

TONBRIDGE & MALLING BOROUGH COUNCIL

LEISURE and ARTS ADVISORY BOARD

17 July 2007

**Joint Report of the Chief Leisure Officer, Director of Finance and Cabinet Member
for Leisure, Youth and Arts**

Part 1- Public

**Matters for Recommendation to Cabinet - Non-Key Decision (Decision may be taken
by the Cabinet Member)**

**1 LEISURE SERVICES BUSINESS UNIT (LSBU) – MEMBERSHIP RETENTION
SOFTWARE**

Summary

This report recommends the purchase of membership retention software to assist in retaining members of the Lifestyles Health and Fitness facilities at Larkfield Leisure Centre (LLC) and Angel Centre (AC).

1.1 Background

- 1.1.1 The Board will be aware that the anticipated turnover of the LSBU in 2007/08 is £4.3m. Around one quarter of this income, approximately £1.1m, is derived from activities under the Lifestyles brand, which offers members unlimited use of the fitness rooms, swimming pools, health suites and exercise classes at the indoor leisure facilities operated by the LSBU at a standard rate of £37.50 per month. This area of business is highly competitive with strong competition from both the public and private sectors. A concessionary charging policy applies to those on a low income, and the GP referral scheme offers assistance to those recommended via a health professional.
- 1.1.2 Most fitness room users pay by monthly direct debit or annual payment which together account for about £70,000 income per month across the LSBU sites. Whilst annual payees are clearly bound to a 12 month membership, the predominant style of monthly contract requires only one months notice after an initial 6 month commitment from the customer. This is a typical market model.
- 1.1.3 The health and leisure industry is competitive and customers 'switch' clubs or centres freely, whilst the commitment to a healthier lifestyle often simply fades in many customers. An attrition rate within the industry of 4% of customers per month is average i.e. up to 48% of customers within a trading year leave. Whilst this is difficult to measure the Leisure Contracts Manager (LCM) believes that the LSBU achieves an average annual attrition rate of around 46%.

1.2 Sales and Retention

- 1.2.1 It is important that the LSBU has a strong sales strategy to attract new customers. This strategy is implemented through dedicated Customer Sales Advisors at LLC and AC and combines marketing and promotional activity that includes price promotions, advertising, special offers, direct mailing and website promotion. In general terms the cost of selling a new membership is high, if staffing, promotional and induction are considered.
- 1.2.2 The cost of retaining a customer is obviously far lower as the customer is already known to the facility.
- 1.2.3 Retention strategy is normally linked to customer service based upon the simple premise that a happy customer is likely to stay longer. This service begins at the point of sale and continues with good reception skills and contact with other staff at the facility. However, for most fitness room customers the key to retention is the customer service received in the gym from the dedicated fitness staff. This notion is supported by the Fitness Industry Association (FIA) who recently commissioned a report entitled 'Winning The Retention Battle'. One of the critical messages within the report is the need to intervene with customers at risk of leaving.

1.3 The Retention People

- 1.3.1 The Retention People (TRP) is the trading name of Fitronics Limited, a company that has developed a retention software package that encourages intervention in the gym based upon understanding of an individual customer's pattern of use.
- 1.3.2 The LSBU operates a bespoke leisure management software system for membership, bookings and admissions developed by Gladstone Ltd, called Plus 2. Recently TRP has become a recognised partner of Gladstone and the software solution integrates with Plus 2 to provide gym staff with instant recognition of who is in the gym, their pattern of use, a statistical measure of the risk of leaving and notes from other instructors about previous contact and programme advice. This allows the staff member to intervene positively with the customer.
- 1.3.3 The interventions are recorded and monthly reporting demonstrates the success levels of intervention and of individual staff. This allows management staff to assist in developing the communication skills of frontline staff.

1.4 The Business Case

- 1.4.1 The LCM has provided TRP with sales and cancellation figures related to LLC over the past three years and an analysis of this data is included in a business proposal presented by TRP. Copies of this proposal can be available to Members on request and will be available at the meeting.

- 1.4.2 The business proposal presents three scenarios modelled upon a similar pattern of sales. The first assumes continuing industry norms in respect of cancellations, the second the implementation of TRP performing at a low level and the third at a 'conservative' estimate of proven level of success, based upon other sites where the system is implemented.
- 1.4.3 Full and successful implementation predicts a 10% reduction in cancellations in the first year, a further 5% reduction in the second year and no further reduction in the third year. The case has been considered by the LCM and Chief Accountant and whilst the business case may be regarded as ambitious it remains apparent that even very small improvements in retention have a significant beneficial financial impact. The software package is currently being used at over 60 sites across the country, including a number of sites belonging to the South East Leisure Centre Operators (SELCO), of which the LSBU is a member. Feedback from these sites, which include Woking Borough Council, Wave Leisure Trust (Lewes) and Valley Leisure (Test Valley), has been very positive.

1.5 Costs

- 1.5.1 The cost of purchasing the software is around £10,500, with a further £2,500 required for an additional server. Maintenance and support, including monthly reporting will cost a further £3,200 per annum with an initial commitment for a two year period.
- 1.5.2 The LCM, in liaison with the Director of Finance has identified funding for the software purchase from the LSBU earmarked reserve. The IT Manager is able to provide funding for the server from the General IT Developments Fund and the ongoing maintenance and support costs will be funded from within existing LSBU revenue budgets at LLC and AC.

1.6 Timescale

- 1.6.1 Subject to approval the system may be installed within a few weeks and appropriate training delivered to staff within the same timescale. The LCM is mindful however of the work programme of IT Services and full implementation is likely to follow the summer holiday period and completion of the current capital works at LLC.

1.7 Legal Implications

- 1.7.1 The overall cost of the project, including maintenance for a two year period is £19,400. Under the Council's Financial Procedure Rules orders for goods and services exceeding £15,000 but less than £30,000 require three written competitive quotations.
- 1.7.2 However under Rule 22.6 the Chief Officer may, in consultation with the Chief Executive (CE), obtain a waiver if this is considered 'uneconomic or impractical'.

In this instance no other comparable software is available and, therefore, the CE has confirmed his approval of such waiver.

- 1.7.3 It should also be noted that placement of the contract will be subject to the Council being satisfied with the terms and conditions of the software provider.

1.8 Financial and Value for Money Considerations

- 1.8.1 The Director of Finance has confirmed that this proposal sits within the Budget Policy Framework and that the proposal will not result in any net increase in capital funding. The Director of Finance has also confirmed that the LSBU reserve is designed to protect and support the LSBU trading position and that it is appropriate to fund an income generating initiative such as the TRP software from this reserve.

1.9 Risk Assessment

- 1.9.1 The LSBU Operational Risk Register identifies failure to meet the policy objective to break even as an area of risk. A risk preventing achievement of this objective is identified as the failure to generate projected income with consequent potential impact upon the TMBC General Fund, the diversion of funds from other priorities and an increase in Council Tax.

1.10 Recommendations

- 1.10.1 It is, therefore, RECOMMENDED, that;

- 1) the TRP software is purchased from the LSBU earmarked reserve;
- 2) the associated hardware is purchased from the General IT Developments Fund; and
- 3) ongoing maintenance and support costs are met from LSBU revenue budgets.

The Chief Leisure Officer and Director of Finance confirms that the proposals contained in the recommendation(s), if approved, will fall within the Council's Budget and Policy Framework.

Background papers:

contact: Martin Guyton

Nil

Robert Styles
Chief Leisure Officer

Sue Murray
Cabinet Member for Leisure, Youth and Arts

Sharon Shelton
Director of Finance