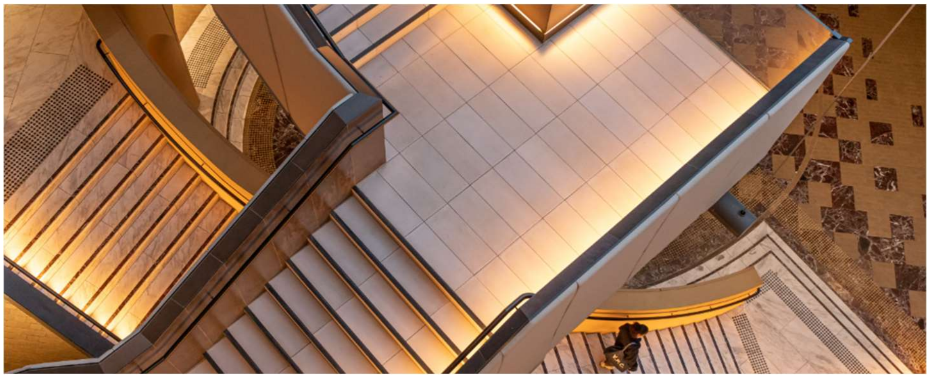
Lead Us Not into Temptation…



Like It or Not, Dues Increases are the Appropriate Response to Inflationary Pressure.

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Labor shortages and other inflationary pressures are budget busters. In the current environment, private club leaders are scrambling to cover current year shortfalls while nervously pondering dues increases for the next fiscal year. Without long-term industry perspective, some club leaders will inevitably give in to the temptation to side-step near-term dues increases and seek other ways to bridge the financial gap.

We know that clubs generally operate on a break-even basis with dues providing most of the money used to fund the operation. It follows that dues increases must cover increasing operating expenses. As worrisome and distasteful as a large dues increase might be, raising food minimums, raiding capital reserves, cutting capital fees, adding non-member events and outings, slashing expenses, or engineering impossible budgets are knee-jerk responses that will ultimately weaken your club. Let's briefly consider each of those alternatives:

Increasing food minimums forces demand which puts more strain on staff amid an unprecedented labor shortage. Food & Beverage subsidies will likely increase with the volume which increases pressure on budgets. Larger unused minimums may look like easy money to the finance committee, but they will eventually take a toll on member satisfaction. Raising food minimums is not a viable solution to budgetary challenges.

Borrowing from capital reserves is essentially robbing Peter to pay Paul. It's short-sighted and it is potentially dangerous. Industry data shows that most clubs are already under-reserved whether they recognize it or not. Lines of credit are better options for cash crunches, but supplemental charges to members must be built into budgets to ensure rapid repayment if you go that route. Be sure rest periods (the periods of time a credit line must be fully repaid each year) are well understood, especially if the club's line of credit has never been used or hasn't been tapped in a while.

The optics of **cutting capital fees to offset a dues increase** may be appealing in the near term but underfunding long-term capital needs is the surest way for clubs to regress. Consider the club's long-term goals and resist compromising your capital funding plan.

In addition to potential tax issues for Section 501(c)(7) entities, **adding more banquets and golf outings** rarely produces any meaningful financial gain and it carries a cost that is significant but hard to measure… Outside events put strain on the staff, increase wear-and-tear on the club's physical assets and erode member satisfaction. If the idea of adding outside functions comes up in the boardroom, stop and ask yourselves whether there is really a material per-member-dues-savings that warrants the downside exposure.

Cutting expenses is another idea that may come up. Perhaps managers could be asked to do more with less but trying to cut your way to success is ultimately a losing venture. Consider the impact of cost cutting measures on the member experience which is ultimately your club's value proposition. Over time, declining member satisfaction can become a death spiral.

Budgeting aggressively and to perfection is a high-wire act. If we've learned anything from the pandemic or any of the four or five other once-in-a-lifetime events that have occurred over the last two decades, it's that you must expect the unexpected and the probability of everything going according to plan is very, very low. Club leaders must be realistically conservative lest the problems compound and become more difficult to solve.

All things considered, this is an interesting time to be a club leader. It may help to remember that private clubs have existed for more than 150 years in the United States. Our oldest clubs have survived plenty of social and economic turmoil, no doubt through the wise and thoughtful guidance of their leaders. Setting dues appropriately, strengthening purchasing practices, managing working capital and properly funding capital reserves are time-tested practices of successful clubs, so resist the temptation to take shortcuts and be prepared for the barrage of opinions and recommendations which will be plentiful. Now more than ever before, clear member communication will be instrumental to success.