

# Fitness Industry Insights: Working Out Solutions Amidst Uncertainty

## CONTRIBUTOR

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With the spread of COVID-19, social distancing and orders to “shelter in place,” health clubs everywhere are grappling with sudden and significant business challenges – as well as profound uncertainty on what lies ahead. So, what does this mean for your business? While every situation is unique, there is much to consider to help keep revenue flowing and set up both the short- and long-term viability of your club.

Common themes include decisions regarding employees, member retention, communication and club strategies. Below are a few considerations during these unprecedented times:

### MAINTAIN TWO-WAY COMMUNICATIONS AND GET CREATIVE FOR YOUR MEMBERS

In uncertain times, strong communication is paramount. At the same time, members value the resources your club is equipped to provide. Increase communication with your members and use creative strategies to keep them engaged and reduce the risk of cancelled memberships. Whether it’s by offering online classes, innovative group fitness challenges, one-on-one virtual sessions or new incentives, the goal is to help your members continue to see the value of belonging to your club community.

Frequent communication with your employees is also key: engage them in designing solutions that keep members moving while they’re in their homes – and be sure to ask for feedback. By providing continued guidance and encouragement to your club community, your members will stay focused on their routines – as well as maintaining their membership with your club.

### MAKE TECHNOLOGY WORK FOR YOU

Internet searches have spiked for at-home workout content. This is your club’s opportunity to cater to your members’ changing needs while reinforcing continuity with your brand.

Remote conferencing platforms such as Zoom Video Communications are easy for everyone to use and simple to set up. Your team of instructors can provide group classes or individual training sessions. Group classes will allow your members to strive, sweat and build strength together.

Alternatively, partnering with a fitness streaming agency can enable club operators to implement new programs for members in a timely manner, ensuring continued connection to members during a shutdown.

### STRENGTHEN YOUR COMMUNITY

Many of your members have started working from home, which can be isolating. They yearn for social contact – offer options that build engagement and connection within your membership base and create opportunities for “virtual” high-fives.

Leverage your club’s community and encourage members to post pictures and videos of their routines on your social media pages. This will remind them that they’re part of an awesome community and that you are in this together.

## RE-ASSESS YOUR FINANCIAL AND OPERATIONAL MANAGEMENT

Financial and operational management is critical – and action taken now will help position your business for continued growth when the current situation is behind us.

**Develop a short-term shut-down plan:** Not all clubs are well-positioned to weather the impacts of business disruption and revenue declines. Understand your situation, develop contingency plans and be decisive in addressing the challenges your club will face over the coming weeks and months.

**Liquidity management:** Adopt a plan focused on cash flows. Assess liquidity needs through at least the next three to four months, carefully manage fixed costs and capital expenditure needs, working with landlords where necessary.

**Employees:** Consider options for managing your employee cost base, such as granting reduced hours or employee furloughs. Each option presents differing pros and cons, including balancing a reduction in payroll with challenges of re-hiring and/or negative publicity. If your clubs are unable to pay staff during the shutdown, allow them to file for unemployment as soon as possible. Communication during this period will be critical, as your clubs need the full support of your staff and any displaced employees, to recover from this period of turbulence as fully and as quickly as possible.

**Rent obligations:** Significant value can be unlocked through the strategic evaluation of leased real estate. Communicate with landlords, discuss suspending rent and consider applicable lease provisions regarding amount and timing of rent obligations and any provisions permitting deferral or termination.

**Financing:** Liquidity considerations could also include optimizing the use of credit, revisiting funding terms and/or securing short-term funding. Banks that understand your needs and risks in greater detail may be willing to commit more credit, orchestrate financing, and propose solutions to meet financing needs. Maintain strong partnerships with your lenders, communicate frequently and notify them of any coming timing considerations. Keep in mind that it takes time to execute on credit agreement amendments, equity infusions and negotiating payment terms with the third parties you depend on.

Every situation should be dealt with on a case-by-case basis and consider the future of your business. Think about how today's decisions will affect your longer-term future and ability to grow.

## WE'RE IN THIS TOGETHER

It's not business as usual. The COVID-19 situation is changing rapidly, and as it does, your plans may too. When the pandemic abates, and shutdowns are lifted, some of your members may be reluctant to return. Use this opportunity to build on your regular communications and encouragement. Re-highlight the benefits of being a member and provide assurance in how you are prioritizing health and safety on their return to the club.

## CAPITAL STRUCTURE IMPLICATIONS

Lincoln's Capital Advisory Group is available to assist you, and address any and all capital markets implications from the ongoing disruption to your business. We understand what debt investors are focused on and the implications to a company's capital structures. In particular, we have experience assisting leveraged companies with short dated maturities or near-term liquidity needs where the impact of the capital market dislocation is most acute. We can assist as you navigate these challenging times from a capital markets perspective, allowing you to focus on being well-positioned for our eventual return to a more normalized, growth-oriented environment.

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