Feeling the Economic Pinch

Tough times force industry to evaluate purchases and practices with greater scrutiny

BY FRANK H. ANDORKA JR.
MANAGING EDITOR

Mark Claburn, superintendent at The Golf Club at Bradshaw Farm in Woodstock, Ga., feels the pinch of the tough economy in the place where it hurts most — his own wallet.

In the past, the management company that owns his club paid his way to shows and educational seminars. For 2003, the company recently told Claburn that he must pay for his educational needs out of his own pocket.

"I'll only be able to attend the educational meetings I can afford," Claburn says. "Since we'll also be foregoing raises here, I can tell you such travel will be kept to a minimum."

Claburn isn't the only one forced to deal with the harsh economic realities of 2002. The recession many experts expected to end late this year is still chugging along, and there is little relief in sight. In the golf industry, rounds are down 1.9 percent nationwide through September, with courses in destination spots and those linked to resorts getting hammered the hardest. The building boom of the 1990s, which resulted in many areas of the country having too many golf courses, has led to price wars and revenue depression. Unfortunately, experts expect 2003 to be more of the same.

Has The Economy Had An Impact On Your Course's Revenue?

The down economy has forced many segments of the industry to be more careful in the way they spend their money. A recent Golfdom online survey, which took the pulse of more than 110 superintendents across the country, revealed that 71 percent of respondents said the economy has affected their courses' revenues, though most report that it hasn't affected their maintenance budgets — yet. Manufacturers say they've heard superintendents asking hard questions about the overall return on investment of products before purchasing them, something they hadn't asked as often before.

While 2003 doesn't look much better than 2002, the upside is that superintendents have become more adept at dealing with economic fallout after suffering through a rough year this year. One observer says the economic downturn has had at least one positive effect: More attention was paid to the bottom line than ever before.

Supply outpaces demand

Jeff Normandt waited 10 years to fulfill his dream of owning a golf course. He finally purchased Valley High GC in Houston, Minn., a 22-mile drive from the border town of LaCrosse, Wis., where he became the owner/superintendent in 1997. His research showed that much of his business came from LaCrosse's business community, and he was excited about the possibilities for growth that the course offered.

Unfortunately, the area was overbuilt in the late 1990s and has up to 200 golf holes to support a population of 50,000. As a result, Normandt's course suffered revenue drops between 5 percent and 10 percent for the first three years he owned it. Then the recession, which came in with a whimper in March 2001, evolved into a full-blown lion as the year wore on, ripping apart corporate bottom lines and devouring large pieces of what was left of Normandt's business in the process. The
recession, which forced several of LaCrosse’s largest companies to close, is threatening to finish him off. Now his dreams are nearly in tatters, and Normandt says he’s facing up to the possibility that he may have to sell the course.

“It’s unfortunate that it’s come to this,” Normandt says. “We’ve been a casualty of the golf course building boom and the down economy.”

To try and stay afloat for another year, Normandt says he’s planning on offering free golf next year during certain times of the day, charging only for carts. Meanwhile, he and his partner are talking through their options, including a possible sale. His heart sinks over the possibility of having to ditch the dream he’d worked so hard to create.

“It’s a difficult decision to make,” Normandt says. “I always hear superintendents talk about wanting to own golf courses. I wonder if they know what they’re getting into.”

Normandt’s struggles are emblematic of problems affecting the entire industry, says Tom Bruff, managing director of Dallas-based KPMG’s golf practice. The number of courses built in the 1990s isn’t supported by the number of golfers playing the game. In some areas of the country, that’s meant hard times for golf course operators and superintendents.

“There’s no easy way to deal with the oversupply,” Bruff says. “It’s nearly impossible to return golf courses to other land uses because so many of the newer courses are part of housing developments. You can’t tear up a course if there are people living on its periphery who have paid a premium price to have it in their backyards.”

Bruff, who expected a flurry of golf course deals in 2002,

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says differences between the prices that owners are seeking and the prices that buyers are willing to pay scotched sales this year.

Paradoxically, low interest rates have also kept some owners holding on in the hopes that 2003 will be better.

Bruff also believes tight credit has hindered transactions from getting done. "There aren't as many lenders who are willing to finance deals. But the tide may be turning. GMAC Finance Corp. recently announced that it is entering the golf lending market. Bruff says that may bring some liquidity back to the market, but not enough to promote a complete recovery.

"It's tough out there," Bruff says. "It will take two or three more years before we make it out of this hole."

Mike Hughes, president of the National Golf Course Owners Association (NGCOA), confirms that the number of golfers playing the game doesn't support the number of golf courses in the country. In fact, the number of golfers has remained flat for the past several years while new courses are still being constructed.

"Resort courses and higher end destinations have taken the worst hit, and corporate business is down significantly," Hughes says. "We're hoping the economy will pick up and alleviate some of these problems."

Reduce building, add golfers

Hughes says the industry is already taking into account overbuilding that has bloated golf course supply in this economy. The next step is to create industry-wide programs to increase golfer participation.

"All facets of the industry — the owners, operators, superintendents and the like — must make a concerted effort to bring new players into the game," Hughes says. Continued on page 8A

Steve Tubbs, president of Turf Merchants, says superintendents should plan to pay more for seed in 2003. The market has finally worked through the excess that was created by the AgroBioTech bankruptcy, and supply will be lower than it has been in years.

"That's good news for those of us in the seed business, but it may not be good news for superintendents who haven't planned for it," Tubbs says. "We've had two years of oversupply, but those days have run their course. Now prices will return to normal."

Tubbs says the overseeding market suffered this year because fewer clubs could afford to continue to overseed wall-to-wall, cutting back on Greens and greens. But next year, prices for seed will climb, and superintendents should account for that in their budgets.

"In the past, superintendents have budgeted $40,000 for seed and only spent $30,000," Tubbs says. "The next year, they've budgeted $30,000 and spent only $20,000. But if they budget only $20,000 for next year, they'll be in for a rude surprise."

The greatest factor in bringing supply more in line with demand was the decision by Oregon farmers to take between 60,000 and 100,000 acres out of grass seed production and turn it to more profitable crops, such as wheat. The acreage represents 25 percent of the previously active seed fields that will no longer produce seed, Tubbs says.

"We feel the worst is behind us and that the seed market will pick up starting next year," Tubbs says. "We've been surprised at how quickly the oversupply moved through the market, but it's gone now."

-Snow: No Cutbacks on Chemicals

In a normal year, Rick Slattery spends between $15,000 and $20,000 on fungicides to combat turf disease at Locust Hill CC in Rochester, N.Y. This year, he spent $8,000 over his budget. Of course, 2002 was not a "normal" year. Slattery and other superintendents, especially in the Midwest and East, witnessed tremendous disease pressure on their courses brought on by severe weather. Hence, they spent more than usual on pesticides to suppress disease. While golf courses nationwide felt the economic pinch, most didn't let that dictate their spending on chemicals to combat disease, even if they were overbudget.

"That's the last thing superintendents would cut back on," says Jim Snow, national director of the USGA's Green Section in Far Hills, N.J. "A club isn't going to be too happy if its superintendent decides not to spray to save money, and the course ends up getting clobbered by disease. [That superintendent] would be out on his ear."

Rather than cut back on chemicals, Snow says superintendents "cut back on the things that are easy to cut back on." Snow also believes superintendents didn't settle for cheaper products to combat disease to save money.

"They might have done that with preventative sprays for dollar spot," Snow says. "But when it comes to serious diseases that might clobber you, like anthracnose, they pick the products that do the best jobs."

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"This doesn't just affect owners. It affects everyone."

The slowdown is hitting some courses harder than others. Douglas Guns, superintendent at Brentwood GC in Elkton, Md., is a prime example. He says he can tell rounds are down at his course when he's out doing maintenance. "We don't see many golfers on Tuesdays through Thursdays," Guns says. "We used to host a lot of corporate outings, but those have fallen off dramatically. We lowered our prices and that seems to have helped some — but we're clearly not having as many golfers come to our course as in past years."

"We're hoping the economy picks up and alleviates some of these problems."

MIKE HUGHES, PRESIDENT
NATIONAL GOLF COURSE OWNERS ASSOCIATION

The economic difficulties hit Guns hardest in the labor area. Workers joined his staff — and left it — at a record pace this year. Lower wages contributed to Guns' difficulties in keeping them.

"We couldn't give them the raises they wanted, so they could find better-paying jobs in other industries," Guns says. "I like to keep between seven and 10 people on the crew, but I'm having to get by with five or six. But at least the people who remained are happy. I keep telling them next year will be better."

There's also been grumbling in the clubhouse about other courses. Guns says he's heard golfers talking about how they've abandoned higher-priced courses because they don't feel they're getting value for the money they've spent. That's a message that resonates with Wayne Van Matre, superintendent and director of operations for Meadow Lakes GC in Prineville, Ore.

Meadow Lakes is a municipal course that has been medium-priced in an area known for its upscale courses. While those courses have lost rounds considerably, Meadow Lakes saw its rounds jump 15 percent to 20 percent, and revenues have jumped 20 percent to 30 percent.

"People are shopping for golf in numbers I haven't seen before," Van Matre says. "We expect to do well next year because our city continues to grow. We feel comfortable about what 2003 holds."

Despite the apparent appeal of lowering prices to snag new golfers, KPMG's Bruff warns owners against it. Once the upper courses lower their prices, the midpriced courses must follow suit.

"You get into a death spiral of prices that's hard to stop," Bruff says. "That depresses the entire region and hurts everyone in the process."

What to do in 2003?

Despite the hard times that befell many golf courses in 2002, superintendents who participated in Golfdom's survey feel their courses are well-positioned for the long haul. In fact, 66 percent of superintendents said they feel "very optimistic" or "kind of optimistic" about the overall economic health of their facilities. The question, however, is: What steps can golf courses take to keep their courses afloat until the economy comes back?

Ray Finch, owner of Emerald Dunes GC in West Palm Beach, Fla., says the down economy forced changes in the way he markets his course. In previous years, Finch relied heavily on business from hotels and meeting planners because West Palm Beach drew corporate business to the area. With Sept. 11 and an economy that's forcing companies to cut back on business travel, he's returned to his old advertising strategy of trying to attract more locals to his course.

"Everything has changed in this market," Finch says. "I
don't see travel returning to pre-Sept. 11 levels anytime soon, so we're going to have to get more local people to come to keep rounds at an acceptable level.

"It's a sensitive time for the industry," he adds. "We've never experienced anything quite like this before, but golf will be fine. There are more business people involved [with the game] these days, and they'll find a way to react to this economy."

Van Matre says he expects his city to advertise the course more in 2003, which will help keep rounds at a high level. "People are looking for good value in their golf experience, and we offer that," he says.

Guns says his owners must be optimistic about the future because they've told him to draw up a list of equipment he'd like to replace next year. He says he'd like to purchase more chemicals in 2003 than he did this year, particularly for algae and broadleaf-weed control. He was forced to cut back in both those areas this year because the hard economic times crimped his budget.

"I'm not going to get all of it, but at least they're letting me put together a list," Guns says. "I know a lot of my colleagues aren't even getting that opportunity."

Claburn says superintendents must be more careful than ever when spending money in 2003. He's planning on cutting back on capital improvements unless they have a positive impact on the revenues of the course.

"There are probably projects that we'll hold off on for a year or so until revenues start going up again," Claburn says. "My owner has asked me to spend money this year like it's my own, and I'm going to try to do that."

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Naumann: Distributors Faced Rocky Year

Don Naumann, president of Sierra Pacific Turf Supply, says independent distributors who come out of 2002 breaking even should consider themselves lucky.

"It's been a difficult year for a lot of distributors on the golf side of the business," Naumann says. "Superintendents have been trading down from higher-priced products to lower-priced products, and that phenomenon has narrowed profit margins. The overall situation has been tight."

Naumann says not all distributors faced a tough year because their businesses are often driven by relationships. The closer the relationship between distributor and client, the more easily the distributor will weather economic difficulties.

"We've seen superintendents become more focused on the fiscal side of the business," Naumann says. "They've had their budgets readjusted in these more stringent economic times. That's affected the amount of money they can spend, so they're doing it with more forethought."

Naumann says he expects the golf market to remain flat for the next year or two while the economy sorts itself out. He recommends distributors turn their attention to streamlining their internal operations, which will make them stronger once the economy rebounds.

"Distributors must place themselves in a good position to compete in a market where there is much more competition than in past years," Naumann says. "Tighten up your own operations in this down period, and you will survive."

--F.H.A. Jr.