

Foot Locker Fitness: A Way of Life

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Introduction: Foot Locker's Current Situation

Foot Locker is a leading global sportswear and footwear retailer, with its headquarters located in New York City, New York. Operating 3,921 primarily mall-based stores in approximately 20 countries, Foot Locker continues to be one of the most well-known sporting apparel stores in the world. Their stores offer athletic products, mainly manufactured by athletic brands, and include sports such as basketball, running, and training. The growth started in 1963, when the F.W. Woolworth Company purchased the Kinney Shoe Corporation and operated it as a subsidiary. A decade later, the Kinney Shoe Corporation branched out with a specialty shoe store, and on September 12, 1974, the first Foot Locker opened in Puente Hills Mall located in California. Today, Foot Locker is led by President and CEO Ken Hicks, and continues to be a top performing retail store, which in 2012, ranked 435th in Fortune 500. Also, the chain ranks as the #1 seller for named brand products, such as Nike, in the United States. While adding to the aggressive expansion, the company began operating under other branches which include Kids Foot Locker and Lady Foot Locker. It also markets through catalogs with the most notable being Eastbay. The company is currently at a healthy state and looks to widen its target market in the coming years.

The current situation of Foot Locker shows no signs of regression. With growth still the main theme at Foot Locker, Hicks continues to look for ways to improve, or as he would say, he's "at a constant state of dissatisfaction" (Forbes). In 2012, the goal was set to reach \$6 billion in sales with a net income margin of 5% and an operating margin of 8% (Forbes). Each goal has since been met, and Hicks has re-calibrated the goal to reach \$7.5 billion in sales with an operating margin of 11%. This information can only indicate that the current situation of the

company is healthy and moving in a positive direction. Other financials that show the health of this corporation are that the \$6.1 billion in sales revenue for 2012 was the highest in five years and the gross margin reached 32.8%, which was at its highest since 2009 (Annual Report). Also in 2012, Foot Locker reached a net income of \$300 million which was a 35% increase over last year's record setting performance. Along with the net income as of the second quarter, on February 2, 2013, the retained earnings for Foot Locker totaled \$2,076 million. Regarding future plans, the company is adding a new retail concept called the SIX:02. This concept features top brands of fitness apparel and athletic footwear for women. This strategy is designed to reposition the company in sales of women's apparel and footwear. The existing Lady Foot Locker has been the worst performer among the company's domestic concepts. However, according to COO Richard Johnson, the new SIX:02 has been performing well compared to the Lady Foot Locker chain. The SIX:02 strategy has recently been released for e-commerce, making it possible to view all the new women's athletic apparel online. Another feature of SIX:02 is the "Get Fit Guide" which is a, "custom online tool that helps customers filter products based on workout activity and body shape" (NY Business Journal). The release of SIX:02 and its new features has headquarters excited about the bright future of the company.

SWOT Analysis

After assessing Foot Locker's current situation, it is important to conduct a SWOT analysis in order to determine Foot Locker's strengths and weaknesses as a company as well as their opportunities and threats in relation to the market they compete in.

When it comes to strengths, Foot Locker is clearly sitting in a great position as a corporation. Their name recognition and established brand are certainly strong components of

their image. Consumers see them as a competitive brand with quality products and competitive pricing and it is obvious that Foot Locker has established a sort of brand loyalty with their customer base. People who buy shoes and apparel at Foot Locker are very often repeat buyers due to Foot Locker's strong brand and image. Perhaps their most important strength is the strong financial situation they currently find themselves in. With sales increasing yearly (over 6000 million dollars in sales last year) and over 2000 million dollars in their retained earnings, Foot Locker is prepared to launch themselves into new projects or innovative marketing strategies without much risk. Lastly, Foot Locker's current infrastructure is generally considered a strength. With internet sales rising every year, it is important that Foot Locker maintains its strong online presence as well as their physical retail outlets. Additionally, their associations with strong brands such as Nike, Adidas, and Under Armour are vitally important to the sales of their products and their advancement as a company. Foot Locker's strengths have them in great standing to move forward as a company and explore new options.

Although weaknesses are few and far between for Foot Locker, they do exist. Among them includes their reliance on mall traffic. Since Foot Locker's physical locations are located inside shopping malls, their reliance on mall foot traffic cannot be understated. With today's society moving away from the mall oriented shopping of the past, it might be imperative for Foot Locker to move out of malls in order to be successful in the future. Another small weakness is the decline in Foot Locker's current ratio from 4.2 last year to 3.27 this year. While 3.27 is still a strong ratio, the decline may be contributed to an inefficient use of current assets or a mismanagement of working capital. While weaknesses can never be fully eliminated, Foot

Locker is such a strong company that they should be able to manage and effectively reduce these issues in the future.

As the sporting apparel industry continues to grow and grow, different opportunities arrive in the market that Foot Locker competes in. Much like many other industries, overseas growth is becoming especially popular with the saturation of American markets. Foot Locker will surely pursue these opportunities, but they are not the focus of our marketing plan as we are expanding domestically. A second opportunity in today's business world is the growth of technology oriented products and offerings. What can Foot Locker do to expand into this constantly growing market? You will notice throughout this report that we plan to integrate a Foot Locker mobile application into our expansion of new Foot Locker Fitness locations in hopes of grasping this opportunity. Finally, the immense growth of brands as lifestyle centers is something that Foot Locker can only hope to tap into. Foot Locker has the opportunity to help define you as a consumer, but they must find a way to do it. Through our innovative strategies, we aim to explain how Foot Locker will become a part of you as a consumer and not just somewhere you shop for clothes.

With market opportunities come market threats, and Foot Locker's industry is no different. The saturation of the sport clothing market and fitness/gym environment is something Foot Locker has to consider. How can Foot Locker differentiate itself from its competitors? Although it will definitely be difficult, the company aims to combine fitness centers, retail outlets, and a mobile application to become something that no other company has done before. A market threat that is obviously dangerous to Foot Locker is the issue of supplier integration. Why do Nike or Adidas need Foot Locker? These enormous companies

could certainly sell their products themselves or use any of the numerous other retail outlets to get their products to the consumers. Foot Locker must offer enough value so that Nike and Adidas want Foot Locker to carry their products. With our new ideas, our suppliers will be unable to stay from Foot Locker as we continue to positively represent both their brand image and the brand image of Foot Locker itself.

Data and information for Foot Locker's SWOT analysis was compiled from Foot Locker's 2012 Annual Report.

Our Idea

Foot Locker, being the strong company that it is both financially and in the minds of consumers, has both the room and the capital for growth and expansion. The question, however, is what should Foot Locker do to advance themselves and continue to step into the future as a company? Our new idea plans to combine the trending concepts of fitness and mobile integration with the original Foot Locker model of retail outlets where customers can purchase shoes and apparel. In doing so, we hope to move Foot Locker forward into a lifestyle brand along the lines of Nike, Apple, or Coca-Cola. When consumers think of fitness, we want them to think of Foot Locker.

The expansion is centered on the idea of creating stand-alone Foot Locker stores that are combined with a state of the art Foot Locker Fitness center. The fitness center will be a fully functioning, state of the art gym modeled after an LA Fitness or Lifetime Fitness center. We think that moving away from malls and adding incentives to visit our stores will drive foot traffic and create something totally unique in the retail world that Foot Locker currently thrives in. The consumer will be able to test out Foot Locker shoes and clothing as well as work out regularly,

make standard retail purchases, or engage in personal training with Foot Locker trained staff. Not only will the Foot Locker Fitness buildings encourage unique interactions with consumers, we anticipate increased retail sales because of the convenient location of a traditional Foot Locker store within the confines of the fitness center.

Although the stand alone retail outlets and fitness centers are a large part of our new strategy, the way we hope to become ingrained in the minds of our consumers is through our mobile application. With this mobile application, consumers will have the ability to track workout progress, plan workouts, compete with friends, and interact with Foot Locker products and training programs. Through workout tracking and programming, Foot Locker aims to become part of the consumer's everyday life. We are striving to make your life better because you are a part of the Foot Locker lifestyle. Working out becomes easier, more effective, and more efficient. Additionally, Foot Locker will be able to track workout type and quantity and it will be able to appropriately market Foot Locker products to the application users. By combining every necessary aspect of working out and making personal progress, along with making things easy on our consumers through the use of a mobile app, Foot Locker yearns to become a way of life for fitness enthusiasts everywhere.

We will employ our unique idea in the metro Atlanta area as a slow introduction before considering expansion into further areas. Starting with three locations in Buckhead, Marietta, and Sandy Springs, we hope to see substantial success at these fitness centers before moving on. Throughout this report, it will become clear just exactly how and why we are going ahead with our plans for Foot Locker Fitness. The financial and marketing strategies will be explained in detail to ensure a full understanding of this innovative expansion for the Foot Locker brand.

Market Research

Extensive research allows us to generate an ideal target market as well as various projections of how we can produce income from not only the gym memberships, but from the mobile application as well. We have created a simple survey in attempts to better understand the market we want to embark in. Within this survey we concluded that the majority (63.50%) of individuals work out on a daily basis. Out of work out enthusiasts, nearly 70% were males, 58% of which were between the ages of 18 to 24. From these statistics alone we can conclude that our target market will be college aged and entry level professional males that essentially want to get in shape and have a healthier way of life. Exactly half of the surveyors are members of a gym or fitness centers, and the majority pay anywhere from \$9 to \$29 for fees.

As social media is an increasing factor of technology, our polls suggest that 99% of participants use smart phones , but only 4.17% track their calories on a daily basis. Within our results we have also found that a staggering 83.33% of participants would be likely to use a fitness application to keep track of their work outs. From this information we can boldly say that people are interested in a specialized fitness application that would come standard within our new gym outline. By including this application within memberships it should not only boost revenue, but change the whole demeanor of our gym. It would make it a fun and interactive lifestyle that all members could participate in. Also within our survey we have found out that Foot Locker is a very recognizable brand in which 67.86% of individuals have visited and shopped at frequently. The majority of participants buy shoes at least once a year and an astounding 87.50% of people during the study said they have special pair of shoes for working out. This crucial piece of information can help us strategize our marketing of the gym to

correlate shoe sales as well. Within the application and at the gyms, there will be areas in which buying and selling shoes will be a key aspect. This year alone \$167 million in revenue was generated through FootLocker.com as online shoes sales. With technology escalating and online merchandising at an all-time high, we believe the application will only elevate us above the competition. Getting in touch with our target market is one of the keys to our success and will be a constant priority for our company moving forward.

Costs of Project

With the company in good standing financially, the expenses for our project can largely be considered investments rather than costs. For Foot Locker Fitness, we are providing an intimate fitness experience within three metropolitan areas of Atlanta that are experiencing growth in population and infrastructure. Since this is not a nationwide approach, the costs will be minimal compared to large-scale capital investments that include separate regional approaches. Under perfect circumstances, Foot Locker will be able to expand into the national market with the success of the Atlanta-area Foot Locker Fitness locations. The risk of project Foot Locker Fitness is noticeably low because of the small sample size in which we want to test the program. The greatest cost that Foot Locker, as a corporation, will incur is an intangible cost, experience. The property, building, and equipment will all be expected expenses, but the greatest cost will be ensuring that proper hires are made to be certain in the safety and health of all gym members. Essentially, the greatest cost of Foot Locker Fitness will be changing the mindset of employees from “retail, mall-based outlet” to “interactive, stand-alone superstore”.

We do not believe it will take long before Foot Locker notices the benefits and value stemming from Foot Locker Fitness. In the short-term, Foot Locker will incur large, up-front

costs like building, technology, and equipment costs. The usual setting for a store labeled with the Foot Locker name is a 1,500 square foot room fully stocked with inventory (Does retail size). The Foot Locker Fitness building will encompass one of these retail stores; it just will not be stuck between a Belk and a Gap. Now, the sales store will be included in the 20,000 square foot facilities located in Sandy Springs, Buckhead, and Marietta. This leaves 18,500 square feet for recreational purposes. We're estimating construction duration to be approximately a year in each of the target markets. This building will be constructed with the Foot Locker Fitness Member in mind; with plenty of natural lighting, a recreational pool, an above-ground track, and a rock-climbing wall. The largest expense will be the initial construction with all the listed amenities at \$1.2 million. In order to furnish this building with the necessary fitness machines, another \$100,000 will be needed. A total of \$1.3 million will be needed to complete the structure of the building with a fully functioning gym. App integration will take place in the app itself, so the only feature in the building specifically for the app will be wireless routers. We will place ten routers at strategic locations around the gym for optimal wireless performance. The fixed cost to be incurred from the app is the design and development. Since Foot Locker does not have a division that is capable of app creation, we will have to outsource our app development. We have already received a bid from app developer Azumio to create the Foot Locker Fitness App. Azumio has a multitude of experience in fitness apps and is widely known for its Fitness Buddy app. Fitness Buddy focuses on how an exercise affects certain sections of the muscular and skeletal structures. We plan to accept Azumio's bid on the basis that they design Foot Locker Fitness around the same premise as Fitness Buddy. Azumio asked for

\$20,000 in development costs and a 10% cut of all advertising profit made from the app. Apple will also take a 20% cut of all advertising profit made.

In the long term, the only reoccurring expenses will be monthly operating expenses, tax expenses, payroll expenses, and technology (app) expenses. We estimate that operating expenses will be around \$15,000 a month. Tax expenses will be based off of earnings. Payroll expenses are estimated to be \$100,000 in salaries per year and \$80,000 in wages per year. Technology expenses are pulled from the percentages mentioned earlier, allotted to the respective recipients.

Please refer to the attached appendix for a more detailed, numbers oriented look at the costs of Foot Locker Fitness at each of its locations.

Revenue Generation and Capital Budgeting

We believe that by taking on our project, Foot Locker will be able to create new and diverse revenue streams. The main and most obvious form of revenue will be the gym membership fees. We plan to offer a month-by-month plan instead of the usual yearlong commitments. This should attract more customers who are generally hesitant to over commit to something they are not sure they will fully enjoy. We are so confident that people will be on board with the Foot Locker program that we are willing to take the risk of not forcing our customers to over commit to the program until they are entirely sure about it. This is one of many ways we plan to create a competitive advantage. Another aspect of our membership fees that will set us apart from our competition will be our low prices. We are willing to endure slow growth for a substantial amount of time while we wait for the fitness program to take off. Many companies are over anxious and hesitant to take on long term projects because of their risk, but

we believe that this program will work and will be successful. This means we do not have to panic as we see cash outflows early because we know that our only short term goal is to get people in the door and to begin experience what it's like to live an active lifestyle with our gym and its accompanying products. Having a month-to-month policy and low upfront costs will be key in attracting new customers who are generally hesitant to join a gym as well as customers who are already members at other gyms. Another way we plan to produce additional revenue is based on our mobile application. Although our low cost system will attract the bulk of our customers we believe that our app will generate the bulk of our profit. The costs of land, construction, and equipment (among other costs) will be a very large amount making it difficult to recover from on the revenues from gym memberships alone. The key to creating profit is additional revenue on top of gym memberships. The gym memberships will be the foundation for our earnings and program but the profit and key to the system for our customers is the mobile application. We are convinced that the best way to see results from joining our gym is to pair it with our application. Every gym membership will come with a full interactive explanation of how to use the app to go with your workouts. This will show customers how valuable the app is and how it ties every aspect of your active lifestyle together. As gym memberships grow the app usage will grow alongside it. Our ideal scenario is for our app to be used daily whether you are coming to the gym or not. This means that we have an avenue for advertisers to get their product or message across to a consistent open audience that will have a common denominator of wanting to live an active lifestyle. Because there will be variations in age, gender, nationality, income level, and location, we believe that ad space on the app would be very valuable to potential advertisers. The most important aspect of advertising is already

done for them because we have already created a captive audience that will visit the app consistently. This is a rare opportunity for companies who desire their products to be viewed more frequently than a normal advertisement like a television commercial, newspaper ad or radio spot. It will also allow for customers, who are interested in the message they are hearing or seeing, to click and be taken directly to the site of the advertiser. This is an unbelievable opportunity that not many companies can offer. We believe that we could sell ad space within the first month of operation. That ad space is only going to increase as our membership and app usage increase as well. There is no limit to what advertisers will be willing to pay for ad space within the second, fifth even tenth year of operation.

On top of the membership fees being our main foundation for revenue to cover our large up-front costs and the advertising space sold to generate profit above and beyond our costs, we also believe that our in store sales will increase creating even more profit. Because our gyms will be connected to stores we will naturally have more foot traffic coming through the stores than ever before. More foot traffic provides more opportunity for customers to buy Foot Locker products. They will be more aware of items offered which will make them more likely to purchase items. A big way we plan to see sales increase is through our product testing opportunity. Being a member at our gym will include the opportunity to test athletic apparel and equipment in our gym before you decide to buy it. We feel that this is a rare offering that will help customers feel more confident about what they are going to purchase. This will eliminate customers being worried that they will not enjoy the products they are contemplating purchasing. Often times, consumers are hesitant to purchase a new or different item than they are used to out of fear the item will not serve its purpose. Having the testing center will allow

members the chance to wear shoes, shorts, shirts, and more to decide if they truly enjoy the items before they purchase them. Having more potential customers in the store on a daily basis as well as removing the fear of using new products will increase sales for our stores that have gyms on sight.

The imperative task at hand is to get the word out about our project. The more people hear about it the more people will join and experience the Foot Locker program. After joining the gym we are convinced that customers will fully buy in to the system. By buying in, their active lifestyle will revolve around Foot Locker and its products. We will earn money off of their gym membership, their app usage and ad space sold, as well as an increase in sales of already existing products.

Using collected data we were able to pin point an estimate of how many people we be using our three gym locations. Using a variety of specifications and requirements we determined that approximately 3,755 people would join our gym in the first year. We are confident that through word of mouth and advertising that this number will increase at a rate of at least 12% every year following our opening. Because the gym membership also includes our free application, this is the main selling point to our potential advertisers. By the end of year ten we estimate that approximately 10,414 people will belong to our gym and use our app. This will allow us to generate a substantial amount of ad revenue from companies who wish to capitalize on our app audience. After evaluating all of our costs, growth rates and revenue, we were able to determine that the Net Present Value of this project is \$839,697. Having a positive NPV, we believe that this is a value-adding project that the company should take on. We also determined that the Internal Rate of Return for the project is 16%, which is higher than the

discount rate of 12%, which is also our membership growth rate. Having an IRR that is higher than our discount rate is another good reason we believe this project is value additive. The final financial justification for taking on our new gym program at our three locations is that the payback period for recovering our initial costs is 6.83 years. This means that after those 6.83 years pass we will no longer be putting revenue towards covering initial costs but instead we will be putting revenues strictly towards profit. Generating a net cash flow of \$2,150,248 in the tenth year shows that the revenue generation for this project is limitless and provides great opportunity for Foot Locker to change the way it is viewed in the industry.

For a numbers based approach to our revenue stream, consult the attached appendix.

Marketing Strategy and Advertising Campaign

Moving forward with our recommendation, we must implement a critical part to the success of our new division, our marketing strategy. With many competing gyms in the area, Foot Locker will make it a high priority to raise the awareness of our new Foot Locker Fitness centers to local residents. Also, it is important to make sure this strategy is effective and cost efficient. By using a portion of the retained earnings, while staying within the budget, we feel as though our marketing strategy will effectively reach our target market. In our marketing plan, the internal and external factors are both analyzed.

In our internal analysis, we look at what the club plans to offer as well as our marketing resources. At the new Foot Locker Fitness gym, we will offer an 18,500 square foot recreation center designed to accommodate a large number of members. The fitness center will be branched off one of our retail stores, allowing customers to make pre and post workout purchases of gym equipment, apparel, and other workout necessities. Also, the gym will offer

cardio workouts, aerobics, personal training, and elite sport training. A wide range of machines and free weights will be provided to accommodate all workout plans and strategies. The gym will also include a recreational pool, track, and rock-climbing wall. Access to all of these options will be available according to the membership plan, which we will offer to our customers at an affordable price. Currently, the marketing resources for Foot Locker are quite substantial. A recent overhaul on Foot Locker advertising has had the media buzzing. The new ads have focused on the brand images of the chains, instead of the old price-based ads. This change came after a sluggish back-to-school period last year. The new campaign included television, internet, and print ads totaling more than \$6 million. Foot Locker has also signed NBA stars James Harden and Stephen Curry for their new ads. Having these celebrities creates an abundance of resources for our advertising campaign.

In our external analysis, the first area of our focus is the demographics. The strategy is to open three initial fitness centers located in Buckhead, Marietta, and Sandy Springs. The reasoning behind these locations is that we intend to target a younger crowd of recent college graduates and new homeowners. According to demographics research site, Atlanta's leading age group is 25-34 years old at 19% of the population. This age group is followed by 18-24 years at 13.5%. (CLRsearch). Also, using research done by CNNMoney, Atlanta, Sandy Springs, and Marietta are some of the fastest growing cities in the South. These cities, "Added more than a million people in the last decade, bringing its total population to 5.3 million. Atlanta now has the most affordable homes in the country. The median home price fell by 33% between 2006 and 2010, and the average monthly rent is now 50% higher than the average mortgage payment." (CNNMoney). With college graduates flocking to these areas, and homes being the

most affordable they have been in years, we felt as though our initial fitness centers would really hit our target market in these locations. Another factor that attracts a younger crowd is that Atlanta is home to ten Fortune 500 companies. Having affordable home prices and a wide variety of jobs, we felt this area best fit our strategy. The final area of our external analysis is the competition from other gyms in the area. The metro Atlanta area is home to dozens of gyms. Planet Fitness, Gym of Buckhead, and LA Fitness are just a few of the bigger names. These are all considered to be our top competitors, however, our S.W.O.T. analysis will be performed and establish why we separate ourselves from the competition.

To raise awareness for the new fitness centers, we plan on using many forms of advertising in the local area to draw in new customers. Due to the soft opening of only three fitness centers in the metro Atlanta area, our advertising strategy would be to use TV as our main source of advertising. According to Leslie Speidel, a media buyer in North Carolina, "Prime time spots on broadcast TV cost \$2,000 to \$3,000 in this [Atlanta] area. Prime time cable spots go for \$175." (Speidel). Also, a package with multiple spots is sold with cheaper rates. By only having 3 fitness centers within a proximity to each other, we would advertise using cable on channels such as ESPN, Fox Sports Network, Comedy Central, TruTV, MTV, and Spike. All of these channels have over a 35% viewer rating for ages 18-34. (Comcast). To run a single primetime ad on three of these channels every other night for a week would cost roughly \$3,150. To execute this strategy for a month, we could spend nearly \$13,000 on TV ads.

Another form of advertising we would implement would be a billboard along I-85. The cost of a billboard in Atlanta with that many impressions could run around \$9,000 at most. We feel as though a billboard placed on I-85 would catch the attention of many potential customers sitting

in Atlanta traffic. Another way to pass time while sitting in the brutal Atlanta traffic is by listening to the radio. Buying spots on popular Atlanta stations would be a great advertising strategy. These could cost roughly \$80 a spot, so assuming we bought ten spots, we would spend \$800 on radio ads. Using these figures, our advertising strategy is estimated to cost \$22,800. We feel as though this number is cost efficient, fits well with our budget, and will effectively reach our target market. The final strategy we would like to implement would come at very little cost. By targeting a younger crowd, we will be able to use NBA icons James Harden and Stephen Curry to promote our new division. Using cheap resources such as YouTube, videos starring Harden and Curry could travel quickly throughout our target market by executing a Word-of-Mouth marketing strategy. According to Randy Sikora, owner of Twister Gymnastics, "85% of gym customers come from word of mouth." (Sikora). Using these NBA stars in a hit YouTube video would increase the media attention we receive and have everyone talking about Foot Locker.

At the end of the year, we will analyze our growth and complete research to measure the success of the advertising campaign. Our main goal of attracting memberships will be analyzed and, if necessary, changes will be made. We will be able to reevaluate our budget, our strategy, and our process. However, we feel strong about this campaign and its ability to reach our target market. With our goal to expand this company and implement growth at all costs, we are determined to make the Foot Locker Fitness centers a success.

Conclusion

We are convinced that by building these three gyms and offering the app to go along with it, we will completely change Foot Locker's position in its industry and in the new industry

it is branching in to. As of right now, no one else is offering a lifestyle product that provides for all of your exercise needs and combines them into synchronized usable features. Where you work out is also where you buy what you will work out it in. Your mobile phone tracks all of your exercise information and stores it. This makes it very simple and useful for keeping up with your progress and goals. Our goal by taking on this new project is to make Foot Locker a part of our member's everyday lives. We believe that so often people are bogged down by the intricacies and inconveniences of that, that we have developed a simple convenient system that eliminates unnecessary frustrations and replaces them with useful tools that help people reach their personal fitness goals. Although this project will generate profit and be good for the company, we believe that our users will be able to share their story with neighbors, friends and family which will then provide an unlimited opportunity for Foot Locker to change the way people view their active lifestyle. In doing so, Foot Locker will become a company that you cannot live without. When you think of fitness, you think of Foot Locker. By instilling this mentality in the minds of our consumers, we believe that we will have achieved the ultimate in positioning our company as a lifestyle brand.

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Appendix 1: Costs and Revenues

All costs are for a single location

Expenses	Cost
Payroll Expenses	\$180,000
Fixed Assets (PPE)	\$1,300,000
(Building)	\$1,200,000
(Equipment)	\$100,000
Basic Operating Expenses	\$15,000
R&D (App)	\$20,000
Apple Expense	20%
Total Advertising Percentage Expense	30%
Advertising Expense per Year	\$22,800

*Land value added in

Information for Expenses:	
Salaries Expense (Estimated)	\$100,000
Wage Expense (Estimated) per Year	\$80,000
Size of Building	20,000 square fee
Cost per Square Foot (w/ Equipment)	\$60

Projected Membership Year 1

	Buckhead	Marietta	Sandy Springs	
Population	78,676	57,357	96,856	
% Interested in a gym	33,831	24,664	41,648	43%
% Within proximate location	10,149	7,399	12,494	30%
% Interested in Footlocker Fitness	2,537	1,850	3,124	25%
% Memberships Projected (year 1)	1,269	925	1,562	50%
Membership Growth			Advertisements Revenue	
Year 1	3,755		Year 1	\$ 15,000.00
Year 2	4,206		12% Year 2	\$ 16,500.00 10%
Year 3	4,711		12% Year 3	\$ 18,150.00 10%
Year 4	5,276		12% Year 4	\$ 19,965.00 10%
Year 5	5,909		12% Year 5	\$ 21,961.50 10%
Year 6	6,618		12% Year 6	\$ 24,157.65 10%
Year 7	7,412		12% Year 7	\$ 26,573.42 10%
Year 8	8,302		12% Year 8	\$ 29,230.76 10%
Year 9	9,298		12% Year 9	\$ 32,153.83 10%
Year 10	10,414		12% Year 10	\$ 35,369.22 10%
Avg. Members per Location at Year 10	3,471			

Total Revenues

Membership Revenue	Total Revenues
Year 1	Year 1
Year 2	Year 2
Year 3	Year 3
Year 4	Year 4
Year 5	Year 5
Year 6	Year 6
Year 7	Year 7
Year 8	Year 8
Year 9	Year 9
Year 10	Year 10

Total Costs

Costs at Year 1	\$ 5,027,300.00
Costs at Year 2	\$ 1,107,750.00
Costs at Year 3	\$ 1,108,245.00
Costs at Year 4	\$ 1,108,789.50
Costs at Year 5	\$ 1,109,388.45
Costs at Year 6	\$ 1,110,047.30
Costs at Year 7	\$ 1,110,772.02
Costs at Year 8	\$ 1,111,569.23
Costs at Year 9	\$ 1,112,446.15
Costs at Year 10	\$ 1,113,410.76

Cash Flow per Year

Year 1	\$ (3,848,146.11)
Year 2	\$ 212,602.36
Year 3	\$ 370,219.64
Year 4	\$ 546,727.89
Year 5	\$ 744,391.73
Year 6	\$ 965,747.28
Year 7	\$ 1,213,634.75
Year 8	\$ 1,491,234.89
Year 9	\$ 1,802,109.84
Year 10	\$ 2,150,248.87

NPV	\$ 839,697.01
IRR	16%
Payback	6.83 years