Private Clubs Quarterly

Inflation, the Economy and Clubs – Oh My

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The private club industry has experienced tremendous growth since the pandemic as a result of people looking to be outside more and seeking safe, community and family activities. With this growth came an influx of cash from the increase in operating revenues, initiation fees and capital revenues, as well as from various government programs such as the Employee Retention Credit.

The pandemic-related growth is unlikely to continue at the same rate given the current economy and possible recession. To weather possible economic downturns, the club must actively work to retain the growth in membership, while also managing cash and reserves to fund improvements despite the inflationary cost increases.

Managing Cash Reserves

Although many clubs have been in a comfortable cash position the last few years, it is important to avoid being too passive with cash budgeting and forecasting. In addition to the cash flow required for operations, it is necessary for clubs to analyze cash needs for capital projects – whether that includes building reserves or obtaining financing.

If your club does not already have a cash management policy, one should be implemented to help avoid a cash crunch. For a policy that is already in place, the club must review it to determine if it is being followed and it still meets the needs of the club as this policy may have been overlooked in recent years. Separately evaluating short-term and long-term liquidity needs and the timing of expected future cash inflows is a great start to developing this policy.

Dues

As a general benchmark, dues must be sufficient to cover around 50% of operational expenses, which now includes the recent inflationary cost increases. If the dues revenue is not sufficient, then capital funds may need to be redirected, or an operating assessment may be needed to adequately operate the club. Falling into this pattern is often difficult to reverse and can lead to significant financial stress.

Total dues income can be increased either by increasing membership, as discussed below, or by raising dues rates which has been a subject of debate in the industry. When the pandemic began, many clubs froze dues because of uncertainty but then were slow to take any action once the demand for club memberships was clear. There may have been several years without the standard 3-5% increase, resulting in increases of 6-12% and in some cases higher, when combined with inflation.

Each club has a unique membership and will need to stress test how much of an increase is tolerable. If the members feel invested in the club and are receiving value from being members, then typically an increase in this margin will not cause significant member attrition.

Balancing: Operations vs Capital Projects

Finding balance between cash needed for operations versus capital projects is often difficult. Consider the following during your cash planning:

- A rainy-day fund can be developed as a simple method of designating cash for unexpected circumstances. This can be funded by designating excess cash from operations.

- A separate capital improvement reserve should be developed by transferring a percentage of capital income and initiation fees into a designated account.

- Clubs may want to consider implementing capital dues rather than large assessments when a capital project is necessary. Members may be more receptive to a monthly payment that they can plan for rather than an unexpected assessment.

- Many clubs are now back to membership waitlists and the waitlist can be monetized. Once a financial commitment is associated with being on the waitlist, potential members will feel more invested which also helps clubs plan for future membership levels.

- Reinvestment is necessary for retention and growth, but it is essential to do so strategically, especially when debt is involved or in an economic downtown. New members do not want to pay for a project that happened 15 years ago and is no longer relevant to them. Although a long amortization term eases the cash flow burden, the project may be outdated by the time the associated debt is paid off.

Retaining Members

It is imperative to consistently impress and exceed members' expectations in order to retain a strong membership, especially since the pandemic restrictions are now over. If a family must cut costs due to various economic changes, the first cut will be discretionary spending such as membership in the private club. To keep their members, the club must provide enough value to justify the cost of membership. For example, the club may be competing with a member's family vacation – does the vacation or the continued membership provide more value?

The healthiest clubs are looking at what they've done to generate the increase in membership and will capitalize on that to maintain their financial status.

Capital Improvements

The physical assets of the club are generally what drives the value to members. A capital budget, including analysis of the related financing options, is necessary to ensure the club has the available resources to continue adding value. Some clubs may even choose to perform a capital reserve study to help guide the process. Monitoring the capital budget on an ongoing basis is essential and should be given the same attention as the operating budget.

Some projects to consider investing in may include:

- Investment in technology can elevate the member experience by providing convenience. Apps are being used to book tee times, view event calendars and much more to navigate the club's amenities. The younger generations tend to spend more time on their phones and they want to be able to manage their club membership through an app.

- Similarly, implementing technology to make dining reservations can be made online – either through the club's website or even though a private version of OpenTable – can improve the member experience. Even if your club does not require reservations, encouraging reservations can help to better staff the food and beverage department which improves cash management as discussed above.

- In-demand clubs are offering more amenities and recreation such as resort style pools and pickleball. The wider range of amenities allows the club to attract a broader range of members. Depending on space, the club can either upgrade existing facilities, such as turning a tennis court into a pickleball court, or building new facilities from scratch.

- Many clubs have invested in golf simulators to use for training and when weather isn't ideal. This is great because the members can benefit from additional practice and it brings them into the club at a time when they normally wouldn't utilize it. The club should always be on the lookout for ways to engage with golfers – remember, better golfers are likely to golf more! Plus, while they are there, they might have a drink or enjoy lunch with other members.

Family Focus

Private clubs must continue working to attract the younger generations and their families. The goal is to be building your granddaughter's club since now, more than ever, entire families are utilizing the club – not just one individual from the household. This goes hand in hand with the capital improvements mentioned above – certain areas of the club may need to be reimagined to create family friendly spaces. Clubs are hosting more family events and creating an atmosphere that is more family friendly.

Amenities that help achieve this goal can include things like features in the pool designed for toddlers, as well as spaces and staff dedicated to babysitting while the parents can enjoy special events put on by the club for adults, such as special dinners/comedy shows. Clubs are also offering kids golf leagues and giving lessons to kids. This brings the family to the club and allows children to learn and play the game alongside their parents. Clubs often have great summer programs for children and the lessons and leagues could act as an extension of a summer camp.

Final Thoughts

Private clubs are coming off a few solid years of member growth and financial stability. With careful planning and forward thinking, clubs can capitalize on these years to create a member experience that current members want to continue to invest in and prospective members are excited to begin.

Reinvesting into the club and creating an atmosphere that attracts families and the younger generation will be the key factor to the longevity and financial stability of the club. Having a strong vision in place, with clear priorities and supporting policies/strategies, will allow the club to meet this goal and overcome any potential downturn in the economy.

Contact Us

We welcome the opportunity to answer any questions you may have related to this topic or any other accounting, audit, tax or advisory matters relative to private clubs. Please reach out to the partner in charge of your account or any of the authors in our Private Clubs team below:

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