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Summer Swim Academy: Expansion options

Melissa Jean wrote this case solely to provide material for class discussion. The author does not intend to illustrate either effective or ineffective handling of a managerial situation. The author may have disguised certain names and other identifying information to protect confidentiality.

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It was October 2016 when Marlee Armour, founder of Summer Swim Academy (SSA), finally had an opportunity to reflect on the organization’s second full season of operations. Armour was a Canadian Red Cross-certified lifeguard who had been providing swimming lessons and lifeguarding services to families in her hometown of Burlington, Ontario, Canada, for the past six years. Armour had been operating her business formally for the past two years under the SSA brand. She had recently graduated from the Management and Organizational Studies program at Brescia University College in London, Ontario, and she wanted to evaluate the possibility of expanding her business. She wondered if the business could provide her with an income comparable to what she would make if she pursued a career as an entry-level marketing professional. She was a passionate business owner and loved serving the needs of families in her community. To determine whether her compensation goal was attainable, she wanted to assess geographic and service-delivery expansion options for SSA. Her profitability goal was CA$50,000.[[1]](#footnote-2)

Canadian Youth Sports Industry

According to a research report published by KidSport Canada and the Canadian Imperial Bank of Commerce (CIBC), 7 in 10 Canadians believed it was very or extremely important for children to participate in organized sport. Organized sport typically included team sports or structured, physical recreational activities, pre-scheduled at regular intervals, where participants were required to pay a fee. Other findings from the report revealed that Canadians acknowledged the importance of organized sport to children’s overall well-being, in addition to its health benefits; 84 per cent of respondents said sports participation was an essential part of a child’s social development, and 80 per cent said it was an essential part of a child’s emotional development. Of those surveyed, 91 per cent believed that sports participation taught children important life skills, and 85 per cent agreed that sports participation built stronger communities.[[2]](#footnote-3)

A report from the Canadian Fitness and Lifestyle Research Institute revealed that 75 per cent of 5- to 19-year-olds participated in organized physical activities and sports.[[3]](#footnote-4) In addition, Canadian families spent an average of $953 annually for a child to play in organized sport,[[4]](#footnote-5) and 79 per cent of parents reported contributing financially to their children’s physical activity through purchasing items such as equipment and membership fees.[[5]](#footnote-6) Sport participants were more likely to be found in higher household income categories than in lower household income categories.[[6]](#footnote-7) Soccer(38 per cent) was the most common sport played by children, followed by swimming (22 per cent) and basketball(18 per cent). The organized sports in which parents most wanted their children to participate included soccer, swimming, and either baseball, softball, or T-ball.[[7]](#footnote-8)

Swimming Lessons

Many parents enrolled their children in swimming lessons because they viewed learning to swim as an essential life skill. Since children would find themselves in situations where they would be around water (for example, on school and family trips), parents wanted their children to be confident and safe. Benefits of swimming lessons included: physical health improvements such as building strength, stamina, and flexibility without putting pressure on bones and joints; challenges and rewards that improved self-confidence; and personal growth and leadership opportunities. Another advantage of swimming lessons over most other sports was that children of any age or ability could participate.

The most important factor for parents enrolling their children in lessons was time of day, and the number one reason for ending lessons was that families were busy with other activities; this suggested that parents wanted as much flexibility as possible. When it came to cost, most parents reported that swimming lessons were inexpensive compared to the other activities in which their children participated. Finally, many parents believed that lesson regularity—that is, taking lessons every day for two weeks in the summer season rather than once a week in other seasons—gave their children a significant learning advantage.[[8]](#footnote-9)

COMPANY HISTORY

Armour started teaching backyard swimming lessons to the children of three neighbours in the summer of 2011. Each year, she gained more clients through word of mouth and referrals, and her clients were satisfied with the quality of instruction she provided and the convenience of the service she offered. Armour decided to formally launch SSA in the summer of 2015, after creating a complete business plan as a requirement for a course she was taking as part of a degree in management and organizational studies. In 2015, Armour successfully secured a $2,000 student opportunity grant from Brescia University College and a $3,000 summer company program grant through the Halton Region Small Business Centre to formally launch the company. This money helped to support website design, insurance coverage, a business computer, and start-up equipment.

CURRENT OPERATIONS

SSA was organized as a sole proprietorship and offered 2 core services: private swimming lessons and pool party lifeguarding services. Swimming lessons were offered in 5- and 10-lesson packages at a cost of $150 for 5 lessons and $250 for 10 lessons. Lifeguarding services for private pool parties were becoming a common request; SSA charged $25 per hour, with a 2-hour minimum commitment.

Swimming lesson registration began in March of each year, and full payment for the lessons was collected as they were scheduled. Registration, scheduling, and pricing details were available on SSA’s website, which was the company’s main communication tool. Armour had been extremely accommodating to clients over the past two years, even if that meant that she or one of her instructors had to drive across the city to get from one lesson to the next. However, she was considering a change to scheduling for 2017 so that she could have more flexibility to schedule efficiently, based on instructor location. Clients would be asked to complete an availability form rather than request a specific time.

The main drivers for client registrations and lifeguard-service bookings were referrals and word-of-mouth recommendations from local parents. Armour also advertised with the Halton Region Small Business Centre and in the *Burlington Post*, and she had conducted a door-hanger flyer campaign in select residential areas of Burlington.

In 2015, Armour had been the sole instructor; she had enjoyed being able to completely control service quality, but, by the end of the summer, she realized she needed to make a change for the next season. Demand had outstripped supply. In addition to providing lessons or lifeguarding parties for 10 to 12 hours per day, every day, she put in additional hours managing communications, scheduling, and new bookings. She knew there was potential to grow the business, and by the second year, she had retained the services of 3 contract instructors at a cost of $20 per hour for both instruction and lifeguarding services. Armour continued to instruct and provide lifeguarding services herself and put in approximately 60 hours per week, which left her more time to manage the day-to-day operations of the business. She was successful in securing a starter-company program grant of $5,000 for the 2016 season, which provided the company with much-needed funding and business support. In 2016, SSA served approximately 100 clients and had approximately 8 to 10 clients on the waiting list at any given time. Net income had grown by over 90 per cent from fiscal 2015 levels (see Exhibit 1). Since the business operated on a cash basis and had no outstanding receivables or payables at the end of the year, the net income reported was equivalent to the cash generated and was available for Armour’s compensation.

COMPETITION

Swimming lessons services were available through multiple providers in the city of Burlington. The city itself offered lessons at its 4 indoor and 2 outdoor pools, starting with parent-and-tot programs and moving up to advanced leadership courses. The lesson sessions usually lasted 8 to 10 weeks, and lessons started at various dates throughout the year. The ratio of teacher to students varied from 1:12 for parent-and-tot lessons to 1:6 for Red Cross levels 1through 6 and 1:8 for Red Cross levels 7 through 10. The cost for Red Cross lessons increased with the level: the highest cost, for levels 7 through 10, was approximately $95 for 10 lessons. Although private and semi-private lessons were available through the city, there was limited availability for these. For semi-private lessons, parents had to find a child with similar ability who was available at the same time. Semi-private lessons cost $139 per child for a series of 5 lessons.[[9]](#footnote-10) City lesson registrations filled quickly, and there were often waiting lists for popular times.

The Ron Edwards Family YMCA location in Burlington had an indoor pool and offered swimming instruction for all ages. The YMCA did not offer the Red Cross program but had its own comparable program. The YMCA lessons were offered as “family” lessons, where all children within a family could take their lessons at the same time, regardless of their swim level. Once a family had registered for a specific time, they could keep that time as the children progressed to new levels, unless the family requested a switch. A YMCA membership was required to access swimming lessons: a family membership cost $438 per adult plus a $100 building fee annually, and a membership for a child under 12 years old cost $282 annually under this family membership.[[10]](#footnote-11)

AquaMobile Swim School (AquaMobile) had been in operation for over 10 years and provided the same at-home private swim lessons and lifeguarding services that SSA offered. It originally began offering services in the Greater Toronto Area and had since expanded to British Columbia and multiple states in the United States.[[11]](#footnote-12) Interested parents filled out an online form and were then connected to a local instructor, who would set up backyard lesson times. Swimming instruction for children from 6 months to 3 years was priced at $48 per 40-minute lesson, and 1-hour lessons for those aged 6 months to adult were priced from $65 per hour (this cost could be split between multiple students). Lifeguarding services were available for $60 per guard per hour.[[12]](#footnote-13) At this point, Armour was not aware of an AquaMobile presence in Burlington, but the city of Oakville and other cities west of Toronto were listed on its website.

In addition to instruction through formal services and locations, swimming lessons were also available through many instructors who operated independently, serving neighbours and family friends as Armour had when she started. These service providers varied in terms of quality of instruction and pricing; however, they offered parents the convenience of swimming lessons in their own backyard.

2017 SEASON

Armour planned to make a number of changes to operations in 2017, independent of any expansion decision. The prices for lessons would increase to $175 for 5 lessons, $300 for 10 lessons, and $500 for a 20 lessons. In addition, lifeguarding rates would be $45 per hour, with the same 2-hour minimum commitment. She did not plan any changes to instruction or lifeguarding compensation. Armour also wanted to require all clients to pay in advance using PayPal, which charged a service fee of approximately 2.9 per cent.

Regardless of any expansion plan, Armour believed that swimming lesson and lifeguarding sales in Burlington for 2017 would increase by half the growth rate between fiscal years (FY) 2015 and 2016, and she was not expecting to apply for any grants in 2017. For projection purposes, she wanted to estimate an average lesson-price increase of 15 per cent. She also planned to cap her instruction hours at 40 hours per week, and she would hire out all lifeguarding bookings.

EXPANSION OPTIONS

Armour was anxious to investigate the feasibility of expanding SSA’s operations to increase both the number of clients served and the company’s bottom line. The two opportunities she was considering included expanding to neighbouring cities and running her business year-round by renting space at an indoor pool.

Neighbouring City Expansion

SSA already had clients in the neighbouring city of Oakville and in the towns of Waterdown and Dundas, so Armour was considering a formal expansion into one or more of those locations. From her business plan research, Armour knew that there were approximately 6,800 backyard pools in the city of Burlington, out of a total of 71,373 private dwellings.[[13]](#footnote-14) Although the city of Oakville was unwilling to provide her with their estimate of the number of backyard pools, she did find that Oakville had a population of 193,832 and 66,269 private dwellings.[[14]](#footnote-15) Waterdown and Dundas were smaller communities with populations of approximately 111,065 and 113,024, respectively, and 38,111 and 44,962 private dwellings, respectively.[[15]](#footnote-16)

Armour believed that the target expansion city and towns would have approximately the same percentage of pools per dwelling as Burlington, and she estimated that SSA would be able to capture half the percentage of market share she held in Burlington in FY 2016. For projection purposes, Armour felt it was appropriate to assume that most people would purchase 10-lesson packages; she also estimated that 20 per cent of her expansion-city clients would make one lifeguarding-party booking.

If Armour were to expand into one or more of these areas, she would see increases to advertising and promotion costs of approximately $500 per location and equipment costs of $250 per location. In addition, she would need to cut back the hours she instructed to no more than 30 hours per week for the 10-week season to be able to manage the growth. She was pleasantly surprised to learn that her current insurance policy would cover this expansion plan.

Year-Round Operations

Many clients asked Armour to offer indoor lessons in other seasons so that their children could maintain and continue to improve their skills. Armour had identified a facility at a private school in Oakville, less than a 20-minute drive from Burlington, which she could rent at a cost of $160 per hour. If Armour were to pursue this option, she would consider renting the facility for 2 weeknights—from 5:30 p.m. to 8:00 p.m.—and Saturday mornings from 9:00 a.m. to 12:00 p.m. Given the size of the pool, 4 different lessons with 4 different instructors could be held at the same time. Lessons would be 30 minutes in length and would take place over a 10-week session, and prices would be consistent with those for the 2017 season. If Armour pursued this option, she would communicate her plans to her existing client base, so advertising costs would not change; however, supplies and equipment costs would be $250. Again, insurance costs would not increase; Armour’s insurance broker was able to quote the same premium for the additional indoor lesson coverage since Armour would be purchasing a full-year policy.

CONCLUSION

To reach a decision, Armour knew she needed to assess the alternatives qualitatively and project income statements to determine the conditions under which she could reach her profitability goal of $50,000. Since SSA primarily operated on a cash basis, with no receivables or payables, the net income was a good proxy for the cash generated, which she could use to compensate herself and keep a small cash balance.

EXHIBIT 1: INCOME STATEMENT FOR THE PERIOD ENDING SEPTEMBER 30

|  |  |  |
| --- | --- | --- |
|  | **2015** | **2016** |
| **Revenues** |  |  |
| Lessons | 8,300 | 19,100 |
| Lifeguarding | 800 | 2,500 |
| Grants | 5,000 | 5,000 |
|  | 14,100 | 26,600 |
|  |  |  |
| **Expenses** |  |  |
| Advertising and promotion | 350 | 500 |
| Car insurance | 560 | 560 |
| Business insurance | 1,300 | 1,300 |
| Booking software | 240 | 240 |
| Gas | 500 | 800 |
| Phone | 600 | 600 |
| Supplies and equipment | 300 | 500 |
| Payments to instructors/guards | 0 | 2,500 |
| Website & PayPal fees | 300 | 350 |
|  | 4,150 | 7,350 |
|  |  |  |
| Net Income | 9,950 | 19,250 |

Note: Fixed website maintenance fees were $300 of the line item for website and PayPal fees.

Source: Company documents.

1. All currency amounts are in CAD unless otherwise specified. [↑](#footnote-ref-2)
2. KidSport Canada, *CIBC–KidSport Report: Helping Our Kids Get Off the Sidelines*, 6, July 2014, accessed February 28, 2017, www.kidsportcanada.ca/site/assets/files/10418/cibc\_kidsport\_report\_july\_2014\_final.pdf. [↑](#footnote-ref-3)
3. Canadian Fitness and Lifestyle Research Institute, *2014 Kids CANPLAY*, Bulletin 3: Participation in Organized Physical Activity and Sport, February 24, 2015, accessed February 28, 2017, www.cflri.ca/sites/default/files/node/1382/files/CFLRI

   \_CANPLAY\_Bulletin%203\_2014-2015.pdf. [↑](#footnote-ref-4)
4. KidSport Canada, op. cit. [↑](#footnote-ref-5)
5. Canadian Fitness and Lifestyle Research Institute, *Getting Kids Active: 2010–2011 Physical Activity Monitor*, Bulletin 5: Parental Involvement in Child’s Physical Activity and Sport, September 30, 2013, accessed February 28, 2017, www.cflri.ca/sites/default/files/node/1180/files/CFLRI%20PAM%202010-2011\_Bulletin%205%20EN.pdf. [↑](#footnote-ref-6)
6. Canadian Heritage, *Sport Participation 2010,* Research Paper, 8, February 2013, accessed February 28, 2017, http://publications.gc.ca/collections/collection\_2013/pc-ch/CH24-1-2012-eng.pdf. [↑](#footnote-ref-7)
7. KidSportCanada, op. cit.. [↑](#footnote-ref-8)
8. City of Saskatoon Community Services Department, Leisure Services Branch, *Swimming Lesson Study: Final Report with Recommendations*, 1999, accessed February 28, 2017, http://lin.ca/sites/default/files/attachments/1999\_aquatics\_study.pdf. [↑](#footnote-ref-9)
9. “Swimming,” City of Burlington, accessed April 19, 2017, https://www.burlington.ca/en/live-and-play/swimming.asp. [↑](#footnote-ref-10)
10. “Programs,” YMCA of Hamilton, Burlington, Brantford, accessed April 19, 2017, https://ymcahbb.ca/Locations/Area-One/Ron-Edwards-Family-YMCA/Programs. [↑](#footnote-ref-11)
11. “About Us—AquaMobile Private Swim Lessons At Home,” AquaMobile, accessed April 19, 2017, https://aquamobileswim.com/about/. [↑](#footnote-ref-12)
12. “Prices—AquaMobile Private Swim Lessons,” AquaMobile, accessed April 19, 2017, https://aquamobileswim.com/our-pricing. [↑](#footnote-ref-13)
13. Statistics Canada, “Census Profile, 2016 Census: Burlington, City,” last modified July 21, 2017, accessed February 27, 2017, https://www12.statcan.gc.ca/census-recensement/2016/dp-pd/prof/details/Page.cfm?Lang=E&Geo1=CSD&Code1=3524002

    &Geo2=PR&Code2=12&Data=Count&SearchText=Low&SearchType=Begins&SearchPR=01&B1=All&wbdisable=true. [↑](#footnote-ref-14)
14. Statistics Canada, “Census Profile, 2016 Census: Oakville, Town,” last modified July 21, 2017, accessed February 27, 2017, www12.statcan.gc.ca/census-recensement/2016/dp-pd/prof/details/page.cfm?Lang=E&Geo1=CSD&Code1=3524001&Geo2

    =PR&Code2=01&Data=Count&SearchText=Oakville&SearchType=Begins&SearchPR=01&TABID=1&B1=All. [↑](#footnote-ref-15)
15. Statistics Canada, “Population and Dwelling Count Highlight Tables, 2016 Census,” last modified February 6, 2017, accessed February 27, 2017, https://www12.statcan.gc.ca/census-recensement/2016/dp-pd/hlt-fst/pd-pl/Table.cfm?Lang

    =Eng&T=501&SR=1&S=46&O=A&RPP=9999&PR=0&CMA=0#2013A000435038. [↑](#footnote-ref-16)