D: Fitness Services Assessment

The following sections present information about Milton's current fitness unit as well as a strategic direction for the future provision of the Town's fitness and active living facilities, programs and services. To provide context and to frame our observations and conclusions, we also provide relevant and applicable information about the general state of the fitness industry.

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Background

The following sections present information about Milton's current fitness unit as well as a strategic direction for the future provision of the Town's fitness and active living facilities, programs and services. To provide context and to frame our observations and conclusions, we also provide relevant and applicable information about the general state of the fitness industry.

The Crisis of Physical Inactivity

Canada is facing a national health care crisis caused by a combination of physical inactivity and poor eating decisions within most populations across the country. The combined effect of these unhealthy lifestyle choices has resulted in a dramatic rise in the number of obese Canadians. While historically these conditions were restricted to adults, it is now becoming increasingly apparent that young Canadians are not active enough to sustain adequate health levels over their lifetime. In fact, there is an increasing body of evidence that suggests that for the first time in history, the current younger generation will not have the longevity or quality of life enjoyed by their parents.

According to the 2014 Active Healthy Kids Canada Physical Activity Report Card, Canada is among the world's leaders with respect to our relatively sophisticated physical activity policies, places and programs such as in community and built environments, schools and organized sport. But, unfortunately, even though we excel in these areas, Canadian children's overall physical activity level is a D-, clustered near the back of the international pack with Australia, Ireland, the United States and Scotland. Even though 84% of Canadian kids aged 3-4 are active enough to meet guidelines, the level of activity falls to only 7% of kids meeting guidelines at ages 5-11 and only 4% meeting guidelines at ages 12-17[4].

In 2010, a CBC/Leger National Health Survey revealed obesity as the leading health issue among Canadians – a view held by both adults and youth survey respondents. This is interesting, since half of adults surveyed considered themselves overweight or obese. Despite recognizing themselves as being overweight, most believe that they generally live a healthy lifestyle, eat a healthy diet and maintain a healthy weight. When asked what would motivate them to become healthier, the most popular answer was when they feel out of shape[5].

Even though we know that the majority of the Canadian youth population is not active enough to achieve health benefits, physical activity levels actually decline as a person ages. On average, young people are exercising vigorously nearly five hours a week (which is less than half of the recommended amount of activity) while adults average around two hours. And yet both adults and youth believe they should be exercising more to get or remain healthy. When asked why they might not be getting as much exercise as they would like, adults and youth gave similar responses, with the top three reasons being: not enough time, a dislike of exercise and not enough money to join a gym or purchase exercise equipment.

Federal, provincial and municipal governments are responding to this issue by developing strategies to increase awareness about opportunities for greater participation in regular physical activity as well as to encourage individuals to make wise food choices. For example, two of Ontario's three major political parties had an "increase the province's physical activity level" plank in their 2014 campaign platforms. Additionally, the ideas of being

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[4] 2014 Active Healthy Kids Canada Report Card on Physical Activity for Children and Youth

[5] The IHRSA Canadian Health Club Report, The International Health and Racquet & Sportclub Association, Boston

physically active and maintaining healthy weights through proper diet have become mainstream as evidenced by the fact that popular media is now on board and are utilizing the activity concepts in advertising, news stories and lifestyle advice columns.

Many municipalities have become part of the growing physical activity movement and are partnering with national, provincial or community organizations with a mandate to promote and/or support healthy living behaviours. This may include simple strategies like aligning existing initiatives to encourage people to eat healthily, be physically active or to participate in sports endeavours. It might also include strategic decisions to remain or become a direct provider of physical activity and healthy living services that may also involve the provision of fitness services offered in a publicly operated fitness centre.

Health promotion and encouragement to embrace a physically active lifestyle has been a keen focus of Milton's Community Services Department for years. In 2010, Town Council approved Milton's Physical Activity Plan with the stated goal of:

> "providing encouragement, resources, education, infrastructure and programs to ensure that Milton residents and employees are able to be more active, more often."

Town staff are continuously working with community organizations and agencies to facilitate physical activity opportunities for Town residents. The Town has also aligned its strategies with initiatives that have been developed by other organizations such as Halton Region's Blueprint for Action – A Physical Activity Strategy.

It is clear that Milton will continue to promote the community benefits of healthy behaviours including increased levels of physical activity. The Department's updated Mission Statement encourages all residents of Milton to embrace active and healthy lifestyles through the delivery of quality recreation, parks and cultural services with a spirit of community engagement and collaboration. This can be achieved by the direct delivery of services (such as operating fitness centres and offering active living programs) or enabling physical activity organizations to gain access to Milton's citizenry.

Fitness Services in Milton

The Town of Milton currently operates two full service fitness facilities - the Milton Leisure Centre (M.L.C.) and the Mattamy National Cycling Centre (M.N.C.C.) as well as a number of fitness programs and services available at the Milton Sports Centre (M.S.C.).

The M.L.C. fitness centre provides designated space for group exercise, cardio training, strength training and stretching. A gymnasium which is within the community centre occupies approximately 3,000 square feet and is used for general recreational purposes (94 hours per week) as well as large group exercise classes. Fitness patrons can register for or simply "drop-in" to access a variety of group exercise classes including stretching, low impact aerobics, step, cycling, yoga, Pilates, kick boxing, Zumba, Tabata, TRX, group strength and Going Strong for Older Adults. Fitness enthusiasts can choose to participate in Aqua fit classes or use the Leisure Centre's lap pool for training purposes. The fitness studio at M.L.C. was renovated to enhance its ambiance and to increase the usability of the floor space by creating additional equipment storage capacity. The Town has augmented the Centre's inventory of cardiovascular and strength training equipment to both update and round out the equipment choices available to fitness centre users. In doing so, fitness staff have rearranged the equipment layout to facilitate work out area circulation and enhance safety.

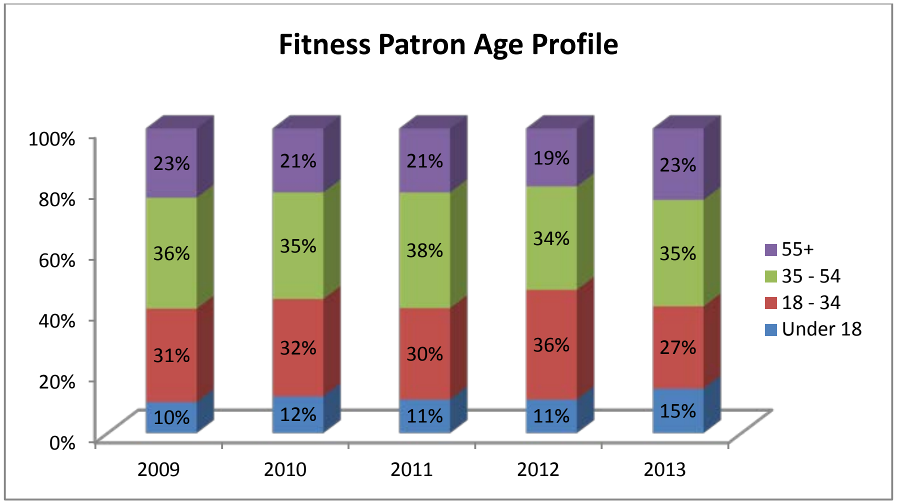
In 2012, the Town expanded its fitness portfolio when it began offering group exercise classes and dry land training in the exercise studio at the Milton Sports Centre. Members and pass holders at the M.L.C. and M.N.C.C. fitness centres can avail themselves of drop-in programs at M.S.C. Although there is no traditional fitness equipment offered at the Sports Centre (such as stationary bikes or resistance machines), the Town has provided a TRX system that allows exercisers to use their own body weight as a form of training resistance. This system is a relatively new concept to the fitness sector and has been very well received in both private, not-for-profit and public settings.

In 2015, Milton added it newest full service training and fitness centre at the Mattamy National Cycling Centre. This facility fulfills a portion of the Town's Pan Am legacy obligation to provide a combination of high performance training and community sport opportunities. Once the M.N.C.C. fitness centre reaches its normalized operating state (after the 2015 Pan Parapan American Games) it will cater to the needs of a wide range of facility patrons including individuals associated with the Town's Cycling Centre partners – Sport Canada and Cycling Canada - athletes from a number of track and court sports and members of the general public. The M.N.C.C. fitness centre offers a variety of state of the art cardiovascular and strength training equipment, a group exercise studio, virtual interactive indoor cycling stationary bikes as well as locker and change rooms. The inventory of group exercise programs at the M.N.C.C. centre is currently focusing on strength programs.

Fitness enthusiasts have the option of purchasing flexible membership and pass options, some of which allow for reciprocal usage of both the M.L.C. and M.N.C.C. fitness centres as well as fitness program opportunities offered at the Milton Sport Centre (M.S.C.). Specialized fitness classes for children, youth and families are also available at all three sites.

An Aging Fitness Clientele

According to Statistics Canada between 15% and 20% of the Canadian population are members or regular participants at organized fitness or sport club facilities. More than half of these individuals are affiliated with multi-purpose clubs or fitness centres operated by the private sector while municipal fitness centres and YMCAs service the fitness requirements of more than 45% of the total market. Miscellaneous other alternatives – such as condominium fitness centres or corporate wellness facilities - serve a small but growing portion of the fitness market. Often, an individual participant will join or otherwise frequent two or more facility types throughout the year.



Interestingly, over the past two decades, the market differentiation of fitness offerings between sectors has virtually vanished. In other words, the quality of facilities, type and variety of equipment and the range of services and programs are the same or very similar regardless of the sector affiliation of the facility. As a result, operators in all sectors are competing for the same participants. And, because the fitness products are so similar, the price point and associated "value proposition" are paramount to attracting fitness consumers.

In 2013, (the most recent available data year) 62% of fitness facility participants were between 18 and 54 years of age. While about one in five fitness members are from the 55+ cohort, it is anticipated that this age group will be the fastest growing segment of the future fitness market. Significant recent gains in the number of participants in the 18 – 34 age group somewhat muted the proportional impact of the oldest age segment.

Municipal fitness centres tend to attract slightly older users than commercially operated centres. Our review of the age segmentation of Milton's fitness pass holders suggests that the Town's facilities and programs cater to an older clientele – after discounting the effect of the recent change in the older adult age definition. YMCAs are popular with families and therefore children represent a significant proportion of a typical YMCA membership roster.

The growth in the number of older fitness members is likely a product of demographic changes in the general population rather than "physical activity converts" arising from the over 55 crowd. However, the aging trend is important because older consumers have different lifestyle and fitness goals and varied life cycle needs that will affect fitness facility designs and program offerings for years to come. Furthermore, marketing techniques and efforts to retain customers in this age category must be sensitive to their preferences and desires. For example, incentives and rewards such as raffles and complimentary merchandise are seldom of interest to this group, which suggests that older adults are most driven by intrinsic motivation such as becoming stronger and more fit so they can remain independent and healthy.

Colin Milner, CEO of the International Council on Active Aging writes: "unlike the past 30 years, the fitness industry's future will be shaped by a new consumer group: adults age 50 and above. So, the industry's growth for the next 20 years should be focused helping older people lead an active, engaged life. Older adults will drive innovation and will influence all things about the fitness industry - from product development and program design, to new training systems and environments. To maximize growth, consider building the following thoughts into your future fitness centre and program plans: functional solutions that help with loss of strength, power, cardio capacity, flexibility, vision, hearing, and comprehension; health and lifestyle coaching—ask what's next; multi-dimensional wellness that is inclusive not exclusive; family and intergenerational, along with medical and alternative therapies; in-home training, and taking your services to senior centres, retirement communities, and a multitude of other settings; fall- prevention and power training; cognitive issues, opportunities, and solutions; experiences and socialization; engagement and fun, not sweat and burn. These are only a few of the areas that will require solutions created for older adults. It is about meeting their needs, capabilities, dreams, wants, and expectations."[6]

According to a study by George Washington University, common preferences of older fitness and recreation facility consumers include:

- the availability of personal instruction;
- optional group or individual activities;
- safe and clean environment;
- friendly atmosphere;
- convenient and accessible location; and
- being affordable.[7]

[6] Ibid

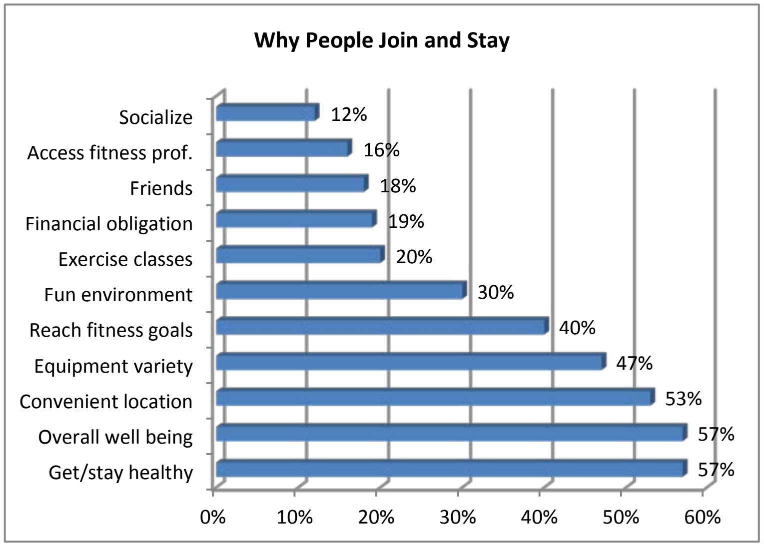
[7] IHRSA/George Washington University – Older Adult's Evaluation of Facilities, Spring 2008.

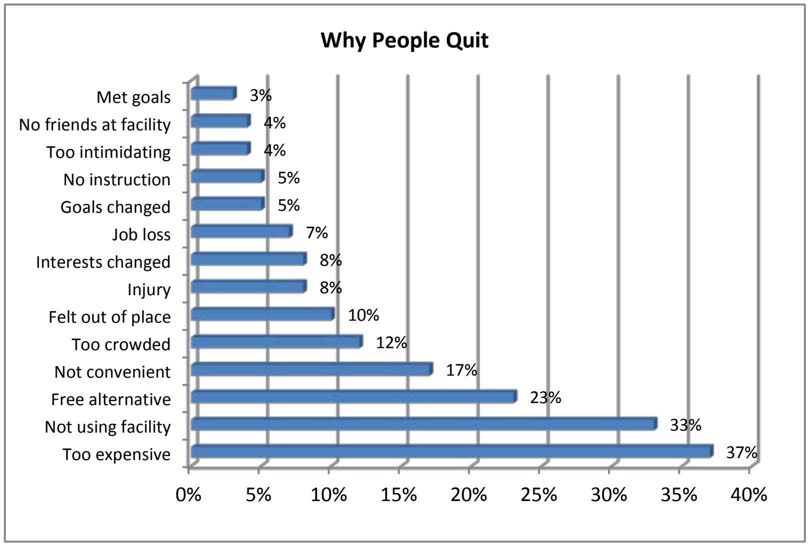
Retaining Fitness Participants

Retaining fitness patrons and program participants is the single most important factor in the success of any health, wellness or fitness operation. Paradoxically, significant dropouts or member attrition has plagued the fitness industry for years. The most successful centres are capable of maintaining a high level of retention through the delivery of uncompromised service in a comfortable environment that not only meets but whenever possible exceeds users' expectations.

It has been proven that the most successful approach to maximizing member retention is not a single program or last ditch effort to keep the participant coming back, but rather a well-orchestrated, long-term relationship building philosophy that is embedded in the day-to-day management of the facility. Cultivation of a caring environment coupled with consistent attention to the details necessary to guarantee the delivery of top quality services are vital ingredients to a retention-oriented operation.

Keeping fitness patrons is far less costly than attracting new ones. Progressive operators vigorously track their retention ratio and adjust operating and customer service approaches in response to even the slightest rise in user attrition. User retention is particularly important in an environment where attracting new participants may be challenging - such as during the economic downturn which has negatively affected the industry since 2007. It is impossible to overstate the importance of monitoring retention and implementing mitigating responses to member attrition that is beyond reasonable norms.

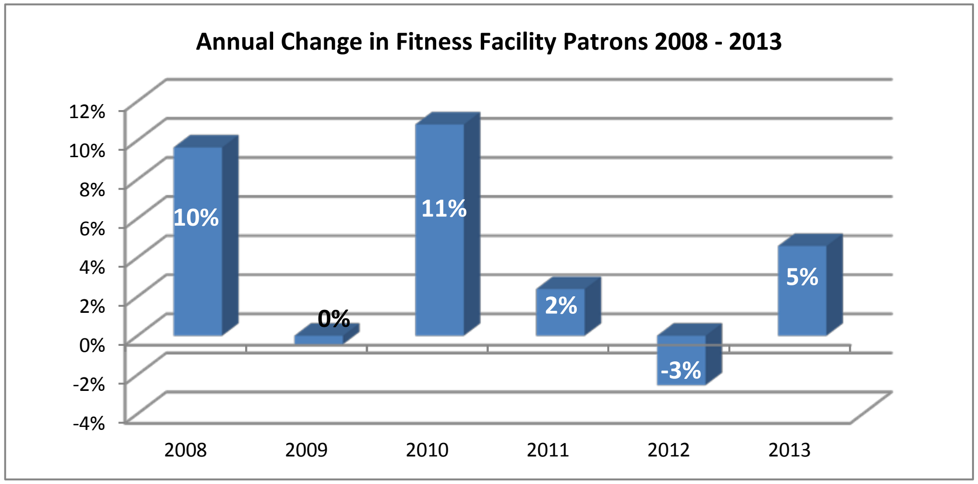




In our experience, municipally operated fitness centres are most often unable to accurately track retention because their IT support is not equipped to distinguish between new and returning patrons. We understand that this is currently the case in Milton. We suggest that the Town investigate methods of acquiring retention data to monitor the tenure of each fitness patron and then use retention as a performance metric that is routinely measured (monthly, quarterly and annually). If possible, we would also suggest the fitness unit undertake an analysis comparing retention rates between member/pass holder types and age cohorts. The information mined from this retention analysis would offer valuable information about where improvement strategies should be deployed to keep people coming back.

Maturing of the Sector

Fitness participant numbers and fitness centre development trends seem to portray an industry that has entered the mature phase of its lifecycle. Since 2007, membership numbers have vacillated between years of growth (2008, 2010, 2011 and 2013 possibly caused by a rebound effect from a previous poor year) stagnation (2009) and losses (2012). This may be evidence that the industry has reached the mature stage of its life cycle. The International Health and Racquet Sport Club Association examined what this could mean for the future of the fitness business.



In a mature state, the supply of fitness opportunities is about equal to demand. This is when operators must focus on differentiating their value propositions, in an attempt to increase their market share to offset the decline of the industry's overall growth rate – i.e. a reduction in the number of new fitness participants entering the market. If indeed the fitness industry has entered a mature state, operators must become creative to boost their value propositions and find new approaches to generate revenue from their existing patrons. Growing revenue per user will take on increasing importance. With stagnant industry growth rates, the market creates challenging competitive pressures that will necessitate the development of unique products, services and experiences, innovation to meet untapped needs and a renewed focus on retaining existing members.[8]

A Competitive Market

Milton's fitness marketplace is extremely competitive. As is the case in most markets, Milton fitness enthusiasts can choose from large clubs (such as GoodLife Fitness and LA Fitness) or small studios offering a variety of programs. Specialty facilities that offer sport specific training or that focus on a particular niche market such as yoga or pilates are available either within Milton or in neighbouring communities. High intensity training environments (e.g. Crossfit) are also quite popular. Many of these facilities tend to be small businesses that generally operate out of storefront locations. Clubs offering martial arts training are also available and often provide group exercise and other traditional fitness opportunities.

As mentioned earlier, most fitness operators are providing very similar types of facilities, equipment, programs and services. Furthermore, membership pricing and packaging including length of term and services included in membership fees are very comparable from site to site. The

[8] 2013 Health Club Consumer Report, International Health and Racquet & Sportclub Association, Boston

similarities between the operating styles and prices charged by clubs and studios vying for a proportion of the fitness market means that consumers can choose from a variety of alternatives based on their personal circumstances. To "stand out from the crowd" the Town's fitness centres will be required to establish a market position that is consistent with the fitness unit's core values and that aligns with the needs, wants and expectations of the unit's targeted clientele. Finally, the Town's fitness services must offer a value proposition that is consistent with its price.

Operating a Public Fitness Centre

Overview

Municipal fitness operations compete for the same pool of potential members as are pursued by commercial fitness clubs and YMCAs. However, public fitness facilities are sometimes disadvantaged in this competition because of systemic or political influences that are specific to municipal fitness operations.

Municipal systems occasionally limit a fitness facility's ability to be aggressive in marketing and promotional efforts to attract and retain members. Political sensitivities at times result in real or implied restrictions on the amount of advertising and the type of promotion that public centres are allowed to undertake. This can be caused by concerns of "not wanting to be seen as competing with private sector clubs" or may be simply a matter of not being comfortable with marketing concepts that are outside of normal municipal practices.

Other troublesome nuances and issues that from time to time inhibit municipal fitness operators include:

- the need to align program and business planning with typical municipal budgeting and user fee approval cycles;
- budget caps or reductions in keeping with prevailing municipal policies;
- restrictions on staff hires imposed by corporate human resource decisions;
- reluctance to "niche market" to a targeted group of local residents; and
- a desire to serve municipal ratepayers first, even though there may be an available and fertile market of non-resident members within a convenient distance from the centre.

Additionally, municipal fitness centres are often unable to remain current with cardiovascular or strength training equipment trends because of capital funding restrictions or the need to plan capital purchases in sync with municipal budget cycles.

In combination, these limitations sometimes cause public fitness centres to be less nimble and market responsive than their private sector counterparts. Identifying the possible influence of these types of issues and implementing mitigating responses can help to offset the impact of the limitations. This may require additional pre-planning or strategizing on the part of fitness managers and coordinators to ensure that the municipal operation is able to compete on as level a playing field as possible.

Performance Indicators &

In 2011, The JF Group completed a municipal fitness study that presented sector specific information to help municipalities plan and implement successful fitness centre operating strategies. We undertook the two phase study because of a general lack of common standards or benchmarks that

Municipal Comparators

apply to publically operated fitness facilities. The study focused on 2009 and 2010 performance and operating data from 28 municipal fitness centres in the Greater Toronto Area.

We have examined selected operating indicators of the M.L.C. fitness centre using the same analytical techniques that were employed in the municipal fitness study. This facilitates comparisons between certain of the Town's fitness performance metrics and those of other municipal operations. The M.N.C.C. fitness centre has insufficient operating history to be included in this comparison.

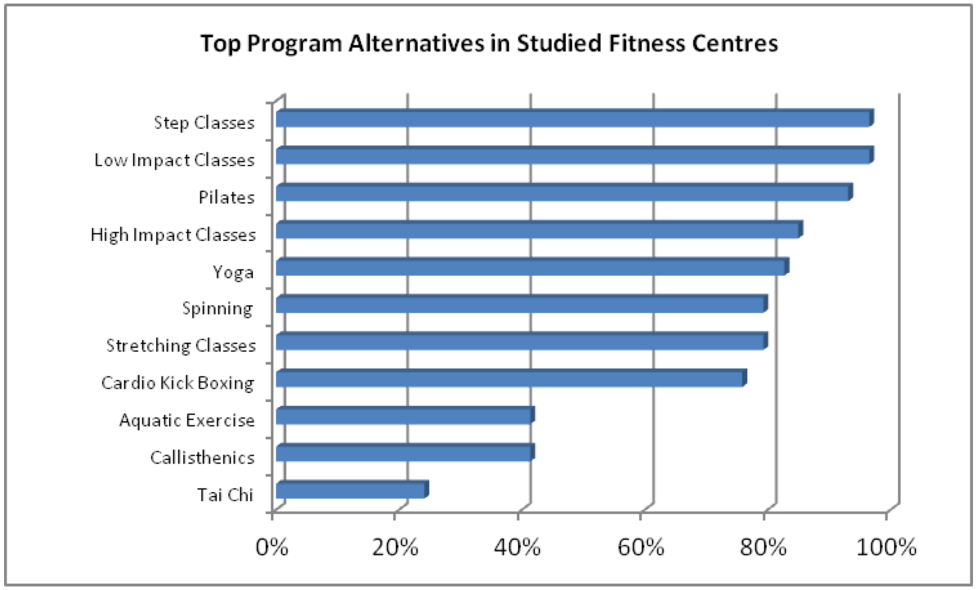
Facility Size – the M.L.C. fitness centre provides group exercise space as well as cardiovascular and strengthening training equipment areas that are similarly available in other municipal fitness operations. In the municipal comparator study, fitness facilities ranged from a very small facility of 1,516 sq. ft. to the largest of over 20,000 square feet. The mean (average) size across all 28 sample facilities is 9,005 sq. ft. while the median (half larger and half smaller) size is 8,150 sq. ft.

A little more than one in five of the facilities included in the sample are small centres (less than 5,000 square feet) and more than 40% of the surveyed facilities are quite large (10,000 square feet or more). Taking into account all fitness space at the Leisure Centre (including the gymnasium), the M.L.C. fitness facility would be in the mid range of facility size compared to the centres that participated in the municipal fitness facility comparators study.

Fitness Equipment– Regardless of size, each municipal fitness centre in the comparator sample provides common types of equipment and services – understandably space availability and the number of equipment choices is greater in the larger centres. All facilities report offering some form of resistance training equipment - either free weights or selectorized machinery - and most often facilities offer both. Patrons exercise in designated strength training areas (100%), separate group exercise rooms (83%) and segregated stretching areas (79%) while enjoying access to a variety of cardio equipment. Virtually all of the centres offer treadmills, elliptical machines and stationary bicycles - which is entirely consistent with current fitness participation trends. Milton's M.L.C. fitness centre provides the same types of fitness equipment offerings as most other municipal fitness centres.

Fitness Programs - Group exercise in the form of step and low impact classes are offered by most centres in our comparator sample. Pilates is offered by 93% of respondents. Yoga, spinning, stretch classes and cardio boxing are provided in more than half of the studied centres. It is noteworthy that Pilates and to a lesser degree yoga are offered at about the same frequency as high impact exercise classes – once the mainstay of fitness centre programs. It is likely that these provision levels are linked to a broader physical activity trend. While people are remaining active or in some cases getting more active, they are pursuing less strenuous exercise alternatives and are most interested in activities that are less stressful on joints. This trend is especially applicable to exercise enthusiasts in the older cohorts – 50+ years.

Mental de-stressing, mind-body connections and a more holistic approach to physical activity and well-being are also high priority items for most of today's fitness consumers. For the foreseeable future it is likely that low impact exercise options will continue to be staples in the programming decisions of successful fitness operations. Additionally, exercisers are increasingly attracted to physical activity endeavours that can be undertaken outdoors. This can take on many forms: a boot camp offered in a park; semi-structured but individual fitness activity using outdoor exercise apparatus installed on pathways (i.e. vita parcours courses); individuals biking or jogging on trail systems; participants of all ages engaged in interpretive walks through wooded areas; photography focused walks or bike journeys; etc. The most successful of these types of exercise alternatives combine an interesting activity with physical movement that provides a moderate to vigorous work out in an outdoor environment. Smart programmers will combine several program alternatives under one heading so the participants experience something new and exciting within the same program type.

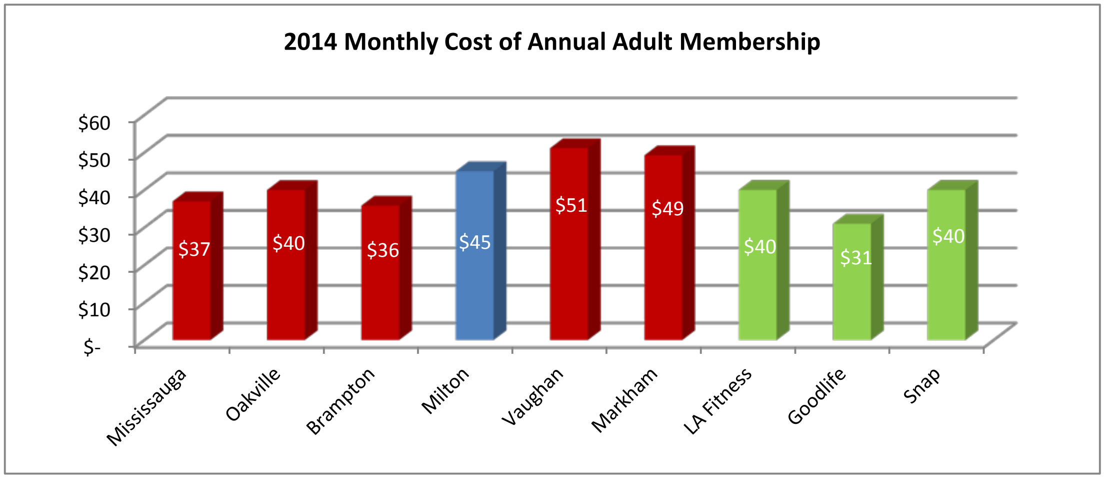


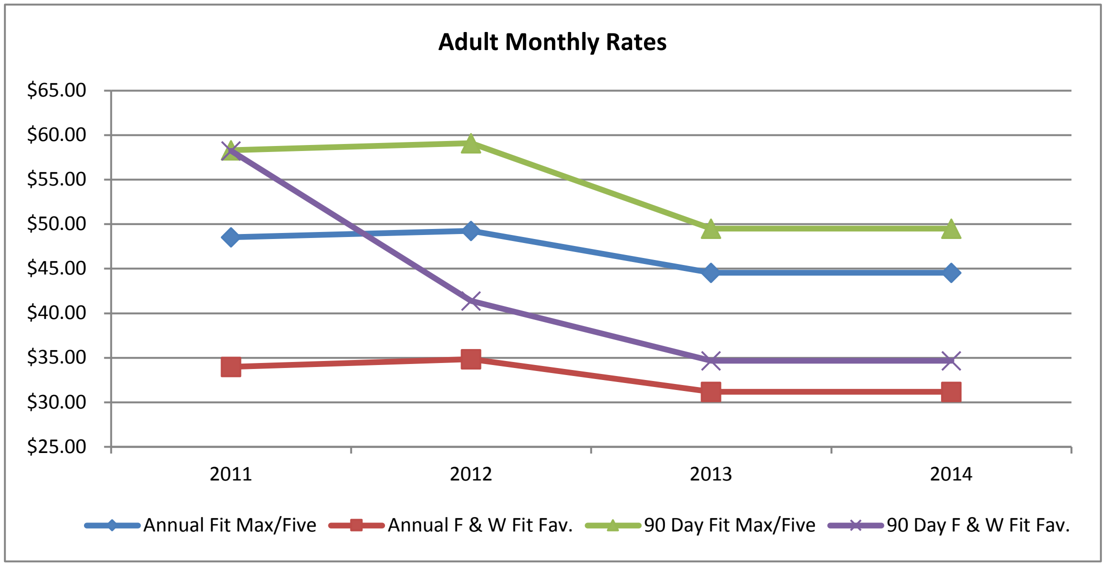
The inventory of fitness programming in Milton is typical to the types of classes and instruction offered in other municipalities. However, the manner in which the Town packages its programs means that several of the more popular programs are only available on a pre-registered basis and are not included in fitness centre pass fees. While most other municipalities provide non-member program registrations opportunities, fitness facility members generally have access to most or all programming including specialty classes covered by their membership fees. Most often, if additional fees are applicable to registered programs, fitness members receive some kind of discount and/or other beneficial consideration – such as longer advanced booking privileges.

<u>Membership types</u> - All municipalities that participated in the comparator study offer a variety of alternatives through which the public can gain access to their fitness centres. Patrons can buy different lengths of memberships, purchase books of passes, pay drop-in fees or register in a fitness, wellness or lifestyle programs. Municipalities that operate more than one centre normally conform to a universal pricing policy meaning that consumers pay the same fee for similar services regardless of the centre they choose to patronize. This standardized pricing approach is in spite of the fact that facilities, equipment or amenities may significantly differ on a site by site basis within the municipality's fitness inventory. All municipalities in the sample offer annual memberships as well as shorter term three month memberships. About half (55%) of respondents offer six month memberships while eight in ten (82%) sell one month passes.

Milton also utilizes a universal packaging and pricing approach for members/pass holders who can access group exercise classes at the Sport Centre on a drop-in basis. As illustrated in the preceding information, convenience is a leading factor that will influence a person's choice of fitness centre. In several communities we have observed that despite the ability to use multiple municipal facilities through reciprocity privileges, most members patronize the facility closest to their homes or places of business – indicating that convenience is a significant use factor.

<u>Membership Fees</u> - Fees are generally based upon the services included in the membership package (full or limited facility use), length of term, age of the participant (adult, youth or older adult) and type of membership (individual, couple, student or family). For the purposes of our analysis in the comparator study, we focused on the individual adult membership rates charged by each municipality. In 2010, annual adult membership rates ranged from a low of $25.00 per month to a high of $54.00 per month with an average of $36.86 per month. In 2013, the average cost of an annual adult fitness membership to a comparable municipal fitness centre was $39.69 per month. In 2012, Milton re-evaluated its fees and rate structure for fitness services. After reviewing the competitive environment, monthly rates were reduced by an average of 10% to be more in line with private competitors in the local marketplace. Additionally, the Town introduced 30 day and 10 day flex pass options as well as a more versatile drop-in arrangement. In 2013, the Town's price for an annual adult Fit Max and Fit Five membership was $44.55 – a price point that remained unchanged in 2014.



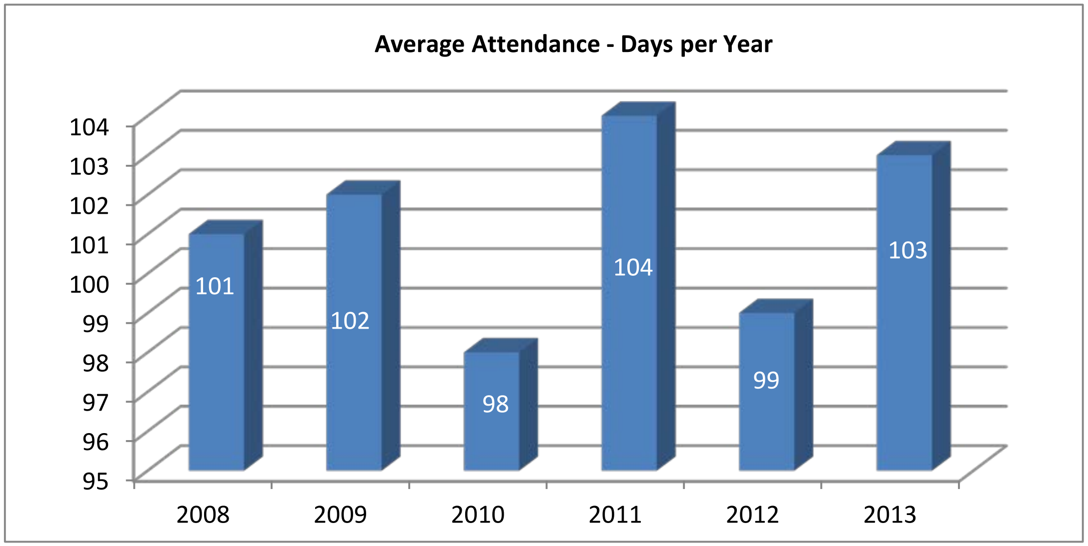


The comparator study also revealed that most municipalities charge a premium for shorter term memberships – memberships of short durations generally cost incrementally more than relationships of twelve months. Our review of the discounting practices of participating municipalities revealed the premium that participants pay for committing to less than a year's membership. On average, the monthly value of a six month membership was 15% higher than the value of a single month of an annual membership. The average premium climbs to 30% for one month of a three month pass compared to the same time duration within an annual membership. Milton's 90 day pass is priced at an 11% premium above the monthly cost of an annual relationship – at the low end of the range of the premiums charged by other municipalities. As part of its pricing re-evaluation, the Town opted to discontinue offering a 30 day plan in favour of a more versatile Flex 30, Flex 10 and Day Pass system. Staff report that this pricing and term strategy has been well received by fitness centre patrons and program participants.

Recognizing potential members often view price as one of the most important purchase variables, we gathered local club membership fee data to highlight the fitness price environment in the Milton market. For comparison purposes, we also updated fitness membership prices charged by adjacent municipalities.

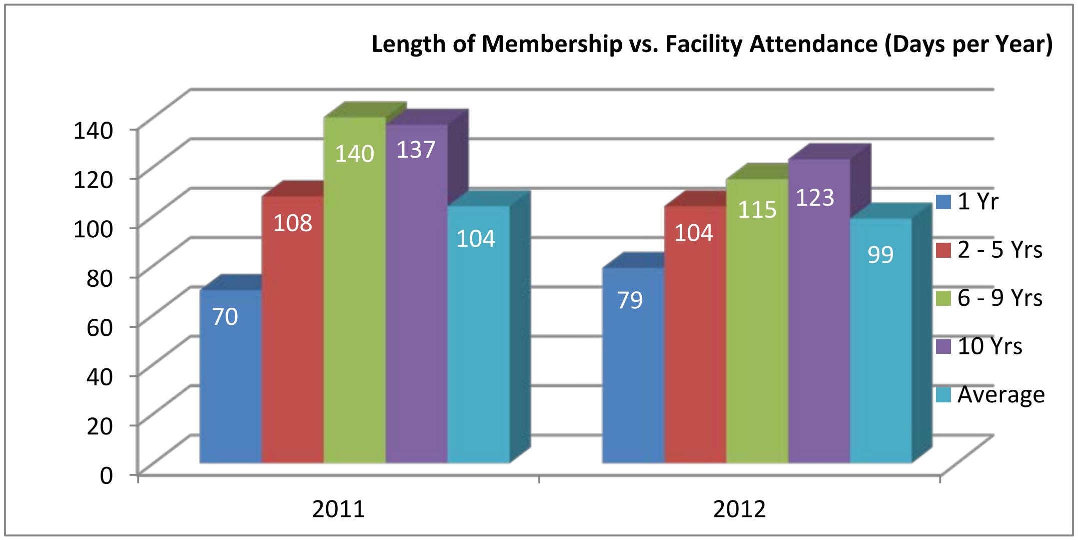
Despite Milton's recent fitness prices reductions, an annual adult Fit Max membership at M.L.C. is among the most expensive fitness alternatives in the local marketplace – only Oxygen Fitness charges more than the Town. And, the M.L.C. fitness centre is smaller and less well equipped than are most of its commercial competitors. Consequently, to be successful in capturing a larger share of the available market, the Town's value proposition must be perceived to be superior to its competitors' through differentiation of product (i.e. what is included in a membership), the quality of the facilities, programs and services and the level of customer service enjoyed by facility patrons (i.e. making sure that each and every user's experience is rewarding, satisfying and enjoyable).

Facility Traffic - A well understood industry fact is that fitness members' perception of value is directly linked to their frequency of facility use. Therefore, any initiatives that raise the number of visits of Milton's fitness pass holders will beneficially affect sales and ultimately revenue. According to commercial fitness club data, in 2012, the average health club member visited their club 99 times, about three days less than they did in 2011 (comparable current data is unavailable for public sector facilities). Over the past five years, average attendance for health clubs has held relatively steady ranging from a low of 98 visits in 2010 to a peak of 103 visits in 2011. This implies that the average club member visits a club about twice a week throughout the year.



IHRSA reports that in 2013, 41% of fitness members used their club at least 100 times annually. This number of "core members" climbed by 3% compared to use data from 2012. In fact, it would appear that in general the industry is experiencing a growth in the percentage of members who use their club less frequently.

A study of the relationship between length of time that a person has maintained a membership (tenure) and an individual's frequency of use is also revealing. In 2012 (the most recent year this metric was calculated), members who had been affiliated with the club for more than six years visited their facility on average 16 to 24 times more frequently than the average member and 36 to 44 times more often than first year members. IHRSA asks the question "Does health club tenure drive increased club usage, or does the increased frequency of club usage drive membership tenure?" Also, "Are tenured members those individuals who are the most health conscious and therefore the most likely to use their club more frequently?" What is clearly evident is once members pass the one year threshold of tenure, their use frequency dramatically increases. This is an important finding because members who stay at a facility will not only use the club more frequently, they will also spend more on non-dues related services such as specialty programming, personal training and lifestyle counseling. Importantly, heavy users stay longer which contributes to higher retention and lower sales and marketing costs.

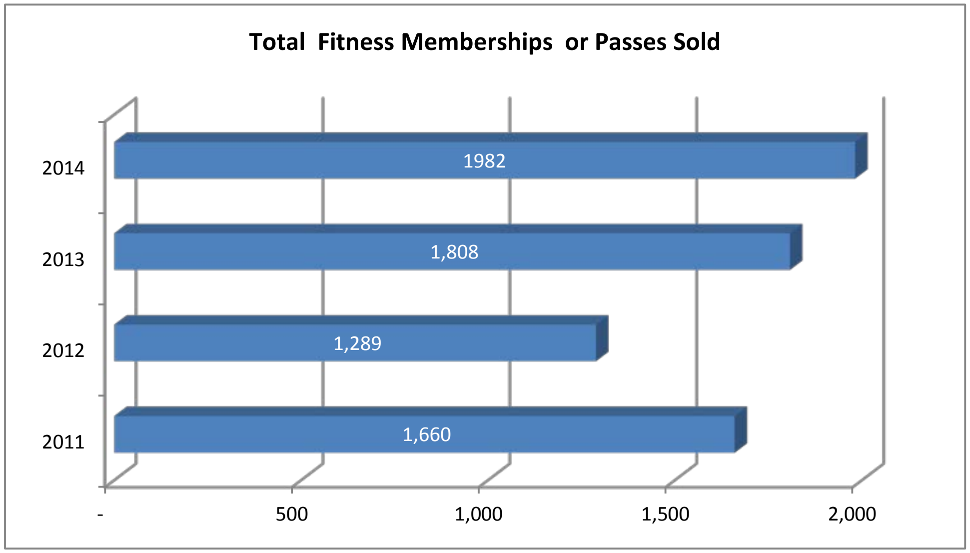


Fitness Membership & Pass Sales Performance

Membership and pass sales at the Leisure Centre fitness facility have significantly fluctuated over the past four years. In 2011, approximately 1,600 individual membership accounts were sold in the annual, 90 day and one month term categories. This sales performance was eroded by 22% of the following year before rebounding in 2013 and then again in 2014. It is likely the Town's price reduction and the introduction of a more convenient term length contributed to these sales improvements. In 2014, the Fit Fav membership represented 30% (590 units) of all sales with the Drop-in Flex Passes (411 units) contributing 20% to the membership count. While Fit Fav Aquafit was the least preferred option in the most recent operating year, sales of this pass type rose by 10% between 2013 and 2014.

It is important to distinguish between passes sold and the number of unique pass holders of the fitness facility. If a fitness centre offers a variety of short term alternatives, individuals will be inclined to buy several Flex 10 or Flex 30 passes over the course of a year. And because municipal fitness centres often cannot differentiate between short-term memberships bought by separate purchasers from several "repeat buys" by the same individual, member counts do represent the actual number of people using the facility. As is the case in most municipal facilities, Milton's fitness centre operation would benefit from a more sophisticated type of monitoring system that could accurately track members throughout the course of their relationships with the facility. This sort of system would also help in monitoring and assessing retention performance.

To normalize the membership sales performance, we have calculated the number of annual member equivalents over the past three years. Interestingly, while the number of total memberships or pass holders declined between 2011 and 2012 the number of annual membership equivalents actually rose by 8%. This trend continued in 2013 and 2014 when the number of the annual member equivalents rose by 42% and 10% respectively. This sales performance illustrates that not only is the Town's pricing and packaging strategy helping to attract additional fitness consumers, but also certain individual exercisers are staying with the facility for a longer duration of time – suggesting that member retention rates are improving.



Milton Leisure Centre Action Plans

For years, the M.L.C. fitness centre has been serving the fitness needs of facility members/pass holders, registered program participants and Milton residents who simply drop in for a work out. The Town's recent investment to renovate and re-equip the M.L.C. fitness centre demonstrates the municipality's commitment to its healthy community mandate through offering a modern facility from which quality fitness services can be delivered and enjoyed by Milton residents.

As suggested by much of the preceding information, operating a successful fitness business requires the deployment of a number of strategies to maintain the facility's relevance in the fitness community and to differentiate its value proposition in the minds of consumers. To thrive in a competitive market, operators must continuously deliver on their promise to help clients achieve healthy living and fitness goals in a pleasant, enjoyable environment. This requires consistent attention to the details of the business and ensuring that the centre's programs and services are on trend, top quality, convenient and affordable.

During the fact finding and consultation phase of this study, several informants indicated an interest in adding squash to the Town's inventory of fitness and sport alternatives. There are currently no squash courts in Milton and several local squash players must travel to clubs in Mississauga and other neighbouring jurisdictions. The sport of squash is currently undergoing a modest resurgence in popularity, especially in the area of doubles play. There would seem be an opportunity to add two singles courts in the M.L.C. gym, while leaving enough room to accommodate group exercise in the remaining space (albeit with smaller class sizes than are currently programmed in the gym from time to time). In Appendix F of this Plan, we have recommended that the Town investigate the feasibility of bringing squash to Milton. This investigation should examine the size of the available squash market as well as the capital and operating cost implications of this additional level of service. One alternative could be to work in partnership with the local squash community to probe capital funding opportunities (i.e. fundraising), operating models (potentially volunteers or a committee approach), etc.

Action Plans

D1. Increase the value proposition of an annual fitness membership by:

a) Increasing the premium paid by shorter term pass holders by lowering the monthly cost of an annual relationship with the centre.

b) Providing annual members greater access and preferred pricing for the Town's registered fitness programs – registered programs should also be available to short term pass holders but the price discount should be smaller and the advance registration preference should be less liberal.

D2. Establish a comprehensive marketing plan to promote the M.L.C. and M.N.C.C. fitness centres. The plan should include numerous integrated marketing, promotional, referral and public relations initiatives to ensure that Milton based fitness enthusiasts are aware of the facilities, programs, services prices and value proposition compared to competitors in the local market. The plan should strive to attract potential members/pass holders to "try it out" through either referral programs or introductory offers (Try 3 For Free for example). The plan should also include exposure of the fitness centre in the lobbies of the facilities so that visits to the centres could be leveraged into a sale of a fitness pass or membership.

D3. Investigate and acquire a fitness centre management software package to assist staff in tracking fitness centre performance metrics (such as retention) – preferably the selected software can be compatible and integrated with the CLASS system.

D4. Create (or identify) and implement a customer service training program to ensure that all facility and program staff are aware of their important contributions to members'/pass holders' positive experiences while at the fitness centre.

D5. Create and implement a member retention program. At a minimum, this should include a renewal incentive and could recognize and reward long term members for their continued patronage of the centre.

D6. Create a non-dues revenue generation strategy. Revenue produced through the sale of personal training sessions, registered programs, lifestyle, fitness and nutritional counseling, etc. are important sources of income that assist many fitness centres become and/or remain financially self-sustaining. This strategy should identify methods of generating as much supplementary income as possible from the centre's members/pass holders, registered program participants and casual users.

D7. Continuously strive to deliver an inventory of intriguing, fresh and inspiring physical activity and exercise programs to excite and interest members/pass holders and registered program participants. Where possible, cross program to take advantage of two or three different types of activities within a single class. Take people outside, make use of the park and path systems, bring in special instructors; whatever it takes to grab the attention and excite existing and potential participants.

Mattamy National Cycling Centre

As mentioned earlier, a full service fitness centre has been developed at the Mattamy National Cycling Centre (M.N.C.C.). The facility provides equipment based fitness services and programs for a wide variety of clientele including high performance or up-and-coming athletes affiliated with Sport Canada, Cycling Canada or other sport governing bodies that will be located at the M.N.C.C. The facility is be utilized by members of the Milton community on a fitness pass or membership basis. Finally, if the University establishes its Milton campus, the M.N.C.C. and its fitness centre will become the students' primary recreation and athletic venue.

Initially, the Town had planned to search for a qualified fitness management firm that would be contracted to operate the M.N.C.C. fitness centre. However, as the development has progressed and the Town's legacy obligations have been clarified, it is increasingly apparent that the facility's first few years of operations will be atypical to regular years of business after the initial turbulence subsides. In 2015, the M.N.C.C. will be unavailable for general use during the Pan and Parapan American Games. Due to the amount of time required to set up for the Games, stage the event and remove overlay equipment after the event, the facility will be out of service for about four months. And, given the unique nature of this world class building and the profile of the events it will likely attract in the future, these types of service interruptions may become commonplace.

Considering these issues and recognizing that the M.N.C.C.'s operating circumstance will be somewhat fluid until at least 2016, it would be difficult to establish a meaningful and productive management relationship with an external contractor during this period. Also, staff's dealings with the facility's developers, Sport Canada and others involved in the project would seem to put the Town in the best position to anticipate service interruptions or other operational issues and to establish mitigating responses. Consequently, it has been determined that the Town will initially operate the M.N.C.C. fitness centre. In view of this operating direction, we offer the following action plans.

Action Plans

D8. Update the business plan for the M.N.C.C. fitness centre including revenue and expense projections for the first five years of operation. The business plan should set out all contemplated operating functions and anticipated performance levels - based on comparable municipal metrics drawn from Town's previous fitness experiences. Most importantly, the plan should specify the program plan, staffing model and anticipated sales performance presented in a budget format.

D9. Operate the M.N.C.C. fitness centre in a manner relatively consistent with the operating profile of the M.L.C. fitness centre. While there may be a price premium paid for access to the higher quality fitness centre, the Town should leverage the transferability of patronage between the sites through a reciprocal use program. Accordingly, the recommended action plans presented for the M.L.C. fitness centre would also be applicable to the M.N.C.C. fitness facility.

D10. If/when the M.N.C.C.'s operation reaches a relative state of normalcy – i.e. service interruptions and other operational impediments are kept to a minimum or at least occur with some predictability – revisit the merits of contracting out the management of the fitness centre. If under municipal management the fitness facility were to perform in accordance with expectations – i.e. consistent with the business plans projections, the Town may elect to maintain its management model status quo. Conversely, if the preceding years' performances were below expectations – and the poor performance is not attributable to uncontrollable circumstances – seeking outside management assistance may be well advised.

If the Town were to proceed with a search and selection process, a combination of the fitness centre's business plan and its past performance would be used as a municipal comparator to guide the evaluation of proponent submissions.

Milton Sports Centre

As mentioned in the trends section of this report, consumer preferences seem to be gradually shifting towards more traditional forms of fitness endeavours such as using a person's body weight as a form of strength training resistance, core training making use of low tech balance balls or agility and flexibility exercises using stretching and posture strengthening techniques. Also, group or team training is gaining momentum as much for its social aspects as for its fitness results. None of these types of training opportunities require the provision of high tech equipment. Furthermore, the cardio and strength training area at the fitness centre at M.L.C. has unused capacity – a circumstance that could be exacerbated if the same type of facility were to be developed at the M.S.C. In combination, these factors lead us to recommend that the Town maintain the prevailing fitness strategy employed at the M.S.C. Where possible, the inventory of active living programs and the drop-in group exercise class schedule should be expanded or enhanced and staff should remain vigilant regarding the emergence of new "low tech" program or equipment trends. Additionally, the TRX system should be actively promoted as a simple, safe and effective training technique that can produce desired fitness results. Other recommended action plans include the following.

Action Plans

D11. Promote the fitness and active living programs and services at the M.S.C. as results focused, individual and group opportunities that take a balanced approach to achieving fitness goals. Differentiate M.S.C. from the equipment based facility at M.L.C. and M.N.C.C. by describing the facilities as complementary alternatives that can produce matching results while offering a different type of experience that helps to maintain an individual's interest. Additionally, leverage on the high volume of annual traffic that flows through M.S.C. (1.5 million visits per year) by cross promoting fitness opportunities, passes and memberships throughout the Town's entire system.

D12. Explore opportunities to deliver or expand the delivery of personal training and other individual or small group fitness training instruction at M.S.C. This would be an extension of the aforementioned non-dues revenue generation strategy.

D13. Investigate opportunities through which the M.S.C. can act as an active living hub from which community health and active living programs can be offered in the community rather than at either the M.L.C. or the M.S.C. site. This form of outreach may be particularly appealing to older adults segments of the market. Incorporated in this action would be opportunities to introduce fitness and active living programs that are organized outdoors, and could be focused on the use of complementary outdoor amenities in the Community Park south of the M.S.C.

Sherwood Community Centre

The program plan currently recommended for the Sherwood Community Centre does not contemplate the development of a traditional, equipment based fitness centre. It is therefore, anticipated that active living programs, drop-in group exercise classes, small group training instruction and other forms of fitness activities would be delivered at Sherwood – similar to the strategy for M.S.C. Additionally, there is an opportunity to leverage the older adult oriented space at Sherwood to bring an older adult focus to some of the fitness endeavours and active living programs offered at the community centre. For example healthy eating and cooking courses or fall prevention classes could target the needs of older adults who may already be on site to make use of the dedicated senior's space. As suggested above, these programs may also be delivered on an outreach basis. Creating an older adult focus for a portion of its program plan could help to modestly differentiate Sherwood from M.L.C. – although some of the adult and older adult programs would likely be transportable between all fitness sites as well as the Seniors' Activity Centre.

In a preceding section, we discuss the premise that the M.N.C.C. fitness centre will be expected to serve a variety of user groups. One of these groups would be University students who would consider the M.N.C.C. (and its fitness centre) as their primary athletic complex. In our experience, university students use fitness centres much more frequently than general fitness consumers – it is not unusual for university students to patronize a fitness facility 4.5 to six times per week compared to an average of two weekly visits by fitness enthusiasts from the general population. Given the size of the M.N.C.C. fitness centre and the expectation that will serve the needs of a variety of different groups, it is possible that the centre will become overcrowded. If this were to be an eventuality and should space permit, the Town could consider adding a traditional equipment based fitness centre to Sherwood. This suggestion is based on the relative proximity of the two sites (5 minute drive) coupled with the fact that a multi-purpose group exercise space and a swimming pool are already contemplated as part of the Sherwood development – which would allow for the delivery of a full service fitness centre similar nature to the M.L.C site. Therefore the recommended action plans are as follows.

Action Plans	D14. Develop and deliver a full complement of active living programs and drop-in exercise classes at the proposed Sherwood Community Centre. D15. Leveraging the presence of the proposed older adult satellite activity centre at the Sherwood Community Centre, design some of the active living program inventory with an older adult focus. D16. If the M.N.C.C. fitness centre is unable to accommodate the use requirements of the Town's partners at the M.N.C.C. - including the University – and should space permit, consider developing a full service, equipment based fitness facility at the proposed Sherwood Community Centre.