

Hand in Glove: Benchmarking and Budgeting

The first step in establishing an operating budget is to forecast revenues. Until some measure of anticipated income is projected, the level of variable payroll and operating expenses is pure guesswork. For existing operations it is easy enough to look back at preceding years' revenues and project accordingly. It is far more difficult in start up operations where even the guesstimates of the most experienced operator are suspect.

Yet even with operating histories at hand, the person preparing the budget must have some understanding of the interplay of volume and average customer expenditure which underlie all revenue projections. This is important because the factors that bring a customer to an establishment are far different than those that influence how much he or she spends. These two factors – volume and average expenditure – are key items to benchmark in any operation and are easily determined from point of sale or cash register reports.

As an illustration I shall use a golf course operation, but the same would apply no matter what product or services are sold. In our example, revenues come primarily from green fees, cart fees, merchandise sales, practice range fees, and food & beverage sales. The underlying volume benchmark is how many people use the golf course – the rounds of golf played.

	Oct	Nov	Dec	Annual
Rounds of Golf	3,135	2,703	2,274	27,484
Revenues				
Green Fees	\$66,875	\$54,268	\$44,569	\$607,892
Cart Fees	\$39,904	\$33,267	\$27,224	\$352,852
Merchandise Sales	\$5,295	\$4,726	\$6,790	\$68,159
Range Income	\$4,148	\$2,670	\$3,323	\$37,892
Food Sales	\$6,436	\$6,245	\$5,247	\$64,268
Beverage Sales	\$3,624	\$3,139	\$2,876	\$35,698
Total	\$126,282	\$104,315	\$90,029	\$1,166,761
Revenues/Round				
Green Fee/Round	\$21.33	\$20.08	\$19.60	\$22.12
Cart Fees/Round	\$12.73	\$12.31	\$11.97	\$12.84
Merchandise/Round	\$1.69	\$1.75	\$2.99	\$2.48
Range Income/Round	\$1.32	\$0.99	\$1.46	\$1.38
Food Sales/Round	\$2.05	\$2.31	\$2.31	\$2.34
Beverage Sales/Round	\$1.16	\$1.16	\$1.26	\$1.30
Total Income/Round	\$40.28	\$38.59	\$39.59	\$42.45

Sample Benchmarks Computed by Dividing Revenues by Rounds

By tracking these key revenues and golf rounds on a daily, monthly, year-to-date, and year-to-year basis, we can derive the following benchmarks:

- Green fees per round
- Cart fees per round
- Merchandise sales per round
- Practice range income per round

- Food sales per round
- Beverage sales per round

By recognizing that absent significant change or abnormal events, the recent past is the best predictor of the future, these benchmarks can help us determine our future rounds per period and revenues by round. All it takes is a little informed judgment and knowledge of upcoming events or trends that may impact the forecast.

By setting up a bank of data entry cells in a spreadsheet (shaded below), we define the assumptions underlying our revenue projections at the same time we create those projections. Nothing could be simpler – the spreadsheet is set up to automatically multiply the number of rounds by the benchmark for each revenue category to project future sales. Such clearly stated assumptions make it easy for superiors and owners who review the budget to understand how the projections were made. It also makes it easy for the operator who has missed his or her projections in a given period to go back and see why they were missed – either not enough customers (in this case, rounds of golf) or lower expenditures per round.

Assumptions	Oct	Nov	Dec	Annual
Projected Rounds	3,300	2,800	2,250	28,550
Green Fees per Round	21.40	20.15	18.75	22.20
Cart Fees per Round	12.75	12.35	12.00	12.90
Merchandise Sales per Round	1.75	1.85	3.05	2.50
Practice Range Income per Round	1.35	1.05	1.50	1.45
Income				
Green Fees	\$70,620	\$56,420	\$42,188	\$633,810
Cart Fees	\$42,075	\$34,580	\$27,000	\$368,295
Merchandise Sales	\$5,775	\$5,180	\$6,863	\$71,375
Practice Range Income	\$4,455	\$2,940	\$3,375	\$41,398
Projected Revenues using Rounds and Revenue per Rounds Benchmarks				

Once revenue projections are made, it is easy enough to project operating expenses if they have been benchmarked as a percentage of revenues. Therefore, if office supplies have historically run at say .12% of revenues, then it's a good bet, that absent significant change, they'll continue to run at that level.

Given the magnitude of payroll costs in most operations, payroll can also be projected using volume (number of hours worked) and average hourly wage benchmarks. These are easy enough to track since gross pay is a function of how many aggregate employee hours are worked and what the gross payroll amount is for any given pay period and by extension for the entire fiscal year.

My own experience with benchmarking for over 30 years has proven not only the practicality of benchmarking to better understand one's operation, but also as **the** most effective tool for easy and accurate budgeting.

To say they go hand in glove might be an understatement.

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