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Agnes DeFranco
University of Houston

Raymond Schmidgall
Michigan State University

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Financial Health of Clubs for 2014–2016

A Three-Year Review

Agnes DeFranco

Conrad N. Hilton College of Hotel and Restaurant Management, University of Houston, Houston, TX

Raymond Schmidgall

The School of Hospitality Business, Michigan State University, East Lansing, MI

ABSTRACT

Financial ratios analysis is a very useful tool for owners and managers to assess the performance of their clubs. This study surveyed the financial performance of clubs over a 3-year period from 2014 to 2016. While 8 of the 24 ratios showed a positive trajectory each year in the last few years and 8 other ratios reported a positive trend from 2015 to 2016, 7 reported a mixed trend, and 1 experienced a downward trend. The results of the top performers (fifth, or top, quintile) and the bottom performers (first, or lowest, quintile) and clubs of different sizes were also studied. In 2016, the median profit margin was at a high of 1.12%, with the top quintile reporting at 17.3% and the lower quintile at loss of 9.52%.

Keywords: *benchmarking, trends, clubs, financial ratios*

Introduction

The majority of the U.S. economy enjoyed a positive trend in 2014 through 2016. Unemployment rates started to decline from 6.6% in January 2014 and ended at 5.6% by December. This further dropped to 5.0% in December 2015 and was only at 4.7% in December 2016 (Bureau of Labor Statistics, n.d.). When the economy is strong, disposable income tends to increase, and the club industry statistics also mirror this trend. In the 2017–2018 edition of *Trends in Private Clubs* published by RSM (formerly McGladrey), the same 2014–2016 data showed that clubs in Florida, from country clubs to yacht and beach clubs to common-interest reality clubs (CIRAs), more funds were spent on capital improvement per full member equivalent. The only exceptions were clubs in southeast Florida (excluding Boca Raton). Yet the difference was only \$70 (\$6,050 in 2015 vs. \$5,980 in 2016; Newman & Tassitano, 2017). The 2017 PBMares' *Clubs in Town and Country: North American Edition* also reported income

per member increased from \$10,129 in 2014 to \$10,631 in 2016. However, during the same period, total costs and expenses per member also increased from \$9,776 to \$10,465, leaving only \$166 per member in 2016 for debt service, capital improvements, and other needs (Reilly, 2017).

With the safety margin being reduced, a watchful eye on the financials is needed. However, some may argue that since most clubs are nonprofit, the \$166 is a big enough cushion for improvement and emergency funds. It is common knowledge that judicious and careful planning can ensure success. Managers and board members of clubs have a fiduciary duty to their members, and employing financial ratios as part of operations management can help clubs detect trends and make proper adjustments as needed. Instead of looking at a single number of a line item, ratios seek to express two line-item numbers as a relationship, making the results more meaningful. For instance, \$500,000 seems to be a huge number. However, if this is the labor cost of a club and during the same time period the total revenue is \$2,000,000,

CONTACT: Address correspondence to Raymond S. Schmidgall, The School of Hospitality Business, Michigan State University, 240 Eppley Center, East Lansing, MI 48824, USA. Email: schmidga@broad.msu.edu.

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then the \$500,000 only represents a 25% labor cost, which is excellent in the club industry, as the labor cost percentage is often reported around 50%. Therefore, conducting financial ratios analysis is a must.

The Need for the Study

For any business to succeed, mindful and deliberate financial management is key. The hospitality business is a people industry; by all counts, it is important to focus on the guests and the members. However, if management and boards do not pay careful attention to the financials, they will not know if there is enough cash flow to pay daily obligations or debt service. They will not know if the cost structures are out of line or if there are fraudulent activities in their clubs. Therefore, having a set of financial ratios as benchmarks is similar to having a flood gauge in an underpass—one should not drive through an underpass if the water has risen to a dangerous level, as indicated on the gauge. Similarly, once set, when the actual ratios of a club are trending negatively, approaching that set benchmark or gauge, planned corrective actions need to be taken.

Furthermore, the club industry is a large and quite varied industry. From country clubs to city clubs to CIRAs, different services and amenities are provided to the membership. City clubs will most likely not offer golf, while members will find some level of food service in all clubs. Clubs that offer golf in particular should be viewed separately because both the management and the cost structures are very different. Due to the simple fact that acres of land and irrigation systems are needed for a golf course, with special employees and managers who must have the knowledge about the maintenance of the different types of grass, the costs of a golf operation need to be evaluated independently in order for the analysis to be more meaningful.

The Purpose of the Study

To address the needs mentioned in the previous section, this study has three main goals:

1. Report and review the five classes of financial ratios (liquidity, solvency, activity, profitability, and operating) for the club industry in the 2014–2016 period

2. Analyze the difference in financial performance between the top 20% performers and bottom 20% performers for 2016 based on return on assets (ROA)
3. Examine the difference in financial performance between small and large clubs using the membership number as a size proxy

These three goals are pursued to provide information for four major constituencies. First and foremost, to the club industry, this information serves as benchmarking points. With a 3-year analysis, a club can also trend its own financial results of this time frame and make adjustments where needed. Second, owners of clubs—whether members of equity clubs or corporate owners of for-profits clubs—should know how their “businesses” have been performing. It is vital to note that even nonprofit clubs do not wish to operate at a loss, as any shortfalls will eventually turn into additional assessments or debt for the club. Third, for external users such as purveyors, banks, creditors, and the like, financial ratios provide information of how well the clubs can pay their bills and debt service. This is especially important if a club is trying to secure a loan for a major improvement project. Finally, for the academy, financial analyses afford researchers and future club managers the opportunity, information, and knowledge to better understand the nuances of this special segment of the hospitality industry.

Literature Review

Financial ratios are not new; they aim to make a set of financial statements more alive, beneficial, and meaningful to the users by taking a single line-item number and transforming it into a ratio by dividing one number into another. For example, the total current assets as a number show how much a club has in assets that can be turned into cash within 1 year. However, dividing total current assets over total current liabilities to obtain the current ratio will tell the board of a club not only how much assets the club has but also how well the club can pay for its obligations that will become due within a year. One often asks how many ratios a club should analyze in order to obtain a comprehensive picture of a firm. While there is not a definitive answer, and previous research has used anywhere from 15 to more than

50 (Cordery, Sim, & Baskerville, 2013; Ho & Wu, 2006; Cinca, Molinera, & Larraz, 2005), somewhere between 20 and 30 ratios seems to be a reasonable range (Delen, Kuzey, & Uyar, 2013). If the categories rather than the individual ratios are used, then normally five to seven categories are seen (Bhatia & Dhamija, 2015; Rowe & Kim, 2010).

Financial Ratios Studies

Many research studies have been performed on some aspects of financial ratios analysis in different sectors of the economy around the world (Aono & Iwaisako, 2011; Dimitropoulos & Asteriou, 2009; Greenlee, Randolph, & Richtermeyer, 2011; Jesswein, 2010; Kablan, 2013; Rowe & Kim, 2010; Simlai, 2014; Singh & Schmidgall, 2002; Suarez, Lesneski, & Denison, 2011). Noting the importance of ratios and the simultaneous lack of reporting standards and regulations in India, Bhatia and Dhamija (2015) studied 78 companies from the CNX 100 Index, a well-diversified stock index composed of 38 major industries of the Indian economy. The 22 banking companies were excluded due to different financial reporting regulations. With the most-reported ratios being operating profit margin, earnings before interest tax depreciation and amortization (EBITDA) margin, and return on capital, the authors concluded that for better investment decisions, Indian securities market regulations need to mandate reporting of selected ratios.

Similarly, Aripin, Tower, and Taylor (2011) performed their study in Australia and revealed that the overall extent of financial ratio disclosures was only by 5.3% of the 300 companies in the study. Profitability ratios, capital structure ratios, and market share measures were reported more than the other categories. Delen, Kuzey, and Uyar (2013) examined 2,345 records of Turkish companies listed on the Istanbul Stock Exchange from 2005 to 2011. Using return on equity (ROE) as the dependent variable, the most influential financial ratios were earnings before tax to equity, net profit margin, leverage, and sales-growth ratio. And when ROA was used as the dependent variable, earnings before tax to equity and net profit margin still were the top two most predictive ratios, but the debt ratio was ranked third. Thus the predictive power of ratios on a firm's return is once again confirmed.

Financial Ratios Benefit Decision Making

Financial ratios offer a number of benefits to its users. These ratios can assist business organizations in benchmarking the performance of an enterprise with its competitors, assess a firm's risk, predict future performance, and be used in loan contracts and financial modeling (Delen et al., 2013; Faello, 2015). More specifically, financial ratios are also used to predict stock prices (Dimitropoulos & Asteriou, 2009; Kheradyar, Ibrahim, & Mat Nor, 2011), fraud (Zainudin & Hashim, 2016), failure risk, financial distress, and even bankruptcy (Amendola, Restaino, & Sensini, 2015; Cordery et al., 2013; Liang, Lu, Tsai, & Shih, 2016; Tian & Yu, 2017). This type of benchmarking and assessment is applicable in not only manufacturing industries but also nonprofit organizations (Eckerd, 2015), amateur sports clubs (Cordery et al., 2013), and even country and golf clubs (Schmidgall & DeFranco, 2016). Eckerd (2015) states that nonprofit organizations are more in need of understanding their financials than their for-profit counterparts because nonprofits compete with each other for donations and resources. By using simple financial ratios as comparative signals to differentiate the poorest and best performers, organizations can then optimize their strategies (DeFranco & Schmidgall, 2013; Schmidgall & DeFranco, 2011a). Indeed, financial ratios are important tools for management. With financial ratios, owners can also measure management and departmental performance to reward their staff and implement new strategies if needed (Ross, Westerfield, & Jordan, 2003).

Industry standards for benchmarking are available in the business marketplace. Some examples of sources include the Bureau of Economic Analysis of the United States Department of Commerce, Standard and Poor's Compustat, and the financial ratios of the Risk Management Association (RMA). In hospitality, CBRE and Smith Travel Research (STR) provide anything from comprehensive operations reports to tailored special reports for hotel owners and operators to prepare their annual budgets and even to set bonus criteria (Hood & Mandelbaum, 2012).

Financial Ratios in Clubs

Similarly, club boards and management can also benefit from using ratios in their daily operations

to set budgets and devise long-term expansion or renovation strategies. When decisions are made in a systematic manner, backed by data, they are rational and the best.

While CBRE and STR have industry benchmarks for hotels, PBMares publishes *Clubs in Town and Country* (Reilly, 2017), which includes operating ratios for clubs. PBMares also performs tailored research for their clients. RSM is also a partner with the Club Managers Association of America, and they publish white papers in the industry as well (Newman & Tassitano, 2017). A third source is Club Benchmarking, which offers economic impact studies and special regional reports for clubs. These publications for the club industry all point to one fact: Financial analysis is important for the long-term success of any club operation. However, none of these sources publishes in-depth financial ratios analyses.

Financial ratios can be broadly categorized into five types: liquidity, solvency, activity, profitability, and operating (Schmidgall & Damitio, 2001; DeFranco & Lattin, 2007). The aforementioned industry sources cover the operating statistics very well (such as food cost percentage, beverage cost percentage, labor cost percentage, golf cost maintenance per hole, etc.). They also report on some of the profitability ratios such as profit margin. However, they do not go into detail about balance sheet ratios. Perhaps in operating a club, management and boards focus more on operating ratios; thus the industry publications also pay more attention to operating ratios. Yet liquidity and solvency ratios provide clubs with pertinent information about whether they are able to pay their short- and long-term obligations. One may think that because most clubs are private and nonprofit, they ought to have enough resources to pay bills and debt service. However, this may only be true in some cases, especially when the economy is not doing well.

Some of the most frequently used liquidity ratios are the current ratio, acid-test ratio, accounts receivable turnover (times and days), and operating cash flow to current liabilities. The more popular solvency ratios are total assets to total liabilities, debt-equity ratio, capitalization ratio, times interest earned, fixed charge coverage, and operating cash flows to either total long-term liabilities or total liabilities. All these ratios help clubs assess their ability

to pay off their debts and thus are as important as the operating ratios.

Besides liquidity and solvency, activity and profitability ratios can also provide some much-needed information for clubs. Inventory turnover (times and days) for food, beverage, and golf merchandise are very good examples of activity ratios, as are property and equipment turnover and total asset turnover. All activity ratios measure how well a club is able to generate revenues given the level of assets (be it in terms of inventory, equipment, or total assets). Finally, in profitability ratios, profit margin, ROA, and ROE are most often used. As mentioned, the industry sources do report on the profit margin, and according to the *Uniform System of Financial Reporting for Clubs*, the profit margin ratio is classified in the activity category. The *Uniform System* also encourages the use of financial ratios, with an entire appendix dedicated to ratio analysis with one stark difference—since most clubs are nonprofit in nature, the profitability ratios category is replaced by a membership ratios category, with statistics of membership attrition, average initiation fee, average monthly dues, and number of club uses per period (Club Managers Association of America, 2012).

Due to the importance and usefulness of financial ratios in clubs, much academic research that focused on club ratios has been conducted since 2004 (DeFranco & Schmidgall, 2008, 2013; Schmidgall & DeFranco, 2004, 2011a, 2011b). Besides financial ratios, the pair also investigated the *Uniform System* (DeFranco & Schmidgall, 2010), inventory practices in clubs (DeFranco & Schmidgall, 2009), bonus systems in clubs for executives (Schmidgall & DeFranco, 2014), and budgetary controls (DeFranco & Schmidgall, 2017).

Economies of Scale

Numerous studies have been conducted regarding economies of scale, and in particular, the resource-based theory states that larger firms normally have more resources to allocate and thus are more prone to success than smaller firms (Gupta, 1969). On the other hand, there is the theory of diseconomies of scale, which states that too large of a firm in the hospitality industry poses problems in service quality and controlling costs (Heskett, Sasser, & Hart, 1990; Schneider & Bowen, 1995; Zeithaml,

Parasuraman, & Berry, 1990). Heskett, Sasser, and Schlesinger (1997) and Hallowell (1997) conducted studies with industry giants such as Disney and Taco Bell Corporation. However, while most hospitality companies are publicly held firms, the opposite is true for clubs. Therefore, this study also examines whether the size of clubs, using membership number as a proxy, influences the outcomes of financial performance.

Methodology

Questionnaire Design

From the literature, data used in financial ratio studies are mostly extracted from databases of public companies that are readily available for download and analysis. As the club industry in the United States is predominantly private, such information is

not available, and so the financial data have to be supplied by each club. Thus, adapting the questionnaire design of previous club ratios studies (DeFranco & Schmidgall, 2008, 2013; Schmidgall & DeFranco, 2004, 2011a, 2011b), the questionnaire for this study consisted of two major sections. First, respondents were asked for information about the type, size, location, and profit orientation of their clubs and also some personal demographic questions. Then respondents were given a choice of providing a copy of their financial statements or selected line items so the researchers could calculate the financial ratios. A total of 24 ratios grouped into five categories were calculated (Table 1).

Data Collection and Analysis

Hospitality Financial and Technology Professionals (HFTP) was most kind to share its 2016 club

Table 1. Club Industry Financial Ratios: Classifications and Calculations

Ratio	Formula
Liquidity Ratios	
1. Current (times)	Current assets/current liabilities
2. Accounts receivable turnover (times)	Revenue/average accounts receivable
3. Average collection period (days)	365 days/accounts receivable turnover
4. Operating cash flows to current liabilities (times)	Operating cash flows/average current liabilities
Solvency Ratios	
5. Operating cash flows to long-term liabilities (times)	Operating cash flows/average long-term liabilities
6. Long-term debt to total capitalization (times)	Long-term debt/long-term debt and net assets
7. Debt-equity (times)	Total liabilities/total net assets
8. Times interest earned (times)	Net income + interest expense/interest expense
9. Fixed charge coverage (times)	Net income + interest exp. + lease expense/ interest exp. + lease expense
Activity Ratios	
10. Food inventory turnover (times)	Cost of food used/average food inventory
11. Food inventory turnover (days)	365 days/food inventory turnover
12. Beverage inventory turnover (times)	Cost of beverages sold/average beverage inventory
13. Beverage inventory turnover (days)	365 days/beverage inventory turnover
14. Golf merchandise inventory turnover (times)	Cost of golf merchandise sold/ average golf merchandise inventory
15. Golf merchandise inventory turnover (days)	365 days/golf merchandise inventory turnover
16. Property and equipment turnover	Total revenue/average net book value of property and equipment
17. Asset turnover	Total revenue/average total assets
Profitability Ratios	
18. Profit margin (%)	Net income/total revenue
19. Return on assets (%)	Net income/average total assets
20. Operating efficiency (%)	Income before fixed charges/total revenue
Operating Ratios	
21. Food cost (%)	Cost of food sold/food sales
22. Beverage cost (%)	Cost of beverages sold/beverage sales
23. Golf merchandise cost (%)	Cost of golf merchandise sold/golf merchandise sales
24. Labor cost (%)	Cost of labor/total sales

membership database. In May 2016, 836 surveys were sent, with three follow-up reminders in June and July 2016. An 11% response rate was achieved, and statistical package for the social sciences (SPSS) was used for data analysis. Financial ratios were calculated with the raw data provided by the respondents, and both descriptive statistics and frequencies were computed for all questions. Finally, t-tests were performed to ascertain if statistically significant differences exist in the financial ratios between the top and bottom performers and also clubs of different sizes. The top 20% of clubs were compared to the bottom 20%, while 750 members was used as a delineation point, as that number roughly splits the clubs into two fairly equal groups.

Limitation of the Study

Obtaining good data is crucial to the success of any study, be it qualitative or quantitative in nature. This study is on financial analysis, and thus the data need to be from actual financial statements, and therein lies the difficulty. As stated previously, the club industry is predominantly private; therefore, the success of this research depends highly on the willingness of the club to disclose such information, even with the guarantee of anonymity and confidentiality. The data for 2014 was from a response rate of 11.66%, while that of 2015 was at 10%. The data for the last year of this study, 2016, was recorded at 11%. Thus a degree of limitation exists in the generalizability of the results.

Results

Following the purpose of this study, the results are divided into four sections: (1) a report on the demographics of the respondents and their clubs; (2) a report and analysis on the 24 ratios calculated from the data extracted from the balance sheet, statement of activities, and cash flow statements over the 3-year period; (3) an analysis on the difference in financial performance between the top 20% performers and bottom 20% performers in 2016 based on return on asset; and finally, (4) an analysis on the difference in financial performance between clubs with 750 or less members and those with more than 750 members.

Respondents and Their Clubs

The profiles of the respondents were quite similar in 2014 and 2016 in terms of titles, types of clubs, and profit orientation. However, for membership and location, the 2014 and 2015 groups were more alike (Table 2).

More than 60% of the respondents held the title of controller in 2014 and 2016, while only 49% held this title in the 2015 group. The title of chief financial officer was most prominent in 2015 at 32.7% but was only 19.6% and 26.2% in 2014 and 2016, respectively. Besides these two titles, director of finance was also used and reported in at 4.9% to 8.2% in these 3 years. As for “others,” write-in responses included accounting supervisors, assistant club managers, and independent contractors. Regarding types, country club was the majority, at 65.7% in 2016, closely followed by 62.3% in 2014, and reached a high of 70.0% at 2015. Other clubs also reported in at 14.3% in 2016, 15.8% in 2014, but only 10.8% in 2015. The clubs in this “other” category comprised yacht clubs, tennis clubs, athletic clubs, community clubs, and private social clubs.

In terms of size, more than 30% of the 2014 and 2015 clubs had 501–750 members, while another 22% of the 2014 group were in the 301–500 member class, and another 19.3% of the 2015 group were in the 751–1,000 member class. The 2016 respondents were more evenly distributed among the various sizes. Instead of having a single size range over 30%, its highest reporting class was also the 501–700 members class—but only at 26.1%. While clubs with less than 300 members and 301–500 members totaled 22.9% in 2015 and 23.7% in 2014, these two groups made up 30.4% of the 2016 respondents. When location was examined, about 53.0% of the 2014 and 2015 respondents were from the East Coast, as compared to 66.2% in 2016. Not-for-profit orientation still dominated all 3 years (2014: 90.4%; 2015: 83.2%; 2016: 89.9%).

Results of 24 Ratios: 2014–2016

The median financial ratios of the 2014–2016 period are presented in Table 3. The median, rather than the mean, was chosen for analysis so as to avoid the effects of outliers and the absence of the data being normally distributed. The 24 ratios are categorized

Table 2. Respondents and Club Profiles, 2014–2016

	2016 Percentage (%)	2015 Percentage (%)	2014 Percentage (%)
Title of Respondents:			
Controller	60.7	49.0	64.5
CFO	26.2	32.7	19.6
Director of Finance	4.9	8.2	5.6
Assistant Controller	4.9	2.0	1.9
General Manager (CEO)	1.6	4.1	0.9
Other	1.6	4.0	7.5
Types of Clubs:			
Country	65.7	70.0	62.3
City	7.1	7.2	9.6
Golf	12.9	12.0	12.3
Other	14.3	10.8	15.8
Number of Members:			
Less than 300	11.6	7.2	1.8
301–500	18.8	15.7	21.9
501–750	26.1	32.5	31.6
751–1,000	18.8	19.3	16.7
1,001–2,000	17.4	14.5	18.4
Over 2,000	7.2	10.8	9.6
Location of Clubs:			
East	66.2	53.0	53.5
Central	25.4	28.9	26.3
West	8.5	18.1	20.2
Profit Orientation:			
Not for profit	89.9	83.2	90.4
For profit	8.7	10.8	9.6
Others	1.4	6.0	0.0

into the classifications of liquidity, solvency, activity, profitability, and operating. Additionally, ratios that showed improvements from 2015 to 2016 were noted with an asterisk (*), while ratios that showed improvements over the 3-year period studied were marked with a double asterisk (**).

Liquidity. Liquidity ratios, signifying how well a club can meet its short-term obligations, were represented using current ratio, accounts receivable turnover, average collection period, and operating cash flows to current liabilities. The current ratio was at 1.44 in 2014, dropped a bit to 1.33 in 2015, but improved and went back up to 1.71 in 2016. This means that clubs had \$1.71 in current assets to cover every dollar of current liabilities. The accounts receivable turnover increased from 11.50 times to 12.91 times from 2014 to 2015 and finally dropped back to 11.54 times in 2016. Thus while clubs were able to collect money owed to them, the average collection period hovered between 28 to 32 days. The operating cash

flows to current liabilities ratio also shared the seesawing effect. Started at 0.32, this ratio did improve to 0.46 in 2015 but fell back to only 0.26 in 2016.

Solvency. At the same time, the data suggested that clubs had been taking on more debts in the last 3 years, with one saving grace—namely, they were also netting more to earnings (which will be discussed in the profitability ratios). While current liabilities increased, long-term liabilities decreased so that the operating cash flow to long-term liabilities improved over the 3 years from \$0.15 to \$0.23 in 2015 and then to \$0.26 in 2016. This corresponded to the long-term debt to total capitalization, which improved from 0.24 to 0.20 and finally to 0.11 in 2016. However, when total debt was paired with total equity, this ratio was only 0.28 in 2014 but increased to 0.39 in 2015, finally hitting 0.50 in 2016. This means that in 2016, for every dollar of equity, the median club had \$0.50 in debt, whereas it was only \$0.28 in 2014. However, there was a silver lining in times interest earned (TIE), which improved over the 3-year period and was at the highest in 2016. For every dollar of interest obligation, clubs had \$2.98 in earnings before interest and tax to cover every \$1.00 of interest in 2016. When lease expense was added to both the numerator and denominator, this was not as strong, as the median club only had \$1.81 of earnings before interest, tax, and lease expense to cover the obligations of every dollar of interest and lease expense.

Activity. Good news was found in all eight ratios in this category, where half of the eight ratios reported improvement over the 3 years, and the other half reported the same over the last 2 years. This suggested that club management did a good job in managing the assets entrusted to them. Both the food inventory turnover times and days and golf merchandise inventory turnover times and days improved over the 3 years. Instead of taking an average of 25 days to turn over the food inventory, it only took 21 days in 2016, freeing up funds that were tied up in the food inventory. It took 160 days to turn over golf merchandise in 2014 but only 139 days in 2016. For beverage inventory management, the improvement was modest, shortening the days from 100 to 95. Finally, as seen in Table 1, property and equipment turnover is a relationship between revenue and average net book value of

Table 3. Financial Ratios for the Median Club, 2014–2016

Ratios	2016 Median Club	2015 Median Club	2014 Median Club
Liquidity			
1. Current (times)	1.71*	1.33	1.44
2. Accounts receivable turnover (times)	11.54	12.91	11.50
3. Average collection period (days)	32	28	32
4. Operating cash flows to current liabilities (times)	0.26	0.46	0.32
Solvency			
5. Operating cash flows to long-term liabilities (times)	0.26**	0.23	0.15
6. Long-term debt to total capitalization (times)	0.11**	0.20	0.24
7. Debt-equity (times)	0.50	0.39	0.28
8. Times interest earned (times)	2.98**	2.06	1.65
9. Fixed charge coverage (times)	1.81	2.51	1.47
Activity			
10. Food inventory turnover (times)	17.35**	16.81	15.12
11. Food inventory turnover (days)	21**	22	25
12. Beverage inventory turnover (times)	3.85*	3.65	3.67
13. Beverage inventory turnover (days)	95*	100	100
14. Golf merchandise inventory turnover (times)	2.62**	2.52	2.29
15. Golf merchandise inventory turnover (days)	139**	145	160
16. Property & equipment turnover (times)	0.66*	0.52	0.75
17. Total asset turnover (times)	0.53*	0.43	0.53
Profitability			
18. Profit margin (%)	1.12*	0.86	1.65
19. Return on assets (%)	0.59*	0.37	0.87
21. Operating efficiency (%)	20.13*	16.61	17.44
Operating			
21. Food cost (%)	39.87**	42.60	46.23
22. Beverage cost (%)	31.67	31.23	35.11
23. Golf merchandise cost (%)	33.39	30.64	37.08
24. Labor cost (%)	51.05	47.76	50.23

Note: *denotes improvement from 2015 to 2016. **denotes continuous improvement from 2014 to 2015 to 2016.

property and equipment. In 2014, a 0.75 property and equipment turnover signified that for every dollar of property and equipment a club invested, it was able to generate \$0.75 in revenues. This dropped to only \$0.52 in 2015 but increased back to \$0.66 in 2016, thus recording an improvement in this ratio. A similar trend was seen in total asset turnover; it was at 0.53 times in 2014, dropped by 0.10 times to only 0.43 times in 2015, and increased back to 0.53 in 2016, at par with the 2014 number.

Profitability. In terms of profitability, the picture was positive. All three profitability ratios dropped from 2014 to 2015, and they all rebounded in 2016. The profit margin dropped from 1.65% to 0.86% and went back to 1.12%. ROA was only at 0.87% in 2014, dropped to a low of 0.37% in 2015, and increased to 0.59% in 2016. Finally, the operating efficiency ratio, which started at 17.44%, dropped slightly to 16.61% in 2015 and went up to 20.13% in 2016.

Operating. As for operating ratios, the results were mixed. Food cost was the only ratio that saw improvement over the 3 years, starting at a high of 46.23% and slowly dropping to 42.60% and finally to 39.87% in 2016. However, the other three cost percentages did not fare well. Beverage cost percentage went from 35.11% down to only 31.23% in 2015 and went up ever so slightly to 31.67% in 2016. Labor cost percentage also saw a similar trend, starting at 50.23% in 2014, improving to 47.76% in 2015, and going back up to 51.05% in 2016. Golf merchandise cost percentages were well controlled and improved from 2014 to 2015, starting with 37.08% down to only 30.64%. However, it rebounded to 33.39% in 2016.

The Leaders and the Laggards

The clubs in the 2016 study were then divided into the top 20% performers and bottom 20% performers

using ROA as the criterion. Since one of the profitability ratios was used as the criterion, logic follows that, at least, there should be a statistically significant difference observed in ROA—and perhaps on all three profitability ratios. Indeed, statistically significant differences were found in all three profitability ratios (Table 4). For the profit margin, the top performers averaged a 17.3% in return, while the bottom performers reported an average of a -9.52% loss. The top performers had an 11.4% ROA, while the bottom performers logged in at -5.10%. Finally, the biggest difference was found in the operating efficiency ratio, where the top performers averaged 38.61%, while the other group reported only 9.07%. Besides these three ratios, two other ratios also had statistically significant differences. In operating cash flows to current liabilities, the top performers were able to generate \$0.77 of operating cash flows per dollar of current liabilities, while the bottom performers were only able to generate \$0.11—seven times less. The second huge difference was found in

the beverage inventory turnover, where the bottom performers took fewer days to turn over their beverage inventories.

David and Goliath of Clubs

There is always the question of economies of scale. Some researchers support the notion that larger firms have more resources and thus are more advantageous, while others state that bigger firms may not be able to control costs and service, and thus bigger operations are less efficient. When the clubs were separated into two groups, the first group with 750 members or less and the second with more than 750 members, only one financial ratio was deemed statistically significantly different (Table 5). The operating cash flows to long-term liabilities, a solvency ratio, had a p-value of 0.020, where clubs with more than 750 members had average operating cash flows to long-term liabilities at 1.08 and those with 750 members or less had an average of

Table 4. T-test on Financial Ratios Per Profitability of Clubs

Ratios	t	df	p
Liquidity			
Current (times)	-1.606	22	0.053
Accounts receivable turnover (times)	-0.373	22	0.115
Average collection period (days)	1.397	22	0.065
Operating cash flows to current liabilities (times)	-2.310	18	0.002*
Solvency			
Operating cash flows to long-term liabilities (times)	-1.161	10	0.346
Long-term debt to total capitalization (times)	0.000	11	0.593
Debt-equity (times)	0.169	11	0.722
Times interest earned (times)	-3.360	20	0.721
Fixed charge coverage (times)	-3.158	9	0.548
Activity			
Food inventory turnover (times)	-0.841	18	0.248
Food inventory turnover (days)	-1.419	18	0.099
Beverage inventory turnover (times)	-0.310	18	0.466
Beverage inventory turnover (days)	-0.801	18	0.028*
Golf merchandise inventory turnover (times)	-2.826	11	0.038
Golf merchandise inventory turnover (days)	2.258	9	0.467
Property & equipment turnover (times)	0.066	21	0.145
Total asset turnover (times)	-0.565	22	0.819
Profitability			
Profit margin (%)	-9.971	23	0.024*
Return on assets (%)	-6.326	22	0.043*
Operating efficiency (%)	-3.837	8	0.001*
Operating			
Food cost (%)	-1.121	19	0.182
Beverage cost (%)	-1.371	18	0.410
Golf merchandise cost (%)	0.275	17	0.145
Labor cost (%)	3.424	20	0.085

Note: *denotes $p < 0.05$.

-0.01, signifying that the bigger clubs did enjoy an advantage in this particular financial ratio. As for the other 23 ratios, smaller clubs outperformed the larger clubs in some, and the larger clubs outperformed the smaller clubs in others, but none of the differences were statistically significant.

Conclusion and Implications

With two-thirds of the ratios experiencing a positive trend in the last 2 or 3 years, the club industry as a whole enjoyed some success. The challenges were highlighted in seven ratios that exhibited an up-and-down trend and one, debt-equity ratio, that saw a steady increase in the last 3 years, with clubs taking on more debt each year. Categorically speaking, clubs were strongest in their activity ratios, with all eight ratios reporting better results in the last 2 or 3 years. The same can be said for the profitability area, where all three ratios saw a slight decrease from 2014 to 2015, and all three rebounded in 2016. In

particular, the operating efficiency ratio in 2016 was the highest in the 3-year period. Of the four operating ratios, food cost percentage was the one that saw improvement year after year. Beverage cost, golf merchandise, and labor cost percentages were all under control from 2014 to 2015, but all saw increases in 2016. Finally, regarding the ability to pay for short- and long-term obligations, mixed results were also reported, where good news was observed in operating-cash flows to long-term debt, long-term debt to total capitalization, and times interest earned, as these three ratios improved year after year from 2014 to 2016.

Managerial Implications

Take the 30,000-Foot Approach. When comparing any particular club's ratio to the industry, it is best to assess the ratio individually and also in categories. For example, of all the 24 ratios reported, the only ratio that went the wrong direction in the last

Table 5. T-test on Financial Ratios Per Size of Clubs

Ratios	t	df	p
Liquidity			
Current (times)	0.387	54	0.616
Accounts receivable turnover (times)	1.287	54	0.265
Average collection period (days)	-0.777	54	0.925
Operating cash flows to current liabilities (times)	0.606	48	0.124
Solvency			
Operating cash flows to long-term liabilities (times)	-0.547	30	0.020*
Long-term debt to total capitalization (times)	-1.931	37	0.970
Debt-equity (times)	-0.024	37	0.419
Times interest earned (times)	-1.644	43	0.787
Fixed charge coverage (times)	0.063	20	0.179
Activity			
Food inventory turnover (times)	-3.158	47	0.156
Food inventory turnover (days)	2.076	47	0.077
Beverage inventory turnover (times)	-1.419	44	0.679
Beverage inventory turnover (days)	0.159	44	0.147
Golf merchandise inventory turnover (times)	-0.726	21	0.284
Golf merchandise inventory turnover (days)	0.611	19	0.170
Property & equipment turnover (times)	0.595	51	0.095
Total asset turnover (times)	0.098	54	0.127
Profitability			
Profit margin (%)	-1.046	52	0.951
Return on assets (%)	-0.463	52	0.822
Operating efficiency (%)	0.577	19	0.991
Operating			
Food cost (%)	-1.093	49	0.722
Beverage cost (%)	-0.038	46	0.925
Golf merchandise cost (%)	-1.250	28	0.721
Labor cost (%)	0.325	49	0.425

Note: *denotes $p < 0.05$.

3 years was the debt-to-equity ratio, which saw a steady increase from 0.28 to 0.39 and finally 0.50. At first glance, this signaled bad news, as more debt translates to higher interest payments. Yet the corresponding TIE ratio improved all 3 years, although the fixed-interest charges improved from 2014 to 2015 and dropped in 2016. In this case, perhaps it is best for a club to review not only its debt level but also its ability to pay off its debt. In the last few years, interest rates were very low. If clubs were in the market for any renovation or projects, the cost of capital via debt was very reasonable; thus it might be better for clubs to incur debt rather than assess the membership. And if clubs are healthy and bringing in revenues, then paying off the low-interest payments may be the best financial decision. On the other hand, if a club needs to borrow funds for operational purposes, or a club with a high debt-to-equity ratio also has a low times-interest-earned ratio, then this spells bad news. Therefore, look at the ratios in a category, relate them to each other, and assess them at a higher and broader level before making any judgment calls.

Review Short- versus Long-Term Debt. From the results of the last 3 years, it was also apparent that clubs were taking on more short-term debt rather than long-term debt. This could be seen in the two ratios of operating cash flows to current and also to long-term liabilities. While the ratio of current liabilities was not favorable, the ratio for long-term liabilities has been improving. This notion was also supported by the reduction of long-term debt to total capitalization, which improved each year over the last few years. Preserving the credit line and not engaging in long-term debt will protect the club's ability to obtain a loan in the future. Procuring short-term debt is probably a smart move, as that will not obligate the club to set interest payments in the long run.

Innovate and Improve Your Ability to Utilize Assets. While clubs enjoyed great results in the past 3 years in their asset utilization, reflected in the activity ratios, there is no rest for the weary. Trade shows, continuing education, webinars, and newsletters from various consulting firms and associations are invaluable tools for the tool kit of a top-notch club manager. If one does not move forward, one is left

behind. Do not be the last club on the list. In addition, always note the "state" of the assets. A club needs to look fresh to keep attracting their members to use and enjoy the facilities. When purchasing new assets, clubs should always weigh the amount of value that the new asset can create and add to the establishment.

Expand and Enhance Your Ability to Control Costs. Although being able to utilize assets to their fullest to bring in top-line revenues is important, if the cost line items are not monitored, a club can generate all the revenues, but the revenues will be leaked due to improper controls, and nothing will be left to flow through to the bottom line. Thus continuing to expand and enhance cost controls is also imperative to a club's financial success. From having the proper specifications on food items, to ordering and receiving procedures, to proper billing and collecting procedures to minimize bad debts, every action taken can be assessed to ensure that profits are maximized.

Evaluate, Take Action, Reevaluate. A club is a dynamic entity; it is not just a building or a golf course. There are many pieces of the puzzle of good club management. Whereas one may think the characteristics of the membership in a club do not change, they do. It is true that perhaps the membership of a club is relatively static when compared to the guests' profiles of a hotel or a restaurant, but people still change. The members' food preferences may change with popular food trends, their age, or their health needs, and their preferences for activities or amenities that a club offers also change over time. In some sense, operating a club is more challenging, as one has to provide service and please the same set of members day in and day out, while a hotel may only serve a particular guest once! Therefore, clubs need to continuously evaluate their strategy, performance, and key metrics; take appropriate actions to ensure the metrics are not only met but surpassed; and reevaluate to keep improving. "Breakfast with Barney" might have been a hit in the 1990s, but it sure does not appeal to the membership in 2018. What are programs that engage teenagers so that these young members will spend more time at the clubs and therefore purchase food and beverages or other services? When was the last time the chef came up with a new program for the members such as lunch clubs,

dinner with wine pairing, international fare, and so on? Evaluate, take action, and reevaluate.

The club industry is dynamic, rewarding, and yes, challenging. Financial ratios serve as a set of guidelines and let clubs know how they are performing. These ratios are the scores on the jumbotron scoreboard. Let's win the game and take home the trophy!

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