Getting from Here to There: Planning and Budgeting in Times of Uncertainty

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Moderated by:
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Visit nationalclub.org/coronavirus for more information
Henry Wallmeyer

President and CEO
National Club Association

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Coronavirus
What Clubs Need to Know

Listen: NCA's Joe Trauger Updates Clubs on a New Relief Bill and How Your Voice Can Help

Become Part of the NCA Network
What's Ahead

• Congress returns April 20, 2020
• Guidance from Treasury and SBA
• Phase IV Relief Bill

• Contact your Member of Congress and Senators
  • 501(c)7 organizations not eligible for SBA relief
  • Share challenges of small businesses
  • Reductions in staff
  • No certainty of when they can reopen
  • People shouldn't be left behind in relief efforts
  • Clubs doing their part to slow spread

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Frank Vain

President
McMahon Group

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Uncertainty

• Pandemic will end, but when?
• Many things that have changed will quickly return to normal.
• Some things may never go back to the way they were.
• Which ones? When? What?
A Changing Service Industry

“The pandemic is almost sure to leave a mark on the way people work, shop and socialize, perhaps permanently shifting the way many service industries operate.”

Paul Wiseman & Anne D'Innocenzio
Associated Press
Or Not?

“I’m going to go out on a limb here: I don’t think much of anything will be changed forever and I wish people would stop saying so based on two whole weeks of practicing isolation and social distancing.”

Kevin Drum
Mother Jones
This Is Most Likely...

“In preparing for battle I have always found that plans are useless, but planning is indispensable.”

Dwight D. Eisenhower
The Song Remains the Same

- Macro trends remain intact
  - Evolution from narrow to broad-based member experiences

- Watchwords remain
  - Community
  - Family
  - Casual
  - Fun
  - Fitness

- Your North Star
  - Quality-Consistency-Value
Blurring of Silos Can Mean More Time at the Club
Macro Behavioral Changes

• COVID-19 will have broad implications on consumer behavior
  • Slower pace of life – simple is better
  • More time and focus on individual and family wellbeing
  • Smaller social circles
  • Increased online connections
    • Shopping, educating, working, friendships, etc.
  • Remote work becomes more common
  • Popularity of arts-and-crafts/enrichment activities
  • Cooking more popular
  • Increased focus on food safety and hygiene

• Effective leaders must understand and innovate their way through these changes
Celebrate Your Advantages

• When economic activity returns, clubs will be a first choice
• Members will be reluctant to travel and stay close to home
  • Safety and security
  • Home-away-from-home
  • Staycation back in force
  • Emphasize your “third place”/“trusted place” status
    • Private member enclave
    • Knowledgeable, caring staff
    • Medical officer
• Stress these features when members consider resigning
Opportunities for Clubs: Crisis Will Pass...but Slowly

• No “all clear”
• Gradual awakening

• People will be cautious
• Will differ by region and club type
• Plan now how you’ll make your club safe
  • Controlled Entrances
  • Staff/Member Temperature Taking
  • Smaller is Better
  • Limit Guests and Outside Events
Strategy Refresh as You Reset

Clubs Made Many Mistakes in 2007 – 2009 Meltdown

• Cutting initiation fees and (sometimes) dues
• Eliminating general manager/mid-level staff to “save” money
• Chasing non-member activities
• Cutting servicesgoing on defense
• Cost over value

Vital to Act in Concert with Mission – Vision - Values

• Understand trends
  • Lifestyle
  • Marketplace
• Understand real drivers of member experience
• Reaffirm and pursue aspirations
• Stay true to your Values/No compromise
  • Quality
  • Consistency
  • Value
Core Values

“It's not hard to make decisions when you know what your values are.”

Roy Disney
Summer 2020

- **SAFETY FIRST!**

  - *Gradually* open dining
    - Takeout
    - Outside spaces!
    - Few nights of meals
    - Smaller dining rooms
    - Use time off to revise and streamline program
      - High-end casual focus
      - Then (eventually) full service

- Modified golf
- Limited fitness traffic
- Seasonal clubs will have staff challenges likely to limit full operation
Continue the Virtual Club

• Use internet to increase engagement with existing and potential members
  • Video messaging
  • Virtual tours
  • Chef livestreams cooking tutorials
  • Golf Professional sends video golf tips
  • Fitness instructors livestream workout classes
  • On-line bridge
  • Educational opportunities
  • Online meetings
  • Webcast the annual meeting
Research Your Way Out of the Crisis to Understand & Connect

• Reconnect with members.
• Show you care.
• Short, targeted survey.
• How to make them comfortable?
• How to win them back?
Facility Refresh

- Facilities remain vital sources for driving engagement
- Many changes can be made quickly and effectively

**BY PLAN**

Adapt Your Physical Plant to New Environment

- Safe and secure entries
- Receptionists
- Repurposing function spaces
- Drop-in spaces
- Cafés
- Remote work
- Spacious outdoor seating areas
- Less dense dining rooms
- Takeout foods
Summing Up

• Use innovative thinking to identify new ways to make your club a vehicle for post COVID-19 life
• Manage to 2020 realities
• Research and experiment to identify longer-term shifts in member sentiment and behaviors
• Refresh your plans and reset for the new and different future
  • Stay true to your core
  • Don’t let short-term actions undermine principles
Ray Cronin

Founder & Chief Innovation Officer
Club Benchmarking

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The virus crisis is *An Issue*, not *The Issue*

*A Tactical Issue*, not *A Strategic Issue*
• Don’t make decisions with long-term consequences with short-term information
  o For example, don’t cut the initiation fee anticipating a need for more members
  o Resist hacking the 2020 Operating and Capital budgets expecting doomsday – very likely in clubs with weak balance sheets – they have a culture of Operational Governance

• View every decision within context the bucket your club was in entering the crisis – and why it is in that bucket

• Clubs with strong Balance Sheets are better able to absorb the impact of the shutdown, Clubs with weak Balance Sheets less able

• Consider three time periods for Decisions
  o Until club opens (end of April to Mid-May)
  o May – June
  o July – Year End
<table>
<thead>
<tr>
<th>Recession</th>
<th>Start End</th>
<th>Duration (months)</th>
<th>Time Since Prior Recession (months)</th>
<th>Peak Unemployment</th>
<th>GDP Decline</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>Jan 1980 - July 1980</td>
<td>6 months</td>
<td>58 months</td>
<td>7.8%</td>
<td>−2.2%</td>
</tr>
<tr>
<td>1981 – 1982</td>
<td>July 1981 - Nov 1982</td>
<td>16 months</td>
<td>12 months</td>
<td>10.8%</td>
<td>−2.7%</td>
</tr>
<tr>
<td>Early 1990s</td>
<td>July 1990 - Mar 1991</td>
<td>8 months</td>
<td>92 months</td>
<td>7.8%</td>
<td>−1.4%</td>
</tr>
<tr>
<td>Early 2000s</td>
<td>Mar 2001 - Nov 2001</td>
<td>8 months</td>
<td>120 months</td>
<td>6.3%</td>
<td>−0.3%</td>
</tr>
<tr>
<td>Great Recession</td>
<td>Dec 2007 - June 2009</td>
<td>18 months</td>
<td>73 months</td>
<td>10.0%</td>
<td>−5.1%</td>
</tr>
</tbody>
</table>

483 months since January 1980
56 months in recession (12%)
What has had more of an impact on your club’s current financial position?

The 12% of time the country was in recession

or

The decisions made in 483 Board meetings since 1980
Thru the End of April

- Median with Golf - $7.7 Million in Operating Revenue
- Median without Golf - $5.1 Million in Operating Revenue
- Estimated Impact 4 Week Shutdown
  - $140,000 with Golf
  - $90,000 without Golf
- 3.5% to 4.5% of Dues Revenue for 4 Week Shutdown
  - $300 per member with Golf
  - $150 per member without Golf

<table>
<thead>
<tr>
<th>Estimated Foregone Contribution for One Month</th>
<th>Clubs with Golf</th>
<th>Clubs without Golf</th>
</tr>
</thead>
<tbody>
<tr>
<td>F&amp;B - A La Carte</td>
<td>$60,000</td>
<td>$49,000</td>
</tr>
<tr>
<td>F&amp;B – Banquet</td>
<td>$37,000</td>
<td>$28,000</td>
</tr>
<tr>
<td>Greens Fees Guests</td>
<td>$10,650</td>
<td>NA</td>
</tr>
<tr>
<td>Greens Fees - Outings</td>
<td>$3,200</td>
<td>NA</td>
</tr>
<tr>
<td>Pro Shop</td>
<td>$5,000</td>
<td>NA</td>
</tr>
<tr>
<td>Carts</td>
<td>$11,500</td>
<td>NA</td>
</tr>
<tr>
<td>Fitness Fees and Group Exercise</td>
<td>$6,640</td>
<td>$9,945</td>
</tr>
<tr>
<td>All Other</td>
<td>$5,000</td>
<td>$5,000</td>
</tr>
<tr>
<td>Total</td>
<td>$138,990</td>
<td>$91,945</td>
</tr>
<tr>
<td>Hourly Staff Expense</td>
<td>$126,000</td>
<td>$82,000</td>
</tr>
<tr>
<td>Operating Revenue</td>
<td>$7,700,000</td>
<td>$5,100,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Lost Contribution</th>
<th>Impact is $140,000</th>
<th>Impact is $90,000</th>
<th>$140,000 can be siphoned from Capital Income or Assessed to Members</th>
</tr>
</thead>
<tbody>
<tr>
<td>Don't Pay Hourly Staff</td>
<td>Reduced Labor</td>
<td>Impact</td>
<td>Reduced Labor</td>
</tr>
<tr>
<td>Do Pay Hourly Staff</td>
<td>Impact</td>
<td>$90,000</td>
<td>$140,000 can be siphoned from Capital Income or Assessed to Members</td>
</tr>
<tr>
<td>Full Member Equivalents</td>
<td>468</td>
<td>640</td>
<td></td>
</tr>
</tbody>
</table>

| Impact Per Full Member Equivalent | $297 | $144 |
| As % of Annual Full Dues | 3.6% | 4.6% |
### Which Bucket Was Your Club in Entering the Crisis?

<table>
<thead>
<tr>
<th>25% Shrinking</th>
<th>50% Sideways - Moderate Growth</th>
<th>25% Growing Purposefully</th>
</tr>
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</table>
| **1.** Too few many members as a result of weak member experience  
  a. Narrow breadth of lackluster services and amenities | **1.** Barely adequate to adequate number of members. Barely acceptable to acceptable member experience  
  a. Somewhere between lackluster and above average services and amenities | **1.** Full Membership Roster  
  a. Compelling services and amenities |
| **2.** Weak Balance Sheet  
  a. Declining Net Worth  
  b. Significant deferred capital investment  
  c. Lack of adequate cash reserves | **2.** Average Balance Sheet  
  a. Net Worth flat to growing in real dollars  
  b. Some deferred capital investment  
  c. Some cash reserves | **2.** Strong Balance Sheet  
  a. Net Worth growing > 5% CAGR  
  b. Fresh and up to date asset base  
  c. Adequate cash reserves |
| **3.** Operational Governance over Strategic Governance | **3.** Bouncing between Operational Governance and Strategic Governance | **3.** Focus of Governance is on making the club better (can still be stuck in Operational Governance at times) |
| **4.** Members think like Customers, not Owners | **4.** Mix of members thinking like Customers and Owners | **4.** Most members think like Owners and take pride |
Financial Best Practices

1. Recognize the operating ledger as the vehicle for delivering services and amenities to members. It reflects the member experience. Financially, it is consumed every year by members enjoying the club. It is not the financial driver.

2. The financial driver is the capital ledger. Capital Income is the source of money a club uses to drive itself forward financially.

3. Every club, like every business and family, must increase NWOT. NWOT grows as a result of adequate capital income and decreases as a result of inadequate capital income.

4. The key to sustainable financial success is a comprehensive, forward-looking capital plan.

5. Clubs compete on value, not on price. In 2020 and beyond, clubs must offer a compelling member experience if they are to succeed. On the margin, clubs must lean toward funding the member experience and lean away from a focus on cutting expenses.
- Evaluate the strength of your membership engine.
- Weak and Moderate clubs would be much better suited doing this strategic work than running doomsday scenarios.
- If it is doomsday, we will know it and we can respond in kind.
- Fifty percent of clubs made improper decisions around the Initiation Fee after last recession.
- Understanding the pattern is critical.
- Higher Initiation Fees – More Members, Better Member Experience.
- Lower Initiation Fees – Less Members, Lackluster and/or Pedestrian Member Experience.
- Evaluate your membership engine strength – the virus didn’t create it. Decisions in the Boardroom did.
- “Bad” experience can’t be fixed by price.
May - June

- Lower Initiation Fee will not yield more members, but it will cause increased churn.
- It will also attract people with “little skin in the game”
- People who think like customers……
• …not like owners
Clubs Compete on Value, Not Price

The clubs with the highest initiation fees and higher dues have more members than the clubs with the lowest initiation fees and lowest dues.
Clubs Compete on Value, Not Price

Increasing expenses reflects growing member experience, not inefficiency. Clubs with higher expenses, have a more compelling experience driving more members and higher initiation fees.
• Clubs must make decisions within the context of the strength of their membership engine

• The strength of the membership engine is a result of many decisions made in the Boardroom leading up to the crisis

• Use the crisis as the opportunity to consider your club’s Member Experience, Membership Engine and Forward-Looking Plan

• Decisions made in reaction to this crisis will have a more profound and lasting impact on the club than the crisis itself
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