

Golf Courses

Industry Snapshot

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Industry Overview¹

The U.S. golf course industry is predicted to bring in revenues of \$21.6 billion from its 11,427 operating businesses in 2011. Industry revenue is expected to increase on average by 1.7% annually over the next few years until 2015. With this growth in revenue, it is anticipated that golfing participation will also grow steadily. This increased participation is expected to spark higher demand in the private golf course and country club segment. Establishment numbers are predicted to increase 2.4% in 2011 alone, with an estimated 12,406 golf courses and country club businesses total by 2015.

With the increase in revenues and participation, employment is also likely to rise. As the number of courses and private clubs choose to expand in size, they must employ additional workers. Therefore in the years until 2015 it is expected that employment will actually grow faster than new establishments, eventually reaching 339,101 employees. This will most likely be due to increasing pressure from larger establishments forcing many smaller players to leave the industry.

Increased employment also leads to increased wages. It is forecasted that wages will increase by 1.8% per year between 2010 and 2015. This is an increase from \$7.7 billion in 2010 to \$8.4 billion by 2015. This amount equals to be between 35% and 37% of total revenues. However, as most courses look to decrease costs and increase profits, the idea of freezing wages and expanding service levels has grown more popular.

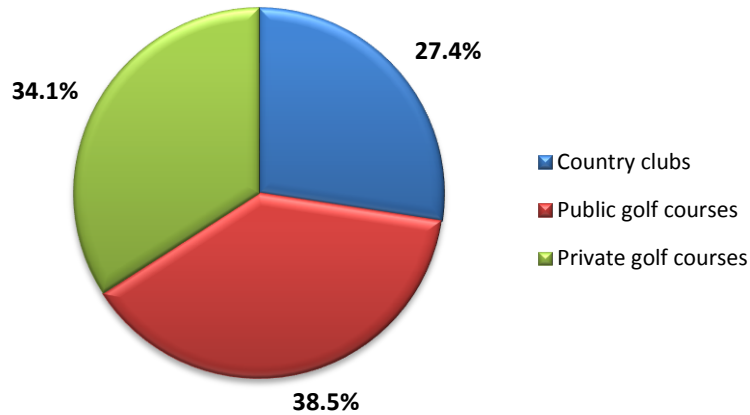
Overall, this industry has seen a poor level of profitability. This is due in part because costs tend to not change. Consequently profits are primarily generated from achieving membership and attendance benchmarks. Since the recession hit, recreational household spending has declined thus sending the industry profitability into the red. Even though it is expected the industry will turn around in the coming years, 2010 saw an overall loss of about 2% of revenues, totaling about -\$433 million.

Industry Segmentation

The following chart shows how the golf industry is broken into three segments:

¹ [IBISWorld Pty Ltd.](http://www.ibisworld.com), "Golf Courses and Country Clubs in the US." New York: IBISWorld. January, 2011. <http://www.ibisworld.com>.

Industry Segments



Public: A public golf course is a one that is open to the general public and tends to draw in the golfer who wishes to play on an occasional basis and not have to pay a yearly membership fee. These courses tend to not pay for extensive marketing. There are two types of public golf courses – municipal courses and daily fee (commercial) courses. Municipal courses are owned by city governments, and daily fee courses are privately owned, yet slightly more upscale and pricey than municipals.²

Private: A private course without country club facilities is one that typically charges a yearly membership fee; however, they can also charge daily rates for guests of members or non-members. Fees for these courses tend to be higher than those at public courses, therefore attracting golfers of higher skill levels.

Country Club: A country club is a social and recreational facility that sells memberships (often at a much higher fee) and provides its members with a higher standard of facilities. A country club can either be very private, very expensive and very exclusive (capping membership), or they can follow a semi-private model for business, allowing its member’s preferential tee times but also allowing non-members to play the golf course for a higher fee.³

Industry Data⁴

Number of golf facilities					
Year	Daily Fee	Municipal	Private	Total	Percent Change
2003	9,156	2,390	4,353	15,899	
2004	9,284	2,406	4,367	16,057	0.99%
2005	9,262	2,418	4,372	16,052	-0.03%

² “Public Course,” *About.com Golf Glossary*, <http://golf.about.com/od/golfterms/g/public-course.htm> (Accessed 1/4/2011).

³ “Country Club,” *About.com Golf Glossary*, http://golf.about.com/cs/golfterms/g/bldef_cclub.htm (Accessed 1/4/2011).

⁴ *IBISWorld Pty Ltd.*, “Golf Courses and Country Clubs in the US.” New York: IBISWorld. January, 2011. <http://www.ibisworld.com>.

2006	9,169	2,439	4,382	15,990	-0.39%
2007	9,105	2,450	4,415	15,970	-0.13%
2008	9,070	2,441	4,377	15,888	-0.51%

Golf establishments are mostly concentrated in the Southeast with 25.1% and Great Lakes region with 20.7%. The high volume of golf courses in the Southeast is primarily driven by the warm weather and low amount of golfing days that could potentially be ruined by bad weather.

Public courses receive most of their revenue from daily fees, whereas private courses get revenue from annual memberships. Revenue is highly seasonal for many golf courses, generally declining during the first and fourth quarters of the year when colder temperatures and shorter days decrease the demand for golf-related activities.

As the golf industry is in the mature stage of its life cycle, the level of technology change within the industry is low. Below are 3 things that factor in to this hesitance to incorporating technology in a golf course:

- It isn't uncommon for a facility to own all of its equipment and vehicles. When these items break down, most courses will just repair them rather than replacing the items.
- As the level of labor intensity within the industry is still quite high, this also hinders the introduction of technological change.
- With low, yet stable, revenue growth it becomes more difficult for older and public courses to make large capital investments on improving technology.

Success Factors

There are many factors that determine success within the golf industry. The following are important issues concerning the industry:⁵

- **Easy access to further appropriate land for development:** *if expanding operations is a future goal for a golf course or country club, then additional land will be needed.*
- **Economies of scale:** *a company that manages multiple golf courses has the ability to reduce administrative and maintenance costs, which helps to increase profits.*
- **Membership of an industry organization:** *it is important to establish strong relationships with many professional organizations within the industry, as this will help to attract new members.*
- **Access to highly skilled workforce:** *the workforce within the industry needs to be highly competent. This includes green keepers, restaurant and retail shop staff and golf professionals and instructors.*
- **Ability to pass on cost increases:** *operations that are able to distribute their cost increases are in a better position to improve profits.*

⁵ Ibid

- **Economies of scope:** facilities that provide an assortment of other services can benefit from increased patronage.
- **Having a high profile in the market:** hosting professional golf tournaments increases differentiation and brand awareness, as well as provides supplemental income.
- **Level of competition existing in the market:** it is important to position golf courses in areas that are geographically isolated from competitors yet still close to consumers and businesses. This helps to reduce the amount of competition in the area.
- **Ability to attract local support/patronage:** attracting new members, maintaining existing members and retaining or increasing the level of club usage determines a golf course or country clubs success.

Risks and Challenges⁶

- **Declining participation:** over the past decade, golf participation has been declining. From 2000 to 2009, the number of rounds played dropped more than 6%. In addition to reduced participation, television viewing of major tournaments has also dropped.
- **Land use restrictions:** proper locations for golf courses that are situated within the areas of highest demand are becoming harder to come by. Since the average golf course needs approximately 200 acres and is often zoned as open land, this limits how they can be repurposed for further development. Failing courses come across challenges when trying to find buyers who want to utilize the land in different ways.
- **Stringent water access regulations:** access to adequate amounts of water is vital to a golf courses success. In some parts of the country this has become a major issue as many must deal with the water quality and shortages in the area. Regulations can prevent operators from using the amount of water needed to maintain the courses.
- **Environmental concerns:** the large volume of chemical use and the resulting runoff into local waterways have caused significant concern. The use of such chemicals requires sophisticated application and monitoring in order to avoid violating pollution regulations.
- **Barriers to the sport:** there is a perception that golf is a difficult sport to learn and an even more challenging sport to improve upon. Combined with the prospect of more challenging courses, increased fees, high equipment costs and the time it takes to complete one game, many would-be golfers have turned the other way.

Trends

Recently there has been a focus to try and reduce operational costs within the golf industry. This has led to outsourcing of course maintenance and management to third parties since these companies oftentimes have access to lower expenditure rates. While this tactic has helped reduce costs for many courses, for some it has also resulted in a loss of control and the possibility of a decrease in quality for their courses.

⁶ First Research, Inc. 2007, "Golf Courses." Austin, TX: First Research. 11/22/2010. <http://www.firstresearch.com>.

Insurance costs and premiums have increased in recent years for both golf courses and country clubs. This is due to the increased number of legal actions taken by golfing patrons who have been hit by golf balls while at the facilities. As a result of this, green fees and membership dues have multiplied and are likely to continue this pattern in the future.⁷

It has been shown in recent years that the number of core golfers (those golfers who play 8 or more weeks each year) has declined significantly. This reduction in golfing participation, in conjunction with an increased number of golf courses and country clubs has forced industry participants to search for different methods of enhancing their revenues. Many courses have attempted to improve the quality of food and drink services that are offered, provide a better selection of golfing equipment for retail sales, sponsor golf lessons and clinics in the area and enhanced practicing facilities.⁸

Residential golf communities are increasing in demand as the baby boomer generation nears retirement. Currently about half of all new courses are connected with residential real estate developments, mainly to increase the home values. Residents in these communities view the courses as protecting their home values and improving their quality of life.⁹

Recently, many courses have been utilizing native grasses in their course designs. Often called the "Scottish look," this trend has brought about many debates regarding playability and appearance. The courses that have incorporated these grasses have done so in an attempt to reduce equipment and labor costs; however, most golfers expect the courses to be manicured and playable, which isn't always the case when native grasses are used.¹⁰

Consumer Demographics or Expenditures¹¹

The chart below shows golf participation by age group. As is illustrated by the chart, 57% of participants are age 18 – 49.

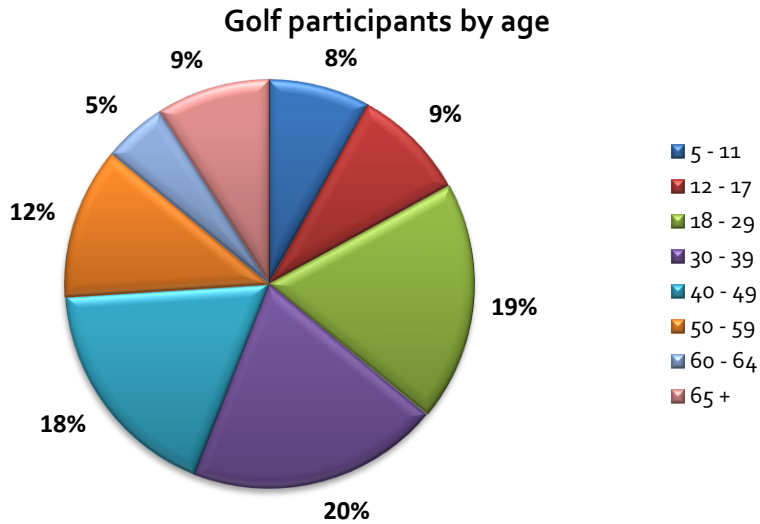
⁷ [IBISWorld Pty Ltd.](http://www.ibisworld.com), "Golf Courses and Country Clubs in the US." New York: IBISWorld. January, 2011. <http://www.ibisworld.com>.

⁸ Ibid

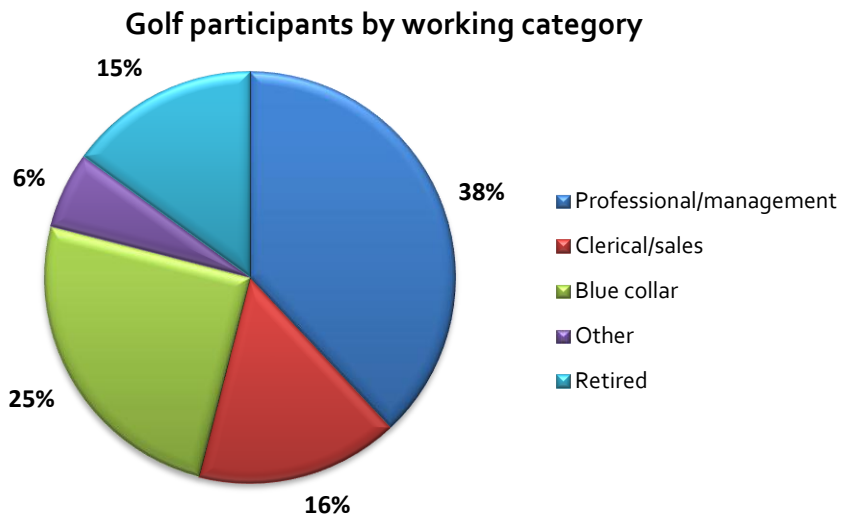
⁹ First Research, Inc. 2007, "Golf Courses." Austin, TX: First Research. 11/22/2010. <http://www.firstresearch.com>.

¹⁰ Ibid

¹¹ [IBISWorld Pty Ltd.](http://www.ibisworld.com), "Golf Courses and Country Clubs in the US." New York: IBISWorld. January, 2011. <http://www.ibisworld.com>.



Golf participation varies among the sexes, with roughly 75% of participants being male and 25% female. Participation rates can also be directly correlated to income level. When incomes are between \$25,000 and \$60,000, participation rates are about 8% to 20%; however, at an income level of \$150,000, the participation rate jumps to 30%. In addition, the chart below shows how one's profession can influence their participation in golf. 38% of golf participants reported that they are in a professional or management position.



Financial Information

The following financial benchmark information is for golf courses and country clubs in the US. The data is based on the financial statements of 681 companies, 170 of which are small businesses. A small business is defined as having annual sales below \$1,770,895.¹²

Income Statement		
	<i>Aggregate</i>	<i>Small Company</i>
Net Sales	100%	100%
Gross Profit	83.5%	83.5%
Operating Income	2.5%	1.0%
Net Profit After Tax	-2.0%	-2.5%

Balance Sheet		
	<i>Aggregate</i>	<i>Small Company</i>
Cash	5.1%	4.7%
Accounts Receivable	4.0%	1.4%
Inventory	1.1%	1.4%
Total Current Assets	11.3%	8.2%
Total Fixed Assets	80.3%	81.3%
Other Non-Current Assets	8.4%	10.5%
Total Assets	100.0%	100.0%
Accounts Payable	2.3%	2.1%
Total Current Liabilities	22.5%	24.9%
Total Long-Term Liabilities	12.7%	22.0%
Net Worth	64.8%	53.1%

Financial Ratios		
	<i>Aggregate</i>	<i>Small Company</i>
Quick Ratio	0.81	0.69
Current Ratio	1.15	1.06
Current Liabilities to Net Worth	19.0%	23.0%
Current Liabilities to Inventory	993.0%	750.0%
Total Liabilities to Net Worth	47.0%	63.5%

¹² First Research, Inc. 2007, "Golf Courses." Austin, TX: First Research. 11/22/2010. <http://www.firstresearch.com>.

Fixed Assets to Net Worth	114%	125%
Collection Period	27.1	9.1
Inventory Turnover	44.4	30.2
Assets to Sales	176.0%	166.5%
Sales to Working Capital	3.0	1.1
Accounts Payable to Sales	4.0%	3.0%
Return on Sales	0%	-0.5%
Return on Assets	0%	-0.5%
Return on Investment	4.0%	6.0%
Interest Coverage	0.9	0.3