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Optimize Your Fitness, Optimize Your Business: The Balanced Scorecard, Analysis and Application for the CrossFit Affiliate

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Claremont McKenna College

Optimize Your Fitness, Optimize Your Business:
The Balanced Scorecard, Analysis and Application for the CrossFit Affiliate

submitted to
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by
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Abstract

The Balanced Scorecard for the CrossFit Affiliate will provide unprepared or inexperienced managers with the necessary information to make informed operational decisions. The Balanced Scorecard incorporates financial data, customer satisfaction, internal operations, and future growth to create a series of cause-and-effect relationships that illustrate how decisions in one aspect of a business affect others. The Balanced Scorecard particularly benefits inexperienced managers leading small businesses. As overall small business growth increased, the boutique fitness industry expanded. The CrossFit brand rose in conjunction, but because corporate leaders insist on a hands-off licensing model, affiliate owners do not receive assistance from CrossFit corporate headquarters. In addition, the high frequency of affiliate owners without business education or management experience contributes to the likelihood of failure. Until CrossFit corporate actively guides its licensees, owners need a tool to promote business success. The Balanced Scorecard for the CrossFit Affiliate, comprised of data from one successful and four unsuccessful affiliates, will assist affiliate managers. Profitability, market share, retention, and the introduction of new services are the main drivers of the Balanced Scorecard and augment the analysis of relationships between the financial, customer, internal, and growth perspectives.

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Introduction

Robert Kaplan, creator of the Balanced Scorecard, recognizes the ability of a manager to articulate a dream, then map and follow the steps to attainment.

*Reaching your potential is not simply about dreaming or being idealistic. It is a process that involve specific actions, exercises, discipline and hard work. It is challenging, rewarding and unending.*¹

– Robert Kaplan.

Annie Thorisdottir, CrossFit Games athlete, understands how to approach an imperfect situation and adapt to achieve a successful future.

*During the hard times, it's important to focus on the things you can change in that moment instead of what you should have or could have done differently.*²

– Annie Thorisdottir.

Inexperienced management tends to focus solely on financial measures when making important businesses decisions. The Balanced Scorecard influences management to incorporate analysis from multiple perspectives. Through the process of creating a Balanced Scorecard, management examines how decisions in one area of the business will affect others. Management can understand components of its business and map causal relationships between different perspectives, increasing its ability to make informed decisions. Inexperienced managers who do not understand an

¹ Robert S. Kaplan and David P. Norton, *The Balanced Scorecard: Translating Strategy Into Action* (Harvard Business School Press, 1996).

² Lea Isabelle, "50 Inspirational Quotes for CrossFitters in 2016," *BOXROX*, March 11, 2016, Accessed April 17, 2018, www.boxrox.com.

industry or do not possess the skills for efficient management particularly benefit from the Balanced Scorecard because of the supplementary insight they gain.

When developing a Balanced Scorecard, management asks strategic questions to gather information regarding the financial, customer satisfaction, internal, and learning perspectives: How are you doing financially? Do customers like your product or service? Can you efficiently and effectively deliver what your customers want? Can you continue to improve and create value? Upon analysis, connections reveal cause-and-effect relationships. These relationships help management visualize how each component of a business works together. The cause-and-effect relationships create “leads and lags” between perspectives: When management invests in a specific aspect of the business, one perspective positively or negatively affects another. The perspective affecting is the “lead” and the perspective affected is the “lag.” Inexperienced business owners often do not recognize this phenomenon.

Small business entrepreneurship represents the opportunity to open a business regardless of background or education; however, many businesses struggle to remain sustainable because of slow growth and the high frequency of unprepared management. Factors such as tunnel vision due to blind enthusiasm and lack of market awareness contribute to overall business decline and an increased likelihood of failure compared to that in established businesses with experienced management.

Entrepreneurship thrives in industries with low barriers to entry and high growth, but may lead to higher rates of failure. The boutique fitness industry, comprised of specialty gyms with high premiums and passionate management, grew rapidly in recent decades as consumer demand shifted away from large, traditional

gyms. To facilitate high growth, the corporate-level of boutique fitness granted disproportional autonomy to local owners. The industry continues to progress rapidly, but due to hands-off licensing models, the distance between corporate leaders and local owners increases. Now, local management holds more responsibility for their success or failure.

“The Balanced Scorecard (BSC) provides managers with the instrumentation they need to navigate to future competitive success,”³ particularly in small businesses that need to understand operations and growth. The urgent need in the boutique fitness industry led to the case study and creation of a Balance Scorecard for the CrossFit Affiliate. The CrossFit brand prides itself on low barriers to ownership. Built on a licensing model, affiliate owners pay a fee for the CrossFit name, but then hold complete autonomy when running their business. Thus, any motivated individual can open an affiliate to teach the CrossFit methodology and establish a fitness community. On paper, this appears as a trustworthy model that promotes growth and expansion, but upon further analysis, owners lack the insight to successfully form and sustain a business.

Because CrossFit corporate headquarters does not provide enough financial and structural assistance to its licensees, affiliate owners must implement organizational tools to ensure efficient operations and long-term sustainability. CrossFit headquarters must adjust relationships with affiliates to ensure sustainable growth. After examining four unsuccessful and one successful CrossFit affiliates, I will present a Balanced Scorecard for the CrossFit Affiliate. Profitability, market

³ Kaplan and Norton, *The Balanced Scorecard: Translating Strategy Into Action*.

share, retention, and the introduction of new services are the most significant metrics.

These metrics influence the success of the financial, internal, customer, and growth perspectives, as well as the overall survival of the business.

Small Business Background

Inclusivity and low barriers to entry drive entrepreneurship and the creation of small businesses. Access to entrepreneurship does not discriminate against education, certification, or background. The proper drive, means, and resources can lead to the pursuit of an aspiration, and the rise of e-commerce enables more people to open businesses online or from home. Because “entrepreneurship is the engine that drives the economy of most nations,”⁴ owners are encouraged to pursue their dreams, despite lack of preparation, education, and expectations. “Ordinary people” opening businesses,⁵ millennial’s obsession with work-life balance, and a healthy economy,⁶ contribute small business growth,⁷ but are these dreams sustainable? Small companies need ways to evaluate performance and remain profitable.

What is a small business?

Three characteristics define a small business: managers are owners, an individual or small group supplies capital, and the geographic area of operations is local.⁸

Management can better determine and follow a long-term agenda with simple operations. When objectives align with the goals of a business, the distance between

⁴ Gary Gorman, Dennis Hanlon, and Wayne King, “Some Research Perspectives on Entrepreneurship Education, Enterprise Education and Education for Small Business Management: A Ten-year Literature Review,” *International Small Business Journal* 15: 56-77, Accessed February 25, 2018.

⁵ “The ‘Shark Tank’ Effect: How Even the Shows Losers Became Winners,” *OPEN Forum*, May 15, 2014, Accessed February 26, 2018, www.americanexpress.com.

⁶ Ryan Jenkins, “5 Ways Millennials Are Redefining Work-Life Balance,” *Inc.com*, February 5, 2018. Accessed February 26, 2018, inc.com.

⁷ Dun & Bradstreet, “Expectations for Small Business Growth in 2018 on the Rise as Confidence in the U.S. Economy Steadies,” *PR Newswire*, December 20, 2017, Accessed February 25, 2018, www.prnewswire.com.

⁸ Mel Scott and Richard Bruce, “Five Stages of Growth in Small Business,” *Long Range Planning* 20 (1987): 45-52, Accessed February 25, 2018.

vision and action decreases and management can make informed decisions. In addition, relationships between owners, managers, and employees are more transparent, trustworthy, and communicative across channels.⁹ With limited funding and financial tools, an owner can better manage a simple supply chain. In effect, small business owners tend to source from limited or specialized suppliers.¹⁰ Lastly, a small geographic scope streamlines business operation because an owner only needs to understand one geographical area.¹¹ Owners can focus on learning its community's needs. Many small businesses are created with the objective to satisfy a local need. If a parallel need exists in another location or the business expands its reach, then operations can grow and adapt accordingly.

Small business challenges

Over the past two decades, while Fortune 500 hiring decreased, small businesses “accounted for approximately 90% of all new jobs generated in the United States;”¹² however, only half of new businesses survive more than five years.¹³ Small businesses fail because management is not prepared for successful day-to-day operations. In addition, because many small businesses are borne from emotional ties between owners and a product or service, owners may stay in the business longer than sustainable. Closing the business does not only represent financial loss, but also the abandonment of a dream.

⁹ Scott and Bruce, “Five Stages of Growth in Small Business.”

¹⁰ Ibid.

¹¹ Ibid.

¹² Bruce R. Barringer and Daniel W. Greening, “Small Business Growth Through Geographic Expansion: A Comparative Case Study,” *Journal of Business Venturing* (1998) 13: 467-492. 1998, Accessed February 25, 2018.

¹³ Glenn Kessler, “Do nine out of 10 new businesses fail, as Rand Paul claims?” *The Washington Post*, January 27, 2014. Accessed February 25, 2018, www.washingtonpost.com/.

In my conversation with Chris Cooper, Founder of Two-Brain Business an owner of several small gyms, we discussed why people open businesses and the right time to quit. Chris explained that economic freedom enables an entrepreneur to follow his dreams despite a lack of education, time, or resources. For example, Chris was dissatisfied with the gyms in his area, so he decided to open his own. Without any business education or previous management experience, Chris nearly hit bankruptcy after two years.¹⁴ One decade later, Chris owns a successful gym, but recognizes a flaw in the entrepreneurial system. Because owners are confident, they open businesses they are unprepared to manage. Proper growth structures and business organization tools are the best ways to learn on the job and sustain a venture.

Small business growth

Mel Scott and Richard Bruce (*Long Range Planning*) outlined the stages of small business growth: Inception, Survival, Growth, Expansion, and Maturity.¹⁵ If management can adapt, then the business can grow successfully.

The nuances within growth determine the fate of a small business. By planning for and managing growth, companies can ensure growth is steady and healthy. If a company grows too quickly and cannot scale, then the mission cannot be fulfilled. If practices and structures are too rigid, then the business cannot adapt. The Balanced Scorecard, which will be further examined in a later case study, analyzes a business from multiple perspectives, aggregating financial data with internal operations, customer satisfaction, and future growth.

¹⁴ Chris Cooper, "Chris Cooper from Two-Brain Business," Interview by Jordan Aronowitz, Telephone, December 12, 2017.

¹⁵ Scott and Bruce, "Five Stages of Growth in Small Business."

Candida Brush (*Business Growth*) discusses the causes and effects of business growth.¹⁶ Rapid growth trajectories include extreme surges in sales and revenue and consistently exceeded expectations. Fast-paced growth excites a new business, but if a business does not set up the structures to grow efficiently, then success cannot be maintained. Slow growth may be a better option for a new business to reassess structures at each point.

Brush found that management, marketing, and money primarily determine growth, but each can positively or negatively affect a business at times.¹⁷ For example, spending too much on redundant marketing can lead to more costs than revenue. Thus, firms grow at different rates. Managers must constantly analyze their unique proposition, environment, and location to assess the best and healthiest way to grow their business.

Stephen Perry (*Journal of Small Business Management*), who analyzed levels of operational planning in a sample of successful and unsuccessful small businesses, supports the above assertion. He defines planning as: sales forecasting, written staffing and cash requirements, capital expenditure forecasting, and competitive analysis. Businesses self-rated from 0 to 5 on their level of planning. Overall, businesses that planned were less likely to fail and more likely to survive longer than businesses that did not plan.¹⁸ Proper planning and education from management can lead to a successful business operation despite inherent risks of entrepreneurship.

¹⁶ Candida G. Brush, Dennis J. Ceru, and Robert Blackburn, "Pathways to entrepreneurial growth: The influence of management, marketing, and money," *Business Horizons* (2009): 481-491, Accessed February 25, 2018.

¹⁷ Ibid.

¹⁸ Stephen C. Perry, "The Relationship between Written Business Plans and the Failure of Small Businesses in the U.S.," *Journal of Small Business Management* 39 (2001): 201-208, Accessed February 25, 2018.

Financial relationships and profitability

Small businesses struggle with day-to-day finances due to inconsistent revenue streams and funding dependent on economic climate. Allen Berger and Gregory Udell (*Journal of Banking & Finance*) highlighted transparency of information as the most important difference between large and small firm's financials. Small firms "do not enter into contracts that are publicly visible or widely reported in the press, do not issue traded securities that are continuously priced in public markets, are not registered with the Securities and Exchange Commission (SEC)," and do not have publicly audited financial statements.¹⁹ On one hand, small businesses benefit by focusing on growth, sustainability, and mission without worrying about distracting opinions from investors or the media. However, lack of respect from large institutions, such as venture capital firms or banks, and lack of trust in partnerships can occur because of the privatization of financial information accessible at larger, public firms.

While many focus solely on revenue, incorporating profitability further highlights a business's health and sustainability. Stephen Roper (*Small Business Economics*) analyzed which financial ratios determine profitability and small business development. While turnover and return on assets weakly related to profitability in the short-term, strategy choice largely affected profitability and growth rates.²⁰ This means that small firms must make the correct strategy choices, leading to steady and

¹⁹ Allen N. Berger and Gregory F. Udell, "The economics of small business finance: The roles of private equity and debt markets in the financial growth cycle," *Journal of Banking & Finance* 22 (1998): 613-673, Accessed February 25, 2018.

²⁰ Stephen Roper, "Modelling Small Business Growth and Profitability," *Small Business Economics* 13 (1999): 235-252, Accessed February 25, 2018.

structured growth. Management can implement proper strategic plans if it understands firm direction.

The relationship between service and profits also impacts the success of a small business. Valerie Zeithaml (*Journal of the Academy of Marketing Science*) aggregated past service quality and profitability research. In a quality improvement program, management increased the quality of the services provided to customers with the hope that the investment in the product will increase sales and profitability. While many quality improvement programs helped overall business function, “nearly two thirds had either stalled or fallen short of delivering real improvements.”²¹ This means that increased sales did not accompany increased costs. In addition, Zeithaml discussed how return on asset and return on investment are the most important predictors for customer satisfaction relative to quality. When a business can justify a venture with positive returns, profitability and likelihood for future funding increases.

New businesses struggle to focus on profitability without ignoring important parts of the mission. For example, Michael Mauboussin (*Harvard Business Review*) discusses how overconfidence and major projects distract management from recognizing the most important indicators of profitability.²² Mauboussin states that the most successful firms analyze cause-and-effect relationships that aggregate quantitative and qualitative indicators and only integrate the statistics that make sense for their size, model, and industry.

²¹ Valerie A. Zeithaml, “Service Quality, Profitability, and the Economic Worth of Customers: What We Know and What We Need to Learn,” *Journal of the Academy of Marketing Science* 28, no. 1 (January 2000): 67-85.

²² Michael J. Mauboussin, “The True Measures of Success,” *Harvard Business Review*, July 31, 2014, Accessed March 04, 2018.

Evaluating Performance

From ideation to launch and growth, new businesses struggle with communication, stratification, and internal organization. Challenging role assignments occur when each employee must fill diverse tasks. Christopher Street and Darren Meister (*MIS Quarterly*) analyzed early adoptions of information systems and its effect on internal transparency. They found that “small business growth is known to strain internal communication processes...which likely limits growth opportunities.”²³ In 2004, businesses began to adopt rudimentary information systems that remedy internal deficiencies from management to entry-level staff. Now, an entire industry exists to design the most useful tools for small business organization.²⁴

Challenges, such as lack of organization, inefficient structure and role assignment, or communication issues, can be coordinated with a mix of free and premium tools for small businesses. Customer Relationship Management (CRM)²⁵ software allows management to track a business’s stakeholders, from customers to investors, and analyze the timeline of a business relationship.

Communication tools, such as Slack,²⁶ allow an entire organization to communicate on the same platform, either individually or in groups, to minimize debilitating hierarchies, increase transparency, and enable access to all levels of a business.

²³ Christopher T. Street and Darren B. Meister, “Small Business Growth and Internal Transparency: The Role of Information Systems,” *MIS Quarterly* 28 (2004): 473-506, Accessed February 25, 2018.

²⁴ Andrew Medal, “10 Must-Have Tools for Small Businesses,” *Entrepreneur*, February 17, 2017, Accessed February 25, 2018, www.entrepreneur.com.

²⁵ “What is CRM?” *Salesforce.com*, Accessed February 26, 2018, www.salesforce.com/.

²⁶ Slack. *Slack*, Accessed April 15, 2018, www.slack.com.

Sharing tools, such as Google Drive,²⁷ take the conventional Microsoft Office suite and creates online versions for documents, presentations, and sheets, as well as an email client. Employees can easily access files created within an organization and share them with company-only links. In addition, multiple users working on the same project can edit the same document at the same time, increasing efficiency and minimizing redundant edits.

Organizational tools, such as Trello,²⁸ display a certain project's tasks to encourage successful distribution of resources, financial forecasting, and collaboration. Starting a small business will always be challenging, but increasing education, a healthy economy, and strategic tools help entrepreneurs.

If necessary, management can reassess operations from an outside perspective. The Balanced Scorecard, which analyzes multiple business perspectives from finances, to internal organization, to customer satisfaction, to future growth, applying quantitative values to other qualitative business attributes, provides an operational reset. Cause-and-effect relationships are mapped accordingly to provide management with as much knowledge as possible.

Of course, these tools are not all-encompassing. They do not guarantee business financial success upon implementation, only highlight certain segments of a struggling business, and may be expensive or proprietary; however, management must examine its structure in the process of assessing and implementing one of these tools. This exercise allows management to step back and analyze its business and structure from a new perspective, regardless of the implementation of a tool.

²⁷ Google Drive, *Google Drive*, Accessed April 15, 2018, drive.google.com.

²⁸ Trello, *Trello*, Accessed April 15, 2018, www.trello.com.

Small businesses struggle to build sustainable models and survive financial periods before profitability because barriers to ownership are low. Owners lack the education to lead successful businesses. Practical and applicable financial and structural tools are necessary for owners to pursue stable ventures.

I will focus on the creation, implementation, and analysis of the Balanced Scorecard in a case study for the boutique fitness industry. An increased emphasis on health and fitness combined with the sociability of boutique fitness and group classes provide a relevant and applicable case study for understanding the intricacies of a growing industry. Low entrepreneurial barriers for entry create opportunities for franchising and licensing large-scale brands, but lack of experience prevents business owners from remaining successful long-term. The Balanced Scorecard recognizes pain points and explains business deficiencies.

I will apply the Balanced Scorecard as a mechanism for management to examine each component of its business and to improve its structure, function, and organization in the process by creating a Balanced Scorecard for a niche fitness brand using data obtained from five small businesses, then provide recommendations to similar businesses and its corporate management and other small businesses.

Balanced Scorecard Literature Review

Leaders must integrate multiple perspectives when analyzing the past and planning for the future of a firm or a project. The Balanced Scorecard analyzes the relationships between management, employees, customers, and finances. By mapping cause-and-effect relationships between a selection of perspectives and key performance indicators (KPIs), the Balanced Scorecard (BSC) depicts a balanced structure and function of a business. Rather than merely relying on overused short-term financial indicators, the BSC encourages analysts to introduce new strategies to achieve breakthrough performance.

The BSC begins with a general understanding of both strategic planning and management priorities to uncover the forces driving a business, then delves into more specific questioning and analysis of four main perspectives. The result is a dynamic tool that illustrates the cause-and-effect relationships between different business decisions and metrics. Balanced Scorecard creators and users refer to these as “lead and lag” relationships. By focusing on performance metrics from a given perspective, management will improve part of the business, but limit the time and resources that can be devoted elsewhere. The relationship can be depicted as cause and effect between the improvement (the lead) and the result (the lag). Then, management will use the Balanced Scorecard to quantitatively depict causal relationships and make informed decisions.

Why is a Balanced Scorecard important?

As “approximately 50% of Fortune 1000 companies use the BSC,”²⁹ a business needs a Balanced Scorecard to comprehensively understand how actions and decisions in one part of a business affect management, followers, and the industry as a whole.

By creating a Balanced Scorecard, management must examine its relationships with employees, customers, and competitors from new perspectives. This will help management understand its strengths and weaknesses, even if it does not ultimately implement the BSC. In addition, the focus on planning helps management think about what decisions will lead to future success. As Ron Person explains in his book, *Balanced Scorecards & Operational Dashboards*, the business before the Balanced Scorecard “is going on a route with no destination.”³⁰ The Balanced Scorecard provides a clear destination and goal.

Outcomes of the Balanced Scorecard

Kaplan and Norton stress the importance of a balanced business. They recommend starting with a strategic management system (SMS) to better understand the components of the business and its position in the industry.³¹ From the big picture, management can perform a SWOT analysis (strengths, weaknesses, opportunities, and threats) or a Porter’s Five Forces analysis (competitors, buyers, suppliers, new entries, and substitution) to better understand the current state of the business and its industry.

²⁹ A. D. Crabtree and G. K. DeBusk, “The effects of adopting the balanced scorecard on shareholder returns,” *Advances in Accounting* 24 (2008): 8–15.

³⁰ Ron Person, *Balanced Scorecards & Operational Dashboards with Microsoft Excel* (Wiley Publishing, Inc., 2009).

³¹ Kaplan and Norton, *The Balanced Scorecard: Translating Strategy Into Action*.

The completion of the strategic management system fulfills four objectives: 1) Clarify vision and strategy, 2) Communicate and link objectives and measures, 3) Plan, set targets, and align initiatives, which includes quantifying long-term outcomes, identifying mechanisms to achieve outcomes, and establish milestones, and 4) Enhance strategic feedback and learning. These four objectives and an SMS create a complete story and a more comprehensive BSC.

Kaplan and Norton continue by looking at five outcomes of the BSC. First, “develop relationships and retain loyalty,” emphasizing trust between employees, management, and customers.³² Per the BSC, each relationship will then affect a different component of the business positively or negatively. A successful business garners loyalty from relevant parties without abandoning other important arms.

The second outcome focuses on the client. By “introduc[ing] innovative products and services,”³³ the business can continuously provide the best for its customers and improve their lives. Businesses must research what customers demand and how to innovate; however, businesses walk a thin financial line when innovating. As executives pour money into one area of the business, others are financially neglected.

Third, the authors underscore a business’s ability to “produce high-quality products and services quickly.”³⁴ By developing efficient systems with high-quality products, customers are consistently satisfied regarding timeliness and quality. Employees work together to create the best possible products and services.

³² Kaplan and Norton, *The Balanced Scorecard: Translating Strategy Into Action*.

³³ Ibid.

³⁴ Ibid.

Finally, management acting on the strategic management system increases employee motivation and mobilizes systems.³⁵ These tactics enable a business to execute new ventures by remaining organized and focused, but relationships must be mapped to understand the best course of action.

The relationships of the Balanced Scorecard and the strategic management system, from Maris Martinsons' Balanced Scorecard application to the management of information systems, shows the relationships between business perspectives.³⁶ The questions asked of management are the most crucial components of the development of the BSC or the SMS as they help management reveal and understand a business's unique situation and organizational structure:

Balanced Scorecard cause-and-effect relationships

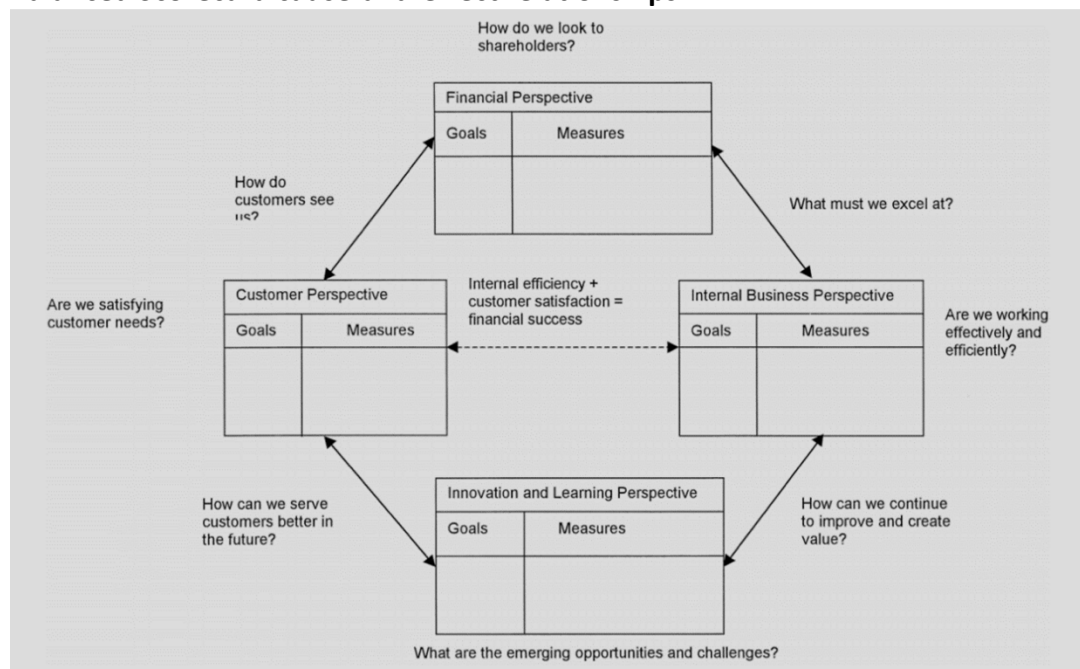


Figure 1. A map of the causal relationships of the Balanced Scorecard and associated questions.³⁷

³⁵ Kaplan and Norton, *The Balanced Scorecard: Translating Strategy Into Action*.

³⁶ Maris Martinsons, Robert Davison, and Dennis Tse, "The balanced scorecard: a foundation for the strategic management of information systems," *Decision Support Systems* 25 (1999): 71–88, Accessed February 25, 2018.

³⁷ Ibid.

Each perspective asks different questions and examines the business from a different angle. By improving one aspect of a business (the lead), management inevitably affects another (the lag). By incorporating more than just financial data, many components of a firm can grow in balance.

Strategy Maps

A figure from *The Institute Way* depicts the components of a strategy map:

Strategy map of a sample Balanced Scorecard

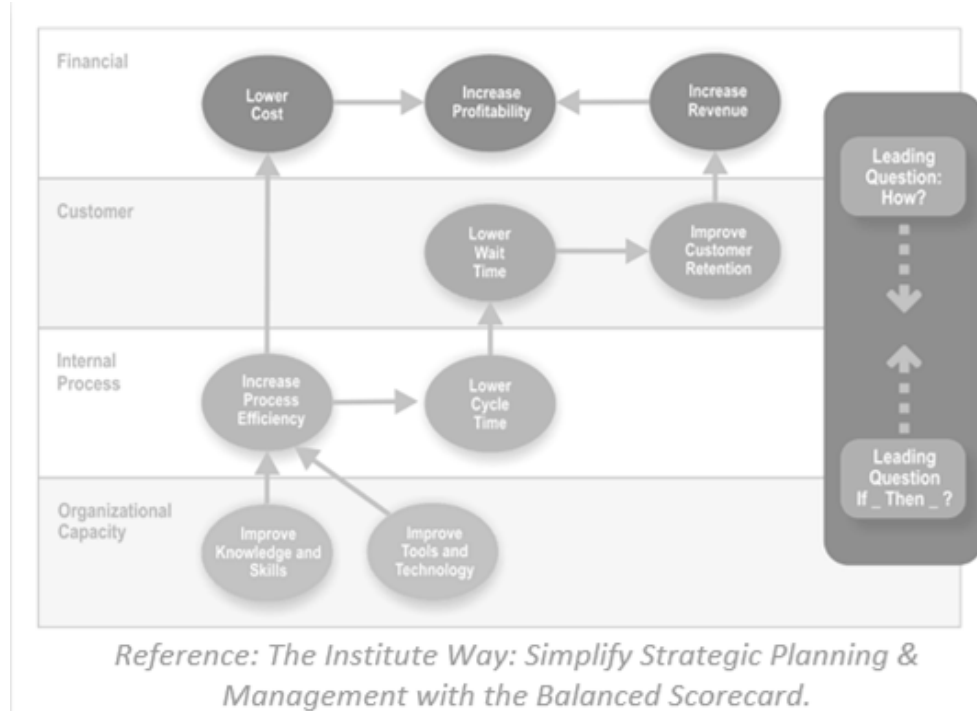


Figure 2. Layout of a strategy map before Balanced Scorecard creation. Each perspective includes questions to form relationships across different portions of the business.³⁸

Each level of the map relates back to the leading question and the purpose of the Balanced Scorecard. The strategy map asks that *if* organizational capacity and internal processes are more efficient, then *how* decisions will impact customer satisfaction and

³⁸ “The Institute Way: Simplify Strategic Planning and Management with the Balanced Scorecard,” *Balanced Scorecard Institute*, Accessed April 15, 2018.

ultimately financial success. The approach of the strategy map proceeds the Balanced Scorecard because management answers the right questions to understand each perspective.

A manager should ask the proper questions to understand the components of the business and how they apply to each perspective before BSC analysis. A strategy map leads management through “If...Then...” questions that result in a manager’s clearer understanding of the “How,” the purpose and function of the BSC outline.

Hung-Yi Wu (*Evaluation and Program Planning*) applies the strategy map to banks.³⁹ Wu claims that proper understanding of business structure, strategy, and planning could have mitigated the harmful effects of the 2008 financial crisis. Wu focuses on key performance indicators (KPIs) as the basis for the strategy map. He uses the KPIs to determine 23 measurements for the Balanced Scorecard.

Bo Hu, in an article for the German University of the Armed Forces, uses the strategy map as a crucial starting point when testing the development of a Balanced Scorecard. Hu applies the strategy maps to the creation of a Balanced Scorecard regarding how subjects follow different strategies. Hu placed subjects in a “cockpit,” where they went through a business scenario. Hu’s subjects created strategy maps to enhance visualizing causal relations between key indicators.⁴⁰

Applying the strategy map, Hu diagramed the cockpit Balanced Scorecard where a subject begins with a certain strategy, then faces roadblocks and must

³⁹ Hung-Yi Wu, “Constructing a Strategy Map for Banking Institutions with Key Performance Indicators of the Balanced Scorecard,” *Evaluation and Program Planning* 35, no. 3 (2012): 303-20.

⁴⁰ Bo Hu, Ulrike Leopold-Wildburger, and Jürgen Strohhecker, “Strategy Map Concepts in a Balanced Scorecard Cockpit Improve Performance,” *European Journal of Operational Research* 258, no. 2 (2017): 664-76.

implement a new strategy. In this example, participants led a business through a 10-year simulation to reach an economic value add of at least 38 million euros. Hu examined a subject's change in strategy, then collected data of decisions and time of hesitation when deciding. Hu then created two Balanced Scorecards, one for a performance measurement system and one using the strategy map.

This complex version of a strategy map depicts a live scenario. Most Balanced Scorecards and strategy maps examine the past in relation to future decisions and financial outcomes.

The Financial Perspective

Profitability determines business's sustainability. Accordingly, Kaplan and Norton ask: "Are you doing well financially?"⁴¹ Without a healthy past and proper planning for the future, a business cannot fulfill its goals and expectations. Instead of solely relying on the past, the BSC analyzes how various perspectives affect profitability. Financial data then predicts financial outcomes of new ventures.

The financial perspective focuses on growth, sustainability, and harvest within a product's lifecycle. The company directs money to a new venture during growth, continually supports it to ensure sustainability, then benefits from its success during the harvest. "By summarizing the economic consequences of actions..." the financial perspective "analyzes if a company's actions contribute to bottom-line improvement."⁴² Examining analogous past scenarios and creating conclusions based on specific instances of the past or by quantitatively forecasting the effects of a future venture.

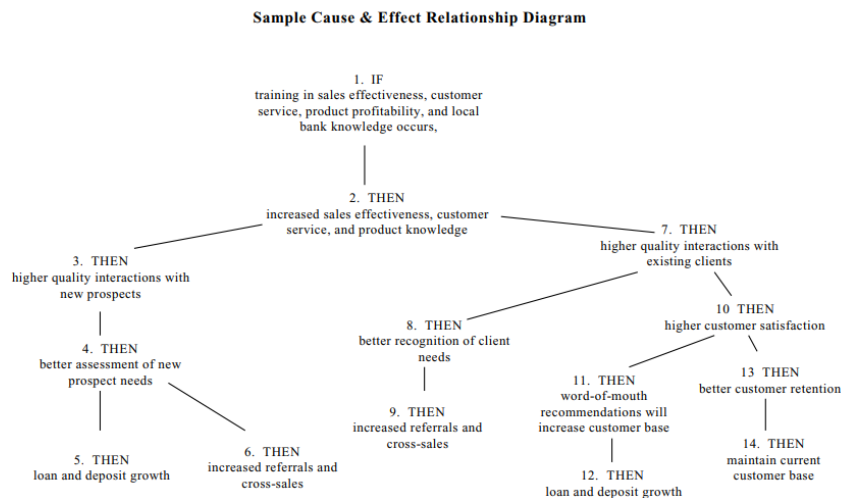
⁴¹ Kaplan and Norton, *The Balanced Scorecard: Translating Strategy Into Action*.

⁴² Ibid.

The financial perspective focuses mostly on profitability, which includes operating income, return on capital, and economic value added. By emphasizing these metrics, the financial perspective depicts of how the company responds to economic support.

Lastly, the importance of the revenue growth and mix – sales growth by revenue when utilizing investment and R&D – must be highlighted. A product diversification campaign will hopefully grow the customer base while reducing costs and better utilizing assets. Then, profitability grows per unit.

Figure 3 shows a cause-and-effect relationship diagram for the financial perspective taken from a Balanced Scorecard of a bank (*Management Accounting Research*).⁴³ The map explains how qualitative organizational processes, such as customer service and employee training, impact financial health and growth:



This sample illustration represents five different causal chains that are directed at improving branch performance on important KFM variables. Causal chains can be read by following the linkages for these sets of numbers: (1,2,3,4,5), (1,2,3,4,6), (1,2,7,8,9), (1,2,7,10,11,12), and (1,2,7,10,13,14).

Figure 3. Example of cause-and-effect relationships from the financial perspective of the BSC, focusing on a bank's performance.⁴⁴

⁴³ S. Davis, "An Investigation of the Effect of Balanced Scorecard Implementation on Financial Performance," *Management Accounting Research* 15, no. 2 (2004): 135-53.

⁴⁴ Ibid.

The first link measures “the number of hours each employee spends in training classes...Customer satisfaction (link 10) is measured on a branch-by-branch basis through periodic surveys. The number of new customers resulting from current customer referral (link 11) is tracked by soliciting this information from new account holders. Finally, a customer turnover measure determines how well the bank is retaining current customers (links 13 and 14).”⁴⁵ The final results of each of these relationships are financial growth represented by deposits, maintenance of customer base, and sales figures.

As the company analyzes the financial perspective, management can consider a new product or service mix, pricing strategy, applications of ideas, customers and markets, relationships, unit costs, channels, operating expenses, and asset utilization. These concepts extend across each part of a company’s financial landscape but are reliable in providing financial data that applies to the company.

Customer Perspective

A business will not function without customers, so Kaplan and Norton ask: “do members like your products and services?”⁴⁶ The first step is to “identify customer and market segments, which the business unit will compete, and the measures of the unit’s performance in these segments,”⁴⁷ using market segmentation and a core customer group. The company’s customer acquisition, retention, satisfaction, profitability, and market share compose the core customer group and explain how a community and industry values a company.

⁴⁵ S. Davis, “An Investigation of the Effect of Balanced Scorecard Implementation on Financial Performance.”

⁴⁶ Kaplan and Norton, *The Balanced Scorecard: Translating Strategy Into Action*.

⁴⁷ Ibid.

Management can examine its value propositions, such as service attributes, customer relationships, image, and reputation to positively alter its members' perspectives. Reputation, loyalty, and quality will improve after a company refocuses its relationships with customers.

A study in *The Accounting Review* explains how management can measure customer satisfaction. In this example, the researchers focused on nonfinancial measures in a hotel. "Customer satisfaction is considered a key short-term measure that is a lead indicator of long-term performance."⁴⁸ The "Likelihood of Return" (LRETURN) quantifies customer satisfaction as a return customer implies contentment with the product or service.

While many businesses employ longer, more complex surveys, the hotel examined only focuses on likelihood to return, surveyed through one question comment cards. This led to simpler data analysis and allowed management to focus on retention's predictability when forecasting. The researchers did note a direct relationship between satisfaction and retention and operational costs. Customer retention and satisfaction can lead the financial perspective by increasing sales revenue and profit, but the increased costs required to lead profitability can lag the financial perspective.

The Internal Perspective

Internally, management must "identify processes that are most critical for achieving customer and shareholder objectives,"⁴⁹ and ask, "can you effectively and

⁴⁸ Rajiv D. Banker, Gordon Potter, and Dhinu Srinivasan, "An Empirical Investigation of an Incentive Plan That Includes Nonfinancial Performance Measures," *The Accounting Review* 75, no. 1 (2000): 65-92.

⁴⁹ Kaplan and Norton, *The Balanced Scorecard: Translating Strategy Into Action*.

efficiently deliver what your members want?” Management can provide satisfied members with desired products and services. Customers need to be satisfied, so innovation in design and development, operation improvements in manufacturing and marketing, and post-sale services cover the entire product or service iteration process from ideation to concluding analyses.

By improving the internal functions, the business can then deliver value propositions and satisfy shareholder expectations. Kaplan and Norton call upon companies to ask questions from “What range of benefits will customers value?” to “How might we, through innovation preempt competitors in delivering those benefits?” to “How can we focus development efforts to bring new services to market?”⁵⁰ By focusing on customer satisfaction, the company can improve operations to grow and increase satisfaction. Initial lags in a refocuses of money and time are reversed with the success of a new product launch or phase of customer satisfaction.

The Learning & Growth Perspective

Lastly, Kaplan and Norton ask: “can you continue to improve and create value?”⁵¹ The learning & growth perspective of the BSC tests the company’s ability to create long-term growth and improvement. The success lies in employee’s capabilities, satisfaction, retention, and productivity. These four standards are determined by many factors including an employee’s autonomy, access to information, involvement with decisions, and recognition. Top-heavy businesses may limit an employee’s ability to learn from those above him or visualize a clear path to promotion and leadership.

⁵⁰ Kaplan and Norton, *The Balanced Scorecard: Translating Strategy Into Action*.

⁵¹ Ibid.

An employee can develop and benefit the firm given the right mechanisms for learning and growth. An employee feels more valued with increased transparency and information. A culture of “motivation, empowerment, and alignment”⁵² affects an employee’s outlook, demeanor, and levels of productivity. When an employee feels significant, he will learn and grow more, which only benefits the business as a whole.

Case studies of successful Balanced Scorecards

The most successful Balanced Scorecards are more than a collection of indicators – they are a linked series of objectives and measures that are consistent and reinforce ideals. Person lists common BSC results before citing four case studies of successful Balanced Scorecards. In all cases, management reduced costs and increased customer satisfaction.⁵³

Apple Computer, which struggled to maintain customer satisfaction and long-term growth, aimed to “focus senior management on a strategy that would expand discussions beyond gross margin, return on equity, and market share,” with the BSC by highlighting customer satisfaction, core competencies, employee commitment, market share, and shareholder value.⁵⁴

First, Apple discovered a shift in priority unique for the industry. Rather than focusing on impressive technology, Apple shifted to the customers. By emphasizing customers, Apple created a better product, regardless of technology. An implementation of this leads in the customer and learning perspectives but requires financial backing. This led to a discussion of core competencies, such as user-friendly

⁵² Kaplan and Norton, *The Balanced Scorecard: Translating Strategy Into Action*.

⁵³ Ron Person, *Balanced Scorecards & Operational Dashboards with Microsoft Excel*.

⁵⁴ Kaplan and Norton, *The Balanced Scorecard: Translating Strategy Into Action*.

interfaces. Next, Apple capitalized on a preexisting survey that measured employee satisfaction. Apple implemented the results to find flaws in its organizational structure.⁵⁵ When employees are happier, they perform better. This takes monetary support but improves the internal perspective. Apple hoped that financial lags would cause significant leads to improve market share and shareholder value. Apple's BSC does not revolutionize the company's operations, but rather examines long-term performance.

Veolia Water North America, a subsidiary of the France-based Veolia Water, provides water and wastewater partnership services to 550 communities.⁵⁶ At the time of the case, 90% of U.S. municipalities run their own wastewater operations. Veolia saw an untapped market and implemented the BSC to help map and efficiently execute a new venture.

Veolia started with a strategic plan to better understand the state of the company before entering a new venture. A SWOT analysis looked at its potential, while an exercise that had each executive write what he or she defined as the company's mission and vision allowed them to better understand the purpose and core values.

Before choosing the perspectives of the BSC, the team examined strategic themes and objectives, centered on reorganization, sustainability, and profitability to develop Key Performance Indicators (KPI's). Veolia aligned the results of each KPI to apply the BSC to the entire firm and map cause-and-effect relationships between the

⁵⁵ Kaplan and Norton, *The Balanced Scorecard: Translating Strategy Into Action*.

⁵⁶ Balanced Scorecard Institute, "Veolia Water North America Case Study," *Strategy Management Group* (2013), Accessed February 12, 2018.

different perspectives. Veolia presented the findings to major stakeholders with the goal to convince them that a balanced perspective is preferred to a strictly financial analysis. Veolia continually updated perspectives for sustainability.

In all cases, management aims to drive change in behavior and processes by emphasizing human capital.⁵⁷ Most Balanced Scorecards contain about 12 metrics and financial metrics only lag, while most Learning & Growth metrics only lead.

Critiques of the Balanced Scorecard

The Balanced Scorecard attempts to quantify all parts of a business to compare perspectives on an equal field. As discussed, this allows management to analyze all relevant components of its business and make informed decisions regarding internal organization and future growth; however, some argue that this emphasis on quantitative data is not useful. There must be a “greater dialogue within an organization between those who contribute to an organization’s success.”⁵⁸ By becoming more transparent and opening more lines of communication between management and low-level employees, a business will learn more about each perspective than it could through quantitative data. In addition, if this new firm structure and communication style are positive to the organization and sustainable over time, they can lead to as much long-term, external change as an elaborate consulting tool.

⁵⁷ Ron Person, *Balanced Scorecards & Operational Dashboards with Microsoft Excel*.

⁵⁸ David J. Cooper and Mahmoud Ezzamel, “A critical analysis of the balanced scorecard: towards a more dialogic approach,” *University of Alberta*: 1-27, Accessed February 12, 2018.

Boutique Fitness Industry

In recent years, a negative health forecast and social inclinations increased gym membership, but the trend shifted from big, chain, traditional gyms, to small boutique gyms. Traditional gyms, such as Planet Fitness, Gold's and 24Hour are massive, low-cost, and retain large membership bases, while boutique gyms are small and specialized. At large gyms, members are essentially anonymous and individualized attention comes through classes and private sessions. Lack of community pushes users to small, boutique platforms, but uncontrollable growth and inexperienced management contributes to the need for better analytical tools, such as the Balanced Scorecard.

Departure from traditional gyms

Boutique fitness flips the entire model of traditional gyms. Traditional gyms “lack structure, intensity, and discipline.”⁵⁹ Instead of housing hundreds of members in a large, impersonal space without instruction, boutique fitness revolves around classes where members participate together under the instruction of a coach. “At a lower-end gym, unless you know enough about exercise...you’re not going to be able to see results. At a high-end studio, all you have to do is walk in the door.”⁶⁰ New technology tracks calories burned and minutes of sustained high heart rate.⁶¹ Online benchmarks track frequency and consistency of visits and worldwide competitions enable members to prove their fitness against peers.⁶² “The camaraderie helps push

⁵⁹ Karen Heller, “Sweat equity: What's behind the rise of intense boutique fitness programs?” *The Washington Post*, December 03, 2015, Accessed February 24, 2018, www.washingtonpost.com.

⁶⁰ Garnet Henderson, “People love gyms like CrossFit and Pure Barre because they’ve made fancy fitness a status symbol,” *QZ*, October 24, 2016, Accessed February 24, 2018, www.qz.com.

⁶¹ Carolyn Sun, “More People Flocking to Fitness Classes Inspired by Ballet, Cycling and Tech,” *Entrepreneur*, May 13, 2016, Accessed February 24, 2018, www.entrepreneur.com.

⁶² “The Open | CrossFit Games,” *The CrossFit Games*, Accessed March 3, 2018, games.crossfit.com.

participants to the next level,”⁶³ which holds members accountable, but complex equipment and technology increase the cost of owner maintenance and customer membership.

Boutique fitness studios also completely depart from the traditional gym’s membership model. While traditional gyms offer unlimited monthly members, boutique setups operate using a class model. “While some boutiques offer monthly passes, most management charges per class—which means their billions in revenue come from people who are *actually* showing up to exercise.”⁶⁴ By paying per class, management fills specific spots, which leads to direct revenues and expenses, rather than the traditional model where some members skew financial and operational data by attending every day or never attending.

Lastly, traditional gyms contain a limited amount of equipment. Because of the large, low-cost space, management can only purchase simple cardio equipment, such as treadmills and ellipticals, and stationary weight machines.⁶⁵ These methods are outdated and do not fill the needs of today’s members. Boutique fitness studios adapted to today’s desires.

Industry data

The rise of the wellness industry over the last decade outperforms other markets, “with an estimated global worth of 3.7 trillion and double-digit annual growth across the wellness sector since 2010.”⁶⁶ When specifically analyzing fitness,

⁶³ Mark Healy, “Strength in Numbers: The Rise of Group Fitness Classes for Men,” *Men's Journal*, December 04, 2017, Accessed February 24, 2018, www.mensjournal.com.

⁶⁴ Garnet Henderson, “People love gyms like CrossFit and Pure Barre because they’ve made fancy fitness a status symbol.”

⁶⁵ Karen Heller, “Sweat equity: What's behind the rise of intense boutique fitness programs?”

⁶⁶ Carolyn Sun, “More People Flocking to Fitness Classes Inspired by Ballet, Cycling and Tech.”

from 2014 to 2015, “SoulCycle grew 38 percent and high-intensity impact training rose 14 percent. Orangetheory Fitness is in a whole category on its own, growing 170 percent.”⁶⁷ The significance lies in recent economic history as fitness requires disposable income. The recession wiped out some businesses, but consumers agree that expensive boutique fitness studios are worth the money.

Looking forward, driven by health technology and the intersection between wearable technology and fitness classes, “the value of the industry is expected to increase by 17% over the next five years,” with a predicted valuation of \$233.3 billion.⁶⁸

Rise in popularity

Innovation at boutique studios gave fitness followers a new home after frustration with the large gym model, but a shift in clientele priorities favoring physical accessibility and success, supportive communities, and trendy spaces, caused the significant increase in membership. These advantages attract diverse demographic groups, but “according to some estimates, millennials are the most common gym-goer.”⁶⁹ Millennials continue to emphasize experiences over material purchases,⁷⁰ and boutique fitness experiences represent social capital.

The quality of the class mimics personal training because of teaching experience and small class sizes. “A trainer doesn't forget what rep you're on, isn't

⁶⁷ Ibid.

⁶⁸ Ellie Lord, “How health and fitness became a trillion dollar industry,” *Lightspeed POS*, February 10, 2017, Accessed February 24, 2018, w www.lightspeedhq.com/.

⁶⁹ Jocelyn Rein, “Millennials are the most important fitness market,” *Les Mills*, June 04, 2014, Accessed February 24, 2018, www.lesmills.com/.

⁷⁰ Uptin Saiidi, “Millennials: Forget material things, help us take selfies,” *CNBC*, May 06, 2016, Accessed March 04, 2018, www.cnn.com/.

afraid to correct your poor form, and doesn't care that you hate lunges.”⁷¹ This fixes a major flaw in the traditional model because class time is spent efficiently and effectively.

Lastly, the introduction of men to the space contributed to the industry's boom. New methods that cater to the masculine physical goals and rebranding drew men who desire high-intensity interval training.⁷² This broadens the scope of the industry and allows more of the population to enter this space.

However, boutique fitness studios' reliance on visible status symbols to extend advertising may hurt peripheral demographics. A *QZ* report describes the trend: “If the status symbol of 2004 was the Juicy Couture tracksuit, in 2016 it's an updated athleisure look and a front row spot in spin class. But this means that lower-income people who could also benefit from a motivating, exciting exercise intervention are left out of the trend almost entirely.”⁷³ Many cannot afford the lifestyle and certain demographic groups are ostracized.

Different types of boutique fitness studios

With a heightened understanding of boutique fitness studios, comparisons are made between types and mediums. Pay-per-class studios, such as Barre or SoulCycle employ a nationwide model that relies on social status to maintain a large network and consistent growth. On the other hand, locally-owned, community studios, such as CrossFit, allow members to buy long-term memberships if they agree to stay at one

⁷¹ Mark Healy, “Strength in Numbers: The Rise of Group Fitness Classes for Men.”

⁷² Ibid.

⁷³ Garnet Henderson, “People love gyms like CrossFit and Pure Barre because they've made fancy fitness a status symbol.”

location. This builds rapport with fellow members and local staff, while ensuring long-term retention through contracts.

Management and profitability

Traditional gyms “turn a profit by selling memberships to hundreds—sometimes thousands—more people than they can actually accommodate. Most members never come.”⁷⁴ The space maintained by management cannot hold all members, but because that is unlikely, management must only maintain the space and equipment for a standard number of users. Members pay a relatively affordable monthly fee (the average is between \$40 and \$50 per month)⁷⁵ to receive unlimited access. Members are anonymous, which decreases attention required and staffing costs.

Revenue depends on how many members can buy-in at a certain rate in a given month, not on how many members show up. These gyms are beginning to add extra amenities and classes, but the quality does not compare to more specialized options. In addition, because each gym offers the same services, product differentiation is difficult. When members are not connected to a specific gym, retention is challenging.

A *Stephens Inc.* report analyzes the profit structure of boutique studios compared to their traditional counterparts: “the secret to the long-term viability of the boutique studios is their ability to generate higher revenues per customer.”⁷⁶ While traditional gyms charge \$40 per month, boutique fitness studios are able to charge as

⁷⁴ Garnet Henderson, “People love gyms like CrossFit and Pure Barre because they’ve made fancy fitness a status symbol.”

⁷⁵ Carlo Dellaverson, “The True Cost of Gym Memberships,” *CNBC*, August 03, 2010, Accessed March 05, 2018, cnbc.com.

⁷⁶ Bryan K O’Rourke, “The Rise of Boutique Fitness Studio Concepts,” *Stephens Inc.*, August 05, 2015, Accessed February 24, 2018, www.stephens.com/.

much as \$40 per *class*. This means that avid members spend around \$800 per month, far exceeding revenue expectations of traditional gyms. Although the expense to train, pay, and support experienced trainers is higher than unskilled gym staff, the class model causes a larger profit margin because resources are allocated efficiently. Sixty participants in a one-hour class bring in \$2400 of revenue, greater than the space, equipment, and salary expense required.

As a result, “higher profitability enables boutiques to create a far superior consumer experiences no matter what the format.”⁷⁷ In a successful studio, management can afford to pay for the highest quality fitness professionals. Contribution margins increase proportionally to the increase in wages payable because increased quality leads to more sales.

Challenges

While the popularity of boutique fitness studios increased due to changing millennial spending habits and a culture of health and fitness, many ventures struggled to stay sustainable and profitable. A combination of untrustworthy certifications, location disputes, and inexperienced management depicts a more negative representation of this fast-growing industry.

When demand for specialized labor increases and studios are rapidly opening, management must hire qualified coaches as quickly as possible. A case study of the Indian fitness brand Trio-Fit discusses the struggle to ensure proper training of new coaches. The owners recognize that “the industry needs fit and trained coaches more than ever, and our endeavor is to offer some of the best and most thorough training

⁷⁷ Bryan K. O’Rourke, “The Rise of Boutique Fitness Studio Concepts.”

and certification programs on the various domains.”⁷⁸ Training programs exist for many of the most popular boutique fitness methods, but they are condensed and expedited. A trainer must study anatomy and exercise science to fully understand safe practices and the limitations of different types of clients. Thus, the industry struggles to gain trust and respect from major fitness regulators.

Management’s inexperience, inability to analyze past ventures, and incompetence to accurately forecast future periods emerge as significant challenges. Like many small businesses, the barriers to entry for opening a boutique fitness studio are low. While corporate leadership runs some models, such as SoulCycle, most rely on franchising (Orangetheory) or licensing (CrossFit) to expand the brand. This means that branch management appears unprepared for the financial and interpersonal struggles that come with running a customer-facing service-oriented brand. Thus, the probability of failure is extremely high.

The case study of CrossFit portrays the failures of management when rapidly opening fitness studios. CrossFit’s licensing structure, explained in the following chapter, allows anyone to open a new CrossFit affiliate, called a “box,” as long as he takes a two-day, \$1000 training course and pays a \$3000/year fee to use the copyrighted “CrossFit” name. Chris Cooper, founder of Two-Brain Business, a mentorship organization for CrossFit affiliate owners, explained that a CrossFitter can easily open an affiliate, if his current box dissatisfies him, or if the lifestyle to learn and teach the CrossFit methodology intrigues him.⁷⁹ Despite lack of experience,

⁷⁸ Pavan Soni, “The rise and rise of fitness industry: A case of Trio-Fit,” *Medium*, July 18, 2017, Accessed February 24, 2018, www.medium.com.

⁷⁹ Chris Cooper, “Chris Cooper from Two Brain Business.”

preparation, or resources. CrossFit leads to a higher frequency of unprepared business owners than other boutique fitness spaces because the barriers to entry are lower.

Expenses at boutique facilities also differ from traditional gyms. In my conversation with Darryl Smith, accountant for CrossFit Nine7, an affiliate on Long Island, New York, he explained that while traditional gyms must account for salespeople, administrative, and janitorial staff, boutique studios focus on hiring, training, and paying coaches.⁸⁰

In addition to different wage structures, revenue streams are more dynamic because of the unpredictability of membership. As members sign up for certain classes, some days bring in significantly higher revenues than others, unlike traditional gyms where members pay monthly rates.

When I asked, “What is the main pain point for small fitness business?” both Chris and Darryl agreed that the origins of the challenges small fitness business owners face lie in financial planning and accurate, honest accounting practices.⁸¹ CrossFit Headquarters refuses to provide licensees with an official best practices guide, citing legal liability to take responsibility if the affiliate fails. This causes business failure because the average owner does not understand accounting or the nature of revenue streams. Chris explains that “most [owners] would not be able to read or even create a Profit & Loss spreadsheet,” and most “don’t know what their profit is”⁸² because they prefer ignorance and want to avoid embarrassment in the affiliate community. An affiliate owner can start his business and ‘figure it out,’ but

⁸⁰ Darryl Smith, “Darryl Smith from CrossFit Nine7,” Interview by Jordan Aronowitz, Email, November 27, 2017.

⁸¹ Ibid.

⁸² Chris Cooper, “Chris Cooper from Two Brain Business.”

lack of accounting practices, combined with poor venture decisions leads to affiliate failure.

Solutions

Boutique fitness studios can apply many of the aforementioned small business tools. As Chris Cooper explained, industry-specific tools, such as fitness CRM software, can help with membership and retention analytics. Membership-based financial ratios, such as Average Revenue per Member and Length of Engagement inform management about customer-focused revenue trends and can help them make informed decisions. Fitness-business accounting tools allow management focus on the most relevant metrics and line items.

Lastly, small businesses can benefit from the perspectives of the Balanced Scorecard because owners tend to be more emotionally connected to a business. Since owners sacrificed personal time and resources to open a business they are passionate about, owners struggle to stray from what they see as the business's exact mission. Due to this, managers make ill-informed decisions about business success, type, and growth. The manager can see exactly how certain decisions will affect other parts of the business.

The exponential rise in consumer demand makes the boutique fitness industry particularly interesting. Social pressures, creating a rise in consumer interest, caused a significant rise in small business ownership; however, due to the niche-interest nature of this market and low technical barriers to entry, owners are unprepared for the financial and organizational demands of business ownership. In addition, fast-growth pushed the corporate level to rely more on licensing agreements rather than

franchising or a full-corporate structure. This means that, compared to the franchising model, the licensors supervise owners on the customer-facing level even less than in a typical small-business structure. Therefore, with less guidance, supervision, and structure, these businesses struggle even more to remain sustainable. A Balanced Scorecard provides scalable and applicable relationships for these management problems. I will use CrossFit as the case study for this Balanced Scorecard. CrossFit corporate management employs a completely ‘hands-off’ approach when working with licensees, known as affiliates. A Balanced Scorecard would enable licensees to better understand components, relationships, and best practices of the business.

CrossFit

History of CrossFit

CrossFit, the brainchild of gymnast Greg Glassman, transformed from a hobby for a small group of elite athletes to a worldwide powerhouse in the fitness industry. With over 13,000 affiliates and a cult-like member-base, the accessible and addictive nature of CrossFit provides thousands of members with shared experiences, despite its hands-off corporate leadership.

Glassman sums the CrossFit model and methodology in 100 words:

*Eat meat and vegetables, nuts and seeds, some fruit, little starch and no sugar. Keep intake to levels that will support exercise but not body fat. Practice and train major lifts: deadlift, clean, squat, presses, C&J, and snatch. Similarly, master the basics of gymnastics: pull-ups, dips, rope climb, push-ups, sit-ups, presses to handstand, pirouettes, flips, splits, and holds. Bike, run, swim, row, etc., hard and fast. Five or six days per week, mix these elements in as many combinations and patterns as creativity will allow. Routine is the enemy. Keep workouts short and intense. Regularly learn and play new sports.*⁸³

The diverse approach to exercising and the all-encompassing components of diet and lifestyle make CrossFit so attractive to not only the experienced athlete, but also the advanced exerciser. Interest from these demographics pushed CrossFit's growth outside of the boundaries of the typical big-gym, fitness industry.

A CrossFit affiliate looks unrecognizable compared to a traditional gym.

“Members are greeted by barbells with bumper plates that allow them to be dropped

⁸³ “Fitness in 100 Words Poster,” *CrossFit Stuff*, Accessed April 02, 2018, stuff.crossfit.com.

from overhead; Chalk covers nearly everything, while loud rock or rap music emanates from the speakers. Workouts are conducted in structured classes led by trainers, known as coaches, who are required to attend a CrossFit certification class to train members.”⁸⁴ The intensity upon entering an affiliate intimidates some, but ties in with the demands of the new consumers of fitness. As the boutique fitness industry continues to grow, these experiences become more popular.

Consumers can most clearly visualize the difference between CrossFit and traditional gyms when examining price. Membership range from \$10 to \$20/month at a traditional gym to at least \$150/month at a CrossFit affiliate. “CrossFit justifies the high price by noting the individual attention members receive from coaches, stating the experience is more akin to personal training than to working out at a traditional gym.”⁸⁵ Attention increases satisfaction because in the class-focused atmosphere, clients feel known, important, and successful.

CrossFit coaches keep members accountable by instituting data-driven systems in gyms through whiteboards and scorecards. “Keeping accurate scores and records, running a clock, and precisely defining the rules and standards for performance,”⁸⁶ increases performance through competition and motivation through accountability. Members leave knowing the success they achieved that day.

In addition, CrossFit reaches so many individuals because “while CrossFit challenges the world's fittest, the program is designed for universal scalability, making

⁸⁴ Greg DePersio, “The Economics of a CrossFit Gym,” *Investopedia*, August 20, 2015, Accessed November 09, 2017, www.investopedia.com.

⁸⁵ *Ibid.*

⁸⁶ “What Is CrossFit?” *CrossFit: Forging Elite Fitness*, Accessed April 02, 2018, www.crossfit.com.

it the perfect application for any committed individual, regardless of experience.”⁸⁷

These inclusive claims are supported by actions and widen the market of consumers.

While a small, private group of managers controls the corporate level, thousands of coaches and trainers own affiliates around the world, granting them the privilege not only to train passionate members, but also the chance to lead and profit from an entrepreneurial venture. CrossFit grew because of “the community that spontaneously arises when people do these workouts together.”⁸⁸ On the surface level, community increases performance in a workout, but upon further analysis, the community motivated affiliates ownership around the world. The low barriers to entry are known and disseminated, and affiliates are successful because community is a constant from affiliate to affiliate.

After taking advantage of the low barriers, the autonomy that owners are granted allows them to build the community even farther. As Ryan Lucas, the creative director of CrossFit, explained, “The people in the boxes define the brand. Each affiliate is a shepherd of the CrossFit brand. The look of the gym, the T-shirts, that’s up to them, but go to a box in California, Toronto or Australia and the feeling will be the same.”⁸⁹ The corporate team spreads the message of the brand with minimal hands-on effort because of the trust for affiliate owners.

CrossFit corporate HQ rarely communicate directly with the larger community of owners. Through resources such as *The CrossFit Journal* and training seminars, gym owners can gather information and resources from the experts, but CrossFit

⁸⁷ “What Is CrossFit?”

⁸⁸ Ibid.

⁸⁹ Marty Cej, “The Business of CrossFit,” *CrossFit Journal*, 2009, Accessed November 9, 2017, journal.crossfit.com.

corporate HQ does not include best practices or business operations guides. Glassman approves this structure. He designed the model to operate without his direct influence. Affiliates make independent decisions, from hours, to space, to classes offered, but Glassman believes, “the cream would rise to the top” and HQ should not police the affiliates. The market will settle because they are not franchises.⁹⁰ Bad experiences that result from the lack of oversight are balanced by the significantly greater amount of good experiences, but too many dissatisfied customers can cause deleterious opinions about the brand.

Overall, despite appearing as a grassroots health movement in the massive fitness industry, “CrossFit is hugely profitable, and its growth has only accelerated during the worst economic downturn since the 1930s. That’s something very few companies—fitness or otherwise—can claim.”⁹¹ While Greg Glassman’s business model confuses experienced business leaders, membership increases every day, but controversy meets growth.

One ESPN writer believes that despite “the community atmosphere of the training and the fact workouts are short, and results come quickly.”⁹² Low barriers for gym ownership caused CrossFit’s rapid growth. This structure may appear inclusive and successful on the surface level, but CrossFit “seems to be drawing more attention from fitness and medical professionals concerned about safety.”⁹³ Unprepared owners

⁹⁰ Mark Fainaru-Wada, “CrossFit’s Big Growth Fuels Concerns,” *ESPN*, July 28, 2014, Accessed November 09, 2017, www.espn.com.

⁹¹ Marty Cej, “The Business of CrossFit.”

⁹² Mark Fainaru-Wada, “CrossFit’s Big Growth Fuels Concerns.”

⁹³ *Ibid.*

and clients met the precipitous growth. Lack of communication and accountability in CrossFit's affiliate model hurts owners as much as exercisers.

Affiliate Model

Glassman is not a franchisor. He catalyzes business growth because he provides hopeful owners with the community and rights to create a CrossFit affiliate. "In CrossFit's virtual business model, the affiliates are left to succeed or fail largely on their own."⁹⁴ Glassman makes no promises for financial, managerial, or marketing support. HQ's increases the audience base, which passes members to affiliates.

In the CrossFit Affiliate Model, affiliate owners pay CrossFit corporate \$3000/year for the rights to the CrossFit name and logo. The CrossFit website provides management insights, but neither specific nor extensive enough for an inexperienced owner. Glassman swears by his abandonment of the word 'franchisor' because "franchises lack a diversity of approach, and if I try to get everyone moving in lockstep, I get everyone moving towards mediocrity. Because we have a Darwinian/free-market approach to the affiliates, best practices arise at a breathtaking rate."⁹⁵ There is no revenue sharing between affiliates and Glassman, but "gym owners receive no territorial rights. A competitor is free to open a CrossFit gym a block away, as long as he pays the \$3,000."⁹⁶

⁹⁴ Marty Cej, "The Business of CrossFit."

⁹⁵ Ibid.

⁹⁶ Greg DePersio, "The Economics of a CrossFit Gym."

Lastly, within the CrossFit brand, Glassman limits his scope to CrossFit, rather than expanding into other projects or products. Glassman avoids diluting his brand, degrading experiences, and slowing adoption.⁹⁷

Opening an Affiliate

A straightforward diagram paints a simple picture for the CrossFit affiliate, but complications of business ownership overshadow the low barriers to entry.

Opening a CrossFit affiliate is as easy as 1, 2, 3, 4, 5, 6:



Figure 4. Steps to CrossFit Affiliation.⁹⁸

The *Steps to Affiliation* display the low barriers to entry of CrossFit affiliation. More individuals are able to acquire the skills and resources to open an affiliate, even if they previously lacked the education. By minimizing red tape, CrossFit creates an inclusive model with more opportunities and independence upon ownership.

After approval, the owner can bear the CrossFit name and logo, as long as he pays the yearly affiliate fee:

⁹⁷ Mike Ozanian, “How CrossFit Became A \$4 Billion Brand,” *Forbes*, February 25, 2015, Accessed November 09, 2017, www.forbes.com.

⁹⁸ “Steps to Affiliation,” *CrossFit - How to Affiliate*, Accessed April 15, 2018, www.crossfit.com.

Yearly CrossFit Affiliate fees

COUNTRY	BASE PRICE	TAXES	TOTAL PRICE
United States	\$3000.00 USD	\$0.00 USD	\$3000.00 USD
Canada (Quebec)	\$3875.00 CAD	\$580.28* CAD	\$4455.28 CAD
Canada	\$3875.00 CAD	\$193.75 CAD	\$4068.75 CAD
Australia	\$3950.00 AUD	\$395.00 AUD	\$4345.00 AUD
United Kingdom	£2250.00 GBP	£450.00 GBP	£2700.00 GBP
All other countries	\$3000.00 USD	\$0.00 USD	\$3000.00 USD
*Price Shown indicates GST and QST Taxes			

Figure 5. CrossFit affiliate fees by country.⁹⁹

The fee is standard worldwide, only differing by taxes abroad.

The process places less constrictions and pressures on both the affiliate owner and corporate than in a franchise; however, without strict standards, even the unprepared can open an affiliate. This effects two groups: the owners who cannot sustain a business and the clients who trust an unprepared owner to teach and train them in a new methodology.

The *Steps to Affiliation* are contingent on the completion of the CrossFit Level 1 Certificate course, which costs \$1,000 and “introduces the ‘methodology and foundational movements’ of CrossFit.”¹⁰⁰ This two-day seminar claims to provide all the information a trainer needs to know before opening a gym, but one of the first affiliate owners, Greg Everett, jokes that “a CrossFit certification only certifies that you have a valid credit card.”¹⁰¹ The effects are problematic as even those close to corporate recognize the lack of experience required to confident train clients. Everett did voice his concerns to Glassman, but Glassman responded with the overstated

⁹⁹ “Steps to Affiliation.”

¹⁰⁰ Mark Fainaru-Wada, “CrossFit’s Big Growth Fuels Concerns.”

¹⁰¹ Ibid.

opinion that the market would crowd out low-quality affiliates and support high-quality ones.

A 2016 study sought to prove the qualification of CrossFit instructors. Out the 193 fitness instructors surveyed, 86.6% listed themselves as certified CrossFit instructors, but only 26.7% held a bachelor's degree in an exercise-related field, far less than those without a CrossFit certification.¹⁰² An initiative for exercise-related degrees is a possible next step to strengthen CrossFit certification.

Startup Costs

A quick search of opening a CrossFit affiliate reveals an immense knowledge base of best practices and advice. The initial costs of opening a CrossFit gym total to about \$30,000, including the \$3,000 affiliate fee, \$1,000 certification, and \$5,000 initial equipment cost.¹⁰³ These expenses are feasible compared to other, more restrictive businesses in the industry.

Insurance

As a response to safety concerns, CrossFit recently created its own insurance company and required its affiliates to show proof of purchase of an insurance plan. The *CrossFit Risk Retention Group*¹⁰⁴ allows an affiliate owner to purchase an insurance plan for himself or an entire affiliate and take advantage of the CrossFit corporate knowledge base while handling claims. Coverage increases depending on

¹⁰² Gregory R. Waryasz, Vladimir Suric, Alan H. Daniels, Joseph A. Gil, and Craig P. Ebersson, "CrossFit Instructor Demographics and Practice Trends," *Orthopedic Reviews* 8, no. 4 (November 2016), Accessed November 09, 2017.

¹⁰³ Greg DePersio, "The Economics of a CrossFit Gym."

¹⁰⁴ "CrossFit RRG | Insurance for CrossFit Affiliates and Trainers," *CrossFit RRG*, Accessed April 15, 2018, rrg.crossfit.com.

services offered. This constitutes a major affiliate expense, but creates another layer of trust between corporate, affiliate owners, and customers.

Revenue diversification

As the CrossFit brand grew, so did the market for supplementary products and services. CrossFit corporate HQ developed a CrossFit Kids program with a separate certification and insurance program to match.¹⁰⁵ This allowed affiliate owners to enroll entire families, not only parents, but required more training and stricter allocation of resources. Individual affiliates developed specified Barbell, Bootcamp, Running, and Personal Training programs to better individually prescribe routines to clients.

Externally, CrossFit entered into a major licensing deal with Reebok, which sponsors *The CrossFit Games* and develops CrossFit-specific shoes and apparel.¹⁰⁶ In addition, CrossFit recognizes 59 official CrossFit-affiliated brands, ranging from apparel, to drinks, to supplements, to rehab tools.¹⁰⁷ In effect, affiliates enter purchase agreements with these brands in hopes that its members will enjoy the accessibility of the product at the affiliate.

Website

A mandatory website represents CrossFit corporate HQ obliging its affiliates to develop its marketing and outreach. The only requirements are that the website includes the CrossFit Journal logo/link on the homepage, a dedicated CrossFit page,

¹⁰⁵ “CrossFit Kids,” *CrossFit Kids*, Accessed April 15, 2018, kids.crossfit.com.

¹⁰⁶ Patrick Rishe, “CrossFit's Relationship with Reebok Enhances Its Financial and Commercial Credibility,” *Forbes*, October 03, 2011, Accessed April 15, 2018, www.forbes.com.

¹⁰⁷ “Brands - A Look at Rogue's Corporate Partners,” *Rogue Fitness*, Accessed April 15, 2018, www.roguefitness.com.

and the capitalization of the “F” in the trademark “CrossFit.”¹⁰⁸ By creating a website, new and interested consumers can easily discover local affiliates.

What you get

CrossFit advertises the community aspects of the affiliate model as a replacement for lack of support from corporate and an advantage for completing the affiliate application process. From the CrossFit affiliation website: “Once your application is approved and we receive your paperwork, we’ll link to your website from the main page of CrossFit.com. You will also have access to the private Affiliate Forum on the CrossFit Message Boards, where you’ll be able to interact with other affiliates and tap their knowledge and experience to help you thrive.”¹⁰⁹ The Affiliate Forum, features on the CrossFit.com main page, and a spot on the CrossFit affiliate map all help with outreach, advice, and marketing, but these may not be enough.¹¹⁰ CrossFit corporate HQ may need to play a more active role in these markets to ensure long-term successful affiliates.

Critiques

CrossFit critics cite inexperienced trainers and owners, as well as an inherently unsafe methodology as reasons to abandon CrossFit. CrossFit emphasizes speed and weight over technique and focuses on quantifiable results, attracting hard-charging individuals who ignore standards. In addition, affiliates do not provide direct guidance

¹⁰⁸ “Steps to Affiliation.”

¹⁰⁹ Ibid.

¹¹⁰ “Official CrossFit Affiliate Map,” *Official CrossFit Affiliate Map*, Accessed April 15, 2018, map.crossfit.com/.

for beginners, citing profit inefficiencies.¹¹¹ These factors combined create an unsafe exercise environment.

In addition, “even fit people risk injury if they exercise strenuously and too quickly to give form its due, as CrossFit participants often do.” CrossFit members “push the limits of fitness and strength. The risks are worth it, because they consider it the most challenging workout around.”¹¹² This burdens the trainers and owners who must protect their clients, while still providing an exercise experience.

Oddly enough, Greg Glassman admits to the inherent risks, and adamantly claims: “It can kill you,” he said. “I’ve always been completely honest about that.”¹¹³ He followed this statement by creating an official CrossFit mascot, Pukey the clown, representing a CrossFitter who exercised so hard he vomited.

Unprepared coaches allowing clients to work under high intensity with bad form lead to CrossFit’s danger. More adherence to Level 1 standards and more education before coaching will help CrossFit gain an image as a safe and responsible fitness brand.

Market

CrossFit affiliates span the globe, denoting that CrossFit conquered the world of fitness, but demographics are not diverse:¹¹⁴

- The vast majority of CrossFit members are between the ages of 24 & 34.

¹¹¹ Stephanie Cooperman, “Getting Fit, Even If It Kills You,” *The New York Times*, December 22, 2005, Accessed November 09, 2017, www.nytimes.com.

¹¹² Ibid.

¹¹³ Ibid.

¹¹⁴ “Infographic: CrossFit Demographics,” *Infogram*, Accessed November 09, 2017, infogram.com.

- Over half of all CrossFitters have a household income of over \$150,000 per year.
- 59% of CrossFitters have children.
- 86% of CrossFitters list their ethnicity as "White."
- 40% of CrossFitters have post-graduate degrees.

The very specific market can help an owner narrow his focus when marketing and recruiting, but can ostracize other, marginalized groups. As one of the most important components when opening a business, owners must constantly examine his market to meet its needs. A successful business depends on market demand, but the CrossFit affiliate timeline, touched on later, complicates that notion even further.

Chris Cooper organizes the CrossFit market by information power:

CrossFit Market Timeline

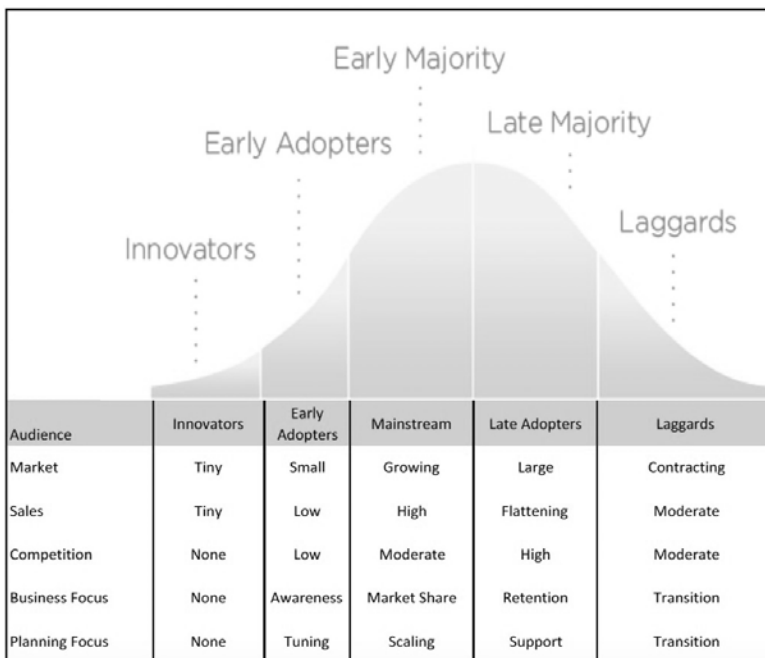


Figure 6. CrossFit Product Lifecycle from Two Brain Business. An affiliate’s market falls in a certain stage upon opening.¹¹⁵

¹¹⁵ Chris Cooper, “Episode 112: Where Should Your Focus Be?” *Two Brain Business*, March 28, 2018, Accessed March 28, 2018, www.twobrainbusiness.com.

Looking forward

CrossFit affiliates will continue to find success. 13,000 open affiliates speak volumes, but successful owners possess unique management and coaching qualities only attainable through education and resources. In addition, increasing concerns surrounding interest in the methodology and quality of coaching experience raise red flags for CrossFit's future. The Balanced Scorecard can help a manager realize new options for his business while explaining the effects of decisions.

The need for a CrossFit Affiliate Balanced Scorecard

Lack of educated management, lack of guidance from the corporate-level, and increasing public criticism contribute to the need for a Balanced Scorecard for a CrossFit Affiliate. The BSC would help management more efficiently run its business and overcome problems the business cannot control.

CrossFit corporate HQ presents no formula to judge the “best CrossFit affiliates.” Some say the highest membership constitutes the best affiliate, while others based it on how many athletes an affiliate sends to *The CrossFit Games*. Neither of these metrics define quality of service or profitability as they are dependent on demographics and the market. Chris Cooper defines “the *real* metrics that matter,” as: “Average Revenue per Member, profit, and retention.”¹¹⁶ The lack of continuity and brand focus prevents affiliates from clearly understanding success.

Brands can struggle at any point in its trajectory, so corporate leaders must constantly improve its business model to create the best product and sustainable relationships with affiliate owners; however, because CrossFit corporate HQ shows no signs of assistance, affiliates must implement the proper structures and tools to remain profitable.

The notion that CrossFit affiliates owners do not possess the accounting and business operations acumen to remain profitable and sustainable appeared as a common theme throughout my conversations with CrossFit consultants at Two Brain Business and accountants with CrossFit clients. Because of lack of managerial experience, owners tend to only focus on the finances of the firm, namely “how many

¹¹⁶ Chris Cooper, “Why You’ll Never Need 300 Members,” *Two Brain Business*, September 17, 2017, Accessed April 2, 2018, www.twobrainbusiness.com.

members do we have and how much cash are we bringing in?”¹¹⁷ With the Balanced Scorecard, owners can examine their business from different perspectives, especially useful in a customer-focused business where satisfaction drives profit.

Because CrossFit affiliate owners generally lack business understanding, simple planning steps are often overlooked. An article from *CrossFit Creature* highlights four factors that contribute to the failure of a CrossFit affiliate:¹¹⁸

1. No Marketing & Sales Plan – an owner runs his business out of love, but not for the money.
2. Random programming – owners have a tendency to open an affiliate for their own use rather than tailoring coaching to the clients.
3. No communication – coaches may only worry about communication in the gym but forget about clients once they clock out.
4. Head coaches being paid hourly – when more hours = more pay, affiliate owners expense wages inefficiently and salaried employees are more connected to the business.

These faults are seen at CrossFit affiliates because some owners care more about creating a fitness community than a profit. Communication and finances take time away from “the fun stuff,” such as workout programming, but are essential to the success of the affiliate and the satisfaction of the customers. By placing money second, an owner ignores overall survival.

¹¹⁷ Chris Cooper, “Why You’ll Never Need 300 Members.”

¹¹⁸ “Your CrossFit Gym Could Be Closing Soon... Will It Survive the Apocalypse?” *CrossFit Creature*, Accessed November 09, 2017, creaturefitness.com.au.

In addition, as the CrossFit brand faces more criticism, owners will need to streamline business operations and develop new recruitment strategies. Despite negative publicity, owners can shape and promote a unique affiliate brand image, retain current members, remain profitable, and continue to recruit new members.

A Balanced Scorecard will not apply to every affiliate, and the examples provided below are not universally applicable, but the questions posed and the analysis that follows can spark a new understanding of business structure and function from a previously lost affiliate owner. The Balanced Scorecard forces a manager to look at the business from new perspectives, a concept that can save the management of many affiliates.

CrossFit Affiliate Balanced Scorecard

I partnered with Chris Cooper of Two-Brain Business to construct data, create a strategy map, and develop questions to create a Balanced Scorecard for a CrossFit affiliate.

Applying the Balanced Scorecard to CrossFit

For a CrossFit Affiliate, the strategic management system assists in a leader's ability to understand the community and to fulfill its needs by successfully planning, updating, and implementing new and innovative products and services. When opening in a new area, a manager needs to understand his demographics and potential clientele. The Balanced Scorecard poses market share questions that will guide decisions for recruitment and marketing.

Other important components of BSC implementation, such as loyalty, introduction of new services, high-quality services, and customer satisfaction determine the health of a CrossFit affiliate.¹¹⁹ The relationships between management, coaches, and members shows loyalty. Consistent improvement and introduction of new services are costly but develops enthusiasm within the community. High-quality coaching and an efficient organizational structure improve member experiences, increasing satisfaction, retention, the length of engagement.

SWOT and Porter's Five Forces analyses

I began my research by creating SWOT and Porter's Five Forces analyses for a CrossFit affiliate. The SWOT examines strengths, weaknesses, opportunities and threats and the Five Forces analysis helps to understand competitive interactions.

¹¹⁹ Kaplan and Norton, *The Balanced Scorecard: Translating Strategy Into Action*.

CrossFit Affiliate SWOT Analysis

Strengths	Weaknesses
<ul style="list-style-type: none"> • Cult-like following • Low barriers to ownership • Independent corporate structure • Word-of-mouth marketing 	<ul style="list-style-type: none"> • Inexperienced affiliate owners • Untrustworthy training certification • Non-diverse market • Expensive price point
Opportunities	Threats
<ul style="list-style-type: none"> • More communication between HQ and affiliates • Untapped geographic and demographic markets • Potential supplementary services 	<ul style="list-style-type: none"> • Crowded boutique fitness market • Increased training certificate regulation • Criticism due to lack of trust in methodology and training

Figure 7. CrossFit Affiliate SWOT analysis examines relevant Strengths, Weaknesses, Opportunities, and Threats for the market around an affiliate.

The SWOT shows that the CrossFit affiliate can capitalize on its passionate following and independence from corporate red tape, while maintaining proper financial analysis and operational procedures. In the future, HQ could provide more assistance to affiliates regarding business operations and how to deal with criticism from the media.

CrossFit Affiliate Porter's Five Forces Analysis

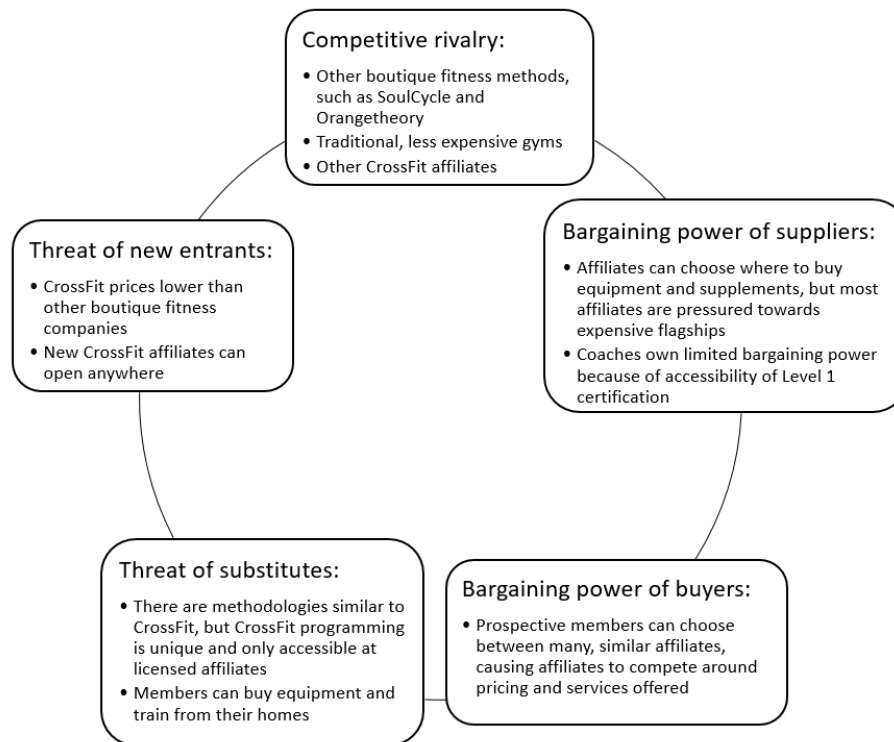


Figure 8. CrossFit Affiliate Porter's Five Forces analysis examines the bargaining power of suppliers and buyers, the threat of substitutes and new entrants, and the competitive rivalries around an affiliate.

The Five Forces analysis shows that CrossFit owns some stability in supplier relations but must remain aware of members leaving for substitutes and rivals.

The analyses improve understanding of an affiliate and its place in the boutique fitness industry.

CrossFit affiliate vision and strategy

A vision and strategy statement allows the Balanced Scorecard to understand management goals outside of profitability. Each CrossFit affiliate presents a different vision for its specific methodologies and its relationship with the community. CrossFit Catalyst, Chris Cooper's affiliate, posts its vision, strategy, and goals on its website:

*Are you ready for exercise to be fun again? We are here to help you meet your goals, get fit, get healthy, and have fun doing it. Knowledge, simplicity, and empathy. These are the cornerstones of the Catalyst community. Welcome.*¹²⁰

The statement defines the goal of the business as not only fitness and an improved quality of life, but also community. This balance is typical at a CrossFit affiliate, but management may struggle to maintain both.

Strategic Management System

The Strategic Management System for the managers of a CrossFit affiliate surrounds customer satisfaction and profitability. Customers are necessary to hold classes and maintain a reliable, motivated customer base and community. Customers will stay longer, pay more, and advertise the business through word-of-mouth when they are satisfied with the facility and services provided.

Chris Cooper cites profitability as the most important component when accounting for a CrossFit affiliate because most owners tend to focus on revenue. When owners rely on revenue, they only see a small factor driving financial health. The expenses that connect to revenue tell the full story.

CrossFit strategy map

The CrossFit strategy map represents the origins of the Balanced Scorecard. The questions I posed in this stage became the basis for the questions sent to CrossFit affiliates when creating the Balanced Scorecard.

I took the insights from the Strategic Management System to develop a list of 30 questions (see page 58) from all four BSC perspectives to ask a group of CrossFit

¹²⁰ “About Us,” *Catalyst Fitness*, Accessed April 15, 2018, catalystgym.com.

affiliates. I sent the questions to Chris Cooper and Two-Brain Business. Chris contacted a group of successful and unsuccessful affiliates to respond to the questions. I did not receive explicit answers to all questions posed, but applied the data to as many as possible, then followed-up to better understand data and perspectives.

CrossFit Affiliate Balanced Scorecard Metrics Questions

Financial - are you doing well financially?

- Balance sheet and income statement from, in consultant's opinion, a sustainably successful and unsuccessful affiliate
- Financial details of large investments and large projects
 - Was the project affiliate-wide or targeted to specific groups of members?

Members - do members like your products and services?

- How satisfied are customers with how they are coached?
- How satisfied are customers with the facility and services?
- If known, how much is the average customer willing to pay for a yearly membership?
- What is the affiliate's market share?
- How many members does the affiliate have?
- Retention: What is the affiliate's month-to-month membership growth rate?
- What is the affiliate's average revenue per member?
- How many services does the affiliate provide?
 - Which extra services does the affiliate offer beyond coaching traditional CrossFit classes?
 - If known, by how much does each extra service contribute to the affiliate's profit/loss?

Internal - can you effectively and efficiently deliver what your members want?

- What were the affiliate's major costs and investments before opening?
- What were the affiliate's major costs and investments during the first year of operations?
- What is a coach's average salary?
- Do coaches receive free affiliate memberships?
- What is the average cost to the affiliate to train each coach?
 - Does the affiliate pay for beginner, advanced, or specialty training?
- How many coaches coach at the affiliate?
- How many hours/week, on average, does each coach spend coaching? If known, hours categorized by years of experience

Learning & Growth - can you continue to improve and create value?

- For how many total hours are managers trained after being hired?
- Which accounting software does the affiliate use?
- Which membership metric software does the affiliate use?
- Which scheduling software does the affiliate use?
- Name new services the affiliate plans to provide in the next year and, if known, the profit expected from each

Figure 9. Balanced Scorecard questions for CrossFit Affiliates guided the data collection.

Data

After I provided Chris Cooper with the guiding questions for the Balanced Scorecard, the Two Brain Business team contacted the affiliates on my behalf. Five anonymous affiliates returned financial, internal operations, and customer data on a uniform spreadsheet, titled the ‘Big Sheet.’ Chris builds a Big Sheet with each of his mentorship clients to highlight the significant data points for a CrossFit affiliate:

Measurement	Formula
Average Revenue per Member (ARM)	Gross Revenue / number of members
Length of Engagement (LEG)	Total months of membership for all members / number of current members months
Profit Margin ratio	$(\text{Revenue} - \text{Expenses}) / \text{Revenue} * 100$

Figure 10. Formulas of CrossFit-specific measurements.

In a conversation with Anastasia Bennett, Two Brain consultant and CrossFit affiliate owner, she explained that because many affiliate owners are uninformed about proper accounting procedures and standards, the Big Sheet forces them to display and examine all relevant financials for the first time.¹²¹ The emphasis on ARM, LEG, and profitability enhance the value. After creating the Big Sheet, a consultant works with the affiliate to decrease fixed costs by trimming the business.

I examined the Big Sheets of four unsuccessful affiliates (Gyms 1, 2, 4, and 5) and one successful affiliate (Gym 3) individually to answer each BSC question. The successful affiliate features more robust data and became the basis for most of my Balanced Scorecard relationships. Chris defined a successful affiliate as possessing a consistently increasing ARM of \$200, an increasing LEG, and a profit ratio around

¹²¹ Anastasia Bennett, “Anastasia Bennett from Two-Brain Business,” Interview by Jordan Aronowitz, Telephone, April 3, 2018.

33%. These three metrics predict retention and profitability. Big Sheets included two years of data. I examine the financial success of the five gyms below:

	Financial perspective of the BSC - are you doing well financially?				
	Gym 1	Gym 2	Gym 3	Gym 4	Gym 5
Is the affiliate successful or unsuccessful?	Unsuccessful	Unsuccessful	Successful	Unsuccessful	Unsuccessful
Analysis of ARM and profit ratio	ARM is 114, profit ratio is 24.31%. Decreasing then increasing.	ARM is 96, profit ratio is 4.4%. Decreasing.	ARM is 230, profit ratio is 28.91%. Increasing.	ARM is 93.55, profit ratio is 27.21%. Decreasing.	ARM is 117.88, profit ratio is 17.23%. Decreasing.

Figure 11. Financial success details of five CrossFit affiliates examined. ARM and profit margin determined financial success.

I then applied answers to each perspective of the Balanced Scorecard and reached out to members of the Two-Brain team for clarification. I mapped similarities and differences between each affiliate examined, then used that evidence to draw lead and lag relationships between the perspectives.

Analysis of Balanced Scorecard metrics

Each Balanced Scorecard metric represents a quantitative measure management can influence. The circled words in the following figure represent Balanced Scorecard metrics. Lines between metrics represent lead and lag relationships. The definition of each metric and explanation of relationships are further examined on the following pages.

Abbreviated Balanced Scorecard for the CrossFit Affiliate

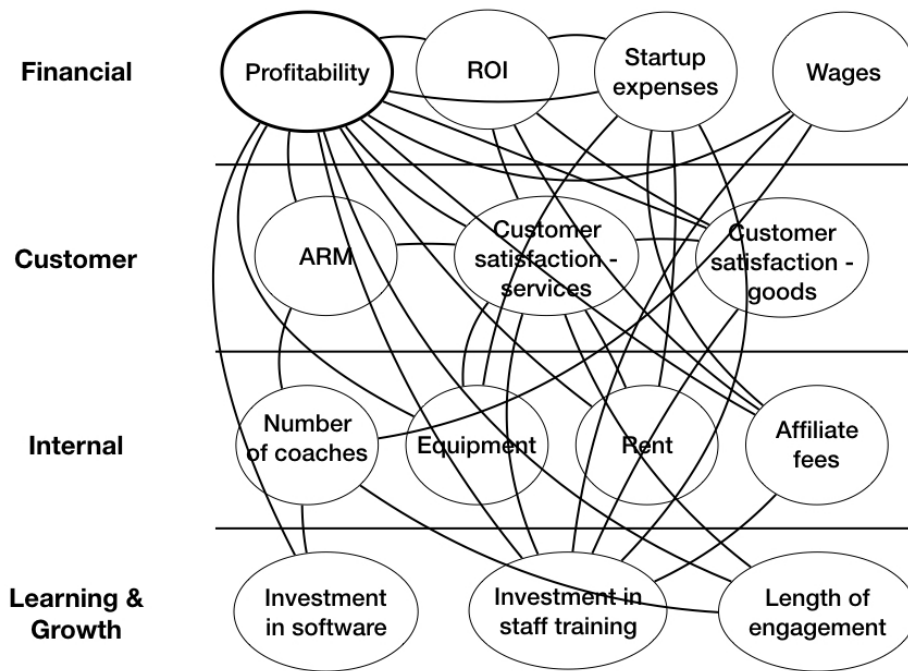


Figure 12. Abbreviated Balanced Scorecard for a CrossFit Affiliate. Metrics are organized by perspective, are listed on the left side of the figure. Each circle represents a business metric and each line between metrics and perspectives represents a causal lead or lag relationship. Definition of each metric and leads and lags are explained in the following figures.

Extended Balanced Scorecard

Financial		
Metric	Definition	Cause and Effect
Profitability	<ul style="list-style-type: none"> Profit margin: $\frac{\text{Revenue} - \text{Expenses}}{\text{Revenue}} * 100$ 	<ol style="list-style-type: none"> Affects financial perspective <ol style="list-style-type: none"> Profitability drives affiliate financial health and sustainability. All affiliates examined saw decreased profit margins in periods of high investment or expense. Affected by customer perspective <ol style="list-style-type: none"> Direct relationship between customer satisfaction and profitability. When more customers are satisfied, profit increases. Affected by internal perspective <ol style="list-style-type: none"> Internal expenses: equipment, maintenance, rent, and affiliate fees. Affects learning & growth perspective <ol style="list-style-type: none"> Positive profit margin leads healthy financial state and capacity for growth. Affected by learning & growth perspective <ol style="list-style-type: none"> Investment in software and training help an affiliate in periods of loss.
ROI of goods and services provided	<ul style="list-style-type: none"> Resources invested in goods and services Return on Investment: $\frac{\text{Revenue} - \text{Cost}}{\text{Cost}} * 100$ 	<ol style="list-style-type: none"> Affects financial perspective <ol style="list-style-type: none"> ROI determines financial success of new projects and business operations. Affected by financial perspective <ol style="list-style-type: none"> Financial investment required to initiate new projects. Affects customer perspective <ol style="list-style-type: none"> All affiliates led traditional CrossFit as well as other customer-facing services. Affects internal perspective <ol style="list-style-type: none"> Ancillary projects lead to increased hiring and varied tasks. Affects learning & growth perspective <ol style="list-style-type: none"> High-ROI projects show long-term growth potential. Analysis of new affiliate projects: <ol style="list-style-type: none"> Shop sales: Not profitable in an unsuccessful affiliate. PT Sessions: More profitable at a successful than unsuccessful affiliate. CrossFit: Most profitable. Profitable at all gym. Bootcamp: Increases diversity of client interests. CrossFit Kids: Helps engage diverse client demographics: younger (kids) and older (parents). Nutrition: Enhances overall fitness experience, but not profitable. On Ramp: Contributes to gym community and confidence. Takes away from normal coaching time, but prevents inexperienced members from taking classes.
Startup expenses	<ul style="list-style-type: none"> Total cost required to open affiliate 	<ol style="list-style-type: none"> Affected by financial perspective <ol style="list-style-type: none"> An affiliate owner needs to source enough funds to afford startup expenses. Affects customer perspectives <ol style="list-style-type: none"> More services at opening leads to better initial customer experience. Affects internal perspective <ol style="list-style-type: none"> Significant startup expenses are: Initial affiliate fee, training certification, equipment, rent, space permits, space renovations, marketing, merchandise, and insurance.
Wages	<ul style="list-style-type: none"> Coach wages per period Owner wages per period Timing of wages 	<ol style="list-style-type: none"> Affected by financial perspective <ol style="list-style-type: none"> Ability to pay employees depends on available funds. Affects internal perspective <ol style="list-style-type: none"> Direct relationship between satisfied employees and service quality. Staff morale increases when wages match time and effort given to service. Gym 5 did not include coaches on payroll in exchange for free membership. Management counted coaches as non-paying members. Affected by internal perspective <ol style="list-style-type: none"> Direct relationship between number of coaches and wages paid. Proportionally large expense: <ol style="list-style-type: none"> Gym 3: \$13000 coaches wage / \$24000 total expenses Two affiliates did not pay coaches in periods of loss. Owners are never paid in Gym 4.

Figure 13. Financial perspective of the Balanced Scorecard for the CrossFit Affiliate. Metrics are listed on the far-left column, with definitions and relationships explained on the following columns.

Customer		
Metric	Definition	Cause and Effect
Customer satisfaction - services	<ul style="list-style-type: none"> Percent change in membership between periods Percent change in revenue for services between periods 	<ol style="list-style-type: none"> Affects financial perspective <ol style="list-style-type: none"> Direct relationship between customer satisfaction and profitability. Affected by customer perspective <ol style="list-style-type: none"> Inverse relationship between coach-to-member ratio and customer satisfaction. Affected by internal perspective <ol style="list-style-type: none"> Direct relationship between quality of operations and customer satisfaction. Direct relationship between investment in equipment and space and customer satisfaction. Affects learning & growth perspective <ol style="list-style-type: none"> Direct relationship between customer satisfaction and lengths of engagement and the likelihood of return customers.
Customer satisfaction - goods	<ul style="list-style-type: none"> Percent change in goods sales revenue between periods ROI of investment in goods Profitability of goods sales 	<ol style="list-style-type: none"> Affects financial perspective <ol style="list-style-type: none"> All five affiliates experienced negative ROI and profit ratios from investment in goods: <ol style="list-style-type: none"> Gym 1 saw negative profit margins for shop sales. Affects internal perspective <ol style="list-style-type: none"> Requires more internal training and distracts employees from normal business operations.
Number of Members, Average Revenue per Member	<ul style="list-style-type: none"> Member recruitment cost Membership pricing Coach-to-member ratio Number of affiliate members each period Average Revenue per Member: $\frac{\text{Gross Revenue}}{\text{Total number of members}}$ 	<ol style="list-style-type: none"> Affects financial perspective <ol style="list-style-type: none"> ARM measures how much revenue each member brings. Direct relationship between ARM and Profit Margin. Direct relationship between ARM and ROI for membership recruitment cost. Gym 3's ARM remained high, even during periods decreasing membership, due to cost-efficient membership operations. <ol style="list-style-type: none"> Shows financial growth despite decreased retention. Gym 4's ARM decreased despite maintaining a consistent number of members. <ol style="list-style-type: none"> Management should either revise pricing or increase recruitment. Affected by customer perspective <ol style="list-style-type: none"> High ARM notes healthy level of membership and less need for recruitment, which stabilizes coach-to-member ratio. <ol style="list-style-type: none"> Lower coach-to-member ratio increases customer satisfaction. Affects internal perspective <ol style="list-style-type: none"> Direct relationship between number of members and number of coaches needed.

Figure 14. Customer perspective of the Balanced Scorecard for the CrossFit Affiliate. Metrics are listed on the far-left column, with definitions and relationships explained on the following columns.

Internal		
Metric	Definition	Cause and Effect
Number of coaches	<ul style="list-style-type: none"> Numbers of coaches maintained on payroll Coach-to-member ratio 	<ol style="list-style-type: none"> Affects financial perspective <ol style="list-style-type: none"> Direct relationship between maintaining more coaches on payroll and wages paid. <ol style="list-style-type: none"> Gym 5 consistently maintained four coaches, but granted them free membership rather than wages. Total members increased, but wages remained constant. Affected by financial perspective <ol style="list-style-type: none"> Ability to hire and maintain coaches depends on funds available for payroll. Affects customer satisfaction <ol style="list-style-type: none"> Lower coach-to-member ratio increases customer satisfaction. Affects internal perspective <ol style="list-style-type: none"> More coaches lead to a more-balanced workload.
Equipment cost	<ul style="list-style-type: none"> Cost of equipment purchased Cost of equipment maintenance 	<ol style="list-style-type: none"> Affects financial perspective <ol style="list-style-type: none"> High equipment costs decrease profit. Gym 5 yielded high startup expenses for equipment. Affected by financial perspective <ol style="list-style-type: none"> Financial health affects ability to purchase new equipment and maintain existing equipment. Affects customer perspective <ol style="list-style-type: none"> Direct relationship between equipment quality and customer satisfaction.
Rent / Space cost	<ul style="list-style-type: none"> Cost of rent Cost to convert space or acquire proper permits 	<ol style="list-style-type: none"> Affects financial perspective <ol style="list-style-type: none"> Proportionally large expense for all 5 affiliates: High initial cost to convert space into CrossFit affiliate. Monthly rent ranges from \$700 to \$4400. Affected by financial perspective <ol style="list-style-type: none"> Financial health affects ability to afford rent, maintain, or upgrade space. Affects customer perspective <ol style="list-style-type: none"> Direct relationship between customer satisfaction and quality of space. Affects internal perspective <ol style="list-style-type: none"> A cohesive space helps business organization and employee morale.
Affiliate fees	<ul style="list-style-type: none"> Affiliate fees to CrossFit Corporate HQ 	<ol style="list-style-type: none"> Affects financial perspective <ol style="list-style-type: none"> Constant fee with high ROI. All affiliates experienced periods of loss when paying affiliate fee. On average, 30% of total expenses. Affects customer perspective <ol style="list-style-type: none"> Management gains the name recognition power of the CrossFit brand for consumer marketing. Affects internal perspective <ol style="list-style-type: none"> Management can connect with and hire qualified coaches. Affects learning & growth perspective <ol style="list-style-type: none"> Management joins the network of affiliates for advice for growth.
Insurance fees	<ul style="list-style-type: none"> Insurance fees paid either through CrossFit or a third-party 	<ol style="list-style-type: none"> Affects financial perspective <ol style="list-style-type: none"> Required expense. On average, 10% of total expenses. Affects customer perspective <ol style="list-style-type: none"> Increases member trust. Affects internal perspective <ol style="list-style-type: none"> Protects staff members.

Figure 15. Customer perspective of the Balanced Scorecard for the CrossFit Affiliate. Metrics are listed on the far-left column, with definitions and relationships explained on the following columns.

Learning & Growth		
Metric	Definition	Cause and Effect
Investment in staff training	<ul style="list-style-type: none"> Funds invested in coach training through CrossFit Training Funds invested in managerial training for management 	<ol style="list-style-type: none"> Affects financial perspective <ol style="list-style-type: none"> Proportionally large expense. Affects customer perspective <ol style="list-style-type: none"> Direct relationship between quality of coaching and CrossFit training courses. Direct relationship between operational efficiency and managerial training courses. Affects internal perspective <ol style="list-style-type: none"> Owners show a financial interest in coaches by investing in CrossFit training. Owners show a financial interest in the business by investing in managerial training.
Investment in management software	<ul style="list-style-type: none"> Funds invested in software to increase business insight and operational efficiency 	<ol style="list-style-type: none"> Affects financial perspective <ol style="list-style-type: none"> Cost of software. Affects internal perspective <ol style="list-style-type: none"> Affiliates that use accounting software benefit from efficient internal organization. Helps management grow by making informed decisions. Affiliate 3 uses accounting software and shows long-term success.
Length of Engagement	<p><u>Total length of continuous membership for all members</u> # of members</p>	<ol style="list-style-type: none"> Affects financial perspective <ol style="list-style-type: none"> Long-term, loyal members guarantee membership revenue without additional recruitment costs. Affects customer perspective <ol style="list-style-type: none"> High LEG leads to higher retention, ability to sustain members long-term, a community of members, and future growth. Affiliate 4 averaged a 21.5 month LEG, while Affiliate 2 averaged a 5.1 month LEG Affects internal perspective <ol style="list-style-type: none"> Direct relationship between customer satisfaction and length of engagement. Affects internal perspective <ol style="list-style-type: none"> Staff members benefit from long-term relationships with members and affiliate community.

Figures 16. Learning & Growth perspective of the Balanced Scorecard for the CrossFit Affiliate. Metrics are listed on the far-left column, with definitions and relationships explained on the following columns.

Learning & Growth

Length of Engagement

Length of Engagement (LEG) measures how long a member remains at one affiliate. LEG represents the intersection between satisfaction and retention because of its reliance on the propensity of repeat customers and long-term engagement.

Measured in months, a long LEG leading to retention leads the financial perspective by guaranteeing consistent membership and leads to high-ROI client relationships because recruitment costs occur once, at the onset. A long LEG lags the customer perspective by creating a loyal community of members and capitalizing on the direct relationship between customer satisfaction and length of engagement. Engaged members will remain at an affiliate longer, so an owner should focus on developing long-term relationships with existing members to increase revenue rather than relying on constant recruiting. This dependable customer base can lead to word-of-mouth marketing and a further development of the growth perspective through a cohort of informed clients.

I examined Length of Engagement by comparing membership and the factors that affect length of engagement at two affiliates:

Length of Engagement Calculation (from Big Sheet)	
Gym 2	
Total Members:	51.00
LEG:	5.10
<hr/>	
Gym 4	
Total Members:	53
LEG:	21.57

Figure 17. Calculation of Length of Engagement (months), pulled from data provided by Two Brain Business.

Gym 4 held a consistently higher LEG than Gym 2.

By observing and comparing Gym 2's and Gym 4's big sheets, I determined revenue diversification as the main driver of LEG:

Gym 2 sources of revenue (average across 24 months)	
CrossFit	\$4,971.00
Bootcamp	
CrossFit Kids	
New You Challenge	
Nutritional Coaching	
Foundations	\$225.00
PT sessions	
Drop-In	\$97.50
Gym 4 sources of revenue (average across 24 months)	
CrossFit	\$3,094.48
Drop-In	
Bootcamp	\$1,388.69
Personal Training	\$69.56
Speciality Clinics	
Retail	\$1,066.94

Figure 18. Sources revenue from goods and services from gyms 2 and 4. Values are averaged over a 24-month period.

Gym 4 diversified its revenue sources across goods and services more than Gym 2.

Gym 4's non-CrossFit revenue made up 45% of total revenue as traditional-CrossFit revenue outnumbered total non-CrossFit revenue by only \$569.29. On the other hand, traditional CrossFit comprised 96% of Gym 2's revenue (Drop-In fees represent visiting members temporarily joining preexisting classes). Thus, while Gym 4's average engaged last 123.51% longer than Gym 2's, traditional CrossFit accounted for 41% less of overall revenue.

A more qualitative portion of the learning perspective deals with criticism of the CrossFit brand and how affiliate owners will combat negative publicity in the

future. If affiliate management can learn to defend its service against national criticism, then management can present the brand positively and recruit members regardless of large-scale criticisms. This concept will be extended on in the conclusion.

Investment in staff training

CrossFit offers 33 different training courses and certifications, ranging from traditional CrossFit, to training elders, to specialty disciplines.¹²² Two of the five affiliates examined included training expense in the last 24 periods. The base course, CrossFit Level 1 is \$1000 for two days.¹²³ Prices increase for levels 2 through 4 and specialty courses. By setting a norm that affiliates pay for coaches' training, coaches improve, feel more loyal to the affiliate, and provide customers with a better product.

I examined the investment in staff training by comparing training costs as a percentage of total expenses:

Investment in training over a three-month period			
Gym 2			
Training Investment	\$1,250.00	\$1,449.00	\$199.00
Total Expenses	\$5,060.81	\$8,983.08	\$5,196.36
Training investment as a percentage of total expenses	24.70%	16.13%	3.83%
Gym 3			
Training Investment	\$437.63	\$324.53	\$1,056.15
Total Expenses	\$13,210.66	\$11,612.13	\$10,974.68
Training investment as a percentage of total expenses	3.31%	2.79%	9.62%

Figure 19. Investment in training as a percentage of total expenses across two affiliates.

¹²² "CrossFit Training & Specialty Courses," *CrossFit Training*, Accessed April 15, 2018, training.crossfit.com.

¹²³ Ibid.

Gym 3, the successful affiliate, consistently invested a small percent into training each period, significantly increasing in the third period shown, while Gym 2 invested a sizeable percentage into training during most periods, then significantly decreased the investment. The investment in staff training causes a lead in the customer perspective because of the direct relationship with a higher quality service, but a lag in the financial perspective because of the significant expense associate with purposeful training. Small amounts of investment in training over time contribute to the overall success of a mature affiliate. Temporary, sporadic bursts of investments contribute to the growth of a small affiliate but should not detract from initial profitability.

Internal

Affiliate fees

Status as an official CrossFit affiliate leads to the ability to hire more experienced coaches and benefit from name recognition and brand understanding through a consistent, planned fee. Affiliate fees contribute can lead to a high ROI for a CrossFit affiliate because of the value of the CrossFit name, logo, and brand support. The yearly \$3,000 fee may seem insignificant compared to the benefit associated with the CrossFit name and brand, but upon examination the fee constitutes a significant, serious expense for new, unsustainable affiliates.

I approached the analysis of the impact of affiliate fees on successful operations with the goal to determine if the brand association is worth the loss taken upon payment of the fee. I calculated affiliate fees as a percentage of total expenses in the period of payment:

Impact of affiliate fee on total expenses		
Gym 1	Period of fee	Period after fee
CrossFit Affiliate fee	\$ 3,000.00	\$ -
Total Expenses for period	\$ 13,304.65	\$ 8,870.95
Profit Ratio	-27.53%	24.31%
Affiliate Fee as a percentage of total costs		22.55%
Gym 2		
CrossFit Affiliate fee	\$ 3,000.00	\$ -
Total Expenses for period	\$ 8,983.08	\$ 5,196.36
Profit Ratio	-86.12%	-26.70%
Affiliate Fee as a percentage of total costs		33.40%
Gym 3		
CrossFit Affiliate fee	\$ 3,000.00	\$ -
Total Expenses for period	\$ 14,863.24	\$ 13,627.65
Profit Ratio	9.42%	21.14%
Affiliate Fee as a percentage of total costs		20.18%
Gym 5 (expensed \$300 monthly for 10 months)		
CrossFit Affiliate fee	\$ 300.00	\$ 300.00
Total Expenses for period	\$ 5,090.68	\$ 5,118.00
Profit Ratio	21.68%	17.23%
Affiliate Fee as a percentage of total costs		5.89%

Figure 20. Affiliate fees calculated in relation to total expenses for the period of payment.

Profits margin decreased at all affiliates in periods when affiliates expensed the yearly fee. Gym 5 expensed the \$3,000 over the course of year, which meant that the profit ratio decreased less dramatically, and affiliate fee constituted a less significant portion of total expenses than seen at other affiliates; however, regarding the other unsuccessful affiliates (Gym 1 and 2), profit ratios significantly decreased upon expensing the \$3,000 fee, dipping both into severely negatively periods. The fee also

constituted a larger percent of total costs. In the successful affiliate (Gym 3), the fee comprised a significant percentage of total costs, but the profit ratio remained positive and did not decrease as drastically as the other affiliates'. This means that despite the high ROI associated with the affiliate fee, the cost greatly affects the financials of every affiliate.

Successful affiliates can balance the loss, but less-prepared affiliates suffer, further showing the need for structural tools for new affiliates to promote profitability. The fee leads the learning and growth perspectives through the connections with the affiliate network and the ability to grow, leads the internal to increase staff quality under the CrossFit name, leads the customer due to name recognition, leads the financial due to the high ROI, but lags the financial because of the significant losses. The affiliate must organize its operations to withstand the fee.

Customer

Market Share and Average Revenue per Member

An affiliate should never aim to “serve the most clients. The goal is always to serve clients the *most*. Being successful means being profitable and sustainable,”¹²⁴ and business will suffer if the metrics only revolve around increasing the number of members. An affiliate passes the ‘sweet spot’ of membership (about 180 members) when managers cannot remember members’ names, which affects Average Revenue per Member.

I examined Average Revenue per Member to determine the overall impact on affiliates. Affiliate 3 held the only increasing ARM:

¹²⁴ Chris Cooper, “Why You’ll Never Need 300 Members”

Number of members and ARM	
Gym 1	
Gross Revenue:	\$13,111.51
Total Members:	119
ARM:	110.18
Gym 2	
Gross Revenue:	\$5,060.00
Total Members:	51
ARM:	99.22
Gym 3	
Gross Revenue:	\$30,238.09
Total Members:	146
ARM:	207.82
Gym 4	
Gross Revenue:	\$5,289.13
Total Members:	52
ARM:	101.71
Gym 5	
Gross Revenue:	\$7,914.46
Memberships	66
Coaches	4
Total Members:	70
ARM:	113.06

Figure 21. Average Revenue per Member and Total Members calculated across five affiliates.

ARM leads and lags the financial perspective because members determine if an affiliate can collect a viable amount of revenue relative to affiliate size and number of members, but because more members does not always equal more profit, the financial perspective can lag if membership grows too large. In a successful affiliate, Gym 3's ARM remained high despite decreasing membership, showing an effective application of resources and a healthy number of members. In unsuccessful affiliates, Gym 4's

ARM decreased despite maintaining a consistent number of members. Gym 5's ARM increased, then decreased due to increasing membership. In these cases, management should either revise pricing or increase recruitment.

In addition, an increasing ARM matched with an increasing LEG predicts healthy growth. Affiliate 3 held the highest, most consistent ARM, so even as membership numbers remained constant, ARM, LEG, and profit ratios increased. Because more members do not mean more ARM, the affiliate needs to focus on how much members spend and how to foster repeat clients. The right market share can lead financial through increasing ARM and LEG, leading to consistent, increasing profit.

Financial

Coach wages

Affiliates pay coaches per class, per hour, through a full-time salary, or by compensating with valuable training courses and free memberships.

Anastasia pays her coaches from \$12-35 per class or hour depending on qualification, from intern, to Level 1, 2, and 3 certifications.¹²⁵ Chris uses the '4/9 principle' and pays his coaches "44% of the gross revenue created by CrossFit groups, personal training and specialty programs,"¹²⁶ regardless of other expenses. The higher the certification, the higher the pay.

All five affiliates paid their coaches over the course of the periods examined, but some skipped certain months depending on other expenses. Wages did represent more than 50% of a period's total expenses for two affiliates. Gym 5 did not include

¹²⁵ Anastasia Bennett, "Anastasia Bennett from Two Brain Business."

¹²⁶ Cooper, Chris, "The Salary Cap," *Two Brain Business*, April 4, 2018, Accessed April 4, 2018, www.twobrainbusiness.com.

coaches on payroll. Instead, managers listed the four coaches as non-paying members. Thus, membership increased while revenue and wages remained the same. As long as agreements are understood, and coaches are ultimately compensated, the business can continue to run smoothly. Coach quality affects satisfaction, retention, and internal efficiency, but the financial perspective affects the amount of salary paid.

Profitability and ROI of new services

By introducing new services to clients, but charging service-specific fees, the number of members stay the same as income increases. Anastasia explained that ROI increases when owners meet the goals of more members. If a member wants to lift heavy, he can take a barbell course. If a member wants to lose weight, he can take a nutrition course.¹²⁷ Thus, the affiliate can prescribe the best option for the person, leading to customer satisfaction, but fees must increase proportional to the wages and resources applied to the program. All five affiliates offered diverse courses, but only Personal Training Sessions, which provide commission to the trainer, appeared universally profitable. Thus, new services lead customer satisfaction, but can lag internal by spreading resources thin and lag financial through losses.

Programs (such as *Romwod*, an online, membership-based mobility course), products (such as *Kill Cliff*, a recovery drink), and affiliate apparel increase customer satisfaction, but management must build costs into membership fees before implementing products in the event sales are negative, shown in Affiliate 1 on the financial analysis on page 55. Chris Cooper described anecdotes where affiliates purchase the most popular new product, hoping it would increase income and LEG,

¹²⁷ Anastasia Bennett, "Anastasia Bennett from Two Brain Business."

only for it to sit on a shelf for a year. Shop sales can lag financial due to low ROI and lag internal due to more training and more confusing operations.

Profitability across different arms of a business sparks long-term, sustainable growth. The ability of an affiliate to create consistent revenue or increasing revenue for projects outside of traditional CrossFit determined profitability. In periods when secondary projects appeared as losses, overall profit ratios decreased regardless of other expenses of traditional CrossFit revenues. Advertising, Gym Expenses, Rent, and Salaries represented major expenses, but all varied throughout the year.

The cost of goods sold for secondary products also represented major expenses, but without a probable positive ROI, the affiliate cannot rely on shop sales to contribute to profit. Affiliate 3 profited from shop sales, while the others did not.

In addition, I examined the financial effects of eight large investments in projects, compared to the affiliate as a whole with shop sales (goods) as a percentage of gross margin and services as a percentage of salary expense because labor primarily drives service costs:

Financial details of large investments and large projects			
	Gym 1	Gym 2	Gym 3
Gross Margin			
Shop sales	-181.10%		17.09%
Incoming revenue as a percent of salary expense			
PT Sessions	22.50%		47.02%
CrossFit	371.50%	724%	175.31%
Bootcamp			20.30%
CrossFit Kids	0.18%		18.66%
Nutrition			1.51%
Barbell			5.68%
On Ramp	17.90%	32.80%	3.01%

Figure 22. Profitability to various CrossFit Affiliate projects by gross margin and percent of salary.

The leads and lags are how each new project directly affects profitability. In addition to showing long-term growth potential, new projects add revenue streams and can contribute to long-term growth. CrossFit constituted the most consistent profit across affiliates. Shop sales did not lead to profit in an unsuccessful gym, as seen by the -181.1% margin in Affiliate 1. Bootcamp, CrossFit Kids, and On Ramp (introduction courses) diversify the membership base but are only profitable if the affiliate incorporates associated fees.

Overall, The Balanced Scorecard helps an affiliate understand which consumer ventures are profitable and navigate business decisions despite inexperienced management or lack of corporate guidance.

Conclusion

The Balanced Scorecard holds a prominent position in the consulting and accounting spaces due to its application, use, and effectiveness. Small businesses, particularly CrossFit affiliates, need supplementary assistance to warrant profitability and sustainability. I created the CrossFit Affiliate Balanced Scorecard because CrossFit affiliate owners generally lack the experience to lead a successful business and CrossFit corporate HQ does not provide affiliate owners with the proper assistance to establish, organize, and operate their businesses efficiently. Affiliate owners can apply the Balanced Scorecard to the financial, customer, internal, and learning perspectives and maintain efficient practices throughout operations.

The Balanced Scorecard establishes relationships between components of a business by influencing managers to not rely solely on financial data. The Balanced Scorecard helps managers understand how one aspect of a business affects others by displaying cause-and-effect relationships between perspectives. These help management visualize lead and lag relationships, which explain how each aspect of a business works together. When management invests in a specific aspect of the business, one perspective positively or negatively affects another. The perspective affecting is the “lead” and the perspective affected is the “lag.” Inexperienced business owners often do not realize this phenomenon.

Three types of managerial development sparked the boutique fitness industry’s growth: corporate ownership, franchising, and licensing. In CrossFit, which employs a licensing structure, affiliate owners can open an affiliate by paying a yearly \$3,000 fee for use of the CrossFit name and passing a \$1,000 training course. At this point,

corporate cuts off contact with the affiliate and grants the owners autonomy to make beneficial or detrimental decisions. In the CrossFit model, high-quality affiliates will crowd out low-quality affiliates. Then, the market will grow and improve naturally. On paper, this appears as efficient and dynamic, but upon further analysis, affiliate owners struggle to succeed because they approach the business from passion rather than as a wise investment. As the popularity of ownership increases, CrossFit will continue to face quality, safety, and success problems.

After collaborating with experts in the space and examining data from one successful and four unsuccessful CrossFit affiliates, CrossFit HQ needs to provide its affiliates with more financial and structural assistance. Profitability, market share, retention, and the introduction of new services are the most significant metrics in the Balanced Scorecard as the associated lead and lag relationships determine business success.

Profitability determines business survival, so affiliates need structures in place to survive periods of loss. The CrossFit name leads to high ROI through brand recognition, but management must implement practices of smart expansion, pricing, and management decisions ensure affiliate growth and sustainability.

An affiliate's market share determines whether an affiliate should open in its market and the number of coaches needed for a practical number of members. The average revenue per member, calculated by dividing gross revenue by total members, guides the recommended number of members and contributes to long-term profitability, regardless of recruitment levels. Affiliates with an ARM above 200 are considered successful.

Retention contributes to affiliate sustainability as repeat customers expand the business through word-of-mouth marketing and guarantee consistent membership. The length of engagement, calculated by dividing the number of current members by the total months of membership for all members, measures how long members stay at an affiliate. Successful affiliates engage with members for years.

Lastly, the introduction of new services engages members and keep business operations fresh but can harm the business if they are not profitable. An affiliate must analyze a new services' costs in relation to market demand before implementation.

As CrossFit continues to face public criticism due to inefficient business practices and unreliable training, owners must streamline business operations and capitalize on financial independence to remain sustainable and recruit new members. Organizational tools, such as the Balanced Scorecard, can lead to temporary operational changes, but long-term sustainability will rely on CrossFit HQ establishing uniformity across affiliates and refocusing on quality and ownership preparation.

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