

Paper Reference(s)

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Advance Information

Edexcel GCE

Business Studies (8076/9076)

Advance Notice of Case Study for
Unit Test 1: Business Structures, Objectives
and External Influences

Advanced Subsidiary

January 2005

This paper may be opened on 22 November
2004

Information for Candidates

In preparing for the Case Study paper, candidates are advised to undertake general revision as well as detailed investigation of issues related to the Case Study.

This Advance Notice should **not** be taken into the exam. The Case Study is reproduced in the exam paper.

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CONTEXT

The Fitness Business in 2003

In today's health-obsessed society, fitness is 'big business'. It has never been easier to over-indulge and damage our bodies, and it has never been simpler to do something about it. Health-consciousness is the most important underlying factor for the growth of the industry, coupled with a desire from the older generation to retain youthful looks and lifestyles. The average age profile of clubs and centre usage is maturing, moving on from the intensive use of gymnasia by younger fitness enthusiasts. More consumers are leaning towards holistic fitness and the American concept of 'wellness', bringing in gentler and more sociable activities in clubs. The clubs are also developing as social venues, for families and older people to meet. In this case, the club acts as the centre of their leisure lifestyles. 5

Between 1994 and 1999 the value of the UK fitness market grew by 81 per cent. In 2001 a record 156 health clubs were opened in the UK and £3 billion was spent on participating in sports and keeping fit, with private health clubs taking an estimated £600 million of this. With the balance of spending shifting more towards fitness and away from sports and games, spending is now split equally between committed subscriptions to clubs or centres and the more casual 'ad hoc' spending on sports and games. In terms of European market share, the UK and Germany lead the way, although Europe still lags well behind the United States of America where 14 per cent of the population belongs to a health club. 15

Leisure Centres

The UK has over 2000 leisure centres, mainly conceived and built in the 1970s and 1980s, with the majority now including fitness facilities in an attempt to compete with health clubs. The quality of these leisure centres varies, as do their facilities, but normally they have a gymnasium and aerobics studio, along with a swimming pool, shower and changing facilities. They are owned by local authorities, thus benefitting from government subsidy, but an increasing proportion have sub-contracted management of these centres to the private sector. 20

Only 6 per cent of the UK population belongs to local authority-owned leisure centres and their appeal is in decline according to the English Sports Council, the body that distributes Lottery funds to sport. It has estimated that £300 million to £400 million per year for each of the next ten years needs to be spent on basic refurbishment, which is more than double the annual sport Lottery fund. 25

The Lottery is vitally important to local authorities. Lottery money has provided many local authorities with the main source of funding for capital expenditure in leisure and allowed them to identify gaps in their own areas and so establish local needs. The local authorities have a close relationship with the main beneficiaries of grants such as sports groups. However, there have been concerns that there has been an uneven geographical spread of grants and that Lottery funds have become a substitute for funding which would originally have been provided from taxation. 30

Health Clubs

Health clubs tend to have a superior range of facilities than most local authority leisure centres. These facilities often include a gymnasium complete with the latest cardiovascular machines (eg treadmills and rowing machines). There is also likely to be an aerobics studio, saunas, a swimming pool, jacuzzi or spa, tennis and squash courts. It is increasingly possible to have beauty treatments, a personal trainer, physiotherapy and refreshments. Health clubs offer a complete solution to the problem of our physical, mental and social wellbeing: a multitude of fitness programmes tailored to individual needs, all under one roof. Needless to say membership tends to be expensive. 35 40

There are almost 2 000 private health clubs in the UK. At the largest chain, Fitness First, a typical joining fee is £40 and monthly subscriptions are £35 to £45. It aims to be inclusive, attracting members “all the way from blue-collar workers to the top of the white-collar scale”, says one of the company’s directors.

In 2002, the fitness sector suffered on the stock market, as news of over-expansion and fall in new membership numbers led to profit warnings from three of the five quoted health club operators. In 2003 Fitness First and Holmes Place were considering reverting from plc to private company status. 45

According to Fred Turok, chief executive and founder of LA Fitness, a mid-price UK chain, a public-private partnership is the way forward. He claims “Government will look to the private sector to help to resolve the huge drain on the National Health Service (NHS) . . . It’s now recognised that somebody who works out two or three times a week will on average have a 50 per cent lower claim rate on the NHS than somebody who doesn’t.” Despite this potentially exciting future for the fitness business, membership retention rates are falling because of additional competition and the worsening economy: factors that affect the leisure and entertainment sectors, from restaurants to record shops. 50

Saturation is still a few years away, assuming that the demand for keeping fit is maintained, although it is already becoming difficult to maintain the current price levels. Local competition for membership and usage of sports and fitness facilities is becoming more intense. Health clubs and leisure centres will increasingly have to differentiate themselves, for example, by being more affordable, having a whole-family orientation or taking an adults-only route. There is no evidence that the bottom has fallen out of the market but, after so much rapid growth, more careful expansion will be one condition of future profitability. Membership fees make up 80 per cent of the revenue of a typical health club so, if fewer people join or retention rates continue to fall, additional sources of income must be found in order to break even. 55 60

Adapted from the following sources:

‘This time it’s personal’, *The Times Magazine*, 19 October 2002;

‘Pound for £’, *The Times Magazine*, 19 October 2002;

‘Fitness business runs out of breath’, *The Business*, 5 January 2003;

‘LA Fitness will not go private’, *The Times*, 9 April 2003;

Local Government Information Unit;

www.keynote.co.uk;

www.bl.uk;

www.leisurejobs.net;

www.abouthhealthclubs.co.uk

APPENDIX 1

The Time Use Survey 2000

This government survey show how people in the UK fill their day.

On weekdays:

- 77 per cent of adults are out of bed by 8 am;
- 45 per cent work or study until at least 4 pm;
- after work or study, people do housework, eat or pursue some form of leisure activity;
- main meal times fall between 8 am and 9.30 am, at 1 pm, and from 5 pm to 9 pm;
- by midnight, 81 per cent of adults are asleep, and 4 per cent are working or travelling.

At the weekend:

- people tend to get up later (69 per cent by 9 am);
- people work less but do more housework, travelling and leisure activities;
- meal times do not vary greatly from weekdays, but people spend longer eating;
- on average adults go to bed an hour later – 89 per cent are in bed by 1 am.

The survey also shows that four out of five people did some type of physical activity in the four weeks before the survey, and that they spend more time taking part in sports and other physical activities than watching it on TV (16 minutes a day compared with 4 minutes a day).

Household income is an important indicator of activity levels, with the less affluent much less likely to take part in sport or cultural activity. There also appears to be something of a general participation effect, with participation in one leisure activity increasing the likelihood that people also take part in another.

Adapted from the following source:
www.statistics.gov.uk

APPENDIX 2

Social Factors Shaping Leisure Trends in the UK

Anxiety of ‘risk society’.

Changing work and leisure patterns.

Increasing leisure choice through new technologies/media.

Growth in ‘lifetime learning’.

Changing household structures, including changing role of women.

Adapted from the following source:
www.planning.odpm.gov.uk

APPENDIX 3

Adult Participation in UK Leisure Activities

	Percentages		
	1990	1993	1996
Selected sports, games and physical activities			
Walking	40.7	40.8	44.5
Swimming	14.8	15.4	14.8
Snooker and other cue sports	13.6	12.2	11.3
Keep fit/yoga	11.6	12.1	12.3
Cycling	9.3	10.2	11.0
Darts	7.1	5.6	1.3
Weight lifting/training	4.8	5.5	5.6
Golf	5.0	5.3	4.7
Jogging (running)	5.0	4.6	4.5
Football	4.6	4.5	4.8
Selected leisure activities			
Watching TV	99.0	99.0	99.0
Visiting/entertaining friends or relatives	96.0	96.0	96.0
Listening to the radio	89.0	89.0	88.0
Listening to CDs, tapes or records	76.0	77.0	78.0
Reading books and magazines	62.0	65.0	65.0
Gardening	48.0	48.0	48.0
Do It Yourself (DIY)	43.0	42.0	42.0
Dressmaking, needlework, knitting	23.0	22.0	22.0

Adapted from the following source:
Office for National Statistics, 2002

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