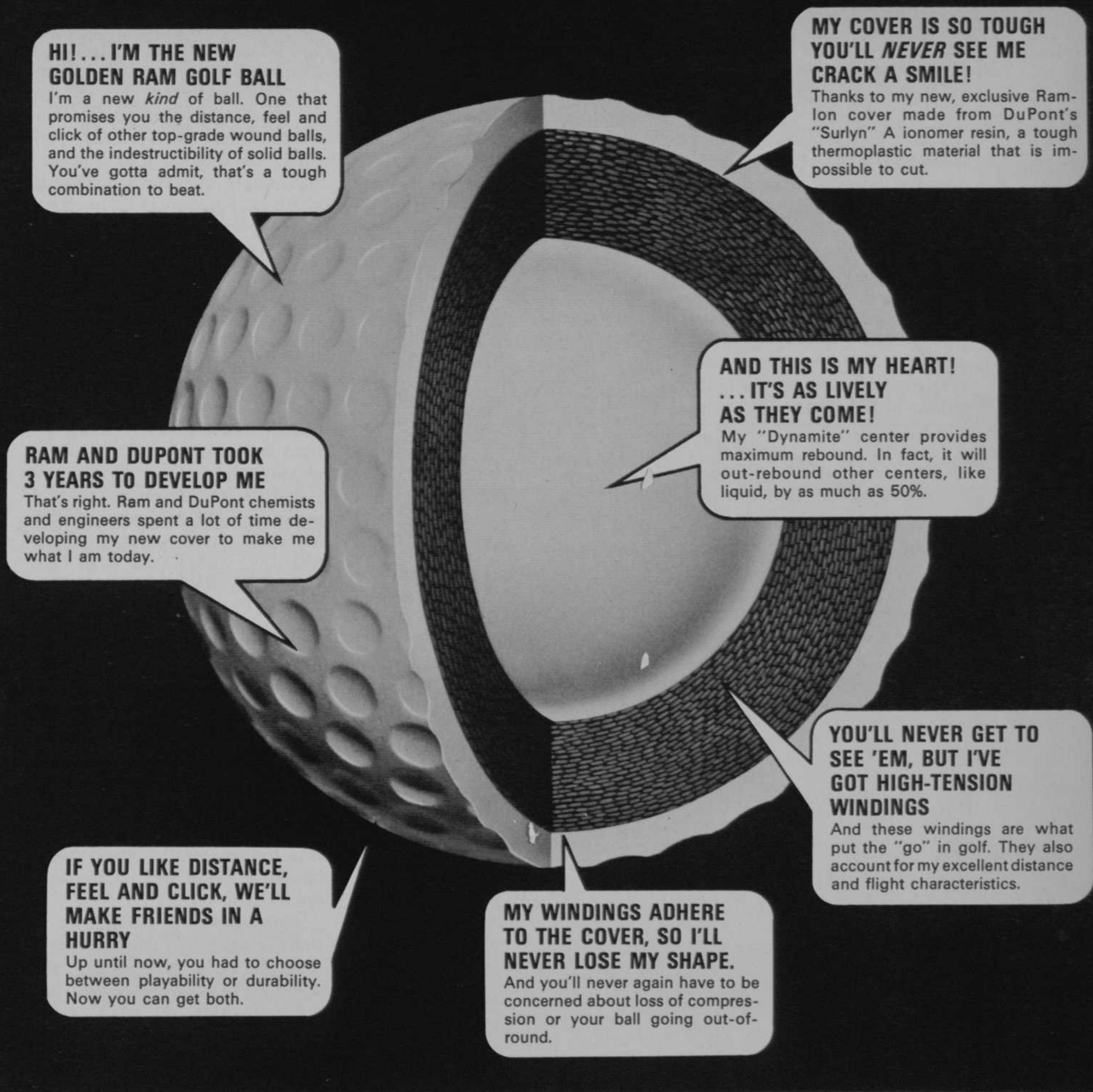

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For more information circle number 175 on card

Pro shop in the city

Continued from page 50

the new Madison Square Garden is the Phil Galvano Golf Academy, presided over by executive pro John Consiglio. This shop rather than being located above street level is in the lower lobby of the Penn-Garden Hotel.

Entering the shop one is immediately struck by the neatness of the merchandise and equipment display in the foreground that acts as an introduction to the netted targets in the background where practice and instruction take place.

John Consiglio is a man of decided opinions about golf, pros and how to run a pro shop. "I feel my role is to help people enjoy themselves. The average golfer plays to enjoy himself and finds more enjoyment the better he plays. If I help him improve his game I've helped him enjoy life."

He concurs with the opinion of other city pro shop people who try their hand at the practice and instruction nets. "This is a referral business. We get calls from people who want to learn or improve their game. After that it's up to us to give them service. Our sales depend on three things—service, knowledge and quality.

Presently Galvano's is doing about 75 per cent of its business in lessons and the remainder in equipment.

"We've always taken great care fitting our customers, being certain they get the club that's right for their type and style of play. We're now coupling this with a greater accent on merchandising and our apparel and accessories sales are on the way up. Our business is built around this personal service."

Perhaps the oldest of the city pro shops and the one that does a sizable dollar volume is Sam Sharrow, whose shop is at "the crossroads of the world"—Times Square. For Sam Sharrow, owner and founder of the shop, merchandising is the name of the game.

Lessons play a less important role in his operation with the accent on sales and merchandising. The entrance to Sharrow's shop, on the fourth floor of the 42nd Street building that houses his shop, is an eye-catching display of equipment and accessories. It is in the recesses of the shop that lessons are held and practice nets are located.

"Our business is giving the customer a proper fit. We sell everything the golfer could want, right down to the little novelties, but we know continuing sales are based on satisfied customers—customers with the right fit on the equipment they buy."

For the pro shop in the city, downtown competition is a much closer thing than it is for the country club shop, but by accenting knowledge and service the city shop has thrived.

Each of the pros cited above has recognized what it is that makes good customer relations and confidence. Each has kept his pro shop business moving ahead by recognizing that the customer has come to the shop to be served by an expert. In each instance this expert service by a professional has made the success of the city pro shop possible. □

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For more information circle number 139 on card

The strangling club cost squeeze

Although fixed charges, generally, are unaffected by activity at the country club, they can vary—sometimes substantially

By Robert P. Leone, CPA
Partner, Laventhol, Krekstein, Horwath & Horwath, New York office

The term "fixed charges" refers to those items of expense which, in the past at least, could generally be predetermined and provided for in the budget on a dollar basis from year to year, because they do not vary with an increase or decrease in activity.

In country clubs, the items of expense included in the term "fixed charges," as defined by the Uniform System of Accounts for Clubs, are rent, real estate and other property taxes, insurance on building and contents and interest on debt. The dollar amounts of such items usually will be unaffected by the number of rounds of golf played on the course or the number of covers served in the dining room. However, these fixed charges can vary for other reasons from year to year, sometimes substantially.

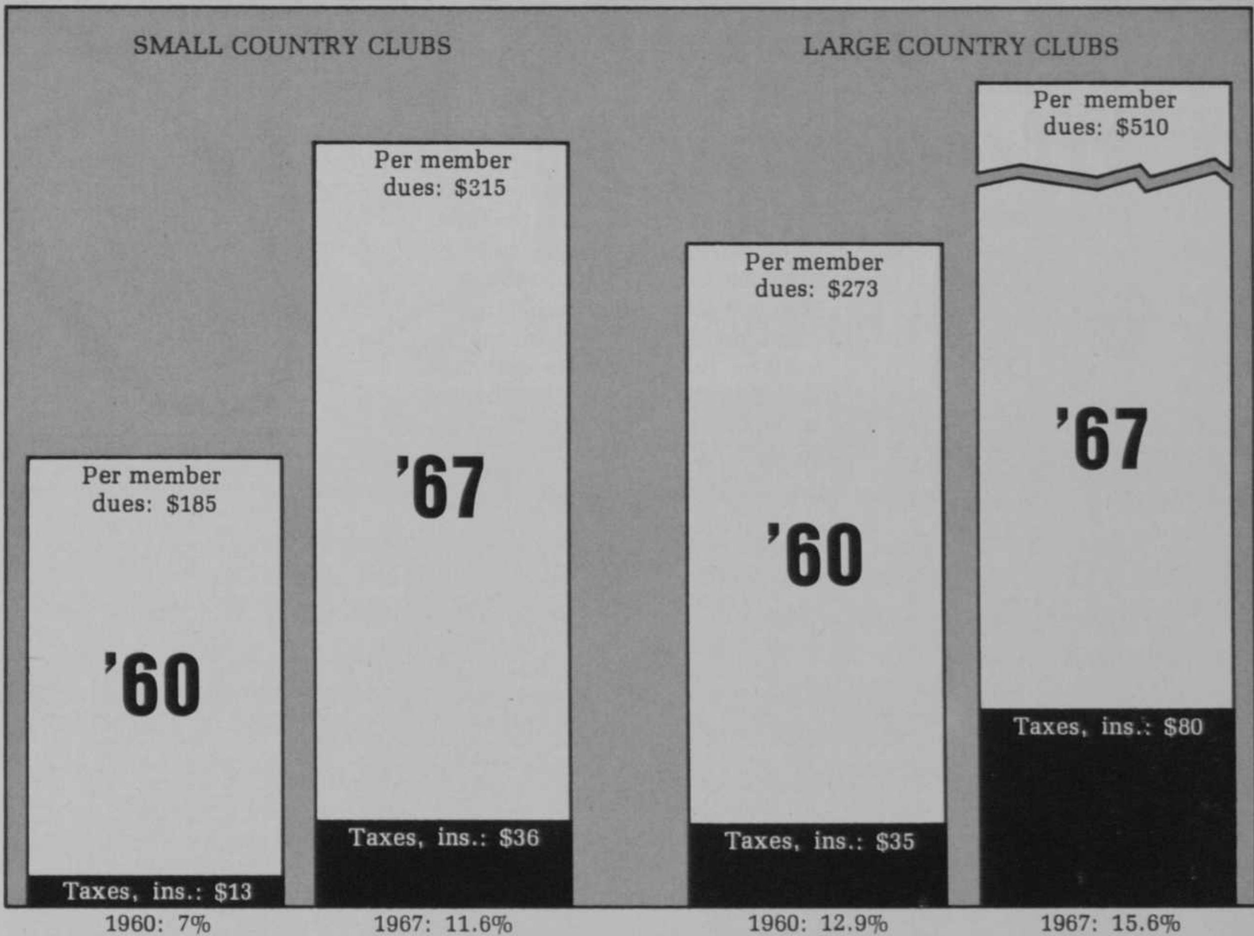
Our firm has been preparing studies of country club operations annually for the past 19 years. The latest study was for the year 1967. I have used the statistics from three of these annual studies, those for the years 1960, 1964 and 1967, as the basis for this article. The clubs providing the data for the accompanying tables have been divided into the following three groups:

- Small country clubs—clubs with membership dues revenue of under $100,000 in 1960, under $125,000 in 1964 and under $200,000 in 1967;
- Medium-size country clubs—clubs with membership dues revenue of $100,000 to $200,000 in

Continued on page 56

TABLE 1

	Small country clubs Per member	Medium-size country clubs Per member	Large country clubs Per member
1960 to 1964: Percentage of dues dollar increase required to be allocated to:			
Taxes and insurance	43.3%	6.1%	23.7%
Total fixed charges	33.3%	33.3%	13.2%
1964 to 1967: Percentage of dues dollar increase required to be allocated to:			
Taxes and insurance	10.0%	19.4%	18.1%
Total fixed charges	23.0%	1.5%	22.1%
1960 to 1967: Percentage of dues dollar increase required to be allocated to:			
Taxes and insurance	17.7%	15.0%	19.0%
Total fixed charges	25.4%	12.0%	20.7%



How Taxes and Insurance Costs Have Increased as a Percentage of Member Dues

TABLE 2

	Small country clubs			Medium-size country clubs			Large country clubs		
	Dues	Taxes and insurance	Total fixed chrgs.	Dues	Taxes and insurance	Total fixed chrgs.	Dues	Taxes and insurance	Total fixed chrgs.
1960:									
Per member	$185	$13	$30	$272	$32	$47	$273	$35	$48
Ratio to dues revenue	100.0%	7.0%	16.0%	100.0%	12.1%	17.4%	100.0%	12.9%	17.6%
1964:									
Per member	$215	$26	$40	$305	$34	$58	$311	$44	$53
Ratio to dues revenue	100.0%	12.3%	18.8%	100.0%	11.8%	19.1%	100.0%	14.2%	16.9%
1967:									
Per member	$315	$36	$63	$372	$47	$59	$510	$80	$97
Ratio to dues revenue	100.0%	11.6%	20.0%	100.0%	12.6%	15.8%	100.0%	15.6%	19.1%
Increases 1960-1967:									
1960-1964:									
Dollar	$30	$13	$10	$33	$2	$11	$38	$9	$5
Percentage	16.2%	100.0%	33.3%	12.1%	6.3%	23.4%	13.9%	25.7%	10.4%
1964-1967:									
Dollar	$100	$10	$23	$67	$13	$1	$199	$36	$44
Percentage	46.5%	38.5%	57.5%	22.0%	38.2%	1.7%	64.0%	81.8%	83.0%
1960-1967:									
Dollar	$130	$23	$33	$100	$15	$12	$237	$45	$49
Percentage	70.3%	176.9%	110.0%	36.8%	46.9%	25.5%	86.8%	128.6%	102.1%

Strangling club cost squeeze

Continued from page 54

1960, $125,000 to $200,000 in 1964 and $200,000 to $300,000 in 1967;

- Large country clubs—clubs with membership dues revenue of $200,000 to $400,000 in 1960, $200,000 to $500,000 in 1964 and $300,000 to $500,000 in 1967.

The amounts have been calculated on the basis of an arithmetical average of the total amounts of the item involved within the group, divided by the total number of members within the group. In addition to analyzing the effect of increasing costs of fixed charges on country club operations, I have also analyzed the main causes of those increases, namely, increases in real estate and other property taxes and insurance on building and contents.

A casual review of the ratios of taxes and insurance and fixed charges to dues revenue may not indicate any significant trend or startling increases in the cost of these items. However, this is far from being true with respect to dollar amounts. The portions of the increases in dues dollar required to cover the rises in these costs are summarized in Table 1.

As can be seen from the foregoing table, the percentages of the dues dollar increases have, in most cases, been somewhat greater than the ratios of these items to dues revenue, shown in Table 2.

In Table 2, I have presented the dues revenue, taxes and insurance expense and total fixed charges on an average-per-member bases and as ratios to dues revenue by club group for the years 1960, 1964 and 1967. Also, I have shown the dollar and percentage increases of these three items from 1960 to 1964, from 1964 to 1967 and from 1960 to 1967. Thus, Table 2 clearly indicates the amount of the dues dollar required to be allocated to taxes and insurance and total fixed charges and the extent to which the average increase in dues per member has kept pace with the average dollar increase in these expense categories.

In both Tables 1 and 2, it can be seen that the increases in taxes and insurance and total fixed charges have outweighed the increases in dues revenue. This is more startling when it is remembered that these types of charges usually are not expected to rise that much from year to year and also would be expected to decrease on a percentage bases, when dues revenue increases as substantially as it has lately. For instance, the ratio of taxes and insurance to dues revenue in large country clubs increased from 12.9 per cent in 1960 to 14.6 per cent in 1967. This increase occurred despite an increase of $237, per member or because of an increase of $45, or 128.6 per cent in taxes and insurance per member, which increase required 19.0 per cent of the $237 dues increase. To have retained the 1960 ratio of 12.9 per cent would have required an increase of $351 in dues revenue per member.

I do not believe that even these tabulations tell the whole story. Had these comparisons been made over a 15 year period, the results would have been even more astounding. Fifteen years ago, many clubs were on the outskirts of communities; the golf courses being surrounded largely by farm or unimproved real estate. However, the expansion of suburban areas has literally engulfed many clubs to the point that they are now occupying very expensive real estate. Also, in order to reduce the real estate tax burden, many clubs have sold off that portion of their land which was not actually needed for club operations. Thus, the changes in fixed charges might have been even more startling if a number of clubs had not sold some of their land.

What does the future hold? It is my opinion that these costs will continue to soar. Some clubs will attempt to relocate, others will finally accept the attractive price offers being made for the club property and liquidate, and others will simply pay the price of staying where they are. □

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1 GOLFING ROUND (18 HOLES)	50%	1/2 cycle	800 charges	13.6 cents	15.0 cents
2 GOLFING ROUNDS (36 HOLES)	0%	2 cycles	200 charges	27.2 cents	60.0 cents
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Approximate electrical and battery costs per golfing round for CLUB CAR.

	RESERVE LEFT IN BATTERIES	HOW MANY OF THE 400 CYCLES IN THE BATTERIES ARE EXPENDED?	HOW MANY CHARGES BEFORE BATTERIES MUST BE REPLACED?	ELECTRICAL COST OF CHANGING BATTERIES	COST OF LIFE REMOVED FROM $20.00 BATTERY ($120.00 A SET)
1 GOLFING ROUND (18 HOLES)	83%	1/6th cycle	2400 charges	04.5 cents	.05 cents
2 GOLFING ROUNDS (36 HOLES)	66%	1/3rd cycle	1200 charges	09.1 cents	.10 cents
3 GOLFING ROUNDS (54 HOLES)	50%	1/2 cycle	800 charges	13.6 cents	.15 cents

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For more information circle number 270 on card

Take a closer look at your insurance coverage. Does it cover loss of earnings in the event your clubhouse is damaged or destroyed?

INSURE your country club's intangibles

By John F. Gleason, Jr.

While most country clubs are cognizant of the need to provide adequate physical damage insurance to protect real and personal property, few carefully evaluate the need to purchase coverage which protects the country club's earning power should this also be interrupted by a fire, windstorm, vandalism or any other insurable peril.

There are various forms of loss of earnings protection and they may be procured rather inexpensively. Inexpensive considering all the financial obligations which will continue, even if the clubhouse is burned down and normal operation does not take place for a year or more.

Although the cost for most time element coverage is lower than the premium to insure buildings and contents, it is, perhaps, the most resisted form of insurance that can be presented to a board of directors for consideration.

Country clubs will insure old maintenance buildings, battered storm shelters, depreciated furniture and near-worthless golf course equipment—perhaps because they are tangibles—but when it comes to protecting earnings, the insurance proposal is regarded as unnecessary or too expensive.

In this article three forms of time-element coverage will be explained: 1) business interruption insurance; 2) earnings insurance; 3) extra expense insurance.

First, let's consider just what the policy indemnifies the country club for should a fire or other insurable perils render the clubhouse inoperative.

Modern country club operations are big business and require enough earnings to meet many obligations. Over and above monthly dues, an active country club derives from $250,000 to $750,000 (40 per cent or more in the main) from the operation of its dining facilities and cocktail lounges. In other words, the income derived from the social activities can make or break a country club. If this income disappears, it may mean the country club's demise.

Dues alone cannot meet the payroll, taxes and other continuing obligations, while a clubhouse is being restored from rubble and debris. By the time an assessment is enacted to meet these obligations, valuable personnel may have gone elsewhere to find employment.

Reliable lockerroom attendants, amiable waiters, a good chef and a trustworthy office staff are hard to find. Screening and training new employees is precarious, frequently expensive and creates membership unrest. Furthermore, the unforeseen assessment may create dissension within the membership from which it may take years to recover.

All these inevitables can be avoided. If a country club prudently considers the benefits of time-element insurance, it can survive interruption and keep both the membership and the employees tranquil until normal clubhouse operations are resumed.

The purpose of time-element coverage is to see that the country club does not suffer a reduction in its earnings because of physical damage to or destruction of the buildings in which these earnings are derived. The policy is designed to see that as far as it is possible, the club's profit and loss statement will not suffer because of the interruption of normal operations by an insured peril.

Many factors must be considered before deciding which form of time-élement coverage will best protect a particular country club and its unique circumstances.

Each form, however, has obligations and limitations. A competent insurance man can explain the policy provisions to the board of directors.

Some country clubs will decide that business interruption insur-

Continued

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For more information circle number 278 on card

Insure . . .

Continued

ance covering the entire payroll and all other obligations is the form of protection which should be carried. Others may feel that the more limited forms would be adequate for their needs. Earnings insurance or extra expense insurance may be procured.

BUSINESS INTERRUPTION

This form will cover the entire loss of net gross earnings. Coverage is usually limited to the clubhouse or other activities buildings and the perils insured against usually include fire, windstorm, hail, riot, civil disorder, vandalism, and malicious mischief. Clubhouses under automatic sprinkler protection usually include protection from losses attributed to leakage.

Buildings insured for broader perils such as earthquake, collapse or flood, will also want their business interruption policy extended to include these perils.

Under the net gross earnings form, the entire payroll can be indemnified or the payroll coverage can be limited to a specific number of days or the payroll can be excluded entirely, except for certain vital employees such as the manager, chef, head waiter and the office staff.

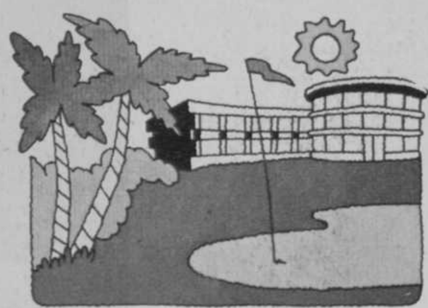
Business interruption insurance provides an emergency fund of tax-free dollars to meet continuing obligations and, moreover, enables the club to protect its surplus and credit rating. By including the entire payroll, the club also safeguards its unemployment compensation rate.

Because the policy penalizes an insured who fails to carry insurance to the full amount of its earnings potential, care must be taken to ascertain the actual amount of coverage required. Therefore, a calculator is provided whereby each club can accurately determine the amount of business interruption insurance it must carry.

To arrive at the net gross earnings requirement, briefly, the cost of the merchandise sold is deducted from the total annual net sales. However, in the case of a country club, certain income may be excluded. For example, most clubs deduct monthly dues as fixed income which would continue despite a disaster to the clubhouse, but the locker rental charges should not be deducted because this income might be lost if the lockerrooms were destroyed.

The total income from the dining rooms, lounges, grills and other activities rooms should be included because losing the use of these areas would mean losing earnings.

If a country club regularly schedules—and has already contracted for—outside parties involving a package price which includes golf fees, car rentals, lunch and dinner, then the entire package income could be included. Otherwise, green fees would be excluded because this income probably would



continue despite the inability to use the clubhouse facilities.

A complete understanding of which income items are to be included in the business interruption coverage and which will not be indemnified must exist in advance between the country club and the insurance company.

Earnings may be protected for an entire year or for as little as six months. Many clubs purchase coverage for a shorter period of interruption than would actually be the case. They forget that more than six months or a year may be required to rebuild a clubhouse completely gutted by fire.

If it is determined that it would take 18 months or two years to rebuild the present clubhouse if completely destroyed, then the actual amount of coverage might be 150 to 200 per cent of the anticipated annual gross earnings.

Recovery of earnings and payment of continuing obligations are limited to the time it normally would take to repair or replace the damaged or destroyed portion of an insured structure, using similar materials.

Because many clubhouses in operation today no longer structurally conform with the present building code regulations for a public assembly building, another serious problem must be considered. Modern building codes require that a frame clubhouse, for example, which is 50 per cent destroyed be completely torn down and restored with materials which conform to the present building code.

Reconstruction then would take longer than the time to restore the frame structure which was only 50 per cent destroyed. This would be a reconstruction period beyond the length of time spelled out in the basic policy form for which the country club would be entitled to reimbursement for lost earnings.

Special additional endorsements may be attached to the business interruption policy to cover the earnings lost while the undamaged portion of the clubhouse was being demolished and the entire structure was being rebuilt with approved materials.

Every country club, therefore, should learn whether its clubhouse structurally conforms with the current building code for a public assembly building.

EARNINGS INSURANCE

This is a simplified form of business interruption protection with certain limitations.

Earnings insurance does not require a country club to carry a specific amount of coverage. No loss-adjustment penalty is imposed should the country club fail to carry coverage equal to, for example, its annual or semi-annual gross earnings.

Instead, the country club may elect any amount of coverage desired, but the policy form limits recovery during any 30-day period to one-third, one-fourth or one-sixth of the total amount of insurance purchased.

A country club with seasonal

Continued on page 76