ANGUS COUNCIL – 15 DECEMBER 2011

ANGUS IN CHINA INITIATIVE: CARNoustie Country Branded Products in China -
PROGRESS REPORT

REPORT BY DIRECTOR OF INFRASTRUCTURE SERVICES

ABSTRACT: This report summarises the progress made since the launch of Carnoustie Country branded products in China in March 2009 and brings forward recommendations for future action.

1. RECOMMENDATIONS

1.1 It is recommended that the Council:

(i) notes the significant progress made to date in promoting the “Carnoustie Country” destination brand to the growing numbers of golfers in China especially through the initial trade logo agreement with Berrytex Ltd (now trading as Pro Simon [Shanghai] Textiles Co Ltd) and the growing awareness in China of golf and tourism attractions in Angus through related promotions in golf publications and media channels;

(ii) notes the decision by Pro Simon (Shanghai) Textiles Co Ltd not to extend the initial agreement after its expiry at the end of December 2011;

(iii) Authorise the Head of Economic Development and Environmental & Consumer Protection to identify, if at all possible, an alternative golfwear manufacturer already selling into the China market with a view to negotiating an agreement for use of the Carnoustie Country trade logo aimed at generating additional promotion of the destination with the longer term prospect of revenue generation for the council through related royalty payments;

(iv) Authorises the Head of Economic Development and Environmental & Consumer Protection to continue discussions with other commercial organisations interested in the sales of golf related products in China (e.g. whisky distributors, golf academies etc.) interested in using the Carnoustie Country trade logo through a commercial agreement with the council;

(v) Instructs the Director of Infrastructure Services to bring back a further report in 2012 outlining additional opportunities for commercialisation of the Carnoustie Country trade logo with a draft strategy for consideration by the council; and

(vi) Instructs that any resultant commercial agreements proposed by companies to use the Carnoustie Country trade logo be brought back by the Head of Economic Development and Environmental & Consumer Protection in consultation with the Head of Finance and the Head of Law and Administration for approval by the appropriate committee.

2. INTRODUCTION AND BACKGROUND

2.1 The committee is referred to article 21 of the minute of meeting of the Infrastructure Services Committee held on 3 March 2009 which recorded consideration of Report No 191/09 detailing the progress made in promoting the Carnoustie Country brand in China.

2.2 The Report indicated that two golf product companies had requested use of the Carnoustie country destination brand in a way that would further promote ‘Carnoustie Country’ as a golf destination. Approval of the specific proposals detailed in the Report enabled the ‘Carnoustie Country’ title, logo and website to be promoted directly to a large Chinese audience to create
a direct marketing link with golfers at grass roots level. It was also recorded that the proposals would enable the Council to obtain significant promotion of ‘Carnoustie Country’ in China at almost zero cost.

2.3 In approving the recommendations made in Report 191/09, the Committee agreed:-

(i) to note the successful promotion of the ‘Carnoustie Country’ golf brand in China and the steps taken to protect the registered title and logo;
(ii) to note the agreement being negotiated with Berrytex Garment Co (Shanghai) and The Golf Mat Company Ltd (Scotland) which authorised them to use the registered ‘Carnoustie Country’ brand for a specified period in return for the marketing and promotion opportunities, as detailed in the Report;
(iii) to note that arrangements had been made for the Head of Economic Development to participate in the launch event at Shanghai Silport on 24 March; and
(iv) to authorise the Convener of Infrastructure Services to participate in the launch event at Shanghai Silport on 24 March, as detailed in the Report.

2.4 Since approval of Report 191/09, considerable progress was made with the launch of a range of golf wear by Berrytex Garment Company in Shanghai now trading as Pro Simon (Shanghai) Textile Co Ltd. Indeed, the Head of Economic Development and Environmental and Consumer Protection had already commenced negotiations with Pro-Simon for a five year agreement from 1 January 2012 onwards. It was clearly envisaged that as well as continuing to promote our golf destination, the new agreement would have the potential to generate revenue income from Royalties based on a successful trading position to date. Discussions were based on 9% of gross “retail” sales income and 6% of gross “business” sales income but subject to 70% of this being reinvested into future marketing activity. Based on the 2010 information this would have resulted in a net income to the Council after re-investment of at least £16,000 per annum but increasing over a five year period. The intention had been to present a report to the council during the June 2011 cycle of meetings and a draft report was in fact prepared in May (by the Director of Infrastructure Services) but negotiations proved difficult and after several weeks of difficult exchanges the negotiations ceased on 6th June 2011 when a communication (see below) was received from the major shareholder intimating the company’s decision not to extend the agreement.

“There were 3 new members joining the board of directors this year. By increasing the capitals of investment to cater for future development and further expansion, we hoped to stay competitive. Today, the board had a meeting to discuss whether we should renew and how to renew our agreement with CC. In this long meeting, we had gone through various commercial factors and market analysis repeatedly. In the end, I had failed to convince the board. We decided to stop this collaboration. Please believe me that this is the most difficult decision we had made after invested so much money and spent so much time in it.”

2.5 On 13 June an official communication from the company’s attorney was received formally notifying the council stating:

“It is my regret to inform you that we will not be extending this agreement upon its expiration due to the adjustment of our marketing strategy and sales pressure.

According to common commercial practice we will be utilizing a grace period of 6 to 12 months for handling of current Carnoustie Country inventory, and minimising any negative impacts to the brand”

2.6 In the visit to China in July 2011, the Depute Leader of Angus Council accompanied by the Head of Economic Development and Environmental and Consumer Protection met with three directors of the company (on 4 July) when the opportunity was taken to make a presentation to them on the benefits to both parties of extending the agreement. However, it became clear that the new directors wanted to invest in their own brand and they were also considering interests from additional potential investors which further complicated matters. The company has however indicated they will co-operate should the council agree to allow another
company to use the brand in China and there are discussions ongoing in respect of what is said to the media in China about this change in circumstances.

2.7 For the avoidance of doubt there was never any formal agreement that either party would extend the agreement nor was there any agreement to enter into a new agreement. It is therefore necessary for the council to accept the situation but learn from the experience when considering future initiatives.

2.8 The following report gives a summary of progress and key outcomes from, the trade logo agreement for golfwear and, having received the notification from Pro-Simon (Shanghai) Textiles Co Ltd that they will not be extending the agreement, brings forward recommendations for future action.

2.9 No progress was made in respect of the Golf Mat Company Ltd (Scotland) which is now understood to be dormant. However, this report also informs the committee of other potential interests by commercial companies in the use the Carnoustie Country destination brand for golf related products and recommends a way forward aimed at building awareness of the Angus destination in China while at the same time planning for the longer term opportunities for revenue generation from future royalties.

3 PROGRESS TO DATE AND POTENTIAL FOR THE FUTURE

3.1 **Progress to date:** The initial agreement between the Council and Berrytex Ltd was signed on 24 March 2009 at a promotional launch at Shanghai Silport Golf Club. The Convener of Infrastructure Services officiated at this event accompanied by the Head of Economic Development and Environmental & Consumer Protection. This event was publicised widely by China’s golf media which was due in part to the participation of Jim Murphy MP the then Secretary of State for Scotland who co-signed the agreement as a witness to the proceedings.

3.2 Report 191/09 stated that any agreement will be for a temporary period which in the case of Pro-Simon (Shanghai) textiles Co Ltd was originally envisaged to last until the end of 2010. The committee were advised that, should the agreement prove successful, it will be possible to extend the arrangement or negotiate a new agreement. It was also stated that Angus Council would provide the right to use the Carnoustie Country trade mark free of charge and the report R191/09 specifically stated that there would be no license fee as part of the initial agreement. It was also emphasised that the agreement would provide “an excellent opportunity for significant free of charge promotion of the Carnoustie Country golf destination brand in China”. Promotion of the Carnoustie Country destination was the sole benefit to the council arising from the initial agreement. Clearly, if successful, the venture would allow the opportunity for the council to negotiate a new agreement bringing longer term revenue generation from royalties and as indicated above, efforts were being made to negotiate a five year agreement commencing 1 January 2011.

3.3. Report 191/09 envisaged that the initial agreement would permit Pro-Simon (Shanghai) Textiles Co Ltd to use the “Carnoustie Country” trade logo free of charge for an initial period until the end of 2010. This was to enable them sufficient time in which to introduce the new range of Carnoustie Country branded golfwear into the China market. However, in order to get the Autumn/Winter season's clothing into the stores in time, they had to start new productions at the latest by the start of April month. Preparation time was also required to establish design concepts sampling and testing. Given that the agreement with Pro Simon could not be signed until the end of March 2009; and to enable Pro-Simon to have a full two years (two seasons) in which to introduce the new product range, The negotiations were subsequently concluded on the basis that the agreement would not expire until the end of 2011.

3.4. On this basis, Pro-Simon made the necessary design and production changes to their existing range of Pro-Simon branded golfwear in time for the 2010 sales season. The strategy adopted for this transition was to establish dual branding of its own established “Pro Simon”
range with “Carnoustie Country”. The company, which was already selling product in around 80 pro-shops using its “Pro Simon” brand, made a financial investment to change all of its marketing and promotion efforts to establish the “Carnoustie Country” logo. Each garment carried a Carnoustie Country swing tag label and the website address: www.carnoustiecountry.com More importantly Pro-Simon embarked on a communications campaign through the publication of a “Carnoustie Country” magazine three issues yearly. Six thousand copies of each issue were circulated to golf club managers, golf media and pro shops throughout China. These magazines promoted a number of venues in Angus including extensive coverage of the Tartan Day International Golf Challenge and the 2010 Bi-Centenary of Royal Montrose Golf Club and Montrose Golf Links.

3.5 In October 2010, the Convenor of Corporate Services and Head of Economic Development and Environmental & Consumer Protection attended the launch of Apex Sports International Ltd at the CBD Golf Club in Beijing. This was organised in partnership with Pro-Simon. This was followed by the opening of a pro-shop at the Willow Golf Club which was devoted entirely to the sales of Carnoustie Country products alongside golf memorabilia from Scotland. This was only one of a number of marketing investments made by Pro Simon in organising Golf invitational events and event sponsorship to establish awareness of the Carnoustie Country brand in China during 2010/11.

3.6 In May 2011, Pro Simon (Shanghai) Co Ltd estimated that the “Carnoustie Country” brand grew from nothing in 2009 to an established brand known by 15-20% of the main core of 300,000 golfers in China who are members of golf clubs/organisations (there are up to 2 million golfers who actually play the game). This core group of golfers is expected to reach 500,000 in 2013 and Pro Simon (Shanghai) Co Ltd had aimed to ensure that at least 50% of them are aware of the brand by the end of 2013.

3.7 The main marketing strategy adopted by Pro Simon (Shanghai) Textiles Co Ltd was to associate promotion of the brand with the cultural and heritage values of the destination in the “Home of (World) Golf”. Through a series of exhibitions, events and shelf displays, the brand image of Carnoustie Country was portrayed using framed images and vintage photographs of golfers as well as featuring memorabilia and golfing artefacts in the pro shops alongside the branded garments e.g. old pictures of golf clubs, golfers as well as old hickory golf clubs exhibited in tartan clad boxes. In this way Pro Simon differentiated the Carnoustie Country brand and this enabled their products to sell alongside globally recognised premium priced golf brands.

3.8 During 2010, Pro Simon sponsored the Royal Montrose Golf Club Bi-Centenary celebrations through the supply of 200 golf polo shirts designed specially for the occasion with the bi-centenary logo embroidered on each garment. There was no cost for this despite the value estimated at around £6,000 minimum. Old pictures postcards and antique hickory shafted golf clubs were also purchased from Taylor’s Auction mart for use in exhibitions in China as well as for prizes at invitational golf tournaments in China aimed at promoting the brand.

3.9 Pro Simon made a distinction between “retail” and “business sales”. “Retail” sales are made directly to the grass roots golfer via pro-shops located in golf clubs and generated income of 50% of the sales price. “Business” sales are made to corporate accounts who order in bulk (at least 100 pieces). These sales generate 30% of the retail sales price. These are manufactured with the organisation’s name or the name of the event.

3.10 During the negotiations in May 2011, Pro-Simon confirmed that in 2010 the estimated gross income from sales of Pro Simon/Carnoustie Country branded products were as follows:

**RETAIL SALES**
- 1 flagship store opened in Beijing
- 80 retail points in pro shops
- 6,000 pieces sold
- Gross sales income of £219,047 (based on exchange rate as at May 2011)

**BUSINESS SALES**
AGENDA ITEM NO
REPORT NO 834/11

- Gross sales income of £571,428 (based on exchange rates as at May 2011)
- 28,000 pieces sold

3.11 When compared with expectations underlying the proposals outlined in R191/09, it is felt that the original key purpose of the trade logo agreement has been achieved. The aims outlined in Report 191/09 were fulfilled in that the Carnoustie Country destination and Angus based golf venues were being promoted to thousands of grass roots Chinese golfers. As indicated above, Pro-Simon promoted the brand by focussing on the cultural and heritage links which the Carnoustie Country destination offers visiting golfers as a result of which, thousands of customers bought the product knowing that the brand is a destination in Scotland “Home of (World) Golf”. The ultimate goal is that, as and when some of these golfers travel to Scotland in the future, more of them will consider Angus as their first choice destination after St Andrews which remains the “Mecca of golf” for international visitors.

3.12 Pro-Simon arranged for the Head of Economic Development and Environmental & Consumer Protection to participate as keynote speaker at the 11th National Golf Managers conference in Tianjin, China in October 2010 attended by the Convener of Corporate Services. This conference was sponsored by Pro-Simon as part of their marketing investment in promoting the Carnoustie Country Brand in China. This experience led to the Head of Economic Development and Environmental & Consumer Protection being invited to be keynote speaker at the Dalian Golf Conference and Exhibition in July 2011 attended by the Depute Leader of Angus Council. Both events enabled the council to promote the culture and heritage of Carnoustie Country as a golfing destination resulting in significant golf media coverage.

3.13 **Potential for the future:** From the above, it is clear that there is still considerable potential to build on the awareness this initiative has created amongst the growing numbers of golfers in China.

3.14 A copy of the proposed 5 year agreement was scrutinised by Angus James Associates Ltd, an independent industry specialist who, in May 2011, gave opinion on the following:-

1. an assessment/overview of the commercial aspect of the proposal
2. a view on the specific royalties proposed including the level of re-investment proposed by Pro Simon
3. views on the strategy adopted by the Head of Economic Development and Environmental & Consumer Protection as set out in this report.

3.15 The report from the independent specialist stated, amongst other things,

- “Reviewing the content and approach adopted within the paper, “Brand Vision and International Trade Development” of 29.09.2010, one can readily see that an authoritative and well considered outline plan to growing the brand “Carnoustie Country” has begun, with a long view on “seeded” potential.
- The marketing position contained within the family destination approach is to be applauded, as if executed well, will lay further substance to growing individual sub-brands within the collective. This approach will also afford maximum range extensions within both the family destination brand and such other associated sub brands.
- Angus Council have approached the development of the brand proposition “Carnoustie Country” in a well balanced management style, assessing their opportunities, revenue stream, future tourism, brand additionality, merchandising affiliations alongside managed risk assessment within the Council’s skill base on the proposition’s execution to date.

3.16 It is clear that securing the initial agreement with Pro Simon, which led to a range of Carnoustie Country branded products being sold alongside premium branded golfwear in over 80 outlets in China, surpassed all initial expectations. This was an exceptional achievement and due in no small way to the fact that awareness of Carnoustie Country had already started to build amongst the golfing fraternities and media in China. In normal circumstances the launch of a brand especially in a foreign market such as China would have been impossible
without the investment of six figure sums and yet the direct costs to the council in regard to the agreement with Pro Simon were minimal.

3.17 Product development and expansion models produced by Pro-Simon during the negotiations indicated a possible growth in income in the order of 80% over a five year period provided there is sufficient investment in marketing and promotion. This demonstrates that a market opportunity still exists if a company can be identified with the right credentials. There is therefore an opportunity open for Angus Council to identify an alternative manufacturer. However, for this to work the company would need to be already manufacturing and selling in the China golf market and prepared to invest in this as their own enterprise since the council could not consider financing a manufacturing operation itself. The company would also be expected to generate a royalty for the council within an agreed timeframe. However, this timeframe would have to be realistic given that the key objective for the council is, as it has been in the past, the continuing promotion of our destination rather than the generation of golf wear revenues. It is therefore proposed that a concentrated effort is made to identify such a company by utilising the council’s extensive networks and contacts already established in China. If the council is agreeable then this would be an objective for the future and more specifically for the upcoming trade mission to China in early 2012.

3.18 The original strategy was to work with more than one golf related company in China. Approaches have been received from a whisky distributor, a golf gameboard inventor and a golf academy interested in the use of the Carnoustie Country trade logo. By working together, a “family” of companies with an interest in the same brand albeit for different products would create a marketing synergy. Their individual efforts would promote the brand while at the same time reinforcing the marketing of the individual products. By working collaboratively a number of companies authorised to use the trade logo have a greater potential to drive up awareness than one company working individually. A whisky distributor was introduced to the council in October 2010. Since then three meetings have been held (two in Scotland) with a view to the company investing in the design of a bottle and packaging for the introduction of a premium value whisky with a “Carnoustie Country” label using whisky from the Glencadam distillery in Brechin. Discussions are still at an early stage but there is a potential to take this forward in a three-way agreement between the company, Angus Dundee Distillers and Angus Council. If the recommendations in this report are approved, the idea will be taken forward through a Memorandum of Understanding and a proposal will be submitted for consideration by Angus Council in due course. Approval of this report will also enable other propositions to be discussed and taken forward subject to agreement by the council in due course.

3.19 China isn’t the only country with a potential interest in the Carnoustie Country trade logo and where the council would wish to drive up awareness of the Carnoustie Country destination. The Head of Economic Development and Environmental & Consumer Protection has identified other opportunities for the internationalisation of the Carnoustie Country brand over the longer term. Some products e.g. the golf gameboard would have many applications in a number of markets worldwide and the use of the trade logo could assist in promoting the destination in these markets. Similarly it may be possible to license the trade logo in some regions especially where through other initiatives e.g. Tartan Day there are contacts with golf promoters who have shown interest e.g. South Africa. It is therefore proposed that a further report be brought back in 2012 identifying these opportunities and a draft strategy developed to take the initiative forward.

4. FINANCIAL IMPLICATIONS

4.1 There are no direct financial implications arising from approval of this report. Any commercial agreements and related financial implications will be brought back to the council for approval in due course. There will however be costs associated with the maintenance of the existing trade logo protection but these will be in the order of a few hundred pounds per annum. If it is proposed to expand upon this protection in the future the cost would be in the order of £2,000 per product range per territory but this is not presently under consideration.
5. HUMAN RIGHTS IMPLICATIONS

5.1 There are no Human Rights implications arising from this report.

6. EQUALITIES IMPLICATIONS

6.1 The issues dealt with in this report have been the subject of consideration from an equalities perspective. An equalities impact assessment is not required.

7. SINGLE OUTCOME AGREEMENT

7.1 This report contributes to the following local outcomes contained within the Single Outcome Agreement for Angus:
   - Sustainable business growth is achieved
   - Growth in tourism in Angus is achieved

8. CONSULTATION

8.1 The Chief Executive, Director of Corporate Services, Head of Finance, and the Head of Law and Administration, have been consulted in the preparation of this report.

9. CONCLUSION

9.1 Approval of this report will strengthen the efforts taken to increase brand awareness of "Carnoustie Country in China.

9.2 The initial agreement with Pro-Simon (Shanghai) Textiles Ltd, while not being extended in 2011, has been successful in establishing the Carnoustie Country destination brand in over 80 golf outlets in China and in key golf magazines, golf internet channels and other media coverage. The confirmation of at least 34,000 branded garments in 2010 bearing the trade logo, swing tag label and website address for www.carnoustiecountry.com is significant. This has provided the council with a cost effective platform to promote golf tourism in Angus. It has also demonstrated that a market for this brand exists in China and can be achieved without major investment albeit at a slower rate of growth. It also demonstrates that the brand can compete effectively with major title brands in golf outlets selling at premium prices. For these reasons it may still be of commercial interest to golf related companies in China and this will assist the council in taking forward further initiatives for the use of the Carnoustie Country trade logo. The specific proposals in this report will not only ensure that Chinese golfers purchasing branded products are made aware of the destination but that such sales will have the potential to generate income to the Council from Royalties in the long term provided that sufficient time is given for the products to become established.

9.3 In the opinion of the Director of Infrastructure Services the key objectives outlined in report R191/09 for the initial agreement period with Pro-Simon (Shanghai) Textiles Ltd have been achieved and the recommendations made in this report will allow the council to capitalise on the experience to date.

9.4 It is clear that opportunities exist for promotion of the destination through trade logo agreements in other countries as well as China. The report recognises this and calls for a further report to be brought back with a draft strategy for future internationalisation of the brand.
NOTE: No background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to a material extent in preparing the above report.