Snap fitness case study research paper sample

Business, Marketing

We are told that all the initial investment of between $60, 000& $184, 000 usually covers start up costs and other pre opening costs so such costs are sunk costs that will not affect our computation. We are supplied with the above information that is useful in this particular case. It includes:

Monthly charges (Selling price)$26

Fixed costs $6, 000 (Made up of the monthly lease charges for the equipment,$2, 000 and the rent $4, 000)

We are also informed that a recent newspaper article that placed the breakeven level for this kind of business at about 300 people. Armed with the above information and other background information on CVP analysis, we can obtain the variable costs as follows:

Contribution margin = Selling price- variable costs

We assume variable costs will be denoted by the variable X

Breakeven = FC/contribution margin

300= 6, 000/26-X

Cross-multiplying, we obtain;

300(26-X) = 6, 000

7800-300X= 6000

Bringing like terms together, we obtain;

7800-6000= 300X

1800= 300X

Dividing both sides by X we obtain;

1800/300= 300X/300

6= X

X= variable costs

Therefore, 6= Variable costs

b) Monthly sales in members and dollars that will achieve an income of $10, 000

Target units= (fixed costs+ operating income)/Contribution margin

=

800 people

Dollars at this level (Drury, 2007))

PROOF

At a level of 800 people, the profit statement would look like this

Sales 800*$26. 20, 800

Variable costs 800*$64, 800

16, 000

Less fixed costs

6, 000

Target profit . 10, 000

Examples of variable costs for a fitness centre

A fitness centre, just like any other business requires resources to run smoothly. These resources require to be availed by purchasing from third parties or otherwise, but simply put, fitness centers have expenses just like other businesses. Variable costs are those costs that will vary depending on the business activities. For a fitness centre, they include;

Utilities

These come in the form of water and electricity bills. Members of a fitness centre require these facilities for smooth fitness exercise on a daily basis thus the business must incur such expenses. This is a variable expense that varies with the variation in the activity for the period.

Employee salaries and other emoluments

Salaries, wages and other employee benefits vary depending on the number of employees in a fitness centre. These usually form the bulk of the fitness centre’s largest expense vote head, and not just a fitness centre, but are a key area of expenditure in most businesses.

Marketing expenses

These expenses relate expenditure incurred through creating awareness of a fitness centre. It may be done through print, broadcast, telecast, or even thorough e-marketing in platforms such as social networks or company websites. Snapfitness for instance uses a lot of money in advertising in both print and e media such as its website among other avenues.

Repairs and maintenance

Machinery and equipment repairs and maintenance is one other expense that depends on the level of activity. The more the machinery is being utilized as a result of increased activity, the more the need for repairs.

Other operating expenses

Just like any other trading company, fitness centre companies have a host of other operating variable expenses. These include printing and stationery, telephone and postage, motorvehicle running expenses among others.

Purchasing a franchise

Franchise information relevant in deciding whether a franchise is a good investment or not will include, but not limited to;

History of the franchiser

It's of necessity to clearly know and understand the franchisor, their history and business philosophy so as to understand their business before jumping in. Once you understand the franchisor very well, only then can you be able to understand their business and the benefits likely to accrue to you in case you buy the franchise. Otherwise, one may buy a franchise and end up selling it or even closing due to lack of knowledge in the business

Initial cost investment

Of course this is the most important question that every individual asks themselves. How much money will I be required to invest in this deal? This brings in the idea of competition. One would want to buy a franchise that is relatively well or fairly priced. Most overpriced franchises have difficulty securing investors since investors are always concerned about their payback period and evidently, the more the initial investment the longer the payback period which is undesirable to investors

Other costs and incidental expenses related to the franchise

Naturally, the cost of a franchise doesn't end with the initial purchase price. Buyers are expected to consistently pay other accruing expenses to the franchisor such as a share of marketing expenses, annual royalties and other fees etc. A franchisee must put these and other costs into consideration before deciding on a franchise otherwise the deal may be pretty costly in the long run, and out rightly unprofitable.

Restrictions imposed by the franchisor

Usually, a franchisor will always attach a number of clauses in the franchise contract that limit the franchisee on a number of areas such as chain of distribution, sources of supplies, etc. a franchisee must clearly understand the implication of such clauses as sometimes these are usually counterproductive and may make the whole business unprofitable if for instance one is required to buy goods from an expensive supplier while it is possible to get the same supplies from cheaper dealers without the restrictions.

Regional protection

Essentially, a franchisee must want to know whether there is any protection against any other franchises that may come up in his neighborhood thus negatively impacting on his business. A franchisee would not expect the franchisor to sell the franchise to other buyers who would market the same product or service in his neighborhood as this would negatively impact on their revenues. The franchisee must be keenly protected from other franchisees that would interfere with the business otherwise a franchisee would not buy the business as it would be unprofitable and an investment scam (Mendelson, 2004).

Avenues for building a business empire

Economically, a franchisee would be glad to be allowed to sell the franchise in their region as this would be very economically sensible. Many franchisers may object to this but it would not hurt if the investor shops for a franchisor that would be flexible enough to allow for empire building by the franchisee

Success rate of franchisees

A prudent and keen franchisee would like to know the success rate of the franchisees before getting into the franchise arrangement. In case many of the franchisees are in business and doing well, then the investor would surely consider it a great deal but if the franchisees have been closing one by one, then it should strike the franchisee that this is not the best investment vehicle and a change is necessary.

The exit strategy

If for one reason or another a franchisee wants to leave the business or rather to abandon the franchise, what are some of the relevant clauses to be executed? How smooth is the transition, how does the hand over affect the existing contract position with the franchising company, how are the final dues payable if any? A franchisor that has many restrictions for leaving would ultimately sound as unfriendly and oppressive and may not be deemed as appropriate or economically attractive

Industry trend and performance

When considering the kind of industry to buy a franchise, an investor has to consider the overall trends and performance in that industry. The industry must be a growing one and not one that is on the decline. For instance, the healthy and fitness industry is one of the fastest growing industries thus a franchise may be a well thought out idea . Investing in a dead industry may easily spell a doomed future for that investment.

The financial and business strength of the franchisor

A serious franchisor must be financially sound so as to guarantee a long term provision of suppliers and other servicers to the franchisees. Its commonsensical that investing in a business that has a doubtful going concern would be a big economic mistake that would take a long time to reverse. Besides being of sound financial ability, the franchisor should be a business at the top of that industry or rather a market leader so that the franchisee will not have trouble getting their businesses started.

The support services available from the franchisor

A franchisor is expected to provide both technical and business advice, since as the pioneers, they are expected to have a lot of experience that particular business, and therefore being able to provide the necessary business support.

Reselling a franchise

What would be the value of a franchise once sold? An investor would want to research a little bit and see if he were to sell the existing franchise, would he be able to make a profit, or at least to recoup his/her initial investment? This is an important query that each person ought to ask themselves.

Conclusion

Franchises have been a very good avenue for investment in many companies. Due to the innovative business model that allows one to ‘ inherit’ a business from the owners and be able to run it independently. Franchises have been credited for its contribution to economic growth as a result of the ease with which people are able to get into serious business and contribute fully to economic building (Robert, Et Al 2002).

While franchises seem attractive from the outside, it’s important that investors do a due diligence into an investment prospect before entering into any investment deals so as to ascertain the economic viability of the resultant business collaboration.

References

Mendelson, M (2004) The Guide to franchising. Cengage Learning EMEAe

Robert, T. Et Al (2002) Achieving wealth through franchising: A comprehensive manual to finding, starting and succeeding in a franchise business