

Budgets and Key Financial Indicators

This issue has been reproduced by JBAS, first authored and published by Jeff Blunden in May 2004.

Another year has rolled around and it budget time again. You haven't quite finished off this year yet but you are charged with looking into your crystal ball and working out how you might look next year. Members, subs, levies, expenditure, capital budgets, it is all in front of you. You might be a new General Manager, a new Treasurer or even a new committee/board member. How do you do these PROPERLY? You could be new to the club and only have historical numbers to look at. They may have been kept in good order, they may have not. You have to budget per month but your treatment of historical expenses wasn't done on an accurate basis. When will that expenditure actually hit the Profit and Loss and when will it need explaining?

This article is going to give you a rundown of what you need as a minimum to get this job done, starting with the revenue side. Looking at your business in this way will help you better understand it and enable you to explain, satisfactorily, any movement against budgets throughout the year.

The revenue side

Members

Starting with the obvious, you need to know how many members you are likely to have next year and in what category they fit. This might be an easy answer if you have a full membership and historically all annual attrition has been replaced by new people wanting to join. It is simply a matter of knowing your membership caps, assuming they weren't being changed. (Tip: Don't wait until the end of the year to make this decision. Increasing membership has many more implications than just determining annual subscription revenue.) If you aren't that lucky then you need to estimate what your attrition rate will be and assess how soon it might be replaced.

Annual rounds

This vital statistic is one we see as often not even tracked, even by many of the top clubs in this country. This is akin to running a business without knowing who your customers are and how often they shop with you, ie, not so smart. If you don't know how many rounds are being played you can't even use it to determine what the key number here really is, this being average rounds played per member.

You may argue that the patterns you see at your club are quite wide but trust me, the average numbers will be enlightening and allow you to make a number of important, informed internal decisions. Ideally you want to track member comp rounds, corporate rounds, and social rounds. 9-hole rounds should be tracked as half an 18 hole round so your final number is 18-hole equivalent rounds.

So now we have member numbers (say 1,000) and total rounds (say 30,000) we can then work out average rounds per member (equals 30). This number will now let us work out other key revenues for your budget.

Food & Beverage

The key number here is average spend per member. Hopefully you track the different types of income you receive in this department, ie is it member generated, or corporate, is it in the snack bar, half way house, main bar, dining room, even drinks cart? Ideally you want to track separately both food and beverage sales. If you do this then you can work out the average spends per round per outlet, and hopefully even by round type. This helps you build those incomes based on typical patterns experienced.

Golf Operations

There are two main areas of income that are trackable in this area, being cart income and green fees. In a perfect world, tracking cart income and dividing it by the number of cart hires should give you your average cart hire fee, assuming everyone pays the same amount. If you don't track cart usage then you can work out a usable indicator based on total rounds played. This will be reliable enough, providing that your mix of rounds won't change significantly year to year. If you think the use of carts is growing then looking at the mix of cart rounds to total rounds will give you a percentage to apply against next year's round estimates, and you can apply the average spend to that to work out budgeted cart revenue.

On the green fee/comp fee side, having established the number of member comp rounds played (and ideally the number of comp days in the year) you can work out average players per comp by day and work up the annual revenues by multiplying by the comp fee.

Finally, green fees can also be budgeted with some science applied. Dividing total green fee revenue by the number of rounds played by non-club members will give you your average green fee. Working this back the other way and multiplying that number by the total forecast public rounds played in the following year, allowing for any increase in green fee you think you can achieve, gives you the budget number you need to finish the golf operations section.

Budgets and Key Financial Indicators – Pt 2

In our last issue we stepped through the process of budgeting revenues. We stressed the importance of the annual round count and the frequency of member play, and identified their key relationship with average spends. Knowledge of all of these gives you the ability to understand variances to budget. Hopefully you learned that it is not the dollar variance that matters, but which of the assumptions was wrong – the frequency or the spend.

In this article we will shed some light on the science of budgeting expenses. Some might say it isn't really possible to get them spot on – too many things to consider, price rises are unknown, seasonal weather changes may occur earlier or later, timing issues will occur. All of those reasons are valid, though there are some key indicators you can consider and importantly it is their relationship with the revenue side (the %) that matters, not necessarily the actual dollar amount as we so often see. A hard number needs relevance to another so your month end P&L or budget should have percentages on it.

There are 3 types of expenses – the fixed, the variable, and the combo. You will have a good understanding of what your fixed expenses are – they are the ones that don't change relative to demand, (allowing for inflation). They are what they are regardless of people in the club or on the course and can be measured in the absolute dollar. Salaried staff would be a good example, as would rates, power, contract cleaning, and on most occasions, the majority of your chemical and fertiliser needs for the year. Variable expenses, those entirely dependent on club patronage include casual wages, and food and beverage costs of sale. The combo could be a number of other expenses, depending on how the business is run.

Most clubs typically split their operations into four areas – food and beverage, house, course, and administration. F&B is typically reported above Gross Profit taking the net income from this operation and adding it to all other incomes, with the final numbers reported as Gross Operating Income (GOI). The expenses above this number are largely variable and will often be solely dependent on the relevant income stream. What matters here is the % you set (food cost, beverage cost, wage cost), not the dollar amount.

Most of the house, course and administration expenses will be largely fixed though there will be some level of variability, mainly from the combo variety. What we have found works well is to keep these expenses proportional and within a % range of the GOI. With smaller revenue flows there will be a point that you won't be able to reach though all clubs will be different and some will have more variability than others. Some benchmarks from recent work undertaken by us has seen ranges of 10-15%, 30-35% and 23- 26% for house, course and administration respectively.