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Town Sports International Holdings, Inc. Q2 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator instructions) And the first question comes from the line of Paul Swinand from Stephens. You may proceed.

Paul Swinand – Stephens Inc.

Good evening and congratulations. This is Paul Swinand.

Daniel Gallagher

Hi, Paul. How are you?

Paul Swinand – Stephens Inc.

Pretty good. How about yourself? The first question was – both on your last call and the analyst day, some people asked about what Marty might do, and, obviously, you said it was too early to say anything. But, now we've been hearing in the marketplace even that some of the centers are excited about some new ideas that he has. And you said that there was a lot of low hanging fruit. So what –? Can you share with us maybe what the low hanging fruit is and what you're going to attack first there?

Alex Alimanestianu

I think that the programs that I mentioned in the prepared remarks are already starting to show you what the low hanging fruit is. So the Mystery Shopping program, which preceded Marty, is already really pushing the general managers in the clubs to bring their A-game every day. And you're seeing that in the improvement in the scores. So just the fact that they're competing and getting ranked, getting scored, and, in the next year – in 2009, we also have their compensation tied in part to the scores. That is going to continue to push performance. So that's certainly one thing that we're benefiting from. I think the other programs that we've had underway are also helping us in terms of the membership consultant hiring comp plans. Things that are definitely moving us in the right direction. I think our – the attrition rate, which has been stable or, actually, down a little bit in the second quarter of this year versus last year in a really difficult consumer environment, shows – at least suggests directionally that the club and the member experience is improving somewhat. So it is early. And, as I've always stressed – or I have on the last three calls – the change in the culture inside the clubs from a culture that really emphasized sales to one that balances sales and service is a process. And it's not hitting a light switch and seeing change. But it is incremental. We're having success already. And Marty is spending his time now, after his discovery phase, as we call it, really

working on his operating plan. And he's well into that. And as soon as he gets that done, then we'll start implementing some of the bigger changes, which are focused in the areas that you would expect – the organization in the clubs, the people in the clubs, and the systems in the clubs, as well as some corporate things. But, primarily, the experience in the club, which is primarily governed by those three things – the organization, the people, and the systems. So, I hope that gives you something – an answer to that question.

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