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## **Understanding and Managing Private Clubs using the Available Cash Model™**

Do you have a real grasp of your club's business model? Every industry has a unique business model and successful enterprises truly understand the prevailing business model and work to refine their own adaptation of it.

The private club industry is no different. There is an overarching business model governing our industry and every club in it – the key word being every. Sure, clubs have unique “personalities”, but from a business and operations standpoint every club, regardless of its personality, is subject to the business model of the industry.

The following question is a simple test of how well your club grasps the all-important business model.

*How would you characterize Board level discussion of your Food and Beverage finances?*

- A. *Regularly discussing cost of food, cost of beverage, level of revenue and costs and bottom line in the Board Room.*
- B. *Club budget specifies an annual net income/deficit target for Food and Beverage and monitors progress against that target with minimal F&B financial discussion beyond that in the Board Room.*

If you chose “A” there is a major opportunity at your club to more effectively grasp the private club business model and the rest of this white paper will hopefully be a game changer for you and your club. If you chose “B” your club may be acting strategically and the rest of this white paper will serve as further evidence to continue in your ways. Our guess is the vast majority (80%+) of clubs, choosing objectively, chose scenario “A”.

### **Unveiling the Private Club Industry Business Model – The Available Cash Model**

Anybody involved in the club business as a manager, club officer or board member is familiar with the adage “clubs are in the dues business”. This paper moves beyond the slogan to a tangible financial framework that will change the way private clubs are managed. This white paper addresses only the operational business model – we do not investigate capital or balance sheet issues - we will examine those aspects of club finances in the future. Our view of the operational business model excludes initiation fee income which will believe should be considered capital income and separated with great intent from operating monies. Thus, all analysis in this paper excludes consideration of initiation fee income and any capital dues or assessment income.

The key issue in illuminating the operational business model of clubs is – Where does the money to run the club come from and where does it go? No matter how unique your club’s personality is, the sources and uses of cash are common amongst all clubs. Indeed, it is the common sources and uses of cash that frame both the business model and Club Benchmarking’s Available Cash Model. This commonality evolves from “what clubs do” – as opposed to “how they do it”. The “what” is clear – clubs are in business to provide certain amenities to their members. The uniqueness is driven by “how it is done” – some clubs do it with world class service, others with more pedestrian service.

Club Benchmarking (CB) has applied the Uniform System of Financial Reporting for Clubs (USFRC) and common sense to develop a logical grouping of functions related to delivering amenities that are common to every club and thus shape the private club business model.

As intended in the “clubs are in the dues business” slogan, a key component of the club business model is membership dues revenue. Membership dues revenue is unencumbered cash – there is no cost associated with it. On the other hand, Food and Beverage (F&B) revenue is heavily encumbered by the costs associated with delivering F&B goods and service. The stark distinction between membership dues revenue and F&B revenue serves as a key point in the illumination of the Available Cash Model. In a club, not all revenue is created equally. In fact, a significant share of a club’s revenue contributes nothing to the financial health or the monies required to run the club.

The Available Cash Model starts with identifying the sources of operating cash. CB has defined a simple, but standardized, calculation to derive the Available Cash. Table 1 shows the calculation for clubs with and without golf.

<b>Clubs without Golf</b>	<b>Clubs with Golf</b>
Available Cash Equals	Available Cash Equals
Membership Dues Revenue	Membership Dues Revenue
+ F&B Net = (F&B Revenue – F&B Expenses)	+ F&B Net = (F&B Revenue – F&B Expenses)
+ Rooms Net = (Rooms Revenue – Rooms Expenses)	+ Rooms Net = (Rooms Revenue – Rooms Expenses)
+ Other Net = (All Other Operating Revenue – All Other Operating Expenses)	+ Other Net = (All Other Operating Revenue – All Other Operating Expenses)
+ Sports Revenue = (Racquet Revenue + Fitness Revenue + Aquatics Revenue)	+ Sports Revenue = (Racquet Revenue + Fitness Revenue + Aquatics Revenue)
+ Yachting Net (Yachting Revenue – Yachting Expenses in Yacht Clubs)	+ Golf Operations Net = (Golf Operations Revenue – Golf Operations Expenses – Golf Operations Labor)

Table 1.  
Available Cash Calculation

The fundamental concept is to isolate the operating cash available to run the club. The cash emanates mainly from membership dues revenue which is increased or decreased by the bottom-line operational results flowing from each of the main departments in the club. F&B net, Rooms net, Yachting net (for yacht clubs) Other net (Other Operating Revenue less Other Operating Expenses), and Rooms net (for clubs with rooms). Non-Golf Sports revenue is considered unencumbered available cash as the expense of maintaining those facilities is considered fixed regardless of usage. Therefore revenue generated via those facilities is viewed as unencumbered.

A few statistics from the CB database will move the analysis from theory to practice. The median for operating revenue across the clubs in the CB database (at the time of writing this report) is \$5,200,000 (excluding initiation fee and capital dues income), while the median Available Cash is \$3,060,000 or 58% of the revenue. F&B provides 27% of revenue at the average club accounting for most of the difference between revenue and Available Cash.

Operationally, Available Cash is destined to be “used” by only a few departments that are not considered in the net calculations for each of the main departments. These few departments are common to every club. Table 2 shows Club Benchmarking’s standardized uses of cash.

Clubs without Golf	Clubs with Golf
General and Administrative Buildings and Maintenance Sports (Racquets, Aquatics, Fitness, Spa) Fixed Expenses (Real Estate Taxes, Property and Liability Insurance, Interest Expense)	General and Administrative Buildings and Maintenance Non-Golf Sports (Racquets, Aquatics, Fitness, Spa) Fixed Expenses (Real Estate Taxes, Property and Liability Insurance, Interest Expense) Course Maintenance Golf Operations Labor (other Golf Ops expenses are netted in Available Cash calculation)

Table 2.  
Uses of Available Cash

**The Common Business Model**

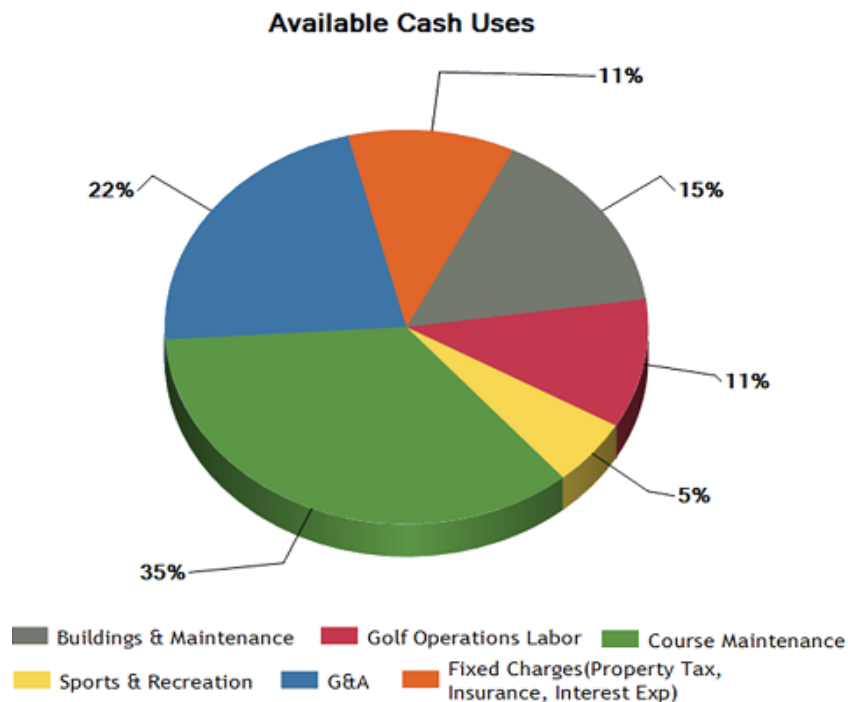
The business model that unites all clubs is the Available Cash Model. Clubs derive and consume Available Cash in a similar manner regardless of geographic location, type of club, quality of club or size of club. The potential sources and uses of cash are identical.

All clubs derive the majority of cash necessary to run the club from dues - the average club in the CB database derives 78% of its Available Cash from dues revenue. The great variation that exists from club to club due to banquet revenue or class of service or club personality (high service, marginal service) is “standardized” in the common business model by adding or subtracting the net income or deficit from F&B from the Available Cash bucket.

Every club has a G&A function, buildings and maintenance expenses, fixed expenses (in the form of insurance, real estate taxes and possibly interest expenses) and 97% of all clubs in the CB database have some form of non-golf sports. These are the few, standardized uses of Available Cash at all clubs.

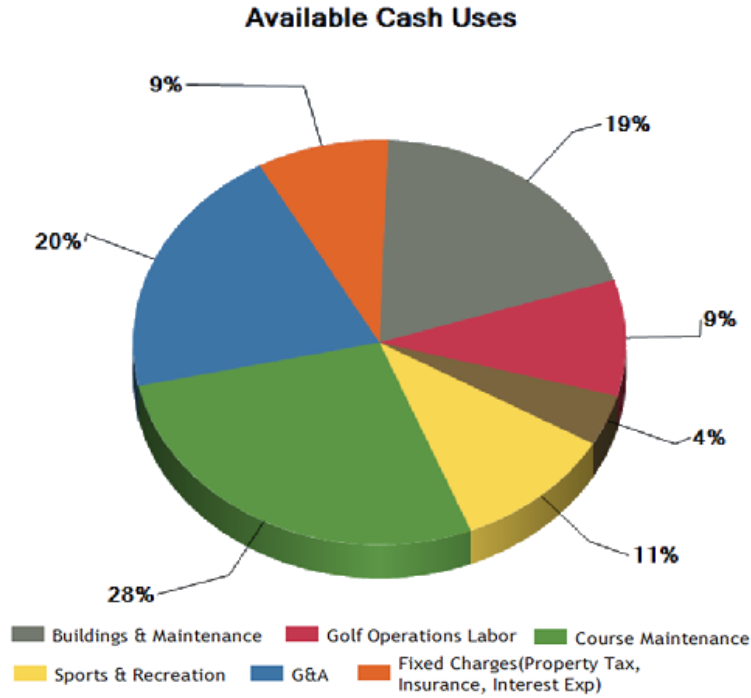
The key benchmarking concern in comparing your club’s Available Cash to a peer set is the proportional distribution of sources and uses of cash, and the ratio of Available Cash to the total operating revenue of the club. The best way to describe this is to use real data. As a starting point, please refer to Charts 1 – 4.

Chart 1 and Chart 2 show the proportionate uses of Available Cash for clubs with golf and less than \$6,000,000 in total revenue (Chart 1) and more than \$6,000,000 in revenue (Chart 2). A couple of variations worth noting are the percentage of Available Cash used for course maintenance and non-golf sports. The smaller revenue clubs use a slightly higher portion of their Available Cash to maintain the course and expend a slightly lower portion on supporting non-golf sports. But note that the sum of those two uses are the same in both cases - 40%. The 40% sum is the key factor and the split defines clubs with a golf only focus vs. clubs with broad amenity focus. As you can see, the remaining uses of cash are almost identical. Chart 3 and 4 show the same distributions for the sources of Available Cash and they also are almost identical.

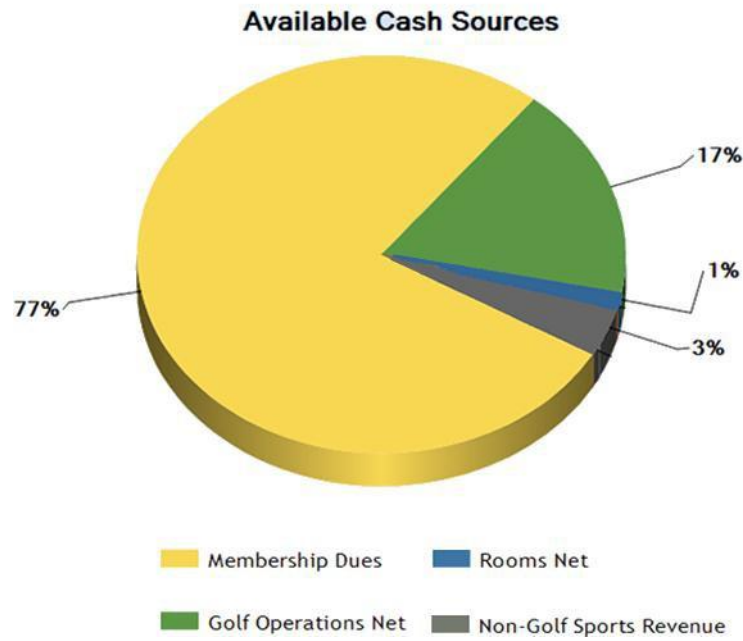


**Chart 1.**

Average Proportionate Uses of Cash – Clubs < \$6.0 Million Revenue

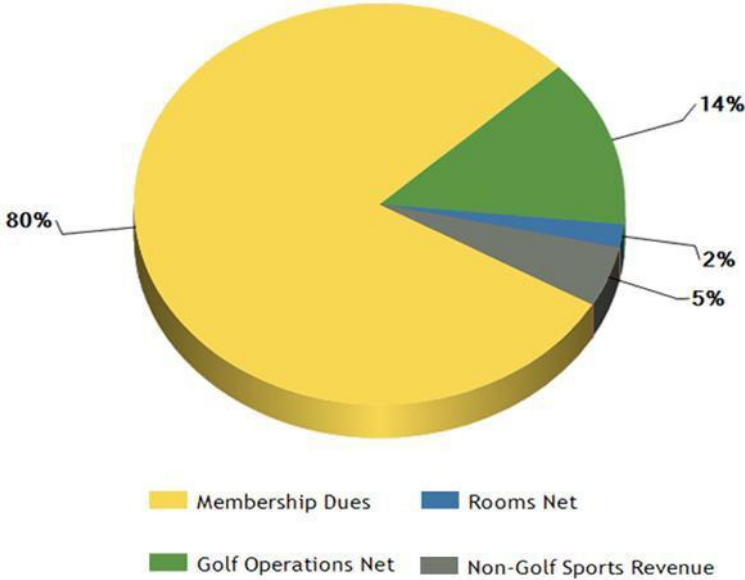


**Chart 2.**  
Average Proportionate Uses of Cash – Clubs > \$6.0 Million Revenue



**Chart 3.**  
Average Proportionate Sources of Cash – Clubs < \$6.0 Million Revenue

**Available Cash Sources**

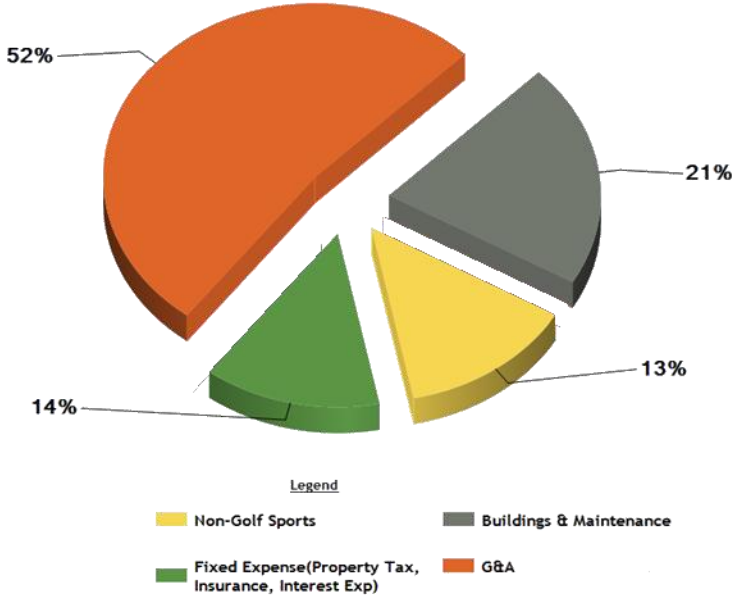


**Chart 4.**

Average Proportionate Sources of Cash – Clubs > \$6.0 Million Revenue

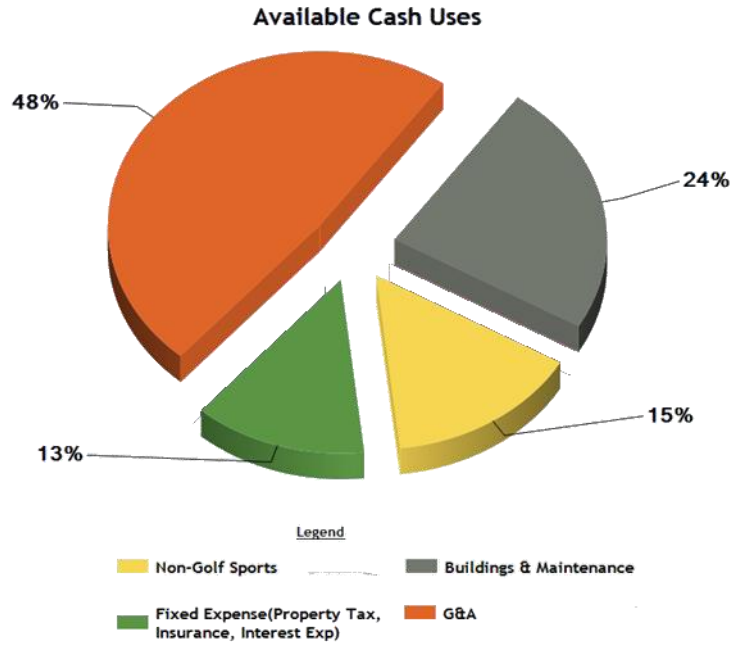
Charts 5 – 8 show the same information for clubs without golf. As you can see, the proportionate uses do not vary substantially and the sources vary in that the larger clubs without golf tend to have more rooms and a profit from their rooms operation that contributes to Available Cash.

**Available Cash Uses**



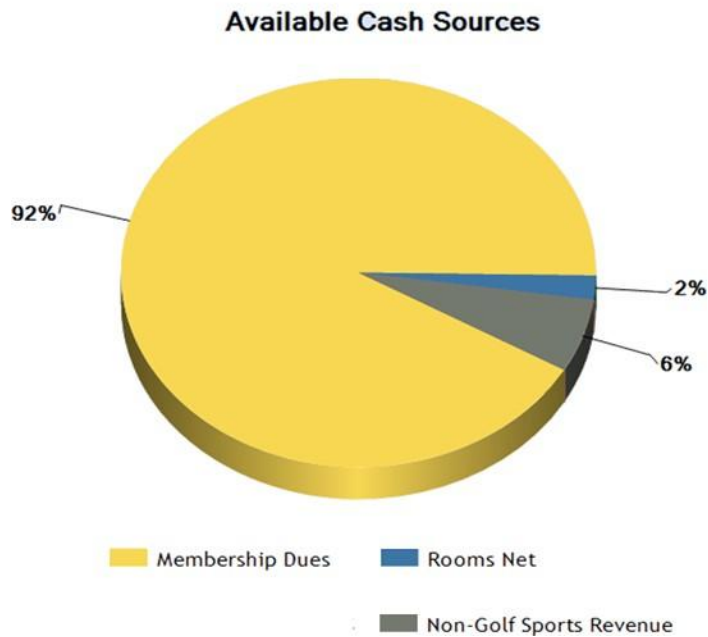
**Chart 5.**

Average Proportionate Uses of Cash – Clubs < \$6.0 Million Revenue (No Golf)



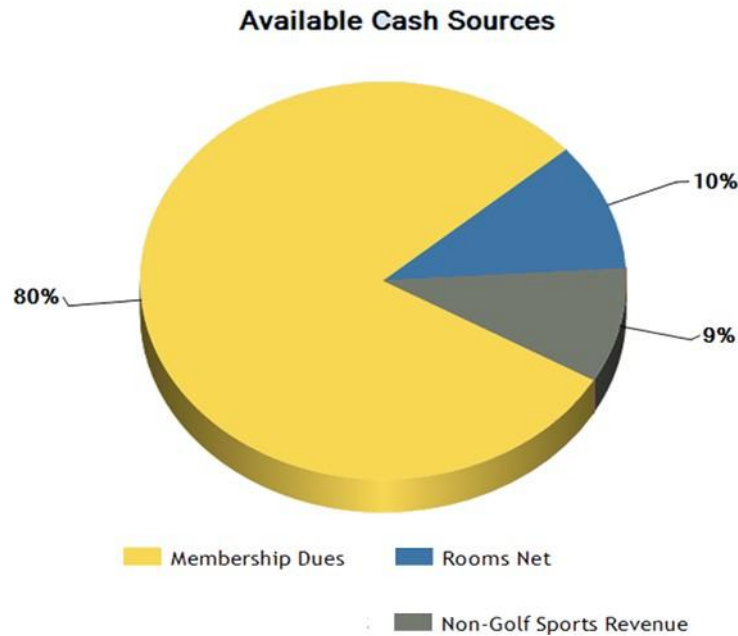
**Chart 6.**

Average Proportionate Uses of Cash – Clubs > \$6.0 Million Revenue (No Golf)



**Chart 7.**

Average Proportionate Sources of Cash – Clubs < \$6.0 Million Revenue (No Golf)



**Chart 8.**

Average Proportionate Sources of Cash – Clubs > \$6.0 Million Revenue (No Golf)

Understanding the business model of the industry at large is the first step in gaining strategic control of your club’s finances. Clubs may have different personalities and different scale, but they all have the same simple, business model properly viewed with Club Benchmarking’s Available Cash Model. Club Benchmarking members successfully use CB’s Available Cash Report to easily identify disproportionate uses and sources of cash pointing to anomalies in their club’s business model relative to their peers and the industry at large. Once an anomaly is indicated in your club’s benchmark, detailed department level metrics can be used to diagnose the root cause (e.g. G&A headcount is too high, Member dues revenue is too low, etc.). This process allows for diagnosis at the business model level and correction at department level where actions can be concrete, rapid, and measurable.

**The Common Business Model and Geography**

“Conventional Wisdom” may lead one to believe that the business model for clubs varies based on where a club is located. The factual data points to an opposite conclusion. The data clearly shows the common business model is independent of geography which can have significant, positive implications for strategic benchmarking in that you don’t have to compare your club to a few clubs next door. You can compare your club’s business model to many clubs nationally.

Table 3 summarizes certain data from the CB database regarding key attributes of the Available Cash Model – as can be seen there is only marginal variation region to region and it is logical to conclude the data supports the thesis of a common club business model which is represented well by the Available Cash Model.

	National	Northeast	So. East	Midwest	So. West	West
AC as % of Operating Revenue	60%	60%	60%	56%	60%	62%
Net AC as % of AC	-2%	2%	- 2%	0%	-2%	-3%
Net F&B Income as % of AC	-3%	0%	-5%	0%	-4%	-5%
Course Maintenance as % of AC	31%	32%	32%	31%	30%	36%
Golf Operations as % of AC	10%	9%	10%	10%	10%	11%
G&A as % of AC	23%	23%	23%	24%	24%	22%
Non Golf Sports as % of AC	9%	7%	10%	6%	10%	7%
Buildings and Maintenance as % of AC	15%	14%	14%	15%	14%	15%
Fixed Expense as % of AC	10%	12%	9%	11%	10%	9%
Interest Expense as % of AC	3%	4%	3%	5%	3%	2%

Table 3.

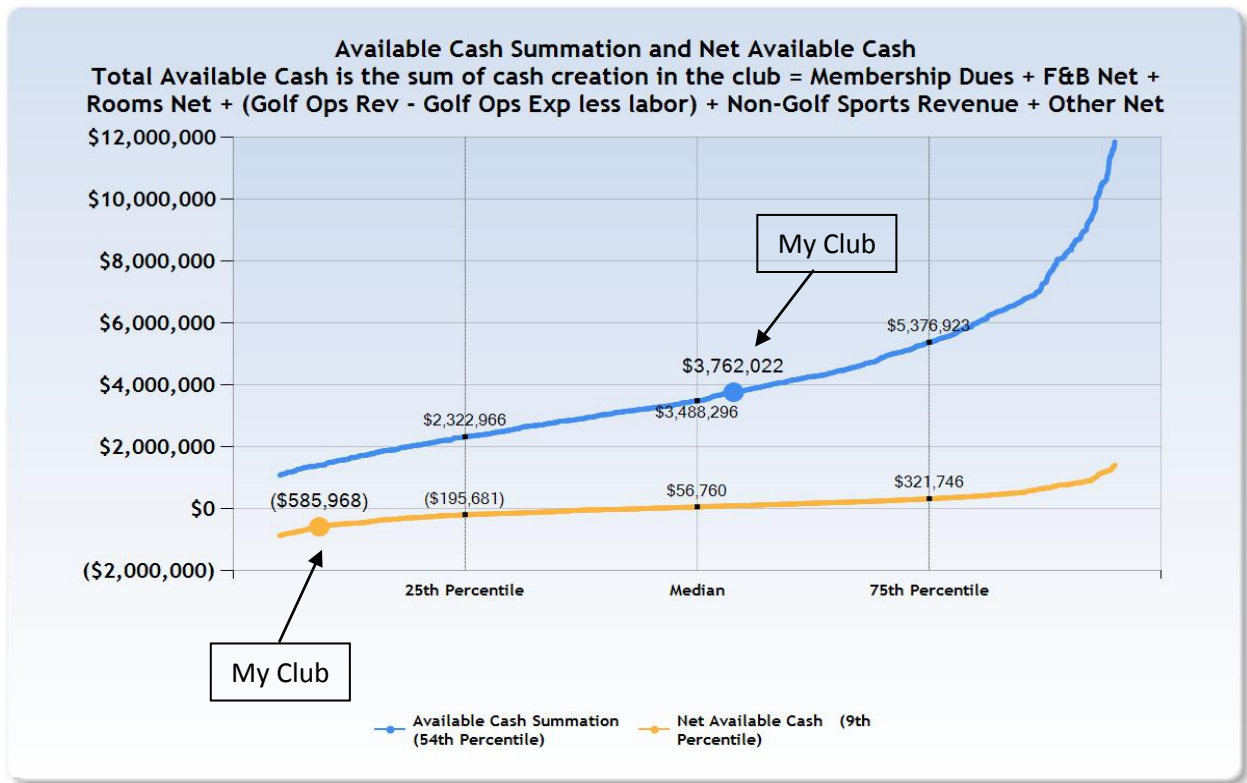
### Regional Analysis – Key Available Cash Metrics

#### The Bottom Line

In addition to understanding sources and uses of Available Cash it is necessary your club can quantify both the amount of its Available Cash and its Net Available Cash. Net Available Cash is the difference between your Available Cash and the total Uses of Cash for operations. The total Uses of Cash = G&A + Non-Golf Sports + Fixed Expenses + Buildings and Maintenance + Golf Course Maintenance + Golf Operations Labor (in clubs with Golf). In other words Net Available Cash is the operating bottom line of the club.

Chart 9, from Club Benchmarking’s Available Cash report, shows the distribution of Available Cash and Net Available Cash across the spectrum of clubs in CB’s database for the year 2011. As you can see, the median club has a Net Cash result of \$56,760 – a small surplus which can be funneled into either capital or reserves. One quarter of the clubs had a significant operating cash burn of more than **-\$195,681** (the 25<sup>th</sup> percentile) while one quarter of the clubs generated more than \$321,746 (the 75<sup>th</sup> percentile).

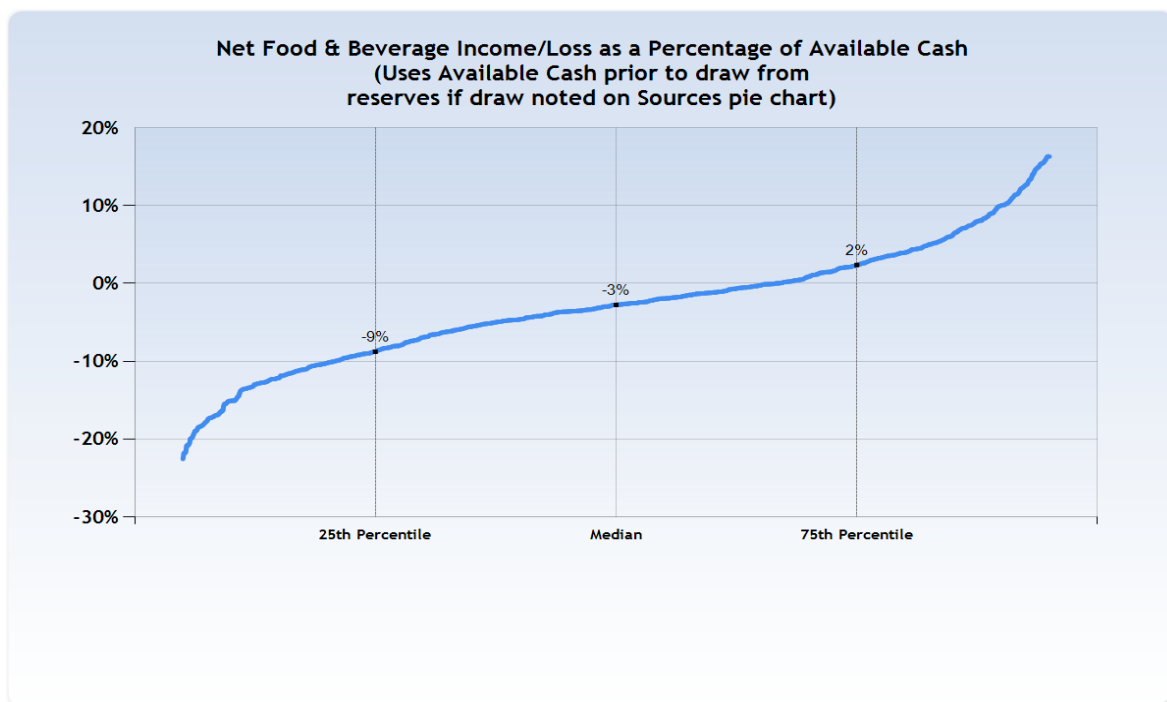
The two circular data points on Chart 9 show one particular club’s Available Cash and Net Available Cash. Clearly, this club has a serious problem with their Net Available Cash as indicated by the **-\$585,968** burn. The club’s capital assessment and initiation fee income had masked the operational problem that was uncovered in minutes using the CB Available Cash Report. This same club had a modest loss of \$50,000 in F&B (less than 2% of the cash the club needs to run the club) and the board was worked into fervor over the loss. Unfortunately, they were focused on the wrong issue.



**Chart 9.**

Available Cash and Net Available Cash – All Clubs

Chart 10 shows the distribution of the ratio of F&B Net to Available Cash for the clubs in CB’s database. As can be instantly discerned, the F&B bottom line across the industry is a very small percentage of the Available Cash required to run the club. While you can’t let F&B run amok, it has little to do with a club’s financial health. Seventy percent of clubs (70%) have an F&B bottom line that that contributes less than +/- 10% to the club’s Available Cash. Clearly, board meeting dialogue concerning F&B is not in balance with this fact.



**Chart 10.**

F&B Income/Loss as a % of Available Cash – All Clubs

### **Shifting the Dialogue**

The primary issue in embarking on a strategic dialogue of your club's finances is nailing down your Available Cash Sources, Uses and Net Available Cash and benchmarking each of them to the industry at large and certain peer sets. This task is straightforward and immediate to Club Benchmarking subscribers.

If you chose Answer A to the question at the beginning of this paper, it is strongly suggested you do an Available Cash Analysis, most simply by using CB and its automated Available Cash modeling. Understanding how much Available Cash your club generates, where it comes from, where it goes, and if your Net Available Cash is at breakeven, deficit or surplus is the first step in understanding the business model of your club and if that model is sustainable. If you find your club's Net Available Cash in a negative position or you find an imbalance in the proportionate uses of your Available Cash you will have done your club and its members a great service. You will have decisions to make regarding increasing your Available Cash or allocating it in a different manner, but you will have immediately shifted the dialogue from the tactical F&B centric discussion to the strategic Available Cash Sources and Uses discussion. Your club will be on the right track.

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