If you consider the findings of the 2009 IHRSA Profiles of Success, published in December, leading club operators entered 2009 in decent shape, compared to the previous year.

“Overall, in 2008, club revenues totaled $21.2 billion, a 4% increase over 2007, and membership increased by more than 10%,” points out Melissa Rodriguez, IHRSA’s research manager. “In addition, the survey sample reported 2.6% overall growth in median revenue. Non-dues revenue, as a percentage of total revenue, weighed in at a healthy median of 30.4%.”

John McCarthy, IHRSA’s executive director emeritus, agrees. “Comparing 2008 with 2007, many of the figures—for membership revenues, nondues revenues, membership, and earnings before interest, taxes, depreciation, amortization, and rent (EBITDAR)—all increased, and those increases were quite good.”

Dave Remick, a senior vice president at Imperial Capital LLC, a full-service banking firm based in Los Angeles that follows the industry, observes that there have also been some promising bright spots in an otherwise dismal economy.

“From November ‘08 through summer ’09, membership revenue faced downward pressure from higher attrition rates and declining new-member figures. Nondues revenues declined as people scrutinized their discretionary spending more carefully,” says Remick. “However, while members who weren’t using their club departed, usage rates were up among the remaining members, many of whom turned to exercise as a stress reliever. It’s also worth noting that every operator has cut expenses wherever possible, which has led to better-than-expected results with respect to earnings before interest, taxes, depreciation, and amortization (EBITDA).”

Analysis and reporting aside, as McCarthy posits, “The question now is, what can clubs learn from this to help them in 2010?” →
“For starters, club operators need to understand how they stack up against their successful peers in the industry,” suggests Rodriguez. “Profiles of Success allows them to benchmark their club’s performance on many key operational metrics. It’s clear from the results that the stronger operators have used the recession as an opportunity to improve their business practices.”

“Manage better, quickly cutting expenses and programs that aren’t needed... When you think you’ve cut to the bone, there’s probably still another 5% or 10%, or more, in expenses that you can eliminate.”

The Workbook section of Profiles of Success makes it easy for owners and operators to compare their club’s performance with that of leading organizations. After doing so, they can then revisit and review the factors that are critical to running a successful fitness business—e.g., increased club usage, sound cost controls, solid member retention—that remain applicable regardless of the state of the economy.

Industry experts confirm and endorse the insights that a reading of Profiles of Success provides.

“Stay focused on core operations,” advises Pete Moore, a principal and head of the active lifestyle and wellness practice at Sagent Advisors, Inc., an investment-banking firm based in New York City. “Use e-mail marketing and digital media to attract and keep your members. Grow at a pace you’re comfortable with. Don’t over-leverage your company to the point that you can’t sleep at night.”

“Manage better, quickly cutting expenses and programs that aren’t needed, rather than waiting until next month,” suggests Rick Caro, the president of Management Vision, Inc., a prominent industry consulting group based in New York City. “Don’t wait for things to get worse. When you think you’ve cut to the bone, there’s probably still another 5% or 10%, or more, in expenses that you can eliminate. Work hard to maintain or improve your EBITDA or EBITDAR number.”

— Patricia Amend, pamend@aol.com

WHERE TO GET PROFILES OF SUCCESS

The 2009 Profiles of Success report may be purchased at www.ihrsastore.com.

New, this year:
- more information on fitness activities that consumers enjoy both inside and outside clubs;
- a quarterly tracking study that analyzes motives and barriers for joining clubs;
- and analysis on club performance from IHRSA’s monthly trends and Quarterly Index surveys.

The report is based on data generated in 2008, which was voluntarily submitted by 124 leading club companies, representing 1,315 facilities in the U.S. and Canada. Profiles of Success provides an overview of the industry, as well as metrics for a wide variety of financial and operating functions for different types of commercial fitness facilities. The PDF version of the entire report is available to IHRSA members for $199.95, and to nonmembers for $399.95. Sections of the report are $69.95, each, for members, and $139.95 for nonmembers. —
Special Excerpt:
2009 IHRSA Profiles of Success

The 2009 IHRSA Profiles of Success, from which the following excerpt is drawn, paints a distinctly positive picture of the industry’s performance in 2008. Integrating information from IHRSA surveys on club operations and consumer behavior, this report demonstrates that clubs—a lingering recession notwithstanding—are continuing to “hang tough.”

Industry at a Glance
IHRSA’s Quarterly Index survey of 14 leading U.S. health and sports club companies, representing 183 club locations, indicated overall improved performance in 2008. Total revenue for clubs increased by an average of 12.3%, with membership and nondues revenues improving by 12.2% and 12.7%, respectively. Participating clubs also reported an average increase of 9.3% in earnings before interest, taxes, depreciation, amortization, and rent (EBITDAR) for 2008. Nonetheless, the first quarter of 2009 posed challenges for Index participants. Eighteen leading club companies, representing a total of 530 facilities, reported struggling performance in the first quarter of 2009 relative to the first quarter of 2008. Total sales decreased by 3.6%, and membership and nondues revenue dropped by 1.0% and 8.1%, respectively.

In spite of overall wavering performance, select clubs reported improvements. Most respondents (56%) reported increases of over 1.0% in total membership accounts, while 33% reported similar increases in total membership dues revenue. In comparison with the fourth quarter of 2008, participants reported growth in total sales, membership dues, and nondues revenue, with nondues sales up by 16.6%. Consecutive quarterly growth points to the industry’s resilience in maintaining performance in the midst of an economic downturn.

Overall, IHRSA’s Quarterly Index reported steadily improving performance over the first six months of 2009. When compared to the first quarter of 2009, IHRSA Index clubs reported increases in select club performance metrics for the second quarter of 2009. Total revenue increased by 0.2%, nondues revenues improved by 2.8%, and EBITDAR soared by 7.0%. Additionally, EBITDAR as a percent of total revenue improved. In the second quarter of 2009, EBITDAR was 30.7% of total revenue, while first-quarter 2009 EBITDAR was 26.0% of total revenue.

Publicly Traded Firms
The year 2008 also proved to be a successful year for publicly trade companies within the industry. The three publicly traded health club firms also occupy distinctive niches. Ranking high on IHRSA’s Global 25 list, Life Time Fitness (NYSE: LTM) reported revenue of $770 million in 2008, an increase of 12% from the previous year, 147% from 2004. This multipurpose, resort-like club company services more than 500,000 memberships through its 81 clubs. Revenue in 2009, combined for the first and second quarters, amounted to $419 million, on pace to exceed revenue from last year.

Town Sports International Holdings, Inc. (NASDAQ: CLUB), a multi-club chain concentrated in urban and sub-
In the U.S. and Canada, revenues totaled $21.2 billion for more than 33,000 commercial and nonprofit facilities.


Health Fitness (AMEX: FIT), a publicly traded club company offering corporate fitness programs and management, generated $78 million in 2008, representing 11% growth from 2007. With over 300 corporate clients, this club company served 225,000 members in 2007. For the first and second quarters of 2009, Health Fitness reported revenues of $38 million.

Slow, but Positive, Growth

The year 2008 proved to be a challenging one for the business marketplace, considering the surrounding economy. Business owners and entrepreneurs contended with limited credit for capital expenditures and a consumer populace reluctant to spend their limited discretionary income. Rising unemployment rates and decreased employee salaries and wages posed a challenge for a lucrative health club industry that has historically engaged affluent consumers. Legislative discussion on healthcare reform provided the industry with a unique opportunity and challenge to attract consumers in need of physical activity.

Despite these challenges, IHRSA’s 2009 Industry Data Survey respondents, overall, posted solid growth and club performance. From 2007 to 2008, participating clubs reported revenue growth of 2.6%, with median total revenues having increased from $4.17 million to $4.32 million per club. Non-dues revenue also improved by 0.5%, as revenue per individual member increased by roughly 5%, from $761.84 to $801.76. Having proactively employed cost-management initiatives, respondents, overall, reported a median EBITDA of 18.2%, up 0.9% from 2007. The ability of strong clubs to increase revenue and control costs attests to the resilience of the industry in a downtrodden economy.

| Participating Industry Data Survey Clubs Report Increased Membership Overall |

Member retention is one of the primary goals of a health club, especially when new-member acquisition may be particularly challenging. This year’s sample of responding clubs managed to attain solid retention rates, at 72.4% for all clubs, and attract new members, indicated by a net membership growth of 4.2% for 2008. This year’s sample outperformed respondents, overall, to the 2008 Industry Data Survey in this regard, as all clubs reported a median 1.9% membership growth from 2006 to 2007. Furthermore, the annual account-replacement ration for this year’s respondents ranked higher than last year’s sample, at 1.61 versus 1.29. Hence, this year’s sample added 161 accounts for every 100 cancelled accounts. —

Table 1: Leading Club Companies

<table>
<thead>
<tr>
<th>Club Company</th>
<th>Niche</th>
<th>Revenue (2008)</th>
</tr>
</thead>
<tbody>
<tr>
<td>24 Hour Fitness Worldwide, Inc.</td>
<td>Fitness-only, multi-chain</td>
<td>$1.4 billion</td>
</tr>
<tr>
<td>Curves</td>
<td>Women-only franchise</td>
<td>$1.3 billion</td>
</tr>
<tr>
<td>ClubCorp</td>
<td>Fitness center/golf and country club management</td>
<td>$921 million</td>
</tr>
<tr>
<td>Life Time Fitness</td>
<td>Multipurpose, multi-chain clubs</td>
<td>$770 million</td>
</tr>
<tr>
<td>Town Sports International</td>
<td>Urban/suburban fitness-only clubs</td>
<td>$507 million</td>
</tr>
<tr>
<td>Bally Total Fitness</td>
<td>Fitness-only, multi-chain</td>
<td>$469 million</td>
</tr>
<tr>
<td>Powerhouse Gyms International</td>
<td>Fitness-only, multi-chain</td>
<td>$292 million</td>
</tr>
<tr>
<td>GoodLife Fitness</td>
<td>Fitness-only clubs with corporate wellness component</td>
<td>$188 million</td>
</tr>
<tr>
<td>Millennium Partners Sports Club Co.</td>
<td>Upscale fitness-only clubs with spa services</td>
<td>$112 million</td>
</tr>
<tr>
<td>Lifestyle Family Fitness</td>
<td>Family-oriented fitness-only clubs</td>
<td>$104 million</td>
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<tr>
<td>Fitness Together Holdings</td>
<td>Personal-training franchise</td>
<td>$100 million</td>
</tr>
<tr>
<td>Western Athletic Clubs</td>
<td>Regional multipurpose chain</td>
<td>$97 million</td>
</tr>
<tr>
<td>Spectrum Athletic Clubs</td>
<td>Upscale, regional fitness-only clubs</td>
<td>$93 million</td>
</tr>
</tbody>
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