

## Private club trends in the USA - a statistical review

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### Keywords

Hospitality industry, Trends, Revenue, Expenses, USA

### Abstract

Notes that the private club industry is a unique segment within the broader hospitality industry and, relative to other segments of the hospitality industry, very little research has focused on it. Pannell Kerr Forster (PKF) publishes an annual publication that tracks the operating and financial performance of more than 200 private clubs. Provides a statistical analysis of data from PKF's *Clubs in Town & Country* publication in order to identify top line trends emerging in the North American club market. Membership, revenue and expense trends are explored over a 20-year time line.

### Introduction and background

The North American club industry is experiencing tremendous change and a number of emerging trends can be identified. *Clubs in Town and Country* by Pannell Kerr Forster (PKF) is one of the few annual publications that track the operating and financial performance of private clubs. The following provides an analysis of the data from this publication over the past 20 years in order to identify emerging trends in the private club industry.

### Clubs in Town and Country

*Clubs in Town and Country*[1] is a statistical review of operating and financial performance of more than 200 private clubs throughout the USA. This publication is designed as a reference and management or operational aid for private clubs and provides an excellent tool with which to gauge emerging trends in the American club industry

Given the lack of similar Canadian-based research, it is virtually impossible to conduct a similar examination of trends in the Canadian industry based on quantitative data. However, based on our experience in the Canadian club industry and a review of the *Clubs in Town and Country* publication, we believe that the same top line trends identified in the American market are also evident in the Canadian club market.

### A definition of private clubs

Private clubs can be defined as "groups of people who share a common interest or bond and generally have a central meeting place. Clubs are usually exclusive in that there is a requirement for admission and a cost to join" (Barrows, 1999). *Clubs in Town and Country* identifies two types of private clubs: country

clubs; and city clubs. A country club is defined as "... a club that has a clubhouse and enough acreage for a golf course; most country clubs have other sports facilities as well" (Perdue, 1997, p. 6). A city club is "... usually housed in a building ... within a city or in a suburban office complex" (Perdue, 1997, p. 8). Further, city clubs typically offer a food and beverage service and, sometimes, also provide meeting rooms, athletic facilities and accommodation.

This article discusses both types of clubs as these are the primary types of clubs that exist in the North American market.

### Trends in club membership

Country clubs have enjoyed healthy membership growth over the past five years; however, results for 2000 indicate a slowing in membership growth. Country clubs realized a minimal gain in the number of new memberships in 2000, growing less than 1 percent for the year. Further examination of slowing growth does not indicate a decreasing demand for private club membership, but rather growth inhibited by capacity constraints. Approximately 84 percent of the country clubs that participated in the study indicated the existence of waiting lists for membership. Waiting lists ranged from one to 833 prospective members, with an average of 84.

City clubs realized a marginal decrease in membership of 0.6 percent in 2000. Similar to country clubs, 70 percent of city clubs had waiting lists, ranging from 15 to 115 prospects, with an average waiting list of 55. Again, this indicates that capacity constraints are impacting demand growth throughout the club industry.

### Revenue

In general terms, clubs have three major sources of revenue: membership dues; food



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and beverage sales; and other sales (including recreational revenues, retail sales, unused food and beverage minimums and, in some instances, non-member use of club facilities).

Country club revenue in the USA has increased each year since 1981. In 1981 country clubs participating in the PKF database realized total revenues of \$1,635 per member. This has increased to \$8,471 per member in 2000, representing growth of 418 percent. The past three years represent the most significant period of growth, with revenues per member increasing 14.5 percent in 1998, 17.1 percent in 1999 and 22.6 percent in 2000.

City clubs tend to realize a lower level of revenue per member than country clubs, due to fewer recreational amenities resulting in lower membership dues. In 2000, the sample of city clubs achieved a total revenue of \$6,163 per member, an increase of 191 percent over revenue per member in 1981. The most significant gain was realized in 2000, with revenue per member increasing 77.6 percent from \$3,470 per member in 1999 to \$6,163 per member in 2000.

Over the past 20 years membership dues have consistently been the largest contributor to country club revenues. Although still the predominant revenue generator for country clubs, the dependence on membership dues has lessened over time. In 1981 dues accounted for over half of the total revenues; this percentage has decreased to just over 36 percent in 2000. Both food and beverage revenues and other income generators have realized growth that has outpaced membership revenue growth. As a result, a shift can be identified in the importance of revenue segments within country clubs, with the year 2000 seeing each segment accounting for an almost equal percentage of total revenue (see Figure 1).

Food and beverage has historically been the single largest revenue generator in city clubs. In 1981 food and beverage accounted for 48.5 percent of revenue; this has decreased to 30.4 percent of revenue in 2000

due to substantial increases made in other sales and income and membership dues. Both of these revenue segments increased their share of income substantially in 2000, with membership dues increasing 42.4 percent and all other income increasing a resounding 321.6 percent (see Figure 2).

Figures 3(a) and (b) show the shifting importance of revenue sources in both country and city clubs over the past 20 years.

In 2000, country club membership dues accounted for 37 percent of total revenues. Food and beverage revenues contributed 29 percent of revenue, and all other sales and income made up 35 percent of total revenue. In the same year, city club membership dues made up 31.4 percent of total revenue. The food and beverage department accounted for 30.4 percent, and all other sales and income consisted of 38.2 percent of total revenue per member.

#### Rising membership dues

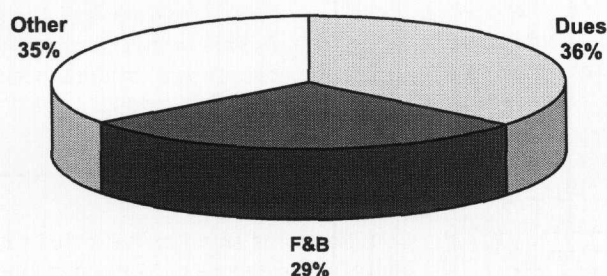
Country clubs have realized significant growth in membership dues over the past 20 years. In 1981 PKF reported average annual dues of \$849 per member and dues increased to \$3,063 per member in 2000, an increase of 260 percent or 13 percent per annum (well above the 3 percent rate of inflation). As shown in Figure 4, the largest gains in membership dues were realized most recently with an increase of 17.6 percent in 1998 and 27.4 percent in 1999. Capacity constraints identified in many regions have undoubtedly allowed country clubs to substantially increase membership dues.

Historically, city clubs realize lower membership dues revenue than do country clubs. However, city clubs have realized significantly higher growth in membership dues revenue than have country clubs over the past 20 years. In 1981 city clubs realized \$405 in membership dues per member, by 2000 this source of revenue increased to \$1,934 per member, an increase of approximately 377 percent as compared to the 260 percent realized by country clubs. Similar to the experience of country clubs, city clubs realized the most significant gains in membership dues in most recent years. In 1998 membership dues increased 15.1 percent, 18.5 percent in 1999 and 42.4 percent in 2000.

#### Food and beverage

Food and beverage revenues reached \$2,444 per country club member in 2000, an increase of 24.8 percent over 1999. Overall, food and beverage revenues accounted for approximately 30 percent of total revenue in 2000. Traditionally, food and beverage has been the largest revenue generator in

**Figure 1**  
 Country club revenue segmentation, 2000



country clubs after membership dues. However, 2000 results indicate that revenues from other income have exceeded food and beverage revenues.

City club food and beverage revenue reached \$1,872 in 2000, an increase of 258 percent over 1981 levels of \$522 per member. Food and beverage has traditionally generated the greatest percentage of revenue per member in city clubs. Throughout the early 1980s food and beverage generated almost 50 percent of total revenue, but this percentage decreased to around 40 percent in the mid-1990s and has decreased further to 30 percent of total revenue per city club member in 2000. Banquet and meeting room rentals

still prove to be a lucrative source of food and beverage revenue for city clubs, with profit margins of around 65 percent. Figure 5 reflects a ten-year trend line of country club and city club food and beverage revenues per member.

In spite of significant revenue increases, food and beverage departments in country clubs tend to realize a loss. This lack of profitability in the food and beverage department is inherent to the private club model. Members tend to have very high expectations with regard to food and beverage, therefore forcing many clubs to operate a number of outlets offering varying levels of service and product. As a result, food and beverage operating costs at clubs are unusually high in comparison to commercial food and beverage operations. It is evident that country clubs as a group are attempting to address these issues. In 2000, country clubs surveyed by PKF realized a 6.9 percent departmental loss, which represents a 25 percent improvement over the loss from 1999. The challenge for country club managers is to achieve a balance between member expectations and realistic staffing and pricing models.

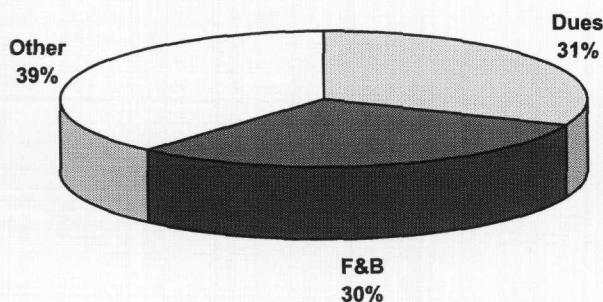
City clubs tend to have the same basic challenges as country clubs with regard to their food and beverage operations. In spite of this, city clubs historically break even or realize a slight profit in their food and beverage operation. In 2000, city clubs surveyed realized a 1.5 percent net departmental income.

#### All other sales and income

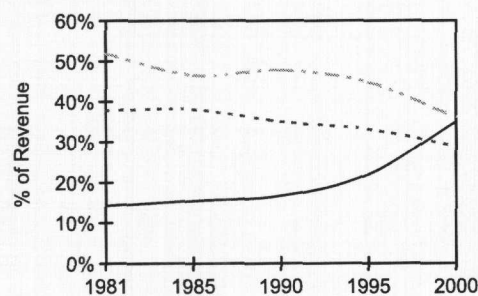
All other sales and income is comprised of recreational revenues, retail sales, unused food and beverage minimums and, in some instances, non-member use of club facilities. This source of revenue has realized the most significant growth over the past 20 years. In 1981 country clubs realized revenue of \$233 per member from other sales and income, which has increased over 1,000 percent to \$2,964 per member in 2000. The largest increase in revenue was realized in 2000, with 97.2 percent growth in revenues.

City clubs have realized even more drastic increases in all other sales and income. In 1981 city clubs generated other income of \$150 per member; by 2000 this increased to \$2,357 per member (see Figure 6).

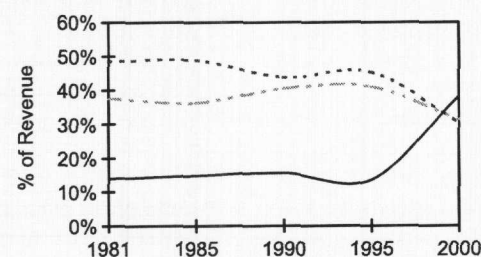
**Figure 2**  
 City club revenue segmentation, 2000



**Figure 3**  
 Revenue sources



(a) Country club revenue sources, 1985-2000



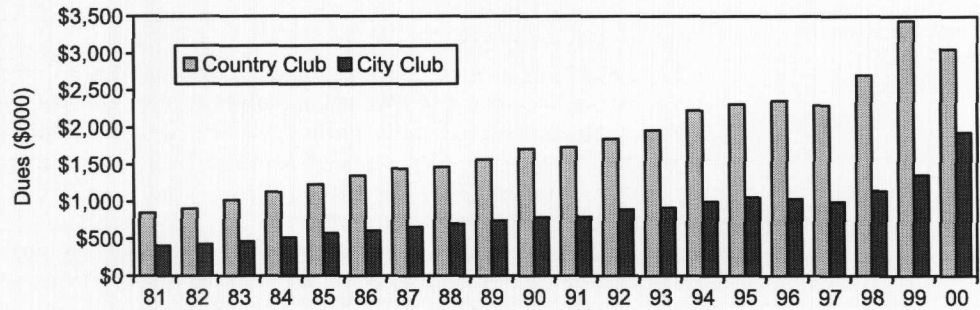
(b) City club revenue sources, 1985-2000

--- Dues    - - - - F&B    — Other

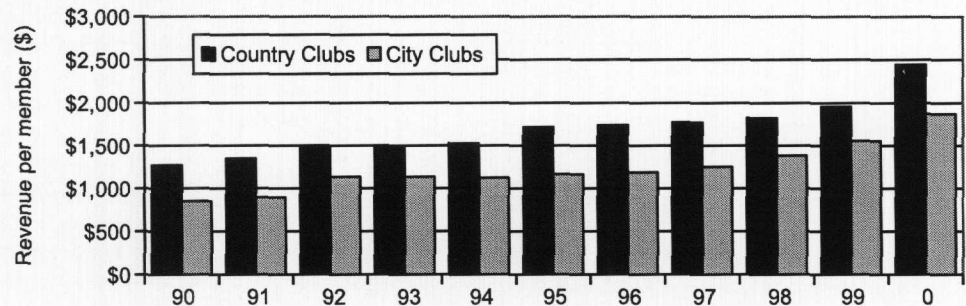
#### Expenses

Country clubs surveyed reported total operating expenses of \$7,999 per member in

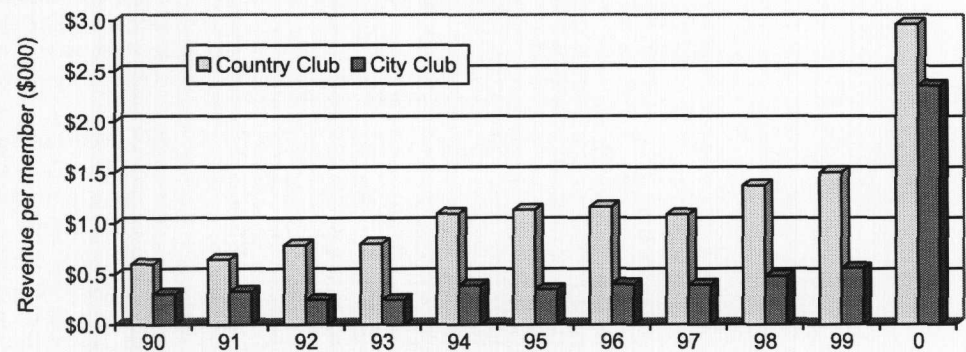
**Figure 4**  
 Membership due revenue (per member), 1981-200



**Figure 5**  
 Food and beverage revenue (per member), 1990-2000



**Figure 6**  
 All other sales and income (per member), 1990-2000



2000, or 94.4 percent of total revenue. Growth in operating expenses has outpaced revenue growth over the past 20 years. Since 1981 operating expenses have increased 441 percent while revenue has increased 418 percent.

City clubs realized total operating expenses of \$5,431 per member in 2000, or 88.1 percent of total revenue. City club revenue growth of 472 percent since 1981 has surpassed the growth of expenses at 434 percent over the same period.

**Payroll**

Participating country clubs realized total payroll expenses of \$3,833 per member in

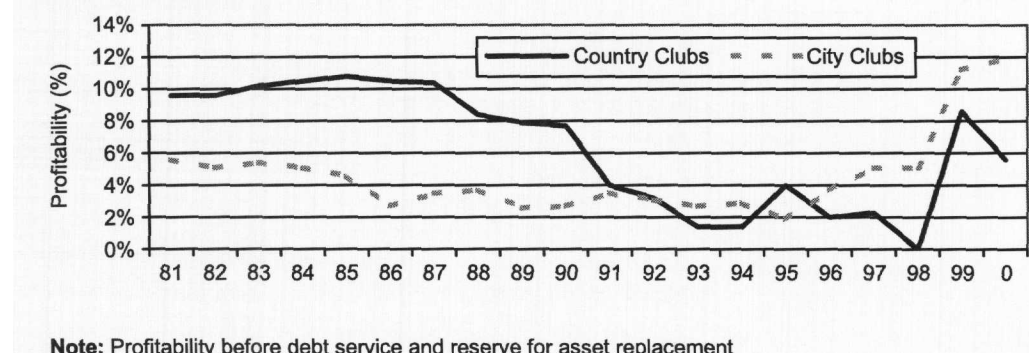
2000, approximately 48 percent of total expenses. Over the past 20 years payroll costs in country clubs have accounted for approximately 50 percent of total expenses and have grown at approximately the same rate as other expenses.

City clubs participating in the publication realized an average payroll expense of \$1,912 per member in 2000. In 1981 payroll accounted for almost 50 percent of total expenses compared to only 35.2 percent in 2000.

**The bottom line**

Country club profitability, as a percentage of total revenue, peaked in 1985 at 10.8 percent.

**Figure 7**  
Bottom line results, 1981-2000



Profitability decreased in the late 1980s and early 1990s to levels ranging between 2 percent and 8 percent. Country clubs broke even in 1998 and increased profitability substantially in 1999 to 8.6 percent of total revenue, decreasing again in 2000 to 5.6 percent (see Figure 7).

City clubs maintained profitability of between 3 percent and 6 percent of total revenues from 1981 through 1998. With substantial revenue increases in both membership dues and other income profitability, significant profitability gains were realized in 1999 and 2000. The year 2000 brought a profitability high of 11.9 percent of total revenue.

### Conclusion

All of the aspects of a private club, including food and beverage, operations, marketing, human resources, financial management and operating systems must be focused on a single objective. That objective is the enjoyment and satisfaction of members at a cost that is acceptable to them. The major challenge facing the fulfillment of this objective at many private clubs is attaining the balance between member satisfaction and acceptable costs while maintaining sound fiscal planning.

With country clubs and city clubs realizing bottom lines of 5.6 percent and 11.9 percent respectively, in 2000, it is difficult for many establishments to service long-term debt commitments while maintaining the

standards of the club in terms of sufficient capital expenditures. As renovations are delayed the urgency of these improvements become heightened and begin to effect member satisfaction and enjoyment.

In order to overcome these issues, it is essential that the club develop a definitive direction and strategy for long-term sustainable growth. Membership surveys are an excellent tool in terms of understanding the needs, wants and expectations of members. Once these needs are established it is easier to identify a clear vision for the future direction of the club, which will in turn provide a focus for management, ensure consistency in decision making and offer a financial framework.

### Note

- 1 This publication is designed as a reference and management or operational aid for private clubs and should not be construed as setting standards on policies or actions for any specific private club or its professional managers.

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