



Report to: General Committee

Date Report Authored: June 5, 2012

SUBJECT: Fitness Centre Update
PREPARED BY: Colin Service, Manager of Planning & Standards

RECOMMENDATION:

- 1) THAT the report entitled "Fitness Centre Update" be received; and
- 2) THAT Staff continue to monitor and implement strategies to increase awareness and promotion of Fitness Centre as outlined in this report;
- 3) THAT Staff report back in Fall 2012 on the various initiatives outlined in this report;
- 4) THAT Staff engage a pricing consultant to undertake pricing elasticity testing to determine optimal pricing, utilizing funds within existing operating budget to engage a consultant;
- 5) THAT Fitness Centre Memberships be excluded from the annual Consumer Price Index Fee increases scheduled for September, 2012; and
- 6) THAT Staff be authorized and directed to do all things necessary to give effect to this resolution.

EXECUTIVE SUMMARY:

The Town of Markham currently operates two fitness centres which have experienced a decline in memberships over the last two years. This decline in membership is similar in trending witnessed by YMCA's across the country over the last twenty years post significant renovation.

Extensive efforts in better understanding existing members and reaching out for new members have been taken. These marketing efforts have had little effect to date.

A variety of other issues including Business & Operating Practices, and Price & Packaging are continuing to be explored to address this downward trending in memberships.

PURPOSE:

The purpose of this report is to update Council on the current state of memberships at the Town of Markham Fitness Centres. As well, the purpose is to seek exemption for Fitness Memberships from the annual Consumer Price Index fee increase.

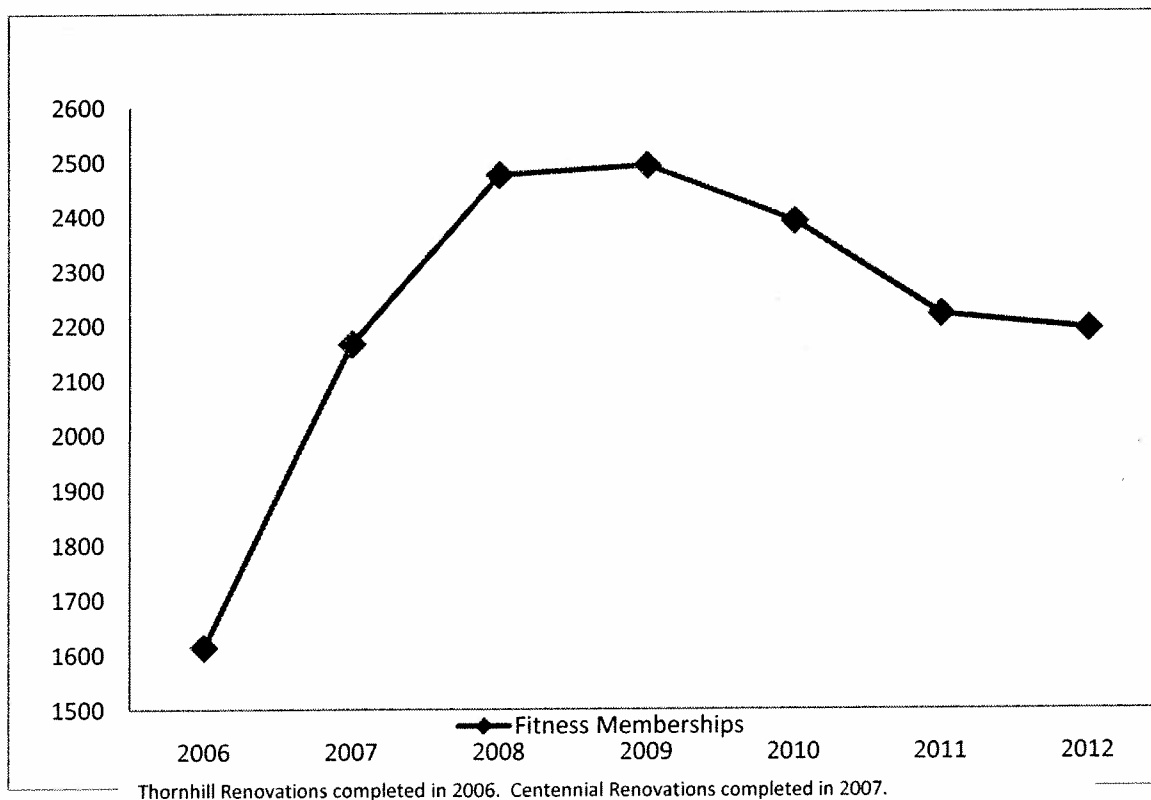
BACKGROUND:

The Town of Markham currently operates two fitness centres with a third centre scheduled to open in Cornell Community Centre & Library.

The following chart demonstrates the total number of members as of March 31 annually for the last six years (for a detailed breakdown of each Centre, see Appendix A):

Membership Category	2006 Total	2007 Total	2008 Total	2009 Total	2010 Total	2011 Total	2012 Total
Couple – New	76	133	124	98	91	87	106
Couple – Renewal	197	231	302	329	323	308	283
Adult – New	421	681	653	549	492	390	373
Adult – Renewal	435	448	597	674	687	619	554
Senior – New	69	99	100	111	95	96	104
Senior – Renewal	203	238	307	356	402	449	504
Student	212	336	392	375	300	270	268
TOTAL # of Members	1613	2166	2475	2492	2390	2219	2192
Change by %		34.9	14.3	0.01	-7.8	-7.2	-1.2

The following graph depicts this trending in Markham Fitness Memberships:



As is demonstrated, there has been an overall decline in total memberships. There are a number of external factors that have influenced memberships:

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- Increased competition within the Fitness Industry – IHRSA (International Health and Racquet Sport Association) in its global report sites the number of fitness clubs in Canada has grown by 20%, while the number of people joining fitness clubs for the first time has grown by only 5%.
 - Membership decline has corresponded with a significant downturn in the economy – there is less disposable income dedicated to leisure in households across the country. According to Canadian Fitness Industry Council there has been a significant attrition rate in the number of Canadians belonging to a Fitness Club – in 2006 approximately 20% of the population were members of a Fitness Club compared with 15% of the population in 2011.

Nothing can be done to control the external factors that influence memberships. However there are also a number of internal factors that have influence over membership levels. These factors include:

- Effects of Expansion, or Significant Renovation
- Marketing
- Business & Operating Practices
- Price & Packaging

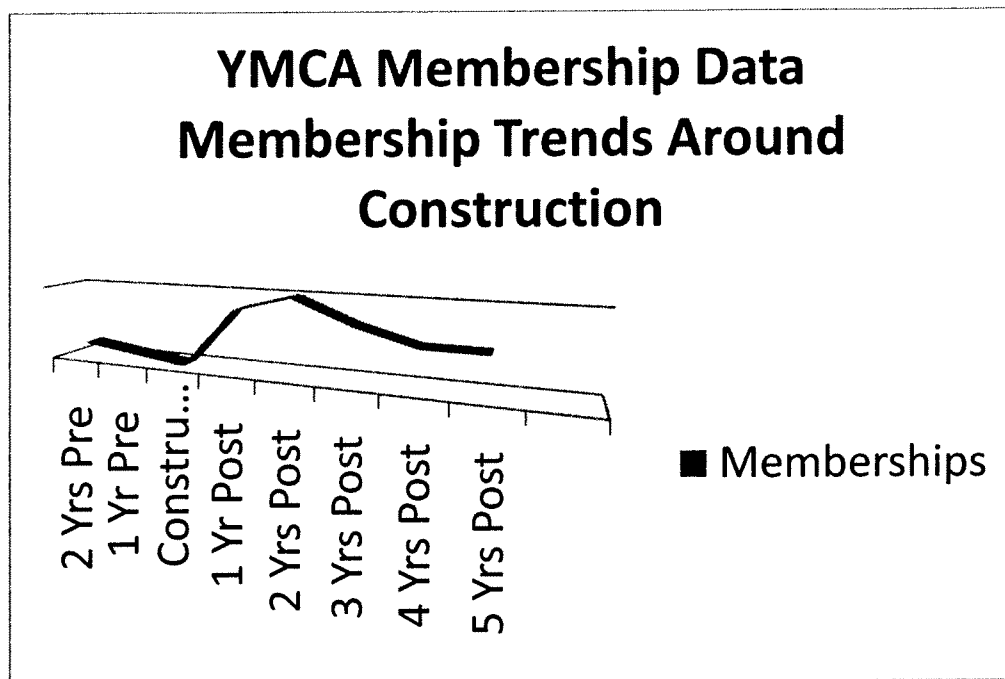
Each of these factors will be explored in further depth.

OPTIONS/ DISCUSSION:

Effects of Expansion, Significant Renovations:

Between 2006 and 2008 both Fitness Centres underwent significant renovation. As is demonstrated in the membership trending, post construction membership numbers rose significantly. This is very common within the fitness industry. After opening, expansion or significant renovations membership numbers will typically peak for a couple of years and then begin declining. YMCA Canada, the closest competitor to a municipal fitness facility provider, and one of the longest standing fitness centre providers in Canada has done a great deal of research on trends pre, during and post renovations or construction.

For the last 20 years, YMCA Canada has been compiling data from YMCA's across the country that underwent major renovations to determine if any commonalities existed in membership trending post renovation. Their findings showed a consistent pattern where memberships would peak 1 to 2 years after construction, dip in year 3 to 4 and stabilize at lower levels from the peak in year 4 to 6. The stabilized numbers are consistently higher than numbers of memberships prior to renovation. This is demonstrated in the graph below:



If you compare the Markham Fitness Centres with the historical patterns in YMCA's research, it shows that the trending in memberships at Markham Fitness Centres is very consistent with what is witnessed in Fitness Facilities across the country post major renovation. Research shows that the number of members at stabilization point is higher than the number of members pre construction, but is lower than the number of members at peak point.

The Markham YMCA also noticed a similar trend when they opened their facility in that they peaked 1 to 2 years post opening, experienced a dip in membership and then have stabilized at a lower number of members from its peak.

Marketing:

The Markham Fitness Centres have traditionally operated with very little marketing. Historically, marketing consisted of production of a flyer for distribution within the Fitness Centre as well as two pages dedicated within the Markham Life Publication. In response to the declining membership numbers, a number of other initiatives were developed and implemented. These include:

- Use of Environics Analytics to better understand Membership Demographics
- Increased presence in local media
- Development of QVR Code and Commercial
- Surveying of former members with invitations back to the facilities

Each of these initiatives will be explained further.

Data From Environics Analytics:

Environics Analytics is a research and marketing company that specializes in demographic analysis and market segmentation. They conducted a comprehensive study of fitness membership statistics as part of an ongoing contract with the Town of Markham.

Environics Analytics uses a tool identified Prizm Segmentation where neighbourhoods are classified into one of 66 lifestyle types. These lifestyle types are then thoroughly profiled including media preferences, leisure preferences, etc. The lifestyle types present within our fitness centres was identified, as well as potential neighbourhoods that would traditionally make use of fitness centres. (To view the complete report produced by Environics Analytics please see Appendix B.)

For the purposes of this presentation, two areas of focus will be highlighted:

- Income Levels of Existing Membership
- Proximity to Fitness Centres

Income and location are the two most dominant factors determining membership within the fitness industry.

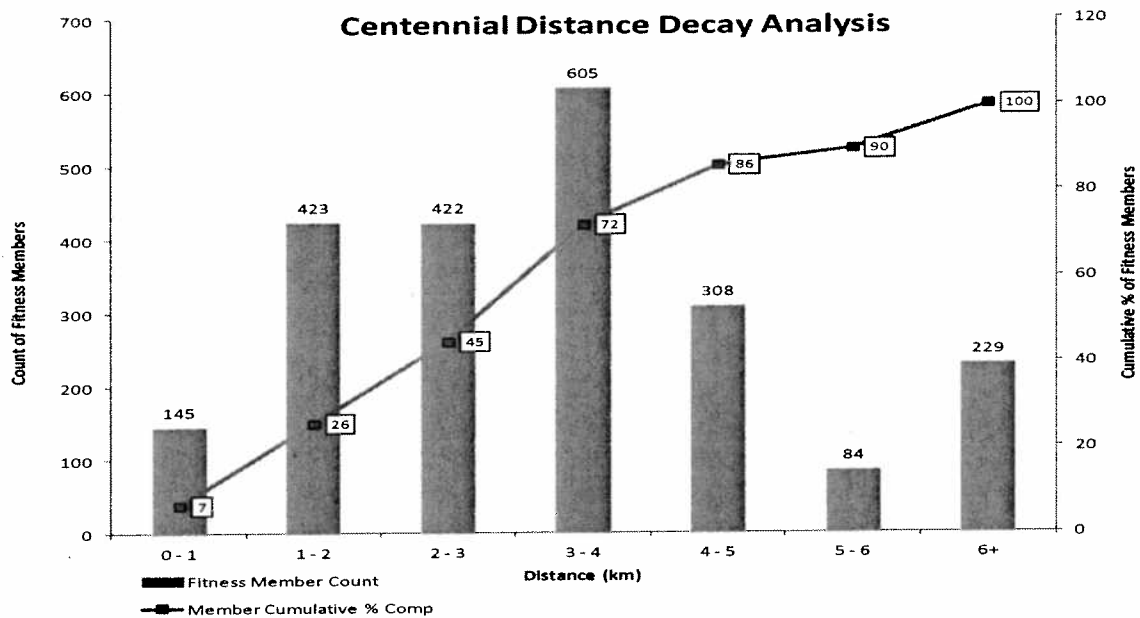
The following chart demonstrates the income profile of Markham Fitness Centre Members:

Town of Markham - Parks & Recreation Fitness Centre Analysis - Income Summary Thornhill Fitness Centre & Centennial Fitness Centre												
Location	Total Members		<\$45K		\$45K to \$75K		\$75K to \$98K		\$98K to \$130K		\$130K+	
	Count	% Comp	Count	% Pen	Count	% Pen	Count	% Pen	Count	% Pen	Count	% Pen
Total Geocoded Fitness Members	3,955	100.00	17	0%	145	4%	776	20%	1,447	37%	1,438	36%
Within Thornhill Fitness Centre 3km Trade Area	1,343	34.0	8	1%	31	2%	236	18%	406	30%	662	49%
Outside Thornhill Fitness Centre 3km Trade Area	250	6.3	3	1%	36	14%	61	24%	78	31%	72	29%
Thornhill Fitness Centre Total	1,593	40.3	11	1%	67	4%	297	19%	484	30%	734	46%
Within Centennial Fitness Centre 4km Trade Area	1,600	40.5	0	0%	26	2%	329	21%	674	42%	571	36%
Outside Centennial Fitness Centre 4km Trade Area	630	15.9	6	1%	52	8%	150	24%	289	46%	133	21%
Centennial Fitness Centre Total	2,230	56.4	6	0%	78	3%	479	21%	963	43%	704	32%
Thornhill Community Centre Member Not Found	37	0.9	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
Centennial Community Centre Member Not Found	95	2.4	0	0.00	0	0.00	0	0.00	0	0.00	0	0.00
Not Geocoded Total	132	3.3										

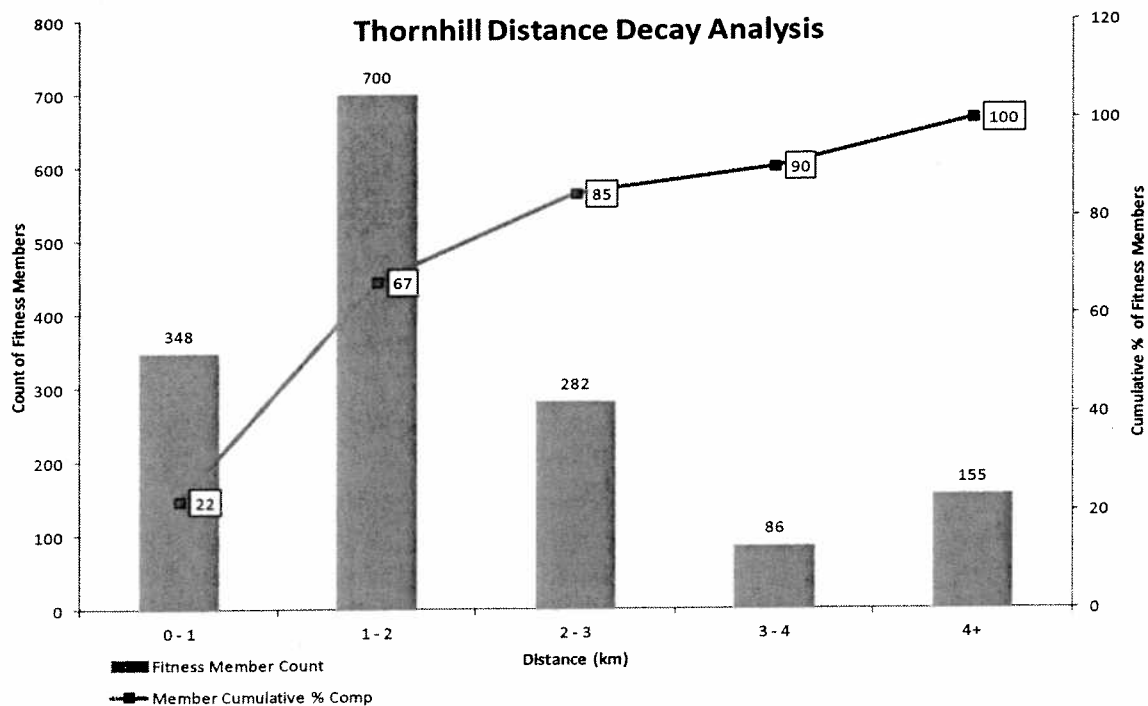
Of particular note, 73% of all fitness members come from a neighbourhood type which has an average household income of \$98,000 or greater with 36% of all fitness members come from a neighbourhood type which has an average household income of \$130,000 or greater.

It should be noted that the numbers provided in the Environics Data consider seasonal members, and day passes. However, the membership statistics provided on page 2 of the report only consider annual members. The income data remains relevant as it provides a picture of who is making use of the facility.

Location is a significant factor in selecting a fitness centre. The following charts demonstrate the proximity of current members to their prospective centres:



72 % of Centennial Members live within 4 km of the Centennial Fitness Centre.



85 % of Thornhill Fitness Members live within 3 km of the Thornhill Fitness Centre.

The data from Environics Analytics shows that the majority of the current membership is within 5 km of the facility in which they attend. This finding is consistent with the position of the Fitness Council of Canada's assertion that prospective members are looking for a facility that is within 5 km or 10 minutes of their departure point. As such, marketing efforts should be targeted in the 5 km radius surrounding our facilities.

The data from Environics Analytics also shows that the majority of members are from higher income brackets. While it is important to stipulate that no formal conclusions can be made by this data, more focus should be placed on reaching single individuals where their household income would certainly support fitness membership (ie. Single individuals in the \$45,000 to \$75,000 and \$75,000 to \$98,000 income brackets).

Increased Presence in Local Media:

It has been suggested through informal surveys of Community Centre patrons that many in the community are not aware that the Town of Markham even provides fitness centres to residences. This challenge is not unique to Markham. The Town of Markham participated in a Municipal Fitness Survey of a number of municipalities within the GTA, conducted by the JF Group. Most municipalities have identified that awareness of even having fitness centres continues to be a significant marketing challenge.

To address the issues around awareness, the Town has embarked on a greater local media presence. There has been information included on the Town web page more frequently. As well, the Town took out a half page colour ad. In all cases, the tone of the messaging has centred around the creating awareness of the state of the art facilities that are available at Centennial and Thornhill Community Centres. (To see a copy of the ad please see Appendix C.)

Development of QVR Code and Commercial:

In partnership with York Region Media Group, the Town of Markham produced a web based commercial. In this commercial the woman in the previous ad shared a testimonial as to her personal experiences as a member of a Markham Fitness Centre, highlighting all of the services and amenities available at the facilities.

As part of the commercial production, the Town was given a unique QVR Code that links directly to the commercial. This QVR Code has been included in subsequent media advertisements, and print ads.

Surveying of Former Members:

A telephone survey was conducted of former members who are no longer members of Markham Fitness Centres.

The feedback from members was overwhelmingly that they did not have time to utilize the facilities. However, this is often provided as an explanation for non participation in any leisure activity.

Former members also identified convenience of location, price, and program offerings as additional reasons for non renewal. In all cases, surveys were concluded with an invitation to return to the facility.

Marketing Summary:

Through the extensive marketing efforts to date, there has been little to no growth in new memberships. Marketing efforts will continue.

Further exploration should be done around development of a more comprehensive corporate membership package, a membership referral program, direct mail campaigns to targeted areas, and more effective use of social media. Staff will continue to explore these initiatives and corresponding costs and follow up with Council in a report specific to these marketing initiatives.

Business & Operating Practices:

While we have seen slight growth in some of the new membership categories in 2012, of most concern is the decline in numbers of members renewing their memberships. This is not a marketing issue as these are existing clients with a relationship with the facility.

An extensive review of the current business and operating practices has been reviewed, to determine changes that could positively impact membership retention. The following areas were identified as areas of opportunity:

- Payment Processes
- Renewal Processes
- Measurement of Key Performance Indicators
- Program Offerings & Benefits of Membership
- Revision of Membership Categories

Each of these will be explained further.

Payment Processes:

Currently, an individual can pay for a membership utilizing one of the following methods:

- Monthly credit card payment (billed automatically)
- By cheque (either paid in full, or four quarterly post dated cheques)
- By cash (when paid in full)

There is a growing number of consumers who are seeking payment options that allow for monthly payments directly from bank accounts (Electronic Funds Transfer – EFT). This method of payment is becoming more widely available in all aspects of bill payments.

The current software does not allow for EFT payments. However, an additional module of CLASS can be purchased at a one time fee of \$900 that will enable EFT payments.

The Town will be purchasing this module to enable existing and prospective members the opportunity to pay membership dues via EFT.

Renewal Processes:

When a membership comes up for renewal, the current practice is to send a letter informing the member of the expiration date of membership, new fees and how to renew the membership. The member must then physically come in to the Centre to renew the membership. If the member does not come in then the membership expires and is no longer useable.

This process is very rare within the fitness industry. Most fitness facilities will automatically renew memberships, and require you to physically cancel, rather than require you to physically renew. The renewal process is cumbersome – those individuals who are not committed to fitness or committed to Markham Fitness Centres are far more likely to let memberships lapse rather than renew as a result of this process.

By migrating membership payment processes to Electronic Fund Transfer payments, this will enable Markham Fitness Centres to also switch to an automatic renewal process. Staff will work with finance to implement an automatic renewal process upon implementation of EFT payments.

Measurement of Key Performance Indicators:

Within the fitness industry, there are two key performance indicators (KPI's) that are regularly measured to determine the overall health of the operation - these are membership retention rate and penetration rate.

A membership retention rate refers to the number of members on a given date who are still members one full year later. Currently, the membership retention rate for Markham Fitness Centres is 67%. This is considered adequate – a strong membership retention rate is 75% or higher. Monthly measurement of this statistic is now occurring and staff are educated as to how their interactions with members contribute to the overall effectiveness of membership retention.

Penetration rate refers to the percentage of members compared with the total population base within 5 km of the facility. For Town of Markham Fitness Centres the penetration rate is currently 1.5%, or 1.5% of the total population within a 5 km radius is a member of one of our centres. Within the fitness industry, a strong membership retention rate is 5%. This indicates that stronger targeted marketing efforts in the direct vicinity of the fitness centres is necessary.

Program Offerings and Benefits of Memberships:

Currently a membership to a Markham Fitness Centre includes:

- Access to fitness equipment

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- Access to fitness changerooms (which include hot tubs)
 - Admission to all lane and rec swims
 - Admission to Aquafit Class
 - Squash Court Rentals
 - Access to designated registered member spots in Group Fitness Classes

Within the fitness industry, it is common that group fitness classes are included with a membership. However, in competitor clubs, members are not required to preregister for classes and are able to just drop in to classes as per the members schedule and availability.

Staff will investigate options around creating members only classes that are drop in in nature and included as a benefit of membership.

Revision of Membership Categories:

Currently the following membership categories exist:

- Adult Single
- Adult Couple
- Seniors Single
- Seniors Couple
- Student

Unlike most competitors, the Town of Markham has a unique opportunity to provide a family membership where children can be extended active lifestyle opportunities as well. This differentiates the Town of Markham from virtually all private providers.

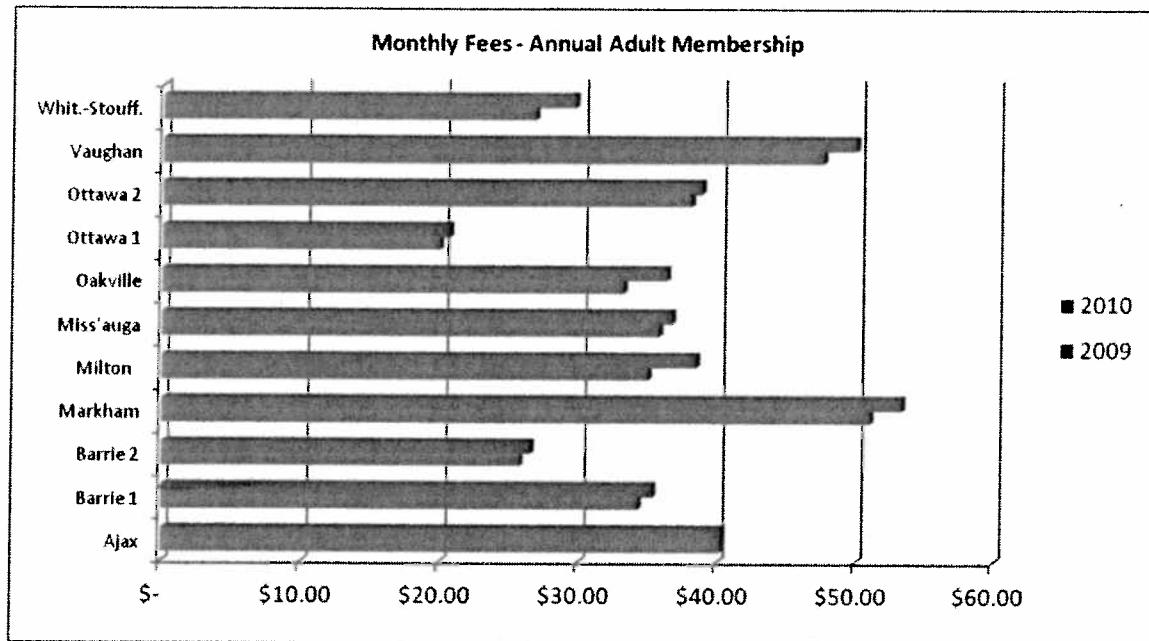
Staff are creating a family membership category with appropriate benefits associated for children falling within the family membership category for launch in September.

Price & Packaging

Price is a significant factor for prospective members in choosing a fitness facility. Anecdotal feedback from prospective customers has indicated that Markham Fitness Centre fees are high.

As such, research was done comparing Markham Fitness Centre fees with local providers as well as other municipal providers. It should be noted that fee structures vary dramatically within the industry making comparisons somewhat difficult. As well, many organizations will not openly share price structures. In the case of private local clubs, prices could only be obtained by sending out secret shoppers.

The following chart compares Markham Fitness Centres pricing with other municipally run fitness centres. This survey was completed by the JF Group as part of their Fitness Industry Analysis:



As is demonstrated in the above chart, currently Markham has the highest membership fees of Municipal Fitness Centres.

The following chart compares Markham Fitness Centres 2011 annual adult pricing with other local fitness facilities. These prices were obtained by a secret shopper:

MARKHAM	\$591.71
Private/Within Markham	
YMCA Markham	\$480.00
Advantages 4 Athletes	\$588.00
Markville Fitness	\$600.00
Goodlife Fitness	\$588.00
Snap Fitness	\$474.00
Goodlife Fitness Woman	\$696.00
Curves for Women	\$278.00
Average	\$553.62

As is demonstrated in the above chart, Markham Fitness Centre pricing is currently well above the average of local facilities.

The Town of Markham is embarking on a pricing strategy. Until the Pricing Strategy is completed, the Town has been continuing to apply an annual Consumer Price Index (CPI) increase to all fees. The fee increase scheduled for September, 2012 is 3.6%.

When compared with both local fitness facilities and other municipal fitness centres, Markham Fitness Centres are priced high. By increasing fees in September by an additional 3.6%, this would represent an annual impact of just over \$22.00. This would position Markham Centres even further away from local and municipal providers.

The Town of Markham price has been identified as a possible barrier for participation. As such, pricing elasticity testing should be undertaken to determine optimal price to maximize number of participants and total revenue.

It is recommended that staff engage a pricing consultant to undertake pricing elasticity testing to determine optimal pricing, utilizing funds within existing operating budget to engage a consultant.

It is further recommended that Markham Fitness Centre Memberships be excluded from the annual CPI increase scheduled for September, 2012.

FINANCIAL CONSIDERATIONS AND TEMPLATE: (external link)

A number of items have been identified that have immediate financial consideration. These include:

Purchase of CLASS Module to Enable EFT Payments:

The fee to purchase the module necessary to enable EFT payments will cost the Town a onetime expense of \$900. This will be funded within the existing Recreation Services Operating Budget.

Implementation of EFT Payments and Automatic Renewal Processes:

Recreation Services Staff will work with Finance Staff to efficiently implement an EFT Payment Process as well as revise Renewal Practices to switch to an automatic renewal process. There are no anticipated expenses in terms of staff time or ongoing costs associated with these processes.

Exemption of Fitness Memberships from the Annual CPI Fee Increase:

It is difficult to quantify the financial impacts of exempting the Fitness Centre Memberships from the annual CPI increase. There is no way of predicting how many individuals might not renew or join if fees were increased again. Similarly, there is no way of predicting how many people will now join that may not have joined had fees been increased. However, it is reasonable to assume that a fee increase will cause some existing members not to renew memberships.

Summary of Initiatives Taken to Date:

- Research on the historical effects of renovation and expansion on a Fitness Centre
- Engagement of Environics Analytics to gain a comprehensive understanding of current state of Fitness Memberships and better understanding or demographic opportunities.
- Electronic Fund Transfer (EFT) to increase payment options and flexibility
- Automatic renewal process to be implemented fall 2012
- Increased marketing initiatives in local media through Town Page ads and half page advertisement and more effective use of social media.
- Development of QVR code and commercial
- Survey of former members
- New membership categories to be implemented fall 2012.

Summary of Actions for Implementation:

- Utilization of Environics Data to develop a target membership campaign
- Research a develop a more comprehensive corporate membership package and a membership referral program
- Review of program offerings and benefits of memberships
- Review of pricing including pricing elasticity testing

HUMAN RESOURCES CONSIDERATIONS

None

ALIGNMENT WITH STRATEGIC PRIORITIES:

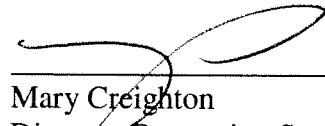
This report is in consideration of the development of a Pricing Strategy, a key recommendation coming from the Integrated Leisure Master Plan.

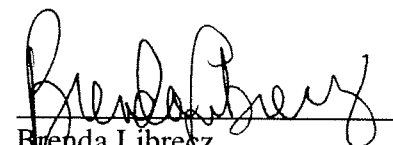
BUSINESS UNITS CONSULTED AND AFFECTED:

Finance

RECOMMENDED

BY:


Mary Creighton
Director, Recreation Services


Brenda Libreez
Commissioner, Community
& Fire Services

ATTACHMENTS:

- Appendix A – Detailed Chart of Membership Statistics over the last six years
- Appendix B – Report from Environics Analytics
- Appendix C – Copy of a Full Colour Ad for Fitness Memberships