Victoria Conference Centre Optimization Review:

Centre Performance in Context with

Current Industry Conditions and Expectations

Prepared for the City of Victoria by:

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Background to the Review:

This review was undertaken in response to a request from the City of Victoria in their capacity as their role as owner operator of the Victoria Conference Centre (VCC) to assess the performance of the Centre under current market conditions and, if applicable, to identify areas in which this performance might be enhanced.

It was agreed early in the process that rather than simply developing a report in isolation, a key objective should be to create a greater degree of awareness and understanding of the industry issues behind the recommendations and of the overall dynamics of convention centres in today's economic circumstances. For that reason, a significant proportion of the program has focussed on context and education including two in-depth and highly participatory workshops aimed at creating informed decisions and a rationale that could be shared with the community.

Objectives for the Review:

In response to the overall terms of reference and orientation as per the above, four specific objectives were developed for this report. These are:

- To provide an overview of changes in industry conditions impacting conference / convention centre performance;
- To compare VCC structure and performance with similar centres in order to determine if there are any significant anomalies relative to comparable / competing facilities;
- To identify any unique issues and challenges related to the operation of the VCC that should be taken into account when assessing performance, and
- To recommend actions to address any evident operating / performance issues and to potentially enhance future performance.

Information Sources:

Developing this report and its associated recommendations necessarily required reference to a range of information derived from a variety of local, national and industry-wide sources. The latter were important components of the review as any centre addressing the full range of business opportunities in today's market is subject to the industry-wide market forces and expectations shaping that market today.

The information sources for this review included;

- Interviews with VCC management and City staff;

- Interviews with local tourism industry representatives;
- Interviews with other City business leaders;
- Interviews with Meetings Industry leaders in other jurisdictions and / or as representatives of industry associations;
- Research reviews of:
    - Canadian centre performance (i.e., HLT Advisory /Convention Centres of Canada Annual Benchmarking Surveys)
    - International centre performance (i.e., International Association of Convention Centres Annual Survey and Analysis / specific surveys as noted)
    - Current applicable industry literature (i.e., performance / market demand studies)
- Results of recent conference sessions on related industry issues (i.e., IMEX, EIBTM, ICCA, AIPC, ASAE conferences)

Creating Context: Some Relevant Industry Background:

1. Components of the value proposition: what an owner should expect from a convention centre

Throughout the world, there has seldom been any realistic expectation that convention centres would be profitable in their own right; if this were the case, they could be privately owned and operated and there would be no need for governments to play a part. Instead, they have been generally regarded as community amenities whose role is to enable the community to host events which in turn create a range of benefits.

While these benefits have often tended to be narrowly defined (i.e., as relating primarily to support for the local hospitality industry) there are in fact a range of other returns which all need to be taken into account in order to justify investment by the community. While the broader benefits are usually well considered and evaluated at the time of a decision to build a centre they are often forgotten over time to be replaced by a focus on those elements that are easiest to measure and which generally relate to on centre profitability (or at least minimizing operating loss) in order to relieve the owner of any ongoing financial burden once the initial capital investment is made and direct spending-induced impacts arising from organizer / delegate activities in the local community.

However, in recent years, there has been an increasing focus on the broader benefits associated by what the event brings in terms of knowledge, profile and the enhancement of access to a national or international audience, particularly as stagnant or declining revenues associated with weak economic conditions have made the direct revenue picture less attractive. However, consideration of all components is essential in order to give a well-rounded picture of what a centre brings to the community.

In broad terms, centre-induced benefits fall into four categories:

I. Incremental revenues to the destination, including:

- Hospitality-related spending by delegates (i.e., hotels, transportation, restaurants, attractions)
- Additional non-hospitality revenues from exhibitors, organizers (i.e., exhibition, audio-visual, group transport, special events)
- The promotion of visits and utilization of hospitality infrastructure in the shoulder or off season (thus helping justify new investment)

- The promotion of tourism via pre / post, accompanying persons, returns

It is of particular note that by definition much of this incremental revenue is derived from non-residents and this represents “new” money into the local economy.

II. Supporting local economic development by:

- Attracting business audiences who wouldn’t otherwise visit the destination
- Helping attract new talent, investment and expertise to the community
- Helping position the destination in terms of their priority economic sectors by hosting events that are engaged in these areas
- Creating broader exposure for local business and investment opportunities
- Showcasing local products and services by incorporating these into event programs

III. Enhancement of community development by:

- Creating local access to world class knowledge and expertise
- Stimulating research, collaboration through support for networking
- Allowing local business / academic professionals to host colleagues
- Supporting re-training of the labor force
- Promoting local professional cooperation and collective action

2) Industry Status and Outlook:

Throughout the world, the Meetings Industry and convention centres in particular have been significantly impacted and altered by two interconnected factors;

- First, by the effects of the global economic recession, and
- Secondly, by a rapid evolution in industry finances, business practices, event formats and client expectations

These factors are interconnected in that recessionary pressures had in many cases the effect of accelerating industry structural changes that were already underway driven by forces such as changing technology, new event formats, growing demands for accountability, sustainability issues and new delegate expectations. They are worth reviewing in that they not only explain the origins of some of today's most important industry issues but suggest new directions for centre management and marketing.

I. The recent global recession had an industry-wide impact;

Amongst the related impacts were the following, all of which are relevant to the VCC and its business performance;

- Association conventions were relatively stable, but corporate business – often the most profitable for a centre – was hit hard and fast, and has still not entirely recovered
- Event organizers were challenged by attendance, financial and resource issues of their own, which made them increasingly cautious and cost-sensitive
- There were particularly heavy impacts on specific markets (i.e., US) which made up an important part of the VCC business mix
- Exhibition participation and banqueting – both major sources of centres revenues – had their budgets trimmed
- There was new interest in "virtual meetings" as a way of addressing travel restrictions, particularly by governments and corporations
- However, competition continued to increase as many projects were already "in the pipeline" even as the global economic situation deteriorated

II. At the same time (and accelerated by economic considerations as above) business practices have changed;

- Booking time frames contracted (i.e., clients were delaying commitments) which skewed centre planning and financial projections
- A trend developed toward direct online booking of accommodation via search functions and brokers impacted measures based on traditional room blocks associated with events
- Clients had higher expectations and tougher terms, resulting in more negotiation and subsequent renegotiation
- Outsourcing, downsizing of client resources and staff placed increasing demands on centres

- Third party planners (i.e., companies acting on behalf of clients) and procurement policies (which use a much more formal decision process than previously) require new approaches and strategies

- New "hard" ROI expectations (i.e., clearly demonstrating business and professional outcomes from events) all around

- Corporate, government restraint ongoing in many areas, particularly travel - related

- Growing concerns re: having a "leisure" image projected by destinations in the face of government / corporate sensitivities around attendance of meetings by their employees

III. Increasing competition amongst centres has become the #1 industry issue world-wide:

- Expansions, new builds, renovations have continued world-wide in spite of the recession and have "raised the bar" in terms of client expectations

- Many centres, destinations responded to this, as well as overall business conditions, with major new marketing initiatives that compete with those of other centres / destinations

- It's now a buyer's market for centre clients, with impacts that include the following:

    - Rental discounts, event subsidies and incentives are increasingly expected by clients

    - Centres are finding an increasing need to diversify revenues to compensate for the loss of space rental income

    - Sub-par facilities (i.e., those that cannot deliver on new client and delegate expectations) simply cannot compete in certain markets

    - Many centres are having to revisit client relationships and agreement to avoid losing business to competing facilities

IV. On a more positive note, new opportunities are appearing for non-traditional destinations and facilities;

- Planners willing to consider alternatives to the "go to" destinations and centres if it means they can achieve a better deal and supply a new kind of experience

- Many leisure / resort destination competitors are actually at a *dis*advantage as a result of the sensitivities as above toward the appearance of the event being an excuse for a paid holiday
- Many US issues (i.e., immigration and security) have made Canada a more attractive option to international organizations on a North American rotation
- Shorter meeting agendas (to address cost / time issues) creates the potential more pre/post event activities in the destination
- However, destination branding must be responsive to new concerns in order to take advantage of these new opportunities

3) Looking forward: an outlook for the future:

The issues as outlined above may be expected to continue for the foreseeable future as economic uncertainty continues in many parts of the world, event formats and expectations evolve, governments continue to restrict meetings participation and competition increases amongst various destinations. However, there are other factors that are relevant as well and which have implications for the future of the VCC:

1. **There will continue to be a lag between business recovery and centre receipts;** Because centre business is booked well in advance, a recovery in business confidence will not immediately translate into increased profitability for centres. There will therefore have to be a bridging strategy for finances and at the same time expectations need to be managed for several years even when business starts to improve again.

2. **Meeting Formats will continue to evolve:** Meeting formats will keep evolving, driven by a variety of factors including increasing complexity, generally reduced length and attendance and changing delegate expectations about what they want to get out of their event experience. The latter is shaped by a number of factors, including:

3. **There will be less time commitment by delegates:** Meetings and conventions length has seen a long term slow decline in meeting length driven by time and business constraints that are unlikely to reverse any time soon.

4. **There is an increasing need for measurable ROI to justify attendance:** At the same time, the ability to justify attendance is becoming more important with many sectors (i.e., medical) now having formal educational credentials to achieve as a part of meetings.

5. **There is also an interest in obtaining more than just information,** including interactions, insights, networking opportunities. With so much information now available via other means (i.e., the Internet) the focus of events is shifting onto what face to face interactions can achieve and away from information delivery and having experiences that will justify their investment of time and expense.

6. In many cases, **delegates themselves are taking a more active role in shaping the format and content** of the event including topics, presenters and both advance and follow-up components.

7. **There will be a greater role for technology in meetings:** As with so many industries today, technological advancement is having a major effect on meetings and, by extension, the venues that host them. The result is a need to consider not only new technological capacities but also how technology is re-shaping meetings themselves and creating new formats that have other implications for centres. Amongst the key considerations are;

    a. “New Generation” delegates have higher expectations for Internet-related access, services and connectivity

    b. E – communications are now integrated into most meetings via readily available technologies (SpotMe, Digivote, Twitter)

    c. Many previously stand-alone functions are now emerging on PDAs which further increases their use and the expectations of delegates

    d. Non-paper alternatives (materials, programs, registration, communications) strengthen and support the sustainability agendas of many organizations

    e. Technology=new presentation options, including remote participation and off-site linkages

    f. Social web sites are creating new pre and post event components that extend the “life” of an event and its ROI to participants

    g. Organizers are realizing they can access a whole new audience via live links, and that these may represent potential new attendees rather than be a threat to personal attendance

    h. Hybrid meetings an “easy entry” and less threatening introduction to virtual meetings because they require the face to face component to take place.

The challenge for centres will be how to address these increasing expectations and their associated costs within limited revenue opportunities, given that there is an increasing expectation that advanced technology / connectivity will be freely available and available free.

8. **There will be an increasing need for space and services flexibility:** As events change, so do the expectations organizers have of convention centres, including the extent of the involvement they have in program development and support. At the same time, the diversification of event formats and specialized sessions are requiring centres to deliver an increasing variety of spaces and services to accommodate program changes – not an easy task in what is often a fixed facility. The issues in this regard include a need to not only respond to new expectations but also to anticipate trends that haven't even appeared yet in order to prepare for future demands.

4) How Centres are Responding:

Centres today are all facing variations of the above factors and responding in ways that best address their particular circumstances. However, there are some commonalities to these responses that again help inform the planning process in ways that may be useful with respect to the VCC. In broad terms, these responses include the following;

- Centres are diversifying their markets and event portfolios. On the marketing side, this includes addressing new market opportunities such as the international congress market on rotation as well as revisiting the priority given to local and regional events; in terms of event mix, it includes pursuing non-traditional events such as concerts, sporting and entertainment events that may have not previously been amongst centre business priorities.

- Centres are rebalancing revenues from space rental to services in the face of an increasing reluctance by many clients to pay centre rental charges. These services, which can include such areas as event delivery assistance, AV and food and beverage products, can often deliver revenues that compensate for lost rental revenues but are themselves under increasing pressures by organizers who wish to bring their own resources with them.

- Centres are revisiting the financial equation relative to overall community funding, particularly by looking at new models such as incentive funds that can be drawn upon to subsidize the centre for accepting events that nave reduced income but significant economic impacts in the community.

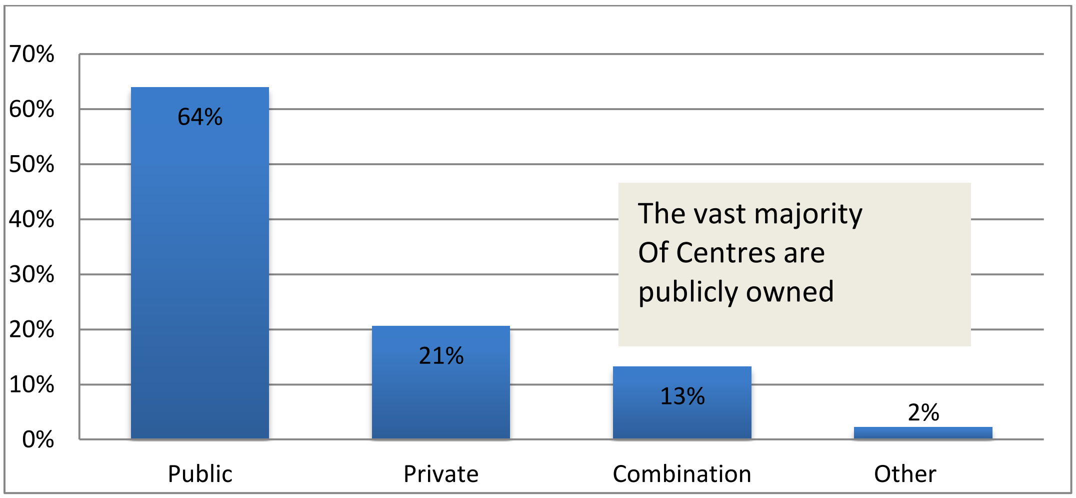
- Centres are exploring new risk / reward models and client / centre partnerships where the centre accepts potential revenue risk in return for an opportunity to participate in the upside if an event is particularly successful. These kinds of models supply an increased incentive for both clients and destinations to work cooperatively on measures to increase event revenue through vehicles such as attendance building.
- Centres are pursuing new community alliances with non-traditional partners (i.e., in the business / academic / professional communities) in order to access new sources of business as well as secure greater recognition for the broader benefits they create in the community. Achieving such recognition is more important when traditional revenues are down and there is increasing interest in economic justification for the centre investment.
- Many centres are also creating new business (i.e., proprietary or partnered events) instead of simply competing for existing business against their competitors. Centres are often uniquely positioned to identify opportunities for local and / or regional events that are not being addressed by private organizers and which can enhance the overall event load in the facility.

Together, these measures are serving to diversify and stabilize the business mix of facilities that are otherwise challenged to maintain traditional revenues in the face of current market and competitive conditions.

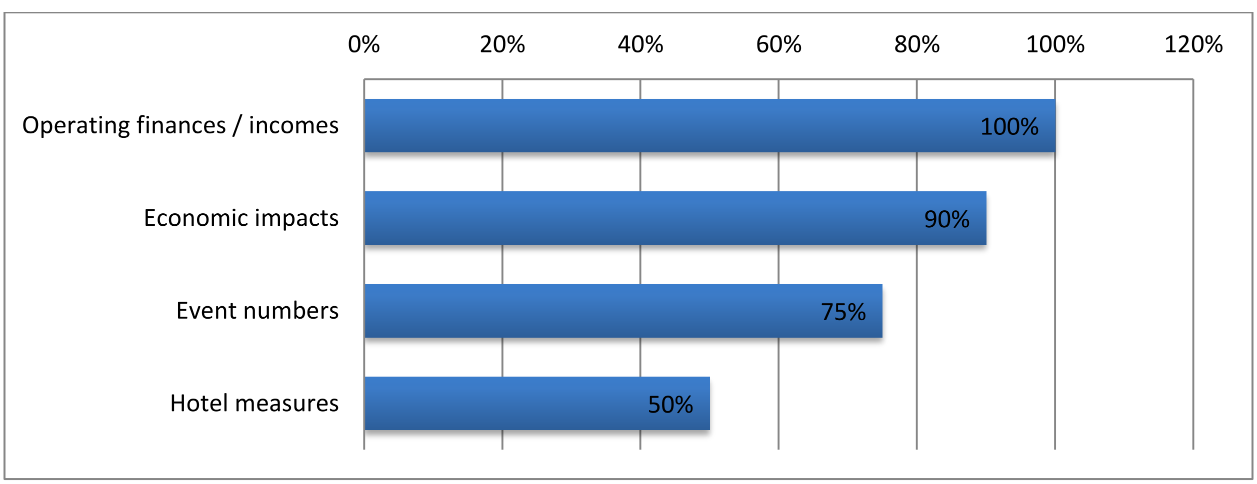
Victoria in Context: Global and Canadian Comparators

The VCC operated within the context of a global network of facilities and markets and it is therefore useful to compare its ownership, operating and management model with that of others with whom it competes in order to explore if there are ways in which these depart in any significant way from industry norms and if so, whether or not there are benefits to be had by aligning with these. Key areas for comparison are the following;

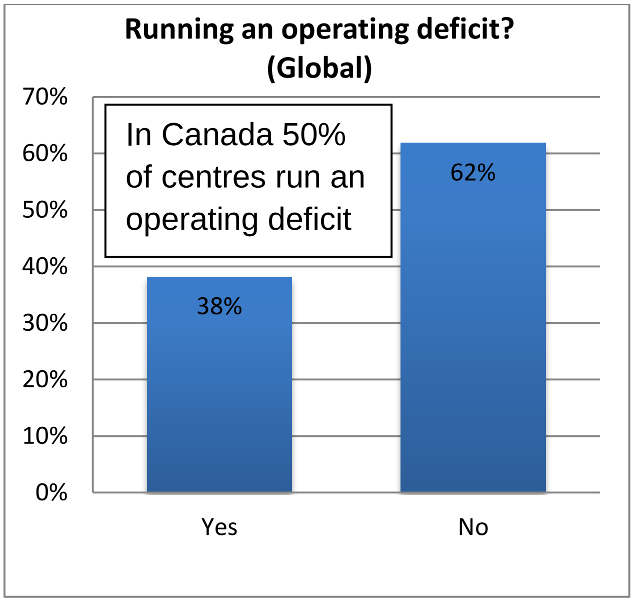
1) **Building ownership:** For economic reasons outlined above, the vast majority of convention centres are publicly owned and the VCC is consistent in this regard. In Canada 67% of owners are City and 33% are Provincial.

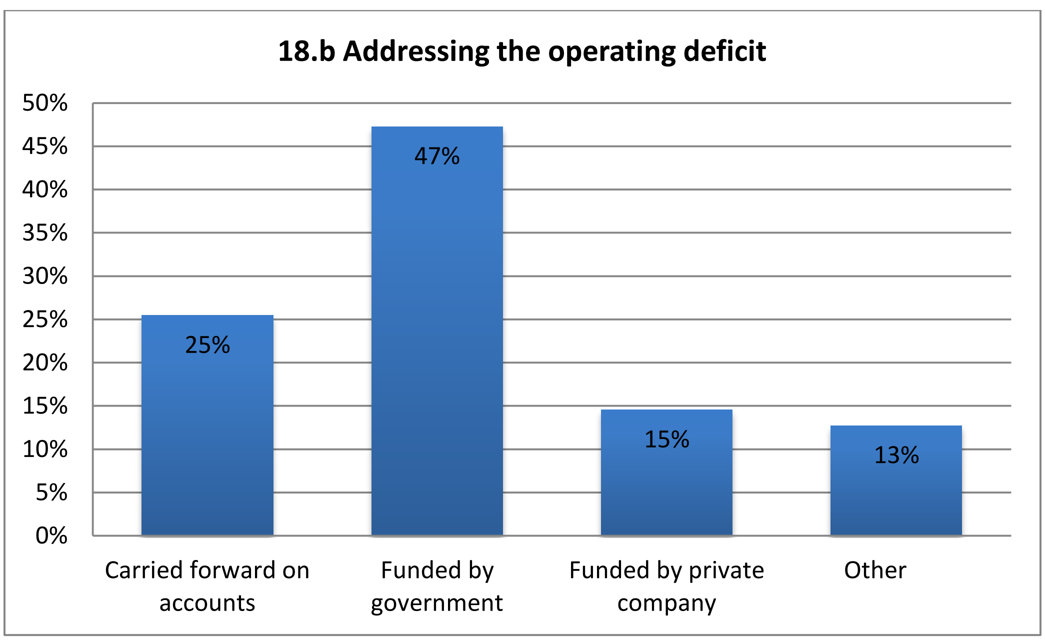


2) **Key Performance Measures (Canada)**: While all centres in Canada have performance measures related to centre profitability, 90% also have measures relating to the role centres play in generating economic impacts in the community. These two factors may be in conflict as the most profitable events are not necessarily those with the greatest overall economic impact.



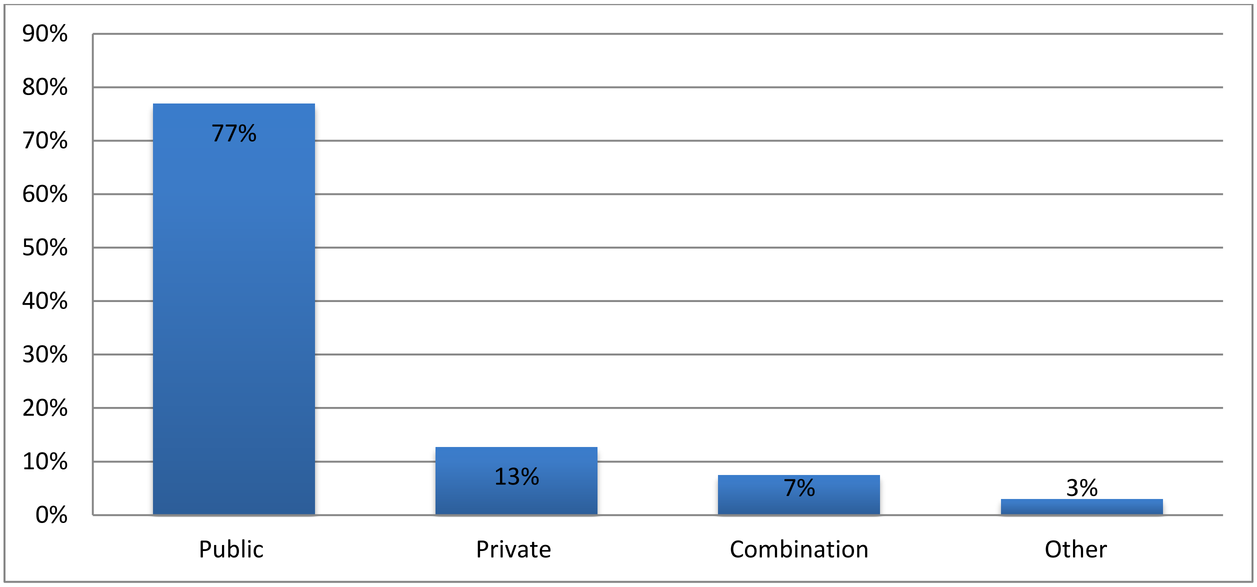
3) **Profitability:** Globally, 60% of centres state they are expected to demonstrate financial profitability or break-even performance. However, in Canada today less than 50% actually do so, with the understanding that they are also generating broader economic impacts that compensate for operating losses. VCC's positive financial position prior to the addition of the Crystal Gardens to its inventory thus represents above average performance for this period.



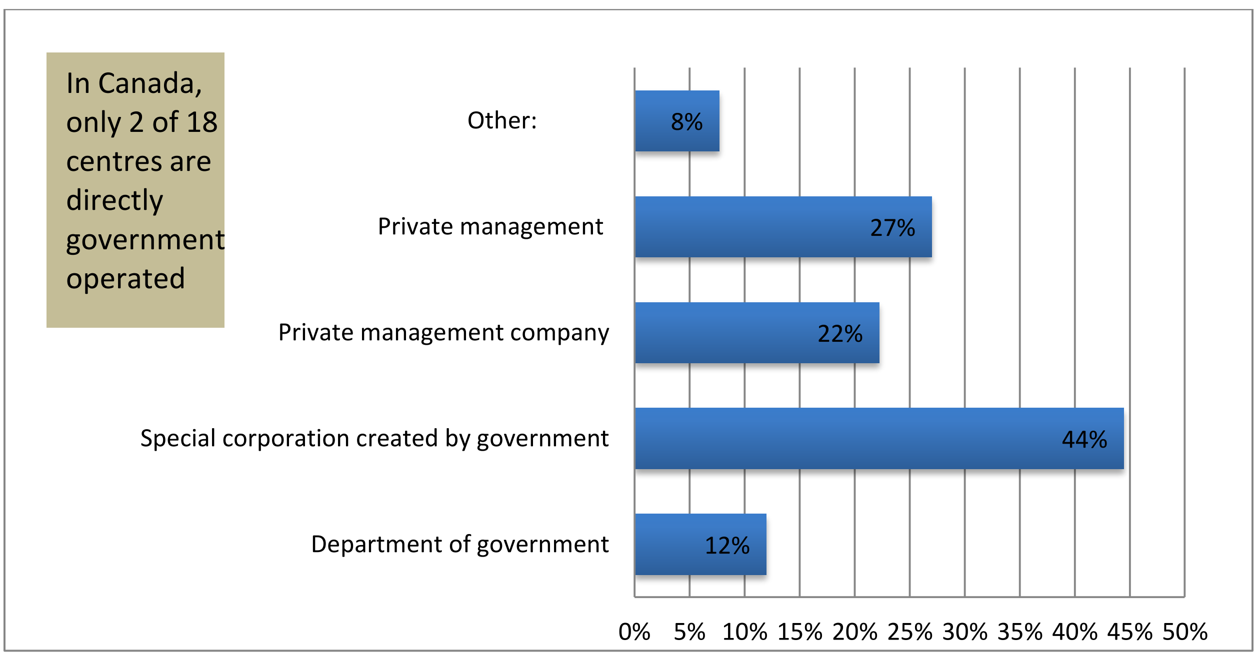


Deficits are generally funded by the government owner of carried forward on the accounts of the convention centre against future profits.

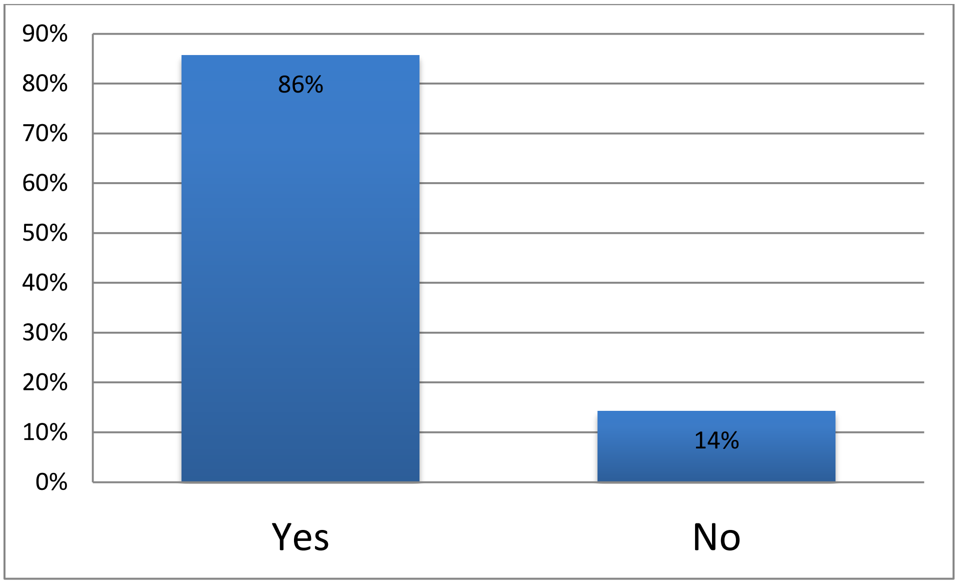
4) **Land ownership:** Ownership of the land associated with convention centres is overwhelmingly public, usually as a contribution to the project and as a means of retaining future expansion options. This is not the case with the VCC.



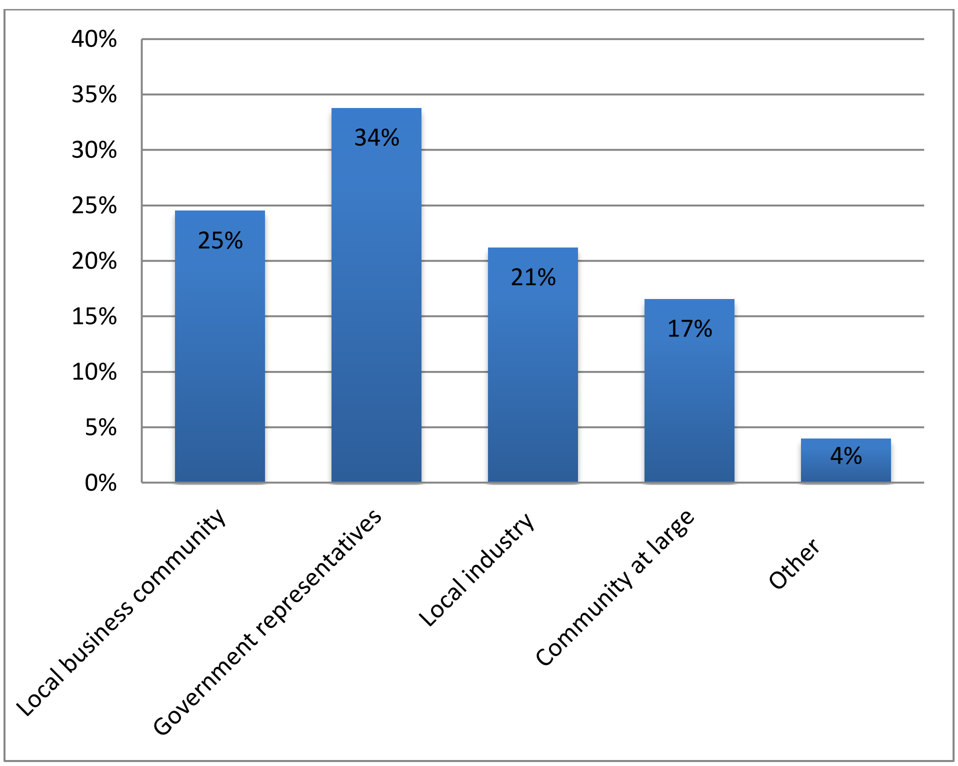
5) **Building management:** Where VCC also departs from the industry norm is in terms of the facility operator. Globally, only 12% of centres are operated as a direct function of the government owner; in Canada two out of 18 publicly owned centres are managed in this way.



6) **Centre board of directors:** The governance model of almost 90% of centres also incorporates a Board of Directors, which is again in contrast to the VCC model



7) **Board Composition:** This Board of Directors is generally well diversified in terms of member representation and skills-based in recognition of the business orientation of centres and the broad array of community interfaces.



8) **Centre funding:** There are also other funding commonalities across most convention centres in North America.

- **Primary funding sources:**
  - Facility operating revenues
  - Bed tax revenues
  - Owner / government subsidies
  - Infrastructure programs
- **Secondary funding sources:**
  - Sponsorship and signage revenues
  - Related retail and / or parking revenues
  - Area or precinct taxes (adjacent beneficiaries)

9) **Centre Interface with Destination Management Organization (DMO):** In essentially every jurisdiction where a government-owned convention centre exists, the sales / marketing function is a shared responsibility with the centre focussing on facility sales, contracting and delivery and the DMO delivering the destination component. As a result, the key questions in the arrangement are:

   1) The allocation of specific responsibilities within the overall sales and marketing mix;
   2) The mechanism for efficient interactions between both the centre and DMO as well as amongst other destination components (hotels, suppliers, attractions etc.)
   3) The allocation of resources (i.e., related funding)
   4) Ensuring compatible branding, recognizing that destination branding is generally leisure-oriented vs. that which is more appropriate to today's meetings / conventions market, and
   5) Addressing the centre owner's need for accountability when a key functions such as components of overall product marketing are outsourced to a third party (i.e., the DMO). This latter point is of particular concern when only an implied contract exists amongst the parties.

Unique VCC Challenges:

Relative to the industry norms as outlined above and in recognition of the current and anticipated challenges in the convention centre market today, the VCC is facing a number of unique challenges that may be expected to impact its operations and thus operating performance. These include the following;

- There has been **a major increase in its immediate competition**, meaning the availability of regional product that competes directly for base business. Amongst these increases are the opening of a new regional centre in Nanaimo (the Vancouver Island Conference Centre); a major expansion of facilities in the Penticton Trade and Convention Centre (South Okanagan Events Centre) and a much larger increase in capacity at the Vancouver Convention Centre.

- At the same time, there are **significant increases in competition from other Canadian centres** amongst the VCC competitive set, including the opening of a major new centre in Ottawa, an expansion of capacity in Quebec City and large new facilities under development in both Halifax and Winnipeg, which impact future booking prospects as well as immediate business.

- There has been a major loss in what was previously a strong component of VCC business due to **the loss of US events resulting from the soft economy** of the past several years and event “repatriation” by US organizers to US facilities. The result has been a decrease of the US business component from 30% of the mix to less than 10% during this period – an impact experienced by other sectors in Victoria during this same period.

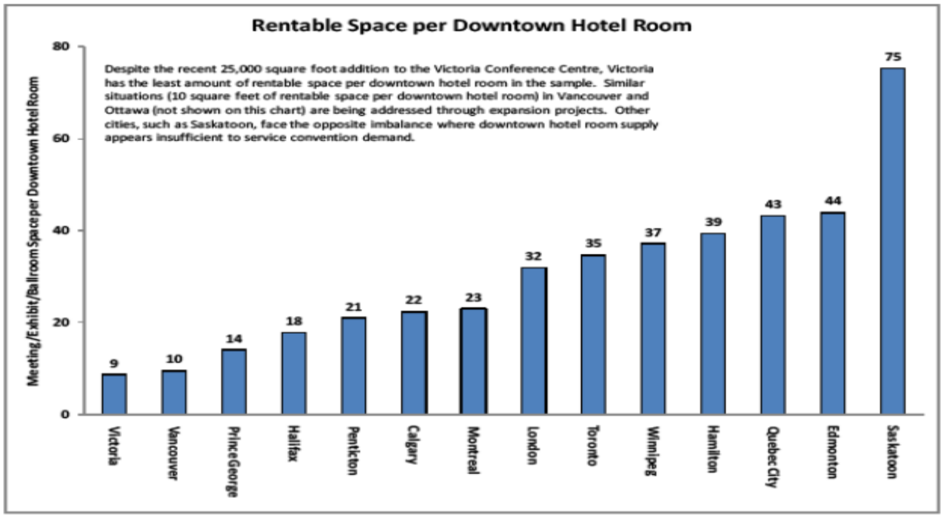
- Victoria is **not a corporate head office location**, which means that in a sensitive period for corporate business meetings activities, there is little “captive” corporate business it can access relative to other cities with a larger complement of corporate presence.

- VCC **cannot respond effectively to the demands of growing events that are increasing their space requirements**, and in particular those that have significant exhibition requirements. The major exhibition spaces it does offer are multi-use, which puts pressure on costs as such spaces must be “flipped” in the course of a full event program.

- The attachment of the VCC to the Fairmont creates an understandable preferential **advantage for a single hotel property** as well as a dependence on that property for competitive rates in their interactions with centre clients.

- There has been **no new investment in VCC facilities** that would enable it to adapt to changing market expectations and better address its competition. This is particularly true of technology but also extends to space configuration, centre finishes and event flexibility.
- The contract agreement in place with respect to food and beverage services has meant it is **only able to achieve minimal F&B revenues** at a time when these are increasingly needed to offset loss of rental revenues and a loss of control over quality in a key area that increasingly defines the overall centre product.
- A **low and largely stagnant marketing budget** through a period of rapidly increasing competition and significant changes in key markets has meant that the VCC has been unable to achieve required market penetration. In addition to the direct effects, it has meant that the City and centre have been unable to leverage their own investment via buy-ins to cooperative programs such as those maintained by the Canadian Tourism Commission in a time when these have become the primary form of collective marketing.
- The extremely **high ratio of available hotel rooms to centre capacity** (the highest in Canada, as per graph below) means that the impact on hotel occupancy of events taking place at the VCC seldom extends far from the centre, even when overflow impacts are taken into account. This is not likely a deterrent to potential clients but does mean it is difficult to satisfy other hotels in the Victoria area.

Rentable Space and Hotel Inventory



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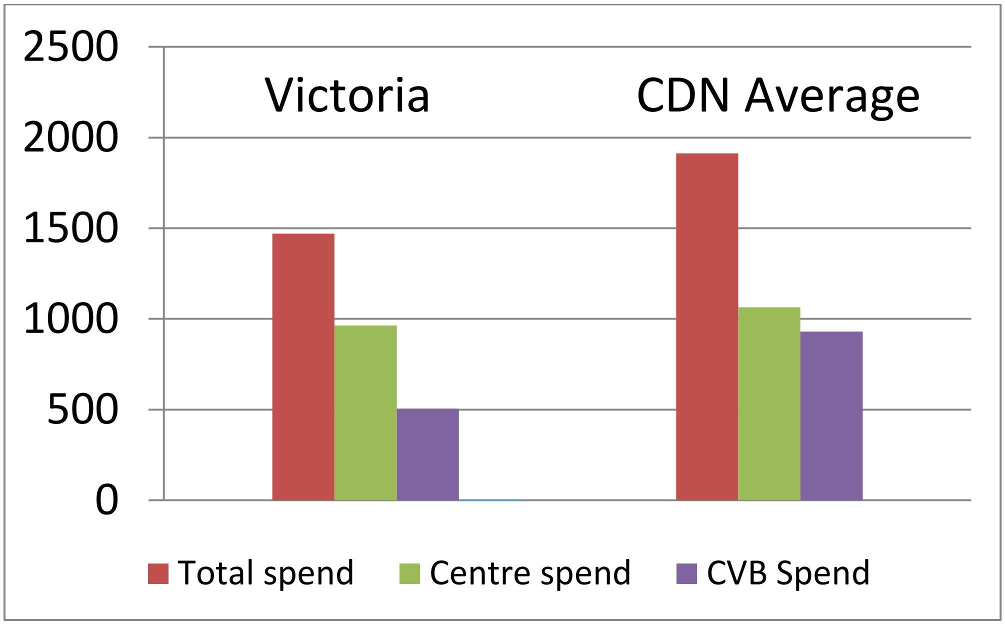
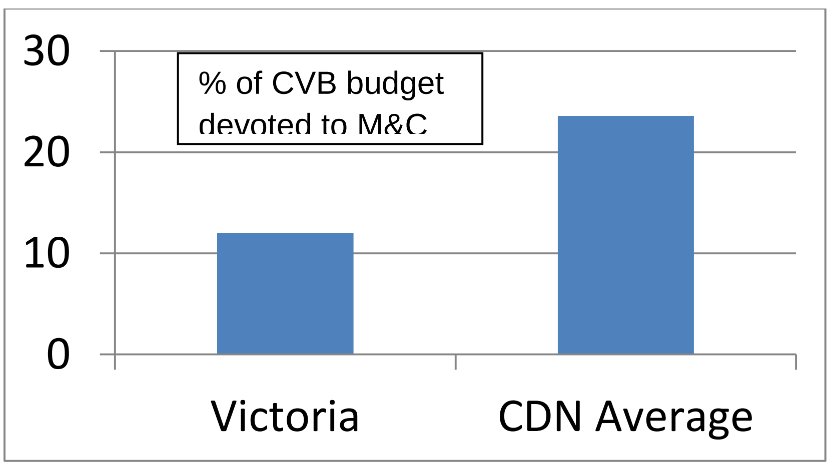
- A key factor in supporting VCC finances – the inclusion of a **retail space inventory to augment overall centre revenue – has failed to deliver anticipated benefits** in recent years due to depressed demand for space and a resulting drop in rental income. This is consistent with the overall experience in this area but has had a particular impact on the VCC by coming at a time when other revenue sources were also in decline.
- The addition of the Crystal Gardens as ancillary meeting space created **an added burden of capital, lease and operating cost** but did not generate a corresponding increase in revenues for a variety of reasons as detailed below.

Sales and Marketing Investment:

As illustrated in the following graphs (based on information obtained from the HLT Advisory Convention Centres of Canada Benchmarking survey of 2012 Victoria's overall investment in the marketing of the VCC into key markets has been significantly lower than that of its Canadian competitors – a factor that has influenced its ability to maintain an effective presence in the market.



This situation is the product of both a lower than average funding for the centre itself as well as a significantly lower proportion of funding for the meetings and conventions sector relative to overall spending by Tourism Victoria as per the graph below;



The stagnation of the VCC marketing investment is accounted for in the following graph which illustrates how this investment has increased relatively modestly through a period when overall proceeds from the principle source of marketing funding – the Provincially – mandated 2% lodging tax – has increased significantly. Because a relatively small proportion of the Tourism Victoria budget is devoted to the meetings and conventions sector, the much larger increases in the balance of the tax revenues have not compensated for the lack of anything other than the modest increases in the funds available for direct centre marketing.

Historic distribution of Victoria hotel tax:

VCC Performance: A Comparative Analysis

Given the overall business factors as outlined above the next question becomes how VCC business and financial performance compares with that of other comparable Canadian convention centres operating under similar market conditions. The answer is again to be found in the data generated by the HLT Advisory Convention Centres of Canada Benchmarking survey of 2012. To ensure comparability amongst a widely varying group of centres this data is divided into three groups based on comparable revenues as per below:

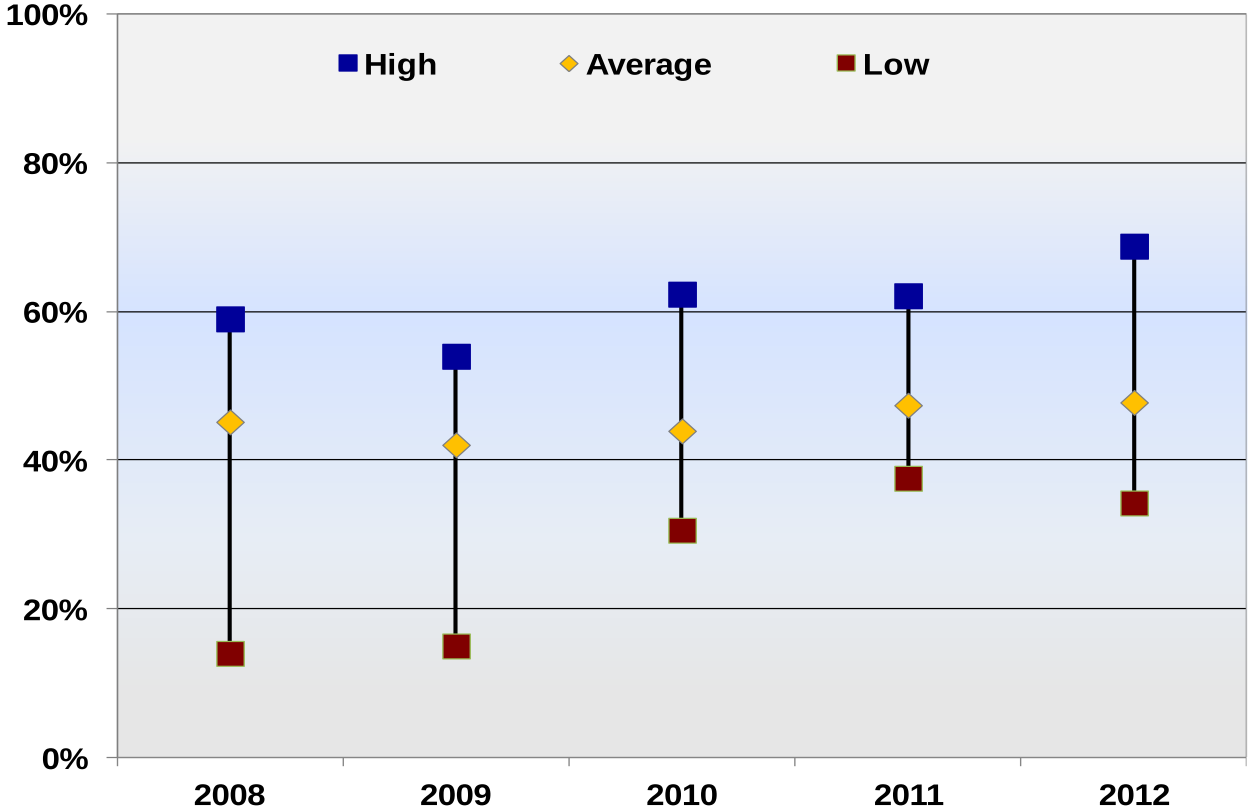
Group 1 <$3M (M&C)	Group 2 $3M-$15M (M&C)	Group 3 >$15M (M&C)
Fredericton	Calgary	Montreal
London	Edmonton	Toronto
Nanaimo	Halifax	Vancouver
Penticton	Niagara Falls	
Prince George	Ottawa	
Regina	Quebec City	
	Saskatoon	
	Victoria	
	Winnipeg	

Based on the division as indicated (i.e., the VCC as a member of the Group 2 centres), the comparable business performance measures are as indicated in the following;

1. **Canadian trend in business events: Event numbers for Group 2**

	2008	2009	2010	2011	2012
Conventions/ Conferences	481	428	418	410	373
Trade Shows	155	131	131	108	113
Consumer Shows	154	157	158	153	146
Meetings	4,033	3,214	2,879	2,778	2,915
Food and Beverage	1,510	1,447	1,415	1,666	1,640
Other Events	353	429	525	662	432
Total	6,686	6,211	5,570	5,752	5,619

2. **Exhibit/Meeting/Ballroom Space Utilization Trends for Group 2**



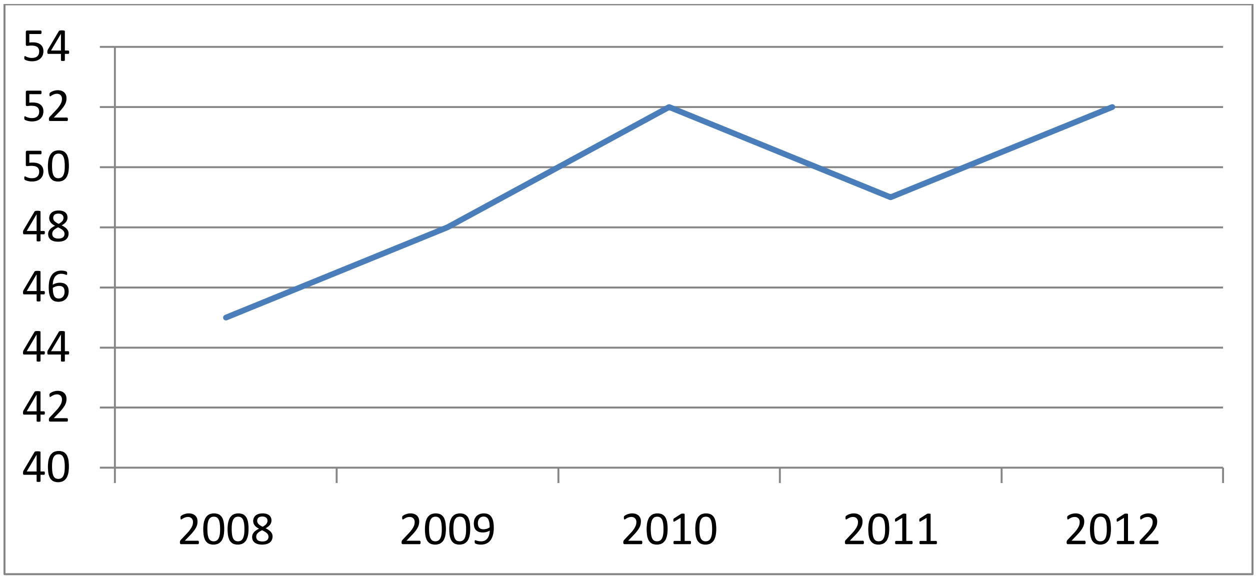
3. **Event revenue composition (by group)**

Type of Revenue	Group 1	Group 2	Group 3
Space Rental	21.1%	29.7%	29.8%
All Other Event Revenue	78.9%	70.3%	70.2%
Total	100.0%	100.0%	100.0%

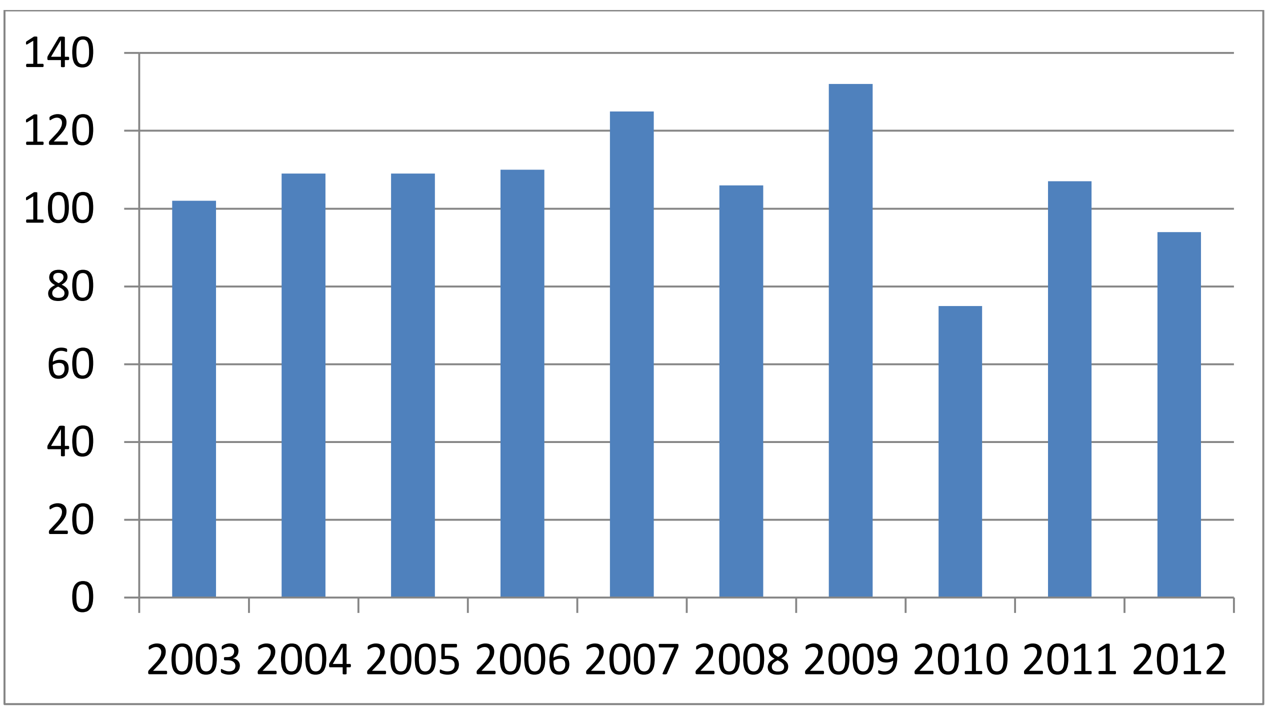
Key VCC Performance Indicators:

Against this overall industry background, a number of key measures illustrate VCC performance in context;

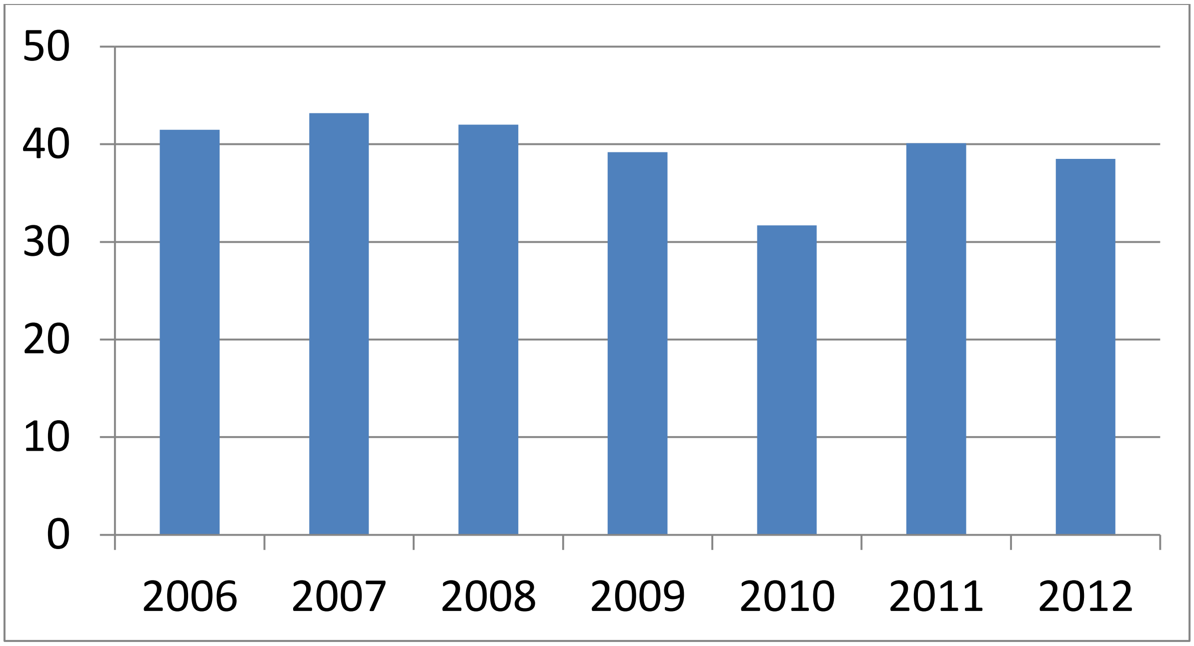
1. **VCC booking pace (booked events 5 yrs into the future)**



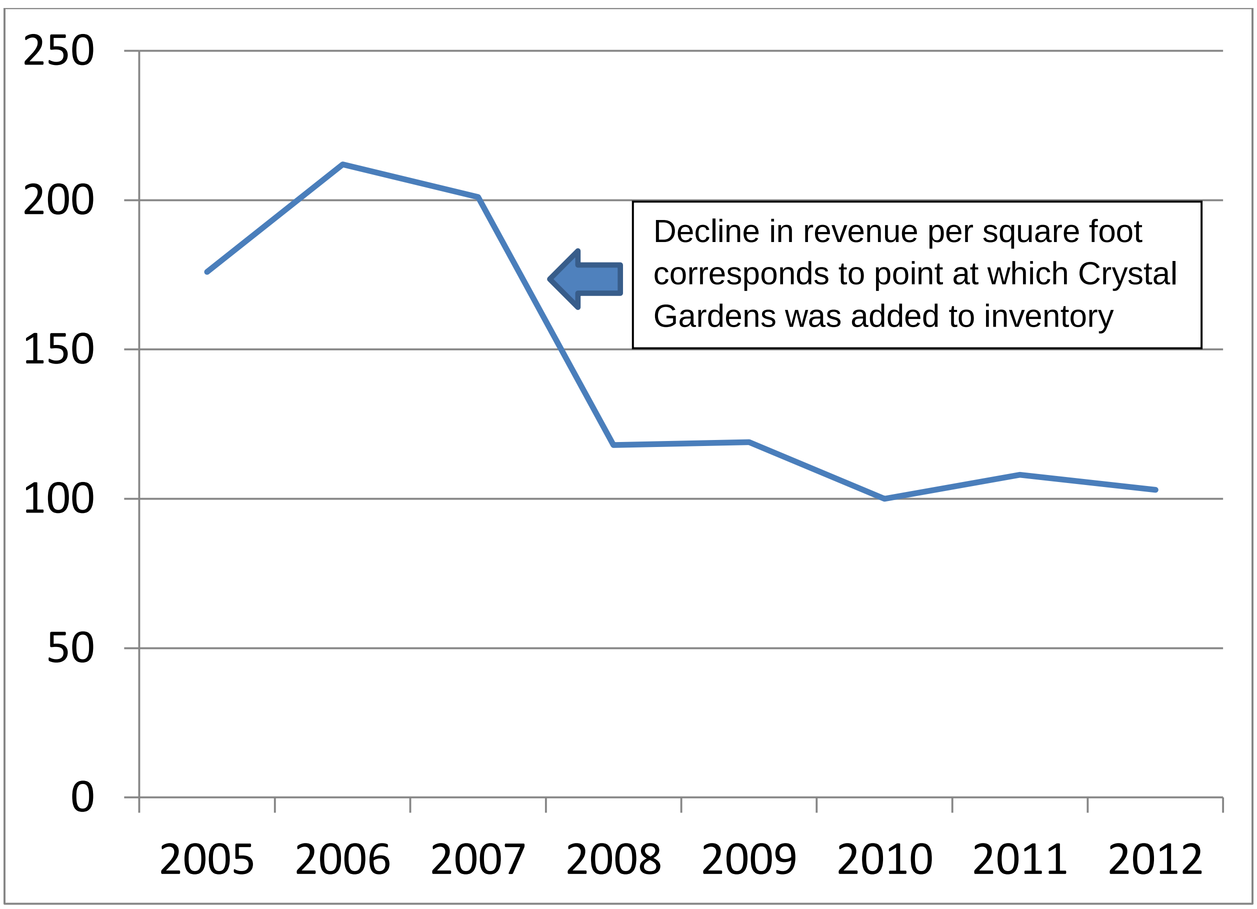
2. **VCC delegate days by operating year:**



3. **VCC overall occupancy by operating year:**



4. **VCC Revenue per square foot**



Analysis of VCC Performance Data:

A number of important conclusions can be drawn from the results above when take in context with the overall Canadian experience. Amongst these are the following;

1. The financial / business impacts experienced by the VCC over the indicated periods are similar to those experienced by other centres in the VCC competitive set and reflect the gradual declines seen in most Canadian centres. In particular, there has been a relatively stable event load and booking pace but reduced attendance and revenues as the impacts of the recession took effect.

2. However, the addition of the incremental space in the form of the Crystal Gardens added significant cost but little new net revenue. As a result, overall revenue per square foot declined significantly along with overall revenues.

3. The current food and beverage service agreement meant that there was little opportunity to replace lost rental income with service income (given that F&B is the most profitable revenue source available to centres in today's market).

4. At the same time, the much lower marketing investment meant the VCC had few options to pursue other forms of business revenue and / or markets at a time when their competitors were doing so.

These interconnected factors collectively account for the VCC moving from a long-standing position of modest profitability to one of deficit. However, they also offer direction in terms of potential solutions.

Crystal Gardens: What Happened?

The data presented above indicate that the addition of the Crystal Gardens to the VCC inventory was, more than any other factor, the turning point for VCC financial performance. It is therefore important to understand why the anticipated benefits failed to materialize. There are a number of factors in this regard;

1. In convention centre event terms the CG was sub-optimal space: The incorporation of the CG offered one of the very few opportunities to increase available VCC event space as well as to retain a structure considered to have heritage value; however, it had many limitations in terms of its use as a primary

event space of the type most needed by organizers and was costly to both operate and set up for required uses.

2. In particular, demand for large scale banquet functions dropped in the face of the economic recession that corresponded almost exactly to the timing of the CG being added to inventory (an impact also experienced by other Victoria banqueting facilities in this same period).

3. In addition, the lack of funding for centre marketing generally meant that there was no incremental budget available to promote what was essentially an entirely new product with different potential markets.

4. Anticipated incremental returns from food and beverage sales failed to materialize when the low-yield contract covering F&B in the original VCC was extended to the new facility, carrying with it the same quality control and revenue issues that existed in the original agreement.

5. The cost of the lease as eventually negotiated with the Province as owner of the CG was well above the financial yield that could be achieved from the space for the reasons set out above.

6. Due to the nature of the building structure, the CG generated much higher operating costs than were originally anticipated, with no available recourse to address this in the lease terms.

7. In addition, these same building characteristics (i.e., the glass roof) created significant seasonality issues due to temperature control problems, this reducing overall utilization even further.

8. Finally, the costs incurred for required building improvements created ongoing debt servicing changes that created an added drain on the VCC budget at a time when this was under other pressures as above.

In summary, while various of the above factors might have been manageable individually, in aggregate they created a situation in which market conditions and outside factors conspired to create a significant drain on overall VCC finances and in doing so, reverse VCC’s positive financial situation into a deficit position.

Results of Local Interviews: the Common Themes

As a part of the VCC performance review, interviews were carried out with a number of local hospitality, business and economic leaders in order to gather impressions of VCC performance and potential from the local community. While not exhaustive, these interviews resulted in a number of common themes that identified other issues worthy of addressing in any decisions going forward;

- Mixed messages: tourism has hotel focus; wider community sees broader economic role, opportunities
- General concern re: VCC performance but little hard data to support opinions
- Acknowledgement that business has been down overall in this same period (hotel, retail, visits)
- Expectation that VCC business will have “spillover” effect on other hotels
- Direct City report seen as a factor limiting VCC business development
- Concerns around perceived marketing inefficiencies; CVB interface / cooperation
- Belief there is a lack of communication / information / responsiveness from centre
- Contradictions: recognize overall business down but expect VCC should be up
- Perception that high VCC rates are impacting business prospects

Summary: Overall Conclusions from the Review

While the information as assembled and analyzed above covered a range of topics surrounding the overall performance, perceptions and prospects of the Victoria Conference Centre, a number of overall conclusions emerged that are useful in determining what kinds of actions would best contribute to enhanced centre performance in the future. Key amongst these are the following;

- **VCC business performance over the past 5 years is largely consistent with that of other Canadian centres:** The VCC has demonstrated a modest decline in business during a period when this was the case with most Canadian centres due to the impacts of the global recession, particularly on no-domestic markets (i.e., US), combined with the emergence of major new competition. However, key indicators such as numbers of events, overall occupancy, booking pace and delegate day numbers have been operating within a reasonably consistent range, given the kind of year to year variations that are to be expected, and 2013 results are expected to show the kind of rebound that is also being experienced elsewhere in Canada.
- **However, unique issues made VCC particularly vulnerable to changing industry conditions:** Notwithstanding the above, the VCC has a number of unique operating conditions as detailed above that render it more susceptible to changes now coming about in the market. These range from particularly intense local competition to limitations on both facilities and revenue sources and also include the assumption of significant new overhead costs which have not resulted in corresponding increases in revenue.
- **In particular, the addition of significant new space inventory in the form of the Crystal Gardens** at a time when demand for this type of space was in decline (due largely to recessionary factors) added major new overhead costs that did not result in corresponding revenue increases, thus depressing revenue per square foot and overall profitability.
- **Investment in S&M has not kept pace with its competition nor with changing market conditions:** Most centres have responded to increasing competition and the addition of new function spaces with increased and diversified sales and marketing activities; however, this has not happened in the case of the VCC because declining revenues did not allow for increased promotional budgets and a stagnant investment in overall S&M funding during a period when this logically would have taken place.

- **There is a disconnect between VCC performance and community perceptions:** There is a general impression in the local business / hospitality community that the VCC is underperforming in terms of business generation. However, the reality is that VCC performance has been consistent with both overall industry performance and with the kinds of challenges experienced by other related businesses in the Victoria area.
- **Marketing effectiveness is challenged by relationship and accountability issues:** As with any convention destination, effective VCC marketing is dependent on an efficient and well-coordinated overall marketing effort that includes both the centre and the DMO. However, this interaction has not until recently had the benefit of a documented allocation of responsibilities nor a level of consistent funding with associated performance measures comparable to competing destinations.

Decisions and Recommendations:

Areas for decision:

There are several areas of recommendation in keeping with the most relevant and actionable findings of the above review. They are:

- **Governance:** including ownership, operation, owner expectations
- **Revenue:** a means to "reset" of financial model in response to changing conditions
- **Sales and Marketing:** Making VCC more competitive in today's market
- **Community interface:** Increasing engagement and improving communications and cooperation

1) Recommendations re: Governance / Management;

The recommendations re: VCC governance are aimed at achieving a greater clarity around owner expectations on which more specific performance targets can be based as well as satisfying community interests in a greater degree of clarity, effectiveness, independence and business orientation for the VCC. They are;

- **Clarify owner expectations and create performance measures based on these:** In the absence of a clear and measureable set of owner expectations, the VCC is subject to a range of demands from various elements of the community who all understandably feel that the centre should be addressing their particular priorities. In fact, as an operating entity it is only possible to create reasonably specific performance measures when the owner's expectations are clarified to the point that they can be acted upon and the results evaluated on an ongoing basis. This is particularly important when some types of business may actually conflict with one another as for example when business with non-resident revenue potential (which often generates less direct revenue but a greater economic impact) must be weighed against local events (which can be better able to create rental income but do not result in overnight stays). This also would enable the owner to articulate a broader set of objectives relating to the overall community (i.e., business, academic and professional interests as well as the hospitality sector) thereby enabling the centre to have a rationale and get recognition for initiatives in this regard;

- **Provide letter of direction to VCC to be shared with community:** The expectations and resulting objective as per above should be detailed in a letter of direction to the VCC from the City as owner which can at the same time be shared with the community at large and provide a basis on which the community can

- **Adopt an arms-length management model** (i.e., single-purpose corporation or authority) as the management entity for the VCC. This kind of model supplies a number of advantages in terms of addressing some of the key issues identified above, including:

  - It would create a business orientation consistent with the VCC as an operating business and help address expressed local concerns in this regard
  - It would enable VCC management to focus on some of the key contractual and operating issues identified above without creating challenges at a political level
  - It would remove the burden of ongoing management decision-making from Council which could otherwise divert attention from ongoing public policy priorities which is their primary responsibility
  - It would create an entity that would be clearly responsible for the evaluation and implementation of new measures, including those outlined in this review, to enhance VCC performance and financial position
  - It would present both clients and the community with a clear impression of a stand-alone business operation instead of one potentially influenced by political implications.

- **Develop a board structure to ensure broad community input and a business orientation:** Regardless of the management model adopted, the creation of a Board of Directors would achieve a number of benefits relative to the concerns raised above including:

  - It would enhance community engagement and create an impression of greater transparency

  - It would create an opportunity for representation of a wider range of community interests in determining the priorities of the VCC

  - It would enable the VCC to benefit from a range of management expertise available in the community

- It would create a mechanism for enabling the VCC to interact with and more readily access areas of the business, professional and academic communities that could help access future business opportunities

2) Recommendations re: Revenue and Financial Performance;

As per above, the key current constraints to VCC revenues are:

- Reduced revenues industry-wide
- Increased competition from new BC / Canadian facilities / expansions
- A downturn in Victoria retail space market and accompanying revenues
- The added cost of Crystal Gardens without a corresponding revenue increase
- Low return, lack of control on F&B services due to the contract now in place

The primary recommendation in this area is therefore to take measures which re-stabilize VCC finances in the near term, since while other recommendations, combined with a recovering market, may be expected to generate increased business activity over time, the lengthy lead time for many centre-based events means that such returns will not materialize immediately in terms of financial results.

The financial model that served both the VCC and the City so well for many years (i.e., enhancing centre rental revenues with retail space revenues) is unlikely to deliver self-sufficiency for the foreseeable future as a result of the factors indicated above (growing competition, reduced rental income from clients, lack of other (i.e., F&B) revenues to compensate) which may be expected to continue well into the future.

As a result, there needs to be a "reset" of the VCC financial equation to compensate for added costs and restore expectation for break-even financial performance by giving consideration to changes that will enable the VCC to restore that "break-even" position under new circumstances along with an expectation on the part of the City financial sef-sufficiency. The most promising options for achieving this under current conditions appear to be;

- Revisiting the terms of the Crystal Gardens lease agreement and / or utilization given the experience of the last few years in order to improve its cost / revenue position. Alternatively, if this is considered to be a worthwhile objective on other (i.e., heritage preservation) terms, to recognize the cost associated with such a purpose in the form of an ongoing subsidy to compensate for the budget impact on the VCC

- Reviewing the terms of the VCC food and beverage agreement with Fairmont and their application to Crystal Gardens in view of changing industry conditions and the balance of revenue sources

- Revisiting the allocation of bed tax revenues based on business performance targets in order to create incentives to deliver business that addresses specific (i.e., financial) targets

3) Recommendations re: Sales and Marketing:

The focus of this review has not been to carry out a detailed analysis and assessment of the sales and marketing program currently underway but rather to recommend a governance and performance framework within which staff can set appropriate objectives and develop their programs. Having said that, in the process of reviewing the existing program and the interfaces it has with other community partners a number of opportunities have presented themselves that are worthy of mention moving forward. As the overall objective of recommendations in this area is to enhance both the level and efficiency of VCC-related promotional activities as well as to create platforms for more effective interactions amongst various elements of the overall destination marketing process in areas that impact the VCC, some of these are included.

In summary, the key current constraints to VCC marketability are:

- Low overall sales / marketing investment relative to competitors
- Broader market (i.e., international) opportunities not being addressed
- No significant new investment in facilities to assist in meeting new market expectations
- Destination limitations (such as challenging access relative to some competitors)
- A leisure orientation to branding which is a constraint in today's M&C market, and
- Limited coordination of marketing activities amongst destination partners.

Given these constraints, the principle recommendations for this area are;

- **Increase total M&C marketing investment:** Given the comparatively low level of investment in VCC sales and marketing as documented above, options should be explored to enhance the funding available for sales and marketing activities directed at the VCC in order to bring this into line with their competitors. This initiative should take into consideration all activities influencing VCC business promotion (i.e., not simply those undertaken by the VCC itself) with a view to achieving a full complementary set of initiatives amongst all those engaged in both centre and related destination promotion.

- **Base future financial allocations on specific performance measures:** With City expectations of the VCC more clearly defined as per above, it will be appropriate to set performance targets based on business projections. At this point, achieving such targets should become the basis upon which financial allocations are made from City-controlled funds.

- **Create a cooperative fund to support incentives and subsidies for potential high-yield business:** Subsidies in the form of discounted facility rentals and other concessions are now a fact of life in the market and, if properly evaluated against corresponding economic benefits, can be a sensible investment. However, decisions re: which events should be addressed in this way should be the product of a joint process that engages and draws upon all stakeholders, rather than expecting the VCC to supply discounts from its own resources without the involvement of other beneficiaries.

- **Revisit destination branding for consistency with new market expectations:** As noted above, destination image is a key factor in site selection for many groups and to the extent that a destination projects a “leisure” image it is compromising its prospects amongst such clients. Consideration should this be given to revisiting the VCC and Victoria “brand” as it is delivered into the meetings market to ensure that it addresses other decision factors such as academic, business and professional qualifications that can be used to justify its selection in place of relying on tourism attributes.

- **Enhance attendance-building efforts:** A shared goal of both the destination and the client is optimizing attendance at an event once confirmed. This is an area that is often not well served but offers major potential in terms of leveraging the overall benefits achieved by the destination from a particular event. A dedicated program of attendance building should be mounted and applied rigorously to events secured by the VCC in cooperation with Tourism Victoria.

- **Maintain ongoing “ambassador” program:** It is accepted industry knowledge that much potential centre business is secured through the efforts of local association and corporate connections who can use their influence to attract meetings and conventions to a city. However, for this to succeed it must be the focus of an ongoing and sustained initiative that both encourages and recognizes this role. While such initiatives have been a part of the VCC program in the past, they have not been sustained to the degree required and this may be supported by a broader community “presence” as proposed in other areas of these recommendations.

- **Pursue the Province to honor marketing support commitments:** Senior governments are in fact the major beneficiaries of the incremental tax receipts generated by non-resident delegates in local centres but in the case of BC, the Province has contributed very little to the overall marketing initiative for such facilities. In fact, it may be said that the recent expansion of the only Provincially owned facility in BC – the Vancouver Convention Centre – has actually resulted in major new competition for those built and maintained by local governments. The Province has mechanisms for providing such support – and appears in fact to have recently suggested this be done, without any apparent resulting action.

4) Recommendations re: Community Interface;

The purpose of these recommendations is to broaden the engagement of the VCC with a wider range of community stakeholders while at the same time enhancing the quality and visibility of reporting to community shareholders.

- **Create visible, ongoing mechanisms for community / industry reporting:** In the absence of regular, visible reporting of documented VCC performance results various community groups have been left to speculate on these with results that are not always beneficial to the VCC or the City. Such reporting should therefore take the form of a high-profile event, based in the VCC, in which the full range of community leadership is invited to participate.

- **Carry out ongoing analyses to support and document performance:** Good documentation is critical to the credibility of performance reporting as well as trend analysis; as a result, VCC should not only maintain their own records relating to key indicators but also undertake ongoing data gathering in areas such as economic impact which require more rigorous analysis. Assuming there will be additional expectations (i.e., support for City economic and community development priorities) arising from the development a broader mandate from the City, an effort should also be made to document evidence in the form of case studies that can demonstrate the results.

- **Recruit local business / government / academic supporters to diversify the VCC interface:** Given that the centre represents an investment by City taxpayers overall, mechanisms such as the Board of Directors and the reporting vehicles should be developed in a way that includes a wider range of community interests. As noted above, this broader interface may be used to illustrate the breadth of the role played by the VCC in overall City development as well as act as a source of potential new business contacts to the benefit of all involved.

- **Formalize relations with economic development interests:** Beyond the immediate hospitality community, the interface with the greatest potential to broaden the effective role of the VCC is that with those agencies responsible for articulating and pursuing overall City economic development priorities. For this reason, a formal interaction in this area is not only desirable but most likely to enhance the awareness and joint actions required to create reciprocal benefits such as identifying and pursuing events and organizations associated with key economic and social development areas of interest to the City.
- **Evolve and add "teeth" to protocols for VCC / Tourism Victoria cooperation and interactions:** Given the inevitability of a sharing of sales and marketing responsibilities for the meetings and conventions area amongst destination promotional partners a protocol agreement as to the allocation of responsibilities such as the one recently developed between the VCC and Tourism Victoria is essential. However, this agreement much continue to evolve in response to changing market conditions, funding opportunities and will only become really meaningful if it also incorporates accountabilities for specific performance results. The later should become more feasible with the adoption of performance measures for the VCC itself in that under such an agreement they will be effectively "assigning" various elements of their business promotion to a third party.

Reference Sources for Figures:

Figure 1: Building Ownership; **P 13**

Source: International Association of Convention Centres, Centre Governance / Management Survey 2012

Figure 2: Key Performance Measures; **P 13**

Source: International Association of Convention Centres, 2011 Member Performance and Outlook Survey

Figure 3: Operating Deficit / Addressing the Deficit; **P14**

Source: International Association of Convention Centres, 2010 Member Performance and Outlook Survey

Figure 4: Land Ownership; **P 15**

Source: International Association of Convention Centres, Centre Governance / Management Survey 2012

Figure 5: Building Management; **P 15**

Source: International Association of Convention Centres, Centre Governance / Management Survey 2012

Figure 6: Centre Board of Directors **P 16**

Source: International Association of Convention Centres, Centre Governance / Management Survey 2012

Figure 7: Board Composition **P 16**

Source: International Association of Convention Centres, Centre Governance / Management Survey 2012

Figure 8: Rentable Space per Downtown Hotel Room; **P 20**

Source: Convention Centres of Canada / HLT Advisory Centre Benchmarking Survey 2010

Figure 9: Sales / Marketing Investment Comparison **P 21**

Source: Convention Centres of Canada / HLT Advisory Centre Benchmarking Survey 2011