

Make Space Investments Considering Your Revenue Source Options

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Athletic Business
TOGETHER, DEFINING WHAT'S NEXT
CONFERENCE
& EXPO 2012
New Orleans, Louisiana

*This seminar was created for the live learning environment of the Athletic Business Conference & Expo.
Brailsford & Dunlavey has no financial interest/arrangement that would be considered a conflict of interest.*

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Learning Objectives

You'll learn how to:

- ◆ Identify key spaces that fluctuate in size depending on desired revenue streams
- ◆ Assess the costs to create spaces against the relative value of the potential revenue
- ◆ Determine the thresholds for revenue opportunity decisions

Outline

- ◆ Introductions
- ◆ Terminology
- ◆ Revenue sources
 - ◆ Rentals, Partnerships, Tournaments, New Member Markets
- ◆ Math examples
- ◆ Evaluation questions
- ◆ Q&A

Brailsford & Dunlavey

- ◆ Planning, programming, and implementing “quality of life” facilities
- ◆ National firm
 - ◆ Washington, DC
 - ◆ Charlotte
 - ◆ Atlanta
 - ◆ Detroit
 - ◆ Chicago
 - ◆ Columbus
 - ◆ Irvine



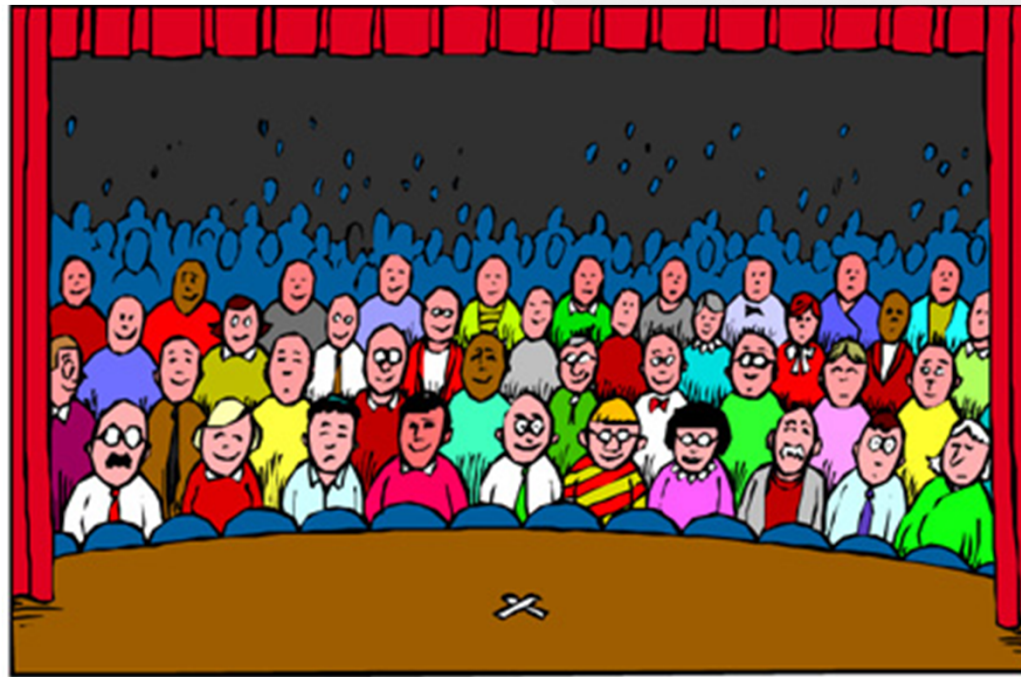
Ann Drummie

Regional Vice President

- ◆ Architecture and engineering background
- ◆ 11 ½ years with B&D
- ◆ Worked with 30+ institutions guiding from feasibility to opening



Participants



What do you think the topic is?

With pressures to diversity revenues, sizing spaces for a renovation, addition or new construction project is critical for financial success.

Sports facilities are now multi-user, multiple profit center businesses.

*How do **rentals, partnerships, and tournaments** impact investments on courts, lockers, seating and more?*

Learn how to assess the costs to create spaces against the relative value of the potential revenue.

Why at this year's conference?

- ◆ Continued pressure to be self-sufficient
- ◆ Heightened interest in greatest value for every capital dollar
- ◆ “Other facilities are doing it”
- ◆ Partners are looking for opportunities

Terminology

- ◆ Capital cost:
 - ◆ Upfront price tag for renovating or building a facility space
- ◆ Debt service:
 - ◆ Annual payment for having borrowed money
- ◆ Debt coverage ratio:
 - ◆ Comfort level of having money to pay debt service
- ◆ Net revenue:
 - ◆ What's left after you spend money to make money

Wiki-terminology

◆ Investment

- ◆ Putting money into something with the expectation of gain, usually over a longer term.
- ◆ This may or may not be backed by research and analysis.
- ◆ Most or all forms of investment involve some form of risk.

Wiki-terminology

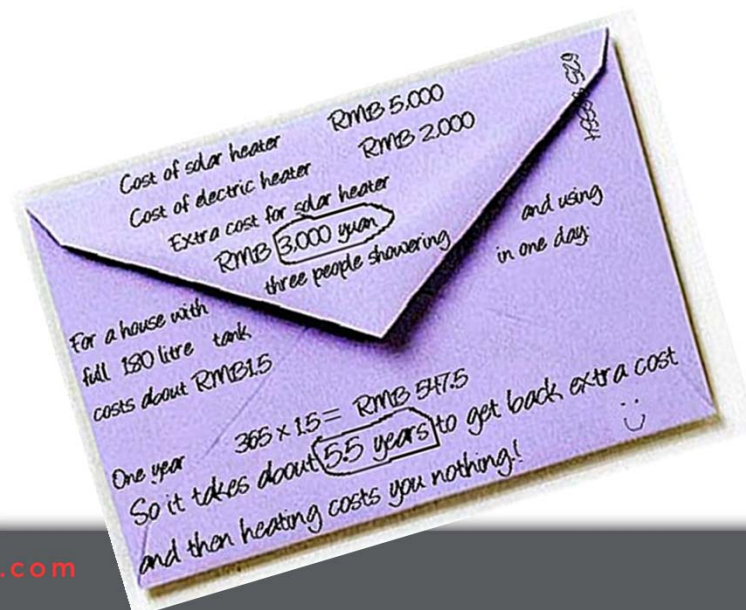
◆ SWAG: Scientific Wild-Ass Guess

- ◆ Used to describe an estimate derived from a combination of factors including past experience, general impressions, and approximate calculations.
- ◆ “scientific” implies that the guess can be justified if necessary or cost-effective.
- ◆ Also published as Silly Wild-Ass Guess, Stupid Wild-Ass Guess, and Scientifically Wildly Aimed Guess.
- ◆ {A guess of lesser worth may be called just a Wild-Ass Guess.}

Wiki-terminology

◆ Back-of-the-envelope calculation

- ◆ A rough calculation, typically jotted down on any available scrap of paper such as the actual back of an envelope.
- ◆ A similar phrase is “back of a napkin”, which is also used in the business world to describe sketching out a quick, rough idea.



Sources

- ◆ Rentals
- ◆ Partnerships
- ◆ Tournaments
- ◆ New Member Markets



Rentals

◆ Examples:

- ◆ Independently-managed camps
- ◆ Independently-managed youth leagues
- ◆ Independently-managed adult leagues
- ◆ Individual birthday parties
- ◆ Girl scouts and boy scout troop outings
- ◆ Corporate team building exercises



Rentals

◆ Characteristics:

- ◆ Pay per use
 - *Conservative: flat fee by hour or day*
 - *Aggressive: profit share*
- ◆ Speculative pipeline
 - *Need to nurture market for consistent flow of contracts*
- ◆ Participants may not distinguish between the renter and the facility manager
 - *Good if renter has a strong reputation...*
- ◆ No branding for the renter in the facility
- ◆ Leave the facility as initially found

Rentals

◆ Considerations:

- ◆ Wear and tear on facility and equipment
- ◆ Impact to ability to schedule in-house programming
- ◆ Ability to provide controlled access to only some spaces and not others
- ◆ Amenities at competing venues (parking, storage, food service)

Rentals

- ◆ Possible Space Needs:
 - ◆ Meeting room / gathering place
 - ◆ Hourly use lockers, adjacent to activity space
 - ◆ Seating, adjacent to activity space (ex. benches)
 - ◆ Trash / recycling

Partnerships

◆ Examples:

- ◆ High school sports teams (practice and/or games)
- ◆ School districts
- ◆ Colleges and universities
- ◆ Parks and Recreation departments
- ◆ Regional representations of national governing bodies
- ◆ Public and private community centers
- ◆ Health and wellness centers
- ◆ Independent coaches



Partnerships

- ◆ Characteristics:
 - ◆ Long term contracts
 - ◆ Exclusivity can limit extent of partners
 - *Pick carefully*
 - ◆ Branding for the partner is in the facility
 - ◆ Shared ownership for the condition of the facility

Partnerships

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- ◆ Parties should have compatible missions

Partnerships

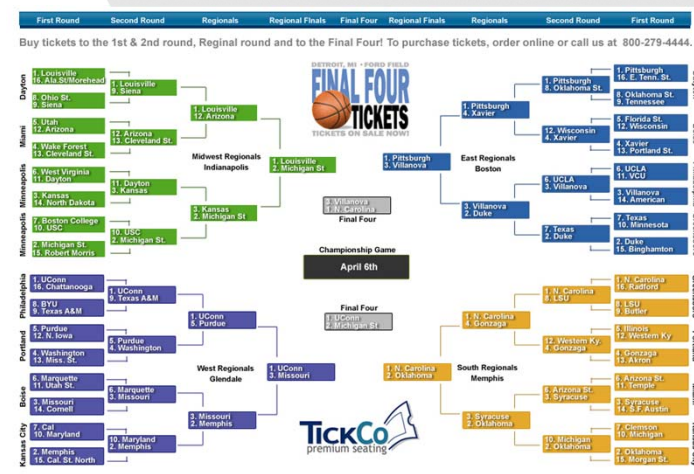
◆ Possible Space Needs:

- ◆ Offices
- ◆ Independent entry
- ◆ Parking
- ◆ Storage
- ◆ Dedicated locker room(s)

Tournaments

◆ Examples:

- ◆ Regional and national championships
- ◆ Stop on a seasonal tour
- ◆ Independently-managed invitational
- ◆ Charity event



Tournaments

- ◆ Characteristics:
 - ◆ Negotiated contracts
 - ◆ Pressure to submit competitive bid
 - ◆ Branding is temporarily in the facility
 - ◆ Compromises and adjustments to facilities are common

Tournaments

◆ Considerations:

- ◆ Wear and tear on facility and equipment
- ◆ Impact to ability to schedule in-house programming
- ◆ Ability to provide controlled access to only some spaces and not others
- ◆ Amenities at competing venues (parking, storage, food service)
- ◆ Parties should have compatible missions
- ◆ Extent of planning and invasion leading up to the event

Tournaments

◆ Possible Space Needs:

- ◆ Parking
- ◆ Concessions
- ◆ Seating
- ◆ VIP accommodations
- ◆ Restrooms
- ◆ Team rooms
- ◆ Officials rooms
- ◆ Media room(s)
- ◆ Rain-day location

New Member Markets

◆ Examples:

- ◆ Faculty and staff wellness campaign
- ◆ Community and alumni memberships
- ◆ Summer family memberships
- ◆ Daytime memberships
- ◆ Cardio rehab



New Member Markets

- ◆ Characteristics:
 - ◆ Monthly , season, or annual
 - ◆ Can try to tailor to fill low utilization periods
 - ◆ Tap into social interest to identify with a club/brand

New Member Markets

◆ Considerations:

- ◆ Wear and tear on facility and equipment
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- ◆ Amenities at competing venues (parking, storage, food service)
- ◆ Membership categories should be clear and have mutual respect

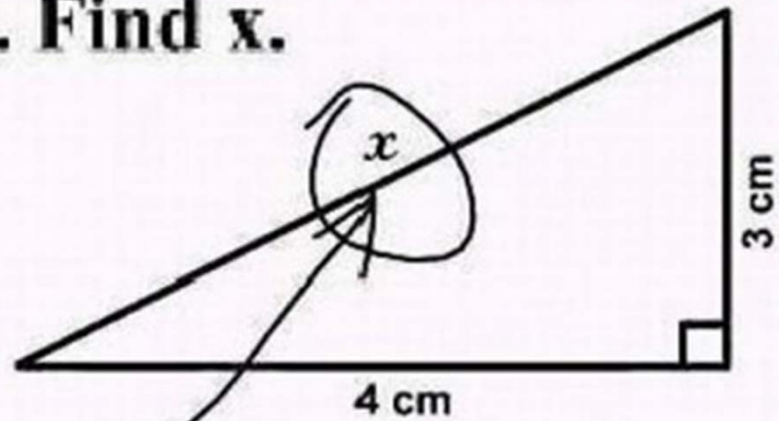
New Member Markets

◆ Possible Space Needs:

- ◆ Business office
- ◆ Fitness assessment room
- ◆ Cardio and weight areas
- ◆ Multipurpose studios
- ◆ Lockers
- ◆ Showers
- ◆ Laundry
- ◆ Café seating
- ◆ Parking

Math

3. Find x .



Here it is

If I build it will they come (enough?)

Math 1

To build 2,000 SF @ \$250 /SF = \$500,000

If I borrow that for 20 years at 7% interest, then my annual payment = \$47,200

Annual non-personnel operating costs at \$7 /SF = \$14,000

Additional personnel of 0.5 FTE @ \$65,000 including benefits = \$32,500

So my increased annual expenses are \$93,700

If I want (or need) to cover expenses at a 1.2 ratio, then I need to earn every year = \$112,440

in other words, every week, for 20 years, an average = \$2,200

How soon could I replace the funds?

Math 2

To renovate 2,000 SF @
at \$100 /SF
costs \$200,000

If I can bring in \$15,000 /year, then
I will have replenished the reserve fund by year 13

Will this work?

Math 3

To do this, do I need more space?

(Is it at peak or off-peak hours?)

Activity space:

Basketball/MAC court	no		
Diving well	no		
Tennis court	yes	6	courts
Multipurpose room	no		
Cardio & weight	no		

Amenity space:

Lockers	no		
Showers	no		
Café seating	yes	20	seats
Parking	yes	20	spaces
Check-in	no		

Support space:

Business office	no		
Admin areas	yes	5	offices
Laundry	no		
Storage	yes	250	SF
Alternate entry	yes	250	SF

How much will it cost to build?
 (Is this within a larger project or all on its own?)

Activity space:

Basketball/MAC court	no				
Diving well	no				
Tennis court	yes	6	courts	\$30,000	\$180,000
Multipurpose room	no				
Cardio & weight	no				

Amenity space:

Lockers	no				
Showers	no				
Café seating	yes	20	seats	\$250	\$75,000
Parking	yes	20	spaces	\$3,000	\$60,000
Check-in	no				

Support space:

Business office	no				
Admin areas	yes	5	offices	\$250	\$137,500
Laundry	no				
Storage	yes	250	SF	\$80	\$20,000
Alternate entry	yes	250	SF	\$150	\$37,500

capital cost \$510,000

How much rent and revenue will I need? (Will length of lease match debt term?)

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Basketball/MAC court	no				
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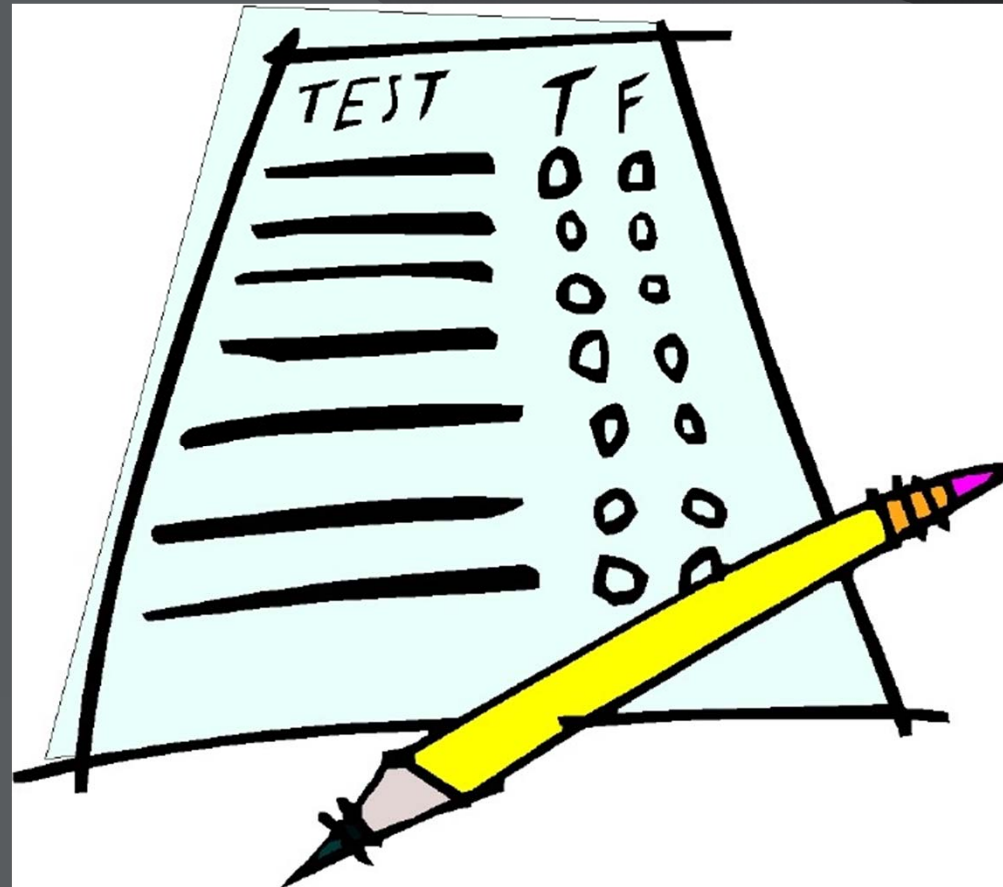
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capital cost \$510,000

interest rate	5%	term	20	debt service	\$40,924
non-personnel operating expenses				\$5.00	\$6,750
personnel expenses					<u>\$0</u>
				revenue to break-even	<u>\$47,674</u>
debt coverage ratio	1.1			revenue with coverage	<u>\$52,441</u>

Evaluation Questions



Question 1

- ◆ If community memberships are added to your college fitness center, which areas would need to be larger to recruit and retain members?

Question 1

Will more members need more space?

	<u>At peak hour?</u>	<u>At off-peak hour?</u>
Cardio	✓	
Weights	✓	
Multipurpose rooms	✓	
Fitness assessment	if not already	if not already
Lockers	✓	✓
Showers	✓	
Café seating	✓	
Parking	✓	✓
Check-in	✓	
Business office	same FTE?	Same FTE?
Admin areas		
Laundry	capacity vs. inventory?	
Storage		

Question 2

- ◆ If a \$500,000 project means a \$40,000/year debt payment, how many additional members would you need to recruit and retain if the market rate for memberships is \$500/year?
- ◆ $\$40,000/\$500 = 80$ members
 - ◆ Did you consider enough lockers for this many members in the project scope?
 - ◆ Sure hope so! But if not, look at that \$500k again.

Question 3

◆ What will drive your decision to plan one weekend of your fields as:

- ◆ A rental to a youth soccer tournament, or
- ◆ An extension to an in-house league schedule?

Rental fee

Minimum guarantees

Media coverage

Gate receipts

Security

Available restrooms

Available concessions

Parking capacity

Surface type

Length of competing leagues

League pricing structure

Concurrent programming needs

Wear and tear

Question 3

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Wear and tear

Remember



Remember

- ◆ Watch that striving for revenue doesn't backfire
 - ◆ Crowded, unreliable, poor service, broken, impersonal, inconvenient, too small
- ◆ Not everything you see is a money-maker
- ◆ Keep your core mission as your priority
- ◆ Know and negotiate for what you need
- ◆ Where there's a will, there's a way
 - ◆ If the whole team wants to make it work, the numbers have a way of finally balancing

Questions



Thank You!

If you have any questions or concerns
regarding this seminar, please contact:

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See you at the Trade Show!

Booth 241

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