

# GUIDELINE FOR BENCHMARKING CLUB PERFORMANCE



## 1. Purpose

This guideline establishes a framework for benchmarking the financial performance of Clubs.

## 2. Application

This guideline will apply from 1 July 2005.

## 3. Definitions

**"benchmarking"** is the process whereby Clubs measure their performance and compare it with others (inside and outside the industry) for the purpose of improving performance in key areas of operation. This process helps Clubs, among other things:

- a) improve overall profitability and efficiency;
- b) improve productivity of staff;
- c) control costs;
- d) utilise equipment and other assets more effectively; and
- e) meet their community support obligations.

**"capital expenditure"** is expenditure relating to extending, renovating or maintaining Club facilities or the purchase of capital items such as gaming machines.

**"EBITDA"** means earnings before interest, tax, depreciation and amortisation.

**"gross profit"** means sales revenue minus sales costs. It is also sometimes called "sales profit".

**"reinvestment"** is capital expenditure necessary to upgrade or renovate facilities to satisfy the needs of members and to cater for changes in consumer demand.

## 4. Background

By definition, Clubs are not-for-profit organisations. They are established by groups of people sharing a common interest that come together to provide facilities and benefits that promote the common interest. They exist to provide these benefits to

members and the broader community. Profits cannot be distributed to individuals and Clubs cannot be sold.

The unique nature of Clubs is reflected in the way they operate and perform financially. They are fundamentally different from commercial enterprises such as hotels or casinos (against which many Clubs compete) whose primary goal is the generation of profit for their owners or shareholders.

In this increasingly competitive environment, the future viability of Clubs relies upon their ability to operate efficiently and in a manner consistent with accepted business practice. Club operations need to be professionally managed and financial performance maximised so that Club facilities are preserved and member benefits and community support sustained over time.

Benchmarking plays a vital role in promoting efficiency by ensuring that Clubs have access to data that:

- a) identifies performance gaps within Club operations;
- b) highlights strengths and weaknesses within Club operations;
- c) assists in developing business improvement strategies;
- d) provides a platform for decision-making and performance improvement; and
- e) encourages best practice.

## 5. Measuring profitability and overall efficiency

The key indicator in assessing the financial position of a Club is profitability. The profitability of Clubs relates to their ability to cover their expenses and accumulate surpluses to further invest in facilities and services for the benefit of their members.

The primary indicator of a Club's profitability (and operating efficiency) is EBITDA - earnings before interest, tax, depreciation and amortisation.

From a benchmarking point of view, the only appropriate measure of profitability is a comparison of "bottom line" trading performance of each Club before expenditure on community support. EBITDA is a valid indicator of profitability and efficiency for





Clubs, irrespective of size, purpose or location. The retention and efficient use of revenues is one of the keys to a successful operation.

### 6. Core trading activities

Clubs should benchmark, as a minimum, the following core trading activities:

- a) bar;
- b) food; and
- c) gaming.

For purposes of benchmarking, the gross profit of each of these core activities should be measured and compared.

### 7. Expenses

Clubs should benchmark the following major expense items:

- a) salaries and wages including on-costs (as a percentage of revenue);
- b) advertising, entertainment, marketing and promotions; and
- c) repairs and maintenance.

### 8. Capital expenditure

Capital expenditure, including re-investment, is essential to both maintain the existing level of trade but also to, if appropriate, grow the business in the future.

The hospitality industry constantly changes to meet consumer tastes and preferences. In the face of significant competitive pressure, Clubs that fail to re-invest in income-producing assets such as gaming machines or to adequately maintain or renovate bars, lounges and food service facilities, jeopardise their future financial well-being.

As for all major expenditures, it is essential the investment in Club facilities be supported by appropriate research and analysis (including consultation with members). A comprehensive business case should be prepared and considered by the Club board and management. The business case analysis should include:

- a) the financial implications of the investment, its costs and the capacity of the Club to pay the sum concerned from cash reserves or borrowings;
- b) the likely impact on the business of the Club as a result of that expenditure; and
- c) the return on investment from that expenditure through an analysis of incremental cash flows.

For more information on this subject refer to the *ClubsNSW Guideline for Major Capital Works*.

Note: ClubsNSW is currently developing industry re-investment benchmarks against which Clubs can measure their performance.

### 9. Prices

Clubs should benchmark pricing levels for:

- a) beverages;
- b) food; and
- c) membership.

### 10. Community support (grants and donations)

Clubs should benchmark both monetary and in-kind support they provide to the community. Categories of support include:

- a) health and welfare;
- b) education;
- c) employment
- d) sport;
- e) voluntary non-profit organisations;
- f) registered Charities & State Agencies;
- g) local community infrastructure; and
- h) emergency relief.

The relevant benchmark of Club community support is the total value of cash and in-kind support as a proportion of operating surpluses/profit.

For details on the types of community support provided by Clubs, please refer to the ClubsNSW Guidelines for Community Support.

### 11. Publication of benchmarks

ClubsNSW will, commencing in January 2005, periodically publish benchmarks using data obtained from an online performance benchmarking system designed specifically for the Club industry - "Benchmarker".

The following Club activities will be benchmarked using this system:

- a) whole of business operations;
- b) gaming operations;
- c) bar operations;
- d) food operations;
- e) capital expenditure;
- f) community support; and
- g) employment.

Benchmarking data will be available by:

- i) geographical region;
- ii) membership size;
- iii) club type; and
- iv) number of gaming machines.