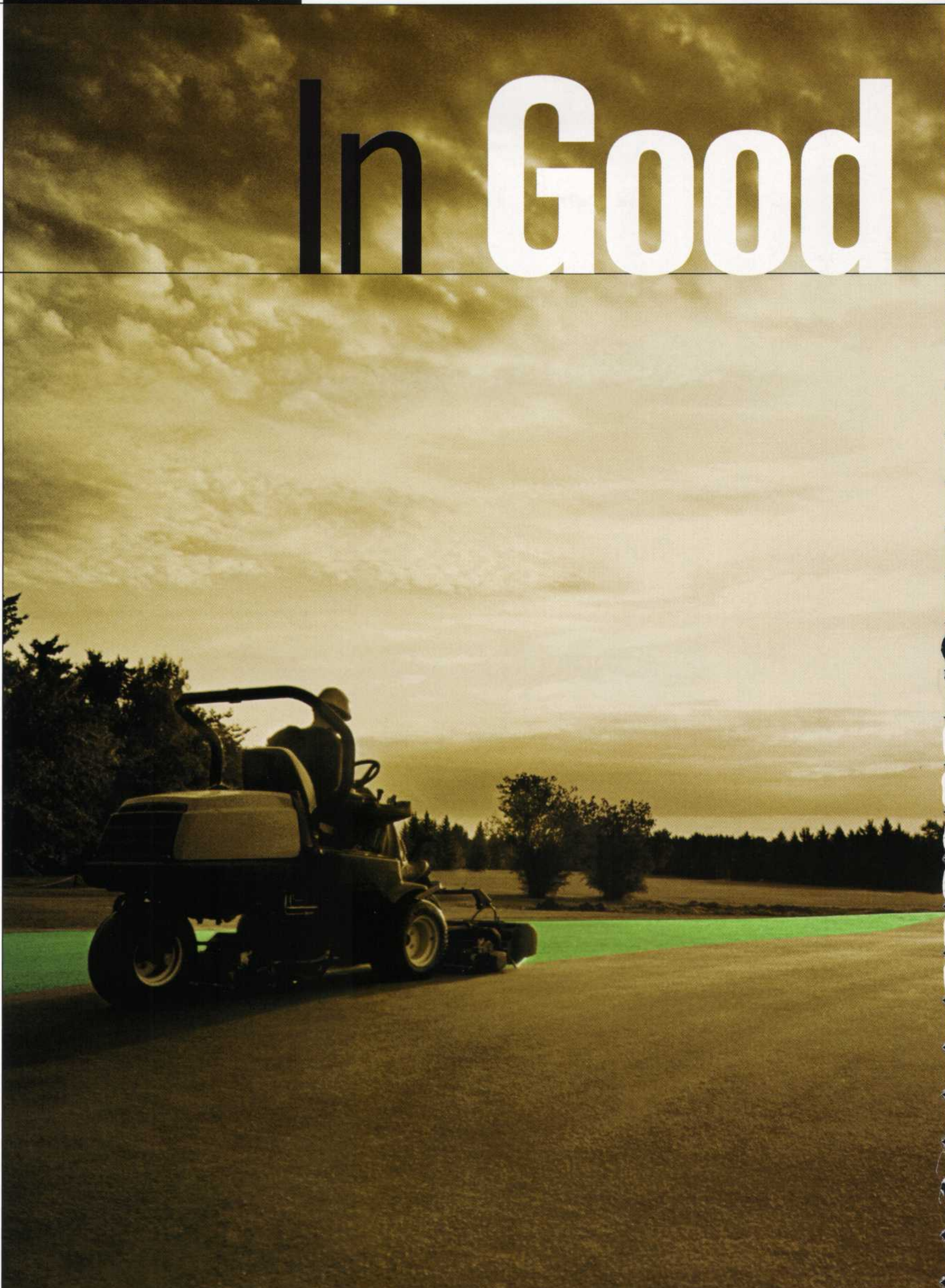
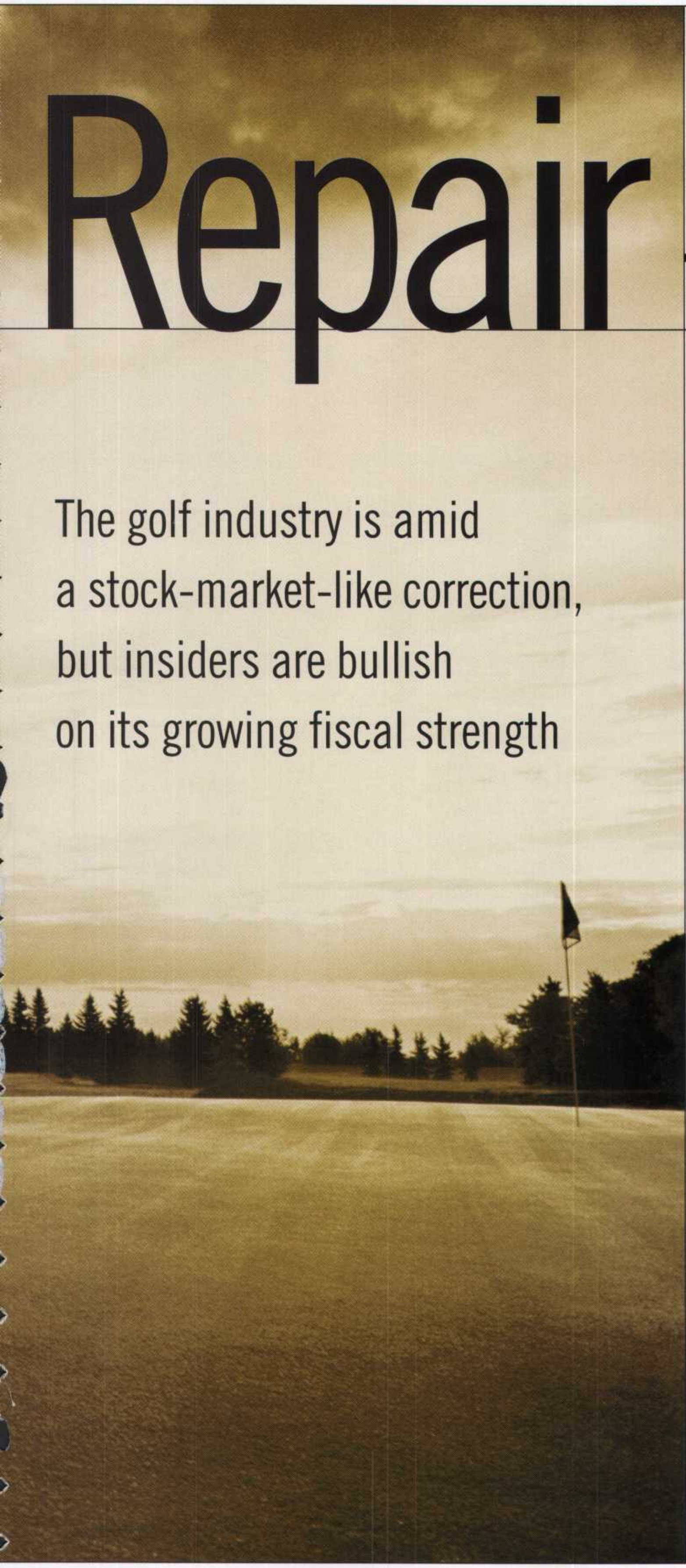
In Good





Repair

The golf industry is amid a stock-market-like correction, but insiders are bullish on its growing fiscal strength

BY LARRY AYLWARD, EDITOR IN CHIEF

A man dressed in a tuxedo takes the podium in front of a packed audience.

"The envelope, please," he requests.

The crowd turns quiet, as if Tiger Woods is putting on the 18th green for a win in the final round of the U.S. Open.

The man is handed the envelope. He opens it, removes a piece of paper with writing and begins to read it aloud. "The net growth of 18-hole golf courses opening in the United States in 2006 is ...

... minus 26.5!"

The audience erupts with approval. "Glory be to the golf gods," people shout, as champagne corks pop and confetti flies. The crowd's combined smile seemingly stretches the length of the fairway on the 667-yard 16th hole at Firestone Country Club.

Yes, *minus* 26.5 net golf course openings — the combination of course openings minus course closures — is good news for the industry. With rounds running flat and the number of new players about nil, the last thing the industry needs is more golf holes. In fact, it could use fewer of them.

It's more evident than ever that too many golf courses were built in the late 1990s and early 2000s. Now, with supply

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PHOTO BY: INDEXOPEN

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outweighing demand, a correction is occurring. Net course openings in 18-hole equivalents have gone from plus 252 in 2001 to minus 26.5 last year, according to the National Golf Foundation (NGF). Thirty-one net courses opened in 2005, and 99 opened in 2004.

"This is a healthy thing," says Mike Hughes, executive director of the National Golf Course Owners Association (NGCOA). "It's the economy working as we would expect it."

As the correction goes, so does the attitude of the people who make the golf industry tick. Generally, they're beginning to feel good about the industry's economics after several difficult years following 9/11.

According to a recent *Golfdom* survey of more than 600 readers, 41 percent said they are confident the national economy will improve in 2007. That's up from 33 percent who responded to the same question regarding the 2006 economy in last year's survey.

Twenty-four percent said they weren't confident the economy will improve in 2007 (compared to 35 percent in 2006), and 35 percent said they are "not sure" if the economy will improve (compared to 32 percent in 2006).

Sixty-seven percent of readers said they were "very optimistic" or "kind of optimistic" about the economic health of their golf facilities, according to the latest survey. That compares to 68 percent from the previous survey.

Mike Hughes, NGCOA

"This is a healthy thing. It's the economy working as we would expect it."

Inside word

It's easy for people on the outside to assume the golf industry is suffering because the number of course openings is falling and the number of course closings is rising, says Steve Mona, CEO of the Golf Course Superintendents Association of America.

"But that's not the way to look at it," Mona says. "Golf is winding up with a better inventory nationwide."

It's also easy to assume that the courses being closed and plowed under are doing so because they are strapped financially. But that's also not the case in most instances, Mona says.

"On the contrary, when you evaluate the courses being sold for other land uses, usually the owners are making out very handsomely," he says.

For instance, there's talk that more golf course owners in Las Vegas will close and sell their properties because the land they occupy is worth about $500,000 an acre. Talk about cashing in Vegas-style.

"There's no sad story there," Hughes says.

The conversion of golf courses into other uses is one of the big stories of the year, Hughes contends. In the past, golf course owners had to sell poor-performing courses for less money than they had hoped to receive. Today, many owners are selling for premium prices because the land the courses are located on is worth a pirate's treasure.

"They're generally making more money off the golf course than they ever anticipated," Hughes says.

Many of the closed courses are older low-end facilities in urban areas that feature only nine holes and a practice area, Mona says.

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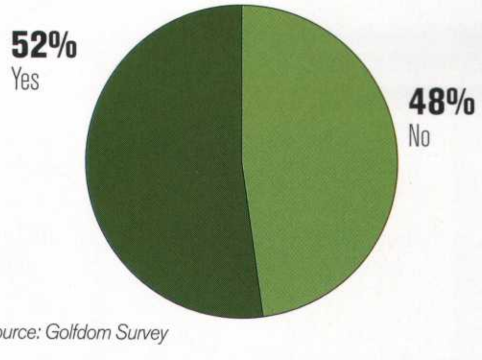
Rounds and Rounds

Number of golf rounds played in the United States from 2001 through 2006

2001	518.1 million
2002	502.4 million
2003	495 million
2004	499.7 million
2005	499.6 million
2006	504.7 million (forecasted)

Source: National Golf Foundation

Did your course's rounds increase this year?
(599 responses)



Source: Golfdom Survey

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"What we're not doing is taking heavily used 18-hole courses located in suburban areas off the market," he adds.

And the new facilities are well-designed and well-maintained 18-hole courses, Mona says.

"The net effect, considering what's coming off the market with what's coming on the market, is the quality of the overall golf inventory is going up," he adds.

Industry suppliers agree with Mona's assessment. However, less net course openings might mean more competition for them.

Gregg Breningmeyer, the director of sales and marketing for John Deere Golf & Turf One Source, says the current industry correction needed to happen.

"Ten years ago, demand exceeded supply by a great margin, and that's what fueled the rampant building of golf courses," he says. "That was fine, but we just didn't put the brakes on it soon enough. You just can't sustain a situation where supply exceeds demand by that level. But the beautiful thing about free markets is that they will correct."

That said, Breningmeyer says supplier competition for golf courses might increase because of the correction.

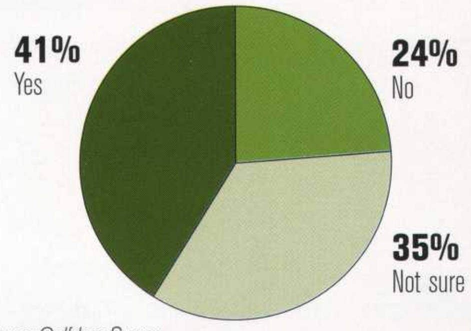
"It makes it difficult from a manufacturing standpoint to forecast what your sales will be in the domestic market," he says. "That's a challenge, especially when you're in a market like the golf business where you don't have hundreds or thousands of units sold every year. ... Any volatility you have in forecasting with relatively small numbers makes it all the more difficult to accurately forecast what you need to bill for the year. And if you miss that badly, there can be significant implications on your financials."

Toni Bucci, business manager for BASF Professional Turf & Ornamentals, says the slow growth in golf course construction will impact the supplier side of the business. She also notes that many suppliers' costs of doing business are going up, and competition among chemical suppliers is getting more competitive.

Steve Mona, GCSAA

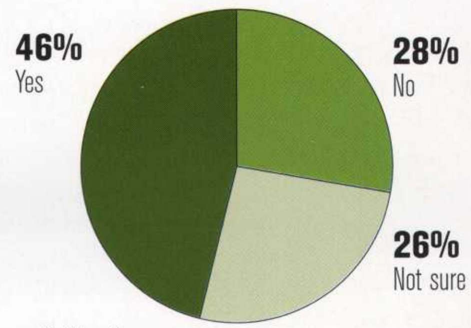
"The net effect, considering what's coming off the market with what's coming on the market, is the quality of the overall golf inventory is going up."

Are you confident the national economy will improve in 2007? (623 responses)



Source: Golfdom Survey

Are you confident your local economy will improve in 2007? (624 responses)



Source: Golfdom Survey

But that competition will only help superintendents, "because that competition motivates us to be even more innovative," she adds, noting that money will continue to be invested in research and development for new products that will help superintendents in their jobs. "We have to be constantly thinking about, not only what our competitors are doing, but about what new expectations our customers will have."

Wanted: More players

While there's rejoicing over net negative openings of golf courses, there's some concern over the near-flat number of rounds being played in 2006. According to the NGF, rounds were up 0.3 percent nationally in 2006 through November when compared to the same period in 2005. Golf Datatech, a golf industry statistic tracking firm, reported rounds were up 0.4 through November. "If someone said to me, 'What one metric in golf would you like to see change,' I would say the number of rounds being played," Mona says.

Gregg Breningmeyer,
John Deere

"Ten years ago, demand exceeded supply by a great margin, and that's what fueled the rampant building of golf courses. That was fine, but we just didn't put the brakes on it soon enough."

"That drives everything else in the game."

Mona points out that it's more vital to increase rounds among golfers who play about 15 rounds a year than to increase rounds among those who play once or twice a year.

"I'd rather have one golfer go from 15 rounds to 30 rounds than have three golfers go from one to three rounds," Mona says. "The latter doesn't spend much money, and they're really not connected to the game."

During a panel discussion on growing rounds and revenue at the Carolinas Golf Course Superintendents Association Conference & Trade Show in November, Joe Beditz, CEO of the NGF, said if courses want to increase rounds and revenue, they need to be more creative in their marketing approaches to attract more players.

"Our greatest competitor in golf is inertia," Beditz noted. "It's better to do something and be dead wrong than not do anything at all."

The industry has its share of innovators. For instance, there's Cyprian Keyes Golf Course in Boylston, Mass., which received a 2006 Player Development Award from the NGCOA. Friday nights at the course have turned into a social occasion for golfers of all ages and abilities. For just $30, participants in the club's Nine & Dine league are treated to nine holes of golf with golf car, prizes and dinner. "We're averaging 40 to 45 people a week, and everyone is having a great time," says General Manager David Frem.

Lawren A. Just, owner of Persimmon Ridge Golf Club in Louisville, Ky., is another industry innovator who created temporary memberships at her club to fill openings. Just's plan bought in many new golfers as well as $160,000 in cash for the course.

The key to growing the game is to convince owners and operators to implement formal programs at their courses to attract new players, Hughes says.

"We have to have a sense of urgency in doing this," he adds. "There's no mystery to it. We

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Are Golf Course Closings Hurting Job Opportunities for Superintendents, Others?

The golf course industry's leaders, including GCSAA CEO Steve Mona and NGCOA CEO Mike Hughes, agree that the last thing the golf industry needs is more holes of golf dotting the country. Hence, they believe that minus 26.5 net golf course openings in 2006 – the combination of course openings minus course closures – is healthy economic news for the industry.

But a question arises. Do fewer golf course openings – a trend for the past five years – mean there are less job opportunities for superintendents, assistant superintendents, club managers and other industry workers? On the surface, that's the way it appears, but Mona doesn't see it that way.

"People look at the industry and see that if 100 golf courses closed, that means 100 superintendents, club managers and pros must have lost their jobs," Mona says. "But I don't think that's the case necessarily."

Because a high percentage of the courses closing are not 18-hole facilities – most are alternative facilities, such as executive courses with pitch-and-putt venues that don't employ full-time superintendents – not as many full-time superintendents are losing their jobs as thought, Mona says. Also, most of the new course openings are 18-hole facilities that employ full-time superintendents.

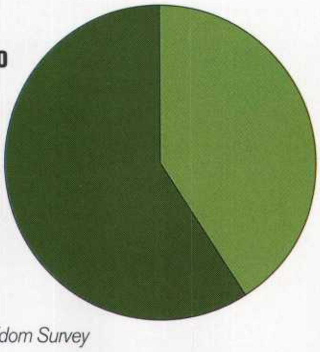
"Having said that, if we have net zero growth for the next five years, I'd be the first to admit that wouldn't be good for our profession," Mona says.

Charlie Fultz, superintendent of Shenvalee Golf Resort in New Market, Va., also doesn't think that less golf course openings mean less jobs for superintendents. He says available jobs are still proportionate to when there were 200 course openings a year.

Fultz attributes that to so many superintendents who are fired because they can't deliver the impeccable turf conditions demanded by owners and green committees. He also says there are more job openings for superintendents because many of them in their 50s are ditching the profession to work in other parts of the industry, such as sales.

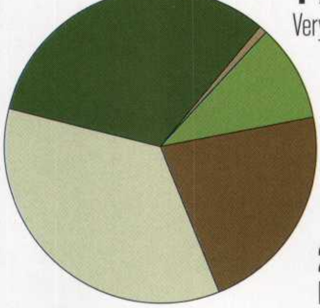
- Larry Aylward

Did your course's revenue increase in 2006?
(613 responses)



Source: Golfdom Survey

How optimistic are you about the economic health of your facility? (618 responses)



Source: Golfdom Survey

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understand perfectly well how to put programs in place that are effective at this. It's just a matter of more courses implementing them."

Beditz also stressed the importance of continuing to nurture junior golf programs to attract new players. "Statistics show that some of our great gains in participation over the last decade have been with juniors," he added.

And quality maintenance programs are crucial if you want to keep golfers coming through your clubhouse doors, said Henry DeLozier, vice president of Pulte Homes, who spoke on the same panel with Beditz at the Carolinas GCSA show. DeLozier warned that cutting a golf course's maintenance budget will prove detrimental in the long run.

The best home builders view golf as an amenity that helps them sell homes, DeLozier stressed. Hence, the best home builders are committed to golf and invest in it. "We want to invest in [golf] and we want it to be well done," DeLozier said. "The better done the golf course is ... the better we drive home sales."

One of the least-effective ways to increase play is to price cut, experts warn. But Jim Thompson, general manager of Angels Crossing Golf Course in Vicksburg, Mich., says that's just what area golf courses in southwest Michigan have been doing to try and increase business. Thompson says he doesn't understand why owners and operators believe price cutting can help their businesses.

"Changing your price doesn't directly affect the amount of play anybody gets for more than a week," he says. "And then you're right back where you were, and you've just devalued your product."

Hughes says price cutting at golf courses has decreased throughout most of the country, although it's still happening in some pockets of the country where local economies are struggling, like Michigan.

"They do what they need to do to keep going," Hughes says of golf courses in those areas. "But you have to be careful. When you start discounting, you can drive the price right to the bottom."

Thompson is also concerned that some golf courses are cheapening their green fees and making up for it by overcharging on other items.

"They'll give you a two-for-one coupon on your green fee, but they'll charge you $30 for a golf car, $6 for a tuna sandwich and $20 for a six-pack of beer," he says.

It's risky business, Thompson adds.

"How long are we going to treat customers like they're stupid before they figure this out?" he asks. "Then they're going to resent not just the people who did it to them, but everybody in the business. It will be enough to get people to take up bowling again."

The future ...

Retiring baby boomers may be just what the golf industry needs to increase rounds and revenue. The NGF expects baby boomers to add between 75 million to 100 million incremental rounds by 2015.

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Toni Bucci, BASF

"We have to be constantly thinking about, not only what our competitors are doing, but about what new expectations our customers will have."

What's With the Weird, Wacky Weather? But, What Else Is New?

The way-out weather played a number on the golf industry in 2006. Then again, when doesn't it?

In January 2006, golfers took to courses in the Midwest like it was June. Rounds were up 517 percent in the lower Midwest, and 443 percent in the upper Midwest when compared to January 2005, according to the National Golf Foundation (NGF). Rounds rose almost 30 percent nationally for the month.

At Shenvalee Golf Resort in New Market, Va., golf course superintendent Charlie Fultz says the resort did more rounds in January 2006 than it had done in that month the previous 15 years.

"For the first time in my career, we mowed fairways in January," Fultz says. "We mowed greens and tees, too."

But a funny thing happened to the golf industry on the way to having a good year for rounds played. Mother Nature decided to get nasty in the spring.

NGF reported rounds down 3.2 percent in May 2006 compared to May 2005, blaming it on well-above-normal rainfall in the Midwest and New England. Golf Datatech, another firm that tracks golf statistics, estimated rounds were down 2.7 percent across the nation in May.

At Angels Crossing Golf Club in Vicksburg, Mich., General Manager Jim Thompson says the course was ahead of its numbers for rounds through August when compared to 2005.

"Then the rains hit in September," Thompson says. "It rained 23 out of 30 days. I think a lot of people put their clubs away and didn't get them back out."

Thompson has a point. Golf Datatech estimated rounds fell 4.2 percent in October 2006 vs. October 2005. Rounds were off a whopping 23.9 percent in Michigan, Ohio, Indiana, Illinois and Wisconsin. NGF reported rounds down 6.7 percent in October.

"With drops of 20 percent to 26 percent (due in part to an average four fewer play days), the Midwest had the steepest declines in the nation," NGF stated. "Because the upper and lower Midwest combine for over 5,000 facilities, accounting for nearly a quarter of October rounds volume, the region was largely responsible for the overall 6.7 percent decrease."

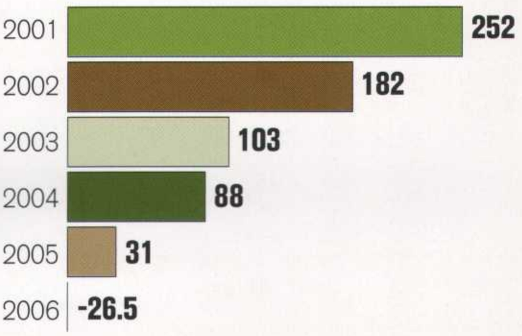
- Larry Aylward

Charlie Fultz,
Shenvalee Golf Resort

"[The golf industry] is positioned in the next five to 15 years to make as much money as it has ever made."

Golf Course Growth

Net growth of golf courses (openings minus closures in 18-hole equivalents) from 2001 through 2006



Source: National Golf Foundation

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When Charlie Fultz reads his crystal ball, the superintendent of Shenvalee Golf Resort in New Market, Va., sees that the golf industry is on the brink of a boon in the next five to 15 years. Fultz says the influx of retired baby boomers, many who will play more golf during that time, will fuel the growth.

"[The golf industry] is positioned in the next five to 15 years to make as much money as it has ever made," Fultz says.

Thompson would like to believe that, but he says costs associated with the game, including maintenance, need to decrease for the golf industry to remain viable.

"It can't continue to cost $30,000 a year to maintain bunkers, especially when every bunker has a rake in it," he adds.

Mona and the superintendents his association represents would agree with Thompson's point. But that aside, if Mona were a stockbroker, he would advise his clients to "buy" golf.

"I'm bullish on it," Mona says. "Golf has a lot going for it." ■