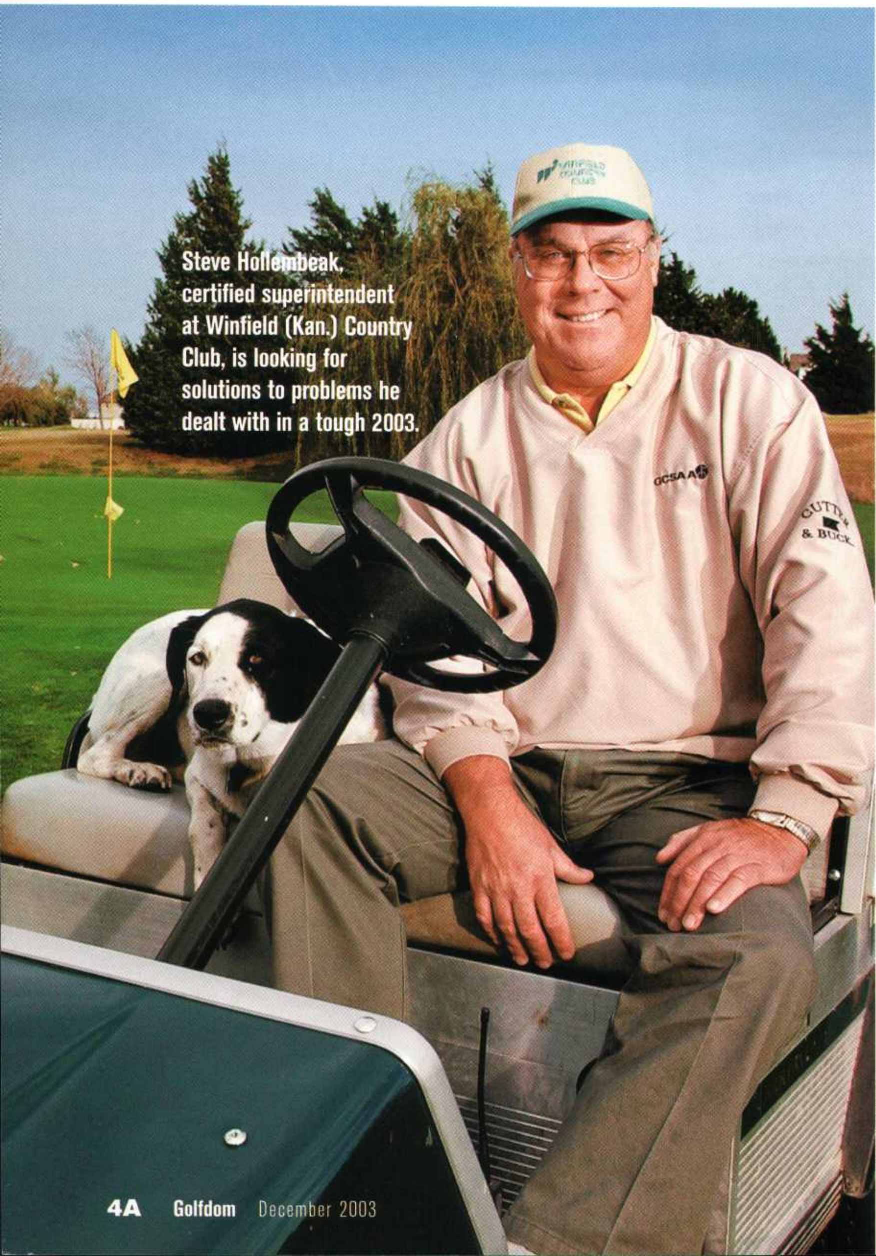
Still Struggling

The recovery some expected this year may have to wait until 2004



Steve Hollembeak, certified superintendent at Winfield (Kan.) Country Club, is looking for solutions to problems he dealt with in a tough 2003.

LARRY SMITH

BY FRANK H. ANDORKA JR.
MANAGING EDITOR

For the first time in his career, Steve Hollembeak is seriously thinking about life after being a superintendent.

Hollembeak, certified superintendent of Winfield (Kan.) Country Club, isn't worried that he'll lose his job over something he did or didn't do. He gets along with his general manager and the majority of members, and his golf course is in good shape. Unfortunately, the area's economy is not.

Winfield is a town of 12,000 people located 45 minutes south of Wichita, where memberships at local country clubs are highly priced. Bedroom communities just south of the city teem with golfers who want the private club experience at a lower cost. When times were good, many golfers from those areas would drive down I-35 to play Winfield for not much more than it would cost them to play public golf courses near their homes.

But Wichita's economy, heavily dependent on airline manufacturers, struggled as early as 2000, and Sept. 11, 2001, sent it into a tailspin. Airline giants like Lockheed Martin and Boeing slashed jobs by the thousands. As those good-paying manufacturing jobs disappeared, so did many Winfield memberships.

The club that used to have 300 members

now boasts only 215. The remaining members have asked Hollembeak to cut his maintenance budget for the third straight year because of declining revenues, and the superintendent believes he's getting close to the point where he won't be able to keep the course in the condition members expect. He's also worried that the area airline manufacturers are planning to cut even more jobs by 2005, which could drive membership levels down even further.

"We're kind of hurting," Hollembeak says. "It's not that I think losing my job is imminent. But it's a lot harder to keep it from creeping into the back of my mind the longer the economy continues to struggle."

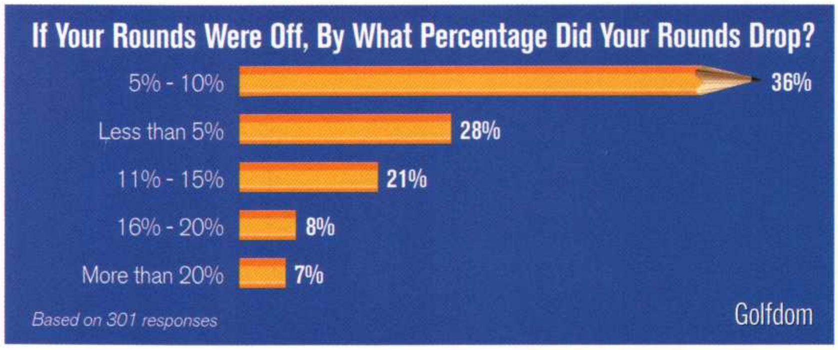
Hollembeak's comments echo those of his colleagues and other members of the industry around the country as they review 2003. Between an economy that continued to struggle, bad weather in some sections of the country that suppressed rounds (and therefore revenues) and an underlying sense that there are just too many golf courses to maintain adequate revenue streams for them all, the news wasn't that good for the industry in 2003.

Still, some industry players say the last two quarters of 2003 showed rounds increasing as the weather moderated and the economy showed small signs of creeping toward a sustained recovery. So 2004 could be the year when the golf industry starts its long road back to economic stability.

Economic struggles

In the minds of many members of the golf course industry, 2003 will be remembered as a year where everyone had to hunker down. According to *Golfdom*'s 2003 state of the industry survey, 74 percent of superintendents say the economy affected rounds at their courses, and 57 percent of superintendents said their rounds were off between 5 percent and 15 percent.

The financial decision-makers must have had strong stomachs in the face of economic hardship, however, because only 32 percent of superintendents say



they were asked to cut their maintenance budgets in the middle of the year despite the steep dropoff in revenue. Still, in a year that was supposed to mark the return of the golf industry to better form, 2003 was a disappointment.

"I thought it was going to be better than it was," says Meriam Leeke, owner of Old Channel Trail Golf Course in Montague, Mich. "There are too many courses in many areas, and the weather and the economy didn't help at all. You could see it in the bottom line."

In the case of Sodus Bay Heights Golf Course in Sodus Point, N.Y., a precipitous drop in revenue couldn't be happening at a worse time. Memberships are falling at the semiprivate course at the same time that bonds used to finance a new irrigation system seven years ago are starting to mature. That means the club has to pay them back, but the money is hard to come by.

"People just can't afford to belong to golf clubs like they used to," says Steve Boone, superintendent at Sodus Bay. "Revenues here are down considerably, and I don't know when we're going to get them back."

Maintenance budget cuts have forced Boone to put off buying new sand for the bunkers and postponing new equipment purchases, and he may have to cut at least two crew members to get to the 2004 budget number his members have given him.

Tom Bruff, managing director of Dallas-based consulting firm KPMG's golf practice, says the combination of factors currently keeping the golf industry from performing well are as bad as he's seen

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Toce: Roller Coaster Year For Chemicals

Mike Toce, business manager of the turf and ornamental division of BASF, says 2003 was a roller-coaster year for the chemical companies.

Bad weather in the spring inhibited early-year chemical use, but more normal weather in the summer and fall turned what could have been a disaster into a normal year, he says.

"We started the year with major concerns because the weather was a significant problem in many areas of the country," Toce says. "But in June and July, normal weather patterns returned, and we finished the year on a strong note."

BASF also restructured itself after a merger with TopPro Specialties, a firm that focused on creating post-patent products. Toce says the merger of the two companies allowed BASF to expand its portfolio in ways that allowed it to smooth out what could have been a rough year. "We didn't have much disruption as a result of the merger," Toce says.

"It's easier to register combination products with the Environmental Protection Agency than new products," Toce says. "We'll probably spend most of our time doing that."

– Frank H. Andorka Jr., Managing Editor

Wiley: Relationships Make the Difference

John Wiley, president of Turf Supply Co. in Eagan, Minn., says 2003 was a year of slow but steady growth, largely because of the relationships that exist between superintendents and independent distributors like his company.

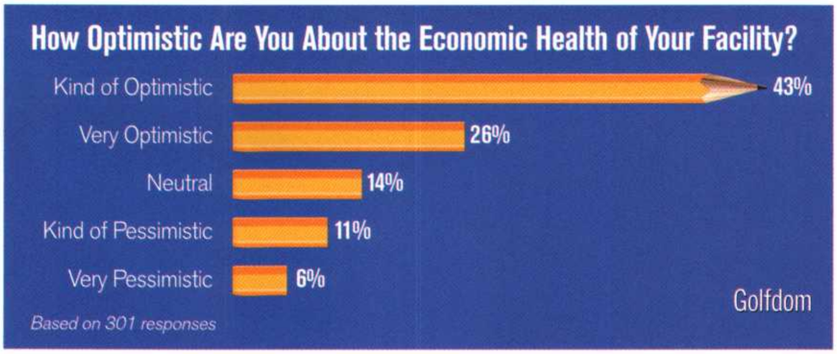
"Superintendents are putting down fewer chemicals and fertilizers, and budgets are tight across the board," Wiley says. "That's why it's so important for distributors to have good relationships with the superintendents they serve. Good relationships can smooth out rough patches in the economy."

Wiley says he believes 2004 will be another year of steady growth for manufacturers and independent distributors. With the overall growth of the golf industry flat or declining, however, market-share growth for manufacturers will come from other companies or other markets like lawn care.

The emphasis on loyalty programs and the packaging of products to superintendents by manufacturers is causing concerns for superintendents and distributors because the idea of buying a preselected package of products may limit their flexibility.

"We're a remarkably stable segment of the industry," Wiley says. "We don't necessarily have great years all the time, but we tend to operate on an even keel. We're looking for a little upswing next year."

– F.H.A. Jr.



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in his 18 years in the industry. At the heart of the problem is that most markets in the United States remain overbuilt after the exuberant building of the 1990s.

"Supply continues to outpace demand," Bruff says. "I don't see anything on the horizon that indicates demand will grow exponentially in the near future. There's a chance we'll be in the doldrums for at least five years unless there's a huge increase in demand or significant supply is removed from the market — neither of which I see happening."

In general, Leeke agrees with Bruff's assessment. She says the number of outings at her course was down in 2003, and leagues don't have as many players as they've had in the past. She realizes that each lost golfer is lost revenue.

"We haven't done enough as an industry to create more golfers and keep them in the game," Leeke says. "We keep lengthening public courses for people who don't have time to play for six hours."

On her own course, Leeke added three short holes around her driving range that can be played in 35 minutes. She says she gets many beginning golfers and those who want to play on their lunch hours.

"For the beginners, we believe they'll graduate to the longer course when they feel comfortable enough," Leeke says. "For the others, it's a great way to bring in extra revenue and make them want to come back."

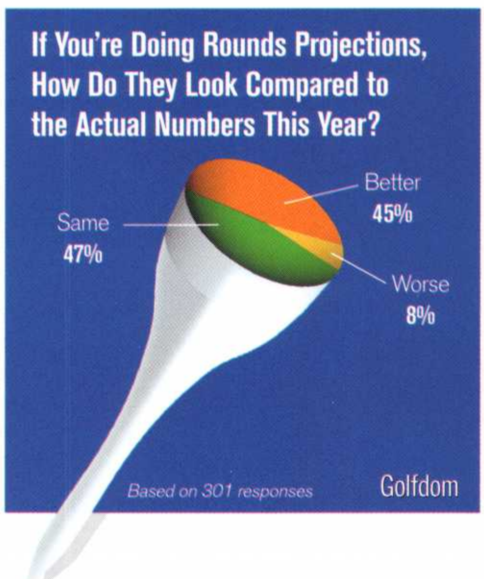
Weather woes

When golf courses are struggling to make ends meet, they can't afford to lose weekends to bad weather. In 2003, steady rain from early spring to June suppressed the number of rounds played in many areas. Golf courses from Maine to Florida saw revenues fall.

"A couple of regions had rough weather patterns this year that made it difficult for them to make money," says Mike Hughes, executive director of the National Golf Course Owners Association (NGCOA). "The Mid-Atlantic and New England regions were negatively affected by abnormally wet weather during the spring and early summer."

The Shenvalee Golf Resort, nestled in the picturesque Blue Ridge Mountains of Virginia, felt Mother Nature's wrath in the early part of the season. The bad weather, which started in October 2002, continued into the spring.

"We were 13 inches over the normal amount of rainfall through June," says Charlie Fultz, the course's superinten-



dent. "People started blaming me for all the precipitation.

"They said I brought it with me when I came here [in April]," he added laughing. "After a while, I started to wonder if they might not be right."

Fultz says resort rounds overall are down 15 percent. Daily-fee rounds — from itinerant golfers driving from other parts of Virginia to play — are down 20 percent. Still, Fultz says he has reason to be grateful because the resort guests prevent him from suffering as severe a revenue shortfall as some of his brethren in the area have.

"I can't imagine a day when the resort isn't full," Fultz says. "Even this year, the rounds weren't as bad as they could have been because people who stay at the resort come here to play golf, and it's almost always at full occupancy. Some of the other high-end daily-fee courses around here can't say that."

Dealing with overbuilding

One of the most intractable problems the golf industry faces, however, is the question of overbuilding. KPMG's Bruff says it's the biggest problem facing the industry. The easiest solution to overbuilding is to remove some of the supply from the market by turning golf course properties to other land uses, but it's not that simple.

"So many golf courses that are being built now are connected to housing developments," Bruff says. "Once the developer has made the sale on that basis, it's hard to turn the land into some other use. There are legal reasons having to do with housing contracts that prevent it."

Bruff says he's seen few golf courses changing hands in recent years because many owners aren't willing to come down on price and risk losing money on courses they invested in such a short time ago.

"Low interest rates have allowed some

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Breningmeyer: Tough Year In the Iron Industry

Gregg Breningmeyer, director of marketing and sales for John Deere Golf & Turf One Source, says 2003 was a tough year in the equipment market because golf courses struggled to bring in revenue. That made them less likely to purchase new equipment.

"The supply-and-demand equilibrium is getting more and more out of whack," Breningmeyer says. "There are more golf courses than there are golfers, and that hurts overall revenue. There's less to put toward new equipment."

Rainy weather in some parts of the country also depressed round and revenue numbers, which meant golf courses didn't have the money to spend, Breningmeyer says. "People's budgets were under extreme pressure, and equipment was one of the easier places to cut."

Breningmeyer says what he's heard from many superintendents is that equipment purchases have been put off until revenues return to more normal levels. He says that could happen in 2004.

"The third- and fourth-quarter numbers are looking pretty robust," he says. "The economy looks like it's on solid ground. If you assume normal weather patterns, we're looking to grow in 2004."

He said John Deere expects the equipment market to grow by 2 percent to 3 percent in 2004. **– F.H.A. Jr.**

McWhirter: Irrigation Renovations Drive Bottom Line

Rod McWhirter, national specification manager for Rain Bird's golf division, says the irrigation industry is increasingly depending on the renovation market for its income.

New golf course construction is continuing its downward trend since the late 1990s. With many areas of the country oversaturated, fewer courses are being built each year, McWhirter says. As a result, irrigation companies have had to rethink their business models.

"It used to be that as new golf course construction went, so went the irrigation market," McWhirter says. "We've found new opportunities in the renovation market."

In 2003, the renovation market remained brisk because so many of the courses built in the 1980s and 1990s have irrigation systems that need to be upgraded or replaced, McWhirter says.

"Golf courses need irrigation, and these older systems don't have the water-saving and energy-saving properties of the newer technology," McWhirter says. "Since members can see immediate savings in those areas, they're more likely to spend money on an upgrade than they would on other projects. They may delay a project, but they will rarely cancel it outright."

McWhirter says Rain Bird expects a similar business model to hold in 2004.

"We're not expecting to see a huge boom in new course construction, so we're planning for more of the same," he says. "That's where we're focusing our energy."
–F.H.A. Jr.

Elyea: Ryegrass Fuels Seed Comeback

Rick Elyea, director of golf for Turf-Seed, says the rise in ryegrass prices balanced out falling prices on other varieties in 2003, leaving seed producers feeling good about their performances in 2003.

"There had been an oversupply of ryegrass for years that drove down prices," Elyea says. "That led farmers in Oregon to take many of those fields out of production, either by growing other crops or changing grass varieties. That paid off this year with better prices for the producers."

Rising prices led some superintendents to switch their overseeding practices, Elyea says. Some switched from strictly ryegrass to a perennial ryegrass/fine fescue mixture, while others reduced the number of acres they overseeded.

"We saw some squeezing of budgets this year," Elyea says. "As superintendents create their budgets for 2004, they should make sure they have enough money for overseeding."

Elyea says he's expecting the total volume for seed purchases to rise in 2004. He also believes more seed research will focus on glyphosate-tolerant and salt-tolerant grasses.

– F.H.A. Jr.

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golf course owners to hold on to assets they normally would have been forced to dispose of," Bruff says. "It's a slow market out there."

Bruff's assessment would come as no surprise to Jeff Normandt, owner and superintendent of Valley High Golf Club in Houston, Minn. He's tried to sell his golf course for more than a year with little luck. Normandt waited 10 years and worked as a superintendent before fulfilling his dream in 1997 to own a course. But overbuilding and a cratering economy have buffeted the course's business. He planned to sell this year, but found a tough market.

"We had a significantly bad year this year that drove down the price people were willing to pay for the course," Normandt says. "We had terrific weather, but the Minnesota Department of Transportation decided to do major road construction on the *one* road leading to my course. That turned a lot of golfers off."

That, combined with a wicked price war with area golf courses, pushed revenues down 10 percent.

"All the courses in the area are struggling because prices are being cut so severely," Normandt says. "Halving prices is not the answer because all you end up doing is letting your regular players play for less money. You rarely bring in new players."

Normandt and his partner are exploring some opportunities with buyers, but the owner/superintendent seems resigned to waiting it out until he can get a decent price for the course.

Normandt says he and his partner hope to keep the books balanced over the winter. With luck, they will be able to sell the course early next year.

"My preference would be to sell it to someone who would keep me as superintendent," Normandt says. "That would be ideal."

Does it pain Normandt that his dream hasn't panned out? He pauses for a moment and then answers honestly.

"I try to ignore it," Normandt says of the uncertain situation surrounding the course. "When I'm out working on the course, it's easy. When I'm doing the general manager's job, it's a lot harder.

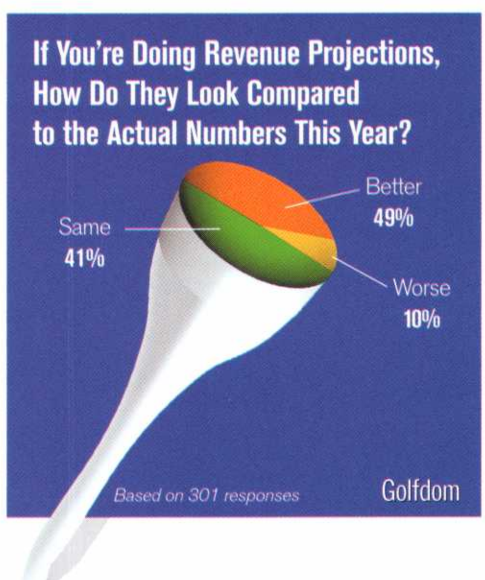
"I've come to grips with the idea that we don't have much choice other than to keep on doing what we've been doing," he continues. "The future is a little more stressful than the past or the present, but I don't have a single regret about making the purchase. How often in life do you get the chance to do something you really enjoy? That's what I'm doing right now."

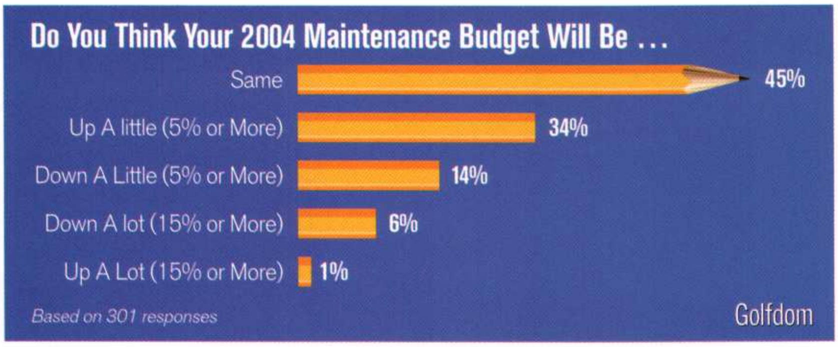
Institutional golf has good year

To avoid the vagaries that have plagued so many in the golf industry this year, the answer might be to become a superintendent at an institutional golf course, says Paul Brandenburg, superintendent of Furman University Golf Club in Greenville, S.C.

Don't get him wrong: 2003 was no picnic for Brandenburg either. The constant rain drove rounds down at the course from the expected 35,000 to 40,000 into the range of 20,000 to 30,000. It also made operations like chemical applications and overseeding difficult. But the safety and security of working for a public institution relieved some of the stresses that his daily-fee colleagues faced.

"When you work for a place like Furman, you're not totally dependent on every golfer that walks through the door,"





Brandenburg says. "There's a great support network here, and there's not the same pressure to have a perfect golf course all the time that you have in some private facilities. That's a comfort, particularly in a crazy year like this."

Though he has been forced to cut his budget in the middle of the year in each of the last two years, the financial overseers of the university don't question every purchase, Brandenburg says.

"I inherited a lot of old equipment, and they've let me replace some of it," Brandenburg says. "They look at the big picture and see that I need it. I don't have to worry about an argument over some of these things."

The same sense of institutional security enveloped Mike Jones, certified superintendent of the New Mexico Military Institute Golf Course in Roswell, N.M. He says it's actually been a good year overall, despite receiving 3 inches of rain when he normally sees 12 inches. He still faces battles from other golf courses in the overbuilt area — it has 45 holes for a town of 50,000 (not all of whom are golfers, Jones points out). But it's a fairly stable market where golfers switch from Jones' course to the local municipal and back again with ease.

"We've been watching the budget tightly to make sure we're not spending more than our fair share, but since we take care of the campus maintenance too, we don't get a lot of grief for lower rounds," Jones says. "We put forth the best product we can and let the golfers decide."

Looking forward to 2004

Despite a rough 2003, superintendents are remarkably bullish on the prospects for 2004. According to *Golfdom*'s survey, 73 percent of the respondents believe the economy will pick up in 2004. The 7 percent jump in gross domestic product in the third quarter of 2003 gives a glimpse that it might be true. (So do trends in some of the industry's major markets; see sidebars).

The NGCOA's Hughes says play picked up in 2003 at destination golf courses and high-end daily-fee courses as corporate outings business increased. The fallout from Sept. 11 seems to be dissipating.

"I can't say they've come all the way back, but there are signs of a recovery," Hughes says. "Corporate spending on golf is starting to come back some, and I expect that trend to continue in 2004."

Hughes says he will focus in 2004 on bringing more players into the game with innovative solutions like the ones Meriam Leeke is using in Michigan. "I'll be trying to persuade courses to sell golf differently — maybe in one-hour or 1.5-hour increments or creating a starter experience — that will fit better into the busy lives of today's golfers," Hughes says.

At Winfield Country Club, Hollembeak and his members are continuing their own search for solutions to the problems facing the club. Though they haven't figured it out completely yet, Hollembeak says he's ready for next year no matter what the future holds.

"We'll see how we come out of the budgeting process [that started on Nov. 1]," Hollembeak says. "I'm anticipating the economy to rebound in 2004, and that will help us. Until then, we'll just have to tough it out." ■

Matthews: Architects See Flat Market

Bruce Matthews, principal of Matthews Design Group, a Michigan-based architecture firm, says the architectural segment of the industry was flat in 2003, but the future may be murkier.

In part, the flatness of the market is the result of few courses being built, Matthews says. Financing for golf courses largely dried up after banks had trouble collecting on golf course loans they made in the late 1990s.

"The days are over when banks will loan money to just anyone because golf is connected with a project," Matthews says. "The golf industry won't recover until after the economy has fully recovered."

Matthews believes it will be at least two to three years before the market turns around.

Though new-course construction is down from three years ago, the architecture market was supposed to be buoyed by courses in need of renovation. Matthews, whose business is 60 percent renovations, says even that market has taken a downturn as course revenues have dropped. "It's not just me – that's what I've been hearing from a lot of my colleagues," he says.

He said his three-person shop ditched the office space they were renting in favor of home offices to cut down on expenses during this downturn. But he believes the market will eventually turn around.

– F.H.A. Jr.