

# RSL and Services Clubs Association

## Diversification

October 2019  
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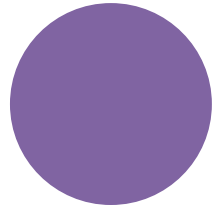
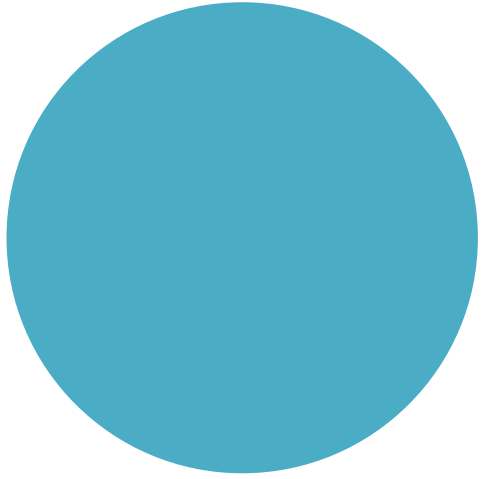


## **Diversifying your business operations - the analysis**

For many years, clubs have been encouraged to invest in new business operations to diversify their incomes and reduce dependence on gaming. Many clubs now have gyms, childcare centres, seniors living villages, aged care facilities, entertainment centres, children's play facilities, function rooms and services, bowling alleys and retail shopping centres.

The RSL and Services Clubs Association commissioned Russell Corporate Advisory to conduct an analysis of some of the diversified club businesses to see if they are actually adding to the bottom line and securing profitability for the clubs involved.

The results of this analysis will be discussed in this session.



Like everything.....

There are 2 sides  
to this



Dream, diversify-and never miss an  
angle.

— *Walt Disney* —

AZ QUOTES



Wide diversification is only required  
when investors do not understand  
what they are doing.

— *Warren Buffett* —

AZ QUOTES



Not all diversification is created equal

The most relevant subset for Clubs.....

# Adjacency diversification

- **Diversification** is a strategy for an organisation in positions of strength.... **Adjacency** is a strategy that works well for organisations that can take what they are best at into markets where that facet is lacking
- Toyota and Nissan example
  - Moved into luxury care competition with European brands
  - Succeeded because of lower cost and superior service network
  - They saw beyond the immediate perception of what defined 'luxury'

# Widening

- Improve and expand the existing offering
- This would include additional or expanded eateries, additional bars
- Recent examples include;
  - Wenty Leagues
  - Bankstown RSL
  - Orange Ex Services



# Broadening



Acquiring or developing adjacent offerings in the field of hospitality that will share a customer base or is developed on-site to foster that market segment



This would include additional services like Motels, over 55's developments, on-site fitness centres, childcare facilities



Recent examples include;

Wenty Leagues  
Club Shellharbour  
Mounties Harbord  
Penrith RSL

# Diversifying

Truly entering a new business in a separate industry and completely separate from the existing customer base

Diversification is a strategy to enter into a new market or industry in which the business doesn't currently operate, while also developing a new product for that new market.

# Underlying Strategy

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- Choice considerations:
  - Synergy potential (broadening and widening)
    - Enhance existing revenue streams
    - Ideally complement the Club's brand and culture (eg. Health, Sport)
    - attract people to the Club precinct (eg. shared car park facilities)
    - Reduce reliance on gaming revenue
  - Conformity with Club's Strategic Plan
  - Resources available?
    - Land / floor space available
    - Cash
    - Internal Skills and experience



# Examples

- Seniors Living
- Child care
- Aged care
- Carwash
- Crematorium
- Cemetery
- Marina
- Cinema
- Entertainment centre
- Accommodation hotel
- Serviced apartments
- Retail
- Butchery
- Car wash
- Petrol station
- Commercial Car park
- Café and coffee shop
- Ski park
- Bowling alley
- Medical centre
- Many of the above are in fact as a commercial landlord

# Diversification



Structure alternatives:

- Owner and Operator
- higher risk and return
- Landlord (rental stream) lower risk and return

# The case for Case Studies

**Learn as an industry:** too often Clubs will not admit to a mistake and be open for other Clubs to learn from their experience.

**Right for one isn't right for another:** just because it worked in one venue in one locale, doesn't mean it can work everywhere.

**Board and Management dynamic:** appreciate the skillsets within the club governance structure

We have taken examples from RSLs across our broad market so that as an industry we can learn and improve

## Case Studies

- Contacted 10 clubs
- Asked 10 questions
- Differing degrees of detail provided
- We have summarised the results for financial and non financial outcomes
- We would like to thank those clubs who gave their time and shared their information

# General Feedback

1 Who initiated the diversification strategy? (Board / Management / Both)					
Board					
Management		3			
Both		5			
2 Did the company have an active strategic plan at the time? (Y/N)					
Yes		8			
No					
3 What were the businesses you first looked at?					
Childcare		2			
Over 55s		2			
Car Wash		1			
Bowling		2			
Kids playzone		1			
Motels		3			
Medical		1			
Food expansion		2			
Taxis		2			



# General Feedback

4 Did you undertake a feasibility study?					
Yes		6			
No		1			
Not yet		1			
5 Did you follow the findings of the feasibility study?					
Yes			6		
No					
In part					
Not applicable			2		
6 How was the membership engaged?					
AGM				3	
Annual report				1	
Focus groups				1	
Website				1	
Newsletter				2	
Information sessions				1	
Wasn't				3	

# General Feedback

7 What was the role of the Board in decision making?			
Supportive		4	
Input		4	
8 From the time it was discussed, how long did it take for the business to launch?			
0-1 year		4	
1-2 year		2	
3-5 years			
5 years+		1	
Still planning		2	
9 Positive effects on the business since (non financial)			
Broader demographic appeal			3
Broadened skillsets			1
Community relevance			1
Industry attention			1
Generated weekend activity			1
Member confidence			2
Board engaged			1
Increased membership			1
Better understanding of external pressures			1
Focuses strategy			1
Council confidence			1

# General Feedback

10	Negative effects on the business since (non financial)				
	Stretched resources			2	
	Diversified skillsets			1	
	Operational issues			2	
	Noisy minority			1	
	Bad membership feedback			1	
	none			1	
11	Single most important trap to avoid?				
	Don't skimp on the research				3
	Work overload				1
	Solid plan before financial commitment				1
	Lack of preparation				2
	Engage membership				1
	Don't pick aesthetics over functionality				1
	Core business needs to be working before				1



*Orange*  
EX-SERVICES' CLUB

*Be part of it*

- **Type:** Widening and Broadening
- **Projects:** (1) Expand Motel from 42 to 78 rooms, (2) create 2,000 sqm of sophisticated food offering to appeal to traditional non-Club demographics
- **Goal:** expand the offering to attract a larger customer base, effective usage of land



- **Result:** revenue contribution of \$3.5m and 45% EBITDA on Hotel. Greenhouse drove membership from 16,000 to 20,000 but layout and design prove problematic due to the climate.
- **Lessons:** research is paramount, 'what if' scenarios on performance. Top end food is a challenge, layout can effect performance.
- **Advice:** get your core business working before starting, and do your best to ensure it isn't effected once the new business opens. Look for businesses that complement the current offering.



**W Regional  
OESC**

**2013**

Base Year Rev	\$20.949
Base Year Gaming	\$14.892
%age	71.1%
Base year profit	\$4.696
Net Asset	\$41.918
Membership	16,004

**2018**

+5 year Rev	\$27.525
+5 year Gaming	\$18.749
%age	68.1%
+5 year profit	\$0.919
Net Asset	\$55.910
Membership	20,378

Rev change	31.4%
Gaming change	25.9%
%age change	-4.2%
Profit change	-80.4%
Net asset change	33.4%
Membership change	27.3%







- **Result:** a write down of the Hotel value in 2018 (\$265k). Taxi business closed.
- **Lessons:** needed to have a better understanding of the labour required to run the Taxi business(Uber not a factor). Motel business will continue, drought has been a major factor in the overall economy in the area.
- **Advice:** understand the skillsets needed and the cash flow effect on the business. Membership engagement is very important.

- **Type:** Widening and Adjacency
- **Projects:** (1) acquire local taxi business, (2) acquire a nearby Motel
- **Goal:** diversification and serve the core business of the Club



**NW Regional  
Walgett RSL**

Base Year Rev	\$3.477
Base Year Gaming	\$1.905
%age	54.8%
Base year profit	\$0.374
Net Asset	\$1.791

+5 year Rev	\$2.832
+5 year Gaming	\$1.475
%age	52.1%
+5 year profit	\$0.241
Net Asset	\$1.413

Rev change	-18.6%
Gaming change	-22.6%
%age change	-4.9%
Profit change	-35.6%
Net asset change	-21.1%



**Dee Why**  
RSL Club

- **Type:** Adjacency and widening (soon to be broadening)
- **Projects:** (1) Over 55s living, (2) offsite car wash, (3) Childcare and (4) ten pin bowling and laser skirmish, (5) land purchase including 7/11 Service station as a tenant
- **Goal:** diversification, capitalise on growing area, effective utilisation of land assets on a main road



- **Result:** revenue is up 25% from 2013 to 2018, 23% increase in membership and a 45% improvement in profitability
- **Non financial positive effects:** positive community engagement, attention from the wider industry and inspiration for other Clubs to embark on the journey.
- **Advice:** management should initiate then work with the Board through to concept finalisation. Undertake feasibility studies and question the findings.



**N Metro  
Dee Why RSL**

**2013**

Base Year Rev	\$54.028
Base Year Gaming	\$36.370
%age	67.3%
Base year profit	\$7.901
Net Asset	\$85.912
Membership	41,386

**2018**

+5 year Rev	\$67.388
+5 year Gaming	\$44.434
%age	65.9%
+5 year profit	\$11.518
Net Asset	\$136.148
Membership	50,720

Rev change	24.7%
Gaming change	22.2%
%age change	-2.0%
Profit change	45.8%
Net asset change	58.5%
Membership change	22.6%

# Further Club examples

- **Dubbo RSL** – the Motel and Gym businesses have complemented the Club and Gaming now accounts for less than 60% of revenue
  - **Gus Lico (GM)** – identify projects the community will support and appeal to visitor traffic

**DUBBO RSL**



## Further Club examples

- **Norths** – have broadened their market with higher end food offerings in higher income areas. Gaming as a share of revenue has declined from 74% (2013) to 52% (2018)
  - **Luke Simmons (CEO)** – look externally for skillsets that will make the business work



# Further Club examples

- **Griffith Exies** – have widened their market with a 52 room Motel acquisition in 2014 that has been a positive contributor. Gaming revenue contribution has gone from 72% (2013) to 60% (2018). Profitability is up 50% in the period
  - **Garry Tucker (CEO)** – the most important trap to avoid is overload, ensure you have sufficient resources



# Further Club examples

- **Penrith RSL** – have broadened and widened their offering with an outsourced ‘Monkey Mania’ kids area, outsourced food. Profit has risen 54% from 2013 to 2018
  - **Neel Chand (CEO)** – invest in infrastructure, work with the Board and engage the community.



# Outcomes generally



Highest degree of diversification achieved in RSL survey was Dee Why RSL. Reduced the degree of reliance on gaming by 2%



Best degree of diversification in “clubland” is 34% of revenue diversified, and 30% of EBITDA.



Investment \$180 million.



Clubs can't survive long term in current form without gaming or a similarly profitable revenue stream, and there is no identified substitute for gaming in typical club business model

# Take a look at numbers

- [revenue mix example.xlsx](#)
- We will play with these numbers in the workshop

		Gaming		Beverage		Food		Rent		Total Revenue
							asset value	\$ 20,000,000		
<b>Annual Revenue</b>		\$ 18,000,000		\$ 7,817,978		\$ 8,788,228		\$ 900,000		\$ 35,506,206
<b>Costs</b>										
<b>COGS</b>			38%	\$ 2,970,832	35%	\$ 3,075,880				
<b>Direct wages</b>	7%	\$ 1,260,000	24%	\$ 1,876,315	40%	\$ 3,515,291				
<b>Gaming Duty</b>	26%	\$ 4,680,000		\$ -		\$ -				
<b>Other direct overheads</b>	10%	\$ 1,800,000	10%	\$ 781,798	10%	\$ 878,823	20%	\$ 180,000		
<b>Energy</b>	7%	\$ 1,260,000	10%	\$ 781,798	13%	\$ 1,142,470				
<b>total direct costs</b>	50%	\$ 9,000,000	82%	\$ 6,410,742	98%	\$ 8,612,463		\$ 180,000		
									Yield	

# Take time to Question

- Why consider diversification?
- What are hotels doing?
- Should we be concentrating on what people in the gaming market want, and why they are preferring hotels over clubs?
- Perhaps we should be focused diversifying our active customer and member base rather than our business activities?



# Diversification Outcomes in Clubs

Prior to hotels being entitled to have gaming machines they generally struggled for profitability

The best examples of diversification in clubs, still see a reliance on gaming of 65 % of profits.

No business can remain viable in its current form if 65% of its profit is eliminated.

Reliance is reduced but dependency is not eliminated.

# Diversification Drivers

## Correctly identify drivers for diversification

- Risk management
- Gaming reliance
- Improved use of capital
- Responding to changing needs of community

## When is the correct time?

- When there is a viable core business

## Is there an overarching masterplan and strategy?

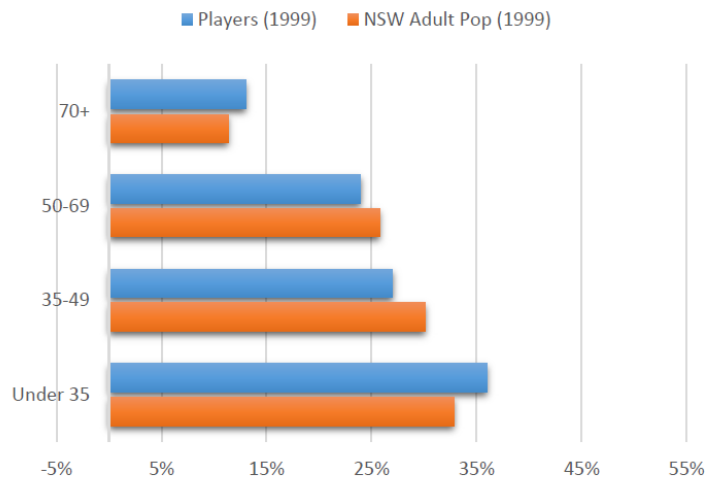
## Beware of impact of accounting



# Gaming Trends

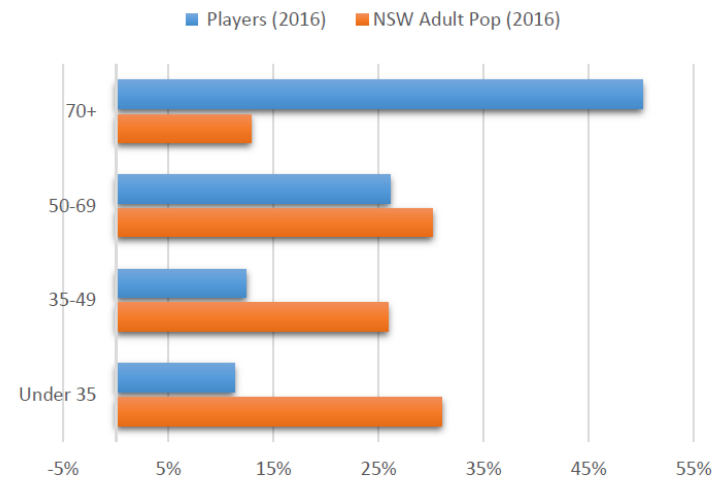
## Changing Player Demographics

### 1999 – Club Player Profile



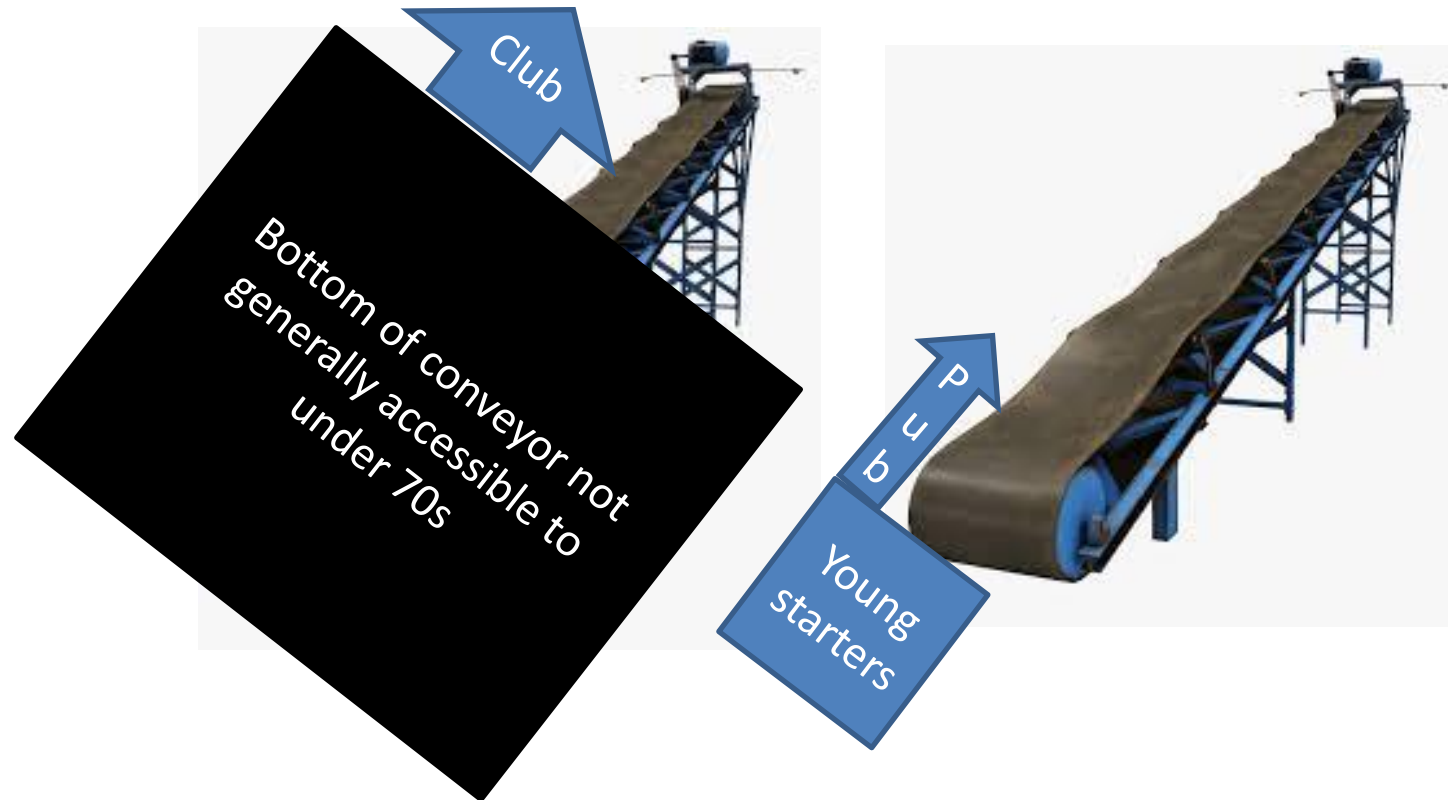
Source: 1999 Productivity Commission

### 2016 – Club Player Profile



Source: Astute BI Data Cube, 2016

# The Club and Pub Gamer Conveyor<sup>©</sup>



# Diversification is not short term

Diversification as a short term saviour is a risky strategy which is rarely successful

Your cash flow must support independent advice in planning stages

Your core business must be able to support diversification

# Conclusion

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Diversify your gaming customers and diversify your business activity.

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Clubs had a diverse customer base and lost it.

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Diversification requires significant capital investment if it is to have any material impact on gaming reliance

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Need to diversify your member and customer base

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Diversify your business to diversify your customer base, it will reduce reliance on gaming but cannot eliminate it.

# Questions?

Answers:

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