

Before You Sign: A Checklist for Buying an Existing Fitness Business

Change brings opportunity—and in the current, ever-changing landscape, that's certainly true. With many fitness businesses positioned for growth, especially virtually, now might be the perfect time to purchase an existing fitness business.

Whether you've decided to expand your business, or are just starting out, purchasing a fitness studio or gym has a unique learning curve—even if you've already mastered the ins and outs of your own.

Before you sign, take time to do your due diligence and gain a deep understanding of the business so you feel fully prepared to take on the new challenges.

Know what's available on the market around you

In the wake of COVID-19, more fitness studios and gyms will be available for purchase. And while buying a business is always a risk, if you think long term, there may be opportunity.

Do a thorough assessment of the available (or potentially available) fitness businesses in your area so you have a complete picture of your possibilities for expanding.

Establish a relationship with a business broker.

Consult online directories and listings. A couple of places to start: [BizBuySell](#), [BizQuest](#), [BusinessesForSale.com](#).

Get advice from a CPA and attorney.



Examine the business situation

Studio owners decide to sell for all kinds of reasons. Some are benign—but others may foreshadow difficulties ahead. Bottom line: you need to understand any potential risks and determine if they're deal breakers. Get the full picture, so you can [develop a business plan](#).

Is the owner forthcoming about the motivation for selling?
Retirement? Want to move onto something new?

If the business is in decline due to COVID-19, does it have a favorable space and clientele? Even if the studio isn't currently profitable, it can be better to start with a solid foundation than build from scratch.

What's the studio's reputation in the community? How about online; what do reviews say? What's the social media presence like?



Understand the legal landscape

There's no way around it—buying a business has legal implications. It's important to protect yourself from any unwanted surprises.

Retain an attorney to guide you through the process.

Are there any pending lawsuits? Have there ever been any involving the business in question?

Are there any outstanding debts or liens against the business?

Understand what you get with the purchase—because it's more than the space and the equipment. Spell out what intellectual property is included: the name and any trademarks, website and social channels, teacher training curriculum, online videos, any other elements of the existing brand, etc.

Learn the financials inside and out

At some point, you'll need to arrive at a figure you're willing to pay for the existing studio or gym. The only way to know what figure is fair is to understand what the business is worth today.

Find a CPA who will perform a due diligence audit of the business and review current financial statements as well as year-end audited financial statements and taxes for the past three years.

When assessing the books, factor in the owner's salary, employee perks, depreciation, interest, insurance, rent, any company vehicles, etc.

Get your accountant/CPA to give you an honest estimate of the total amount you'll need to put into the business—not just your initial investment but escrow closing costs, first month's rent and security deposit, and working capital.

Look closely at the past few months and pay particular attention to loss of revenue. Create a narrative—why are sales down and how can you add value to correct course?

Use what you learn to determine what you're willing to pay.

Evaluate your financing options

A key piece of the purchase puzzle is how you'll finance your investment. Many buyers think it's as simple as applying for a loan. However, it's a bit more complex than that. Consider the following options:

Determine if the business shows enough profit. Small Business Association (SBA) loans, which are meant for these types of transactions, require both buyer and business to qualify. If the business isn't showing enough profit on its tax returns, the SBA won't lend.

If you're a homeowner, a Home Equity Line of Credit (HELOC) is another possible option for financing. You, the buyer, can borrow against it. Plus, interest rates are lower and the deal can close faster.

Seller financing is also common. In this scenario, the seller acts as a lender, allowing the buyer to make monthly payments. Seller financing can bridge the gap in purchase price, too, with the addition of an earnout. An earnout is a contractual provision that rewards the seller with additional, future compensation if the business achieves certain financial goals. This is especially helpful if the business is sold during a period of uncertainty and the buyer is somewhat wary.



Take a closer look at the space—both physical and virtual

Once you've zeroed in on a business, it's time to vet the location. Imagine it as an extension of your brand, because that's exactly what it will become.

Think about the parking situation. Are there enough spaces? Is it easy to get in and out?

Think about the potential for foot traffic. Is the area walkable?

Consider the adjacent or nearby businesses. Are there any future opportunities for cross-promotion?

Overall, is it a good location? (For some more specific information on that, [check out our location checklist.](#))

Is the landlord willing to work with you on a new lease? Now more than ever, landlords are eager to work with tenants. Now's the time to lock in optimal lease terms.

What about the business's virtual space? Does it provide live streamed or on-demand services? Is there a solid [virtual business plan](#)? A hybrid business model is important for fitness businesses given the current landscape.



Get to know the current clientele

Keep in mind that you're buying a business that's already established—and your biggest asset (and quickest path to profitability) is the clients who are already happy there. Make sure you understand why.

Get a feel for the demographic range with current clients. What patterns emerge?

Dig into the retention rates. Is the clientele mostly loyal members or occasional drop-ins.

For those loyal members, what's making them so loyal? Is it something you can keep, like the trainers or the location—or is it the owner?

Is the current studio or gym offering memberships? If so, what are the perks, how many clients are taking advantage of them, and will that be sustainable in your business model?

Plan the path forward

As this business milestone goes from hypothetical to real, make sure your plans do the same.

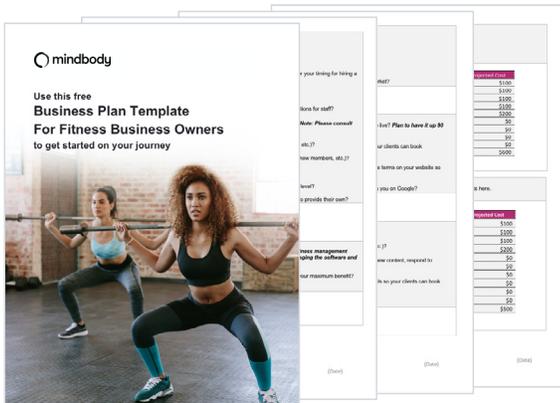
Think about the current staff—not just trainers, but day-to-day management too. Are they staying on, and if so, will they be independent contractors or employees? If not, how do you plan to fill those gaps?

Which [fitness software](#) (if any) is the business currently using? How proficient is the staff in the current system?

What's the future of the brand? Are you keeping the name (think about costs associated with changing it)? How about the logo? The website?

Think about how easy it is for clients to book classes and appointments. Can they book directly from the website? Is there a branded app for the studio? If not, consider how to put that in place.

How will you communicate the transition and introduce yourself to existing clientele? The surrounding community?



Make a tangible business plan

Whether you do ultimately decide to buy an existing fitness business or expand on your own with a new space, the biggest indicator of your future success is how well you've thought it through. Take advantage of our [fitness business plan](#) template to turn preparation into action.

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Mitch is a [Mindbody Certified Business Consultant](#) and a CA Licensed [Business Broker](#). He specializes in helping studio and gym owners sell. He found this joy after successfully selling his own studio and realizing how many owners and consulting clients need help in this arena. Mitch has a master's degree in Business and is passionate about helping people achieve their dreams.



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