FEATURE I

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Shoot the Elephants First

It's no secret that the golf industry has had a rough couple of years. The pressure to achieve more with less is greater than ever, with most clubs suffering through budget reductions at some point over the last two years. Naperville Country Club (NCC) is no different. In the fall of 2008, I had the opportunity to expand my responsibilities at the club. The decision was made to eliminate the position of building maintenance supervisor and include facility management under my scope of responsibility. This included: housekeeping, building improvements, capital projects, utilities, HVAC, refrigeration, electrical, and plumbing. In the fall of 2009, my responsibilities were expanded again as I was asked to serve as interim club manager. This included oversight of the food and beverage (F&B) department, banquets, member events, member communication, and member recruitment/retention. In both cases the directions from the Board of Directors were very clear: tighten up operations and reduce expenses without impacting service levels – a familiar sound bite. As interim club manager I was invited to attend monthly meetings of the finance committee. Prior to this I had attended only one finance meeting per year. During the annual budget process I would present and field questions about the operating budget for the grounds department. At my first meeting after assuming my new responsibilities it didn't take long for the conversation to turn toward expense reduction. One of the committee members (I'll call him "Mr. W"), who has an extensive background in finance and is a past club president offered some very simple advice: "Son, just shoot the elephants first." I have always had a lot of respect for Mr. W, so I wasn't surprised at his ability to distill the challenge into such a basic statement. I took his advice to heart and used it as the foundation for the efficiencies I have implemented at NCC over the past two years.

Let me take a moment to say that I firmly believe that golf course superintendents and assistant superintendents are the individuals best suited to reducing expenses. It's a part of our daily routine to measure efficiency in minutes so that we can work ahead of that first group of golfers or squeeze in one more task before the weekend arrives. We are efficiency experts by nature. We get antsy when we see time wasted. We are self-motivated people who take action when an opportunity for improvement exists. Furthermore, I believe that we have already worked hard to mine efficiencies out of our own departments. That's why this article focuses at the facility level.

Flushing out the Elephants

This is easier than you might think. Have the club controller run an accounts payable (A/P) report for each of the last three years. Have it sorted in descending order by dollar amount paid per vendor for each fiscal year. This can be done for a specific department or for the entire facility. Reviewing the information from the last three years allows you to see year-to-year movement among the major vendors. At the facility level, top NCC vendors included: the employee health care provider, real estate taxes, food supplier, liquor supplier, utility provider, property/casualty/workers comp insurance provider, turf products (plant protectants and fertilizer), linen/uniform provider, paper goods supplier, pro shop (which is owned by the golf

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professional), and lease companies (grounds equipment and cart leases). The next step was to consolidate expenses across all departments into a series of broad categories. I used insurance and taxes, utilities, cost of goods sold (COGS), fertilizer and plant protectants, laundry and uniforms, postage and stationary, supplies, fuel, and payroll. Cross referencing these two reports gave a very clear picture of how the club was spending its money, which vendors it was spending the money with, and where there were opportunities to reduce costs. The report revealed where the elephants were hiding.

Payroll

Within the grounds department we understand that labor costs typically run between 60 and 65 percent. At the facility level, our labor costs ran closer to 55%. Because labor is still the single largest expense, it offers the greatest opportunity for gains in efficiency and reduction in costs. I should note that labor costs can vary greatly from facility to facility based on amenities and desired level of service. NCC does not offer pool or tennis and therefore doesn't incur the labor associated with them.

As mentioned earlier, the position of building maintenance supervisor was eliminated, and those responsibilities were assumed by the golf course superintendent. At first I was apprehensive about taking on a new role, but it actually turned out to be easier than I expected. I believe that in today's economic climate employees have to be willing to constantly prove their value to their employer – "what have you done for me lately." Taking responsibility for building maintenance can be an opportunity for superintendents to enhance their value and perhaps realize a bump in pay during a down economy. Since most of us are already responsible for the repair and upkeep of the maintenance shop, the learning curve associated with maintenance of the club house is not too bad. I would recommend approaching it in the same manner that you would if you were starting a job at a new course: learn the facility, learn the crew, learn the equipment. For me a good understanding of the building came from researching its construction and history. This required digging through old files, going through the basement and attic spaces, and poking around above the ceiling tiles. Facility management also offers great potential for cross utilization of staff. As an example, this winter we used grounds crew employees to replace the drop ceiling in two of the dining rooms. It provided productive work that allowed me to keep workers on the payroll through the winter months. It addressed a capital improvement project , which in prior years the club would have contracted out. The project was completed at a savings of approximately $3.5K. In the process the employees involved in the project gained a new skill.

Members of the grounds staff install new drop ceilings in the dining rooms this winter. It saved on the cost of the project and allowed Tim to keep staff members throughout the winter months.

Additional savings can be realized by doing repairs in house, something superintendents already know how to do. Maintenance on mechanical systems at the club house is very similar to maintenance on the equipment fleet. Ninety percent of the job is implementing a good preventive maintenance program. For key mechanical systems (HVAC, sprinkler, plumbing, refrigeration, electrical…) we sourced maintenance manuals for the equipment off the internet and set up inspection and service intervals. The housemen now use checklists and a log book to document maintenance on the equipment. Preventive maintenance extends the life of aging equipment, reduces repair costs, saves on energy, and has helped us gain a better overall understanding of how the clubhouse mechanical systems operate.

The majority of savings in payroll came as a result of restructuring the front of house (FOH) and back of house (BOH) management teams. A three-year analysis showed a year-over-year reduction in member dining and banquet sales. Consequently, the FOH management team was reduced from six to three positions and the BOH kitchen staff was reduced from 13 down to nine. This overhaul resulted in consolidation of several job responsibilities. As part of this process we had to do a lot of work focused around team building and the concept of "deconstructing departmental silos" (an entirely different topic for a future article). We had to learn to work together and move past the mindset of **"that's not my job."** We moved away from our previous practice of staffing for the single largest event that occurred during the course of the year and moved toward staffing for our normal flow of business and supplementing that staff with outside temporary labor for larger events. There is no doubt that we scaled back significantly, but it was done with a close eye on maintaining the level of service desired by the members. The other result of rightsizing is that it requires everyone's undivided effort to keep up with our normal flow of business during the peak summer months. We now have a renewed focus on productivity during the winter months in order to finish special projects that may require time not available in season.

Cost of Goods Sold (COGS)

At NCC the golf professional owns the merchandise in the pro shop, so cost of goods sold (COGS) applies only to F&B purchases. COGS can be a tricky subject and it took some time for me to understand the club's financials well enough to make sense out of how we recorded and tracked COGS. Most of the time COGS is treated as a "bad number" and the goal is to constantly drive it downward. I don't see COGS as a "bad number." Instead I look at it as a number that I want to monitor closely. I want to know that it's in line with what was projected

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during the budget process. A facility operating at 35% COGS is not necessarily better off than a facility operating at 45% COGS. It is also interesting that COGS can be easily skewed by improper recording of items such as: free food and beverage, employee meals, bar snacks, or spoilage. With over $450K/year in F&B COGS you have to be able to rely on the executive chef to make wise purchases. Bid purchase is one method to ensure cost control. In our case we combined bid purchase with a purchase program offered by a local major food supplier. This allowed NCC to lock into predetermined margins on specific food products based on incentive levels. This type of program is typically utilized by corporate or national accounts.

Other methods of controlling COGS included: reclamation of food products (a fancy term for making use of the leftovers), controlling shrinkage (a polite way of saying theft), good menu engineering (a chef term used to describe the ability to make a number of different menu offerings from a limited inventory of perishable food items), and proper use of pre and post event profit/loss statements (P/Ls). Event P/Ls are the key to evaluating whether an event has been executed at the desired COGS level and has generated the expected profit margin. Most of the time we hear COGS expressed as a percent of the total F&B revenue (as opposed to a raw dollar amount). It's important to understand that a small shift in COGS can represent a significant dollar amount. At $450K/year in COGS, a 1% movement in COGS can impact the bottom line by $4,500.

Instead of outsourcing all of the maintenance in the clubhouse, staff is used to clean exhaust baffles in the kitchen.

The other major change in F&B had to do with changing spending habits. I found the F&B department to be unique in that there are several different employees with purchasing authority. My analogy is that it is like being married, more than one person is writing checks out of the check book. Instilling a fiscal responsibility and accountability mindset is an ongoing process. The most significant change was teaching the managers that expenses need to float with revenue. If revenue goes up, then expenses will slide up; but if revenue is down, the expenses should slide down. In the past, the F&B department operated under the assumption that it had the green light to spend the approved F&B budget regardless of whether or not the corresponding revenue had been realized. Our new mind set is: the F&B department can spend whatever it wants; it just has to produce the revenue to cover the expense first. At times, operations within the F&B department can be as suspenseful as watching a high wire act at the circus.

Insurance and Taxes

Year after year premiums paid to the club's employee health care provider ranks second on the club's vendor A/P list. Utilizing an annual competitive bid process to evaluate pricing is critical. It can be time consuming but can pay off big time. As an example, we budgeted for a 15% increase in health care costs for 2011, given the new health care reform act and price hikes experienced by operations of similar size. Through the bid process we were able to renew (with an equivalent policy) at a 1% increase, a savings of 14% or $25K/year.

Also in the top 10 on the A/P list is the provider for the club's property/casualty/workers comp coverage. For the last two years, soft insurance markets have allowed for savings on insurance coverage. Accurate equipment lists can also influence insurance premiums. In the past, when asked to review the grounds department equipment list, I would give it a quick glance, and as long as any new equipment purchases had been added to the list, I would sign off on it and return it to the accounting department. When forced to review the list in detail, I found several old pieces of equipment that had been junked or traded, as well as a number of items that had values below the policy deductable. We also discovered that the club's cart fleet was mistakenly entered on the equipment schedule twice. Some cart leases are written so that they include insurance coverage; if that's the case, then the club does not have to list them on its insurance equipment schedule (check with your cart supplier). An accurate value on the equipment fleet has an impact on the policy premiums. By cleaning up the equipment schedule we were able to reduce our policy premium by several thousand dollars, a savings that will be realized on an annual basis.

Evaluating subtle differences between health care policies and property/casualty/worker comp (P/C/WC) policies requires the expertise of a qualified insurance broker; we go out to bid every year for insurance quotes. To keep the broker honest, and to make sure we are seeing pricing from a variety of sources (not just the providers that our current broker likes to work with). We implemented a policy where on alternating years we get competitive quotes from two brokers. In 2009, we reviewed quotes for P/C/WC from two different insurance brokers. In 2010, we repeated the process and reviewed quotes from two different insurance brokers for employee health care coverage. In both cases the incumbent broker was allowed to select two providers that he/she would like to seek bids from. The club issued a broker of record letter so that the incumbent would get first crack at soliciting bids from their preferred providers. Something I found interesting was that insurance companies won't issue multiple quotes to different brokers for the same facility. The idea being that any quote issued by an insurance company for a specific facility should be the same regardless of which broker it is issued through. If Broker A gets his request for proposal (RFP) into an insurance company before Broker B, then Broker B is locked out and is unable to get a quote from that company. This can get a little messy because Broker A can shotgun the market place with RFPs from all the top tier insurance companies leaving Broker B with no companies to solicit for quotes. Broker A might not even intend to develop and present quotes from each of the

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companies, but by making first contact they are blocking Broker B's ability to compete in the market place. This tactic is self serving on the part of Broker A and prevents the club from testing how competitive the marketplace truly is. Hence, the need for the broker of record letter (BRL). A BRL must be issued in writing by the facility. It gives the designated broker the right to submit an RFP to a specific insurance company on behalf of the club. Once a BRL is issued all other brokers are blocked from getting quotes from that particular insurance company

Another interesting point has to do with safety in the work place. Workers' compensation insurance coverage is based on: the number of employees, the total employee payroll, and the insurance modifier for your facility. The insurance modifier takes into account the claims history on your workers' comp policy for the previous three years. When a facility has a workers' comp claim it impacts the insurance modifier for a three-year period, a good incentive for managers to help control costs by providing a safe work environment.

Property taxes can vary greatly based on location. Many clubs have seen huge increases in property taxes in recent years. At NCC the DuPage County Assessor's Office ranks in the top five on the vendor A/P list. Protesting a tax bill requires the advice and guidance of a qualified tax attorney, but there are a few things that you can do on your own. Verify that the acreage on file for the property is correct. If the property has more than one parcel then you should have multiple tax bills. Verify that the acreage for each parcel is correct. The bill for each parcel should be segmented into "open space" and "developed land." The tax rate for developed land is significantly higher than the rate for open land. Verify the measurement of open space and developed land within each parcel and make sure that it matches what is shown on the tax bill. A current ALTA survey (commissioned during a course renovation project) revealed that the actual course acreage at NCC was less than what was indicated on the tax bill. We were also able to request a reduction in developed land value based on documentation of a reduction in facility revenue over the last two-year period. These adjustments did not require the services of a tax attorney and each generated a reduction in taxes that will continue to be realized on an annual basis.

For courses with ESAs that are regulated by an official governing body, it's possible to argue for a reduction in land value if the ESAs have deed restrictions attached to them that limit their potential for future development. This varies by jurisdiction and requires input from a qualified tax attorney.

Using a bid process for yearly purchases of water softener salt and using the grounds crew to move it to the clubhouse basement has saved Naperville CC over $3,000 per year.

Utilities

Naperville Country Club spends about $160K/year on utilities (gas, water, sewer, electric, phone, cable, internet, and waste removal). In 2009, NCC took advantage of an opportunity to execute new gas and electric contracts. We opted to go with flat rate contracts that guaranteed fixed costs per Therm or KWH used. Prior to that, the club had demand-type contracts where energy usage was projected on a monthly basis. Costs were based on whether the club met or exceeded its projected monthly usage. With the demand contract, the monthly quantities were rolled forward year after year without any monitoring or evaluation. As a result, the club routinely exceeded the monthly contract amount and ended up paying a higher premium.
So far, the fixed contacts have saved the club $20K/year, and we were able to lock in pricing for a three-year period. We may return to demand-based contracts once we have good records that will allow us to accurately forecast monthly usage.

We also installed new thermostats in the clubhouse (a project done in house). Programmable thermostats allow us more control over setback temperatures at night and during closed periods. The new thermostats also have a lock function, which minimizes employee (and member) tampering. Other savings were realized by combining phone/internet/TV service at the maintenance facility which allowed us to take advantage of a bundled small business program offered through Comcast.

The buildings at the club are on a well, so we don't have to purchase water, but we do purchase salt for the water softener system. By going out to bid for water softener salt and using the grounds crew to move the salt into the basement we were able to realize a per bag savings and avoid an up charge for delivery to the basement. This saved the facility $3K/year. This is another example of tearing down departmental silos and profiting from cross utilization of employees.

By monitoring waste removal we were able to adjust the service interval on the trash compactor to more closely mirror usage, resulting in a saving of $3.5K/year. We were able to achieve a similar result by adjusting the schedule for cleaning of the kitchen grease trap. While our insurance carrier requires an annual certificate of cleaning for the kitchen exhaust hood, we now service the collection baffles ourselves, on a monthly basis, a service that used to be contracted out.

Other Items

It didn't take long to realize that the potential for gains in efficiency and the resulting reduction in expenses existed just about anywhere we were willing to look. Working our way

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down the vendor A/P list we came to our linen supplier. Linen contracts were new to me, and it was difficult to get apples-to-apples comparisons. To resolve this I took a step backward and wrote a comprehensive RFP that outlined exactly what we wanted in the way of service and how the proposals were to be presented. Vendors that weren't willing to present proposals in the requested format were excluded from the bid process. All the contracts that were submitted contained an automatic renewal clause, whereby the contract automatically renews with a built in price increase unless written notification is sent to the vendor by the date specified in the contract. The auto renewal date is easy to forget because it occurs months in advance of the contract termination date. One of my first projects was to compile a list of all the contracts the club had in place with outside vendors. The list documented the date the contracts were signed, the termination date, and the auto renewal date. Certified letters were sent out to all contract vendors notifying them that NCC had decided to invoke its non-renewal clause and that we would not renew without the opportunity to negotiate price. In some cases the letters were sent out months in advance of the auto renewal date just so we wouldn't forget and miss the deadline. Currently, most of the contracts have come up for renewal, and the club has been in a position to negotiate and secure competitive pricing through a bid process. A few contracts remain that were executed for five-year terms, something to keep in mind when executing long term contracts. All new contracts have been signed for a shorter 1-3 year term.

In the linen RFP it was specified that an auto renewal clause would not be accepted, that the RFP would be incorporated as an addendum to any final contract agreement with the terms and conditions of the RFP taking precedence over language in the vendor contract. Again any vendors that were not comfortable with that provision were eliminated from the bid process. In the end we renewed linen service with our existing vendor. However, after negotiating we were able to reduce linen expenses by $20K/year and now have a contract in place that is more favorable for the club.

If you run into a vendor that isn't willing to remove an auto renewal clause, one option would be to send notification of non-renewal the day after executing the contract. This guarantees that you don't miss out on the opportunity to negotiate pricing at renewal time. Linen and uniform suppliers count on managers losing track of renewal dates and contracts rolling forward without evaluation. Breaking a linen or uniform contract can be difficult. If proper documentation is not supplied, a facility may end up being billed for rental charges through the end of the contract period.

Other opportunities for saving include buying forward on fuel contracts. We have done this for three years, and it has resulted in a savings each year. Maintaining good fuel records allows us to get the most out of these programs. Paper supplies are another big category. Bidding out purchases on a facility basis can produce substantial savings. As an example, in the past we used the same premium logo hand towel in the bathrooms at the clubhouse and on the golf course. We still use this towel in the clubhouse, but for the course bathroom we switched over to a premium c-fold towel that does not have a logo. While this saved several thousand dollars a year, it does begin to flirt with member expectations and the club's identity. No one mentioned the towel switch, but my advice on opportunities like this would be to go slow and be prepared to back track if you encounter resistance. In the past we have routinely taken advantage of plant protectant early order programs. Some vendors offer additional cash discounts for early payment plans. Depending upon the cash flow cycle of your facility it might make sense to take advantage of these programs. At NCC the club is flush with cash during the winter months because of pre-payment of dues/fees/F&B minimums. During peak season cash flow is tighter because of high member usage and because of due dates for installment payments on the property tax bill. This might seem counterintuitive, but during July and August member usage is at its peak, and so are expenses related to payroll, golf, and F&B operations. Unlike daily fee facilities, at private clubs payment for the services provided during peak season lags 30-60 days behind, as members wait for their monthly statement to be issued and then make payments on their accounts. Decisions on prepayment programs should include input from the club controller.

Conclusion

So after two years of shooting elephants, what have we accomplished? Expenses have been reduced by $800K/year, a reduction of approximately 20%. The bulk of the reductions came from the clubhouse operation. While the grounds department did absorb a 10% budget reduction in 2009, it was actually restored over the following two-year period. The efficiencies we found improved the club's cash flow, eliminating the need to borrow on the club's line of credit in order to cover peak-season operating expenses. This resulted in additional savings because we no longer pay interest fees associated with the line of credit. The F&B department operated at a profit for the first time in recent history, posting a profit of $85K vs. a loss of $90K a year ago. A one-year swing of $175K. At a facility level we performed $120K better than budget and were able to avoid a year-end operating assessment for the first time in 15 years.

While this is all positive, it means nothing if member services have been affected in a negative way. Close monitoring of member services through surveys and committee feedback, combined with careful consideration on where to implement reductions is an ongoing challenge. Perhaps more important is the realization that tightening up operations and reducing expenses won't resolve all the problems. Most private clubs are struggling with reduced membership, which results in a diminished revenue stream and an inability to fund depreciation of capital assets, like tractors and HVAC units, or initiate capital campaigns for new amenities. Increases in efficiency combined with reductions in operating costs have helped. Club operations now generate a profit that can be transferred over to help offset capital needs. So far it's not enough to cover the entire gap created by the reduction in the sale of full equity golf memberships. The next challenge is membership growth/retention combined with revenue growth/capture (a topic for a different article). **-OC**