INDUSTRY SYNOPSIS:
NAICS 713940 – FITNESS AND RECREATIONAL SPORTS CENTERS

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I. **SCOPE OF STUDY**

A. **INDUSTRY DEFINITION**

According to both the 1997 and the 2002 North American Industrial Classification System (NAICS) Manual, NAIC 713940, Fitness and Recreational Sports Centers is comprised of establishments primarily engaged in operating fitness and recreational sports facilities featuring exercise and other active physical fitness conditioning or recreational sports activities, such as swimming, skating, or racquet sports. Illustrative examples for this industry include: aerobic dance or exercise centers, gymnasiurns, handball, racquetball, or tennis club facilities, ice or roller skating rinks, physical fitness centers, swimming or wave pools.

NAIC 713940 contains establishments, which can be classified as either government (public) facilities or non-government (private/non-profit) facilities. Examples of government facilities are local or county owned and operated pools, ice skating rinks, or tennis courts. Various local or county governments have also been known to offer fitness center and health class services. Such facilities, however, must show evidence of performing measurable economic transactions in order to be in scope. Non-government establishments can be found in the form of private fitness centers, racquet clubs, ice or roller skating rinks, and swimming pool facilities. Non-government facilities can be for-profit or not-for-profit.

Industries similar to but excluded from NAIC 713940 include:

- Establishments primarily engaged in providing nonmedical services to assist clients in attaining or maintaining a desired weight – are classified in U.S. Industry 812191, Diet and Weight Reducing Centers.
- Establishments engaged in providing personal services, such as personal training services, that do not provide and operate a facility for such services – are classified in Industry 812990, All Other Personal Services.
- Establishments primarily engaged in operating health resorts and spas where recreational facilities are combined with accommodations – are classified in Industry 721110, Hotels (except Casino Hotels) and Motels.
- Recreational sports clubs (i.e., sports teams) not operating sports facilities (instructional) – are classified in Industry 713990, All Other Amusement and Recreational Industries.
- Establishments, including camps and schools, primarily engaged in offering instruction in athletic activities, such as gymnastics, martial arts, and swimming, to groups of individuals – are classified in Industry 611620, Sports and Recreational Instruction.
- Establishments primarily engaged in offering various miscellaneous forms of instruction, such as personal yoga instruction, - are classified in Industry 611699, All Other Miscellaneous Schools and Instruction.
It is important to distinguish between establishments in NAIC 713940 and establishments in NAIC 611620 (Sports and Recreational Instruction Institutions). The distinction between these two types of establishments lies in the plurality of revenue for a particular facility. Both types of establishments may offer fitness center memberships and instructional classes (also called programs). However, in order to be in scope for NAIC 713940, an establishment must have a plurality of revenue from its fitness center and/or recreational sports facility memberships or admissions. In some cases, making this distinction may not be an obvious task. Establishments known for offering an extensive selection of fitness and health-related classes often generate the plurality of their revenue from its fitness centers and recreational sports facilities. Therefore, these establishments are in scope for NAIC 713940.

According to the 1997 North American Industrial Classification Manual, there are three 1987 U.S. Standard Industrial Classification (SIC) industries that have been combined to form NAIC 713940. These include: SIC 7991 Physical Fitness Facilities, SIC 7997 Membership Sports and Recreation Clubs (recreation clubs with facilities), and SIC 7999 Amusement and Recreation Services, NEC (nonmembership recreation facilities).

Primary Output Definition

The output of this industry is the provision of a fitness or recreational facility for the purpose of exercise or other active physical fitness conditioning or recreational sports activity. It is important to keep in mind that the facility must provide space and equipment for active physical activities. Non-strenuous activities, such as bowling and miniature golf, are not included in this industry. Instructional or educational classes, which are provided at the facility or at a secondary facility that is receiving rent from the primary establishment, are also included as primary output for the industry. Finally, revenue derived from the rental and leasing of goods and equipment, used in specific recreational or sport activities (e.g. rental of skates at an ice rink), are also included as primary output for this industry. For membership clubs, service is made available to people who have paid a membership fee (usually as part of a scheduled payment term, such as monthly or annually). In addition, non-members are normally able to purchase use of the facility for a one-time fee. Non-membership facilities, such as ice and roller skating rinks, would collect a fee per use.

There will also be significant secondary revenue derived from merchandise sales.

B. CONTEXTUAL OVERVIEW

The following table provides statistics about NAIC 713940, and its size relative to industry group 7139, other amusement & recreation industries. The following totals are only for establishments that are subject to federal income tax.
Fitness and recreational sports centers provide a highly demanded service to the general population of the United States and most other developed nations. In general, they provide places to exercise using cardio equipment, free weights and weight machines, as well as offer classes geared towards healthy living and physical fitness. Within this industry, one can also find fitness centers and sports facilities, which provide space and equipment for recreational sporting activities, such as racquet ball, basketball, and swimming.

When examining this industry, one must also keep in mind that NAIC 713940 also includes both roller and ice skating facilities. These facilities, however, make up only a minor portion of the total industry, and are often not included in information and data provided by industry associations for the fitness and recreational sports industry.

Fitness and recreational sports centers are a significant component of the amusement, gambling, & recreation industries (NAIC 713). According to the 1997 Economic Census, NAIC 713940 makes up 15.3% of total value of receipts in NAIC 713. In addition, NAIC 713940 makes up 26.6% of total employment and 31.4% of total establishments in NAIC 713. These percentages rather closely correspond to the percentages when comparing NAIC 713940 to NAIC 7139 (other amusement & recreation industries), which can be seen in the table above. Basically, these numbers demonstrate the importance of fitness & recreational sports centers within the amusement, gambling and recreation industries. Although, one would not say that NAIC 713940 necessarily dominates NAIC 713 or NAIC 7139.
The graph above provides a visual representation of the portion of total receipts, total employment and total establishments in NAIC 713940 that are contained within NAIC 713.

According to the International Health, Racquet & Sportsclub Association’s (IHRSA) January 2003 Trend Report, the number of Americans who exercise frequently in a health club has been steadily growing since 1987. This at the expense of total Americans who exercise at home. However, this report also explains that the movement to exercise, in general, has been gaining momentum over the past several years. This is due, in part, to the 1996 U.S. Surgeon General’s Report on Physical Activity and Health and the wide-spread availability of fitness centers. IHRSA states that, as of 2001, health club members represent 13.2% of the U.S. population ages 6 and over.

The ever-growing interest by Americans to get in shape and improve one’s health has not only caused a steady increase in fitness center membership, it has also brought about a steady escalation in the number of fitness centers in the United States. Industry growth tables displayed on IHRSA’s website under “The Scope of the US Health Club Industry” show that there has been a steady increase in the total number of U.S. health, racquet, and sportsclubs since January of 1997. This data also shows a much more dramatic growth trend from 1984 to 1990. The period between 1990 and 1997 saw relatively minor up and down movement. With steadily increasing annual membership totals for the fitness and recreational sport center industry and the fact that over 85% of Americans do not yet have fitness club memberships, one would anticipate continued growth potential for NAIC 713940 well into the near future.

IHRSA’s 2002 Global Report seems to imply that there is significant intra-industry competition between for profit and not-for-profit fitness centers. In addition, one would expect that there is quite a bit of general competition between all players in the fitness and recreational sports industry due to the large number of companies which offer health and fitness services.

Despite an ailing U.S. economy over the past two years, profitability has remained strong for the fitness and recreational sports industry. According to IHRSA’s October 2002 Trend Report, individual health club’s total revenue grew by 5.8% on average in 2001. This report also shows that average revenue grew 10.2% between June 2001 and June 2002. Although Americans, on average, have had to deal with less disposable income over the past two years, they appear to still be using what disposable income they have to pay for membership and class fees at health clubs. This is not to say that revenues would not be higher if the economy were healthier. A quote from Rick Caro, Jr., president of Management Visions, Inc, included in the IHRSA Global Report reads, “While both net revenue and memberships were up, and there were increases in the bottom line, the increases were less than they had been in recent years.” Still, views of the U.S. public on health and fitness, as well as the industries ability to adapt and improve its services over the years, seem to have made the fitness and recreational sports club industry somewhat more immune to overall dips in the U.S. economy than most other industries.
II. INDUSTRY OVERVIEW

A. INDUSTRY STABILITY

U.S. health club industry revenue growth (in billions $)

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<tbody>
<tr>
<td>Revenue Growth</td>
<td>7.75</td>
<td>8.25</td>
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As was mentioned in the Contextual Overview, the financial health of the fitness and recreational sports center industry is considerably good, considering the downturn in the U.S. economy over the past few years. IHRSA’s October 2002 Trend Report states that the total number of domestic health and sports clubs grew by just over 2% during the first six months of 2002, a period of economic ailment for the U.S. economy. The total number of health and fitness clubs has steadily grown since 1995, showing a significant degree of resilience to dips and up-swings in the economy over the past half decade. According to IHRSA, the total number of health, racquet, and sports clubs stood at 17,807 at the end of 2002.

Steady and consistent growth in health club membership is another sign of the industry’s resilience to the faltering economy. IHRSA’s 2002 Global Report provides data showing a steady increase in total U.S. club membership over the period of 1987 to 2001. Over that time total membership in millions rose from 17.3 to 33.8. Again, the industry has prospered, despite U.S. recession and periods of shrinking purchasing power by American consumers.

Still another example of industry stability and strength is revenue growth over the past decade. The table above shows revenue growth in billions of U.S. dollars from 1995 to 2001. IHRSA’s 2002 Global report actually graphs consistent annual revenue growth from 1993 to 2001. This graph shows a steady climb from 6.5 billion to 12.2 billion over nine years. The October 2002 Trend Report also shows revenue growth between 2001 and 2002, as it reports that total mean revenue for the industry climbed 12.8% between June 2001 and June 2002.

Government regulation does not play a role in price movements or stability in NAIC 713940. Nor does the industry appear to be particularly vulnerable to the business cycle. Levels of the American population’s interest in health and fitness drive the levels of success in this industry and its profitability. As this interest is on the rise, financial stability and industry growth appear to be a long-term trend.

The Press Information office at IHRSA has explained that, in addition to the very large health and fitness corporations that make up a sizeable component of this industry, there are a significant number of smaller, single facility health clubs in existence. Many of these smaller clubs are known to be started up and closed in a relatively short time period. This would imply relatively easy entry
and exit in NAIC 713940. There do not appear to be any significant governmental barriers to entry into the industry. Still competition, especially by large fitness corporations, can drive out a smaller fitness center almost as quickly as it enters the market.

B. VOS PER EMPLOYEE INFORMATION

The 1997 Economic Census estimates the VOS for NAICS 713940 to be $10,162,248,000 and total production employment to be 332,103. Considering these estimates, a VOS edit range of $15,000 to $62,000 has been calculated for NAICS 713940.

In verifying the Value of Shipments and Receipts, it is important to note that a ratio that falls outside the edit range is not necessarily wrong, while a ratio that lies inside the range may not be correct. There are many factors that may impact the ratio of VOS to employment.

Since the calculations of these edit ranges are usually based on historical data estimates, current and future changes in the industry may necessitate a corresponding change in the above ratio edit range. Any such changes in this edit range would be reflected in the DCM.

III. SERVICE INFORMATION

A. SERVICE DELIVERY PROCESS

The service delivery process for NAIC 713940 is fairly uniform within the general categories of health clubs, ice skating rinks, and roller skating rinks. Health clubs provide fitness equipment, such as free weights and cardiovascular equipment, recreational sports facilities, such as basketball courts and swimming pools, and exercise and health classes. They also provide equipment rental services and locker room services, to varying degrees. The variety and availability of these services depends on the size of the particular health club. Smaller clubs may not offer classes or equipment rental services. However, larger clubs may offer a wide variety of instructional services and equipment/locker room services. Ice skating and roller skating rinks are basically uniform in their services, as they offer a surface on which to skate and rental services for skating equipment. The extent of rental services, as well as the size and quality of skating facilities, varies from facility to facility.

IHRSA’s January 2003 Trend Report discusses facility reinvestment in the health club industry. In 2001, the industry committed a median average of 4.6% of its total revenue to the upgrading of physical plants, fitness equipment, and office equipment and technology. IHRSA reports that this commitment to reinvestment, which improves an establishment’s service delivery process, has contributed to increases in net revenue growth and membership growth. The top 25% of establishments with total dollars spent on facility reinvestment as percentage of total revenues saw 7% median revenue growth and 6% net membership growth. The remainder of establishments reported 6% median revenue growth and 3% net membership growth.

Although establishments within this industry may improve, expand, or contract basic services, a complete change in production or services offered does not really fit into the nature of this industry.
B. TYPES OF SERVICE

The following table lists the major products produced in NAIC 713940 from the 1997 Economic Census.

<table>
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<tr>
<th>Product</th>
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<tr>
<td>Fitness &amp; recreational sports centers</td>
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<tr>
<td>Fitness and recreational facility memberships</td>
</tr>
<tr>
<td>Fitness and recreational facility instructional classes</td>
</tr>
<tr>
<td>Recreational facility admission and other fitness center services</td>
</tr>
<tr>
<td>Other receipts</td>
</tr>
</tbody>
</table>

1997 U.S. Census

The specific types of services which fall under these service fee categories are defined below.

**Memberships.** Memberships will include individual memberships for various age groups, such as adult, youth, and senior, as well as group memberships, such as family and corporate memberships. Family memberships will normally offer access to a facility/facilities by a predetermined number of family members for one specific fee. Corporate memberships will offer reduced rates to individuals, who work for a specific company that has an agreement with a specific club. Seasonal passes for public recreation and fitness facilities will also be included in this category. Seasonal passes function the same way as memberships, as long as they offer unlimited access to a specific facility/facilities for a predetermined length of time.

**Instructional Classes.** Instructional classes offer lessons or instruction in the areas of physical fitness and health. Examples of such classes include kick-boxing, yoga, and step aerobics. Instructional classes normally have a predetermined length (1 hour, 45 minutes, etc) and a predetermined number of lessons offered for a specific fee.

**Recreational Facility Admission and Other Services.** This category will include admissions to sports and recreational facilities, rental of sports and skating equipment, and self-improvement services (massage services, tanning services, etc).

C. PRICE DETERMINING CHARACTERISTICS

Price determining characteristics for services to be collected for this industry include:

- Age group (e.g. youth, adult, senior)
- Number of persons (e.g. individual, group/multiple persons)
- Length of membership or admission/usage period
- Residency/facility membership status
- Type of payment (e.g. one time payment, monthly billing, etc)
- Services included in fee.
D. CUSTOM SERVICES

Although services offerings tend to be fairly standard in NAIC 713940, one would expect specific services, such as instructional services, to be tailored to the community that a facility services. However, this does not really fall under the category of custom services.

E. SEASONALITY

Seasonality plays a very minor role in the service delivery process for NAIC 713940. This depends on the region where specific facilities are located and whether or not the facility is indoors or outdoors. An example would be an outdoor ice skating rink. Under normal circumstances, this type of facility would not be open during the summer months. An outdoor basketball court would not be open during the winter in an area where it is very cold. However, most fitness and recreational sports facilities are open year round.

F. SERVICE SUBSTITUTION (QUALITY ADJUSTMENT METHODOLOGY)

Explicit quality adjustments (QA) will need to be performed on items which experience a change in the scope of the service offered by the establishment for a type of membership or other service. For example, clubs that once offered restricted facility access with a particular type of membership, but later alter the membership to offer unrestricted access, will require an explicit QA to adjust for the change in service. Establishments will typically have cost data available, which will allow for a QA by the industry analyst (IA). Reporters will need to make the IA aware of a change in the scope of the service, in order to allow the IA to know when to make a QA.

IV. MARKET AND TRANSACTION INFORMATION

A. INTERPLANT AND INTRAINDUSTRY SHIPMENTS

Interplant and intraindustry shipments are generally not applicable in NAIC 713940.

B. PRICE BEHAVIOR

IHRSA’s January 2003 edition of the IHRSA Trend Report reports that approximately 55% of health clubs in the United States, responding to their survey, raised monthly membership dues in 2001. 44% reported holding their due at the same level as 2000. The remainder lowered their dues between 2000 and 2001. IHRSA also reports that the overwhelming majority of clubs indicated that they never offered an advertised discount on membership dues in 2001, despite the depressed U.S. economy. These statistics point to a solidly upward-moving short-term price trend in NAIC 713940. This is yet another example of the fitness and recreational sports center industries resilience to down-turns in the domestic economy.

The January 2003 IHRSA Trend Report also indicates that price variances do exist in the health club industry, offering data for groups of clubs that fall into one of three membership “fee per month” categories. These categories are $40/month or less, $41 to $69/month, and $70/month or
more. A table representing profitability and growth statistics for the three price categories indicates that revenue growth has been consistent for all three categories during 2001. It can also be observed that membership growth rates increased when monthly dues rates were lower, and membership retention rates increased when monthly dues rates were higher.

Seasonal price differences do not appear to exist in this industry, apart from discounts on initiation fees and temporary reduced-rate introductory offers, normally available by some clubs at the beginning of the year.

The Consumer Price Index currently publishes two indexes, which could be combined to form an index similar to NAIC 713940. These two indexes are for Club Membership Dues and Fee for Participant Sports and Fees for Lessons or Instructions. The first index corresponds closely to the PPI index for primary services for the industry. These indexes would provide data on long-term price trends for these services.

Below is a graph of the two CPI indexes that were mentioned above over the last five years.

C. TYPES OF PRICES

There are several types of prices that exist in NAIC 713940. The first of which are membership fees for recreational sports clubs and fitness centers. These prices will be reported as either fees for new memberships or fees for continuing memberships. Prices will also be characterized by tier level (single membership, family membership, etc), residency status, length of membership, frequency of billing, and by what services are included in the fee. Initiation or enrollment fees may also be incorporated into the price.

The two remaining fee types in this industry are recreational facility admissions and equipment rental/other fitness center service fees (including tuition or fees for instructional classes). Both of these fee categories have similar price determining characteristics, as one must determine
admission/fee tier level (Adult, child, etc), residency status, time restrictions, and membership status (club/facility member versus club/facility non-member).

D. TYPES OF BUYERS

Just about all sectors of the United States population take advantage of the services offered by the fitness and recreational sport center industry. Men and women, young and old, representatives of all backgrounds and regions of the country, make up the total population of U.S. fitness center members. As the number of total fitness club members increases, IHRSA reports that younger (individuals 24 years old and younger) and older (individuals 45 years old and older) Americans are the driving force behind growing membership roles.

E. ADJUSTMENTS TO PRICE

Any adjustments for or discounts on the services offered by this industry are typically reflected in the reported price. Discounts on enrollment fees for club memberships or on admissions or rental fees for groups are normally factored into the reported price calculation.

F. ADDITIONAL CHARGES

No information regarding additional charges is available.

G. SIZE OF PURCHASE

The only size-related distinctions that exist in this industry are in the area of individual memberships, admissions or usage/rental fees versus group fees. Group rates would apply to corporate, family, and other such multiple person purchases.

H. CONTRACTS

Short and long term contracts (more than one year) are quite common, if not standard, in NAIC 713940. Although, fee per use type pricing is more common with roller and ice skating facilities. Contracts usually include unlimited use of general fitness center equipment, locker room use, and discounts on fees for instructional programs, as well as various other services. Fitness club members usually have the choice of paying a flat fee up front or paying in installments of various lengths.

I. OTHER VARIABLES WHICH AFFECT PRICE

There are no other variables which affect price.
V. INDUSTRY INFORMATION AND RELATIONS

A. INDUSTRY RELATIONS

International Health, Racquet & Sportsclub Association (IHRSA)
263 Summer Street
Boston, MA 02210
www.ihrsa.org
Phone: 617-951-0055

The International Health, Racquet & Sportsclub Association (IHRSA) is a not-for-profit trade association representing health & fitness facilities, gyms, spas, sports clubs and suppliers worldwide. The mission of IHRSA is to grow, protect and promote the industry, and to provide its members benefits that will help them be more successful.

Independent Club Operators Association (ICOA)
P.O. Box 1156
Helena, MT 59624
www.icoa.net
Phone: 406-449-5559

The Independent Club Operators Association is a small trade association, which provides information and statistics on the fitness center industry as it pertains to small (usually single facility) independent fitness and recreational sports clubs. The purpose of the association is to assist small clubs in competing with larger, multiple facility clubs.

B. CURRENTLY AVAILABLE PRICE DATA

The Consumer Price Index currently publishes two indexes, which are both components of NAIC 713940. These indexes are Club Membership Dues and Fees for Participant Sports and Fees for Lessons or Instructions. However, the CPI does not publish by NAICS industry and does not have an index that matches NAIC 713940 in its entirety. There is currently not an index published for NAIC 713940 by any other source.

C. LITIGATION AND OTHER COOPERATION PROBLEMS

There are currently no litigation or cooperation problems in the fitness and recreational sports center industry.

D. SERVICE IDENTIFICATION PROBLEMS

The only foreseeable service identification problem would be in the area of restaurants/snack bars/concessions, which would fall into the “other receipts” category. Food and beverage services should be given a chance of selection as other receipts during the disaggregation process only if managed by the fitness center or skating rink in question. If a restaurant, snack bar or concession stand has merely leased property from a particular establishment, then the lease revenue should be
classified in “other receipts” and collected accordingly. This also applies to any retail sales offered at the establishment location.
### E. PUBLICATION GOALS

Producer Price Index Revision

Publication Title Listing (ordered by higher map code)

NAICS/Cycle/Version - 713940A1

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