

Running Your Club Like a Business: What It Really Means

HFTP Annual Convention 2012



Assurance ■ Tax ■ Consulting

Today's Presenters



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Historian or Business Leader?

The Role

The Controller/CFO, reporting to the GM/CEO, has clear “ownership” for day-to-day financial operations of the Club , while working closely with the leadership team on the achievement and maintenance of *The Vision of the Club*.

Specific emphasis on creating and consistently enhancing an extraordinary lifestyle experience for the Members and their guests is primary to this role.

The Controller/CFO will provide financial leadership contributing to *The Vision of the Club*, and the Club’s business and financial objectives.

Historian or Business Leader?

Critical and Necessary Qualifications; Key Characteristics

- *A strong and passionate financial leader with a proven track record of providing supportive, timely and accurate information*
- *A Team Player who has a history of supporting and developing staff*
- *A proven “**courageous thought partner**” to an organization leaders*
- *An intuitive style resulting in a trusting and nurturing perception by all*
- ***Fundamental understanding of the Club business***

The 10 Questions a *Business* Should 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?

The 10 Questions a *Business* Should Never Stop Asking

1. What is our purpose for existing?

Not 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

The 10 Questions a *Business* Should Never Stop Asking

2. Who is our target customer?

Brands

- Does your club have a brand?
 - Beyond a logo, symbol or sign
- Positioning
- Value proposition
 - Defining value of membership
 - Costs of membership
 - Benefits of membership

“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.”

“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.”

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
- Footnotes



The 10 Questions a *Business* Should Never Stop Asking

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

Are these statements 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.

Promotional mix

- Advertising
- Direct marketing
- Interactive/internet marketing
- Sales promotions
- Publicity and public relations
- Personal selling

A closer look

“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?

An art or science

- Measurement, metrics and milestones
- Return on marketing investment
- Strategy and tactics
- Internal marketing
- A component of strategy

Delving into Customer Relationship Management (CRM)

- Business model for increasing revenues and profits by focusing on customers
 - Major objectives
 - Customer acquisition
 - Customer retention
 - Customer profitability
 - Why now
 - Increased competition
 - Shift of power in the seller/customer relationship
 - 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
 - Customer profiles, records, dashboards and more
 - Implications for the club environment

Touch Points

- Company created
- Intrinsic
- Customer initiated
- Unexpected – Most impactful, least controllable

Integrated marketing communications (IMC)

- One voice with an echo
- Every channel
- Social media
 - Two words: social and media
 - Everybody's doing it! Should you?
 - Hello. Is there anybody out there? Where are they?
 - Why aren't they responding? Keep posting!
 - They're whispering loudly. Listen.

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, Kopplin & Kuebler*
Boardroom Magazine, 2/2012

The 10 Questions a *Business* Should Never Stop Asking

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

What Is “It”?

“It sucks the energy, time, fun, and big dreams out of an organization. It hides opportunity and stunts growth. It brings out the most unproductive behaviors in an organization, from sandbagging to settling for mediocrity.”

- Winning
Jack Welch

Placing Your Budget In Context



Planning Documents

Strategic Plan

- Board Prepared
- Sets Vision for Club
- Analyzes SWOT
- Sets Goals and Objectives
- Assigns Accountability

Business Plan

- Management Duty
- Provides Tactical Solutions
- Exceeds Goals and Objectives
- Measures Performance

Business Plan Components

- Executive Summary
- Background and History
- Goals and Objectives
- Market Analysis
- Marketing Plan
- Organization of Management
- Financial Plan
- Critical Risks
- Appendices

An Effective Budget Is...

Realistic –

If a budget is to serve as a guide for activities in the coming year, it must be well-reasoned and reflect current conditions. Unsubstantiated revenue projections and “wild guess” cost estimates will render a budget ineffective as a management tool.

Consistent –

A budget must be consistent with short- and long-term strategic plans, and remain in line with the organization’s mission.

Flexible –

Budgets are based on a combination of facts and assumptions. If actual events and conditions vary from these assumptions, there must be opportunities to amend the budget to address revenue shortfalls and windfalls, and unexpected expenses.

Measurable –

The basis on which the budget is created should be the same basis on which the books are maintained.

Budget Methods: Incremental

- Under the incremental approach the foundation of the budget is simply the prior years' results. Managers start the process with last year's figures as the baseline and make adjustments based on anticipated needs and circumstances. Only expenditures over and above the baseline are required to be justified.
 - The advantage to this approach is that it's easy for managers to understand, does not require much documentation or support and as a result is not very time consuming.
 - The disadvantage to this approach is that it promotes "spending or managing to the budget" as opposed to actually understanding and managing the budget; and over the course of time can lead to a severely inflated budget as managers simply spend money so they don't lose it the subsequent year.

Budget Methods: Zero Based

- Under the Zero Based approach the budget is created from the ground up or a zero base. Historical results are still used, but only as a guideline not as the foundation of the budget. This is the fundamental difference between the two concepts.
 - Zero Based Approach – Managers are required to justify every expenditure included in the budget
 - Incremental – Managers are only required to justify expenditures over and above the prior year's results.
 - Properly implemented, the zero based approach is a significantly more valuable management tool than the incremental approach.

Advantages of the Zero Based Approach

- Identifies and eliminates wasteful spending
 - Every expenditure is required to be justified, if it's not adequately justified it's removed from the budget.
- Provides for a more efficient allocation of resources based on needs and benefits
 - *“We’re analyzing what we’re spending and where we’re spending it to determine if the benefit justifies the investment.”*
- Increases staff motivation by creating a greater ownership and responsibility in decision making.
- Creates accountability and challenges management and staff to think “outside the box” to identify more cost effective ways to improve operations.
- Not simply doing what was done in the past.

Disadvantage of the Zero Based Approach

- The disadvantage is that the process can be difficult for managers to understand because it's a very involved process that requires a significant amount of time and documentation.
- That's where the controller can play a key role, working hand in hand with the managers to guide them through the process and assist with gathering documentation and support.

”Overall the Zero based approach is an entirely different management philosophy or culture that we’ve been implementing over the past three years and we believe it has been the catalyst behind the Club’s recent success. Now, it’s certainly a learning process that we’ll all improve on as we gain experience and continue to better understand the intricacies of the operation.”

If You Live And Die By The Budget...

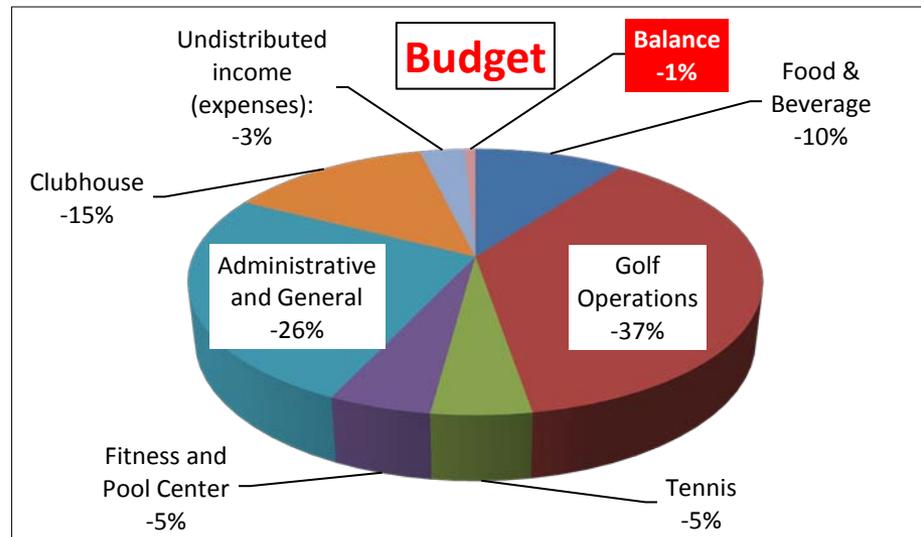
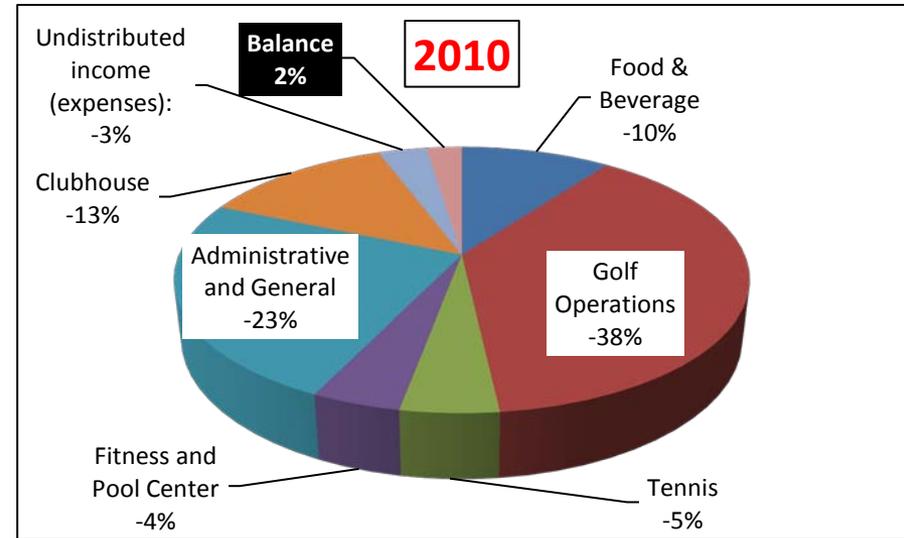
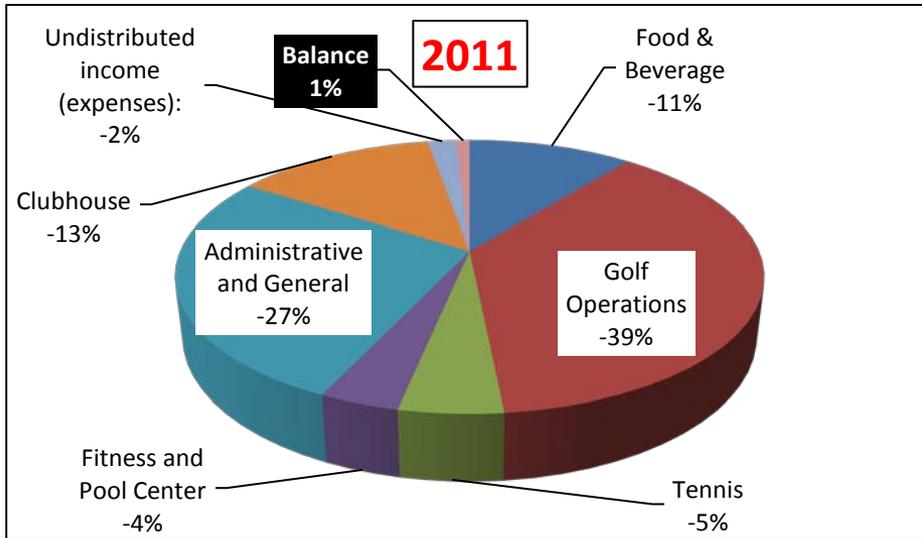
- Budget drivers & Information Systems...
 - C.S.F.'s  K.P.I.'s
 - Covers
 - Rounds
 - FTE's
- Do linkages make sense?
 - Do we have the history to stress test our budget?
 - Ratio analysis beyond COS %...
- Budgeting vs. Forecasting
- Does the budget tell the story of what you really plan to do during the month/quarter/year?
- How do we use benchmarking?

The 10 Questions a *Business* Should Never Stop Asking

5. What are our competitors up to?

And does it matter...?

Departmental Amenity Subsidy



The 10 Questions a *Business* Should Never Stop Asking

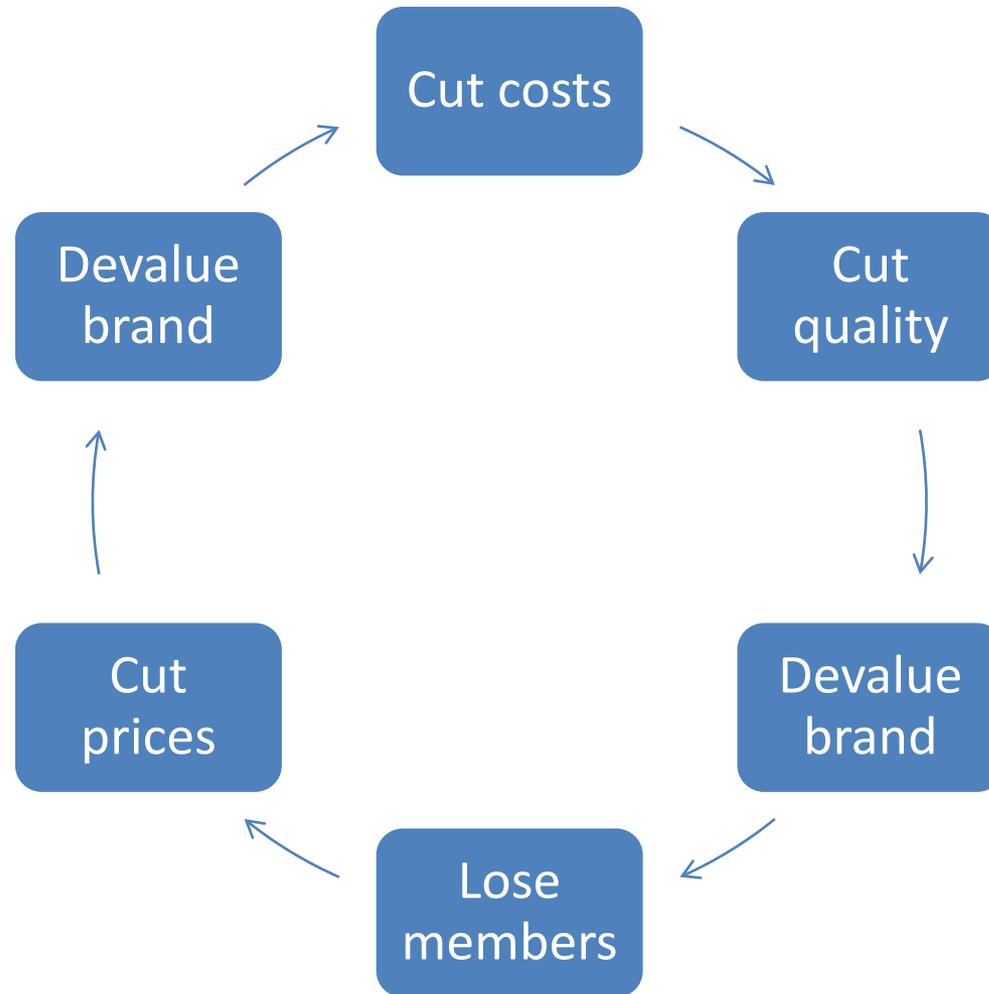
6. Can you reduce expenses *without* harming the product or brand?

Have We Said this Yet?

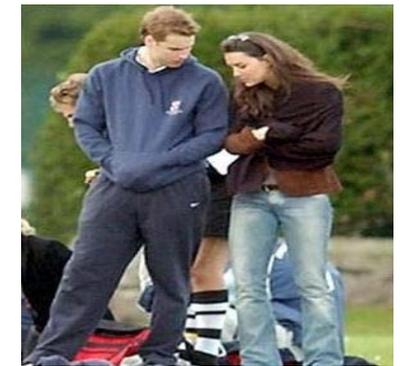
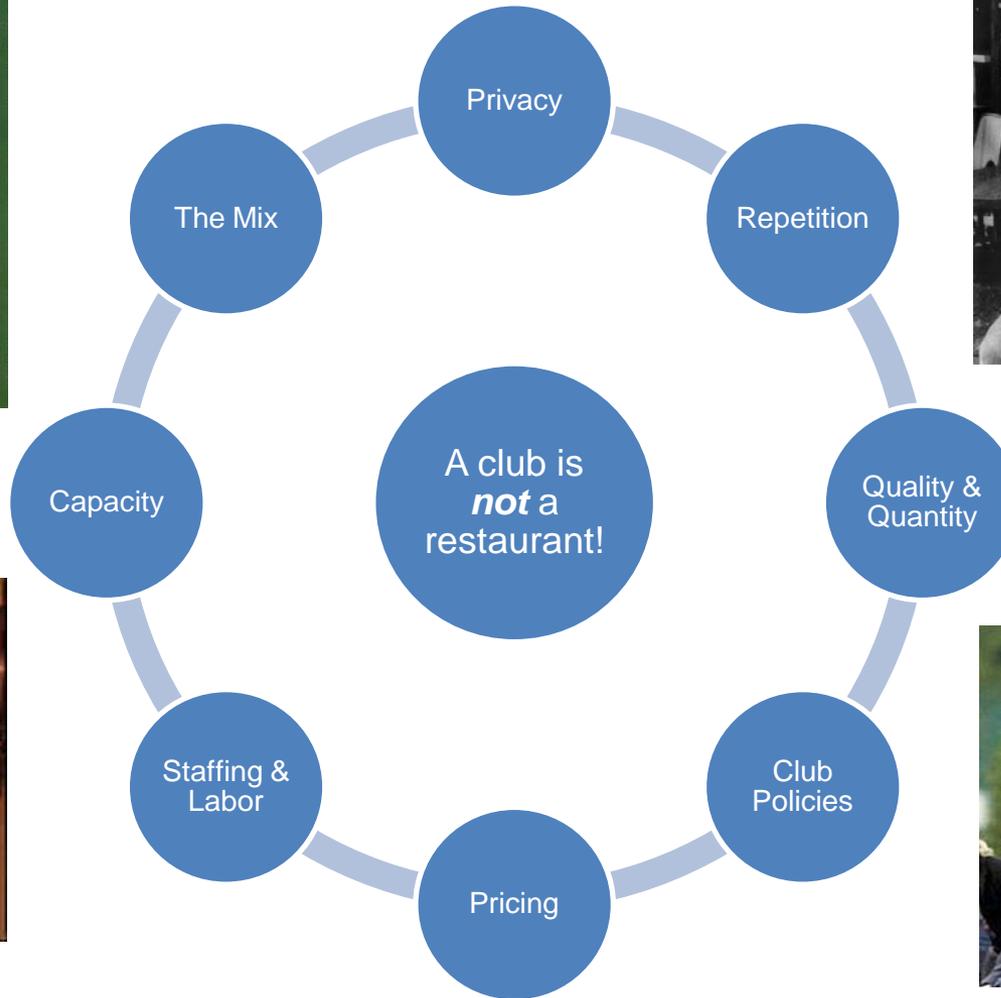
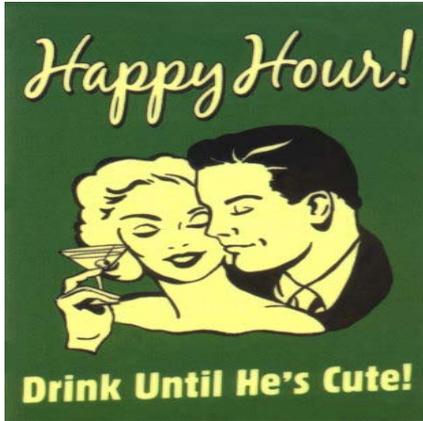
“People who are in financial capacities at nonprofit organizations have to understand that we budget for the mission. We don’t change the mission to suit the budget.”

-- Stanley Corman, former CFO, YWCA

Unintended Consequences?



Can You Cut Expenses Without Harming The Brand?



Can You Cut Expenses Without Harming The Brand?



The 10 Questions a *Business* Should 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.”

7. Do We Have The Right Leadership And Structure?

“Teldar Paper has 33 different vice presidents each earning over 200 thousand dollars a year.

Now, I have spent the last two months analyzing what all these guys do, and I still can't figure it out.

One thing I do know is that our paper company lost 110 million dollars last year, and I'll bet that half of that was spent in all the paperwork going back and forth between all these vice presidents.”

7. Do We Have The Right Leadership And Structure?

Committee Expense Analysis

Committee	# Meetings Per Year	Annual Labor Expense (Before PTEB)
Finance Committee Totals	12	\$ 5,500.00
Greens & Grounds Totals	8	\$ 7,700.00
Golf Committee Totals	8	\$ 8,000.00
Tennis Committee Totals	8	\$ 3,500.00
Facilities Committee Totals	8	\$ 3,400.00
ARC Committee Totals	8	\$ 3,300.00
Legal Committee Totals	8	\$ 5,600.00
Rules Committee Totals	6	\$ 3,900.00
House Committee Totals	6	\$ 3,400.00
Social Committee Totals	40	\$ 21,000.00
Miscellaneous Meeting Expenses Totals*		4,950.00
Total Committee Expenses		<u>\$ 70,250.00</u>

* room set up/breakdown; F&B; stationery etc.

Membership count < 700

The 10 Questions a *Business* Should Never Stop Asking

8. Do we have the right employees?

Do We Have The Right Employees?

Traits, Skills and Competencies

- A diplomatic and competent professional who is a 'doer' and take-charge person and who recognizes the importance of accountability. A creative problem solver who commands respect because of the way he/she interacts with others and lives up to his/her word and confidently puts forth recommendations to the CEO.
- Personally capable and comfortable with technology and incorporates its use, as appropriate in his/her everyday role, while never losing sight of the need for 'high touch' relations with Members and Associates.
- An individual who possesses a style and presence, in addition to personal and professional integrity, commensurate with the "Club Experience" vision.
- A person who understands and effectively functions in a non-profit, volunteer, member-owned Board and Committee environment, who further recognizes the need to use these groups as sounding bodies, raising issues of a policy nature and offering alternatives in addition to pros and cons. Ultimately, an enthusiastic supporter of Board decisions and directives.
- Armed with a high degree of creative, relevant and innovative ideas.
- Decisive, committed, energized and passionate about the Club and the role that he/she has assumed.
- Possessive of strong organizational skills and an obsession with covering the details necessary to consistently achieve high levels of accuracy.
- Capable of a high degree of self-motivation.
- On a verifiable, positive career track, unblemished by inappropriate behavior of any sort that would be potentially detrimental or embarrassing to the membership .
Someone who has been a "difference maker" wherever he/she has been in the past.

Do We Have The Right Employees?

- Maintains all accounting records and is responsible for development, analysis and interpretation of all financial and operating information.
- Evaluates operating results in terms of costs, budgets, and policies of operation, trends and increased profit possibilities.
- Develops policies to control and coordinate accounting, auditing, budgets, taxes and related activities and records; develops, establishes and administers procedures and systems pertaining to financial matters; prepares financial statements, forecasts and analyses for all administrative and managerial functions.
- Provides clear and consistent financial input to each member of the leadership team. Ensures that each has the appropriate and necessary tools with which to accomplish the desired financial objectives, while providing regular guidance and evaluation of outcomes.
- With the GM/CEO, sets policies and systems for purchasing of all products and capital expenditures.
- Will assist GM/CEO with decision related to approval of contracts, payables and other financial commitments of within the prescribed constraints of the budget and in close coordination with the Board and appropriate Committees.
- Will assist GM/CEO to ensure that appropriate safeguards are in place for all of 's primary assets.
- Will assist the GM/CEO with the financial management of capital projects, ensuring that there are appropriate safeguards to meet financial projections.
- Is the Team leader with Information Technology systems & Club Software. Ensures the most valuable systems are in place and utilized to their full extent and recommends improvements. Directs staff training to achieve such. Understands the value of technology as well as 21st century social media applications and their use in today's world of connecting with members and residents.
- He/She must have the ability to have consistent and relevant information collecting and dissemination. Creates and executes systems to respond to input and feedback from staff as necessary.
- Recognizes that "no surprise" financial management means keeping the GM/ CEO informed of all significant, or potentially significant financial matters, or other situations of membership importance.
- Will need to be the verbal and written communicator of all financial matters for Members and Staff, and recognizes that the ability to convey information in an articulate, well-conceived and well-written manner is of utmost importance.
- Interacts on a regular basis with department managers.
- Promotes a healthy working environment and overall atmosphere for staff.
- Attends meetings of the Finance Committee and others as requested by GM/CEO, of which he/she is an ex-officio member or a necessary and desired attendee. Ensures that appropriate recording of all meetings occurs.
- Ensures that financial operations are operated in accordance with all applicable local, state, federal laws and GAAP.
- Recognizes the need to continually improve existing member services, and introduce new and innovative programs and services to enhance member satisfaction

Do We Have The Right Employees?

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*

The 10 Questions a *Business* Should Never Stop Asking

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

How Will We Continue To Drive Revenue?



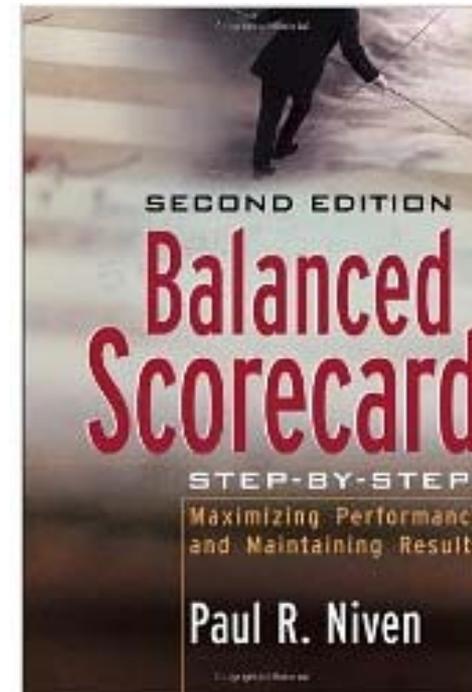
*People who are in financial capacities at nonprofit organizations have to understand that we budget for the mission. **WE DON'T CHANGE THE MISSION TO SUIT THE BUDGET. D'OH!***

How Will We Continue To Drive Revenue?

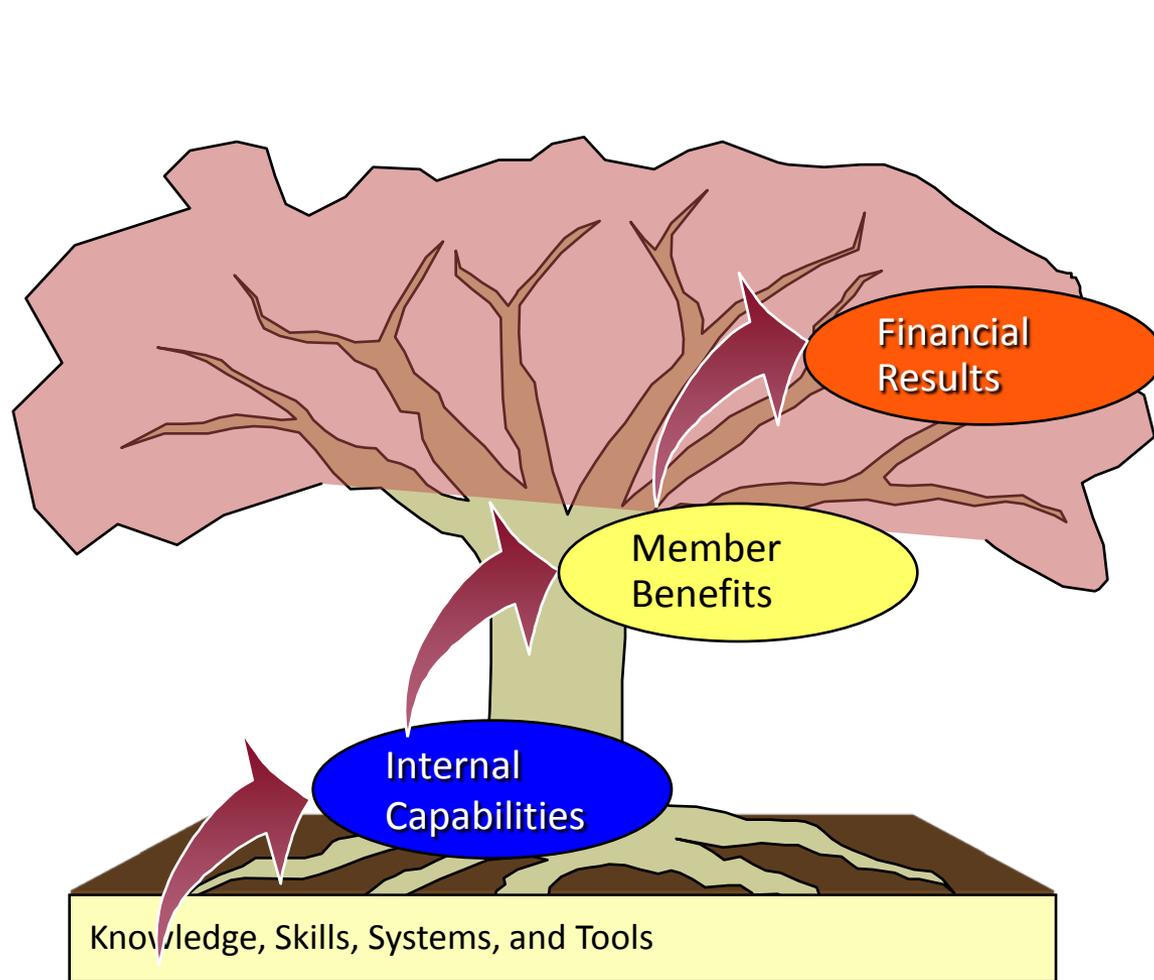
1. Raise dues?
2. Raise amenity prices?
3. Add amenities?
4. Cut joining fees to increase members?
5. Open the doors to the poor, famished, huddled masses...and the IRS?

Driving Revenue Strategically

- 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



Driving Revenue 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*

The 10 Questions a *Business* Should Never Stop Asking

10. How are your employees holding up?

10. How Are Your Employees Holding Up?

Exempt vs. Non-Exempt?

Gratuities vs. Tips?

H-2B or Not 2-B?

10. How Are Your Employees Holding Up?

- Morale amongst senior staff not conducive to meeting member lifestyle expectations
- Numbers management appears to be focus of General Manager at the expense of membership experiences
- Board and committee messaging does not appear to be strengthening brand identity at club level or motivating club managers
- Staffing cuts appear to be at level where membership experience is adversely affected
- Strategic direction of board is not known to club staff
- Elimination of training programs adversely affecting staff progression and morale
- Lack of capital investment in facilities and equipment not conducive to membership sales targets being achieved

Extracted From McGladrey Club Service Team Operational Audit Report

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