

PRICE IS WHAT YOU PAY.

Membership Success:

IT'S ALL ABOUT VALUE

BY LARRY HIRSH



Running a successful club—especially in today's challenging and changing environment—is really quite a balancing act. Most boards and operators are constantly struggling to keep dues and costs competitive (low) while still trying to provide the best services and amenities. The problem is that maintaining low cost while still providing high quality may be very challenging.

This is an age of enthusiastic price competition for most goods and services we buy. The private club business is no different, except that most consumers in this arena are seeking value more than just low price. Unfortunately, with each and every club there is a point at which lower cost invariably means that value provided has been compromised too much, and even with lower cost, members flee. In the chart on page 21, a side-by-side comparison is made for three hypothetical clubs to illustrate the relationship between pricing and value. This chart helps demonstrate how less costly clubs may not only require more membership to survive, but also provide fewer services and amenities.

Rarely does the cheapest club in town thrive, especially in challenging times. The clubs that seem to thrive are those with good value. Sometimes they are the most expensive. Always, they are the

VALUE IS WHAT YOU GET.

— WARREN BUFFET



clubs with quality golf course conditions, well maintained amenities and high quality dining that make members want to use the club. They are also the clubs that typically have the most committed membership and warm, friendly environments, often created by a shared attitude among the membership of supporting and preserving the club.

For a club to be truly successful, it is imperative that it offers stability and value. The membership must also take pride and a sense of ownership in the club, whether member-owned or not.

STABILITY

Membership stability is the cornerstone of any club's success. Especially in these turbulent times, clubs need to ensure that the combination of value and prestige in membership, along with both financial and emotional investment in the club, demonstrate that the experience is worth the costs of membership.

Membership experts often discourage the practice of discounting because it's not usually a long-term, sustainable solution and may contribute to instability of membership. Entrance fees are essential, and in tough times, whether financed, spread over time or deferred, the long-term stability of a club requires such an investment. Members not only need rea-

sons to join, but they also need reasons not to leave. Successful plans vary from market to market and club to club, and it is essential to avoid cookie cutter solutions to unique problems. However, the underlying fundamentals of successful clubs are similar and stability is a most critical element.

VALUE

Today clubs compete not only with other clubs but also with fine dining restaurants, trendy spas and resorts, and fine public golf courses. Clubs also have to compete with family activities like kids' sports, hiking, biking and other outdoor activities, as well as day trips, attendance at sporting events and visits to attractions. Furthermore, whether initiation fees exist or not, club dues represent a monetary commitment that many of the competing activities don't have. The value of a club membership must offset the total costs associated with activities sought by members.

Let's examine the cost of club membership to the family of four with two golfers that eats out for dinner once per week. If typical membership dues are \$6,000 per year (\$500 per month) and the annual food minimum is \$960 (\$80 per month), the minimum cost of club membership is nearly \$7,000 per year.

The average golfer generates about 20 rounds per year, so let's say that as avid golfers, each of our two golfers generates 40 rounds per year for a total of 80 rounds, which is a common number of rounds per membership at many clubs. Let's also assume that each family dinner averages about \$150, and that club members would dine at the club once per month. That would calculate to food costs at the club in excess of the minimum to a total of \$1,800 per year. Add in other costs like locker fees, club storage, tips and occasional drinks and it stands to reason that the minimum annual cost of club membership would be in the range of \$8,000 to \$9,000, which is not atypical for many clubs.

If the same family generates 80 rounds of golf per year at a public facility at an average of \$50 per round (\$4,000), spends \$150 per month eating out (\$1,800) and doesn't have all the other costs of membership, they're spending less than \$6,000 per year for golf and food, not including tips, which may add up to \$500-\$1,000 per year. That leaves \$2,000 to \$3,000 (plus tips) to spend on other things. If the club wants that revenue, they need to provide value for the extra \$2,000 to \$3,000. This is where activities and offerings make a difference. >>>



ABC COUNTRY CLUBS

This hypothetical example compares three clubs, each with a different operating philosophy. Club A is the lower cost alternative, Club B the mid-market and Club C the exclusive, higher cost club in the hypothetical market. In each case, estimates are made based on real experiences and represent typical numbers of members and dues levels for each of the three types of clubs.

Club A, the low cost alternative, is a busy club with 350 members and average annual dues of \$3,000. Typically, a club like Club A would be less formal, have more walking golfers and a very casual atmosphere. The club might also have golf leagues and a more crowded course. In theory, this club would be very sensitive to economic cycles.

Club B works on a model of 300 members with average dues of \$4,500. This club would typically be populated by young professional families and have a more active social program. Club B targets the vast “middle” market and often tries to serve multiple masters, sometimes failing to identify its market effectively.

Club C has 250 members with average dues of \$6,000. This is the club many aspire to join, and while important, price is not a top priority compared to services and amenities.

What is of great interest is that Club C generates nearly as much net operating income (income available for debt service) as Club B with 250 (vs. 300) members, and both generate considerably more than Club A with 350 members. A quick calculation shows that Club A would require 435 members to generate comparable net revenues to Clubs B and C.

In each case adjustments were made to maintenance budget, estimated membership expenditures, average fees and other variables to reflect the characteristics of each type of club. In this example, it is assumed that member expenditures would be higher at Club C and that amenities such as cart usage, pro shop spending and dining would be used more at Clubs B and C than Club A.

At the more price sensitive clubs, members are less likely to rent golf carts or to bring guests. The percentages noted in the example could be considered typical. For instance, at some upscale clubs, guest play percentages may range from 35 percent up to 75 percent, in instances where members invite one or two foursomes of business guests. This also assumes that expenses, such as real estate taxes, management, insurance and reserves would be higher at Club C where the club may own more property, have better facilities and employ more staff.

The point made is that the best scenario for the bottom line is not always simply a matter of gaining more members. There is a vast “no-man’s land” where a club can often find itself short on members and having discounted dues and other prices. Many clubs succumb to perceived pressure, take this tact and find themselves forever swimming upstream as the club becomes crowded and revenues stagnate or even decline.

To many prospective members, it’s all about the value. They want first class practice facilities, quality fitness facilities, child care and more family activities and programs. In order to command extra dollars, the value provided by these kinds of items is essential.

Today’s consumers also demand quality. Not only does the golf course have to be in top condition, but the food and service has to exceed the competition and the club as a whole needs to be presented in a way that members take pride in and want to show it off to guests. Excellence is the only acceptable standard.

This does not mean that every club has to be an Augusta National or Pine Valley. However, once a club identifies its market niche, it needs to do it well. Too many member-owned clubs succumb to club politics and fail to achieve the level of quality demanded by the members and the marketplace. It is this quality and corresponding value that ultimately determine a club’s success in both membership development and member satisfaction/retention. ■

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STABILIZED PROFORMA ESTIMATE

CLUB A

CLUB B

CLUB C

ASSUMPTIONS

| | | | | | | |
|--|--------|--------------------|--------|--------------------|--------|--------------------|
| Total Rounds (estimated) | | 30,000 | | 26,000 | | 19,000 |
| Cart Rounds by % of rounds | 50.00% | 15,000 | 65.00% | 16,900 | 70.00% | 13,300 |
| Guest Rounds by % of rounds | 25.00% | 7,500 | 30.00% | 7,800 | 35.00% | 6,650 |
| Member Rounds by % of rounds | 75.00% | 22,500 | 70.00% | 18,200 | 65.00% | 12,350 |
| # Golf Members (all categories) | | 350 | | 300 | | 250 |
| Average Guest Greens Fee | | \$37 | | \$50 | | \$75 |
| Average Golf Member Dues | | \$3,000 | | \$4,500 | | \$6,000 |
| Average Pool Member Dues (200 members) | | \$650 | | \$800 | | \$1,200 |
| Cart Rental Fee/Round | | \$16 | | \$18 | | \$20 |
| Pro Shop Sales/Member | | \$500 | | \$800 | | \$1,200 |
| Food & Beverage/Member | | \$1,200 | | \$2,000 | | \$2,500 |
| Other Revenue/Member | | \$250 | | \$500 | | \$1,000 |
| Greens Fees | | \$277,500 | | \$390,000 | | \$498,750 |
| Annual Golf Member Revenue | | \$1,050,000 | | \$1,350,000 | | \$1,500,000 |
| Annual Pool Member Revenue | | \$130,000 | | \$160,000 | | \$240,000 |
| Cart Rental Fees | | \$240,000 | | \$304,200 | | \$266,000 |
| Pro Shop Sales | | \$175,000 | | \$240,000 | | \$300,000 |
| Food & Beverage Revenue | | \$420,000 | | \$600,000 | | \$625,000 |
| Other Revenue | | \$87,500 | | \$150,000 | | \$250,000 |
| TOTAL ANNUAL REVENUE | | \$2,380,000 | | \$3,194,200 | | \$3,679,750 |
| <i>Total Revenue/Member</i> | | <i>\$6,800</i> | | <i>\$10,647</i> | | <i>\$14,719</i> |

DEPARTMENTAL COSTS & EXPENSES (INCLUDING COST OF SALES)

| | | | | | | |
|--|--------|-----------|--------|-----------|--------|-------------|
| Golf Course Maintenance (including payroll) | | \$650,000 | | \$800,000 | | \$1,000,000 |
| Cart Maintenance and/or Lease (\$800/cart, 64 carts) | | \$51,200 | | \$51,200 | | \$51,200 |
| Pro Shop COGS | 60.00% | \$105,000 | 60.00% | \$144,000 | 60.00% | \$180,000 |
| Pro Shop Expenses (including payroll) | 80.00% | \$140,000 | 80.00% | \$192,000 | 80.00% | \$240,000 |
| Food & Beverage COGS | 35.00% | \$147,000 | 35.00% | \$210,000 | 35.00% | \$218,750 |
| Food & Beverage Expenses (including payroll) | 45.00% | \$189,000 | 45.00% | \$270,000 | 45.00% | \$281,250 |
| Practice Range Expenses | | \$10,000 | | \$15,000 | | \$20,000 |
| Pool Expenses | 50.00% | \$65,000 | 50.00% | \$80,000 | 50.00% | \$120,000 |

UNDISTRIBUTED EXPENSES

| | | | | | | |
|---------------------------------|-------|-----------|-------|-----------|-------|-----------|
| Administrative & General | 7.00% | \$166,600 | 7.00% | \$223,594 | 7.00% | \$257,583 |
| Management Fee | 3.00% | \$71,400 | 3.00% | \$95,826 | 3.00% | \$110,393 |
| Marketing & Promotion | 1.80% | \$42,840 | 1.80% | \$57,496 | 1.80% | \$66,236 |
| Professional Fees (Consultants) | 0.50% | \$11,900 | 0.50% | \$15,971 | 0.50% | \$18,399 |
| Utilities | 3.00% | \$71,400 | 3.00% | \$95,826 | 3.00% | \$110,393 |
| Repairs & Maintenance | 1.50% | \$35,700 | 1.50% | \$47,913 | 1.50% | \$55,196 |

FIXED CHARGES

| | | | | | | |
|--------------------------------|-------|----------|-------|-----------|-------|-----------|
| Real & Personal Property Taxes | | \$50,000 | | \$100,000 | | \$150,000 |
| Insurance | 1.10% | \$26,180 | 1.10% | \$35,136 | 1.10% | \$40,477 |
| Reserves for Replacement | 1.50% | \$35,700 | 1.50% | \$47,913 | 1.50% | \$55,196 |

| | | | | | | |
|--------------------------------|--|--------------------|--|--------------------|--|--------------------|
| TOTAL EXPENSES | | \$1,868,920 | | \$2,481,875 | | \$2,975,072 |
| OPERATING EXPENSE RATIO | | 79% | | 78% | | 81% |
| NET INCOME | | \$511,080 | | \$712,325 | | \$704,679 |