

AMERICAN UNIVERSITY OF BEIRUT
SCHOOL OF BUSINESS

CYCLUB

Business Plan

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Executive Summary

Cyclub is a health club that offers its customers various centers (fitness, diet, beauty, and child care center) and various services to satisfy their needs and wants. Cyclub is a privately held company that is owned by Mira El Moatassem, Darine El Kurdi, Twiggy Shemeissany and Tarek Taljeh.

Cyclub is located in downtown in the area near to Casper& Gambini's café. It is about 1800 m2, with a space specially allocated for parking lots. Cyclub contains many centers. There is the fitness center, which is equipped with the latest machinery and equipment which are maintained on a monthly basis. We also have the beauty center where Cyclub is equipped with the best staff and equipment. Cyclub also provides its customers with a childcare center to take care of the children while their parents are practicing in the club. Moreover, Cyclub offers dietitian services a restaurant.

The project will start in September 2002, where it is expected to break even in the second year and achieve a return on equity of 15%. Before opening, we have advertisement costs which mounting up to about \$25,000 and we will mainly advertise in special magazines that are targeted to the upper class. We will finance the project through our main capital of \$700,000, plus a loan of \$124,000 from the bank, which we will repay in 4 years. After our first year of operation, in which we will loss around \$844,000, we will renew our capital with \$800,000, totaling to \$1,500,000 in capital. During the next 3 years, we would have achieved 18.2% ROE, achieving 25% on the third year and onwards. Our equipment of \$300,000 will be depreciated in 5 years period using the straight-line depreciation. As for our pre-operating expenses, these will cost us \$392,000, amortized on a 4-years period.

The competition in Lebanon is really strong in this field, but we believe that we have the competitive advantage of being the first to open in downtown and of offering exclusive services to our customers unlike all other competitors.

In conclusion, we believe that this project is an excellent project that could generate great revenues since Cyclub provides the consumer with all his needs. In addition to all that the experience that the consumer receives at Cyclub is a memorable one which cannot be forgotten.

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Objectives

Cyclub will be a Beirut downtown health club.

Its main objectives are:

1. Providing our customers with a relaxing and entertaining atmosphere that will differentiate us from other health clubs in Lebanon.
2. Creating a unique, innovative environment to attract a wider customer base.
3. Trying to hold on to customers and attract new ones by constantly providing attractive pricing offers.
4. Providing our customers with the latest technology and state of the art equipment.
5. Breaking even within the next three years and achieving an overall return on our capital of 15%.

Mission

By offering the Lebanese market with the latest sports equipment, health related activities and by launching various activities through its three centers (Fitness, Beauty and Child Care), Cyclub aims to become a meeting point for the Lebanese individual who wishes to exercise in a friendly, sociable environment.

Keys to Success

The keys to success in achieving our goals are:

- Positioning ourselves in the market as a high quality operator.
- Taking care of our customers so they can take care of us.
- Managing our finances in order to enable capital growth.

Business Description

Cyclub is the first health club in Lebanon where people can socialize, perform their favorite sports, eat their desired food and relax in a fun and entertaining atmosphere. Our main aim is to provide excellent services for the needs of each segment of our customer. This business will cost us at start-up \$795,000, and a monthly expense of around \$43,767. All this is accomplished by:

- Providing value for money services.
- Conducting professional and periodic staff training.

Cyclub will be operating 24 hours a day, 7 days a week. Customers subscribe to monthly or yearly memberships in order to use our three main services offered; fitness, beauty care and child care. It can handle a capacity of 350 members per month. We expect to earn a profit of \$375,000 (25% of our capital) in our third year of operation.

The Product

Cyclub is located in downtown Beirut, covering a rented area of 1,800 square meters of land, including a three-floor building and a planted external area. It offers various services under the title of health club. These include, in addition to the Fitness center, a beauty center and a Child Care center. Also, there would be a fast food restaurant.

1- Fitness Center

The exercise classes are the most popular activities at Cyclub. Led by professionally trained instructors, the group exercise classes enable customers to enhance their cardiovascular conditioning, strength and flexibility. A variety of services is offered in this center. These include the latest cardiovascular resistance equipment, exercising

equipment (treadmills, bicycles, weights...), Aerobics and spinning classes (high/low impact, step, kick boxing, stretching), multipurpose dance, personal training, post and pre-natal training exercises, swimming and aqua-aerobics. A basketball area, billiard room, Ping-Pong area, squash and tennis court will also be part of this center.

2- Beauty Center

Here, massage therapy, water-jet massage, massage beds, oxygen rooms, sauna, jacuzzis, steam rooms, solaria, stress management, hypnotherapy, psychotherapy and other relaxation techniques will be available. In addition to facial treatment, body and skin care treatment, peeling and attenuation of wrinkles, age spots, freckles, scars, tattoo (lip, eyes, eye brows...), hair removal (laser or ordinary), nail treatment (manicure and pedicure), cellulite treatment (ionized and sympathoform techniques), make-up and hair dresser. All these will be carried out by trained professionals. Also, treatment and make-up products will be sold to customers for home-usage.

3- Child-Care Center

Since our target reaches the entire family, this would be an essential center in Cyclub. The crèche (from age 3 months to 5 years) is staffed by qualified nursery babysitters and is open 7 days a week for members' children. There are enormous variety of classes, activities, events and courses for children of all ages which satisfy their sporting, educational and entertainment needs.

Ownership Status

Cyclub is a privately held Limited Liability Company run by Tarek Taljeh. The rest of the partners are Darine El Kurdi – executive manager, Mira El Moatassem – executive manager, and Twiggy Shmeissany – financial manager.

People

Management will consist of the General Manager, 2 Executive Managers, and a secretary. The financial department will have a Financial Manager and 2 accountants. There will be a Sales and Marketing Manager with a staff of 5, and a Human Resource Manager with a secretary. As for the three centers, there would be a department manager on each center, with a support staff of 4.

The Fitness Center will have 4 exercising trainers, in addition to 3 specialized trainers for the extra activity sessions. The Beauty Center will have 6 beauticians (body and face treatment, make-up, and hairdresser). The Child Care Center will have 3 babysitters. Three technician will provide technical maintenance and cleanliness will be maintained by 10 janitors.

With respect to the fast food restaurant, it will be operated and managed by an external entity, specialized in catering.

The Market and Competition

According to market research that we performed on a sample of 100 people, it was noticed that of the 54% who have joined a health club only 2% considered the services offered as excellent. People referred the causes of dissatisfaction to the fact that there are

always facilities they wished to have in the health club according to their varying needs. A child day-care center and a beauty center were mostly desired, in addition to the fitness center.

Forty six percent of the sample did not join a health center because of time constraints, financial problems or just because they were never motivated to join a health club. We also noticed that 22% never considered the option of going to a fitness center. Based on these statistics we found out that what people really needed in a 7-day, 24-hour health club that can also meet their individual needs each alone.

The marketing department at Cyclub would study the demographics and needs of our consumers by asking different age groups from fifteen years and above.

What was inferred is the drastic shift in consumers' trends and lifestyles. According to the sample, most people did not have enough time to subscribe in a health club although they think it is essential to have such an activity. Therefore, The Cyclub's management thought of implementing a 24-hour, 7-day strategy.

In order to match consumer needs and wants efficiently and more selectively, Cyclub divides its consumers into different segments and targets a variety of subgroups. Our dominant segment is that of above average social standard people. After our market study, and in comparison to other similar Health clubs, which will be mentioned later, we have reached these numbers for our pricing:

Prices

- \$180 as a monthly subscription fee, expected 35% of customers/year.
- \$450 for a three-month subscription fee, expected 25% of customers/year.
- \$900 for a six-month subscription fee, expected 20% of customers/year.
- \$1,900 for a year-subscription fee, expected 15% of customers/year.

- Guest prices are \$25 per person, expected 5% of customers/year.
- Subscription fees include all individual activities in the Fitness center, in addition to standard training activity sessions of different types (Aerobics, dancing..)
- All extra training activities (dance, Tae Kwando..) cost \$15 per session.
- Prices related to the body and face treatments average to \$75 per treatment session.
- Manicure/pedicure average \$20 per session.
- Hairdressing starts with a minimum price of \$30 per do.
- The Child Care Center is free of charge for members whose subscription has been valid for three consecutive months.

For 350 members per month, we expect the average customer to spend \$150 per week at Cyclub. This will generate an average of \$210,000 per month or \$2,520,000 per year.

Cyclub's competition lies mainly with other similar health clubs. Our advantage is that we are located downtown, next to many business outlets.

Our review of the market concludes that there are four health clubs that can be considered in direct competition to the proposed new venue in the Beirut area.

Lifestyles:

Capacity: 200/month

- This health club appeals to all people from a certain social background.
- It offers approximately the same services Cyclub is offering.

Panacea

Capacity: 170/month

Inn Shape

Capacity: 110/month

Nautilus

Minimum subscription of 3 months.

No swimming pool.

Capacity: 95/month

Restaurants and Beauty Centers

A major competitive force from other companies and places that offer substitute services to ours are the very large number of restaurants who will be in direct competition with our Food Center. Our Beauty Center will face competition from other beauty salons and places.

Expected Business Turn-Over and Assumptions*Equipment:*

All fitness, exercise and beauty equipment will be purchased from one supplier and paid for on credit, by monthly installments for 4 years. Childcare equipment will also be purchased on credit, for 4 years. All equipment will add up to \$300,000. It will be purchased 1 month prior operating. A down payment of \$80,000 will be paid. Around \$55,000/year will be paid to the supplier.

- The equipment will be depreciated in a straight-line method over a period of 5 years, \$60,000/year.
- Furniture and offices will cost us \$30,000, which will be depreciated over 6 years, or \$5,000/year.

Labor:

All labor and staff will be paid on a monthly basis. Sales reps will be paid a 5% commission on all clients they bring. Body estheticians will be paid a 20% commission on sale of creams and home-used treatments.

- These expenses will amount to \$35,000/month.

Inventory:

Four different brands of beauty creams and treatments will be used and sold. An inventory of \$15,000 will be purchased on start up, including manicure/pedicure tools, treatment tools and towels and hygiene tools. Payment will be made upon purchase. Once the Beauty center starts operating, inventory will be purchased according to the turnover rate of the products. It will account to an average of \$1500 per brand per month. All purchases will be paid for in cash.

With respect to make-up and make-up tools, 2 brands will be used and sold. Start up inventory will account for \$8000. An average of \$900 per brand per month will be purchased, in accordance to the selling rate of the products.

Miscellaneous:

Since most of the machines used operate on electricity, utility (including electricity, telephone and water) expenses will add up to an average of \$2,000 per month.

Total:

- Monetary monthly expenses will amount to \$43,767, excluding the pre-paid rent.
- Thirty percent of income will be generated from membership subscriptions. Forty percent of income will come from treatments and product selling, body and facial care, make-up and hairdressing at the Beauty center. About 7% will come from the extra training activity sessions. The remaining 13% will be generated from the

fast food restaurant, which will be operated and managed by an external catering specialist. Cyclub will gain a percentage income from this operation.

- In the first year of operation, we expect to have 100 members, generating a minimum of \$18,000 in subscription and around \$60,000 monthly in other services, adding up to a total of \$78,000/month or \$936,000/year.
- By the second year, we expect to have 350 members. This will generate \$210,000/month or \$2,520,000 per year.
- To cover up our first-year losses we will renew our capital with \$800,000.
- The club expects to breakeven within the first 3 years of operation, achieving an overall ROE of 15%. From the third year on, we expect to achieve a yearly 25% ROE.

Time Action Plan

The set-up phase will begin 3 months before the start-up date.

Since we will be renting the premises, there will be no construction. The building is located in downtown Beirut, where rent costs \$600/meter squared. This means \$1,080,000 per year. Although \$540,000 will be paid as a 6 months pre-paid rent, \$270,000 (for 3 months) will be considered as a pre-operating expense.

Advertisement cost will amount to \$25,000.

Other pre-operating costs will include labor, transportation and utility costs. These would amount to \$6000. Screening and training of personnel, as well as managerial preparations will cost \$90,000 for 3 months (\$30,000/month).

Since we will be borrowing \$124,000 from the bank prior to operations, an interest of 10% will be paid for the first month of usage, i.e. \$1000. This long-term bank loan will

be used to cover our start-up costs and excess monthly costs. By the end of the first year of operations we will add new capital of \$800,000 in order to cover our losses.

These pre-operating costs will add up to a total of \$392,000.

We, as partners, will be putting in as equity \$700,000, which will be used to pay at set-up the rent, advertisement, transportation and labor, utilities, personnel, start-up inventory and down payment for equipment.

Start-up costs:

Pre-paid rent (6 months)	6 x 90,000	\$540,000
Decoration		\$30,000
Advertisement		\$25,000
Transportation and labor		\$3,500
Utilities		\$2,500
Personnel		\$90,000
Treatment inventory		\$15,000
Make-up inventory		\$8,000
Interest		\$1,000
Down payment for equipment		\$80,000
		<hr/>
Total start-up capital needed		\$795,000

<u>June</u>		<u>July</u>		<u>August</u>	
Rent	540,000	Utilities	833	Advertisement	12,500
Utilities	833	Personnel	30,000	Decoration	30,000
Personnel	30,000	Advertisement	12,500	Utilities	833
				Personnel	30,000
				Inventory	23,000
				Equipment	80,000
				Interest	1,000
				Transportation	3,500
				& Labor	
Total	\$570,833		\$43,333		\$180,833

Start-Up Balance Sheet

Assets			
Cash			29,000
A/R			0
Inventory	15,000		
	8,000		
			23,000
Current Assets			52,000
Machinery			300,000
Furniture & Offices			30,000
Fixed Assets			330,000
Prepaid Rent			270,000
Pre-Operating expenses			392,000
Total Assets			1,044,000
Liabilities			
Equipment supplier short term			55,000
A/P			0
Notes Payable			31,000
Current Liabilities			86,000
Long Term Supplier			165,000
Long Term Bank			93,000
Total Liabilities			344,000
Capital			700,000
Retained Earnings			0
Total Capital			700,000
Total Liab. & Equity			1,044,000

Balance Sheet

	Year 1	Year 2	Year 3
Assets			
Cash	61,400	881,200	590,400
A/R	0	0	0
Inventory 15,000			
8,000			
	23,000	23,000	23,000
Current Assets	84,400	904,200	613,400
Machinery (with depreciation)	240,000	180,000	120,000
Furniture & Offices (with depreciation)	25,000	20,000	15,000
Fixed Assets	265,000	200,000	135,000
Prepaid Rent	270,000	270,000	270,000
Pre-Operating expenses (with amortization)	294,000	196,000	98,000
Total Assets	913,400	1,570,200	1,116,400
Liabilities			
Equipment supplier short term	55,000	55,000	55,000
A/P	0	0	0
Notes Payable	31,000	31,000	31,000
Current Liabilities	86,000	86,000	86,000
Long Term Supplier	110,000	55,000	0
Long Term Bank	62,000	31,000	0
Total Liabilities	258,000	172,000	86,000
Capital	700,000	1,500,000	1,500,000
Loss	(844,600)	(844,600)	(844,600)
New Capital	800,000	742,800	375,000
Total Capital	655,400	1,398,200	1,030,400
Total Liab. & Equity	913,400	1,570,200	1,116,400

Income Statement

	Year 1	Year 2	Year 3
Gross Revenue	936,000	2,520,000	2,520,000
Expenses:			
Salaries 12 x 35,000	420,000	420,000	420,000
Inventory 12 x 2,400	28,800	28,800	28,800
Utilities 12 x 2,000	24,000	24,000	24,000
Advertisement 12 x 4,170	50,000	50,000	50,000
Maintenance 12 x 200	2,400	2,400	2,400
Rent 12 x 90,000	1,080,000	1,080,000	1,080,000
Depreciation Equipment	60,000	60,000	60,000
Depreciation Furniture	5,000	5,000	5,000
Amortization Pre-Op.	98,000	98,000	98,000
Interest Long term Bank	12,400	9,000	6,000
Dividends	0	0	370,800
Total	1,780,600	1,777,200	2,145,000
Profit / (Loss)	(844,600)	742,800	375,000

Overall ROE: 18.2%