The Value of Building Your Dues Line

by Carole Oat

Starting in the early 1980s, large multi-purpose health and racquet clubs developed and perfected the system of monthly dues billing for health clubs. Many of these clubs have dues receivables of $40-60,000 per month; a significant number are over $80,000; and a small elite are over $100,000 per month.

Now, as traditional gyms move up-market, many are finding they can sell monthly dues memberships far more easily. And, they naturally want to do this as it's been proven over and over that in general, monthly memberships are worth more than prepaid memberships. Not to mention the liability issue.

With a prepaid membership, at the end of the term, a decision to do nothing is a decision to drop out. Studies show that only about 40 percent of prepaid memberships renew each year, whereas with a monthly membership, *if properly designed,* a decision to do nothing is a decision to continue indefinitely. There is a preferred way to set up your monthly dues system, and then there are many possible variations whereby you can customize your system to your particular market.

Successful gyms traditionally think in terms of selling one year memberships, and assumptively ask prospective members whether they prefer to pay in-full upfront or make low monthly payments. This approach works fine as long as you choose your sales scripts and word your agreements carefully.

It is very possible to sell up to 75 percent of all new members on monthly dues billing if you work at it. If you grow to 2000 members, with 75 percent on dues, at an average of $40 per month, your revenue stream will be $60,000 per month, $720,000 year.

The first key is to overcome people's natural fear of automatic billing. Point out that this method has been perfected over the last 20 years and that millions of members nationwide participate in such systems, and they work just fine.

The second key is to pre-handle the lack of a billing end date. A good way to do this is to ask the prospect if they want fitness benefits for the long-term. Then, make things as convenient as possible. The membership agreement should read that once the original term is completed, billing will continue uninterrupted until the member comes in and pro-actively cancels their membership. Have them initial this section to insure understanding.

If they express concern that they may not be a regular user, point out that we all experience fluctuations in our workout habits. Paying monthly is the best assurance that someone will take a long-term interest in their progress and not just pocket the upfront fee. The monthly fee also reflects average monthly usage patterns over time.

The third key is to get the member onto a standard billing cycle. The best way to do this is to prorate their dues at the beginning of their membership as follows: When a member joins, they should pay an enrollment fee and "gap dues" to cover the time from when they join to when they can get on the monthly billing system. Good clubs find they can usually get an average of $90 cash per close. This can be positioned as a $49 enrollment fee and 30-days dues at $1.33 a day, ($40/30 days). It could also be positioned as $89 down and no dues until the next billing cycle. Both can work well.

If you follow the first method, and your cut-off is 15 days before the billing date (which is usual for clubs using electronic drafts) your maximum enrollment and gap dues in the example above would be $49 plus 45 days multiplied by $1.33, or a total of $108.85. Your minimum would be $49 plus 15 days multiplied by $1.33, or a total of $68.95. Any amount in this range should be possible to collect from new members without having to make payment plans. Collecting this type of amount upfront tends to make a stronger commitment on the members part and also brings in steady, consistent income for the club.

As the number of members on billing grows, the importance of a single billing date each month becomes critical, as large clubs have discovered. The most important reason is managing cash flow with no lag time on receiving your funds. The day you bill is the day you should receive your revenue.

Additionally, you will need a permanent record of who was billed each month, to verify if a member ever deserves a refund or not. This is your billing list and the member's accounts receivable history in their computerized record. It's also helpful to match returns up with the month to which they relate since some members will return several times. This allows you to quickly access their record and process paperwork without having to pull out old forms, too. All of these situations and more can be handled easily once you get your members onto a uniform billing cycle.

If you follow the time-tested methods outlined above, you have an excellent chance of building a substantial dues line and a long-term successful business.

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