The

Private Club Advisor™

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

October 2014

Dear Club Executive,

THE FUTURE OF GOLF… While assuring attendees at the National Club Association (NCA) Conference earlier this year that "the sky is not falling" on the golf industry, Greg Nathan, senior vice president of the National Golf Foundation, did say that "the sport has not been welcoming or accommodating, and golf has to be fun to attract new players." Nathan said "the problem with golf is deeper than just time and money. Right now the perception among non-golfers is that golf is boring and we have to change that perception."

Interests have shifted from golf to other activities that require less time, provide more exercise and are more accessible over the past few years. Recreational activities (traditional as well as non-traditional) have risen in importance and provide opportunities to engage members through year-round activities. According to a recent issue of *Club Trends*, an NCA publication, "As the interests of affluent members evolve from golf to fitness to new leisure activities, clubs have had to consider where to reinvest to stay competitive."

Golf courses are costly to maintain, and with member interests shifting a number of creative ideas are circulating the golf industry in an attempt to spark the interest of new players and engage players who have left the game. A recent article in the *New York Times* discussed ways golf resorts are attempting to attract millenials to the game. Allowing mobile devices, offering Wi-Fi throughout the course, late-night glow-ball contests, 18-hole putting courses and building high-end high-tech golf training centers are a few of the concepts being implemented nationwide.

HBO Real Sports aired a story in July called "The Future of Golf" featuring golf legend Jack Nicklaus and Mark King, TaylorMade senior vice president. The story shared their concerns over the future of the game. While the report had mixed reviews, the overall message was obvious: the game of golf has to evolve to survive. Recently King launched a campaign called HackGolf as an effort to encourage out-of-the-box thinking and generate ideas to revive the sport.

One concept that over 100 courses around the country have already adopted is the use of 15-inch cups. Installing cups that are three and one-half the normal size reduces play time by one hour, makes the game more accessible for more people and allows golfers to have more fun. King encourages the 15-inch cups because they change the golf experience. "The game needs to be for the masses; everyone can't play like Tiger Woods," King stated. "The larger cups reduce the frustration and make the game more fun."

Another concept discussed in the HBO production was Foot Golf. This extreme evolution of golf is played on a golf course, but instead of using clubs and a small ball, a soccer ball is kicked from the tee to the green. By incorporating a fitness component and reducing the cost and skill required, the game has already spread to about 200 courses around the country.

The most popular concept covered in the HBO Real Sports segment was one of the fastest-growing forms of entertainment in the country: Top Golf. The high-end driving ranges combine a sports bar and night club environment with outdoor hitting facilities. Each ball has a computer chip embedded inside which produces the distance the ball was hit and how close to the target the ball landed. Golfers can engage in friendly competition while listening to music and enjoying beverages. There are 13 Top Golf facilities nationwide with plans to develop 13 more in 2015.

While some of these ideas may be unlikely for private clubs, the notion to change the game to engage and attract new players is essential. King noted his concern for 20-30 years into the future because the number of players between the ages 18 and 35 is significantly less than in the past. "If we don't do anything," he said, "we are going to end up with empty courses." (To watch the entire story, search You Tube for HBO Real Sports: The Future of Golf.)

UPDATING CLUB BUSINESS CENTERS… As business needs of members have evolved over the decades, clubs have adapted to offer member business meeting spaces. Integration of audio-visual equipment, computers with internet access, printers, fax machines and television screens gave members exceptional locations at the club to conduct meetings. The needs of members have changed yet again and your club may be in need of an update.

As more companies allow employees the flexibility to work outside of the office, the need for areas where members can make business phone calls, set up laptops, plug into electrical outlets and connect to Wi-Fi increases. Airports, hotels and restaurants are rapidly evolving space to offer "comfortable communal settings that can be used by residents," stated Charlie Turner of Chambers, a club architectural and design firm.

ClubCorp has started providing "anytime lounges" where members can sit anytime during the day to work or meet with small groups of people. In some parts of the country community-style office environments are available on a membership basis. For a monthly fee, "members" can utilize individual workstations, small meeting/brainstorming rooms and community-style tables for group conversation and discussion.

Clubs may have a significant opportunity to engage and attract members by providing flexible work space or small (2-5 people) meeting rooms. Wi-Fi, café tables and comfortable lounge seating with ample electrical outlets could provide additional club value for current and prospective members. Giving members a reason to work from the club may increase lunch sales, business meetings and overall member traffic at your club.

PARTNERING UP… As noted in the May ***PCA***, the declining marriage rate may prompt a rise in single memberships at your club (see "Single Opportunities" pg 4). Your club may want to be prepared for "partner memberships"—and we are not referring to same-sex couples or members who have short-term relationships. Club members who are in long-term, committed relationships but are not (and do not plan to be) married may request their partners be listed as "spouses" on their memberships. Club executives may want to discuss how this request will be handled to avoid being caught off guard in the near future.

FUNDING IMPROVEMENTS: HANDICAPPING OPTIONS… When it comes to financing capital improvements, clubs have many options these days and must carefully consider which alternatives work for them. Speaking at the World Conference on Club Management earlier this year, accountant Ned McCrory outlined financing options available to clubs, along with his opinions on the advantages and disadvantages of each:

- Cash investment. Pro: Use of money the club has already accumulated. Con: Expends accumulated cash. "In members' eyes, this had better be the right project to spend it on," McCrory said.
- Line of credit. Pro: Access to money in place. Con: Short-term debt is used for long-term credit. "You may not want a balance owed on your line of credit, which is mainly for in-and-out projects," he said.
- Initiation fees. Pros: This is how the fees should be used, and it means they are not being used to fund operations. Con: Fees from new members are being used to fund projects that will benefit all members.
- Member bonds. Pros: Friendly (perhaps) debt that is often "rolled over" at maturity instead of being paid back. Members feel they are helping the club. The cost of capital can be less than bank financing. "You must be careful to make sure it is structured legally," McCrory said. "Financial and legal counsel should

have input." Con: If a bank is involved in overall financing, the bank may require that the member bonds be subordinated to bank debt. The bank will be paid before the member lenders.

- New revenue streams expected from the improved facilities. The philosophy of, "If we build it they will come," McCrory said. Pro: Diverse revenue stream resulting from an enhanced member experience at the club. Con: What if they don't come? The club will have acquired additional debt with no revenue stream to pay it back. "You had better do a survey to make sure you are building something people want," McCrory warned.

- Member assessment. Pros: If members remain with the club, they get the use of the new assets. If members paid a significant initiation fee, they will be more likely to pay the assessment and remain with the club to "protect their investment." Cons: If a member pays the assessment and subsequently has to resign from the club, he has paid for something he won't be using. If a club "down the street" has a low initiation fee, or no fee at all, there could be wholesale resignations.

- Sale of club assets. Pros: Can turn an unused, seldom-used or misused asset into cash. Could be a tax-free transaction for a 501(c)(7) club. Tax and legal counsel should be involved. Con: This can only be done once if the club has limited assets to sell. That property is "gone forever" if the club needs to expand later or add a new facility.

- Naming rights for clubhouse rooms, golf holes, etc. Pros: No member is forced to do it. It gives members the opportunity to contribute to the club in exchange for recognition. Con: Petty jealousies can arise among members who do not participate toward those who do.

- Bank loan. Pro: Most common option for clubs these days, according to McCrory. Those using the new asset are the ones paying for it. Con: What auditing requirements and loan covenants might be placed upon the club? "Someone is looking over your shoulder," McCrory said.

McCrory, who is in charge of private club practice for the firm Batchelor, Frechette, McCrory, Michael & Co., believes if a club decides to work with a bank it is best to select an institution already experienced in lending to clubs. The bank would be familiar with club financial operations and culture, and know what distinguishes a private club from other businesses.

THREE KEYS TO SUCCESS… In a recent private club trends report, the club accounting firm McGladrey, concluded that successful clubs have mastered three key areas above all else: governance, regulatory and legislative responsibilities and implementation of key performance indicators. Understanding the importance of each of these key areas and the impact of each on the overall club operation is essential for the executives of successful clubs.

Governance: "When reviewing best governance practices, micro-management of the professional leadership team is never a practice that provides a winning club mentality," the McGladrey report stated. "We challenge club board and committee members to reflect on how they became successful in their business careers and whether they performed at their best when they were micro-managed or undermined by superiors." Club executives should have clearly defined responsibilities and be accountable for those tasks. As governance is such a critical component to the club's success, "club boards would be well advised to continually focus on their governance model" McGladrey encouraged.

Regulatory and Legislative Compliance: Like all businesses, clubs have myriad governmental regulations with which to comply and the Affordable Care Act will only add more challenges over the course of the next few years. "Given all this, clubs must address noncompliance risk in a strategic, systematic manner. This begins with a thorough understanding of their risks in this field and awareness of where exposures lie," explained McGladrey.

Key Performance Indicators: Key performance indicators are typically nonfinancial measures that cannot be expressed in dollars but provide clear insight so effective corrective actions can be made to improve financial results. "Clubs that measure and understand ratios, such as memberships served per employee or covers served per dining room employee per shift, are better equipped to react swiftly to unanticipated fluctuations in projected revenue." McGladrey recommends clubs develop a flash report of the most important key performance indicators to their specific operations, budget to those measurements and then closely monitor those targets.

BALANCING CASUAL… If you're worried about upsetting some members at your club by relaxing dress codes to boost member dining, consider offering an occasional formal event at your club to satisfy traditionalists. The National Club Association recommends clubs with mostly casual dining options provide sporadic (or monthly depending on the popularity) formal events. This gives members the opportunity to get dressed up for an event at the club. The same goes for clubs that have more formal dining; offer an occasional casual event to provide a break from the norm.

OPTIMISTIC OUTLOOK FOR YACHT CLUBS… Yacht clubs seem to be having success and are well-positioned for the future, according to Frank Vain of The McMahon Group, a club facilities planning and research firm. Children are involved in club activities and boating attire is casual—two elements alone that make yacht clubs more in line with members' needs. "Country clubs tend to struggle to get kids engaged and can often get hung up in the transition from a formal environment to a more casual environment," Vain explained.

Yacht clubs also have lower dues than country clubs but still provide dining opportunities and social activities. Vain encourages yacht clubs to emphasize these strengths (casual, family-friendly environment, kids' activities, lower dues, dining and social activities.) The most successful yacht clubs continue to search for ways to add value to their membership by incorporating fitness, upgraded swimming pools, other recreational activities or extensive programming.

Enjoy the Fall!

Jackie

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RESOURCES

National Club Association, Washington, DC – 800-625-6221 – www.nationalclub.org

Greg Nathan, Senior Vice President, National Golf Foundation - www.ngf.org

Chambers, Baltimore, MD – 410-727-4535 – www.chambersusa.com

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