Whether a golf course is owned and managed by an individual, a group of individuals or a corporation, one thing is certain: It exists as a business to make money. New and different operational efficiencies and effective management strategies have been adopted because of the challenges caused by the market downturn. These efficiencies and strategies have improved the overall product offered to golfers and appear to have become permanent changes within the golf industry. GCI

Steve and Suz Trusty are freelance writers based in Council Bluffs, Iowa. They can be reached at suz@trusty.bz.

Development growth to continue slow pace

With talk of market downturns, stiff competition and operational efficiencies, some might wonder when the next golf course development boom is likely to occur and what factors will cause it?

Well, 1990 can be used as a benchmark year for a relatively balanced supply/demand environment for golf, which allows for reasonable golf course operating profits, says Jim Koppenhaver, president of Buffalo Grove, Ill.-based Pellucid Corp., an information and insight provider to the golf industry.

"From 1990 to the estimated finish of 2006, net supply has risen 35 percent" he says. "During that same period, annual rounds have increased 19 percent, leaving a 16-percent supply-demand gap that needs to be absorbed.

"To return to 1990s equilibrium, either rounds, rates or a combination has to increase by that 16 percent," he adds. "This is reflected in a current average of roughly 33,500 rounds per 18-hole equivalents in 2006, which is down from the benchmark of 38,000 rounds per 18-hole equivalents in 1990. Thus, the average facility has to regain 4,500 rounds a year to get back to health on a rounds-alone basis."

Given that rounds have been relatively flat the past several years, but better than the 2 to 4 percent annual declines of the early 2000s, and the flattening golfer base, Koppenhaver says he doesn't see a substantial increase of rounds soon. But, despite a gloomy looking future for rounds, he says the supply side looks positive because it's flattening.

Joe Beditz, president and c.e.o. of Jupiter, Fla.-based NGF, says new course development has slowed dramatically during the past few years and there will be zero net growth of facilities for 2006. He says this is rational because participation and rounds have been relatively stagnant for about five years.

"New course planning and construction activity indicates that we'll probably average between 100 and 150 new courses a year for the next several years," he says. " And if course closings continue at present levels, we would continue to see zero net growth."

Beditz says new course development during the next five years will be tied primarily to real estate.

"That part of the market has traditionally been fairly stable but, with the current correction happening in the real estate market, the near-term future for real estate-related golf course development has become more uncertain," he says.

Historically, the industry has shown the ability to absorb about 2 to 4 percent new course openings per year through combinations of population growth, organic rounds demand growth and nominal pricing power similar to commonly accepted inflation benchmarks. Using a value of 3 percent per year absorption, the industry will need five or six years from 2006 to claim reasonable levels of prosperity, Koppenhaver says.

However, the missing link in that projection is that there's no clear catalyst on the horizon to drive growth. The most likely scenario is the aging baby boomer population adding 1.5 percent per year in rounds, he says. The downside is that an increase of rounds will be offset by revenues per round as they qualify for senior discounts, unless operators make smart pricing decisions.

"We don't see any silver bullets in growing the golfer base in any meaningful way to increase that component," Koppenhaver says. "However, the other ray of hope is as new supply pressure abates, modest pricing increases could take hold and the frequency and depth of discounting could level off."

Beditz says courses are unlikely to face a lot more competition, and the industry should be positively affected by aging baby boomers. Over a long period of time, boomers will become a much needed additional source of rounds played for golf facilities. NGF estimates there could be as many as 75 to 100 million additional rounds provided by boomers per year as they age.


Beditz

"But in the meantime, competition at the operations level is likely to remain fierce, and gains in rounds played will come from the competition, rather than from overall growth in rounds," Beditz says.

Aside from supply and demand factors, time and cost, as it relates to golf course construction, also will impact growth.

"For golf to adapt to its consumers' needs, renovations will continue to focus on cost-savings through maintenance efficiencies and player appeal through increased amenities and options for faster play," says Ron Kitchen, Jr., president and c.e.o. of Crystal River, Fla.-based Barbaron, a golf course building company.

Within the next two to five years, Kitchen sees construction focusing on shorter courses with playable segments consisting of fewer holes.

"We're helping introduce the concept of the shorter, 12-hole course designed for faster play at a more affordable price point," he says. "Cost and time savings make golf more accessible as a potential family sport as well as more appealing as a social or business-related activity. A six-hole option could provide that, with 12-hole or 18-hole options available if time and budgets allow it."

All of these options in future development will add to the consumers' golfing experience, Kitchen says.

"If they have a great time, and the cost and time commitment fit their lifestyle, they'll come back to play more often," he says. "It's all a matter of adapting our product to their wants and needs. In the end, everyone wins." GCI