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# Private Club Advisor™

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

May 2016

Dear Club Executive,

**IS YOUR CLUB FUN?** While most clubs are centered on social and recreational activities, the unfortunate truth is that not all clubs are focused on fun. A recent round table discussion of club managers at the World Conference on Club Management brought this concept to light. “When you buy into a club, you buy into a community,” one GM said. “You can have a ton of amenities and outstanding facilities but if you don’t have programming and fun, it isn’t going to matter,” another explained. As the summer season approaches, club executives may want to ask “Is our club fun?”

Exciting and engaging programming is a key factor in how fun your club is for members and also drives why people join your club. According to Jeffrey Kohl, CEO-in-Residence for Mayo Clinic and a speaker at the conference, if something isn’t fun, people aren’t going to be drawn to it. Changing programming quarterly or seasonally can engage members by providing variety, he said.

“Is your scheduling inclusive of every age group or do the same ten people participate every time?” he asked. “If the same few people are participating, the rest of your members are going somewhere else where they are being engaged and having more fun.” Kohl recommended club executives gauge the popularity of programming by conversing with members to gather important feedback. “Why aren’t they participating?” he urged. “That’s a more valuable question than simply asking why some *are* participating.”

**DOL CREATES NIGHTMARES FOR CLUBS...** The Department of Labor’s proposed Overtime Exemption Rule will increase the weekly minimum salary full-time exempt employees must earn from \$23,660 per year (\$455 per week) to \$50,440 per year (\$970 per week) (see August 2015, *PCA* page 1). According to Brad Steele, VP of government relations and general counsel for the National Club Association, this proposed rule will likely go into effect very soon and will most certainly impact club staffing structure, staffing levels, compensation and even employee morale.

Steele strongly encourages clubs to fully investigate the proposed changes. Meanwhile here are few key points to consider:

- Under the proposed rule, not only will the minimum weekly salary for the exemption jump by 113 percent but it is also likely that the Primary Duty Test will change. This means some club employees who meet the newer salary level could still be due overtime pay if they work beyond 40 hours.
- The proposed rule specifies that lesson income, tips, commissions, etc., cannot be incorporated into the determination of whether an employee meets the \$970 a week threshold. Only straight salary can be used. Golf pros, tennis pros, fitness directors, etc., making less than the \$50,440 a year base salary are subject to overtime.
- Every year the base salary rate is going to increase, which will only continue to put financial strain on clubs.

“Most club executives will have to convert salaried employees to hourly in order to solve the new overtime pay issues,” Steele said. “Since many current salaried employees who are exempt may not maintain their

exempt status under the new rule, the only way to ensure they are paid the appropriate amount each week will be to make them hourly. Thus, their hours can be tracked and when they hit over 40 hours they can be correctly paid overtime. Not only does this mean a potential change in staffers' benefits but it also means moving employees from salary to hourly. In short, this rule will impact employee morale and likely cause wholesale changes to employee wages, benefits and schedules.”

Employees may feel demoralized by being “put back on hourly,” he warned. Worse yet, seasonality will dramatically impact employees' hourly pay. In busy season when overtime hours are being paid, employees will obviously have larger paychecks. In the off-season where the norm may be 40 hours per week or less, paychecks will be lower. Employees will have to plan and save for slower months as they will have wavering paychecks. Steele believes this presents a significant learning curve for employees and is an unfortunate unintended consequence from the rule change.

“GMs need to discuss this rule with their boards and finance committees immediately because I do not see a way that these proposed regulations will be stopped.” Steele recommends first figuring out each employee's weekly income and how many hours he or she works each week. Weekly hours are the key, not annual salaries. If an employee works more than 40 hours and is not exempt, then he or she gets overtime pay. The bad news is that under this rule, more employees will be considered non-exempt.

**NEW FED FOCUS ON INDEPENDENT CONTRACTOR STATUS...** Speaking of nightmares for clubs, have you analyzed the employment status of all those currently working at the club as independent contractors? While the significant changes proposed to overtime pay regulations have drawn well deserved attention, the federal government's new guidelines for classifying independent contractors may be equally important (see “More Change for Clubs,” December 2015, *PCA* page 2). Labor attorney David Whitlock told club executives that ignoring either of these government moves could cripple your business.

In a governing environment not known for making life easier for employers, the Department of Labor has developed guidelines leaning more toward ambiguity than specifics. Essentially the independence of an independent contractor is gaining new focus.

Who are the independent contractors at your club: golf and tennis professionals, caddies, fitness instructors, massage therapists, valets, cleaning crews, landscapers? Does the club control or have the right to control their work and how it is done? Who bills members for services provided? “My advice is, don't touch the money,” Whitlock said. “It's best to get out of the money business altogether.”

Because failure to correctly classify workers could lead to financial penalties under the Fair Labor Standards Act, the National Club Association is urging clubs to work with legal counsel in reviewing their independent-contractor arrangements and the new government requirements.

**AN ALTERNATIVE TO THE CONTROVERSIAL MINIMUM...** The much maligned but long pervasive food and beverage minimum came under the spotlight again at the recent World Conference on Club Management when membership development consultant Steve Graves, in a seminar on member retention, suggested clubs replace their minimum spending programs and a la carte service charges with what is called a “fixed gratuity” or “hospitality premium.”

Predictably the idea generated considerable discussion among the audience of club executives. While many dislike minimums, many also consider them essential to successful food and beverage operations. Graves, on the other hand, believes minimums can lower the perceived value of club membership. The minimum reinforces a negative, Graves said, telling the member he is not using the club enough. Graves also believes the service charge is another negative element in the dining experience.

Rather than forcing members to dine at the club and telling them how much to tip for service, Graves advocates the fixed monthly gratuity. He offered his seminar attendees a sample letter for explaining the new charge to members, saying in part:

*To ensure that our members receive year-round exemplary service, each member family will now pay a monthly fixed gratuity. This fixed gratuity will allow us to pay above competitive staff wages to ensure the finest wait staff in the area. This amount will not be altered by monthly spending and will be applied consistently throughout the year. This system rewards club usage, unlike our old system that penalized non-usage.*

*There will no longer be a service charge when you dine at your club! There will no longer be a monthly food minimum! This clean, straight forward system rewards you for using your club.*

Graves added that the service charge on catered functions (private parties, dinner meetings, weddings, etc.) should be continued.

**ADAPTING FOR BUSY MEMBERS...** To accommodate the lifestyles of busy members, your club may want to consider an online voting system to be used for electing officers, approving bylaw changes, voting on capital improvement projects or polling members for quick feedback. Not only could online voting increase member engagement by making it easy for members to participate from anywhere at any time, online voting also streamlines the process for efficiency. Time counting ballots is reduced and recounts are eliminated—all while engaging a younger demographic of members.

Online voting makes it possible for members to vote from any device connected to the internet within a specified amount of time and does require accurate email addresses for all members. Club demographics should be taken into consideration before going electronic with voting. Clubs with a younger, affluent membership such as Jericho Tennis Club in Vancouver, Canada, saw an increased participation of 60 percent and over 85 percent of their votes were cast online. However, clubs with a majority of members in their 70s or 80s may find online voting challenging.

“Virtually all clubs are looking for ways to engage their members,” stated Steven Lattey of Simply Voting, one company that offers a secure online auditable platform for voting. “Making it easy for all members to participate in decisions that impact the future of the club is really vital.”

**WANT TO SELL A CLUB ASSET? YOU MIGHT RETHINK THAT!** Of the various ways for clubs to raise money for capital improvements, sale of a club asset (land, natural resources, air rights, etc.) is the least palatable in the opinion of Paul Mueller. His firm, Club Capital Planners, performs capital reserve studies for clubs. He begins his reasoning with the obvious: “Once you sell it, you will never get it back.” So making the decision to sell takes careful deliberation. You never know when a more critical need for cash will arise, or when the club could have made good, possibly profitable, use of property that was sold.

**POP TENNIS...** The tennis industry has rebranded paddle tennis into a sport called Pop Tennis. Courts are shorter—36 or 60 feet versus the standard 78 foot court—and scoring, strategies, footwork and rules are the same as tennis except that serves must be underhanded and players only get one serve per turn. In addition, Pop Tennis uses shorter racquets and lower pressure balls but allows players of all ages to immediately be able to play without previous practice or lessons.

The sport is getting quite a boost through the U.S. Pop Tennis Association. The tennis industry is hopeful that the push for Pop Tennis will bring people of all ages into the sport and drive revenue for tennis businesses,

according to *Club and Resort Business Magazine*. Ken Lindner, president of the U.S. Pop Tennis Association, said “Pop Tennis is a game that everyone can immediately play and enjoy, which makes it a great family activity.” As recreational activities are on the rise at clubs, Pop Tennis may be a great option for clubs with limited facilities or space that are still seeking ways to add to recreational offerings for the whole family.

**GATED COMMUNITIES MAKING A COMEBACK...** Golf as the center of many gated communities drove the popularity of the past, but when golf and real estate saw a decline in recent years countless gated communities struggled financially and some even collapsed. Today gated communities have proved to be remarkably adaptable by reinventing daily living and thus continue to exert a strong appeal to many, according to a recent article in *Club Trends*.

“With many communities already established, the emphasis is on unlocking the potential that exists both within the physical facilities and operating environment of the community as well as within the evolving member interests and inclinations of the current and future residents,” wrote Jim Fisher. He states that golf will continue to be a powerful draw but adding hiking trails, biking trails, tennis and pool facilities as well as youth programming including camps and other activities, not only serves resident members but their grandchildren and extended family and friends—thus adding to the popularity and growth.

Gated community clubs are leading the way by embracing wellness and promoting healthy well-being through many offerings including spa, dining and recreation. A recent survey by The McMahon Group also indicated gated community clubs are rebounding. Real estate sales are up by an average of 12 percent since 2014.

Take care!



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**RESOURCES**

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**U.S. Pop Tennis Association** – [www.poptennis.com](http://www.poptennis.com)  
**Club and Resort Business Magazine**, Rocky Road, OH – 440-250-1583 – [www.clubandresortbusiness.com](http://www.clubandresortbusiness.com)  
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