



# ACHIEVING & MAINTAINING CLUB VIABILITY

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The marketplace is making clear it won't tolerate underperforming businesses, with consumers looking for new experiences. That's why club boards and management teams are now focusing on improving the viability of their individual clubs – and they're looking for tools to help them.

Achieving and maintaining club viability is a task with ever-increasing challenges. The suite of financial ratios and measures such as current ratios, wages to revenue (total and by department) interest coverage, leverage, margins, and EBITDARD which are available to any governance team will equip them to manage the club business efficiently while ensuring any risks in the short-term are addressed.

In the upcoming workshop, *Club Viability & Survival Strategies*, which will make up part of this year's *CDI Professional Development Day* seminar, we'll investigate the simple issues that can be used to achieve the short-term maintenance of the business, predominantly around financial management ratios. However, we'll go further by looking at other issues that will ensure longer-term viability as well, including:

- The need for growth;
- The rationale for income diversity;
- Consideration of market definition and market share;

- Relevance in the community; and,
- Diversity in governance.

All industries move through a lifecycle; that is, from introduction thence to growth, moving into maturity and later decline. In the New South Wales club industry, most observers would agree that it's in a mature state and has commenced its decline. This stage of the lifecycle is evident through the number of clubs which have closed or amalgamated in the last decade as well as the number of clubs currently in some form of financial distress.

Most clubs formed in the early 1960s and this represented the introductory phase of the club industry lifecycle. The golden era for clubs (growth phase) would have occurred in the period from 1960 through to 1985 where after the industry reached maturity in the period from 1985 until 2000, when it commenced to decline (and in which that decline still continues today). The language used when discussing lifecycle is different to the usual parlance of clubs – the decline phase of lifecycle is frequently addressed as the polarisation of the industry, where strong clubs are getting stronger and weaker clubs are becoming weaker and failing.

Defining the New South Wales club industry by what it does can be difficult given the unique nature of the industry. Our clubs traditionally provide a range of hospitality-related services including food and beverage, entertainment, and gaming. In their genesis, many clubs formed around a common interest (sport)

or because of a commonality of experience. Clubs were initially created around people with something very distinct in common; that's what provided the basis of their foundation and can still be seen in their constitutions. In New South Wales, clubs were given the privilege of being able to serve alcohol and provide gaming services to advance their cause (such as football clubs to assist with the promotion and advancement of their sport).

As clubs have evolved, we eventually saw memberships divided into classes, usually with a more powerful membership group that shared a common interest, and a further group being those that were involved in the club for social reasons. This distinction in membership has been part of the evolution of clubs to the point where the vast majority of memberships today are for the hospitality and entertainment functions of the club rather than their particular ideal or interest. The consequence is that clubs now compete in the general hospitality market as venues (not only competing with each other but with an array of other businesses such as hotels, restaurants, casinos, conference centres, and independent diners and cafés). For clubs to survive they must remain relevant and connected to their community...and which is currently being supported by ClubsNSW via its *Your Local Club* campaign to assist clubs in this connection.

To remain relevant and sustainable in a declining industry, any business must avoid battling for market share. They must also control costs, keep members coming back with flawless customer service and improved products, and maintain employee goodwill. Generally speaking, businesses need to constantly reinvent not only the ways they do business but also the products and/or services on offer to keep pace with changing expectations and consumer demands. This is a general statement applicable to any business. Translated into club industry specific jargon this could be restated as:

- To remain relevant, clubs must avoid battling for market share (consider amalgamation or regional consolidation);
- Clubs have to control costs (and which should be constantly reviewed);
- Clubs must compete with the highest standard of customer service (outstanding customer service is a critical point-of-difference);
- Clubs must offer new products and/or services (consider income diversification strategies); and,
- Clubs must respond to a changing market where customers have new expectations and demands (consider how existing services should change to respond to changing consumer tastes).

Inflation is a silent predator and when considering business performance its impact must be recognised. Too often club managers and directors analyse their club's performance via a comparison to last year or the year prior. In most board rooms, if revenue is consistent with the previous year there's a degree of comfort. Curiously costs seem to grow constantly so if there's no real growth in revenue then there's real slippage in the position of the club and its capacity to pay. If this cycle continues for an

extended period of time then the viability of the club will certainly be at risk. So, clubs must consider the impact of inflation in their analysis of relative performance.

The current situation of clubs across New South Wales is clearly one that's developed in a manner which is consistent with the concept of lifecycle evolution. To survive, clubs will need to be dynamic as well as be prepared to change. Some clubs are clearly well-advanced in dealing with their position whilst others are not. This divergent approach is symptomatic of an industry that's matured and may have commenced its decline. The forthcoming seminar will assist CDI delegates in addressing and preparing for the future. New pressures are coming to bear on the industry through the changing lifestyles of communities, not to mention the introduction of new technologies and skills in the community. Gambling is the core of most clubs' viability at this time; the future form of gaming and consumer sentiments regarding how to participate will drive clubs to further significant change in the short- to medium-term. As a result, clubs must have the capacity to invest in new technologies to meet the needs of their market if they're to avoid being the victims of an industry in decline.

To deal with these challenges and to arrest the decline, good governance is essential. Having diverse boards with a variety of skills and outlooks is equally important to ensure decision-making is robust and considered (refer to page 4 for further details).

Adhering to the principals of good corporate governance will also equip club boards well in dealing with their challenges. The governance model provides for the demonstrable application of the business judgement rule so the rationale for decisions can be clearly demonstrated while ensuring that directors and officers can also demonstrate that they've acted reasonably. This not only provides a protection mechanism for those in positions of authority but also a discipline in the decision-making process.

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New South Wales clubs are diverse in so many ways – their nature, location, services, size, and the communities in which they operate. Unfortunately, there isn't a magic pill to ensure the long-term viability and survival of clubs as the issues to confront are so broad. So, reserve your spot in an upcoming *CDI Professional Development Day* seminar within your region...it's intended to equip you and your club with additional tools and insights to use in helping to ensure those charged with governance have the best possible chance to make the best possible decisions to ensure the long-term viability and survival of your club. ■