JOHN G. FORNARO
PUBLISHER, BOARDROOM
PRESIDENT & CEO, APCD

Are Club Dues Too High? If So, What Do We Do About It?

ARE PRIVATE CLUBS PRICING THEMSELVES OUT OF THE MARKETPLACE? HOW DO CLUB BOARDS AND STAFF KNOW IF THEIR DUES ARE GETTING TOO HIGH? ARE THEY ACCELERATING TOO QUICKLY?

These are all very important questions as the private club industry works on ways to bring in members and revenue and recover from the doldrums of the past several years. So what should clubs do?

Well, the opinions are varied but amid the discussion some suggestions do surface.

"Are clubs pricing themselves out of the market? This, at minimum, is a multi-million dollar question," says Bob Bodman, partner with Ken Kelley in Club Resources, a private club consulting firm based in Truckee, CA.

"There is no doubt that many (perhaps most) clubs have pushed the envelop on dues since the recession began, primarily because of the number of unproductive memberships (selling list memberships, abandoned memberships, and simply a club not having a full membership, etc.)

"We have also seen a migration, where bylaws allow, from higher dues categories (proprietary or regular) to lower categories (mid-week, social, etc.)," Bodman explained.

"Dues pricing is relative to several key factors, and to determine if they are too high (or too low), you need all the data. We use the past five years as an example, because this is usually the data we seek to compare when we do the membership section of our strategic planning studies. There is nothing magical about five years, and if you have consistent data that goes back further than 5 years, then you should use it," Bodman commented.

Are clubs pricing themselves out of the market? In Frank Gore's mind, "The short and easy answer is yes. But each club and each market is different with some markets much more price sensitive. Clubs will see the costs of operating the club continue to rise," said Gore, principal in Gore Golf and chief analyst with *BoardRoom magazine's Distinguished Club Program*.

"Historically clubs have just passed on this increase to its members in the form of dues increases, assessments and increases in usage fees like menu prices, beverage prices, room rentals, cart fees, guest fees etc. Clubs must find ways to lower their operating costs. They must become more efficient," he added.

Frank Vain, president of the St. Louis-based McMahon Group, says studies from leading accounting firms report that club dues increased six percent per year on average, from 2000 to 2010.

> The dues increase is well above the three percent inflation rate for the period and equates to a doubling of dues every 12 years. When viewed in the context of the turbulent and economically disruptive events of the decade – 9/11, two wars, contentious elections and the 2008 financial collapse – clubs have not done a good job of staying in sync with the broader economy.
>
> *Frank Vain*

The dues increase "is well above the three percent inflation rate for the period and equates to a doubling of dues every 12 years. When viewed in the context of the turbulent and economically disruptive events of the decade – 9/11, two

SEE PUBLISHER'S PERSPECTIVE - PAGE 80

wars, contentious elections and the 2008 financial collapse – clubs have not done a good job of staying in sync with the broader economy," Vain explained.

"This disconnect has been made worse by a shift away from corporate support for memberships, meaning membership funding is more likely to be coming from an individual's after-tax dollars than a deep-pocketed third party, and changing societal values where club membership is no longer regarded as a significant achievement.

"Offering something that is less desirable than it once was at a higher relative cost is not a recipe for success and it is part of the reason membership is out of favor."

Other factors also exacerbate the situation.

"Since clubs are independent non-profit organizations in the service business, they have not been able to benefit from the efficiencies that other types of businesses have been able to achieve during the decade. The service industry is a people business, so technological advances make it only minimally more efficient," Vain expressed.

Definitely there is a need…a requirement for good solid research that becomes the basis for a club making a decision about its dues.

Unquestionably it should include extensive market studies, including the private clubs in your area, as well as some of the high-end daily fee golf courses, and comparison of menu pricing for comparable restaurants and bars, hotels and wedding venues. "Get good comparisons on everything you can," suggested Gore.

Bodman, in explaining how his group seeks consistent data over a minimum of five years, said there is usually certain data he wants, including:

1. What is the club's current attrition rate, relative to the past five years?

2. What is the level of member satisfaction and how does it compare to the past five years?

3. Compare the "average dues" trend over the past five years.

4. What has been the reaction to the past five year's dues increases (in terms of resignations, but also in terms of new members matriculated in the months that preceded and followed (again, compared to the past five years of apples to apples)?

5. Where does the club rank in dues level to its comparative type clubs (Be honest about the comparison. What other clubs do this club's prospects also shop and compare)?

6. Check for demographic and sociographic changes. (For example: 30 years ago, our club was located "in the suburbs/country", whereas, today the population that is considered the club's market has actually moved 20 miles past where our club is. Today, we are surrounded by tire shops

> If we consider that a member is paying their dues with after tax dollars that can become a burden. Dues of $1,500 a month mean that someone has to earn $3,000 to pay for that, even before ordering their first drink. That can be a big hit. Our dues are dangerously high, and my belief is that private clubs are being priced out of the range of many people. Seek to run you club more efficiently and effectively. Look at your golf department, your food and beverage and other areas of the club to find and/or create efficiencies. Dues at some clubs are increasing at a rate of six percent a year, two to three higher than our inflation rate. Based on this kind increase, our dues will double in six to seven years…doubling at an untenable rate.

"Clubs can't merge back-office operations like hotel chains or other corporations. So while mortgages have been re-set to much lower rates and it now costs about the same to lease a car or stay in a hotel as it did in 2000, club are nearly twice as expensive they were at the turn of the last century.

"While club membership is not for everyone, and the desire for membership is a pursuit of tangible and intangible benefits, many people of means have found that it no longer adds up."

Ah…a the membership dilemma!

and tattoo parlors. Where are the prospective members? Are the dues too much relative to when our members lived closer to the club? Can the prospects who live here now afford our dues?

"Often, it is more about what the club offers for the dues it charges versus just that it charges too much," Bodman opined. "The recession has not only ushered in a generally higher average per-member dues level, but it has also brought with it an almost corresponding decrease in expenses (i.e., declining quality or services available).

"You will not be able to measure the dues level sensitivity unless you have kept the product (i.e., quality, quantity, satisfaction, condition, availability, accessibility, etc) the same. Suffice it to say, there is no silver bullet in managing today's complex membership puzzle, " he lamented.

Certainly this dovetails with Vain's thinking in that "clubs need to develop a more accurate understanding of their members and their marketplace.

"This means annual updating of their competitive analysis and demographic studies of the primary market area and regular member satisfaction surveys," Vain suggested. "Clubs need to do a much better job of understanding what is happening among their competitive set, identifying the source of their current and prospective members, and accurately tracking their level of satisfaction and value. Most clubs seem to make their financial decisions in a vacuum and the results are often completely unrealistic for their situation.

The difficulty, Vain explains, is that "some club leaders think membership can defy fundamental laws of economics, as in the price can only go up, or they feel an adjustment in the initiation fee is somehow an erosion of the quality of their brand.

"If the homes in the club's market area have declined by 25 percent or more over the past five years, it is unreasonable for the club to expect its initiation fee to remain the same, but this adjustment is rarely made.

"Clubs talk about "discounting" their initiation fee, but it is only discounted it if it is selling below market, which is rarely the case. Clubs need the right fee and the right mix of programs, and members have to stop worrying about what others might think. The focus should be on carving out an individualized strategy and fee structure, "Vain explained.

"The realities of balancing the books are difficult, and sometimes club leaders will need to take action that flies in the face of the data," he opined. "But to make key financial decisions without an accurate reading on the economics and demographic of your market or the attitudes of your existing members is a recipe for disaster. These data, along with an objective assessment of every program and expenditure will help the leaders make better decisions."

Vain suggests some clubs are stuck in a time warp, unable to make adjustments they need to make them viable. For example:

"Clubs need to be smarter about their expenditures and make use of zero-based budgeting techniques. They are full of sacred cows. Evolving services like Club Benchmarking are giving governors and managers great tools to work with. They can compare themselves across a peer group and make objective decisions. This can help them kill or limit programs that are black holes and focus on things that really drive their financial success."

Traditionally many clubs have used the Consumer Price Index or other market data as a measure when considering dues increases, but this is not necessarily reliable, Gore added.

"Clubs do not buy homes, cars and other consumables that affect CPI. Often the club's expenses are going up faster than CPI. The real risk in raising dues is in how it affects the non-or low user. Families that have multiple users see greater value than a single user. All members in a category pay the same dues no matter how much they use the club, and attrition following a dues raise is mostly driven by the non-using members. So clubs must improve usage by all members," he outlined.

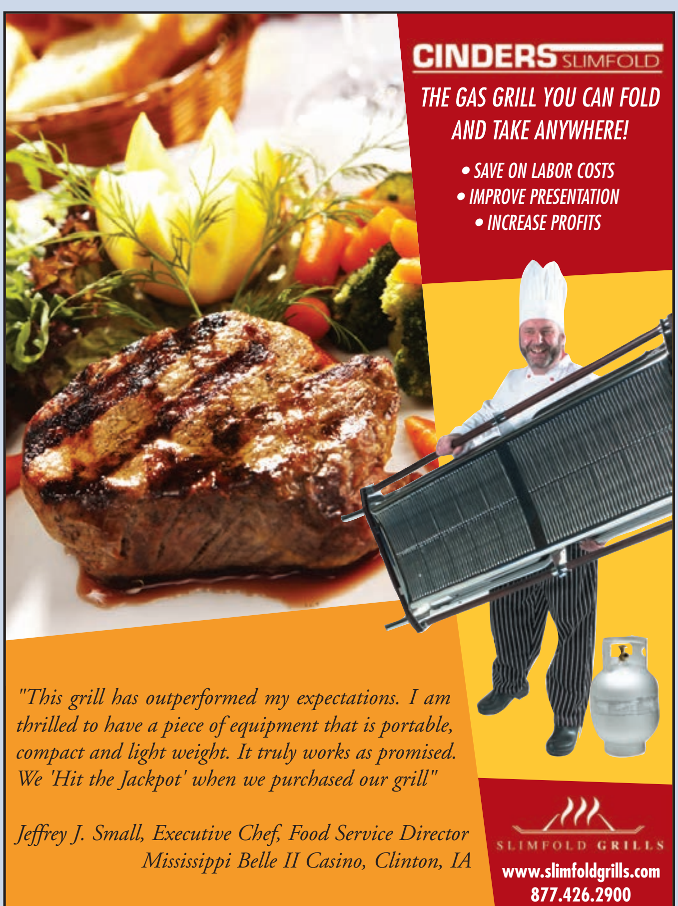
"The club must understand why members are leaving or why more potential members are not joining. Is it price, is it service levels, is it golf course conditions or is it a dated and rundown facility?" he questioned.

"The club may decide to have a high velocity membership program, which usually results in having to lower the joining fee and in some cases eliminating the fee all together. This again may need a legal opinion.

"High velocity programs can and have enrolled many new members but if the club does not eliminate the things that are causing members to leave in the first place, the large number of members they enrolled in the program will leave as well."

If a member joins a club, it's also dependent upon what a club does for that member, or they'll also leave. To wit:

"Clubs that enroll large numbers of members in a short period of time neglect to understand that these members must be connected and assimilated into the club in such a way that they become part of the family. You cannot just enroll them and then let them fend for themselves. A very comprehensive program of helping them connect for at least the next 12 months is a must."



PUBLISHER'S FINAL THOUGHTS:

It's my belief clubs aren't doing enough research and analyzing of what their dues need to be. They should be based on a club's full memberships, not what 10 percent of wealthiest can pay.

Often wealthy board members make decisions based on their own situation. For example, if a club's dues are $1,500 or more a month, that might work for the more wealthy club members but there are others who can't necessarily pay that.

If we consider that a member is paying their dues with after tax dollars that can become a burden. Dues of $1,500 a month mean that someone has to earn $3,000 to pay for that, even before ordering their first drink. That can be a big hit.

Our dues are dangerously high, and my belief is that private clubs are being priced out of the range of many people. Seek to run you club more efficiently and effectively. Look at your golf department, your food and beverage and other areas of the club to find and/or create efficiencies.

Dues at some clubs are increasing at a rate of six percent a year, two to three higher than our inflation rate. Based on this kind increase, our dues will double in six to seven years…doubling at an untenable rate.

So what do you do?

You need to:

1) Increase your research market and look at what your club's fee should be based on for your demographics, your area, and affordability.

2) Look at running the club more effectively and more efficiently…seeking areas that can help keep dues lower.

3) Create additional membership categories allowing clubs to bring in more member to keep dues down and

4) Sell off your treasury memberships. Sell them off. Do whatever you need to do to turn these languishing memberships into as dues payers.

5) Increase and create more value of your product. If you're trying to bring in younger families, find out what they need to make that happen. Where and how are families spending money today…what can your club do to attract them as members? Offer lessons for various physical activities, i.e. karate, make events and other activities happen that will attract the whole family are some ideas that will work.

At least that's the way I see it! **BR**

John G. Fornaro, publisher

If you have comments on this article or suggestions for other topics, please contact John Fornaro at (949) 376-8889 or via email: johnf@apcd.com