

**The Future Will Come:  
Making Depreciation Your Friend**

**It Will Break, and You Will Need to Fix It:**

I'm sure that your club's no different than The Beach Club, at least in this regard-----things will age, fall out of fashion and inevitably wear out. Efforts can be made to delay the day of reckoning but eventually you'll need to repair, replace or completely reconfigure the "hardscape" of your private club. When the time comes, cash will be needed as will the organizational and imaginative talent to make the right choices and to execute those choices with the least expenditure of time, money and organizational resources. The "**Depreciation Mindset**" is an integral part of any organization that hopes to be an incrementally better place each and every year. Addressed effectively, depreciation is the friend of both manager and board and can be used to enhance and polish the "perception of Board and Management competency" within the larger member-staff club community.

We need to distinguish between "Managerial Depreciation" and "Auditor Depreciation." Not being a certified public accountant, I'm not fluent in the rules governing the recording of depreciation. But Boards and Management deal in a different "accounting" of their "Depreciation Mindset" than do C.P.A.'s since they're concerned with identifying needs before they arise, anticipating the scope of those needs and opportunities, finding the cash to execute those visions and bringing those plans to fruition. When your job and your reputation are on the line, you have a tendency to focus on "The Real" and to discount the subtleties in the audited financials, important though those issues inevitably are in recording the health or sickness of your club.

What I'll be doing in the following discussion is establishing the groundwork for the "Depreciation Mindset" and outlining how one might go about locating needs, finding cash, establishing priorities, building consensus and reporting progress along the way. Bear in mind that these aren't abstractions drawn from a management class en route to an M.B.A. degree but principles drawn from over twenty-five years of "trench warfare" in the club business and over nineteen years as General Manager of The Beach Club in Santa Monica California. Each idea is the end result of a bruising I've received at some point in my career. I'm confident that those of you who are reading this and have experienced real world operational challenges can relate to my comments and find anecdotal support for the various insights I've highlighted.

**Laying the Foundation For "The Depreciation Mindset":**

Board members and the management team need to be in agreement on the values underpinning the "Depreciation Mindset." It has been my experience that people of like values, when given all the facts and presented with all the options---members, staff, committee members and boards---, will pretty much agree on "the right thing to do" when encountering a controversial decision. Clubs are fortunate in their inherently high level of "values alignment." The membership committee selects new members whose values are in accord with the club's culture while the management team hires those who are perceived to "believe" in those values and fires those who ultimately don't.

The following points highlight a few of the principles my Board of Directors and I have found useful during the decision making process here at The Beach Club.

- A. The future will come:** The club is going to be around for a long, long time and everything we've got now will wear itself out. Accept the fact and plan for it.
- B. Cash is King:** Projects need cash to proceed. The cash should be in the bank before the project begins. No cash, no go. "Build the future" into the monthly dues and operating

budget and make sure membership fees---be they admissions fees or transfer fees---are put aside to fund the “facility cycle.”

- C. **It will cost you more than you think:** Projects never come in under budget because opportunities arise that were never anticipated. Plan on the overages and acknowledge “the good” that arises from “upside surprises” during the execution phase of your project. Build in bigger contingencies than you really need, because you’ll end up really needing them. But don’t make the contingencies so big that they submarine the project, discouraging you and the Board from beginning what needs to be done.
- D. **Debt limits options:** As they say in the flying business, debt is a “sucker hole” that will lure you in and then close off your options. The idea behind the “depreciation mindset” is that planning replaces debt in all but the most extreme situations.
- E. **Avoid the “A” word:** Assessments tend to besmirch the reputations of Boards and General Managers alike. Controversy usually arises when assessments are considered, executed and remembered. They deplete the “good will bank account” of those who approve them and agitate the nay-sayers within the membership.
- F. **Assessments reflect poor planning:** Needs can be anticipated. Plans can be developed when needs are known. Assessments suggest that needs weren’t clearly anticipated, plans weren’t created, appetites weren’t held in check and dues weren’t properly structured. Boards and managers are supposed to see the future and prepare for its arrival. Assessments suggest that they have not done so.
- G. **Strategic Plans are less important than Strategic Directions:** Opportunities arise over time that were never anticipated. Comprehensive strategic plans are usually flawed because decision makers are never “all seeing.” What clubs need are strategic directions---which guide but don’t define---rather than strategic plans---which suggest “the definitive” and limit flexibility. It is better to know that you’re a “golf club” rather than a “country club,” a “family club” rather than an “adult club,” a “ritual of dining club” rather than a “bistro club” than it is to micro-outline each and every part of a “strategic plan” that is all but “fixed-in-stone” for the foreseeable future.
- H. **Good strategic thinking is about making good tactical decisions:** People can grasp the present and can determine if present changes are consistent with “the vision” of the club. If you know the strategic direction you want to take---“...the club will choose a professional interior designer whose vision of casual elegance is consistent with the club’s and will continue to use that designer regardless of the number of members who volunteer to design...” ; “...all spaces will be made handicap accessible when renovated...”--- then making solid “local” decisions (on the bar renovation, the office renovation, etc.) will usually ensure “macro- coherence” over time.
- I. **Unintended consequences and “upside surprises” will occur:** The “Depreciation Mindset” acknowledges that things happen that you never anticipated. Some of them are good, others are not so good. Midway through a depreciation related project---a new slurry coat for the parking lot which is programmed for every third year---you have an epiphany and envision a basketball court in the parking lot. An “upside surprise” has occurred. Once completed, a new “basketball tribe” of members and staff is formed, building the sense of community and increasing the market value of the membership. An “unintended consequence” has arisen from the mundane.
- J. **There’s a right time for organic depreciation thinking and for linear depreciation thinking:** Dreams come out of discussion which is directed but not tightly controlled. Ideas pop up out of nowhere. This is “organic depreciation thinking” where the topic is known but the sequence for discussion is not. Once a project decision is made, the manager and board

need to become “action oriented” at which point they adopt “linear depreciation thinking.” People make the mistake of trying to “envision the future” with a tight agenda and trying to execute the vision with a loose one. There is a time and place for both in the “depreciation mindset.”

- K. Priorities will be continually redefined:** Priorities in the “depreciation cycle” will alter with each change in Board, Committee, Manager or economic indicator. This is a healthy response to changing wants, needs and expectations within the member community. However, once the execution of a project has begun, the moment for changing priorities has passed since all of the club’s efforts should be focused on completing what has begun with the least expenditure of time, money and resources.
- L. “The Depreciation Continuum” is about process not end:** Accept that the depreciation cycle is endless and that you will never “arrive” at a place where depreciation planning is no longer needed. The continuum is what keeps the depreciation experience exciting.
- M. Expectations for the next project will always be higher than for the last:** It is part of the “human condition” that people want “the next version” to be better than the last. Though people often say they don’t want change, when change occurs they want the results to be noticeably better than what preceded it. Boards and managers need to build in “heightened expectations” when configuring depreciation.
- N. Find opportunities for “continuous incremental improvement”:** Although members enjoy “home run” projects and renovations-----an entirely new, rather than renovated clubhouse, for example-----, the thrill fades fairly quickly and the “new” becomes “the norm” in fairly short order. Rather than “hitting for the fences” consider spreading out the improvements, modifications and alterations over time so that each year another “enhancement” appears. My standard: if a member hasn’t visited in a year, when they do show up they’ll gush that “the place looks great” because of some small improvement or other that has occurred in the meantime. People like to be associated with organizations that are continually improving. No reason not to use depreciation creatively to become that type of club.
- O. Fund aggressive maintenance:** The best depreciation investment is a well funded maintenance department. Since replacements, improvements and modifications are continuous and incremental, big bucks spent here win on two fronts: things will happen quickly and continuously while keeping the price of doing so down through the use of in-house talent.
- P. Back of the House Stuff is as Important as Front of the House:** Depreciation is one area where “out of sight, out of mind” just doesn’t work. The infrastructure of the clubhouse and grounds---sewage systems, electrics, irrigation and the like---is the critical skeleton upon which the rest of the operation is built. Although less “sexy” than a plasma screen television in the Bar, Boards and management need to convince the membership that a new stove for the kitchen is an equally important contribution to the “basket of goods and services” provided to the general membership.
- Q. Patience is the Virtue of Kings:** Don’t be in a rush to do an upgrade or enhancement. Live within your budget, maintain aggressively, plan well in advance of execution, save your money, then act once the plans, public relations and cash are in place. Impatient clubs end up with large debt positions, assessments and disgruntled members.
- R. Members aren’t dumb and they do care:** Don’t make the mistake of thinking that “the facts will only confuse the members and complicate the decision making process.” Members are members because they’re clever people and have an “equity mentality.” Give them all the facts, solicit their input, encourage their questions and make them partners in the “depreciation experience.”

### Finding Priorities:

The key to the service personality is to "...anticipate need before those who need it know it." The same could be said for the "depreciation personality" since the key to a successful career in depreciation is to figure out what needs to be done, when it needs to be done and how much it will cost to do it. Discovering these "to do's" is a collective effort and should involve the supervisors, management team, committees, Board and the general membership.

When one is uncovering "depreciables" it's best to divide them into three general areas: **established and recurring needs, do-able enhancements and way-out dreams.** By doing so, both the members and staff can tap into the club's "Vision Statement" while staying nicely grounded in the day-to-day realities of the "fix-it before it breaks" mentality that underpins tactical depreciation thinking.

Arriving at "*The List*"--- which should appear each month on the Board's five year cash flow projection and will be discussed and outlined momentarily--- requires someone to *catalyze* the team of members and staff into "*reflective moments of discovery.*" It goes without saying that I, as a General Manager, believe deeply that doing so is the responsibility of the General Manager. His or her job as catalyst is to initiate the thought process, to direct it and to sustain its intensity over time. To become, in essence, a hunter-gatherer of visions and depreciables by facilitating input from members, staff and committees.

Performing this "hunter-gatherer" role is not really a mystery. The manager should provoke the staff in the weekly senior staff meeting; should stimulate imaginative "organic thinking" in each of the committees--- particularly buildings and grounds, house and strategic planning--- during their monthly meetings; inform and provoke the Board with the Board Update (a weekly newsletter for the Board, past presidents and senior management that the manager generates and distributes); and solicit input from the membership with *substantive* articles in the monthly newsletter. All this will stimulate conversation, generate more ideas than you can ever use and keep you in touch with the needs, wants and expectations of the entire member-staff community.

Once "The List" is established, priorities need to be set for projects given the constraints of life expectancies, money and impatience. Accept that priorities will continually change until an actual commitment is made to the execution of any given project. The ultimate arbiter of "The Priorities" will be the board after due consideration by each of the committees and management team. Since "The List" and the priority order for each of the listed projects is presented monthly in the five year simplified cash flow facility budget, the Board will be reviewing and altering the list, the priorities and the timing according to the most recent inputs. A useful pro-forma for this report might look something like the following:

		2001- current	2002	2003	2004	2005	2006
1.	Beg Cash	100	220	270	85	110	145
	Cash Income from operations, dues and admissions fees.	25	50	40	25	35	55
	Cash available	<b>125</b>	270	310	110	145	200
2.	Must Do's						
	Carpet	(30)					
	A.C.			(75)			

3.	Do'able Enhancements						
	New bar			(150)			
4.	Way Out Dreams						
	Indoor pool						200?????
5.	Ending cash	<b>220</b>	<b>270</b>	<b>85</b>	<b>110</b>	<b>145</b>	<b>000</b>
6.	Minimum Acceptable Cash Balance	<b>50</b>	<b>50</b>	<b>50</b>	<b>50</b>	<b>50</b>	<b>50</b>
7.	End of Year "Free Cash"	170	220	35	60	95	(50)

The keys to this process are the detailing of all must do's, all do'able enhancements and all way out dreams; the budgeting of cash income in the coming years; and the timing of execution for each of the given projects to achieve the best mix of "the needed" and the "desired." By doing so, the board and management team can keep track of "the vision direction" while discussing timing and specific tactical considerations on a monthly basis.

**Vision Without Action Is a Daydream:**

Now that you have the "Depreciation Mindset," where should you go from here???

First things first---identify the replacement needs of the operation with the general manager and his or her management team. These are the "must do's" to simply maintain the operating levels you currently have. Prioritize each and assign a dollar value.

Secondly, generate your list of do'able dreams using input from all the committees, management team and general membership and assign a dollar value to each.

Thirdly, encourage a "flight of fancy" from the same three groups for the dream projects that, at best, are a "stretch" financially and otherwise for the club. Assign a dollar value to each.

Fourth, establish a cash budget projection using existing operations and anticipated dues increases for the coming five years. Enter those cash flow forecasts on the pro-forma.

Fifth, input the "must do projects" through the coming five years in their must do order on the pro-forma.

Sixth, see how much cash is available and when, then plug in the do'able enhancements in priority order in the years when cash for doing so is available.

Seventh, if any cash remains after the first two sets of projects are accounted for, assign the dreams in the years where the cash is available and the desired mix of projects nets the biggest public relations boost.

When adopted, this document and the "Depreciation Mindset" are guaranteed to provoke discussion, controversy and ultimately action. It will be, as is intended, *a catalyst for the realization of your club's facility potential.*