The

Private Club Advisor™

A Letter to the Directors, Officers, Owners and Managers of Private Clubs

December 2018

Dear Club Executive,

PRIVATE CLUB PRIVACY… Has your club recently considered what kind of information it collects and stores and what laws might impact these activities? All 50 states now have some form of law protecting personally identifiable information (PII) and the General Data Protection Regulation (GDPR) has restrictions on clubs that collect and store information on European Union citizens.

Members expect that the club is taking their privacy seriously so ultimately good privacy practices result in enhanced member service. According to attorney Robyn Nordin Stowell of Sherman and Howard, "Our firm's privacy practice group is advising clients to comply with the most strict state laws for two reasons: 1) many states are moving toward adopting stricter laws over time and 2) many state laws apply to their residents even when they are out of town (i.e., a Massachusetts resident spends two months in Arizona and is a member of a club there)." That means you may still be obligated to abide by stiffer laws of another state's jurisdiction depending on the makeup of your membership.

Stowell recommends clubs start by determining what information is being collected, how it is being used and how it is stored and protected. Then if a PII Policy is not currently in place at your club, Stowell urges that you develop and implement one immediately. Some steps to take and elements to include in your own PII Policy are:

- Conduct an assessment to determine vulnerabilities and how you can mitigate risk.
- Conduct regular employee training, assessments and monitoring.
- Detect and protect against system failures.
- Detail how information is stored and records accessed off premises.
- Identify discipline for employees who violate policies and procedures.
- Conduct due diligence of third parties who have access to PII (outsourced IT vendors)
- Restrict physical access to records and audit all unauthorized or suspicious access.
- Ensure software updates are done promptly.

"Some of the legal requirements in place may not impact a specific club, but some laws will apply should a club experience a breach," Stowell warned. "These issues are tied to other aspects of the club's operations, such as document retention policies and cyber security protections, and will become bigger, not smaller, issues for clubs going forward. Taking steps now to become educated and proactive will save clubs money and liability over the long run."

TIME TO REPLACE—OR TIME TO REENGINEER? If your club is ready to replace your club management software with something new, you may want to consider this: Have you thought about reengineering your old software instead of replacing it? According to Jeremy Hoch, president of Anchor Consulting Services, and Bill Boothe, president of The Boothe Group, replacement isn't as easy as it seems. "Nearly every club department is affected by a replacement, through data conversion, forms design, features configuration, user training and report generation. And there's a typical 12-month transition period to get staff comfortable with the new system," the two wrote on the Hospitality Financial and Technology Professionals blog.

For some clubs the disruption and burden of converting and the financial investment are well worth it, but for many clubs it might make more sense to conduct a reengineering assessment to determine which route is really the best one for the club. Even though a club may be dissatisfied with its current management software system, it doesn't automatically mean it should be replaced. "What often leads to dissatisfaction is lack of training and understanding of how the software operates, new features and reports added over the years that are not being used, poor configuration and set-up from years past and a belief that new has to be better," they wrote.

About 50 percent of the replacement projects these two consultants have encountered recently have been switched to reengineering projects following the assessment. Hoch and Boothe advise clubs to "look before you leap" and first assess the feasibility of retaining the old system and reengineering it. Then after looking at it, decide whether you really want to make the leap to purchase a new system.

PREPARATION IS KEY… If your club plans to open or reopen a fitness/wellness facility in the future, you may want to ask yourself, "Are we setting ourselves up for success?" According to Scott Poston of 1000 Hills Fitness, the preopening process is absolutely crucial to activating the amenity. "There is a significant number of details that must be completed prior to the grand opening to ensure the future success of the facility."

Pinehurst Country Club in Denver, CO, and Columbine Country Club in Columbine Valley, CO, are proving Poston's point. Both clubs were taken through a detailed preopening process by 1000 Hills Fitness and both fitness centers are generating about two times more revenue than the average comparable club.

Poston identifies a three phase process that should begin approximately nine months prior to opening a fitness facility. Phase one includes conducting a market analysis to identify trends in the local market and what expectations are for service, pricing, programming and innovation. Phase two involves building the conceptual operation, conducting focus groups with members and developing the programming calendar. Phase three focuses on recruiting and extensive onboarding of key staff.

All the phases lay the foundation for the smooth implementation of programming and processes in the fitness operation. Following such a detailed planning process builds anticipation for the "grand reveal," a look-don't-touch party that showcases the facilities and features, and ultimately the grand opening, the official opening of the operation and activities.

One of the most important aspects for a successful opening is one many clubs overlook, according to Poston—developing a consistent brand position. "We define brand position as the act of designing the fitness center's offering and image to occupy a distinctive place in the minds of club members," he explained. "You are what your members say you are." In Poston's experience, clubs don't hesitate to buy fancy equipment, hire fitness directors with pedigree and build robust group exercise schedules but they often fail to deliver a unified message to their members. "A well-rounded program offering that is guided by a strong sense of purpose is critical," he concluded.

FACILITY IMPROVEMENT: THINKING LONG-TERM… Your golf course bunkers are becoming timeworn, so you update them. The dining areas are a bit shabby, so you redecorate. An aging kitchen creates production problems, so you buy some new equipment. It sounds like a good approach to facility upkeep, right? Wrong, says Bill McMahon, Jr., of the club facilities planning firm The McMahon Group.

"Time and time again we find boards and their architects approaching club facility needs with little thought about strategic, financial and member attracting needs of their clubs," McMahon said in the company publication, *The McMahon Report*. He said club leaders may have little or no understanding of their club's mission or purpose, and may react with quick-fix improvements rather than planning with long-term strategic objectives in mind.

"By not identifying strategic issues regarding membership, finances, programs and facility needs first, the results are millions of dollars being spent on projects that appeal to vocal groups of existing members, but do not attract one single new member," McMahon warned.

The strategic mindset is essential for thinking through the potential ramifications of club projects as well. One club in the Midwest spent over one million dollars adding an outdoor dining patio but did not account for the annual operating costs the new area would incur, i.e., additional service labor, additional kitchen labor and furniture replacement. To make matters worse, the new outdoor dining patio cannibalized existing restaurant services so the club did not see an increase in food and beverage revenue as was expected. Taking all of this into account prior to moving forward with the project may have persuaded the club to invest in a project more beneficial to the club.

WHY DOESN'T FOOD AND BEVERAGE TURN A PROFIT? PART TWO… In the November ***PCA***, we shared several reasons why very few clubs actually make a profit in food and beverage. To help put an end to this age old debate, the long list of reasons continues:

- Private club kitchens were not built for maximum efficiency and do not contain state of the art equipment like most restaurant kitchens.
- Cash tips are attractive to service personnel. Clubs pay higher hourly rates and add a service charge as a convenience to member diners but the alteration in pay does add expense to the club and may result in diminished motivation of service personnel.
- Clubs have a hard time recruiting big name executive chefs. While club chefs can still be creative, they are limited in the products, pricing and presentation of dishes due to the limited number of diners (members) they serve.
- Yes, members pay dues but those dollars are applied to *all* areas of the club, including the non-revenue generating areas such as the swimming pool, golf course, tennis courts, etc.

The short answer to "Why doesn't food and beverage turn a profit?" is that the department is built to function as an amenity; it is not set up or intended to operate under strict business practices like restaurants do.

1099 SURPRISES: ALMOST THAT TIME OF YEAR AGAIN… Tax consultant Mitch Stump reminds clubs that one of the least popular annual events is approaching: Issuance of Tax Form 1099s to members who received the equivalent of $600 or more in club benefits during the calendar year 2018.

The federal government requires that by January 31, 2019, clubs issue 1099s to affected members, usually those who receive cash, credits or reduced dues as prizes, rewards for service or new member recruitment—if those awards are valued at $600 or more.

Stump said it never seems to fail that some club members are caught off guard when they receive 1099s. Some members can get downright angry. To avoid these surprises, Stump urges clubs to tell members when awards will include tax obligations.

COUNTRY CLUB SILOS… Computing the unrelated business income tax of tax-exempt social clubs is becoming increasingly complex. The Tax Cuts and Jobs Act added § 512(a)(6) to the Internal Revenue Code (IRC). According to James Reilly, a partner with Condon O'Meara McGinty & Donnelly, LLP, this provision, as a general matter, prevents social clubs from offsetting unrelated business taxable income generated by a profitable unrelated trade or business with a loss from an unprofitable one. Gains and losses have to be calculated and applied separately. This requirement is generally known as the UBTI Silo Rule. Unfortunately the statute left uncertain the scope of the activities that could be grouped together as a single unrelated trade or business.

"For example, a social club that receives non member income from multiple sources, such as from a dining facility and a retail store, may have more than one unrelated trade or business and therefore be subject to the requirements of IRC §512(a)(6). If so, gains and losses would have to be calculated separately," Reilly said.

A CHANGE IS COMING… Get ready! The 2019 issues of the ***PCA*** and the *PCA Plus* will look a little different! Also, watch for your subscription renewal form. Starting in January we will offer an official electronic subscription option for the delivery of our publications.

WE'VE DONE THE WORK FOR YOU… The 2019 ***PCA*** Archive CD, available in mid-January, will contain every issue of the ***PCA*** written from 1990 through 2018. Type a keyword or phrase into the search feature and quickly receive the information you need! To order your CD, visit *www.privateclubadvisor.com*.

Wishing you a wonderful holiday season!

Jackie

Jackie Carpenter, CCM
Editor

Eldon Miller

Eldon Miller
Editor-at-Large

RESOURCES

Robyn Nordin Stowell, Partner, Sherman & Howard LLC, Scottsdale, AZ – 480-624-2736 – rstowell@shermanhoward.com

Jeremy Hoch, President, Anchor Consulting Services – Jeremy@anchorcs.com

Bill Boothe, The Boothe Group LLC, Fairfield Glade, TN– 561-281-0459 – bboothe@boothegroup.com

Scott Poston, President, 1000 Hills Fitness, Denver, CO - 303-875-7224 - scott@1000hillsfitness.com

Bill McMahon, Jr., McMahon Group, St. Louis, MO – 314-744-5040 – wpmjr@mcmahongroup.com

Mitchell Stump, CPA, Club Tax Network, Palm Beach Gardens, FL – 561-776-0452 – mitch@clubtax.com

James Reilly, CPA, Partner, Condon O'Meara McGinty & Donnelly, New York, NY – 646-438-6203 – reilly@comdcpa.com

Private Club Advisor – P. O. Box 610845 – Dallas, TX 75261
Phone: 800-800-5508 - Fax: 972-756-9010 – Email: pca@privateclubadvisor.com