

Analysis shows owning golf cars more profitable than leasing

by Richard A. Newell, C.P.A.

Next to the clubhouse facilities and condition of the golf course, the golf car fleet is probably the largest investment and selling point of golf course operations. In order to maximize play and attract new golfers it is imperative that the course have an adequate fleet of properly maintained golf cars.

There is probably nothing more frustrating to a golfer than to have the

car he rented (at a rate of \$10 or so per round) die on him at the 13th tee. (Especially if he has just sliced the ball out of bounds for the thirteenth consecutive time.)

When faced with the need for a new fleet of cars, management must consider the financial differences of leasing versus purchasing. Prices in the golf car industry, like prices throughout the economy, have been consistently rising over the past years. Accordingly, what seemed like a modest investment 4 years ago may today be unbearable. But assume we have recognized the need to replace our fleet of 100 golf cars and now we must consider the financial differences of leasing or purchasing.

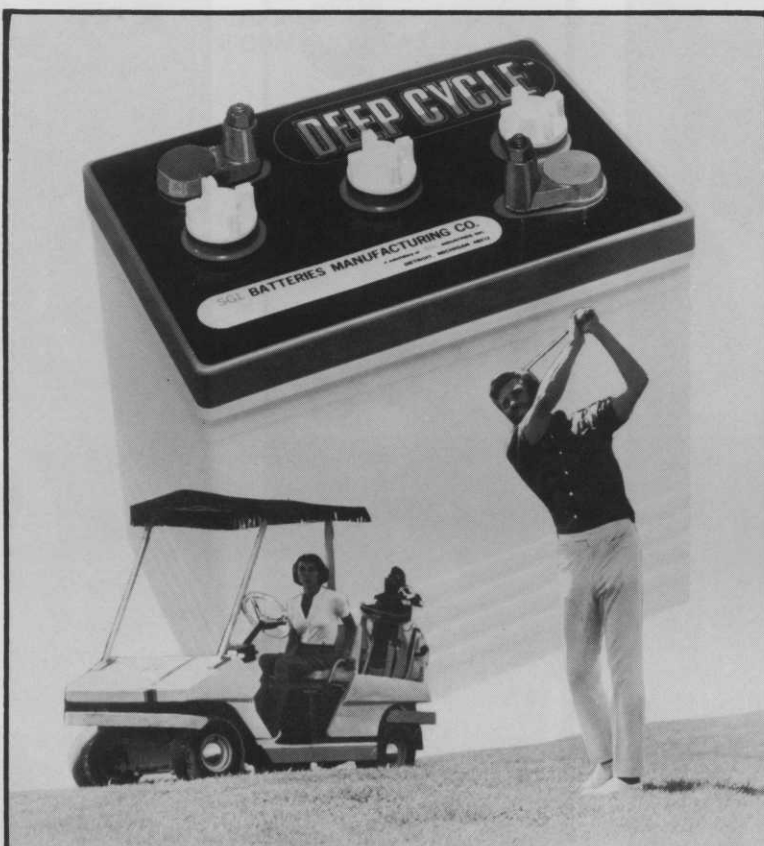
We will make certain assumptions in order to illustrate the considerations necessary for our conclusion. The reader is cautioned to remember that different assumptions could produce different results. The process for deriving our conclusions, however, would be the same.

Assume we purchased our existing fleet of 100 electric golf cars 4 years ago at a price of \$900 each; adequate maintenance by our cartman provided 14 months of average battery life and average parts cost per car of \$10, \$20, \$30, and \$40 in years one through four respectively. Further assume that we used accelerated depreciation (sum-of-the-years digit method) with \$100 salvage after 4

“How much per month would it be worth to us not to have to worry about cartmen, their wages and benefits, battery and parts replacements, insurance, personal property taxes, and servicing of debt?”



A management consultant specializing in the golf industry, Richard A. Newell was formerly treasurer of the largest golf car dealer in Florida. He practiced public accounting with a national firm of certified public accountants for six years.



**The dependable
SGL Deep Cycle™ battery gives you:**

-  **36 Holes between charges**
-  **A full 2 year warranty**

More and more golf course operators are specifying the SGL Deep Cycle™ battery to power their fleet of golf cars. The reason is simple. SGL Deep Cycle™ batteries stay energized longer. You avoid haul-backs and frayed tempers.

Look at it this way. An 18 hole golf course covers a lot of real estate. With the large number of cars dotting the landscape, you can't afford to go with anything less than the best. The SGL Deep Cycle™ battery was specifically designed for golf cars and it is the best.

This battery will give you a full 36 holes between charges and will still have power to spare. What's more, we back it with a full two year warranty.

Want the details? Call or write to Greg Kemp at the address shown below. Greg can answer any question you may have about golf car batteries, and you won't obligate yourself in any way.

Call him today.

SGL Batteries Mfg. Co.

A subsidiary of SGL INDUSTRIES, INC.

14650 DEQUINDRE
DETROIT, MICHIGAN 48212
(313) 868-6410

years in depreciating the golf cars on our books. We have a good cartman we are paying \$3.50 per hour and a helper to fillin on the weekends at \$2.50 per hour. Our revenues from golf car operations over the next 4 years are anticipated to be \$156,000, \$172,000, \$194,000 and \$208,000 respectively. We have received a proposal to buy our existing fleet at \$200 per car, sell us new cars at \$1,300 each, or lease us cars on a 50/50 percentage lease (the lessor and lessee split the revenue from golf car rentals) with the lessor providing the necessary cartmen and all maintenance.

Should we lease or purchase?

What must we consider before we decide?

From a quick review of the situation we can see that the price of the golf car has increased 44 percent over the past 4 years. What was an original investment of \$90,000 has increased to \$130,000. In addition, interest rates have increased from 8 per-

"From the profit analysis table, it appears more profitable to own the fleet than to lease."

cent to 12 percent. We must consider what effect such changes will have on our operations in regards to profit and cash flow.

When considering the effect on profits we can make the analysis shown in Table 1 (opposite page).

From the profit analysis table, it appears more profitable to own the fleet rather than to lease. Over the 4-year period owning the fleet will produce \$54,283 (or 29 percent) more net income than if we lease the fleet. In addition, at the end of the 4-year period we will still have assets with a depreciated value of \$10,000.

Now consider the effect on cash flow, as outlined in Table 2 (page 34).

Again we see that owning the fleet appears more favorable than leasing. Over the 4-year period, owning the

Table 1: Profit analysis

YEAR	LEASE				PURCHASE			
	1	2	3	4	1	2	3	4
INCOME:								
Golf Car Rental Revenue	\$156,000	\$172,000	\$194,000	\$208,000	\$156,000	\$172,000	\$194,000	\$208,000
Gain on Sale of Assets (1)	10,000							
TOTAL INCOME	\$166,000	\$172,000	\$194,000	\$208,000	\$156,000	\$172,000	\$194,000	\$208,000
EXPENSES:								
Rental Percentage to Lessor	78,000	86,000	97,000	104,000				
Depreciation (2)					44,000	33,000	22,000	11,000
Cartmen Wages (3)					12,610	12,610	12,610	12,610
Cartmen Benefits (4)					1,290	1,290	1,290	1,290
Battery Replacements (5)						15,000	15,000	7,500
Parts replacements					1,000	2,000	3,000	4,000
Insurance (6)					1,500	1,500	1,500	1,500
Personal Property Taxes					1,500	1,500	1,500	1,500
Interest (7)					12,000	9,000	6,000	3,000
TOTAL EXPENSES	78,000	86,000	97,000	104,000	73,900	75,900	62,900	42,400
Income Before Taxes	88,000	86,000	97,000	104,000	82,100	96,100	131,100	165,600
Income Taxes (8)	44,000	43,000	48,500	52,000	41,050	48,050	65,550	82,800
Investment Tax Credit (9)					(4,333)			
NET INCOME	\$ 44,000	\$ 43,000	\$ 48,500	\$ 52,000	\$ 45,383	\$ 48,050	\$ 65,550	\$ 82,800

- (1) By leasing, a gain of \$100 (\$200 trade-in — \$100 book value) per car would be recognized in the first year.
- (2) If the fleet is purchased, the \$100 gain per car on trade-in would be used to offset the purchase price of the new cars. Thus the depreciable value of each new car would be \$1,300 — \$100 salvage value — \$100 gain on trade-in = \$1,100.
- (3) Assume 10 working hours per day, 7 days per week and 52 weeks per year. Number one cartman works 50 hours per week (40 reg., 10 OT) and number two cartman works 20 hours per week.
- (4) Benefits which represent employer's share of FICA taxes, unemployment taxes and insurance are estimated at approximately 10% of wages.
- (5) Cost per set of batteries is estimated at \$150 with only 1/2 set per car anticipated in fourth year.
- (6) Includes only physical damage coverage since liability coverage is assumed to be included with coverage on clubhouse and course insurance.
- (7) Assume \$30,000 down payment, financing of \$100,000 payable in four equal installments with 12% interest.
- (8) Assume a 50% tax rate.
- (9) Investment tax credit of 10% on 1/3 of value of property with depreciable lives of 3 years or greater but less than 5 years.

Stated graphically:

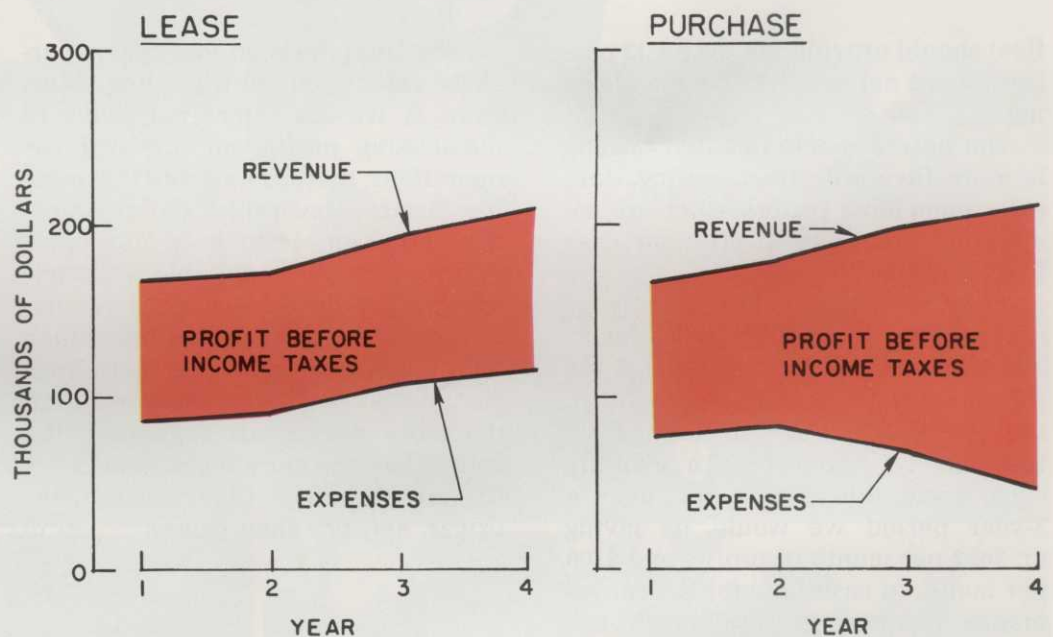


Table 2: Cash flow analysis

YEAR	LEASE				PURCHASE			
	1	2	3	4	1	2	3	4
CASH INCOME:								
Golf Car Rental Revenue	\$156,000	\$172,000	\$194,000	\$208,000	\$156,000	\$172,000	\$194,000	\$208,000
Sale of Present Fleet (1)	20,000							
TOTAL CASH INCOME	176,000	172,000	194,000	208,000	156,000	172,000	194,000	208,000
CASH OUTLAYS:								
Rental Percentage to Lessor	78,000	86,000	97,000	104,000				
Cartmen Wages					12,610	12,610	12,610	12,610
Cartmen Benefits					1,290	1,290	1,290	1,290
Battery Replacements						15,000	15,000	7,500
Parts Replacements					1,000	2,000	3,000	4,000
Insurance					1,500	1,500	1,500	1,500
Personal Property Taxes					1,500	1,500	1,500	1,500
Interest					12,000	9,000	6,000	3,000
Down Payment (2)					30,000			
Principal Payments (2)					25,000	25,000	25,000	25,000
Income taxes	44,000	43,000	48,500	52,000	36,717	48,050	65,550	82,800
TOTAL CASH OUTLAYS	122,000	129,000	145,500	156,000	121,617	115,950	131,450	139,200
NET CASH INCOME	\$ 54,000	\$ 43,000	\$ 48,500	\$ 52,000	\$ 34,383	\$ 56,050	\$ 62,550	\$ 68,800

(1) Sale of existing fleet at \$200 each (100 x \$200) = \$20,000.

(2) Down payment of \$30,000 would be made at beginning of year while first payment of principal would be made at end of year.

fleet should provide \$24,283 (or 12 percent) more net cash income than leasing.

But before concluding that owning is more favorable than leasing, consider some other factors which are not apparent from our profit and cash flow analyses.

Most lease agreements are only for a three-year period. Thus the favorability of owning is reduced to \$23,485 (17 percent) and \$7,483 (5 percent) in regards to profits and cash flow respectively. Reduced to a monthly calculation, this means that over a 3-year period we would be giving up \$652 per month in profits and \$208 per month in cash flow for the convenience of leasing. How much per month would it be worth to us not to have to worry about cartmen, their wages and benefits, the maintenance of the golf cars in regards to battery and parts replacements, insurance, personal property taxes, and the servicing of debt required to purchase the cars? In addition, how much additional business and reputation may be gained by having a new fleet of golf cars every 3 years instead of every 4 years?

The final decision to lease or purchase rests upon our operating objectives. If we are interested solely in maximizing profits on our golf car operations, there is no doubt that owning is more favorable. If our objective, however, is to keep our operations as simple as possible while trying to develop a prestigious reputation, then we must decide how much additional our golf car operations should cost. Realizing, of course, that the more prestigious reputation the course has, the more it can demand in its membership fees, restaurant prices, and pro shop prices. □

