Hold the line!

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> "Chris, this is going to be a pivotal year for us financially. Last year we held the line on dues with no increase and it worked out just fine. You did a great job and we saw no change in service or quality. We need the budget to be balanced and the dues line held with no increase."

According to a group of 192 managers and directors with whom I communicate regularly, Chris' plight is very common. We learned that, at one point or another, nearly all of the managers have faced this Board directive; they responded with some sage advice.

One of the managers within the Group sent the following statement for consideration: *The Directors have wanted to keep dues stable and we have had no increases for the past five years. The Directors believe this to be an appropriate business model.* From this statement, four pertinent questions were created and sent to the Group for consideration and response:

Is this a good model? If you have been part of this model, what did you do to handle the operations under the restrictions of no dues increases? Were there shortfalls and how did you fund them? If you believe this model to be flawed, were you able to change the model, and if so, how?

Of the 64 responses only two felt the policy was appropriate, but neither advocated for no funding: "No dues increase is OK, if they assess for capital improvements and any annual operating shortfall." "Dues are driven by assumptions which reflect the philosophy of the club. Agree on the assumptions and the dues are easy to calculate. If the dues assumptions include, as ours did, a dues level that funds proper reserves for the future (contingencies, replacement costs, anticipated capital improvements, etc.) and if operations are covered by revenues and "dues-after-reserves", my club saw no reason to increase dues arbitrarily. The prevailing opinion in my club---why hold / bank member money when there's no good reason for doing so." Both of these responses had a mechanism for funding needs.

Responses pertaining to the restriction of no dues increase, and the implicit "no additional funding from membership" were less gracious with responses such as: "Model is terrible" or "This is a dangerous game to play." Each manager involved with this model has stated that there were inordinately large dues increases at the end of the no dues period that were required to make up for the lack of increases. They further stated that the large increase caused dissention amongst the members, whereas, consistent and small increases yielded very few complaints.

The general Group consensus is that dues should reflect the philosophy of the club and should be derived *by* the budget, not the starting point *of* the budget. As was stated above, dues should be driven by the assumptions. If there is upward pressure on the dues because of increases in budgetary needs, those needs must be addressed during the budget process. It was clear that attempting to falsely hold dues in line only made the problem worse as the year progressed resulting in planned services being cut, cash reserves being depleted, or borrowing to cover the short-fall (including allowing payables to increase).

It was also clear that managers who successfully avoided this pitfall did so through education. They took time and effort to show the Directors the projected costs and the reasons behind the increases. An important aspect is to avoid the trap of "We'll make it up from increased outside revenue." Putting false hopes into increased revenue, particularly from food and beverage, almost guarantee that the club will end up being behind budget, but then cause strain on the staff who are being held to an impossible budget. Unfortunately, this sort of planning leads quickly to the demise of the GM! It's often forgotten that the margins on F&B are slim, at best, and that, while adding another $50,000 in revenue looks attractive, the bottom line may net as little as $5,000. A private club with good historical revenues will have difficulty adding another $50,000 in revenue unless there are extraordinary circumstances, but it only takes a moment to add that number, or more, to a spreadsheet making the numbers come out as we'd like them. Hoping for revenue is a recipe for disaster.

According to the managers responding, the keys to good dues projection are good planning and a reality based budget. Creating a budget that takes realistic expenses and revenues into account will yield an appropriate dues line. If it is felt that a dues increase is not palatable to the membership, then adjustments need to be made to the budget before approval. Nobody likes surprises, and asking members for an unplanned operational assessment to cover a shortfall is rarely seen as positive for either the Directors or the manager. As the saying goes "Failing to plan is planning to fail."

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