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Does Hiring Club Management Company Make Sense?

The decision by a club owner or board to retain a management company could greatly impact the success of the club. Approximately 18 percent of all U.S. golf courses utilize third party management companies. More and more golf courses are deciding to hire a third-party management company. The number of golf courses that are managed by third party operators increased by 53 percent from 2001 to 2013 according to the National Golf Foundation. Troon Golf, the largest club management company, has added over 90 new courses since 2011.

It makes sense for a club to hire a management company when the management company can reduce expenses and increase revenues by more than the management fees. Management companies can often implement programs to increase membership sales, membership retention, and member spending. Sometimes, the reputation of a management company itself can help attract members. National golf management companies also often have national marketing programs to attract golfers to semi-private clubs and reciprocal club programs to increase usage of private clubs, which result in increased guest fees and spending. Management companies can often decrease expenses through national buying programs for equipment, supplies, insurance, and other services and economies of scale in sharing employees, systems, and other resources. However, the club should ask whether the company passes the savings of these programs to the clubs they manage. Management companies often can recruit employees that a club would not otherwise be able to hire, which can result in more efficient operations, enhanced members' satisfaction, and improved membership sales in the case of a membership director.

Clubs need to scrutinize the fees and other costs of hiring a management company to fully evaluate the total cost. Costs often include items such as (i) allocations of national marketing program costs; (ii) allocation of centralized or corporate office expenses; (iii) reimbursements for costs, including travel costs, marketing costs, and employee relocation; and (iv) membership sales commissions. When a management agreement includes these costs, clubs should obtain cost estimates from the management company. Clubs should carefully scrutinize the scope of services to understand what services are covered by the base management fee and what services can result in additional charges. Clubs should also obtain information about the management company to ensure that the management company and its methods are compatible with the club's positioning, membership admission policies, governance, and non-member usage policies. A club may also want to inquire as to how the management company will handle existing employees. Hiring a management company has the potential to significantly improve operating results. But, a club owner or board must obtain information and ask the right questions as to whether to hire a management company and in selecting the best one for the particular club, to ensure that it is making the right decision.

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