

MINIMUM SPENDING OR FIXED SERVICE FEE

By William A. Schulz, MCM

Recently, I received a call from a good friend asking if I had any information that he could use to discourage his Board from implementing a minimum spending program at his club. Being the diplomat I am, I asked him why he was so adamant against minimum spending. After all I said, by encouraging increased utilization of the Club's facilities to some degree by all of the membership rather than increasing fees is more equitable. There is a constant need to address the annual budget and a minimum generates revenue. He quickly responded that at his previous club, minimum spending was a disaster. All of the members showed up at the end of the month; the dining rooms became over crowded and service suffered. In addition, many of the members purchased raw steaks and wine to take home as opposed to patronizing the Club. I suggested to him that perhaps when the minimum was introduced at the Club, there were no policies to guide its usage. If there are no rules to govern a minimum spending program it surely will be abused. I then asked if he considered a fixed service fee as an alternative to minimum spending.

We continued to talk and attempted to analyze the pros and cons of minimum spending, comparing this to the fixed service fee concept. Just to set the record straight, we defined minimum spending as a set amount of money members must spend on food and beverage either on a monthly or quarterly basis. A fixed service fee is a set monthly charge that each member pays. The service fee supplements gratuity or service charges on individual food checks.

We discussed the following qualitative considerations of a minimum food charge:

IMAGE. Overall, our impression was that the imposition of a monthly F&B minimum charge could be negatively

received by the membership. There was a feeling that the minimum could be viewed as "forcing" members to use the Club and that the imposition of a mandatory fee would suggest that the Club's restaurant and food offerings were not sufficiently attractive to generate voluntary demand/utilization from the membership. Furthermore, our impression was that "quality" clubs do not generally charge a minimum food and beverage amount to their membership; i.e., stated another way, "forced dining" is inconsistent with a "quality" club.

CAPACITY CONSTRAINTS. Consideration should be given to determine if the Club's current facilities can accommodate an increase in traffic, particularly at peak operating times.

END OF PERIOD RUSH. Clubs which have imposed a food minimum indicate that a spike in usage occurs at the end of each food minimum period (i.e., at the end of each month for monthly fees and quarter-end for quarterly fees). This "end of period" phenomenon is extremely disruptive to normal restaurant operations and requires the addition of wait staff and other support personnel, frequently at overtime or premium rates. Although this issue can be addressed in part by "staggering" the end of period dates for the members, the accounting and tracking complexities of such a staggering can be challenging.

The following qualitative considerations of a fixed service fee were also discussed.

IMAGE. A monthly service charge is excess in order to compensate wait staff and other personnel in lieu of voluntary gratuities. It is a separate charge on the members' monthly bill. Our impression of a service fee was much different. The imposition of a monthly service fee is a

fair trade off of gratuity. Members who patronize the Club may actually benefit as their service fee amount could be less than what they may have paid in gratuity. One of the pitfalls of a fixed service fee is that members may view it as additional dues rather than prepaid gratuity.

CAPACITY CONSTRAINTS. No adverse affect to the Club's current facilities.

END OF PERIOD RUSH. Members are not being forced to utilize the Club. Any increase in traffic is spread throughout the month. There is no specific timeframe when members rush in to use the Club.

CONCLUSION. The topic of implementing a monthly minimum F&B charge or fixed service fee has numerous financial and non-financial implications for a Club. While the minimum monthly fee mechanism has conceptual appeal as a way to boost Club income in a manner consistent with encouraging greater Club usage by all the membership, the practical application of this device is limited. Revenue generated through minimum spending comes to the Club as gross dollars. After deducting the cost of food and beverage and the cost of additional service labor, the net revenue is limited. A fixed service fee on the other hand is different. It is net revenue and after the deduction of gratuity applicable to the F&B sales generated, it is reasonable to assume there will be excess funds available to offset other operational costs.

We determined the fixed service fee approach was more beneficial to the Club from a financial viewpoint. However, you should never overlook the value of minimum spending as a means to increase activity. It is always better to fill seats in the dining room as opposed to leaving them empty. ■

F AND B MINIMUM
VERSUS
MONTHLY FIXED SERVICE CHARGE

John Guy, April 21, 2011

(updated November 17, 2011)

Many country clubs have moved away from f and b minimums in favor of a monthly fixed service charge, like Skokie (\$55), Exmoor Country Club (\$30 plus a food minimum), Glen Oak (\$44 plus a food and beverage minimum). From my recent experience, all of the clubs in the Dallas area have no minimums but instead have a monthly fixed service charge. The overwhelming number of clubs participating in the "Great Country Clubs of the South Operations Survey" (source: Master Club Advisors [MCA], October 2010), whereby out of 53 clubs – 22 have a monthly fixed service charge in lieu of a minimum, 20 have no minimum nor fixed service charge, 1 has both and the remaining 10 have a f and b minimum. From the 2011 "Great Country Clubs of the Mid-West Operations Survey", whereby out of 43 clubs - 7 have a monthly fixed service charge in lieu of a minimum, 8 have no minimum nor fixed service charge, 7 have both and the remaining 21 have a minimum. Of the eight North Shore peer clubs, only 2 have a f and b minimum, 2 have a fixed service charge, and 6 have neither. In addition, I have studied both concepts over my career. Generally, the monthly fixed service charge produces more dollars to the bottom line while offering members less of a financial commitment.

Because the Westmoreland Country Club (WCC) Member Survey reveals some dis-satisfaction with either the (i) f and b minimum concept itself, (ii) the fact that survey reveals Members are not satisfied with the quality of the dining program and thus feel forced to dine at WCC while having a preference to do dine elsewhere, (iii) the high dollar amount of the minimum, and (iv) the potential for a monthly fixed service charge to enhance the bottom line, this may be the appropriate time for the Board to consider this issue. In addition, with f and b minimums, many of the following issues arise.

1. Members wait until the end of the expiration period to use their minimum, thus causing a high level of demand in a short time frame, providing unnecessary stress on the Club's operations - quality of the service experience. I am surprised by the fact that WCC minimum concludes in the month of December, generally a high usage month without the need to have a minimum in place.
2. Snowbirds feel they are penalized and give back to their Club unspent minimum due to not being in the area year-round.
3. Members ask for extensions on their f and b minimum time period.
4. Members expect to be able to use their minimum for banquets, when the intent of a minimum concept is to drive usage to member a la carte dining venues and cover fixed costs

that are naturally inherit to private clubs f and b operations. It is generally assumed that a member would host a banquet, minimum or not, due to lower pricing than public venue alternatives. In addition, banquets do not have the level of fixed costs as member dining venues have (i.e., banquet staff is scheduled to work when a banquet exists). Thus, minimums are generally not allowed to be used towards banquets.

Below is an analysis of the WCC F and B Minimum versus a Monthly Fixed Service Charge, using FYE 2011 actual numbers. For sake of a starting point, a fixed service charge of \$60.00 was assumed.

| | |
|--------------------------------------|-------------------|
| UNSPENT MINIMUM | \$84,807 |
| SERVICE CHARGE INCOME MEMBER DINING* | <u>\$246,582*</u> |
| TOTAL DIRECT MINIMUM INCOME | \$331,389 |
| * * * * | |
| MONTHLY FIXED SERVICE CHARGE | |
| 506 Residents @ \$60 x 12 Months = | \$364,320 |
| 19 Non Res @ \$15 x 12 Months = | \$3,420 |
| 14 Winter @ \$60 x 6 Months = | <u>\$5,040</u> |
| TOTAL DIRECT INCOME | \$372,780 |
| * * * * | |
| INCREASED NET INCOME | \$41,391 |

The only downside risk is estimating if transitioning to a fixed service charge will negatively affect Member dining revenue, if any, at all and what lower gross profit will the Club incur. On the other hand, it forces club management to (i) react to the level of business by addressing its cost structure and (ii) deliver a f and b program that makes Members want to dine at their Club. When considering that the number of months of that there could be negative exposure (March, April, October, November) and the Club is closed 1 ½ months, any offset to the above should be minimal. Member satisfaction of transitioning to a fixed service charge should be high. The monthly out-of-pocket, on paper, looks much lower when compared to our peer clubs.

Attached are two other documents relevant to this issue - - an article from MCA and an email to my prior club's finance committee.

*Includes Grill, Locker Room, Pool Side, Halfway House and Club Functions when normal Grill and Pool Side Service is closed. In other words, the Club Functions of Easter Brunch, Mother's Day Brunch, Memorial Day Dinner, 4th of

July Dinner, Labor Day Dinner, and Thanksgiving Buffet would not be subject to the current 18% service charge. All other Club Functions would be subject to the current 18% service charge.