

Mission Critical Benchmarking

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Club Benchmarking

5th Golf Innovation Symposium

USGA®

Golf Facilities

PUBLIC GOLF COURSES, RESORT COURSES AND COUNTRY CLUBS

- Fragmented, Cottage Industry: best practices emerge slowly, if at all
- Management is more **art than science** (USGA's challenge statement is an attempt for golf facilities to apply science)
- The existence/evolution of management companies is one aspect of industry rationalization: management companies institute defined, scalable, best practices
- The use of data-driven strategic benchmarking to understand best practices and the drivers of financial outcomes is another aspect of industry rationalization

What is Benchmarking?

- **Fragmented, Cottage Industry:** Best practices emerge slowly, if at all
- **On Strategy:** A Harvard Business School book on business strategy
 - Businesses must benchmark continuously to achieve best practices
- Again, best practices are critical in a cottage industry
 - Best practices are the evolution of management from art to science
- **Mission Critical Benchmarking:** Using data to understand the key success drivers

Club Benchmarking Research

OVER THE LAST 10 YEARS

- Data from more than 1,000 private golf facilities across North America
- 100+ private/semi-private facilities in Australia
- 50+ private/semi-private facilities in Scotland
- Analysis of survey data from 100+ facilities in Japan



NORTH AMERICA



JAPAN

SCOTLAND



AUSTRALIA



Club Benchmarking Research

A FEW EXAMPLES OF QUESTIONS WE HAVE ANSWERED USING DATA

- Why do clubs spend what they spend maintaining the golf course?
- How much is required to consistently maintain and re-invest in a club?
- How does gross margin vary in the pro shop from one club to the next?
In food & beverage?
- How much does food & beverage matter financially?
- Where does the money to run a club come from and where does it go?
This is mission critical.
- What are the key financial drivers?

The Keys to Strategic Benchmarking

SUCCESSFUL STRATEGIC BENCHMARKING MUST...

- **Be Comprehensive:** the financial aspect must cover the entire facility – all sources of money and all uses of money.
- **Be Accurate:** The information must be precise. Accurate data, ideally, is not “self-entered” – trial balance
- **Be Organized:** “Apples-to-apples” data is necessary for clarity
- **Explain the Business:** Very often, focus is on minute details as opposed to the big picture

Scalable, Accurate Benchmarking

END OF YEAR CHART OF ACCOUNTS (TRIAL BALANCE)

- Map each facilities' unique chart of accounts into a standard chart of accounts
- All facilities can then benchmark in an “apples to apples” manner for consistency and accuracy
- All revenues and expenses
- All departments.
- A comprehensive view of the facility from a financial perspective

3100-10	10 Dues & Deposits	0.00	(2,374,787.50)	2,374,787.50	232	0
3105-10	10 Capital Assessment (Restr.)	0.00	(246,902.00)	246,902.00	1475	0
3115-10	10 Initiation Fees	0.00	(231,563.76)	231,563.76	233	0
3116-10	10 Certificate non Refunded p	0.00	(4,000.00)	4,000.00	313	0
3141-10	10 Other Income/Interest/711	0.00	(26,987.65)	26,987.65	338	0
5000-10	10 Incentive/Allowances	1,820.46	0.00	1,820.46	351	0
5003-10	10 General Manager	161,225.40	0.00	161,225.40	25	517
5005-10	10 Accounting	122,511.08	0.00	122,511.08	25	517
5007-10	10 Administrative	75,998.51	0.00	75,998.51	25	517
5015-10	10 House Maintenance	53,560.00	0.00	53,560.00	922	517
5019-10	10 Housekeeping	20,174.03	0.00	20,174.03	922	517
5050-10	10 Employee Benefits	4,776.01	0.00	4,776.01	27	518
5051-10	10 Insurance Health & Dental	82,267.12	0.00	82,267.12	27	518
5052-10	10 SUI & FUI UC	1,386.53	0.00	1,386.53	27	518
5054-10	10 401k Employer Contribution	34,172.27	0.00	34,172.27	27	518



Club's Account #



Standard Chart of Account #

The Framework: Club Benchmarking Financial Insight Model

Operating Ledger

Revenue

(Dues, F&B, Ancillary Departments)



Gross Profit

(Net of Direct Cost to Produce Revenue including COGS and Labor)



Fixed Operating Expenses

- General & Administrative
- Buildings Maintenance & Operation
- Fixed Charges
- Golf Operations Labor
- Course Maintenance Expense
- Sports, Recreation, Youth



Net Operating Result

Income Statement

Capital Ledger

Total Capital Income

(Initiation, Capital Dues/Assessments, Investment Income)



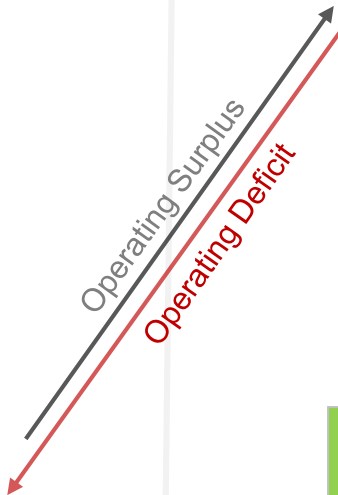
Adjust for Net Operating Result



Subtract Lease Expenses



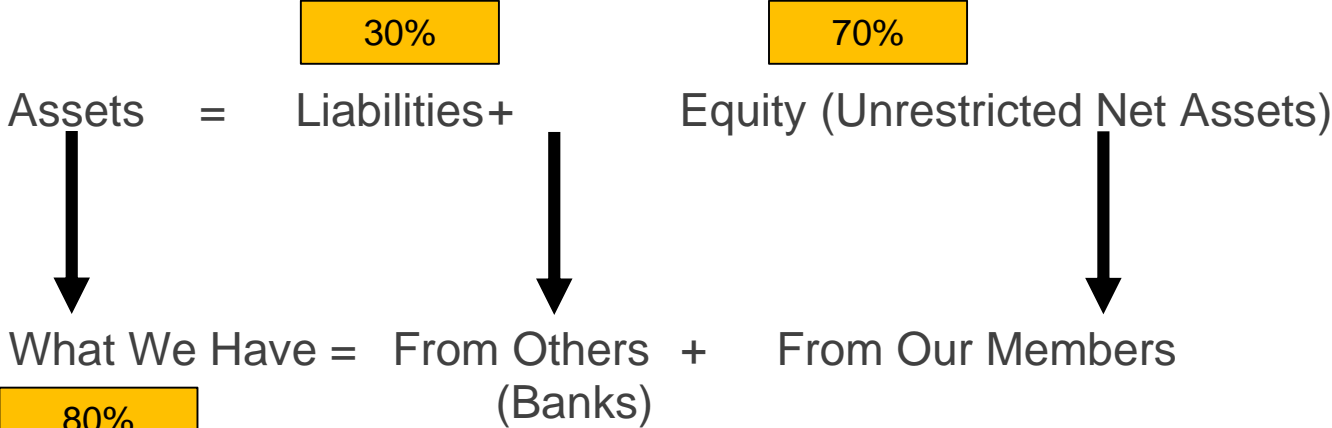
Net Available Capital



Net Available Capital = EBTDA
Amount of money available for capital investment, debt reduction and increasing reserves

The Framework: Club Benchmarking Financial Insight Model

The Balance Sheet



Net Property Plant,
Equipment

20%

Debt-to-Equity Ratio

Cash-to-Assets Ratio

9%

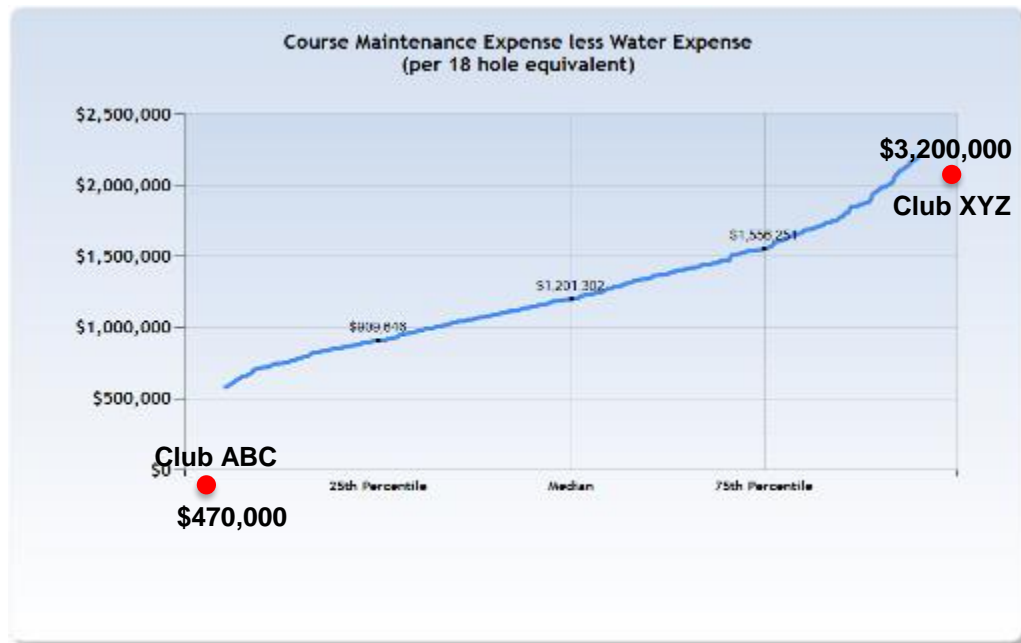
Course Maintenance Spend

- Clubs spend what they can afford maintaining a golf course – there isn't a right or wrong amount
- Choice (affordability) – not efficiency – drives golf course maintenance spending
- Drivers of Affordability
 - North American private clubs: membership dues revenue
 - North American public facilities: greens fee and cart income
 - Japan, Australia and Scotland: subscription (dues) revenue and greens fee revenue



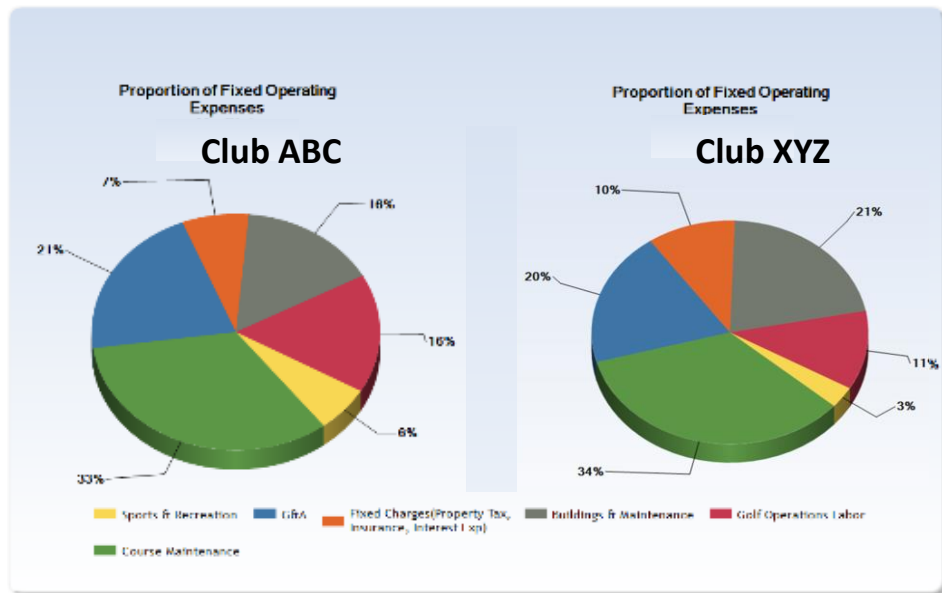
Course Maintenance Spend

- Club ABC spends \$470,000 for 18 holes: 100 acres, 74 bunkers, 218,000 square feet of greens
- Club XYZ spends \$3.2 million for 18 holes: 100 acres, 94 bunkers, 140,000 square feet of greens
- Club XYZ has \$10 million of dues revenue; Club ABC has \$1 million of dues revenue
- **Conclusion:** The club spending \$470,000 is not more efficient than the club spending \$3.2 million; they each spend what they can AFFORD



Course Maintenance Spend

- Club ABC's spend is \$470,000: **33%** of its overall fixed expense
- Club XYZ's spend is \$3.2 million: **34%** of its overall fixed expense
- The maintenance spend at the average private club is **30%** of fixed expense
- At the average public facility it is **58%**
- Every club must cover an array of fixed expenses: general & administrative, clubhouse operations, fixed charges, other amenities (sports, spa, sauna, steam, etc.), golf operations staff
- While the absolute amount of spending varies widely, the proportional spend is much more consistent



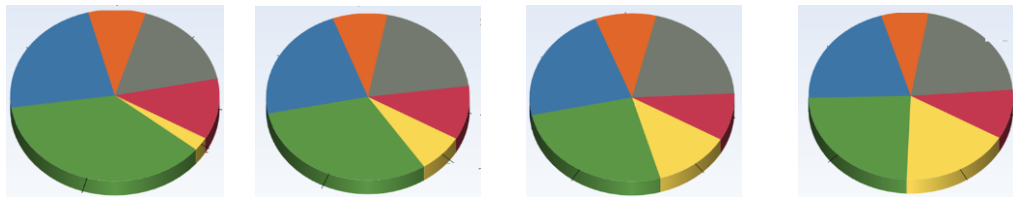
Course Maintenance Spend

	North America - Private	North America - Public	Scotland	Australia	Japan (Public and Private)	
Course Maintenance Expense as % of Fixed Expense	30%	58%	52%	39%	25%	
Other Sports Expense as % of Fixed Expense	11%	0%	0%	1%	NA	
Labor as % of Total CM Expense	63%	56%		66%		
Non-Labor as % of Total CM Expense	37%	44%		34%		
Per 18 Hole Equivalent - Median (Excl. Water and Leases)	\$1,200,000	\$1,100,000	\$300,000	\$1,060,000	\$500,000	All
					\$825,000	Private

- Proportion of course maintenance spend to total fixed operating expenses sheds light on “golf-centricity”
- Easy ratio to check is labor/non-labor spend
- Clubs in Scotland: very golf centric and tend to be relatively smaller in terms of revenue
- First cut of data review shows Japanese clubs to be offering food & beverage as part of experience

Golf Centricity

SPEND ON FIXED EXPENSES



- Clubs spend a consistent amount for the various fixed operating expenses
- Clubs must fund other expenses beyond course maintenance
- The spending across the various departments is a choice – very often unconscious; the data illuminates the choices being made

	Percent of Fixed Operating Expense Allocated to Non-Golf Sports			
Proportion to CM	<u>0% - 5%</u>	<u>5% - 10%</u>	<u>10% - 15%</u>	<u>15% - 20%</u>
Dues Revenue	\$2.7M	\$3.3M	\$4.0M	\$6.0M
Operating Revenue	\$5.6M	\$6.9M	\$8.0M	\$13.2M
CM Spend*	\$1.2M	\$1.2M	\$1.4M	\$1.6M
Sports Spend	\$93K	\$270K	\$580K	\$1.2M
Initiation Fee/Dues	\$14K / \$7,000	\$24K / \$7,400	\$24K / \$7,200	\$57K / \$7,100
FME Count	366	424	577	868

* On a per 18 hole basis values are \$1.0M, \$1.2M, \$1.4M, \$1.6M

Data-Driven Insight

MEMBERSHIP FEES

- **In Japan → Median = 13% of facility revenue**
Typically \$500 to \$1,500 per year for the membership fee (member pays for greens fees)

- **In North America → Median = 50% of facility revenue**
Typically \$7,500 per year for the membership fee (no greens fee for member)

Data-Driven Insight

KEY PERFORMANCE INDICATORS (KPI)

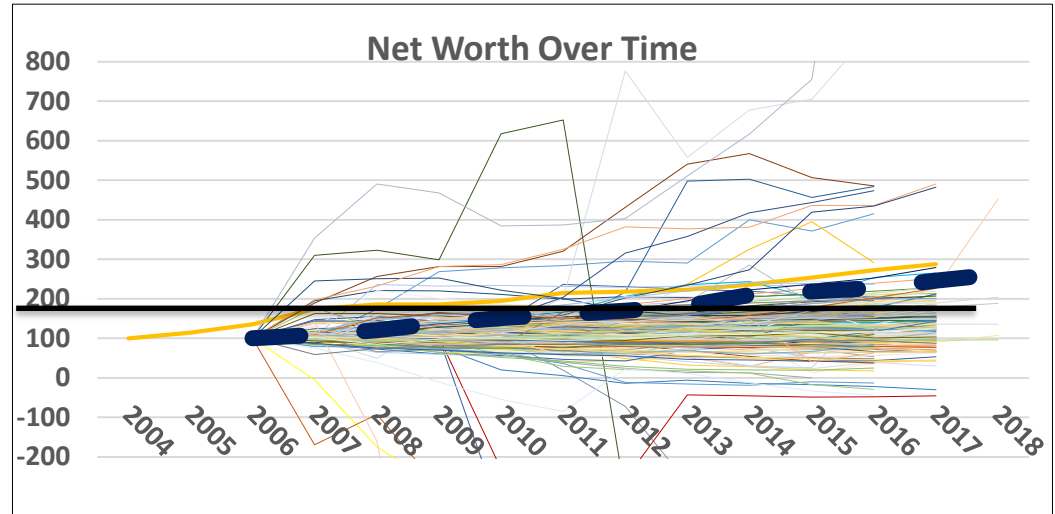
- These KPIs matter to all facilities everywhere
- Overall, the industry is overly focused on the operating ledger and not the capital ledger
- The difficulty is ingenerating enough money to consistently re-invest in property, plant & equipment
- Two things critical in every industry are also critical in the club industry (private or public)
 - Assuring the Customer Experience
 - Growth of the facility over time
 - ✓ In North America half of country clubs are shrinking
 - ✓ In Japan 56% of clubs note expenses have declined in last 10 years

Income Statement Operating Ledger	Balance Sheet Capital Ledger
1. Operating Revenue	1. Net Worth Over Time
2. Gross Profit/Gross Margin	2. Equity to Assets and Liabilities to Assets Ratio
3. Sources of Gross Profit	3. Net Property, Plant & Equipment
4. Dues to Operating Revenue Ratio	4. Net PPE to Gross PPE Ratio
5. Fixed Expenses to Revenue Ratio	5. Total Capital Income
6. Proportionate Fixed Expense by Department	6. Net Available Capital
7. Operating Result and Margin	7. Net Available Capital to Revenue Ratio
8. Payroll to Revenue Ratio	8. Debt to Revenue Ratio
9. F&B Profit/Loss as % of Dues Revenue	9. Debt to Equity Ratio
10. Full Member Dues	10. Capital Reserves to Fully Funded Ratio
11. Full Member Equivalents	

Data-Driven Insight

NET WORTH OVER TIME

- Is your club worth more today than it was in 2006?
- 30% of clubs in North America are worth less in 2019 than they were in 2006 in absolute terms.
- Considering inflation, 50% are worth less in 2019 than in 2006 in real terms.
- Clubs in North America are not generating enough money to consistently re-invest



Data-Driven Insight

Slide to be Inserted

- This slide will compare revenue generation by Japanese facilities vs. facilities in North America and Australia

Benchmarking is Mission Critical

STRATEGIC BENCHMARKING

- All participants in an industry provide the variation from worst practices to best practices
- Benchmarking illuminates variation from worst to best outcomes
- Understanding what drives the variation provides insight on best practices
- It is impossible to understand an industry by understanding only one competitor, just as it is impossible to understand human anatomy by understanding only one human
- Understanding the golf facility business requires understanding where the money comes from and where it goes
- It is possible to aggregate industry data – Club Benchmarking does it. The analysis of that data provides clear insight into best practices and the key success drivers.

A scenic photograph of a golf course at sunrise. The sky is a warm, hazy orange. In the background, there are rolling hills and mountains. A line of trees separates the foreground from the background. In the middle ground, two people are walking away from the camera on a lush green fairway. They are carrying golf bags. The overall atmosphere is peaceful and serene.

Thank you!

5th Golf Innovation Symposium

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