

Norm Cates'

THE Club Insider

NEWS

JUNE 1995

The Pulse of the Health, Racquet & Sports Club Business

RAY WILSON... A Club Legend In His Own Time A Case Study Of The Family Fitness Centers - Part I

By Norm Cates, Jr.

Consider the club industry now. Over 20,000,000

health club members in the U.S. and growing at a consistent rate of 10% per year! Over 12,000 "for-profit" health clubs. Cardiovascular exercise is accepted and sought by consumers everywhere. Doctors are recommending strength training for

all, especially for the elderly. The fitness and club industry is booming. The future years may be the most exciting and dynamic time in the history of the club industry due to the shift to "upstream preventive care" by

the medical community. The list of exciting happenings in our industry goes on and on. One of the real pioneers in this industry is Ray Wilson and this is his story.

Ray Wilson has been in the health club business for 47 years! Among his most significant accomplishments are the development of the European Health Spa chain, the refinement and successful marketing of the LifeCycle aerobic training bike and the Family Fitness Center chain of 72 clubs. But, after a career full of ups and downs, Ray is quick to point to the contributions of others in advancing the state of the health club industry.

He gives credit to IHRSA (The International Health, Racquet and Sportsclub Association) for having a significant impact on the rapid growth of clubs and the increase in the understanding of the importance of regular exercise. He says, "This industry didn't just happen..... it happened because a lot of people did a lot of things along the way. IHRSA is one of the greatest things to ever happen in the industry." He believes that in a few years, 50% of club's revenues will come from "corporate" sources due to the health care shift from a primary business of curing illness to that of prevention of illnesses. He also believes that "even though Bally is in trouble now and has some

serious problems, the Bally Health Clubs have helped the club industry a great deal in "authenticating" exercise as the "right thing" to do through their use of celebrities to advertise their memberships." He also credits Arnold Schwarzenegger's popularity and fame as a movie star as having a lot to do with the acceptance and popularity of working out and fitness.

Citing these accolades for others, Wilson shares his incredible life story in a candid and humble manner. While praising the contributions of IHRSA, Bally and Arnold in moving and shaping the entire fitness and club industry as we now know it, he seemed almost hesitant to include himself as one of the greatest contributors to our industry. This is the story of a man who has made a huge contribution to the business.

This writer began this interview with impressions consisting mainly of input from others. I had heard Ray speak and teach us how to convert racquetball courts at one of our IRSA Conventions in the early 1980's. After that, the only previous conversation I ever had with Ray Wilson was when he called to order a subscription to The CLUB INSIDER News about six months ago. The man is a total opposite of what I had heard and "thought" I knew about him. His knowledge of the health club industry is incredible. The description of Ray as a true legend in his own (See Ray Wilson page 8)



Ray Wilson, Rhonda (youngest of six children) and Sonja Wilson (Co-Founder) of Family Fitness Centers

BIG NEWS FROM THE WEST COAST!

The health club industry nationwide is abuzz with rumors about a New York investment banking firm negotiating to acquire the Family Fitness Centers, a 72-club chain with locations in California, Nevada and Colorado. CLUB INSIDER sources say that serious negotiations are taking place for an acquisition similar to the recent deal in which controlling interest in 24 Hour Nautilus was obtained by the New York firm for \$34,000,000. Terms are not known. Look for more in the July CLUB INSIDER News!

• Inside The Insider •

- HealthRider CORRECTION
- LifeFitness Counter Sues Precor
- USA Health Technologies Acquiring Clubs
- IHRSA State of the Industry Report
- Are YOU A BOSS FROM HELL?
- Health Care Connection by Neil Sol, Ph.D.

THE INSIDER SPEAKS

• EDITORIALS • "INSIDER MAIL" • COMMENTS •

ARE YOU A BOSS FROM HELL?

By Norm Cates, Jr.

Last month, this editorial page was dedicated to the important club industry issue of EMPLOYEE TURNOVER. The point I made was that employee turnover in the club industry is a problem that hurts all clubs in terms of membership retention, new membership sales, cost control and eventually the bottom line. The reason is that your members develop relationships with your employees and when your staff is constantly being replaced, invariably you will lose some of those members and you will lose new membership sales in your marketplace because your club will develop a reputation as being "unstable." Your business will not operate efficiently, thus your cost control is negatively impacted. The records are clear. The most successful financially performing clubs in America are clubs where the full-time staff has significant tenure with

the club.

So, how can you go about improving employee turnover in your health, racquet or sportsclub?

Maybe, a good place to start is to identify some of the primary causes of health club employee turnover. It is probably safe to say that employees leave because they: (1) Don't like the working environment and compensation arrangement. (2) Don't feel appreciated by their supervisors. (3) Don't view continued employment at the club is in their own best interest. (4) Are fired by their boss due to inadequate performance or other problems.

If we examine each of these causes of health club employee turnover carefully, we see that they all tie back into the management skills of the "boss." The boss may be the club owner, acting as manager. Or, he/she might be a manager hired by the owner to manage the club. In any case, the boss has a lot to do with em-

ployee turnover in the club industry in America today.

Tracing the causes of club employee turnover, we can see that items #'s 1 thru 4 above are directly related to the management skills of the boss. The boss creates and directs the working environment in which the club employee must exist. If the boss lacks skills in the management of people, the natural result will be the loss of employees, over and over. And, as it relates to item #4 above, if the boss is not talented in recruiting, hiring, training and supervising the right people, he ends up firing necessary people and will be forced to go through the hiring cycle again and again. The boss is THE KEY.

Now folks, don't get me wrong..... I am not sitting here writing this after having actually been a "GREAT BOSS." Quite the contrary. I spent nearly 20 years in the club industry as a developer and owner of clubs. I was a classic example of "A Boss

From Hell." I was not trained in management, nor was I skilled at managing people. It wasn't fun..... for my employees OR for me. But, I am now able to reflect back and realize that a number of things might have been done to improve my performance as a manager of those nice people;

(1) I could have gotten TRAINING in management before entering management. I came into the club industry quite by accident as a furloughed airline pilot (1973 Arab fuel embargo). I had only four years of experience right out of college as an Air Force Jet Instructor Pilot during Vietnam and six months as an airline pilot to prepare me for management. My college degree in Recreation and Parks Administration did not prepare me adequately for the delicate job of man-

agement of people. OR,

(2) I could have hired qualified managers to do what I was trying to do. In fact, over the years, I did hire a number of what I considered to be outstanding people. However, I was not good at "letting go" through delegation of responsibility and authority. The "revolving door" kept turning. In short, I had good people, but I WAS THE PROBLEM, as I lacked the skill to manage the managers in order to produce the results I was seeking.

With the above said, I know one thing for sure..... I WAS NOT ALONE! I know that there are lots of UNQUALIFIED MANAGERS out there trying to manage people in the club business where people are the KEY. I also know that many of them are club owners that don't realize OR will not admit that THEY ARE THE PROBLEM.

DON'T GIVE UP!

If YOU are a "BOSS FROM HELL"..... don't give up..... just realize that you might need some help..... QUALIFIED HELP..... to do something that you may not be qualified to do after all.

One of the greatest tools available to the club industry today to "diagnose" and understand your club business is called "EXECUTIVE INSIGHT."™ "EXECUTIVE INSIGHT,"™ developed by Dr. Gerry Faust, of Faust Management Corporation in San Diego, is a complete business diagnostic kit which will provide you with the tools necessary to come to a clear and true understanding of the various dynamics of your business. If you come to suspect that you need to change and you need help in defining your needs and accomplishing that change, consider "EXECUTIVE INSIGHT."™

And, while you are figuring all of this out, remember the following tips to help you and your employees carry on

until you can figure out what to do next:

TRAITS OF A GOOD BOSS

- (1) Never miss a chance to acknowledge a job well done.
- (2) Assume the best about your employees - treat them as mature, responsible team members.
- (3) Encourage your workers to make their own decisions. Trust and respect them.
- (4) Communicate your wishes in clear, specific terms and in writing.
- (5) Invest time and money for your employees to upgrade their skills.
- (6) Whenever possible, allow workers to make their own mistakes. A good boss allows learning "the hard way."
- (7) Involve your workers in setting measurable, achievable goals as well as time constraints.
- (8) Good bosses are trustworthy...they never lie, betray a confidence or engage in back stabbing.
- (9) Be pleasant, smile readily, shake hands easily. Be able to occasionally laugh at yourself.
- (10) Solicit feedback from your workers about your role as a manager.
- (11) Resist the temptation to over-monitor employees.
- (12) Keep your workers informed. Don't allow vague rumors and grapevine news to be your employee's only source of information about changes in personnel or policy.
- (13) Encourage your workers to stretch and grow in their jobs. Notice their efforts to gain new experience and increase their decision-making powers as soon as they're ready.
- (14) Take time to know your employees as individuals, to learn about their interests, hobbies, backgrounds and families. Remember, a five-minute chat with an employee can provide important information about what is needed to do a better job and the personal touch will pay off in terms of increased loyalty and commitment.

GOOD LUCK FROM THE CLUB INSIDER!

TCA

May 25, 1995

Mr. Norm Cates
 The Club Insider News
 P. O. Box 671443
 Marietta, GA 30067

Dear Norm:

Your May, 1995 issue is the best yet. Congratulations on your circulation increase to 12,500 clubs.


I particularly like the page devoted to Olive Mae and Dale. They deserve every bit of recognition they get.

Augie Nieto and his coup with the Simpson jury is my idea of great public relations creativity.

Warm regards.

Sincerely,

TCA


 Alan G. Schwartz, Chairman

AGS:jh

•NORM'S NOTES•

WELCOME TO OUR NEW READERS! The **CLUB INSIDER** News has now expanded to 12,500 locations nationwide and I would like to thank our 25 advertisers who are sponsoring this "NATIONWIDE SUBSCRIPTION!" (See the bottom of this page for subscriber details.)

ROGER AND ELAINE RALPH, Founders of the Bel Air Athletic Club of Bel Air, Maryland are celebrating the 15th Anniversary of their club. Roger and Elaine have made community involvement, quality, ethics and excellent programming key parts in the success of their great club. In addition to being a tremendous role model for other club owners and operators, Roger has used his keen intellect to serve and lead the International Health, Racquet and Sports Club Association over the first 14 years of its existence. Roger sees cooperation and compromise where others see confrontation. He leads when leadership is needed. And, he listens to the pulse and plans his club moves according to the market's needs and desires. CONGRATULATIONS to Roger and Elaine and their outstanding staff on the celebration of their 15th Anniversary of The Bel Air Athletic Club, one of America's most outstanding clubs.

JIM GIBBONS was the manager of the HealthRider Commercial Division. As he was fired by the HealthRider Company last month, he told the **CLUB INSIDER** that the HealthRider Commercial Models had been cancelled. Be sure to see the **CORRECTION** in this issue. Even though Gibbons and two different HealthRider telephone operators had said the HealthRider PRO Model was cancelled, apparently it is still alive. (See page 12.)

JIM KARR, owner of **CLUB UNIVERSE** in Milwaukee, has developed an excellent relationship with a local credit union which funds his membership contracts at 100% and with a very quick turnaround for qualified new members.

CLUB INSIDER sources say that **TECHNOGYM**, the Italian company which is the largest fitness equipment manufacturer in Europe is planning to come to the U.S. market soon.

BALLY UPDATE IN BOSTON - Last year, the Massachusetts Attorney General, **SCOTT HARSHBARGER** brought a lawsuit against the Bally clubs in Mass. to attempt to shut the Bally clubs down due

to over 1400 consumer complaints since they signed a consent decree in 1989. The trial is set for August 21st. I contacted **PAMELA KOGUT**, an Assistant District Attorney, and she said that trial could result in "various forms of relief", meaning that a shut down of the Boston Bally clubs is not necessarily the only potential result. I, for one, hope that the judge will see evidence of Bally's new sales training program and ACE Certification Program and will realize that **BALLY TOTAL FITNESS** is making its best efforts to correct the problems which caused the many consumer complaints. To shut those clubs down, even after all of those complaints, would result in nothing but a bad deal for the members and bad publicity for not just Bally, but for the entire industry. Bally's 1st Quarter Financials are showing a dramatic financial improvement for the company, so maybe their retraining efforts are having an impact. I hope so.

CHARLIE LINDSEY is the President of **AMERICAN CLUB SYSTEMS**, a Columbus, Georgia based company which is experiencing remarkable success in club development, growth and operations. Charlie is a former Mr. Alabama who along with partner **TIM** has built ACS into an organization of over 60 clubs and projects to add many more in the near future. Next month, The **CLUB INSIDER** News



Norm Cates, Jr.

will do a feature story on **CHARLIE LINDSEY** and his **American Club Systems**.

MIKE TALLA and **NANETTE PATTEE FRANCINI** are the developers of L.A.-based **SPORTS CLUB COMPANY** which is now a publically traded company. Congratulations to **REEBOK INTERNATIONAL** and **MIKE AND NANETTE** for their

recent opening of the \$55 Million **REEBOK SPORTS CLUB/ NY**! This 140,000 square-foot facility, located at 67th Street and Columbus Avenue in Manhattan, has it all. The Sports Club Company stock was originally offered at \$9 per share and is now trading under the symbol **SCY** at around \$5 on the American Stock Exchange.

What Is The **CLUB INSIDER** News And Who Is Norm Cates, Jr.?

The **CLUB INSIDER** News is the one and only newspaper dedicated to the health, racquet and sportsclub industry. It has been in publication since December, 1993 and has received great reader reviews since the beginning. The **CLUB INSIDER** News is different from the other industry publications due to our "TELL IT LIKE IT IS" policy, something other industry publications have feared to do because of "industry political reasons." This "TELL IT LIKE IT IS" philosophy has been a breath of fresh air for our readers because The **CLUB INSIDER** gives them the **TRUE INSIDE STORY** about important industry happenings, controversial issues, in-depth reports on club success stories and yes, failures. The mis-

sion of The **CLUB INSIDER** News is to help club owners and managers improve their business performance and to keep them informed about important industry issues and happenings.

The **CLUB INSIDER** News is now distributed to over 12,500 clubs each month on the basis of a new "NATIONWIDE SUBSCRIPTION" which is funded every month by our esteemed advertisers. These companies have stepped forward to provide a complimentary issue of The **CLUB INSIDER** News to over 12,000 clubs each month. They deserve your support and your business and we highly recommend our advertisers to each of you. If you are a paid subscriber, you will begin to receive your monthly issue via 1st

CLASS MAIL each month, which means you will receive it 2 to 3 weeks BEFORE those on our "NATIONWIDE SUBSCRIBER" list because the complimentary issues are delivered via bulk mail. The **CLUB INSIDER** News is funded through both advertiser revenue (which is the best advertising value in the industry) and through reader subscriptions which we have now priced at the rate of \$49 per year for subscriptions. Since we began publishing 19 months ago, our readers have told us that one issue per location is just not enough, so we encourage you to support The **CLUB INSIDER** News through at least one annual \$49 per year subscription.

WHO IS NORM CATES, JR.?

Norm Cates, Jr., is a vet-

eran of 20 years in the club industry as an owner and operator of athletic clubs in Atlanta, Georgia and the Southeast. Cates entered the club industry by coincidence, as he was an Air Line Pilot who was furloughed for four years during the 1973 Arab fuel embargo. Starting as one of four partners in a chain of clubs called **COURTSOUTH** in the mid 1970's, Cates went on to develop, own and operate clubs in Atlanta during the 1980's and 90's. In 1978, Cates was elected to serve on the Board of Directors of the National Court Club Association (NCCA) and in 1980 was elected to serve as the President of NCCA. In 1980, Cates, along with other Founders, established **IRSA**, then known as the International Racquet Sports Association. In 1980/81, Cates served as the 1st President

of **IRSA**, now known as **IHRSA**, The International Health, Racquet and Sports Club Association. Cates still serves on **IHRSA**'s Advisory Council. In 1993, Cates exited the world of day-to-day club operations and founded The **CLUB INSIDER** News with the help of many of the same great people that founded **IHRSA**. Since that time, Cates has served as the Publisher and Editor of The **CLUB INSIDER** News, a monthly publication. Cates' 20 years in the club industry sets him aside from the publishers of the glossy magazines as he is the only industry publisher with extensive experience as an owner and operator of numerous clubs.

MICROFIT'S HEALTH CARE CONNECTION "UNITED WE SHOULD STAND"

By Neil Sol, Ph. D.

Managed care organizations (MCO)/ health insurance companies are developing a keen interest in the health club industry because of our expertise in the provision of preventive health services. MCO's, however, desire the availability of these preventive services for all their subscribers. It is difficult for a MCO to offer service to one group of their subscribers that is not available to 100% of the subscribers, even if the impact of the service is beneficial for the select group.

Therefore, MCO's may decline our offers to provide them with preventive health services if we are not prepared to meet their comprehensive coverage requirements. Individual clubs alone, typically cannot serve the vast geographical distribution of MCO company subscribers.

Be that as it may, MCO's continue to need our help. We however are at a crossroads, either we solve this dilemma of full area coverage or the MCOs will assume the task of developing a relationship with individual/independent clubs through out their service area in an effort to provide to all their subscribers. The MCOs are being motivated to organize a network of preventive health providers to meet their needs.

When the MCO solicits participation of preventive health providers, they are in control. They become empowered in their negotiation as they represent volumes of subscribers in need of preventive health services and if we are interested in being involved we must take their offer. MCOs are in the driver's seat with an ability to dictate price and program to an independent club that is interested in participating in the MCO's preventive health provider network.

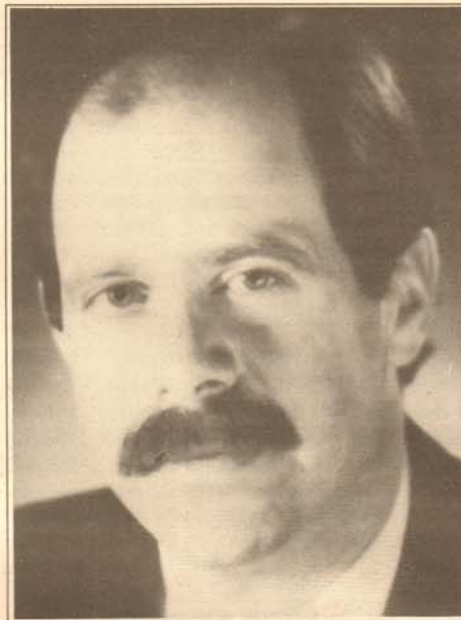
It therefore is prudent for the club industry to strengthen its negotiating position with MCOs by establishing networks or consortiums of area clubs that are geographically distributed to provide comprehensive preventive health coverage. Multiple health club systems have an obvious advantage over independent clubs as it relates to geographical coverage, but even the largest system will have gaps in their area of coverage and will have to solicit the collaboration of other clubs in those areas.

Organizing a club network allows us to control our own destiny and enables our approaching MCOs with a proposition that meets their need of similar preventive services for all subscribers in their service area. Many clubs throughout the country have realized the opportunity and have

already organized networks. A good example of such a network which has met with great success in this endeavor is the Arizona Fitness Network, serving the Phoenix, Arizona metropolitan area. And, IHSA (The International Health, Racquet and Sportsclub Association) has taken the lead in developing a nationwide network of clubs; however, it appears that the smaller regional or city wide networks are more marketable and manageable.

Network relationships can range from simply a group of area clubs getting together and agreeing to provide common services for an agreed price, to a more formal arrangement with the club signing a network agreement that stipulates services and pricing; terms of network participation; rules of governance inclusive of acceptance and termination criteria of network members; rules of selling network services and methods to evaluate the impact of the network.

The concept of net-



Neil Sol, Ph. D.

works is very familiar and comfortable to MCOs as they have been organizing physicians and hospital provider networks for years. We have all seen or have a listing of physicians from which subscribers can select medical services to obtain the preferred pricing negotiated by their MCO. The same will be true for preventive health services and are slowly incorporating these services into their insurance product lines. But, like traditional health care, MCOs

will need to control costs and they will develop these preventive health networks.

We can either wait to be solicited by an MCO to participate in their preventive health network and play by their rules or we can organize ourselves into networks and better control our destiny.

This is a new time for the club industry and it is no longer about competition and undercutting your fellow club owner to gain a business edge. There is an important place for us in improving the health of America. This new time is about

uniting and presenting ourselves as an industry. There is enough preventive health business available for all health clubs to succeed.

"UNITED WE SHOULD STAND!"

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

USA HEALTH TECHNOLOGIES AGGRESIVELY ACQUIRING CLUBS

By Norm Cates, Jr.

Gordon Hall, the Chairman of the Board of Directors of USA Health Technologies, is either a financial genius or the one of the world's greatest dreamers. He is working financial wizardry, if information provided by Hall in a recent interview with THE CLUB INSIDER News is true and accurate. The CLUB INSIDER received a call from Hall on the day that the Atlanta newspapers headline in the business section read: "ARIZONA FIRM TO

BUY FITNESS CLUB CHAIN SPORTSLIFE". We had called his offices in Mesa, Arizona to learn the inside story on this reported "sale" of Sportslife. Sportslife is a chain of 7 Atlanta area health clubs which in the past year has also diversified into publication of a fitness magazine called VIE and a nutritional supplement company. According to Hall, the Sportslife clubs, publishing and nutritional supplement companies will be acquired by USA Health Technologies in a "stock swap."

The Morgan Press Special Situation Stock Report had

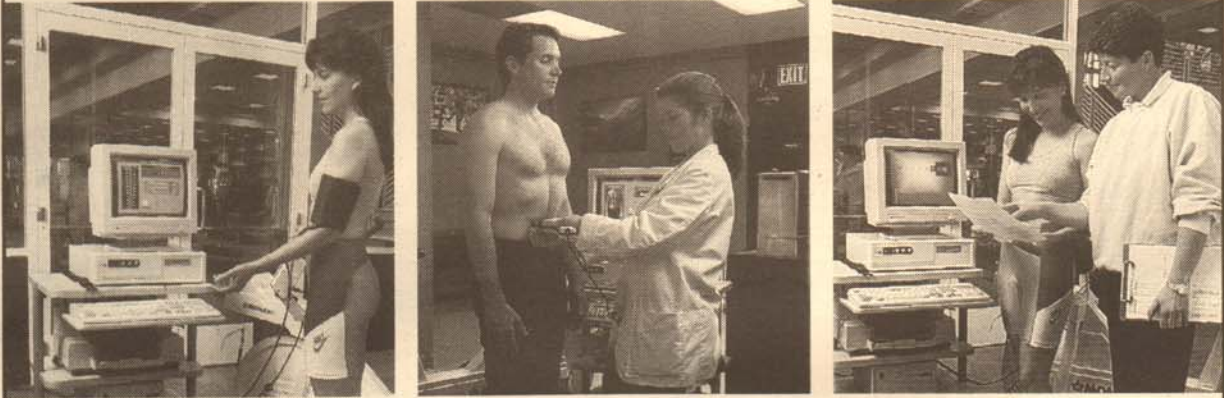
the following to say about USA Health Technologies. "With Wall Street just beginning to "Discover" The Health Club Industry, USA Health is quietly snapping up Mom and Pop operations at FIRE SALE PRICES. In an otherwise overvalued market, Chairman Gordon Hall shows how it is still cheaper to buy than to build. One area where the opportunity still exists to buy, cheaper than it is to build, is the private sector. And, one area within the private sector where there is a plethora of good values is in the health club industry. Enter Gordon Hall of

USA Health Technologies. We met Mr. Hall during a recent due diligence meeting in Boca Raton, Florida. What we learned during the meeting is that the number of health clubs in the United States range in the thousands. That it is a very fragmented industry. That despite the enormous cost required to build a health club, it remains a true Mom and Pop industry."

Morgan Press continued: "Many players in the industry, due to mismanagement or fair management, are headed for closure, are on the eve of closure or have closed."

In Atlanta, Sportslife, has enjoyed a good reputation with consumers overall. Some local operators question Sportslife's methods of operation, but it is hard to argue with their success as they continue to add clubs and more members (63,000 at last report). However, in the last few months, there is an unsubstantiated rumor circulating that Sportslife has not paid all of the commissions due to its sales people. It is not clear to this reporter whether Sportslife fits the Morgan Press Description of USA Health Technologies targets: i.e.: "Many players in the industry (See USA Health page 6)

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SALES MAKERS

"TIP OF THE MONTH"

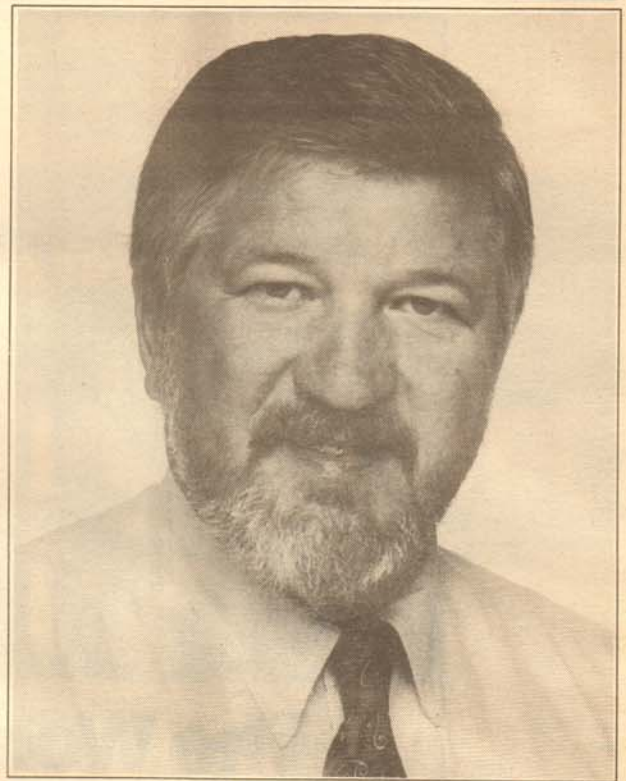
There are twenty - nine words that sell.
 The first is your PROSPECT'S NAME.
 The other 28 are:

• Understand • Proven • Health • Easy • Guarantee • Money • Safety • Save • New • Love • Discovery • Right • Results • Truth • Comfort • Proud • Profit • Deserve • Happy • Trust • Value • Fun • Vital • You • Security • Advantage • Positive • Benefits

There are 25 words that "unsell."
 They are:

• Deal • Pay • Sign • Worry • Lose • Buy • Bad • Sold • Decision • Difficult • Liable • Liability • Appointment • Cost • Contract • Try • Loss • Hurt • Death • Sell • Price • Hard • Obligation • Fail • Failure

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Ray Gordon

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USA Health
 continued from page 4

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try, due to mismanagement or fair management, are headed for closure, are on the eve of closure or have closed." In the intensely competitive North Atlanta market, there are over 100 health clubs and this competition plays a significant role in the success or failure of all Atlanta area clubs.

The Morgan Press report recommends the stock purchase of USA Health Technologies stating that: "USA Health is a company whose revenues and earnings will be driven by acquisitions."

So far, according to a stock market report produced by a veteran local stock broker, they have acquired two other clubs, one in Tucson, Arizona and one in Midland, Texas, a company called Holland Cos., a manufacturer of exercise equipment and they signed a "definitive agree-

ment" to buy a meat packing company in California. The **CLUB INSIDER** contacted the owners of the meat packing company and was informed that the transaction did not go through. And, the owners of the meat packing company made no positive comments about Gordon Hall or USA Health Technologies. According to the local veteran and executive stock broker, who analyzed the USA Health Technologies report for The **CLUB INSIDER**, "this is a penny stock, that if it were not for the 50 for 1 reverse stock split in March, would be trading at around 20 cents per share. This company could be here today and gone tomorrow."

However, to hear Gordon Hall tell it, his 13 years of experience designing and developing over 40 athletic and fitness centers will serve him well in his new venture with USA Health. Hall, says he

was the original founder of the first five 24 Hour Nautilus operations, which hardly qualifies him as a top manager of health clubs for profit. Hall emphasized to the **CLUB INSIDER** that he had vast club experience and he was "surrounded" with veteran health club operators.

Importantly to the SportsLife group, the Results Fitness and Health former owners and the Midlander Athletic Club former owners, Hall has not paid a dime for ownership of their businesses. He has just given them a rosy prediction for the future of the stock they have received for their clubs and nothing more. The **CLUB INSIDER** hopes that his story comes true and that Gordon Hall is indeed a financial genius.

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LIFE FITNESS COUNTER-SUES PRECOR

Franklin Park, Illinois - Life Fitness has announced that it is seeking substantial monetary damages and injunctive relief against Precor, Inc. for infringing Life Fitness' revolutionary FlexDeck treadmill patent and for inducing dealers to infringe the patent. "We have taken this action after a long and careful supporting investigation," announced Life Fitness President and Chief Executive Officer, Augie Nieto. "We take our FlexDeck patent very seriously and intend to aggressively enforce it against all infringers such as Precor." Life Fitness filed its action against Precor in a counterclaim to a lawsuit which Precor filed against Life Fitness last year. In that suit, Precor alleged that Life Fitness had improperly claimed that Precor infringed the Life Fitness Flex Deck system patent. The FlexDeck system is a treadmill deck support system which offers customers the benefits of a reduced-impact running surface. The patented FlexDeck system is an exclusive feature that is intended to distinguish Life Fitness treadmills in the marketplace.

The Flex Deck system received US Patent No. 5,382,207 on January 17, 1995 and represents the culmination of years of treadmill research and design. This U.S. patent gives Life Fitness the right to exclude others from making, selling or using its patented invention without Life Fitness' permission. "We certainly

have not given Precor permission to use our patent in their products," observed Mr. Nieto.

The dispute between Life Fitness and Precor began late last year, after Life Fitness received notice from the U.S. Patent and Trademark Office that its FlexDeck patent application had been allowed, but before final publication of the patent. Precor filed a lawsuit against Life Fitness in November, 1994, in which it charged Life Fitness with allegedly "false claiming" that Precor and other manufacturers would violate the Life Fitness patent once it was formally issued. Mr. Nieto explained that rather than respond in a knee-jerk fashion, Life Fitness took the time to examine the issue thoroughly and carefully. "We brought in knowledgeable patent experts and reviewed the facts carefully before filing our claims for damages and injunctive relief," said Mr. Nieto. "We are now convinced that Precor clearly infringes our patent and consistent with our rights under the patent, it is imperative that we protect our distribution network, our employees and our shareholders."

In its countersuit for damages, Life Fitness charges Precor with directly infringing the FlexDeck patent by making unauthorized production and sales of infringing products. In addition, Precor is charged with having actively induced dealers and other third parties to infringe the patent by supplying infringing treadmills and by misleading the trade as to the coverage of the Life Fitness patent and Precor's infringing activities.

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Ray Wilson

continued from cover

time is the best description I can find. In an industry that does little to honor and give credit where credit is due, Ray was honored by selection to CLUB INDUSTRY MAGAZINE'S "HALL OF FAME" in 1992.

Ray Wilson was born into a family of nine children. His Dad was a migrant worker who eventually built his own used car dealership/tire repair shop. Ray went to work for his Dad at age 6 and worked hard under his Dad's direction until he was age 17. At age 17, he experienced a nervous breakdown - suffering from years of pressure from his Dad. Along the way, he also developed an ulcer at this early age.

In 1945 Ray was introduced to working out with weights,

but considered it "Sour Grapes" as he didn't think he could get large muscles and so he didn't get into lifting until later. His friends, Ken and Bill Melby, convinced him that working out was a good thing and Ray began to train with weights. Ray's body weight increased from 117 to 185 within one year while on a three-workout per week program. During that period, Ray's ulcer was somehow cured - he thinks by the two quarts of whole milk per day that he was consuming for the weight program. When Ray's weight got to 205 pounds he became a pro-wrestler and went out on the wrestling tour. While Ray was wrestling, his Dad passed away suddenly from a heart attack at the young age of 48. The loss of his Dad made it necessary for Ray to come home and step in to help raise his eight brothers and sisters. He helped provide support for his family by selling insurance and

working full time at a small club owned by Bert Goodrich, the first Mr. America (1939).

Ray got the club bug and entered the industry for the first time as an owner in Tucson, Arizona when he partnered in 1951 with Jim Drinkward who was Mr. Arizona. They began by converting an Arthur Murray dance studio to a 3,000 square - foot gym with dumbbells, barbells and a Martin pully unit. They sold 1-year memberships with payments up front. His next move was to Houston, Texas where he started a chain called American Health Studios and Silhouette Salons which grew to 250 locations. That chain competed directly with Vic Tanny's clubs in Southern California. Ray eventually sold this chain to his regional partners with a five-year payout.

TOUGH TIMES - PART I

Ray was asked to recall some of his toughest times. Tough Times Part I was in the 1950's when he and Vic Tanny got into "price and help wars." He recalls that they ended up cutting their prices outrageously in an effort to outsell each other AND they got into a battle of hiring away each other's top employees, nearly doubling their payroll. Ray recalls that while all of this was going on, he and Vic Tanny had never met. He says, "after we met, we liked each other and wished we hadn't gotten into those wars."

EUROPEAN HEALTH SPAS

In 1962, Ray started the Trim and Swim Health Spas, a group of facilities in San Antonio and Austin, Texas. At the same time, he started a chain called the President's 1st Lady in the Houston area. Selling these operations a couple of years later to his partners, he established one of his greatest successes in the health club business, European Health Spas. It was then that he introduced whirlpool "spas" that helped make the European Health Spas famous. He had become interested in the "Spa" concept for health clubs while spending two years in Mexico developing a chain of six clubs. He subsequently had to sell these clubs with very little notice when the Mexican government changed the laws to require that all businesses be operated by Mexican citizens. Teamed up with old

friends, Ken Melby and Bob Rice and other former regional managers of his first company, Ray spent six years building European Health Spas into a 80-unit chain. In 1969 they sold European to U.S. Industries, a conglomerate whose primary business had been auto body stamping machines and railroad cars until they acquired 121 companies, making them the 35th largest company in the United States. U.S. Industries paid \$46 million for European - a \$20-million down payment and \$26 million in a five-year payout tied to a five-year performance contract. This \$46,000,000 would equate to \$200 million in today's dollars. When they sold, the chain was doing \$2.5 million in profits per year and after five years, he had the 160-unit chain producing \$10 million per year in profits.

U.S. Industries wanted European to become the "McDonald's" of fitness. After the five-year earn-out management agreement was completed, U.S. Industries decided to bring in new management from New York to take over the operations of European Health Spas. When informing Ray of this new direction in management, the President of U.S. Industries told Ray, "Ray, I've got this to say about our plans. We are going to bring in professionals to replace you because you are an amateur. We'll probably triple the profits you've been making!"

U.S. Industries decided to replace Ray's experienced managers who were compensated by net profit production with new managers who were paid \$3,000 per month with little or no incentives. This proved to be a formula for disaster. Ray recalls, "The good people left, the weak ones stayed and they hired the wrong people to run the company." Just a few years later, the European Health Spas were sold at a very low price to companies owned by Bill Hubner and Don Wildman.

TOUGH TIMES - PART II

Ray was restricted from opening competing clubs in the U.S. by virtue of a two-year "non-compete" clause in the sales contract with U.S. Industries. It was during that two-year period that Ray made another choice that ended up as one of the toughest times in his life. In this case, he moved to Canada to turn around a chain of 24 European Health

Spas that his brother-in-law had just purchased which were being operated poorly. Ray felt it would be a breeze to do the turn-around, but he was dead wrong. The clubs collectively were losing \$250,000 per month and were nearly too far gone when Ray arrived. After a short period of flying back and forth between Vancouver and his home in Utah, Ray concluded that he must move his family to Canada so that he could devote full time to the effort. He says, "this is such a hands-on business I had to really go at it full time-16 hours per day and that is what I did. Actually, it was a blessing in disguise because here I was basically retired after selling European to U.S. Industries and the next thing you know, I was back in the business." Ray was successful in turning the Canadian clubs around and most of them are still operating today under ownership of Henry Poleski and Dave Wakefield.

THE LIFECYCLE IS BORN

The Canadian experience had gotten Ray back into the club business on a temporary basis, but it was his work with LifeCycle which got him started with the Family Fitness Centers - 72 club chain. The LifeCycle may be Ray's greatest contribution to the health and fitness industry because it spawned a boom in the early 80's in cardiovascular training which then spawned a huge growth in cardiovascular training equipment development. It is this cardio development that has helped fire the growth of club membership across America and worldwide. Ray Wilson deserves a lot of credit for his efforts with LifeCycle because not only did it truly revolutionize the equipment facet of the industry, it gave all club owners and operators world-wide much more to provide for their members. In short, the impact has been global.

In 1977, Ray moved to San Diego, California. Years before moving to San Diego, when taking an insurance exam at age 32, Ray had been told by the doctor that his uric acid count and cholesterol were very high. He asked Ray if he had any family members who had heart problems. When Ray told the doctor that his Dad had died from heart failure at the young age of 48, the doctor responded, "If you don't change your ways, you are going to end up just like your Dad." The doctor's comments had a profound impact on Ray's thinking (See *More Ray Wilson* page 10)



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...More Ray Wilson

continued from page 8

ing. He immediately hired a college biochemist and paid him \$500 to prepare a report for Ray about what he needed to do to lower his uric acid and cholesterol levels. The report recommended that Ray drastically modify his diet.....that he eliminate red meat and whole milk from his diet. He also recommended to Ray to trim down, even if it meant losing some of his muscle mass. Ray did what the report recommended, dropping from 195 pounds to 165 pounds, a weight he maintains today. As part of his effort to trim down he switched his weight work-outs to 30 to 40 reps for each set as opposed to the normal low-rep routines. Ray also did very high repetitions for his waist and hips. Another previous experience influenced and solidified Ray's pursuit of cardio fitness on both a personal a business level. While living in Houston, Ray had gotten to know Captain James Lovell, the Astronaut who had trained at Ray's and Robert Delmonteque's President's Club. On a 1973 boat trip with Lovell,

who was Chairman of Kennedy's Council of Physical Fitness, Ray had a conversation with Lovell which convinced him that cardiovascular training would be a huge thing in the future. What Lovell told him was that for 15 years, schools had been educating kids about the value of cardiovascular exercise to their health and he believed it would be the wave of the future. Ray believes that one of the reasons fitness is becoming so popular is that everyone under the age of 40 has been educated in school that exercise is necessary for a productive life. Then Captain Lovell also told Ray, "Don't use health and fitness in your club name and advertising unless you have cardiovascular training." Ray never forgot this and was determined to find a machine to deliver cardio-fitness to the masses.

Ray began to seek cardiovascular exercise equipment for his own personal use and while visiting his sister, who was living in Italy at the time, he discovered the LifeCycle, which he described as "a big-green-machine." A name tag on the machine helped Ray trace it to a factory in Concord, California. Returning to California, Ray went to the LifeCycle factory and found it closed. Dr.

Keane Dimick, a California inventor created the LifeCycle, but failed in attempting to market it. He spent \$1 million in developing and promoting the revolutionary new machine. Dimick eventually sold the LifeCycle Company to the publisher of Stars and Stripes, a newspaper targeted to the U.S. Armed Forces worldwide. The publisher spent \$500,000 in attempting a second launching of LifeCycle commercially, but did not succeed. Dimick took Ray to meet the publisher and helped Ray work out an arrangement to buy the rights to the LifeCycle.

Ray then put together a deal to market the LifeCycle through a new corporation. Raising \$250,000 for the new LifeCycle effort, the new group went broke in 1975. Ray met with the failed group in 1976 and told them he was going to raise \$500,000 and restart the LifeCycle marketing effort one more time. He bought out the old group for \$50,000 and this time, he put his finance company, the Travelers Acceptance Corporation, behind the LifeCycle project with a new commitment to eventually spend over \$1 million on LifeCycle re-design and promo-

tion. Ray then teamed up with Augie Nieto because "he was the only guy I ever met who was convinced as I was about the future of cardiovascular fitness and LifeCycle." Ray sold Augie the worldwide marketing rights to LifeCycle and Augie began his efforts to market the LifeCycle. Augie's efforts were being held back by some things so he went to Ray and convinced him that the best thing they could do was to combine the manufacturing company which Ray owned with the marketing rights which Augie owned so that they could afford a new marketing idea that Augie had.

In a classic case of persistence and determination on the part of both Ray and Augie, they were able to re-start the company. Augie's new idea was to ship at no cost, a new LifeCycle to each of the big club players in the industry at that time. Then, after those people had the opportunity to try the LifeCycle at home, Augie went to each of them and convinced them to buy multiple orders of the LifeCycle all at once. Ray assisted by using his persuasiveness in his phone calls to each of these key people whom he personally knew through years in the health club industry. Ray says the most impor-

tant key person was Don Wildman who was then the head of "Health and Tennis Corporation", now known as Bally Total Fitness. Many of the other leaders also placed orders and it turned out to be a bi-partisan effort which resulted in Augie getting orders for over 1,000 LifeCycles. This one massive order delivered the LifeCycle into the commercial club market with huge momentum and the rest is history. The tenacity and determination shown by Ray Wilson to stay with the LifeCycle project after it had failed four times before was a great example of American entrepreneurship. Ray was wise sticking with Augie as he has become one of the leading developers and marketers of exercise equipment in the world through his LifeFitness Company.

(END OF PART I - Part II Next Month: FAMILY FITNESS CENTERS ARE BORN; JOINT-VENTURES vs FRANCHISING; 10% PROBLEM RULE; "THE DIFFERENCE"; MEMBERSHIP STRUCTURE AND PRICING; MONTHLY DUES NOT AS EASY AS IT SOUNDS; THE ORGANIZATION AND RAY WILSON'S KEY PEOPLE.)

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Covert Shopping Reveals Sales Mistakes

By Casey Conrad,
Communications Consultants

Recently, I was contracted to do sales training for a club that was concerned about the increasing competition in its marketplace. As part of our arrangement, I agreed to shop their competition. Although I uncovered many things, one of the biggest mistakes I found was that the salespeople were not qualifying guests before bringing them on a tour (and I'm not even referring to a Needs Analysis) I'm talking about simple qualifying when the salesperson first meets the guest. The only question I was asked with any frequency was, "What is it you want to accomplish with a membership?" Then, without knowing any specifics about me, my history or my connection with the club, the salesperson would bring me on a tour and tell me how wonderful their club was. The problem, of course, is that without qualifying a guest, a salesperson cannot possibly begin to customize their presentation. This frequently results in the salesperson giving unnecessary or unwanted information and the guest feeling as though they are receiving a "canned" presentation, ultimately resulting in fewer sales. Asking five basic prequalifying questions provides a salesperson with valuable information about the guest and gets the sales relationship off to a good start.

The first prequalifying question is: "Hi, (name), my name is _____, how may I help you?" Asking this question sends a message to the guest that you want to help them and allows you to hear first-hand what the guest wants.

The second pre-qualifying question is: "How did you hear about the club? How someone heard about the club has a huge impact on their perceptions. A guest who heard about the club from a happy, long-term member is going to have a completely different frame of reference than someone who heard about the club through an advertised special. These differences will require you to take slightly different approaches.

The third prequalifying question is "Have you ever been into the club before?" If they have, you need to know the details of their

visit: How long ago was it? (Who knows, maybe your club has had some major renovations since their last visit.) When they came in did they go through a workout or just take a tour? Did they enjoy themselves? Did someone go over the memberships with them? If so, why didn't they get started then?

These types of questions allow you to uncover potential objections - most likely the very objections that prevented them from starting before.

The fourth prequalifying question is: "I'm curious, what prompted you to stop by today?" This question is great because it helps you to understand what is motivating this person at the emotional level. Remember, people buy emotionally and they justify logically. Therefore, you must uncover what the guest wants emotionally and show them how they can get that with your club membership.

The fifth and final prequalifying question is: "a complete tour takes about _____ minutes, does your schedule allow for that?" This question is very important because if you have had any experience with touring you know how frustrating it can be when you begin working with a guest and five minutes into your conversation with them they tell

you they only have a couple of minutes, so "could they just see the membership." At that point, without having gained much rapport, you would have to give them prices. And, unless they came in ready to buy, a price presentation won't get someone excited about the emotional benefits of a membership.

Although to some of you these may seem to be basic prequalifying questions that are the building blocks to the sales relationship, it would be interesting to find out if your sales staff is consistently using them. One way to do that is to have a friend or business associate covertly shop your club-not to catch someone doing something wrong, but to find out where and how you can make the sales experience at your club more enjoyable for the customer. Isn't that what really counts?

(Casey Conrad has been in the health and fitness industry for more than 10 years. She is President of Communication Consultants, a company dedicated to bringing high quality sales and communication seminars and consulting services to fitness professionals. She is the author of

"Selling Fitness," the first and only book dedicated to the selling of health club memberships. Most recently, Casey co-produced "Mastering Fitness Sales," an exciting new health club sales training program featuring monthly audio cassette tapes and workbooks. Casey can be reached at (401) 437-2951.)

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HEALTHRIDER CORRECTION

By Norm Cates, Jr.

Last month, The **CLUB INSIDER** News erroneously reported that the HealthRider Company had cancelled the development of its new HealthRider PRO Models. That report was apparently incorrect, even though operators at the HealthRider Headquarters in Salt Lake City had told this writer during two different phone conversations that the PRO Model development had been cancelled. Also, former HealthRider Commercial Division Manager, Jim Gibbons, had told the **CLUB INSIDER** News that the PRO Model development had been cancelled. Calls to Michael Moon, President of HealthRider were not returned.

Earlier in the year, there were objections by some IHRSA (International Health Racquet and Sportsclub Association) member clubs to the membership of HealthRider in the Association due to HealthRider's television and print advertising. The ads, in so many words by health guru Covert Bailey and others, advocate that consumers should buy the HealthRider instead of joining and using a health club. It is not known if any action has been taken by the Association relative to the member's complaints.

In a letter dated May 11, 1995, Thomas C. Davis, the Senior Director of Sales for HealthRider's Commercial Division explained: "In reference to our new PRO line of commercial grade products, we have ex-

tended our testing period both in engineering and field testing. We are confident that this additional time will produce a better product which will meet the most rigorous of environments." Davis went on to say: "Field testing will take several additional months to complete. The results of these tests will heavily influence final design refinements of the PRO 1000. If all goes ac-

ording to our current schedule, deliveries are expected to commence in Fall of 1995 for the PRO 1000. Introduction of other PRO models will be made early 1996."

Former HealthRider Commercial Division Manager, Jim Gibbons had also informed The **CLUB INSIDER** that he had received approximately 75 orders for a total of about 500 machines before the abrupt announcement of additional

field testing. It is not known if that information is accurate. The **CLUB INSIDER** contacted one of those who had ordered the machines and learned that refunds of deposit money sent for HealthRider orders had been made in full.

Stay tuned for more on the development of the HealthRider PRO Models.

Precor Statement Regarding Life Fitness Counter-Suit

Bothell, Washington - Precor, Incorporated has noted a

press release regarding a counter-claim Life Fitness apparently filed in Precor's Declaratory Judgment

Action against Life Fitness, which Precor filed in January, 1995. "We have expected this action since January when we filed a lawsuit asserting that Precor treadmills do not infringe any Life Fitness patent", said Bill Potts, President of Precor. "We see this as a non-event. It has occurred much later than anticipated, but it's a typical and expected defensive maneuver by Life Fitness in Precor's litigation against Life Fitness. The fact that it has taken Life Fitness almost six months to determine if they could counter-sue Precor clearly demonstrates the weakness of their claim."

Precor believes that its treadmills featuring the GroundEffects Impact Control System do not infringe any valid claims of the Life Fitness Flex Deck patent. The U.S. Patent and Trademark Office awarded Precor a patent on its Ground Effects low-impact technology on August 9, 1994. The Life Fitness FlexDeck patent did not issue until January, 1995 - five months after Precor had already secured its patent. Also, Precor believes that various claims of the LifeFitness patent are invalid, due to prior art. "Based on our internal analysis and the analysis of outside patent counsel, we're confident that Precor will prevail at trial by showing that Life Fitness' patent is invalid and not infringed," said Mr. Potts.

In October, 1994, Precor filed a lawsuit against Life Fitness, charging that the Life Fitness 3500 and 4500 treadmills infringe a Precor design patent, U.S. D 313826. In the lawsuit, Precor also charged that Life Fitness was engaging in unfair competition by making numerous (See Precor page 25)

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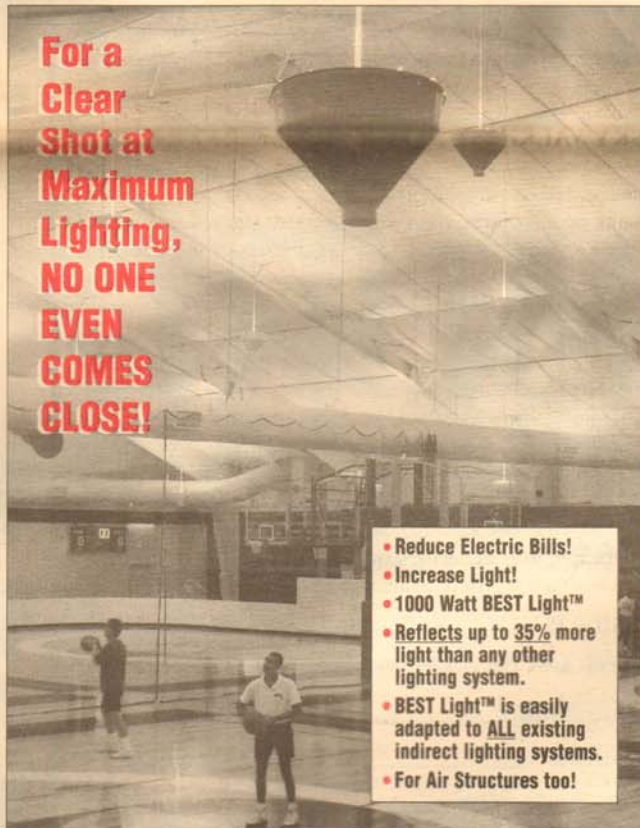
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"FUTURE OF FITNESS" Symposium Brings Together Healthcare & Fitness Leaders

Calgary, Canada - Several of the world's most insightful leaders in fitness, healthcare and product development gathered at the University of Calgary on June 6, 1995 to examine the future direction of the fitness and healthcare industries.

This symposium was scheduled in conjunction with the Board meeting of Sport Specific International at a time when an injection of funds is critical to the development of future products.

The objective of the

symposium was to examine and question the current state of fitness and healthcare and to collectively develop theories, objectives and strategies for future growth and interaction of the various disciplines.

Paul Fireman and Roberto Muller, Chairman and President respectively, of Reebok International; Age Wave futurist Ken Dychwald; Dr. Robert Church, Director of Ciba-Geigy Canada; cardiologist Scott Connelly, M.D., of Massachusetts General Hospital and Harvard Medical School; author and

aging expert Bob Delmonteque; John McCarthy, Executive Director of The International Health, Racquet and Sportsclub Association; Jerry Downen, Vice President of the Heuristic Development Group and Dr. George Thorpe of the Rapid Prototyping Centre, Alberta Research Council join Lee Guthrie, President and CEO and the Board of Directors of Sport Specific International for the one-day event.

A panel consisting of Muller, Church and Connelly keynoted the day as they ex-

change their perspectives on fitness and health.

Sport Specific International, which developed the revolutionary Reebok Sky Walker cross conditioning machine, will preview prototypes of new technologies for their Tread Climber, Voyer VR Entertainment System, the IntelliHealth Exercise Information System and the Tri-Trainer. Trace Gordon and Gary Paiget, who invented the Reebok Sky Walker, Tread Climber and Tri-Trainer, will be on hand to discuss the technical and physiological aspects

of the machines.

Reebok International's Muller and equipment general manager John Frascotti will also review the retail strategies for the Reebok Sky Walker, in this article.

Sports Specific International, Inc., is the fitness industry's first "Virtual Corporation," harnessing the talents of established and leading edge designers, marketers and manufacturers. The Common Shares of Sports Specific trade on the Alberta Stock Exchange under the symbol SSL-A.

Skywalker Update

Skywalker, the innovative new walking machine developed and marketed by Sports Specific International, Inc. was introduced to the fitness industry at the CLUB INDUSTRY Trade Show in Chicago in the fall of 1994. Since that time, Lee Guthrie, the President and CEO of SSI, has been aggressively marketing the SKYWALKER to clubs around the world at IHRSA and CLUB INDUSTRY Trade shows. And, this summer, the SKYWALKER is slated to be introduced to the sporting goods world at the National Sporting Goods Association in Chicago.

Not long ago, REEBOK stepped into the SKYWALKER picture, acquiring marketing rights to the machine and with plans to take it to the residential as well as the commercial market.

During the past year, Lee Guthrie has commented about sales of the SKYWALKER which are astronomical..... claiming, for example, to have taken over 3,000 firm orders for the machine at the 1994 CLUB INDUSTRY Trade Show alone! Since then, the number of orders for the new machine are allegedly nearing 10,000!

However, club opera-

tors everywhere who have ordered the new machines are asking: "WHERE ARE THE SKYWALKERS?", as it seems the machines are not being delivered. And, with some of the orders approaching one year old, everybody is wondering what is happening.

To attempt to answer that question, the CLUB INSIDER attempted to contact Lee Guthrie, but our calls were not returned. It seems that Lee was "out of the country" in Calgary, Canada at the Symposium on Fitness conducted on June 6th. So, we contacted Don Gronachan, the Skywalker employee who is informed on the delivery of the Skywalker. Gronachan told us that to date, they have shipped 150 Skywalkers. He explained that they are using "great care" in the allocation of the machines because they want to "perfect" it before the mass manufacturing begins. He explained that 50 machines had been shipped initially and production was stopped so that those who received the first 50 could provide feedback on the machine. He said the second shipment of 100 units which made up the total shipped to date, were modified pursuant

to the customer feedback. Gronachan explained that they are setting up their service departments on a regional basis before shipping the machines in mass and that to date, 30 service regions out of about 90 planned regions have been set up. He said they are only shipping machines where service is set up. Explaining that they are making their best efforts to "be responsible" as they roll out this new machine. He added that they have both the reputation of SSI, Inc. and REEBOK to look out for.

According to Gronachan, service operations have already been set up in Dallas, Boston and in the L.A. area and that is where the machines have been shipped first.

When asked when the production would resume and when the mass orders of machines would be shipped, Gronachan declined to comment, suggesting that The CLUB INSIDER contact Lee Guthrie directly. We attempted to reach Guthrie in Dallas and Calgary, but with no luck. Stay tuned and we will have more on the SKYWALKER story next month!

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Villa de Papagayo is a brand new luxury four-bedroom, four-bath villa with full staff (cook, maid and butler) located on the Pacific Ocean in beautiful Costa Rica. The view from the villa is revered as one of the most beautiful in the world.

The lushly-landscaped villa includes an oversized deck with swimming pool and waterfall. There is also a spectacular great room with 32-foot ceilings, TV, VCR stereo and air-conditioning. Guests at the villa also have use of the amenities at the nearby Ocotol Resort Hotel, which includes three swimming pools, tennis, scuba diving, snorkeling, beach and health club.

Also available are the world's best sports fishing for marlin and sails, rain forest, volcano and giant sea turtle tours, birdwatching, horseback riding, whitewater rafting and various other nature tours.

An all-inclusive plan provides all your food and drink (an open bar) during your stay at Villa Papagayo. The staff is there to provide for your every need and you will enjoy daily wonderful meals of fresh seafood, fresh vegetables and fruits like you've never tasted before. The villa is ideal for parties of four, six or eight persons. Beds can be arranged as kingsize or single for your personal needs.



Those who have seen the view from Villa de Papagayo call it one of the most spectacular in the world. With parrots and monkeys in nearby trees one soon realizes he or she is in a nature's paradise.



The great room has spectacular 32-foot ceiling, French doors opening to the ocean, a catwalk with spectacular views, television, VCR and stereo.



The villa has four bedrooms, including three master suites with ocean views, private terraces, air conditioning, overhead fans and full baths. A fourth bedroom has a full bath and bunkbed.

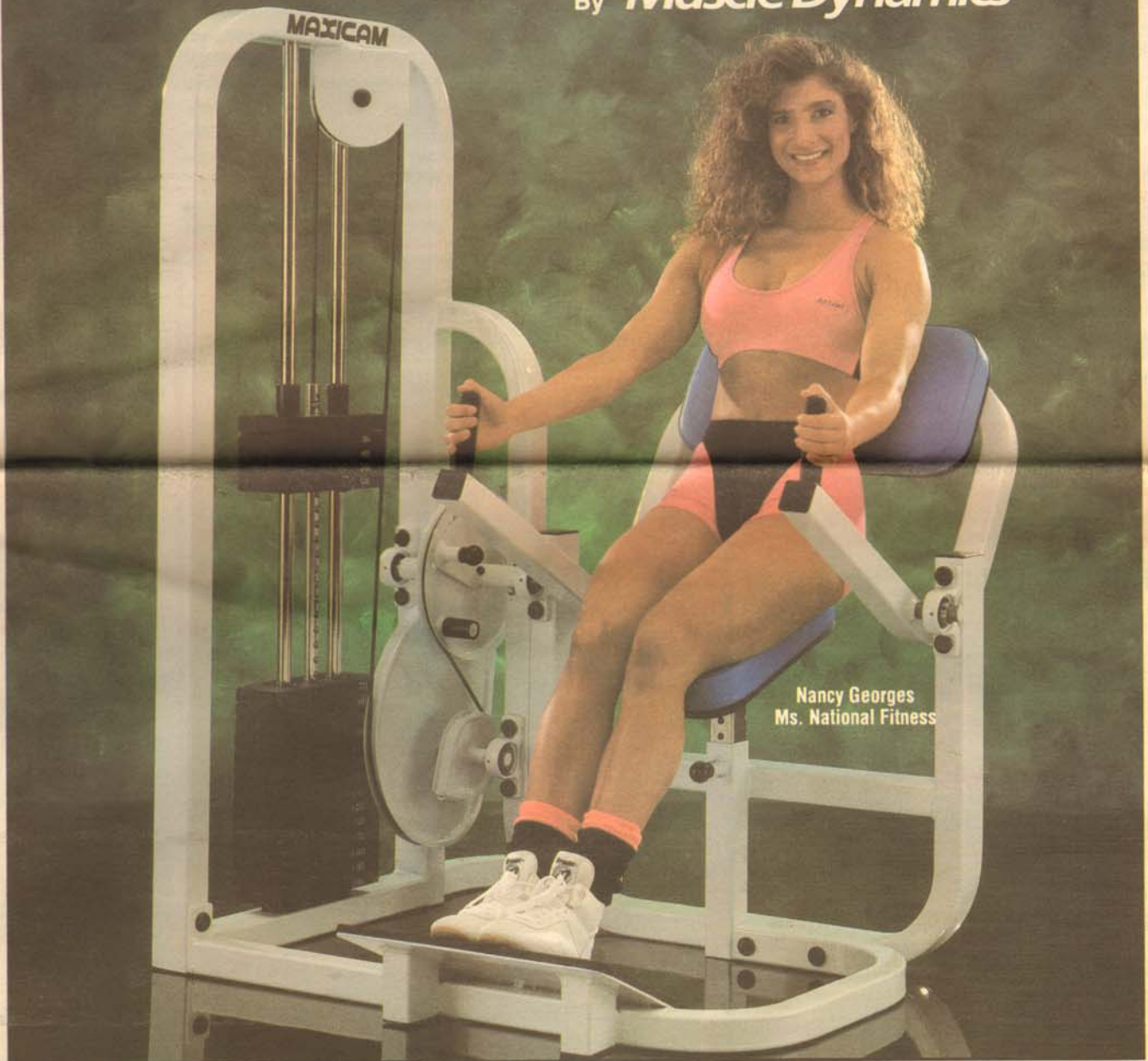


Villa de Papagayo's giant terrace overlooks the Pacific Ocean and includes a pool with swim-up bar, waterfall and rancharo. In the evening guests dine outside under the stars.

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Capitation In Corporate Membership Sales

By Royle Berry

CAPITATION is defined in Webster's Dictionary as: "A tax fixed at an equal sum per person, as a per capita or poll tax. In the club industry, the concept of capitation is just now beginning to be used. This article is about a capitation model for corporate membership sales that I developed four years ago for the Woodcreek Athletic Club in Tyler, Texas. In my opinion, this is the most revolutionary concept to apply to membership sales since EFT was introduced to

clubs years ago.

I have attended a number of seminars and workshops about capitation over the past four years. My assessment is that these sessions are only touching the tip of the iceberg. None of these presentations have truly tapped into the opportunity capitation offers to club owners and operators and to the prospective member companies. In fact, one of the biggest losers so far are the many companies in America who haven't been offered this plan yet. Clubs have barely scratched the surface in corporate membership sales. There is now available a proven system to sign up more companies than ever.

The Capitation Principle, as I use it, is very simple by design. It takes the total number of employees in a company's workforce and gives all of them membership to your club, but charges at a rate above anticipated employee usage. As the former Executive Director of the Sportslife Club Management Systems in Atlanta, I began using a 30% formula for companies with 12-99 employees. Using the 30% formula, if a company employs 20 people, we bill the company for 6 memberships, (30% of total employee number) but give all 20 full membership privileges. Under the Sportslife rate structure, we charged \$40 per

membership purchased, plus a \$100 Joining Fee. Completing the example, we bill the company \$240 per month for all 20 employees. This averages out to \$12 per employee per month. Companies love this plan and the flexibility it offers. Clubs which I have trained to use this system love it because they sell one decision maker and don't discount their membership rates to the general public. After four years of experience with this system, I have found the employee usage factor to be from 5 to 15% of all employees. If we bill 30% and usage is 15%, our revenue per club user is \$80 per month!

The Capitation Model has proven itself in small, medium and

large clubs throughout the United States. As an example, the 8,000 square-foot, fitness-only Tower Club in Indiana has sold over 50 companies using the same plan I employed at Woodcreek A.C. and Sportslife. After 1 1/2 years of using this plan, the Tower Club has increased monthly revenues by over \$10,000. Not bad for an 8,000 square-foot club.

The Woodcreek Athletic Club in Tyler, Texas, is a good example of how the capitation model works in a medium-sized club. In this situation, we had a serious challenge from two local hospitals who had announced plans to build 75,000 square-foot, state-of-the-art facilities. Upon hearing their announcements, I knew I had to increase the market share of the Woodcreek A.C. if it was to survive this new hospital competition. Using the capitation model at Woodcreek to great success, we were instrumental in the hospital's decision to downsize their clubs. And, to this day, the hospital facilities are primarily for cardiac rehab patients and employees. And, Woodcreek added about 15,000 employees to its member-eligible roster.

For large clubs and multi-location organizations like Sportslife, the capitation model works very well. In less than a year, we increased corporate membership revenues by over 50% at Sportslife. Sportslife is projecting over \$1 million per year in capitated monthly dues for 1996. All of this is happening in one of the most competitive health clubs markets in America.

Corporate membership sales using the capitation model, combined with solid wellness and fitness programs, will ensure sales success unlike any results you have obtained before. If your club sells corporate memberships and you do not add 50-100 new companies per year, you should study this capitation concept. It works for almost every size and type of club. In reality, there isn't much excuse left today for having anything but a successful corporate membership program, unless you are unwilling to try.

(Royle Berry may be reached at CLUB MARKETING ASSOCIATES, (404) 426-7889.)

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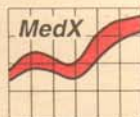
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IHRSA State Of The Health Club Industry Report Summary - Part III

Sponsored By Cross Conditioning Systems - Report Editor, Cathy McNeil

HOTELS

• As a result of fitness becoming more and more integrated into the fabric of American life, people have come to expect fitness facilities where they live, work or travel. As a result, more and more hotels and resorts have been building fitness facilities and the home market for fitness equipment has ballooned. The question for clubs is, are the hotel and home segments competitors or allies to health, racquet and sports clubs?

• Hotels are seeking amenities. 60% of airport hotels, 40% of resorts and 46% of suburban hotels offer fitness facilities. Conventional wisdom says that fitness facilities help sell rooms.

• Currently, 65 IHRSA member clubs are affiliated with hotel facilities.

• There are few multi-purpose clubs set with hotels. Most hotel fitness facilities are unstaffed, 1,000 to 2,000 square feet.

• It is believed that hotel fitness centers are helpful to commercial clubs because they help the

business traveler stick with his/her program while away on assignments or because the hotel guest may be exposed to fitness facilities for the first time through a hotel or resort fitness center

HOME FITNESS

• In the late 1980's, it seems that just about the entire country suddenly realized that it was getting older and gaining weight in the process - just as major companies were downsizing and healthcare costs were skyrocketing. Mass media began to carry the message of fitness. People began to realize that taking more control and responsibility for their own health was not only necessary, it also felt good.

• One Gallup Poll put "working out" at the top of the list of things Americans would like to start doing. IHRSA studies indicate that 70% of Americans over age 40 are now more concerned about their health than have been in the past and that approximately 46% of sedentary Americans

would like to initiate a regular exercise program.

• As a result, home fitness is huge - a \$2.5 billion market, dwarfing the institutional side, estimated as \$356 million.

• Americans spend \$200 million per year on exercise videos.

• Is Home Fitness Competing with Club Fitness? Apparently not. According to American Sports Data, from 1987 to 1993 home gym usage grew from 4.3 million to 6.5 million - up 51%, while health club membership grew from 13.8 million to 18.2 million - up 32%. ASD also reports that 67% of all health club users also own and use home exercise equipment.

• Many health club owners see home fitness as a complement to club fitness.

• An increasing number of clubs sell home fitness equipment or refer them to reputable dealers

• John McCarthy, IHRSA Executive Director likens it to the video market vs movie

theaters

RAISING CAPITAL FOR GROWTH

• The Sports Club Company generated \$42 million through a public stock offering last Fall.

• 24 Hour Nautilus sold controlling interests to McCown DeLeeuw & Co., providing \$34 million

• Sport and Health Company recapitalized in a deal raising more than \$32 million.

• In England, David Lloyd Leisure PLC went public in March, 1993.

• Finding money is tough, but getting easier.

PROGRAMMING FOR THE FUTURE

• "One-stop-shopping" is a key to club success in today's competitive market.

• Clubs must be willing to utilize the resources they already have.

• Swimming pools are becoming aquatic fitness centers. Some clubs use the pool as a gym, encouraging cross-training in a variety of areas - swimming, weightlifting and deep water running. Water walking is gaining in popularity.

• Dedham Racquetime created a separate water theme park designed to suit the needs of its members.

• Nutritional and weight management programs have become increasingly popular in clubs. Many clubs have gone with pre-packaged weight-loss programs, while others have developed their own program in conjunction with local hospitals or other health care practitioners.

• Behavior modification training is being offered at Boston's WellBridge Clubs through a two-phased nutrition education and weight loss program.

• Programming for the mature market has attracted significant new members from the over 50 set. The e-cubed program at the Downtown Athletic Club in Eugene, Or. (See *State of the Industry* page 21)



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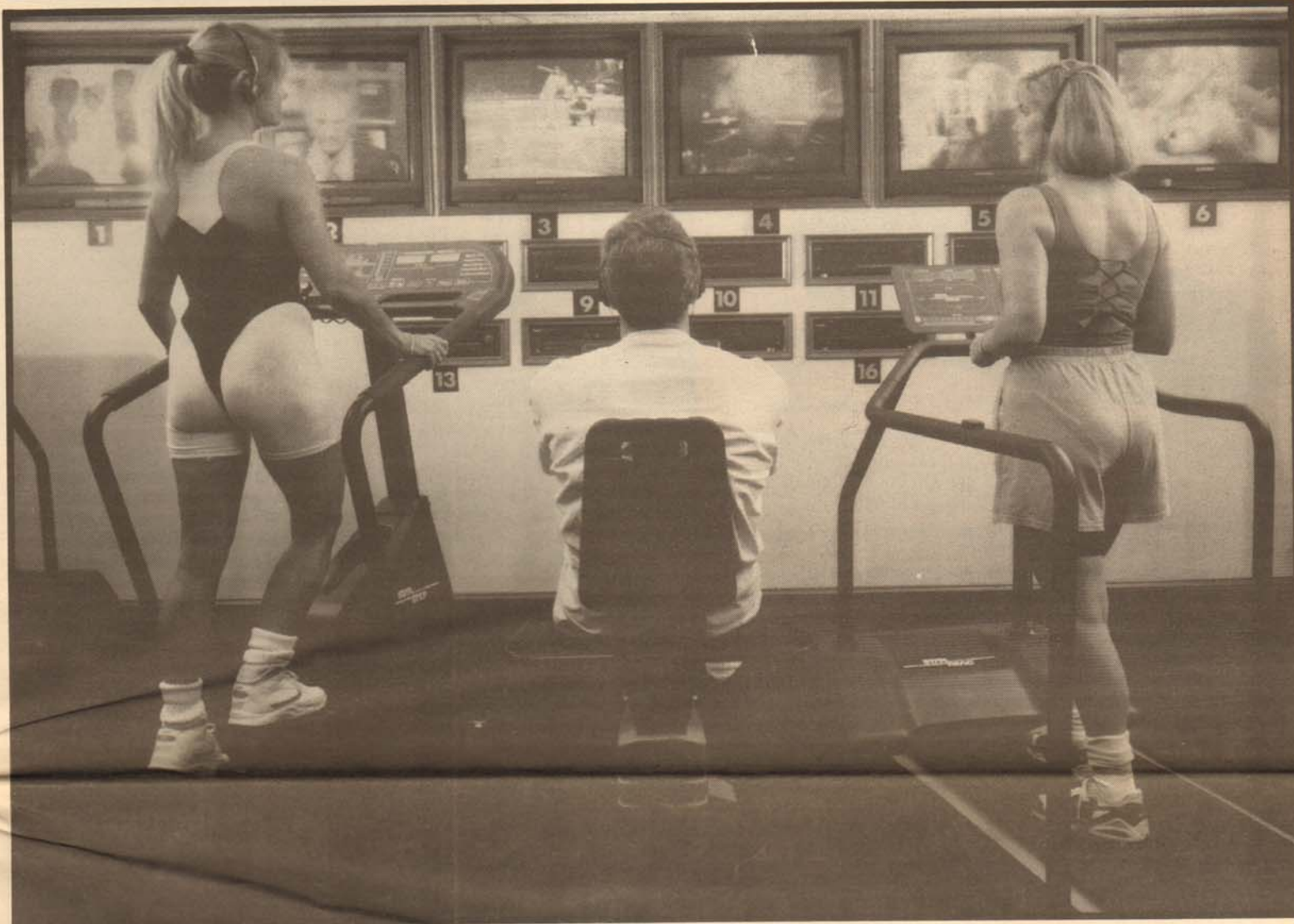
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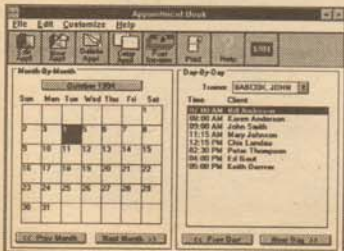
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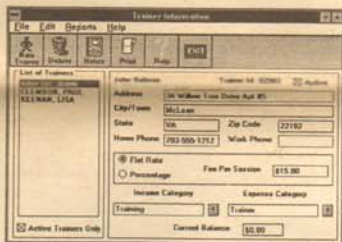
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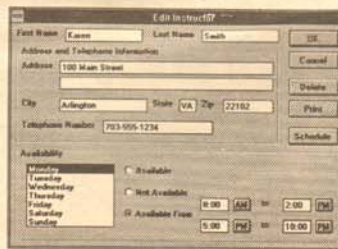


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...State of the Industry

continued from page 18

egon, Walkaerobics at the Western Reserve Club in Tempe, Arizona and the 40-Plus Club created in Boston by WellBridge Clubs are excellent examples of creative programming for the mature market.

- The family market and kids programming continues to grow in many multi-purpose clubs.

- Clubs are learning to become health care providers. Example: the Fitness Network of five clubs in the Phoenix, Arizona area have joined with MetraHealth Insurance Company to develop a co-payment plan. This group of clubs have become health care providers.

- "Mind and Body" Fitness programs are helping members expand the dimensions of their workout. Relaxation and recovery techniques are being taught. Yoga Aerobics has been created at the Boston Athletic Club. There is more member gravitation to the martial arts which combine mind, body and spiritual fitness.

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- 24 Hour Nautilus Centers-Northern California & San Diego-33 locations-Mark Mastrov -CEO

- American Club Systems-Eastern U.S. - 60 locations - Charlie Lindsey - President

- American Leisure Corporation-Northeast and Florida-57 locations-Steve K a s s , CEO&Chairman

- Archer Leisure Limited -England - 40 locations - Mr. HB Tegelaars

- Bally's Total Fitness - United States - 320 locations - Mr. Mike Lucci, CEO

- Central Sports Co.,Ltd.-

Japan - 159 + locations - Tadaharu Goto

- Clark Hatch Fitness Centers - Asia/Pacific Rim - 58 locations - Clark Hatch-Founder

- Club Corporation of America - United States - 240+ locations - Robert Dedman - Chairman

- Club Sports International - United States - 37 locations - Tom Lyneis, President

- Compagnie Gymnase Club S.A. - France - 77 locations - Patrick Dalia, President

- DIC Renaissance, Inc. - Japan - 42 locations - Toshikazu Saito, President

- Family Fitness Centers- California, Nevada and Colorado-72 locations-Ray Wilson, Chairman

- G & P Gockel, Paul & Partner - Germany and Switzerland, Austria - 92 locations

- Gold's Gym Enterprises, Inc. - United States - 480 locations -Pete Grymkowski, President

- Health & Racquet Club Limited - South Africa- 28 locations - Rodney Mitchell

- Health Fitness Physical Therapy, Inc. - United States - 35 locations - Loren Brink, CEO

(See More State of the Industry page 25)



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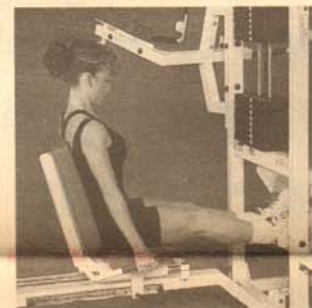
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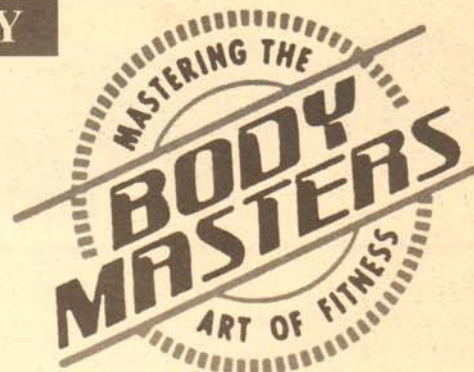
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...Precor

continued from page 12

false and misleading claims.

Among the false and misleading claims were that Life Fitness had a patent on its FlexDeck long before such patent issued, that all cushioned decks from a variety of

manufacturers were in violation of a non-existent Life Fitness patent, and even that Precor did not have a patent on its Ground Effects Impact Control System.

Precor will prove at trial, scheduled for early 1996, that Life Fitness has infringed Precor's design patent and engaged in unfair competition.

Precor will also prove that the claims of the Life Fitness FlexDeck patent are either invalid due to prior art or are not infringed by Precor.

...State Of The Industry

continued from page 21

• Tennis Corporation of America - United States -42 locations - Alan Schwartz, Chairman

- Town Sports International -Eastern U.S. - 29 locations - Mark Tascher, Chairman
- World Gym Licensing, Ltd. - United States -224 locations - Joe Gold, Chairman
- WTS International - United States - 27 locations - Gary Henkin

OTHER COMPANIES TO WATCH (10+ CLUBS AND/OR \$30 M+ IN REVENUES)

- Australian Body Works - Atlanta, Georgia - 10 locations - Tony deLeede, President
- Fitcorp - Boston, Massachusetts area - 14 locations - Gary Klencheski, President
- Health Development Corporation - Boston Mass.area- 10 locations - Paul Couturier, President
- Healthtrax - New England - 17 locations - Ken Navarro, CEO
- HSG Health Systems Group Limited- Ontario, Canada area - 20 locations - Doug Cowan, President.
- Northwest Racquet, Swim & Health Clubs-Minnesota -13 locations - Marvin Wolfensen, Owner
- Spare Time, Inc. -Northern California - 10 locations - Dave Anderson, President
- Sport & Health, Inc. -Washington, D.C. area- 15 locations - Cwi Steiman
- Sports & Fitness Clubs, Inc. - 11 locations (D.B.A.-Q The Sports Club)- Frank Leonasio, Chairman & CEO
- Sports Club Company - California and New York - 15 locations - Mike Talla, President
- Tipness Limited- Japan - 13 locations - Kunihiko Nishimura
- Western Athletic Clubs-California, Washington & Texas - 9 locations - Jim Gerber, President

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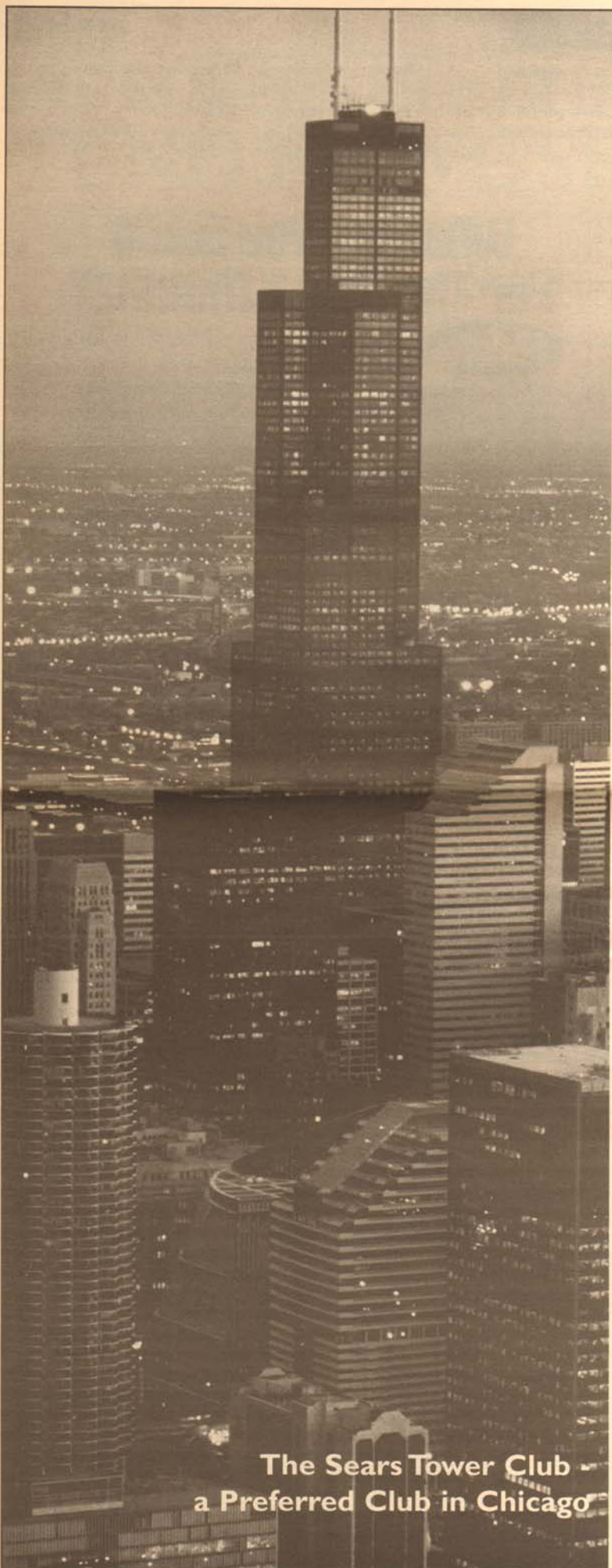
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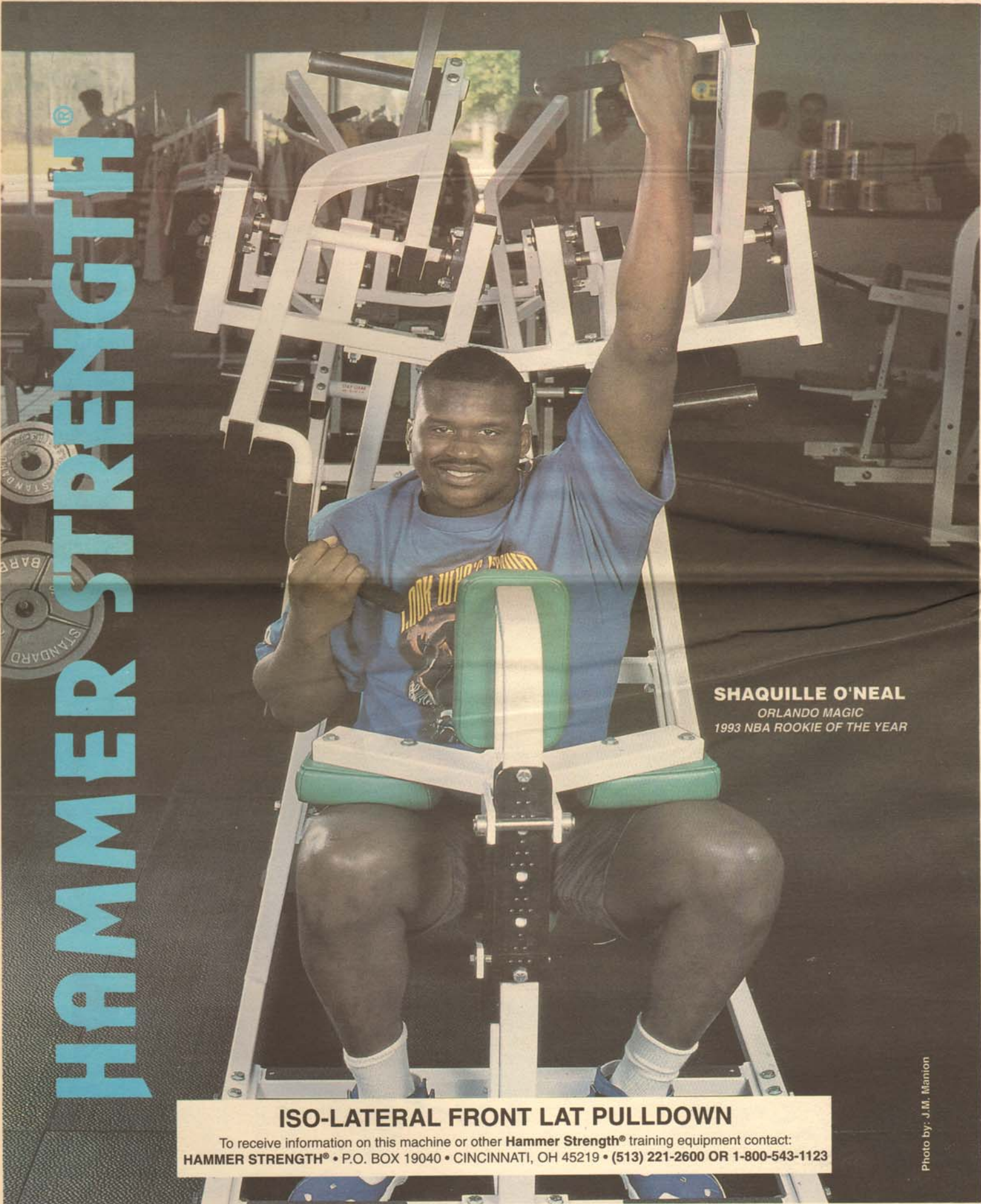
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