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Independent Study

PHED498H

under the direction of

Dr. Keith Lambrecht

Analysis of the Requirements for  
Opening a Physical Fitness Center

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ABSTRACT

The focus of my work was to recall various Management, Marketing, Finance, and sports Management skills I have learned at Northern Illinois University. Beyond merely recalling these skills I utilize them to propose and analyze the requirements for opening a physical fitness center. My work can be divided into two parts, the first one an analysis of the industry and the second, a proposal of a Strategic Business Plan for a specific facility.

In the first part I analyzed the Exercise Salon and Health Club industry. For example, the industry's forces, competitive structure, and investment requirements. I looked at the present industry position and also made some speculations about the future. This growing, customer oriented industry has a bright future for someone who is willing to grow and adapt to the environment.

In the second part, a Strategic Business Plan was developed. Since this plan is specific for a particular facility a general plan was developed that would then need to be adapted to a site. A strategic Business Plan involves steps such as setting goals and objectives, allocating resources, and creating an organization design. All of these steps require educated decisions to be made on behalf of the owner and management.

In preparing this capstone I was able to turn the business and sports theories I have learned into a working model of the requirements for starting my own facility, which is something I aspire to do in the future.

## Introduction

Everyday people make decisions regarding personal, financial, and career paths; and regardless of the topic the choices must be analyzed, a plan determined, and a decision implemented. One way of demonstrating this process is through a decision millions of people face--starting their own business. currently, over 3.5 million people exist who have made the decision to start their own business, and succeeded. It is a long road from deciding to become a business owner to implementing the plan but it is possible if the right steps are taken, in the correct sequence. The purpose of my research is to explain the steps for starting a business, specifically a health club. The first half of my research involves industry related topics such as industry analysis in relation to the health and fitness industry. The second half of my research studies the development of a strategic Business Plan.

## ANALYZING AN INDUSTRY

### Defining an Industry

To define an industry means to set the boundaries and provide a form of reference for other analysis. The purpose of the definition is to know the scope of the industry--who the main participants are and how their actions can affect the industry. An ideal way to define the industry is through the Standard Industrial Classification system(SIC) where each industry is assigned a code, this code is then used in the SIC reference books to determine pertinent topics pertaining to the industry.

Health clubs are in the 7991 classification, Exercise Salons and Health Clubs also included in the industry are aerobic dance and exercise classes, health clubs, exercise salons, fitness salon, gymnasiums, physical fitness centers, reducing facilities, slenderizing salons, health fitness spas, and related membership sports and recreation clubs(Illinois Department of Commerce, 1990).

#### Reviewing an Industry History

The next step is to develop a historical overview of the important events, trends, and competitor actions related to Exercise Salons and Health Clubs. A good review will answer:

- How the industry was created?
- What was occurring at the time?
- What challenges and issues has the industry faced over the years?
- How has the industry responded to these challenges and issues? (Power, Gannon, McGinnis, and Schweinger, 1986)

Historically, the exercise salon and health club industry has grown by 30 percent from 1979-1986. During this time the number of clubs has increased especially the ones located near large employers. Non-for-profit organizations like churches and YMCAs are offering less expensive programs, and hotels are offering and improving their facilities to accommodate traveling people. On-site facilities are constructed as employees realize healthier workers decreases company costs related to absenteeism due to illness. This increase is prompted by health studies indicating the long-term advantages of physical exercise (Horowitz, 1990). Also, the exercise boom continues to

grow as facilities become more accessible to people of different geographic regions, age groups, and financial backgrounds.

In this growing industry there have been and continue to be many challenges. For example, membership drop-out rates. Studies show that members join with the intention of working out 2-3 times a week, but 80 percent leave within 3 months (Illinois Department of Commerce, 1990). Another challenge comes from the small profits due to losing monthly membership fees which range from \$10-\$100 as members drop-out. Finally, certain facilities are very expensive to staff due to medical and health professionals who work with patrons on a full-time basis, especially true of spas and salons (Illinois Department of Commerce, 1990).

The industry has responded to these challenges in two major ways: reducing its costs and attempting to retain its members. Facilities can reduce their costs by being administered as workout outlets, sanitary and supervising facilities without individualized services. Examples of outlets are YMCAs and churches (Illinois Department of Commerce, 1990). Another idea that might become more prevalent in the future are hotels in the same geographic region that purchase a large space and convert it into a workout facility to be shared by all member hotels (Gerson, 1989).

The industry has also responded by attempting to maintain its members through increased personalized service such as: personal trainers, free fitness testing, competitive fitness events or

fitness challenges, fitness incentive programs that rewards users for participation in programs, and salon services like massages (Sol, 1992). In the future we might see additional services like computerized tracking of attendance, workout buddies to encourage each other, and computer controlled training results kept on a club database. The Brick family in Florida is already capitalizing on these ideas. In october 1992, the Tennis and Racquetball Club was founded. This club plans to generate new membership revenue by offering: a special aerobics program for men and women headed by an internationally known trainer, a year-round basketball clinic directed by the shooting coach for the Philadelphia 76ers, a personal tennis tutoring programs conducted by a former Davis Cup team member, sponsoring statewide racquetball tournaments, starting an activities program for boys and girls, 4-12 years old, where arts and crafts and similar skill will be taught, and introducing the Australian "Pace" routine-a 26 minute program that uses 24 exercise stations (Finkelstein, September 11-17, 1992). with this type of exercise facility under construction the challenge of membership retention is handled more aggressively. I addition to the industry challenges we also need to analyze the industry forces.

#### Analyzing Industry Forces

Industry forces are major external stimulants that can influence the strategies and profit potential of an industry. These forces should be analyzed in their present state and future

potential. The forces can be divided into six major groups as follows: technology, resources and availability, socioeconomic trends, government actions, customer needs and actions, and general business development.

#### Technology

This force is not as prevalent in the exercise salon and health club industry as in other industries, but it does still play an important role. For example most clubs utilize electronic machines in their cardiovascular areas or for fitness testing. Also, computer technology can be useful for communication purposes between employees and employer. In the future the technology force may grow in importance especially if computers were used for workout analysis. Computerized analysis would allow users to find their ideal workout by entering certain variables such as age, weight, heart rate at rest, and getting a print out with their workout plan for the day. This would improve workout effectiveness with minimal time commitments. Examples of these types of workouts are Bally's 30 minute workout, circuit training, or the "PACE" system (Finkelstein, 1992).

#### Resources availability

This is one of the most in-depth analysis because it is necessary to decide what the major resources will be. Three major resources, according to ACSM's Facility standards and Guidelines. are: staff, equipment, and the facility.



Staff. The facility must be staffed with professional expertise at the instructor/leader and director level. Staff is important because they must educate and motivate the users. In addition to professional experts you will also need maintenance and supervisory people to insure a sanitary and safe environment. There must a diverse and capable pool of employees available in the area where the facility will be opened.

Equipment. Equipment varies depending on the type of facility for example, a tennis club versus a golf club. The following are the equipment requirements for the traditional aerobic, resistance training facility. Three types of equipment are required. First, cardiovascular equipment such as treadmills, stairmasters, stationary bicycles, or a track are required. Second, at least one circuit of progressive resistance for each major muscle group. These muscles groups include the gluteus, quadriceps, hamstrings, calves, chest, upper back, lower back, shoulders, triceps, biceps, and abdominal. Finally, free weight equipment is required. The typical equipment includes a supine bench press with safety pins, incline bench with safety pins, Smith-type machine, supine bench, adjustable incline bench, cable crossover-type system, pull-up or down system, abdominal system, dumbbells, and Olympic style bars and sales. The supplier of this equipment plays an important role as they are might be needed for repairs or replacement parts{Sol, 1992}.

Facility. Facility is especially important since that is what is essentially being sold to the customer. The facility should be

20 to 40 feet for every piece of equipment, depending on the equipment. Also, there should be 20 to 25 feet of space for each person expected at the facility at one time. The floors also have specific requirements depending on their location. In the cardiovascular area there must be anti-static carpet treated for anti-fungus and bacteria. The resistance training area requires rubber-based resilient floors or the same as the cardiovascular area. The stretching area requires non-absorbent mats or the same as the cardiovascular area. The communication system is also necessary to inform members of facility or program information. A sound system can be used with equal sound to all areas. The sound should be between 70 and 80 decibels and never exceeding 90. The environment of the facility should be maintained between 68 and 72 degrees Fahrenheit, humidity should be 60 percent or less, and the air circulation equal to 8 to 12 exchanges per hour. Forty percent of the air should be from the outside and sixty percent from the inside. The facility should have lighting equal to 30 to 50 footcandles at the surface. Finally, the workout floor should be accessible to men's and women's locker rooms. All of these conditions will need to be met so it is important that a supplier is available and that the supplier can guarantee the systems will work or provide maintenance service if needed. The larger the supplier availability the less each will be able to affect prices or conditions (Sol, 1992).

### socioeconomic Trends

Socioeconomic trends are demographic changes, changes in consumer behavior patterns, consumer lifestyles, or values (Power et al, 1986). After the 80's fitness boom people turned to fitness facilities to relieve stress. For example, in Atlanta many people, especially men, are flocking to facilities that offer massages, facials, and manicures to relieve stress (Allison, 1990). Another big trend occurred as that stress increased due to the economic recession--profits began to decrease at facilities as members stopped attending. For example, the Los Angeles Health Club has seen profits decrease for the last 18 months. California has been hit especially hard by the recession leaving many downtown business executives and lawyers without jobs making it difficult to pay dues. Also, some people have been transferred to more prosperous areas of the country to work. Still others have had to take on second jobs or are in search of jobs leaving them with little time to spend at a club (Hathcock, 1992). To compensate for these losses companies turn to advertising companies to prepare for the three peak profit times predicted for 1993. Every year there are three times when consumers interest in physical fitness increases. One occasion is after the holidays when people make their New Year's resolutions. The second occasion is the pre-summer rush which begins in April, and finally, there is a small increase as students return to school and parents find themselves with more time on their hands. In preparation for these three peak times

salons and clubs will increase their spending on advertisement between 25 and 50 percent(Silverman, 1993).

#### Government Action

Government actions, laws, and regulations can have both positive and negative impacts on the industry. In the salon and club industry these impacts tend to be positive because they make the facility safer. There are many regulations since an unregulated facility could be filled with health hazards.

General Plant Safety. The owner and the developer must observe all federal, state, county, local, and national standard setting agency ordinances pertaining to the safe development and construction of the facility. Such standards begin in the external side of the facility. The facility must adhere to codes and laws pertaining to the parking lots, entry ways, and grounds. signs must be used for entrances, exits, and pedestrian walkways. Walking surfaces must be periodically inspected and cleared of all hazards. Finally, the Occupational Safety and Health Administration, OSHA, should be contacted to insure that the regulations are being met. Also, the external facility must meet requirements established by the Americans with Disabilities Act Accessibility Guidelines for Buildings and Facilities 1991 such as wheelchair accessibility, appropriate signs for parking and entrances (Sol, 1992).

Inside the Facility. The floor must be periodically inspected for cracks, broken tiles, exposed seams or warping. The floor must be maintained free of oil, wax, liquid, and dust which can

cause people to slip. certain fire safety laws must also be met including a fire alarm system, fire extinguisher, and sprinkler system. Also, emergency warning systems need to be available in visual form for the deaf, and sound form for the blind(Sol, 1992). Electrical safety must also be adhered to by grounding electrical outlets throughout the facility. Temperature control mechanisms are necessary to keep temperature at the requirement specified. special regulations apply to the equipment. All the equipment must be inspected prior to installation and upon installations it must provide "appropriate use" instructions. As of 1991, the Americans with Disabilities Act requires all areas such as drinking fountains, telephones, toilets, lockers, and showers to be accessible to people with disabilities. Also, some clubs bring in extra revenue by providing extra services and these services have their own regulations which must be followed. For example if a refreshment bar will be used and will sell alcohol it must conform to the federal, state, and local codes pertaining to the sale of alcoholic beverages(Sol, 1992).

staffing. Staffing is another highly regulated area due to the responsibility placed upon these individuals. The manager/executive director must have an undergraduate degree in health/fitness or the equivalent. They must have relevant business experience, must be certified from a nationally recognized organization in the health and fitness industry. The manager/executive must have current CPR certification and three years of supervisory experience in the industry(Sol, 1992).

The fitness/athletic director has less stringent regulations. They must still have their undergraduate degree in health/fitness or relevant business experience, certification, and CPR certification, but only one year experience(Sol, 1992).

The instructor/leader has the least stringent regulations. They need a high school degree, certification, CPR certification, and prior work experience in the health/fitness industry(Sol, 1992).

Regardless of the level all staff should have professional liability insurance, CPR, and First-Aid certification for their own protection and that of others. In order to most efficiently help others, should an accident occur, the salon or club must have an established emergency procedure which should be documented and practiced twice per year. The typical procedure for a minor emergency such as an abrasion, contusion, or strain is to assist and relax the injured person and provide first-aid care if necessary. A first aid kit should be on the premises. The typical procedure for a major emergency is to provide immediate care, contact an emergency medical technician, and keep people calm. For incidents involving blood the Center for Disease Control requires the use of protective barriers such as latex gloves. Also, mouthpieces or resuscitation bags must be available for emergency mouth-to-mouth resuscitation. Any help for minor or major emergency care should be documented(Sol, 1992) •

### customer Needs and Actions

customer behavior plays a major impact in your profitability so you must be able to identify your customer groups. There are many potential groups--children, young adults, middle aged, and elderly people or any combination. After identifying your customers' needs you can take action to target this group. For example, Bally's customer base is between 18 and 49 years old, so they reach their customers by having sexy television advertisements that feature sweaty, but beautiful people in sleek clubs. By knowing what their customers trends and practices are the advertising efforts are very effective(Silverman, 1993). Another example comes from the local DeKalb gyms who target Northern Illinois University students. The gym owners attract students by offering low prices, semester-long memberships, group discounts, extended gym hours, tanning services. The gyms reach their target markets by advertising in the campus newspaper and making donations to many campus organizations.

### General Business Development

The general business development answers questions pertaining to substitute products or the impact of complimentary products(Power et al, 1986). Substitute products in the exercise salon and health club industry are home gyms, gyms at place of employment, organized team sports and other on-your-own activities such as in-line skating. Complimentary products could include gym shoe and clothing products which probably won't have an extremely large impact, but will have some influence.

### Assessing Industry competitive structure

To assess the competitive structure of an industry requires a three step process. First, categorize the industry structure. The industry structure will be one of four categories perfect competition, monopolistic, oligopoly, or monopoly. Perfect competition is comprised of all small firms none of which can influence prices. Monopolistic structures are made of a few large and medium-sized firms, and many small firms none of which can really control prices. In an oligopoly, four or five firms control all. In a monopoly one firm controls the prices(Gerson, 1989). The exercise salon and health clubs industry has a monopolistic structure because there are a few large clubs such as Bally's, Gold's, and YMCA but many small competitors that meet the needs of many people. Therefore, none have the power to set prices, because if one facility set their prices too high, people could simply switch their services to the competitors'.

The second step in assessing a competitive structure, is to evaluate successful and unsuccessful firms. A recent comparison between two DeKalb facilities highlights the differences between what is perceived as a successful and unsuccessful club. A successful club is clean, management is courteous, and employees are responsive(Northern star, 1993).

The third step involves developing strategic group maps. A strategic group map divides competitors in an industry into meaningful groups based on two strategic variables. First, pick two variables which differentiate the facilities, for example



service and price. Second, position facilities in certain groups and evaluate the characteristics of each group such as specialized spas, high profile clubs, small gyms, and outlet clubs. (Appendix A). Group maps help you visualize relationships among industry participants.

### Evaluating Industry Marketing Practices

Marketing Practices relate to the use of Product, Price, Promotion, and Place. The product is the array of tangible and intangible attributes capable of satisfying customer needs (Gerson, 1989). The product in the SIC class of exercise salons and health clubs would be the actual facility. The price, promotion, and place must all relate to the product, the facility.

The price varies from facility to facility and the pricing is reasonably stable with adjustments for inflation. Price normally involves an initiation fee and monthly payments that range from \$10-\$100 per member. In order to determine a price which will attract a good market share, you can contact existing exercise salons within the same area with similar services (Gerson, 1989). Price structures must be established in conjunction with sales tactics. For example do you want to be a high quality/high price provider or a low quality/low price provider? What development costs will you incur? How will the product be distributed? What is the desired profit margin? What is the competitors price? There are six strategic pricing models that can be used. One, compete on a non-price basis and provide

a good quality product. Two, price competitively and then differential your product. Three, charge separately for extras. Four, include provision for price escalations and reductions. Five, use consumers to establish price schedules to identify price that will bring about most consumption. six, consider methods of payment. Identify trends in pricing structure of health and fitness industry for the last 3-5 years. Mostly payment in the form of cash or credit immediately or within 30 days of receipt of an invoice. It is also necessary to evaluate any discounts or promotions(Gerson, 1989).

For promotion, first decide the initial client contacts and the channels to be used. Examples, are personal sales, direct mail, or telemarketing. Second decide on the types of promotions used such as free products, service giveaways, sponsoring events such as races or aerobic contacts, or public appearances. Third, need to establish some type of budget. Realize your promotions should generate and not be a result of revenue. Also, be realistic. \$1000 in advertising will not equal \$100,000 in revenue, \$10,000 would be more realistic. To establish a budget keep track of how customers heard of services and how revenue was brought in(Gerson, 1989).

In evaluating the place, the geographic location of the facility, you must know the customer base population, income, and growth trends. To gather this information you can go to a small business development centers throughout the state. Professional service companies such as accounting firms, private consultants,

legal firms, etc can provide this information. Also, contact service organizations such as the Chamber of Commerce or government statistics books to get a better idea of the place where you want to build. Typically, exercise salons are usually located on the outskirts of busy metropolitan areas. Their members come from one or more nearby residential areas or businesses. A city of approximately 20,000 people will support at least one salon(Illinois Department of commerce, 1990).

#### Identify Industry Wide Threats and opportunities

By identifying the threats and opportunities you will have a more realistic view of your success rate and you will be better prepared to defend your facility against threats or capitalize on opportunities as they arise. Threats and opportunities steam from the Product Life cycle. Every exercise salon and health club goes through four stages from introduction to removal called the Industry/product Life cycle. The four stages are introduction, growth, maturity, and decline(Appendix B). In the introduction stage your firm is the first one and demand is great. In the growth stage many new entrants appear and growth can still be as great as 100 percent. In the maturity stage profits begin to stabilize and the market becomes saturated with competitors, growth is in the 10-15 percent range (Reilly, 1990). Salons and clubs are in the growth stage which is marketed by many new entrants into the market. statistics show there has been a 30 percent increase in the number of clubs from 1979-1986(Illinois Department of Commerce, 1990). This increase does

not include corporations, hotels, or non-for-profit organizations that are establishing health and fitness programs. It has been quoted the "industry should remain strong for many years to come" (Gerson, 1989). The industry will move to the maturity stage when supply exceeds demand due to too many competitors or too many substitute products such as home gyms. Another indication of the transfer into the maturity stage occurs when competitive pricing no longer exists. If the industry does move into the maturity phase it may require new survival strategies which would present new opportunities (Power et al, 1986). From the industry forces you can develop a threat and opportunity profile based on your evaluation of the market (Appendix c).

#### Investment Requirements

This evaluation is essential in turning your plans into reality. This evaluation should answer three questions:

How much capital investment is needed?  
 How much working capital is needed?  
 How much capital is needed to enter the industry?  
 (Power et al, 1986)

First, decide between starting a business from scratch or franchising. Each has advantages and disadvantages that must fit your financial needs and your personal attitude. For example a franchise gives the entrepreneur the opportunity to use mass buying power, training programs, experience, and the name of the existing business to build immediate recognition in exchange for an annual fee. The annual fee is usually a percent of sales which can start at \$10,000 and go up, the sales percent ranges

from 7-12. The differences depend on the extent of services obtained from the franchisee and the level of competition in the industry(Illinois Department of Commerce, 1990}. The advantages are economies of scale, immediate recognition, and expert assistance. The disadvantages are that you are tied to the franchise rules, regulations, and reputation.

Another alternative is to buy an ongoing business. The advantages are that you can avoid start-up costs, sight investigations, lease negotiations, and fixture and equipment purchases. According to Kenneth Albert, author of ~~straight Talk~~ about starting a Business, the most important advantage is that you can learn from previous owner's mistakes, some people even contract the previous owner for a few months. The disadvantage is that a thorough location investigation should be done to insure that location is not the problem (Albert , 1981}.

A good indicator of the need to start your own business is your personal attitude. If it is important to have total independence, if you treat your business as an extension of yourself, or if you always push to do things "your way", it may be best to start from scratch(Albert, 1981). You will need to have enough revenue to operate until the break even point, enough capital for required wages and six months of working capital. There may also be unforeseen expenses such as: supplies, equipment, insurance coverage, and building remodeling and improvements(Illinois Department of Commerce, 1990). According to Dun & Bradstreet, Inc., the average revenue for the average

firm in SIC code 7991 was \$896,000 in 1989. The costs of operation for such a firm was 39.1 percent of revenue, compensation for officers 7.1 percent, Pension benefit plans 2.4 percent, repairs and bad debt 2.1 percent, and rent 6.4 percent. In total 57.1 percent of a firms revenue is required for annual expenses. The Illinois Department of Commerce suggests enough capital for a half-year of expenses or 28.55 percent(\$896,000 multiplied by 28.55 percent equals \$255,808). \$255,808 is the investment required to start the average size and exercise salon or health club facility in 1989.

#### Recommend strategic Changes

The final step of the industry analysis involves recommendations for strategic changes. My recommendations touch on three areas customer service, opportunities and threats, and investment needs. For customer service, treat the customer as a number one priority. There is a tendency to forget that a club member is a customer; club staff forgets this because there is really no tangible product after the initial membership sale. In addition to high quality customer contact, provide more services, especially to a facility in a metropolitan area. The extra services would be geared toward business professionals who often have to decide between going to an exercise facility and running daily errands such as going to the dry cleaners, the post office, and grocery store. Therefore, a facility that has all these attachments: a dry cleaner, a post office, a snack bar or restaurant would attract individuals who would normally not have

the time to attend a health club.

To capitalize on opportunities and minimize or avoid threats, read trade journals, economic indicators, and newspapers like The Wall street Journal. Being well informed would allow me to be aware of upcoming trends and be able to make educated guesses about the needs of my customers.

As for investment needs expanding the types of services provided would allow others involved such as a dry cleaning chain or restaurant owner who could supply funds and expertise to minimize the overall risk.

## DEVELOPING A STRATEGIC BUSINESS PLAN

### Developing Key Planning Assumptions

An assumption is a condition, relationship, or state of affairs regarded as truth without factual data to support it. The first step in the strategic Planning process is to make assumptions about the conditions under which the facility will operate. Assumptions are necessary because you will be assuming certain relationship or condition when starting the business and then your decisions will be based on these assumptions.

Furthermore, by knowing your assumptions you can adjust your plans when conditions change. Also, a assumption review may clarify or change preconceptions or biases(Power at el, 1986). Examples of assumptions for the exercise salon and health club facility are as follows:

1. A customer demand exists in the relevant geographic area.
2. An estimate of this demand exists including changes in demand due to seasonal fluctuations such as holidays and

- pre-summer increases.
3. customers are willing to pay to fulfill this demand.
4. Low- to high-end estimates of the prices and corresponding demands can be tabulated.
5. Assume competitors exist and know their nature, aggressive or passive.
6. Assume suppliers ability to meet initial resource needs and also maintain equipment including updating according to technology changes.
7. There is a pool of available employees.

This is a list of sample assumptions, but every entrepreneur must make their own list which may include more specific categories pertaining to the specific facility. This entire strategic business plan must be customized to fit the needs of a specific facility within a specific geographic region. Therefore, I will state the sections of the strategic business plan and give a brief explanation of each section, but the specifics change for each facility.

#### Clarifying Business and Planning Terms

The people who design the business plan and read the plan need a common language in order to communicate effectively and coordinate tasks. For example if a business owners idea of widespread demand is 500 people and managements' idea is 100 people, they will be working towards different goals and using different tactics to attain conflicting goals. Clarifying should add quantitative value whenever such values would eliminate vagueness. Industry lingo should also be defined. Clarifying should be done at the beginning of the business plan and on an as-needed basis. After assumptions and definitions you are ready to prepare the strategic business plan, an action oriented



document that describes the company's mission and strategic actions (Power et al, 1986).

#### Preparing a Mission statement

A mission statement is a clear and concise statement of the facility's direction and purpose. The mission statement answers questions like What business do we do? What business do we want to be in? What are the major long-term objectives? A five question guide can be used to create the skeletal structure of the statement.

What customers are we trying to serve and why?  
What product or services can we affectively provide?  
Why are we running the business?  
What do we really want to accomplish in the next 5-10 years?  
Are our objectives clearly defined? (Power et al, 1986)

These questions need to be answered and refined to ensure the focus is not too broad, in which case we would be targeting customers never intended. We also must ensure the focus is not too narrow, in which case we might be ignoring profitable sectors. The mission will guide the business' actions, it is the owner's way of communicating the strategic vision for the facility to others. The mission statement also serves as a tool for evaluating performance. Therefore, careful attention must be paid to the exact wording of the statement, since it will essentially guide the business.

#### setting Performance Goals and Targets

It is necessary to supplement the mission statement with specific short and intermediate term goals and targets concerning

revenues, profits, capital investments, promotional support, production capacity, and other strategic variables. Each one of the variables can be a goal. Each goal will have three to five objectives. Objectives are ways to meet the goal. The goals and targets must be quantitative. Quantitative goals help you realize if they are being reached (Kuriloff, 1993). This initial process is iterative, meaning that it might need to be adjusted as we move further down the sequence of events involved in making a strategic business plan (Power et al, 1986). If goals and objectives become unreasonable, change them to attainable measures. Changing the measures will improve morale as goals are met or nearly met.

#### Choosing a strategic Thrust

The strategic thrust is a broad statement of strategic actions that will occur during the planning horizon, usually a five year period (Power et al, 1986). In other words, the thrust tells the means for reaching the end goals pertaining to the grounds upon which the business intends to compete. For example, will the business target low prices, expanded services, customer satisfaction, or quality. Michael Porter describes four generic thrusts:

- Overall Cost Leadership
- Broad market differentiation of products and services
- Focused cost leadership
- Focused differential of products and services (Power et al, 1986)

A strategic thrust also defines how a company will handle product innovation and market introduction. Three basic ways are

the prospector approach, analyzer approach, and defender approach. In the prospector approach there is an active search for new products and markets and an aggressive attempt to seize opportunities. The analyzer approach follows a wait-and-see attitude regarding innovation and change. Business that follow this approach require proven demand before they decide to enter and develop a new market. Finally, in the defender approach the goal is to defend the current business rather than introducing new products or entering new markets. Before attaching specific actions to the thrust you need to evaluate the thrust to ensure that the thrust fits the mission statement, goals, and objectives. Also, the thrust needs to be realistic given past experiences. Finally, the thrust needs to be clear enough to be able to attach specific actions to it (Power et al, 1986).

#### Planning strategic Actions

strategic actions are planned according to the strategic thrust. Your actions are related to choosing a target market, choosing a target product, and planning product development. To determine the actions you will take, analyze capital expenditure plans, marketing plans, competitor analysis, market needs, business threats and opportunities, and business strengths and weakness. Except now we will be looking at these subjects not from a macro-industry level but from a micro-level specifically the facility. Review the micro level by answering four helpful questions:

- What actions have worked in the past?
- What are the competitors doing?

What types of actions have we done well in the past?  
What actions will have the greatest impact?(Power et al, 1986).

In summary our strategic business plan has told us what we want to accomplish(mission statement), how we are going to accomplish(strategic thrust), and what specific actions we are going to take(strategic actions). Now we are ready to start allocating resources according to our plan.

#### Allocating Resources

Resources are limited and must be allocated throughout the business to insure each section has adequate ability to accomplish goals. There is no one correct solution to allocating resources and actually intuition is used(Power et al, 1986). A list of possible resources for a salon or club may include capital, people, equipment, and space allocation within the facility. These resources needed to be prioritized in a way that is consistent with the strategic actions.

#### Developing contingency Plans

At this point of the strategic business plan we are ready to look at the contingencies or low-probability events. These contingency plans help the owner react if the business does not unfold as anticipated(Power et al, 1986). To prepare contingency plans you must ask what the worse and best case scenarios could be? What to do if you do not achieve the anticipated membership level? What if expenses are more than expected? What if there are staffing problems due to insubordinate personnel? These are

the types of situations people don't want to think about, but could occur and anticipated solutions could lessen the harm. For example, if low membership and high expenses occur, requests for revolving credit on an as-needed basis from a private lender would be beneficial. If insubordinate employees are the problem, the owner could have originally established disciplinary policies known by all personal at the beginning of their employment. These type of pro-active solutions would be extremely useful.

#### creating an Appropriate Organization Design

The overall design of the organization needs to fit the strategic thrust and major action strategy. In order to create an organization design you must look at the current organization hierarchy, authority relationships, information and communication systems, reward systems, and possible design changes.

Current organization Hierarchy. To examine the current hierarchy you must look at how the people and tasks are grouped together. Two typical groupings are by function and by product. Function groups are made of up clear cut divisions due to function such as accounting, finance, and marketing. Product divisions are useful in companies that have a large amount of independent products such as textiles, machines, and fabrics(Power et al, 1986). For the purpose of the exercise salon or health club, use the function division since the product is basically the entire facility and difficult to divide. This division gives an idea about how decisions are made-mostly within their function group with input from the group's exclusive members. To eliminate

making decisions based on only one function's interests it may be helpful to have joint meetings between functions once every couple of weeks or from special committees made of members within different functions.

Authority Relationships. Authority relationships determine who the decision makers are. Knowing this relationship helps expedite day-to-day decisions. One issue to consider is that organizations are generally becoming more flat, meaning that there are less levels between the lowest employee and the highest. And at each level workers are being given the right to make important decisions and being held responsible for their decisions (Bateman and Zeithaml, 1990).

Information and communication systems. The information and communication system is exceptionally important for monitoring progress, task coordination, and communication. In deciding what type of system to implement you should consider computerized and non-computerized systems, analyze the source of the information, and know where the information needs to be received. If every employee needs information a computerized environment may be the best solution. But purchasing many computers can be costly, perhaps a central computer or a computerized bulletin board can be used. Another important consideration is the type of security system attached to the information system. You will also have to decide who the supplier of the system will be, what the cost will be, and if repairs or updates are included (Alton, 1992).

Reward systems. The reward system is intended to stimulate

employees to take action toward accomplishing the mission statement and strategic plans of the business. A basic guideline is to develop a reward system linked directly to the performance of the assigned task. It is important that rewards be given for performance in accordance with the job description. Some employers may want to reward other important work, but the proper solution is to update the job description to include the additional work and then reward based on the new job description. Equal rewards should be given for equal accomplishments and all employees should understand the reward system. Finally, rewards can become costly so whenever possible give non-monetary rewards which can be just as stimulating (Power et al, 1986).

Design-Change possibilities. Even after an organization's design is developed there should be enough flexibility in the design to be able to cope with unanticipated events (Power et al, 1986). For example, some clubs hire additional workers such as rotational aerobic instructors. Other clubs use "firefighting" teams created to deal with special tasks. A new trend comes from companies purchasing more sophisticated computerized information systems. These new systems can collect, store, retrieve, and analyze information faster than old systems. To be truly effective the system must be designed to fit the organization-- information has to be accessible by the necessary people in a usable form (Alton, 1992). Finally, some organizations strengthen their lateral relationships among individuals and groups to facilitate information sharing and coordination. According to

Jay Galbrath, a management consultant, these "joint decision processes cut across (traditional) lines of authority {Power at el, 1986)". An example of this is accounting, finance, and marketing people working together to resolve a problem or take advantage of an opportunity. Each one of these groups has a different perspective of what decisions are necessary for the company to reach its goals and objectives. By bringing these people together the company gets greater cooperations from the different departments since they all feel they played a valuable role in reaching a decision. The challenge of the 90's is to network these people so the information flow is correct {Alton, 1992).

Preparing organization Charts. The last step in creating an organization design is to actually propose or revise the organization chart. This chart informs old and especially new employees of the formal organization hierarchy and authority relationships. The characteristics of a well-designed chart are an accurate, descriptive title, readable names of positions held. and has clearly reported relationships. The design chart should be well-organized, easy to follow, and have a key for symbols used {power et aI, 1986).

#### Preparing Pro Forma Financial statements

Pro forma financial statements are organized quantifications of projected financial outflows and inflows. By preparing financial statements you will have a concrete idea of business



reality. Also, pro forma statements can be linked together to perform "What if?" analysis to see how changing variables such as revenue or expenses can change net income; This will help you pinpoint problem areas and take corrective actions (Power et al, 1986). For an example of the typical financial statement from the SIC 7991 group, exercise salons and health clubs, see Appendix D.

#### Assessing the strategic Business Plan

The final step of the strategic business plan is to assess the proposed plan. The proposed plan needs to pass three primary tests: workability test, economic feasibility test, and acceptability test. The workability test determines if what is proposed can be accomplished and if the intended results will be realized. The plan can pass this test only if critical resources are adequate, management supports the plan, and the objectives are realistic. The economic feasibility test focuses on returns and costs in the short and long term. The tests how well short term goals support long term ones and vice versa. For example the plan would fail the test if short term goals bankrupt the company in the long run by offering extremely low prices.

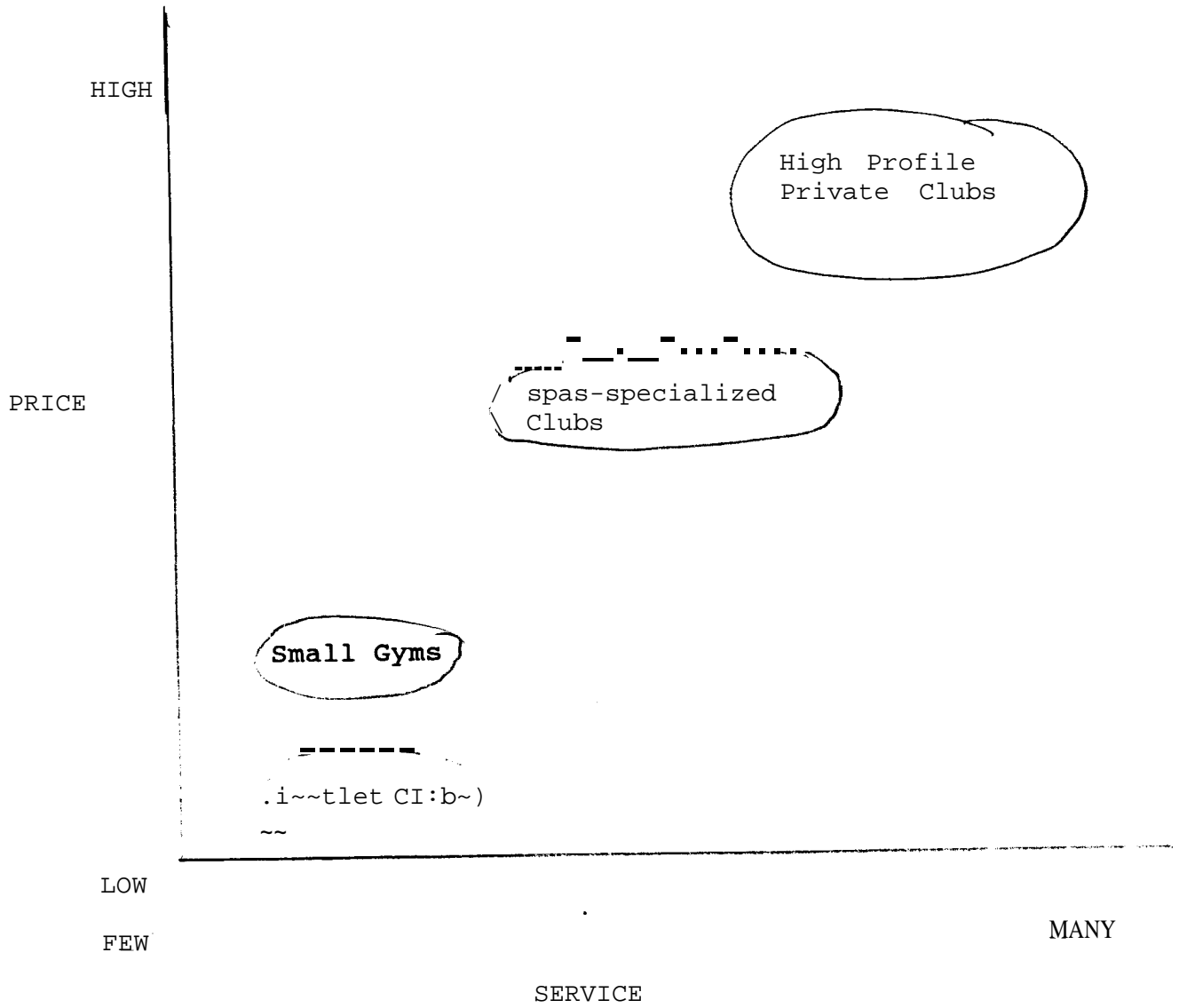
The Acceptability test examines attitudes major stakeholders will have toward the strategic business plan. Their attitudes should be evaluated on the following questions: How do the stakeholders feel about the risk involved? What are the incentives for supporting the proposal? Do benefits outweigh costs? Acceptable attitudes are neutral or positive.

### Conclusion

starting a business is much more work than merely raising capital. starting a business requires an extensive amount of research about the industry, but more than simple research it requires a high level of intuitive decision making. In this way the industry analysis can be thought of as an art and not a science. And just like any art form the talent may go unappreciated for a long time as shown by small business owners who try and fail at a rate of 60-80 percent. But the successful business owner learns from his mistake and tries again. Eventually the determined entrepreneur will succeed since inexperience is usually the biggest contributor to failure (Albert, 1981). It is necessary to remember that there are 20-40 percent of business owners that do succeed and provide the diverse products that meet the needs of small niches. The exercise salons and health clubs are examples of these unique products. This is a growing industry, eagerly accepting new entrants who will provide a service to their nearby community. But to be successful, the strategic business plan must be carefully created considering as many variables as possible. The exercise salon and health club industry is still looking for few innovative, determined, calculated risk-takers.

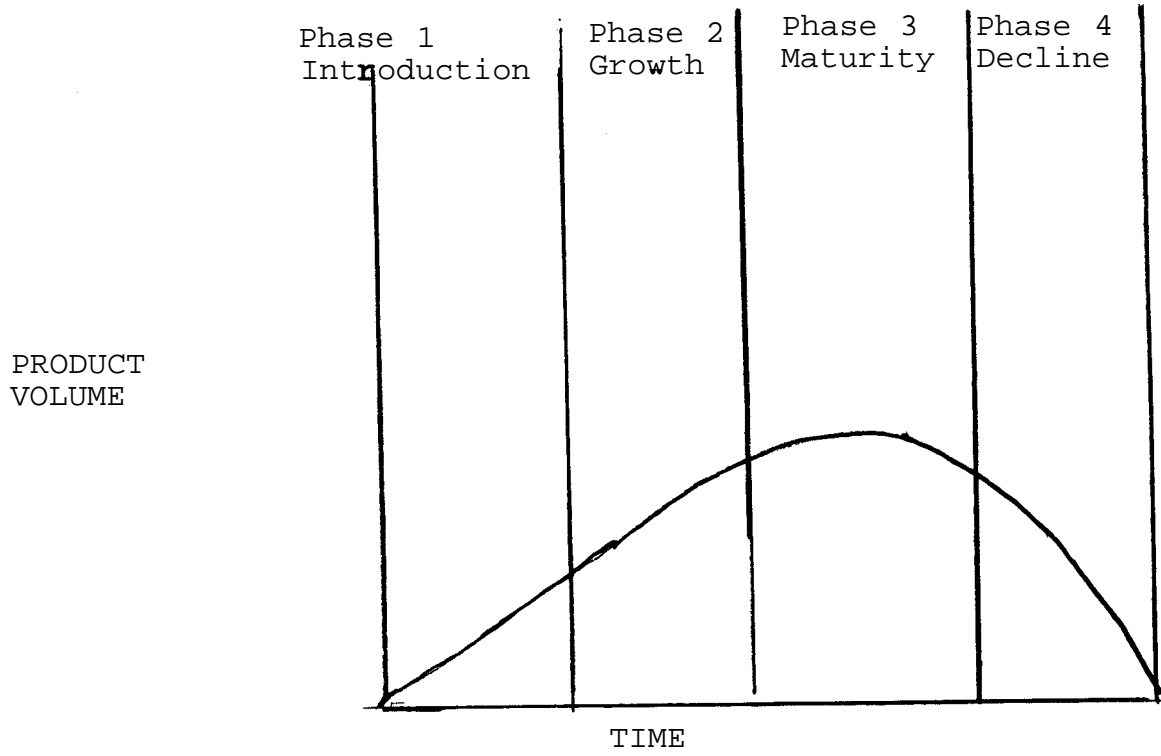
Appendix A

strategic Group Maps



(Power et al, 1986)

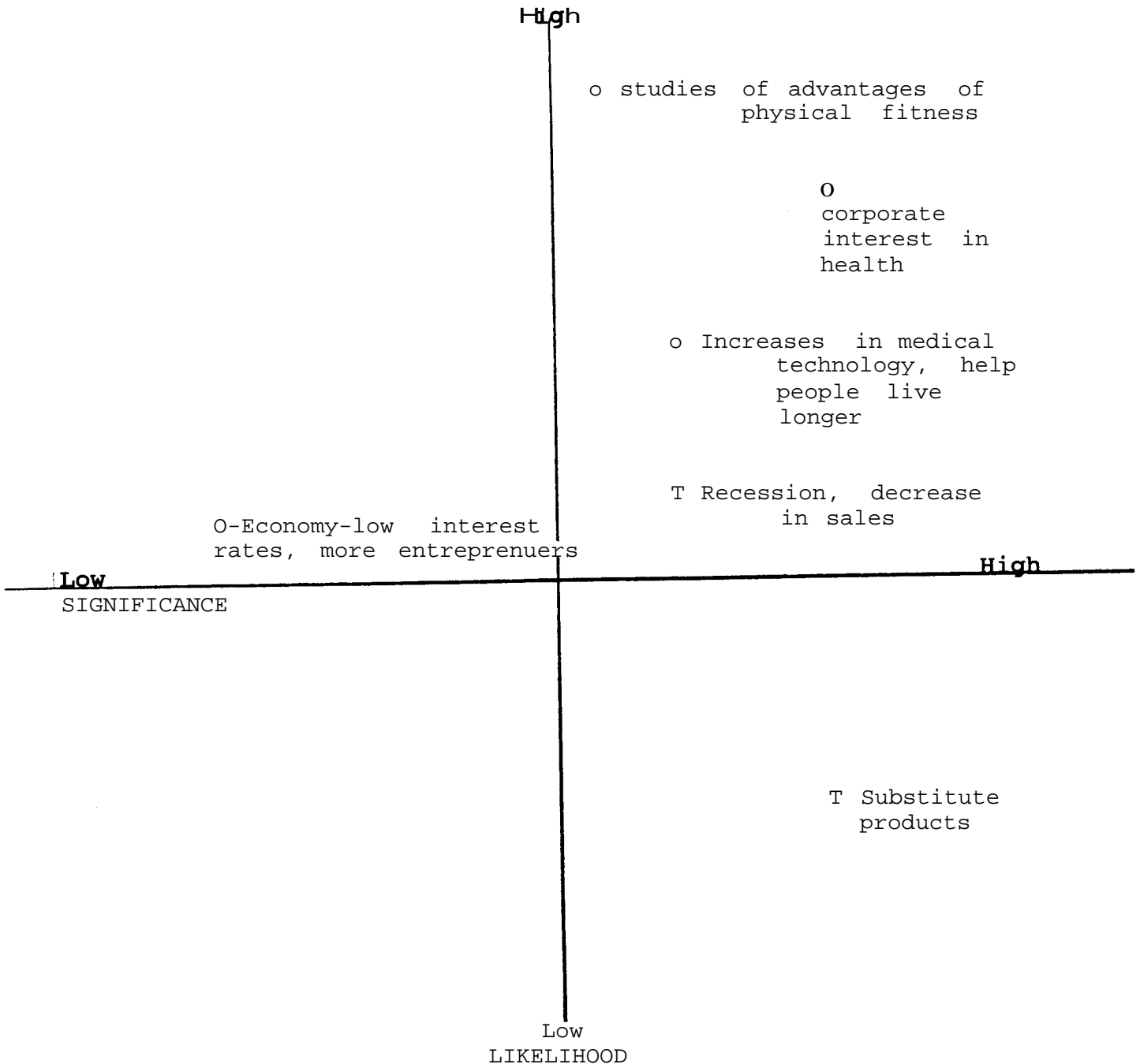
Industry/Product Life Cycle



(Gerson, 1989)

# Appendix C

## Threat/Opportunity Profile



T=Threat  
o=Opportunity  
(Gerson, 1989)

## Appendix D

### Sample Financial Statements

#### INCOME STATEMENT

##### Average Data

<u>Revenue</u>	100%
Cost of operations	39.1%
Gross Profits	60.9%
<u>Expenses</u>	
Compensation to officers	7.1%
Repairs	1.7%
Bad Debts	.4%
Rent on business property	6.4%
Taxes (exc. Federal Taxes)	4.0%
Interest	1.3%
Depreciation/Amortization	4.2%
Advertising	1.7%
Pension/Benefit plan	2.4%
other expenses	27.3%
Net profit before taxes	4.4%

#### BALANCE SHEET

##### Average Data

<u>Assets</u>	
Cash and near cash	10%
Accounts receivable	8%
Inventories/supplies	3%
Other current assets	4%
Total current assets	25%
Fixed tangible assets	44%
Other non-current	31%
Total assets	100%

##### Debts and Net Worth

Accouts payable	5%
Bank and other notes	3%
Other current debts	9%
Total current debts	17%
Long-term debts	22%
Deferred credits	1%
Net Worth	60%
Total debts/Net worth	100%

(Department of Commerce, 1990)

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