
Private Club Advisor™

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

November 2013

Dear Club Executive,

FOOD AND BEVERAGE: A NEW PERSPECTIVE... A recurring debate in most clubs is whether the food and beverage (F&B) department should be an amenity or a profit center. Some clubs would be content to simply break even, yet few clubs are able to achieve this goal.

As noted in the recent issue of McMahan Club Trends: Making Club Dining the Members' Favorite, "There is often an expectation from the board that revenue collected exceeds the cost of food, supplies and production. On the other hand, members want high quality, no waiting and below market pricing. Many boards have discussed whether F&B is a service like golf, swimming and any other operating department or if it is a profit center. As a result of Club Benchmarking's research, we now know that F&B losses are pretty far down on the scale of what impacts cash and operating results at a club. When added to the department's impact on overall member satisfaction, it is a service."

McMahan goes on to state that dining is the most important activity at the club because every member eats, but not every member is a golfer or tennis player. Dining also provides an important social aspect that engages members, thus food and beverage provides a key source for social stimulus.

McMahan recommends that a club watch its costs carefully and figure out what kind of subsidy it is willing to put toward F&B. The food must be high quality but reasonably priced. "The financial performance of the F&B department is going to be the result of the revenue mix. If a club has a lot of banquets (40% of revenue or higher), it is going to get close to break-even performance, potentially even showing a slight operating income. If it doesn't, there is going to be a loss."

Dramatically cutting costs and even quality is not the answer. McMahan surveyed a club before and after significant cuts to the F&B operation as an attempt to reduce its annual losses. The result was a considerable decrease in overall member satisfaction attributed to the severe drop in dining ratings. "In the end, most clubs are going to have more expense than revenue in F&B," stated McMahan, "but club dining is a service and strongly correlates with member satisfaction."

THE COMPLEXITY OF CLUB COMMUNICATION... As times change and technology advances, it can be increasingly difficult for clubs to effectively communicate with their members. There are more ways to reach members than ever before, but the real question is, what is working and what isn't?

Club technology consultant Courtney Hunt explained. "Clubs have to have several different forms of communication that are used for different reasons," she said. "There is not one way to communicate with all members all of the time. Instead clubs need to have a network of communication channels that include traditional and new digital forms. Having several forms of communication working together is the key."

Finding the right tool for the task can be the next challenge. "If the club loses power, you don't want to send that out in the next newsletter. Instead that might be a good time to send a mass text message to your membership or tweet the news to get it out quickly. If it is a serious message you are trying to send, then you should

send a letter or communicate face to face. Every communication should be driven by the goals and objectives of the message,” stated Hunt. “There is no single right or wrong way, but clubs should continue to evaluate their means of communication to ensure they are using the most effective approaches.”

Hunt recommends clubs be smart about communication channels and the forms used. To do that she recommends clubs survey their members and ask them to share their preferences for communication. What do they use? How do they engage? What do they want?

Pulling members in is important as well. Hunt recommends that clubs “chunkify” information by sending it out in small bites. “People can process small bits of information more quickly. Then if they want additional information or want to sign up for an event, they can click on a link. The link might take them to the club’s website. While members are on the website, they might see other upcoming events or decide to schedule a massage.” said Hunt. Clubster is one private social media and mobile communication platform that does exactly this. “If you don’t drive them anywhere, you are decreasing the likelihood that they read the message as well as limiting the opportunity to expose members to other events and happenings,” Hunt concluded.

PRESERVING THE PLAN... The board of directors has worked hard in cooperation with the general membership developing a plan for the club’s future—determining a timetable for capital improvements and methods of funding, deciding from member feedback what facilities and services will appeal to current and future members, perhaps changing some policies to make the club more relevant. Now comes the real challenge—how to keep some future board from needlessly undermining parts of the plan.

It is natural for succeeding club presidents and boards to leave what some call “that annual footprint,” a sign of unique accomplishment, a legacy perhaps. It may be a new spa, an updated pro shop, or some other amenity. Sometimes those projects can sabotage part of the main objectives previously reached by member consensus.

When some club executives raised this issue during a discussion of strategic planning for clubs at the World Conference on Club Management earlier this year, one participant emphasized that the buy-in for any plan is critical and that buy-in begins with the nominating process. In vetting prospective board candidates, the nominating committee should make certain the final selections accept and will support the club’s strategic plan.

That commitment can be emphasized during the orientation session for the new board, when participants learn what has been accomplished so far under the plan and what remains to be accomplished. A premier golf club in the East goes even further, requiring new board members to sign a governance handbook committing to an established governance process, including the strategic plan.

An orientation goal at another club, a major city club in the East, is to steer new board members away from the why of the strategic plan toward the how—how can they work to move the plan forward.

The head of a club facilities planning firm said sometimes bringing in an outside adviser who supports the strategic plan will fend off any attempt to alter or drop the plan. “An outside consultant can tell them the truth and fly home,” he quipped.

ENGAGING YOUNGER MEMBERS... Member engagement is currently an area of focus for many club executives; however, engaging the younger generation of members can be the most challenging. The Beach Club in Santa Monica, CA, established a way to successfully engage younger members by giving them a voice.

Paulette Katzenbach, a past president of The Beach Club, explained that during her presidency she realized the voices of the younger members were not being heard. “At The Beach Club one becomes a junior member at age 28 and an associate member at age 32. The junior membership is a non-equity membership with reduced

dues but the associate member pays full dues. At age 40 an equity membership must be purchased to become a full member. The younger members (between ages 28 and 40) didn't really have input on the committee level. So we formed a committee to engage this age group and provide them with an opportunity to discuss their issues," she explained.

The purpose of the committee was to get younger members involved in the club on a different level. "We also wanted to introduce these members as adults to the club. Some of them were children of members and had grown up at The Beach Club. Now they wanted to establish a name for themselves rather than being known as someone's son or daughter." said Katzenbach. The club also wanted to educate the next generation of members on how the club functions. "We wanted to develop the next generation of board members and club leaders," stated Katzenbach. "It is important for them to learn what being on a committee is all about."

The group named themselves the BCJV (Beach Club Junior Varsity) Committee and established "good times and good works" as their motto. The committee has proven to be quite effective in engaging younger members as well as enhancing relationships with all members over the last ten years. "The BCJV plans events for all ages (not just the younger generation), as well as initiates community outreach activities. The younger members become committed to the club at a younger age, it helps them build relationships with members of all ages and we will have a stronger, more educated board for the future," stated Katzenbach.

The committee consists of 10-15 members ages 21-40. Children of members who are over 21 but not yet members are encouraged to participate as well. The BCJV committee selects its own leaders and has a liaison from the board and/or a senior staff member. The BCJV falls under the auspices of the house committee and meets most months.

RETHINKING SENIOR DUES... While it is not unusual for a club to offer members reduced dues when they reach a certain age (sometimes in exchange for forfeiture of some privileges and voting rights), a representative of the financial consulting firm McGladrey believes many clubs may want to tweak those programs. Specifically, clubs may want to raise the age at which members become eligible for senior status.

"If members continue to be physically active in their 70's, should reduced dues really be offered at 65 years old?" the McGladrey rep asks. "Clubs should ensure that they have a clear picture and understanding of the impact these discounts will have on future years' dues revenue. Otherwise clubs may fail to capture sufficient operating revenues to cover expenses."

FOLLOW-UP: TO-GO MEALS AND NONTRADITIONAL BUSINESS... Attorney Fred Somers, an authority on club law and organization, doesn't believe we were firm enough with our recent warning that tax-exempt clubs not begin selling to-go meals without first consulting legal and financial counsel (see "Keeping Club Dining Relevant," page 1, September 2013 *PCA*).

The primary purpose of to-go meals is to provide a "commercial service" to club members, Somers wrote, not to further a tax-exempt club's purpose as a social and recreational organization. "The fact that this activity is conducted solely with members does not change the conclusion that to-go meals are a nontraditional business activity," Somers added. "If the activity is recurrent, it jeopardizes a private club's 501(c)(7) status."

Somers provided a detailed analysis of this topic, which can be found on the *PCA* website, www.private-clubadvisor.com. Click on *PCA* Library, then Focus Today Archive.

MEMBER RETENTION... At the recent annual conference for the Professional Club Marketing Association, the topic of engaging members and retaining members was a major focus. The concept of clubs within a club was discussed during a city, university and yacht club round table and the consensus was that many clubs were finding success with increased member participation and excitement.

Clubs within a club may serve as a member recruitment tactic, but typically the priority is to engage and retain members. These “mini clubs” within the membership may revolve around a sport, activity, or element that is unique to the location, region or membership. The intention of these mini clubs is to bring members together for a common purpose.

Membership and marketing professionals participating in the round table shared the most successful “clubs” within their membership. Such examples were: The Bowtie Society, Breakfast Club, The Travel Club, Field and Stream Club, The Foodie Group, Auto and Cycle Club, Ladies’ Book Club, Retirees Association, Mosquito Fleet, Professional Women Networking Group and The Young Member Club. Some mini clubs required their own dues while others were considered as part of membership. One membership professional stated, “The Bowtie Society has become a VIP group at our club. I tell every new member about it and they ask how to get involved. It has become a status symbol at our club but it has also sparked excitement and engaged many members who otherwise weren’t very involved.”

NEW IRS REGULATIONS FOR TIPS... The IRS has established new rules for differentiating tips from service charges. The change goes into effect January, 2014, after being delayed in 2012. According to the Club Managers Association of America, “These changes will have significant impact on recordkeeping and could affect pay structures in many facilities.” Visit www.irs.com for more information on the regulations and consult your club tax adviser to ensure compliance.

Happy Thanksgiving!



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