

# ClubEd

---

The place to meet new people and learn new skills

Amy Greenhouse  
Eric Osberg  
Tacy Trowbridge  
Dan Winterson

## CONTENTS

<b>EXECUTIVE SUMMARY</b>	<b>1</b>
<b>MARKET OPPORTUNITY</b>	<b>2</b>
<b>CUSTOMER NEED</b>	<b>2</b>
<b>MARKET SEGMENTATION</b>	<b>2</b>
<b>COMPETITION AND POSITIONING</b>	<b>2</b>
<b>CLUBED DESCRIPTION</b>	<b>3</b>
<b>CLUBED CENTERS</b>	<b>3</b>
<b>CLASSES</b>	<b>4</b>
<b>CORPORATE EVENTS</b>	<b>4</b>
<b>ADVERTISING AND MARKETING</b>	<b>4</b>
<b>FINANCIALS PROJECTIONS</b>	<b>4</b>
<b>PRICING AND REVENUES</b>	<b>4</b>
<b>COSTS</b>	<b>5</b>
<b>LOCATION OPENINGS, NET INCOME</b>	<b>5</b>
<b>INVESTMENT OPPORTUNITY</b>	<b>5</b>
<b>EXPANSION PLANS</b>	<b>6</b>
<b>APPENDICES</b>	<b>7</b>
<b>EXHIBIT A: PRICING FOR COMPARABLE CLASSES IN SAN FRANCISCO</b>	<b>7</b>
<b>EXHIBIT B: CLUBED INCOME STATEMENT, BY YEAR</b>	<b>8</b>
<b>EXHIBIT C: CLUBED CASH FLOWS PER LOCATION, YEAR 1</b>	<b>9</b>

## Executive Summary

*ClubEd will offer young professionals a nationally branded, upscale environment to learn a variety of new skills and socialize with new people.*

In 1999, 46% of adults in the United States participated in some form of adult education. While large urban areas offer many opportunities in community colleges, university-sponsored continuing education courses, community centers, and for-profit adult education centers such as the Learning Annex, none of these options cater specifically to wealthy young professionals. Research shows that the more educated people are, the more likely they are to take personal development classes. Busy schedules and a reluctance to attend classes in traditional adult education centers keep young professionals from fully participating in current options.

ClubEd will meet the needs of young, busy professionals through attractive centers in “cool” urban neighborhoods. The centers will be positioned as hip, young places not only to pursue creative interests, but also to meet people of similar ages with similar interests and backgrounds. In keeping with the relaxed, fun environment that ClubEd seeks to develop, centers will have a bar where members can mingle before and after classes.

Crucial to ClubEd’s success will be the quality of instructors. Selection will focus not only on content knowledge, but will also look for outgoing people who can make the classes fun and build social experiences. Early instructors will develop “curricula” to emphasize participation and interactive activities. These curricula will be shared across ClubEd locations.

Marketing efforts will create a fun, cool image for ClubEd. To this end, advertising will focus on exciting promotions and placements in trendy locales and sponsor happy hours in popular bars and clubs to stimulate interest. To fill initial classes, members will get referral bonuses and in many cases, membership fees will be waived or reduced. ClubEd’s significant advertising budget will also employ traditional outlets such as publications, radio programs, and television shows that appeal to young professionals.

ClubEd will have two main sources of revenue: monthly membership fees and concessions. ClubEd will charge a competitive monthly fee of \$149.95. If an average customer attends 4 times a month, for a total of 6 hours, our price of \$25 per hour will be significantly lower than the competition. ClubEd will also charge a one-time \$200 membership fee, to perpetuate the image of an exclusive club but expects to waive 50% of these fees in the first two years, for promotional reasons. ClubEd will also generate revenues from concessions. We expect to generate \$10 in revenue per customer per visit by selling drinks, in addition to books and other course related materials. These concessions, consisting primarily of alcoholic beverages, will provide a 50% margin. Each ClubEd location will have a capacity of approximately 600 members per month to keep class sizes small. We expect locations to average approximately 550 members 9-12 months after opening.

In order to open the first location, ClubEd seeks an initial cash investment of \$1.2 million. This will fund the first location for 6 months, with marketing and overhead, until the location has proven its viability. In month 7, a second round of financing, totaling \$4.2 million, will be

secured to finance the final 19 locations. The first round of investors will receive 4.2% of the equity of the company, and will earn a 213% return over three years. The second round of investors will receive 10.5% of the equity and earn a 120% return over two and a half years. ClubEd's initial valuation is \$27 million and will exceed \$88 million within three years.

Once Bay Area locations have proven their viability and sustainability, after approximately three years, ClubEd will expand to other large metropolitan areas. ClubEd will fund this expansion through cash generated in equity sold to the financial markets through an Initial Public Offering. This IPO will allow the initial investors to fully recoup their investments.

## Market Opportunity

### Customer Need

Over the past three decades, participation in adult education has grown steadily, increasing to 90 million people or 46 percent of the adult population in 1999 (Hill 1987; Kim et al. 1995; Korb, Chandler, and West 1991). People take classes because they wanted to acquire the knowledge, information, and skills necessary to succeed in the workforce, learn basic skills, earn credentials, or otherwise enrich their lives. In 1999, participation in adult education was six times the enrollment in higher education.

Along with the interest in pursuing academic and creative interests, there is also a need among young, single professionals to meet new people in places other than bars, nightclubs, and personal ads.

### Market Segmentation

The existing adult education market is commonly segmented into the following categories.

- ESL
- Adult Basic Education (help adults with basic skills for high school diploma)
- Credential programs (formal programs leading to degrees or certificates)
- Apprenticeship programs (formal, on-job training)
- Work-related courses
- Personal development courses (creative and performing arts; foreign languages; recreation and fitness, and anything else that does not fit into the category above)

Research shows that more educated people are more likely to take a personal development class. Thirty-two percent of adults with a Bachelors degree or higher took a personal development course, compared to 23% of the entire adult population. ClubEd will only offer courses that fall into the category of personal development and will tailor the course offerings to the interests of young professionals.

### Competition and Positioning

Adults can take continuing education classes at community colleges, university continuing education programs, community centers, government-funded adult education centers, and for-profit adult education centers, such as the Learning Annex. While large urban areas offer many opportunities for adult education, none of these options cater specifically to wealthy

young professionals. Busy schedules and reluctance to attend classes at community colleges and other traditional adult education centers keeps many young professionals from participating in adult education. ClubEd will be different than existing organizations because it will be positioned as a hip, young place not only to pursue creative interests, but also to meet other people of similar ages with similar interests and backgrounds.

ClubEd will need to differentiate itself from the Learning Annex, the largest alternative adult education seminar/organization in the United States, with schools in New York, Los Angeles, San Francisco, and San Diego. The average student profile at the Learning Annex is 38 year olds, college educated and career oriented. There is an equal distribution of married and single; and male and female attendees. While offering 800 classes per month in a wide range of topics, The Learning Annex's classes usually meet only one time for three hours. ClubEd will offer classes over a longer range of time so that people will have the chance to develop their skills and knowledge in the subject area and to have time to develop connections with people in their classes.

Competition in the dating/adult education segment will come from "events and adventure clubs" such as Highlife Adventure and Singles at Seven. Based in Chicago, Highlife Adventure's members can participate in diverse events such as theater and skydiving, and take classes such as pottery, cooking, and fencing. Another potential competitor is Singles at Seven, which offers group dining experiences, along with cooking, and massage classes. Both companies appear to market themselves to singles thirty or over, and the emphasis in their marketing is more on dating than on education.

Houses of worship and religious community centers also offer competition in the area of adult education and dating. For example, the First Covenant Church of San Francisco slogan for its Bible classes is "Grow Spiritually. Meet new people. Build Relationships."

## **ClubEd Description**

ClubEd has a two-part mission: (1) to help professionals pursue non work-related interests and develop their creative sides, and (2) provide a fun, healthy environment for professionals to meet and interact with new people.

### **ClubEd Centers**

ClubEd will create attractive centers in metropolitan areas around the country. ClubEd will focus on areas considered "cool" that were close to nightlife destinations. Centers will be tastefully decorated to maintain an upscale feel and further differentiate ClubEd from other adult learning programs. Each center will have multiple classrooms and need to have the proper equipment for the course offerings (e.g. a kitchen for cooking classes). In keeping with the relaxed, fun environment that ClubEd seeks to develop, centers will also have a bar where members can mingle before and after classes.

### **Classes**

Extensive market research will indicate the classes most appealing to professionals. Preliminary focus groups suggest ClubEd should offer some of the following courses:

- Cooking
- Painting and Drawing
- Creative Writing
- Ballroom Dancing
- Pottery
- Wine Tasting
- Bartending
- Photography

Initially, courses will meet once a week for approximately eight weeks. As ClubEd develops, we plan to experiment with different class formats, for example, one-day learning sessions or off-site classes. Classes will be geared toward general skills and enjoyment, not toward certification or career aspirations.

Central to ClubEd's goal, each student will fill out a fact/preference "application" sheet before enrolling. ClubEd reserves the right to reject any applicant for any reason. The applications will allow center managers to separate students into groups with similar outlooks and reasons for taking the class. In this way, classes can be segmented by age and marital status (e.g. cooking for 30-something couples, pottery for single 20-somethings).

Crucial to ClubEd's success will be the quality of instructors. Instructor selection will focus not only on content knowledge, but will also look for outgoing people who can make the classes fun and build community. Early instructors can help develop "curricula" to emphasize student participation and interactive activities. These curricula then can be shared across ClubEd locations to give students a consistent, enjoyable experience.

### **Corporate Events**

The vast majority of classes will take place in the evening after work or on weekends. This presents the opportunity to make ClubEd sites available for corporate events during the day. Increasingly, corporations are sponsoring Outward Bound or fun classes for their employees in order to facilitate interaction and build community. ClubEd will be a natural fit for many of these events. While not ClubEd's primary focus, this could become an additional, highly profitable line of business.

### **Advertising and Marketing**

In order to be successful, marketing efforts must create a fun, cool image for ClubEd. To this end, advertising will focus on exciting promotions and placements in trendy locales. ClubEd will sponsor happy hours in popular bars and clubs to stimulate interest. To help fill initial classes, students will get referral bonuses and in many cases, membership fees will be waived or decreased. ClubEd's significant advertising budget will also employ traditional outlets such as publications, radio programs, and television shows that appeal to the young professional segment.

## **Financials Projections**

### **Pricing and Revenues**

ClubEd will charge a monthly membership fee of \$149.95. Competitive research indicates that this will be an attractive price. For example, the Learning Annex charges as much as \$40 per hour for its courses. The average ClubEd customer will attend four evenings per month, for a total of 6 hours. This price of \$25 per hour will still be significantly lower than the competition. (See Exhibit A) ClubEd will also charge a one-time \$200 membership fee, to

help perpetuate the image of an exclusive club. We expect to waive 50% of these membership fees over the first two years, for promotional reasons.

ClubEd will generate additional revenues from concessions. We expect to generate \$10 in revenue per customer per visit. We will sell a variety of drinks, in addition to books and other materials. These concessions, because they will consist primarily of alcoholic beverages, will provide a 50% margin.

ClubEd locations will steadily acquire new members during the first few months after opening. Each location will have a capacity of approximately 600 members per month (due to the desire to keep class sizes small). We expect each location to average approximately 550, once the location has developed (typically requiring 9-12 months).

### **Costs**

ClubEd will incur a number of costs that fall into two varieties: per-location costs and corporate overhead. The per-location costs will consist of rent, salaries for instructors and bartenders, and the wholesale costs of concessions. In addition, the opening of a new location will require expenditures for equipment and renovations.

Corporate overhead will include salaries for the executive team. To function effectively, ClubEd will need a CEO, a CFO, a COO, a marketing director, an HR specialist, and two analysts. However, the most significant corporate expenditure will be marketing, as ClubEd works to establish a brand. Marketing expenditures will exceed \$1 million in the first year of operations.

### **Location Openings, Net Income** (See attached exhibit)

ClubEd will aggressively penetrate the San Francisco Bay Area market by opening 20 locations during its first 15 months of operations. It will begin by opening one location, gaining expertise and experience in the process. Once this location has achieved its membership and revenue goals for the first six months, additional locations will open. The San Francisco Bay Area expansion will be complete within 15 months. Because of the costs incurred in opening a new location, combined with the marketing expenditures in the first year, ClubEd will incur a loss in its first year of operations. However, it will break even in month 16, earning a profit in just its second year of operations. (See Exhibit B) Once a site has reached full membership, it becomes quite profitable. (See Exhibit C)

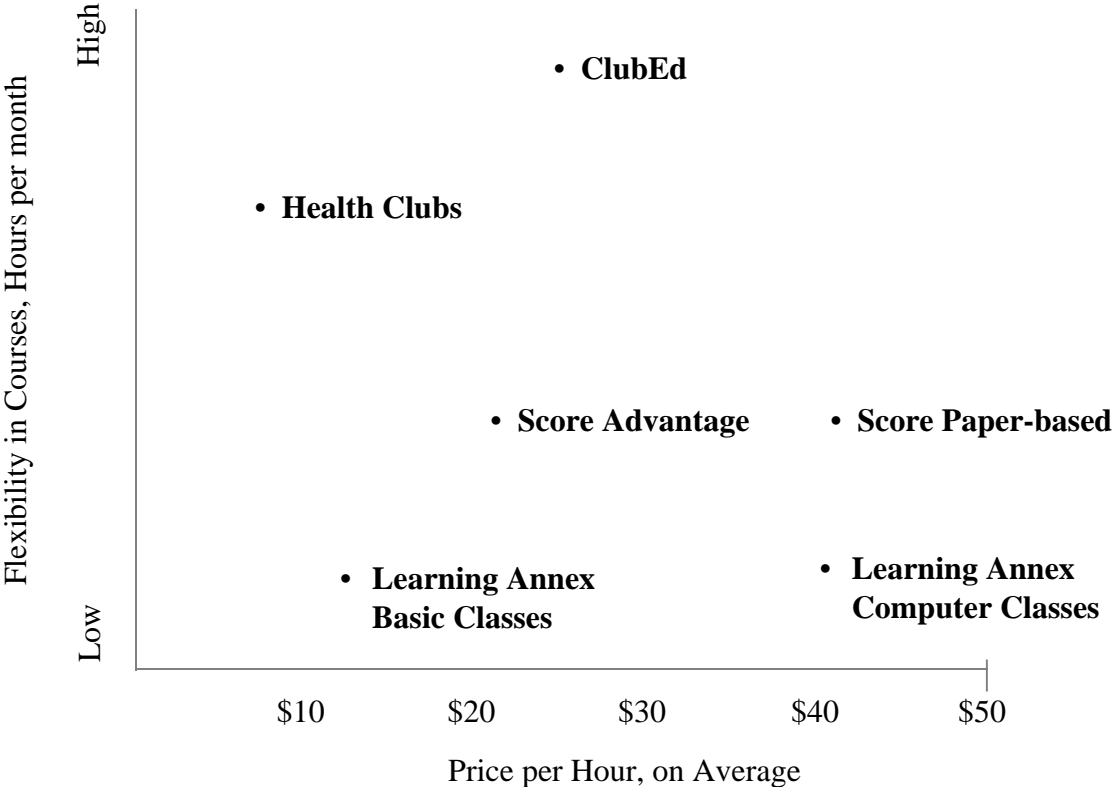
### **Investment Opportunity**

In order to open the first location, ClubEd will seek an initial cash investment of \$1.2 million. This will fund the first location for 6 months, in addition to the marketing campaign and overhead, until the location has proven its viability. In month 7, a second round of financing, totaling \$4.2 million, will be secured. This will finance the final 19 locations, supported in part by profits from the first location. The first round of investors will receive 4.2% of the equity of the company, and will earn a 213% return over three years. The second round of investors will receive 10.5% of the equity and earn a 120% return over two and a half years. ClubEd's initial valuation is \$27 million and will exceed \$88 million within three years.

**Expansion Plans**

Once the San Francisco locations have proven their viability and sustainability, after approximately three years, ClubEd will expand to other large metropolitan areas. ClubEd will fund this expansion through cash generated in equity sold to the financial markets through an Initial Public Offering. This IPO will allow the initial investors to fully recoup their investments.

**Exhibit A: Pricing for Comparable Classes in San Francisco**



## Exhibit B: ClubEd Income Statement, by year

	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>
Number of Stores	-	-	-	-	-
Number of Customers	13	21	21	21	21
Membership Revenues	\$ 1,582,510	\$ 16,544,128	\$ 20,783,070	\$ 20,783,070	\$ 20,783,070
Concession Revenues	\$ 336,000	\$ 1,722,000	\$ 2,772,000	\$ 2,772,000	\$ 2,772,000
<u>Total Revenues</u>	<u>\$ 1,918,510</u>	<u>\$ 18,266,128</u>	<u>\$ 23,555,070</u>	<u>\$ 23,555,070</u>	<u>\$ 23,555,070</u>
Cost at sites	\$ 4,143,500	\$ 10,683,375	\$ 9,702,000	\$ 9,702,000	\$ 9,702,000
Overhead Costs	\$ 2,092,000	\$ 1,012,000	\$ 1,012,000	\$ 1,012,000	\$ 1,012,000
<u>Total Costs</u>	<u>\$ 6,235,500</u>	<u>\$ 11,695,375</u>	<u>\$ 10,714,000</u>	<u>\$ 10,714,000</u>	<u>\$ 10,714,000</u>
Income Before Taxes	\$ (4,316,990)	\$ 6,570,753	\$ 12,841,070	\$ 12,841,070	\$ 12,841,070
Taxes	\$ (1,726,796)	\$ 2,628,301	\$ 5,136,428	\$ 5,136,428	\$ 5,136,428
<u>Net Income After Taxes</u>	<u>\$ (2,590,194)</u>	<u>\$ 3,942,452</u>	<u>\$ 7,704,642</u>	<u>\$ 7,704,642</u>	<u>\$ 7,704,642</u>

## Exhibit C: ClubEd Cash Flows Per Location, Year 1

	<b>Months</b>					
<b>Revenues</b>	<b><u>1</u></b>	<b><u>2</u></b>	<b><u>3</u></b>	<b><u>4</u></b>	<b><u>5</u></b>	<b><u>6</u></b>
Customers	100	150	200	250	300	350
Revenue Per Customer	\$ 149.95	\$ 149.95	\$ 149.95	\$ 149.95	\$ 149.95	\$ 149.95
Total Membership Revenue	\$ 14,995	\$ 22,493	\$ 29,990	\$ 37,488	\$ 44,985	\$ 52,483
Registration Revenue	\$ 10,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000
Concessions per customer	\$ 5	\$ 15	\$ 20	\$ 20	\$ 20	\$ 20
Total Concessions	\$ 500	\$ 2,250	\$ 4,000	\$ 5,000	\$ 6,000	\$ 7,000
<b>Total Revenues</b>	<b>\$ 25,495</b>	<b>\$ 29,743</b>	<b>\$ 38,990</b>	<b>\$ 47,488</b>	<b>\$ 55,985</b>	<b>\$ 64,483</b>
<b>Costs</b>	<b><u>1</u></b>	<b><u>2</u></b>	<b><u>3</u></b>	<b><u>4</u></b>	<b><u>5</u></b>	<b><u>6</u></b>
Lease	\$ 20,000	\$ 20,000	\$ 20,000	\$ 20,000	\$ 20,000	\$ 20,000
Utilities, etc	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000
Fixtures, equipment, maint	\$ 200,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000
Salaries	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000
COGS	\$ 250	\$ 1,125	\$ 2,000	\$ 2,500	\$ 3,000	\$ 3,500
<b>Total Costs</b>	<b>\$ 231,250</b>	<b>\$ 34,125</b>	<b>\$ 35,000</b>	<b>\$ 35,500</b>	<b>\$ 36,000</b>	<b>\$ 36,500</b>
<b>Income</b>	<b>\$ (205,755)</b>	<b>\$ (4,383)</b>	<b>\$ 3,990</b>	<b>\$ 11,988</b>	<b>\$ 19,985</b>	<b>\$ 27,983</b>