GOLF CARS: THE "HOW" OF FLEET ACQUISITION

The acquisition of a golf car fleet is a major financial step for any club. Properly selected, financed and operated, it can generate cash for your club and convenience for your members

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Golf car rentals are presently the fastest growing source of revenue for golf courses and country clubs. Rental income now generates a larger proportion of a club's total revenue used to pay salaries, permit expenditures for other equipment and course improvements and eliminate or reduce member assessments. Consequently, decisions about buying a fleet are increasingly important in a club's total financial operation.

Just putting a new fleet on the course will neither guarantee profit nor increase revenue. But choose the right product, finance under optimum conditions, maintain and service properly and profits will be forthcoming.

FOUR BASIC FACTORS

These three elements—product, financial method and service program—are the key decisions that determine the profitability of a new fleet.

Who makes the decision—that's the key to the other three. It's not only the choices that matter, it's who makes them.

There are four basic factors that must be considered in the decision to acquire a fleet: 1) the decision team—who should be involved in fleet acquisition; 2) the product choice—which golf car is best suited to the course; 3) the financing method—whether to buy or lease, and 4) what sort of maintenance, dealer support and other related factors are involved.

Proper evaluation of these four factors will enable the club to select the fleet that combines optimum performance with maximum profit. Failure to weigh each step can prove disappointing—particularly on the bottom line.

THE DECISION TEAM

Before choices of product, financing and support can be made, several aspects of fleet operation must be explored. These are: member preference, engineering, cash flow, turf wear, personnel requirements and others.

One individual cannot evaluate the diversity of factors involved in fleet acquisition. A decision team can best analyze the problem—each member concentrating his efforts on the aspect he knows best.

Each of four key club officials—the professional, course superintendent, club manager and treasurer—can play an important role in the decision-making process.

The club manager or general manager is usually responsible for most of the club's revenue-producing operations. He plays an integral part in the decision. He has an over-all view of the club's needs, particularly its cash needs, and he is in a good position to assess the need to acquire a new fleet.

Two perspectives of the club professional made his advice important. The conversations he has with members in the pro shop give him a day-to-day critique on a fleet's performance as well as the members' preferences. In all liklihood, he participates to some degree in the revenue from golf car rentals, and any fleet decision directly affects his income. He should be keenly aware of the existing fleet's condition and of the supply-demand situation.

The superintendent knows intimately the terrain, drainage, slopes and car paths of the course. His expertise can be of great assistance when choosing the type of vehicle that's best suited to the peculiarities of the course. He may also be responsible for maintaining and servicing the fleet and should know best his crew's capabilities.

The ultimate decision in all matters involving a substantial capital outlay rests with the club's chief financial officer—treasurer or comptroller—or finance committee. He must determine if the acquisition of a new fleet is financially feasible, which financing methods best suit the club's fiscal requirements, what overhead or hidden costs may occur and what accounting practices can benefit the club upon acquisition. The last word probably belongs to the financial officer. The decision to acquire a new fleet is an operational decision; but the decision how to acquire the fleet is purely financial.

USE MEMBER EXPERTISE

Many clubs have recently established special car committees to analyze fleet needs. This practice allows the club to incorporate expert advice from other sources, such as engineers, insurance men, attorneys and others, into the decision. But the club manager, professional, course superintendent and chief financial officer must form the core of the committee, and the financial officer must have the last word.

THE PRODUCT CHOICE

Ten years ago golf car sales in the United States totaled about 5,000 units valued at $5 million. Today, the industry produces nearly 50,000 golf cars annually with a total value of $60 million. By the end of 1973, nearly 300,000 golf cars will be operating on more than 8,000 regulation courses.

This increasing demand has fostered competition among manufacturers from which clubs and members have emerged as the chief beneficiaries. Now golf cars come in a variety of styles and sizes with new, improved engineering features and options continually being developed. Sixteen car producers presently offer more than 35 different types and models at listed prices ranging from a little more than $1,000 to nearly $2,000. Optional items can range from $5 to several hundred dollars. Most popular cars, however, are listed between $1,300 and $1,500.

This diversity allows a club to tailor the golf car to meet its particular needs—its terrain, geographic region, climate and membership. For instance, the ideal car for a sandy, flat, seaside layout in the Southeast may be unsuitable for a hilly, wet course in the Northwest. A hilly or mountainside course, obviously, demands a golf car with a durable power plant. The same type of course may require a wide wheelbase with a low center of gravity for additional stability.

The vehicle body, fiberglass or steel, may be an important consideration where salt air, blowing sand or excessive rainfall take their toll on car bodies and paint. Normally, heavy rainfall during the golfing season or poor fairway drainage may make the vehicle weight a factor; heavier cars will sink deeper into the turf, leaving ruts. Tiller bar and automotive steering, lease and coil-spring suspension, seat brakes and other items must be considered. Some are standard, others are optional, depending on the manufacturer.

DON'T FORGET THE MEMBERS

Member preferences, when possible, should be given considerable weight. After all, they rent the cars. If they don't like the fleet, the rental revenue may be affected adversely. The cars' styling and over-all attractiveness, accessories (canopies and windshields), ease of entrance and exit, seat cushion comfort, sweater baskets and other equipment, even color, may be overlooked by the club, but may influence members' attitudes toward the new fleet.

Have manufacturers or dealers demonstrate and explain their products, preferably on the course itself. A test ride will give first-hand knowledge of the car's riding comfort, starting ease, acceleration characteristics, power and over-all performance. Conduct tests under similar conditions on uniformly wet or dry fairways.

FLEET FINANCING

We said earlier that the decision how to acquire a new fleet is not an operational one, but a financial one. Happily for clubs, the same competition that has produced a diversity of product choices has also spawned a diversity of financing choices.

The least understood aspect of successful fleet operation is how to take advantage of financing methods specifically tailored to the golf business. Indeed, the number and variety of financing options available to clubs are now so numerous and so imaginatively designed, we like to call them creative financing tools. These tools must be understood if the fleet acquisition and operation are to yield maximum benefits to the user.

PURCHASE OR LEASE?

Two questions can be answered quickly. Can your club afford to purchase the fleet? Does the producer or dealer offer leasing? If the answers are yes and no respectively, the choice is simple. Buy the fleet. It's usually not so simple, however, and generally a club's desire to purchase will be dictated by its financial condition, tax status and attitude of its membership. If your club enjoys a healthy financial condition, purchase may offer opportunities to take advantage of depreciation allowances, which can shelter earnings from taxes.

If your club has a capable maintenance staff and proper facilities, the purchase decision may be more appropriate. (There appears to be some validity to the notion that club-owned cars receive better care by users and better maintenance by club personnel.

The purchase decision, however, should take into consideration the total financial picture—not merely the price of the cars—but also the down payment, depreciation, interest charges, residual value, warranty, maintenance and service costs and insurance costs.

Should sufficient capital not be available, borrowing costs become an added expense. Member assessments or increased membership may help raise funds immediately, but does the desire to own the fleet compensate for possible negative effects?

Perhaps, if the club is well-capitalized with a healthy cash position, it may be faced with demands for two major capital items simultaneously: a swimming pool and a new fleet or four new greens and a new fleet. In that case, leasing the fleet makes a lot of financial sense.

LEASING ADVANTAGES

Many clubs lack sufficient capital for an outright purchase. For a club in this condition, leasing also offers distinct financial advantages. It may eliminate direct borrowing, thus maintaining the club's current debt-equity ratio, commonly known as "off-balance sheet financing."

Leasing also can provide 100 per cent financing, as opposed to 70 to 90 per cent financing if the fleet were purchased. A leased fleet is easier to replace, modernize or trade in, sometimes eliminating altogether the need for staff maintenance and service personnel. Its "pay-as-you-go" nature may allow the club to obtain more than one capital improvement item at the same time. Leasing does not preclude outright purchase and it allows the club to have the cars at its disposal when the club can use them most profitably. Insurance costs, the concern of the club if it owns the fleet, are the responsibility of the dealer or manufacturer under most leasing arrangements.

These advantages were once typically offset by disadvantages, such as the leasing methods not being

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flexible enough to suit all clubs' operational and financial structures. This no longer is the case.

GOLF INDUSTRY LEASES

Now, the decision to lease is more complicated, but only because many leases have been especially tailored to the operating income and expenses of the seasonal golf industry. Some include:

☐ *Straight* or *finance* lease, no maintenance or service;
☐ *Full-service* and *full-maintenance* lease;
☐ *Purchase options* at the end of two-, three-, or four-year terms;
☐ *Skipped payment* lease, reflecting the club's seasonal income;
☐ *Escalating payment* lease, designed for newer clubs whose incomes will increase over several years;
☐ *Tournament fleet* lease on a per diem basis for special golfing occasions;
☑ *Member-shared depreciation* plan. Groups of individual members may purchase a golf car fleet, lease it to the club and thereby gain the tax shelter of the equipment depreciation while the club has the use and profits of the fleet. Members may also share in revenues;
☐ *Variable shared revenue* lease, providing an increased use incentive to the club. Under this arrangement, the lessor's percentage decreases as revenue increases past various plateaus;
☐ *Shared revenue* lease, granting both the club and lessor a fixed percentage of all fleet revenues;
☐ *Minimum guarantee* lease, guaranteeing the lessor a share of revenue from a pre-determined number of rounds of play.

Complicated? Yes. But complicated because each golf club's financial needs are complicated. Somewhere in the list of choices (including the purchase choice) is a financing technique ideal for your club. One point to remember: If use rather than owership of the fleet will provide the desired revenue and profits, why bear the responsibility and headaches of ownership? And if the club is tax-exempt or municipally owned, there is a real question as to whether it should ever purchase capital equipment.

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MAINTENANCE AND THE DEALER

The subject of maintenance is the ugly duckling of new fleet acquisition programs. But it's one of the keys to successful and profitable fleet operation.

The availability of qualified personnel and proper maintenance facilities can be a crucial factor when deciding to buy or lease.

Your club can keep a maintenance man on your payroll or defer to the dealer or manufacturer to supply the maintenance for the fleet and warranty. It is inconsistent with good business practice, however, to maintain an asset, which is the fastest growing revenue source for the club, with the cheapest available labor. Find the best man available and pay well for his skills.

If you attempt to operate a fleet without the proper maintenance facilities and personnel, down time will be longer and repair costs greater. In a very few years, your fleet is actually costing—not profiting—the club. Conversely, skilled personnel and up-to-date facilities for fleet repair can add valuable percentage points to the profit margin, years of life to the cars and satisfaction to the members.

Is there a normal or average life expectancy for golf cars? No. It is a combination of the quality of the original car plus the care, service and preventive maintenance it receives. Some fleets are allowed to deteriorate to such a degree that they become practically useless in just two or three years; others may still be operating efficiently and profitably after eight to 10 years.

Few clubs have the facilities to store all the parts and accessories needed in fleet repair. Many parts must be ordered from the dealer or manufacturer. Because one extra day's delay in shipment can prove costly in terms of lost revenue, the proximity of a manufacturer's representative becomes an important consideration. If your club is operating under a leasing agreement whereby the maintenance is deferred to the manufacturer, proximity may be critical.

Whether the fleet is owned or leased, your dealer's reliability and reputation is important. Check with other clubs that operate a fleet of his golf cars. Find out what they have learned about the car's quality and its need for periodic repair. You may even choose to inspect

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his facilities to ensure they are well-equipped and well-staffed. Also, be certain to ask about the manufacturer's warranty; what does it cover, for how long and how firmly does he stand behind it.

Once you've determined to your satisfaction which dealers you care to do business with, which financing methods best suit your needs and which products work well on your course, your decision team can move quickly toward the choices—product, financing and dealer.

Follow the steps, listen to the points of view of your team members, then decide.

Remember, though, the acquisition of a fleet is a major financial step for any club and must be considered as such.

Properly selected, financed and operated, that capital investment can generate cash for the club and convenience for the members. And that's what operating clubs is all about. □

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nor variations in taste between years. For American varietal to bear a vintage year, under Federal labeling regulations, it must be 100 per cent of the wine of that year.

Varietals are the "in" thing with American wine drinkers. They have cleared up the confusion of wine tastes and most of them are as good—if not better—than their imported counterparts. Keep in mind that recent restaurant and hotel industry surveys show that approximately 91 per cent of the wine and 80 per cent of the Champagne consumed in this country is "Made in U.S.A." The idea that all imported wines are vastly superior to American wines is completely false. Premium quality wines of Europe and the United States both have their enthusiastic supporters, but most Americans prefer American wines. So get on the bandwagon and have them available for the guests and members of your club. □