

# Club Director

FALL 2022

PERSPECTIVES FOR LEADING PRIVATE CLUBS

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## The Beauty of the Club

Meet the people behind clubs' great art.



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# Budget Time is Here

## *Is a 20% dues increase palatable?*

**DAN:** Budget time is here again—it’s an annual event, something like Christmas or April 15th.

The economy is still in question, but despite this and other macro, global factors, isn’t it time to finally loosen your budgeting belt? While many members are still personally recovering from the pandemic, private clubs are generally doing well. Membership levels are high, dues income continues to flow and “profits” (if you care to refer to a breakeven budget as profitable), are being made. Unfortunately, however, with *an abundance of caution*, services and amenities continue to be scaled back in many but the top quartile of clubs. With memberships full and demand high, isn’t now the right time with the right strategy to position the club for the future? We’re hearing nationwide that club members supported their clubs through the pandemic, but they are ready to move on—not just to get back to business as usual, but to “build back better” (pardon my hyperbole). They are ready to accept more aggressive dues increases, some as high as 20%, understanding that labor, food and other operating expenses have exploded but also for want of a great entertainment experience for themselves and families. We are selling a luxury product, at every level!

**BOB:** Dan, you’ve been saying for quite some time now that clubs need to consider themselves foremost in the entertainment business, more so than just the golf, racquets, restaurant, etc., businesses. While I don’t disagree with that generalization, the American public has an extraordinarily large selection

of entertainment choices, each trying to carve out their particular niche. Management gurus encourage a focused vision on your core business and mission; how should a board or management expect to control costs, create a budget and hold themselves accountable with such a broad definition of purpose?

**DAN:** It’s important to paint the big picture and make it clear that all club amenities and services are for the entertainment of our members and their guests. Each club needs to determine for itself what those are, but regardless, everyone and everything needs to be focused on entertaining. Amenities, services and programming all need to be balanced against broad member expectations and their willingness to pay.

I’m glad you brought budgeting into this discussion. Budgeting shouldn’t be about limiting the club, rather about making possible services and amenities that excite members. Clubs are long overdue in raising their dues to the appropriate level necessary to provide the amenities and quality standards that they expect. Clubs are a luxury product and luxury goods’ costs consistently outpace simple inflation or cost of living increases. Too many clubs limit their dues increases to these indices and as a result, fall farther behind in generating the dues, fees and sales income necessary to properly maintain facilities, compensate employees and provide top level entertainment. Einstein is credited with having said that “the compounding of dues is the eighth wonder of the world. He who understands it, earns it, he who doesn’t pays it.” If I can get away with twisting President

Biden’s words for my purposes, I’m sure Einstein would not have objected to my substitution of dues for interest. It’s time to catch up on those lost incomes.

**BOB:** Dan, I’m not sure I would recommend dues increases of quite this magnitude, but I do agree that dues, fees and unit pricing need to increase incrementally each year. Those increments should reflect the real cost increases for the products the *club* purchases, not local Consumer Price Index for an aggregate cost of a basket of consumer goods and services. As for the here and now, clubs have fallen behind, leading up to and including the COVID-19 years. If they don’t make up for this now, then when? Churchill would be soundly behind not letting this crisis go to waste!

Speaking of not letting an opportunity go to waste, I would like to challenge your thinking relative to budgeting. I know you are a proponent of zero-based budgeting, as am/was I, but isn’t it time to shelve this style of budgeting, at least for the foreseeable future? Don’t you think that zero-based budgeting, by definition, limits the creativity and innovation you are proposing? It is data driven and demands a predictable environment with predictable outcomes. Incremental, or historical budgeting, on the other hand, relies much more heavily on trends and predictions, sometimes worse case. The economic and disrupted business cycle we’ve been experiencing is not likely to fall back into a predictable pattern for several years to come. In our current economic environment, no one is predicting anything with any great certainty.

**DAN:** Bob, you're confusing sound budgeting practices with the need to create ever improving, ideally expanding experiences. Yes, we've come a long way in building best practices into club management and zero-based budgeting has become a gold standard. Yes, it is data driven, but it definitely needs to provide for and include trend analysis and implementation of scenario planning. Budgets should never be so tight that they hamstring employees or the board from experimenting and innovating. A budget is a guide, not a straightjacket. I agree there has not been much room for such in recent history with boards trying to manage the budget to inflation rates, but that goes for

both historical and zero-based budgeting. Those boards are great at "saving their way to prosperity." I don't disagree that club business currently has a high degree of uncertainty, but the membership does provide a safety net should expectations fall short of predictions. With that in mind, club budgeting still involves predictions, whether about income or expense, but it must be based upon hard data and not unsubstantiated guesstimates. Beyond calculating necessary dues levels, budgets serve as a control function and for many clubs it is their business plan. Management is held accountable for achieving goals and objectives that are baked into the budget

that must be clear and concise. Worst case planning is good to have in your back pocket, but as your primary plan, it is an open checkbook for mismanagement and underperformance.

Clubs needs to pick what they want to be: a fully loaded Chevy, a 3 series BMW or a Ferrari. There is a car for everyone—which is your daily driver? **CD**



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