# Smart Choices Drive Sustainable Change

By Rick Coyne

**GROWING UP, AS A TEXAS AGGIES FAN I ALWAYS REMEMBER A JOKE ABOUT TWO "AGGIES" THAT WENT TO THE SAME MOVIE OVER AND OVER AGAIN, EACH TIME HOPING THE ENDING WOULD CHANGE.**

Ultimately, of course, the ending never changed. For our industry, however, unless we find the courage to make smart choices, the ending may be just as clearly certain.

For four decades now, I have been deeply engaged in helping clubs and communities make simple but smart choices to improve performance and better understand the factors and processes affecting their ability to succeed. For some, the message resulted in survival and evolution to new relevance. For others, the message simply provided background noise to personal bias and opinion, resulting in continued decline and even death.

Market conditions have changed from the "good ol days" when golf was king and money was no object, when leisure time was plentiful and the "me" generation was "riding the crest" and when Dad made the decisions and Mom was dutifully engaged with the kids. Life was very different then, indeed.

Then came a very high concentration of golf construction, the majority of which was open to the public, creating abundant opportunity to play the game, but also significant competition to the private club, eventually saturating the market.

The 1990s tax reforms affected company executives' memberships and forever altered tax breaks on membership and entertainment. The easy money of the 80s gave way to recession and many families found it necessary for Mom to find a job, as well as Dad.

Family time became a priority and leisure time, a commodity. Mom's role in the family decision-making increased and today she makes over 85 percent of discretionary buying decisions.

As market share diminished, clubs reacted in myriad ways. High debt became common, as clubs thought capital expansion to bigger and better would reverse the trend. Initiation fees continued to rise, despite indicators that time and money were key relevant factors in the decision to join and remain a member.

So, now we hear that the industry is in trouble, which to some of us is not really 'new' news at all. Others have exhaustively chronicled statistics about consistently falling golf participation, plummeting home prices and the difficulty of maintaining the membership portfolio. Incredibly, some clubs have even maintained (and made decisions) on the premise that things will go "back to normal" when the economy improves.

There is one glaring problem with this statement: ***There is no back to anything!***

The future's not going to look anything like the past, for most private clubs. There are simply too many differences in today's member pool, including lack of leisure time, cultural differentiation, family centricity and the general need for a "total" lifestyle experience.

While price will always be a factor, value and relevance to lifestyle is the new barometer for a member's willingness to stay and a potential member's willingness to join. If you don't offer what consumers want, they simply won't buy it, no matter what the cost.

Now, after 40 plus years of due diligence and research, I reluctantly conclude that the current singularity of club offerings has driven clubs to life cycle stagnation and, as an industry, we have ceased the necessary evolutionary process to make our clubs relevant and necessary to members' lifestyles.

This observation is predicated on a failure to recognize market realities and adapt clubs into relevant lifestyle environments…a failure that falls not only on the club's leadership, but on industry leaders and consultants as well. The truth has never been hard to find, if you wanted to find it.

Yet, as negative as this all may sound, there is an absolutely simple formula to improve any club's situation and enhance chances for long-range sustainability. Best of all, it costs very little except for an investment in reality.

Here's a few practices that seem easy, logical and simple, but which have proven very difficult to implement at most clubs:

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1. Define and understand your club's very finite marketplace, the population, the ages, household income, net worth, family make-up and needs. This is primary to any business in order to understand the depth of market, what the market wants and what it can afford.

2. Cross reference members' needs against potential member needs using marketplace demographics. Most clubs fail to match up their programming to the needs of their market place. Use member surveys that offer responses by demographic segment, i.e. age and family make-up.

3. Don't allow the vocal minority to drive perception, activities, capital improvements and programming. Listen to the majority. Look at the member demographics over the past seven to 10 years. That's where you need to be driving change, not through diminishment; seek inclusion.

4. National organizations try hard to increase participation in golf, tennis or other activities endemic to your clubs. Grass roots starts in your backyard, with your department heads.

5. Imitating the neighboring or competitive club that's experiencing the same problems as you are, seem more like a lemming following one another off the cliff. In any business, due diligence, objectivity and commonsense drive leadership toward a reality-based set of solutions. What makes you think the club business is any different?

6. Discounting may sometimes be necessary, but should be predicated upon your market, not knee jerk reaction. Core issues are generally the reason members are leaving and new members aren't coming in. Simply applying a lower price to something nobody wants sets up nothing more than a revolving door, damaging your integrity, capital sourcing and your ability to survive. Price is a function of market…know your market well.

There is really nothing we can't change within our clubs except market demographics. With few exceptions, this means that we can alter our market position becoming more relevant to the membership pool, increasing growth, enhancing retention and increasing usage and satisfaction.

The only qualifier is that we can't make this change using the same path that put us here in the first place. We must change!

***Think about this…***clubs have created their community perception based upon what they perceive to be the "primary" asset. Even with all the other amenities that members want, if members see capital expenditures, programming and events all manifesting primarily around a singularly promoted purpose, this becomes the club's brand.

As an example, with golf on the decline and women making 85 percent of discretionary buying decisions, is it a time to re-emphasize or de-emphasize golf? The answer is not half as important as understanding the importance of the question.

Most clubs offer a 360-degree spectrum of assets and amenities, but fail to emphasize them uniformly across their 360-degree demographic range of members and lifestyle needs.

The first solution is driving a 360-degree spectrum of diagnostics to objectively understand the member pool's wants and needs, based upon their specific demographic segmentation. Here are some basic diagnostics essential for full discovery.

- Evaluative diagnostics
  - Demographic overview
  - Member survey
  - Historical trend analysis
  - Systems and communications analysis
  - Team readiness analysis

Once you have this objective overview the next steps can be considered…

- Reposition design
  - Repositioning in accordance with your specific market age, family make-up and needs
  - Potential redesign of categories, pricing and programming
- Implementation
  - Deployment of team-driven solutions
  - Collaborative communications strategy
- Maintenance
  - Re-applying learnings
  - Continuity through a living strategy

*There is really nothing we can't fix!*

But there must also be a change in reconfiguring responsibility and accountability. No matter who you are within the organization – volunteer, department head, manager or line staff – each must find relevant ways in which to address market related factors.

Shorter time spent at golf, engagement of the non-playing spouse, engagement with the family all geared toward increasing member growth, enhancing retention and increasing usage and satisfaction, is absolutely essential.

If you can visualize the club as a 360-degree environment, it is very clear that we cannot survive by using only 180-degrees of our capability, opportunity or professional staff. Clubs exist for only one reason, members.

Accountability for growth, retention and usage/satisfaction cannot be relegated to a part-time committee, a single membership professional, an annual membership drive, individual departments operating as silos or on guesswork. Directional clarity must be defined through diagnostics and objective strategy, implemented as a team process and based upon meeting the needs of the majority of members as well as the next generation of members.

Not all clubs are at the crossroads of the fiscal cliff and/or opportunity? Some are doing just fine. Others may be there sooner than they'd think or like. It doesn't really matter as long as you know which smart choices to make to be where you need to be. I know the smart choices. Do You? **BR**

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# State of the Industry
# A Growing Optimism!

By Dave White

**WELL, IT'S CERTAINLY A MIXED BAG FOR THE PRIVATE CLUB INDUSTRY, AS 2012 AND ITS TURBULENT HISTORY FADES INTO MEMORY. SO WHAT DOES IT MEAN FOR THE FUTURE?**

While the industry remains challenged because of a combination of social and economic factors that show few signs of abating any time soon, there are some economic indicators suggesting opportunity within the industry.

"The economy remains uncertain because of macroeconomic events in the developed countries and pending governmental policies here in the U.S.," explains Frank Vain, president of the St. Louis–based McMahon Group.

"The affluent and entrepreneurs that comprise a large part of the club memberships do not have the clarity they need on personal and corporate taxes, the continued rollout of Obamacare and other elements of 'the fiscal cliff' to spend with confidence. Without a robust national economy, it is difficult for clubs to grow and prosper.

"We stand by our position that the Great Recession did not cause the woes clubs have faced the past few years, it only accelerated the changes that were already taking place," Vain explained. "Private clubs have faced an issue of relevance for over 20 years and this was laid bare when the economy collapsed."

Vain also alluded to the fact that "individual clubs are impacted by the state of their local economy and the competitive set of club in their marketplace. We continue to see a consolidation of memberships taking place and the dissolution or sale of the remaining clubs in the marketplace.

"The number of member-owned private clubs continues to decline and they face a patchwork quilt of competitive alternatives. They also face a society that no longer celebrates exclusivity and privacy," Vain added.

"There are some important trends that we must consider today," says John Fornaro, CEO and publisher of *BoardRoom magazine*.

"I'm continually receiving information about clubs that have filed Chapter 11, in bankruptcy court or about on golf courses that have closed. Why remains the unknown?

"No doubt the economy has had something to do with it affecting some of the decisions that have been made, but ultimately there's a cancer that's been in the private club industry for too long now, which we haven't addressed. There are some telling trends," Fornaro explained.

• *Fewer golfers are playing the game.*

• *Fewer young people, particularly those in the 30-40 age range, are not putting clubs on their list of things to do. They don't see the value in joining a private club.*

• *Club dues are getting higher, growing continually, higher and faster than inflation and this becomes a burden for some members.*

*The one bright spot is the fact that initiation fees have come down and there are still some great deals at some clubs throughout the country.*

• *Older members are not staying at clubs as long as they used to. In the past, clubs could rely on older members staying…forming that critical, loyal base. Now many of them are saying, 'A club membership is something we don't need any more.' A loyalty that was there, no longer exists, because the value proposition isn't there for them any more.*

*The average age of club members is climbing…even a couple of years higher than two or three of years ago…that could be economics, or again the value proposition, or the fact there are many other things for people to do, or on which they can spend their money.*

• *There's a rise in lawsuits – members are suing members, members suing boards, the clubs etc. There's an increase in harassment suits, and it seems much of this comes because boards are maybe not realizing their fiduciary responsibilities. There's a greater need for board members to know and understand their roles and responsibilities to help prevent these incidents.*

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"The industry is a mixed bag – for those clubs that chose to cut services and team members, they now have a long way to rebuild to keep the club viable and inviting for their members," lamented Crystal Thomas, CEO of Clear Concepts, an industry consulting firm.

"Member loyalty is not as strong and if there is a better opportunity that comes up, for the most part, a member will take it."

Vain reiterates this point. "The club industry is increasingly bifurcated among the haves and have nots. The middle of the market continues to shrink as the top members in these clubs move up to clubs they once couldn't access because of waiting lists. As waits decline at the top clubs, they reach out to prospects in the marketplace – almost all of whom are already members somewhere – and create vacancies in the mid-tier.

"The remaining clubs continue to spiral down as smaller memberships mean higher costs, spurring on more resignations and smaller memberships. These clubs are in a race to the bottom as they cut fees and offer unsustainable incentives to current and prospective members.

"Only the best positioned and maintained clubs will succeed in this environment," Vain predicts. "Members want quality and value and they are seeking out clubs that provide this magical combination. Clubs must change their business model and adopt practices and programs that are responsive to the economic and demographic environments they face.

"It is a buyer's market," Vain says, "so they (clubs) must become sellers of memberships and offer experiences that people want. This is largely a game of holding the status quo on the 60-plus age group and responding aggressively to the desires of the up and coming generation of members."

The National Golf Foundation in a recent report suggests the private club membership is finding a 'new normal', and that it's still desirable to golfers.

"There's no doubt that the recession forced many private golf club members to take a serious look at the dues they paid, relative to the number of rounds they played at their club. Even in good times, the thought of dividing annual dues by the number of visits would trigger an ostrich-like denial: 'I just don't want to know,' " the report stated.

However, it does suggest, "many of the two million-plus golfers with memberships in private golf and country clubs continue to be willing to overlook high cost-per-visit numbers. This is likely because they believe the costs are outweighed by the inherent benefits: exclusivity (Groucho Marx famously said he'd never want to join a club that would accept him as a member), *convenience to home, better conditioning, high-end amenities, dining/socializing, family time, faster play, business/community networking and prestige,* among them.

"It's only logical that when job security and personal financial health came under recession-driven threat, pressure on discretionary spending ramped up. Such dynamics forced many golfers to reconsider how club memberships fit into their lives, and their finances. Some resigned their memberships," the NGF report stated. NGF research indicates about 17 percent of core golfers hold private club memberships.

So while some major issues persist, there are reasons to be optimistic.

"Economic indicators are the strongest since March 2007 and it is creating great opportunity within our industry, " says Jim Singerling, CEO of the Club Managers Association of America. He attributes it to these facts:

• *American's paychecks in the first half of 2012 grew at the fastest pace in five years, according to The Washington Post. Wages and salaries for all employees increased at a 4.8 percent annual pace after adjusting for inflation, the most since March 2007.*

• *Same-store sales for July meaningfully exceeded expectations at both upper-end and moderate-priced retailers. Macy's grew 4.1 percent (3.2 percent was projected) while Nordstrom posted a 0.9 percent gain to beat an anticipated 2.7 percent decline. Other positive movers: Saks, Inc. (3.5 percent), Limited Brands (12 percent) and Costco (8 percent), Target (3.1 percent). Kohl's (up 1.7 percent) reports sales of men's apparel were its strongest category for a second consecutive month.*

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**~ Jim Singerling**

That said, Singerling feels the "last five years have had long-lasting effects on our industry.

"It is imperative that we continue to innovate and operate with long-term stability in mind. One area in which our industry needs to grow is multicultural diversity.

The club industry Singerling added, "must begin to explore the economic opportunities of serving the 'US Multicultural' population whose combined 2012 GDP of $3.5 trillion represents 22.4 percent of the United States GDP and is larger than the economies of Germany, France and the United Kingdom.

"We need to explore the effectiveness of presenting golf participation, products and services in a culturally relevant manner including the presence of diverse professional and other customer-focused staff at American's golf facilities, and how to leverage golf's family values, health benefits and life skills, which appeal to multicultural moms in order to expand the reach of the sport of golf," Singerling outlined.

"Certainly clubs can't control the general economy and their successes will be tempered until there's an increase in economic activity, an 'uptick' in consumer confidence, a change in club governance structures that's more responsive to the times and a club's members, programs and facilities that meet the requirements of today's members," Vain suggested.

"The rationale for change is often swamped by a governance structure not responsive to the times. Clubs must update their governance structure so that the leadership can spend their time analyzing their marketplace and business model and make decisions that are in the best interest of the organization as a whole, not the vocal minority," he opined.

"Club managers must lead this process by educating their board about the environment and the many success stories that are out there. Boards must become better informed and more proactive agents for change. There needs to be greater continuity in thinking and a process to work toward well-structured strategies and goals over time.

Vain says, "clubs can control a lot of their success by responding to the desires of current and prospective members." He includes several factors.

• *Have a market based initiation fee and dues structure. Individuals, not companies, are now the primary financial supporter of club memberships, so there is a much greater emphasis on value than ever before.*

*Fees and dues must be justified by the economic environment and competitive set of clubs in the marketplace. A problem is that many clubs continue to view their fee as their brand, when it is really the other way around – the membership process and the quality of the membership and the experience, along with the state of the general economy, determine the fee structure.*

• *Provide facilities and programs that respond to lifestyle trends in society. Members want their club to be fun and active. They can only justify membership if they are using the club regularly, and if they have children, that they are participating also.*

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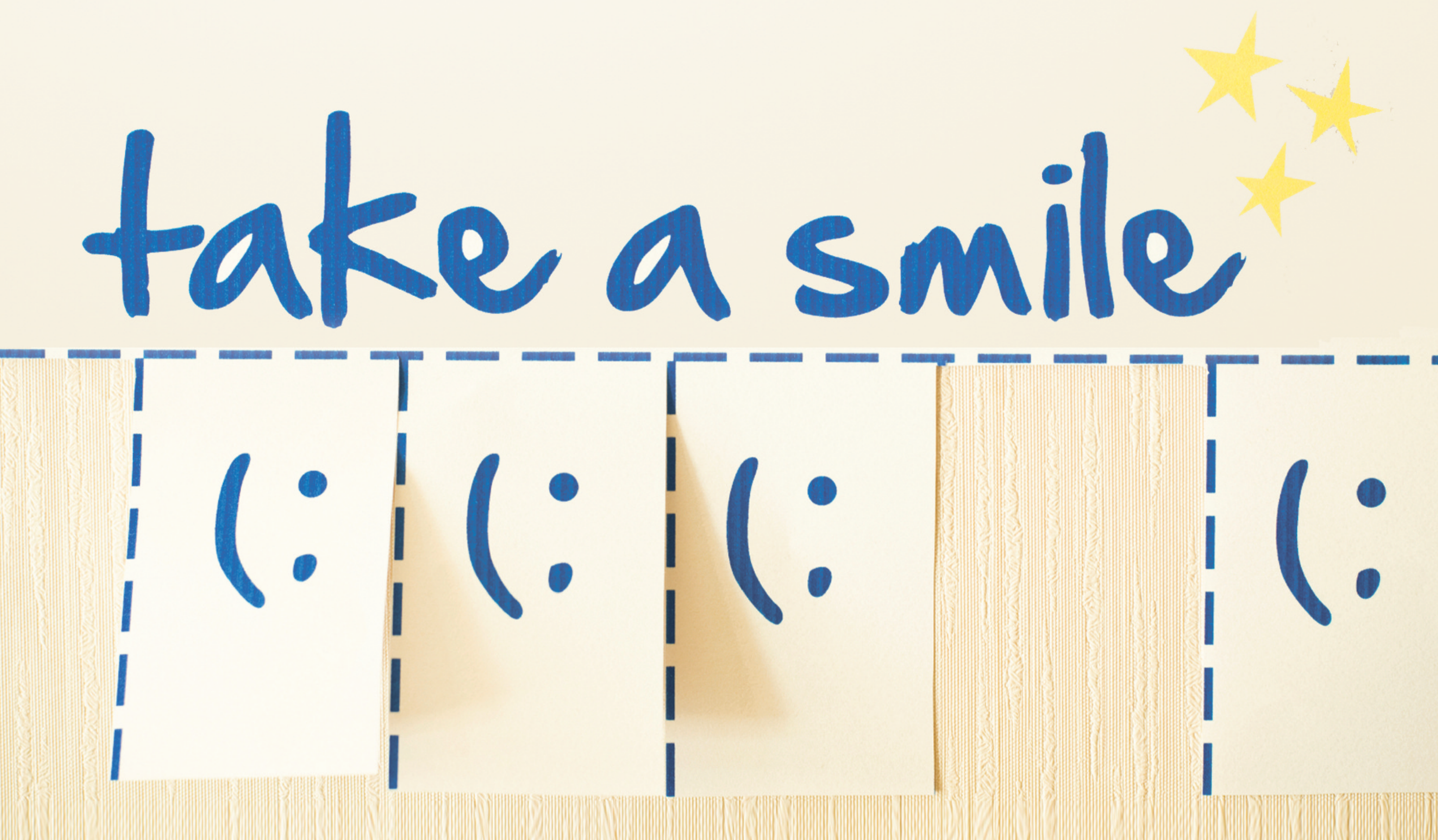

*• Rethink the membership plan and cap. Scale is important and larger clubs prove again and again that they are able to offer higher satisfaction and value.*

*Stratified membership plans with more categories for less than full members can add much needed revenue and serve as an incubator of full members. Small clubs have an increasingly difficult time fulfilling the broader demands of current and prospective members. In almost all cases, larger clubs with great locations are winning and the small and narrow ones are fading away.*

In Crystal Thomas' opinion, the major issues "are board and leadership related. Ensuring that there is a strong plan in place to move forward and having everyone in agreement is imperative. Clear direction must be given and inspired action must be taken."

Yes, there are reasons to be optimistic, but also requirements to be realistic.

"People have belonged to clubs since the time of the Greeks and they continue to value the associational benefits of membership and the access it provides to special facilities and programs," Vain explained.

"The desire to belong to clubs remains strong and we see many successful clubs throughout all regions of the country. The reality is that membership is not for everyone and we are pulling back from the heyday of the 1990s when there was an expectation that more clubs were needed to serve the Baby Boom population as they aged. Reality has sunk in, and there is a realization that club membership is affordable and desired only among a small percentage of society – something like two percent of households," he commented.

"We are also optimistic because there continues to be a good response in the marketplace when clubs invest in facilities or alter their membership plans to conform to time constraints and lifestyles. Clubs that are succeeding are inviting to women and families, they address demands for health and wellness facilities and programs and they engage members through effective programs.

"Members want to support and use their club, and these approaches provide the stimulus needed to bring them out. People want to belong to clubs, but only those that fit their lifestyle.

"At some point it is reasonable to assume that the U.S. economy will turn around and the marketplace will return to a state of equilibrium. This will leave us with a club market that is about 15 percent smaller than it is today, but one…in tune with lifestyles and appropriately sized so that a sufficient number of members is supporting each of the clubs," Vain opined.

Tarun Kapoor's words are succinct. "These are tough times because as the economy has dragged, many clubs are losing their ability to survive.

"When the checkbook is tight, governance is tested, capital budgets shrink, repairs and improvements get shelved, staff gets laid off and membership criteria gets diluted."

His solutions? "Sustainable governance through collaborative governance, careful budgeting and a sound membership recruiting plan that does not dilute the club's culture," related Kapoor, BoardRoom Institute's dean of education and partner in Kapoor and Kapoor Consultants, Inc.

Professional managers give Singerling reason to be optimistic. "Professional managers are more educated and more respected than at any time in the 85 year history of the CMAA. These leaders are equipped to handle the challenges and opportunities of 2013," the CMAA's CEO added.

"The club industry is shrinking and it is challenged. It is not dead," Vain declared.

"Club leaders must avoid the temptation to throw up their hands as if all is lost. There is always room for innovators in any market. Clubs that challenge the resistance to change in their membership and forge ahead with a multi-front strategy featuring proactive membership marketing, a fun and engag-

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~Frank Vain

ing the event and how she would like to modify the line up as I guide them down the aisle that day. I cruise the building again and making sure we are prepared for the groups arrival from the course. I also note the dinner reservations in the Grill Room and attend the pre-shift meeting for that night.

Our assistant GM is running the show because our F&B manager is on maternity leave. I impart a few quotes to energize the team for the busy shift ahead. The cocktail hour has begun for the golf group so I help take names and numbers at the bar for the staff so they can focus on serving the members quickly. Dinner goes off with a few bumps.

We have a couple of special requests in the dining room and I'm recruited to open some wine at a few tables. As things subside I grab a plate of vegetables for dinner. It's 9 p.m., and head back to my office to revise my work list for tomorrow and the rest of the weekend. While leaving I check once more with the locker room staff and there are only a few members left watching a ball game. A good day and *it's 10:30 p.m.*

The day-in-the-life isn't fictitious it happened recently. The concern I have and the question I ask is this: How many of the young interns I mentored this past summer will make it to a manager's position and be able to work the 'days of demand' like this?

Nine hospitality youngsters attended our program this year. I don't see any of them staying for this kind of day. Don't get me wrong; they were all super interns, probably one of the best classes of interns ever! However, the problem lies in our work/life balance: Who will put up with the 'days of demand' in our industry? Who will remain to lead on? **BR**

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ing membership experience and regular facility enhancements will find rewards."

Industry enthusiast Gregg Patterson, general manager of the Beach Club of Santa Monica offers some optimistic thoughts.

"I don't see "doom and gloom" on the horizon but sparks flying as 'the troubles' – the economy, time cramp, promotional clutter, competition, over-built, etc.etc., stuff I hear managers and owners moaning and groaning about – have inspired a level of creativity that's a joy to behold.

"What an opportunity to 'go deep' into clubdom, for board and managers to explore the first principles of 'club', to examine once again why it is that we do what we do to create this thing called 'club.'

"What an opportunity for managers, to find answers to 'the troubles' and to guide their boards, committees, members and staff toward answers that'll make 'the troubles' seem like 'opportunities,'" Patterson enthused.

"What an opportunity for clubs, to use 'the troubles' as a lever to try new and different, to invest time, energy, resources and imagination in areas considered sacrosanct and untouchable.

"What an opportunity for managers, to leave the COO hat behind and crown themselves as Philosopher Kings, to *Do Philosopher* and examine the First Principles of clubdom and to *Do King* and find the 'how' of turning vision into reality.

"What an opportunity for leaders to start leading, because leaders flourish when times are tough, the challenges are overwhelming and chaos reigns.

"These are the greatest of times," Patterson opined. "There are 'troubles aplenty.' Opportunities have arisen. The door has opened for bold and fresh, for wild and crazy, for a new level of exploration and collaboration.

"For those clubs who've embraced the opportunity to change, to explore, to 'do club different', there's cash in the bank, waiting lists to get in and a buzz in the Grill! As activist managers like to say…let the adventure begin!!!"

So where does all this put us?

"It's my belief that private clubs are necessary and important in our society today. There's a need the 'home away from home', that 'town central' where there's a feeling of comfort and safety and a member experience that everybody needs," opined Fornaro.

"It's important that we connect with members, making sure that when people join we're connecting with them. It's so important, particularly in that first year that we make new members 'feel at home'…that the club is a welcoming place, and that we connect with them, because this is absolutely necessary in 'developing our roots.'

"We're finally realizing this is also about structural not just economic issues. We must focus on usage of the club by our members, a great member experience, and retention of our members, as much as recruitment.

"Clubs are starting to realize that their product isn't just about buildings (i.e. city clubs), the golf course or the slips at yacht clubs. It's about creating value and member experience.

"That's what clubs are talking about…creating 'value' and an outstanding members experience. And that's what we need to do." **BR**