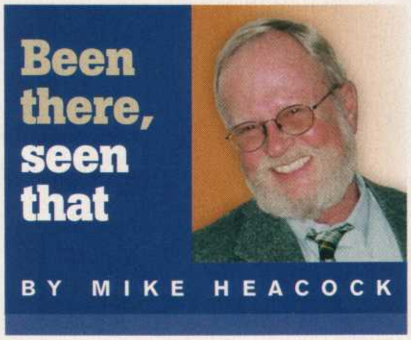
The Golf Business Ain't in Great Shape



Q What's your take on the golf course industry's financial state? What's it take for a course to make money?

A Times are tough in the golf industry, at least for management companies and some daily-fee operators — not to mention the golf club, shirt and hat manufacturers.

Job layoffs have traditionally been good for business at the low green-fee public operations — to a point. A guy will still play your $15 or $20 course and drink your $2 beer while he's looking for work. He's got to do something besides watch soaps. He won't, though, buy much of anything other than golf, and he'll probably walk instead of renting a cart.

And, don't forget, while 2 million new souls have been taking up the game each year in America, more than 2 million leave it — potentially forever. The growth in individuals desiring to play golf has been flat for the past several years, while the industry has added some 3,000 courses to its inventory in the past six years. That's a 20 percent supply increase with a 0 percent demand increase.

No wonder golf operators throughout the country are looking to draft women and children. Somebody has to replace those traditional golfers who left because they can't get around in four hours on your course, can't quit slicing, can't find their balls and can't putt your greens. You know the drill — "Too fast, too slow, too tight, too thick, too dry, too wet . . . "

In the past decade, many entry-level and old-line private clubs consistently outperformed their yearly financial projections. Those days are long gone, however. Other yuppie golfers lined up at high-end daily fees two, three and four times per month, salivating over the chance to pay $100, $200 or $300 for a single round of golf at "member-for-a-day" courses. How overbuilt is that market in your area today?

How do you amortize a $20 million golf course investment on a $50 green fee? You could gross $15,000 to $20,000 a day if a foursome at rack rate filled every potential tee-time. That amount multiplied by 365 days pushes $7 million a year, a strong figure. But how many days do you lose to rain or snow, and how many hours per day do you lose to frost? How many rounds can you get before 8 a.m. or after 3 p.m. if you don't discount to $20 or $15 or $10? Everyone's full at 8 a.m. on Saturday, but how about 6:30 a.m. on Tuesday?

Tee times at a public course are like seats on a scheduled airline: Once the plane's gone, the empty seats are gone, and you didn't get any money for them. In order to fill perishable tee times, the question eventually becomes, "Would golfers play at that hour for free?" If the answer is, "Yes," then you "guesstimate" how much above "free" you can charge for those times, implement those charges and see what happens.

How many rounds do you do at an average green fee of $25 (rack rate is $50)? In Southern California, with 20 or 30 rain days per year, you might do 80,000 maximum for a gross of $2 million, and you're open 365 days a year. In Ohio, you'll do 60,000 for a gross of $1.5 million, but you're closed in winter with limited expenses. In California, that $2 million will just about cover debt service. In Ohio, you'll land $.5 million short of covering debt service each year. In neither case have you paid any help or vendors. In short, you'll go belly-up quickly.

Let's say you have a great enough golf course operation that you can average $50 as a green fee, which means your rack rate would be above $100. Now you're at a gross of $4 million in Southern California and $3 million in Ohio. Debt service is still $2 million, but now you've got $1 million or $2 million to play with and pay for the overhead (including the clubhouse and the appurtenances). But there's something else in this picture — somebody owns this deal, and that entity probably wants some monetary return. So you still don't have much for maintenance.

What if your course and your golf market is so great you can average $100 green fees, meaning your rack rate is over $200. Now you're in business, right along with Pebble Beach and the other heavy hitters. But is your course Pebble Beach?

Consider: One course in a famous magazine's top 100 list reportedly cost more than $80 million to build, allegedly sold out of bankruptcy at about 15 cents on the dollar and still didn't make money. But it's a great golf course!

How do you maintain a $20 million golf course on a $500,000 budget for everything, including maintenance, equipment, repairs and capital improvements? Some of you are going to have to find out.

Editor's Note: Mike Heacock, former vice president of agronomy and maintenance for American Golf Corp., fields your questions in his bi-monthly column. You can reach him at: mike.heacock@verizon.net or 310-849-5011.