What makes a club tick, financially?

Dues are the primary economic driver, but other factors play key roles in revenue health

BY MIKE STETZ

A private golf club, as a business model, is difficult for many to understand. Consultants say that can even be true for many board members who are accomplished business leaders in other industries.

Take revenue.

Most private clubs have two main revenue streams: dues and food and beverage sales.

Club Benchmarking — a Boston-based firm that compares revenue and expenses for private clubs — found that dues make up 50 percent and food and beverage is at a seemingly potent 30 percent.

So, if a private club wants to help its bottom line — but doesn't want to raise dues — it should focus on increasing food and beverage sales, right? Host more weddings, maybe? Raise the price of a Manhattan?

Well ...

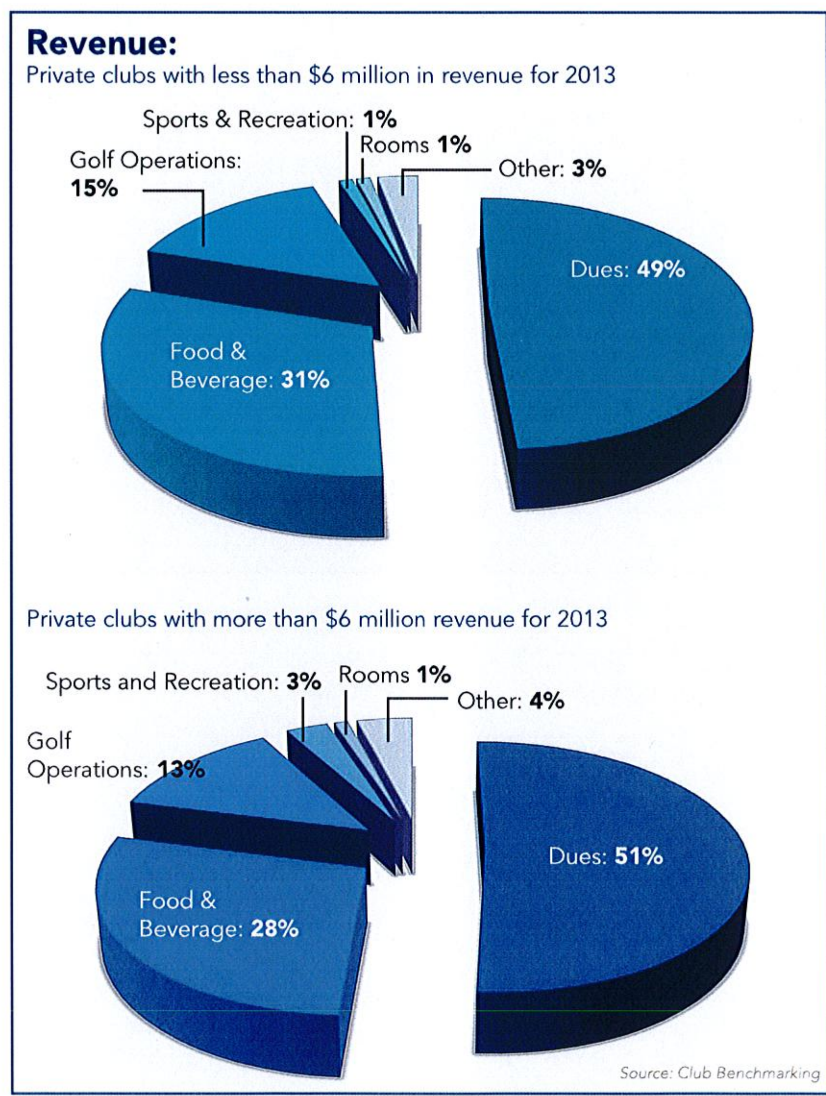
For most clubs, food and beverage is the least profitable part of the business model.

Here's why: A private club's restaurants and bars are not open to the public. The club has a finite number of customers — the club members and their families. Yet the club still has to provide the staffing and menu options as if it were running, say, an Applebee's.

See the problem?

Indeed, Club Benchmarking — which has data from about 1,000 clubs — found that about 75 percent of private clubs either break even or lose money when it comes to food and beverage.

The numbers are worse when you look at "available cash," a term Club Bench-



Private Club Financials

Private club restaurants are normally not cash cows

marking uses for what is essentially the gross profit of the club for different revenue streams.

Food and beverage is not an available cash driver. Far from it, according to a Club Benchmarking finding noted in an article it produced, "The Club Business Model: Revenue versus Available Cash":

"The longstanding debate over F&B profitability is cast in a new light when you consider that, while F&B produces about 30 percent of the revenue in the average club, in 70% of clubs F&B generates no Available Cash. At the average club 3% of the Available Cash is used to subsidize the loss in F&B."

That's right: The average club uses 3 percent of its profit subsidizing a deficit.

The biggest driver of available cash? Well, that would be dues. Dues fees are gold. While they make up 50 percent of the revenue stream, they provides nearly 80 percent of the available cash, Club Benchmarking data shows.

And food and beverage doesn't do as well when it comes to providing available cash as other revenue sources — such as golf operations — even though they are smaller overall revenue sources. Golf operations, for instance, generates around 14 percent of the revenue but 15 percent of available cash. So a club would have a better chance of improving available cash if it concentrated on that area of the club's revenue stream.

Club Benchmarking is an online benchmarking platform that crunches numbers for individual private clubs, allowing them to compare themselves with the industry as a whole or selected peer groups. Its various filters and reporting tools give clubs ideas on how to make adjustments and plan strategically. For instance, the median revenue from dues for clubs with golf is $3.14 million. If your club is at the 25th percentile — $2.16 million — a dues hike may be something to consider.

Or maybe not. It actually depends on a host of variables. (As said, it's a quirky business.)

"Rather than looking at any one data point — like dues or F&B revenue — in isolation, our goal is to put the information in the context of its relationship to the overall business model," said Russ Conde, COO and co-founder of Club Benchmarking.

"We believe the place any club — healthy or not — should start is to look closely at how their club is balanced financially — sources and uses of available cash — and understand which factors are actually affecting that balance," Conde said. "If they are out of balance, meaning their business model is not sustainable, it isn't typically related to an isolated issue like dues. Typically, there is a combination of factors causing the problem."

That's important for a club to realize, he said. Many, particularly during the recession, cut dues to increase flailing memberships, only to see the club unable to invest back into operations and/or make capital improvements. As the club experience suffered, more members left, so dues were cut again. It created a death spiral for some clubs — one that may have been avoided if the clubs had a better grasp on their business models. Other companies that do similar work find similar results.

Philip Newman, a partner with McGladrey, which advises private clubs, said clubs are likely to be run like businesses today, with management and members having a better idea of the fiscal realities and how they relate to long-term strategies.

McGladrey produces an annual report on trends at Florida's private clubs by auditing more than 200 of them. As is the case with Club Benchmarking data, clubs use the information for strategic planning.

And, as is the case with Club Benchmarking, the annual report gets down to the nitty-gritty, analyzing everything from the ratio of employees to members, to delinquent accounts receivable balances.

According to Newman, the percentage of revenue from dues for the Florida clubs (which are member-owned, private ones) is 62 percent — an increase from 52 percent from 14 years ago. And that climb came even though some clubs either held the line or decreased dues during the worst of the recession.

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There's a growing awareness that dues are the primary revenue engines and club operations can be impacted for the worse if that revenue stream is weakened, Newman said.

"You cannot not pay attention to dues," he said.

Transparency is vital when it comes to explaining to membership the reason for the increases.

"When you get to the annual meeting you say, 'Here's what we're paying for,'" he said. "And the money has to come from somewhere."

Inflation impacts expenses, he noted. As the economy improves and the labor market gets healthier, competition for top staff increases. You have to pay more to retain the best employees, he said. Health care costs are an issue.

"You are forced to do more with dues," he said.

In 2013, according to the annual report, 66 percent of the clubs raised dues. Only 6 percent cut them.

Yes, there is a tendency for some members to think that food and beverage could be better managed, he said. And that's because everybody "thinks they're an expert" because they frequent restaurants or know someone in the business, he said.

As the report notes: "Dining operations are also the most discussed, analyzed, scrutinized, criticized, reanalyzed and essentially controversial, while also misunderstood, elements of the club's operations. Simply put, a club's food and beverage operation is not a restaurant."

Newman said his firm likes to say clubs do not lose money when it comes to food and beverage. F&B should be viewed as a key amenity — like the golf course — that needs subsidizing — like the golf course — because the economics of running it demand it.

Take a simple glass of wine. Go to a for-profit restaurant and you get a measured 4-ounce pour. At the club, you'll likely get a more liberal pour. You don't make money doing that, but it's a perk the membership likes, he said.

That's not to say food and beverage can't improve. In some clubs it has and that's helped the bottom line, he said. Some eateries are becoming trendier and offering more bar seating and indoor-outdoor options. Simple steps — such as easing dress codes — can help, he said.

And other revenue streams are helping, such as from fitness centers and tennis clubs. Part of the dues pay for the additions, but user fees are sometimes included and can help bolster revenue. Newman is optimistic about the future of private clubs, given the turmoil they have survived. Indeed, instead of cutting costs — which many had done to survive the recession — they may soon find themselves with money to spend.

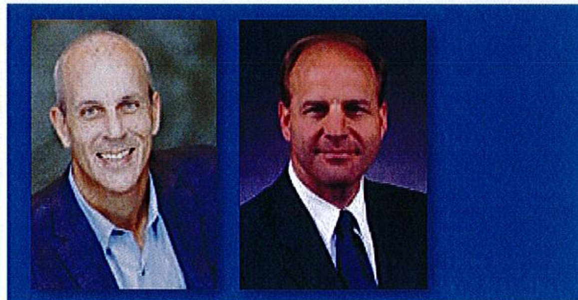
Ironically, that could pose a problem, he said. That's because many club managers have dealt primarily with recessionary management via cost cutting.

"If you start having money to spend, how do you spend it wisely," he said. "That's a whole different challenge."

Editor's note: Golf Inc. will focus more closely on food and beverage expenses in our next issue.

For private equity clubs: choices, choices

BY PETER J. NANULA AND VAN A. TENGBERG



COMMENTARY

Membership in a private equity club has historically been considered to be one of the hallmarks of success. The most prestigious golf clubs in America were generally private equity clubs. It was believed that there were significant benefits to belonging to a private equity club, including the ability to influence management decisions through the exercise of voting power, exclusivity of membership and perceived social status. Of course, there were trade-offs as well, including the ability of the club to assess its members each year for capital improvements, members (who often had no experience) becoming involved in club management and the necessity to have sufficient funds each year (through dues, etc.) to balance the budget. In some cases, it worked well. In other cases, it was a recipe for disaster.

During the time period between 1990 and 2000, a new form of private club emerged and became popular: the private non-equity club. These clubs were generally owned by a large golf company, a wealthy entrepreneur or a developer. Private non-equity clubs ostensibly offered many of the benefits of a private equity club, including a membership cap, careful screening of prospective applicants and all, or substantially all, of the services

	Private Equity Club	Private Non-Equity Club
Debt	Usually no. However, some private equity clubs have resorted to debt financing to sustain operations.	Usually no. As part of the conversion, the owner-operator may pay off all debt.
Assessments	Yes	No
Capital Improvements	Funded by assessments and transfer fees	Funded by owner-operator as part of the conversion, and ongoing
Private	Yes	Yes
Dues	Must be at a level to allow the club to at least break even in operations	Market-rate dues
Membership Fee Refunds	Yes. Members are generally entitled to a designated percentage of the resale price of the membership, less a transfer fee. The resale price may be more or less than the membership fee originally paid.	No. Private non-equity clubs generally offer only non-refundable memberships, and restructure or eliminate prior refund obligations.
Governance	Member-managed	Managed by owner-operator. Member advisory board provides guidance.

offered in a private equity club. However, these new private non-equity clubs also eliminated some of the perceived negative problems associated with private equity clubs, including members becoming involved in management, elimination of assessments for capital improvements and a degree of certainty regarding dues.

Moreover, in many cases, these types of clubs offered a fully or partially refundable membership deposit, which meant the member could receive back all or a portion of his or her membership deposit in the future. The perceived benefits of these private non-equity clubs were many, especially if the club was owned by a benevolent owner willing to spend any sum of money regardless of the impact to the bottom line. As a result, the popularity of private non-equity clubs rose significantly during this time period.

What was once one of the hallmarks of success (membership in a private club — equity or non-equity) had become a financial burden from which there was no escape.

Scroll forward a few years and the golf industry found itself in the middle of an economic recession. This, coupled with an overall decline in the demand for golf, resulted in a perfect storm. With few exceptions, private clubs (both equity and non-equity) experienced an increase in resigned members, a decrease in demand for memberships, an increase in the waiting time on the seller's resignation list, an increase in monthly dues, a decrease in the fee/deposit for memberships and a long list of deferred capital improvements and repairs.

In many instances, private equity clubs continued to raise dues to unprecedented — and in many cases — above-market levels. Unfortunately, when many found themselves in the position when they could no longer raise dues, they took on debt and pledged the clubs' assets and properties to finance deficits. During this time period, private non-equity clubs struggled financially as well, and many found themselves in positions where they could no longer honor their commitments to refund the membership deposits to resigning members. Private equity and non-equity clubs faced foreclosure proceedings and some filed bankruptcy. Members were left in a quandary. What was once one of the hallmarks of success (membership in a private club — equity or non-equity) had become a financial burden from which there was no escape.

Private clubs and their members began to question the future. The private equity club model is clearly the right one for many prestigious, historic clubs with long waiting lists of prospective members, large capital reserves, strong management, a rich history and geographic barriers to entry.

The question then becomes: What about the thousands of other private equity clubs in America? Does it make sense for them to fight to preserve their tax-exempt statuses and remain as private equity clubs? Some have concluded yes and have continued on their current paths or have retained professional management to take over operations. Others have concluded it is no longer worth trying to preserve their tax-exempt statuses and have sold the club assets and properties to separate owners in exchange for debt-free capital structures and committed capital projects. They've converted to non-equity private clubs. Some of the pros and cons of this decision are outlined in the chart on this page.

The decision to convert from a private equity club to a private non-equity club is one that requires the careful weighing of all of the facts and circumstances. Just as no two clubs are alike, each club must decide what is best for its members and take the steps necessary to ensure its long-term viability and success. ●

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