

History streams. bally  
branded products are  
also sold



**ASSIGN  
BUSTER**

## **History**

In 1962, Dave Wildman founded the Wildman's chain of fitness centers by acquiring ailing and financially struggling gyms.

The growth strategy of the fitness center included an aggressive growth that saw the acquisition of dozens of brands even though their financial performance was weak then. Wildman's chain was later acquired by Bally Manufacturing, a gambling equipment company, in part of a diversification program in the early 1990's. The gambling equipment company spun off its health club division in 1996, branding it Bally Total Fitness (Wells and Raabe 8). Bally Total Fitness CEO, Lee Hillman, rationalized the fitness center's brand by selling off uneconomical outlets in a bid to bolster performance and improve profitability. In all outlets, nineteen clubs were divested between 1996 and 1997. In later years of 1990s, Bally Total Fitness, under the stewardship of CEO Lee Hillman, went on an expansion program that saw the company acquire fitness and sport centers across North America, which left the company with significant debt levels. The growth program also added onto the list Bally Fitness Center's product offerings, which contributed considerably into the company's revenues.

However, trouble for Bally Total Fitness began with disgruntled customers claiming that the company's 36-month commitment contract for its members was unfair. Other customers complained that the company did not honor cancellation requests, and that the company also practiced unethical fee collection methods such as charging customer credit or bank accounts for fees without authorization. As a result, the Federal Commission of Trade

fined the company \$120, 000 in civil penalties. The company's accounting methods were also questioned by the SEC.

## **SWOT Analysis**

Presently, social trends in the United States are used to envisage what may give details of the future in US. An assessment of the present social trends and an impression of demographic changes give a forecast of the “ strengths, weaknesses, opportunities and threats” that countenance of the existence of relaxation, pastime and fitness firms, like Bally Fitness Center for the prospects put-forth.

### **Strengths**

Bally Total Fitness has strategically distributed its outlets across North America, thereby enabling the fitness center to cater for a wider population base, and hence increasing revenues in the process. The company also offers a wide array of fitness products, ranging from Bally-branded nutritional products, powders and energy drinks to snack bars and vitamins which all add onto the company's revenue streams. Bally branded products are also sold in grocery and drug stores, other than the company's branch outlets, thereby increasing coverage of the company's products, with non club products contributing \$150 million to the company's revenues. Bally Total Fitness strategic locations are quite advantageous and convenient for its customers who wish to exercise and keep fit.

Furthermore, Bally has experienced management team and experienced personal trainers who assist in delivering premium services to its customers making Bally Fitness Center a leader in the fitness center industry. Bally

relies on innovative communication techniques such as its website and social networking in attracting potential customers and informing members on any new developments in the company. Most Bally Fitness Centers are located near residential places in middle class communities, serving the larger American population that cannot afford their own personal trainers.

By broadening its target customers of 18-34 year olds to encompass 35-54 year olds, the company has been identified as a fitness center that caters to all people in society. Bally has long had long sold and priced memberships in a distinctive way. Throughout the company's history, Bally has required new members to sign 36-month legally binding contracts. In so doing, bally was able to stabilize its revenues. The 36-month legally binding contracts also enabled Bally to enjoy higher than industry average retention rates. Another major strength is its staff. The company has implemented successful strategies to attract and retain a pool of staff, and embraced eco-friendly ways in its operations and product offerings; and its culture retention balancing against the identities of the products.

Bally has identified the need to target the Hispanic community. The growing immigration in North America and their employment levels means that Bally will be in a suitable position to enhance its revenues. Bally has focused on divestiture efforts particularly in international regions, such as the branches located in Toronto and other major cities in North America. Over the years, Bally has divested uneconomic branches and outlets, which had the effect of consolidating the company's balance sheet, and returning the company into profitability. Once the Bally Fitness Center's position was improved, the

company used an acquisition strategy to expand and strengthen its hold in the industry.

As a result, Bally was able to improve on its bottom line and expand its market share. By purchasing gym chains in northern California and Toronto chain, the company was easily able to enroll members of those clubs, thereby cutting down on expenses that would have been incurred in the search of new customers.

### **Weaknesses**

One major weakness in the company is the flat organizational structure incorporated in Bally Fitness Center management. Bally's management is centralized, whereby club level managers are only tasked with processing memberships and collecting membership fees under the supervision of centralized personnel. The flat structure will make it hard or difficult for Bally to expand because it is highly unsuitable for very big organizations with many employees. Local managers are not allowed to exercise their creativity or their expertise on local matters that may evade the attention of top management. The company has been criticized by customers and consumer groups for its billing policies.

Bally may charge its customers credit and bank accounts without authorization if customers have already signed membership contracts. The company is also known for dishonoring customer cancellation orders, whereby it is known for making use of deceptive means or harassment to collect fees. Former customers have also complained about getting past due notices from the company, which are seen as a scheme by the company to

make people rejoin Bally. The fitness center's 36 month could deter potential clients who want to do exercises for a few months. The lengthy contracts greatly inconvenience the fitness club's patrons as it makes the customers indebted to the company once they sign the contracts. People who move to a location that is not served by the company's fitness center outlets. Bally may continue to charge such customers even though they are not using the club's facilities.

Bally's treatment of its customers resulted into the imposition of civil penalties by the federal Trade Commission. The company realized that it had accounting and control problems in the 2003 fiscal year, resulting into lawsuits from shareholders who accused the company of financial misrepresentation. Bally could have identified problems in its systems if it had a strong internal control system. Bally was affected by the negative publicity from investigations by the SEC into the company's accounting policies.

Bally had to reinstate the financial reports of for years 1997 to 2003 as a result of the changes it made to its accounting system. Investors and shareholders of the club may seem to have lost confidence in the fitness club as evidenced by the decline in share price. The income statements for Bally Total Fitness suggest that the club is not efficient in its operations due to the high costs of service delivery (exhibit 6). Over the years, Bally's reported revenues have been increasing significantly, but have not been accompanied by an increase in profits. Instead, costs related to revenue generation have been increasing at a higher rate than revenues. This means that Bally Total

Fitness is unable to convert the high revenue figures into profitability, which could signify that the company is inefficient in its operations.

### **Opportunities**

Bally Total Fitness has broadened its set of target customers over the years thereby allowing the company to tap into more revenue sources and be more representative of the population (Covell, Walker and Siciliano 153). The proposed pay-as-you-go membership program may entice more people to enroll to the fitness center, especially those who are hesitant to engage into long term contracts.

The new system in which local managers are encouraged to seek profitability rather than on sales figures alone may improve the bottom line of the business. The US is undergoing a culture change that has seen more and more people get interested into routine exercise. The number of people continually joining fitness clubs is therefore seen to increase in forthcoming years as people try to keep fit. Bally Total Fitness can capitalize on this opportunity by continually informing the public on the importance of exercising and keeping fit. National concern over obesity issues has also increased, partly due to government efforts and health groups. Campaigns on losing weight and fighting obesity can encourage overweight individuals to join fitness centers so as to improve on their health. Some individuals have also expressed their dissatisfaction with diet products since they are take time to become effective, and also deny people the opportunity to occasionally eat appealing foods that may be high in calories. These individuals can turn to fitness clubs that offer weight loss programs.

A club such as Bally Total Fitness can provide weight loss programs to attract this class of individuals. Baby boomers also present an opportunity for the growth of the company's revenues. The number of over 55-year olds visiting health centers has increased as these individuals try to keep fit and avoid the health conditions that affect unhealthy old people.

Most of these people are also retirees hence they need something to engage in. Bally could incorporate involving activities in the some of its programs to attract this class of individuals.

### **Threats**

The main threat to the business comes from leading competitors such as YMCA and Gold's gym among others, which provide their customers with more facilities and activities (Plunkett 26). Other competitors offering low cost programs in studio-sized clubs also present a challenge to Bally Total Fitness. The low cost competitors, such as the Curves franchises offer more convenience to their clients due to their proximity to residential areas. These clubs lack traditional fitness club amenities such as showers and lockers, and can therefore pass on the cost savings to customers who simply want to exercise at the club and take a shower at their homes. An economic downturn may severely affect Bally Total Fitness, given the company's weak profits.

Many would consider fitness programs as luxury services; hence a recession would mean that most people would cut back on fitness programs to the detriment of clubs such as Bally. Most people are price conscious and may opt to purchase their own exercise equipment for use at home, and take



morning runs instead of taking the treadmill at a gym in exchange for expensive membership. As a result, Bally Total Fitness may lose out on the revenues that would have been generated from the increased popularity of keeping fit because of the stay at home exercises.

Bally Total Fitness may have to implement the pay-as-you-go paying program due to the increased customer complaints on the long term contracts, and subsequently keep up with health clubs that have incorporated this system. As a consequence, people will be free to join any fitness club that will convenience them the most, meaning that Bally Total Fitness will no longer enjoy the higher than average industry retention rates that came about due to its long term contracts. Subsequently, revenues may drop due to the decline in customers.

Pressure from the capital markets and the SEC may require Bally Total Fitness to alter its structure and systems. The changes in the company's accounting policies resulted into a \$581 million charge for cumulative adjustments.

Discontent shareholders also pose a threat to the company, and seek to sue the company for financial misrepresentation. The company's share price has been on the decline since 2001 (exhibit 7), representing loss in investor confidence in the company.

The low share prices may make the company subject to a hostile take over by healthy competitor or private equity firm.

### **Control Systems**

Bally fitness center has weak accounting and control systems, as evidenced by the resignation of the company's auditors in March 2003. A strong  
<https://assignbuster.com/history-streams-bally-branded-products-are-also-sold/>

internal control system would have detected existing problems on time before they surfaced. However, the company is currently reviewing its financial control systems and exploring legal options against past officers who may be guilty of abuse of office. Also, the company also has a centralized system, which is also a major control issue. Although the flat structure enables for a fast decision making process, it places too many decisions on top management. Top management has the duty of preparing and ensuring its own accountability, which may result into fraud if the same tasks are carried out by the same individual or the same office.

## **Recommendations**

Trends in the industry suggest that the industry still has a high growth potential, coupled with an increase in the number of competitors. Low cost fitness centers are gaining popularity with price conscious individuals, which present a threat to established fitness centers such as Bally that offer more expensive programs due to the expensive facilities and equipment. Although Bally Total Fitness may also start no-frills outlets, such a strategy may result into decreased revenues for the company's main line of business, termed as brand cannibalization. The health and fitness industry is a highly complex and dynamic industry that requires consumer needs and desires to be taken seriously. Opinions and desires of customers are therefore likely to be the key success factors for this industry because the planning process for both short and long term strategies depends on the needs and wants of the market. Even more essential is the implementation of strategy and the key to achievement of goals is innovation. Planning is not a static issue, it is inherently iterative, and this is where business models come into business

models come into play. Bally Total Fitness should reform its customer service department and handle customer complaints more effectively.

In so doing, the company may better its terms with its customers and avoid such complaints in the future since they result into bad publicity for the company. The company should allow for clear contracts and illegal billing and debt collection practices. The company should also enable clear membership cancellation procedures, which may make it easier for customers to reinstate membership in the future.

Revenues for Bally have been increasing in consecutive years, followed by a significant increase in costs. Operating costs are increasing at a higher rate than revenues, resulting into the drop in profits for the fitness center. The company will have to investigate the cause of the sharp increase in costs since they limit the fitness center's profitability. A possible cause could be brought about by uneconomical branches that bring in sizeable contributions and yet prove to be expensive and consuming to operate.

Bally total Fitness will have to streamline its operations. It's uneconomical to add onto the company's revenues by costly operations. The decline in share price is as a result of reduced profitability by the fitness center chain, which does not reflect on increased revenues. Findings from the investigation may point out areas segments of the company that could be altered or costly outlets that could be divested in order to improve on the company's profit margins. The proposed managerial compensation package in which branch managers will be rewarded for profitability rather than on revenues alone could prove to be a workable breakthrough in the company's bid to improve

on its bottom line. Giving more responsibilities to general managers in a decentralization program could see managers making decisions based on ground experience.

A decentralized system would allow for greater transparency and accountability, hence faults in the internal control system of Bally Total Fitness are likely to be noticed and dealt with appropriately and on time. Furthermore, through decentralization, employees of the firm are likely to increase their participation and contribution for the company, leading to the ultimate goal of customer satisfaction. Therefore, a suitable strategic alternative is for the club to stabilize sales by ensuring customer satisfaction, and divesting uneconomical branches. The company may witness declining revenues as people avoid joining the club, which may make the company a suitable target for a hostile takeover due to the declining share prices.

## **Works Cited**

Covell, Daniel, Sharianne, Walker and Siciliano Julie.

Managing sports organizations: responsibility for performance 2nd ed.

Alexandria, VA: Butterworth-Heinemann, 2007. Print. Plunkett, Jack.

Plunkett's Sports Industry Almanac 2009. Houston: Plunkett Research, Ltd, 2008. Print.

Wells, John R., and Raabe Elizabeth. Bally Total Fitness. Boston: Harvard Business School Publishing, 2005.

Print.