Recreation, Culture & Library Pricing & Subsidy Strategy *Development Approach*

Presentation to General Committee

Monday, September 26, 2011

Purpose:

Pricing decisions are strategic and can contribute significantly to the success of the organization. Price affects demand, accessibility, participation, revenues and costs. A strong and prudent strategy will serve to maximize revenue while increasing participation by improving accessibility for participants.

The recently approved Integrated Leisure Master Plan (ILMP) has identified the need to explore current pricing practices and develop a comprehensive pricing and subsidy strategy.

A subsidy strategy will be completed in conjunction with the pricing strategy to ensure that programs and services are widely accessible for all individuals.

Background on Pricing Processes:

Currently, products and services within these Leisure Service delivery areas lack a formalized approach to pricing. Each new product is essentially priced using existing products as a bench mark.

An exercise was done over 5 years ago to move toward an Activity-Based Pricing Approach – in Activity-Based Pricing the total costs and overhead are determined and prices are set to ensure all costs and overhead are covered. However, a fully Activity-Based Pricing approach was not adopted as true overhead costs were never really factored.

Currently, flat rate consumer price index (CPI) increases are made annually with little to no review of the impacts of CPI increases versus the actual costs to deliver services.

Current Challenges:

As a result of years of CPI increases and no further research or strategizing around pricing decisions, a variety of challenges have emerged as well as potential lost opportunities. These include:

- Increasing by a standard percentage across the board, each year the disparity between lower priced services and higher priced services grows
- Some services have experienced drops in participation – this could be linked to price but no research has been done to verify that assumption
- There is possibility that some services are underpriced and could withstand pricing increases – again no research has been done to verify that assumption

A New Approach to Pricing:

Given the varied types of products and the varied clientele, a singular strategy in pricing products does not maximize opportunities for revenue generation nor does it increase opportunity for participation. Essentially, there are four types of pricing models that could be used to price our leisure service products. By categorizing products and adopting a pricing model that fits for that category of product, opportunities can be maximized. The following chart outlines these four pricing models:

Pricing Model	Explanation
Cost-plus Pricing	Determine a desired profit from the product. Then develop a price covering all costs, overhead and markup that achieves the desired profit.
Target Pricing	Determine the price that the market will bear for the product and then price accordingly.
Activity-based Pricing	Determine total costs and overhead for product. Then price accordingly to ensure all costs and overhead are covered.
Life-cycle Pricing	Determine products that are in demand and price at a premium. As the demand for the product lessons, prices could decrease to continue to maximize product usage.

A New Approach to Pricing:

The following product delivery areas in Recreation, Parks, Culture and Library will be reviewed through this process:

- Fitness Memberships and Classes
- Aquatics Programming
- General Programs
- All Facility Rentals and Permits
- Admission Fees

Each product delivery area will then be evaluated against the various pricing models to determine the most appropriate pricing model.

A New Approach to Pricing:

A shift in pricing methodology requires a solid plan founded upon thorough research, public engagement and commitment to strategy and implementation.

In order to develop a solid plan, a strong team of stakeholders will be necessary. The following chart represents a proposed team:

Pricing Project Steering Committee (PPSC)
Brenda Librecz – Project Sponsor
Mary Creighton, Catherine Biss
John Ryerson, Andy Taylor, Joel Lustig

↓

Pricing Project Management Committee (PPMC)
Colin Service – Project Manager
Representatives from Recreation, Culture, Library, Finance and CAO's Office at the discretion of Directors

A phased approach that is outlined on the subsequent slides will be utilized to ensure timely and thorough completion.

PHASE ONE – Team Formation and Research Report (Completion in October, 2011)

The following actions will be taken as part of Phase One:

- Formation of the Project Team
- Thorough review of all costs of existing products and services
- Thorough review of existing policies and practices
- Analysis of participation and usage patterns in existing services
- Benchmarking of services in other municipalities and local service providers

The anticipated outcome of Phase One is a comprehensive Research Report that will provide the background for future phases.

PHASE TWO – Public Consultation (Completion by March, 2012)

The following actions will be taken as part of Phase Two:

- Conduct analysis of consumer demand for existing services
- Identify gaps in service delivery
- Conduct Pricing Elasticity Testing for specific services
- Provide ample opportunity for Public to provide input into existing services and pricing practises through a variety of mediums

The anticipated outcome of Phase Two is a comprehensive Consultation Report that will provide the influence in the development of a strategy.

PHASE THREE – Development & Implementation of Pricing Strategy (Completion will be phased depending on Service Schedule)

The following actions will be taken as part of Phase Three:

- Develop formal Pricing Strategy
- Develop Communication Strategy
- Implement Communication Strategy
- Implement Pricing Strategy
- Evaluation of Pricing Strategy

The anticipated outcomes of Phase Three include the actual development and implementation of a pricing strategy to take affect by September, 2012. Any changes to prices will be phased in accordance with service delivery schedule (ie. Outdoor Field Users may see changes to prices during the 2013 season).

Background on Subsidy:

The Town currently offers subsidy for individuals receiving social assistance through a centralized approach administered through the Contact Centre. However, this subsidy program does not adequately address lower income households currently not in receipt of social assistance.

Current Challenges:

The existing Subsidy Program does not meet the needs of working individuals who have little to no disposable income. As well, the program is not readily accessible due to its centralized nature of administration.

PHASE FOUR – Improvement to a Subsidy Program (Completion by December, 2012 – to be completed during the same time period as Phase Three)

The following actions will be taken as part of Phase Three:

- Thorough review of existing Subsidy Program
- Benchmarking other Municipal Subsidy Programs
- Develop an improved Subsidy Program
- Develop Communication Strategy for Improved Subsidy Program
- Implement Improved Subsidy Program

The anticipated outcomes of Phase Four include the development and implementation of an improved subsidy program to take affect by September, 2012. The fourth quarter of 2012 will be used to evaluate the overall impacts of the subsidy program.

Anticipated Benefits:

A more strategic and planned approach to pricing and subsidy provision will have many positive benefits. These include:

- Participation barriers around price are addressed, thereby maximizing total participation
- Revenue is maximized – by maximizing revenue it enables valuable resources to be focussed on areas of need
- Products and Services will remain relevant and more representative of the Community Needs and Wants
- A Pricing Strategy will enable the Organization more flexibility to respond to changing demographics and service environment

QUESTIONS