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2012 TOP FINANCIAL PERFORMERS IN THE CLUB INDUSTRY

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ABSTRACT. This study uses survey research to examine the financial performance of the U.S. club industry for 2012. One hundred and ten clubs submitted financial data to this study. 24 financial ratios, together with median key financial data from the balance sheet and the statement of activities were calculated for the sample. Results provide a better understanding of the key financial characteristics of top- and low-performing clubs in 2012. Results further show that regardless of the slight upturn in the U.S. economy in 2012, the financial results for the club industry in 2012 were mixed.

INTRODUCTION

Financial results make up the report card of a year of hard work. Just as parents are looking forward to seeing the As on their children's report cards, club executives are anxious to learn how their clubs performed. Are the financial goals met? Are funds available for the clubhouse renovation? Do the results support a renovation of the golf course greens? Although weekly and monthly operating reports are compiled, it is always the year-end financial statements that set the tone for budgeting for the future and also form the base for distributing rewards to management and employees in the form of bonuses or other incentives.

The club industry has been waiting patiently for a stellar year since the banner year of 2004. Although the economy in general showed some signs of recovery in 2012, the financial results of the club industry may or may not mirror the slight upturn. Therefore, an assessment of the financial picture is useful to club executives. The year of 2012 did bring much good economic news. The unemployment rate dropped from 8.3% in January 2012 to 7.8% in December 2012. It has further dropped to 7.6% as reported

for June 2013 (Bureau of Labor Statistics, 2013a). The average annual consumer price index for 2012 is 229.549, representing a 2.1% annual increase from 2011, 1.2% less than the 3.2% change from 2010 to 2011 (Bureau of Labor Statistics, 2013b). It is the hope that, with unemployment falling and the consumer price index holding steady, the economy can finally be on the road to recovery. While the industry is waiting and hoping, it is important to stay vigilant and monitor all activities and to have all the important financial data benchmarked, both internally and with the industry, so that club executives can make informed decisions for their operations in order to benefit the members.

NEED AND PURPOSE OF THE STUDY

With an economy that is trying to stand on its own two feet to be solid and stable, understanding financial performance and benchmarking against the norm are both important safeguards to ensure that one's club will be on the positive side of the ledger. Financial ratios make up the report card of a club, and they assist club executives to gauge

the performance of their clubs. These ratios often serve as goal-setting points for management. Therefore, knowing the financial results of the industry, club boards and executives can design incentive packages that will not only fit their individual club but will also be competitive with the industry. From managing costs to increasing revenues, even nonprofit clubs are paying closer attention to the financials because any profit margin can be reinvested in the club without assessing the members.

Benchmarking has always been an important topic but has gained greater popularity in the hospitality industry, especially in the last decade or so. Benchmarking is simply comparing one's measurements of performance or business processes to the norm or to the best practices of the industry. For financial measurements, the government has been publishing OSHA's standard industry classification, or SIC code, and the North American Industry Classification System (NAICS). The code of 713910 under NAICS includes establishments primarily engaged in operating golf courses and country clubs, whereas the SIC code of 7997 includes not only the clubs in the hospitality industry, but also aviation clubs, bridge clubs, baseball, beach, bowling leagues, and handball clubs (Schmidgall & DeFranco, 2011b). Firms and publications such as *The Business Almanac*, Risk Management Association's *Annual Statement Studies*, and Dun and Bradstreet (D&B) collect and report financial benchmarks or norms. Yet, both financial and operating ratios are not calculated and reported in one place.

Therefore, the main purpose of this study includes three specific objectives in reporting the financial results of the club industry:

1. The overall financial picture of the club industry in 2012, detailing the 24 major financial ratios and the median of key financial data from the balance sheets and statements of activities.
2. An analysis of the financial results of 2012, detailing the performance of the top and low performers. For this study, the top performers are those clubs that reported

in the top 20% return on assets (ROA) of the group, and the low performers are clubs whose ROAs are in the bottom 20%.

3. The comparison of the top and bottom performers in 2012, using all 24 key financial ratios and key financial data from the balance sheets and statements of activities, using return on assets (ROA) as the delineating criterion.

Through these results and analyses, management in the club industry can benchmark their performances and make proactive decisions and adjustments to influence and maximize future fiscal behavior. The results can also provide hospitality educators information to incorporate into their curriculum for teaching the future leaders of the club industry.

LITERATURE REVIEW

Benchmarking is not new, but it is a much needed and important practice in any industry. Benchmarks are needed in order for a business within an industry to compare itself with its competitors and gauge its own performance. The origin of benchmarking started in the manufacturing industry with Xerox and was documented by Camp (1989) when Xerox first devised and described the process of benchmarking as having five stages: planning, analysis, integration, action, and, finally, maturity, with a system of continuous improvement as a crucial support mechanism to ensure continued success.

Companies and associations in the hospitality industry have been providing such comparison data. For hotels, PKF Hospitality Research, LLC and Smith Travel Research both provide a plethora of choices in reports and tools for hotels to use to benchmark their performances (Hood & Mandelbaum, 2012). Smith Travel's STAR report even includes a competitive set and this report is produced on a daily, weekly, and monthly basis. For clubs, a number of firms such as PKF Consulting USA, LLC; McGladrey, LLP; and Club Benchmarking all have research reports, publications, and special regional reports for clubs. These publications offer exceptional operating

statistics, focusing more on the statements of activities (or income statements) and increasingly including certain ratios from the balance sheets (DeFranco & Schmidgall, 2013). For instance, McGladrey publishes an annual trend report for private clubs in Florida (Newman & Tassitano, 2012), and PKF has their annual *Clubs in Town and Country* publication (PKF Consulting, 2013). Club Benchmarking also produces economic impact reports of the club industry. As mentioned in their *CMAA 2012 Economic Impact Report*, the one special feature of clubs is that clubs are significant producers of “dense, highly local, economic activity” because, unlike hotel guests that are from all parts of the country or the world, club members and club employees live close to the clubs and thus the majority of cash flow and activities are centered in the particular community where the club operates. For 2012, Club Benchmarking reported a \$19 billion economic impact of Club Managers Association of America (CMAA) member-managed clubs (Club Managers Association of America, 2013a). In its other publication, *CMAA 2012 Finance and Operations Report*, Club Benchmarking also offers detailed financial analysis for golf operations and golf shop, to yachting (CMAA, 2013b).

Benchmarking can also be performed internally in a club where budgets and goals are set and the club benchmarks its financial performance to those set goals or to past performance in order to see how much improvement is made. These benchmarks can simply be the amount of membership dues, food revenues, or a certain expense item. They can also be calculated ratios in which one number is divided into another to provide a better financial picture. Each of the major segments of the hospitality industry has a set of these benchmarks. Although some benchmarks are segment specific—such as revenue per available room for lodging, rounds of golf per day for clubs, seat turnover for restaurants, or labor costs per treatment room for spas—some benchmarks cut across the various segments—such as current ratio or profit margin. Each segment also has its own uniform system of

accounts and practices to ensure meaningful comparisons. For the club segment, in the *Uniform System of Financial Reporting for Clubs* (CMAA, 2012), there is a chapter on ratio analysis. The current seventh edition has a history of almost 70 years. Practitioners and educators came together in the interim between each of the last six revisions to ensure that relevant information was incorporated (DeFranco & Schmidgall, 2010).

There are five major categories of financial ratios: liquidity, solvency, activity, profitability, and operating (DeFranco & Lattin, 2007). Liquidity ratios measure the ability of clubs to meet short-term obligations. Some examples of liquidity ratios include current ratio, accounts receivable turnover (times and days), and operating cash flow to current liabilities. Solvency ratios are similar to liquidity ratios in that they measure the potential of clubs to meet their long-term obligations. Some examples include debt to equity, times interest earned, and fixed-charge coverage ratio. The third category is activity ratios, which help indicate management’s effectiveness in using the assets of the club. Food inventory turnover in times and day, beverage inventory turnover, and total asset turnover are some examples. Profitability ratios assist management in determining profit level. The more common are profit margin and return on assets. Finally, operating ratios assist management in determining the efficiency of the operation. Food cost, beverage cost, and labor cost are some of such ratios that cross all segments of the hospitality industry (DeFranco & Lattin, 2007).

As in many areas, the lodging segment of the hospitality industry seems to always be in the forefront. The lodging segment had the first uniform system of accounts in 1926, and research on ratios in the hospitality industry also started with lodging. In the 1980s, Geller and Schmidgall (1984), Temling (1985), and Schmidgall (1988) all performed ratios research for the lodging industry. In 1991, Swanson studied only the liquidity aspect and published the first detailed research on the liquidity of lodging firms (Swanson, 1991). It was more than a decade later that other ratios articles

added to the body of knowledge, when Singh and Schmidgall (2002) started a research agenda on financial ratios in the lodging industry.

Ratio analysis in the club area began later. Schmidgall and Damitio wrote the text *Accounting for Club Operations* (2001), which became the standard text for the club industry, endorsed by the CMAA. In the last decade, Schmidgall teamed 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, 2009b), investigating inventory practices (DeFranco & Schmidgall, 2009a), and began looking at the revision of the 2003 edition of the *Uniform System* (DeFranco & Schmidgall, 2010). Although 2004 was a banner year for the club industry, this body of research revealed one major concern—the increasing amount of debt accumulation over the years. As interest obligations increase, profitability decreases (Schmidgall & DeFranco, 2010; Schmidgall & DeFranco, 2011b). It is obvious that the top-performing clubs carry the least debt, both in actual dollars and in percentages (Schmidgall & DeFranco, 2011a). For example, in 2008, the top performers carried an average 23% of debt to equity whereas the low performers were at a rate of 45%. With less debt, the top performers were able to pay their interest 17.5 times and the low performers were barely able to cover their interest at 1.06 times (Schmidgall & DeFranco, 2008). Club management is taking many proactive actions, from outsourcing functions that are not part of the internal core competency of a club (such as housekeeping), to increasing communication with members, to changing menus and purchasing practices to contain food costs (Tassitano & Newman, 2009), to running their clubs with long-term strategic planning more in the nature of a big business (Newman & Salmore, 2012), all to stay afloat in this tough economy.

The restaurant segment also has a section on restaurant industry averages and rules of thumb for key margins and expenses in its new

8th edition of the *Uniform System of Accounts for Restaurants* (2012); and the newest comer, the spa segment, also dedicates a section on ratio analysis and statistics in its *Uniform System of Financial Reporting for Spas* (2005).

THE COLLECTION AND ANALYSIS OF DATA

The Hospitality Financial and Technology Professionals (HFTP) supports research for its club membership and shares contact information on 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 CMAA. The questionnaire was sent shortly after May 1, 2012, after the tax deadline of April 15, when the financial professionals have ready access to year-end summaries. The survey itself was divided into four areas and gathered demographic data of the clubs in Part I and financial information in Parts II through IV.

Nine hundred members of the club industry who were members of HFTP were mailed the questionnaire. Fifty were returned as undeliverable, and 110 completed questionnaires were received, resulting in a 12.6% response rate. Though the response rate was lower than desired, it was approximately the same as that of prior ratio research studies conducted for the club industry. The data from the completed questionnaires was analyzed using the latest version of SPSS.

THE RESULTS

As mentioned, the overall financial picture of the club industry in 2012, detailing the 24 financial ratios and the median of key financial data from balance sheets and statements of activities will be shared. In addition, using ROA as the delineating criterion, the results of the top performers of 2012 will be compared with those of the low performers. Therefore, the top performers are those that reported in the top 20% ROA of the group, and the low performers are clubs whose ROAs are in the bottom 20%. In order for the data not to be skewed by

financial figures of clubs that were at the extreme ends of the data collected, mean average figures were used to describe the demographic characteristics of the clubs and median figures were used for financial data calculation and analysis.

The Clubs

Five questions were asked of the respondents in order to compile a profile of the clubs in this study: the titles of the respondents, types of clubs, size of clubs according to membership, location, and profit orientation. Table 1 summarizes the results.

The majority of the respondents have the title of Controller (68%), with Chief Financial Officer ranking second at 17%. Clubs have adopted the title of Chief Financial Officer in the last few years to replace the use of Controller. Ranking third is Director of Finance at 5%, followed by Assistant Controller at 3%. The remaining 7% include the titles of General Manager, Accountant, Accounting Manager, Business Manager, Club Accountant, and Financial Manager.

TABLE 1. 2012 Demographics of Respondents

	Low Performers	Average	Top Performers
Types of clubs:			
Country Clubs	75%	61%	60%
Golf Clubs	10%	16%	0%
City Clubs	10%	9%	25%
Other Clubs	5%	14%	15%
Total	100%	100%	100%
Number of Members:			
< 300%	11%	11%	5%
300–500%	21%	17%	17%
501–750%	26%	32%	22%
751–1,000%	22%	12%	5%
1,001–1,500%	10%	16%	34%
> 1,500%	10%	12%	17%
Total	100%	100%	100%
Location of Clubs in U.S.:			
East	58%	60%	53%
Central	21%	29%	37%
West	21%	11%	10%
Total	100%	100%	100%
Profit Orientation:			
For Profit	5%	10%	0%
Non Profit	95%	88%	100%
Others	0%	2%	0%
Total	100%	100%	100%

As for the types of clubs, 61% of the respondents were from country clubs, with golf clubs being second (16%), and city clubs third (9%). Other clubs that responded to the survey included a beach club, common interest realty association (CIRA) club, owners/property owner association club, country club without golf, golf and beach club, golf and yacht club, yacht club, and tennis club. The 20 low-performing clubs consisted of 85% golf and country clubs compared to 60% of the 20 top-performing clubs, which were country clubs. The top-performing clubs included five city clubs (25%), and the low performers included only two city clubs (10%).

When the size of the clubs in terms of membership is calculated, the respondents fall into three distinct groups. The group that is most popular and has about a third of the respondents (32%) are clubs with 500–750 members. This is followed by the 300- to 500-members group at 17% and the 1,001- to 1,500-members group at 16%. Then, the fewer-than-300-members group came in at 11%, and the 751- to 1,000-members group and the over-1,500-members clubs both reported in at 12%. The top-performing clubs tended to be large clubs as 51% of the top-performing clubs had over 1000 members compared to 20% of the low-performing clubs. Eighty percent of the low-performing clubs were clubs with 1000 or fewer members compared to 49% of the top-performing clubs. Respondents were provided several choices for indicating their number of members, such as < 300, 300–500, 501–750, and so on. To determine an estimated number of members, the percentage of the size of clubs was multiplied by the mid-point of each. The high and low categories of < 300 and > 1500 for the calculation were treated as 300 and 1500. The result was 786 members for the median club, 747 members for the low-performing clubs and 944 members for the top clubs.

As with similar studies performed previously, the majority of the clubs are located in the eastern United States (60%). The central United States has almost 30% of the respondents (29%), and the western United States came in third at 11%. The major difference location-wise

between the top-performing and low-performing clubs is that 37% of the top performers are located in the central United States and 10% in the western United States compared to 21% from each region in the low-performing club category.

As expected in the private club industry, the vast majority (88%) are nonprofit in nature. As shown in Table 1, there is little difference in profit orientation between top- and low-performing clubs.

2012 Financial Performance

A total of 24 financial ratios in five categories is calculated. Each ratio is represented by its median for all clubs, the median for the top 20% of the clubs is based on ROA, and the median for the bottom 20% of the clubs is also in terms of ROA. These three points will

provide comparison references for clubs in order to gauge their performance (see Table 2).

Liquidity Ratios. Four liquidity ratios in this section provide information indicating how well a club is able to meet its short-term obligation or pay bills that are due within a year.

1. Current ratio = current assets / current liabilities.

This ratio expresses current assets divided by current liabilities. Thus, a 1.0 current ratio indicates that a club has equal amounts in current assets to cover its current debts. For 2012, the median club reported a current ratio of 1.32, meaning that for every dollar of current debt, the club had \$1.32 in current assets, and thus was able to pay off the current debt and had \$0.32 extra. The interesting fact was that the top

TABLE 2. 2012 Comparison of Key Financial Ratios of Top and Low Performers

	Low Performers	Median	Top Performers
Liquidity Ratios			
Current Ratio	1.45	1.32	0.92
Accounts Receivable Turnover	7.52	11.15	9.92
Average Collection Period (days)	49	33	37
Operating Cash Flows to Current Liabilities	-0.04	0.18	0.14
Solvency Ratios			
Operating Cash Flows to Long-term Debt	-0.01	0.07	0.10
Long-term Debt to Total Capitalization	0.40	0.29	0.28
Debt-equity Ratio	0.68	0.41	0.40
Times Interest Earned	-6.31	1.74	34.37
Fixed Charge Coverage	-1.71	1.43	21.48
Activity Ratios			
Food Inventory Turnover			
a. Times	15.65	19.04	16.79
b. Days	23	19	22
Beverage Inventory Turnover			
a. Times	4.65	3.93	3.70
b. Days	79	93	99
Golf Merchandise Inventory Turnover			
a. Times	2.05	3.04	3.28
b. Days	178	120	111
Property & Equipment Turnover (times)	0.79	0.62	0.87
Total Asset Turnover (times)	0.50	0.51	0.68
Profitability Ratios (%)			
Profit Margin	-11.8%	0.9%	18.1%
Return on Assets	-5.9%	0.5%	12.2%
Operating Efficiency	7.8%	17.6%	31.0%
Operating Ratios (%)			
Food Cost Percentage	40.7%	44.2%	38.5%
Beverage Cost Percentage	34.0%	32.7%	29.9%
Golf Merchandise Cost Percentage	60.9%	49.2%	32.0%
Labor Cost Percentage	61.9%	51.3%	52.9%

performers had only \$0.92 of current assets to cover every dollar of debt, whereas the low performers in the case reported the highest number of 1.45 with \$0.45 extra in current assets.

2. and 3. Accounts receivable turnover = total revenues / average accounts receivable (times and days)

With members having an open account with clubs and bills for services rendered being sent at the end of the accounting period, accounts receivable turnover is an important data point for any club executive. The two ways to measure accounts receivable turnover are times and the number of days. By looking at these numbers, club executives can monitor the rate at which they collect the receivables from the members.

For 2012, a median of 11.15 times was reported. One would like to see a higher number in the times, as it means that clubs are collecting the money due to them faster. When dividing 365 days per year by 11.15, 33 days was the result. This means that the median club took 33 days in 2012 to collect all the funds owed to them. The top performers reported a turnover of 9.92 or 37 days whereas the low performers reported only 7.52 times or 49 days. If a club needs almost 50 days to collect funds due to them, it also means that this club might need some other means to provide cash for operations. Extending credit for almost 50 days is not a good sign.

4. Operating cash flows to current liabilities = operating cash flow / average current liabilities

This last liquidity ratio is operating cash flows to current liabilities. This is a very useful indicator because it considers the amount of cash generated by the club through operations that are used to pay off current debt. The 2012 figure of \$0.18 was not very encouraging as a median figure, and only \$0.14 was reported for the top performers. The most worrisome part was that the low performer reported a negative

number of $-\$0.04$, signifying that the club did not generate a positive cash flow from its operations.

Overall there does not appear to be too much difference in liquidity based on the profitability of clubs. The low-performing clubs have fewer current assets than the top performers but their current liabilities are nearly one million dollars less!

Solvency Ratios. Five ratios were calculated to provide the picture of solvency—the ability of clubs to pay their long-term obligations. In other words, these five ratios put together showed how well clubs in 2012 were able to meet obligations that were due over a year's time. Solvency ratios are calculated from numbers from the balance sheet, the income statement, and the statement of cash flow.

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

This first solvency ratio mirrors the last liquidity ratio with the exception that the denominator is average long-term debt. Because the results of the short-term version were not too encouraging, one can expect the results of this ratio to be low as well. Indeed, the median club reported only a \$0.07 operating cash flow to cover every dollar of long-term debt. The top performers were better, reporting at \$0.10. However, this meant that the top-performing clubs were able to generate only \$0.10 to meet each dollar of long-term debt. The $-\$0.01$ reported by the low performers presented an issue, as no creditors would like to see solvency ratios that are low, let alone in the negative range.

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

Although for most ratios it is true that higher is better, when it comes to long-term debt to total capitalization level, one would like to see this

number as a smaller figure because this means the club is holding less long-term debt when compared to its total capitalization. The median club reported a 0.29 times, meaning that for every \$1.00 of the clubs' long-term debt and members' equity, \$0.29 was financed using long-term debt. The top-performing clubs just edged this by one cent, reporting in at \$0.28 whereas the low-performing clubs reported 0.40 times. If \$0.40 of long-term debt makes up each dollar of long-term liabilities and members' equity added together, these low-performing club were also shouldering larger interest payments for these debts than the most profitable clubs were paying.

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

If the total long-term debt to total capitalization was \$0.29, and if the long-term debt is taken away from the denominator to calculate the ratio for simply the long-term debt to members' equity, one would expect the ratio to be higher. Thus, this ratio is a stricter measurement of debt level, and just as for the other ratio, a smaller number is desired. Indeed, for 2012, the debt-equity ratio of the club industry was at \$0.41, indicating that the median club had \$0.41 debt for each \$1.00 of equity. The top performers again edged the median by one cent at \$0.40 but the low performers were at \$0.68.

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

With the previous two solvency ratios being quite high, this following ratio is expected to be low. This next ratio, times interest earned (TIE) ratio measures the number of times a club is able to pay its interest payment obligation with its earnings before interest and tax. Obviously, a higher number is desired because this would mean the clubs have adequate funds to pay their interest payments. In previous years, the median club had TIEs from less than 1.00 to over 1.50 (DeFranco & Schmidgall, 2009b;

DeFranco & Schmidgall, 2008). In 2010, this ratio was reported at 1.48 and this increased to 1.74 in 2012, which is good news (Schmidgall & DeFranco, 2011b). This means the median club had \$1.74 of earnings before interest and tax to cover every \$1.00 of interest payment obligation. As seen from the previous debt ratios, the top performers were carrying less debt and they reported a very sizable margin of a 34.37 TIE. However, the low performers reported a -6.31, meaning their earnings before interest and tax were in the negative already and they were not able to cover their interest payments with their current earnings. In fact, the loss that the low performers sustained was 6.31 times their interest obligation.

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

The last solvency ratio is fixed charge coverage. It is a cousin to the TIE in that it is TIE including rent expense in both the numerator and denominator of the TIE ratio. With rent added, the median club reported a 1.43 times, the top performers still had a sizable margin of 21.48 times, and the low performers were at -1.71 times. Overall, in 2012, the low performers did not have the profitability to adequately handle their interest and rental expenses.

There is a marked difference in solvency of the most and least profitable clubs. This is clearly revealed in the two ratios based on the balance sheets and the two based on the income statements. The least profitable clubs must carefully manage their assets and certainly try to reduce their long-term debt, which is nearly \$300,000 more than the most profitable clubs, which have considerably more members.

Activity Ratios. Activity ratios assist management to understand its own ability to utilize the clubs' assets in order to provide services and generate profits. Five activity ratios are reported with the first three expressed in both times and also number of days. The first three ratios focus on inventory management.

**10. and 11. Food inventory turnover =
cost of food used / average food inventory
(times and days)**

In 2012, the median club turned over its food inventory 19.04 times, meaning that on the average of every 19 days, the entire food inventory was replenished by new items. For this ratio, as most ratios, the higher number of times are desired as higher times will reduce the number of days food items sit in the club as inventory. The top performers, interestingly, reported a lower turnover ratio at 16.79 times, meaning it took about 22 days for their food inventory to turn over. And the low-performing clubs were very similar to the top performers because they were only slightly behind, turning over their food inventory at 15.65 times or every 23 days.

**12. and 13. Beverage inventory turnover =
cost of beverage sold / average beverage inventory
(times and days)**

Beverage inventory normally has a very low turnover because liquor and certain wines tend to be kept as inventory for some time before consumption. The median beverage turnover was reported at 3.93 times or 93 days—about three months. This was at a level quite consistent with previous years (DeFranco & Schmidgall, 2007; DeFranco & Schmidgall, 2009b). Again, interestingly, the top performers reported lower turnovers at 3.70 times, taking 6 extra days at 99 days for the beverage inventory to be totally replenished. The low performers reported the highest turnover at 4.65 or 79 days—a total of 20 days better than the high performers.

**14. and 15. Golf inventory turnover =
cost of golf merchandise sold / average
golf merchandise inventory (times and
days)**

The third set of inventory ratios measures golf merchandise turnover. Normally, this ratio is the lowest of the three because golf merchandise,

although seasonal, is not perishable as is food or beverages. The median club reported a 3.04 times or 120 days, taking about 4 months' time to turn over its golf merchandise. The top performers managed to be the best of the three, reporting at 3.28 times or 111 days. The low performers, however, reported at 2.05 times, taking 178 days, or almost 6 months, to have new inventory replacing the old.

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

The next activity ratio looks at how well management is using its property and equipment to generate revenues. A ratio of 1.00 means a club is able to generate a dollar in revenue with each dollar of net fixed assets. Thus, a high number is preferred. In 2012, the median club reported a property and equipment turnover of 0.62, meaning \$0.62 in revenues for each dollar of fixed assets. As expected, the high-performing clubs were able to generate a quarter dollar more at \$0.87, whereas the lower performers beat the median at \$0.79. This shows that the low performing clubs are generating revenues. Therefore, it appears that it is the cost structure that is absorbing away the revenues, leaving a negative figure before interest and tax.

**17. Total asset turnover = total revenues
/ average total assets**

The final activity ratio measures management's ability to generate revenues by utilizing all assets rather than simply fixed assets. Because the denominator has now increased by current and other assets, the number is expected to be less than the previous ratio. The median of 0.51 meant the median club was able to generate \$0.51 in revenues for each \$1.00 of total assets. The top performers were able to generate \$0.68 and the low performers were only one cent behind the median at \$0.50.

Overall, the activity ratios suggest a little bit of a mixed bag because the least profitable

clubs appear to manage their beverages better than the more profitable clubs. The management of the food inventory appears to be a draw, and, for the other three ratios, the top clubs are doing a better job!

Profitability Ratios

The fourth category focuses on profitability. Because the top performers and low performers were separated using ROA as the criterion, it is expected that the top performers should report the highest profitability ratios.

18. Profit margin = net income / total revenues

The median club in 2012 barely made a profit at 0.90%. Historically, clubs have had much lower profit margins than other segments of the hospitality industry, and the vast majority are organized as not-for-profit organizations. The top performers were doing very well reporting an 18.1% profit. With the median club at just over break-even, and knowing the negative TIE and fixed charge coverage, one would expect the low performers to report a loss. The loss was at -11.8%, which is substantial. The low performers really struggled in 2012.

19. Return on assets = net income / average total assets

For the year 2012, the median club had a return on assets at 0.5%, or five cents of profit to each dollar of assets. The difference between the top and low performers, although not as substantial as the profit margin, was still almost 20%. The top performing clubs reported a return on asset at 12.2% whereas the low performers had a loss at -5.9%.

20. Operating efficiency ratio = income before fixed expenses / total revenues

This last profitability ratio measures the effectiveness of management by dividing income before all fixed charges rather than net income, by total revenues. Many consider

this measurement to be a more reasonable measurement of the effectiveness of management because many of the fixed charges such as interest, insurance, property taxes, depreciation, and rent are based on decisions made by the board of directors rather than management. Thus, items that management has little control over should not be the basis for evaluating them. The median club responded at 17.6%. However, the top performers reported a high of 31% whereas the low performers had a positive percentage at 7.8%.

Clearly on every count (all three ratios) the most profitable clubs are doing better than the least profitable. The differences are major for each ratio!

Operating Ratios. The last category of ratios is operating ratios. The aim of these four ratios is to look at the day-to-day operations and expenses of a club, specifically the big four: food, beverage, golf merchandise, and labor. In restaurants, food costs and labor costs each normally account for a third of the restaurant dollar. In clubs, however, these two are normally a bit higher, with labor always being the largest percentage. At the end, one of the most important incentives members look for in joining a club is the services they will receive.

21. Food cost percentage = cost of food sold / food sales

Note that the first three ratios in this category are complementary ratios to the inventory turnover ratios in the activity category. Thus, it will be more helpful to look at food-cost percentage and food inventory turnover in times and days together as three ratios. The same is true for beverage costs and turnovers, and finally, golf merchandise costs and turnovers. The median club reported a food-cost percentage of 44.2%, which was a bit higher than previous years. The top performers were able to control their food cost at 38.5% and even the low performers came in better than the median, at 40.7%. When this ratio is analyzed with the turnover ratios, the low performers really showed that they were doing

their best, managing their food inventory and cost and outperforming even the median club.

22. Beverage cost percentage = cost of beverages sold / beverage sale

In the beverage area, although the low performers had the best inventory turnover at 4.65 times, their beverage cost was the highest, at 34%. Although some may think this is not high, beverage has such a high markup or margin that, most of the time, beverage cost should be between 25% and 30%, with some independent restaurants enjoying an even lower percentage. The median club reported a beverage cost of 32.7% and the top performers came in at a low of 29.9%.

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

The golf merchandise cost percentage is normally quite high, but 2012 saw some very high numbers. The median club indicated a rate of 49.2%, with the top performers enjoying a low of 32% whereas the low performers struggled at over 60% at 60.9%. In comparison, the 2010 median was only at 32.1%, with the top-performing club at 36% and the low-performing club at only 23%. Perhaps the clubs should reevaluate how the golf merchandise was priced and managed this past year.

24. Labor cost = cost of labor / total sales

As mentioned, labor cost has historically been the highest cost in the club industry. The median of 51.3% confirmed once again that it is the highest of the four costs. Even the top-performing clubs reported a labor cost at 52.9%, 1.6% higher than the median, and the low-performing clubs were at 61.9%. At such a high labor cost, it is no wonder that the low-performing clubs had a difficult time in 2012.

Again, the most-profitable clubs are outperforming the least-profitable clubs; however, only four ratios are considered. Still, the four are

major ratios and labor cost percentage is the most important. The labor is \$.09 better on each labor dollar for the top performers compared to the low performers.

Key Median Balance Sheet and Statement of Activities Financial Data

When analyzing financial performance, one should really do a “360-degree” analysis. This means that although ratios are vital means for one to understand and measure and compare, other data are also invaluable resources and can be part of the executive’s daily or periodic dashboard. To this end, key median data from balance sheets and statements of activities are compiled in Table 3, with the figures of the median club in the first column, followed by the results of the low and top performers, and finally the dollar differences and percentage differences between the top and low performers. Because these figures are median figures, and only selected accounts are shown, these numbers will not add up to a total of 100%.

The first five accounts summarize the current assets. The median club enjoyed the highest figures, keeping a good amount of cash and cash equivalents on hand, and had the lowest food inventory. The top performers, with less cash, compensated with the highest level of accounts receivables, and therefore reported a lower accounts receivable turnover than the median club. The low-performing clubs were trying to manage their inventory and held only about \$30,200 in beverage inventory so as to free up cash for other uses. Its high beverage-inventory turnover and holding the inventory for only 79 days showed the best beverage-inventory management among the three groups.

A major difference in terms of balance-sheet data is the negative 16.22% difference in long-term liabilities between the top- and low-performing clubs and also the negative 9.12% difference in total liabilities. For the low-performing clubs to carry more long-term and thus more total liabilities, this foreshadows some tough times coming for the low-performing clubs. Long-term liabilities mean these debts will be carried by the clubs for a number of years. This translates to interest expense increases because

TABLE 3. 2012 Year-End Key Financial Data from Balance Sheets and Statements of Activities

Balance Sheets					
Year End Balances	Median	Low Performers	Top Performers	\$ Difference	% Difference
Cash and Cash Equivalents	\$855,909	\$440,250	\$742,919	\$302,669	40.74%
Accounts Receivable	\$645,918	\$699,621	\$1,088,000	\$388,379	35.70%
Food Inventory	\$31,779	\$35,823	\$46,368	\$10,545	22.74%
Beverage Inventory	\$46,686	\$30,200	\$53,436	\$23,236	43.48%
Total Current Assets	\$1,929,483	\$1,564,068	\$1,895,626	\$331,558	17.49%
Total Fixed Assets (net)	\$11,673,453	\$6,477,597	\$10,376,854	\$3,899,257	37.58%
Total Assets	\$14,346,816	\$10,191,887	\$13,640,448	\$3,448,561	25.28%
Total Current Liabilities	\$1,465,980	\$1,075,847	\$2,065,824	\$989,977	47.92%
Mortgage Payables Long-term	\$1,421,335	\$1,353,465	\$1,164,622	(\$188,844)	(16.22%)
Total Liabilities	\$3,633,630	\$3,499,420	\$3,206,937	(\$292,483)	(9.12%)
Total Members' Equity	\$8,912,195	\$5,182,322	\$8,050,437	\$2,868,115	35.63%
Statements of Activities					
Amounts for 2012	Median	Low Performers	Top Performers	\$ Difference	% Difference
Total Dues	\$3,438,226	\$2,914,700	\$4,611,569	\$1,696,869	36.80%
Total Food Sales	\$1,326,089	\$1,258,925	\$1,980,183	\$721,258	36.42%
Total Beverage Sales	\$558,210	\$414,663	\$697,388	\$282,725	40.54%
Total Golf Pro Shop Revenues	\$649,964	\$414,800	\$1,008,262	\$593,462	58.86%
Total Initiation Fees	\$354,218	\$171,141	\$924,964	\$753,823	81.50%
Total Revenues	\$7,310,339	\$5,107,601	\$8,908,804	\$3,801,203	42.67%
Cost of Food Sold	\$585,625	\$512,938	\$763,052	\$250,114	32.78%
Cost of Beverage Sold	\$182,314	\$141,071	\$208,596	\$67,525	32.37%
Cost of Golf Merchandise Sold	\$319,650	\$252,436	\$322,231	\$69,795	21.66%
Total Payroll Expenses	\$3,749,323	\$3,161,382	\$4,709,580	\$1,548,198	32.87%
Interest Expense	\$89,159	\$82,492	\$48,320	(\$34,173)	(70.72%)
Depreciation Expense	\$779,549	\$547,862	\$785,295	\$237,433	30.23%
Rent/Lease Expense	\$64,925	\$139,823	\$30,424	(\$109,399)	(359.58%)
Property Insurance Expense	\$118,932	\$89,474	\$136,447	\$46,973	34.43%
Personal Property Tax Expense	\$23,100	\$21,009	\$23,961	\$2,952	12.32%
Real Property Tax Expense	\$146,529	\$121,587	\$122,651	\$1,064	0.87%
Utilities Expenses	\$283,783	\$258,205	\$330,507	\$72,302	21.88%
Total Net Income (Increase in Net Assets)	\$65,964	(\$602,720)	\$1,612,315	\$2,215,034	NM
Total Operating Cash Flows	\$257,168	(\$38,749)	\$283,729	\$322,478	NM

Note. NM = not meaningful.

interest will have to be paid over a greater number of years to come, as well.

The data from the statements of activities also supported the concern about the debt. The difference in interest expense showed that the high-performing clubs were paying only 70% of the debt level the low-performing clubs had to bear. Yet, they are taking in more dues, collecting more food sales, enjoying more beverage sales, and generating more than twice the low performing clubs in golf pro shop revenues. The difference in initiation dues between these two groups was also astounding. The average initiation fees were only at \$171,141 for the low performers whereas the top performers reported at \$924,964. The difference is over 80%!

Besides revenues and interest expense, rent and lease expense also showed a marked difference. The low performers were paying rent/lease at almost \$140,000, whereas the top performers were looking at only about \$30,000. To make matters worse, the lower revenues did not translate to lower labor costs. The low-performing clubs had an average labor cost of over \$3.1M, whereas the top-performing clubs had a labor cost at \$4.7M. The difference is only 32.87% for the top performers. All these contributed to a net income of -\$602,720 and a operating cash flow of -\$38,749 for the low performers. The top performers, on the other hand, were enjoying a net income of over \$1.5 million (at \$1,612,315) and a positive operating cash flow at \$283,729.

CONCLUSIONS AND IMPLICATIONS FOR FUTURE STUDIES

The year of 2012 was really a year of the “haves” and the “have nots.” The clubs that had the revenues inflow also enjoyed the status of taking on less debt and will be in the driver’s seat for the years to come. The clubs that had lower revenues in all areas tried their best to control costs in order to net more of the revenues into income. They did their best in working with their beverage inventory but took a beating on their golf merchandising and labor costs. They also had to take on more debt, thus hurting their liquidity and solvency ratios, driving their profitability ratios down. The way they manage their debt level in the near future will be critical.

Clubs, as well as any business, should really make it a practice to manage their operations by using data as the basis for making sound decisions. Ratios and statement analyses, when used together, can provide insightful information to management. With the low-performing clubs struggling these past few years, what can each club do to ensure more solid financial results in future years? There are eight implications drawn from this research that can be applied to the club industry or to hospitality education.

First, whether a club is a top or low performer this year, it is crucial for each club to have a set of dashboard metrics that management will review on a periodic basis. Use the 24 ratios calculated in this article as a starting point. Some of these metrics, such as food costs and beverage costs, need to be monitored on a weekly dashboard. Other metrics, such as turnovers, can be calculated for each month. Thus, setting a dashboard is the first step. When setting this dashboard, it is important to share with the executive team some historical data and compare them to the industry. This will paint a better picture for the executive team, and everyone can better understand how well, or not well, the club is performing.

Second, once a dashboard is set, the executive team has to set realistic goals for each metric on the dashboard. To go a step

further, the team needs to involve the next level of management in setting the dashboard metrics. This will ensure “buy-in,” but more important, the goals will be set at a level to be challenging yet achievable. Looking at the 2012 results, a few areas are of concern. If the club is in the low-performing category, the General Manager may want to share the fixed charges results with the Board and see if certain loans can be re-negotiated. With the Federal Reserve contemplating an increase in interest rates, it may not be long before low-interest loans are no longer available. Thus, the question of assessment from the members as a source of funds may need to be placed on the discussion table.

A third course of action is to highlight the top- and bottom-performing areas of each club to see if each of these areas can be sustained or improved. This is an action that should be taken even further to include the associates. For instance, the low performers outperformed the median and top performers in managing their beverage inventory. So, what is the beverage inventory management procedure of your club? What is your beverage inventory turnover compared to that of the industry in general? Do you simply put a certain brand of liquor or wine into your inventory as soon as a member asks for it once? If so, and if such inventory is sitting on the shelf, can the club make a special pairing of this wine or liquor with a certain dinner special in order to use the inventory and at the same time realize some beverage sales? What about organizing a special tasting event of various wines or liquor? Have a meeting with the associates and challenge them to come up with new ideas. Perhaps a contest among the servers, to see who can sell the slow-moving inventory in the storeroom, will result in increased sales. A \$25 or \$50 gift certificate for the winning idea is worth more than hundreds or thousands of dollars of beverage inventory simply sitting on the shelf.

A club exists because of its members. With more members, sales should increase accordingly. Thus, a suggested fourth course of action is to evaluate the membership level and make

sure the members are satisfied. Surveys are great tools to gather data. However, much useful data are sometimes best collected by the General Manager or Club House Manager visiting with members during the family night or Sunday brunch events. The club business is still a people business. As the economy appears to be slowly recovering, it may also be beneficial to check membership records for past members who left the club because of the economic downturn. Perhaps a club can consider waiving the rejoining fee or have the first month's dues on the house to welcome these members back to the club.

Fifth, always remember there are two ways to make income—increase revenues or control costs. If a club can do both at the same time, then a low-performing club can turn around very easily. Therefore, besides dues income, clubs should assess all activities and services they offer their members, because members are always looking for appealing activities they or their family members can participate in at the club. At the same time, clubs should also look at proven cost-savings procedures or ideas that can be easily adopted. Club managers and executives may want to network with other club professionals to see what others are offering. It is important to keep up with the industry. Publications such as *Club Management* from the CMAA, *The Bottomline* from the HFTP, and others are great sources of ideas.

The feedback loop needs to continuously be working. Thus, the sixth step is, whatever a club decides to do, to set as a goal, to adopt as a new service, there needs to be feedback with regard to whether that goal is met or that service is well received. This means constant communication between management and employees and vice versa. If something works, share the great news! Thank the employees for making it work and ask what can be done better. If something does not work, find out why. Talk to the employees; talk to the members. If the special wine tasting event drew only 10 members instead of the 50 that are planned, was it because the club chose a bad date? Was it the timing? Was it the price?

Was it the marketing? Should it be tried again? Or are the members just not interested in wine tastings? Whatever the reasons might be—learn them! These tidbits of feedback information can assist clubs to make better decisions in the next round.

Seventh, the performance of the club industry should be shared in the classroom with future club managers and leaders. It is fine to talk about theories in class; that is needed. Students need to know why certain things need to happen, why certain things work, why certain policies have to be set. However, it is also important to share current information. If these data points are shared, students will gain a feel for what they will see when they start working in a club, even if they will be starting in non-salaried positions, working their way up. They can see that labor cost should not be as high as 60% and that labor cost closer to 50% is desired. Then they can compare the labor cost at the club at which they are working, and they can perhaps start learning about labor scheduling and other factors in managing labor.

Besides merely information sharing, educators can take the lead to incorporate more active learning opportunities for the students while providing services to the club industry—the future employers of hospitality students. Therefore, this last implication calls for educators to be more proactive in arranging to work with clubs, especially if there are clubs in the vicinity of the hospitality program. For instance, have students come up with a membership campaign or other revenue generating ideas and then present these ideas to a panel of club managers. This does not only bring theories to practice but actually provides students with real-world experiences.

LIMITATIONS

As the response rate of this survey is at 12.6%, there is always the question of generalizability. Similar balance-sheet club-ratio research-experience responses rate from 8.3% to 13%. So although the rate may seem low, it is still at an acceptable level.

FUTURE RESEARCH

Future research can be conducted and can include other segments of the hospitality industry to determine the similarities and differences in ratios and key financial data. Alternatively, homing in on a few selected areas such as labor-cost control or inventory control may shed some light on the best practices for the industry.

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