

Predicting Vendor Staying Power

IMAGINE THAT YOUR CLUB IS EVALUATING NEW SOFTWARE SOLUTIONS TO HANDLE POS, MEMBERSHIP AND ACCOUNTING.

You've looked at several products, checked references, reviewed proposals and discussed the pros and cons of each vendor. Based on all of your research and analysis, you've chosen the solution that best fits your club's operations and needs. Just before you pull the trigger on the purchase, the president of the club's board asks: "What kind of financial shape is this company in? How do we know they'll be around for the long haul?"

Good Questions – and ones that deserve to be answered. But how do you go about assessing the financial viability of the software vendors? Audited financial statements would be a great start. Such statements provide an independent opinion on the company's financial condition, and point to any areas of concern. However, our experience through the years has shown that most club software vendors are unwilling to provide audited financials, citing their right to confidentiality as privately held corporations.

Fortunately, there are a number of other items that can be considered in determining the financial condition of these vendors:

Comfort Letters – Some club software vendors will provide you with a letter from the corpo-

ration's accountants indicating the over-all financial health of the organization. Generally such letters provide some basic corporate data, an indication of the overall financial condition of the company, and information on significant corporate debt.

Dun and Bradstreet (D&B) Reports – This firm provides information on millions of North American corporations. There are several levels of detail available on-line from D&B ranging from a low cost of \$29.95 for a brief summarized report to \$139.95 for a very detailed report. The detailed version is loaded with all kinds of information, including data on creditworthiness, defaults on payments, payments within terms, detailed payment history including past due amounts, historical payment trends and predictors of financial distress. Also included are public filings of lawsuits, liens, judgments and bankruptcies. Finally, the report provides "key business ratios" comparing the company to other similar organizations.

Corporate Growth - A company's growth may be a valid measure of financial viability, as long as your evaluation takes into consideration the different types of growth, and their reliability as financial viability indicators. Growth can be measured in different ways:

Sales Growth – measures the number of new club client instal-

lations over time. Generally, companies that add customers on a steady basis are more likely to be financially sound than those that are losing customers over time. However, all companies lose customers. The net growth of the company's customer base is the key factor here.

Workforce Growth/Stability – measures the company's growth and/or stability by total employee count. Generally, companies that add employees on a steady basis, or maintain a constant number of employees, are more likely to be financially sound than those that are reducing head count over time. The key measure here is growth/reduction over a number of years – not a one-time spike or reduction.

Caution: You should note that growth is not always a good indicator of profitability. For example, a mature company that has reached a plateau in sales growth is often more profitable than a younger company experiencing high growth. Such a mature company may have flat or even decreasing sales, along with a flat or decreasing employee head



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count – and still be profitable. Conversely, a new fast-growing company could be heading for disaster if start-up financing can't keep pace with growth needs. In either case, growth as an indicator of financial viability must be carefully evaluated.

Key Employee Retention – This indicator can be measured by the longevity of key corporate employees. Generally, companies that retain key employees for extended periods are more likely to be financially sound than those experiencing high turnover. For most software companies key positions include director of software development, director of training, director of customer support (might be combined with training), director of quality assurance, and to a lesser extent director of sales/marketing and executives such as the president, CEO and CFO. .

Customer Service – The quality of a company's customer service can be an indicator of financial health. Providing timely, competent customer service is costly for a software company. Customer support personnel require extensive training and resources. Companies in financial trouble may have limited funds to invest in their customer service operations. A symptom of financial stress can be a degradation in customer service levels. To determine how well a company is doing with its customer service, you should check with at least a half dozen customers of the company.

Corporate Longevity – The length of time a company has been in business may or may not be a good indicator of its staying power. Clubs are sometimes reluctant to do business with a start-up or newer company. Yet, every long-estab-

lished company had to start with its first customer and grow from there. A conservative approach might dictate that a company sporting a long track record of success would be a safe bet. Yet, we are all aware of the standard warning to securities buyers: past results may not be a predictor of future performance.

Evaluating the financial viability of a club software vendor can be a tough challenge. With limited hard financial data and a variety of other indicators that can be interpreted in different ways, there's no foolproof method for making a final determination. Of course, no amount of data can guarantee that a software vendor's financial future will be

bright. Market forces continually produce changes, which exert pressures on these companies. Some are better than others at anticipating and dealing with market dynamics. The best we can do is use all of the information available to make an educated guess on how well a particular company will perform in the future. **BR**

Bill Boothe is director of club/resort technology consulting for RSM McGladrey, Inc. one of the nation's largest business services providers. He can be reached at bill.boothe@rsmi.com or (561) 682-1638.

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Bill Boothe, Director
Club Consulting Services
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