

Winning Strategies

Capital Investment Analysis

How Do You Evaluate What is Important

Let me suggest you consider this piece of advice before reading further. Never be afraid to try something new. Remember that a lone amateur built the Ark and a large group of professionals built the Titanic.

Clubs continue to struggle with significant needs for capital spending balanced against normally limited resources. How do you decide what to do first? How do you prioritize a master facilities plan? Every club is different and it would be impossible to just make a list that would work for all clubs. I will say the trends for capital spending lean to fitness, pool facilities, and casual dining expansion.

OK – So you might need to add a facility or service addition to your club amenities package. Option A might be to use cash balances and grow as you are able. Option B might be to use some form of debt to provide a facility upgrade, new facility or new service but more aggressively than Option A. The club has the choice but needs to evaluate those decisions.

The issue is whether other real options are compared, including doing nothing. May I suggest that clubs use a metric called real return. The concept of real return compares capital options and their cost / benefit relationship. Cost / benefit does not always tie directly to the investment. How do you rank cost / benefit relationships in the club industry? There appear to be five major areas to discuss. We will discuss how each item impacts the Cap-X decision:

1. Increased Member Satisfaction

We all understand that clubs are not in the golf, tennis, swimming, fitness, or food and beverage business. We are in the member satisfaction business. High levels of satisfaction drive a member's value quotient. Members must believe they get good value for the time and money they spend or they will likely leave sometime in the future. Therefore, Cap-X investments in high satisfaction areas, such as a dining room upgrade, can be valuable in meeting member expectations.

2. Increase in Real Value

Real value can take place with the addition of a service that you presently don't have. For example, maybe the club doesn't presently have a fitness center. The addition of fitness at a reasonable cost to the membership can provide real value to the members, as they will be getting more for only a little investment.

3. Competition Driven

That darn competition. They are always doing things that impact our ability to compete. I am presently working for one club as they experienced a competitive club complete a major pool facility upgrade. Now my club is not competitive. This can impact potential new members if they go to the competition. Another issue is that you may want to get out ahead of the competition by upgrading first and cause them problems.

4. Potential Membership Growth

It is important to understand what drives new member growth. Certainly the addition of fitness or pool upgrades may pay real dividends to people shopping for a club. Understanding your position in the marketplace and investing wisely is what is necessary in today's environment.

5. Impact on Member Retention

Knowing member expectations, and then meeting / exceeding them are what great clubs do. The economic conditions of the past five years have caused clubs to economize. Unfortunately, this has caused reductions in service levels. It is time to address your club's community brand. Are you meeting member expectations or are you complicit in the loss of members?

So how can we pull this altogether. Consider the chart below.

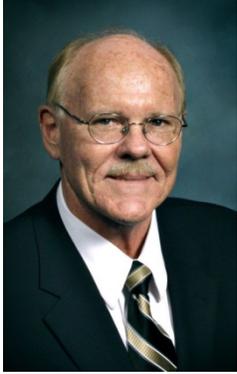
Capital Investment	Project 1	Project 2	Project 3	Project 4
Overall Cost	1 Million	1.5 Million		
Cost per Member	\$2,000	\$3,000		
Cost per Month	\$34	\$50		
Member Satisfaction	3	5		
Real Value Added	4	2		
Competition Driven	5	3		
Potential Membership Growth	5	2		
Membership Retention	2	4		
Total Rating	19	16		

Rate each aspect of the project for our five impact areas taking into account the overall cost and cost per member. Project 1 may be a fitness addition. Project 2 may a clubhouse renovation of the dining rooms. Put some arbitrary ratings to each on a 5 point scale with 5 being the most important. These ratings will change from club to club, and there will be significant argument as to what the ratings may be in each area. However, a good dialogue will develop the arguments that you will need to sell the projects to the total membership.

Both projects need to be done. But which do you do first? The above ratings would say that maybe the addition of fitness is what the club needs first.

Let me leave you with one more thought. "The trouble with doing something right the first time is that nobody appreciates how difficult it was."

Thanks to Blaine Bateman, President, EAF LLC, for helping develop my thinking for this article.



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