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THE CLUB INDUSTRY: THE CHALLENGING YEARS OF 2003-2008

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and

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ABSTRACT

This article is based on a research project spanned over a six year period of 2003-2008 on the club industry in the United States. The last six years saw many events that affected the economy of the world. The results showed the club industry was not immune to such ups and downs. While the financial viability of an individual club is tied strongly to its local economy, the entire industry is closely affected by the general economy. Twenty ratios are reported covering the five general classes of financial ratios. The ratio results suggest 2004 was a banner year for the club industry, while the current tough recession has pushed the club business into turmoil, and little relief is in sight.

Introduction

The millennium was a welcoming change with the entire world celebrating a historic “time” landmark. Soon, reality set in with world politics and terrorism at the end of 2001 and the U.S. going to war in Iraq in Spring of 2003. The tide began to turn in 2004 when oil prices were higher, interest rates were rising, and then Chairman of the Federal Reserve, Alan Greenspan, was upbeat about the economy while inflation was under control. However, the natural disasters of Hurricanes Katrina and Rita drained the U.S. economy and hurt oil prices (Minehan, 2005; Yellen, 2005). The housing boom in 2006 provided a boost to the economy and made 2006 another positive year on the chart (Henderson, 2007). Little did we know this would lead to the biggest housing debacle in the history of the United States in the coming years. Hope was on the horizon for 2007. However, that was quickly wiped off any front page news and as early as February of 2007, the Dow Jones Industrial Average dropped over 400 points in one day due to all the news on subprime mortgages (Tse, 2008). In December 2007, the Dow Jones Industrial Average hovered around 12,600. A year later in December 2008, it had dropped to around 8,000 points (“Stockcharts,” 2010).

The recession hit and leading economists predicted more hard times with banks beginning to close in early 2008, and the big bailouts to the tune of \$800 billion (Stout, 2008). To make matters worse, Bernard Madoff's Ponzi scheme was revealed which sent the economy of 2009 into another downward spin (McCool and Graybow, 2009). But how does the economy affect the club industry?

Many may think the club industry is unlike hotels and restaurants. Club members normally enjoy a higher level of disposable income, and they are able to pay a substantial initiation fee and monthly dues. Further, many clubs even charge nonparticipating members a food and beverage minimum. Most clubs have stable memberships. The more exclusive clubs even boast a waiting list of potential members desiring to join their clubs. Thus, clubs may appear to be shielded from disastrous economic events. Yet, with many Americans losing a large percentage of their retirement investments, normal assessments in clubs to upkeep the facility became more difficult. So, how can club executives be more proactive? Are there signs that club executives can detect and take appropriate actions? The simple answer is yes. While club executives or even the smartest economist cannot predict the future 100%, they can look at past performances to learn from mistakes and make short term predictions to take proper courses of action. In fact, club executives can use some very simple, accessible, and understandable dashboard information on key ratios to monitor their club performance to make daily decisions and serve their members well (Schmidgall and DeFranco, 2005a, 2005b).

Need for and Purpose of the Study – The Importance of Benchmarking

As mentioned, the club industry is a unique segment of the bigger hospitality industry. Financial information is organized using a system known as the Standard Industry Classification (SIC) code. The SIC code is a four digit code set by the U.S. government to classify the "primary" business of each establishment. However under the SIC 7997 Membership Sports and Recreation Club ("OSHA, SIC Division Structure" n.d.), this category does not simply include the clubs to which we all are accustomed. Generally, for the hospitality industry and the membership of the Club Managers Association of America, the club industry is composed mostly of country clubs, golf clubs, city clubs, and perhaps some yacht clubs. The SIC of 7997 also includes aviation, baseball (except professional and semiprofessional), beach, boating, bowling leagues or teams (except professional and semiprofessional), bridge, gun, handball, and many others. Thus, studying

the club industry, which consists of the mainstream hospitality clubs, is needed (DeFranco, Countryman, and Venegas, 2004).

Another reason why this study is needed is the club industry does compile its own financial data. The Club Managers Association of America and the National Club Association have published the Club Operations and Financial Data Report on a biennial basis since 1996. Pannell Kerr Foster (PKF) and McGladrey & Pullen, LLP also publish annual operating statistics (DeFranco and Schmidgall, 2007). However, while these publications do provide good information, such information focuses on the “operations” in terms of revenues, expenses, sales and memberships, and thus the bottom line, but missing is information about the balance sheet (Schmidgall and DeFranco, 2005b). Why should club executives look at balance sheet data?

Most people are drawn to the Statement of Income because of the profit figure as it is often the ultimate measurement of success in any operation. However, the balance sheet offers information that is related to figures on the income statement and statement of cash flows and can be used to evaluate whether the assets of a club are used to their fullest potential. For instance, is a club carrying too much inventory in golf merchandise? Or, does a club have too much debt? What is the liquidity of the club?

More importantly, this article takes a longitudinal look at six years’ worth of data to see how the club industry reacted and performed so management can look at past data to prepare themselves better for the future. Therefore, the purpose of this study is to provide club owners, managers, executives, and chief financial officers a six-year longitudinal study of a set of benchmarking ratios which focuses primarily on balance sheet data not available through other published sources. With the proper information, club executives are equipped with more insightful information in order to be able to make better decisions for their clubs and members.

Literature Review

Benchmarking is an importance process for any business organization. It is calculating and setting the levels of the benchmark and also analyzing the data with follow-up actions. The definitive goal of this research is to provide club executives a short list of dashboard information of financial ratios so they can compare their financial results on a periodic basis to benchmarks.

Comparison Makes Perfect

Thirty years ago, when Camp studied Xerox's benchmarking process, he identified the five steps of benchmarking as: planning, analysis, integration, action, and maturity. Camp advocates it is not only critical to plan what should be measured. Once it is measured, how should the data be analyzed, and more importantly, after the data have been analyzed, how should the results be integrated within the operation to make new enhancements where new actions are taken to ensure the success of the operation (Camp, 1989).

In the hospitality industry, Withiam (1991) leads the pack by defining benchmarking as a point of reference or a standard where all others can compare themselves to the benchmark and can begin to judge their own efforts. DeFranco (2005) also stresses when making comparisons, clubs need to be cognizant that they are comparing themselves to the proper competitive set. In the hotel industry, the STAR report always has a "comp set"; thus the same is true for the clubs. It is also important to note that benchmarking is both an external and internal process. External benchmarking is comparing oneself to the industry, to the competition, while internal benchmarking helps clubs to assess if they are achieving their budget projections or how they have faltered. It is through constant comparisons that clubs can stay on track with the industry.

The Standards

There are at least seven major sources offering ratios information, five in print and two electronic. Advertising Ratios and Budgets published by Schonfeld & Associates, Inc. specializes in advertising to sales and also to gross margin ratios for almost 6,000 companies. The Almanac of Business and Industrial Financial Ratios offers 24 key financial ratios. Business Profitability Data offers a slightly different version of reporting financial ratios that covers 294 types of small business. Dun and Bradstreet publishes the Industry Norms and Key Business Ratios, providing 14 key ratios and arranging the data in the form of a balance sheet and income statements, with lower quartile, median, and upper quartile benchmarks. Finally, Robert Morris Associates (RMA) Annual Statement Studies reports financial data of 370 industries and classified companies in each industry by the size of assets. All five publications use the Standard Industry Classification (SIC) code to help identify the various industries.

The two more popular and good electronic sources are MSN Money and Useful Business Statistics. MSM also provides 5-year averages and BizStats

divides its reporting into three areas, namely financial ratios, balance sheet and income statement. BizStats also has a function known as BizMiner which has an SIC Drilldown where data can be accessed via the SIC code.

In recent years, many clubs also began offering spa treatments to their members. Thus, the International SPA Association Foundation, the International SPA Association, Hospitality Financial and Technology Professionals, and the Educational Institute of the American Hotel & Lodging Association published the Uniform System of Financial Reporting for Spas in 2005. This publication also includes a section on ratio analysis and statistics, again, to demonstrate the need of financial ratio analysis in all industries. PKF Hospitality Research also recognizes this need and publishes the Trends in the Hotel Spa Industry while the International SPA Association also has its Annual SPA Industry Study (Korpi, 2008). All such publications assist individual companies in organizing their financial results.

The Perfect Marriage: Benchmarking and Trend Analysis

Each industry has a cycle and many of these cycles follow closely with the general economy. The club industry is no different. The spending habits of club members are largely affected by their disposable income. Trend analysis therefore can provide data points over a specified period, where they can be presented in tables, line graphs, and bar graphs to visually highlight the trends companies and in this case clubs are experiencing (DeFranco and Lattin, 2007). Benchmarking is the comparison. Trend analysis takes benchmarking over a period of time. Marrying the two processes can provide club executives with indicators to help predict if the next step in the cycle is up or down. If the trend looks positive, be prepared to staff appropriately and look into expansion of services. If the trend looks grim, start looking at cost savings and begin to act accordingly before being caught short of cash.

Trend analysis is not new. The hotel industry has long relied on trend analysis to build new hotels. Schmidgall and Singh (2007) also performed trend analysis on clubs. In particular, their 2007 study provides a longitudinal trend analysis on the operating budget practices of the U.S. club industry from 1986 to 2006. It was found that over 75 percent of the clubs focused on the bottom-line as a tentative financial goal and 48 percent prepared operating budgets and had a tentative financial goal prior to starting the budgeting process.

The Classification of Financial Ratios

In most literature, financial ratios are classified into five categories: liquidity, solvency, activity, profitability, and operating. Liquidity and solvency ratios measure the club's ability to pay off debts in the short- and long-term respectively. Activity ratios examine the level of effectiveness of management in using their club's assets. Profitability ratios measure how effective management is in terms of generating financial returns. And, finally, operating ratios give management the results of the operations of the business (Schmidgall and Damitio, 2001).

One caveat about ratios: many executives are often caught in the moment of looking at the ratio, a percentage, and forget about the absolute dollar value behind the ratios. For instance, many would consider a 5% profit margin is always better than a 3% profit margin. It is true if one is comparing apples to apples. However, a 5% profit margin in a very small club may only mean \$50,000 profit while a 3% in a very large club may mean \$500,000. Therefore, club executives need to review both absolute dollars and relative measurements at the same time (Weygandt, Kieso, Kimmel, and DeFranco, 2005).

Table 1 details the name and definition of the twenty ratios used in this study. In the club business, net income is also known as "revenue in excess of expenses" or "increase in net assets."

Table 1. Selected Club Industry Financial Ratios and Classifications	
Ratio	Formula
<u>Liquidity Ratios</u>	
1. Current ratio	Current assets/current liabilities
2. Accounts receivable turnover	Revenue/average accounts receivable
3. Average collection period	365/accounts receivable turnover
4. Operating cash flows to current liabilities ratios	Operating cash flows/ average current liabilities
<u>Solvency Ratios</u>	
5. Operating cash flows to total liabilities ratio	Operating cash flows/ average total liabilities
6. Long-term debt to total capitalization ratio	Long-term debt/ long-term debt and net assets
7. Debt-equity ratio	Total liabilities/total net assets
8. Times interest earned ratio	Net income + interest expense/ interest expense

9. Fixed charge coverage ratio	Net inc. + interest exp. + lease expense/ interest exp. + lease expense
<u>Activity Ratios</u>	
10. Food inventory turnover	Cost of food used/ average food inventory
11. Beverage inventory turnover	Cost of beverages sold/ average beverage inventory
12. Golf merchandise inventory turnover	Cost of golf merchandise sold/ average golf merchandise inventory
13. Property and equipment turnover	Total revenue/average net book value of property and equipment
14. Asset turnover	Total revenue/average total assets
<u>Profitability Ratios</u>	
15. Profit margin	Net income/total revenue
16. Return on assets	Net income/average total assets
17. Operating efficiency ratio	Income before fixed charges/ total revenue
<u>Operating Ratios</u>	
18. Food cost percentage	Cost of food sold/food sales
19. Beverage cost percentage	Cost of beverages sold/beverage sales
20. Golf merchandise cost percentage	Cost of golf merchandise sold/ golf merchandise sales

Increased Research in Ratios

It is also worth noting that academicians and industry consultants have also increased their interests in the topic of ratios. As early as the 1980s, Geller and Schmidgall (1984), Temling (1985), and Schmidgall (1988) have all published their findings in this area. However, their research covered the lodging industry. One interesting project in the 1990s was Swanson's (1991) which is a detailed analysis of the liquidity of lodging firms. In 2002, Singh and Schmidgall began further studies on financial ratios in the lodging industry and classifying the results by hotel ownership. Dickens (2006) and Lindt (2006) also published in the trade journals as new ratios such as gross operating profits per available room or customer (GOPPAR or GOPPAC) and total revenue per available room (TRevPAR) became standard industry jargon. Thus, ratios are becoming more and more commonplace in the hotel industry.

Methodology

The first phase of the study of ratios in the club industry was a survey conducted in 2004 to collect the 2003 data. This process was repeated annually where surveys were sent out each spring after clubs had completed their year-end closing and external audits had been completed. To assist in the ease of responding, only raw financial data, easily gleaned from reported financial statements, were requested. Specific ratios, useful for managers who have a periodic dashboard of results, were then calculated by the researchers. For the first three years of this research, approximately 80 club executives provided the data. In 2006, the survey picked up some momentum and 102 responses were received. This number increased to 117 responses for 2007 and finally, 130 responses were received for 2008. The increase in responses is perhaps an indicator that more club executives see the value in the findings of the research.

For the 2003 and 2004 studies, questionnaires were sent to members of the Hospitality Financial and Technology Professionals (HFTP) associated with clubs. After discussing the subject with CMAA members, the questionnaire was sent to CMAA members in 2006 for the 2005 data. Although more general managers filled in the surveys, the total number of participants did not have a significant increase and the demographic data regarding the type of clubs, number of members, and geographical location of the club were also quite stable. Thus, the 2006, 2007, and 2008 questionnaires were mailed to HFTP members (financial executives) associated with clubs.

On the average in this six-year period, the response rate has been about 15%. The questionnaire requested financial data from two successive annual balance sheets and selected numbers from the club's income statement and statement of cash flows. Median financial data points rather than the means were then used to calculate the ratios, and a trend analysis was performed.

Results

This report begins with a discussion of the demographics of respondents. Then, ratios from the five categories of ratios are presented. Finally, an analysis of the six-year trend of the demographic data and ratios is presented.

Profile of the Clubs

Table 2 summarizes the demographic data of the respondents. As noted in the methodology section, the 2005 survey was also sent to CMAA members and thus the distribution of the titles of the respondents is slightly different from the other

years. As seen in Table 2, Controllers make up the majority of the respondents as they have ready access to all financial data. However, the percentage of Controllers falls from the high of 87 percent range to 75 percent in 2007, with the 2008 data showing a slightly upward trend to 78 percent. At the same time, the title of Chief Financial Officer increases from the 4 percent and 5 percent to 9 percent in 2007 and the other titles category has been fairly constant until it nearly doubled in 2008. Thus, the title of Controller is normally the highest career rank this person can reach. In the last few years, there has been a trend for certain clubs, especially the larger ones, to reclassify and promote their controllers into the title of Chief Financial Officer. Regardless of title, the respondents over the six year period are in positions to provide the financial information needed for this research.

The types of clubs represented by the respondents in the initial survey (2003) were fairly evenly split between country clubs and golf clubs, reported at 38 percent and 39 percent respectively. However, the percentages of country clubs have steadily increased to the 60th percentile, ranging from 63 percent to 65 percent, while it dipped slightly in 2008 to 58 percent. Golf clubs hovered in the teens with 2007 reporting the highest at 15 percent except for 39% who participated in our initial survey. The participation of city clubs dropped from 11 percent in 2005 to only 7 percent in 2007. However, in 2008, this segment saw a surge to 15 percent. The “Other” category has been quite steady with the lowest percentage reported at 12 percent in 2006 and the highest at 15 percent for both 2005 and 2008. Hunt clubs, tennis clubs, yacht clubs, and university clubs are reported under this category. Clearly, over most of the six years of this research, the majority of responses received have been from country clubs.

In terms of size, in 2003, the smaller clubs (less than 750 members) made up 63 percent of the respondents. In 2004, they still constituted the majority (60 percent). The year 2007 saw an interesting shift where there is a very even distribution of clubs in terms of size. The 300-500 member category made up only 22 percent of the respondents, but following right behind, the 501-750 and the 751-1,000 size categories both reported at 21 percent each. And, more interestingly, the next group reporting at 20 percent, only two percentage points from the leading responder, is the 1,001 to 1,500 member group. This is the only year that clubs with fewer than 750 members do not make up more than 50 percent of the respondents. The 2008 respondents constitute a majority (52 percent) from smaller clubs. Thus, 2007 has the most evenly distributed sample in this six-year study.

As for location, the respondents' clubs showed a pendulum swing pattern. In 2003 when this study first started, 58 percent of the respondents were from the eastern part of the U.S. This percentage went down to less than 50 percent (46 percent in 2004, 43 percent in 2005, and 48 percent in 2006) in the following three years but made a resurgence in 2007 coming in at 61 percent and remained at 60 percent in 2008. The number of respondents of clubs from the central region of the U.S. has varied between 23% and 42%, with only 23 percent of the 2008 respondents coming from the central region. Respondents from clubs in the western part of the U.S. have varied between 12% and 19% of the total respondents over the six year period. Over the six year period, the plurality of responses has come from clubs located in the eastern part of the U.S.

Table 2. Demographics of Respondents						
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Title of respondents:						
Controllers	85 %	87 %	51 %	86 %	75 %	78 %
CFO's	5	4	4	5	9	4
Assistant Controllers	2	4	3	2	3	3
General Managers	---	---	35	1	6	2
Other	<u>8</u>	<u>5</u>	<u>7</u>	<u>6</u>	<u>7</u>	<u>13</u>
Total	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>
Types of clubs:						
Country Clubs	38 %	63 %	65 %	65 %	64 %	58 %
Golf Clubs	39	13	9	14	15	12
City Clubs	9	10	11	9	7	15
Other Clubs	<u>14</u>	<u>14</u>	<u>15</u>	<u>12</u>	<u>14</u>	<u>15</u>
Total	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>
Number of Members:						
< 300	6 %	5 %	5 %	5 %	6 %	9 %
300-500	30	27	17	29	22	24
501-750	27	28	29	26	21	19
751-1,000	13	14	18	14	21	14
1,001-1,500	14	17	12	18	20	20
> 1,500	<u>10</u>	<u>9</u>	<u>19</u>	<u>8</u>	<u>10</u>	<u>14</u>
Total	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>

Location of Clubs in US:						
East	58 %	46 %	43 %	48 %	61 %	60 %
Central	28	35	42	33	27	23
West	<u>14</u>	<u>19</u>	<u>15</u>	<u>19</u>	<u>12</u>	<u>17</u>
Total	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>

Ratio Results

The ratio calculations over the six-year period are shown in Table 3. Because of the spread of characteristics of the clubs seen in the demographics, the median response for the financial data is used to calculate the ratios to lessen any distortion from outliers.

Liquidity Ratios

The current ratio, accounts receivable turnover, average collection period, and operating cash flow to current liabilities are computed to assess the liquidity of the clubs. The current ratio was 1.42 in 2003 and peaked at 1.57 in 2004. In the last few years, it has decreased to 1.35 in 2007 and went back up to 1.42 in 2008 to match where we started in 2003. This indicates club executives may want to pay attention to their current debt levels.

The accounts receivable turnover and average collection period are closely related. As the turnover ratio increases, the average number of days needed to make the collection decreases. Thus, a higher turnover is always preferred. The accounts receivable turnover was 9.01 in 2003 and had risen over the three years to 10.14 for 2005, dropped down to 9.19 in 2006, and increased again to 9.99 in 2007. This increase continued to 10.67 days in 2008, the highest recorded. This is a good sign as it indicates clubs only needed 34 days to collect obligations owed to them in 2008. After all, cash is cash, as one cannot deposit accounts receivables in the bank. Thus far, all three current ratios show a positive trend.

The operating cash flows to current liabilities utilizes information from two financial statements and is preferred by some researchers as it uses real cash flow, rather than current assets, to gauge a club's ability to pay its short term obligations. The result of this ratio is not too promising. It was 0.37 in 2003, meaning the average club had \$0.37 of cash flows from operations for each \$1 of average current debt. It did increase to 0.41 for 2004 and settled back to 0.34 and 0.35 for 2005 and 2006, respectively. The disappointing news came when this

ratio dropped to only 0.16 in 2007, but climbed back to 0.25 in 2008. While this is still a far cry from the 0.41 in 2004, the start of a positive trend is a good indicator. Perhaps a closer look at the next four categories of ratios may help either solidify or dispel this upward trend of the club industry's financial being.

Solvency Ratios

As indicated earlier, solvency ratios, like liquidity ratios, focus on the ability to pay bills except the solvency ratios are used to determine a club's ability to pay its long-term obligations. Five solvency ratios will be presented. The operating cash flow to long-term debt was only 0.06 in 2003 meaning there was \$.06 of operating cash flows for each \$1 of long-term debt. This ratio improved in 2004 and 2005 at 0.13 and 0.18, tripling that of the 2003 figure. However, the downturn began and this ratio dropped to 0.13 in 2006, 0.11 in 2007, and even further to 0.06 in 2008. This is not good as it also shows how the debt level of the club industry trended with the economy. Thus, club managers need to really watch their debt levels in economic downturns and not let them get out of hand. If this continues, it will hurt the financial health of the clubs for years to come.

The next two solvency ratios confirm what we just saw as the increase of long-term debt level. The long-term debt (LTD) to total capitalization went from 0.21 to 0.18 just to go up again to 0.21 and down to 0.18 over the period of 2003-2006. In 2007, this ratio was at 0.26 and increased to 0.28 for 2008. Similar results are shown for the debt-equity ratio where 0.35 (for 2008) is high for this six-year period. The LTD to total capitalization of 0.27 means LTD is 27 percent to the combined LTD and owners' equity. The debt-equity ratio of 0.35 means total debt is 35 percent of members' equity in 2008. The year 2008 was an exceptionally tough economic time, and it appears clubs are taking on relatively more debt when member assessments would not have been a popular nor possibly feasible move. Again, a very close watch on debt and the related interest rates is a must for club executives.

The last two solvency ratios are times interest earned (TIE) and fixed charge coverage (FCC). The year 2004 was noted as the best year of the six-year research and the TIE affirms this as clubs are able to cover their interest expenses 11 times over. In 2006, clubs were only able to cover their interest expenses 2.59 times. As debt increases, interest expenses increase, thus the coverage falls. This ratio fell to 2.09 in 2007 and further to only 1.32 in 2008. The same trend can be found for the fixed charge coverage ratio. In 2003, FCC was 1.89 times. The 9.36 times in 2004 showed that it is possible for clubs to be profitable and able to pay bills. This ratio fell to 1.43 in 2005 and finally to only 1.08 in 2008.

Therefore, the level of long-term debt and the interest rates are two issues that club executives need to continue to analyze and monitor in the future.

Activity Ratios

When debt is an issue, club executives must operate their clubs more efficiently and effectively so as to generate more profits which convert to cash to pay off debts. Therefore, three inventory turnover ratios and two long-term asset turnover ratios are calculated. The three inventory ratios are also converted to holding periods (in days) which provides a more practical view of how long clubs are holding on to their food, beverage, and golf merchandise inventories before they are able to sell them.

In 2003, food inventory turnover was 19.83 times. This translates to clubs holding on to their food inventory for an average of 18 days before the inventory was sold. The numbers, both turnover times and days of inventory, changed very little during the next three years to 21.57, 19.39 and 19.13 and holding inventories of 17 days, 19 days, and 19 days at the end of 2004 , 2005, and 2006 respectively. In 2007, the food inventory turnover mirrors that of our banner year of 2004 at 21.23 and 17 days. This shows from an operation standpoint that clubs were watching their food inventory usage in 2007. However, this slips down a bit in 2008, as the food inventory ratio results are at 19.58 times and 19 days.

The beverage turnover results are more erratic. Normal beverage turnover is considerably slower than food inventory as there are instances when a rare lot of wine or special bottles of liquor will not rotate out or be used for months. The trend over six years shows that this ratio is not as high as it should be but some improvement is noted for 2007 and 2008. The beverage inventory turnover was 4.19 times in 2003 and trended downward to 3.51 times in 2006 before it turned up slightly to 3.65 in 2007. The 3.68 turnover in 2008 is a slight increase. Therefore, improvement can still be sought in this area. The average club held beverage inventory in 2003 for 87 days and peaked at 104 days by the end of 2006. The 2008 level of 99 days, while not good, shows a slight improvement from the 2006 peak.

Interesting research by Schmidgall and Borchgrevink (2008) reported \$38,155 as the average amount of beverage clubs held in inventory in 2006. More importantly, the research also reported nearly one in six clubs purposely buys wines for long term purposes to realize financial appreciation and for the benefit of their members. This is where individual clubs need to ask themselves if they are among the clubs who purposely buy large amount of wines to hold for

investment and appreciation or are they simply are not good controllers of their wine and other beverage inventory.

In 2003, golf merchandise inventory turnover and holding days were not computed. The rationale was because many golf pro shops are separate businesses owned by the Golf Professional. However, after the initial survey, club executives expressed their interest in benchmarking this statistic as well and thus the two ratios for golf merchandise were first computed in 2004. This turnover, as can be expected, is by far the lowest turnover as golf merchandise is very seasonal and not every month has a new golf club or a new ball been produced that golfers may desire to purchase. The golf merchandise inventory turnover was 2.21 times in 2004, 2.01 in 2005, and improved to 2.32 in 2006. This improvement, though continuing, is at a slower rate reported at 2.41 for 2007 and 2.45 in 2008. In terms of holding periods, it started at 165 days in 2004, 182 days (one-half a year) in 2005, and 157 in 2006, 151 in 2007 and finally broke the 150 mark at 149 days in 2008. Thus, the trend has been good for the last three years.

As for property and equipment and total asset usage, property and equipment turnover started at 0.80 in 2003, dropped just ever so slightly to 0.79 in 2004, increased to 0.84 in 2005, but saw a downturn since then with only 0.67 in 2006, 0.60 in 2007, and finally shot back up to 0.74 in 2008. This holds true for total asset turnover with a ratio of 0.63 in 2003, declined to 0.55 in 2004, bounced back to 0.61 in 2005, just to experience another dip in 2006 to 0.53, and 0.43 in 2007, and finally went up to 0.57 in 2008. It appears when times are tough, club executives are better at utilizing their assets as shown in the change of this ratio from 2007 to 2008. However, the improvement in this ratio could also result from clubs retaining their equipment and other fixed assets longer resulting in the lower net book values leading to a high turnover ratio, all other things being the same.

Profitability Ratios

Profit margin, return on assets, and operating efficiency are presented. The profit margin ratio was only 1.7 percent for 2003. With past ratios showing 2004 as a particularly good year, this profitability ratio was 7.3 percent in 2004. This quickly declined to only 1.8 percent in 2005, took a nice upturn to 4.9 percent in 2006, went down again to 2.5 percent in 2007, and finally reported at only 0.7 percent in 2008, which is the lowest over the six years reported by their research. With less than a 1.0 percent average profit, and relatively higher debt levels, the

club industry experienced a very difficult 2008 and most likely will be facing a challenging future.

With the profit margin being low, return on assets (ROA) and operating efficiency are also expected to be low as well. Indeed, the ROA was only 0.3 percent and 0.1 percent for 2003 and 2005, respectively. The exception was 4.6 percent during 2004, and for 2006, it also bounced back up to 3 percent. The 0.3 percent reported for 2008 brought the industry back in full circle to its 2003 level. For operating efficiency, the highest result again was during 2004 when this ratio was 27.7 percent. This ratio took a downturn and is only at 17 percent in 2008, the lowest in all six years.

Operating Ratios

The last category of ratios is the operating ratios which include food, beverage, and golf merchandise costs percentages. As with the golf merchandise inventory ratio, these ratios were not computed for 2003 as a number of very reputable consulting firms do provide operating ratios for the club industry. However, readership and club industry practitioners asked for these benchmarks to be included. Thus these three ratios were added in the 2004 survey.

The food cost percentage stayed the same at 40 percent for both 2004 and 2005, dropped slightly to 39.5 percent in 2006, went up to 41.1 percent in 2007, reaching 41.3 percent in 2008. On the beverage side, the percentage started at the low level of 30 percent, then increased and stayed constant at 31.1 percent in 2005 and 2006, reached its highest at 31.7 percent in 2007, and dropped slightly to 31.6 percent in 2008. In terms of golf merchandise, management of the pro shops appeared to have tried various methods to lower this cost percentage. Indeed, this cost percentage started at 58 percent in 2004 and went down almost 10 points to 48.4 percent in 2005. However, this quickly went back up to 65.4 percent in 2006 and went back down to 56.8 percent in 2007. Unfortunately, this ratio went up to its all time high at 69.8 percent in 2008. It may be that in tough economic times, in order to move its inventory, the pro shop has to give more discounts and thus increase this cost percentage.

Table 3. Club Financial Ratio Results For the Years of 2003-2008						
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>

Liquidity Ratios						
Current ratio	1.42	1.57	1.53	1.48	1.35	1.42
Accts receivable turnover	9.01	9.66	10.14	9.19	9.99	10.67
Average collection period	41 days	38 days	36 days	40 days	36 days	34 days
Operating CF to current liab.	0.37	0.41	0.34	0.35	0.16	0.25
Solvency Ratios						
Operating CF to LT debt	0.06	0.13	0.18	0.13	0.11	0.06
LT debt to total capitalization	0.21	0.18	0.21	0.18	0.26	0.27
Debt-equity ratio	0.27	0.21	0.27	0.22	0.30	0.35
Times interest earned	2.59	11.00	1.52	3.99	2.09	1.32
Fixed charge coverage	1.89	9.36	1.43	2.80	1.53	1.08
Activity Ratios						
Food inventory turnover						
a. times	19.83	21.57	19.39	19.13	21.23	19.58
b. days	18	17	19	19	17	19
Beverage inventory turnover						
a. times	4.19	4.07	3.91	3.51	3.65	3.68
b. days	87	90	93	104	100	99
Golf merchandise inventory turnover						

a. times	NS	2.21	2.01	2.32	2.41	2.45
b.days	NS	165	182	157	151	149
Property and equip. turnover	0.80	0.79	0.84	0.67	0.60	0.74
Total asset turnover	0.63	0.55	0.61	0.54	0.43	0.57
Profitability Ratios (%)						
Profit margin	1.7	7.3	1.8	4.9	2.5	0.7
Return on assets	0.3	4.6	0.1	3.0	1.5	0.3
Operating efficiency	22.9	27.7	17.9	23.0	20.9	17.0
Operating Ratios (%)						
Food cost	NS	40.0	40.0	39.5	41.1	41.3
Beverage cost	NS	30.0	31.1	31.1	31.7	31.6
Golf merchandise cost	NS	58.0	48.4	65.4	56.8	69.8

NS = Not surveyed in 2003

The food and beverage cost percentages have been relatively stable over the five year period though a slight increase has been experienced in 2007-2008. The golf merchandise cost percentage has been erratic over the five year period and management should monitor this area more closely.

Conclusion and Implications for Club Executives and Educators

It is the desire of any researchers to provide relevant results for both academe and industry executives. Club industry professionals will be facing some difficult economic times in at least the next few years. Their top priority is to serve their members but without a sound financial base, their efforts will be more challenging. There are few reports management receives on a daily basis. And, yet, there is also only limited time in a day that management can dedicate to detailed financial analyses. It is also true that all clubs do have financial data filed

away on servers and reports. However, the usefulness of such statements in their existing forms often does not readily provide insight into the strengths and weaknesses of an operation. When pertinent information is arranged side by side for a quick comparison, useful insight will emerge.

Benchmarking in terms of ratio analysis coupled with trend analysis will serve this calling. Ratios are time-tested tools for management to view their operations more succinctly. Ratios can be used across various financial statements for cross-referencing of data points. Ratios can also assist management to focus in certain areas such as their ability to pay bills or whether they are using their assets in an effective manner. Combining ratio analysis and trend analysis takes simple ratios to a higher level. Periodic ratio analysis provides a quick and succinct report card, your dashboard data; while trend analysis provides club executives with a longer-term view of their operations and is more useful therefore in long-term assessment and strategic decisions.

The six-year trend in this study shows a more well-rounded financial view of the club industry and where it may be heading, so proper action can be taken. As seen from the analysis, certain conclusions can be drawn and implications surfaced:

1. It was obvious that 2004 was the banner year. Therefore, when the next banner year comes around, clubs need to look at reserves and perhaps even save up such funds for the leaner years.
2. In 2008, the club industry is doing well in utilizing their assets to succeed with short term operation. However, it is also obvious that in hard times, the debt levels of the industry tend to increase. Managers need to closely monitor their short- and long-term debt levels.
3. The profitability ratios mirrored that of the liquidity and solvency ratios, showing 2004 to be the best, and a rebound occurred in 2006. However, with more debt, the interest paying ability dropped in 2007 and 2008, as did the profitability indicators. Club executives need to review debt levels that affect the amount of interest paid. At certain times, refinancing long-term debt may be a viable option.
4. Not all ratios need to be calculated for the same time period. For example, golf inventory turnover should be reviewed perhaps three to four times a year while food inventory turnover should be reviewed as often as every two weeks. Food cost percentage should probably best

be calculated on a weekly basis since food cost and food revenues are obtained from the statement of income, and that particular statement can easily be produced on a weekly basis. The decision of the frequency of the calculation of these ratios must rest with the club's executives.

5. Once these ratios are calculated, they need to be transparent and shared. It would be good for the finance and accounting staff to show these data points on simple graphs or charts and share with other managers, the board, and all staff including the hourly staff. If the food cost is high, explain to the kitchen and wait staff as to some of the possible causes so they can help to watch the expenses. The more people share the common vision of the financial health of the club, the better the operation will be.
6. Again, do not be caught in looking at only the percentages and forget about the absolute dollar value behind the ratios. Remember always to compare apples to apples. Club executives need to review both absolute dollars and relative measurements.

For the academy, there are also a few ideas that hospitality professors may want to consider:

1. Educate future club managers to look at ratios and trend analyses as their secret weapon of astute management. Many hospitality programs offer club management courses. During the semester, there may be one or two classes dedicated to financial management in clubs. It is important to not only stress budgeting in clubs but also daily financial management.
2. Challenge students to come up with a financial dashboard based on ratios. Ask students to "interpret" the result and make operational changes and suggestions as a class project. The key is not to recite the formula of a current ratio and know how to divide one number over another. Rather, the key is to know what that number means and what the next steps should be in order to make that number better in the next reporting period.
3. Work with local chapters of CMAA where applicable to provide students with financial projects and opportunities in club financial management. This may include having a chief financial officer of a

club share the various accounting personnel and their responsibilities with the students. This may also be a tour of the accounting office of the club, where the food supplies are stored, how inventory is being taken, and similar activities.

4. CMAA is a tremendous supporter of education for their members and also students in hospitality programs. Student are welcomed and do join the club managers in the annual CMAA conference. Perhaps educators can work with CMAA leadership to have club managers offer a panel discussion with the students on financial matters.

The more one understands how the club is functioning through data, the more one can make educated business decisions rather than simply what one “thinks” might be the proper course of action. Data are real, data show facts, and data provide the foundation for decision making. Together with the minds of the staff, new ideas can be generated to serve the members and turn the club into a profitable business organization. This is a true win-win situation.

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