

**Club Resources**  
INTERNATIONAL

## **Basics of Benchmarking**

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### Introduction

#### A Cautionary Tale

Two airplanes sit on runways separated by 80 years of time and light years of technological innovation. The first plane is a WWI era Gypsy Moth carrying a pilot and passenger, the other a fully loaded 747 with 314 passengers and 52,000 gallons of fuel.

The pilot of the Gypsy Moth looks at his instruments – a fuel gauge, an altimeter, and a compass. He is ready to go and throttles the engine to full power. He bounces down the runway, is airborne in a few hundred feet and sails off into the morning sky. An hour later the plane crashes into a field killing both pilot and passenger. In examining the wreckage, it was determined that, even before takeoff, the engine was leaking oil causing it to seize in mid-flight.

Meanwhile, the pilot of the 747, as he made final preparations to takeoff, heard an alarm that indicated the hydraulic pressure that controlled his vertical stabilizer was low. Notifying the tower and disappointed passengers, the pilot returned to the jet way. Three hours later after a minor, though critical repair, the flight took off and flew safely to its destination.

#### Flying Blind

These fictional examples illustrate the importance of measuring operating performance. The pilot of the 747, taking advantage of engineering, technology, and aircraft evolution, had a host of gauges, dials, lights, and alarms to keep him informed of the condition and performance of all aircraft systems. The pilot of the Gypsy Moth, blind to the critical details of his plane's condition and performance, flew to his doom. A similar lack of detailed knowledge of a club's performance can be devastating, though without the deadly consequences, for the owner/operator.

While measuring business performance does not lend itself to dials and gauges, lights and alarms, there are still a host of measurements that describe the performance of a club. First and foremost are the monthly financial statements, though these by design provide summary information. Critical details can be masked by summary data. For instance, food sales is made up of two variables – the number of members eating (volume) and the average amount spent by each member (average check). Not knowing the trends of these underlying variables can lull a manager into complacency if sales are up, when in fact patronage is down but masked by higher menu prices.

Every club department has similar detailed variables that must be measured, tracked, analyzed, and reported on an ongoing basis. While it is each department head's responsibility to do this, General Managers must ensure that this is done continually and consistently over the long haul. Like the pilot, they bear the ultimate responsibility and accountability for performance and cannot afford to be flying blind.

### Definitions and Math Skills

#### Definitions

The following basic definitions will help clarify the concepts involved in benchmarking for the uninitiated as well as experienced manager. Throughout the text of this manual are *bold italicized* words that refer back to the definitions below.

Amortize	to spread the cost of an item over the period of its use or life by charging an amount to its account for each period during its use or life.
Average	the usual or norm as determined by dividing the sum of two or more quantities by the number of quantities. For example, the average number of meals served in a week can be determined by adding up the total meals for the week and dividing by 7 days.
Benchmark	a standard of measurement; any piece of data that is an indicator of business operating performance. Examples would include meal counts, average meal check, cost of goods sold, meals served per payroll hour, etc.
Benchmarking	the act of measuring operational performance.
Best practice	an action, condition, or process that optimizes the efficiency and profitability of a business.
Cash register	an electrical/mechanical device for recording the amount of revenue transactions, usually with the ability to segregate different categories of sales, for example a food service cash register may have five keys allowing sales to be segregated by appetizers, entrees, desserts, specials, and alcoholic beverages.
Cost center	a subordinate operating department within a business that does not generate revenues, but incurs expenses in support of other operating departments.
Count(s)	the number obtained by adding up the amount of a given item; the act of tallying the number of a given item or items.
Data	the variable values or measurements that describe an event or process.
General ledger (G/L)	the chronological recording of all business transactions in accounting, grouped and summarized on reports by individual account.
Moving average	an average that is recomputed to determine the ever-changing average of a fixed period of time. Example: a two-week moving average is recomputed daily to determine the average result of data over the most recent 14-day period. A moving average provides the most recent determination of the average of changing circumstances.

Operating standard	the existing benchmark or “baseline” of any operation, event or process.
Percentage	a given part in every hundred. If 62 out of every 100 people answer yes to a question, then the percentage of positive responses is .62 or 62%.
Personal computer (PC)	a small computing and data storage device used by an individual, most commonly designated as a desktop computer; laptop computers are more compact, portable models.
Point of sale (POS) device	a computerized cash register that records revenue transactions at the point of sale and summarizes all data captured on computer-generated reports.
Profit center	a subordinate operating department within a business that generates revenues and has corresponding expenses.
Ratio	a fixed relation in degree, number, etc. between two similar things. If 3 out of every 4 people answer yes to a question, then $\frac{3}{4}$ is the ratio of positive responses to the number of people questioned.
Spreadsheet software	a standard business program used by computers to allow the entry, storage, and manipulation of numeric values. Characteristically designed with a matrix of individual cells at the intersections of columns and rows. Microsoft Excel® is the most commonly used.
Standard	something established for use as a rule or basis of comparison in measuring quality, quantity, etc.
Statistically sound sample	an amount of data of sufficient size to ensure sound results when analyzed. For example, the number of meals served on one day only tells you what happened in that instance and would not be a sound predictor of future events, but the average of meals served over a period of a month represents a more statistically sound sample and is a better predictor of future meals served per day.
Statistics	numerical data assembled and classified so as to present significant information. Also, the science of collecting, organizing, summarizing, analyzing, and drawing conclusions or making inferences from data.
Tick sheet	a counting tool; a sheet of paper or form upon which a tick mark is made for each item counted.
Word processing software	a standard business program used by computers to enter, format and display text. Microsoft Word® is the most commonly used.

### Math Skills

The math skills necessary to establish a system of *benchmarks* are basic – addition, subtraction, multiplication and division. Beyond that, an understanding of *ratios* and *percentages*, a smidgen of statistical theory, and a manager is equipped with everything he or she needs to know to track performance.

It is assumed that readers have an understanding of the basic math involved to include ratios and percentages. A brief discussion of *statistics* should suffice to bring all readers to the same understanding.

Every event, process or operation produces values or measurements that change over time. These variable values and measurements are called *data*. The science of statistics collects data, then organizes, summarizes, and analyzes it to draw conclusions or make inferences about the event, process, or operation.

Data can be either quantitative (numeric) or qualitative (dependent upon assigned characteristic or attribute). For instance, the number of people attending a catered event would be quantitative, while the hair color of attendees is qualitative. For the most part, the use of statistics to benchmark club operations will encompass quantitative or numeric data.

Data can also be either discrete or continuous. Discrete data are variables that assume values that can be counted, for instance, the number of meals served. Continuous data are variables that can assume any value in a range of values, for instance, how long it takes to cook a dinner entrée. In *benchmarking* club operations most variables will be discrete.

Data can be gathered from populations, i.e., all elements of an event, process, or operation, or it can be taken from a sample – a smaller subset of the population. A club could survey the population of all 800 members to determine satisfaction with dining services or it could survey a sample of 50 members selected at random. Most of the data collected for benchmarking clubs will include the entire population of a given variable.

In club operations data is collected through a number of means. *Cash registers* can collect data, while *point of sale (POS) devices* go further by collecting, organizing, and summarizing data. But all these devices are generically designed to appeal to as wide a market as possible. Their strength is in cost-effective power to collect data, and despite most point of sale devices' ability to provide customized reports, this flexibility is still within limited industry norms.

The real task of organizing, summarizing, analyzing, and, ultimately, drawing inferences from the data over time is up to the manager who understands the value of benchmarking. The following chapters will equip club managers with that understanding.

### Benchmarking

#### What is Benchmarking?

Club operations are complex. A multitude of factors, processes, techniques, individuals, policies, procedures, laws, regulations, accepted practices, member habits, skills, and science interact dynamically to make the enterprise successful. What works today, may not work tomorrow. Change is an ever-present reality, demanding constant attention.

Management theory attempts to make sense of this dynamic complexity by formulating models to describe the behavior of people and businesses under varying circumstances. From these models have grown management theory and practices to engage almost every aspect of a club – leadership, personnel management, marketing, sales, operations, legal and accounting constitute some of the many disciplines that attempt to understand and direct the many parts that contribute to the whole.

By nature, models are simplified constructs that attempt to make sense of the changing complexity of the real thing. Underlying the models are assumptions that must be borne out in practice. The only way to objectively prove the effectiveness of a given model and its assumptions is to measure performance data in detail. Such measurements are called benchmarks.

Benchmarking is the act of measuring operational performance. The idea is to establish the measurements that reflect the norm of business performance. Measures of historical performance become the *standard* by which current and future operations may be evaluated.

Take the example of professional baseball and its measurement of a player's performance by a seemingly endless series of statistics. Baseball has a statistic for everything – batting averages, slugging averages, runs batted in, earned run averages, batting averages against right handed and left handed pitchers, even averages against a particular pitcher. Statisticians measure every aspect of a player's performance and managers use these statistics to help make crucial decisions during games. The underlying rationale is that most things in life follow patterns.

Once you identify those patterns from past performance, you can use them to predict future performance based upon probabilities. A particular batter who hits .389 against left handed pitchers has almost a 4 in 10 chance of getting a hit against the lefty now on the mound. But that same batter, while suffering a 22 game slump with a batting average of .178, might be a poor choice to pinch hit.

### Why Benchmark?

There are a number of reasons to benchmark a business' operation.

**1. To establish the baseline or “benchmark” of existing operational performance.**

Businesses generate many variable measurements of performance. Existing data determines the baseline performance against which all future operations will be compared. If data has not been tracked in the past, begin by measuring existing performance and make that the benchmark. Often past data is available, it's just that no one has made the effort to collect, organize, and summarize it. With a little effort baseline measures can be reconstructed from past periods. If this is too much trouble, begin by collecting today's data. In a short time valid benchmarks will emerge, though usually a full year's worth of data must be collected to account for seasonal variations in business. In the absence of significant changes, the longer the data is tracked, the more valid it becomes as the standard for the operation and as a predictor of future activity. But, a corollary to this is that the older the data, the less relevant it is to current operations.

**2. The benchmark performance can be considered the *operating standard* and all future performance can be compared to it.**

Once the operating standard has been established, all future performance is compared to it. “Out of line” benchmarks become warning indicators that something demands closer scrutiny. Often there are valid reasons for out of line numbers, perhaps the benchmark is a true anomaly that will correct itself in future periods, or it may be the start of a trend that bears management consideration and decision. In any case, by monitoring the benchmarks, managers are aware of changes in their business and will be prepared to take action as warranted.

**3. After tracking operating statistics for a sufficient period of time to ensure a *statistically sound sample*, benchmarks can be used to establish performance goals for future operating periods.**

When establishing budgets, management can use historical benchmarks to establish realistic and accurate goals for coming operating periods. Once goals are established they can be used to compare to actual performance day by day, week by week, and month by month to measure progress toward overall objectives. Should actual performance fall short of expectations, management can make timely interventions to get the operation back on track.

**4. It is useful to compare an operation's performance measures for a given period to other past periods, to other similar operations, or to the industry as a whole.**

For example, comparing September of this year to September of last year or this year's Mother's Day brunch to all previous years'. In large, multi-unit, restaurant companies, one restaurant is compared to all others of a similar kind by use of benchmarks. There are also national trade associations and certain accounting firms that publish annual performance comparisons of various types of restaurants on a nationwide or regional basis. It's a good exercise to compare an operation's performance with the national average for similar types of facilities.

**5. Identifying under-performance or *best practices*.**

Hopefully comparisons with previous periods or other similar operations will be for the better, but if not, it will alert management to problems and possible solutions. By monitoring the operation's continuing

performance measures and closely analyzing the circumstances that lead to extraordinary performance, a department head can identify best practices – those actions, conditions and practices that optimize efficiency and profitability. In the case of downward trends, it can alert management to necessary interventions.

**6. Benchmarks from past periods can make budgeting for future periods easier and far more accurate.**

Absent major change, the best predictor of the future is the record of the past.

**7. Revenue benchmarks from previous periods aid in forecasting business levels in future periods.**

Accurate forecasting of future business allows managers to properly staff their operations and schedule appropriately for expected levels of business. This, in turn, helps control payroll cost while ensuring service to members.

**8. Tracking revenues and comparing them to historical benchmarks allows management to measure member response to products/services and new initiatives.**

The most accurate indicator of member response to new initiatives such as new menus, new hours of operation, improved service training, hiring a new chef, etc., is the response seen in member patronage and buying habits. If members traditionally spend an average of \$132 per month on food, but since the new chef came on board that average has climbed to over \$200 per month, management could feel comfortable that their decision to hire a new highly-paid chef was the right one. Without the benchmark of previous operations, how would they know, except by anecdote and gut-feel?

**9. While most managers have a general sense of the many variables influencing their operation, having the hard numbers and statistics supports the validity of decisions, proposed changes in the operation, and requests for additional resources.**

Careful tracking and analysis of performance measures is the basis for sound decision-making and is extremely useful in proposing changes in the operation. Proposals for capital purchases have a better chance for success when supported by details and analysis. Further, there is no better way to manage the boss than with timely reports about the challenges and progress of the operation.

**10. Benchmarks can be used to establish performance parameters for bonus and other incentive programs.**

When goals are established based upon historical benchmarks, the ongoing performance measures can be used to determine eligibility and extent of bonus payments and other forms of incentive programs.

**11. The few minutes spent each day in recording and reviewing key operating statistics make a manager intimately familiar with the rhythms and flow of his operation.**

Over time this develops into what can readily be called an intuitive understanding of the essential aspects of the business. As a result a department head is able to foresee and prepare for expected variations in the business, such as traditionally slow and busy periods; doing this will insure keeping costs in check while maintaining high levels of service.

- 12. A significant reason for benchmarking is that it establishes the condition of the operation upon a new manager's arrival and gives him a graphic demonstration of the many operational improvements under his leadership.**

This is most helpful in gaining the trust and confidence of bosses, peers, and employees alike. Coincidentally, it also makes it easier to justify increased compensation for job performance.

### **Who Should Benchmark?**

The General Manager of a club is ultimately responsible and accountable for the performance of the operation and, therefore, has the greatest vested interest in knowing how the club is performing. But just as the responsibility for managing individual departments has been delegated to department heads, the responsibility for departmental performance rests squarely with these supervisors. Department heads have the specialized knowledge, skills, and abilities that permit a club to operate at high levels of efficiency and member satisfaction. Ultimately, club performance and benchmarking is a shared responsibility, directed and monitored by the GM.

As a result, it is department heads who have the basic responsibility to benchmark their individual operations. The benchmarks should measure all areas of operational performance and should be tracked over time to develop statistically sound operating standards. By continuing to track and monitor their benchmarks, department heads assure themselves of the continuing performance of their departments. By providing monthly reports that recap their departments' operation, supported by key benchmarks and analysis, department heads keep the GM informed that all is well in their operations, or if something is amiss, that it has been noticed and will be addressed. This, in essence, describes the concept of "managing one's boss."

The General Manager, on the other hand, has the larger responsibility to insist that this is done – that benchmarks are kept, analyzed, acted upon, and reported. Without this level of detail, the GM is operating blind. If something has escaped his notice and goes wrong, he has no one to blame but himself.

## Caveats, Tools and Requirements

### Caveats

There are several cautions that must be given to managers preparing to benchmark.

**1. There are as many aspects of an operation to measure as time, resources, and ingenuity will allow.**

Managers have limited time to spend on the process of collecting, organizing, summarizing, and analyzing data and should avoid a common pitfall – allowing benchmarking to become an end in itself rather than a means to a better understanding of the business. As a result, they should select their benchmarks carefully. Key benchmarks must represent operational practices and processes that are essential to departmental success or to solving problems.

**2. Data used in benchmarking must be defined and collected in a consistent manner.**

If for the past five years a club dining room has defined meal counts by servers counting the number of members on each check and entering that information into the POS, it will not do to change the definition of a meal to the number of entrees sold. Such comparisons will be distorted. At the very least, if such a change is necessary, it should be prominently noted and considered when comparing data from different periods. While this is usually a problem for data collected by hand, it should also be kept in mind if cash registers or POS devices are changed or reprogrammed.

Often problems occur with consistency when procedures for collecting data are not well defined or collection is done by different individuals with an imperfect understanding of the process. If a procedure calls for all guests entering a club pool to be counted separately from members, an inattentive or poorly trained lifeguard may lump everyone together. Particular care must be taken to train accounting or other employees who take numbers off cash register tapes and POS reports to ensure they get the right numbers. Mistakes are made when several numbers must be selected and added together to serve as a key benchmark. The opportunity for error increases proportionally with the number of different people assigned this task and the number of manual steps involved in obtaining or deriving data.

Other measures that require subjective evaluations such as rest room inspection scores may be distorted by one inspector who has a radically different understanding of what a clean bathroom is. In such cases, it is best to limit the number of people conducting inspections or attempt to train all inspectors to a uniform standard.

**3. When comparing data, it is important to compare like to like.**

Comparing lunch sales for one month to dinner sales for another month is meaningless. The two meal periods have different member dining patterns and menu prices are significantly different.

**4. When using benchmarks to illuminate problems, ensure that benchmarks measure practices and processes with only one variable.**

If this is not done, one or the other, or both variables interacting could cause changes to the benchmarked data. For example, if a department head wants to determine and track food sales per day but the dining

room is open 9 hours a day four days a week and 12 hours a day the other two, there are two variables involved in this benchmark – the variability of member traffic and the variability of hours open. A better solution would be to measure and compare dining room sales by day of the week thereby eliminating the variability of hours open.

**5. A major pitfall in benchmarking is drawing conclusions from too small a sample of data.**

The smaller the sample of measurements; the less reliable are the conclusions. Ideally, benchmarking works best in large organizations where large numbers of like events take place. For example, McDonalds will have a statistically sound sample to benchmark sales of Big Macs at its tens of thousands of outlets. There is far less statistical accuracy for a steak house that may sell only a hundred 16-ounce Porterhouse steaks in a given week.

While the smaller sample does not preclude establishing a benchmark, it does mean that any conclusions drawn from such a sample are subject to wider margins of error. Say the owner of that same steak house forecasted selling a hundred 16-ounce steaks a week and ordered accordingly. When a busload of cattlemen on the way back from their national convention stopped to eat, the restaurant naturally ran out. The lesson learned from this experience is not to order two hundred steaks a week, but to plan ahead for next year's convention.

As department heads work with benchmarks they quickly learn which benchmarks are suspect because of small sample size. Yet there is even virtue in working with suspect benchmarks as department heads learn the subtleties of interpreting related benchmarks to draw a more complete picture of their operations' performance.

**6. When two pieces of data are compared to generate a benchmark, both a small sample size of one or the other or extreme volatility in one or the other, can have a major impact on the resultant benchmark.**

For example, outerwear sales from the golf shop represent a small number of the total retail transactions. If outerwear sales per member is tracked as a statistic, that benchmark could increase dramatically during a prolonged period of cold, rainy weather. If the benchmark is used to determine the amount of outerwear purchased for the next season, the shop may end up with too much outerwear. Such benchmarks should be used with care.

### Tools

The tools needed to benchmark are usually readily available to the department head.

**1. Access to the monthly financial statements for his operation.**

In most clubs, accounting departments will provide copies of the financial reports or its subsidiary schedules to department heads on a "need to know" basis. That is, the dining manager will receive the schedules for the food and beverage operations, but not for other departments.

In some operations, management philosophy precludes sharing this information with anyone outside the General Manager, Board of Directors, and the accounting department. This attitude is shortsighted. If department heads don't budget, how do they know what is expected of their departments' financial performance? If department heads cannot review their ongoing performance through financial statements

how can they improve problem areas? Finally, though the General Manager has ultimate responsibility for the bottom line, it is far more effective to have a group of hands-on managers working with the General Manager toward the goals and financial performance of the club.

### **2. Access to cash register tapes and POS reports on a daily basis.**

These sources have a wealth of information that often goes unused. The trick is to select only that data which is most useful for comparison and establishing trends. Further, attention must be paid to providing reports that are both meaningful and concise. The GM and other interested parties have little time to sort through reams of data and complicated, hard-to-read reports.

### **3. Access to a *personal computer (PC)*.**

This tool is indispensable in tracking large amounts of data over time. Some clubs do not want to spend the money to equip department heads with computers. Again, this is extremely shortsighted. Computers are efficient tools for preparing written reports, departmental communications, financial analysis, storing data, preparing marketing material, and a host of other applications. The cost of PCs has come down to the point that every department should have one. *If a club refuses to purchase one for a department head, I consider the PC so essential that the department head should consider purchasing one for himself.*

### **4. The skills to use basic business software.**

In order to take advantage of the power of a PC, all department heads must learn to use basic business software. This includes *word processing*, *spreadsheet* and graphics software, in that order. There are many other specialized programs that can help a department head manage his operation, but the essential programs listed above are absolutely necessary to succeed in business and advance one's career. General Managers who provide department heads with PCs must insist that their subordinate managers learn to use the basic software; otherwise the investment in PCs is wasted. Learning can be via training manuals, an in-house trainer or mentor, or the many training classes offered by outside companies. *Again, I feel so strongly about this that I would make learning to use a computer and basic software a goal on a department head's performance evaluation.*

## **Requirements**

There are two requirements to making benchmarking a reality.

### **1. The "corporate will" to make it happen.**

While very few managers would dispute the value of monitoring performance measures, benchmarking will not happen without the commitment of everyone involved. So, by "corporate will," we mean the will of both the club and the "body" of managers, from General Manager to Department Heads.

### **2. The initiative and ingenuity to overcome obstacles.**

There are many challenges to establishing and maintaining a good system of benchmarks in a club. It requires a sound model. There must also be close coordination between department heads and the accounting department. All managers must be willing to accept change in procedures, practices, and processes. Information must be continuously monitored and questionable data challenged. It is certainly

not easy, but the majority of difficulties are short term. Once the basic systems are established and running, benchmarking will yield significant benefits.

An example of overcoming obstacles is the fact that even without PCs and software, department heads can still benchmark. *In my first hospitality management position, before the advent of PCs, I manually tracked key benchmarks using accounting ledgers and graph paper on a daily basis. While doing this manually is more time consuming and less flexible than on a computer, it took me no more than a half an hour a day and was part of my early morning coffee ritual.*

Sometimes there is important information that cannot be captured through the accounting system or on cash register tapes and POS reports. The only solution is to physically **count** something to get the data. This is particularly the case in conducting inventories. While retail companies have developed sophisticated equipment and software to read bar codes on inventory, most clubs have not invested in this technology. In this case, the department head has no choice but to conduct laborious, time consuming, and error prone, manual counts. While there are few specific tools to help with this other than well-organized storerooms and a calculator, accurate inventories are still of paramount importance.

No matter what obstacles are faced, managers who understand the importance of benchmarking will move heaven and earth to get what they need. If they don't, it is ultimately a failure of their "will to make it happen."

### Sources of Benchmark Information

The first step in benchmarking your operation is to collect data. This data will fall into one of three categories.

#### Information Already Collected and Reported

The first source of benchmarking information is data already being collected and reported through the accounting/financial reporting system. Most clubs have an accounting department that verifies and records the financial transactions of the business. The accounting department routinely prepares financial reports, usually on a monthly and year-end basis. The two basic reports prepared are:

- a balance sheet, a statement of the business' value or net worth as of the last day of the month or year, and
- an operating or profit and loss (P&L) statement for a given month and year-to-date (YTD). Most operating statements include a comparison of the monthly and YTD results with the budget and/or results of the previous month or the same month of the previous year.

Some accounting departments will include a comparison of key benchmarks in the profit and loss statement, but these are necessarily basic and brief. Most accounting departments are kept so busy with day to day accounting, payroll, bank reconciliations, member billing and queries, tax reports, inventories, balancing and closing the books at month end, and the monthly reporting cycle that they have little time for detailed analysis of benchmarks. In such cases, anything additional requires the initiative and involvement of the General Manager and department heads.

Let's examine briefly the scope, benefits and drawbacks of the usual periodic reports generated by the accounting department. As mentioned before, the balance sheet provides a statement or snapshot in time of the business' value. The format for the balance sheet is

$$\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$$

and is derived from the simple understanding that the value of a business is the amount remaining after obligations are subtracted from resources ( $\text{Assets} - \text{Liabilities} = \text{Value to Owner}$ ). The balance sheet provides important information to management and owners about types, amounts and liquidity of assets; types and amounts of claims against the club; and the club's resulting net value. Most of this information, with the exception of inventory amounts, is outside the purview of department heads.

The operating statement, on the other hand, is of utmost importance to the General Manager and department heads. Most clubs contain multiple *profit centers* and *cost centers*, whose operations are reflected in various departmental schedules of the P&L. These schedules contain the basic measure of performance for a department – profitability and/or meeting budget. The basic layout for a profit center is

$$\text{Revenues} - \text{Expenses} = \text{Profit (Loss)}.$$

Classifying and summarizing revenue and expense categories can enhance this basic format. Revenues can be separated by type as in a food and beverage example – where sales have been classified as member dining,

catering sales and, the sum of the two, total sales. Examples of major expense categories include cost of goods sold, payroll and related expenses, and other operating expenses. For a sample profit center schedule, see Figure 1 below.

<b>THE ABC CLUB</b>		<b>FOOD &amp; BEVERAGE OPERATIONS</b>			
		January 31, 2002			
		This	Budget		
<b>SALES</b>		Year	Amount	Diff	%
A la Carte Food		11,517	10,128	1,389	13.7
A la Carte Beverage		3,927	3,354	573	17.1
Banquet Food		6,294	6,000	294	4.9
Banquet Beverage		674	2,000	(1,326)	(66.3)
Service Charge		3,572	3,462	110	3.2
Miscellaneous Income		341	0	341	0.0
Special Functions Income		0	0	0	0.0
	Total Sales	26,325	24,944	1,381	5.5
<b>COST OF GOODS SOLD</b>					
Food Cost		9,443	6,290	3,153	50.1
Beverage Cost		1,562	1,660	(98)	(5.9)
	Total Cost of Sales	11,005	7,950	3,055	38.4
<b>GROSS PROFIT</b>		15,320	16,994	(1,674)	(9.9)
<b>PAYROLL &amp; RELATED</b>					
Kitchen		17,285	18,000	(715)	(4.0)
Dining Room		15,111	16,825	(1,714)	(10.2)
Payroll Taxes & Benefits		3,055	3,134	(79)	(2.5)
	Total Payroll	35,451	37,959	(2,508)	(6.6)
<b>OTHER OPERATING EXPENSES</b>					
Contracted Services		729	850	(121)	(14.2)
Decorations/ Flowers		175	150	25	16.7
Educational		0	25	(25)	(100.0)
Equipment Rental/ Lease		156	150	6	4.0
R&M - Equipment		72	125	(53)	(42.4)
Promotional Food		132	150	(18)	(12.0)
Smallwares & Utensils		227	175	52	29.7
Travel & Entertainment		0	25	(25)	(100.0)
China, Glassware, Flatware		247	100	147	147.0
Laundry & Linen		1,214	1,500	(286)	(19.1)
Printing/ Office Supplies		114	300	(186)	(62.0)
Cleaning Supplies		689	500	189	37.8
Chemicals/ Dishwashing		1,212	1,250	(38)	(3.0)
Paper & Disposables		787	750	37	4.9
Music & Entertainment		0	0	0	0.0
Uniforms		287	300	(13)	(4.3)
	Total Expenses	6,041	6,350	(309)	(117.0)
	Total Payroll & Expenses	41,492	44,309	(2,817)	(6.4)
<b>NET PROFIT (LOSS)</b>		(26,172)	(27,315)	1,143	(4.2)

Figure 1: Sample of Profit Center Schedule

Cost centers because they generate no revenues simply classify and summarize expenses as shown in Figure 2.

<b>THE ABC CLUB</b>		<b>GOLF COURSE MAINTENANCE</b>		
			January 31, 2002	
	This	Budget		
	Year	Amount	Diff	%
<b>PAYROLL &amp; RELATED</b>				
Salaried	19,487	20,000	(513)	(2.6)
Hourly	6,347	6,200	147	2.4
Payroll Taxes & Benefits	1,245	1,250	(5)	(0.4)
Total Payroll	27,079	27,450	(371)	(0.6)
<b>OTHER OPERATING EXPENSES</b>				
Computer/ Software	110	109	1	0.9
Educational	0	100	(100)	(100.0)
Equipment Rental	1,987	2,000	(13)	(0.7)
Fertilizer	250	200	50	25.0
Fuel/ Oil/ Lubricants	125	100	25	25.0
John Deere Lease	3,200	3,200	0	0.0
Toro Lease	5,718	5,715	3	0.1
Licenses - Golf Course	175	200	(25)	(12.5)
Pesticides	350	325	25	7.7
Repair & Maintenance	150	200	(50)	(25.0)
Sand & Gravel	980	1,000	(20)	(2.0)
Security	35	35	0	0.0
Small Tools & Equipment	87	100	(13)	(13.0)
Supplies - Golf Course	159	100	59	59.0
Office Supplies	38	20	18	90.0
Mobile Radio/ Phones	179	175	4	2.3
Telephone	250	250	0	0.0
Uniforms. Rags, Mats	0	550	(550)	(100.0)
Utilities	0	70	(70)	(100.0)
Total Other Oper. Expenses	13,793	14,449	(656)	(143.2)
<b>NET COST</b>	40,872	41,899	(1,027)	(143.8)

Figure 2: Sample of Cost Center Schedule

The benefits of these statements prepared by the accounting department are that they:

- represent accurate results of business operations for the period,
- can be compared to both the budget and previous periods,
- given a statistically sound sample, can establish the relationship between expenses and revenues,
- often provide basic statistical analysis of key numbers, and
- are prepared as a matter of course in normal business operations, requiring no special effort on the part of department heads.

Drawbacks to these statements are that they:

- being summary reports, provide aggregate amounts that can mask underlying factors,
- are often slow to reach Department Heads' hands (usually 2-3 weeks after the end of the operating period),
- only provide basic analysis of key numbers and are not detailed enough for department heads who need a deeper understanding of their departments.

### **Information Collected by Cash Registers or POS Devices**

While a lot of information is available through existing financial reports, a further source of operating information is in cash register tapes or (POS) reports. As part of the normal bookkeeping routine, this information is reviewed daily by accountants and then filed away with accounting records. The real value of much of this data lies in tracking daily information over time to establish the underlying trends of the business. But unless special efforts have been made to collect, organize, summarize, and analyze specific daily data, it usually gets buried in the club's historical accounting files.

The information captured by cash registers and POS devices is set when the equipment is initially installed and programmed. If information is deemed necessary but not available through existing tapes and reports, programming manuals for the cash register or POS should be consulted to see what additional data can be captured and reported.

### **Essential Yet Uncollected Information**

Sometimes information deemed essential by a department head is unavailable through existing reports or through cash registers and POS systems. In such cases, he will have to use his ingenuity and initiative to collect the data. *An example was at a start up private club I once managed. Since we had no operating experience, hours of operation for various facilities were set based upon our best guess. To confirm our decision and determine necessary staffing levels we kept two "tick sheets." One was kept by the employees at the facility and tracked the number of members per hour each day. A second tick sheet was kept of all phone calls and comments from members requesting we open at times other than the existing schedule. The information gathered over time allowed us to adjust hours of operation to better serve our members.*

Another means of collecting information is to conduct a survey of members or employees. These surveys need to be carefully designed with questions that elicit clear-cut responses. A good way to do this is to provide answers on the survey that the respondent can simply check off. Another tip is to include a measurement of the importance of multiple choices so that the respondent may indicate the relative importance of a particular answer or choice. If properly designed, a survey can yield excellent data to a manager. If the same survey is administered over time, a good deal of useful data can be gathered and analyzed.

## What Should be Benchmarked?

There are a large number of performance measures that can be benchmarked in a club operation. For ease of comprehension, they have been classified into five broad categories – revenues, expenses, inventories, retail sales mixes, and processes.

### Revenues

Revenues are the lifeblood of a business. Without them, there would be no business. Understanding the underlying spending habits of members and the weekly, monthly, and yearly variations in revenue flows are critical to managing a club successfully. Not only does this help scheduling staff and ordering inventories, but it also identifies marketing needs and potential problems to be solved.

Clubs offer a variety of products and services and the various types of sales are usually reported on separate lines of the operating statement. As in our previous example a club food and beverage operation may separate “member dining” and “catering sales” on its P&L. Since this information is readily available on the monthly operating statements, it is a fairly simple thing to set up a spreadsheet and compare sales month by month. This is done by setting up a column of calculations that will compare the results of two periods and show the % change in sales as shown in Figure 3. The benefit of such comparisons is that sales trends can be spotted and tracked.

Club Dining					
	Jan	Feb	% Ch	Mar	% Ch
Revenues (\$)					
Member Dining	8,747	8,241	(5.8)	12,974	57.4
Catering	2,892	4,723	63.3	9,875	109.1
Total Sales	11,639	12,964	11.4	22,849	76.2

The formula for the "% Change" column is  $((\text{Feb sales} - \text{Jan Sales}) / \text{Jan Sales}) \times 100$ .

The % change for Feb shows that member dining sales fell by 5.8 % from the previous month, while catering sales increased by 63.3% and overall sales were up by 11.4%.

Figure 3: Sample Monthly Comparison of Dining Revenues

The comparisons could be of the most recent month and the previous month, or taking into account the seasonal nature of club dining, the most recent month could be compared to the same month last year and previous years. In an ideal situation, dining room sales would grow month after month. In reality, this is seldom the case and there is great seasonal variation in the business. By comparing like periods (i.e., a month of this year to the same month of previous years) the variability of seasons is taken out of the mix and a more accurate indicator of trends is provided as shown in Figure 4.

Club Dining		Jan	% Ch	Feb	% Ch	Mar	% Ch
Member Dining (\$)							
2000		8,056		7,721		10,892	
2001		7,932	(1.6)	7,845	1.6	11,987	9.1
2002		8,747	9.3	8,241	4.8	12,974	7.6
Catering Sales (\$)							
2000		2,014		4,536		8,759	
2001		2,432	17.2	4,625	1.9	10,023	12.6
2002		2,892	15.9	4,723	2.1	9,875	(1.5)

The formula for the "% Change" column is ((Jan sales this yr - Jan Sales prev yr)/ Jan Sales prev yr) times 100.

The % change for Jan 2001 shows that member dining sales fell by 1.6 % from the previous Jan but increased by 9.3% in Jan 2002.

Figure 4: Sample Comparison of Monthly Dining Revenues to Previous Years

Yet, even with separate sales lines on the P&L, the information may not be detailed enough for the conscientious department head. While its helpful to separate the sales into member dining and catering, the department head may want to see member dining separated by meal period into “lunch sales,” “dinner sales” and “Sunday brunch sales” and catering sales into “on premise versus off premise” or “banquet meals versus reception counts.” A request could be made to the accounting department to display food sales in this more detailed manner, and they may agree. However, there is a practical limit to how much detail can be displayed on the P&L, which by design is a summary report.

In this case the Department Head must turn to his own devices and request the more detailed information from the accounting staff. In some cases the accountants may be willing to track the information for the department head, but in most cases they will provide the daily data from cash register tapes or POS reports to the department head who must track the data himself. Again, this is easily done using spreadsheet software.

The added benefit of daily tracking of detailed data on a spreadsheet is that the captured and summarized information may be compared and evaluated in any number of ways at any future time with little additional effort. *As an example, in a university-owned hotel that I managed we had a cafeteria operation that had served inexpensive meals to students and faculty for nearly 75 years. Over the prior decade sales had dropped off extensively due to a great variety of other dining options for these customers. We felt the space could be better used for our growing banquet needs. Since we had been tracking both cafeteria meals served and the increase in banquet business, it was simple to pull these numbers from our spreadsheets of benchmarks and present a proposal to the university to close the cafeteria and convert the space to catering use. While several preceding managers had been trying to close the cafeteria for years, the university had been unwilling to make a decision unpopular to a vocal few. When the proposal was presented with hard numbers supporting our analysis, we got a quick and positive response from the administration.*

While comparing the sales of one period to other periods is helpful, the dollar sales can mask underlying problems. This is so because the total sales for a period is the result of many members spending different

amounts of money during each sales transaction. When considered in this light, there are two very important variables underlying the total sales for any period:

- the volume of sales transactions (i.e., the number of members who purchased products or services), and
- the average amount spent by each member when making a purchase.

This underlying information is important because variations in one or the other can mean different things and require different responses from the Department Head.

The following chart shows how the fluctuating combinations of volume and average sale may affect overall food sales.

Volume (# of meals served)	Average Sales or average meal check (\$)	Food Sales (\$)
Increase	Increase	Increase
Increase	Unchanged	“
Increase by amount	Decrease by lesser amount	“
Unchanged	Increase	“
Decrease by amount	Increase by greater amount	“
Increase by amount	Decrease by same amount	Unchanged
Decrease by amount	Increase by same amount	“
Unchanged	Unchanged	“
Decrease	Decrease	Decrease
Decrease by amount	Increase by lesser amount	“
Increase by amount	Decrease by greater amount	“
Decrease	Unchanged	“
Unchanged	Decrease	“

Over the long haul not being aware of these fluctuations can create significant problems for the Department Head.

The solution to the problem is to benchmark the underlying factors of volume and average sales transaction. When this is done, the department head can pinpoint the cause of declining revenues and take appropriate action. For example: if volume is down, but each member is spending the same or more money, he needs to increase member traffic. If traffic is the same or better, but members are spending less, he needs to consider ways to increase the average sale through specials, staff up selling, etc. If both volume and average sale are down, it may indicate price sensitivity of members, and may require lowering menu prices to increase traffic, changing the menu, or investigating what other dining options members may be using.

Since cash registers and POS devices capture the number of transactions, it requires only simple math to compute the average sales transaction for any given period. The formula is

$$\text{Average Sale} = \text{Total Sales/Period} \div \text{Total Sales Transactions/Period}$$

As an example: if total sales in the dining room in February were \$8,747 and 698 meals were served, then the average sale or check was \$12.53 (\$8,747 divided by 698).

By tracking the movement and relationship of these three pieces of data (Sales, Volume, and Average Sale) a department head is in a much better position to determine trends, spot adverse patterns, and intervene as necessary. While our example above has focused on food service, the same logic applies to any club department with revenues. For instance, the Tennis Pro Shop would track Sales, # of Transactions, and Average Sale per Transaction; the Golf Pro would track Green Fees, Rounds of Golf, and Average Green Fee per Round; or an Activities Director would track Activities/Events Income, the # of Activities/Events, and the Average Income per Activity/Event.

As with the dollar amounts of revenues reported on the P&L, these other benchmarks can be tracked by day of week, weekly, monthly and annually. Each of these periods can be compared against other like periods to establish trends and provide the Department Head with a clearer understanding of the underlying buying habits of members.

Revenues can also be compared to other benchmarks to gain a fuller understanding of member habits. An example would be for the dining manager to compare food and beverage sales with the number of active members for a given period. This useful statistic tells the department head the amount spent by members on *average* during a period while removing the variable of changing membership levels. This statistic can also be used to project revenues in future periods based upon projections of membership growth. The same principal would apply to the golf course using rounds of golf per member as a benchmark. (Needless to say, if the membership level is static, as in a mature club with a waiting list to join, there is little reason to make this comparison. It would only be useful in cases where the number of members is volatile.)

### Expenses

Expenses are routinely reported on the club's operating statement and are readily available for department heads to benchmark. For profit centers it is a simple matter to compare expenses for a period to the revenues for the same period as shown in Figure 5. Such comparison will yield a benchmark percentage that over time can be used to spot out-of-line expenses and budget expenses for future periods. For expense centers without revenues, individual expense lines could be compared to the number of members, overall operating revenues, or some other measure of club activity.

Payroll is the single largest expense in club operations. Given its impact on the bottom line and the underlying variables involved, payroll should be closely monitored. As with revenues, there are two basic variables in payroll cost – the number of hours worked by employees and the average hourly wage. Whether hourly employees are paid on a weekly, bi-weekly or monthly basis, the accounting department prepares a report that shows the number of hours paid by type (regular, overtime, holiday, vacation, sick, etc.) and the hourly rate and total wages paid for each employee. Most of the reports will also summarize hours and wages paid by department. If this is so, it is easy to review the report and get all the pertinent data to benchmark the two variables.

Similar to benchmarking revenues, it is a simple matter to divide the total wages paid for the period by the total hours for the period to determine the average hourly wage.

$$\text{Average Hourly Wage} = \text{Total Wages Paid} \div \text{Total Hours Paid}$$

*Note: I usually count overtime hours as 1½ hours and any premium pay hours times the level of premium pay (time and a half, double time, etc.) to see the true impact of such costly payroll hours on overall pay cost. It is not necessary to do this. The benchmark will still be valid counting each hour as 1 hour so long as it is done consistently.*

While benchmarking payroll statistics each pay period is relatively easy since the data is already compiled by the accounting department, the overall impact of payroll cost on the bottom line is so dramatic that it requires closer attention. Department heads must track payroll hours on a daily basis. Doing so will give them a deeper understanding of payroll costs and staff scheduling, will stop employees from “milking the clock,” and allow timely intervention if one or more employees is failing to punch in and out as scheduled or directed.

The time and effort involved in tracking payroll hours on a daily basis is one of the most important uses of a department head’s time and is vital to his success. The amount of time invested can be reduced and the process streamlined by procedures and training. Electronic time keeping equipment allows a department head to query the database for each employee’s daily hours. Even without such equipment, he can require each employee to turn in his timecard after punching out each day, or the department head can check the timecards at the rack next to the time clock. Comparing daily hours and the volume of business with a brief review of how smoothly the size of the staff was able to handle the daily workload will develop an intimate understanding of staffing needs and eventually lead to improved scheduling and service.

The mere act of tracking the various types of payroll hours allows the department head to spot trends toward excessive overtime or sick leave abuse. It also spotlights the impact of vacation timing on the club. Obviously, it is better to allow employees to take vacations at slow times when a replacement is unnecessary. When vacations are taken during busier periods, the club ends up paying twice to accomplish the necessary work.

Most other expenses fall under the category of Other Operating Expenses and should be compared to revenues for the same period as shown in the figure on the next page.

<b>THE ABC CLUB</b>		<b>FOOD &amp; BEVERAGE OPERATIONS</b>			
				May 31, 2002	
<b>SALES</b>		This Month	%	YTD	%
A la Carte Food		15,879	49.1	52,145	43.9
A la Carte Beverage		4,298	13.3	17,859	15.0
		7,198	22.2	28,781	24.3
		879	2.7	2,789	2.4
		3,572	11.0	15,123	12.7
		541	1.7	1,978	1.7
		0	0.0	0	0.0
<b>Total Sales</b>		<b>32,367</b>	<b>100.0</b>	<b>118,675</b>	<b>100.0</b>
<b>COST OF GOODS SOLD</b>					
Food Cost		9,468	41.0	33,689	41.6
Beverage Cost		1,578	30.5	6,125	29.7
<b>Total Cost of Food</b>		<b>11,046</b>		<b>39,814</b>	
<b>GROSS PROFIT</b>		<b>21,321</b>	<b>65.9</b>	<b>78,861</b>	<b>66.5</b>
<b>PAYROLL &amp; RELATED</b>					
Kitchen		18,457	47.2	76,892	49.1
Dining Room		17,569	45.0	67,892	43.3
Payroll Taxes & Benefits		3,055	7.8	11,889	7.6
<b>Total Payroll</b>		<b>39,081</b>	<b>120.7</b>	<b>156,673</b>	<b>132.0</b>
<b>OTHER OPERATING EXPENSES</b>					
Contracted Services		729	2.3	2,695	2.3
Decorations/ Flowers		175	0.5	879	0.7
Educational		0	0.0	125	0.1
Equipment Rental/ Lease		156	0.5	857	0.7
R&M - Equipment		72	0.2	358	0.3
Promotional Food		132	0.4	658	0.6
Smallwares & Utensils		227	0.7	1,169	1.0
Travel & Entertainment		0	0.0	487	0.4
China, Glassware, Flatware		247	0.8	1,059	0.9
		1,214	3.8	5,896	5.0
		114	0.4	546	0.5
		689	2.1	2,879	2.4
		1,212	3.7	5,423	4.6
		787	2.4	3,154	2.7
		0	0.0	0	0.0
Uniforms		287	0.9	1,258	1.1
<b>Total Expenses</b>		<b>6,041</b>	<b>18.7</b>	<b>27,443</b>	<b>23.1</b>
<b>Total Payroll &amp; Expenses</b>		<b>45,122</b>	<b>139.4</b>	<b>184,116</b>	<b>155.1</b>
<b>NET PROFIT (LOSS)</b>		<b>(23,801)</b>	<b>(73.5)</b>	<b>(105,255)</b>	<b>(88.7)</b>

Figure 1: Sample Comparison of Expenses to Revenues

This is probably all that is necessary to benchmark them unless a particular expense category constitutes a large ongoing expense or one that is difficult to control. In such cases, special efforts should be made to understand these expenses through more detailed benchmarks. Examples of such expenses would be utilities, telephone, office supplies, photocopying, etc. In each case, the responsible department head will need to investigate and determine benchmarks to understand and monitor these expenses.

There are several cautions to consider in benchmarking expenses. First, unless like expenses are consistently applied to specific expense accounts when invoices are coded, the resulting expense numbers will be not be consistent and "like will not be compared with like." An easy way to solve this is for department heads who

code invoices to design an informal “expense dictionary” using an alphabetized notebook. Any time a particular type of expense is coded, simply enter the expense description alphabetically in the dictionary with a record of what expense account it was charged to. In the future, if a department head is looking at an invoice for an unusual item that was last purchased eight months ago, he may not remember to which account it was previously coded. By looking the item up in the expense dictionary he can see where he last coded it and maintain consistency in coding.

Second, some large expenses are for items that will be used over a number of operating periods. If the expense is significant enough and the department head and accountant do not want the one time charge to distort the expenses of a given period, they may decide to *amortize* the expense over its expected life. For instance, a golf course superintendent may purchase \$20,000 worth of fertilizer at the beginning of the year. Wisely, he has taken advantage of a bulk discount to get the material at a lower cost per ton. However, if the full expense is charged in January, the charge does not reflect the fact that the material will be used over the next twelve months. If a decision is made to amortize the cost, a 1/12 portion of the charge is made to the fertilizer expense account during each of the coming twelve months. This has the effect of more accurately showing the monthly expense for fertilizer used.

Third, in some departments some expense categories contain such small amounts of expenses compared to revenues and overall expenses for the period that the resulting % of expense to revenue is practically meaningless. In such cases, the year to date comparison for that expense line may be more helpful as a benchmark.

Lastly, the flow of expenses through a business tends to be more volatile than revenues, particularly in a stable or mature operation where revenues are more constant. This is because of buying patterns and quantities, inventory levels, vendor billing cycles, and other variables that make well-defined relationships between revenues and expenses difficult. But, this does not necessarily invalidate the benefit of benchmarking expenses. Over time, the department head who has benchmarked his expenses will have a deeper understanding of his costs and how they relate to revenues.

### **Inventories**

It is important to monitor the size of inventories compared to sales. Too small an inventory will cause shortages at critical times, create ill will among members when an ordered item is unavailable, and will be a constant aggravation to employees. Too large an inventory needlessly ties up precious capital, is difficult to inventory, and can contribute to spoilage and pilferage. Clubs typically have four types of operating inventories:

- food,
- beverages,
- retail, and
- consumables.

### Food

In reality both food and beverage sales are a form of retail sales, but because of the unique nature of their inventories they will be discussed separately. Food is one of the most difficult inventories to control given that menu recipes require a wide variety of food products in varying amounts. Given this, it is often difficult to

make the easy one to one comparison of an item sold and an item used. Most clubs require a least a monthly inventory of food items. The inventory value is calculated by multiplying the counts of each line item times the cost of each item and then totaling the value of all line items.

The challenge in doing this accurately is that food items are typically purchased throughout the period, and often prices for any item vary with each purchase. Since heads of lettuce may cost anywhere from 59 to 99 cents apiece during a month, how does one value the month end count of 22 heads? The usual method, based upon the FIFO (First In, First Out) method of valuing inventory, is to consider the month end count to be valued at the last purchase price. If the last purchase of lettuce was at 79 cents a head, then the value for that line of inventory would be 22 heads of lettuce times 79 cents a head, or \$17.38. Another method is to average the amount of per unit costs from all purchases during the month. The club Controller will usually specify which method to use in valuing inventories.

Once inventories are completed, the total dollar value of inventory is entered in the corresponding asset account of the *General Ledger (G/L)*. Thus, it will be displayed on the balance sheet at month end.

A key benchmark of a food service operation is the Food Cost Percentage. This calculation involves determining the amount of food stock consumed during a given period and then comparing this amount to Food Sales. The formula for determining the cost of food consumed is

$$\text{Cost of Food} = \text{Beginning Inventory} + \text{Purchases} - \text{Returns \& Adjustments} - \text{Ending Inventory}$$

Once the Cost of Food is calculated, it can be compared to Food Sales.

$$\text{Food Cost Percentage} = \text{Cost of Food} \div \text{Food Sales} \times 100$$

Other useful benchmarks for inventory levels are the Sales to Inventory Ratio and Inventory Turns, both of which measure the efficiency of inventory sizing and are computed as follows:

$$\text{Sales to Inventory Ratio} = \text{Food Sales for the Period} \div \text{Average Food Inventory}^*$$

$$\text{Inventory Turns} = \text{Cost of Food} \div \text{the Average Food Inventory}^*$$

(\*Note: As inferred by the word “average” describing the inventory level, these measures are best used for multi-period evaluations such as quarterly, semi-annually, or annually.)

By tracking Food Cost Percentage, Sales to Inventory Ratio and Inventory Turns over time, a Department Head monitors and controls inventory levels and assures himself that the Food Cost Percentage is in line with the budget.

High value items such as steaks and lobsters should be inventoried more frequently, maybe even daily. The number consumed each day should match the number of orders. Making the effort to do this will guard against pilferage. The same holds true for some high volume, easily pilfered items.

The number of a particular menu item sold is captured by POS devices, but not by older model cash registers. If a club is operating with such registers, it will require someone manually reviewing member tickets and tallying items sold. While this seems complicated, it can be incorporated in the closing routine for dining room staff with minimal effort.

### Beverages

Beverage inventories refer to alcoholic beverages. Non-alcoholic beverages such as sodas, bottled water, sports drinks, etc., are considered part of the food inventory.

Beer, wine, and liquor have always been attractive targets for pilferage. For this reason, they should be kept secure at all times with a limited number of responsible employees granted access to storage areas. Fortunately, bulk stocks are easier to count because beverages come in discrete units (i.e., bottles and cans). However, open liquor and wine stocks at bars must be inventoried using template sticks to measure the amount remaining in any bottle. In the case of draft beer, it is easiest to consider a keg consumed once it is tapped. Though sales will not correspond exactly with beer consumption, the discrepancy will be minimized if consumption habits are relatively stable and the department head is consistent in considering tapped kegs as consumed. The same benchmarks used for food also apply to beverages.

**Cost of Beverage = Beginning Inventory + Purchases – Returns & Adjustments – Ending Inventory**

**Beverage Cost Percentage = Cost of Beverage (÷) Beverage Sales (times) 100**

**Sales to Inventory Ratio = Beverage Sales (÷) Average Beverage Inventory**

**Beverage Inventory Turns = Beverage Cost (÷) Average Beverage Inventory**

Given different price markups and level of sales, it is a good idea to track these statistics for each type of alcoholic beverage, i.e., beer, wine, and liquor. Also, if an operation has multiple beverage outlets, it is helpful to track beverage costs by outlet. This is done by tracking storeroom issues to each location, inventorying the bars separately, and determining the key benchmarks for each outlet.

Other benchmarks could include:

- the number of bottles/cans/glasses of beer sold and the average price per beer,
- the number of bottles/glasses of wine sold and the average price per bottle or glass,
- the number of liquor drinks sold and the average price per drink.

Each of these measures if tracked carefully over time will make the budgeting of beverage revenues much easier by projecting sales per period based on historical benchmarks. They are also useful in spotting shortages when the number sold does not agree with the amounts consumed.

As in the case of food sales, the number of alcoholic drinks sold can be captured by cash registers and POS devices and are shown on daily tapes and reports.

### Retail

In addition to food and beverage sales, clubs typically have what are considered more traditional retail sales. The golf pro shop and tennis pro shop sell clothing and sports-related merchandise. As such, these operations carry stocks which must be inventoried on a regular basis, usually monthly.

Similar to food and beverage inventories, monthly counts of retail items are taken, tallied and the total value of the inventory shown on the club's balance sheet. The same measures of cost and inventory efficiency apply to retail inventories as was discussed above under food and beverage. They are:

$$\text{Cost of Good Sold} = \text{Beginning Inventory} + \text{Purchases} - \text{Returns \& Adjustments} - \text{Ending Inventory}$$

$$\text{Merchandise Cost Percentage} = \text{Cost of Goods Sold} (\div) \text{Merchandise Sales} (\times) 100$$

$$\text{Sales to Inventory Ratio} = \text{Merchandise Sales} (\div) \text{Average Merchandise Inventory}$$

$$\text{Inventory Turns} = \text{Cost of Goods Sold} (\div) \text{Average Merchandise Inventory}$$

### Consumables

Consumables are the supplies that are used up in support of normal operations. In a snack bar operation, they might include paper napkins, plastic cups, paper plates, etc. In housekeeping, they could include toilet paper, paper towels, window cleaner, all-purpose cleaner, etc. A club locker room uses various supplies such as soap, toilet paper, tissues, shampoo, conditioner, etc.

Regardless of what the items are, if they are high value, high volume or readily pilfered, they should be inventoried and their usage benchmarked. Conducting regular inventories of these items will reduce loss, avoid surprise shortages, and allow the usage to be benchmarked against a volume measure of business.

For example, if a club inventories locker room supplies at the end of every month, the monthly amount consumed can be determined by the formula:

$$\text{Amount Consumed} = \text{Beginning Inventory} + \text{Purchases} - \text{Returns \& Adjustments} - \text{Ending Inventory}$$

This amount can be compared to male and female rounds of golf for the month to arrive at a benchmark for usage of items in each locker room. (Note: While there is only an indirect correlation between golf rounds and use of the locker rooms, the comparison will probably be valid enough for benchmarking purposes. Department heads are encouraged to experiment and see if there may be more accurate indicators of locker room use.) By monitoring these benchmarks month by month, anomalies can be spotted and investigated. Additionally, the benchmarks derived over a number of periods can be used to order inventories based upon forecasted rounds of golf.

### **Retail Sales Mix**

Beyond the basic inventory efficiency statistics, a retail manager must pay close attention to the sales mix of the operation. This is important because the buying decisions of the retailer are a major determinant of a retail operation's success. Markdowns eat away at profits and stagnant inventories reduce funds available for purchasing new lines of merchandise. Without a clear understanding of what members want, retailers place themselves at risk with each purchasing decision.

Given the ever changing designs of clothing, the rapid technological innovation of sports equipment, the fickleness of fad and fashion, and the unpredictability of member desires, a retail department head must have a

clear understanding of what has and has not sold in the past, and why. Amid the hype and ballyhoo of vendors, it is often the only sound predictor of future sales.

Fortunately, cash registers and POS devices capture a lot of information about retail sales as they are rung up. Properly programmed to categorize sales into logical groupings of merchandise, these machines give daily and monthly totals of sales by category, the number of sales transactions, and track the count of each item of inventory. Retailers, by tracking the sales of a particular item compared to the whole can quantify the relative popularity of each item. This can be done by comparing the sales of one item to total sales for the period, expressed as a percentage. It is also useful to compare the sales of any given item over time to get a sense of the seasonality of the item. Negative sales trends for any particular item or category of items should be investigated more thoroughly.

One way to do this is to examine the underlying variables of the sale. Take for instance the sale of golf balls. If benchmarks indicate a decline in the number of golf balls sold, the retailer should first compare monthly sales with rounds of golf. If golf rounds remained constant or are growing, this indicates golfers are buying less golf balls than historically. Another step in the investigation would be to compare sales of lower priced to higher priced golf balls. If the decline is due to fewer expensive and/or more inexpensive balls being sold, it may indicate member price sensitivity. If the sale of golf balls is down across the spectrum of price, it may indicate a discount competitor has tapped the club's market. In any case, the comparison of benchmarks can be useful in trying to understand specific retail trends.

By tracking the retail sales mix carefully month to month and season to season, the retail manager becomes intimately familiar with the buying patterns of his members. In the long run, this makes him a better purchaser and lessens the risk of each buy.

It is also a good idea to track the number and level of discounts given to sell different categories of retail items. This will indicate both the price sensitivity of members and will graphically identify poor buying decisions.

While this section has dealt primarily with true retail operations, the same analysis of sales mix applies to food and beverage sales. A chef, by examining which items are selling from the menu, can better understand the eating habits of his members and can engineer the menu to take advantage of this knowledge. Likewise, the bar manager can remove a slow moving beer and replace it with a more popular selection. Again, it is the benchmarks that allow these department heads to understand what is moving and what is not.

### **Processes**

There are many business practices that accomplish specific tasks. To insure that the methodology is efficient, a manager will find it helpful to measure and benchmark important processes. Since there are so many possible processes to measure, it is difficult to describe them in a general way. Rather, several examples are suggested to prompt the ingenuity of individual department heads in benchmarking their own processes.

The first example is of a club serving a fixed price Easter Buffet – \$16.95 for adults and \$8.95 for children twelve and under. This buffet is an annual event, thereby lending its benchmarks to multi-year comparisons. The Chef is concerned with the overall success of the event, member satisfaction, and profitability. To monitor these, he tracks the total food and beverage sales for the event, the number of children and adults eating, a brief description of the weather (which can have a dramatic impact on turnout), the scores from comment cards returned after the buffet and the costs involved.

In the case of the buffet, he measures the food cost by “post-costing.” This technique calculates the raw ingredient cost of all food items prepared and subtracts the value of unconsumed food that can be used in other forms to generate revenue (for example roast beef that will be used in making hash for the next week’s menu). He then compares the food cost to sales to determine his food cost percentage for the buffet. The amount and type of food leftover is noted as an aid to planning for next year. Lastly, he tracks the labor cost of both the kitchen and dining room employees who prepared and served the buffet. The review of this information and comparing the benchmarks to past years allows him to improve the event in future years.

Another example would be of a housekeeping department performing inspections of restrooms using a standardized inspection sheet. The scores are tracked by individual housekeeper and in total to determine individual and departmental benchmarks. Housekeepers, who maintain a two-week *moving average* of 90 or above, receive 25 cent per hour performance pay kicker for their efforts.

*Another example of measuring a process was in a dining room of a club that I managed that was receiving complaints from members about slow service. In order to verify the problem and look for solutions, we purchased an electronic time stamp and placed it on the kitchen line. For two weeks servers were required to time stamp their tickets before putting them in the window and cooks likewise stamped the tickets when the order was up. Finally, when the servers picked up their orders to take to tables, they stamped the ticket one final time. By analyzing the tickets, we were able to establish benchmarks for food preparation and delivery. Incidentally, the times for both kitchen and servers improved dramatically over the two-week period as employees became more aware of timing. By the end of the two weeks, the problem had solved itself, but we saved the benchmarks in case there was a recurrence of the problem.*

As can be seen from these examples, specific benchmarks can be designed to measure specific processes with an eye toward improvement; as with all benchmarks, they are only helpful in comparing recurring processes and the larger the number of measures, the more useful the benchmarks.

## Benchmarking and Budgeting

The first step in establishing an operating budget is to forecast revenues. Until some measure of anticipated income is projected, the level of variable payroll and operating expenses is pure guesswork. For existing operations it is easy enough to look back at preceding years' revenues and project accordingly. It is far more difficult in start up operations where even the guesstimates of the most experienced operator are suspect.

Yet even with operating histories at hand, the person preparing the budget must have some understanding of the interplay of volume and average customer expenditure which underlie all revenue projections. This is important because the factors that bring a member to the club are far different than those that influence how much he or she spends. These two factors – volume and average expenditure – are key items to benchmark in any operation and are easily determined from point of sale or cash register reports.

As an illustration I shall use a golf course operation, but the same would apply no matter what product or services are sold. In our example, revenues come primarily from green fees, cart fees, merchandise sales, practice range fees, and food & beverage sales. The underlying volume benchmark is how many people use the golf course – the rounds of golf played.

By tracking these key revenues and golf rounds on a daily, monthly, year-to-date, and year-to-year basis, we can derive the following benchmarks:

- Green fees per round
- Cart fees per round
- Merchandise sales per round
- Practice range income per round
- Food sales per round
- Beverage sales per round

	Oct	Nov	Dec	Annual
<b>Rounds of Golf</b>	3,135	2,703	2,274	27,484
<b>Revenues</b>				
Green Fees	\$66,875	\$54,268	\$44,569	\$607,892
Cart Fees	\$39,904	\$33,267	\$27,224	\$352,852
Merchandise Sales	\$5,295	\$4,726	\$6,790	\$68,159
Range Income	\$4,148	\$2,670	\$3,323	\$37,892
Food Sales	\$6,436	\$6,245	\$5,247	\$64,268
Beverage Sales	\$3,624	\$3,139	\$2,876	\$35,698
Total	\$126,282	\$104,315	\$90,029	\$1,166,761
<b>Revenues/Round</b>				
Green Fee/Round	\$21.33	\$20.08	\$19.60	\$22.12
Cart Fees/Round	\$12.73	\$12.31	\$11.97	\$12.84
Merchandise/Round	\$1.69	\$1.75	\$2.99	\$2.48
Range Income/Round	\$1.32	\$0.99	\$1.46	\$1.38
Food Sales/Round	\$2.05	\$2.31	\$2.31	\$2.34
Beverage Sales/Round	\$1.16	\$1.16	\$1.26	\$1.30
Total Income/Round	\$40.28	\$38.59	\$39.59	\$42.45

**Sample Benchmarks Computed by Dividing Revenues by Rounds**

By recognizing that absent significant change or abnormal events, the recent past is the best predictor of the future, these benchmarks can help us determine our future rounds per period and revenues by round. All it takes is a little informed judgment and knowledge of upcoming events or trends that may impact the forecast.

By setting up a bank of data entry cells in a spreadsheet (shaded below), we define the assumptions underlying our revenue projections at the same time we create those projections. Nothing could be simpler – the spreadsheet is set up to automatically multiply the number of rounds by the benchmark for each revenue category to project future sales. Such clearly stated assumptions make it easy for superiors and owners who review the budget to understand how the projections were made. It also makes it easy for the operator who has missed his or her projections in a given period to go back and see why they were missed – either not enough customers (in this case, rounds of golf) or lower expenditures per round.

Assumptions	Oct	Nov	Dec	Annual
Projected Rounds	3,300	2,800	2,250	28,550
Green Fees per Round	21.40	20.15	18.75	22.20
Cart Fees per Round	12.75	12.35	12.00	12.90
Merchandise Sales per Round	1.75	1.85	3.05	2.50
Practice Range Income per Round	1.35	1.05	1.50	1.45

  

Income	Oct	Nov	Dec	Annual
Green Fees	\$70,620	\$56,420	\$42,188	\$633,810
Cart Fees	\$42,075	\$34,580	\$27,000	\$368,295
Merchandise Sales	\$5,775	\$5,180	\$6,863	\$71,375
Practice Range Income	\$4,455	\$2,940	\$3,375	\$41,398

**Projected Revenues using Rounds and Revenue per Rounds Benchmarks**

Once revenue projections are made, it is easy enough to project operating expenses if they have been benchmarked as a percentage of revenues. Therefore, if office supplies have historically run at say .12% of revenues, then it's a good bet, that absent significant change, they'll continue to run at that level.

Given the magnitude of payroll costs in most operations, payroll can also be projected using volume (number of hours worked) and average hourly wage benchmarks. These are easy enough to track since gross pay is a function of how many aggregate employee hours are worked and what the gross payroll amount is for any given pay period and by extension for the entire fiscal year.

*My own experience with benchmarking for over 30 years has proven not only the practicality of benchmarking to better understand one's operation, but also as the most effective tool for easy and accurate budgeting.*

### Departmental Benchmarks

Proposed benchmarks for each club operating department along with spreadsheets to track those benchmarks will be provided in separate documents for each department on the Club Resources International website.

### Conclusion

Benchmarking is not complicated, but it does require organization and persistence. It is best accomplished by setting up routine systems to collect, compile, report, and analyze the information collected. Like any business discipline, it requires the will to make it happen, but the knowledge gained by benchmarking will bring a club to the top of its game.