
# Universal Key Club Performance Indicators
## **White Paper**

CLUB MANAGEMENT ASSOCIATION OF AMERICA

# Introduction

Club Boards have a significant role in the design, monitoring, and execution of organizational strategy. Collecting data points to produce metrics that make up Key Performance Indicators (KPIs) is vital to be able to understanding what makes up the health and success of your club. Effective KPIs are important metrics to track to make sure that your club can accomplish business objectives. The Key Performance Indicators (KPIs) introduced below are quantifiable and will assist in the measurement of progress towards organizational goals.

Proper use of KPIs requires a suitably developed and implemented KPI program through regular review in which managers and other stakeholders assess the meaning of the results. No matter what result the KPI achieves, that result needs to be qualified, analyzed, and assessed to repeat or even strengthen the organizational performance.

The KPIs developed by the task force are intended to provide a tool to club managers and boards of directors, governors, or committees to begin a conversation on the effective operational strategies toward the overall financial health of a club. These KPIs are intended to be used together to provide insightful information in concert with other quantitative and qualitative information available to the stakeholders of your club.

The task force chose to highlight the six KPIs listed below, with the intention to provide the industry with a basic level of information regarding a club's overall financial health. Using and interpreting these KPIs individually will not provide a full picture of your organization, but together they will provide a clear picture of the overall financial health of the club. These KPIs give clubs a quick snapshot and provide a basis for understanding your club's financial strengths and weaknesses. When properly understood and applied, these KPIs can provide you with the analytical starting point that will help you and your board make better, more informed decisions.

1. Change in Net Assets (Member's Equity) Over Time = (Ending Net Assets – Beginning Net Assets) / Beginning Net Assets
2. Current Ratio = Current Assets / Current Liabilities
3. Debt to Equity Ratio = Total Liabilities / Total Members' Net Assets (Total Equity)
4. Net PP&E (Property, Plant, and Equipment) Ratio = (Net PP&E – land) / (Gross PP&E – land)
5. Change in Full Member Equivalents = Change in Full Member Equivalents (Annual Dues Revenues / Annual Dues for a Full Member) over multiple years
6. Dues to Operating Revenue = Operating Membership Dues Revenue / Total Operating Revenue

The six KPIs encapsulate a high-level picture of financial health, including the major components of a club. First, the Change in Net Assets Over Time provides a snapshot of the club's overall financial performance over the period of review. Then, the Current Ratio measures the club's liquidity risk and the Debt to Equity Ratio indicates the club's solvency risk. The Net PP&E Ratio provides the board with a quick evaluation of the age and estimated

***Continued on next page***

useful life of its fixed assets and can provide an indication of the significance of the need for repair and/or replacement of assets. A successful and healthy club also needs a strong membership base, and therefore the Change in Full Membership Equivalents Over Time affords evidence of membership growth or lack thereof. Finally, the percentage of Operating Membership Dues Revenue to Total Operating Revenue also serves as an important indicator of the approach a club takes to covering the operating expenses necessary to deliver its member experience. The clubs which rely more on dues as a "recurring" income rather than activity-based fees are more member-experience-centric and are more able to sustain the expected standard of service and member experience.

These six KPIs along with the remaining metrics are divided into three sections: Financial, Membership, and Operations. The KPIs are highlighted in the Table of Contents, and each section includes a definition of the desired ratio and the task force's rationale. The more a club can measure, the more it can better understand and predict its financial stability. Clubs are now able to quantify and measure KPIs that highlight overall financial health.

## *Universal Key Club Performance Indicators Task Force*

**Julie Brown, CCM, CPA**, Farmington Country Club (co-chair)

**Michael S. Wheeler, MCM, CCE**, Cherokee Town & Country Club (co-chair)

**Ray Cronin, MBA**, Club Benchmarking

**Agnes Lee DeFranco Ed.D., CHE, CHAE, CHIA**, University of Houston

**Jim Hankowski, CPA**, Condon O'Meara McGinty & Donnelly LLP

**Craig Johnston, CPA, CA**, GGA Partners

**Philip Newman, CIA, CPA**, RSM

**Jennifer Taranto, MBA, CPA**, Genesee Valley Club

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# Financial Metrics and Ratios

## *Profitability or Return on Investment Ratios*

There are at least four synonymous terms applied to describe the Equity portion of a club's Balance Sheet: Net Assets, Net Worth, Member's Equity, or Shareholders' Equity. The terminology may vary from one club to the next based on whether the club is member-owned/third party owned, for-profit/not-for-profit. As in every business, the changing equity over time reflects the financial outcomes as a result of a club's performance as a going concern. By definition, owners expect equity to grow over time. Stagnant or declining equity over time must eventually be arrested or the business will ultimately fail — the same is true for private clubs.

### Change in Net Assets (Member's Equity) Over Time

***Definition:***

Measurement of Net Assets Over Time is critical. The time period over which the measurement is made can vary. For most clubs, the shortest meaningful time period is one year. Longer time periods of several years to a decade or more will paint a clear picture of a club's performance and trends related to the impact of strategic decisions (or lack thereof).

$$\text{Change in Net Assets (Member's Equity) Over Time} = \frac{\text{(Ending Net Assets – Beginning Net Assets)}}{\text{Beginning Net Assets}}$$

***Rationale:***

A club's ability to generate a positive change in net assets / net income will allow the club to make investments in it's property, plant, and equipment which makes up roughly 80 percent of the average club's total assets. A club's assets are ultimately funded by either Member's Equity or Debt, on average 70 percent is funded by Member's Equity. Given the not-for-profit status of many clubs, the changes in Net Assets / Member's Equity over time will likely reflect the changes in the state of the club's property, plant, and equipment. Therefore, declining Net Assets Over Time are an indicator of depreciating and "worn out" PP&E. It is important to continuously invest in the club to keep it looking "fresh and new," and notably, as the replacement of assets today is generally more expensive than the original cost, it is prudent to expect Net Assets of a club must grow over time.

Clubs can also quantify the extent of the contribution to Net Assets Over Time by quantifying the contribution from both operating income and capital/non-operating income respectively.

### Operating Contribution to Change in Net Assets

***Definition:***

The operating contribution to the change in net assets is calculated by dividing operating income over the given period of time by the change in Net Assets over that same period of time. Operating contribution is total

operating revenue less total operating expenses and can be found in the Statement of Activities, while net assets (defined above) can be found in the Statement of Financial Position.

$$\text{Operating Contribution to Change in Net Assets} = \frac{\text{Operating Income Over Time}}{\text{Change in Net Assets Over Time}}$$

***Rationale:***
The contribution to change in Net Assets Over Time from club operations is a measure of the surplus of operating revenues over the operating expenses in the given timeframe.

## Net Capital/Non-Operating Contribution to Change in Net Assets

***Definition:***
The net capital/non-operating contribution to Change in Net Assets is calculated by dividing net capital/non-operating income over the given period of time by the change in Net Assets over the same period of time. Net capital/non-operating income is derived by totaling all capital/non-operating income over the period of time (typically initiation fee income, capital dues, capital assessment, and other capital income) and deducting all depreciation over the same period of time. The net capital/non-operating income can be found in the Statement of Activities for the given period of time. The changes in Net Assets can be found in the appropriate Statements of Financial Position for the given time periods.

$$\text{Net Capital/Non-Operating Contribution to Change in Net Assets} = \frac{\text{Net Capital/Non-Operating Income}}{\text{Change in Net Assets}}$$

Net Capital/(Non-Operating Income = Initiation Fee Income + Capital Dues + Capital Assessments + Other Capital Income - Depreciation - Other Capital Expenses)

***Rationale:***
The contribution to change in Net Assets Over Time flowing from capital and non-operating income is simply a measure of the surplus of capital and non-operating income relative to depreciation (and other non-operating expenses) over the given time.

## Operating Cash Flow Before Change in Working Capital

***Definition:***
A Statement of Cash Flows has three sections: operating, investing, and financing. The cash flow from the operating activities section or operating cash flow shows how effective the club is at generating cash to pay for capital expenditures (investing) and debt obligations (financing).

Operating cash flows can be found in the top section of a Statement of Cash Flows, and it includes the increase or decrease in unrestricted net assets, and a list of adjustments to reconcile this number to net cash provided by operating activities. These adjustments include net membership activities, depreciation and amortization, deferred income taxes, gains, and losses of sale of long-term investments and assets, and changes in working capital accounts. Thus, the operating cash flow before change in working capital is simply the cash flows

provided by operating activities minus the changes in the increase/decrease in operating assets and increase/decrease in operating liabilities.

$$\text{Operating Cash Flow before change in Working Capital} = \frac{\text{Net Cash from Operating Activities} - }{\text{Changes in Working Capital}}$$

***Rationale:***
While the net income or the increase/decrease in unrestricted assets shows the profitability of a club, that number is different from the amount of cash that is generated by that club due to the accrual basis of accounting. A club cannot pay its bills if there is no cash. Thus, the Statement of Cash Flows, and specifically the net cash provided (used) by operating activities is the true measure of the amount of cash generated by the club through how the club is being managed. Changes in working capital during the period reflect the cash received or paid during the period relating to a prior period. Therefore, it is recommended to exclude changes in working capital when evaluating the cash flow generation of the club in the particular review period.

# *Liquidity Ratio*

## Current Ratio

***Definition:***
Current ratio is defined as dividing current assets by current liabilities, expressed as a rate or times. Both current assets and current liabilities can be found in the Statement of Financial Position (Balance Sheet). Current assets are assets of a club that are expected to be sold, consumed, or used by the operation within a year, while current liabilities are obligations that a club needs to repay within a year.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

***Rationale:***
Current ratio is an important indicator as it measures a club's ability to pay obligations that are due within a year with assets that can be turned to cash in the same time frame. For example, if a club has a current ratio of 1.2, it has $1.20 in current assets to cover every dollar in current liabilities. Creditors and potential lenders generally view current ratios of at least 1:1 as a minimum goal. Some creditors are even more strict that they would require a certain current ratio in the loan agreement that if a business falls below the ratio, the loan may be in default, and the business may have to repay the loan in full. In addition, the composition and quality of the current assets play a critical role in analyzing a club's liquidity.

Note: Clubs must take care when assessing the current ratio. Approximately 75 percent of clubs have third party debt (mortgage debt, lines of credit, lease debt) and must make regular, typically monthly, payments of interest and principal on the debt. The principal payments due on the debt within the year are considered a short-term liability. It is important to understand the impact of the current portion of long-term debt when analyzing the current ratio.

# *Leverage or Solvency Ratios*

## Debt to Equity Ratio

***Definition:***
This traditional definition of debt-to-equity ratio is dividing total liabilities over total members' equity/net assets. Both total liabilities and net assets/members' equity can be found in the Statement of Financial Position (Balance Sheet). Total liabilities are the debt of a club, both current and long term. Total net assets/members' equity is the total investment in the club made by the members.

$$\text{Debt to Equity Ratio} = \frac{\text{Total Liabilities (Debt)}}{\text{Total Members' Net Assets (Equity)}}$$

***Rationale:***
Debt to equity ratio measures how much debt a club owes its creditors for every dollar of net assets or investments made by the members. A debt-to-equity ratio of 1.0 means for every dollar of liabilities a club carries, it has exactly one dollar in equity to cover the debt. As the debt is in numerator, creditors and potential lenders would like to see a low debt to equity ratio to have a better guarantee of the club's ability to repay its debt. And, when interest rates are low, some clubs may take advantage of the low interest rate and borrow more in liabilities to finance various projects and therefore may result in a higher ratio. It is important to note that some clubs do not capitalize and depreciate capital expenditures in accordance with Generally Accepted Accounting Principles (GAAP). For those clubs, the debt-to-equity ratio is not relevant.

## Debt Service Coverage Ratio

***Definition:***
There are many variations in the definition of the debt service coverage ratio. The basic premise, as the name indicates, is to determine how easily a club can pay its debt service. The formula for clubs is to divide the operating income (defined as change in net assets + interest + depreciation + non-cash losses – non-cash gains) by the debt service (defined as cash interest + principal payments on term debt + capitalized leases for the period). Term Debt = loan with a set payment schedule.

$$\text{Debt Service Coverage Ratio} = \frac{\text{(Change in Net Assets + Interest + Depreciation + Non-cash Losses – Non-cash Gains)}}{\text{(Cash Interest + Principal Payments on Term Debt + Capitalized Leases for the Period)}}$$

***Rationale:***
The debt service coverage ratio measures the ability of a club to use its operating income to repay all its debt obligations including the interest, principal repayment of term debt, and capitalized leases for the period. This ratio helps a club to evaluate its debt capacity. For example, a debt service coverage ratio of 2.5 means that this club can pay its interest, principal, and capitalized leases 2.5 times over with its operating income. Thus, a higher ratio is desired by all parties. With a higher ratio, it is also easier for a club to obtain a loan when needed.

## Third-Party Debt (with Capital Leases) to Full Member Equivalent (FME)

***Definition:***

Third-Party Debt (with Capital Leases) to Full Member Equivalent (FME) is dividing debt obtained from any third party outside the club, including capital leases, and divide the total by full member equivalent, where Third-Party Debt = The capitalized amount of all third-party commercial debt (Mortgage Debt, Capital Lease Debt, and Lines of Credit). As further explanation, many clubs have some aspect of "member debt." An example may be a bond posted when a member joins that is returned when the member leaves. Given the great variation in how such debt is considered across clubs we do not consider this as third-party debt and therefore it does not impact the debt calculations.

Full Member Equivalent (FME) =

$$\frac{\text{Annual Operating Dues Revenues}}{\text{Annual Dues for a Full Comprehensive Member}}$$

Thus, the Third-Party Debt (with Capital Leases) to Full Member Equivalent (FME)=

$$\frac{\text{Third-Party Debt}}{\text{Full Member Equivalent}}$$

***Rationale:***

It is useful for a club to know how much debt it is carrying per full member equivalent. This ratio indicates the dollar amount of debt each full membership carries. If the third-party debt is $1,000,000, and a club has an FME of 400, then the third-party debt (with capital leases) to full member equivalent (FME) is $2,500. This is an important ratio as members would desire this number to be as low as possible. Members would not prefer their clubs to be heavily debt laden, because if there is not enough cash in the operations to pay for the debt service, a club may have to resort to borrowing more (which can be difficult as it cannot pay its current debt already) or imposing an additional assessment on members. Thus, all parties would like to have this ratio as low as possible.

It is also prudent to contextualize a club's Third-Party Debt to FME relative to the total annual cost to belong to the club. For example, a club which has Third-Party Debt to FME of $2,500 who has a total annual cost to belong of $20,000 is likely to have a much lower solvency risk than a club which has the same debt metric but has a total annual cost of $2,000.

## Debt to Full Member Equivalent (FME)

***Definition:***

The debt to full member equivalent ratio measures the amount of total liabilities, both current and long term, that is carried by a full membership, with

Full Member Equivalent (FME) = $\frac{\text{Annual Operating Dues Revenues}}{\text{Annual Dues for a Full Comprehensive Member}}$

Thus, Debt to Full Member Equivalent (FME)= $\frac{\text{Total Liabilities (Debt)}}{\text{Full Member Equivalent}}$

***Rationale:***
Similar to the debt-to-equity ratio, this ratio also utilizes total liabilities, measuring how much debt each full member carries. Since this ratio is reported as a dollar amount, the lower the ratio, the less that is owed per full member. As such, all parties would like to see this ratio as low as possible. A low ratio signifies to creditors and potential lenders that a club is not carrying a large amount of debt and has a higher ability to repay its debt. Members obviously prefer a low ratio, as that means their club is solvent. Management also desires a low ratio as it will facilitate the club to obtain future loans when needed.

## Full Member Equivalent Debt to Full Annual Dues

***Definition:***
This ratio takes the debt to full member equivalent ratio one step further by dividing the debt to full member equivalent ratio over the annual dues for a full comprehensive membership.

$$\text{Full Member Equivalent Debt to Full Annual Dues} = \frac{\text{Debt to Full Member Equivalent}}{\text{Annual Dues for a Full Comprehensive Member}}$$

***Rationale:***
The debt to full member equivalent ratio is a dollar amount representing how much debt each full membership carries. By dividing the debt to full member equivalent ratio over the annual dues for a full comprehensive member, a club can see the portion of the annual dues of a full comprehensive member that will need to be used to cover the debt should there be no other sources of revenue. If a club's metrics show a debt to full member equivalent of $5,000 and the annual dues for a full comprehensive member are $12,000, then the full member equivalent debt to full annual dues is 41.67 percent. This means 41.67 percent of the annual dues of this club will need to be used to cover its debt. This ratio contextualizes the level of debt relative to the membership's financial capabilities. If this ratio is high, and the budget shows there may not be enough cash to sustain the operation, then the board and management will need to begin planning or to execute strategies that have been set to rectify the debt situation.

# Land Value Considerations

As a club reviews its debt metrics discussed herein and considers leveraging debt financing to complete a capital project, it is important for club leaders (board and management) to understand the value of the land on which the club resides, as the underlying land value may provide the club with greater flexibility from a covenant or security perspective.

Land value has not been identified as an important metric or a key performance indicator for clubs, because the purpose of the club is unlikely to be for real estate development or land sales; and therefore, it is believed that a club's important metrics and key performance indicators should focus on the operations and financial sustainability of the club as-is.

The underlying land value is simply a data point which should be understood and leveraged wherever possible to benefit the club's cost of capital or balance sheet flexibility.

# Times Interest Earned (TIE)

***Definition:***

Times Interest Earned indicates how many times a business has in its Earnings Before Interest Expense and Income Tax (or EBIT) to pay its interest expense. The name Times Interest Earned also hints that the result is expressed as times.

$$\text{Times interest earned (TIE)} = \frac{\text{Earnings Before Interest Expense and Income Tax (EBIT)}}{\text{Interest Expense}}$$

***Rationale:***

This ratio denotes the ability of a club to pay the interest on it bonds and other debts using its earnings before interest expenses and income tax and enables club boards and management to gauge if their club has the earning power, after paying all other expenses, to satisfy its interest obligation. If a club has earnings before tax of $272,755 and interest expense of $61,000, its TIE will be 5.47 times, and this club is able to pay its interest obligation 5.47 times over. All parties would like this ratio to be high, signifying that a club does not have any difficulty meeting its debt obligation. While it may seem that creditors are more concerned with this ratio than the owners, owners do need to continuously work with their management to make sure this ratio stays high. A higher ratio translates to fewer risks and indicates the club's ability to take on additional debt.

## *Capital Ratios*

### Net PP&E (Property, Plant, and Equipment) Ratio

***Definition:***

$$\text{Net to Gross Property, Plant, and Equipment (PP\&E) Ratio} = \frac{\text{Net PP\&E – land}}{\text{Gross PP\&E – land}}$$

The Net to Gross PP&E Ratio is a measure of the extent of depreciation of a club's assets. A ratio of 50 percent would indicate Accumulated Depreciation is 50 percent of Gross PP&E (the original purchase price of the assets). Every year the ratio changes – depreciation lowers the ratio while capital investment increases the ratio (there is also an impact related to disposal of assets). The ratio is simple to calculate for every single club using a club's audited financial results.

***Rationale:***

A club can chart the Net to Gross PP&E over time. Clubs that underinvest over time will see a consistent downward trend in the ratio. The ratio will oscillate year to year, the idea being to proactively develop a capital asset investment plan so that the oscillations are smaller. "Generational"—ten- or twenty-year oscillations (i.e., in year 1 the ratio is 55 percent, in year 10 it has fallen to 40 percent and in year 15 it is 30 percent)—are indicative of reactive, or non-existent capital planning. As the ratio falls below 40 percent, a club is exhibiting signs of significantly deferred maintenance.

The Net to Gross PP&E ratio is a quick, simple, and accurate measure of how well your club has maintained its asset base.

## Net Property, Plant, and Equipment (PP&E)

***Definition:***
Net PP&E = Gross PP&E – Land – Accumulated Depreciation

***Rationale:***
Net PP&E is an absolute measure of the extent of the book value of the club's physical assets. Benchmarking Net PP&E requires some thought. The magnitude of the assets reflects two things, the scale of a club's footprint and the extent of the depreciation on the club's assets. If a club has a large footprint but has not reinvested anything in the physical assets for forty years, the Net PP&E will be approaching zero, indicating the assets are completely depreciated (it will show) and the book value is at or near zero.

The Net PP&E measure, used in concert with the Net to Gross PP&E ratio, can help decipher scale versus asset state. As a thought exercise, it is straightforward to look at your club's footprint of physical assets and consider how much it would cost if all the assets were brand new. The gap between the Net PP&E and that number is a rough idea of how much capital will be needed looking down the road.

## Initiation Fees to Capital Expenditure

***Definition:***

$$\text{Initiation Fees to Capital Expenditure} = \frac{\text{Initiation Fees}}{\text{Capital Expenditure}}$$

***Rationale:***
Best practices, throughout the club industry and particularly at golf and country clubs, should include earmarking initiation fee revenue for capital expenditures. When doing so, it is important to measure the ratio of initiation fee revenue to total capital expenditures. It is also noteworthy that clubs not sufficiently investing in capital improvements may have minimal initiation fee revenue since the club may lack "curb appeal." Therefore, clubs that spend more capital may generate more initiation fee income.

Capital expenditures are primarily funded through the following streams: 1) a separate designated capital assessment, 2) operating profits, if any, 3) initiation fees, or 4) debt (generally for special projects). Debt could be in the form of third-party debt (bank loans and leases) or internal debt (bonds from members). However, the prevailing trend in the club industry has been to move away from internal (i.e., member) debt.

## Reinvestment Ratio

***Definition:***
This metric tells a club how much money was reinvested into club amenities as compared to the depreciation of those amenities. It should be calculated in the cumulative over an extended period of time (i.e., ten years or even longer).

$$\text{Reinvestment Ratio} = \frac{\text{Capital Improvements for any given period}}{\text{Depreciation expense for the same given period}}$$

***Rationale:***
As with any KPI or metric involving depreciation expense, it is only as good as the factors that drive depreciation—most notably the useful lives over which an asset is depreciated. For example, a club spends $10,000,000 between 2010 and 2020 on capital improvements. During the same period the club has a total depreciation expense of $15,000,000. Using the formula above, the club's reinvestment ratio is 66.7 percent which tells us that for every dollar of depreciation expense, the club only reinvested 67 cents. The club is therefore not keeping pace with depreciation. If we assume the club depreciated its assets on average over 10 years, when they should replace them after seven years, then they are arguably in an even worse place than the 67 percent because the depreciation expense should have been even larger.

# *Membership Metrics and Ratios*

## Membership Metrics

The following metrics are particularly useful for general club management but may not be as applicable in relation to the financial health of clubs.

## Membership Count Metrics:

1. Full Member Equivalent (FME) = annual operating dues revenue/annual full member category dues revenue (most prominent category or highest dues paying rate)
2. Total Member count = paying membership unit
3. Head Count = total number of individuals who have usage privileges (includes adult children of members and dependents)
4. Full Voting Members = who votes (for governance)
5. Change in Membership Count =

    Memberships at the beginning of a period (membership count)

    \+ Membership Adds

    \+ Reinstated memberships that had been dropped previously

    – Membership Exits (attrition)

    **= Memberships at the end of a period**

Membership Adds are the number of members added to the membership count.

Membership Exits are the number of members who exit or drop from the membership count.

### Membership Attrition Metrics:

Attrition metrics show the percentage of members leaving the club. It can be calculated for different categories of membership, except for the Full Member Equivalent calculation. The following three Membership Attrition Metrics are recommended for all clubs:

1. Voting Membership Attrition = $\frac{\text{Aggregate dropped voting membership for 12 months}}{\text{12-month average beginning voting membership}}$
2. Total Membership Attrition = $\frac{\text{Aggregate dropped total membership for 12 months}}{\text{12-month average beginning total membership}}$
3. Full Membership Attrition = $\frac{\text{Aggregate dropped full membership for 12 months}}{\text{12-month average beginning full membership}}$

### Average Membership Age Metrics:

1. Average age of full membership
2. Average age of total membership
3. Average age of voting membership

### Membership Sales Metrics:

1. Housing Units
2. Equity Membership – fluctuating marketplace
3. Capped Memberships – transition of invitation

## *Membership Ratios*

The following membership key performance indicators (KPIs) can be used as an indicator to help assess whether there is an issue at the club.

### Change in Full Member Equivalent (FME) Over Time

***Definition:***

Full Member Equivalent (FME) is defined as Annual Operating Dues Revenue divided by Annual Dues for a Full Comprehensive Member, which is the most prominent category or highest dues paying rate.

Change in Full Member Equivalents Over Time = Change in Full Member Equivalents over multiple years

This can be calculated with absolute change (actual membership) and relative change (percentage).

Actual Change in Full Member Equivalents Over Time = Current Year FME – Last Year FME

Relative or percentage Change in Full Member Equivalents Over Time =

$$\frac{\text{(Current Year FME – Last Year FME) x 100\%}}{\text{Last Year FME}}$$

***Rationale:***
While FME is important, this figure can shed more light about the strength of a club's membership if it is presented and tracked over time, and if the trend is upward and growing rather than downward and shrinking. A club can only stay strong and financially viable with new members bringing in new initiation fees and added dues.

## Full Membership Attrition

***Definition:***
Full membership attrition is the percentage of members who have left the club and did not renew their membership. It is calculated on an annual basis by dividing the aggregate dropped full membership in a club for 12 months over the 12-month average beginning full membership.

$$\text{Full Membership Attrition} = \frac{\text{Aggregate dropped full membership for 12 months}}{\text{12-month average beginning full membership}}$$

***Rationale:***
Full membership is the main membership category in most clubs. It is the most prominent category or at the highest dues-paying rate. Thus, the attrition of full membership is an important statistic for clubs to monitor. If a club has a total dropped full membership for the 12-month period as 3, and the 12-month average beginning full membership is 380, then the Full Membership Attrition will be 0.79 percent. If the attrition is growing, this may indicate a club is not able to retain its membership and therefore may need to have plans and measures to ensure members will stay with the club. Loss of membership equates to loss in revenue. Therefore, it is important to keep this ratio as low as possible.

## Operating Revenue per Full Member Equivalent (FME)

***Definition:***
Operating revenue per full member equivalent is calculated by dividing total operating revenue by the number of full member equivalents (FME) of a club, where FME is total annual dues, revenue divided by annual full member category dues revenue (most prominent category or highest dues paying rate).

$$\text{Operating Revenue per FME} = \frac{\text{Total operating revenue}}{\text{Number of FME}}$$

***Rationale:***
Although most clubs are non-profit, they do not have unlimited resources to spend on all projects. Operating revenue is the lifeblood of the member experience, and it is the source of income to operate. This ratio gives a club a sense of how much revenue is generated by an FME. If a club's Statement of Activities (Income Statement) shows total club operating revenue as $10,800,000 and the total number of FME is 400, then the operating revenue per FME will be $27,000. In this case, each full member equivalent generates $27,000 of operating revenue a year for that club. As this is a revenue indicator, a higher ratio is preferred.

# Operational and Departmental Metrics

## *Operational Metrics*

### Dues to Operating Revenue and Payroll and Related Expenses to Operating Revenue

$$\text{Dues to Operating Revenue} = \frac{\text{Operating Dues Revenue}}{\text{Operating Revenue}}$$

$$\text{Salaries and Wages + Payroll Taxes and Benefits to Operating Revenue} = \frac{\text{Payroll and Related Expenses}}{\text{Operating Revenue}}$$

***Rationale:***
These two ratios work hand in hand since it is common with clubs that membership dues cover 100 percent of payroll and related expenses. As a rule of thumb, these ratios should be similar. It is important to stress that a club's operating strategy may have an impact on these percentages. Clubs that use third party or outsourced labor should consider including the expense as a part of payroll.

## *Departmental Metrics*

The following departmental metrics are intended to be used as operational benchmarks. There should not be an intent to "allocate" dues to departments.

The purpose of the below metrics is to yield a benchmarking perspective of how one club chooses to allocate monies between departments versus the norms. The metrics are intended to provide perspective and context to make decisions. The metrics are NOT intended to be used or to imply "right" or "wrong" allocations.

### Net Departmental Surplus/Deficit per Full Member Equivalent (FME)

Net Departmental Surplus/Deficit per Full Member Equivalent (FME) =
(Total departmental revenue – Total departmental cost) / FME

It is recommended that this metric be calculated for the following areas:

1. Building Maintenance and Operations
2. Fixed Charges
3. Food & Beverage
4. General & Administrative
5. Golf
6. Other
7. Rooms
8. Sports, Recreation, & Youth
9. Yachting
10. Operating Surplus

## The Flow of Dues to Departments

Every club makes choices (not always conscious) as to how dues will flow to its departments. Tracking and monitoring the flow of dues can provide context and insight for the management team and various committees regarding budgeting. There is not a right or wrong answer and these metrics should not be applied in that manner. The flow of dues will provide context and can help support clubs that may be deciding to reallocate resources. Below are the recommended departments to be monitored and tracked. Individual clubs can add more departments where applicable.

1. Building Maintenance and Operations
2. Fixed Charges
3. Food & Beverage
4. General & Administrative
5. Golf
6. Other
7. Rooms
8. Sports, Recreation, & Youth
9. Yachting
10. Operating Surplus

The process of calculating the flow of dues is to first calculate the Net Expense in each department by netting the total expense in the department against the total revenue in the department. For instance, in Food & Beverage the Net Expense is calculated by taking the Total F&B Revenue – the Total F&B Expense. Some departments, for example General & Administrative , will not have revenue thus the Net Expense is simply the total department expense.

One consideration must be the operating result. If a club generates an operating surplus, then the flow of dues to that surplus must also be calculated. In this case, the Total Net Expense will be less than the total operating dues revenue by an amount equal to the surplus.

If a club generates an operating deficit, the total Net Expense will be greater than the operating dues revenue but the proportion to each department will be the same.

If a club literally breaks even operationally (no surplus, no deficit) then the Total Net Expense will exactly equal the operating dues revenue.