CLUB BENCHMARKING

Executive Compensation in the Private Club Industry

One of the most firmly held beliefs in the club industry is that executive compensation is directly related to the club's geographic location. Historically, the general assumption has been that a General Manager in metropolitan New York, for example, would automatically expect to be paid more than a manager employed in a smaller rural area based on higher cost of living in his or her area. This in-depth analysis was undertaken in order to explore that tenet and illuminate what does or does not drive compensation in clubs. The analysis is intended to advance our understanding of the complete club business model and to either verify or challenge conventional wisdom as it relates to benchmarking compensation in private clubs.

The Basis

In every industry, there are a wide variety of factors which affect compensation, and the club industry in no exception. These factors include:

- **Individual characteristics** such as experience, education, age, tenure
- **Club characteristics** regarding scope and scale such as number of employees, amount of revenue, member service and quality expectations and the club's financial and operating results
- **External factors** represented mainly by geographic location and cost of living

External Factors

As a starting point in our executive compensation research, an analysis of the impact of cost of living on compensation was undertaken. To that end, the Club Benchmarking database of Head of Club compensation from more than 400 clubs was interrogated to isolate the fifty highest and fifty lowest paid General Managers in the data set. A Cost of Living Index (COLI) from the Bureau of Labor Statistics was then assigned to each of the one hundred clubs based on each club's location. The results of that in-depth analysis are presented in Table 1.

Table 1. Analysis of Variance in General Manager Compensation

	Fifty Lowest Paid GMs	Fifty Highest Paid GMs	Variance
Average Salary	$94,234	$289,435	+207%
Median Salary	$99,500	$271,814	+173%
Average Cost of Living Index	102	119	+17%
Median Cost of Living Index	100	112	+12%
# of Managers in COLI Zones <128	50 (100%)	36 (72%)	
Average Club Revenue	$3,820,000	$16,316,000	327%
Median Club Revenue	$3,138,000	$12,369,000	294%

Looking at Table 1, we can see that 72% of the highest paid General Managers in the country are located in Cost of Living zones equal to or lower than the lowest paid GMs. Additionally, the minor variation in average COLI and median COLI between the 50 highest and lowest paid managers would quickly lead to the conclusion that compensation of GMs is independent of cost of living as related to geographic location. This leads us to further exploration in search of factors that drive compensation in clubs. The next step is to study the effect of characteristics of the individual executive and characteristics of the club on compensation.

Club Characteristics

Table 2. Analysis of Variance in Club Characteristics

	Fifty Lowest Paid GMs	Fifty Highest Paid GMs	Variance
Average Salary	$94,234	$289,435	+207%
Median Salary	$99,500	$271,814	+173%
Average Peak Employee Count	82	244	+198%
Median Peak Employee Count	76	223	+193%
Average Full Time Equivalents	37	166	+349%
Median Full Time Equivalents	40	149	+273%
Recruit National Talent for Executive Team	16%	74%	
Average Club Revenue	$3,820,000	$16,316,000	327%
Median Club Revenue	$3,138,000	$12,369,000	294%

Individual Characteristics

Table 3. Analysis of Variance in Individual Characteristics

	Fifty Lowest Paid GMs	Fifty Highest Paid GMs	Variance
Average Salary	$94,234	$289,435	+207%
Median Salary	$99,500	$271,814	+173%
Average Age	49	55	
Median Age	49	55	
Average Industry Tenure	18	26	
Median Industry Tenure	16	25	
% with 4-Year College Degree	64%	81%	

Tables 2 and 3 indicate that as a group the 50 highest paid GMs are older, more experienced, better educated and are leading much larger and broader clubs in terms of revenue. The 50 highest paid GMs on average are being paid three times the 50 lowest paid GMs and running operations that are three times the size and complexity.

Conclusion: Compensation of GMs correlates directly to the size and complexity of a club while showing very little correlation to geographic location or cost of living.
One further indicator of this fact is shown in Figure 1 below. Ultimately, there is a correlation for compensation of the Head of Club in relation to Operating Revenue as the distribution below shows. Clubs that are in the upper quartile – with a ratio higher than 4% are analyzed in Table 4. They tend to be clubs that are smaller. There is a base level compensation for a Head of Club, one might refer to it as the “ante” and as a result the smaller clubs have to bear a higher burden.

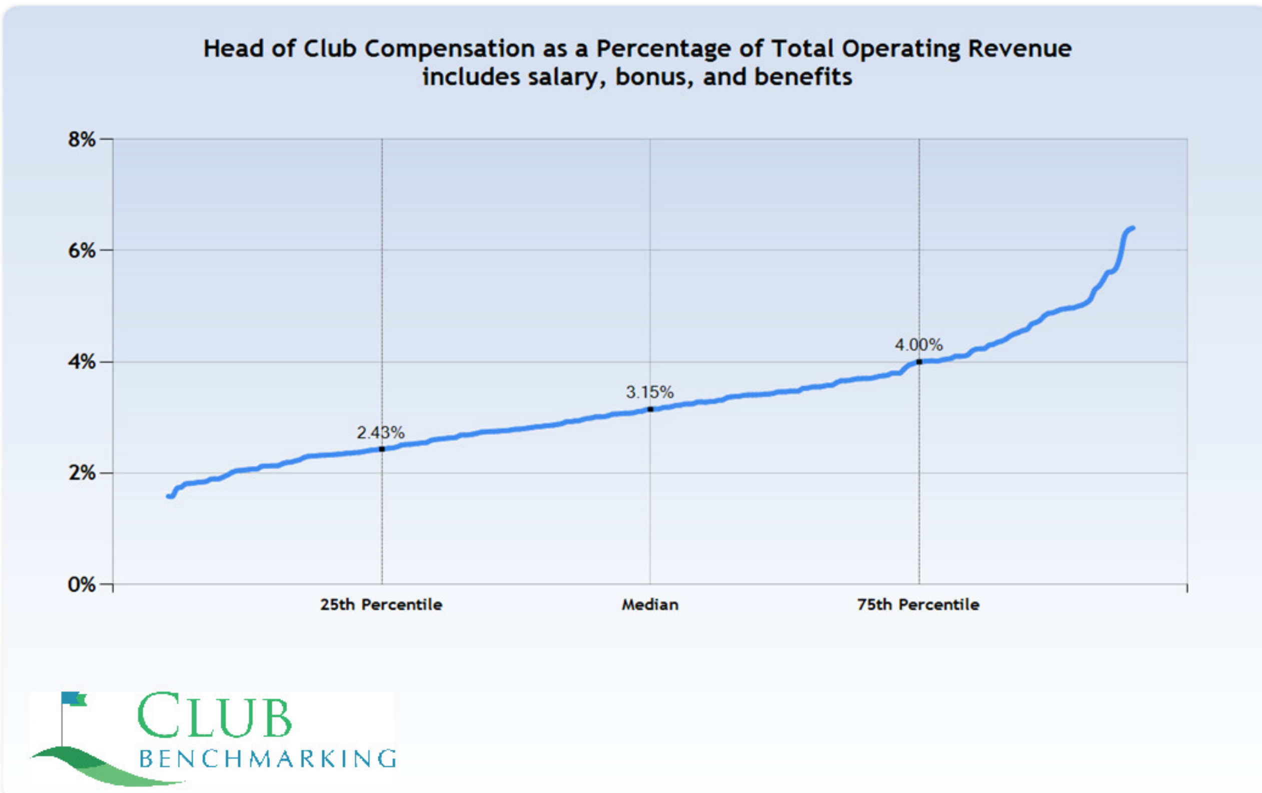

Table 4

	Median Operating Revenue	% of Clubs without Golf	Median HOC Comp. to Revenue for All Clubs	Median HOC Comp. to Revenue for Clubs with Golf	Median HOC Comp. to Revenue for Clubs w/out Golf
Ratio Equal to or Less Than 4%	$7,703,572	10%	2.8%	2.8%	2.8%
Ratio More Than 4%	$3,815,677	34%	4.9%	4.6%	5.6%