

The majority of health clubs are not managed for profitability; they are managed for cash. When a club can meet most of the cash goals below, the owner is frequently satisfied and does not push for profit growth.

100% profit margin on every pound saved

The cash goals are having enough cash to pay for all accounts receivables including payroll, a good income for the owner, any capital improvements that are needed, staff development, bonuses and reinvestment/redesign of the business as needed. When driving profitability, two major thrusts appear. The first is to identify the profit veins and mine them. The second is to identify the profitability potholes and eliminate them. This includes understanding the profitability of your programmes, market segments and customers and making the hard decisions in eliminating unprofitable activities. In addition, a profitability commitment means driving a continuous effort to uncover waste, bureaucracy, bottlenecks and inefficiency and use design principles to create processes that are fast, low-cost, and produce high-quality member satisfaction.

Cost-saving goals

01. Every pound saved

Every pound you save is a pound that drops to the bottom line. In other words there is a 100% profit margin on every pound saved. If your club's usual profit is 10% on every pound earned, this means that saving a pound is 10 times more productive than earning a pound.

02. Costs always increase

Several years ago an owner was not convinced that costs were a worry. His club was producing sufficient cash, sales were constant, he had just bought his second dream car and paid for a wonderful new 8,000sq ft home.

Then we plotted the costs for utilities, health insurance, liability insurance, total labour and so forth over a 10-year period. Some increased a few percent a year; others had a double digit year now and then. Next we plotted revenue. It too increased, but it was obvious that if we extended the graphed lines for another six to 10 years, the cost lines crossed the revenue line and profits would be squeezed.

Costs creep up inexorably, yet you may not increase prices every year. Delay annual price increases of 2-3% for a few years and you now need a 10-12% increase, which is a big hit to your members.

In the Adizes life cycle model describing the growth and decline of any organisation, growth is driven by opportunities seized through entrepreneurship and the assumption of risk. But growth brings new challenges and problems. Businesses respond to these in four ways: They add staff, systems, structure and resources. Each of these responses is good, but they are a bit like inviting a pet alligator into your house – they have a strong tendency to grow on their own.

When growth begins to flatten, as it does in most new clubs after about two years, the cost alligators do not go on a diet; they continue eating and growing. Revenue is flatter and the owner invests more in sales training and product extensions to make up the shortfall. The owner is still playing the growth/revenue game but the flattening means it is now a profit game.

Now add in competition and the rules change even further as many of the new competitors were designed up-front to operate with 40% less costs than a traditional club. If you compete with the low-price operators by lowering prices, you make a fatal mistake. You probably didn't lower your price enough to really compete with the low-priced guys, just enough to eliminate your profit. And now the cost alligators eat you up.

03. Not easy

Eliminating costs is not easy. The cost alligators have become pets, and you've fallen in love with them. And you have no idea how much they eat. Eliminating costs is always risky and painful. Take a dose of courage and begin.

04. Do no damage

Many people want to lose weight, but sawing off a leg is not an option. Similarly, cost saving could be achieved by amputating critical functions from your club – but it's not a good option. So begin with normal cost saving but never jeopardise safety, or the value you deliver to customers or your ability to attract new members or staff morale.

05. Stick to tactical savings

This article is focused on tactical cost savings: how to eliminate unnecessary costs and negotiate better contracts so you can use your current business model better. Strategic cost saving is an entirely different approach. It generally involves reducing costs 40% or more and requires a complete redesign of the business model. For example, the unstaffed club (AnyTime Fitness) with essentially no labour costs. This type of costs saving is how Dell captured the personal computer market and how Wal-Mart undermines just about everyone. To date, no mainline business in any industry has successfully applied strategic cost reduction to its current business model.

06. Anything is negotiable

In hearing from over 100 club executives who are in REX Roundtables, I can report there is no area that some owner has not renegotiated. Here is where your courage in asking and your skill in negotiating pay off. Every club owner should as a minimum read a book on negotiation and at best take a multi-day workshop on the topic. The pound and time cost of this investment will be repaid 10 times or more when you put your newfound skills and strategies to use.

07. Momentum

In many cases the savings will require little effort to implement and are likely to continue as savings year after year. For instance, one club eliminated overlapping staff in the last few hours of the evening before closing at 10pm. This saved around £35,000 a year. And it will continue next year and the year after.

A cost savings system

The benefits of a cost saving system are that it creates a permanent entity and reducing costs is a permanent, ongoing activity for your club. You can design your cost savings system by reviewing a few standard elements (below), combined with your own inventions. What is important is that the process becomes embedded in your club.

A. Nurture a frugal culture

One way to nurture a culture of cost savings is through a Suggestion System that actively solicits ways to save. Such systems work best when everyone is aware of the seven principles of cost saving, when the Suggestion System operates for two months then takes a holiday for two months and when there are incentives for those with the best ideas.

B. Assign it

Assign cost saving to a single individual who is responsible for coaching, encouraging, reminding and celebrating the focus on cost saving in each part of the business. Making everyone responsible may dilute the concern to such an extent that everyone expects someone else to take care of cost saving.

C. Goals

When you set performance goals for the next year, include a cost saving goal for the overall business and for each location and department. When doing this, emphasise the "do no damage" principle. Track progress in monthly or quarterly management meetings and use the collective brainpower of your managers to focus on each department or location to uncover opportunities for savings.

D. Incentives

Setting up incentives for department heads to achieve cost savings emphasises the importance of reducing costs. You might equally share 25% of the savings accrued by the whole club in a 12-month period. An additional incentive of 25% for the department head in whose department the savings occurred is also an option. Some owners would be happy to assign 100% of the actual first year savings to incentives for those savings that will occur year after year.

E. Checklist

Create a table with a few columns and list every expense in your club in the first column. In the second column list the annual pound amount. In the third make your best guess as to how often that expense area could be productively examined for savings. This might vary from quarterly to every few years depending on the item. In the next column list the person or job title that is responsible for addressing that line item. Tasks are more likely to be done if there is a way to remind everyone of when to do them and who is responsible. **FP**



Will Phillips can be contacted at will@rexonline.org. If you would like a Cost Savings Workbook to help you get started go to www.REXonline and open the section under Club Insider.



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begins to flatten,
the cost alligators
do not go on a
diet; they
continue eating
and growing*

