GGA Partners 2022 Outlook

Navigating the Year Ahead

GGA Partners

Insight | Strategy | Success

2022 Outlook **REPORT**

Almost two years into the pandemic, our collective attitude towards recreation changed—and golf courses, private clubs, resorts, and residential communities around the world are feeling the shift.

In the early days of the pandemic, travel risks and restrictions kept many closer to home, while government-mandated COVID-19 protocols limited indoor recreational activities. In response, a greater number of people gravitated toward outdoor activities and local recreational options offered at their local clubs—and the new hobbies, and strengthened club relationships, appear to have stuck.

Even throughout 2021, after COVID-19 protocols were lifted in many parts of the world, club segments continued to do well. According to preliminary results from an ongoing GGA Partners' international survey, *A Club Leaders' Perspective Report: Emerging Trends & Challenges,* 86% of leaders are optimistic about the club segment's economic outlook.[1]

Part of the reason for this optimism is likely that, collectively, we value our recreational time more than we did pre-pandemic—and we look forward to opportunities to gather with friends and colleagues outside of our homes.

All that isn't to say clubs are free from challenges. The widespread work-from-home trend, and the increased value placed on recreational and outdoor time, has made it difficult to anticipate member utilization rates. New personal tax laws, which were introduced in different parts of the United States, have resulted in shifts in primary residences, impacting club's utilization rates and driving the need for membership category revisions and business model refinements. Supply chain issues have made it difficult to access necessary inventory, and labor shortages continue to plague many organizations across the world.

The upshot? The club segment has entered a "new normal"—one that's difficult to predict. To help clubs anticipate and respond to these changes, here we break down five key trends that emerged from 2021 and explore their potential impact on the private club segment in 2022.

77%

of club leaders believe overall member **satisfaction increased** through the pandemic era.[2]

63%

anticipate their club's financial **position to improve** in 2022.[2]

About GGA Partners

GGA Partners is recognized as a trusted advisor to the world's leading golf courses, private clubs, resorts, and residential communities. Our global team of experienced professionals leverage in-depth business intelligence and proprietary global data to deliver impactful strategic solutions and lasting success.

GGA Partners
Insight | Strategy | Success

About this Report

This report offers insights on the global private club, golf course, resort and residential community business segments in 2022. The purpose of this report is to provide general and preliminary information, and its contents should not be relied upon or construed as such.

This outlook is divided into 5 sections:

To find the latest GGA Partners content and register to receive emails, please visit www.ggapartners.com. Follow GGA Partners on LinkedIn and Twitter.

Copyright © 2022 GGA Partners. All rights reserved.

Governance

Governance

In addition to the pandemic, the last two years brought a dramatic shift in our social climate, particularly regarding equality and institutional transparency. Today, club members are increasingly intolerant of issues like cronyism and opaqueness, and they're demanding more from the clubs they join.

COVID-19 has also created a lot of anxiety and conflict among members, highlighting the need for stronger policies and clearer communications regarding things like member discipline, mask mandates, vaccine requirements, guest attendance, and protections for members' children who may not be vaccine eligible.

> More than half of club leaders report having encountered issues related to COVID-19 regulations and compliance from their members. [3]

Strong governance practices are therefore essential to preserve trust with existing members, create a safe environment for all members, and attract new clientele. But how, precisely, to go about building strong governance is up for debate—and causing some friction within many clubs.

For instance, some clubs are making a conscientious effort to onboard younger board members to better reflect their shifting membership demographics. These younger board members, however, may not relate to their older, tenured managers.

> There's an undertone of being 'wrong' if you make a choice different than mine, and we're seeing that in club environments, both among membership and within the boardroom. This is resulting in higher tensions than we've seen before.

At the same time, operational uncertainties and environmental changes have led many boards to take control of areas that were traditionally the domain of club managers—with many becoming more hands-on when dealing with disciplinary issues around masks, cell phone usage, loud music on courses, cheating, and dress codes.

This blurring of lines can be challenging, particularly if there is disagreement within the board as to which governance practices to strengthen. Given the political nature of many issues like masking and vaccination, it may be difficult to reach a consensus on how to enforce something like mask-wearing.

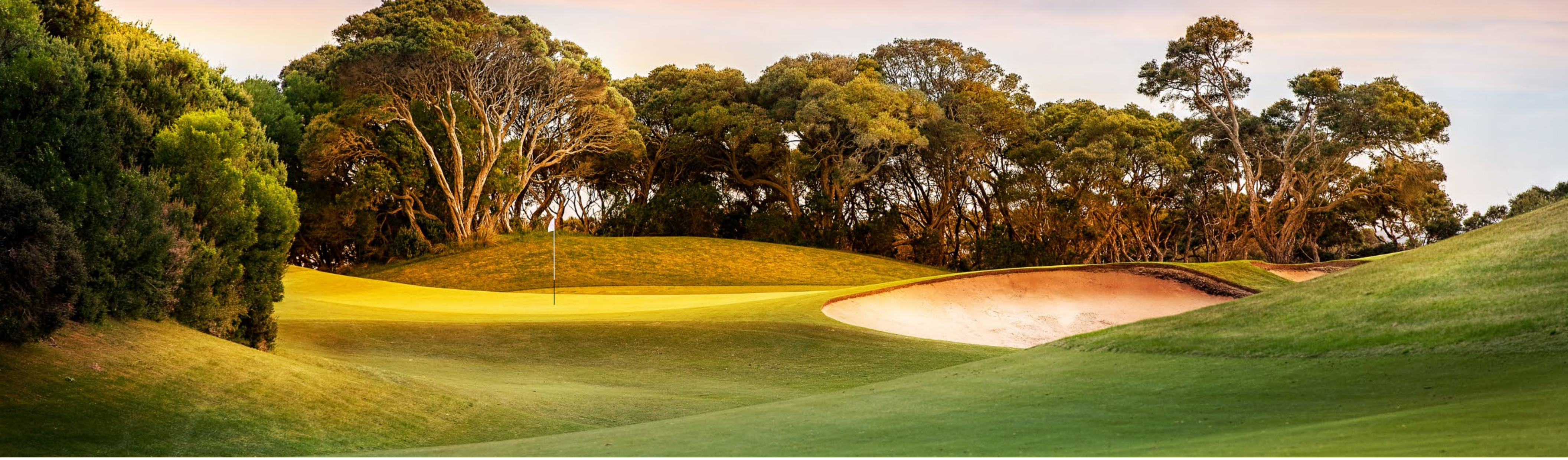
In some cases, boards may choose to remain hands-off on the issue, but still expect management to create and promote a safe environment for members. In this type of scenario, it may become incumbent on management to ensure most, or all of their staff are vaccinated, to put members at ease—which, in turn, creates a host of other challenges for the club– all the while, managing members' satisfaction with governance within their clubs, a common theme derived from member surveys conducted by GGA Partners.

> Members expect their club to be run like a business and expect greater transparency in decision-making.

While the pandemic will ideally transition into an endemic in 2022, divisive behavior and conflicting opinions—both from a membership and organizational perspective—will likely endure. To thrive despite this friction, boards would be well-served to leave the operational responsibilities in the hands of management.

At the same time, 2022 will almost certainly continue to bring rapid change and tension. As new issues arise, club leaders must not only respond quickly, but must make it a priority to clearly communicate management decisions if they hope to preserve the club's reputation and avoid an escalation of conflict.

Amenities and Services



Amenities and Services

In many parts of the world, private clubs have seen a surge in utilization rates and membership demand, as members seek a reprieve from the pandemic and the stressors of everyday life. The shift to remote work has also allowed many younger members to drop their office commute, and many are using that extra time to head to their clubs at non-peak times, for shorter timespans. Additionally, because travel remains inconvenient, many people are choosing to stay close to home in the off-season and are looking for recreational options to fill their time.

This has led to a change in utilization patterns for many clubs across the world. On the one hand, members are looking for more activities to help life feel a little bit more "normal." Beyond golf, for instance, they want more outdoor dining space, movie nights, and other social events, as well as pandemic-friendly winter activities, like ice-skating or cross-country skiing.

While this has unquestionably led to a much-appreciated boost in business for many clubs, it's also come with some challenges. A surge in membership demand and increased utilization has resulted in capacity issues for many amenities and member functions—and current research indicates a portion of this member utilization will remain after the pandemic ends.

As a result of this trend, club leaders are feeling the pressure to make meaningful investments in their amenities and offerings amid the pandemic. At the same time, inflation, supply chain issues, and labor shortages are causing serious budgetary and operational constraints. Knowing which changes to make—and how to pay for them all—is a question that can be difficult to answer.

Throughout 2022, it will consequently be important to gain a full understanding of what the club's current and prospective membership wants—not only in terms of amenities, but service levels and offerings as well. This should see clubs conducting surveys to find out which features members enjoy or would like to see more of, and which features they could do without. Clubs may discover, for example, that while many would prefer a larger outdoor dining space, they'd be willing to do without buffet breakfasts.

Once the club understands what its members want, it may be necessary to rebuild its operating model and membership structure to meet their changing needs. It may also require a thorough membership category review to protect against further overutilization of amenities and events. Getting this right will require a dynamic forecasting model and a systematic analysis of the business's readiness for change, which can help establish a clear plan to support a successful transformation.

Finally, as the club begins to roll out its new model, it's important to clearly communicate why it has decided to make certain modifications, how this will impact members, and how these changes will provide them with a better club experience. This is particularly salient if clubs need to raise membership dues above inflationary levels or assess members to pay for any modifications—after all, people are more willing to pay for something if they understand what they are buying.

Talent

Talent

The pandemic has brought hiring challenges for many industries, and private clubs are no exception. Not only is it harder to attract staff, but experienced managers and C-suite leadership are also in short supply.

To further complicate the issue, organizations are facing a slew of human resources (HR) challenges. In addition to hiring and executive recruitment roadblocks, HR departments are struggling to effectively manage a surge in employee anxiety and discomfort around returning to work, while still cultivating a strong club culture in today's "new normal." [4]

35%

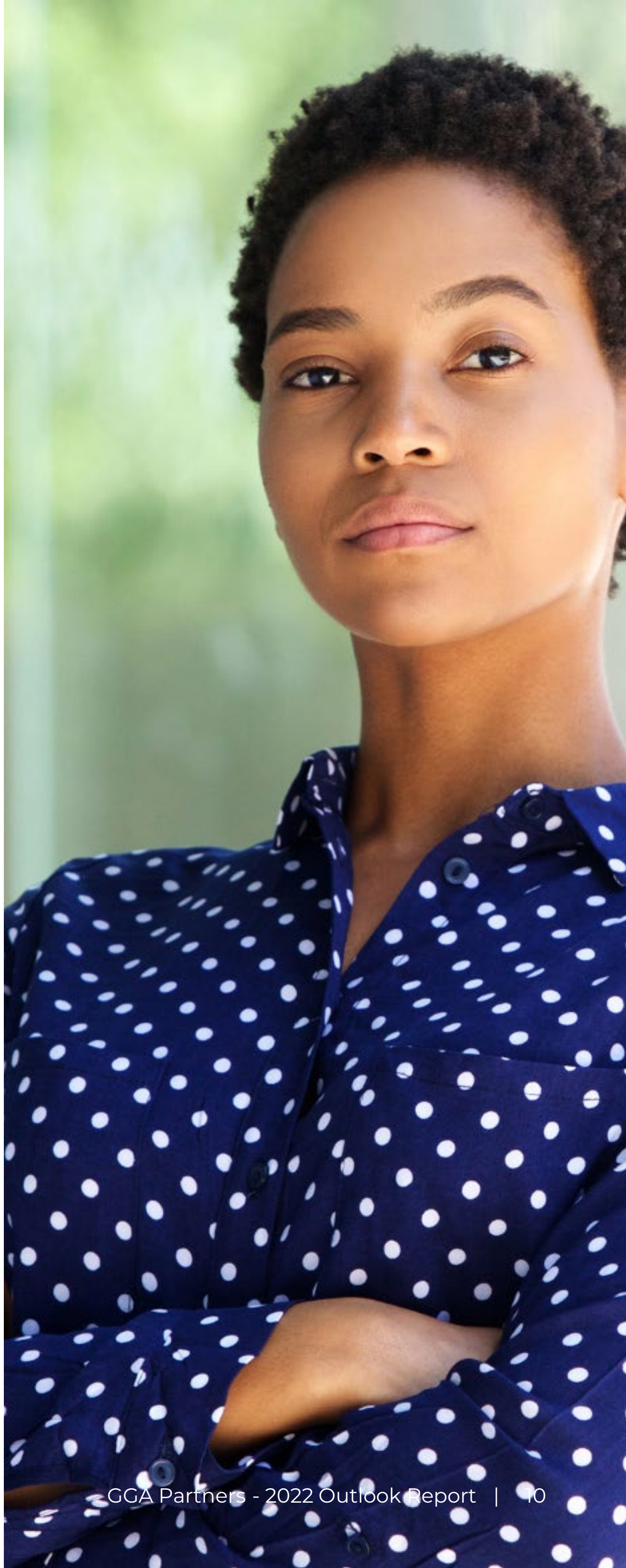
of leaders say their club surveys their employees, yet only one in five are tracking their employee Net Promoter Score—a metric used by employers to assess employee loyalty. [5]

In light of these trends, many clubs may need to change course in 2022 and beyond if they hope to attract the best talent and offer a stellar member experience. One of the best places to start is by surveying existing employees.

To create market differentiation, a little ingenuity can go a long way. Instead of simply offering higher compensation, for example, a club may want to create a new position dedicated to talent management—such as Director of Talent—to stay abreast of staff, management, and leadership needs, and implement creative recruitment and retention practices. This type of role can also help create an organizational culture that supports all departments equally, while eliminating siloed thinking.

Additionally, clubs may want to get innovative around searching for their next CEO, COO, or General Manager. For instance, a growing number of clubs are looking to sectors like consulting and financial services to fill club leadership roles, which allows them to inject some diversity of thought into their organizational structures.

It may also be worthwhile to further engage existing employees to retain them for the long haul. Some ways to tackle this is by creating opportunities for skills advancement, conducting enhanced evaluations, focusing on detailed performance tracking, and investing in more robust information systems.[6]



Five ways to find and retain

Top-tier Talent

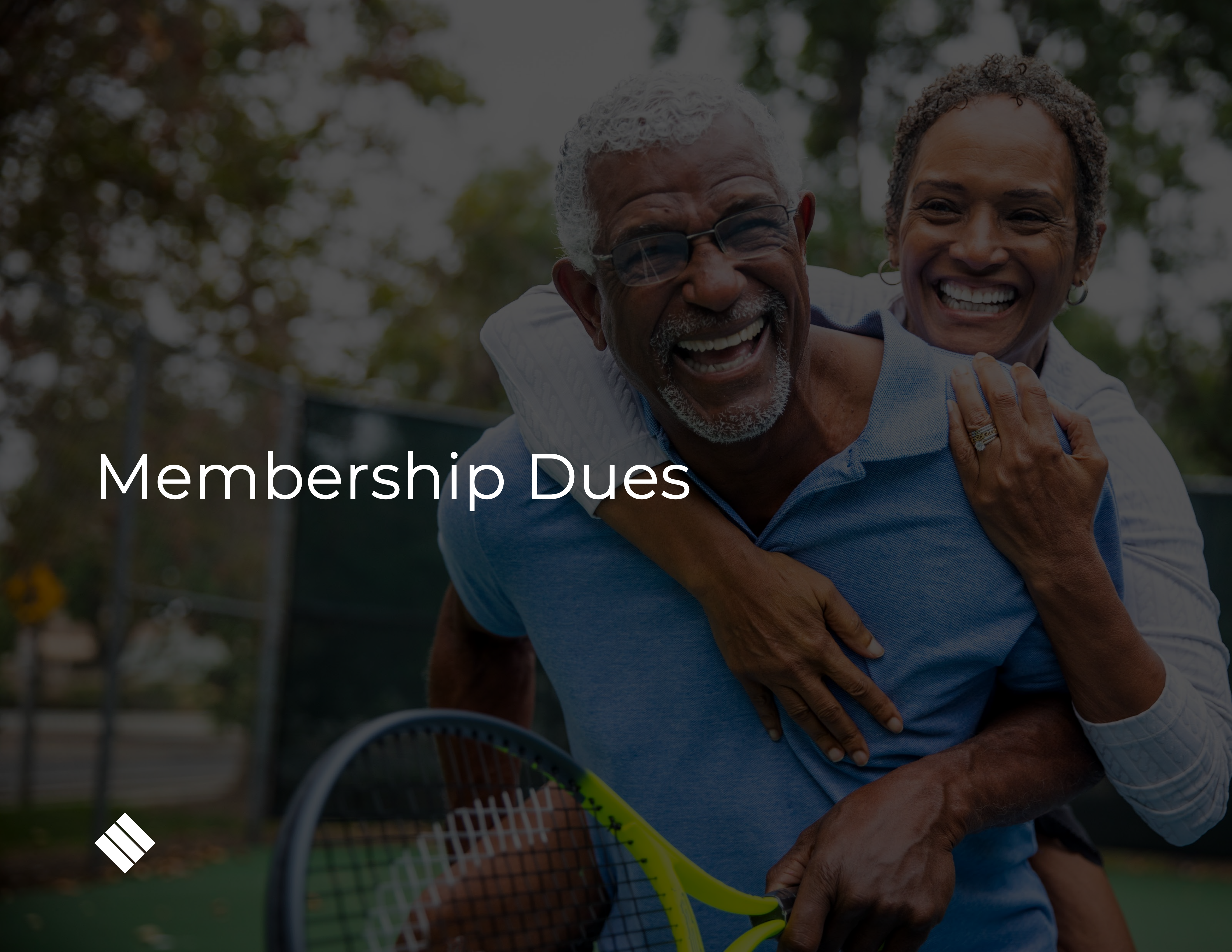
1. **Recruit with retention in mind**
   During the interview process, take time to understand why the applicant is interested in the position and how this position fulfills their career aspirations. Their responses will offer insight into whether they'll thrive within the club's culture, now and in the future.

2. **Train for the vision**
   Employees are often more engaged with an organization when they feel they're working toward a common vision. If the vision is to provide the highest level of personal service, for instance, clubs should consider providing new employees with a toolkit that includes photos of members and their families along with their special interests. Or, if the club's vision is to be the best club in the area, take time to train new employees on its best practices.

3. **Provide clear paths for advancement**
   Some employees will be perfectly content to stay in the same role throughout their tenure at the club, while others are keen to advance. For the latter, a lack of opportunity to grow and advance is a key reason they may move on, so make it a priority to understand their career goals and offer advancement opportunities, whether it's through training, continuing education, shadowing, or mentoring programs.

4. **Listen and learn**
   As important as it is to poll members about the club, it is equally important to create an open-door policy that encourages employees to share suggestions on ways to improve procedures, systems, and training. After all, they are on the front lines, interacting with fellow employees and members of the club every day.

5. **Invest in your human capital**
   The pandemic caused employees to rethink what truly matters in their job. Creating a workplace built on trust, flexibility, and diversity, while providing expected benefits such as health insurance, paid vacations, and personal time is the investment a club should be making to attract and retain great employees.



Membership Dues

Membership Dues

Since March 2020, less than half of club leaders changed their annual dues—and less than one-third have changed joining fees.[7] In 2022, this will inevitably have to change.

61 %

Over the last three fiscal years, the median dues revenue as a percentage of total revenue has been 52%, yet club leaders expect it to climb to 61% this year as a result of the pandemic, and project it to settle at 55% in the "new normal".[8]

The pressure to raise dues in 2022 is coming from a few different areas, including:

Rising inflation

Supply chain backlogs, construction costs, wage increases, and a host of other issues are contributing to a surge in inflation across many parts of the world. As a result, the cost of doing business is much higher—and if clubs want to continue offering a baseline member experience, they will have to increase their dues.

Population migration and utilization

The recent trends of remote work and the appeal of lower income tax states are likely to impact membership dues and pricing strategies in the near-term, due to the corresponding utilization impacts previously discussed. For clubs who have membership capacity and who are benefitting from the population migration, may be less impacted initially. However, for those struggling with meeting amenity availability expectations of its members due to increased utilization, may ultimately require a reduction in the number of full memberships offered by the club, likely requiring an increase in dues per member.

Demand for new amenities and services

As members demand more services and amenities, such as additional pickleball courts and outdoor dining options, clubs will need to determine their funding strategy, or more simply put - how to pay for them all. For many, this will involve raising membership dues and/or joining fees.

But when to increase dues—and by how much—is a challenge many club leaders are grappling with. On the one hand, clubs do not want to raise fees so much that they experience a member backlash or are drastically outside of the market norm. On the other, they need to make sure any increases can simultaneously keep up with inflation and align with their funding requirements.

To address these challenges, it may be necessary to evaluate dues and fees increases in the context of the club's existing business model, and ensure decisions are both balanced and capable of protecting the organization today and in the future.

For example, if a member survey to determine what types of amenities and services members would like to see in 2022 and beyond has already been conducted, the next step would be to complete an operational review and subsequently build out a budget factoring in opportunities for enhanced operational efficiencies.

This holistic approach would allow clubs to strategically raise membership dues and joining fees to position themselves for the future, while providing the information to clearly communicate the rationale for the increases to the club's membership base.

Business Strategy

Business Strategy

Moving forward, the business landscape will inevitably continue to shift quickly in 2022 and beyond. As it does, clubs would be well-served to anticipate—and take steps to mitigate—the associated storm.

This will involve putting in the hard work now—taking a 360-degree view of existing operational frameworks, conducting scenario analyses, combing through operational and financial data, identifying the potential risks, and evaluating their impact on the organization. This advanced planning should position the club to intelligently revise its operational model and insulate the organization from a worst-case scenario.

Clubs looking to enhance their organizational agility in 2022 and beyond may want to start by revisiting five key areas:

Operations

By leveraging data from relevant forecasts—and determining how things like labor shortages, the inflationary environment, and customers' willingness to pay for goods and services will impact the operating model's sustainability and success—it's easier to identify gaps in the existing model and address the most pressing vulnerabilities.

For more than 25% of organizations, this information will inspire changes in human resources, particularly in existing staffing positions and job roles. Another 27%, meanwhile, will likely explore debt restructuring and refinancing options.[9]

Whatever gaps identified, it's important to view them clearly. Clubs should aim for eventual dues increases to match the real need of their operations (including from a capital expenditure perspective)—not simply be a 'market' or 'inflationary' increase over the previous year's dues. This consideration, coupled with an understanding of the current members elasticity towards dues increases, will go a long way to supporting the long-term sustainability of the club. For example, if the required dues increase is outside of the members ability to pay, further evaluation of members wants and needs in the context of rising costs should be evaluated with input from the membership.

Membership

Clubs are wise to assess membership structure, pricing, and overall strategy to ensure alignment with current and estimated future usage patterns of club members. Keeping a pulse of the local and regional markets from both a supply and a demand perspective will help identify opportunities to adjust membership offerings and strategies to support long-term sustainability; while continually evaluating utilization trends and patterns at the club will further support the same.

Additionally, attaining member feedback on current and potential future offerings is a prudent strategy to ensuring support for the overall membership structure.

Utilization

Utilization challenges have been one of the top issues in the club business during the pandemic, but clubs with nimble operating and governance structures have been able to adapt to these challenges successfully.

To increase their business model flexibility, many of these clubs pay close attention to a range of key performance indicators (KPIs) which offer insight into how members are using their amenities, including dining facilities, fitness centers, and golf courses.

This information has proven invaluable, on several different levels. To offer just one example, if a club can see whether or not events started to trend upward in its market in 2021, it can anticipate if it makes sense to ramp up event spending in 2022—or explore opportunities to use that event space for other purposes.

Capital

Consumer and member preferences over the past two years have shifted, resulting in interest in new amenities or upgrades to existing ones in order to meet the expectations of todays' club members. With this in mind, and the requirement to maintain and safeguard the existing assets of the club, prudent capital planning has never been more important.

Clubs who understand the cost and have a capital plan to maintain existing assets will be well positioned to explore the addition of new or enhanced amenities.

Operational agility comes with balance sheet flexibility. Managing debt levels, especially in a rising rate environment, is critical for a club's long-term success. Over-leveraging during a period of high-demand presents significant challenges in periods of weaker demand.

This is not to say, there is not a place for debt on a club's balance sheet. Strategically leveraging debt to enhance the club's amenity profile and service offerings, while improving member satisfaction in a capital efficient manner can certainly be a winning combination, if done right.

Communications and Branding

The last piece of the puzzle for clubs is to revisit the organization's brand management strategy and communications protocol. When times are good, it's easy to let these two elements of the operational model fall by the wayside, but that could cause severe repercussions down the road.

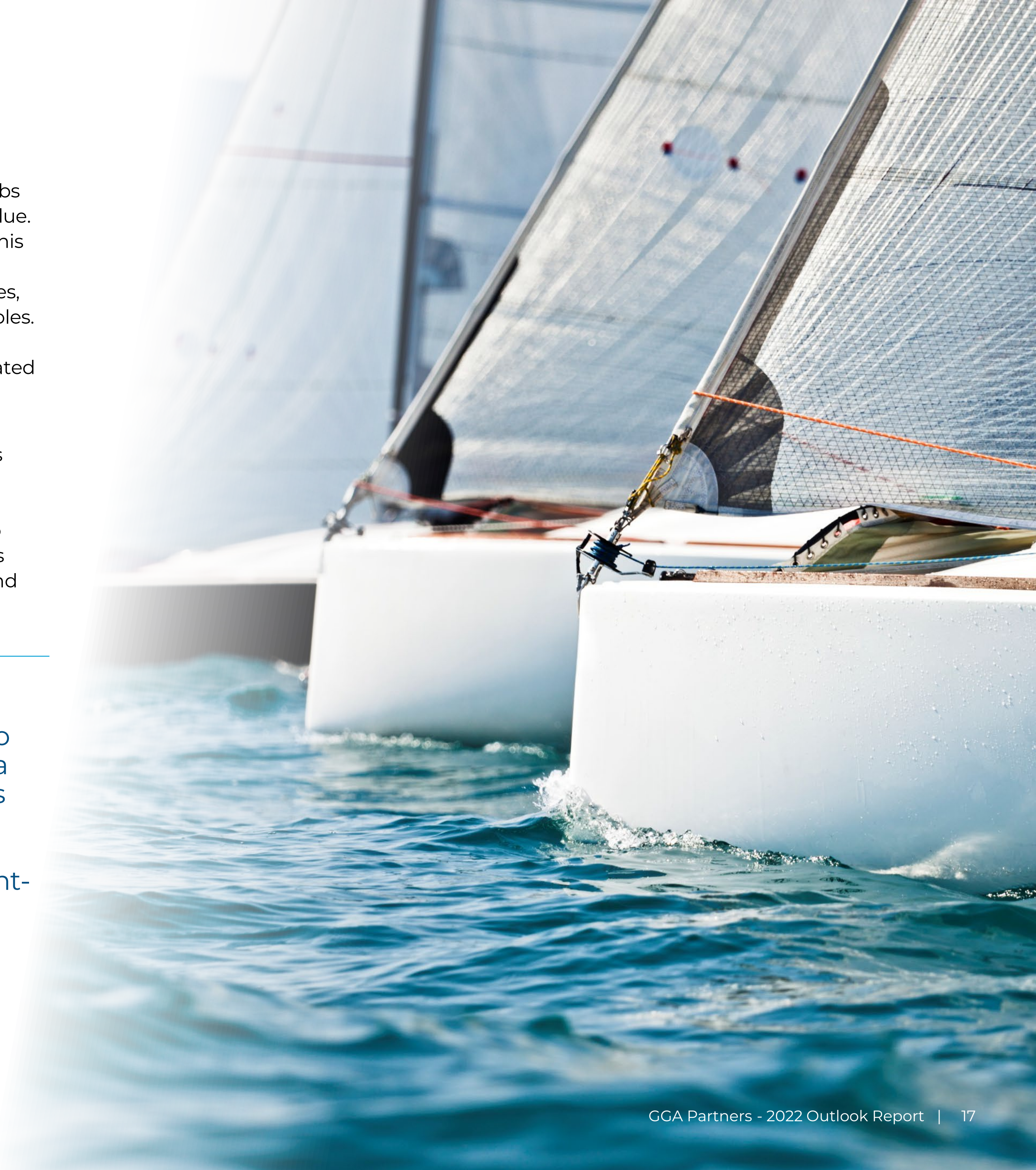
At some point, demand will slow. However, if a club carries a strong brand, and has taken efforts to keep it front-and-center and protect the brand value it has gained, it will go far in making the demand dips less painful. Similarly, a strong communications plan supports keeping members and staff aware of a swiftly-changing environment and preserve their trust and loyalty in the process.

Looking forward

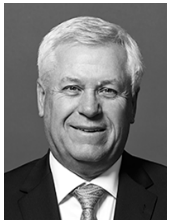
Ultimately, the goal of most private clubs in 2022 will be to build and preserve value. Not surprisingly, how clubs approach this will depend on geographical location, economic headwinds, client preferences, labor market, and a host of other variables. GGA is bullish on the capability of club management professionals and dedicated board members to find proactive and advantageous solutions.

GGA Partners works with private clubs across the world to help them employ measurable tactics to monitor performance, identify opportunities to enhance value, and build relationships with their membership, employees, and other stakeholders.

Whether a club is looking to refine its business strategy to meet the evolving needs of a post-2020 world, gain access to operational and financial insights from private clubs across the globe, set segment-specific benchmarks, strengthen its brand—or something else entirely—**we're here to help.**



Authors



Stephen Johnston
Partner
stephen.johnston@ggapartners.com

Henry DeLozier
Partner
henry.delozier@ggapartners.com

Derek Johnston
Partner
derek.johnston@ggapartners.com

Craig Johnston
Partner
craig.johnston@ggapartners.com

Michael Gregory
Partner
michael.gregory@ggapartners.com

Patrick DeLozier
Director
patrick.delozier@ggapartners.com

Rob Hill
Partner
rob.hill@ggapartners.com

Endnotes

[1] A Club Leader's Perspective Survey: Emerging Trends & Challenges, 2021 survey results, currently unpublished

[2] A Club Leader's Perspective Survey: Emerging Trends & Challenges, 2021 survey results, currently unpublished

[3] A Club Leader's Perspective Survey: Emerging Trends & Challenges, 2021 Report, Page 9

[4] A Club Leader's Perspective Survey: Emerging Trends & Challenges, 2021 Report, Page 10

[5] A Club Leader's Perspective Survey: Emerging Trends & Challenges, 2021 Report, Page 10

[6] A Club Leader's Perspective Survey: Emerging Trends & Challenges, 2021 Report, Page 10

[7] A Club Leader's Perspective Survey: Emerging Trends & Challenges, 2021 Report, Page 11

[8] A Club Leader's Perspective Survey: Emerging Trends & Challenges, 2021 Report, Page 13

[9] A Club Leader's Perspective Survey: Emerging Trends & Challenges, 2021 Report, Page 13

GGA Partners

Insight | Strategy | Success

info@ggapartners.com

North America: 1-888-432-9494

EMEA: +353-1-44-33-603

www.ggapartners.com

GGA Partners

@ GGA_Partners