GBAS
GOLF BUSINESS ADVISORY SERVICES

Back of the Cup
A NEWSLETTER CONCERNING THE BUSINESS OF GOLF

The Business of Golf Clubs

A few years ago, we changed our business name to include the word 'Business' for one simple reason. That reason was to clearly communicate to our clients how we approached our work and the outcomes that flow from it. Including this word in our name also helps to at least remind but hopefully focus everyone in the industry on what our real reality is.

With financial outcomes achieved within club land being increasingly challenged, in this article we explore:

- What the business of golf clubs is.
- The lack of foresight in classification and a term, that together, could actually be the root problems.
- The existence of some structures that don't help the cause, heightened by increasing self-interest.
- The messaging to members and what term we'd lead with if we could start again
- Current financial performance numbers are presented, highlighting that those that have scale are performing better than those who don't.

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In closing we ask if accepting less but more financial sustainable golf (in some cases better golf) has to be a better long-term outcome for the industry.

When the term 'Business' is applied to club land it could be defined as "one that derives revenue from services provided across a cost base that is (hopefully) structured in a way that produces a reoccurring profit. This profit then allows for re-investment in the club facilities, amenities and infrastructure - all of which are required to continue to enhance the value proposition being offered to both retain existing players and attract new participants."

It sounds quite simple when you type it out like that but we are still seeing regular examples of club thinking still not moving or being able to get into this space. In working out why we wonder if perhaps history is to blame?

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Going back in time to when clubs were first created, if there was one thing we could actually change it is this term, believing it to be completely inappropriate, not orientating focus to what is actually required for long-term sustainability. A more appropriate classification would have been 'not for tax' as that really is the only benefit afforded those entities which are created as a club.

The challenges flowing from the 'not for profit' moniker further increase with the use of another phrase 'for the benefit of members.' With club status granted where the outcomes achieved are to accrue and be for 'the benefit of members' - not be distributed or paid to any particular shareholder or owner – this phrase and its interpretation could also be part of the root issue.

I am certain that the original thinking around interpretation of the term 'for the benefit of members' was meant to indicate that a club with members could re-invest all that it made back in itself, with the improved asset outcome being the said benefit. Where we are at however is that the term 'for the benefit of members' is now being interpreted by many as offering the lowest price possible (this being the benefit) to cover one's expense base.

This type of thinking is evident when attention is first turned to reducing expenses in order to maintain or improve outcomes, as opposed to increasing revenue - which could possibly come via increased prices. By its very design, the term 'for the benefit of members' thus creates an environment where long-term thinking becomes very difficult.

Some structural realities further re-state this reality. Likely considered a good idea at the time, and very democratic, but constitutional clauses that require permission from members to set a fee increase over and above an approved threshold (sometimes as little as five percent) is a restriction that many could do without. Uncapped long-term discounts for length of membership and age are another example of democracy at work in constitution drafting, obviously conceived as a reward for service, but which have now become or are fast becoming a real liability.

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As many of you know, pushing through changes in constitutions in these emotive areas can be a real battle, further challenged if the said constitution provides for annual elections of directors. Putting up an un-popular (but right) resolution can stretch friendships, can be a board career limiting move, and can certainly reduce enjoyment levels of said directors trying to improve club performance and long-term sustainability. In defence of the original law makers and constitution writers, perhaps they thought that sanity would always prevail and that obvious needs would always be met with full member approval.

Back in the day they perhaps could not have seen society evolving to a point where the "club" wasn't also the focal point and source of one's social activity, the intangible part of the value derived from club membership. We've observed that as this intangible value diminishes, self-interest grows. With structural challenges to already deal with, this increasing self-interest even further constricts the likelihood of beneficial long-term decisions being made and approved, particularly those that involve any major playing disruptions or spending on infrastructure that members can't derive immediate direct benefit or value from.

Is the messaging right? Each year we conduct a number of member surveys for our clients and what is apparent in the open commentary received is that the message of what the club needs to be isn't always well communicated down to the membership. Short-term thinking is often evident in comments similar to "this place is being run like a business", "the bar prices are too high", "food and beverage shouldn't make a profit", "long-term members should get a discount".

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Further evidencing the short-term thinking that seems to be prevailing, we recently went out to our committed golfer panel, a panel of approximately 1,000 golfers, mainly golf club members, and asked them to what extent they cared about club outcomes beyond their time at the club.

Our research found that concern beyond the likely term of their involvement with their current club fell in the middle of 'not at all concerned' and 'highly concerned'. Not apathy by any means but certainly not worried to bits about future generations possibly not being able to enjoy the club once their time is past.

Our profile suggests if anyone is going to be more loyal or care more it is these people. If they actually don't, with others likely caring way less than them, then only by having a committed, well thought out, and consistently executed plan will long-term success be achieved. Without a plan, only short-term thinking will prevail, and the proverbial can will just be kicked a bit further down the road.

If we could start over with a new message we'd encourage overall performance thinking to be "certainly not for loss, with profit at a level that allows for material re-investment in facilities on a regular basis." We appreciate that might be a bit long and isn't very catchy, but that is what we all should be striving to achieve.

To the current numbers we go.

In 2013 Golf Management Australia (GMA) via Golf Australia's 2013 National Club Participation Report, first published the financial health outcomes emanating from its club benchmarking tool. It utilised a financial distress table that was originally conceived in 2008 by the NSW Independent Pricing and Regulatory Tribunal (IPART) when it performed a detailed analysis of registered clubs in NSW. The structure and table was then referenced in the golf environment in governance studies undertaken by both Golf Victoria and Golf NSW, as both bodies sort to better understand the financial health of their member clubs.

The table structure is based on the measurement of a club's EBITDA % (calculated as Earnings before interest, tax, depreciation and amortisation / Total Revenue). With no tax paid the calculation can be also known as Operating Profit – as long as depreciation costs are excluded in the above the line department expenses.

Whilst not a perfect measure (it is a point-in-time assessment of an annual result and does not take into account recent or future capital expenditure needs that might allow current outcomes to continue to be achieved or improved), by categorising results into this table, the extent of the financial challenges being faced by clubs as they seek to deliver a sound and sustainable business model can be clearly seen.

With four years of data now available for analysis in the GMA Benchmarking platform, we are able assess performance over time and where it is trending. In 2013 it was reported that 54% of clubs were 'Under Distress' this being an EBITDA outcome of less than 10%. The time series summarised below indicates that this outcome has now moved to just above 60%.

	2013	2014 & 2015	2015 & 2016 By Member Size			
EBITDA	Overall	Overall	500 - 750	750 - 1,000	1,000+	Overall
25%+	5%	3%	10%	0%	0%	2%
15% - 25%	16%	11%	14%	14%	17%	16%
10% - 14%	27%	24%	0%	18%	28%	19%
5% - 9%	25%	29%	38%	41%	28%	34%
<5%	29%	33%	38%	27%	26%	29%
% of clubs under distress	**54%**	**63%**	**76%**	**68%**	**54%**	**63%**
# clubs in sample		144	21	22	46	89
Sample % of total		53%	17%	31%	63%	33%

Source: GMA Benchmarking Tool

In cutting up the more recent 2015 and 2016 data by club size (members) it is evident that the level of financial distress increases as club size decreases. It is therefore readily apparent that sustainability has a tight link to scale, the latter allowing for better amortisation of the largely fixed cost base that clubs incur in providing an asset for daily enjoyment.

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Some may argue that profit levels under 10% aren't dire and can allow a club to remain sustainable. I'd agree that this might be true if looking through a short-term lens – new paint, new carpet, the odd piece of new machinery. But such profit outcomes won't fund the one in 25/30-year big ticket items – new buildings, new irrigation systems, and other projects that help to support the proposition it offers to its market, a proposition that needs to be regularly accepted by the consumer to see long-term sustainability prevail.

As we look toward the upcoming GMA conference in Adelaide I hope the conversation turns to this challenge, this truth. Importantly I hope there is increased commitment to address what, for the industry, really is the elephant in the room.

Some think that the level of supply we have should be protected at all costs, as it helps to ensure that plentiful entry points into the sport are offered. With reference to the data above, we are increasingly of the view that as golf clubs compete with other sports and leisure activities for attention, and battle society perception of being old fashioned (old looking?), gaining more strength, visibility, and consumer relevance from scale is a strategy that must be promoted.

Accepting less but more financial sustainable golf (in some cases better golf) has to be a better long-term outcome for the industry than having now near two thirds of clubs just surviving and save for a major windfall, being unable to do anything that could materially improve their collective futures.

About Golf Business Advisory Services (GBAS)

Golf Business Advisory Services (GBAS) is a specialist independent advisory company providing dedicated, professional advice around the business of golf within the Asia Pacific region. Offering unrivalled experience and industry insight, our approach is grounded in research with a belief that data analysis always reveals the insights required to drive your business.

With unrivalled depth and breadth of experience, GBAS has serviced an enviable and broad client base over the past 15 years, with completed engagements spanning the full spectrum of the industry.

Specialist services offered by GBAS include:

- Strategic planning
- Operational reviews
- Member surveys
- Board presentations
- Consumer and market research
- Feasibility studies
- Asset oversight
- Due diligence
- Asset valuation
- Expert witness services

If you have a need in the golf industry GBAS is able to provide you with all of the necessary knowledge and experience required to help ensure you achieve your goals.

Contact Details

24 Bay Rd, Sandringham, Victoria

M: +61 412 989 222

E: jeff@golfbas.com

W: www.golfbas.com