

# Fitness Centers

## *A Guide for Business Owners*



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## Success Factors

### ***Fitness Trends***

In order to maintain clients and attract new customers, the business must stay current with exercise trends. The following list includes some recent fitness center trends.

- Short, yet efficient workouts
- Mind-body exercise, such as tai chi or yoga
- Workouts that promote core strength
- Diet counseling
- Exercise for the whole family
- Routines that are gentle on joints<sup>1</sup>

### ***Location***

Customers will typically drive no more than 15 minutes from their home or work to a fitness center.<sup>2</sup> Please feel free to contact the CEV and we can provide you with a ring study that includes the population within a 15 minute drive of a particular location.

### ***Space and Equipment***

Fitness centers frequently lease their equipment. A 25,000 square foot gym will typically lease about \$400,000 of equipment. Equal space is often given to aerobic machines, weight training equipment, and rooms for classes.<sup>3</sup>

## Customer Demographics

The following demographic information is from *The Lifestyle Market Analyst 2007*, a book that indexes and ranks popular lifestyle choices based on an individual's interests.<sup>4</sup> The index reflects how likely a consumer is to express an interest in a particular lifestyle attribute relative to the average U.S. consumer. An index of 100 means the likelihood of participating in an activity is the same as the average American household. Values greater than 100 indicate that someone is more likely to participate in an activity and values less than 100 indicate that someone is less likely to participate in that activity. For example, a person who enjoys physical fitness/exercise is 8% (100-92) less likely to be a single male, but is 2.00 times more likely to be interested in running/jogging than the average consumer. Below are four lifestyles that may be interested in joining a gym.

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<sup>1</sup> *Fitness Craze Moves Online*. Conhaim, Wallys W., Page, Loraine. Information Today; Jan2005, Vol. 22 Issue 1, p27-28, 2p

<sup>2</sup> *First Research Industry Profile: Fitness Center*. First Research. July 13, 2009. Our subscription to First Research is generously donated by Wells Fargo and Metcalf Hodges.

<sup>3</sup> *First Research Industry Profile: Fitness Center*. First Research. July 13, 2009.

<sup>4</sup> *The Lifestyle Market Analyst*. Wilmette, IL: Standard Rate & Data Service, 2007.

	Dieting/Weight Control	Running/Jogging	Improving Your Health	Physical Fitness/ Exercise
<b>Median Income</b>	\$50,831	\$62,884	\$35,316	\$57,007
<b>Single Male</b>	59	104	82	92
<b>Single female</b>	115	110	161	93
<b>Married</b>	110	110	81	106
<b>Have children at home</b>	105	123	124	103
<b>Home Owner</b>	103	97	93	103
<b>18-24 years old</b>	75	115	113	92
<b>25-34 years old</b>	92	150	91	106
<b>35-44 years old</b>	96	128	84	104
<b>45-54 years old</b>	104	102	104	101
<b>55-64 years old</b>	114	76	102	98
<b>65-74 years old</b>	114	58	114	99
<b>75 years and older</b>	88	37	110	88
<b>Top five lifestyles they also enjoy:</b>	Self-Improvement (196)	Tennis Frequently (288)	Entering Sweepstakes (304)	Running/Jogging (200)
	Health/Natural Foods (187)	Snow Skiing Frequently (283)	Coin Stamp Collecting (299)	Improving Health (179)
	Entering Sweepstakes (179)	Improving Your Health (248)	Our Nation's Heritage (279)	Tennis Frequently (178)
	Fashion Clothing (179)	Bicycling Frequently (226)	Moneymaking Opportunities (276)	Snow Skiing Frequently (174)
	Our Nation's Heritage (175)	Physical Fitness/ Exercise (213)	Health/Natural Foods (260)	Health/Natural Foods (169)

Thus, when creating a marketing campaign, you may want to keep in mind what kind of services you are selling. If you are marketing your gym as a good place to lose weight, then single women and married people, who are aged 45 to 74 may be your target market. In contrast, if you are marketing your gym as a way to improve one's health, your target market would be single females, those with children, and those aged 18 to 24, and 45 and older. You could also use a sweepstakes to market your gym, with a free gym membership as the prize. This will allow you to collect names and addresses of potential clients.

Additionally, interest in particular athletic activities varies by region. The following chart uses the same index as above to measure the likelihood that someone in each region participates in the following activities as compared to the average American consumer.<sup>5</sup>

<sup>5</sup> SRDS Media Solutions. The Nielsen Company. Claritas PRIZM, 2008.

Lifestyle Title	Seattle and Surrounding Areas	Yakima and Surrounding Areas	Spokane and Surrounding Areas
Do Aerobics	108	92	82
Do Weight Training	111	93	81
Exercise, 5+ times/week	105	91	91
Go Jogging/Running	109	91	79
Go to Yoga	110	84	75

## Risks and Challenges

### ***Client Base***

Approximately 35 to 40 percent of clients do not renew their gym membership each year. A large gym (25,000 square feet) typically has 3,000 members.<sup>6</sup> Thus, a large gym will need to spend significant time and energy to replace the 1,000 to 1,200 people who do not renew their annual membership.

### ***Cash Flow***

Revenues often peak in the first quarter of each year, yet expenses remain fairly steady throughout the year.<sup>7</sup> Business owners often use promotional techniques to increase sales during downtimes. A line of credit is often necessary to keep positive cash flows.

### ***Liability***

Fitness centers may be held responsible if clients are injured while exercising. It is recommended that business owners speak with a lawyer when writing membership contracts.

## Financial Information

Membership fees account for nearly 75 percent of total revenues. Personal training sessions, food, and clothing sales make up the other 25 percent. Franchises often pay approximately 5 percent of revenues to the franchiser.<sup>8</sup> Fitness centers usually have either a high initiation fee (\$500 to \$2500) with a low monthly fee (\$10) or a low initiation fee (less than \$100) with a high monthly fee (\$50).

The following table shows the median financial ratios for fitness and recreational sports centers in the United States. The ratios are divided between businesses with less than \$1 million in annual sales, those with \$1 million to \$3 million in annual sales, and those with \$3 to \$5 million in annual sales.

<sup>6</sup> *First Research Industry Profile: Fitness Center*. First Research. July 13, 2009.

<sup>7</sup> *Ibid.*

<sup>8</sup> *Ibid.*

<i>Financial Ratios for Fitness and Recreational Sports Centers<sup>9</sup></i>					
<i>(median values of 311 companies surveyed)</i>					
	Annual Sales \$1 million or less	Annual Sales \$1 to 3 million	Annual Sales \$3 to 5 million	Ratio Calculation	Ratio Definition
<b>Current Ratio</b>	0.5	1.0	0.9	Current Assets/Current Liabilities	The current ratio measures a company's ability to pay its current obligations. A higher number indicates that a business is able to pay its current liabilities. However, if the number is too high, it may indicate that the business is holding too much cash.
<b>Quick Ratio</b>	0.4	0.6	0.7	(Current Assets-Inventory)/Current Liabilities	The quick ratio also measures a company's ability to pay its current obligations, but instead focuses on the most liquid assets (those easiest to convert to cash) by subtracting inventory from the equation.
<b>Return on Equity</b>	11.4%	18.2%	11.8%	Net Income/Total Equity	ROE reveals how much profit a company generates with the money shareholders have invested in it.
<b>Return on Assets</b>	1.5%	2.3%	2.9%	Net Income/Total Assets	ROA shows how efficient management is at using assets to generate earnings.
<b>Sales to Assets</b>	1.2	1.7	0.7	Total Sales/Total Assets	This ratio shows how efficiently a business generates sales for each dollar of assets.

## Per Capita Consumption

IBISWorld, an international market research firm, predicts that the recession will have a minimal impact on fitness centers. The revenue growth rate for fitness centers is expected to increase in 2009, but at a slower pace than previous years. The following chart shows the historical annual revenue growth rate and IBISWorld's predicted revenue growth rate for fitness centers in the United States through 2014.<sup>10</sup>

<sup>9</sup> eStatement Studies. <http://www.statementstudies.org/> Accessed August 14, 2009.

<sup>10</sup> *Gym, Health & Fitness Clubs in the US*. IBISWorld Industry Report. July 15, 2008.

