THE HIGH COST OF OPERATING

Just how hard has inflation hit country clubs? Although the cost-price line was held better in 1969 than in 1968, over the last four years grounds and greens labor costs in the Chicago area soared anywhere from 9 to 22 per cent, and there is no leveling-off in sight.

By JOE DOAN

Chicago area pros, superintendents and club managers feel that a little better job was done in holding the cost-price line during the 1969 season than in the previous year. Inflation certainly wasn’t washed out of the country club economy this year, but the consensus is that operating costs and prices didn’t climb at the same accelerated pace that they did in 1968.

A survey of more than a dozen pro shops, made in early September, showed that outside of skirts, culottes and shorts, the cost of merchandise didn’t increase as much this year as last. These items, several pros said, were up a solid 10 per cent and in some cases, 15 per cent. Slacks generally carried a 5 per cent higher cost tag. Cheaper shirts increased from 5 per cent to 10 per cent, depending on the brand, but the more expensive shirts were up very little, if at all. Sweaters also held the price line. The same is true of golf balls. Pros generally passed the increases on to their customers.

Only one out of four pros said he increased his lesson fee in 1969. In all cases it was 50 cents.
per half hour. Two out of three pros, however, got more for club cleaning and storage in 1969 than in 1968. The average increase for this service was 12 per cent. Those who didn't increase this fee are going to next year. Whatever additional income that was realized from cleaning and storage was more than absorbed by the higher salaries that had to be paid to assistants. In some cases salaries ran as high as 15 per cent. On the other hand, only one of three pros said his retainer was increased by the club. One club doubled the amount of the retainer it pays its pro.

Golf car rentals held steady. At the few clubs where they were raised, the increase amounted to 50 cents per 18 holes. Caddiemasters' salaries went up an average of 5 per cent, but caddie rates generally were the same as in 1968.

On the maintenance side, superintendents report that chemicals and fertilizers held firm. Sand, seed, topdressing and stone prices increased slightly, but rarely more than 5 per cent. Replacement parts for machinery went up about 5 per cent, but the cost of buying new equipment increased a little more than this.

Hourly labor rates again increased. Most superintendents said increases amounted to about 5 per cent, but at a few clubs it was necessary to raise pay rates by 8 or 10 per cent to get reasonably good help. As for a rough estimate of the increased cost of maintaining grounds and greens for 1969 as compared to 1968, the figure most frequently quoted was $5,000.

Food costs were up at least 5 per cent, according to most club managers. Liquor costs went up only slightly, mainly due to a tax increase that was enacted in Illinois in August. The overall club budget, which consists for the most part of salaries and wages, was up an estimated 8 per cent in 1969. At most clubs it was necessary to raise food and liquor prices by from 5 to 10 per cent to absorb the increased costs.

Weather played an important part in the economy of Chicago district clubs this season. Rain knocked out a high percentage of business in May and June and the early part of July. (See September issue of GOLFDOM, page 69.) Golf car revenue was down by a considerable margin. So was the pros' gross. It even hurt the maintenance departments, some of which had to pay a good deal of overtime to keep fairways mowed. However, most managers say that restaurant and lounge volume wasn't seriously affected by the rainy weather.

From 1965 to 1969

A comparative study, however, of the 1969 Chicago District Golf Assn.'s Directory of Information with the CDGA's 1965 Directory shows that inflation has laid a heavy hand on country clubs in the last four years. Exactly how heavy is impossible to assess because of several changes that have been made in the CDGA's method of collecting and presenting operational statistics since the 1965 Directory was published. But there can't be much doubt that the cost of operating a country club or belonging to one is doing considerably more than inching up, outrunning, for example, the increase in the Labor Bureau of Statistics' Consumer Price Index by quite a wide margin.

From the end of 1964 until the end of 1968, the Index rose from 108.1 to 121.2, a difference of 13.1 inflation points. Using the 1964 figure as a base, the four-year increase amounts to 11.2 per cent.

Random figures selected from the 1964 and 1968 CDGA directories show that grounds and greens labor costs, a prime indicator in judging the trend of country club operational costs, are up 9 per cent, according to one way of reckoning, and 22 per cent, according to another. The cost of buying chemicals and fertilizers, for example, increased about 20 per cent in the four-year period, while gas, oil and grease prices went up around 15 per cent. Lesson fees were 25 per cent higher in 1968 than in 1964, and club cleaning and storage charges advanced slightly more than 15 per cent. From a per-
centage, standpoint, the biggest bite taken in a club's budget was taken by the swimming pool operation—a 45 per cent increase. Fortunately, the cost of running a pool at the average club doesn't exceed $11,000 or $12,000 yearly.

For the 1969 Directory, the Chicago District polled only 35 of its member clubs to get complete club operation information. In addition, it sent shorter questionnaires to 80 clubs.

In presenting operational statistics, the CDGA classifies clubs by sections—North, South, West and Peripheral. The 1969 Directory, of course, covers 1968 operations, just as the 1965 Directory, covers operations for 1964.

Labor costs (which don't include the superintendents' salaries) accounted for 50.2 per cent of the money spent in maintaining grounds and greens at Chicago District clubs in 1968. In 1964, they accounted for 46.1 per cent. The difference of 4.1 per cent, based on the 1964 figure, represents about a 9 per cent increase in labor costs. Figured this way, the increase in labor costs over the four-year period lagged behind the Labor Index percentage of 11.2.

However, the spread in course maintenance wage rates between 1964 and 1968 in the Chicago area shows the 9 per cent figure to be too low. In 1964, the hourly wage rate for 51 member clubs averaged about $1.75. In 1968, the average for 27 clubs was $2.14. Using 1964 as a base, the hourly rate increased more than 22 per cent in four years, or twice the CPI figure quoted for 1968. Another factor that has increased grounds and greens labor costs is that clubs are now keeping five year-round men on their staffs compared to three men four years ago. The average seasonal staffs of 11 are the same for both 1964 and 1968.

The cost of purchasing sand, soil, chemicals, fertilizers and seeds for grounds and greens maintenance in 1968 took 12.6 per cent of the superintendent's budget. In 1964, this percentage was 10.5. Gas, oil and grease purchased in 1964 ran to 2.1 per cent of total expenses in contrast to 2.4 in 1968. At first glance, the difference appears minimal, but it amounts to an increase of about 15 per cent. Since quantity purchases of these items is about the same from year to year at most courses, the difference is due to inflation.

Capital expenditures reported by 20 CDGA clubs in 1968 averaged close to $18,000 in contrast to $14,400 four years before by 39 clubs. On the average, these expenditures were up sharply at South and West clubs, but down by a large margin at Peripheral clubs. One club completely rebuilt its course at a cost exceeding $300,000. This figure was omitted from the CDGA statistics to avoid distortion.

The summary of the professional operation is not quite as extensive for 1968 as it was four years ago because salaries and retainer fees paid to the pro, plus some other items pertaining to his business operation, are now classified as confidential. However, items such as lesson charges, club cleaning and storage charges are covered extensively in the Directory. The lesson fee at 55 clubs now averages $5.25 for a half hour compared to $4.35 four years ago. Charges for cleaning and storage have gone up from $17.50 to $20.75. Most pros hasten to explain that these increases haven't proven to be much of a windfall because of the higher wages paid assistants.

Average salaries of assistants aren't listed in the Directories for either 1964 or 1968. However, the latter publication carries the information that only three out of 25 clubs pay even part of the salaries of assistant pros.

The pay of caddiemasters has improved appreciably at Chicago District clubs in the last four years. In 1964, 27 clubs paid their caddiemasters an average of about $375 per month. In 1968, this figure was increased to $508 for 22 clubs. Most of the city clubs are paying caddiemasters a minimum of $500 monthly and some are topping the $600 mark. At the Peripheral clubs, however, the scale is closer to $400. Assistant caddiemasters are now making about $275 a month in contrast to $212 four years ago.

One place where the inflation line is being held is in the golf car operation. In 1968, the rental average at 73 clubs was just slightly under $8 per 18 holes. Four years ago, it came out to $7.75 for 53 clubs. Three clubs are getting as high as $10 for each car rental. One club rents its cars for $1.20 for nine holes, and at two others, the charge for 18 is only $4.50. Annual income per car, the Directory notes, ranges from as low as $110 to a high of $936. There is a footnote here, incidentally, in which the editors question the reliability of golf car income figures; stating that accounting methods at various clubs apparently aren't standardized in determining car rental profits.

Thirteen out of 25 clubs require caddies to accompany players who drive. This is consistent with past policies of CDGA clubs. A breakdown of the caddie report from 55 clubs shows that the pay rate per 18 holes is about $3.85. It is impossible to make an exact comparison between the current rate and that of four years ago because the Directory no longer classifies caddies as Honor, or Class B. However, in 1964, an Honor caddie averaged $3.35 for 18 holes and a Class B,
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HIGH COST
continued from page 48

$2.65. Assuming the average for the two classes to be $3 a round, the youngster who is carrying clubs today is faring somewhat better than he did four years ago.

The inflationary trend is strongly evident where the swimming pool operation is involved. Four years ago, 51 CDGA clubs ran their pools at an average cost of about $7,600 a year. Now it costs close to $11,000, according to figures supplied by 24 reporting clubs. The $3,400 difference is largely the result of increased salaries. In 1964, these salaries totaled about $4,200 per club; now the figure is close to $6,400.

The campaign to get more members to patronize the clubs' restaurants and bars apparently is paying dividends. In 1964, the average gross for 40 CDGA dining room operations was close to $121,000. Bar revenue at the same number of clubs averaged nearly $80,000. Contrast these figures with the 1968 averages: about $175,000 for restaurants and $102,000 for bars. The Bureau of Labor Statistics shows that the food index between the end of 1964 and 1968 increased from 106.4 to 119.3, or almost exactly 12 per cent. The distilleries, however, must know something about holding the price line because the whiskey index is now only 108.7, in comparison with 104.9 at the end of 1964. This represents an increase of only 3.65 per cent.

The same reasoning can be applied to bar revenue. Multiplying the 1964 figure of $80,000 by 3.65 per cent to account for inflation, and assuming no growth in volume over the four-year period, 1968 sales would have averaged about $83,000. However, as you will note, they are up to $102,000. So, once again the persuasive promotional hand of the club manager is in evidence.

Cost ratios (sales divided by cost of products) for 1968 and 1964 were remarkably steady for both restaurant and bar operations. (See chart below.)

The cost/sales ratio, according to the CDGA, should be kept below 48 per cent if the club restaurant is to avoid a deficit operation. The average service charge increased from about 10.5 per cent in 1964 to 15 per cent in 1968. Comparisons between operating costs (wages and salaries for chefs, cooks, waitresses, bartenders and others) can't be made for the two years because information for 1964 is unavailable.

The 1960 CDGA Directory of Information runs to 36 pages of statistical and miscellaneous information. But, there's nothing about how to curb inflation.

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<th>Cost ratios 1968 and 1964</th>
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HOW THE GOVERNMENT CAN UPSET

By KEN EMERSON

Trying to second-guess the Government will add to the frustrations of budget preparation this year. The impending Federal Minimum Wage and Tax Reform bills and increased state taxes could markedly affect clubs' finances. But intelligent predictions of the outcome are almost impossible.
The club industry will probably remember 1970 as "the year of the budget."

Never before have clubs been more aware of the need for serious budget planning. Never before has it been so difficult to make the kinds of intelligent predictions that are imperative to accurate forecasting.

In many cases the economic waters are being muddied by dramatic changes within the business environment of the clubs and the club memberships. However, with increasing frequency pending governmental activities in both Federal and state legislatures make it difficult to anticipate many of the factors likely to affect a club's budget.

The two areas most likely to be influenced by future legislative action are payroll costs and taxes. While it is entirely possible that more light may have been shed on some parts of the tax picture—principally those affected by the Federal Tax Reform bill—by the time this is read it is highly unlikely that state taxes and payroll costs will be similarly illuminated before mid-1970.

The reason for both uncertainties is essentially the same. Action on state taxes will not take place before the various state legislatures convene for their 1970 sessions; the new Minimum Wage bill, although introduced in both Houses, is unlikely to come to a vote before Congress meets next year.

However, if workable budget forecasts are to be made, consideration will certainly have to be given to both of these tax areas as well as to the Wage Hour Law. An examination of the three show just how vital they are to the golf industry.

Wage Hour Law 1969

This piece of legislation includes four points that can affect clubs, one or more of them will apply to nearly every club in the country and will result in increased payroll expenses. They are: 1) a minimum hourly wage of $2; 2) elimination of the culinary overtime exemption; 3) elimination of the tip credit; and 4) elimination of the $250,000 exemption which will bring all clubs, regardless of gross income, under the law.

Just how seriously the wage law will affect each club depends largely on whether or not that club is presently covered by the law and to what extent it is making use of the various features of the law. It is expected however, that it will have a measurable impact on most clubs. While the National Club Assn. expects to testify during hearings, given the present attitude prevailing throughout the country, it appears that most provisions of the bill will pass.

Tax Reform Act of 1969

It is probable that this bill will pass the Senate during the current session in substantially the same form approved by the House. The following sections are those most likely to affect a club's budget. The bill extends the unrelated business income tax to private clubs. Unrelated business income is defined as "the gross income (excluding exempt income), less deductions which are directly connected with the production of that income." It also extends the regular corporate tax to the investment income of clubs. A club which is not exempt from taxation will be allowed deductions for goods, services and insurance, only to the extent derived during that year. The bill does not call for a tax on capital gains realized from the sale of club properties.

If the bill passes the Senate in its present form it will mean that the only club income exempt from taxes will be "the gross income from dues, fees, charges, or similar amounts paid by members of the club as consideration for providing such members or their guests goods, facilities, or

continued on page 54
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