

Norm Cates'

THE Club Insider[®]

NEWS

The Pulse of the Health & Sports Club Business

Introductory Edition
December, 1993

CLUB INSIDER NEWS BLASTS OFF!

Why Read The Club Insider?

Norm Cates' **CLUB INSIDER NEWS** was launched this month to provide a new and unbiased view of the happenings in the club industry. The **CLUB INSIDER NEWS** promises to be an objective - tell it like it is monthly publication which has as its target audience the owners, general managers and department heads of for-profit commercial clubs and corporate fitness centers worldwide. It will be presented in an easy to read format.

The **CLUB INSIDER NEWS** will provide a variety of information including:

- Editorial Page
- Feature Articles
- Frog's Deadbeat Bulletin
- Classified Ads
- Norm's Notes
- General Manager's Forum
- Top Ten Lists
- Club Case Studies
- International News
- Consumer Reports -
Styled Surveys
- Great Article Reprints
- Idea Machine
- The Lawsuit of the Month

The **CLUB INSIDER NEWS** will initially rely on subscription fees instead of any commercial advertising in order to maintain a position of independence and editorial freedom. Subscribers to the **CLUB INSIDER NEWS** will receive the unvarnished truth.

Who is Norm Cates? Norm Cates is a club industry veteran of 19 years as a developer, owner and operator of clubs throughout the Southeast. Cates

served as the last President of the National Court Club Association (the old racquetball owner's association) and the first President of IRSA, The Association of Quality Clubs. As an industry leader, Cates developed a well earned reputation for speaking his mind on important club industry issues. The **CLUB INSIDER NEWS** will be published and edited by Cates and you can expect to hear from club owners and operators around the world as Cates uses his net-

work of industry contacts to gather and report the latest of what's happening.

The **CLUB INSIDER NEWS** is now available for one-year subscriptions for \$49. We urge you to subscribe today at the SPECIAL INTRODUCTORY OFFER price of \$49 as the offer expires on December 31, 1993! The regular subscription price is \$99 per year so take advantage of a 100% savings now. You won't regret your investment!

The **CLUB INSIDER NEWS** will be unique as the only club trade periodical of its kind delivered in an ideal format.

RED LERILLE'S CLUB CASE STUDY COMING SOON!

The **Club Insider** will publish quarterly Club Case Studies on leading and unique clubs in America.

Coming in January 1994, will be an in-depth look at Red Lerille's Racquet and Health Club in Lafayette, Louisiana.

Red Lerille's Club is without a doubt one of the most unique and successful clubs in the world. Red's club has been open for 32 years. During that time, Red has constantly changed and improved his club, growing from 4,000 square feet in 1961 to 135,000 sq. ft. today. Red has a team of key employees who have, on average, 17 years each with the club. He has

nine people with 15 or more years, including two with 25 and 30 years respectively. Why does Red's team stay? When asked confidentially about why Red's workers were so loyal to him, one employee replied simply: "Because he treats us all so well."

A couple of things that Red does for his team are a profit sharing plan which guarantees a comfortable retirement for those that stick with him and a plan that amounts to an employee credit union for auto, boat, home improvement or other loans desired by his staff members. Red Lerille's Club is an institution drawing 2,000 plus members and guests per day. Years ago, Red made a

commitment to his members and himself that constant change and improvement would be a way of life. He has made at least one significant improvement to the club every month for years. Red has taught fitness and health to this beautiful and progressive southern Louisiana city for years. He regularly speaks to civic groups and on average delivers his message to community groups 30 times a year.

Rising at 3:45 a.m., Red practices what he preaches, working out four mornings a week. His early bird ways have clearly caught on, as 125 cars were counted in his parking lot on one Friday morning in early August. Red balances out

his work and home life with a total devotion to his Church, attending 6:30 a.m. Mass, seven days a week. Red and his lovely wife, Emma, have four children, Mark, Kackie, Tine' and Stan, all of whom have settled in Lafayette.

There are institutions and legends in every field of endeavor in America. Red Lerille's club is an institution and he is a legend in his own time. Read the **Club Insider** and find out what makes Red's club tick. The **Club Insider's** first Club Case Study will bring you an in-depth look at the thoughts, feelings and motivations of this outstanding team in our February, 1994 edition.



Lerille

• INSIDE THE INSIDER THIS MONTH •

- Insider Speaks Editorial
- Monthly Dues Or Retail Contracts?
- Norm's Notes
- The Myths of Fixed Costs
- The Step Story
- Preferred Clubs Look Good
- The Frog's Deadbeat Bulletin
- Classified Ads
- International News
- Top Ten List on Avoiding SBA Problems
- Service Breakthrough Project
- General Manager's Forum

THE INSIDER SPEAKS

• EDITORIALS • "INSIDER MAIL" • COMMENTS •

The Insider Speaks Page will be dedicated to editorial

commentary, "Insider Mail", and reader comments received on our Hotline (1-800-700-2120) or 24

Hour Fax 1-404-933-9698. We welcome reader editorials and will publish them when appropriate.

Those who wish to express their views are encouraged to do so through letters, faxes, or

phone calls. Don't hold back.

Let the **CLUB INSIDER** publish your view.

Get Your Fair Share Of Your Partnership By Planning Ahead!

Starting a racquet and health club from scratch is something which takes some significant bucks. Often, in order to make something happen, people will get together for business partnerships, pooling their resources to launch their dream together. During the start-up phase of a club, there is money to raise, sites to consider, building plans to create and perfect, construction bids to get, building progress to check, business plans to write, equipment to buy and staff to hire. During this phase, you are thrust into 20 to 22-hour days which seem all too short. Some enter into partner relationships which involve others who they may or may not know very well.

It is easy to grow to care about and to trust others who are helping you attain your dream. It is during this phase that many partnerships omit one of the most crucial and important parts of the deal: a written and legally binding partnership and buy/sell agreement. This document should set forth the terms of the partnership and the terms of a buy/sell agreement if the partnership ends. It is crucially important to use legal assistance to draft, perfect and execute this agreement before you proceed too far into the partnership. Even if you

have been partners for years, it is never too late to draft and execute a fair and legally binding partnership and buy/sell agreement. Take the time now. Invest the money on qualified legal assistance. You should not forget it and you won't regret it.

Examples of What Can Happen

The following instances are examples of why it is so important for you to act. I have a good friend who wishes he could go back. He owned a minority interest in his club. He spent four years developing the club and after 16 years as a minority owner, General Manager and key man, without warning, his majority stockholding partners gave him the word that they had agreed to sell the club to one of the local competitors for cash in 30 days. They told him that if he could raise the same amount of cash (in excess of \$2 million) within 30 days, they would sell the club to him. If he doesn't, they will sell the club to others. Sure, he will receive a portion of the sale proceeds, but not nearly enough to fairly and equitably compensate him for the years of work and commitment he has given to the club and its role in the community.

There are plenty of ex-

amples where groups of individuals started out in harmonious fashion and later went in different directions. The influences are obvious: marriage or divorce, ill health, disparity of ages, major gaffs in risk-taking abilities, huge differences in net worth, differences in the planned future (e.g. sale of club vs. succession by children), change in type and complexity of club, burn-out, etc.

The problem is exacerbated when there is a majority interest (i.e. 51% or more). Control by one partner can destroy the sense of a partnership quicker than any economic downturn. If all partners are in the minority, two things are likely to happen: either it will force all to use logic and debating skills to reach consensus on major issues or it will encourage severe office and ownership politics.

The purpose of a partnership agreement (or shareholder's agreement), which includes an equitable buy-sell methodology, is to deal with the eventuality that things will change and people can't always work out the differences. The agreement then should be specific as to the exact procedure one or more partners has to undertake to buy or sell their interests.

Obviously, an independent law firm should draft such an agreement. The lawyer should be

someone who may be known to all partners but can only serve the partnership as an entity -- and none of the individual partners. If there is even a gray area, it smacks of a professional conflict of interest. If the individual partners do not read the agreement carefully at the outset, it can come back to haunt them later on. If the partnership functions smoothly over the years, the agreement will never be read. If problems occur, each side will need separate legal counsel to read and interpret it. Hopefully, the language will be clear and understood by all. Obviously, there are lawyers who specialize in corporate and partnership law; they should be screened to find one best suited for the company and all parties.

There are other lessons in dealing with the appropriate buy-sell provision. If a less wealthy partner has a very short time to match an offer, this creates an inherent unfairness. If there are restrictive covenants and such specific conditions not acceptable to an outside third party, this will create an inequity and probably a lower fair market value than appropriate.

Issues regarding executive compensation, the hiring of relatives (even on a part-time summer basis) and the commit-

ment to regular work by the principals all need to be addressed at the outset.

Compromise And Save Your Tolerance For Pain For Circumstances Which Are Beyond Your Control

I want to appeal to all of you who are having conflicts in your partnerships to make your best efforts to follow the Golden Rule. Try to put yourself in your partner's shoes. Remember that at one time in your lives, you were probably more important to each other than anyone else except your family. Keep in mind that time marches on and that EVERY DAY is precious and every day spent with anger, stress and pain caused by a partnership going sour is a day that you have lost forever. Remember the love and hard work you each have given the business and the GOOD things that love has done for your family, your members and your community. Open your hearts, COMPROMISE, and then move on to happiness.

Invitation to Share

The Club Insider hopes to hear from you about your family-owned clubs, buy/sell agreements and partnership structures. This communication will be healthy and helpful as we will inventory these experiences for future issues.

Top 10 Things to know to avoid problems with the SBA

The United States Small Business Administration (SBA) was intended to assist start-up businesses and those who had reached survival and were poised to grow to the next plateau. It is an additional resource in terms of a guarantor for a local bank loan or in some rare cases - a direct lender where banks had refused.

However, the SBA may not be the ideal "partner." The "Top 10" list below serves as a guide to steer club owners away from potential pitfalls.

1) Don't trust a lawyer to

watch out for your personal interests. Look out for your own interests by carefully studying all documents, forms, guarantees, etc. and by obtaining a second legal opinion prior to signing anything. Ask questions until you are clear on all terms.

2) Require all meetings between you, your counsel and SBA/Bank Officials to be tape recorded for future reference.

3) All meetings and phone calls should be carefully documented with notes. All meetings and phone discussions with SBA/Bank officials should be fol-

lowed up in writing with a confirmation memo or letter that same day.

4) Keep careful and copious records of all communications, transactions, memos, forms, representations, etc.

5) Be sure that all collateral securing any SBA Loan is carefully described, inventoried and photographed for your records.

6) Require that the SBA/Bank provide you with a WRITTEN AND DETAILED explanation of exactly how the SBA Loan Collateral will be liquidated in the

case of a failure of the SBA Loan to be repaid on a timely basis.

7) Enter your SBA loan agreement under a Corporate entity properly prepared by an attorney. Do not agree to sign an SBA Loan personally. If you must sign personally, limit your exposure by #8 below.

8) The club, the land and the club's equipment and furniture should be your primary collateral. Make every effort to have that collateral stand between you and any potential SBA Loan Collection Action on the loan.

9) Avoid signing an SBA

Loan for a club in leased space. If you do enter into such a loan, do so only with a very clear written commitment from SBA and any Bank involved about exactly how and by whom the collateral in the leased space will be liquidated in case of loan failure.

10) Require a NON COMPETE agreement with the Bank/SBA to assure that they will not fund a loan for a club in your market within an agreed upon radius.

GOOD LUCK FROM AN SBA BORROWER WHO DID NOT HAVE THIS LIST!

Norm's Notes

CURT AND JANE BEUSMAN, owners of the Saw Mill River Club in Mount Kisco, New York, have named **JOHN JAMES** as the new General Manager, replacing 14-year veteran Larry Krieger.

STEVE SMITH'S FITNESS COMPANY has taken over management of the 120,000-square-foot Aspen Hill Club, in Silver Spring, Maryland, on August 18th with the new **G.M. RICK EKSTROM**. That brings to 40 the number of clubs owned and/or managed by Steve Smith's New Jersey-based company.

TONY DELEEDE, the owner of ten Australian Body Works Clubs in the Atlanta area, has purchased a 50% stake in the Cardio Theater Company.

JILL KINNEY of Club Source, Inc., which is owned by Jill and husband John, says they have doubled their revenues and grown to three Club One locations in the San Francisco area with a 4th to be open in the near future.

LAURY HAMMEL of the Longfellow Racquet and Fitness Clubs in New England reports that he is doing a major expansion of his locker rooms and is adding a new aquatics center. Laury is also teamed up with a group of industry leaders in a project called "Service Breakthrough." Check out the article in this month's **Club Insider**.

JOE HOLLINGSWORTH, major league Knoxville businessman and the new owner of the Courtsouth Total Conditioning Clubs in Knoxville, TN has made a good move by retaining the service of **PRESTON FIELDS** a 15-year industry veteran. Preston started in Marietta, Georgia with Courtsouth Racquetball Clubs in 1978 and has experience as both an owner and general manager over the years.

LARRY KRIEGER, the new IRSA President for 1993/94, has left the Saw Mill River Club in Mount Kisco, New York after 14 years to take a position as General Manager at the WellBridge Center in Newton, Mass.

SPORTSLIFE CLUB COBB in Atlanta, formerly the Atlanta Health and Racquet Club has formed an association with the Nick Bolletieri Tennis Academy. Sportslife, now in its first year of a 100% ownership by partners **JERRY ALLES** and **LOU OFF**,

appears to be positioned very strongly for the future as they consolidated their two oldest locations into one bigger, nicer and more competitive site located half way between the two former sites.

DEAN KACHEL owns and operates the Quadrangle Athletic Clubs in Coral Springs and in Clearwater, Florida. There are seven competing locations in the Coral Springs area and now a former employee-turned-club-developer, has a new one under construction just 1/2-mile down the street. Dean was one of the IRSA Board Members who protested and helped stop the move to bring Bally into IRSA. Dean, a committed and intense competitor, is making preparations to weather the storm.

ALTA, The Atlanta Lawn Tennis Association now has more active members than any other tennis group in the U.S., with 73,000 members on 4,366 adult and junior teams.

THE FIRST WAVE IS OVER. It appears that the first wave of major equipment buying and growth in the U.S. has subsided according to a leading industry source. The bottom line is the stronger companies will get stronger by expanding their marketing efforts to the booming worldwide market while the weaker ones will disappear or sell out. Europe seems to be leading the club growth race. To me, this means you ought to come to the IRSA Industry Trade Shows in Boston in December and the IRSA Convention Trade Show in Reno in March, ready to make some deals.

RICK CARO, the brilliant guy who conceived and brought the players together to create IRSA just returned from a nine-day speaking trip to Japan. Rick is known as "Mr. Cost Control." Check out his article on "The Myths of Fixed Costs" and the Japan report in this issue.

GEOFF HAMPTON of the Courthouse in Springfield, N.J. reports that since he took over the 15,000 square-foot club he has increased membership from 500 to 1400. He is installing a new kids' program to tap into the bedroom communities around his club.

GORDON JOHNSON has just opened his second club in Mableton, Georgia and it is called Success Health and Fitness. Gordon has done a great job over the past 10 years in his Douglasville Health and Racquet Club.

TOM LYNEIS, the President of Club Sports International, definitely one of the club industry leaders in management of mega clubs, travels and sees as many club markets in the U.S. as anyone, except maybe for his partner **ED WILLIAMS**. Tom, a former President of IRSA, sees the major cities such as Denver, Chicago, Atlanta, Dallas and Los Angeles as being pretty well tapped as far as potential for club growth. But, he won't go so far as to say that those markets are saturated. Tom also feels that there still remains an excellent opportunity for growth in the cities with populations around 1 million.

TIM RHODE, formerly with the Aspen Hill Club in Silver Springs, Maryland, is now the new General Manager of the Baltimore Tennis and Fitness Club. Tim currently serves as a member of the IRSA, The Association of Quality Clubs) Board of Directors.

JACK NAIMAN, formerly based in San Diego, California has pulled up stakes and moved to Florida. Sources have it that he moved so that he could take advantage of Florida's personal bankruptcy laws. Naiman is the guy who was a pioneer in the development of large multi-sport clubs, but in recent years has seen several of his new "Mega-Clubs" forced into bankruptcy. If his site selections in Atlanta and Irvine, California are any clue, his clubs have had hard times because they have been located smack dab in the middle of already saturated markets. The club industry wonders about why he went ahead and built these clubs knowing full well that they most likely would not make it... sources have it that he got big development fees even though the decisions to go ahead appeared to be insane to club insiders.

The **JOHNSON AND JOHNSON HEALTH MANAGEMENT, INC.** plan for Life Program which provides the IBM CORPORATION with health, wellness and fitness services is going through radical changes which might work out to the benefit of clubs in markets with IBM employees. If you want information on the Plan for Life Program provided for IBM employees, contact Johnson and Johnson at 1-800-345-6708.

CHUCK MINER of the Courthouse Clubs in Jackson, Mis-

issippi has installed one of the most impressive swimming pool complexes that you will see. His pool is 75 yards by 25 yards and he covers it with a bubble in the winter months. He generates about \$3,000 per month from the pool through deals with local competitive swimming teams.

The **WILDWOOD ATHLETIC CLUB**, Atlanta, GA. is now operated by **DON WHITNEY'S** company, Corporate Sports Unlimited with **AMY NORRIS** stepping in nicely as the new General Manager. The Wildwood Office Complex is a joint venture between the IBM Corporation and Cousins Properties, Inc. and offers some of the most impressive office environments in America.

CHARLEY SWAYNE is a college professor, an author and noted club industry speaker. Charley has been the owner and operator of the Valley View Fitness and Racquet Club in La Crosse, Wisconsin for 20 years. Charley has just added a 1,000 sq. ft. women's only workout area and a nutritional center in which he has leased space to a local hospital that moved their entire nutritional operation into his club. As usual, he has come up with a unique spin on the idea as the rent on the nutritional center space floats up or down with usage traffic.

DAVE LeCOMPTE, California-based 14-year fitness industry veteran now produces a newsletter called **Fitness Market Advisor** which is faxed to the subscribers twice a month.

ERNIE ZAIK of the Western Reserve Club in Tempe, Arizona is one busy guy. Ernie has created one of the most unique and successful alliances that I have seen, in his Arizona Fitness Network which puts together five competing clubs in the Phoenix area in a collaborative reciprocal usage and membership marketing effort. This plan is a prototype for clubs who wish to improve their competitive edge, increase their marketing impact while reducing the cost, and increase the viability of their clubs to HMO's and corporations. Ernie has recently taken over the operation of the Renaissance Club in downtown Phoenix, plus, he has involved his club in the new Preferred Club Program. (See article in this issue.)

FRANK LEONESIO, former Ohio Scandinavian Opera-

tor, is hitting the Phoenix market hard, installing three \$7 Million Q Sports Clubs located squarely in the markets of well established existing clubs.

JANET LOSSICK, one of our West Coast **Club Insider** correspondents, reports that as usual there is a lot happening out there. Bally is managing the Sports Connections Clubs and bought the Nautilus Plus chain. She says that they are still offering three-for-one memberships! LA Fitness is also adding a number of new units to the area with \$30 per month rates. The Sports Club Irvine is sticking to its \$500 Initiation Fees and \$75-\$150 per month dues. The Sporting Club at Irvine, built by Jack Naiman across the street from the Sports Club Irvine for who knows what reasons, has changed its name to The Sporting Club at Lake Shore Towers. They have been forced to drop their dues to under \$50 per month in order to compete. Word is that Racquetball World has filed for Chapter 11 and with Jim Campbell gone, their long-term management team is dropping right and left. Tennis clubs in the area are dropping their initiation fees and one club cut its dues by 50%.

Janet is a veteran club pro and serves as the General Manager of the Los Caballeros Athletic Sports Club. Her club has added a new Youth Center, Nutrition Center, Massage Center and Hair Salon. Thanks, Janet, for a great **Club Insider** report!

RICHARD REED is the President and Owner of the for-profit National Health Club Association. Reed has some good ideas and appears to be advocating improved member service to his Association membership.

JOHN DOYLE, owner of the Belmont Athletic Club in Long Beach, California, reports that one of his members, former Atlanta Brave player, Jeff Burroughs, was the coach for the Little League Team that won the Little League World Series! Congratulations, Jeff!

SANDY COFFMAN, the industry leader in club programming, has been preaching the gospel on how to "Program for Profit" to the industry for years. Now, the people in Europe have heard about her and she is in great demand as a speaker and teacher over there, recently returning from a three-country speaking and teaching tour. This lady gives huge energy and enthusiasm to everything she does.

THE CHAMPION... Larry Pacifico

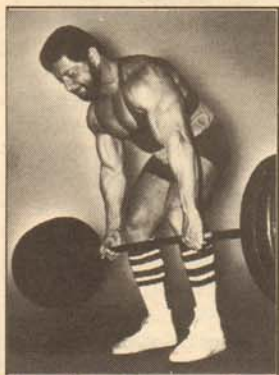
By Norm Cates, Jr.

Larry Pacifico is a fitness industry veteran who began his career in 1962 as a high school athlete. By the time he was a senior he was a gymnastic and track star and could bench 300 while weighing 170. Larry was also named the most outstanding athlete in the Rome Free Academy High School in Rome, New York. Larry built and operated a chain of 20 fitness clubs in the Dayton, Ohio area called New Life Fitness. He later sold the clubs.

Larry and I lifted weights together and it was clear then that this phenom would go onto to greater things in athletics. He continued to train very hard and went on to win the World Power Lifting Championship nine straight times, twice in the 198 lbs. weight class, five times at 220 lbs. and twice at 242 lbs.! In July, 1973 Larry set the World Bench Press Record of 610 lbs. at a body weight of 242.

While Larry's feats of strength were awesome, they pale in comparison to his most significant accomplishment...the survival of major heart surgery at a time when open heart surgery was fairly new. In 1981, Larry began to experience heart trouble. He had lost his father to heart problems, so he knew that he had heredity against him. He had an angioplasty procedure to open an artery which was 99% clogged. He recovered, but experienced more trouble in 1984, suffering a mild heart attack. In October of 1991, he began to have serious problems. This time the doctor told him he would live no more than 90 days without immediate open heart surgery. The doctors performed a seven-way bypass surgery and he came out of the surgery just fine. In 14 hours he was back on his feet. He left the hospital in five days. In a short period of time, he was walking on a treadmill. Since then, he has been in excellent health.

Larry just opened a brand new club called the Champions



Pacifico is seen here deadlifting 740 lbs.

Gym in Dayton. It is the second facility he operates with that name and this one is in partnership with a former Cleveland Browns football player. He says the 10,000-square footer is doing about \$60,000 per month in sales and that he is putting in about nine hours per day with his specialty as a Personal Trainer. Larry also owns and operates, with his beautiful wife, Pam, a mail order company which supplies food supplements and weight lifting accessories. He has about 30,000 customers worldwide. If you operate a pro shop, Larry has said he will provide a special pricing plan for all **Club Insiders** who call into his 1-800-392-5496 toll free line and tell his operators that "Cates sent you."

A few years back, Larry donated a room full of free weights, racks and benches to his High School in Rome, New York. In 1985, not knowing about Pacifico's earlier donation, I contacted our old buddy, Coach Tom Myslinski to tell him I wanted to donate 16 Nautilus machines. He said that would be great! He then told me about Pacifico's donation. Tom arranged to have an addition built for the gym and now, R.F.A. has one of the best equipped gyms in the U. S.

Larry and I are headed to Rome next summer for our 30th High School Reunion. I've got to join the Hair Club for Men! Larry Pacifico... He's a Champion, he's healthy and he's all set!

Preferred Clubs Look Good

Club California, a reciprocal club network which originated in the hot-to-trot Southern California market, has changed its name to Preferred Clubs and expanded its market focus to a national level. Founded by Michael Dreifus and Bill Gooding, the Preferred Clubs network provides upscale clubs with the opportunity to provide their membership with access rights to a growing list of America's nicest and most posh clubs.

To qualify for the Preferred Clubs network, your club would be visited by a representative from Preferred Clubs to verify the quality of the facility and its programs and your monthly dues rate must be at least \$50. Once enrolled, your club would purchase a membership card that your member may use for up to four visits per month. Access

control is accomplished through a computer terminal provided and serviced by Preferred Clubs from their home base.

There are currently over 50 clubs enrolled in California, Arizona, Nevada, Pennsylvania, Georgia, Virginia and Canada including such leading top end clubs as the Green Valley Athletic Club, the Laguna Niquel Racquet Club, The Sporting Club at Aventine, the Los Caballeros Sport and Racquet Club and the Western Reserve Club. Their objective is to line up an exclusive array of the very best clubs in the major North American markets, and are well on their way to that objective with over 250 clubs in the wings awaiting qualification.

This looks like a good idea and it is being implemented by Gooding and Dreifus who are the owners of the Beverly Hills Health and Fitness Club to fill the

need of the commuter and business traveler and to give the upscale club group a marketing tool to compete with the chains. The financial deal for the club owner is not complicated or expensive, as each club would purchase the Preferred Clubs membership cards and then make them available to their member by either passing the cost on to the member or by absorbing the cost as a marketing expense. Also on the horizon, Preferred Clubs will be adding more value to the card with a program of discounts on goods and services tailored to the sports and recreation market. I've checked this deal out with five of my friends who have enrolled their clubs and they say it is a good deal and they are very enthusiastic about the Preferred Clubs group. To check out the Preferred Clubs group for yourself, call 1-800-698-8887. The **Club Insider** will keep you posted on additional developments.

Fifty-Plus Fitness Association

One of the major growth areas for club memberships is the over-50 market. All of the scientific data that is available shows that regular exercise is good for people of all ages. This opens up a segment of the market for club memberships that in the past was somewhat ignored.

There is an organization

called the Fifty-Plus Fitness Association which is dedicated to showing the over 50 group how good, growing old can be. The association provides educational materials, sponsors an annual dinner, run and walk, and sponsors research to continue the documentation of the value of exercise to the aging process. The promotion of this association for the over 50

would be a good idea for all club operators who wish to increase their membership levels with people over 50. A one year membership is only \$20, so the 50-plus in your club could join without a major cost.

For information on the Fifty-Plus Fitness Association write to: Box D, Stanford, California 94309, or call Ms. Lee Haskell at 415-323-6160.

Executive Insight®

By Stephen Faust

Do you have a club that you have owned and operated for a number of years? One in which your team of managers have been in place for quite some time and seem to be doing their jobs, but nothing more? Would you like to better understand the culture of your organization and be able to get to the bottom of what makes your team work well together or what makes it difficult to get along? Are you concerned that maybe, just maybe, you, the owner and boss, may be part of the problem but nobody in your organization has the guts to tell you about it? Do you have people in your organization who just don't seem to get the "team thing?" Would you like to be able to open up your organization and improve the communication? Have you said to yourself... this just can't go on, I NEED to do something?



Dr. Gerry Faust and Will Phillips

Enter Executive Insight. Executive Insight is a business diagnostic method developed by Dr. Gerry Faust and Will Phillips, noted club industry speakers and world class business consultants. Executive Insight has been customized for the club industry by Dr. Faust in conjunction with a group of Club Executive Roundtables over the past five

years. The Executive Insight program has been used in a number of businesses and clubs around the world and next month, we are going to have an update on the results of those efforts. Look for the December issue of the **Club Insider** to learn how some clubs have made great strides in their team work, problem solving and overall staff service culture.

Coming in January...

- SALES SOFTWARE by Curt Beusman.
- MONTHLY DUES vs. RETAIL INSTALLMENT CONTRACTS. Feedback from club operators on questions asked this month.
- SITE SELECTION. Club guru, Rick Caro, shares his thoughts on site selection.
- PERSONAL TRAINING. How to make it pay while avoiding the pitfalls that come with Personal Training.
- EXECUTIVE INSIGHT UPDATE. What it is and how it helps.

The Myths of Fixed Costs

by Rick Caro

Many club operators feel that the term "Fixed Costs" means that some outside third party has created these burdens and the club must bear the weight of them daily—and they seem to last forever.

Fixed Costs are labels accountants have used to distinguish certain types of expense categories from one another. In fact, Fixed Costs are really not fixed until the owner of the business ceases to try to decrease them.

Simply, a mortgage and the resulting debt service are fixed once you set them in place.

However, if you should try to re-do terms, then they can be changed. Once you are content—or give up—then the costs can be really labelled as "fixed."

Typically, most accountants would label the following as Fixed Costs:

- Interest & Finance Charges; Debt Service
- Depreciation Amortization of Pre-Opening Costs
- Real Estate Taxes; Personal Property Taxes

In some cases, some accountants would consider other items as Fixed:

- Rent (to Third Parties)
- Liability (Casualty) Insurance; Property Insurance.

DEBT SERVICE

Recently, the recession has proven to be an ideal time for clubs to question all of their expenses, including the ones labelled "Fixed."

This has meant that clubs have looked at their debt and re-examined the terms, including any prepayment penalties for early repayment. With interest rates at their lowest point in years, many clubs were paying interest at rates 4-6% over the current prime rate (6%) and sought to refinance their existing debt.

In some cases, this meant simply re-doing the mortgage and keeping the same principal amount resulting in lower monthly payments. In other cases, owners increased the total mortgage amount and still kept the monthly amounts the same. This allowed them the luxury of taking out some of the proceeds from re-financing tax free. Some clubs also consolidated loans (lines of credit, equipment loans, leases) and created a overall lower set of monthly payments.

DEPRECIATION

The government provides guidelines for tax purposes as to the



Caro

length of the useful lives of assets.

Some clubs use two sets of depreciation schedules—one for internal management accounting and one for tax purposes. In any case, the new tax changes once again have defined both the lives of property (building, equipments, etc.) and the method of write-off. The club's accountant will assist with each specific item.

Often, clubs change the physical plant and either convert the space from one use to another or eliminate the item altogether. The club's accountant needs to be informed of these changes so he can cease the depreciation pattern and write it off in its entirety. Ideally the club should inform the accountant as to the type of asset.

For example, not all fitness equipment will last five to seven years. In fact, some have life expectancies of only three years.

In some cases, clubs have some equipment re-conditioned and then still use it. In other cases, the specifics need to be explained to accurately label what is the proper depreciation for that year.

REAL ESTATE TAXES

This is one area where clubs have enjoyed great success in major decreases in their re-assessments.

Generally, local tax assessors are very uncomfortable in their methodology for calculating the value of a club. They struggle to call it a "modified" office building or a light industrial or warehouse space.

In any case, clubs need to research what assumptions the local assessor is using and refute the values where appropriate.

Recently, clubs have achieved decreased assessments of 15-25%—and frozen for the next five to six years until the next overall area re-assessment.

Sometimes, the thrust is to use club valuation techniques. Each case has to be treated indi-

vidually.

However, the results have been impressive, especially when the net savings increase incrementally each year when tax rates climb.

This is one area where club industry expertise may be more significant than even the best local lawyer specializing in tax re-assessments.

RENT

The clubs often create leases with option periods with base rents and various escalators.

There may be other additional fees, like common area maintenance (CAM) charges or the space's share of real estate taxes for the overall property. When the recession began, it often impacted various landlords. They struggled and were highly leveraged. Cash and liquidity became major issues for them. Losing existing tenants would only exacerbate their problems.

Many clubs benefited from the predicaments of landlords.

Some clubs were successful in re-negotiating their leases and getting a straight reduction. Others received extensions at the current rates—far beyond the number of years originally included in their base agreements. Others went back and either secured major contributions from landlords for current or future capital improvements or got a "credit" off the new current rent,

by claiming the landlord would make such contributions to a new tenant if it moved in today.

Others secured extremely favorable terms on expansion space or better space, with the landlord paying for the moving costs.

In some cases, clubs were able to eliminate the level of escalators and fix the rent at limited levels. Some were able to eliminate owners' personal guarantees.

This is one category where clubs have been most successful in re-doing the terms of a fixed cost to their direct benefit.

INSURANCE

Clubs have been benefiting from the softness in the current cycle of the insurance industry. Clubs have been able to secure multiple quotations from several carriers. Therefore, at this moment, there seems to be no lack of available alternatives.

The insurance carriers are simply focusing on the pricing variable and succeeding as the level of loyalty among clubs to their previous carriers has abated greatly.

Some clubs have changed some of their coverages and a few, their levels of deductible. Most clubs have a broker who shops the market for them. They play one carrier against another.

The only complaint clubs have is the lateness of the bidding,

as each insurance carrier is reluctant to offer his bid early so it can not be easily used for shopping purposes.

The property portion is very low—at the lowest levels in years.

However, it often amounts to only 10-30% of the club's premium. The liability portion is also relatively low and rumored to be rising over the next two years.

In many cases, clubs are not penalized for one large (or even disastrous) claim. Rather, they seem to get punished if there are a series of claims, even little ones.

Finally many clubs have increased their levels of umbrellas because of affordability and the wild range of lawsuits. This is one area where there is more art than science and where persistence and shopping pay off.

The "Fixed Cost" story is a never ending one.

All such costs get to be fixed only when the club owner ceases to protest, shop, refine and finally agree to someone else's terms. Until that time, all of these categories of costs are variable and negotiable.

This is a dynamic with little permanence attached to it.

(Rick Caro is the President of Management Vision, a New York based club industry consulting firm. Rick has served on the boards of NTA, NCCA and IRSA and is the person who brought NTA and NCCA together in 1981 to start IRSA, the Association of Quality Clubs. Rick served as President of IRSA in 1982/83.)

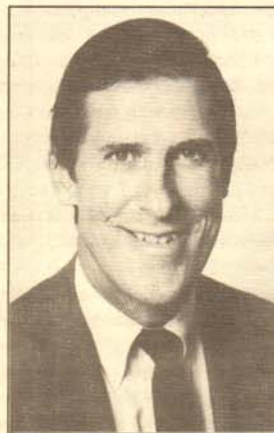
John McCarthy Honored

PHOENIX, AZ - John McCarthy, Executive Director of IRSA, The Association of Quality Clubs, was honored with induction into the Healthy American Fitness Leaders Awards Program on September 11th at a ceremony in Scottsdale, Arizona.

McCarthy has elevated the Boston-based IRSA to such a high level of quality that it is positively impacting the fitness industry worldwide.

The Healthy American Fitness Leaders Awards program is sponsored by the Allstate Life Insurance Company, administered by The United States Junior Chamber of Commerce and conducted in cooperation with the President's Council on Physical Fitness and Sports.

The award is presented annually to 10 individuals who



McCarthy

have made significant contributions in fitness and health.

The previous inductee list reads like an industry Who's Who and includes such industry notables as the late Dr. George

Sheehan, Jr., Jack LaLanne, Robert Karch, Jacki Sorensen, the late George Allen, W. Brent Arnold, Dr. Jim Rippe, and Dr. Ken Cooper. The other 1993 inductees are: Millie Cooper, Dr. Charles Corbin, Stan Cottrell, Dr. Nicholas DiNubile, Lisa Ericson, William Horton, Micki King, Michael O'Shea, Ph.D. and Willye White.

John has done a world class job with his work at IRSA and he has surrounded himself with excellent people.

John McCarthy is a visionary and his approach to the job of leading IRSA has well served the Association and the racquet and health club industry worldwide.

In the last 12 years, John's leadership has elevated the quality and image of the club industry more than all that has happened in its history... Congratulations to John and the other inductees!

THE STEP STORY

The **CLUB INSIDER** is dedicated to providing the club industry with the most insightful and up to date news available. I have written this article about the Step Company because I want you to be the first to know about two new tools for your club to improve your competitive edge in the market place.

The Step Company is a story of entrepreneurship which is nothing short of incredible. The Step Company was formed in Atlanta by my two ex-partners, Rich Boggs and Ray Irwin. With the introduction of the Step, thousands and thousands of club operators have been able to improve their club's aerobic class programs and have been able to attract people that previously would have never considered participating. Plus, the Step has increased club utilization numbers for all of us, thus inevitably increasing member loyalty and retention. At last count, The Step was in 18,000 clubs worldwide with over 2 million Steps in use!

The 1970's.... What Fun!

Rich Boggs, Ray Irwin, Fred Streck and I got together on a cold, rainy night in the Fall of 1976 to form a partnership to build and operate the first racquetball club in the Southeast, Courthouse I. That was the beginning of a four-and-a-half year partnership that produced four Atlanta racquetball clubs and five out-of-town franchise clubs. We later changed our name to Courtsouth. Our clubs had been running high occupancy rates around the clock. In 1979, we began to see signs of an easing of demand on court time. We began converting some of our courts to aerobics studios, cardiovascular areas and weight training facilities. In 1981, facing declining revenues and different views about what to do next, we decided to terminate our partnership. Each person in the partnership took one club and his share of the debts and went on his own. In 1982, Rich and Ray reunited in partnership and changed the name of our original location in Marietta to Sportslife. They expanded the club and took over one of the other early locations starting up a chain again. They brought in two partners, Jerry Alles and Lou Off and stayed in partnership with Jerry and Lou for ten years making a huge success of Sportslife in the Atlanta area, growing to six locations and generating about \$15 million in sales per year. In December, Rich and Ray traded their

shares in Sportslife for the shares that Jerry and Lou had in the Step. After 16 years in the club business, they are now involved full time in producing and marketing the Step products. My guess is, that Rich and Ray know what clubs need as well as any supplier in the business.

How The Step Was Invented

The Step Company started from a desire by the Sportslife team to create an alternative to the wooden benches that many of us were using in the early (1989) days of Step training. One night Ray was watching his children play with Lego Toys when the idea of creating a plastic step came to him. Shortly thereafter, the Sportslife boys got together with Peter Hand, our original architect, to design the Step. Four months after Ray's idea, Boggs and Irwin went to the Club Industry Trade Show and began to market The Step. Rich felt that it would be helpful and important for the marketing and sales of the Step to have a tie in with a name known the world over, thus the advent of the "Reebok" name on the original Step. The results of this marriage of the Step product with the name Reebok through a licensing agreement that allowed the use of the Reebok name on the original step used in health clubs were nothing short of phenomenal. With the Step in great demand, the Step sales went through the roof. The Step was simply the hottest product for clubs to come down the pike since the Lifecycle arrived. The first full year, the worldwide sales of the Step reached \$8 million, with sales in '91 and '92 reaching \$19 million and \$30 million respectively. In 1991, the Step company severed its relationship with the Reebok company with the divorce leading to a nasty legal battle. The Step Company ended up paying Reebok \$250,000 to remove the Reebok name. Peanuts when you consider the stakes.

Pioneering Visionaries

Rich Boggs and Ray Irwin as a team have proven that they could take a need, create a product to fill that need and market that product very successfully worldwide. They have expanded the Step Company to include three divisions: (1) Institutional (which includes clubs), (2) Retail (which Rich says is price sensitive) and (3) Consumer products.

When we split up

Courtsouth in 1981, Rich embarked upon what appeared to be a good idea, but an idea that was apparently before its time. He had a vision of creating a club which would provide its members with not only exercise facilities, but with proper nutritional guidance so that the combination gave the member the results he was looking for. Unfortunately his early efforts to move his club in the direction of wellness were not successful. Since then Rich has successfully used his experience and education to achieve major marketing victories with Sportslife, and the Step. Through all of this, the key to his marketing victories has been his ability to identify needs and develop products which fill those needs. For example, the Step has been enormously successful because it hit dead center on a significant club industry need.

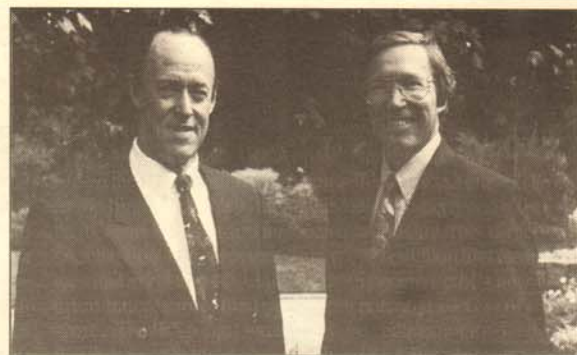
Two Big Needs...

Two New Products

The Step Company has two new products coming out which I believe will help your club be more competitive. Both of these products hit the bullseye when addressing the needs of club operators. I am going to give you a quick look at what is coming so that you can evaluate your organization's potential use of these new services. Importantly, I want you to know that this is not a commercial for the products and I do not have a crystal ball. What I do know is the background of how these ideas have gotten to this point. And, I know most of the people involved.

NUTREX.... Nutritional Help Combined with Exercise

NUTREX is an eight week nutrition and exercise program which will be available for clubs that wish to market and promote nutritional services to their members or to prospective members. The NUTREX program will provide your member with over 40 entree selections from a healthy and delicious menu which has been developed by the Step Company through the combined efforts of Registered Dietitians teamed up with professional chefs. Each person who registers for NUTREX will receive their own customized binder with the menu items prescribed specifically for that individual. This prescription is coupled with the exercise segment which is established for the member by the club. There is an 800 number for your members to make direct contact with the NUTREX registered dietitians should additional assistance be necessary. An attractive part of the deal is that the NUTREX program can be marketed by the



Rich Boggs (left) and Ray Irwin

club as an "add on" service for new and existing members or it can be marketed to the general public as a weight loss product, thus increasing prospective member inquiries and traffic. The club pays no up-front costs and only pays for each NUTREX customized eating plan sold. So, in effect, clubs can create a new profit center with the only investment being marketing time.

LEAP... The Future Is Now!

LEAP is a new program that could potentially revolutionize the industry. The Step Company has obtained the worldwide marketing rights for LEAP from its creator, Olympic coach Dick Brown. Rich Boggs describes this new innovation as having the potential of providing 10 times the impact that the Step has provided for clubs if you can imagine that!

The basic idea for LEAP is that exercise is cumulative and it does not matter what the exercise is, it is good for you to do it. This fact has been keenly accentuated with the most recent news releases from Dr. Blair. The LEAP Program involved the use of a new term called: "Effort Points" which is a breakthrough in measuring activity and exercise. The Effort Points are generated by a set of formulas that assign points to the effort expended in any of over 120 activities. The effort points take into account: the member's physical characteristics, lifestyle and goals, the type, duration and intensity of the activity and the environment in which the activity took place. The Effort Points are entered into the LEAP system at your club no matter whether the exercise or activity took place there or not. The LEAP system then provides the members with an ability to track their effort points versus their effort point goal. In effect, the LEAP program acts as a personal trainer to advise the member regularly about where he/she stands relative to the set goals and will also tell the member when to rest.

Please note that the LEAP Program does not replace a club's personal trainer, but only makes them more professional.

Dean Wallace, the man who leads the four Courthouse Clubs in Salem, Oregon is one club operator who already has first hand experience with the results of the LEAP Program as he has had a prototype of the system in place since late 1992. Dean and his associate, John Miller, had been successfully tracking member utilization through a program they developed call "Club Performance." They came across the LEAP concept which had been developed and was being marketed in Oregon by Dick Brown, an Olympic Coach and Exercise Physiologist. Dick Brown had founded LEAP to make the expertise of the medical, scientific and coaching communities available to everyone. The product is the result of Brown's past 25 years as a coach, researcher and educator. Wallace and Miller felt that in order to be used successfully in a club environment, the LEAP program should be teamed up with Brown to fund and merge the two concepts, producing the new LEAP system.

Wallace, Miller and Brown realized that while they had developed a new and revolutionary way to train members and reach the corporate and deconditioned markets, they lacked the skill, experience and resources necessary to refine and market the LEAP to the industry. The Step Company and Rich Boggs were introduced to LEAP at the IRSA Convention in San Diego. In July, the deal was consummated providing the Step Company with the worldwide marketing rights to the LEAP program.

Here They Come!

The Step Company has just rolled out its new NUTREX Program. The revolutionary new LEAP Program will go on the market at the upcoming IRSA Trade Show coming in Reno, Nevada in March, 1994. The **Club Insider** will keep you posted on any new developments between then and now.

New Name Proposed To Replace IRSA

IRSA has become known as a club association which provides the very best in benefits for its member clubs. Founded in 1981, IRSA was an acronym for International Racquet Sports Association. IRSA was created with the constituencies of two former racquet club associations, the National Tennis Association (NTA) and the National Court Club Association (NCCA). The focus of the IRSA member clubs was mixed, with racquet sports and fitness activities emerging as the dominant products provided by the clubs. As the market changed, the IRSA Clubs have changed to adapt. IRSA has facilitated that evolution of its clubs.

IRSA is becoming a powerful voice in the market place. IRSA produces and delivers an array of services for its member clubs for which there is no equal. It is also the first club association in

history to set standards for its member clubs. Those services, products and standards are not all that IRSA is doing to help its member clubs to succeed. Through the development of a "World Thrust," IRSA has positioned its member clubs for massive growth of new memberships and profit opportunities by creating a marketing position which is revolutionizing the world's understanding of the value of regular exercise. With the increase of the awareness of the general public of the benefits of regular exercise will come an increase in the numbers of people who will seek places to exercise. With the masses awakening to the benefits of regular exercise, the clubs who have prepared themselves will enroll the greatest portion of the millions of new people who will enter the market for the first time in all age groups and with all levels of

fitness prowess.

The name IRSA has served the organization well. But, as the time has passed, the name has become less appropriate for an organization that provides services and products for clubs who offer much more than racquet sports. The IRSA staff has argued that they must battle each day with the constant explanation of the name IRSA. This will not change with the proposed new name. But, this is deeper than that. This is about a revolution. If you are going to start a revolution, you had better be prepared.

EXERCERE (Pronounced EX-ER-SARA). EXERCERE is the Latin word for: to exercise. The IRSA Board has voted to change the name to EXERCERE because of a number of reasons; which, when examined and understood under the contest of IRSA's dual pronged thrusts of providing

excellent benefits for its clubs and its "WorldThrust" educational effort, makes sense. The challenge is to properly and effectively communicate the direction of the Association and clearly relate the importance of a new name to the potential success of that strategic direction. Good advice to the IRSA Board and its Executive Director might go something like this: Continue your primary focus, taking care of your Association's club's needs which helps them be the best they can be. Listen to the club owners. Position the communication of your RATIONALE for the name change with statements which put clubs in the forefront and make it clear that clubs are an integral part of the long term plans and strategic objectives for the Association. Don't forget that CLUBS are the lifeblood of IRSA. Combined with the associate members, they fund

and make it all possible. Without the support of the clubs, the "World Thrust" would be stopped.

How do I like the name? When I first heard the new name, I had to think about it for a while. It sort of grows on you. I had to think about why the new name was important to the future of IRSA. And, while I was doing that thinking, I came to remember that a few hundred years ago, there was another Latin name which was virtually unknown. The name was beautiful and it was used to describe a place that was blessed and full of opportunity for everyone who came there. Close your eyes and say the name AMERICA. Now, say EXERCERE. America was an unknown and a strange place. But, the people wanted America to work and it has. I believe that the name EXERCERE will work too if the members of IRSA want it to. But, the members must have the final say.

OTHER IRSA NEWS

IRSA HITS WITH CORPORATE MEMBERSHIP FOR 1.5 MILLION MET LIFE INSUREDS!

DAVE PICKERING, the Director of Networks for IRSA, has announced that he has just inked the first plan for the new IRSA Corporate Club Network (CFCN) with the Metlife Insurance Company! The arrangement has been set up by the new IRSA Corporate Fitness Club Network which has taken a giant step and is a first in the history of the health and fitness club industry. The result is that the participating IRSA Clubs are being positioned as a "preferred provider organization" (PPO) with major insurers. Metlife, whose world headquarters office is in New York, will be offering the Network to 1.5 million employees, retirees and family members of their most prestigious corporate clients. Metlife is adding the "fitness club benefit" to their Health Promotion Program, which is an integral component of their corporate clients overall health insurance coverage. The program will be launched beginning March 1994. Very importantly, if the arrangement is satisfactory to Metlife, they plan to offer the plan to 12 million of their insureds worldwide in 1995! When asked how he felt about having made the biggest corporate membership sale in the history of the club industry, Dave Pickering said: "I am very excited and very pleased." Dave, John McCarthy, the IRSA Staff, and all

IRSA club owners and managers should be proud and excited because it has been a collective team effort that has made this first agreement with Metlife a reality! Congratulations! As usual, John McCarthy, in selecting Dave Pickering to head IRSA's Corporate Network, has selected an outstanding individual with the perfect experience to move this major membership marketing effort forward. Good Work!

IRSA Set for Boston—The 8th Annual IRSA Marketing and Sales Conference is set for Boston on December 1-4, 1993. Don't miss it. Also, some good deals can be had at the Athletic Business Expo held in conjunction with the IRSA Conference on the same dates.

IRSA Institute to Start Again—The IRSA Institute will crank up again next Summer on June 5th through 10th at Lake Forest College outside of Chicago. I am so happy to see this important educational effort re-activated. The Institute provides a packed week of classes with a faculty of club business experts teaching those attending. I hope someday to see the IRSA Institute grow and become a permanent part of a college or university

system with a fully accredited four year curriculum for Club Management. I think we all ought to start now to create and fund an endowment to make this happen. Just a dream folks... but stranger things have happened.

Profiles of Success—IRSA's Industry Data Survey for the past year is now out. Fantastic information for bankers and lenders, not to mention club operators who want to understand the Industry Trends.

General Manager Opportunity

Outstanding and unique general manager opportunity available in Florida. Applicants must be ambitious, energetic, hard-working, loyal and honest. 14-year veteran club owner seeks skilled and experienced person with extensive skills in membership marketing and sales. Salary, immediate profit sharing plan and potential stock ownership available. Call 1-800-947-8556 or send resume to: Quadrangle Athletic Club, 2160 University Ave., Coral Springs, Florida 33071.

CLUB TOURS OF AMERICA COMING IN 1994!!!

The CLUB INSIDER NEWS is happy to announce the creation of CLUB TOURS OF AMERICA!

Club developers and operators often visit cities across America to examine existing clubs. These informal visits provide a wealth of information on club design and layout, site selection, equipment selection and club decor. The best ideas are often found by seeing what others have done.

Rather than going to a strange city and trying to hit all of the good clubs by yourself, Club Tours of America will provide a comprehensive club tour service in America's major cities. Each tour will be conducted by a seasoned local club veteran who will serve as a guide and information provider for visiting groups. In 1994, Club Tours of America will conduct tours in major U.S. markets such as Atlanta, Georgia, Southern California, Denver, Colorado, Dallas, Texas and New York City. The Tours will be available for booking well in advance to allow you to schedule your time conveniently.

Look for the announcement of our 1994 Tour Season for the Club Tours of America in a future edition of The Club Insider News!

Service Breakthrough Project

Todd Pulis, owner of the Thoreau Club in Concord, Mass. has been in the club business for 27 years. He was one of the five people present at the meeting at the Chicago O'Hare Hilton Hotel in 1980 when representatives for the National Tennis Association (NTA) and the National Court Club Association (NCCA) first met to discuss the possible merger of the two groups to form IRSA. Todd and Dale Dibble who were representing NTA, recommended to NTA that the two groups select delegations to meet formally to discuss the idea of merging. Later, at a meeting in New York City, IRSA, the Association of Quality Clubs was born. Todd served on the IRSA Board of Directors for three years and was instrumental in bringing John McCarthy to IRSA. Todd was IRSA's third President. When Todd speaks people listen.

For quite some time, Todd has been thinking about the idea of how he could improve his club's service to a point where it would be tantamount to a Five Star Level of quality. His thinking was stimulated when he read the book *Service Breakthroughs* by James Heskett, Earl Sasser and Christopher Hart. He was particularly interested in the concept of Services Guarantees as described in the book. Todd felt that if company's like L.L. Bean, Nordstrom's, UPS, Marriott, and Citicorp could reach world class levels of service, then why couldn't club operators do it too?

Todd conceived and presented to a group of his club operating associates at a brainstorming session in Essex, Mass., a "Service Breakthrough" concept in which the quality and level of a club's services would be elevated dramatically through a keen focus on improving the overall service culture of the organization. He challenged the group to pursue that objective.

Through Todd's conceptualization and the efforts of Laury Hamel of the Longfellow Clubs in Mass., a group of club industry leaders created a "Service Breakthrough Team" which would consist of 12 representatives of clubs that are already on the leading edge of member service.

The Mission of this Service Breakthrough Team is: "To bring our clubs to a five-star level of member service by creating a 'Service Breakthrough' by June 1, 1995. To create a club culture where every staff member consistently offers superior member service, exhibits aggressive hospitality and exceed our member's expectations at every level of our club."

The Team created a list of twelve basic categories of Member Service that they agreed to focus upon. Those categories are: •1) Quality and Quantity of Facilities; •2) Cleanliness and Efficiency of Physical Plant; •3) Professionalism and Superior Club Management; •4) Quality Programs; •5) Member integration; •6) Communication from Club to Members; •7) Management Response to Member Feedback; •8) Quality of Staff; •9) Relationship of Staff to

Members; •10) Safety; •11) Ethics; •12) Corporate Citizenship in the Community and Social and Environmental Responsibility.

The Team also agreed to a group of 11 follow-up activities that each member would comply with, including a complete internal Service Breakthrough Audit of each other's clubs. In June, the Team attended a Club Leadership Conference on Lake Powell in Arizona. There was focus on the many aspects of the Service Breakthrough Project and the two-year project is now in full swing. The Service Breakthrough Team Members are listed below. Look for follow-up reports on the Service Breakthrough Project in future editions of the *Club Insider* as we share the Team's learning with you.

SERVICE BREAKTHROUGH TEAM MEMBERS

- John Atwood, Longfellow Sports Club
- Beth Beck, ClubFit Jefferson Valley
- Kevin Borse, Sports Club Management, Inc.
- Steve Cappezzone, Healthrax International
- Rene Ellington, Renaissance Club
- Charlie Frangos, Charlie Frangos & Assoc.
- Laury Hamel, Longfellow Club
- Faith Pulis, Thoreau Club
- Rick Rivas, Racquetball & Fitness Club
- Kathy Schilling, Healthrax
- Ernie Zaik, Western Reserve Club

An Amazing Story

Paul Ingham is a 45-year-old IBM Executive who is also a devoted triathlete.

For years, Paul had trained and competed in triathlon events and marathons with the hope that some day he would qualify for the Granddaddy of all triathlons, the Gatorade Triathlon, held annually on the big island of Hawaii.

Unfortunately, in April, 1992, Paul contracted an infection on his heart which damaged one of his valves.

Paul had to have open heart surgery in order to replace a heart valve with an artificial valve.

His surgery went well. While Paul was in the hospital recovering from the surgery, his lovely wife, Amy, brought Paul his mail. In the mail, Paul received an acceptance letter from the Gatorade Ironman Triathlon notifying him that he had been accepted to compete in the Ironman coming up in October of that year!

He was one of 1,200 people accepted from 48,000 applicants. Paul was thrilled... and perplexed. What luck and timing!

Paul consulted with his doctor about the feasibility of getting back into training and being ready in time for the Ironman. His doctor definitely wanted Paul to get back into exercise as soon as he was able, but he was skeptical of Paul's participation in the Ironman.

Paul got out of the hospital and was back in training with his



Paul Ingham finishes Gatorade Ironman

doctor's permission at the Wildwood Athletic Club in Atlanta, GA within 15 days of the operation. Paul had decided that he just Had to give the Ironman a try if his training program had progressed to the point where he felt he could finish the race. Paul trained on average three times per day, five to six days per week. And, I do mean trained. He was more determined than ever to complete the Ironman.

On October 10, 1992, Paul Ingham started and finished the Gatorade Ironman Triathlon in the time of 14 hours and 12 minutes, just six months after his open heart surgery! Amazing!

COMPUTER NETWORK & BULLETIN BOARD

The CLUB INSIDER is examining the idea of installing a Computer Network & Bulletin Board for subscribers who wish to be centrally linked to others through computer network. The service would provide those enrolled with the ability to present problems for group discussion, make announcements, list job search and placement information and in general, to stay in touch with others around the country who are in the club business.

Look for more in future editions of the CLUB INSIDER!

IDEA MACHINE

The IDEA MACHINE will be a compilation of innovative and unique ideas submitted by our readers.

The IDEA MACHINE ideas can be on any area or issue. The defining criteria for publication is that the idea(s) must be briefly stated and must relate to helping club operators make or save money and improve their operation for the member.

Submit your ideas to be published monthly in the IDEA MACHINE to the CLUB INSIDER News, P. O. Box 671443, Marietta, GA 30067-0025 or FAX to: 404-933-9698.

The Frog's Deadbeat Bulletin

Once Upon a time, there was a Wide Mouth Frog hopping down a country road. He came upon a field. And in the field there was a Mare with her colts. The Wide Mouth Frog croaked loudly, "What do you feed your babies?"

The Mare whinnied, "I feed my babies milk, oats and hay." The frog croaked "OHHHHHHH" and hopped on down the dusty road.

Soon the Frog came upon another field and in the field he saw a cow. The frog boomed, "What do you feed your babies?" The cow mooed, "I feed my babies milk, oats and hay." The Wide Mouth Frog croaked "OHHHHHHH" and hopped on down the winding road.

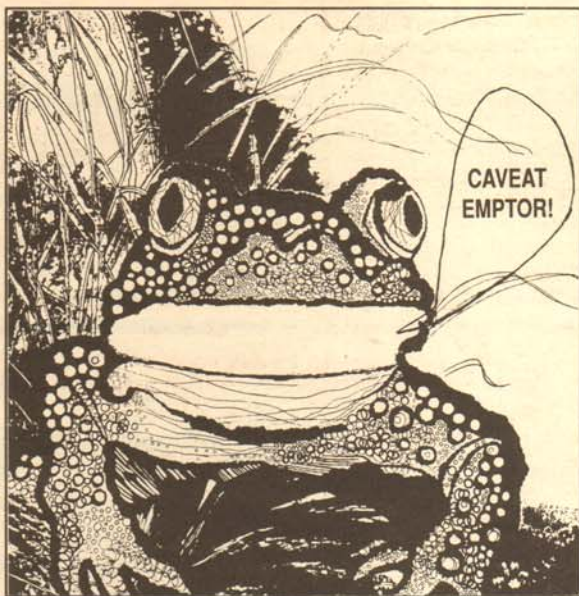
Then, the Wide Mouth Frog came upon a stream and spotted a big, black snake. The Frog, opening his huge mouth, shouted, "What do you feed your babies?" The snake hissed, "I feed my babies Wide Mouth Frogs." The Frog, with tight lips, whispered out of the corner of his mouth, "Is that Soooo?"

The Wide Mouth Frog story is not just my "down home" trademark story that I've told with vigor and animation for years; rather, the saga of the Wide Mouth Frog is important to club owners and operators because:

- 1) A lot of us have a perception that everyone we encounter is benign.
- 2) We usually don't recognize danger before it's too late.
- 3) When we seek help in making deals, we often don't ask the right people the right questions.

Caveat Emptor - Let the buyer beware!

The Cates Club Insider News will publish The Frog's Deadbeat Bulletin each month as a service to our subscribers. We hope that you who've had these unfortunate experiences will share what you've learned, hopefully



blowing the final whistle on the deadbeat person or organization responsible. Folk lore has it that Gods often speak through Frogs and Snakes. In this column, you will speak through the now enlightened Wide Mouth Frog, sharing your wisdom. Anonymity upon request. Here are a couple of true stories.

EMBEZZLEMENT

Curt Beusman, the owner of a club in Connecticut and two upstate New York Clubs, including the prestigious Saw Mill River Club in Mount Kisco, N.Y., reports that last month he discovered that a new bookkeeper had embezzled \$57,000 since she was hired in June, 1993. The discovery was made when Curt decided to conduct a no-notice accounting audit of the books on his Sportsplex Club. It turns out that the bookkeeper was keeping cash from the daily deposits and cashing petty cash checks which had been modified to higher amounts after signature.

Solution: 1) Conduct no-notice accounting audits periodically. 2) Monthly, use the following check and balance: The cash in the bank should equal the cash shown on the balance sheet and the

account receivable on the aged report should agree with the accounts receivable on the balance sheet.

MONEY DUE

Tom Lyneis, the President of Club Sports International (CSI) had arranged to have some equipment picked up by the Fitness Unlimited Company of Salt Lake City, Utah, with the company set to sell it for Tom. Tom reports that they picked up the equipment but they never sent Tom or the owner of the equipment the money.

Solution: Make efforts to carefully check references and backgrounds on any company that you do deals with. Places to check include Dun and Bradstreet, the Better Business Bureau, former customers and in the future, the **Club Insider!**

Story after story can be told about bad deals. If you are willing and wish to share your unusual situations with the rest of the industry, write to: The Frog's Deadbeat Bulletin, c/o Club Insider, P.O. Box 671443, Marietta, Ga. 30067-0025, or call 1-800-700-2120 and ask for The Frog!

INTERNATIONAL NEWS

Japan is a country which is the size of California and has a population of 124,000,000 people. The clubs in Japan are interesting and different in many ways. Here are some observations made by Rick Caro during a recent nine-day speaking and tour visit.

•Many major industries have really bought into clubs and exercise and serve as owners of clubs; typically, clubs are small divisions of large holding companies.

•All prices are clear — posted — and there is no negotiation on price.

•Membership sales is very different, taking place in open, non-threatening environments.

•Club users are very careful about documenting their exercise activity on every visit.

•If not attired in sneakers, you must remove your street shoes before entering the fitness equipment area of any club.

•You must remove sneakers or shoes prior to entering

locker rooms.

•Swimming is a MAJOR part of all clubs.

•Kids are separated from adult environments.

•Kids swimming classes are amazing with as many as 100 in attendance.

•Large clubs are 40,000 to 50,000 square feet.

•Tennis teaching uses indoor courts for teaching only, with as many as 60 students in each class.

•Golf is really big; driving ranges are stacked 2 to 3 stories high with automatic arms to set the balls on the tee.

•Aerobic classes are under tight discipline with total control by the instructor; no one enters or exits while class is in session.

•All aerobic classes begin with 5-7 minutes of discussion/lecture; aerobic studios are somewhat undersized.

•Japanese clubs have a lot in common with other clubs:

-huge attrition rates.
-\$80 to 100 per month for upscale clubs.

-difficulty expanding bank commitments.

• DEDICATION •

The CLUB INSIDER News is dedicated to club owners, general managers and department heads of clubs worldwide.

THE Club Insider NEWS

To Report Club News
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GENERAL MANAGER'S FORUM

The CLUB INSIDER invites general managers to participate in and contribute to a monthly General Manager's Forum which will address a variety of issues such as: how to deal with sexual harassment within your organization, employee compensation, building a "team culture" and dealing with the difficult owner. To participate, write and send a one-page typewritten summary of your most interesting experience on the issue of the month as shown below. Be sure to state the problem briefly and how you dealt with it. The most interesting responses will be published in next month's CLUB INSIDER in the General Manager's Forum.

Forum Issue #1

How to deal with sexual harassment within your organization.

CORRESPONDENTS WANTED

The CLUB INSIDER is looking for news correspondents and contributing writers. To report "Hot News" or to discuss articles or other writing that you would like to contribute call the CLUB INSIDER HOTLINE 1-800-700-2120

INTERNATIONAL CLUB NEWS
CORRESPONDENTS WANTED
1-404-850-8506 OR
FAX 1-404-933-9698

• LAWSUIT OF THE MONTH •

It can be a nasty world out there and the Club Insider wants to help you avoid unnecessary legal expenses and problems.

Each month, the Club Insider will examine a common area of lawsuits in the club industry so that you can be aware of the issue, how to avoid it and what to do if you are sued.

ASCAP and BMI.

Clubs who routinely play radio music for the enjoyment of their members without paying the appropriate license fees to ASCAP and BMI are at risk of being sued. ASCAP, the American Society of Composers, Authors and Publishers and BMI, Broadcast Music, Inc., are licensing organizations in the U. S. who expect you to pay fees to their organization for the right to play their music in your club. The fees are generally based on the number of speakers in your club. These organizations, in fact, represent thousands of composers, lyricists and music publishers. U. S. Copyright law backs these organizations. When you play the music, you are in fact using someone else's property to entertain your members. You should simply view the fees as a cost of doing business just like payrolls, utility, insurance, etc. The groups will identify your club and bill you for their fees. If you do not pay, they will send a professional "spy" into your club to listen

to the music, list the song titles played and verify the number of speakers in the club. They may then file suit against your club for a very large amount based upon the facts and evidence that you have illegally played the songs in your clubs. The amount of the lawsuit claim will generally be far in excess of the amount of the required license fee. And, they will Win! You do not stand even a little chance of defeating their tested and proven legal arguments. You can at best negotiate. And they have rights to fees if you use it for music throughout the speakers in the club, during aerobic classes or during "on hold" times on the telephone in the club (i.e. tuned to a radio station).

Suggestions about what to do:

1) I do not suggest that you phone up ASCAP or BMI and immediately offer to pay their fees. They will find you. An alternative which many clubs choose is to install Muzak or other recorded music where the fees are paid directly by the service.

2) When you are contacted and invoiced for the fees, go ahead and make plans to pay the licensing fee without dispute. You may wish to examine the number of speakers in your club and eliminate some. This will reduce your fee amount for the future.

3) Don't allow the bill to become excessively past due. If the amount is a problem, ask them to "split" your payments spreading the obligation over two, three or four months. They will probably go along with that.

4) If you do not respond and communicate with them, I can virtually guarantee that they will

sue you, so be sure to stay in touch and live up to whatever payment promises you make to them.

5) If you somehow end up getting sued, you must then deal with an entirely different problem. The problem is to get them to accept a reduced amount to settle their claim. The only way to do this is to respond quickly

with an offer to settle without further proceedings. Don't expect them to accept an offer that is anywhere near the license fee that would have been paid. I would recommend starting with an offer of three times the amount of the original fee. Let them respond. Once they give you their response, you must take it from there. Good Luck!

CLUB EQUIPMENT USER SURVEYS

The **CLUB INSIDER** will conduct club user surveys in order to provide our subscribers with Consumer Report articles on a variety of club equipment and products.

The surveys will be conducted with an independent and rotating panel of reviewers which represent the wide variety of clubs and facilities in the U.S. (small vs. large, urban vs. suburban, start up vs. mature, multi-sport vs. single activity, etc.) Our objective is to report to our subscribers the opinions of our panel on the quality, durability, member reaction and service support of suppliers of products such as treadmills, stair climbing machines, weight machines, toiletry supplies and other commonly used club products.

The reports will be independent and will reflect the data collected. We hope to help you in the very important area of selecting and purchasing equipment and supplies for your clubs.

The **CLUB INSIDER** Reports will be unbiased by any commercial advertising dollars, since it accepts no advertising and is completely independent.

MAKETM
IT
FUN!

HELP WANTED

Join the **CLUB INSIDER** News Promotional Team!

The **CLUB INSIDER** seeks:

- Attractive and fit Dallas Cheerleader and G. Q. looks.
- Must be able to travel.
- Sales and Management.
- Be seen at conventions, public events on videos and T.V.
- Relocation not necessary.

Send letter, resume, head and figure/physique photos to:

Norm Cates' **CLUB INSIDER** News
P. O. Box 671443
Marietta, GA 30067-0025

• RECOMMENDED READING •

The Club Insider will provide a monthly recommended reading list for your review.

The books listed will be publications focusing on management, service, marketing, sales, and other topics that will help you and your organization grow in knowledge. We welcome your recommendations and will publish them when provided. Send the name of the book, the author's name, and a brief summary of the content of the book to the Club Insider, P. O. Box 671443, Marietta, GA 30067-0025, or call 1-800-700-2120.

•*Mastery* by George Leonard. Leonard draws on Zen philosophy and his knowledge of

aikido to explain the mysterious process of mastery that will transform you life, and elevate you above the commonplace to outstanding performance. Leonard emphasizes that these principles can be applied to anything in your life, whether it be your sport, your career or your intimate relationships. A MUST READ - again and again.

•*Bottom Up Marketing* by Ries and Trout. One of the best marketing books around. Gets you to look at things in a different way. The title comes from their main concept: market from tactic to strategy, not the opposite, conventional way. Very readable. Good examples.

•*Influence* by Robert Cialdini. New, fresh ideas don't always come from inside our industry. Bob Cialdini of Arizona State University wrote a powerful book called "Influence." Bob spoke at the IRSA convention a few years back. His six principles include Reciprocation, Scarcity, Authority, Commitments, Liking and Consensus. If you want to learn how to use them in marketing and member retention, buy his book, read it and use them regularly. They're powerful tools in the club game. Contact: Bob Cialdini, New Informaton Presentations, The Broadmoor Place 2248 A. Forest, Tempe, AZ 85282, 602-967-6070.

Monthly Dues or Retail Contracts?

That is the Question. In the U. S., the two primary plans for membership payments are Monthly Dues or Retail Contracts. Certainly there are other options made available depending upon the club, its services, and the market, but still the two leading methods are dues or contracts.

There are approximately 12,200 clubs in the United States. That list includes all kinds of clubs from the largest club in existence, the East Bank Club in Chicago, to thousands of storefront operations from 2,000 square feet on up.

This vast array of Ameri-

can club products has one thing clearly in common: the owners and operators of those clubs are challenged every day with the job of marketing, selling and collecting on memberships which are sold to the consuming public. The American club owners and operators also have something that is not in common. That is that they don't all agree on how club membership payment plans should be structured. Memberships can be found that are not written but verbal. On the other extreme, some clubs require a lengthy four to six page legally binding retail installment contract for member-

ship. The Club Insider wants to know about your club's membership plan(s). Share with us your thinking about membership plans by answering the following questions and sending your answers to us. We'll report to you later about what we've learned by publishing a summary of the responses that we get from you. Share the truth about what you do and why you do it. If you desire confidentiality, just mark your answers as confidential or don't send your name or your club's name. (See survey below.)

Monthly Dues vs. Contracts Survey

- 1) What membership plan does your club use: monthly dues or retail contract? _____
- 2) Why do you use the plan that you currently use? _____
- 3) Have you used other membership plans at your club in the past? _____
- 4) What are the key advantages in your club's membership plan? How about the disadvantages? _____
- 5) Do you or have you discounted membership dues for people who pay up front for one, two, three years or more in advance? _____
- 6) Do you have other comments to make on membership plans? _____

SEND TO: P. O. Box 671443, Marietta, GA 30067-0025 or FAX (404) 933-9698

A.P.F.C. Shuts Down

A.P.F.C.,

The Association of Physical Fitness Centers, has shut its doors, according to reliable industry sources.

A.P.F.C. was an Association headed by Dr. Jimmy "The Champ" Johnson. The Association's two primary purposes were to fight consumer friendly legislation, especially at the State levels, and to provide a reciprocal membership plan for its clubs. Word is A.P.F.C. shut down due to dwindling support and participation, and due to the loss of the Bally clubs which had dominated the Association. The A.P.F.C. had dropped to a reported 700 clubs, far less than its competition-IRSA, The Association of Quality Clubs, with 2,300 clubs worldwide.

Efforts to reach A.P.F.C. offices and Dr. Jimmy Johnson by press time were futile as both the office number and fax number for A.P.F.C. have been disconnected. Sources at the Boston-based IRSA indicated that they were receiving

numerous calls from former A.P.F.C. clubs inquiring about IRSA membership. People handling the calls for Bally Clubs indicated that Bally had ceased its association with A.P.F.C. as of October 13, 1993. One Bally club representative in Atlanta indicated that, "Bally dropped its affiliation with A.P.F.C. because Bally was the only one supporting it."

In 1987, the Bally Clubs made an effort to bring all of their clubs into IRSA, The Association of Quality Clubs. This effort was thwarted by IRSA's members at the 1987 IRSA Convention in New Orleans because the IRSA Clubs felt that the Bally Clubs did not at that time reflect IRSA's values and standards in their operations. Since then, the Bally Clubs have acquired a new Chief Executive Officer, Mike Lucci, and a number of clubs-with at least one chain being members of IRSA. The CLUB INSIDER News wonders if the demise of A.P.F.C. will lead to Bally seeking membership in IRSA again. Stay tuned for more on the A.P.F.C. SHUT DOWN in the January edition of the CLUB INSIDER News.

"SPA WARS" UPDATE

People want to know when my book, "Spa Wars," The Saga of the Health Club Business in America will be published. The answer is that I am not sure at this time when it will be published. The development of the CLUB INSIDER has taken up most of my time for the last nine months. I am still working on the book and expect to have it finished by the end of 1994. Publication is another story. Look for "Spa Wars" updates in future editions of the CLUB INSIDER.

Powerful Thoughts

It is not the critic who counts, not the man who points out how the strong man stumbled, where the doer of deeds could have done them better. The credit belongs to the man who is actually in the arena: whose face is marred by the dust and sweat and blood; who strives valiantly; who errs and comes short again and again... who knows the great enthusiasms, the great devotions and spends himself in a worthy cause; who at the best, knows in the end the triumph of high achievement; and who, at the worst if he fails, at least fails while daring greatly, so that his place shall never be with those cold and timid souls who know neither victory nor defeat.

Theodore Roosevelt

CLASSIFIED ADVERTISING

To introduce our Classified Advertising Section, the **CLUB INSIDER** will publish your ad for free for the January Edition. After January, ads may be published for the rate of \$25 per month for up to 50 words. This one month FREE AD for January is a one-time good deal. If you wish to run your ad for free in January, send your ad copy by NOT LATER THAN Dec. 10, 1993. Send typed copy to: *The Club Insider Classified Ads, P. O. Box 671443, Marietta, GA 30067-0025.* Please be sure to include your name, address and phone number(s). Ads will be placed on a first come, first served basis.

Club Insider
Classified Advertising
Sample Ads

Help Wanted

California multi-purpose club seeks experienced General Manager. Must be well versed in all aspects of multi-purpose club management. Experience as sales director will be plus. Excellent salary, benefits and profit sharing plan provided. Position must be filled immediately. (Sorry, but this is a sample ad for promotional purposes only.)

Club For Sale

Upscale 60,000 sq. ft. tennis and swim club for sale in mid-America. 8 acres of land. 2,500 active members. Producing 27% R.O.I. 12 years old and well established. Owners wish to retire. No debt. \$4,750,000. Financing

available with 40% down. (Sorry, but this is a sample ad for promotional purposes only.)

Used Equipment for Sale

Entire contents of 32,000 sq. ft. club for sale. Includes Nautilus, Cybex, Body Master, Stairmasters, Lifecycles, lockers, furniture, and office equipment. (Sorry, but this is a sample ad for promotional purposes only.)

Positions Desired

Experienced multi-purpose club General Manager seeks position in Western U. S. Previous experience includes roles as fitness director and sales director in large clubs as well as 15 years as a General Manager. Available immediately. (Sorry, but this is a sample ad for promotional purposes only.)

Investors Wanted

Club entrepreneur seeks investors to execute buyout of major health club chain in U. S. with over 300 clubs. Operating team selected and ready to take over. Minimum investment \$5,000,000. (Sorry, but this is a sample ad for promotional purposes only.)

Real Estate Wanted

Club owner wishes to trade nice club of 26,000 sq. ft. located in the North for retirement home or ranch on Maui. No debt. No debt to be assumed. Straight swap for value of \$1.4 million. (Sorry, but this is a sample ad for promotional purposes only.)

Linda Pejchar to Serve as the Club Insider Human Resources Advisor

“Linda Pejchar, President of H & F Solutions, a Human Resources firm serving the Health and Fitness Industry, has agreed to serve as the Human Resources Advisor for the **Club Insider News.**” announced Norm Cates.

Cates is Founder, Editor and Publisher of the Club Insider News. Cates commented, “Linda has been requested to serve in this capacity because of her extensive experience and background in the industry in the area of employment placement.”

H & F Solutions is an international personnel recruiting firm for the health and fitness industry.

H & F finds, screens, and matches candidates to fit the qualifications and requirements of a position as well as to a company's culture. “Our network and extensive database of candidates from all segments and fields of the health and fitness industry expedites a company's search and selection process,” says Linda.

For additional information, please contact Linda Pejchar, H & F Solutions, P. O. Box 266,



Pejchar

Lincoln, MA 01773, 617-259-1010; or fax 617-259-1152.

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Club Insider News Introductory Edition Satisfaction Survey

We are publishing the **Club Insider News** for you, the club owners, general managers and department heads of clubs around the world. As club owners and operators, listening and responding to your member's input is a way of life. We would like to make listening and responding to you, our reader's input, a top priority.

Please take one minute and complete this Satisfaction Survey. We will diligently study and use your input to modify, shape and improve our future editions. Thanks very much for your very important help.

Sincerely,
Norm Cates, Jr., Editor & Publisher

- 1) Please circle one below to summarize your overall impression of the 1st Edition of the Club Insider News.
Excellent 6 5 4 3 2 1 Awful
- 2) What did you like most? _____
- 3) What did you like least? _____
- 4) What would you like to see covered that we did not report? _____
- 5) Do you have other suggestions or comments? _____
- 6) What is your job/relationship with your club or business? _____

Thanks for Your Input. Send or fax your responses to:
Club Insider, P. O. Box 671443, Marietta, GA 30067-0025
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