Affinity
MANAGEMENT

The Death Spiral –
What Every Private Club Needs to Know to Stay Alive

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Clubs do not normally die overnight. Occasionally a factory town loses its key employer and causes a near immediate shutdown. More commonly troubled clubs die slowly in the form of annual net decreases of 10-30 members. The cycle can take years, but the pattern is distinct. It is easy to tell when you are near the end, but then it is too late to reverse the cycle. Here are the signs of a club in the death-spiral as well as ways to avoid encountering it or to reverse the cycle.

Common Causes

The three most common catalysts for a club entering the death spiral are:

1. Capital Project – Affinity estimates that 80% of club failures stem from this root cause. Capital projects often go over budget, take longer than planned and bring unforeseen incremental operating costs. Few clubs accrue sufficient capital funds to pay for projects entirely from their balance sheets so debt, assessments and higher dues are commonplace. This is equivalent to a high wire act yet few clubs involve the necessary professionals to prepare for the marketing needed to overcome predictable negative impacts on revenue.

2. New Competition – Though construction of new golf courses has slowed, the addition of any competition – even daily fee in many instances – can lessen the club's attractiveness to enough people to cause a noticeable financial impact. This is particularly significant in smaller markets where Affinity has witnessed a new municipal course wreak havoc on established private clubs.

3. Self-Inflicted – Well-intentioned decision-making by the club can sometimes lead to disaster. The introduction of a dining or senior membership that cannibalizes dues falls into this category, as do overly lax policies regarding resignation and/or leave of absence or counterproductive attempts at membership or revenue growth. Self-

<u>inflicted causes most commonly follow capital project problems as a club tries unsuccessfully to reverse course</u>.

More on Capital Projects

Virtually every capital project pushes out members at the margin. It is not uncommon for 5-15% of members to resign in the face of even the most popular capital proposals. Ironically, this can even be a positive in the development of a healthy club. Often clubs plan on new members being drawn in by the new improvements, and while that sometimes does happen naturally, more often it requires significant marketing support.

Few clubs have all of the money they need in the bank already and therefore there is some additional cost to members. All members won't support every project and even those that do sometimes resign anyway just because voting or paying a little more means they re-evaluate their membership. In essence they might have been on auto-pilot paying dues regardless of use, but the change brought on by the capital project forces them to reconsider. At the margin, some people leave, leaving fewer people to split the bill.

<u>One of the most interesting resignation letters I have encountered</u> was from a widow who loved her social membership, but rarely used it. When the club passed a small assessment (her portion was under $400) she wrote this on her invoice:

> *"I love the project and think it is the right thing to do. I have enjoyed the club, but now wish to resign. Best wishes."*

Aggravating the Problem

Mature clubs consistently lack any type of paid sales force. The reason is simple: for many years they didn't need a membership director because the club was satisfied with its membership level. Maybe the club even enjoyed a waiting list, which any other industry would call running out of inventory.

Once membership levels are down, clubs commonly react by lowering price, advertising, and offering to pay members for referring friends to the club. These "deadly sins" may bring some short-term success, but it is usually fool's gold that damages a club's image.

The Cycle Begins

If these steps are unsuccessful, the club falls further behind financially and members grow concerned. Additional members leave through natural attrition and perhaps a few more decide to leave before things worsen. Some leave because their friends left. After an initial burst, recruiting members becomes challenging. Prices either need to be raised to pay the bills or expenses cut. At some point limited daily fee play or outside dining may be introduced.

These changes weaken the value proposition and drive out 5-20 more members – typically after high season ends. Members are getting less and pride erodes. During this process annual budgets usually anticipate growth or at least level membership, and the loss of these members means that the members must contribute more money and/or additional services must be cut. The cycle worsens.

Attracting and retaining talented managers that can stop the bleeding is more difficult with deteriorating resources, plus the situation has the look of resume blight. Very few managers have the experience and fortitude to overcome the problems, accelerating the decline. Similarly the club tends to gravitate to the "no money down, promise the moon" membership consultants who evidence some examples of home runs in other clubs. Unfortunately this home-run approach means there are many strikeouts. A strikeout at this stage can dramatically accelerate the problem. Unless interrupted, the club will reach a point of no return and either close, cease to be private or be sold.

Avoiding the Death Spiral

The following steps apply to any cause of the death spiral, but the words here are tailored to the most common cause: capital projects.

1. **Stage Projects** – Splitting projects into smaller, sequential efforts lowers the magnitude of any one-belly punch, and allows the club to focus more energy per dollar of capital outlaid. It also allows you to test relationships with architects and contractors.

2. **Be Realistic with Timelines** – Too many clubs call us for help in asking how to involve their members and get buy-in for a project that has already been designed and is ready to start. This leaves no room for error. Such dissent accelerates resignations.

3. **Plan for Healthy Contingencies** – 10% should be the minimum. When renovating old buildings 20% is more realistic. Determine the use for unused contingencies in advance to avoid last-minute gold plating. Debt reduction or capital reserves are the most responsible uses of these funds.

4. **Bad News Ages Poorly** – If the budget or timeline changes from what was originally promised to members, it is best to communicate that as soon as it is evident rather than waiting for a neat solution to present itself. Communication is crucial.

5. **Do Not Rely on Architects for Marketing Advice** – I may have a good taste in buildings, but you would not let me design your building because I am not an architect. Keep this in mind when your architect begins offering membership advice. No renovation or capital improvement over $1 million should begin without a membership marketing professional involved unless a club is full.

6. **Pre-Market** – If you build it they might come…or they might not. Clubhouses, equestrian facilities, golf courses and other projects are most beautiful before they are built, when the imagination can run wild. Running a campaign leading into and during construction will create a buzz and attract potential members before you are in a crisis. It also will make members at the margin less prone to leave.

7. **Let Operations People Review Architectural Renderings** – I have been in many, many clubhouses that are gorgeous but dysfunctional. I love and respect architects, but architects are not the ones who have to stand in the server assembly line in front of the dumb-waiter every time there is a party because the kitchen is on the wrong floor. Architects underestimate mundane but important items like storage and employee dining areas that lead to perpetually high labor costs. This applies to *Architectural Digest* level professionals as well as regional clubhouse specialists. Involving your department heads early and often will save you money and headaches for decades and will create staff buy-in.

8. **Educate and Update the Troops on the Front Line** – Members get most of their updates about projects from waiters and cart attendants. Clubs rarely provide communication training and updates about what should and should not be said to members. Such training demonstrates respect for the staff, and helps avoid misguided promises and negative gossip on the grapevine.

9. **Budget Operational Costs into the Project** – There will be natural displacement of members. Quantify the cost and include this in your capital budget. If a banquet room were to close during wedding season the club should adjust budgets for fewer weddings. A club expecting 30 members to leave should include the cost of a marketing consultant and/or membership director in their capital costs for the duration of the project plus one year of operations. It is preferable to put it on the table when banks and members are most favorable to reviewing the overall budget, and it adds credibility to the project.

Breaking the Downward Cycle

Once in the death spiral, outside intervention is almost always necessary to restore member confidence and drive membership growth. Missteps are especially costly. Fees must be stabilized at a reasonable rate, and the club's finances put in order. If service has dwindled it needs to be addressed and compromises toward public access need to be undone. It is hard for management and/or board members to do this without somehow pressing the reset button by bringing in an advisor with operating and membership capability and/or inserting professional management between current employees and the Board.

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