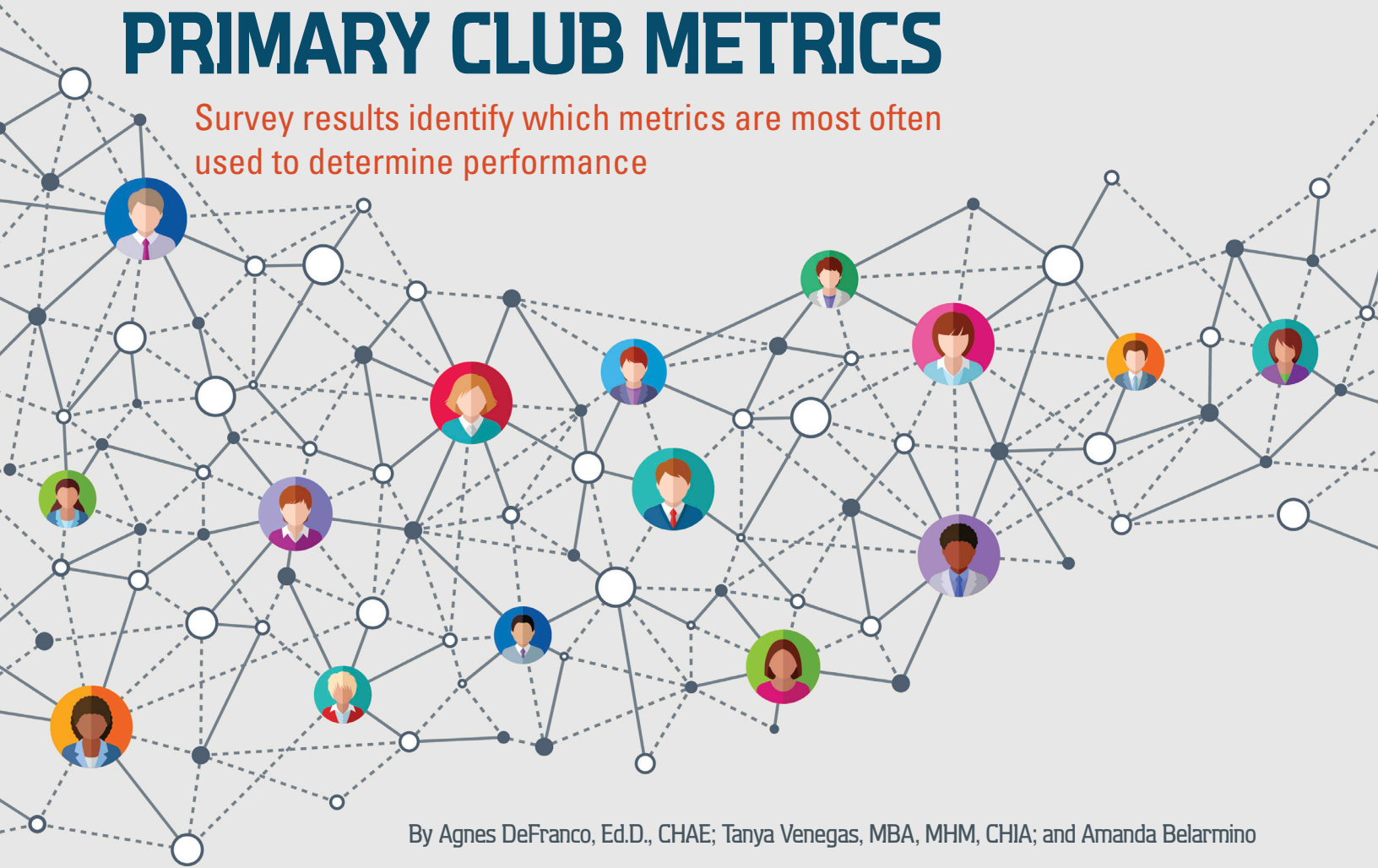


PRIMARY CLUB METRICS

Survey results identify which metrics are most often used to determine performance



By Agnes DeFranco, Ed.D., CHAE; Tanya Venegas, MBA, MHM, CHIA; and Amanda Belarmino

Respondents named the top three ratios used for analyzing performance were food cost, labor cost and current ratio.

To break it down into its basic definition, a **metric** — according to the *Meriam-Webster Dictionary* — is simply a standard of measurement. Businesses often determine their success or failure within their given industry based on measurements: by comparing their financial and operational metrics to those of their competitors. In the club industry, there are a myriad of different measurements that club managers and board members can use to analyze their organization, such as ratios, revenues and expenses.

In order to determine the most used metrics in the club industry, the HFTP Americas Research Center developed a survey, which was then distributed to club members of HFTP Global. In total, 45 respondents participated in the survey, with the majority from the United States, as well as three from Canada and one from Mexico. Within the U.S., Florida, California and Pennsylvania were the states which had the most responses.

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Participating Club Types

Regarding the type of clubs represented by survey participants, 60 percent of the responses were from country clubs. Golf clubs (13 percent) and city/athletic clubs (11 percent) combined accounted for just over a quarter of the responses. Other clubs such as gated community country clubs, CIRA, tennis and yacht clubs were also represented. More than 93 percent of the clubs are member-equity clubs, with the remaining 7 percent being part of a corporation. Although 89 percent are not-for-profit, only 65 percent are not taxable, while the other 24 percent are taxable.

Club Membership Size

Clubs with 501 to 750 members submitted the most responses at 34 percent. Clubs with 250 to 500 members came in second at 20 percent, closely followed by clubs with 751 to 1,000 members at 18 percent. Clubs with more than 1,000 members were also well-represented, with 14 percent reporting between 1,001 and 2,000 members, and 11 percent reporting more than 2,000 members.

Reported revenues reflected the size of clubs. With most clubs in the mid-size to large membership status, 56 percent of the clubs had revenues from \$5,000,001 to \$10 million, while another 36 percent reported more than \$10 million in annual revenues.

Club Membership Types

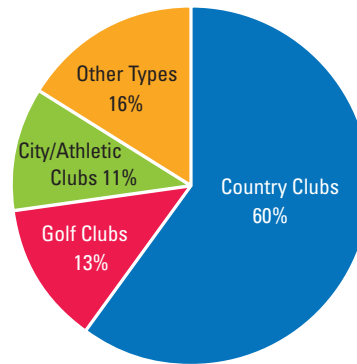
As well as understanding club size based on membership and revenue levels, it is also important to include the types of membership.

To that end, respondents were asked to check all of the membership types offered at their club, which resulted in a total percentage well over 100 percent. In particular, over 93 percent of the clubs offer regular memberships, 71 percent offer junior memberships, 65 percent offer senior memberships and another 65 percent offer social memberships. Other memberships with multiple mentions include tennis and/or fitness, non-resident widow/spouse, associate, and military/government memberships. Categories including clergy, honorary, retired, super senior and legacy were also cited in the survey results. A number of respondents are from exclusive clubs, as over 31 percent indicated that there is a waiting list for club memberships at their property.

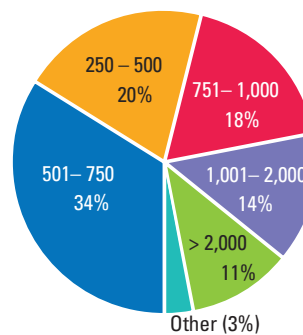
Financial Ratios

Financial ratios can be roughly divided into five categories. In the club industry — per the *Uniform System of Financial Reporting for Clubs (USFRC), 7th Edition* — they are liquidity, solvency, activity, operating and finally, membership ratios. Although the vast majority of clubs are not-for-profit, and there is not a category for profitability ratios as in other businesses,

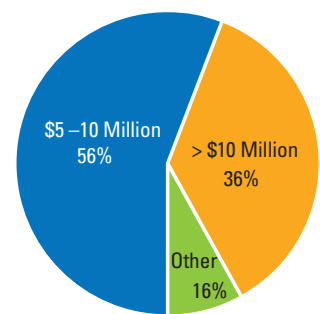
TYPES OF CLUBS



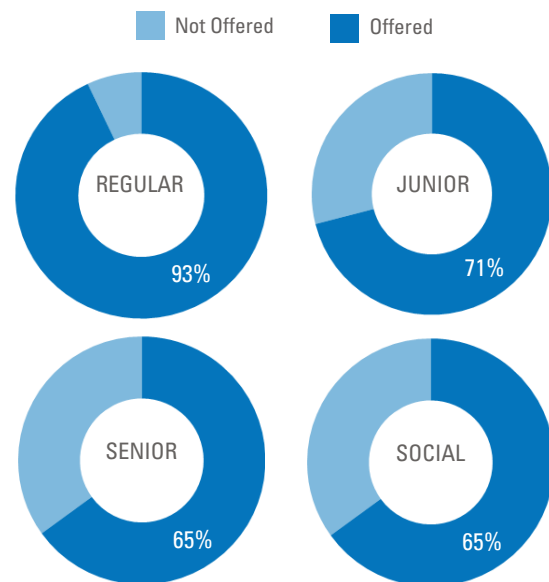
NUMBER OF MEMBERS



REVENUES REPORTED



MEMBERSHIP TYPES OFFERED BY CLUBS



the profit margin ratio is included under the operating category. In this case, the profit margin ratio indicates the ability of management to increase revenues, reduce expenses and increase the net assets of the club.

Top Ratios

To ensure the survey was not priming or leading club executives regarding their perceptions of financial ratios, the respondents were first asked to identify the top five ratios they found most useful in evaluating the operations of their clubs, before going into each type to rate their usefulness.

The top three ratios that were named as the respondents' number one designation, in order: food cost, labor cost and current ratio.

When all five designations were tallied, labor cost received the most votes (17.22 percent), followed very closely by food cost (10.05 percent), and then cost of golf (5.74 percent).

When the ratios are grouped, all other cost-related ratios rose to the top. These include the cost of goods sold and alcohol/beverage costs, followed by other food and beverage ratios, such as restaurant covers, average covers, food and beverage loss per dollar, food and beverage gross margin, food per round of golf, and banquet income.

Profitability ratios and membership ratios also made up a sizeable percentage of the top ratios used. Some of the profitability ratios include: gross profit margin, net profit, cash flow and profit to sales. Membership ratios include dues, member spending (or member sales), member attrition, member utilization of various services, tennis

tournament participation, member visit per month, guest counts per member, cost per member, and, of course, various satisfaction indices. Indeed, club executives are examining their operations, and some also mentioned using these ratios to compare with industry benchmarks.

After identifying the five ratios most often used, club executives were then asked to examine the ratios by type, and note whether they calculate and evaluate the ratios; and, if so, to check all of the purposes for which the ratios were calculated: managerial/operations, audit, finance, committee, bank (financial institutions) or other external users.

Liquidity Ratios

Six liquidity ratios indicating the clubs' ability to meet their short-term obligations were presented: current, acid test, accounts receivable turnover, average collection period, days revenues outstanding and operating cash flows to current liabilities.

Over half of the respondents indicated that they use the current ratio, and over a third of the respondents also calculated accounts receivable turnover, both times and days, and also the operating cash flow to current liabilities ratio.

The acid test ratio was only used by 23.40 percent of the respondents, and the least used liquidity ratio was days revenue outstanding (19.15 percent). Additional comments shared by club executives showed that some clubs were not calculating any liquidity ratios because their clubs had very little debt. One club also used cash on hand divided into long-term liability as a ratio, which crosses both the liquidity (as cash is in the current asset section of a balance sheet) and solvency (as long-term debt is not in the current liability section of the balance sheet) categories to further analyze its ability to cover its debt service.

LIQUIDITY RATIOS

TYPES

CURRENT

Current assets/current liabilities

ACID-TEST

Quick assets/current liabilities

ACCOUNTS RECEIVABLE TURNOVER

Total revenue/avg accounts receivables

AVERAGE COLLECTION PERIOD

Days in year/accounts receivable turnover

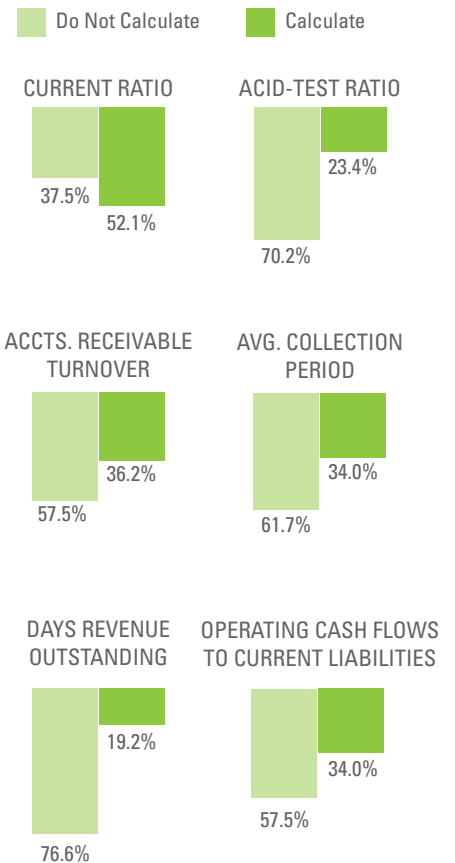
DAYS REVENUES OUTSTANDING

Avg accounts receivable/avg daily revenue

OPERATING CASH FLOWS TO CURRENT LIABILITIES

Operating cash flows/average current liabilities

RECORDED RATIO USAGE



Liquidity ratios continued on page 4.

TOP PRIORITY RATIOS

Among Individual Respondents



Purposes for Liquidity Ratios

Current Ratio		Acid-Test Ratio		Accounts Receivable Turnover		Average Collection Period		Days Revenues Outstanding		Operating Cash Flows to Current Liabilities	
25.0%	18.8%	14.9%	8.5%	25.5%	17.0%	29.8%	6.38%	17.0%	4.3%	19.15%	10.6%
22.9%	22.9%	14.9%	4.3%	14.9%	2.1%	12.8%	0.00%	6.4%	2.1%	17.02%	6.4%

Solvency and Capital Ratios

Solvency and capital ratios provide their users insight into how well a club can meet its long-term obligations.

A total of eight ratios were shared with the respondents: solvency, debt-to-equity, capitalization, net available capital to operating revenue, times interest earned, fixed charge coverage, operating cash flows to total liabilities, and cash flow to capital expenditures.

As with liquidity ratios, all of them recorded usage from the respondents. The most often used were sol-

vency and debt to equity (each at 32.42 percent) followed by operating cash flows to total liabilities (29.17 percent) and cash flow to capital expenditures (27.08 percent). The least used were times interest earned and fixed coverage, both recorded at only 8.33 percent. This may be due to the low or no level of debt in some clubs — three clubs stated that they did not calculate any solvency ratios, as there was no long-term debt or no debt at all in their clubs.

TYPES

SOLVENCY

Total assets/total liabilities

DEBT-TO-EQUITY

Total liabilities/total members' equity

CAPITALIZATION

Long-term debt + members' equity

NET AVAILABLE CAPITAL TO OPERATING REVENUE

Net capital available/operating revenue

TIMES INTEREST EARNED

(Increase in net assets + interest expense/interest expense)

FIXED CHARGE COVERAGE

(Income before income tax + interest expense + lease expense)/(interest expense + lease expense)

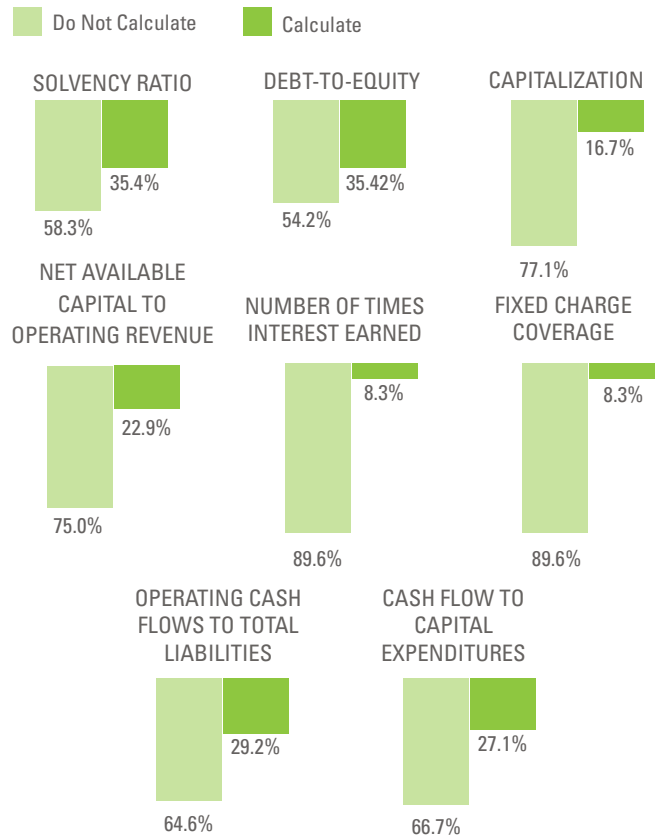
OPERATING CASH FLOWS TO TOTAL LIABILITIES

Operating cash flows/average total liabilities

CASH FLOW TO CAPITAL EXPENDITURES

Cash flow from operations capital expenditures

RECORDED RATIO USAGE



Purposes for Solvency and Capital Ratio illustrated on page 5.

Purposes for Solvency & Capital Ratios

■ Managerial\Operations Staff
 ■ Audit Purposes
 ■ Finance Committee
 ■ Bank Purposes

Solvency Ratio		Debt-Equity Ratio		Capitalization Ratio		Net Available Capital to Operating Revenue Ratio	
12.5%	8.3%	14.6%	14.6%	6.3%	12.5%	12.5%	4.2%
25.0%	14.6%	27.1%	20.8%	12.5%	8.3%	12.5%	4.2%
Number of Times Interest Earned		Fixed Charge Coverage Ratio		Operating Cash Flows to Total Liabilities Ratios		Cash Flow to Capital Expenditures Ratio	
2.1%	2.1%	2.1%	2.1%	16.7%	6.3%	18.8%	8.3%
2.1%	6.3%	4.2%	6.3%	20.8%	6.3%	16.7%	4.2%

Activity Ratios

In terms of activities, five ratios comprised this category: product inventory turnover, days inventory on hand, property and equipment turnover, overtime burden, and hourly labor ratio. Of the five, overtime burden was used the most (46.67 percent), followed by product inventory turnover (44.44 percent) and hourly labor ratio (43.18 percent). It is also evident that these ratios are almost

exclusively used by management, with four of the five ratios scoring 40 percent or higher, the exception being property and equipment turnover, which measures the use of long-term assets. Auditors and finance committee did not rank any of these ratios over 10 percent — with one exception, where the finance committee gave the hourly labor ratio a 13.64 percent usage rating.

TYPES

PRODUCT INVENTORY TURNOVER

Cost of product used/average product inventory

DAYS INVENTORY ON HAND

Days in accounting period/product inventory turnover

PROPERTY AND EQUIPMENT TURNOVER

Total revenue/average total property and equipment

OVERTIME BURDEN

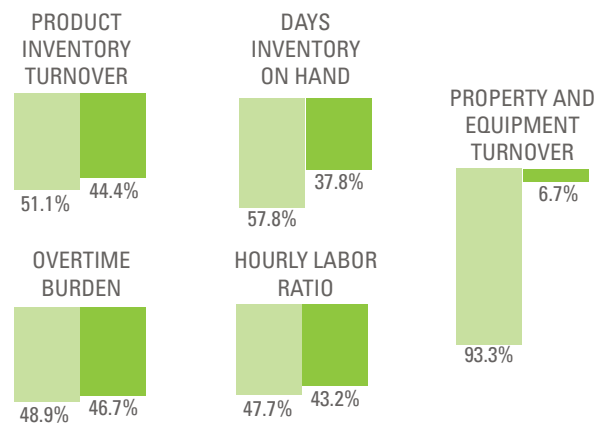
Overtime costs/total hourly labor

HOURLY LABOR RATIO

Hourly labor/operating revenue

RECORDED RATIO USAGE

■ Do Not Calculate
 ■ Calculate



Purposes for Activity Ratios

■ Managerial\Operations Staff
 ■ Audit Purposes
 ■ Finance Committee

Product Inventory Turnover		Days Inventory on Hand		Property and Equipment Turnover		Overtime Burden		Hourly Labor Ratio	
46.7%	6.7%	40.0%	4.4%	4.4%	2.2%	46.7%	0.0%	43.2%	0.0%
6.7%		6.7%		0.0%		4.4%		13.6%	

Operating and Profitability Ratios

This category has the greatest number of ratios as it measures both the operation in general and the overall profitability, as well. When respondents were first asked to identify their most used ratios, food cost and labor cost were named first and second.

TYPES

PROFIT MARGIN

Results of operations/total revenue

RETURN ON ASSETS

Increase in net assets/average total assets

OPERATING EFFICIENCY

Income before fixed costs/total revenues

AVERAGE FOOD CHECK

Total food revenue/number of covers

AVERAGE ROOM RATE

Rooms revenue/paid rooms occupied

FOOD COST PERCENTAGE

Cost of food sold/food revenue

BEVERAGE COST PERCENTAGE

Cost of beverage sales/beverage revenue

NET FOOD AND BEVERAGE TO GROSS PROFIT

Food & beverage profit or loss/gross profit

LABOR COST PERCENTAGE

Payroll and related expenses/total revenue

PAYROLL TO OPERATING REVENUE

Payroll & related expenses/operating revenue

FACILITY MAINTENANCE

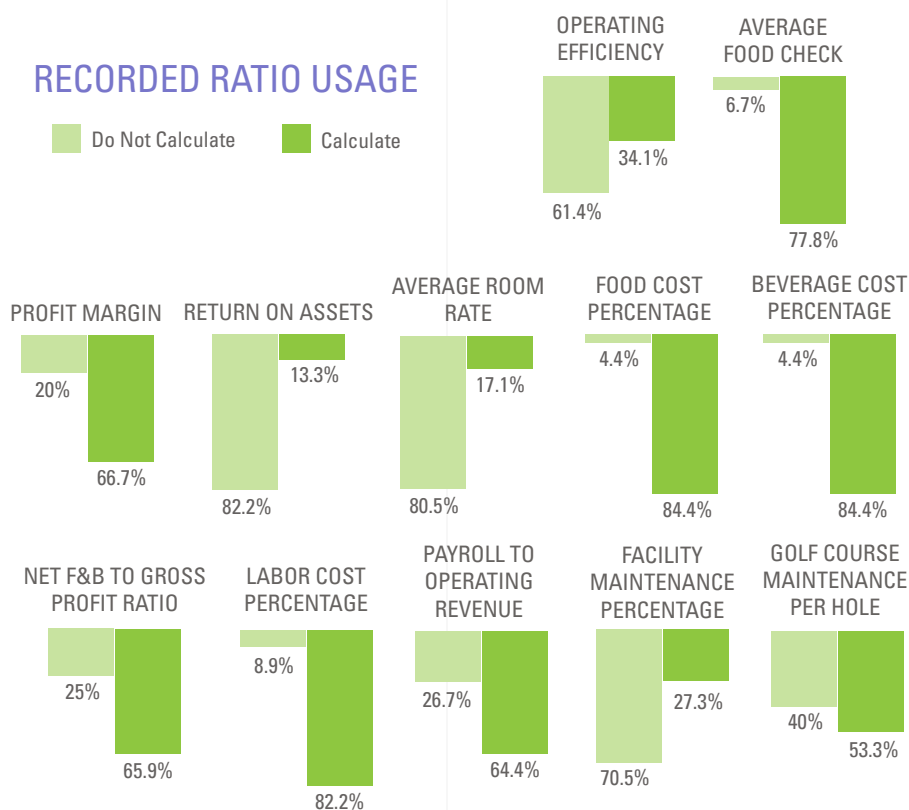
Facility maintenance expense/total revenue

GOLF COURSE MAINTENANCE PER HOLE

Golf course maintenance expense/number of holes

Indeed, when it comes to operating and profitability ratios, close to 85 percent of the respondents calculated both food cost percentage and beverage cost percentage, and another 82.22 percent calculated labor cost percentage — making these three ratios the top three of the twelve. Average food check came in fourth at 77.78 percent, and profit margin at 66.67 percent rounded out the top five ratios. It is also important to note that since not all the respondents have a golf course, the golf course maintenance per hole did not receive a high ranking, and this was also reflected in the comments section, where some respondents mentioned that they did not calculate this particular ratio because their clubs do not have a golf course.

RECORDED RATIO USAGE



Purposes for Operating & Profitability Ratios

■ Managerial/Operations Staff
 ■ Audit Purposes
 ■ Finance Committee
 ■ Bank Purposes

Profit Margin		Return on Assets		Operating Efficiency		Average Food Check		Average Room Rate		Food Cost Percentage	
68.9%	8.9%	11.1%	4.4%	29.6%	6.8%	88.9%	4.4%	17.1%	4.9%	88.9%	24.4%
48.9%	8.9%	6.7%	2.2%	18.2%	4.6%	22.2%	0.00%	9.8%	0.00%	57.8%	0.00%
Beverage Cost Percentage		Net Food & Beverage to Gross Profit		Labor Cost Percentage		Payroll to Operating Revenue		Facility Maintenance		Golf Course Maintenance Per Hole	
88.9%	24.4%	70.5%	20.5%	84.4%	17.78%	68.9%	13.3%	27.3%	0.00%	53.3%	11.1%
57.8%	0.00%	47.7%	0.00%	46.7%	0.00%	40%	0.00%	9.1%	0.00%	28.9%	0.00%

Membership Ratios

To assess items specifically pertaining to membership, six ratios are included in this category: membership attrition, average initiation fee, average monthly dues, member dues, number of club uses per period, and debt per full member equivalent.

The top three ratios that were calculated were membership dues ratio (53.33 percent), membership attrition (51.11 percent), and average monthly dues (42.22 percent), and this coincided with the rankings of the finance committee and shared with management and operators.

Auditors did not view this category as important and gave the highest usage ranking to debt per full member equivalent and only at 13.33 percent. Banks also did not use this category much.

TYPES

MEMBERSHIP ATTRITION

Aggregate dropped membership for 12 months/12-month average beginning membership

AVERAGE INITIATION FEE

Total initiation fees collected/total new memberships

AVERAGE MONTHLY DUES

Total monthly dues collected for the period/total monthly dues paying memberships for the period

MEMBERSHIP DUES

Membership dues/operating revenues

NUMBER OF CLUB USES PER PERIOD

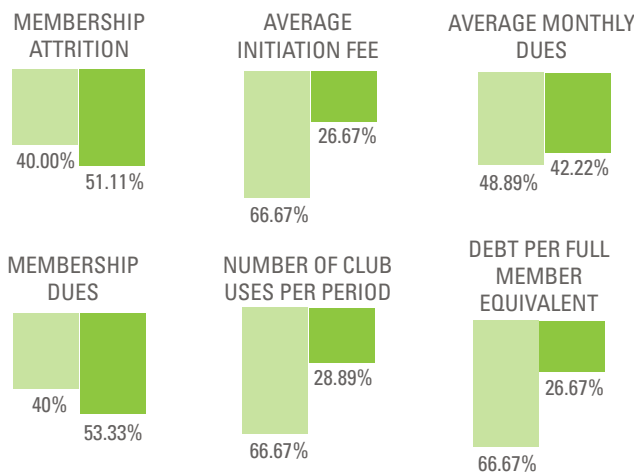
Number

DEBT PER FULL MEMBER EQUIVALENT

Total debt/full member equivalent

RECORDED RATIO USAGE

Do Not Calculate Calculate



Purposes for Membership Ratios

Managerial\Operations Staff Audit Purposes
Finance Committee Bank Purposes

Membership Attrition	Average Initiation Fee	Average Monthly Dues
42.2% (Managerial\Operations Staff)	4.4% (Audit Purposes)	28.9% (Managerial\Operations Staff)
4.4% (Bank Purposes)	8.9% (Audit Purposes)	40% (Managerial\Operations Staff)
28.9% (Finance Committee)	0.00% (Bank Purposes)	6.7% (Audit Purposes)
4.4% (Bank Purposes)	15.6% (Finance Committee)	0.00% (Bank Purposes)
22.2% (Finance Committee)	0.00% (Bank Purposes)	2.2% (Bank Purposes)
2.2% (Bank Purposes)	0.00% (Bank Purposes)	2.2% (Bank Purposes)
Membership Dues	Number of Club Uses Per Period	Debt Per Full Member Equivalent
46.7% (Managerial\Operations Staff)	6.7% (Audit Purposes)	31.1% (Managerial\Operations Staff)
6.7% (Audit Purposes)	0.00% (Bank Purposes)	0.00% (Bank Purposes)
31.1% (Managerial\Operations Staff)	0.00% (Bank Purposes)	17.8% (Managerial\Operations Staff)
0.00% (Bank Purposes)	17.8% (Finance Committee)	13.3% (Audit Purposes)
17.8% (Finance Committee)	0.00% (Bank Purposes)	13.3% (Audit Purposes)
13.3% (Audit Purposes)	0.00% (Bank Purposes)	2.2% (Bank Purposes)
2.2% (Bank Purposes)	0.00% (Bank Purposes)	2.2% (Bank Purposes)

Other Observations

There were also a number of interesting comments shared by the respondents. Many clubs mentioned using industry benchmarks and cited Club Benchmarking and RSM Trends. This is to be commended, as it is only when we compare with like entities that we can know if we are doing well. Some clubs also shared that depending on the type of ratios, the calculations were done more frequently in some (weekly) than others (quarterly or annually).

A few clubs also shared some metrics they use, which are worth tracking. For membership, there are waitlist turnover and membership acceptance rate. For golf operations, there are cart rental revenue per round and guest fee per round. And, for operations, there are utilities expenses and taxes that are also worth tracking. One club commented that many of the metrics and ratios were automatically calculated and included in real-time dashboard statistics to make management decisions. And, by combining automated ratios, metrics calculations and benchmarking, board and management of clubs can have the “A+” technique and best information to set both short- and long-term strategies.

Future Club Research

The respondents shared that they would like to see research in two veins. First, they would like to see an in-depth study on the demographics of club membership — not simply the normal demographic factors of age, income, education, but also by tenure and dues structured by the many membership classifications. This can also be linked to spending by membership classifications and satisfaction, as well. A second suggestion was best practices for IT security. As cybercrime is difficult to detect and clubs are installing more technology to provide better service to their members and improving efficiency of their operations, IT security certainly is an important topic.