

“Now, Both the Sauna and the Hot Tub Work!!”

The Racquet Club changes management again, and some say it’s for the best.

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INTRODUCTION – THE COMMUNITY

The Racquet Club is a full-service workout facility in a small town in the Southwest. The town has a population of about 33,000, with around 61,000 in the county. A regional university with a student population of approximately 11,500 is also in the town and serves as its second largest employer. The largest employer is a chicken processing plant on the South side of town. There are several medium-sized manufacturing facilities in the area, as well as a medium-sized medical community. The town is about 20 miles from another similar-sized town, and one and one-half hour’s drive from a couple of larger cities.

POSITIONED AT THE TOP

The Racquet Club has several competitors, but none of them would be considered as direct (head-on) competition. The smaller competitors are positioned toward niche markets based on specific athletic activities. For example, there is the Muscle Gym for more serious male and female body builders. On the university campus is the Wellness Activity Club, which is mainly set up for the university-sanctioned student athletes and faculty members. The university itself, with its kinesiology classes and activities, serves as a competitor also. These last two are much less expensive (and are not available to the general public) for the users than the private Racquet Club and the Muscle Club because they are subsidized by the state, and student fees cover most of the other costs to join and use.

On the other side of town (about 6 miles away) is the Living Branch, a higher-end “wellness” facility that specializes more in massage and life-style therapy products. Within the last two months, another private competitor, Dancing for Life (one which was just down the street from the Racquet Club and that mostly appealed to women who preferred aerobic dancing), went out of business. Several of these customers joined the Racquet Club after the closing.

THE RACQUET CLUB – MERCHANDISE MIX

Opened in 1982, the Racquet Club is a full-service health and fitness facility. It is the largest club of its kind in the county with annual revenues of \$480,000, and a total membership of 1,250. Since it opened, there have been only two successive owners (the founder and one other) before the ownership team took over in May 1999 (Ownership changed again in January of 2006, and this

change is the subject of the case.) The Racquet Club offers a merchandise mix that is both wide and deep. Some of the equipment and the complementary services offered are as follows:

- Modern, large weight room with free weights and machines.
- A modern cardio/aerobics machine room with several types of equipment.
- Personal trainers for an extra fee.
- Four racquetball courts which were re-surfaced and painted in the Fall of 2005.
- An Olympic-sized, outdoor swimming pool and wading pools.
- A hair salon/massage therapist.
- Two large rooms for yoga, ballet, aerobic dancing, and other exercise classes.
- Separate locker rooms for men and women with wet areas (showers, toilets, hot tubs, wet saunas, and a coed dry sauna).
- A tanning facility

For non-corporate members the prices per month ranged from \$45 for a single membership to \$70 for a family. Corporate members paid \$10 per month, per person.

All of this sounds pretty good, doesn't it? But, there is another aspect of the Racquet Club which needed improvement, i.e., the management from 1999 until 2006 was ruining the business.

FORMER MANAGEMENT STYLE

Just read the following opinions about the management style (from 1999 until January of 2006) given by the employees of the Racquet Club in late January of 2006. These opinions are from surveys that were conducted after the management changed in early January, 2006. These employees worked under the former management and were still employed by the current, new management team.

The management style or approach of the former RC management was characterized by some of the following comments and direct quotes (some of which are not complete sentences):

Dictatorship, forceful vs. acceptance. For example, when they would ask you to do something –forceful, intimidate.

Paperwork signing up members–if (you made) one small mistake, it was your fault.

The management had a very bad attitude the entire 2 years. They showed little respect/credit for things we did. If things went wrong, we were confronted in front of the entire club and in front of customers.

No credit for correct behavior. They took complaints as bad.

Condescending to employees. Ex: If you did something wrong, it wasn't "let me show you how to do this", it was done in a way to "make you feel stupid".

The management was set in their ways, not willing to adapt to changing ways of customers.

Example: no family rates (prices), no music in the weight room—said they would have to pay for it.

Management was pretty strict
Hands on or micro managed
Not a lot of freedoms

Basically, we were trained how she wanted us to be.
Decisions with money were deferred to her. Hands on approach.

Overall, pretty well

Was strict. Didn't explain things to employees and we were made to feel stupid. But, the management had nice, good morals, etc. I got used to it.

Treated me like everyone else, good, not treated bad.

Management was very strict. As an example, the manager put up a chain so the trainers couldn't get behind the front desk. And, she didn't care about employees. One employee said she had to work 10 hours in the hot sun at the pool in the summer of 2005.

Totalitarian management style

The manager had no trust nor faith. The employees are ignorant and stupid, not knowledgeable in the manager's opinion. One time an employee broke a chair, so she (the manager) made all the employees sit on very uncomfortable chairs instead of just making that employee buy or fix the chair he broke.

There were a lot of high prices. They were not friendly and never on the premises.

The manager was watching the front desk activities and people from her house, via video stream, so she could stay home and keep an eye on the employees at the same time.

ACCEPTABLE OR NOT TO EMPLOYEES

This style was an acceptable style, however, according to some of the employees: In what was rather a surprise to the authors, most of the employees stated that this management style was acceptable to them. The ones who said the style was acceptable cited the following reasons for their opinions:

When the management bought the club, it was “bad in the hole”, meaning “losing money badly”. The management tightened up the employees who were stealing products from the club, letting friends work out for free, and working out when they (the employees) were not supposed to.

Another said it was acceptable because as a manager, she was the owner, and because of this position, made the decisions.

The manager was acceptable because she never treated him badly.

The style was unacceptable to several of the employees. The employees who said the former manager's style was unacceptable gave their reasons as well:

The former manager illustrated the definition of bad management.

I learned a lot about what not to do with approaching people. Instead of telling, should explain to employees what to do. Explain how you want it done.

Another said that the manager was not fair to members and played favorites by giving better deals on some prices.

She was not polite and some members wanted to confront her. She was a "bulldog" and would enter into yelling matches with members and employees.

On the job was low morale, and this employee hated coming to work due to the bad work environment.

One said, "She (the manager) was horrible!".

One of the employees was not sure if the style was acceptable or not. That employee said that some things were positive, but many times it was not an employee friendly environment.

Evidence of the results of this past management style, which was in place for about 5 years and ended in early January, 2006 can be compared to the figures from January, 2006 until January, 2007. These new figures indicate, clearly how the performance has improved since the new management has taken over.

NEW MANAGEMENT STYLE

What is different in the new manager's style and the former manager's style? Several aspects can be observed in the new manager's style that would add to the atmosphere of this service business. The current employees have not been interviewed yet, but that is scheduled for the near future.

The current manager comes to the club at regular hours and is on hand quite a bit. She seems to be a "hands-on" manager.

The new manager works out, herself, and teaches a couple of aerobics and spinning classes.

The new manager seems to be nicer to customers and employees alike.

The new manager does not complain much and does not seek sympathy for her problems.

The new manager (in conjunction with the owner) agreed to remodel the club at a cost of almost \$200,000

IS THE NEW MANAGEMENT STYLE WORKING?

Based on the following figures, the new management has improved the performance at the Racquet Club substantially:

These metrics (numbers) are for the fiscal year from January, 2006 until January, 2007 and represent a drastic, positive change from the previous management team's tenure.

Overall sales are up to \$740,000, or 54.1 per cent

Profit has gone up to \$100,000

Operating expenses have gone up by about 50 per cent due to new equipment that was treated as an expense and the overall increase in variable costs that go with an increase in membership.

The number of individual members under contract increased from approximately 1200, to 2026. The number of corporate clients increased from 10 to 30. The number of corporate clients does not seem like very many, but sometimes one corporate client amounts to 20 or 30 new members. (Corporate clients bring in more people, but a little less revenue because of the lower prices charged per person).

Now, to be fair, a sales consultant has been hired (for two months) to increase memberships under the new management, so it remains to be seen how many new members will stay with the programs at the club and how many will drop out after a period of time.

Capital expenditures for improvements ranged from \$150,000 to \$200,000. The figure here is not precise because the remodeling has not been completed.

The number of employees were not changed much. Under the earlier management there were 3 full-time and 9 part-time employees. Under the new management there are 3 full-time and 7 part-time employees.

The prices were lowered due to new discounts that have been offered. Also, family discounts are offered now, and this serves to increase membership even more.

SOME CLOUDS ON THE HORIZON

As in any business not all is perfect. At the Racquet Club, some clouds on the horizon signal a possible thunderstorm in the future. It is true that the overall atmosphere has improved, but still not all is well as evidenced by the following incident.

One day a customer was especially upset that the dry sauna had not been turned on by 10 in the morning and he wanted to go into the hot, dry atmosphere before ending his workout. He asked an employee, who was walking by, why the sauna had been cold for two days in a row. The employee, said "I don't know. My job is to just turn on the lights in the morning."

The authors wonder if this is a common attitude among the employees, and if it is, what will the new management do about this attitude toward work? If nothing is done, how will the operations and the marketing of the club be affected in the near future?

Teaching Notes:

1. Describe the two distinct management styles explained in the case.
2. Relate the two management styles to an individual employee's attitude toward doing work at this service establishment.
3. What effect would the different management styles have on an employees' ability toward servicing customers. You could explain this answer in terms of internal marketing and/or relationship marketing.
4. Would customers be able to detect a change in management through the day-to-day operations of the club? Explain what might be detected.
5. Can any students identify with a company (where they have worked, perhaps) that has changed management while they were employees? Ask the students to explain some specific changes that took place. (This could be a written or an oral exercise in class.)
6. Why do you think some employees would indicate their acceptance of a basically poor management style?