Membership retention and recruitment: Explaining the True Financial Condition of Your Club

CMAA Webinar
June 22, 2011

Today’s Presenter

Philip G. Newman
National Director of Club Consulting

- Certified Public Accountant and Certified Internal Auditor
- More than 20 years of experience serving private clubs
- Served on Global Board of Hospitality Financial and Technology Professionals (HFTP)
- Frequent speaker for HFTP, the Club Manager’s Association of America (CMAA), and the National Club Association (NCA)
- Member of CPA sub-committee involved in preparation of the Uniform System of Financial Reporting for Clubs
- Contributing editor to the NCA publication Club Governance Guidelines: A Path to Organizational Excellence
- Contributor to the joint HFTP and CMAA publication titled Understanding Club Finances

Topics for Discussion

- What financial information are members asking for?
- What are we giving them currently and how are we delivering it?
- What should we be giving them and how should we be delivering it?
- How do we tell our financial story?

“An educated consumer is our best customer,”
- Sy Syms (1926-2009) American businessman, entrepreneur and philanthropist

“An educated member is our best member”
- Phil Newman (1968 - ) oft-quoted, but seldom understood, Irish-American club philosopher and poet of late 20th and early 21st centuries

Linking Financial Metrics to Membership

Defining “Well Managed”

“Not everyone asks, but those who do generally want to see our annual report, our strategic plan, and some want the most recent financial statement. The first two we keep in a stand on the table in the office lobby. They also want to know how many people are on the resigned member list and what the current number of golf members as compared to our cap. They don’t ask how much non-member business we do, which is a little surprising, nor do they ask for a copy of the current budget. (I would ask if I was looking.) They do ask how much dues went up the last time we had an increase.”
Defining “Well Managed”

“In conversations with General Managers, Controllers and the more proactive Marketing Directors, the Recession and the often discretionary nature of Club membership brings the question of the Club’s financial stability to the forefront in the decision to join a particular Club.

Most potential members have demonstrated the financial savvy necessary to be able to join a mid-level to high end Club. They are now applying these skills to rationally evaluate the financial health of their prospective Club.

Analysis of the Club’s past use of capital campaigns, current debt obligations, deferred maintenance and current reserves (if any) is key to understanding the risks to their investment and the future of the Club overall.

The prospective member should certainly ask these questions and more. The Club that is prepared is the one that will allay these doubts and win the membership.”

“Metric-Centric”: What Would Cramer Say?

- Working Capital
- Quick ratio
- Debt to Equity
- Common-size analysis
- Cash
  - ROI
  - Forecasting
  - Cash Flow
- Accounts Receivable
- Aging turnover
- Inventory
- Carrying cost
- Turnover
- Property & Equipment
- Replacement reserves
- Accounts payable
- Turnaround
- Payroll
- Borrowing costs
- Sources of Revenue
- Payroll

“People who are in financial capacities at nonprofit organizations have to understand that we budget for the mission. We don’t change the mission to suit the F&B “losses”.

Common size analysis
- Quick ratio
- Inventory
- Working Capital & Accounts Receivable

CASE STUDY 2: Amenity Pricing Reviews

| Region/Type | Fields | Southeast | West | Southwest | Midwest | Total
|-------------|--------|-----------|------|-----------|---------|------|
| Revenue    | 61.8%  | 62.4%     | 62%  | 62.6%     | 62.6%   | 62.6%
| Cost       | 38.2%  | 37.6%     | 38%  | 37.4%     | 37.4%   | 37.4%
| Profit     | 23.6%  | 24.8%     | 22%  | 25.2%     | 25.2%   | 25.2%

Average operating revenues: $25,000,000

Average operating expenses: $11,000,000

Operating Revenues and Expenses

CASE STUDY 3: The cost of membership is how much?

| Region       | South  | West   | Midwest | Southwest | Total
<table>
<thead>
<tr>
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<th></th>
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<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>$12,750</td>
<td>$12,750</td>
<td>$12,750</td>
<td>$12,750</td>
<td>$12,750</td>
</tr>
<tr>
<td>Payroll</td>
<td>$4,500</td>
<td>$4,500</td>
<td>$4,500</td>
<td>$4,500</td>
<td>$4,500</td>
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<tr>
<td>Benefits</td>
<td>$4,500</td>
<td>$4,500</td>
<td>$4,500</td>
<td>$4,500</td>
<td>$4,500</td>
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<tr>
<td>Taxes</td>
<td>$3,000</td>
<td>$3,000</td>
<td>$3,000</td>
<td>$3,000</td>
<td>$3,000</td>
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Total Operating Costs: $23,750

Minnesota

McGladrey

Explaining Non-Profit Economics

- Sources of Revenue
- True Cost of Membership
- F&B “losses”
- Payroll Costs & Service Levels

Balance Sheet
- Working Capital & Accounts Receivable
- Paying For Capital Improvements
- Debt Levels

McGladrey
Explaining Food & Beverage

- The Price of Privacy
- Excess Capacity
- Demographic Conflicts
- Activity Mix
- Larger Quantities
- Higher Quality
- Product mix...

Average Combined Cost of Sales

<table>
<thead>
<tr>
<th></th>
<th>Club</th>
<th>Restaurant*</th>
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<tbody>
<tr>
<td>Food COS</td>
<td>47.2%</td>
<td>32.6%</td>
</tr>
<tr>
<td>Beverage COS</td>
<td>31.2%</td>
<td>27.7%</td>
</tr>
<tr>
<td>Combined COS</td>
<td>43.6%</td>
<td>31.8%</td>
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</table>

*Source: 2010 National Restaurant Association

Explaining Food & Beverage Departmental “Loss”

<p>| | |</p>
<table>
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<tr>
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</thead>
<tbody>
<tr>
<td>Clubs: 2010</td>
<td>-46.6%</td>
</tr>
<tr>
<td>Clubs: 2009</td>
<td>-48.4%</td>
</tr>
<tr>
<td>Restaurant*</td>
<td>14.8%</td>
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</table>

*75.5% Reported Profits
*24.5% Reported Loss

Dollars of Foods Sales to $1.00 Beverage

<table>
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<tr>
<th>Year</th>
<th>Dollars</th>
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<tbody>
<tr>
<td>2010</td>
<td>$3.51</td>
</tr>
<tr>
<td>2009</td>
<td>$3.68</td>
</tr>
<tr>
<td>Restaurant*</td>
<td>$2.67</td>
</tr>
</tbody>
</table>

*Source: 2010 National Restaurant Association

Explaining Food & Beverage: What we DON’T do!

- CUT BACK ON PORTIONS
- CUT BACK ON MOST EXPENSIVE INGREDIENTS
- CUT BACK ON FRESHNESS
- USE EVERYTHING
- POUR WEAKER DRINKS
- CHEAPER BRAND INGREDIENTS
- CHEAPER PAPER PRODUCTS
- PUSH THE HIGHEST PROFIT MARGIN ITEMS, NOT BEST-TASTING
- RAISE PRICES FREQUENTLY BUT AS SMALL INCREMENTS SO IT’S NOT NOTICEABLE
Explaining Food Price Outlook
- CPI for All Food: +3 to 4%
- Grocery Store: +3.5% to 4.5%
- Restaurant: +3 to 4%

Actual April 2011 vs. 2010
- Beef: +10.4%
- Pork: +10.4%
- Poultry: +2.3%
- Eggs: +4.8%
- Milk: +6.3%
- Cheese: +4.6%
- Butter: +16.2%

Source: U.S. Department of Agriculture, April 2011

Explaining Payroll
- Members want "the same friendly faces" therefore, many long-term employees
  
- 2010 Average Full Service Restaurant reports Annual Employee Turnover < 63% (source: 2010 NRA)
- Non-cash environment creates a competitive disadvantage in the marketplace
- Chefs and specialized positions hired in Clubs v. line cooks
  
- Club members expect "creative kitchens" not "manufacturing kitchens" that rarely change the menu and have little flexibility in customizing items for the user (source: Private Club Advisor April 2011)

F&B Salaries & Benefits compared to F&B revenue:
- Clubs: 86.3%
- Restaurant: 33.3%

*2010 Average Full Service Restaurant source: 2010 National Restaurant Association

Explaining Food and Beverage: What’s the subsidy?

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
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<tbody>
<tr>
<td>Revenues</td>
<td>$7,713,866</td>
<td>$7,713,650</td>
</tr>
<tr>
<td>Expenses</td>
<td>$7,514,829</td>
<td>$7,325,824</td>
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</table>

Explaining Your #1 Resource: Payroll & Related Per Member

Explaining Your Balance Sheet: Percentage of Clubs With Positive Working Capital
- A/R turnover: cash versus accrual budgeting
- Operating Leases
- Unrecognized debt assessments to fund current portion of debt
Explaining Your Balance Sheet
Case Study 4: Reinvesting In The Amenities

Capital Improvements to Depreciation Expenses

Explaining Your Balance Sheet: Reinvesting In The Amenities

Region/Type Florida Southeast Boca Southwest North & Yacht & Statewide w/o Boca Area w/o CIRAs CIRAs Central Beach

% Clubs with Significant Planned Projects in Year Ahead

24% 30% 45% 19% 6% 19% 11%

Budgeted Project Amount (Thousand’s)

$4,016 $5,599 $5,656 $476 $320 $2,420 $505

Explaining Your Balance Sheet: Percentage of Clubs With Third Party Debt

Explaining Your Balance Sheet: Third Party Debt Per Member

CASE STUDY 4: Defining Well Managed

- Strategic Plans
- Financial Statements
- Business Mentality
- Key Performance Indicators
  - Liquidity – Solvency – Activity – Profitability
- Value Proposition
  - Are we changing the mission?

“The first sign we don’t know what we are doing is an obsession with numbers.” -- Goethe

Defining Well Managed: The Balanced Scorecard

- A mix of past, present and future measures
- Broad range of metrics
- Integrated system of measures
- Focus on a few key measures
- Measure and change with strategic goals
Defining Well Managed: The Balanced Scorecard

FINANCIAL/REGULATORY
- To satisfy our constituents, what financial & regulatory objectives must we accomplish?

MEMBER
- To achieve our vision, what member needs must we serve?

INTERNAL
- To satisfy our members and stakeholders, in which business processes must we excel?

LEARNING & GROWTH
- To achieve our goals, how must we learn, communicate and grow?

Club Dining Room Department Scorecard?

<table>
<thead>
<tr>
<th>Element</th>
<th>Measurement</th>
<th>Score</th>
<th>Weighted Score</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Learning</td>
<td>DH to conduct 2 training sessions a month for servers on order taking and placement</td>
<td>75</td>
<td>25% x 75</td>
<td>18.75</td>
</tr>
<tr>
<td>Internal</td>
<td>No more than 5 void orders a month</td>
<td>80</td>
<td>25% x 80</td>
<td>20</td>
</tr>
<tr>
<td>Member score</td>
<td>Member survey score on F&amp;B of more than 90%</td>
<td>90</td>
<td>25% x 100</td>
<td>25</td>
</tr>
<tr>
<td>Financial</td>
<td>Cost of food sales 45%</td>
<td>90</td>
<td>25% x 100</td>
<td>25</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td>83.75</td>
</tr>
</tbody>
</table>

DH scored 83.75 out of possible 100 and so earns 83.75% of bonus potential

How Do You Tell Your Club’s Financial Story?
1. Face Time
2. Face Time
3. Face Time

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2011 Florida Trends in Private Clubs to be released this summer.

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