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Recapitalizing Options by Peter Nanula

Post-recession, many clubs are struggling with debt. To retire that debt and enable long- deferred reinvestment, many clubs are recapital- izing with professional owner/operators.

Board members at equity clubs have every right to ask this key question: "How can an owner/operator acquire an indebted private club, pay off that debt, eliminate assessments, keep member dues affordable, reinvest in the club and still make money?" Here's how:

1) Purchasing savings: Vendors who serve private clubs individually sign 'national account' programs with owner/operators on a multi-club scale. These agreements – covering everything from chemicals and fertilizer to food & beverage items, golf carts and maintenance equipment – save owner/operators $200,000 to $300,000 per year, per club, even though they are buying the same products from the same vendor off the same truck that individual member-owned clubs are.

2) No debt-service payments: Experts believe that half the 3,000 member-owned (or equity) clubs in America today are carrying dangerous levels of debt, meaning that debt equals more than 50 percent of annual club revenues.

Many are dealing with mortgage loans or lines of credit, and those clubs each pay $500,000 to $1 million annually in principal and interest to their banks.Well capitalized owner/operators have the resources to entirely pay off a club's debt, immediately. It's the first order of busi- ness. That's an extra $500,000 to $1 million of annual cash flow right there.

3) Best practices: At member-owned clubs, superintendents, GMs and frankly board mem- bers themselves operate in a single-club silo. In contrast, owner/operators run multiple clubs; department heads enjoy the pooled experiences and innovations of dozens of other sister club operations. This is a huge advantage that contin- ually informs operating decisions at any single club run by an owner/operator.

4) Efficient decision-making: Anyone who belongs to a private, member-owned, member-governed club is familiar with the glacial pace of decision-making. Once a club has partnered with a well-capitalized owner-operator, the general manager becomes more like a CEO. They have a continuously funded budget and can simply make a decision on a Monday and implement it Tuesday. If it will increase member satisfaction or help to attract new members, why wait?

5) No assessments or dues increases: This is the capper. Ask your own membership director to identify the biggest deterrent to new members joining your club: It's the prospect of future, unforeseen assessments and dues increases.

Owner/operators eliminate this deterrent. This means they more efficiently convert new mem- ber prospects, and new members mean new rev- enue. This is perhaps the biggest long-term, fis- cal difference-maker: Member-owned clubs have real trouble attracting new members. Well- capitalized owner-operators don't.

I could go on. Member-owned clubs operating as 501(c)(7) non-profit "co-ops" face a number of additional, structural impediments to success that result from their very organizational set-up. For decades, these factors frankly didn't impede a club's revenue stream — but that was a time before most U.S. markets were overbuilt, a time before the 2008 Recession, which forever changed the economics (and the demographics) of the U.S. private club industry.

Owner/operators aren't saviors or miracle- workers. But they are professionals. They do this for a living. Once a club is debt-free and has an efficient decision-making structure in place, it is perhaps easier to understand how/why so many formerly member-governed clubs are posting great revenue and membership numbers they couldn't post on their own. **BR**

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