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HOW TO MAXIMISE THE VALUE OF YOUR BUSINESS THROUGH DIRECT DEBITING

By Celeste Kirby-Brown

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About the Author



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Celeste is the sales and marketing director of Ezypay, Australia's first direct debit provider and BRW award-winning company. Ezypay provides billing solutions to all types of businesses across Australia and New Zealand. Celeste has played an integral part in Ezypay's recent success by leading service and product innovations and launching Ezypay in New Zealand.

With a background in direct marketing, telemarketing and business-to-business sales, she has recently completed her Masters in Law and Legal Practice after many years of part time study. She is currently a board member of Fitness NSW and has previously been the president of Women in Finance. Celeste is passionate about delivering customer satisfaction and business growth through innovation.

Celeste lives in Sydney with her husband and two crazy cats. At weekends she can be found furiously pedalling in the indoor cycling studio, outside with friends, or shopping for the latest bargains. She is looking forward to continuing her work with the excellent team at Ezypay, furthering her marketing knowledge, meeting new people and exploring new destinations.

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HOW TO MAXIMISE THE VALUE OF YOUR BUSINESS THROUGH DIRECT DEBITING

The most financially successful fitness facilities throughout Australia and New Zealand have one thing in common – they have a high percentage of memberships on recurring direct debits.

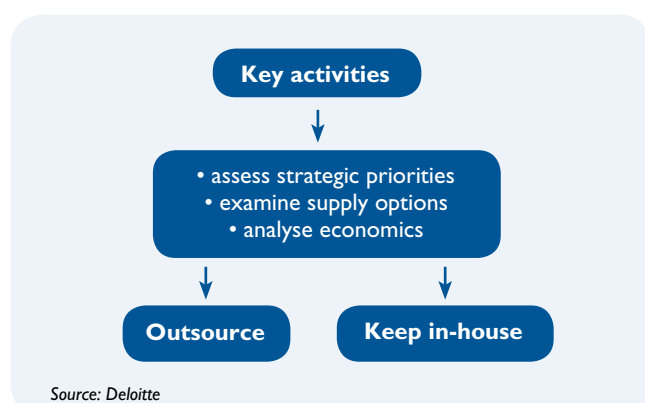
Whether you implement your own system, or outsource it, direct debiting is a great strategy for maximising the value of your fitness business. It makes good economic sense for a number of reasons;

1. Recurring income increases your cash flow.
2. A regular monthly cash income can be the difference between a business closing or thriving.
3. Members on direct debits stay with you longer, increasing your retention.
4. Direct debit memberships can, and should, be easier to sell, thereby increasing your sales.
5. Recurring income increases the resale value of your business because it is seen as an asset on your Profit and Loss statement.
6. Members that aren't on direct debit cost more to re-sign (in terms of staffing costs, sales costs, and opportunity costs) than members on recurring direct debits.
7. Recurring income allows you to predict your monthly revenue, and therefore manage your expenses more accurately.

Should you do it yourself or outsource?

Some banks will offer business clients the opportunity to do their own direct debiting. This generally depends on the trading policies of the bank, and the trading history and financial stability of the business. As such, not all business owners will have this option.

However, every fitness business owner has the opportunity to outsource their direct debiting to an external party. The following decision-making process should help you decide if this course of action is suitable for your business.



Step 1. Review your key business activities

Consider the key activity of your business – making people fitter and healthier. You would never outsource the key activity of your business, but there's nothing to stop you outsourcing other components. Unless your key activity is collecting membership payments, it's pretty safe to say that you should consider outsourcing direct debiting.

Step 2. Assess strategic business priorities

What are your business priorities? They might be to increase revenue, or to decrease expenses. Or they might be to increase the number of members per square metre, or to maximise the value of your club for resale. Whatever your priorities, you should ask yourself whether doing your own direct debiting, or outsourcing it, will help you to achieve this goal.

Step 3. Examine supply options

Examine your options by talking to your bank and to direct debit billing suppliers. Thoroughly consider the different choices available to decide which one offers the greatest benefits to your business.

Step 4: Analyse the economics

By this stage you will have three or four options in front of you, each seeming very similar, but with slight differences. Tables 1 and 2 (on pages 4 and 7) will help you choose the most suitable option for you. Table 1 details cost/benefit analysis to help you assess the real economic impact of doing your own direct debits as opposed to outsourcing. Table 2 helps you put all your direct debiting options side-by-side to see which one has the features you are looking for and which best match your business.

Decision checklist

By this stage you should be ready to make a decision. However, before you move on, take a moment to review your decision using the sample checklist (see Table 3 on page 7).

Should the member pay?

The member should always pay for the cost of direct debiting, and there are two ways of achieving this. The first method involves the outsourcer directly debiting the fee from the member's account when they debit their membership. If, for example, membership costs \$50 and the debit fee is \$1, the member is debited \$51, with \$50 of this being transferred into the business' account. The second way of ensuring the member pays is by including the direct debit fee in the cost of membership. Using the figures above, for example, you would increase your membership fee to \$51 to cover the cost of the debits and the membership.

Table 1. In-House or Outsource Cost/Benefit

In-house Billing		Outsourced Provider System	
Description	Actual or estimated costs	Description	Actual or estimated costs
Merchant facility required and security held on the facility (generally equal to the monthly billing value).		No merchant facility or security required.	
Cost of licensing or purchasing a billing system.		Use of outsourced provider's proprietary billing system.	
Reconciliation and manual follow up of unsuccessful payments.		Quality providers will have an automated failed payment system and resubmission of rejected payments.	
Cost associated with establishing convenient payment facilities for collecting failed payments.		Quality outsourced providers will provide web and phone payment gateways free of charge so members can make payments anywhere, anytime.	
Staff costs associated with managing the billing process including manual following-up of dishonoured or failed payments.		Included in the outsourced provider price.	
Often limited to monthly or weekly billing on dedicated days due to the costs and overheads associated with greater frequencies or flexibility (greater risk of failed payments).		Quality outsourced providers bill every working day and payments can therefore be aligned with members salary payments, reducing the likelihood of failed or dishonoured payments.	
Development of security and disaster recovery requirements, both physical and technological, to guarantee cash-flow and security of member's details.		Quality outsourced providers have systems that deal with encrypted data and will have a dedicated disaster recovery site to ensure billing always occurs and members' details are secure.	
Cost associated with secure storage and filing of Direct Debit Request (DDR) forms and billing data.		Direct Debit Requests are scanned and securely attached to a customer history on the providers billing system.	
Stationary (DDR form) must be developed within legal guidelines and printed at clubs cost.		Stationary provided as part of the service.	
Club (merchant) is charged rejection fees generally up to \$2.50 for every failed, dishonoured or rejected payment.		Outsourced providers generally do not charge clubs for failed or dishonoured fees.	
Chargeback (credit card reversal) fees are charged to the clubs merchant facility, generally at the rate of \$27.50		Quality outsourced providers do not charge chargeback fees.	
Monthly facility fee to allow access to the merchant facility and associated software, approximately \$30 per month.		Quality outsourced providers do not charge any monthly fees or recurring fees.	

Pricing strategies for direct debiting

1. The price of memberships

To maximise the positive impact of direct debits, ensure that you price your direct debit memberships in a way that makes them attractive to prospective members.

Some clubs have one price for direct debit memberships and another for up-front memberships. This can be an effective strategy if the paid up-front membership is the more expensive of the two. By pricing the direct debit membership more cheaply, it becomes more attractive to the price-conscious member.

As direct debits are more beneficial to your business and cost your business less, they should be priced more attractively as an incentive for members to choose them. The direct debit membership should be about \$10 a month less than an up-front price. To achieve this, add \$120 to the cost of your base membership and make this the price for your paid up-front cash memberships.

2. Membership options

Many fitness facilities offer too many membership options, including monthly paid in full, monthly direct debit, packs of ten passes, three-month paid in full, three-month direct debit – the list goes on. Too many packages confuse prospective members; consequently they tend to choose the lowest level package.

If you do offer a multitude of membership options (some council facilities are required to provide the community with many options), price your memberships in a way that drives people toward direct debiting. Secondly, price your memberships to encourage prospects to take up the option you want them to take. For example, a majority of fitness business owners want people to take up a minimum 12-month direct debit membership. This should, therefore, be made the most attractive option through the use of strategic pricing, or added value (vouchers or training packages).

Frequency of direct debits and costs

You can save a lot of money on direct debits – whether you do it yourself or outsource – by reviewing the frequency that you debit. Over the last few years there has been a shift away from monthly to fortnightly and even weekly debits. Many club owners and managers have opted for higher frequency in order to make the membership amount that is debited smaller and more attractive to prospects.

One of the obvious side effects of fortnightly debits is that you have 26 debit runs per year, rather than a dozen in the case of monthly debiting. The direct impact of this is that the cost to debit members increases. This cost increases even more, of course, in the case of weekly debiting. Facilities which offer fortnightly or weekly debits, with their associated higher costs, should consider

whether the amount of memberships (and therefore revenue) has increased to a level that covers the increased direct debiting costs. Is it actually worth doing more debit runs, and is money being generated or lost due to the high frequency option?

Sell on a low frequency but debit on a higher frequency

One of the key arguments for fortnightly or weekly debiting is that it allows sales people to talk to members about smaller sums of money, thereby making membership seem more affordable. However, there is nothing to stop the sales person discussing weekly amounts when selling the membership, and then debiting on a monthly or fortnightly basis. This keeps debit costs low while allowing memberships to appear easily affordable. This is the same method that insurance companies use; they sell insurance based on a weekly amount but debit monthly.

Choosing the most effective direct debit date

Those who favour fortnightly or weekly debits also argue that there is a lower chance of members' debits failing if they are debited at a greater frequency and for a lower amount. If the millions of direct debit transactions processed each year are scrutinised, however, stats reveal that the greater the frequency, the higher the failure rate – although admittedly this tiny failure rate only increases by a half to one per cent! If you did your sums, the cost of the increased fails would be less than the cost of increasing your debit value.

It is important when working with a debit company to select one that debits every working day. This enables you to offer your members the option of being debited on the day they are paid. This ensures that members have funds in their account on debiting day, thereby minimising failed debits. It makes sense, right? It also makes financial sense for your business.

Read your reports

When businesses get into trouble with their direct debiting, it tends to be because they don't review their reports. Whether these are bank statements or reports received from an outsourced provider, it is essential to keep up to date. If you or someone in your team doesn't have the time to go through them in detail, then at least look for the key points in Table 4 (page 7).

How many members should you have on direct debit?

A noticeable and recurring difference between many of the most financially successful and the less successful fitness facilities, in both Australia and New Zealand, is the number of members that these clubs have set up

on direct debit. The most successful club owners have 90 per cent or more of their members on direct debits. The day-to-day benefits of direct debiting for your business have already been established; once you get 70 per cent or more of your members on direct debit, however, the financial benefits will also become clear as your success greatly increases and you start pulling away from your competitors.

Read your debit contract carefully

When you sign up with a direct debit provider – be it an outsourced company or your bank – ensure you read the agreement very carefully before signing. Although direct debiting is a highly regulated industry, not all players exhibit the highest ethics or scruples. Be aware of the following contract pitfalls.

Firstly, are you signing into an agreement term? If so you need to know:

1. What is the period of the term?
2. What occurs when the term finishes?
3. What occurs if you need to exit the contract during the term of the contract?
4. Are you signing into a term because it is beneficial to you (you have received beneficial rates or value added services) or are you signing the term because it is beneficial to the company?
5. Will the company provide the service without a term?

Many people get burned by terms in debit contracts, even smart and savvy business owners – so be aware what you are signing. Some nasty consequences can be:

- Your two-year exclusive contract rolls over to another two-year exclusive contract if you don't cancel it with the right notice and at the right time (often a small window of opportunity).
- If you want to decrease your costs or increase your service level with another provider and you are in a term agreement, you have to pay out the remaining expected billing to the provider as well as pay your new debit provider.

Another important area to be 100 per cent certain of in billing contracts is the access you have to your customer data. You must find out:

1. Do you own your customer billing data or does the outsourced provider?
2. Will the outsourced provider give you this data if you request it?
3. Will your outsourced provider send you a copy of the direct debit request form if you ask for it?

Restricted customer data access can result in unpleasant consequences for clubs, including the following:

- The billing company will not give them their latest customer bank or credit card records.

- The billing company makes them re-sign all their customers to new direct debit request forms because they say they don't own their customers.
- The billing company says that they can't access their own customer data because of privacy reasons or because it's just something that they don't do.

Other people have made these mistakes and learnt the hard way – you don't need to.

Direct debit laws and regulations

In the past year there have been two key changes that affect everyone who does direct debiting – whether you outsource or do your own. These are outlined in more detail below.

1. Changes in the credit card scheme rules

The major credit card schemes have changed the way that credit cards are processed. This has led to many businesses experiencing up to a 20 per cent rejection rate of their credit card transactions. The average in Australia is about a two per cent failure or rejection rate. Imagine losing 18 per cent of your current revenue. Many businesses would not be able to survive. This is how severe the impact has been. As a result, some businesses have made the decision to only debit bank accounts. Surprisingly some outsourced providers are even advocating this move and aren't transacting credit card payments. It is important to be aware of this and also that it has affected different banks and different outsourced providers in different ways.

2. Changes in the *Financial Services Reform Act*

Direct debit payments have been included by ASIC in the *Financial Services Reform Act*. This means that third party providers, or outsourcing companies, are required to comply with the Act. Therefore they need to transact debits in a manner approved by ASIC or have a Financial Services Licence; if they don't then they are breaking the law and your debits are being transacted illegally. Make sure that you establish their position before working with the company. This might not seem like a big deal, but working with a non-compliant provider leaves all of your debits open to be disputed by your members. It also means that money you have transacted may be legally reversed by a member. This doesn't mean that they won't owe you the money, but you won't have a great chance of getting it back, and it is doubtful that your business can afford to lose membership dollars!

Return on investment or value for your business

As with everything in business, when choosing a direct debit provider you should be astute and study the small print in order to avoid the pitfalls outlined above. Having the right direct debit system in place can make a huge difference to your business revenue, and, therefore, its value. ■

Table 2. Direct Debiting Feature Table

Service feature	Provider 1	Provider 2
Direct debit authority forms		
Customer load fee		
Bank debit fee		
Credit card debit fee		
Amex or diners debit fee		
Failed payment fee		
Monthly merchant or account fee		
Chargeback fee		
Secure web site		
Failed payment follow up system		
IVR and payment gateway to collect failed payments		
SMS to remind about failed payments		
Customer service support via e-mail and phone		
Failed payment rate of 2% or less		
Financial Services Reform Act compliant		
Process to open an account		
Type of reports and information available		
Reports automatically e-mailed to you		
Training provided		
Time provider has been in business		
Public or private company and who owns it?		
Requires a term in the contract		
Who 'owns' my members?		
Can I access my customer data including banking details at any time?		
Are there a number of direct debit services to choose from or only 1?		

Table 3. Sample Decision Checklist

	In-house	Outsource	Comments
Greatest efficiency	✓		We achieve the greatest efficiency with our current internal direct debit and collection process.
Best cost management		✓	We pass the costs onto our members so the business doesn't have to pay for any direct debit related costs.
Reasonable level of control		✓	Outsourced provider follows the same process each time, and they are accountable for this process.
Most reasonable risk management	✓		Our internal direct debit and collection process is approved by our bank and APCA.
Greatest access to new technology or skills		✓	Don't have the money or time to implement a new club management software program to do this in-house.
Outcome	2	3	Still comfortable with outsourcing.

Table 4. Direct Debits Report Checklist

Key Points	
All new members have been loaded or processed.	
The first transaction for your new members has gone through successfully.	
All members that have cancelled have been successfully removed and not debited.	
You are aware of which members' debits have failed and have updated your club system so they can't access your facilities.	
If you are doing your own debits and you have failed payments, you are implementing your follow-up procedures.	
Are the fees you are being charged those that you expected?	
If you are being charged a monthly account fee, is it the amount that you expected?	

Club Network Membership

Australian Fitness Network's Club Network membership provides fitness facility owners and managers with all the resources they need to ensure business success. Your Club Network membership provides you with awesome resources including:

- Three publications specifically for fitness industry professionals and club owners/managers (*Network* magazine, *Club Network* and *Manual for Success*)
- \$1,000 worth of ePT vouchers
- \$700+ worth of Convention vouchers
- Pre-written media releases
- Fitness puzzles and member newsletters for your members
- Retention letters
- Member waiver
- Birthday cards
- Inspirational posters, bookmarks and postcards
- A web site dedicated to promoting your job vacancies
- Discounts on products and training aids
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- Print Marketing Solutions, through Active Management (www.activemgmt.com.au)
- Direct Debit and Financial Solutions, through Ezipay (www.ezipay.com.au)
- Footwear, Apparel and Equipment Solutions, through Reebok (www.reebok.com.au)
- Continuing Education Solutions for your staff, through Australian Fitness Network (www.fitnessnetwork.com.au)
- Sales and Customer Service Training Solutions, through Impact Training Corporation and the National Sales Academy (www.impact-training.net and www.nationalsalesacademy.com.au)

Visit www.fitnessnetwork.com.au/clubsolutions for details.



This *Manual for Success* is provided as part of your Club Network membership. For more information contact:

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