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Internationalisation of the Health Club Industry: Theory, Practice & Context

by

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Abstract

The leisure industry has been one of the fastest growing industries in Britain (Grade, 1998), and in the year 2000 accounted for approximately 10% of Britain's gross domestic product (LeisureWeek, 2000a). Health clubs have been one of the fastest developing business sectors within the leisure industry (Mintel, 1999), and there is predicted to be plenty of scope for future growth (Mintel, 2001).

The health club sector has evolved greatly since its inception, with developments including consolidation, diversification, bi-polarisation and market segmentation. One of the most recent trends in the sector has been internationalisation, with fifteen British companies now having a presence overseas.

This research seeks to analyse the process by which the British health club sector has developed from being purely domestic based to having significant overseas investment. A number of stages within that process are identified including the motives to internationalise, the choice of country, the mode of entry utilised and the management and co-ordination of overseas activities. One of the key objectives of this research is to determine if a holistic view of internationalisation is appropriate, or even plausible for the health club sector.

The research suggests that the influence of environmental and company-factors results in a company's initial decision to internationalise, with certain 'determinants' regulating which companies actually invest overseas. A number of ownership-specific factors are identified that establish which companies might be able to compete effectively overseas. The process of internationalisation is then analysed and a number of factors established which influence the companies' choice of country to invest in, the mode of entry and the manner in which the overseas investments are managed.

Key words: Health clubs; leisure; internationalisation; foreign direct investment; joint ventures; strategic alliances; international management; market saturation; diversification; competition.

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Acronyms

FDI	Foreign Direct Investment
FIA	Fitness Industry Association
GB	Great Britain
GDP	Gross Domestic Product
ILAM	Institute of Leisure & Amenity Management
LIRC	Leisure Industries Research Centre
MNE	Multi-national Enterprise
ONS	Office of National Statistics
PLC	Product Lifecycle
PLC	Public Limited Company
SLAM	Sports, Leisure & Amenity Management
UK	United Kingdom
USA	United States of America

1 Introduction

Like many ventures this thesis was inspired in stages and by several factors, but the initial impetus arose from the body of literature available on internationalisation, which encompasses a broad range of subjects, analysed within different analytical frameworks. The complexity arising from the diverse range of subjects and the differing analytical frameworks results in an interesting and involved area of research, which can be tackled from a variety of angles. The two broad analytical frameworks utilised in research on internationalisation are arguably economic and strategic management. Writers such as Dunning; Casson; and Buckley present the economic perspective, whereas Porter; Alexander; and the Uppsala School of Management, amongst others, provide the strategic management perspective. Both of the frameworks analyse similar subject matter within internationalisation, although often focussing on slightly different elements. In order to reflect the two analytical frameworks this research utilises elements of both frameworks, ensuring that the data collected can be used to its fullest potential and that the conclusions drawn are not limited by set perspectives.

The range of topics that are incorporated in internationalisation demonstrates the diversity of the subject, which ranges in its components from the 'network effect', to exporting, to the dynamics of MNEs (multi-national enterprises). By examining the literature on internationalisation a number of stages can be identified, including the motives for international activity; the modes of foreign market entry; the types of international organisation, and the management of international operations, with large bodies of literature relating to each stage. A number of writers have aimed to analyse these stages as a process, and in doing so have focussed on one industry in particular, seeking to track the manner in which the industry internationalised (Akehurst & Alexander, 1995; Alexander & Lockwood, 1996; Roberts 1999). However, the

development of this 'holistic' view of internationalisation is relatively limited, and it is arguably only by understanding how individual industries have progressed in their internationalisation that we might understand how and why other industries might internationalise in the future. This piece of research therefore seeks to analyse the international development of a British industry, determining how an industry develops from being domestic only, to being internationally active.

In identifying the industry to be examined, it was found that much of the earlier research on internationalisation focussed on manufacturing industries, and although more recent research has examined service industries, there is still a plethora of service industries that warrant further exploration. Many service industries have achieved rapid international development during the last two decades (Cicic *et al*, 1999; Arvidsson, 1997; Boddewyn *et al*, 1986; Dahringer, 1991) and research is therefore encouraged on these types of industries. Furthermore, given the growth of service industries in Britain to date, it is likely that they will drive the country's future economic development. A certain amount of research has already been completed on the internationalisation of service industries, such as on the retailing industry (Akehurst & Alexander, 1995; Alexander, 1990; Hallsworth, 1992; McGoldrick & Holden), as well as the telecommunications (Hood *et al*, 1993; Clegg & Syed, 1999); construction (El Higzi, 2001); and finance industries (Lewis, 1999; Coleman, 1996; Aggarwal, 1993). However, given the wealth of service industries that are currently thriving in Britain, any further research on the international development of such industries can only increase our understanding of them.

The service industries that have received a large amount of academic attention tend to be relatively 'traditional' industries (as listed in the previous paragraph), which have been operating for many years, and in some instances have been internationally active for many years. The changing technology and culture, not only in Britain, but also throughout the world, has led to the rapid growth of new industries, such as internet based, consultancy, and leisure industries. One of the aims of this research is therefore to analyse the international development of an industry that has developed recently, not only internationally, but domestically as well.

A second factor in identifying the service industry for research is that it is an industry in which the British market is not disadvantaged. When analysing the international development of British operators it is hoped that the operators are amongst the forerunners in the world-wide industry, and are hence pioneering the

service in foreign markets. The British operators will by and large be introducing a relatively new service concept to indigenous consumers, and in this manner it may be possible to examine the 'developmental disequilibrium' proposed by Thurrow (1999), which argues that the differences in the development stages between countries can be exploited. Other strategic management concepts can also be explored, including Porter's (1985) competitive advantages, the influence of behavioural factors, and Vernon's (1971) industry lifecycle.

The third factor considered when choosing the service industry for research was the level of complexity and diversity that was apparent both in the domestic and international markets, in terms of the product lines, the operators, and the manner in which international expansion has been achieved. An industry that is overly simple, such as the fast-food restaurant industry for instance, does not arguably offer the same insights nor afford the same layers of analysis that might be required in a more complex industry. By understanding the international development of a complex industry different aspects of the findings might be compared to other industries.

The fourth and final factor contemplated in the choice of service industry was the level of interest that the industry aroused both personally, for the researcher, and amongst the wider business community. An industry that provides a product that is appealing and widely used is arguably more likely to hold the researcher's attention during the course of the research and trigger the interest of those involved with the industry.

In examining the range of service industries that could be applicable for research, the leisure industry was returned to time and time again. Although at first glance it might appear a frivolous subject matter for a PhD, closer inspection reveals that the leisure industry is an important cog in the British economic wheel, generating over 10% of Britain's GDP (gross domestic product) (Leisure Week, 2000a) and employing over 1.44 million people (Mintel, 2000b). The industry as we know it today has only developed since the 1980s, with leisure villages; multiplex cinemas; themed bars and restaurants; and corporate owned night-clubs all being recent market introductions. British operators were discovered to be amongst the international industry leaders, often taking second place after American operators in many service industries. Furthermore, the industry is highly complex and diverse and incorporates many types of services, provided by a vast range of operators, who tend to rely heavily on the segmentation of their market and the differentiation of their services.

Finally, the industry is undoubtedly perceived as being attractive, with almost all of the population participating in leisure of some form.

Although the complexity of the leisure industry is interesting, a difficulty that could arise from analysing the international development of the industry in its entirety is that the different sectors have achieved varying degrees of success in the domestic market, and have undertaken different levels of international development. It was therefore determined that one sector should be focussed on, the sector which displays the greatest amount of international development and the highest growth rates domestically. The health club sector was therefore identified as the focus for the research. The health club sector, (which is arguably an industry in its own right), has only recently been introduced to British culture in the form that we recognise it today, largely as a result of the media coverage of American health clubs. Since the introduction of the American-style health clubs in Britain, British operators have taken up the mantle of providing the highest quality health clubs world-wide and have succeeded in achieving penetration rates that are only a few percentage points short of those achieved in America. There is much variance in the product lines, with health clubs ranging from the low cost with basic facilities, to premium cost with swimming pools and tennis, squash and basketball courts. There are also distinct strategic groups, and different types of operators, all factors that combine to ensure that the industry is indeed complex and diverse. Finally, with penetration rates now nearing 10% of the British population, most individuals have now heard of, or use health clubs, even if they are not regular consumers, and it is an industry that is likely to attract most individuals at some point or other.

The following research needs to be dynamic and fluid in order to analyse the international development of the health club industry, from the first British owned health club being opened overseas, to the level of international development that will have occurred by the end of this research. The strategies of internationalisation that have been used in the past will not only be examined, but also the strategies being used in the present. International development will be ongoing during the course of this research and the research needs to be able to take into account these developments. The research is hence made more interesting in that there are significant uncertainties involved, the primary being that there is no means of knowing what is likely to occur in the industry and the wider 'operating environment' during the research. For instance, limited reading has identified that saturation of the

health club market is predicted to occur during the next few years, and that occurrence is likely to have radical affects on the growth strategies of British health club companies.

As discussed earlier, one key objective of the research is to establish if a holistic view of internationalisation, which considers the stages of internationalisation, from the motives to the management of foreign operations, is appropriate or plausible. The research also seeks to determine how each of the stages of internationalisation influences each other, and why certain companies develop internationally, while others will not. Each of the stages within the process of internationalisation will be analysed, determining the factors which influence the companies' choice of foreign market entry mode, location of development and international management strategies.

In order to achieve the level of depth that the research requires the method of data collection used was qualitative interviews with senior health club company managers, although this will be discussed in the methodology chapter. A further source of uncertainty in the research was therefore the access to the interviewees. However, assurance was taken from the fact that there are tiers of knowledge within the industry, which suggested that it was possible to gain access to some, if not all, of the tiers. These tiers of knowledge, or groups of individuals, include journalists; industry analysts; health club equipment suppliers; senior managers of non-internationally active health club companies; and senior level managers of internationally active health club companies. Furthermore, it was identified that within the companies a number of individuals should be in a position to discuss the domestic and international markets and / or the company's international activity. These individuals include the Managing Directors; Operations Directors; Chief Executives; International Development Directors.

The thesis will commence with an analysis of the British leisure industry, as a means of providing some indication of the wider industry in which the health club sector is incorporated. The chapter will also seek to demonstrate why the health club sector is of particular interest for the purposes of this research. Chapter Three will subsequently address the health club industry in greater detail, identifying the product lines, examining the development of the industry, and analysing the strategic groups. Chapter Four examines the literature on internationalisation, and seeks to form the literature in a holistic manner, whilst Chapter Five will identify the methodology to be

utilised for the research, and in doing so will discuss research paradigms and data collection and analysis techniques. The first results chapter, Chapter Six, will focus entirely on the motives for internationalisation in the British health club industry, and will aim to determine why some British companies have undertaken overseas expansion, whilst other companies have not. Focussing solely on the British health club companies that have developed overseas, it is envisaged that Chapter Seven will identify the factors that enable British health club operators to compete with indigenous health club operators; analyse the modes of foreign market entry utilised; examine the location of British health club companies' international activities; and determine the means by which the activities are managed and co-ordinated. Finally, it is anticipated that Chapter Eight will be the closing chapter that will conclude the findings from this research.

2

The Leisure Market

Chapter One states that the aim of this research is to analyse the internationalisation of the British health club sector. Given that the health club sector is incorporated in the leisure industry (Intel, 1999), the present chapter will analyse the leisure market, enabling a justification for a focus on the health club sector and providing an examination of the wider leisure 'environment' and the issues that might affect both leisure and health club operators. The chapter will commence with a definition of the term 'leisure', before progressing to analysing 'leisure time' and 'leisure activities'. The discussion seeks to establish how much time is dedicated to leisure; to determine what factors influence the amount of leisure time British consumers have available; and to examine the different types of leisure activities.

The analysis will subsequently progress to 'leisure consumers', identifying how consumer trends and consumers' actions might impact on the performance of the leisure industry, and suggesting how consumers contribute to determining the types of activities that are provided by leisure operators. The British leisure market will then be examined, providing a definition of the industry and the market for the purposes of this research; an identification of the leisure activities provided by leisure operators; an examination of the development of the market; and an analysis of the contemporary leisure market. The chapter will finally analyse international leisure markets.

2.1 LEISURE

The aim of the present section is to develop a definition of 'leisure' in order to provide clarity and establish boundaries when defining and discussing the leisure market. The leisure industry is widely recognised as being extremely diverse (Leisure Week,

2000a; Leisure Forecasts, 2000) and it encompasses many different types of companies who operate in a range of leisure industry sectors. This diversity could be suggested to arise directly from the diversity of 'leisure'.

Leisure is a rather broad and vague word, and is often discussed in terms of 'leisure time' or 'leisure activities'. For example, Universal Dictionary (1987) defines leisure as 'freedom from time-consuming duties, responsibilities or activities', suggesting that leisure is a concept of time, as it is the time remaining once other duties have been fulfilled. Similarly, SLAM (1999) focuses on the issue of leisure time, suggesting that 'many people tend to think of 'leisure' or 'leisure time' as the 'time free from employment''. However, SLAM (1999) also states that 'time free from employment' encompasses a variety of mundane chores which the average individual would not categorise as leisure, (for example, sleeping, travelling, studying etc), thus reducing the amount of actual leisure time available. Therefore, in order to clarify the definition of leisure time SLAM (1999) argues that choice is a key factor and that 'leisure time is the time which is left at the disposal of individuals, beyond the duties and necessities of their daily lives, when they are free to choose what to do'. It is subsequently suggested by SLAM (1999) that what people do in that leisure time can be referred to as 'recreation'.

In contrast, Mintel's (1999) definition of 'leisure' focuses on 'leisure activities' and divides leisure into four types of activities:

- Hobbies and sport
- Gardening and D-I-Y
- Audio-visual
- In and out-of-home entertainment

The two approaches to 'leisure' are utilised by Jordan's (1992) which initially defines leisure time, before considering leisure activities, which it defines as 'participation in active and passive recreational pursuits which are undertaken either within or away from the home environment. These may involve periods of participation ranging from an hour or two, to day visits, short breaks and longer holidays'.

It could be argued that there is a direct relationship between leisure time and leisure activities. If an individual has no leisure time he/she will not be able to undertake leisure activities, yet if they had leisure time and undertook no activities there would be no concept of 'leisure', resulting in there being nothing for the leisure

industry to provide. By adopting part of SLAM's (1999) definition for the purposes of this research, the importance of both expressions is recognised:

'Leisure time' is the time that is left at the disposal of individuals, beyond the duties and necessities of their daily lives, when they are free to choose what to do. The activities that they choose to undertake are 'leisure activities'.

2.1.1 Leisure time

Following the acknowledgement of the importance of 'leisure time' in this hybrid definition of leisure, it would seem appropriate to determine how much leisure time individuals actually have available. A positive direct relationship could be suggested to exist between leisure time and leisure activities; the more leisure time individuals have available the more leisure activities they are likely to engage in, and as a result the greater the need for leisure provision. Gratton & Taylor (2000) suggest that such a relationship alters the standard economic relationship between price and quantity demanded; if the individual has little leisure time, no matter what the market price, he/she will be unable to engage in certain leisure activities. The amount of leisure time individuals have available is therefore of great importance to the leisure industry.

According to the adopted definition of leisure, leisure time is available to individuals once they have allocated the necessary time to work and perfunctory duties. Since work occupies a large proportion of an individual's average week, any changes in the amount of time allocated to work will have a profound impact on leisure time. The Leisure Industries Research Centre (LIRC) (2000) suggests that between 1890 and 1984 average working hours decreased steadily. This statement is corroborated by Marketscape (2000) and Gratton & Taylor (2000), who state that between 1975 and 1984 the downward trend in working hours was so great that the average working day fell by approximately one hour. After 1985 this trend halted, and reversed, with the average working week increasing during the last two decades (LIRC, 2000). Leisure Week (2000a) suggests that with an average of almost 44 hours dedicated to work, Britain has the longest working week in Europe, which will have a direct negative impact on the leisure time available, and potentially on the leisure industry, particularly if the trend of increasing work time continues.

Although the increasing amount of time allocated to work is potentially a detrimental trend for the leisure industry, there are a number of factors concerning

‘work patterns’ that also influence the amount of leisure time available. For example, part-time working (Marketscape, 2000); working at home (Marketscape, 2000); holiday entitlement and retirement ages (Gratton & Taylor, 2000) may influence the amount of leisure time individuals have available, and these factors will be considered in turn.

Marketscape (2000) suggests that there has been an increase in part-time working in Britain, a fact that is supported by Leisure Week (2000a), which states that ‘part-time work is more common, as is the demand for flexible working hours’. This reduction of work time will have positive repercussions for leisure time, although not necessarily for the leisure industry. Part-time work may increase the amount of leisure time consumers have available, but it might also lead to a reduction in the amount of disposable income available. It is therefore important to assess the time rich/cash poor scenario, as despite having more leisure time available individuals might not necessarily engage in an increasing number of leisure activities as a result of their fall in income (Marketscape, 2000). This scenario is examined at the end of this section, in Table 2.2.

The trend towards working at home has had widespread effects; 25% of the population claim to do some work at home, while 1.5 million people work mainly or partly at home (Marketscape, 2000). This phenomenon is part of a general change in working patterns, which has witnessed moves towards ‘working at home, hot-desking and remote working’ (Leisure Week, 2000a). Marketscape (2000) suggests that the home worker will have more leisure time, thanks to the available time resulting from not travelling to and from work. They are also more likely to leave the home to pursue a leisure activity in order to benefit from a change in scenery, which they would otherwise have gained by leaving the house for work (Marketscape, 2000).

Gratton & Taylor (2000) discuss the impact of holiday entitlement on leisure time, and state that historical evidence shows that ‘paid-holiday entitlement for full-time manual workers has increased steadily over time, from a norm of three weeks or less in 1971, to a norm of four weeks or more during the late 1980s’. Arguably, the more holiday entitlement an individual receives, the more leisure time available. However, Gratton & Taylor (2000) do not account for white-collar workers, who might be classed as important leisure consumers owing to their higher salaries (Marketscape, 2000). Gratton & Taylor (2000) also identify a trend towards earlier retirement. This will certainly increase the amount of leisure time available across

individuals' life spans, but might not significantly impact on the demand for leisure activities, due to the potential fall in disposable income (Gratton & Taylor, 2000).

Although each of the aforementioned work patterns do have significant consequences for leisure time and potentially for the leisure industry, they are not the only influencing factors, as leisure time is that time 'beyond the duties and necessities of daily lives'. Time devoted to those duties and necessities will therefore also influence leisure time, as Table 2:1 demonstrates:

Table 2:1: Time allocation by full-time employed men and women (hours per week)

	1986	1987	1988	1989	1990	1991	1992
Men							
Paid work	39.0	41.8	40.9	41.6	41.4	40.1	NA
Travel	6.9	6.7	6.8	7.3	6.7	6.2	6.2
Personal time*	22.7	22.3	23.1	25.9	24.1	26.0	25.0
Leisure time [†]	50.4	48.2	48.2	44.2	46.6	45.4	47.7
Women							
Paid work	33.8	36.1	37.8	37.5	37.0	37.6	36.9
Travel	6.6	6.3	7.0	6.1	5.6	5.3	4.7
Personal time*	41.2	37.1	43.2	42.2	39.6	44.3	42.1
Leisure time [†]	37.4	39.5	31.0	33.2	36.8	31.8	35.3

Source: Adapted from Leisure Futures, Henley Centre for Forecasting (Gratton & Taylor, 2000)

* *House cleaning, everyday cooking, other chores, personal hygiene and appearance, essential shopping, essential childcare.*

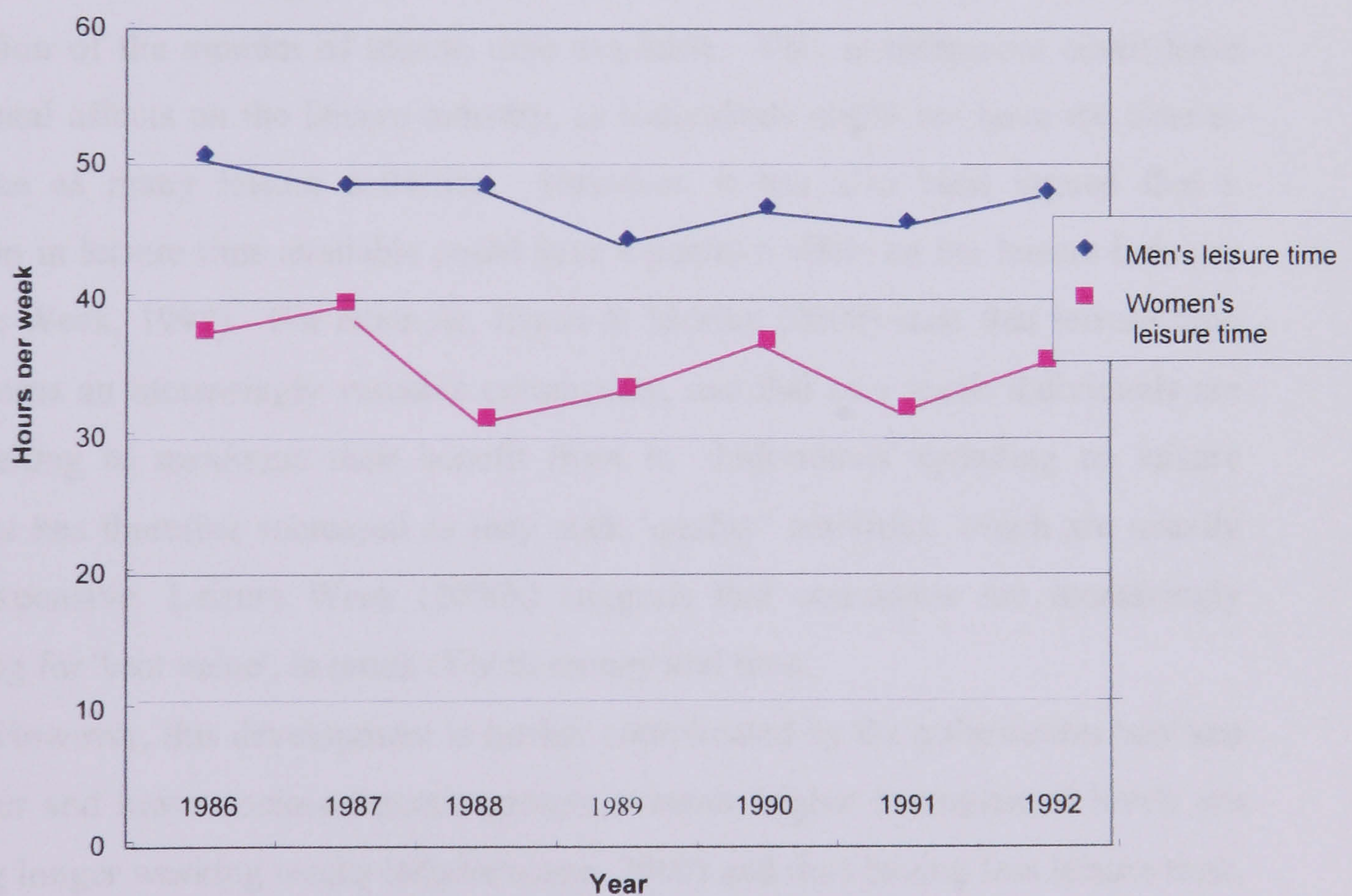
[†] *Leisure time = 168 hours – (paid work + travel + personal time + sleep)*

NA Not available

Table 2.1 indicates an overall increase in 'personal time', which The Henley Centre (2000) states is spent on perfunctory duties including 'house cleaning, everyday cooking, other chores, personal hygiene and appearance, essential shopping and essential childcare'. Women spend a larger amount of their time on personal duties than men, suggesting that any changes in women's personal time will have a profound affect on the amount of leisure time available to them. Time dedicated to these personal duties is found to increase overall for both men and women; a trend that might have negative implications for leisure time.

A further time consideration would, according to the Henley Centre (2000) be travel, the effects of which are also discussed by Marketscape (2000). Since travel time accounts for a significantly smaller proportion of total time it could be argued to have less of an impact on leisure time. However, it should be noted that the Henley Centre (2000) findings corroborate those of Marketscape (2000), which states that travel time fell between 1986 and 1992 (perhaps as a result of the change in work patterns as previously discussed). Any fall in travel time could potentially result in greater amounts of leisure time. Table 2.1 also indicates the increase in work time (i.e. paid work) that is discussed by LIRC (2000) and Gratton & Taylor (2000). Despite year on year fluctuations the amount of time devoted to work increases overall between 1986 and 1992. The adverse affects of increasing work time and personal time are demonstrated by the overall fall in leisure time between 1986 and 1992, for both men and women, which is illustrated in Figure 2.1

Figure 2.1: Leisure time allocation by full-time employed men and women (hours per week)



Source: Adapted from Leisure Futures (Gratton & Taylor, 2000)

A further consideration in the analysis of leisure time is arguably when the leisure time is available, and how much time is available at any given time. For example, it is important to assess whether the individual has many periods of 45 minutes of

leisure time or whether he/she has fewer but longer periods of leisure time available. This factor may influence the type of leisure activities that are undertaken (Godbey, 1997). The increases in work and personal time might suggest that the individual has fewer longer periods of leisure time available, with leisure time being slotted between other time constraints. This trend would therefore suggest that leisure activities requiring shorter time commitments could be increasingly popular. However, the trends towards lower retirement ages and increased holiday entitlement could allow individuals to take longer periods of leisure time, perhaps increasing the demand for leisure activities such as short holidays.

Patterns in work, personal and travel time can therefore be argued to have a significant impact on leisure time, which in turn will affect the leisure activities that individuals undertake. The analysis of leisure time over an individual's lifespan is relatively positive, thanks to the changing work patterns, increased holiday entitlement and earlier retirement age. However, it would appear that trends in work and personal time during an individual's average week are likely to result in a contraction of the amount of leisure time available. This development could have detrimental affects on the leisure industry, as individuals might not have the time to undertake as many leisure activities. However, it has also been argued that a reduction in leisure time available could have a positive effect on the leisure industry (Leisure Week, 1997). For example, Evans & Morley (2000) state that leisure time has become an increasingly valuable commodity, and that as a result individuals are now seeking to maximise their benefit from it. Individuals' spending on leisure activities has therefore increased as they seek 'quality' activities, which are usually more expensive. Leisure Week (2000a) suggests that consumers are increasingly searching for 'best value', in terms of both money and time.

However, this development is further complicated by the polarisation between the upper and lower socio-economic groups, wherein higher management levels are working longer working weeks (Marketscape, 2000) and thus having less leisure time, but more disposable income, whereas the lower skilled workers are working fewer hours, resulting in more leisure time but less money (Evans & Morley, 2000). If this is the case it might be argued that seeking 'quality' leisure is not always apparent, as the lower socio-economic groups might not be able to afford such luxuries. Whether the outcome is favourable for the leisure industry could depend on the amount of disposable income individuals have available, which will be discussed in Section 2.2.

LIRC (2000) examines the trade off between disposable income (or 'money') and leisure time, by identifying the different groups of consumers who experience varying amounts of time and money:

Table 2.2: Leisure time and money trade off

	Leisure time rich	Leisure time poor
Money rich	Affluent retired - especially in 50's and 60's	Full time core workers - especially executive levels
Money poor	Many part-time workers Unemployed - especially young and long term Some single parents Retired on state benefit	Working mothers in poor families Single parents with large families

Source: Adapted from LIRC (2000, p.65)

Table 2.2 incorporates much of the earlier discussions regarding the impact of part-time working (Marketscape, 2000); retirement (Gratton & Taylor, 2000); and the cash rich, time poor workers (Intel, 1999). The table also assists in illustrating that those individuals who are 'money rich' might not have the time to engage in a large amount of leisure activities, and that many individuals who experience a large amount of leisure time, might not have the disposable income to spend on leisure activities.

However, Key Note (1997b) interprets the effects of reduced leisure time favourably, suggesting that the limitations on the time available might result in a 'sound-bite culture'. A 'sound-bite culture' implies that individuals engage in more leisure activities for shorter periods of time (Key Note, 1997b) and the range of leisure activities available in contemporary society has encouraged this trend. Examples of 'sound-bite culture' include the amount of time watching television remaining constant, but the time spent being divided between various terrestrial channels, satellite and videos (Key Note, 1997b). Furthermore, in sport, individuals are more willing to spend half-hour sessions in the gym than they are to enter a two-hour team match (Key Note, 1997b). Key Note (1997b) concludes that 'this tendency to fragmentation indicates that modern consumers are keen to sample many types of leisure, even in small amounts, rather than adopting a single, time consuming hobby'.

The analysis of the contraction of the amount of leisure time available can therefore conclude that there will not necessarily be adverse effects on the leisure industry. Rather than engaging in fewer leisure activities the individual may engage in more activities for shorter periods of time, with spending being distributed throughout a range of leisure industry sectors. Furthermore, consumers may choose to devote a larger proportion of their disposable income to leisure activities as a result of the increased importance they place on that limited leisure time.

2.1.2 Leisure Activities

The aim of the following discussion is to identify the various types of leisure activities available, which will enable a definition of the leisure market. One of the aims of this chapter is to analyse the leisure activities that are closely related to the health club sector. By examining the range of leisure activities available it should be possible to determine which can be comparable to the health club sector. A number of classification methods for leisure activities are utilised in leisure market research, such as Mintel's (1997) division of leisure activities into four groups:

- Hobbies and sport: leisure pursuits participated in at home, plus sports pursuits outside the home
- Gardening and Do-It-Yourself: all gardening and D-I-Y activities
- Audio-visual: including television, listening to music, videos, computers and computer games
- In and out-of-home entertainment: reading, entertaining at home, shopping for pleasure, visiting pubs, restaurants and any other leisure venue

Since this research is focussed on health clubs, which are visited by consumers outside of their homes, the most relevant category would appear to be the latter 'visiting any other leisure venue'. It might also be suggested that the first three categories listed above, and in-home entertainment, can be rejected for the purposes of this research, as they are not directly relevant to the health club sector.

SLAM (1999) do not identify different groups of leisure activities, and instead provide three different methods of categorising leisure activities:

- Home-based leisure activities or leisure away from home

or:

- Information or non-information related activities

or:

- Physical or non-physical activities

SLAM's (1999) classifications would appear to complicate the identification of the category that is most relevant for health clubs, as they might be included in 'leisure away from home' or 'physical activities'. However, given the range of facilities offered by a health club (as will be discussed in Chapter Three) it might also be argued that visiting a health club is not necessarily a 'physical activity', as is playing sports etc, as a wide range of 'non-physical facilities' are often available at British health clubs. Although the categories provided by SLAM (1999) and Mintel (1997) fall within the boundaries of the 'leisure market' for the purposes of this research only, the leisure market will be defined as:

The leisure market is the arrangement that brings together actual and potential buyers and sellers of leisure activities that are consumed away from the home.

For the purposes of this research the leisure industry will be defined as:

The leisure industry is a group of organisations that provide leisure activities for individuals to consume away from the home.

The following chapter will therefore focus on leisure activities that are consumed away from the home.

Although the identification of leisure activities 'away from home' limits the boundaries of the leisure industry and enables some narrowing of focus for this research, the group still includes a vast range of sectors, as indicated below (SLAM, 1999):

- Participation in sports/games/physical activity
- Sport spectating
- Eating out and visiting public houses
- Going to cinema/theatre/ballet/concert etc
- Visiting other entertainment centres
- Visiting tourist attractions
- Taking holidays
- Motoring
- Going to 'keep fit' & other classes/activities
- Betting and gambling (away from home)

Leisure Futures (1992) defines leisure ‘away from home’ as ‘out-of-home leisure’ and ‘home-based leisure’ as ‘in-home leisure’, and the two types of terminology will be used interchangeably throughout the following analysis. Out-of-home leisure experienced a growth in its share of leisure spending during the 1980s and early 1990s, and this growth is best illustrated when compared to the decline in leisure spending on in-home leisure, as Table 2.3 indicates:

Table 2.3: Share of leisure spending

% of Total Spending	1986	1987	1988	1989	1990	1991	
In home leisure	35.6	35.0	34.4	33.7	32.8	33.1	-2.5
Out-of-home leisure	64.4	65.0	65.6	66.3	67.2	66.9	+2.5

Source: Leisure Futures (1992) (SLAM, 1999)

Table 2.3 indicates that whereas out-of-home leisure enjoyed a 2.5% increase in leisure spending between 1986 and 1991, this increase was naturally to the detriment of in-home leisure. The trend was also predicted by Leisure Futures (1992) to continue until 1997, with ‘out-of-home’ leisure attaining 67.8% of leisure spending and ‘in-home’ leisure only constituting 32.2% of leisure spending; and this prediction was realised, as will be discussed in subsequent sections. The positive trend for ‘out-of-home’ leisure activities underlines its importance to the leisure industry, and assists in justifying a focus on the health club sector, which is one of the fastest growing sectors in out-of-home leisure, as will be discussed in Section 2.3.2.

2.2 LEISURE CONSUMER

The profile of leisure consumers arguably contributes to determining the performance of the leisure industry. For example, if the number of leisure consumers increases, or the leisure consumer becomes more affluent, there should be a greater demand for leisure activities, and thus increased turnover for leisure operators. Leisure consumers can be analysed in terms of general population trends; employment rates; disposable income; and socio-economic profile, and the following section will attempt to examine each of these factors and their potential effects on the British leisure industry.

The profile of the British population could arguably be considered as being significantly important to the leisure industry. For example, the larger the population, the greater the potential leisure consumer base. Consumer profiling could also assist in determining the types of leisure activities demanded by British leisure consumers. Table 2.4 indicates the population profile in Britain for 1999 and 2003 and demonstrates the number of men and women in each age group:

Table 2.4: Trends in the age structure of the British population 1999-2003

Women (Age)	1999		2003		% Change '99-2003
	000's	%	000's	%	
0-14	5538	18.4	5428	17.9	-2
15-24	3515	11.7	3715	12.2	+5.7
25-34	4391	14.6	3893	12.8	-11.3
35-44	4308	14.3	4613	15.2	+7.1
45-54	3897	12.9	3845	12.7	-1.3
55-64	3051	10.1	3426	11.3	+12.3
65+	5437	18.0	5418	17.9	-0.3
Total	30136	100	30339	100	+0.7
Men	1999		2003		% Change '99-2003
	000's	%	000's	%	
0-14	5831	20	5713	19.3	-2
15-24	3684	12.6	3880	13.1	+5.3
25-34	4583	15.7	4055	13.7	-11.5
35-44	4412	15.1	4774	16.2	+8.2
45-54	3886	13.3	3847	13	-1
55-64	2963	10.2	3333	11.3	+12.5
65+	3829	13.1	3951	13.4	+3.2
Total	29187	100	29557	100	+1.3

Source: Adapted from Mintel (1999)

The general population trend is arguably positive for the British leisure industry, with the British population predicted to increase between 1999 and 2003. The male population is forecast to increase by 1.3% and the female population to increase by 0.7%. The age group for both genders forecast to increase by the largest percent is 55-64 years, and this trend is recognised in the trade press, with leisure operators being encouraged to target the 'grey' market (Maguire, 2001a; Terry, 2001; Maguire, 2001b). One unfavourable trend for the leisure industry is arguably the decrease in the number of individuals aged 25-34, who are likely to be comparatively affluent, have fewer financial constraints than older age categories and may be the most willing to partake in leisure activities (Mintel, 1999). This negative trend is slightly offset by

the growth of the student population (15-24), who tend to spend above the average adult norm on leisure, especially on 'out-of-home' activities, (the average student was found to spend £700 annually on entertainment, (Intel, 1999)). However, this relatively high level of spending may reduce dramatically as their disposable income is continually under pressure from cuts in grants and rising loans (Intel, 1998b).

Although the overall population trends are generally favourable for the leisure industry, it does not automatically suggest that the British industry will benefit, as the consumers might not be willing to spend their income on leisure activities. One method of ascertaining the likelihood of individuals spending on leisure activities is to determine what percentage of the population is employed, and hence what percentage of the population receives a 'steady' income. In theory, the greater the number of people in full-time employment the larger the potential leisure consumer base. Table 2.5 indicates employment trends by demonstrating the number of unemployed individuals in Britain between 1994-1999:

Table 2.5: Employment trends 1994-1999

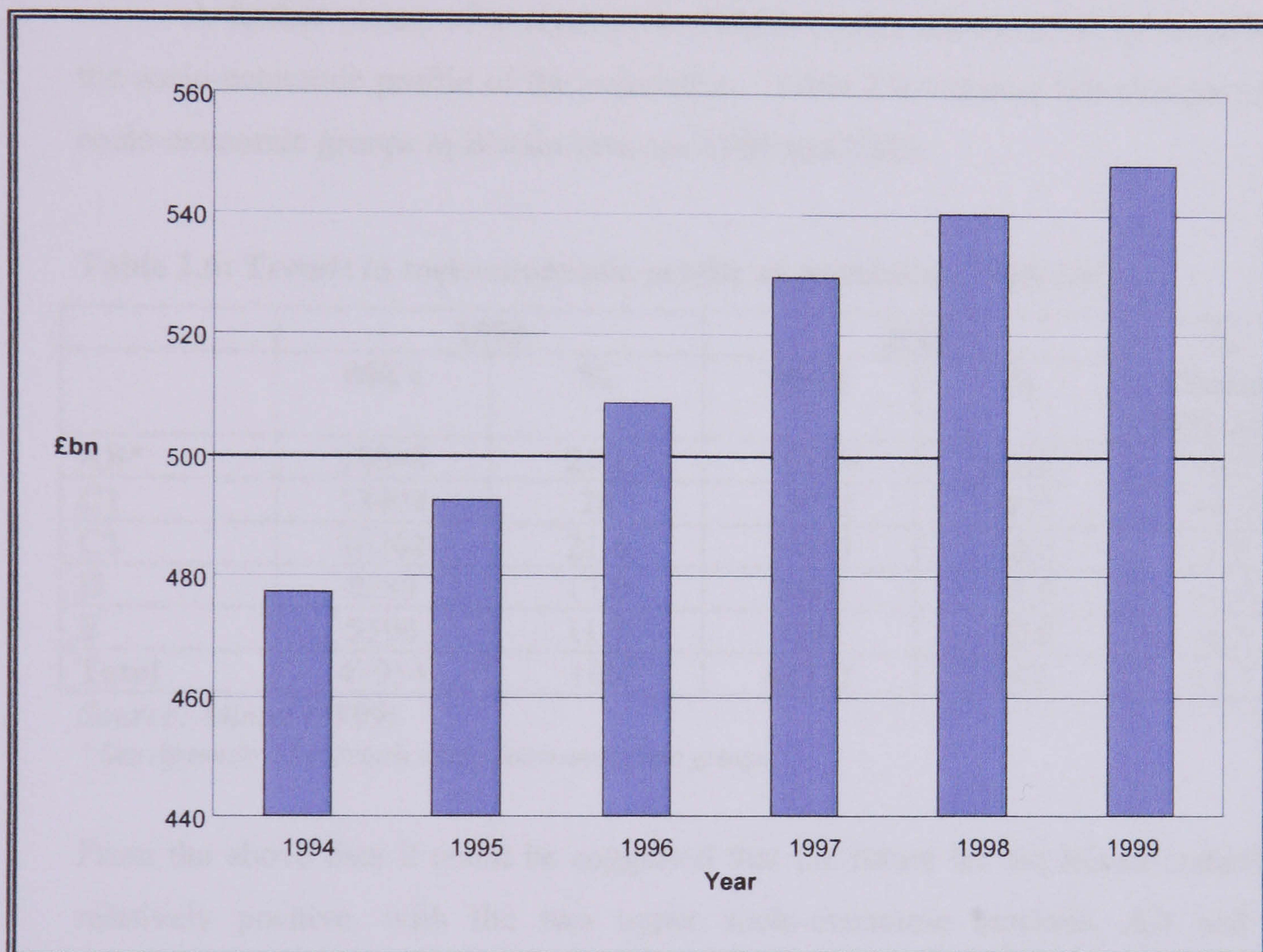
Year	No. of Unemployed (000)	As % of Total Workforce
1994	2619	9.2
1995	2306	8.1
1996	2104	7.4
1997	1584	5.6
1998	1358	4.8
1999	1645	5.8

Source: Intel (1999)

Table 2.5 indicates that during the six-year period the percentage of the total workforce unemployed fell between 1994 and 1998, before increasing again during 1999. However, the overall trend has been a fall in unemployment from 9.2% to 5.8%, which is arguably positive for the leisure industry, as the greater the population in full-time employment, the larger the potential leisure consumer base. Furthermore, assuming that as the population increases (as indicated by Table 2.4), so too does the British workforce, then the future is positive for the leisure industry, as it suggests that a greater number of people in Britain receive an income from employment, of which

they may choose to allocate a percentage to leisure activities. However, determining the size of the workforce does not necessarily establish whether leisure spending will increase, as it does not take into account wage and taxation rates. Figure 2.2 therefore examines the trend in personal disposable income¹ for the British population between 1994 and 1999:

Figure 2.2: Trends in disposable income for the British population 1994-1999*



Source: Mintel (1999)

*N.B. It is not apparent whether the figures have taken into account inflation rates

Figure 2.2 indicates a favourable trend for the British leisure industry, with the British population's personal disposable income increasing from just under £480bn to approximately £550bn during the six years. The increase in disposable income could therefore suggest that consumers have increasing amounts of income available to spend on leisure activities. However, it should be noted that the graph does not take into account potential rising costs of living (such as mortgages, increased VAT rates

¹ Personal disposable income is defined as 'the residue of one's income that is available for use after all the direct taxes have been paid' (Universal Dictionary, 1987).

etc) that might result in a decrease of income being allocated to leisure. Furthermore, it is not clear whether individuals are working longer hours in order to gain the increase in personal disposable income. This is explored by Mintel (1999) who state that although 44% of adults had more money to spend on leisure, 51% actually had less leisure time. This scenario may prove advantageous or detrimental to the leisure industry, depending on consumers' reaction to limited leisure time (see Section 2.1.1).

A further means of analysing the British leisure consumer is by considering the socio-economic profile of the population. Table 2.6 indicates the changes in the socio-economic groups in Britain between 1999 and 2003:

Table 2.6: Trends in socio-economic profile of population 1999-2003

	1999		2003		% Change 1999-2003
	000's	%	000's	%	
AB*	10098	21.1	10779	22.1	+6.7
C1	13409	28	13972	28.7	+4.2
C2	10262	21.4	10075	20.7	-1.8
D	8589	17.9	8684	17.8	+1.1
E	5596	11.7	5242	10.8	-6.3
Total	47954	100	48752	100	+1.7

Source: Mintel (1999)

** See Appendix I for details of the socio-economic groups*

From the above data it could be suggested that the future for the leisure industry is relatively positive, with the two upper socio-economic brackets, AB and C1, increasing in size by 6.7% and 4.2% respectively between 1999 and 2003. The trade press also recognises that these affluent socio-economic groups 'prefer to invest in experiences rather than in material items', which is a particularly positive development for the leisure industry (L&HB, 2001e), as it suggests that they will be more interested in engaging in leisure activities away from the home, rather than purchasing leisure commodities for use in the home. Furthermore, although C2 is forecast to decline by 1.8% this is a relatively small percentage change. The lowest socio-economic bracket is also predicted to decrease, by a relatively large percentage, which could be a positive trend for the British leisure industry. These changes are collectively likely to result in an increase in the percentage of the British population that has the disposable income available to spend on leisure activities.

A further leisure consumer trend that might affect the performance of the British leisure industry is the increasing significance of women as consumers (Thomas, 1999; Mintel, 1999). Although the female population is not expected to increase by as large a margin as the male population (see Table 2.4), increasing numbers of women are now working, resulting in them having the disposable income available to potentially spend on leisure activities (Thomas, 1999). The 1990s have witnessed an increase in the proportion of working women, increasing from 45.5% in 1994 to 46.4% in 1999 (Mintel, 1999).

The above discussion therefore identifies a number of trends that are potentially favourable for the British leisure industry. Firstly, the British population is increasing in size, which could result in a greater number of leisure consumers. There has been a significant increase of individuals in the 55-64 year old age group, which could result in the leisure industry increasingly focussing on this age group. Furthermore, there has also been an increase in the size of the student age group, who tend to spend more than the average on leisure activities, although their leisure spending may fall if their anticipated decrease in disposable income occurs. However, these favourable population trends are slightly offset by the decrease in the size of the 25-34 year old age group. The discussion also established that there have been decreasing unemployment rates during the 1990s, and increasing disposable income, which suggests that consumers may be more willing to spend on leisure activities, although they may have less leisure time. The changes in the socio-economic profile have also been favourable for the British leisure industry, with an increase in size of the AB and C1 groups, and a significant decrease in the size of socio-economic group E. Finally, the industry may experience an increase in spending by female leisure consumers who have higher levels of disposable income than previously.

2.3 LEISURE MARKET

The following section aims to explore the definition of the leisure industry for the purposes of this research, and analyse the leisure activities that are provided away from the home. The section will then progress to examining the development of the British leisure market, before focussing on the contemporary British leisure market. Leisure market trends will finally be analysed, enabling an identification of the factors that might impact on health club providers.

2.3.1 Definition of the leisure industry

The discussion in Section 2.1.2. on leisure activities stated that there is substantial diversity within 'leisure', and that this diversity is reflected in the leisure industry by the range of leisure providers. In order to focus the analysis for the purposes of this research it was stated that only leisure activities provided for the consumer 'away from home' would be incorporated into the definition of the leisure market for the purposes of this research. It might also be argued that these leisure activities are all services, as the activities listed in Section 2.1.2. are non-goods² based, and instead involve simultaneous production and consumption, and there is little, if any, transfer of ownership (Dunning, 1989), implying that they are services. The providers of these activities might therefore also be termed 'leisure services providers'. However, within this refined category of 'leisure services', there is a wide range of activities, as stated in Section 2.1.2, and a wide range of leisure services providers. This section seeks to provide a higher level of focus for the analysis, by identifying the types of leisure services that are available, and specifying the types of leisure services providers which will be included within the definition of the leisure industry for the purposes of this research.

There are three main groups of leisure services providers; private; public; and voluntary (Jordan's, 1992). Jordan's (1992) states that private leisure services are operated by profit-maximising companies; public services are operated by the government (particularly local government); and voluntary leisure services are operated on a not-for-profit basis and include community activities; clubs; societies; and play schemes etc. This research will examine the privately operated leisure services only as it might be suggested that of the three types of organisations, the profit-maximising companies are most likely to invest overseas as a result of their goal of long-term profit maximisation. Furthermore, public operated leisure services may be highly influenced by governmental issues and local authority policies, so their decisions regarding their development strategies might not be purely commercially driven. Furthermore, not-for-profit leisure activities providers are unlikely to have access to the necessary capital funds for international expansion.

² A 'good' is defined as a 'tangible, physical entity that is received in an exchange' (Dibb *et al*, 1994, p.194)

By examining Mintel's (1999) categorisation of leisure services it is possible to explore the definition of the leisure industry and market for the purposes of this research. Mintel (1999) divides leisure services into three groups, leisure catering; leisure accommodation; and leisure activities (not to be confused with the earlier definition of leisure activities that encompassed all three):

Table 2.7: Leisure services

Leisure Catering	Leisure Activities	Leisure Accommodation
Fast food / takeaways	Cinema	Other holidays at home
Restaurants	Theatre	Hotels (leisure only)
Pubs / bars (catering)	Ten-pin bowling	Short breaks
Pubs / bars (beverages)	Night-clubs / discos	Days out
Pubs / bars (other)	Gambling	
Wine bars	Health & fitness	
Roadside catering		
In-store catering		
Other catering		

Source: Adapted from Mintel (1999)

Table 2.7 identifies nineteen leisure sectors, which are categorised into three groups, assisting in establishing that leisure services is a varied market, with services ranging from restaurants, to ten-pin bowling to holidays. Health clubs are categorised as a leisure activity, within the health and fitness sector. By taking into account the information provided in the above table, the definition of the leisure market and the leisure industry for the purposes of this research can be further refined, and it can be stated that:

The leisure market is the arrangement that brings together actual and potential buyers and private sellers of leisure services that are consumed away from the home.

And:

The leisure industry is a group of privately owned organisations that provide leisure services for individuals to consume away from their home.

Table 2.7 also indicated that the health club sector (health & fitness) is categorised as being a 'leisure activity', therefore suggesting that cinemas; theatres; ten-pin bowling; night-clubs & discos; and gambling are the most comparable to the health club sector. Therefore, where possible the discussion in the following sections will focus on these sectors.

2.3.2 The British leisure market

The following section will analyse the development of the British leisure market and subsequently focus on the contemporary British leisure market, examining the value of the market; employment levels; market size; the rate of growth of the British leisure market. The following analysis is drawn from a number of resources, which tend to utilise differing definitions of the leisure market, and it will therefore be stated when these differ to the definition provided above.

The British leisure market began to achieve massive expansion during the 1980s (Martin & Mason, 1997), and in particular the late 1980s, when many new leisure venues were constructed and companies that had previously not necessarily considered themselves as 'leisure operators' began focusing on leisure (for example Whitbread; Scottish & Newcastle). The period was considered to be a 'leisure boom', with total consumer spending on leisure rising by over one quarter in real terms, which was the equivalent of an average growth of 6% a year (Martin & Mason, 1997). This 'leisure boom' was reflected in corporate investment, and SLAM (1999) states that the 1980s were a period of major investment in new leisure developments such as multiplex cinemas, sports and leisure complexes, tenpin bowling centres and health clubs.

The boom of the 1980s was followed by a prolonged recession during the early 1990s, and many companies suffered heavily due to the economic downturn. Consumer spending on leisure fell dramatically during this period, until recovering during the mid-1990s (SLAM, 1999). This was confirmed by the Family Expenditure Survey (1992), which found that the average expenditure on leisure goods and

services was £40.88 per week in 1992, in contrast to 1995 when it increased dramatically to £45.37 per week, a result of the improved economic situation in Britain. Investment in the leisure industry was also severely affected during the economic recession, and between 1990 and 1992 there was a substantial decline in the value of investment and many projects were either cancelled or postponed (SLAM, 1999).

Following the British economy's recovery from the recession of the early 1990s there was an increase in leisure spending during the mid-1990s, which was a clear boost to the leisure industry, resulting in it regaining its previous growth rate (SLAM, 1999). Consumer expenditure was partly stimulated by the added disposable income that many individuals received when a number of building societies made 'windfall payments' in 1997 (SLAM, 1999). Investment in the leisure industry also increased dramatically during this period (Tate, 1996). The Institute of Leisure and Amenity Management (ILAM) (1995) illustrates the importance of the leisure industry to the British economy at that time, stating that the leisure industry contributed 20% of Britain's Gross Domestic Product (GDP) during 1995 and that annual expenditure on leisure was £110 billion (although their definition of the 'leisure industry' is not provided).

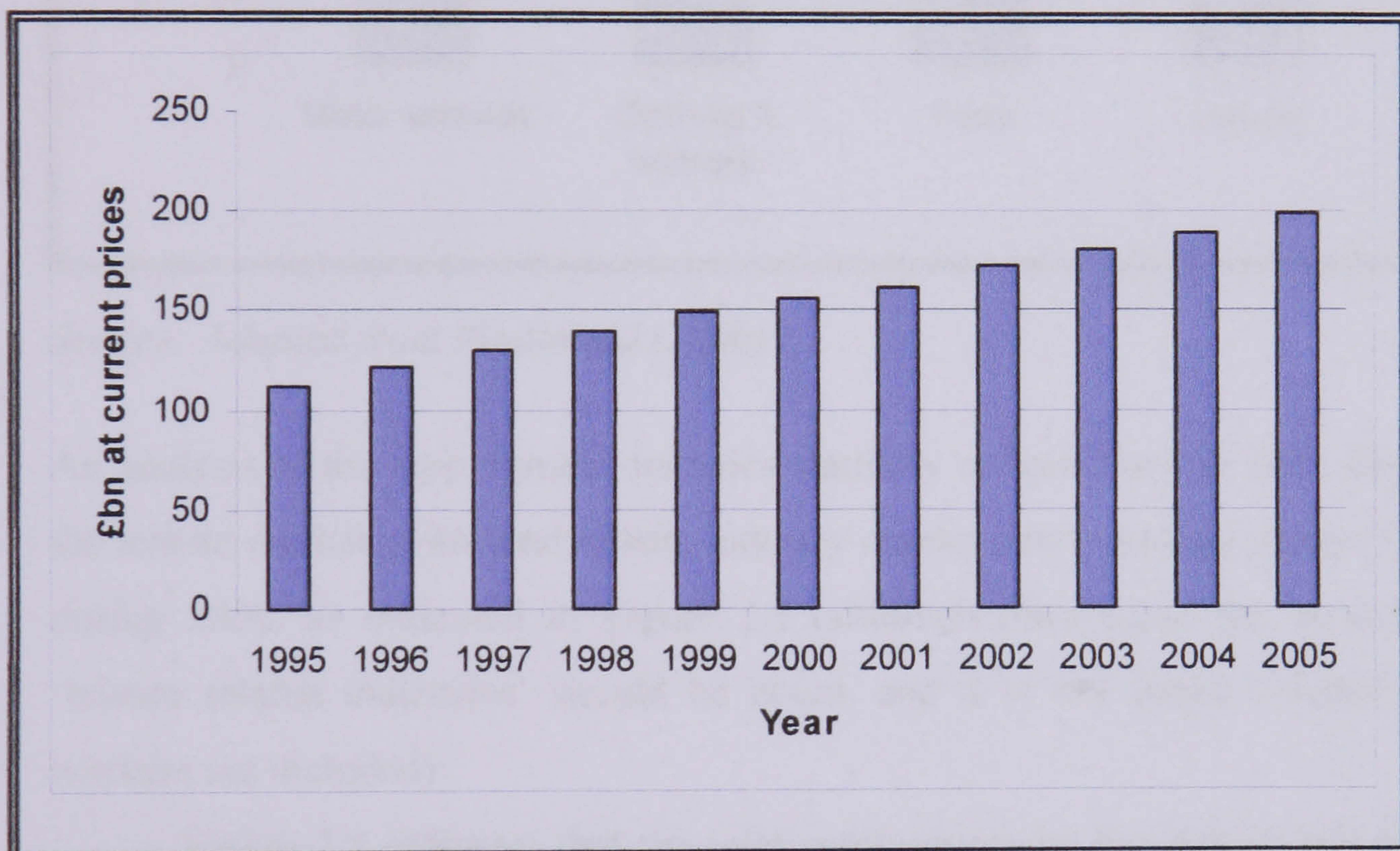
The success of the leisure market continued into the late-1990s and according to figures from the Office for National Statistics (ONS), total consumer expenditure on leisure goods, services and activities reached £134 billion in 1998, an increase of 36.6% on 1997. This increased consumer spending on leisure has been suggested to have been facilitated by increased personal disposable income and increased car ownership, with the greater range of leisure options encouraging spending (Howitt, 1999).

Following its rising success of the mid-late 1990s the leisure market suffered another setback during 1998 and the beginning of 1999. The Leisure Industries Research Centre (LIRC) (1999) found that after a growth of nearly 8% during 1997, consumer spending on leisure goods and services slowed markedly during 1998, falling to less than 2% growth (Gratton, 1999). The reasons cited for the slowdown during 1998 and early 1999 include the rise in interest rates; the lack of windfall payments; and a decline in consumer confidence due to the fallout of the economic crisis in Japan and Russia, which resulted in consumers being cautious of excessive spending on luxury goods and services (Gratton, 1999). Furthermore, the poor

weather during 1998 was found to have detrimentally influenced leisure spending, and consumers tended to stay at home due to the television broadcasts of the World Cup, which proved extremely popular (Gratton, 1999).

A number of means of assessing the importance of the leisure market to the contemporary British economy is by analysing its contribution to GDP; the size of the leisure market in comparison to other markets; and the level of employment by the leisure industry. It has been estimated that the leisure market is accountable for 10% of British GDP (Thomas, 1999; Leisure Week, 2000a) and this contribution has steadily increased from 1995 to date, and is expected to continue increasing until 2005, as Figure 2.3 demonstrates:

Figure 2.3: Growth of the British leisure market



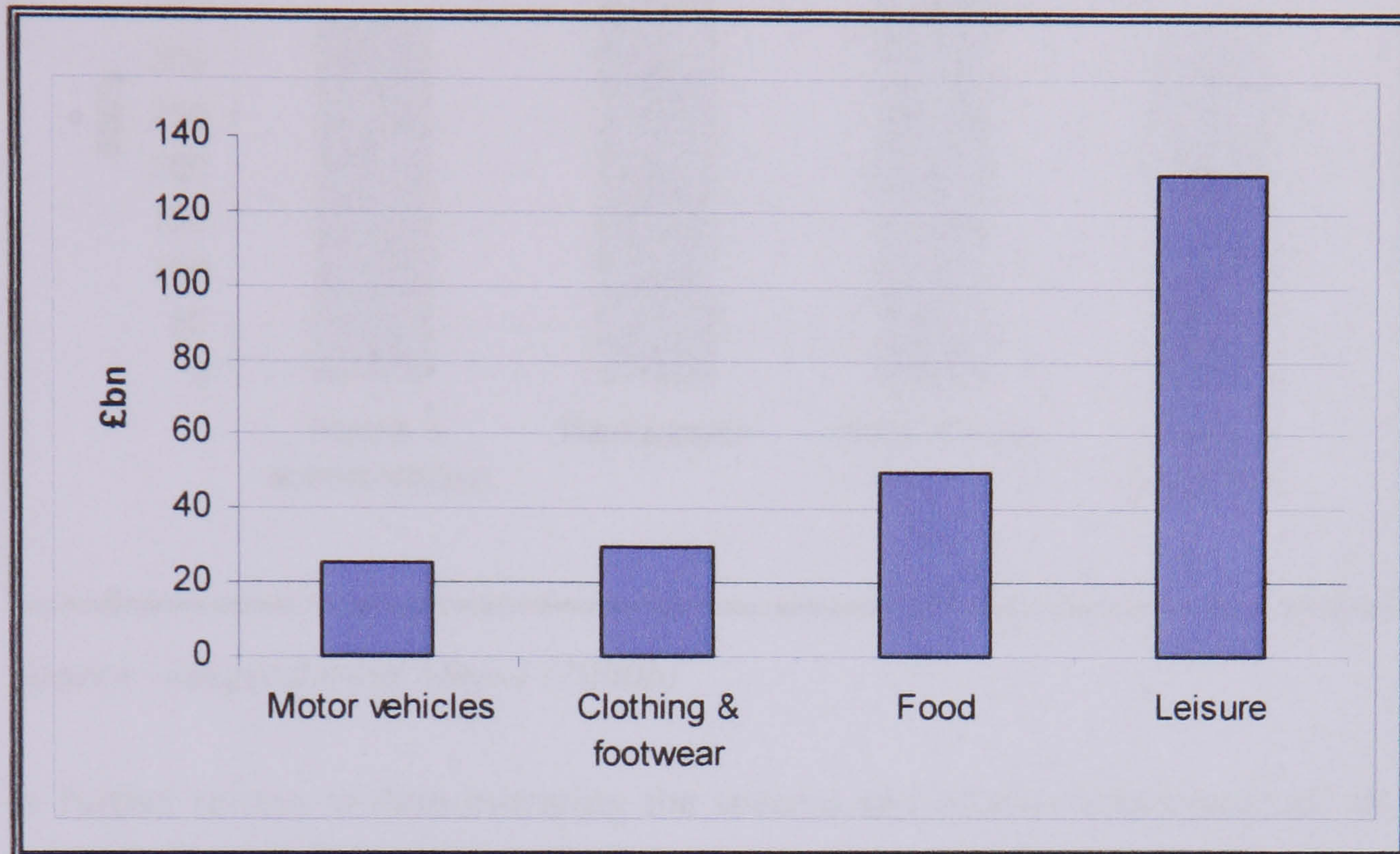
Source: Adapted from Whitbread (2002)

Figure 2.3 indicates that during 2002 the leisure market contributed £172.2 billion to the British GDP, and that its contribution is predicted to increase to £198.6 billion during 2005. The importance of the leisure market to the British economy is similarly illustrated when comparing the size of the leisure market to other markets.

Figure 2.4 indicates the dominant size of the leisure market (although it should be noted that the source is not clear on how they define or limit the leisure market). Not only was the leisure market relatively large during 2000, but its growth is also predicted to continue into the future, as Figure 2.3 indicates. The leisure market

should therefore continue to be dominant, as it is cited as being the second fastest growing industry in Britain after the computer industry (Grade, 1998).

Figure 2.4: The value of the British leisure market

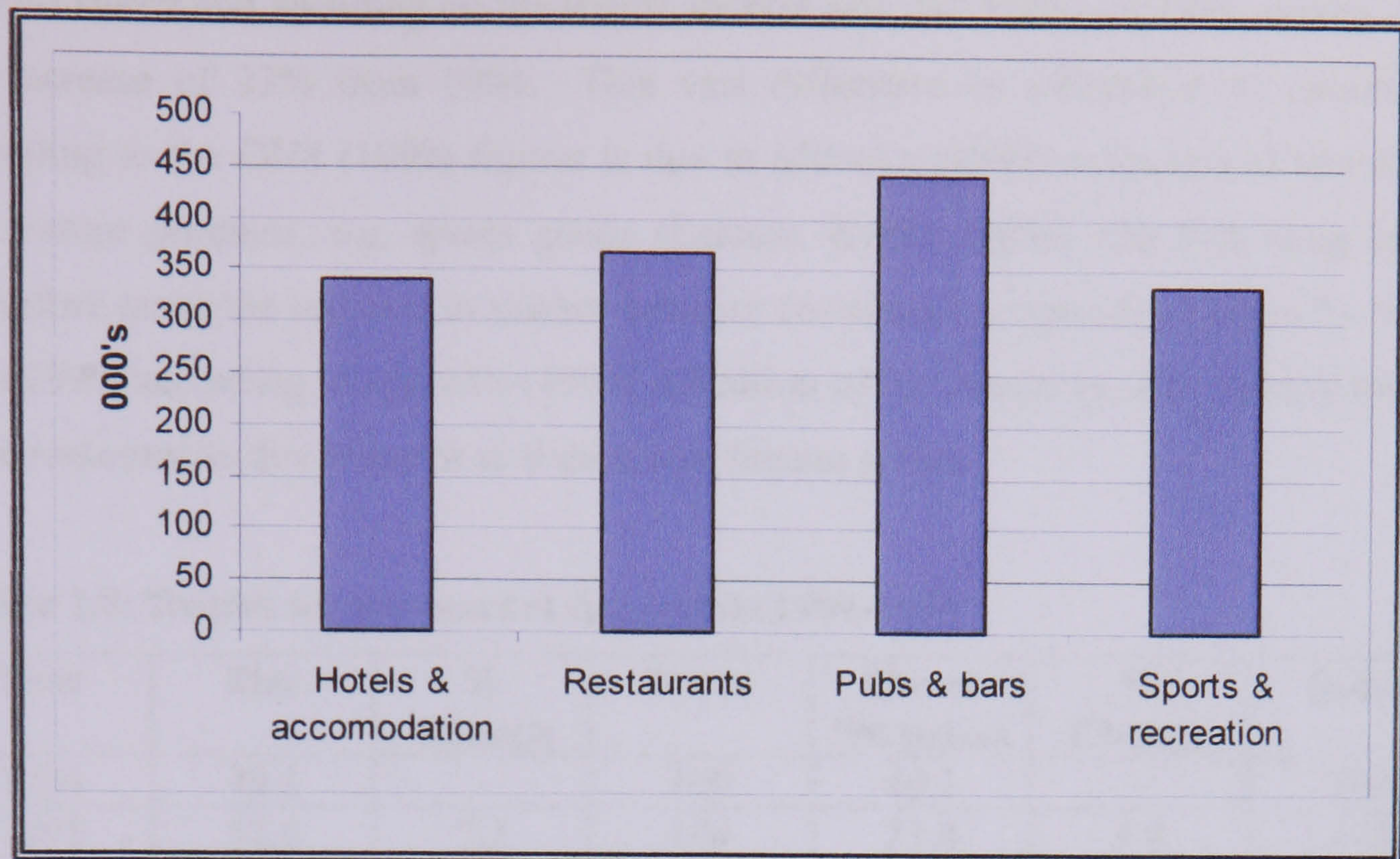


Source: Adapted from Whitbread (2000)

An analysis of the employment statistics similarly reflects the size and importance of the leisure market, with total leisure industry employment totalling almost 1.5 million during 2000, as indicated in Figure 2.5 (although once again the inclusion of all 'leisure related industries' should be noted, and it is not stated whether part-time workers are included):

Figure 2.5 indicates that the total employment by the British leisure industry during 2000 exceeded 1.44 million people, and other estimates of leisure industry employment are even more favourable, suggesting that 'leisure related' employment accounts for 2.5 million people, or one in ten jobs in Britain (Thomas, 1999; Leisure Week, 2000a). The prospects for the future are also positive, with the Henley Centre (2000) predicting the creation of 400,000 new jobs during the next ten years, which suggests that one in four of all new jobs will be 'leisure related', without accounting for employment in support industries (Grade, 1998).

Figure 2.5: Employment in leisure related industries



Source: Adapted from Mintel (2000b)

A further means of demonstrating the success and relative importance of the leisure market is to consider expenditure by leisure consumers. The earlier discussion of leisure consumers identified a number of factors that would determine leisure consumer spending. Those trends were favourable and their positive influence is demonstrable when analysing the leisure market. Figures published by the Office for National Statistics (ONS) (1999) indicate that total consumer expenditure on leisure 'goods, services and activities' reached £134 billion in 1998, which was an increase of 6.6% on 1997 (Howitt, 1999). During the period from 1994 to 1998, consumer expenditure in the leisure market increased by 25.5%, a slightly higher increase than the growth in total consumer expenditure (Howitt, 1999), suggesting that the leisure market is experiencing above average growth. The large increase meant that by 1998, leisure spending accounted for 25.6% of all consumer spending (Howitt, 1999). This figure can be put into context when compared to other avenues of household expenditure; according to ONS (1999) British households spent £60 on leisure goods, £59 on food and £57 on housing a week, from an average weekly expenditure of £352.20. These figures clearly demonstrate the importance of leisure to British consumers.

Due to the differing methods of defining and limiting the leisure market, estimations of consumer spending on leisure do vary widely. For example, Mintel

(1999) stated that spending on the leisure market was £60 billion in 1999, which was an increase of 23% from 1994. This vast difference in estimation of consumer spending to the ONS (1999) figures is due to Mintel's (1999) exclusion of spending on leisure products, e.g. sports goods (Leisure Week, 2000a) The following table therefore maps the increase in market turnover (or consumer spending) between 1994 and 1999, according to Mintel's (1999) definition of the leisure industry, and is hence more relevant to this research as it discounts leisure goods:

Table 2.8: British leisure market size trends 1994-1999

Year	£bn	% Change	Index	£bn at '94 prices	% Change	Index
1994	49.1	-	100	49.1	-	100
1995	52.6	7.3	104	51.4	4.8	105
1996	54.4	3.4	111	51.3	-0.2	105
1997	57.5	5.6	117	52.6	2.4	107
1998	59.0	2.7	120	52.5	-0.2	107
1999 (est)	60.3	2.1	123	52.4	-0.2	107

Source: Mintel (1999)

Despite the positive predictions for the British leisure market discussed earlier, Table 2.8 does not provide quite such a positive picture. Although the turnover of the British leisure market does increase between 1994 and 1999, the percentage changes for 1998 and 1999 are not as great as during the previous three years. Furthermore, by analysing the leisure market turnover through 1994 prices, it is established that during 1998 and 1999 the turnover of the leisure market actually declined. Although these observations might be negative for leisure services, analysis on investment in the leisure market remains positive. For example, according to the lobby group Business in Sport and Leisure, 'investment in new restaurants, hotels, bars, health and fitness clubs and family entertainment centres was well over £4 billion in 1998' (Leisure Week, 2000a). Furthermore, according to ONS (1999) figures, from 1984 to 1998, annualised growth in net capital expenditure in the leisure market was 6.9% per annum. For the whole economy the figure was 4.3% (Leisure Week, 2000a), an indicator of how well the leisure market is performing in relation to the rest of the economy.

The above discussion therefore demonstrates that the British leisure market has experienced growth since the 1980s and is predicted to enjoy growth until 2005.

The leisure market is relatively large when compared to the British markets for motor vehicles and food etc, and employs over 1.5 million people in Britain. Although the trends for turnover for the leisure market were not positive during the 1990s, the market is still benefiting from a large amount of investment. The relative importance of the leisure market and its predicted continued domination assist in justifying a need to understand the market through research, particularly since it is one of the largest contributors to British GDP. The following analysis of 'away from home leisure' will also seek to justify the need to focus on the health club sector.

As demonstrated in Table 2.7, leisure services can be divided into three categories; leisure catering, leisure accommodation or leisure activities (as defined by Mintel (1999)), and Table 2:9 indicates the turnover of each of these markets during 1994 and 1999:

Table 2.9: British leisure business, by broad market sector 1994 & 1999

Market Segment	1994		1999		% pt Change '94 – '99
	£bn	%	£bn	%	
Leisure Catering	32	65.3	36.5	60.6	14.1
Leisure Accommodation / Tourism	9.7	19.9	12.4	20.5	27.8
Leisure Activities	7.3	14.9	11.4	18.9	56.2
Total	49.1	100	60.3	100	22.8

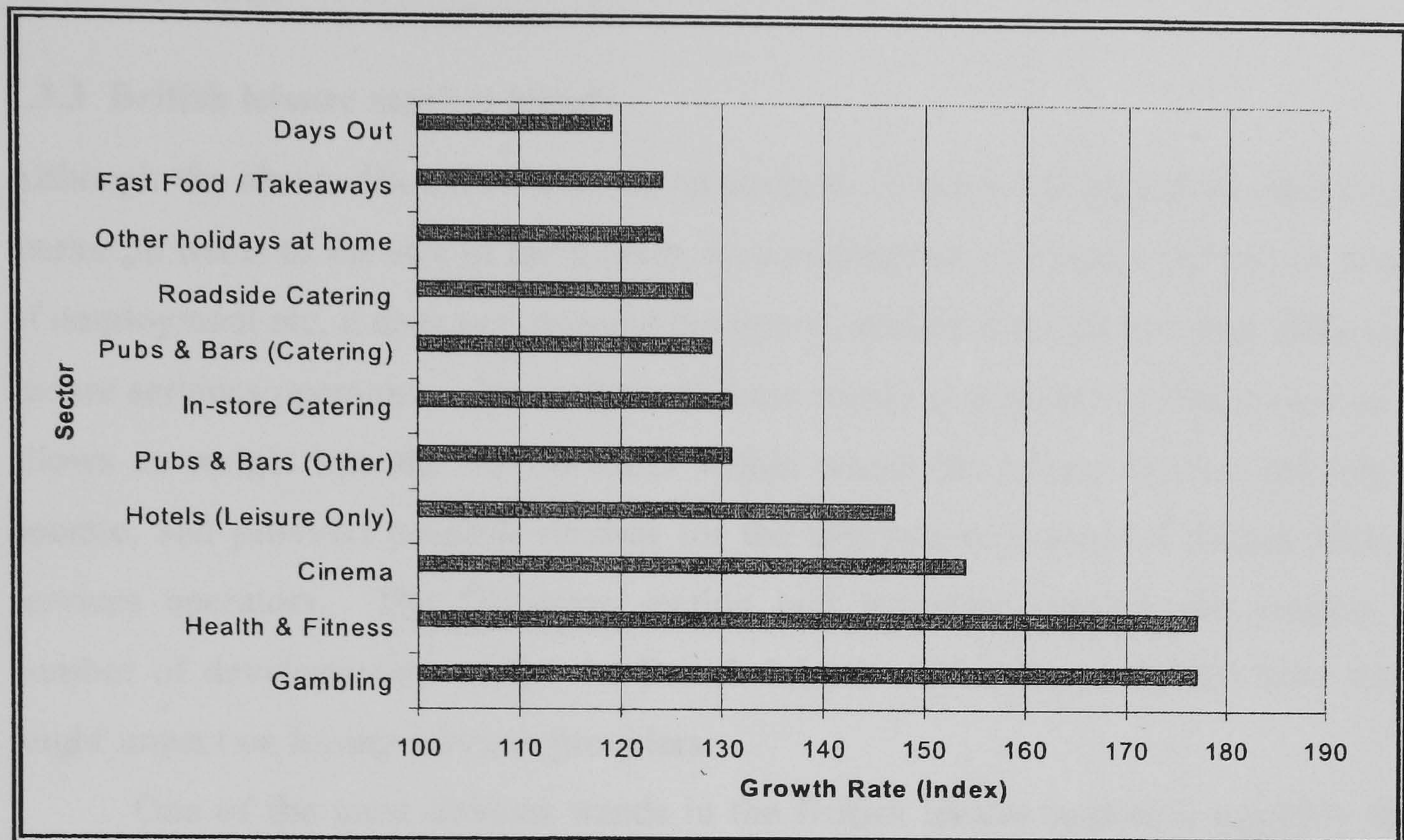
Source: Mintel (1999)

Table 2.9 indicates the relative importance of leisure catering to the leisure services market, as during 1999 it contributed almost three times a greater amount of turnover than the second largest sector, leisure accommodation. Leisure catering also achieved the greatest percentage point change during 1994. Leisure activities is the smallest leisure services sector, during both 1994 and 1999, but between 1994 and 1999 it achieved a percentage point increase of 56.2%. During this time the rate of growth was less encouraging for leisure catering and Mintel (1999) suggests that the leisure catering sector is experiencing weak consumer confidence. However, leisure accommodation is predicted to achieve high growth rates between 1999 and 2003, with Mintel (1999) predicting a 31% point increase, in comparison to leisure activities

with a 26% point increase and the predicted weaker performance of leisure catering with a 9% point increase. However, the large increase in turnover for the leisure activities market between 1994 and 1998 suggests that it is a thriving market and warrants further research. The potential interest of the leisure activities market can be further demonstrated by analysing the remaining two markets in more detail. For instance, leisure catering is a fairly narrow segment, incorporating pubs, bars, restaurants and cafes, all of which are concepts which have operated for many years and arguably have little capacity for change and development. Leisure accommodation is also a relatively limited sector, as Table 2.7 indicates and also offers little in terms of change and development. Furthermore, the international activity within both markets is widely recognised and driven by popular brands such as McDonalds; Hilton International; Six Continents etc. In contrast, leisure activities are a relatively modern concept, particularly health clubs, ten-pin bowling and contemporary night-clubs, and the market arguably offers many possibilities for development. Furthermore, the leisure activities market has become increasingly corporate, with many of the sectors being dominated by large corporations (Thomas, 1999). The sector has not benefited from a large amount of research interest, and the companies within the market that are internationally active are not widely known or well documented. Finally, the sector benefits from the growth rates achieved by cinemas, gambling and health and fitness, which exceeded the growth rates of any other leisure sectors between 1994 and 1999, as Figure 2.6 indicates.

Having established that leisure activities are potentially one of the most active and interesting markets within leisure, (Mintel, 1999), the growth rates of the sectors within leisure activities can also be analysed. Table 2.10 confirms the observations from Figure 2.6, that gambling, cinemas and health and fitness are expected to achieve the greatest levels of growth between 1999 and 2003. The only sector predicted to fall in its level of turnover is theatres, by -6%, whereas health and fitness is predicted to increase by the greatest percentage, +57%. As noted above, gambling and health and fitness have achieved rapid growth rates and Mintel (1999) predict them to continue to do so until 2003, with the main reason for the development of gambling cited to be the introduction of the national lottery (Key Note, 1997). The sector achieving the greatest level of turnover throughout the five years is gambling, with the second largest sector being night-clubs and discos, followed by health and fitness.

Figure 2.6: British leisure business sectors with above average growth rates 1994-1999



Source: Mintel (1999)

Table 2.10: The leisure activities market 1999-2003

	1999	2000	2001	2002	2003	% Change 99-2003	% Change 99 prices
Cinema	798	828	901	977	1057	+26	+7
Theatre	310	293	285	284	290	-6	-20
Ten Pin Bowling	210	213	221	229	237	+13	-4
Night-clubs / Discos	2101	2198	2215	2319	2400	+14	-3
Gambling	6750	7072	7437	7855	8416	+25	+6
Health & Fitness	1225	1321	1471	1699	1919	+57	+33

Source: Mintel (1999)

The above analysis therefore establishes that the leisure activities market was the fastest developing market between 1994 and 1999 when compared to leisure catering and leisure accommodation. Although leisure activities is the smallest market it is also suggested to be the most diverse and possessing the most potential for further development. Within leisure activities, cinemas, gambling and health and fitness are established to be the fastest growing sectors, with health and fitness achieving the greatest level of growth. This analysis therefore suggests that the health and fitness

market could potentially become one of the most significant revenue generators for leisure activities.

2.3.3 British leisure market trends

Although the above discussion enables an analysis of the development of the leisure market in terms of the size of the market, its contribution to British GDP and its level of employment etc, it does not examine the non-quantitative trends that may influence leisure services operators. An analysis of these trends is arguably of importance as it allows an insight into the 'environment' within which the leisure services providers operate, and provides possible reasons for the internationalisation of British leisure services operators. The following section will therefore identify and analyse a number of developments within the British leisure market and conclude how they might impact on leisure services providers.

One of the most obvious trends in the British leisure market is arguably the consolidation of the leisure industry that has occurred as a result of a large number of mergers and acquisitions (Key Note, 1997b). A significant amount of investment has been undertaken in the leisure industry during the past two decades, and a large proportion has been undertaken by leisure multiples which operate a number of leisure facilities (Leisure Week, 2000a). The rapid consolidation is illustrated by statistics that demonstrate that in 1994 there were 232,676 businesses dependent in some way on leisure (Business Monitor PA 1003, 1994) whereas Key Note (1997b) estimated the number of businesses to have declined to 223,515. However, despite this consolidation the leisure industry is continually regarded as being highly fragmented (Thomas, 1999), with many leisure facilities being operated as independent sites. For example, the largest pub brand operates 400 outlets, but controls less than 1% of the sector; Granada is the largest hotel operator but only controls 7% of the hotel sector; and McDonalds controls only 4% of the restaurant sector (Thomas, 1999).

The increased consolidation yet continued fragmentation of the leisure industry might also be argued to lead to the bi-polarisation of the industry. Calori and Lawrence (1991) examine the concept of bi-polarisation, wherein companies in a maturing industry become large corporations operating in a number of sectors, or become 'specialists' which only operate in one sector. This is arguably the case in the leisure industry as, for example, Marketscape (2000) and Mintel (1999) identify two

distinct types of leisure operators; 'diversified group' and 'niche' operators. Diversified group operators are argued to be large corporations, which invest in a range of sectors across the leisure market (Marketscape, 2000). Examples of this type of operator might include Allied Domecq; Allied Leisure; Bass; Granada; Rank Group; Scottish & Newcastle; Hilton Group; and Whitbread (Intel, 1999). In contrast, 'niche' operators specialise in one leisure sector only, and examples of this type of operator includes Vardon (now Cannons) and First Leisure (now Esporta), who both disposed of a number of varied leisure facilities in order to focus their investment on health clubs (Blackwell, 1996; Investors Chronicle, 1996a; Edgecliffe-Johnson, 1996; Masterson, 1999; The Independent, 1999b; Daneshku, 1997b).

A third trend in the British leisure industry has been the increasing tendency of leisure operators to segment their market in order to appeal to very specific consumers (Key Note, 1997b). For example, the operators of pub and restaurant chains often target relatively narrow age groups or a specified gender (Key Note, 1997b). This trend is thought to be partly driven by social change: increasing numbers of single households and one-person households; working women; recognition of gay rights; and the arrival of the affluent 'grey market' (Key Note, 1997b). The increasing use of market segmentation has been cited as a means of establishing brand loyalty in a market that is widely recognised as being 'fickle' due to the wide range of leisure activities that consumers are able to choose between (Newton & Morrison, 1996). By targeting a certain segment of the market it could be argued that brand loyalty could be easier to achieve and maintain. The suggested importance of achieving customer loyalty has also given rise to branding in the leisure market, with many leisure operators seeking to establish a strong brand name (Newton & Morrison, 1996). The trend towards the provision of a range of leisure activities on one site has further encouraged branding, as leisure operators are able to site their brands alongside each other (Intel, 1999), taking advantage of each other as a means of attracting leisure consumers. The introduction of 'loyalty schemes' is arguably a further means of establishing customer loyalty (Intel, 1999), and this concept is largely utilised in the health club sector when consumers join a health club for a year and receive bonuses for introducing friends and relatives to the clubs.

A further development in the leisure market has been the changing location of leisure facilities. During the 1980s and early 1990s the development of out-of-town sites was actively encouraged by the government, resulting in leisure operators

constructing on large sites in suburban areas (Grade, 1998). As a result, the late 1980s witnessed a large increase in the popularity of out-of-town leisure venues ('leisure villages'), which offer a range of facilities on the same site, (for example, multiplex cinemas; ten-pin bowling; restaurants; bars; night-clubs; and health clubs) (Daneshku, 1999). However, the present Labour government recently reversed its policy on the development of out-of-town sites (Intel, 2000a), thus encouraging inner city development. For example, the sequential test was introduced in 1996, which has resulted in developers only being able to construct on an edge-of-town site when there are no suitable town centre sites available, and only being able to build on out-of-town sites when there are no edge-of-town sites available (Grade, 1998). Given that leisure venues are generally increasing in size, the favourable sites tend to be those out-of-town, especially due to their proximity to local conurbations (Grade, 1998). Furthermore, two planning guidelines are believed to affect leisure operators in Britain detrimentally. The PPG6 aims to rejuvenate the city-centre high street and hence encourages the development of inner city sites, which are frequently much smaller than out-of-town sites, and the PPG13 is a transport policy, which discourages consumers from driving to venues (Intel, 2000a). The PPG13 is suggested to be detrimental to leisure facilities that have been constructed in suburban areas and hence rely on consumers to drive to the site (Intel, 2000a).

A further key development in the leisure market is arguably the integration of leisure and retailing, wherein retail and leisure facilities are often located on the same sites (Evans & Morley, 2000). A further example of the extended relationship between retailing and leisure is health clubs, which now derive an increasing amount of turnover from retail sales within the clubs, through items such as toiletries; towels; clothing; and beauty products (Intel, 2001). The health club sector also demonstrates the influence of the retailing industry on leisure as a result of retail operators such as JJB Sports and Boots developing health clubs (Leisure Opportunities, 2001n; Health Club Management, 2001k; Health Club Management, 2001w; Health Club Management, 2001aa).

The above discussion therefore establishes that the British leisure market is not only developing in terms of its turnover and levels of employment etc, but is also evolving with regards to the services offered, the location of the facilities and the providers of the services.

2.4 INTERNATIONAL LEISURE MARKETS

The analysis above has focussed on the British leisure market, in order to provide an examination of the domestic operating environment. Although the forecasts and trends in the British leisure market are generally positive for leisure operators, the increasing interest of British operators in overseas leisure markets is widely acknowledged (Cramer, 1999a; Terry, 1999; Cramer, 1999b; Robinson, 1999a). The sources also suggest that the international development of British leisure operators is likely to continue into the foreseeable future. The following section will therefore seek to provide some indication of the development of European leisure markets, and hence establish the nature of the markets in which British leisure companies could be operating.

An extensive literature review discovered that there is a dearth of information regarding foreign leisure markets, and as a result the majority of the following discussion is based upon a survey completed by Ernst & Young (Drinkwater, 2000). Ernst & Young approached leisure operators throughout Europe to determine their predicted investment strategies. 3,600 leisure organisations or private companies with interests in leisure from the FTSE 1000 (or European equivalent) were targeted, in a total of 22 countries. The survey achieved a response rate of 13% (456 companies) which included private companies; public listed companies; public unlisted; public sector; charities; and partnerships. In order to complete the analysis the leisure industry was categorised as demonstrated in Table 2.11.

Table 2.11 indicates that Ernst & Young termed one of the sectors 'activities', which could be assumed to be the same as the leisure activities market identified in the previous discussion. However, it could be argued that 'sport and entertainment' is more closely linked to the previous definitions of leisure activities established within this chapter, and this sector will therefore be the focus for the remainder of the section.

The survey findings were generally very positive for the leisure industry in Europe, with planned investment for 2000 totalling £56.9m for an average organisation, and totalling £20 billion for the respondents. Furthermore, the respondents were positive about their future expectations of the leisure industry, with 78% acknowledging a degree of optimism. The reasons for this optimism were found to be the increase in leisure time (in Europe); changes in lifestyle; and economic

trends. This optimism was predicted to translate as a growth in turnover for the industry during 2001/2002 of 13%.

Table 2.11: Main leisure market operating sectors

Accommodation	Food & Beverage	Sport & Entertainment	Travel & Tourism	Activities	Event Venues
Hotels	Contract catering	Health & fitness clubs	Airlines	Theme parks	Arenas
Motels	Fast food	Football clubs	Airports	Visitor attractions	Conference centres
Resorts	Restaurants	Sports clubs	Cruises	Museums & art galleries	Stadiums
	Cafes	Night-clubs	Vehicle rental		Exhibition centres
	Pubs	Cinemas	Coach operators		
	Bars	Bowling	Boat / yacht charters		
		Bingo	Marinas		
		Theatre	Rail travel		
		Gaming	Travel agents		
			Tour operators		

Source: Drinkwater (2000)

The location of future international investment activity was determined by the survey, and it was ascertained that Britain was the most popular location for investment. 49% of respondents stated that their greatest level of investment would be in Britain, with Germany and Spain being the second most favoured countries.

Table 2.12: Total leisure investment value by country

Country	% of Sample
Britain	49
Germany	15
Spain	15
France	7
Sweden	2
Portugal	2
Switzerland	2
Greece	2
Norway	2
Others	4

Source: Drinkwater (2000)

Table 2.12 indicates that Britain leads Europe as a location for investment, with almost half of the respondents favouring Britain as the location for their leisure investment. However the survey also notes that British respondents primarily drive investment in Britain, as 96% of British leisure operators expressed an interest in their domestic market as an investment location. In contrast, only 16% of central European respondents were interested in Britain as an investment location.

Drinkwater (2000) also determined the sectors from which the investment in leisure was driven. The investment value by sector therefore established that travel and tourism was the most popular sector for investment, followed by accommodation and foods & beverages. The sports and entertainment sector (into which health clubs are incorporated) only accounted for 7% of total investment value:

Table 2.13: Total leisure investment value by sector

Sector	% of Sample
Travel & tourism	22
Accommodation	20
Foods & beverages	16
Sport & entertainment	7
Activities	6
Other	26

Source: Drinkwater (2000)

The results of the Ernst & Young survey are arguably positive for the development of the European leisure industry, and highlight the confidence of British leisure investors. Although travel and tourism accounts for the largest percentage of total investment it is an extremely broad sector according to the survey categorisation, suggesting that there is a greater range of opportunities for investment.

2.5 CONCLUSION

The analysis of leisure time and the changing profile of the British leisure consumer provided in this chapter were relatively positive for the leisure industry. Although the leisure time available to individuals is not increasing, their amount of disposable income is, potentially resulting in increased spending on leisure and escalating demand for quality leisure services. The British population trends are favourable, with an expanding consumer base and growth of the student population, who spend

above the average on leisure. These trends have translated favourably for the British leisure industry, which, despite having suffered from the recession during the 1990s, is now performing well. Growth rates for the market have been positive and have been predicted to remain positive for the forthcoming five years. Particular benefactors have been gambling and health clubs.

The leisure market providers have developed and changed as the market has developed. Although still highly fragmented, the British leisure industry has been moving towards consolidation, particularly with the growth of multi-sector operators. The services they have provided have subsequently altered, becoming increasingly professional, introducing concepts such as 'the leisure village', and amalgamating retailing and leisure services.

The European leisure market demonstrates favourable prospects in terms of its level of investment, with organisations feeling optimistic about the future. A key feature is the dominance of British leisure operators in terms of their investment strategies over their European counterparts. It is this proactive attitude of British leisure investors that will be explored in this research. However, the information provided from the Ernst & Young survey relates to all of their defined leisure industry, and in this respect lacks detail. A greater focus would provide better understanding of the investment undertaken and the manner of international development. Although the chapter has concentrated on leisure activities it was also acknowledged that the sector is diverse, encompassing six large sectors, and if the international development of all of them were analysed the subsequent results would be extremely broad. The health club sector demonstrates the greatest rates of growth and it is also a sector that has been widely featured in research reports and the trade and popular press as being internationally active (Intel, 2001; L&HB, 2002b; Newton, 1998; Cramer, 2001; Leisure Opportunities, 2000d; Stephens, 2000). Furthermore, it is a sector that, similar to the leisure industry, contains a range of types of companies, strategic groups and types of service provision. The following analysis will therefore focus on the international development of British health club operators.

3 The British Health Club Market

Chapter Two analysed the British and international leisure markets and established that health clubs is one of the most rapidly expanding and internationally active sectors within the British leisure industry. Whereas the previous chapter discussed health clubs within the wider leisure context, the present chapter provides greater focus by examining the British health club sector alone. The aim of the chapter is to analyse the British health club sector using secondary data so that a clear picture can be provided of the health club sector and the activities of British health club operators. In order to do so the chapter will identify product lines; the growth rate of the British sector and the determinants for that growth; environmental influences; the operators; the strategic groups; and their competitive strategies in Britain. In undertaking the analysis the discussion will be both descriptive and analytical to ensure that the best understanding possible is gained from the information available. By conducting an analysis of the British health club sector it will be possible to identify key issues and strategies that might influence the internationalisation process, and hence ensure that those issues are recognised and understood during data collection and data analysis.

The chapter commences by defining a 'health club' and the 'health club sector' and progresses to identifying the sector's product lines. The development of the market is then analysed before examining the health club sector 'environment'. The discussion finally focuses on the British health club operators, identifying the strategic groups and discussing their competitive strategies.

3.1 DEFINITION

Chapter Two referred to the use of health clubs as a 'leisure activity' but a definition of the product was not provided. Therefore, for the purposes of this research a health club will be defined as:

A venue whose primary function is to allow paying guests to use its weights and cardio-vascular equipment.

The definition manages to encompass a range of health club formats (as will be discussed in Section 3.2), while ensuring that products such as health spas (which may provide similar facilities, but have a different primary function) are not included.

Addressing the division between privately operated and public authority operated health clubs further refines the definition. Mintel (1999) defines private health clubs as 'those operated by an individual or company for profit and in private ownership', while public authority health clubs are defined as 'those operated by, or on behalf of, a local authority, such as a gymnasium and other facilities found in public leisure centres or swimming pool complexes'. Chapter Two addressed privately operated leisure services only, and this focus will continue throughout this research, so that the following chapters will concentrate on privately operated health clubs only. However, it should also be noted that Mintel (1999) states that a number of private operators also 'have a presence in the public sector, running clubs on a management contract basis'. This research will therefore include these types of management contracts, as private companies operate them.

The definition of a health club for the purpose of this research can therefore be clarified by stating that a health club is:

A privately operated or managed venue whose primary function is to allow paying guests to use its weights and cardio-vascular equipment.

The establishment of a definition can also be extended to the commercial operation of health clubs. In the previous chapter health clubs were termed a 'sector' within the leisure industry, but it is now arguably appropriate to alter that terminology to 'health club industry'. The UK Standard Industry Classification (SIC, 1992) lists health clubs under 'recreational, cultural and sporting activities', under the sub-classification of 'sporting activities'. Health clubs are featured in the subclass 92.62/9 as illustrated in Appendix II and in this category they are listed alongside such diverse activities as bowling; football and golf clubs; marinas; and kennel activities. This might therefore suggest that health clubs should not be referred to as an industry, as it would appear that they are a small group of operators within a much larger category. If this is established to be the case it could also be argued that health clubs should be referred to as a 'strategic group' within the 'sporting activities' industry or within the leisure

industry (as proposed by Mintel (1999)). Stonehouse *et al* (2000) define a 'strategic group' as a group of organisations that 'possess similar core competencies, pursue similar strategies and satisfy similar consumer demands'. This definition would appear to validate health clubs as a strategic group, as they do offer similar products and share similar strategies.

However, Chapter Two demonstrated that the leisure industry is incredibly diverse and that health clubs constitute only a small sector within the industry. The diversity of the leisure industry is indicated by the number of strategic groups which it incorporates, including health clubs; cinemas; theatres; ten-pin bowling etc, each group being significantly different from the others, offering completely different products and undertaking very different strategies. Since the leisure industry strategic groups are so different from each other, and diverse in their own right, it is arguably the case that within each of the leisure industry's strategic groups there are in fact a number of 'sub-strategic groups'.

Porter (1980) defines a strategic group as 'the group of firms in an industry following the same or a similar strategy along strategic dimensions. An industry could have only one strategic group if all the firms followed essentially the same strategy'. As this chapter progresses it will be illustrated that health club companies do not all follow similar strategies, and that there are in fact a number of groups of health club operators who share similar strategies, which are very different to the other operators. Porter (1980) outlines a number of ways in which strategic groups may differ from each other, including product lines; advertising; integration; distribution; firm's relationship to its parent; and product and marketing approach. Using these criteria it is also possible to demonstrate how groups of health club companies differ from each other, and this too will be addressed in the later sections of this chapter. Health clubs will therefore be defined as an industry, as the identification and analysis of health club strategic groups will be facilitated if they do not have an overly complex definition (such as 'sub-strategic groups').

3.2 PRODUCT LINES

Although the discussion of health clubs in Section 3.1 provides a definition, it does not specify the various means by which the health club product is offered to the consumer. The following discussion on health club product lines attempts to identify the different health club formats that British companies operate, by analysing the

location of the health clubs; the size of the clubs; the cost of membership and the facilities provided in the clubs.

One of the most obvious differences in product lines arises from the 'location' of the health club; Mintel (2001) states that health clubs can be in stand-alone sites; within a leisure centre or swimming pool complex³; within a hotel; or part of a residential or corporate development. The following table identifies those product lines and also identifies the changes in the locations of health clubs between 1999 and 2001.

Table 3.1: Health clubs by location, November 1999 and September 2000

Year	1999	2000	1999 - 2000
Base: health clubs	319	320	
	%	%	% change
Stand-alone	44.5	47.2	+2.7
In a leisure centre / pool	28.7	24.4	-4.3
Within a hotel	19.6	19.7	+0.4
Other*	6.3	8.4	+2.7
Don't know / not stated	0.9	0.3	-0.6
TOTAL	100.00	100.00	

* Refers to health clubs that are within a residential or corporate development

Source: Mintel (2001)

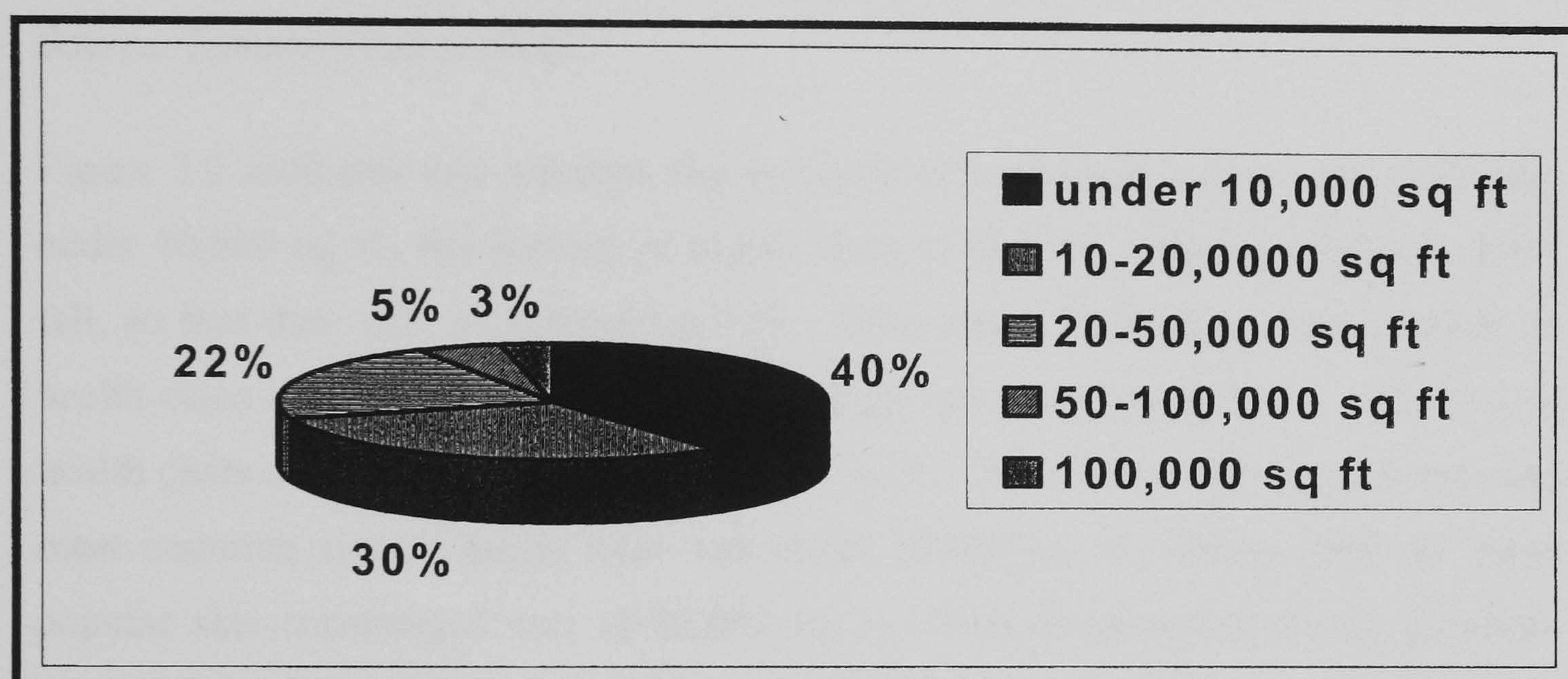
Table 3.1 indicates that stand-alone sites are the most prevalent type of health clubs, followed by health clubs in leisure centres and hotel-based health clubs. The least common health clubs are those within residential or corporate developments. However, between 1999 and 2000 the predominance of both stand-alone health clubs and corporate / residential based clubs increased, with a 2.7% increase in both, contrasting to a 4.3% fall in the number of health clubs in leisure centres. This might therefore suggest that stand-alone health clubs and residential / corporate based health clubs are becoming more popular whereas health clubs in leisure centres are dwindling in popularity. This increasing popularity of residential / corporate health

³ Although the research does focus on privately operated health clubs, clubs in leisure centres have been included in the following analysis as private operators often manage them.

clubs and decline of health clubs within leisure centres is a trend which is reflected in the trade press (Health Club Management, 2001h; Health Club Management, 2001e; LH&B, 2002; L&HB, 2002d).

The second means by which health club product lines differ is in the size of the health clubs. Leisure Week (2000a) suggests that health clubs range in size from being under 10,000 sq. ft. to being over 100,000 sq. ft., and the following graph identifies the percentage of health clubs in Britain with over 500 members that were included in this range of size categories during 2000:

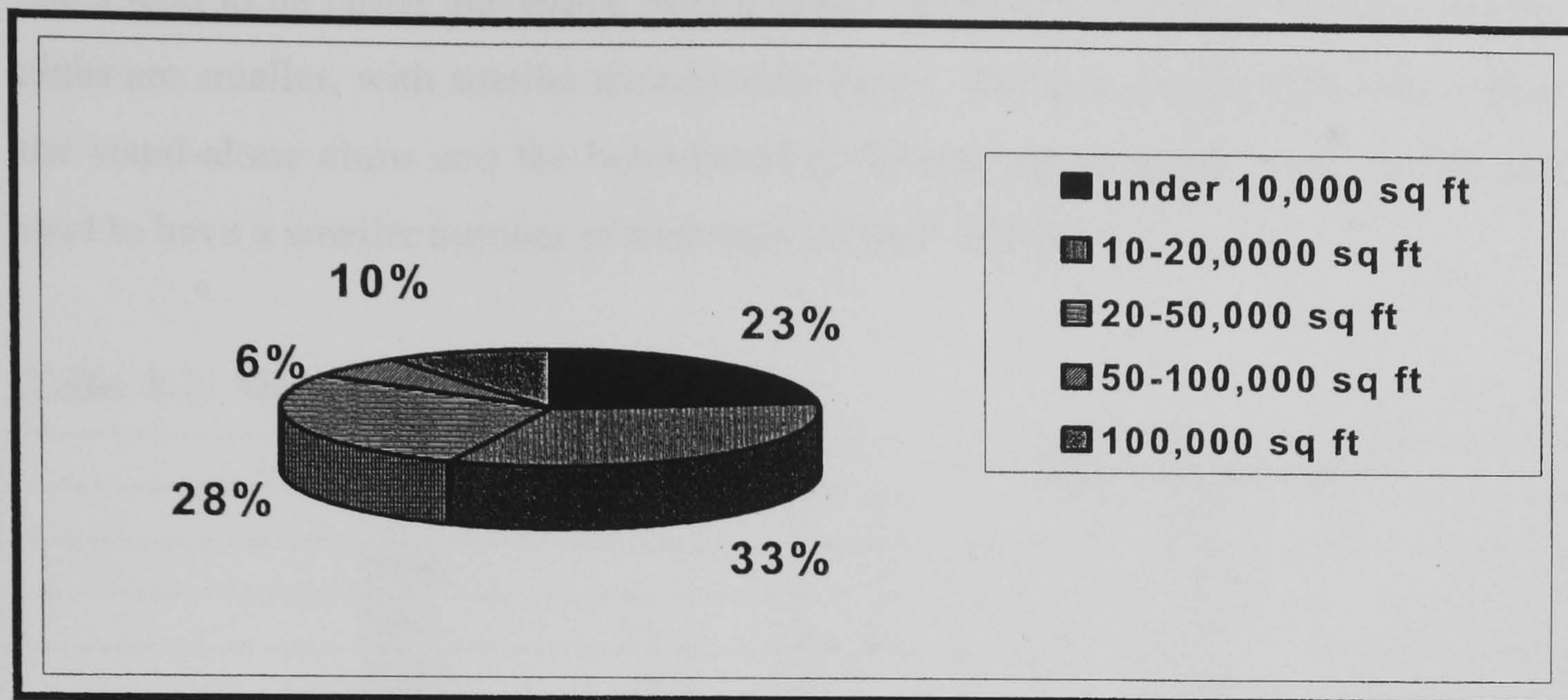
Figure 3.1: Health club size - all British clubs currently open. British health clubs with 500+ members



Source: Leisure Week (2000a)

The pie-chart above demonstrates that the most common size for a health club in 2000 was under 10,000 sq. ft and the least prevalent were health clubs over 100,000 sq. ft. As the size of the health clubs increases then the occurrence of them decreases, with each size category getting smaller and smaller. However, Leisure Week (2000a) also indicates that this pattern may change in the future, with the larger health clubs becoming more popular. The following pie-chart demonstrates the percentage of health clubs with over 500 members in the varying size categories opened between 1st January 1999 and 31st December 1999:

Figure 3.2: Health club size - clubs opened 01/01/99-31/12/99. British health clubs with 500+ members



Source: Leisure Week (2000a)

Figure 3.2 indicates that whereas the favoured size of health clubs until 1999 was under 10,000 sq. ft., the number of health clubs of that size constructed during 1999 fell, so that they only accounted for 23% of the total. Furthermore, the number of health clubs constructed in the largest size range increased during 1999, with 10% of health clubs constructed being over 100,000 sq. ft. Therefore, whereas previously the most common size of health club was under 10,000 sq. ft., during 1999 the most popular size constructed was 10-20,000 sq. ft. This development would therefore suggest a trend towards larger health clubs in Britain.

A further manner in which health clubs differ is in the number of members that they enrol. As the size of the health clubs increases then so too does the number of memberships they are able to sell, and Mintel (1999) suggests that health clubs range from having fewer than 250 members to having over 10,000 members. The average number of members per health club has been forecast to increase in the British industry (Mintel, 1999), consistent with the premise that health clubs are becoming larger. Table 3.2 demonstrates how the average numbers of members per health club is expected to increase between 1999 and 2003.

The anticipated increase in the average number of members per health club has transpired to date. Mintel (2001) states that the 'most frequently cited number of members among health clubs interviewed for their survey was 1,000-1,499, followed by 500-749'. The report also suggests that the reason for the preference of these two

groups of 'average number of members' is that they reflect 'wet' and 'dry' clubs⁴. Wet clubs tend to be larger and hence have a higher number of members, whereas the dry clubs are smaller, with smaller membership bases. The two groups might also reflect the stand-alone clubs and the hotel-based or leisure centre health clubs, which also tend to have a smaller number of members (Intel, 2001).

Table 3:2: Members per health club

Year	Members per club
1999	977
2000	1083
2001	1188
2002	1299
2003	1421

Source: Intel (1999)

However, despite the trend towards larger health clubs with a higher average number of members, Intel (2001) states that one third of the sample had fewer than 750 members, which demonstrates that many clubs are still relatively small. Furthermore, 70% of health clubs were found to have less than 1,500 members and 90% had less than 4,000 members. Despite the ongoing prevalence of smaller health clubs the trend towards larger health clubs is further exemplified by Intel (1999), which established that 90% of health clubs had fewer than 3,500 members, indicating that overall average membership levels have increased during the two years.

The difference in the average number of members according to the location of the health club is analysed in Table 3.3, which indicates the average number of members enrolled by stand-alone, leisure centre and hotel-based health clubs. Table 3.3 indicates that stand-alone clubs are most likely to have 1,000-1,499 members and 40% of stand-alone clubs have between 1,000 and 2,499 members, and 28.5% of them have more than 2,500 members (Intel, 2001). Similarly, health clubs in leisure centres are most likely to have 1,000-1,499 members, but two thirds of them have between 250 and 1,499 members, which Intel (2001) argues demonstrates that they tend to be smaller health clubs, with a lower membership capacity and high attrition

⁴ 'Dry clubs' are health clubs that do not provide a swimming pool, whereas 'wet clubs' do offer a swimming pool.

rates⁵. Health clubs in hotels tend to be even smaller, as they are most likely to have 500-749 members, and the majority of the clubs have between 250 and 1,499 members.

Table 3.3: Health club membership levels, by club location, September 2001

	All	Stand-alone	Leisure centre	Hotel
Base: health clubs	320	151	78	63
	%	%	%	%
Fewer than 250	5.6	2.6	5.1	6.3
250-499	10.0	5.3	14.1	15.9
500-749	16.6	10.6	16.7	30.2
750-999	10.6	6.0	16.7	17.5
1000-1499	17.2	15.9	19.2	20.6
1500-1999	10.0	14.6	9.0	3.2
2000-2499	8.4	13.2	3.8	3.2
2500-2999	4.7	9.3	1.3	-
3000-3499	5.6	9.3	3.8	-
3500-3999	1.9	2.6	1.3	-
4000-4999	3.1	4.6	1.3	1.6
5000-5999	1.3	2.0	-	1.6
6000-6999	0.3	0.7	-	-
7000-7999	0.6	-	-	-
8000-8999	0.6	1.3	-	-
10000+	0.3	0.7	-	-
Don't know / not stated	3.1	1.3	7.7	-
TOTAL	100.00	100.00	100.00	100.00

Source: Adapted from Mintel (2001)

A further dimension in which the health club product lines differ is in pricing. The revenue from health clubs is derived from a number of sources including membership fees (usually divided into monthly instalments); joining fees (a one off payment when

⁵ 'Attrition rates' refers to the number of members that terminate their health club membership during a given period of time.

the member enrolls); and secondary spending (members' expenditure within the club on items such as beauty treatments; food and drinks; sun-beds etc).

Mintel (2001) suggests that the membership fee can range from under £100 per annum to over £1,000 per annum, and found that the largest proportion of health clubs charge an annual membership fee of £300 to £500, with the most prevalent fee during 2001 being £300-£400. The report states that this relatively low average fee reflects the fact that the majority of health clubs are either dry clubs (which Mintel (2001) argues cannot expect to charge more than £400), or wet clubs with limited facilities (such as those in hotels). However, between 1999 and 2001 there was a 13.6% increase in the number of clubs charging £500-£800, a reflection of the increasing popularity of large and luxury clubs, as discussed in the trade press (Sloccock, 2001).

Mintel (2001) also suggests that there are differences in the membership fees levied as a result of the location of the club. For instance, Mintel (2001) notes that there is a narrower spread of fees for health clubs in leisure centres, as they are not able to offer the same range of facilities as stand-alone clubs, and hence none of the clubs charged more than £500 per annum for membership. The report states that hotels have a similarly narrow band of membership fees, although they do tend to be more expensive than health clubs in public-authority operated leisure centres. Mintel (2001 p.30) argues that the 'slightly more upmarket positioning and feel of [hotel-based] clubs, as well as the fact that the majority of them have swimming pools justifies the higher fee'. It is also argued that the reason they are not able to charge more than £700 per annum is that they are unable to compete with stand-alone clubs in terms of gym equipment or facilities for fitness classes. The variations in the membership fees levied by health clubs according to their location is indicated in Table 3.4.

Mintel (2001) also questioned the health club operators on what extent their membership fees would change during the subsequent twelve months, to which 60% stated that they would remain unchanged. When asked the same question in 1999 only 51% of the operators said that their fees would remain unchanged, the escalating reluctance to increase fees potentially reflecting the intensifying competitive pressures that health club operators are experiencing (Health Club Management, 2001e; Millar, 2001; Leisure Week, 2000c; White, 2001).

Table 3.4: Annual membership fees levied by health clubs, November 1999 and September 2001

Year	1999	2001	2001	2001	2001
Location	All	All	Stand-alone	Leisure centre	Hotel
Base: health clubs	319	320	151	78	63
	%	%	%	%	%
Less than £100	3.8	1.6	0.7	-	-
£100 - £200	2.5	2.2	1.3	6.4	-
£200 - £300	16.6	10.6	6.0	26.9	1.6
£300 - £500	50.8	51.9	43.7	64.1	52.4
£300 - £400	-	33.8	25.8	57.7	17.5
£400 - £500	-	18.1	17.9	6.4	34.9
£500 - £800*	16.9	30.5	42.3	-	46.0
£500 - £600	-	20.3	24.5	-	39.7
£600 - £700	-	7.8	13.2	-	6.3
£700 - £800	-	2.2	4.6	-	-
£800 - £1000**	2.2	2.2	4.6	-	-
£800 - £900	-	0.6	1.3	-	-
£900 - £1000	-	1.6	3.3	-	-
£1000+	0.6	0.3	0.7	-	-
Don't know / not stated	6.6	0.9	0.7	2.6	-
Total	100.00	100.00	100.00	100.00	100.00

* 1999 bracket was actually £500-750, therefore not directly comparable

** 1999 bracket was actually £750-1,000, therefore not directly comparable

Totals may not equal 100 due to rounding

Source: Adapted from Mintel (2001)

The second means of generating revenue in health clubs is through the joining fee, which Mintel (2001) indicates can cost over £300, although the majority of health clubs charge up to £200, and many do not charge a fee at all. Mintel (2001) states there were very few changes in joining fees between 1999 and 2001, though there was a slight rise in the proportion charging no joining fee (from 20.1% to 23.1%). There was also a fall in the number of health clubs charging less than £50, which the report

argues was due to competitive pressures forcing clubs that were previously charging a low fee to abandon it altogether. There was also a sharp increase in the percentage of clubs that claimed that their joining fee varied too much to provide a price bracket, which Mintel (2001) suggests is a result of 'tactical marketing'.

The report found that clubs in leisure centres are more likely not to levy a joining fee as many of the clubs are in local-authority owned leisure centres and are required not to have a joining fee, or have a relatively low fee, in order to make them accessible to as many people as possible. Stand-alone clubs are most likely to charge a joining fee of either £50-75 or £100-124, which arguably corresponds to the dry and wet clubs respectively. Mintel (2001) states that clubs in hotels are most likely to charge a joining fee of £75-99, but also notes that over a quarter of hotel based health clubs charge more than £125. The report also suggests that stand-alone clubs and hotel-based clubs are much more likely to use the joining fee as a marketing tool; only 1.3% of clubs in leisure centres stated that their joining fee varied too much to provide a price bracket.

Although a further means of generating revenue from health clubs is through secondary expenditure there is no data available demonstrating the amount of revenue raised on average per club. This will instead be discussed in the context of the industry in Section 3.3.

The final means of analysing the health club product lines is by the facilities that the health clubs provide. Analysis of the secondary information available on health club facilities suggests that there are five types of health clubs operated in Britain, which incorporate dry health clubs; wet clubs; sports health clubs; combined facilities health clubs; and holistic health clubs, each of which will be discussed in turn.

Dry health clubs provide weights and cardio-vascular equipment; fitness rooms; and often various other facilities, but no swimming pools. This type of health club was prevalent prior to 1985 (when David Lloyd Leisure was first introduced) at which time they tended only to offer weights equipment and be male orientated (BusinessAge, 1995; Marks, 1998; Murray, 1996; Spooner, 1997). However, health club chains such as Fitness First and LA Fitness now operate dry health clubs that also target female members and have a greater range of cardio-vascular equipment (Walsh, 1998c; Kerr, 2001; The Independent, 2000b; Lea, 2000; Fitness First, 2001; Investors Chronicle, 2000; Dresser, 1999; Walsh, 2001; Leisure Opportunities, 2001f;

LA Fitness, 1999). In contrast, wet health clubs provide the weights and cardiovascular equipment; fitness rooms; and various other facilities, and also offer swimming pools; saunas; steam rooms; jacuzzis etc. Examples of these health clubs include Cannons; Holmes Place; LivingWell.

Sports health clubs usually offer similar facilities to the wet health clubs, with added sports provision such as squash; tennis; badminton; and basketball courts; both indoor and outdoor swimming pools etc. These sports facilities are not promoted as a separate entity of the club, or on their own merit, and are viewed as being integral to the health club. Examples include Next Generation; David Lloyd Leisure; and Invicta Leisure. The combined facilities health clubs operate in a slightly different manner to the sports health clubs, as they tend to be wet health clubs with a particular emphasis on one sport. An example is Clubhaus, who operate wet health clubs alongside their golf courses, and the golf courses are not necessarily viewed as being integral to the health club, or vice versa (Clubhaus, 1999a; Garrahan & Malkani, 1999; Hyland, 1999; Marks, 1999; Harverson, 1998).

The final group of operators emphasises the holistic approach to health and fitness. Operators such as The Academy and Champneys offer a variety of spa treatments as an integral part of their health clubs, and these companies are generally viewed as being premium operators (Leisure Opportunities, 2001g; L&HB, 2002a; L&HB, 2001c; Green, 2000; Peel, 2000; Simpkins, 2000; Larner, 2001d).

The above discussion has therefore established that there are a number of means of analysing British health clubs' product lines including; the location; size; average number of members; price; and facilities. The analysis found that the most prevalent type of health clubs is stand-alone clubs, and that there is an increasing popularity of residential and corporate based facilities, and a decreasing popularity of health clubs in leisure centres. Although health clubs remain small in size, there is a trend towards larger clubs, which have larger membership bases. Stand-alone clubs tend to be the largest types of health clubs, whereas health clubs located in hotels are the smallest. The ongoing prevalence of smaller clubs is reflected in the relatively low membership fees charged, and the membership fees charged vary according to the location of the health club, with clubs in leisure centres being the cheapest on average. The increased competition in the British industry has impacted on the price health clubs are willing to charge, as they are less willing to increase their membership fees and tend not to charge a joining fee, or instead use it as a marketing tool. Finally, the

facilities that health clubs provide enable them to be categorised into five groups of operators.

3.3 ANALYSIS OF THE BRITISH HEALTH CLUB MARKET

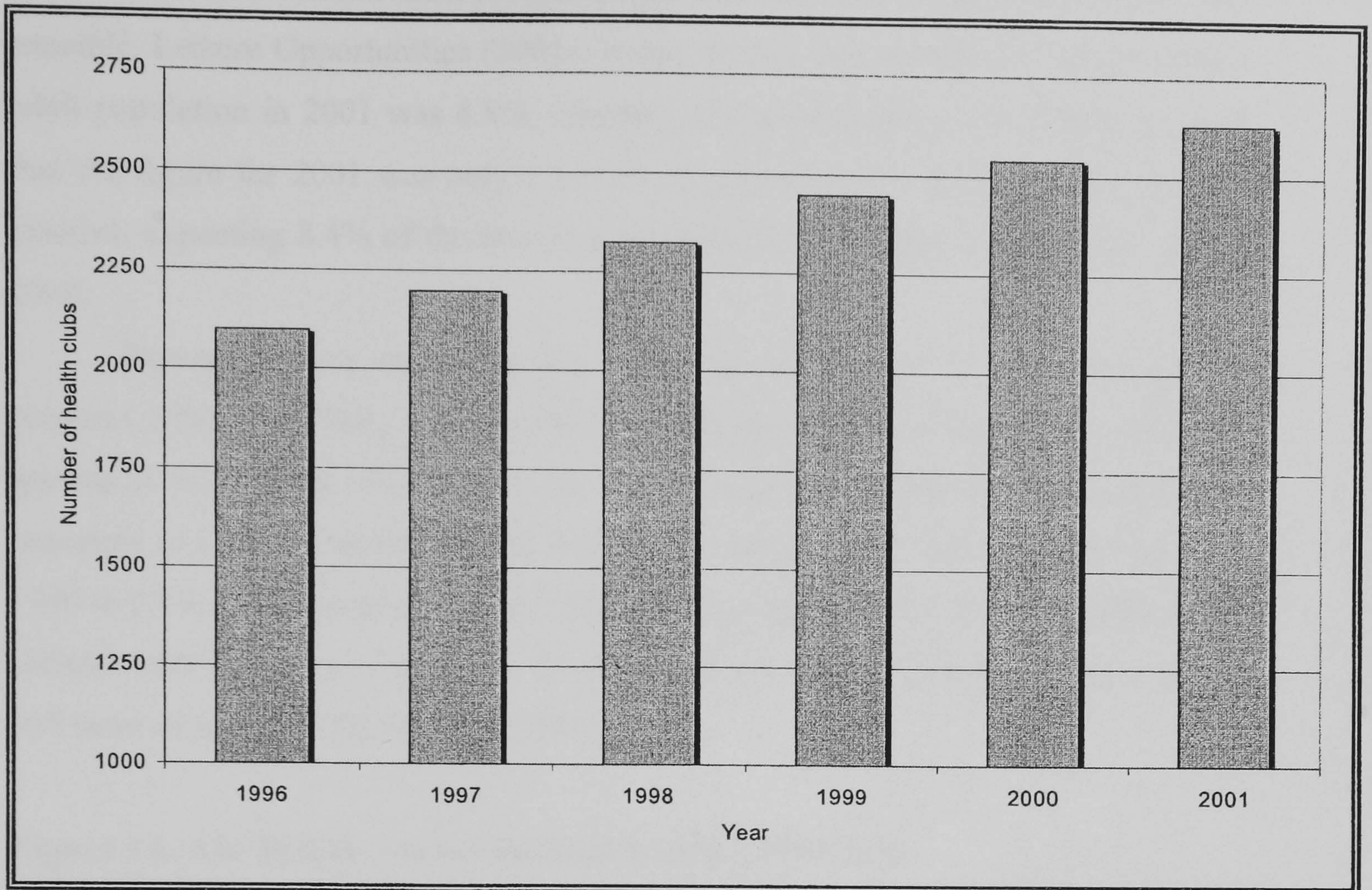
Having identified the various types of product lines in the health club industry the following section will examine the development of the British health club market, the British health club environment, and the lifecycle of the British health club industry. The examination of the development of the British health club market aims to analyse how the market has developed in terms of the number of health clubs; the number of health club members; and the expenditure on health clubs as a nation; and potential future trends in the market. The analysis of the health club environment seeks to determine the environmental factors that influence the development of the market and the actions and strategies employed by the operators. Finally, the examination of the industry lifecycle will attempt to determine at which stage the British industry is currently in its development, and hence ascertain the type of pressures the operators are encountering, and might expect to encounter in the future.

3.3.1 The development of the British health club market

Section 2.3.2. acknowledged that the use of health clubs is one of the fastest growing leisure activities, and this popularity is further supported by Mintel (2001) which details the trends in the total number of private health clubs in Britain between 1996 and 2001. Figure 3.3 indicates that between 1996 and 2001 there was a 25% increase in the number of health clubs in Britain, and that the strongest growth took place between 1997 and 1999.

Mintel (2001) also forecasts that the increase in the number of health clubs will continue until 2005, with the number of health clubs expecting to increase from 2,631 in 2001 to 2,993 in 2005, which reflects a noticeable 'slow down' in growth compared to the previous five years. The report states that the growth in the number of health clubs operated by large health club companies will be offset by a decline in the number of 'smaller independent clubs, due to weaker businesses being unable to compete' (Mintel, 2001 p.233). This trend will lead to the consolidation of the industry, whereby a smaller number of operators manage a larger number of health clubs (which will be discussed further in Section 3.4) (Leisure Week, 2000b; White, 2001; Health Club Management, 2001e; Leisure Opportunities, 2000a).

Figure 3.3: Trends in the total number of private health clubs in Britain 1996-2001



Source: Mintel (2001)

As the number of health clubs in Britain increases then so does the number of health club members. Between 1996 and 2001 1.89 million more members joined health clubs, which represented a change from 3.2% of the British population being members of health clubs in 1996, to 7.0% in 2000. Table 3.5 illustrates the growth in membership during the six years:

Table 3.5: Key health club member statistics, 1996-2001

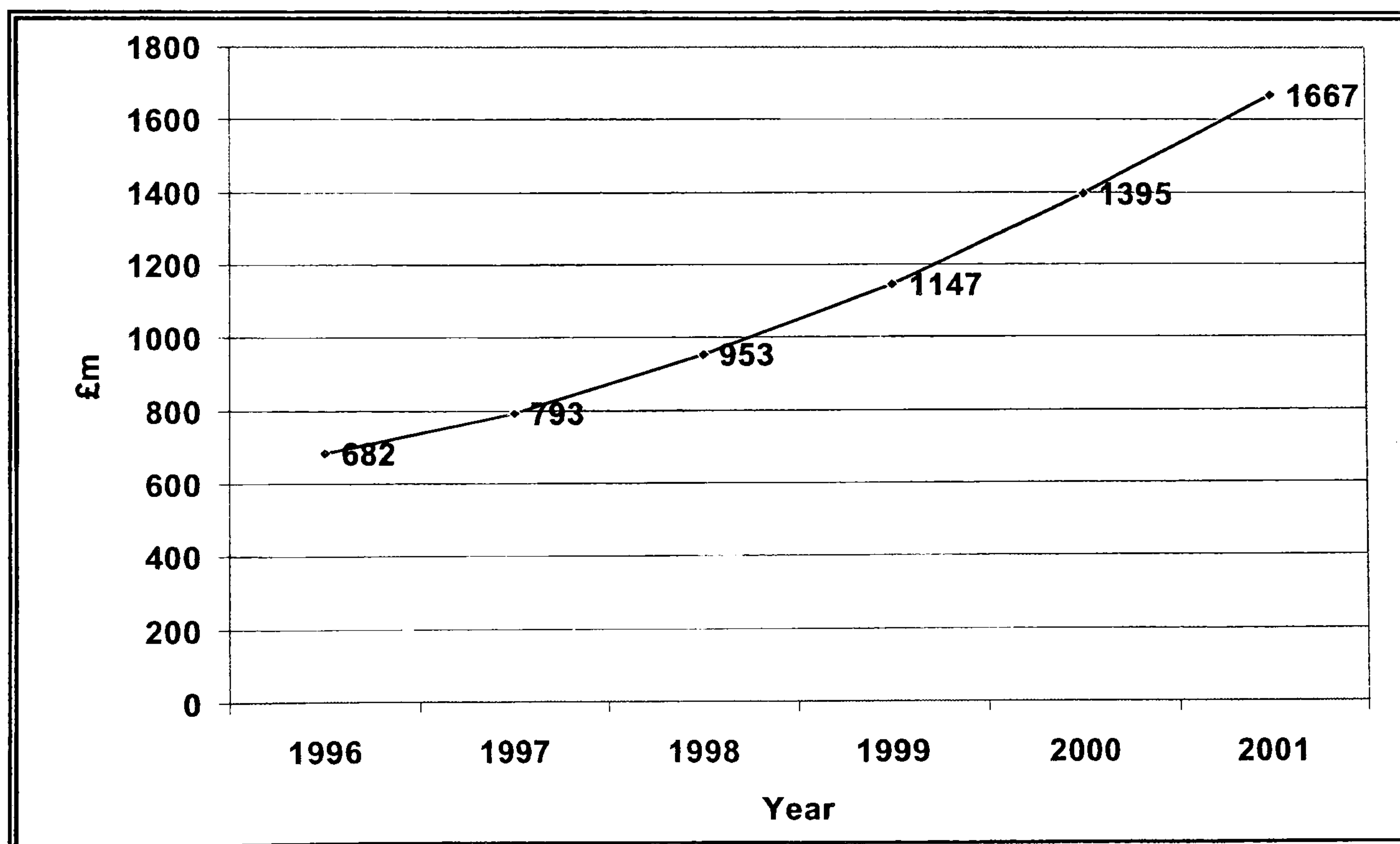
Year	Members m	Members as a % of adult population
1996	1.51	3.2
1997	1.71	3.6
1998	2.03	4.2
1999	2.39	5.0
2000	2.86	5.9
2001 (est.)	3.40	7.0

Source: Mintel (2001)

Although Mintel (2001) estimates that during 2001 7.0% of the British population were members of a health club, estimates from different sources do tend to differ. For example, Leisure Opportunities (2001a) stated that market penetration⁶ of the British adult population in 2001 was 6.5%, whereas abouthealthclubs.co.uk (2002) suggests that the figure for 2001 was only 5.1% of the population. L&HB (2002b) is more positive, expecting 8.4% of the British population to be members of a health club by 2004.

Expenditure on private health clubs has also achieved continual growth between 1996 and 2001, which Mintel (2001) states is a result of the continued growth in the number of outlets by the health club chains, and the steady influx of members to new and existing clubs. Figure 3.4 indicates that during the period from 1996 to 2001 the value of the health club market grew by 145% in current price terms (Mintel, 2001), and even removing the effects of retail price inflation, the growth has still been strong, at 113% (Mintel, 2001).

Figure 3.4: The British market for health clubs⁷, 1996-2001



Source: Adapted from Mintel (2001)

⁶ Market penetration refers to the percentage of the British adult population who are members of a health club.

⁷ Data relate only to private clubs and therefore exclude those clubs run on behalf of local authorities; corporate facilities are also excluded.

Once again, this growth is also discussed in the trade and popular press, (L&HB, 2001j; Leisure Opportunities, 2001a; abouthealthclubs.co.uk, 2002; L&HB, 2002j) where they cite similar figures for the growth of British expenditure on health clubs.

Table 3.6: The British market for health clubs by sector, 1996, 1998 and 2000

	1996		1998		2000		1996-2000
	£m	%	£m	%	£m	%	% change
Membership fees	484	71	664	70	987	71	+103.7
Joining fees	68	10	98	10	126	9	+86.1
Secondary expenditure	130	19	191	20	282	20	+117.7
TOTAL	682	100	953	100	1395	100	+104.6

Source: Mintel (2001)

A further means of analysing the development of the British health club market is by examining consumers' expenditure on the different areas of revenue generation for health club operators, as indicated in Table 3.6. Mintel (2001) details the changes in expenditure on membership fees; joining fees; and secondary expenditure⁸ between 1996 and 2000 in the British health club market. Table 3.6 indicates that the revenue generated from joining fees has declined between 1996 and 2000, which Mintel (2001) suggests is a result of increasing competitive pressure, which encourages operators to discount joining fees as a means of boosting membership in existing clubs and establishing a strong membership base in new clubs (see Section 3.2). The figures also suggest that revenue from secondary expenditure has increased by the greatest percentage, and this is reflected by the improved facilities at health clubs, which now offer a greater range of services (The Independent, 2000a; Reece, 2000; Buckingham & Finch, 1998; Daneshku, 1998b). For example, Mintel (1999) observed that 85% of health clubs now provide satellite television for their gym users; 60% of health clubs have a beauty salon; and 75% of them operate a café/bar.

A further development in the British health club market has been the tendency in recent years to focus on 'wellness' rather than 'health and fitness' (Mintel, 2001 and

⁸ For the purposes of this research secondary revenue (expenditure) is the revenue (expenditure on) generated from services provided by the health club, discounting joining and membership fees.

L&HB, 2002e). Mintel (2001, p.5) states that 'in the past two years, there has been a definite trend towards clubs repositioning themselves on more of a 'wellness' platform, in a bid to broaden their appeal to a wider audience'. The report suggests that operators are aiming to attract older consumers, who do not attach as much importance to active fitness and would rather use facilities for swimming and health and beauty etc. L&HB (2002e) similarly states that 'there is a genuine movement, from both club operators and users, towards activities that are a far cry from the more frantic exercise culture that was associated with the first generation of fitness clubs'. The article adds that there has been a trend towards softer exercise classes, and complementary therapies and medicines. Examples of operators who provide these types of services include Third Space, Champneys and Stax Leisure (Leisure Opportunities, 2000c; Lerner, 2001f; Leisure Opportunities, 2001q).

The above discussion has established that the number of health clubs, the number of members and the level of expenditure have all increased since 1996 in the British health club market. However, the increase in the number of health clubs is expected to experience a 'slow down', which would also suggest that the number of members and level of expenditure will also not rise as rapidly during the foreseeable future. A further development in the British market has been the improved facilities in the health clubs, which are also increasingly incorporating 'wellness' services and facilities.

3.3.2 The British health club market environment

In analysing the environment in which health club companies operate one of the most effective means is arguably a PEST analysis, which provides an 'objective and straight forward consideration of changing political, economic, social and technological influences' (Thompson, 1999, p.234). The following section therefore undertakes a PEST analysis of the British health club market, using the available secondary data and commencing with an examination of potential political influences.

Political factors might be suggested to have had both a positive and negative impact on the British health club market. One of the means by which political factors have been a positive influence on the market is through the government's increasing acknowledgement of the significance of the health club industry. For example, in many instances the government has changed its policies; grants; subsidies; planning permission etc., to be more amenable to health club operators (Grade, 1998; SLAM,

1999; Thomas, 1999). This development has been facilitated by the establishment of the 'Vanguard Group', which was founded by the Fitness Industry Association 'to improve public and government awareness of the health and fitness industry and its importance and status in relation to government policy' (Health Club Management, 2001q, p.20). The recent governmental campaigns for healthy living have also promoted the advantages of health club membership by encouraging the public to take regular cardio-vascular exercise (Smith, 1999; Larner, 2000; Health Club Management 2001q).

However, the political influence has not all been positive, particularly in terms of planning permission. Sequential testing and the planning policy PPG6 imposed by the government aim to discourage leisure operators from out-of-town developments, and encourage them into town centre developments, as discussed in Section 2.3.3. As a result of these planning restrictions there are reportedly a lack of suitable greenfield⁹ sites for health club developers, and they are therefore increasingly being forced to consider smaller, brownfield¹⁰ developments nearer town centres (Grade, 1998; Ahmed, 2000). Furthermore, the introduction of the transport policy PPG13 discourages consumers from driving to venues, and to instead use public transport, which could also have detrimental effects on already established out-of-town health clubs (Intel, 2000a).

A further political influence is the introduction of management contracts/franchises at local authority leisure centres (Key Note, 1999a). The increasingly sophisticated service offering at leisure centres may result in greater competition for current health club operators (Key Note, 1999a), although it may also offer them the chance to tender for the contracts, and thus enable them to expand by means other than acquisitions and new build (Blackwell, 1996).

The influence of economic conditions also has potentially mixed results for British health club operators. A possible positive influence has been the growth in personal disposable income of the British population, which has resulted in an increase of leisure spending, and hence potentially increasing spending in the health club market (Crosse, 1999; and see Section 2.2). Certainly favourable for the health

⁹ A 'greenfield site' is defined as 'a site, separate from existing developments, which is to be developed for the first time' (Chambers English Dictionary, 1990).

¹⁰ A 'brownfield site' is defined as 'a piece of industrial or commercial property that is abandoned or underused and often environmentally contaminated, especially one considered as a potential site for redevelopment' (www.dictionary.com, 2002).

club industry is that the balance of consumer spending has shifted away from sports and games and towards health and fitness, resulting in increasing interest in health clubs (Key Note, 1999a).

A positive economic influence has been the injection of capital that the industry has received in recent years. The British industry has been particularly active since 1995, with an increasing number of health club company floatations, which results in increased interest in the industry by The City, and injections of capital for expansion plans (Buckingham & Finch, 1998; Benoit, 1999a; Price, 1996; Lady in Leisure, 1997; Financial Times, 1998). The company floatations have allowed the companies to undertake rapid expansion strategies, and these expansion policies have led to increased merger and acquisition activity, resulting in the consolidation of the health club industry (see Appendix III) (Newton, 1998; Larner, 2000; Ahmed, 2000; Larner, 2001b; Larner, 2001d; Rigby, 2001; Crosthwaite, 2001). As the industry consolidates, there is increasing dominance by large health club multiples, which in turn could result in increased professionalism and escalating levels of investment (Key Note, 1997a), which also has a positive influence on the industry. As the industry has become increasingly professional and recognised by The City, health clubs have become a more attractive investment, resulting in leisure multiples, such as Cannons and First Leisure (now Esporta) focussing on the health club industry (Bain, 1998, Pratley, 1996, Slingsby, 1995). However, their success has resulted in an influx of new market entrants, resulting in increased competition for current health club operators (Cox, 1999; Walsh, 1998b; Hosking, 1999; L&HB, 2002b; L&HB, 2002m; L&HB, 2002j), which has led to a number of the smaller operators being competed out of the market (Intel, 2001).

The escalating levels of competition have also had some detrimental economic effects for the current operators in general. For example, property prices for health club sites have undergone rapid inflation, naturally having adverse effects on health club companies' operating costs (Walsh, 1998b; Ahmed, 2000). As a result of the increasing cost of property, health club operators are increasingly considering sale and leasebacks of their sites in order to raise capital for expansion (L&HB, 2001d). A further detrimental economic effect of competition is that the market is suggested by some writers to be nearing saturation, which could result in a lack of opportunity for expansion in Britain, and hence adverse operating conditions (Fenn, 1999; Daneshku,

1999; Daneshku, 1998a; Patten, 1999; Johnson, 1998; Online Leisure, 1999; L&HB, 2002m).

The impact of social factors might be argued to be slightly more positive, although they do arguably depend on the consumers' general attitude towards leisure, as discussed in Chapter Two. For example, the lack of leisure time in Britain might impact on health club membership, as individuals who have less leisure time might be unwilling to become members due to their time constraints. However, the lack of leisure time in Britain reflects increased working time, which potentially results in higher levels of disposable income, which may be spent on quality leisure activities, hence boosting health club membership (Evening Standard, 1999a, and see Chapter Two). The Henley Centre (1992) supports the latter argument by suggesting that the 1990s were to be characterised by individuals focusing on the qualitative aspects of leisure, i.e. seeking high quality services and venues and being willing to pay higher rates, potentially a positive influence for health clubs.

Other social influences on the health club market also appear to be positive, and since the membership of health clubs is a social activity, it might be argued that these factors are one of the strongest influences on the performance of the health club market. One of the key issues that has been particularly favourable for the industry is the increasing awareness of the importance of health and fitness (Daneshku, 1998b; Leisure Opportunities, 2001h; Rigby, 2001; L&HB, 2002b; Smith, 1999). This factor, combined with the increasing popularity of 'keeping fit' has assisted operators in increasing the membership of health clubs (Key Note, 1997a; Mintel, 1998b; Mintel, 2001). The methods individuals use to 'get fit' have also altered slightly. Weight training and 'working out' were the fastest growing sports during the 1990s (Spooner, 1997) and there has been a move towards general fitness activities and individual sporting activities (Crosse, 1999; SLAM, 1999); areas in which health clubs specialise. Individuals also prefer to use a variety of facilities (Spooner, 1997; Daneshku, 1995b; Express on Sunday, 1999a), and consumers might therefore be attracted to health clubs that provide a range of activities. This concept is supported by the development of 'sound-bite' culture (see Chapter Two) wherein individuals may enjoy spending short amounts of times at health clubs (Key Note, 1997a).

As well as the attitude towards fitness changing, so too has the attitude towards work (Mintel, 1998b). The increasing flexibility of work patterns means that individuals find it easier to visit a health club during the working day (Mintel, 1998b,

and see Chapter Two), and many companies encourage fitness amongst their staff, offering complementary health club membership as part of a benefits package, or providing on site health clubs as discussed in Section 3.2 (Health Club Management, 2001h; L&HB, 2002d). A number of health club companies have identified this trend and have begun managing corporate health clubs, such as Granada, who operate Fitness For Industry (Leisure Opportunities, 1997; Daneshku, 1998b). Other work factors have also encouraged the use of health clubs, such as the increasing number of women in full-time employment, which results in higher levels of personal disposable income (Thomas, 1999). Furthermore, the British population is suggested to be suffering from high levels of stress, which many people combat by undertaking physical exercise, potentially at health clubs (Daneshku, 1998b).

A further social development for the health club market has been its rise in status, with the industry becoming increasingly high profile in the public and trade press. This development could enable health club operators to attract employees and gain government and local authority support (Daneshku, 1999; Weldon, 1999; Buckingham and Finch, 1998; Evening Standard, 1998). As the industry improves its quality and gains support in this manner then it is also likely that it will attract more members.

A changing social factor that British health club operators have exploited is consumers' increasing awareness and interest in health and fitness and 'wellness'. Operators have introduced new concepts and services which are expected to attract a greater number of members as a percentage of the population (BusinessAge, 1995). Examples include 'life centres' operated by Virgin Active (Leisure Management, 2001c; Leisure Opportunities, 2001i; Cox, 1999) and 'wellbeing centres' operated by Boots (Lamer, 2001f; Leisure Opportunities, 2001n). A number of health club companies are also aiming to take advantage of the increasing social desire for products and services tailored to individuals' or groups of individuals' needs (Leisure Week, 2000c; Swift, 2001; Worsley, 2001). Companies that have utilised this strategy include Lady in Leisure and Go Fitness Plus (Walsh, 1997; Griffiths, 1997).

A further positive social factor noted in Section 2.3.2, was the growth in the British hotel industry, which suggests that consumers are increasingly using British hotels. The popularity of British hotels has also resulted in the increasingly popularity of hotel-based health clubs. Health club operators such as Holmes Place and LivingWell have been able to take advantage of this trend by operating health clubs

for Friendly Hotels and Hilton Group respectively (The Times, 1999a; Larner, 2001a; L&HB, 2001j). This trend has also been suggested to result in increasing consumer awareness of health club facilities (Health Club Management, 1999e).

The impact of technological issues on the health club industry might be suggested to be relatively limited, with the main influence arguably being the provision of health club equipment. Technological developments have resulted in improved health club equipment, such as digital cardiovascular equipment (Key Note, 1997a; Thomas, 1999). This general improvement in the quality of health club equipment may result in individuals being encouraged to join the health club, and therefore lead to increasing membership (Walsh, 1998b). However, as well as the advanced equipment being available to health clubs, it is also available to individuals, who are able to access low cost and high quality equipment for home use, potentially having detrimental effects on health club membership (Key Note, 1997a). A further means by which technology might influence health club operators is in their web-site provision, which is used to market the health clubs. Following technological developments health club operators are able to market a wider variety of their health clubs on the internet, direct consumers to their local health club and provide details of health and fitness classes etc (The Times, 1999b; Leisure Opportunities, 2001b).

The above PEST analysis suggests that the future is relatively promising for health clubs. The social factors are particularly positive, with many consumer trends indicating an expanding base of health club members (also see Chapter Two for population trends and their effects on the leisure industry). The awareness of the importance of health, fitness and exercise is steadily increasing, and combined with growing recognition of the industry, health club companies could witness a large influx of members in the future. To heighten the opportunities for the industry the economic situation is currently favourable, with personal disposable income increasing and confidence escalating following the slight set-back at the end of 1998. A potential problem, however, has been argued to be saturation, not only saturation of demand, but the saturation of locations for the larger health club formats. American trends suggest that the British market could increase market penetration, but these rates might not be attained if health clubs simply cannot be constructed in accessible and attractive locations at a reasonable cost.

3.3.3 The British health club industry life-cycle

Having analysed the development of the British health club market and examined the environmental influences that might affect the market and its operators, the following discussion will focus on the stage of industry lifecycle which health clubs has reached. Porter (1980) states that the lifecycle is the most widely used means of predicting the evolution of an industry. It is suggested that an industry will pass through a number of stages, which include introduction, growth, maturity and decline, reflecting the varying industry sales and competitive strategies over time (Porter, 1980). Leisure analysts have predicted that the health club market will reach saturation in the near future (Fenn, 1999; Daneshku, 1999; Daneshku, 1998a; Patten, 1999; Johnson, 1998; Online Leisure, 1999; L&HB, 2002m), which suggests that the industry is reaching the mature stage of its life-cycle (Porter, 1980). The following section will examine the industry in more detail to identify other factors that might confirm or disagree with this observation.

Using trends in sales Porter (1980) outlines how an industry might alter during its development. From Porter's (1980) predictions, it would appear that the health club industry is moving towards the end of its growth period. This can be argued for a number of reasons. Firstly, the buyer group is in the process of broadening as more women are joining health clubs, and health clubs are actively encouraging the membership of children (Lacey, 1999; Leisure Opportunities, 2001e; Ardhill, 2001). Awareness of health clubs is also growing, as discussed in the PEST analysis, resulting in an expanding consumer base (Health Club Management, 1999b). This increasing consumer base is a characteristic of the 'growth' stage of the industry (Porter, 1980). The 'introductory' stage would appear to have passed, during which time demand developed, and the consumer group broadened from the original high-income consumers and the weight-trainers, who frequented the smaller, male-orientated gyms (Murray, 1996; Marks, 1998; BusinessAge, 1995). Furthermore, the industry does not seem to have reached maturity as saturation has not yet occurred, and competition on the grounds of price would appear to be only just beginning (see Section 3.2) (Nicol, 1999; White, 2001; Mintel, 2001).

The contemporary health club product lines utilised (as discussed in Section 3.2) would also appear to suggest that the industry is nearing the end of its growth stage. Porter (1980) suggests that differentiation is a key element during the growth

stage, and this strategy is frequently utilised in the health club industry (Larner, 2001f; Leisure Opportunities, 2001a; Health Club Management, 2001e; Leake, 1999; Larner, 2001b). However, standardisation could be suggested to be beginning to occur, due to increasing professionalism of the industry and consumer expectations of a high quality product offering (The Independent, 2000a; Reece, 2000; Buckingham & Finch, 1998; Daneshku, 1998b). Porter (1980) states that standardisation is a feature of the mature stage of the industry lifecycle, thus supporting the suggestion that the health club industry is reaching the end of its growth stage and moving towards maturity.

Porter's (1980) analysis of the industry lifecycle states that advertising is a feature of the introductory and growth stages. In contrast, the health club industry is not one that is renowned for advertising, and any advertising that there is tends to only occur on a local scale in proximity to the venue, on billboards or local radio. There are relatively few health club companies that have nation-wide chains of health clubs (Intel, 2001), thus suggesting that a national advertising campaign would be futile. However, Porter (1980) also suggests that market segmentation, is a key feature of the mature stage, and is a technique that is widely used in the health club industry (see Section 3.4). For example, a number of health club operators target women only (Leisure Opportunities, 2001t; L&HB, 2001g; Health Club Management, 2001i), health clubs have begun targeting children (L&HB, 2002i; L&HB, 2002k; Leisure opportunities, 2001e), Fit Stop and Boots target consumers who have not used a health club before (Investors Chronicle, 1999b; Health Club Management, 2001w) and Esporta operated a health club chain named Eden that targeted consumers over 40 years (Health Club Management, 2001g; Goodman, 2000).

When examining the competition in the health club industry it would also appear that it is between growth and maturity on the industry lifecycle. Porter (1980) states that features of the growth phase are a large number of new entrants; many competitors; and a large number of mergers and acquisitions. The British health club industry has experienced a large influx of operators in recent years (L&HB, 2002l; White, 2001; Leisure Opportunities; 2000a; Leisure Opportunities; 2001h; Health Club Management, 2001e) including brands such as Amida; Escape; Naked Health; Aurigin; Third Space etc. The new operators' market entrance has also led to increased competition, as has the continual expansion of the already present health club chains (Leisure Week, 2000c; Leisure Week, 2000d; Health Club Management,

2001e). As a result of the influx of new health club operators and the increased level of competition, there has been an increasing emphasis placed on the importance of brand recognition (Walsh, 1998b; The Independent, 2000a), which is also typical of the mature stage of the industry lifecycle (Porter, 1980).

The above discussion of the health club industry therefore suggests that the industry is currently in its growth stage of development, but that it is nearing the end of this stage. It could also be argued that the industry will shortly reach maturity as the number of competitors increases, a wider range of product offerings is introduced, differentiation techniques become widespread and niche operators enter the market. Once the industry does reach maturity operators could find the level of competition much more demanding, particularly if they experience competition on the grounds of price. The smaller companies could be hardest hit, since they are not able to achieve significant economies of scale and scope. Furthermore, market consolidation (typical of a mature market (Porter, 1980)) will result in dominant, larger operators who acquire the smaller operators. This is arguably the time at which operators could begin to consider overseas expansion.

3.4 ANALYSIS OF THE BRITISH HEALTH CLUB OPERATORS

Having analysed the development of the health club market and examined the stage of lifecycle at which the industry is currently, the following section will focus on the British health club operators. The discussion will commence by identifying and examining the strategic groups within the industry, focussing on the size of the groups, the 'key players' and the ways in which the groups differ to each other. The section will then draw on the work of Porter (1980 & 1985), analysing the competitive strategies that are utilised by the operators.

3.4.1 Strategic group analysis

As discussed in Section 3.1 it is possible to identify a number of strategic groups within the health club industry, and they will be analysed during the following section. The strategic groups identified in Section 3.2 included dedicated health club operators (i.e. operators of stand-alone sites); operators of hotel-based health clubs; and operators of health clubs in leisure centres, and residential and corporate developments. Much of the following information will be drawn from Mintel (2001), which grouped the operators of health clubs in leisure centres and residential and

corporate developments into one category, so that grouping will continue throughout this section.

The first strategic group in the health club industry is the dedicated health club companies who operate stand-alone sites. As discussed in Section 3.2 the stand-alone sites tend to be the largest in terms of size and membership, and the most expensive, offering the widest range of facilities. An examination of the dedicated health club operators in Britain finds that Fitness First is the largest operator, and with 93 clubs it clearly dominates its competitors. Mintel (2001) states that the reason for Fitness First's dominance is that dedicated health clubs are the only type of venues that it operates, whereas companies such as Whitbread, Cannons, Holmes Place and LA Fitness have clubs in the other strategic groups. Table 3.7 indicates the companies that operate stand-alone health clubs, and provides details of the number of clubs they own, and the brand names under which they are operated. Six Continents is clearly the hotel-based strategic group leader; followed by Hilton Group and Whitbread. The table also indicates that the delineation between the strategic groups is not clear, as Hilton Group; Whitbread; De Vere; and Crown Sports also operate dedicated health clubs.

Table 3.7 assists in demonstrating the continuing fragmented nature of the British health club market, as it lists 38 health club operators who between them operate 562 health clubs, which is an average of approximately 15 health clubs each. Given that Figure 3.3 states that in 2001 there were 2,631 health clubs in Britain, it can be calculated that the top 38 dedicated health club operators only operate almost a quarter of British health clubs, in turn suggesting that there are many one site operations in Britain. Although it should be noted that a number of these remaining health clubs are based in hotels, leisure centres, corporate or residential developments there still remains a high level of fragmentation within the strategic group.

The second strategic group consists of health club companies who operate health clubs in hotels. This group is much smaller than the dedicated health club operators, as it consists of only nine operators, although between them they operate 346 health clubs. This demonstrates that the hotel-based strategic group is less fragmented as they operate an average of over 38 clubs each. The reason for the higher number of clubs per operator is arguably that the health clubs are much smaller, and hence cheaper to develop (see Section 3.2), and that the operators have much easier access to sites, as they are constructed within the hotel grounds.

Table 3.7: Leading operators of dedicated British health clubs ranked by the number of clubs operated, October 2001

Company	Brand name(s)	Clubs
Fitness First plc	Fitness First	93
Whitbread plc	David Lloyd / Curzons	59
Cannons Group Ltd	Cannons	41
LA Fitness plc	LA Fitness	41
Holmes Place plc	Holmes Place Health Club / Fitness Club	36
Esporta plc	Esporta	36
Hilton Group plc	LivingWell Premier Clubs	25
Crown Sports plc	Dragons Health Clubs	22
Topnotch Health Clubs plc	Topnotch Health Clubs	19
Aludel Ltd	Lady in Leisure	16
Bannatyne Fitness	Bannatyne Health Club / Just Fitness	16
Mike Corby Holdings Ltd	Various / Fitness Exchange	14
SpringHealth Leisure	Springs Health Clubs	14
Ladies Own	Ladies Own	11
Total Fitness (UK) Ltd	Total Fitness	11
De Vere Group plc	Greens	10
Invicta Leisure	Various	10
Northern Fitness Contracts Ltd	Classic World of Fitness	9
Peak Fitness Ltd	Peak Fitness	9
Virgin Group	Virgin Active	9
HiLife Group plc	HiLife Fitness & Lifestyle	8
Clubhaus plc	Various	7
Ivy Court Leisure Clubs Ltd	Ivy Court Health Clubs	6
Next Generation Holdings Ltd	Next Generation	6
JJB Sports plc	JJB Health Clubs	5
One on One Fitness Centre Ltd	One on One Fitness	5
Classic World of Fitness Ltd	Classic World of Fitness	4
Courtesy Leisure Ltd	Physicals	4
Hunters Leisure plc	Hunters the Health Club	4
Hogarth Group	Various	3
Odyssey Health Clubs	Odyssey Health Club	3
DC Leisure Group	Sam Jones	2
Kingswood Leisure Services	Club Kingswood / Club Woodham	2
Sportz Academy	Sportz Adademy	2

Source: Mintel (2001)

Table 3.8: Leading operators of hotel-based British health clubs ranked by number of clubs operated, October 2001

Company	Brand Name(s)	Clubs
Six Continents plc	Spirit / various	81
Hilton Group plc	LivingWell Health Clubs	56
Whitbread plc	Marriot leisure Centres	48
De Vere Group plc	De Vere Leisure Clubs / Village Leisure Clubs	32
Queens Moat Houses plc	Club Moativation	32
3d leisure Ltd*	Various	31
Jarvis Hotels plc	Sebastian Coe Health Clubs / Poolside Health Clubs	30
Macdonald Hotels plc	Pelican Leisure Club	22
Crown Sports plc	Fitness Express	14

Source: Mintel (2001)

** clubs in hotels run by 3d Leisure on a management contract basis*

Table 3.9 indicates that the management contract/franchise strategic group is slightly more fragmented with eleven companies operating 312 health clubs, an average of approximately 28 each. The table also illustrates the operational crossover between the strategic groups as Canons and Holmes Place also feature in the dedicated health club operators strategic group. However, the management contract / franchise strategic group leaders are three companies that do not have a presence in the dedicated and hotel-based health club groups, suggesting that they gain their competitive strength by focussing on one area.

The discussion on fragmentation can be further refined by analysing the number of clubs that are single sites and the number of that are part of a group. Table 3.10 provides the percentage of total health clubs that are included in each of the strategic groups and indicates what percentage in each strategic group are part of a group, or are single sites. Table 3.10 supports the statement that the stand-alone strategic group is the most fragmented, as 64.2% of the single site health clubs are stand-alone operators, whereas the hotel-base strategic group is the least fragmented, with 8.6% of single sites being hotel-based. However, the strategic group that operates the greatest number of health clubs that are part of a group is also the stand-alone operators, which reflects the size of the group in comparison to the others.

Tables 3.7, 3.8 and 3.9 identified the leading health club operators according to the number of clubs operated, whereas Table 3.11 indicates the leading health club operators according to the number of members they have.

Table 3.9: Leading operators of management contract / franchise run British health clubs ranked by the number of clubs operated, October 2001

Company	Brand Name(s)	Clubs
Kunick plc / The Leisure Connection	Harpers Fitness Clubs	67
DC Leisure group	Images / Kinetika	59
Pulse Fitness Ltd	Planet Pulse	58
Clear Channel / CCL Leisure	Resolution	30
Serco Group plc	Shapes	21
Parkwood Holdings plc / Glendale Leisure	Expressions	17
Sports and Leisure Management Ltd	Banana Fitness & Health	17
Six Continents plc	Spirit @ Work	13
Holmes Place plc	Holmes Place	11
Cannons Group Ltd	Courtneys	10
Tweedpark Ltd	Various	9

Source: Mintel (2001)

** sites mostly on income-share rather than management contract*

*** managed corporate sites open to public membership*

Table 3.10: Health clubs by location, by type, September 2001

	All clubs %	Single site %	Part of a group %
Stand-alone	47.2	64.2	41.6
In a leisure centre	24.4	9.9	29.0
Within a hotel	19.7	8.6	23.5
Other	8.4	17.3	5.5
Don't know / not stated	0.3	-	0.4
Total (%)	100.0	100.0	100.0
Base: Health clubs	320	81	238

The leading seven operators of health clubs all operate stand-alone health clubs, which tend to be larger in size and thus contribute more members to the total. The leading operator is Whitbread plc, which also operates hotel-based health clubs, and the leading operator of management contract / franchise health clubs is Kunick plc.

Table 3.12 focuses on the size of the health clubs operated by the various companies by indicating the average number of members per club.

Table 3.11: Leading operators of British health clubs ranked by number of members, October 2001

Company	Members
Whitbread plc	319,753
Fitness First plc	220,000
Cannons Group plc	163,000
Holmes Place plc	173,000
Esporta plc	157,000
Hilton group plc	113,000
De Vere Group plc	105,400
LA Fitness plc	91,000
Kunick plc / The Leisure Connection	75,000
Crown Sports plc	69,500
Six Continents plc	68,100
Dc Leisure Group	64,000
Pulse Fitness Ltd	53,000
Total Fitness (UK) Ltd	49,000
Invicta Leisure Ltd	48,000

Source: Mintel (2001)

Table 3.12: Leading operators of UK health and fitness clubs ranked by average number of members per club, October 2001

Company	Average members per club
Next Generation Holdings Ltd	5,000
Invicta leisure ltd	4,800
Esporta plc	4,486
Total Fitness (UK) Ltd	4,455
Virgin Group	4,312
JJB Sports plc	4,000
Clubhaus plc	3,829
Hogarth Group	3,483
Holmes Place plc	3,396
Cannons Group Ltd	3,213
Sportz Academy Ltd	3,000
Whitbread plc	2,988
Odyssey Health Clubs	2,967
Kingswood Leisure Services Ltd	2,750
Bannatyne Leisure Services Ltd	2,656

Source: Mintel (2001)

The companies that have the largest number of average members are Next Generation and Invicta Leisure who operate six and ten clubs respectively. All of the companies listed in Table 3.11 are operators of stand-alone health clubs, which supports the discussion in Section 3.2 that stand-alone health clubs are usually the largest.

The above discussion therefore suggests that there are three strategic groups in the health club industry; operators of stand-alone health clubs; operators of hotel-

based health clubs; and operators of management contracts / franchises. The stand-alone strategic group is the most highly fragmented, with the hotel-based strategic group being the least fragmented. Furthermore, the largest health clubs, according to average number of members per club, are operated by stand-alone health club operators.

3.4.2 Competitive strategies

The following section focuses on the competitive strategies utilised by British health club operators. The discussion will commence by discussing segmentation, which is arguably a technique that is widely used by health club companies, before examining the competitive strategies proposed by Porter (1980) in order to ascertain which, if any, might be suggested to be used by British health club companies. The aim of the section is to understand how British companies operate in the domestic market, in order to comprehend the reasons for their competitive strategies in foreign markets.

Porter (1980) defines industry segmentation as the 'division of an industry into sub-units for the purposes of developing competitive strategy', and suggests that it should include all of the value chain. The value chain incorporates support activities, such as firm infrastructure; human resource management; technology development and procurement; and primary activities such as inbound logistics; operations; outbound logistics; marketing; and sales and service (Porter, 1980). Porter (1980) also states that within an industry there is often a range of buyers and a range of product varieties, and suggests that in order to segment an industry each discrete product variety should be identified, with buyer segments being identified in a similar fashion.

Section 3.2 discussed how operators segmented the market according to the product variety, and identified five types of health clubs, which included dry health clubs; wet clubs; sports health clubs; combined facilities health clubs; and holistic health clubs. Due to the discussion of these segments earlier in the chapter, the following discussion will focus on the segmentation that is achieved through 'buyers'.

Porter (1980) suggests that it is necessary to analyse buyer segments by identifying buyer type, buyer location and distribution channels. However, it might be argued that not all of these three factors are relevant in the health club industry. Firstly, 'buyer location' is the catchment area surrounding a health club, the individuals living within which are potential members, or buyers. An exception to

this is hotel-based health clubs as the consumer may be staying at the hotel, with their permanent place of residence being some distance away. Secondly, the type of 'distribution channel' is arguably not of relevance in this discussion, as there is simultaneous production and consumption in the market, which suggests that there is not a distribution channel, as the health clubs sell directly to the consumers. Therefore it could be suggested that buyer segments in the health club market could only be identified by 'buyer type', and the following discussion illustrates how four segments of 'buyer type' can be identified. The first means of segmenting buyer type is to focus on one gender, which is a strategy that Lady In Leisure and Exclusively Ladies utilise, only allowing female members of their health clubs (Leisure Opportunities, 2001t; L&HB, 2001g; Health Club Management, 2001i). Furthermore, a number of operators (such as Esporta and LivingWell) offer women-only facilities within a standard health club, so that women do not need to exercise in the same room as men (Esporta, 2000; LivingWell, 2001).

A number of health club companies segment the buyer types by targeting specific age groups. For example, the possibilities of the 'grey-haired' market are widely discussed (Buckingham & Finch, 1998; Maguire, 2001; Terry, 2001; Maguire, 2001) and health clubs such as Eden and Club Motivation state that they target the 'over 50s'. In contrast, a number of operators target children (Lacey, 1999; Leisure Opportunities, 2001e; Ardhill, 2001), although the majority of health clubs do however target the young working individual, between the ages of 18 and 50 (The Independent, 2000a; Worsley, 2001; Swift, 2001).

The buyer type can also be segmented according to the consumers socio-economic group, and hence the price they are likely to be willing to pay for membership of a health club. For example, Harbour Club (Cannons) and Champney's are both considered premium health clubs, and therefore target individuals with a high level of personal disposable income (Health Club Management, 2001n; Walsh, 1997). In contrast, Fitness First targets consumers in a lower income bracket, charging lower membership rates and using its marketing slogan 'Affordable Fitness' (Investors Chronicle, 1996b; Morrison, 1996). Operators that target the lowest socio-economic groups are arguably those who operate health clubs in leisure centres, as they charge the least in membership and joining fees (Intel, 2001) (see Section 3.2).

Similarly, a number of health club operators segment the buyer type according to the individuals' 'lifestyle aspirations'. Much of being a member of a health club

relates to an individual's lifestyle, and the health club that an individual is a member of arguably reflects the kind of life they lead. For example, a member of a health club such as Holmes Place might suggest a young executive, whereas being a member of Virgin Active might suggest a family-orientated person (due to the family facilities available) or a single, young person (due to the 'singles nights' offered) (Cox, 1999; Virgin Active, 1999; Leake, 1999).

From the above discussion it would appear that segmentation takes place in the health club market through product variety and buyer type. Although there are three core strategic groups in the industry (as identified in Section 3.4.1), the groups can be broken down further to identify health club companies that operate in different segments of the market. Five segments of product variety were established in the market, and four segments of buyer type. The following discussion will now focus on the competitive strategies identified by Porter (1980) and employed in the health club industry. Porter (1980) suggests that there are three generic competitive strategies that a company may use to outperform its competitors. These include overall cost leadership; differentiation and focus.

The identification of generic competitive strategies in the British health club industry enables an examination of how the companies compete in the domestic market, and hence how they might compete internationally. In order to identify the health club industry strategies, each of Porter's (1980) competitive strategies will be considered to determine if they are utilised by British health club companies.

Porter (1980) defines overall cost leadership as 'to achieve overall cost leadership in an industry through a set of functional policies aimed at this basic objective'. The aim of the company is thus to be as efficient as possible in all areas, including R&D, advertising etc through cost minimisation with the continual aim being cost reduction. This strategy is largely a feature of a mature market where supply is greater than demand, and the consumer is relatively powerful. The company is thus forced to offer the lowest price possible in order to attract consumers.

As discussed in Section 3.2.3 the British health club industry is suggested to be nearing maturity, at which point the companies are likely to begin competing on price Porter (1980). However, despite the effect on joining fees, this strategy has not generally transpired in the industry. Although companies such as Fitness First, (who market themselves as 'Affordable Fitness') would appear to be competing on price, they are arguably instead segmenting the market and targeting consumers with a

lower disposable income. Other operators such as Holmes Place and Cannons are unlikely to view Fitness First as a direct competitor and would therefore not compete on price with them. Fitness First maintains a minimum membership rate by not providing high cost facilities such as tennis courts and swimming pools. However, it is not apparent that cost leadership is a strategy that is widely used in the British health club industry (as Porter (1980) might suggest), but that a 'low cost' marketing strategy is utilised by a number of companies, as a means of segmenting the market.

In contrast, differentiation, Porter's second generic strategy, is a competitive strategy that is widely used in the health club industry. Due to the highly fragmented nature of the industry there is a large number of stand-alone, one site health clubs which aim to differentiate themselves from the local competition through the quality of their product, their customer service, or their personnel etc. However, health club companies industry-wide aim to achieve similar levels of service, suggesting that they are not significant differentiation techniques, and examining the product varieties can identify stronger differentiation techniques that health club companies utilise. As stated above and in Section 3.2, five types of health club are identifiable and include dry health clubs; wet health clubs; sports health clubs; combined facilities health clubs; and holistic health clubs. These health clubs target all consumers while being differentiated from each other by the facilities and services provided by the health club.

However, Porter (1980) also suggests that a competitive strategy employed is to 'focus' on a certain segment of the market. Porter (1980) states that 'although the low cost and differentiation strategies are aimed at achieving their objectives industry wide, the entire focus strategy is built around serving a particular target very well, and each functional policy is developed with this in mind'. The above discussion on segmentation indicates that this 'focus' is a widely used competitive strategy in the British health club market, where operators develop their product offering entirely around their target consumers. Porter (1980) suggests that by achieving focus the company is able to benefit from either a low cost position or high product differentiation.

While Porter (1980) suggests that the three techniques above are means of competing effectively, he also acknowledges that not all companies will utilise these strategies. He refers to the companies that do not focus on one competitive strategy as being 'stuck in the middle', which he states is an 'extremely poor strategic situation'

to be in, resulting in low profitability. It would appear that there are a number of health club companies that do not utilise differentiation, low cost or focus competitive strategies. Whether or not they could improve their competitive position or increase profitability if they developed one of the competitive strategies is difficult to judge. For example, during 1999, Dragons Health Clubs featured widely in the trade and popular press due to its poor profit levels (Investors Chronicle, 1999a; Evening Standard, 1999b). The company was criticised as having weak management and financial structures. Interestingly, at the time the company did not differentiate itself by using the technical and medical provision, which it now claims to provide. Since focussing on this differentiation technique the company has gradually improved its profitability (Leisure Opportunities, 2001o); whether this is due to the change in strategy or company changes would be difficult to state.

However, although the example of Dragons Health Clubs would seem to agree with Porter's (1980) criticism of companies that are 'stuck in the middle', there are a number of companies that do not. LivingWell, Village Leisure, Cannons and Esporta all provide similar facilities at a similar price to a similar target market. Each also appears to be successful and in the process of expanding. In contrast to Porter's (1980) suggestion of generic competitive strategy, the health club companies appear to be defying his 'stuck in the middle' phenomenon, although it is admittedly easier to achieve in an expanding market.

Following the above discussion it would appear that one of the key competitive strategies in the health club industry is differentiation, which could be suggested to be achieved largely through three techniques. The competitive strategy of focus also appears to be used, to a lesser extent, while cost leadership is rarely, if ever put into practice. One of the key points is that many health club companies appear to 'stuck in the middle' and yet are operating successfully.

3.5 CONCLUSION

The above analysis of the British health club market established that the market has enjoyed a high level of success since the mid 1990s, with the number of health club members; number of health clubs; and level of expenditure on health clubs all increasing. Health clubs were argued to be a relatively complex service offering, with venues varying according to their location; size; number of members; price; and facilities. Three strategic groups were identified; stand-alone health clubs; hotel-

based health clubs; and management contract or franchised health clubs, with the largest group being stand-alone health clubs. It was argued that the health club industry is currently in the growth phase of its life-cycle, but is nearing the end of the stage and progressing towards maturity. This observation is confirmed when analysing the competitive strategies employed by British health club operators, particularly differentiation; segmentation; and focus. Although the PEST analysis established that the foreseeable future is promising for British health club operators, with positive social factors in particular, the market is experiencing a number of problems. The movement towards the maturity of the industry is in itself argued to be problematic, possibly giving rise to the saturation of demand for health club membership and the saturation of suitable health club sites. Health club operators are also experiencing increased price pressure, and have become less willing to increase their membership fees and are increasingly avoiding charging joining fees. As stated in Section 2.5, a number of British health club companies have now established international operations, potentially seeking to avoid the problems in Britain, and having undertaken an analysis of the domestic market the following chapters will focus on that international activity.

4

Literature Review

The analysis of the British health club industry in Chapter Three examined the domestic market and stated that a number of British health club companies have begun to operate internationally. In order to understand the strategies and decisions behind the health club companies' internationalisation, primary research will be undertaken. However, before undertaking this research an examination of the literature on internationalisation will allow a greater understanding of what has (and has not) occurred in the industry, enabling the primary data to be compared to the literature. Furthermore, by studying the literature at this stage it will afford a greater understanding of the topic and thus a better comprehension of the issues raised during data collection.

The literature on internationalisation encompasses a range of subject matter; motives for internationalisation; modes of foreign market entry; management and co-ordination of international activities. Furthermore, there are two bodies of literature that analyse internationalisation; international management (for example Porter; Ohmae; Dickens), and international economics (for example Dunning; Buckley and Casson; Vernon), and this chapter aims to examine both approaches. As a result of the complexity of the subject it is arguably appropriate at this stage to address some terminology issues. Within this chapter any type of international activity will be termed as such, and may include exporting; management contracts; foreign direct investment etc, with internationalisation being the process of becoming internationally active. An international company will be the term used for any type of company undertaking international activity. The terminology does, however, become more specific when discussing foreign direct investment i.e. 'investment outside the home country of the investing company, but inside the investing company' (Dunning, 1993,

p.5). A company that engages in foreign direct investment will be termed a multinational enterprise (MNE) (Dunning, 1993).

The chapter will be structured so as to identify the motives for internationalisation, before focussing on the traditional theories of internationalisation. Due to the service nature of health clubs, discussion will then turn to the strategic management approach to internationalisation, and subsequently the more recent literature on the internationalisation of services. The modes of foreign market entry will then be discussed, including the rationale for choosing one mode over another. Finally discussion will focus on the means of managing and co-ordinating international activity.

4.1 MOTIVES FOR INTERNATIONALISATION

The analysis of the health club market in Chapter Three indicated that a number of British health club companies have commenced some form of international operations, although many of their competitors have chosen to remain domestic-only operators. Why have some companies chosen to operate in the international field, while others have not? This question is discussed in the literature that focuses on the motives for internationalisation.

In order to provide a structure for these motives for internationalisation, the literature is often divided into subsections. Examples of these subsection groupings include Alexander and Lockwood's (1994) 'push' and 'pull' factors in service industries, Ellis and William's (1994) 'internal' and 'external' triggers, and similarly Ghauri's (2000) 'company-dependent' and 'environmental' factors. During the examination of the motives in the following section Ghauri's (2000) company-dependent and environmental groupings will be utilised, as Chapter Three suggested that the health club industry environment is relatively turbulent (due to the continuing consolidation of the industry, and the debated proximity of saturation), and Ghauri's division will establish the influence of these environmental factors. The section will commence by analysing the company-dependent motives for internationalisation presented in the literature, before progressing to the environmental motives for internationalisation.

Company-dependent reasons for internationalisation are considered internal to the firm (Ghauri, 2000). One of the most important company-dependent motives is argued to be 'behavioural' (Aharoni, 1966; Cavusgil, 1982; Reid, 1983; Ghauri,

2000), i.e. the influence of the decision-makers within the organisation, including owners; managers; shareholders; and other stakeholders, on the company's international strategies. Ghauri (2000) suggests that the role of management is the singularly most important factor of the company-dependent influences. He states that the main impetus for strategy determination is from top-level managers; if they are active and committed they will be more willing to consider opportunities overseas. Ghauri (2000) cites three main reasons for managers' enthusiasm for overseas development; their special knowledge of a foreign market or customer; entrepreneurial drive and ambition; language skills and experience of living abroad.

Aharoni (1966) also recognises the importance of managers by focussing on their interpretation of 'stimuli'. These stimuli may be from within the organisation, or be external, such as the self-interest of managers or the effect of tariffs. The impact of such stimuli is determined by the manager's efficiency of scanning the environment and by their level of commitment to international projects (Aharoni, 1966). The manager's interpretation of the stimuli may determine whether or not they encourage the firm to internationalise. The importance of decision-makers is also recognised by Cavusgil (1982) and Reid (1983), who analyse the impact of the decision-maker's perceptions and expectations of the foreign market and their belief in the organisation's capability of succeeding in foreign markets.

A further influence on internationalisation by the company's management is potentially their aim of exploiting their own and their colleagues' skills. It is argued that in some instances managerial skills and capacity may only be fully exploited if the firm expands its operations; for example, 'highly specialised managerial personnel' may be operating at under-capacity if they are only operating in the domestic market (Buckley and Casson, 1991). Buckley and Casson (1991) suggest that if expansion of the domestic market is restricted by competitors' reactions or by market size, then the firm can only expand by entering foreign markets, attaining full usage of its personnel. Having entered foreign markets the firm may, however, be forced to take on other indivisible factors of production (for example manufacturing equipment, factory etc), which in turn generates a further incentive to expand, as there is greater capacity. Buckley and Casson (1991) suggest that eventually the firm's factors of production will be fully employed and the international growth of the firm will reach a plateau.

A non-behavioural company-dependent motive for internationalisation is the success of the firm in its home market, as Ghauri (2000) suggests that success encourages success. Once a company has become successful in the home market managers may be confident enough to consider expanding overseas. As a result of the domestic market success the company may have achieved higher profit levels and attracted higher quality personnel, resulting in greater capabilities and the subsequent ability to internationalise successfully. If the firm has been successful, or if the market situation is amenable to them, they may occupy a monopoly position in the domestic market, and this market domination might be further exploited in foreign markets, providing an incentive for international activity. The types of monopoly power explored by Hymer (1976) include market expertise; control of technology; managerial skills; access to capital and a unique product.

Aside from the importance of managers and the company's success, Buckley and Casson (1991) argue that by operating in international markets, the company may be aiming to diversify its activities. Three types of diversification are identified by Buckley and Casson (1991); horizontal, vertical and conglomerate. The firm is horizontally diversified if it produces the same product in different plants, vertically diversified if 'it produces intermediate products that correspond to different stages of the same productive sequence', and conglomerately diversified if it operates a number of unassociated investments. Diversification offers a range of benefits to the firm, including spreading risks, appealing to a wider range of consumers and utilising excess managerial capacity, an advantage that is possible to obtain if the company is operating in different countries (Buckley and Casson, 1991). Buckley and Casson (1991) state that the main benefit is perhaps the spreading of risk as the firm is managing a portfolio of assets, the firm being risk-averse and thus aiming to minimise the risk of its foreign investments. Linked into this argument is the benefit of operating in a number of different economies (Brooke, 1992). This motive is of particular importance to those industries that are affected by seasonal and cyclical factors, such as clothing or gifts, as Brooke (1992) suggests that the peaks and troughs of different economies occur at different times. By operating in a number of countries the company may be able to dampen the effects.

A further company-dependent motive for internationalisation is potentially the opportunity to benefit from economies of scale (Ghauri, 2000). Companies may be particularly interested in international activity if the economies relate to

transportation, production and the size of the market (Ghauri, 2000). Similarly, Arvidsson (1997) focuses on the importance of economies of scope in the service industry, as the economies are argued to be an incentive to use the experience gained from one specific activity on a world-wide basis. This expansion could potentially lower the costs for each new activity (Arvidsson, 1997). Dunning (1993) combines the motives of economies of scale and scope exploitation, and risk aversion (discussed above) in his 'efficiency-seeker' reasons for MNE activity. Efficiency-seekers aim to rationalise the structure of their existing investments in order to gain the benefits of common governance of geographically dispersed activities (Dunning, 1993). The company is able to take advantage of varying factor endowments; cultures; economic systems; institutional arrangements; and market structures, limiting production to a small number of locations, yet still supplying multiple markets. In most cases the company is a large, experienced and diversified MNE that has numerous foreign investments (undertaken for various reasons), which would benefit from rationalisation (Dunning, 1993). However, Dunning (1993) also notes that efficiency-seekers are increasingly new entrants developing regional or global marketing strategies (for example, Japanese investments in the EC). Dunning (1993) also suggests that there are two kinds of efficiency-seeking investment; (i) those that take advantage of the differing availability and costs of resources in various countries, and (ii) those that take advantage of different countries with relatively similar economic structures and income levels. Investment in the latter case achieves economies of scale and scope from similarities in consumer tastes and supply capabilities.

A further company dependent reason for internationalisation is the company's realisation that it would be advantageous to succeed in overseas markets, and that it is capable of doing so. These type of investors seek to advance their long-term strategic objectives by 'sustaining and advancing international competitiveness', and are termed 'strategic-asset seekers' (Dunning, 1993). The firm may aim to gain competitive strength in a market that had previously been unfamiliar to them by adding to the existing portfolio of investments, or be adding to their competitive strength, or weakening that of competitors (Dunning, 1993). Furthermore, if the company has a 'saleable idea' it is likely that there will be some pressure to introduce the product to overseas markets, as Marks & Spencer and Hertz have done (Brooke, 1992). The company is argued to be more positive about international activities if it possesses spare resources (Brooke, 1992).

Brooke (1992) also proposes the 'development of the product or service' as a company-dependent reason for internationalisation. Profitability may eventually cease at home, perhaps as a result of changing fashions or technology etc, yet if the product or service is introduced into overseas markets it might be possible to extend its product life-cycle. Thurrow (1999) also explores this theory, suggesting that companies can take advantage of 'developmental disequilibrium' by introducing products that are widely used in developed countries, into developing countries. Whereas the market may be nearing saturation, highly competitive or offering low returns in the developed country, the developing country may offer very high returns and little competition (Thurrow, 1999). Brooke (1992) cites examples such as household goods and machinery where new technology has rendered the original product obsolete.

Whereas the above motives for internationalisation are generated within or by the company, a number of reasons for internationalisation are argued to arise from the 'environment'. One of the main environmental influences is argued to be the 'network' in which the company operates (Arvidsson, 1997; Aharoni & Sticht, 1990; and Johanson & Mattsson, 1988) the network being the company's competitors; suppliers; and customers, and their potential influence will be discussed in turn. The effect of a company's competitors on its international strategies is often termed the 'bandwagon effect' (Ghauri, 2000), in that the firm may feel the need to imitate a third party's move into overseas markets. Johansson and Mattsson (1988) explore the impact of a firm's competitors by analysing the relationship of the firm with other operators in its market. Firms are argued to be dependent on each other, with their relationships being cumulative in nature, and thus needing maintaining and developing, otherwise they may be disrupted (Johanson & Mattsson, 1988; Thorelli, 1990; Ghauri, 1992). The Network Approach proposed by Johansson and Mattsson (1988) assumes that firms are dependent on others for external resources, and therefore as one operator establishes in foreign markets other operators are likely to follow.

Knickerbocker (1973) also recognises the importance of other market operators to a firm's foreign investment decision. He believes that the timing of a firm's decision to invest overseas depends on the actions of competitors, and that a firm's optimal strategy would be to 'match their rivals move for move' (Buckley and Casson 1991). This competitor reaction in turn implies that the internationalisation of

firms would occur at similar times and thus lead to the 'bunching' of foreign market penetration (Knickerbocker, 1973). However, the actions of competitors might also have an adverse effect on internationalisation activity as the network enables firms to draw on the experiences of other internationalising companies (Edvardsson *et al*, 1993). A failure in the market, (such as Healthland in the health club industry during 2000 (Leisure Opportunities, 2000b; Health Club Management, 2001a; Health Club Management, 2001c)) is likely to encourage firms to re-analyse their internationalisation strategies to ensure that they do not suffer the same fate.

The second group of market operators to influence potentially the firm's decision to invest overseas is the firm's customers. Nilsson *et al* (1996) state that companies involved in 'custom-based production' internationalise in order to 'establish closer relations with sophisticated and demanding customers'. Firms may also seek to enlarge their international network and transform it into a transnational network (Muhlbacher *et al*, 1999). In order to learn from their sophisticated customers the firm develops research and development (R&D) units abroad which thus leads to the decentralisation of R&D (Muhlbacher *et al*, 1999).

Vandermerwe and Chadwick (1989) also recognise the influence of customers on a firm's internationalisation strategies and state that their influence may be particularly strong for service companies, suggesting that as the customer base expands overseas then so must the service supplier. Dunning (1989) agrees with this statement, suggesting that a MNE will possess an advantage over its competitors if it is able to supply migrating individuals with services that were previously provided only in the domestic country. He suggests that as the trend towards globalisation continues it becomes increasingly desirable to be multi-national, as the same services can be provided the world over. Vandermerwe and Chadwick (1989) also suggest that following customers overseas is an easier strategy in the business environment of today as governments have 'opened their markets' and the influence of improved technology has resulted in it becoming easier to provide services on an international scale (for example, banking; accountancy; and management consulting).

Although the importance of competitors, suppliers and customers are discussed above, Ghauri (2000) suggests that an outside body might also influence a firm's internationalisation, through a proposal. An example in the health club industry is potentially the Swiss department store, Jelmoli approaching Holmes Place to manage a health club within their retail development (Hugin, 1999). Ghauri (2000)

states that three factors may influence the company's reaction to the proposal, the initial force of the proposal; the provider (risk and market potential); and the market (knowledge and/or experience of the market and estimation of market size).

Rather than being solely influenced by its network, the company is also influenced by the market in which it operates, and one influencing factor within the market is argued to be the level of foreign competition (Ghauri, 2000). Increased foreign competition may be of benefit to the domestic firm in that they may increase their efficiency in the face of competition; gain confidence as a result of the competition; become aware of the quality of their product in relation to competitors'; or become familiar with new product applications and/or new customer segments (Ghauri, 2000). As a result of this increased confidence or awareness the domestic firm may decide to enter foreign markets, suggesting that their international development is a reaction to the introduction of foreign competition in the domestic market. Rather than internationalisation being a reactionary strategy in the face of increased competition, the company may internationalise proactively, seeking to block a competitor's entry into another overseas market or preventing them obtaining a substantial advantage or niche in a foreign market (Pitelis and Sudgen, 1992).

A major environmental motive for internationalisation is argued to be the limited growth in the domestic market (Muhlbacher *et al*, 1999). If the domestic market reaches saturation the company may need to choose between diversification or internationalisation in order to generate further sales (Muhlbacher *et al*, 1999). The company may determine that product diversification or growth via the product line is too risky, or the firm may be limited in terms of its financial resources, production capabilities or technology, or face high levels of competition (Muhlbacher *et al*, 1999), and hence be unwilling to diversify. The company may therefore have little alternative other than to internationalise in order to increase sales, as was the case in the British food-processing industry (Brooke, 1992).

Dunning (1993) combines some of the environmental motives discussed above, alongside company-dependent reasons, in his 'market-seeking' group. Within this group of market-seekers he suggests four reasons for foreign direct investment. Firstly, the company's main suppliers and/or customers may have set up foreign production and the company is aiming to retain that business by following them overseas (i.e. the 'bandwagon effect' as discussed previously). Secondly, the company may need to adapt its products or services to local tastes and needs; and may

undertake foreign direct investment in order to familiarise the company with local tastes and needs, as well as language, culture, legal requirements etc. Thirdly, the production and transaction costs of locating in the foreign country may be less than supplying the market from overseas. Dunning (1993) describes this factor as being highly industry and country-specific, and states that factors such as government regulations, import controls and strategic trade policy may be an incentive for the firm to relocate. Finally, the entry into the foreign market may be part of a global production and marketing strategy that aims for the company to have a presence in leading markets. Dunning (1993) suggests that this strategy may be for defensive or aggressive reasons, in that it might be classed as 'bandwagon investment' or be designed to advance the company's global investment.

Other environmental factors are also argued to encourage companies to establish in overseas markets. Nilsson *et al* (1996) state that a number of 'resource-intensive' companies have been forced to search for natural resources in foreign countries. Weber's Location Theory widens this focus, stating that firms will locate in overseas markets to take advantage of location costs, for example, cheap labour, lower taxes and tariffs and minimum transport costs. Dunning (1993) terms companies that undertake foreign direct investment in order to access factors of production (or cheaper factors of production) 'resource-seekers'. Resource-seekers thus produce in overseas markets in order to 'acquire particular or specific resources at a lower real cost than could be obtained in their own country' (Dunning, 1993). The company aims to make itself more profitable or competitive in the market by lowering its costs of production. Dunning (1993) outlines three main types of resource-seekers; those seeking physical resources, those seeking cheap labour and companies seeking to acquire technological knowledge, organisational skills or marketing and management expertise. Due to the nature of the health club industry, in that they do not rely heavily on resources, it is unlikely that this set of motives will be of great relevance.

The above discussion therefore proposes a number of motives for internationalisation which are generated from within the company or from the environment, and a company's international development strategies might be argued to be driven by one, or a number of the above motives. However, an essential motive that has not been included in the above discussion is long-term profit maximisation. It might be argued that all private companies are essentially seeking to maximise their

long-term profits and hence the benefits for their stakeholders, and it can also then be argued that a company will not internationalise unless it believes that international activity will increase its long-term profits. For example, Dunning (1993 p.54) states that 'MNEs are motivated primarily by what they perceive to be the interests of their stakeholders' and 'any residual of income that is earned by a firm over and above the opportunity cost of the stakeholders will accrue to the owners of the business in the form of profits, and it is the maximisation of these profits (net of tax and depreciation) in relation to the capital invested, which is the driving force of the modern business enterprise'. Certain changes within the company or environment may encourage or force the company to seek other means of maximising long-term profits, potentially outside the domestic market. The motives discussed above therefore suggest different avenues or reasons for which the company believes that internationalisation will increase its long-term profits.

4.2 THEORIES OF INTERNATIONALISATION

The previous section discussed the motives that might influence a firm to consider internationalisation as a means of increasing long-term profits, and should the firm decide to become internationally active it must address how it might succeed in that goal and how the process might be achieved. This section discusses these issues, firstly focussing on the earlier theories of internationalisation, before discussing the international management literature, and finally concentrating on the services internationalisation literature, which is suggested to be of greater relevance to the health club industry.

Hymer and Kindleberger's pioneering work during the 1960s suggested that internationally expanding firms must possess some sort of competitive advantage in order to compete successfully in overseas markets. Indigenous competitors possess local knowledge, and as a result the international company must possess a competitive advantage that is exclusive to the company in order to compete (Hymer, 1960). Dunning, Caves and Aliber focused subsequent research on these 'ownership-specific assets', identifying managerial, marketing and technological factors as possible resources of ownership-specific advantages, and stating that competitive advantages could arise from intangible assets or from common governance (Dunning, 1993). Dunning (1993) also argued that ownership-specific assets relate to three key areas, the goods supplied; price; and services associated with the purchase of the product.

Later research focused on market entry modes and the location of the international activity. For example, a number of locational variables were proposed, that encourage a firm to produce in a certain foreign country. These 'locational advantages' encourage the firm to exploit its ownership advantages in certain foreign markets and Dunning (1993) proposed a range of locational variables that would be taken into account when choosing the location for the overseas investment. These variables included the spatial distribution of resources; international transport and communication costs; artificial barriers (import restrictions); economic systems; government strategies.

The research undertaken on foreign market entry modes determined how and why, for example, a company might choose exporting over foreign direct investment as its international strategy, and this literature will be discussed in Section 4.3. Buckley and Casson (1976) analysed a further area in the choice of foreign market entry mode, internalisation, which indicated the advantages of using internal markets (i.e. the firm itself) rather than external market transactions, such as licensing etc as a means of developing overseas. The research therefore focussed on multinational enterprises undertaking foreign direct investment that, as a result, internalised their market activities. Internalisation suggests that the multinational enterprise is in itself a means of organising value-adding activities across national borders, rather than using the market to perform activities (Dunning, 1993). Dunning (1993) also states that as the costs of organising cross border markets in intermediate products increases, then so too will MNE activity. Further influences on a firm to internalise are proposed by Buckley and Casson (1991) who present four groups of factors. These include; industry-specific factors (the nature of the product and the structure of the external market); region-specific factors (the geographic and social characteristics of the regions linked by the market); nation-specific factors (the political and fiscal relations between the nations concerned); and firm-specific factors (the ability of management to organise an internal market).

Dunning combined the three sets of literature during 1976 in his 'OLI-framework', hence incorporating ownership, location and internalisation factors, and resulting in an 'eclectic paradigm'. The eclectic paradigm provides a framework for determining the extent and pattern of foreign-owned production. According to the eclectic paradigm, the decision to internationalise and the choice of market entry depends on the interaction between ownership-specific assets (O), location variables

(L) and internalisation factors (I), thus determining the structure and level of foreign value-adding activities. The level of foreign production therefore depends on the extent to which the firm possesses O advantages, whether the company perceives it to be in its best interests to add value to the O advantages itself, through internalisation (rather than selling them to foreign firms) (I advantages), and the extent to which the O and I advantages are best exploited in a foreign market (L advantages) (Dunning, 1993). Once the configuration of the OLI advantages has been determined, the company must ensure that foreign production is consistent with its long-term management plan before progressing with FDI (Dunning, 1993).

The School of Uppsala focuses on a differing aspect of internationalisation, Forsgren and Johanson (1975); Carlson (1975); and Johanson and Vahlne (1977) argue that the internationalisation of firms is a process that displays an incremental commitment to foreign markets. Johanson & Wiedersheim-Paul (1975) suggest that a firm progresses through a series of degrees of internationalisation, wherein each stage relates to a greater commitment to overseas markets. Therefore, the firm progresses from having no regular exports, to exporting through independent representatives, to establishing sales subsidiaries to eventually establishing production facilities. It is also suggested that the process of internationalisation is stimulated as the perceived risk decreases and the firm feels able to take control of overseas activities. The firm may start by exporting to neighbouring or similar countries until the perceived risk decreases. It is not suggested that the firm will necessarily pass through each stage in turn, but that it may jump stages.

Johanson and Vahlne (1977) continued research on the incremental internationalisation model, focussing on why an 'establishment chain' occurred wherein firms increase their overseas risk and commitment in stages. They assumed that the firm strives to increase long-term profit, aims to minimise risk and that market knowledge is acquired through the experience gained from current business activities in foreign markets. The incremental process suggests that the firm's previous experience heavily influences its subsequent decisions and Johanson and Vahlne (1977) thus suggest that the two most important factors in these decisions were 'market commitment' and 'market knowledge'. Market commitment relates to the amount of resources committed and the degree of their commitment, whereas market knowledge concerns that which was known about the opportunities, the performance of the activities, competition, market environment and channels of

distribution, all of which vary according to the time and the market. The firm is seen to gradually internationalise out of the home country whilst increasing its commitment to the foreign markets and factors of production. The final stage in the process should thus be the establishment of a MNE that operates in a number of countries and is therefore able to meet customers' demands world-wide.

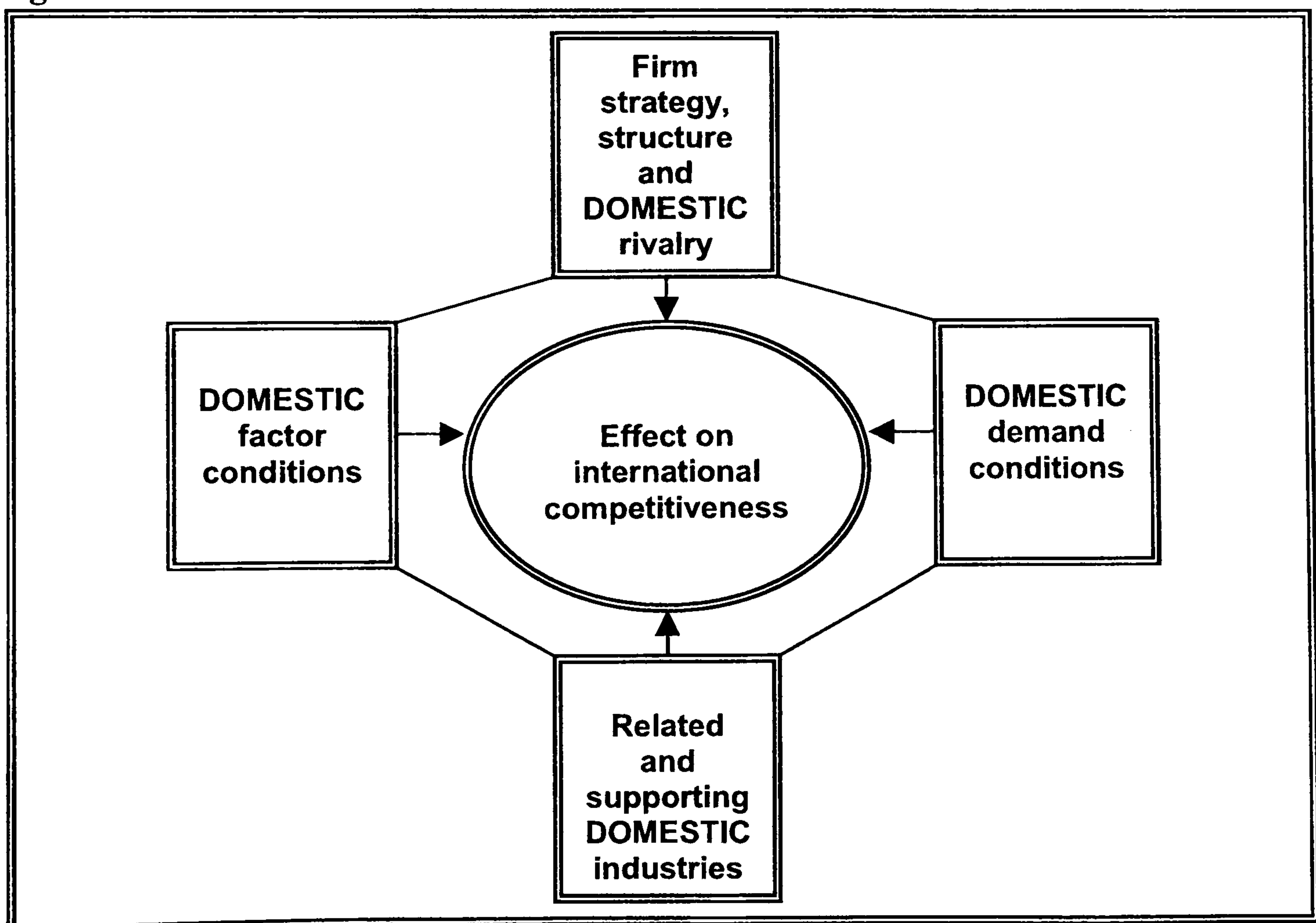
Vernon (1966) provided a further approach to internationalisation, introducing the product life-cycle theory, which incorporates ownership-specific advantages, but adds that the ownership-specific advantages are dependent on the home country factor endowments and markets. Having emphasised the importance of the home country, Vernon focussed on the individual firm and the location of production, and identified three factors. These include the initial location of production; whether the subsequent foreign markets are serviced via exports or foreign direct investment; and the competitiveness of foreign production in comparison to local producers. As the product moves away from the initial location of production it passes through various stages. The first stage is 'innovation' where new wants are developed in a regional or national market, which is therefore the most 'advanced' market. As a result, the product is introduced to the market, normally by entrepreneurs who are in touch with recent market changes. At this stage the product is unstandardised and production is located near to the market due to high communication costs. The second stage is 'maturity' when the efficiency of the production and design of the product is improved and the product becomes standardised. The market also changes as the buyers' knowledge increases and demand becomes more price sensitive/elastic. Technology and production have both been stabilised and as a result production no longer needs to be located near to the market. Initial servicing of foreign markets is achieved through exports which continues until 'the marginal costs in the home country plus the marginal transport costs are less than the average costs of production overseas' (Buckley and Casson, 1991). During the final stage of the product life-cycle the product becomes standardised and is thus 'completely uniform and undifferentiable' (Buckley and Casson, 1991) with price being the sole method of competition. Companies therefore seek to minimise their costs and look for the lowest cost factors of production, often overseas. Labour intensive production at this stage is therefore usually undertaken in developing countries.

Whereas the above theories of internationalisation tend to stress an 'economic' approach to international development, a number of academics have also introduced

strategic theories of international activity. El Kahal (1994) outlines these as being the theory of competitive advantage of nations; global shift theory; the borderless world theory, and each of these will be discussed in turn.

Porter (1980) argues that a firm will internationalise so as to enhance its competitive position. He rejects the argument that nations possess absolute advantages in certain goods and services, and that companies will be forced to internationalise if their domestic country has low factor endowments. He cites the Dutch flower industry and Japanese just-in-time management as examples that have taken advantage of a lack of resources, and have not needed to internationalise. He suggests that successful companies are able to influence their environment by altering their positioning within their industry, by changing the industry structure, or by introducing innovations. Porter (1980) introduces four national characteristics that determine a company's capability of being competitive in global markets and these are incorporated in his 'diamond model' as indicated below in Figure 4.1:

Figure 4.1: Porter's diamond



Source: Adapted from Segal-Horn and Falkner (1999)

The four factors identified by Porter (1980) are the nation's factors of production; domestic demand conditions; support industries; and the firm's strategies, rivals and

structures. Porter (1980) also argues that the domestic government influences the four factors, rather than being one of the factors in its own right.

Porter (1998) considers the national competitive advantage in international service industries, listing the countries that possess a national competitive advantage in a variety of industries and detailing which countries possess the greatest competitive advantage. The countries included in Porter's (1998) analyses are Denmark; Germany; Italy; Japan; Korea; Singapore; Sweden; Switzerland; United Kingdom and the United States of America. Porter (1998) suggests that the USA possesses the greatest competitive advantage in the hotel industry and also states that the UK and Japan also possess competitive advantages. In the health care services industry the USA is proposed to possess the strongest competitive advantage, followed by the UK and Switzerland. However, most interestingly for this research, the USA is suggested to benefit from the greatest competitive advantages in the 'entertainment' industry, with the UK being the only other country that is considered to possess a national competitive advantage. This would therefore suggest that British leisure operators have a strong domestic base from which to develop internationally.

Dicken's (1992) global shift theory focuses on globalisation, in contrast to internationalisation and it is proposed that the internationalisation of capital, through business enterprises, has resulted in the globalisation of economic activity, giving rise to transnational companies (which will be discussed in Section 4.4). It is stated that globalisation depends on three main factors: the existence of appropriate technology; the pursuit of global profit; and the role of states in controlling international business. Ohmae (1990) also focuses on the role of the government, suggesting that the prosperity of a country does not depend on its resources, but rather on its supplies. Ohmae (1990) also proposes a strategic diamond to illustrate the influences on international business, incorporating customers, competitors, company, country and currency.

The above discussion has therefore established that the main determinants of the level and structure of foreign value adding activities are ownership-specific assets; location advantages; internalisation advantages; the role of the host government. It is also proposed that a company's international competitiveness will be affected by domestic factor conditions; the firm's strategy, structure, and domestic rivalry; domestic demand conditions; and related and supporting domestic industries. Each of these determinants may thus be focussed on when primary research is undertaken.

The timing of the overseas development is also proposed to be dependent on the stage at which the product is in its product's life-cycle, with the later stages encouraging greater international activity. Once a company has begun overseas development it is argued that it will develop its operations incrementally, commencing with operations that require minimum market commitment and risk.

The above discussion has not differentiated to any great extent between the internationalisation of goods-based and services-based industries. The earlier theories of internationalisation tend only to refer to manufacturing industries as they were of greatest economic importance at the time of the research, and the theories were often presumed to be equally applicable to service industries. However, service industries are now considerable economic contributors, and research has subsequently focussed on them (Daniels, 1982; Shelp, 1981; Riddle, 1986), and a separate body of literature has hence been developed, allowing special consideration for service industries (Peters, 1992; Drucker, 1988; Lowendahl, 1992; Normann, 1992). The argument for a separate body of literature for services tends to centre on three factors, the first of which is simultaneity, i.e. the service is produced and consumed at the same time, and usually in the same place. The producer will therefore require direct contact with the consumer in order to provide the service, having natural implications for the method by which that service is provided overseas. Manufacturing companies do not have this constraint, as a physical good can be purchased and consumed at a later date and/or different place. The second factor is intangibility, which Edvardsson *et al* (1993) sum up as 'a service is something that can be bought and sold, but which you cannot drop on your foot'. Whereas the consumer of a physical good is able to purchase that product and be able to see what they have bought, the product is often slightly more difficult to identify if it is a service, as it is often something that is not visible and cannot be touched (for example, personnel training, management consulting etc). This may therefore cause identification problems, which may be harder to reconcile in an overseas market. The third factor is perishability, which bears some relation to intangibility. Since the good is not of a 'physical' nature it cannot be stored, which will also have implications for the method of internationalisation.

Dunning (1989) proposes that the transferral of ownership is a further factor that differentiates services from physical goods. The sale of physical goods normally involves a definite transferral of ownership, from the producer to the consumer. In

contrast, only part of the price paid for services is for the transferral of ownership. For example, consumers of health clubs pay to use the service for a limited period of time, and once that time has expired the firm retains the facilities. Dunning (1989) therefore suggests that the lack of transferral of ownership will have implications for the internationalisation of services.

As a result of the different features of services Dunning (1989) adapts his eclectic paradigm, stating that it is still relevant for services, but requires some minor changes. Dunning (1989) identifies ownership-specific advantages accruing to service companies as being quality (largely influenced by the strong human element); product differentiation (e.g. branding); the repeated use of tacit knowledge; and the capability of managing information. Dunning (1989) also argues that locational variables are likely to be of greater importance to service companies, as they often do not have the option of exporting, and it may be advantageous to operate in the foreign market so as to adapt to local tastes and customs. He also suggests that the type of service offered, the technology used and the host country's government will determine the location of foreign direct investment. In the final section of the paradigm Dunning (1989) suggests that a service firm can protect its position and increase its multinationality by becoming a multinational enterprise. However, the service firm's choice of market entry mode will depend on the transaction costs involved, and the role of the government. He proposes three groups of services that tend to undertake foreign direct investment; banking and financial services (information intensive/business services); firms engaging in forward integration so as to protect the quality of the end product (e.g. advertising, market research, executive search companies); and trade related service affiliates (usually owned by a non-service parent company). Furthermore, he identifies industries where minority joint ventures or non-equity arrangements would be the preferred mode, including hotels; restaurants; car rental companies (the requirements of the contractor can be easily codified); business services that require specialised local knowledge (e.g. advertising, legal services and accounting); and high risk services, where the risk needs to be borne by a group of companies (Dunning, 1989). Health clubs could be included in this latter group, given that they provide a facility as a service, in a similar manner to hotels, and joint ventures and non-equity arrangements could be widely used as foreign market entry modes.

Arvidsson (1997) suggests that the internationalisation of manufacturing and service firms should not necessarily be treated as two distinct areas and states that there is some overlap between the two types of industries. He utilises the definition provided by Dunning (1989) that a service is 'a product, the main purpose of which is to provide a service' and a physical good is 'a product, the main purpose of which is to supply a tangible good' (health clubs being classed as a service). In contrast to the earlier literature Arvidsson (1997) suggests that all or most products contain elements of both services and goods, and it is the balance of these elements that determines internationalisation strategies. Furthermore, consideration should be given to where in the process of product delivery the elements of goods and services are included (Arvidsson, 1997). Dunning (1989) recognises the inclusion of a goods content within services, and thus classifies services as being goods or service-embodied. Those services that are goods-embodied require a large element of physical goods in their provision. Health clubs could therefore be classed as being goods-embodied as the health club venue and the equipment within it is required to provide the service.

4.3 MODES OF MARKET ENTRY

A major decision when beginning to compete in international markets is arguably how the foreign markets are entered (Ellis and Williams, 1995). The options available and strategies utilised are widely discussed in the literature. This section of the chapter will discuss the various forms of foreign market entry, before discussing why a company might choose one mode over another.

In defining foreign market entry modes Young *et al* (1989) progress from those involving less risk and more direct control, and include exporting; contractual modes (incorporating management contracts, franchising and turnkey contracts); strategic alliances; joint ventures; and wholly owned subsidiaries. In analysing the international development of the British health club industry it is possible to identify the use of management contracts; franchises; joint ventures; and wholly owned subsidiaries, all which will be discussed during the following section. However, the other entry modes will also be discussed, if only to determine why they have not been utilised.

Cross (2000) defines exporting as the 'transfer of goods and services between firms in different countries', with indirect and direct exporting being identified in the literature (Brooke and Buckley, 1988; Young *et al*, 1989; Woods, 2000). Indirect

exporting involves the firm having very little input in the process, the necessary activities being undertaken by export houses; foreign buying houses; confirming houses; trading houses; or without the knowledge of the firm. In contrast, direct exporting involves the firm being proactive in the process and maintaining control (Welford and Prescott, 1992). The company may thus operate an overseas sales branch or a subsidiary, and therefore needs to establish a distribution network, or find a foreign distribution manager (Woods, 2000).

Although exporting is widely used in manufacturing industries as a mode of entry, it is debatable as to whether or not it is a suitable mode for service industries. Carman and Langeard (1980) and Root (1987b) argue that exporting is impossible for service firms, due to the inseparability of production and consumption. Dunning (1989) proposes other reasons that some services (which he terms 'location-bound') cannot be traded internationally. In these instances the sale may be dependent on people or other goods located in the domestic country, or on transport facilities, telecommunications, public utility services etc. Other services may not be viable for exporting if the consumers use the service in a particular location (for example, cinemas, health services etc) and those for which the national transaction costs would be too high to make exporting profitable. In contrast, Shelp (1981), Sapir (1982) and Boddewyn *et al* (1986) contend that some services are exportable, when it is possible to separate production and consumption (for example engineering and management consulting (Erramilli, 1990)). In the case of other services that are exported, such as intermediate services, property rights, codifiable information and technology Dunning (1989) argues that exporting would not necessarily take place without the support of an MNE, suggesting that the MNE must first invest in the overseas market. The health club industry is arguably limited by simultaneity of production and consumption, and it is unlikely that many of the intermediate services proposed by Dunning would be applicable, thus suggesting that exporting should not be included in entry mode options for British health club companies expanding overseas.

The various types of international management contracts involve an increasing amount of risk, as well as an increasing amount of market commitment and control, in comparison to exporting. The most widely recognised modes of management contracts will be examined in turn, although it again should be acknowledged that not all of these modes have been used in the health club industry.

In the case of internationalisation, licensing involves a foreign licensor providing a local company with access to technology or know-how, in return for a fee or royalty (Young *et al*, 1989; Rugman and Hodgetts, 1995). The license agreement provides access to patents, trademarks, copyright, brand names, trade secrets and know-how (Woods, 2000; Young *et al*, 1989; Rugman and Hodgetts, 1995), and is usually for five to seven years, with a fixed fee on signing the contract and a royalty of an agreed percentage on sales generated (Rugman and Hodgetts, 1995). Although the licensor is potentially able to generate higher levels of sales through the license, Woods (2000) argues that difficulties include quality control, the risk of creating a future competitor, policing of the agreement and foreign exchange controls. However, under certain situations it might be that licensing is the best option. For example, El Kahal (1994) suggests that if the cost of entry to the foreign market is too high (as a result of duties, quotas, technical barriers etc), a firm that lacks capital and managerial resources might opt for licensing, particularly if it is not willing to undertake a high level of market commitment. Furthermore, the firm may decide to test its product in foreign markets before undertaking foreign direct investment, or the foreign country may be politically unstable, resulting in the firm being risk averse and opting for licensing (El Kahal, 1994). Finally, El Kahal suggests that a company may undertake licensing if it is seeking to exploit a secondary market for its technology, and if the company does not believe that the market justifies large investments. Once again, this form of market entry mode is widely utilised in manufacturing industries, by brands such as Coca-Cola, Heineken and Disney. However, research by Erramilli (1990) suggests that licensing is also favoured by service industries, with consumer services, banking and miscellaneous services all listing licensing (which included franchising) in their 'top three' entry mode choice. In each of these categories few of the companies used exports, suggesting that licensing was the next 'least risk' option, arguably one of the main advantages of licensing.

One of the most widely used forms of market entry for services is franchising; a commonly recognised method of non-equity market entry that is defined as 'freedom of servitude' (Cross, 2000). Two types of franchising are generally discussed; first and second-generation franchising (Felstead, 1993). In first-generation franchising the franchisee purchases the rights to undertake a business activity using the franchiser's trademarks and/or brand name with limited support and guidance provided by the franchiser (Cross, 2000). Under a second-generation

contract, (otherwise known as business format franchising), the franchisee receives much greater support and guidance, including managerial expertise, training and financial support etc (Cross, 2000). In return for its provision, the franchiser receives an initial fee and royalties, as long as the franchisee complies to certain company regulations (Young *et al*, 1989). The franchisee is also expected to provide the capital that is required to operate the business (El Kahal, 1994).

Franchising is widely used in many service industries including car rentals; fast foods; retailing; soft drinks; hotels; and automotive services, incorporating brand names such as Avis; McDonald's; Hertz; Benetton; Body Shop; Holiday Inn; and Pronuptia. The main advantage of franchising is the potential expansion of a brand name and the lack of capital required, and Alexander and Lockwood (1996) state that franchising enables operators to expand successfully on an international scale if they are able to develop a strong brand image. However, the company is restricted in terms of marketing, and the standard product/service often has to be adapted for different markets (for example, McDonalds altering their menu for different countries) (El Kahal, 1994). Franchising has been utilised in the international development of health club companies, with the main operator of franchises being LivingWell (Leisure Opportunities, 2001d; L&HB, 2001a; Lerner, 2001c).

A further mode of market entry is management contracting, wherein the supplier undertakes to provide a client in another country certain on-going management functions, which would otherwise have been the responsibility of that client (Cross, 2000). The management firm's duties include those that the multinational would assume if it were running a subsidiary, including general management, financial administration and personnel administration. However, the management contractor (i.e. the supplier) does not have the authority to make new capital investments, assume long term debt or introduce policy changes (Young *et al*, 1989). The contract tends to be for a short length of time (El Kahal, 1994), as the personnel of the client are trained during the management contract, or the contract may be limited for a specific undertaking (for example the construction of a plant) (Young *et al*, 1989).

Management contracts are usually operated in conjunction with other entry modes, such as licensing, turnkey contracts and joint ventures (Young *et al*, 1989; El Kahal, 1994). This mode of market entry may be used when other options have been disregarded as a result of political risk or capital requirements; management contracts

require less capital investment than any other entry mode and include no political risk (El Kahal, 1994). However, they do not allow the firm to build a permanent market position (Young *et al*, 1989). Management contracts are popular in the hotel industry as they allow the company to expand rapidly, with little financial repercussion, as all costs of developing the site are liable to the client (Alexander and Lockwood, 1996). The similarity of hotels to health clubs (service industries with large capital outlays for the construction and refurbishment of a site), might suggest that the health club industry is also one in which management contracts will be widely utilised. Furthermore, management contracts are widely used in the domestic health club market (Swift, 2002; Howells, 2001). Other industries in which management contracts are used include transportation; agriculture; public utilities; mining and minerals (Young *et al*, 1989).

Dunning (1993) states that another market entry mode is turnkey contracts wherein 'a foreign enterprise agrees to design, build and equip a complete unit of production'. The contractor's responsibilities will normally include basic design; engineering; technical assistance; training; construction; management etc (Young *et al*, 1989; Dunning, 1993). Once the unit is ready for operation it is turned over to the owners (El Kahal, 1994). There are a number of types of turnkey operations, such as product-in-hand, wherein the contractor has responsibility for preparing local management and workers to run the unit, and market-in-hand wherein the contractor takes responsibility for the sale of at least part of the project's output (Young *et al*, 1989).

Turnkey contracts tend to be more widely used in primary and secondary industries, such as engineering; oil refining; airports; dams; and road construction (Young *et al*, 1989). Turnkey contracts are also particularly popular in developing countries, as they are a means of gaining access to Western production methods, without the Western firm establishing a permanent presence in the country. The benefit for the Western company is that the project is normally of low financial risk, as payment is normally guaranteed by international aid agencies (Woods, 2000). However, due to the 'physical' nature of turnkey contracts, it is unlikely that they could prove appropriate for the health club industry.

Young *et al* (1989) argue that globalisation¹¹ has resulted in the most recent form of foreign market entry method, 'corporate linkages', which include corporate coalitions; strategic partnerships; and strategic alliances. Hamilton *et al* (1995) suggest that a strategic alliance can be defined as 'a durable relationship established between two or more independent firms, involving the sharing or pooling of resources to create a mechanism (corporate or otherwise) for undertaking a business activity or activities of strategic importance to one or more of the partners for their mutual economic advantage'. Corporate linkages are argued to be particularly relevant to smaller companies to build competitive defences; share risks; generate new business opportunities; and make best use of complementary skills etc. Alexander and Lockwood (1996) note that in the hotel sector strategic alliances have made an important contribution (particularly in computerised reservation systems (CRS)). Lobe (1992) states that the alliances have provided three main advantages; buying power is increased and own-labels jointly developed; a downward harmonisation of price occurs as negotiations take place on a European basis; and fiscal advantages accrue from central payments. There is little evidence to suggest that corporate linkages are a favoured method of foreign market entry by British health club operators.

A type of foreign market entry mode that has been used in the health club industry is a joint equity venture (EJV). Together with wholly owned subsidiaries it is also 'the main means by which multinational enterprises operate internationally' (Young *et al*, 1989 p.17). Dunning (1993) defines an EJV as 'any long term alliance which falls short of a merger in which two or more economic entities own a sufficiently large proportion of the equity capital to give each of them some degree of control or influence over key areas of decision-taking'. Each partner (which may be business enterprises; public bodies; charities; individuals etc) contributes assets including capital, technology and managerial know-how etc (Cross, 2000). Cross (2000) states that one partner typically has the majority shareholding and therefore dominance in the decision making process. When this occurs it is *de jure* able to control the decision making in the joint venture (Dunning, 1993). The capitalisation

¹¹ Globalisation is defined as 'the production and distribution of products and services of a homogenous type and quality on a world-wide basis' (Rugman and Hodgetts, 1995).

of the EJV consists of the combined monetary value of the assets, and as a result profits are shared proportionally (Cross, 2000).

Advantages of international joint ventures include access into closed markets; the ease by which small firms can improve their competitive position; access to distribution channels; and the prevention of potential entrants working with other competitors (Young *et al*, 1989). Internationalising British health club companies have undertaken joint ventures, with an example being Fitness First's which undertook a joint venture with the German health club operator, The Fitness Company (Davies, 1998; Montagu-Smith, 1998; Turner, 1998).

The final method of foreign market entry is foreign direct investment (FDI) in wholly owned subsidiaries (Young *et al*, 1989), i.e. becoming an multi-national enterprise (MNE). The firm is able to maximise its potential return, as the profits are not shared with an independent local party, such as an agent or distributor (Buckley and Casson, 1976; Dunning, 1993). The company thus achieves the co-ordination and integration of production and marketing in different countries, while spreading the risk of its operation, often throughout a number of different countries. Dunning (1989) suggests that location-bound advantages of the foreign country might influence a company to undertake FDI. He proposes that it may be essential for the company to be near to the customer, perhaps in order to adapt to their customs and tastes. The company may be further influenced to invest in the foreign market due to the availability of human and natural resources. Finally, the company may benefit from 'agglomerative economies by being close to competitors, suppliers and customers'. However, Dunning (1989) also notes that service industries tend to be more heavily regulated than manufacturing industries, and that these regulations may have an impact on whether or not a company undertakes FDI, having both detrimental and positive effects depending on the situation. FDI is a mode of foreign market entry that has also been utilised by health club companies such as Next Generation; Cannons; LA Fitness; and JJB Sports (L&HB, 2001b; Leisure Opportunities, 2001j; L&HB, 2002c; Health Club Management, 2001f).

The mode of entry chosen may depend to a certain extent on the initial impetuses for internationalisation, but Ellis and Williams (1995) identify a range of other influencing factors. Ellis and Williams (1995) propose that there are six factors (other than the original reasons for internationalisation) that influence the choice of foreign market entry mode. These include: degree of control; resources available and

extent of commitment; level of risk; speed; opportunities available; and expected return (Ellis and Williams, 1995, p.239). The nature of the different modes of entry means that they possess different aspects of the aforementioned factors, and the company's decision will therefore depend on the relative importance of these characteristics. In the case of market entry modes such as indirect exporting, the firm has very little control, undertakes very little risk and requires few resources. As the options continue along the spectrum, to licensing, management contracts, joint ventures and wholly owned subsidiaries, the firm is committing more resources, retaining more control, undergoing greater risk, envisaging more opportunities and higher returns, while probably committing more time. The choice of the mode of market entry will therefore depend on how far along the spectrum the firm is willing to extend.

Young *et al* (1989) develop the characteristics discussed above and outline a number of different approaches to deciding the foreign market entry mode, including economic, stages-of-development and business-strategy approaches. It would be difficult at this stage to determine which approach British health club companies have followed (if indeed they have all used the same approach, or any), and it is therefore justifiable to consider each of the approaches.

The economic approach assumes rational behaviour, which considers the costs and benefits of the various entry modes, to determine which will maximise long run profits (Young *et al*, 1989). A means of assisting managers to achieve rational behaviour is Anderson & Gatignon's (1986) transaction cost framework, which assumes that control is the most important determinant of risk and return. The manager must therefore decide between high-control modes (such as wholly owned subsidiaries and equity joint ventures), which offer a high return, but increased risk, and low-control modes (licensing, management contracts etc) that are of less risk, but offer lower returns. The degree of control that the firm attempts to retain is influenced by four factors; transaction-specific assets (investments that are specialised to one or a few users); external uncertainty (unpredictability of the external environment in the foreign market); internal uncertainty (inability to determine the agent's performance in the foreign market); free-riding potential (agent's potential of receiving benefits without bearing the costs). Therefore, the firm should undertake high-control modes of entry when there are transaction-specific assets; when they are

uncertain about the foreign market; when they cannot predict the agent's performance; and when there is a possibility for free-riding.

Young *et al* (1989) suggest that a means of implementing the economic approach is presented by Jeannet & Hennessey (1988) who state that expected sales, costs and asset requirements should be calculated for each entry mode. These figures should then be evaluated over three to five years (i.e. the planning horizon), and implications for current operations should also be estimated. The subsequent incremental financial data should then undergo sensitivity analysis and various scenarios developed.

A very different approach to the choice of mode of entry is the 'stages-of-development' approach (Young *et al*, 1989), which relates to the incremental model of internationalisation, when the process of internationalisation is viewed as an evolution (as discussed in Section 4.2). The choice of foreign market entry mode was analysed by Brooke (1986) who argued that a company would only progress gradually from the lower-commitment modes (such as exporting) to higher commitment modes (for example, manufacturing subsidiaries). A firm would be forced to change its entry mode if the former mode proved inadequate.

Young *et al* (1989) also state that two other stages-of-development approaches are Vernon's product life-cycle and Buckley and Casson's model, both of which are concerned with the timing of a change from one entry mode to another. A further incremental stages approach to internationalisation is that proposed by Dunning (1993), who emphasises the importance of the value chain. Dunning outlines a sequence of stages of internationalisation, although he states that the firm may skip some stages depending on their motives for foreign economic involvement.

The first phase involves the firm's initial entry into foreign markets, which may take the form of one of a number of strategic options; the mode differs according to the firm's reasons for internationalisation. Dunning (1993) states there is no definite initial mode of entry as the choice depends on a number of factors, including the characteristics of the target market, the good or service and the nature of cross-border transactional mechanisms. These variables are also influenced by country, firm, economic, legal, political and institutional factors.

The second phase identified by Dunning (1993) is the investment in trade related facilities. This stage is likely to involve the use of foreign agents/distributors

who are familiar with local demand and supply conditions. This stage is the first step towards overseas production of goods and services.

The subsequent phase involves the company moving forwards or backwards along the value chain. During this stage the firm transfers part of its manufacturing process from home to a foreign market. The underlying assumption is that there is a progression from the ownership of mainly transacting facilities to the ownership of both transacting and producing facilities.

Phase four identifies the deepening and widening of the value added network. Dunning (1993) suggests that most literature states that the initial and early stages of market-seeking MNE activity involve low value adding activities. Once the company becomes successful and the markets expand, more of the higher value-added activities are likely to be transferred to the host country. In terms of resource based firms increasing experience and economic development, the parent company will be willing to invest in secondary processing operations. The widening may occur through the product range offered by the foreign subsidiaries, so that the number of value added chains increases. It may also occur as the firm moves into other markets, having successfully penetrated the first foreign market. Dunning (1993) thus suggests that the initial establishment of foreign production tends to lead to sequential investment through vertical integration or horizontal diversification.

The final phase is the firm's movement towards the regional or global integration of the value network. A subsequent step in Dunning's (1993) analysis was his identification of variables that influence the form of the internationalisation process of a firm. These were found to include the experience factor, i.e. that 'previous experience acquired in trade related activities may influence the firm regarding the decision to engage in FDI or a collaborative arrangement'. A second variable was the economies of size; as the local or regional market grows in size it is likely to become more viable to set up or acquire foreign production facilities.

A further variable was found to be the 'dynamics of supply capabilities and flexibility of production processes'. This factor considers how easily or otherwise the value-added activities can be adapted to supply capabilities and market needs. Dunning (1993) also identified import barriers and/or export incentives as being of relevance as they are likely to encourage local production. The behaviour of competitors may influence a firm's investment decision if they are aiming to prevent the competitor taking advantage of economies of scale and scope.

Cross-border transport costs influence the optimum location of the value adding activity and cross-border administration costs, which mainly arise at the initial investment stage and are likely to be highly country specific. As a result both factors are likely to influence the internationalisation decisions of the firm.

Whereas the economic and stages approaches suggest a rational approach to business decisions, (i.e. implemented through calculation or evolving) Young *et al* (1989) state that decision-making is pragmatic in most organisations, as external uncertainty and internal politics affect business decisions. Furthermore, the range of objectives of expanding overseas (see the earlier discussion on reasons for foreign market entry in Section 4.1) suggests that there may be conflicts between the company's objectives, which further deters from rational decision-making (Young *et al*, 1989).

Young *et al* (1989) argue that a company's choice of foreign market entry mode is influenced by a range of external and internal factors. Root (1987a) lists the most important external factors as target country market factors; target country environmental factors; target country production factors (material inputs, factors of production, infrastructure etc); and home country factors. He also notes that the most important internal factors are company product factors and company resource/commitment factors (management, capital, overall commitment etc). Young *et al* (1989) argue that these factors allow the company to analyse the attractiveness of the different market entry modes. According to Root (1987a) the company chooses the entry mode that maximises profitability over the planning period.

The above discussion therefore establishes that there is a range of possible foreign market entry modes available to British health club companies in their international expansion, some of which are potentially suitable and others that are not. The fact that health clubs are a service is suggested to impede the suitability of a number of the market entry modes. The literature identifies a number of factors, approaches and processes that might assist a company in determining its foreign market entry modes, and it is hoped that primary research will discover the factors that influence British health club companies.

4.4 MANAGEMENT AND CO-ORDINATION OF INTERNATIONAL ACTIVITIES

One of the main debates in international strategy centres on the choice of a global strategy or a locally responsive approach to markets (Douglas and Wind, 1987). The

former approach argues that the company should produce a standard product, which would allow it to take advantage of production efficiencies by not adapting to international markets, whilst the latter strategy suggests that the company must offer a product that takes into account local tastes and culture (Segal-Horn and Falkner, 1999). The type of strategy utilised not only involves the product offered, but also business functions, for example where research and development is undertaken (Segal-Horn and Falkner, 1999). Furthermore, the decision of 'global or local' may need to be taken according to the industry and/or the country. When analysing industries it is possible to identify that some products are completely homogenous (for example wheat) resulting in no adaptation being necessary, whereas some goods / services still require a large amount of adaptation (such as advertising). When examining the countries to be entered, it may be the case that a standard product might be accepted in Europe, but that it requires significant alterations for sale in the Far East. The global and local approaches are two extremes of international strategies, and these will be discussed along with other proposed strategies, and the subsequent organisational forms that arise from each.

The global company produces standard products that are for sale around the world (Segal-Horn and Falkner, 1999). The product in this instance requires little adaptation to local markets, and has an easily communicable marketing message, enabling sales to be handled locally, while strategic decisions are centralised in the 'home' country. The company is thus able to take advantage of economies of scale and scope, which are argued to be of key importance to international competitiveness (Chandler, 1990b). Companies that utilise such a strategy include Ikea, Gillette and more recently, Ford, encouraged by factors including multinational customers; the pressure for cost reduction; multinational competitors; high investment requirements; universal needs; technology intensity and access to raw materials and energy (Prahalad and Doz, 1986). However, a global strategy of standardisation makes a number of assumptions; customers needs and wants are increasingly homogenous world-wide; consumers are willing to sacrifice quality for a lower price; and it is possible to achieve economies of scale of production and marketing through world-wide development (Douglas and Wind, 1987). Furthermore, Douglas and Wind (1987) propose that global standardisation can only be a successful strategy in certain contexts: when there is a global market segment; when there are potential synergies from standardisation; and when communication and distribution infrastructure is

available to deliver the product world-wide. The global strategic approach is further limited by external constraints, including government and trade restrictions; the differences in marketing infrastructures; the differences in resource markets and the nature of competitive structure in the countries (Douglas and Wind, 1987). Douglas and Wind (1987) also recognise internal constraints for global standardisation; the influence of existing international operations (such as joint ventures or licensing operations), which may impede a global strategy and the influence of local management, who may be opposed to a standardised strategy.

Due to the constraints of a global strategy many companies favour a locally responsive approach, thus operating a portfolio of independent subsidiaries (Segal-Horn and Faulkner, 1999). Pahalad and Doz (1986) suggest that local responsiveness is achieved when a subsidiary responds autonomously to local competition and customers, encouraged by the lack of achievable competitive advantages gained from standardising activities across borders. A firm undertaking this strategy is termed 'multidomestic' (or a multinational according to Bartlett and Ghosal (1989)), adopting different strategies for each of the countries it operates in, resulting in relatively limited international co-ordination (Segal-Horn and Falkner, 1999) and individual countries or geographic regions being viewed as competitive bases (Woods, 2000)

Segal-Horn and Faulkner (1999) state that there are two types of multidomestics: the traditional and the modern. In the traditional multidomestic the headquarters are responsible for the selection of the industry and business portfolio, resourcing corporate growth and implementing financial controls (Segal-Horn and Falkner, 1999). Most of the information flow is 'bottom-up', from the subsidiary to the headquarters, as the unique attributes of the various national markets mean that little of the information, skills and expertise are of relevance to other subsidiaries. The countries are believed to demand different products and as a result the product offering is adapted for each, including pricing; market positioning; advertising; distribution channels; and the product itself (Segal-Horn and Falkner, 1999). The example widely cited of a traditional multidomestic is Philips, which suffered in the 1960s when faced with Japanese competitors, who adopted global strategies and therefore benefited from substantially lower costs arising from economies of scale.

The modern multidomestic views its headquarters as being able to enhance competitive advantage, and they are therefore more heavily involved in resource allocation; market selection; technology; and research and development, resulting in

the company being more centralised, whilst still allowing product differentiation and operational decentralisation (Segal-Horn and Falkner, 1999). Companies that have achieved a modern approach to local responsiveness include Nestle.

Prahalad and Doz (1986) suggest reasons that a company may choose to adopt local responsiveness, including host government demands; differences in distribution channels; pricing; product positioning; advertising and promotion; market structure; differences in customer needs; and the availability of substitutes.

The international company is a further organisational form that relies on centrally developed products, which can, if required, be customised for local market conditions (Ellis and Williams, 1995). Therefore, this form lies between that of a global and multidomestic organisation, in that the national subsidiaries receive a certain amount of autonomy, but place greater reliance on the parent company than the multidomestic company. The company's core competencies are centralised, and this knowledge and understanding is transferred to cross-border subsidiaries (Ellis and Williams, 1995). Other features of the international form discussed by Ellis and Williams (1995) include the centralisation of research and development, which avoids resource duplication and the ability to diffuse new products speedily to geographically diverse markets. However, there may also be an over emphasis on meeting the needs of the 'home' country and international companies often use expatriate managers who fail to identify with the subsidiary and therefore tend to operate a custodial technique (Ellis and Williams, 1995).

Companies are increasingly under pressure to respond to national markets while achieving global efficiency (Bartlett and Ghoshal, 1995), and none of the above organisational forms are effective in both of these dimensions of competition (Ellis and Williams, 1995). As a result, Bartlett and Ghoshal (1989) introduced the transnational company, whose strategy is adaptable, and achieves cross-border efficiency through responsiveness, flexibility and the ability to learn (Segal-Horn and Faulkner, (1999). The transnational company exploits company knowledge and capabilities, diffusing them throughout the subsidiaries, thus achieving global-scale efficiencies and local responsiveness (Ellis and Williams, 1995). The company's management capabilities and physical assets are distributed internationally, but are interdependent, allowing the company to understand environmental demands and recognise opportunities (Bartlett and Ghoshal, 1995). Decision-making is undertaken at any company level, the simple objective being the achievement of goals. The

company employs strong national subsidiary management to sense the needs of consumers and respond to changing government requirements (Bartlett and Ghoshal, 1995), while the company is also able to track global competitors and facilitate the transfer of knowledge, information and expertise between its business units. Once the company has achieved an understanding of its environment, it responds to it and hence makes strategic choices. Due to multi-dimensional aims of the transnational it tends to be viewed as an organisational concept or philosophy, rather than a structural form (Bartlett and Ghoshal, 1989; Segal-Horn and Faulkner, 1999; Ellis and Williams, 1995), resulting in a lack of examples of companies that have achieved this approach.

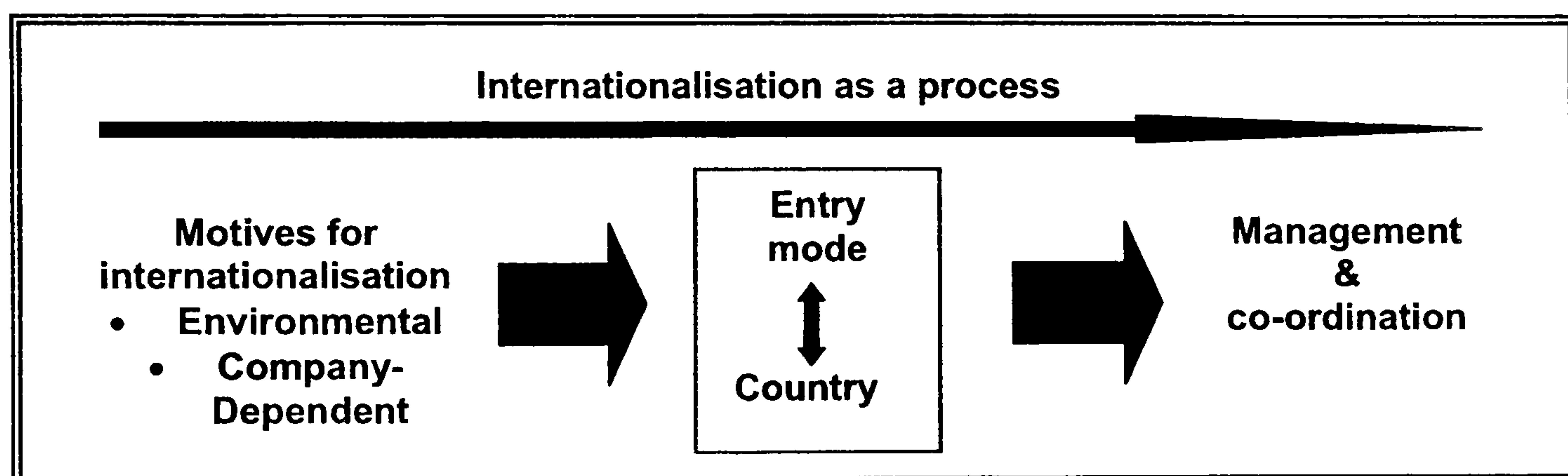
Without undertaking primary research it is difficult to ascertain which of the above types of organisation the internationally developing health club companies have become, and primary data collection should determine why and how British health clubs manage their overseas operations.

4.5 CONCLUSION

The above discussion of the internationalisation literature presents a number of key areas that British health club companies will confront when expanding out of the domestic market. The theories have been widely applied to manufacturing industries and less so to service industries. However, what appears to be lacking in the literature is a holistic approach to internationalisation that incorporates all of the areas analysed. Rather than focussing on the whole internationalisation process, from motives of internationalisation through to the management of international activities, the literature appears to focus on one segment of the process only. By focussing on one relatively small industry that is commencing overseas expansion, it might be possible to move towards this holistic approach. In order to illustrate how a holistic approach to internationalisation might be developed, it would seem appropriate to illustrate the concepts discussed in this chapter in a diagrammatic form, and this is attempted in Figure 4.2. The diagram indicates that each of the areas of internationalisation analysed in this chapter can be included in an holistic approach to internationalisation. The company's trigger to expand overseas is the motive for internationalisation, and this motive assists in determining the mode of foreign market entry and location chosen, as the company may have certain aims arising from its motive, and these may only be achievable through certain modes of entry or countries. The method of entry

chosen and country may be reliant on each other, as certain countries will promote certain forms of market entry, while some modes of market entry may be more conducive to certain countries. The relationship between these two variables will also influence how the international operations are controlled and operated. The diagram also suggests that the various stages can be viewed as a process, thus incorporating the Uppsala school of thought (although the diagram does not define set stages). Furthermore, internationalisation will be influenced by certain factors, which might arise from the OLI paradigm, Porter's diamond, or trends in globalisation etc, although these have not been expressed in the diagram. This diagram is merely a suggested means of viewing 'internationalisation', having analysed the literature available. In order to verify if any of the model is applicable, or to incorporate new factors, primary research must be undertaken to understand the strategic decisions of the health club companies concerned.

Figure 4.2: An holistic approach to internationalisation



5 Methodology

Having analysed the British health club industry using secondary data and examined the literature on internationalisation, the aims of primary research are to collect in-depth information on the health club industry and to obtain details of the international development of British health club companies in order to determine the international strategies utilised, and the reasons for using them. However, in collating primary data a range of factors must be taken into account concerning the approach to the research and the methods of data collection employed.

The present chapter aims to discuss some of these issues, commencing with research paradigms, from which the researcher generates his/her beliefs. Research paradigms are argued to determine our understanding of research (Maykut and Morehouse, 1994), and affect the research methodology chosen. When discussing the research paradigm that the researcher generates his/her beliefs from, it is also arguably relevant to discuss the effect that the paradigm will have on the researcher's perception of knowledge (epistemology) and the nature of 'being' (ontology). The section also discusses how theory is generated in each of the research paradigms.

Having discussed theory generation the different methodological approaches are discussed (quantitative and qualitative) before determining that a qualitative approach is the most suited to this research. Different qualitative techniques are discussed, with qualitative interviews being deemed to be the most suitable. Discussion finally progresses to sampling and data analysis techniques.

5.1 RESEARCH PARADIGMS

Positivism and phenomenology are two paradigms that are said to shape our understanding of research (Maykut and Morehouse, 1994). Positivism originally referred to science and positive or observable facts, and has more recently developed to mean 'objective inquiry based on measurable variables and provable propositions'

(Maykut and Morehouse, 1994, p.3). The researcher generating his/her approach from the positivist paradigm is thus concerned with observable events, and aims for explanation, prediction and proof (Maykut and Morehouse, 1994). In contrast, phenomenology is a more recently developed paradigm which stems from the view that the world and reality are socially constructed, and the researcher thus 'appreciates the different constructions and meanings that people place upon their experience' (Easterby-Smith *et al*, 1999). In this case Easterby-Smith *et al* (1999) suggest that the researcher should aim to understand why people have different experiences, rather than determining external causes and fundamental laws that explain their behaviour. Phenomenology thus suggests that human action is a result of individuals' reaction to situations, rather than simply being a consequence of external stimuli.

Part of the importance of the two paradigms for research is that the positivist paradigm tends to relate to quantitative methods, and the phenomenological approach tends to relate to qualitative methods (as will be discussed later). Furthermore, Cassell and Symon (1999) state that depending on the paradigm used there are key differences in 'what is perceived as the nature of knowledge', the study of which is termed epistemology.

Epistemology is 'that branch of philosophy concerned with the study of criteria by which we determine what does and does not constitute warranted or valid knowledge' (Gill and Johnson, 1991). An epistemological framework stipulates what knowledge is and who the 'knowers' are (Stanley and Wise, 1993). The positivist approach states that research contributes to knowledge through the verification and proof of propositions, and that the 'knower' can be independent of what is to be known, thus achieving objectivity (Maykut and Morehouse, 1994). In contrast, the phenomenological paradigm states that the researcher seeks to discover or uncover propositions, thus contributing to knowledge, and that the 'knower' and the known are interdependent (Maykut and Morehouse, 1994).

A further distinction between the two paradigms is the ontological assumptions made. Ontology is defined as 'the branch of metaphysics that deals with the nature of being' (Collins, 1999), the opposite extremes of thought being realists (positivist paradigm) and nominalists (phenomenological paradigm). Realists are objective, and believe that the social world is external, and is thus something real, which consists of structures. Realists also believe that individuals are born into the social world and have little control over it. In contrast, nominalists believe that the

social world is internal to the individual, and as a result there is no real structure in the social world, other than that which is socially constructed.

Cassel and Symon (1994) state that there are far-reaching implications of the different paradigms for the research methods used. They suggest that theory is generated differently according to the paradigm used. The positivist approach uses deductive methods, wherein the theory is deduced by testing hypotheses. To clarify, 'a deductive research method entails the development of a conceptual and theoretical structure prior to its testing through empirical observation' (Gill and Johnson, 1997, p.28). The phenomenological paradigm, on the other hand, uses interpretative approaches, wherein the theory is generated from the data, and is thus 'grounded' in the data (Glaser and Strauss, 1967). In this instance Gill and Johnson (1997) state that theory is the outcome of inductive methods, suggesting that inductive methods involve 'moving from one plane of observation of the empirical world to the construction of explanations and theories about what has been observed'.

Broadly speaking the two different paradigms could therefore be argued to utilise different types of methodologies; the positivist paradigm uses deductive techniques and the phenomenology paradigm utilises inductive techniques, although there is no doubt some overlap. The two approaches should be discussed in more detail.

Robson (1993 p.19) suggests that the positivist/deductive approach is commonly regarded as involving five steps:

- Deducing a hypothesis from the theory
- Expressing the hypothesis in operational terms, which propose a relationship between two specific variables
- Testing this operational hypothesis – involving an experiment or some other form of empirical enquiry
- Examining the specific outcome of the enquiry. It will either tend to confirm the theory or indicate the need for its modification
- If necessary, modifying the theory in light of the findings. An attempt is then made to verify the revised theory by going back to the first step and repeating the whole cycle

Although this outline suggests a very ordered sequence Robson (1993) also notes that 'real life science does not escape the messiness of other aspects of real life'.

Therefore, although the 'theoretical' deductive approach is as outlined above, the researcher is likely to find that it is not possible to follow such a rigid sequence.

The process detailed above is not a feature of inductive research. Robson (1993) suggests that with inductive research the first set of data collection is normally followed by some analysis, from which the results are used in the second set of data collection. Robson (1993) also suggests that this 'cycle' might be repeated several times. Therefore, although the theory is generated from the data, it is generated at an early stage so that it is possible to add to it, or alter it as data collection progresses.

As a result of the differences between deductive and inductive methods, different types of data collection techniques are traditionally associated with each, quantitative methods being employed for deductive methods and qualitative methods being used for inductive approaches, although there will again be a degree of overlap. However, Bryman (1988) argues that philosophers and theorists impose this divide, and that it has little to do with real world research. Robson (1993) supports his claim, by stating that the division is a technical one, rather than epistemological, resulting in researchers being able to 'mix and match' methods according to the research, (although he notes that a scientific approach will be necessary in some circumstances).

In order to clarify the paradigms discussed above Easterby-Smith *et al* (1999) provide a summary of positivism and phenomenology, including basic beliefs (in terms of the social world); what the researcher should do (how the research should be conducted); and preferred research methods (methods and techniques that could be adopted).

In relating Table 5.1 to this piece of research it would appear that the phenomenological paradigm is of most relevance. It is arguable that the world and the health club company's operating environment are viewed both through the eyes of the interviewees and the eyes of the researcher. This research seeks to establish why; why did the company internationalise?; why did they choose one particular country?; why one particular mode of entry?; does one company's strategies have an affect on other companies in the industry? etc. Therefore, although what actually happens can be observed, through press releases, company information etc, it is the reasoning behind the strategies that were implemented that is of value. In order to access that reasoning there is a reliance on the thoughts of the interviewees, and different individuals facing the same situation might provide different opinions and reasoning.

Table 5.1: Key features of positivist and phenomenological paradigms

	Positivist Paradigm	Phenomenological Paradigm
Basic Beliefs:	The world is external and objective	The world is socially constructed and subjective
	Observer is independent	Observer is part of what is observed
	Science is value-free	Science is driven by human issues
Researcher Should:	Focus on facts	Focus on meanings
	Look for causality and fundamental laws	Try to understand what is happening
	Reduce phenomena to simplest elements	Look at the totality of the situation
	Formulate hypotheses and then test them	Develop ideas through induction from data
Preferred Methods:	Operationalising concepts so that they can be measured	Using multiple methods to establish different views of phenomena
	Taking large samples	Small samples investigated in depth or over time

Source: Easterby-Smith et al (1999, p.27)

Therefore, data collection will rely on the opinions, actions and reasoning of those involved in the health club industry. It is not only the subjectivity of the interviewee himself that is of relevance, but also the subjectivity of others who might have made strategic decisions in the past. If a different individual had been in their position, they might not have made the same decision on which country to enter, for example. It is those types of decisions that will affect the findings of the research and it is therefore arguable that the research is very much driven by the human element.

A further human element is added to the equation in the role of the researcher. The researcher will become part of what is being observed in that they will be influencing the data, during both collection and analysis. The researcher will determine what questions to ask of the interviewee, how the responses to the questions are explored and also how the results are interpreted. Although every attempt will be made to ensure that the researcher has a minimal impact on the data, the fact that they are very much involved in the process cannot be ignored, once again confirming that the research will be generated from the phenomenological paradigm

The subsequent sections in Table 5.1 confirm that the research takes a phenomenological approach. As a result of the research looking for reasons why

certain strategies were undertaken, it can be suggested that it is very much focussing on meaning. Although there will certainly be a recognition of fact (for example, the company did enter country x, and did use entrance mode y), it will be the reasons that they did so, that will be key to the research. This links to the fact that the research aims to understand what has happened and why. The possibility of establishing some level of causality and fundamental laws would certainly be valued, but the significant human element of the research suggests that a high degree of causality may be unachievable.

The decision between deduction and induction is one that will have significant implications for the methodology, and one that can be related back to the earlier chapters. Chapters Two and Three analysed the leisure and health club industries respectively, with Chapter Four examining the literature that relates to the internationalisation of an industry. The literature at this stage was acknowledged to be very broad, with more focus being required, although a 'model' was generated that attempted to provide a holistic view of internationalisation. Although literature on internationalisation was analysed, the reason for that analysis was largely to inform the researcher of pertinent issues, rather than as a means of formulating hypotheses or specific research questions. Such an approach to the research would therefore be classed as being inductive, with ideas and focus being developed as a result of the data collected.

The final section of Table 5.1 indicates the method of data collection, and this will be examined in more detail during the following section. However it is important to establish the paradigm at this stage before progressing to discussing methodologies. Following the discussions outlined above it would seem apparent that the research will be generated from the phenomenological paradigm, and will be taking an inductive approach.

5.2 QUANTITATIVE VERSUS QUALITATIVE METHODOLOGIES

Having deduced that the research will be generated from the phenomenological paradigm, using an inductive approach, it is now possible to determine the methodology that will be employed. Although the inductive approach traditionally favours qualitative methodologies, there is not necessarily a strict divide between the methods of data collection used for inductive and deductive approaches (Bryman, 1988; Robson, 1993) so a consideration of quantitative methods will also be provided.

Quantitative research 'entails a commitment to a systematic approach to investigations, in which the collection of data and their detached analysis in relation to a previously formulated research problem are minimal ingredients' (Bryman, 1989). The three main preoccupations of quantitative research can therefore be suggested to be an emphasis on causal relationships, generalisation and replication (Cohen, 1999). In the case of this research it might be possible to identify causal relationships in the internationalisation of the health club industry, subsequently suggesting replication for other leisure and service industries. However, when analysing Bryman's (1989) statement above it is clear that there is not a formulated research hypothesis relating to internationalisation, suggesting that quantitative methods are not appropriate in this case. In developing that statement in more depth it is arguably of relevance to discuss the possible quantitative methods that might be used.

The aim of the research is to understand how companies within the health club industry have internationalised, and why certain strategies for doing so were undertaken. This required level of detail therefore immediately imposes some limitations on the methodology. In order to determine internationalisation strategies employed it would appear necessary to have some input from those that made the strategic decisions, i.e. Managing Directors, Chief Executives etc, and be able to generate relatively detailed information from them. Furthermore, there is a relatively small number of companies in the health club industry that have established overseas, which suggests a need for a high level of information from each internationally active company.

The choice of quantitative methods that might be employed includes highly structured, quantitative interviews; structured questionnaires; tests/measures; and observation (Easterby-Smith *et al*, 1999). However, in considering the aims of the research and the confining factors of the level of information required and the small number within the 'population' (i.e. the internationally active health club companies) it is arguable that a quantitative method of data collection would not be suitable. Due to the fact that quantitative interviews are highly structured, with precisely worded questions (Easterby-Smith, 1999) it is arguable that it would not be possible to extract the depth of information required for this piece of research. The same argument can also apply to the use of questionnaires, in that the respondent cannot be asked to expand on answers for which they did not explain themselves clearly or provide enough information (unless an interview is subsequently undertaken). The

implementation of strategies may be seen as a fairly complex operation and one in which there are many influencing factors; it is unlikely that this complexity can be expressed in a structured interview or questionnaire. Tests, measures and observations are arguably also unsuitable as the research seeks the reasoning behind strategic decisions, which is not something that can easily be tested nor observed.

Qualitative research takes a different approach in that 'the researcher seeks to elicit what is important to the individuals as well as their interpretations of the environment in which they work, through in-depth investigations and their *milieux*' (Bryman, 1989). Cassell and Symon (1994) illustrate the general characteristics of qualitative methods in organisational research by stating that one of the main characteristics of qualitative methods is that they do not involve the quantification of data, as they concentrate on written or spoken text, and a researcher's observations. However, Burgoyne (1994) also acknowledges that numbers should be used whenever relevant or applicable. Thus, in the case of this research, statistics about the industry or company information may also be relevant. A further feature of qualitative research, which was outlined earlier, is its acceptance of subjectivity (Bryman, 1989), as the importance of participant's perspectives and interpretations is recognised. As discussed in Section 5.1 subjectivity has important consequences for this piece of research, in that the company personnel are providing their opinions on strategic decisions, and are providing their own reasoning. Furthermore, the researcher will be involved in the data collection and the interpretation of the material. A further aspect of qualitative research is argued to be flexibility (Cassell and Symon, 1994), which enables new hypotheses to be formulated, or original ones to be adapted during the research. This flexibility is also suggested to allow the inclusion of new documentary information or statistics that might contribute to the research. The health club industry is fast changing, and the possibility of including new information in the data as the research progresses, will ensure that newly arising factors can be taken into account.

Due to their flexibility, qualitative methods are also argued to be sensitive enough to analyse change (Cassell and Symon, 1994), identifying why the changes took place and the processes that were involved. It is also recognised that qualitative methods allow a holistic view of situations (as this research seeks to achieve) (Bogdan and Taylor, 1975; Patton, 1980). Whereas quantitative techniques focus on identifying causal relationships and variables, qualitative techniques examine the

overall 'picture'. Therefore, by utilising a qualitative technique for this piece of research it should be possible to establish the process that is involved in the internationalisation of the health club industry, rather than focussing on individual stages that are unrelated to each other. A further generally accepted characteristic of qualitative methods is their requirement of a naturalistic setting (Cassell and Symon, 1994), with the focus being on everyday activities and people's normal routines (Van Maanen, 1983), accepting that the behaviour of individuals and their situation are 'inextricably linked in forming experience' (Cassell and Symon, 1994).

The choice of qualitative methods available to the researcher include in-depth interviewing; participant observation; diaries; and discourse analysis, to name but a few (Easterby-Smith *et al*, 1999; Cassell and Symon, 1994). As with the quantitative techniques each of these will be discussed in brief to determine their relevance for this piece of research.

Easterby-Smith *et al* (1999) describe in-depth interviewing as 'the most fundamental of all qualitative methods' and suggest that the type of interview used can range from highly formalised and structured (positivistic) to a free-ranging conversation (phenomenological). In the first instance the researcher is able to retain a positivistic approach by asking standardised questions. However, in the case of this research a phenomenological approach has already been established, and therefore the type of interview considered would not necessarily follow a rigid interview guide. Easterby-Smith *et al* (1999, p.74) continue to outline in which instances the qualitative interview is the most relevant:

- (a) it is necessary to understand the constructs that the interviewee uses as a basis for her opinions and beliefs about a particular matter or situation;
- (b) one aim of the interview is to develop an understanding of the respondent's 'world' so that the researcher might influence it, either independently or collaboratively, as might be the case with action research.

Other instances in which Easterby-Smith *et al* (1999, p.74) state qualitative interviews as being useful are when:

- (1) the step-by-step logic of a situation is not clear;
- (2) the subject matter is highly confidential or commercially sensitive;
- (3) the interviewee may be reluctant to be truthful about this issue, other than confidentially in a one-to-one situation.

This research aims to understand the complexities of developing a company in overseas markets and this would therefore suggest that (1) is of relevance. In understanding the international strategies of companies it is also important to take into account the human element, in that it is the managers themselves that determine the strategies. Therefore, both (a) and (b) are relevant, although the researcher is not seeking to influence the interviewee's world. Furthermore, due to the focussing of discussions on corporate decisions it might be argued that the material is of a confidential nature. The relevance of qualitative interviews for this piece of research is therefore clear.

A second qualitative method is participant observation. Taylor and Bogdan (1984) state that participant observation 'involves social interactions between the researcher and the informants in the milieu of the latter'. Waddington (1994) adds that the researcher is able to study day-to-day experiences and behaviour of the subjects. The focus is people orientated, due to the ethnographic background, suggesting that it is not suitable for this piece of research, which focuses on corporate strategies and requires an understanding of decisions taken in the past, rather than ones that can be observed.

Diaries offer a further means of qualitative research. Easterby-Smith *et al* (1999) argue that diaries can be of a quantitative or qualitative nature, depending on the kind of information recorded, ranging from activity sampling to details of individuals' motives and perspectives. However, the use of diaries suggests an analysis over a fixed period of time, whereas this research requires a longer-term perspective and is likely to require historical data.

The final qualitative method listed above is discourse analysis. Marshall (1994) states that discourse analysis was developed as an alternative to the examination of psychological issues. The focus is on 'language as a social practice in its own right' (Marshall, 1994). This statement therefore immediately raises doubts about the relevancy of the technique for this research, which does not have a specific interest in people.

To summarise the above discussions it might be argued that qualitative interviewing would be the most relevant and useful data collection technique for this research. This method allows an in-depth understanding, enabling a focus on complex corporate decisions (rather than on people) and furthermore, qualitative interviewing is within the phenomenology paradigm and (as per Table 5.1) requires

small in-depth samples. Having established that qualitative interviews will be used during this research, it now seems appropriate to discuss how they might be conducted and managed.

5.3 DATA COLLECTION

Having determined that the research will take a qualitative approach, and more specifically, use in-depth qualitative interviewing, it is important to determine where/whom the data will be collected from, and how that data will be managed. In focussing on data collection, sampling is one of the key elements, warranting substantial discussion and it will be addressed during the following section. However, the practicalities of data collection also require analysing, allowing an understanding of how the day-to-day research will progress. Finally discussion will focus on the interviews themselves; the means by which they will be approached and conducted.

5.3.1 Sampling

When conducting research it is often the case that the population i.e. the 'universe of units', for example, people, organisations etc (Bryman, 1989) is too large to be able to include all of the units in the research. Therefore, a sample must be selected from that population. However, choosing the sample may be complex; it is frequently argued that the sample should be representative of the population and therefore generalisable to the rest of the units. It is also argued that the type of sampling methods employed could have a profound impact on the data gathered and the conclusions drawn (Silverman, 2000; Bryman, 2001; Maxwell, 1996). Furthermore, it is widely recognised that sampling is as important in qualitative research as it is in quantitative research (for example, Punch, 1998), and the particular sampling issues for qualitative research are discussed below.

Qualitative researchers often tend to focus on one (large) case (Silverman, 2000), so as well as identifying the case (i.e. the sample) from the wider population, it becomes necessary to identify samples within that 'case'. Recognising this problem Miles and Huberman (1984 p.36) ask; 'knowing, then, that one cannot study everyone, everywhere doing everything, even within a single case, how does one limit the parameters of a study?' Thus the qualitative researcher has two levels of sampling to consider.

Furthermore, Miles and Humberman (1984, p.41) suggest that as well as sampling people, the researcher is also sampling 'settings, events, and processes' and that it is necessary to determine which of those will be the most data-rich. Therefore, although the person might be a good source of information, their situation might not necessarily be suitable or of relevance. A further consideration is presented by Silverman (2000); that it is unlikely that cases will be chosen randomly, but rather chosen as they are the ones that allow access, access arguably being one of the key problems in qualitative research.

Maxwell (1996) suggests that qualitative sampling is actually 'purposeful sampling' (or 'criterion-based selection' (LeCompte and Preissle, 1993); or 'deliberate sampling' (Punch, 1998)). Maxwell (1996 p.70) states that purposeful sampling is a 'strategy in which particular settings, persons, or events are selected deliberately in order to provide important information that can't be gotten as well from other choices'. Maxwell (1996) also outlines four goals for purposeful sampling, which include achieving representativeness; capturing the heterogeneity in the population; deliberately analysing cases that are critical for the research theories; and establishing particular comparisons so as to highlight reasons for differences.

The debates on sampling are highly applicable to those studies that have a large population, as it might not be possible to conduct the research on every member of the population. However, in the case of this research the same level of sampling is not required, as the population itself is relatively small, with a small number of British health club companies being internationally active. Therefore, if access is allowed, it is possible that representatives from all British health club companies that have gone overseas can be interviewed. There are fourteen companies that have been identified as being internationally active as Table 5.2 indicates.

This would appear to be a manageable population, in that conducting interviews with representatives from fourteen companies should not be problematic, and therefore the issue of sampling does not need to be addressed. However, a question that does need to be considered is whom to approach in those organisations. Due to the research seeking to understand the internationalisation strategies of companies, it might be argued that only senior level managers possess in-depth knowledge of those strategies, and were in fact involved in the decisions. Therefore Chief Executives; Managing Directors; Operations Directors; General Managers; and International Development Managers can be targeted for interview, depending on the

management structure in the individual companies. This 'sampling decision' could therefore be termed 'purposeful sampling' in that it is believed that these individuals could fulfil the information requirements of the research, and other lower level employees, such as Health Club Managers, can be disregarded.

Table 5.2: Internationally active British health club companies

Company Name
The Academy
Aspria
Cannons
Champneys
Clubhaus
David Lloyd Leisure
Esporta
Fitness First
Fitness Holdings (Europe)
Holmes Place
JJB Sports
LA Fitness
LivingWell
Next Generation
Virgin Active

Therefore, the 'population' is the senior-level management of British health club companies that are internationally active. However, other interviews can also be conducted in order to generate further knowledge of the industry, so that a better understanding of the operating environment might be achieved. Data collection can therefore be rendered a process, whereby the interviews commence by firstly examining the health club companies' operating environment, before analysing the activities of the non-international companies and finally analysing the activities of the internationally active companies. As a result, three groups of individuals have been identified as being targets for interview:

- Leisure and health club analysts and journalists

- Senior-level managers of health club equipment suppliers
- Senior-level managers of health club chains that have not yet (or will not) establish overseas
- Senior-level managers of health club companies that have international operations

The importance of each of these groups of people can be addressed. Research on the health club industry began with secondary research and this research involved background reading in the trade and popular press to gain a broad understanding of the health club industry and the level of internationalisation that had taken place. Having completed this stage it is necessary to develop the researcher's understanding of the health club industry in order to enable informative and in-depth discussions with senior health club managers. By interviewing leisure and health club analysts and journalists, and managers of health club equipment suppliers, a broad understanding of the health club industry will be gained and the level of knowledge will increase. These initial interviews will be open discussions, with the interviewee leading the conversation and focussing on areas of the health club industry that they believe are of importance, allowing the interviewee to raise any issue they believe pertinent. By developing a very open interview style it will be possible to develop the researcher's understanding and identify some of the key trends and issues in the health club industry. The style of these interviews is discussed in more detail during the subsequent section.

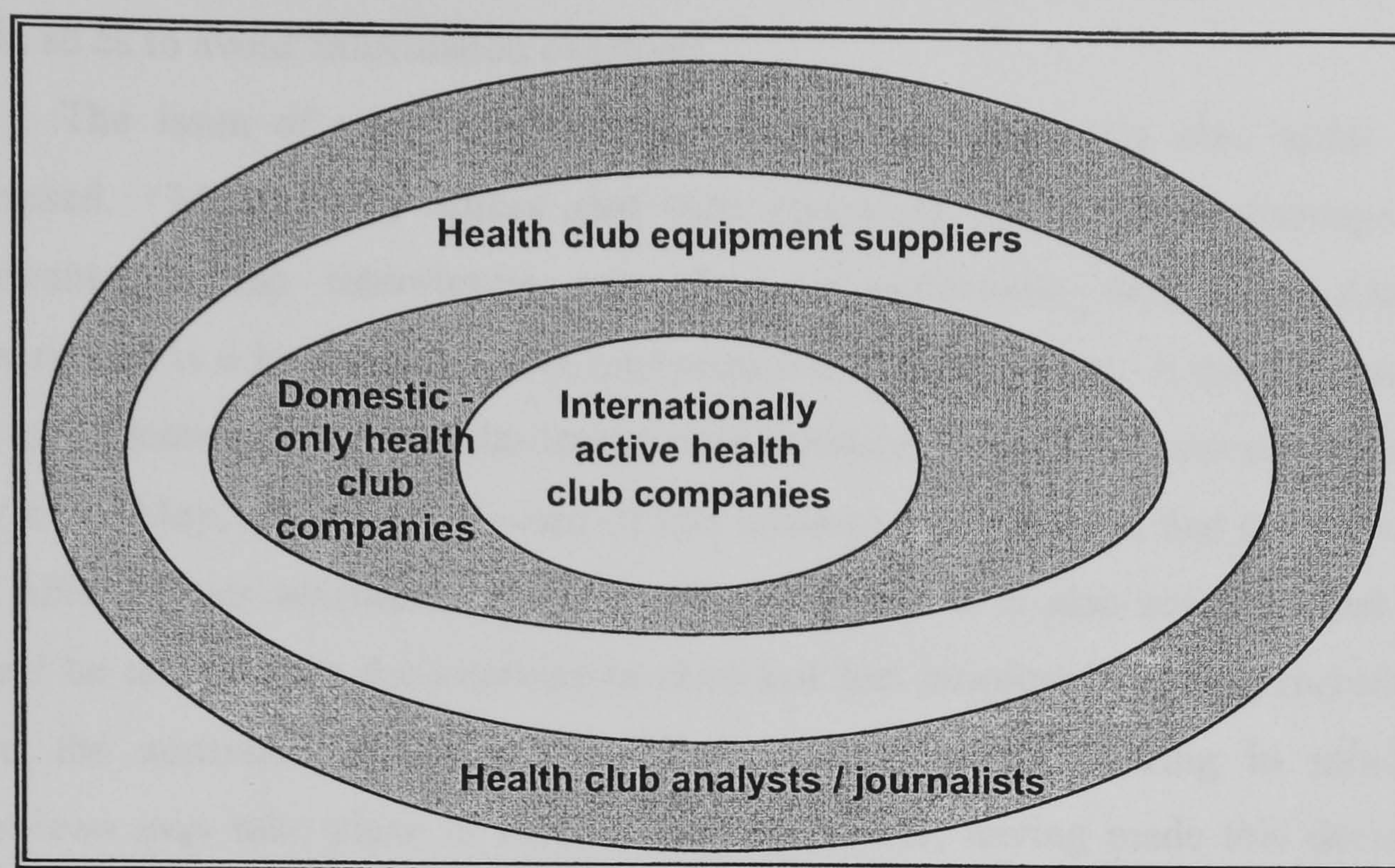
Having developed this broad level understanding of the trends and issues in the health club industry, the knowledge can be further developed through interviews with non-international health club companies. In understanding the internationalisation of an industry it is arguably necessary to understand the background of the industry, for example how mature it is, the operators, the product / service, issues that are pertinent to that particular industry etc, as these factors may have important repercussions on internationalisation (for example, the type of international expansion mode utilised, the countries that are entered etc). By interviewing senior managers of health club companies that have not gone overseas it will be possible to discover their views on the industry, which are of relevance particularly as they are much more 'hands on' than analysts and journalists. Furthermore, the literature in Chapter Four discussed the reasons for companies going overseas, and in conducting this stage of the interviews it will be possible to

determine why some companies have gone international while others have not, and for those that have not, why not? However, since a greater level of understanding will have been gained from the initial interviews, this set of interviews can be more focussed, utilising the issues raised by the analysts and journalists as a guide for the interviews. This type of interview will again be discussed in the subsequent section.

Finally, interviews will take place with senior managers of health club companies that have established overseas; normally one senior manager per company, unless other managers can offer further information and access is permitted. These are naturally viewed as being the key interviews, as these managers will provide an insight into the experiences and processes of a company that has actually developed overseas. By the time these interviews take place a high level of industry understanding will have been gained, allowing the interview to focus on internationalisation, rather than on the British health club industry. Since the maximum amount of information is sought from these interviews, it is felt necessary to use a semi-structured interview approach. The discussion of the literature in Chapter Four afforded a broad understanding of internationalisation, and although specific hypotheses and questions were not raised, certain areas of interest were identified, which will be discussed during the interviews. The format of these interviews will be discussed in Section 5.3.3.

In returning to the issue of purposeful sampling, it is necessary to acknowledge that some potential interviewees have been disregarded. As discussed in Chapter Three, the health club industry is highly fragmented; there is a large number of companies that are one-site only. Interviews will not be conducted with the managers / owners of these clubs, as it is believed that they will not have the capital or inclination to establish overseas. As a result, the targets for interview are all companies that might be in a position to *consider* international development; (thirty companies in total) plus the analysts and journalists and health club equipment suppliers who will provide an introduction to the industry. Therefore, in this instance, the 'key population' is the companies that have established overseas; they are at the core of the research. Figure 5.1 diagrammatically demonstrates the different stages of interviews, acknowledging that the internationally active health club companies are at the core of the research, and that the interview process will commence with interviews with leisure and health club analysts and journalists:

Figure 5.1: Stages of data collection



Although the stages outlined above will be approached in time order (i.e. commencing data collection with the health club analysts and journalists, before progressing to health club equipment suppliers) this might not always be possible and the stages may overlap somewhat, depending on when access can be gained.

Despite the population and sample being one and the same, it is a relatively small group; which relates to the statement in Table 5.1 regarding the use of small samples. However, it is also recognised that this population might contract, in that some applications for interview may be declined.

5.3.2 Management of Data Collection

Once the targets for interview have been identified, the process of data collection can commence. A database of individuals will be compiled, with the full contact details of each individual included. Letters will be written to the individual (a sample of which is provided in Appendix IV), requesting an interview, which it is suggested will take approximately one hour to complete. Following the despatch of the letter, a telephone call will be made to the individual, unless they have established contact, and a date will be agreed for the interview. The interview will take place at a venue suggested by the interviewee (normally expected to be at their offices or health club). Apart from the initial interviews with the analysts and journalists, which will take place during an early stage of the research, the interviews will take place over a three

month period, with a maximum of two interviews normally taking place during one week, so as to avoid 'information overload'.

The issue of whether to record the data or take notes also needs to be addressed. May (1993) argues that tape recording offers both advantages and disadvantages; the interviewee may feel uncomfortable being recorded and transcription is a long process, but interpretation will be easier. A further benefit is that tape recording prevents the interviewer substituting the interviewee's words for their own (May, 1993). In the case of this research it is believed that tape recording will offer greater assistance in interpreting data, but it is also accepted that notes should be taken when the interviewee does not feel comfortable being recorded, or when the surroundings are not conducive to recording (bearing in mind that interviews may take place in health clubs). However, having made this decision it might be expected that the final result could be that some interviews have been transcribed and some interviews have been noted. This will also have an impact on the methods by which the data is analysed; analysing different types of data in the same way could prove difficult, but analysing it differently could result in inaccurate findings. These considerations must be addressed during the data analysis. Having recorded or taken notes the interviews will then be written up.

5.3.3 Interviewing

The differences between qualitative and quantitative interviewing are acknowledged in Section 5.2, but having established that qualitative research interviewing will be utilised, it is arguably important to understand the differences in full. Bryman (2000) offers a detailed, useful discussion of the differences between the two. He notes that the qualitative style is less structured as the 'emphasis is on greater generality in the formulation of initial research ideas and on interviewees' own perspectives' (Bryman, 2000, p.313). There is also more interest in the interviewee's point of view, and 'rambling' is encouraged, as it allows an insight into what the interviewee views as being important. In order to gain these types of insights the interviewer is able to depart from the schedule or topic guide that they might have, and may ask new questions and change the wording of questions (Bryman, 2000). The interview is therefore highly flexible, with the interviewer seeking detailed, in-depth answers. Finally, the interviewee may be interviewed more than once when undertaking qualitative research.

Therefore, although interviewing methodology includes a structured approach for quantitative research, qualitative interviewing only incorporates unstructured and semi-structured approaches, and it is intended that both approaches will be used for this piece of research. As discussed in the previous section, it has been determined that different styles of interview will be utilised according to the stage of data collection. It is therefore necessary to discuss the different interview techniques that will be used, progressing from the early stages of data collection to the final stages. The first two stages of data collection will be the interviews conducted with the journalists, leisure / health club analysts and health club equipment suppliers, and will be of an unstructured nature. Maykut and Morehouse (1994) suggest that unstructured interviews are a type of informal conversation which are guided by the researcher. The researcher has a focus for the interview, and then asks and listens to understand the important elements of that conversation (Maykut and Morehouse, 1994). Because the interview is relatively open, a pre-existing schedule should not be used; instead the researcher may use an *aide memoire* to remind them of the topic areas that need to be covered (Bryman, 1989). The researcher should listen to the interviewee's responses, and use those responses to develop further questions. Maykut and Morehouse (1994) suggest that the opening question is likely to frame the interview, and subsequent discussion can then be built around that initial question. The aim at this stage of research is to gain a better understanding of the health club industry, with few pre-conceived ideas. A very basic *aide memoire* can therefore be established, with the main questions being:

- What do you believe have been the key trends in the British health club market during the past ten years?
- How would you describe the nature and structure of the contemporary British health club market?
- What do you believe will be the key trends in the British health club market during the next ten years?
- How would you describe the international activity of British health club companies?

A full copy of the *aide memoire* is provided in Appendix V. These questions were supported with some basic prompts should the interviewee only provide short, un-detailed answers. The prompts were based on the researcher's knowledge of the industry gained from secondary research. By approaching the initial interviews in this

way it will be possible to establish an overall picture of the health club market, with as little input from the interviewer as possible.

Once the first two stages of interviewing have been completed, the results of the interviews will be utilised during the subsequent stage of data collection, in compliance with Robson (1993) who suggests that data gathered from the first stage of research can be used in subsequent stages, (see Section 5.2). This is termed progressive focussing (Robson, 1993). Therefore, when commencing the third stage of interviews with domestic-only health club operators, the focus can be on certain trends and issues highlighted during the first two stages. Having already established a number of topics for discussion means that the interviews can be slightly more structured, and can therefore be semi-structured. Bryman (2001) suggests that during a semi-structured interview the researcher identifies relatively specific topics to discuss, but that those topics are only used as a guide. There is also a degree of leeway in the guide, so that interviewees are able to continue in their own direction, perhaps with the order of the guide being forced to change. Bryman (2001) also states that the interviewer may add other questions when the interviewee raises issues that had not previously been considered. Therefore, in order to ensure that the health club managers during the third stage of interviews focussed, to some degree, on the issues raised during the first interviews, a broad topic guide has been prepared, with the full topic guide being provided in Appendix VI:

- Please could you summarise the development of your company from its inception to present day?
- What do you believe have been the key trends in the British health club market during the past ten years?
- How would you describe the nature and structure of the contemporary British health club market?
- What do you believe will be the key trends in the British health club market during the next ten years?
- How would you describe the nature and structure of overseas health club markets?
- How would you describe the international activity of British health club companies?
- Please could you outline your views on the potential international development of your company?

The questions outlined above will be used as 'conversation starters', which direct the interviewee to discuss some of the issues raised during the first two stages of interviews. The full interview guide provided in Appendix VII includes prompts for each of the questions should the interviewee not be forthcoming with information. However, the interviewee will be allowed to direct the conversation to a certain extent as it is thought that this will enable them to divulge other issues that have not previously been raised.

The final stage of interviews will again be of a semi-structured nature, but progressing further toward the structured end of the continuum. By the final stage of data collection a certain level of focus will have been achieved, and Bryman (2001) suggests that if the researcher has a fairly clear focus, then semi-structured interviews should be used, as they ensure that specific areas are addressed. The important element in the final interviews will be internationalisation; and it should no longer be necessary to discuss the British health club market in quite as much depth as during the previous interviews. Therefore a different interview guide has been devised that ensures that the debate focuses on the company's experiences of internationalisation, and a full copy of the guide is provided in Appendix VII:

- Please could you summarise the development of your company from its inception to present day?
- Please could you summarise the key issues in the British health club market?
- What has been the international activity of your company to date?
- What do you believe were the main reasons for you commencing operations overseas?
- How and why did you decide on the mode of international expansion?
- How and why did you choose the countries for international development?
- Please describe the format of your foreign health clubs.
- How are your international operations managed?
- Please could you summarise your views of international health club markets?

As with the second stage of data collection, prompts will also be used. It is believed that this interview guide will ensure that the interviewee focuses on the internationalisation issues, offering their own opinion, without too much direction from the interviewer. However, the amount of input by the interviewer will depend on the individual interviewed. If they are not forthcoming with information, then more input may be required.

The aims of each of the above stages are slightly different. The interviews with the health club industry analysts and journalists seek to develop the researcher's understanding of the market, and determine the key elements and trends within the market. The second stage with the domestic-only health club operators aims to obtain greater in-depth information on the health club market, both in Britain and internationally, and to determine why those companies have not, or are not going to, expand overseas. The final stage is arguably the most important in that the internationalisation strategies of the companies will be discussed. The interview style will also change with the different stages, developing from unstructured to semi-structured, as the information required from the interviews become more focussed.

5.4 DATA ANALYSIS

King (1994 p.24) states that there is 'no single set of rules for the analysis of data from qualitative research interviews', and he instead offers guidelines to the types of data analysis methods that exist. Given that the research process in this instance will involve three styles of interview methods, ranging from unstructured to semi-structured, the data analysis methods will need to take into account the different techniques employed.

Easterby-Smith *et al* (1999) outline two different approaches to data analysis; content analysis and grounded theory, which will be discussed in turn. Bryman (2000, p.180) defines content analysis as 'an approach to the analysis of documents and texts that seeks to quantify content in terms of predetermined categories and in a systematic and replicable manner'. Easterby-Smith *et al* (1999) suggest that the method is used when frequencies are required, which can be added to a computer model. They also suggest that following an unstructured interview the data can be placed in a type of framework that will provide a structure. In the case of this piece of research it is believed that content analysis is not the most appropriate method. The technique is more of a positivistic approach and therefore focuses on testing hypotheses and deducing the data, an approach that has already been disregarded in Sections 5.1 and 5.2. During those previous discussions it was determined that the research would be inductive and a grounded theory approach to data analysis allows the research to be inductive. In grounded theory the researcher is concerned with 'the discovery of the theory from the data' (Glaser and Strauss, 1967, p.1). Easterby-Smith *et al* (1999) suggest that grounded theory allows a more open approach to data

analysis, which is useful for dealing with transcripts. Furthermore, Easterby-Smith *et al* (1999) suggest that grounded theory is holistic (an element that is important in this research), and that the researcher 'goes by feel', is closer to the data and is able to test themes and develop ideas, qualities that are all of relevance for this research. The stages of grounded theory can therefore be considered.

The first stage of grounded theory is suggested to be familiarisation, i.e. rereading the transcripts and noting the key points, a process that is ideally completed shortly after the interview. In this case the interviews will be recorded, and/or notes taken, and shortly after the interview key points will be noted. The researcher should then compare the primary data to the secondary data, noting whether the new data contrasts, challenges or supports the existing knowledge. The information from the first two stages of interviews will relate largely to the health club market, rather than literature on internationalisation. Therefore the information from the interviews will be compared to the researcher's own knowledge (gained from secondary research) to determine if there are any significant differences. Any new issues can be raised in the subsequent interviews, thus building a strong knowledge base.

The subsequent stage is conceptualisation, wherein the researcher identifies different concepts in the interviews, which are subsequently highlighted. In order to keep a record of these concepts they are written onto cards, including references to the source on the transcripts. This stage of conceptualisation will take place after each of the first two interview stages, enabling each stage of interviewing to build on the last. Thus, concepts noted from the first stages can be raised in the final stage of interviews.

The subsequent step is argued to be re-coding wherein the different concepts are broken down into subsections. In analysing the content of interviews, coding is a method that is widely used (Robson, 1993). Following the decision to use open questions during the interview, Robson (1993) suggests that one of the main benefits of coding in this instance is that the responses are simplified, and allows the information to be classified into different groups. The traditional means of coding is by writing the original question on a large sheet of paper, allocating each interview a case number, and adding their responses to the question onto the paper. Robson (1993) argues that it should then be possible to develop approximately eight categories into which the responses can be sorted. Therefore the researcher finishes the exercise with a set of standard responses, which are more manageable than the

original open responses. However, this approach would suggest that the interview was relatively structured, in that certain questions have been asked. In this piece of research the interviews will have been largely unstructured. Therefore, the approach taken will be slightly different. Following the first stages of interviewing, key issues / concepts will be noted and allocated a code. Following the final stage of interviewing the re-coding will take place, wherein subsections of the concepts will be identified. The re-coding should therefore allow a more detailed analysis of the issues, and also improve the manageability of the data.

It should also be mentioned at this stage that the option of computer coding is available. King (1994) notes the packages available include THE ETHNOGRAPH; NUDIST; QualPro; Word Match; TAP; and WordCruncher. He also suggests that the packages typically enable the researcher to carry out rapid searches on the data, and search for selected codes or combinations of codes. These computer packages are argued to assist in managing and referencing the information obtained from interviews by coding it to a high level. However, one of the main problems of the software is that the researcher becomes more distant from the material. Furthermore, in the instance of this research the interviews will be largely unstructured, so that one would not expect a certain range of responses to set questions. This could prove problematic at a high level of coding. Furthermore, the information from the interviews is broken down to such a great extent in producing the detailed codes, that the researcher may lose sight of the overall picture. Yet another problem with the use of computer packages is that the use of detailed coding suggests that the interviews have been transcribed. However, it has been acknowledged that in some instances notes might need to be taken instead, in which case it might be difficult to employ detailed coding. Given that the overall picture is one of the most important aspects of this piece of research, it might be suggested that computer packages are not an appropriate data analysis method.

One of the final steps in the data analysis is linking, wherein the researcher begins to link all of the variables that have been identified into more holistic theory, so that it becomes possible to develop clearer hypotheses from the patterns emerging, thus achieving an inductive approach. In terms of this piece of research linking is likely to be one of the key stages, as linking should allow the different aspects of internationalisation to be understood as a whole. The final stage is revaluation, where

the researcher returns to the data to ensure that key points have not been overlooked or areas have not been overemphasised.

The approach to qualitative data analysis outlined above should therefore allow the researcher to progress from general discussions of the industry during the first stage of interviews, to understanding the finer detail of internationalisation during the final stages of interviews. The research is inductive, and theory will be generated from the data. Although the researcher has an awareness of internationalisation issues prior to the interviews these will not be raised directly, rather allowing the interviewee to raise the issues they believe are important. The data analysis should therefore reflect this approach, taking into account the new issues that will have been raised. By carrying out data analysis after each stage, this should be achievable. Furthermore, by coding the data manually, the researcher will be able to manage the information more effectively whilst retaining an overall picture of the data.

5.5 CONCLUSION

The above discussions of methodology have aimed to develop from the very broad context to more specific concepts. It is therefore possible to state that the research is to be generated from the phenomenological paradigm, and will be inductive in nature. The theory will thus be grounded in the data. In order to achieve this goal, in-depth qualitative interviews will be undertaken with all accessible members of the population being approached. That population includes different 'layers' of potential interviewees and the data collection can therefore be viewed as a process. Due to the small size of the population, sampling is not necessary. The data will be analysed in a way that reflects the inductive approach, with data analysis taking place after each stage of interviewing. The information will be coded manually in order to retain an holistic view of the material.

6

Motives and Determinants for the Internationalisation of British Health Club Companies

As discussed in Section 5.3.1 the data collection for this research was achieved via in-depth interviews with individuals who work for British health club companies¹² or work indirectly in the health club industry¹³. These interviewees can be grouped into categories, as indicated below:

Table 6.1: Categories of interviewees

1.	Analysts and journalists specialising in the health club industry
2.	Senior-level managers ¹⁴ of health club equipment suppliers ¹⁵
3.	Senior-level managers of health club companies that have not (yet) ¹⁶ established overseas operations ¹⁷
4.	Senior-level managers of health club companies that have overseas operations

The interviews were a process for building knowledge of the health club industry, (see Chapter Five, Figure 5.1). Therefore, the groups of individuals were, where possible, interviewed as per the ordering above, with the analysts and journalists being

¹² For the purpose of this research 'health club companies' are defined as 'health club operators who operate more than two health clubs'.

¹³ An industry is defined as 'the companies and activities involved in the process of producing goods for sale, especially in a factory or special area' (Cambridge International Dictionary of English, 2002).

¹⁴ The term 'senior-level manager' denotes board level managers, and thus includes Managing Directors; Chief Executives; Commercial Directors; Operations Directors etc.

¹⁵ In this instance 'health club equipment' refers to weight-lifting equipment and cardio-vascular machines such as treadmills and rowing machines.

¹⁶ A number of the senior-level managers suggested that although their company did not have overseas operations at present, it was envisaged that they would establish such operations in the future. For the purpose of this research these companies will still be termed non-international operators.

¹⁷ The term 'overseas operations' is defined in this context as 'any revenue-generating activity within the health club industry that is outside Great Britain'. It therefore includes foreign direct investment; strategic alliances; management contracts; franchising etc.

approached first for an interview. The final interviews were conducted with senior managers of health club companies that had established overseas operations.

As discussed in Section 5.3.1 the target population for interview (i.e. the individuals that correspond to the above categories) was relatively small, resulting in all of the population being approached for interview. The small size of the population is partly due to the fact that there are relatively few health club equipment suppliers and few analysts and journalists specialising in this industry. Furthermore, the highly fragmented nature of the health club industry (see Section 3.4) meant that only 41 health club companies were relevant for this research¹⁸. Therefore, individuals from all of the relevant companies were approached. Whether or not the interview took place naturally depended on their willingness to take part in the research. The number of individuals interviewed in each of the four categories is indicated in Table 6.2:

Table 6.2: Interviewees*

		Approached	Interviewed
1.	Analysts / journalists¹⁹	13	7
2.	Suppliers	4	2
3.	Non-international operators	26	9
4.	International operators	15	11
	TOTAL	58	29 ⁼

* For full details of the interviewees please see Appendix VIII

⁼ A response rate of 50% was achieved for the interviews

The information sought from each of the groups of interviewees varied as, for example, the analysts and suppliers could not provide in-depth health club company information, and those operators that had not established overseas could not discuss their experiences in foreign markets. However, the aim of the interviews in their entirety was to be able to address the issues raised in Chapter Four, and portrayed in Figure 4.2, which is also repeated in Figure 6.1.

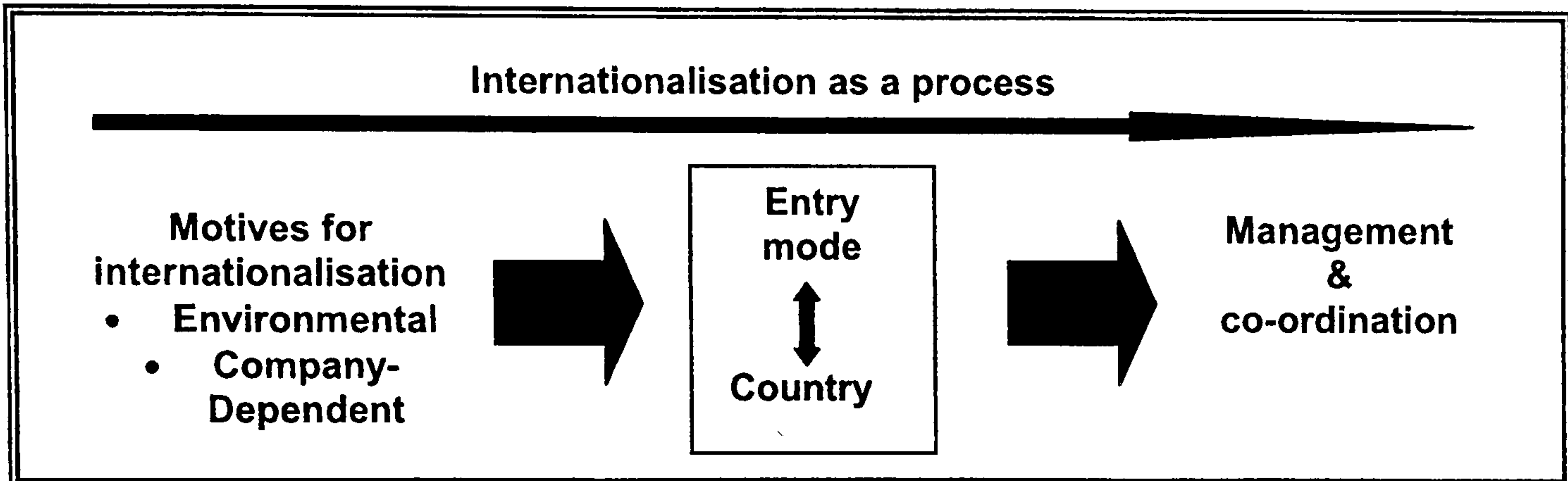
The separate areas identified in this 'holistic approach to internationalisation' are:

¹⁸ See Note 3 for a definition of 'health club companies'.

¹⁹ All journalists approached declined an interview.

- Motives for internationalisation (including environmental and company-dependant)
- Modes of foreign market entry
- Location of overseas activities
- Management and co-ordination of overseas activities

Figure 6.1: A holistic approach to internationalisation



Chapter Four suggested that these separate subject areas could be viewed as a process through which an organisation establishing overseas might progress. Information on each of the above areas was therefore sought from the interviewees, so that each stage could be analysed with reference to the British health club industry. This analysis would then determine the relevance of the literature from Chapter Four to the industry, identify unique attributes of the industry that have not been widely recognised in the literature, and assist in determining if a holistic view of internationalisation is appropriate or possible.

The aim of this chapter is to analyse the first part of the process, the motives for internationalisation, and determine why some health club companies have established overseas operations, while others have not. In Chapter Four the motives for internationalisation were divided into environmental and company-dependent motives and this division will continue throughout this chapter. The first section will thus focus on environmental motives for internationalisation and will use information collated from all of the categories of interviews (as per Table 6.1). The data collected from the analysts and suppliers will provide an 'introduction' to the issues, and these issues will then be further explored by using the information from health club company managers. The subsequent section will address the company-dependent motives for internationalisation. Due to the analysts' and suppliers' lack of knowledge

regarding the internal activities of health club companies, the data analysed in this section is from interviews with representatives of health club companies only. It is reasoned that the analysts and suppliers would not have the required level of specific knowledge to be certain of the company-dependent motives for internationalisation. The final section of the chapter will determine why some health club companies internationalise, while other companies remain domestic-only operators. The information used in this section will similarly be from health club managers only. The remainder of the model from Chapter Four, (i.e. modes of foreign market entry; location; management and co-ordination) will be addressed in the subsequent chapter.

6.I MOTIVES FOR THE INTERNATIONALISATION OF BRITISH HEALTH CLUB COMPANIES

Chapter Four divided the motives for internationalisation into environmental and company-dependent, suggesting that the reasoning behind a company's foray into overseas markets resulted from an external or an internal factor. However before analysing these 'motives', it is important to state that the key objective of profit-making organisations is to best serve the interests of its stakeholders, i.e. the employees, managers and shareholders (Dunning, 1994). Once the requirements of the stakeholders have been met (i.e. they have received at least the opportunity cost of the resources and capabilities they provided) any residual income received accrues to the owners as profit (Dunning, 1994). It is the maximisation of this profit 'net of tax and depreciation, and in relation to the capital invested' (Dunning, 1994)) that will drive the health club companies²⁰. Therefore, it can be argued that any development in overseas markets must by definition be perceived as a long-term profit-enhancing activity. Following Dunning's (1994) observation it might therefore be argued that the primary motivation for establishing overseas operations is to increase long-term profits.

The next logical question to address is why health club companies might perceive overseas development as a means of enhancing their profitability. In answering this question the division of environmental and company-dependent factors might again be introduced. As the motive for internationalisation is argued to be long-term profit enhancement, the environmental and company-dependent 'motives' will

²⁰ All of the health club companies included in this research were profit-making entities.

instead be termed 'factors' throughout this chapter. These factors will offer explanations as to why overseas development might be viewed as a means of increasing a health club company's long-term profit.

6.1.1 Environmental Factors

This section seeks to analyse the environmental factors that would encourage a British health club company to establish overseas operations. Features of the health club industry's environment will be identified which could lead British health club companies to believe that internationalisation would improve on a domestic-only performance.

In analysing the data collected from the first two categories of interviewees (i.e. the analysts and suppliers) it was apparent that the arguments and observations regarding environmental factors could be divided into 'push' and 'pull' factors, as proposed by Alexander and Lockwood (1994), (see Section 4.1). The push factors are negative aspects of the domestic market, thus discouraging companies from seeking profit enhancement in Britain, whereas the pull factors attract operators to overseas markets. A clearer and better-defined discussion should be achieved through this sub-categorisation of environmental factors. The push and pull factors are discussed below, relating where possible to the literature in Chapter Four.

6.1.1.1 Environmental 'Push' Factors

A number of individual environmental push factors have been identified in the health club industry, and these are analysed below.

British health club sites:

A series of environmental push factors identified by analysts and suppliers related to the issues involving British health club sites. The problems of finding suitable sites in Britain and the escalating costs of those sites were cited by a number of interviewees as an impetus for health club companies to consider overseas expansion. The P.E.S.T analysis in Section 3.5.1 also identified these site issues as a threat to the health club industry. The individual problems identified relating to sites include difficulties in getting planning permission; competition for sites; the increasing price of sites; site scarcity. Each of these problems will be discussed within this section.

Gratton of the Leisure Industries Research Centre (LIRC) stated that the first 'escapades' internationally were by larger health club companies that experienced growth problems in Britain and Tucker of Key Note agreed this statement, suggesting

that a number of the large British health club companies were being forced to look overseas for the growth rates they required. This 'limited growth in domestic markets' is a motive for internationalisation proposed by Muhlbacher *et al* (1999). Approximately 75% of the interviewees directly linked these growth problems to issues relating to British sites. One problem identified by interviewees with regard to sites is acquiring planning permission in the first instance. For example, Ahmed of GVA Grimley stated that as a result of the introduction of PPG6 and PPG13 (see Section 3.3.2) health club operators are experiencing difficulties in gaining planning permission for out-of-town sites. His observation was concurred by Patrick of Christie & Co and Ford of Ernst & Young who noted that due to the planning restrictions imposed and the introduction of sequential testing, (see Section 3.3.2) sites are harder to find. She added that as a result operators were finding it increasingly difficult to expand in Britain.

As potentially only a few of the suitable sites for health clubs will actually be granted planning permission, site scarcity is likely to occur, wherein the demand for the sites outweighs the supply of them. Health club companies are hence vying for a limited number of sites where planning permission has been granted, thus limiting their growth possibilities. Muhlbacher *et al* (1999) argue that if growth is not achievable with the standard product offering in the domestic market then the company needs to decide between diversifying its service offering²¹ or establishing overseas. However, it is also worth noting that Muhlbacher *et al* (1999) refer to limited growth in the domestic market in terms of saturation of demand. The context of the health club industry is slightly different as the interviewees are discussing saturation, but supply-side saturation rather than demand-side. Suitable sites are one of the main resources that health clubs require, and therefore the lack of sites is arguably a significant problem. The competition between the health club companies for the sites that have gained planning permission is perhaps another factor that will encourage British health club companies to seek expansion elsewhere.

However, a number of the analysts and suppliers also raised the issue of competition for sites in a separate context, irrelevant of planning permission. Competition for sites in Britain has naturally increased as a result of the development of the health club industry. Whereas twenty years ago health clubs were relatively

²¹ For a discussion on the diverse product lines in the British health club industry, see Chapter Three.

rare (see Chapter Three) most towns and densely populated areas are now catered for by a number of health clubs. The increased number of health clubs naturally results in an increased demand for health club sites. Whether the increased competition is a result of strict planning guidelines, or an increased number of health clubs, competition for sites was cited as a factor that could encourage British operators to expand overseas. For example, Andrew Dick of Stairmaster UK cited competition for sites as an important factor for British companies establishing overseas, stating:

'The biggest problem in Britain is actually finding the sites, right, that's the biggest problem OK. Now I know for a fact that whenever a site comes up there's going to be four or five major players bidding for the site. So that, I think, is the catalyst for people to look elsewhere.'

Minton of Online Leisure also acknowledged the increasing competition for sites in Britain, and Gratton of LIRC suggested that as a result of the increased competition operators are being forced to consider 'riskier' sites in Britain if they decide not to internationalise.

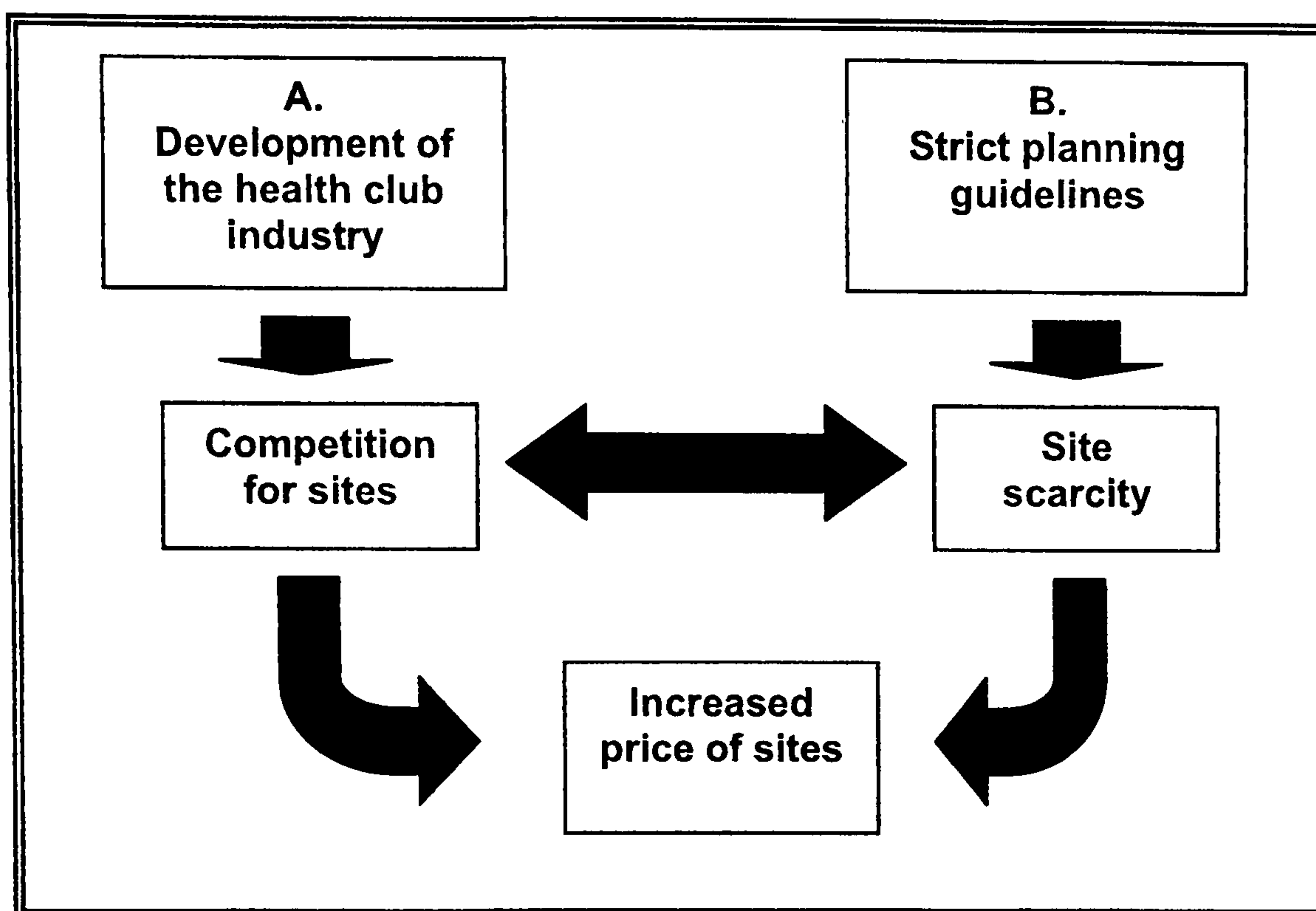
The increased competition for sites has further implications in that it was also suggested to have a counter-effect on the price of sites. According to the economic theory of supply and demand, *ceteris paribus*, if the demand increases for sites then so too will the cost of those sites. Ahmed of GVA Grimley stated that whereas three to four years ago the average rental for health clubs was £3.00-£5.00 per square foot, the rental has now increased to £8.00-£10.00 per square foot²². He also suggested that the increased costs for operators does not result from increased rental rates alone, but also the increased time it takes locating a site and negotiating for it, resulting in operators being 'stretched to the limit'. These search costs might be incurred by the property development team within the health club operator, or externally through the employment of property consultants such as GVA Grimley or Christie's. Section 3.3.2 also identified rising costs as a characteristic of the British health club industry.

The interplay of the issues involving sites in the health club industry is represented in Figure 6.2. The diagram illustrates that the development of the health club industry has generated increased competition for sites, which results in both site scarcity and the increased price of sites. Furthermore, the imposition of strict

²² The stated increase in costs does not take into account inflation.

planning guidelines has led to site scarcity, increased competition for those scarce sites and the increased price of sites.

Figure 6.2: Interplay of the issues involving health club sites



The discussion of sites has thus far only used the information from the interviews with the analysts and suppliers. This section will now address the views of the operators themselves. Although it might be expected that the international operators would argue that it was no longer possible to find suitable sites in Britain, this was not found to be the case. Operators' opinions of the difficulties concerning sites varied, regardless of whether or not they had established overseas. The Chief Executive of one of the most internationally diverse companies, Balfour of Fitness First, did acknowledge that finding sites in Britain is very difficult, which forced them to be 'site-led' rather than 'town-led' in their expansion. They would therefore develop a health club where there was a site rather than choosing a town in which to develop a health club, and then finding a suitable site. He also noted that the government restrictions were one reason for the lack of suitable sites:

'Here, you can't find the sites - they don't exist. And there are so many government regulations and planning restrictions and things like that, that you just can't find them. That's what holds everybody back. It's finding the sites. So you're never going to get the situation where people are building sites on top of each other, because they just don't exist.'

However, when asked the direct question as to whether the reason for him establishing overseas was due to the lack of sites in Britain he replied 'no', and that their overseas expansion simply arose from opportunity. Other international operators suggested that availability of sites is not a problem; Buckley of Clubhaus stated that it is 'still possible to find sites at present', and Lloyd of Next Generation explained that 'we've actually got more sites than we probably have the funding to do straight away'. The non-international operators raised the issue of sites in Britain more frequently than those with operations overseas. Many of the non-international operators interviewed stated that it was becoming increasingly difficult to find premium sites in Britain. Furthermore, Turok of LA Fitness agreed with Ahmed's (of GVA Grimley) observation regarding the increasing cost of leaseholds, suggesting an even higher cost, and stating that whereas premium clubs were originally paying £5.00-£7.00 per square foot, they are now paying £15.00 per square foot²³.

As stated, opinions regarding the significance of the availability and cost of British sites varied amongst the interviewees from health club companies. The difference of opinion might be suggested to arise according to whether or not the operators had overseas operations (i.e. those companies with overseas operations recognised the difficulties in finding sites in Britain and hence developed in foreign countries as a means of gaining access to sites), but this was not found to be the case. Since the difference of opinion did not appear to result from the divide between international and non-international operators, other potential reasons can be considered instead.

A divide in opinions could arguably arise as a result of the type of sites that the operators are developing, i.e. whether they are greenfield²⁴ or brownfield²⁵ sites. It could arguably be more difficult to find suitable greenfield sites than brownfield sites, due to the planning restrictions that have been introduced, which tend to have a greater impact on greenfield sites (see Chapter Three). For instance, McCollum of Invicta Leisure and Bromage of Lamb's Health & Fitness both stated that greenfield sites (usually out-of-town) are less available and that health clubs are being forced

²³ Inflation was again not taken into account, and the time frame to which he referred may have been different to Ahmed's.

²⁴ A 'greenfield site' is defined as 'a site, separate from existing developments, which is to be developed for the first time' (Chambers English Dictionary, 1990).

²⁵ A 'brownfield site' is defined as 'a piece of industrial or commercial property that is abandoned or underused and often environmentally contaminated, especially one considered as a potential site for redevelopment' (www.dictionary.com, 2002).

into cities and town centres to create a product offering there instead. Cullen of Club Moactivation agrees that greenfield sites are becoming scarce and Thomas of Amida suggests that in the south-east of England it is difficult to find a greenfield site, and that they will always consider brownfield sites; they have never built on greenfield sites. Similarly Treharne of Crown Sports states that buying premium sites (i.e. greenfield sites) is a 'nightmare', and that it is less problematic if the operator can convert an existing building. Lowther of SpringHealth also notes that they have been discouraged from greenfield sites due to environmental conditions and are now concentrating their development on brownfield sites.

The above discussion suggests that the impact of site scarcity and site cost as a 'push' factor might vary according to whether the operator uses brownfield or greenfield sites. Operators that use brownfield sites in Britain may find it considerably easier to find the sites they require, and therefore need not establish overseas as a means of finding sites. However, the statements that are cited in the previous paragraph are from non-international operators, who despite recognising the difficulties in locating suitable greenfield sites, have not developed overseas.

A further factor that might influence the importance of site scarcity and cost as a trigger for internationalisation is the format of the health club. The formats of health clubs in Britain vary greatly. Section 3.2 outlined a range of health club formats, where their size, the number of members, the types of services offered, and the revenue generated varied greatly. It might therefore be suggested that if the health club is a large format, such as Next Generation or Invicta Leisure, the site issue could have a greater impact, than for a health club operator that uses a smaller format, such as LA Fitness or Fitness First. Health club companies who operate a large format club may find it more difficult to find a suitable, large enough site, and are often forced to use greenfield sites, as brownfield sites tend to not be large enough. However, when the data from the interviews was analysed, this was not necessarily found to be the case. Whereas one might expect the larger formats to experience greater difficulties with sites, Next Generation is an example of a larger format, which argues that they currently have no problems in finding suitable sites. Furthermore, Balfour of Fitness First, who operates small format health clubs, discusses in some detail the problems he experiences locating suitable sites.

Therefore, although the difficulties in finding sites in Britain, and the increasing cost of those available might be proposed as a factor encouraging firms to

internationalise, the opinions of the degree of the problem do vary amongst the interviewees. Reasons for this difference of opinion might be suggested to be the type of sites that the operators develop (i.e. brownfield or greenfield), or the format of the health clubs, but opinions still differed within these sub-categories. It might therefore be suggested that although the site issue is a problem that operators recognise, it might not be a strong determinant as to whether the operator establishes overseas.

Product maturity and market saturation:

One of the most widely debated issues in the health club industry is whether or not the health club product has reached the mature stage of its product lifecycle²⁶ and if so, whether saturation²⁷ is imminent (Fenn, 1999; Daneshku, 1999; Daneshku, 1998b; Patten, 1999; Johnson, 1998 and Online Leisure, 1999) (see Section 3.3.2). By suggesting that the health club has reached the mature stage of its lifecycle industry commentators are inferring that sales of health club membership will peak; that there is severe competition in the market; that some of the weaker competitors may be squeezed out; and that operators remaining in the market must make 'fresh promotional and distribution efforts' (Dibb *et al*, 1994). The discussions on maturity and saturation in the health club market relate specifically to penetration rates, i.e. what percentage of the population are members of health clubs. Therefore saturation occurs when the number of health club members reaches a certain percentage of the population, above which health club companies cannot attract new members.

Analysts and suppliers agreed that the British market is nearing maturity, but they tended to disagree on when saturation will actually occur. Ahmed of GVA Grimley stated that the British health club market is approximately four years from saturation, whereas Andrew Dick of Stairmaster suggested that saturation will occur in five years time, which Patrick of Christie & Co agreed with. When commenting on the maturity of the health club market Nigel Wallace of the Fitness Industry Association (FIA) stated:

'I think it's towards maturity, in this particular phase, and I think we're just before that point at which price wars could start, but I think that if

²⁶ The product lifecycle (PLC) is the course that a product's sales and profits take over its lifetime (Kotler *et al*, 1996).

²⁷ Saturation is defined as 'a stage in a product's life cycle in which everyone who might want the product already has it' (www.investorwords.com, 2002).

we reach that turning point, and we go into price wars, then we will reach maturity and go into decline.'

Wallace's comments suggest that the health club market is nearing the end of the growth stage of its lifecycle. Majakas of Technogym also suggested that the market is currently in its growth phase and is moving towards maturity, but Ford of Ernst & Young emphasised that operators are now vying for market share and that price wars could result, suggesting that the health club market is in the mature stage.

The fact that all of the analysts and suppliers interviewed suggested that the market is nearing maturity and agreed that saturation will occur in a number of years time, suggests that the market's imminent saturation may be a 'push' factor for internationalisation. If the health club market has reached the mature stage of its product lifecycle, one would expect the sales of health club membership to peak at the saturation level and then begin to decline, resulting in decreased revenue for health club operators. This occurrence can be linked to Muhlbacher *et al's* (1999) 'limited growth in the domestic market' as health club operators will not be able to increase their health club membership after the market peaks. The imminence of maturity also relates directly to Brooke (1992) who proposed that the 'development of the product or service' is an impetus for internationalisation. He suggests that profitability may eventually cease in the domestic market, and if the product or service is introduced into overseas markets it might be possible to extend its product lifecycle. Health club operators may therefore be focussing on overseas markets for continued profitability and the extension of the health club life cycle.

This variance in opinion of the timing of saturation in the British health club market is also reflected in the interviews with the health club operators. For example, Ayres of De Vere suggested that membership as a percentage of the population will stop at just less than 10%, while McCollum of Invicta Leisure stated that the market penetration could reach more than 20% (at present approximately 7% of the British population are members of a health club). Bromage of Lambs Health & Fitness suggests that saturation is not occurring yet and that there is real growth for the next for the next three to four years, although not at the same rate.

Although Muhlbacher *et al* (1999) suggest that companies that establish overseas believe that growth opportunities in the domestic market are limited the interviews with health club operators found that this was not necessarily the case. For example, Fitness First, who were the first British operators to establish a health club

overseas, still believe that there are significant growth opportunities in Britain. Similarly Lloyd from Next Generation stated that they have plenty of opportunities that they intend to develop in Britain, but are also keen to expand in Australia and Europe, and Aspinall of JJB Sports acknowledged that they have a number of potential health club sites at their retail outlets, and yet they have recently opened their first club overseas. In contrast Bromage of Lambs Health & Fitness stated that the intentions of the 'big players' is to open 40-60 clubs during the next few years, but that the reality is that they won't be able to sustain that, which is why they need to consider international expansion, thus agreeing with Muhlbacher *et al* (1999) and Brooke (1992).

However, in seeking to avoid the mature market in Britain and developing health clubs overseas, the operators must perceive the foreign markets to be less developed and during an earlier stage of their product life-cycle. According to the literature on international health club markets, this is arguably the case. Brooke (1992) and Thurrow (1999) argue that companies can take advantage of less developed foreign markets. For example, Thurrow (1999) proposed that companies can take advantage of 'developmental disequilibrium' by introducing products that are widely used in developed countries, into developing countries. In this instance we are referring specifically to a developed 'market' i.e. the health club market in Britain, whereas the overseas health club markets (excluding the USA) could be viewed as developing markets. The level of development of the health club market relates to the number of health clubs; the number of health club members as a percentage of the population; the quality of service; and the number of health club chains (see Chapter Three).

A further environmental push factor relating to market maturity is the possibility of price wars. Ford of Ernst & Young, Patrick of Christie & Co, and Wallace of the FIA all suggest that price wars are a phenomenon that could occur in Britain as the market moves towards maturity. If this situation did occur in Britain, it would be a direct reflection of the American market, where the lowering of prices has been used as a strategic tool by health club chains (de' Stefani, 2000). This would be a development that most Britain operators would not relish, as it threatens the profitability of all operators in the industry, and by developing overseas they could avoid this situation. Balfour of Fitness First illustrates the danger of price wars by stating:

'The David Lloyd concept, the Cannons concept and things like this. They go for a different market, and you know, it's proven successful for them. So, to discount down to try to compete with Fitness First, well, there's no reason nobody could do that, but, you know we could also discount down, if we want to, everybody can discount down, so I don't think there'll be any advantage to anybody to do that. Also of course, as soon as you do that it puts out the economic model, and their clubs start not making very much money either and as soon as that happens we won't be able to build more clubs, you only build more clubs providing that the model you've got is profitable'.

Although expanding overseas might be a means of avoiding operating in a mature market, a number of operators stated that they are not currently operating overseas and do not intend to do so in the foreseeable future. These operators must therefore develop strategies to achieve growth in the domestic market, and maintain that growth after saturation occurs. A number of potential strategies were identified from the interviews with the non-international operators:

- Increasing the membership base
- Expanding the organisation through means other than organic growth
- Increasing members' expenditure

Muhlbacher *et al* (1999) propose that when a company is faced with limited growth in the domestic market it has a choice between diversification and internationalisation. In the British health club industry it might be argued that rather than diversifying their activities, the non-internationally active health club companies are seeking new growth strategies in Britain, whereby they are able to increase revenue without organic growth. Each of the listed strategies will be discussed in turn:

1) *Increasing the membership base*

Despite many of the industry commentators arguing that the British market will reach saturation, a number of interviewees disagreed with this argument and suggested that the market's membership base could be expanded significantly. One means of achieving this expansion was presented by Lees of Boots, a company that is not intending to develop overseas operations for the foreseeable future. He explained that Boots do not believe that the health club market is mature and he believes that saturation can be delayed, depending on the ability of health clubs to attract new members. Boots believe penetration rates do not necessarily need to curtail at a certain level, but that new members can continually be attracted to health clubs. One means of achieving this is by ensuring that the clubs are less daunting to new

members. By targeting certain Boots retail customers, who are not likely to be members of a health club, Boots believe they will expand the health club market. They are seeking to change the public's perception of a health club, and are aiming to introduce a new health club concept based on their different approach to the product offering. They are therefore confident that if they open a Boots Wellbeing Centre they will attract members who would not ordinarily join a health club, regardless of saturation levels in that area.

A further means of potentially expanding the membership base is through market segmentation, enabling operators to target specific groups of the population. This strategy was discussed in Section 3.5.2 where Porter (1980) was cited as stating that segmentation is the 'division of an industry into sub-units for the purposes of developing competitive strategy'. In this instance it could be argued that segmentation is a means of expanding the consumer base in the domestic market. Examples of operators who segment the market include De Vere which operates a chain of clubs called 'Evergreens' which target the over 55s; Lambs Health & Fitness which targets the corporate market; and Club Motivation which aims to appeal to older age groups. By targeting specific groups of consumers the health club companies can create an identity for their consumers, so that the consumers gain a sense of belonging, and feel as though their individual needs are being met. Market segmentation also allows the health club companies to direct their promotional campaigns towards groups of individuals who they believe will be most interested in membership.

Andrew Dick of Stairmaster suggests that the club in its entirety need not target only one segment of the market, but that they can develop segmented groups within their club membership. For example, the health club would identify certain groups, such as pregnant women, teenagers, adults over the age of 50, and target their marketing towards each individual group, offering different exercise options to each group. As well as being a means of developing the member base, Andrew Dick also recognises that segmenting the members can be a means of utilising the health club to its full potential during off-peak times:

'At the moment there's a wave of group activity going on, right, people prefer working out in groups, right. You can be doing it in the gym, you can be doing it as a thing for a whole segment here.... One of the

key issues is that you can also improve your off peak business i.e. increase peak time throughput.'

A further means of expanding the member base is by offering a niche product, or differentiating the health club's service. For example, De Vere have children free zones in their Greens health clubs, and their Operations Director suggested that they also differentiate from other health clubs by providing a technologically advanced environment.

2) *Expanding the organisation through means other than organic growth*

Should the health club company find locating sites too problematic, an alternative to expanding their company in Britain is through acquisitions. Ayres of De Vere suggests that it is easy to integrate an acquired health club chain into an existing operation, and that it is easier to achieve than a manufacturing acquisition might be. All of Lambs Health & Fitness clubs are acquisitions, and SpringHealth was formed as a result of two health club chains merging.

A further means of achieving growth in Britain is to operate management contracts for other organisations. Cullen of Club Motivation believes that the company has opportunities to use its health club brand beyond its Moat House Hotels parent company, and operate management contracts for standalone hotels.

3) *Increasing members' expenditure*

A number of health club companies are aiming to increase their secondary²⁸ and tertiary²⁹ revenue generation. In the context of health clubs Treharne of Crown Sports defined primary revenue as being generated by membership, secondary revenue as accruing from food and beverages, sports clothing etc and tertiary revenue resulting from any other 'outside activity'. If the health club companies are able to increase these forms of revenue the increased revenue may help to offset the increased costs of sites in Britain, and provide a means of revenue enhancement, other than membership growth. Between 1994 and 1999, revenue from items such as beauty, sun-beds, food and beverage and shop goods increased by 117.7% (see Chapter Three, Table 3.6).

Treharne of Crown Sports cited an example of tertiary revenue as a publishing house printing health and fitness books, which would be sold publicly, but members

²⁸ For the purposes of this research secondary revenue is the revenue generated from services provided by the health club, discounting joining and membership fees.

²⁹ For the purposes of this research tertiary revenue is the revenue generated from services and goods other than those provided by the health club.

of the health club would receive a 20% discount. The health club would receive commission in return for providing the publishing house with the member database. Other operators were also found to be focussing on secondary and tertiary revenue generation. For example, Cullen of Club Motivation stated that they are increasing the secondary spend of their consumers through merchandising and the provision of cholesterol testing and Hawkins of Champeys stated that the company had launched its own cookery book.

The above three points therefore illustrate that although the health club market is maturing, and saturation may occur, there are a number of options for health club companies to lengthen the health club lifecycle in Britain. These options relate to Muhlbacher *et al's* (1999) diversify or internationalise. If British health club companies are able to sufficiently lengthen the product life cycle in the domestic market, they might not necessarily be 'pushed' into foreign markets.

Increased competition:

The scarcity of suitable health club sites, leading to an increased level of competition for those available has been discussed in this section of the chapter. However, competition in the British industry has also resulted from a significant increase in the number of health clubs, (see Chapter Three, Table 3:3). Therefore, the issue of market competition will be addressed separately.

Increased competition in the domestic market was not proposed as a direct trigger for internationalisation in Chapter Four, but it is a feature of the health club industry that many of the analysts and suppliers noted. Ahmed of GVA Grimley suggested that the competition between the operators is 'hotting up', particularly as a result of new operators such as Total Fitness and Boots entering the market. Wallace of the FIA agreed with this statement and added that operators believe that the European markets are less competitive. It might therefore be proposed that the entrance of new companies into what was already perceived to be a competitive market, might 'push' operators toward overseas markets, which are thought to be less competitive.

All of the operators interviewed agreed that the British market has developed extensively during the past twenty years, and that it has become increasingly competitive. For example, Fitzgibbon of LivingWell stated:

'There would come a time when it got so competitive that one or two clubs would get into difficulty....and in a couple of years time that will be the case, and....we decided that we wanted to move overseas....'

Despite the fact that they all agreed that the British market is increasingly competitive, each of the operators believe that their product offering is in some way unique, or can be differentiated from other operators, and that their product positioning enables them to compete effectively in Britain.

A further issue raised during the interviews was 'who the competition is'. For instance Cullen of Club Moativation, a hotel-based health club chain, cited other hotel-based health clubs as competitors. In contrast, Lowther of SpringHealth suggested that competition depends on the location of their health club; the competition would be other operators in the area, such as Virgin Active, Esporta and LA Fitness, despite the fact that these operators are positioned as premier products and SpringHealth is not. Vigors from Third Space disagreed with this view and suggested that it is not only health clubs that are direct competitors:

'So the first question most people ask is 'who are your competition?' And they would expect you to say Cannons, Homes Place, someone like that, but actually I don't think that is necessarily the case. I think particularly where we are now, who are we competing with? We're competing with bars, competing with night-clubs, we're competing with cinemas, with restaurants, competing with amusement arcades, we're competing with a whole range because actually we're competing for people's leisure time. We're competing for a very small time slot on a number of occasions in peoples daily lives. They've got a choice of what to do with two hours or what to do with three hours...'

This statement therefore suggests that although health club operators are facing increased competition from other health club companies, they must also compete with operators from other leisure sectors, (see Chapter Two). This is a further instance where different operators perceive the environment differently.

Health club operators also suggested different means of competing in an increasingly hostile market. For instance, Cullen states that although he does have competition in the form of other hotel-based health clubs he is focussing on what Club Moativation are doing, and concentrating on their service provision, aiming to establish a niche for the health clubs. He therefore states that competition has a very minimal impact on his membership figures. Similarly, Hawkins of Champneys suggested that as they are the premier health club provider other health clubs opening

nearby does tend to affect their membership rates. Lowther is similarly attempting to establish a niche for his health clubs by offering a 'community club', which concentrates on the social elements of a health club.

Although Ghauri (2000) proposes that increased foreign competition in the domestic market may result in the increased propensity of the indigenous operators to internationalise, this was not necessarily found to be the case in the British health club industry. Ghauri (2000) suggests that increased foreign competition may be of benefit to the domestic firm in that they may increase their efficiency in the face of competition; gain confidence as a result of the competition; and become aware of the quality of their product in relation to competitors'. When prompted on the subject Wallace of the FIA suggested that British operators originally copied the American concept and acknowledged that operators such as Reebok have now entered the British market. However, he did not believe that they had influenced the international expansion of British operators. Similarly, Andrew Dick of Stairmaster suggested that the limited British market entrance by American operators is not likely to encourage British operators to internationalise:

'There's not that many coming to the UK, because I think they've found out it's a bit late and the UK companies are really going for it if you like. There's no example of that, I mean the nearest is Reebok - they're looking at doing their clubs. But they're doing it so as to promote their brand awareness. They'll have whole Reebok clubs with a gym, a bit like JJB Sports gyms. You know you've got the JJB gym with all the merchandise and stuff next to it. And Boots, Boots are doing a similar thing too. The drivers are actually the UK companies. And the other [American] one is the franchise Gold's Gym. Gold's Gym has got a big global presence, but that's a franchise. So you've got two Gold's Gyms in the UK, there will be three shortly, but then you've got a lot dotted around the world as well. And there's California Gym as well, and they're quite, they've got quite a good presence in the Far East, but they're not here [in Britain]. So there's no real example in the UK right now'.

The perceived importance of competition as a trigger for internationalisation might therefore be argued to differ according to the operator. Those operators that believe all leisure operators are competition might internationalise in order to avoid the high level of competition in Britain, (Third Space are in fact planning to develop operations overseas). In contrast, companies that have a very limited view of the

competition, such as Club Motivation, may believe that the level of competition in Britain does not warrant overseas development.

The influence of The City:

The above discussion has argued that the British health club market is becoming increasingly problematic and costly to operate in. Therefore, why are some operators still striving to open an ever-increasing number of health clubs in Britain? A number of health club companies have floated on the stock exchange (Buckingham & Finch, 1998) (see Section 3.3.2) and have thus received significant capital injections. However, the analysts and suppliers suggest that market floatation results in the health club companies being under pressure to open a certain number of health clubs per year. Ahmed of GVA Grimley noted that although there is a large amount of capital entering the health club industry from The City, there is also a high level of pressure. Andrew Dick of Stairmaster suggested that the pressure from The City directly influences health club operators to look overseas for their growth, stating:

'I think that they want to get to the [overseas] market early, and there's a massive struggle to get quick growth, which The City demands...'

All of the health club companies that are listed on the stock exchange; LA Fitness; Clubhaus; Fitness First; LivingWell (Hilton International); Holmes Place; JJB Sports; Fitness Holdings (Europe) (Fitness Holdings SA); Virgin Active (Virgin); Esporta; and David Lloyd Leisure (Whitbread) have overseas operations. The private companies that have established overseas are Aspria; Next Generation; The Academy; Cannons; Champneys. However, these private companies tend to have specific reasons for developing overseas. For example, Aspria is unable to operate health clubs in Britain due to a non-compete clause, following the sale of their British clubs to Cannons; Next Generation has opportunities in Australia as a result of personal contacts; The Academy received an offer from Holmes Place to operate a management contract in Austria.

Bromage of Lambs Health & Fitness underlined the influence of The City when he discussed internationalisation, stating that Lamb's are a small company, who are 'happy with their own lot' and are not 'feeding The City'. The pressure for growth from The City is arguably not a direct influence on the health club companies to internationalise. If however, the companies are struggling to achieve the number of health club openings in Britain, which are required by The City, the operators may

consider overseas markets. This trigger might therefore again be related to Muhlbacher *et al's* (1999) 'limited growth in the domestic market' argument.

Summary:

The above discussion analyses some of the factors that might discourage British health club operators from seeking to expand their membership base in Britain. These 'push factors' are summarised in Figure 6.3:

Figure 6.3: The effect of environmental 'push' factors in the British health club industry

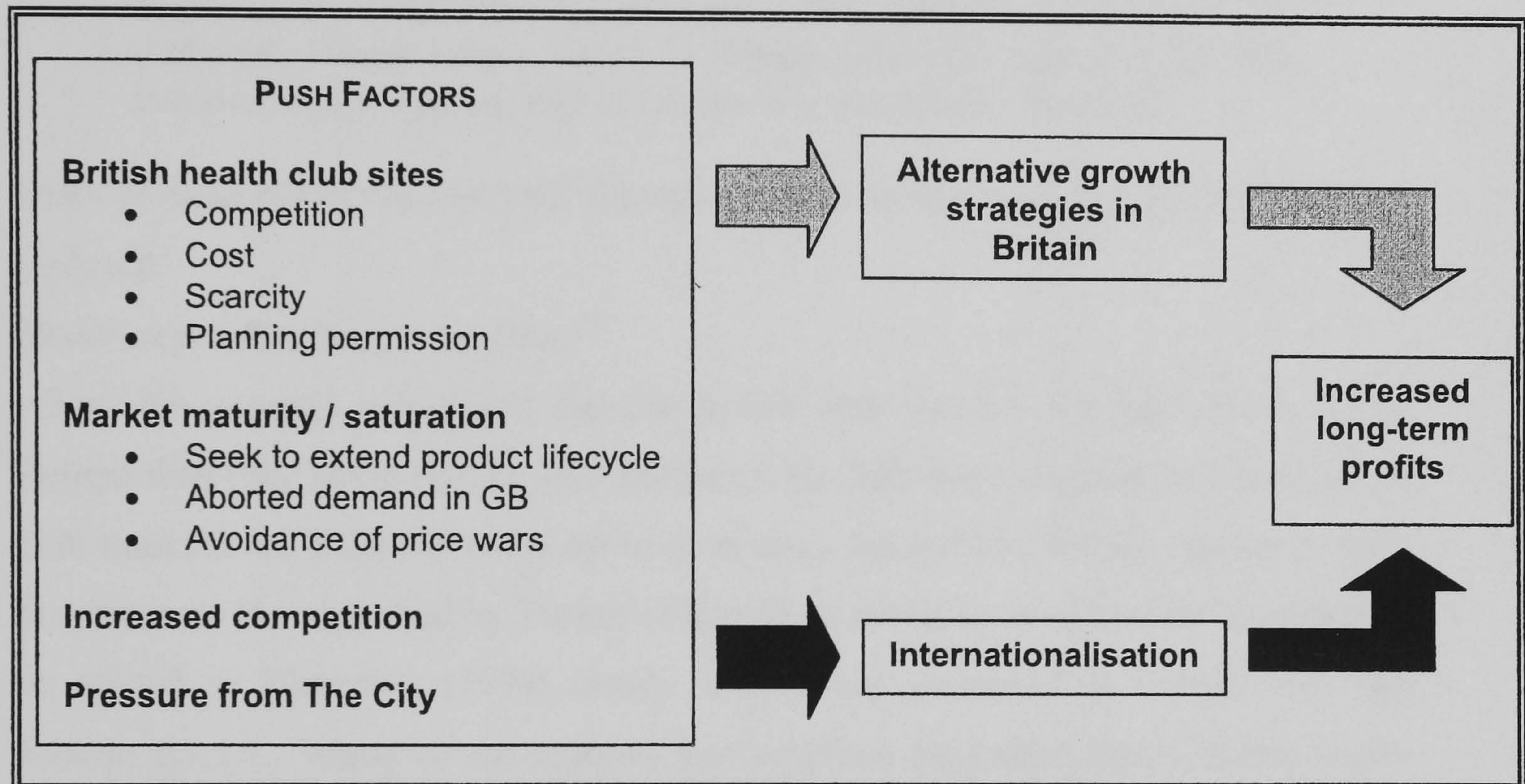


Figure 6.3 indicates that British health club operators may have the choice between 'alternative growth strategies in Britain' or 'internationalisation' as a means of developing their companies. These two strategies are not, however, suggested to be mutually exclusive, as the operator may continue to develop its health club company in Britain whilst undertaking internationalisation. Furthermore, since saturation of the British market has not yet been reached, British operators are still able to expand their health club chains organically, which all of the interviewees stated they are aiming to do. Opinions also varied amongst the interviewees as to the importance of the 'push' factors, so it might be argued that they are not significant enough to result in a company seeking long-term profit generation overseas. The following section will consider factors that might draw British companies overseas.

6.1.1.2 Environmental 'Pull' Factors

Interviews with analysts and suppliers established a number of advantages and attractions that could attract British operators to overseas markets. Wallace of FIA summarised many of the potential benefits of Europe including: the level of demand; the lower cost of sites; the different economic conditions and the lower levels of competition:

'The moves overseas have been opportunistic. The health club market in Germany is two years behind Britain, and other countries are further behind that. The sites are cheaper. The economic conditions are different. There was a period in Britain when the operators felt the competition hotting up, and in Europe it is much less competitive.'

Some of these environmental 'pull' factors will now be discussed and their importance analysed.

*Under-developed foreign markets:*³⁰

All of the analysts recognised that the health club markets are less developed in Europe than they are in Britain (see Section 3.4). The fact that some overseas health club markets are believed to be up to five years behind the British market in their development (as suggested by Tucker of Key Note and Minton of Online Leisure) can be related to Thurrow's (1999) theory, which was discussed in Section 4.1, and Section 6.1.1.1. Many of the analysts and suppliers suggested that overseas health club markets are frequently less developed when compared to Britain in terms of the number of health clubs, the quality of the service offering and the number of health club chains. For instance, Andrew Dick of Stairmaster stated:

'...what you find [overseas] is small privately owned clubs, more like body building type clubs, that are trying to evolve into more of a general health and fitness club. The same thing happened here.'

Wallace of the FIA noted that there are very few health club chains in Australia and stated that Britain's health club market is more corporate and profit-orientated than the European and Australian markets. These statements suggest that there is less competition in foreign markets, that the markets are less developed, and that there is a possibility of the markets being developed in the future. British operators who are

³⁰ The discussion of foreign or overseas markets in this section refers to markets in all countries outside of Britain, apart from the United States of America.

able to exploit these under-developed markets, as discussed by Thurrow (1999), could potentially lead this development.

The health club operators interviewed, including domestic-only and international operators, agreed that the foreign health club markets are less developed than the British market. For example, Turok of LA Fitness stated that the European market is five to six years behind Britain in its development, whereas Silver of The Academy suggests that Dutch market is the closest to the British market in its development, followed by Germany, France, Spain and Portugal. The statistics in Section 3.6 corroborate these statements, and a number of the interviewees expressed similar views, including Aspinall of JJB Sports, Hawkins of Champneys and McCollum of Invicta Leisure.

Potential rapid development of foreign markets:

As well as recognising that the overseas health club markets are less developed than in Britain, the analysts and suppliers also expect that the European markets will experience rapid growth. One of the interesting aspects of their observations is that British operators entering the markets could generate the development of the overseas markets, rather than the development being led by indigenous operators. For example, Andrew Dick of Stairmaster UK stated:

'I think in Europe, that we'll see huge growth, getting to where we are now if you like. I think the growth in Europe will be faster than what we've seen [in Britain]. We've seen this going on for ten years haven't we really? But what we're doing is that we're accelerating the process because we're taking the models to Europe already. It is not evolving in Europe, it has already been evolved, because we've already got some of the ideas if you like, so the rate of change will be quicker in certain countries in Europe. And I think we'll see massive growth in the next five years.'

Andrew Dick therefore suggests that as a result of British operators implementing established formats in the developing European markets, the markets will grow at a faster rate than the British market has to date. British operators will therefore be taking advantage of the lack of development in the overseas markets (Thurrow, 1999). This strategy also reflects Dunning's (1993) 'market-seekers' whereby 'the entry into the foreign market may be part of a global production and marketing strategy that aims for the company to have a presence in leading markets'. Lowther of SpringHealth argued that 'fast growth' can be gained in Europe, and that operators can

achieve growth overseas that they cannot attain in Britain. Giampaolo of Fitness Holdings (Europe) stated that there is 'massive potential for overseas markets' and Fitzgibbon of LivingWell also noted the rapid growth of health and fitness overseas. Balfour of Fitness First stated:

'...and you had to recognise that the next big market was to be Europe. And Europe was very much like the UK was 6 years ago...and there was certainly an opportunity there, as there had been here, to go to Europe, to create a chain.'

He also added that the reason they established overseas was opportunity; there was an opportunity to take advantage of the under-developed overseas markets. The overseas markets that are currently under-developed may well be the leading markets of the future.

Opportunities for health club acquisition in foreign markets:

Should British operators opt for overseas expansion, many of the analysts and suppliers suggested that joint ventures or acquisitions might be the most suitable means of doing so³¹. Although the overseas markets are still highly fragmented, (i.e. there are few health club chains), (see Section 3.6), there are still a number of chains that could be suitable for acquisition or joint venture. For instance, Fitness First was the first British operator to establish overseas when they undertook a joint venture with the German operator, The Fitness Company. However, because the overseas markets are highly fragmented the opportunities for acquisition are limited, and it could be argued that the first British operators to establish overseas will take advantage of those limited opportunities. Balfour of Fitness First has accomplished the majority of the company's overseas expansion through acquisitions:

'The acquisitions that we've done have been small in terms of financial acquisitions, but they are important strategic acquisitions'.

The foreign market entry modes actually utilised will be discussed in Chapter Seven, but it is worth noting that Patrick of Christie & Co, Minton of Online Leisure, Ford of Ernst & Young and Andrew Dick of Stairmaster UK all acknowledged the importance of acquisitions for British health club operators establishing overseas. Majakas of Technogym stated that the first wave of British operators that went overseas 'cherry picked' the best clubs, and that although British operators originally undertook joint

ventures and acquisitions overseas, they are now being forced to build their own clubs. Majakas suggests that the opportunities for acquisition are now beginning to disappear.

The availability of health club chains overseas for acquisition / joint venture might be cited as a trigger for internationalisation in that British health club companies who perhaps have little experience of foreign markets are able to enter the market with a lower degree of risk. They would acquire / invest in a chain that already has members, and is already a recognised product offering. The opportunities for acquisition / joint venture might also affect the timing of the internationalisation of British companies, in that they may be encouraged to establish overseas at an earlier stage than they might otherwise have done, in order to take advantage of the opportunities that are currently available. By seeking to enter foreign markets before other British operators it might be argued that these 'early internationalisers' are 'strategic-asset seekers' (Dunning, 1993). These firms are adding to their existing portfolio of investments, thus increasing their market share, and becoming a more dominant competitor in the market (see Section 4.1).

Cheaper foreign sites:

As discussed earlier, operators are encountering difficulties locating suitable, affordable sites for their health clubs in Britain. It was suggested that the problems surrounding health club sites in Britain might be an environmental 'push' factor for internationalisation. However, this situation can also be analysed from a different angle. If the lack of sites in Britain is a trigger for internationalisation, then health club operators will only internationalise if they believe that they can find suitable and affordable sites overseas. If health club industries in all countries experienced similar problems finding sites, then the British operators would not be encouraged to establish overseas as a means of gaining access to sites.

However, a number of individuals interviewed did state that overseas industries do not experience the same site issues. For example, Wallace of the FIA suggested that 'sites are cheaper' overseas and Andrew Dick of Stairmaster UK, when discussing health club operators, stated:

'...they look at emerging markets, like Germany is one of the big emerging markets, and so they think let's get there early, let's get in

³¹ For a discussion on foreign market entry modes see Chapter Seven.

there early and buy up existing health clubs, which has happened, and then let's find some sites, and we'll get them at a good price and then we can build our brand and then see if we can get extra members....'

Lowther of SpringHealth concurred that sites are cheaper overseas, and that the drive to establish overseas is thus economic rather than conceptual. If the sites are cheaper it might also be concluded that there is not the same degree of competition for those sites, as the price of them has not been driven up, as it has in Britain. By taking advantage of the relatively low cost of sites in overseas markets, it might be suggested that British health club operators are 'efficiency-seekers' (Dunning, 1993), who are taking advantage of differing availability and costs of resources in various countries (see Section 4.1).

Different economic conditions:

Wallace of the FIA recognised the benefits of operating in different economies as a potential trigger for internationalisation for British health club companies. One of the advantages of operating in different economic conditions is that the company is managing a portfolio of assets that experience different economic conditions in different countries. For example, while an operation is enjoying an economic boom in Australia, another operation within the same portfolio might be suffering from an economic recession in France. Brooke (1992) suggests that operating in different countries is particularly important for industries that are affected by seasonal and cyclical factors, such as clothing or gifts, as the peaks and troughs of different economies occur at different times. By operating in a number of countries the company may be able to dampen those effects.

Summary:

The discussion above illustrates that health club company operators believe that there are certain environmental 'pull' factors that encourage them to consider overseas markets as a means of increasing long-term profitability, and this analysis agrees with much of the literature examined in Section 4.1. The operators believe that there are opportunities overseas for them to develop health clubs and these opportunities are drawing them overseas, as illustrated in Figure 6.4.

The implications of both the 'push' and the 'pull' factors are illustrated in Figure 6.5. The motive for the operators considering overseas operations in the first instance is increased long-term profitability. The reason for them considering internationalisation as a means of achieving the growth required is generated from the

'push' and 'pull' factors. It might be argued that the 'push' factors have less of an impact on the companies' decision to internationalise, as the operators also have the ability to undertake alternative growth strategies in Britain. The 'pull' factors for overseas markets are widely recognised by the interviewees, suggesting that they could be a stronger influence.

Figure 6.4: The effect of environmental 'pull' factors on the British health club industry

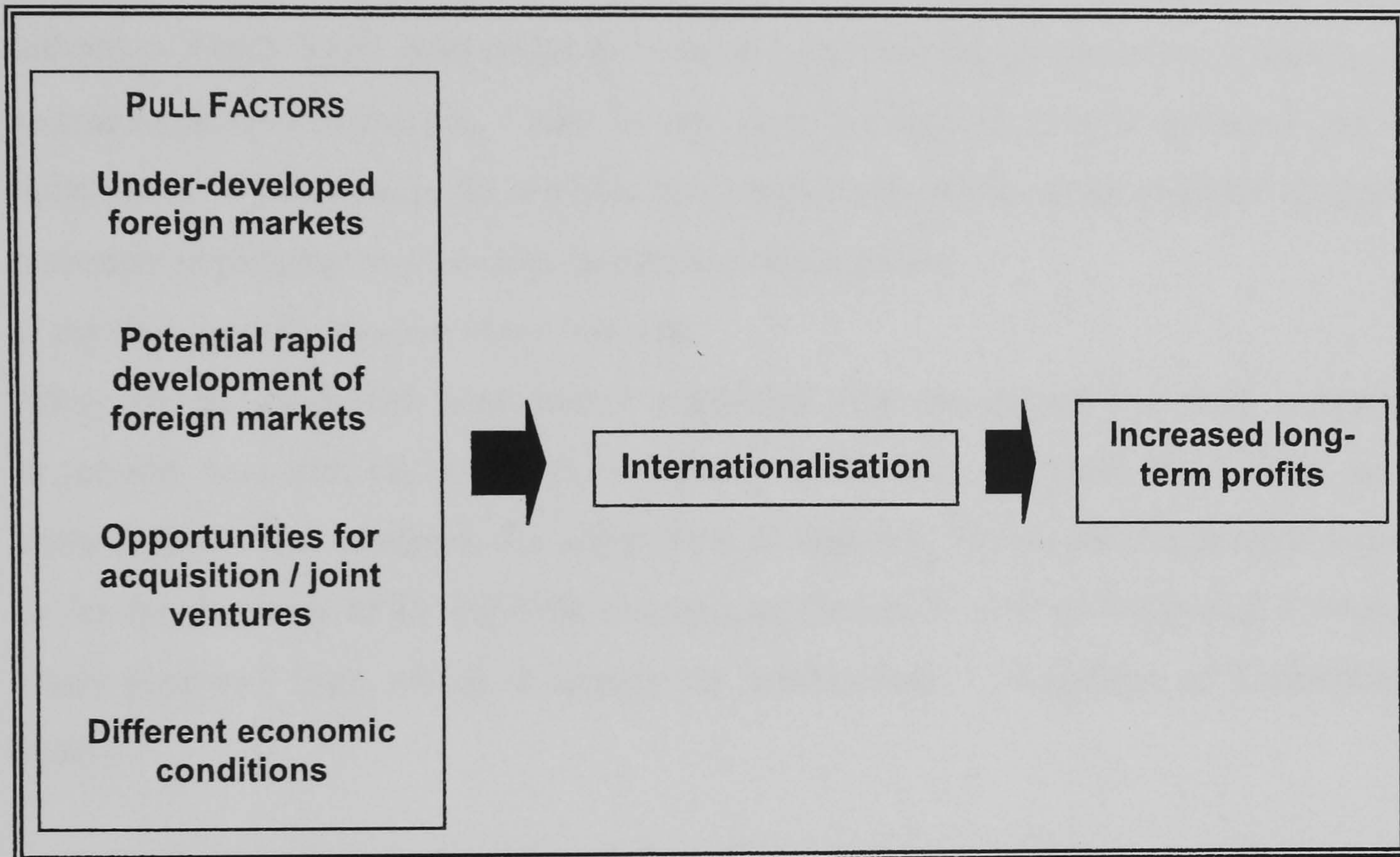
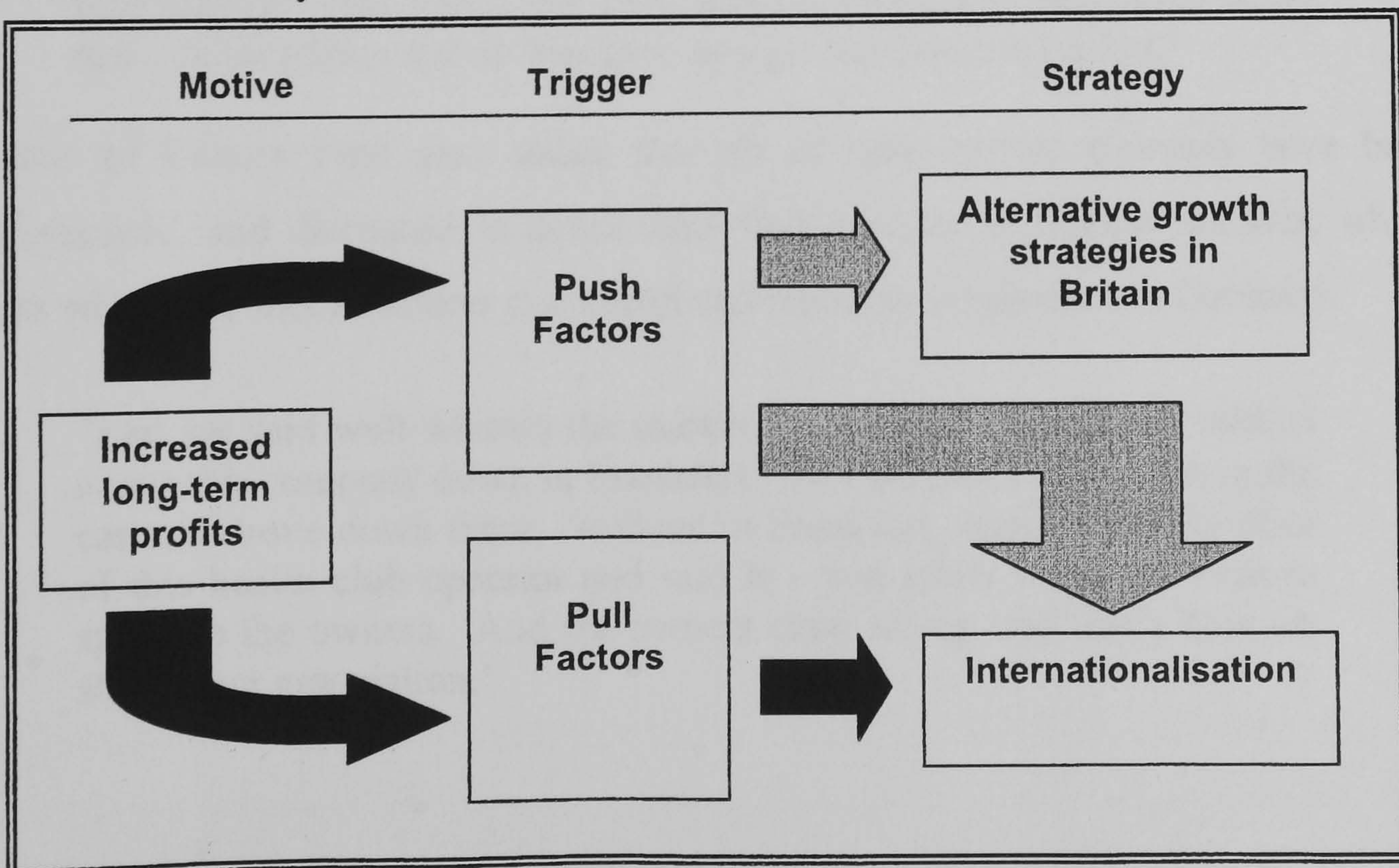


Figure 6.5: The impact of environmental 'push' and 'pull' factors on the British health club industry



Given the influence of the environmental 'push' and 'pull' factors on British health club companies to internationalise, it could be argued that many of the operators should establish overseas. However, this has not been the case in the industry. The following section will therefore address some of the company-dependent factors that might influence a company in its decision-making process.

6.1.2 Company-Dependent Factors

The following section will analyse potential company-dependent factors that might influence health club companies to consider establishing overseas as a means of increasing long-term profits. Only the data from the interviews with operators can be included in this section as the analysts and suppliers do not have the required in-depth company knowledge to comment in detail on these issues.

Company-specific opportunities overseas:

Many of the operators interviewed suggested that the reason for their overseas expansion was that an opportunity existed which they believed they could take advantage of. For example, the acquisition of Stakis by Hilton International resulted in the development of LivingWell overseas, as the health club company had a 'ready-made platform' from which to launch the health clubs. Fitzgibbon of LivingWell stated:

' Our international growth really came off the back of Hilton acquiring Stakis, because what Hilton gave us was a platform to take the LivingWell brand overseas, international. And when we first considered our strategy there had been some thought about going international with Stakis but there was no obvious or easy route to do that. What Hilton did do was give us a greater route to do that.'

Balfour of Fitness First also stated that all of their moves overseas have been opportunistic, and discussed in detail their first exploits in foreign markets, which began when they met a lecturer at a health club industry conference in Germany:

'And we said well where's the market for health clubs, and he told us about this company down in Frankfurt. So - we said - right - got in the car and drove down there. Arrived in Frankfurt, knocked on the door of this health club operator and said hi - you know - and we want to speak to the owners. And the owners came along, and that's how we started our association.'

External Proposal:

The opportunities discussed above resulted from developments within the operator or from operators actively seeking out those opportunities. Another manner in which operators might be encouraged to internationalise is through an external proposal. For example, Silver at The Academy was approached by Holmes Place to manage health spas in their overseas health clubs. Although The Academy is actually a health club in Britain, they specialise in health spa treatments, and Holmes Place recognised that strength. The Academy's other ventures into overseas markets have also been as the result of external proposals. Although a representative from Holmes Place was not interviewed, it is also worth noting that Holmes Place's expansion overseas resulted from a proposal by a Swiss retail chain to manage health clubs in their shopping centres. This trigger for internationalisation was recognised by Ghauri (2000) who suggested that an outside proposal could stimulate an organisation to invest overseas.

Success in the domestic market:

As well as individual companies taking advantage of opportunities that arose for them, another factor raised in the interviews was that of success in the domestic market. A number of operators, included Hawkins of Champneys, commented that they had developed a successful chain in Britain, and they felt that that success could be replicated elsewhere. For instance Lloyd of Next Generation stated:

'...they felt that the same concept that had worked here would work over there, and that's where it started.'

Fitzgibbon of LivingWell also agreed that their overseas development was a case of 'if we can do it here, then we can do it over there'. This company-dependent factor supports the work of Ghauri (2000) who proposed that 'success encourages success', and that once a company has proved successful in the domestic market then managers will be confident undertaking overseas investment. It might therefore be suggested that once an operator has achieved success in its domestic market, as Fitness Holdings had in America, and Fitness First had in Britain, it might be encouraged to capitalise on that success and enter overseas countries where there are perceived to be opportunities.

Economies of scale:

On a number of occasions interviewees that had established overseas activities discussed the importance of economies of scale. For instance, Giampaolo of Fitness

Holdings (Europe) stated that he aims to get the best economies of scale by developing a 'cluster strategy' when expanding overseas. He therefore opens a number of clubs in a specific location, rather than spreading them over a wider geographic area³². The importance of the gains of economies of scale is also recognised by Ghauri (2000) (see Chapter Four). If a company is seeking to benefit from economies of scale then it would arguably aim to expand in the domestic market. However, following the 'push' factors outlined in the previous section, British health club companies may experience difficulties expanding their chain in Britain in order to take advantages of economies of scale. The alternative strategy is to achieve that expansion in overseas markets.

Development of the company / improved employment opportunities:

Companies seeking to gain economies of scale in their expansion could also be aiming to make full use of their current personnel and company infrastructure. For example, Giampaolo of Fitness Holdings (Europe) recognised the importance of making best use of their personnel and stated that the original reason for establishing overseas was based on how they wanted to develop the company, and how they could provide better employment opportunities. Fitzgibbon of LivingWell also recognised the potential for developing the company by installing health clubs at Hilton hotels.

Buckley and Casson (1991) argue that in some instances managerial skills and capacity may only be fully exploited if the firm expands its operations; for example, 'highly specialised managerial personnel' may be operating at under-capacity if they are only operating in the domestic market. Buckley and Casson (1991) suggest that if growth is not possible in the domestic market (as is arguably the case in the health club market) then the firm may only be able to expand by entering foreign markets, and thus attaining full usage of its personnel. Buckley and Casson (1991) suggest that eventually the firm's factors of production will be fully employed and the international growth of the firm will reach a plateau.

Spreading the risk:

As the British industry nears maturity and is becoming increasingly competitive, a number of operators may begin to feel the strain of operating in a fairly hostile environment. For example, LivingWell established health clubs overseas having

³² This strategy will be discussed in Chapter Seven.

recognised that competition is increasing in Britain, and that while their health clubs are not yet suffering, they might at some point in the future. Fitzgibbon stated:

'...we decided that we wanted to move overseas while we were still hungry and spread some of our risk.'

This reasoning behind their overseas expansion strategy concurs with Buckley and Casson (1991) who state that one of the main benefits of operating overseas is to spread risk. The firm is argued to be 'managing a portfolio of assets', and as the firm is risk-averse they are aiming to minimise the risk of foreign investments.

Access to specific market segments:

The health club industry has numerous possibilities to segment the market or to provide a niche offering³³. By employing such strategies the health club company is appealing to specific groups of consumers. The operator may be forced to look overseas for consumers if suitable sites are not available in Britain in close proximity to these consumers. For example, although The Third Space are currently only based in London, their Managing Director, Vigors stated that they are keen to establish overseas operations in the future. Their main justification for this strategy is that they cannot find the markets that they require for their health clubs anywhere else in Britain, apart from in London. They believe that their target consumers are located in 'capital cities', i.e. large cities, and not necessarily capital cities of the country. The company is therefore hoping to open health clubs in cities such as Paris, Madrid and Barcelona. When discussing the internationalisation of the company Vigors states:

'As a brand it's a natural extension. For us it is similar types of, you know, I don't think we can go to, I'm not using any particular city as an example, but Preston or Exeter, they don't have the same....we would have to be a different product. I think London is more closely aligned to Paris than it is Bristol. Do you agree? I therefore think go to where it is like rather than where it isn't like. That's just the way we look at it.'

Morris of Aspria also recognises that their target consumers are located in very specific areas in Europe. When considering cities to invest in they focus on the expatriate community; whether it is a major city; whether it has the right profile; if it

³³ See Chapter Three for a discussion on market segmentation and niche products in the British health club market.

is affluent; if it is international; and if it is large enough. He also reasoned that there are very few cities in Europe that would be suitable for their health clubs; eight in Germany; Antwerp in Belgium; two or three in Holland; Madrid and Barcelona in Spain; Vienna in Austria and two cities in Switzerland. Morris therefore argues that Aspria needs to operate overseas as they target very specific market segments that are only located in 'capital' cities.

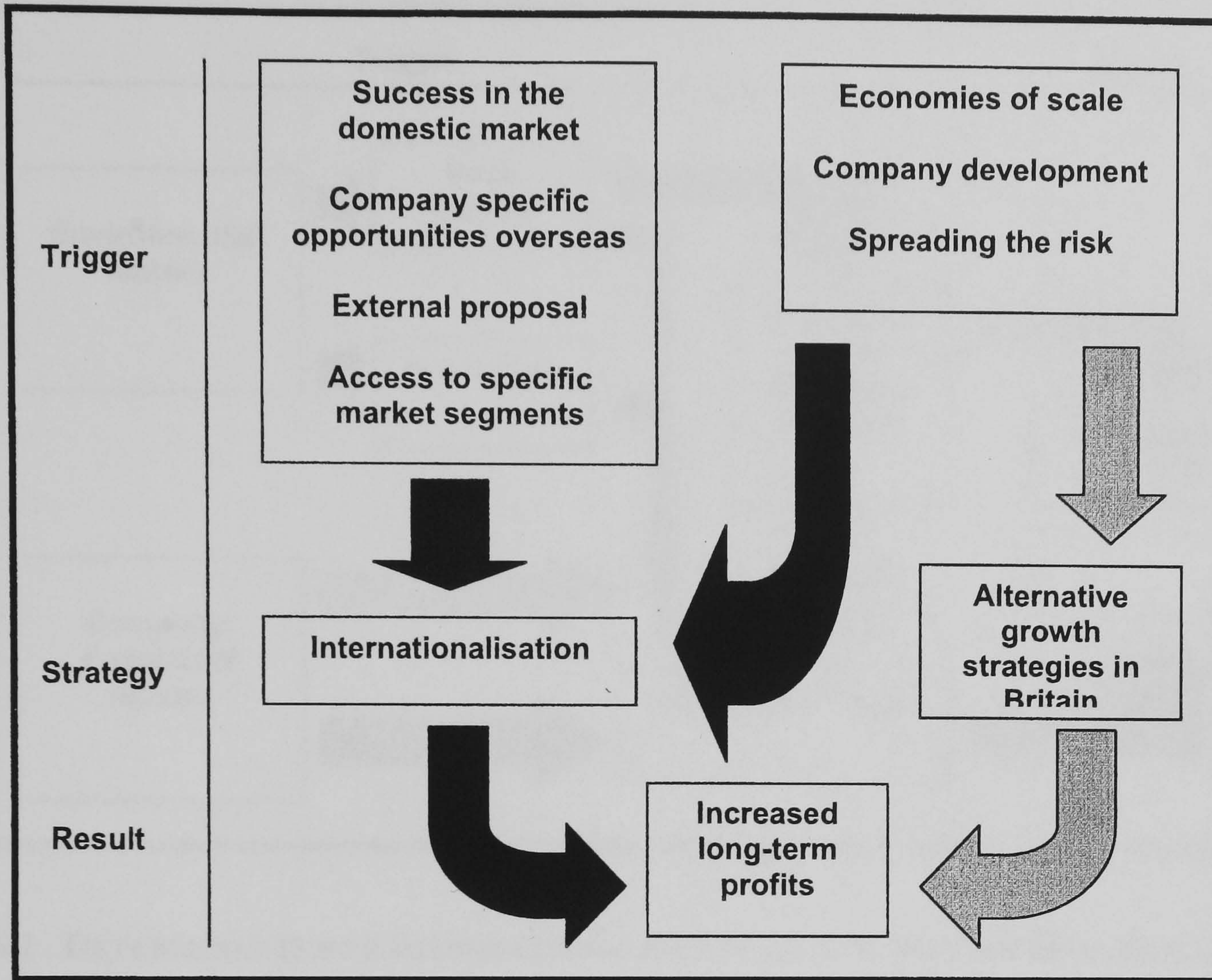
The above arguments would suggest that customers are influencing the operator in respect of its internationalisation strategies. The Third Space are targeting the wealthy, working individual who tends to live in 'capital' cities and Aspria are actively targeting expatriates. However, this strategy is very company specific, as most of the health club operators do not have such a precise remit for their target consumers. This factor has therefore been deemed to be company-dependent, as it is the company that has adopted the strategy, and the influence of these specific groups of consumers does not therefore extend to all of the companies in the health club industry. However, the strategies could also be linked to Vandermerwe and Chadwick's (1989) 'environmental factor' (see Chapter Four), which suggests that as the customer 'goes global' then so must the service suppliers. Dunning (1989) also suggests that an MNE will possess an advantage over its competitors if it is able to supply migrating individuals with services that were previously provided only in the domestic country. In this case Aspria is supplying the expatriates with the standard of health club that was previously only available in Britain.

Summary:

The above discussion has analysed a number of factors that could arise from within the health club company, encouraging it to internationalise. These factors are summarised in Figure 6.6.

Figure 6.6 illustrates that there are a number of company-dependent factors that might encourage a health club company to internationalise in order to achieve its goal of increased long-term profits. However, some of these factors could also encourage the company to seek growth in the domestic country through strategies that do not involve organic growth. Given the push factors identified in the previous section it is likely that the possibilities of this type of growth in the domestic market are less feasible.

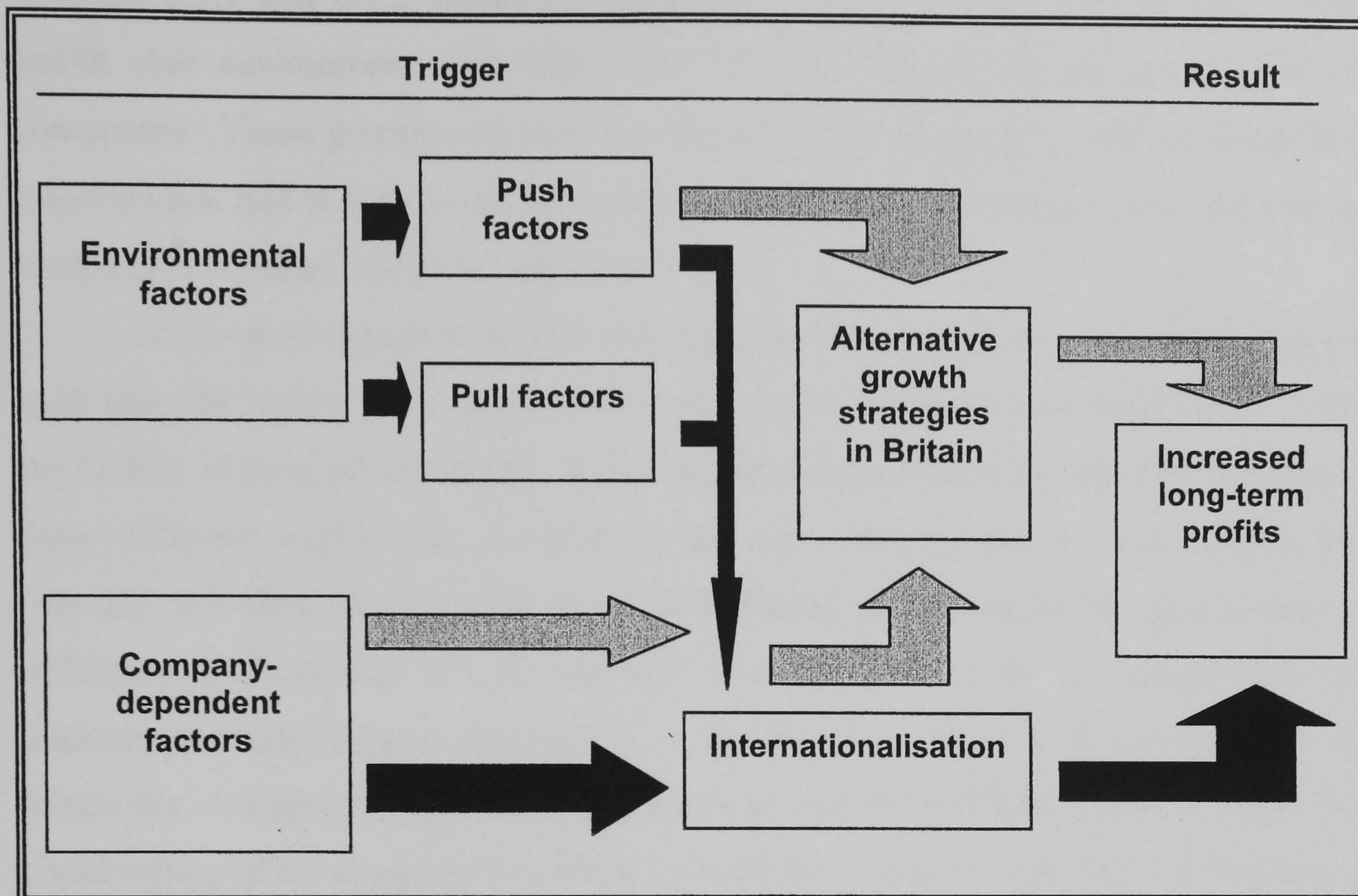
Figure 6.6: The impact of company-dependent factors on the British health club industry



6.1.3 Summary

The above discussion has identified a number of push and pull factors that could lead health club companies to believe that they can enhance their long-term profitability via internationalisation. Although there is the possibility of growth and increased long-term profitability in the domestic country, these possibilities are limited. The diagram below illustrates the effect of both environmental and company-dependent factors on British health club companies.

Figure 6.7: The impact of environmental and company-dependent factors on the British health club industry



6.2 DETERMINANTS FOR INTERNATIONALISATION IN THE BRITISH HEALTH CLUB INDUSTRY

Having identified the environmental and company-dependent factors which could encourage British health club companies to establish operations overseas it might be argued that internationalisation could enhance a company's long-term profitability, potentially more so than seeking growth in Britain. However, not all of the British health club companies have internationalised, nor intend to do so. The following section aims to determine why some companies develop overseas and others do not. In the case of the health club industry, the motive for internationalisation is argued to be enhanced long-term profitability, and a number of factors lead the company to believe that internationalisation could be a means of enhancing that profitability. The 'determinants' are suggested to be factors that dictate which companies internationalise and which companies do not. Three determinants have been identified which could contribute to a company's decision as to whether to internationalise. These are the management's interpretation of stimuli; management capabilities; and financial capabilities.

Management's interpretation of stimuli:

Sections 6.1.1 and 6.1.2 included discussions on the operators' perceptions of the health club environment, and their views of the performance and goals of their companies. These perceptions and views were acknowledged to differ between the interviewees, and it is these differences that could be a determinant as to whether a company establishes overseas operations.

It has been argued that the health club environment gives rise to a number of push and pull factors for internationalisation, but the importance of these factors, and the factors in themselves, can be interpreted in different ways by different managers from different health club companies. Aharoni (1966) refers to these factors as 'stimuli' and states that 'the impact of such stimuli is determined by the manager's efficiency of scanning the environment and by their level of commitment to international projects' (see Section 4.1). He therefore suggests that the manner in which the manager interprets the environment and their effectiveness in doing so could influence the company's decision to establish overseas. For example, Balfour's (of Fitness First) interpretation of foreign health club markets suggested to him that there were significant opportunities for British health club companies, and he therefore decided to establish overseas. In contrast, Cullen of Club Motivation has analysed the same overseas environment and does not necessarily believe that there are significant opportunities for his company, and equally Treharne of Crown Sports believes that there are currently better opportunities for them in the domestic market than there are overseas.

Although Aharoni (1966) refers to the environmental stimuli in his statement, this chapter has also recognised the importance of company stimuli (or company-dependent factors) for a company's internationalisation. It might therefore be suggested that different managers within the same company could potentially perceive the company-dependent factors differently. For example, if Giampaolo had not been the Managing Director of Fitness Holdings (Europe), would his replacement have perceived the opportunities and strengths of the company differently, and shied away from international expansion?

Management capabilities:

The effect of the management's interpretation of stimuli can also be linked to the management team itself. Ghauri (2000) argued that the main impetus for strategy determination arises from top-level managers; if they are active and committed they

will be more willing to consider opportunities overseas. Ghauri (2000) cites three main reasons for managers' enthusiasm for overseas development: their special knowledge of a foreign market or customer; entrepreneurial drive and ambition; language skills and experience of living abroad. These were all factors that could feasibly relate to the international operators within the health club industry. For instance, Vigors of Third Space is keen to develop his company overseas having spent a substantial amount of time researching and working in foreign markets, and he stated:

'We did a lot of research, spent an awful lot of time in America, and a fair amount of time in South Africa, Australia, a bit of time, and some in Europe, and looked at the way that different countries dealt with the health and fitness market'.

Next Generation's interest in Australia resulted from the Managing Director's father (David Lloyd) having previously played tennis in the country:

'My father had actually been looking at Australia when he was working with David Lloyd Leisure, within Whitbread, principally because he played a lot of tennis there when he was on the circuit'.

The importance of entrepreneurial drive and ambition can also be recognised with managers such as Giampaolo of Fitness Holdings (Europe) and Balfour of Fitness First who are widely recognised in the industry as being strong, entrepreneurial characters. Without their drive and ambition it could be argued that their companies would not be the second and third largest health club chains as they are now.

Furthermore, Lloyd of Next Generation and Fitzgibbon of LivingWell both have experience of living overseas and have some knowledge of foreign languages. For instance, Lloyd lived in Australia for a substantial amount of time whilst his father was playing tennis, and acknowledged that he had a lot of contacts in the country. Fitzgibbon has also lived in South Africa and speaks French fluently. Other operators who recognised that they had less experience and knowledge of overseas markets seemed more averse to internationalisation, for example Cullen of Club Motivation.

The analysis of the interviews suggests that the structure of the management team could also be a relevant determinant for internationalisation. Although the majority of the health club companies do have a relatively flat management structure,

some of the interviewees cited that aspect of their organisation as a reason for not developing overseas. For instance, Ayres of De Vere acknowledged that they have a very small management team, which is one of the reasons that they have not yet considered establishing their Village brand overseas. Lambs Health & Fitness, a non-overseas operator also has a small management team and their Managing Director suggested that even their club in Manchester is a 'logistical problem'. Lees of Boots also recognised that a substantial amount of management time is required to ensure that overseas operations are a success, and the impact of this required management time was emphasised by Fitzgibbon of LivingWell who stated:

‘So, we, our first opportunity was in Australia, and that’s what I went out to do, fifteen trips to Australia within twelve months, it was pretty intensive and I spent a lot of time in Australia. And we decided, we reviewed about 100 clubs in Australia, in all the major cities, in Perth, Adelaide, Melbourne, Sydney, up to Brisbane’.

It might therefore be suggested that health club companies that do not have the type of managerial support that LivingWell has through Hilton International, might not have the management capabilities to establish overseas.

Financial capabilities:

As well as requiring the management capabilities to operate overseas, the health club companies also require the funding to expand overseas. One of the main determinants that relates to finance is arguably whether the company has been floated on the stock exchange or the Alternative Investment Market (AIM). If the company is a publicly limited company (PLC) one might assume that they have received significant capital injections and therefore have the financial strength to consider overseas investment opportunities. As stated earlier in this chapter all of the health club companies that have floated on the stock exchange have also established overseas operations, whereas fewer private companies have undertaken internationalisation. For instance, Bromage of Lambs Health & Fitness, a private company, cites financial capabilities as a reason for not considering overseas investment.

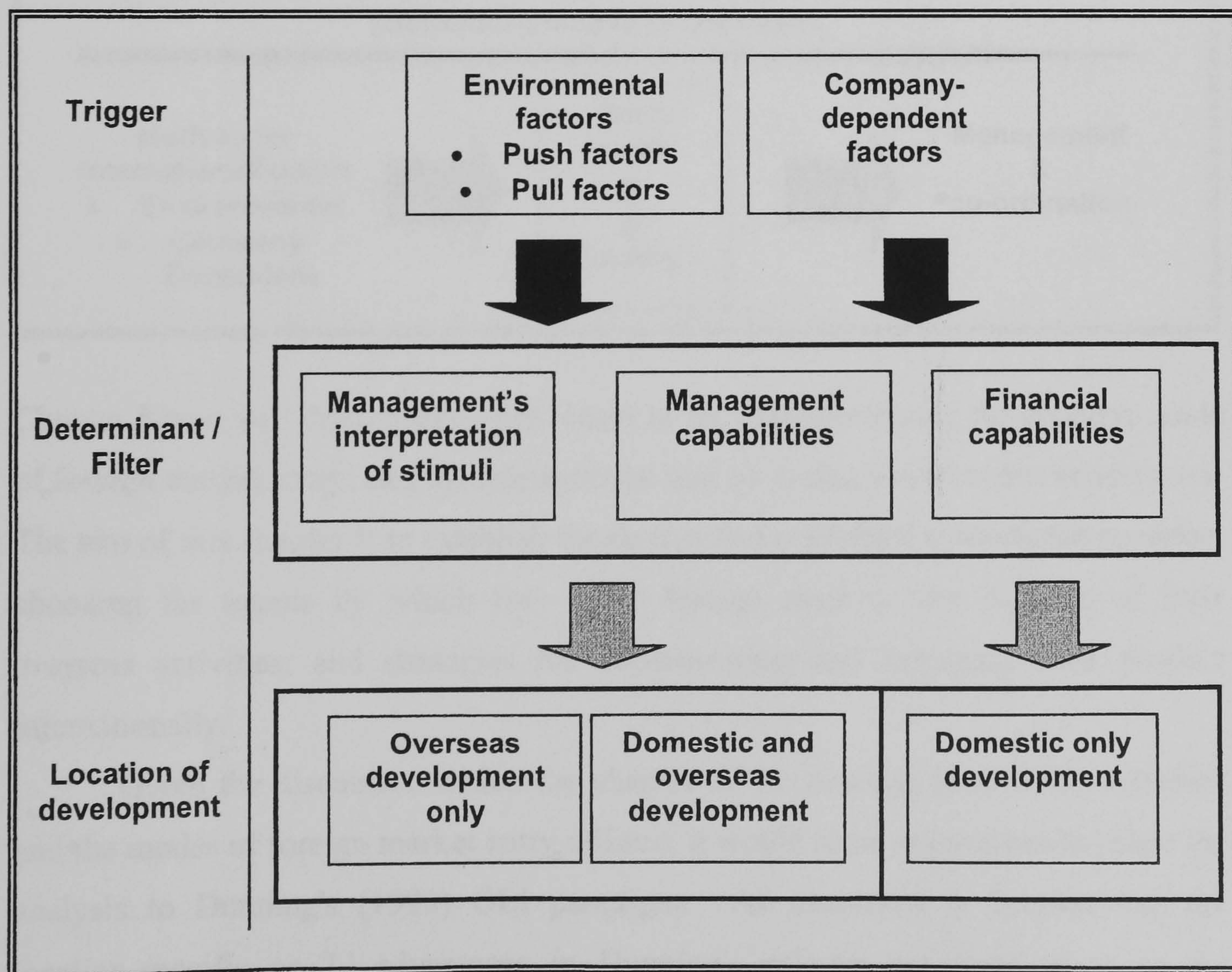
Another determinant with regard to finances might also be the amount of capital that the company has invested to date. For example, De Vere has recently invested £100million in the British market, and their Operations Director believes that it is too early to 'start going chasing off to Europe', although he did state that they would be interested in European markets in the future.

6.3 CONCLUSION

It has been established that certain environmental and company-dependent factors within the health club industry encourage the companies to pursue their goal of long-term profitability in overseas markets. The environmental factors can be divided into push and pull factors, but these factors do not necessarily affect the operator's strategies to the same degree. Their influence might depend on elements such as the type of sites and the format of the health clubs. Depending on the influence of these factors the company may be drawn to seeking alternative growth strategies in Britain, or to internationalise. Similarly, the company-dependent factors (which are naturally different for each company) will encourage the company to seek either growth in Britain or to internationalise.

Should the company be drawn to internationalisation there are a number of determinants that regulate which companies establish overseas and which companies do not. These determinants therefore act as a filter for those companies that are interested in internationalisation. Figure 6.8 illustrates this process:

Figure 6.8: The motives and determinants for internationalisation in the British health club industry

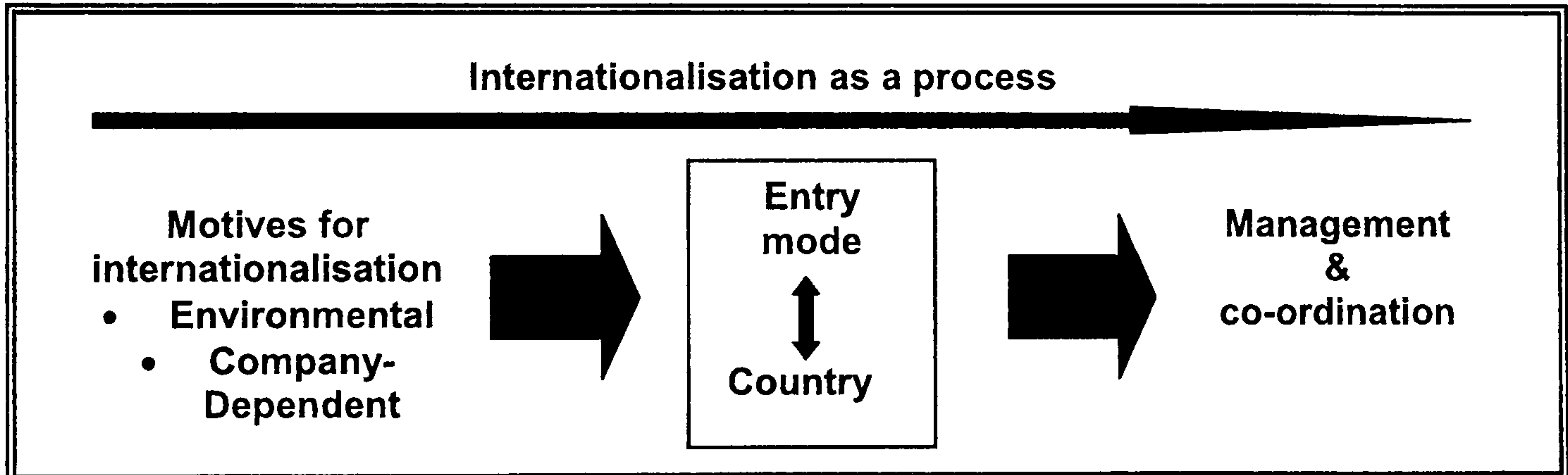


7

The Process of Internationalisation

The diagram provided in Section 4.5 indicates that once a company has been exposed to the motives for internationalisation, and has fulfilled the necessary criteria to undertake overseas investment, it will then need to determine the country to invest in and the means of entering that market. The diagram also indicates that during the company's final stage of internationalisation it will determine the means by which the overseas operations are co-ordinated and managed. The diagram from Chapter Four that details this process of internationalisation is also presented below:

Figure 7.1: An holistic approach to internationalisation



Chapter Seven will discuss the latter stages in the diagram above: the country; mode of foreign market entry; and the management and co-ordination of overseas activities. The aim of this chapter is to establish the factors that contribute towards the operators choosing the means by which they enter foreign markets; the location of their overseas activities; and strategies for implementing and managing their product internationally.

Given the discussion within the chapter of the location of overseas activities and the modes of foreign market entry utilised, it would seem appropriate to relate the analysis to Dunning's (1993) OLI paradigm. As discussed in Section 4.2, the location-specific or 'L' advantages in Dunning's eclectic paradigm relate to the

location of overseas investment, and the internalisation or 'I' advantages identify whether the company should internalise its overseas operations or exploit the external market. Dunning (1993) also identifies ownership-specific or 'O' advantages within his paradigm, which are the intangible assets of a firm that enable it to compete against indigenous competitors in a foreign location. Therefore, given the inclusion of ownership-specific advantages in Dunning's OLI paradigm, these will also be discussed in the following chapter in the context of the health club industry. Section 6.2 identified a number of determinants that dictate which British health club companies are capable of developing overseas. The discussion on the O advantages will therefore focus on the British operators who were able to expand overseas, and seeks to determine what attributes these British health club operators possess that enable them to compete with the indigenous operators.

According to Dunning's (1993) OLI paradigm a company progresses through a number of conditions before its level and structure of foreign value-adding activities can be determined. In summary these conditions are (Dunning, 1993, p.79):

- (1) The extent to which the firm possesses ownership-specific (O) advantages vis-à-vis firms of other nationalities in the market it is contemplating serving. These O advantages tend to be generated by the firm's intangible assets.
- (2) Assuming (1) is satisfied, the extent to which the firm believes it to be in its best interests to add value to its O advantages, rather than sell them, or the right to use them, to a foreign firm. These advantages are termed market internalisation (I) advantages.
- (3) Assuming conditions (1) and (2) are satisfied, the extent to which the global interests of the firm are served by creating or using its O advantages in a foreign location. Given that the distribution of these resources and capabilities is assumed to be uneven, some countries will possess L advantages that other countries do not.
- (4) Given the configuration of the OLI advantages facing a firm, the extent to which the firm believes that foreign production is consistent with its long-term management strategy.

Conditions (1), (2) and (3) will be analysed in this chapter as per the ordering above in relation to the British health club companies. However, it might be argued that condition (4) requires no further analysis as Chapter Six found that companies that do internationalise fulfil certain criteria, these being: management capabilities; financial

capabilities; and an internationally positive management's interpretation of external and internal stimuli. If the management team decide that they do have the required managerial and financial capabilities, and perceive that overseas expansion would be beneficial to long-term profits, then it could also be argued that foreign operations are consistent with the company's long-term management strategy, as per condition (4) above. Condition (4) will not therefore be discussed in any depth within this chapter.

Chapter Seven will therefore follow a similar structure to that set out above, commencing with an identification of the potential 'O' advantages that British health club companies might possess which enable them to compete against indigenous operators. The 'I' advantages will then be addressed, paying particular attention to the modes of foreign market entry used by British health club companies when they initially enter foreign markets, and the modes of entry subsequently utilised, hence certifying if an establishment chain exists (Johanson and Vahlne, 1977). The ensuing section will address the 'L' advantages, identifying which countries British health club companies are active in, determining which countries they entered first, and where their subsequent activities are. Finally the chapter will focus on the management and co-ordination of overseas activities, analysing the health club formats implemented overseas, and the manner in which the foreign operations are managed. The information gained from the interviews with international operators will be used as a base for discussion, with supporting information drawn from the remainder of the interviewees. As well as relating the discussion to Dunning's OLI paradigm, the chapter will refer to other literature discussed in Chapter Four (for example, Buckley and Casson, 1976; Carlson, 1975; Dunning, 1989; El Kahal, 1994; Ellis & Williams, 1995; Forsgren & Johanson, 1975; Ghauri, 2000; Hymer, 1960; Johanson and Vahlne, 1977; Johanson & Wiedersheim-Paul, 1975 & 1977; Porter, 1980 & 1985; Root, 1987a & b; and Young *et al*, 1989).

7.1 OWNERSHIP-SPECIFIC ADVANTAGES OF BRITISH HEALTH CLUB COMPANIES

Dunning's (1993) identification of ownership-specific advantages (as discussed in the section above) largely stems from the pioneering work of Hymer and Kindleberger during the 1960s (see Section 4.2) who suggested that internationally expanding firms must possess some sort of competitive advantage in order to compete successfully in overseas markets. They argued that indigenous competitors possess local knowledge, and that as a result the international company must possess a competitive advantage

that is exclusive to the company in order for it to compete (Hymer, 1960). The subsequent work by Dunning, Caves and Aliber focussed on what became termed ownership-specific assets, which Dunning (1993) incorporated in his OLI paradigm as a stage through which companies must progress when determining the level and value of their overseas activities. Although Hymer, Kindleberger, Caves, Aliber and Dunning define these 'O' advantages in the context of foreign production, other academics also recognise the importance of company specific assets in domestic competition, referring to them as competitive advantages (for example, Porter, 1980 & 1985). Dunning (1989, p.10) states that 'the concept of corporate competitive advantage refers to the ability of enterprises to satisfy the needs of their current or potential customers'. Similarly, Porter (1985) states that 'competitive advantage grows fundamentally out of the value a firm is able to create for its buyers'. Therefore, when a British health club company is operating overseas its consumers will tend to be the local indigenous population, and the British health club company must be able to satisfy their needs more effectively than an indigenous competitor might be able to. The factors that enable it to do so are the company's ownership-specific assets.

The following section will therefore seek to identify the potential 'O' advantages of British health club companies, which could contribute towards them competing successfully overseas. The section will also compare these ownership-specific advantages to the competitive advantages that indigenous operators might arguably possess.

In order to 'satisfy the needs of the potential customer' (and therefore encourage potential consumers to purchase an organisation's product) Dunning (1989, p.10) states that the literature identifies three main criteria, which in summary are:

- (1) the characteristics and range of goods or services supplied, loosely referred to as 'quality'; these embrace the components of a service which make it desirable for the customer to possess
- (2) price
- (3) services associated with the purchase and use of the product

Dunning (1989) subsequently suggests that in order for a company to satisfy the consumer through the above criteria, it must have access to 'some core technological, managerial, financial or marketing assets'. He argues that these assets will allow the company to produce services at the lowest production costs; and/or enable it to co-

ordinate its assets so that the right volume, type and range of products are produced (in the right location) (Dunning, 1989). When analysing health club companies it was found that managerial, financial and marketing ownership-specific advantages could be identified, and these assets will therefore be discussed below.

7.1.1 Management and personnel assets

One of the ownership-specific advantages that Dunning, Caves and Aliber identify concerns the company's management team. The importance of the management team was recognised in Section 6.2, and described as a 'determinant for internationalisation', i.e. the company must have access to the required managerial capabilities in order to expand overseas. It might therefore be argued that managerial capability is a 'primary' ownership-specific advantage; if the company does not have access to it they cannot operate overseas. From the interviews British health club companies that were identified as having the necessary managerial capability included Third Space; LivingWell; Fitness Holdings (Europe); Fitness First; and Next Generation. This managerial capability was argued to arise from their special knowledge of a foreign market or customer; entrepreneurial drive and ambition; language skills and experience of living abroad (Ghauri, 2000); and the structure of the management team.

The importance of the management team as an ownership-specific advantage can be analysed by assessing the means by which the team could improve the British company's competitive performance against indigenous operators. The interviews found that a key strength of British management teams is their experience. The management team that leads the international expansion is often the same as that which developed the company in Britain, so the team tends to be experienced in developing and managing a health club chain. There are relatively few large health club chains outside Britain and the USA so it is unlikely that indigenous managers have the same level of experience. Silver of The Academy suggested that the importance of managerial experience is recognised by Holmes Place, who approached his company to operate a health spa management contract for them in their health club in Vienna, Austria. The Academy are well-renowned in the industry for their experience of operating high quality health spas (Health Club Management, 2001b; L&HB, 2001c; Leisure Management, 2001a; Leisure Opportunities, 2001g; LH&B, 2002; Yorkshire Post, 1999). Fitzgibbon of LivingWell also argued that Australian

health club companies have a high rate of failure in their domestic market due to their lack of experience, and that LivingWell has achieved growth in Australia as a result of its managerial experience:

'That gave us immediate growth into the market place. Again, as people who had experience of the market. The Australian health and fitness market has been one that has had all sorts of problems. Lots and lots and lots of people have gone bust you know, in the last six to seven years.....And the reason they go bust is Joe Bloggs decides he wants to go surfing all day, and he's got a bit of money, so he rents this space, fills it up with leased equipment, charges people \$300 for a year, and doesn't realise he's got to service or go bust and there's just a real history of health clubs going bust in Australia'.

The second advantage that British management teams arguably possess is their knowledge, which incorporates the profile of their consumers; consumer needs and demands; pricing structure; marketing strategies; supply management; branding; health club management etc. Due to the underdevelopment of overseas health club industries it is unlikely that there are many foreign managers who have similar knowledge levels to British health club company managers. For example, Buckley of Clubhaus specified that his Managing Director in Germany has a wealth of knowledge of the health club and golf businesses, resulting from a career spent in the industry. This knowledge was believed by Buckley to have assisted in 'propelling the business forward', and he later stated the Clubhaus needs 'absolute knowledge' if they are to make a success of their large health clubs. Majakas of Technogym supported Buckley's sentiment by claiming that British health club companies are developing a critical mass, and that they now need to understand and analyse their customers, suggesting that knowledge is of increasing importance.

A further advantage that British health club managers possess is arguably a high level of confidence. By benefiting from extensive knowledge and having previously developed a successful domestic health club chain, it is likely that British managers are confident that they can achieve similar results overseas. For example, Fitzgibbon of LivingWell claimed that 'if we can do it here, we can do it over there' and similarly Balfour of Fitness First declared that once they had built up a chain in Britain they expanded overseas as they 'decided to prove that the concept would work'. Hawkins of Champneys also attributed much of their success in foreign markets to their experience in operating domestic health clubs. The indigenous

managers may be less confident in their abilities as they are not likely to have the same level of experience and knowledge as the British health club company managers have.

As well as British management teams possessing a high standard of health club experience and knowledge, British companies' personnel are also portrayed as being highly trained and knowledgeable of their product (Cooney, 2002 and Sheridan, 1998). The personnel in a health club are an essential part of the product offering, and highly trained personnel can only improve the quality of service. Foreign health club operators tend to have less well-trained personnel as the health club industries overseas do not include large corporations. For example, Giampaolo of Fitness Holdings (Europe) explained that when they make acquisitions of health clubs overseas, the quality of the personnel is often very poor. Andrew Dick of Stairmaster recognises the importance of health club staff as Stairmaster provide training programmes for health club personnel. Fitzgibbon of LivingWell also stated that they have developed a training scheme for their staff, which they have extended to their clubs overseas, suggesting that high quality staff is of importance to them:

'[Discussing a document which contains a strategy for the opening of a new health club]. All these are templates that are available on disc, so it's very easy for the local marketing company to do the translation. And we've got that for every sector of the business, every element from training your staff. And those kind of things really we developed in the UK when we grew, and we've really just internationalised and made them available in an international format so that its very easy to launch a club'.

7.1.2 Financial assets

Financial capability was identified in Section 6.2, as a determinant for internationalisation, and might therefore also be termed a 'primary ownership-specific advantage', as is managerial capability in the above discussion. Chapter Six found that a health club company must have access to a certain amount of capital in order to establish overseas, and suggested that the importance of access to capital is demonstrated by the fact that all of the British publicly listed health club companies have expanded overseas. It was also claimed that publicly listed companies have better access to capital investment.

In terms of ownership-specific advantages over and above the indigenous competitors, it could be argued that British operators have a distinct advantage, as

European operators tend not to have access to such large capital funds. Whereas publicly listed operators in Britain compete domestically against similarly funded operators, European companies do not tend to have the same level of financial support. This would in turn suggest that they would not be capable of financing costly sites; would not be able to expand as quickly; and would not be able to implement expensive marketing strategies, demonstrating that British operators might have a significant financial ownership-specific advantage. The lack of investment in overseas markets also encompasses the USA (the most developed market outside Britain) and when asked if the level of investment in health club companies in the USA is similar to that in Britain, Fitzgibbon of LivingWell replied:

'Not that we've seen, our initial reactions are no, the level of investment in the UK tends to be far greater, certainly the American operators have traditionally leased all of their equipment, and bought them through finance arrangements because it is easier to do that. I think that a lot of the UK operators finance it themselves, or through one of the backers that they have'.

A further financial ownership-specific advantage of British health club companies results from the size of their health club chains as it is likely that they have favourable trading terms with health club equipment suppliers. The suppliers are likely to be supportive of the overseas expansion of British health club chains as any additional health clubs will create a higher level of demand for their equipment. In contrast, the smaller size of the foreign health club chains suggests that it is unlikely that they can negotiate such favourable terms. This disparity is exemplified by Andrew Dick of Stairmaster who maintains that the national accounts in Britain (i.e. the client accounts with national chains) comprise 55% of their business, whereas in Germany the national accounts form less than 10% of their business.

A third financial ownership-specific advantage of British health club companies might also result from their economies of scale. The British health club operators that have commenced international expansion generally tend to have a chain of health clubs in Britain³⁴, which as a result could enable them to benefit from economies of sale. These economies of scale might be generated from leasing and / or buying equipment; raising investment capital; central office functions (including

³⁴ Exceptions to this are Fitness Holdings (Europe) who have no health clubs in Britain, although their Head Office is in London, and Aspria, who are currently under a no-compete clause in Britain.

finance and personnel); and negotiating for property. In contrast, the smaller and less developed European health clubs chains are unlikely to benefit as extensively from economies of scale, thus giving the British operators an ownership-specific advantage. Furthermore, British operators could benefit from economies of co-ordination in such instances as extending their current managerial team to incorporate their overseas investments. Andrew Dick of Stairmaster discussed at length the importance of potential economies of scale stating:

'...that's why companies grow. That's why companies want more and more and more, because they know they get x amount out of each club, the more clubs they have then a lot of costs are centralised at head office. So you haven't got all the infrastructure in each club, you've got a manager but then the rest of it is all done, the marketing, the buying the materials, the set up of the club in the first place. You know, like Fitness First, you know, everyone, the margins will be squeezed and anyone that supplies them will be squeezed, so their opening of a club is substantially cheaper. So the amount of members that Fitness First need to get payback is going to be significantly lower than the club next door. So the critical mass and the economies of scale and everything else in that example means that Fitness First will make more money out their sites'.

7.1.3 Marketing assets

The managerial and financial assets discussed above are argued to be 'primary ownership-specific advantages', which the health club company must possess in order to develop overseas. This section demonstrates that British health club operators also have 'secondary ownership specific advantages', which are not necessary for them to develop overseas, but will assist them in competing against indigenous operators. These secondary ownership-specific advantages are argued to be marketing assets.

A number of the interviewees addressed the importance of brands in the health club market, stating that British operators have an established brand image that they could develop overseas. Although the original brand may be British, many of the operators have used the same brand overseas, including Fitness First, 24-Hour Fitness (Fitness Holdings (Europe)), Champneys and Esporta, whose Commercial Director averred that the Esporta brand is now well known in Spain. In contrast, since indigenous operators tend to be small chains or one-site operations, they do not generally have a developed brand image that could be used as a means of promoting their health clubs. However, not all of the British operators believe that British brands

are suitable for foreign markets, such as Cullen of Club Motivation who maintained that one of the reasons his company had not developed overseas was because they did not believe their brand would 'travel well'.

A further marketing ownership-specific advantage exists for British operators if they specifically target expatriates or British hotel guests in their overseas health clubs. The interviewees from Aspria, Champneys and LivingWell all stated that expatriates and hotel guests are important consumer groups for them, and they believe that these groups of consumers are attracted to British operators' health clubs, rather than indigenous health clubs. The expatriates or hotel guests might already be aware of the British operator's brand and product format having experienced them in Britain, or feel more comfortable frequenting a British owned health club rather than a locally owned health club. Morris of Aspria cited the examples of Germany, where 'many' of their health club members are expatriates, and Brussels, where 50% of their members are expatriates.

Section 7.1.1. focussed on 'managerial capabilities' and discussed the importance of knowledge as an ownership-specific advantage for British operators. This knowledge was suggested to concern managing health clubs and understanding consumers. Majakas of Technogym argued that consumer knowledge is of importance to a health club company, as British health club operators could exploit this consumer knowledge when developing and implementing marketing strategies, hence giving them a potential marketing ownership-specific advantage. Buckley of Aspria agreed with the importance of knowledge, stating that 'knowledge is paramount' and Andrew Dick of Stairmaster acknowledged the importance of a targeted marketing campaign stating:

'For instance, we now do a series of business workshops around the country, where we help identify new markets and get people into their clubs. We give them marketing and sales techniques to get new members in. We also do specialised populations like pre and post natal ladies, like the 50 plus, and all that sort of stuff, so we provide them with the messages to get those audiences into their facilities, because we know that 57% of the adult population still don't use health and fitness clubs'.

However, it should be accepted that the consumer knowledge acquired by British operators may be specific to British consumers, and not necessarily be applicable to foreign health club consumers; indigenous operators could arguably have a better

understanding of consumers within their country. For example, their consumer understanding might be culturally orientated, such as the population's general attitude towards health and fitness, leisure, diet etc.

A further possible marketing ownership-specific advantage arises from the British operators having a ready-established product format. If the British operators have developed a health club chain in Britain it is likely that they adhere to a standard health club format when opening new health clubs. Fitness First for example have a very distinctive health club format, which Balfour acknowledged when he said:

'[When discussing entering the British health club market] So to do that we decided to create dry clubs. So they would be clubs without swimming pools, without food and beverage and restaurants and things, without tennis courts and squash courts and things like that.....So by dealing with a model, that sort of model it enabled us to expand....'

Balfour also explained that by standardising the product format they are able to reduce costs to a minimum; have fixed time-scales for the development of clubs; understand their consumers; and open in locations that other operators would not be able to, and these advantages might be extended to foreign markets. However, although a standard format was suggested to have cost and management advantages, not all of the interviewees believed that it is possible to transport the same format to foreign countries. For instance, Giampaolo of Fitness Holdings (Europe) operates dry and wet clubs³⁵ in different countries, suggesting that they do not believe that a standard format is effective in every location, and when discussing Esporta's health clubs in Spain Lynwood stated:

'So you need to then adjust what you offer to make it more appropriate to the people that are going to use it'.

This statement also suggests that British operators need to adapt their health club format to the requirements of individual locations. The importance of product format will also be discussed in Section 7.4.1.

Many of the interviewees noted that the British health club industry is renowned for having the highest quality health clubs in the world, and this quality

³⁵ 'Dry clubs' are health clubs that do not provide a swimming pool, whereas 'wet clubs' do offer a swimming pool.

could provide British operators with another 'O' advantage during their overseas expansion. The interviewees suggested that whereas America originally led the development of the health club industry, Britain has since taken over the mantle and the high quality of British health clubs is now recognised world-wide. The interviewees claimed that the quality of British health clubs arises from the personnel; the services associated with health clubs; and the health clubs themselves. For example, Lloyd of Next Generation stated:

'I think that this industry in the UK has a better quality of product than America has. I don't think, I mean we don't have as many clubs or as much exposure to it. But the product has evolved at greater rates I think than it has over there'.

The interviewees generally regarded European health clubs as being of sub-standard quality, being smaller; possessing less professional management and personnel teams; and only offering very basic equipment and services. When discussing the health clubs in Italy and Spain Andrew Dick of Stairmaster stated

'They are smaller, what you find is small privately owned clubs, more like body building type clubs, that are trying to evolve into more of a general health and fitness club'.

The advanced stage of development of the British market in comparison to foreign markets provides a potential means for British operators to develop an ownership-specific advantage. One of the main developments in the British health club industry has been the emergence of niche operators, who target very specific groups of consumers, such as Children First Clubs and SpaClub who target children and the mature, over-40s market respectively (L&HB, 2002i; L&HB, 2002k). Other British operators differentiate their health clubs more subtly, for example according to Treharne of Crown Sports, Dragons health clubs focus on running, and David Lloyd Leisure was the first health club chain to introduce nurseries into their clubs and establish a venture with a medical insurer (Daneshku, 1995a; Daily Express, 1995; Buckingham, 1999a; Murray, 1997; and Express on Sunday, 1999b). Due to the underdevelopment of overseas health club markets differentiation has not yet become a widespread marketing technique (Health Club Management, 2000; L&HB, 2002b), and it is this focus on certain consumer groups that might assist British operators in attracting indigenous consumers. Wallace of the FIA recognised the importance of

differentiation as a marketing technique when he discussed the market in the USA, stating:

'What happened is that they basically all competed on price, they just all discounted the product and of course, if you keep discounting your product, you're only able to afford the lowest cost concept. You're unable to differentiate yourself because the only reason that someone decides between that gym and that gym is that they're only looking at price. If you're just selling to people purely on price, you're undervaluing your own product'.

Lloyd of Next Generation discussed how Fitness First has succeeded in differentiating their health clubs overseas:

'Fitness First have gone and secured ownership of companies that are already existing and will then develop that product to be more similar to their own, which is as good a way as any to be honest. But again, they're probably the only company that can do that because their product is so simple, it's the easiest, it's the smallest, it's the easiest to be bred, it's the least expensive, no swimming pools, so it's at least differentiated. Very easy to do for them'.

7.1.4 Summary

The above discussion recognises that British operators have a number of potential ownership-specific advantages, which might assist them in operating overseas, but the discussion also concedes that not all of the 'O' advantages will be automatically applicable or transferable to foreign markets. In order to clarify the discussion on ownership-specific advantages, Table 7.1 summarises the potential advantages for British health club companies and also suggests how they might be weakened as a result of the indigenous operators' strengths.

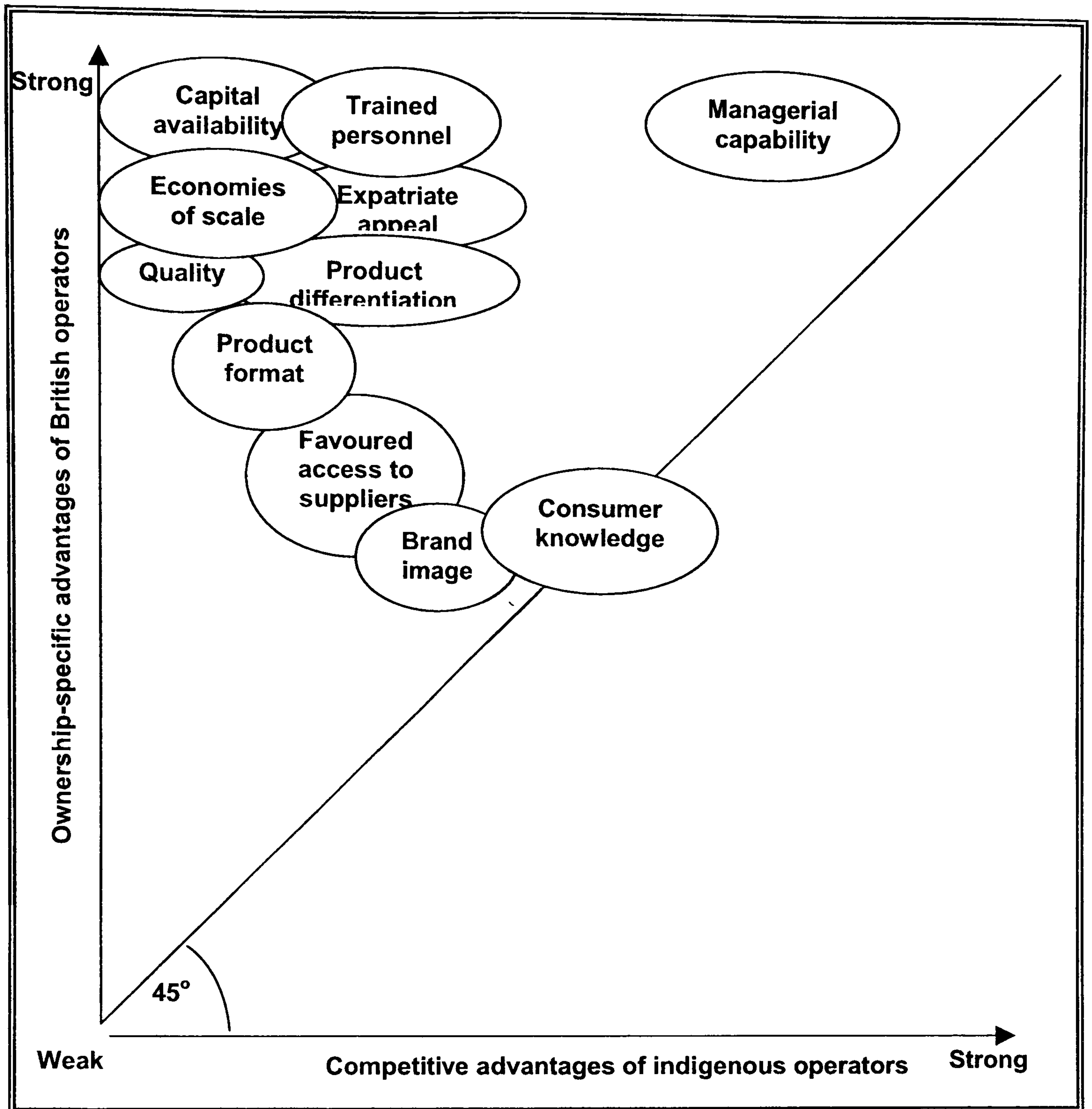
In many of the 'concessions' listed in 7.1, the ownership-specific advantages are diminished as a result of the competitive advantages that the indigenous operators might possess, such as location-specific knowledge and experience, and locally targeted brands. To further analyse the erosion of the British operators' 'O' advantages as a result of the indigenous operators' competitive advantages, Figure 7.2 plots the two types of advantages on the axes of a graph, seeking to establish the relative importance of British operators' 'O' advantages. This graph has not been constructed in a manner that enables the relative strengths of the advantages to be 'measured' and is instead a visual aid to identify the importance of British operators' 'O' advantages.

Table 7.1: Ownership-specific advantages of British health club companies

Ownership-specific advantages		Concession
Primary 'O' advantages		
Managerial capabilities	Experience	Indigenous competitors' location specific experience
	Knowledge	Indigenous competitors' location specific knowledge
	Confidence	
	Trained personnel	
Financial capabilities	Capital availability	
	Favoured access to suppliers	Suppliers willingness to supply equipment in any location
	Economies of scale	
Secondary 'O' advantages		
Marketing capabilities	Brand image	Translation of brand to foreign location
	Expatriate appeal	
	Consumer knowledge	Indigenous consumer knowledge
	Standardised product format	Transferability of product format
	Level of quality	
	Differentiation	

Figure 7.2 illustrates that not all of the British operators' ownership-specific advantages can be considered of equal importance, as their advantage is offset by the advantages that the indigenous operators possess. For example, brand image is not a strong advantage for British operators as it might not be directly transferable to the foreign market, and knowledge of the consumer is not an overwhelming advantage for British operators as indigenous operators are likely to possess considerable knowledge regarding their national consumers. Furthermore, with regard to 'managerial capability', British managers do tend to have substantial knowledge of managing health club chains, but the indigenous health club managers possess in-depth knowledge of their country; culture; property laws; legal issues; employment laws etc. Both types of operators are therefore indicated in Figure 7.2 to benefit from a strong advantage resulting from managerial capability.

Figure 7.2: Ownership-specific advantages of British health club operators



* The size of the circles is not representative

** The managerial capabilities of experience, knowledge and confidence have been grouped under 'managerial capability'

*** The 'O' advantages of capital availability; trained personnel; economies of scale; expatriate appeal; quality; and product differentiation are all considered to be strong advantages of British operators and weak advantages of indigenous operators

Having identified the ownership-specific advantages that British operators could possess, a return to Dunning's (1989, p.10) summary of the means of satisfying consumers' needs (as discussed in Section 7.1) should determine if British operators' 'O' advantages will assist them in satisfying their consumers' needs. If their 'O' advantages do assist them in this way it might be argued that British operators would be in a strong competitive position when entering foreign markets. The methods that

Dunning (1989) identifies to fulfil consumers' needs are quality; price; and services associated with the product³⁶.

Table 7.2: The effect of ownership-specific advantages on Dunning's (1989) criteria for satisfying consumers' needs

Ownership-specific advantage	Quality	Price	Associated services
Managerial capability	✓		✓
Trained personnel	✓		✓
Financial capability	✓	✓	
Access to suppliers	✓	✓	
Economies of scale	✓	✓	
Brand image	✓		✓
Consumer knowledge	✓		✓
Standard product format	✓		
Quality	✓		✓
Expatriate appeal	✓		✓
Product differentiation	✓		✓

Table 7.2 suggests that the ownership-specific advantages that British operators possess are likely to have the greatest impact on the quality of the health club. By having a management team that is experienced in managing health clubs; trained personnel; access to investment capital; favoured access to suppliers; economies of scale (potentially resulting in better product delivery); an established brand image to uphold; excellent knowledge of health club consumers; a standard product format; a high quality product; a target consumer group of expatriates; and a differentiated product offering, the British operators may find that they are best able to fulfil the consumers' needs by focussing on the quality of their health clubs. This focus on quality could then be used as a key marketing tool when competing with indigenous operators. British health club operators may also be able to provide superior 'associated services' and benefit from their financial ownership-specific advantages by offering lower membership / joining fees.

³⁶ 'Services associated with the product' in the health club industry are suggested to be the secondary services in health clubs including bars; beauty salons; restaurants; nurseries; sunbeds etc.

Although the above discussion refers to the British health club operators as an entity, inferring that they all benefit from the same ownership-specific advantages, it should be stated that this is not purposefully suggested to be the case. A number of strategic groups are identifiable in the British health club industry (as discussed in Chapter Three), which results in the different groups possessing different ownership-specific advantages, and the ownership-specific advantages varying in strength between the groups. An example of this difference can be provided by analysing LivingWell and Champneys; LivingWell benefits from a highly experienced management team which has an excellent level of knowledge of foreign markets, whereas Champneys appear to have less of this type of knowledge, but benefit from a strong brand name that denotes a high quality product offering. Furthermore, Aspria and Champneys exploit their 'O' advantage by focussing on the expatriates in foreign markets, whereas Fitness First and Fitness Holdings (Europe) exploit the economies of scale they have generated by developing extensive health club chains.

7.2 MODES OF FOREIGN MARKET ENTRY FOR BRITISH HEALTH CLUB COMPANIES

The aim of the following section is to identify the modes of foreign market entry used by British health club operators when expanding overseas, and to determine why those modes of market entry were chosen. The analysis will draw upon the literature discussed in Chapter Four, particularly that of Dunning (1989 & 1993); Ellis & Williams (1995); Forsgren & Johanson (1975); Carlson (1975); Johanson & Wiedersheim-Paul (1975); and Young *et al* (1989). The discussion will firstly identify the initial modes of foreign market entry, i.e. the modes of market entry used by British operators during their first expansion overseas, and will attempt to ascertain the reasons for that choice of market entry mode. The section will then address the subsequent modes of foreign market entry used during the British operators' subsequent development of overseas operations and determine if and why different market entry modes have been used. By analysing the two stages as a process it should be possible to verify if an establishment chain (Johanson & Wiedersheim-Paul, 1975) has occurred during the individual companies' overseas development.

7.2.1 Initial mode of foreign market entry

Table 7.3 identifies the modes of foreign market entry that the internationally active British health club companies utilised during their initial entry into foreign markets.

As Section 4.3, stated there are a variety of entry modes available to companies investing overseas, and in the health club industry these were found to include management contracts; franchises; joint venture (minority control); joint venture (majority control); acquisitions and greenfield or brownfield³⁷ developments.

Table 7.3 indicates that new sites were the most popular form of initial foreign market entry for British health club operators, followed by acquisitions. None of the operators used franchises or majority joint ventures as an initial mode of foreign market entry. The following discussion analyses why the modes of entry indicated in Table 7.3 were used.

As stated, the most widely used form of foreign market entry was the development of new sites, and a number of reasons were presented by the interviewees for this choice of mode. One of the main reasons was found to be the lack of opportunities for acquisitions that British operators encountered in foreign markets, forcing them to develop new sites. As foreign markets remain highly fragmented there tends to be few health club chains that could be incorporated into a British company's portfolio. Health club chains that may have been suitable were bought rapidly, and many of the British companies entering foreign markets later found that there were only a few opportunities for acquisition. For example, Giampaolo of Fitness Holdings (Europe) admitted that although they prefer to acquire clubs they are now being forced to expand by building health clubs, as there are such limited opportunities for acquisition. Similarly, Fitzgibbon of LivingWell was forced to build health clubs in Denmark and stated that

'Denmark, which is our other strategic target for clubs, we looked and didn't find anything to acquire so we've decided to build standalones...'

Balfour of Fitness First also admitted his preference for acquisitions, but declared that in some instances he has been forced to develop his own health clubs:

'It's nice to buy something if you can. Buy a company. But if there's nothing to buy, like in France. There are two chains in France - Gymnast and Gymnasium, but neither of them were suitable for Fitness First'.

³⁷ Which from henceforth will be termed 'new sites'.

Table 7.3: Initial modes of foreign market entry for British health club companies

Operator	Mode of market entry						New sites
	Management contract	Franchise	Joint venture (minority control)	Joint venture (majority control)	Acquisition		
The Academy	✓						
Aspria						✓	✓
Cannons						✓	✓
Champneys						✓	✓
Clubhaus						✓	✓
David Lloyd Leisure					✓		
Esporta					✓		
Fitness First			✓				
Fitness Holdings (Europe)					✓		
Holmes Place	✓						
LA Fitness						✓	✓
JJB Sports						✓	✓
LivingWell					✓		
Next Generation					✓		
Virgin Active					✓		

A further reason cited by some health club managers for their preference of new sites as a mode of foreign market entry was that they sought to avoid acquisitions, as when undertaking acquisitions the acquiring company was argued to obtain 'baggage'. This baggage was suggested to arise from the incumbent staff; the image; the brand; the pricing structure etc. Fitzgibbon of LivingWell explained that:

'One of the challenges of growing, one of the challenges of acquiring properties is that you acquire what we call baggage. And baggage is consumers who are used to a particular type of product, paying a particular price, staff who operate in a particular way, so you have to be careful'.

Giampaolo of Fitness Holdings (Europe) also claimed that when they acquire health clubs they encounter 'people problems'. For example, the incumbent team does not like change; the quality of the personnel is substandard; there are custom issues; and the business culture is specific to the original organisation. Silver of The Academy also supported Fitzgibbon's observation by claiming that Holmes Place prefer not to acquire health clubs as they would also obtain the previous image of the health club, which would require capital investment to remodel it to fit into the Holmes Place profile.

A further reason for using new sites as a mode of foreign market entry was argued to be that they are economical when compared to acquisitions. Giampaolo of Fitness Holdings (Europe) observed that 'it is cheaper to build clubs than to buy them' and Lowther of SpringHealth supported Giampaolo's statement by stating that British operators can build twenty sites in France for a minimum cost and achieve a growth pattern that would not be possible in Britain.

The second most popular initial mode of foreign market entry was found to be acquisitions, and the interviewees identified a number of reasons to justify the use of them. Although a number of the operators stated that they had been forced to develop new sites due to a lack of suitable health club chains to acquire, a number of operators took advantage of the limited opportunities available. Fitzgibbon of LivingWell specified that where possible they would initially enter a market via an acquisition saying:

'We generally feel that entering into a market is best done through acquisition'.

Balfour of Fitness First has a similar preference for acquisitions, maintaining that when the opportunity presents itself they would 'rather buy than build'. Wallace of the FIA recognised British operators' preference and capability for foreign acquisitions and suggested that there are opportunities in Europe, but stated that the highly fragmented structure of the European health club industry distinctly limits the opportunities. Majakas of Technogym also acknowledged that acquisitions are popular and observed that the first British operators to enter foreign markets 'cherry-picked' the best health clubs.

A number of the interviewees maintained that one of the key advantages of acquisitions is 'speed'; acquisitions are widely regarded in the health club industry as a means of entering a market rapidly. Giampaolo of Fitness Holdings (Europe) argued that:

'Acquisitions are quicker than new build and that it is much slower to build new health clubs'.

Balfour of Fitness First agreed that building new health clubs takes longer and Wallace of the FIA observed that British health club operators find the lack of opportunity for acquisition frustrating, as new site development takes longer.

'Gaining an existing structure' was argued by the operators to be a further advantage of acquisitions. Although Fitzgibbon of LivingWell referred to the acquired established structure and consumers as 'baggage' (as discussed earlier), he also referred to the established structure in a positive context. He argued that if LivingWell acquired a chain of foreign health clubs that were a similar product offering to their own, they would in fact benefit from gaining the existing structure. When discussing their expansion strategies Fitzgibbon said:

'One [strategy] was potentially to look at a small acquisition, a small chain of clubs which would give us some stability and some structure, and what we chose to do was to find clubs that were very close to our product'.

He later added:

'But buy into an existing structure. And that's one of the reasons that acquisitions are potentially one of the most attractive ways of growing in this sector is that you buy a business, a structure, an environment, people who understand it'.

If health club operators welcome acquiring an established structure and product format it might also suggest that they are aiming to minimise their risk (Ellis & Williams, 1995). By acquiring health clubs that are operational the British operator can verify that the health clubs attract members and that they could conceivably add to their company's long-term profits.

An additional advantage of acquisitions linked to the issue of risk, is the perceived importance of obtaining local market knowledge. This was a concern that was raised in many of the interviews and a number of the interviewees suggested that acquisitions are a good means of gaining this local knowledge. In Asia, Balfour of Fitness First targeted a health club chain that already had a management team in place:

'Yeah - we're in Asia. We bought a company there in 2000. They had health clubs there but the advantage there was that they had bases in Hong Kong, Singapore, Thailand and China. So there are management in all those places already. And to us the advantage was that we could just bolt on Fitness First health clubs, onto their existing operations'.

The practice of retaining the local management team and hence local knowledge is one that Fitness First has utilised in many of its foreign operations and Balfour stated:

'Initially we bought companies that had management in them. Like in Germany we bought a company that had a management team. Like in Belgium we bought a company with management. It's just that, overseas places, you know, in Australia we bought, and we bought in some of the management and put in some of the management and in the Far East when we did an acquisition there was management there'.

The interviewees from Aspria, Next Generation, LA Fitness, Third Space, and De Vere all acknowledged the importance of local knowledge. Acquiring a foreign health club with an incumbent management team could arguably be one of the principal ways of achieving local knowledge.

Only Fitness First used a joint venture as its initial mode of foreign market entry, despite a number of the interviewees, (particularly the non-international operators and the analysts), suggesting that a joint venture is an attractive initial market entry mode. The advantages cited of joint ventures were similar to those proposed for acquisitions: availability of local market knowledge; security; and according to Ahmed at GVA Grimley, to 'avoid getting ripped off'. Another

suggested benefit of joint ventures was the access to foreign sites. For example, although Aspria originally developed a new site when establishing overseas, their Managing Director noted that they now co-operate in foreign markets with a local partner who provides the site, while Aspria provide the health club expertise. De Vere's Operations Director stated that they have a pre-determined strategy that if or when they develop a health club in Europe, they will seek to establish a joint venture. In contrast, Fitness First, the first British health club company to operate overseas, did not have a set strategy and undertook a joint venture purely as a result of opportunity. Balfour explained:

'Well my associate and I thought we need to go into Europe. And we heard that there was this fitness convention in The Netherlands. So we thought we'll go to that. See if we can find out what's going on. So we drove across there and it turned out that this fitness convention was held in a university and all the participants were really aerobics instructors - all very fit and young - running around the place. Our bedrooms were university, sort of dormitories. The bar wasn't open, and I thought to hell with this! I'm not staying here! I felt completely out of place and I did meet a guy there who was one of the lecturers, one of the ones who was speaking. And we got on very well and we started talking, and we started talking to someone else as well. And we said well where's the market for health clubs, and he told us about this company [The Fitness Company] down in Frankfurt. So - we said - right - got in the car and drove down there. Arrived in Frankfurt, knocked on the door of this health club operator and said hi - you know - and we want to speak to the owners. And the owners came along, and that's how we started our association'.

The final mode of initial foreign market entry identified in Table 7.3 is management contracts, and the low level of risk entailed in management contracts was found to be one of the main reasons for their use. For example, Silver of The Academy stated that there was virtually no risk in his company undertaking a management contract for Holmes Place in Austria. The management contract was the result of an external proposal from Holmes Place, as was Holmes Place's management contract for Jelmoli in Switzerland, suggesting that an important stimulus and reason for a management contract is opportunity, and in these instances they were generated by external proposals.

Table 7.4 summarises the discussion above by identifying the initial foreign market entry modes used by British health club companies and reviewing the reasons for using the modes:

Table 7.4: Rationale for the use of initial foreign market entry modes

Mode of Entry	Rationale
New sites	Lack of opportunities for acquisitions
	Lack of acquired 'baggage'
	Cost
Acquisitions	Opportunity (albeit limited)
	Speed
	Established structure (reduced risk)
	Local knowledge (reduced risk)
Joint venture	Local knowledge (reduced risk)
	Security (reduced risk)
	Access to sites
	Opportunity
Management contract	External proposal (opportunity)
	Minimum risk

The discussion thus far provides some rationale for the choice of initial foreign market entry modes for British health club companies. Ellis & Williams (1995) propose a number of similar factors that might influence an operator in its choice of foreign market entry mode, some of which are clearly applicable to the health club industry, including the level of risk; speed; and opportunities available. However, the other factors identified by Ellis & Williams (1995) such as the degree of control; resources available; extent of commitment; and expected return were not directly recognised by the health club interviewees. However, it could arguably be established whether these factors are relevant to British health club operators by observing their overseas market activity.

The 'degree of control' proposed by Ellis & Williams (1995) might arguably be maximised if the operator undertakes new sites, acquisitions, and in a slightly different manner, management contracts. Although within the terms of a management contract the health club management contractor would not have control of the strategic direction of the parent company, it would control the provision of the health club service. Since new sites, acquisitions and management contracts are the most popular modes of initial foreign market entry amongst British health club operators, it

might be argued that the degree of control may be relevant to them. Furthermore, given that the discussion on ownership-specific advantages recognises that quality is a key strength for British health club operators, it could be argued that the operators would seek to retain control of their product to ensure that the quality is not compromised.

The 'resources available' factor presented by Ellis & Williams (1995) could be argued to refer to the ownership-specific advantages generated by managerial and financial capabilities. Given that British operators are suggested to benefit from substantial managerial and financial resources it might also be argued that they would be willing to undertake modes of foreign market entry that require the greatest amount of resources, i.e. acquisitions and new sites. Since new sites and acquisitions are the two most popular forms of initial foreign market entry this might in turn imply that 'resources available' is a factor that influences British operators' choice of foreign market entry mode. However, it should also be noted that two British health club companies used management contracts as an initial foreign market entry mode, and management contracts require fewer resources than any other market entry mode (El Kahal, 1994).

As well as requiring different levels of risk and resources, Ellis & Williams (1995) also argue that the different modes of market entry require different levels of commitment to the overseas market. A management contract for instance requires limited commitment, as it is only for an agreed time-period and does not require the contractor to invest in the property. In contrast, a new site requires significantly greater financial, managerial and time commitment. The use of acquisitions and new sites (which require extensive commitment) as initial modes of foreign market entry by British health club operators suggests that they view their expansion into overseas markets as a long-term commitment.

A further factor identified by Ellis & Williams (1995) which might impact on the decision of mode of market entry utilised is the 'expected return'. The return expected from the various modes of entry could be argued to increase as the risk and commitment increase. A health club operator is likely to receive a much greater return from a health club that it has developed, rather than from a club that it manages for a different organisation. In analysing the initial foreign market entry modes used by British health club companies it could be argued that the companies are aiming for a high return on their clubs as many have opted for acquisitions or new sites. By

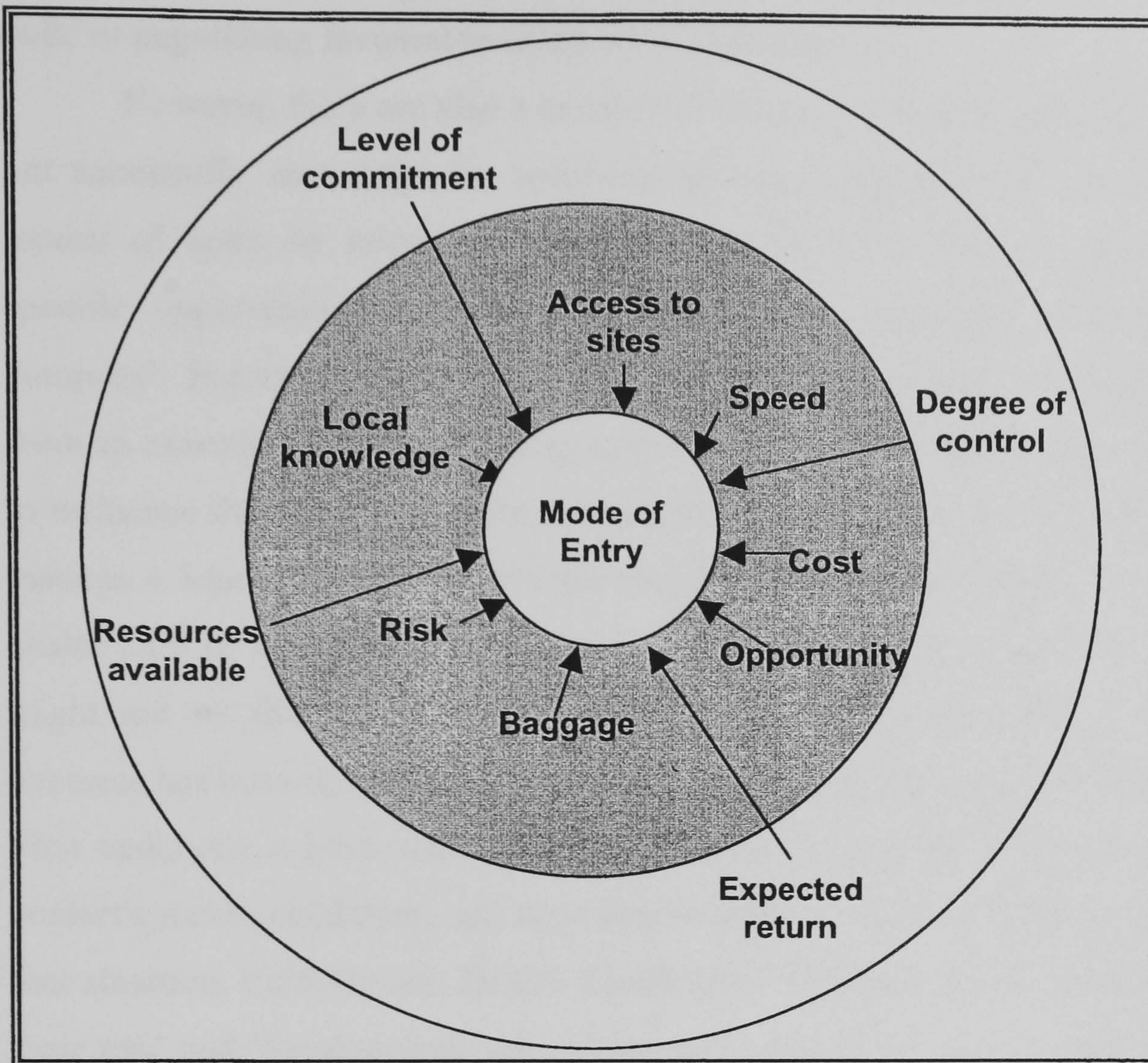
undertaking this type of FDI the health club companies will be able to maximise their potential returns, as the profits are not shared with an independent local party, such as an agent or distributor (Buckley and Casson, 1976; Dunning, 1993).

Figure 7.3 aims to summarise the factors that might have influenced the British health club operators' choice of initial mode of foreign market entry. The factors listed in the inner grey circle were identified by the interviewees, while the factors in the outer white circle are the factors proposed by Ellis & Williams (1995) that could arguably have impacted on the health club companies' decision. This potential impact is illustrated by the most popular modes of market entry being new sites and acquisitions, as the health club operators may have decided that:

- They were willing to undertake the maximum market commitment that new sites and acquisitions demand
- They required the maximum levels of control that new sites and acquisitions offer
- New sites and acquisitions would offer the maximum returns
- They possessed the managerial and financial resources that new sites and acquisitions require

Having established the direct factors that could be taken into account by managers when deciding their mode of foreign market entry, this section will now focus on the potential indirect influences on their decision. As well as proposing the factors suggested above, Ellis and Williams (1995) also argue that the choice of foreign market entry mode may be influenced by the initial reasons for internationalisation. Chapter Six found that the primary reason (or motive) for internationalisation is the maximisation of long-term profits, and that a number of factors lead operators to believe that internationalisation might be an opportunity to enhance their long-term profits. This discussion will therefore analyse these motives for internationalisation and establish how they might influence the choice of foreign market entry mode.

Figure 7.3: Factors influencing the choice of initial mode of foreign market entry



The analysis of the company-dependent motives for internationalisation (as completed in Chapter Six) suggests that a number of the motives encourage the operator to use acquisitions or new sites as the initial mode of foreign market entry. For instance, 'success in the domestic market' implies that by expanding the original health club chain overseas the company believes it can achieve the same success, and will thus use the same product format through new sites or acquisitions. A further company-dependent motive for internationalisation is 'access to specific market segments', which is a strategy that companies such as Champneys employ. If the company aims to target very specific consumer groups (such as city dwellers with a high personal disposable income) one would expect the same product format to be implemented overseas as in Britain, and they will therefore need to develop new sites. Another encouragement for the use of new sites or acquisitions is for companies such as Fitness Holdings (Europe) and Fitness First, who are aiming to benefit from 'economies of scale', and acquisitions and new sites are likely to offer them the best opportunities to take advantage of the economies. Costs such as the purchase of new

equipment and the development of new clubs may be reduced by them 'buying in bulk' or negotiating favourable terms with contractors etc.

However, there are also a number of factors proposed in Chapter Six which do not necessarily encourage the operators to use acquisitions or new sites as initial modes of entry to overseas markets, these being 'external proposals'; 'company specific opportunities overseas'; 'spreading risk'; and 'the development of the company'. For example, the mode of market entry that a company chooses may result from an external proposal, resulting in the British health club company not being able to influence the mode used. Two examples of this are The Academy being asked to manage a health club in Austria for Holmes Place, and Holmes Place managing a health club in Switzerland for Jelmoli. Similarly, the British health club company might not be able to choose the mode of foreign market entry if the expansion overseas has been the result of 'company specific opportunities'. For example, Fitness First undertook a joint venture with The Fitness Company in Germany following a contact's recommendation, and they were unable to utilise any other type of mode in that situation. Furthermore, British health club companies that are seeking to 'spread their risk' and 'develop their operations and make better use of their personnel' are unlikely to be attracted to one particular mode of foreign market entry, as it might be argued that by expanding overseas through any means they are spreading their risk and developing their company.

In analysing the environmental motives for internationalisation it becomes slightly more difficult to determine whether they encourage British health club companies to choose particular modes of foreign market entry. For example, by stating that 'the European markets are undeveloped' it might be suggested that there are not many opportunities for acquisitions or joint ventures, as there are relatively few health club chains. This situation could potentially result in British operators aiming to develop new sites. This statement is supported by the fact that there are 'limited opportunities for acquisition or joint venture', so it could be argued that where possible British operators acquire health clubs, but when those opportunities are limited they may be forced to use different foreign market entry modes. Finally, 'pressure from The City' as a motive for internationalisation suggests that The City will require the British operators to develop health clubs overseas that will provide the greatest return on investment, (i.e. undertake acquisitions or new sites) and / or reduce their level of risk. However, the remaining environmental motives for

internationalisation do not necessarily tend to encourage the British operators to use specific modes of foreign market entry.

The above discussion establishes that the choice of initial foreign market entry mode might be influenced directly, by the factors proposed by the interviewees and Ellis & Williams (1995), and indirectly by the motives for internationalisation. These influences are therefore summarised in Figure 7.4 below, which illustrates how the factors might interact and dictate the initial mode of foreign market entry utilised:

Figure 7.4: Influences on a health club company's choice of initial foreign market entry mode

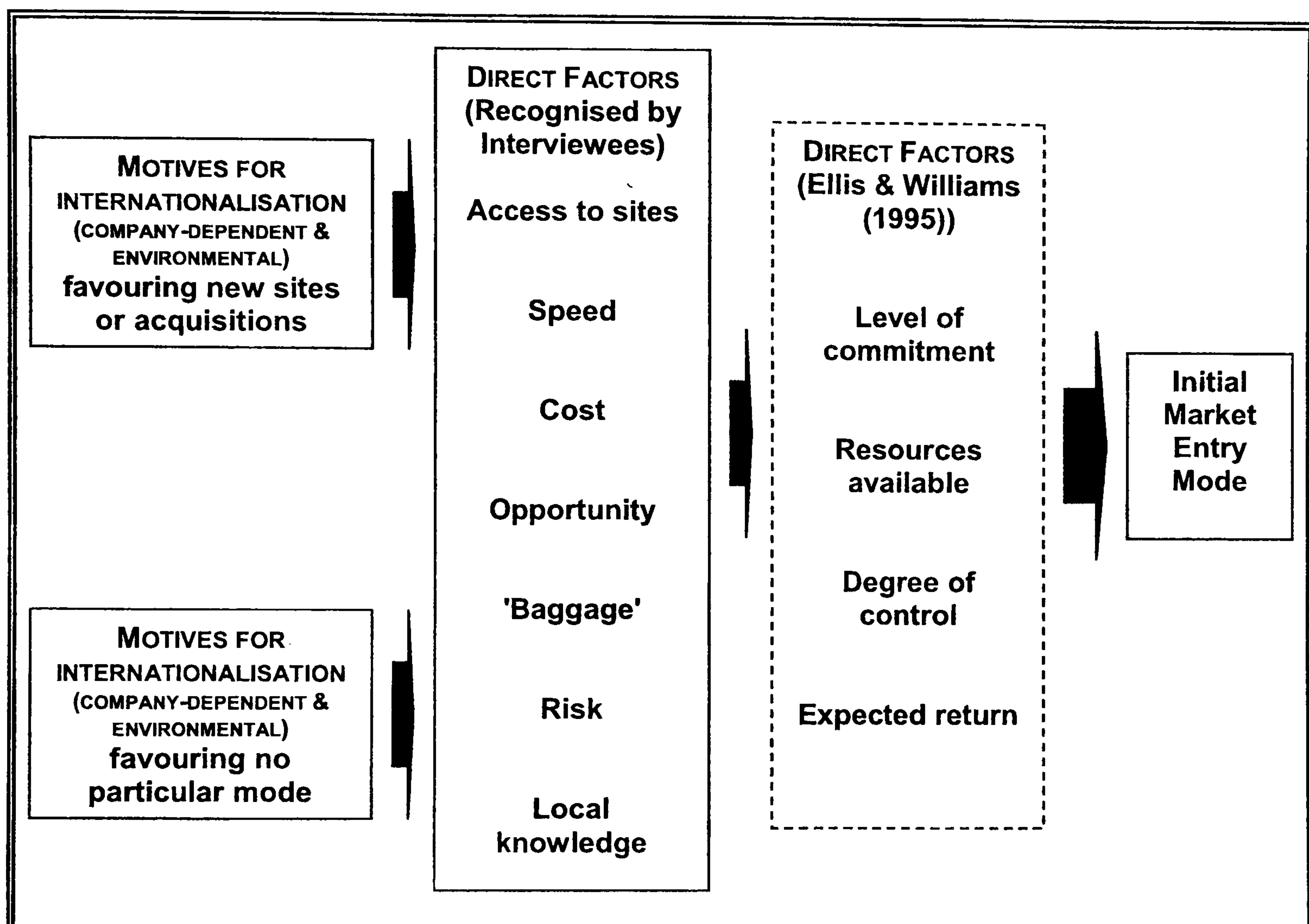


Figure 7.4 illustrates the process through which a health club company might progress when deciding its initial mode of foreign market entry. The decision is possibly firstly influenced by the motives for internationalisation, which lead the company to consider operating overseas in the first instance. As a result of these motives the company might be drawn to a specific foreign market entry mode, such as new sites or acquisitions. The operators are subsequently influenced by the factors that were identified during the interviews, such as whether or not they felt local knowledge was of importance or whether they were looking for the lowest cost approach. Having

considered these factors the operator may consider the factors proposed by Ellis & Williams (1995), at which time the operator should be in a position to determine its initial foreign market entry mode.

Although the analysis of the decision-making process has thus far only considered the theories proposed by Ellis & Williams (1995) it can also be examined alongside Root (1987a), which was addressed in Section 4.3. The decision-making process outlined above would appear to agree with the internal and external factors influencing the choice of foreign market entry mode presented by Root (1987a) and provided in Table 7.5:

Table 7.5: External and internal factors influencing foreign market entry mode choice (Root, 1987a)

External Factors	Internal Factors
Target country market factors	Company product factors
Target country environmental factors	Company resource / commitment factors
Target country production factors	
Home country factors	

The target country market, environmental and production factors could arguably be similar to the environmental 'pull' motives for internationalisation, and the home country factors be similar to the environmental 'push' factors identified in Chapter Six. The company product factors above are arguably similar to the company-dependent factors and the company resource / commitment factors are similar to those factors raised during the interviews and by Ellis & Williams (1995).

7.2.2 Subsequent modes of foreign market entry

Having identified and analysed the modes of foreign market entry utilised by British health club companies during their initial foreign market entrance, this section will now analyse the subsequent modes of entry used by the health club companies as they expand into different countries, in order to examine the operators' international expansion strategies. Table 7.6 indicates the modes of foreign market entry used by British health club operators in their overseas expansion:

Table 7.6: Subsequent modes of foreign market entry for British health club companies

*1 = first mode used, 2 = second mode used, 3 = third mode used, etc. * denotes that the operator is only active in one foreign country.*

Operator	Mode of market entry					
	Management contract	Franchise	Joint venture (minority control)	Joint venture (majority control)	Acquisition	Greenfield / brownfield site
The Academy	1				2	
Aspria				2		1
Cannons						1*
Champneys						1*
Clubhaus					2	1
David Lloyd Leisure					1*	
Esporta					1	2
Fitness First			1	2	3	4
Fitness Holdings (Europe)					1	2
Holmes Place	1					2
LA Fitness						1*
JJB Sports						1*
LivingWell		3			1	
Next Generation					1	2
Virgin Active					1*	

Table 7.6 indicates that all of the companies that have international operations in more than one country have altered the mode of foreign market entry utilised. Nine British health club companies are active in more than one foreign country, and six operators are only active in one foreign country.

Following the discussion in Section 4.2 and during Section 7.2.1 above it can also be ascertained that six of the operators have increased their commitment and resources to the foreign markets, therefore progressing to modes of foreign market entry that require greater resources and commitment. For example, The Academy has altered its foreign market entry mode from a management contract to an acquisition, hence increasing its commitment and resources to foreign markets. Given that over half of the internationally active health club companies have progressed in this manner it might be suggested that it is a trend within the industry, and could be compared to Johanson and Vahlne's (1977) establishment chain. As discussed in Section 4.2, Johanson and Vahlne (1977) argue that as a company's knowledge of an overseas market increases they will incrementally increase their commitment to the market. Given that many of the interviewees recognised the importance of having local market knowledge this could arguably be the case in the health club industry. Therefore, as the British operators increase their local market knowledge they are willing to use modes of market entry that require more resources and commitment. However, it should also be noted that the British operators might be forced to increase their commitment to foreign markets due to the limited opportunities available for joint ventures and acquisitions. For example, the most obvious establishment chain was completed by Fitness First, whose Managing Director, Balfour clearly stated that their overseas development had purely been governed by opportunity:

'[Discussing Europe]...there were no chains, and there was certainly an opportunity there, as there had been here, to go to Europe, to create a chain'.

'[Discussing his health clubs in Asia] With the Fitness First clubs we've just opened seven or eight. We had the opportunity. We had the opportunity to buy the company. We wouldn't have gone into Asia if we were starting from scratch. But there was an opportunity to buy an existing business, with a management team, at really a very reasonable price. So it was just an opportunity'.

Furthermore, if the British health club industry agreed with Johanson & Vahlne's (1977) establishment chain one would expect the operators to commence their international operations by using modes of foreign market entry that require very low levels of commitment and resources. Since exporting is not relevant for the health club industry, (as the health club product cannot be exported) the relevant modes of entry that require the lowest level of commitment and resources are management contracts and franchises. However, as Tables 7.3 and 7.5 indicate only two health club companies used management contracts as their initial form of market entry, whereas six companies used the mode requiring the highest levels of resources and commitment.

Therefore, although over half of the operators do appear to have followed the type of establishment chain discussed by Johanson & Vahlne (1977) it might not necessarily be as a result of increased market knowledge as they suggest. Operators would appear to have been more heavily influenced by the factors identified in Table 7.4 and Figure 7.3 such as opportunities and access to sites.

7.2.3 Summary

The analysis of the foreign market entry modes utilised by British health club operators found that the favoured modes of initial market entry are acquisitions and new sites. This preference for acquisitions and new sites continues during subsequent overseas development. Analysis of the reasons for the choice of foreign market entry mode found that opportunities; access to sites; speed; cost; 'baggage'; risk; and local knowledge are all factors that influence decision-makers. In examining the modes of market entry that were chosen it was also argued that the level of commitment; degree of control; expected return; and resources available are factors that might encourage operators to favour acquisitions and new sites. In analysing the effect of the original motives for internationalisation on the choice of foreign market entry mode it is argued that a number of the motives might encourage operators to favour new sites or acquisitions.

The examination of the subsequent modes of foreign market entry utilised established that all of the operators changed their modes of market entry for subsequent countries, and that six of them increased their level of commitment and resources. However, it was suggested that the apparent 'establishment chain' might not be as a result of increased market knowledge and commitment as Johanson and

Vahlne (1977) propose, but instead as a result of the factors identified by the interviewees, such as opportunities. For example, although a very definite establishment chain pattern is evident for Fitness First, it was determined that all of their ventures overseas have been a result of opportunities.

7.3 LOCATION OF BRITISH HEALTH CLUB COMPANIES' INTERNATIONAL ACTIVITIES

Dunning (1993) includes location or 'L' advantages in his OLI paradigm, and suggests that once ownership-specific and internalisation advantages have been identified, the company must then determine if its advantages can be best exploited by operating in a foreign location. Dunning (1993) also states that 'given that the distribution of resources and capabilities is assumed to be uneven, some countries will possess 'L' advantages that other countries do not'. This would therefore suggest that if the health club company believes that its advantages could be best exploited overseas, it then needs to decide which country or countries offer(s) the best 'L' advantages for it.

The following section will focus on the locations that the British health club companies have invested in and why the locations have been chosen. The countries that the health club companies first invested in will be identified, and the reasoning behind that decision will be analysed. The countries that were subsequently invested in will then be identified and the reasoning analysed. The aims of this section are to determine if the location for overseas investment is a strategic decision or an opportunistic decision; to establish if Dunning's (1993) 'L' advantages are relevant and applicable to the health club industry; and to determine if and why company specific factors and the choice of foreign market entry mode might affect the location of overseas investment.

7.3.1 Initial location of international activity

Having determined that the health club company possesses ownership-specific advantages, enabling it to compete against indigenous operators, and having chosen the mode of foreign market entry, Dunning (1993) argues that the operator needs to ascertain whether its advantages would be best exploited by operating overseas, and if so in which country. The first country in which it invests is arguably an important strategic decision, as it is from this point that the company will develop its international operations.

The following table identifies the countries that British health club companies entered when they undertook their first overseas development. The reasoning behind their choice of location will then be discussed.

Table 7.7: Location for British health club companies' initial overseas activity

Health club company	Country
The Academy	Austria
Aspria	Italy
Cannons	The Netherlands
Champneys	Belgium
Clubhaus	Germany
David Lloyd Leisure	Republic of Ireland
Esporta	Spain & Sweden
Fitness First	Germany
Fitness Holdings (Europe)	Sweden
Holmes Place	Switzerland
LA Fitness	Spain
JJB Sports	The Netherlands
LivingWell	Malta
Next Generation	Australia
Virgin Active	South Africa

Table 7.7 indicates that the countries chosen during this first stage varied greatly, and that of the fifteen companies eleven different countries were entered, with the only ones outside Europe being Australia and South Africa. The fact that such a range of countries were entered might suggest that the opportunities for the health club industry were perceived to be widespread, with opportunities for company growth believed to exist in a number of countries.

The range of countries that were entered suggests that the location for overseas investment is not of great importance to British health club operators, as the number of countries invested in demonstrates that health club companies feel capable of operating in a variety of locations, including outside Europe. If location were of significant importance, or rather, if certain countries held strong 'L' advantages over

other countries, then investment would surely be concentrated there. However, the location-specific variables identified by Dunning (1993) can be analysed in relation to the health club industry so that potential relevance can be established. The 'L' variables that Dunning (1993) proposes are listed in Table 7.8 below:

Table 7.8: Location-specific variables (these may favour home or host countries)

Spatial distribution of natural and created resource endowments and markets
Input prices, quality and productivity (e.g. labour, energy, materials, components, semi-finished goods)
International transport and communications costs
Investment incentives and disincentives (including performance requirements etc)
Artificial barriers (e.g. import controls) to trade in goods and services
Societal and infrastructure provisions (commercial, legal, educational, transport and communication)
Cross-country ideological, language, cultural, business, political differences
Economies of centralisation of R&D production and marketing
Economic system and strategies of government: the institutional framework for resource allocation

Source: Dunning (1993)

While many of the factors identified in Table 7.8 relate to manufacturing industries, Dunning (1989) elaborates on the importance of location variables for service industries stating that being near the customer and adapting the service to local customs and needs plays a more significant role for service industries than it might for goods-based industries. This might therefore be the case for the health club industry, given the simultaneous production and consumption, and the fact that the health club relies on the local population to consume its product.

The following discussion identifies the location variables that British health club companies stated they took into account when entering overseas markets, enabling a comparison between the factors influencing the health club industry and the factors identified by Dunning (1993) in Table 7.7.

Giampaolo of Fitness Holdings (Europe) identified population density as one of the key factors he considered when deliberating on the overseas location for

investment. This is not a factor that is specific to overseas locations, but a factor that largely influences the location of all health clubs. For example, Cullen of Club Moativation states that larger health clubs require a population of approximately 100,000 people within a certain radius, whereas Turok of LA Fitness states a local population of 30,000 can sustain a (smaller) club.

Lifestyle is another factor identified by Giampaolo that influences his choice of location for a health club. Giampaolo argues that the trend for health and fitness in western civilisation can be largely attributed to smoking; stress; drugs and alcohol; and the realisation by the population that they have become unhealthy as a result of their habits and lifestyles. He states that once the population realises the detrimental effects of these habits and lifestyle there will be increased interest in health and fitness, and the countries that have reached this point are naturally perceived as important markets for health clubs. Giampaolo also argues that whether the population uses health clubs, and how they use them, can be attributed to the population's lifestyle. For instance, he explains that the Spanish have very 'late lifestyles', so the health clubs tend to be busy during the evening. Similarly, Fitzgibbon of LivingWell acknowledges the importance of the Australians' lifestyle when he states

'....because the Australians are so fitness orientated, so sports orientated, they like to work out....'

Fitzgibbon also rationalises the existence of their health club in Denmark by stating that the population is 'very fitness orientated, very health orientated', which is a similar acknowledgement of the significance of lifestyle.

A further location variable identified by the interviewees and linked to lifestyle is 'culture' and Giampaolo of Fitness Holdings (Europe), Gratton of LIRC and Turok of LA Fitness all recognised the impact of culture. For example, Gratton provided examples such as the Dutch, who tend to be non-exclusive and might not therefore welcome private health clubs which are targeted towards the affluent, and Giampaolo stated that Fitness Holdings (Europe) was experiencing difficulties with its operations in China, where they are experiencing 'huge cultural differences'. Giampaolo also suggested that Fitness First have experienced similar problems in China, and that they had 'misjudged the market' and subsequently 'found it financially detrimental'. When discussing lifestyle or culture the interviewees tended to use

Britain and America as frames of reference, discussing whether the overseas markets are similar to the British and American markets in their approach to health and fitness and demands for health clubs. For instance, Silver of The Academy argues that within Europe The Netherlands, followed by Germany, are most similar to Britain and America, and that the Dutch attitude towards health and fitness is similar to the British and American attitude towards health and fitness.

Language was a location variable identified by Turok of LA Fitness, who stated that it is a key element in overseas expansion. His argument was supported by Giampaolo of Fitness Holdings (Europe) and Gratton of LIRC who both stated that language could be a serious problem, and Gratton cited the example of European Leisure, which he explained collapsed due to language problems, as the company did not recruit local managers during its overseas expansion.

A further location factor identified by the operators was the level of competition in the overseas countries. The level of overseas competition was discussed in Section 6.1.1.2 and thus supports the argument that the motives for internationalisation can have an effect on the location of overseas investment. A number of the interviewees discussed the relative levels of the competition in the foreign countries, such as Turok of LA Fitness who noted that in Europe the health club operators have poor facilities and are overpriced. Lloyd of Next Generation also recognised the influence of competition, as well as that of language by stating:

[Discussing why they entered Australia] Well, because, Australia is a totally virgin market, the barriers of entry to the industry there are probably far lower there than anywhere in Europe. Not only because of the language but because of the very small existence of the industry there'.

The indigenous laws relating to tax, planning, employment and property were raised by a number of interviewees as location variables that had to be taken into account. The issues of the differing laws were raised by Giampaolo of Fitness Holdings (Europe); Ayres of De Vere; Turok of LA Fitness; and Balfour of Fitness First among others. For example, Wallace of the FIA stated:

[When discussing British operators entering foreign markets] There are differences in the local laws and they will come across barriers that they don't face here. It can't be easy for them to deal with'.

Similarly, Treharne of Crown Sports noted that British operators should be cautious when operating overseas as they will have little awareness of the legal differences, and Fitzgibbon of LivingWell suggested that their relatively unproblematic overseas development had largely been thanks to having 'good consultants, good lawyers', which the smaller companies might not have access to.

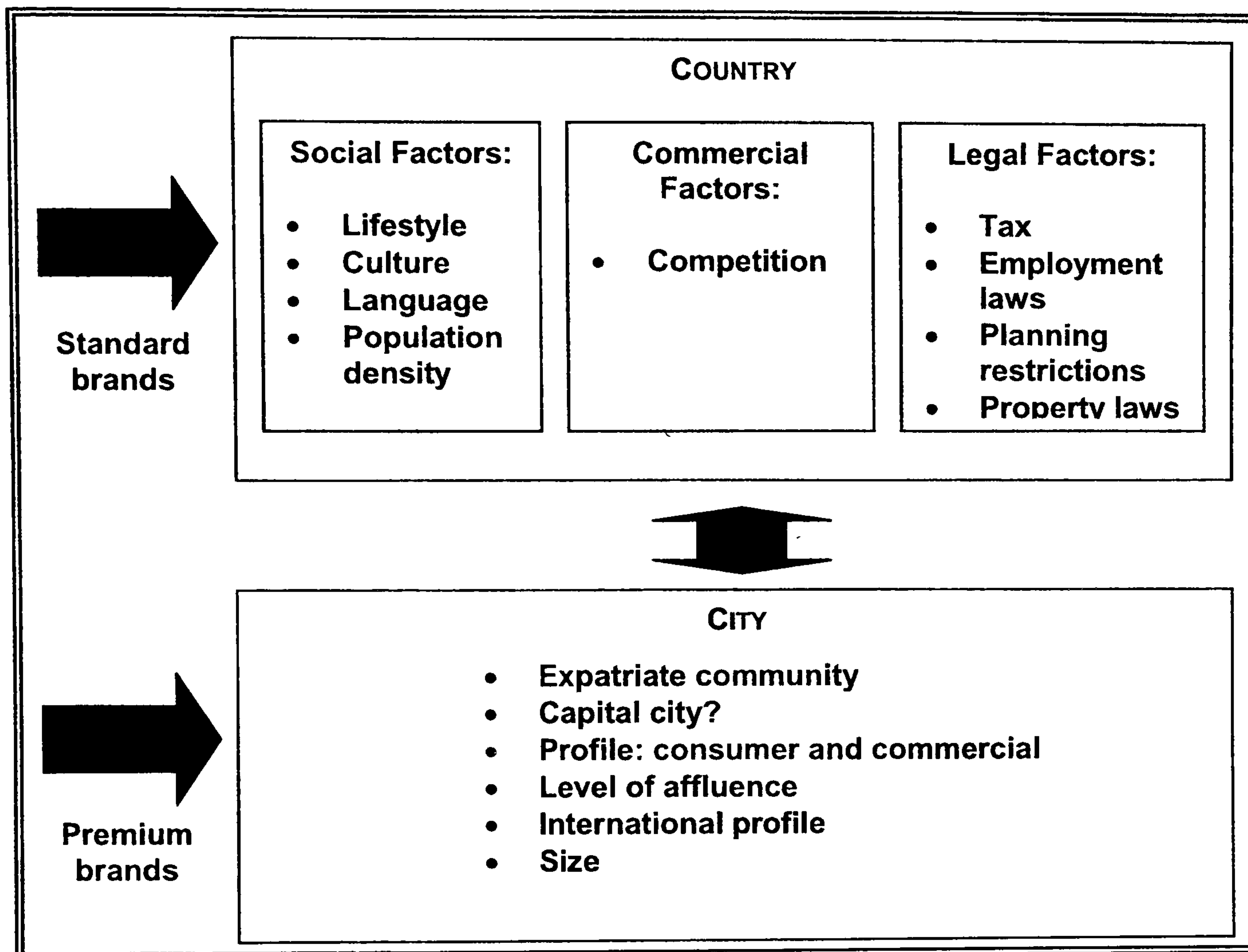
When comparing the location variables identified by the health club operators to the variables identified by Dunning (1993) it would appear that only one group of Dunning's (1993) variables are of relevance to the health club industry; 'cross-country ideological; language; cultural; business; and political differences'. The operators do not appear to have considered location factors such as local government policies; resources; input factors; infrastructure; and potential barriers etc. They instead focus on the more 'cultural elements' that might affect the ease of their overseas expansion. The location variables recognised by the interviewees can be grouped into categories, as a number of them share similar characteristics. The first group is 'social factors' and encompasses lifestyle; culture; population density; and language, whereas the second category of 'commercial factors' consists only of competition. The final group of 'legal factors' includes tax; employment laws; planning restrictions; and property laws.

In contrast to the discussion of the location variables above, Third Space and Aspria have a slightly different attitude towards location. Rather than considering countries (e.g. lifestyle, demographics, culture) as a location for their health clubs, they tend to focus on individual cities as locations. Although Third Space are not currently internationally active, Vigors states that any international expansion they undertake will be in 'capital cities', i.e. in cities that offer the cosmopolitan, affluent consumers they seek. Morris of Aspria has a similar view on overseas locations, stating that when he examines cities for investment he considers the expatriate community; whether it is a 'major city'; whether it has 'the right profile'; if it is affluent; if it is 'international'; and if it is 'big enough'. Champney's provides a further example as their Operations Director states that they would only locate health clubs in 'cosmopolitan cities' in Europe. This focus on cities is an approach that is apparently only taken by premium operators, such as Champneys, Aspria and The Third Space who all charge the highest membership rates.

Figure 7.5 summarises the location variables identified by the interviewees which influence their choice of foreign location, and the diagram also recognises that

the primary decision for premium brands such as Champneys and Aspria is the city for overseas investment. The location of that city will then determine which country they invest in:

Figure 7.5: Location variables in the internationalisation of British health club companies



The separation of the standard and premium brands indicated in Figure 7.5 results from the premium brands requiring a certain profile of consumer, who can only be found in certain 'capital cities' such as Madrid; Barcelona; Paris; London; Brussels; Milan etc. The country the premium health club operators are entering is therefore of less significance, as they will first analyse the potential of a city, and then consider the social, commercial and legal issues of the country they are entering. In contrast, companies with standard brands, (such as Fitness Holdings (Europe), Fitness First and LA Fitness) consider the location variables of a country in the first instance, and will then determine the city that their health club will be located in.

The above discussion has identified a range of variables that might directly influence a health club operator's choice of location for overseas investment.

However, the indirect influences on that decision can also be analysed by considering the original motives for internationalisation, as was achieved during the analysis of the choice of foreign market entry mode. By analysing the company-dependent motives for internationalisation it is possible to demonstrate how a number of the motives might influence the location of overseas investment. For example, if a company believes that it has a 'specific opportunity' overseas it is likely that this opportunity also dictates the location of investment. For instance, LivingWell was able to take advantage of the acquisition by Hilton International by developing international health clubs on the Hilton hotel sites, and the location of its health clubs was hence dictated by the location of the hotels. A similar location limitation might arise from an external proposal, wherein the proposal relates to a specific location. For example, Holmes Place approached The Academy to manage a health spa in Austria, and as a result The Academy did not have any input into the location of the overseas activity. Finally, if the company is aiming to 'access to specific market segments' it might be that these market segments only exist in certain locations. This would apply to Third Space, Aspria and Champneys who have identified only a very limited number of potential locations for their health clubs. Although they do have a choice of locations to a certain extent, that choice is fairly confined.

In returning to the environmental motives for internationalisation it might be argued that only the 'pull' factors influence the location of international activity, whilst the 'push' factors have little impact. The push factors encourage the operator to undertake future development outside the domestic country, but do not tend to dictate where that development should be focussed. In contrast, the environmental pull factors for internationalisation could arguably also have some indirect influence on the location of overseas investment. For instance, the discussion above identified 'competition in the foreign market' as a variable which British operators consider when choosing the location for their overseas investment. This location variable could also be termed a motive for internationalisation as discussed in Chapter Six; the British operators may be attracted to certain locations where they believe competition will be at a minimum. The similar indirect influence of motives for internationalisation is demonstrated by the prospect of benefiting from 'different economic conditions', as it may be that those beneficial economic conditions can only be experienced in certain countries. For example, Wallace of the FIA notes that the

economic conditions in Spain are particularly favourable and Balfour of Fitness First acknowledged the influence of economic conditions by stating:

'...what I would say about it is that we're supposed to be in this economic community where things are meant to be more or less the same and the VAT rates all over Europe are totally different'.

A further indirect factor that could influence the location of overseas investment is the foreign market entry mode that has been chosen. Given that the discussion on modes of market foreign entry in Section 7.2 established that one of the key factors that influences the operators' choice is opportunity, it might be that the opportunities only occur in certain locations. For example, Lynwood explained that Esporta's entrance into Sweden and Spain resulted from an acquisition of Healthland:

'The number of clubs opened last year was fifteen, of which there were obviously those on the continent, in Spain and in Sweden. The Spanish and Swedish clubs came about through an acquisition of a company called Healthland, and we purchased a mixture of assets and liabilities from Healthland, both in the UK and abroad'.

Although Esporta was clearly aware of the location of the Healthland clubs when they acquired them, it might arguably be the case that they would not necessarily have developed a club in Sweden if they had been able to pick and choose the Healthland clubs they wanted to purchase. Similarly, Fitness First's initial overseas development resulted from a joint venture with a German health club company, and they arguably would not necessarily have chosen Germany for their first location if they had not had that specific opportunity.

A further factor that might influence the location of overseas investment is the health club company's expansion strategy. In some instances the management team has a very defined idea of the countries they would like to operate in, and an example of this is Fitzgibbon at LivingWell who explained:

'So we looked at the sort of map and said that really, the way the sector was growing was that lots of our competitors were moving into Europe from the UK. Traditionally the growth had come across the Atlantic, the Atlantic in to the UK, and then you started to see UK operators come into Europe. And we said well. OK, we decided to look at Germany and we spent a long time looking at Germany. It's very, very competitive and a lot of operators and crazy rates, so we said, I'll tell you what we'll do, we'll come all the way round here, and we'll grow

this way, and we'll meet our competitors half way having been out here, and that's exactly what we did'.

It would also appear that Turok of LA Fitness was very much focussed on developing in a specific country. At the time of the interview (December 2000) Turok's company was not internationally active but he stated that Spain was one of the most attractive countries for investment, as it benefits from rising personal disposable income, a culture of health and fitness and good quality sites. During the beginning of 2002 the operator opened its first foreign health club in Barcelona (L&HB, 2001h and Health Club Management, 2001f). Next Generation also has a very strong focus on one country, Australia, although their targeted expansion strategy resulted largely from personal contacts and the development of tennis in Australia (as their health clubs offer a number of indoor and outdoor tennis courts). In explaining their international expansion strategy Lloyd stated:

'The game of tennis there was on a similar path to here in that they'd always been a very, very strong tennis-playing nation, but currently didn't have very many players. A lot of their clubs were dying or losing money. And now it's very different, they've got a lot of players, Rafter, Philipeousis, Hewitt and all the rest of it, but five years ago, six years ago they were in a bit of a doldrums, so basically he [his father, David Lloyd] just had a lot of contacts there'.

In discussing the overseas expansion strategy employed by the British health club company it is also arguably of relevance to consider Dunning's (1993) types of international activities. These 'activities' or strategies to increase long-term profits by internationalising were discussed in Section 4.1, where the activities applicable to British health club operators were argued to be efficiency-seeking; market-seeking; and strategic asset-seeking. Table 7.9 explores the ways in which the different strategies employed by health club companies might lead them to consider different location variables.

Table 7.9: Types of international production in relation to location variables

Type of International Production	Location variables	
Market-seeking	Market size	
	Consumer awareness of health clubs	
	Level of competition	
	Pricing levels	
	Population profile	
	Population affluence	
	Availability of leisure time	
	Lifestyle	
	Culture	
	Possibilities for acquisitions / joint venture	
	Population spread	
	Prevalence of 'capital cities'	
	Efficiency-seeking	Possibility of locating health clubs in the same geographically area - economies of scale
		Cost of managing health clubs in a foreign country - issue of distance
Cost of sites (greenfield or brownfield)		
Cost of acquisitions		
Economic differences		
Strategic asset-seeking	Access to new markets	
	Opportunity of buying health clubs before the competitors do	
	Possibility of becoming the dominant health club chain in the chosen country	
	Possibility of achieving rapid expansion of the health club chain	

The above table indicates that health club companies who have a market-seeking strategy will be influenced by the widest range of location variables and will therefore be required to take the most factors into account when making their choice of location. A smaller range of location variables will influence strategic asset-seekers and efficiency-seekers.

The preceding discussion therefore establishes that there are four groups of factors that potentially influence a health club operator's choice of location for investment, these being location variables (social, commercial and legal); the original motives for internationalisation; the mode of foreign market entry utilised; and the company's international expansion strategy (including the type of international activity in which they are engaging).

7.3.2 Subsequent locations of international activity

Section 7.3.1. considered in some detail the reasons for the locations of the British health club companies' initial overseas investments, and in doing so identified four groups of variables that influenced their choice. The following section will focus on the subsequent locations of British health club companies overseas activities, i.e. whether their subsequent investments / health clubs were in the same country, or in a different country and if so why. The following table therefore indicates the country that the health club companies initially invested in; the country that their second and third health clubs are located in; and if these health clubs are in the same country the table also states the first different country in which they invested³⁸.

The aim of Table 7.10 is to indicate how British health club operators have expanded overseas once they have initially entered a foreign market. The 'initial location' column indicates the countries that the operators initially entered (also provided in Table 7.7), and the 'secondary' and 'tertiary locations' columns indicate the locations of the second and third health clubs that the operators developed overseas. These 'locations' are not the subsequent countries that the operators entered, but are the actual location of the subsequent health clubs opened. Therefore, if a company opened its first foreign health club in France, and its second foreign health club also in France, then the 'initial location' and 'secondary location' columns will both state France. The column entitled 'secondary country' specifies the second country that operators have entered, if their previous foreign health clubs have all been within the same country. Therefore, if the third foreign health club that the company opened were in Germany, then the 'secondary country' column would state Germany. Those countries detailed in brackets and Italics are countries that the health club operators have announced they are planning to enter in the future.

Table 7.10 illustrates that of the fifteen internationally active British health club operators, seven of them have established (or plan to establish) their first three health clubs within the same country, whereas only three developed their first three health clubs in three different countries. There are arguably two reasons for British health club companies favouring the same location for the establishment of their first three health clubs. The first is that the operators follow a 'clustering' strategy whereby

³⁸ It should be noted that this table has been completed from a variety of sources including interviews; company literature; and trade and popular press, and every effort has been made to ensure that the information is accurate.

Table 7.10: Subsequent locations for British health club companies' international investment

The countries in brackets and italics are planned locations for health clubs.

Health club company	Initial location	Secondary location	Tertiary location	Secondary country
The Academy	Austria	France	Germany	
Aspria	Italy	Belgium	Germany	
Cannons	The Netherlands	The Netherlands	The Netherlands	<i>(Spain & Germany)</i>
Champneys	Belgium			
Clubhaus	Germany	Germany	Spain	
David Lloyd Leisure	Ireland	<i>(The Netherlands & Belgium)</i>		
Esporta	Spain & Sweden	Spain	Spain	
Fitness First	Germany	Germany	Germany	Belgium
Fitness Holdings (Europe)	Sweden	Sweden	Sweden	Norway
Holmes Place	Switzerland	Portugal	Spain	
LA Fitness	Spain	<i>(The Netherlands, Germany, Italy, Scandinavia)</i>		
JJB Sports	The Netherlands	<i>(The Netherlands)</i>	<i>(The Netherlands)</i>	<i>(France, Spain, Italy)</i>
LivingWell	Malta	Australia	Australia	
Next Generation	Australia	Australia	Australia	<i>(Germany)</i>
Virgin Active	South Africa	South Africa	South Africa	<i>(Italy & Germany)</i>

they seek to develop a group of health clubs in the same country before progressing to a second country. The second is that the operators acquired or undertook a joint venture in a certain country that provided them with three or more health clubs. The

second of these reasons will be discussed foremost, and Balfour of Fitness First provided an example by acknowledging that their expansion in Germany resulted from their joint venture with The Fitness Company:

'In 1998 we bought into an operator in Frankfurt that had six clubs, and we added on clubs there, and now today, we basically now have 50 clubs in Germany and we're the largest operator in Germany'.

Virgin Active is a similar example, as their entrance into South Africa resulted from an acquisition of 85 health clubs from LeisureNet (Healthland health clubs) (Health Club Management, 2001a & 2001c), and Esporta's development in Spain was also generated by an acquisition of Healthland clubs, and Lynwood of Esporta stated:

'The Spanish and Swedish clubs came about through an acquisition of a company called Healthland, and we purchased a mixture of assets and liabilities from Healthland, both in the UK and abroad'.

Next Generation is also an operator that acquired a group of health clubs, hence dictating that the first three of its foreign health clubs were based in the same country. However, Lloyd of Next Generation also admitted to having an expansion strategy that largely concentrated on Australia, as he believed that Australia offered better opportunities and he had personal contacts there. The second reason for developing the first three health clubs in the same country is that the operator is following a 'cluster strategy'. An example of an operator that particularly focuses on developing a group of health clubs within the same country is Fitness Holdings (Europe) as Giampaolo suggested that:

'Economies of scale can only be held when there's a cluster strategy, when there is common spend on marketing, general management and accounts processing etc'.

Lynwood of Esporta however disagrees with Giampaolo's statement, suggesting that rather than developing 'clusters' of health clubs in order to gain economies of scale, the operators should instead focus on the service provision in the existing health clubs:

'Does one therefore increase the number of clubs until you get a cluster, so that you get the marketing and become more efficient, and the management becomes more efficient and so on, or does one concentrate on the management of the clubs to make sure that we're doing the right job by those clubs. It is the latter. It's certainly not the former'.

Two health club operators that are apparently focussing on developing a cluster of health clubs within the same country (The Netherlands) are Cannons and JJB Sports. According to the press JJB Sports are looking for a total of 40 sites in The Netherlands (L&HB, 2002c), and Cannons are seeking to develop between seventeen and nineteen health clubs.

In contrast, a small number of health clubs operators have developed their initial health clubs in three different countries. The Academy have established their first overseas operations in Austria, France and Germany, which has not been the result of a specific strategy, but the result of them 'piggybacking' on the Holmes Place developments. The Academy therefore had little control over the location of its foreign activities. In contrast, Aspria have a very defined strategy of operating in different countries, as they locate their health clubs in 'capital cities' as discussed in Section 7.3.1.

The analysis of Table 7.10 therefore indicates that the majority of British health club companies have clustered their initial overseas health clubs in one country, whether that be the result of an acquisition or a strategy of clustering so as to benefit from economies of scale. The analysis of the location of subsequent overseas investment can be extended to the range of countries that British operators have established in since the inception of their international expansion. Table 7.11 identifies all of the countries that British health club operators have entered to date, totalling the number of countries that each operator has entered, and the number of British operators in each country:

Table 7.11: World-wide locations of British operators' health clubs

	A*	As	Ca	Ch	Cl	D	Es	FF	F	H	La	JJ	L	N	V	T
Australia								✓					✓	✓		3
Austria	✓									✓						2
Belgium		✓		✓		? [†]		✓								3
Brazil													✓			1
China								✓	✓							1
Czech Rep.													?			-
Denmark									✓							1
France	✓				✓			✓		✓		?	?			4
Germany	✓	✓	?		✓			✓	✓	✓	?		✓	?	?	7
Greece										✓						1
Netherlands			✓			?		✓		✓	?	✓				4
Hong Kong								✓	✓							2
Ireland						✓										1
Israel										✓						1
Italy		✓						✓			?	?			?	2
Korea									✓							1
Malta													✓			1
Malaysia								✓								1
Norway									✓							1
Philippines								✓								1
Portugal										✓						1
S. Africa															✓	1
Singapore									✓							1
Spain			?		✓		✓	✓	✓	✓	✓	?				6
Sri Lanka													?			-
Sweden							✓		✓							2
Switzerland										✓						1
Taiwan									✓							1
Thailand								✓	✓				?			2
Turkey													✓			1
USA										✓						1
TOTAL	3	3	1	1	3	1	2	12	11	10	1	1	5	1	1	

* ? See Appendix IX for the key for the company names.

[†] Denotes that the operator is planning to expand into the country.

Table 7.11 indicates that outside Britain, British operators have entered a total of 31 countries, fourteen of which are outside Europe, suggesting that the health club industry is perceived to be developing internationally, with a wide range of opportunities available. Germany and Spain are the two most popular countries for British operators, followed by The Netherlands, France, Belgium and Australia. Many of the countries have only been entered by one British operator, arguably indicating that there are still many opportunities available for British operators seeking international expansion.

Fitness First is active in the most countries, followed by Fitness Holdings (Europe) and Holmes Place who both operate health clubs in eleven and ten different countries respectively, and LivingWell are present in five countries. The table does

not however acknowledge how many health clubs the companies operate in each country, suggesting that Fitness First is not necessarily the largest international operator. The prevalence of the number of operators only being active in one or two countries arguably implies that the internationalisation of the British health club industry is in its infancy, and that there is scope for British health club operators to continue their expansion.

7.4 MANAGEMENT AND CO-ORDINATION OF OVERSEAS ACTIVITIES

Once the health club company has recognised its ownership-specific advantages, chosen the mode of foreign market entry and determined the location of its overseas investment, it is arguably ready to embark on its overseas expansion. However, during this stage the health club management must also make a range of decisions relating to the health club format and the management of the international activity. Given the relative complex format of health clubs (as discussed in Chapter Three) this could be a crucial part of the internationalisation process as the success of the overseas investment could largely depend on the popularity of the health club format. The following discussion is divided into two sections, the first of which will focus on the format of the health club that is implemented overseas. Is the format used overseas the same as that which is used in Britain, and if not, why not? The second section will address the management of the overseas operations, determining how the health clubs are managed and whether, for instance, the management is centralised or regionalised.

7.4.1 International health club format

One of the key elements of the British health club industry identified in Chapter Three is the complexity of the product offering. The British health club industry displays niche products, segmented markets and differentiation, with the format of the health clubs varying widely, in terms of the quality of product offering, the price and the types of services provided. Given that the overseas health club industries (excluding the United States of America) are relatively undeveloped, with poor quality service offering and a lack of differentiation, the following discussion will attempt to determine if British operators extend their level of complexity to international markets, or simplify their service offering.

The analysis of the interviews with the internationally active health club operators established that there are two approaches when determining the product format for overseas health clubs. Companies such as Fitness First, Fitness Holdings (Europe) and The Academy follow one approach, believing that minimal product adaptation is required for each country. In contrast, companies including Esporta, LivingWell and Aspria follow the second approach, and believe that the product offering should be adapted for the individual country. In examining the first group it is clear that Fitness First and Fitness Holdings (Europe) operate health clubs that are at the lower end of the pricing scale and offer minimum facilities in smaller venues. This is a format that Fitness First initially established in Britain and has since transported to foreign countries. Similarly Fitness Holdings (Europe) implemented their chain of 24-Hour Fitness clubs in America, before expanding the same format to Europe. Giampaolo of Fitness Holdings (Europe) was very explicit in his explanation for their product format. He declared that they have a 'standard box offering' which is very easy to transport to different countries and he stated that there is 'limited tweaking' of the standard product, with less than 10% of it being altered for different countries. Examples of changes that might be implemented include the colours used in the premises; pay scales; the number of staff; pricing; and marketing material. In developing the health clubs in America, Fitness Holdings established two health club formats: dry clubs and wet clubs, and the format chosen for each location both in America and overseas depends on the level of service provision already supplied by competitors. He also acknowledged that the consumers of their health clubs tend to change in different countries; for example the clubs in underdeveloped countries tend to attract younger members. He linked the changing audience for their health clubs to the manner in which clubs are used overseas, such as in Asia where the clubs are of greater social importance.

Balfour of Fitness First also stated that they make only minimal changes to their foreign health clubs and suggested that the pricing policies also remain roughly the same throughout the different countries:

'It depends on the economic model. So if rents in one country were much higher than another then maybe the prices would be higher to combat that. In actual fact over Europe our prices are very similar, you know, €49'.

Similarly Silver of The Academy explained that their product format does not change significantly between countries, although they do recognise the differences in the European market. The company aims to be 'high profile' and at the 'top end of the market' and in every country they aim for the same market segment.

In contrast to the operators above, Esporta believe that it is necessary to adapt their product to the local market. One of the key problems that Esporta have encountered in Spain is that because the market is relatively underdeveloped, and the service offering in the indigenous health clubs is generally poor, the consumers do not tend to understand Esporta's premier service offering. For example, Lynwood stated:

'And certainly our experience in mainland Europe is that its not easy to get the high-end market understood'.

When asked if the reason for their problems was that the consumers had nothing to compare the Esporta health clubs to, Lynwood replied:

'They have, but they tend to be more private tennis clubs, there is no health and fitness club in a chain over there, of the high-end type. There are two types of clubs, tennis clubs and football clubs, those kind of things. And I understand the football clubs, because that's what they're passionate about. And the other type of club is like a [private members' club] and that's the alternative, there's no.... That's Spain, it doesn't apply to Sweden. In Spain they don't understand our health clubs'.

One of the specific problems they encountered was the pricing of their clubs, as they found they were unable to charge the high prices that they had traditionally charged in Britain:

'Now with health and fitness, obviously the price brand that we put on, there is a misunderstanding as to what we're trying to achieve through the main, and secondly, why spend whatever it is a month on membership, why? Never had to do that in the past. There is no culture to say that's what people need to do. There is a slight understanding of fitness, which is growing, and so not necessarily we'll put the cost of Esporta in a location, and it will be the same as that we put in Tunbridge Wells. They will be two distinct models. And then to try and programme that from day one is going to be of our key objectives for this year'.

Esporta is therefore being forced to calculate the price that they can demand for membership according to the local consumers, and from that price calculate backwards in order to determine how much they could spend on the development of

the health club. This is a very different approach to the one they traditionally employed in Britain, where they construct a premium health club and calculate the membership price according to the health club costs.

Although LivingWell does not alter its health clubs to the same extent as Esporta, Fitzgibbon did acknowledge that they need to make some changes according to the country. For example, he stated that the design of the health clubs needs to be altered for different countries and that the marketing material needs to be changed so that they are seen to be taking cultural issues into account. Examples he provided for potential changes were the number of swimming pools and the division of saunas according to gender, but he also stated:

‘In essence, what we're trying to do, by having a global fitness brand in hotels is that if you arrive at a hotel and it's a LivingWell you'll know that you'll get clean changing rooms, there'll be a towel, you'll get great staff, you'll get a nice environment to work out in. I think that they're the kind of, almost intangible benefits that consumers look for. I don't think that consumers expect or want the same thing in every single hotel.

As well as these so-called intangible assets changing, Fitzgibbon also acknowledged that the pricing policies vary greatly between the countries:

‘....{pricing levels] they vary massively, depending on the country, but the economies vary enormously. So for example, in, because if you take Brazil, our pricing structure in Brazil next year. Because we'll be a premium product in a market that's although competitive, not hugely competitive, we charge a premium price, we're able to charge a premium price. Whereas in London where the business is highly competitive you have to remain competitive, certainly, the price is, we're always in the premium end of the market, but it will vary enormously depending on the structure of economy at the time. And the UK is very competitive, so we're very competitive in pricing. Australia is hugely competitive, and people aren't used to paying a lot of money for a health club, so again, although we're at the top end of the pricing, you'll get miles more for your money in Australia than you will in the UK, because of the state of the economy. In Bangkok, which we hope to open in the middle of next year, we can probably charge three times the price of the UK, just because of the way the economy is.....Health club provision, local economy, all the sort of traditional factors that affect price. And it's really important that you do that, because your payroll has to be affected. The local payroll costs you. Everything is local, and therefore your pricing policy has to sit alongside all your other factors effectively’.

Fitzgibbon therefore recognised that the economy; the level of competition; and the awareness of health club provision affects their pricing policies.

The above analysis therefore illustrates that British health club operators implement two distinct policies when developing their health clubs overseas; minimum adaptation, generally utilised by the more basic health clubs, and widespread product adaptation, generally used by the premium health club operators.

7.4.2 Management of the overseas operation

One of the areas of literature discussed in Chapter Four related to the management of international operations and within the health club industry it is possible to identify a number of different approaches to overseas management. The first recognised method is the 'regional management' of overseas health clubs, which is a strategy that is adopted by Fitness Holdings (Europe). Giampaolo stated that their health clubs are managed regionally as they tend to have 'clusters' of health clubs in one location (as discussed in Section 7.3.2.). The company has a Managing Director in every country and that Managing Director reports to the Group Managing Director in Britain. Both the regions and the Head Office are responsible for growth, but the regions depend on the Head Office to provide the necessary capital.

Balfour of Fitness First operates a similar regional approach and he states that the regional offices and the Head Office in Britain work together as a team. The regional offices are permitted a very hands on approach and have a high degree of autonomy, which Balfour believes is key to their success:

'They let us know what's going on and so on, but they find their own properties, their own leases, and you know, try and tell us what companies to buy, or what - you know - they're local management. The idea is if you don't trust the management you've got to change the management. I think that the management should run the business and I think that a lot of companies are in danger of saying we've got to approve everything and in a sense well why have they got a property in Germany when they're going to manage it here from the UK. That's definitely the way we are in business and the way we are going'.

However, he also states that the company's support functions are at the British Head Office:

‘But the head office functions are here, the treasury functions are here. I don't think you can have it any other way. The money has to be allocated out depending on the investment’.

LivingWell takes a slightly different approach to its health club management as a result of the two types of health clubs it operates; hotel-based health clubs and standalone clubs. The Australian operation, where the standalone clubs are based, is run as a ‘division’, with a dedicated Head Office because of the size of the structure. The Australian Head Office therefore directly manages the health clubs in Australia. In contrast, the LivingWell health clubs in Europe are operated as franchises within hotels and as a result ‘regional management’ is employed whereby the health club managers report to a Regional Director who then reports to the Group Managing Director in Britain.

The management of the health clubs discussed above differs from the management strategies employed by a number of the companies that operate larger health clubs, such as Aspria and Next Generation. Given the size of the clubs both Morris and Lloyd stated that each of the health clubs is run autonomously, and that their manager reports directly into the Group Managing Director at the Head Office in Britain.

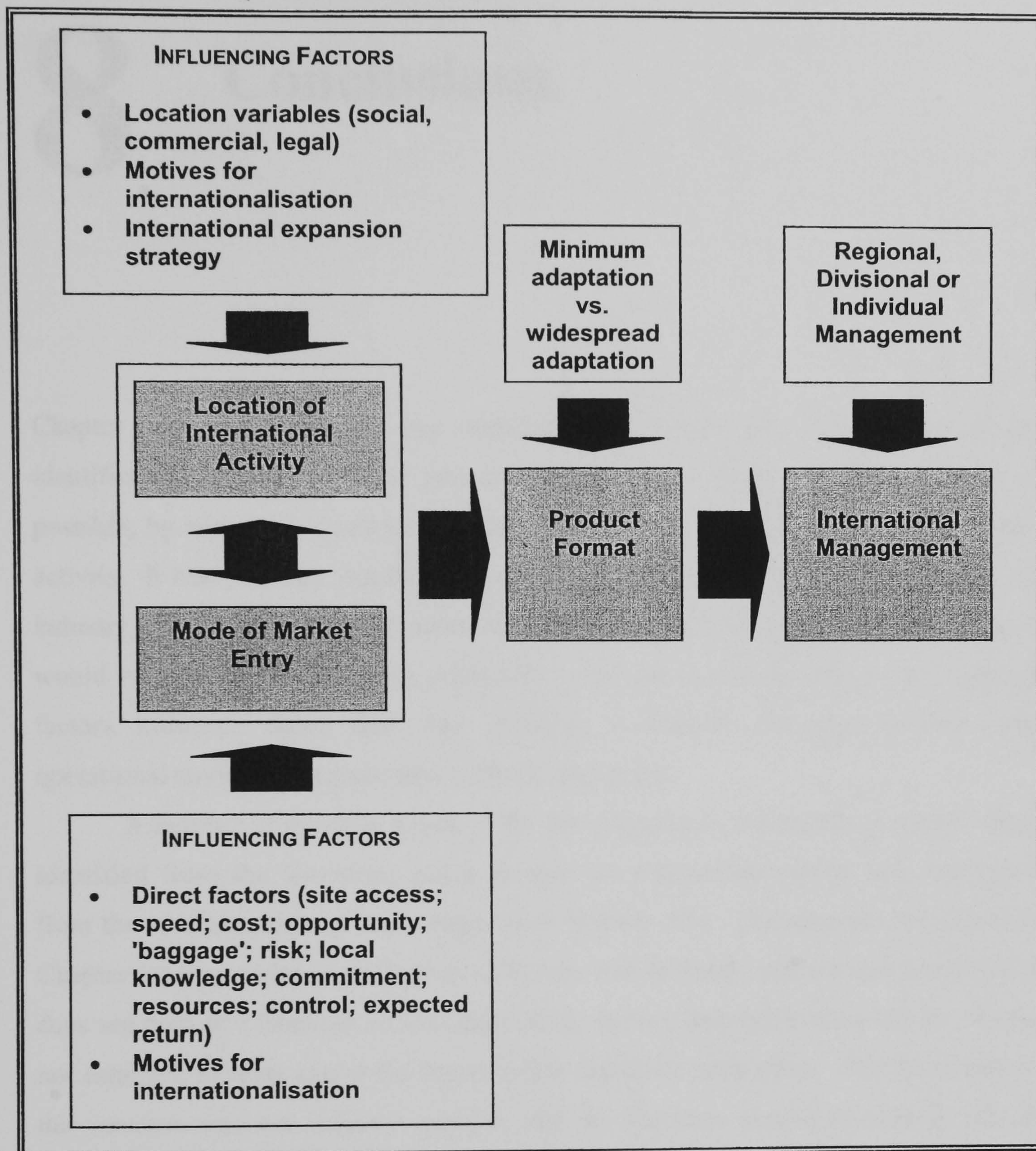
This discussion therefore recognises three different approaches to the management of overseas activities; ‘regional management’, ‘divisional management’ and ‘individual management’.

7.5 CONCLUSION

The discussion on the process of internationalisation has focussed on the internationalisation of British health club companies and the decisions made by them when determining their modes of foreign market entry and the location of their overseas operations. The analysis also established a number of ownership-specific advantages that British operators might possess which could assist them in competing against the indigenous operators.

The process of internationalisation as illustrated in Chapter Four can now be augmented following the analysis throughout this chapter, and the diagram below demonstrates how the process is more complex and dynamic than was suggested by the literature.

Figure 7.6: Final stages in the process of internationalisation for British health club companies



8 Conclusions

Chapter One stated that one key objective of this research is to establish if the identification of a 'process of internationalisation' in the health club industry is possible, by taking a holistic view of the development of the industry's international activity. It was intended that this approach would incorporate all of the stages that an industry developing overseas operations might experience, and that these stages would be analysed to determine what affect they have on each other; what external factors influence them; and why different companies experiencing the same operational environment undertake different strategies.

A number of possible stages in the development of international activity were identified from the literature, and a process of internationalisation was developed from the amalgamation of these stages (see Section 4.5). The diagram developed in Chapter Four provides an indication as to how the different stages might interact, but does not present a thorough examination of the factors that might influence the stages, nor establish to what extent the stages might influence each other. The discussion at this juncture was not industry specific, and the literature tended to refer largely to manufacturing industries, rather than service industries. It was aimed that the information gained from the senior managers of health club companies would further embellish the process of internationalisation summarised in the diagram, thus providing a process of internationalisation specific to the health club industry.

The original skeletal process of internationalisation drawn from the literature assisted in identifying the broad research questions used during data collection, while the analysis of the health club industry in Chapter Three facilitated the identification of issues that are of particular relevance to the health club industry. The examination of the literature on internationalisation and the health club industry also ensured that

any issues raised during data collection were recognised, understood and could be debated. However, specific research questions were not determined as it was intended that the research was inductive, allowing the health club managers to identify the issues and factors that they believed to be the most pertinent and relevant.

An evaluation of the tools and techniques for data collection in Chapter Five confirmed that in-depth qualitative interviews would be the most appropriate method of gaining the necessary information regarding company strategies and objectives. The analysis of the potential population for interview revealed that there was a number of different groups of individuals that might be targeted, including journalists and analysts; health club equipment suppliers; senior managers of non-international health club companies; and senior managers of internationally active health club companies. By interviewing the groups of individuals in the ordering suggested (as far as possible) it was hoped that the information from the earlier interviews would supplement the information from the latter interviews. In this way the interviews would become more focussed over time, with the earlier interviews discussing wider trends and the final interviews concentrating on international activity. The senior management targeted for the final two stages of the interviews included Managing Directors; Chief Executives; Operations Directors; and Commercial Directors.

The analysis of the interview transcripts identified a number of key topics that the interviewees recognised as being of significance in the health club industry. These observations broadly concerned the British health club market; the foreign health club markets; the domestic development of British health club companies; and the international development of British health club companies. Within each of the areas the material was explored further, with a number of themes being identified, and these individual themes formed the basis of Chapters Six and Seven. Chapter Six utilised the interviewees' observations concerning all of the topics, whereas Chapter Seven focussed on the information collated on the international markets and the international development of health club companies.

The aim of this chapter is to discuss the conclusions drawn from the analysis of the internationalisation of the health club industry. The chapter will discuss the conclusions relating to the process of internationalisation as a whole and the conclusions relevant to the individual sections within the process. As Chapters Six and Seven contained a number of conclusions throughout their analysis, the following section will therefore provide a summary of them, whilst Section 8.2 will focus in

more depth on a number of key conclusions. The chapter will finally discuss the limitations of the research and suggest further areas of research that might assist in developing the theories of internationalisation.

8.1 SUMMARY OF THE PROCESS OF INTERNATIONALISATION

Chapter Six found that the main motive for health club operators' expansion overseas was the possible enhancement of long-term profits, and that a number of factors prompted them to believe that international activity would improve their long-term profits. These factors were divided into environmental 'push' and 'pull' factors and company-dependent factors. The environmental 'push' factors were identified as being: the problems arising from British health club sites; domestic market maturity / saturation; increased competition; pressure from The City, whilst the environmental 'pull' factors were found to be: underdeveloped foreign markets; potential rapid development of foreign markets; opportunities for acquisition / joint ventures; different economic conditions. The company-dependent factors were identified as being: success in the domestic market; company specific opportunities overseas; external proposal; access to specific market segments; economies of scale; company development; spreading the risk. The analysis of the factors suggested that internationalisation could potentially be a profit enhancing opportunity for British health club companies, and yet it was also demonstrated that not all British health club operators have chosen to operate overseas. The research demonstrated that this rejection of an international expansion strategy on behalf of a number of the health club companies was due to certain 'determinants', these being the management's interpretation of stimuli; managerial capabilities; and financial capabilities. If the senior management perceived the British market, international markets and the company concerned in such a way that gave internationalisation a negative perspective, or the company did not have the necessary financial and managerial capabilities, then it would not internationalise. The recognition of the importance of the management's interpretation of environmental stimuli was in agreement with the work of Aharoni (1966), but the analysis of the actions of health club companies also recognised that a determinant for internationalisation is the interpretation of company-dependent stimuli. The research suggested that different managers could perceive individual company's strengths and weaknesses differently and potentially reach different conclusions as to whether international activity was appropriate for that

company. Ghauri (2000) identified the importance of management capabilities, but this research also established that the structure of the management team contributes in determining the development of international activity. Although the significance of financial capability was not recognised explicitly in the literature on internationalisation, the obvious necessity of capital funding suggests that its relevance might be assumed. In the health club industry a lack of capital was certainly a factor that prevented many companies from operating overseas.

Given that a number of British operators have expanded overseas the research then focussed on the ownership-specific advantages that British operators possess which enable them to compete against indigenous operators. Two types of ownership-specific advantages were identified; those that the health club companies require in order to operate overseas (primary ownership-specific advantages) and those that aid them in competing overseas (secondary ownership-specific advantages). The analysis also suggested that these ownership-specific advantages are somewhat eroded by the competitive advantages that the indigenous operators possess. The ownership-specific advantages of British operators are therefore not absolute, but are relative to the competitive advantages from which the indigenous operators benefit. Furthermore, the individual British operators were found to possess varying levels of ownership-specific advantages, and in some instances benefited from different ownership-specific advantages. The examination of ownership-specific / competitive advantages broadly agrees with the work of Dunning (1989 & 1993); Hymer (1960); Kindleberger (1960); Caves (1971); Aliber (1993); and Porter (1980 & 1985), although it does identify the advantages that specifically relate to the health club industry. The analysis also found that the ownership-specific advantages of British health club operators were generated from three main areas: financial; marketing; and managerial capabilities.

The analysis of the initial mode of foreign market entry used by British operators as they commenced their international development concluded that the choice of foreign entry mode depended on the original motives for internationalisation; the location; the product format and a range of specific factors. These factors were argued to be opportunities; access to sites; speed; cost; 'baggage'; risk; and local knowledge, somewhat different to those proposed by Ellis & Williams (1995). However, from the observation that acquisitions and new sites are the most popular form of foreign market entry it was also argued that the level of commitment;

degree of control; expected return; and the resources available were all factors that might influence the operators. The examination of the subsequent modes of foreign market entry utilised suggested that an establishment chain (wherein subsequent expansion involves modes of foreign market entry that require increasing risk and commitment) (Johanson and Vahlne, 1977) did not occur. This was partly due to the operators using acquisitions and new sites as their first market entry mode and hence undertaking a high level of commitment and risk immediately, and partly due to their seemingly heavy reliance on opportunities.

A range of factors including the motives for internationalisation; the mode of market entry chosen; product format; social, commercial and legal factors; and opportunity similarly affected the choice of location for the operator's international expansion. Whereas a small number of operators had defined a strategy for the location and expansion of their international activity, many of the operators relied to a great extent on the opportunities that were presented to them. This reliance on opportunity and relative unimportance of location factors such as natural resources; infrastructure; taxation policies; material and labour costs; market size and characteristics would appear to disagree with the significance of such location-specific advantages as propounded by Dunning (1989 & 1993).

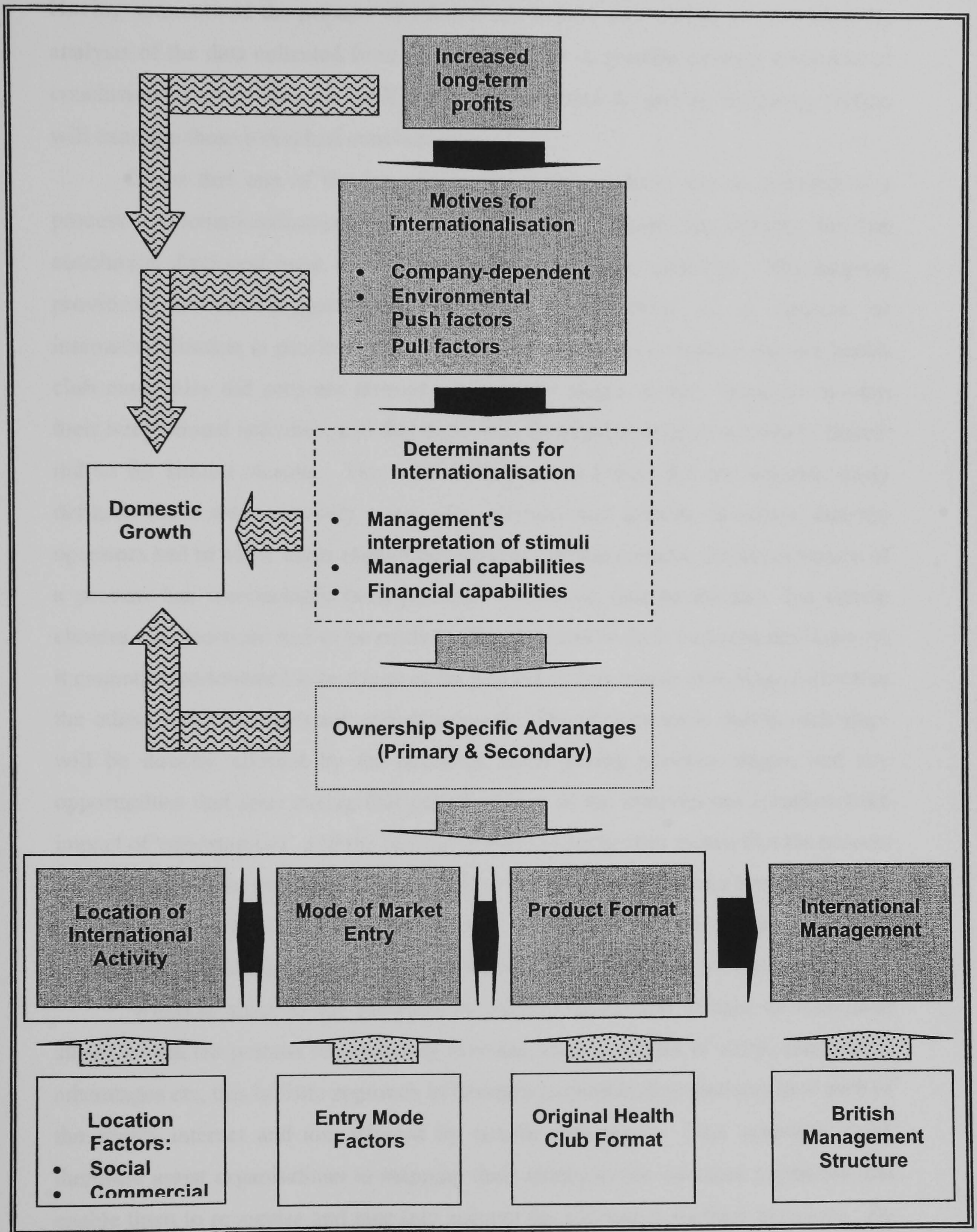
In expanding their health club chain overseas, British operators were found to have differing strategies in determining the format of their foreign health clubs. A number of the operators use the same health club format overseas as they do in Britain, whilst others change the foreign health club format and alter aspects such as the price; the equipment provided; and the ambience of the health club. The foreign health club format was discovered to be reliant on the motives for internationalisation; the mode of entry; the location; and the original format used in Britain. It was also noticeable that the more basic health club chains tend to standardise their product format, whereas the premium health club chains often undertake significant health club adaptations.

Finally the British operators need to determine the manner in which their overseas operations are managed, i.e. whether they are centrally managed through a head office in Britain, or regionally managed with the foreign management teams leading the decision-making process. A number of different strategies were found: a regional approach; a divisional approach; and a centrally managed approach. For example, some companies were found to operate their foreign health clubs regionally,

with the regional office being responsible for the growth of their health club chain. Whilst in contrast, other companies allow their foreign health clubs to operate autonomously. The reasons determining the strategy depended on the health club format; the location of the health clubs; and the central office capabilities.

The above summary of the stages within the internationalisation process can be used to augment the diagram in Chapter Four, as indicated in Figure 8.1. The diagram demonstrates that the process of internationalisation commences with the British company observing that in order to increase its long-term profits it can increase the number of health clubs in its chain in Britain; overseas; or in both locations at the same time. The health club company will then consider the motives for internationalisation, which are generated from the domestic and foreign environment and the company itself. These motives may indicate that internationalisation would increase long-term profits, but whether or not the company does internationalise depends on certain determinants, which will encourage certain companies and discourage others. If internationalisation is perceived to be a viable option the operator will then need to analyse its ownership-specific advantages, to ensure that it is capable of competing with the indigenous health club operators. In undertaking internationalisation the company will confront a series of choices regarding the location of its international activity; the mode of market entry; and the product format utilised. Each of these stages influence each other, and the motives for internationalisation have a bearing on them all. Furthermore, each of the stages is also influenced by external factors pertinent to that stage only. Finally, the company must determine how its overseas operations will be managed, and the strategy chosen is influenced both by the original motives for internationalisation and the preceding stages in the process of internationalisation.

Figure 8.1: The process of internationalisation for British health club companies



8.2 KEY CONCLUSIONS

Having summarised the process of internationalisation that was developed from the analysis of the data collected from the interviews, it is possible to draw a number of conclusions from the process itself and the stages within it, and the following section will examine these individual conclusions.

Given that one of the key objectives of the research was to establish if a process of internationalisation could be identified in the health club industry, the first conclusion discussed must be whether that aim has been achieved. The diagram provided overleaf suggests that yes, the identification of a process of internationalisation is possible. The data from the interviews implies that the health club companies did progress through very similar stages as they began to develop their international activities, and that those who focussed instead on growth in Britain did so for similar reasons. The individual stages in Figure 8.1 are arguably fairly defined; there were certainly some very obvious and definite decisions that the operators had to make when expanding overseas. In this context, the identification of a process has convincingly been possible. However, despite the fact that certain choices and decisions had to be made by the operators in their overseas development it cannot be understated how dynamic the process is, how much each stage influences the others and how important opportunities are. The choices made during each stage will be directly affected by the decisions made during previous stages, and any opportunities that arise during that period. Many of the interviewees mentioned the impact of 'opportunities', and the bearing of these opportunities means that the process cannot be static nor predetermined, and has to be fluid enough to take account of these influences. This is demonstrated in Figure 8.1 by the interplay between the mode of market entry chosen; the location of international activity; and the product format.

Whereas much of the literature on internationalisation focuses on individual stages within the process of expanding overseas, such as modes of entry, competitive advantages etc, this holistic approach to internationalisation demonstrates how each of the stages interact and are affected by outside influences. This approach could therefore assist organisations in mapping their strategies for overseas expansion and enable them to recognise and take into account the influences on their decisions. By considering only individual stages at a time the manager does not achieve the same depth and breadth of understanding of their decisions and strategies. The research also puts the various theories of international activity discussed in Chapter Four into

context, so that they are no longer viewed as isolated decisions, strategies and theories. This holistic and eclectic approach has been demonstrated in the work of Dunning, and the inductive research that has been completed on the health club industry indicates that his OLI paradigm is largely relevant to the individual industry. By applying his work to this research on the health club industry it has been possible to contextualise his theories.

The analysis of the development of the health club market in Europe has also drawn interesting conclusions. Chapter Three acknowledged that the original interest in health clubs in Britain was generated by media coverage of health clubs in America. At that time the British product format was relatively basic and the industry was highly fragmented, with the industry being in the introductory stage of its life-cycle. In contrast the industry in America was more developed and featured chains of health clubs, branding, greater levels of investment and quality venues. British companies began to open health clubs of a similar nature to their American counterparts and eventually large health club chains began to develop, resulting in brand names increasingly being recognised in Britain, and health clubs being easily accessible to a large percentage of the population. The development of the market in Britain was therefore motivated by the expansion of the market in America, but led by British companies. This situation differs greatly to the growth of the health club market in Europe. Whereas in Britain indigenous operators generated the development, foreign, mainly British operators have generally led the expansion of the health club market in Europe. British operators have recognised that the domestic market is maturing, and that there are opportunities overseas, and have taken advantage of those opportunities. Foreign (i.e. British) operators have therefore created the contemporary European health club market.

This observation concurs with Thurrow's (1999) theory of developmental disequilibrium in that the markets in America, Britain, Europe, Australia and the Far East have developed at different rates. The health club market in America is the most mature, whereas most of the health club markets in Europe are still very much at the introductory stage. By recognising this developmental disequilibrium British operators have been able to take advantage of the opportunities available outside the domestic market. However, the state of the markets in Europe has in some instances hampered the expansion of British health club chains, as there are often few opportunities for acquisition, and poor awareness and knowledge of what a health

club is and how it might benefit the member. The premium health club operators were found to suffer to a greater extent from this situation, as they demand high membership fees for a product that the local population does not understand. It might therefore be concluded that an operator which aims to take advantage of a highly underdeveloped market should provide a simple product offering, which is easy to understand and does not demand high levels of consumer expenditure.

The operators who have internationalised were suggested to require certain capabilities, managerial and financial, and to interpret stimuli favourably. The operators that did not possess these determinants did not internationalise. These restrictions were therefore found to arise internally, rather than as a result of external barriers of market entry, as is suggested by Porter (1980 & 1985). Rather than external factors being the greatest discouragement, the analysis of the health club industry found that internal factors were in fact the biggest impediment to international development. Therefore, before identifying and overcoming the external barriers of market entry the British health club company must first determine whether it is able to overcome its internal barriers to foreign market entry. An observation of the British operators' international activity suggests that the PLCs most easily overcome the internal barriers to internationalisation, as all of them have established overseas. The PLCs arguably have better access to funds and more experienced management teams.

Dunning (1993) states that a company's ownership-specific advantages will in part determine the strength of the international activity. The analysis of the health club industry found that British operators do possess significant advantages over the indigenous operators and that these advantages are largely as a result of the experience gained in operating in the British market. However, these ownership-specific advantages are in some instances weakened by the slightly different competitive advantages possessed by the indigenous operators, that are usually generated as a result of them operating in their own country. In comparing the two types of advantages to each other it is arguably the case that British operators possess net advantages over the indigenous operators.

In assessing the modes of foreign market entry used by the health club operators it was found that new sites and acquisitions are the most popular modes, which contrasts to the literature discussed in Chapter Four. The format of the health club product suggests that it is not conducive to incremental stages of foreign market

development. Production and consumption are simultaneous and hence exporting is not a viable option. Furthermore, the impact of commitment and resources did not appear to be forefront in the operators' consideration in determining a mode of foreign market entry, but rather opportunities; access to sites; speed; cost; 'baggage'; risk; and local knowledge. However, the research also suggested that the prevalence of acquisitions and new sites might be associated with the level of commitment; degree of control; expected return; and resources available. When expanding the international chain it was found that even if the company did appear to follow an establishment chain it was simply as a result of opportunity.

The importance of overseas opportunities as an influencing factor on internationalisation can also be demonstrated by analysing the relationship between opportunities and risk. It might be suggested that risk and opportunities lie at opposite ends of the spectrum for health club companies, and if a company is seeking to expand overseas but does not have the obvious opportunities to do so, then it must seek to minimise its level of risk. Companies that did not benefit from specific opportunities overseas were therefore found to seek ways of minimising the risk of international development. The companies experiencing the highest levels of risk were arguably the first British health club companies to internationalise, as they did not benefit from learning from others' experiences. A key example is Fitness First who were the first British company to develop overseas, and it might be suggested that the reason they developed overseas was the conviction of the senior management that they had a 'winning formula' which could succeed overseas as it had in Britain. In terms of risk minimisation Fitness First benefited from their Managing Director having a background as a Management Accountant and hence gaining access to the operations of a variety of leisure companies and developing an understanding of international markets. Fitness Holdings (Europe) was another early-internationaliser, and their Managing Director, Giampaulo recognised the high level of risk that the company faced, and hence spent one year researching the European markets and visiting numerous foreign health clubs. Fitness Holdings (Europe) were also able to minimise their risk as a result of the parent company (Fitness Holdings) being highly experienced in developing health clubs in America.

In contrast a number of British health club operators benefited from specific opportunities that aided their overseas expansion and as a result did not necessarily seek to minimise their risk in the same way. One such example is The Academy who

received an external proposal from Holmes Place to operate a health spa in Austria. The Academy undertook a management contract with Holmes Place and hence suffered little risk when developing overseas. Other health club companies were found to perceive opportunities overseas as a result of the market in certain areas, such as Aspria, which established in Brussels as they perceived the expatriate community in the location to be a strong attraction. Furthermore, Third Space stated that they are seeking to develop overseas as they believe that their target consumers are located in 'capital cities' throughout Europe. A number of health club companies perceived opportunities overseas as a result of the presence of other operators in an area. For example, Aspria observed other health club operators opening venues in Brussels and believed that they would not be direct competition for Aspria when they entered the market, but that the presence of the other operators would educate the local population about health clubs. They also believed that the more discerning consumers would recognise that Aspria provided a far superior service and hence use their facilities instead. Aspria stated that they were unlikely to have developed overseas if other operators had not already been present, as they believed the local market needed educating before a premium facility was introduced. A further means of taking advantage of opportunities was found to be 'piggy-backing' on hotels. LivingWell have achieved much of their international expansion by opening franchises in their existing European hotels, and acknowledged that they would not have expanded as rapidly if they did not have access to the hotels. Finally, a number of the internationally active companies perceived opportunities in other foreign markets once they had commenced international expansion. Both Fitness Holdings (Europe) and LivingWell acknowledged that they recognised opportunities in the Eastern European markets, which were virgin markets, and in South America once they began international expansion in Western Europe and Australia.

Having acknowledged the importance of opportunity in the determination of the mode of market entry it is also important to stress the impact of opportunity in the location of the international activity. The data from the interviews suggests that most of the companies do not have a specific strategy in terms of the location of their overseas development, but rather rely upon opportunity to choose the location for them. A greater level of patterning occurs with the premier health club operators who tend to focus on particular locations rather than on countries. Therefore, rather than

determining that they want to enter the French market operators such as Champneys or Aspria would instead focus on establishing in Paris or Lyon.

The standardisation of the product format was found to vary according to the quality of the product. Analysis found that those operators who provided premier clubs were more likely to adjust their health clubs to a greater extent for the location population. In contrast the cheaper health club formats tended to standardise their product offering.

8.3 LIMITATIONS AND FUTURE RESEARCH

Although it is believed that the research has succeeded in achieving its objectives, a number of limitations of the research can be identified. One of these limitations is arguably the number of interviews that were undertaken. Despite ongoing consolidation the industry is still highly fragmented which means that there are few companies operating chains of health clubs that might consider overseas expansion. Furthermore, of those that were suitable for interview a number of interviews were naturally declined, including by some of the international operators. Further interviews with senior health club managers might augment the analysis of the industry's process of internationalisation.

A further limitation of the research has potentially been the quality of, and access to, secondary data. The majority of the information concerning the health club market has been gathered from the trade and public press, which is arguably not always entirely reliable and accurate. Furthermore, the only comprehensive study on the British health club market that has been completed recently is by Mintel International, which means that it cannot be contrasted to any other study. Much of the analysis of the health club market in Chapter Three therefore relies on the accuracy of this report. The information available on the international health club market is even scarcer, and again relies largely on the trade and popular press. However, every effort has been made to collect as much information as possible on the health club market and health club companies from all sources available and it is believed that the research has succeeded in developing an in-depth and accurate analysis of the health club market.

A further limitation of the research could arguably be the level of subjectivity involved, as the research relies largely on the opinions and views of individuals involved with the industry, and these opinions and views are naturally subjective. In

order to limit the effect of this subjectivity much of the data collected from the interviews was corroborated with secondary data availability. A further influence of subjectivity has potentially arisen from the involvement of the researcher in data collection and analysis. The interviews undertaken were not structured, as it was hoped that the interviewees would lead the discussion, and it might therefore be argued that the researcher could influence the interviewees' observations. This potential occurrence was limited by the preparation of interview topic guides, which remained the same for the interviewees within each group. The avoidance of computer assisted data analysis might also be suggested to result in bias resulting from the involvement of the researcher. However, as discussed in Chapter Four, the use of coding and computer programmes was thought to be unsuitable for the analysis of the data in this case. Given the relatively small number of interviews undertaken it was necessary to draw as much information as possible from the interview transcripts and by coding the transcripts with a computer package many of the factors that influenced decisions at the various stages of internationalisation could arguably have been lost. By analysing large sections of the transcripts at one time it was instead possible to understand the relationships between, and influences on, each of the decisions, and for the researcher to develop a truly in-depth understanding of the health club market.

There are a number of future research possibilities that arise from the analysis of the internationalisation of the health club industry. One area of interest is to map the process of internationalisation of a different industry, and compare it to the internationalisation process in the health club industry. The industry chosen could be a similarly newly internationalising industry, a contrasting manufacturing industry or an industry that has reached the more advanced stages of internationalisation. By comparing the two processes it might be possible to generate new theories and insights into the strategies that companies utilise when developing overseas.

A further area of potential research would be to return to the health club industry in ten to twenty years time to establish how the industry has developed and how the British operators have coped with market maturity and potential market saturation, and whether it has encouraged more British companies to expand overseas. The European markets could also be analysed to determine how they have developed and whether the British operators Fitness First, Fitness Holdings (Europe) and LivingWell are still leading the industry development.

Internationalisation is an ongoing process in the health club industry, and at this stage it is difficult to determine how successful the British operators' overseas ventures have been. Analysts and researchers who have an interest in internationalisation and business success may find it useful to return to the health club industry in a number of years time in order to analyse the success of the internationalisation strategies employed, as the time scale of this research means that this analysis is beyond the time limitations imposed.

Similarly, future research may focus on the strategies of health club operators that have failed in their overseas development, perhaps resulting in them closing foreign operations. At this point in time there have not been any British cross-border ventures that have resulted in bankruptcy or failure of the Healthland kind, and hence failure in the international development has not been explored, even in an ancillary way. One or two of the operators are, however, reported by the trade press to be encountering problems with a limited number of their foreign clubs, so this research might be relevant in the future.

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Appendices

Appendix I

Socio-economic groups:

- A** Higher managerial, administrative and professional
- B** Intermediate managerial, administrative and professional
- C1** Supervisory or clerical and junior managerial, administrative and professional
- C2** Skilled manual
- D** Semi-skilled and unskilled manual
- E** Casual labourers, state pensioners, the unemployed

Source: <http://www.aber.ac.uk/media/Modules/aueb/comm-internet11.html>

Appendix II

Subclass 92.62/9:

Other sporting activities not elsewhere classified

This subclass includes:

- organisation and operation of sports events, outdoor or indoor, for professionals or amateurs by organisations with or without own facilities: football clubs, bowling clubs, swimming clubs, golf clubs, boxing, wrestling, health or body building clubs, winter sport clubs, chess, draughts, domino or card clubs, field and track clubs, shooting clubs
- activities related to promotion and production of sporting events
- activities of individual own-account sportsmen and athletes, judges, timekeepers, instructors, teachers, coaches, etc.
- activities of sport and game schools
- activities of racing stables, kennels and garages
- activities of riding academies
- activities of marinas
- hunting for sport or recreation
- related service activities

Source: Adapted from www.statistics.gov.uk

Appendix III

Major corporate activity in the UK health and fitness clubs sector, 2000-2001

Event	Date
Fitness First plc raises £25.4m through rights issue	February 2000
Hunters Leisure reverses into Deanes Holdings to gain AIM listing	March 2000
Topnotch Health Clubs plc acquires five dry clubs from Cannons Group plc	July 2000
Leisurenet (Healthland parent) goes into receivership	October 2000
Mazaran Leisure plc acquires Springhealth Leisure Ltd for £15.25m	October 2000
Mazaran plc raises £7.2m in rights issue to fund acquisition	October 2000
LA Fitness plc raises £10.2m through rights issue	October 2000
Holmes Place plc raises £31.5m through rights issue	November 2000
Crown Sports plc acquires Dragons Health Clubs	December 2000
Crown Sports acquires 6.8% stake in Esporta for £11.8m	December 2000
Crown Sports acquires 3.9% stake in Clubhaus for £1.9m	January 2001
Next Generation raises £23m through rights issue	February 2001
Crown Sports increase stake in Esporta to 9.9% for £4.9m	March 2001
Cannons plc announces £260m management buyout to take it private	March 2001
Cannons plc secures £230m loan to pay off debt and fund expansion	March 2001
Bass plc (now renamed Six Continents plc) acquires Post House for £810m	April 2001
Crown Sports plc acquires Axis Health & Fitness for £8.9m	April 2001
Crown Sports plc acquires Fitness Express for £3.4m	April 2001
Bannatyne Fitness secures £50m to fund expansion programme	April 2001
Crown Sports plc acquires trainstation for £8.4m	July 2001
Topnotch acquires Espree Leisure Ltd from Esporta plc for £2.2m	August 2001
Lady in Leisure plc goes into administrative receivership	September 2001
Aludel Ltd acquires 16 clubs from administrators of Lady in Leisure plc for consideration of £3.1m	September 2001

Source: Mintel (2001, p.59)

Appendix IV

Letter requesting an interview (sent to an internationally active operator):

<Address>

<Date>

Dear <Name>

Due to social trends during the past decade and the escalating quality of service offering, the health club industry has become an important contributor to the British economy. Recent new market entrants, the success of current operators and the regularity of health club company mergers and acquisitions have combined to ensure that the industry is one of the most active and interesting in the contemporary business environment. Furthermore, the industry has been affected by the general move towards globalisation, with a number of British operators established overseas.

As a Doctoral Researcher at Loughborough University Business School I am researching the internationalisation of the health club industry, including the reasons why companies operate in overseas markets, the modes of market entry utilised, strategies within foreign markets and the choice of foreign countries.

In order to establish an understanding of the health club industry I have undertaken secondary research, before meeting leisure analysts and journalists. More recently I have interviewed a number of health club operators, including <name> (<company name>), <name> (<company name>) and <name> (<company name>), and health club suppliers, including <name> (<company name>). I also have interviews arranged with <name> (<company name>) and <name> (<company name>). I am now keen to find out your perspective of the health club industry, including past trends, future developments and international expansion.

The interview would not take more than one hour, and if possible one of my supervisors (Robert Hamilton or Prof. Peter Lawrence) would like to attend. Naturally I would be more than happy to travel to your offices. If you would like to contact me please call me on <number>, or email the address below. Otherwise, I will give your secretary a call in a few days time.

Thank you very much for your help and I look forward to speaking to you.

Kind regards

Yours sincerely

Nicole Richardson

<email address>

Appendix V

Aide memoire for interviews with journalists, analysts and health club equipment suppliers:

What do you believe have been the key trends in the British health club market during the past ten years?

Prompts:

- *Growth of the market*
- *Number of operators*
- *Level of market penetration*
- *Industry consolidation*
- *Branding*
- *Market segmentation*
- *Increased diversity of product offering*
- *Increased competition*

How would you describe the nature and structure of the contemporary British health club market?

Prompts:

- *Number of operators*
- *Types of operators*
- *Level of competition*
- *Competitive strategies*
- *Types of product offering*
- *Consumers*

What do you believe will be the key trends in the British health club market during the next ten years?

Prompts

- *Number and type of operators*
- *Domestic growth strategies*
- *Domestic competitive strategies*
- *Level of competition*
- *Changes in product offering*
- *Consolidation*
- *Diversification*
- *Internationalisation*
- *Consumers*

How would you describe the international activity of British health club companies?

Prompts:

- *Number of British companies that have established overseas*
- *Types of operators that have international operations*
- *Product formats utilised*
- *Countries that have been entered*
- *Modes of foreign market entry that have been utilised*
- *Manner in which the foreign operations are managed*

Appendix VI

Interview guide for non-internationally active operators:

Please could you summarise the development of your company from its inception to present day?

History:

Prompts:

- *How company established*
- *People involved*
- *Location of original clubs*
- *Pricing schemes*
- *Target consumers*
- *Facilities provided*
- *Business aims of company founders*
- *Sources of funding for the original clubs*

Present:

Prompts:

- *People involved*
- *Location of clubs*
- *Pricing schemes*
- *Target consumers*
- *Facilities provided*
- *Cost of establishing new clubs*
- *Current sources of funding*
- *Methods of expansion employed e.g. acquisition / greenfield*
- *Process of developing a new clubs, from raising the funds to opening the new club*
- *Current business aims*
- *Brand*
- *Differentiation*
- *Competitors*
- *Methods of competition employed*
- *Joint ventures / strategic alliances*
- *Future of the company e.g. where do you see the company in 5 and 10 years time*

What do you believe have been the key trends in the British health club market during the past ten years?

How would you describe the nature and structure of the contemporary British health club market?

What do you believe will be the key trends in the British health club market during the next ten years?

Prompts for the above three questions:

- *Types of operators e.g. private / local authority*
- *Influence of the leisure multiples*

- *Influence of new market entrants*
- *Increased acknowledgement of the health club industry by the government*
- *Increased 'professionalisation' of the health club industry*
- *Sites for health clubs*
- *Potential saturation*
- *Fragmentation of the industry*
- *Increasing consolidation of the industry*
- *Bi-polarisation*
- *Brands*
- *Competitive strategies employed by health club operators*
- *International development*
- *Profile of the health club consumer*

How would you describe the nature and structure of overseas health club markets?

Prompts:

- *Types of operators*
- *Number of operators*
- *Level of industry fragmentation*
- *Quality of services*
- *Demand for health clubs*
- *Consumers' view of health clubs*
- *Country comparisons*
- *Suitability of foreign markets for British operators*

How would you describe the international activity of British health club companies?

Prompts:

- *Number of British companies that have established overseas*
- *Types of operators that have international operations*
- *Product formats utilised*
- *Countries that have been entered*
- *Modes of foreign market entry that have been utilised*
- *Manner in which the foreign operations are managed*

Please could you outline your views on the potential international development of your company?

Prompts:

- *Likelihood of future international development*
- *Reasons why / why not*

If stated that future international development is likely:

Prompts:

- *Timing of international expansion*
- *Motives for the international expansion*
- *Countries*
- *Modes of foreign market entry*
- *Management*
- *Product format*

Appendix VII

Interview guide for internationally active operators:

Please could you summarise the development of your company from its inception to present day?

- When established
- How established - type of company / by whom
- Current status - no. of clubs / type of service offering etc

Please could you summarise the key issues in the British health club market?

- Trends in the British market to date
- Status of the contemporary British market
- Future of the British market

Prompts:

- *Branding*
- *Pricing*
- *Site scarcity*
- *Member saturation / penetration levels*
- *Consolidation / bi-polarisation*
- *Entrance of new competitors*
- *American influence*
- *Type of service offering*
- *Influence of The City*
- *Format of the clubs*

What has been the international activity of your company to date?

- When did the international expansion begin?
- What is the current profile of your international operations?

What do you believe were the main reasons for you commencing operations overseas?

Prompts:

- *Success in the domestic market*
- *Diversification*
- *Economies of scale / scope*
- *Capability of the organisation*
- *Profitability*
- *Travelling consumers*
- *External proposal*
- *Limited growth in the domestic market*
- *Threat of entry by overseas companies into the British market*
- Was there one manager who acted as the driving force?
- Was international development a long-term strategy?
- How great an influence was the overseas success of other British health club companies?
- How great an influence was the international availability of your health club equipment?

How and why did you decide on the mode of international expansion?

- Which mode of foreign market entry was used?
- How was the mode chosen?
- What is your opinion on the other types of modes (e.g. franchising / joint ventures / acquisitions)?
- What are the main benefits of the mode that was chosen?
- To what degree will that mode be used in the future?
- What were the problems encountered in using that mode of foreign market entry?

How and why did you choose the countries for international development?

- Which was the first country you entered?
- How did you research the potential countries?
- What was the time scale involved?
- What were the factors behind the choice of that country?
- Would those factors now change in hindsight?
- Which countries did you subsequently enter?
- On what basis were those countries chosen?
- What were the main problems with the countries you entered?

Please describe the format of your foreign health clubs.

- How similar is the format of the overseas health clubs to the domestic health clubs? (e.g. size of clubs / facility offering)
- What are the main differences?

Prompts:

- *Marketing*
- *Pricing*
- *Market positioning*
- *Facilities*
- *Location*
- *Consumers*

How are your international operations managed?

- Which, if any, parts of the management of the international development were outsourced?
- To what extent is there a strategy in place for future international development?
- What will be changed in the future strategy of international management (e.g. will the mode of market entry remain the same etc)
- How do you anticipate the revenue generation of foreign clubs to compare to that of domestic clubs?
- How does the management structure operate with your overseas clubs? (e.g. do you use foreign managers?)
- Please identify the stages that you have progressed through with your international expansion?
- What kind of strategy is there in place for withdrawal from overseas markets?
- What has been the view on your international expansion by The City / shareholders?

Please could you summarise your views of international health club markets?

- View of the international expansion of other health club companies
- Anticipation of other health club companies entering the international arena?
- The state of the health club industry in the rest of Europe / world?

Appendix VIII

Details of interviews undertaken:

Individual's Name	Position	Company	Date
Analysts			
David Tucker	Analyst	Key Note	6 th Dec 00
David Minton	Managing Director	Online Leisure	7 th Dec 00
Chris Gratton	Research Professor	Leisure Industries Research Centre (LIRC)	11 th Dec 00
Louisa Ford	Consultant	Ernst & Young	13 th Dec 00
Roger Ahmed	Consultant	GVA Grimley	14 th Dec 00
Jon Patrick	Director	Christie & Co	24 th Sep 01
Nigel Wallace	Executive Director	Fitness Industry Association (FIA)	10 th Jan 02
Suppliers			
Tony Majakas	Managing Director	Technogym UK Ltd	12 th Sep 01
Andrew Dick	Managing Director	Stairmaster UK	9 th Jan 02
Non-international operators			
John Cullen	General Manager UK	Club Moativation	6 th Mar 01
Toby Bromage	Managing Director	Lamb's Health & Fitness	22 nd Mar 01
Chris Ayres	Operations Director	De Vere Leisure	11 th Apr 01
Ollie Vigors	Director	Third Space	28 th Aug 01
Graham Thomas	Managing Director	Amida	30 th Aug 01
John Lowther	Managing Director	SpringHealth	3 rd Sep 01
John Treharne	Managing Director	Crown Sports PLC	31 st Oct 01
Kevin McCollum	Chief Executive	Invicta Leisure	17 th Dec 01
Mike Lees	Managing Director	Boots (Wellbeing)	25 th Jan 02
International operators			
Fred Turok	Chief Executive	LA Fitness PLC	12 th Sep 00
Mark Silver	Managing Director	The Academy	16 th Mar 01
Barry Aspinall	Associate Director	JJB Sports	20 th Sept 01
Patrick Fitzgibbon	Vice-President of International Business Development	LivingWell	26 th Nov 01
Scott Lloyd	Managing Director	Next Generation	17 th Dec 01
Brian Morris	Chief Executive Officer	Aspria	4 th Jan 02
Guy Buckley	Managing Director	Clubhaus	1 st Feb 02
Mike Balfour	Chief Executive	Fitness First PLC	7 th Mar 02
David Giampaolo	Managing Director	Fitness Holdings (Europe)	19 th Mar 02
Matthew Lynwood	Commercial Director	Esporta	5 th Apr 02
Bernie Hawkins	Operations Director	Champneys	5 th Jun 02

Appendix IX

Key to company names in Table 7.11:

A	The Academy
As	Aspria
Ca	Cannons
Ch	Champneys
Cl	Clubhaus
D	David Lloyd Leisure
Es	Esporta
FF	Fitness First
F	Fitness Holdings (Europe)
H	Holmes Place
La	LA Fitness
JJ	JJB Sports
L	LivingWell
N	Next Generation
V	Virgin Active
T	Total