

The

PRIVATE CLUB ADVISOR™

A Letter to the Directors, Officers, Owners and Managers of Private Clubs

January 2012

Dear Club Executive,

COMING OUT ON TOP: LESSONS LEARNED FROM 2011... Our January issue offers an opportunity to reflect on changes that have shaped the club industry over the last several years, and to consider what current trends are telling us about road ahead. For insight, we turned to top industry prognosticators Henry DeLozier and Garry Carl, who both represent the Global Golf Advisors (GGA) consulting firm. The core of their message is that “better is the untiring enemy of good” and they warn that as the private club marketplace continues to evolve, there will be no room for mediocrity.

“Over the next decade, clubs that prosper will be those that are relentless in their pursuit of continuous improvement,” Carl said. According to DeLozier, golf-related businesses that chose to hunker down in response to the economic downturn are being “clobbered by value-driven consumers who are intolerant of under-performance.” It’s a characteristic that he said seems to be affecting every segment of the golf industry from modest municipal courses to top-end private clubs.

Both consultants emphasize the importance of market research as a tool to help define a club’s unique niche in a competitive market, identify subsets of prospective members within the target market which are a good match and determine the most effective ways to reach that audience. “The clubs that succeed will be those that execute careful and deliberate market research,” Carl said, “and they will be those clubs that understand they are a part of—and not an exception to—changing social norms.”

It seems many clubs may have simply underestimated the importance of setting themselves apart from the competition. When the differences are not clearly defined, DeLozier explained, prospective members will reduce the concept of belonging to a club to a commodity transaction based on factors such as price, location or convenience. “We find that there is an oppressive ‘sameness’ in the descriptive local-market categories of most clubs,” Carl added.

Looking ahead, the pair urges private club leaders to be sure they are monitoring the performance metrics most relevant to their success. “Clubs are in the dues business,” DeLozier said. “Member dues are their core business and the element that drives the economic vitality of a club.” Rather than zeroing in on issues such as food and beverage revenue, club leaders intent on success will do well to focus on factors that drive dues revenue—member retention, net membership growth and facility utilization.

FACTS FIRST: DON’T LET EMOTION DERAIL DECISIONS... We’ve all seen it happen in one meeting or another. A person with strong feelings on an issue and the ability to articulate those feelings takes over the discussion leading up to an important decision. Later, when reason finally prevails, most meeting participants may wind up regretting the consequences of that decision.

Club officers and directors may avoid making emotionally-fueled decisions by remembering to put facts first during deliberations. What data is available? Do financial figures and/or other statistics support an argument? If the opinions or desires of the members must be weighed, is that input based on well-crafted surveys rather than anecdotes? As a seminar speaker who has served on the board of directors of several clubs noted during a club conference, “The goal is to short-circuit discussions in the club board room where the better debater is winning because there is no factual data on the table.”

Another seminar presenter, club consultant Doug Martin, calls taking that kind of clear-cut, fact-based approach “flying at the correct altitude.” Club decision makers don’t risk getting carried away in the wrong direction, he said. “You are must less likely to let opinions and anecdotes influence your thinking.”

EYE OPENER: A NEW WAY TO LOOK AT CLUB FINANCES... While serving on the board of a private club, Raymond Cronin, an entrepreneur with decades of experience in advanced technology, discovered a significant gap in the way clubs were doing business. He realized that important budget decisions were being made in what amounted to a vacuum, with little or no access to relevant comparative data. He set out to develop a functional solution to that problem, and in the process discovered a concept that he believes could change the way clubs are managed.

Cronin and his partner Russell Conde set about building a secure online tool, www.clubbenchmarking.com, to gather and analyze private club data (operational, financial, compensation, and benefits). As a resource for private club leaders, the subscription-based service allows participating clubs to input their own data and extract dynamic, real-time reports designed to support the decision-making process. Instead of cumbersome spreadsheets, results are translated into charts and graphs clearly marked with helpful analysis and comparisons to other clubs in the data pool. A user-friendly filtering system allows clubs to focus on specific aspects of the data. To date, the system contains data from more than 600 clubs.

Once the system was up and running, Cronin and Conde began to analyze accumulated club data to gain a clear picture of where the cash to run those clubs was actually coming from and where it was going. In the process they discovered a universal theme among nearly all clubs—despite differences in “personalities” of clubs, a great consistency existed in the sources of cash, uses of cash, and in the relationship among those sources and uses. The consistency is independent of a club’s revenue, member count, geographic location or quality. A distinct private club operational business model emerged, based on what they call the “Available Cash Model for Clubs.” This has led to any club being able to accurately identify areas of strength or weakness in their own business model.

All possible sources of club revenue were reviewed, but initiation fees were excluded from calculations of “available cash” since those dollars are considered capital income. For example, the overwhelming majority of the cash used to run a club (between 75 and 80 percent) comes from member dues. The fact that clubs are in the dues business is not a revelation, but we were surprised by a pie chart illustration of Cronin’s research in which average food and beverage net income or loss as reported by more than 600 private clubs surveyed, barely even registers. In fact the F&B net income or loss is typically less than 10 percent of a club’s available cash. It seems that apparently the most debated subject in the history of club board rooms is a non-issue, strategically speaking.

In addition to the online Club Benchmarking tool, Cronin and Conde have collaborated with the Club Managers Association of America to gather member club data and publish two static reports: a 2011 Compensation and Benefits Report, and a Finance and Operations Report. Visit www.clubbenchmarking.com for more on the Available Cash model, the static reports and becoming a benchmarking participant.

FRAMEWORK FOR SUCCESS... If re-inventing the wheel is not on your list of goals for this year, you may appreciate some of the governance resources available through industry groups such as the National Club Association. One of our favorites is a publication called “Best Practices for Club Leaders” which makes an excellent primer for new volunteers and a guidepost for veterans. To purchase copies for your board, visit the association’s online store at www.nationalclub.org.

SMART MONEY IS ON LONG-TERM FINANCIAL PLANNING... If your club has managed to sustain and perhaps even expand capital reserves through the recession, it may be wise to consider convening

a special committee dedicated to the stewardship of those funds. Club industry consultant Harvey Weiner says the concept has proven itself for one of his club clients.

“Several years ago,” he explained through his Club Advisory Council online forum, “one of our client clubs created a ‘Trust Committee’ to manage and protect capital reserves.” The committee resembled, in both members and mission, investment committees more commonly found in charitable foundations, but Weiner said at the time it was formed many concerned parties thought the idea was too restrictive and would limit the board’s flexibility. “Then the bottom fell out of the economy and the trust committee’s value became overwhelmingly apparent,” Weiner said. “Call it what you will, a trusted committee of respected and knowledgeable members charged with judiciously investing, protecting and allocating capital funds may prove to be critical to the survival of many of today’s private clubs.”

FRESH START: REFLECTIONS ON VOLUNTEER LEADERSHIP... Whether you are an incumbent board member or newly elected to your first term of service, the beginning of the administrative year at a member-owned club can be a time of anxiety and anticipation. Volunteer leaders are under constant pressure to strengthen the organization they serve, but it can sometimes be difficult to know just how to approach that challenge. If your answer is “we’re probably going to do things the same way we’ve always done them,” then it may be time to think again.

Tom Ehrich is a former staff reporter for the *Wall Street Journal* and international business consultant whose expertise is now focused on volunteer church boards, particularly those battling congregant apathy and attrition. Sound familiar? Ehrich said for some volunteer organizations, there comes a time when the best approach is to set aside inherited ways of leadership. “If the old ways haven’t been working for some time, they aren’t likely to start working now.”

Recently, Ehrich posed several excellent questions that we think may offer a fresh perspective and food for thought to volunteer leaders serving private clubs:

- **Who runs your organization?** Who is responsible for day-to-day operation? While the answer may seem obvious, Ehrich believes too often elected leaders of membership organizations focus on the wrong objectives. Leave the running of the organization to the staff, Ehrich says. “A healthy organization needs an elected leadership that sees its charge as the future and its task as strategic thinking.”
- **As an elected leader, are you willing to embrace risk and change?** “Leaders need to stop trying to avoid, minimize or even manage risk,” Ehrich said. He believes leaders with an “over-my-dead-body” attitude toward change will undermine the success of the organization they serve.
- **What can you do to enhance your skills as a club board member?** “Too many elected leaders believe their life skills and job skills are readily transferable,” Ehrich said. “In fact, this duty (in a volunteer organization) is unlike other work.” Orientation sessions, meetings with executive staff and conversations with previous volunteer leaders who have been recognized for their abilities and contributions can provide invaluable guidance.
- **Can you ramp up your preparation and performance?** Ehrich said too many volunteer leaders “believe they just need to show up at meetings, take a few minutes to examine the budget and then start making decisions.” Instead, he urges leaders to study the larger marketplace, seeing how members’ and prospective members’ lives and interests are changing, and then take the time to think about how those changes will affect the organization.

CAUSE AND EFFECT: MAKE DUES IMPACT CLEAR... Would your members be more inclined to promote membership to friends and family if they recognized the direct impact of those efforts? Establishing a variable dues schedule based on the growth or contraction of a club’s membership is not a new idea,

but we think it may be worth another look. Tying dues to membership numbers is one way to underscore the crucial role members play in preserving a club's fiscal health. Beth Meister, a membership marketing consultant, sums up the variable dues equation in three steps: 1) The club determines the number of members it must have to be financially healthy; 2) If membership slips below that predetermined number, the club increases dues to cover the deficit created by the shortage of dues-paying members, and 3) If membership goes above the optimal level, dues are lowered accordingly.

The approach gives members a direct financial interest in whether or not the club maintains the desired membership level. Meister said that while some clubs with variable dues structures make the adjustments monthly, calculating changes on a quarterly basis may be more practical.

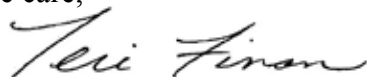
KEEP IT CLEAN: RULES FOR MOUTHY MEMBERS... The definition of acceptable language may be a moving target in today's society, but it needn't be that way in your clubhouse. A private club has the right—and perhaps an obligation to its members—to establish and enforce rules against offensive behavior including foul language. In one example shared with us, a club developed the following rule:

***Offensive language policy:** Management may remove from club premises any member using language deemed inappropriate by at least three other members.*

A club can determine for itself the conditions for discipline, whether the trigger is the number of member complaints received or perhaps the frequency of the infraction. Since determining what constitutes profane or vulgar speech is somewhat subjective, enforcement may be difficult. Still, a rule against language that bothers others should serve as a reminder to particularly salty members and provide management with a foundation for discipline should the offending member fail to control his or her language.

CONGRATULATIONS... Michael Leemhuis, CEO/general manager of Congressional Country Club in Bethesda, MD, has been selected by a confidential committee as *Club Management* magazine's 2011 Club Executive of the Year. The award recognizes the club executive who most embodies the values, vision and professionalism necessary for success in private club management. Leemhuis is a former national president of the Club Managers Association of America.

Take care,



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