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The Corporation of the City of London

Summary on the Proposals
received by the City from the
London Golf Club and London
Golf Trail

December 19, 2011

Agenda

Scope of Engagement

Key risks & opportunities

Summary of Proposals

London Golf Club – Scenarios 1-3

London Golf Trail – Scenarios 1-3

Qualitative Considerations & Conclusions

Scope of Engagement

Scope

- Performed an analysis of two golf proposals submitted to City management in relation to the upcoming 2012 golf season from two golf re-sellers: London Golf Club (LGC) and London Golf Trail (LGT)
 - Created financial models based on proposals received that quantify their impact on net incremental revenues/(losses)
 - Additional qualitative/quantitative considerations (see report for further details)
- No opinion or other form of assurance has been provided with respect to our work or the information upon which our work was based

Important to Note

- Contracts and conditions negotiable for both LGC and LGT

Key Risks / Opportunities

Risks:

- Lost membership base to 3rd party program (cannibalization)
- Reduced availability of premium tee times
- Average revenue per round could decline
- Additional challenges in tracking quantitative data to protect terms of agreement (number of rounds used by 3rd party program)
- Ability to verify 3rd party data on usage
- Potential loss of control over pricing for a portion of rounds used

Opportunities:

- Enhanced revenues & utilization of facilities (specific circumstances)
- Broader marketing of City courses
- Additional benefits to existing City members

Summary of Proposals

London Golf Club Proposal

- Two models presented:
 - Model 1 (fixed): \$2,000 per membership x 90 memberships = \$180,000
 - Model 2 (fixed + variable): \$160,425 up front+ an overage amount for each round of golf played in excess of 9,000 rounds
 - *note* Model 2 communicated informally to PwC over the phone (i.e. not included in written draft proposal)

London Golf Trail

- City selects a price point (1-5) for each golf course it chooses to enlist in the program, which represents the variable revenue received by the City when an LGT member or Participating LGT course member plays a round of golf on that course
- Price point 1 = \$17/round (weekday)
- Price point 2 = \$ 19/round (weekday)
- Price point 3 = \$ 24/round (weekday)
- Surcharges (add'l revenue) of \$5 for rounds played on weekends before noon

London Golf Club: 3 Scenarios

Scenario 1

- **Cannibalization** of sales caused by conversion of a City member into an LGC member

Scenario 2

- No lost City membership, but spots taken by LGC members result in a **direct loss of prime hour green fees from regular** City members
 - Assumption that 22.5 rounds are played on each of Thames Valley Classic, Fanshawe Traditional, Fanshawe Quarry, and River Road courses

Scenario 3

- No lost City membership, but spots taken by LGC members result in a **direct loss of prime hour green fees from guests (non-members)**
 - Assumption that 22.5 rounds are played on each of Thames Valley Classic, Fanshawe Traditional, Fanshawe Quarry, and River Road courses

London Golf Club: Scenario 1 – Membership Cannibalization

Model 1 (Fixed)

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%

- Zero incremental revenues with a cannibalization rate of 13.5% or higher

Model 2 (Fixed + Variable)

# 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%

- Zero incremental revenues with a cannibalization rate between 12%-19.5% and higher

London Golf Club: Scenario 2 – Prime Green Fee Loss from Members (Up to 90 rounds / day)

Model 1 (Fixed)

- City's retention of excess revenues declines proportionately with a higher level of utilization of memberships by LGC members

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

Model 2 (Fixed + Variable)

- Potential for retention of net revenues at a minimum of \$49,050

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

London Golf Club: Scenario 3 – Prime Hour Green Fee Loss from Guests (Up to 90 rounds/day)

Model 1 (Fixed)

- City's net loss position increases proportionately as utilization of the LGC membership increases beyond 40%

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)

Model 2 (Fixed + Variable)

- 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

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)

London Golf Trail: 3 Scenarios

Scenario 1

- Cannibalization of sales caused by conversion of a City member into an LGT member
 - Assuming total number of rounds played remains unchanged

Scenario 2

- Incremental revenue derived from LGT member sales with 20 rounds per course / day.
 - Assuming no lost City membership to LGT or other courses

Scenario 3

- City memberships lost with no change in the number of rounds played by retained City members, partially offset by revenue derived from rounds of golf played on City courses by LGT members (20 spots per day on each course)

London Golf Trail: Scenario 1 – Membership Cannibalization

Price Points of 1, 2 & 3

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

- Incremental revenues could be realized by the City

Price Points of 1 & 2

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

- City experiences incremental losses

London Golf Trail: Scenario 2 – Use of 100 available rounds per day

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

- City benefits from incremental revenues

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

- City benefits from incremental revenues, however, less so than it would with price points of 1, 2 & 3

London Golf Trail: Scenario 3

Price Points of 1, 2 & 3

- 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

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)

Qualitative Considerations & Conclusions

Qualitative Considerations

- Expected level of cannibalization is difficult to quantify
- Controls at point of sale and over reporting back from either LGC/LGT
- Terms and conditions associated with contract that the City may enter into
- The ability to restrict time slots in which LGC and LGT members can play

Conclusions

- LGC opportunities can only result in positive net revenues if cannibalization rate of existing members is generally below 13.5%
- LGT arrangement can result in positive revenues if lost memberships are replaced by a significant increase in rounds played (1,000 + depending on loss of memberships)
- Lowest risk option is not to join in with either arrangement