CASE STUDY · 3 PAGES

Practice case study: a gym’s revenue model

Model five years of monthly club revenue, net of online advertising, with timing flags and seasonality.

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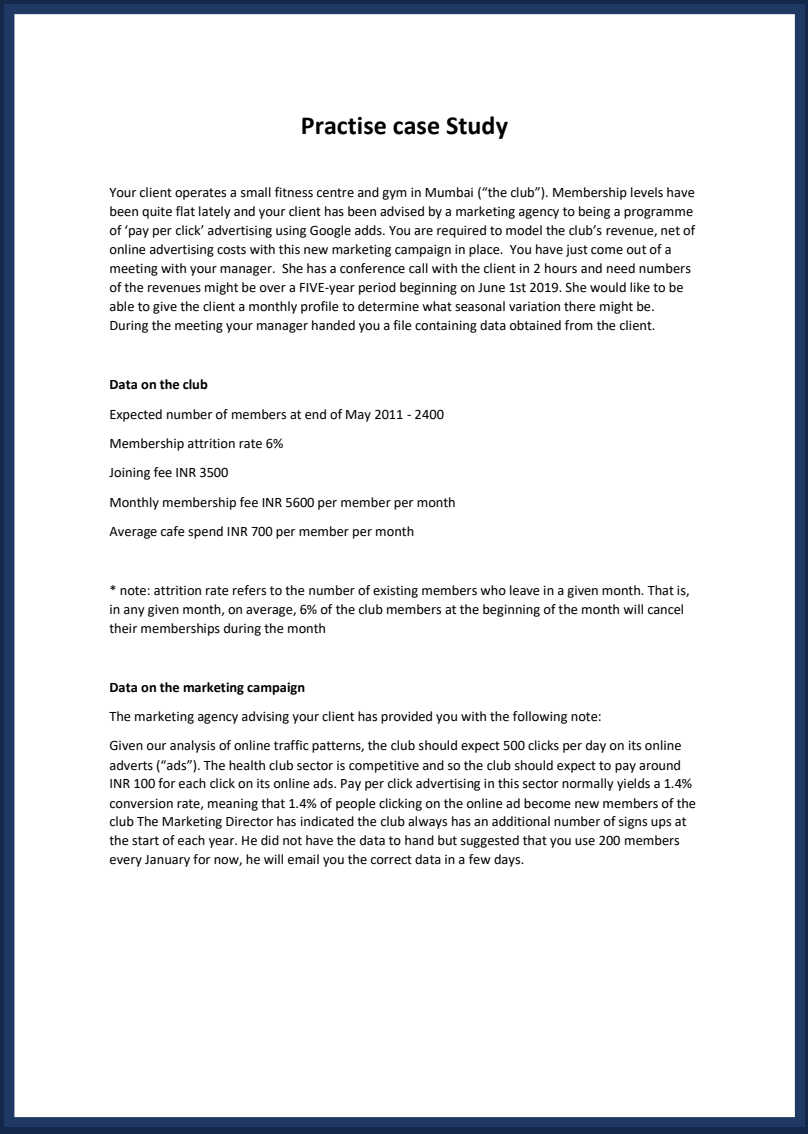
Project finance · renewables · platform management
mjsir.org · Edition October 2026



Practise case Study

Your client operates a small fitness centre and gym in Mumbai (“the club”). Membership levels have been quite flat lately and your client has been advised by a marketing agency to being a programme of ‘pay per click’ advertising using Google adds. You are required to model the club’s revenue, net of online advertising costs with this new marketing campaign in place. You have just come out of a meeting with your manager. She has a conference call with the client in 2 hours and need numbers of the revenues might be over a FIVE-year period beginning on June 1st 2019. She would like to be able to give the client a monthly profile to determine what seasonal variation there might be. During the meeting your manager handed you a file containing data obtained from the client.

Data on the club

Expected number of members at end of May 2011 - 2400

Membership attrition rate 6%

Joining fee INR 3500

Monthly membership fee INR 5600 per member per month

Average cafe spend INR 700 per member per month

* note: attrition rate refers to the number of existing members who leave in a given month. That is, in any given month, on average, 6% of the club members at the beginning of the month will cancel their memberships during the month

Data on the marketing campaign

The marketing agency advising your client has provided you with the following note:

Given our analysis of online traffic patterns, the club should expect 500 clicks per day on its online adverts (“ads”). The health club sector is competitive and so the club should expect to pay around INR 100 for each click on its online ads. Pay per click advertising in this sector normally yields a 1.4% conversion rate, meaning that 1.4% of people clicking on the online ad become new members of the club The Marketing Director has indicated the club always has an additional number of signs ups at the start of each year. He did not have the data to hand but suggested that you use 200 members every January for now, he will email you the correct data in a few days.

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CLUB REVENUES

The club would have three main sources of revenue: Joining fees – each new member has to pay a one-time joining fee. Membership fees - every member pays a monthly membership fee to use the club facilities. Note: new joiners and members leaving within a month pay a full month's membership fee in that month. Cafe revenue – the club has a cafe. Average spending levels per member in the cafe are given above.

MODEL REQUIREMENTS

You have to set timing assumptions and flags which you will need to complete the task. Your client is keen that you calculate forecast club revenues, net of online advertising costs. All projections are to be made in real terms and total revenues to be expressed in INR 000s. Please complete your calculations on a single 'ClubRev' sheet that can later be brought into the master model.