019, according to a report, entitled *Private Equity - Year in Review and 2020 Outlook* (Wachtel, Lipton, Rosen and Katz, 2020), private equity deals in 2019 declined by 20% from 2018, falling to approximately \$400 billion. Finally, in 2018 private equity represented 49% of all private market fundraising.

What Are the Basic Mechanics of Private Equity?

As stated in the first section of this article, private equity's primary reason for existing is to make money; typically, as much money as possible for itself and its investors. Private equity has a secondary, and equally important role, and that is to provide capital (i.e., growth, buyouts, restructures, etc.) to worthy business ventures that otherwise would not be able to attract sufficient capital to build and grow, or as **Oscar Auliq-Ice** (See *ClubIntel* Page 23)

Figure 1
10 Year Growth Graph for Global Fitness Industry Clubs, Members and Revenue

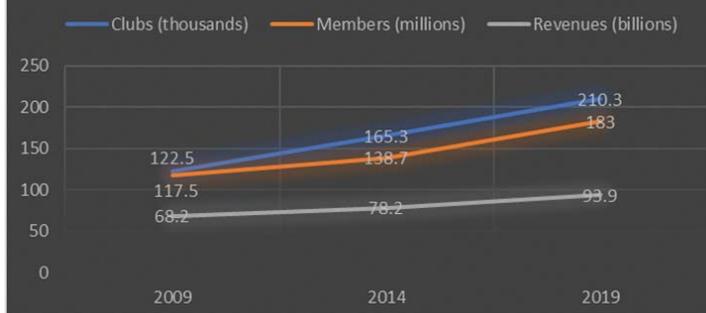
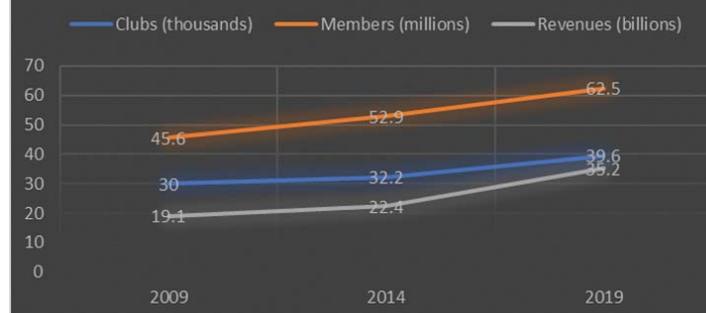


Figure 2
10 Year Growth Graph for U.S. Fitness Industry Clubs, Members and Revenues



...ClubIntel

continued from page 22

said, "Private equity enables the growth and development of unlisted (non-public) businesses." So, how does private equity, and the firms that deploy it, achieve their two objectives, fostering the growth of unlisted businesses and generating a profit for its investors? The following is a general overview of how they work:

1. Firms create a fund. Private equity firms typically establish general funds (to invest across a broad swath of industry sectors) or industry/multiple industry specific funds (i.e. retail, software, healthcare, travel and leisure, consumer products, healthcare technology, manufacturing of durables, manufacturing of non-durables). Each fund has a "charter" that defines the types of investments for which the capital can be deployed. That "charter" can be broad or narrow in scope. The fitness industry is not an industry-specific target of private equity, rather private equity firms are likely to fold the fitness sector into a blended portfolio with other industry sectors. For example, *North Castle Partners* invests in the fitness sector, nutrition sector and wellness sector. In addition to private equity firms targeting various industries, they also target different types of investment (See **Table 1**). According to Bain's 2019 report, the average number of active funds held by private equity in 2018 was 3.9, up from just under 3.0 a decade earlier.

2. Raise capital for the funds. Once a fund is established, private equity firms then raise investor capital to support the fund. A firm's ability to raise funds is highly dependent on the previous track record of the firm and/or its partners in generating returns for their investors. Consequently, firms with excellent track records are the most successful at raising capital for new funds. According to Bain's 2019 report, private equity raised approximately \$714 billion in 2018 (nearly \$150 billion less than raised in 2017). According to *McKinsey and Company's Global Private Markets Review for 2019*, private equity was responsible for 49% of all private market fundraising. Where do these private investment dollars come from? Examples include:

- Pension funds (private and public entities);
- Individual investors (high net worth individuals);
- Insurance companies;
- University endowments;
- Foundations;
- Funds of funds (pooled funds of capital that invest across funds for diversification).

3. Deploy the capital. Once a private equity fund raises the capital it requires, the next step is to deploy that capital in businesses spelled out by its "charter" with the goal of generating a good return on investment. Targeted businesses must

fall within the terms of a funds "charter." As mentioned, the "charter" may be very broad in nature or limited to a few specialized segments. Investment decisions are made based on whether the targeted business meets the attributes critical to that fund and its investors. The process of evaluating the suitability of a business' worthiness for investment is referred to as due diligence and is led by the partners/principals responsible for the targeted sector. These principals, along with their respective teams, perform a deep exploration into the business' operating systems, leadership team, consumer audience, customer base and financial performance. Some of the topline questions that frame the due diligence process include:

- Does the investment target align with the funds core specialization?
- Does the business have reliable and multiple sources of revenue?
- Is the business operated efficiently?
- Does the business generate positive cash flow?
- Does the business' performance metrics fall within industry benchmarks?
- Does the business have a record of consistent financial performance?
- Does the business have a strong leadership team?
- Does the business operate within a highly competitive segment or does it exist within an underserved market where whitespace exits?
- Is it a mature business or a growth business?
- Does the business have synergies with other businesses or an existing portfolio company where a roll-up strategy can be used to generate better returns? One example of this strategy in the fitness industry is exemplified by what *Xponential Fitness* has done under the ownership of *Snapdragon Capital*. Since its inception, the company has acquired a total of eight brands, all operating in the boutique fitness studio segment (*AKT, Club Pilates, CycleBar, Pure Barre, Row House, Stretch Lab, Stride* and *YogaSix*).
- Can this business generate the desired returns over the fund's forecast



holding period?

In the case of private equity firms, their investment typically uses a blend of equity from the fund combined with debt. The equity portion of the investment typically ranges from 25% to 35% of the businesses' valuation with the balance coming from debt. In highly leveraged investments, equity may fall closer to 25%.

4. Hold the investment. Once a private equity fund has placed an investment in an asset, it will hold it for a period that typically ranges from 3 - 7 years, though some funds may hold on to an investment longer. According to Bain's 2019 report, the average period private equity held an asset prior to exit in 2018 was 4.5 years. This same report indicated that 24% of exits in 2018 were "quick flips," exits where the asset was held for three years or less; 35% exited within 3 - 5 years; and 40% exited after five years. The duration of an investment is typically defined by the operating performance of the company, general market conditions and what strategy will generate the greatest return for the fund's investors, with an outside date being the life of the fund.

To accomplish this, firm leadership (partners/principals or possibly mid-level private equity staff) will introduce strategies designed to: improve operating efficiencies; strengthen leadership; bring forward marketing and sales practices proven to drive revenue growth from existing offerings; introduce new products and innovations; pursue organic growth opportunities in new markets; and, pursue potential strategic acquisitions that bring together synergistic

business models to generate greater overall value for the business. During the holding period, private equity funds will place its team on the company's Board. Funds that have a majority stake will have a majority position on the Board (meaning the private equity group has control). Funds holding a minority position will have fewer positions on the Board and have "negative control" over key operating and governance provisions.

In addition to having people serving on the Board, the firm's leadership will also negotiate governance provisions and related policies that give it control of the business relative to the fund's ownership stake, meaning they have the final say on business strategy and other key operational issues (i.e., selecting the CEO or CFO, final budget approval, final capital budget approval, etc.). For example, during my tenure as *CEO of the Russian Fitness Group*, our private equity investor, while a substantial minority investor, had final approval on the annual budget, approval of all major investments, and final say on selection of the CEO and CFO. A fund with a majority stake will have the final say, with Board approval, on distribution of any positive cash flow back to the fund and its investors. Private equity funds with a minority position may not have control over distributions but may participate in them.

During the time period a fund holds its investment, the firm receives an administrative fee for managing the asset on behalf of its investors (typically ranges from 1% to 3% depending on market dynamics).

(See *ClubIntel* Page 25)

Table 1 - Target Classes for Private Equity

Type of Fund	Size of Typical Investment	Description/Type of Industry
Growth Capital	\$5 million to \$50 million	Firms with a record of profitability and in a growth stage who need working capital to continue growing or capital for important capital expenditures. For example, many if not most investments in brick and mortar fitness and franchise fitness businesses. Larger private equity funds typically don't provide equity at these levels, nor take a lead in funding start-ups.
Mezzanine Financing	\$5 million to \$50 million	Structured capital sandwiched between equity and senior debt that can be structured either as subordinated debt or preferred equity and may have both debt and equity characteristics.
Leveraged Buyout	\$2 million to \$200+ million	Purchase of an operating company using significant amount debt. Frequently used with businesses that have strong stable cash flows and/or where operational or financial strategies can be used to improve cash flows or more efficiently finance businesses. For example, Lifetime Fitness was taken private in a leveraged buyout by TPG and Leonard Green because, in part, the public market did not value the cash generating capability of Lifetime Fitness (public markets are generally more focused on growth).
Distressed Buyout	\$2 million to \$200+ million	Invests in equity and/or debt securities of financially stressed firms with focus on operational and/or financial restructuring.

The Power of Persuasion

By: **Derek Barton**

As a marketer, I'm always fascinated about the power of persuasion. In the movie industry, they have to be so good at their marketing in order to win us over in a short period of time. If they fail to attract a big audience for their opening weekend, the movie usually fizzles out. The same goes for politicians in an election year trying to persuade us to support their campaign. If they fail to connect with people, they're out of the race. And, the same is true in the health club industry. Bottom line, the ability to persuade people leads to success.

My father taught me a valuable lesson on how to deal with my younger brothers, which helped me throughout my entire life, especially in my marketing career. It was *Lesson #57* from my Dad, *"The Power of Persuasion."* One night,

in the late '60s, the whole Barton family was in the living room watching "The Ed Sullivan Show." I was 17 at the time, my younger brother Jack was 13 and my youngest brother Greg was seven. I tried to persuade my brothers to get me a bowl of ice cream from the kitchen. They both turned me down. I was angry and let them know it. They left the room. My Dad looked at me and said, "Sell 'em on it."

My mother seemed curious with Dad's new lesson, but I was trying not to look annoyed. I asked, "What do you mean, 'sell 'em on it?'" My father replied, "You have to sell your brothers on the idea of getting you a bowl of ice cream. They're thinking, 'what's in it for me?'" Now, I was even angrier. "I do so many things for *them*, Dad, they can at least do that for *me!*" My Dad smiled and said, "I know you do, but they don't keep track of that. It's human nature.

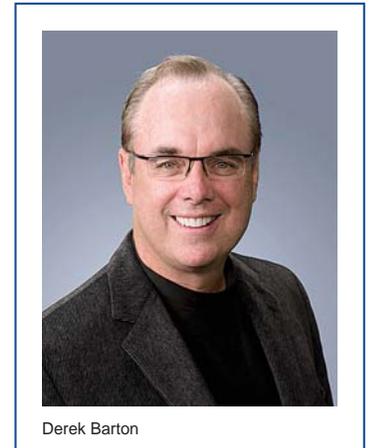
You have to sell them each and every time." After that reality sunk in, my Dad finished the lesson. "You're the older brother. You are smarter than they are. Choose the right words that will get you what you want." Still frustrated, I said, "That's a lot of work, Dad." He replied, "Yes, it is, but the result will be worth it."

My brothers came back in the living room with their own snacks from the kitchen. With my Dad's lesson in mind, I tried to "sell 'em on it," but I took a short cut and *calmly* asked them for the ice cream, thinking that my nice brotherly tone would work. Nope. My Dad shot me a look. What a challenge! Like asking the best-looking girl in high school out on a date when a million lines come to your mind, but you know every one of them is going to be shot down. I exhaled, and instead of the shotgun approach to both brothers, I targeted my youngest brother, knowing what he wanted. I said, "Hey Greg, if you go get me a bowl of ice-cream, I'll let you ride my bike tomorrow." To my surprise, he took off to the kitchen and brought me back a big bowl of Rocky Road ice-cream. I was blown away. I looked at my Dad. He smiled and winked. Mission accomplished.

That lesson served me well. Just like in advertising, you have to deliver the right message to the right target. Whether you're on the campaign trail, in the movie industry or in any type of business, it's imperative to understand what people want and to find the right words or story to persuade and move them. It's human nature to take short cuts, but if you take the necessary time to do things right, the payoff is tremendous. Not all of your messages or ads will be a home run, but that's when you have to shift gears and try another approach.

For over 35 years, I have passionately studied brands like Nike, Apple, Google, McDonald's and Coca-Cola. The reason they are billion-dollar brands and are famous worldwide is that they know how to appeal to people's emotions. And, they do it consistently with what I call, "The Home Run Formula." Their ads have four things in common: (1) a great headline, (2) a dynamic image, (3) inspirational and concise copy and (4) a great logo! The trip around the bases, thus, the home run!

For some reason, in the health club industry, gym owners don't think they are in the same league as those brands that I just mentioned. It boggles the mind because none of those brands have a better product or service. For example, Coca-Cola is sugar water. Period. It's not a healthy product, we all know that, but millions of people worldwide are drinking it right now, and I still see Coke stocked



Derek Barton

in gym refrigerators everywhere. Why? Because Coke says in their merriest of jingles, "Have a Coke and a smile." And, who doesn't want to feel good and smile?

We also know that smoking cigarettes is not healthy for us, but Marlboro knows when we see a handsome and rugged man on horseback smoking a cigarette looking all cool and macho, we will say, "Damn, I want to be that cool!" Cha-ching. That's the power of persuasion.

By the way, the Marlboro Man, who was introduced in the 50s, has been the longest running "Brand Agent." Marlboro's marketing strategy has always advertised their cowboy as tough, self-sufficient and hard working. They knew from the beginning it's how America sees itself, and so, millions of people related to him and fired up those Marlboros. Message received. FYI, the only guy in a cowboy hat that I follow is **Norm Cates!**

If Coca-Cola can convince people to buy sugar water and Marlboro can persuade people to smoke their "cancer sticks," then gym owners should be able to sell something *easy*, like health and fitness, right? One would think so, but the lowering of gym membership fees over the years says otherwise. As I have said for decades, we have the most important product and service in the world, health and fitness, but we struggle to sell people on it.

Kudos to those health club owners who *have* hit home runs in their marketing and continue to be successful in persuading people to join them for their mental and physical wellbeing. You obviously know how to "sell 'em on it."

Thanks, Dad.

(Derek Barton is CEO of Barton Productions, and he can be reached at derek@bartonproductions.com.)

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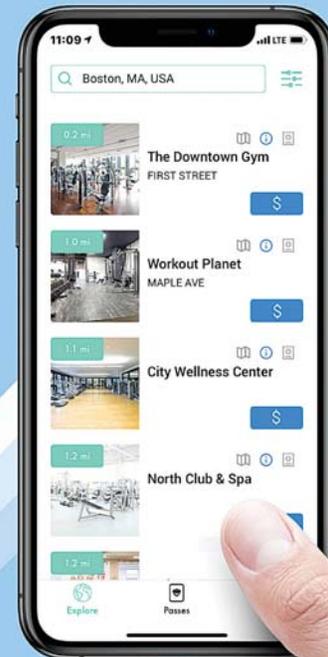
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...ClubIntel

continued from page 23

5. Exit the investment. In general, investors make their money at exit. While dividends (through earnings or recapitalizations) may be distributed over the course of a fund's holding period, it is generally at exit that a private equity fund generates the majority of return for the investors. The typical target is a 15% to 20% internal rate of return (IRR) which, depending on the holding period, may equate to a 2X or greater multiple on invested capital (MOIC). According to McKinsey and Company's 2019 report, the top quartile of returns for private equity in 2018 fell between 20% and 50%, while the return performance of the second quartile fell in the range of 10% and 20%. According to Bain's 2019 report, in 2019, the average MOIC for firms varied based on the asset category invested in, with healthcare services and technology having the highest MOICs in 2018 (healthcare services had a MOIC ranging from 2 - 2.5, while software and technologies had a MOIC over 2.5). While IRR and MOIC are the most frequently used measures of an investment's success at exit, others are used. It should be noted that highly leveraged (high debt) investments may generate a higher IRR and MOIC than those with less debt and more equity.

Valuation Drivers: Variables that Impact a Businesses Valuation

Historical financial performance. A business that has a track record of excellent financial performance with year-over-year growth may hold greater value than one whose performance has been inconsistent year-over-year, is flat or is on a downward trend.

Brick and mortar operation vs. brick and mortar with real estate. A business with accompanying real estate tends to drive higher multiples as a result of the lower cost of financing real estate. For example, a business such as *Life Time Fitness*, which owns both its real estate and operations, would generate a higher multiple than another operator that doesn't own its properties and leases space. In instances

such as *Lifetime Fitness*, or even *ClubCorp*, where there are considerable real estate holdings, a private equity firm may use an operating company/property company structure by forming two holding entities, one for the operation of the business and one to hold the real estate associated with the business. The operating entity may have a higher cost of capital associated with it than the property company. By financing the business separately, the overall cost of financing the transaction may come down, which could result in a higher multiple being paid for the combined entity. It may lead to different sources of debt.

Brick and mortar vs. franchisor. A franchisor's cash flow stream, in general, has the ability to grow faster (able to open units faster by leveraging franchisees); has greater diversification (number of outlets

and geographic coverage); has more predictable cash flows because the cash flows are based on the system's revenues not the system's profits; has a higher cash conversion rate because there is less cap-ex associated with it as well as lower operating overhead; may be able to be financed at a lower cost of capital because of the aforementioned characteristics; and therefore, may demand a higher valuation multiple. For example, a franchisor such as *Anytime Fitness* or *Planet Fitness* may garner a greater EBITDA valuation multiple than a comparable operator who owns all of its stores.

Condition of the brick and mortar. A business that has been in business for years may need considerable capital investment to remain relevant. If a portion of the investment is needed for making physical improvements to the facilities, it lessens the funds available for growth, which may place downward pressure on valuation.

Lease Terms. A business that leases its space can be negatively or positively impacted by the terms of their outstanding leases. For example, if a business' existing leases have less than five years before renewal, it is likely to hold less value than

(See *ClubIntel* Page 26)



...ClubIntel

continued from page 25

a business whose leases don't come up for another eight years. Along the same lines, a business whose leases are above market rate would likely hold less value than one whose leases are less than the going market rates.

Competition and market saturation.

A business that operates in a highly competitive market where there is an over supply of similar value propositions tends to have less appeal than a business that exists in a market segment with fewer competitors and more "white space."

Differentiation that fosters a sustainable competitive advantage.

A business whose value proposition is different and unique with the ability to foster a distinct

and sustainable competitive advantage (Warren Buffet refers to this as an impenetrable moat) or has the ability to temporarily monopolize a specific market niche might be perceived as more valuable. Right now, one reason boutique fitness studio franchises have garnered the attention of private equity is their unique value proposition and their ability to appeal to a high-value consumer base.

The businesses leadership team.

Investors place considerable weight on the talent of a business' leadership team. An experienced and talent leadership team provides a bump in value compared to a business that has a weak leadership team or a leadership team that has experienced a high level of turnover. A strong leadership team is significantly more likely to execute on strategy that improves business efficiency and productivity than a weak

leadership team.

Market demographics. The audience your business caters to and the size of that audience are important valuation variables. Value propositions that appeal to Millennials may be more valuable than a value proposition that targets Generation X. Along the same lines, a value proposition that appeals to individuals with household incomes (HHI) over \$100,000 may be more attractive than one that appeals to an audience with HHI under \$50,000. Finally, a business model that can easily be dropped into a dense urban population may be more appealing than one that is built for suburbia.

Scalability. Private equity loves a value proposition that can be easily scaled (duplicated and dropped anywhere) relative to one that has a lot of moving parts and is challenging to scale. For example, a

budget club is more scalable than a high-end, multipurpose fitness facility.

It is important to understand that this list represents just some of the considerations a private equity group will use to help determine a business's value.

■ ■ ■

In **Part II**, we will discuss the inherent opportunities and challenges of partnering with private equity; the state of private equity in the fitness industry; and things to consider when building a relationship with private equity.

(Steve Tharrett and Mark Williamson are the Principals of ClubIntel and can be reached at stevet@club-intel.com and markw@club-intel.com.)

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Thanks and Appreciation

At **Club Insider**, we are excited to be in our **27th Year** of this home-based health and fitness club trade publication! The thought that this publication 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 27-year run possible.

A very sincere **Thanks and Appreciation** go to **Rick Caro**, the **late 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. **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 **315** monthly editions! And, of course, **Thanks and Appreciation** to the **United States Postal Service** for sending those editions out to our **10,000** readers! **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 a decade of continuous 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 *thousands* 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 eight years old (helping with mailings). This young man 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 a majority of our cover stories each 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. And, 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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FROM FOOD TO FITNESS

Aaron Davis's story...

Aaron is a serial entrepreneur and experienced multi-unit franchisee owning 17 Little Caesars. He was looking for an opportunity to diversify his portfolio and has always been a fitness nut, so branching out into the fitness franchise segment was the logical next step. Food service operators know firsthand the challenges of the restaurant industry, which include high labor costs, extensive employee turnover and skyrocketing operating costs. Aaron was very impressed with the ease of operations and the need for only 3-4 employees to operate the club. After speaking with Workout Anytime franchisees, he was equally impressed that 73% own multiple units. Aaron leaned on Workout Anytime's proven franchise model to 'hit the ground running' and opened two locations within one year with a third on the way. Workout Anytime has more than tripled their club count over the past 5 years and have averaged 38% growth in new club openings.

"Adding fitness was a very profitable way to round out my business portfolio."

Aaron Davis, Owner
Boiling Springs, SC & Duncan, SC

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