State of Club Technology

Survival of the Fittest

by Mark Lipsitt

Just a quick poll: How many readers are happy – or even satisfied – with their club accounting/membership/POS software and vendor? In my experience with hundreds of clubs and managers, the majority of readers are less than satisfied, many even upset and disillusioned.

This situation is not a fluke and is actually caused in part by market forces. Simply put, there are far too many software vendors trying to divide up too small a market niche. Few, if any, of these vendors can reach the critical mass of client clubs required to finance the appropriate levels of research and development, quality assurance and technical support. The only way the quality of club software products and services will improve dramatically is through true Darwinism: Vendors must be eliminated based upon the simple concept of survival of the fittest.

I'm sure that I have some vendors angry at me now for suggesting their possible demise, so let me agitate club managers and controllers as well: It is the responsibility of club decision makers – at all levels within the club – to drive this evolution of the market, a responsibility that is not being completely fulfilled today. Remember, for the forces of capitalism (business Darwinism) to actually work requires action, not talking, on the part of a majority of consumers, and not simply on the part of a select few. Managers and controllers must band together and begin demanding, not asking for, the quality they expect.

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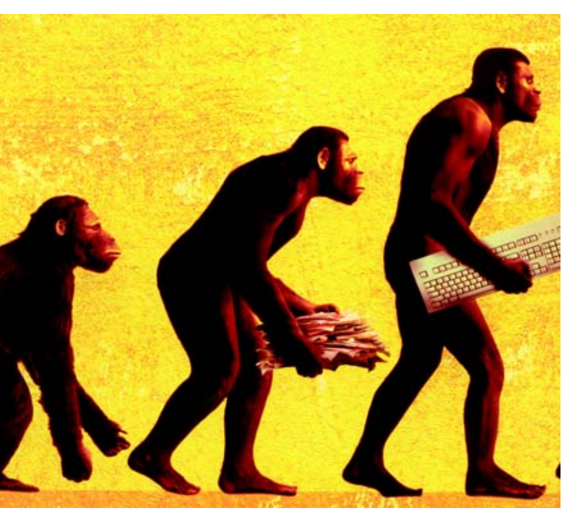

There, now I have everyone upset with me; I've said that some club software vendors must fail, and I've wagged my finger at club decision makers for not forcing it to happen. For those who stick with me, I think you'll understand and agree, so let's get into the why and how of the argument.

The Economics of Software

Today more than ever, the economics of producing high-quality software and services is based upon a model heavy in fixed cost. Designing and programming new Windows-based products is unbelievably expensive compared to the old DOS-based (text) products, and infinitely more complex to adequately test and debug. Consider the following overhead expenses, each of which is independent of the number of customer clubs a vendor acquires:

- The cost to produce a new software module is the same whether produced for two clubs or 2,000.
- The cost to adequately test a software module (quality assurance) is the same regardless of the number of clubs affected.
- The time and cost to find and reprogram a software bug is the same, regardless of the number of clubs affected.
- The cost to employ each incremental support person is fixed regardless of the number of customer clubs.
- The cost to employ each incremental salesperson is the same, independent of customer numbers.

Because of the high expense to design, program, test, distribute and support good software, vendors make very little profit, if any, from an initial software sale. The ability of the software vendors to actually improve their products and services – and have a moderate, fair profit – lies in the annual fee that each charges for license, support and enhancements. This model requires not only that they retain each customer club for a long period of time but also that they attain a sufficiently high number of customer clubs (the critical mass referred to earlier). If a software vendor cannot attract a high enough number of customers, they will not have the recurring revenue necessary to improve their products and services, but only to maintain some modicum of the existing level.

The Case for Failure

There are currently anywhere between 20 and 30 vendors – depending on how you count them – that produce some level of membership accounting software for the club market. That number needs to become more like five to six vendors, still enough to promote price/quality competition, but few enough to allow each to achieve the necessary critical mass.

As a point of comparison and the basis for the estimate above, the quantity foodservice marketplace (healthcare, schools, colleges, contract feeding and corrections) has only about five to eight key software vendors even though it is a considerably larger market than that of private clubs. Additionally, each of those vendors has revenue from $5 million to $40 million, also considerably larger than the average for club software vendors. Expectedly, the standards of quality and service in that market are also higher:

- The norm for support is a live, knowledgeable answer when you first call.
- Typically there is some level of guaranteed response time for all other support calls.
- Bugs are typically fixed in a couple of days or less.
- Quality assurance is generally very high prior to software being released.
- The training and implementation function is highly specialized, most often with a project consultant assigned to each account.

These standards are achieved because most vendors garner the necessary number of customers and therefore the recurring revenue necessary to cover high fixed costs, as well as innovate and improve.

The logical conclusion is that we must trim the number of companies in the club market so that each remaining company can achieve the necessary market penetration.

"I'm Not Going to Take it Anymore!"

Making this evolution occur is not easy and will take time and effort. Every decision maker must adhere to the following guidelines:

1 Contractually demand from new vendors the services and attributes you value most.

2 Demand that an existing vendor meet these same requirements; re-negotiating an existing contract is difficult but, again, if enough managers start talking about it the vendors will have no choice.

3 Have a willingness to walk away from a new vendor contract to get what you value. If one vendor won't give it to you, another will.

4 View software as a partnership not a purchase. Unlike buying hard goods you will be married to your software vendor for a long period of time.

5 Do not force vendors to come do a demo on a moment's notice or if you have no intention of purchasing from them. This unnecessarily and unfairly saps resources that could have been used for innovation.

6 Do not select software because the club up the street did. This perpetuates bad software and low-quality service, and effectively eliminates the effects of Darwinism/capitalism.

7 Do not place too high an emphasis on the price you pay for software. Prices now are generally reasonable, the vendors need the revenue to innovate and there is more value in negotiating other guarantees and services.

If clubs follow these guidelines en masse, the following cycle should occur.

For some period of time, most vendors will continue to resist changing contracts or providing quality and service guarantees.

Eventually, as more and more managers and consultants make the same demands, the more innovative vendors will find ways to acquiesce and comply.

Some vendors will feel that they still cannot comply and, if the above guidelines are followed, managers will stop purchasing from those vendors.

Vendors who do not innovate and provide quality guarantees will soon fail or be absorbed by their more innovative competitors.

The number of vendors will be reduced and each of the remaining vendors will have the critical mass of club customers (and therefore the recurring revenue stream) to continue to innovate, meeting managers' quality and service demands.

Price and quality competition will become the norm among a much smaller group of higher quality vendors.

> *The world belongs to the discontented.*
> *- Robert Woodruff, Coca-Cola*

The picture painted here is with a broad brush and not all vendors can be characterized the same, nor all clubs, managers or controllers. Though it is suggested that some vendors need to go out of business (or be absorbed) and that club managers haven't done enough to ensure such a Darwinesque end, the intention hasn't been to point fingers or assign blame, but to call for action. Let us remedy a situation that all clubs and most vendors would agree needs fixing.

Club managers and controllers at all levels have not necessarily known what they can expect from software vendors, and so have not demanded it. Likewise, software vendors who want to be innovative and want to provide higher quality products and services cannot because clubs continue to purchase from vendors whose products and services are inferior. Everyone will gain from the suggested shakeout and those who embrace it will certainly benefit the most.

Wielding the Forces of Capitalism

The only way that the market will change for the better, allowing for the desired level of products and services, is for club decision makers to demand it.

In prior workshops I have asked attendees to rank the most important attributes of potential club software vendors. The results are not statistically relevant because the groups have been small, but the results are telling nonetheless.

Rank	Vendor Attribute
1.	Quality of support
2.	Scope of functionality
3.	Quality assurance (few glitches/bugs)
4.	Response time of support
5.	Timeliness of bug fixes
6.	Standard database format
7.	Availability of support (hours of operation)
8.	Operating system platform (Windows, Windows NT, Novell, DOS)
9.	Continuity of vendor entity (remains in business)
10 (tie).	Quality/applicability of enhancements
10 (tie).	Availability of custom programming
12.	Frequency of enhancements

The rankings are not that surprising to anyone who has listened to the years of complaints. What is very telling, though, is that the bottom seven attributes tend to be covered in a typical vendor contract (with the exception of item No. 9), but the attributes with the most importance are typically not covered. Vendors are not willingly providing, and managers are not demanding, contractual obligations for what they value most.

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