



# The impact of demographics on the membership level of member-owned private clubs



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## ABSTRACT

This study examined the impact of demographics on the membership level of member owned private clubs. Specifically, the study analyzed the effect of demographic variables (number of: residents; owner occupied households; properties of over \$300,000 in value; households with over \$100,000 income; businesses; CEOs/executives/professionals) within a ten mile radius of sampled clubs. Findings indicate that demographic variables had an influence on the number of full-privilege members at clubs, total initiation fees collected, average member spending amount, and total revenue. Private clubs are encouraged to carefully and continuously assess the demographic profile of their locale, and develop strategies to leverage its demographics.

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## 1. Introduction

Demographics play an important role in predicting customer expectations and demand for goods and services. In fact, there is increasing sentiment and a resounding call by leading club executives for private clubs to better understand the demographics of the locales in which they operate. An understanding of demographics will allow clubs to develop better positioning and pricing strategies as well as lead to a better understanding of their member categories (Carpenter and Miller, 2014). For several clubs, usage of this type of information to aid in strategic and operational decisions making is simply a matter of survival in an increasingly competitive and evolving industry.

Demographic characteristics have been associated with consumers' needs, wants, preferences, usage rates, consumption and purchasing habits (Lamb et al., 2013; Kotler, 2000). As such, understanding of customer demographics remains a central tenet of businesses in their ongoing quest to solicit, secure and keep customers. In conjunction, the location of a business relative to consumer segments possessing specific demographic characteristics is also critical in its ability to attract, retain and generate profits from these segments. Location, or place as it is referred to in the marketing mix, is also one of the key components in the development of a firm's marketing strategy. Additionally, the location of a business can be a strength, weakness, or have no effect on performance. For most hospitality related businesses, location is often a key

determinant of success. Hence, hospitality business' location could be considered a strength based on several factors including: proximity to a customer's place of business; proximity to a customer's place of residence; convenience to or from one's residence; and the physical attractiveness of the location (Kotler et al., 2014).

Equally important for hospitality businesses is the generally accepted notion that typically, customers are only willing to travel short distances to patronize hospitality establishments. Often, if the market is not in close proximity to the hospitality business' physical location, it will not travel or travel as frequently to purchase goods and services. Hence, in selecting a location, most businesses would prefer one that is close to its intended market. However, determining if the market segment a business wants to capture is present in specific locations is often a daunting and difficult procedure. To overcome this challenge, some hospitality businesses have been able to successfully identify their market segments based on demographic descriptors such as: age, gender, profession and income level (Andreasen, 1988).

The hospitality industry's reliance on demographic description of its market segments has led several large hospitality organizations to make key decisions on acquisitions and development of properties based on the demographics of the location being considered. For example, some restaurant franchises mandate that locations under consideration for acquisition or development must meet a minimum demographic profile prior to expending resources, financial or otherwise on the project. This typically involves acquiring demographic information within a certain radius of the proposed facility, such as three miles, to determine if there is a strong and sustainable customer base that satisfies the company's market profile. The profile generally includes demographic characteristics such as

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number of households within a certain income level, number of certain type of businesses in the area, number of people working in the area and types of employment and traffic volume past the proposed location. The minimum demographic requirements are often derived from a company's records as well as demographic profiles of its successful versus unsuccessful ventures. These demographic data are placed in the company's model to forecast potential sales for a proposed location (Melanipju and Sexton, 2007).

To date, there is paucity of academic studies addressing the private club industry as a whole (Barrows and Ridout, 2010). Furthermore, due to the exclusive nature of member owned private clubs, historically, the topic of marketing is one that many clubs have been reluctant to address. However, in recent years, the member waiting lists and membership levels of several private clubs have dwindled, and these clubs have experienced an associated significant decline in revenues. The decline in customers and revenues have been attributed to several factors including: overbuilding of private clubs (and competing facilities); the poor performance of the economy; companies downsizing management positions; companies moving from downtown areas to suburban regions and; increased competition from other hospitality businesses (Kaspriske, 2003). Collectively, these factors have changed the competitive dynamics of the industry which has evolved from one in which private clubs faced primarily indirect and direct competition to one in which they now face replacement competition in addition to both indirect and direct competition. Furthermore, today's private club demographics continue to evolve (Fjelstul, Jackson and Tesone, 2011) and knowledge about demographics can aid clubs in their production systems (Tesone, Jackson and Fjelstul, 2009).

Given the abovementioned factors and the state of the industry, it is imperative that an analysis of the variables that could possibly influence the membership size of private clubs is undertaken. Additionally, given that the literature suggests paucity of studies addressing the effect of demographic on membership levels at private member-owned clubs, it is hoped that the present study will attempt to fill this gap in the literature and understanding by analyzing the effect of demographic variables on membership levels in the private club industry. It is also important that such an analysis is conducted since information on market penetration rates, market share and the impact of demographics on member-owned private club industry is not replete (Ferreira and Gustafson, 2014; Ferreira and Gustafson, 2006a; Ferreira and Gustafson, 2006b; Ferreira, 1998a; Ferreira, 1998b). As such, the present study examines the impact of demographics on private club membership. Specifically, the primary objective of this empirical study is to increase the private club industry's understanding on the influence that demographic variables have on the number of members for private clubs (e.g.: country clubs, city dining clubs, yacht clubs, and athletic clubs). To accomplish this task, data, including demographic information were collected within a ten mile radius of sampled private clubs, located in thirty US cities. The relationship between the dependent measurement (membership number) and the independent measurements (demographic variables and private club type) was explored using regression and other statistical techniques. A total of seven demographic variables were considered important since they were previously reported by Ferreira (1998a, 1998b), to be related to performance levels of private proprietary clubs.

## 2. Literature review

### 2.1. Demographics and firm performance

The importance of demographics as a predictive tool is well accepted in the service industry (Kassim, 2006). The relationship between demographics and (1) company performance and (2) company location has been explored in the business literature and has focused on multiple industries including community banks, pawnbrokers, title lenders, life insurance agencies, and payday lenders, among others. Clapp et al. (1990), examined the effect of location on profitability of life insurance agencies. The authors found that there were significant differences between

and among metropolitan area locations, however, profitability and growth of the city were positively related while profitability and population of the city were negatively related.

DePrince et al. (2011), looked at the effect of state demographics on the performance of community banks, between 1994 and 2008. They looked at a variety of variables including population growth, per capita income growth and the ratio of single family housing starts to the population, among others. Their study produced two models: one based on simple average ROA and the other on a weighted average ROA. Population growth had a positive and powerful effect in the second model. Growth in personal income and housing starts were both found to have significant and positive in the weighted average model as well. Wealth had greater explanatory power in the second model as well.

Following the work by Burkey and Simkins (2004) and Wheatley (2010) on payday lenders, Wheatley and Parker (2011) studied the factors affecting location of pawnbrokers and title lenders in Mississippi. The author looked at the number of these two types of companies, rather than their financial performance. The author considered factors relating to income, population, education, income dispersion, household composition and race. The log of the population, rising poverty rates of households headed by younger persons, education (some college) and percent of population that it Native American were all found to be statistically significant in predicting the number of title lenders in an area. In predicting the number of pawnbrokers in an area, the results largely supported the hypotheses, but fewer variables were statistically significant.

Overall, studies examining the relationships between demographics and location and profitability, often found strong (and significant) relationships, suggesting that a variety of industries/companies are the beneficiaries of favorable demographics. Club specific studies, discussed below, are far fewer in number.

### 2.2. Demographics and club location

There is paucity of research about the causal relationships between demographics, performance, and location with private clubs. Ferreira has written two articles in these areas: one on the location effect on clubs in Atlanta (Ferreira, 1998a) and one on the demographic effect on private non-equity clubs (1998b). In his study on location effect, Ferreira examined the financial impact that the 1996 summer Olympics had on Atlanta area private clubs. He found that they had a much more profound effect on clubs within the "Olympic ring", defined as those located within a 1.5 mile radius of the downtown center. Managers of clubs both within and outside this ring were surveyed before and after the event to determine financial performance and effects from the games. Results suggest that clubs located within the designated ring benefitted from increased income, generated in a variety of areas. Clubs outside of the ring, at best, were able to meet financial benchmarks equal to the previous summer, despite actions taken to leverage the summer games.

The second article by Ferreira (1998b) examined the effects of demographics (a factor related to location) on the membership size and financial performance of clubs. Ferreira found significant relationships (and effects) between and among several demographic variables and the financial performance of clubs. Most notably, initiation fees and member spending was affected by: the number of households with income levels of over \$100,000; the number of properties valued at over \$150,000 and; the number of owner occupied households. Ferreira concluded that select demographic variables (including those mentioned earlier) have the ability to explain a significant portion of critical performance measures.

### 2.3. Membership and marketing in clubs

Two related areas, marketing and membership, are gaining increasing attention in the literature. This is a direct result of ongoing economic challenges, shifting demographics and an increasingly competitive environment. With a less favorable economic environment, clubs are

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