

Threshold and Targets

What is the Average Rent Paid by gym clubs?
Wrong Question: Think 'Threshold' and 'Targets'

MANY TIMES I AM ASKED, "WHAT IS THE average amount that gym clubs pay for rent?" My answer, as a general statement, is to quit thinking in terms of "averages" because an average can be skewed by just one exceptionally high or low piece of data (think of the average household income in the community where Bill Gates lives). Instead, I suggest you think in terms of "thresholds" and "targets." A threshold is a minimum or maximum, a "red flag," a defensive mindset meant to keep you out of bankruptcy. A target is a goal, an offensive mindset meant to maximize profit. A threshold is somewhat generic and applies to any business; a target is specific to a particular business and is derived from experience, budgeting and forecasting.

Below I suggest a particular threshold for a GymClub's fixed obligations. I leave it to you to determine your own targets, as your business model and profit goals will necessarily differ from mine.

First, get a cup of coffee or tea and grab a calculator and your 2005 fiscal year-end (FYE) statement. Establish your current FIXED OBLIGATIONS by adding your yearly facility obligations (rent, real estate taxes, CAM or common area maintenance, etc.) and all debt payments (installment payments and lease payments on equipment, furniture,

copiers, computers, etc.). Then simply divide that sum by your total gross revenue and reduce that to a percentage.

I consider the THRESHOLD or maximum for FIXED OBLIGATIONS for all gym clubs to be 25% of your gross revenue. In other words, at 25%, a club might be able to stay in business but will likely have a difficult time generating any profit (the reward for the risk of ownership). Staying in business might sound OK, but the absence of profit generally leads to lack of employee vitality and early burnout for all involved.

Kids First's FIXED OBLIGATION is currently at 18%. You may be curious about what percentage ranges our company has experienced over the years. In our previous building, after years of steadily growing revenue, our FIXED OBLIGATIONS were ultimately reduced to 11%. However, when we first moved into the Kids First facility in 1998, we hit 30%, which is very high! Of course, taking on that much FIXED OBLIGATIONS was a conscious, strategic decision. I was fully aware that 30% was UNSUSTAINABLE and this percentage would have to come down (by revenue going up). Fortunately, we were able to do just that.

So, now that Kids First is at 18%, well under the 25% threshold and doing fine,



you might wonder how healthy would Kids First be if the initial 30% had drifted down to, say, 25% and stayed there? Well, we could have stayed in business but it would not have been very much fun (or rewarding) for me or anyone. I am pleased with 18% at this stage of our business, but it is not our target. In future years, as our short-term debt is retired (shortly) and our revenue continues to increase, I would like to see it drop to 15%. In other words, our target is 15%. Please never forget, shaving a point or two from your Fixed Obligations is a huge deal, because savings here flow directly to the bottom line. ✕

Make it a great month!

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Hosted in Cincinnati, BOOT CAMP is a life-changing, 4 1/2 day total immersion leadership, marketing and organizational workshop for GymClub Owners.

Dates: May 18-22, Nov. 16-20, 2006

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