Economic Outlook, Budget Recovery and the Club Economy

August 20, 2020

Presented by
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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

Visit nationalclub.org/coronavirus for more information
Joe Trauger

Vice President of Government Relations
National Club Association

Visit nationalclub.org/coronavirus for more information
Legislative Chicken

- House reconvenes on Saturday to consider legislation to boost USPS by $25 billion
- Senate Republicans shopping a “skinny” economic stimulus bill with little chance of becoming law
  - PPP potential extension and inclusion of 501(c)(6) entities
  - Extension of unemployment plus up to $300
  - Other undefined provisions
- This is not a serious effort
- Designed to set the stage for potential future agreement
- Convention politics
- Congress reconvenes after Labor Day and that’s when we start firing with real bullets

- NCA has been pushing it’s position with Leadership...
  - PPP expansion to include 501(c)(7) organizations
  - Extended and enhanced employee retention tax credit
  - State and local assistance

Visit nationalclub.org/coronavirus for more information
Curtis Dubay

Lead Economist
U.S. Chamber of Commerce

Visit nationalclub.org/coronavirus for more information
### Weekly Economic Index Rising Slowly

<table>
<thead>
<tr>
<th>Date</th>
<th>Index</th>
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<tbody>
<tr>
<td>Feb 29</td>
<td>1.55</td>
</tr>
<tr>
<td>Mar 14</td>
<td>1.42</td>
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<td>Mar 28</td>
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<td>Apr 25</td>
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<td>-6.53</td>
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<td>-5.47</td>
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</tbody>
</table>
Weekly Economic Index *Still* Lower than in Financial Crisis
Consumer Sentiment Fell in July

Index Values - University of Michigan Survey of Consumer Sentiment

Aug 2019: 89.8
Sep 2019: 93.2
Oct 2019: 95.5
Nov 2019: 96.8
Dec 2019: 99.3
Jan 2020: 99.8
Feb 2020: 101
Mar 2020: 89.1
Apr 2020: 71.8
May 2020: 72.3
Jun 2020: 78.1
Jul 2020: 72.5
Consumer Sentiment vs. Future Expectations

- **Current Sentiment**
- **Future Expectations**

*Graph showing the comparison between current sentiment and future expectations from Aug 2019 to Jul 2020.*
Consumer Confidence Fell in July

- **Jan 20**: 132.2 (2.7%)
- **Feb 20**: 132.6 (0.3%)
- **Mar 20**: 118.8 (-10.4%)
- **Apr 20**: 85.7 (-27.9%)
- **May 20**: 85.9
- **Jun 20**: 98.3 (-5.8%)
- **Jul 20**: 92.6

**% Change Previous Month**
- Jan 20 to Feb 20: 2.7%
- Feb 20 to Mar 20: 0.3%
- Mar 20 to Apr 20: -10.4%
- Apr 20 to May 20: -27.9%
- May 20 to Jun 20: 0.2%
- Jun 20 to Jul 20: -5.8%
Historically High Unemployment Insurance Claims Continue

282,000

3,307,000

6,867,000

5,237,000

4,442,000

3,867,000

2,687,000

2,123,000

1,566,000

1,482,000

1,422,000

1,435,000

1,191,000

971,000

1,106,000

Department of Labor (Initial Unemployment Claims - SA)
Continuing Unemployment Claims Are Falling Slowly

Department of Labor (Continuing Unemployment Claims - SA)

Four Week Average Continuing UI Claims
The Economy Added 1.8 Million Jobs in July - A Large Gap Remains

<table>
<thead>
<tr>
<th>Month</th>
<th>Employment (Thousands)</th>
<th>Jobs (Thousands)</th>
<th>Jobs Deficit from February 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Feb 20</td>
<td>152,463</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mar 20</td>
<td>151,090</td>
<td>1,373</td>
<td></td>
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<tr>
<td>Apr 20</td>
<td>130,303</td>
<td>22,160</td>
<td>19,435</td>
</tr>
<tr>
<td>May 20</td>
<td>133,028</td>
<td></td>
<td>14,644</td>
</tr>
<tr>
<td>Jun 20</td>
<td>137,819</td>
<td></td>
<td>12,881</td>
</tr>
<tr>
<td>Jul 20</td>
<td>139,582</td>
<td></td>
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</tr>
</tbody>
</table>
Economic Growth Fell A Record Amount in 2nd Quarter

- Q4 2018: 1.1%
- Q1 2019: 3.1%
- Q2 2019: 2.0%
- Q3 2019: 2.1%
- Q4 2019: 2.1%
- Q1 2020: 0.0%
- Q2 2020: -5.0%

Total: -32.9%
Third Quarter GDP Increase Will Be Record-Setting

- B of A: 20.0%
- Berenberg Capital: 20.0%
- CBO: 17.0%
- Goldman Sachs: 25.2%
- J.P. Morgan: 25.0%
- S&P: 22.2%
- Wells Fargo: 18.4%
- Average: 21.8%
The Economy Contracted A Record Amount in First Half of 2020

-32.9% in Q2
-5.0% in Q1
2.1% in 2019 Q4
21.8% in Q3
8.3% in Q4
4.6% in 2021 Annual
-5.6% in 2020 Annual
GDP Returns to Pre-Shock Level in Late 2021
Government Payments Boosted Income During the Pandemic

- **Personal Income**
- **% Change from Previous Month**

$\text{Billions (Annualized)}$

- **January 2020 (Jan 20)**: $18,000
- **February 2020 (Feb 20)**: $18,500 (0.9%)
- **March 2020 (Mar 20)**: $19,000 (0.8%)
- **April 2020 (Apr 20)**: $21,500 (12.1%)
- **May 2020 (May 20)**: $20,000 (4.4%)
- **June 2020 (Jun 20)**: $19,000 (1.1%)
Personal Savings Skyrocketed During the Pandemic

Billions (Annual Rate)

- Jul 19: $1,142
- Aug 19: $1,195
- Sep 19: $1,206
- Oct 19: $1,182
- Nov 19: $1,236
- Dec 19: $1,194
- Jan 20: $1,269
- Feb 20: $1,393
- Mar 20: $2,121
- Apr 20: $4,361
- May 20: $3,371
- Jun 20: $6,352
**Wages Are Outpacing Inflation**

![Graph showing wage growth and inflation percentages from August 2019 to July 2020. The graph indicates that wage growth has been steadily increasing, while inflation has fluctuated. In April 2020, inflation spiked to 8.0%, but by July 2020, it had declined to 4.8%. Wage growth, on the other hand, has consistently outpaced inflation throughout the period.](image-url)
Consumption Increased in June, But is Still Below Pre-Pandemic Level

- Consumption Increased in June, but is still below pre-pandemic level
- Consumption (Annualized) and % Change from Previous Month
- Billions
- Jan 20: $14,881 (0.6%)
- Feb 20: $14,877 (0.0%)
- Mar 20: $13,879 (-6.7%)
- Apr 20: $12,089 (-12.9%)
- May 20: $13,114 (5.6%)
- Jun 20: $13,851 (5.6%)

Consumption Increased in June, But is Still Below Pre-Pandemic Level
Retail Sales Above Pre-Pandemic Level

<table>
<thead>
<tr>
<th>Month</th>
<th>Retail Sales ($ millions)</th>
<th>% Change Previous Month</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan 20</td>
<td>$400,000</td>
<td>0.8%</td>
</tr>
<tr>
<td>Feb 20</td>
<td>$420,000</td>
<td>-0.4%</td>
</tr>
<tr>
<td>Mar 20</td>
<td>$440,000</td>
<td>-8.2%</td>
</tr>
<tr>
<td>Apr 20</td>
<td>$348,000</td>
<td>-14.7%</td>
</tr>
<tr>
<td>May 20</td>
<td>$482,000</td>
<td>18.3%</td>
</tr>
<tr>
<td>Jun 20</td>
<td>$500,000</td>
<td>8.4%</td>
</tr>
<tr>
<td>Jul 20</td>
<td>$500,000</td>
<td>1.2%</td>
</tr>
</tbody>
</table>

- Total Retail Sales ($ millions)
- % Change Previous Month
In-Store Retail Stores Still Make Up Vast Majority of Retail Sales - July 2020

- In-Store Retail Stores: 84%
- Non-Store Retail Sales: 16%
Onlines Sales' Share of Total Retail Spiked During the Pandemic

% Online Sales as Share of Total Retail Sales

Onlines Sales’ Share of Total Retail Spiked During the Pandemic
Durable Goods Rebounded Further in June

- Jan 20: Durable Goods Rebounded Further in June
- Feb 20: 2.0% increase
- Mar 20: -16.7% decrease
- Apr 20: -18.3% decrease
- May 20: 15.1% increase
- Jun 20: 7.3% increase
Business Investment is Dropping

- $2,716
- $2,766
- $2,793
- $2,832
- $2,878
- $2,891
- $2,908
- $2,902
- $2,859
- $2,848
- $2,859

% Change Previous Quarter:
- 3.1%
- 1.8%
- 1.0%
- 1.4%
- 1.6%
- 0.4%
- 0.6%
- 0.2%
- 0.2%
- 1.5%
- 7.4%
- 8.0%
- 6.0%
- 4.0%
- 2.0%
- 0.0%
- 2.0%

Billions (SA Annual Rate)

Jan 18  Apr 18  Jul 18  Oct 18  Jan 19  Apr 19  Jul 19  Oct 19  Jan 20  Apr 20
$2,716  $2,766  $2,793  $2,832  $2,878  $2,891  $2,908  $2,902  $2,859  $2,848
Business Investment Drives Productivity

- Business Investment (% Change Previous Quarter)
- Productivity (% Change Annual Rate)

Jan 18: 3.1%, Apr 18: 1.8%, Jul 18: 1.0%, Oct 18: 1.4%, Jan 19: 3.7%, Apr 19: 2.0%, Jul 19: 0.6%, Oct 19: 1.6%, Jan 20: 1.6%, Apr 20: 7.3%
Business Confidence Rebounding More in U.S.

US
OECD
Policy Uncertainty Surged Since COVID-19 Shock

- U.S. Policy Uncertainty
- Global Policy Uncertainty
Small Business Optimism Fell Slightly in July

NFIB Index Values

- Jan 2020: 104.3
- Feb 2020: 104.5
- Mar 2020: 96.4
- Apr 2020: 90.9
- May 2020: 94.4
- Jun 2020: 100.6
- Jul 2020: 98.8
Manufacturing Sentiment Above Pre-Pandemic Level

ISM PMI

Jan 2020: 50.9
Feb 2020: 50.1
Mar 2020: 49.1
Apr 2020: 41.5
May 2020: 43.1
Jun 2020: 52.6
Jul 2020: 54.2
### Industrial Production Rose Again in July

<table>
<thead>
<tr>
<th></th>
<th>Jan 20</th>
<th>Feb 20</th>
<th>Mar 20</th>
<th>Apr 20</th>
<th>May 20</th>
<th>Jun 20</th>
<th>Jul 20</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>-0.4%</td>
<td>0.1%</td>
<td>-4.3%</td>
<td>-12.8%</td>
<td>0.9%</td>
<td>5.7%</td>
<td>3.0%</td>
</tr>
</tbody>
</table>
Manufacturing Orders Still Low After Rebound

New Manufacturing Orders ($millions)

<table>
<thead>
<tr>
<th>Month</th>
<th>Orders</th>
<th>Change from Previous Month</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan 20</td>
<td>$495,606</td>
<td>-0.4%</td>
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<tr>
<td>Feb 20</td>
<td>$496,463</td>
<td>0.2%</td>
</tr>
<tr>
<td>Mar 20</td>
<td>$441,815</td>
<td>-11.0%</td>
</tr>
<tr>
<td>Apr 20</td>
<td>$382,304</td>
<td>-13.5%</td>
</tr>
<tr>
<td>May 20</td>
<td>$411,695</td>
<td>7.7%</td>
</tr>
<tr>
<td>Jun 20</td>
<td>$437,213</td>
<td>6.2%</td>
</tr>
</tbody>
</table>
Services Rebounded Above Pre-Pandemic Level in July

ISM Non-Manufacturing Index
Housing Market Rebounding Strongly

- **NAHB Housing Market Index**
  - February: -60.0%
  - March: -40.0%
  - April: -20.0%
  - May: 0%
  - June: 20%

- **Housing Starts**
  - February: -58.3%
  - March: -26.4%
  - April: -21.4%
  - May: -19.0%
  - June: 56.8%

- **Building Permits**
  - February: -21.4%
  - March: -5.7%
  - April: -6.4%
  - May: 8.2%
  - June: 17.3%

- **Existing Home Sales**
  - February: -19.0%
  - March: -9.7%
  - April: -17.8%
  - May: -8.5%
  - June: 20.7%

- **New Home Sales**
  - February: -19.0%
  - March: -14.5%
  - April: -7.5%
  - May: -9.7%
  - June: 19.4%

- **Pending Home Sales**
  - February: -26.4%
  - March: -14.5%
  - April: -14.5%
  - May: -7.5%
  - June: 44.3%

Legend:
- **February**
- **March**
- **April**
- **May**
- **June**
Construction Spending Down Since COVID-19 Crisis

- **Jan 20**: $1,437,719, 1.9%
- **Feb 20**: $1,441,145, 0.2%
- **Mar 20**: $1,436,727
- **Apr 20**: $1,387,936, -0.3%
- **May 20**: $1,364,738, -3.4%
- **Jun 20**: $1,355,200, -1.7%
Consumer and Producer Prices Rose in July

Jan 20: 0.1% (CPI) 0.3% (PPI)
Feb 20: 0.1% (CPI)
Mar 20: -0.5% (CPI) -0.4% (PPI)
Apr 20: -0.4% (CPI) -0.4% (PPI)
May 20: -0.1% (CPI) 0.4% (PPI)
Jun 20: 0.6% (CPI)
Jul 20: 0.6% (CPI) 0.6% (PPI)
Inflation Running Below Fed's 2 Percent Target
10 Year Treasury Rate Near Record Lows
Spread Between 2 and 10 Year Treasury Rates
Consumer Credit Rose in June

Total Consumer Credit Outstanding

% Change Previous Month

Jan 20 $4,191 0.3%
Feb 20 $4,212 0.5%
Mar 20 $4,196 -0.4%
Apr 20 $4,130 -1.6%
May 20 $4,116 -0.3%
Jun 20 $4,125 0.2%
Federal Reserve Assets Grew Rapidly in COVID-19 Response

$3.7 Trillion

$4.4 Trillion

$6.97 trillion
Bank Reserves Rising Rapidly Because of Larger Balance Sheet

Reserves
Treasury Deposits
Currency
Other

$Millions

Jan 18  Apr 18  Jul 18  Oct 18  Jan 19  Apr 19  Jul 19  Oct 19  Jan 20  Apr 20  Jul 20
Debt was on an Unsustainable Path before COVID-19 Relief
Black Unemployment Rate Has Long Exceeded White Rate
Black and Hispanic Wages Lag Other Races

2019 Median Weekly Wages:

- All Races: $917
- White: $945
- Black/African American: $735
- Asian: $1,174
- Hispanic/Latino: $706
Black Wealth Trails Other Races

2016 Average Wealth

- All Races: $299,700
- White: $364,600
- Black: $101,800
- Asian: $460,400
- Other: $180,700
- Hispanic: $123,600
Payrolls Increased in Slightly in July - a Large Gap Remains

ADP Payroll

Percent Change Prev. Month

Jan 20: 129,290,213, 0.2%
Feb 20: 129,437,450, 0.1%
Mar 20: 129,135,563, -0.2%
Apr 20: 109,726,685, -15.0%
May 20: 113,067,236
Jun 20: 117,381,054
Jul 20: 117,548,093

-11.5%  -9.5%  -7.5%  -5.5%  -3.5%  0.5%  2.5%

Payroll gap remains large.
Income Growth of Top 5% Outstripping Those Below

Household Income ($Thousands)

Lowest fifth
Second fifth
Third fifth
Fourth fifth
Highest fifth
Top 5 percent

Productivity Drives Wages

% Change Previous Quarter

- Jan 18: 2.3%
- Apr 18: 1.1%
- Jul 18: 0.5%
- Oct 18: 0.8%
- Jan 19: 3.7%
- Apr 19: 2.0%
- Jul 19: 0.3%
- Oct 19: 1.6%
- Jan 20: -0.3%
- Apr 20: 7.3%
Ray Cronin

Founder & Chief Innovation Officer
Club Benchmarking

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Economic Outlook, Budget Recovery and The Club Economy

Looking to the end of 2020 and into 2021

August 20, 2020
Two Important Points

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

* A *Tactical Issue*, not *A Strategic Issue*

We continue to embrace the above viewpoint
### Where is Our Club?

#### 25% Shrinking
1. Too few members as a result of weak member experience
   a. Narrow breadth of lackluster services and amenities
2. Weak Balance Sheet
   a. Declining Net Worth
   b. Significant deferred capital investment
   c. Lack of adequate cash reserves
3. Operational Governance over Strategic Governance
4. Members think like Customers, not Owners

#### 50% Sideways - Moderate Growth
1. Barely adequate to adequate number of members. Barely acceptable to acceptable member experience
   a. Lackluster to above average services and amenities
2. Average Balance Sheet
   a. Net Worth flat to growing slightly in real dollars
   b. Significant to slightly deferred capital investment
   c. Some cash reserves
3. Bouncing between Operational Governance and Strategic Governance
4. Mix of members thinking like Customers and Owners

#### 25% Growing Purposefully
1. Full Membership Roster
   a. Compelling services and amenities
2. Strong Balance Sheet
   a. Net Worth growing > 5% CAGR
   b. Fresh and up to date asset base
   c. Adequate cash reserves
3. Focus of Governance is on making the club better (can still be stuck in Operational Governance at times)
4. Most members think like Owners and take pride
Considering Our Next Budget

• The central issues for every club and every club Board to consider is….
  o Do we know which bucket we are in? How do we know?
  o Which bucket were we in when the virus started?
  o Why are we in that bucket?
  o How do we move up a bucket if Red or Yellow?
  o How do we remain in the Green bucket, if we are in that bucket?

• When considering the remainder of 2020 and the budget for upcoming year our focus should be on DRIVING OUR CLUB FORWARD WITH PURPOSE.

• We have two choices…. 
  o Let the budget drive our strategy (far too many clubs embrace this approach)
  o Or develop a strategy to drive the club forward and budget to implement the strategy
• Clubs exist in a **fragmented, cottage industry** where best practices disseminate slowly, if at all

• Lack of fact-based insight (not data) to guide decision making

• Club Benchmarking advocates **Fact- and Process-Based Governance** and education of Board, Committees and Membership as the foundation for sustainable success over time, based on:

  o **A tangible, constantly evolving vision and continuous forward momentum toward the vision with an aligned, strategic board at the vanguard…. THIS SHOULD BE THE FOUNDATION OF OUR BUDGET**

  o Broad member commitment to the vision yielding the capital necessary to achieve the vision

  o Ability to change and evolve – Adapt or Die

  o Members who think like OWNERS, not customers
Does your club have a strategy to drive forward to meet the future?

How does the Board add value?

The evolution of Strategic Planning in business.

What is Strategic Planning?

There is much more bad strategy than good strategy.

What is strategy?

What drives outcomes?

Endowments, Trends, Moves
Or is your club drifting sideways… Adding 3% to last year’s budget/results?

• 75% of clubs are not generating the capital necessary to meet future Obligatory capital needs!
  o Obligatory Capital
  o Aspirational Capital
Behind The Budget

Clubs with Golf - 2019
665 Clubs

Break-Even Zone +/-4%

Clubs without Golf - 2019
160 Clubs

Break-Even Zone +/-4%

- The Operating Ledger is not the financial driver – it is the vehicle for delivering services and amenities to the members. It is consumed every year by members enjoying the club.

- The financial driver is the Capital Ledger. Capital Income and Capital Investment persist over time financially.

- Does the time invested in our budget process reflect this reality?
Net to Gross PPE Ratio

- Net PPE is where a club’s money ends up
- Very accurate and simple test of physical plant condition
- Ratio above median indicates physical assets fresher & more up to date. Ratio below median indicates physical assets are older and more worn
- Does your club consider the state of its physical assets during the budget process?
Use the Crisis as an Opportunity

• It seems logical to assume that for at least the first half of calendar 2021 Banquet and Non-Dues Revenue are unlikely to recover to pre-Virus levels.

• That yields an opportunity to focus on the member experience! Embrace the opportunity. (It does make one wonder why clubs ever veer away from budgeting to the member experience).

• It also provides an opportunity to understand the difference between Dues Revenue (100% Margin) and Non-Dues Revenue (very low margin).
The Virus Impact Thus Far – Clubs with Golf

Strategic Monthly Dashboard

- It is unlikely we will see Non-Dues Revenue back to 2019 levels this year. June is likely a fair, or better, representation of what clubs with golf can expect for rest of year.

- Dues Revenue is key and appears to be as expected – steady.

- The key, of course, is membership – which seems to be holding steady.

- The capital income measure is interesting – we will keep an eye on that.
The Virus Impact Thus Far – Clubs without Golf

Strategic Monthly Dashboard

• It is unlikely we will see Non-Dues Revenue back to 2019 levels this year. June is likely a fair, or better, representation of what clubs with golf can expect for rest of year. Clubs without Golf taking a larger “hit”

• Dues Revenue not as steady as clubs with golf. Not a surprise – City/Athletic clubs.

• On the margin, membership a bit less steady than clubs with golf.

• The capital income measure is interesting – Same pattern as clubs with golf.
## Context

<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>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>

488 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 488 Board meetings since 1980

Has your club made long term or strategic decisions in the face of the virus crisis?
The Opportunity - Planning and Budgeting Forward Strategically

- Golf seems to be a beneficiary of the virus
- Banquet revenue and non-member revenue likely significantly impacted through middle of 2021
- Stock market is a logical measure of member intake and attrition and it is obviously weathering the storm

Key Questions for this budget cycle
- Which bucket are we in?
- Why?
- How do we purposefully change the bucket we are in?
- Do we have a clear Vision for the future and a plan to get there?
- Do we budget to that Vision and plan? Or do we drift sideways/slightly forward every year?
- How do we budget to DRIVE the club forward with purpose?
- Do we understand the strength/weakness of our Balance Sheet?
- How do we DRIVE our Balance Sheet forward?
- Can we focus the budget on our member experience? How do we make the experience better?
- Do we really have a grasp on our Capital Needs?
  - The vast majority of Clubs (80%) don’t have operating finance issues – but 75% have capital finance issues. Why?

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CORE VALUES

The evolution to excellence is a never-ending pursuit.

The Opportunity – Change the Future
Thank You!

Our mission is to foster healthier clubs, more strategic boards and more empowered managers by elevating fact over opinion.

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Economic Outlook, Budget Recovery and the Club Economy

Questions

Visit nationalclub.org/coronavirus for more information
Effective & Responsive Leadership

“"I need to do my part in supporting NCA the way you are supporting everyone else.""