

Bearing





the **Brunt** of Commodity Prices

The golf course industry battles vicious price hikes and fierce economic pressures, but relief could be in sight

BY DAVID FRABOTTA, SENIOR EDITOR

Golf course budgets are bleeding. Prices for everything from irrigation systems, turfgrass and fertilizer to pancake flour and golf car batteries are on the rise, hampering operations and wreaking havoc on renovation projects.

Golf course products are following the rapid rise in precious metals, oil, grain and other commodities traded in the futures markets, which some say are inflated because of investor speculation, supply and heightened demand from abroad. First, ebbing global financial markets combined with America's housing halt has hampered investor returns. So financiers are gambling on raw materials, which have dwarfed traditional dividends during the past few years. Second, emerging economies are competing for building materials, oil and other goods.

"Unfortunately, we're in a situation now where investors are looking at rates of return and they're going to invest more and more in commodities," says Chad Moutray, chief economist for the Small Business Administration. "Some of them might be in a bubble situation, and

Continued on page 24

ILLUSTRATION BY: JAMES SHEPHERD

Continued from page 23

others are based a little more on supply and demand, and it's really hurting businesses. I do see an end, partly because I think they're in a bubble. Most economists vary their opinion depending on the commodity."

Many golf industry suppliers, as well as



Food for Thought

Your fertilizer budget might be high, but it's part of a larger, inter-related dilemma: Parts of the world are literally up in arms over food prices. Riots in Haiti, Egypt and Somalia are just the beginning, analysts say. Food inventory continues to be an oxymoron worldwide as world grain prices climb to precarious levels for many developing countries.

The United States isn't immune from the pressure. Sam's Club recently put a rice ration on its customers: You can only buy four of its 20-pound bags. That might not curtail the buying habits of most shoppers, but it could be a forward indicator of what's to come as more reports hit the mainstream media of bulk buyers — Costco has its own rice ration in some of its stores, too — stocking up on grains to hedge their bets with supply and demand. And country clubs around the country are feeling the fallout in their foodservice operations as everything from flour to carry-out containers skyrockets to keep pace with global supply and demand.

In early June, The Food and Agriculture Organization of the United Nations convened an emergency food summit to discuss how oil prices, supply, demand and food distribution were affecting worldwide availability and grain prices.

The Food and Agriculture Organization's Global Food Price Index, consisting of grains, dairy, meat, oil, fat and sugar prices, rose by 54 percent in the past 12 months. Grain alone jumped 92 percent in the trailing 12 months, and dairy products have about doubled in the past two years.

Closer to home, the production of biofuels has been controversial as more fertile farmland ceases to reap food for human consumption. Estimates for the impact of farming for biofuels vary widely, but the International Food Policy Research Institute estimates that 30 percent of the rise in grain prices between 2000 and 2007 can be attributed to heightened demand for bioenergy, and almost half of that increase can be attributed to corn-based ethanol.

As if the food outlook couldn't get any worse, the overflow of the Mississippi River and some of its tributaries across America's heartland will further crimp supply and drive maize and soybean prices upon speculation that shortages might exist. Investors drove the cost of corn to almost \$8 per bushel in the futures market, despite the absence of official government estimates at presstime.

— David Frabotta

golf properties, are battling the price hikes as they fight to stay competitive in their given markets. Many large manufacturers are able to leverage the synergies they have with their subsidiaries and take advantage of the buying prowess that comes with economies of scale. But for smaller businesses, such as golf properties, the ability to mitigate inflation is reduced greatly.

"Any time commodity prices go up, that increases the cost of doing business pretty substantially, and you may or may not have the ability to pass those prices along in a global marketplace," Moutray says. "In many cases, small firms are unable to hedge their bets in the futures markets."

It's all goods

Golf equipment manufacturers are bearing the brunt of rising metal prices. Everything is influenced by oil prices at least for transportation. Other products, such as fertilizers, turfgrass chemicals and drainage pipe, have some oil in the manufacturing process that creates a double whammy.

"All this nonsense in the commodities is influencing our product, which in turn is influencing golf," says Phil Gaffney, vice president of sourcing for Club Car.

Prices of many of the plastics that comprise a golf car are on the rise, but the largest increases in the supplier's product reside in metals. There are 12.5 pounds of copper in each of Club Car's DC electric vehicles, and there is up to 10 pounds of copper in its battery chargers.

Batteries alone could contribute to price increases for golf clubs. More than 200 pounds of lead exist in the rechargeable electric batteries made by Trojan Battery Co., which sells its product to all the major manufacturers, including Club Car, E-Z-GO and Yamaha. Lead was at an all-time low in 2001 at about \$400 a ton. It reached \$3,900 per ton earlier this year before retreating back to about \$2,100 in late June.

"This is a global phenomenon," Gaffney says. "We are used to cycles, but this combination of the weak dollar, the price of raw materials and commodities and the value of oil is an absolute anomaly."

Continued on page 26



He Stands A-gas-t!

Fuel prices have superintendent's head spinning when it comes to keeping his maintenance budget. What to do?

By Ron Furlong, Contributing Editor

Pumping gas recently into the family minivan, I passed the \$10 level without even noticing, the \$20 plateau with a bored and insignificant yawn, the \$30 mark without a blink, the \$40 figure with only a slight raise of an eyebrow, and then the magical and before not even thinkable half-century mark with a strange, almost bemused kind of deranged look on my face. I know I had this look because I caught a glimpse of it in the reflection from the driver's-side window (scared me a little), and also because my wife rolled the window down and asked what in the heck was wrong with me. She thought I might be having a stroke.

The grand total was \$56.65. A new record! I was so proud. I can only hope to someday hit the \$60 mark! With a little luck I might get there this summer.

Where is this all headed? Higher? Have we peaked? Depends on which expert you listen to and what you choose to read. Some theories are more positive than others about the future of fuel prices, so if you want you can pick and choose and make yourself feel better — or make yourself feel worse, I suppose, if that is your goal.

It's kind of like the local weather. There is one channel that is notorious for its positive forecast, while another channel is infamous for its constant negativity. I tend to go for the third channel, which seems to toe each line. Just give me the facts. I can take it.

Of course, we don't need experts to tell us just what these skyrocketing fuel prices are doing to our budgets at work (or at home, for that matter). And of course it doesn't stop with just fuel. Fertilizer prices are up because it costs more to manufacture. In fact, almost anything that has to be trucked to you or that is made with a fuel or an oil-based product has gone up. Sand, gravel, chemicals, seed, oils — nothing is immune.

How do we budget for line items that go up 15 percent to 30 percent? It's been hard enough in recent years with health insurance increasing this much every year, but now to have more traditional golf course maintenance line items affected like

Continued on page 28

Bearing the Brunt

Continued from page 24

Irrigation equipment is on the rise, too. Older brass fittings are being pilfered around the country, and their predominantly plastic replacements are more expensive to manufacture because of escalating oil prices.

Materials for irrigation installations are about 25 percent higher since 2005, says Dave Davis, president of the American Society of Irrigation Consultants and proprietor of David D. Davis & Associates. Much of the rise is imbedded in polyvinyl chloride pipe — which rose about 70 percent in the past few years — and of course, wiring for controllers, which fluctuates depending on the price of copper on any given day. PVC is following in copper's footsteps, he says.

"You can't even get a quote for PVC anymore," Davis says. "They basically tell us what we'll be paying when you get to the dock to pick it up."

Trickle-down effect

With prices for the full gamut of golf course materials fluctuating on the whim of market investors, bids for work at the club level require a significant contingency fund to keep costs in line with expectations.

"We don't know day to day what prices will be when doing bids," says Bob Pinson, president of the Golf Course Builders Association and president of Course Crafters. "There have been a lot of clubs that have decided not to do their projects because of escalating prices and fear of losing memberships because of assessments. So there have been a few clubs on our radar during the past couple of years that were committed to doing projects, and then they just put the brakes on."

Pinson's experiences mirror the widespread reality that golf courses are postponing renovation projects in hopes that commodity and construction prices are inflated because investors are funneling money into the futures markets.

Turfgrass, too, is caught in the same web. Growers must pass along the increases in fertilizers needed to maintain sod farms and seed production. And seed growers must compete with government-subsidized and lucrative crops, including corn, wheat, alfalfa and

Continued on page 28

Continued from page 26

this is almost too much to handle. Even labor costs more because cost of living is rising at a nontraditional level.

So, the magic question is: How do we keep the budget at a level that will be acceptable to the powers that be? Or, perhaps a better magic question: How do we increase the line items for these now suddenly more-expensive things while keeping the budget at an acceptable level?

Sorry, but those were rhetorical questions. I don't have the answers. In fact, if anyone has the answers please let me know. Let us all know! We'll put you on the cover of *Golfdom* and anoint you Superintendent of the Year.

Perhaps the answers lie in cutting budgets and lowering expectations. Perhaps the answers are finding ways to increase revenue and attract more people to the game of golf. But this might be hard to do if we lower standards across the board.

Maybe, and this is more than likely in the neighborhood of being on the right track, the answers will be a combination of the above. Cutting back (slightly) in some areas,

How do we increase the line items for these now suddenly more-expensive things while keeping the budget at an acceptable level?

which will keep the budget from increasing astronomically, while also finding ways to get more golfers onto the golf course. But this will be tricky. Remember, those people you're trying to attract to the golf course have to drive their cars, or worse, their gas-guzzling SUVs to the golf course. This will require them to put the precious fuel (why am I reminded of the great 1981 Mel Gibson movie, "The Road Warrior," here?) into their vehicles to drive to your golf course. And filling up on that precious and expensive fuel, which means they will have less money than they did before, will bring into their minds the horrible question: Do I really want to be throwing my money away on golf?

We all better hope their answer is "yes." And it is up to us to make sure the answer is "yes." How do we do this? Anyone? Don't be shy. Nothing comes to mind? Well, that's probably because, traditionally, it has not been in the superintendent's mindset to consider how to attract golfers to the course. We've got enough on our plates, right? We put out the great product, and the golfers come to golf. It's always been so easy. If you build it, they will come. But the playing field has changed a bit. We still have to put out the great product, but maybe we have to do our part to make sure someone is playing on it. There is almost nothing as sad as having the golf course in perfect condition and no one is there to see it or experience it. If a green is rolling perfectly but no one putts on it, does it make a sound?

So, how do we help attract golfers? I think the most obvious thing for a superintendent is communicating with the local schools in your area and organizing class field trips. Talk to the kids. Not only about golf course maintenance, but golf in general. Get them interested and aware of golf at an early age. Another thing would be to sit in on advertising meetings at your club. Give your input. No one knows the golf course at your facility better than you. Your suggestions in advertising hold as much water as anyone's suggestion. But in doing these "recruiting" things, please keep in mind it is not exactly in our job description. We can't let the golf course suffer by spending too much time trying to populate the golf course. The best way for a golf course superintendent to attract golfers is to provide a great golf course.

The other tool we have in fighting these crazy fuel prices is maneuvering our budgets around so as to spend more money on fuel (we have no choice), but less

Continued on page 30

Bearing the Brunt

Continued from page 26

canola, resulting in fewer acres of turfgrass seed being planted, which could create a supply shortage, says Kevin Turner, director of seed research and production for The Scotts Co. Total bluegrass acres planted are about half of what they were five years ago, Turner says, and fine fescue acres are a tad lower than normal.

"The price of grass seed is going to change," Turner told growers at the company's field day in late June. "We're looking at probably strong price increases in bluegrass and fine fescues, and smaller increases on ryegrasses and tall fescues."

Incremental price increases in so many products are inhibiting many renovation projects around the country as clubs re-evaluate the timing of renovation and construction projects.

About 41 percent of respondents to a recent online *Golfdom* survey said they are canceling, postponing or scaling back renovation projects because building materials and construction costs are so expensive. About 22 percent said they are accelerating their construction timeline before costs climb any more, and 38 percent said prices have no effect on what needs to be done around the facility.

Expenses for most renovation materials have escalated 50 percent to 100 percent since 2005, Pinson says, and much of the upward movement has occurred during the past six months.

Most of the cancelled projects involve routine upgrades to greens, tees and bunkers, sources say. Clubs looking for major changes likely have gone through the renovation process out of necessity. But many of them are handling it in a different way.

At Southern Hills Country Club in Tulsa, Okla., General Manager Nick Sedorakis put together a 10-year plan to upgrade facilities. The golf course was scheduled for completion prior to last year's PGA Championship, but the facelifts for parts of the property were originally slated for several phases. Then costs began to climb in 2005, just as the historic club entrenched itself in the procurement process for the renovation's multiple phases.

Supplies soared, largely because of demand from emerging economies in China, India and

Continued on page 30

Continued from page 28

on a few other things. For instance, we create larger no-mow zones to use less fuel, and in turn reduce labor. We tolerate some weeds in the rough. We use more plant growth regulators throughout the golf course to decrease mowing frequency. Again, this will help mitigate fuel costs and save labor as well. Let's face it: There is no bigger line item in any budget than labor. It is the most gluttonous of all line items, and being able to cut it back will be more cost effective than any other tool you have.

We can no longer rely on some of the traditional methods of golf course maintenance that we were taught. They worked for their time, but they are not going to work in the future. The world is changing. High fuel prices are basically the poster child for change. It's the red flag for all of us to see. But it's only one sign of change.

It is not in and of itself our future, but it is a sign for all of us to recognize that the future is going to be different. This, I think, may not be such a bad thing, in the end.

Driving down the freeway the other day I passed a fuel tanker driving in the slower lane and again I couldn't help but picture Mel Gibson behind the wheel fending off the crazed barbarians determined to steal his precious fuel. The driver gave me a strange look, wondering no doubt why I was staring at his truck. Of course, if you've seen "The Road Warrior" (great cult classic), you know the fuel isn't in the truck anyway. It's hidden in barrels in the buses. Poor Mel. Unbeknownst to him, he was just a decoy. I was tempted to shout to the poor guy driving the semi that the fuel wasn't in the tanker, it was hidden in the buses, but I was afraid he'd misunderstand and squash my Honda Civic like a bug.

Ay yi yi, let's hope this is not our future. But, just in case, you might want to hide a couple barrels of unleaded behind the shop. You never know. ■

Furlong, superintendent of Avalon Golf Club, can be reached at rfurlong5@gmail.com.

Continued from page 28

other countries that were developing quickly. Concrete rose \$25 per yard, drywall tripled in price, and copper wire rose about tenfold in two weeks, Sedorakis recalls.

The inflated expenses almost decimated his 20 percent contingency fund within the first two years of the project.

"Our construction manager came to us with a 30 percent differential on the original bid just six months to eight months into the project because prices were going through the roof," Sedorakis says.

At that rate, the overhaul would have exceeded projections if he continued on the 10-year path. Instead, Sedorakis accelerated plans so the club would finish the entire refurbishment before the PGA.

"The \$22-million project probably would be a \$30-million project right now," he says.

He dodged a bullet, but the reprieve was short-lived. As most golf operators know,

Continued on page 32

OUR PRODUCT-NAMING GUY TOOK THE WEEK OFF.

EasyMark System II | part #26760 | \$4.50 each

A versatile Tap-In Anchor lets you put a flagstick anywhere, with no need to cut a cup hole. That's the EasyMark System II, which makes placing a flagstick or marker anywhere on your course or range, well, easy. So it's not just a clever name.



STANDARD GOLF COMPANY

1-866 SG EXPRESS | standardgolf.com

Continued from page 30

expenses for building materials hurt once, but operating costs sting every day.

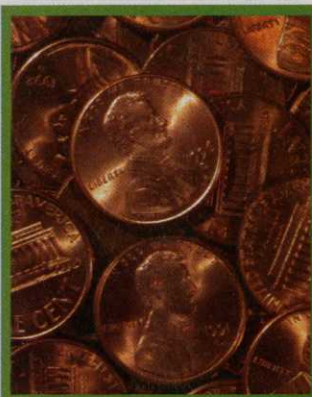
"You are seeing significant upticks in anything fuel-based and food-based, and fertilizer on the golf course is where you're really seeing it operationally," he says.

Grain prices were at historic highs earlier this year before retreating a bit in the second quarter. But widespread flooding in the

Midwest in June pushed prices back up to unprecedented levels in the futures markets, further straining foodservice budgets.

Possible reprieve

Myriad market forces are working in tandem against the golf industry. Housing continues to slump, and as Wall Street investors continually seek ways to hedge returns that can't be guaranteed by a volatile investment climate, they



Change for the Better?

It costs more to make pennies and nickels than they are worth, the U.S. Mint revealed in May. With copper and nickel prices tripling since 2003, the mint spends about 1.26 cents to make a penny — made of just 2.5 percent copper and 97.5 percent zinc — and about 7.5 cents to make a nickel, which is 75 percent copper and 25 percent nickel.

Congress has debated nixing the penny, but that proposal garnered an emotional outcry from voters, who apparently are quite fond of their one-cent pieces. Some are even hoarding their change to cash in on escalating metal prices. The Mint is on pace to make about 9 billion pennies this year, the most since 2001 and more than any other coin. Lawmakers are talking about making pennies out of steel temporarily just like the Mint did during World War II.

— David Frabotta

**CALL FOR
ENTRIES!**

2009 Dog Days of Golf Calendar



Is Your Canine Camera-Friendly? If so, please submit a photo of your dog to be considered for LebanonTurf's 2009 Dog Days of Golf calendar. Photos of your dog in a golf-related setting, in action or with you are encouraged. The 2009 calendar will feature dogs from your favorite course and be circulated to golf course professionals throughout the country. Any questions? Please call Cynthia Andrews, 1-800-532-0090 ext 253.

Submit your nomination today for LebanonTurf's 2009 Dog Days of Golf calendar. Complete the following information and send in a **high-resolution photo** of your dog to *Golfdom* magazine, Attn: Kristen Morabito, 600 Superior Ave. East, Suite 1100, Cleveland, Ohio 44114 or e-mail it to kmorabito@questex.com.

Deadline for entries: August 1, 2008

Free gift to all who submit!

Dog's Name: _____

Dog's Breed: _____

Course: _____

Your Name: _____

Address: _____

Phone: _____

E-mail: _____

Calendar brought
to you by:



Improving the Way
Professionals Care for Turf

Golfdom

will continue to drive investments into commodities, further inflating prices — sometimes without warrant, especially in reference to oil.

Michael Masters, managing member for Masters Capital Management, told the U.S. House Committee on Energy & Commerce in June that more government regulation in the loosely regulated futures market could drive down the price of oil by as much as 50 percent.

"We're not talking about [an oil price] bubble; we're talking about a tumor," Masters told lawmakers about rampant speculation. "It grows and grows, and it's hurtful as it expands. But now we have discovered the tumor, and we should take it out immediately."

Oil climbed to a record \$140 a barrel June 26, and some analysts predict crude will reach \$170 before the end of summer. It was the same day the Dow Jones Industrial Average fell more than 350 points to its lowest level in 20 months.

But while investors drive money into futures markets fueled by foreign prosperity, projects at home are almost standing still, as many in the golf industry know too well. That means many of the trades — plumbers, electricians, carpenters and landscape architects — are more affordable than they have been in decades.

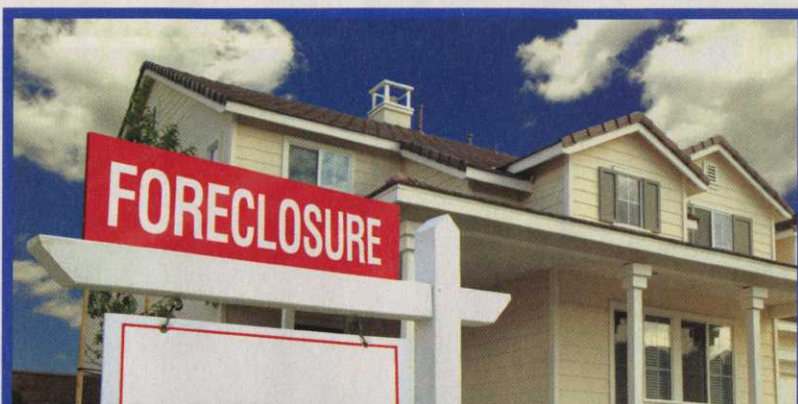
"There was so much work during (the early part of this decade) that we had trouble just getting bids," Sedorakis says. "Now bids are a little more competitive."

So pending renovation projects might be more feasible than the materials would indicate. Money that might be tied up in materials could be saved in labor.

"It makes good business sense to do renovations now because, laborwise and profitwise, you might be able to get things completed for less money than when economic times are good," Pinson says. "So it's kind of a Catch-22."

And if there is a silver lining to the declining dollar, it's that clubs can look to foreign patrons to supplement membership and golf rounds. For destination spots for European vacationers and courses located near Canada, the relatively cheap dollar might mean that courses can capitalize on foreign tourism.

"A lot of times, small businesses haven't focused on the international market because they didn't need to," Moutray says. "And



Home for Sale: No Reserve

A bizarre urban blight cascades across the country as metal thieves gut our communities to take advantage of soaring salvage payouts. Foreclosed homes are among the most popular targets. In markets where foreclosures are rampant, copper wire and plumbing pipe seldom last 48 hours from the time a family moves out. It's caused a strain on local law enforcement, and banks can only sit idly by while their assets lose up to 90 percent of their value almost overnight.

Ebay.com has more than 4,100 real-estate listings, many of them bought by bulk real-estate buyers who sequestered foreclosed homes from banks' distressed inventory for a few hundred dollars. Auction prices hover around 10 percent of the homes' appraised value, sans most of the property's metals, of course.

The U.S. Department of Energy recently reported that copper thefts have costs businesses across the nation around \$1 billion. Few are immune. Reports continue to surface detailing the plundering of all kinds of metal roofs from cathedrals and historic buildings. Some crooks have electrocuted themselves when they tap into public power lines. And construction sites, including those at golf courses, are a virtual smorgasbord for vandals searching for spools of wire and other materials of value.

Metal crooks are just one example of how rising commodity prices have created a smash-and-grab mentality on Main Street and Wall Street alike. Copper, lead, gold, silver, platinum, wheat, corn, coffee and oil are at or near all-time highs. Steel, concrete, drywall, gravels, sands and other raw materials used on golf courses are on the up, too, largely due to higher demand for the materials overseas.

Golf properties, by and large, are dealing with the inflation in commodities by canceling or scaling back renovation projects to fit budgets, or they are speeding them up to finish before prices climb any higher.

— David Frabotta

now might be an opportunity to re-evaluate the situation, especially because the dollar is what it is."

But you might not need to look abroad for long. The SBA economist says he's bullish on the American economy picking up perhaps sooner rather than later.

"The economy should be picking up in the third and fourth quarters of this year," Moutray says. "The stimulus checks have been mailed, and interest rates are lower, so there is a lot of optimism for the third and fourth quarters. There are some bright days ahead." ■