

Giligan oakmont country club case

Countries



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Gilligan oOakmont Country Club 1 Thomas W. Gilligan University of Southern California I t is the summer of 1996 and management must decide whether or not to alter the process used to trade the club's 450 memberships. The current fixed price system, in which management sets the transfer fee for club memberships, offers some degree of financial certainty for existing and prospective members as well as for the club's financial planners. However, the fixed price system promotes chronic imbalances between the number of members wishing to leave the club and the number of eligible candidates wanting to enter the club.

These imbalances create frustrations for eligible candidates, hardships for long-time club members, difficulties in developing suitable new members and problems for club planners. Management is considering several alternatives. THE CLUB Oakmont Country Club is a private golf and social club located along the Arroyo Verdugo in northern Glendale, California. Established in 1922, Oakmont has long provided the kind of relaxed social life prized by many Southern California families. Oakmont's mission statement reveals the club's goals and orientation. . . to provide its members with a premium golf and country club experience that includes a well maintained, highly respected and competitive golf course; an attractively designed and efficiently operated clubhouse that meets the membership's requirements for excellent service, top-quality food and beverages and ample meeting and banquet facilities; and the maintenance of the Club's unique atmosphere of a strong and friendly family orientation. All contemporary management issues at Oakmont are evaluated through the lens of this mission statement.

This case was prepared by Thomas W. Gilligan, University of Southern California, as a basis for classroom discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

Oakmont's challenging 18-hole, 6, 736-yard golf course is a tough test for golfers of any ability. The course was designed by Max Behr, architect of many local courses including the one at Lakeside Country Club, and modified by William Bell, Sr. , creator of courses at the Riviera and Bel Air Country Clubs. Oakmont's course is currently the site of an annual Ladies Professional Golf Association (LPGA) tournament and over the years has hosted many important professional and amateur events. Among the notable winners of golf tournaments held at Oakmont are Ben Hogan and Al Geiberger.

Oakmont's clubhouse, which was renovated in 1995, is a 42, 000 square foot, single-story structure characterized by an elegant reception area, formal dining room, private meeting and banquet rooms, a member's grill, a casual dining room and a terrace grill for indoor and outdoor eating. In addition, there is a fully equipped state-of-the-art exercise room and men's and women's locker rooms. A competitive short course pool, with toddlerswimmingarea, is open from Memorial Day through Labor Day each year. Oakmont's assets are valued at nearly \$13 million while its annual operating expenses are more than \$3 million.

Tables 1 and 2 are statements of the financial position and activities of Oakmont Country Club for fiscal years 1995 and 1996. Oakmont is organized as a non-profit corporation under the laws of the state of California. According to its bylaws, Oakmont's membership is fixed at 450 regular

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members each with an equal proprietary interest in the club's assets (Oakmont also has several non-equity membership categories). Regular members govern Oakmont through the election of a Board of Directors (the Board), the chief policy-making body of the club. The Board appoints members to standing and special committees and, together with the club's General Manager and senior staff, supervise the daily operations of Oakmont. Regular members also vote on the adoption of new articles or amendments to Oakmont's bylaws.

THE MEMBERSHIP PROCESS

Most of Oakmont's regular members are professionals, entrepreneurs or corporate leaders who reside in Glendale and the neighboring communities of La Crescenta, La Canada-Flintridge and Pasadena. Some are executives or high-ranking managers in the entertainment industries that permeate the Los Angeles basin.

Many current members are children of long-time Oakmont members. Surveys conducted by the club indicate that many members consider other clubs before joining Oakmont. Three nearby clubs - Annandale Country Club in Pasadena, San Gabriel Country Club in San Gabriel, and Lakeside Country Club in Burbank - compete directly with Oakmont for new members. Indeed, the need to provide competitive club characteristics and amenities was a major motivation for the recent renovation of Oakmont's Clubhouse. Regular members wishing to leave Oakmont do so for a variety of reasons.

Some have moved or are planning to move to locations that would limit or preclude their use of Oakmont. Others wish to give up their golfing privileges

but continue their association with Oakmont as social members. Some find that due to changing life circumstances (e. g. , the death of a spouse), their club usage has declined and it is no longer sensible to continue to pay the monthly membership dues, which can approach \$500 even with little or no use of the club. And some are no longer economically able to cover the cost of membership. Historically, roughly two members leave the club each month.

The process of becoming a member at Oakmont is typical of private country and social clubs in Southern California. Prospective members are invited to join Oakmont by two current members (a “ proposer” and “ seconder”) and endorsed by five additional regular members. These prospects are then interviewed by the club’s Membership Committee and evaluated by the Board.

Eligible candidates become members of Oakmont by remitting an entrance fee to the club’s business office. Part of the entrance fee, the transfer fee, is used to defray the current expenses of the club. Table 2 illustrates that the transfer fee is an important revenue source, constituting roughly 14 and 19 percent of the club’s operating revenues in 1996 and 1995, respectively. The balance of the entrance fee, the member’s equity, is paid to the resigning member. Currently, the entrance fee, transfer fee and member’s equity are set by Oakmont’s Board.

This so-called fixed price membership system is typical of social and country clubs like Oakmont and has several desirable features. The fixed price system allows the Board to reliably budget transfer fees. The fixed price system also appears to provide some certainty about the costs of joining

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Oakmont to prospective members and the value of member's equity for members planning to resign. Since the fee structure adopted under the fixed price system is at the discretion of the Board, it permits some flexibility in adjusting to relevant changing circumstances.

For example, the vicissitudes of the Southern California economy have a large bearing on the number of members wishing to resign from or join Oakmont. During the economic boom of the late 1980s and prior to the recession of the early 1990s, the Board increased the entrance fee by almost 50 percent (from \$34, 000 in May 1989 to \$50, 000 in March 1992). After the recession of the early 1990s, the Board reduced the entrance fee by nearly a quarter (from \$50, 000 in March 1992 to \$39, 000 in June 1993).

Changes in the entrance fee also reflect the financial requirements of construction or acquisition of new assets. Also in June 1993, the Board increased the entrance fee by \$6, 700, an amount equal to the assessment levied on all current Oakmont members to cover the costs of the Clubhouse renovation (note that the old entrance fee plus assessment yields the new entrance fee of \$45, 700). Table 3 reports the entrance fee, transfer fee, and member's equity for October of each year from 1989 to 1995, as well as for August of 1996.

THE PROBLEMS

The fixed price membership system used at Oakmont is associated with at least one potentially undesirable feature; a chronic imbalance between the number of members wishing to resign and the number of eligible candidates wishing to join the club. The last column of Table 3 reports the number of

people waiting to join (in parenthesis) or resign from Oakmont for several months during the 1989 to 1996 period. In October of 1991, there were 11 eligible candidates for membership to the club who, due to the paucity of members wishing to resign, remained eligible candidates for at least one month.

Inspection of Table 3 indicates that the number of eligible candidates waiting to join Oakmont at the end of October of 1990 and 1989 was even greater; 42 and 27, respectively. Indeed, some members who paid Oakmont's highest historical entrance fee late in 1991 or early in 1992 had waited over two years to join the club. A long waiting list of eligible candidates wishing to enter Oakmont had its good and bad points. Some members viewed a long queue of eligible candidates as indicative of the value and exclusivity of the club.

After all, it is traditionally difficult to get into a desirable social club; why should Oakmont be any different? Others, however, were troubled by the impact of this lengthy wait on eligible candidates. All of the eligible candidates had been asked to join by current Oakmont members. Many of these members were embarrassed and frustrated by the lengthy wait that accompanied their invitations. In addition, some felt that the long waiting list to enter Oakmont generated “speculative” eligible members; individuals that declined to exercise their option to become a member when they reached the top of the list.

While these two membership categories addressed some of the problems associated with the long waiting list to join Oakmont, they also created some

new issues and abuses, as well. During 1992, the imbalance between the number of members wishing to resign or join Oakmont continued unabated.

Paradoxically, the relationship that existed during the late 1980s and early 1990s reversed itself; there were now more members wishing to resign than to join. The factors behind this new trend were evident. The weakening national and, especially, Southern California economy shrank the number of individuals with the discretionary income necessary to belong to a country club. Changes in the tax law in the early 1990s that reduced allowable deductions for club dues and entertainment further limited the number of prospective members.

Moreover, the average age of Oakmont members, a good predictor of the number of members wishing to resign, had increased from 55 years in 1971 to 62 years in 1996. As Table 3 reports, at the end of October of 1992 there were 10 members who wished to leave Oakmont but could not because there were no eligible candidates waiting to enter. By the end of August of 1996, this number was now 41 and the member at the top of the list to sell his membership had waited since June of 1994. Club management soon discovered that there is nothing good about a long list of members waiting to leave Oakmont.

By the second half of 1994, those waiting to leave were quite bitter. These resigning members had endured the physical disruptions of the Clubhouse renovation, which still had a year to go and was at the time 50 percent over budget. The resigning members who had left the area thought it unfair that they be required to continue to pay monthly dues. Management tried to accommodate these individuals by establishing another membership

category – inactive member – with reduced monthly fees in exchange for the surrender of club privileges.

This plan placated few resigning members. And the general negativity of the current situation accelerated the number of members wishing to resign and diminished further still the number of prospective members wishing to enter Oakmont. Indeed, during several months in 1994 and 1995, few prospective members made inquiries and no eligible members were admitted to the club. Ironically, by the middle of 1996 the national and regional economy had recovered with a vengeance. Real estate prices, the stock market, and national and regional employment were all rising dramatically.

The Clubhouse renovation had been completed and, by all accounts, greatly increased the utility and desirability of Oakmont. Yet, the number of members wishing to resign from Oakmont continued to accumulate. All of the long-term fundamentals for a strong and popular club were now in place. Where were the prospective members that a modern club and healthy economy and stock market should help create? Could the allure of country club living have declined in contemporary Southern California? Or might savvy prospective members have anticipated a better deal around the corner?

THE ALTERNATIVES

During 1996 the Board contemplated possible solutions to the membership problem. One possibility was to promote the club more effectively among prospective members. In the 1990s the Board had adopted a variety of plans to generate eligible candidates, such as offering existing members prizes for

successful referrals (e. g. , vacations to Hawaii, free dues for three months). These plans had been judged to be only moderately successful and created a backlash among members who felt that such promotions were in poor taste and counter to the Club's recruitment goals.

Some current members felt that new members should be those who fit well within the club's niche, not those simply financially able to be Oakmont members. The renovation of CaseNet® ©South-Western College Publishing Oakmont Country Club 5 the Clubhouse helped generate new members, as well. Following its completion there was an initial surge of interest. Some Board members felt that an aggressive promotional plan coupled with some minor improvements in the Club's physical plant (e. . , the pool) would go far towards alleviating the membership imbalance. Many of these same Board members believed that the strengthening economy would naturally solve the current problem. Another alternative the Board considered was to reduce the entrance fee, as was done in 1992. This simple solution, which was favored by some of the Board's members, was consistent with the long-time practices of the club and would require few if any changes to the administrative procedures governing the membership process.

Other Board members felt that it was unfair to members wishing to leave the club to force them to sell their memberships at a discounted fixed price. And even if the Board reduced the club's entrance fee, what should the new fee be? Should the fee be set to generate a waiting list of eligible members, as had existed prior to 1991? If so, what was the right length waiting list? Some Board members felt that, under the current circumstances, any change in

the entrance fee would have to be modified in the near future and, depending on the volatility of several factors, on a periodic basis.

A third alternative considered by the Board was to abandon the fixed price membership system altogether and adopt the so-called float method to determine the entrance fee, transfer fee and member's equity of Oakmont memberships. This method had been adopted at some neighboring clubs (e. g. , San Gabriel Country Club and Lakeside Country Club) with varying success. Generally, the float method permits the entrance fee to change monthly as a function of the number of members wishing to enter and leave the club and the value that these members place on membership in Oakmont.

Board members who favored the float method felt it would alleviate the imbalance between the number of individuals wishing to leave and enter Oakmont. They also felt that the float method would get club management out of the business of trying to guess the value of club memberships and addressing, on an ad hoc basis, the problems that might arise from lengthy waiting lists to enter or leave the club. Some Board members opposed the plan because they felt it would interject uncertainty in budgeting for transfer fee income.

Others opposed the plan because they felt that membership in Oakmont was not like a piece of real estate to be transacted on the open market. These members felt memberships should be allocated by the Board, with consultation from the Membership Committee, to prospective members who would help further Oakmont's values and mission.

THE DECISION

In late September of 1996, the Board abandoned the fixed price membership system and adopted a float method to determine the entrance fee, transfer fee, and member's equity of Oakmont memberships.

Under the float method, a resigning member offers to sell his membership at any price he wishes. At the end of each month the Board presents these offers, from lowest to highest, to eligible candidates. Priority is given to eligible candidates based on the submission date of their membership application. If an eligible candidate accepts the offer, the candidate remits a check in the amount of the offer to Oakmont's business office. The transfer fee is half of the offer price or \$15, 000, whichever is greater, with the remainder constituting the resigning member's equity.

If an eligible candidate declines the offer, he assumes the lowest priority in the following month's membership sale. A candidate can decline three offers before losing his eligibility. The highest selling price, the number of memberships transacted, and the number of remaining eligible candidates is reported each month to Oakmont members, eligible candidates and prospective members.

Smith and Mr. Jones, both long-time Oakmont members, submit offers to sell at \$35, 000 and \$40, 000, respectively. Currently, Mr. Brown, Mr. Black and Mr. White are the only eligible candidates. Based on the timing of their membership applications, an offer will be presented first to Mr. Brown, then to Mr. Black, and finally to Mr. White. The Board presents Mr. Smith's \$35, 000 offer to Mr. Brown. Since Mr. Brown declines the offer, he is placed on

the bottom of next month's eligible candidate's list and Mr. Black is presented with Mr.

Smith's offer. Mr. Black accepts, remitting a check for \$35, 000 to Oakmont, \$17, 500 of which goes to the operating budget of the club as transfer fee and \$17, 500 of which goes to Mr. Smith as member's equity. Mr. Jones' \$40, 000 offer is now presented to Mr. White, who declines and goes to the bottom of next month's eligible candidate's list behind Mr. Brown. Mr. Jones' \$40, 000 offer stands unless he advises the Board that he wishes to either withdraw or alter his offer. The Board would report that one membership changed hands at \$35, 000.

If more than one membership had been traded, the Board would report the highest price only. Table 1 reports the monthly history of the float method at Oakmont Country Club from October of 1996 through January of 1999. This table catalogs the number of members waiting to sell their membership, the number making offers to sell, the number of offers accepted by eligible candidates, and the highest selling price. In Oakmont's 1997 Annual Report, President Charles J. Gelhaar offered the following summary. The success of our "float" process continued in 1997.

Our waiting-out list has [been] reduced from 43 to 0. We sold 34 regular [memberships]. The last membership sold for \$57, 750. Oakmont's President in 1998, David A. Werbelow, provided the following assessment. [The] Membership Committee continued the positive turnaround which began in . . . October, 1996, with the introduction of the "float" system. This year, every offer to sell was accepted by a buying new member – the 1998 average

selling price of just over \$60, 000 was \$12, 000 higher than the average of the prior year.

The average age of incoming members is more than 20 years younger than retiring members, and Oakmont Country Club has firmly established a niche in Southern California as a family club. The History of Oakmont Country Club, published on the club's 75 th Anniversary in 1997, provides a more theatrical description of the events surrounding the adoption of the float method. . . . it was now time to tackle another pressing problem: the membership. The recession that damaged Southern California had impacted Oakmont as well. The average age of golf members had climbed to 61, and there were some 40 members waiting to get out.

Unfortunately, new members were coming in at a snail's pace. At one point, only one new member applied in a three-month period. Spearheaded by 1996 Club President Olaf Falkenhagen, the idea of a floating membership fee was implemented in October, 1996. Other clubs in the area had tried it with varying success; and after considerable debate at the Board level, it was time for Oakmont to try it. It was an instant success. Five new members applied immediately. Thirty five members applied in six months.

A high of \$60, 000 was reached in May, 1997, and a waiting list to join seems a real possibility for the first time in years. The float method developed at Oakmont, referred to as the Oakmont Float, is now used by a variety of equity-based golf and social clubs in the Southern California and Las Vegas areas.