COLLECTING WHAT IS DUE TO YOUR CLUB

A study reviews clubs' accounts receivable management practices

By Tanya Venegas, MBA, MHM

"The second vice is lying, the first is running in debt."
— Benjamin Franklin

With being in debt as the first vice, no wonder bad debts is an integral part of any given business. Therefore, it is up to us to manage and minimize the level of uncollectible accounts in our clubs through sound accounts receivable practices.

It used to be, in the ideal world, when individuals achieved a certain level in the corporate circle, they would have a country club membership as part of their compensation package where their corporation paid for everything. For others who had achieved a certain level of personal income or fortune, they would join a club to provide more entertainment options for their family and to be in an elite circle of new friends. And, of course, their club bills would always be paid on time.

In real life, a 2015 economy, the aging baby boomers, the millennials and the plethora of entertainment venues has changed the club industry. While some clubs continue to prosper by simply offering elite membership status, many clubs have expanded their offerings to provide regular social and athletic options for their members as well.

Even though clubs remain an enticing option to many individuals, the club business is not a guaranteed profitable business. According to the data of Sageworks, the net profit margins for privately owned golf courses and country clubs in the U.S. has been in the red the past few years *(Biery, 2014)*. In addition, McGladrey's 2013 publication of private club trends in Florida reported that the percentage of clubs with an operating surplus increased from 72 to 77 percent between the years of 2010 to 2012. This still means that 23 to 28 percent of the clubs in Florida during that time period were operating with a deficit.

Club members make charges to their account and are billed at the end of the billing cycle. But accounts receivables or AR do not pay the bills, cash does. In that same study, McGladrey divided Florida into seven geographic regions and noted that on the average, 60 percent of AR are over 30 days old. And, for the category of AR that are 91+ days old, the seven regions reported a range of 6 to

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24 percent; and we all know the difficulty of recovering bad debts that are over 90 days old *(McGladrey, 2013)*. While there are plenty of technologies that can assist club executives to manage accounts receivables and their collections, these technologies also offer many other functionalities *(Lipsitt, 2006)* and whether they are used to their fullest in clubs is somewhat questionable.

Therefore, in April 2015, the HFTP Americas Research Center surveyed club members of HFTP on their AR practices. The survey was distributed via e-mail to all club members of HFTP who had previously agreed to receive e-mail correspondence from HFTP. In total 3,896 survey invites were distributed, resulting in 180 responses. Overall, this provided a 5 percent response rate.

The Club Profile

The respondents are mainly from full-service country clubs (58.7 percent). Yacht clubs (8.9 percent) and golf only clubs (7.8 percent) are the next two highest responding groups, closely followed by city/athletic clubs (6.1 percent) and community association or CIRA clubs (5 percent). Figure 1 (right) summarizes the various classifications. The vast majority are privately held clubs (91.6 percent), with the rest being semi-private (5.1 percent), public, daily fee, municipal or others (3.3 percent). In addition, 78.4 percent are not-for-profit (51.7 percent tax exempt, and 26.7 percent taxable) versus 21.6 percent for profit.

HFTP is indeed a global organization. Of the respondents, 93.2 percent are from the United States, and the other 6.8 percent are from Canada (2.8 percent), Barbados, China, India, Macao, Nigeria, Seychelles and Turkey. The location of all the U.S. clubs can be seen in Figure 2 (right) with the South Atlantic, Pacific and Mid-Atlantic regions constituting 74 percent of all U.S. responses.

On average, respondents to this survey worked at clubs with 942 members. This number is impacted by respondents at larger clubs which skews the average upward. In order to better understand the distribution, respondents were grouped into categories at intervals of 500 members with the distribution noted in Table 1 (below). The 501 to 1,000 member grouping accounted for 45.2 percent

RESPONDENT PROFILE

Figure 1. Club Classification

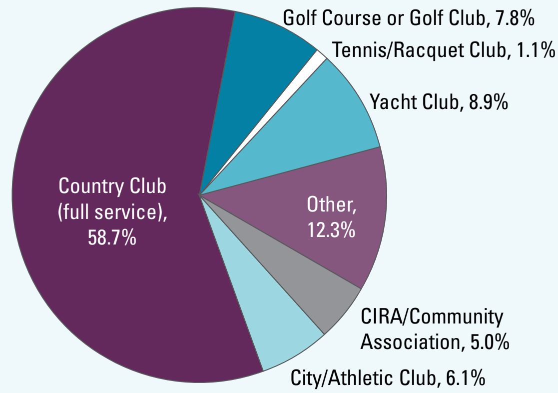


Figure 2. Location: U.S. Regions

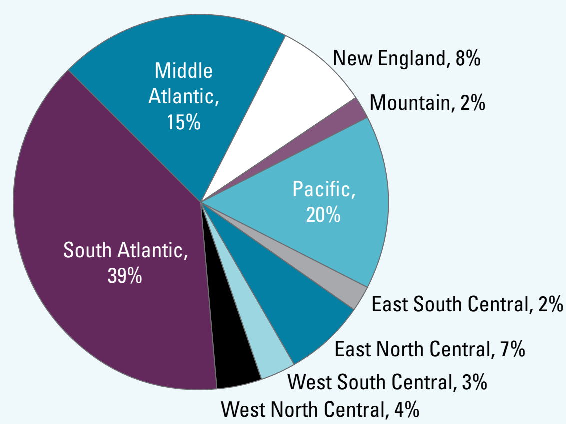


Table 1. The Membership

Size of Clubs by Membership	
Members	
<500	32.2%
501 – 1,000	45.2%
1,001 – 1,500	14.4%
Over 1,500	8.2%

Age of Members	
Age	
Under 40	2.7%
41 – 50	16.3%
51 – 60	45.6%
61 – 70	24.5%
Over 70	10.9%

Table 2. About the Staff

Titles	
Controller	61.5%
Asst Controller	10.6%
Dir of Finance	9.5%
Accounting Mgr	7.3%
CFO	5.0%
Others	6.1%

Highest Ranking Accounting Personnel	
Controller	69.3%
Dir of Finance	14.2%
CFO	10.8%
Accounting Mgr	2.8%
Asst Controller	0.6%
Others	2.3%

of responses and is the most common size, followed by less than 500 members (32.3 percent). The members themselves are mature *(Table 1, page 39)*, with an average age of 58.7 years, and the majority in the 51 to 60 age group (45.6 percent). The second largest age group ranged from 61 to 70 years (24.5 percent), followed by 41 to 50 years (16.3 percent) and over 70 years (10.9 percent). As expected, those under 40 years of age accounted for the smallest percentage at 2.7 percent. The key to the future of clubs will be to attract this younger age group and convert them into members.

The Accounting/Finance Staff

As seen in Table 2 *(page 39)*, the majority of respondents of this survey hold the title of controller (61.5 percent), and that is also the most common highest-ranking title in the accounting/finance department of the clubs (69.3 percent) surveyed. The titles of those listed in the Other category for the highest ranking position included: accountant, financial manager, consulting controller and accounting associate. The average number of full-time accounting staff is 5.2, the average number of employees under the supervision of the respondent is 2.3, and the average number of years employees have been employed in the accounting department is 9.9 years.

Follow the Money Trail

To assess the AR topic in detail, the questions asked in the survey are divided into five major areas: management of AR, technology associated with AR, payment methods, credit card policies and reciprocal charges.

1) HOW IS AR MANAGED? To start, the clubs are asked about the management of their AR, beginning with whether written polices are in place for a number of accounting and finance procedures. Figure 3 *(right)* shows that written procedures are most commonly found for AR (which is great news for this study); and yet, it is only reporting in at 78.6 percent, leaving 21.4 percent of the respondents not having any written procedures to follow. The area of Receiving is the worst offender with less than half of clubs having a set of written procedures. Perhaps this is an opportunity for improvement for clubs. Having set and clearly communicated policies will always help.

When asked about members' accounts, while it is good news that 95.1 percent of the members' accounts are in good standing, the bad news is that 4.9 percent are not. This number, nearly 5 percent, may be a total loss if not managed properly. In fact, a surprising 20.4 percent or one-fifth of the clubs said they did encounter challenges collecting from their members. While the clear majority of the clubs (95.5 percent) try to perform this difficult task and conduct all AR functions in house, 4.5 percent of the clubs outsourced some portion of the AR functions.

What happens when the members do not pay? Figure 4 *(right)* shows the various methods clubs employ to col-

Figure 3. Written Procedures

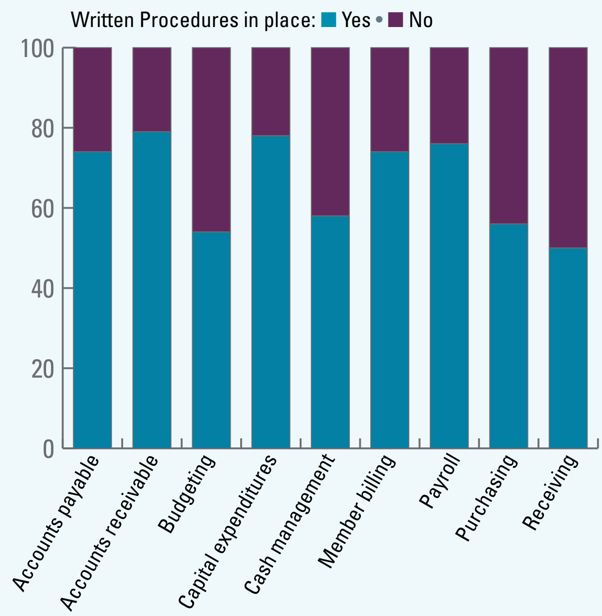


Figure 4. Collection Methods

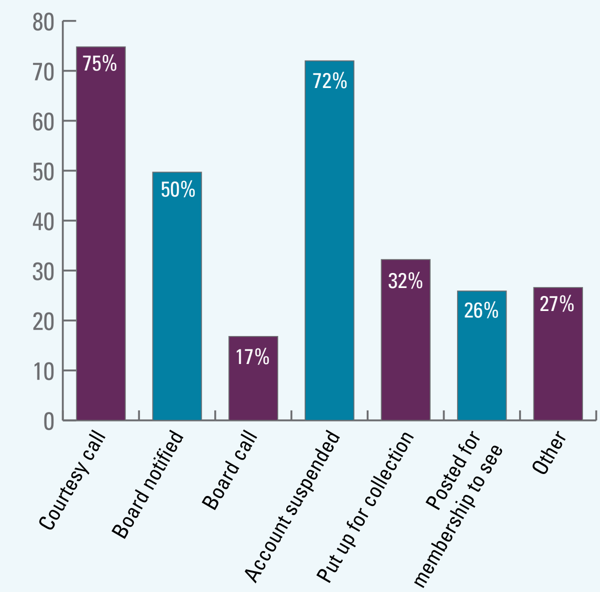


Figure 5. Calculating AR Stats

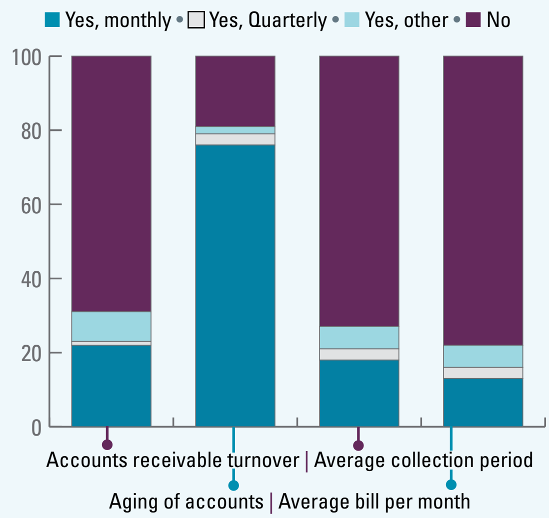
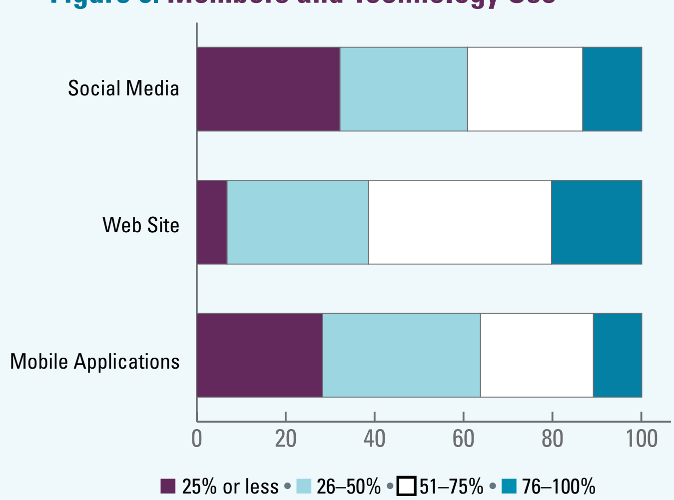


Table 3. Accounting Data

Measurement	Average
2013 Year End Accounts Receivable	$666,634
2014 Year End Accounts Receivable	$632,597
2014 Charge or Credit Sales	$3,093,748
2014 Bade Debt Expense	$22,165
2014 Total Club Revenues	$7,614,720
Ratios	
Accounts Receivable Turnover	17.4
Average Collection Period	74.5 days
Bad Debt to Accounts Receivables	8.1%
Bad Debt to Credit Sales	13.2%

Figure 6. Members and Technology Use



lect their AR. From making courtesy calls to suspending the members' accounts, from sending past due letters and e-mails, reminders and notifications from the general manager to engaging an attorney, clubs are using multiple means to work with their members. These techniques used by the clubs should not be a surprise to the members as 45.8 percent of the clubs stated that the above collection attempt methods are listed in the membership agreements. Another 33.1 percent stated that some, but not all, methods used are stated in the membership agreements as well.

It seems if one has a problem in collection, one may want to further manage the issue. So, when asked what accounts receivables statistics are calculated for the club and how often they are calculated, most clubs only use aging consistently and still, over 20 percent of the clubs do not even do an aging table for their AR *(Figure 5, left)*.

Therefore, we asked the clubs for certain raw data such as year-end accounts receivables, charge or credit sales, bad debt expense and total club revenues *(Table 3, left)*. Overall, 79 clubs provided data on club revenues which averaged to $7,614,720. In addition, 38 of these respondents also provided data on total credit sales which averaged $3,093,748 or 54.6 percent of their overall revenues.

Using the information provided, we can calculate AR statistics in order to gauge if AR and its collection are serious issues for clubs. On average, the clubs responding to this survey indicated that they have an average AR turnover of 17.4 times per year. According to the *Uniform System of Financial Reporting for Clubs (USFRC)* the AR turnover is calculated by dividing total revenue by average accounts receivable. In addition to AR turnover, the *USFRC* also defines the average collection period. This calculation is made by dividing the days in the year by the accounts receivable turnover. For this group of clubs, the average collection period is 74.5 days, indicating that it takes nearly 75 days to collect the average accounts receivable.

2) CAN TECHNOLOGY HELP? Indeed, in today's world, everything is connected to technology somehow. So, perhaps, clubs can also use technology to help with the AR opportunity. Again, every dollar the club can collect, the better. Although, it may be unanticipated that 60.8 percent of the clubs admitted they did not feel they were fully using their accounting systems and all the capabilities that come with the systems. This large number also points to untapped opportunities on which clubs may want to capitalize.

Technology and Billing. Indeed, club members are using technology more *(Figure 6, left)*. The dark teal sections in Figure 6 correspond to clubs that believe over 76 percent or over three-quarters of their members are using that specific technology. On the other hand, the purple sections at the beginning of the bars indicate the percentage of clubs where the respondents believe less than 25 percent of their members are using that specific technology. For example, the members of the clubs in this survey used web sites the most, as only 6.8 percent of the responding clubs reported at the 25 percent or less usage category. Social media edged out mobile applications only by a small margin of 3.95 percent (32.2 to 28.3 percent).

Sending Monthly Statements: Time and Process. With this technology usage pattern, clubs are covering all bases in that when sending out monthly statements, 95.3 percent of the clubs said they sent out an electronic bill via e-mail, while another 68.6 percent sent out hard copies. This totaled to more than 100 percent because some clubs sent both versions. On the average, it takes our respondents 1.71 days to prepare and send members' statements. This processing time includes running reports, printing them, stuffing envelopes or organizing the bill in e-format for e-mails. The range stretches from a minimum of 0.25 or a quarter of a day to the highest number reported of seven days. In addition, 70.5 percent of the clubs stated they ran only one single batch for membership statements while the balance of 29.5 percent ran two or multiple batches. A few did explain they had to run two batches as one is for regular mail and the second one is for e-mail.

Using the Web Site. A good number of clubs are also posting the statements and the transactions on the club's web site. Figure 7 *(right)* details the frequency of transaction updates.

With regard to the actual software used for accounting, 132 of the 179 respondents provided information on which brand of accounting software they use. Figure 8 *(right)* shows that Jonas has the market cornered at 43.2 percent with a distant second place occupied by Clubsystems Group at 17.4 percent, and a close third and fourth from NorthStar (12.9 percent) and ClubSoft (12.1 percent).

Figure 7. Frequency of Transaction Updates on Web Site

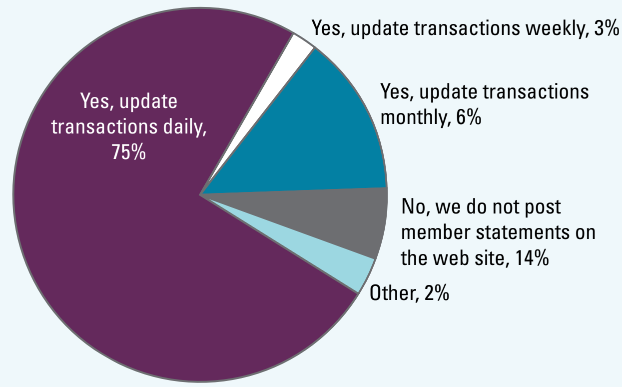
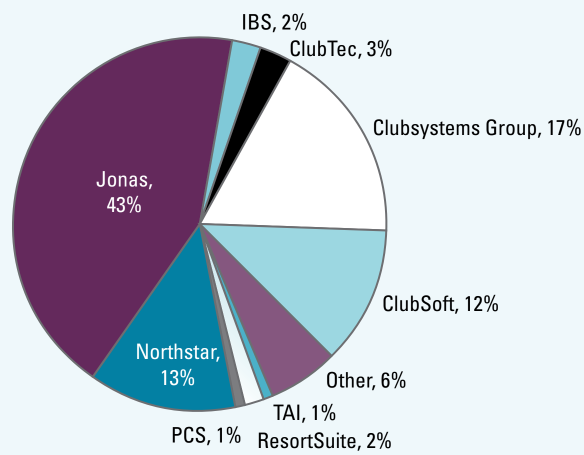


Figure 8. Accounting Software Used

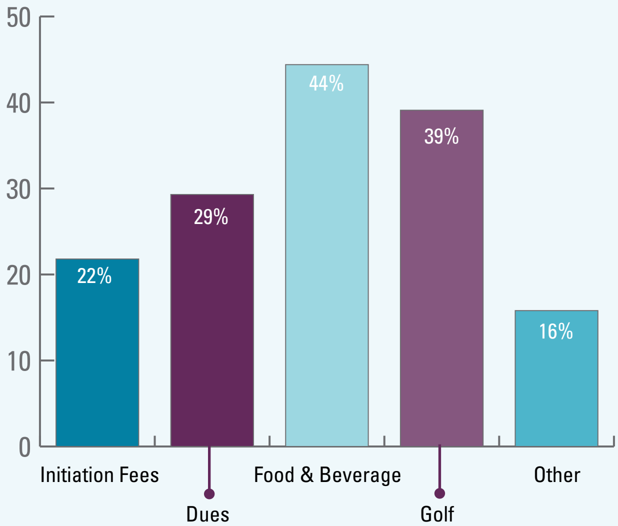


3) IS OUR COLLECTION METHOD OPTIMAL? We know that our members use the clubs' web sites and we also post and update account details on the web site. When it comes to payment, only 57.6 percent of the clubs in this survey accept payment online. If 95.3 percent of the respondents send out e-bills, why is it that only 57.6 percent will accept payment online? Again, this is one area that clubs may want to consider. Consumers in general are making purchases and payments online. Mobile payments made via an app on a smart watch, smart phone or a tablet is gaining momentum. The easier it is for our members to click and pay, the quicker we can collect the AR. Better yet, have members opt into a direct payment or auto draft program where the monthly bill will be collected directly from their bank accounts or credit cards.

Indeed, auto draft via bank accounts or credit cards are what businesses prefer, as money is collected directly. But what is the preference of our members? Our clubs were asked to indicate the approximate percentage of how payments are made via the various methods, and each club responded with all methods totaling to 100 percent. However, as different clubs have members who prefer different methods of payment, while the percentages of each club total to 100 percent, the average of all the respondents would not. Therefore, in order of members' preference, paying by check is the top choice with over 70.7 percent, followed by auto draft via bank at 24.7 percent. Auto draft via credit card and payment through credit card came in next at 12.9 percent and 12.1 percent respectively. Some members also use debit cards to settle their monthly charges (2.3 percent).

4) CREDIT CARDS: FRIENDS OR FOE? Credit card is an integral part of our daily lives as we use credit cards for most of our transactions. However, only a mere 25 percent of respondents settle their AR using credit cards via auto draft or direct payment. Why? Well, first, it appears that not all clubs allow all services to be charged on a credit card. Figure 9 *(above right)* summarizes the items/services that clubs will allow members to use credit cards for. A growing

Figure 9. Credit Card Payment



number of clubs allow members to use credit card payment on food & beverage items (44.4 percent), golf (39.1 percent) and club dues (29.3 percent). Initiation fees fall slightly further behind at only 21.8 percent of clubs allowing members to use credit cards for this sort of payment. Items listed as other primarily consisted of retail (4.5 percent), as well as fuel purchases, tennis shop and spa services.

Second, all credit cards come with a fee that ranges anywhere from 3 to 6 percent; which someone, either the club or the member, has to pay. This charge is no small amount; and the treatment of this fee by the clubs is also not uniform. The slight majority of the clubs in this study expense the fee (58.6 percent), while 18.4 percent pass the fee directly to the members. Another 23 percent have a combination of ways to handle this fee. Some pass it on to members but if it is a guest, the clubs will expense the fee. Some clubs use a third party and the third party charges the fee to the members. Some are charging a flat convenience fee per month or per transaction, thus splitting the fee between the members and the club. For clubs that do not accept credit cards as a form of payment, 74.4 percent cited fees as the major reason. Another 8.5 percent mentioned security concerns, and others quoted not the amount of fee, but the equitable distribution of fees as the reason. PCI compliance requirements and the club's policy also contributed to why credit cards are not accepted.

5) BEYOND ONE CLUB: RECIPROCAL CHARGES. Finally, as clubs try to stay competitive and provide more value and services to their members, many clubs have arranged for reciprocal agreements with each other. This allows their members to use the facility and services of different clubs when they travel, or even if they just want to play on another golf course in town.

Reciprocal agreements are quite common and are of value to members. However, this adds another layer to the billing process. While reports can still be run at the end of the accounting period in batches and be sent out, how such reciprocal charges are billed and how such charges are incorporated into the accounting and AR system are of interest. More streamlined processes can assist in managing the AR properly.

The majority of the clubs offering reciprocal arrangements (78.9 percent) hard keyed reciprocal charges into their current accounting system. Another 21.1 percent complete this procedure electronically either via their point of sales systems or through their current accounting software. Over half (62.0 percent) of the clubs provide detail charges while others (34.7 percent) only report a lump sum. The remainder (3.3 percent) simply send one statement to the other clubs that shows each individual charge by members, or the other clubs will summarize the charges, or reciprocal members use credit card to settle charges so no billing is needed.

Moving Forward

Accounts receivable management is not a simple task. Anytime money is involved, the matter tends to be complicated. A good practice perhaps is to start with a set of written and practical policies, clearly and succinctly communicated to all parties, with reasonable expectations, and also members' preferred methods for payment, while minimizing extra charges, fees or liability to the club. At the end, our members are our bosses. Help them manage the expectations and take care of them the best we can.

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