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IMPLEMENTATION OF DIGITAL TECHNOLOGIES IN FRANCHISED FITNESS CLUBS AS A STRATEGY FOR SMES DEVELOPMENT

The article examines the strategic challenges of small and medium-sized enterprise (SME) development in the service sector under conditions of economic instability and military conflict. The preconditions for the stagnation of traditional franchise models were studied, particularly in the context of the strengthening economic crisis and the “digital divide” between SMEs and market leaders. The component indicators of the financial and economic activity of the “Atletico” fitness club network were analyzed for the period 2022–2024. The monitoring revealed a critical contraction in business scale, characterized by a 30.6% decrease in net income and a 76.7% reduction in personnel. The paper also estimates the level of digital maturity of the enterprise compared to key competitors, identifying a critical lag in the implementation of mobile applications and automated management systems. The authors considered the key directions for the transformation of the network’s operational model. It was found that the main goal of the proposed strategy is the unification of operational processes through the implementation of a centralized digital ecosystem. This ecosystem includes modules for customer relationship management (CRM) and a client mobile application designed to increase retention. The economic feasibility of the proposed investments was examined using the discounted cash flow (DCF) method. The calculated economic model demonstrates that the implementation of the unified system will generate an annual economic effect of UAH 2.518 million. The result of the authors’ scientific research is the confirmation of the investment attractiveness of the project: the Net Present Value (NPV) is UAH 1.075 million and the payback period is within 3.6 years.

Keywords: *SME development, digital transformation, franchise management, fitness industry, operational efficiency, SWOT analysis*

JEL classification: *M15, M21, O33*

У статті досліджено стратегічні виклики розвитку малого та середнього підприємництва (МСП) у сфері послуг в умовах економічної нестабільності та військового конфлікту. Вивчено передумови стагнації традиційних франчайзингових

моделей, зокрема в контексті посилення економічної кризи та «цифрового розриву» між МСП та лідерами ринку. Проаналізовано складові індикатори фінансово-економічної діяльності мережі фітнес-клубів ТОВ «Атлетіко» за період 2022–2024 рр. Моніторинг виявив критичне скорочення масштабів бізнесу, що характеризується зменшенням чистого доходу на 30,6% та скороченням персоналу на 76,7%. У статті також оцінено рівень цифрової зрілості підприємства у порівнянні з ключовими конкурентами, виявлено критичне відставання у впровадженні мобільних додатків та автоматизованих систем управління. Автори розглянули ключові напрями трансформації операційної моделі мережі. Виявлено, що основною метою запропонованої стратегії є уніфікація операційних бізнес-процесів шляхом впровадження централізованої цифрової екосистеми. Ця екосистема включає модулі управління взаємовідносинами з клієнтами (CRM) та клієнтський мобільний додаток. Автори розглядають економічну доцільність запропонованих інвестицій, використовуючи метод дисконтованих грошових потоків (DCF). Розрахована економічна модель демонструє, що впровадження уніфікованої системи забезпечить щорічний економічний ефект у розмірі 2,518 млн грн. Результатом наукового дослідження стало підтвердження інвестиційної привабливості проекту: чиста приведена вартість (NPV) становить 1,075 млн грн, а термін окупності – в межах 3,6 року.

Ключові слова: розвиток МСП, цифрова трансформація, управління франшизою, фітнес-індустрія, операційна ефективність, SWOT-аналіз

JEL classification: M15, M21, O33

Problem Statement. The recovery of Ukraine's SME sector under martial law and economic instability largely depends on enterprises' ability to adapt to the digital economy. Since ensuring the competitiveness of small businesses today is a guarantee of the country's social and economic stability [3], the need for the development and implementation of comprehensive digital ecosystems is growing. Innovations in the service sector have long gone beyond purely marketing tools; they are now fundamental to operational survival [13]. Along with the general economic decline caused by the war, the service sector faces specific challenges related to changing consumer behavior and the aggressive expansion of technologically advanced large corporations [5]. One of the main tasks of franchised networks in Ukraine is creating the prerequisites for centralized quality control and standardized services. That is why the study of the digital component of SME development in Ukraine is extremely relevant.

Literature Review. The theoretical basis for understanding the challenges of SME growth is multidimensional. Classical economic theory, represented by J. Schumpeter, defines innovation as the primary driver of economic development and the "creative destruction" of obsolete business models [10]. In the context of the modern digital economy, this theory has evolved into the concept of "digital disruption", in which traditional SMEs risk being forced out of the market by technologically advanced competitors.

M. Porter made significant contributions to the study of competitive strategy, arguing that sustainable competitive advantage stems from either cost leadership or differentiation. For SMEs in the service sector, digital transformation offers a unique opportunity to achieve both: reducing operational costs through automation while simultaneously differentiating the service product through personalized digital experiences [9].

However, the specific constraints of SMEs require a distinct theoretical approach. J. Bolton, D. Storey and P. Wyncarczyk emphasize that SMEs are not simply “scaled-down” versions of large firms; they face unique “resource poverty” and higher uncertainty [1; 12; 16]. Institutional theory, developed by D. North, further explains that SMEs are disproportionately affected by the external institutional environment, including regulatory frameworks and access to finance [7; 15].

In the current landscape, the OECD emphasizes that the digital transformation has posed fundamentally new challenges for SMEs, related to the need to quickly master digital technologies and ensure cybersecurity [8]. Empirical research demonstrates that digital tools significantly enhance enterprises’ resilience to external shocks. Yet, a “digital divide” persists. According to the European Commission, while SMEs are defined by quantitative criteria (fewer than 250 employees) [4], and often contrasted with the industry-specific standards used in the United States [14], their survival often depends on qualitative managerial competencies to overcome the “liability of smallness”.

Task Statement. The purpose of the article is to examine the role and trends of digital technology adoption in franchised fitness clubs, identify the root causes of operational stagnation in traditional business models through the case of “Atletico” LLC, and substantiate the economic feasibility of a comprehensive digital transformation strategy.

Results. Addressing operational efficiency and digital maturity is of great importance for organizations’ pathway to Industry 5.0, including the fitness sector today [6]. This is particularly connected to the significant contraction of the market due to the war and the migration of the solvent population [11]. The analysis of “Atletico” LLC’s economic activities for 2022–2024 reveals a systemic crisis. Net income from services decreased from UAH 16.9 million in 2022 to UAH 11.7 million in 2024. While the company managed to restore profitability to 1.81% in 2024 through radical cost-cutting, including reducing staff from 30 to 7 employees, this “hollowed-out” structure lacks the capacity for effective management [11].

The empirical analysis of “Atletico” LLC’s economic activities for the period 2022–2024 reveals a systemic crisis within the traditional franchise business model. While the franchise approach allowed the company to minimize capital expenditures during a volatile period, it failed to insulate the network from severe revenue contraction. The financial data indicates a significant reduction in the scale of operations: net income from service sales fell from UAH 16.9 million in 2022 to UAH 11.7 million in 2024, a 30.62% decline.

This contraction was accompanied by a radical optimization of the organizational structure. To maintain profitability, the company reduced its workforce by 76.67%, shrinking from 30 employees to just 7 key staff members. While this aggressive cost-cutting allowed the enterprise to restore a positive profitability rate of 1.81% in 2024 (recovering from a net loss in 2023), it resulted in a “hollowed-out” management structure. The remaining personnel burden creates significant operational risks, as the current team lacks the capacity to effectively monitor quality standards across the distributed franchise network. The analysis confirms that the company achieved short-term financial survival at the expense of its long-term operational capability.

A comparative analysis with key market competitors highlights the technological backwardness of “Atletico” LLC as a primary barrier to growth. While the company relies on a basic web presence and local SEO, market leaders such as “SportLife” and “Fitness House” have aggressively adopted “Phygital” (physical + digital) strategies. The comparative analysis of the digital maturity of the enterprise against these key competitors is presented in Table 1.

Table 1

Comparative analysis with competitors*

Metric	LLC “Atletico”	SportLife	Fitness House
App Presence	No	Yes	Yes
Instagram Followers	28 thousand	100 thousand	50 thousand
Online Bookings	Partially	Fully	Fully
IoT in Equipment	No	Yes	Partially

* *Source: compiled by the authors based on the data of LLC “Atletiko”*

The analysis shows that competitors have fully integrated mobile applications, online booking systems, and IoT (Internet of Things) equipment into their service delivery. In contrast, “Atletico” lacks a proprietary mobile application, limiting its ability to engage customers outside the physical gym environment. This digital gap has direct economic consequences: the lack of automated engagement tools prevents the implementation of effective retention strategies, leaving the company vulnerable to customer churn. Furthermore, the company’s digital marketing is fragmented, relying on organic social media reach rather than data-driven performance marketing, which is insufficient to attract a younger, digital-native demographic.

The internal and external strategic position of the enterprise was synthesized through an Extended SWOT Analysis, the results of which are summarized in Table 2.

Table 2

SWOT ANALYSIS*

STRENGTHS (S)	WEAKNESSES (W)
Maintained a continued operational presence and recognition primarily within local markets for many years. Allows for expansion into new markets without relying on exclusive corporate funding. Experienced Management: The team possesses extensive industry knowledge derived from long-term participation in service operations. The franchise agreement distributes operational risk across various independent locations. Occupies the mid-price segment, differentiating itself from budget competitors through higher perceived value.	Variations in customer experience across locations due to a lack of standardized operational processes. Absence of online booking, CRM systems, and mobile applications limits customer convenience and interaction. Unclear definitions of roles and incomplete documentation of standard operating procedures. Mechanisms identify problems only after they occur, lacking proactive monitoring techniques. Lacks advanced digital competencies and data analysis capabilities to manage effective multi-channel campaigns.

End of Table 2

OPPORTUNITIES (O)	THREATS (T)
<p>Growing urban population increasingly aware of the benefits of lifestyle and immunity-boosting exercise post-COVID.</p> <p>Increasing consumer willingness to embrace mobile-first experiences and online platform engagement tools.</p> <p>Potential to form strategic partnerships or receive subsidies through wellness and physical activity programs.</p> <p>Advanced digital solutions have become affordable enough for implementation by SMEs.</p> <p>Potential for partnerships with nutrition and sports medicine providers to expand revenue streams</p>	<p>Entry of well-established chains with strong brand recognition and superior operational resources.</p> <p>Fluctuations in disposable income make the target demographic more price-sensitive.</p> <p>Growth of both low-cost budget options and high-end boutiques places pressure on the company's pricing strategy.</p> <p>Potential increases in labor costs, taxation burdens, or compliance requirements.</p> <p>Potential loss of customer confidence resulting from data breaches or mishandling of personal information.</p>

*Source: compiled by the authors based on the data of LLC "Atletiko"

The SWOT analysis reveals a critical strategic contradiction: the company possesses a strong local brand reputation and a flexible cost structure (Strengths), but these are undermined by a lack of digital infrastructure and operational standardization (Weaknesses). This vulnerability is exacerbated by the aggressive expansion of technologically advanced competitors (Threats). The strategic imperative, therefore, is to leverage the franchise model's flexibility to rapidly deploy a unified digital infrastructure, converting these weaknesses into opportunities for scaling.

To scientifically substantiate the economic feasibility of this strategic transformation, a financial model was developed based on standard investment analysis metrics. The primary tool for assessing the risk of capital allocation was the determination of the **Payback Period**, calculated using the following formula:

$$\text{Payback Period} = \frac{\text{Total Initial Investment}}{\text{Net Cash Flow from Operations Per Year}} \quad (1)$$

Where the *Total Initial Investment* includes costs for software development, standardization, and infrastructure (UAH 4.298 million), and *Net Cash Flow* represents the projected annual economic effect (UAH 1.724 million).

Additionally, to forecast the revenue growth driven by the digital ecosystem specifically through the mobile application, a Cohort-Based Revenue Model was applied. This model isolates the value generated by new customer cohorts and improved retention rates:

$$\text{Annual Revenue} = \text{Active Customers} \times \text{Monthly Subscription Price} \times 12 \text{ Months} \quad (2)$$

This formula allows for the precise calculation of the incremental income generated by the first cohort of customers recruited via digital channels, excluding

the baseline revenue from existing members. Applying these formulas confirms that the operational unification initiative achieves a payback period of **1.55 years** (UAH 2.673 million / UAH 1.724 million), validating the high investment attractiveness of the proposed strategy.

To overcome the identified growth barriers, a strategy for the comprehensive unification of operational processes is proposed. The core of this strategy is the implementation of a Unified Digital Ecosystem that integrates all franchise units into a single information network. This moves the management model from “reactive” (fixing problems after they occur) to “preventive” (real-time monitoring).

The proposed ecosystem consists of six integrated modules designed to centralize control and automate routine tasks, as detailed in Table 3.

Table 3

Proposed improved component structure of a digital operating platform*

System module	Functionalities	Users	Implementation period	Estimated cost, thousand UAH
CRM for customers	Visitor registration, subscription history, freeze management, automatic reminders	Franchisee administrators, franchisee support manager	3 months	280
Training planner	Group class schedule, personal session booking, hall occupancy accounting	Trainers, administrators, clients via mobile app	4 months	320
Access control system	Integration with turnstiles, biometric identification, automatic attendance recording	Administrators, CEO	2 months	150
Inventory management	Equipment accounting, maintenance planning, repair requests	Franchisee administrators, standardization specialist	2 months	120
Financial module	Cash transactions, revenue reporting, revenue structure analysis, accounting integration	Administrators, chief accountant	3 months	220
Analytical panel	Consolidated network reporting, comparative location analysis, forecasting	CEO, franchise development manager	2 months	180
Total			16 months	1270

*Source: compiled by the authors

In parallel with technological implementation, the operational standards must be formalized. The current reliance on ad-hoc inspections is replaced by

a standardized quality control system facilitated by digital tools. This includes the use of video monitoring and automated data anomaly detection to identify deviations in service quality before they impact customer satisfaction.

The central element of the digital transformation strategy is the development of a proprietary mobile application. In the modern fitness industry, an app is not merely a booking tool but a primary channel for customer retention and value creation. The proposed application functions as a “digital personal trainer” and community hub, addressing the lack of engagement identified in the diagnostic phase.

Key functionalities of the application include frictionless booking, which enables users to book classes or trainer slots instantly, significantly increasing attendance rates compared to phone-based booking. The application also features a training tracker that serves as a digital log for workouts and progress, accompanied by a library of video exercises that adds value to the basic gym membership. Furthermore, the system incorporates gamification through achievements, challenges, and leaderboards that utilize psychological motivation to increase visit frequency. Finally, the application includes social platform features that allow users to find workout partners and share achievements, fostering a sense of community that acts as a barrier to exit.

To support these technological changes, the marketing function must transition from a generalist approach to a specialized, data-driven model. The current single-person marketing structure is insufficient. The strategy requires expanding the marketing team to include performance marketers and content creators capable of executing omnichannel campaigns. The new marketing strategy focuses on specific conversion funnels for “cold” and “warm” audiences, utilizing targeted digital advertising to drive traffic to the new mobile platform.

The implementation of these strategic initiatives requires significant capital investment [2], but the financial modeling confirms their long-term viability and high return on investment. The total one-time investment required for the comprehensive transformation is estimated at UAH 4.298 million. This capital expenditure is comprised of UAH 2.673 million allocated for the Unified Operational System, which covers software development, standardization, and training infrastructure, and UAH 1.625 million designated for the development and launch of the Mobile Application. In addition to these initial costs, the annual operating expenses necessary for maintaining the system and funding the expanded marketing team are projected to be UAH 7.174 million.

Despite these significant upfront costs, the project is expected to generate substantial economic value through a combination of cost optimization and revenue growth. Specifically, the implementation of the mobile app and improved service standards is projected to drive an 11% increase in the customer retention rate, which is a critical value driver for a subscription-based business and is estimated to generate approximately UAH 648,000 in additional annual revenue. Furthermore, the automation of reception tasks such as access control and booking allows for a reduction in administrative labor hours, resulting in annual savings of UAH 1.15 million across the network. Finally, centralizing equipment procurement through the unified ecosystem enables the company to secure bulk discounts of 20%, leading to an additional UAH 432,000 in annual savings. The detailed calculation of the total annual economic effect generated by these initiatives is provided in Table 4.

Table 4

Calculation of the economic effect of implementing a digital ecosystem*

Source of economic effect	Benefit generation mechanism	Calculation per location	Effect on the network (12 points), thousand UAH/year
Improved customer retention	11% increase in retention rate due to increased satisfaction	$300 \text{ clients} \times 1,500 \text{ UAH} \times 11\% \times 12 \text{ months}$	648
Reduced administrative costs	0.5% administrator rate savings due to automation	$8,000 \text{ UAH/month} \times 12 \text{ months}$	1 152
(Technical support costs)	Ongoing costs for hosting and platform maintenance	-	(180)
Centralized equipment procurement	20% discounts from manufacturers for bulk purchases	$180,000 \text{ UAH} \times 20\%$	432
Reduced service costs	12% savings due to equipment standardization	$60,000 \text{ UAH} \times 12\%$	86
Reduced staff turnover	Reduction in recruitment costs due to improved training	15,000 UAH savings/location	180
Reduced reputational risks	Avoidance of losses from incidents due to preventive control	Estimated	200
Total annual economic effect			2 518

*Source: compiled by the authors

The consolidated financial model demonstrates that the project is highly solvent. Specifically, the Net Present Value (NPV), calculated at a discount rate of 15.5% to reflect inflation and operational risks, yields a positive result of UAH 1.075 million over a 4-year horizon. Furthermore, the project delivers an Internal Rate of Return (IRR) of 19.3%, which exceeds the cost of capital and confirms the investment's attractiveness. Regarding the payback period, the operational unification initiative alone is projected to pay back in 1.55 years, while the fully consolidated project, which includes significant marketing investments, achieves a discounted payback period of 3.6 years. The forecast of cash flows and the calculation of the Net Present Value (NPV) are presented in Table 5.

The analysis of the cash flow dynamics presented in Table 5 illustrates the cumulative impact of the proposed digital strategy. While the initial investment phase results in negative cash flows in the first year, the layering of gross profits from successive customer cohorts demonstrates the compound effect of improved customer retention and acquisition. The transition to positive net cash flows by the second year indicates that the operational efficiencies gained from automation, combined with the marketing funnel improvements, rapidly begin to offset the initial capital expenditures.

Table 5

Calculation of cash flows and NPV of the project (discount rate 15.5%)*

Indicator	Year 0	Year 1	Year 2	Year 3	Year 4
INVESTMENTS AND COSTS					
One-time investments	-4 298	0	0	0	0
Annual operating costs	0	-7 174	-7 174	-7 174	-7 174
BENEFITS					
Economic benefits from unification	0	3 490	3 761	4 076	4 441
Gross profit from cohort 1	0	3 077	2 000	1 300	845
Gross profit from cohort 2	0	0	3 077	2 000	1 300
Gross profit from cohort 3	0	0	0	3 077	2 000
Gross profit from cohort 4	0	0	0	0	3 077
Cash flow (CF)	-4 298	-607	1 664	3 279	4 489
Discount rate (15.5%)	1.000	0.866	0.750	0.649	0.562
Discounted CF	-4 298	-526	1 248	2 128	2 523
Cumulative discounted CF	-4 298	-4 824	-3 576	-1 448	1 075

*Source: compiled by the authors

Ultimately, these financial indicators validate the hypothesis that digital transformation is a solvent and necessary strategic pivot for “Atletico” LLC. An Internal Rate of Return of 19.3% significantly surpasses the typical cost of capital for SMEs in this sector, providing a financial safety margin against inflationary risks. This confirms that the implementation of the Unified Digital Ecosystem is not merely an operational upgrade, but a fundamental driver of long-term economic value and competitive resilience in the face of market consolidation.

Conclusions The findings of the research conducted on the Atletico LLC franchise network demonstrate that for Small and Medium-Sized Enterprises (SMEs) operating in the Service Sector, digital transformation is now no longer merely a competitive advantage or a method of gaining a competitive edge; however, digital transformation has become a necessary condition for the long-term viability of SMEs in a rapidly changing economic climate. A diagnostic examination of the company demonstrated that while there was still strong demand within the marketplace, the primary limiting factor in the ability of the company to grow was its outdated management model which would be unable to expand without jeopardizing service quality. Although transitioning to a franchise model had provided the company with short term financial stability during the economic downturn, the transition also created operational risks as the company lacked a central management structure, and the management structure had been “hollowed out”.

In order to address these structural shortcomings, this study validates the need to implement a Unified Digital Ecosystem as part of a comprehensive strategic plan. The proposed Unified Digital Ecosystem comprises a centralized Customer Relationship Management (CRM), automatic access controls, and a proprietary mobile application designed to eliminate the source of the company’s stagnant growth by moving from a “reactive” audit-based management approach to a

“proactive” monitoring-based management approach utilizing digital tools. The proposed digital transformation will bridge the “digital gap” that exists between the company and industry leading competitors, providing a higher-value and more engaging community-based customer experience that will be critical to retaining customers.

The economic feasibility of the proposed digital transformation is clearly demonstrated through financial modeling. In spite of the significant upfront capital costs of approximately UAH 4.298 million, the project is expected to provide solid returns with a Net Present Value (NPV) of approximately UAH 1.075 million, and an Internal Rate of Return (IRR) of 19.3%. The proposed digital transformation is expected to generate significant value through two distinct channels: cost reduction (approximately UAH 1.15 million annually in reduced administrative costs); and increased revenue (approximately UAH 648,000 annually through an 11% increase in customer retention). With a payback period of approximately 3.6 years, the proposed digital transformation represents a highly productive investment opportunity for the company as opposed to being a non-recoverable operational expense.

Ultimately, this study provides a replicable business roadmap for franchised SMEs to follow. By using technology to integrate their operations and improve customer engagement, SMEs are able to transcend what is referred to as a “resource trap,” and transform from a defensive cost-cutting strategy to an offensive strategy for expanding their markets in a sustainable manner.

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