

Smart management and golf car profits — making a good thing better

by Devereux C. Josephs, Jr.



photo courtesy Sandestin

In all discussions about the role of cars in the sport of golf, the most important fact often gets the least mention — that they are a large cash producer for the club or course that operates them. In fact, the profits from golf cars often exceed those of the bar. And in most cases, these profits can, by proper car selection and management, be made even better.

Historical perspective

The biggest factors in the emergence of golf cars as a profit-making asset are the basic policy and attitudes of players and clubs regarding the use of golf cars. Ten years ago, when golf cars were still a novelty, golfers and greens committees alike tended to look down their noses at them, claiming that they were effete, they took the exercise out of the sport, they damaged the turf, and (since most of the early cars were gasoline driven) they

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were smelly and noisy. As a result of these attitudes, most clubs would own only one or two for use by the elderly or infirm, and then only with a letter from their doctor.

But as experience was gained, some interesting facts began to emerge. It was discovered that the use of golf cars speeded up play, allowing more people to use the course in a given day, and generally making the game more enjoyable (and, it might be noted, more productive of greens

fees). The cars didn't damage the turf: in fact, it was discovered that the golf car did far less damage than the eight feet of the two players plus their caddies.

The advent of electric cars took the smell and noise out of the picture. And it was discovered that cars, far from being a costly headache, were profitable and required little care.

The total number of golf cars in use today (over 446,000, according to National Golf Foundation figures) indicates that most clubs have long since bowed to popular demand and have large fleets of golf cars available for use. Usage rates vary from around 50 percent of total rounds played to 100 percent in the case of the courses that have gone to a policy of requiring the use of cars as a condition of play. A large number of clubs, and nearly all resorts, have taken this step.

How many and how much?

How many cars does a course need? This depends on the number of rounds of golf played each season, the number of months the course is open

for play, and — most important of all — the aforementioned usage rate. But a typical 18-hole course, with car use optional but encouraged, will usually require a fleet of 45 to 50 cars to ensure that the players' needs are met on a normal Saturday or Sunday in July or August. Our discussion of golf car economics will therefore center around a fleet of 45 cars. We will also base it on the choice of a four-wheel, electric model, this being the type of car that is emerging as dominant in the market.

What does a fleet of 45 four-wheel, electric golf cars cost? Depending on quality, features of performance, safety, and accessories (canopies, windshields, etc.) desired, a golf car can cost, delivered to the club, anywhere from \$1,300 for the cheapest to \$1,700 for one of the best. Let's assume our club buys the top of the line: 45 cars at \$1,700 — an investment of \$76,500.

There's an immediate question of whether the cars should be purchased or leased. Assuming the club must borrow the funds if it wishes to purchase, there is not a great deal of difference in the economics. Ownership with borrowed funds entails monthly payments different from lease payments only in that clubs can generally borrow at a lower interest rate than is implied in most lease

plans. (NOTE: This is not true for resorts and privately-owned public courses; the tax-paying status of these courses often dictates leasing because of the tax-deductible nature of the lease payments.) In either case the club will bear the maintenance, operating, and insurance costs, either directly or indirectly.

At current interest rates, on a 3-year contract (which is the most usual), the monthly finance payments on a value of \$76,500 will be about \$2,500 per month, or \$30,000 per year. Needless to say, this amount per year will have to be paid whether the club is open for play all year, or only part of the year. The revenue from the rental of cars, on the other hand, is very much affected by the number of months the club is open for play.

Let's look at two cases: the year-round course, and the course that can only be open 7 months out of the year. For courses such as these, the following represents a conservative estimate of the average revenue to be gained from a fleet of 45 golf cars:

| | Seasonal club (7 months) | Year-round club |
|------------------------------|-----------------------------|--------------------|
| No. of rounds of golf/year | 15,000 | 21,000 |
| No. of car rounds | 7,500 | 10,500 |
| Annual revenue at \$10/round | \$75,000 | \$105,000 |

It will be noted that these revenues are based on 100 percent usage. Some clubs may wish to allow their members to carry their own clubs or use pull carts; others may have, and wish to promote, a strong caddy program. But no matter: the above shows the income potential that is there if the club wishes to avail itself of it. It should also be noted that car rental rates are on the rise: \$12 per rental is beginning to be seen at some clubs.

Annual costs of operation for 45 electric cars break down, on the average, as follows:

| | Seasonal club (7 months) | Year-round club |
|------------------------|-----------------------------|--------------------|
| Maintenance | \$ 8,700 | \$12,900 |
| Battery replacement | 3,600 | 3,600 |
| Electrical power usage | 1,600 | 2,300 |
| Insurance | 1,500 | 2,100 |
| Total | \$15,400 | \$20,900 |

The maintenance figure in this total includes an allowance for the time spent by a club employee in checking the batteries for water level and hooking them up to their chargers each night. To the extent that this employee might be on the payroll full time in any case, the figure shown could be regarded as excessive. Similarly, the battery replacement figure is based on 2 years of life in both cases; with care in winter storage, the 7-month club can get a longer life out of its batteries. And battery life can be even further extended in both cases if the car is of a type that enables it to do multiple rounds in a day without "deep cycling." Power usage and insurance costs are averages; these vary between different parts of the country.

The profits from golf car operations can now be determined:

| | Seasonal club (7 months) | Year-round club |
|---|-----------------------------|--------------------|
| Revenue | \$75,000 | \$105,000 |
| Ownership costs (lease or finance payments) | 30,000 | 30,000 |
| Operating costs | 15,400 | 20,900 |
| Total costs | 45,400 | 50,900 |
| Net Profit | \$29,600 | \$ 54,100 |

These net profits are just that: they are net, free and clear, usable for any



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purpose the club wishes. They're averages, of course, and many individual cases will differ in one direction or the other. But the fact remains that golf cars are profitable for the club or course that operates them, and to a degree that makes them one of the club's most important assets.

Low prices gone forever?

Let's go back for a moment to the question of price. The profit figures shown above were based not on the cheapest car available, but on the most expensive. Needless to say, the above profits could be even bigger — by up to \$7,500 — if the cheapest car available is purchased. But this wouldn't be realistic, because the cheaper golf cars aren't going to be around much longer.

As the golf car market mushroomed during the last 10 years, many firms rushed to enter it and competition, coupled with the early reluctance of clubs to buy cars at any price, gave rise to a minimum price structure in the industry which didn't afford either the distributor or the manufacturer much of a profit. Since then, the market has matured, and a number of the firms that led the vanguard in low pricing have closed their doors. The remainder are now beginning to price for profit, and it won't be long before the \$1,700 used in the foregoing will be an average retail price, not a maximum. Luckily, the initial price isn't critical: it's pretty clear that higher prices for golf cars are not going to spell the difference between profit and loss to the club. The club can buy the best, and still enjoy a very favorable cash flow.

Smart management profits most

How can the profits from golf car operations be managed to ensure that the club actually gets the most out of its investment?

First, car selection. It is a fact that some makes of cars get more out of their batteries than other makes and thus are more economical in use. But there is an additional benefit here that is often missed. That is that the more conservative of power a car is (expressed as the number of holes it will go on a single charge), the more rounds it can be counted on to complete on the busiest days, with the result that fleet size doesn't have to be



photo courtesy Taylor-Dunn

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as great to meet peak needs. A reduction in fleet size of only five cars gives a tremendous boost to net profits without affecting total revenues.

The next area is that of revenue. As we have seen, revenue is a function of car usage policies and daily rental rate, both of which are under the control of the club. The most profitable avenue, obviously, is to make car usage mandatory, have enough cars to accommodate capacity usage of the course, and charge the going rate for their use.

Care in maintenance, particularly the batteries, is the third most important area. Every month that battery life can be extended by maintaining correct water levels and by proper charging pays large dividends in battery life.

Here, too, it pays to buy the better

product. Not all cars have the same performance characteristics, and some offer low price at the cost of high power consumption and short battery life. It's also important that the players who use the cars be properly instructed in how to drive them: because of the nature of the speed control in all present day golf cars, battery life can be greatly affected by driving habits. And other costs are involved. Surprisingly, people who are responsible, careful automobile drivers turn into demons on the golf course. Lawsuits, damage to the cars, and high maintenance costs can result from careless driving.

The remaining factors are less important. We have already seen that leasing versus owning with borrowed funds is not critical, except for a tax-paying course. The choice between three-wheel and four is to be decided on grounds of safety more than economy, and the choice between gas and electric is to be decided more on the grounds of noise and air pollution than economy. Insurance costs, the only remaining cost element, are seldom under the control of the club; but because four-wheel cars are more stable, they usually carry a lower insurance premium.

Some clubs seek to improve golf car profits by buying used cars, rather than new ones, every time they replace their fleets. This is possible: like regular cars, there are good buys available in used golf cars. If you know and trust your dealer, and if your membership doesn't care about appearances, then this can be a desirable avenue. But watch for excessive operating costs in used cars, particularly if the batteries are used too. And remember that the used cars will have little or no trade-in value left when it comes time to replace them. As with so many other things, what seems a bargain in golf cars can end up costing more in the long run.

To sum up

Properly managed, a golf car fleet can be one of a club's biggest income producers. The ways to insure the maximum profit from this source are the tried and true ways that spell success in any operation: buy a good product, encourage its use, charge a fair price for its use, and maintain it well. □