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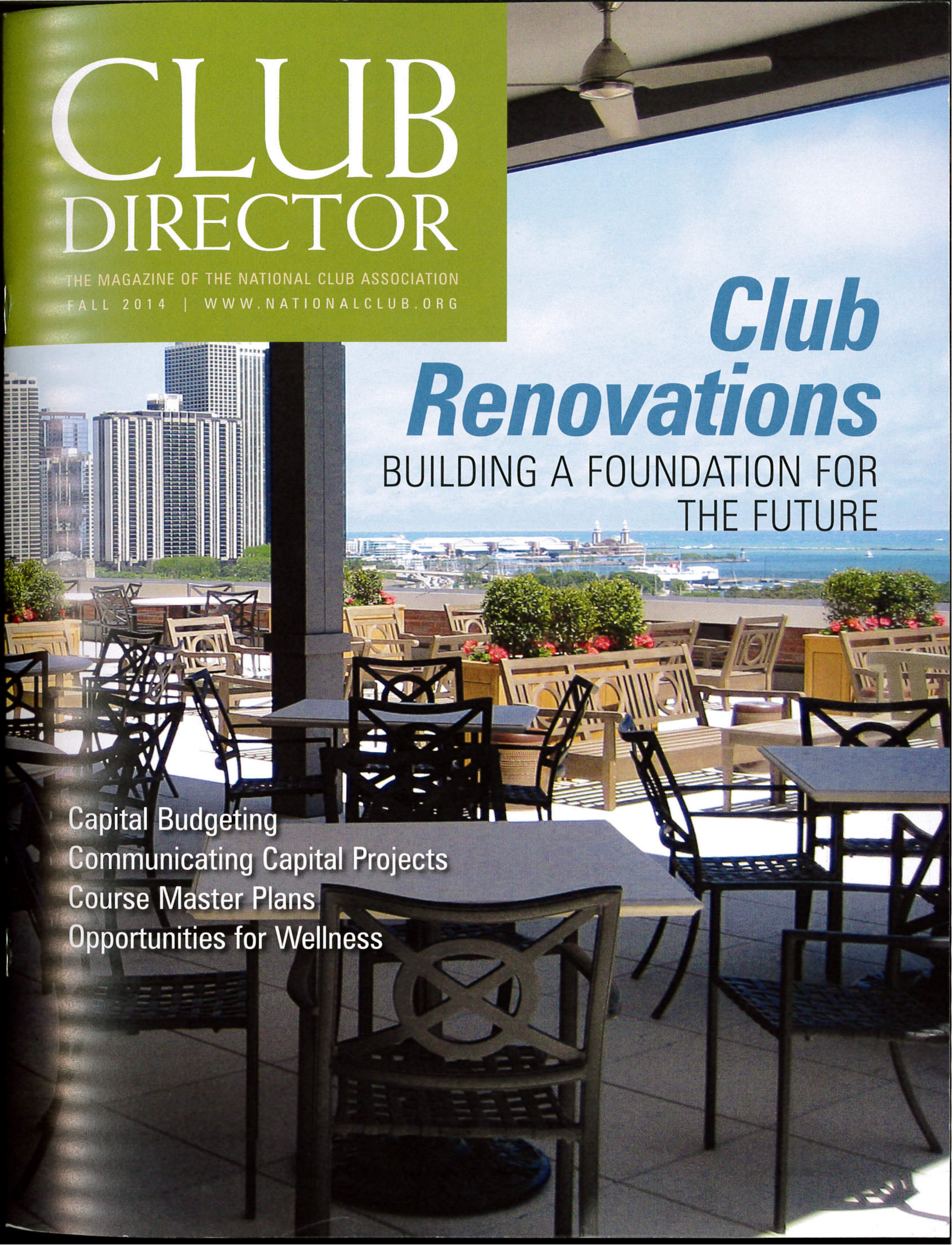

Club Renovations

BUILDING A FOUNDATION FOR THE FUTURE

Capital Budgeting
Communicating Capital Projects
Course Master Plans
Opportunities for Wellness

Determining Renovation ROI

BY LAURENCE HIRSH

Throughout the 20th century, private club membership in America was primarily about prestige and status. In the early years of this century, and especially post-economic downturn, we've seen a demonstrable shift in member behavior. Prestige and status remain relevant, but to a smaller percentage of private club members. Today, the emphasis has shifted to the perceived value members receive for their recreational dollar.

The shift in this dynamic hinges on a phrase we all recognize and understand, return on investment, or ROI. Clubs should approach it from two distinct vantage points.

First, for members, are the facilities and the programming at a club worth the investment?

That's almost a trick question, because even if the answer is "yes," the hyper-competitive nature of today's private club market (in short, too many clubs fighting for the same limited number of members) obliges clubs to consistently reinvest and upgrade at all levels. That's what it takes to achieve a productive price-value relationship over the long term.

Second, how do clubs ensure their reinvestment and upgrades yield the desired return, i.e., healthy membership rolls and appropriate dues structures?

There is no magic ROI formula due to the unique nature of individual clubs and markets. A course renovation, for example, will not necessarily increase membership, or enable a dues hike. However, if an improvement project is well conceived and implemented, and if opportunity exists in a club's particular market, the chances of success increase exponentially.

One vital directive for any club looking to achieve ROI—from both perspectives—in this new market environment is:

Truly understand your property and your market, because that market—your club's actual position in that market—affects every aspect of the ROI you seek, be it project planning, feasibility, financing, even implementation.

In any given region or market, there are typically three or more private clubs that compete for a finite pool of members. Unfortunately, clubs are notoriously weak at determining those areas where they compete poorly with other clubs. Why? Because membership in a private equity club for many people is an emotional, nostalgic, utterly subjective thing. Accordingly, honest self-assessment of a club's quality—broken down into component parts: golf course, other sports facilities, clubhouse, dining room, locker-room facilities, overall programming—is supremely difficult. That's why objective third parties, who are not saddled with these emotional attachments, are useful aids to the process.

Clubs should consider any investment in these components with a clear eye, in the context of how that upgraded component will compete in their particular market. Only then can clubs answer the other key questions related to project feasibility and, ultimately, ROI.

To continue with the golf course component as an example, will these course improvements enhance membership development and stability? Are existing members willing to pay for them? Will existing members use the course and other club facilities more frequently as a result? How will club revenues be impacted moving forward, both in the near term and long term? How will the enhanced facilities impact the club's operating expenses? What kind of capital reserve will be required to fund replacement of new items in light of this course renovation expenditure?

Let's get more specific in the golf course context. Many clubs today are considering state-of-the-art golf practice facilities as part of a course renovation. What's the ROI on that additional of investment?

Well, you can't responsibly answer that question unless and until you've answered the questions above—and you can't do that until you've assessed what other private clubs offer in this specific component area. How many competitors have a practice facility? How good are they really? What ROI have those competitive clubs realized as a result of their practice facility investments? How many upscale daily-fee courses in your market offer this component (because here private clubs compete directly with public golf)?

The ROI of every potential investment must be set in this market context—even how your competitors financed their own investments, because, as we know, the debt clubs have incurred the last 10 years has greatly affected their ability to invest as they should.

In *Blue Ocean Strategy,* by W. Chan Kim and Renee Mauborgne, the authors challenge companies to break out of the "red ocean" of bloody competition by creating uncontested market space that renders the competition more or less irrelevant. In many ways private equity clubs swim in the red ocean—when it wouldn't be that hard to find calmer, blue waters.

Clubs must undertake this sort of active market differentiation. But they can't differentiate themselves in a market, and realize the desired ROI, without first achieving a thorough, honest understanding of that market—and their place in it.

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