

## [HIT Business Membership: Luke Carlson - How To Scale To Multiple Locations](#)

- Lawrence Neal: 00:01 Luke, welcome back to The Membership.
- Luke Carlson: 00:03 It's always my pleasure, Lawrence. Thanks for having me.
- Lawrence Neal: 00:05 I assure you, the pleasure is all mine. I really appreciate you contributing more content to The Membership, and I know that our members really appreciate it too. The purpose of this podcast is to talk about scaling locations. There are a number of members who are in the position where they're looking to perhaps open up their first sort of, their second location, so that maybe they've reached close to, or to maximum capacity in their existing studio, and they're looking to open a second or maybe considering planning opening multiple studios, over time. The first question I have for you on this is, when you hear a studio owner is looking to open a new location, what are the questions you think they should be asking themselves first?
- Luke Carlson: 00:56 Wow, that's a great question. I would start, Lawrence, with, why?. I think it's almost the default that we're supposed to open a second or third location. But I would push back and say, and frankly the friends or colleagues that I have that are opening a second location or working on it, I never asked them this question, because it's almost too personal of a question and it's up to them to kind of wrestle with this question. But, why are you trying to open up a second

location? What does this fulfill for you? I think if you really ask why, a few times, that will be a powerful filter for you to understand, should I even be opening up a second location? Because in my estimation, most people when they really wrestle with why, will decide not to open up a second location.

Luke Carlson: 01:46

I think that why is the real important question. I can't come up with all the conceivable why's, but one why would be, I want to continue to grow revenue. And I would say, "Well can't you grow revenue in your current location?" When we get outside of kind of the self imposed limitations that we have, or just the head trash that we've created, we realized that wow, I can still grow revenue in my current location so much, that should I even be looking at a second location? So I would just start off with why. You better be able to articulate, what's the business purpose for why you need to open up more than the one location? That's where I would start.

Lawrence Neal: 02:28

Cool. I suppose if a studio owner is looking to grow their business and believes that... I suppose in looking at this from one, because like you said, there's so many different conceivable answers to that question, and so many things could come up for the studio owner. But let's just say that the reason they want to do it is because they want to grow revenue. They want to grow their business. If that was the case, what would be the

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question or consideration? I mean you mentioned there, about looking at their existing operation to ensure that all the revenue opportunities are, I suppose, maximized there.

Luke Carlson: 03:10

I-

Lawrence Neal: 03:11

Go ahead.

Luke Carlson: 03:11

I'm sorry, Lawrence. Go ahead. No, you go ahead.

Lawrence Neal: 03:13

No, I was going to say, so what would you be looking at in your existing business to ensure that you'd optimize that, before looking at a second location?

Luke Carlson: 03:21

I would just frame it as, have I built a prototype that is worth now replicating? And replicating doesn't have to mean 10 locations, it means a second location. I would say not 9 times out of 10, I would say 99 times out of 100, that first location hasn't been optimized to even warrant opening a second location. When I say optimize, the first thing would be, it's not doing enough sessions and it's not doing enough revenue. If you're not happy with the sessions and revenue at your first location, I don't know how opening a second location would fix the problem of the first location not performing. You've got to figure out the first location. In almost all cases, just doubling down on the first location, and driving revenue at that location, I think, be

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the answer for most people, will be the solution that they arrive at.

Luke Carlson: 04:14 I would say, have we maximize the revenue, and the session volume that we can do at this location? Let's get really clear on what that is. All right. We've made up numbers about what locations can do, but my goodness, if you're not doing a million dollars a location, I would never dream of opening up a second location. A million dollars in 1200 square feet or 1500 square feet, I just don't now how... We talk about the financial model. I don't know how the model works, if you're opening up multiple locations that aren't doing close to a million dollars, and maybe \$750,000 is okay, or \$800,000 is okay, but I just don't know how you could afford rent at another location.

Luke Carlson: 05:01 The complexities of opening up a second location, they more than double. Operating two locations is not twice as hard as operating one. I don't know if it's two and a half times, but it's more than twice as difficult, because you are managing one location. Your ability to manage two locations is usually going to involve some type of studio manager or director of that particular location, or a second location, and I'm telling you, the complexities are more than double.

Lawrence Neal: 05:37 I'm really pleased you highlighted the importance of getting one's house in order in their existing location

first, because I thought that might be a common problem that perhaps you see in this industry, and a quick win as well, for a lot of the members in terms of greater profitability, without the need to invest and spend all that time looking at a second location. I will just say, when it comes to making your existing location more profitable, Luke and I have already recorded plenty of resources on that, and I'll link to the most pertinent ones in the thread for this, exactly.

Luke Carlson: 06:14 When you think about those numbers, Lawrence, I think about, so if I'm going to do rent of \$5,000 a month, so I'm looking at maybe, \$60,000 a year in rent, and there's probably some build-out up front. But let's just say we're going into a location cheap, and there's very little build-out there. We have some tenant improvement allowance that's paying for that. So it's \$60,000 a year in rent, and let's say I'm able to source some used equipment, and do the equipment pretty cheap, and I can do equipment for 40, \$50,000. So I have 40, \$50,000 up front, and I have \$60,000 a year, and frankly, that's just the base rent. There's so many other expenses that we have to think about. Is that worth it for me, to try to grow revenue by taking on all that additional expense, versus having the same fixed costs, the same overhead at my one location?

Luke Carlson: 07:06 Then I think from a mindset standpoint, we should be inspired, or I think we'd be wise to look for inspiration

from companies that have made the conscious decision to not go to multiple locations, or just not to grow in terms of units. A great book that I would encourage all of The Membership to read, is a book called, Small Giants. Small Giants was a book where these are companies that are profiled, that made the conscious decision to stay small rather than to scale, and focus instead, on being great.

Luke Carlson: 07:43

The classic a Western approach to business has been, you grow market share, you grow revenue, and that doesn't have to be the only approach. You could focus instead, on being really good at what you do, and not just grow for growth's sake. I think the guy, the operator that embodies that is Joe Cirulli, at the Gainesville Health and Fitness Center. He's had the most profitable health club in the world, for something like 25 years. He has basically has one club. Now, he has two small satellite clubs that support it, but for all intents and purposes, it's one club. He hasn't decided to scale. He hasn't put clubs throughout Florida, or around the country. For 25 30 years, people have said, "You could, why don't you?" Well, he's a small giant.

Luke Carlson: 08:25

In fact, the author of Small Giants, Bo Burlingham met Joe after he wrote the book and said, "My goodness, if I would have met you before I wrote the book, I would have wrote the book about you," and he came out with another version of the book, and there's another

chapter about Joe and the Gainesville Health and Fitness Center. And so, when we automatically think we're conditioned to think that we have to open up the second or third location. I just think reading a book like that, will get you to think a little bit deeper and say, "Do I want a second location? Do I want a third location," or, "do I just want to be really great at this one location?" If we start to understand that the financial return, the financial reward can be there in one location, your listeners should understand that we can do, \$1.5 million in a small location.

Luke Carlson: 09:13 Without getting into specifics, if you think about, you're the trainer and the operator, and so you're earning a salary based on the people that you trained. And you also have a healthy net profit, does that give you the lifestyle that you want? When I put that math in front of most operators, they say, "My goodness, that's more money than I ever dreamed of making in this field, and that is what I want." And so the need, the why, which is what we started with, to open up a second or third location, really is mitigated. And people say, "Well, I don't actually want a second or third location.

Luke Carlson: 09:48 At the start of our conversation here, Lawrence, I'm sounding like I'm negative on opening two, three, four locations. I'm not negative. I just think that if you're really wrestled with that why, you might find out, "No, what I really want was more money, and I can get more

money in my first location. I just got to figure out how to do that, and avoid some of these other complexities." Because I know too many studio operators,, that when they open up that second studio, that's when their quality of life and their sanity really starts to erode, and they would say, "It was the biggest mistake they made," and they had to consolidate and move back to one location. And of course, there's nothing wrong with pivoting and doing that, but if we think through that why, we might stick with one location from the beginning.

Lawrence Neal: 10:33 Now, I'm really pleased we highlighted this, because like you say, circumvent so much stress and avoids that kind of downward spiral of quality of life, when one does open a second studio when they probably shouldn't. So, no, I'm glad we looked at it from that perspective, because I think that is, like you say, the most important thing, to be honest with yourself about first. However, obviously, the topic of this is assuming one does have a reason to scale beyond one location. I would love to hear, what's the discover strength for the Luke Carlson checklist, when you're looking at new locations?

Luke Carlson: 11:12 From a kind of a location, or real estate standpoint, or when are we ready to open?

Lawrence Neal: 11:16 Oh, yeah. I suppose, let's start with location, yeah.

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Luke Carlson: 11:24 I mean, we work with a real estate person, which by the way, I think she'd be more than willing to come on, and do a half hour with you, and kind of talk about these different variables. But for us, we're obviously looking at the demographic and the psychographic, and understanding, is this convenient for our target market? Our target market is Mary and Michael. Is this where Mary and Michael work and live? Is there enough Mary and Michael's here? Is there a density of that target market where we want to locate? And then, is the physical studio, itself, attractive?

Luke Carlson: 11:56 I would say one of the things that's been different for us is, we want the actual studio to be incredibly attractive. We think that training experience, I think to retain a client, they have to train in a, I'm not talking about the Ken Hutchins ideal training environment, with fans on you, in 62 degrees Fahrenheit. I'm talking about, it's got to be a destination studio where I actually want to be in, because we're competing against a crowded boutique studio market, that is really selling on that experience, the interior design, the actual look and feel of the location. I think the look and the feel of the location matters. I think many of myself, and high intensity training practitioners have minimized that, and said that that doesn't matter, and I just think that it does. Is it the most important thing? No, but it's one of the most important things.

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Luke Carlson: 12:49 We're talking about demographics, psychographic. We're talking about do we have the target market? The quantity of the target market in that location, and then, do we actually have a beautiful location, a studio that people would get excited about coming to? And does it make sense to them that they would spend \$50, \$60 for a one-on-one, 30-minute workout in that physical space? Now, that's just when we're actually sourcing a location., I think it's Packard's Law that states that a company will only stay great, in proportion to its ability to find or hire great people. So the ability for you to grow, or grow fast, is limited by your ability to hire and retain great people.

Luke Carlson: 13:40 When we talk about a second location, a third location, the number one consideration is, do we have the person to be able to run that location? And have we built the structure for that person to really to run with it? So I would pour almost all of my energy as the operator, not into, can I find the right equipment? Easy to do. Can I find the actual right location? Easy to do. But have I created the right organizational structure, and the clarity around roles, for someone to run the second location? Because normally what I've seen as the operator, is bouncing between two locations. I mean, Monday they're training all day at one location. Tuesday they're training at the other location. Wednesday they're split between both locations, and

AM shift. They cannot run fast enough between the two, and now not only are they managing the 8 or 15 personal trainers that they manage, but they actually are managing the physical plant also, running back and forth between the two.

Luke Carlson: 14:39 You have to have the right structure in place, and that structure is obviously going to be executed by the person. Do you have a person that's going to run? I don't have a recommendation on, should you run one and they run one, or should you have two people? You have a manager at each location, and you're overseeing those two locations. I don't want to say that there's a one best way to do it, but you better have that mapped out, because when I've seen this not work, it's when the trainer, the operator, the owner, is running back and forth between the two of them. I think that's the recipe for disaster.

Luke Carlson: 15:12 Now, do I think the trainer or the owner should train in the different locations? Yes. So for me, we have four locations. Our fifth location will open up in a couple of weeks here, and I already have my schedule built-out for the first six months of 2019, where I am rotating between all of our locations, and we'll take a four-hour shift in those locations. So Sunday, I do a three-hour shift in the location, and then Monday,, I do a four-hour shift in the morning at one location, and a four-hour shift in a PM at a different location. Then the following

Monday, that flips and it constantly rotates, and it rotates not just what location I'm in, but what time of day. So I don't just see, for example, our downtown Minneapolis location in the morning. I'll see the downtown Minneapolis location in the morning, and the evening. Training in the different locations is important, but if our approach to managing is just running back and forth, in between, I think we're going to exhaust ourselves and really probably not build two successful locations.

Lawrence Neal: 16:15

Those are some excellent points. I appreciate you bringing those to the table. One I had is, I've spoken to somebody who you know well, Doug Holland, who has had some success or quite a lot success, building a healthy six-figure revenue, by having a secret location that people struggle to find, and almost create like an exclusive club. This is, obviously, fairly ironic because, one would assume that... Counterintuitive is the word I'm looking for. One would assume that you want a facility that is somewhat visible, and has good walk-by traffic. And there are examples of both. First one that comes to mind, I guess, Jay Vincent's BioFit. He has quite good walk-by traffic, from what I understand, and that's really helped him get going, and people walking in and obviously taking up an introductory workout. But then there's a number of people who have developed

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out of the way studios that are doing quite well. How do you think about visibility?

Luke Carlson: 17:16 Lawrence, it just depends how you ask that question. You asked the question, or I perceived the question as, if you're going to open up multiple location, what matters? Then you have to have a great location, that has visibility, and has the right look and feel.

Lawrence Neal: 17:30 Sure, yeah.

Luke Carlson: 17:31 If you ask the question, if one trainer wanting to open up one awesome studio, does it matter where it is? And my answer is, "heck no." Doug, and I get a text from Doug, we text each other probably every day or every other day, Doug, his business is Doug. And I think you have plenty of the membership and there's plenty of high intensity training practitioners, that's where I think their business should be. It should be them, and that's it. And then you can put the location wherever you want, and people will follow Doug anywhere, to train with Doug.

Luke Carlson: 18:03 I think that's awesome, and I think it makes sense, and I think many of us should build that, but if we're trying to build a business with multiple locations, the business is no longer about us. I mean, Doug can't be in two locations at once, and people will not go to a random, obscure spot to train with someone beyond Doug. When I say beyond Doug, I mean there's a lot of... I

don't want to say this wrong. I was going to say, there's a lot of Doug's out there. Let's be clear, there's not a lot of Doug's out there. But, so many of your listeners, they are that charismatic, enigmatic, magnetic trainer that people will absolutely train with, and they could book their schedule.

Luke Carlson: 18:40

I was just with Bill Crawford, I told you this two weeks ago, training with him, and he said, "I could have my schedule booked from 4:00 AM to midnight, every day if I wanted to, but I just don't want to." So many of your listeners have developed that, and I think that's awesome. But if we want to go to multiple locations, then it just changes that a little bit. I think that from a multiple locations standpoint, the actual physical location of real estate matters so much more than if you have one location.

Lawrence Neal: 19:07

I feel somewhat silly now, asking that question, because like you say, it's fairly obvious when you're looking at it in that way. Let's say when you are looking to obviously scale multiple sites, which I guess removes the desire to be hidden, but then what do you then consider? I mean you talked about demographics, all those other checkpoints, but in terms of the actual location of physical structure, do you, for instance, discover strength? Do you always look for something that is very, very visible and easy to get to? Or are you

less concerned about that? Like how do you think about that stuff?

Luke Carlson: 19:42

We look at access to major thoroughfares. How quickly can you be on a major highway? So that we don't just serve the neighborhood, but if you're a town away. You may be eight miles away, but can you get there in seven, eight minutes, versus there's other parts? I live in Minneapolis, in the Minneapolis area, where four miles away, may take you 25 minutes to get to. And so, how easily can someone get on a major highway and access the location? Our highest revenue location is actually our worst demographic, in terms of average or mean household income, but we serve some supporting cities that can all get there within an eight minute drive, so it really, really works. Where we have some more affluent locations that just can't draw from some neighboring cities because, well, one, there might not be neighboring cities, or two, the highway access is not as efficient or convenient for that referral.

Luke Carlson: 20:49

Because if you think about it, not all of your referrers live in the exact same area, clearly, and you'd love to have a location that when you get these referrals, I mean high intensity training businesses are built, great personal service firms are built on referral. I think we need locations where a larger referral base can actually get to us. I think access to a major thoroughfare matters. I think visibility matters. We would bet on retail,

over being like in an office building. All of our locations going forward will be retail spaces. I know that's not what everyone has to do. The Perfect Workout, I know, they're generally inside large office buildings, and I think that's more of a branding decision. We want to compete in the boutique studio market, and have cool retail spaces that, that we pit ourselves against those other boutiques.

Luke Carlson: 21:38

This is just my language. The Perfect Workout has a little bit more of a clinical feel, in that I'm on the seventh floor of an office building, and I'm not sure when I'm walking into it if I'm walking into the dentist office, or a place to workout. I think that works for them. I just think you need clarity on, what's my brand and what am I all about? Then you'd better make sure every branding decision aligns with that. I think it's weird if you walk into the sixth floor of an office building, and you feel like you're about to walk into the dentist office, and then your trainers are maybe dressed in a more athletic attire, just a different, more casual feel. I don't think that whole brand aligns. I don't have the answers there, I'm just saying, just make sure there's congruency in the brand. When I say brand, every decision you make supports that brand, and the physical location is one of them.

Lawrence Neal: 22:29

What about the size of space?

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Luke Carlson: 22:33 So again, I think that's a, understanding your business model decision. We wrestled so much early on with, what is the size of our location need to be? Our first location was 1,500 square feet, and we were able to jam everything in there. Then we realized in order for us to do the volume we want to do, we have to be just a teeny bit bigger. Now, the perfect footprint for us is 2,000 square feet. Our last two locations, the one we just opened six months ago, exactly 2,000. The one that will open up in a few weeks here, exactly 2,000. That just gives us a little bit more room to have... I mean a lot of times we'll have five, six, seven trainers on the floor at one time, and we just need a little bit more room to breathe, and we also do some small groups, so five of those trainers may be with one-on-one clients, but one of those trainers is training three clients at one time, so there's just a lot of moving parts on the floor.

Luke Carlson: 23:26 It wasn't necessarily a limitation on equipment. There's a limitation on room that we just literally had clients and trainers bumping up against each other in a 1,500 square foot spot. And so, 2,000 has allowed us to have a little bit more breathing room. We've also opened up a studio that is, and we still operated it, is 4,700 square feet, and that's just too big. I mean, it's cavernous, and frankly we don't need that much square footage to be able to really generate a tremendous amount of

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revenue. We're going to look to completely revamp that location, gut it, and build a corporate office there in half of the space, and turn half of the space into a studio that looks like our more new concept for our studio, is what we'll likely do in that location going forward.

- Luke Carlson: 24:15 It took us a while to realize that 2,000 is what we need, but everyone's business models different. If you're maybe an ARX operation, and you have two machines in there, and I don't even know if you have a changing area, maybe 200 square feet works. I think you had some people on that were in San Francisco, and they're looking as small as 200, 300 square feet. For us, 2,000 is kind of the experience that we want to deliver.
- Lawrence Neal: 24:39 Got it. What about in terms of equipment? How do you think about that in a new location?
- Luke Carlson: 24:46 I sound like a broken record, but again, I think it comes down to business model. For us, we have the things that we're always going to have, so let me go through those things. We're going to have a leg extension, a leg curl, and abductor adductor, a calf, an anterior tibialis machine, and then we will have one or two leg presses. So far, it's been two leg presses, or I should say two multiple joint leg movements. It could be a Med-X leg press, and a Nautilus leg press. We have locations where it's an Avenger leg press and a Nautilus leg press, but two multiple joint pressing movements, so

that covers the legs. Upper body, it's always going to be a single joint for the back, shoulders and chest, so we'll have a pullover, a lateral raise and a peck fly. Then we'll have a multiple joint for all those. We'll have an overhead press, a chest press, and either a row or a pulldown.

Luke Carlson: 25:39 We'll always have an assistant chin-up dip, so we're getting another push and another pull there. We'll have a single joint bicep. We never do a single joint tricep, because we really like manual resistance for single joint tricep, and frankly we're probably doing enough pushing movements where we get enough tricep there. We will always do a Med-X low back, Med-X torso rotation. It doesn't have to be a Med-X abdominal, we'll do any abdominal.

Luke Carlson: 26:01 Those are the basics, and then when we add to that, it'll be another push. Most of our locations will have a Med-X chest press, and then we'll also have a hammer strength incline, a hammer strength decline, and barbell bench, one other pushing movement, and clearly, we could do pushups, we could do dips. I mean a chest press of some kind. And then for pulls, it's usually a pulldown and a row. So right now, all of our locations have a row and have a pulldown. Now for us, the magic is that we have to have the right balance or the right ratio of selectorized versus plate-loaded.

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- Luke Carlson: 26:36 I actually think some of the plate-loaded machines out there are the best built machines, with the best strength curves. If I were going to train a machine and I just wanted to produce great results, the plate-loaded option sometimes is actually the best option. But it beats up our trainers too much, and it slows down their ability to work with a group, and so we can only have maybe 20% of our machines, maybe 30% of our machines, in a given location, be plate-loaded.
- Luke Carlson: 27:01 I try to make sure that the plate-loaded machines are easy to load. A plate-loaded leg press is more exhausting to load than a plate-loaded lateral raise, where you're putting on a few tens, a five, and maybe a two and a half. A plate-loaded anterior tibialis is just very easy to load. It's convenient to load, versus a chest pressing movement where you might be changing out, one client just has 10 pounds on each movement arm, the next client's going to have 70 pounds. That's just a lot of plates to move, and so we try and have the right balance.
- Luke Carlson: 27:31 I'll give you an example. If we do a Med-X seated row, in a location, then I think, okay, for the pulldown, we could go plate-loaded. If our seated row is plate-loaded, Rogers Pendulum makes a wonderful seated row. They call it the three-way row. I love that row. If we're doing that row, then we have to do a select rise pulldown, so we'll try to pair that with and Med-X torso

arm. Then, we have locations where we've done a plate-loaded pulldown, and then we have to have the Med-X seated row. It's got to be the right mix, and for us, just based on the volume that we want to do, and some people maybe can handle more plate-loaded, it would just beat up our trainers too much to load plates, nonstop.

Lawrence Neal: 28:14

Final question for you, Luke, and I'm rattling through these. This might take longer than the three minutes to answer, but I'd love to hear, I guess, a succinct answer to how you might think about marketing, and promoting, and launching that new location?

Luke Carlson: 28:31

I think one of the keys is to try to have the location be maybe an overlapping circle, from your existing location. Even if the demographic, the psychographic was prime, but it was completely across town, I'm going to make up the distance here, it's 35 miles away, and you know it can support a location, but you might not get the synergy of the fact that you have one location existing. I think if you're going to go to a second or third location, have kind of an overlapping circle approach.

Luke Carlson: 29:06

Picture Olympic rings, so that when you open your second location, you should cannibalize maybe 10 to 30% of your existing location, so you have people in the door right away, and then you have a referring base

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that starts to grow. Even the people that will not move to your new location, I think just by having the geographic proximity, you will start to get more referrals to that location, than if you go completely across town. I say across town, but if you're 30 miles away, 45 miles away, and the demographic is perfect, you still very much will feel like you're starting from scratch, in terms of driving a client base, where when you are a few miles away, you will get so many more referrals, and can capitalize on all of your existing marketing for the single location.

Lawrence Neal: 29:57

Cool. There's definitely a Venn diagram in the making there.

Luke Carlson: 30:00

Yeah, absolutely.

Lawrence Neal: 30:01

Luke, I appreciate. We've run out of time, but certainly something I'll probably talk to you more about, or your colleagues, in terms of marketing that new studio. Michael Petrella is actually coming on to talk about that exact topic, in terms of launching new, and the promotions around that, on the live Q & A for this month. But, yeah, thanks again so much for joining me. This has been super valuable. I really appreciate your time.

Luke Carlson: 30:27

My pleasure, Lawrence.

Lawrence Neal: 30:29

All right, take care Luke. Cheers.

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Luke Carlson: 30:30 Okay, thank you.