

## FINANCIAL TRENDS IN A RECESSIONARY ECONOMY

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As Published in *The Boardroom*

2007 was not a great year for many clubs. 2008 was worse and 2009 will not be any better. Last summer we spoke about the financial difficulties that clubs were facing. That trend continues this year. The private club industry has changed during the last 10 years and the economic indicators will result in further changes over the next few. While the amount of funds available for entertainment continues to shrink, the competition for this smaller pot continues to increase. The demographic mix within the United States continues to change and unless the private club changes some of its membership policies, the pool of eligible applicants will continue to contract.

The private club is opening its doors to the general public in order to generate additional revenue. Members wonder just how exclusive it really is. Private clubs still seem to be more appealing to men than women but women control more of the discretionary funds in a household. With the economy in a recession, corporations changing the way they do business, the threat of layoffs, the increased time people spend commuting, and the desire to spend more time with family, it becomes more difficult for many to justify the cost of membership.

The housing market has dropped precipitously and the stock market continues its wild swings but always lower. Clubs are feeling the impact of the changing economy. While the central part of the country may have been the first to experience the downturn, no area is totally exempt. The bright spot seems to be the reduction in fuel cost. Last year, oil was more than \$150 a barrel. The price has dropped substantially but the amount of fluctuation makes it hard to budget.

More important than the specific issues mentioned above is the impact on consumer confidence. Joining a country or city club is still a discretionary expense. The downturn in the stock market and the bailouts of the banks and auto industry has left many members and potential members wary. As a result, the universe of individuals from which to draw club members is much smaller. If, due to time constraints, golfers are playing less, it may not make as much sense to join a private club. It makes it much more difficult to justify the initiation fees and yearly dues.

Clubs in Town and Country has been published for more than 50 years. This year's survey of overall club membership for country clubs with years ended October 31, 2007 through September 30, 2008 continues to show a problem with keeping members. The membership in country clubs was static this year but has dropped about five percent over the last three years. In addition, clubs with year ends later in the year have seen a bigger drop than those in November and December of last year. Country club membership declined the most in the west with the central region taking its hit last year. City clubs showed a 1.4 percent loss which, added onto the last two years, represents a seven percent decline over three years. What is interesting

with city clubs; however, is that the healthiest clubs are in the 500 members and larger clubs. This should not be a surprise as the smaller dining-only clubs are finding it harder to continue. Members need a full service club to justify belonging. In spite of the difficulty in obtaining members, the cost for joining a club has not dropped substantially; however, clubs are providing more “incentives “ to get people to join.

While our numbers reflect a slowing of usage of the club, the major impact of the recession is only beginning to be seen. One troubling trend is that total income being spent per member is the lowest it has been in five years (see Graph), although some clubs have seen an increase in usage as members cut back on other expenses. It is important that clubs not react precipitously to the downturn in the economy. Rather the industry needs to carefully analyze what is happening in its area and react accordingly. Long term decisions should not be based on short term problems.

Clubs are doing a better job controlling costs. For the first time since 2002, operating income exceeded operating expenses (before depreciation). For every dollar a country club received from operations, it spent \$.99, a two cent improvement over last year. This is substantial progress. Over the last six years, clubs have spent as much as \$1.06 in operating expenses for every dollar of operating income it received. There is only so long that clubs can fund the shortfall. However, the continuous rise in the cost of operations may wipe out any improvement particularly with the pressure to range in any dues increases.

Many repairs and capital improvement plans were postponed or reduced in size during the last few years. This comes on top of a difficult year and a potentially worse economy in 2009. At some point funds must be expended but many clubs have a “fix only if broken” policy in effect for 2009. To fund whatever capital improvements are done, clubs use a combination of debt, initiation fees, and income generated from operations. Only 35 percent of the clubs surveyed have a policy to isolate initiation fees for capital improvements. This is a 25 percent decrease last year alone. However, six years of spending more than you receive in operations will change minds.

Food and beverage operations continue to be a major revenue generator for the club. Unfortunately, it seldom breaks even. The fact that a club is not a restaurant and cannot expect the same performance must constantly be explained to board members. However, this is not an excuse for underperforming. Constant review of costs, particularly labor, and realistic pricing of the menu can reduce the loss. For 2008, the departmental net loss was about 14 percent. This was about one percent worse than last year. Part of the explanation is in the surprising, unbudgeted rise in fuel. This impacted all parts of the club. Another reason is the reduction in the frequency and/or size of the banquet business. This is the most profitable part of food service.

One of the more controllable expenses of a club is labor. Members expect service so the club does not have the flexibility to cut costs in this area as readily as a commercial operation would have. However, it is an area in which great strides have been made. Unfortunately, a club can only go so far, and generally, it takes longer to make a decision to fire employees. At some point, members begin to notice a lack of service, which can cause a downward spiral. Members' expectations do not always equal the amount they are willing to pay to have them fulfilled.



Payroll and benefit cost continue to skyrocket. Total payroll costs during 2008 were consistent with the prior year. However, payroll costs, as a percentage of total income excluding dues was higher than last year.

While some clubs had a difficult year, not all did. Some continue to grow. Whenever you have averages, about half the sample is doing better. In addition, clubs seem much more adaptable and can react to a change in the economic climate much faster than in the past. The ability to adapt will be sorely tested this year. People are still coming to the club, particularly those that can promote a clear vision of the club ethos, its purpose and its very reason for existing. It is those characteristics of clear purpose and strategic thinking that will allow successful clubs to come through periods when the economy is hurting and be there for the members now and in more settled times

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