

# CURRENT TRENDS IN CLUB OPERATING COSTS

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In the past five years, revenue from all sources in clubs has risen between 25 per cent and 30 per cent, or 5 per cent-6 per cent annually. During the same period, operating costs have kept pace with this rise, and, in many instances, they have exceeded it. As a result, annual membership dues have been steadily increased in order to meet the increased costs of operation. In addition, increases in the fixed costs of doing business — rent, taxes, insurance and interest on borrowed funds — have forced many clubs to make use of special assessments in order to maintain club property.

For purposes of discussion we will exclude these fixed costs since they are, to a large extent, beyond your control. The remaining expenses, categorized as "operating costs," can be separated into two definite areas common to all clubs:

- (1) the cost of recreational activities; and
- (2) the cost of clubhouse operation and upkeep.

The terminology I will use is taken from the "Uniform System of Accounts for Clubs," which system serves as the basis for the annual studies of clubs made by my firm. Essentially, the allocation of expenses recommended for clubs enables you to determine the direct operating costs of income-producing departments, and the relation of operating costs to membership dues, the common basis of measurement in all clubs.

## Encouraging Signs

In country clubs, the cost of recreational activity absorbs 34c of the membership dues dollar. Five years ago, these costs were 10 per cent-15 per cent lower. However, in that time, annual dues have increased by 30 per cent-35 per cent, more than enough to offset the rising costs. The portion of dues allocated to recreational activities is determined to some extent by the interest of the members in the various sports facilities of the

club. The rises in those allocations may be indicative of increased membership participation in the sports programs, a very encouraging sign. It is also encouraging to note that green and grounds expense, the principal component of country club outside-activities cost, has risen only about 10 per cent in the last five years. A great deal of emphasis has been placed upon this cost in the annual studies of country club operations. The extent to which a seemingly inevitable rise has been controlled in recent years indicates the value of this type of study.

By far the largest portion of the club dues dollar goes to the operation and upkeep of the clubhouse. In country clubs, this cost absorbs 39 per cent of membership dues. These amounts are net of revenue from operated departments such as rooms, restaurants, bars and other income-producing facilities.

Operating costs are usually separated into three general categories:

- (1) cost of merchandise purchased for resale;
- (2) payroll and related expenses;
- (3) other expenses, composed of the services and supplies purchased by the club in order to serve its members.

On the basis of an analysis of our annual club studies for the past five years, I would like to commend club managers on the way in which the costs per dollar sale of food and beverages have been maintained at an even level. Average food costs have risen less than one cent per dollar sale in five years. Average beverage costs have actually been reduced about three cents per dollar sale in the same period.

## Trends in Payroll

The principal item of operating cost is payroll. Over 50 per cent of total revenue in country clubs goes to employees in salaries, wages and related expenses. Payrolls in country clubs are up 25 per cent over 1953. What many people don't realize

is that expenses related directly to payroll add from 10 per cent-12 per cent to the total of salaries and wages. These include room and board of employees, Social Security taxes, workmen's compensation and group insurance and a variety of other associated costs. Some idea of the extent to which operating costs are affected by these fringe benefits can be obtained from an analysis I made of a typical city club. In five years in this club, taxes on payroll doubled in amount although payroll rose only 12 per cent. At that, clubs can consider themselves fortunate; in some industries fringe benefits add as much as 25 per cent to payroll costs.

In spite of the steady increases in the size of weekly payrolls you have all experienced, salaries, wages and related expenses account for only slightly more of the total revenue dollar than they did five years ago. In fact, analysis of the operating statements of many clubs reveals a slight reduction of payroll in relation to total revenue. This rather startling phenomenon can, I believe, be traced to the steady increase in the annual membership dues in most clubs. It can also be due to what I assume is a national trend — the increasing use of all club facilities by the members. By this I do not mean to detract in any way from the efforts of club managers in controlling payroll. However, payroll control in a club is not as easy as in a commercial enterprise. How many times have you planned for 200 and had 50 at a dinner? In all too many clubs this is a rather frequent occurrence.

#### **A Weak Spot**

So far, the trends in cost of sales and payroll that we have discussed have been encouraging. I believe they indicate, on the whole, commendable efforts towards efficiency and economy within the somewhat limited areas available to the club manager. However, in the category of services and supplies purchased by clubs, costs are rising at a rather alarming rate.

In order to analyze these costs more precisely, I have examined what we consider to be a fairly typical country club of medium size. This club is located in the Midwest. Supporting the trends previously discussed, the cost of sales and payroll expenses have shown very little change in relation to total revenue since

1953. In fact, the payroll and related expenses were only 51 per cent of total revenue in 1958, down 5 points from 1953. Other expenses, however, have shown decided increases. Revenue rose 33 per cent, and other expenses increased nearly 40 per cent.

I separated the cost of services and supplies into the following items:

1. Utilities and other services purchased.

2. Supplies, sub-categories:

- (a) member supplies;

- (b) operating supplies; and

- (c) maintenance supplies.

3. Miscellaneous expenses.

The cost of supplies rose 73 per cent; operating supplies alone were up 155 per cent over 1953.

Apparently, these are the items upon which closer control can be exercised:

All operating supplies, including, but not limited to, tableware and linen, utensils, cleaning supplies, printing and stationery, electric bulbs and office supplies.

All utilities, including electric current, fuel, water and telephone, and other purchased services such as laundry and dry cleaning.

What can you do to alleviate this situation and reverse the apparent trend toward ever higher operating costs?

#### **Cost Control**

There are several approaches to the problem: First, you should follow sound procedures and exercise close control over the purchasing, receiving, storing and issuing of various supplies. You should watch constantly all items of operating expense. Even if one class of expense totals only \$500 a year, it will still be too high if a little attention could have resulted in a reduction of \$100.

Secondly, you should adopt some of the methods of economizing which have been used successfully by hotels, restaurants and other commercial enterprises. In a profit-making enterprise every leak must be stopped, and operating equipment and supplies are rigidly controlled. The trade magazines and other publications of the hotel and restaurant industry are filled with valuable information concerning methods of cutting operating costs.

Thirdly, you should make your em-

ployees aware of the problems of increased costs and show them how "pennies saved can mean dollars earned."

Fourthly, you should make continuous studies of the procedures followed and the types and quantities of supplies used for various purposes and try to find a better way of doing the daily chores. Often a mechanical means can be a saving — not only in supplies used but also in labor cost. For example, I recently saw a demonstration of a power-driven floor cleaner that saves many man-hours of labor in schools and other institutions and substantially reduces the amount of cleaning agents used by controlling the washing solution and the amount applied.

On the subject of mechanization, additional emphasis is probably advisable. Many industries have made long strides in mechanization because management groups put continuous pressure on suppliers to develop new and better equipment. In the area of green and ground maintenance, clubs have available the best of equipment, but are you as modern in the clubhouse?

Lastly you should discuss cost-control problems as frequently as possible with

your associates. Perhaps one of your neighbors has found a solution to your most pressing problem.

In general in the last five years, the trend of operating costs, although upward, has been controlled. Just how long inefficiency in operation can be met with increases in annual dues is a question, however. If dues become too high, membership will decrease. Continued losses not met by special assessments can seriously handicap services and result only in deterioration of plant and equipment.

Rather than leave you on this disheartening note, I would like to illustrate what can be done. The club I picked as an example was faced in the five-year period with substantial increases in operating costs, particularly in fixed charges. However, it managed to undertake a one-half million dollar improvement program in the five years and showed a 10 per cent rise in membership over 1953. I am sure that many of you can report similar achievements, and in this era of more time for recreation and steadily rising incomes, country clubs should fill an ever-increasing need as centers of social activity.

## USGA FILM LIBRARY

"St. Andrews, Cradle Of Golf," a 14-minute, full color, 16m.m. travelogue of historic St. Andrews, Scotland, its Old Course and the Royal and Ancient Golf Club clubhouse.

"First World Amateur Team Championship for Eisenhower Trophy," a 14-minute, full color, 16m.m. film of the first World Amateur Team Championship at St. Andrews, Scotland. Twenty-nine countries compete for the Eisenhower Trophy.

"On the Green," a 17-minute, full color, 16 m.m. presentation filmed at the Mid-Ocean Club, Bermuda, illustrating correct procedures under the Rules of Golf governing situations arising on the putting green.

"Golf's Longest Hour," a 16 m.m. full color production, running for 17½ minutes, depicting the closing stages of the 1956 Open Championship. Filmed at the beautiful Oak Hill Country Club, Rochester, N.Y., it shows the eventual winner, Cary Middlecoff, set a target at which Ben Hogan, Julius Boros and Ted Kroll strive in vain to beat.

"Play Them As They Lie," a 16 m.m. color production, running for 16½ entertaining minutes, in which Johnny Farrell, the Open Champion of 1928, acts as intermediary between Wilbur Mulligan, a beginner of unimpeachable integrity, and Joshua P. Slye,

a past master in the art of breaking the Rules. The film was made at the Baltusrol Golf Club, Springfield, N. J., where Farrell is professional.

"Great Moments In Golf," gives the viewer an opportunity to see the many interesting exhibits in "Golf House," USGA headquarters in New York, and to re-live golf triumphs of the past with many of the game's immortals. The film is a 16 m.m. black and white production and runs 28 minutes.

"The Rules of Golf—Etiquette" also has proved popular. The film stresses the importance of etiquette by portrayal of various violations of the code in the course of a family four-ball match. Ben Hogan appears in several scenes, and Robert T. Jones, Jr., makes the introductory statement. A 16 m.m. color production, the film has a running time of 17½ minutes.

The distribution of all seven prints is handled by National Educational Films, Inc., 165 West 46th Street, New York 36, N. Y., which produced the films in cooperation with the USGA. The rental is \$20 per film; \$35 for two; \$50 for three, \$60 for four and \$70 for five, in combination at the same time, including the cost of shipping prints to the renter.