

Table of Contents

1.0	INTRODUCTION	1
1.1	THE ASSIGNMENT	2
1.2	CONTEXT	3
1.3	PURPOSE OF THIS REPORT	5
2.0	SITUATIONAL ANALYSIS	7
2.1	PHYSICAL CIRCUMSTANCE	7
2.2	OPERATING CIRCUMSTANCE	10
2.3	OPERATING AND FINANCIAL PERFORMANCE	11
2.4	LABOUR TRENDS	13
2.5	INFLUENCE OF INFRASTRUCTURE INVESTMENT	13
2.6	LEASED FOOD AND BEVERAGE OPERATIONS	14
2.7	FOOD AND BEVERAGE AT VANCOUVER GOLF COURSES	14
3.0	SUMMARY OF INPUT FROM SELECT CONCESSION OPERATORS FROM OTHER JURISDICTIONS	17
3.1	INTRODUCTION	17
3.2	INPUT FROM OPERATORS EMPLOYING AN OUTSOURCED APPROACH	17
3.2.1	Types of Services Contracted	17
3.2.2	Remuneration	18
3.2.3	Operations of Facilities	18
3.2.4	Renewal Terms	19
3.2.5	Strengths of this Approach	19
3.2.6	Suggestions	19
3.3	INPUT FROM OPERATORS EMPLOYING A SELF-MANAGED APPROACH	19
3.3.1	Range of Services Operated	20
3.3.2	Branding of Services	20
3.3.4	Products and Pricing	20
3.3.5	Staffing	21
3.3.6	Strengths	21
3.4	INPUT FROM OPERATORS EMPLOYING HYBRID MODELS	21
3.4.1	Self-Managed Services	22
3.4.2	Products and Pricing	23
3.4.3	Strengths	23
3.4.4	Challenges	23
4.0	KEY INFORMANT INPUT	25
4.1	OVERVIEW	25
4.1.1	General Philosophies of the Concession System and How it Could Look in the Future	25
4.1.2	General impressions of the existing system	26
4.1.3	Operational issues	27
4.1.4	Opinions Regarding the Physical Condition of the Concession Facilities	28
4.1.5	Industry and Observed Trends That Could Have an Impact on the Strategy	29
4.1.6	Creative Ideas That Could Be Included in the Strategy	29
4.1.7	Financial Implications	30
4.1.8	Strategic Implementation Factors	30

5.0	STRATEGIC ANALYSIS	31
5.1	LONG-TERM STRATEGIC VISION	31
5.2	STRENGTHS AND WEAKNESS ANALYSIS	32
5.3	SEASONAL SALES FLUCTUATIONS	33
5.3	CONDITION OF CONCESSION FACILITIES	34
5.4	SALES RATIOS	34
5.5	CENTRAL WAREHOUSE COST-BENEFIT ANALYSIS	36
5.6	EVALUATION OF POTENTIAL MANAGEMENT MODELS	40
5.6.1	<i>Option One – Adjustments to Existing System</i>	40
5.6.2	<i>Option Two – Major Modifications to Existing System</i>	41
5.6.3	<i>Option Three – Partnership Arrangement</i>	41
5.6.4	<i>Option Four – License Arrangement</i>	42
5.6.5	<i>Option Five– Lease Arrangement</i>	42
5.7	RISK CONTROL BALANCE OF THE STRATEGIC OPTIONS	43
5.8	CHARACTERISTICS OF CONCESSION SITES	44
5.9	MULTIPLE CRITERIA ANALYSIS	46
5.10	EVALUATION OF STRATEGIC OPTIONS	47
5.11	SUMMARY OF ANALYSIS	48
5.11.1	<i>Leased Sites</i>	48
5.11.2	<i>License Arrangements</i>	49
5.11.3	<i>Partnership Arrangement</i>	49
5.11.4	<i>Modified Existing System</i>	50
5.12	CONCLUSION	51
6.0	FINANCIAL IMPLICATIONS	53
6.1	CONTEXT	53
6.2	LEASED OPERATIONS	53
6.3	LICENSED OPERATIONS	54
6.4	PARTNERED OPERATIONS	55
6.5	CONTRACT OPERATIONS	56
6.6	SUMMARY OF FINANCIAL IMPLICATIONS	58
7.0	SUMMARY OF RECOMMENDATIONS AND IMPLEMENTATION	59
7.1	RECOMMENDATIONS	59
7.2	IMPLEMENTATION STRATEGY	60

Appendices

- Key Informants
- Detailed Option Evaluation Scores
- Historical sites by site Graph
- Seasonal sales fluctuations Graph

1.0 Introduction

The Vancouver Board of Parks and Recreation is currently in the business of delivering food and beverage services to visitors of various parks and beaches throughout the City. This direct service delivery approach has been in place for over 50 years and involves the Board providing and maintaining concession facilities, establishing menus, setting prices and operating a central warehouse that supplies about 50% to 75% of products to the 15 concessions in the system. Concessionaires are independent contractors who are entirely responsible for site specific day-to-day operations including retaining the necessary complement of full and part-time staff. Personnel requirements vary from site to site due to dissimilar operating styles of the vendors and differences in sales volumes.

Concession operators are retained annually and are compensated based upon a percentage of gross sales. Percentages vary between sites depending upon the features, circumstances and sales volumes of the location. Eight of the fifteen operators occupy residences attached to the concessions.

A report to the Board in March 2005 raised a number of important issues associated with the current approach to concession operations.

- The majority of facilities are seasonal operations.
- Menus offer traditional takeout snacks with few healthy alternative options.
- The facilities are worn, dated, cramped and not set up to prepare food that the public is now interested in purchasing - hence, physical upgrades are required.
- Net proceeds from the combined concession system are insufficient to justify major capital infusion.
- Sales trends would suggest that the public is not satisfied with the current product selection.

The Board approved staff's recommendation to retain a consultant to assist in the development of a food plan strategy.

1.1 THE ASSIGNMENT

In May 2005, The JF Group was engaged to provide consulting services to help the Board establish a Concession Strategy. The Strategy is to examine a variety of opportunities and operating options based upon market research, examples from other jurisdictions, best practices, financial analysis and the suitability of potential options to the characteristics of each park and beach location. It is anticipated that the strategy could include a multi prong approach due to the differences in character and circumstances of the sites.

The Concession Strategy is to result in:

- the delivery of food and beverage products and services at a quality and standard that meets or exceeds the expectations of park and beach clientele;
- optimizing the gross revenue, profit margins and financial certainty of the Board's concession operations; and
- a business model that is adaptable to meet the circumstances of the various concession locations.

These results will be achieved through the following activities.

- Define the current situation including a delineation of the specific physical, situational and financial circumstances of each of the Board's fifteen concession operations.
- Identify best practices in concession operations, lessons learned and favoured approaches of public sector organizations in other jurisdictions.
- Receive input from key informants and stakeholders regarding possible alternative approaches, acceptable business models, satisfactory financial thresholds and preferred implementation approaches.
- Create a firm foundation for the Strategic Concession Plan.
- Determine the strengths, weaknesses and implementation implications of a menu of business model alternatives.
- Develop a Strategic Concession Plan including an appropriate blend of various approaches and business models.
- Develop a recommended implementation plan.

1.2 CONTEXT

The food-service industry is a dynamic, innovative and huge sector of the Canadian economy. Every day, millions of consumers, tourists and business travelers enjoy the hospitality provided by the 63,300 restaurants, cafeterias, snack bars, pubs and catering locations across the country.¹

In British Columbia, the food-service industry represents 5.4% of the province's gross domestic product. With nearly 164,000 employees, BC's food-service industry leads Canada in the share of total employment and provides one in four jobs for youth under the age of 25. Sixty-eight per cent of the 9,595 restaurants, bars and caterers in the province are independently owned and operated. Chain restaurants account for the remaining 32%; however, many of these are locally owned and operated franchises.²

Research activities have revealed several interesting facts about the food-service industry and the meal/snack purchase habits of Canadians.

- The average Canadian household visits a restaurant for meal or snack 520 times per year. Meals and snacks sourced from restaurants account for one in ten meal occasions.³
- The average household sources a meal or snack from a restaurant 11.5 times over a two-week period.⁴
- The average Canadian household spends 30.3% of its total food dollar on a food service, compared to 42% for U.S. households.⁵
- The most popular food and beverage ordered at Canadian restaurants are French Fries and a regular coffee.⁶
- The average check size at a restaurant is \$6.12 including tax, but excluding tips.⁷
- Food costs (37.7%) and labour costs (30.7%) account for the two largest expenses borne by food service providers.⁸

¹ Canadian Restaurant and Foodservices Association, www.crfa.ca, Research

² Canadian Restaurant and Foodservices Association, www.crfa.ca, Issues, British Columbia

³ ReCount/NPD Foodservice Information Group

⁴ Crest/NPD Foodservice Information Group and CRFA's Foodservice Facts

⁵ CRFA's Foodservice Facts, Statistics Canada, Bureau of Labour Statistics

⁶ Crest/NPD Foodservice Information Group and CRFA's Foodservice Facts

⁷ CRFA's Foodservice Operations Report

⁸ *ibid*

- The average food-service operator realized annual sales of \$614,290 in 2004 with a pre-tax profit of \$20,272 representing an average profit margin of just 3.3%.⁹
- New food-service entrants have a 60% chance of surviving beyond their second year and a 22% chance of surviving beyond eight years.¹⁰

As illustrated above, successful food-service operators must be constantly on top of their game. Even though the industry is flourishing and growth potential is promising - especially in British Columbia - for individual operators the food-service business is very hard work and full of risks.

It takes effort, knowledge, good management, good location and sound control systems for a food and beverage operation to become and remain successful.¹¹ The challenges associated with the business are highlighted by the fact that four of ten food-service operations will not be around to celebrate its third anniversary. Additionally, there are estimates that 80% of all restaurants change ownerships on an average of once every five years. While some of these make money and are sold at a profit, many fail.¹²

Not only is successful food-service management difficult, investing in food service establishments is extremely hazardous. Competition is fierce and sales can be influenced by a variety of uncontrollable factors. Economies change, trends and fads come and go, consumer's expectations and purchasing patterns fluctuate - conditions that must be constantly monitored by operators so that responsive strategies can be implemented. And, while maintaining a handle on these external factors, the operator must contain costs, present a bright, appealing and entertaining environment, deal with personnel issues, adjust product offerings, experiment with new menu items, order supplies, control inventory, prepare reports - the collection of necessary tasks is daunting.

Finally, food-service operators and the system within which they operate should be nimble and adaptive to change. Although it is difficult to predict what the future will bring, it is generally accepted that the industry is in a continuous state of flux. Given the need to constantly respond to change, operators must be prepared and equipped to rework practices, procedures and product lines in accordance with new circumstances, trends or cycles as they emerge. And, rather than being frightened by the unknown, the most successful operators will be delighted and energized by the possibilities.

⁹ ibid

¹⁰ Statistics Canada

¹¹ Food and Beverage Control, Keister, D., Prentise Hall, Englewood Cliffs, New Jersey

¹² ibid

1.3 PURPOSE OF THIS REPORT

This draft report highlights the findings and input received during the research phase of the study, provides an evaluation of various strategic options available to the Parks Board, presents an analysis of the preferred options and offers a recommended implementation plan. Information contained herein is to be reviewed by Parks Board Management staff to facilitate the provision of additional comments and/or suggestions prior to the recommended Concession Strategy being finalized.

2.0 Situational Analysis

2.1 PHYSICAL CIRCUMSTANCE

The facility quality and physical circumstances widely varied between the concessions in the Parks Board system. A brief overview of each site's situation is presented below.

<i>Location</i>	<i>Description</i>
Second Beach	<ul style="list-style-type: none"> • <i>relatively large</i> • <i>poor and limited storage</i> • <i>small (unused) residential suite</i> • <i>limited covered heated seating</i> • <i>outdoor seating on plaza</i> • <i>good service connections</i> • <i>very high use area when pool is open</i> • <i>on west seawall walk – high passers-by volume year round</i> • <i>washrooms/concession/change rooms</i>
Lumbermen's Arch	<ul style="list-style-type: none"> • <i>largest facility</i> • <i>good storage and work areas</i> • <i>no suite</i> • <i>new outdoor seating and plaza</i> • <i>poor service connection – must use park walkways</i> • <i>high use area when water-park is open</i> • <i>too far north to attract many winter strollers – slightly off seawall location is a drawback</i> • <i>generally in best physical condition of all concessions</i>
Third Beach	<ul style="list-style-type: none"> • <i>very small</i> • <i>very limited and poor storage</i> • <i>residential suite</i> • <i>seating on small deck in adjacent park</i> • <i>remote – moderate seawall use – too far north for many walkers – hence seasonality</i> • <i>end of park – one-way system in terms of service deliveries – on site delivery access good</i> • <i>situated off seawall on top of bluff; hence reduced exposure</i> • <i>most scenic location in system</i> • <i>probably too remote to develop an evening trade</i> • <i>suite could be converted to eating area along with new, larger deck</i>

<i>Location</i>	<i>Description</i>
Farmyard	<ul style="list-style-type: none"> • <i>small</i> • <i>limited storage</i> • <i>no suite</i> • <i>limited seating – 3 tables</i> • <i>limited plaza area</i> • <i>good service connection</i> • <i>poor relationship to train plaza</i> • <i>benefits greatly from train special events</i> • <i>should benefit from new bus loop for Stanley Park</i>
English Bay	<ul style="list-style-type: none"> • <i>very small facility</i> • <i>poor and limited storage</i> • <i>no suite</i> • <i>good but limited seating</i> • <i>good service connection</i> • <i>excellent year round location – foot of Denman on Beach</i> • <i>vulnerable to extensive competition within one city block</i>
Sunset Beach	<ul style="list-style-type: none"> • <i>small facility</i> • <i>limited storage</i> • <i>residential suite</i> • <i>very good service access</i> • <i>limited but very good outdoor seating</i> • <i>good year round traffic on seawall</i> • <i>top rate location</i> • <i>Provincial land ownership limits redevelopment and management options</i>
Spanish Bank West	<ul style="list-style-type: none"> • <i>small</i> • <i>limited storage</i> • <i>no residential suite</i> • <i>remote beach facility combined with change rooms and washrooms</i> • <i>highly seasonal activity</i> • <i>good service access</i> • <i>lacks seating</i> • <i>Provincial government land ownership limitations</i>
Spanish Bank East	<ul style="list-style-type: none"> • <i>medium size facility</i> • <i>limited storage</i> • <i>residential suite</i> • <i>good service connection</i> • <i>good outdoor plaza seating</i> • <i>renovated ‘new look’ in mid 90’s</i> • <i>some ‘off season’ sales ability</i> • <i>Provincial government land ownership limitations</i>

<i>Location</i>	<i>Description</i>
Locarno Beach	<ul style="list-style-type: none"> • <i>large facility</i> • <i>good storage</i> • <i>residential unit</i> • <i>good service connection</i> • <i>no seating</i> • <i>poor orientation – no street side image</i>
Jericho Beach	<ul style="list-style-type: none"> • <i>medium size facility</i> • <i>residential suite</i> • <i>service access requires crossing park space</i> • <i>seasonal</i> • <i>no seating</i>
New Brighton	<ul style="list-style-type: none"> • <i>medium sized</i> • <i>tied to washroom/change room pool facility</i> • <i>residential unit</i> • <i>no seating</i> • <i>very remote and highly seasonal</i> • <i>reliant on pool business</i>
Kitsilano Pool	<ul style="list-style-type: none"> • <i>very small</i> • <i>tied to pool complex</i> • <i>only operates in conjunction with pool</i> • <i>high pool patronage produces high customer base/revenue</i> • <i>very limited menu</i> • <i>poor service access</i> • <i>no residence</i>
Trout Lake	<ul style="list-style-type: none"> • <i>small size</i> • <i>part of change room/washroom</i> • <i>highly seasonal – open during swimming season at adjacent “lake”</i> • <i>residential unit</i> • <i>poor service access</i>
Stanley Park Trailer	<ul style="list-style-type: none"> • <i>part of 1-year menu experiment with Aquarium</i> • <i>special case potential partnership model to be assessed</i> • <i>total redevelopment required</i>
Information Booth	<ul style="list-style-type: none"> • <i>newest location</i> • <i>limited storage and display space</i> • <i>no seating</i> • <i>no residence</i> • <i>highly visible and in high traffic area</i>

While generally clean, most locations appear physically tired. Outlets are largely devoid of appealing attributes and features that could help to convert a passer-by into a concession customer. To varying degrees, the facilities appear quite institutional and drab.

Trendy and attractive food displays, crisp and clear signage and point-of-sale advertising that can help attract customers or boost the “cheque average” are inconsistent throughout the system. In fact in several cases signage appeared confusing - a mixture of pre-printed supplier produced materials, dated looking letter boards, hand-written chalkboards, etc.

From an operational perspective, physical limitations inherent in most sites impacts dry and cool storage capacity, space for efficient food preparation and environmental comfort for concession personnel. Although most operators have taken strides to adjust operating approaches to mitigate the impact of these impediments, it is quite likely that product quality and ultimately gross sales are being affected by these physical shortcomings.

2.2 OPERATING CIRCUMSTANCE

Municipalities and other public organizations employ numerous styles of food and beverage service management including: managing services in-house with a dedicated food-service management structure; contracting-out all food services functions; or a hybrid approach through which the organization retains control of certain operating elements while contracting-out other service components.

The management approach to the Park Board’s concessions is a version of the hybrid system. The Board is responsible for providing and maintaining the facilities, establishing menus, regulating prices and operating a central warehouse from which concessionaires receive between fifty and seventy-five per cent of their products. Reporting to the Manager of Revenue Services, a Supervisor of Food Services oversees the in-house portion of the operation.

Independent concessionaires are contracted annually to operate each location. The concessionaires employ, train and supervise the on-site personnel. As necessary, assistance and advice related to day-to-day operations is available through The Supervisor of Food Services.

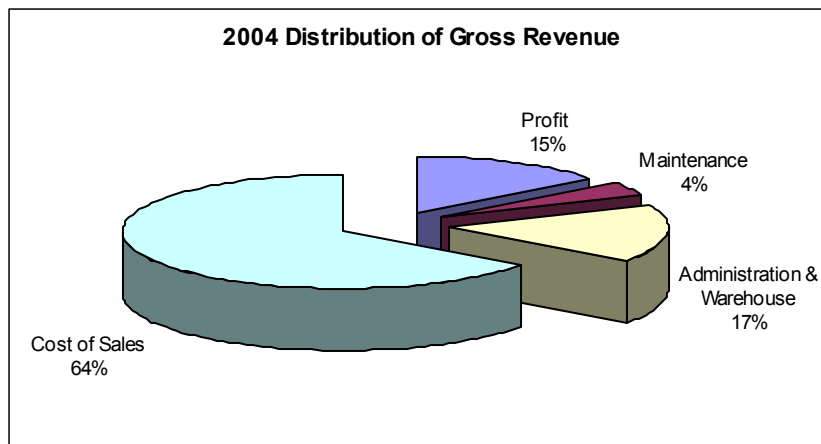
Contractors receive a percentage of gross sales, which varies from site to site based upon sales volumes and/or the particular characteristics of the concessions. Concessionaires retain the difference between the negotiated compensation package and the cost of labour related to the site.

The Vancouver Parks Board absorbs the operating risk associated with the concession system. The Board underwrites the cost of all products, equipment and centralized services (such as warehouse and product delivery operation, support offered through Revenue Services, etc.) and is entirely responsible for repairs, maintenance and capital improvements to the concession facilities. The Board retains the net proceeds produced by the concession system – i.e. gross revenue less all operating costs, amortized capital costs (if any), concessionaires' percentage of gross sales and apportioned central service costs.

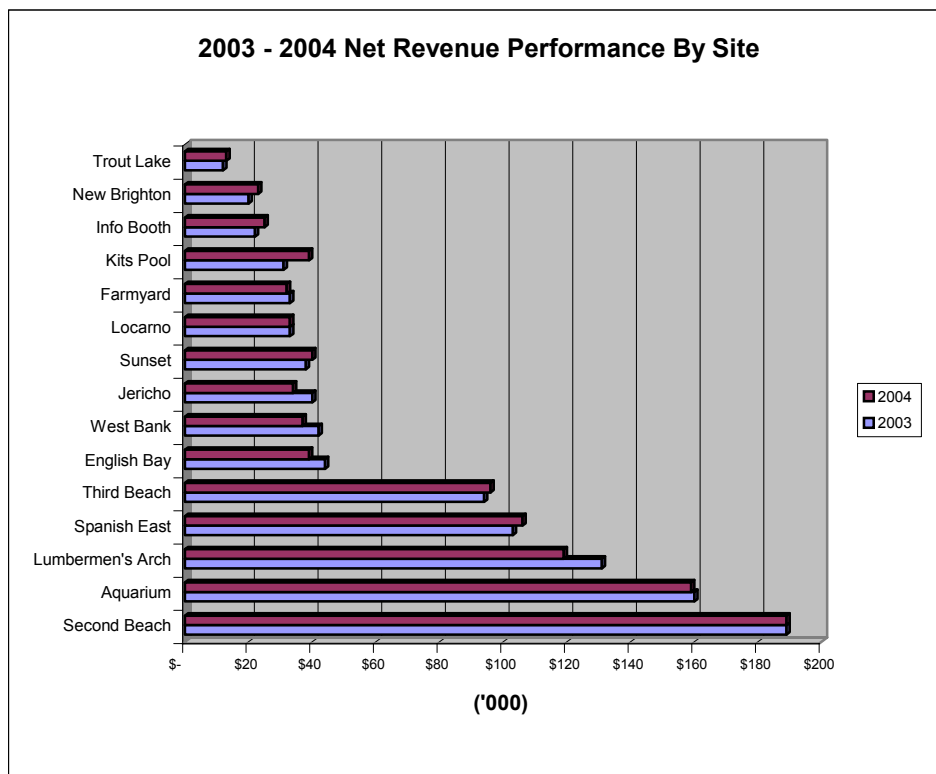
Adherence to generally accepted operating standards is somewhat difficult given the current management approach. Although the contractors are obliged to conform to most of the Board's overarching menu and pricing decisions, day-to-day operations and implementation is overseen and governed by the independent concessionaires. Consequently, product quality and levels of customer service can (and do) significantly vary between sites. Simply put, the look, feel and ultimate financial success of the concession is entirely linked to the knowledge, operating talents and enthusiasm of the contractor. This is somewhat troublesome in that the Board is responsible for the financial results of the system and must contend with the political fallout of poor performance even though its influence on the day-to-day operations is limited.

2.3 OPERATING AND FINANCIAL PERFORMANCE

In 2004, the concession system generated total gross revenue of \$2.8M. Cost of sales – products, labour and services - consumed approximately 64% of each dollar in sales. Another 17% of gross revenue went to underwrite the cost of administration and the operation of the warehouse while annual maintenance costs eat up 4 cents of every dollar in sales. This resulted in net proceeds of approximately \$413,000, which translates into a profit margin of about 15%.



Not surprisingly, net revenue performances were vastly different between sites. A combination of factors including foot traffic to or around the site, the operating prowess of the concessionaire, the physical condition and setup of the facility and local available market resultant from adjacent amenities or surrounding neighbourhoods influenced the revenue production of each location. While impossible to quantify, it is reasonable to suggest that the ability of the operator to recognize and effectively respond to the nuances of available market in concert with the size of the potential customer base in local trade area likely had the most significant impact upon revenue performance.



The Canadian Restaurant and Food Services Association recently reported that with the current high level of interest in nutrition and fitness among Canadians, food service providers are introducing a wide range of lighter, leaner product options that are growing in popularity. Information drawn from the Foodservice Information Group, which monitors consumers' eating and restaurant behaviour of Canadians indicates that between 2000 and 2004 sales of vegetarian burgers increased by 121%, bottled water and fruit sales grew by 55% while juices and salad dishes were more popular by 38% and 32% respectively.¹³

¹³ Canadian Restaurant and Foodservice Association, www.crfa.ca/foodandfitnessfacts

To a certain extent, the Parks Board concession product sales trends mirror these national results. Water sales have jumped by 450% since 1994 while purchases of soda pop have receded by more than 50% during the same period. It is however interesting that while French Fry sales declined by 44% over the past decade; purchases of other “fast food type” products - such as hot dogs, burgers, sacked snacks, etc. - are relatively unchanged. This would seem to suggest that the food selection profile of Parks Board concession patrons is contradictory to national food consumption trends. Sales figures indicate that items in the fresh food program represent about 10% - 13% of gross sales across the system in the past two operating seasons.

There may be several issues causing the apparent lack of popularity of these food items. For instance, attractive product displays are key factors in marketing food items, yet Parks Board concessionaires’ presentation of fresh food varies from site to site. Other factors may include inconsistent product availability, quality of product or staff’s enthusiasm in verbally promoting various items.

Another factor could be that concession patrons might allow themselves small indulgences while visiting the park system - possibly considering the visit as a mini vacation during which the parameters of healthy daily living are somewhat more flexible. Or, maybe the tradition of eating fish and chips and other “comfort food” while at the park or seaside overrides healthier food selection habits.

Therefore it is reasonable to conclude that future concession menus should stay “on-trend” by continuing to promote healthy eating and by offering quality and attractive fresh food selections but should also provide traditional food products that remain popular with concession patrons. Additionally, concessionaires should be adequately supported to facilitate effective marketing of all menu items.

2.4 LABOUR TRENDS

The service industry and specifically the food and beverage sector are currently burdened by labour shortages particularly in the area of entry-level staff. It is anticipated that this situation will worsen - especially on the West Coast - as the 2010 Olympics approach. This inadequate pool of front-line personnel will undoubtedly influence staffing strategies for the Vancouver Parks Board concession system, regardless of the selected operating model.

2.5 INFLUENCE OF INFRASTRUCTURE INVESTMENT

Well-planned and appropriately positioned capital investment in buildings and equipment normally has a positive impact on the gross sales and operating efficiency of a renovated food and beverage venture. A successful local example

was the 1997 retrofit of the Spanish Bank East concession, which resulted in an immediate sales increase of 33%. As importantly, gross revenue levels have been sustained (or increased over time) indicating that the physical changes did not simply produce a short-term bump in sales.

However it is noteworthy that physical enhancements in-and-of themselves may not produce the desired sales escalations without operational changes that are implemented in concert with renovations. In fact, dated operating practices that persist in a new facility could easily impede potential gains that the retrofit would have otherwise produced. Therefore, improvement strategies should involve both a thorough review of the physical plant and related operating systems.

2.6 LEASED FOOD AND BEVERAGE OPERATIONS

In addition to its concession operations, the Parks Board also leases nine stand-alone food service establishments to independent food-service operators (the Kits Beach location opened in the summer of 2005). These enterprises are of a superior quality and standard offering a wide variety of dining experiences including a table cloth and linen restaurant (the Fish House), a contemporary and comfortable dining bistro (Mill Marine Bistro) and a “quality food fast” concept (Prospect Point Café). The Board’s arrangements with the operators are based upon the traditional landlord-tenant model. Lease rates and financial relationships vary between sites depending upon a variety of factors including the tenant’s investment property, Board’s contribution to leasehold improvements, tenant tenure, etc.

In 2003, the restaurant operations generated gross revenues of over \$18M. The Parks Board realized rents income and other revenue of \$1.28M or about 7% of gross revenue. Other than the normal operating and financial responsibilities associated with facility and grounds maintenance (usual landlord duties) and the management of the lease contract, the Board has no functional role related to the restaurants.

2.7 FOOD AND BEVERAGE AT VANCOUVER GOLF COURSES

Food and beverage services are available at the clubhouses of the City’s three golf courses. Through the ‘80s the management approach was virtually identical to the existing situation for the concession system. An independent contractor was completely responsible for the day-to-day operations of clubhouse activities while the golf operation was run by City staff. The one difference was that the contractor supervised clubhouse personnel that were City employees rather than contracted staff.

A 1992 redevelopment of the golf courses acted as a catalyst for retooling the clubhouse management approach. As each course was redeveloped, the contracts were collapsed so that at the conclusion of the project, there was one contractor responsible for all three operations. Despite the physical changes and the consolidation of the contracts, the operations did not operate with positive cash flow – in fact, the collective operations resulted in an annual operating deficiency of about \$250, 000 per year.

In 2002, it was decided to bring the operations in-house in an attempt to improve the bottom line and to increase the customer service levels available to golfers and general public clubhouse patrons. As well as a new management structure, invigorated interest in operations resulted in tighter inventory controls, renewed interest in marketing, a more sophisticated approach to menu design and pricing and greater vigilance in cost containment - especially payroll.

Currently, golf clubhouses operate relatively autonomously. For example, only about 10% of food and supply products are accessed from the central warehouse. On-site Clubhouse Coordinators are essentially food and beverage supervisors that have limited contact with Revenue Services. And an in-house audit clerk ensures that appropriate checks and balances are in place, that cash is reconciled and that accurate reports are produced.

Since implementing the new management strategy, the golf food and beverage operation has demonstrated steady progress reaching a break-even position in 2003 and producing profits of about \$50,000 in 2004. Although softer profits were produced in 2005 (\$15,000) the customer service and client satisfaction index of the operation continues to advance on a year-to-year basis.

The financial and customer service turnaround is even more impressive in view of the fact that clubhouse staff are unionized and hence the combined payroll package is substantially higher than comparable operations in non-unionized environments. Close attention to detail, staying current with trends and creating an appealing atmosphere for clubhouse patrons and staff alike is credited with much of these improvements.

3.0 Summary of Input from Select Concession Operators from Other Jurisdictions

3.1 INTRODUCTION

This element of research was designed to explore operating issues, ideas and alternative management or operating approaches employed by other public service organizations that are in the food and beverage business. This summary is to assist in identifying best practices, preferred operating alternatives and implementation issues drawn for others with experiences comparable to the Parks Board situation.

Information was gathered through a series of telephone interviews with key informants responsible for food and beverage services in municipalities and non-profit, public organizations. Interview candidates were determined based the applicability of the situation and location to Vancouver (such as concessions in parks adjacent to a lake or ocean). The 10 sites consulted were: municipal Parks and Recreation related departments from Edmonton, Mississauga, New York City, Seattle, St. Catharines, West Vancouver and Winnipeg; Bryant Park (private park in NYC); the Niagara Parks Commission and the San Diego Zoo.

Overall, six of these sites use a completely outsourced operating approach; two completely self-manage their food and beverage services while two use a hybrid model, outsourcing some services and operating others. The following summarizes these three different approaches. A detailed summary of each of the studied sites is included in a supplementary document.

3.2 INPUT FROM OPERATORS EMPLOYING AN OUTSOURCED APPROACH

All operators in this category use a request for proposal (RFP) process to select contractors. Most commonly requested proposal content includes: related experience/expertise and references; financial capability; proposed menu offerings and pricing and bid details which may include capital investments. Predictably, all contracts include requirements related to policies and standards that align with current practices. The selection of operators is based on the bid details and most notably, the proposed remuneration to the city. Several sites have provided RFPs that are available for more detailed review.

3.2.1 Types of Services Contracted

Stand-alone carts/trucks, vending machines (usually treated as one unit throughout the city, though in one situation parceled out with the host arena/centre); snack bars with limited equipment; café with over the counter service and more fully equipped full service licensed restaurants (both casual

and fine dining). In one case, entire parks (vs. designated spot/venue) is contracted out and it is left to the operator to determine how best to service it (i.e. has option to extend offering by having an ice cream truck and a hot dog cart).

3.2.2 Remuneration

An array of options are used, which are commonly based on the rationale that the busier, more attractive sites (e.g. near a famous museum; beautiful views), sites offering bar services (alcohol) and/or the better equipped sites, the higher the remuneration to the city. The three most common models are: a) *Flat fee* only: used primarily for mobile concessions (carts, cycles, trucks); fee is determined by the city or through the bid process and ranges from \$500.00/year (less trafficked park in a suburban setting) to \$250,000/year in a busy, large urban setting. For some sites, flat fees are considered leasing fees (i.e. 75,000/year to operate a golf course based restaurant); b) *Percentage of Gross Revenue*: range from 0% (this site is situated in a smaller city facility and basically operates as a service to City staff) to 35%. In some cases, minimum percentages are set, usually at 10%; and c) *Flat Fee Plus Percentage*: usually the case for the well equipped, larger facilities (licensed restaurants). In a minority of cases, the operator pays a flat fee or percentage of gross revenue whichever is greatest. Total earnings for the municipalities ranged from: approximately \$300,000 to \$67 million/year for the largest municipality with the greatest diversity of food and beverage operations (from carts to concessions to fully licensed restaurants).

3.2.3 Operations of Facilities

When outsourced, the contracting site is not involved with vendor operations; a staff person has the responsibility to liaise with operators and ensure compliance with their respective contracts (e.g. do site visits; spot checks; address complaints directed to the municipality). On the issue of customer satisfaction, most sites require operators to display a telephone number that one could call to voice concerns. Menus and pricing parameters are usually included in the contract, particularly in the case where the city has a contract with corporate sponsors or branded suppliers (most notably, cold beverages such as Coke or Pepsi products only). The range of products sold are contingent upon equipment available (e.g. the better equipped, the broader the menu). Otherwise, all operational matters (i.e. inventory purchasing and management, staffing, training, customer service, quality assurance, etc.) are left to the operators. Given this business relationship, it is difficult to speculate on sales volume, profit margins, quality assurance processes.

3.2.4 Renewal Terms

Terms vary significantly, starting at annual/seasonal terms for cart-based services; 3-5 year terms up to 25 years for larger sites; the influencing factors for this includes: the capital investment required of venter (i.e. renovating of building) and the type of venue (e.g. carts and kiosks are typically for shorter periods, cafes and restaurants for longer periods). No grandfathering is done – though two indicated this would be a preferred approach in cases where operations are run successfully.

3.2.5 Strengths of this Approach

Those who use this model are convinced this is the only viable route to go, particularly for a municipality, and are satisfied with the performance of the services and the city revenues garnered. While some of the municipal staff consulted acknowledged that the concession services were more or less run as a public service, the majority see the food and beverage contracted services as being viable revenue generators and were seen as enhancing the overall visitor's experience, particularly in the larger urban centres. Third parties are more often able to invest in facility improvements whereas municipal departments typically are not.

3.2.6 Suggestions

It is helpful to have appropriate expertise involved in the RFP process from drafting the RFP to awarding the contracts. Branded concessionaires are being increasingly sought out given their ability to bring more to the table in terms of growing the business further (i.e. equipment; recognizable and consistent product; cross promotions and merchandising efforts). To paraphrase several of the key informants who outsource all operations, "If municipal staff does not have the appropriate expertise, they should not be in the competitive business of food and beverage sales."

3.3 INPUT FROM OPERATORS EMPLOYING A SELF-MANAGED APPROACH

A common, underlying feature shared between these two sites (Niagara Parks Commission and San Diego Zoo) is that they both operate as self-supporting and self-operating organizations; hence operations have to be profitable to support the infrastructure. Food and beverage sales are key revenue producing areas for these two organizations. NPC realized a peak earning of \$19 million in 2001, down to \$14 million at 2003. The Zoo operates at 45% profitability and has annual earnings of \$19 million/year (and have approximately 3.3 million visitors/year). Both organizations have solid infrastructures and are well

resourced with appropriate knowledge and expertise at a senior management level.

3.3.1 Range of Services Operated

Both run a full slate of offerings: from vending machines; cart based concessionaires (open only during peak busy periods); family style, counter service dining; sit down full service licensed restaurants that offer broader menu choices; through to fine dining. While core services are available year round, others are scheduled according to number of visitors (i.e. at the Zoo, the carts rollout only if there are a minimum of 10,000 visitors; at both sites, the majority of the restaurants will close during slow periods). Those in core locations remain open full time (i.e. at the visiting centre in NPC; central sites with indoor seating at the Zoo).

3.3.2 Branding of Services

In both cases, there are contracts with key branded suppliers. The Zoo is limited to a relationship with Coke while NPC is currently working to convert some of its sites to well-recognized branded products (65% of their visitors are American and tend to steer to large, branded names they're familiar with). Both cite positive benefits in contracting such alliances for what they contribute to the business (i.e. equipment, uniforms, staff training, volume rebates, cross promotions, etc.).

3.3.4 Products and Pricing

A full range of diverse offerings are available, from single serving, takeaway items (i.e. ice cream novelties, pretzels, coffee/espresso, pastries), a solid core of hamburger/French fries types of offerings through to those offering wraps, soups, salads and sandwiches through to high-end offerings (i.e. lobster, steak). Diversity in menus and facilities is seen as key to success. Menus are determined on a yearly basis, with both sites offering an increasing number of healthier choices (increased turkey/chicken offerings) and vegetarian options, which tend not to be high volume/profit margin items. Price setting varies between the sites: for NPC each outlet has a food cost budget and pricing has to satisfy that, factoring in other costs; food costs hover around 20%. For the Zoo, prices are set centrally and given their high volume, high profit menu items they can afford to be liberal in pricing higher end offerings (seafood, exotic fruit, and other higher cost/lower profit margin items). This allows them to keep the spectrum of offerings broad to capture all guest demographics. Total department food cost for the Zoo is about 19.5 %, with a cost ceiling on any particular menu offering of 30% or less, packaging and labour included. The pretzels, soft drinks, soft serve ice cream, coffee/tea, cotton candy, and the like offset the higher cost items and the mix keeps the average at an acceptable level. Top sellers include:

ice cream (Zoo serves soft ice cream only and limits options to facilitate speed of transaction and labour), hamburgers, and grilled chicken/turkey sandwiches. Best profit margins are at the lower end offerings but the greater revenues come from the mid-sized/family styled restaurants. In both cases fine dining operations are significant profit contributors and are important in terms of diversity of offering. Inventory is done monthly at each unit within the organizations and a point of sales system is used (exception are stand alone cart concessions where manual, daily inventory is required).

3.3.5 Staffing

Senior staff directors with specialist skills oversee the entire operation at both sites. Staffing structures include multiple managers and site supervisors tasked with more direct operating related responsibilities. There is a core staff of 200 for both sites, which are increased to 500-600 during the busy season. Unions are present at both sites. Both sites offer comprehensive training programs for staff and invest substantial time and effort in staff recruitment and management. Well-trained, supervised staffing is crucial for overall quality service.

3.3.6 Strengths

Self-managing is more profitable if done well and led by experienced, highly skilled passionate senior staff who work within a supportive infrastructure (i.e. have support from finance and technology departments). Two key strengths responsible for success at both sites are: i) diversity in menu offerings and ii) being built to service capacity numbers and having the flexibility to adjust for slower periods.

A shared *issue of concern* is labour related issues such as union relations; staff recruitment and attrition and the disparity between wages and performance expectations.

3.4 INPUT FROM OPERATORS EMPLOYING HYBRID MODELS

Two sites (Mississauga and St. Catharines) use a blend of models that range from daily rentals to third party user groups (i.e. sports teams); outsourcing lower producing services (i.e. carts, vending machines) through to self-managing operations. Typically, the cities manage the higher earning facilities: golf course facilities (which include snack bars, restaurants and mobile carts); arena and community centre-based units and busier park-based facilities. Outsourcing through third party contracts is done with smaller, mobile services (hot dog carts, ice cream venders). The exception is for a harbour-side fully licensed restaurant in Mississauga, which is outsourced on a flat-fee leasing arrangement for \$1million annually. Both of these sites, given supportive infrastructures (staff

numbers and expertise; well equipped, state of the art facilities), would like to have a greater number of municipally managed services.

For the *outsourced services*, there is a range of processes used. At one site a lottery system is used for issuing annual, flat fee contracts for ice cream venders; an annual flat-fee contract renewal of hot dog cart venders (solicited by the city as needed). In both cases, the fees range modestly according to desirability of the sites, from \$540.00 to \$760.00; a modest \$17,884.00 is earned through these contracts. At the other site, there are two outsourcing processes used: i) daily rentals to third parties (\$75.00 or \$150.00 if selling alcohol) which is done given the inability of the municipality to control user groups using food and beverage sales as a fund raiser and hence competing with municipally run concession stands); ii) to the use of an RFP process for vending machines (treated as a single business unit at 30% (beverages) and 32% (snacks) remuneration for the city) and mobile venders who are contracted at a flat rate of \$300.00/month for a minimum four months.

For both sites, a municipal concession coordinator is responsible for processing and ensuring operators comply with the contracts which stipulate general parameters for menus, pricing, hours of operation that allow for flexibility and standard operation requirements. Otherwise, all operational matters (i.e. inventory, purchasing and control, staffing, training, etc.) are left to the operators. Contracts with groups such as Coke and Pepsi exist in both cases; third party operators are encouraged to sell those products, but are not contractually obligated to do so.

3.4.1 Self-Managed Services

For Mississauga, a Food and Beverage Division exists within the Community Services Department. Unit-based operations (snack bars, restaurants and vending machines) work under this division (e.g. each facility has a manager who has administrative staff and part time staff for the concessions. The Division also offers comprehensive training to city-based food and beverage operators. Facilities tend to be more current and are well equipped to offer a reasonable range of menu options. Gross revenues earned through the various sites includes: approximately \$240,000. for vending machines dispersed through various sites (centrally managed by the concession coordinator with input from the facility manager; a commission is passed back to the facilities); \$1,330,719 for snack bar operations and \$381,127. for the one golf course-based licensed restaurant (a second golf course has just opened its restaurant which will carry a higher end options on the menu as well as catering services for special events).

In St. Catharines, the infrastructure is not as amenable to running a strong operation: staff allocation is weak and facilities are dated and poorly equipped hence they are very limited in menu offerings and higher margin earnings (e.g. no deep-fryers so they can't offer French fries which tend to be a highest

volume/profit product). Despite this, the city earns significant gross revenues totalling an estimated \$800,000/year. Interestingly, a new 4 pad sportsplex is opening and will feature a licensed, full service restaurant to be outsourced (RFP is currently out).

3.4.2 Products and Pricing

For Mississauga, each unit determines their own product menu and pricing. Despite a more multi-cultural centre, the food offered tends to be main stream with the more varied product choices being available at the better equipped restaurants. More healthful items tend to be site specific (e.g. healthier choices at more upscale, fuller service venues; traditional 'carnival type' foods at arena concessions). In St. Catharines, product menus and pricing are established centrally and per the norm, better equipped facilities serve a broader range of products. Pricing is determined by having base margins on items and setting prices, adjusted for costs and competitor's pricing. Products and pricing are reviewed annually; product options are streamlined, particularly in the lower margin items (i.e. chocolate bar). In both sites, despite making a concerted effort to offer healthier choices through all venues, these are not big sellers and hence choice is limited. Not surprisingly, licensed facilities earn greater revenues.

3.4.3 Strengths

Both sites are pleased with the golf course related operations and see these as core services. Hybrid model allows for the city to focus on those services that realize greater financial gains while divesting of smaller, less equipped, lower profiting, more public service oriented facilities. Strategic alliances with corporate suppliers are profitable and are further rationale for cities staying in the food and beverage business given the financial and capital gains reaped (i.e. volume rebates, equipment supplied; sponsor local teams and initiatives, etc.).

3.4.4 Challenges

Some municipal facilities tend to be under-equipped to meet the demands, both in numbers served and product offerings. With limited potential to invest in capital upgrades, there is a revenue ceiling. Central warehousing is not an option for either site. For one site, suppliers are required to deliver directly to venues which impacts quantities ordered and ultimately food costs given need to order smaller volumes. In the other case, storage is minimal at venues themselves, hence orders are smaller in size, require city staff in transporting products from suppliers to venues which is inefficient and costly. Inventory is an additional area of inefficiency, particularly given the lack of a POS system for many of the sites. Municipal services are accountable to the public versus private sector enterprises (i.e. public facilities expected to be open to serve in low periods, when private

sector services can close. Public expects lower prices through municipal run services). Labour costs within municipal governments also tend to be higher than those in privately run food/beverage business.

4.0 Key Informant Input

4.1 OVERVIEW

An important element of the study's research phase was to gather information from stakeholders and key informants including their impressions of the existing situation, ideas about possible alternative options, acceptable business models, satisfactory financial thresholds and preferred implementation approaches. Interviews were conducted with a broad cross-section of individuals with opinions of, or connections to the concession system to ensure that resultant input is helpful in the development of an appropriate strategy. A list of informants is included in the appendix of this report.

The following section summarizes the opinions, suggestions and observations of informants. The input has been grouped under topic areas that will be considered during the analysis and strategic planning stage of the study. Specific comments are presented anonymously, however where clarity of context is important, the general interest area of the respondent has been identified. Topic areas and the associated comments are presented in no particular order.

4.1.1 General Philosophies of the Concession System and How it Could Look in the Future

- Food and beverage service is part of the park/beach experience. Although the provision of food and beverage is not decreed by Park Board philosophy or policy statement, it is a valued service that is expected by our customers and an important augmentation to our overall public-service philosophy.
- Concessions at the beach and park sites could be different in terms of product offerings and image as long as a common set of quality standards (performance specifications) are applicable to all sites and consistently maintained.
- Some or all of our concessions could become destinations - rather than simply a convenience outlet.
- The delivery of service excellence to the beach and park clientele is objective #1! This includes being predictably superb in the provision of quality products and the delivery of comfortable and friendly service in appealing surroundings.

-
- We are shooting for the top rung of leisure service excellence in virtually everything we do at the Park Board – “our concessions should be dancing to the same music that the rest of us hear”.
 - We must strike a balance between the pursuit of profit and our obligation to meet the needs and expectations of our customers. We should not apologize for attempting to generate an acceptable return on our investment of time and money, but we should be sensitive to affordability issues.
 - Dining at the beach should be as spectacular as the surroundings. Our outlets should be uniquely attractive and the food quality should be a highlight of the beach experience.
 - It is not necessary to be all things to all people at all locations... let's be unique thinkers and not be afraid to break the mould in an effort to “kick-it-up several notches”!
 - It must be understood that a good strategy may involve taking risks - in fact, it may be that a strategy without risks will never get us to where we want to be. The trick will be to manage the risk so that we can protect ourselves against disaster by establishing and implementing a well-conceived plan even though it may involve some level of chance.

4.1.2 General impressions of the existing system

- There is no consistency in terms of product quality and customer service between sites - it seems that the customer experience is completely dependent upon the ability of the concessionaire, which varies on a site-by-site basis.
- For a number of reasons the system was left in a holding pattern for years. It was very difficult to initiate any sort of new initiative because certain staff were very resistant to change.
- The menus at the concessions need to be reengineered. New menus should offer a reduced number of products because the breadth of the current product line is confusing to the customers and difficult to manage - especially given the limited storage capacity at most concessions. Once the number of menu items has been culled, new, more appealing products could be introduced.
- The washrooms that are adjacent to most of the concessions are usually quite unkempt and are an embarrassment.

-
- The current operating model limits professionalism and makes it difficult for operators to adopt an entrepreneurial attitude because they must fit into a system that has predetermined their response to elements that normally make a retail food and beverage business successful – product selection and quality, price, promotion (signage), etc.
 - Burnout is a real problem. As a result of the financial arrangement between the contractor and the Parks Board, the concession “run on shoestring staff numbers”, with concessionaires handling much of the workload themselves and therefore are very prone to “running out of gas” some time before the summer season has concluded.

4.1.3 Operational issues

- It is sometimes difficult to convince the operator about the merits of operating in a particular fashion (quality of product preparation and display, hours of operation, staffing, etc.) without becoming too prescriptive and thereby impinging on the fact that the concessionaires are supposed to be independent contractors.
- Recent changes have been implemented and seem to be positively influencing the concessionaires’ morale and the relationship between the operators and the administration staff.
- Although bulk purchases (through the tendering process) result in product cost savings, the limitations associated with “dealing with a single supplier” sometimes create customer service issues that are difficult to explain to concession patrons. For example, if a preferred supplier is temporarily out of stock of a popular item, the warehouse may be unable to meet concessionaires’ order requests even though a major event may be on the horizon (such as a long weekend or fireworks display).
- Basing purchasing decisions on “buying the cheapest product” in order to contain cost of sales is not always the best strategy. If we can buy better quality products that are more appealing to our customers we will be perceived as offering better service and likely will be able to generate more profits by charging more and selling greater volume.
- Beyond of the cost savings associated with the ability to store bulk purchases, the warehouse and associated staff benefit operations by helping to stock certain concessions, moving stock between concessions during peak periods, end of season restocking, as well as offering “just-in-time deliveries” irrespective of weekends or civic holidays.

-
- There is only modest sharing of ideas, lessons learned and best practices between concessionaires. A more formal communication network possibly facilitated by Revenue Services staff would be advantageous.
 - The warehouse seems to have a problem in keeping the most popular food products and support supplies in stock.
 - The enforcement of concessionaire obligations as specified by the contract is sometimes difficult - such as compliance with hours of operation and length of season.
 - More sophistication (hopefully technologically aided) is required on the control side of the business - cash controls, inventory controls, tracking waste, portioning, etc.
 - The contract with concessionaires is renewed annually, which gives little sense of comfort or security to the operator. A longer-term agreement, with performance clauses, may be more advantageous.
 - Is the product ranking system that is implemented in September/October utilized during the purchasing process the following February?

4.1.4 Opinions Regarding the Physical Condition of the Concession Facilities

- The current concession facilities are in need of substantial renovation, retrofit and cosmetic treatment - which will likely require significant capital investment.
- The concession facilities should undergo a more rigorous annual maintenance program. The maintenance budget is established in recognition that ongoing maintenance is required and consequently, the budget should be used to its most effective and full extent.
- Most if not all concession facilities are in need of a redesign to increase their functional efficiency, storage capacity and visual appeal.
- The existing footprint (size) of most facilities would most likely be adequate to accommodate an efficient concession operation especially if the space currently allocated to residences was included in the preparation or service area of the concession.

-
- Dry and cold storage is an issue at most locations, which has a detrimental impact on the concessionaires' ability to adequately service customers.
 - Concessions need to be set up so that signage, menu boards and product displays can be effectively used for marketing purposes. A redesign is necessary in order to remove the clutter, simplify the general look of the concession and to make it easy for the customer to make a product selection.

4.1.5 Industry and Observed Trends That Could Have an Impact on the Strategy

- The demographic profile of park users has changed dramatically over the past number of years, which has had an impact upon concession sales. For example, certain ethnic groups enjoy bringing their own food to the park as opposed to buying it from concessions. Future strategies should take into account demographics and the likely food purchase patterns of the age cohort and cultural groups expected to frequent parks and beaches.
- Over the past decade, park visitor volumes have gone down and length of park stays have been shortened since paid parking was introduced. Aquarium traffic has been static or receded either as a result of paid parking or the elimination of the whale exhibit.
- It is estimated that the Sea Wall attracts 1,500 people per hour during the peak season. The number of people that use the Sea Wall will grow proportionate to population escalations in the Greater Vancouver area.
- The general population is becoming more health conscious and therefore more discerning with their menu choices. Concessions should be positioned to rapidly respond to changes in eating habits.
- The wintertime foot traffic at the Sea Wall is likely to grow overtime and therefore the strategy should contemplate additional concessions open longer hours as shoulder season and winter park patronage expands.

4.1.6 Creative Ideas That Could Be Included in the Strategy

- Introduced a "cart program" that could augment permanent concession facilities, especially at the high traffic locations or during scheduled special events.

-
- We could introduce products and services that could result in a “sophisticated picnic concept” in certain park locations.
 - Why can't we emulate what happens in many European parks and in some U.S. locations where it is permissible to have a drink (wine, beer and spirits) with your lunch or dinner by the beach?
 - It would be much more desirable to have fewer locations offering quality products and better customer service rather than doing a mediocre or poor job with more concessions on the beach and all along the Sea Wall - consolidation of locations is an option especially on the western beaches.

4.1.7 Financial Implications

- If the private sector is involved in operating the concessions the City should either collect taxes or receive an equivalent benefit in kind.
- Business models should show how the operations could remain financially self-supportive including covering debt service associated with capital investments needed to retrofit concession facilities.
- It may be difficult to sell the merits of retrofitting or renovating the concession facilities based exclusively on a financial business model. Therefore, the benefits analysis must include both qualitative (customer service) and quantitative (financial) measures.
- If possible, the strategy should look for a five to ten year payback period for capital funds invested by the Park Board.

4.1.8 Strategic Implementation Factors

- If contracting-out the operations became the preferred option, the implementation strategy would need to consider job losses resulting from dismantling the warehouse operation.

5.0 Strategic Analysis

The Concession Strategy is to achieve a number of important objectives that will result in an enhanced leisure experience for park and beach clientele and improved financial performance. Additionally, the strategy is to create an environment through which the concession system can be consistently superb in the provision of quality products and predictably excellent in the delivery of comfortable and friendly service in appealing surroundings. To do so, it will be important that the selected business position focus on the following considerations.

- the merits and drawbacks of the various management and operating options;
- market conditions;
- the financial realities of operating facilities and the delivery of services in an industry that is in a constant state of evolution; and
- balancing priorities related to acceptable financial performance and the provision of services valued by Vancouver Parks Board clientele.

5.1 LONG-TERM STRATEGIC VISION

A key to realizing strategic successes usually hinges on an organization's ability to connect to a statement that involves and energizes individuals to achieve a common purpose. In this case, the statement should articulate the concession system's purpose in order to provide staff and key decision makers with a basic framework within which expectations and decisions can be developed. Based upon information gleaned from the research phase of the study and responding to input provided by key stakeholders, the suggested mandate statement is:

The concession system will augment the vibrancy of our parks and beaches through the provision of top quality products and services that are valued by our clientele. Each unit in the system will maintain professional standards that are consistent with the service excellence philosophy of the Parks Board, be responsive to emerging trends and local market conditions and contribute to the financial success of the system as a whole.

The evaluation of potential strategic directions and the analysis of management and operating options will be framed by this mandate statement.

5.2 STRENGTHS AND WEAKNESS ANALYSIS

Following table summarizes the consultant’s impressions of the strengths and weaknesses inherent in the current concession system.

<i>Strengths</i>	<i>Weaknesses</i>
<p><i>Situational</i></p> <p>Concessions are widely dispersed throughout the City’s parks and beaches as well as along the Sea Wall.</p> <p>Many locations have superb vistas.</p> <p>The diverse locations and the nature of each concession create opportunities to develop destinations for existing and new patrons.</p>	<p>A few locations are situated in low traffic areas and are “off the beaten path”.</p> <p>Most concessions are cramped with very limited storage space.</p> <p>Most concession buildings are in need of physical rehabilitation and/or retrofit ranging from cosmetic enhancements to complete refurbishment.</p> <p>Residences associated with certain concessions are problematic and present liability issues.</p>
<p><i>Operational</i></p> <p>Contractors are responsible for most operational issues including hiring and training staff, stocking the concession, maintaining operations, etc.</p> <p>Revenue Services generally controls menu structure and prices thereby ensuring product selection and price consistency throughout the system.</p> <p>Central administration produces data that is useful in trend tracking, operational controls and performance monitoring.</p>	<p>The operating and financial success of the concessions is entirely linked to the operating prowess and the enthusiasm of the concessionaire.</p> <p>Annual contracts offer limited stability to each operator and provide virtually no incentive to improve year-to-year.</p> <p>There is very little consistency in product quality and customer service between concessions.</p> <p>In an attempt to contain part-time wage costs, operators tend to under-staff, which sometimes affect customer service and often contributes to burnout of the operator.</p>

<i>Strengths</i>	<i>Weaknesses</i>
<p>Central Warehouse</p> <p>The warehouse allows for bulk buying of food and other products resulting in cost savings.</p> <p>The warehouse provides non-financial benefits including “just-in-time deliveries”, moving food and products between concessions, end-of-season restocking and assisting concessionaires in day-to-day operations.</p>	<p>The warehouse and associated administrative support result in a fixed overhead cost irrespective of the sales volume of the concession system.</p> <p>Central stocking to some degree limits purchasing flexibility by concessionaires.</p> <p>Low-cost food products that result from the tendering process may not be acceptable to concession clientele.</p>
<p>Financial</p> <p>Annual net proceeds arising from the concession system range between 10% and 15% of gross revenues.</p>	<p>The Parks Board completely absorbs the financial risk of each concession even though operational controls rest with the concessionaire.</p> <p>All capital repairs, maintenance and equipment costs are borne by the Parks Board.</p>

5.3 SEASONAL SALES FLUCTUATIONS

Gross sales of the concession system dramatically fluctuate on a seasonal basis. Sales volumes of all locations significantly increase during July and August, which is due to the increased park traffic during this important sales period. Sales are further enhanced by special events that occur during this period such as the annual Fireworks Evenings.

The consultant performed an analysis to determine if seasonal sales fluctuations or special events had dissimilar influences on the gross revenue profile of concessions in the system. It was concluded that there was no difference in the relative impact of these influences on each concession. A graphic depiction of the monthly sales profiles of each concession is included in the appendix.

5.3 CONDITION OF CONCESSION FACILITIES

The Parks Board's concession buildings and support facilities are in various states of repair. Newer locations such as Lumberman's Arch or those that have been recently renovated such as Spanish East are in good physical condition, are reasonably functional, and have appropriately sized amenities such as prep-space and customer seating. However, many of the other locations need attention of varying degrees. The consultants observed a number of shortcomings such as inadequate storage, cumbersome and cramped kitchens, small and/or awkward working areas, and visually unappealing facades.

Given the variety of these physical circumstances within the system, it would be advisable to develop a concession redevelopment strategy that could be implemented over time or in concert with decisions regarding new management models. Food and beverage consultants with appropriate concession or take-away food and beverage background (possibly assisted by architects/engineers) should develop the strategy. The consultants should perform an assessment of the physical plants and operating systems of each location (prioritized by sales volume), provide recommendations for physical changes (especially in the area of additional storage capacity and enhanced product display capability), and produce a business case analysis of the cost-benefit of the recommended upgrades. The strategy should also include the most functional and cost effective reuse of the space currently occupied by the residential units adjacent to several concession facilities. Additionally, the strategy should have provisions for appropriately dealing with the washroom and change facilities that are adjoined to a number of concessions.

5.4 SALES RATIOS

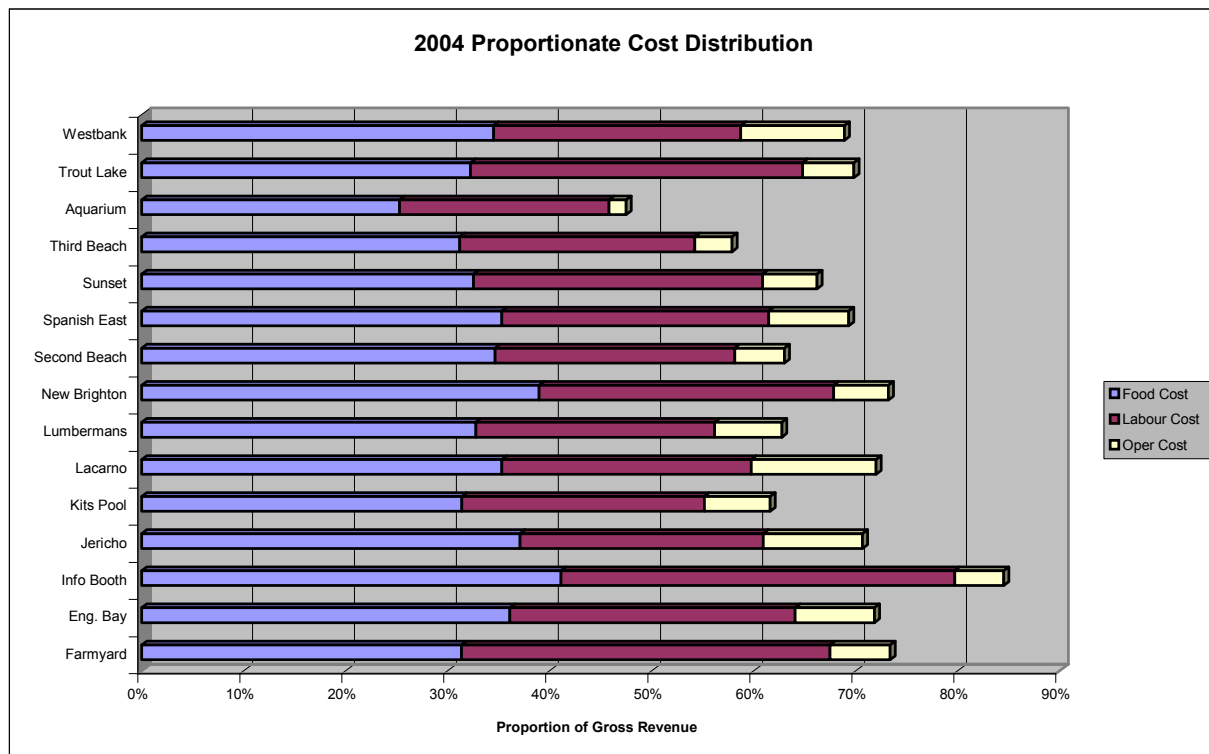
As previously noted, knowledge, management skills, good location and sound control systems are at the root of any successful food and beverage operation. The current operating model creates a situation that allows diverse levels of expertise and operating prowess inherent in operators of the concessions in the system. It would seem that the varying degrees of expertise cause the different operating performances and net profits that occur from site to site.

An analysis of the 2004 operating performance of all locations reveals interesting findings. The top five performers - Second Beach, Stanley Park Trailer, Lumberman's Arch, Spanish East and Third Beach - collectively produce 66% of the total net income of the system. A review of the key financial metrics suggests that this performance is largely driven by substantially higher gross sales at these locations rather than the implantation of more sophisticated operating systems.

The following table presents implications of the 2004 operating ratios at each of the concessions in the system.

<i>Location</i>	<i>Gross Sales ('000)</i>	<i>Net Income ('000)</i>	<i>Profit Margin</i>	<i>Food Cost %</i>	<i>Operator Earnings %</i>	<i>Staff Wage %</i>	<i>Total Labour %</i>
Second Beach	\$512	\$189	37%	35%	7%	16%	24%
Aquarium	\$303	\$159	53%	25%	11%	10%	21%
Lumberman's Arch	\$319	\$119	37%	33%	14%	10%	23%
Spanish East	\$345	\$106	31%	35%	11%	15%	26%
Third Beach	\$228	\$96	42%	31%	14%	10%	23%
English Bay	\$138	\$40	28%	36%	13%	15%	28%
Westbank	\$117	\$36	31%	35%	16%	9%	24%
Lacarno	\$116	\$33	28%	35%	15%	9%	24%
Sunset	\$120	\$40	34%	33%	18%	10%	28%
Kits Pool	\$103	\$40	38%	31%	17%	6%	24%
Jericho	\$115	\$34	29%	37%	11%	13%	24%
Farmyard	\$121	\$32	27%	31%	24%	12%	36%
Info booth	\$161	\$25	15%	41%	33%	5%	39%
New Brighton	\$87	\$23	27%	39%	15%	14%	29%
Trout Lake	\$44	\$13	30%	32%	24%	7%	33%

The following chart illustrates the relative distribution of costs between each of the concessions. It is noteworthy that the apparent disproportionate cost related to food and operating supplies for the Stanley Park trailer (at the Aquarium) is linked to the product sales profile at this site – there is a higher than normal sales volume of products with favourable profit margins (popcorn for example).



5.5 CENTRAL WAREHOUSE COST-BENEFIT ANALYSIS

Currently, food service administration personnel and a central warehouse provide the following services that support the concession system.

- Determining product requirements and implementing an annual tendering process through which suppliers are selected to provide food and other products to concessions throughout the system.
- Central storage of bulk purchased items.
- Deliveries to concessions of items stored at the warehouse - and responses to emergency supply requests during peak sales periods.
- Assistance in stocking certain concessions and moving food products and supply items between locations as required.
- Restocking items at the warehouse at the end of the season to be used by concessions that are periodically open during the winter months.

-
- Administrative functions including part-time payroll, tracking sales performances of each location, monitoring warehouse inventories, financial controls and producing sales reports.
 - Overseeing the entire system to ensure (as possible) concessionaires are fulfilling contractual obligations, maintaining acceptable quality levels and conforming to appropriate menu and pricing standards.

Between 60% and 70% of the concessions' food and general service products are stored at the central warehouse and delivered to the sites by warehouse staff. Commercial suppliers deliver the balance of the products directly to the concession sites.

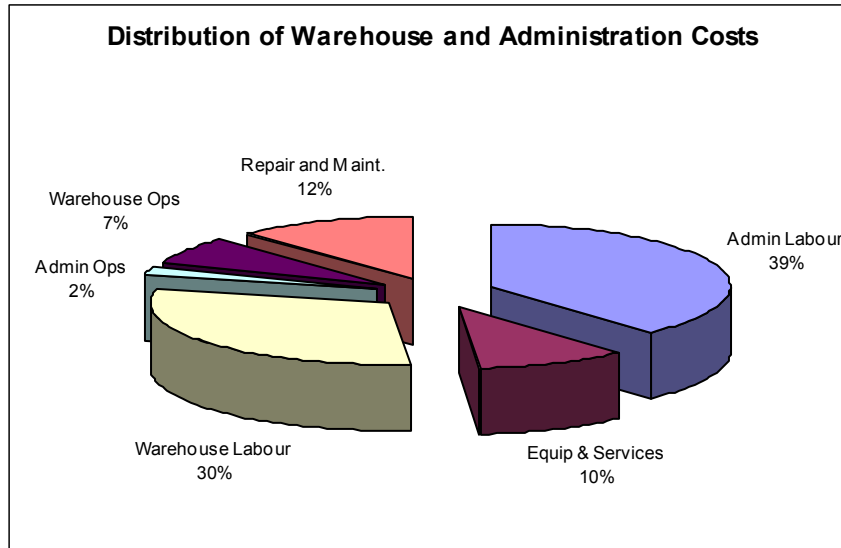
The existence of the central warehouse reduces the number of deliveries that the suppliers must make to the individual concession locations. This fact coupled with the volume discount realized through the tendering process results in an estimated savings of between 10% and 20% of the total food and supply cost.

To aid in the cost-benefit analysis the consultant interviewed a number of current suppliers. Input revealed the following:

- all the suppliers have capacity to deliver directly to each concession;
- minimum order quantities would be required for each site delivery. Although actual amounts would depend on the product type and the circumstance of the particular supplier, most quoted a relatively modest minimum order;
- frequency of delivery would be a matter of negotiation; and
- assuming that the tendering process remained in tact and that total product quantities ordered by the Parks Board remained at traditional levels, suppliers suggest that the increased number of deliveries would result in escalations of 5% to 10% of existing product costs.

In 2004, the total cost of the food service administration and the central warehouse was approximately \$525,000. A savings of \$80,000 was realized in 2005 because the Food Services Supervisor retired and was not replaced - two existing full-time staff shared the responsibilities of the vacant position. According to staff and senior management, permanently eliminating the supervisor position and reallocating the supervisory responsibilities to existing staff – similar to what occurred during the past year - would not negatively impact operations.

The proportionate costs associated with the 2005 administration and warehouse functions are depicted below.



Salaries and wages were the most significant cost item accounting for nearly 70% of the total expenses related to administration and warehouse services. Repairs and maintenance to the warehouse and administration building plus expenses for equipment and contract services - such as armoured car services - represented an additional 22%. Truck rental and maintenance, communication, refuse disposal, utilities and miscellaneous services amounted to about 9% of expenses in this cost centre.

Last year, a total of approximately \$950,000 of food product and slightly more than \$20,000 of miscellaneous supplies were purchased by the Parks Board and distributed to the concessions. Assuming that the warehouse handled 65% of this volume, about \$630,500 worth of product and supplies were accepted, stored and shipped through the central system.

Our research revealed that if suppliers were required to deliver directly to the concession sites, product costs would likely go up by a factor of between 5% and 10%. Based upon the preceding volume calculations, the system could therefore expect product cost escalations of \$31,525 to \$63,500 if the warehouse was eliminated.

A decision to cease the central warehouse function would not necessarily affect the Parks Board's current tendering process to secure favourable food and miscellaneous product prices. Suppliers would bid on product quantities and

specifications prepared by Revenue Services and the selected suppliers would guarantee the prices for the upcoming season. It is anticipated that one full-time administrator and one part-time clerk would be an adequate staff complement to fulfill these functions.

The cost implications of operating with and without a central warehouse are presented in the following table.

<i>Costs Item</i>	<i>With Warehouse</i>	<i>No Warehouse</i>
Administration labour	\$171,000	\$125,000
Warehouse labour	\$134,000	N/A
Equipment and services	\$45,120	\$25,000
Administration operations	\$10,065	\$2,500
Warehouse operations	\$30,560	N/A
Repairs and maintenance	\$54,255	\$15,000
Cost escalations due to site deliveries	\$0	\$63,500
Total cost	\$445,000	231,000
Percentage of \$630,500 product volume	71%	37%

Operating the concession system without the central warehouse would result in annual cost savings of about \$215,000. However, removing the warehouse from the system would require planning and consideration to a number of important operating issues.

- Storage capacities of the concessions must be factored into the delivery schedules negotiated with the preferred suppliers. In certain cases, it may be necessary to increase the storage capacity of certain concessions if daily deliveries were not possible.
- Without the warehouse and its related functions, concessionaires must be quite vigilant regarding food and product inventories and anticipated sales trends because “crisis deliveries” would likely not be available from suppliers.
- A new end of season mechanism to deal with products remaining in concessions’ inventories would be required.
- Concessionaires’ contractual requirements would be adjusted to obligate contractors to be on site to receive deliveries from suppliers.

-
- The control systems, accounting and reporting functions would be adjusted to reflect the new operating protocol.

Although the central stocking and delivery function currently provides operational advantages to the system – such as just in time deliveries and other supports to concessionaires - the costs to operate and administer the warehouse seem to outweigh the associated benefit of this functional element. Therefore, assuming that the proceeding operational issues can be resolved, it is recommended that the warehouse be eliminated.

5.6 EVALUATION OF POTENTIAL MANAGEMENT MODELS

The work program calls for examining management and operating strategies that would be most applicable to the circumstances of each of the fifteen concession locations. Through discussions with management staff, various potential options were identified.

It was also determined that the selection of a the most appropriate strategy must respect the needs of the Vancouver Parks Board in terms of consistent service delivery, the availability of food and beverage services throughout parks and beaches within the Board's purview and the financial performance of the concession system. Consequently, it was agreed that the strategy must treat each concession as an important contributor to the entire system and that the strategy must be rationalized by a solid business case.

The consultant and the management staff agreed that the relative merits of five options would be evaluated. The particulars of each option are described below.

5.6.1 Option One – Adjustments to Existing System

This alternative involves adjusting the existing system by improving the operating and management qualifications of contractors and enhancing the supports available to concessionaires from Revenue Services. The specifics of the option are:

- Independent operators would be responsible for each location
- Operators retain and supervise part-time service staff
- Operators could be responsible for more than one location
- Central warehouse system would be retained
- Operators would have some flexibility to access products from suppliers
- Vancouver Parks Board would be responsible for all capital improvements
- Vancouver Parks Board would be responsible for all equipment purchases

-
- Vancouver Parks Board would assume all operating and financial liabilities
 - Product quality would be improved
 - Capital would be invested to augment the aesthetic appeal of sites
 - Revenue Services would implement a system to improve the product and service quality consistency between sites

5.6.2 Option Two – Major Modifications to Existing System

This alternative builds on Option One and includes consolidating sites to improve the operating efficiency of the system without negatively influencing the service experience or food and beverage availability to park and beach patrons. The option also includes the elimination of the central warehouse function. The specifics of the option are:

- Consolidate concessions leveraging the advantages of strong locations
- Eliminate central warehouse operation
- Independent operators would be responsible for the locations
- Suppliers would deliver food and supply products directly to each site
- Operators would retain and supervise part-time service staff
- Operators could be responsible for more than one location
- Vancouver Parks Board would tender contracts with suppliers for most products
- Vancouver Parks Board would be responsible for all capital improvements
- Vancouver Parks Board would be responsible for all equipment purchases
- Vancouver Parks Board would assume all operating and financial liabilities
- Product quality would be improved
- Capital would be invested to augment the aesthetic appeal of sites
- Revenue Services would implement a system to improve the product and service quality consistency between sites

5.6.3 Option Three – Partnership Arrangement

This alternative involves developing relationships with individuals or companies having food and beverage expertise and a background in concession operations. The arrangement would not only include a management contract for the operations of the concession but also an agreement through which the concession facility would overhaul, retrofit or renovate. The source of funds to underwrite the facility enhancements would be negotiated with the partner and

the financial terms of the agreement would reflect the partner's participation in the capital funding package. The specifics of the option are:

- Secure a partner with concession experience
- Partner would be responsible for day-to-day concession operations
- Vancouver Parks Board may help finance capital improvements
- Vancouver Parks Board would participate in equipment purchases
- Arrangement (term, financial details) would reflect partner's capital investment
- Common operating and quality standards would apply to ensure consistency in the system
- Operating and financial liabilities are shared between partners
- Central warehouse system would no longer be necessary
- Menu and physical character of each location would be market driven

5.6.4 Option Four – License Arrangement

The license arrangement is similar to the partnership option except the licensee would absorb all risks associated with concession operations. The Parks Board and the licensee would agree upon necessary capital improvements and arrange an acceptable funding mechanism through which physical enhancements would be financed. Thereafter, the Parks Board would maintain the facility. The license would outline controls that the Parks Board would exert over operations to ensure that quality and service standards were maintained. . The specifics of the option are:

- Develop a fair and transparent licensee search and selection process
- Secure a licensee for select locations
- Licensee and Parks Board would jointly determine capital improvements
- Funding of capital improvements would be a matter of negotiation
- Licensee would be responsible for all day-to-day operations
- Licensee would absorb all operating risks
- Vancouver Parks Board would maintain the facility

5.6.5 Option Five– Lease Arrangement

The lease option would be similar in nature to the Parks Board's current relationship with private sector companies that have redeveloped and are operating food and beverage locations on municipal lands – i.e. Fish House, Mill

Marine Bistro, Kits Beach. The tenant would be fully responsible for all aspects of the operation including undertaking and financing capital improvements to the site. The Parks Board would retain certain approvals and other quality and standards controls that would be outlined in the lease documentation. The specifics of the option are:

- Develop a potential tenant search and selection process
- Secure tenants for appropriate locations
- Tenant would finance all capital upgrades and equipment purchases
- Vancouver Parks Board would act in the capacity of the landlord
- Tenant would conform to common and approved standards
- Tenant would absorb all operating and financial liabilities

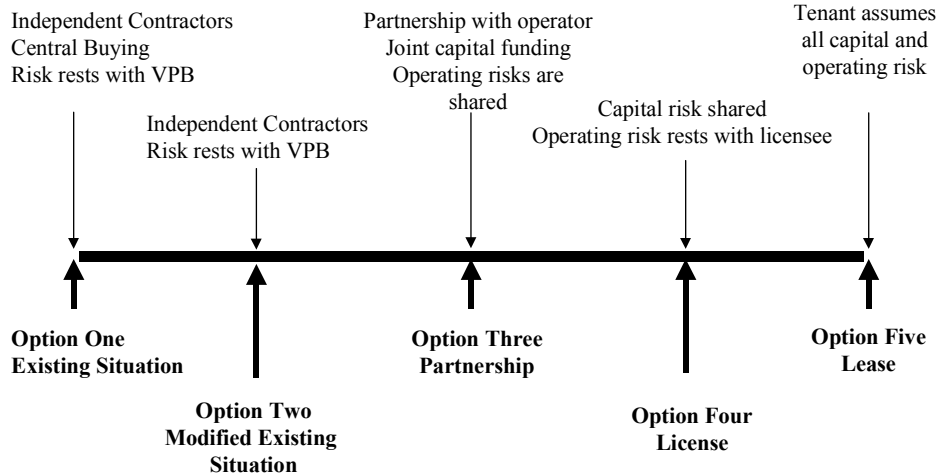
5.7 RISK CONTROL BALANCE OF THE STRATEGIC OPTIONS

Effective risk allocation is an essential ingredient to any successful project. And, the party most able to influence key risk factors should expect to assume risks involved with elements of the project that is within their control. The risk-control balance is a major factor differentiating the five options.

The options range from the Parks Board exerting some control and assuming all risks, as the case with the current situation, to having a third-party absorb almost all of the capital and operating risks within a tenant landlord relationship. The options within these extremes include varying degrees of control and risks that are absorbed by the Parks Board and the concession operator.

The relationship between control and risk as it relates to the options are depicted in the following graphic.

RISK-CONTRAL CONTINUUM OF OPTIONS



5.8 CHARACTERISTICS OF CONCESSION SITES

The Vancouver concession system consists of 15 locations with individual use profiles and physical attributes that influence their operating circumstances and financial performance. In certain cases, concessions are quite unique and can therefore not be grouped with similar counterparts. However a number of locations can be sub-grouped because they exhibit similar characteristics and use profiles. The following considerations were employed while evaluating the strategic options.

<i>Locations</i>	<i>Characteristics</i>
<p><i>Group One</i></p> <p>Second Beach English Bay Sunset Beach</p>	<p>Attractive, highly visible locations adjacent to the seawall 8 – 10 month operation with opportunities to open on “good weather days in the winter. Beach access Significant passer-by traffic</p>

<i>Locations</i>	<i>Characteristics</i>
Lumberman's Arch	Large facility On seawall but distant from majority of wall traffic 8 – 10 month operation with opportunities to open on “good weather days in the winter. Adjacent to water park Family-oriented
Information Booth	Year round operation Significant passer-by traffic Broad range of patron profile Limited storage
Stanley Park Trailer	Currently operated by Aquarium High traffic high volume area Good opportunity to assess partnership potential
Farmyard	Traffic dependent upon special events Family-oriented
Third Beach	Family oriented market 8 – 10 month operation with opportunities to open on “good weather days in the winter. Beach access Attractive walking site
<i>Group Two</i> Jericho Locarno Spanish Bank East Spanish West	Geographical synergies Beach access Attractive walking sites Family-oriented Similar client profiles
<i>Group Three</i> New Brighton Kits Pool Trout Lake	Seasonal operations Adjacent to the swimming areas

5.9 MULTIPLE CRITERIA ANALYSIS

Multiple Criteria Analysis (MCA) is a tool for incorporating qualitative and quantitative criteria in the evaluation of options that may be considered as part of a strategy. MCA is not an absolute comparison technique as it requires trade-offs or “judgment calls” concerning the options’ likely response to various criteria and the related contribution to the project’s success. MCA is a mechanism for facilitating the trade-off decision process.

Through discussions with management staff, and remaining sensitive to the goals of project, it was agreed that several considerations would be integrated into the Multiple Criteria Analysis in order to compare the strategic options. Each option was tested for its ability to successfully contribute to each of the following criteria.

Quality Food Service - the delivery of quality food products and excellent customer services.

Creating a Destination - becoming an attraction through which patrons would visit the concession on occasions other than when they were simply passing by.

Enhanced Park Experience - contributing to the comfortable enjoyment of the park in which the concession is located.

Responsiveness to Customer Needs - the ability to remain flexible in order to meet customers' needs and change in accordance with new requirements.

Consistency of Service - ensuring that customers receive top-quality service from each location, regardless of the time of day or season. This also means receiving similar levels of service between sites within the system.

Financial Performance - the ability to maximize net income for the City.

Financial Certainty - minimizing their risks associated with the City’s receipt of anticipated net income.

Minimize VPB Support - reducing the level of City effort and associated costs for supporting the concession system.

5.10 EVALUATION OF STRATEGIC OPTIONS

The Multiple Criteria Analysis approach was used on a site-by-site basis to rank the applicability of each management option by rating its relative ability to successfully fulfill the preceding list of criteria. The option that was deemed most likely to attain the best results for each criterion received the superior score (1) and the option expected to produce the worst results received the least preferred score (5). A tabulation of the scores indicated the comparative merits of the alternatives for the fifteen concession locations – with the favoured option receiving the lowest cumulative score and the least favoured having the highest score. For clarity, the application of the MCA technique to the English Bay concession location is presented below.

<i>Multiple Criteria Analysis – English Bay</i>					
<i>Criteria</i>	<i>Option 1</i>	<i>Option 2</i>	<i>Option 3</i>	<i>Option 4</i>	<i>Option 5</i>
Quality of food service	5	4	3	2	1
Create a destination	5	4	2	3	1
Enhance park experience	5	4	3	2	1
Responsive to needs	5	4	3	2	1
Consistency of service	3	2	5	1	4
Financial performance	5	4	2	3	1
Financial consistency	5	4	2	3	1
Minimize VPB support	5	4	3	2	1
Total	38	30	23	18	11

Taking into account the characteristics of the sites (as outlined earlier) and the application of the eight evaluation criteria, the MCA technique identified Option 5 – leasing the location to an external operator – as the preferable management approach for the English Bay concession. The second most favoured approach would be Option 4 (licensing the operation to a third party).

A similar analysis was performed for each of the other concession locations as well as for the sub-grouped set of locations. The detailed MCA results for each site are included in supplementary tables provided in the appendices of this report. A summary of the management alternative that emerged as the preferred option for each of the Parks Board’s concessions is presented in the following table.

<i>Location</i>	<i>Preferred Option</i>
Second Beach	Option Five
English Bay	Option Five
Sunset Beach	Option Five
Lumberman's Arch	Option Two
Information Booth	Option Two
Stanley Park Trailer	Option Three
Farmyard	Option Two
Third Beach	Option Three
Jericho	Option Four
Locarno	Option Four
Spanish Bank East	Option Four
Spanish West	Option Four
New Brighton	Option Two
Kits Pool	Option Four
Trout Lake	Option Two

Note: Unique circumstances related to capital costs associated with re-development obligations at Second Beach as well as potential development limitations and/or financial responsibilities required by the province's involvement at Sunset Beach might cause the Board to pursue management options other than the first priority identified for these two concessions.

5.11 SUMMARY OF ANALYSIS

5.11.1 Leased Sites

The results of the analysis suggest that the pursuit of a lease arrangement for Second Beach, English Bay and Sunset Beach would be the most reasonable approach for these sites. The local market sizes - largely driven by their locations – offer unique revenue growth opportunities that would be attractive to potential tenants. Moreover, and depending upon the negotiated lease rate, heightened revenue streams could support a rent structure favourable to the City. Additionally, the lease arrangement would obligate the tenant to perform capital

improvements and/or renovations to the extent that the locations would become desirable destinations for local residents and businesses or individuals enjoying the seawall. The extent of renovations and the ability of the tenant to manage the associated debt service would be determined through the development of a business case for each location.

It is expected that experienced food and beverage tenants could improve the financial performance of the locations and the terms of the lease arrangements would transfer much or all of the financial and operating risk to the operator - hence increasing the financial certainty to the City. Finally, day-to-day support and administration provided by the Parks Board would be dramatically reduced for these leased concessions. It is noteworthy that this option would only be preferable for the Sunset Beach location if the new approach was agreeable to the province and that a reasonable income sharing formula could be negotiated. Otherwise, Option Four – a license arrangement - would be applied to Sunset.

5.11.2 License Arrangements

The site adjacencies, common client base and potential operating synergies of Spanish East, Westbank, Lacarno and Jericho suggest that these locations could be bundled as a group and offered to a qualified concession operator under a license arrangement. The licensee would take full operational responsibility for the concessions, hire staff, set menus and prices as well as arrange supply arrangements with food distributors. The Parks Board would set minimum standards of operation that the licensee would be obligated to maintain and would monitor the performance of the licensee to ensure service quality remained at acceptable levels. The Parks Board would also maintain the physical plant and may assist with the purchase of major equipment, especially in the first few years of the agreement. The licensee would pay a license fee, based on a percentage of the combined gross sales of the four sites.

5.11.3 Partnership Arrangement

The unique circumstances of the Stanley Park trailer and Third Beach provide interesting partnership opportunities. The trailer is situated in a high traffic area that could be effectively leveraged if an attractive and functionally efficient facility were to be developed. Third Beach is quite possibly the most attractive beach location of all the concessions, but it is too distant from major park traffic to appeal to potential tenants or licensed operators. However, utilizing a partnership strategy, the Parks Board could participate with a qualified candidate to develop an agreeable concept that could advance these concessions into destinations and increasing their markets beyond the current customer base. Additionally, customer friendly additions would augment each location's service

capabilities, improve its financial performance and enhance consistency of service.

5.11.4 Modified Existing System

The Information Booth is an important amenity for Stanley Park, providing value added services beyond food and beverage. Booth personnel represent the Parks Board and deliver important information to park patrons and therefore it would seem reasonable that the City should retain control of this operation. Similarly, Lumberman's Arch is the most up-to-date facility within the concession system offering adequate storage and a preparation area that could be used to great advantage.

Modifying the existing system but continuing to oversee these sites would allow the Parks Board to improve their operating efficiency and financial performance. Additionally, the Board could capitalize upon the immediate synergies by operationally connecting these two important locations. For example, Lumberman's Arch could act as the supply depot for the Information Booth thereby offsetting the need for additional storage capacity at the Booth. Depending on the operating prowess of concessionaires, the locations could be bundled under one contract.

This strategic approach would improve the collective operational efficiency of the sites, avoid the need for extensive renovations and provide an opportunity for the Booth to remain dual-purpose.

The local market sizes, locations, physical attributes and seasonality of the New Brighton, the Farmyard and Trout Lake would certainly deter interest from potential tenants, partners or contract managers. However, there would seem to be opportunities to apply a modification to Option Two that would adjust their situations through the introduction of alternative operating strategies. For example, New Brighton could be offered as a stand-alone two-month contract to a qualified concessionaire. This could eliminate the functional difficulties of servicing this distant site while possibly offering an attractive short-term seasonal contract to an operator that does not have aspirations of full time employment. The Farmyard could be contracted to a community group such as the not-for-profit Ecological Society. The group could use the concession as a fund raising venture and the Parks Board could offer start-up guidance as well as a preferential financial relationship through the initial years of the contract. Similar arrangements between municipalities and community groups have been employed in other jurisdictions. Finally, the unique nature of Trout Lake implies that this location could be adequately serviced by vending machines.

5.12 CONCLUSION

Under the circumstances, a combination of several strategies would seem to be the most reasonable approach to improve the financial and operating performance of the Vancouver Parks Boards concession system. The combination approach not only takes advantage of the available benefits of different types of operating arrangements but also creates opportunities for a phased implementation strategy.

6.0 Financial Implications

6.1 CONTEXT

The Multiple Criteria Analysis utilized a number of criteria to determine the most appropriate management option for each concession. The technique examined the relative merits within the management alternatives and predicted the likely impact that the options could have on the performance of the locations. The analysis projected probable quality improvements, operational advantages and functional benefits that would accrue to the Parks Board through imposing changes to the current system. Although the proposed strategies should result in increased quality of facilities, improved customer service and generally enhanced concession operations, a decision to move forward with a new management model must be supported by a solid business case including financial projections.

To prepare the analysis required to complete this aspect of the study, the consultant examined the terms, conditions and financial provisions of comparable management options employed in other jurisdictions as well as the “Vancouver experience” in existing relationships with third-party food and beverage operators. This information formed the basis for the development of a series of assumptions that were used to project the financial implications of the various management options.

The following sections provide the details of the analysis.

6.2 LEASED OPERATIONS

Second Beach, English Bay and Sunset are prime locations that will likely attract interest from food and beverage specialists willing to redevelop the facility and enter into a lease agreement for the site. The appeal of these locations is verified by the fact that the Board regularly receives unsolicited expressions of interest from potential candidates.

The significance of these projects would likely compel the Board to employ a Request For Proposal process to search for and select an appropriate tenant. Given that it is impossible to accurately anticipate the concepts that could be proposed by interested parties, the consultants have assumed that the facilities would be redeveloped in a similar fashion to the recently renovated Kits Beach Concession. It is also assumed that:

- the tenant would perform all capital improvements at tenant’s cost;

- the Parks Board would have no operating or management role;
- renovations to the facility coupled with tenant’s operating prowess would produce gross sales at a level consistent with comparable beach front, year round quality food and beverage operations; and
- rent paid to the Parks Board would be based upon 6% of gross sales.

The financial implications associated with these assumptions are presented in the following table.

	<i>Second Beach</i>	<i>English Bay</i>	<i>Sunset</i>
Capital investment by tenant	*\$5,000,000	\$2,000,000	\$2,000,000
Anticipated gross sales	\$2,000,000	\$1,500,000	\$1,500,000
Base rent factor	6%	6%	6%
Annual rent to Parks Board	\$120,000	\$90,000	**\$90,000

Note (): Capital costs to re-develop the Second Beach concession could significantly escalate if the Board were required to perform substantial upgrades and enhancements to the existing washroom and change facilities. However, these cost increases could be avoided if the improvements are negotiated as part of the tenant’s obligations.*

*Note (**): The annual rent that would accrue to the Parks Board from the Sunset concession might be significantly reduced if the City were unable to negotiate a favourable net revenue sharing formula and land use agreement with the province.*

6.3 LICENSED OPERATIONS

The proximity of the Spanish East, Westbank, Lacarno and Jericho concessions creates an ideal opportunity to bundle these locations and license their operation to a single individual or company. Dealing with a single entity would increase the potential profitability of the licence and allow the operator more flexibility in positioning the four concessions. For example, one of the sites could become the central storage area for the entire group. Or, the menus could be adjusted and renovations could be performed such that each concession occupied a different niche in the local marketplace. These decisions will be left up to the licensee.

Kits Pool is close enough to the Kits Beach Concession that it would seem reasonable to explore the interest of the existing operator to enter into a supplementary license arrangement for the pool concession – thereby bundling

Kits pool with Kits Beach. Synergies offered by this approach should help to improve the Kits pool gross sales without placing undue stress on the existing restaurant and concession operation. If the new operator were to impose a more aggressive management and marketing regime (consistent with the current approach at Kits Beach), gross revenues could climb by a factor of as much as 75% resulting in the Board receiving an annual license fee of about \$21,000.

The licensees could propose physical changes and enhancements to each of the sites and negotiate a capital funding package with the Parks Board. For the purpose of this analysis, it is assumed that the licensee would undertake the capital improvements with no financial contribution from the municipality. If a municipal contribution were deemed necessary to consummate the relationship, the license fee would be adjusted (increased) accordingly. It is also assumed that:

- capital improvements coupled with the licensees’ operating prowess would result in increases to gross sales at each site;
- the Parks Board would have no operating or management role; and
- the license fee would be based upon 12% of gross sales.

The financial implications associated with these assumptions applied to the western beach locations are presented in the following table.

	<i>Spanish East</i>	<i>Westbank</i>	<i>Locarno</i>	<i>Jericho</i>
2004 gross revenue	\$345,133	\$117,252	\$116,408	\$114,731
Revenue increase factor	75%	75%	50%	75%
Projected gross revenue	\$603,983	\$205,191	\$174,612	\$200,779
License fee factor	12%	12%	12%	12%
Annual License fee	72,478	\$24,623	\$20,953	\$24,094

6.4 PARTNERED OPERATIONS

Opportunities to creatively reconfigure the Stanley Park Trailer and the Third Beach concession can be explored through cultivating relationships with qualified partners. Through a joint planning process concepts for each site would be determined and a redevelopment strategy would be established. The process would also include capital investment estimates to complete the concept and the development of firm business cases.

For the purposes of this analysis the consultants have assumed that the partner would underwrite the cost of improvements in consideration of a reduction in the Parks Board's financial expectations for the project. It is also assumed that:

- capital improvements coupled with the partners operating prowess would result in increases to gross sales at each site;
- debt service for the capital improvements would be based upon an interest rate of 6% and a 10-year amortization period;
- in consideration of its participation the partnership the Parks Board would receive 10% of each project's gross revenue, which would be discounted in consideration of the debt service obligations borne by each project; and
- the Parks Board would have no operating or management role but would absorb some financial risk by virtue of the potential fluctuations in gross revenues influencing the discounted fees.

The financial implications associated with these assumptions are presented in the following table.

	<i>Stanley Trailer</i>	<i>Third Beach</i>
2004 gross revenue	\$303,377	\$227,960
Anticipated capital investment	\$1,500,000	\$750,000
Annual debt service	\$199,260	\$99,630
Gross revenue increase factor	225%	200%
Anticipated gross revenue	\$985,975	\$683,880
Partnership Fee factor	10%	10%
Partnership Fee	\$98,590	\$68,388
Fee discount factor	75%	50%
Annual revenue to Parks Board	\$24,649	\$34,194

6.5 CONTRACT OPERATIONS

Contract operators would run the remaining five concessions; however, the operating system would be significantly modified from the current situation. The central warehouse would be eliminated and sites would receive food products directly from suppliers. Revenue Services would continue to implement the annual food tendering process to receive favourable product prices from

preferred suppliers yet concessionaires would have the ability to deal directly with other distributors for products unavailable through preferred suppliers.

Menus would be streamlined to simplify the customer food selection process and to reduce the volume of products, which should in turn help to mitigate storage pressures. Facilities may also undergo modest “facelifts” to enhance their visual appeal. It is also assumed that:

- all efforts would be made to attract enthusiastic and entrepreneurial contactors with appropriate concession and business management background. This could necessitate enhancing concessionaires’ compensation packages either through an increased contract percentage or through the implementation of a new incentive plan;
- the Parks Board would retain net revenue arising from the contracted concessions. Gross profit margins (gross sales minus contractor’s fees, labour, cost of food and operating expenses) are projected at 30% of gross revenue;
- capital enhancements to the facilities would be funded by the Parks Board's capital plan;
- stock for the Information Booth would be stored at Lumberman's Arch to allay the Booth’s storage capacity issue;
- changes to the operating system, menu adjustments, physical enhancements and contractors’ operating prowess would result in increases to gross sales at most sites;
- New Brighton would only operate during July and August;
- the Farmyard location would be offered to a not-for-profit group such as the Ecological Society who would operate the concession as a fund raising venture; and
- the concession of Trout Lake would be replaced by vending machines.

The financial implications associated with these assumptions are presented in the following table.

	<i>Lumberman's</i>	<i>Info Booth</i>	<i>New Brighton</i>	<i>Farmyard</i>	<i>Trout Lake</i>
2004 gross revenue	\$319,939	\$161,300	\$87,226	\$120,614	\$44,180
Revenue increase factor	75%	100%	25%	-100%	-50%
Projected gross revenue	\$559,893	\$322,600	\$109,033	\$0	\$22,090
Profit margin	30%	30%	30%	N/A	30%
Annual net income	\$167,968	\$96,780	\$32,710	\$0	\$6,627

6.6 SUMMARY OF FINANCIAL IMPLICATIONS

The recommended Concession Strategy involves the application of several management models that are appropriate for the various concession sites based upon their location, physical circumstance, customer profile and operating characteristics. Once fully implemented, it is anticipated that the strategy would enable the Parks Board to fulfill the Long-term Strategic Vision for the concession system that was outlined earlier in this report.

Based upon the consultant's assumptions, the strategy should also improve the financial performance of the system. Additionally, there would be much greater financial certainty related to the net revenue retained by the Parks Board because much of the operating risk would be transferred to tenants, partners and licensees at the sites where these management models are applied.

The following table presents a comparison of the concession's systems 2004 financial performance and the rolled up projections of the various components of the recommended strategy.

	<i>2004</i>	<i>%</i>	<i>Strategy</i>	<i>%</i>
Gross Sales	\$2,830,715	100%	\$7,683,471	100%
Net Revenue	\$984,647	35%	\$826,662	29%
Warehouse/Administration	\$445,000	16%	\$167,500	6%
Profit	\$539,647	19%	\$659,162	23%

7.0 Summary of Recommendations and Implementation

7.1 RECOMMENDATIONS

The Concession Strategy includes the following recommendations.

- That the Parks Board adopts a Long-term Strategic Vision for concessions that defines a common purpose and direction for all those involved in the system. The suggested Vision is:

The concession system will augment the vibrancy of our parks and beaches through the provision of top quality products and services that are valued by our clientele. Each unit in the system will maintain professional standards that are consistent with the service excellence philosophy of the Parks Board, be responsive to emerging trends and local market conditions and contribute to the financial success of the system as a whole.

- That a concession redevelopment strategy be established to improve the physical condition of facilities in the system. Improvements would be prioritized based upon the sales volumes of the various sites and the management models that are applied to each location.
- That the central warehouse be eliminated.
- That the administration staff complement be reduced to one full-time supervisor and one clerical staff.
- That Second Beach, English Bay and Sunset Beach concessions be leased to tenants who would be totally responsible for the redevelopment and operations of the locations.
- That Spanish East, Westbank, Locarno, Jericho and Kits Pool be licensed to operators who would participate in capital retrofits of the locations and would be totally responsible for operations.
- That the Parks Board establishes a partnership with a suitable entity for the redevelopment and operations of the Stanley Park trailer and Third Beach concession.

- That Lumberman's Arch, the Information Booth and New Brighton concessions be contracted to operators that would work within a modified version of the existing system.
- That the Farmyard concession be offered to a not-for-profit organization that would operate the location as a fund raising venture.
- That the Trout Lake concession be replaced by vending machines.

7.2 IMPLEMENTATION STRATEGY

The consultant and management staff examined relevant factors associated with implementing the strategies and approaches outlined in the preceding sections. Issues such as timing to carry out the necessary changes, urgency to resolve troubling matters and the ability to respond to apparent opportunities were considered. Based upon this examination, the following implementation priority was determined.

- | | |
|------------------------------|---|
| <i>Priority One</i> | Pursue lease arrangement for English Bay. |
| <i>Priority Two</i> | Pursue a partnership arrangement for the Aquarium Plaza. |
| <i>Priority Three</i> | Pursue an independent operator for the bundled western beach locations. |
| <i>Priority Four</i> | Investigate the implications of redeveloping Second Beach and Sunset Beach and, depending upon the outcome of these investigations, either implement the preferred option or an appropriate management alternative. |
| <i>Priority Five</i> | Approach the operator of the Kits Beach concession to operate the Kits pool location. |
| <i>Priority Six</i> | Modify the existing system and pursue an independent operator for the Information Booth and Lumberman's Arch. |

APPENDICES

Key Informants

VANCOUVER PARKS BOARD

Susan Mundick – General Manager
Jim Lowden – Director Stanley District
Philip Josephs – Manager Revenue Services
Diane Miller – Supervisor Food Services
Charlotte Kenyon – Administrative Assistant
Moe Venkataya – Food Warehouse Supervisor
Howard Norman – Golf Operations Supervisor
Kelley Tofte – Golf Clubhouse Coordinator
Jan Cook – Golf Clubhouse Coordinator

INDEPENDENT CONCESSION OPERATORS

Seja Magee – Third Beach
Raymond Poirier – Second Beach

THIRD PARTY OPERATORS

Daniel Frankel – Mill Marine Bistro
Graham Abraham – Galley Restaurant

REPRESENTATIVES OF FOOD AND PRODUCT SUPPLIERS

Countless Express
Sysco
Benny Foods
Centennial Supplies
Intercity Supplies
Canterbury Coffees

OPERATORS OF CONCESSION IN OTHER JURISDICTIONS

New York City – Bryant Park
New York City – Parks and Recreation
City of Edmonton
City of Mississauga
Niagara Parks Commission
City of Seattle – Parks and Recreation
West Vancouver
San Diego Zoo
City of Winnipeg
City of St. Catharines.

Detailed Option Evaluation Scores

Historical Sales by Site - Graph

Seasonal Sales Fluctuations - Graph
