

## Ratios and Measures Every Club Manager Should Know

We believe that the elevation of facts over opinion in the decision-making process is the key to healthier clubs, empowered managers, and more strategic board leadership.

We built CB as an online data-sharing platform to give every manager and club 24/7 connectivity to the shared wisdom of the club industry. Our reports are designed to keep boards and managers focused on the critical ratios and key performance indicators directly related to the financial and operational health of their clubs. The Club Benchmarking platform is constantly evolving based on feedback from our members. This document is intended as a basic glossary for some of the terminology you will encounter.

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**The Available Cash (AC) Model:** This is one of the most critical financial measures in the club industry. The AC Model is a standardized framework for assessing a club's financial performance. Understanding your club's position from the perspective of Available Cash is vital.

- **Available Cash** is the standard measure of the cash your club generates to cover expenses related to non-revenue producing departments (course maintenance, G&A, building operations, etc.) and fixed expenses (as defined by the USFRC) which include real estate taxes, insurance, property and liability insurance and interest.
- **Net Available Cash** is the standardized operating bottom line after *all* operating expenses have been covered. Net AC can be positive (operating surplus), negative (operating deficit), or break-even (as is common in non-profit private clubs). Net AC tells us whether the club's operating expenses are being supported by operating revenue or subsidized by dipping into capital income or reserves. The amount of *Available Cash, Sources and Uses of Available Cash* and *Net Available Cash* are key performance indicators that shed significant light on the operational model of a club.

**Proportionate Sources and Uses of Cash** The *Available Cash Model*, graphically depicted as a pie chart, is used to illustrate the proportionate sources and uses of a club's available cash. Our data has proven that the vast majority of clubs conform closely to this model and that variances in the proportionate sources and uses of cash are independent of size or geographic location.

The Sources and Uses benchmark provides proven insight into your club's business model and is THE critical starting point for boards in making strategic and informed budgeting decisions.

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**Available Cash as a Percentage of Total Operating Revenue** This ratio is analogous to the club's "gross margin." All revenue is not created equal. Membership dues revenue flows directly to the bottom line and can be used to cover expenses in non-revenue producing departments. In contrast, our data shows that 75 percent of clubs in the U.S. generate no available cash from F&B revenue which means they are subsidizing F&B operations. A club can have a large amount of operating revenue and still have insufficient Available Cash. The ratio of *Available Cash to Total Operating Revenue* indicates a club's capacity to fund its services and amenities.

**Total Payroll as Percentage of Operating Revenue** This ratio has the strongest correlation to a club's operating bottom line as measured by *Net Available Cash*. The ratio is statistically "tight," meaning the farther you fall from the median, the more drastic the differentiating performance to the upside or the downside. This is a simple but critical ratio and understanding your club's position relative to the industry can be a game changer.

**Clubhouse and Buildings Maintenance per Sq. Foot** This key performance indicator is a ratio of all buildings maintenance and operation expenses to the total square footage of all maintained buildings, reported as a value of dollars per square foot. Expenses include utilities, repairs, housekeeping and cleaning, locker rooms operation and clubhouse support staff (excluding F&B staff). This ratio highlights the financial impact of operating old, large buildings or the understaffing or overstaffing of clubhouses and services. It shows whether a club's proportionate use of Available Cash on overall building operations and maintenance is in line.

**Full Member Equivalent Ratios** True apples-to-apples comparisons require standardization of data. Full Member Equivalents (FME) is calculated by dividing total membership dues revenue by the amount a full member pays annually. The FME number is a reliable indicator of an anemic versus right-sized membership. FME ratios are used in a number of CB reports. *Net Available Cash per FME*, *Debt per FME*, *Non-dues Revenue per FME*, etc. are critical in understanding member usage and the financial burden specific expenses represent for members.

**F&B Net as Percentage of Available Cash** This ratio addresses one of the industry's most persistent debates: Is F&B an amenity or a profit center? By clarifying the actual financial impact of F&B on a club's financial profile, you can finally put F&B in context. CB's industry data shows F&B consumes or generates less than 10 cents of each dollar required to operate the club. Understanding this KPI will greatly decrease non-productive boardroom discussions about F&B.

**Interest as a Percentage of Available Cash** Debt can be a helpful tool for growth or a burden on a club and its members. Measuring the amount of Available Cash consumed by interest is a powerful way to determine whether debt is putting excessive pressure on the club. At the industry median, three percent of Available Cash is used for debt service. This ratio is significant in determining a club's capacity for additional debt. Every club should understand the cash flow burden that arises from debt, and how that impacts its operational cash needs.