HOW TO BUY A GYM

TWOBRAINBUSINESS.COM

HOW TO BUY A GYM

In my position as mentor to hundreds of gym owners, I've been through the purchase or sale of a gym dozens of times.

A few years ago, I traveled to Boston to visit a Two-Brain gym.

The owners were only a few years in, but they were hugely successful. And they saw an opportunity to purchase one of the other gyms nearby. I was called to balance the negotiation and provide industry perspective. I wanted to be part of the deal, because I saw a shift in the industry: Well-run gyms are absorbing poorly run gyms. And I think this is a good thing. It means that the best clients go to the best gyms. It means that coaches have better opportunities to make careers. And it means that many gym owners who started a business to buy themselves a job can get a job as a coach at a bigger box.

I was so excited to help that I registered two domain names—gymbroker.org and gymtransitions.com—and started talking about buyers' groups to our mentoring team.

But after a single day of negotiations with gym owners, I said, "I'm never doing this again."

Every gym owner we met thought their gym was valuable. They were emotionally invested, spending 14 hours every day coaching most of the classes themselves. They knew their clients inside and out. They were all in.

But they were all selling, because they were ground down by "the business side."

That should have been my first red flag: There is no "side" in a business. It's all the business side.

To them, their business was worth hundreds of thousands. They'd collected that much in revenue over the years, though most hadn't paid themselves much. They had loyal clients who were dedicated to the coach, but their rates were too low to cover costs. They had volunteer coaches without any real tie to the business and equipment that had depreciated to zero. Most were still in unbreakable leases. And after a few years in business, they were broke. But they had high hopes for a buyout: After all, their "sweat equity" must have been worth something, right?

Nope.

When each saw the real value of their gym on paper, they were upset. One sobbed.

Some thought their business was worth $300,000 because they'd sold $300,000 worth of memberships over three years. But to a buyer, the gym was almost worthless.

HOW TO BUY A GYM

My friends made a generous offer to one owner—approximately double what the business was actually worth, with a sliding payout based on client retention. It was still a third of what the owner wanted, but he took it because he needed to get out fast. And no one else would give him a dollar for his failing business.

I thought, "I'm not doing this anymore." I couldn't stand to see good people get their hearts broken when they realized—too late—that they hadn't built a real business with value.

Gyms are bought and sold every day. Sometimes the buyer is making an emotional purchase, and they wind up buying the owner's mistakes. Sometimes the seller paints a rosy picture that isn't true. Neither of these things is necessary. If you follow the steps in this book, you'll buy OR sell a business for its fair value.

Or you might decide NOT to buy. Or NOT to sell, but to fix your business instead.

After all, if a gym is making money and doesn't require much time from the owner, there's no reason to sell it in the first place.

Keep that in mind. Also this:

It's not your baby.

They're not your friends.

When you're buying—or selling—a gym, repeat these mantras over and over.

As entrepreneurs, we invest almost everything into our businesses. We drain our fiscal and emotional bank accounts to start. We stress our bodies, minds and relationships to the breaking point to make it work. We know we're building something valuable for our clients.

But when it comes down to a transaction, there's simply no room for emotional attachment.

A gym's value, at purchase or sale, is determined by its profitability. There's no line on a balance sheet for how hard you hustled, how badly you "wanted it" or how cautiously you pursued excellence.

Sorry.

The best way to sell a business is to look at it with a dispassionate eye and determine its REAL value. And the most valuable gym to buy is one that has little attachment to its owner.

In this short e-book, I'll give you tips and tools for buying a gym.

HOW TO BUY A GYM

I'll answer these questions and provide these tools:

- What's the gym worth? I'll give you a calculator that will make the math easy.
- What are you really buying?
- What liabilities will you be assuming? Is the business actually worth LESS than nothing?
- What's the value of goodwill?
- What's the value of starting from scratch?
- Why you need a noncompete with the seller.
- What if you're buying out a partner? How to leverage what they really want, buy it for less money and make everyone happier.

You can also listen to Jason Ackerman's story on our podcast here.

Keep reading for my quick calculation strategy AND to download RigQuipment's custom valuation tool.

BUYING A GYM

BUYING A GYM

Entrepreneurship is tough. While modern rock-star entrepreneurs like Gary Vaynerchuk and Elon Musk have made entrepreneurship cool, most business owners are really buying themselves a job.

In the fitness industry this is especially true, and it's the reason most gyms have very little transferable value. Clients build relationships with the owner or coaches instead of to the brand, retention is usually poor—making it hard to predict future revenues—and without guidance, most gyms struggle to pay their owners a dime.

Nevertheless, a gym is an amazing business opportunity.

First, your service will directly change the lives of hundreds of people. Second, you have more flexibility in operations than almost any other business (nobody gets to tell their clients how to stir the paint differently). Third, the barrier to entry to gym ownership is tiny: For $20,000 in equipment and $5,000 in mentorship, you can have a brand-new business, even if you've never had one before. And if you're a CrossFit affiliate, you can leverage the most popular brand in the world for $3,000 per year—peanuts!—and use it any way you want! You'll have your brand on television around the world and in shoe stores around the corner.

Buying an existing gym can give you a great head start into entrepreneurship. But beware: Most gyms aren't money machines. Most gyms require a lot of time to operate. Most gyms aren't currently very profitable (Jeff Cain, former CEO of CrossFit), said that a CrossFit gym "isn't an investment-grade asset"). And if you're buying an existing gym, you're buying the owner's mistakes.

Entrepreneurs don't own gyms for logical reasons. They own gyms for emotional reasons.

People start gyms out of passion. People sell gyms out of frustration.

There are some great opportunities out there. But it's also pretty cheap to start a gym from scratch. And many gym owners share a fantasy of starting over from a blank slate, because their early mistakes are causing profitability problems. Maybe an outsider can overcome those mistakes, but change will be painful for any new owner, especially if they're buying "the community" that was built on cheap prices or the owner's personality.

Let's start with what the gym is actually worth.

Ask the current owner to provide these numbers and plug them into our valuation tool here:

Valuation Tool
(If the link doesn't work, copy and paste the link below into your browser.)
http://twobrainbusiness.com/wp-content/uploads/2016/02/Rigquipment-Finance-DCF-Worksheet-for-Two-BrainBusiness.com_.xlsx

BUYING A GYM

You're really trying to determine year-over-year profit and the likeliness that the profit will continue without the current owner.

To be clear, in this valuation:

- Headcount (how many clients a gym has) doesn't matter.
- Gross revenue doesn't matter.
- Location doesn't matter, unless you're also buying the building.
- The gym's "potential" doesn't matter.
- Your friendships with other members doesn't matter (if you buy it, you won't be their friend anymore. Your relationship will become transactional and "friendly").

What does matter?

- Predictable revenues into the future.
- Clients' willingness to stay without the current ownership.
- Outstanding liabilities (loans) and commitments (leases).
- Equipment and assets.

Want to get a rough estimation, fast? Here's the math I use over the phone:

Take your total profit for last year. Profit, not revenue. Profit includes wages paid to the owner and dividends taken.

If your gym isn't profitable, it's not worth anything. Multiply by zero. Skip down to "sell your assets and close."

Multiply your profit by three years.

Multiply it again by your retention rate (if you have 80% year-over-year retention, multiply your three-year profit projection by 0.8).

Add the real value of your equipment (probably 30% of its purchase price, or 10% if it's more than 3 years old).

That's the maximum value of your business.

BUYING A GYM

Example:

Bill's gym pays him $60,000 per year, and his P & L shows a profit of $5,000 last year.

To determine its value, Bill multiplies $65,000 (the sum of his personal wage plus profit) times three years. He starts with $195,000.

But his retention rate is poor: Most of his clients are on eight-week challenge packages, so he calculates that he has a 50% year-over-year retention rate. That brings the value down to $97,500. (Yes, an improvement of 10% in his retention rate would make his business worth $19,500 more. Another reason to do the RampUp, even if you're planning to sell.)

Then he adds the value of his equipment ($42,500 purchase price, mostly more than 3 years old, with some newer rowers.) Total value $7,000.

The math is ($65,000 x 3 x 0.5) + 7,000 = $104,500. Not bad. As a buyer, you can be reasonably sure that the business will operate at least this well under your guidance, and you should be able to make at least $65,000 per year from the gym. You should budget for mentorship in the first year and to start replacing equipment in the second year.

Use the valuation tool to determine the actual value of the gym. If the current owner can't provide you with profit, or can't give you clear numbers to the dollar, you might be better off starting from scratch.

Remember: It's your responsibility to know these numbers. If you buy the gym and find problems later, you will own those problems.

Here's how it can go wrong:

One of my favorite gyms in the Two-Brain family is owned by a young married couple.

They fell in love with CrossFit and when a local gym asked them to buy, they were excited: The gym had a good membership base (over 100 members) and seemed to be doing well.

They did some quick math: 100 members at $150 per month was $15,000—more money than the young couple had seen before, and enough to pay off the asking price of $150,000 in only 10 months. They thought they were getting a steal!

What they didn't calculate was that the business was actually losing money every month, and the $150,000 loan would add even more stress to the bottom line. The only money the previous owner ever made was in the sale, and without a profit margin, the young couple was dipping into their savings to run their business. And they were caught. Of course, it affected their marriage, too.

BUYING A GYM

They're on the way up now, but realize they paid $150,000 for a gym that was worth less than nothing and started their entrepreneurial journey from a hole instead of a hill.

Another example, out of dozens:

A business owner purchased a gym as a retirement project. He'd been an entrepreneur for decades, so he knew how to read a profit and loss statement. The gym he was purchasing was profitable on paper. But he didn't realize that over 50% of the membership was on an eight-week challenge and all of the group revenue had been collected up front. When the challenge ended, he lost half his membership and was suddenly losing money.

He started with Two-Brain mentorship and slowly began to right the ship, but a first-time entrepreneur without cash reserves could have been bankrupted by the mistake.

One more (I can't resist!):

The owner of a gym was approached to buy out another gym. He was flattered. His gym was just reaching profitability, and he had a good coach who could use a "horizon" opportunity. He'd also have a monopoly on CrossFit in his town. The opportunity seemed perfect!

But he didn't realize that the other gym had 10 coaches trading for memberships and almost half of the other members were receiving some sort of discount. Some of the members had been told they had a "guaranteed rate for life." And his OWN gym wasn't quite ready for him to step away and fix the problems at the second. The second location almost sunk both gyms.

When he found Two-Brain mentorship, the owner was ready to close both locations and get a job outside the industry.

"I should have realized that guy was selling for a reason," he said.

If you own one gym and are considering buying another, ask yourself:

Am I likely to get these members ANYWAY if their gym is closing?
Am I buying someone else's mistakes?
Is my ego attracted to this opportunity, or does it really fit into my Perfect Day?

If you decide to go ahead with the purchase and you can find the money, great. Here are the next steps.

INTERVIEW THE COACHES

INTERVIEW THE COACHES

When the sale is almost completed, start taking the coaches out for coffee. Ask them, “What’s your Perfect Day?”

Then walk through the Career Roadmap (available to Two-Brain clients) and show them how you plan to get them there. Share your mission and your vision for the gym. Ask if they’re planning to stay for at least two more years, and form part of your transition team. Foreshadow the changes you plan to make and highlight that your primary objective is to form a more stable base on which they can build a career.

The coaches can scuttle the deal one of two ways:

1 – When they see changes coming, they leave. This leaves the owner shorthanded and forces them to deliver the classes instead of working on the business.

2 – They leave and take clients with them. The true value of the business walks out the door.

Both problems are avoided by talking to the coaches up front.

INTERVIEW THE SEED CLIENTS

INTERVIEW THE SEED CLIENTS

When the sale looks imminent—but before you've signed the final transfer of shares—ask for a client list. Identify the best clients of the business—they're the ones who pay the most and bring the most joy to the owner. We call them "seed clients." Take them for coffee.

Ask them, "What drew you to this gym in the first place?"

Then: "What's one thing the current owner does that drives you nuts?"

Ask them what their greatest struggle is outside the gym, and how you can serve them more. Do NOT say, "What's something I can improve?" because they'll expect you to take action immediately. And you'll be busy with other stuff for the first few months.

Ask them if they plan to stay for at least another year.

Foreshadow the changes you plan to make and highlight that your primary objective is to form a more stable gym where they can continue to improve their health.

If they aren't sure about staying, consider starting a new gym from scratch instead.

BUYING OUT A PARTNER

BUYING OUT A PARTNER

When the sale looks imminent—but before you've signed the final transfer of shares—ask for a client list. I started my first gym with two partners. I needed them for the $16,000 loan to buy equipment and also to push me into entrepreneurship. I was terrified. I wouldn't have done it without them.

But two years in, it was clear that the gym couldn't pay all of us. So I decided to buy them out. And they were amenable … but I couldn't pay what the gym was actually worth.

Luckily—though it appeared to be very bad luck at the time—the city decided to inspect our property and revoke our occupancy permit over our bathroom layout. Our men's bathroom didn't have enough space for a wheelchair ramp up to the shower. Our women's bathroom was fine, but the city inspectors were adamant that men in wheelchairs had shower access. And I didn't disagree, but the renovations would require an addition that I couldn't afford. So I decided to press the issue.

My partners said, "Whoa, whoa." They did a lot of business with the city, and didn't want their names attached to my protest.

I said, "This is all I know and this is all I have. I'll die in this gym if I have to. But I'll let you off here if you don't want to go further."

They agreed. I financed the balance of their shareholder loan and we parted ways happily. I'm still friends with both. They made a great return on their initial investment (though less than the lifetime returns they were hoping to earn) and I found myself a solopreneur.

(A few weeks later, while staring at the bathroom signs, I was struck with inspiration. I simply painted over the "Male" and "Female" words on the door. Now I had two bathrooms, one with a shower. That met the accessibility code, and I got the rubber stamp. Of course, if the idea had occurred to me earlier, I might still have partners.)

The point of the story is this: Some things are more important than money. If your partners have more money than you do, you have to find out what THEY value, or what THEY want to avoid.

In a successful gym, you might need to buy them out for the valuation price. In an unsuccessful gym, the offer to assume all of the business debt should be more than enough. "Let me take this burden from you" is often met with joy.

NON-COMPETITION

NON-COMPETITION

When you buy out an owner, whether they're a partner or not, make sure they sign a noncompetition agreement. Two-Brain clients can find this agreement in the modules; if you're not in the Two-Brain family, make sure your lawyer includes it in the share purchase agreement.

Imagine you buy a gym from Nick. You're excited, but you know you'll have to make some hard changes. You've planned a rate increase for January, and some of the coaches will shift around. But you know you can do it, because Nick's built a loyal client base in the gym …

… and then Nick opens a new gym a mile away. The coaches and clients are loyal to Nick, not you. In the best-case scenario, they stay with you, but you're paralyzed. You can't raise rates, because that might tip the scales and send them to Nick. You can't change coaches' rates or hours or the schedule. Worst case, they all leave.

This is one of the rare cases where a noncompete likely would be enforced in court. Make sure you have one. Even if you're buying out a partner, that partner should agree not to practice within a certain radius for at least a year. You can't stop them from making a living (so you can't ask for a lifetime noncompetition agreement in your city) but they should plan to take a year off, or at least move a fair distance away before reopening.

SHOULD YOU BUY?

SHOULD YOU BUY?

You might be a passionate coach or member. But remember: When you buy a gym, your job changes. You become an owner. That's a completely different skillset.

The current owner is selling for a reason. Are you absolutely sure you know the real reason? Are you willing to bear that burden?

Would it be easier to start from scratch?

Would you probably get most of the current members anyway?

I don't mean to sound pessimistic. I'm one of the largest promoters of the CrossFit movement in the world. My mission is to help 1,000,000 entrepreneurs become wealthy. But sometimes, starting over from a blank slate is the best move. And sometimes it's not.

Buying a gym could give you a multi-year head start into business. On the other hand, you could be buying someone else's mistakes.

Want more free help? You can get it on our website here.

And if you're ready for mentorship, you can book a free call here.

You're doing this for all the right people, for all the right reasons. Thank you. Let's make sure it's successful for you, because you deserve it!

NEED A PLAN TO GROW YOUR FITNESS BUSINESS?

A MENTOR CAN HELP.

BOOK A CALL