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2014: CLUB FINANCIAL PERFORMANCE

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ABSTRACT. Financial results play a very important role in the club industry. Percentages and numbers are the representative indicators of the financial performance of any company. In clubs, these numbers denote to management and members the financial strength and viability of their clubs. This study surveyed clubs regarding their financial performance in 2014, reporting averages for demographic data and medians for financial data. The results of the top performers (fifth or top quintile) and the bottom performers (first or lowest quintile) were compared. In 2014, the median profit margin was at 1.65% with the top quintile reporting at 17.43% and the lower quintile at a loss of -10.08%.

INTRODUCTION

The year 2014 was a good year as the economy saw continual recovery. Unemployment rates dropped steadily from 6.6% in January and ended at 5.6% by December (U.S. Department of Labor, Bureau of Labor Statistics, 2015). The hotel industry in general did well, with certain markets reporting all-time high key performance indicators of occupancy percentage, average daily rate, and revenue per available room (PKF, 2015). For the club industry, in the 2015–2016 Trends in Private Clubs, McGladrey also echoed the same sentiments and summarized ten traits that successful clubs exhibited. Of the 10 traits, half had to do to with some aspects of financial management such as running the club as a business with an annual business plan, using regular audits of operations to validate zero-based budgeting, instituting continual financial forecasting, using financial marketing fact sheets to ensure consistent management performance, and focusing on key departmental performance indicators (McGladrey LLP, 2015).

Prudent financial management is undeniably a key to success for any business, and this also applies to the club industry. Although the majority of clubs are nonprofit in nature, it does not mean clubs do not need to manage their finances, and to at least break even. Using financial ratios as key performance indicators to run a business is not new, and proper calculation and interpretation of financial ratios is important (Morrison, 2006). Financial ratios have been used to forecast stock returns (Aono & Iwaisako, 2011; Dimitropoulos & Asteriou, 2009), predict income levels in hotels (DeFranco, 1996), and even to run municipalities (Kablan, 2013).

Therefore, in clubs, solid financial management has to involve financial ratios analyzes. These ratios indicate financial performance, alert owners, board, finance committee, and management to potential pitfalls, and also provide insight to all as to the club's ability to pay off obligations, generate revenue, and even bring profits to the bottom line. As the economy recovers, it is even more important for the club industry to maximize their earnings potential in

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the good times; and the use of financial ratios in benchmarking can assist clubs to be more successful.

The Need for the Study

In today's competitive business world, even for a nonprofit entity, proper financial management is of utmost importance. In clubs, managers and executives are trusted by the membership to make decisions to forecast, meet budget, and plan for capital expenditures. Therefore, statistics and key performance indicators in terms of financial ratios can help in two ways. First, current year ratios serve as bench markers for comparisons to budget and to the industry so as to gauge performance. Second, past financial ratios also serve as historical data for management and boards to set proper goals and make appropriate financial decisions for future years. Hence, a documentation of financial ratios is most useful.

The Purpose of the Study

In light of the aforementioned needs, this study had two major objectives:

1. To report the financial results of the 2014 club industry as measured by 24 financial ratios categorized in five classifications: liquidity, solvency, activity, profitability, and operating.
2. To analyze the difference in financial performance between the top 20% performers and bottom 20% performers using return on asset as a grouping criterion.

These analyses and results are useful to three major groups. First, for the club industry as a whole, these statistics serve as a standard or benchmark for comparison purpose. As each year goes by, records of how the industry performs can help the entire industry to make adjustments and employ better strategic plans for the future. Second, for club members, boards, committees, executives, and management, these results provide key performance indicators to which each individual department or club can set their financial goals and evaluate their performances. Third, for the academy, data are always useful for academicians to study and better understand the industry so as to share the results with their students—our future club leaders, to better the operational human capital of the club industry.

Financial Ratios and the Club Industry

Financial reporting can be enhanced with proper analyses. Reporting is simply recording and sharing the results while an analysis provides more detailed information. Using a number such as net income (excess of revenue over expenses), a trend analysis, a vertical analysis, a horizontal analysis, and even a ratio analysis can be performed. All of these analyses take simple numbers and express them over different bases for comparisons to provide management a 360-degree view of their establishments.

Data and Financial Statement Analyses

Club executives and management make decisions on a daily basis. The best decisions are the ones made through an objective and systematic process, and more important, supported by data. Financial data are crucial and important information, and a proper analysis of financial data can assist management to make better informed and educated decisions. In the business world, there are published financial data resources, from the Bureau of Economic Analysis of the United States Department of Commerce, to Compustat, published by Standard and Poor's, to Risk Management Association's financial ratios classified by each industry. For the hotel industry, PKF Hospitality Research, LLC, and Smith Travel Research are the leaders in the field. Hotel owners and operators use statistics from Smith Travel and PKF to prepare their annual budgets and even to set bonus criteria. Both companies offer industry statistics and also custom reports for their clients, at various time intervals, from daily to weekly or others (Hood & Mandelbaum, 2012).

When an individual operation performs a financial analysis, it takes a number and

expresses that number as times, percentage, proportion over another number, and then compares their data to their budget or that of the industry. For example, the dollar amount in the line item net income (excess of revenues over expenses) of a club as a standalone number, tells management whether the club takes in more revenues than it spends in expenses or vice versa. However, with financial analyses, this one number can be transformed to convey more to management. First, in a trend analysis, the amount of net income of a club, over time, can be listed or expressed in a graph or a histogram to show a visual image (DeFranco & Lattin, 2007).

Second, in a vertical analysis of a statement of activities, when all the amounts of each account are expressed as a percentage of net sales (the base), the net income figure will now become not simply a dollar amount but also a percentage and be compared to all other line items. More important, a vertical analysis makes it possible for a club to compare it to any other club to determine its efficiency. For instance, a bigger club would presumably net more income than a smaller club in dollar amount. However, if this figure is now expressed in percentages using vertical analysis, the smaller club may have a smaller dollar amount but if it is as efficient as the bigger club, the percentage figure should be comparable (Weygandt, Kieso, Kimmel, & DeFranco, 2008).

This net income in a dollar amount can be further transformed using a horizontal analysis, where the change between two periods is divided into the base year. Horizontal analysis measures changes, both in dollar amounts and in percentages. If the net income was $200 in 2013 and increases to $220 in 2014, the dollar amount change would be $20 ($220−$200) and the percentage change would be 10% ($20/$200). Horizontal analysis can also be used to compare budgeted figures and actual figures so as to determine the deviation from the plan (the budget) (Schmidgall and Damitio, 2001). Again, the same number, net income, is now telling a more in-depth story. Finally, in ratio analysis, the net income dollar amount can be divided not only into revenues to obtain the profit margin but also into average total assets to obtain the return on asset percentage, among others (DeFranco & Lattin, 2007).

The Club Industry and Ratios

In the current Uniform System of Financial Reporting for Clubs (Club Managers Association of America, 2012), the use of financial ratios is highly recommended. The Uniform System dedicates an entire appendix, Appendix C, to ratio analysis. In the average business world and in general accounting, financial ratios can be broadly categorized into five segments—liquidity, solvency, activity, profitability, and operating (Schmidgall & Damitio, 2001; DeFranco & Lattin, 2007). In club accounting, however, the profitability category is replaced by membership ratios where four statistics of membership attrition, average initiation fee, average monthly dues, and number of club uses per period are computed (Club Managers Association of American, 2012). Although the club accounting guidelines do not mention profitability, perhaps because of the majority of clubs being nonprofit, it is still sensible to include profitability ratios when analyzing the financial health of an operation, as no healthy operation can endure a long-term sustained loss.

To begin, liquidity and solvency ratios are similar to siblings where the former category measures a club's ability to meet its short-term obligations (how well a club can pay off its debt that is due within a year), the latter, and its long-term obligations (debt that is due in more than a year). Liquidity ratios can include but not limited to current ratio, acid-test ratio, accounts receivable turnover (times and days), and operating cash flow to current liabilities; whereas solvency ratios include first its namesake solvency ratio (total assets/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.

The third category, activity ratios, includes inventory turnover (times and day) for food, beverage, and golf merchandise. It also includes property and equipment turnover, and total asset turnover. This category highlights the

ability of a club in generating revenues, and using inventory as quickly as possible so that the inventory will not simply "stay on the shelf" and not earn a return for the club. In the operating category, many ratios can be included so long as they are tied to the "operation" of the club. The more popular ones are labor, food, beverage, and golf merchandise cost percentages; although average food check, average room rates (clubs that have rooms), golf course maintenance per hole (clubs that have a golf course) are all included. Incidentally, the Uniform System (Club Managers Association of America, 2012) classifies the profit margin ratio in this category. Other businesses, however, will most likely adopt the category of profitability ratios. Besides profit margin, other ratios in this category contain return on assets or return on equity (DeFranco & Lattin, 2007).

As with the hotel segment of the hospitality industry, clubs also have a number of industry-wide consulting firms providing invaluable industry data for comparison and decision making. Besides working with hotels, PKF also is the publisher of the Town and Country report; and they also perform tailored research for their clients (*Clubs in Town and Country*, 2013). McGladrey, LLP is another respectable company and it publishes an annual trend report for private clubs in Florida (Newman & Tassitano, 2012). Club Managers Association of America also works with Club Benchmarking, offering economic impact studies and even special regional reports for clubs (Club Benchmarking, 2013a, 2013b). These standard publications for the club industry all point to one fact—that financial analysis is important for the long-term success of any club operation.

In 2001, Schmidgall and Damitio wrote the text *Accounting for Club Operations* to be used not only in schools and universities but are endorsed by the Club Managers Association of America to become the standard accounting text for the club industry. As expected, financial ratios are included as a major topic. Since then, some academic research has been published that focuses on financial ratios with the first one in 2004 and others in subsequent years (DeFranco & Schmidgall, 2008; Schmidgall & DeFranco, 2004, 2011b). Schmidgall and DeFranco studied financial ratios but also examined other topics such as inventory practices in clubs (DeFranco & Schmidgall, 2009), the need to revise the Uniform System (DeFranco & Schmidgall, 2010), bonus systems in clubs for executives (Schmidgall & DeFranco, 2014), and explicating the differences between the top and bottom financial performers (DeFranco & Schmidgall, 2013; Schmidgall & DeFranco, 2011a).

METHOD

Questionnaire Design

The questionnaire for this study consisted of a few sections. Respondents were asked general information about their clubs (type, size, location, profit orientation) and some demographic questions about themselves. Then the respondents were asked to provide certain raw data from their balance sheets, statements of activities, and statements of cash flows so the researchers could calculate the financial ratios. This was the preferred way to collect data for financial ratios as it is more convenient for the respondents and also ensured the consistency in the calculation process.

Data Collection and Analysis

The questionnaires were first sent out in April 2015 so that clubs would have time to have the year-end financial statements audited and to have taken care of any year-end statements or tax preparations where applicable. The club membership of Hospitality Financial and Technology Professionals was used, and more than 900 surveys were sent. A second reminder was sent in the summer. A total of 115 clubs participated, yielding an 11.66% response rate. SPSS was used for processing the information received. Descriptive statistics were computed for all questions, and financial ratios were calculated with the raw data provided by the respondents.

Limitation of the Study

As with any quantitative study, one of the biggest challenges in research is to ask

respondents to disclose financial information, albeit the anonymity of the clubs and the respondents is guaranteed. Nine hundred and eighty-six surveys were sent, representing about 21% of the entire club population in the United States. A total of 115 responded, yielding a response rate of 11.66%. While this is not a low rate in normal survey research, it is not ideal either. Thus, the generalizability of the results is limited.

RESULTS

The results section consisted of three major parts. First, the demographics of the respondents and their clubs were presented to set the background. Then, the median of the 24 ratios that cut across the balance sheet, statement of activities, and cash flow statements were presented. This serves as a good benchmark for clubs to compare their operations. Last, the clubs were divided into quintiles, and the ratios of the top and bottom quintiles were also compared.

Respondents and Their Clubs

The majority of the respondents (64.5%) were controllers of their clubs, with 19.6% chief financial officers and another 5.6% directors of finance. The title of controller had changed to chief financial officers and directors of finance slowly but steadily in the past decade. While a similar study saw these two titles totaling 17% in 2011, just 3 years ago (Schmidgall & DeFranco, 2013), this study recorded an aggregate of 25.2%. The club industry is constantly evolving, with new technology and added services to its membership. Hence, the responsibilities of the accounting department have also become more complex, especially in clubs where the accounting department is also responsible for human resources and information technology.

The majority of the clubs (62.3%) in this study were country clubs, with 12.3% golf only, 9.6% city club, and 15.8% others. This 15.8% included Common Interest Realty Association clubs, yacht clubs, beach clubs, and university clubs. The clubs were mostly located in the east coast (53.5%) with a concentration of clubs both in the northeast and Florida. In addition, 26.3% were from central United States and the remainder (20.2%) was from the west coast. The size of clubs as determined by the size of membership was mostly from clubs that had 300–750 members (300–500: 21.9%; 501–750: 31.6%). Then, the bigger clubs with 751–1,000 members were represented at 16.7%, with the next category of 1,001–1,500 members at 15.8%. Staying true to the nonprofit nature of the club industry, 90.4% of the respondents had a nonprofit orientation (see Table 1).

The Median Club

To gauge the performance of a business enterprise, net income is often used as a key indicator; and the profit margin, calculated by net income as a percentage of net sales, is frequently used for comparison. However, in the club industry, with most of the clubs being nonprofit in nature, the study used return on asset rather than the profit margin as the criterion for performance. Return on asset is

TABLE 1. Respondents and Their Clubs

Title of Respondent	%
Controller	64.5
Chief Financial Officer	19.6
Director of Finance	5.6
Assistant Controller	1.9
General Manager (Chief Executive Officer)	0.9
Other	7.5
Types of Clubs	
Country	62.3
City	9.6
Golf	12.3
Other	15.8
Number of Members	
< 300	1.8
301–500	21.9
501–750	31.6
751–1,000	16.7
1,001–1,500	15.8
1,500–2,000	2.6
> 2,000	9.6
Location of Clubs	
East	53.5
Central	26.3
West	20.2
Profit Orientation	
Nonprofit	90.4
For Profit	9.6

calculated by dividing net income by total average assets. In other words, if the return on asset is 10%, then for every dollar of average total assets a club owns, it is able to generate $0.10 in net income. Thus, the return on asset measures both the amount of sales a club can generate and how much of the sales can then be retained as net income. Therefore, the 24 financial ratios were first calculated with the raw data provided by the clubs. Then, using return on asset as the criterion, the median club is identified.

Liquidity. As seen in Table 2, the median club had acceptable and strong liquidity and solvency ratios. All four liquidity ratios were positive in that a current ratio of 1.44 meant for every $1.00 of current liabilities, the median club had $1.44 in current assets to cover the payments when they come due. The accounts receivable turnover of 11.5 times, translated to collecting all accounts receivables every 32 days (a little over a month) was also very good as clubs billed their members on a monthly basis. The 32 days also suggested that perhaps bad debts were not an issue for the clubs. The last ratio, operating cash flow to current liabilities, as reported at 0.32 times for the median, translating that a club had $0.32 in operating cash flow to pay off every dollar of its current liabilities. Though this number appeared to be low, previous research for 2003 to 2012 indicated that the highest reported was 0.41 in 2004 and the lowest was at 0.16 at 2007 (Schmidgall & DeFranco, in press). Given that most clubs are nonprofit in nature, cash flows from operating activities are one but many sources of funds for clubs.

TABLE 2. Financial Ratios of the Median Club

Ratios	Median: Followers
Liquidity	
Current (times)	1.44
Accounts Receivable Turnover (times)	11.50
Average Collection Period (days)	32
Operating Cash Flows to Current Liabilities (times)	0.32
Solvency (times)	
Operating Cash Flows to Long-Term Liabilities	0.15
Long-Term Debt to Total Capitalization	0.24
Debt Equity	0.28
Times Interest Earned	1.65
Fixed Charge Coverage	1.47
Activity	
Food Inventory Turnover (times)	15.12
Food Inventory Turnover (days)	25
Beverage Inventory Turnover (times)	3.67
Beverage Inventory Turnover (days)	100
Golf Inventory Turnover (times)	2.29
Golf Inventory Turnover (days)	160
Property & Equipment Turnover (times)	0.75
Total Asset Turnover (times)	0.53
Profitability (%)	
Profit Margin	1.65
Return on Assets	0.87
Operating Efficiency	17.44
Operating (%)	
Food Cost	46.23
Beverage Cost	35.11
Golf Merchandise Cost	37.08
Labor Cost Percentage	50.23

Solvency. In terms of solvency, five ratios were presented; and they all were quite satisfactory, Similar to operating cash flow to current liabilities, the operating cash flow to long-term liabilities seemed to be weakest of the five ratios, reporting a 0.15 times. However, again comparing to previous research with a high at only 0.18 and a low at 0.06 (Schmidgall & DeFranco, in press), a 0.15 ratio was way above average. The long-term debt to total capitalization was at 0.24, and the debt to equity was 0.28, meaning that the median club only carried 24% of its entire capital structure with debt and only 28% when comparing debt to equity. Thus, with this low amount of debt, the times interest earned and fixed charge coverage were average, reporting at 1.65 times and 1.47 times respectively. This means the median club was able to pay off its interest 1.65 times over and its fixed charges 1.47 times over. These ratios seemed to be slightly below the ten year averages at 2.81 and 2.22 (Schmidgall & DeFranco, in press).

Activity. In the category of activity, the median club also fared well. Under this category, all eight ratios measured how much activity was generated in the business. Six ratios had to do with inventory turnovers (times and days), while the last two shed light on the amount of revenue generated. The median club reported a food inventory turnover of 15.12 (25 days), a beverage inventory turnover of 3.67

times (100 days), and a golf merchandise inventory turnover of 2.29 times (160 days). These are quite consistent with previous years (Schmidgall & DeFranco, 2013). The food inventory turnover was slightly lower (19 times in 2012) and the beverage turnover improved (3.93 times in 2012). The one ratio that was poor compared with previous years was golf merchandise inventory turnover where the median club in 2012 reported a 3.04 times or 120 days but this had dropped to only 2.29 times or 160 days (Schmidgall & DeFranco, 2013). Thus, the median club carried the golf merchandise inventory 40 days more. For property and equipment turnover and total asset turnover, again, the median club performed at a comparable level as in 2012. The property and equipment of 0.75 times translated to $0.75 of revenues being generated from each dollar of property and equipment, while the total asset turnover of 0.53 meant the median club generated $0.53 in revenue with every dollar of total asset, as opposed to 0.79 and 0.51 in 2012 (Schmidgall, 2013).

Profitability. Given that most clubs were nonprofit in orientation, the numbers in this category would be expected to be low. The median club reported 1.65% as the profit margin, 0.87% as its return on assets, and 17.44% as its operating efficiency.

Operating. In the category of operating ratios, the median club had fair percentages of food and beverage cost percentages as both were a couple percentage points more than 2012. The food cost percentage was 46.23% compared to the 44.2% of 2012 while the beverage cost percentage was 35.11% compared to 32.7% of 2012. However, the labor cost percentage showed a slight improvement from the 51.3% in 2012 to 50.23 in 2014. The most improved was the golf merchandise percentage that dropped from 49.2% in 2012 to only 37.08% in 2014 (Schmidgall & DeFranco, 2013).

The Leaders, the Followers, and the Laggers

While the median numbers offered a good benchmarking point, if a club had ratios that were better than the median, it still would not know how good it was. On the contrary, if a club's ratios were lower than the median, that particular club also would not know if it was in deep trouble. Therefore, after the ratios were obtained, all the responses were ranked from the best to the worst using return on asset as the criterion. The clubs that performed in the top 20% of the respondents were identified as the "leaders" while those that performed in the bottom 20%, the "laggers." The "followers" were the other 60% of the respondents.

Table 3 summarized their demographic data. Comparing these three subgroups to the entire sample, there were more respondents who held the title of directors of finance and fewer controllers in the leader's category. A very interesting point was there was not a single city club in the leaders. As for membership, the leaders had more small clubs and yet it also had more clubs in the 751–1,000 members category. Regarding location, the leaders and

TABLE 3. Profile of the Leaders, Followers, and Laggers

Title of Respondents	Top 20%: Leaders (%)	Median: Followers (%)	Bottom 20%: Laggers (%)
Controller	60.0	60.9	77.3
Chief Financial Officer	20.0	23.4	9.1
Director of Finance	10.0	3.1	9.1
Assistant Controller	5.0	1.6	0
General Manager (Chief Executive Officer)	0	1.6	0
Other	5.0	9.4	4.5
Types of Clubs			
Country	56.5	62.7	65.2
City	0	11.9	13.0
Golf	13.0	11.9	13.0
Other	30.4	13.4	8.7
Number of Members			
< 300	17.4	1.5	4.3
301–500	21.7	13.4	47.8
501–750	13.0	38.8	21.7
751–1,000	30.4	20.9	8.7
1,001–1,500	8.7	11.9	13.0
1,500–2,000	8.7	0	4.3
> 2,000	17.4	13.4	0
Location of Clubs			
East	52.2	60.6	34.8
Central	26.1	25.8	30.4
West	21.7	13.6	30.4
Profit orientation			
Nonprofit	95.7	94.0	73.9
For Profit	4.3	6.0	26.1

the followers were more or less similar to the median while the laggers were fairly evenly distributed with amongst the east, central, and west. The most telling difference however was that 95.7% of the leaders were not for profit, higher than the entire sample of 90.4% (as seen in Table 1), yet they were the most profitable group. On the other hand, the laggers had the most "for profit" clubs at 26.1%, almost three times that of the sample of 9.6% (as seen in Table 1), and this group performed the worst financially.

Financial Performance of the Three Groups

Table 4 presented the median financial ratios of the leaders, the laggers, and also that of the entire sample, which was discussed earlier. The 24 ratios were again grouped into the classifications of liquidity, solvency, activity, profitability, and operating.

Liquidity. Four liquidity ratios, signifying the ability of clubs being able to meet their short-term obligations, were calculated in this study. First, the current ratio, measuring current assets as related to current liabilities, the leaders reported a current ratio of 1.47, slightly higher than the median of 1.44, while the laggers reported a ratio of 0.94. In other words, when the current liabilities were due, these clubs only had $0.94 of current assets to cover every $1.00 of debt.

The second liquidity ratio, accounts receivable turnover, measured how many times within a year a club was able to collect the amounts due to them. This ratio showed some very interesting results. One would expect the leaders to have a higher turnover, collecting their receivables faster. However, the followers

TABLE 4. Financial Ratios for the Leaders, Followers, and Laggers

Ratios	Top 20%: Leaders	Median: Followers	Bottom 20%: Laggers
Liquidity			
Current (times)	1.47	1.44	0.94
Accounts Receivable Turnover (times)	9.03	11.50	11.32
Average Collection Period (days)	41	32	33
Operating Cash flows to Current Liabilities (times)	0.64	0.32	−0.03
Solvency (times)			
Operating Cash flows to Long-Term Liabilities	0.92	0.15	−0.019
Long-Term Debt to Total Capitalization	0.10	0.24	0.27
Debt Equity	0.11	0.28	0.36
Times Interest Earned	36.04	1.65	−9.56
Fixed Charge Coverage	16.50	1.47	−3.78
Activity			
Food Inventory Turnover (times)	13.16	15.12	13.43
Food Inventory Turnover (days)	28	25	28
Beverage Inventory Turnover (times)	6.06	3.67	3.40
Beverage Inventory Turnover (days)	61	100	108
Golf Inventory Turnover (times)	2.43	2.29	2.17
Golf Inventory Turnover (days)	151	160	169
Property and Equipment Turnover (times)	0.93	0.75	0.93
Total Asset Turnover (times)	0.54	0.53	0.69
Profitability (%)			
Profit Margin	17.43	1.65	−10.08
Return on Assets	9.48	0.87	−7.00
Operating Efficiency	38.28	17.44	4.21
Operating (%)			
Food Cost	52.78	46.23	47.18
Beverage Cost	43.64	35.11	29.24
Golf Merchandise Cost	29.04	37.08	43.00
Labor Cost Percentage	50.11	50.23	50.69

showed a ratio of 11.50 times, while the lagger's ratio was just slightly below that at 11.32. The surprising part was that the leaders reported an accounts receivable turnover of only 9.03 times. These translated to 32 days for the followers, 33 days for the laggers, and 41 days for the leaders. The interesting point is that although the leaders took more time to collect (nine more days than the followers and eight more days than the laggers), per the current ratio, it still had enough current assets to pay their short-term obligations.

In terms of operating cash flows to current liabilities, the followers recorded a ratio of 0.32 times, the leaders, doubling the amount at 0.64 times while the laggers reported negative operating cash flow, resulting in a ratio of −0.03 times.

Solvency. While liquidity ratios measure a club's ability to meet its short-term obligations, solvency ratios look at the long-term financial viability of a club. To begin, the first solvency ratio is operating cash flows to long-term liabilities. As this ratio differs from the last liquidity ratio only in its denominator, one can expect the results of the three ratios here would mirror that of operating cash flows to current liabilities. The followers club reported a 0.15 times. The leaders, having a higher cash flow, and at the same time a lower amount of long-term debt ($1,354,174) than the current liabilities ($1,962,031), reported a ratio of 0.92 times. The laggers, plagued by a negative cash flow to begin with and also a much higher long-term debt ($2,732,161) than current liabilities ($1,614,495), was caught in a mere −0.02 times.

In terms of long-term debt to total capitalization, a lower ratio signifies less debt, which is more preferred. In this case the leaders showed a low debt ratio of only 0.10, the median club 0.24, while the laggers showed 0.27. Similarly, in the debt-to-equity ratio, a lower number is preferred. A debt-equity ratio of 1.0 means for every $1.00 of equity, there is $1.00 of debt. However, a 0.50 ratio means for every $1.00 of equity, there is only a corresponding debt of $0.50. For this study, the clubs reported a median of 0.28, the leaders, 0.11, and finally the laggers, at 0.36.

Time interest earned is expressed as earnings before interest and tax divided by interest. Thus, for this ratio, a higher number is desired, meaning a club can pay its obligations many times over. The followers reported a modest 1.65 times, while the laggers were at −9.56 (having negative earnings before interest and tax), and the leaders at a high of 36.04 times.

The fixed charge coverage ratio, an extension of times interest earned, with adding rent both in the numerator and denominator, reported a median of 1.47 times, with the leaders at a high of 16.50 times and the laggers at a low of −3.78 times.

Activity. Under this category, all eight ratios measured how much activity was generated in the business. Six ratios had to do with inventory turnovers (times and days), while the last two shed light on the amount of revenue generated. The median club reported a food inventory turnover of 15.12 (25 days), as opposed to the leaders at 13.16 (28 days), and the laggers at 13.43 (28 days). Apparently, the bottom performers were managing their food inventory in a very similar manner with the top performers. In terms of beverage inventory turnover, the median club reported theirs at 3.67 times (100 days), the top performers at 6.06 times (61 days), and the bottom performers at 3.40 times (108 days). While the difference was not much between the median club and the low performers, the top performers obviously were able to turn over their inventory faster (almost half the time) than their counterparts. The result of golf inventory turnover was very much like food inventory turn-over – minimal difference, where the median club stated a result of 2.29 times (160 days), the laggers were at 2.17 times (169 days), and the leaders were at 2.43 times (151 days).

Of particular interest were the last two activity ratios. While the median club related that for every dollar of property and equipment, $0.75 were generated (ratio of 0.75), both the leaders and the laggers showed the same ratio of 0.93. Thus, it appeared the issue was not in revenue generation. Rather, it might be in cost control to the point that the return on asset of

the groups was different. This was supported by the total asset turnover ratio where the median club generated $0.53 in revenue with every dollar of total asset and the leaders only generated one more cent at $0.54 while the laggers beat both groups and generated $0.69 in revenues with every dollar of total asset.

Profitability. With the return on asset being the criterion to determine the quintiles, the leaders led the clubs at a 9.48% return on asset, the followers at 0.87% and the laggers saw a loss at −7.00%. This carried over to the profit margin where the leaders enjoyed a profit margin of 17.43%, the followers at 1.65% and the laggers came in at a loss of −10.08%. For operating efficiency, where the numerator was income before fixed charges rather than net income, the laggers were only able to state a 4.21% return over revenue, the followers at 17.44%, while the leaders had a commanding margin of 38.38%.

Operating. Last, for operating statistics, similar to inventory turnover in the activity category, food, beverage, and golf merchandise costs were measured; and labor cost percentage rounded up the category. For food cost, the median club showed a result of 46.23%, the laggers were just slightly higher at 47.18% and the leaders showed a food cost of 52.78%. In beverages, the median club came in at 35.11%, the laggers at a low of 29.24%, and again, the leaders were at the highest of 43.64%. The huge difference is found in golf merchandise cost where the median was at 37.08%, the laggers were as high as 43.00% and the leaders were at a low of 29.04%. In terms of labor cost, the three groups were most similar; all hovered around the 50% mark with the leaders at the lowest, 50.11%, the median, 50.23%, and the laggers at 50.69%.

Conclusions and Implications

As stated, the purpose of this study was twofold. The first objective of this study was to report the financial results of the club industry in 2014 as measured by 24 financial ratios, categorized in five classifications: liquidity, solvency, activity, profitability, and operating. In general, 2014 was a good year for clubs. The economy trended upward and with more than 90% of clubs being nonprofit entities, a median of 1.65% profit margin was right on the money. All ratios for the followers were positive in that the liquidity and solvency aspects were sound, activity ratios were on point, profitability was where it should be, and operating ratios were also in line. While this presented good news to the industry, 2014 was also a year where the industry and the economy were both recovering. It is imperative for clubs to stay alert and continue to keep up the standards and good work. The median results were good. However, as seen earlier, there were clubs that struggled and had suffered losses. Thus, there is still a lot of work to be done in 2015.

This is the express reason why this study also set out to analyze the difference in financial performance between the top 20% performers and low 20% performers using return on asset as a grouping criterion. While the median financial performance of the clubs was positive, the analysis of the top and bottom performers revealed some noteworthy findings. One important takeaway for the laggers would be to use the results to investigate the variances and determine what could be done in the future to prevent the undesired financial performance. The areas of opportunity with this group are as follows.

First, a positive operating cash flow is a must, as this will improve both the operating cash flows to current liabilities and operating cash flows to long-term liabilities ratios from a negative number to a positive figure. Without sufficient funds, accounts payable might be paid late, other debt obligations might also be delayed, and these will hurt the credit of the club. Thus, the laggers need to figure out why the operating cash flows are negative. Is it due solely to a negative net income, more funds used in current assets, or incorrect depreciation or amortization? This is a good time to investigate account by account to see how improvement can be made in the next year.

Second, profitability is an issue. A loss of 10.08% evidently had a role in the negative operating cash flow. If 2014 was the first and only year where there was a loss, then there is hope. Club executives might want to analyze the statements and see where corrections can be taken. However, if this was a consistent issue, unless the club has substantial financial reserves and its members are supportive of any type of additional assessment, a continued loss year after year is not good financial news. And, more serious steps, including perhaps seeking assistance from a consulting or outside party, would be helpful.

Third, it was shown that the laggers could generate revenues. Per the property and equipment turnover ratio and the total asset turnover ratios, the laggers are head to head with the leaders and actually beat out the leaders in the total asset turnover, generating $0.15 more in revenue per dollar of assets then the leaders. The issue was also not totally in cost controls. From the operating statistics, the laggers reported lower food and beverage cost percentages, and were only half a percentage point higher than the leaders in labor cost. The only cost percentage that saw an enormous difference was a 43.00% golf merchandise cost rather than a 29.04% as reported by the leaders. Thus, if a laggers' club had a pro-shop, it might want to investigate how to manage the merchandise so as to achieve a higher turnover, including offering merchandise that members would like to purchase to pricing the merchandise appropriately with the proper margins. The main reason for the difference between these two groups seemed to be the debt level. When comparing the two groups, the laggers had more than two times of long-term debt to total capitalization and over three times of debt to equity. With those ratios, their interest expense obviously would be higher. Thus, both their times interest earned and fixed charge coverage ratios were way below that of the leaders. Consequently, debt management might be an area that clubs would want to investigate further.

This study should also prompt clubs of all sizes and types to use financial ratios to their fullest. In other words, clubs should compare their 2014 results with those reported in this research. The first step is to take stock and see where one is. If their results are not as good, that means it is possible to be better. On the other hand, if their results are better, make sure they stay high. The second step is to determine what needs to be changed, maintained, or improved. This is not a one-person job. Rather, it is best to have a team of staff personnel to come up with ideas and set realistic goals together. If one area that needs improvement is to generate more revenue, then even involving the members will be a smart move. Members will normally be open to share their likes and dislikes with management. Surveys or focus groups to solicit members' preferences, or hosting cocktail hours for management to interact with members to seek comments and suggestions can also be beneficial.

When new strategies and tactics are adopted and goals are set, implementation becomes crucial. Many great ideas fall short because of poor implementation planning and follow-up. The new goals need to be shared with all employees, with clarity. Milestones also need to be set as indicators with contingency plans ready to go so that if performance is not on track, contingency plans can be enacted immediately to ensure success.

The financial accomplishment of a club does not depend on one event, on one day, with one staff member, over one round of golf, or with one club member. This is a continuous process that involves many. Thus, management should not only calculate financial ratios at the end of the year. Certain ratios can and should be calculated by event (such as a golf tournament), some by day (covers served at the restaurant), some by week (food cost and beverage cost), or other time intervals. Any variance should be identified and immediate actions taken to ensure the goals are still in sight. Irregularities can be the result of mistakes, mismanagement, or even fraud. Therefore, financial ratios can prevent disaster from brewing and happening.

Moving to a broader perspective, besides just looking at numbers, comparing them and

taking action internally, astute club management should also have a network of external resources at their finger- tips to act as trump cards for actions. Being members of professional associations such as club managers Association of America, and particularly for the chief financial officers, directors of finance, and controllers, being members of Hospitality Financial and Technology Professionals, can assist club management to gain new ideas and be updated on emerging issues. Club management may also want to branch out to other areas of the hospitality industry such as the National Restaurant Association and their resources to look at new trends in food and beverage that can be introduced in their clubs.

Future research in club ratios can be performed on a longitudinal basis, with more in-depth analysis for other operating statistics (for instance in food and beverage), or even initiation fees and dues structure would be of interest. In addition, with the sample only from the United States, perhaps studies of clubs in other countries will also assist club management to gain further insight and new ideas.

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