Strategic Key Performance Indicators

March, 2019
Club Benchmarking Background

• Founder was a private club Board member for 10 years and President for 3
• Studying and providing Data Analytics and Financial Analysis to the private club industry since 2009
• Nationally Recognized Experts in Club Finance and Business Intelligence
• Gather data from +/- 1,000 clubs in 49 of 50 states, ranging in revenue from $300,000 to $115 Million. 20% of the database is Gated Community Clubs.
• Based in Boston, MA – 18 people
  o Annual Finance & Operations, Compensation & Benefits, Policies & Procedures Benchmarks
  o Strategic Monthly Dashboard
  o Integrating Real Estate and Demographic data into database
  o Leaders in Capital Reserve Studies for the industry
  o Capital Strategies Modeling platform
  o Motivation, Attachment & Loyalty Benchmark
  o Employee Engagement Benchmark
  o Continuous study of what drives Financial Sustainability and Success in private clubs
Our Mission and Vision

• Member-Owned Clubs form a $30 billion industry with the largest at $115 million in revenue

• Fragmented, cottage industry – best practices disseminate slowly, if at all

• Approx. 3,000 Clubs with 11 governors on average…33,000 people “governing”

• Significant issue is misguided Governance due to lack of Context feeding widely held misperceptions:
  § Many Boards are tactical and myopic – ambiguity as to what Governing is/isn’t
  § F&B should make money and drives club finances
  § The Omnipresent “Debate” -- Choice vs. Efficiency
  § Misplaced focus on Income Statement vs. Balance Sheet

• Club Benchmarking advocates Fact-Based Governance as a process that can be continuously improved through Data-Driven Insight and Education
  o Success requires clear Vision and Constantly Forward Momentum
  o Broad alignment across club membership on Vision and Core Values
  o Board Focuses on Strategic Choices - Staff Manages
  o Success requires Change – Adapt or Die
Ten Years of Learning

• Began gathering data in 2010 +/- 1,000 clubs every year (49/50 states and Canada)

• All data mapped “apples-to-apples” – from the Trial Balance

• Discover patterns thriving/dying clubs → led to Strategic Insight and common Key Performance Indicators (KPIs) that matter to every club

• Presentations at over 350 clubs – complementing data and analysis with experience

• The Four Most Important Lessons learned:
  o Context and Key Success Factors
  o The Key Financial Driver
  o The Common Key Performance Indicators
  o The Importance of Capital Resources, Needs and Planning
Context

- Gen X 28% smaller than Boomers – they are at club joining age (37 to 52)
- Gen X replacing Baby Boomers who are moving and dying
- Mass Golf Association Handicaps in 2004 = 100,000 in 2017 = 87,000
- The most STRATEGIC issue in clubs is...where are the new members coming from? Is it discussed enough?

Births Underlying Each Generation

Number of U.S. births by year and generation

<table>
<thead>
<tr>
<th>Year</th>
<th>Silent total births: 47 million</th>
<th>Boomer 76m</th>
<th>Gen X 55m</th>
<th>Millennial 66m</th>
<th>(post-Millennial) 69m</th>
</tr>
</thead>
<tbody>
<tr>
<td>1928</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>1946</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
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<tr>
<td>1965</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>1981</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>7</td>
<td>8</td>
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<td>1998</td>
<td>5</td>
<td>6</td>
<td>7</td>
<td>8</td>
<td>9</td>
</tr>
<tr>
<td>2014</td>
<td>6</td>
<td>7</td>
<td>8</td>
<td>9</td>
<td>10</td>
</tr>
</tbody>
</table>

Source: U.S. Dept. of Health and Human Services National Center for Health Statistics

PEW RESEARCH CENTER
• Current financial position results from past choices

• Member Experience is built on the club’s Staff, Assets and Programming

• Are we relevant for Generation X? Do we understand our Value Proposition?

• Have we re-invested in the club? Are we growing the club?

• Is the Staff Engaged?

• Are the Members Emotionally Attached, Loyal and do they support the club financially?
Are the Key Success Factors (KSFs) the same in every industry?
- Is every industry driven by price? New Cars vs. Internet Search
- Is every industry driven by process? Hospitals vs. Art Galleries
- Is every industry driven by efficiency? Commodities vs. Jewelry

Retailing

Key Success Factors vary across industries

<table>
<thead>
<tr>
<th>High End Fashion</th>
<th>Leading Technology</th>
<th>Railroads</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prada</td>
<td>Apple</td>
<td>Union Pacific</td>
</tr>
<tr>
<td>Gucci</td>
<td>Google</td>
<td>BNSF</td>
</tr>
<tr>
<td>Cartier</td>
<td>Facebook</td>
<td>Norfolk Southern</td>
</tr>
</tbody>
</table>

Brand Image Style

The Next Great Idea Technology Value Proposition

Material Handling/Tracking Cost Management Economies of Scale
The Industrial Spectrum – Gross Margin

<table>
<thead>
<tr>
<th></th>
<th>Google</th>
<th>Clubs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Cost of Revenue</td>
<td>30%</td>
<td>85%</td>
</tr>
<tr>
<td>Gross Margin</td>
<td>70%</td>
<td>15%</td>
</tr>
<tr>
<td>Fixed Expenses</td>
<td>45%</td>
<td>10%</td>
</tr>
<tr>
<td>Operating Profit</td>
<td>25%</td>
<td>5%</td>
</tr>
</tbody>
</table>

**Value Proposition & Strategic Choices Rule**

**Managing Costs & Efficiency Rule**

Clubs → 60% Gross Margin, More Like Google than Nail Manufacturers
Using Key Performance Indicators (KPIs) to Change the Dialogue

- As a whole, the industry is tactical – to succeed in an ever changing market clubs must **THINK AND ACT STRATEGICALLY** by precisely understanding their market, their value proposition and their competitive position.

- As Porter said – Operational effectiveness is not strategy!

- There has been a gap relative to understanding the changing market – **the Chief Financial Executive and Manager should be Experts. Precisely understand your market!**

- Consider the audience for data you provide – the KPIs the Board monitors (strategic) should not be the KPIs the F&B Manager monitors (tactical)

- We need to stop emailing spreadsheets around asking for pieces of data – we need a comprehensive, standard, accurate, consistent and context-based approach to benchmarking.

- Measure strategic outcomes – understand the effects of decisions being made in your club.
Considering Appropriate KPIs for Clubs

The KPIs That Are Common to EVERY CLUB
Operational Effectiveness is not Strategy (Porter)

- Organizations must be flexible and respond rapidly to competitive and market changes

- Organizations must benchmark continuously to achieve Best Practices

- Organizations must nurture a few core competencies to stay ahead of rivals
What is a Key Performance Indicator (KPIs)?

• KPIs measure the success/performance of an organization or a particular activity in which the organization engages – Wikipedia

• By setting KPIs the organization enables the team to make smart business decisions about the direction of all current projects – Oxford Dictionary

• There are different KPIs for different stakeholders – the Board of an organization is responsible for more mission critical and strategic KPIs than a department manager
Fostering a Strategic Club

• Goals, Objectives and Activities must be linked with the organization’s Strategy

• Clubs (and club Boards) tend to be tactically/operationally oriented rather than strategically oriented

• Club Benchmarking’s analysis has led to Mission Critical KPIs common to every club and provide Strategic Market Context to make better Strategic Decisions

• KPIs monitoring mission critical performance are Strategic KPIs

• KPIs monitoring Activity are mostly tactical – still important but not Board level
A Review of Data Supplied to Boards

- Clubs tend to have “inward-looking”, activity and financial data
  - Cover Counts, Rounds of Golf, Tennis Plays, Financial metrics focused on Actual vs. Budget for prior month and focused on the operating ledger
  - Membership metrics – members entering and exiting
  - There is a lack of market-based trends like Cost of Belonging, Initiation Fee – typically gathered via ad hoc emails between Managers (which then lack context)

- The data supplied likely invites an operational and tactical focus

- The existence of Mission-Critical, Strategic information will foster a strategic perspective and a focus on strategic issues
# The Common Financial KPIs – These Matter to ALL CLUBS

## Annual

<table>
<thead>
<tr>
<th>Income Statement</th>
<th>Balance Sheet</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating Ledger</strong></td>
<td><strong>Capital Ledger</strong></td>
</tr>
<tr>
<td>1. Operating Revenue</td>
<td>1. Net Worth Over Time</td>
</tr>
<tr>
<td>2. Gross Profit/Gross Margin</td>
<td>2. Equity to Assets and Liabilities to Assets Ratio</td>
</tr>
<tr>
<td>3. Sources of Gross Profit</td>
<td>3. Net Property, Plant &amp; Equipment</td>
</tr>
<tr>
<td>4. Dues to Operating Revenue Ratio</td>
<td>4. Net PPE to Gross PPE Ratio</td>
</tr>
<tr>
<td>5. Fixed Expenses to Revenue Ratio</td>
<td>5. Total Capital Income</td>
</tr>
<tr>
<td>7. Operating Result and Margin</td>
<td>7. Net Available Capital to Revenue Ratio</td>
</tr>
<tr>
<td>8. Payroll to Revenue Ratio</td>
<td>8. Debt to Revenue Ratio</td>
</tr>
<tr>
<td>9. F&amp;B Profit/Loss as % of Dues Revenue</td>
<td>9. Debt to Equity Ratio</td>
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<tr>
<td>10. Full Member Dues</td>
<td>10. Capital Reserves to Fully Funded Ratio</td>
</tr>
<tr>
<td>11. Full Member Equivalents</td>
<td></td>
</tr>
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</table>
The Common Mission Critical KPIs – These Matter to ALL CLUBS
Monthly

<table>
<thead>
<tr>
<th>Membership</th>
<th>Finance</th>
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<tr>
<td>1. Total Member Count</td>
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<td>3. Initiation Fee Income</td>
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<td>4. Members on Wait List</td>
<td>4. All Other Capital Income</td>
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<td>5. Members on Exit (Sell) List</td>
<td>5. Capital Investment</td>
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<td>6. Total Cost of Belonging</td>
<td>6. Total Debt</td>
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<td>a. Operating Dues, Capital Dues, Debt Service, F&amp;B</td>
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<tr>
<td>b. Minimum, Level Service Fee, Trail Fee, Locker Bag</td>
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</tr>
<tr>
<td>c. Handicap Driving Range, Capital Assessment</td>
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<td>7. Initiation Fee</td>
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Considering KPIs in Private Clubs

Other KPIs

• Naturally, clubs will track Operational KPIs – interestingly operating KPIs may not be common to every club, for instance...
  o Rounds of Golf only matter to clubs with golf
  o Room rates, occupancy, etc. only matter to clubs with rooms
  o Some clubs have fitness/some don’t – some have tennis/some don’t, etc.

• An Important Theme
  o **The KPIs that matter to EVERY CLUB** – independent of type (city, country, yacht, etc.), of geographic location, of quality (high-end, pedestrian), size (large or small) – ARE THE STRATEGIC KPIs
  o The KPIs that are Operational are likely to vary from one club to the next
The Annual KPIs
The Key Financial Driver

- First – we must understand the meaning of this data – IT IS CRITICAL

- Clubs set Operating Budget to break-even excluding Depreciation - It is not a financial driver

- The Operating Ledger is the vehicle for delivering Services & Amenities to members, it is consumed every year by Members enjoying the club

- The financial driver over time is Capital Income and Investment
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Considering the Annual KPIs

• Defining an Annual KPI
  o These measures must be precisely quantified each and every year
  o While some metrics vary monthly – the outcomes really occur one year at a time
    ▪ E.G. Operating Revenue may vary in-season to off-season but the variation isn’t meaningful – but year over year changes are critical (Operating Revenue should always grow year-to-year)
    ▪ E.G. Dues to Revenue Ratio will vary month to month (seasonality) but the meaningful variation is year to year
  o The meaning of each Annual KPI should be clear to staff and Board/Committees – because they are all important

• Of course a club can track the month-to-month changes of Annual KPIs if it so desires

• Embrace and Emphasize the difference between Operating KPIs and Capital/Balance Sheet KPIs – this helps foster a strategic view
Reviewing “The Most Important” Annual KPIs
Reviewing the Important Annual KPIs - Capital

All Clubs

Assets = Liabilities + Equity

What We Have

Net Property Plant & Equipment

80%

30%

70%

From Others (Banks)

From Members

(Unrestricted Net Assets)

• Equity to Assets Ratio – how much have the Member’s contributed over time?

• Liabilities to Assets Ratio

• Debt to Equity Ratio

• Understanding the flow of Capital – from Member’s Equity into Property, Plant & Equipment

Cash-to-Assets Ratio

9%

Debt-to-Equity Ratio

20%
Over Time the Financial Driver is the Capital Ledger

- Unrestricted Net Assets = Net Worth or Book Value of the Club

- Club operating ledgers are typically set to break-even. In that scenario, Net Available Capital (EBDTA) must be greater than depreciation in order for net worth to increase.

Net Worth growth requires incoming members AND existing members to contribute to capital.
CAGR

25th Percentile = -1%
Industry Median = 2%
75th Percentile = 5%

30% of clubs have net worth shrinking in absolute terms
50% of clubs have net worth growing less than inflation
38% of clubs meet our recommended minimum net worth growth of 3.5% per year

Significant capital income is required to increase net worth
Carmel has invested heavily over the last ten years.

Their Net Worth (Member’s Equity) has increased at a Compounded Annual Growth Rate of 8.7% - very close to the top of the industry

Their Initiation Fee has increased consistently over that period.
Net Available Capital > Depreciation = Net Worth Growing

Net Available Capital < Depreciation = Net Worth Declining

Net Worth MUST GROW at least 3.5% per year.

35% of clubs are generating capital to meet replacement costs (which are greater than Depreciation) but not enough to expand asset base. Net Worth Flat

30% of clubs ARE generating Capital to meet Replacement Costs and likely – some have enough to INVEST in EXPANDING THE ASSET BASE. NET WORTH INCREASING

35% of clubs are literally consuming themselves - Net Worth Declining
The Strength of Capital Manifests on the Balance Sheet

**Club Built 50 Years Ago**

- Total Cost to Build = $3 Million
- Zero Reinvestment Over Time

**Gross PPE** = $3M (ex. Land)
**Accumulated Depreciation** = $3M
**Net PPE** = $0
**Net-to-Gross-PPE Ratio** = 0%

*Condition: Worn and Depleted*

**Club Built Yesterday**

- Total Cost to Build = $30 Million

**Gross PPE** = $30M (ex. Land)
**Accumulated Depreciation** = $0
**Net PPE** = $30M
**Net to Gross PPE Ratio** = 100%

*Condition: Brand New*
Net to Gross PPE Ratio

- Net PP&E is tied to Member’s Equity (Net Worth). Quick, accurate test of physical plant condition.
- Ratio > median = Assets fresher & more up to date. Below median assets are older, more worn & less relevant.
- A precise assessment of your club’s physical plant requires a Capital Reserve Study which should be conducted by an objective 3rd party professional well-versed in clubs.
Reviewing the Important Annual KPIs - Capital

- This metric is only important to get Boards to realize...
- Food & Beverage is an AMENITY – not a Profit Center
- We need to get them off this topic – it gets in the way of the critical Capital KPIs
### F&B Profit/Loss to Dues Ratio Analysis

<table>
<thead>
<tr>
<th></th>
<th>Grouping A Lower Quartile</th>
<th>Grouping B Middle 50%</th>
<th>Grouping C Upper Quartile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Club Operating Revenue</td>
<td>$7,410,000</td>
<td>$6,780,000</td>
<td>$6,180,000</td>
</tr>
<tr>
<td>Dues to Revenue Ratio</td>
<td>56%</td>
<td>50%</td>
<td>44%</td>
</tr>
<tr>
<td>F&amp;B to Revenue Ratio</td>
<td>25%</td>
<td>31%</td>
<td>38%</td>
</tr>
<tr>
<td>F&amp;B Labor to Revenue Ratio</td>
<td>82%</td>
<td>65%</td>
<td>54%</td>
</tr>
<tr>
<td>F&amp;B Cost of Goods Sold</td>
<td>45%</td>
<td>41%</td>
<td>38%</td>
</tr>
<tr>
<td>Full Member Dues</td>
<td>$9,780</td>
<td>$6,780</td>
<td>$6,630</td>
</tr>
<tr>
<td>Full Member Equivalents</td>
<td>515</td>
<td>480</td>
<td>390</td>
</tr>
<tr>
<td>Initiation Fee</td>
<td>$52,500</td>
<td>$24,000</td>
<td>$10,000</td>
</tr>
</tbody>
</table>

- Proof that F&B is an Amenity
- The Healthiest clubs financially subsidize F&B the most
- The Weakest clubs financially subsidize F&B the least

**Reviewing the Important Annual KPIs - Capital**

![CHOICES](image)
Reviewing The Mission Critical Monthly KPIs
### Membership

1. Total Member Count
2. Total Members Entering
3. Total Members Exiting
4. Members on Wait List
5. Members on Exit (Sell) List
6. Total Cost of Belonging (Annual)
   a. Operating Dues, Capital Dues, Debt Service, F&B Minimum, Level Service Fee, Trail Fee, Locker, Bag Storage, Handicap, Driving Range, Capital Assessment
7. Initiation Fee

### Finance

1. Dues Revenue
2. Non-Dues Revenue
3. Initiation Fee Income
4. Total Capital Income
5. Capital Investment
6. Total Debt
Membership Report

- Illuminate Membership Trends
- How is our club faring in attracting and retaining members relative to the local market and industry?
- What is more important than knowing the precise answer to that question?
- Our Club trend Year-over-Year
- Our Peer Group Trend Year-over-Year
- Industry Trend Year-over-Year
- What percent of clubs have a Waiting List? Sell List?
The Strategic Monthly Dashboard

Cost of Belonging Report

- Illuminate Dues, Mandatory Fees and Initiation Fee Trends

- How does the cost of belonging to Our Club benchmark versus our local Peer Group? The Industry?

- Another critical question to which the precise answer must be known.

- While a given club typically only changes its costs once a year – the market is constantly changing.

- Real-time visibility into the changing market.

- Data based on a systematic “Apples-to-Apples” data gathering process versus “ad-hoc” one off emails.
The Strategic Monthly Dashboard

Capital Finance Report

- Capital Income and Capital Investment are the financial drivers in a club – not the Operating Ledger. The Operating Ledger is the vehicle for delivering services and amenities.

- Clubs MUST strategically focus on the trends of their Capital Ledger over time.

- Monitoring Capital and the Balance Sheet monthly will provide early warning signs if something goes off track.

- If the member activity is “growing” – it helps all clubs. If it is member activity is “shrinking” – it is a drag on all clubs.

- The Capital Finance Report will help Our Club determine our trend vs. Our Peer Group and the Industry.
The Strategic Monthly Dashboard

Operating Finance Report

• Precisely illuminates Operating Revenue trends – Dues and Non-Dues

• Separate Our Club’s trends from market trends to yield STRATEGIC INSIGHT into our choices regarding our Value Proposition.

• Certain clubs are growing faster than competitors and the market because they have strategically evolved their value proposition.

• Certain clubs are shrinking in relation to competitors and the market as a result of LACK OF FOCUS on their value proposition.

• Which is your club?

• The Operating Ledger is not a financial driver – it accounts for the Value Proposition. This report yields strategic insight into Our Club’s Value Proposition in a dynamic market.
Change the Dialogue

• As a whole, the industry is tactical – clubs succeeding in the ever changing market must **THINK AND ACT STRATEGICALLY** by understanding their market, their value proposition and their competitive position.

• As Porter said – Operational effectiveness is not strategy!

• There has been a gap relative to understanding the changing market – **the Manager should be an Expert. Precisely understand your market!**

• Consider the audience for data you provide – the KPIs the Board monitors (strategic) should not be the KPIs the F&B Manager monitors (tactical)

• No more need to send spreadsheets around asking for Dues or Initiation Fee in an ad-hoc manner – participate in a standard, accurate, consistent and context-based process.

• Measure strategic outcomes – understand the effects of decisions being made in your club.
Making it Work

• The data is submitted in an excel spreadsheet as this point in time – we will offer various other alternatives in the future. Again – 20 minutes or less is all it takes!

• A defined Peer Group must be at least 7 clubs (including your own club) – they can be local, but don’t have to be. There is no limit on how many clubs can be in a Peer Group.

• Only your club will ever see your data. We have been doing this for 10 years and have proven our platform protects anonymity (which allows for truthful data submission – emails with names of clubs can easily be “fudged”)

• If you aren’t in a Peer Group – we can make a Peer Group be a Chapter or a Geographic Region – we will pick the most “local” data set with at least 7 clubs as we get this rolling nationwide.

• Over time there are other KPIs we have already discovered that will add to the value of the service.
Summary and Conclusions
The Importance of Capital

The Investment Return - Cycle

Increasing Net Worth
If You Build the Right Things...They Will Come

- Higher Initiation Fees & More Members
- Increased Member Satisfaction & Interest in Joining
- Broader Amenities & Attractive Facilities
- Increased Capital Investment
- Increased Capital Income (Initiation Fees & Capital Dues)
- Higher Return on Invested Capital

Generate Capital Income And Invest

Decreasing Net Worth
If You Don’t Build It – They Will Never Come

- Lower Initiation Fees & Fewer Members
- Low Member Satisfaction & Lower Demand
- Narrower Amenities & Deteriorating Facilities
- Restricted Capital Investment
- Decreased Capital Income
- Lower Return on Invested Capital
Conclusions and Takeaways

• Understand the Club Industry’s Key Success Factors
  o They are common to every club
  o We are in the hospitality and service business, not the manufacturing industry
  o It is about Strategic Choices and Value Proposition, not Efficiency

• Use KPIs to Focus the Staff and the Board on what Matters
  o The KPIs that are critical are the same for every club
  o Operating KPIs will vary from club to club
  o Clubs will measure both Strategic and Operating KPIs – make sure the Board sees the Strategic KPIs – the Operating KPIs invite micromanagement and focus on Operations
  o The Mission Critical KPIs manifest on the Capital Ledger and Balance Sheet

• The Strategic Monthly Dashboard
  o Is Mission Critical as it delivers insight into the changing Market and your club’s competitive position
  o Will change the Boardroom (and Finance Committee Room) dialogue – which is NECESSARY

• As the Chief Financial Executive
  o Understand and Embrace the Key Financial Performance Indicators – don’t let Board “imprint” their view on the industry
Components of a Holistic Strategic Plan

- **Clear Mission** – needs to be documented and ideally “tangible” in the club’s culture – the club lives it
- **Clear Vision** – every club needs to be DRIVING forward with purpose - also tangible in club’s culture
- **Core Values** (Understanding Choices)
  - High Service <-> Pedestrian Service
  - High Quality <-> Pedestrian Quality
  - Large Club <-> Small Club
  - Broad Amenities <-> Narrow Amenities
  - Quality of Service & Level of Amenities <-> Price
- **SWOT** - Member input, especially “newer” and prospective members
- **Strategic Key Performance Indicators** – Standard, strategic, Board level Club Benchmarking KPIs
- **Key Strategic Goals** – this year, next 2-5 years (negate weaknesses, mitigate threats, leverage opportunities, build on strengths)
- **Capital Reserve Study and Forward Looking Capital Model** – professional and objective – 20 year view. How do Resources meet needs?
- Conscious deliberation regarding **Optimal, Sustainable Member Count**
- **Governance Foundation** that allows for “administration to administration” embracement, implementation and continuous evolution of the plan – **Board members are Stewards of the Plan, Not Managers of the Club**
- **Fact Based Governance Culture** based on sound understanding...Staff “runs” the club, Board sets policy, oversees strategy and fosters culture
Comprehensive Tools & Services powered by Club Benchmarking

Core
- Financial & Operational Benchmarking

Capital Solutions
- Capital Reserve Studies
- Capital Strategies Modeling

Stakeholder Solutions
- Board Advisory Services & Balanced Scorecard Strategic Planning Framework
- Member Surveys: Satisfaction, Motivation, Attachment, Value & Loyalty
- Compensation & Benefits Benchmarking & Advanced Workforce Analysis
- Employee Engagement Surveys & Industry Benchmarking

Powerful Solutions • Proven Insight
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