

**Report of Head of Active Leeds**

**Report to Chief Officer, Culture and Sport**

**Date: 28/11/2018**

**Subject: Streamlining of Active Leeds Membership Pricing**

Are specific electoral wards affected? If yes, name(s) of ward(s):	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Is the decision eligible for call-in?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, access to information procedure rule number: Appendix number:	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

**Summary of main issues**

1. The report provides a summary of Active Leeds proposal to streamline membership pricing from 24th December 2018. Customers and staff currently have to select from over 60 different membership variations and this prove difficult to manage. The report outlines the intention to reduce membership types to just four.
2. Our gyms and fitness offer is a core element to the service's business plan as it helps generate revenue to cross subsidise other part of the facility offer, most notably provision of swimming as well as targeted activity programmes. It is a market led activity that has to be sensitive to trends in the market and clearly positioned to support the wider service outcomes. The fitness market has changed radically in Leeds with the advent of the budget gym at the lower end of the health and fitness market and the re-positioning of mid to high end providers moving to more of a premium offer. It is proposed that by offering a £24.95 premier membership for the Council services it provides an opportunity to reposition the customer offer in an increasingly vacant middle market.
3. In June 2018, in response to the above, a discounted £24.95 premier membership (normal price £31.95), was introduced and trialled from June to October, to ascertain the potential impact of such a move. This has had a favourable impact. The proposed move to new prices is to assist in trying to maintain and if possible grow market share in order to secure a sustainable budget moving forward.

## **Recommendations**

The Chief Officer, Culture and Sport is requested to approve

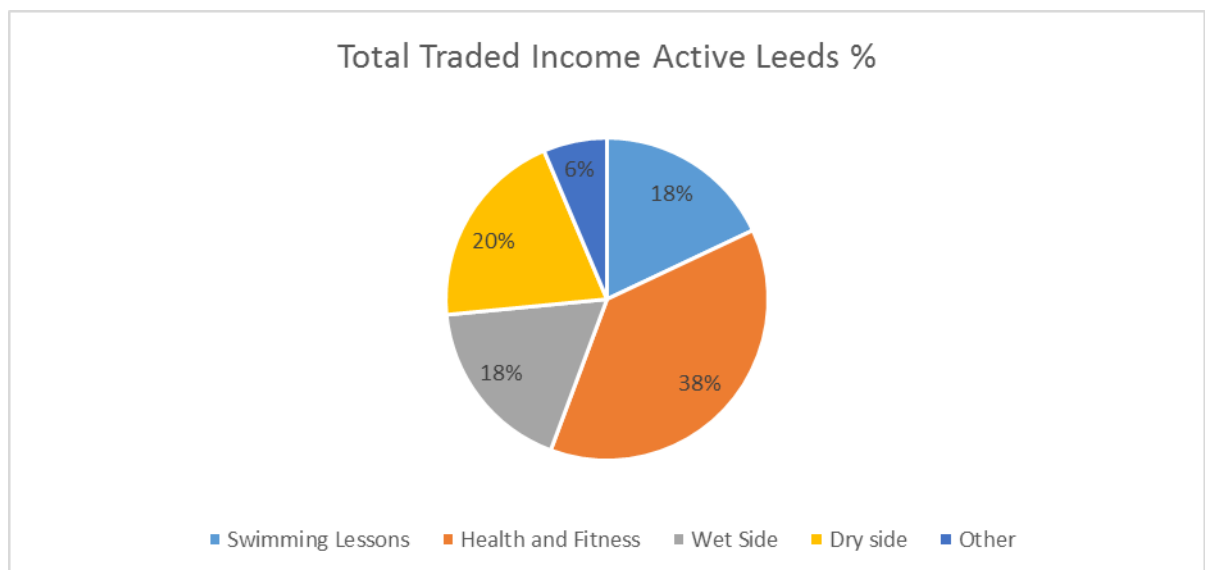
- The change to health and fitness memberships as set out in the report.

## 1. Purpose of this report

- 1.1 To outline a proposal for Active Leeds to streamline membership pricing from 24<sup>th</sup> December 2018 in order to create a sustainable budget in future years.

## 2. Background information

- 2.1 Active Leeds gyms and fitness offer is a core element to the service's business plan as it helps generate revenue to cross subsidise other part of the facility offer, most notably provision of swimming as well as targeted activity programmes. It is a market led activity that has to be sensitive to trends in the market and clearly positioned to support the wider service outcomes. The graphs below highlights the importance of the health and fitness market in delivering Active Leeds budget.



- 2.2 The health and fitness market has changed radically in the last 5 years. The developing budget gym sector has had a big impact in Leeds and has forced the mid-market providers to re-assess their position and move to a more premium offer. This leaves a potential mid-market void which Active Leeds can fill through by re-positioning itself through competitive pricing, focusing on its USPs, branding and intelligent marketing.
- 2.3 With regards to Active Leeds pricing, structures have evolved over time and have become overly complex in a highly competitive market place. This can making choices confusing for customers to buy and for staff to sell. To illustrate the point the service offers fixed, flexible, discounted, short term, corporate, junior, student, gym only, fitness only, gym and swim, premier and even free memberships. In a nutshell there are now too many memberships to choose from, it's become difficult for both staff and customers to determine what membership is best suited to a customer's needs.
- 2.4 The current arrangements are further compounded by the move to new digital sales and promotion channels and encouraging customers to purchase online. Trying to decide which membership best suits a customer or which membership a customer is eligible for, is sometimes a confusing choice. Customers could be faced with choosing from up to 60 different memberships. Some streamlining of memberships

were carried out in 2017, but further streamlining is now required to satisfy developing business and customer needs.

- 2.5 The online membership joining process is not as smooth as it could be, and evidence suggests that many customers fail to complete the process resulting in potentially lost sales.
- 2.6 Feedback from front line staff would also suggest that the membership offer is far too complicated as well as they find it hard to sell given the complexity, furthermore the current price point is considered by some staff to be too expensive and therefore more difficult to genuinely sell what they would consider a valuable product.
- 2.7 With the re-positioning of fitness providers across the city, this opens up the middle market if we can get our pricing right. The budget sector are offering memberships from as little as £9.99 (start-up rate) to £15.99 per month, whilst at the higher end a membership would start from £45 plus per month. Pricing memberships at £24.95 would allow us to re-position ourselves with confidence.

### **3. Main issues**

#### **Membership Pricing Pilot Results**

- 3.1 Active Leeds introduced a temporary pricing offer over the summer to test the effect of a price reduction and streamlining of memberships. The 12 month contracted price for a premier membership dropped from £31.95 a month to £24.95 a month. The summer was targeted as sales numbers historically reduce over this period due to the holiday season. The campaign launched on the 16<sup>th</sup> June and was due to end at the end of August. However the campaign was so successful it was agreed to extend it until the end of the year
- 3.2 The number of sales from July through to October have increased by over 26% compared to the same period in 2017 due to price decrease.
- 3.3 In addition to favourable sales, attrition rates have also fallen over the same period, coming down from 6.5% to 5.9% in October, suggesting that the discounted membership is encouraging members to stay longer ( i.e. not move to another gym).
- 3.4 As a result of the improved sales and attrition rates, direct debit income has started to recover and has increased over the same period July to October, an increase of 12%.
- 3.5 The income growth is backed up by the evidence of the growing live membership count "Club Live". From June through to October, the club live grew by 6.6%. (Detailed calculations of increase can be obtain from report author if required)
- 3.6 The increase in direct debit income though is slightly tempered by the impact on casual pay and play fitness, as some casual users will have upgraded to a membership. The Active Leeds team have actively pursued conversion of casuals to memberships over the last 3 years as income from membership are more consistent (monthly) whereas casual income is dependent on people using the leisure centre and as we saw over the spell of hot weather this spring/summer casual usage and therefore income fell. Casual income across our gym and fitness classes especially has been reducing year on year as our membership income grows and is profiled to be down on budget by 14% and down by 5% over this year compared to last year. When analysing the effect of the price reduction this has been taken into consideration and accounted for in our 2019/20 projections as this

will continue to reduce our casual income further. (Detailed calculations of increase can be obtain from report author if required)

- 3.7 The volume of sales we have seen over this period have been better than the service predicted, however the rate at which the sales have been generated will slow down as we move more people on to the new prices. The graphs below shows the profiled effect of the sales at this price if we continue this into next year. It clearly illustrates the rapid growth in direct debit income in August to October, however over next year this growth isn't as rapid and relies more on more people staying in their membership for longer due to being happy with the price they are paying for their membership compared to extra sales volumes on this year. The net benefit over next year will be a profiled increase of 3%. (Detailed workings out of increase can be obtain if asked for)

### **Membership Pricing Proposal**

- 3.8 Based on the business benefits that have been derived from the discounted membership pricing and from comments from across the service and feedback from customers, the proposal is to streamline our memberships to make it easier for staff and customers to understand and to propose prices that best reflect our position in the market.
- 3.9 The pricing matrix being proposed is outlined below:

<b>Membership</b>	<b>Contract</b>	<b>Flexible</b>	<b>Annual</b>
Premier	£24.95	£35.95	£249.50
Student		£20.00	£180.00
Junior		£15.95	£159.50
Leeds Let's Get Active		£10.00	£120.00

- Corporates to get the contracted price at £24.95 on a flexible contract.
  - Flexible contract means the member can cancel at any time but pays a higher price for doing so.
  - Contract rate ties the customer in for 12 months minimum, but at a much cheaper rate.
  - There will no longer be peak or off peak memberships, just one price.
- 3.10 The new prices are to be introduced into Xn (Leisure management system) from Monday 24<sup>th</sup> December. This allows the service to promote the offer as an initial "beat the new year rush" campaign from 24<sup>th</sup> December to Friday 4<sup>th</sup> Jan, allowing the service to better manage the upsurge in cash annual memberships sold during the corresponding period last year. The new prices will then be presented as standard pricing from 5<sup>th</sup> January 2019.
- 3.11 All current members will remain on their existing memberships, unless they contact us to convert to the new membership, where they will need to sign a new 12 month contract. If people have an old membership type they will remain on the membership and pay the same rate, the service won't automatically change people's membership to the new membership types.
- 3.12 From 24<sup>th</sup> December the service will only be selling the memberships identified in the table above.
- 3.13 The expected move to DFC will develop and drive online sales. Future online joining will be through the DFC portal which provides a slicker experience for the customer,

so hopefully increasing the number of online sales. We know our current process is vulnerable and we are missing sales opportunities, but simplifying choice will also compliment this move

## **4. Corporate considerations**

### **4.1 Consultation and engagement**

4.1.1 Consultation has taken place with a variety of colleagues in the Active Leeds service. This included staff as well as senior officers and the finance team. The Executive Member, responsible for Active Leeds has been consulted with on 15<sup>th</sup> November 2018 and again on the 4<sup>th</sup> December 2018.

### **4.2 Equality and diversity / cohesion and integration**

4.2.1 It should have a positive effect on the public as we are looking to reduce the price of the full membership package to allow unlimited access to the gym, fitness classes and swimming. The existing casual concessionary scheme supports the needs of vulnerable people and will remain in place ensuring people have the choice to pay either through a membership scheme or a pay as you go basis. Student, juniors and Leeds Lets Get Active prices remain the same.

### **4.3 Council policies and best council plan**

4.3.1 The Best Council Plan 2018 – 2021 sets Council outcomes of:

We want everyone in Leeds to;

Enjoy happy, healthy, active lives

Live with dignity and stay independent for as long as possible

Enjoy greater access to green spaces, leisure and the arts.

4.3.2 These outcomes are directly supported through our ambition as an organisation being efficient and enterprising as well as trying to ensure Leeds is the best city to be active in. The steam lining and price reduction as already illustrated has meant we have more people being active in our leisure centres as membership continues to grow.

4.3.3 2018 / 19 priorities for the council are, amongst others; promoting physical activity, building capacity for individuals to withstand or recover from illness, supporting healthy ageing and enhancing the quality of our public realm.

4.3.4 Progress against these outcomes will be measured through a series of key indicators including; percentage of the adult population active for 30 minutes once per week, obesity levels at age 11, overall satisfaction with cultural provision in Leeds.

4.3.5 The Active Leeds Service makes a significant contribution to reducing health inequalities and promoting wellbeing. The above outcomes, priorities and key indicators will all be supported by the service through improving the quality of its facilities / equipment in order to encourage existing customers to maintain participation and to encourage new customers to engage in physical activity.

#### **4.4 Resources and value for money**

- 4.4.1 The report suggests implementing the new membership types and prices to help towards meeting the service budget target saving for 2018/19 and 2019/20. This proposal will increase health and fitness membership income by 3% over next year as illustrated in the report. However, taking into account the possible further decline in causal income at 5% over this period it will result in a net positive movement of £70k.

#### **4.5 Legal implications, access to information, and call-in**

- 4.5.1 This is a Significant Operational Decision and not subject to call in.

#### **4.6 Risk management**

- 4.6.1 All current members will remain on their existing memberships and will contact us if they wish to change.
- 4.6.2 Active Leeds have already implemented lower priced memberships over the last couple of years and this steady approach has meant that the impact of having a lower yield per member has already been mitigated against. This change is to encourage more sales to outstrip those existing members wanted to downgrade to a lower price point.
- 4.6.3 The promotional trial for the membership allowed the impact to be measured on existing members converting to the lower membership price point, however the number of people doing this was offset by the gain in membership sales. The promotion has already accounted for a lot of people converting to the lower price point and moving forward there will be a reduced amount of people wanting to do this. Also the fact people have to sign a new 12 month contract will mean that they might want to stay on their current price point.

### **5. Conclusions**

- 5.1 The move to new streamlined membership pricing responds to both service and customer needs. It allows the service to respond to the local fitness market and to confirm our proposed positioning within this market. It will allow us to grow our club live figure and in turn this will hopefully increase income. It is important however to ensure that development of memberships is supported by the pay and play offer to ensure that the service is providing opportunities for all users and we continue to contribute to our vision of being the best city to be active in.

### **6. Recommendations**

- 6.1 The Chief Officer, Culture and Sport is requested to approve:
- The change to health and fitness memberships as set out in the report

## **7. Background documents<sup>1</sup>**

7.1 None.

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<sup>1</sup> The background documents listed in this section are available to download from the Council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.