Superintendents in the realm of management companies

The New Reality

It's survival of the fittest for those involved in the golf course acquisition and management business. Competition is fierce, and only the strong will survive.

As the golf industry nears the new century more far-flung than ever, it does so perhaps with a sobering awareness of the consequences from the fallout of its own explosion. But of the industry segments still riding high on the crest of the game's wave of success, few have more formidable accomplishments than golf course management companies. While only about 10 percent of the country's courses are currently under this collective corporate wing, it's a significant number considering its relatively insignificant total a few years ago.

Even more eye-opening is the number of companies that have emerged during this century's final decade in search of a piece of the action. More than 100,

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BY TERRY OSTMEYER

ILLUSTRATION BY ROB SCHUSTER

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in fact, seriously contend in varying forms and degrees, ranging from Santa Monica, Calif.-based American Golf Corp.'s prestigious portfolio that approaches 300 golf properties to a vast number of smaller companies that each own and/or manage a course or two.

The recent proliferation of golf course management firms has given more than one mainline corporate official pause to wonder where this is heading. Beryl Artz, vice president of golf/country clubs for Dallas-based ClubCorp International, says that while his company added several courses to its array of more than 175 golf properties in 1998, the business activity was more of a wait-and-see approach.

"There were maybe 10 serious companies five to seven years ago, while today there are a hundred or more. We decided to (step back and) take a look at the industry," Artz says, adding that ClubCorp's ability to add golf holes to its lineup of resort properties enhances revenue growth in the meantime as it assesses its future acquisition plans.

Competition factor

Some major management companies share ClubCorp's caution, notably those with similar healthy portfolios and proven track records, while others have been busy fortifying their holdings and positioning themselves as prime-time players.

Joe Redling, chief operating officer for Orlando-based Arnold Palmer Golf Management, says that putting a corporate spin on an industry where the number of new courses outpaces the increase in golfers means the competition for customers has come to the forefront.

"Golfers' perceptions of courses have become critical," says Redling, whose company owns or has long-term leases on more than 30 properties ranging from high-end private clubs and daily-fee layouts to municipally owned venues and entry-level country clubs.

"Companies bring professional management from expertise and experience, and optimize the results of a property," he adds. "The bottom line is to make money, but it's also vital to create a great golf experience . . . to set yourself apart."

The competition factor has led AGC on an all-out recruitment of new golfing customers, which it believes will assure it of long-term vitality and a healthier share of the market it already dominates.

Natural attrition?

The economic impact of management companies is considerable throughout the golf course industry. Acquisitions and management takeovers are generally followed by property improvements, renovations and expansions that benefit not only the paying customer and player, but also those in design, construction, maintenance equipment and turfcare supplies.

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JOE REDLING
Chief Operating Officer, Arnold Palmer Golf Management

"While we look at our needs on a case-by-case basis, most of the golf courses we buy require considerable capital expenditures to bring them to our standards," says Jeff Warren, director of business development for Manassas, Va.-based KSL Fairways, which owns about 50 golf properties along the Eastern seaboard and in Florida, California and Wisconsin.

It's that spend-money-to-make-money philosophy that will eventually make or break many in the industry. More specifically, many in management circles believe such a scenario is driving an instinctive movement toward consolidation of facilities and management companies.

While somewhat scary at face value, consolidation – or strategic alliance, as some prefer – is viewed by most major corporations as inevitable. Further, most believe it's what many of the scores of smaller companies have had in mind all along.

Meet customers' needs

Survival of the fittest comes with the territory, says Dana Garmany of Scottsdale, Ariz.-based Troon Golf Management. As founder, chairman and CEO of one of the industry's most successful management firms in recent years, Garmany believes that Troon's mission to provide a balanced, upscale day at the golf course is paramount but unattainable without ample wherewithal.

"Our goal is to improve our clients' facilities while maximizing their profits, and to offer every guest a well-balanced, high-end golf experience," Garmany says. Troon operates 40 courses in 10 states and four countries, including such gems as Troon North Golf Club in Scottsdale, a handful of Westin resort layouts in the Southwest, Eagle Ridge Inn & Resort in Galena, Ill., and the famed Turnberry in Scotland.

Troon's growth in managing high-end properties has increased more than 100 percent in each of the last three years following its joint venture with Starwood Capital Group. Its current foothold in the business is viewed by company president and chief operating officer John Sauter as only the first of many steps.

"The golf course management industry is one of consolidation and professionalism," Sauter says. "Our goal is to continue to build a loyal customer base by meeting the needs of everyone who visits a Troon golf facility every time they step on the property. Troon Golf plans to be at the forefront of the consolidation that's taking place."

Andy Crosson, Cobblestone Golf Group's vice president of acquisitions, says consolidation is a major phenomenon. Crosson's Del Mar, Calif.-based firm has 45 golf holdings, most of them clustered in major U.S. metropolitan areas. Cobblestone recently acquired Carolinas Golf Group in North Carolina and IRI Golf Group in Texas.

Artz expects ClubCorp to be a player in the consolidation game in this year. "There will be some opportunities for us," he admits.

Stability, strength of resources and a demand for the same from vendors and suppliers are keys to success among management companies, according to Redling. "The survivors will be the companies that are well-capitalized," he says.

But Redling adds that reputation can't be overlooked. "More and more a company's brand will mean something. With all that's involved, people will lean toward management by someone they trust."

The posturing begins

Most major management companies have begun to strengthen their positions in the industry, furthering the notion that alliances and takeovers are likely.

Cobblestone, founded in 1992 by former CCA/GolfCorp executive Bob Husband, made huge strides in the industry last year by acquiring 18 properties, a move that's attributed to the management company's parent firm, Cobblestone Holdings Inc., being bought by The Meditrust Companies, a real estate investment trust based in Needham, Mass.

Thus, optimism within the management firm is high and its quest for clustered, high-quality golf properties with good revenue potential is unbridled. "We feel 1999 will be a good year because of our reputation and our access to capital," Crosson says.

Troon Golf's venture with Starwood has already spelled success, but even more significant is the company's global expansion that made big news last summer through an international venture with Macquarie Bank Limited of Australia and Greg Norman's Great White Shark Enterprises. The alliance created Medalist Troon Golf Management, which will develop and manage upscale golf facilities in Australia, Asia and the Middle East.

Arnold Palmer Golf Management, with offices in San Francisco and Orlando, is part of the Palmer Group of companies and is majority-owned by the Olympus Real Estate Corp. Following an internal reorganization in 1996, the management firm developed into a major, worldwide operator of golf courses either by ownership or long-term leases, as well as developing a franchising program for independent course operators.

In the past few years, the Palmer firm brought the National Park Service's century-old Presidio Golf Club in San Francisco under its management umbrella and added high-profile public properties to its growing lineup of municipal layouts, including Spencer T. Olin in Alton, Ill., and the environmentally acclaimed Harbor Links in North Hempstead, N.Y.

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Golfdom's Bottom Line

• Management companies are a megatrend in the industry. More than a hundred companies now control a total of about 1600 courses. Consolidation is likely as larger players acquire small firms and medium-sized companies form strategic alliances to create a nationwide presence.

• The historic problem of management companies firing incumbent superintendents and replacing them with less-qualified, cheaper personnel seems to be waning.

• However, the transition from in-house ownership/management to a new management company system is often difficult for superintendents. Some have trouble adjusting and leave within a year.

• Although the "corporate" mentality of management companies grates on some superintendents, many like the stability, mobility, benefits and opportunity for advancement the management company structure allows.

Bottom Line: Management companies are both a threat and an opportunity for superintendents and Golfdom will devote continuing coverage to the subject.

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Director of Business Development, KSL Fairways

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Noting the obvious synergies with Palmer Course Design Co., Redling also foresees a grouping of services that would bring the management company more into the development side of the business.

Recently, APGM solidified its realm by merging with the Arnold Palmer Golf Academies and also formed a joint venture with University Clubs of America to develop university- and college-affiliated golf clubs across the nation. Redling says the expansion is part of the company's belief in a tremendous future for golf.

"We're focusing on breaking down barriers for new players and what that will bring to the industry in the future," he adds.

Quality growth

Joe Guerra, American Golf Club's executive vice president of acquisitions, says that quality deals and refinement of services to its landlords are his company's emphasis, not sheer volume. But he admits the big will get bigger .

"We have gained a much better understanding about who our customers are and, above all, what their expectations are," Guerra says.

The diversity and complexities of the golf course operation led AGC in recent years to establish separate operating divisions within its company, such as American Golf Country Clubs and the revolutionary National Golf Properties. The latter, the industry's first real estate investment trust, has invested more than $500 million in acquiring more than 130 golf properties since 1993. Most of those properties are managed by American Golf.

In the future, it's possible that AGC will continue to create separate operating organizations as its portfolio of properties becomes more diverse. AGC also plans to expand its golf operations internationally beyond its presence in the United Kingdom, preferably in Asia and Australia. The company's long-standing goal is to attract landlords of top-quality golf courses so it can manage them and maximize their productivity.

The concept of commitment in the golf management industry may drive KSL Fairways more than most. Bolstered by the support of its parent company, KSL Recreation, Fairways' emphasis on ownership has strength in terms of stability and necessary funding.

"We firmly believe in owning the assets we are responsible for," says Warren, whose look into the future sees not only consolidation but a stabilization of growth and an ability to manage the limitations of available capital.

KSL's portfolio is solid, with such resort properties as Doral, PGA West and Grand Traverse. The company anchor, however, is its acquisition of community-based properties that currently includes 30 private, semiprivate and daily fee golf courses.

Clout counts

Arguably, few in the golf management industry have positioned themselves for the future as well as ClubCorp, the venerable company established in 1957 that has annual revenues of $1.1 billion.

For much of its 40 years, ClubCorp was dedicated to enhancing members' experiences in the private golf, club and resort sectors. It continues to do that among its more than 175 golf properties under ownership or management and operated by company affiliates – such prestigious properties as Pinehurst Resort & CC, The Homestead, Firestone CC and Mission Hills CC.

But in recent years, ClubCorp developed significant holdings in the public sector and currently has more than two dozen daily-fee courses. The company wasn't sitting on its corporate hands in 1998. A new Tom Fazio-designed layout was added to its Barton Creek resort in Austin, Texas, and it recently opened a new Jack Nicklaus course in Aliso Viejo, Calif. — signs that it's getting serious about new development.

But Artz, a ClubCorp veteran of 20 years, would probably say you haven't seen anything yet. Citing a "huge potential internationally," Artz says ClubCorp is nurturing a great interest in Asia, where fewer than 50 golf courses are under a management company op-

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Takeovers & Turnover

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the opportunity of a lifetime came a couple of years ago. He was hired on as superintendent at one of designer Michael Hurdzan's environmental wonders being built on Long Island near North Hempstead, N.Y. Called Harbor Links, it rose from the rubble of an old quarry and was destined to require special management practices throughout its existence, not to mention be the subject of intense environmental scrutiny. In other words, it was a formidable challenge for a 27-year-old superintendent.

But soon before the city-owned course was to make its debut last summer, its original management firm was dissolved under the terms of a consolidation deal, leaving Harbor Links incomplete and with no managerial direction. But town officials found a savior in Arnold Palmer Golf Management, which in turn took the reins, opened the course on time and under budget.

It was a grand time for the town and its golfers. But it was a fearful time for Schleider, who after spending most of his career working for private clubs around Long Island, was given a rude introduction to the corporate world of golf. His first boss went kaput. His new one carried the most famous name in the game and a portfolio loaded with renowned golf courses as well.

"For a while, I didn't know what was going to happen to me," Schleider says. "But everything has been great. Palmer is very supportive and I've been impressed with its strong network within the company. They're there for you."

Schleider says management's more structured and organized way of doing things takes getting used to after the relative autonomy he had in previous jobs. But he has already seen the advantages in budgeting, purchasing and the way APGM deals with the municipality to gain the specific needs of the highly sensitive facility.

Harbor Links looms as a treasure for the town, its designer, APGM and the superintendent. It's currently a candidate for Audubon's coveted Signature status, the country's most prestigious environmental honor for a golf property.

"Everyone here is working together on that," says Schleider, who along with APGM has earned Hurdzan's praise for Harbor Links' success.

"Palmer inherited Craig, but I credit its organization for bringing him on board, incorporating him into their system, and giving him the tools to succeed," Hurdzan says. "It's a strength of an organization to recognize talent."

Gary Bell, a superintendent for nearly 20 years, has worked under corporate management during his career. He's wary of the corporate style, but he admits that Cobblestone Golf Group is making great strides toward persuading him to embrace the company way.

For the past 10 years, Bell has worked at golf courses on North Carolina's outer banks, most of that time as director of maintenance at Nags Head Golf Links and nearby Currituck Club. The Carolinas Golf Group ran the two courses.

"I'm an old-timer who likes to spend time out on the golf course, not spend time on paperwork and such," Bell says. "But I learned that it comes with the territory."

Bell's wary conversion suffered a big setback last summer during the peak of his golf season when Cobblestone's new owner, The Meditrust Companies, bought Carolinas Golf.

"That was a tough time for such a transition, especially when your new bosses are four time zones away," says Bell, whose courses each average more than 250 rounds a day during their June-to-October season.

As it turned out, Cobblestone was understanding and supportive, and impressed Bell with its strong, talented network of people in his region. The longtime superintendent is also pleasantly surprised that operations at the two course have run smoothly in view of the fact that Nags Head is under Cobblestone ownership and Currituck is under a management contract.

"I'll admit that I'd rather deal with a man head-to-head in this business, but I've come to understand how a corporation has to do things to get it done right," Bell says. "I've learned to deal with a lot of people."

Bell says he would advise superintendents facing company management or ownership for the first time to keep an open mind and give the situation at least a year to develop. "I believe that once you're in the system, and understand the system, the system will work for you." ■

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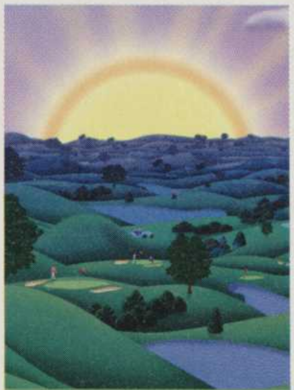

"WE LIKE TO RETAIN managers already in place, provide them with good pay, great benefits, a chance for upward mobility and a career path."

ANDY CROSSEN
Vice President of Acquisitions, Cobblestone Golf Group

The New Reality

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eration. ClubCorp recently made a huge leap into Europe when it bought controlling interest as an operating partner in the European PGA Tour, which has a half-dozen golf properties and designs for more.

But the big news came a month ago when ClubCorp announced a venture with Golden Bear Golf in which it will develop and operate no less than 36 Nicklaus-designed daily-fee courses throughout the nation. The first in this landmark deal, BirchRiver, is being built in Dahlonega, Ga., near Atlanta and will open in 2000. "I'd say we're poised for growth," Artz says.

Which, in an environment where only the strong survive, may be the difference between life and death in the management company jungle. ■