

24 Hour Fitness Worldwide, Inc.:
The Emergence of Airport Fitness Centers

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Executive Summary

24 Hour Fitness Worldwide, Inc. was founded by Mark Mastrov in 1983. Based in California, the company owns and operates over 370 fitness centers in 16 western states. The company strives to make “fitness a way of life for everyone, no matter what their fitness ability.”¹ A member of the highly competitive fitness centers industry, 24 Hour Fitness has experienced financial growth in an industry dominated by many small companies competing to offer the lowest possible prices. Owned by the equity firm Forstmann Little and Company, 24 Hour Fitness has experienced financial stability while many competitors struggle to turn a profit. Under the visionary leadership of Mastrov, 24 Hour Fitness has expanded internationally, launched a successful marketing campaign, and even opened a fitness center inside Las Vegas’ McCarran International Airport.

Based on an industry analysis and an evaluation of 24 Hour Fitness’ corporate strategy, I recommend that the company open additional airport fitness centers. Three promising locations are: the Los Angeles International Airport, the Denver International Airport, and the Phoenix Sky Harbor International Airport. These three airports serve a high volume of travelers and are located in cities where 24 Hour Fitness already has an established brand name. Though it will require a capital investment, opening airport fitness centers will allow 24 Hour Fitness to differentiate itself in a fragmented and highly competitive industry.

¹ “About Us.” *24 Hour Fitness Online*. <<http://www.24hourfitness.com/AboutUsIndex.do>>.

Industry Analysis: The U.S. Fitness Centers Industry

The fitness centers industry is defined by a large number of small competitors, with no company controlling more than five percent of the total market share. Bally Total Fitness Holding and 24 Hour Fitness Worldwide, Inc. are the largest companies in the industry, holding five percent of the market share each.² The rest of the market is controlled by smaller companies, which fragments the industry and increases competition.

External Environment

Studies show that location and accessibility are the most important factors for consumers choosing a fitness center.³ Purchasing a fitness center membership requires both a financial commitment and a time commitment. People with limited free-time are less motivated to commute long distances to reach a club. Many companies in the industry have responded to this concern by placing fitness centers in office buildings and in highly populated urban areas.⁴ Corporate contracts have become an increasing trend in the fitness centers industry. To promote good physical health, many corporations now offer employees a discounted gym membership as part of a benefits package. This simultaneously provides a health benefit to corporate employees and a financial benefit to fitness companies.

The growth of the fitness centers industry is heavily dependent on consumer demand. This demand directly correlates to two key demographic and cultural population trends: the growing target market; and, the national increase in physical health and fitness awareness. The industry's target age range is 15-49.⁵ Because members of this age range have been exposed to

² "Fitness and Recreational Sports Centers in the US." *IBISWorld Industry Report*: October 18, 2006. 38 pages. Retrieved March 8, 2007 from Aladin database (IBISWorld, Item 71394).
<<http://www.ibisworld.com/industry/default.aspx?indid=1655>>. Page 7.

³ *IBISWorld Industry Report*. Page 10.

⁴ *IBISWorld Industry Report*. Page 23.

⁵ *IBISWorld Industry Report*. Page 17.

fitness centers while young, it is reasonable to estimate that as people exit this range, they will remain health conscious. For instance, the membership of Baby Boomers born between 1946 and 1964 has increased by 60% since 1987.⁶ Offering age-specific services, such as a seniors yoga class or a teen kickboxing class, further expands the consumer age range. The second cultural trend is the increase in national awareness about the importance of physical exercise. This, in turn, has increased the demand for fitness centers. Government promotion of healthy lifestyles through media campaigns and educational programs provides fitness centers with publicity and cost-free advertising.

The demand for fitness centers has increased over the past five years, as demonstrated by the increase in memberships. However, many companies in the industry have not profited due to high costs coupled with low prices.⁷ Offering low prices is crucial for companies to remain competitive, but it lowers profit potential. Bally Total Fitness, for example, has not reported a positive net income in any of the last five years.⁸ The lack of profitability and the fragmentation of the industry have led to a high rate of turnover with many companies entering and exiting the industry each year. 24 Hour Fitness Worldwide has found a niche in this highly competitive industry; the company has grown fiscally and continues to open new facilities both domestically and abroad.

Five Forces of Competition

⁶ *IBISWorld Industry Report*. Page 8

⁷ *IBISWorld Industry Report*. Page 17.

⁸ "Industry Center – Sporting Activities." *YahooFinance*. <<http://biz.yahoo.com>>.

The five forces of competition model provides a better understanding of the fitness centers industry. These five forces include: the threat of new entrants, the bargaining power of suppliers, the bargaining power of buyers, the threat of substitute products, and rivalry among competing firms.⁹ The threat of new entrants is high in the industry for three reasons: the industry is young and continually growing; there is no dominant firm; and, the barriers to entry are low. Consumer trends suggest that people chose fitness centers based on location rather than brand name, meaning switching costs are low.¹⁰ Low switching costs, a lack of government regulation, and the homogeneousness of services offered across the industry contribute to the low barriers to entry. The only current barrier to entry is the large capital investment required to open a facility. Because location is so important, rent and finding a suitable site for a fitness center can be expensive.

The bargaining power of suppliers is relatively low because the industry requires few supplies. The primary use of suppliers is to purchase or lease equipment. Companies continue to try to distinguish themselves from competitors by offering new equipment and increased technology, which drives up the cost of equipment and offers suppliers some influence. However, while companies are heavily reliant on having new, operational machinery, there are multiple suppliers to choose from.¹¹ The competition among suppliers to win contracts keeps the prices of equipment low.

The bargaining power of buyers is high in the fitness centers industry. Most companies rely on membership revenue as their primary source of income; yet, member retention remains low due to the low switching costs. Fitness centers including Bally Total Fitness and 24 Hour

⁹ Hoskisson, Robert E., Michael A. Hitt, and R. Duane Ireland. *Competing for Advantage*. Ohio: South-Western, 2004. Page 83.

¹⁰ *IBISWorld Industry Report*. Page 10.

¹¹ *IBISWorld Industry Report*. Page 4.

Fitness offer long-term memberships to try to combat the industry's low member retention. Purchasing a long-term membership to one club decreases the likelihood that a consumer will pay additional money to use another facility. The ease with which consumers can switch companies increases consumer influence over prices. Companies price memberships and daily fees low to increase the number of users and remain competitive. While low prices benefit consumers, they diminish industry returns.

The fitness centers industry faces stiff competition from substitutes outside the industry, including organized sports and outdoor recreational activities. While organized sports are expensive and require scheduled time commitments, they remain popular. Outdoor recreational activities are typically cheaper than gym memberships, especially activities like running and biking. However, these activities are heavily dependent on good weather. A benefit of fitness centers is that facilities are not as affected by the weather. A third viable substitute is in-home exercise equipment. Owning personal sets of free weights and cardiovascular equipment is popular among higher-income consumers with limited free time.¹² Exercising at home does not provide the same social interaction as a fitness center does, yet it is more convenient. In addition to having a large number of substitutes, the fitness centers industry is highly competitive. Industry fragmentation and low switching costs have increased this competitive rivalry.

Based strictly on a five forces analysis, the fitness centers industry is not extremely appealing. The industry is price-driven, meaning that because the services provided across the industry are similar, companies use low prices in an attempt to increase market share. Heavy price competition makes it difficult for companies to experience high margins. In response, companies try to differentiate services in order to outperform competitors. For example, 24 Hour Fitness has expanded internationally, Curves International offers services specifically tailored to

¹² *IBISWorld Industry Report*. Page 4.

women, and Town Sports International has focused on reaching customers in just four urban cities: New York, Washington, Boston, and Philadelphia. To survive in this price-driven, competitive industry, companies must capitalize on their competitive advantages.

Company Background: 24 Hour Fitness Worldwide, Inc.

24 Hour Fitness Worldwide, Inc. is a privately held fitness company founded in California in 1983. True to its name, many 24 Hour Fitness locations remain open 24 hours a day, seven days a week. The company, originally started by current chairman Mark Mastrov, expanded greatly following a 1994 partnership with the investment-banking firm, McCown, DeLeeuw, and Company. In 2000, the company expanded into Asia by acquiring Ray Wilson's California Fitness Centers. As of year-end 2005, 24 Hour Fitness controlled five percent of total market share. The company owns and operates over 370 fitness centers in sixteen U.S. states as well as in Asia. Under the guidance of Mastrov, 24 Hour Fitness has developed a strong company culture dedicated to making "fitness a way of life for everyone, no matter what their fitness ability."¹³ CEO Carl Liebert III, who assumed the role in 2006, has pledged to work with Mastrov to increase market share domestically while continuing expansion abroad.

24 Hour Fitness operates five different club types: Ultra Sport, Super Sport, Sport, Active, and Express. The most basic layout, Express, offers just cardiovascular equipment and free weights. The largest layout, Ultra Sport, may include everything from a basketball court and swimming pool to a tanning salon.

Because 24 Hour Fitness is privately held, extensive financial data is not publicly available. However, the company's performance can be gauged by other means. For example, 24 Hour Fitness reported \$1,077 million in revenue in 2005, which marks a 7.3% increase from

¹³ "About Us." *24 Hour Fitness Online*.

the previous year. In comparison, Bally Total Fitness experienced just a 2.2% increase in revenue.¹⁴ In 2005, Forstmann Little and Company, a private equity firm, acquired 24 Hour Fitness for \$1.6 billion.¹⁵ This change in ownership has provided Mastrov and 24 Hour Fitness with the financial security needed to continue expansion.

U.S. Fitness Centers Industry: Key Competitors

Bally Total Fitness Holding

Bally Total Fitness Holding controls five percent of the market and is the largest publicly traded company in the industry. The company owns and operates 390 fitness centers and 30 franchises in the U.S., Canada, Mexico, Korea, China, and the Caribbean. Though it is the largest company in the industry, Bally has experienced financial difficulties in recent years. An SEC investigation into misleading accounting practices has led to the restatement of company financial statements from 2001 through 2005. The investigation has also led to a change in upper management as both the CEO and CFO were fired. Bally hired The Blackstone Group and J.P. Morgan Securities, Inc. to help increase and repair shareholder relations.¹⁶ However, the company continues to struggle and in March 2007 announced that they would likely file Chapter 11 Bankruptcy.¹⁷

Town Sports International, Inc.

¹⁴ *YahooFinance*.

¹⁵ "About Us." *24 Hour Fitness Online*.

¹⁶ "Bally Programs." *Bally Total Fitness*. <<http://www.ballyfitness.com>>.

¹⁷ *YahooFinance*.

Town Sports International, Inc. owns 141 fitness centers concentrated in four major northeastern cities: New York, Washington, Boston, and Philadelphia. The company's "goal is to be the most recognized health club network in each of the four major metropolitan regions."¹⁸ It currently operates the largest number of fitness clubs in the Northeast. The key to company strategy is its focus on operating multiple clubs within a small radius. Centralizing fitness centers allows the company to target a specific customer base and provides the company with the potential to develop economies of scale. Town Sports currently controls 1.90% of the market. The company has seen an annual increase in revenue since 2000 and reported \$388.6 million in 2005 revenue. Further, the company has grown by an average of 11.8% over the past five years. A \$3.9 million net loss in 2004 has been attributed to increased expansion during the year. The company reported \$1.8 million in net income for 2005.¹⁹ Currently, Town Sports International and 24 Hour Fitness are not direct competitors because of geographic location. While Town Sports' facilities are concentrated on the east coast, 24 Hour Fitness is based in California and has expanded into sixteen western states.

Small Companies

88.1% of the fitness centers industry is controlled by small companies, many of which have less than 1% of total market share. These small companies often operate a marginal number of facilities in a centralized location. Some small companies have begun to target specific markets, such as Curves International, which provides fitness services strictly for women. While small companies dominate the industry now, these companies are more

¹⁸ "Company Overview." *Town Sports International*. <<http://mysportsclubs.com>>.

¹⁹ *IBISWorld Industry Report*. Page 20.

susceptible to industry changes. As larger companies build economies of scale, these smaller competitors may be forced to exit the industry.²⁰

Internal Analysis: 24 Hour Fitness' Strengths, Weaknesses, Opportunities, and Threats

Strengths

24 Hour Fitness' success can be attributed to four company strengths: strong leadership, a consistent corporate culture, creative marketing, and international expansion. Mark Mastrov's leadership has been integral in establishing the company culture and vision. Mastrov's dedication to providing consumers with access to the newest equipment at the lowest possible price has become a core component of 24 Hour Fitness' corporate strategy. Mastrov has established a company dedicated to meeting the fitness needs of everyone and the company's marketing campaigns reinforce this strategy. 24 Hour Fitness has teamed with five professional 'fitness figures' to market services to a wide demographic of people. The five men, Andre Agassi, Lance Armstrong, Jackie Chan, Magic Johnson, and Shaquille O'Neal, "embody what 24 Hour Fitness stands for: hard work, determination, a positive attitude and persistence while having fun along the way."²¹ Mastrov believes that consistency is the key to 24 Hour Fitness' success. To keep prices low, Mastrov has modeled the company business structure after that of companies in the fast food industry.²² The overall design of clubs, including color scheme, lighting, and basic services offered, remain the same at each location. Basic services include providing cardio equipment, free weights, towels, and shower facilities. Club layout and

²⁰ *IBISWorld Industry Report*. Page 7.

²¹ "About Us." *24 Hour Fitness Online*.

²² Hopkins, Jim. "CEO Bulk Up 24 Hour Fitness with Ideal Timing." *USA Today*. August 13, 2006. <http://www.usatoday.com/money/companies/management/2006-08-13-entre-fitness_x.htm?tab1=t3>.

equipment is kept simple, but by offering five different club types, Mastrov can tailor club services to meet the needs of specific communities.

Mastrov's vision is for 24 Hour Fitness to become the largest fitness centers operator in the industry. To accomplish this, management is continually exploring new growth opportunities. One such opportunity has been international expansion, which was made easier because of Mastrov's extensive knowledge of international markets. Currently, 24 Hour Fitness is the domestic health club operator with the highest international investment.²³ Expanding overseas will eventually allow 24 Hour Fitness to build brand recognition abroad.

Weaknesses

One weakness of 24 Hour Fitness is the lack of brand loyalty. Because of the nature of the industry, no company has established a dominant market share. Consumers are likely to choose a fitness center that is convenient, regardless of its operator. 24 Hour Fitness' five percent market share is high for the industry, but their presence in just sixteen states means that a large number of potential consumers are not being reached. The company has begun efforts to increase brand loyalty, using sponsorships like those of the U.S. Olympic Team and of the NBC reality weight-loss show "The Biggest Loser." Both of these sponsorships provide 24 Hour Fitness with nationwide publicity. The 2008 Olympics will provide both domestic and international exposure, which is opportunistic because the Olympics are being hosted by China and 24 Hour Fitness already has a presence in Asia.²⁴

²³ "About Us." *24 Hour Fitness Online*.

²⁴ "About Us." *24 Hour Fitness Online*.

Opportunities

While competitors struggle to generate profits, 24 Hour Fitness' financial stability will allow the company to grow. Domestically, 24 Hour Fitness' locations are still concentrated in western states, meaning there is an opportunity for eastward expansion. When evaluating expansion opportunities, Mastrov looks for locations where multiple centers can be opened in close proximity.²⁵ Opening multiple facilities within a small radius allows 24 Hour Fitness to reach entire neighborhoods and market segments. It additionally provides economies of scale and saturates the given market, making it less likely that competing firms will open facilities in the area. The company also has to opportunity to differentiate itself from competitors and increase brand recognition through active marketing. Because marketing is expensive, competitors without financial flexibility would be unable to compete if 24 Hour Fitness launched an extensive marketing campaign.

Threats

The fitness centers industry is fragmented, meaning the market is dominated by many small competitors. Industry fragmentation keeps barriers to entry low, so 24 Hour Fitness must compete with multiple companies. The large number of companies has increased industry competition, but it has led to low prices, which leave companies like 24 Hour Fitness susceptible to net losses. Another threat to 24 Hour Fitness is a potential decrease in disposable income.²⁶ A fitness center membership is typically purchased when consumers have income available after satisfying basic needs. Should disposable income decrease, membership numbers at 24 Hour Fitness will likely fall.

²⁵ Hopkins, Jim.

²⁶ *IBISWorld Industry Report*. Page 17.

Business-Level Strategy: 24 Hour Fitness' Competitive Advantages

Cost Leadership Strategy

24 Hour Fitness uses a cost leadership strategy. The cost leadership strategy is characterized by a drive to meet consumer demands by offering services at the lowest possible prices.²⁷ The company does not try to offer unique services, but instead focuses on satisfying basic fitness needs. Locating multiple fitness centers within a close proximity allows 24 Hour Fitness to capitalize on economies of scale and keep costs low. Offering similar services at each location also minimizes costs. Though the objective is to keep costs low, low prices mean that management must operate the facilities efficiently to experience profits.

Two Sources of Competitive Advantage: Strong Leadership and Creative Marketing

The sources of 24 Hour Fitness' competitive advantage are the company's strong leadership and creative marketing campaign. To evaluate whether 24 Hour Fitness has a sustainable competitive advantage, the following criteria have been used: is the capability valuable, rare, difficult to imitate, and nonsubstitutable.²⁸

Marc Mastrov's leadership is valuable to 24 Hour Fitness. Mastrov's extensive knowledge of the industry and innovative strategy allow 24 Hour Fitness to continue expansion. Strong leadership is rare in the industry. With the exception of Diane and Gary Heavin, founders of Curves International, few other managers in the industry provide the added innovative advantage that Mastrov does. For example, Bally Total Fitness has struggled in terms of leadership after firing its CEO and CFO in 2005.²⁹ 24 Hour Fitness' strong leadership is hard to imitate because it is difficult to separate Mastrov's strengths from company success. While it

²⁷ Hoskisson, Hitt, and Ireland. Page 145.

²⁸ Hoskisson, Hitt, and Ireland. Page 115.

²⁹ *IBISWorld Industry Report*. Page 19.

can be determined that Mastrov is key to company success, it is not possible for competitors to replicate Mastrov's visionary style of leadership. The leadership is also nonsubstitutable. The effects of Mastrov's leadership have led to the development of a consistent organizational culture as well as established high employee retention and trust among employees. This company culture and success would be hard to achieve without a strong, unifying leader.

Mastrov's leadership provides 24 Hour Fitness with a sustainable competitive advantage because it is valuable, rare, difficult to imitate, and nonsubstitutable.³⁰ However, because Mastrov has led the company since its formation, it is impossible to separate his impact on company success from the impact of other factors, such as consumer demand. 24 Hour Fitness will be seriously tested when Mastrov's reign ends. The appointment of Carl Liebert III as CEO allows Mastrov and Liebert to accomplish company goals together. The partnership resembles that of Nike cofounder and current chairman Phil Knight and new CEO Mark Parker. The key in transitioning leadership will be for future leaders to embody the company culture and vision that Mastrov has built.

24 Hour Fitness' other source of competitive advantage is its unique marketing campaign. Using professional fitness figures such as Lance Armstrong and Shaquille O'Neal has helped the company outperform competitors and gain access to new market segments. The capability, however, is not rare. 24 Hour Fitness has outperformed competitors by winning large sponsorship accounts with the 2008 Olympic Team and "The Biggest Loser." Nonetheless, competitors are also involved in sponsorship activities, meaning that the particular accounts signed are what create value. The marketing techniques are not costly to imitate. While they do require a capital investment, there are countless sponsorship opportunities. For the same reasons, the capability is substitutable because successful marketing can take a variety of forms. Based

³⁰ Hoskisson, Hitt, and Ireland. Page 115

on this analysis, 24 Hour Fitness' marketing campaign is a competitive parity and can only be expected to produce average returns. The company should continue to invest in marketing, but should also look for opportunities to invest in capabilities that will produce a sustainable competitive advantage.³¹

Recommendations: Add a Female Spokesperson and Expand into Airport Terminals

I have formulated two recommendations for Mark Mastrov and 24 Hour Fitness. The first recommendation is simple: add a female fitness figure to the current list of five males. The second recommendation is more complex. Due to 24 Hour Fitness' financial stability and desire to differentiate services, the company should pursue opening fitness facilities in a select number of airport terminals.

Adding a Female Spokesperson

The first recommendation is for 24 Hour Fitness to explore adding a woman to their list of celebrity partners. Currently, the company has contracts with five male fitness figures. The addition of a woman would appeal to female consumers, especially young women. One viable candidate would be former soccer player Mia Hamm. Hamm is a recognizable sports figure and her soccer background would compliment the current professionals, whose sports include tennis, cycling, martial arts, and basketball. Further, her active lifestyle and positive attitude align well with 24 Hour Fitness' company culture. Adding another celebrity would require an additional contract and therefore increase marketing costs. However, the current lack of a female presence is a concern that must be addressed to avoid alienating potential consumers, especially when competitors are targeting women. For example, Curves International markets services directly to

³¹ Hoskisson, Hitt, and Ireland. Page 117.

women and 24 Hour Fitness does not want to lose female market share to Curves or other competitors.

Airport Terminal Expansion

Based on an analysis of the business-level strategy of 24 Hour Fitness, the company should pursue opportunities to open fitness facilities in airports. Making fitness centers available to travelers is not a new concept. Many hotels and local fitness clubs offer daily memberships to travelers and some even offer shuttle services to and from the airport. However, the majority of these facilities are only accessible via car, taxi, or shuttle.³² A downside to these institutions is that they require travelers to leave airport premises and exit the security checkpoint. Increased precautions since the September 11 terrorist attacks have resulted in longer security lines. Operating fitness centers within airport terminals will allow consumers the benefit of exercising while remaining on-site and near departure gates. It also reduces waiting time as consumers do not have to leave the airport or re-enter security.

The first airport fitness center opened in 1998 at the Pittsburgh International Airport.³³ Though other fitness companies and hotels have entered the market, growth has been slow. This can be attributed to the volatility of the fitness centers industry. Companies in the industry have struggled to be profitable which means that they have not had the capital required to invest in new projects. Thus, a company entering the airport fitness centers industry would face minimal competition.

³² Vander Broek, Anna. "Airport Fitness Takes Flight." *Forbes Magazine*. March 6, 2007.
<<http://www.msnbc.msn.com/id/17487581/from/ET/>>.

³³ Vander Broek, Anna.

Airport expansion is also appealing because of the increase in flights delays. In 2006, flights were delayed for 22.1 million minutes, setting a record high.³⁴ Further, 22% of all domestic flights were delayed in 2006, marking a 56% increase since 2003.³⁵ The Federal Aviation Administration attributes the increase in delays to bad weather and more travelers. The increased volume of travelers has stressed airport management systems, leading to system holdups and shortages.³⁶ Delays caused by insufficient airport management systems will decrease as technology increases. However, bad weather cannot be controlled, meaning the demand for airport fitness centers will not disappear, even with improved management systems.

Airport Terminal Expansion: Why 24 Hour Fitness

24 Hour Fitness should invest in airport fitness facilities for three reasons. First, 24 Hour Fitness already operates the only independently-owned airport fitness center in the nation. The fitness center, located in Terminal C of the McCarran International Airport in Las Vegas, is a 14,000 square foot facility that includes cardio equipment, weight machines, free weights, a sauna, massage therapy, and locker rooms with showers.³⁷ Second, the 2005 acquisition of 24 Hour Fitness by Forstmann Little has provided the fitness company with the financial stability needed to fund the investment. Third, the expansion would be consistent with company culture. Opening airport facilities will allow 24 Hour Fitness to provide fitness services to new market segments while pursuing the company goal of reaching people of all fitness levels.

The target markets for airport fitness centers are travelers and airport employees. For 24 Hour Fitness, targeting travelers, especially business customers, aligns with the company culture.

³⁴ Levin, Alan. "Airline Delays Set Record in 2006." *USA Today*. January 26, 2007. Section 1A.

³⁵ Vander Broek, Anna.

³⁶ Levin, Alan.

³⁷ Vander Broek, Anna.

The company currently teams with large corporations and offers price discounts to encourage corporate employees to join fitness clubs. Among the members of this Corporate Wellness Program are Alaska Airlines and Southwest Airlines.³⁸ Besides passengers, airport employees are the other target market. For example, The Los Angeles International Airport employs over 59,000 people.³⁹ Airport employees, pilots, and flight attendants represent a large market that can be enticed by the convenience of gym locations. Offering price breaks and exploring corporate sponsorship options with airport management can also increase membership.

Airport Terminal Expansion: Benefits and Risks

The key benefit of opening airport fitness centers is that it allows 24 Hour Fitness to differentiate itself from competitors. Airport passengers represent a diverse population, meaning 24 Hour Fitness would be able to use airport facilities to increase brand recognition in cities and countries not currently targeted. Investing in airport fitness facilities requires a large capital investment without a guarantee of large returns. Initial capital investments include rent, refurbishing the space to meet company needs, and obtaining equipment. Because the proposed fitness centers will be inside security check-points and marketed to passengers and airport employees, providing parking for users is one cost that can be avoided. Short lease terms provide some risk management. At the Los Angeles International Airport, leases exceeding five years must be approved by the city council.⁴⁰ Short leases do not eliminate the initial capital investment required, but they do provide an exit strategy because the facilities are leased opposed to company-owned.

³⁸ "About Us." *24 Hour Fitness Online*.

³⁹ "News and Airport Facts." *Los Angeles World Airports: LAX*. <<http://www.lawa.org>>.

⁴⁰ "News and Airport Facts." *Los Angeles World Airports: LAX*.

Proposed Airports

I have identified three potential airports based on location, volume of passengers, and likelihood of having flights delayed. The airports are: Los Angeles International Airport, Denver International Airport, and Phoenix Sky Harbor International Airport. The following are general facts about the three airports:

Los Angeles International Airport⁴¹

- Third busiest airport in the US based on number of passengers
- Second busiest international airport in the US
- Nine terminals, connected by shuttle bus
- 42.66 million domestic passengers served in 2006
- Main airlines: United, American, Southwest
- Average flight delay in 2006: 8.79 min (departure), 10.39 min (arrival)
- 1% of flights cancelled in 2006

Denver International Airport⁴²

- Fourth busiest airport in the US
- Three concourses and a main terminal, concourses accessible by underground train or by walkway
- 43.67 million domestic passengers served in 2006
- Main airlines: United, Frontier
- Average flight delay in 2006: 10.56 min (departure), 9.94 min (arrival)
- 2% of flights cancelled in 2006

Phoenix Sky Harbor International Airport⁴³

- Seventh busiest airport in the US
- Three terminals
- 39.4 million domestic passengers served in 2006

⁴¹ “Airport Fact Sheet: Los Angeles International Airport.” *Bureau of Transportation*. Updated April 2007. < <http://www.transtats.bts.gov/airports.asp>>.

⁴² “Airport Fact Sheet: Denver International Airport.” *Bureau of Transportation*. Updated April 2007. < <http://www.transtats.bts.gov/airports.asp>>.

⁴³ “Airport Fact Sheet: Phoenix Sky Harbor International Airport.” *Bureau of Transportation*. Updated April 2007. < <http://www.transtats.bts.gov/airports.asp>>.

- Main airlines: American, Southwest
- Average flight delay in 2006: 9.18 min (departure), 8.57 min (arrival)
- 1% of flights cancelled in 2006

The three airports recommended share common features. All serve a large volume of passengers, are international airports, and are common layover locations for connecting flights. All three are also located in cities where 24 Hour Fitness has an established brand name. There are many east coast airports with high passenger volume that would also be appealing locations, such as New York, Chicago, or Atlanta. However, 24 Hour Fitness does not operate fitness centers in these areas. To open an airport fitness center in a city without any potential for economies of scale or established brand name would be very expensive and have an increased risk of failure.

Airport Terminal Expansion: Key Considerations and Costs

When serving passengers, 24 Hour Fitness must provide certain amenities not required at a typical fitness club. Passenger needs that must be met include: rental workout attire, luggage storage, and updated flight information. Many travelers may not have fitness clothes with them. To meet this need, the 24 Hour Fitness at the McCarran International Airport provides rental workout attire to customers.⁴⁴ In making workout apparel available for rent, the company can avoid losing potential customers. Another concern is storing baggage. Security requires passengers to maintain possession of their personal baggage at all times while in the airport. However, 24 Hour Fitness could provide lockers for passengers to use while working out. To ensure that passengers receive constant flight updates, 24 Hour Fitness could either use a public announcement system or install televisions that display flight arrivals and departures. Similar

⁴⁴ Vander Broek, Anna.

television displays are located throughout airport terminals. Basic amenities, such as towels, shower supplies, and hairdryers should also be available to increase customer satisfaction.

To keep costs low, the proposed airport fitness centers should provide simplified services while remaining true to company culture. For example, costs can be minimized by providing equipment for individual workouts without offering group classes. As the fitness center establishes itself and gains popularity, additional services can be introduced. To begin, management should model the new fitness centers after its Active clubs. These clubs typically provide cardio equipment, weight machines, and free weights. All services should be tailored to meet the needs of both passengers and airport employees. For example, massage therapy could be offered because it meets the relaxation needs of stressed passengers.

24 Hour Fitness currently offers two membership plans: “keep fit one-club” and “keep fit all-club”. “All-club” members have access to any of the 24 Hour Fitness facilities nationwide, while “one-club” members choose just one location. Slight variations of the two membership types are also available. For example, members may upgrade these memberships to include personal training sessions at an additional cost.⁴⁵ The company encourages people who travel regularly to purchase “all-club” memberships. These memberships should be recognized at the airport facilities. For all others, the airport facilities should offer reasonable one-day passes. The McCarran International Airport facility charges \$10 for a daily pass and other airport fitness centers typically charge between \$10 and \$15 per day.⁴⁶ To keep company pricing consistent, the daily price at new airport facilities should match the price offered at the McCarran Airport.

Advertising for airport fitness centers will be especially important in early years to raise consumer awareness. Consumers not only need to be made aware of the fitness centers, but they

⁴⁵ “About Us.” *24 Hour Fitness Online*.

⁴⁶ Vander Broek, Anna.

also must know how to find the facilities once inside the terminal. Because the target markets are passengers and employees already inside the airport, marketing does not need to include advertising off airport premises. Billboards inside airports and on shuttles to and from parking lots can provide a source of advertising. Ads could be placed inside the complimentary magazines provided on airplanes and also on websites used to book air travel.

Conclusion

Expansion into airport facilities provides 24 Hour Fitness with a unique opportunity. The company can differentiate itself from competitors and increase brand recognition while facing minimal competition. A representative of the McCarran Airport facility, Mary Seltzer, successfully explains the mentality behind airport expansion in a 2006 interview: “Traveling can be stressful—and since exercise can help relieve stress, it’s the perfect fit.”⁴⁷

⁴⁷ Vander Broek, Anna.

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