

Running your club like a business: What it really means

CMAA World Conference 2012



*A partner to Club Managers
Association of America.*



Assurance ■ Tax ■ Consulting

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10 questions a *business* must never stop asking

1. What is our purpose for existing?
2. Who is our target customer?
3. Why does anyone need what we're selling?
4. If a need exists, is it enough to support a *profitable* business?
5. What are our competitors up to?
6. Can you reduce expenses *without* harming the product [or brand]?
7. Do we have the right leadership and structure?
8. Do we have the right employees?
9. How will we *continue to drive* revenue?
10. How are your employees holding up?

10 questions a *business* must never stop asking

1. What is our purpose for existing?

This will not be the last time you will hear this...

“People who are in financial capacities at nonprofit organizations have to understand that we budget for the mission. We don’t change the mission to suit the budget.”

-- Stanley Corman, former CFO, YWCA

10 questions a *business* must never stop asking

2. Who is our target customer?

Linking financial metrics to membership

Where Is Membership Going in 2011?

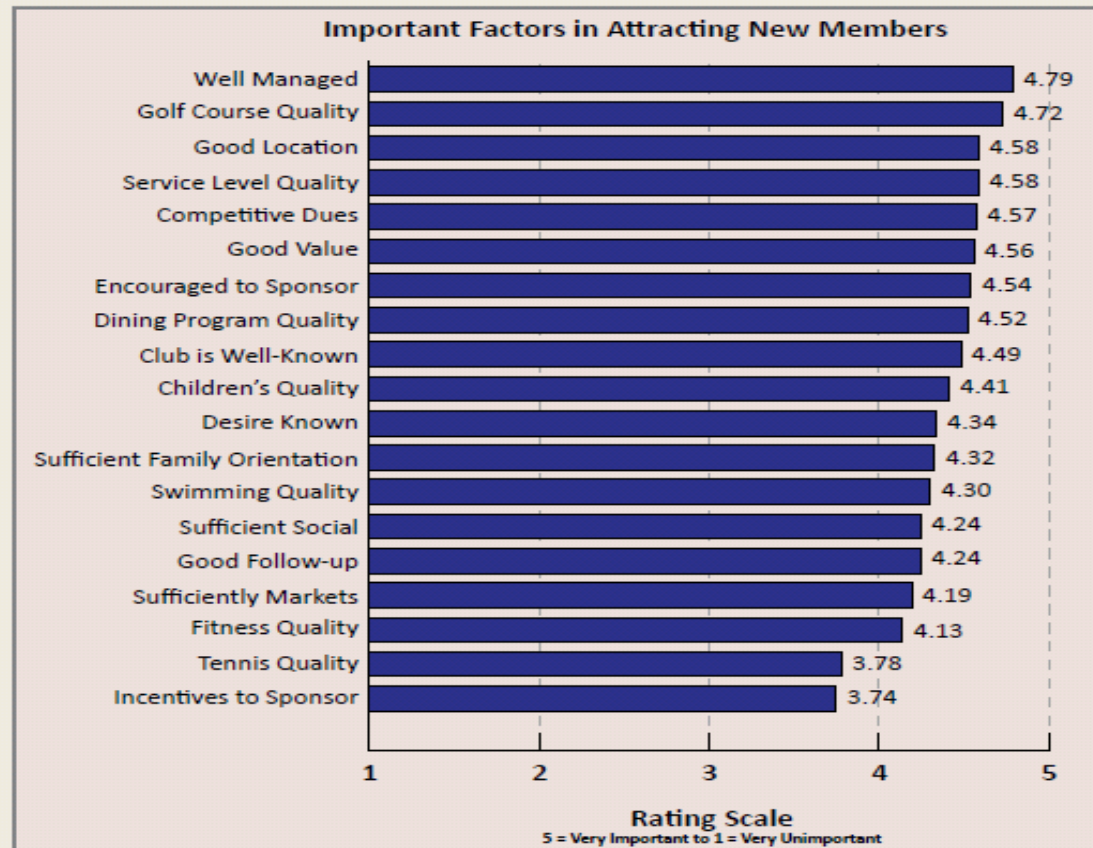


Chart 2

Source: McMahon Group Pulse Survey Database

“Investor” analysts

“Not everyone asks, but those who do generally want to see our annual report, our strategic plan, and some want the most recent financial statement. The first two we keep in a stand on the table in the office lobby. They also want to know how many people are on the resigned member list and what the current number of golf members as compared to our cap. They don’t ask how much non-member business we do, which is a little surprising, nor do they ask for a copy of the current budget. (I would ask if I was looking.) They do ask how much dues went up the last time we had an increase.”

--From a discussion on McGladrey Club World (LinkedIn)

“Investor” analysts

“In conversations with General Managers, Controllers and the more proactive Marketing Directors, the Recession and the often discretionary nature of Club membership brings the question of the Club’s financial stability to the forefront in the decision to join a particular Club.

Most potential members have demonstrated the financial savvy necessary to be able to join a mid level to high end Club. They are now applying these skills to rationally evaluate the financial health of their prospective Club.

Analysis of the Club’s past use of capital campaigns, current debt obligations, deferred maintenance and current reserves (if any) is key to understand the risks to their investment and the future of the Club overall.

The prospective member should certainly ask these questions and more. The Club that is prepared is the one that will allay these doubts and win the membership.”

--From a discussion on McGladrey Club World (LinkedIn)

10 questions a *business* must never stop asking

3. Why does anyone need what we're selling?

Sound familiar?

- Marketing is all about attracting new members. We need some new members, younger members, etc.
- Marketing is all about advertising. We need to be careful as a not-for-profit.
- Marketing is hype. We need to create a splashy event, or our members are too conservative for crazy marketing ideas.
- Marketing is unethical and harmful. Marketers brainwash consumers. We cannot risk our image or the trust of our members.
- Only marketers market. We need to hire someone to handle marketing for our club.
- Marketing is an expense. We need to watch our costs now more than ever. We cannot afford to market.

A closer look at marketing

“Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have **value** for customers, clients, partners, and society at large.”

American Marketing Association (2007)

Where are your club, its employees and members in this definition?
Do you see anyone else in this definition? Consider the differences between a stakeholder and shareholder view.

This definition was changed in 2007 after many years of a more concentrated focus on exchange alone (a transactional view). The view of marketing has shifted to focus on the ideas of lifetime profitability. Shareholder/investor returns are now coupled with a wider view of stakeholders with the understanding that value for stakeholders means profitability for shareholders.

Marketing mix: The 4 p's of marketing

- Product
- Place
- Price
- Promotion

How do these fit into the private club industry?
What role does marketing at your club have in each of these areas?

Customer relationship management

- Business model for increasing revenues and profits by focusing on customers
 - Major objectives
 - Customer acquisition – New members
 - Customer retention – Save money by keeping current members
 - Customer profitability – Profitability is more than a monetary return
 - Why now
 - Increased competition
 - Shift of power in the seller/customer relationship (members hold the power)
 - Better technology
 - Erosion of traditional channels of communication
 - Changes in the pace of life and the definition of a family
 - Multichannel usage (internet used to replace facets of supply chain)
 - Databases and database management (facilitate relationships with records but remember relationships trump data)

Brands – More than a logo, symbol or sign

- Does your club have a brand? It does, regardless of whether you recognize it.
 - What your members and the larger community says about you and your club when you're not present
- Positioning – The position the club holds in the minds of members
 - Clubs ask to hold a position; members decide if they allow it
- Value proposition – Does the value offered coincide with member desire?
 - Defining value of membership (ratio of costs to benefits)
 - Costs of membership is more than fees (opportunity costs)
 - Benefits of membership (more than a good meal and a game of golf; those are the attributes of “the product” but not the benefit of belonging)
- Brands are both an asset and a liability with actual financial implications
 - Can your brand be leveraged for a loan? Businesses recognize it should be.

Promotional mix

Promotion is more than advertising. Even not-for-profit entities can promote themselves, their values and their missions.

- Advertising
- Direct marketing (direct communication with members and prospective members)
- Interactive/internet marketing (social media; community involvement; etc.)
- Sales promotions (membership options)
- Publicity and public relations (unpaid and most credible form of promotion)
- Personal selling (beyond the traditional salesperson; member referrals and more)

Marketing: An art or science?

- Measurement, metrics and milestones
 - Gone are the days of undefined returns
- Return on marketing investment
 - In dues, loyalty, image and more
- Strategy and tactics
 - A role in the long-term plan and immediate results
- Internal marketing
 - The importance of employee support, loyalty, productivity, consistency and more
- A component of strategy
 - A facet of your business and strategic plans

Marketing is an investments, not an expense. Wise investments offer a return.

Find the balance between the art and the science to create a “profitable” lifetime relationship with members.

Keeping your constituents happy

- "An educated consumer is our best customer,"
 - Sy Syms (1926-2009) American businessman, entrepreneur and philanthropist
- "An educated member is our best member"
 - Kurt Kuebler, extremely handsome & well dressed consultant - Boardroom Magazine, 2/2012

10 questions a *business* must never stop asking

4. If a need exists, is it enough to support a **profitable** business?

Did we mention this?

“People who are in financial capacities at nonprofit organizations have to understand that we budget for the mission. We don’t change the mission to suit the budget.”

-- Stanley Corman, former CFO, YWCA

Metric-centric: What would Cramer say?

- Working Capital
- Quick ratio
- Debt to Equity
- Cash
 - Risk
 - Forecasting
 - Cash Flow
- Accounts Receivable
 - Ageing
 - turnover
- Inventory
 - Carrying cost
 - Turnover
- Property & Equipment
 - Replacement reserves
- Accounts payable
 - Stretching?
- Refundable equity
- Leases
- Forecasting?
- Sources of Revenue
- Payroll – per member; member per employee; overtime percentage of payroll
- Departmental Amenity Subsidies



Metric-centric: What would Homer say?



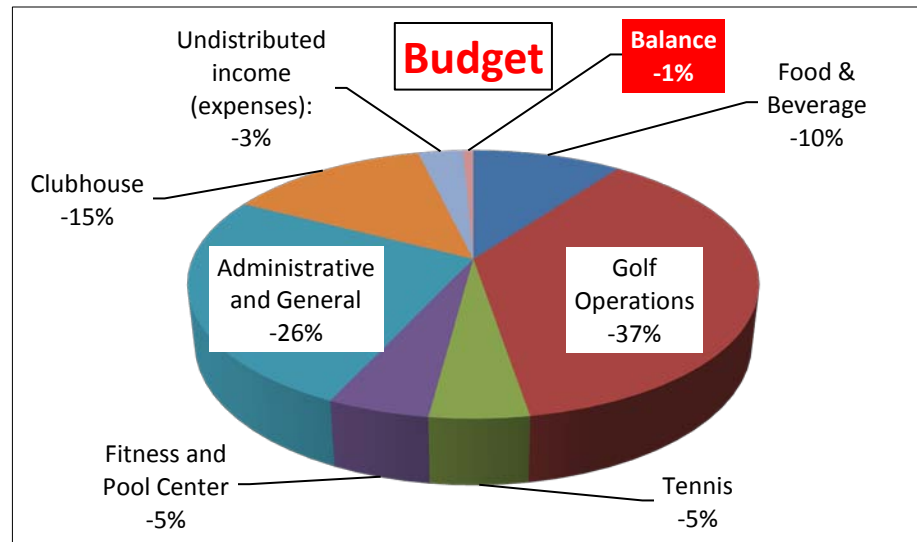
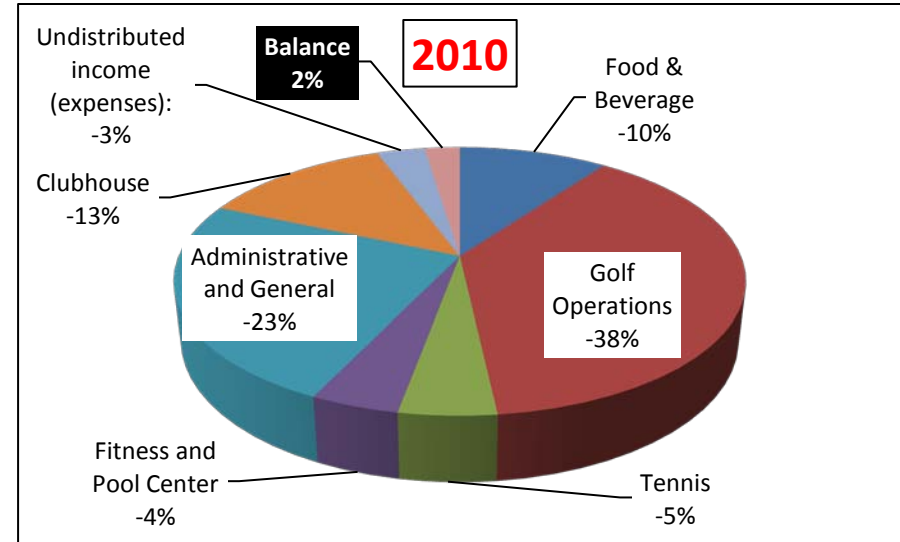
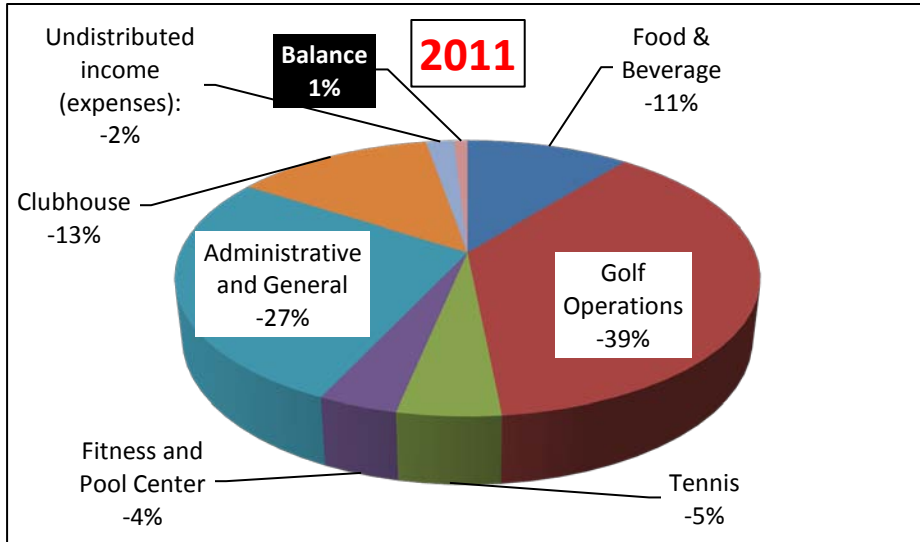
Depreciation is
a real operating
expense!

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5. What are our competitors up to?

Does it matter? Who is the competition?

Departmental amenity subsidy



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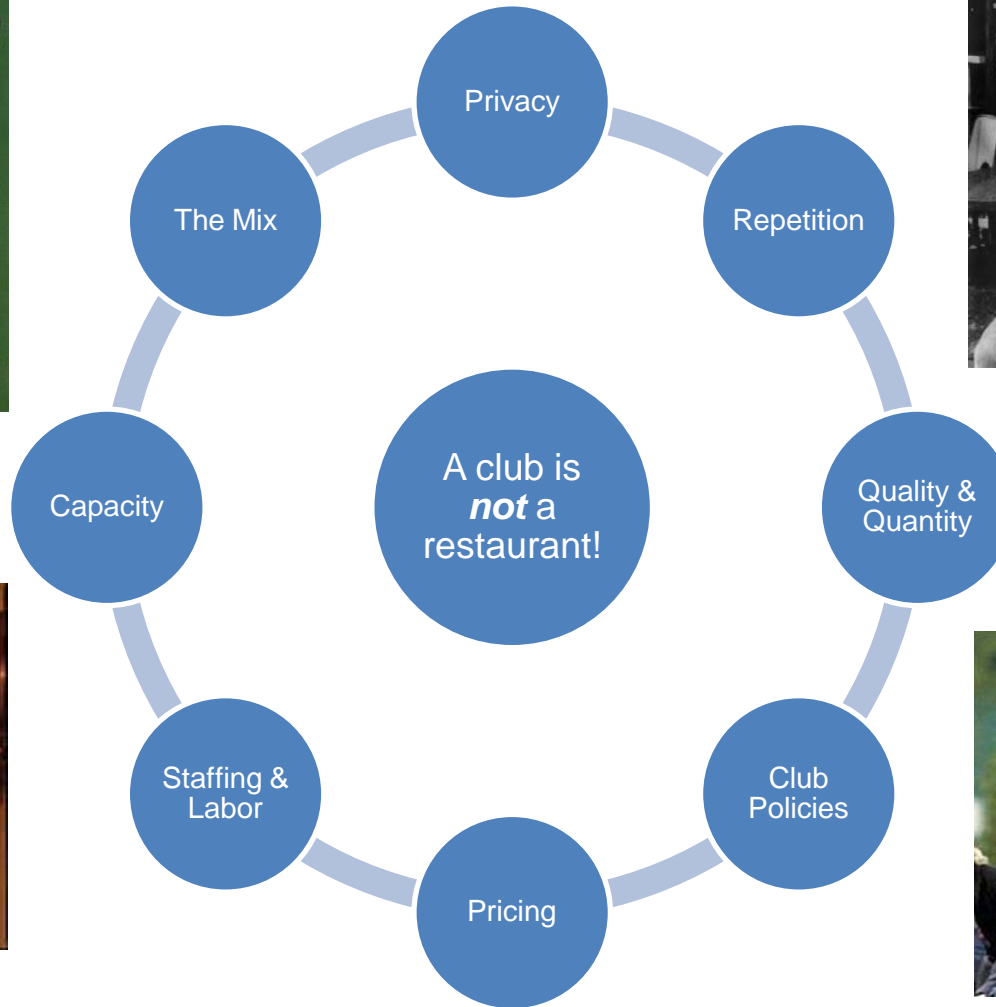
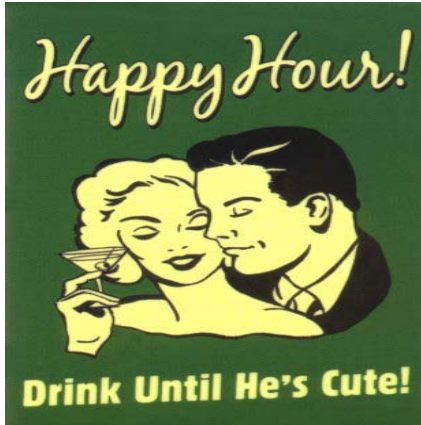
6. Can you reduce expenses **without** harming the product or brand?

Are we getting the message yet?

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-- Stanley Corman, former CFO, YWCA

Running the club like a restaurant: The circle of truth



10 questions a *business* must never stop asking

7. Do we have the right leadership and structure?

Corporate governance: Do well run clubs need committees?

- “For equity clubs, where members pay significant fees and want to feel like they own a portion of the club, unfortunately the tendency is to what representation via committee. I am not advocating this - I am totally of the opinion that less (committee) is more (achieved....by the staff), but the reality is that when people have more skin in the game, they want to be a bigger voice.”
- “Committees do serve an important role; that as an advisory group who provide meaningful input, opinion and suggestion to management. The important ingredient in maintaining that advisory status is the level of confidence the Board and the membership have in its highly skilled GM, COO or CEO (whatever you want to call the day to day operational leader of the Club). Also important are a clear set of policy documents defining the role of the committees and an effective board and committee orientation program.”

Corporate governance: Using committees for good

- “Now that's the \$100 question! Many old Clubs have either held on to the structure they have always had, or conversely, done away with committees and lost touch with their members and staff. Within club governance you must define which committees are imperative to success operationally and financially, and become almost standards. Long Range Planning, Finance, Executive, and Membership Committees. The secondary committees will change from club to club, based on factors such as programming, demographics, club type, does it overlap with an HOA/POA, etc. Committee roles and responsibilities should be clearly defined, and managed by the BOD appointee or committee chair. Then, there is the occasional need for a "subcommittee" tasked by the BOD or EC with specific focus. Think construction committee, debt restructure committee, etc. What many clubs lose sight of is that many committees needs absolute sundown dates and are not meant to be perpetual. This should be visited no less than every two years to eliminate redundant, or no longer needed committees. Effective committee governance requires considerable "dynamic rigidity" as the clubs needs change.”
- “If we run Clubs more like a business, then we need well defined committees (depending on the Club), with a specific function, to maintain that sense of belonging for the Members of the Club, and this sense of belonging supports the concept of matriculation and reduces attrition. The more challenging question should be, how do you manage your committees in today's times? How do you keep them interesting and productive? How do they help your matriculation and decrease your attrition? How do you select Members for your committees? Do you have a mission statement and job descriptions for your committees, if not why not? Does each of your committees have a specific frame of reference / defined area of responsibility? What initiation tools/training do you have for new members on the committees (documents etc.) to help them better understand their role and responsibility in regards other members, prospective members, staff, suppliers, the law etc.”

--From a discussion on McGladrey Club World (LinkedIn)

10 questions a *business* must never stop asking

8. Do we have the right employees?

Increasing credibility: Corporate governance best practice



Updated COSO Cube

Increasing credibility: Corporate governance best practice

Control Environment

1. Demonstrates commitment to integrity and ethical values
2. Exercises oversight responsibility
3. Establishes structure, authority and responsibility
4. Demonstrates commitment to competence
5. Enforces accountability

Risk Assessment

6. Specifies relevant objectives
7. Identifies and analyzes risk
8. Assesses fraud risk
9. Identifies and analyzes significant change

Control Activities

10. Selects and develops control activities
11. Selects and develops general controls over technology
12. Deploys through policies and procedures

Information & Communication

13. Uses relevant information
14. Communicates internally
15. Communicates externally

Monitoring Activities

16. Conducts ongoing and/or separate evaluations
17. Evaluates and communicates deficiencies

Fraud prevention training 101: Setting expectations

Functional Area: _____

Fraud Risk: _____

Fraud Risk Description	Possible Indicators	Detection Step

Fraud prevention training 101: Setting expectations

It is expected that every manager and employee will:

- Know the fraud related exposures in their areas of responsibility
- Know the symptoms or indicators of fraud
- Put in place methods to identify wrongdoing.
- Make sure the transactions they personally approve are not fraudulent.
- Personally monitor for those frauds that only they are in a position to detect.
- Question and challenge the unusual.
- Set an example of honest and ethical behavior by personal example and by not tolerating dishonest or unethical behavior in others.
- Strive to prevent fraud by minimizing the exposures and reducing the opportunities and temptation.
- Never inappropriately subordinate the needs of the organization to their own needs.
- Recognize and respond to the new or increased exposures.
- Not seek to achieve goals through dishonest or unethical means. Do not tolerate such behavior in subordinates.
- Immediately refer suspected wrongdoing to Internal Audit or Security for investigation.
- Do the right thing!

Fraud Prevention Training 101: Setting Expectations

■ POLICY ON SUSPECTED MISCONDUCT AND DISHONESTY

■ Purpose

■ Definition of Misconduct and Dishonesty

■ Policy and Responsibilities

- Reporting
- Additional Responsibilities of Supervisors
- Responsibility and Authority for Follow Up and Investigation

■ Reported Incident Follow Up Procedure

■ *Acknowledgment*

- My signature signifies that I have read this policy and that I understand my responsibilities related to the prevention, detection and reporting of suspected misconduct and dishonesty.
- I further acknowledge that I am not aware of any activity that would require disclosure under this or other existing company policy or procedure statements.

■

■ Signature: _____

■

■ Print Name: _____

■

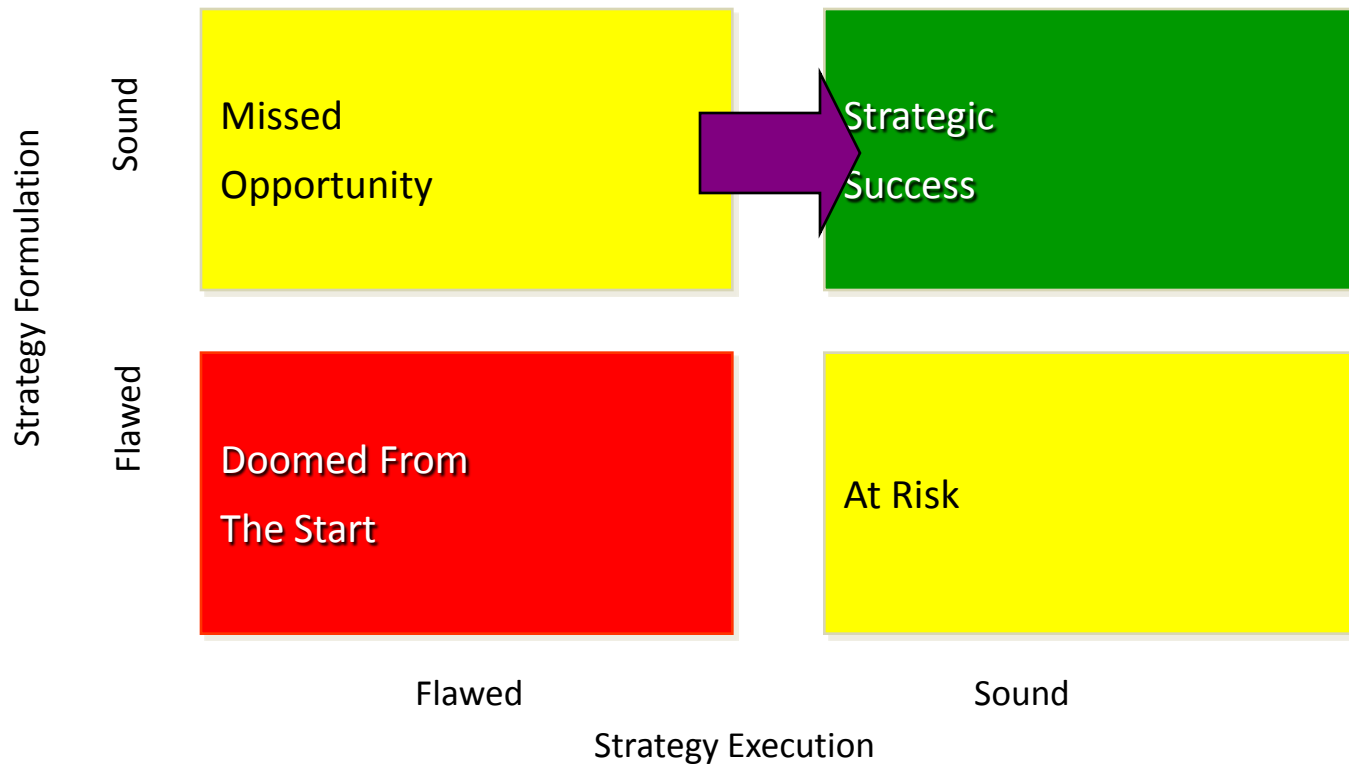
■ Date signed: _____

10 questions a *business* must never stop asking

9. How will we **continue to drive** revenue?

Strategy development or strategy execution? Organizations need *both*

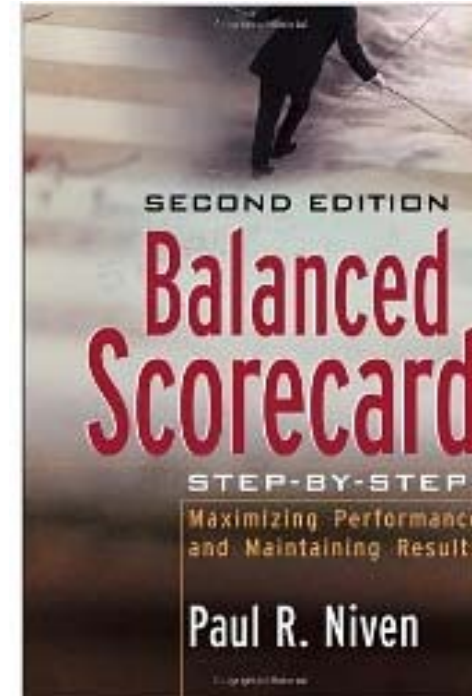
Strategic success requires going beyond successful strategy formulation to successful strategy execution



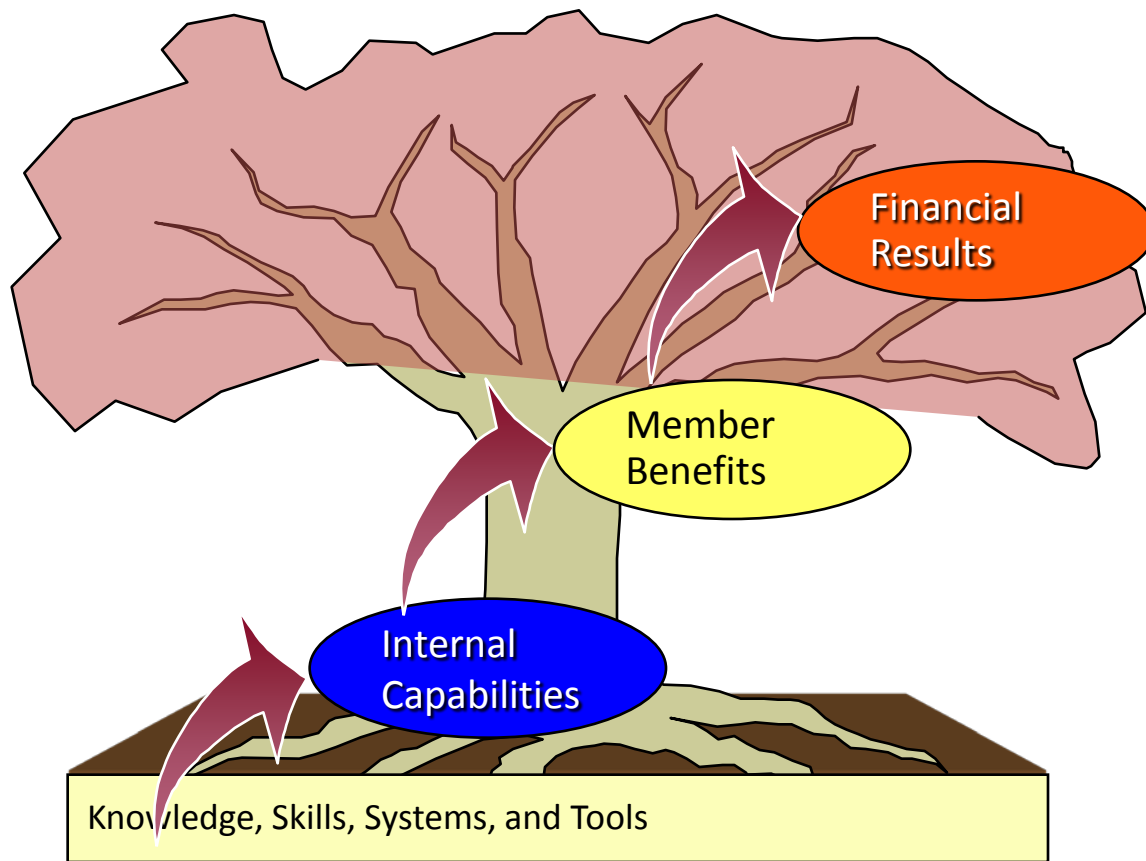
Source: ¹Execution: The Discipline of Getting Things Done, by Larry Bossidy, 2002.

Defining well managed: The Balanced Scorecard

- A mix of past, present and future measures
- Broad range of metrics
- Integrated system of measures
- Focus on a few key measures
- Measure and change with strategic goals



Are you managing strategically?



To Drive Financial Success...



Needed to Deliver Unique Sets of Benefits to Members...



To Build the Strategic Capabilities..



Equip our People...*And Volunteer Leadership*

7 characteristics of a winning KPI

KPIs:

- Are nonfinancial measures, therefore they can't be expressed in dollars, yen, pounds or Euros
- Are, in many cases, frequently measured 24/7, daily, or weekly
- Are acted on by the CEO and senior management team
- Clearly indicate what action is required by staff, so that staff can understand the measures and know what to fix
- Are measures that tie responsibility down to a team, allowing the CEO, for example, to call a team leader, who can take the necessary action
- Have a significant impact on the organization, affecting more than one Balanced Score Card perspective
- Encourage appropriate action, having been tested to ensure they have a positive impact on performance and that their downside is minimal

*David Parmenter,
Chartered Global Management Accountant Magazine, 1/31/2012*

10 questions a *business* must never stop asking

10. How are your employees holding up?

How are your employees holding up?



People who are in financial capacities at nonprofit organizations have to understand that we budget for the mission. We don't change the mission to suit the budget.

Power comes from being understood.SM

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