



THE
ART
OF

giving

BY JAMES MILLS

» Gift cards and certificates are **IDEAL VEHICLES** to increase sales and build customer loyalty.

John Watkins Jr. is a second-generation fitness retailer who knows the value of building customer relations. For more than two decades, Watkins Fitness & Sports Equipment, in Salisbury, N.C., has offered gift certificates as a way for his customers to share with others the shopping experience they enjoy at his store.

“We’ve offered gift certificates since we started our website 10 years ago,” Watkins said. “It used to be real big just around the holidays, but lately we’ve seen a lot of traffic year-round.”

Be it gift certificates, gift cards or even a gift registry, this service could offer fitness retailers a business boost with increased sales and more customer loyalty—especially now with the business holiday and January season just ahead. And now that retailer-specific computerized gift cards are available to small businesses, a new window of opportunity is opening that could secure a higher percentage of retail customers’ purchasing power.

MORE MO’

Gift certificates and gifts cards are picking up momentum across all sectors of the retail landscape. Same-as-cash gift vouchers, either retailer-issued paper certificates or computerized debit cards, are becoming more widely accepted as valued presents to friends and loved ones. Often used in conjunction with gift registries for weddings, milestone birthdays and anniversaries, gift cards and certificates are no longer low denomination stocking stuffers exchanged only at Christmas. According to ValueLink, a global financial data company based in the United Kingdom, 59 percent of consumers in the past year purchased or received a gift card or certificate. *(continued on page 4)*

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» FALL INTO FITBIZ



We've got good news and bad news. First, the bad news: We're sorry if you're confused that this FitBiz is coming at you in the Fall when you had just gotten used to one in March. **Second, the good news:** You'll still get your Spring FitBiz with the "top retailer" lists and stories about who is growing, moving and shaking at retail. We've simply added a second journal each year in the Fall! Why? Hate to use a cliché but, yes, it was due to popular demand. We really do listen here at SNEWS® Central.

Our retail readers and SNEWS® subscribers have been banging on our door asking for more, so we've now sandwiched our summer fitness GearTrends® magazine by two FitBiz publications, both powered by SNEWS®—**and both now totally electronic** and therefore called "eFitBiz." Electronic delivery means they will be timelier, easier to download, less likely to get lost, and easier to pass around to staff and colleagues.

Our SNEWS® subscribers will also see them first by several weeks. Then, we'll send the link and announcement of its e-publication to the rest of you. If

you have received this electronic edition of our FitBiz business journal as a pass-along, drop us an email at snewsbox@snewsnet.com to see how you too can get added to our email list for future electronic publications. Retail staff (those with regular contact with the public) can still "Wake up to Real News" with SNEWS® at no cost, so email us to find out how.

Enjoy our first Fall FitBiz, as always with a focus on doing better business. We look forward to hearing from you. Just drop a note to snewsbox@snewsnet.com and let us know what you're thinking. Yup, we do listen.



Thanks for being a part,

Theresa Iknoian and Michael Hodgson

Co-publishers, SNEWS®/GearTrends®

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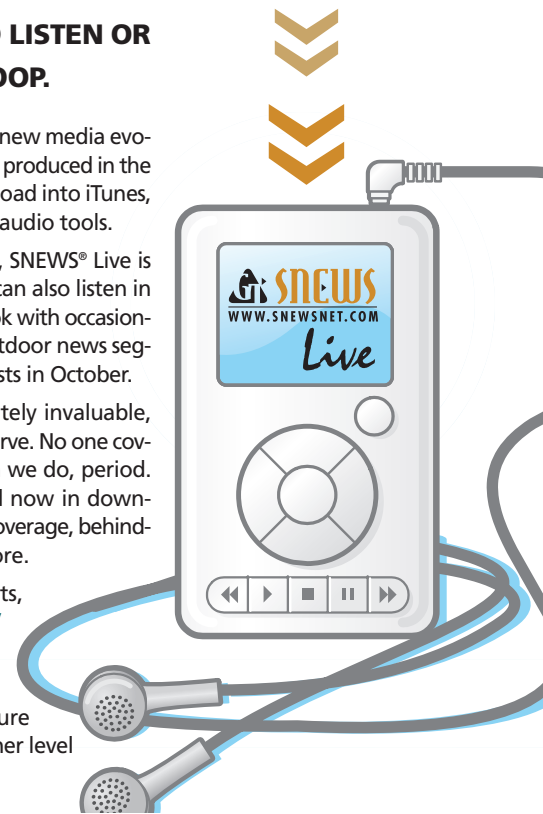
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(continued from page 1)

On average, they bought 6.2 gift cards or certificates. Last year, 72 percent of consumers offered gift cards or certificates as their primary token in gift giving. And as gift cards and certificates are becoming more popular, consumers are ramping up the dollars they invest in their gift purchases.

"Mostly our certificates range from \$100 to \$300," Watkins said. "But I've seen them go up over \$1,000. If someone's starting a home gym, a spouse or a family member will give them this, so they can get what they want."

Recipients of gift cards and certificates are more receptive than ever to the idea of getting a voucher they can redeem at a nearby store or shopping center. The National Retail Federation, a retail trade association based in Washington, D.C., reported that 52.3 percent of consumers want to receive a gift card or certificate as a present, which is up from 41.3 percent in 2003.

Bob Prosser, vice president of operations at Omni Fitness Equipment in Moonachie, N.J., said he had followed the growing popularity of gift cards and created a program to meet the demand last year.

"Paying attention to the statistics, we just

» The National Retail Federation reported that 52.3 PERCENT of consumers want to receive a gift card or certificate as a present.

felt candidly that we were missing the boat," Prosser said. "If you went by our past history, we've always offered the old paper gift certificates. But they present security issues and they're not as convenient. We kind of thought if we went forward and covered our costs of printing the gift cards that we'd be ahead of the game."

Ahead of the game, indeed. Although not willing to share exact numbers, Prosser did say that the gift card program in December 2005 did more business than the old paper certificates had the entire year.

BIG TICKETS TOO

Popular wisdom of the recent past once suggested that big-ticket purchases, like treadmills, elliptical machines or home gym sys-

tems, would never be considered gift items. But on a special occasion, like a wedding, individuals or groups of friends are prepared to lay down some hard cash to buy that perfect something. Clay Peddycord, executive vice president of Superior Fitness Systems in Charlotte, N.C., said his company's recent gift registry aims to make it easier for his customers to buy and receive gifts that match their fitness lifestyle. Plus, it lets the recipients decide what they want, while giving the giver a simple way to help pay for it.

"There are some fitness enthusiasts out there that may want a nice home gym instead of crystal water goblets and silver serving spoons," Peddycord said. "I wanted to create the convenient option for our prospects and customers to be able to receive assistance from family and friends for their dream fitness room."

Superior Fitness also earlier this year launched a gift registry service on the company's website. The online service allows Peddycord's customers to select gifts in advance of their special occasion. Friends and family can pick an item from the registry and pledge a specific amount toward its purchase.



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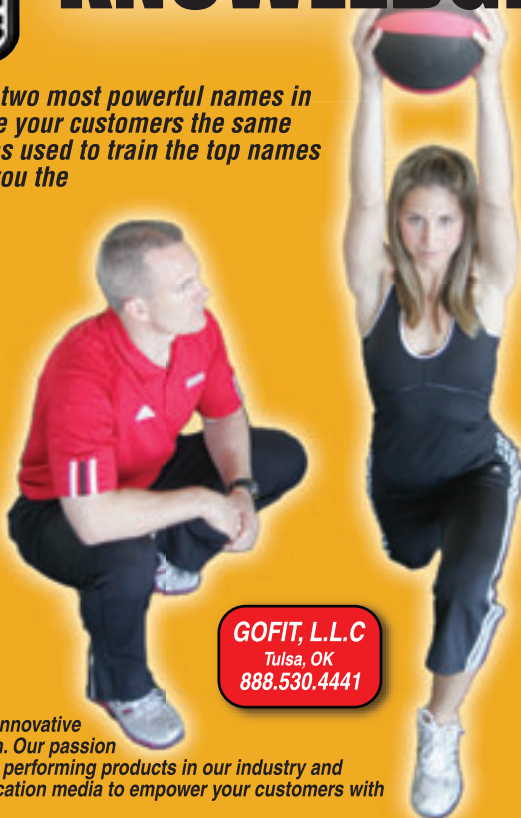


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"We manage our website ourselves, so the cost to activate such a feature is small—and it is a fun project," Peddycord said. "It is important to meet people that you can market to over time. A great way for people to meet your business is when they use your gift registry to buy a gift or pledge a contribution for their friends."

These days, consumers are used to making large transactions over the Internet, and gift recipients are comfortable with redeeming their vouchers either online or in person. That helps gift certificates and cards really grow exponentially, as statistics have shown.

"The reason retailers use gift cards is that it's a great convenience to the customer," said Stephanie Hoff, a senior analyst at the St. Louis, Mo.-based, investment firm Edward Jones. A specialist in the retail industry, Hoff said the service benefit to customers also prompts increased spending. "There is evidence that suggests that the amount of money spent when redeeming a gift card typically exceeds its value," she said. "People look at a gift card as free money. Certainly, you are likely to spend that on things that

are more discretionary. And that's a clear incentive for (retailers) to use them."

In fact, ValueLink reported that 50 percent of consumers who redeemed cards they received as gifts in 2004 spent more than their initial value. And 21 percent of cards or certificates were depleted within two uses. Fitness retailers like Watkins said his gift certificates bring more customers into his store. "One young man received a gift certificate as a birthday present and told members of his church," Watkins said. "And then his pastor came in and saw that we had flags for football. Now he buys them from us for his whole team."

Gift purchases have the power to convert general consumers into your regular customers, too. Peddycord said his gift registry allows him to present his business to a new clientele. "If someone registers in your gift registry and the gift giving begins, your business has just been introduced through a positive experience to several people," he said.

Gift cards, gift certificates and gift registries



bring a set of dynamics to the retail landscape that not only shift spending patterns of consumers, but they also stand to redirect the cash flow of retailers. A study conducted by Deloitte & Touche, a business consulting and research firm based in New York, revealed that 61 percent of gift cards and certificates purchased during the 2004 holiday were fully or partially redeemed by the end of January 2005. Consequently, a major cash infusion through the purchase of gift cards and certificates during the holiday season can boost year-end profits dramatically. And when the gifts are redeemed in the early weeks and months of the first quarter, traffic through most retail establishments increases along with spending during a time that has been historically slow.

As gift purchases grow, their significance to a holiday season will become less apparent. Watkins said he's seeing his gift certificate business expand throughout the year. "I expect this year we'll do more business in

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certificates for weddings and birthdays than we will for Christmas," he said.

But not all retailers that have put a gift purchase program in place have been successful. Chip Hunnings, co-owner of All About Fitness and Lifestyle Fitness, put a gift card program in place a couple of years ago, but wasn't encouraged by the business it brought. There in fact was no significant change in his gift purchases, although he admitted he only promoted it for a few months through one holiday season.

"I now feel that the appeal of the gift card to a mall or big-box store is that you are giving people choices and flexibility in picking the right gift for themselves," Hunnings said. "Whereas to give one to a specific store, like a specialty fitness store, requires the giver to know that person wants something very specific."

Adam Lindquist, director of business development at 2nd Wind Exercise Equipment, a chain of specialty fitness stores based in Eden Prairie, Minn., said his company's gift certificate program hasn't proved very effective. "We had a promotion around the holidays, but we really didn't put much of an effort behind it," Lindquist said. He did note that perhaps with a more aggressive marketing and outreach program to consumers, 2nd Wind's gift purchasing program could perform better.

MARKET, BABY, MARKET

Despite the less-than-successful, the successful ones are charging ahead. Pedycord at Superior Fitness said he has a plan to get his new gift program off the ground. "We are planning some in-store marketing to introduce the gift registry, and we have targeted other businesses in our markets to help share the message, such as bridal shops and retailers that are popular with women," he said. That also means during the summer months when the typical fitness



Starting your own gift card program is simple. Here are a few things you should consider:

1. Commit to the program

- Be prepared to print at least 500 cards.
- Expect to spend twice as much on marketing your card program as you will managing it.
- Make sure your customers know gift cards are an option.

2. Pick the right independent sales organization

- Find an ISO that offers same-as-cash, point-of-sale capability.
- Look for online card activation, account management and fund transfer features.
- Ask about help desk services for both you and your customers.

3. Produce your own artwork

- Don't go generic to save money. Your cards are a reflection of your business. Make them exciting.

4. Loyalty programs

- Add a loyalty program to retain customers and give them a reason to use gift cards. Your ISO can provide services to reward your customers with every purchase.

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store is slower, making it a good time to network in the community and nurture referrals.

Tariq Khan, executive vice president of business development and marketing at Praxell, an independent sales organization based in New York, said marketing has to be part of any gift purchase program. "You can't just put out a gift card and expect it to be successful. It should be considered a vehicle to drive sales behind your marketing effort."

Khan said retailers should expect to spend twice as much on marketing the service as they spend on the program itself. "From a marketing standpoint, it's a convenience to the customer," Khan said. "Gift cards, gift certificates or a gift registry should not be considered a product unto themselves."

Dennis Moroney, a senior research analyst at the financial consulting firm TowerGroup based in Needham, Mass., said companies like Visa and MasterCard are partnering with independent sales organizations, or ISOs, to get small businesses started in their gift card programs.

"Visa especially has been promoting what are called closed-loop cards, which would be unique to a particular institution," Mo-

ronney said. "It may not have the name of the institution on it, but working through one of these ISOs, they can make a specialized card for you."

Gift cards, which electronically store financial data, can be used like credit cards. They're convenient and most can have funds added to them, so they can be used over and over again. A closed-loop card, unlike an open-loop card, which can be used anywhere just like credit or debit cards, can be used only in the businesses where they are issued, Moroney said. Once purchased, the card establishes an immediate relationship between the business and the card's recipient. And through an aggressive marketing program to stimulate the customer's interest, businesses can encourage repeat visits and increased spending. Praxell and other ISOs can help small businesses establish a gift card program. An ISO can print cards, set up accounts and manage the storage and distribution of funds customers apply to their cards as they are purchased, dealing in what is called "stored value," which is unique to a certain store and an incentive to shop there.

GROWING, GROWING

By the year 2009, the Aite Group, a financial consulting firm based in Boston, predicts that closed-loop gift card and certificate revenues will exceed \$107 billion, up from \$59.2 billion in 2005. And as ISOs help small businesses acquire gift purchase programs of their own that number is only going to grow, according to Gwenn Bezdard, director of research at Aite.

"Historically, those companies were focused on the big guys, the top 100 merchants in the U.S.," Bezdard said. "Today, because there is organic growth in the closed-loop gift card space, that market has reached saturation. Every large merchant has a program now. For those players, it's all about going down market and targeting the small merchants. There is room for growth in that segment."

Prosser at Omni Fitness said the company that processes his credit and debit card transactions made starting a gift card program extremely easy. Not only did that accelerate his sales last December, but you bet he is looking forward to the coming December.

No gift cards? Said Prosser, "They're making a mistake if they don't." 

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evolution of the » interface

BY DOUG SCHNITZSPAHN



Early Lifecycle prototype

FORGET FUNCTION. As fitness equipment consoles evolve from blinking red lights, their ability to entertain may be key to your customers' workout success.



forget all the high-tech wizardry under the hood of fitness equipment. What your customers really care about is the part that tells them about themselves, the part they look at endlessly—the console. That screen filled with blinking, beeping, vital information is, after all, what makes the machine human. Or as human as it can be. And consoles are evolving far beyond the old blinking red blips on the first Lifecycles.

In a world driven by iPods, PDAs and customization of electronic media, fitness equipment consoles will soon do much, much more than monitor vitals and performance or offer a cable TV hookup. They will become fully customizable, entertainment stations. And manufacturers are betting if consumer trends in cell phones, MP3 players, Blackberries and other personal electronics are any guide, the more that potential customers can plug their music, DVDs, email and sports highlights into a machine, the better you will be able to sell the piece.

THE EMOTIONAL INTERFACE

To understand the evolution of fitness machine consoles, you have to buy into the idea that the information on the screen—the interface between the machinery itself and the human engine spinning the pedals or turning the belt—is, in fact, the part of the machine that's most important to your sweat-and-calorie obsessed customer. That interface is actually why the machine itself was invented.

In 1965, a 50-year-old recently retired chemist named Keene Paul Dimick decided that he had spent far too much time behind a desk, so he bought an exercise bike. But as

a man of science, Dimick—whose research laid the groundwork for the development of DUI Breathalyzers—wanted the bike to quantify just how much progress he was making. This is a guy who knew about quantification in every walk of his life, you see. Working with Dr. Kenneth Cooper, who had developed exercise programs for the U.S. Air Force and is still known as the Father of Aerobics, Dimick built a box of electronics nicknamed the “Electronic Coach” that allowed the user to set resistance levels. He then programmed a 12-minute workout with records of pulse, pedal repetitions per minute, and calories burned. The Lifecycle was born. Remember those 12-minute workouts? You can laugh now, but then it was a miracle.

Thanks to young entrepreneur and visionary Augie Nieto, who in 1977 while he was still in college founded the company that became Life Fitness, electronic equipment was to become what customers came to expect as an essential part of the indoor fitness experience. It wasn't until the exercise boom of the 1980s, however, that fitness equipment became a viable business. But the consoles on these units were not all that different than those of Dimick's pro-

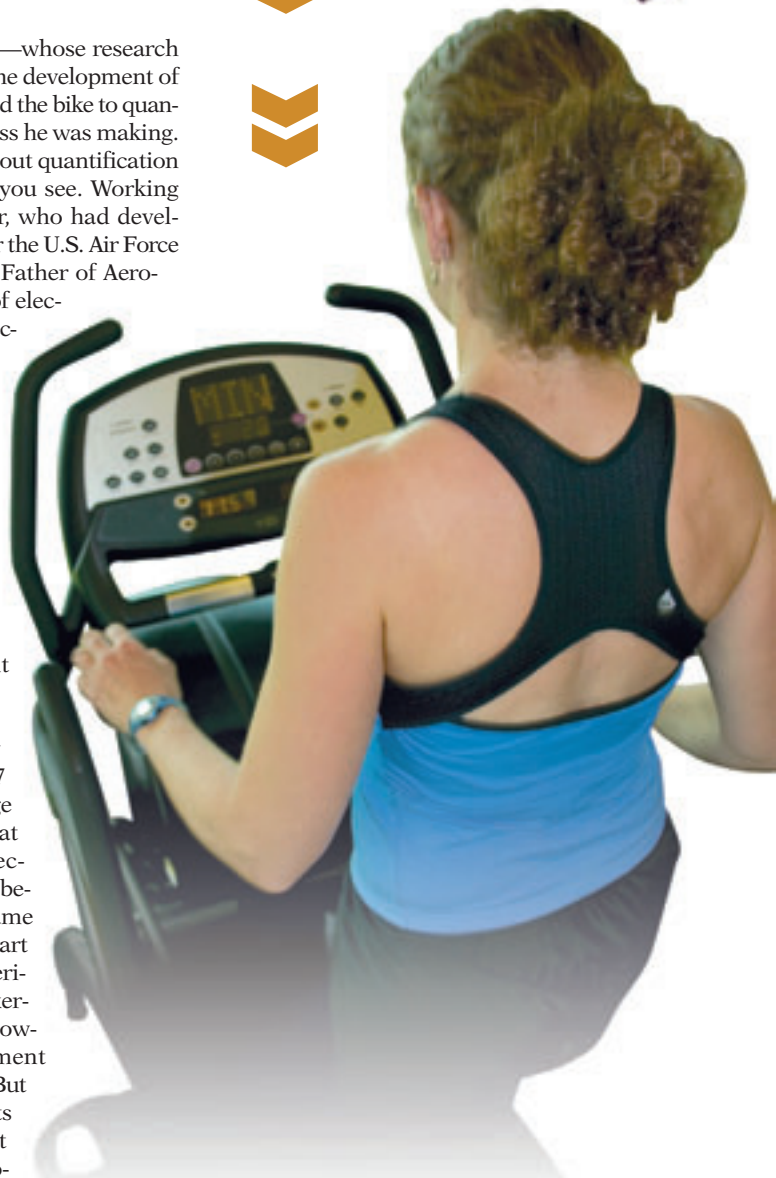


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totypes. The screens recorded vitals using LEDs, or light-emitting diodes. Those are the ubiquitous, everlasting mini-light bulbs that illuminate everything from clock radios to remote controls. LEDs were simple, effective and easy-to-read.

The basic information on the console didn't stray much from its roots until the late 1980s, when Precor introduced the 8.7, a cycle that used a backlit LCD display and allowed users to race each other on units in the same club. LCD, or liquid crystal display, is a system that works by squeezing liquid crystals between two thin sheets of transparent material and then giving different levels of charge to illuminate them lighter or darker. That system made for a more sophisticated presentation of information, while the racing function made the workout fun. The machine did not catch on at the time. Still, the stage was set for the evolution of entertainment in both display and function that is increasingly surfacing in consoles today.

FITNESS AS ENTERTAINMENT

The latest innovation in fitness equipment consoles, however, is being driven not from a desire for improved physical performance, but from a consumer demand for more sophisticated entertainment systems—ones that are easy to understand, easy on the eyes, refined and pretty too. Almost single-handedly, the iPod—which hit the market in October 2001, and has since sold an estimated 60 million units—has changed the way consumers view all electronic equipment. Your customers now expect—no, demand—their electronics be customizable, sleek, and, most of all, they require them to interact in an entire multimedia network that includes computers, music, DVDs and even heart rate monitors (as evidenced by the first product, the Nike+iPod Sport Kit, which transfers heart rate as well as other training information live into an iPod). Engineer and designer Dave Littrell, founder of Threefishdesign and an 18-year industry veteran, said that consumers may have just bought a handsome iPod “and they come looking for a beautiful and interactive piece like that in fitness.” They expect beauty and function to be one.

“This society is so used to being tapped in wherever you go, whether it's through a computer or an iPod. Any machine you come into contact with is going to have that same kind of interactivity,” said Andy Baker, director of product development at Lamar Health, Fitness & Sports.

With LED and LCD now old hat, it seems, the latest acronym buzzword in fitness machine consoles could become OSD, or “on

screen display,” a processor that puts vital stats and other workout information directly on a built-in TV screen, creating just the type of interactivity iPod-influenced customers are seeking. In machines equipped with OSD technology, we may have become complete because it is a fusion of the original Lifecycle, which tracked human performance, and the iPod, which made multimedia entertainment a personal accessory. There's only one problem—the price. And we know your customer may flinch a bit still.

“It's always been a challenge for the fitness industry,” said Littrell. “There is outstanding technology out there, but there is a cost associated with it, and the fitness industry just doesn't sell enough volume to make up for the cost.”

But the price of OSD and LCD TV technology is coming down. And manufacturers understand that consumers are demanding entertainment features from their workout machines. So fitness equipment suppliers are pushing the envelope hard to get out more product and make it cheaper. We'll in fact bet that some collaboration between a manufacturer and Apple may be around the bend. The demand by your customers will cause manufacturers to respond with more machines that entertain interactively during workouts in more ways than one.

“It's a question of what does the consumer want from the machine. How much does he want to interface with it?” said Nathan Pyles, CEO of Matrix Fitness and product guru for North American Johnson Health Tech companies. “So the future will be determined by what they demand.”

DRIVING SHOWROOM SALES

Keep this golden rule in mind: When it comes to purchasing a fitness machine, customers tend to follow the same patterns as when they buy a car. In the end, the feel, the personality and the “cool factor” of the thing means more than the engine. “They may not know exactly what they are buying,” said Littrell. “They don't look under the hood; they sit down inside the car. Fitness is very similar. It comes down to an emotional response—either the consumer identifies with features on the product or they move on to the next one.” That in itself is a lesson for retail staff. Forget motor stats and belt thickness. Instead, get customers to interact with a piece so they can connect with it.

And built-in TV screens deliver that emotional response to slick entertainment technology. In August, at the 2006 Health & Fitness Business show in Denver, LifeCore

Fitness introduced the QTV—a compact, elliptical trainer with a built-in, 7-inch OSD TV, the first such OSD unit on the market. The unit retails at a modest \$250 more than the same machine without the TV, and the California-based company is hoping that price, coupled with the dazzle of the interactive TV, will create sales margins large enough to make up for the technology cost.

Yet for LifeCore President Roger Bates, the value of the OSD TV goes far beyond profit margins. Bates wanted to bring excitement into a conservative, slow-to-change industry. The QTV not only presents vital stats like pulse rate and calories burned over the top of your favorite daytime talk show or Monday night football game, it serves as a multimedia center, hooking into MP3 players, plugging into cable TV and playing DVDs. And the entertainment aspect of the machine is far more than fluff. The QTV comes with a workout DVD with a trainer, which Bates hopes should help sell the product to your customers on the floor as well as educate them at home.

“Now the retailer can show the product on the floor, and customers will see a person on the TV teaching you how to use the product,” Bates explained. “Even if the dealer doesn't sell the machine, it creates a buzz on the showroom floor.”

No, LifeCore certainly isn't the first to tinker with sparkling screens and some interactivity, but no one product has truly clicked with the unmotivated





public. Yet. The truly amazing thing is that innovative console technology shifts the focus away from the functionality of the machine, which could help to distract your customers enough so they stick with the program and keep coming back. It relies on customers' all-important emotional responses. Bates and other suppliers are betting that the public will want that same multimedia technology that is now integrated into so many other parts of their lives. But price is always the mitigating factor in fitness, and it remains to be seen whether slick console technology can really help manufacturers sell the volume necessary to justify a low price.

"The big question is, will the customer pay \$250 extra for the same product with a built-in OSD TV?" asked Bates.

THE GAME FACE


Who is willing to spend more for entertainment? Littrell noted that hip LCD TV and OSD technology is less important to older customers who often even prefer reliable, easy-to-read LED consoles. But for young customers, the key is still cool tech. Hook them now, and they will become your older customer someday, yes? The next innovation in consoles may incorporate the very

technology that could be keeping them from getting fit.

"Consoles will go the way of the Game Boy," said Lamar's product developer, Baker. "These won't be games that are linked to your pedal cadence or machine performance. You'll just see people playing blackjack or solitaire as they work out." The market is certainly ripe. Console technology precursors, like cell phones and MP3 players, have already gone full force in the game direction.

So your next great fitness customer may be the chunky kid who is used to sitting in front of the TV playing games. And, in the future, sales of recumbent bikes to all customers may hinge on factors like iPod adaptability and game compatibility. "As the price of the technology comes down, all equipment is going to come with some type of entertainment package," said Bates. "If the prices are similar, why wouldn't you buy the machine with the DVD player plug-in and games over the one without them?"

Much of America's youth obesity crisis—over 30 percent of all adult Americans and 16 percent of all children and teens are obese, according to the Centers for Disease Control, and the forecast is that 20 percent of youth will be obese quite soon—is blamed

on video games. If kids can actually play their games while they burn calories, engage muscles and slim down, selling them fitness machines with built-in video games may even do a good deed for the health of the nation. 

what's it

MEAN?



LED: Light-emitting diode. A small, incredibly long-lasting light bulb that is used for everything from electronic displays to clock radios to high-powered flashlights.

LCD: Liquid crystal display. Liquid crystals that are sandwiched between two thin, transparent sheets of material then charged to create a display; the greater the charge, the brighter the light.

OSD: On-screen display. A processor that allows information (such as pulse rate, calories burned, time elapsed, etc.) to be displayed directly on the equipment's TV screen.

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