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Private Club Financial Performance

Raymond S. Schmidgall Ph.D., CPA
Michigan State University, schmidga@bus.msu.edu

Agnes DeFranco
University of Houston, ALDeFranco@Central.UH.EDU

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Abstract
This article reveals the median financial results for the club industry for 2011 using 24 financial ratios. The results are based on the submission of balance sheet and selected income statement numbers from 80 clubs. The ratios are reported as median results for the entire sample as well as the median results for the top and low performing clubs delineated by return on assets. The biggest differences between the two extreme groups of clubs are (1) average collection period, (2) operating cash flows to current liabilities and long-term debt, (3) fines interest earned, (4) fixed charge coverage ratio, (5) food and beverage inventory turnovers, (6) profit margin, (7) return on assets, (8) operating efficiency ratio, (9) labor cost percentage.

Keywords
private clubs, liquidity ratios, solvency ratios, operating ratios, profitability ratios, activity ratios, Beverage

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Introduction

The year 2011 marked the beginning of a new decade with hopes of a sharp upward turn of the economy, better economic indicators, and lower unemployment rates. Although unemployment rates did drop from the highest of 10% in October 2009, the monthly reported rates in 2011 were mostly at the 9.0 and 9.1 levels with the last quarter finally breaking the 9.0 mark and reported at 8.9, 8.7 and ended in December at 8.5% (Labor force statistics, Bureau of Labor Statistics, 2012). The average annual consumer price index for the year is 224.939, with no signs of slowing down (Consumer price index, Bureau of Labor Statistics, 2012).

Many club executives have been waiting patiently for the industry to rebound since its banner year in 2004. For the past seven years, the industry has been very disciplined, watching all aspects of the business, trying to satisfy the membership, marketing new services, upgrading the clubhouse, golf courses, and other athletic facilities, accounting for every cost and revenue source. While this article reports the state of the industry for 2011 with the median financial performance indicators as benchmarks, the success of some clubs being the top performers and the struggles of others being the low performers will also be highlighted in two subgroups. Their financial performance in terms of their financial ratios will be compared so as to identify why certain clubs are able to perform more successfully. In the current economy when every single dollar counts, quick dashboard benchmarks that can provide club management and executives just-in-time information to make decisions will

help provide a more stable financial picture for the operation, thereby providing longer term benefits to the members.

Need and Purpose of the Study

The need to manage a business successfully has never been more important. Even in the club industry where most clubs are still non-profit in orientation, making a profit can easily translate into reinvesting in the club for enhanced services so that members can be served better. Having an adequate reserve also means less or no assessment to members which again translates into better benefits to the membership. To ensure a business is financially healthy, club managers must set proper financial goals with their boards, then set intermediate goals with their staff, and examine their financial results in order to make proper operating decisions.

There are a number of good publications for the club business, including those of Pannell Kerr Foster (PKF) and McGladrey and Pullen LLP. They supply great operating statistics, focusing on the statement of activities (or income statement) instead of the balance sheet (Schmidgall & DeFranco, 2004). In addition, general financial ratios publications such as the Business Almanac, Risk Management Association's Annual Statement Studies (formerly Robert and Morris Associates), and Dun and Bradstreet (D&B), all code the club industry under OSHA's standard industry classification code of 7997. This code is determined by the government and covers all sorts of clubs including aviation, bridge, baseball, beach, bowling leagues, and even handball clubs as wells as country, golf, yacht, and city clubs (DeFranco and Schmidgall, 2008). Thus, a unique study for clubs most represented by the Club Managers Association of America, where our hospitality students will most likely be employed, is of value.

This study therefore reports 24 selected financial ratios for the club industry in 2011. An analysis of the financial results, in terms of similarities and differences of the top and low performers as determined by the return on assets (ROA) is also included. For this study, the top performers are those that reported in the top 20% ROA of the group while the low performers are clubs whose ROAs are in the bottom 20%. Median ratios, key balance sheet and statement of activities financial data are presented.

Literature Review

Just as in any business, the club industry needs standards and benchmarks. Benchmarks are needed for comparison so a business within an industry can compare itself to its competitors. Similarly, benchmarks can also be set internally in terms of budgets and goals for a company to gauge its performance when compared to its budgeted amounts or set goals. Benchmarking is a process started in the manufacturing industry and documented by Camp (1989) where he reported that Xerox classified benchmarking as planning, analysis, integration, action, and finally maturity. Camp also stressed that a system of continuous improvement is crucial to ensure continued success.

In the club business, the financial standards were first set over 65 years ago with the publication of the uniform system of accounts for clubs. The current seventh edition (Club Managers Association of America, 2012) was published in November 2012. Between each edition, practitioners and educators came together to provide input as to what needs to be

updated so the Uniform System is a useful tool for the industry (DeFranco & Schmidgall, 2010). The Uniform System has examples of statements and a very detailed section covering ratio analysis. The ratios that are found in most financial publications can be classified into five major categories: liquidity, solvency, activity, profitability and operating, with their uses and corresponding ratios indicated below (DeFranco and Lattin, 2007).

Category	Use	Ratios
Liquidity	ability of clubs to meet short-term obligations	Current ratio Accounts receivable turnover (times and days) Operating cash flow to current liabilities Operating cash flow to long-term debt
Solvency	potential of clubs in meeting their long-term obligations	Long-term debt to total capitalization Debt to equity Times interest earned Fixed charge coverage
Activity	indicate management's effectiveness in using the assets of the club	Food inventory turnover (times and days) Beverage inventory turnover (times and days) Golf merchandise inventory turnover (times and days) Property and equipment turnover Total asset turnover
Profitability	assist management in determining profit level	Profit margin Return on assets Operating efficiency
Operating	assist management in determining efficiency	Food cost Beverage cost Golf merchandise cost Labor cost

Ratios and financial performance are important topics and have been researched and results shared. However, it was really not until the 1980s that the industry began looking at financial and ratio analyses more closely. The body of research that started over thirty plus years ago started in the lodging business with Geller and Schmidgall (1984), Temling (1985), and Schmidgall (1988) all publishing on ratios for the lodging industry. In the early 1990s, Swanson (1991) published the first detailed research on just the liquidity of lodging firms. In 2002, Singh and Schmidgall (2002) also started their research on financial ratios in the lodging industry.

In the club area, Schmidgall first teamed up with Damitio and wrote the text Accounting for Club Operations (2001) which is a standard for the club industry, endorsed by the Club Managers Association of America. For the past nine years, Schmidgall teamed up with DeFranco and published a series of articles on club ratios, setting the first set of benchmarks in 2004 (Schmidgall & DeFranco, 2004), analyzing trends since 2007 (DeFranco & Schmidgall, 2007; DeFranco & Schmidgall, 2008, DeFranco & Schmidgall, 2009), investigating inventory practices (DeFranco & Schmidgall, 2009), and began looking at the

revision of the 2003 edition of the Uniform System (DeFranco & Schmidgall, 2010). In this body of research, one concern that has surfaced was the amount of debt that is increasing over the years (DeFranco & Schmidgall, 2009).
In addition to ratios, Schmidgall and Singh (2007) also studied operating budgets of clubs and did a longitudinal analysis from 1986 to 2006 and found that while 48 percent of clubs prepared operating budgets and had a tentative financial goal prior to starting the budgeting process, 75% of clubs focused on the bottom-line as a tentative financial goal.

The Collection and Analysis of Data

The Hospitality Financial and Technology Professionals (HFTP) is most gracious with sharing its club financial membership with the researchers for the distribution of the survey. Previous research of this type has included members from both HFTP and the Club Managers Association of American (CMAA). However, at the end, club financial professionals have ready access to the financial information, so only the membership of HFTP was sampled. The questionnaire was divided into four areas: Part I consisted of demographic questions about the club such as type, number of members and geographic location; Parts II through IV asked for the balance sheet information at the beginning and end of 2011, statement of activities figures, and statement of cash flows amounts. Ratios are then calculated for analysis.
A total of 1000 surveys were sent, with 40 returned as "undeliverable", netting a sample size of 960. A final count of 80 surveys was received, yielding a response rate of nearly 8.3 percent. The most recent statistical software SPSS version was used for data compilation and analysis. This return rate is consistent with previous surveys done in club financial analysis (DeFranco & Schmidgall, 2008, 2009a, 2009b).

Results

As mentioned, three groups of statistics will be shared: the median, top performers and low performers. After all data were collected, the Uniform System of Financial Reporting of Clubs was used as a standard, and 24 ratios were calculated and reported. In this research, while average figures were used to describe the demographic characteristics of the clubs, median figures rather than mean averages were used for financial data calculation and analysis so that the data would not be skewed by financial figures of clubs that were at the extreme ends of the data continuum. In determining the top and low performers, the ratio of return on assets is used as the delineating measurement with the clubs reporting a return on assets in the top 20% designated as the top performers and the bottom 20% of clubs designated as the low performers.

The Clubs-2011

Controllers are the top contributor of information in this study, reporting in at 77%. Chief Financial Officer came in second place at 13% followed by Director of Finance at 4%. Assistant Controllers, General Managers, Others all were at 2%, totaling the 100% (See Table 1). In the low performing clubs, all contributors are Controllers. In the top

performing clubs, 86% of the respondents are controllers, 7% are Chief Financial Officers and the other 7% are Assistant Controllers.

Regarding the types of clubs, Table 1 shows that the majority of the respondents (63%) were from country clubs, followed fairly equally by city clubs (15%), golf clubs (12%), and others (10%). The distribution of the types of clubs among the low and top performers is quite similar to the average. The low performers have 61% of the clubs as country clubs and the remaining 39% were distributed evenly with 13% each in golf, city and others. For the top performers, 62% were country clubs and the remaining were found first in city clubs (19%), golf clubs (13%) and others (6%). Therefore, if there is any difference it will be that the top performers have the highest concentration of city clubs at 19%. It can very well be that city clubs, without the management and maintenance of a golf course, may be more nimble in adjusting to the economy.

The size of the clubs in terms of membership seemed to tell a slightly different story. The 501-750 member clubs made up 28% of this study, followed by the 1,001-1,500 group at 22%. There was only 8% reported both for the very small clubs with less than 300 members and the very large clubs of over 1,500 members. However, the low performing group has 37% of their clubs with 300-500 members and another 19% each in the less than 300 category and the 501-700 category while the top performing group has a very evenly distributed pattern with 21% reported in each subgroup of 501-750, 751-1,000, and 1,001-1,500. This group also has 15% over 1,500 members and also another 15% with less than 300 members. Thus, the top performing clubs tend to have more members than the lowest performing clubs.

As for location, the top performers had 67% of their clubs in the East whereas the average was at 54% and the low performers at 50%. The top performers also have the least concentration of clubs in central United States (13%) while the low performers has 31%. All three groups have a similar percentage of clubs in western United States. Thus, one may conclude that clubs in the eastern part of the states are more profitable.

Table 1. 2011 Demographics of Respondents

	Low Performers	Average	Top Performers
Title of respondents:			
Controllers	100%	77%	86%
CFOs	0	13	7
Director of Finance	0	4	0
Assistant Controllers	0	2	7
General Managers	0	2	0
Other	0	2	0
Total	100%	100%	100%
Types of clubs:			
Country Clubs	61%	63%	62%
Golf Clubs	13	12	13
City Clubs	13	15	19
Other Clubs	13	10	6

Total		1005	100%	100%
Number of Members:				
< 300		19%	8%	15%
300-500		37	19	7
501-750		19	28	21
751-1,000		0	14	21
1,001-1,500		19	22	21
> 1,500		6	8	15
Total		100%	100%	100%
Location of Clubs in US:				
East		50%	54%	67%
Central		31	25	13
West		19	21	20
Total		100%	100%	100%
Profit Orientation:				
For Profit		25%	13%	0%
Non Profit		75	85	94
Others		0	2	6
Total		100%	100%	100%

The profit orientation of the clubs perhaps is the one characteristic that is most ironic. While 25% of the low performers are for profit, only 13% of all respondents are for profit and none of the top performers are for profit. Thus, the profit orientation seems to have an inverse effect in the financial performance of the clubs in 2011.

Key Ratios

Twenty-four ratios are calculated this section. The median, together with the top and bottom 20% clubs, is reported as three groups in order to provide management with more insight and comparison points.

Liquidity Ratios

Liquidity ratios focus on a club's ability to pay its bills in the short-run. All ratios presented include numbers from the balance sheets of the clubs.

Current ratio = current assets / current liabilities.

A 1.0 current ratio means a club has the exact amount of current assets to cover and pay off its current debts. As seen in Table 2, the median current ratio was 2.00 for 2011, the top performers were at 2.10 while the low performers were at 1.43. Therefore, all clubs appear to be managing their short-term obligations well, even when some are struggling with their profitability which will be discussed later.

Accounts receivable turnover = total revenues / average accounts receivable (times and days)

The nature of the club industry is that little cash is paid by members as the club provides goods and services. Clubs generally bill members at the end of the month services are provided and members have until the end of the following month to pay. Therefore, accounts receivable for clubs are often significant.
Accounts receivable turnover can be measured as a number in times or by days. They work together to measure the speed of conversion of accounts receivables into cash, in other words, how fast clubs collect money that is owed to them. A median of 10.38 (35 days) was better than the 9.66 (38 days) reported in the banner year of 2004 (DeFranco & Schmidgall, 2008). This is great news. The top performers showed a 11.33 ratio which translates to an average collection period of 32 days, just slightly over a month. The low performers were behind the leaders, extending credit for a week more at 39 days with a ratio of 9.45. This low ratio can use some improvement as it will hinder the clubs' cash position, especially in tough economic times and thus needs to be closely monitored to see if certain policies can be improved.

Operating cash flows to current liabilities = operating cash flow / average current liabilities
This liquidity ratio has a median of 0.28. This means $0.28 of cash flow generated from operations (not by investing or financing activities) were provided by the club for payment toward each $1 of current debt. The top performers reported in at $0.42 while the low performers only reported a level of $0.11. The difference of this ratio between the top and low performing clubs is significant.

Solvency Ratios

Solvency should be evaluated from both balance sheet and income statement perspectives. Solvency ratios reveal the ability of a club to pay its bills in the long-run. Three essentially balance sheet ratios and two income statement ratios are presented.

Operating cash flows to long-term debt = operating cash flows / average long-term debt

This first solvency ratio is very similar to the last liquidity ratio discussed except it looks at a club's ability to pay its long-term debt. The short-term version has a median of $0.28 but the long-term version only showed a median of $0.10. The top performers showed $0.25 in the long-term version, while the low performers only reported a 0.05 ratio, meaning they only have $0.05 of operating cash flow to cover each $1.00 of long-term debt. Creditors do scrutinize solvency ratios when approving loans and such low ratios do not hold high promise especially for the low performers.

Long term debt to total capitalization = long term liabilities / (total long-term liabilities + total members' equity)

This second solvency ratio measures a club's long-term debt to its total capitalization. Thus, this is one of the few ratios where a smaller number is better as it signifies less debt incurred by the club and creditors prefer a lower ratio than other users of financial ratios. The 0.25 median means for every $1.00 of the clubs' long term debt and members' equity, $0.25 was financed by long-term debt. The top performing clubs reported

a 0.20 ratio meaning only 20% of the capitalization was financed by long-term debt, while the low performing clubs had a higher long-term debt ratio at 23%. Thus, the difference of this ratio between the top and low performers is minor.

Debt-equity ratio = total long-term liabilities / total members' equity

For 2011, the debt-equity ratio of the club industry was at 0.32. The difference between this ratio and the last one is that this one measures total debt as compared to equity only whereas the last one only looks at long-term debt and the total capitalization which is debt and equity combined. Thus, this ratio is a stricter measurement of debt level. Similarly, a smaller number is desired. The median of 0.32 showed that the median club had $0.32 debt to each $1.00 of equity. The low performers were at 0.30 and the top performers were at 0.25. It appeared that when clubs were ranked according to their return on assets, both low and top performing clubs were better than the median.

Times interest earned (TIE) = (net income + interest expense) / interest expense or = EBIT / interest expense

The TIE ratio measures the number of times a club can cover its interest payment obligation with its earnings before interest and tax. In previous years, the median club had TIEs from less than 1.00 to over 1.50 (DeFranco & Schmidgall, 2009b; DeFranco & Schmidgall, 2008). In 2011, this ratio was reported at 1.41. This means the median club had only $1.41 of earnings before interest and tax to cover every $1.00 of interest payment obligation. The top performers, with less debt (as seen in the previous ratios) reported a high TIE of 64.06, meaning they could pay their interest expense 64 times over. However, the lower performers were not as fortunate. Their TIE was -3.74. This means that they were not able to cover their interest obligations as they had a loss prior to their annual interest expense such that the loss was 3.74 times their interest obligation.

Fixed charge coverage (FCC) = (net income + interest expense + rent expense) / (interest expense + rent expense)

The fixed charge coverage is very similar to the TIE but it also includes the effect of rent expense. When rent is added to both the numerator and denominator of the TIE ratio, the median decreases to 1.15 and the top performers reported at 7.83 times while the low performers, still at a negative number, were at -0.24. Solvency from an income statement perspective as shown by both the TIE and FCC ratios are a real challenge for the low performers. Overall, the low performers do not have the profitability to handle their interest and rental expense.

Activity Ratios

Activity ratios measure management's ability to use assets entrusted to it to provide services and generate profits. Five activity ratios are reported.

Food inventory turnover = cost of food used / average food inventory (times and days)

For the year 2011, a 17.86 times food inventory turnover was reported as the median. When this number is divided into 365 days a year, on the average, food stayed 20 days as inventory before it was sold. One might expect the top performers to have a higher turnover ratio, keeping food in the club for a shorter period of time. Indeed, their ratio was at 19.54 or 19 days, just one day better. However, the low performers reported in at 13.74 times or 27 days. One extra week per cycle adds up to many weeks per year. Thus, the low performers should investigate their food inventory management practices and take appropriate steps to improve.

Beverage inventory turnover = cost of beverage sold / average beverage inventory (times and days)

The median beverage turnover was at 3.29 times or 111 days. While this is quite consistent with previous years (DeFranco and Schmidgall, 2007; DeFranco and Schmidgall, 2009b), the top performers reported a very low ratio in 2011 at only 1.43. In other words, they held their beverage inventory for 255 days. The low performers were at 2.12 times or 172 days, better than the top performers in this category. While there may be reasons why the clubs had to hold on to the beverage inventory, it appears to be good practice for each club to review their beverage inventory practices, including their purchasing and storage procedures to ensure that the clubs are not necessarily tying up funds in inventory which can otherwise be spent more wisely. Past research by these researchers has revealed that many clubs have extensive wine inventories. This could well be the reason the top performers have such a relative large beverage inventory.

Golf inventory turnover = cost of golf merchandise sold / average golf merchandise inventory (times and days)

Similar to the previous two ratios, this ratio measures the golf merchandise turnover. This ratio is expected to be much lower than food or perhaps similar or just slightly below beverage inventory turnover as we are looking at golf equipment, accessories, and clothing which are not perishable items. The median was at 1.91 times or 191 days. The top performers reported in at 2.88 (127 days), and even the low performing group beat the median at 2.38 times or 153 days; thus, both the top and low performing clubs beat the median numbers.

Property and equipment turnover = total revenues / average net fixed assets

The property and equipment turnover indicates how well a club uses its fixed assets to generate revenues. Therefore, a higher ratio is preferred. In 2011, the median was 0.68, which means for every $1.00 of net property and equipment, a median club was able to generate $.68 in revenues. Although the top performers are better in their return on assets, their revenue generation statistics were not overly impressive. The top performers were only able to generate $0.77 and the low performers were only able to generate $0.63.

Total asset turnover = total revenues / average total assets

This ratio takes the last ratio further as it measures not just property and equipment but all assets. In other words, this ratio measures the effectiveness of using all assets in a club to generate revenue. The median of 0.50 means for every dollar of total assets, the clubs were able to generate $0.50 in revenues for each $1.00 of total assets. The top performers were able to generate a bit more at a rate of $0.60 while the low performers were only one cent behind the median at $0.49. These numbers can surely use some improvement. Thus, the club industry may want to evaluate their revenue generating ability.

Profitability Ratios

Profitability ratios will clearly reveal a separation between the top and bottom financially performing clubs. Three profitability ratios are included. Profit margin focuses on the bottom line (net income) and the top line (total revenues). ROA compares the net income to the average total assets while the operating efficiency compares the income the GM is responsible for to total revenues.

Profit margin = net income / total revenues

The profit margin of the median club of only 0.5% was much less than the top performers at 12.6%. The low performers, at a loss, reported a negative profit margin of 8.8%. Thus, overall, the profitability of the club industry in 2011 was not positive. Yet, the top performers did reasonably well!

Return on assets = net income / average total assets

The median return on assets was at 0.2%, which translates to only two cents of net income to each dollar of assets. The difference is very pronounced between the top and low performers where the top performers reported in at 7.6% and the low performers were at a loss of -4.3%. In the activity ratios, it was evident that the low performing clubs were not able to generate a high level of revenues and in the last two ratios measuring profitability; it also appears that these clubs are having a difficult time to generate profits.

Operating efficiency ratio = income before fixed charges / total revenues

This final profitability ratio measures the effectiveness of management better than the other two profitability ratios because it considers income before fixed charges rather than the net income. Normally, fixed charges such as interest, depreciation and rent result from decisions made by the board of directors in which management does not have much control. The 2011 median response is 18.0%, the top performers' response is 32.2%, and more interestingly the low performers' have a positive result of 16.9% which indicates the fixed charges are posing some serious challenges for the low performers. From this perspective, the top performing clubs do nearly twice as well as the low performers.

Operating Ratios

Operating ratios focus on the day-to-day expenses of a club. The largest expense of clubs is always labor. In addition, this research also considered to various cost of sales as a percentage of the related revenues.

Food cost percentage = cost of food sold / food sales

The first three ratios in this category are complementary ratios to the inventory turnover ratios in the activity category. It would be prudent to view them as a group. The 2011 median food cost percentage was at 39.1%, with the top performers at 33.0% and the low performers at 38.4%. When viewed with the inventory ratios, while it appears the low performers were holding on to their food inventory longer, they were at least keeping the food costs relatively low compared to club industry average.

Beverage cost percentage = cost of beverages sold / beverage sales

The median beverage cost percentage was at 31.8% with the top performers at 29.1% and the low performers at only 28.3%. Again, the low performing group was doing its best to try to use cost management techniques to compensate for the inventory management challenges. A beverage cost of less than 30% for the low performing group is most commendable.

Table 2. Comparison of Key Financial Ratios of Top and Lower Performers in 2011

	Low Performers	Median	Top Performers
Liquidity Ratios			
Current Ratio	1.43	2.00	2.10
Accounts Receivable Turnover	9.45	10.38	11.33
Average Collection Period	39 days	35 days	32 days
Operating Cash Flows to Current Liabilities	0.11	0.28	0.42
Solvency Ratios			
Operating Cash Flows to Long-term Debt	0.05	0.10	0.25
Long-term Debt to Total Capitalization	0.23	0.25	0.20
Debt-equity Ratio	0.30	0.32	0.25
Times Interest Earned	-3.74	1.41	64.06
Fixed Charge Coverage	-0.24	1.15	7.83
Activity Ratios			
Food Inventory Turnover			
a. Times	13.74	17.86	19.54
b. Days	27 days	20 days	19 days
Beverage Inventory Turnover			
a. Times	2.12	3.29	1.43

b. Days	172 days	111days	255 days
Golf Merchandise Inventory Turnover			
a. Times	2.38	1.91	2.88
b. Days	153 days	191 days	127 days
Property & Equipment Turnover	0.63	0.68	0.77
Total Asset Turnover	0.49	0.50	0.60
Profitability Ratios			
Profit Margin	-8.8%	0.5%	12.6%
Return on Assets	-4.3%	0.2%	7.6%
Operating Efficiency	16.90%	18.0%	32.2%
Operating Ratios			
Food Cost Percentage	38.4%	39.1%	33.0%
Beverage Cost Percentage	28.3%	31.8%	29.1%
Golf Merchandise Cost Percentage	60.9%	37.8%	50.2%

Cost of golf merchandise percentage = cost of golf merchandise / golf merchandise sales

The cost of golf merchandise median percentage in 2011 was at 37.8%. The top performers reported a high percentage at 50.2%, and the low performers had the highest at 60.9%. This ratio had been managed well in the past year and the median of 37.8% showed was a great indicator. However, when clubs were ranked by their performance by their return of assets, their much higher cost percentage was not expected.

Labor cost = cost of labor / total sales

Labor cost is the highest cost in the club industry. The median of less than 50% at 46.6% was most commendable. The top performers' 41.1% was another reason for their relatively high net income level while the 48.1% for the low performers did not leave much to flow to the net income. Thus, club management especially for the low performers may also want to look into scheduling or training to see if some savings can be realized.

Key Balance Sheet and Statement of Activities Data Differences

Ratios are invaluable resources and can act as benchmarks for dashboards indicating the relationships between one account and another within and across different financial statements. Thus, utilizing the guidelines in the Uniform System of Financial Reporting for Clubs, information about key balance sheet and statement of activities accounts were collected, and ratios were calculated, and reported. However, it is also interesting to look at the raw data itself and compare the differences between top and low performing groups, to see if certain patterns exist that perhaps club managers can be alerted. Therefore, besides analyzing the set of twenty-four ratios, it is also wise to analyze the key dollar amounts in the financial statements.

Table 3 summarizes the balance sheet key accounts information for both top and low performers. The averages are medians and therefore will not add to a total and only selected amounts are shown. The dollar difference and percentage difference are also

presented between the low and top performing clubs. In terms of current assets, the top performers carried almost 65% more cash than the low performers at the end of the year. It is also expected that since the top performers have clubs of all sizes and the low performers are largely smaller clubs, the top performers would have a larger balance in account receivables and inventories. Although it is true in the case of accounts receivables and beverage inventories, it is not so for food. The top performers are able to carry about 19% less in food inventory which amounts to around $7,000 at the end of the year.

Table 3. Key Balance Sheet Financial Data Differences End of 2011 (Medians)

	Median	Low Performers	Top Performers	$ Change	% Change
Cash	$946,547	$741,938	$1,220,828	$478,890	64.55%
Accounts Receivable	737,000	673,417	823,525	150,108	22.29
Food Inventory	31,400	36,102	29,243	<6,859>	-19.00
Beverage Inventory	55,718	45,444	153,003	107,559	236.68
Total Current Assets	2,404,860	1,416,244	3,664,000	2,247,756	158.71
Total Fixed Assets (net)	11,248,400	9,221,517	12,843,954	3,622,437	39.28
Total Assets	16,150,224	12,055,438	16,630,348	4,574,910	37.95
Total Current Liabilities	1,199,584	988,139	1,745,468	757,329	76.64
Mortgage Payables Long-term	3,030,724	3,370,442	859,810	<2,510,632>	-74.49
Total Liabilities	3,917,984	2,440,296	3,068,148	627,852	25.73
Total Members' Equity	11,787,947	8,171,854	11,214,687	3,042,833	37.24

But overall, current assets of the most profitable clubs are 159% greater than the least profitable clubs. As expected the net fixed assets of the top performers are almost 40% greater than the least profitable clubs. This is no surprise as the average club for the top performers is larger than the average club for the bottom performers.

A major point of concern is the debt level of the low performers. This was already revealed in the ratio analysis. However, looking at the raw data in dollar amounts, the low performers were carrying over $3.3 million in mortgage payables while the top performers were carrying just over $850 thousand. The difference is huge. These mortgages do not only mean more debt but also translate into higher interest payments.

The Statement of Activities data can be found in Table 4. As expected, the top performers generate almost $3.40 million more in annual revenues than the low performers with the majority of such coming from dues ($1.86 million). In general, the top performers received 71% more in dues, generated 120% more in beverage and almost 160% more in golf pro shop sales. However, the top performers also have greater costs than the low performers. The top performing clubs have 33.8% more in payroll ($3.87M versus $2.89M).

Table 4. Key Statement of Activities Financial Data Differences in 2011 (Medians)

	Median	Low Performers	Top Performers	$ Change	% Change
Total Dues	$3,728,204	$2,628,721	$4,490,374	$1,861,653	70.82%
Total Food Sales	1,403,647	1,260,345	1,689,650	429,305	34.06
Total Beverage Sales	556,662	354,691	779,107	424,416	119.66
Total Golf Pro Shop Revenues	580,803	336,261	870,412	534,151	158.85
Total Initiation Fees	490,000	286,034	674,717	388,683	135.89
Total Revenues	7,587,519	6,001,063	9,397,209	3,396,146	56.59
Cost of Food Sold	548,336	483,427	557,812	74,385	15.39

Cost of Beverage Sold	117,207	100,531	226,851	126,320	125.65
Cost of Golf Merchandise Sold	219,711	204,671	436,894	232,223	113.46
Total Payroll Expenses	3,536,646	2,888,102	3,865,169	977,067	33.83
Interest Expense	87,255	111,748	18,776	<92,972>	-83.20
Depreciation Expense	781,744	762,139	1,152,000	389,861	51.15
Rent/ Lease Expense	149,346	314,327	154,469	<159,858>	-50.86
Property Insurance Expense	112,000	90,974	173,127	82,153	90.30
Real Property Tax Expense	175,533	163,057	311,425	148,368	90.99
Utilities Expenses	306,994	231,174	260,928	29,754	12.87
Total Net Income	35,874	<529,694>	1,183,998	1,713,692	323.52
Total Operating Cash Flows	368,452	103,919	752,000	648,081	623.64

When one looks at the interest and rent expenses, the top performers have much lower interest expense ($18,776 versus $111,748) and also much less in rent/lease ($154,469 versus $314,327). The low performing clubs were clubs with fewer members so these clubs do not have the membership base to be able to generate the corresponding desired level of revenues. In addition, these clubs had higher fixed costs of interest and rent/lease expenses. It is therefore not surprising that the low performers logged in a loss of almost $530,000 as opposed to the top performers earning an income of over $1.18 million and the top performing clubs generated over six times the operating cash flows of the low performers.

Lessons Learned to Move Forward

Ratios by themselves are a good tool. Statement analyses by themselves also provide interesting information. Putting the two together, certain assumptions can be confirmed as the numbers start to tell a story. With these tools combined, the 2011 financial picture of the club industry is clearer. The industry as a whole is holding its ground but many clubs are still struggling. The general state of the economy is not showing very strong signs. Unemployment rates, if they are to improve, will only drop to the 7% range which is still not the 4%-5% in early 2000s. There is still a long way to go.

Nothing in business in today's world comes easy. Every penny saved is a penny earned. The top performers should not sit on their laurels and be content with their status. The business picture can change very quickly. For clubs that are tied to community development, as residents move in and out, the level of revenues will change. For city clubs that may be tied more to business memberships, as the economy changes, so will the membership. Even for regular country clubs, when the middle class members lose their jobs, their spending will need to be cut and $500 to $1000 per month membership dues suddenly become a burden. So, what can clubs do in the next several years to stay competitive and serve their membership well?

Takeaways

First, the top performers need to stay their course. Whatever they did in 2011 seemed to be working well. So, before making any rush judgment, it is prudent for clubs whose ratios and statement information bear good resemblance to this group to continue to do business the way they did. This does not mean that no change is ever needed. This simply means thinking before acting – and use the financial data as "reasons and justifications" to take or not to take actions.

Second, the low performers did beat the high performers in a couple of areas. They have significantly less beverage inventory (just over one-third) of the top performing clubs. Further, the less profitable clubs have a slightly lower cost of beverage percent than the most profitable clubs.

Third, the fixed charges are really posing many challenges to club managers in the low performing group. Therefore, if you believe that your fixed charges are higher than the majority and are hurting your ratios and profitability, you may want to investigate to see if loans can be refinanced or leases can be negotiated and take the alternatives to the board for consideration.

Fourth, if your club is losing membership, try new membership drives. Many clubs who have lost members can contact such members to welcome them back without a reinstatement fee. Giving up a short-term fee may bring the club more long-term gains. This is especially good for members who might have left the club due to their loss of employment. When they are once again employed, the re-joining of the club may not be too much of a financial burden.

Fifth, many clubs are trying out new forms of revenue generating ideas which may lead to new membership. For instance, some clubs are sponsoring more fitness classes, dance classes, yoga classes, spin classes, and open enrollment in these classes to non-

members at a higher rate, hoping to then sign up new members perhaps first for athletic membership, then a social membership, and finally a full membership.

Sixth, communication with all staff members is still an important key to success. These ratios and numbers can be intimidating to many outside the accounting office. Thus, it behooves the chief financial officer, director of finance, or the controller to prepare a dashboard report with some, if not all, of these 24 key ratios on a monthly basis. Communicate these numbers in the form of charts and tables rather than in statement forms. Post those charts in the employee break area or in places where employees often congregate.

Seventh, be vigilant in comparing budgeted to actual numbers. A selected group of ratios, such as cost percentages, can even be compiled on a weekly basis so that results can be compared to the budget and then communicated to all so that corrective actions can be taken before it is too late.

Eighth, don't just share – involve! It is also wise to post key indicators of the budget and again monitor those indicators and share with all employees. However, get the employees involved, too. Ask them for revenue generating ideas or cost savings ideas and set those goals with them. If an idea from an employee is chosen, award the employee with a small token of appreciation. When that same idea hits the goal of revenue enhancement or cost reduction, award that employee with a bigger recognition. All these help to build team spirit as well.

From Industry to Education

All the above points can be reinforced and taught in hospitality accounting and club management courses. Educators are engaging students more in active learning. Perhaps professors can incorporate some of the above takeaways as projects in class. Ask a club in your area to share a set of their financial statements. Obviously, names can be deleted or changed in case the clubs are sensitive about sharing financial information. Nothing makes the students more willing to learn if they see an actual set of financial statements rather than one from a textbook. It is through continuously challenging our students that we are able to produce the next generation of hospitality leaders.

Limitations

Like many survey studies, this study reflects the results of the respondents which was only 8.3% of the clubs surveyed. The questionnaire requests numerous actually financial figures and as in the past several years many club financial executives appear to be reluctant to provide their results. Still 80 clubs results are provided which yields some very interesting and useful financial information. A greater response could possibly enable the calculation of ratios by type of club.

Future Research

Future research could be focused on other ratios especially operating ratios. In addition businesses in other industry segments such as lodging, spas, and foodservice could be surveyed to determine similar ratios focusing primarily on balance sheet numbers. The results would be useful for managers as few studies have focused on balance sheet ratios especially at the property level.

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