Think of the budget as a yardstick by which you measure your financial progress

by PATRICK D. WILLIAMS

Why is the word “budget” so fearful? It literally strikes fear into normally brave souls. Most professionals think budgeting is nothing more than sheer drudgery. Many consider it a complete waste of time. Few actually give this management function the proper credit it deserves. The time you spend budgeting your golf shop operation may be the most important time you spend as a golf professional. If you have cash flow problems, it is the most important time that you can spend on shop management techniques.

Budgeting, or let’s call it control, is simply a plan of attack and nothing else. It is how you make assets equal liabilities. It is how you get the checkbook from red figures to black figures. It is the lifeblood of any, and I mean any, business operation. Think of it this way: If you have a sound and realistic budget, you only have to think about cash flow and all those kinds of things occasionally, not every waking hour. If you budget properly, it is funny how automatically those bills get paid. If you budget adequately, it is amazing how much easier it is to make those decisions on inventory investments. If you budget period, you have controls and objectives. It has to be better than nothing—by far.

When I refer to budgeting, I am not talking about a 400-page statistical analysis of the golf shop operation. I am not talking about carrying everything out to four decimal places. I am not talking about a plan that takes three hours a day to review.

I am talking about a very simple “nuts and bolts” approach to establish tangible controls for your business. We are merely setting some “markers” that we are trying to measure up to. We want something that tells us we made a mistake when we made it and not at year’s end. If we have a problem, it needs to be corrected now, not later when it may be too late.

That point is probably the major advantage associated with the budgeting management function. It gives you an opportunity to change before absolute disaster strikes. And regardless of how accurate your budget is, it is still only a yardstick. An example: Let’s assume you have a budget for your golf shoe inventory. You have decided, based on your past years performances, that you should invest $10,000 this year in golf shoes. That is all you should spend this year, you think. As your inventory comes in, you keep a general running check with the budget, leaving nothing to memory. The golf season gets into full swing, you get super busy. The shoe displays “look” sparse, so you order more shoes and continue to rock on through the summer and fall. No checking with the budget. Just a lot of hard work. Come mid-October, you get out the budget and check it with sales and inventory. Shoe sales $7,500; inventory of shoes on hand, $4,500. What does this mean? You are just $2,000 over budget. And why? Because you guessed at your needs rather than taking five minutes to check sales, inventories and budgets. Two thousand dollars doesn’t sound like a lot, but think about it this way. In most golf shops that $2,000 represents all of your net profit on $10,000 worth of golf shoe sales, your total average annual sales in shoes. You have invested your true profit in sale merchandise, or in next year’s inventory. It’s that simple. You have nev-
ATTACK continued

er sold more than $10,000 worth of golf shoes in one year in your life, and here you have $12,000 worth. Bad business and failure to stick to your plan of attack.

Obviously, the situation could be reversed. You could have ordered the shoes and you could have needed $15,000 worth of inventory rather than $10,000. But the point is that you can buy that stuff a lot easier than you can sell it. You can always get more shoes, but it's a lot tougher to get more customers. A budget is a two-edged sword. It is an indicator of highs as well as lows and it must be utilized accordingly. Remember, it is a constant measure, but it is not absolute fact. If you rigidly enforce a budget, that is just as bad as not budgeting. That means you are right come "heck or high water." That means you are maximizing profits. A "non-budgeter" generally minimizes profits.

At this point, let's tear off on a tangent. I recently interviewed a golf professional who has an interesting and I might add a very practical approach to his budgeting. Even though the approach would be considered simple to the comptroller of General Motors, this golf professional has a plan that would fit every golf shop that I've ever seen. The approach is as follows: Merchandise profits are to cover all administrative and overhead costs plus yield a minimum profit. And everything else is mine.

My good friend Ernie Sabayrac will probably not speak to me any more for putting that statement in print because of the words "minimum profit." But even Ernie would agree, because this professional tries to segregate other business from that directly related to the golf professional's professional service. Or should I say those services a golf professional is employed for.

Let's look at some numbers. This professional operates on the $50,000 theory. He contends that you need one assistant for each $50,000 in merchandise sales. So $100,000 means two assistants; $200,000 means four and so on. And for good measure, he adds two bag room men and a range boy. His net profit on sales based on 10 years of operation is 17 per cent of gross sales. He says also that he has never realized more than a 2 per cent net profit on merchandise sales over and beyond all costs associated with the golf shop. Sounds kind of bad until you analyze what he has left.

Assume that he does $75,000 in merchandise sales. At best after all costs are paid, he picks up $1,500 net. Then he walks over and picks up 100 per cent of everything else. Lessons, salary, golf cars, range and bag storage are all net, net. He is budgeting at the nth degree. If he can cover all costs with one phase of the operation, everything else is his. He has a plan of attack. Now obviously he budgets in some detail on both sides of the fence. He indicated that his detailed budgeting was as simple as X amount for equipment, Y amount for women's stuff and Z amount for men's stuff. All determinations are based on what he has done in the past to establish minimum levels. His employees are responsible for checking the budgets with sales and purchases. It's their "bag," not his.

We have not tried to get into any details on this man's budget, such as percentages invested here and there. The variances between types of clubs and courses make such comparisons superfluous. The key point is that he has a general plan of attack (a budget), then he breaks that plan down into several smaller plans. I asked him how much thought went into his budgeting each year. His reply, "About the equivalent of the time it takes to play 10 rounds of golf." That is a pretty cheap time expenditure for solid business planning.

During the course of the conversation on budgeting we discussed other aspects of the shop operation, which invariably got back to planning one's attack. He said that there was one thing about the profession that he had a hard time understanding. A man starts out playing golf. He works hard at it with thousands of hours of frustration and practice. He eventually turns professional and becomes an assistant. As an assistant he is energetic, hard working and is always planning ahead. Then, boom, he becomes a head professional and in 50 per cent of the cases just retires. This guy didn't mean retiring literally. He meant that these guys quit thinking, quit planning and quit being goal-oriented. Maybe he was making reference to budgeting everything.

At the close of the interview I asked the question concerning how one budgets paying his bills. He asked, "What do you mean?" I said, "You know, you get the merchandise in January and you pay for it 90 days later. How do you budget having the money available when it is due?" He answered, "If you have to tell a guy he needs to save some of that dough he's taking in to pay bills with, he shouldn't be a golf professional." His parting shot was that golf professionals need to understand and appreciate what it costs them to do business if they are ever going to be successful at planning, budgeting and making money. He believes that when you sell something you have to know what it cost you to sell it. When you ring up $100 on that cash register you had better realize or plan that only about $17 of the $100 is yours at best.

His final shot was that if you budget and plan you can take those discounts on purchases, but only if you budget and plan. He looks at discounts like they are 24 per cent interest payments. He doesn't understand why a guy doesn't take discounts even if he has to borrow the money from a local bank. Discounts are a part of his budgeting process whether it is physical or mental budgeting.

So what have we said in all this. You don't really need to budget or plan financially in your golf shop unless you want to. It is not an absolute necessity. However, if you plan to maximize profits and minimize worry you have to budget. We have said also that you don't have to prepare a big fancy-looking budget. Maybe all you have to do is make some notes on one sheet of paper. Regardless of your approach, you have a plan and most important you have the yardstick with which to measure your progress. It's that old theory that any planning or thought is better than no profits at all. Sit down and plan for 1973. You really owe it to yourself.
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by PATRICK D. WILLIAMS

The Professional Approach

PERSPECTIVES, OBJECTIVES
AND SUBJECTIVES

Here are some pertinent comments on a host of subjects.

1. Jim Butz’s comments on page 34G of the June issue of GOLF DOM were very sage. His statement relating to golf professionals “of old” and golf professionals “of new” brings up some interesting points. If you didn’t read his comments you should. He said, in or out of context, that it is not really fair to compare the old golf business with the new golf business. He is saying that the golf professional’s function was to concentrate on teaching, golf programs and playing. Now, he must perform those tasks as well as the myriad of duties associated with merchandise, golf cars and so on. I feel that the advent of merchandising in the golf shop (granted it is the only way you will make any dough) has misaligned the perspectives of many golf professionals. Today, too many professionals are so wrapped up in the business side of golf that they have forgotten why they were hired as the golf professional.

If you have ever listened to one of Ernie Sabayrac’s sermons you have heard him say a thousand times: “You, Mr. Golf Pro, were hired as a professional. You, Mr. Golf Pro, were hired to teach, play and expand the golf activity at your club. You, Mr. Golf Pro, make your living by selling merchandise. Now you tell me how do you do both those things at the same time?” He makes a great deal of sense. Here is a guy in the business of selling you merchandise who is saying, “Do what you know how to do best” and get some other kind of professional to handle your merchandise business. He’s saying free yourself to teach, play and expand the golf activity at your club or course.

The point is that you are expected to have many talents. But talent doesn’t mean that you personally must be involved in every minute detail of your shop operation. My observations to date of the professional indicate that the best jobs are held by those guys who actively promote the game at their respective clubs. The “business” side of their business is a spin off of their devotion to the game and its players. In other words, they are making their living off of their “sideline” business.

So when someone asks you how much you teach and how much you play and your answer is “none or very little” you had better review the bidding. If you can’t or don’t like to teach, get someone on your staff who can. If you don’t really like to play, get someone on your staff who does. Then and only then are you entitled to concentrate on the “money making” side of golf.

2. I was pleased to see that Gary Wiren had been appointed educational director of the Professional Golfers’ Assn. Having held that same job for a day or two, I can see where Wiren can bring expertise and talent to the PGA and its educational efforts. To me, the most viable part of the association’s activities is the educational program. It touches everyone and file member, providing concrete assistance to everyone who is smart enough to get involved in its programs. It is that part of the PGA that is aware of the needs and problems of the members. To be effective, Wiren needs to have the opportunity to do “what needs to be done.” He may need some guidance and direction from the echelons, but he has the “moxie” to objectively evaluate what the PGA needs to do in its educational efforts. You as a member need to keep abreast of the programs his department has to offer. These programs, I can assure you, are something concrete that you get for your dues.

3. It’s amazing how golf shop operations differ from one section of the country to another. We recently made some trips from one side of Hawaii to the other and we really had our eyes opened to golf shop operations. Resort shops seem to be the same regardless of where they are. Public courses, for the most part, are super strong in all the major cities. The real discrepancies crop up in the country club operations. In some geographical areas, the assistant professional is looked on as just a necessary evil. At others he is the key to a successful operation. Some shops have superior merchandising programs; others are so bad they wouldn’t even exist. Some golf professionals teach and play, some do not. Most feel that their particular club and its membership are the opposite of all other clubs and their memberships. Many feel they are overworked and underpaid, and some do not even give a hint as to what is running through their minds. My subjective opinion is that there seems to be a correlation between the professionals’ success and the strength of the local PGA Section. Maybe it’s just a coincidence that the most successful professionals seem to have good assistant professionals, good merchandising programs, good teaching programs and a good objective viewpoint of their profession. They almost leave you with the impression that they put more into their profession than they take out. Strange, but that seems to be the yardstick for any successful professional businessman. Fortunately in each area we visited there was one, two, or six guys who stood out.
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MAINTENANCE EQUIPMENT

WHEN IS REPLACEMENT A MUST?

There is a point at which a piece of maintenance equipment is no longer economical to operate. Here are some authoritative guidelines for judging when to propose replacement in your budget by P. ROBERT SCAGNETTI DIRECTOR OF MARKETING, TURF PRODUCTS DIV. THE TURF COMPANY, MINNEAPOLIS.

The cost of labor in the last decade has increased almost 50 per cent. Industry and business can offset their increases by raising prices, expanding markets or laying off workers. Golf courses, too, can raise prices and fees. But memberships are static; if fees and prices become too high, members drop out.

Club officials can trim the superintendent's budget. The plan for the new irrigation system is shelved, expansion programs are put off and crews are thinned out.

The superintendent is expected somehow to surmount these conditions, to pull off nothing less than a miracle. Members expect a well-conditioned course, even though the superintendent lacks equipment, manpower and money.

For an answer to his dilemma, the superintendent has turned to technology, or to put it another way, he has begun to replace men with machines.

But each new or additional piece of equipment requires a considerable financial outlay by the golf club, which means the superintendent must nudge budget conscious committees into approving his requests for capital expenditures. His reasons for requesting new or re-
REPLACING WORN OUT EQUIPMENT

Most golf courses, because they can rebuild equipment during the off season, keep equipment in service well beyond the bounds of good economics. There is a point at which repairing a machine is no longer economical. When is that point reached? The superintendent must examine many factors, such as the cost of the next repair job, the cost of replacement with new equipment, trade-in value and depreciated value of present equipment.

There are numerous accounting methods for depreciating equipment. The one used most frequently is an accelerated method that depreciates larger amounts during the early life of the equipment. Because many golf courses are non-profit, there is no particular advantage to utilizing more rapid accounting methods of depreciation.

The following table illustrates a typical accelerated depreciation schedule for a $10,000 hydraulic mowing tractor/gang mower combination. The depreciation is shown with hours of use, operating and repair costs. These costs are based on a 30-week mowing season with 32 hours of operation a week. Operating costs are predicated on two gallons of fuel an hour at 25 cents a gallon, lubricants and one hour of preventive maintenance a week at $5 an hour.

The cash investment in a new piece of equipment should yield always a minimum 15 to 20 per cent return in one-third to one-half the useful life of the machine. To illustrate: A public course has 18 greens, averaging 6,500 square feet, and a 10,000-square-foot practice green and a 10,000-square-foot nursery. The golfing season lasts about 30 weeks. All greens are cut four times a week. The labor rate is $2.75 an hour. Four men using walk power greensmowers take a total of 16 hours to complete each mowing.

The superintendent needs to justify retiring his walk units (to be used as backups) to purchase one riding unit.

The cost of a riding greensmower is $3,600. But the mower will allow one man to mow 18 greens in five hours. The savings breaks down this way:

- Annual labor cost with present equipment $5,632
- Annual labor cost with riding mower $1,920
- Annual labor savings $3,712

The breakdown shows that the savings in labor in one year exceeds the cost of buying one greensmower. Therefore, the payback (minus any unusual costs) exceeds 100 per cent in the first year. The sale of two or three of the walking mowers makes the new acquisition even more attractive. Using a formula:

Useful life 5 to 6 years
One-half useful life 2½ to 3 years
Annual saving $3,712
One-half life savings $9,279 to $11,136
Buying two machines could be

*Although purchasing the new machine may be justified in maintenance programs because the machine may increase efficiency or reduce manhours per job, it is always translated into dollars.
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REPLACEMENT

justified to cut mowing time in half.

The formula could be used to analyze any equipment purchase where a return in saved labor costs is desired.

REPLACING LABOR

A job that can now be done faster with more uniformity and at lower cost is sand trap maintenance. With one trap maintenance machine, one man does the work of three, or one man can work three times faster. One club, with 65 medium-sized sand traps, employed one man to rake traps. He worked a 40-hour week, cost the club $2.75 an hour or $5,720 annually. By purchasing one trap machine for $1,800, the club reduced the hours required to maintain the traps to about 700, or $1,925. The savings in labor cost for one year came to $3,795 ($5,720 minus $1,925).

In this particular case buying two machines would be justified. The time needed to finish raking all 65 traps would be cut 50 per cent, and although two operators would be needed, the cost of labor would not increase.

In general, when the money that is saved from labor pays for a machine in from one-third to one-half of its useful life, the acquisition is justified. In the case of the sand trap machine:

Useful life: 5 to 6 years
One-half useful life: 2½ to 3 years
Annual savings: $3,795
One-half life savings: $9,487 to $11,385
Cost of acquisition: $1,800
Net savings: $7,687 to $9,585

SUMMARY

Capital expenditures for equipment today generate substantial savings in labor, a continually rising factor. It is hard to establish a dollar value on the increased purchasing value of today's money, compared with tomorrow's costs, but it can be estimated. The emphasis has been on labor and cost savings realized through the intelligent purchase and use of equipment. One might ask how these savings manifest themselves when there is no reduction in labor force. One of the more obvious ways is the increased work capacity of the present work force. But the savings may be also appreciated in terms of increased membership, greater member/player satisfaction, higher green fees and a better quality of maintenance.

Too many golf courses have inadequate equipment purchasing programs, which result in costly downtime and repairs. Lack of such a program forces many courses into a position in which substantial amounts of equipment must be replaced in a single year rather than spread over a regular replacement schedule.

Most equipment dealers are willing to work with superintendents, chairmen of green committees and course accountants to develop a reasonable program of equipment replacement.

LEASING

Leasing is growing popular among golf courses. Its benefits to the golf course are varied:
1. It eliminates cost of acquisition; equipment is paid for as used. Therefore, no capital expenditures and attendant justifications are required, equipment is paid for from the club's operating budgets;
2. Continuation of lease programs ensures new equipment more frequently, allowing the club the use of the latest and newest equipment and reducing downtime and costly repairs. Typical lease terms on maintenance equipment cover three years;
3. The equipment is paid for from cash flow. That is, as the club receives its funds, leases can be tailored to the cash flow patterns of a particular club. If most income, for instance, is generated during six months of the year, payments can be arranged during those months, with no payments during the low income periods.

Lease contracts are available for all equipment used on a golf course that normally retails for $1,000 or more, for terms of from two to four years.