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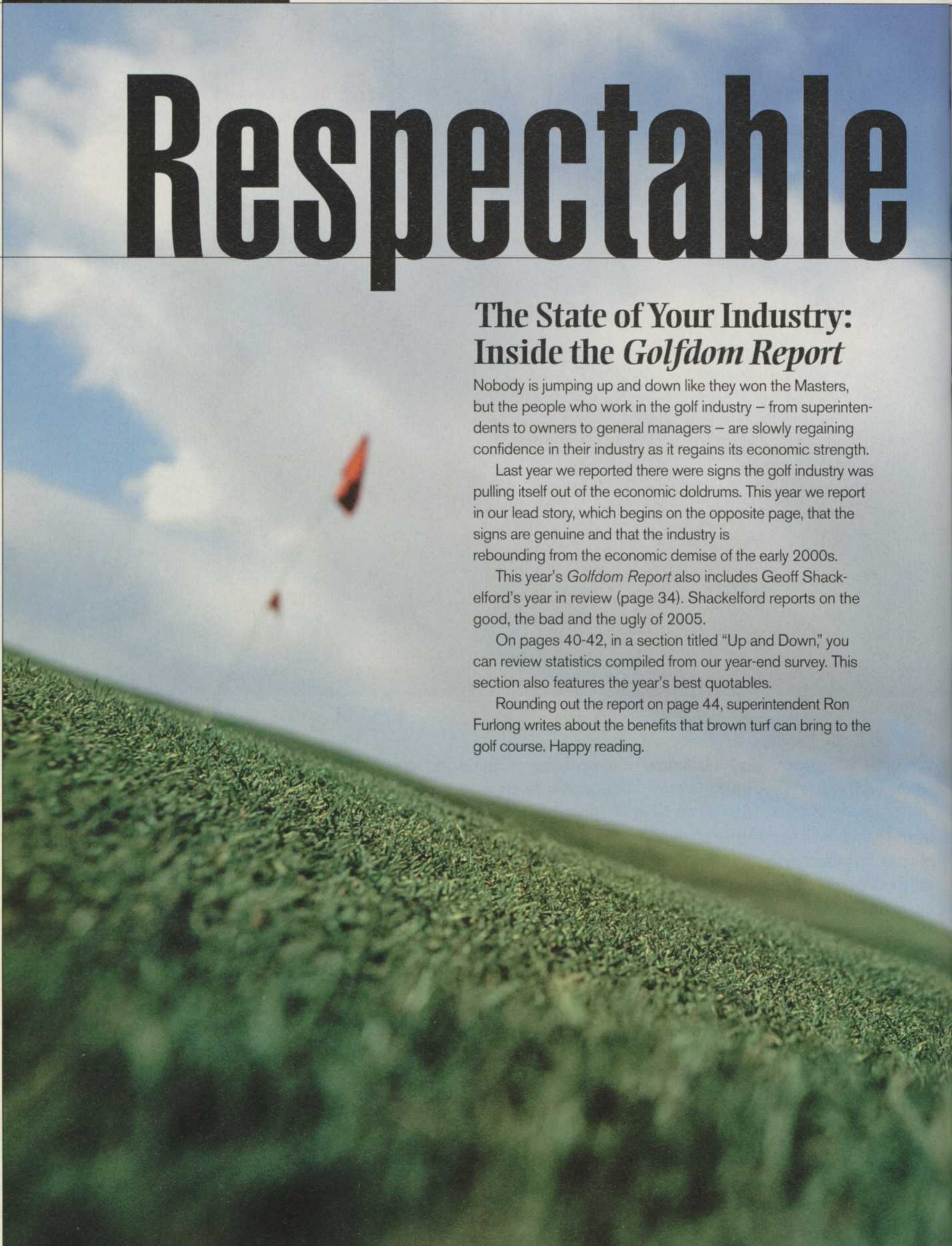

The State of Your Industry: Inside the *Golfdom Report*

Nobody is jumping up and down like they won the Masters, but the people who work in the golf industry – from superintendents to owners to general managers – are slowly regaining confidence in their industry as it regains its economic strength.

Last year we reported there were signs the golf industry was pulling itself out of the economic doldrums. This year we report in our lead story, which begins on the opposite page, that the signs are genuine and that the industry is rebounding from the economic demise of the early 2000s.

This year's *Golfdom Report* also includes Geoff Shackelford's year in review (page 34). Shackelford reports on the good, the bad and the ugly of 2005.

On pages 40-42, in a section titled "Up and Down," you can review statistics compiled from our year-end survey. This section also features the year's best quotables.

Rounding out the report on page 44, superintendent Ron Furlong writes about the benefits that brown turf can bring to the golf course. Happy reading.

Showing

The golf industry continues to inch its way out of the economic doldrums

BY LARRY AYLWARD, EDITOR IN CHIEF

When Mike Hughes hears that rounds at U.S. golf courses are as flat as a flounder, he doesn't feel an angry urge to fling his five-iron in a pond. While flat may seem ho-hum, it's a decent performance considering the bumpy times the golf industry has endured this decade.

"I think it's a reasonable result considering the state of the industry for the last couple of years," says Hughes, the executive director of the National Golf Course Owners Association. "Having talked to a lot of owners, rounds are down but revenues are holding even or slightly ahead. So from a revenue standpoint, the business is certainly better than it was a couple of years ago."

Others in the golf industry share Hughes' assessment, including Jim Thompson, the general manager of Angels Crossing Golf Course in Vicksburg, Mich., who says flat is just fine by him.

"I'd say that's a heckuva good showing," Thompson adds.

They are satisfied, perhaps, because they know the industry continues to inch forward with economic improvement after taking its hits in the late 1990s and early 2000s. The industry's wheels weren't coming off then, but they sure were wobbly. An unfavorable combination of too many golf courses, not enough golfers and a struggling economy led to some tough years. So the slightest decrease in rounds this year — minus six-tenths of a percent through September, according to the National Golf Foundation — is not bad news, especially on the heels of a 1.4 increase in rounds in 2004. Throw in the fact that retail sales of balls, clubs, bags and other hard goods rose in 2005 when compared to 2004 and 2003,

Continued on page 28

Apocalypse Now? Industry Prevails Despite Disasters

The world experienced calamity on a grand scale in 2005. Nature displayed its ferocious side, unfurling a fury of disasters, including hurricanes, which caused widespread damage and destruction of a major U.S. city.

While the hurricanes, most notably Katrina, damaged several golf courses in the South, the losses in rounds and revenue didn't impact the industry negatively, especially on the Gulf Coast, says Tom Stine, co-founder of Golf Datatech, a Kissimmee, Fla.-based golf market research firm.

"I know golf is important to the people [on the Gulf Coast] and for some it is their lives ... but there isn't a huge enough number of rounds of golf being played there by a huge population," Stine says.

Armchair economists said destruction caused by the hurricanes also would filter down and affect many U.S. consumers' pocketbooks, causing them to pay more for gas, food and other necessities. That happened, but has it also caused those people to cut expenses in other areas, such as money spent on entertainment and playing golf?

Mike Hughes, executive director of the National Golf Course Owners Association (NGCOA), says it's the media's nature to report about a world in turmoil and how it could hurt economic development. "But I don't think that's affecting the golf industry negatively," he adds.

Hughes says an improved economy is a sign that things may not be as bad as they seem. He may have a point. The country's economic growth was 3.8 percent in the third quarter, according to the Commerce Department, despite all the bad news.

Stine agrees that there are a lot of bad things going on in the world that affect consumers' spending habits.

"But when is that not the case?" he asks.

– Larry Aylward

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according to Kissimmee, Fla.-based golf market research firm Golf Datatech, and there's reason for people to feel even more upbeat about the state of their industry.

While *Golfdom*'s readers are confident about their respective businesses, they seem unsure of what the future holds for the general economy, according to a recent online survey of 380 superintendents and other golf industry personnel. Sixty-eight percent of readers said they are "very optimistic" or "kind of optimistic" about the economic health of their facilities compared to 11 percent that are "very pessimistic" or "kind of pessimistic."(Twenty percent said they are neutral.) But only 33 percent of readers said they expect the general economy to improve in 2006, compared to 35 percent who said they don't expect the economy to improve, and 32 percent who said they are unsure if it will improve.

Fact is, the U.S. economy is improving — growth was 3.8 percent in the third quarter, which reflects vigorous consumer spending — despite a decline in consumer confidence. Hughes believes the improving economy will spur more rounds and revenue next year.

"If the economy is healthy and growing and people feel secure in their jobs, then they have discretionary income and they'll spend it," Hughes says.

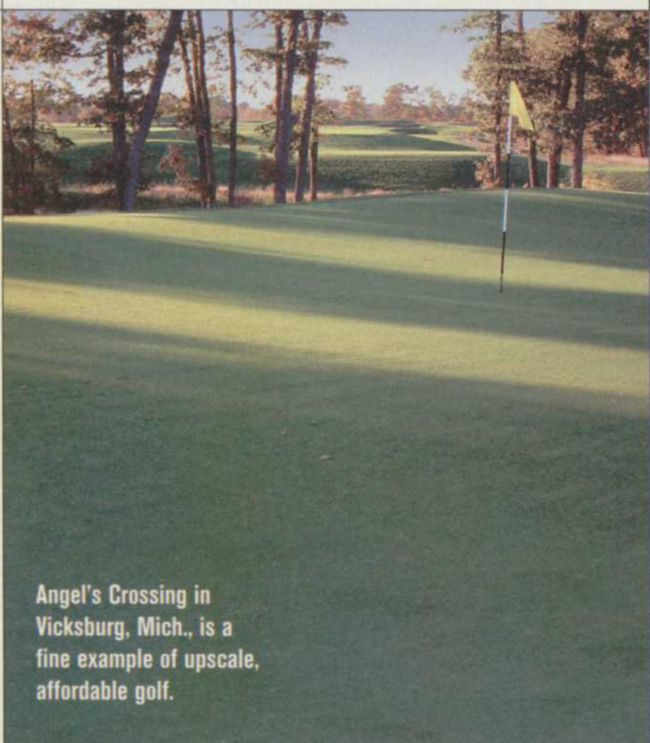
People spent their discretionary income at Angel's Crossing this year. The course, which opened in 2004, did more than 25,000 rounds. Thompson expected it to do about 17,500 rounds.

Thompson says Angels Crossing has helped its own cause by providing upscale, affordable golf. The Bruce Matthews design, which cost less than $2 million to build, has an 18-hole green fee of $44 (with golf car) on the weekend. Thompson, a former accountant, believes Angels Crossing is a fine example of how golf courses should be built today.

"If you're going to survive in the next 20 years, you're going to have to do what we've done," he says. "Because if you're not doing it, somebody is going to come back in your backyard and do it."

The industry has its share of critics who charge that golf is too expensive and that some high-end public courses have driven themselves out of the market because of their expensive $125-plus green fees. There just isn't a good supply of golfers to afford those prices.

So in order to justify a high green fee of $100 or more, courses had better have a solid name brand attached to their designs or offer something extraordinary with their golf experiences, Hughes says. Otherwise, the price pressures created by supply and demand are going to squeeze them.



Angel's Crossing in Vicksburg, Mich., is a fine example of upscale, affordable golf.

PHOTO COURTESY: ANGELS CROSSING

Summer Heat Keeps Fungicide Makers Busy

By Thomas Skernivitz, Managing Editor

FOCUS ON: CHEMICALS

The sweltering summer east of the Mississippi River prompted plenty of speed dialing between superintendent and chemical company in 2005.

"Our phone rang off the hook," says Joe DiPaola, the golf market manager for Syngenta Professional Products.

The hot topic was the hottest season in the Midwest and Northeast since 1995. Philadelphia, in the 90 days preceding Labor Day, experienced 62 days of above-normal temperatures. The thermometer in Cleveland touched 90 degrees Fahrenheit 25 days, well above the average of eight.

"Some folks, even as late as mid-October, were saying, 'Summer just won't let me go this year,' " DiPaola says.

Turf disease loved it. Spring marked the arrival of snow mold. Then came brown patch, gray leaf spot, anthracnose and take-all patch. Worst of all, pythium resurfaced because of the heat and humidity after laying low the previous mild summers.

"For those courses that were hot and wet, there was only so much you could do about pythium," DiPaola says.

Courses "clearly increased" their expenditures on pest control products, particularly fungicides, DiPaola says. But many superintendents — at an average age of 40 and with an average tenure of six years at their current course — never knew what hit them until it was too late.

"If this was the toughest summer in 10 years, that means that most superintendents had never experienced a tough summer on the course that they're now at. And many superintendents, because of their young ages, would not have experienced one at all," DiPaola says. "That added angst to the whole situation."

Exacerbating the situation even more was tournament preparation. With luminaries headed to the first tee, some courses elected to close for weeks at a time while trying to eradicate a disease or remedy its effects.

"In some cases, they just didn't want to take the gamble," DiPaola says. "You can only do so much sometimes. And those courses that went unscathed were a combination of very, very good and very lucky."

Few courses went the cheap route at the expense of the turf. This upheld Syngenta's market research that had indicated that superintendents, if pressed, would exceed their pesticide budgets between 10 percent and 20 percent. In turn, courses saved some money on fuel costs because the heat suppressed the need to mow as often.

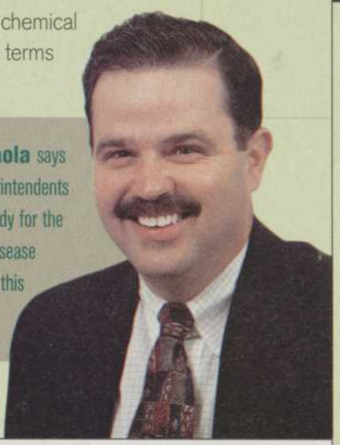
Despite the rush on fungicide, at no time was there a shortage involving the product, DiPaola says. "Because the summers had been mild preceding this, there was a fair level of inventory on hand," he adds.

DiPaola calls 2005 a "solid year" for the chemical industry, although "not an outstanding situation" despite the disease prevalence.

"It wasn't like the Exxon situation," he laughs. "That's a whole different deal. We're up over the prior year, but we could have been up over the prior year despite the weather."

Skyrocketing fuel costs are hurting chemical companies, DiPaola says, particularly in terms of transportation and raw materials. Yet Syngenta has maintained its pricing structure from the previous year.

"I don't know how much better you can be in the face of all that. We're obviously eating quite a bit there," DiPaola says.



Joe DiPaola says some superintendents weren't ready for the waves of disease that struck this summer.

"If you do have something special, you can be successful," Hughes says. "But if you don't stand out . . . those price pressures are going to affect your business."

The courses that offer something special — from a terrain that can't be replicated to an experience that can't be duplicated — are getting golfers to pay the high green fees. Hughes cites the Dallas Cowboys Golf Club, billed as the country's only NFL-themed golf course, as a good example.

Tripp Davis, a golf course architect based in Norman, Okla., says the industry needs to be razzle-dazzle and more pragmatic to improve its economic health. For example, Davis would like to see fewer man-made waterfalls on golf courses and more Mother Nature-made natural areas.

"If you can build a golf course that does what you want and you build it for a cost that makes money in the long run, then why not go that route instead of spending an exorbitant amount of money on glitz and glamour that's wasteful," Davis asks.

Thompson says there's a vicious circle in golf where

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Hurricanes Create Shortage of PVC Pipe; Projects Delayed

By Thomas Skernivitz, Managing Editor

The irrigation sector, as much as any that caters to the golf course industry, has suffered in the wake of the three hurricanes that struck the Gulf Coast region in 2005.

Irrigation projects across the country have been delayed because of a hurricane-induced shortage of PVC pipe, which is a byproduct of petroleum. And what pipe is available is at least 25 percent more expensive than it had been to start the summer.

FOCUS ON: **IRRIGATION**

"Right now, it's almost what you'd call a crisis because some jobs are being held up as a result of it," says Rod McWhirter, national specifications manager for Rain Bird Golf Division. "The hurricanes had a very profound effect. It's been a shortage as well as significant price jump … since the New Orleans hurricane (Katrina). That's causing some concern and some real obvious pain and agony among customers and contractors."

Contractors are especially hurting, as they're also having to foot higher bills for their lifeblood — diesel fuel.

"I've heard several golf course builders remark to me throughout the year, especially during the last half of the year, that the diesel prices are really hurting them," McWhirter says. "Contractors not only have their on-site diesel fuel costs, but they have the high cost of getting equipment from one job to another."

Hurricanes aside, the irrigation industry enjoyed a decent year, McWhirter says.

"It was a better year than we've had in the last four years. There was some improvement," he says.

Although new golf course construction remained "pretty slow" in the United States, according to McWhirter, the renovation business continued to pick up.

"Renovation is still the big focus for us because the new construction market is still soft," he says. "We're really focused on that; not to the extent where we're ignoring or abandoning the new business, but we've refocused a lot on the renovation business. And we'll probably continue to do that next year as well."

The situation differs significantly outside of the United States. McWhirter says new course construction is thriving in Asia, Europe, the Caribbean, Mexico and Canada.

"We do very well internationally," he says. "I wouldn't call it a golf boom, but the robust international market helps us a lot."

Rod McWhirter says his irrigation company is focusing on the renovation business.

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one business segment overcharges another business segment and so on. "It has gotten out of hand," he says. "Everybody in golf is sticking it to everybody else.

Something similar has happened in Myrtle Beach, S.C., says Donald Wizeman, president and CEO of International Resort and Golf Resources, a golf resort consulting firm. Myrtle Beach, regarded as a golf Mecca in the South, is not getting the amount of play it did five years ago. Ten courses courses have closed or have been sold for redevelopment in the past two years, says Wizeman, who expects at least five more closings next year.

The area needs a jolt of contemporary and creative marketing to revive the tired golf scene, Wizeman says. Currently, he says golf courses are stealing business from each other instead of trying to grow the business together.

"It's a terrible situation, Wizeman says. " Everybody is struggling."

It's not that the Myrtle Beach market can't bounce back. "[Golf courses] need to understand that they have to work together for the common good," Wizeman says.

One could make the argument that Myrtle Beach was overbuilt with golf courses. The area peaked at about 120 courses a few years ago. Could it be undergoing a correction of sorts, similar to other areas of the country?

The number of courses being built in the United States has declined dramatically in the past five years. But because the golf course building blitz of the mid-1990s was excessive in some regions, the golf economies in those areas are correcting themselves. That's not a bad thing, says Hughes, noting that supply and demand is getting back in balance. "You can't sustain a healthy industry unless it's in sync," he adds.

Tom Stine, the co-founder of Golf Datatech, blames the golf course-housing development syndrome for the saturation problem.

"That business scenario doesn't work for the golf industry in all areas at all times," he says. "You have to remember that, at best, only 10 percent of the people in the United States play golf sometimes. So just because an area is growing in population, doesn't mean all those people are golfers."

Davis points out that home sales continue to drive the golf course market in some cities, such as Memphis, Dallas and Phoenix. "Home sales in those parts of the country are still going through the roof, and are still driving golf course communities."

That said, too many courses are built with little or no planning, Davis adds. Then expensive change orders are introduced during the building process, which drives up the cost of the course and eventually the cost to play a round.

While on the topic of expense, industry insiders are

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As Disease Thrives, So Do Independent Distributors

By Thomas Skernivitz, Managing Editor

Until someone develops an invincible transition-zone grass, independent distributors such as TenBarge Seed and Turfgrass Supplies are going to prosper, especially during hot and wet summers like 2005.

"We're in the transition zone, and in this area there's no perfect grass," Chad Will, the president of TenBarge, says from his office in Haubstadt, Ind. "It seems like every (turf variety) has a downfall, and when you have a summer of heat and stress like this year, we had a lot of customers who lost grass that had to be replaced. That makes for a good year for us."

Bentgrass putting greens fared especially poorly, Will says.

FOCUS ON: DISTRIBUTORS

Ninety-degree heat and wet conditions, including the season's hurricanes, intensified turf disease to levels that hadn't been seen since 1995. "In the 13 years that I've been in the business, it was definitely the worst year for pythium," Will says.

Previous mild summers may have lulled some superintendents into a false sense of security, Will says.

"Some guys slacked off on their spray programs a little bit," he says. "Because of the easy years we've had the last couple of summers, this year kind of caught them off guard."

In turn, chemical sales jumped for distributors. Will says his company experienced no shortages of inventory, nor had he heard of any fellow distributors running short of products.

As successful as 2005 was for TenBarge, it would have been even better if not for the high fuel prices. The company took a hit on freight charges, especially on seed deliveries from as far away as Oregon.

"It seemed to affect us more on incoming freight than outgoing freight," he says. "Those are unforeseen charges that aren't calculated (into the budget) and that you're really not aware of until you get the bill. That was a big surprise for us this year, and we had to address that."

TenBarge customers inherited some of those extra charges, although the company tried to absorb as much as possible.

"I wouldn't say there was a lot of backlash on that; maybe a few complaints here and there," Will says. "I think everybody saw the same thing with their own personal situations."

As for independent distributors, Will sees a bright outlook.

"I feel like that's the way of the future right now," he says. "The market is going toward the independents a little bit more, and we've been able to gain some market share."

Chad Will says increased freight charges didn't tarnish an otherwise successful year.

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concerned that increased fuel prices will slow the business. But it remains to be seen whether gas prices will affect rounds of golf played.

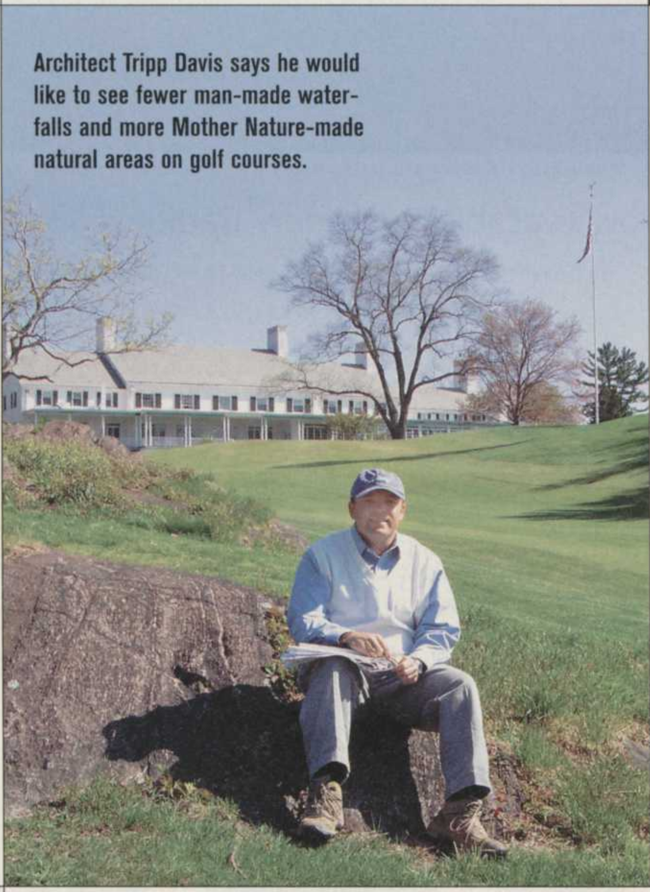
Last year Charlie Fultz, the superintendent of Shenvalee Golf Resort in New Market, Va., fretted about losing traveling golfers from Northern states because of high gas prices. When prices climbed higher than Fultz ever imagined in the spring, he and others at Shenvalee were sure the course's business would take a hit. But they were wrong, much to their surprise.

"We lost a little bit, but I can't even put a percentage on it because it wasn't that much," Fultz says. "We kept waiting for people to call and say they weren't going to make the drive because it was going to cost them $150 to get here. But they still came."

Stine says cases could be made that fewer people are playing golf because they need that money to buy fuel for their vehicles. But Stine believes those are rare instances.

"The guy playing golf three days a week is a serious golfer," Stine says. "The price of gasoline just doesn't enter into whether he's going to play golf on a Saturday or not."

Industry personnel agree that it's vital to do everything possible to grow the game, whether it's developing more players or improving operations and customer service.



Architect Tripp Davis says he would like to see fewer man-made waterfalls and more Mother Nature-made natural areas on golf courses.

PHOTO COURTESY: TRIPP DAVIS

Hughes says owners across the board want more player development programs. "They certainly want that to stay on the top of the agenda of the golf associations."

Hughes also says owners desire better financial information to operate their businesses. NGCOA recently teamed with Golf Datatech to help develop that information through the Financial Benchmarks Program. Hughes says the program provides accurate and consistent industry measurements to help owners and operators evaluate the performances of their facilities. They can also use the information to compare their results to their competitors' results.

Fultz says improved customer service should be at the top of everyone's lists. "We have to treat golfers the best we can treat them," he adds.

If the game grows and rounds increase 5 percent next year, you just might see Mike Hughes flinging his 5-iron in the air in an act of jubilation. But, as Stine stresses, golf is not Google stock, and it's important to remain realistic as far as the game's growth is concerned.

"Would we rather have rounds played up 10 percent? Yes, but rounds don't go up 10 percent in a good year," Stine says. "The golf business doesn't see huge increases like that, nor does it see huge decreases like that. It's just the nature of the industry." ■

Hurricanes, Heat Make for Tough Year; Glut of Courses Worrisome

By Thomas Skernivitz, Managing Editor

FOCUS ON: IRON

Although a fair number of North American golf courses closed in 2005, the industry expanded by about 80. And with similar net growth expected in the near future, Gregg Breningmeyer is a bit concerned.

"I remain troubled by the number of new golf courses that are coming in," says Breningmeyer, the director of sales and marketing for John Deere Golf & Turf One Source. "To me, that is troubling because I don't see the commensurate number of new golfers coming into the game, so the competitive environment is going to get even stronger in the near-term future."

More competition tends to mean tighter budgets. And tighter budgets often take their toll more quickly on equipment manufacturers than other sectors of the golf industry.

"When budgets are under stress, that creates a need for (superintendents) to make what they've got last longer and stretch out their dollars even further," Breningmeyer says. "Immediately, people will delay a package purchase or they'll extend their lease by a year instead of what they originally planned. It forces the manufacturers to re-evaluate their value propositions."

No major shifts in global market share were experienced among the major equipment manufacturers in 2005, Breningmeyer says.

As for the golf industry in general, he calls 2005 "more troublesome" than the recent trend, primarily because of weather issues. The hurricanes that hit the Gulf Coast region and the summer heat that hindered the eastern half of the country combined to cause "significant stress," he says.

High fuel prices also cut into consumers' leisure spending. "Which again perpetuates itself with fewer rounds being played and even lower revenues in terms of greens fees," Breningmeyer says. "With the convergence of all these elements, it was almost like the perfect storm for a lot of golf courses."

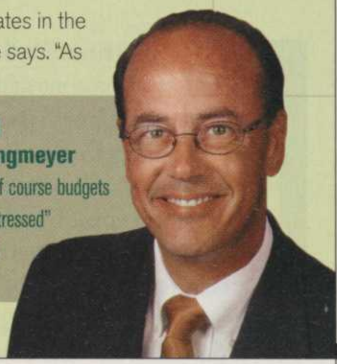
As for the effect of increased gas costs on equipment manufacturers, Breningmeyer says it's been minimal. No plans were altered at John Deere; none were scrapped. "Even with our hybrid technology that we introduced last year, the gas savings were a result of technology," he says. "The driving goal of that product was to reduce noise and to reduce hydraulic leaks."

The feedback concerning John Deere's hybrid technology has been "incredibly encouraging," Breningmeyer says.

"Like any new technology, you've got the early adopters. Then you have to get over what we call the "valley of death," to where it becomes a mainstream-type product," he says. "We've had great success in our planning. And globally the response is very encouraging."

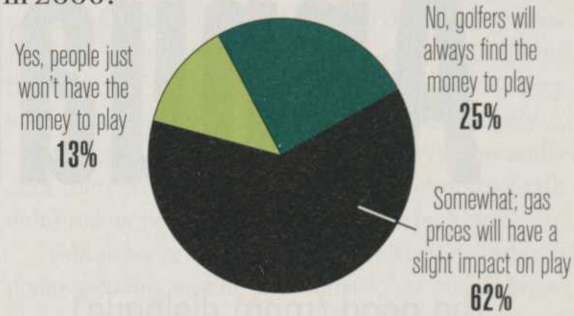
Breningmeyer adds that from a historical perspective, one bad year doesn't mean the future is bleak.

"We've weathered all types of climates in the past, but this is a resilient business," he says. "As the industry encourages new golfers, superintendents continue to effectively manage tight budgets and suppliers introduce new, viable business solutions, there's certainly promise for the future."

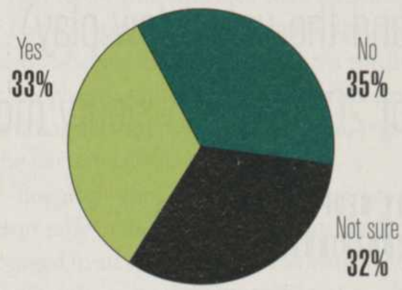


Gregg Breningmeyer says golf course budgets were "stressed" in 2005.

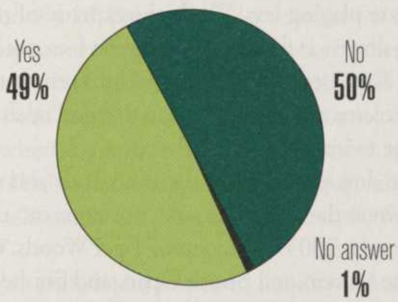
Are you worried that high gas prices will lead to a decrease in golf course rounds and revenue in 2006?



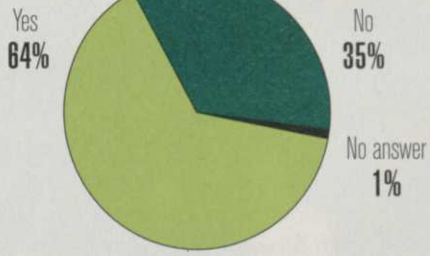
Are you confident the economy will improve in 2006?



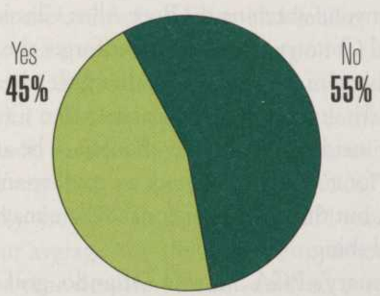
Did your course's revenue increase this year?



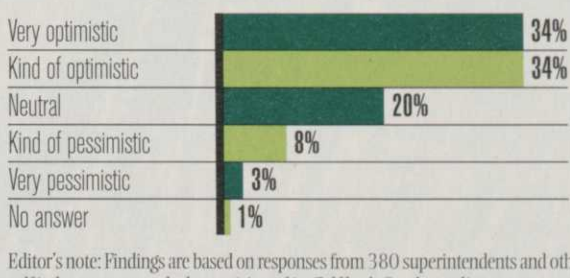
Did the economy affect your course's revenue in 2005?



Did your course's rounds increase this year?



How optimistic are you about the economic health of your facility?



Editor's note: Findings are based on responses from 380 superintendents and other golf industry personnel who participated in *Golfdom*'s October online survey.