Staying afloat

With nearly 15 percent of private clubs at risk, demographic and economic concerns challenge the segment to evolve or go under.

With the greater golf industry in a downturn, some private clubs have found themselves caught in the undertow of rough, uninviting economic waters. For them, it's time to either sink or swim.

There are tales of reverse waiting lists, clubs running out of cash and examples of storied private clubs – like Ravisloe Country Club in Homewood, Ill. – converting to semi-private or public facilities.

In addition to the anecdotes, several reports released over the last year point to serious challenges for the private club industry. Specifically, a National Golf Foundation report on "The Future of Private Golf Clubs in America" that states about 10 to 15 percent of private clubs identify themselves as at risk.

The same study indicates about 20 percent of members are "on the fence" about keeping their memberships and 10 to 15 percent are at risk of giving them up.

These statistics mean there are as many as 500 clubs nationwide who are just trying to stay afloat and about a quarter of a million members who aren't sure about their club memberships.

Since the first private golf club in the United States was established in 1888, the segment has endured a number of hardships – including the Great Depression, several wars, the savings and loan crisis, the dot.com bust and 9/11. Those who operate in the space say it's not a matter of whether private clubs will survive – it's just a matter of which ones will survive and how much they'll need to change to do so.

A CHANGING NATION

Recognizing America's changing face is one of the biggest challenges for clubs. The country's population hit 300 million in late 2006, and may top 400 million by 2040, according to the U.S. Census Bureau. Consider the following:

• Minorities, now roughly one-third of the U.S. population, are expected to become the majority in 2042, with the nation projected

By Marisa Palmieri

DAVE WHEELER

to be 54 percent minority in 2050.

• The non-Hispanic, single-race white population is projected to be only slightly larger in 2050 (203.3 million) than in 2008 (199.8 million). In fact, this group is projected to lose population in the 2030s and 2040s and comprise 46 percent of the total population in 2050, down from 66 percent in 2008. The Hispanic population's share of the nation's total population is projected to double – from 15 percent to 30 percent.

"The aura of exclusivity is going away." – Jeff Rivard

• In 2030, when all baby boomers are age 65 and older, nearly 20 percent of U.S. residents are expected to be in that age group. The percentage of the population in the "working ages" of 18 to 64 is projected to decline from 63 percent in 2008 to 57 percent in 2050.

These figures are just a snapshot of how the American demographic is – and the American club member profile will be – changing, according to the National Club Association's 2008 edition of "Future Trends & Issues: A Private Club Perspective."

The nuclear family is no longer the only family type. More than half of households are headed by a blend of single parents, gay couples and unmarried couples.

"Quite simply, it's no longer a 'Leave It to Beaver' nation," the report says.

Don't expect dad to golf five days a week and mom to come on the weekends with kids in tow. That's just not how families spend their time anymore, says Jeff Rivard, executive director of the Western Pennsylvania Golf Association. Commonly, both parents are expected to be at all of their children's events – and children today participate in more organized activities than ever. The percentage of children participating in lessons, such as music, dance, language, computers or religion, went up for 6- to 11-year olds, from 24 percent in 1994 to 33 percent in 2004, according to the Census Bureau.

"There's almost a parental peer pressure today that you have to be at every activity," Rivard says. That shift in parents' expectations affects how families spend time at clubs.

People's priorities are shifting, too, the NCA report says. "All groups are defined not just by their careers but by their pursuits, their love of family, their addiction to technology and their desire to have a new path."

The data and anecdotal evidence combine to suggest the reason people join private clubs is changing and will be different than it has been in the past.

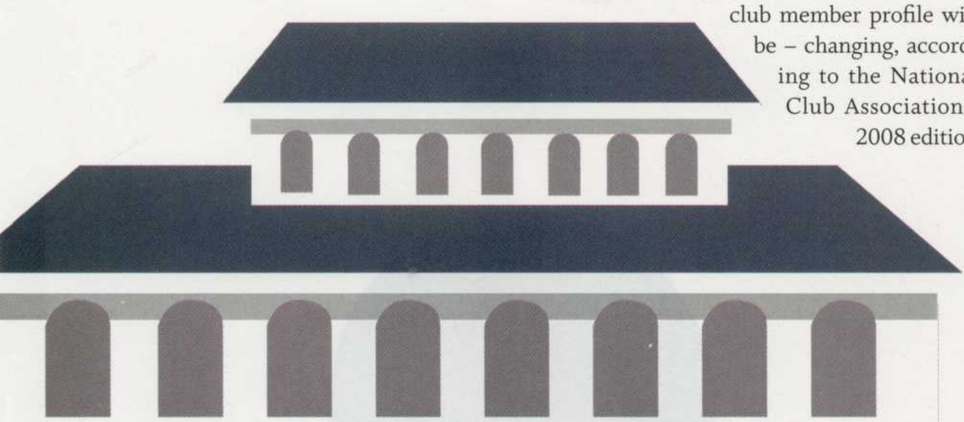
Exclusivity, for example, used to be a No. 1 priority for club members.

"Club memberships used to be viewed as an indicator of social status and were often used as a business amenity," says Jim Singerling, CEO of the Club Managers Association of America. "There only used to be a few opportunities for a successful person to join."

That's changing, partly because many clubs are generating revenue by allowing outside rounds (see "Converting rather than closing," at left), but some say it's also because the culture has changed to make exclusivity less important.

"The aura of exclusivity is going away," Rivard says, adding that some club members don't want others to know they're members – and go as far as to request their names not be printed in the club directory.

"Depending on the business you're in, you might not want people to know you belong to a club," he says. "There's somewhat of a stigma."



Converting rather than closing

Considering the less than ideal state of the private club industry, one would think many have closed their doors recently or will close soon. However, that hasn't been the case. Rather than closing, clubs commonly become public or semiprivate. Conversions outnumber closures 10 to 1, according to the National Golf Foundation report.

In most cases, clubs convert to public facilities after memberships and revenues drop and they can't meet operating costs or debt service. Aging memberships, underutilization, competition and/or poor local economies are other reasons clubs may convert. Some clubs become semiprivate, retaining members under alternate dues structures.

Conversely, public facilities sometimes go private. In most cases, it's when courses tied to real estate become private after the community reaches a membership or home-sale threshold, often between 300 and 700 members.

PRIVATE CLUB CONVERSION FLOW 1999-2008

1999	Courses added	Courses lost	2008
4,188 private golf clubs	343 openings	39 closings	4,393 private golf clubs
	288 public to private conversions	387 converted private to public	

Source: NGF's "The Future of Private Golf Clubs in America"

Since 9/11, Singerling says there's been an uptick in the number of people who join clubs primarily to have a safe place for their families to spend their time.

"All of the anxiety that's been added to the life of a successful individual allows the club to become a refuge," he says. "I see that becoming the single most important reason for people to not only retain their memberships, but as the reason to join in the first place."

Clubs will no longer be defined by the speed of greens or by any single amenity, but by their ability to satisfy a person's needs and wants during their five stages of membership. Singerling identifies these stages as:

- Young professional, either married or unmarried
- Young family
- Family with children who are involved in a variety of activities
- Empty-nest stage, pre-retirement
- Retirement

Additionally, just as Google, Yahoo and other tech firms have redefined what it means to be "corporate," some clubs are redefining the status quo when it comes to club culture and dress code.

Consider The Bridge in Southampton, N.Y., which The New York Times called "the untucked country club" in 2006. Despite its reported $600,000 initiation fee, it's not uncommon to see members with backward baseball caps, jeans, tattoos and piercings. The club's owner, Robert Rubin, identifies the ideal member as an adventurous, young-at-heart, self-made man.

PRIVATE GOLF CLUB RISK PROFILE

Stated financial health	Clubs not at risk	Clubs at risk
Memberships		
Current golf memberships (average)	373	241
Current members as % of peak	91%	71%
Rounds		
Current rounds (average)	21,289	19,760
Current rounds as % of peak	84%	78%
Financial		
% with operating loss	24%	57%
% with debt	68%	92%

Source: NGF's "The Future of Private Golf Clubs in America"

Private club industry members and research reports say the answer is to research members and prospects, and give them the individualized experiences they're looking for.

"There's an overused phrase – 'You need to have your finger on the pulse of your membership,'" Singerling says. "Just like doctors taking a patient's pulse, you can't take it once and figure you have it nailed."

Rivard agrees. "Clubs have an indifferent history of sending out bills and collecting money," he says. "I think the most important thing for a private club is to know its members. They have to get the solid research on the demographics of their own members and then they can figure out the people they can recruit. A lot of clubs don't know where they are."

The NGF report's recommendations take Singerling's and Rivard's comments a step further, encouraging clubs to honestly assess their business situation with competitive analyses, demand analyses and financial forecasts.

"People want more from leisure time than a chilled martini and a round of golf." – NCA report

It also points out that too many clubs operate without a strategic plan – which should be an imperative – including a forecast that accounts for member attraction/retention goals, capital improvements, projected initiation and dues levels and beyond.

Ultimately, the report says, clubs should leave all options on the table, including raising membership caps, converting to semi-private status, introducing new membership categories and even bringing in third-party management.

HOW SHOULD CLUBS RESPOND?

The NCA report says clubs need to reassess their policies and programs to meet members' needs.

"A younger, more tech-savvy demographic, coupled with trendy baby boomer needs, means in the coming year clubs will be forced to reevaluate dress codes, offer new technology service and appeal to younger families – and single-parented families at that," the NCA report says.

"Nowadays, people want more from leisure time than a chilled martini and a round of golf. America's ever-changing population is looking for family-centered activities, opportunities to learn, virtual connectivity, outdoor adventures, organic and sustainable foods and interaction with diverse groups."

CLUBS RESPOND

While some clubs are suffering, many are adapting by tending to their members' needs with creative programming and recruiting prospects with marketing. Some are changing membership and fee structures (see "Membership math," page 38).

Becoming more family friendly is a drumbeat many industry members have been pushing for some time.

"The shift is totally family-oriented," says David Gourlay, CGCS, CCM, chief operating officer for Colbert Hills Country Club, a semi-private facility in Manhattan, Kan. "Clubs are evolving and they have to be an extension of the home."

The Territory, a 4-year-old private club in Duncan, Okla., has taken note.

"On their time off, mom and dad are spending time at their kids' games, tournaments and activities, where they used to just recreate," says Tim Johnson, director of golf/director of operations for The Territory. "It has a lot to do with many families having two working parents and the time consumption of their kids. It's very infrequent I see an entire family all together anymore just playing golf."

To address that issue, The Territory is hosting events that promote family togetherness. The idea is to get them to use their club memberships and place a higher value on those memberships because they see the club as a family place.

Some of the events The Territory, which still allows outside play because it hasn't yet reached its membership threshold, has introduced include Wii bowling tournaments, fishing trips and family golf events.

"We're working at it," Johnson says. "We're trying to get families used to recreating together again."

The Territory also is considering other ideas to further expand its offerings. The club, which is located on 640 acres in Southwest Oklahoma, is toying with the idea of adding a paintball gun area.

"It's another way to get kids to participate," Johnson says. "We're just trying to think outside the box and not limit ourselves. We're trying to make our members focus on getting out there."

In retiree markets, operators know many people still look to private clubs for their social activities, but because competition is tough, they need to be as creative as ever.

"The people we sell to still want a place to congregate where there's something to do and people to enjoy it with," says Greg Wetzel, general manager of Gateway Golf & Country Club in Fort Myers, Fla. About 75 percent of Gateway's members are retirees. "But they want some diversity – it's not just golf and a cocktail anymore."

To meet their members' changing needs, Gateway officials have instituted new programs, like yoga, watercolor painting and computer classes.

Other favorites include table games like organized gin rummy, dominoes and bridge. CPR training sessions also sell out and ballroom dancing is becoming popular.

"Specifically, we're targeting programs that aren't cost prohibitive and promote a diversity of offerings," he says. "Programs like that don't take a lot of time or money."

"It's very infrequent I see an entire family all together anymore just playing golf." –Tim Johnson

John Schoellner, CGCS, CCE, general manager and chief operating officer of Estero Country Club in Fort Myers, Fla., says it's all about creativity and good management.

"The clubs I see that are having problems are the ones that are micromanaged by boards and don't have a good governance in place," he says.

Part of being creative and well managed includes marketing, and Estero tries to fill its roster a number of ways. One is through "The Estero Experience," which starts with members identifying candidates at their home clubs who may be interested in buying retirement homes in Florida. After qualifying prospects, the club invites them to a November golf tournament where it entertains them and introduces them to the community. Estero also takes advantage of being near the Minnesota Twins and Boston Red Sox spring training facilities. In addition to marketing in Boston and Minneapolis, it advertises in the Twins spring training program and distributes a flier at the Red Sox spring training gift shop.

Finally, Estero recognized that many of its members and prospects have never played golf until they retired, so this winter it started a golf academy for members and guests with Indiana-based instructor Bob Prange, PGA.

"It's gotten a lot of play among our membership and has really helped our golf professional staff," Schoellner says. "They're doing more lessons and seeing more activity."

Gourlay points out that one of the biggest changes that's taken place in the private club industry over the last decade is the advent of a full-time membership recruiter, typically called a membership director.

"The courses that struggle don't have a dedicated person to do this all-important function," he says.

WHAT THE FUTURE HOLDS

Considering there are as many private golf clubs today as there were just before the Depression – about 4,400 – despite a more than 150-percent jump in U.S. population over those 80 years, it's not off base to question what the future holds. Many in the private club industry, though acknowledging some clubs will probably close and some will continue to struggle, agree that the market's foundation is strong.

"Looking at the long, hard road, I think you'll always have your upper-echelon private clubs – the Congressionals, Southern Hills and Oklahoma City Golf & Country Clubs," Johnson says. "Those clubs will thrive because there will always be high wage earners in those markets and there's a prestige associated with belonging. The clubs that will struggle are the mid-levels – people will continue to be transient within that spectrum and they'll battle with the high-end daily fees."

Wetzel says the country's model for urban development creates a need for what private clubs offer.

"Whether or not people are playing golf, with urban sprawl and community planning, there's no hub for your recreational outlets compared to European cities where there are places you can go, run into people, say hi, be recognized and maybe have dinner," he says. "Unless our urban planning changes where we have locations for engagement with social and recreational opportunities, there will always be a need for a place like the club to see and be seen by others."

As Gourlay says, "There's a great opportunity for those who are very creative." **GCI**

Membership MATH

Private golf clubs work to attract and retain members while balancing market forces.

By Marisa Palmieri

People are doing the math, and it's a big problem for private clubs struggling to attract and retain members.

Jeff Rivard, the executive director of the Western Pennsylvania Golf Association, offers himself up as an example. "I just did the math. I went from a membership at a private club to a season pass at an upscale public course – and I was at an affordable private club. If people are playing 20 to 30 rounds a year at the club and eating a few meals, that's more than $200 a round."

With the evolving needs of members and prospects and the current economic squeeze, many private clubs' membership rosters are feeling a lot of pressure.

Only 34 percent of golf clubs who are members of the Club Managers Association of America are at full membership capacity, according the CMAA's 2008 Club Operations and Financial Data Survey.

In addition, a 2008 National Golf Foundation study shows that 66 percent of club members are highly likely to still be members of a private club in five years, but that leaves 20 percent who are "on the fence" and 14 percent who are at risk of giving up their memberships. Why? The top reasons are financial. Members who are likely to leave cite pricey dues, personal income, interest in playing high-end public courses or difficulty justifying the cost per round (see Table 3 on page 40). Of former members surveyed, the top reason for leaving was relocation (which is considered to be an involuntary reason), but half cited financial reasons as a factor for leaving.

On the plus side, the same study shows there are 2 million qualified candidates for golf club memberships nationwide – that's about one for every existing private club member today. These prospects are golfers who are "highly attracted" to membership, are age 30 to 60 and have incomes of $100,000 or more.

Even so, the market for club members is tight, considering the demands on peoples' time, the competition for their discretionary

Wetzel

dollars and the number of high-end daily-fee facilities that can fulfill their golf needs.

So how are clubs responding to these pressures? Creative programming, attempting to increase value and better marketing are a few solutions. Others include decreasing prices, offering numerous membership options and allowing members to pay initiation fees over a longer period of time or with no interest.

Though many club officials say reducing fees isn't ideal – and club industry associations don't advocate the practice – it's happening at many facilities.

"Dropping initiation fees is something we're seeing, but not endorsing," says Cindy Vizza, director of communications and knowledge management at the National Club Association. "That's really not sustainable. You can't do it forever. Clubs are dependent on initiation fees – they're a real commitment to the community and lifestyle. If you're doing away with those, you're going to have more transient members."

MARKET FORCES

When push comes to shove, how a club handles membership options depends on its local market, Vizza says. The age-old arguments against lowering fees – devaluing the membership, upsetting the existing members who paid full price and attracting folks with less of a commitment to the club – are still concerns, but some clubs believe they have no choice.

"A lot of clubs in our area have dropped their initiation fees," says Greg Wetzel, general manager of Gateway Golf & Country Club in Fort Myers, Fla. "We haven't yet, but we might. There's a pressure to mirror the market."

In Florida, many private clubs are tied to master-planned communities, many of which have a glut of for-sale houses. "If there are too few people living in the community, the club has to compete for members in the general marketplace, and that can be difficult because there are so many options," Wetzel says.

Gateway is a 3,000-acre master-planned community, including a clubhouse, a members-only 18-hole golf course, fitness center, tennis facility, park, bike and fitness trails and swimming pools. It has seen about 3 percent attrition over the last year, but Wetzel says the club benefits from competing in the retiree market. About 75 percent of the club's full members are retirees.

"We've been anticipatory; we're trying to keep operating dues flat and not increase our usage fees," he says. "Nobody's ignoring the fact that the market is different."

If it comes down to reducing initiation fees, Wetzel isn't worried about backlash from existing members.

"They can comprehend the ebbs and flows of the market," he says. "It's a lot like real estate. It's not unreasonable to think the value of a club membership could go down."

David Gourlay, CGCS, CCM, agrees that members understand the market forces that make fees fluctuate. His facility, the semiprivate Colbert Hills Country Club in

TABLE 1.

MEMBERS' REASONS FOR JOINING

	Full-service country club	Golf & clubhouse only
For the high-quality golf course	70%	53%
Less crowded	67%	60%
Convenience/proximity to home	60%	69%
For the social aspects	51%	29%
To stay physically active	42%	39%
For the other amenities	40%	5%
To provide family with amenities	39%	16%
For business/networking	22%	9%
Corporate membership	8%	8%

Source: NGF's "The Future of Private Golf Clubs in America"

EXISTING MEMBERS SAY...

TABLE 2. Membership stability

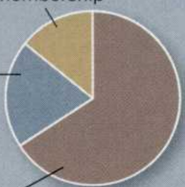


TABLE 3. Reasons at-risk members may give up membership (not counting relocation)

2/3 cite at least one financial reason, including:

- 46% Club's annual dues are getting too expensive
- 38% I might not be able to afford it
- 36% I may choose to play high-quality public courses
- 33% My cost per round is hard to justify
- 65% Any of the above

1/3 cite health reasons; 42% of at-risk members are age 65 or older

Source: NGF's "The Future of Private Golf Clubs in America"

Prospects

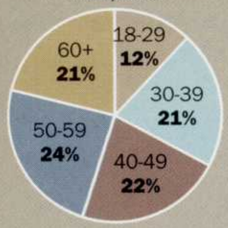
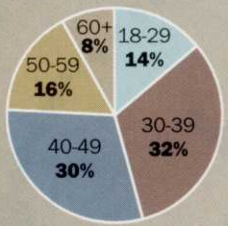


TABLE 4.
Ages of qualified prospects vs. current members (age joined)

Source: NGF's "The Future of Private Golf Clubs in America." Figures were rounded.



Current members (age joined)

Gourlay

Manhattan, Kan., is offering new terms for "junior executives;" younger people can join at a reduced rate until age 50. Does that bother existing members? Not really, he says.

"We have an astute group of members who recognize times are changing," Gourlay says. "You can get 0 percent financing on some automobiles for up to 10 years right now. If you bought your car three years ago, you couldn't have done that. We have to adapt to the market."

Market conditions affect how The Territory in Duncan, Okla., operates, too. The Territory's located in the Southwest part of the state – 80 miles from Oklahoma City and 160 miles from Dallas. It's a 4-year-old private club that plans to allow outside play until it reaches 450 members. Its biggest challenge in attracting members is price.

"The facilities in this area have never been successful with initiation fees or dues structures," says Tim Johnson, director of operations, who points to the area's blue-collar-dominated job market as one reason. "Ours is one of the nicest facilities within 100 miles. Where we don't compete with other clubs on price, we compete with perception. Everything around here is undervalued or underpriced. You can get into a lot of clubs for a $100 administration fee."

Instead of lowering its $8,000 initiation fee, The Territory is offering interest-free financing. Until January, the club required $4,000 down and allowed financing at 1 percent above prime. Now the club's offering a flexible payment plan. Members can take up to eight years to pay their initiation fees

TABLE 5.
Demographics of members vs. qualified prospects

	Existing members	Qualified prospects*
Average age	55	45
Average household income	$124,000	$142,000
Average rounds	53	27
% with children who play golf	14%	19%
% with spouse/partner who plays golf	53%	46%
% who spouse whose very interested in golf	37%	26%

*Those who express a high interest in joining, have incomes greater than $100,000 and are between ages 30 and 60.
Source: NGF's "The Future of Private Golf Clubs in America"

– the only requirement is they pay $1,000 per year.

"It hasn't been a problem with the existing members, which is surprising," says Johnson who understands some members' concerns about new initiation fee structures because he's been a member at an equity-owned club. "But we haven't had one issue or complaint. Because we're in a rural area and we don't have the luxury of having a half-million people to draw from, members understand."

OTHER MEMBERSHIP OPTIONS

When markets get competitive, it's common for a variety of membership categories to sprout up – junior, senior, social and/or dining memberships are common options.

Short-term trial memberships, sometimes billed as "summer memberships," allow prospects to use the facilities and interact with fellow members before making a full commitment, according to the NCA's new book, "Membership Marketing: Best Practices for Private Clubs."

Trial memberships are a way to get prospects in the door, Vizza says. Typically, trial members pay only monthly dues until their terms are up, at which time they're responsible for the initiation fees.

"NCA recommends that trial members should still be vetted as would regular members to ensure that they are compatible with the club's existing membership," the book says.

Junior memberships – discounts or special offers for those in their 20s, 30s and sometimes 40s – aren't new, but some facilities are reviving or retooling them, as clubs try to focus on the future. Seeing young professionals and families as the future of a club is a natural instinct; however, the NGF research shows that today's qualified prospects are more spread out among age groups than current members were when they joined clubs (see Table 4 on page 42). Sixty-four percent of current members joined in their 30s or 40s, while prospects are well divided between the 30s, 40s, 50s and 60-plus age group.

At some clubs, new discounts, membership options and financing offers make junior memberships a moot point. For example, The Territory has an option for twentysomethings to put half of the initiation fee down and pay off the rest by age 30. It's still available, but the eight-year, interest-free financing option for full membership is just as attractive – if not more so – so not many people are opting for junior memberships.

One reason some clubs hesitate to offer too good of a deal to younger members is the fear they'll create a class of members with little commitment to the club.

John Schoellner, CGCS, CCM, is one of them. The general manager for Estero Country Club in Fort Myers, Fla., doesn't advocate junior memberships – especially for facilities with steady rounds.


Schoellner

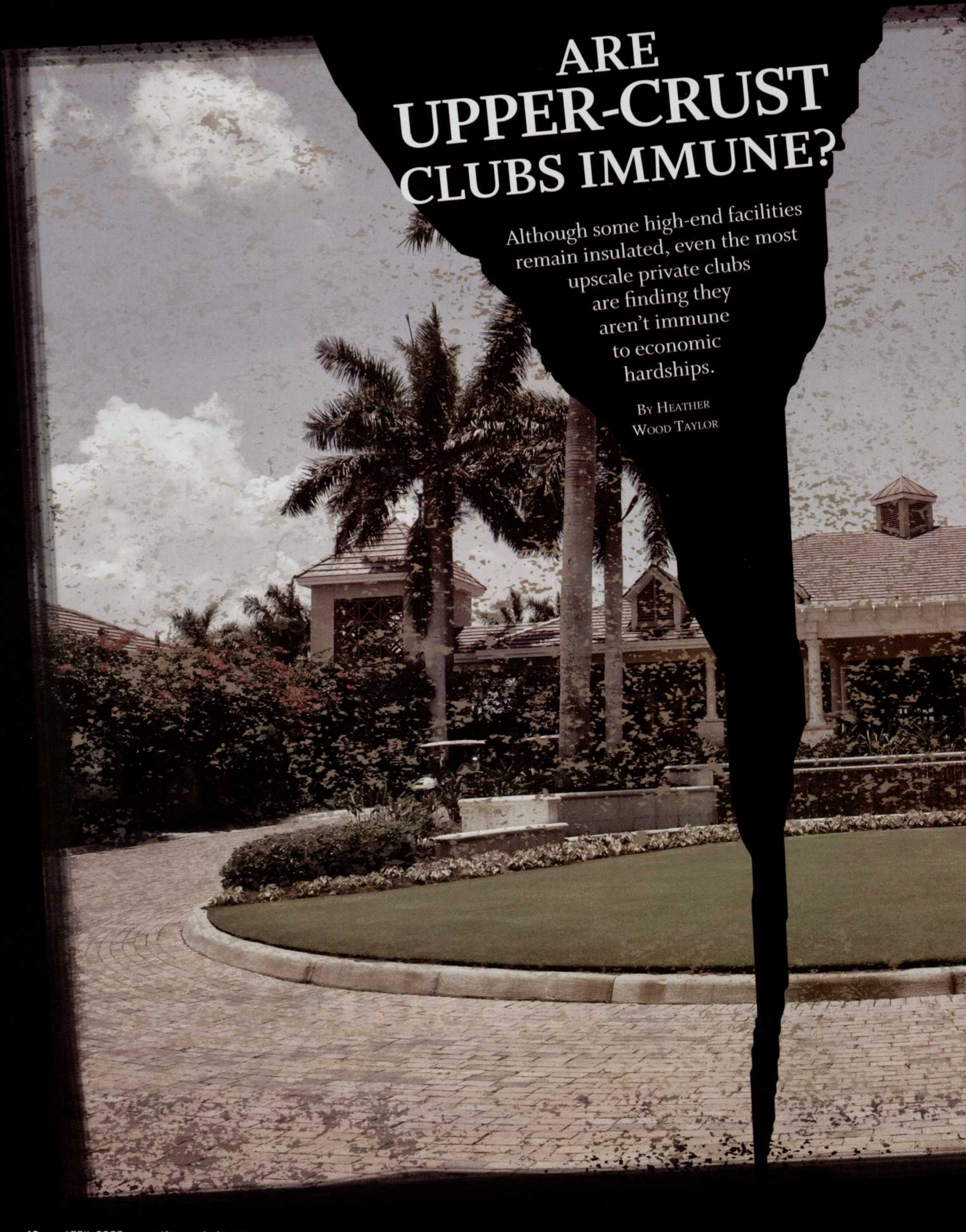
"Why should somebody come in, pay less money and take a tee time?" he says. "I've always been amazed at clubs that give a senior discount without having the senior give up any benefits. They play more golf than anyone."

Schoellner recalls the experience of another club in his area that attracted a number of members through a junior campaign.

"The first time they had to dip into their pockets and come up with some money for repairs, they left," says Schoellner, adding that about 85 percent of Estero Country Club's 325 golf members are retired. "There's no commitment. There's a better deal down the street, so off they go."

Rather than simply lowering fees, Schoellner prefers to have members who enter under different terms give up a benefit. For example, the club's initiation fee is $47,000, and typically members get back 20 percent when they leave. He's experimenting with an option of a $25,000 initiation fee – all of which is nonrefundable.

"That way the club doesn't have that debt to pay members," Schoellner says, noting some clubs have run out of cash and have had to suspend their refunds anyway. "If that happens, you end up with unhappy people. It's better to tell them up front." **GCI**



ARE UPPER-CRUST CLUBS IMMUNE?

Although some high-end facilities remain insulated, even the most upscale private clubs are finding they aren't immune to economic hardships.

By Heather Wood Taylor

Some of the upper-crust golf clubs around the country are beginning to discover that their members are not immune to these tough economic times.

The Country Club at Castle Pines planned to renovate its driving range, but the project was put on hold. Marshall Fearing, superintendent of the scenic, upscale private club in Castle Rock, Colo., says the club trimmed its overall budget as a precaution and the renovation project was a casualty.

Castle Pines attracts members from throughout the country – in fact, two-thirds of its members hail from out of state. The club doesn't open until the end of this month, so in the meantime Fearing monitors other clubs to gain an inkling of what might transpire through this year. "What we're seeing with some of the other clubs is a drop in revenue of anywhere from 10 to 15 percent," he says. "The general manager and the president made a decision that we'd make a 10-percent, across-the-board cut with everything to be a little more preemptive."

As some clubs with wealthy memberships are finding out – though talking about money problems might be passé – even these individuals aren't immune to the tough economic times. In fact, 74 percent of people worth $1 million to $10 million say they're concerned about the downturn, according to a study by Elite Traveler/Prince & Associates. While families around the nation fret about stretching their dollars, the wealthy are cutting back on their expenses, too. This act of fiscal restraint sometimes includes private golf club memberships. And while some clubs will continue to enjoy financial stability and a steady membership, others will discover that, like their members, they're not immune to the economic crisis.

"High-end clubs do tend to be more isolated from the ups and downs of economic cycles, but even they can't keep themselves totally out of the cycles," says Jim Riscigno, founder of consulting firm Club Specialists Intl. and former ClubCorp executive vice president.

Why else would the Golf Club of Cape Cod in Massachusetts, which opened two years ago with an $85,000 initiation fee, begin accepting "affiliated" members who don't have to pay the fee for three years, as The New York Times reported last month?

Not only are individual members contributing to a decline, but cash-strapped corporations are having an impact, as well. "During downturns, companies restructure the business and the membership is one of the first things to go – it's among the luxury items that they don't need," Riscigno says.

VIEW FROM THE TOP

While some upscale club members feel the pinch, it's a different story at the very top. Of those worth more than $30 million, only 13 percent harbor worries about the economic climate, according to the Elite Traveler/Prince & Associates survey.

One exception might be those who were defrauded by disgraced New York financier Bernard Madoff's massive Ponzi scheme, says Jim Koppenhaver, president of Pellucid Corp., a Buffalo Grove, Ill.-based golf-industry research and marketing firm. "We know that certain clubs have been affected by incidents such as the Madoff scandal – higher ends, more Jewish-based clubs in New York, Boston and Maine – but, overall, we're not seeing any meltdown at the top end of the food chain relative to the overall hit the private club sector is taking in membership losses," he says. "While they're insulated, they're not exempt from the current belt-tightening and repricing of American goods and services."

Club membership tracking is a research area the industry lacks, partly because of the sensitive nature of the information, Koppenhaver adds.

One affected club is the Palm Beach (Fla.) Country Club, which Madoff joined in 1996, according to a story in The New York Times in December. At least a third of the 300 or so club members had invested with Madoff, the Times said; typically, investors needed at least $1 million to approach him.

The several high-end clubs touched by the scandal are the exceptions, says Lewis Goodkin, real-estate and financial advisor from Miami-based Goodkin Consulting. "Those clubs can't help but be affected," he said. "Most of the desirable clubs will remain insulated for the most part."

One reason the wealthiest club members might not be gung-ho about club membership is because it could be perceived as unfashionable in this climate to flaunt your good fortune. Companies are becoming more aware of public perception, says Tim Moraghan, consultant with Long Valley, N.J.-based Aspire Golf. "You don't want to see financial people playing golf when they should be looking after a portfolio," he says.

THE WAY DOWN

After the stock market tumble of 1929, the number of private clubs in the U.S. diminished by about one-third, according to "The Future of Private Golf Clubs in America" report conducted by the National Golf Foundation last year. But, by many accounts, the current recession has not reached Great Depression status. Still, some clubs struggle for one reason or another; Moraghan has received more notices of clubs closing than normal. While some are due to the economy, some are closing because of poor management and the inability to adapt to a changing market. (See "Staying afloat," page 30).

Golf Course Communities Adjust

Golf courses built as part of a housing development also are experiencing a decline, but they're a different animal compared to other golf clubs, says Lewis Goodkin, real-estate and financial advisor from Goodkin Consulting.

"Golf course properties are a little different because of the rapid increase in property values, so they're more out of whack," Goodkin says. "We see adjustments in pricing downward."

Still, those prices will be pretty high compared to the average home price because they were so inflated to begin with and the market is not yet to the point of desperation, he adds.

"If they had been a half or a third of the price of what they were, they're still impressive," he says.

Some club communities are seeing decreasing membership because their members are aging. They're dealing with decreasing funds by making membership at the club mandatory. A board must vote on the move, and while it doesn't always pass unanimously, the idea has been approved in many communities, Goodkin says.

The golf course communities that might have some trouble are the ones that are being built now, he says.

"It's a tough time to be coming into the market with a new community," he says. "Depending on when they bought the land and what the numbers are going to be, it's not likely you're going to see any momentum in the market. "

DEALING WITH THE DOWNTURN

The Club Managers Association of America has an online resource page with several articles and other information about ways to deal with a down economy. The articles outline trends during past economic rough patches and the information helps clubs set up a master plan to make sure they're are on the right track financially. To learn more, visit http://www.cmaa.org/template.aspx?id=23588.

Riscigno predicts the recession will force some clubs to close, but not at such a dramatic rate as seen the 1930s. Instead, it's plausible that some clubs will go from private to semiprivate status, from semiprivate to semipublic and semipublic to all out public, he says.

Some high-end courses will attempt different cost-cutting measures to stay afloat during these tough times, but if they cut prices and services too deep, they'll inadvertently lower their status in the community, Riscigno warns. The key is striking a balance between reducing operating costs and retaining the high-end persona.

Clubs also may fail to protect talented staff, Riscigno says, adding it's a dangerous move, especially if some clubs opt to cut the general manager position. "Who would think it's a good idea to have a club that's run without someone who knows the business?" he asks. "Having a part-time board run the club probably isn't a good idea. Running a club is extremely labor-intensive and it focuses on high-end, intangible services. When you put all those together, you've got to know what you're doing. It's a fairly sophisticated job."

The club is like a second home to members, and letting them control the financial decisions puts them too close to the situation and leads to emotional decisions, Riscigno adds.

Aside from people, a club's most valuable asset is its golf course. And it makes no sense to cut investment to the feature that generates revenue, Moraghan says. Clubs looking to eliminate something out of the budget should find other areas to cut before setting their sights on their golf courses, he says.

It can be difficult to cut from other areas because members have come to expect the finer items and services. "All the excesses that have come into our industry, such as maintenance practices, design philosophies and extravagant clubhouses, which seemed to be in excess in the late 1990s, all of a sudden have become the norm," Moraghan says. "Now it's one of those where if it's the norm for people, how do you ask people to cut back?"

You shouldn't, Riscigno says. "Make certain you don't compromise the membership offering," he says. "You can tweak pricing, but make sure when times get better this isn't going to hurt the club."

Clubs left with no other options but to cut from their courses need to make smart decisions. "One thing I learned from championship golf when I worked with the USGA is that you're going to be remembered for your putting greens," Moraghan says. "Fifty percent of the game is played on the putting surface."

RECESSION PROTECTION

Clubs keeping their budgets in check and maintaining a reserve fund are poised to deal with a downturn. Take Oak Hill Country Club in Rochester, N.Y., as an example. The club has always operated in a fiscally conservative manner, says Eric Rule, who has been general manager at the club for 24 years. "We would be in good position to weather an economic storm," he says.

The club, which has hosted all of the major men's championships over the past 25 years, has a waiting list of hopeful members and hasn't experienced a decline in light of the current economy.

"Oak Hill is affordable for an upscale club," Rule says. "I think our membership appreciates that and we haven't seen any attrition at all."

It helps that Rochester is more insulated from the recession than other regions.

"Housing has been very affordable for many years," Rule says. "We have seen some hardship in the area, but it hasn't been on par with the rest of the country."

Whatever the circumstances of the region, the clubs who planned ahead stand to come out of the chaos in the best condition.

"The clubs that set out and wrote a strategic plan two to three years ago, put the right governance plan in place and have the right manager, are going to do well and beat the odds," Riscigno says. "They're still going to have a downturn, though. Those who sat fat, dumb and happy thinking everything is wonderful, not thinking about deficiencies, not worrying about the board being involved in day-to-day operations – those are the clubs that will be in extreme jeopardy."

Customer service is another tool to overcome the forces hurting club membership.

"In any type of business, it's all about service," Fearing says. "We try to do as good of a job as we can down here. I think the entire staff does an excellent job. With us being a national club, why would someone come in from out of state to our golf course? It's got to be service. You've got to make it a special place to come." **GCI**

Heather Wood Taylor is a freelance writer based in Lakewood, Ohio.