

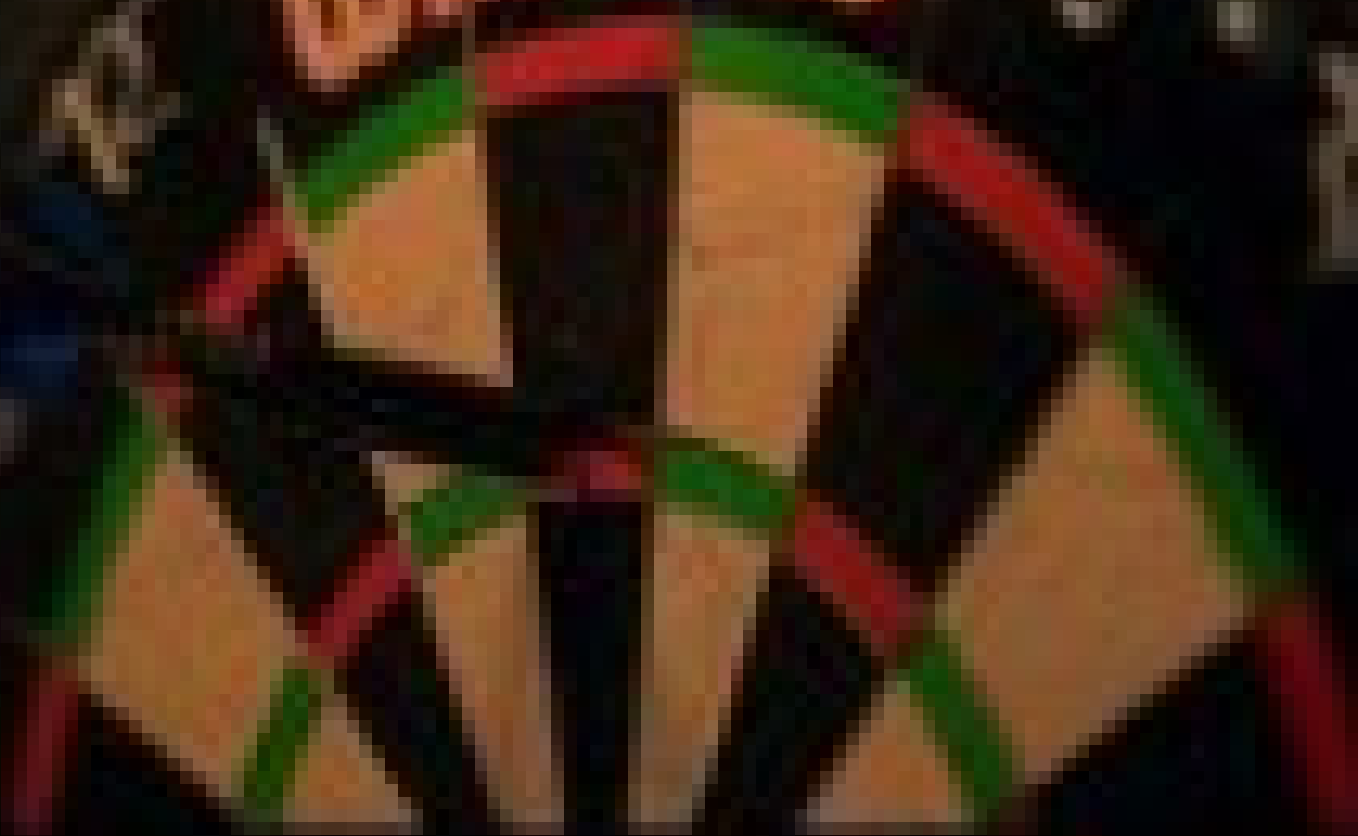
A Data-Driven Breakdown of the Never-Ending Efficiency vs. Experience Debate

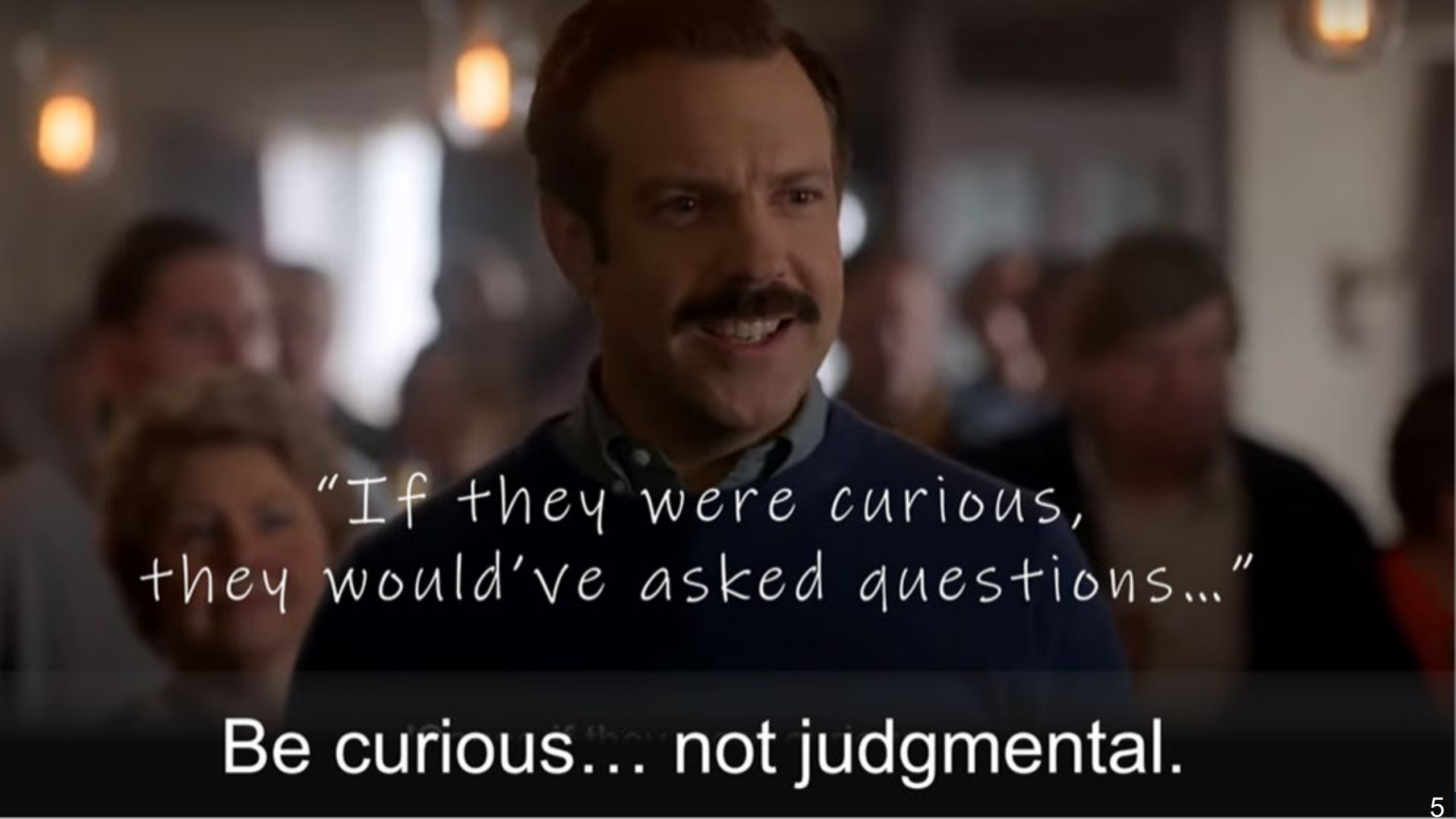
Club Benchmarking Background

- Company Founder was a private club Board member for 10 years and President for three. Club Benchmarking is based in Boston, MA and has a team of 30 people.
- Providing data analytics and financial analysis to the private club industry since 2009
- Data from +/- 1,000 clubs per year in 49 states, 5 Canadian Provinces, ranging in revenue from \$300,000 to \$125 Million. Residential Community Clubs comprise 20% of the database and 20% is clubs without golf (Yacht, City/Athletic, Tennis/Sports).
- Continuous study of what drives financial sustainability and success in private clubs
- Nationally recognized experts in club finance and business intelligence
 - Benchmarking platforms for annual finance & operations, compensation & benefits, policies & procedures and the Strategic Monthly Dashboard
 - Integration of real estate and demographic data
 - Industry leaders in capital reserve studies
 - Capital Strategies Modeling platform
 - Member Motivation, Attachment & Loyalty Benchmarking
 - Employee Engagement Benchmarking

- The club industry is a **fragmented, cottage industry** where best practices disseminate slowly, if at all
- Lack of fact-based insight (not data) to guide decision making
- Club Benchmarking advocates **Fact- and Process-Based Governance** and education of Board, Committees and Membership as the foundation for sustainable success over time, based on:
 - **Clear constantly evolving vision and continuous forward momentum toward the vision with an aligned, strategic board at the vanguard**
 - **Broad member commitment to the vision yielding the capital necessary to achieve the vision**
 - Ability to change and evolve – Adapt or Die
 - Members who think like OWNERS, not customers

WINDMILL



A man with a mustache, wearing a blue sweater, is smiling and looking slightly to the right. He is in a crowd of people, with some faces blurred in the background. The setting appears to be an indoor event with warm lighting.

*"If they were curious,
they would've asked questions..."*

Be curious... not judgmental.



Shun Change - Stagnant

25% Shrinking

1. Too few members as a result of weak member experience
2. Narrow breadth of lackluster services and amenities
3. Weak Balance Sheet
 - a. Declining Net Worth
 - b. Significant deferred capital investment
 - c. Lack of adequate cash reserves
4. Operational Governance over Strategic Governance
5. Members think like Customers, not like Owners



Evolving Slowly

50% Sideways - Moderate Growth

1. Barely adequate to adequate number of members.
2. Lackluster to above average services and amenities.
3. Average Balance Sheet
 - a. Net Worth flat to slight growth in real dollars
 - b. Significant to slightly deferred capital investment
 - c. Some cash reserves
4. Bounce between Operational and Strategic Governance
5. Mix of members who think like Customers and like Owners



Embrace Change - Dynamic

25% Growing Purposefully

1. Full Membership Roster
2. Compelling member experience with broad array of services and amenities
3. Strong Balance Sheet
 - a. Net Worth growing > 5% CAGR
 - b. Fresh and up to date asset base
 - c. Adequate cash reserves
4. Focus of Governance is on making the club better (can still be stuck in Operational Governance at times)
5. Most members think like Owners and take pride

Which scenario are you living?

Narrative One

“Management clearly does not know how to run the club. We are losing money in the restaurant and we have too many people standing around. The club is completely inefficient and wastes our money. We need to form a sub-committee to help management focus on the bottom line, increase efficiency, and keep dues low.”

Narrative Two

“After extensive dialogue and questioning, we have concluded that management has a solid grasp on running the club’s multiple business units. Management uses data to articulate the club’s business model and provide industry context. Each year we find more value with the goods and services provided and we believe there is no better-run club in the country.”

Controlling the Narrative

If you do not understand the business model of your club well enough to articulate it, someone else will compose a narrative for you...and it will very likely be incorrect.

Can you or the club afford for that to happen?



90%

Best Practice Transformation

10%

OPERATIONAL GOVERNANCE

1. **Overemphasis financially** on Income Statement as financial driver.
2. **Focus on cost/expenses** – reducing costs or managing increase of expenses.
3. **Focus on last month's budget vs. actual** (Income Statement). Discussing line items over budget. F&B is a lightning rod.
4. Discussion of operational issues – unhappy members, complaints, etc.
5. Fixated on the rearview mirror.

STRATEGIC GOVERNANCE

1. Income statement discussion – “Are we on track to meet the bottom line?” **DONE!**
2. Focus on **forward-looking strategy and value proposition** (member experience). F&B is viewed as an amenity.
3. Financial **focus on forward-looking capital needs and resources** (drivers of growth). Income statement recognized as the engine to drive the experience (programming and staff).
4. Discussing the future, not rehashing last month's results.

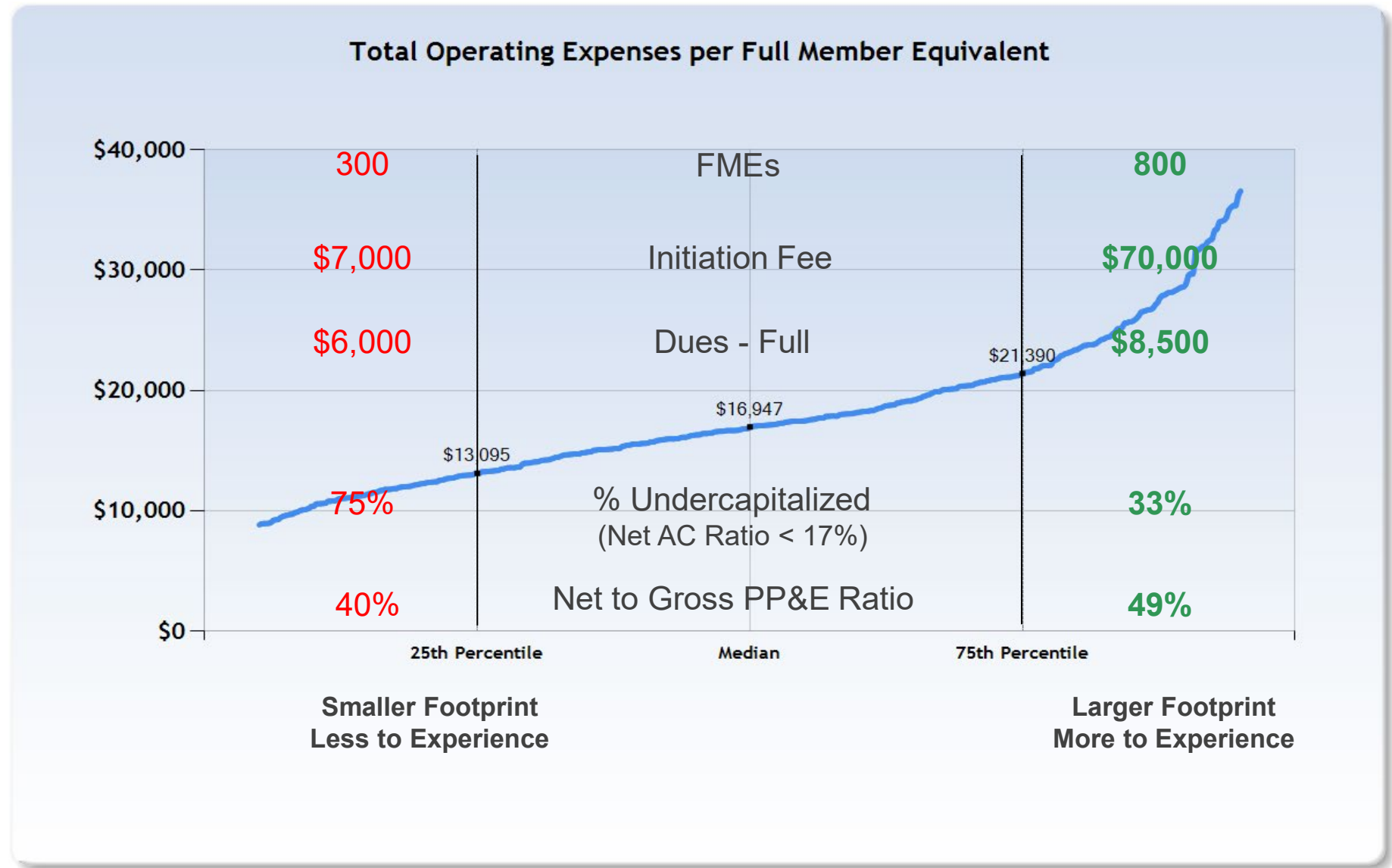
The Footprint Concept



- **Experience Drives the Outcome** – The more a club offers, the more members want to join. The experience and the footprint are linked.
- **The financial goal is PROPERLY FUNDING THE FOOTPRINT.**
- Operating and capital costs of the footprint are essentially fixed and should be precisely quantified.
- Once quantified, the rest is simple:
 $\text{Costs/Member Count} = \text{Cost/Member} \rightarrow \text{Operating Dues, Capital Dues}$
- **Strategic Governance** constantly educates members about the need/necessity/responsibility to properly fund the footprint.
- **Operational Governance** is focused on cutting the costs of funding the footprint.

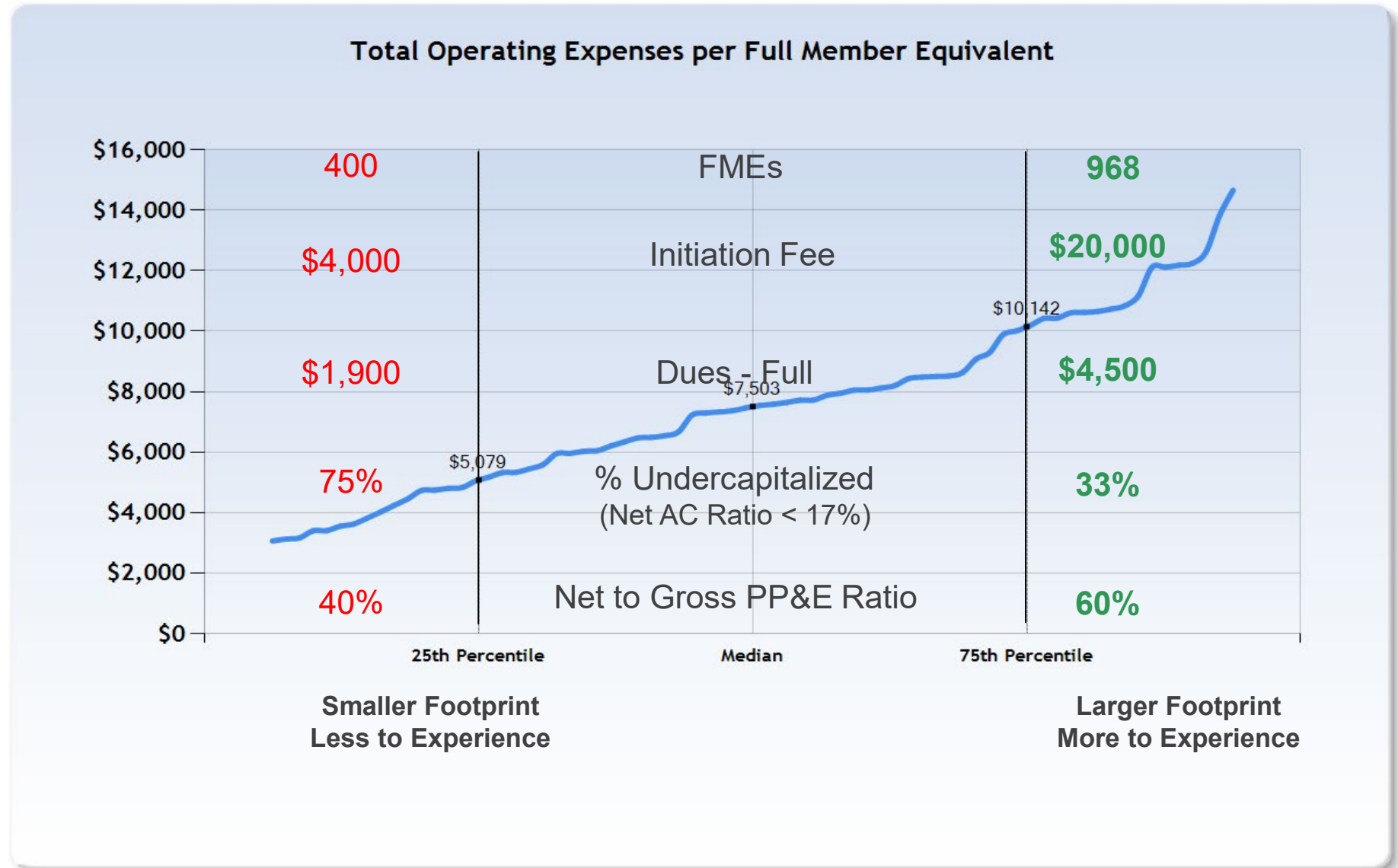
The Footprint, Costs and Experience Scale Together

- Tug-of-war over expenses and keeping dues low.
- Are lower or higher expenses better?
- Clubs with higher expenses are healthier overall and lower expense clubs are weaker overall.
- Expenses scale with the footprint and service standards.



The Footprint, Costs and Experience Scale Together

- Tug-of-war over expenses and keeping dues low.
- Are lower or higher expenses better?
- Clubs with higher expenses are healthier overall and lower expense clubs are weaker overall.
- Expenses scale with the footprint and service standards.



MISSION CLARITY – KEEP IT SIMPLE!

- We must create, nurture and evolve a Membership Experience that is SO COMPELLING we have enough members to properly fund our club (and we charge them the necessary amount) and ideally, we have a wait list. We also must be able to retain and attract the professional staff to manage the delivery of the Member Experience.
- We must consistently generate enough **Obligatory Capital** (Maintenance) to be able to re-invest in our assets so that they are always “fresh and up-to-date” and enough **Aspirational Capital** (Growth) to continuously add the new services and amenities necessary to keep pace with an ever-changing society and the wants of the next generation of member (a family with 42-year-old parents or in certain residential community clubs a 60-year-old couple).

The Tension of Opposites....
Does our Vision drive our budget?
OR
Does our budget drive our Vision?

Misconceptions Trap Boards in Operational Governance

Misconception	Facts
The club just isn't being run "efficiently."	"Efficiency" effects less than 7% of spending.
The food and beverage department should make money.	Clubs choosing "profit" in F&B are the weakest financially. Clubs choosing to subsidize F&B the most are the healthiest financially.
Lower dues/initiation fees will attract more members.	Clubs with the highest initiation fees and dues have the most members. Clubs with lower initiation fees and dues have the least members.
Golf is enough. Why do we need tennis, fitness, pool?	Golf-centric clubs are weak financially. Clubs with broad services and amenities are the healthiest (most members, highest initiation fees.)
Restricted capital investment keeps our club "affordable."	Lack of investment (kicking the can down the road) leads to inevitable failure.
Our club is "unique"	Feeds all of the misconceptions above.



The Purpose of the Two Ledgers in Every Club

Operating Ledger Drives the Member Experience

- Most of the money but this money doesn't drive finances...it drives the day-to-day experience.
- Keeps the grass green and cut, the beer and wine cold and the food hot.
- Consumed year-in and year-out by members enjoying the club.

The operating ledger funds the member experience. If there is too little operating money, the member experience declines.

Capital Ledger Drives the Financial Outcome

- Less of the money, but this is the money that drives the financial outcome.
- Capital contributions first flow into the club as an increase in member equity.
- From there, capital then flows into property, plant & equipment in the form of capital investment.

If there is too little capital, net worth declines, footprint doesn't expand, and assets become depleted and irrelevant over time.

Business Model Context

- The sources and uses of money are common – independent of location, scale or quality
- The Key Performance Indicators don't vary based on location, scale or quality
- Circumstances may have an effect, but **CHOICES** are the primary **DRIVER** of Financial Outcomes
- Your culture may be unique, but your financial model and financial drivers are **NOT UNIQUE**

Sources of Money

Uses of Money

Operating

Operating Dues

Ancillary Fees (F&B, Rooms, User Fees, Guest Fees, Minimums, etc.)

Overhead (G&A, Buildings Operation, Fixed Charges)

Services & Amenities (Golf and/or Yachting, Non-Golf Sports & Recreation, Education, Spa & Wellness, Other)

Capital

Initiation Fees, Recurring Capital Dues, Assessments, Sale of Assets, Other

Asset Maintenance and Replacement

Asset Expansion - Increased Capacity, Services & Amenities

Are Key Success Factors the same in every industry?

- Is every industry driven by price? (New Cars vs. Internet Search)
- Is every industry driven by process? (Hospitals vs. Art Galleries)
- Is every industry driven by efficiency? (Commodities vs. Jewelry Retailing)

Key Success Factors Vary Across Industries

Highly Differentiated Products (Fashion and Technology)

Gucci/Cartier; Apple/Google/Facebook

- **Brand/Image**
- **Features/Benefits**
- **The Next Great Idea/Technology**

Commodities (Railroads)

Union Pacific; BNSF; Norfolk Southern

- **Material Handling/Tracking**
- **Cost Management**
- **Economies of Scale**

Key Success Factors

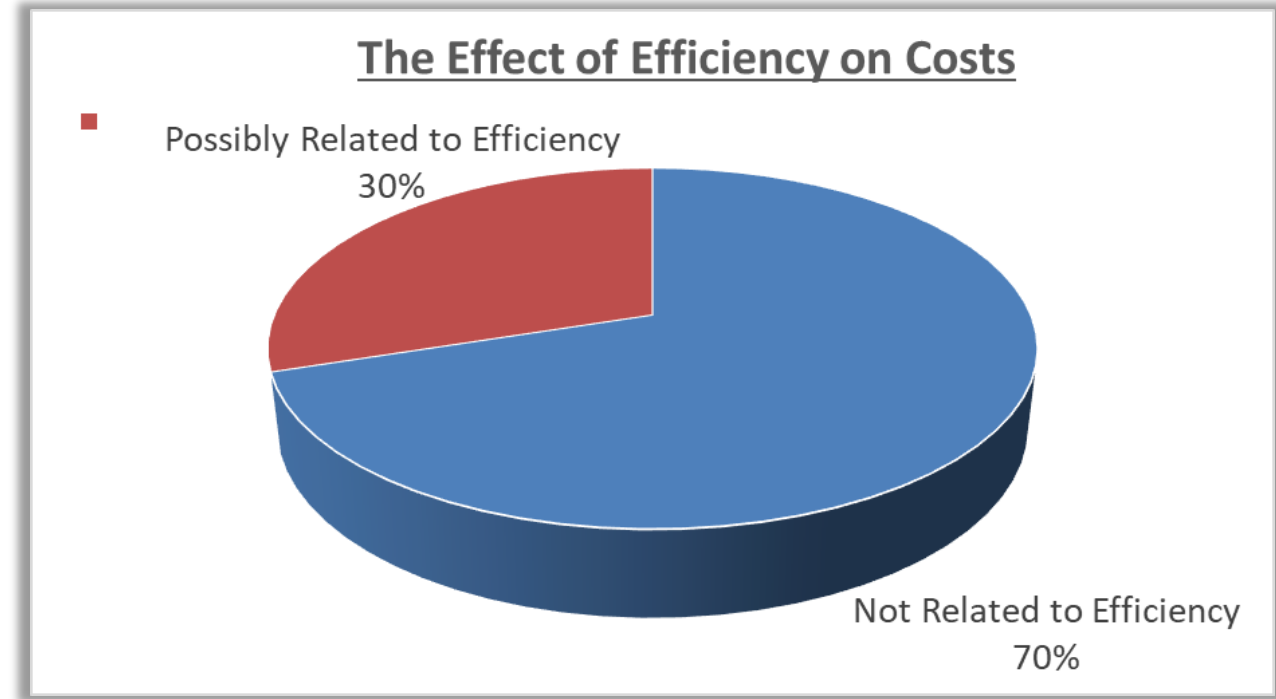
Club costs not driven by efficiency.

- Real estate taxes, interest, property & liability insurance, executive team is a necessity (i.e. GM, Chef, Super, Pro, CFO)

Assume possibly related to efficiency

- 40% of hourly labor
- 40% of cost of goods (F&B, Pro Shops)
- 40% of all supplies and chemicals

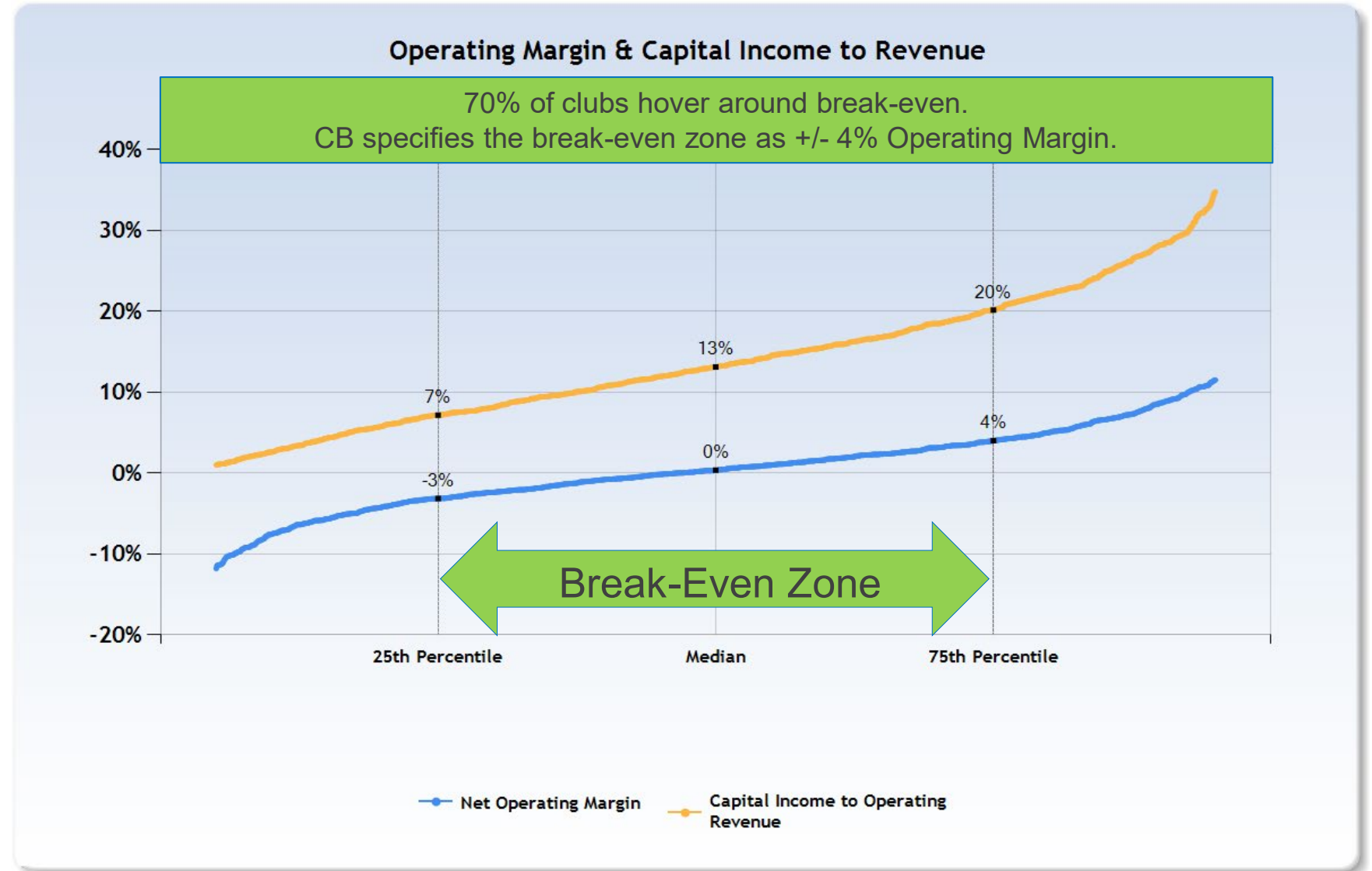
Assuming an “inefficient” club has 25% waste, effect is $25\% \times 30\%$ or **7.5% of total expenses**



- ✓ **POINT:** Someone should worry about the 7.5%, but it is **NOT the Board!**
- ✓ **POINT:** Concern about the 7.5% of total expense is **tactical, not strategic**
- ✓ **POINT:** This issue elevates **operational governance over strategic governance**

The Financial Model of Clubs

- Clubs set income statement to break-even excluding depreciation, by definition making it the operating ledger.
- Operating ledger is the vehicle for delivering services & amenities to members. Consumed every year by members enjoying the club.
- It IS NOT a financial driver. Capital Income is the Financial Driver



Complications to the Mission

Winning and Losing Occurs on the Margin



Green Bucket Clubs

On the margin, lean toward increasing dues (Operating and Capital) to keep growing and investing in the member experience



Red Bucket Clubs

On the margin, lean toward managing/cutting expenses in lieu of asking members for more money. Experience declines over time. Assets become worn and depleted.

The Decision Margin



The Flow of Member Money Over Time

- The difference between 2% and 2.5% over 20 years to the member is \$70 per month.
- To the club, it is \$4.25 Million more of money for the member experience – an average of \$200,000 per year.
- \$460,000 in the last year.

	Member View			Club View		Dues Delta
	2.0%	2.5%		2.0%	2.5%	
Full Member Equivalentents				550	550	
2001	5,500	5,500		3,025,000	3,025,000	0
2002	5,610	5,638		3,085,500	3,100,625	15,125
2003	5,722	5,778		3,147,210	3,178,141	30,931
2004	5,837	5,923		3,210,154	3,257,594	47,440
2005	5,953	6,071		3,274,357	3,339,034	64,677
2006	6,072	6,223		3,339,844	3,422,510	82,665
2007	6,194	6,378		3,406,641	3,508,073	101,431
2008	6,318	6,538		3,474,774	3,595,774	121,000
2009	6,444	6,701		3,544,270	3,685,669	141,399
2010	6,573	6,869		3,615,155	3,777,810	162,655
2011	6,704	7,040		3,687,458	3,872,256	184,798
2012	6,839	7,216		3,761,207	3,969,062	207,855
2013	6,975	7,397		3,836,431	4,068,289	231,857
2014	7,115	7,582		3,913,160	4,169,996	256,836
2015	7,257	7,771		3,991,423	4,274,246	282,823
2016	7,402	7,966		4,071,252	4,381,102	309,850
2017	7,550	8,165		4,152,677	4,490,630	337,953
2018	7,701	8,369		4,235,730	4,602,895	367,165
2019	7,855	8,578		4,320,445	4,717,968	397,523
2020	8,012	8,793		4,406,854	4,835,917	429,063
2021	8,173	9,012		4,494,991	4,956,815	461,824
Difference Per Month For a Member		70				4,234,869
					Average Per Year Difference	201,660

The Flow of Member Money Over Time

- Members get something in return for their Operating contributions – The Experience!
- Their role as Stewards/Owners relates to the Capital Ledger. As Stewards, they should want to leave their facilities in as good or better shape than they found them.
- The 15% should be 20% if it were, the average member would have paid \$1,000 more per year.
- **For that, the average club would have \$12 million more in physical assets and/or less debt.**

	Operating Ledger	Capital Ledger
Dues	\$8,200	\$768
Fees and Charges	\$5,467	\$0
Initiation Fee		\$30,000
Assessments		\$156
Total Per Year	\$13,667	\$2,424
# of Years	20	20
Total Spent	\$273,333	\$48,474
Grand Total	\$321,807	
Proportion of Grand Total	85%	15%
Result of Member Money	Consumed enjoying the club. Gone - does not persist financially.	Manifests as condition of the club's facilities.

Financial Position & Sustainability

The Membership Engine

\$\$\$ - Number of Members x How Much They Pay (OSMC)

😊 - Motivation, Attachment, Loyalty, Value & Satisfaction

Value Proposition

Staff Engagement

Physical Plant

Capital Needs & Resources

Capital Ledger & Balance Sheet

Programming

Delivery of Services & Amenities

Income Statement & Operating Ledger

GOVERNANCE

Customers
Price/Cost

CULTURE

Owners
Growth of Equity

Key Success Factors

- Current financial position results from past choices
- The ability to attract/retain membership core built on the club's staff, assets and programs
- Are we relevant for the 42-year-old Family? Do we understand our value proposition?
- Have we re-invested in the club? Are we growing the club?
- Is the staff engaged?

OSMC = Optimal, Sustainable Member Count

The Never-Ending Debate



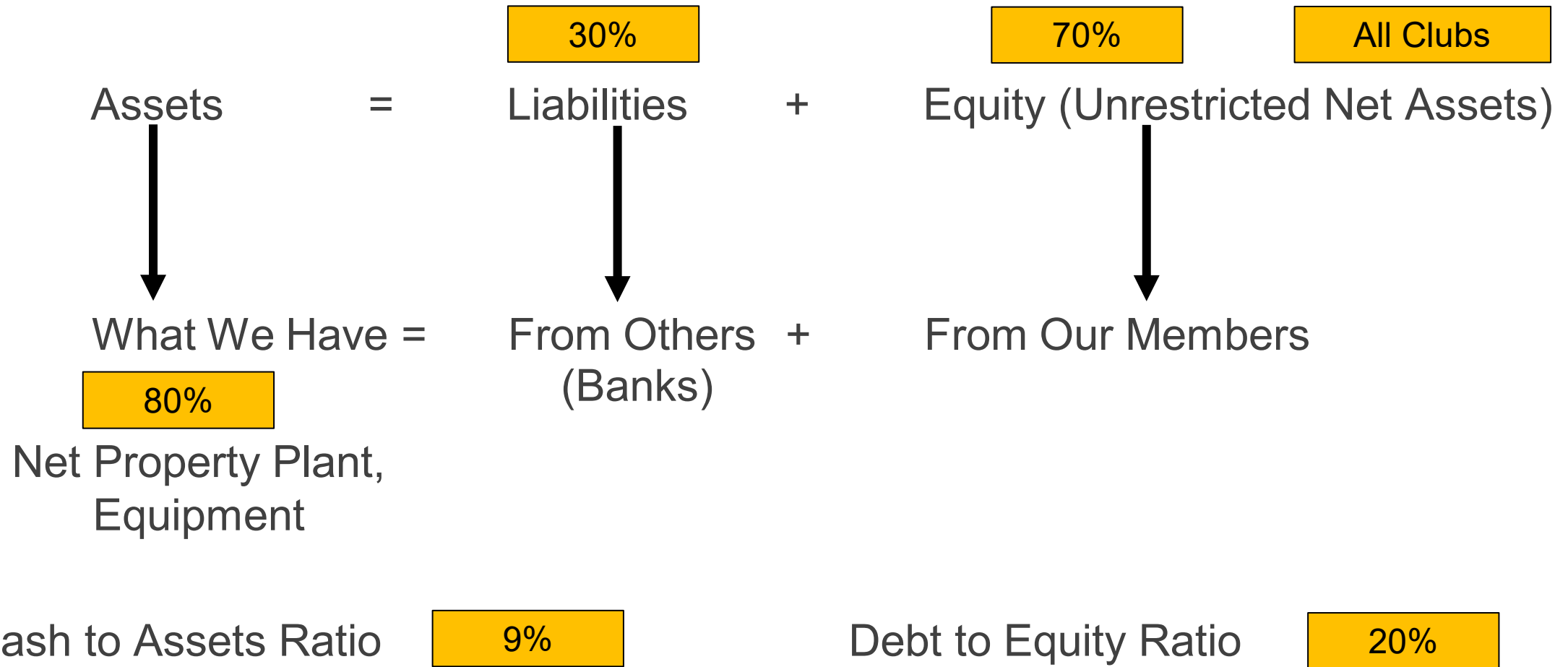
- Does not mean Waste is OK
- Does not mean spend with abandon
- Does not mean don't ask questions...
- Does mean Success over Time isn't about Efficiency as a strategic driver
- Does mean the club business model isn't built on Efficiency – who joins a club because it is efficient?



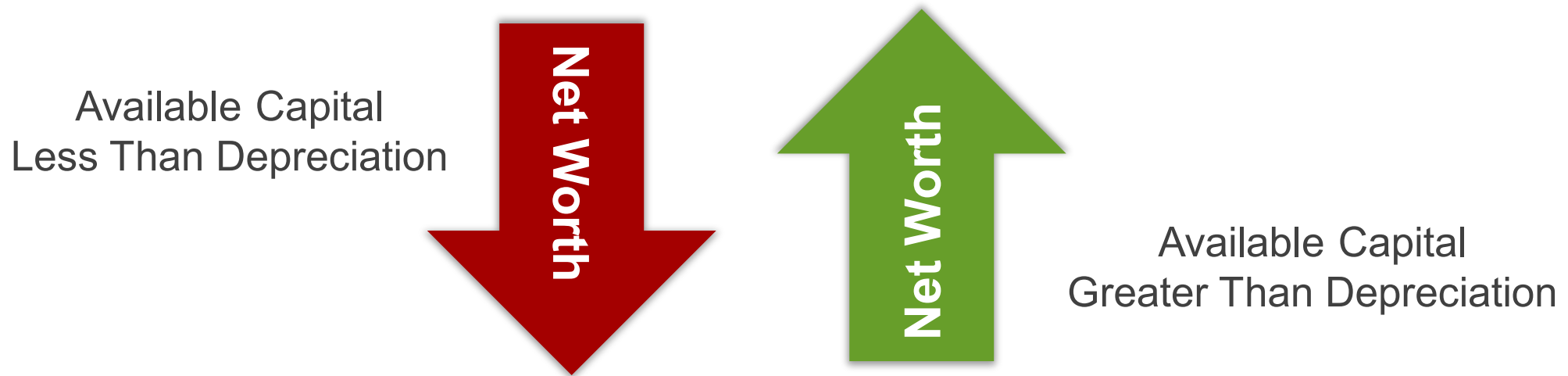
- Does not mean double the Dues overnight
- Does mean every club should STRIVE to be the best version of itself it can be
- Does mean we don't let the Experience or our Assets decay over time in an attempt to “keep dues low”
- Does mean clubs succeed or fail based on the Experience they offer (or don't)

The Framework: Club Benchmarking Financial Insight Model

The Balance Sheet



- Unrestricted Net Assets = Net Worth or Book Value of the Club
- Club operating ledgers are typically set to break-even. In that scenario, Capital Income must be greater than depreciation in order for net worth to increase

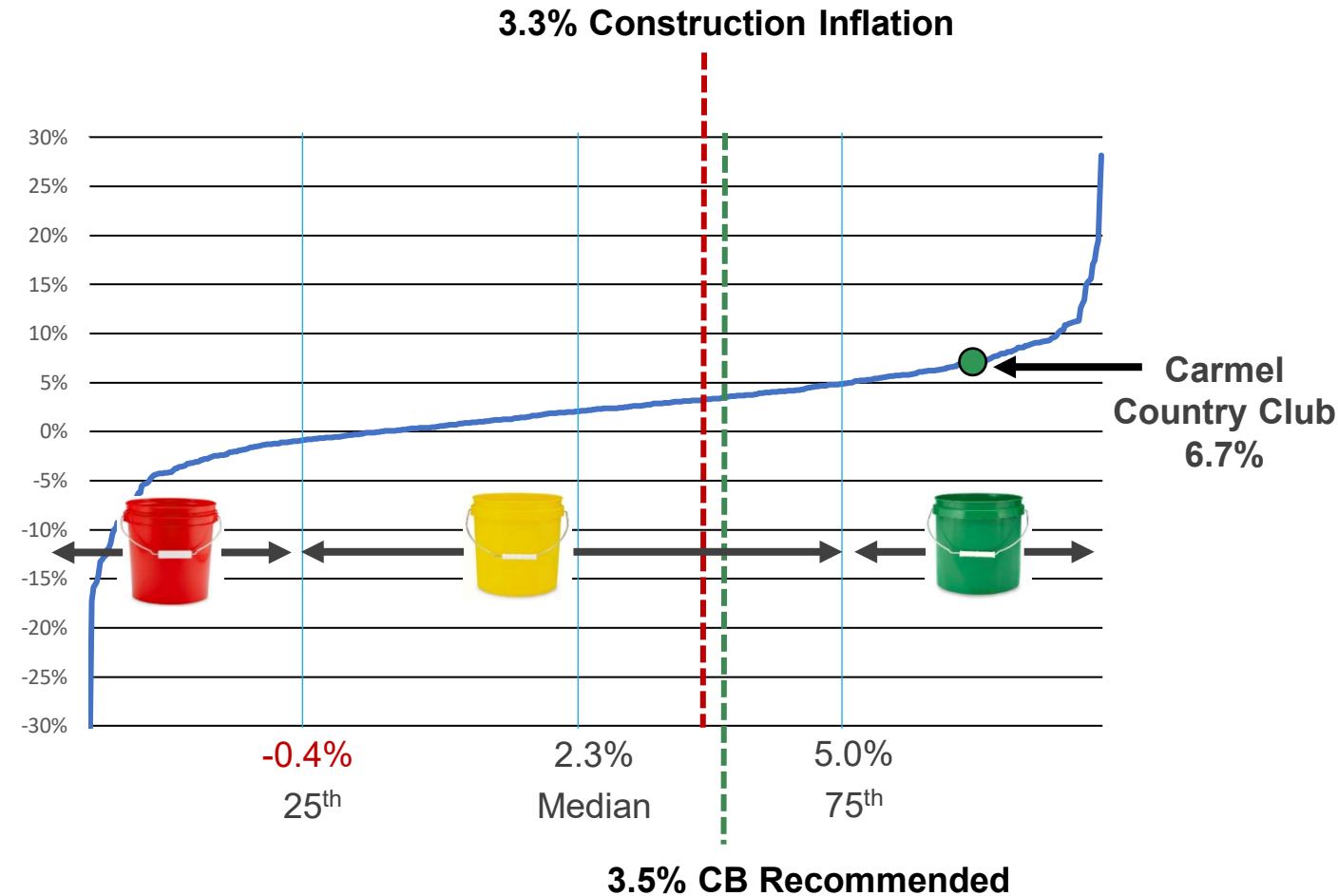


Net Worth growth requires incoming members AND existing members to contribute to capital

Net Worth Over Time: The Most Important Financial Metric

Growth of Members' Equity Drives...

- Balance Sheet Strength
 - Investment in Property, Plant & Equipment
 - Initiation Fee Growth
 - Amazon since 2006 +46%, Macy's -7%
- Net Worth Over Time reflects market relevance and competitive standing.

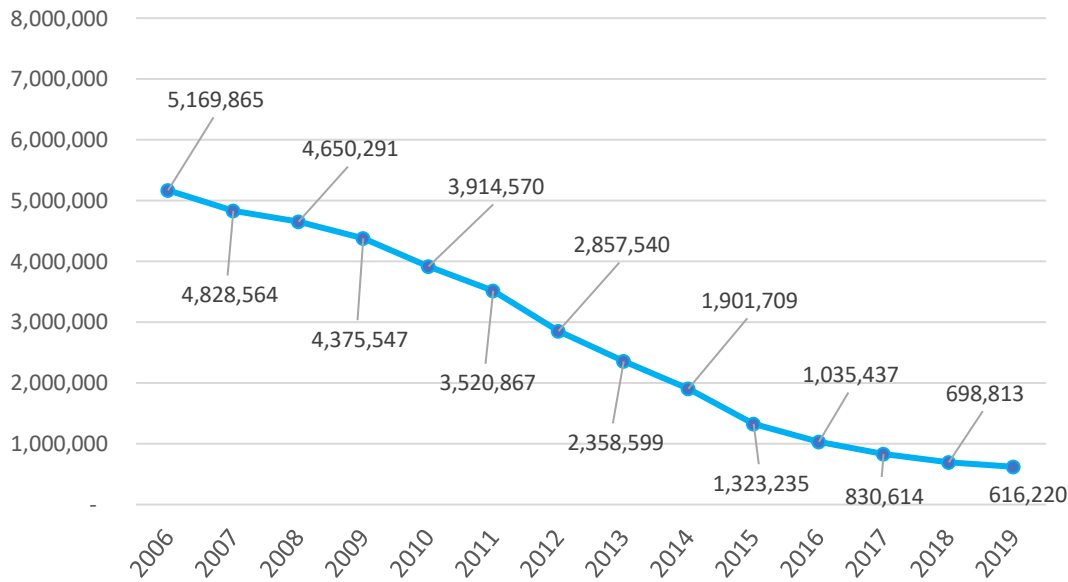


The Capital Ledger is the engine that drives Net Worth Over Time

CAGR -15.1%

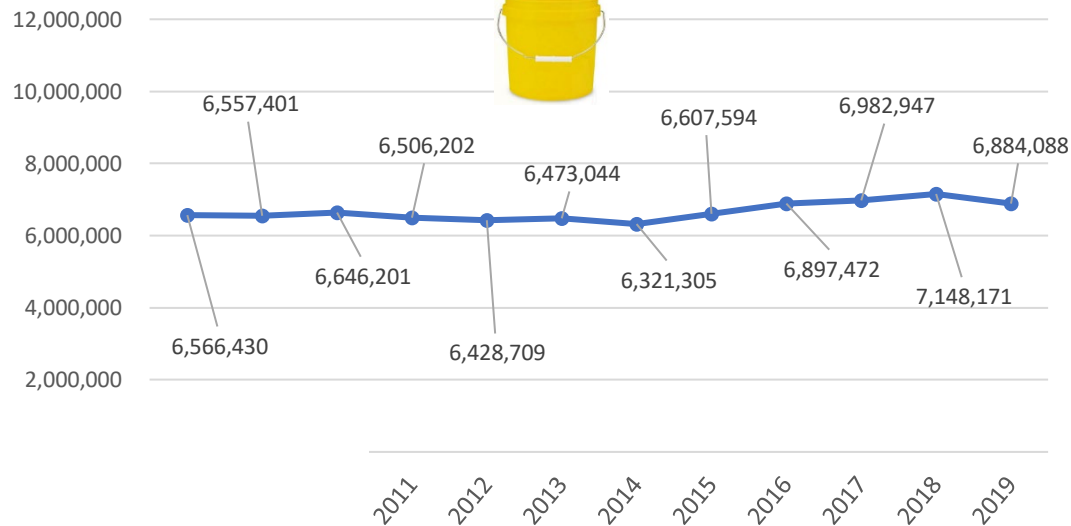


Red Bucket Club



CAGR 0.4%

Yellow Bucket Club

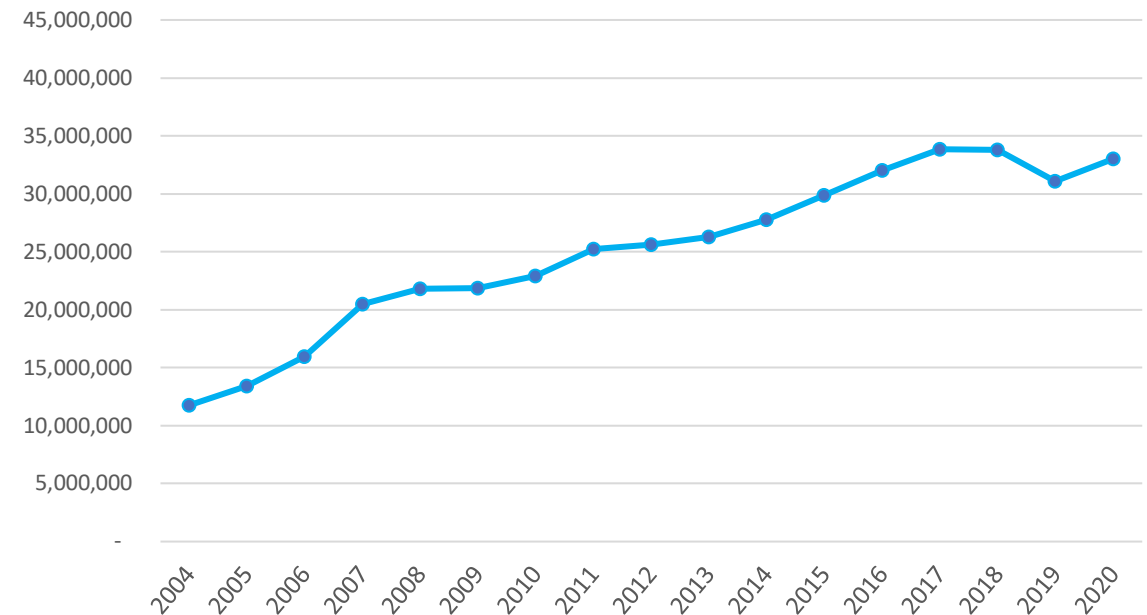


Net Worth Over Time The Most Important Metric



CAGR 6.7%

Carmel Country Club - Net Worth



Club Built 50 Years Ago



Total Cost to Build = \$3 Million
Zero Reinvestment Over Time

Gross PPE = \$3M (ex. Land)
Accumulated Depreciation = \$3M
Net PPE = \$0
Net-to-Gross-PPE Ratio = 0%

Condition: Worn and Depleted

Property, Plant
& Equipment

Net to Gross PPE Ratio

Club Built Yesterday



Total Cost to Build = \$30 Million

Gross PPE = \$30M (ex. Land)
Accumulated Depreciation = \$0
Net PPE = \$30M
Net to Gross PPE Ratio = 100%

Condition: Brand New

Assets Depleted

Assets Fresher

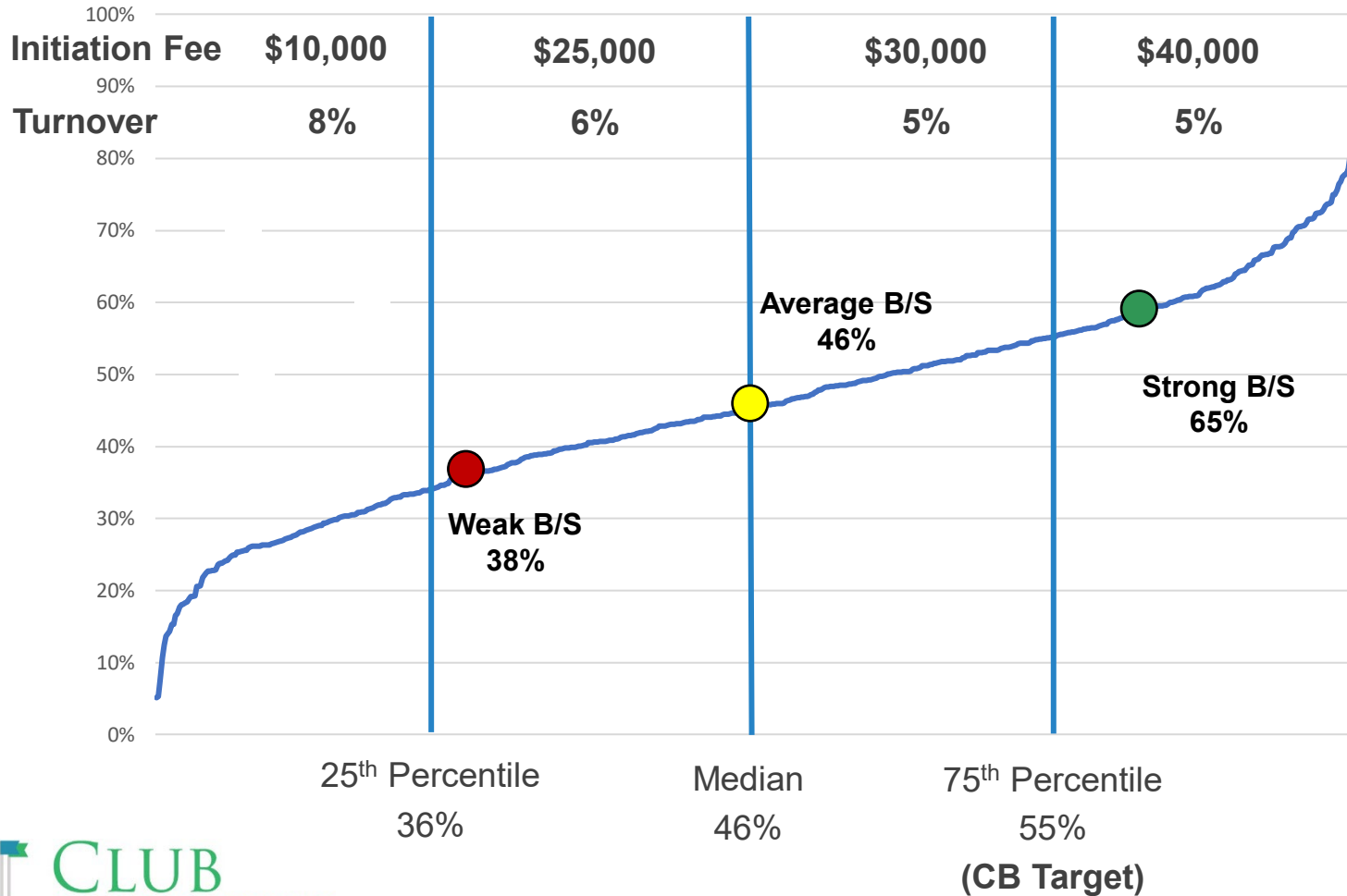


< 39%

40% - 54%

55% >

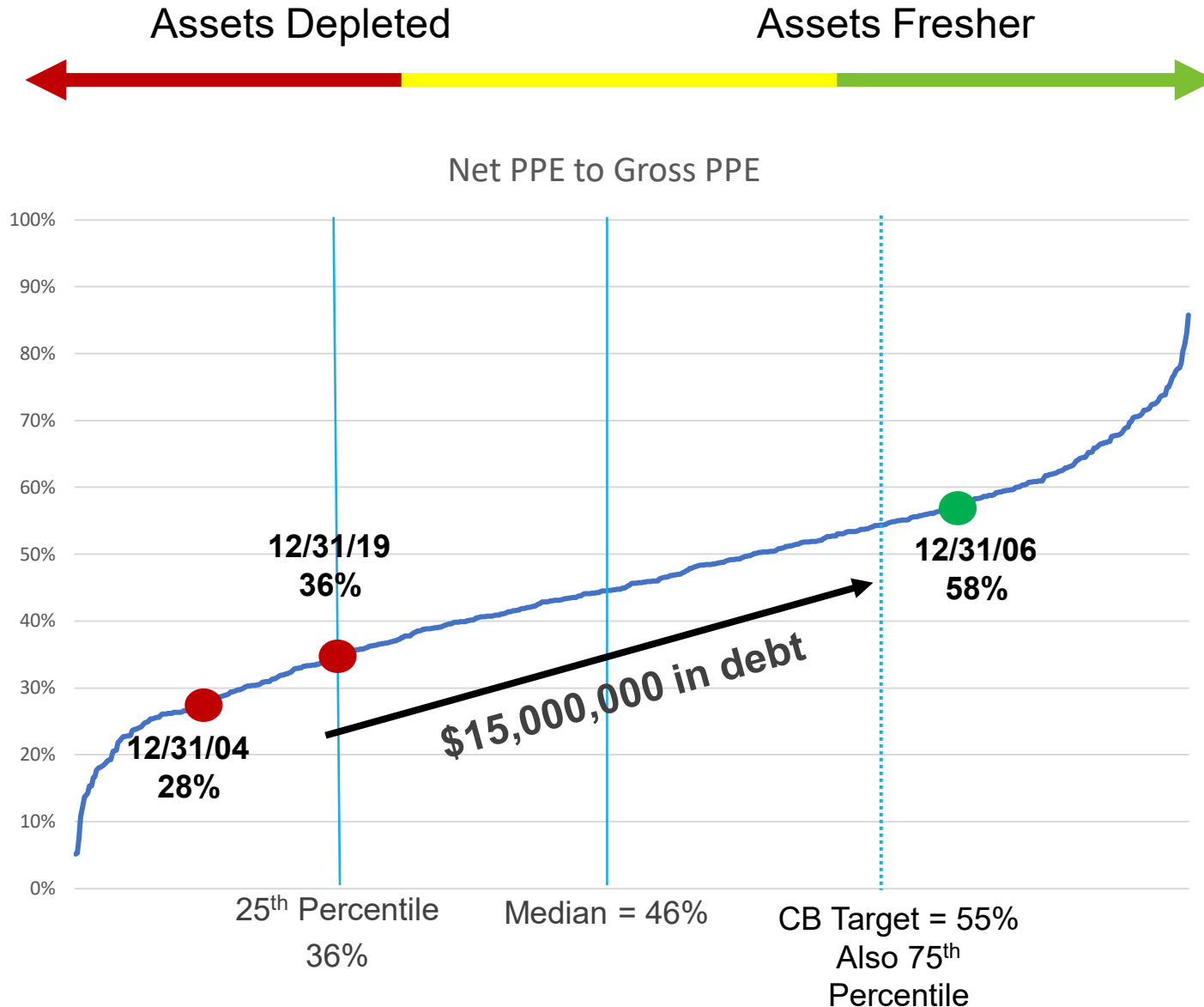
Net PPE to Gross PPE



Net to Gross PPE Ratio

- Net PPE is where a club's money ends up
- Very accurate and simple test of physical plant condition
- Ratio above median indicates physical assets fresher & more up to date
- Ratio below median indicates physical assets are older and more worn
- The most important and precise assessment of your club's physical plant available is a capital reserve study which should be conducted by an objective 3rd party professional well-versed in clubs

The Net to Gross PP&E Ratio Over Time

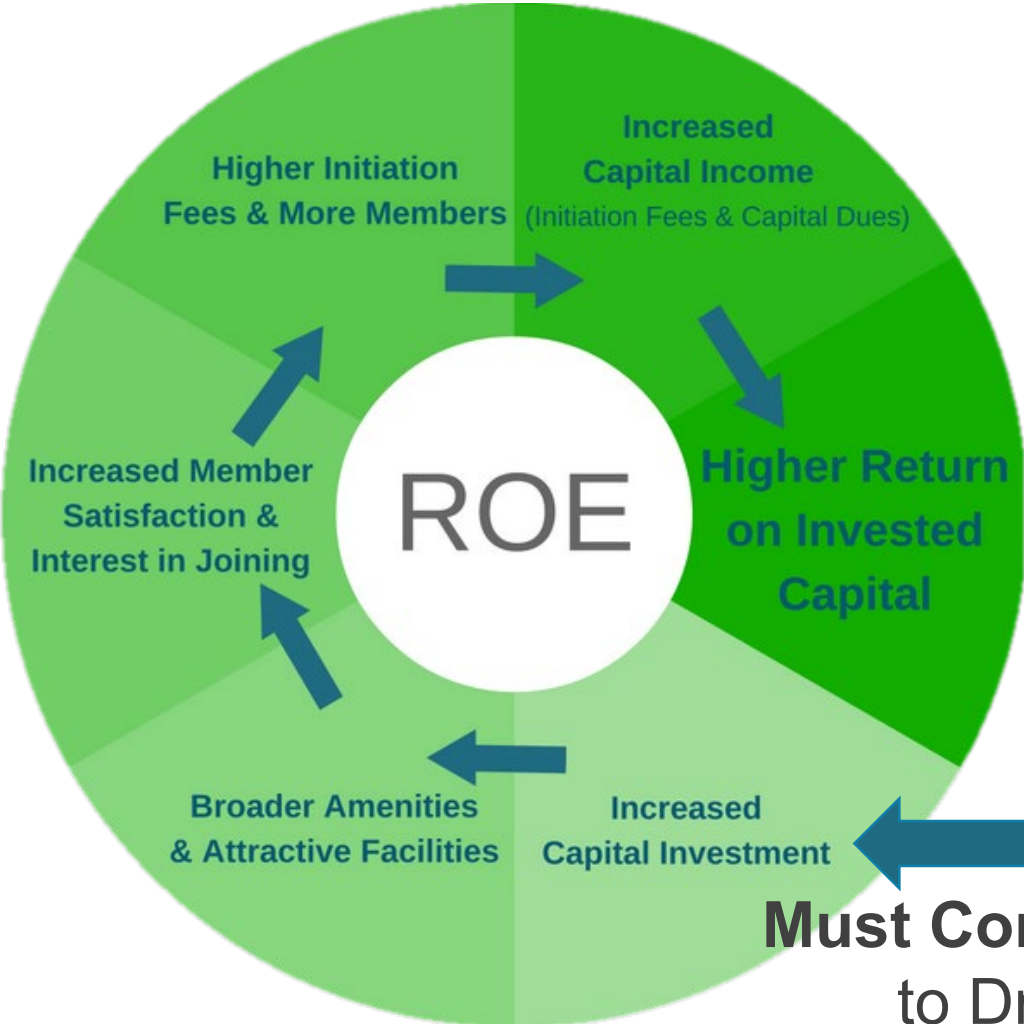


- In this example, a club acquired \$15M in debt in 2004 and paid it off in 2020. Lack of obligatory capital investment over that period caused assets to deteriorate all the way back to where they were in 2004. This club has never generated adequate capital.
- The Net to Gross PP&E ratio will oscillate year to year. Capital Investment increases the ratio, Depreciation decreases the ratio.
- A comprehensive, funded, forward-looking capital plan will assure the oscillations are not wide swings over a 15 to 20-year period.
- Too often clubs use debt for obligatory investment and assume debt without a comprehensive, forward-looking capital plan. The result is a never-ending cycle of paying off debt while not being able to make obligatory investments.

The Investment Return Cycle

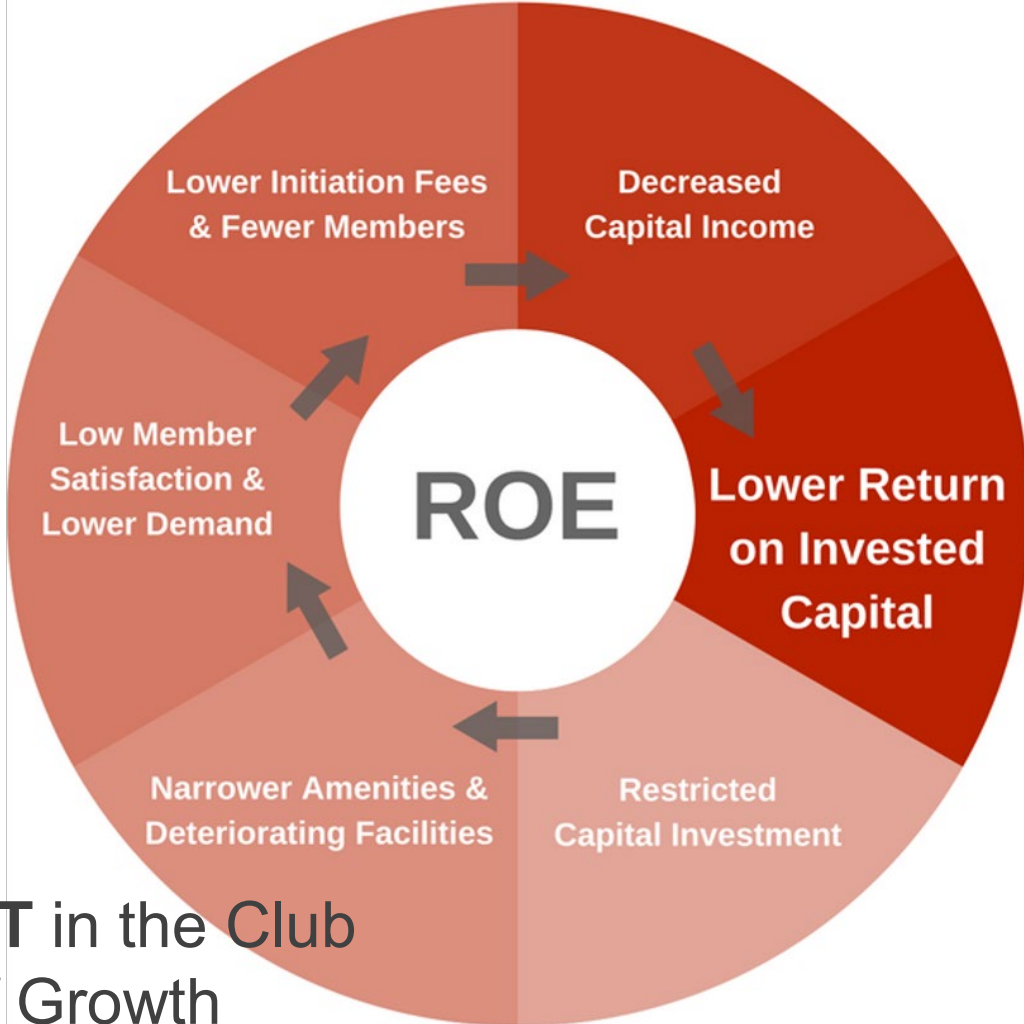
Increasing Net Worth & Relevance

If you build the right things, they will come



Decreasing Net Worth & Relevance

If you don't build it, they will never come



MEMBERS

Must Constantly INVEST in the Club
to Drive the Cycle of Growth

Obligatory Capital (Maintenance)

- Repair and Replacement of existing assets.
- Depreciation = past cost – “matching depreciation” is not enough because...
 - Assets cost more to replace than when originally acquired, and fully depreciated assets in use will need to be replaced.
- Past and existing members are obligated. Not future members.

The Source of Obligatory Capital is Recurring Capital Dues

Aspirational Capital (Growth)

- Expand existing assets (clubhouse expansion)
- Add new Assets (entire new clubhouse, pool or fitness when none existed)
- Adding new amenities – Croquet, Pickle Ball
- Current and future Members are responsible. Future members more so
- Aspirational Capital should have a Return on Investment – Capital Income is the Return

The Source of Aspirational Capital is Initiation Fee Income and Debt

Club Benchmarking recommends minimum growth in
Net Worth of 3.5% per year **to meet obligatory capital needs**
Capital income for **aspirational capital** will grow Net Worth on top of the 3.5%

Hierarchy of Capital Priorities

Debt Service

- Debt Service comes first and must be covered entirely. Very common for clubs to do a project using debt and come up with a debt service “assessment” that does not account for the remaining capital needs.

Obligatory Capital

- Obligatory Capital must also be covered. Many clubs are “rationing” capital as a result of inadequate income resulting in deferred maintenance.

Aspirational Capital

- Aspirational Capital is the capital to Evolve and Grow the club. It is the investment that keeps clubs relevant (think casual dining, fitness/wellness, resort style pools).

Increasing Cash Reserves

- Clubs wishing to increase reserves must satiate the capital needs that come first. It is a long way to reserves increasing.

The Never-Ending Debate



- Does not mean Waste is OK
- Does not mean spend with abandon
- Does not mean don't ask questions...
- Does mean Success over Time isn't about Efficiency as a strategic driver
- Does mean the club business model isn't built on Efficiency – who joins a club because it is efficient?



Member Experience

- Does not mean double the Dues overnight
- Does mean every club should STRIVE to be the best version of itself it can be
- Does mean we don't let the Experience or our Assets decay over time in an attempt to “keep dues low”
- Does mean clubs succeed or fail based on the Experience they offer (or don't)

Thank You!



Tom Olson, Executive Director- Midwest

tolson@clubbenchmarking.com

www.clubbenchmarking.com

*Our mission is to foster healthier clubs, more strategic boards
and more empowered managers by elevating fact over opinion.*

