CLUBONOMICS

WHY GOLF CLUBS STRUGGLE FINANCIALLY

Overall, golf may be booming but for every boom there's a bust and many golf clubs are setting themselves up for hardship due to club members thinking more like customers and less like owners.

BY IAN MALLON

If you're a member of a golf club, the chances are 3-1 in favour of you being part of a dysfunctional, stagnant, or at best, slowly evolving organisation, and one which is financially challenged.

And hard as it may be to take – you just might be part of the problem. You behave like a customer and not a shareholder or owner, you're most pressing concerns are the 'here and now' – the state of the fairways and greens, the price of the pint, and making sure your subscription doesn't rise.

You're probably not even aware of one of the biggest threats to the future of your club – deferred capital investment.

The good news is your club is just like almost every other one, or at least the large chunk of clubs surveyed and analysed by Club Benchmarking – a firm which provides data analytics and financial analysis to the industry.

Club Benchmarking (CB) has revealed to Irish Golfer its latest findings from what is the most comprehensive live study of what drives sustainability and success in Irish golf clubs.

This highly revealing club finance and business intelligence data assessment is now being used to assure a proactive approach to club management through aggregating capital to re-invest consistently, and continuously – which its database reveals only 1 in 4 are doing.

At this point you might be tempted to say: 'So what? My club is doing just fine, sure isn't golf booming?'

ferred capital investment is the norm, and that's the most single most significant factor in why golf clubs fail.

Typically, most clubs function on membership fees, subscriptions which are invariably and uniquely set at unrealistically low levels in this country and don't represent the true value of the shareholding afforded to each member.

So why, unlike almost every other business, do we pay so little for so much?

The key reason is that clubs and committees live too much for today, setting prices at low levels through a fear of upsetting the members by raising rates, almost living in terror that showing the members that they are part of a compelling association is something not worth paying for.

There's no logic to this, particularly when you consider that the broad demographic of any club is likely to be higher up the business intelligence chain than almost any other sport, yet we're hesitant to do what we'd do in our own business.

Charging the amount necessary to allow for reinvestment is a basic economic principle yet there is a significant conflict of interest where the members of clubs are owners and get to set the price for their usage.

This is best told by Ray Cronin, founder of Club Benchmarking: "What we've learned after studying this data for 15 years is that there isn't a greater conflict that I can think of in business than a member owned club, where the members are the owners and the customers, and they get to set the price as customers.

"Clubs live too much for today, they set the price lower, and they don't have the money to reinvest properly."

"The key reason is that clubs and committees live too much for today, setting prices at low levels through a fear of upsetting the members by raising rates"

And yes, you are absolutely correct, the golf club segment has never been in better shape, but with every peak comes a valley and this is a leisure industry more sensitive than most to global economic forces.

The financial crash of 2008 brought many victims under, with golf in particular suffering devastating consequences.

And while there's no guarantee of how any business will survive the next collapse in global markets – and there will be one – certainly with the right analysis and level of preparedness there are solutions on how to make your club a far more efficient and sustainable business.

ARE YOU A CUSTOMER OR AN OWNER?

From its findings in Ireland and through its work in the US, Canada, UK and Australia, we discover that only around one in four golf clubs offer dynamic, compelling experiences for members that is also backed up by a strong balance sheet, fresh asset base and adequate cash reserves.

The majority of clubs are weak financially without the necessary subscription or green fee income to generate the capital necessary to reinvest in the club's physical assets – which in many clubs are significantly depreciated.

Basically, it's all about the capital, and in most cases de-

WHAT THE DATA TELLS US

If we take available analysis shared with us by CB on the current state of Irish golf clubs, a quite extraordinary picture is revealed on the 70+ Irish clubs surveyed so far, where operating revenue typically ranges between €1m and €8m.

This analysis is added into a total of 1,125 private member clubs analysed globally which reveals three quarters of all clubs are shrinking or moving sideways.

For 50 per cent of clubs this results in a weak balance sheet, which forces a declining net worth, significant deferred capital investment and a lack of adequate cash reserves.

CB has found that approximately 25 per cent of clubs are evolving slowly at best or moving in a sideways direction with barely acceptable numbers of members, added with a lacklustre to above average suite of services and amenities.

This works out with an average balance sheet, where net worth is flat or with slight growth in real euro terms, where there is significant to slightly deferred capital investment, and some cash reserves, and where there is a mix of members who think like customers and owners.

But all is not lost, the final quarter, or one in four clubs, embrace change through a purposeful investment policy, a full membership roster, delivering a compelling member

Shun Change - Stagnant

50% Shrinking

1. Too few members as a result of weak member experience
2. Narrow breadth of lacklustre 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

25% Sideways

1. Barely adequate to adequate number of members.
2. Lacklustre to above average services and amenities.
3. Average Balance Sheet
   a. Net Worth flat to slight growth in real euros.
   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

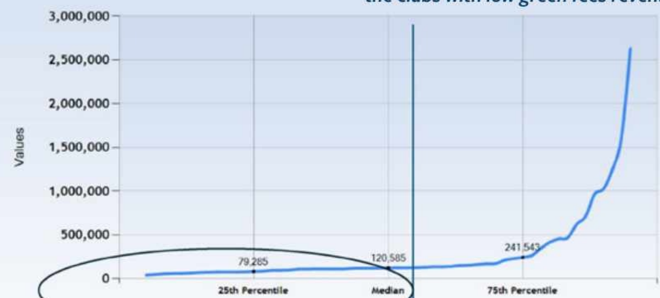
Embrace Change - Dynamic

25% Investing 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

GREEN FEE REVENUE

These clubs have an average Net Worth of €9.5m. That is 3 times higher than the clubs with low green fees revenue



These clubs have an average Net Worth of €3.2m

Clubs with significant green fee income are healthier financially as a result of liquid green fee income from outside the club.

experience through a broad range of services and amenities. This reflects on a growing net worth, with a fresh and up-to-date asset base and adequate cash reserves, and a club where the members think like owners, and as a result take far more pride in their club.

CB doesn't reveal the names of the clubs it works with, but from the above summaries you can probably spot your own member experience from those key identifiers.

KEY PERFORMANCE INDICATORS

An obvious point is that clubs with lesser green fee income are weak financially if they don't have adequate membership or subscription income to generate the capital to reinvest in the club's physical assets.

These assets, despite how they look to the naked eye, are significantly depreciated, and deferred capital investment in such assets causes clubs to fail.

Put simply, if the members cannot produce the necessary money to reinvest in bare necessities, that club is doomed.

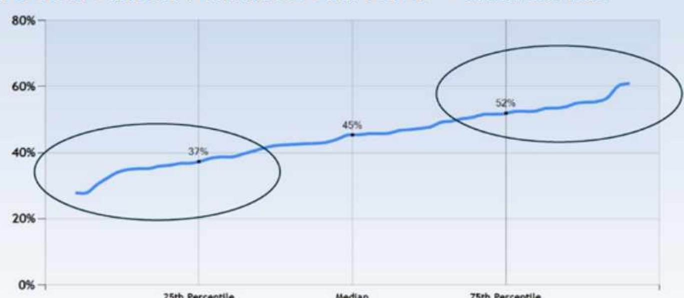
Forget the condition of the greens or the fairways, and analyse the state of the various assets, which are the key performance indicators on the health and wellbeing of a club as determined by Club Benchmarking.

Condition and age of clubhouse heating system / Kitchen equipment / Roof / Car Park condition / Furniture / Lifts / Boiler / Condition of course maintenance sheds / Condition of the equipment in those sheds

Another vital indicator of how successfully a golf club is run is the course maintenance spend, as a percentage of subscription and green fee income. The clubs which spend the most maintaining their golf course spend the lowest proportion of subs and green fee income, which CB has labelled 'High Spenders'.

This in turn means that those which spend the least, spend the highest proportion and are labelled 'Stretchers'.

COURSE MAINTENANCE EXPENSE AS A % OF GREEN FEE REVENUE + SUBSCRIPTION REVENUE



These clubs are High Spenders - their median expense per 18-hole equivalent is €609k

These clubs are Stretchers - their median expense per 18-hole equivalent is €394k

The metrics indicated that the clubs with inadequate subscription and green fee income are stretching to keep their course in shape, which then results in not enough money being left for all of the other necessary costs, including capital investment.

Our experts tell us that it is vital that every club should understand where they fall on the curve.

IT'S ALL ABOUT THE ASSETS

Determining the state of the physical assets is a vital measurement in determining the strength and potential of your club. In the Irish market it is clear that clubs which realise they are not generating enough cash are reluctant to charge members the necessary subscription and will instead cut back on assets within the clubhouse itself. Some clubs within the CB analysis indulge in what is known as 'head fake', which is trying to produce numbers which show profit while ignoring general depreciation around the clubhouse.

This shift in accounting practices is not something a normal to high functioning business would do, depreciating assets in favour of keeping the price low, yet so many choose to have deferred or slight deferred capital investment strategy. The big question here is, 'why'? The why is because they haven't conducted a proper business plan, or even bothered to map out the capital needs for at least 10 years, or even as far away as the next 20 – and if they haven't got a plan, then they will not have collected enough capital income.

WHY ALL THE FIREFIGHTING?

One of the most critical KPIs in understanding how a club should be run is to think of the golf club as a partnership and understanding the value of that and the cost of buying into such an arrangement.

Incredibly two thirds of Irish golf clubs have an entrance fee below value, in many cases there is no entrance fee at all. Why would clubs allow anyone to buy into their physical assets without paying the true value – take a situation where a membership has a true value of €5,000 per member yet many clubs have no entrance fee reflecting this worth, charging only a basic annual subscription.

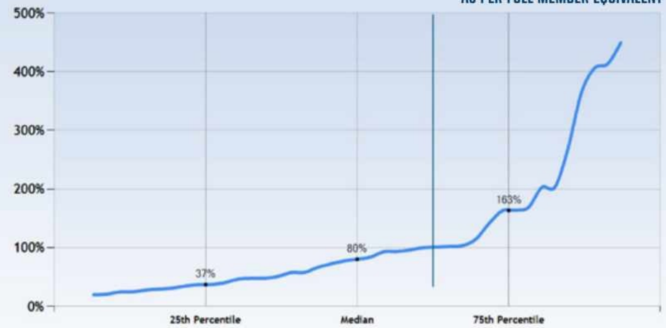
A common factor is that many clubs tend to govern out of fear: 'We don't want to frighten the members, they'll join other clubs.'

Smaller clubs, or clubs without significant green fee income, simply do not generate significant revenue to make up for the loss of not charging members the true value for each shareholding – and there's the problem. It's likely that your club is one of the following:

1) The members are the owners and understand how much money, including capital investment, is needed to properly operate and reinvest. Or
2) The Members think like customers and the culture of the club is 'Don't raise my membership or charge me too much'

The second scenario is the most likely outcome where for whatever reason, perhaps misplaced modesty and humility, means that most of us walk around our club like we're a guest or a customer, not like we own the place – and we do.

ENTRANCE FEE OF AS % OF UNRESTRICTED NET ASSETS
AS PER FULL MEMBER EQUIVALENT



2/3rds of the Irish clubs CB has studied have an Entrance Fee that is belowthe value of the club per member.

1/3rd of the Irish clubs CB has studied have an Entrance Fee that is at or above the value of the club per member.

HOW THESE BUSINESS THEORIES CAME TO BE

To end, let's go back to the beginning and how Club Benchmarking was formed and how actual lived experiences helped formulate a business strategy which is being adopted by more and more membership associations. The company was founded by Ray Cronin, a Bostonian who was a private club Board member for 10 years and President for three of those years. Cronin realised that without financial data or business intelligence, clubs really had no idea of what drove success or what threatened failure, and so he set about producing benchmarking platforms for the Finance and Operations of clubs.

"When you're in a members club there's always talk about how much the subscriptions are, how much we spend maintaining the golf course, how much we pay the general manager and those discussions come up in the Boardroom and we'd always get involved in debates," he explains.

"Half the room thinks we spend too much or too little on whatever topic, and I'd just get frustrated because we never had data - how would we know? That's why we started the company."

In November 2022 the firm expanded across Europe, the Middle East and Asia through its European Directors John McCormack and James Burns, who have 40 years' experience in managing high end experience clubs.

"Clubs should avoid being a position where they govern through fear where it should make sense to use data over emotion when making key decisions in our clubs," said McCormack.

"We are committed to helping clubs succeed through a core belief that when club leaders elevate fact over opinion, the result is a healthier club, more empowered management and boards equipped to focus on strategic values."

James Burns adds: "The importance of data behind the clubs' financial statements will allow Committees to become more effective and proactive 'Asset Managers' on behalf of the owners." To best sum up, that means you – the owner and not just the customer.

For more information or to speak with Club Benchmarking contact John McCormack on jmccormack@clubbenchmarking.com or visit www.clubbenchmarking.eu

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