THE KPI: Gross Profit

Key Question Answered by this KPI:
How much money is available to cover our fixed operating expenses?

Gross Profit is the standard measure of the money a club generates to cover fixed operating expenses (course maintenance, G&A, building maintenance and operation, fixed charges, golf operations labor and sports and recreation expenses). The importance of understanding Gross Profit cannot be overemphasized.

Dues revenue is by far the dominating contributor to Gross Profit. A relatively high or low level of Gross Profit is most often correlated to the mix in Dues and Food & Beverage. As in any business, lower Gross Profit tends to result in a weaker Net Operating Result and higher Gross Profit tends to result in a stronger Net Operating Result. The club's Gross Profit is the sum of its dues revenue plus/minus the Gross Profit from each of the major revenue producing departments plus any ancillary revenue from "non-golf" sports and recreation.

Gross Profit Calculation: Membership Dues + (F&B Net = F&B Rev. – F&B Exp.) + (Rooms Net = Rooms Rev.– Rooms Exp.) + (Other Net = Other Op. Rev. – Other Op. Exp.) + (Golf Ops Rev. – (Golf Ops Exp. – Golf Ops Labor)) + (Yachting Net = Yachting Rev. – Yachting Exp.) + Ancillary Sports and Recreation Revenue

THE KPI: Gross Margin

Key Question Answered by this KPI:
Does our revenue mix produce adequate margin?

The Gross Margin of the club is calculated as Gross Profit divided by the club's operating revenue. Typically, variation in the Gross Margin is explained by observing the mix of Dues revenue and F&B revenue. Clubs with lower Gross Margin tend to have a higher proportion of operating revenue from F&B (very low margin revenue) with a lower portion from dues (very high margin revenue), and clubs with a higher Gross Margin tend to have the reverse – a higher proportion of revenue from dues and a lower proportion from F&B. A low gross margin can also be caused by an extreme F&B loss as measured by the F&B ratio in the Operational KPI section. One might consider the gross margin to be a reflection of the "liquidity" of a club's revenue. Clubs with lower Gross Margin tend to struggle to achieve operating breakeven (see Net Operating Result below) because there is not enough Gross Profit to cover fixed expenses. A low Gross Margin will usually cause a focus on the Membership Dues Ratio (see below). By itself, a lower Gross Margin does not necessarily identify a problem, but coupled with a negative Net Operating Result it is likely indicative of a weak "dues engine" (see below).

Gross Margin Calculation: Gross Margin = Gross Profit/Operating Revenue

THE KPI: Net Operating Result

Key Question Answered by this KPI: Do we produce enough money to fund operations? Do operations draw money from or produce money for capital?

The Net Operating Result is calculated by subtracting the club's total fixed expenses from its Gross Profit. Net Operating Result can be positive (operating surplus), negative (operating deficit), or break-even. Ideally, Net Operating Result will be break-even or positive. Deficits must be covered by subsidies that flow from the capital side of the ledger. Embracing the importance of Gross Profit and Gross Margin and their direct effect on Net Operating Result is the first step towards making informed and strategic choices. Given that nearly 80% of a club's Gross Profit comes from dues revenue, a negative Net Operating Result is obviously caused by expenditures outpacing the a club's ability to support those expenditures. The key is that everyone understands the Net Operating Result as it stands on its own without any shifting of capital income.

Net Operating Result Calculation: Net Operating Result = Gross Profit – Course Maintenance Expense –G&A Expenses – Building Maintenance and Operation Expense – Sports and Recreation Expense – Golf Operations Labor – Fixed Charges
Note – these expenses exclude any expenses related to leases which are considered a capital expense.

THE KPI: Net F&B to Gross Profit Ratio

Key Question Answered by this KPI: What is the financial impact of F&B on the club?

Across the industry there is a lack of context regarding the financial results from F&B. Net F&B to Gross Profit is a KPI that places F&B into financial context within the overall club by identifying the relative impact of F&B, as opposed to simply the F&B result in absolute dollars. For example, two clubs may have the same dollar loss in F&B, but that same amount may be insignificant to one club while highly impactful to the other. That impact is effectively measured by understanding how the net result is relative to the club's gross profit. Context is key. If the ratio is (-15%) and your club has an operating deficit, the F&B loss may need to be trimmed. The same (-15%) ratio in a club with an operating surplus may show that subsidy level is acceptable and simply indicates the choices the club makes in terms of service and quality. As a side note, making a substantive impact in F&B results will typically require an adjustment in the F&B labor ratio (FB Labor/F&B Revenue).

Net F&B to Gross Profit Ratio Calculation: F&B Profit/Loss divided by Gross Profit