

OPERATING YOUR CLUB DURING A RECESSION

By Thomas F. Blaney, CPA, CFE,
Patrick J. Halloran, CPA and Chris Casini, CPA

The way for a club to outlast a recession is twofold: manage expenses and optimize revenues

Housing foreclosures, higher fuel and food prices, and the devaluation of the dollar are all signs of an economic downturn. These factors affect the club industry in many ways. From a membership standpoint, many members will review their personal spending habits and prioritize their cash flow. Unfortunately, club usage will not be a top priority. Members may curtail their dining, limit the number of guests they invite to the club, ask for a leave of absence or even resign. From an operational standpoint, clubs can expect to experience significant loss of revenues (declining membership and less usage) as well as increased expenses (especially energy related — utilities and by-products of petroleum such as chemicals, fertilizers and cleaning supplies).

Time for Review

Like all businesses, the way for a club to outlast a recession is twofold — managing expenses and optimizing revenues. The largest expenses at most clubs are payroll, food and beverage, insurance, utilities and real estate taxes or rent. An in-depth review of these areas as well as other areas should be performed.

Since payroll can account for approximately 50 percent of a club's total expenses, monitoring these expenses is essential. All non-management employees should be required to "clock in" via a modern electronic time system and all department heads should be instructed to monitor, and if possible, eliminate all overtime. Clubs should track member usage of the dining room to determine adequate staffing levels and reasonable hours of business. Restaurant hours should be curtailed if it is determined that member support on a given day is minimal and the costs of opening the club are far greater than the convenience to the members of being open. Savings would not only be achieved in labor, but also through ancillary costs such as utilities and food spoilage.

Clubs with defined benefit retirement plans should explore the option of "freezing" or closing these plans and replacing them with contributory 401(k) plans. This would shift the burden of funding of employee retirement from the club alone to both the employee and the club. Employees would be able to choose their investment allocation, use pretax wages as their source of funding, with earnings within the plan being tax deferred until retirement.

Competitive quotations should be obtained, preferably in writing, via electronically or fax for all food and beverage purchases. It is crucial that these quotations are forwarded to the accounting office to verify that the prices charged equal the prices quoted. Additionally, clubs should review their cash flow situation and take advantage of vendor discounts for prompt payment and buying in bulk. In addition, clubs should review all contractual expenses to determine if the services they receive are reasonable and if they are getting the services that are being paid for. Many service contracts that have monthly payment plans are reviewed when they are initiated, but are not subsequently reviewed to determine if the services are still needed.

A private club's food operation can use over 250 different products. Thousands of dollars are spent each year on groceries, equipment, tableware and linens. Most chefs or purchasing stewards are not aware of the percentage mark-up being charged by their food distributor. They may tell you however, that the prices they pay are the lowest ones offered by their vendors. In theory, clubs get bids on everything before they make any purchases. Practically speaking, for most clubs, staff has limited time to undertake a comprehensive bid analysis to select the lowest priced items. Fre-

Thomas F. Blaney, CPA, CFE, Patrick J. Halloran, CPA and Chris Casini, CPA are the directors of the private club division of O'Connor Davies Munns & Dobbins, a Certified Public Accounting firm that provides accounting and tax services to over 1,200 not-for-profit organizations in the Northeast.

Reprinted with permission from the June/July 2008, Volume 23 Number 3 issue of *The Bottomline*, the journal of Hospitality Financial and Technology Professionals.



quently, the club will take bids on meat and seafood items. Once a week the club will take bids on several dairy and produce items, and, once a month, at most, the club will ask for prices on a dozen or so grocery items. On everything else, price bids are rarely sought unless a large purchase of a particular item is going to be made. This process results in a large percentage of products purchased, on which there are no quotes. The vast majority of a club's purchases are being priced at whatever suppliers think the club will pay. Therefore one approach clubs may consider is to join a group buying cooperative program.

Insurance Considerations

Clubs that use a committee structure should establish (if they have not done so already) an insurance committee. Some clubs have increased deductibles and co-pays for major medical resulting in significant savings. One country club recently saved approximately \$35,000 during the first year even after the club reimbursed each employee for their share of the increased deductible or co-pay. This club used a third party administrator at an annual cost of \$3,000 to oversee the additional bookkeeping needed.

On an annual basis, club management should review the adequacy and costs of all types of insurance. In this litigious society, it is prudent for clubs to have general liability insurance and sufficient umbrella policies as well as directors' and officers' liability insurance and employee dishonesty insurance. Clubs should periodically put their insurance out for bid to determine that they are not being over charged. This process should involve several independent brokers reporting to the club their best possible insurance package. Clubs sometimes use their one insurance broker to get competitive bids from multiple companies, but the process is not the most advantageous to the club since the broker is only aligned with certain insurance companies. Through this process, the club can also determine if they are over insured or under insured in any one area.

Further Audits

On a periodic basis, all types of utility and energy efficient audits should be per-

formed. For example, electric golf carts should be recharged at non-peak times, pool motors should not run constantly and clubs should consider installing solar energy panels and perhaps even wind-mills. Clubs should inquire if there is a third party energy supplier available in their area to compare the price the third party supplier is charging compared to their current utility company.

Clubs that own their property should consider certiorari proceedings to reduce real estate valuations. Many attorneys work on contingency so there is very minimal cost to the club if they are unsuccessful. Clubs that rent their property should consider third party audits of any escalation charges to verify the accuracy of those charges.

The main component of any recession is a stable membership base. Years ago there was a saying, "Clubs run on dues and booze." Today, efficiently operated clubs depend on dues and usage. In order to keep dues increases to a minimum, and at the same time, contribute to paying the clubs overhead, all clubs should consider increasing the number of outside functions. Generally speaking, the Internal Revenue Service (IRS) allows a non-profit membership-owned club to generate up to 15 percent of its total revenue from non-member sources.

In order to increase membership usage, clubs must consider different types of "gimmicks" to attract members (especially families). An "early bird" special night whereby members, not just seniors, who have dinner before 6:00 p.m. and receive a 20 percent discount is a novel idea used by some clubs. In addition, many clubs are promoting family usage by having a "movie night" for the children in one area of the club while the adults dine in another area. While rounds of golf are down in most parts of the country,

bowling is making a comeback and as a result, many clubs that have closed or demolished their bowling alleys are refurbishing them. Senior members have been teaching children the "rules of the game" and clubs have been combining family nights with bowling nights. Some clubs have also interviewed children on what they want to see on a children's menu. Menu items like tacos, wraps and cluck-in-Russians are added to the traditional items of hot dogs, grilled cheese and chicken fingers.

As our economy heads into uncertain times, it is prudent for clubs to be ahead of the curve in maximizing revenues and controlling expenses. The future for all clubs is dependent on maintaining a stable membership count while continuing to provide the services that the members expect and at the same time keeping in mind the cost/benefit factors in the decisions made to operate the club. ■



O'Connor Davies Munns & Dobbins, llp
ACCOUNTANTS AND CONSULTANTS

Serving over 1,200
Not-for-Profit Organizations
Specializing In Private Clubs

- Internal Control Reviews
- Fraud Prevention Analysis

ODMD's Hospitality Practice Group:
Thomas F. Blaney, CPA, CFE
New York, NY (212) 286-2600

Patrick J. Halloran, CPA
Harrison, NY (914) 381-8900

Christopher W. Casini, CPA
Paramus, NJ (201) 712-9800

Robin M. Strong, CPA
Stamford, CT (203) 323-2400

ODMD.com