



# Managing Tennis Business in Times of Crisis: How to Sail the Storm Without Perishing in the Attempt.

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## ABSTRACT

This article discusses different ways of controlling the situation that many tennis clubs and sport related businesses are undergoing due to the global crisis which, to a greater or lesser degree, is impacting on all levels of society. We will describe some actions, which intend to improve the economic and financial situation of tennis clubs.

**Key words:** Management, Crisis, Economy, Finance, Tennis club.

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## INTRODUCTION

We are now facing the most important global crisis since the 70's. Expansión, the Spanish newspaper, stated in February 2009: "Financial default is galloping on the back of economic deterioration and on the ups and downs of the residential market. A combination of factors that has slowed down credit and increased default on payment. ...but the worst is still to come with the expectancy of a default rate in 2009 that will, at best double".

Those of us who are involved in physical and sport activities in the service area, tennis in particular, are wondering: Are we in the middle of a huge storm in which we can do nothing? Is there a chance for us to manoeuvre? Can crisis pose an opportunity?

We will now describe some fundamentals broken down into two dimensions:

### 1.- Our club's economic position.

### 2.- Our club's financial position.

There are two ways of interpreting a crisis; as an unpredictable and cyclical endemic evil of developed countries; or as a stage on which companies must deploy their creativity and wit in order to optimize their efficiency and effectiveness. As Einstein put it, "it is insanity to do the same thing, the same way over and over again and expect different results". We have to act now; otherwise, "unless we weather the storm, it will most probably sweep us away".

But before we act, it is important to make a strict and realistic analysis of our organization in general and our products in particular in relation to the different market trends. It is necessary to make a deep analysis of our company and our executive management, avoiding a superficial analysis that leads to wrong decisions. (See Figure 1).

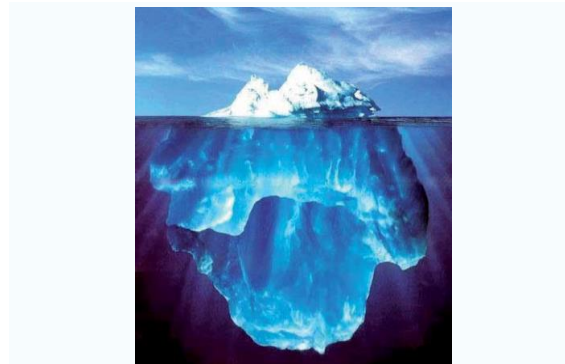


Figure 1. Reconstruction of an iceberg's real size)

## STEPS TO IMPROVE THE ECONOMIC POSITION OF OUR TENNIS BUSINESS

### a) Boost productivity

Personnel represent over 60% of the total costs in most of the sport clubs. We must optimize the productivity of every single employee. Reports show that Spain is second to last in productivity and labour competitiveness among the European

Union countries. It is the country with the longest working hours and the lowest performance per hour in EU-15.

We must, therefore, develop procedures to determine the number of people and to define their functions for the different services. We must reorganize schedules, offer simultaneous collective activities for the children and their parents leaving the evening for individual or small group lessons and the morning for elderly people, companies, etc.

**b) Reduce supply costs**

A good negotiation with your suppliers will reduce supply costs by approximately 15% (Mills, 1998). It is then very important to consider the economic benefits of short-term payment avoiding long term financing. When costs and the annual interest rate to be paid for long term financing are added, costs soar. You have to consider both general suppliers (restoration, general facility maintenance) and specific suppliers (balls, strings, racquets, and alternative equipment). Many companies have very competitive prices and we can always resort to competitors to get better prices.

**c) Towards a break even point**

In order to break even we must convert all possible fixed costs to variable costs, so as to improve our economic position. A break-even point will increase the benefits and safety of the operation. Although it is not very common, many services could be outsourced to third parties that can manage the sport activities (eg. tennis schools) as well as other services (eg. restoration, maintenance, cleaning) (see Figure 2 below).

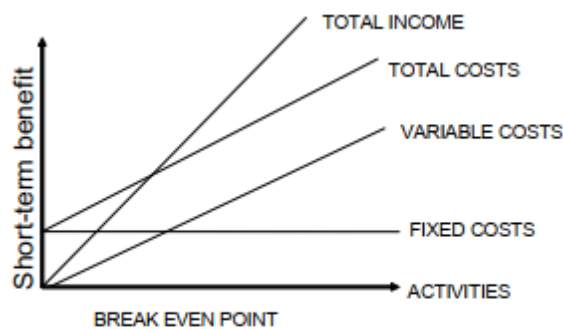


Figure 2. Towards a break even point.

The appropriate formula could be:

**Break even sales = fixed costs / 1-(Variable costs /sales).**

**d) Analyzing the efficiency of each service group**

We must analyze profitability per product group in order to know how many of them are not profitable. Generally, a tennis

club has different products, like group and individual lessons or lessons per level or age (mini-tennis, advanced, competition, adults etc) and we should know the demand and the number of players per court and per teacher. So, we can apply costs (direct, indirect and general costs) to each service group. The simplest thing to do is to start analyzing the cost per activity unit. It is of utmost importance to know the service very well and to calculate specific costs (courts, lightning, and maintenance) and general costs (changing rooms, cleaning) as well as equipment and human resources.

After analyzing the efficiency of the operation and detecting major sources of income, we must identify the profit margin of each service group (efficiency) in order to determine whether some services have to be reduced, changed, increased or eliminated to avoid keeping them unnecessarily. Mini tennis lessons are usually the most profitable service due to the student/court and student/teacher ratio.

When the service price per unit minus variable costs is positive the operation can in principle continue, if it is negative it should in principle be discontinued.

**e) Be careful with extraordinary commercial operations**

Whilst income from extraordinary operations such as special events, competitions, clinics or some forms of financial investment add value to the fiscal year results they are not a feature of the operation and therefore should not be the centre of our activity.

**Improving the financial position of our tennis business**

In order to analyze the financial situation of our club we must continuously control six general financial parameters, which are grouped in three categories (Table 1):

Table 1. Financial parameters, formula and reasonable safety ratio.

1. Short term parameters	Formula	Reasonable safety ratio
General cash	Cash assets / cash liabilities	1, 2-1, 3 or, 5 and 2 (Oriol, 2008) To settle payments for one year.
Immediate cash	(Cash assets – store and stock) / cash liabilities.	0.75 to settle monthly payments.
Treasury	(Cash assets – store and stock – commercial credit) / cash liabilities	Should not be over 0.15% and should tend to zero.
2. General parameter		
Credit worthiness	Total assets/ Total liabilities	Greater than the unit but smaller than the market value

3.Financial risk parameter	position control	
General debt	External resources / own resources	2.5 but can reach 7 and 8 points
Cancellation of the debt	Operation cash flow / debt cash flow	1.3 to 1.5

Currently, immediate cash is the key control parameter for sport clubs that have to pay off short-term debts. It is mandatory to make an appropriate financial plan for the club and translate most of the short term debt to long term debt in order to optimize our operational cash flow and maximise the safety ratio of the general cash, temporarily relaxing our organization’s financial stress

CONCLUSIONS

In the current economic situation, businessmen, managers, executives and other market stakeholders must be sensible enough to avoid running into excessive debt despite the the current low cost of money. The danger lies in thinking that market growth will automatically help credit worthiness due to the continuous growth of our assets. This has brought about mistrust in lending. As a result the real estate market has contracted, debt repayment has plummeted causing loan default and a dramatic change in the macro economic environment.

Today, although there is still a great demand for tennis school vacancies, at least in Spain, (probably as a consequence of Nadal and the Spanish Davis Cup success), the economic crisis is conditioning decision- making. Francisco de Quevedo, our distinguished writer once said: “A strong spirit is necessary to keep moderation when we are doing well”. We expect this situation will serve as a learning experience. Now, the only thing we can do is work hard and well. Good luck!

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