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FRANCHISING: Will It Play in the Canadian Fitness Industry?

BY MICHAEL SCOTT SCUDDER

Understand the pros and cons before investing in a franchise.



FRANCHISE: Trainers On Site

FRANCHISEE: Sean Ruetas, Richmond Hill, Ont.
www.trainersonsite.com

When personal trainer **Sean Ruetas** worked for a student painting franchise in his university days, he recognized the credibility that automatically came with the company name. "It made selling easier because the company was perceived to be tried, tested and true," he

says now.

So when Ruetas became disillusioned with his job in the financial industry a few years ago and started looking at job possibilities in the fitness world, he naturally investigated a number of franchises. In August of 2008, he decided to invest his money in a Trainers On Site franchise – currently about \$4,000 – after meeting and being impressed with

president Rob Foster and his company. Ruetas's territory covers about half of the town of Richmond Hill, just north of Toronto. Though it is a challenging time for new businesses, he is enjoying the fulfillment that comes with the territory. "I get a high from helping people," he says. When people come back and tell me I made a difference, I know I'm supposed to be doing this."

small segment of the nearly 5,000 clubs in the Canadian fitness industry.

Franchising versus licensing

Franchising should not be confused with licensing. While all franchisees are in effect licensees, not all licensees are franchisees. Several of the previously mentioned chain club operators operate under an older "license provisions" of the corporate entity. And company-owned clubs like 24 Hour Fitness, L A Fitness and Lifetime Fitness in the U.S. and Bally, Just Ladies Fitness and She's Fit in Canada should not be confused as franchise operations either.

In every franchise arrangement, the franchisor (the owner and developer of the franchise system) licenses franchisees to use trademarks, service marks, logos, operational systems, and/or advertising owned or developed by the franchisor.

In some systems, franchised businesses are operated using only the franchisor's brand name. Examples of this include McDonald's, Burger King, H&R Block and Subway. In other franchise systems, the franchised brand is used in tandem with a trade name which the franchisee establishes. Examples include Century 21/ABC Real Estate Company, ProForma/John Smith Business Products and Tri-State SuperCoups. The purported benefit is that including the common brand enables both participants to profit from the advertising and goodwill generated.

Some companies call themselves franchisors, and while they are set up to be franchisors do not necessarily act

If you are considering entering a franchise agreement, ask yourself these questions first:

1. Does the franchisor live up to the letter of the law regarding distribution of initial materials, support documentation and full disclosure?
2. Does the franchisor provide referrals?
3. What are the agreements in the franchisor/franchisee relationship?
4. What are the initial fees, royalties, service fees, license fees, advertising fees and other fees that the franchisee must pay during the life of the agreement?
5. What is the life of the agreement? (Most internet franchise sites recommend no more than an initial five-year term with stated terms thereafter.)
6. Does the franchisor supply all of the support systems, business systems, signage, logos, policies, operating guidelines, blueprints and floor plans for standard facilities as per the franchise agreement?

There has been a consistent movement towards franchising in the U. S. fitness industry, and it is likely that it will become a more-discussed topic in Canada in the future.

At present, there are fewer than a dozen fitness club franchisors operating in Canada. Among them are Results, Exec-U-Fit, Trainers Onsite, Fitness On The Go, Fitness Together, Snap Fitness, Anytime Fitness, Curves and possibly some Gold's Gym, World Gym and Powerhouse Gym operations. Franchises currently represent a rather



FRANCHISE: Gold's Gym

FRANCHISEE: Skye Kaiss, Regina
www.goldsgymregina.com

like franchisors. Most often they resemble licensors, companies that give permission (for a fee) for licensees to use brand names, logos, trademarks and sometimes advertising or marketing developed by the licensor. They also allow the licensee to act on his/her own behalf when it comes to establishment of operating systems, local marketing and general business practices. This can be both beneficial and detrimental.

Franchisees closing stateside

In the U.S., many industry-publication-lauded franchisors from as little as two years ago have already disappeared much to the chagrin of thousands of members and the franchisees who invested hard-earned savings in their businesses, most likely second-mortgaged homes and heavy credit card debt.

Unfortunately, hundreds of franchisees in U.S. operations are operating unprofitably, most notably studio-type clubs, single-sex express facilities and 24-hour key-access clubs. As one noted

Skye Kaiss was working as a civil engineer in the oil fields when a family friend introduced the idea of opening a Gold's Gym franchise in Kaiss's home town of Regina. After researching the company, he bought his first franchise for \$40,000 (plus monthly royalty fees) in 2006 and is set to open a second location (also in Re-

gina) this spring. The first club has been so successful, it won the Gold's Gym Best International Gym award for 2008, a peer-nominated award based on a club's success in numerous categories.

Kaiss appreciates the brand awareness and trust that the Gold's Gym name gives his business. "People sign up because they know

the company has been around for years," he says. He also benefits from access to marketing materials, a variety of operations manuals and deep discounts on equipment. "But being able to pick up the phone and talk to other franchisees with more experience, far outweighs any of the other benefits," he claims. "They remember their early days, and they love to help the new guy."

American fitness expert recently said to me: "Remember, Michael, the first premise of franchising is that the franchisor makes money."

There are a few U.S. franchisors who truly act as franchisors in total support of their franchisees. The best in

my researched opinion is the Planet Fitness operation based in Dover, New Hampshire, that supports more than 200 franchisees in 32 states. (As of last contact with the company, Planet Fitness has no plans to come into the Canadian market.)

FRANCHISE: Fitness Together

FRANCHISEE: Kathie Kilpatrick, Toronto

www.fttoronto.com

About three years ago, fitness pro **Kathie Kilpatrick** was crunching the numbers and planning to open her own club when she saw a newspaper item about Fitness Together franchises. After speaking with the company's Ontario regional manager and visiting its head office in Denver for one of its "Discovery Days," she was quickly sold on the company and concept.

"I was really impressed with the executives I met," she says. "They were all former successful franchisees and smart as whips." Kilpatrick, who opened her club in 2007, paid \$34,000 U.S. for

the franchise and estimates that her total investment is about \$200,000.

One of the big benefits of being a franchisee, says Kilpatrick, is ongoing support provided by the head office: quarterly marketing programs, promotion ideas, direct marketing materials, website support, teleconferencing support and discounts through preferred suppliers.

"I've heard some horror stories about other non-fitness franchises, but I have to give Fitness Together an A+. They've delivered on everything they've said they would."



While there will no doubt be more franchisors appearing on both the U.S. and Canadian scenes, it is still mostly buyer beware, as in any business dealing, when it comes to franchising. This is not to say that successful franchisors will not take hold in some of the provinces, most notably those where there is more affluence and higher population numbers.

In some cases, franchising can be very beneficial to both parties. In the best of situations, franchisees have access to a branded company identification; don't have to create their own systems; benefit from management and employee training; and have access to researched and selected equipment, services, clothing, etc., often at discounted prices. But, in other cases it can be a nightmare for the franchisee. If you're considering becoming a franchisee, I advise you give it considerable thought. FBC

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