Budgeting in Post Covid Times – what are your key drivers?

With light at the end of the long Covid tunnel some of us have been in, a new year is fast approaching. As we look forward and begin to think about what 'normal' operations might look like, developing a budget for 2022 and beyond presents some unique challenges. Whilst we are hopeful of clear sailing there will inevitably still be some waves to deal with in the journey ahead.

Reviewing immediate past trends in the key drivers to budget development are typically the starting point to new numbers. We are however presented with a different reality at the moment with some of the normal key numbers being far from steady or consistent. Jobkeeper payments then direct to employee payments have also played havoc with wage cost calculations and required headcounts. To produce a reliable budget in this new world managers and finance committees will thus need to reconsider what the baseline trends really are and what the key drivers to producing such a budget are.

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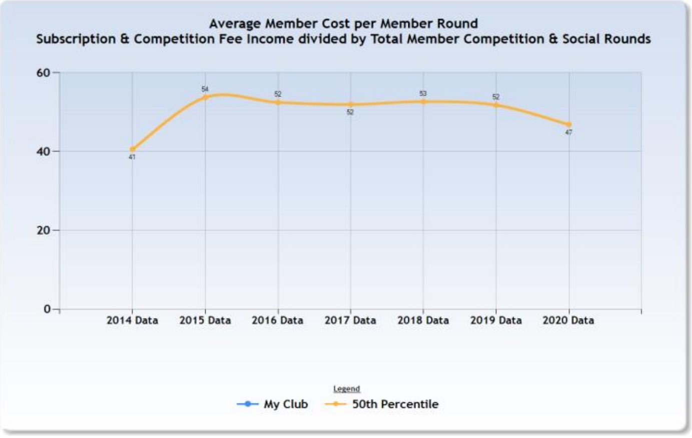
Looking forward…The importance of rounds (visitation) to forecasting revenues

Notwithstanding the lockdowns experienced during Covid, the overall growth in golf activity played during Covid has been well reported. New member demand is well up on historical levels, both member competition and social rounds are up, nine-hole rounds are up, use of practice facilities are up.

For most, the key driver remains subscription pricing. We wrote about this in our last newsletter – Are you making hay? – finding at the time an average subscription increase of 3.5%, with 25% of clubs not increasing subscriptions at all. With the combination of pricing and increased frequency causing average member cost to fall by near 10% per round in the last 12 months, the overall value proposition to the member has materially improved. The trend in this metric at your club should be understood as you determine future pricing.



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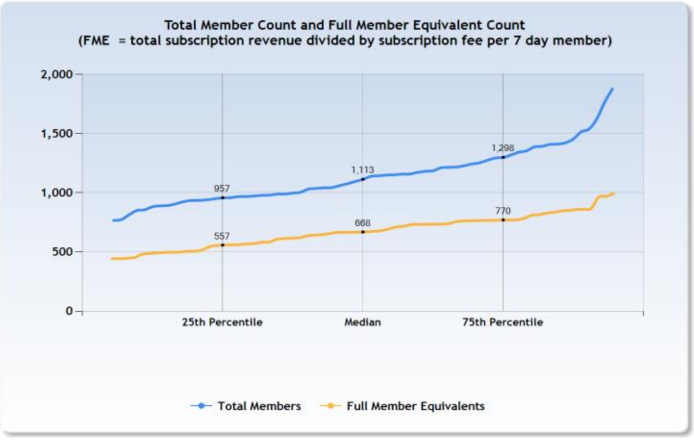
With course capacity issues now being frequently reported, member capacity will likely need to be the next parallel consideration in 2022 budgets. The member number driver can't be considered in isolation without considering (desired) course capacity. Driven by the fore-noted increases in member frequency, assumptions adopted around future rounds played will possibly be the most important driver within new budgets.

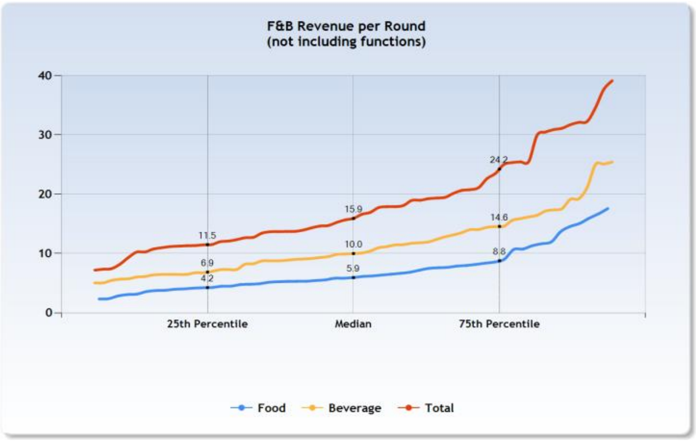
As you could imagine we see a lot of budgets in our work. Somewhat frighteningly, we are constantly amazed when we see budgets that don't even connect to this key driver, sometimes rounds not even being present in the budget model. Every month is seemingly the same length with the same number of weekends. We know this isn't true but this is how it is modelled. We also know that budgets built in this manner won't be very reliable going forward.



A related key element to capacity and rounds is the revenue produced from green fees. Member numbers and rounds frequency may require a re-balancing of member golf and the volume of visitor golf. If visitor golf is displaced to accommodate member demand is the budgeted member subscription revenue covering the lost green fee income? If not, how is this lost revenue to be made up?

Frequency of visit or member activity should also impact budget expectations in both golf retail and food and beverage. Excluding external F&B events, budgeted revenues in these areas should be driven by an average spend per round/visit. Can the availability of F&B be amended to better accommodate new or merging demand patterns? Will F&B sales opportunity be limited by any on-going capacity restrictions?

Many GM's have highlighted how good Covid has actually been for F&B profitability. Being forced to shrink the human service element due to Covid restrictions has helped to significantly reduce wage cost. Looking forward, is there an opportunity to maintain some of the slimmer cost of operation (keep the bells and whistles out) whilst potentially expanding the service to better accommodate new traffic patterns? We know a number of clubs who have prepared takeaway meals for members during Covid, one GM even personally delivering them to member homes. To fully optimise the kitchen labour investment in F&B, and as a way to increase member spend, this is an offer that should remain.



Our Tip – ensure your budget is driven by member numbers, an average rounds frequency and visitor rounds. Use a spend per round to model revenues. Using the same thinking, an alternative to this is to set up revenue forecasts by the spend number and the average rounds played per day of the week, driven by member competition events and other demand on those days.

On the other side of the ledger is fixed expenses. What impacts have demand caused to your expense base?

The first obvious category that requires real consideration is course maintenance and the knock-on effect of increased course demand on these costs. Not only will wear and tear be increasing but access to the course for maintenance may be decreasing due to rounds pressure. Whilst you may think you can dodge increases in this budget in the short term, any such decision will likely catch up with you. Increased allocations may well be required in the budget for chemicals, along with sand, soil, seed and fuel.

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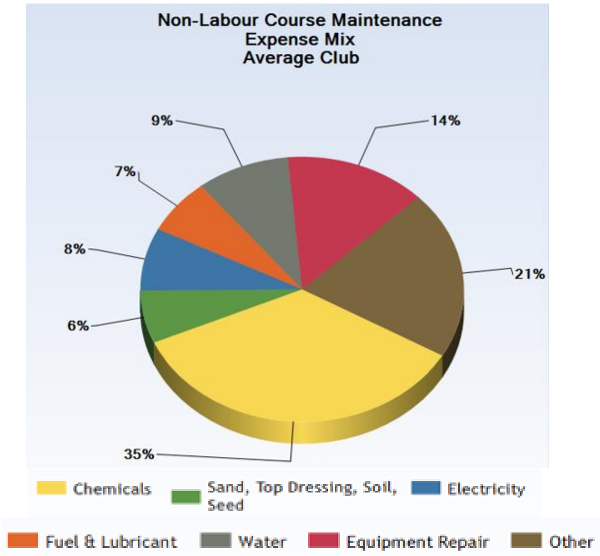
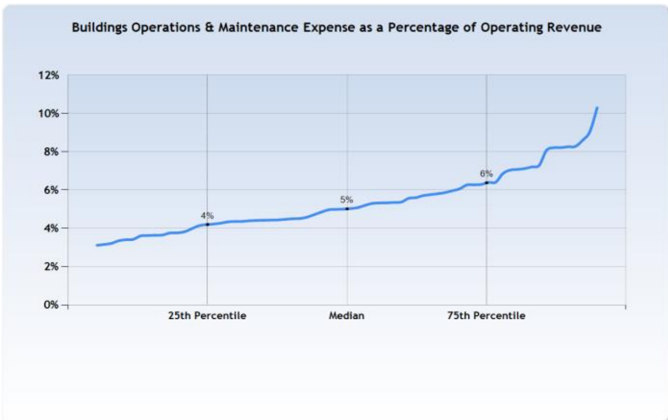
With shortages of greens staff being increasingly reported, you may not be able to do what you actually want to do labour wise. Well thought out, achievable course presentation goals should thus first be determined, this then supported by the 12 month budget and maintenance program.



There will also be less obvious additional costs within the house and administration that will need to be provided for. Cleaning, and increased post-covid expectations, is one such area. Member consumables is another, more being consumed via more demand. Aside from wages growth, we are already seeing material growth in bank/merchant fees, Insurance, and IT expenses.



In conclusion, as we enter a new year after some material disruption, many patterns being far from 'normal' we encourage you to think about your budget in a different way. A number of line items will need re-examination. Think about the trend in the drivers impacting the relevant revenue and expense line. History will only be a guide, not the once reliable indicator it once was. Get this right and you'll have a much more accurate starting position as you sail into the months ahead.

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