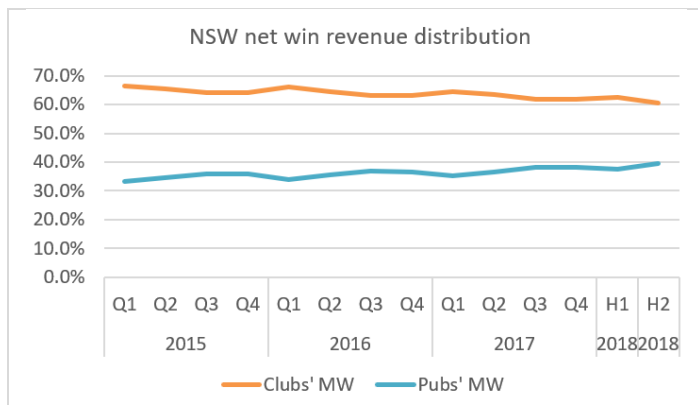


COMMERCIAL JUDGEMENT IN A 'POST-MATURE' MARKET LIFECYCLE

The Federal election cycle has now been completed, and business can get 'back to normal', but what does that mean for the NSW club industry? Revenues have been flat for 2018 and 2019 due to soft market conditions, the aggressive pub market, rising costs and increasing social pressures. The club business isn't what it was in 1999, it isn't even what it was in 2009. The traditional club business [gaming underpinning food, beverage and club member activities] is in a post-mature market state with 75.3% of the 91,591 EGMs in the NSW market (Q1'19, ex. Casino).

RCA believe the greater club market must reset expectations and improve decision making to ensure the business can withstand market pressures that are only going to increase. The issue of commercial judgement falls to the Board and Senior Management team, and decisions need to be made together with the required information and insight. Industries evolve for certain reasons, in the case of clubs, evolution is needed for survival. Based on some key market indicators detailed below, clubs across the spectrum are at risk of struggling under the weight of increasing competition, changing market perceptions and diminished relevance.



1. Based on NSW L&G net revenue gaming data, the distribution gap between clubs and pubs is closing. The number of venues in each market is in decline, as are gaming machine numbers due to the entitlement trading scheme. Clubs have

H2 2018 data released in Feb'18 showed clubs achieved 60.4% of revenue, with pubs obtaining 39.6% - the closest the 2 groups have ever been. The graph to the left shows the rate of this movement since 2015. This trend illustrates the improvement pubs have made over the last 5 years, a trend that is expected to continue.

2. A frequent commentary from a few quarters is that the club membership base is getting older. While that fits in with the narrative of an aging population, that ignores some variables around disposable income (70+ have less and have to stretch savings as they get older). AstuteBI data illustrates that the representation of the older demographic groups (50-69, 70+) now totals 87.68% of minutes played and 80.32% of net revenue (carded play). This is up from the previous period and has been a trend. Q2 2018 marks the period when 70+ representation (as measured by minutes played), became level with the all important 50-69 age group.

Q1'19		
Age range	Minutes	Net
Under 35	3.06%	4.36%
35 - 49	9.26%	15.31%
50 - 69	42.52%	49.20%
70 +	45.16%	31.12%

Q1'17		
Age range	Minutes	Net
Under 35	3.31%	4.77%
35 - 49	10.79%	17.51%
50 - 69	44.03%	48.93%
70 +	41.87%	28.79%

EGMs	Feb'14	Feb'19	Change
0-50	811	726	-85
51-100	189	164	-25
101-200	111	108	-3
201-300	35	42	7
301-400	15	15	0
400+	22	23	1

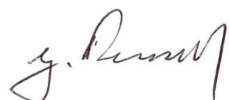
3. Quarterly ranking reports provided by NSW L&G demonstrate the decline in club numbers across the board. Comparing the number of venues in each band (based on the number of gaming machines) from Feb'14 to Feb'19, the decline in venues is not limited to just the smallest with 13.2% of clubs with 51-100 EGMs closing in the 5-year period.

Lessons from history are often forgotten, however the changes in the club industry over the last 20 years will help us have some perspective of the future. The registered club sector has been shrinking in terms of the number of venues in the community. We are also experiencing a market shift in our core revenue stream away to the hotel sector, and our player base is aging at an accelerating rate

Decision making and strategy to deal with the evolution of clubs will not be easy and will require access to good information, and the ability to use that information to make sound commercial judgements to position clubs in their communities to be relevant and viable.

The future of clubs has never been more challenged, despite the comfort we may draw for a stable political framework in NSW.

We will be holding a series of workshop title Commercial Gold over the next few months to help club executive and directors meet the challenges of the future.



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## GAMING GOLD

## DIRECTOR'S CUT

With an estimated 65% of NSW Club revenue coming from the Gaming floor, how much is your Board connected to the financial engine of your Club? Russell Corporate Advisory has developed a 3-hour interactive session to improve the knowledge of your Board on the wider market and the importance of Gaming.



With a focus on market specific data, benchmarks and experienced insights, 'Gaming Gold - Director's Cut' is an opportunity to get your Board up to date on the greater market.

For more details, email [terry.ohalloran@russellcorporate.com.au](mailto:terry.ohalloran@russellcorporate.com.au) for more details. Open to all Board members of any registered club.

**NEXT EVENT:** Tuesday, May 9 at Ingleburn RSL

For bookings and registration, follow the link <https://www.trybooking.com/BBKVVW>

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