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# GymFit's Certain Issues Concerning Report

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## **A. Introduction**

In the European health and fitness industry, according to the report provided by Europe Active and Deloitte, the market realized a rejuvenation in 2015 and made a rapidly growth from that moment on, primarily driven by a 3.2% increase in the number of clubs across all countries with a positive 0.7% increase in the average membership per club, leading to a total increase in members of 4% to 60 million. Additionally, the process of separation of the gym operating types moves fast based on the movement and differentiation of customers' demand, and the low-cost operators such as Basic-Fit and FitX become the main stream to lead to the industry's development predominantly. As the local leading provider of low-cost gyms, GymFiT experiences a rapid increase in its revenue and the number of gyms; nevertheless, the strong competitors and great loans hold force it to meet the continued growth relying on the government initiatives and technology changes.

Faced with the conversion from the current business to consumer marketing strategy to a business to government marketing strategy, the additional cost and the forecast influences on the revenue need to be taken into prudent consideration associating with the current operation model. Meanwhile, as for the new launched App seeking for the improved technical experience and users' motivation on fitness, the design process management, the testing types and duration, and marketing strategies are of great importance.

Furthermore, the internal and external environments will have an essential impression on GymFiT's performance, strategies, and business position. Using the SWOT analysis (Appendix 1) and PEST model (Appendix 2), we will have a clearer understanding of those effects and issues arising from this case.

## **B. Terms of Reference**

As a Finance Officer for GymFit, our team is required to analyze and give recommendations on specific issues the firm faced, and provide explanatory paragraphs towards the proposal prepared for the board.

## **C. Interpretation of Financial Analysis**

### **I. Annual revenue comparison**

For current membership, we could find the annual likely revenue (C\$92,394,000) from the Sales Budget 2018.

For GetupGo membership, we need to estimate the number of new memberships based on the GymFit's market share then calculate the revenue. Celtland health and fitness gym sector created sales revenue of C\$7 billion in 2017 and of which GymFit contributed C\$73.1 million. From rough calculation, it can be seen that GymFit accounted for around 1.04% of the market share. Over all, in Celtand, there are more than 20 million physically inactive

people. If all the inactive people start a fitness routine, there will be about 208,000 of them joining in GymFit based on its market share. Additionally, a study of behavioral statistics by The Good Body shows that half of the people starting an exercise program will drop out in their first six months. In this report, we assume that under our greatest efforts (a) there will be half of the GetupGo members insisting in exercises for 6 months and another half for one year (b) classes fees, vending machine income per member remain unchanged and consistent with the data from Sales Budget 2018. The annual likely revenue from GetupGo memberships is shown as follows:

	Per member C\$	Number of members	Total C\$000
Monthly membership fees	17	104,000 for 6 months 104,000 for 12 months	31824
Sign up fees	75	208,000	15600
Retention fees	150	104,000	15600
Classes fees	5.28	208,000	1098.24
Vending machine income	1.45	208,000	301.6
			64423.84

From this comparison, we can find that the annual likely revenue from GetupGo memberships is almost 70% of that from our current memberships. This cooperation with the government will expand our customer base and increase the additional revenue.

## II. Additional costs

### (1). Financial cost

Firstly, the increase in the number of memberships will lead to an additional capital investment in building new gyms due to the limited capacity. The average number of members in 2018 will be 730,000 (522,000+208,000). Through calculating the average value of the data from previous three year, we assume that average number of members per gym is 4600 for 2018. Hence it is necessary to build another 43 gyms for satisfying the needs of members (730,000/4600-116). We also assume that operating expenses per gym is consistent with the data from Operating Profit Budget 2018. Here is the likely additional cost in building new gyms:

Operating expenses	Per gym C\$000	Total C\$000

Gym operating costs	206	8858
Lease costs	146	6278
Staff costs	102	4386
Head office costs	71	3053
Depreciation	126	5418
Amortisation	9	387
	660	28380

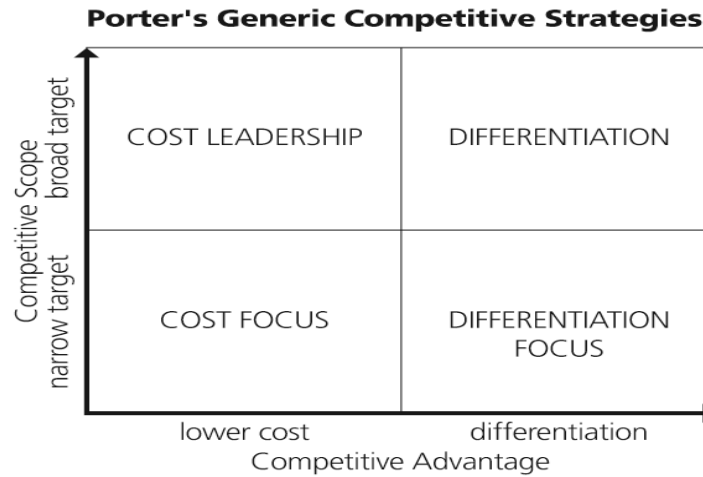
Secondly, in the long run, with Celtland entering the aging society gradually, more senior citizens will be encouraged to engage in fitness activities which are beneficial to postpone age-related illnesses. Therefore, we should pay more attention to this group of people for the purpose of recruitment and retention, such as providing special service from professional dieticians and fitness instructors who have rich experience in guiding senior persons. To encourage inactive members to insist on exercise, the psychologists can also be considered to assist with them. These employments will create the additional cost which needs some further information to be estimated.

#### (2). Non-financial cost

Aiming at retaining the GetupGo members, more work is likely to be carried out in motivating and contacting with them by marketing and IT officers. However, the higher workload with unchanged payment rate may lead to employee dissatisfaction, with increasing staff turnover in the long run. The leaving of experienced employees and recruitment, training for new workers will burden GymFit with extra costs. In addition, considering that subsidy of gym fees is only provided for the new members and also the limited available fitness facilities and work-out areas need to be shared with them, some existing members may feel unfair, thus contributing to the decrease of the customer satisfaction even their departure. Last but not the least, once GymFit is selected as the partner, every move would be monitored by government and new standards will be set to normalize our operation activities, leading to additional cost to some extent.

### III. How GetupGo fits with GymFIT's current operation model

According to Porter's generic strategies, GymFit has consistently adopted the cost leadership strategy as a leading provider of low-cost gyms. To increase the market share further, our company strategically plans to enhance the membership retention and apply in conjunction with focus strategies to differentiate from other low cost gyms.



Simultaneously, GetupGo project appears which is committed to encourage inactive groups to become more active in the long term. The cooperation with government will not only exploit new market of inactive people for our company to adopt the differentiation focus strategy, but also provide a practical and viable way for government to realize the goal. Moreover, what GymFit continually pursue is steadily improving the satisfaction of customer, reflected in the membership retention rate, which is also in accordance with government's goal of encouraging a permanent change in the habits of people.

#### IV. Comparison between B2C and B2G

##### (1). Target audience

The process of purchase decision-making is typically more complex for government than individual customer due to more people being involved in it and more time on reviewing the company's financial position and brand reputation. Hence, more efforts should be made in getting a comprehensive understanding of the 'GetupGo' campaign details, such as the purpose and assessment indicator, and reviewing which companies won previous projects and how they performed. Compared to government, conducting marketing research and segmenting the potential market are more direct approaches to focusing on the relationship between buying behaviors of the target customers and their demographic and psychographic characteristics.

##### (2). Brand promotion

Targeting at individual customer, brand promoting is realized in advertising of new and existing gyms through the website and social media. By contrast, in order to obtain the government grant, we need to take proactive measures getting in front of these decision makers rather than waiting to be noticed. It would be advisable to build a good relationship during the communications with contracting officers and show them our qualifications enough to be the successful contractor. Moreover, as Warren (2016) pointed, the B2G marketer must understand more and comply with bid specifications, compliance regulations, and applicable laws, also master the formal negotiation language and skills, as contrasted with B2C marketer.

### (3). Satisfaction

In the previous years, through providing the competitive advantages valued most by customers, such as fair and reasonable price, no-contract mechanism and the superior geographical position, we are committed to achieving profitability through economies of scale, with an increase of 20% of the memberships number in 2016 and 35% in 2017. However, it will be our priority to meet the requirements of government and make them convinced that we are more competitive in encouraging engagement and motivating members to insist on exercise. Additionally, GymFit's eco-friendly fitness equipment could also be a powerful point of attraction to the government continually emphasizing the low carbon lifestyles.

## V. Financial accounting treatment of grants

The approach to dealing with the government grant is covered in IAS 20. Both marketing grants and memberships grants can be identified as grants related to income for the common purpose of expenses reimbursement.

### (1). Marketing grants

The marketing grants are provided to reimburse related costs to be incurred in the future. Under this situation, we could use gross up method, which means that the government grant will be initially recognized at its gross amount as deferred income in the financial statement. Then it should be amortized proportionally to income statement according to the budget of marketing expenses over the next three years. The balance of the marketing grants unamortized will be remained in the deferred income account at the end of reporting period. The financial accounting treatment of this grant is shown as follows:

Description	Amount	Debit	Credit
Receipt of the marketing grant	C\$500,000	SoFP – Cash/Bank account	SoFP – Deferred income
Recognition in P/L	Need further information about marketing expenses budget.	SoFP – Deferred income	P/L – Income from government grants

### (2). Membership grants

The memberships grants should be recognized as income from providing every new member with the available work-out areas and fitness facilities. Every reimbursement will be periodically given after the achievement of specific attendance rate of each member to compensate incurred cost. Therefore, it should be reported separately as other income. The financial accounting treatment of this grant is shown as follows:

Description	Debit	Credit
Receipt of the memberships grant	SoFP – Cash/Bank account	P/L– Other income (Income from government grants)

## D. Analysis of Issues Related to App

### I. Design and development

The new App with the function of collecting and analyzing members' sports data presents a great opportunity to GymFiT. The phenomenon of booming bodybuilding apps such as Keep and declining traditional gyms indicate enormous potential of these apps in fitness industry. Additionally, the technology of tracking workout statistics and accordingly providing suggestions to members facilitates their goal-achieving process. Also, GymFiT can benefit from the technology in several aspects.

#### 1. Expenditure & Recognition

The expenditure related to the development of the App varies. Generally, there are two different situations: in-house making or outsourcing.

##### (1). Main costs of in-house development

Recruiting talent with particular skills; purchasing facilities such as laptops; purchasing intangible assets such as domain names; collecting and searching activities for research findings about the app (research cost); designing, operating and testing of model and alternatives of App before official launch (development cost); future maintenance and updates of App; salaries of IT staff and legal, professional and consultancy fees.

In this scenario, recruiting cost and staff's salaries, depreciation charge arising from tangible asset, research cost, development cost failing to satisfy certain criteria, App maintenance cost and legal, professional and consultancy fees are recognized as administrative expense in income statement. The remaining costs including facilities, domain names, qualified development cost and upgrading costs for providing additional functionality are recorded as assets in balance sheet.

##### (2). Main costs of outsourcing app development

Costs incurred due to searching, selecting and analyzing suitable IT companies; outsourcing cost paid on a hourly basis; maintenance and enhancement cost of App; legal, professional and consultancy fees.

In this case, except enhancement cost spent for delivering additional functions, which will be recorded as intangible cost in balance sheet, the outstanding costs will be recognized as administrative costs in income statement.



## 2. Member motivation

According to Maslow's hierarchy of needs theory, social needs and self-esteem needs play crucial roles in motivating gym members. Social needs can be fulfilled by creating an online community for recording fitness routine and exchanging experiences. In this way, the members can make friends easily and supervise each other frequently. Concerning self-respect needs, the app can make a bulletin board with ranks based on the attendance rate, workout time and quality in a certain period. Also, the active members will not only receive physical awards such as special gifts and discounted or even free membership fee, he will also receive the certificate authorized by GymFiT and regarded as a role model of the community.

Above incentives are based on certain assumptions. Herzberg's two-factor theory illustrates that motivators should be supported by Hygiene factors. Hence, the app should guarantee the reasonableness of class design and arrangement, timely data feedback, fairness of appraisal system and healthy community environment without advertisement and inappropriate content. Such Hygiene factors have considerable influences on members' motivation when the motivator is less satisfactory.

Apart from positive motivation, negative motivation is also indispensable. For example, if a member fails to achieve the goal he initially set, the app will reduce the virtual rewards received owing to past efforts to some extent. But what needs attention is that such negative inducements should be appropriate and reasonable otherwise it will be counterproductive.

Some suitable incentives can also be linked with Getupgo plan. The inactive members will be motivated to attend the gym at least once per week for one hour on average. As a result, not only members can win the awards physically and mentally, the gym can also receive the monthly payment from government.

## 3. Gym benefits

	<b>budget 2018</b>	<b>actual 2017</b>	<b>actual 2016</b>
<b>gym number growth rate</b>	13.7%	43.7%	20.3%
<b>member growth rate</b>	12.9%	35.5%	19.1%
<b>sales revenue growth rate</b>	26.4%	24.3%	22.6%

As can be seen from the table, the number of gyms and members in 2017 grows rapidly, which is 44% and 36% correspondingly. While the the growth rate of revenue in 2017 is not so great (24%) when compared with the gym and member growth rate. The data demonstrates that the amount of member increases substantially, the unsatisfactory member loyalty causes the problem of member retention. Therefore, GymFiT intends to slow down its gym and member growth rate in order to ensure member retention. This app can benefit the gym regarding member retention greatly. The app will have access to a large amount of personal information including

workout habits, goals and other relevant data. Consequently, the gym is able to organize classes and facilities efficiently and inform members of class details and other useful information through app notification, email or text messages. Furthermore, marketing department can cooperate with IT department to better promoting and advertising new and existing gyms by emailing, texting and notifying.

In brief, launching app will contribute to retaining existing members and attracting new members. Also, aside from motivating inactive members to exercise, the encouragement of continuous attendance and workout by this app will help GymFiT to boost the chance of receiving government’s retention fee. What is more, the brand reputation is likely to be enhanced.

#### 4. Recruitment vs Outsourcing

GymFiT can choose the method to develop the new app. The two methods, recruiting new IT talent and outsourcing, have their own strengths and weaknesses.

Following are the merits of in-house development:

- benefit staff’s career development given that company follows a strategy of focusing on their people
- low risk of information leakage thanks to the strict policies and complicated procedures within the company
- respond to the app’s bugs more quickly and it is more convenient to carry out maintenance and upgrade work

	<b>2017</b>	<b>2016</b>
<b>tangible asset</b>	107150	69352
<b>cash and cash equivalents</b>	366	3858
<b>borrowings</b>	32071	8325

This table shows that tangible asset and borrowings rise sharply, whereas cash and cash equivalents drop dramatically. The reason behind the statistics may be that GymFiT uses cash, cash equivalents and long-term liabilities to buy tangible asset such as computers and other equipments. If GymFiT decides to develop the app on their own, the increasing use of cash and borrowings will force the company to suffer from cash pressure and high gearing ratio, which may impact on its future financing.

Secondly, with the company orientation of low-cost gym, cost reduction is the key. Outsourcing enables cost to be reduced to a great extent mainly because of economies of scale in professional IT companies. And meanwhile, corporation can pay more attention to its core operations.

However, an argument against outsourcing about the data security and privacy arises. When corporation outsources the app development, the safety of personal information is less secured since confidential data will be exposed to lots of outsiders. And leaking private information will damage business reputation and brand heavily. One approach to prevent the occurrence of such event is that GymFiT can engage IT outsourcing company into a non-disclosure agreement (NDA).

If such approach is adopted, the privacy risk will be reduced to an acceptable level.

## 5. Recommendations

(1). It is necessary to launch the new app.

From the above analysis, we can contrast the costs and benefits brought by launching the new app. Some expenditure such as equipment procurement and some intangible assets including software and customer relationship can be recorded as assets in balance sheet, which will bring future economic benefits into the entity. In addition, this new app will avail both members and gyms. To be specific, members especially those inactive ones will be motivated by incentives and overall environment to work out regularly. On the other side, GymFiT can assign its resources and promote its businesses through this app more effectively and efficiently, which will solve the member retention problem and receive the government grant simultaneously. Appendix 4 evaluates this opportunity following the application of SAF plus F framework.

(2). It is better to outsource the app development than in-house developing.

The analysis has been presented in the former section.

Outsourcing is better than in-house developing in the following areas:

- Professional team in mature IT companies
- Lower cost due to economies of scale (fits with GymFiT orientation of low-cost gym)

Although outsourcing has higher risk of leaking personal information, several precautionary measures can be taken (eg. Non-closure Agreement).

## II. Testing

Before the new App released by GymFit plans to launch into the market, it should undergo a thorough testing process using testing methodologies to ensure that the App is working in the manner in which it is intended. The testing methodologies, to be more specific, usually involve two main aspects of testing referring to the functional testing and non-functional testing to confirm the product works in accordance with its specification without undesirable side effects when being used in ways outside of its design parameters. Here, the functional software testing including four levels of specific testing types will be detailed explained initially along with its practical application illustrated, following by a brief elucidation of the non-functional testing.

### 1. Functional testing (Appendix 5)

Functional testing is done using the functional specifications provided by the clients or by using the design specifications such as using cases offered by the design team, and it mainly contains four stages of testing: unit testing, integration testing, system testing, and acceptance testing. While another type of testing named the regression testing, focusing on the fact that new changes do not adversely affect other parts of the system, will not be covered as a separate level

of testing for its possible existence in every stage of the software testing process.

(1). The first level is the unit testing. During this first round, the App will be submitted to assessments that focus on specific units or components of the software to determine whether each one is fully functional. The core aim of this endeavor is to determine whether the applied functions are as designed. To emphasize, a “unit” of this testing can refer to an individual function, a program procedure or even a line of code. Thus, it seems to be the IT team’s chief responsibility to implement this type of testing efficiently, corresponding with the benefit that issues allowed to be resolved as quickly as possible whenever a piece of code is found to be changed. For example, once the App represents the problem of assessing the user’s training history or missing the data that needs to be recorded in the expectation, the team will double-check and fix the code of the data recording function immediately. Furthermore, as what is recommended in the section above, GymFit is more likely to bear a cost of supervision for the arrangement of applying an outsourced design team.

(2). The second stage is the integration testing, which gives the opportunity to combine all of the units within the App and test them as a group. This type of testing is provided to find interface defects between the functions, and it determines how efficiently those units are running together. After the process of unit testing; to extend the situation mentioned above, the team can check whether the data recording function corporates well with the function of giving feasible suggestion towards user’s particular behaviors. For instance, the test will pay attention to the factor whether there is a reasonable link between a member’s behavior recorded and the new stretch targets suggested by the App.

(3). Next coming to the system testing, which is exactly the first level in which the complete application is tested as a whole. The goal at this level is to evaluate whether the system has complied with all the outlined requirements and the quality standards is met. One considerable example should be the testing of the connection between App and the generic hardware on GymFit’s electronic gym equipment. From this perspective, both IT team and gym managers are involved as main roles of the division control using this type of testing.

(4). The final level of testing, the acceptance testing, is conducted to determine whether the App is ready to release. In this stage of testing, multiple factors of divisional control need to be concerned. It’s inevitable that the IT department will be involved to further test the availability of App; however, the proportion of it will be lower than the one represented in preceding tests, while the control by the HR, finance, and marketing groups tends to be set into the spotlight. Their specific roles in the acceptance testing are illustrated below:

- HR division: Concern about the recruitment of the skilled App maintain team and training sessions provided for employees to help them familiar with the App before they can guide consumers.
- Finance division: Test the balance of financial benefits and costs gaining from the

application of this App.

- Marketing division: Organize a market survey for the acceptance of this App by customers and test whether it can meet its designed purpose to improve member's experience. Moreover, the power of advertising needs to be evaluated.

## 2. Non-functional testing

Besides the functional testing, the non-functional testing typically involving tests of the application against technical qualities should take into consideration simultaneously. For example, the App's vulnerability, scalability, and usability which are more technical related.

## III. Advertising and Marketing

### 1. Comparison

The company aims to choose one of three approaches to promote the launch of new app. The following paragraphs will make the choice and explain reasons. According to Appendix 4 in the background information, several factors are taken into account, which are expected value, standard deviation, coefficient of variation and other minor indexes. In personal perspective, we would recommend strategy 3-using celebrity endorsement.

Expected value is a sum of product of different level of profits and the possibility of their occurrences. These average results take into consideration a number of potential outcomes and wholly evaluate the project rather than analyze the most possible results merely.

The expected value of campaign 2 is slightly larger than that of campaign 1, with a difference of 1,915. However, the standard deviation of campaign 2 is 49,929, while campaign 1 is only 29,830. And the coefficient of variation of campaign 2 (14.85%) is 68% greater than that of campaign 1(8.82%). Considering these two factors, campaign 2 tends to be inferior because its outcomes disperse too widely. It is very unwise to bear such a risk for only a small amount of money. Using online resources is a economic and effective way. Granted that the competition is fierce, pure advertisement may not be appealing enough to make Gymfit stand out the most. It is also likely to be ignored by since there is no highlight. Encouraging current members to recommend Gymfit can be very convincing, because they have already experienced. However, this 'recommend a friend' approach only involves few people. People who has no friends in Gymfit has little chance to know about this. Both of two ways have their limitations. As a result, it leaves us with campaign 1 and campaign 3.

Marketing campaign 3-celebrity endorsement is expected to give the highest return; it exceeds other two approaches by 85% (campaign 2) and 86% (campaign 3). But it has enormous risks. The standard deviation is 262,276 and the coefficient of variation is 41.98%. By comparison, campaign 1 is much safer. If decision-maker of the company is highly risk adverse, they may go with campaign 1. Although the scary risks, the profits are extremely tempting. To choose the most

appropriate approach, it is necessary to take a closer look at both.

The schedule suggests that the lowest return of both campaigns is very close. Campaign 1 (\$99,000) brings \$7,800 more than campaign 3 (\$91,200). If campaign 3 is chosen, even in the worst situation, the company is still profitable, merely with \$7800 less. However, the medium level of profit of campaign 3 is \$85,400 greater than that of campaign 1. When it comes to the highest level, return of campaign 3 is 5.8 times of that of campaign 1. Furthermore, the probability of reaching the highest return of Campaign 3(0.26) is twice as that of campaign 2(0.11). It is suggested that the company is more likely to achieve higher profits if they choose the approach of celebrity endorsement.

Standard deviation is a value to measure the extent of dispersion of a set of data. The higher the standard deviation, the more disperse the data set will be. The key attribute of huge standard deviation (262,276) is sharp increase of predicted profit. This also influences the coefficient of variation. High coefficient of variation (41.98%) shows high volatility of this campaign. But it is due to the occurrence of extremely large amount of profit rather than low amount or tiny probability of positive situations. To some extent, this instability is favorable.

Considering the future look, the market is active and strong and is expected to expand. It suggests the high possibility of increment of potential members and fiercer competition among four major players. In this case, campaign 3 is preferable. The riskier approach can make more significant contribution to the development, which leads to outstanding growth of profit. The return is remarkable and the risk is moderate.

In another perspective, campaign only has limited affect. Physical billboard and poster advertising are merely able to be brought attention of a small group of people, for example, who pass the certain position every day. This approach seems to be ineffective and inefficiency. What's more, increasing physical billboard and poster advertising is both time-consuming and cost-consuming. Multiple factors need to be taken into account, such as location, area, advertising fees and duration. It is painful to make so many decisions. The cost of additional workforce, overtime work and the transfer fees are unnecessary.

Celebrity endorsement using social media and websites has a way larger branding radiation scope. Apart from endorsement fees, other expense is less than campaign 1.

## 2. Celebrity endorsement

Campaign 3-Celebrity endorsement is the best approach. The choice of celebrity is also very fundamental. A list of suitable criteria will be needed.

### (1). Good reputation

The chosen celebrity is required to have good public image and have no involvement with any scandal. Otherwise, celebrity's bad social reputation will have a significant negative impact on company's image.

## (2). Suitable image

The celebrity who has a good figure and seems healthy, strong, energetic, athletic, etc, is preferred. Their positive image is suitable for the concept of getting fit and will leave a good impression on potential members. Members and potential members may link celebrity's fitness and perfect shape to the Gymfit.

## (3). Have a rallying point and high popularity

A rallying point can appeal people to join and even bring in a number of supporters of his or hers. High popularity can give rise to higher exposure. Voluntarily online promotion by celebrity's supporters tends to be effective and efficient. Furthermore, due to certain celebrity's high social status, potential customers are inclined to consider gym's service as excellent and upscale.

## (4). Appropriate endorsement fee

Celebrity who has good influence usually is very expensive. The celebrity branding fee should be appropriate. Considering the potential risk, it is unwise to invest too much capital to hire the celebrity.

## (5). Evaluation of celebrity's popularity

The company may find 'perfect statistics' for some celebrities, which indicates that they are extremely popular and has an immense size of supporters. However, this type of data can be fake or exaggerated, which is overstated by their fans.

## (6). Consistency

It is better to choose celebrity who is willing to cooperate for the long term. Change of celebrity branding will lead to additional expense and workforce. Problems such as image consistency, interpersonal congruence need considering. A long-term cooperation relationship can have a positive impact and help create a trustful image.

## (7). Gymfit is the core

Admittedly, finding out an excellent image spokesperson is important. However, the core of this campaign is to promote Gymfit. Celebrity endorsement is only a tool using by company to appeal more potential members and keep current members. The advertisement should not excessively focus on celebrity rather than Gymfit itself.

## IV. Supply

### 1. Operating cycle and cash conversion cycle

When concerning about the choice of a suitable supplier, the operation cycle and the cash conversion cycle have to take into account. The operating cycle is simply defined as the average time that passes between the business' initial purchase of inventory and the collection of cash proceeds from the sale of inventory, which will reflect the liquidity of assets owned by GymFIT to meet its potential short-term obligations. Briefly, shorter the operating cycle time, more controllable the enterprise is over its current assets. As for the cash conversion cycle, expressing the time

required to convert the investments in inventory and other resources into cash flows from sales, is used to measure the efficiency of cash flow. Similarly, shorter the cash conversion cycle time means more cash and equivalent items are held in hand, and the resilience when facing sporadic risks is better. In addition, the formulas of those two metrics are as follow:

(1). Operating cycle = Inventory days + Trade receivable days

(2). Cash conversion cycle = Inventory days + Trade payable days – Trade receivable days

Therefore, use the information calculated from the latest financial statements (Appendix 3 in the background information), the values are easily got as follow:

	Supplier A	Supplier B	Supplier C
Operating cycle	58 days	57 days	100 days
Cash conversion cycle	30 days	-21 days	50 days

## 2. Recommendations

As for the operating cycle time, the supplier A and B have similar value while supplier C is approximately 42.5 days longer than them, and the cash conversion cycles of supplier A and B are shorter than supplier C's as well. Hence, the supplier C is the worst choice among three candidates. To compare the supplier A and the supplier B, it focuses more on the cash conversion cycle where a significantly large gap appears. Although shorter cash conversion cycle time is preferred, the negative value shown by supplier B suggests the predictable phenomenon that the supplier B holds a long payable time for the maintenance of its own operation using consumer's cash, which will cause an adverse impact on GymFiT as it experiences a very challenging situation this year and urgently seeks for the cash-flow efficiency. In conclusion, GymFit is strongly recommended to choose the supplier A to be its contractual partner.

## E. Conclusion

GymFiT will undergo a material business transformation if successfully awarded a three-year contract under the government Getupgo proposal. Consequently, market approach will switch from B2C to B2G. Their main differences are reflected in the following areas: understandings of our target audience, brand promotion and needs satisfaction of target audience. The benefits obtained due to this cooperation outweigh the costs incurred. Additionally, according to the analysis by applying Porter's five forces theory, Getupgo fits with GymFit's overall operating model.

The new App with the function of collecting and analyzing members'sports data presents a great opportunity to GymFiT. In terms of whether GymFit should launch the new app, the answer is yes, after evaluating its costs and benefits. Concerning the development mode of this app, it is highly recommended that GymFiT outsources the app development primarily because of low costs and mature technology of IT companies. Furthermore, the potential risk of outsourcing can be minimized by taking preventive measures.



Once the new app has been developed, the testing process comes into play. Tests are divided into two types with different objectives and structures: functional testing and non-functional testing. As to choosing the most suitable hardware supplier, supplier A is recommended because its shorter operating cycle and reasonable cash conversion cycle when compared with other two suppliers.

When it comes to choosing marketing campaigns, celebrity endorsement best fits GymFIT after analyzing return, risk, market, branding radiation scope and cost of the three schemes. A close second is the criteria established to select the suitable celebrity. In this instance, several factors should be taken into consideration: reputation, image, popularity, endorsement fee and so on.

In summary, GymFit should grasp the opportunity which is in accordance with company's strategy tightly and reduce threats as well as risks with suitable approaches.

## F. Appendixes

### Appendix 1

#### SWOT Analysis

<h1 style="text-align: center;">SWOT Analysis</h1>	<p style="text-align: center;"><b><u>Strengths</u></b></p> <ol style="list-style-type: none"> <li>1. 2<sup>nd</sup> largest size</li> <li>2. 24/7 services provided</li> <li>3. Low-cost model</li> <li>4. Low fees for fitness instructors</li> <li>5. Use of advanced technology</li> <li>6. Incentives for members</li> </ol>	<p style="text-align: center;"><b><u>Weakness</u></b></p> <ol style="list-style-type: none"> <li>1. Unstable workforce and unclear responsibility</li> <li>2. Restricted gym equipment-no wet facilities</li> <li>3. Managers' excessive independence-conflict of interest</li> <li>4. Lack of non-executive directors</li> </ol>
	<p style="text-align: center;"><b><u>Opportunities</u></b></p> <ol style="list-style-type: none"> <li>1. Overall industry growth</li> <li>2. new government proposals with award</li> <li>3. Expansion in local market</li> <li>4. Promotion and advertisement</li> <li>5. Trend of getting fit</li> </ol>	<p style="text-align: center;"><b><u>SO</u></b></p> <ol style="list-style-type: none"> <li>1. Gain more market share by focusing on core activities and saving on minor activities</li> <li>2. Earn award by keep current members and further promotion</li> </ol>
<p style="text-align: center;"><b><u>Threats</u></b></p> <ol style="list-style-type: none"> <li>1. Fiercer competition</li> <li>2. Unable to meet customers' requirements</li> <li>3. Poor management of outsourced department</li> <li>4. Brokedown of IT system-possible misuse of private information</li> <li>5. Not keeping up with technology development</li> </ol>	<p style="text-align: center;"><b><u>ST</u></b></p> <ol style="list-style-type: none"> <li>1. Success in Fiercer competition by specialised services</li> <li>2. Provided strong security for information database</li> <li>3. Keep up with new technology and apply to Gymfit apps</li> </ol>	<p style="text-align: center;"><b><u>WT</u></b></p> <ol style="list-style-type: none"> <li>1. Improve customers' satisfaction by hiring well-trained staff</li> <li>2. Divided work clearly and ensure quality of outsource tasks</li> <li>3. Develop properties appropriately to meet pontential members</li> </ol>

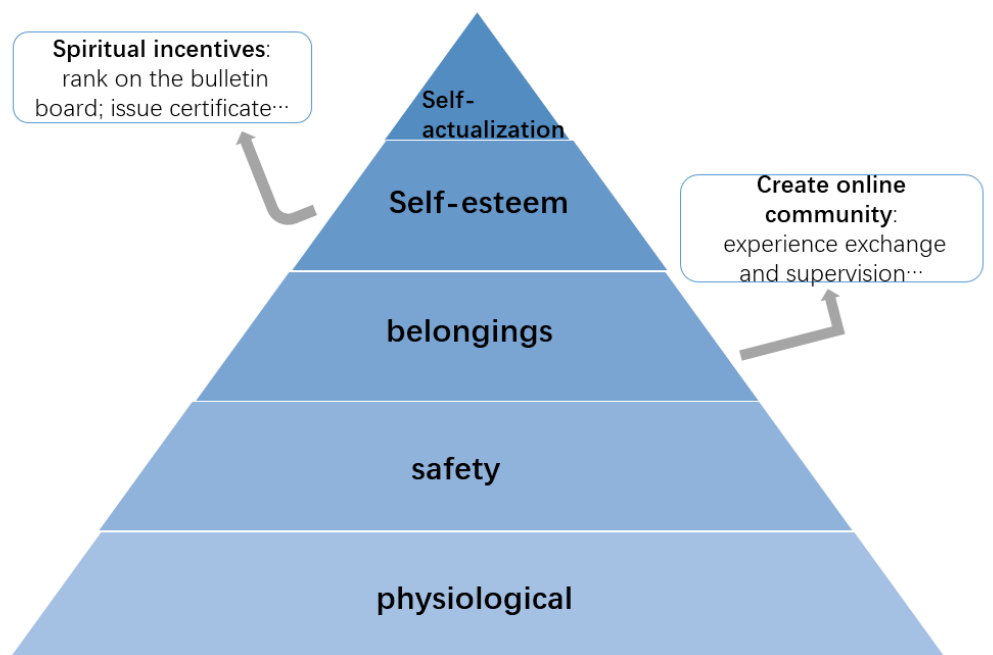
## Appendix 2

### PEST Analysis

<b>Political</b>	Government initiatives regarding motivating inactive members
	Changes in policies and legislation regarding national health
	Government offers benefits to or relieve financial burdens of certain gyms which respond to calls of government
	Stable political environment
<b>Economic</b>	Increasing savings and deposits of citizens
	Business has easy access to credit
	Labor costs rise greatly
	Good environment-the stable growth of current economy of the country
<b>Social</b>	Increasing public awareness-people pay more attention to their health and fitness
	Data Service-there is a trend of increasing use of data service, and the thechology used in gym evolves
<b>Technological</b>	High-tech intelligence-automatically record the data and give personal training suggestion; E.g. eGym system
	Immersive experience
	Online smart fitness instructors and crouses-
	challenge the traditional way of the fitness

## Appendix 3

### Maslow's Hierarchy of Needs



Appendix 4

F Framework

<b>Suitability</b>	Launching app suits with the company strategy of achieving long-term profit growth through improving operating efficiency.	Can strengthen company's competence in the industry and resolve its development dilemma.
<b>Feasibility</b>	If choosing in-house development: the most important financial resources such as cash can be made available through using its own cash or borrowing. And appropriate and suitable management power, markets and organizational structure make the development of app feasible.	If choosing outsourcing: the required resources such as equipment and cash is much less because the economies of scale of IT outsourcing companies
<b>Acceptability</b>	To gym managers and directors, launching this app will enhance member retention and attract new members, thus leading to an increasing sales revenue. Therefore, their salaries and remuneration which are linked with operating performance will rise. To shareholders, the increasing sales revenue will lead to the growth of shareholder value.	If failing to operating this app, company will suffer from impaired reputation and decreased sales revenue. However, the company can adopt several preventive methods and establish strong supervision and reaction systems to minimize risk.
<b>Sustainability</b>	essential to GymFIT's economic sustainability because it is a long-term project bringing future inflows into the organization.	environmental sustainability: online marketing through app can avoid unnecessary costs (e.g. printing fee, rental billboard fees); such action is friendly to environment.

Appendix 5

Four levels of Functional Testing & Division control

