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TO:	CHAIR AND MEMBERS COMMUNITY SERVICES COMMITTEE MEETING ON DECEMBER 19, 2011
FROM:	WILLIAM C. COXHEAD DIRECTOR OF PARKS & RECREATION COMMUNITY SERVICES DEPARTMENT
SUBJECT:	MUNICIPAL GOLF – USE OF THIRD PARTY RE-SELLERS OF T-TIMES

RECOMMENDATION

That, on the recommendation of the Director of Parks & Recreation, with the concurrence of the Executive Director of Community Services, the following report **BE RECEIVED** for information purposes.

PREVIOUS REPORTS PERTINENT TO THIS MATTER
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Community & Neighbourhood Committee
 November 1, 2011 London's Municipal Golf System 2011 Financial Performance Update and 2012 Business Plan Recommendation

BACKGROUND

On November 1, 2011, an update on the London municipal golf system financial performance report was submitted. The report also advised that staff would be reporting on the merits of two proposals submitted by The London Golf Club and London Golf Trails to enter into agreements which would allow their membership to golf at the Municipal golf courses. This report addresses these proposals.

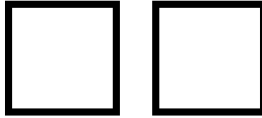
A brief synopsis of the proposals are noted below:

London Golf Club (LGC)

The London Golf Club is designed for London and area golfers who like to play a variety of courses at reduced rates. They are currently partnered with several golf courses in the area to provide a golf service that arranges for tee times at the member courses and offers opportunities for their members to access golf at different courses through a variety of membership options. The London Golf Club's proposal provides a preseason lump sum payment to the City of London to sell 90 membership "spots" to LGC. (See Appendix 'A')

London Golf Trail (LGT)

London Golf Trail is a division of Golf Trails Inc., powered by software developed by Tee-On Golf Systems. In association with London Golf Trail, 21 local area golf courses have come together to offer London and Area golfers a trail pass, which will allow golfers to save up to 40% at participating golf courses. The LGT was formed to give back marketing, financial and administrative control of the re-selling market back to the actual golf courses. The LGT allows courses to set their own price point, vote on Trail policies and share in Trail profits. (See Appendix 'B')



Municipal staff continues to be concerned about the impact of third part re-sellers (purchase of Tee times to be resold to others) on the golf operations in the short and long term. Our concerns were centred on a number of key concerns/risks which included:

- Alerts from the National Golf Course Owners Association on the pitfalls of third party re-sellers
- Allure of new (easy) revenue in the short term and the potential erosion of existing and future revenues in the short, medium and long term exceeding the initial benefit of the original revenue infusion resulting in:
 - Erosion of our loyal membership to the third party and associated revenue losses
 - Displacement of existing Green fee players and membership players from time slots which are already utilized
 - Inability to give our members the best value.
 - Accountability
 - Independence of rate setting
 - Artificially low rates becoming the normal practice which affects sustainability

We engaged the assistance of Price Waterhouse Cooper (PWC) to assist management in determining the risks/ rewards and potential financial impacts were if we were to chose either of the two proposals or remain independent as a Municipal system of five golf courses.

The National Golf course Owners have provided the following advice regarding third party resellers:

In response to widespread concerns expressed by Canadian golf course operators regarding the role of 3rd party tee time resellers, the NGCOA has established the following position”:

- i) For the purposes of this Position Statement, a 3rd Party Tee Time Reseller is defined as an entity other than the Golf Course itself that is in the business of provided sales and distribution of tee times, memberships and related services to golfers through intermediary websites or other marketing channels not owned by the Golf Course
- ii) Golf Courses should promote as much sales as possible directly through their own websites, pro shops or call centres.
- iii) If working with a 3rd Party Tee Time Reseller, Golf Courses should design marketing plans that position these Resellers as supporting strategies only, intended to drive incremental business and fill soft demand periods.
- iv) Golf Courses opting to work with 3rd Party Resellers should protect themselves by managing those business relationships according to the Best Practices

Price Waterhouse Cooper has provided the following analysis and advice:

Executive Summary

The City of London has engaged PwC to perform an analysis of two proposals received by management of the City in relation to the upcoming 2012 golf season from two golf re-sellers, LGC and LGT. The detailed report is attached to this summary, including the objectives, scope and assumptions underlying our analysis. (SEE APPENDIX 'D' for full report)This executive summary should not be read without referring to the supporting analysis, objectives, scope and assumptions that have been provided in the detailed report and may not be appropriate for the reader's purposes.

LGC proposal

For the City, under a fixed membership fee currently proposed by LGC, the best case scenario results in additional revenue to the City of \$180,000, which assumes that no cannibalization of existing city membership/fees occurs. This best case scenario can be improved in the case that the City negotiates membership fees based on a lower fixed basis and a variable component,



assuming that LGC members play in excess of 9,000 rounds on City courses and again that no cannibalization of existing City membership/fees occurs. The worst case scenario results where there is significant cannibalization (i.e. in excess of 10%) of existing City of London unlimited and regular memberships. Where that occurs, the net impact on City revenues could be a negative outcome of approximately \$350,000 or worse if cannibalization reaches 40% or higher.

LGT proposal

Under the LGT proposal, assuming a price point is selected of 1 for the Hickory 9, 2 for River Road and Fanshawe Quarry, and 3 for Thames Valley Classic and Fanshawe Traditional, the best case scenario results in additional revenues to the City of approximately \$420,000. This assumes that all available City course time slots for LGT members are utilized and that this revenue is purely incremental, i.e. no revenue is lost from existing members and guests. The worst case scenario results where there is significant cannibalization of existing City of London unlimited and regular memberships, with no corresponding uptake of rounds by LGT members. Where that occurs, the net impact on City revenues could be a negative outcome of approximately \$530,000 or worse if cannibalization reaches 40% or higher.

There are also a number of qualitative factors and risks to consider for both proposals, including the expected level of cannibalization which is difficult to quantify, controls at the point of sale and over reporting back from either LGC/LGT that impacts City revenues, the contract that the City will enter into, and the ability to restrict the time slots in which LGC or LGT members can play.

***The City also has the option of not entering into an arrangement with either LGC or LGT.** Although this option does still come with some risk due to potential lost membership base to LGC and LGT, **it is likely the lowest risk option.** It is our understanding through discussion with City management that 2011 was a historically lower round year in terms of membership base and rounds played due to the poor spring weather, and that volume of rounds is expected to improve under the current model for 2012.*

CONCLUSION

Price Waterhouse Cooper has concluded that there are significant financial risks and have provided data to show that erosion of membership or in their terms “cannibalization and membership swapping” of our members is a valid and likely outcome. It is however difficult to determine the magnitude and timing of the revenue losses due to cannibalization of our members over time. There are several scenarios and options to the proposals that were assessed in the attached review. The most likely and/or most reasonable scenarios that would be chosen for their potential financial reward still carry an unreasonable amount of risk if even a small percentage of members leave the City of London system. It’s important to note that the cannibalization of only 13.3 % negates the entire initial benefit of \$180,000 of upfront money in one proposal and similarly 0 to 30 % of membership swapping negates the entire benefit of revenue at the end of the season in the other. PwC advises that it is unlikely that no current members of the municipal system will move to the LGT or LGC. The other key deterrent is the fact that full paying green fee players will also be displaced by discounted rate “Golf Club” or “Trail” members.

The NGCOA and PwC both believe the best opportunity to work with 3rd party re-sellers is as supporting strategies only to help fill underutilized tee times that exist daily. Administration will continue to pursue opportunities to work with 3rd party re-sellers and evaluate each proposal on its merits of revenue generation, mass marketing, tourism and contribution to the long term sustainability of the municipal golf system.

Administration has evaluated the proposals in this context and in addition considered:

- the significant efforts in 2011 to improve the customer experience, increase participation

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- and increase revenue from all sources
- The fact that we already have a system of golf with a variety of golf experiences over 5 golf courses.
 - That there are risks of cannibalizing and displacing existing revenue streams that can negate the benefit of upfront or post season payments
 - There are administrative concerns with reporting and processes involved with shared revenue in the “trail” proposal

Administration is not recommending entering into an agreement with either of the proponents of the two proposals evaluated. The risk/reward analysis from PwC reveals too great a risk to enter into an agreement at this time. The potential negative impact on our membership base, our current business strategies, financial practices, advertising, and the appearance of business alliances in the local golf market are too high. The potential risks both financially and philosophically outweigh the potential gains of entering into agreements with either of the current re-seller proposals.

The City of London golf properties currently offer many of the advantages proposed by the third party re-sellers by having a variety of membership options and diverse golf course offerings that include a full spectrum of golfing experiences from the accessible Parkside Nine to the championship layout of the historic Thames Valley Classic.

The Municipal Golf System continues to show strong signs of improvement with the fall season resulting in a continued increase in number of rounds played over 2010. The strategies and goals in the 2011/12 Golf Business Plan, developed in cooperation with the Golf Task Force, are realistic and promote our goals and mandate to increase participation, generate revenue and improve the golf experience. We look forward to maintaining the momentum as we turn the curve. Introduction of any strategies that involve immeasurable risk at this time may undo the positive work completed to date or in the future and may jeopardize the sustainability of the municipal golf system.

Municipal golf at its core exists to ensure there is an affordable and accessible option for residents to enjoy the recreational and social advantages the game of golf has to offer. Partnering with several, if not most of the golf properties in the area may have the appearance of artificially establishing market rates.

SUBMITTED BY:	
SCOTT STAFFORD, DIVISION MANAGER, PARKS & COMMUNITY SPORTS DEPARTMENT OF COMMUNITY SERVICES	
RECOMMENDED BY:	CONCURRED BY:
WILLIAM C. COXHEAD DIRECTOR OF PARKS & RECREATION DEPARTMENT OF COMMUNITY SERVICES	ROSS L. FAIR EXECUTIVE DIRECTOR DEPARTMENT OF COMMUNITY SERVICES

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APPENDIX 'A'
LONDON GOLF CLUB PROPOSAL



London Golf Club - City Of London Municipal Golf Courses Partnership

Benefits to the City Of London

- No cost to the city to integrate with LGC
- 1300 + additional golfers to municipal courses
- payment in advance
- negative spring weather would have a far less financial impact (with LGC advance)
- Additional revenue from food sales & cart rentals
- instant marketing outside of London through our sister clubs in GTA, Tri-City and Chicago to 3500 golfers
- tournament partnership
- promotion to the city Junior Golf Program to our members
- long term commitment to the partnership
- promotion of the City courses in conjunction with the LGC other courses as a London Golf Destination with cross promotions involving City of London events, private businesses, hotels etc.

**Financial Proposal to the City Of London Municipal Golf Courses
By The London Golf Club**

Proposal A

- London Golf Club will purchase 80 *memberships at \$1550 per membership from the municipal courses. The amount will be paid in 3 equal instalments on December 1st, 2011, February 1st, 2012, and April 1st, 2012.
- On November 15th LGC will pay a 10% bonus (based on the above calculation) upon agreement of the City of London-London Golf Club partnership being completed by November 15th, 2011
- LGC agrees to pay a further 5% bonus, based on rounds played on the 80 memberships, at the conclusion of the 2012 golf season.

Proposal B

- London Golf Club will purchase 80 *memberships at \$2000 per membership from the municipal courses. The amount will be paid in 3 equal instalments on December 1st, 2011, February 1st, 2012, and April 1st, 2012.
- *Each membership will permit one LGC member to golf at any one of the 3 municipal courses each day of the 2012 golf season.

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APPENDIX 'B'
LONDON GOLF TRAIL PROPOSAL



THIRD PARTY TEE TIME RESELLER

PROPOSAL FOR

THE CITY OF LONDON

MUNICIPAL GOLF SYSTEM

Proposal made by:
London Golf Trail,
a division of Golf Trails Inc.
365 Blue Forest Drive
London, Ontario N6G 3K1
519-649-8153



3rd Party Resellers

3rd Party Resellers can be utilized to a Golf Club's benefit but it is critical to manage the terms and conditions of the agreement so it is of benefit in the long term not just the short term.

The National Golf Course Owners Association (NGCOA) has issued an Official Position Statement on *3rd Party Resellers* because of its importance to the industry as a whole. The position statement outlines both Critical Best Practices and Additional Best Practices to incorporate into an agreement with a 3rd Party Reseller (see attached Schedule I).

London Golf Trail

The London Golf Trail (LGT) was formed in order to address a number of the Best Practices discussed in the NGCOA Position Statement that were not being addressed by any of the 3rd Party Resellers currently in the local market place.

LGT specifically addresses the following key marketing, financial and administrative issues not available from any other 3rd party reseller currently in the London & Area market place.

1. **Member Perks** – existing members of participating golf clubs are given a benefit to play LGT courses Monday to Thursday at the LGT rate.

Therefore club members have no reason to choose between the Golf Club and LGT. *Existing members are essentially encouraged to remain members at their current golf clubs.* The key is to maintain member loyalty. There is no benefit to receiving money up front and then giving it back through the erosion of membership revenue as takes place with other 3rd party resellers.

2. **LGT Golf Members** – LGT has an excellent value proposition for golfers that want to enrich their golfing experience by playing a number of different courses and not belong to any one golf club.
3. **LGT Club Participants** – Golf Club Operators benefit from a better per round green fee rate. This means the dollars are staying in the industry ensuring the long term viability of the industry in the local market. LGT is not a typical 3rd party reseller as we do not mark up green fees. LGT works on a flat rate management fee.

Long Term Negatives to Watch Out for with most 3rd Party Resellers

1. Marketing – ensure reseller does not market without your express permission
2. Best Rate Guarantee – must be able to control price set in resellers program
3. Database Ownership – courses should get access to this key marketing information
4. Brand Protection – course should retain right to determine content of any presentations
5. Selective Inventory – course needs to have the right to offer tee time inventory that is in it's best interest
6. Loyalty & Membership Programs – need to ensure your own members are getting the best rate and not compete against your own programs
7. Price Parity – golf course should retain right to set prices in all marketing channels
8. Contract – there should be a signed contract and a specified term.



LGT Operating Policies

Who is London Golf Trail? LGT is a division of Golf Trails Inc., powered by software developed by Tee-On Golf Systems a well known supplier of golf tee sheets and POS software to the golf industry.

In association with LGT, twenty one local area golf courses have come together to offer London and area golfers a **'trail pass'**, which will allow golfers to save up to 40% on green fees at participating courses during the 2012 golf season.

The London Golf Trail Pass is designed to meet the needs of golfers who play regularly (e.g. 10 + times per season) but who prefer to play a variety of courses. Recognizing this important segment of the golf market, participating courses have come together to form the **London Golf Trail to promote the game of golf in the London region.**

With London and area already being served by three 3rd party resellers the LGT was formed to give back marketing, financial and administrative control of the reselling market to the actual courses supplying the inventory. It should be noted that 15 former local area participants in the London Golf Club have switched to LGT. LGT allows courses to:

1. Set their own price levels,
2. Vote on all Trail policies, and
3. Share in all Trail profits thus putting more money back into the golf industry.

Pricing policies and the financial outlook are outlined in Schedule II attached.

Participating Golf Clubs

Participating clubs have guaranteed they will be exclusive to the London Golf Trail. The LGT is still adding courses however the number of courses will soon be limited. Every course joining now is considered a founding member and has a vote in the policies of the Trail. The current list of participating courses includes:

Arkona	Maple Ridge
Bear Creek	Mitchell
Caradoc Sands	Mount Elgin
Cobble Hills	Oakwood Resort
East Park	Pine Knot
Fox Golf Club	Sandhills
Hickory Ridge	St. Mary's
Indian Hills	Tamarack Ridge
Ironwood	Westminster Trails
Llyndinshire	Widder Station
Seaforth	



Web Site

LGT is not a typical 3rd party reseller as we do not mark up green fees. LGT works on a flat rate management fee. Everything about the club works from its web site at www.londongolftrail.com.

Tee-On Golf Systems, a well know software provider for the Golf Industry has created Golf Trails Inc., as a new venture to utilize its trail software developed for other markets in North America. The London Golf Trail is a division of Golf Trails Inc. Tee-On develops tee sheet and point of sale software for the golf industry.

All the technology used at www.londongolftrail.com is in use within the Tee-On software in other applications.

The web site is up and running and ready for business:

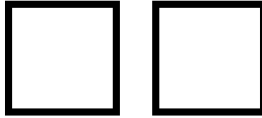
1. **Trail Passes (Basic)** - can be purchased online. The basic Trail Pass allows golfers to golf at the participating clubs by purchasing a green fee at the price listed on the web site for each club. The green fee, when using the basic Trail Pass is collected at the golf course and kept by the participating golf course.
2. **Trail Pass with Green Fee Credits (etickets)** – trail passes can be purchased with green fee credits. The more credits purchased the cheaper the per round cost for the golfer. When eticket credits are used the web site tracks where they were used. The golf course is reimbursed for usage at the end of each month at the rate of \$19 per round (plus HST).
3. **Eticket** - usage by the golfer is tracked online as well. The system always knows how many credits each golfer has remaining. Any upgrade revenue, such as weekend upgrade fees, are collected by the golf course and kept by the golf club.
4. **Booking Tee Times** – tee times can be booked online. For golf clubs using the Tee-On tee sheet the booking will be made directly into their tee sheet. For clubs using other tee sheets the golfer must call to confirm their booking with the club. LGT plans on automating this function with other tee sheet programs utilized by the various participants where possible.
5. **Membership Revenue** – membership revenue collected by LGT will be divided at the end of each season between the participating clubs, net of expenses, on a formula based on the number of rounds at each participating club.

Summary

The City of London Municipal Golf System is invited to join the London Golf Trail. The City has the ability to control their price point by picking the category they would like to place their courses. Each course can be in a different category if that suits the City's pricing strategy.

The key to joining the LGT is that the existing golf members of the City courses will be encouraged to remain members of the City courses. Their members will be able to access any LGT participating golf course at the LGT posted green fee rates, Monday to Thursday.

The City of London golf system has lost approximately 1,000 members over the last number of years. This is primarily due to 3rd party resellers coming into the market place and duplicating what the City has "a system of golf courses". The LGT model allows the City to participate with a 3rd Party Reseller to fill slow times and at the same time stem the erosion of membership revenue and perhaps longer term start to grow that revenue line item.



APPENDIX 'C'
NGCOA Official Position Statement re: 3rd Party Tee Time Resellers



National Golf Course Owners Association Canada
Association nationale des propriétaires de terrains de golf du Canada

Official Position Statement:

3rd PARTY TEE TIME RESELLERS
Board Approval – March 3, 2011

In response to widespread concerns expressed by Canadian golf course operators regarding the role of 3rd Party Tee Time Resellers, the National Golf Course Owners Association Canada has established the following position:

Official Position Statement

- i) For the purposes of this Position Statement, a 3rd Party Tee Time Reseller is defined as an entity other than the Golf Course itself that is in the business of providing sales and distribution of tee times, memberships and related services to golfers through intermediary websites or other marketing channels not owned by the Golf Course.
- ii) Golf Courses should promote as much sales as possible directly through their own websites, pro shops or call centres.
- iii) If working with a 3rd Party Tee Time Reseller, Golf Courses should design marketing plans that position these Resellers as supporting strategies only, intended to drive incremental business and fill soft demand periods.
- iv) Golf Courses opting to work with 3rd Party Resellers should protect themselves by managing those business relationships according to the Best Practices described below.
- v) The NGCOA Canada's primary role with respect to 3rd Party Tee Time Resellers is to provide consultation to its membership.

Critical Best Practices

If contracting a 3rd Party Tee Time Reseller, the NGCOA Canada recommends that the Golf Course include each of the following Critical Best Practices:

SIGNED WRITTEN CONTRACT

All agreed upon terms and conditions should be contained within a written contract signed by representatives of both parties who have the authority to execute binding legal agreements.

TERM

The term of the agreement should be clearly defined. The Golf Course should have the right to immediate termination with no penalty for any breach of the agreement by the 3rd Party, and the shortest possible notice period for termination without cause.

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BEST RATE GUARANTEE

The Golf Course should have the right to require that their own posted rates and promotions are the best offers at all times, or equivalent to the best available. Any exceptions should require written consent in advance.

DATABASE OWNERSHIP

The 3rd Party should provide unfiltered access to the Golf Course of all pertinent customer information, forwarding all such data in whatever form and timing is mutually agreed upon. The Golf Course acquires ownership of all such data immediately upon receipt.

PAYMENT MODEL

Terms of payment should be clearly defined. The NGCOA Canada recommends a commission-based model which assumes a reasonable percentage paid to the 3rd Party on tee times actually sold. If a merchant model is used instead (course provides tee time at net rate to 3rd party, 3rd party sells to golfer at gross rate), then a defined mark up from net to gross rates should be included in the agreement.

AUCTION MODEL

No auctioning of tee times by the 3rd Party should be permitted without expressed written consent by the Golf Course.

URL OWNERSHIP

The Golf Course should own and protect its Uniform Resource Locator (URL) for all of its own websites at all times.

SEARCH ENGINE OPTIMIZATION

To protect the Golf Course from online golfer searches being diverted away from its own websites, the 3rd Party should not use the Golf Course or related facility names for their own search engine optimization (SEO) without written consent of the Golf Course.

BRAND PROTECTION

The 3rd Party should only utilize the Golf Course's name, logo, slogans, photographs, or promotions for the marketing purposes specified within the contract. The Golf Course retains the sole right to determine any updated presentation of these marketing properties on the 3rd Party website and any other marketing materials.

SELECTIVE INVENTORY

The Golf Course should retain the right to offer the 3rd Party only that tee time inventory that it deems to be in its own best interest.

LOYALTY & MEMBERSHIP PROGRAMS

Any 3rd Party loyalty or membership programs that leverage the customers of the Golf Course should be fully disclosed within the contract. The Golf Course should be diligent about protecting itself from any such programs that will be competing against its own loyalty or membership.

INDEMNIFICATION & REGULATORY COMPLIANCE

The 3rd Party should protect the Golf Course from all possible liability for taxation and regulatory matters related to the resale of tee times, both provincially and federally. The 3rd Party should be fully compliant with all relevant regulatory standards, including the Privacy Act and PCI.



Additional Best Practices

Beyond the Critical Best Practices noted above, the NGCOA Canada suggests that Golf Courses also consider implementing the following terms and conditions:

ADDITIONAL SERVICES

If the 3rd Party is offering additional services beyond tee time reselling, all such services and any related fees should be specified within the contract.

PRICE PARITY

The Golf Course retains the sole right to impose price parity (same price for same product throughout all marketing channels).

ONLINE LINKS

The 3rd Party should be required to fully disclose all proposed links to any other sites, in writing and in advance.

TRANSFERABILITY

The 3rd Party should not be entitled to sell, give or partner its reseller services to any other 3rd Party without the Golf Course having the right to terminate or adjust the terms and conditions of the agreement.

EXCLUSIVITY

The Golf Course should retain the right to work with any other 3rd Parties.

CONFIDENTIALITY

The 3rd Party should not be entitled to a confidentiality clause that prevents the Golf Course from disclosing the terms and conditions of the contract

PROPRIETARY BUSINESS INFORMATION

The Golf Course should request reasonable protection for all proprietary business information that may be exposed to the 3rd Party as a result of the business relationship.

SUPPORT SERVICES

The contract should define all of the 3rd Party support services to the Golf Course, including IT, customer relations, marketing and consultation.

LEGAL ENTITY

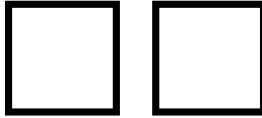
The contract should define the legal business configuration of the 3rd Party and clearly state that the 3rd Party will present itself as being totally independent from the Golf Course.

About the National Golf Course Owners Association Canada (NGCOA Canada):

The NGCOA Canada is a not-for-profit trade association providing business support to Canadian golf facility operators. It is owned and governed by its membership.

The Association was formed in 1993, with head offices in Ottawa, Ontario and eight regional chapters throughout Canada. At this time, the NGCOA Canada membership is approximately 1330.

The NGCOA Canada board of directors is comprised of 20 golf course operators, representing all regions of the country, plus the CEO. This governing body establishes NGCOA Canada policy on behalf of the membership, including this Official Position Statement.



APPENDIX 'D'
PwC Report



November 29, 2011

Report on the proposals received by the City from the London Golf Club (“LGC”) and London Golf Trail (“LGT”)

Executive Summary

The City of London has engaged PwC to perform an analysis of two proposals received by management of the City in relation to the upcoming 2012 golf season from two golf re-sellers, LGC and LGT. The detailed report is attached to this summary, including the objectives, scope and assumptions underlying our analysis. This executive summary should not be read without referring to the supporting analysis, objectives, scope and assumptions that have been provided in the detailed report and may not be appropriate for the reader’s purposes.

LGC proposal

For the City, under a fixed membership fee currently proposed by LGC, the best case scenario results in additional revenue to the City of \$180,000, which assumes that no cannibalization of existing City membership/fees occurs. This best case scenario can be improved in the case that the City negotiates membership fees based on a lower fixed basis and a variable component, assuming that LGC members play in excess of 9,000 rounds on City courses and again that no cannibalization of existing City membership/fees occurs. The worst case scenario results where there is significant cannibalization (i.e. in excess of 10%) of existing City of London unlimited and regular memberships. Where that occurs, the net impact on City revenues could be a negative outcome of approximately \$350,000 or worse if cannibalization reaches 40% or higher. In summary, the City would retain zero incremental revenues with a cannibalization rate of 13.5% or higher for Model 1 under this scenario.

LGT proposal

Under the LGT proposal, assuming a price point is selected of 1 for the Hickory 9, 2 for River Road and Fanshawe Quarry, and 3 for Thames Valley Classic and Fanshawe Traditional, the best case scenario results in additional revenues to the City of approximately \$420,000. This assumes that all available City course time slots for LGT members are utilized and that this revenue is purely incremental, i.e. no revenue is lost from existing members and guests. The worst case scenario results where there is significant cannibalization of existing City of London unlimited and regular memberships, with no corresponding uptake of rounds by LGT members. Where that occurs, the net impact on City revenues could be a negative outcome of approximately \$530,000 or worse if cannibalization reaches 40% or higher. If we assume a loss of City memberships between 0% and 30%, the City would require 1,000 to 4,000 incremental rounds from a LGT arrangement in order to experience incremental revenue.

There are also a number of qualitative factors and risks to consider for both proposals, including the expected level of cannibalization which is difficult to quantify, controls at the point of sale and over reporting back from either LGC/LGT that impacts City revenues, the contract that the City will enter into, and the ability to restrict the time slots in which LGC or LGT members can play.

The City also has the option of not entering into an arrangement with either LGC or LGT. Although this option does still come with some risk due to potential lost membership base to LGC and LGT, it is likely the lowest risk option. It is our understanding through discussion with City management that 2011 was a historically lower round year in terms of membership base and rounds played due to the poor spring weather, and that volume of rounds is expected to improve under the current model for 2012.

*PricewaterhouseCoopers LLP Chartered Accountants
465 Richmond Street, Suite 300, London, Ontario, Canada N6A 5P4
T: +1 519 640 8000, F: +1519 640 8015, www.pwc.com/ca*

PwC refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

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November 29, 2011

Report to Management of the Corporation of the City of London

Subject: Report on the proposals received by the City from the London Golf Club (“LGC”) and London Golf Trail (“LGT”)

Background

PricewaterhouseCoopers LLP (“PwC”, “we”, “us” or “our”), have been requested by the Corporation of the City of London (the “City”), to perform an analysis of two proposals received by management of the City in relation to the upcoming 2012 golf season from two golf re-sellers, LGC and LGT.

The scope and terms of this engagement were agreed to in our engagement letter dated November 3, 2011. In particular, we were engaged by the City to perform the following procedures:

- Create a financial model based on the proposals received identifying the financial impact and key assumptions used;
- Consider additional quantitative and qualitative factors for City management’s consideration in deciding whether or not to adopt one of the proposals; and
- Provide a report to City management detailing the results of the financial model and other considerations to assist management in the decision relating to the proposals.

This report provides our results of the financial model upon completion of the above procedures.

Objectives and Scope

The objective of our procedures was to review the proposals submitted by LGC and LGT and provide commentary on the quantitative and qualitative factors for consideration by City management. Management of the City are responsible for the information provided in order for us to complete our assessment and for the underlying data and assumptions. PwC has not performed any procedures to verify the accuracy or completeness of the information utilized in our assessment.

We will provide no opinion, attestation or other form of assurance with respect to our work or the information upon which our work is based. The procedures we have performed do not constitute an examination or a review in accordance with generally accepted auditing standards or attestation standards.

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LGC proposal

PwC made the following overall assumptions in analyzing the LGC proposal:

- Assuming 90 memberships are sold to LGC;
- Assuming a golf season lasts 200 days;
- Assuming that any change in number of rounds played would have an insignificant impact on overall costs of running the courses (i.e. nil variable costs);
- Assuming any ancillary golf course revenues will remain unchanged;
- Assuming a variable revenue of \$19/round can be negotiated for each additional round played over 9,000 rounds for Model 2;
- Assuming cannibalization only applies to regular and unlimited Members (i.e. daily fee guests will not convert to an LGC membership); and
- Total revenue and number of rounds played in 2011 represent figures up to November 10, 2011. No extrapolation of these figures has been performed.

Based on the assumptions utilized, the expected impact on net revenues of the City is approximated as follows under the below scenarios:

SCENARIO 1: Lost City membership (regular and unlimited members), assuming different percentages of lost membership (i.e. cannibalization caused by City regular/unlimited member turning into an LGC member), and assuming 100% utilization of memberships.

Model 1 (Fixed): \$2,000 per Membership

Assumed level of cannibalization	0%	10%	20%	30%	40%	Breakeven cannibalization
Impact on net revenue	\$180,000	\$47,698	(\$84,604)	(\$216,905)	(\$349,207)	13.5%

In summary, the City would retain zero incremental revenues with a cannibalization rate of 13.5% or higher for Model 1 under this scenario.

Model 2 (Fixed & Variable): \$1,550 x 1.15 = \$1,782.50 per membership plus an overage amt for each additional round of golf played over 9,000 rounds

# of rounds > 9,000	Assumed level of cannibalization	0%	10%	20%	30%	40%	Breakeven Cannibalization
0	Impact on Net Revenue	\$160,425	\$28,123	(\$104,179)	(\$236,480)	(\$368,782)	12%
1,800		\$194,625	\$62,323	(\$69,979)	(\$202,280)	(\$334,582)	14.5%
3,600		\$228,825	\$96,523	(\$35,779)	(\$168,080)	(\$300,382)	17%
5,400		\$263,025	\$130,723	(\$1,579)	(\$133,880)	(\$266,182)	19.5%

In summary, the City would retain zero incremental revenues under a cannibalization rate between 12% and 19.5% and higher for Model 2 under this scenario.

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SCENARIO 2: No City members are lost, but spots taken by LGC members result in direct lost green fees from **regular members** as prime hour spots are taken up by LGC members, and that 22.5 rounds are played on each of Thames Valley Classic, Fanshawe Traditional, Fanshawe Quarry, and River Road.

Model 1 (Fixed):

Assumed level of LGC membership utilization	40%	50%	60%	70%	80%
Impact on net revenue	\$90,900	\$68,625	\$46,350	\$24,075	\$1,800

In summary, under Model 1, the City's retention of excess net revenues declines proportionately with a higher level of utilization of membership by LGC members.

Model 2 (Fixed & Variable):

Assumed level of LGC membership utilization	40%	50%	60%	70%	80%
Impact on net revenue	\$71,325	\$49,050	\$60,975	\$72,900	\$84,825

In summary, Model 2, which assumes no loss of City memberships, shows a potential for retention of net revenues at a minimum of \$49,050.

SCENARIO 3: No City members are lost, but spots taken by LGC members result in direct lost green fees from **guests (non-members)** as prime hour spots are taken up by LGC members, and that 22.5 rounds are played on each of Thames Valley Classic, Fanshawe Traditional, Fanshawe Quarry, and River Road.

Model 1 (Fixed):

Assumed level of LGC membership utilization	40%	50%	60%	70%	80%
Impact on net revenue	\$1,800	(\$42,750)	(\$87,300)	(\$131,850)	(\$176,400)

In summary, Model 1, which assumes guest (non-member) rounds of golf are replaced by LGC members, the City's net loss position increases proportionately as utilization of the LGC membership increases beyond 40%.

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Model 2 (Fixed & Variable):

Assumed level of LGC membership utilization	40%	50%	60%	70%	80%
Impact on net revenue	(\$17,775)	(\$62,325)	(\$72,675)	(\$83,025)	(\$93,375)

In summary, Model 2, which assumes guest (non-member) rounds of golf are replaced by LGC members, the City is in a net loss position at a lower utilization rate than in Model 1, however, these losses do not increase as rapidly as they do in Model 1

LGT proposal

PwC made the following assumptions in analyzing the LGT proposal:

- Price points used in analysis represent the cost of a round of golf on a weekday (and therefore, do not take into account the \$5 surcharge applied to rounds of golf on weekends before noon);
- Assuming that any cannibalization that occurs is to base level LGT members;
- For scenarios 2 and 3, assuming 100 spots are made available for LGT members (20 per course);
- Assuming a golf season lasts 200 days;
- Assuming cannibalization only applies to regular and unlimited members (i.e. guests will not convert to an LGT or Participating LGT course membership as a result of the City joining LGT);
- Assuming all 5 courses are enlisted in the LGT program, resulting in a sunk cost (membership fees) of \$500 per course = \$2,500;
- Assuming that any change in number of rounds played would have an insignificant impact on overall costs of running the courses (i.e. nil variable costs);
- Assuming any ancillary golf course revenues will remain unchanged;
- Assuming year-end division of net revenue results in \$0.50 per round played by LGT members on City courses; and
- Total revenue and number of rounds played in 2011 represent figures up to November 10, 2011. No extrapolation of these figures has been performed.

Based on the assumptions utilized, the expected impact on net revenues of the City is approximated as follows under the below scenarios:

SCENARIO 1: 1 for 1 membership swap - i.e. regular/unlimited City member turns into an LGT or Participating LGT course's member; and assuming total number of rounds played at courses remains constant.

As noted by the charts below, assuming the number of rounds of golf remains constant, a direct conversion of City memberships to LGT memberships under a price point of 2 for the Thames Valley Classic and Fanshawe Traditional courses would leave the City in a net loss position. The City would experience net incremental revenues if a price point of 3 was selected for these two courses.

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Price Points of 1, 2 & 3 (Hickory 9 = 1, Fanshawe Quarry and River Road = 2, Thames Valley Classic and Fanshawe Traditional = 3):

Percentage of City membership swapped	0%	25%	50%	75%	100%
Impact on net revenue	(\$2,500)	\$20,518	\$43,536	\$66,553	\$89,571

Price Points of 1 & 2 (Hickory 9 = 1, Fanshawe Quarry, River Road, Thames Valley Classic, and Fanshawe Traditional = 2):

Percentage of City membership swapped	0%	25%	50%	75%	100%
Impact on net revenue	(\$2,500)	(\$26,992)	(\$51,485)	(\$75,977)	(\$100,469)

SCENARIO 2: Incremental revenue derived from LGT member sales, assuming no lost membership to LGT or other courses, and assuming 20 spots are made available at each of the 5 courses for all 200 days of the golf season.

As noted by the charts below, the City would benefit from incremental revenue as long as there would be no loss of City memberships to LGT member courses. Revenues noted below relate to incremental rounds played by LGT members on City courses above existing rounds.

Price Points of 1, 2 & 3:

Total number of rounds played per course per season	0 (=0% utilization)	1,000 (=25%)	2,000 (=50%)	3,000 (=75%)	4,000 (=100%)
Impact on net revenue	(\$2,500)	\$103,000	\$208,500	\$314,000	\$419,500

Price Points of 1 & 2:

Total number of rounds played per course per season	0 (=0% utilization)	1,000 (=25%)	2,000 (=50%)	3,000 (=75%)	4,000 (=100%)
Impact on net revenue	(\$2,500)	\$93,000	\$188,500	\$284,000	\$379,500

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SCENARIO 3: City memberships lost (regular and unlimited members), with no corresponding gain in rounds played by LGT members or Participating LGT course members or change in number of rounds played by retained City members.

Percentage of City membership lost	0%	10%	20%	30%	40%
Impact on net revenue	(\$2,500)	(\$134,802)	(\$267,104)	(\$399,405)	(\$531,707)

Under this scenario, the City would be in a net loss position if City members move to LGT memberships and no corresponding rounds are replaced by LGT or Participating LGT course members

SCENARIO 4: City memberships lost (regular and unlimited members) with no change in number of rounds played by retained City members, partially offset by revenue derived from rounds of golf played on City courses by LGT members (assuming 20 spots are made available at each of the 5 courses for all 200 days of the golf season).

As noted by both of the charts below, assuming a loss of City Membership between 0% and 30%, the City would require 1,000 to 4,000 incremental rounds of golf from an LGT arrangement in order to experience incremental revenues.

Price Points of 1, 2 & 3:

Percentage of City Membership Lost	Total number of rounds played per course per season				
	0	1,000	2,000	3,000	4,000
0%	(\$2,500)	\$103,000	\$208,500	\$314,000	\$419,500
10%	(\$134,802)	(\$29,302)	\$76,198	\$181,698	\$287,198
20%	(\$267,104)	(\$161,604)	(\$56,104)	\$49,396	\$154,896
30%	(\$399,405)	(\$293,905)	(\$188,405)	(\$82,905)	\$22,595
40%	(\$531,707)	(\$426,207)	(\$320,707)	(\$215,207)	(\$109,707)

Price Points of 1 & 2:

Percentage of City Membership Lost	Total number of rounds played per course per season				
	0	1,000	2,000	3,000	4,000
0%	(\$2,500)	\$93,000	\$188,500	\$284,000	\$379,500
10%	(\$134,802)	(\$39,302)	\$56,198	\$151,698	\$247,198
20%	(\$267,104)	(\$171,604)	(\$76,104)	\$19,396	\$114,896
30%	(\$399,405)	(\$303,905)	(\$208,405)	(\$112,905)	(\$17,405)
40%	(\$531,707)	(\$436,207)	(\$340,707)	(\$245,207)	(\$149,707)

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Important to Note:

Price Points of 1, 2 & 3

Excluding consideration of year-end net revenue division, and assuming no change in regular City membership, for every 1% decrease in the total number of rounds played by regular City members (as a result of joining LGT), a corresponding 0.7% increase in the total number of rounds played by LGT and Participating LGT course members must be played at the City in order to breakeven on revenues.

Price Points of 1 & 2

Excluding consideration of year-end net revenue division, and assuming no change in regular City membership, for every 1% decrease in the total number of rounds played by regular City members (as a result of joining LGT), a corresponding 0.8% increase in the total number of rounds played by LGT and Participating LGT course members must be played at the City in order to breakeven on revenues.

Other comments

City golf courses

Course Utilization in 2011, by month and course, assuming 250 rounds of golf can be played per day per course:

Course	% Course Utilization, 2011						
	Apr	May	Jun	Jul	Aug	Sep	Oct
Thames Valley Classic	30%	56%	79%	71%	77%	55%	38%
Fanshawe Traditional	25%	54%	64%	62%	60%	48%	32%
Fanshawe Quarry	10%	23%	39%	40%	42%	28%	13%
River Road	19%	33%	49%	53%	52%	37%	16%
Hickory 9	10%	28%	39%	39%	43%	24%	11%
TOTAL, ALL COURSES	19%	39%	54%	53%	54%	38%	22%

Conclusion: Assuming similar percentage course utilization in 2012, there appears to be sufficient capacity for additional rounds of golf to be played at each course by either LGC or LGT members.

Qualitative factors to consider for both proposals

- The level of cannibalization has a significant impact on the outcome of both proposals. This percentage is difficult to quantify, as in both proposals, there are pros and cons to both City membership and LGC/LGT membership for customers beyond the cost of membership, including number of rounds available on City courses and the ability to access non-City courses.
- How will the City track/restrict the maximum number of rounds on City courses by LGC/LGT members?
- How will the City track bookings separately for regular City members and LGC/LGT members?
- What impact will joining LGC or LGT have on the City course brands?
- What other control considerations need to be factored in?

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LGC proposal - qualitative factors

- Terms of the contract are negotiable. The City should consider negotiating the following items:
 - Restrictions on tee-times available to LGC members to prevent prime hours from being over-utilized;
 - The ability to allocate the 90 open spots across the different courses;
 - For Model 2, an overage charge for all rounds of golf played in excess of 9,000 rounds (currently assuming \$19 per round of golf played in excess of 9,000 rounds, however, this amount may or may not be achievable and therefore should be negotiated with LGC);
 - For either model, the fixed selling price per membership sold to LGC;
 - Negotiate the rates LGC sets for its members to play City courses to ensure that they are sufficiently high to prevent significant cannibalization of existing City members.
- If there is bad weather for the 2012 golf season, resulting in overall low utilization of courses, there is still a fixed portion of revenue going to the City, which helps to transfer some of this risk of lost revenues.

LGT proposal - qualitative factors

- Most golf clubs have chosen a price point of 2 for their courses (excluding Pine Knot and Seaforth, which are both level 3, and East Park, which is a level 1), which means that a price point of 3 may not be viewed as competitive and may in fact deter LGT and Participating LGT course members from playing on City courses at this price point.
 - However, the Thames Valley Classic and Fanshawe Traditional courses are perceived as being higher quality courses, and these price points may still be viewed as competitive by LGT and Participating LGT course members;
 - Choosing a price point of 2 for the Thames Valley Classic and Fanshawe Traditional courses opens up the opportunity for cannibalization of sales as it would be less expensive for an individual to purchase an LGT membership and play these courses on weekday mornings than it would be to purchase a City membership and play at these times.
- As 2012 will be the first year LGT is in operation, the success of the program is not determinable;
- The City can choose which courses it would like to enlist to be part of the LGT program;
- While all clubs have opened up 20 spots for LGT members per course per day, the City could open up more or less spots per course as it wishes;
- The City can choose different price points for each course enrolled in the LGT program;
- Restrictions can be placed on the availability of tee-times for LGT members;
 - It should be noted, however, that none of the clubs have yet imposed such restrictions;
- In order to prevent existing Participating LGT club members from switching clubs or switching to become LGT members, existing Participating LGT club members automatically have access to the discounted rates at each of the clubs from Monday – Thursday (at no additional cost);
- The number of passes made available to the general public is decided upon (by vote) by the Participating clubs in LGT;
 - The City should consider negotiating one vote per course;
- The City will need to ensure that there are controls/rights of audit over the financial reporting from LGT that affects the net membership payout (ie net profit within LGT on memberships, number of rounds played at each course, etc.);

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- However, all tee-times booked by LGT members are tracked by Tee-On. This data will be available online to each of the member clubs, who will be given individual usernames and passwords. Each club can see how many rounds are being played at each of the courses, which promotes transparency for the process;
- If, at the end of the year, there is a net loss rather than net revenue, Golf Trails Inc. is liable for this loss (i.e. the City would not assume any liability for losses incurred by LGT).

Please let us know if you have any questions on the above information by contacting Chirag Shah directly at 1-519-640-7914. We look forward to discussing the information presented above further with you.

Yours very truly,

PricewaterhouseCoopers LLP

Chartered Accountants