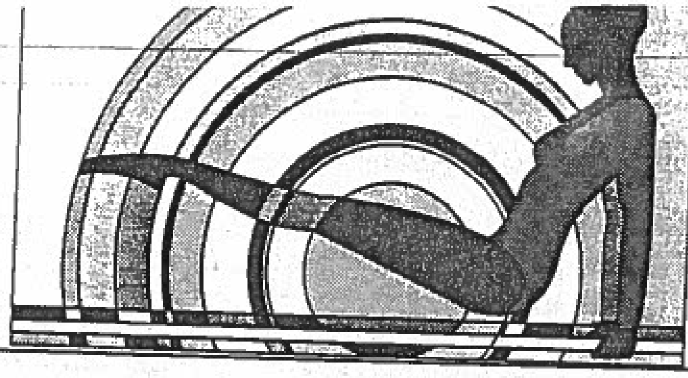
New World Fitness



Introduction

Elizabeth B. Coleman had been interested in fitness since childhood. She decided against becoming a physical education teacher because despite her interest in fitness, a career as a teacher did not offer what she wanted. Business ultimately became her profession. She had never been self-employed but had an eagerness to be in control and to be in charge. Her work experience had not given her the opportunity to implement her expertise and ideas.

In June of 1992, she heard that New World Fitness, in the west end of St. John's, Newfoundland, was having financial difficulties. Elizabeth considered obtaining ownership as a way of combining her interest in fitness with her entrepreneurial spirit. The major problem Elizabeth had to consider was whether she could turn New World Fitness into a success. This business had not only failed, but it had also become disreputable through previous mismanagement. Elizabeth considered whether the stigma attached to the fitness centre could be overcome and whether it could be made into a respectable and profitable venture.

The Potential Entrepreneur

Elizabeth Coleman came to the business world academically prepared and with a variety of work experience. After graduating with a Bachelor of Commerce degree from Memorial University of Newfoundland in 1981 and a Masters of Business Administration degree from the University of Nevada, Las Vegas, in 1982, she secured employment with Newfoundland and Labrador Hydro. Her next job was with Eastern Provincial Airways in Halifax. The airline was later purchased by CP Air and Elizabeth worked for them in Toronto and then in Vancouver. After five years in Vancouver, the last four spent working in the automobile industry with Canadian Logistics Systems Limited, she returned to Newfoundland to work for Fishery Products International. Seven months after beginning work with FPI, Elizabeth considered the potential of New World Fitness, which had been closed by the creditors due to outstanding debts.

This case was prepared by Trina Caines, Natalie Noftall & Anna Stassis for the P.J. Gardiner Institute for Small Business Studies as a basis for classroom discussion, and is not meant to illustrate either effective or ineffective management.

Company Background

New World Fitness offered residents of St. John's, Newfoundland, an attractive centre in which to work out on Topsail Road. The original owner sold the business after one year when it started to encounter problems. Under the new owner's administration, the business again floundered. The second owner lacked managerial skills, kept inadequate records and generally gave the company poor direction. Many of the memberships were non-paying, delinquent, or had been given in exchange for goods received. The owner's priority was to maintain an overly luxurious fitness centre by investing in brass railing, leather couches, expensive company vehicles, and executive washrooms. Though New World Fitness was popular with its clientele, the extravagant practices of the administration, coupled with a lack of managerial skills, soon resulted in financial embarrassment and ruin. When the business closed, it had several outstanding bank loans.

The Situation

The assets, such as the fitness and office equipment, belonged to the creditors. However, there was little that they could do with this equipment. If it were sold in Newfoundland, as little as ten percent of the value would be recovered. Shipping it to the mainland would result in an approximate twenty-five percent recovery rate, but the cost of shipping would be several thousand dollars. There were few options available to the creditors. As a result, Elizabeth believed that they would be open to any reasonable proposal.

Elizabeth learned that just prior to closing its doors, New World Fitness received yearly advance membership fees from many clients in amounts up to $800. An American promotional company had been used to draw members in. However, their hard-sell tactics resulted in a misleading radio campaign which gave away "free" memberships. Upon winning these memberships, people were told of a monthly maintenance fee which resulted in an ultimate cost of about $160. These people, as well as the other members, received no advance notice of the closure and no refund for their paid membership. Eighteen employees were left standing on the doorstep, many of whom were owed wages from the previous month.

Some issues Elizabeth knew she would have to contend with if she decided to take over ownership included whether to honour previous memberships, selecting the method of fee payment for new memberships, assessing the demand for this service, promoting and discounting services to be offered, whether to keep the name "New World Fitness", and whether to employ previous staff.

The Decision

Elizabeth had already determined that even without any revenue generated from new memberships, she had enough available capital to allow the centre to continue operating for up to six months. This capital would bring her into January, the busiest month for a fitness centre, and would allow Elizabeth enough time to get the centre back on its feet. There was also a proven demand for the service in that part of the city, despite the volatile economic situation. The region in which the business was located was both affluent and densely populated, and many memberships had been bought before the business failed. As well, there was sufficient equipment in the building to operate and provide the services needed to meet members' requirements and some capable, experienced staff were on hand to assist in management decisions.

Although Elizabeth was not solely motivated by profit, she realized that if she were successful, she would be able to make more money by owning New World Fitness than what she was making at FPI. Elizabeth had to make her decision before other interested parties approached the creditors or before anything was auctioned off. This gave her only a couple of days to decide once she heard of the centre's failure.