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FINANCE

How does the COVID-19 "new normal" differ for city clubs and country clubs?

AS THE SHOCKWAVE of COVID-19 swept the nation, state and local governments began to implement shutdowns in an effort to contain the virus. The cascading effect of these decisions resulted in various industries closing, grounding flights, quarantining, closing schools, prohibiting public events and the list goes on. Private clubs were not impervious to these government decrees resulting in clubs closing their doors. Private clubs inherently rely on social activity so the disruption of keeping members away was a monumental challenge.

Once clubs began to obtain some clarity on how they could operate, actions by club boards and management began to unfold. For private golf and country clubs that meant dining changes, takeout orders, marketplace conveniences, tee time modifications, as well as a host of other changes were made to accommodate members. For city clubs, the challenges were more formidable. With a significant number of members working remotely, dining restrictions, gym capacity constraints, limited business or vacation travel, safety concerns and labor commitments, city clubs are facing mounting challenges under the "new normal."

In a recent limited survey, we compiled data from both city and country clubs. The results, albeit similar in declines in operating revenue, have a different storyline based on the ability of country clubs to reopen and offer amenities in a safe and secure environment. From a city club revenue standpoint, membership dues had not significantly changed; however, the number of new members has decreased. The sensitivity of the city club members maintaining their membership has become a focal point of deliberation. Food and beverage sales are off 35%, with the loss in this segment growing by more than 200%. The rooms operation is not much different with room sales declining almost 36%, with profits cut by 50%. This trend of reduced member use will continue until the widespread availability of an effective vaccine, members return to their offices, and safety is restored in cities. To their credit, boards and management are working tirelessly to position their clubs to recover and thrive in the next era.

The data from golf and country clubs tells a bit of a different story. Since reopening, golf and country clubs have been bustling. Tee sheets are filled with reservations all day. Membership revenue continues to grow, and initiation fees remain strong. However, operating revenues related to food and beverage have declined 37%, with the loss in the department growing more than 200%. Green fees and related revenue are down more than 15%; however, incorporated in these operating numbers is a reduction of revenue from outings/functions, which have either been cancelled, rescheduled or reduced in size. Strong member use has been able to offset a portion of these losses.

Due to the service-oriented nature of clubs, their single biggest expense category is payroll and related expenses. With clubs closing and/or modifying operations, containing payroll and related costs became critical. From reducing work hours to furloughs and layoffs, clubs have been able to slow the significant cash drain. At the time of our survey, both city and country clubs have been able to reduce payroll costs between 10-20%. This cost savings, coupled with the federal stimulus offered under the Coronavirus Aid, Relief and Economic Security ("CARES") Act, have allowed clubs to primarily avail themselves to the beneficial Employee Retention Tax Credits (ERTC) and the deferral of employer payroll taxes.

As the COVID-19 crisis continues, the number of uncertainties and unanswered questions that boards and management face are significant: will members feel comfortable returning to indoor dining, what does the new outings/functions look like, will business/vacation travel return? At this time there are no obvious answers, but as clubs explore their operational and longer-term strategies there may be new opportunities to capitalize on. CD

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