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2009 Financial Performance in the Club Industry: Winners and Losers

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2009 Financial Performance in the Club Industry: Winners and Losers

Introduction

The year 2009 was not the most financially successful year for the business world. When analysts predicted the viability of the economy of 2009, the availability of credit was cited as the key to recovery. Despite the infusion of huge amounts of taxpayers' money in stimulus plans, credit was not flowing nearly as much as many had hoped, as banks and other financial institutions tightened their lending practices (Dash and Bajaj, 2008). Bremmer and Roubin (2009) also noted that 2009 was hardly a turning point and many of the advanced economies in the world were still in recessions with a number of European economies suffering setbacks such as Greece, Spain, Ireland and Portugal (Saltmarsh, 2010).

When the going gets tough, club managers can only do two things to keep the bottom line out of the red: keep revenue coming in and cut costs. Whatever plan a club adopts, management still needs to know if the plan is working. In especially tough economic times like our current time, quick dashboard benchmarks can assist managers in clubs to gauge and recognize success and to identify opportunities for improvement in a timely manner. Since the banner year of 2004, the club industry has faced challenge after challenge. This article, therefore, reports the state of the industry in 2009.

Need and Purpose of the Study

The club industry is an important segment of the hospitality world. Whether a club is for profit or not, the concept of profit has become more important in today's economy. Even equity clubs that are owned by members and are non-profit in nature are looking to make profits so they do not need to assess their membership who may be under economic pressure already in their business and home lives. One more bill of assessment may just lead that one member to forego his/her membership as company-sponsored memberships are not as prevalent as they were in previous decades. Thus, club managers need to examine their financial statements closely, investigate into the balance of each account, and make proper operating decisions. Yet, even with a few good club financial publications provided by companies such Pannell Kerr Foster (PKF) and McGladrey and Pullen LLP, most of the information focus on the statement of activities (or income statement) instead of the balance sheet (Schmidgall & DeFranco, 2004).

In addition, when the financial performance of the club industry is reported in general financial ratios publications such as the Business Almanac, Robert and Morris Associates, and Dun and Bradstreet, these publications code the club industry under the standard industry classification code of 7997. This code is determined by the government and covers all sorts of clubs including aviation, bridge, baseball, beach, bowling leagues, and even handball clubs as well as country, golf, yacht, and city clubs (DeFranco and Schmidgall, 2008). Thus, a separate study which will distinguish the clubs most represented by the Club Managers Association of America, and also where hospitality students will most likely be employed, would be useful.

This study uses the ratios suggested in the Uniform System of Financial Reporting for Clubs, and reports on twenty-four selected financial ratios of the club industry in 2009. It first identifies the demographic characteristics of the average respondent and also the top and bottom

performers. For this study, the top performers are clubs classified by their returns on assets being in the top 20% of the group while the bottom performers are clubs whose returns on assets are in the bottom 20%. The study then shares the median ratios and key balance sheet and statement of activities financial data.

Literature Review

It is important for any industry to set benchmarks and also for individual business units within the industry to compare itself to the industry as a whole so as to gauge its performance. Therefore, benchmarking is an important process and started in the manufacturing industry. Camp (1989) reported that Xerox classified benchmarking as a five-step procedure which starting with planning, and progressed to analysis, integration, action, and finally maturity. Camp took it a step further and stressed that once the data were measured, they need to be analyzed and put through a system of continuous improvement to ensure the company will continue its success.

The financial standards of the club industry were set over 65 years ago since the first club uniform system of accounts appeared on bookshelves of club managers. In 2003, the Sixth Revised Edition of the Uniform System of Financial Reporting for Clubs (Club Managers Association of America, 2003) was issued and is currently being followed by many clubs. Managers use these standards to measure their clubs' financial performance. Controllers and managers at clubs examine key data points and ratios for results, and finally set appropriate benchmarks for continuous monitoring and improvement. The need for standardized measurements is so important that even the newer segments of the hospitality industry such as the spa industry also published its own standards. In 2005, the International SPA Association Foundation, allied with the International SPA Association, Hospitality Financial and Technology

Professional, and the Educational Institute of the American Hotel & Lodging Association to publish the Uniform System of Financial Reporting for Spas (2005).

The ratios that are found in most financial publications can be classified into five major categories: liquidity, solvency, activity, profitability and operating with their uses and corresponding ratios indicated below (DeFranco and Lattin, 2007).

	Liquidity	Solvency	Activity	Profitability	Operating
Use	ability of clubs to meet short-term obligations	potential of clubs in meeting their long-term obligations	indicate management's effectiveness in using the assets of the club	assist management in determining level of profit	assist management in determining efficiency
Ratios	<ul style="list-style-type: none"> • Current ratio • Accounts receivable turnover (times and days) • Operating cash flow to current liabilities • Operating cash flow to long-term debt 	<ul style="list-style-type: none"> • Long-term debt to total capitalization • Debt to equity • Times interest earned • Fixed charge coverage 	<ul style="list-style-type: none"> • Food inventory turnover (times and days) • Beverage inventory turnover (times and days) • Golf merchandise inventory turnover (times and days) • Property and equipment turnover • Total asset turnover 	<ul style="list-style-type: none"> • Profit margin • Return on assets • Operating efficiency ratio 	<ul style="list-style-type: none"> • Food cost • Beverage cost • Golf merchandise cost • Labor cost

Ratios and financial performance have been studied and reported by academicians for a number of years, and studies have increased especially with the information age, starting with the

work of Ray Schmidgall in the 1980s. Geller and Schmidgall (1984), Temling (1985), and Schmidgall (1988) have all published on ratios, though their work was only in the lodging industry. In 1992, Swanson (1991) published the first detailed analysis of the liquidity of lodging firms. Ten years later in 2002, Singh and Schmidgall (2002) also started their research agenda on financial ratios in the lodging industry.

In the club area, Schmidgall and Damitio also wrote the text book Accounting for Club Operations (2001) which is a standard for the club industry, embraced by the Club Managers Association of America and its members. In 2004, Schmidgall teamed up with DeFranco and published a series of articles on club ratios, setting the first set of benchmarks in 2004 (Schmidgall & DeFranco, 2004), analyzing trends since 2007 (DeFranco & Schmidgall, 2007; DeFranco & Schmidgall, 2008; DeFranco & Schmidgall, 2009), examining inventory practices (DeFranco & Schmidgall, 2009), and even interviewing industry professionals on the need to revise the 2003 edition of the Uniform System (DeFranco & Schmidgall, 2010). In their research work, it was found that 2004 was the banner year for the club industry (DeFranco & Schmidgall, 2009). However, the debt level that the industry has amassed has increased over the years. This translated into higher interest payments, especially for the lower performing clubs, and thus dragging down the profits. Throughout all the conclusions, Schmidgall and DeFranco also strongly advocated the use of a dashboard where management can monitor key ratios and share with employees.

In addition to ratios, Schmidgall also surveyed clubs regarding their operating budgets. In a 2007 study, Schmidgall and Singh (2007) looked at operating budget practices in clubs from 1986 to 2006 and found that over 75% of clubs focused on the bottom-line as a tentative financial goal and 48% prepared operating budgets and had a tentative financial goal prior to

starting the budgeting process.

The Collection and Analysis of Data

In this study, 1,000 questionnaires were mailed to members of the Hospitality Financial and Technology Professionals who are associated with clubs. This particular sample of financial personnel was chosen over club managers from the Club Managers Association of America because it is the club controllers who have ready access to the financial information. In their research, Schmidgall and DeFranco also tried sending the survey to both groups at one time and decided to concentrate on the controllers. The survey was divided into six areas. Part I inquired about the club's general information such as type, number of members and geographic location. Parts II through IV asked for the amounts of accounts in the balance sheet, the statement of activities, and the statement of cash flows for both the beginning and end of the year in order to calculate the ratios.

Eighty questionnaires were returned as "undeliverable" thus resulting in 920 club financial executives being the sample size. A total of 107 surveys were returned, yielding a response rate of nearly 12 percent; and SPSS was used to assist in the data compilation and analysis. While a sample of 107 may seem small, this is comparable to the sample size of similar studies as cited in the literature review.

The Results

The Clubs

First, 81% of the respondents who provided the financial information for the study were controllers of the clubs. Seven percent of the respondents held the title of Chief Financial Officer, and another 7% were assistant controllers. Clearly, the respondents were in a position to provide the financial details of their clubs (See Table 1).

Table 1 also shows that the majority of the 107 respondents were from country clubs (68%), followed by city clubs (13%), and golf clubs (7%). The remaining 12% answered others which include yacht clubs and other specialty clubs. While the size of the clubs in terms of membership seemed to be fairly evenly distributed, the largest group, at 25 percent, worked in clubs that had 501-750 members. This was closely followed by clubs with 1,001-1,500 members (19%) and 300-500 members (18%). Slightly over half (51%) of the clubs were located in the eastern region, with another 32 percent located in the central region. An overwhelming 88 percent of clubs were organized as not-for-profit clubs.

<<Insert Table 1 About Here>>

The top performers and the low performers also had some very distinct characteristics. As seen in Table 1, the vast majority of the top performers (71%) were country clubs. City clubs were also well represented, reporting at 19 percent. However, among the low performers, country clubs accounted for half of that group with another 25 percent coming from golf clubs. When the number of members was considered, 45 percent of the top performers were from the big clubs, having 1,001-1,500 members, and another 25 percent were clubs with over 1,500 members. Alternatively, the low performers (69%) were the smaller clubs with 750 members or less.

It is also interesting to note that the profit status did not make a difference in the financial performance. In fact, 95 percent of the clubs that were among the top performers were organized as not-for-profit. As for the location, the majority (65%) of the top performers were located in the eastern region of the U.S. while the low performers had a similar locale characteristic as the average club in this study.

Key Ratios and Data Points: The Successes and The Struggles

A snapshot of the industry is provided by looking at selected key ratios and accounts that appear in the balance sheet and the statement of activities (income statement). Median figures are used in this study so averages would not be skewed by financial figures of clubs that were at the extreme ends of the data continuum.

The Ratios

With the Uniform System of Financial Reporting of Clubs used as a standard, data were collected, reported, and organized into meaningful ratios. Based on the financial statement numbers provided, 24 ratios were calculated and reported. For each of these ratios, the median, as well as the results of the top 20% performers and the bottom 20% performers, using return on assets as the delineating measurement, were shared. This not only provides management with a better perspective when making comparisons but also investigates some reasons behind the financial results, especially given the difficult economy during 2009.

Liquidity Ratios

1. Current ratio = current assets / current liabilities.

A club having a current ratio of exactly 1.0 means that it has the exact amount of current assets to cover and pay off its current debts. As seen in Table 2, the median current ratio was 1.61 at the end of 2009. The top performers reported a current ratio of 1.73 while the low performers struggled at 1.17. The average club seemed to be doing reasonably well in maintaining liquidity. Indeed, with a 1.17, even the low performers were able to meet their short-term obligations, though with little left for other business expenses.

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

These two ratios go hand in hand and measure the speed of conversion of accounts

receivables into cash. Since clubs seldom accept cash at the time of the sales transaction, accounts receivables are relatively large for clubs as compared to firms in other hospitality segments. A median of 9.12 was not as high as the 9.66 reported in 2004 nor the 10.14 reported in 2005 (DeFranco & Schmidgall, 2008). The top performers were enjoying a 11.76 times ratio and were able to collect their receivables in a month's time. The low performers, however, were extending credit for one and a half months (44 days). This indicates a loose credit policy, which may be expected in tough economic times; however, this constraint may also put clubs into a relatively poor cash flow situation and must be monitored properly.

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

This liquidity ratio showed a median of 0.31 which means 31 cents of cash flow generated from operations (not by investing or financing activities) were provided by the club for payment toward each \$1 of average current debt at the end of 2009. While the 0.54 ratio of the top performers was good, the 0.15 or \$0.15 cash flow to \$1 of debt means the low performers might have needed to generate cash flows from financing and investing activities to be able to pay the current liabilities.

Solvency Ratios

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

This ratio is the parallel of the last one in that it looks at payment of long-term debt. While the short-term version of this ratio had a median of 0.31, this only reported a median of 0.10. Although long-term debt moves to short-term as time passes, and a fairly low ratio should not pose a problem for the average club, this ratio still signifies a preference of generating more operating cash flow. Clearly, the top performing clubs were doing much better than the low performing clubs given the 0.29 to 0.08 results.

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

This ratio for the median club was 0.15 which means long-term debt was only 15 percent of the total capitalization (long-term debt and members' equity) of the club at the end of 2009. In the credit crunch environment, this is a very good figure as creditors prefer a lower percentage. This 0.15 ratio also meant \$.85 of a \$1.00 of the clubs' assets were financed by members' equity in 2009. The top performing clubs reported a 0.17 ratio meaning only 17% was financed by debt. For the low performing clubs, this ratio came is at 39% which more than doubled the average.

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

The median for this ratio was 0.17 at the end of December, 2009. The low performers were at 0.67 while the top performers were at 0.19. Since both creditors and management often prefer less debt, it is ideal for this ratio to be low. In this case, both the high performing clubs and the median clubs did well in managing their total debt level. However, the low performing clubs had relatively more debt than others. With 67% of the entire equity amount financed by debt, the interest payments in the low performing clubs would lower the profit level significantly.

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

While the first two solvency ratios are based on balance sheet numbers, the TIE uses data from the income statement. In this ratio, the number of times a club can cover its interest payment is assessed. This is a very useful indicator for creditors in determining the solvency of a business. In previous years, the median club had a TIE of 1.50 or over (DeFranco & Schmidgall, 2008). The 0.94 median for 2009 means the average club had only \$0.94 of earnings before interest and tax to cover every \$1.00 of interest payment obligation. In contrast, the top

performers report a TIE of 21.50, meaning they could pay their interest expense 21.5 times over. However, the lower performers came in at the negative figure of -1.34, meaning they did not even generate any income before interest and taxes to pay their interest obligations.

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

The effect of the TIE is carried over to the fixed charge coverage since the only difference between these two ratios is rent expense. Although most clubs own their properties and do not have rent expense, it is still useful to report this ratio for the use of those clubs paying rent. The median was reported at 0.93, with the low performers having difficulty making the payment at -1.26 times while the top performers could pay their rent 19.19 times over. The key difference between these two groups is the debt level. Recall in the long-term debt to total capitalization ratio where the low performers reported more than twice the debt ratio than the high performers; this translated into a much higher level of interest payment, putting the fixed charge coverage ratio of the low performers in the negative.

Activity Ratios

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

In 2009, the club industry reported a food inventory turnover median of 18 times. Dividing 365 days a year by 18 times yielded a food inventory turnover every 20 days. This means food stayed in the operation for an average of just under three weeks. The results of the top performers and the low performers were also very close with the top performers reporting at 18.63 times (20 days) and the low performers at 21.21 times (17 days). This means the club industry as a whole was consistent in managing their food inventory in 2009.

12./13. Beverage inventory turnover = cost of beverage sold / average beverage inventory

(times and day)

A 3.71 beverage turnover was reported as the median for all reporting clubs. Therefore, on the average, a club kept its beverage inventory for 98 days or a little over 3 months. The top performers were able to move their inventory better at 4.77 times, holding the inventory in the club for an average of 77 days while the low performers reported a beverage turnover of 3.66 times or holding their inventory for 100 days.

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

The turnover data in this category is the lowest of all three inventory turnovers. This is expected as golf equipment, clothing and accessories are not perishable items. Clothing, however, does go out of style and there is always a new golf club that comes into the market that will hit the ball straighter and farther. Yet, the turnover was low compared to food and beverage. In years past, the median was recorded around 2.0 (DeFranco & Schmidgall, 2008). So, a 2.68, while not good, was still an improvement. The difference between the top and low performers was 0.14 times (2.83 for the top performers and 2.69 for the low performers) and the difference in the inventory holding period was only a week's time (129 days versus 136 days).

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

This ratio shows how well a club is using its fixed assets in generating revenues; therefore, the higher a property and equipment turnover ratio, the better. This study reported a median of 0.67 meaning for every dollar of net property and equipment at the average club, \$.67 of revenues were generated. Comparing this to the previous years which have been reported at over \$.80 (DeFranco & Schmidgall, 2008), clubs were generating less revenue in 2009 than in prior years compared to their fixed assets. The top performers reported this ratio at \$0.97 to a dollar and the low performers were only at \$0.55 to a dollar.

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

While property and equipment turnover measures the effective use of property and equipment to generate revenues, total assets turnover measures the effectiveness of using all the club's assets, both current and long-term. At a median of 0.55, for every dollar of assets the average club had in 2009, \$0.55 was generated in revenues. For the top performers, only \$0.66 of revenues were generated and the low performers' total asset turnover was at \$0.47. Therefore, the club industry had a difficult time in 2009 in terms of generating revenues.

Profitability Ratios

18. Profit margin = net income / total revenues

Indeed, 2009 was not a kind year for the club industry. The median profit margin was at a negative at -0.05%. This meant the average club in the industry was unable to make a profit. The low performers indicated a profit margin of -16.76%. This was a substantial loss. On the bright side, the top performers reported a 12.21% return. Although most clubs in this study were member-owned equity clubs and were not-for-profit for tax purposes, having a loss meant the clubs might need another source of funds to pay bills and maintain the club house and other facilities. With the low performers being mostly clubs with 750 members or less, 2010 may well pose more challenges in their operations.

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

The return on assets also showed a -0.05% return. However, fortunately for the low performers, their loss was not as significant as in the profit margin. The return on assets for the lower performers came in at -6.80%. The variation of the top performers from the median was also not as significant as the profit margin, and they reported in at 7.78%.

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

The operating efficiency ratio provides a clearer picture of management effectiveness

than the other two profitability ratios as it only values income before fixed charges rather than the net income. The negotiation of fixed charges such as interest or rent mostly rest with the board of directors. Therefore, measuring managers' performance by using this ratio is a fairer method. The median response for 2009 was 17.0%, with the top performers reporting at 28.95% and the low performers at -8.16%.

Operating Ratios

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

The first three ratios in this category are great complements to the inventory turnover ratios in the activity category. The year showed 2009 a median food cost percentage of 39.9%. The top performers' food cost was at 40.07% while the low performers' food cost was at 41.24%. The small variance in the three numbers was another indication that clubs in general were quite consistent in managing their food cost in 2009.

22. Beverage cost percentage = cost of beverage inventory / beverage sales

The same can also be said about how clubs manage their beverage cost. And since beverages normally carry a higher mark-up price, beverage costs should therefore be lower than food cost. In 2009, the median beverage cost was at 32.3% with the top performers at 31.92% and the low performers at 32.72%. Again, the little or no variance is a good sign that despite their profitability results, the low performers were managing their food and beverage costs as well as their top performing counterparts.

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

While club managers were doing well in managing their food and beverage costs, the same was not found in the cost of golf merchandise. This area is a difficult area to manage as the mark-up of golf merchandise is normally not as high as that of food and beverage items. In

2009, the median club reported a 36.5% cost. The top performers, again, as identified by their return on assets, had a cost of golf merchandise of 38.94%. However, the lower performers' cost was reported at 55.46%. The differences among the three groups were more dramatic than the previous two costs and thus deserve more attention.

24. Labor cost = cost of labor / total sales

Labor costs are the largest expense of a private club as the average across all clubs as shown on Table 2 is 50.3%. The low performing clubs had an average labor cost of 51.75% which is within two percentage points of the median; however, the top performing clubs incurred a labor cost of only 39.1%. Clearly, this ratio accounts for a major portion of the difference in the overall operating performance of the top and low performing clubs during 2009.

<<Insert Table 2 About Here>>

Comparison in Key Balance Sheet and Statement of Activities Data

The first step in any financial analysis is using the proper standards. With the Uniform System of Financial Reporting for Clubs, key balance sheet and statement of activities accounts are collected and reported. Table 3 summarizes the details. As mentioned, club managers cannot rely solely on a set of statements or a set of ratios. Financial data, when put together and analyzed, can shine the light on a very telling underlying truth that looking at a single ratio or a single number will not be able to reveal. Therefore, besides looking at the selected twenty-four ratios, it is also prudent to look at the dollar amounts in the financial statements.

<<Insert Table 3 About Here>>

As seen in Table 3, in the area of current assets, the top performers carried a lot more cash than the low performers. And as it should be, they also carried more account receivables

and inventories. However, the cash that the high performers had was much more than that of the lower performers with the difference being over 80% when using the amount of cash of the high performers as a base. In terms of inventories, it was also expected that the high performing clubs were those with more members and thus would need to carry more inventory to service their members. The percentage difference was only in the 30th percentile for food and beverage while it is only less than 14 percent in golf merchandise. Recalling the ratios in golf merchandise and also the set of liquidity ratios, when putting actual dollar amounts, differences, and ratios together, the amount of cash the clubs were carrying and the level of golf merchandise were two areas that needed further analysis. Closer scrutiny of these two accounts could contribute some knowledge as to why the top performers are successful.

When looking at the differences of the top and lower performers in their long-term and other assets, the long-term and fixed assets were not of much concern. As we know from the profile that the low performers were mostly smaller clubs, it would be expected that their long-term assets would be less than those of the top performers.

One of the most telling items in Table 3 is perhaps the level of long-term debt. The solvency ratios showed the low performers carrying close to \$4 million in long-term debt at the end of 2009 while top performers, who had twice the amount of assets, only carried \$2.3 million. This difference in debt translates into higher interest payment obligations and the availability of cash flow for the club.

<<Insert Table 4 About Here>>

Table 4 shows common-sized balance sheets for low and top performing clubs. This table details a vertical analysis and reflects the percentage for each line item as it relates to the total. Though top performing clubs had an average of nearly \$1 million in accounts receivable at

the end of 2009, this was only 6.2% of total assets as compared to the low performing clubs' \$750,000 but representing 8.9% of total assets. The total inventories as a percentage of total assets of each group was 1.7% for the low performers and 1.2% for the top performers, respectively. Thus, the difference was minimal.

The major difference however, was found in long-term debt and members' equity. For the low performers long-term debt was 35.9% of total liabilities and equity compared to 14.2% for top performers. Further, members' equity was only 53.5% for low performers and 74.2% for top performers. These differences in part were highlighted in the solvency ratios based on balance sheet numbers previously.

In the Statement of Activities, the two items that warranted more investigation were the golf pro shop revenue and initiation fees. While the other revenues such as dues, food, and beverage differences were of a similar rate, the low performing clubs are making \$693,000 in golf pro shop sales and the top performing clubs are only making \$719,161. But the highest golf merchandise cost percentage, as seen in the ratio section, takes away the profits from the good sales dollars. The initiation fees of the top performers were more than seven times of the low performers. Thus, perhaps the low performers need to review their initiation fee policies and structures.

Besides keeping food and beverage costs in line, another major item that the low performers were not doing as well as the top performing clubs was keeping their labor cost in line. The payroll cost was only 1.4 percentage points over the median but 12.6 percentage points over the best operating clubs.

The low performers also had greater interest expense than the top performers. With huge revenue figures of a median of \$12,959,447, the top performers were only reporting a mere

\$74,400 of median interest. At the same time, the median revenue of a low performing club at \$6,671,969, almost half of the amount of their counterparts, had to absorb a median interest expense of \$191,889. Half the revenue level, almost three times of interest payment – this picture cannot last forever and the net loss or decrease in net assets of \$738,489 for the low performing clubs was inevitable. With again half of the revenue level, the utilities expenses of the low performing club was not half but three-quarters of that of the top performing clubs. This makes utilities another area of concern.

Conclusion and Implications

The interesting part about compiling financial ratios is the analysis. With ratios, the financial picture of the club industry in 2009 is a lot clearer after close scrutiny. No doubt, the club industry struggled as a whole. However, there were clubs that did very well. It is important to identify such clubs to examine and learn from their decision making processes and daily operation practices. Club management can use these results to gauge their own financial performance to concentrate their time and effort on the weak areas and improve upon them.

Club Management

One suggestion for club management is to provide a stage or a roadmap to all staff. Perhaps the chief financial officer or controller can prepare a dashboard report with at least some of these 24 key ratios on a monthly basis after the month-end reports. Short summaries of reports provide management and staff with a good grasp of how well a club is performing. Should certain accounts have high variances from the median, those accounts should be highlighted so the account balances can be tracked and monitored more closely. For account balances or ratios that more closely resemble those of high performers, management may want to keep track of them also so that the winning edge can be maintained. Ratios can also serve as

great diagnostic tools. After the initial reports are compiled, club management may also want to consider setting goals and benchmarks with the staff. Oftentimes, when staff members are involved in the goal- setting process, they are more committed to achieving the goals.

An example for a goal setting exercise is golf inventory management. From the reported ratios, it was found that in general, golf inventory management is one opportunity that clubs can improve upon. Low performers and high performers both had healthy sales figures. However, the cost of merchandise and the inventory turnover statistics were less than desirable in the low performers. Thus, club managers might want to look at the golf cost and inventory ratios and visit with the staff to see if the club is pricing the merchandise properly, or ask why certain merchandise stays on the shelf longer than others.

Another example is beverage. The cost of beverage did not appear as an issue as the costs of both the top and low performers were very similar. Yet, the difference in inventory turnovers between the two groups could be improved. The top performers were able to move their inventory at 4.77 times, holding the inventory in the club for an average of 77 days while the low performers reported a beverage turnover of 3.66 times or holding their inventory for 100 days. In this case, while the difference in the beverage cost percentage was less than one percent, holding the inventory for an extra 23 days tied up funds which could be earning interest in the bank or put to other uses.

The account collection process is another opportunity revealed by the ratios. The low performing clubs might want to examine their collection procedures or credit policies and make some adjustments and improvements. The fact that they had to wait for an extra half month than the top performers for their members to pay their bills was another reason for the cash flow shortage. A review of the aging of accounts receivable might indicate some stale accounts that

perhaps should be written off as uncollectible. This cash shortage contributes to higher debt, and the vicious cycle continues. Thus, ratio results, together with analyses and strategies set with staff would all contribute to the financial success of clubs.

Hospitality Educators

In terms of hospitality education, perhaps more stress can be placed on not simply the knowledge and understanding of the Bloom taxonomy but challenging our students to more of the analysis, synthesis and evaluation stages. Using a food analogy of making a perfect wedding cake, first we bake the cake, we teach the basics. Students need to understand definitions of accounts and how accounts are put together into financial statements. However, knowing how to prepare a set of statements using the Uniform System of Financial Reporting for Clubs is only the beginning. A cake is not complete without a layer of delicious icing, and the chef's signature item.

Hospitality educators need to continue to push the envelope and challenge our students to put icing on the cake by teaching the analysis and interpretation of accounting work. Numbers are dead unless someone understands them and takes action. Hospitality educators need to take it to the final step of putting on all the elegant decorations, as the wedding cake is a once in a lifetime celebration piece. One idea perhaps is to integrate projects of, say, a marketing class with a finance/accounting class and ask students to do a project or a case study that would utilize their knowledge learned in both classes. We need to continue to provoke the interest of accounting in our students to fully understand how numbers and data can help them set strategies, which then set them apart as the better managers, those of top performers' quality.

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Table 1. 2009 Demographics of Respondents

2009				
Titles of Respondents:		Bottom 20% - Low Performers	All Clubs	Top 20% - High Performers
Controllers		70 %	81%	72%
CFO's		5	7	5
Assistant Controllers		10	7	14
Other		<u>15</u>	<u>5</u>	<u>9</u>
Total		<u>100%</u>	<u>100%</u>	<u>100%</u>
Types of clubs:				
Country Clubs		50%	68	71%
Golf Clubs		25	7	5
City Clubs		5	13	19
Other Clubs		<u>20</u>	<u>12</u>	<u>5</u>
Total		<u>100%</u>	<u>100%</u>	<u>100%</u>
Number of Members:				
< 300		11%	10%	0%
300-500		26	18	10
501-750		32	25	15
751-1,000		10	17	5
1,001-1,500		5	19	45
> 1,500		<u>16</u>	<u>11</u>	<u>25</u>
Total		<u>100%</u>	<u>100%</u>	<u>100%</u>
Location of Clubs in US:				
East		50%	51%	65%
Central		30	32	20
West		<u>20</u>	<u>17</u>	<u>15</u>
Total		<u>100%</u>	<u>100%</u>	<u>100%</u>
Profit Orientation:				
Not for Profit		75%	88%	95%
For Profit		25	<u>12</u>	5
Total		<u>100%</u>	<u>100%</u>	<u>100%</u>

Table 2. 2009 Comparison of Key Financial Ratios

	Bottom 20% - Low Performers	Median	Top 20% - High Performers
Liquidity Ratios:			
Current Ratio	1.17	1.61	1.73
Accounts Receivable Turnover	8.31	9.12	11.76
Average Collection Period	44 days	40 days	31 days
Op. Cash Flows to Current Liabilities	0.15	0.31	0.54
Solvency Ratios:			
Op. Cash Flows to Long-term Debt	0.08	0.10	0.29
Long-term Debt to Total Cap.	0.39	0.15	0.17
Debt-equity Ratio	0.67	0.17	0.19
Times Interest Earned	(1.34)	0.94	21.50
Fixed Charge Coverage	(1.26)	0.93	19.19
Activity Ratios:			
Food Inventory Turnover			
a. Times	21.21 times	18 times	18.63 times
b. Days	17 days	20 days	20 days
Beverage Inventory Turnover			
a. Times	3.66 times	3.71	4.77 times
b. Days	100 days	98 days	77 days
Golf Merchandise Inventory Turnover			
a. Times	2.69 times	2.68	2.83 times
b. Days	136 days	136 days	129 days
Property & Equipment Turnover	0.55	0.67	0.97
Total Asset Turnover	0.47	0.55	0.66
Profitability Ratios:			
Profit Margin	(16.76 %)	(0.05%)	12.21 %
Return on Assets	(6.80 %)	(0.05)	7.78 %
Operating Efficiency	(8.16 %)	17.0	28.95 %
Operating Ratios:			
Food Cost Percentage	41.24 %	39.9%	40.07 %
Beverage Cost Percentage	32.73 %	32.3	31.92 %
Golf Merchandise Cost Percentage	55.46 %	36.5	38.94 %
Payroll Cost Percentage	51.7%	50.3	39.1%

Table 3. 2009 Key Balance Sheet and Statement of Activities Financial Data Differences

	Low Performers	Top Performers	\$ Difference	% Difference
Balance Sheet Financial Data Difference				
Cash: End	\$344,627	\$1,574,330	\$1,229,703	78.11%
Acct. Rec.: End	\$751,642	\$991,900	\$240,258	24.22%
Food Inv.: End	\$22,930	\$33,500	\$10,570	31.55%
Bev. Inv.: End	\$31,919	\$66,466	\$34,547	51.98%
Golf Pro Shop Inv.: End	\$83,406	\$96,681	\$13,275	13.73%
Other Current Assets: End	\$130,041	\$174,000	\$43,959	25.26%
Total Current Assets: End	\$1,645,402	\$2,610,254	\$964,852	36.96%
Total Fixed Assets: End	\$15,817,066	\$23,481,338	\$7,664,272	32.64%
Total Accum. Depr.: End	-\$8,826,540	-\$10,777,210	-\$1,950,670	18.10%
Other Assets: End	\$55,246	\$324,909	\$269,663	83.00%
Total Assets: End	\$8,767,933	\$22,374,620	\$13,606,687	60.81%
Total Current Liab.: End	\$1,131,791	\$1,882,257	\$750,466	39.87%
Mortgage Pay. LT: End	\$0	\$0	\$0	0
Total long-term Liab.: End	\$3,858,564	\$2,326,243	-\$1,532,321	-65.87%
Total Member Equity: End	\$5,751,157	\$12,127,700	\$6,376,543	52.58%
	Low Performers	Top Performers	\$ Difference	% Difference
Statement of Activities Financial Data Differences				
Total Dues	\$2,996,157	\$5,375,869	\$2,379,712	44.27%
Total Food Sales	\$1,122,986	\$1,927,018	\$804,032	41.72%
Total Beverage Sales	\$376,330	\$841,308	\$464,978	55.27%
Total Golf Pro Shop Rev.	\$693,000	\$719,161	\$26,161	3.64%
Total Initiation Fees	\$192,838	\$1,541,315	\$1,348,477	87.49%
Total Other Revenues	\$623,941	\$1,851,562	\$1,227,621	66.30%

Total Revenues	\$6,671,969	\$12,959,447	\$6,287,478	48.52%
Cost of Food Sold	\$453,067	\$670,355	\$217,288	32.41%
Cost of Beverage Sold	\$127,686	\$264,762	\$137,076	51.77%
Cost of Golf Merch. Sold	\$229,965	\$345,049	\$115,084	33.35%
Total Payroll Expenses	\$3,452,314	\$5,071,000	\$1,618,686	31.92%
Interest Expense	\$191,889	\$74,400	-\$117,489	-157.92%
Depreciation Expense	\$679,064	\$894,450	\$215,386	24.08%
Rent/Lease Expense	\$30,291	\$15,000	-\$15,291	-101.94%
Property Insurance Expense	\$89,658	\$153,246	\$63,588	41.49%
Personal Property Tax Exp.	\$7,546	\$42,427	\$34,881	82.21%
Real Property Tax Expense	\$108,959	\$232,492	\$123,533	53.13%
Utilities Expenses	\$309,364	\$405,868	\$96,504	23.78%
Total Net Inc. (Inc. in Net Assets)	-\$738,489	\$1,525,100	\$2,263,589	148.42%

**Table 4. Common-Sized Summary Balance Sheets Top and Low Performing Clubs
December 31, 2009**

	<u>Low Performing Clubs</u>		<u>Top Performing Clubs</u>	
Cash	\$ 344,627	4.1%	\$ 1,574,330	9.9%
Accounts Rec.	751,642	8.9%	991,900	6.2%
Food Inv.	22,444	0.3%	33,500	0.2%
Beverage Inv.	31,919	0.4%	66,466	0.4%
Pro Shop Inv.	83,406	1.0%	96,681	0.6%
Other CA	<u>130,041</u>	<u>1.5%</u>	<u>174,000</u>	<u>1.1%</u>
Total CA	1,364,079	16.2%	2,936,877	18.4%
Fixed Assets	15,817,066		23,481,338	
Acc. Depr.	<u>(8,826,540)</u>		<u>(10,777,210)</u>	
NBV	6,990,526	83.1%	12,704,128	79.6%
Other Assets	<u>55,246</u>	<u>0.7%</u>	<u>324,909</u>	<u>2.0%</u>
Total Assets	\$ 8,409,851	100.0%	\$ 15,965,914	100.0%
C/Liabilities	\$ 1,131,791	10.5%	\$ 1,882,257	11.5%
Long-term Debt	3,858,564	35.9%	2,326,243	14.2%
Members' Equity	<u>5,751,157</u>	<u>53.5%</u>	<u>12,127,700</u>	<u>74.2%</u>
Total Liab. & Equity	\$ 10,741,512	100.0%	\$ 16,336,200	100.0%

Note: The above dollar figures are medians for the low and top performing clubs with the exception of the total current assets, total assets, and total liabilities and equity lines. These figures are the some of the medians making up their totals and differ from medians for these totals shown in other tables in this article.