



JOHN G. FORNARO
PUBLISHER, BOARDROOM
PRESIDENT & CEO, APCD

Don't Waste This Great Recession!

THE WORLD HAS BEEN FACING A WOEFULLY ECONOMY FOR A COUPLE OF YEARS NOW, AND THE IMPACT HAS BEEN FELT BY THE PRIVATE CLUB INDUSTRY. THERE HAS BEEN SOME READJUSTMENT...SOME REALIGNMENT, BUT WHAT DO PRIVATE CLUBS DO NOW?

To be blunt, there are opportunities for private clubs when faced with an economic downturn, it just that we have to search them out.

Great clubs can be even greater when confronted with a crisis that forces decisions because a tremendous sense of clarity and urgency can come from facing disaster.

It's in these moments of truth that the 'cream' rises to the top!

Certainly there are many negatives associated with a recession...people losing their jobs, their homes and many corporations making adjustments to survive in the 'new' economic order.

Well, the fact is, according to industry guru Frank Vain, "the recession is certainly a big part of the story impacting private clubs, but the larger reality is that the number of member-owned private clubs in the United States has been declining for 20 years.

"This includes the booming economic periods of the 1990s and mid-2000s, so their demise can't be solely economically driven," Vain explained. "While some clubs have overspent (or spent without doing their research to define exactly what to spend resources on), more clubs have expired from their failure to respond to demographic and lifestyle issues that those who have lived beyond their means.

"A factor affecting clubs is that the joining decision has transitioned from the business and male dominated orientation of the past to an at-will decision by the person/couple deciding if the after-tax expenditure they will bear in dues, fees, etc. creates sufficient value.

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~ Frank Vain

Many in our industry predicted that one day clubs would have many of the issues they face today...but, it seems clubs weren't listening. The result: a number of private clubs that have gone the way of the do-do bird.

So if a great recession brings opportunities, what are they? No question it's a learning process to discover the opportunities. Are clubs listening and looking or hiding behind their shields of economic woes?

"U.S. society no longer focuses on symbols of affluence, which creates a new paradigm for club membership."

And that's a new reality!

There is some general consensus among industry experts that clubs have been spending beyond their means, without really know what and how to spend their money on.

"Too many have been living beyond their means for years," opines Bruce Williams, the principal of Bruce

Williams Golf Consulting and Executive Golf Search, based in Manhattan Beach, CA.

“Expectations of Augusta conditions with moderate budgets can lead to disaster. The best thing any club can do is match their budget to their maintenance standards and provide the best golf course the membership can afford.”

And the implications seem even greater for those clubs also based around real estate communities. To wit:

“The national recession has hurt the club industry both in the decline in real estate values for residents in those communities where club membership is mandatory and through the reduction in new memberships from prospective members even in clubs who do not have a residential component,” explained Michal McCarthy, CEO of Addison Reserve, a private upscale community in Delray Beach, Florida.

managed to continue on an upward swing with the continuing development of amenities for its members.

For Tarun Kapoor, managing director of Kapoor and Kapoor, and also BoardRoom Institute's dean of education, the answer is both “yes and no.

“Yes, because the recession has hurt the average consumer. As a result, many members have quit their clubs. This is understandable because when family cash flows tighten discretionary purchases are eliminated first.

“No, because when members quit, the club's cash flow takes the hit. The impact of the loss in dues could be avoided had the industry operated under a more nimble and flexible budget-cash flow model.

“Alas, the industry has not. It largely has operated under a fixed budget concept where the monthly dues are determined based on the overall cost of delivering the club's portfolio of amenities and services.

“To make matters worse, many clubs also practice annual assessments when the budget does not balance.

“The way that many clubs responded to these so-called recessionary times was to follow the “cut-cut-cut” model. That works for a short period of time, with everyone running on adrenaline, but that is a band-aid, very short-lived solution. The model that works best is the revenue creation model, while shoring up any deficiencies in efficiency.

~ Crystal Thomas

“By definition, recession, a significant decline in activity for an extended period of time, has lessened the expendable dollars for those in society who are traditional club members and for those who may be the future club member.

“The tightening of money has created a cautious environment for the buyer that has caused hesitancy in the expenditure of funds for “luxury” items such as the added expenses associated with club membership. In addition, many clubs have not structured their business plans in a prudent manner over the years. That has resulted in exorbitant spending in lean times.

“Inefficient spending patterns are not so detectable when ‘all is well,’ but those same patterns can cripple an organization when revenues suffer,” explained McCarthy, whose club during the recession years has

“So when you ask whether clubs have been living beyond their means, it feels that way because clubs have always offered a full portfolio of services without justifying their usage and/or their cost,” Kapoor explained.

Crystal Thomas, principal of Crystal Clear Concepts, a couple of years ago lamented the fact that so many clubs responded to the recession with a “cut-cut-cut model.”

But the fact is, Thomas says, “We can call this a recession or we can call this the ‘new normal.’ Clubs that are waiting for it to return to ‘how it was’ will never recover, as we will never return to ‘how it was.’

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very short-lived solution. The model that works best is the revenue creation model, while shoring up any deficiencies in efficiency.

“Path one of cutting, cutting, cutting generally comes in the form of team members cuts and member services cuts...and let's not forget about the little 'extras' that some are charging for as well, a slippery slope

coming from *'Fear and Lack,'*” Thomas suggested.

“These clubs experience a loss of memberships, meaning an even further loss of revenue, requiring more cuts. The remaining team members do whatever is necessary to keep their jobs, but the fear they feel permeates the entire club as the downward spiral continues.”

Ah, the dreaded death spiral.

“Members want to go to their clubs

and feel good, not be subjected to the nickel and diming that goes on, and not to get bogged down in the negative energy that too now permeates their club. They can stay at home and listen to the media to feel that!

“Those that chose the adrenaline based cut-cut-cut model are finding that you can cut to zero and that is what you get...nothing! Time to lock up and go home!” Thomas exclaimed.

Clubs have never been managed more efficiently than they are today....The primary challenge is getting the club's governing board to provide the management team with the resources of both time and money to enable the team to participate in educational opportunities.

~ Jim Singerling



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Jim Singerling, CEO, the Club Managers Association of America, agrees some of the difficulties have been created by the way clubs have conducted their business, with some living beyond their means.

But in his opinion, “clubs have never been managed more efficiently than they are today. This is primarily because of the level of industry-specific education that is now available to all members of the management team.

“The primary challenge is getting the club's governing board to provide the management team with the resources of both time and money to enable the team to participate in educational opportunities.”

And in reply to the statement, “To be blunt, there are opportunities for private clubs when faced with an economic downturn, it just that we have to search them out,” Singerling

responded: "I definitely do not think you are being blunt enough here. You do not have to search for opportunities. You only need to open your eyes."

And there are opportunities.

It's all about product and service – those are the two things members want. The recession has been the opportune time for financially healthy clubs to capitalize their spending dollars on improvements, which in turn, attract new members who are looking for value. The younger member is busy, so you must create an environment of 'one stop shopping' so they feel that their club is their home.

~ Michael McCarthy

"If the club has properly defined its purpose, its reason for being and the amenities the club agrees to provide their members, seeking opportunities is fairly easy. You simply implement the plan," Singerling explained.

"The magic is getting the club to define specifically what they want to be to their members. It cannot be everything that everyone wants but what club members are willing to pay for."

Will these opportunities help clubs with member recruiting and retention?

"They certainly will," the CMAA leader added. "You are providing the members with what you promised to provide them. It goes to transparency and fulfilling what the members thought they were going to get when they joined the club in the first place.

"I believe you must have more current and more relevant solutions to the needs and desires of your members than you have ever had before. This can be achieved using the social media available today and used by most members of the club member's family.

"It's easy to find a reason not to become involved in this but I believe it is essential that every operation implement some social media exchange with their members if they intend to remain relevant as we complete this current decade," Singerling commented.

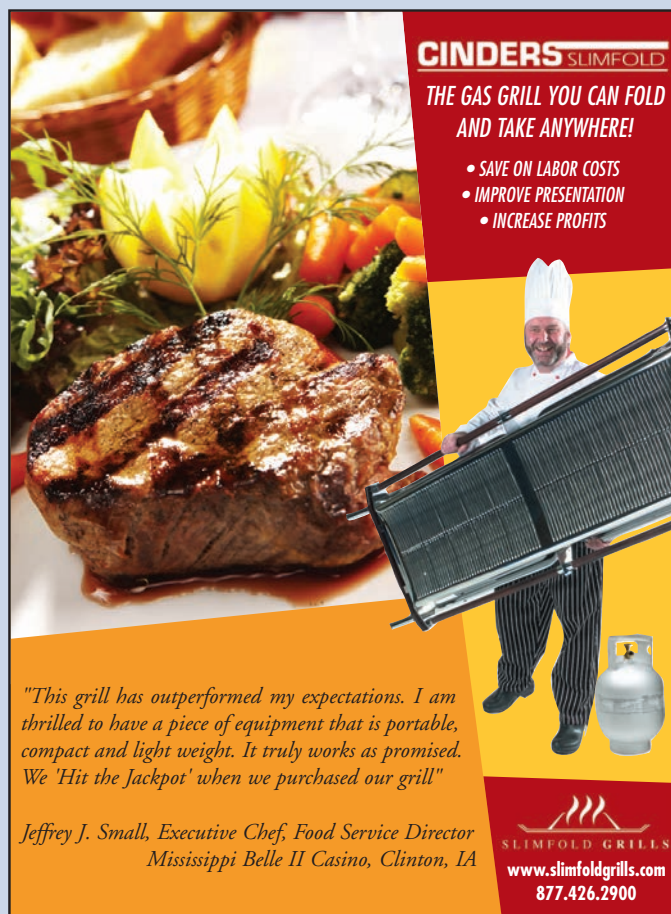
So with the opportunities that exist, is there any 'special magic'?

"I'm not much of a believer in 'magic,' responded Addison Reserve's McCarthy. "As managers I think we have a responsibility to constantly examine our long-term goals for the club.

"Of course, we want new members, we want younger members, and we want members who will spend more time and money at their club. How do we attract those members even in a recession?"

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Club members desire a safe and enjoyable setting to spend time with their friends and family. Only a select few people desire PGA Tour standards for daily play, so boards should work with their green committee to provide a player-friendly golf course that can be maintained with a reasonable budget. Ultimately it is more important to have a club that is fiscally responsible than perfectly manicured.

~ Bruce Williams

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"The younger member is busy," McCarthy explained, "so you must create an environment of 'one stop shopping' so they feel that their club is their home.

"The woman in the household is the decision maker in the home and club membership environment in today's market. She is younger, perhaps still working at least part time, and she is seeking a comfortable and accessible club culture.

"Members want service – they pay a lot for it, they expect it – we are responsible for obtaining and training our staffs. In short, I believe we create the opportunities from within.

"And absolutely these opportunities will help clubs with member recruiting and retention. As prospective members look for 'more bang for their buck', improved amenities will be a huge factor in their decision," McCarthy enthused.

"Now is the time for rightsizing and developing a new normal for golf course operations," suggested Bruce Williams.

"After reducing budgets as much as 30 percent there is little fat left to be cut and we are now sawing on the bones. Realistic budgets should be aligned with attainable maintenance standards.

"Club members desire a safe and enjoyable setting to spend time with their friends and family. Only a select few people desire PGA Tour standards for daily play, so boards should work with their green committee to provide a player-friendly golf course that can be maintained with a reasonable budget. Ultimately it is more important to have a club that is fiscally responsible than perfectly manicured.

"It's time to get lean in our operations. That will surely reflect in changed standards. Those standards need to be communicated to the membership so they do not feel as though conditions have deteriorated," Williams explained.

"Less play and fewer members have created challenges. Creative membership retention and acceptance are just as important as trimming budgets so that expenses match revenues.

"Deferred expenditures for projects and equipment will be catching up with most facilities and it is time to



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analyze a long range plan to protect the golf course as the club's most valuable asset," Williams opined.

In Crystal Thomas' opinion, clubs on Path Two are focused on "the positive, on growth, and on what they can do to create more for members." But she suggests the most successful clubs right now are those of a 'hybrid' model...best practices have been evaluated and adjusted, and the team is positioned to create the best service for the membership.

"This is best positioning clubs to 'weather the storm'. This is a fantastic time for opportunity," Thomas enthused.

In Frank Vain's opinion, the club's board of directors must take the bull by the horns.

"The opportunity created by the recession begins in the boardroom. Many of the challenges for private clubs were predicted years before they occurred.

"The near collapse of the economy in 2008-09 has opened eyes and ears of both board and members at-large to act, so it is no longer heresy to try and drive change. In fact, members want it— 'find out what people want and give it to them.'

"They are receptive to programs and facility improvements that create added value. There is now much more of an adapt-or-die mentality in clubs, creating fertile ground for well-crafted strategies," Vain suggested.

"Clubs need to do their homework. This means completing an external marketplace analysis and an internal analysis of their membership to reach fact-driven decisions about the type of club they need to become in the future.

"Private clubs are very location dependent. In fact, the demographic characteristics of a community five miles from your front door will do the most to determine your success. Study it and you will learn what it tells you about the fees, services and physical plant requirements," Vain added.

"Talk to your members in formal (focus groups and surveys) and informal ways to find out what they like or don't like about the membership experience.

"Build on the likes and correct the deficiencies and you will find success. Clubs remain way behind the curve in using surveys and other management information systems to make data-driven decisions about their offerings.

"From a strategic perspective, the chief opportunity continues to be in providing a membership experience that has substantial perceived value across both recreational and social lines. A club needs to fulfill expectations in its key recreational focus area, whether that is

golf, boating, tennis, etc., while also doing well with what we call 'the enhancers', most notably dining and social programs that cause members to interact with one another.

"People come to a club for activities, but they stay members for the relationships," he related.

"Happy, active members remain members and they advocate to prospective members on the club's behalf. Prospects become members because of the club's reputation, location and their introductory experience, most often as a guest of a supportive member.

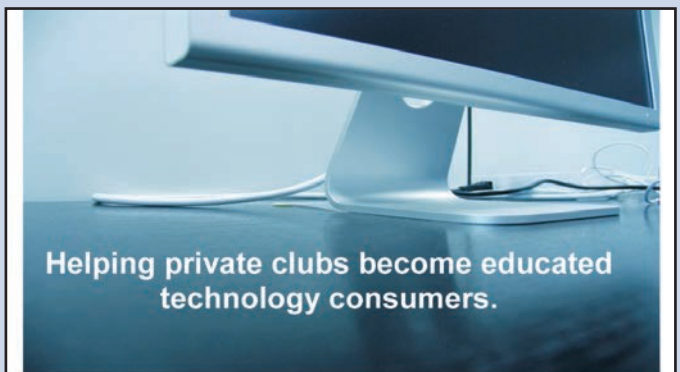
"Additionally, if the membership experience engages both adults in the household or their children, then they are significantly more likely to remain a member.

"It is easy to quit 'his' golf club, it is very unlikely 'you' will quit a club that both adults or the family is using.

"The key opportunity is to make the club the member's favorite place for all things social and recreational.

"The most beneficial ways to invest your human and financial capital are:

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• *Make your club your member's favorite place to dine* – this means you need a warm and socially stimulating bar and grill with outdoor venue. Social connections come through food and beverage participation and food has never been more popular as a connector – see the popularity of the Food Network.

• *Health and wellness* – make your club a venue for wellness. Fitness will continue to grow as Baby Boomers try to remain fit into their twilight years and it is a way of life for the up and comers.

• *Aquatic centers* – a great pool drives family use, which leads to connection and retention.

“This can require capital investment or new programmatic thinking – both are needed and rewarded. They are venues to give people what they want – a fun, family focused gathering place.

“People have wanted to belong to clubs since the time of the Greeks. They will continue to want to do this in the

future. It is the human connection that is at the core of our industry. Membership has been the ultimate social network long before there was Facebook,” Vain concluded.

And this leads to a new business model, espoused by BoardRoom Institute and its dean of education, Tarun Kapoor.

“The biggest opportunity in my mind is for clubs to reinvent themselves by operating under a “new” business model where the club seeks to build and rejuvenate community, honor and nurture sustainable customs and traditions while being nimble, flexible and accountable with amenities, services and costs.

“And that comes through collaborative governance whereby the volunteer board of directors sets and establishes policy for the club, based on what its members want, and then gets out of the way for the paid managers to follow through and make it happen.”

PUBLISHER'S FINAL THOUGHTS

I believe strongly that great clubs can become even greater when a crisis, such as this recession, forces the club



to make decisions. Why? Because a tremendous sense of clarity and urgency can come from facing a major challenge.

When taking action is just an option, it's easy to continue having meeting after meeting and doing little about it.

As we say 'the cream rises to the top', so it's during these moments of truth that the great clubs, no matter what category they might be, rise to the top.

The reaction for some has been to hunker down, play defense and protect what they've got. Acting scared isn't the solution...survival requires action.

It's time we stop pretending we don't have problems within our clubs, because if we fail to recognize our challenges, we will miss the extraordinary opportunity this time presents.

"A bad economy is the test of an organization culture," suggests writer James K. Harter Ph.D. In good times, consumer demands can disguise the lapses in productivity that disengagement causes. But in bad times, there isn't any way to hide the performance problems of disengagement.

The repair process starts with revisiting our strategic and operational plans, and it's imperative to seek out supporters and advisors who can offer have the solutions to many of your club's issues.

Make member satisfaction your number one priority, because without service we don't have a product. Find ways to save money, but that doesn't mean cut, cut, cut to the extent that your members' experience is destroyed. Be prudent in what you do!

During the past couple of years I've had more board members call me requesting advice but their biggest challenge isn't what your general manager does or doesn't do. It's convincing your board members your club has some issues and then convincing them that there are solutions.

Some clubs have been using this recession an excuse for the challenges they face, but it's been my experience that many clubs have talked about their problems many years long before this recession. Unfortunately, many just decided not to act on their issues, as if they would magically disappear.

Today, I believe more than ever, everyone is listening – board members and club members are listening, and they're more engaged.

That means your club's leadership has an opportunity to make the structural changes that are needed for your club's financial benefit.

You need leadership from your GM/COO and you need leadership from your board.

Don't ignore your board members. Provide them with industry information and statistics; challenge your board and remind every director of their fiduciary responsibilities.

Lastly, this is a great opportunity for employees in your company to shine. Explain to them how the economy has been affecting your club in words everyone can understand. Ask them to participate in increasing member satisfaction, and increasing productivity while helping your club operate effectively and efficiently.

And perhaps we can leave the last word to the CMAA's Jim Singerling: "I am still optimist and feel very positive about the condition of our industry. I feel that the opportunities to succeed are better than they have been in the past 100 years."

At least that's the way I see it! **BR**

John G. Fornaro, publisher

If you have comments on this article or suggestions for other topics, please contact John Fornaro at (949) 376-8889, ext. 4 or 105 or via email: johnf@apcd.com

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