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'Fore' - Global Golf

2011 BUSINESS PERSPECTIVE

Trends in Best Practices

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This is a time of great opportunity in the management and leadership of clubs. Dark skies make for bright stars. Many people are fearful of the future; while a growing body of club leaders is seizing on strategic planning and best practices that significantly improve performance results.

'Best Practices' are considered to be the tactics that produce the most beneficial results within the context of a club's Strategic Plan. Best Practices are much more than simply beneficial outcomes; they are measures of reliable performance results in a time of highly unreliable performance forecasts. There is a pattern of characteristics for *bona fide* Best Practices; and there is predictability in the ingredients that will generate the intended beneficial outcomes.

There is a growing group of clubs ('Haves') that are improving member satisfaction and improving the financial performance of the Club. But there is a growing group of clubs ('Have-Nots') that are steadily falling behind. The separation between the 'Haves' and 'Have-Nots' has grown more rapidly during the current economic downturn because of the extreme impacts of supply (too many similar clubs) and demand (not enough possible club members).

So what do the 'Haves' know that the 'Have-Nots' do not?

WHAT ARE THE CHARACTERISTICS OF BEST PRACTICES?

There are five characteristics evident within the Best Practices for strategic planning that are most common to the club management field currently. Roughly one-fifth (22%) of private and semi-private clubs demonstrate these characteristics within their strategic plans:

1. **Simplicity** – The goals, objectives and intended results are clearly and unequivocally stated. Performance and financial objectives are straight-forward and easy to monitor. Clarity is the key.
2. **Measurability** – Key performance metrics are established and referenced against proven benchmarks and/or historic performance. These metrics are monitored daily and weekly by management; the results are reviewed monthly and quarterly with the Club Board of Directors.
3. **Accountability** – The CEO/Club Manager is accountable for performance. There is always alignment between authority and accountability. One cannot assign accountability without giving the CEO authority to execute the plan.

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4. **Exportability** – The most vibrant and trustworthy Best Practices are exportable. While the circumstances and proportion of the metrics may change from club to club, the Best Practices can be applied broadly. Good business sense is good business sense.
5. **Repeatability** – The best plans enable the reliable re-use of Best Practices from year to year. If the primary wants and needs of the members were accurately measured and remain consistent, the Club should not change its Best Practices from year to year.

WHAT ARE THE INGREDIENTS OF BENEFICIAL OUTCOMES?

Recent member surveys and interviews with club leaders show the member-bias that favors careful planning and attentive management. Most members expect the club leaders to act with knowledge, foresight and prudence. Many clubs achieve very favorable results from their strategic plans for three very simple reasons:

1. **Member-centricity** – The intended results of the strategic plan must be focused on the primary wants and needs of the members of the Club. The best strategic plans emphasize what members want ahead of what the Club management wants or needs. According to a recent member survey, six in ten (63%) indicated that fees and pricing become more elastic when members receive services that they want.
2. **Consistency** – The greatest challenge in most club operations is consistent performance and delivery. A super-majority of members (79%) favor consistency over price-reductions.
3. **Adaptability** – Greater than eight out of ten (81%) of club leaders indicate member support for the club strategic plan when it is clear that the Board and club leaders will adapt and respond to changing conditions and circumstances. Club members want to know that their leaders are 'listening'.

HOW CAN ONE BE OPTIMISTIC IN THE CURRENT BUSINESS CYCLE?

Club leaders who have developed a thorough strategic plan that exceeds members' wants and needs are very optimistic. This small-but-quiet group of clubs is prospering during the economic downturn because they have carefully developed a comprehensive plan and faithfully executed the plan. These clubs have three common traits: (a) waiting lists for admission to the Club, (b) year-over-year revenue growth, and (c) a high relevance rating.

Following are four action steps that can make your club and its Board of Directors optimistic about the future of the Club:

1. Talk to the Members of the Club. The CEO/GM should meet with every member every year to address a carefully crafted annual assessment of the Club. These meetings should be scheduled appointments and respectfully led by the CEO/GM. There is no substitute for reinforcing the personal relationship between the club leaders and his or her members.
2. Align Member-wants with the business strategy of the Club. Confirm that the strategic plan reflects the expectations of most of the members of the Club. This is not a popularity contest; it is critical that all members know how their viewpoints and preferences match up to those of their fellow members.
3. Track the key performance metrics of your strategy. Keep score on the plan and report the performance results to the Board and to all of the members. Be transparent and accountable for the outcomes.
4. Make adjustments to concepts that are not working. When programs are declining, poorly attended and/or off-target make adjustments. Be assertive and decisive. Members want to know that the leaders of the Club are 'paying attention'.

There is reason for cautious optimism in many clubs that are attentive to careful planning to exceed member priorities. It is a great time to make your club a 'Have'.

Dynamic Pricing – The Future of Golf Course Pricing is Here

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There has never been a better time than now for golf courses to re-evaluate the way they price their product. The Golf industry finds itself at a crossroads that the Hotel business, Airline industry and Professional Sports business faced before us.

Over the past 20 years, golf course owners have experienced good times, great times, and now, not so good times. Fighting increased competition from all the new golf courses that have come on the market over the past few years, the recent global economic meltdown and ever increasing competition for golfers' discretionary time and money, has resulted in golf course operators struggling to keep their bottom line healthy. Most courses have seen their rates erode, in many cases, to rates they were charging five or more years ago. At the very least, their rates have remained flat for the past few years and revenues are not keeping pace with ever increasing expenses.

How we got to this point in our evolution is certainly no secret. Where we go from here will remain to be seen. The golf industry has joined forces to work together on some initiatives that help increase the number of golfers and the number of rounds golfers play. The ski industry was in a similar place in the early eighties, and was rescued, in part, by the introduction of snowboarding. Golf is currently in search of its own "snowboarding" to help bring it back to the glory days of growth and prosperity.

In the meantime, golf course operators are being forced to become smarter, more sophisticated operators. Following the lead of other industries which have faced similar problems, golf course operators are developing new ways to increase revenues, gain market share and maximize their average rates. One way many of the top golf course operators are doing this is by employing dynamic pricing strategies and developing programs that work in their unique market place.

Industries that typically benefit from a dynamic pricing model have the following in common:

- Perishable Inventory
- Variable Demand and Fixed Capacity
- Advanced Sales
- Multiple Pricing Structures
- Very Low Marginal Costs
- Pricing as a Powerful Lever

Golf courses, airlines, hotels and stadiums, are businesses which operate according to the above principles.

You may look back fondly on the days when golf courses had, and were identified by a rate. Golfers knew the rate, accepted it and paid it. Golfers were more loyal because there were fewer courses to play and there was little to no discounting in the market. The harsh reality is that, in most cases, those days are long gone and not likely to come back anytime soon.

Successful pricing strategies at public and resort golf courses should be designed to accomplish two main goals:

- Maximize the number of rounds played at the course
- Maximize the revenue per available round (REVPAR)

In order to establish the best pricing model, the operator must know their product, their competition, and their customers. It is important to make sure that your pricing model allows you to maximize your capture rate within the different market segments. Often, golf courses price their product for the top third of their market and subsequently they are too expensive for the other two-thirds of the market. The top operators find a way to maximize revenue from all market segments. No two golf courses are exactly the same and subsequently, no two pricing models should be the same.

All golf courses need to be realistic when it comes to the quality of their facility, their rates and policies. Focus groups and customer surveys are popular processes used by many industries to help them understand what their customers, and in some cases, what potential customers think of their business. Many smart golf operators use focus groups and customer surveys to help them set green fee rates and booking policies, as well as to collect information and recommendations regarding the quality of their marketing, programs, products and services.

It is also important for golf courses to understand the motivation of different customer segments. Golfers who travel a long distance to play golf are generally looking for a **golf experience**. They are looking to collect a golfing memory that they can share with their friends and family and add another 'notch to their golf belt'. They are more likely to book a tee time well in advance and are willing to pay a higher fee than they would be willing to pay in their local market.

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Local golfers are usually playing golf as an activity, and not interested in a unique golf experience. They have probably played the course before and will likely play it multiple times during a given year. They are willing to book their golf much closer to the date of play if it means paying a reduced green fee. They are also likely to take advantage of programs that decrease their average price per round (annual memberships, discount card programs, purchase rounds in advance at a discount, etc.).

Resort golf courses located in remote locations are often faced with the difficult challenge of pricing their product to meet the needs of the experience-seeking destination golfer, and the increasingly more important activity-seeking local golfer. Many resorts also depend on a regional golfer who's expectations fall somewhere between the destination golfer and the local golfer. This is a perfect example of where a more sophisticated pricing strategy can help maximize revenues, allowing the golf course operator the luxury of turning demand off and on through the utilization of dynamic pricing.

The resort golf model is similar to the airline pricing model; the difference being that airline pricing increases as the flight date gets closer, and resort golf courses decrease the price the closer they get to the tee time. Last minute airline travel is usually a necessity, whereby last minute golf is usually not.

Public golf courses are usually faced with different challenges as most of their golfers are locals, requiring further analysis of the golfers' needs and expectations. In most cases, the local golfers are playing golf as an activity and not looking or willing to pay for, a golf experience.

Because every public golf course is different, it is rare that a course can adopt a pricing model without adding their own modifications to it. Most pricing models begin by identifying peak demand periods and setting a peak demand rate. Peak rate should be set to encourage slightly higher demand than supply. This gives the golf course the opportunity to move the excess demand to lower demand periods, rather than lose those rounds to the competition.

Many public golf courses have implemented cascading rate structures which allow them to slowly reduce their rates from the top rate charged during peak demand, to the low rate offered for twilight golf. This model addresses two problems; it gives golfers wanting to play during peak demand an incentive to play during the hour or two after; and, it helps address the bubble of demand that occurs traditionally when peak rate periods end and twilight begins.

Golfer loyalty is crucial to success in public golf. Good pricing models are usually linked to some form of loyalty program designed to encourage golfers to play multiple rounds at the course and give them a reason to play their course even if a competitor course is running a special discounted rate that is less than their current rate. Annual memberships and pre-purchased green fee packages are loyalty programs that public golf courses have been using for many years. However, today's golfer wants some variety in the courses they play and golf courses have been forced to develop new loyalty programs to encourage golfers to play the majority of their golf with them. Programs that track the rounds played and reward frequency with reduced rates and/or value add incentives, have proven effective.

Successful public golf course pricing models are similar to the stadium pricing model where they offer different prices to watch the same event, based on where the customers sit. Golf courses sell a round on the same golf course for a different price based on when they tee off. In addition, seasons tickets and multi game packages are sold for events at stadiums. These loyalty programs are similar to annual memberships and multi round packages sold by golf courses.

Private or Member golf clubs are also adopting unique pricing models. The traditional model of charging high upfront initiation fees and the same annual dues to each member no longer works at many clubs. Trial memberships where the golfer can "test drive" the club for a year paying only the dues that year, restricted play memberships, 10 year interest free loans allowing new members to afford to join, and a general reduction in initiation fees at clubs, are a few of the pricing models private golf clubs are adopting in order to remain competitive.

Private club pricing models have traditionally reflected a typical real estate pricing model where market demand determines the price of the home. In private golf, market demand often determines the price of the initiation fees. Just as home builders and real estate agents have had to get creative during buyers' markets, private club operators have had to become more creative in the current golf market.

The golf business is in a state of change requiring golf operators to be more sophisticated and customer oriented than ever before. The good news is that we can take comfort in the fact that we can look to other industries who have faced similar challenges and have provided us with useful programs and strategies that we can modify to meet our industry. The good old days may be behind us, but for smart operators, there are great times ahead.

New Thinking for New Opportunities

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Golf course builders continue to feel the greatest effects of the economic downturn that has rippled through the housing sector. There are signs that some relief may be underway. A recovery for GCBAA members is not likely in 2010; but there are several important steps that long-range thinkers should consider.

LAND DEVELOPERS AND HOMEBUILDERS ARE ACQUIRING LAND POSITIONS ONCE AGAIN.

Many of our clients have begun funding land-purchase options so that choice – and favorably re-priced – parcels and land positions will be in place as the housing market is revived. The typical option deal includes (a) sale and purchase pricing, terms and conditions, (b) rolling follow-up option dates and payments, (c) land access and planning rights, (d) variable-use alternatives.

Many developers are considering the relative value of a golf course within the community master plan. As developers and homebuilders review the current round of golf participation statistics, they will question the market attractiveness of golf courses. Some developers are exploring the ideas of internal walking/hiking trails to appeal to the non-golf audience of buyers.

Two categories of communities will continue to focus on golf and golf courses: (1) those that target the active adult – 55+ Baby Boomers – market audiences, and (2) those that will pursue the top-of-market private clubs for high net-worth individuals.

GOLF COURSE BUILDERS MUST EXPAND THEIR SERVICE REACH FOR HOMEBUILDERS.

In the interest of reducing development costs and increasing production flexibility, developers and builders will be more willing than ever to bundle golf course construction with bulk earthwork components of the project.

The golf course builders that prosper will establish collaborative – and speculative – planning and development relationships with developers and builders. GCBAA member companies can provide right-sized earthwork services to developers who seek to take small re-start steps.

Companies like D.R. Horton, Lennar, Pulte and Shea target the active adult segments – in addition to many other market audiences. Toll Brothers and many local developers target the custom and semi-custom homebuyers. GCBAA builders should focus on creating relationship values with these and many other homebuilding companies that need planning assistance, sweat-equity on the front end and land-acquisition leads.

Build alliances and trust-based relationships which will lead to building new communities and golf courses.

BUILDERS WILL LISTEN TO BETTER IDEAS NOW.

In the past, most of the big developers and builders used established internal resources for planning purposes. Most of these companies have engaged in large-scale reductions in force that have left them understaffed and unable to restart in some markets. Aggressive and 'heads-up' golf course builders can create strong interpersonal relationships in many markets that facilitate cost-effective start-ups for builders. Start networking!

Furthermore, many builders have learned that their tried-and-true methods have become 'old school' and are more receptive than before to exploring new and cost-effective options that alert and hands-on golf course builders can deliver.

One example of an attention-getter for golf course builders to deliver to homebuilders is a 'Best Management Practices' brief that describes the lessons that have been learned the hard-way and that have been proven in the current downturn to have been misguided tactics. Prepare your own version of how your firm can reduce development costs for the developer/homebuilder.

WHO? WHAT? WHEN AND WHERE?

These are the questions that are most often asked regarding the recovery in the housing sector. There are no certainties – as well we know! But GCBAA members should consider the following guidance:

Who? The builders that have the most efficient cost of capital and access to debt will re-start first. The large public companies have the advantage because of their access to capital via equities. One should choose a handful of builders – national, regional and local – to monitor. Consider watching the same builder or builders in several different markets. Study their balance sheets and understand how they access capital.

What? The companies that can readily reach into the Baby Boomer segments will emerge first and most attractive. This is because (a) Baby Boomers, generally, can access mortgage debt and have some cash reserves, (b) active adults call upon a golfing lifestyle within their communities

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with greater voice than any other age-specific market segments, and (c) active adult participation and frequency-of-play rates make golf less risky than do other audience segments.

When? Home sales have started to improve over prior year, which is flimsy encouragement…but encouragement nonetheless. It appears that 2011 will show some growth but inventory levels in key markets remain too high so it will not be sooner than 2012. When the housing market does begin to stretch it will be slow and cautious.

Where? Watch the Carolinas, Tennessee and Florida. These markets are attractive to Canadians whose dollar is near par with the US dollar, making this a great time for Canadians to buy price-depressed US homes in balmy winter climates. Arizona, California and Nevada (Las Vegas) will recover, but each locale is wrestling currently with policy and economic issues.'

For Golf Course Builders the recovery will be slow; but the housing downturn enables new opportunities for the companies that are finding purpose and focus within the current chaos.

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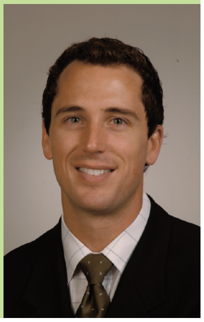

The Morphing Dynamics of Golf Course Spending: A Focus on Procurement Best Practices

BY DEREK JOHNSTON

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Few golf industry sectors have escaped the recent economic crisis unscathed; as a result, most, if not all, are facing significant financial challenges.

While a large number of the industry's captive audience of golfers are facing financial challenges of their own and reprioritizing their household spending, most industry sectors are struggling to maintain margins in the face of shrinking revenues and an increasingly competitive marketplace. *All of which is shaking the foundation of golf course spending.*

COLLECTIVE REDUCTION OF ANNUAL GOLF COURSE EXPENDITURES

Over the past few years at courses and clubs across North America one thing is certain: Almost all golf facilities, whether public courses or private clubs, have sought to rationalize and reduce expenses in an attempt to improve or maintain margins, to build up and maintain both cash reserves and capital reserves or to simply survive.

We have witnessed the following critical trends at most facilities:

- Spending patterns have changed;
- Capital spending has been reduced, deferred or eliminated;
- The buying cycle is longer;
- The number and scope of purchases and service contracts have been reduced; and,
- The type and quality of products, equipment and services being purchased have been largely downgraded.

Global Golf Advisors has observed that since the beginning of the economic downturn in the third quarter of 2007, our clients have been reducing their annual expenditures. Collectively, GGA clients have reduced their annual operating expenses by an average of 8.3%. GGA's most recent public and semi-private golf course clients have reduced their annual spend by a much greater margin than their private facility counterparts:

- GGA public and semi-private facility clients have reduced their annual expenditures by an average of 13.8%.
- GGA private facility clients have reduced their annual expenses by an average of 5.1%.

There are a number of reasons for the significant gap in expenditure reduction observed between public and private facilities. The most obvious reason appears to be that private facilities have entered into a contract with their customers, being their members, and rely on member dues to cover operating expenses, to which the limited population of members have agreed to pay based on certain expectations of quality and service levels. An adjustment to a club's quality and service levels is perceived by private clubs to be significantly more risky than it appears to be for public courses. This is interesting to note and is something that intelligent industry suppliers are paying attention to.

The trends we have witnessed over the past year indicate that: i) private clubs have been, on the whole, more active in trying to increase revenue lines through the advent of much more outside play in an attempt to maintain quality and service levels consistent with members' expectations; and ii) public courses, on the whole, have been much more focused on expense reduction rather than revenue generation, which seems counter intuitive and is an important trend that Public owners and operators should be conscious of.

Public golf courses must rely on their intelligent and competetive pricing and packaging, and marketing prowess, appropriately melded with the quality and service levels at their facility, in order to attract a sufficient amount of public golfers and drive more revenue.

It is interesting to note that courses recently in the throws of reorganization (foreclosed on by their respective lenders), have reduced annual operating expenses by an average of 54.5% since 2007, from their collective highs in 2008. Now, take note of that statistic: the peak of expenditure levels for these courses was in 2008, not in 2007, indicating that these courses by and large, and most certainly combined with other factors, did not react quickly enough to the changing market conditions and reduced revenue.

Please note that public, semi-private, resort and private facilities were similarly represented in all of these statistics.

EXPENDITURE REDUCTIONS TAPPED OUT? WHAT NEXT?

While not all facilities have been successful in reducing expenses, by and large the average facility has significantly reduced their annual spend. These trends are morphing the dynamics of golf course spending.

Most clubs have exhausted their ability to

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improve margins by reducing expenses and are struggling to adequately maintain golf course and service standards and conditions. As a result, we are helping more and more of our clients focus on two areas that we believe are critical for future success: i) revenue generation, and ii) total purchasing solutions.

All spending, especially major capital purchases, have greater focus on the financial ramifications and business best practices with respect to the bidding process. This requires more competitive bids and the decision process now has greater weight with the owner or general manager.

PROCUREMENT BEST PRACTICES

The following outlines the characteristics we observe at golf facilities that are effectively developing total purchasing solutions and ensuring efficient and effective spending practices:

- Greater prudence and scrutiny is being placed on all purchases.
- Leadership at the top of a facility's organizational chart, be it the Board of Directors, the General Manager or the Director of Golf, are much more involved in the purchasing decisions.
- All capital purchases are reviewed and approved at the top of the organizational chart and evaluated on an exhaustive list of both financial and operational criteria.
- Three bids are obtained for all purchases, be it capital, operating supplies or service contracts at least once per year.
- All three bids and supporting information are reviewed and approved by an individual within the organization that first and foremost is independent of the solicitation and purchasing process as well as in a position of sufficient authority.
- A purchasing authority matrix has been developed and implemented across the facility that allows for small purchases to be made efficiently enough as to not impede operations or increase labor costs, while ensuring appropriate segregation of duties are in place.
- The purchasing authority matrix appropriately sets day-to-day spending limits at each level of the organizational chart, beyond which independent review and approval is required.
- A purchase order process is in-place at certain levels of spending with all orders, receipts and inventory tracked, reviewed and approved in an efficient and effective manner.

We have been helping our clients determine the most efficient and effective way to integrate the best practice characteristics described above and to adequately evaluate specific purchases to ensure their funds are used to accrue to their greatest benefit.

SUGGESTIONS AND COUNCIL FOR PURCHASING

In keeping with best practices, the following are a few suggestions that we typically assist our clients with or counsel our clients on when soliciting competitive bids and preparing a competitive bids comparison chart for leadership approval:

- **Evaluate and Intimately Understand Your Needs** – Ensure that you do your homework before soliciting bids. It is critical that you understand and are able to articulate precisely what your facilities requirements are from, among other things, a quality, price, productivity, and timing perspective.
- **Do Your Homework** – Make sure you understand what all of your options are from a supplier, service provider and product perspective. You should understand as much as possible about each based on information that is publicly available or otherwise, in order to ensure you understand all of your potential choices before soliciting bids. Only entertain bids from suppliers that have the ability to address the needs of your facility. Don't be afraid to evaluate the cost versus benefit of purchasing new versus used.
- **Look for New Ways to Accomplish Old Tasks** – There have been a host of new innovations, technologies, developments and breakthroughs recently that allow golf facilities to reduce labor, supplies, fuel, chemicals and pesticides, etc. You should look for new ways to accomplish your facility's operating goals in the confines of your five year strategic business plan more efficiently and effectively. The old way of doing things is rapidly becoming obsolete in a number of areas. Stay ahead of the curve.
- **Acknowledge the Bidding Process** - Don't be shy about letting each supplier know that you are soliciting bids and who you are soliciting bids from.
- **Clearly Understand Pricing Schemes** – Make sure to ask for the purchase price per unit, the total purchase price and ask each supplier to clearly indicate any discounts that they are able to provide.
- **Evaluate Product or Service Specifications and Options** – Ensure that you receive a detailed break-down of the product or service specification and the different options that may be available to you. You need to ensure that you are comparing 'apples to apples'.
- **Require Total Leasing/Financing Solutions** – Solicit if possible a total financial solution from each supplier. Make sure you ask for a financing rate as well as a lease rate, a break-down of the leasing or financing entity used by each supplier, the qualification requirements for the facility, as well as the terms that each is able to offer (total purchase price, leasing or financing entity, qualification requirements of the facility, residual/trade-in value, term, rate, etc.).
- **Evaluate Service and Support** – Make sure you understand everything with respect to each supplier's service and support network. Ask for the location

of your local service and support team, as well as where the "loaner" equipment/carts/appliances etc. is coming from, and any service guarantees regarding response time, etc. for both loaners and on-site repairs and maintenance. Ask about the cost for loaner equipment, is it always free of charge, only free of charge if covered under warranty, etc. Ask about training programs, initially and on-going, as well as the cost of such training or if it is included.

- **Understand Parts** – Ask about the availability of parts, where they come from for each type of equipment, are there guaranteed shipping timelines, what level of parts do they recommend that you maintain on-hand for the equipment profile that you are requesting, the approximate cost of such parts inventory, what parts incentives are they able to offer in order for you to buy from them.
- **Review Warranty** – Make sure you ask for detailed warranty information and any special guarantees for each different type of product, equipment or service.

The golf industry is a very different business category as compared to other business segments, as many decisions affecting the well being of the property have historically been based on emotion and not always on business acumen or market-driven data analysis.

The most successful facilities over the past few years have developed purchasing solutions and best practices that integrate a number of different components of their operation and more closely evaluate and control the financial and operational implications of their decisions – I can't think of any reason not to be one of them.

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Dominant Trends/Issues in 2010

BY STEPHEN JOHNSTON

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During 2010, Global Golf Advisors witnessed a number of business trends/issues from our various assignments. The most prominent have been listed below:

2010 TRENDS/ISSUES AT PRIVATE CLUBS:

1. An aging membership with new members joining between the ages of 45 to 55.
2. Major corporations and professional firms not sponsoring memberships.
3. Peak hours for play are changing, with weekday mornings becoming as busy as weekends. In major cities where there are local lakes/cottages, there is less play on weekends.
4. Baby Boomers in Northern climates are playing less in the summer, and more at their winter retreats.
5. The decision to join a Club rests with the woman of the household. As such, the Club must be female/family friendly and cater to couples golf.
6. The 'playability' of the course is more important than the perceived degree of difficulty.
7. In golf real estate communities, the 'best' membership program is a 'Mandatory' program whereby all home/lot owners must have, at least, a 'Social' membership. 'Bundling' programs are financially successful; however, can create 'access to the tee' issues. The Optional Membership program is a poor concept as all homeowners should support the asset which enhances their real estate value and this membership creates financial distress for the golf property.
8. A market analysis must be completed in order to define the club's niche. Without a 'focused' club vision, too many of the club programs will be general - creating an average club competing in a difficult middle market.
9. Capital maintenance of the property has deteriorated. Why would anyone want to join an inferior product? An annual capital fee may be required or entrance fees reduced.
10. Creative financial solutions to create capital maintenance funding through sales/leasebacks and longer term debt. Leasing has become more prevalent in order to ensure equipment turnover and to make this expense an annual operating cost.
11. In general, members are less tolerable regarding dues increases.
12. The 'Equity' concept regarding entrance fees is being replaced with lower initiation fees or debt, with longer payment terms and minimal carrying costs.
13. Due to changes in the economy and member playing patterns, creating more variable membership categories. A new concept is the 'Generation' membership.
14. In order to increase revenue sources and maintain minimal dues increases, more clubs are considering auxiliary revenue from periodic golf functions, outside events and 'unaccompanied' guest programs at non-peak times.
15. On-line retail sales programs for pro shop merchandise sales, as well as food and beverage purchases.

BASED UPON THESE TRENDS/ISSUES, WHAT SHOULD PRIVATE CLUBS CONSIDER IN 2011?

1. Completion of an in-depth Market Study and a detailed Strategic Business Plan. This will require input from members (focus groups/questionnaire), management, the Board and possible outside expertise.
2. Define your club's vision and niche in the market, and be 'Best in Class'. Ensure capital is maintained, even if there is a need for auxiliary revenue. Exclusivity is still an important reason for joining a Private Club, so be creative and ensure events are promoted as being a 'good corporate citizen'.
3. Evaluate member playing patterns and develop alternate membership categories.
4. In most cases, women are the key to the club's future success. Make the club friendly to women, couples golf and families.
5. Make your golf course more playable. When members' scores improve, so does their perception of all club operations.
6. Put greater emphasis on managing the detail (i.e. ensure all staff address and know members by their name).
7. If your golf community does not have a 'Mandatory' membership, try to establish with 'grandfathering' provisions and incentives.

2010 TRENDS/ISSUES NOTED AT PUBLIC COURSES:

1. Do not understand 'yield management' of their tee sheets. Most common observation is that discounted prepaid green fees and members at semi-private clubs book the majority of 'peak' high priced rounds with little availability for 'off the street' patrons.
2. The focus/measurement of available inventory of rounds is based on historical rounds, not total available tee times.
3. Too many operators caught up in not wanting to discount, instead of selling inventory.
4. Few operators have completed an in-depth market study and evaluated their competitors.
5. Operators need to complete ad hoc focus groups to decide why patrons are playing at competitors' facilities and not theirs.
6. Rounds are not increasing and the net rate per round is decreasing.
7. Operators have not considered other uses for 'redundant' land. Golf privileges and services do not match 'value for money' proposition. In most cases, operators are providing more service than necessary.
8. Use of information system to enhance marketing and sales and reduce risk of credit card fraud is weak.
9. The 'Classic' – doing the same thing – and expecting a change in results.
10. Operators generally are managing costs; however, their weakness is their food and beverage operation and marketing (revenue generation).
11. Private club members are leaving their Private club due to cost and less play. Public operations need to create a 'First Class' green fee program for these individuals. Create loyalty programs for patrons and their friends.
12. Public golf facilities in real estate communities which do not create community golf benefits for golf and food and beverage.

BASED UPON THESE TRENDS/ISSUES, WHAT SHOULD PUBLIC GOLF COURSE OPERATORS CONSIDER IN 2011?

1. Complete an in-depth Market Study of the clubs within a 45 minute radius, along with a Strategic Business Plan.
2. Develop a green fee/loyalty package which reflects the usage of your tee times.
3. Look at selling all tee times, use golf discounts on 'your terms' to help sell low value times.
4. Look to provide golfing functions for women/children/couples golf.
5. Develop a pricing policy for homeowners only if you are in a real estate development.
6. Focus on yield management and ensure your information system supports your marketing efforts and controls 'process' risk.

In the end, always remember that change is required to ensure a healthy operation.

The Future of Private Clubs

BY HENRY DELOZIER

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Private clubs are neither dead nor dying…despite some claims to the contrary. But private clubs are changing significantly and the changes that are being implemented will carry forward for many years. The result of the change in private clubs represents a new paradigm for club leaders.

The change in the basic nature of private clubs has been underway for some years. There are three elements that have dramatically changed the private club lifestyle and value proposition.

WOMEN MAKE THE 'BUY' DECISION

Historically private clubs have been institutions that served male viewpoints, wants and needs. The new programs and services are changing membership structures, methods of club governance and the feasibility of many clubs.

In her book, "Marketing to Women" Martha Barletta indicates that 91% of home purchase decisions are made by a woman. Typically, the club membership decision is a part of the home-choice decision due to location, psychographic and demographic profile. As such, clubs must reset membership programs to address the primary push/pull factors that influence the buy decision. Women prize their clubs as a platform for socialization. Clubs must demonstrate in clear and appealing ways that the lifestyle of the club is diverse, active and accessible for busy women and their families.

Sales and marketing tactics in forward-thinking clubs must address schedule flexibility, interesting and current programs and the opportunities for meeting and keeping friends.

FITNESS, SPORTS AND SOCIAL MEMBERSHIPS REACH MORE PEOPLE THAN GOLF.

According to the most current research from AARP, 86% of people exercise to some extent – walking, biking and dancing, for example. In fact, sports and fitness activities are engaging more than six in ten people across North America. This demographic growth has occurred while golf has remained steady with roughly eleven percent of the population.

For clubs that have begun the expansion and enhancement of sports and fitness programs, the most popular activities have proven to be (a) classes that combine fitness programming and socialization, (b) health programs that can be tailored to benefit each member, and (c) combinations of activities that are developed by the members of the club. Some of the combinations that are popular are cooking/wine selection dinner parties that enable small groups of members to receive guidance from the chef and the club manager in the arts of hosting; continuing education programs that enable small groups of members to gather for new learning opportunities in such disciplines as world geography, history and investing.

SOCIO-ECONOMIC CHANGES ARE 'RE-SORTING' MEMBERS.

The current economic decline has combined with the aging of many clubs to cause many members to downgrade membership categories. Social and Clubhouse membership categories are growing because they represent an affordable safe-haven for many club members who have felt the sting of the recession. Many older members, who play less golf these days, have converted 'Full Golf' memberships to Dining or Social membership categories.

Global Golf Advisors observes that the census of club members in North America has declined some 12% since 2008 and that an additional 20% of club members have downgraded membership categories and privileges for the sake of reducing the costs of club membership.

Within these changing circumstances lie new opportunities for club leaders. In fact, many clubs are regenerating – growing younger – and becoming more relevant to the members of the club. The factors that cause people to wish to belong to a club remain strong, as evidenced by the enormous growth in social media such as Facebook. People wish to 'belong' to chosen groups or groupings; but the nature and methods of 'belonging' are changing and will continue to evolve. In her 1997 book entitled "Clicking", futurist trend-watcher Faith Popcorn predicted that people will seek to gather in familiar groups – she calls that behavior "clanning" – and that people will seek safe havens where they can socialize with family and friends – Faith called that desire "cocooning".

Forward-thinking clubs are responding to these market trends with programs and services that address the new paradigm. Private clubs that will prosper during the current decade will share certain common traits:

1. **Relevance** – Club members support people and programs that add value and purpose to their lives. The most robust clubs demonstrate programs and services that matter most to members.

2. **Operational Efficiency** – The recent economic downturn has caused most club members to look to their clubs to hold down fees and dues. Club leaders are under constant pressure to hold the line on increases. This new energy for operational efficiency has caused most clubs to reshape the organization of management by causing all managers to be 'working managers'. Club leaders are very cautious of indirect overhead.

3. **Innovation** – Clubs must find new and appealing programs that increase revenues for the club. Revenue growth is required in almost all clubs because cost-cutting has been exhausted at most clubs. In many clubs, the duty management team has been to re-set the scope of activities of the club in the interest of reducing costs.

In a time of great change, club leaders can find great opportunity. Determine what opportunities are available at your club for improved results in 2011.

Marketing '101'

BY JULIA CRATE

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Golf course operators are faced with many challenges in their attempts to achieve the desired number of rounds on an annual basis. Given that fluctuations in weather patterns, the general state of the economy and the supply and demand for golf are uncontrollable; capturing market share is key to survival for golf operators and should be a primary objective. With many golf markets oversupplied, the only way to generate additional rounds is through increased market share. That is why a successful marketing plan is critical.

The following are some key considerations for updating your marketing plan:

ESTABLISH A MARKETING BUDGET

As a general rule the marketing (or advertising and promotion) expense for a mature golf facility should be in the range of 1% to 3% of gross revenue. However, for new courses or those undergoing significant change this number may be higher.

DETERMINE PRIMARY OBJECTIVES OF MARKETING INITIATIVES

For example:

- Increase rounds through public play
- Increase the number of club members
- Focus on attracting tournaments
- Focus on attracting tourists
- Increase use of the clubhouse and ancillary services

IDENTIFY TARGET MARKETS

The following is a list of some common target markets and gaps they are intended to fill:

- **Seniors** – men and women (in the 50 to 70 age group) to increase weekday demand
- **Families** – combining juniors and women to increase off-peak demand on weekends
- **Nearby Homeowners** – to increase off-peak demand (i.e. twilight rounds)
- **Corporations** – to generate weekday tournament rounds
- **Avid Golfers** – those who seek prime-time participation and access
- **Weddings and Events** – to increase usage of the clubhouse in off-peak times

In addition, consideration should be given to the geographical target area. Specifically, public and semi-private facilities tend to generate rounds from individuals that live or work within a 30 to 45 minute drive, while members of private clubs tend to come from a much smaller radius (i.e. within 10 to 15 minutes of their residence).

DETERMINE KEY MESSAGE POINTS

Key message points which highlight your club's unique strengths and differentiate you from your competitors should consistently be used in your advertising program. The marketing strategy needs to relate directly to the club's attributes that create significant competitive advantages. Some examples are as follows:

- Exceptional conditioning
- Exemplary customer service
- Value-added pricing
- The course's playability
- Family friendliness, catering to women and juniors

It is critical that the key message points are indicative of the reality of what the club offers in order to meet golfers' expectations, as this will drive customer loyalty and retention.

SELECT MARKETING MEDIUMS TO BE USED

The following represent some common marketing mediums:

1. Mass marketing opportunities such as radio spots on popular AM and FM stations within your market area aimed at the target markets identified above. This is generally more cost effective than television ads.
2. Newspaper Advertisements & Inserts – Advertising in local golf guides and newspapers, keeping in mind the geographic and demographic target markets.
3. Website – This is generally a cost effective method of advertising and updating golfers on specials, etc. The key is to keep your website up-to-date and user friendly, keeping in mind this should be a fast way for a potential golfer to get information on rates and/or potentially book a tee time.

4. Related Websites – Using links from other websites to drive more visitors to your site (i.e. tourism websites, golf packagers, golf associations, etc.).
5. Attendance at trade shows.
6. E-mail Marketing - Build a database of names, addresses, e-mail addresses and phone numbers for patrons. It is now common for retailers to request e-mail addresses from customers. In exchange for providing this information, some retailers offer a one time discount; or, it may simply be voluntary so they can update customers on special sales, events or promotions. This could work in a golf environment as well. Other potential incentives for obtaining golfers' e-mail addresses are as follows:
    a. Free bucket of balls for the driving range.
    b. Half price on golf cart rental.
    c. Free golf on your birthday.

    These promotions would be one-time only with appropriate controls to ensure they were not abused. For instance, a coupon could be e-mailed to the customer for use at a later date; this would help to ensure the validity of e-mail addresses and allow golf course operators to check for duplication prior to issuance of coupons.

7. Use of social networking mediums such us Facebook and Twitter.

    While Facebook began as a social outlet for individuals to keep in touch and exchange news and stories; the business world is now using Facebook as a marketing tool. The appeal from a business perspective is the ability to reach far beyond your initial contact/customer list as your messages are distributed to your 'friends' and also to 'friends' of those 'friends'. The other appealing feature is the cost, as the only cost is your time.

    In comparison, Twitter is more of a one-way communication device where you post updates, upcoming events, etc and you have 'followers' who are instantly updated on your posts.

When selecting a marketing medium it is important to consider your target audience as this may vary (i.e. Facebook and Twitter is more likely to reach young to middle aged individuals and business people, while seniors are more likely to read printed literature). Similarly, if advertising on the radio, your audience and message may differ depending on the radio station (i.e. consider the demographic the radio station is targeting to ensure it is consistent with your target message).

ALLOCATION OF THE BUDGET

Once the marketing mediums have been selected and prioritized, it is important to allocate the marketing budget accordingly. This will ensure that advertising dollars are controlled and will highlight any excess expenditures.

EVALUATE THE EFFECTIVENESS OF MARKETING EFFORTS

All marketing programs and mediums need to be set-up to be both traceable and measurable and evaluated for their effectiveness in order to identify the most efficient and effective programs and mediums every year.

It is no longer good enough to assume that the marketing tools used last year will work this year. Golf course owners and operators need to be creative and forward thinking and to continually adapt and improve.

GLOBAL GOLF
ADVISORS

Attention Operators! It's Time to Start Tracking Your Business

BY MICHAEL GREGORY

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In my experience at Global Golf Advisors over the past four years, I have completed market studies and gathered operating statistics for golf courses located throughout Canada and the United States. I'm often asked, "What is the most common trend you experience at the various golf facilities you work with?" Without pause, my answer is always, "the surprising number of golf courses that are not tracking their business properly".

It is no secret that the golf industry – and global economy alike – has gone through a difficult period in recent years. While businesses in other sectors have responded by improving controls and operating efficiencies, golf courses to a large degree have not followed suit. Believe it or not, there are golf courses generating upwards of $2 million in annual revenue that have limited ability to monitor rounds, cost of sales, and other important performance indicators. In order to make informed decisions and react to changing market conditions, operators must have a better understanding of their operation.

Listed below are the key performance indicators (KPI's) that our team at Global Golf Advisors believes to be the most important measures. We recommend that golf course operators track and monitor these metrics on a regular basis.

Rounds Played – There are still many golf course operators with no idea of the number of rounds played each year on their course. Total rounds played should be reported in terms of 18-hole equivalent rounds on a per course basis.

Rounds Played by Category – The more information an operator has in terms of the type of rounds played increases their ability to monitor the business and react to changes in market conditions. Detailed rounds' tracking is the baseline that allows operators to measure a variety of KPI's in all club functions. Best practice for public/semi-private courses is to segregate rounds played by green fee rounds, tournament rounds, member rounds, and staff or complimentary rounds. For Private clubs, rounds should be monitored by member rounds, guest rounds, tournament rounds, and staff or complimentary rounds.

Ultimate Capacity – Is the total number of rounds adjusted for weather, market trends, tee-time interval, and an average of 3.2 golfers per tee-time (industry average). Each facility should establish a broadly communicated measure of ultimate capacity (rounds potential) so that management can measure its success in filling the tee sheet inventory.

Utilization – This factor is a measure of management effectiveness in utilizing the volume of the tee inventory. More specifically, utilization measures the percentage of available tee times that are sold. This is a function of rounds played divided by ultimate capacity.

Net Rate per Round – Is a function of total green fee revenue divided by rounds played. This is a critical performance indicator for any facility as it identifies the amount of revenue that is actually contributed to the bottom line from tee time inventory items sold. This is even more important once a course's annual rounds reach operating capacity, as additional units of revenue no longer come from added inventory units; they only come from improving the yield from the existing finite units.

Net Rate per Round Percentage – Is a function of golf revenue per round of golf played as a percentage of the average green fee rate. We calculate average rate by calculating the average posted peak green fee rate throughout the season. The industry benchmark for net rate per round percentage is between 70% and 80% of the average green fee rate. A net rate significantly below benchmark can be an indication that the rate structure and tee sheet management practices need to be adjusted and improved upon.

Revenue per Round – As mentioned above, tracking the number of rounds played provides operators with the ability to measure a variety of important revenue generators such as:

1. Merchandise Sales per Round
2. Driving Range Revenue per Round
3. Golf Cart Revenue per Round
4. Food and Beverage Sales per Round

Golf Cart Utilization – Measures the percentage of golfers that take a golf cart when they play. It is a function of golf cart revenue, divided by rounds played, divided by the golf cart rental fee per rider.

Cost of Sales Percentage – In order to maximize profit margins, cost of goods sold should be monitored regularly and compared against industry benchmarks for similar clubs. This is a function of the cost the goods sold divided by total sales.

1. **Merchandise Cost of Sales** – Best practice for public/semi-private courses is between 70% and 80% or for private clubs between 75% and 80%, depending on the mix of hard goods (i.e. golf clubs) and soft goods (i.e. clothing, gloves, balls, etc.) carried in the pro shop. Typically, golf courses that carry more soft goods will achieve cost of sales better than the above ranges due to better margins on soft good items.
2. **Food and Beverage Cost of Sales** – Best practice for public/semi-private courses is between 32% and 36% or for private clubs between 36% and 40%. Private clubs typically have higher cost of sales due to better menu pricing.

Payroll as a Percentage of Revenue – Facilities with high fixed costs must monitor their payroll cost regularly. This factor guides the strategic focus in matters related to the impact of payroll on the operation. This measure is a function of total payroll costs divided by total revenue.

Operating Expenses as a Percentage of Revenue – Is a function of total operating expenses divided by gross revenue. At first glance this statistic can be quite broad; however there is value it monitoring this on an annual basis.

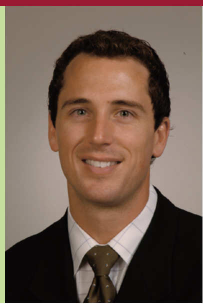
Advertising Expenses as a Percentage of Revenue – During periods of poor performance, clubs often fall into the trap of cutting the marketing budget. Mature golf facilities should spend at least 2% to 3% of total revenue on marketing the facility to the broadest audience possible.

Capital Maintenance as a Percentage of Revenue – The benchmark for annual capital maintenance is 3% of gross revenue for a golf course that leases the majority of its equipment and 5% for course that owns their equipment.

CONCLUSION

All information systems will have the capability of tracking the above measures, and operators should work with their systems provider to develop a reporting structure and template that works for their specific facility. Once the systems are functional, operators should get in the routine of monitoring performance on a weekly, monthly and annual basis. The true benefit will be experienced after a few years when operators have the ability to compare current performance – in a week, month, or year – to prior years.

If measurements of the aforementioned KPI's at your facility indicate that the operation is not performing well, then it would be wise to seek consultation from an experienced consultant.



Preventing Loss: A Case Study in Risk Management and Internal Control

BY DEREK JOHNSTON

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If you were forced to cease or dramatically reduce operations at your golf course for three of your most profitable months, would you have lost money this past year? Would you still be in operations for this upcoming year? Or, would you be one of the hundreds of golf courses in the throws of foreclosure, or put another way, in the throws of "re-organization"?

If you had the ability to prevent or dramatically reduce the risk of such a drastic loss of earning potential, especially considering that for most courses, three months represents only slightly less than fifty percent of their revenue generating months on the golf course, would you?

I would hazard to guess that every golf course owner and operator would answer a resounding "Yes". However, when presented with the opportunity to prevent this type of situation from occurring, and to strengthen their control practices, a number of owners and operators make the decision not to act, as there seems to be a general misconception that risk management and internal control techniques are cumbersome and costly to implement.

A TALE OF TWO COURSES

Over the past year our team encountered two very interesting engagements. These particular engagements presented our consulting team with very similar issues, yet originated from very different perspectives.

Each entity engaged our firm to help them address risk management and internal controls: The first entity was a municipality, who engaged us to review and comment on the risk management and internal control practices in operation at their golf facility as part of an overall golf course assessment; and the second entity was a high-end semi-private golf club who engaged us to review the control gaps that had lead to a significant loss for the club and to make recommendations for go-forward operations.

Our reviews identified that both entities were operating with very similar control environments and consequently exhibited the same control gaps and significant control deficiencies. In our experience over the years, these same control gaps and deficiencies seem to be present at courses often enough to warrant concern and to deduce that they are relatively prevalent across the industry.

The following is a summary of the common observations made at both of these golf facilities, specific to the root cause or lack of control that helped contribute to the semi-private clubs' significant loss:

- Both of the golf courses had contracted a small local third party website design company to develop and host their websites.
- Both of the golf courses were conducting e-commerce activities through their website, selling gift certificates, group lessons, and pre-paid green fee cards among other things.
- Both of the golf courses were not utilizing a secure payment processing company for these transactions. Credit card information collected via an on-line registration form was being stored on the third party's server and e-mailed to golf course management upon receipt to be entered through their credit/debit terminals and cash registers in the pro shop.
- In addition to conducting e-commerce activities via an unsecured payment processor, both courses would routinely collect credit card information over the telephone and utilized an intermediary form of documentation for the credit card information before entering the payments through their credit/debit terminals and cash registers in the pro shop.
- Relatively modest efforts at both courses were being made to protect the credit card information; however, in both cases at least three or more employees and third party vendors had independent access to such information.
- In the case of payments over the phone, in many cases the employee taking the order was not the employee recording the transaction into the credit/debit terminal and cash register and there were no recording devices or other control method for taking/monitoring these payments.
- Employees at both courses did not have individual cash drawers and/or login passwords for the point of sale registers. Therefore, transactions were not traceable to specific employees, nor were cash shortages. In some cases, cash drawers were not counted and reconciled to point of sale transactions for numerous days.

The following is a summary of the identified risks, control gaps and deficiencies associated with the above observations at each of these golf facilities:

- E-commerce transactions via the courses' websites were not secure, may have violated privacy laws, and were not appropriately controlled to prevent processing errors or the opportunity for fraudulent activity.
- Furthering cause for concern was both courses' lack of control over credit card

information received over the telephone, the courses' inability to reasonably assign responsibility for errors or malfeasance to specific individuals and the courses' lack of appropriate segregation with respect to employee duties (cash drawers, recording of transactions and the receipt of payments), which not only reduced the courses' ability to prevent or detect processing errors or fraudulent activity, but also to trace and track the source of such errors or activities should they occur.

While the first entity exhibited the same control gaps as the second one, it had yet to experience (or identify) any form of loss or malfeasance, unlike the second entity who had engaged us following the identification of malfeasance, which created a substantial loss for the club. At the time of our review, the loss that the second entity had experienced was a three month period of drastically reduced operations, and consequently revenues, while the identified malfeasance was investigated by local, state and federal authorities. The required time for which was drastically lengthened due to the course's inability to source, trace or track certain activities.

DON'T LEAVE THE RISK OF LOSS TO CHANCE

The first entity, the municipal golf course, like many assets that serve the public trust – was unduly influenced by the political climate in which it operated. The City and its leaders engaged our team to evaluate the Course's operations, including their risk management and internal control practices in part due to their requirement that all public assets be controlled in the most efficient and effective manner possible.

Our review suggested that the City and its leaders, best serve the public trust by requiring that the course perform at its highest and best use as a business asset of the City. We suggested that this calling meant the course should be operated like a for-profit business enterprise and be appropriately controlled. GGA provided the City's leaders and the course management team with a number of recommendations.

A number of these recommendations, including certain recommendations derived from the observations shared above, were met with significant resistance from the course's management team, citing very limited risk associated with their current operation and the presence of very diligent and trustworthy staff.

The fact that within the same calendar year we were called upon by a course to help them deal with the aftermath of a significant issue that had arisen due in part to the same internal control weaknesses that this management team cited as very low risk, is cause to question the accuracy of their assertion.

Reluctance or the decision not to take action may be understandable if there was a direct cost associated with taking action, as it is considered a best practice to always evaluate the cost versus benefit of any decision. However, the actions that are typically required in order to prevent or dramatically reduce the risk of loss do not have to increase operating or capital costs in any substantial way.

What is required is CHANGE. Changes that will improve controls over your business and manage your risk to an appropriate level take a number of different forms: business process, operating philosophy, management oversight, policy, procedure, cost allocation, human resources, technology resources, suppliers and vendors, and so on. Fear or resistance to change seem to be significant factors that cause reluctance or inaction on the part of owners and operators.

Control gaps or significant control deficiencies are common place in most golf operations. These gaps or deficiencies are typically exposed during periods of hardship and should be taken very seriously by all ownership and management entities. Typical periods of hardship or change that require additional scrutiny on financial and operational controls include:

- Operating in the midst of foreclose
- Management turnover
- Transition from an owner-managed club to a professional management firm
- Transition from a developer-controlled club to a member-controlled club

As with most golf course operations, the relatively small number of management personnel, combined with a significant number of seasonal or part-time employees, creates difficulties in adequately segregating duties and assigning responsibility. These are two of the cornerstones for business processes that define well controlled operations, where the Course's assets, both capital and otherwise, are appropriately safe guarded.

In order to achieve a high-level of internal control over golf course business processes, it is typically necessary to employ the use of integrated management software programs with system controls appropriately implemented, periodically reviewed and maintained and to ensure the appropriate oversight of management. In addition, user access controls that include periodic random access audits are considered to be a best practice as is the use of a third party payment processor with proven and secure technology for all types and origins (i.e. pro shop, on-line, etc.) of payment collection is considered to be of high importance.

GGA urges all owners and operators to review their operations from an independent perspective, to carefully consider the risks discussed above and other risks that tend to be prevalent in golf operations, and to determine if there may be a need to adjust their existing risk management and internal control techniques - or if there is a need for a comprehensive control assessment of their operations.

Golf Development in the Next Cycle

BY HENRY DELOZIER

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During the next business cycle golf course development will exhibit different tactics and methods in support of similar strategies. Golf course builders that have re-aligned their own business models will have a head-start on the builders who have not anticipated the changed development economy. There are three factors that are changing the economy of next-generation golf communities and two leading indicators that builders can watch to signal the upstart of the next cycle.

1. **Sources and Costs of Development Capital** – Two different capital sources are required to launch the next cycle of golf course construction. The first source, which is land acquisition and project planning funds, are already active. Land acquisition and consolidation has been quietly on-going for the past six-months' time. Land development and project planning capital has been generated historically through private equity sources and from public funding – such as equities and corporate bonds – for community development. This second capital source has not engaged, yet, and will re-start with greater caution and restraint than was evident during the most recent community development cycle. The off-shoot of this restraint is that golf course builders will be engaged later in the planning cycle and must 'catch up' with inexperienced project planning in many cases.
2. **Project Sequence and Timing** – Because major developers and homebuilders will experience more limited access to development capital, golf course builders must choose to either wait until the project is ready for golf course construction expertise or engage early with no assurance of a construction contract. This out-of-sequence phasing will disarm those who cannot 'learn on the fly' within the new paradigm. But the need to pre-engage as an informal partner with the developer or homebuilder represents opportunity for a few. The golf course builders who have developed trusted business relationships with the project developers will have an advantage.
3. **Homebuyer Wants and Needs** – Most new projects will focus on two distinct homebuyer audiences – active adults (Baby Boomers) and emerging families. These homebuyer segments will search for very different golf communities. The Boomers will seek smaller square footage (1,800 to 2,500 livable) in their homes than previously and they will look for golf communities that are more restrained (i.e. less showy water features, smaller clubhouses, and reduced golf course acreage) than during the 2000 to 2010 cycle. More of these active adults will be working – at least part-time – and they will be more concerned with their lifestyle costs. The emerging families will seek clubs that offer a family lifestyle value where sports, fitness, golf and socialization can be found at one club. The emerging families will benefit from two incomes, relatively low mortgage interest and a recovering economy.

None of us can reliably predict the timing of the next cycle of community and golf course development. But, one can watch for two key indicators that will announce new golf course construction opportunities:

1. **Job Growth and Economic Stabilization** – Most reliable economists and economic forecasters now suggest that true job growth will not occur until late first quarter 2011 – at the soonest. The resulting stabilization that encourages new residential development will follow behind these indicators by six to nine months. Following that process sequence, new community development is unlikely prior to fourth quarter 2011. For golf course builders, this timeline indicates another lean year for new construction starts because residential developers will not – and cannot – rely upon pre-sales as they did during 2004 to 2007.
2. **Broader Access to Home Mortgages** – Few would-be buyers of homes can qualify for mortgages during the current cycle. Until more home mortgages are committed, the development of new communities will remain in neutral. Limited access to home mortgages causes low new home sales volume. When home mortgage activity increases significantly, new residential communities – with golf courses – will begin to be planned and built.

A common question these days is, "Will developers build more golf courses during the next cycle?" The 'yes' answer is qualified by the certainty that the next business cycle for golf course builders will be characterized with smaller project count, more limited budgets, cautious developers and wary homebuyers. There will be a greater proportion of residential communities that call on non-golf attractions to build lot-premiums; some of the non-golf features will be open space, lakes, natural terrain (where possible) and distant view corridors. Nonetheless, golf course builders will experience recovery within the new paradigm and the new economy.

A Year in Review – Is it Reflective of the Industry's Future?

BY STEPHEN JOHNSTON

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Over the past year, Global Golf Advisors has completed many market studies across North America and strategic business plans for both 'Private' and 'Public' golf courses.

The following general comments can be made:

1. The number of rounds played in North America, after adjusting for weather, is relatively flat with no significant increase or decrease, with future demand remaining constant.
2. Green fee and cart fee revenue per round has reduced by as much as 15% from prior years.
3. Corporate outings have decreased and have required competitive pricing to capture the event with more Private clubs looking to capture these events.
4. Entrance fees at Private clubs have diminished with 'Equity' club values being almost eliminated in some markets.
5. Golf/residential communities have had to review their fee/membership structures in order to ensure financial viability. These communities need to re-evaluate their By-Laws and membership structures, as developers can no longer be relied upon to subsidize operating losses. This is a must for long-term real estate value protection.
6. Corporations demand more time from employees with less emphasis placed on 'five-hour marketing meetings'.
7. From an operating cost perspective, most clubs have cut costs based upon their current vision, and capital maintenance upkeep has diminished. Equipment is being kept longer and more clubs are 'looking tired'.
8. In the past, joining a Private Club was the decision of the member (corporate manager in the household) being given the perk in the household. Women will be the key decision makers in the future for joining a Private Club.
9. Although there are a number of well known distressed real estate/resort golf properties, few have been sold.
10. Unemployment in the United States (approximately 10%) and Canada (approximately 8%) remains high. The current economic climate ensures households will continue to be 'thrifty' in their spending habits.
11. The majority of 'Baby Boomers' are either over 60, or are very close to this age. Studies have shown that no matter the individual's wealth, their buying habits become 'cheaper'.
12. Golf course architects have seen their workload almost stop for 'new builds', and rely on 'Master Plan' refurbishment work to survive. Playability is more important than degree of difficulty in design work.

Overall, 2010 was a year that saw more golf courses with little growth, and most with below average performance. As with any industry, there are some clubs in strong demand markets that have done well, but generally most operators have felt the competitive market with less green fee revenue.

For Private clubs, especially developer-owned, this has been a year to negotiate membership transitional ownership, and stand-alone private clubs have seen diminished 'wait lists' or membership rosters, and Equity Clubs selling trial memberships with other forms of entrance fees.

THE FUTURE:

As the economy grows, so will discretionary spending and leisure time. This will bode well for the industry; however, more than ever, a 'woman's' perspective will be key to success for the golf industry. A question which remains unanswered is the elimination of chemicals/pesticides. Again, women will lead this 'charge' as they protect their family's health.

The bulk of rounds will still come from the 'Baby Boomers'; and as such, 'value for money' will become a constant 'saying'.

In order to compete in this market, operators will need to focus on fun, playable rounds of golf in a reasonable timeframe, with pricing policies that meet the needs of their patrons in their market. Residents of golf communities must have a membership/cost structure that ensures a financially viable golf facility that is paid for by all residents.

As the economy improves, so will corporate outings; however, these will become more price conscious than prior to 2008 and corporate 'membership perks' will continue to diminish at Private Clubs.

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SO WHAT DOES THIS MEAN?

1. In over-saturated markets, some golf courses will be 'repurposed' as real estate sales improve.
2. The reason to join a Private Club may again surface, since prior to the 1980's, the best playing conditions were at Private Clubs and this was a reason to join for the more affluent golfer. If golfing rounds remain flat with little increase in 'bottom line' revenue, public golf courses will need to cut costs even more and the 'Private Club' experience may become superior.
3. All owners/operators require a detailed market study in order to understand their niche in the market. Once defined, they must be the best in their class, and operate an efficient golf course with a business plan that produces a profit. This means a review of capital improvements and equipment refurbishment with all financial options being considered.
4. Residential communities that 'ensure' financial success for all their operations will see real estate price stabilization and a return to increased values faster than communities who try to 'hold developer/banks to ransom'.
5. There will be more transactions over the next five years which will give investors a reasonable return on investment, and patrons a better 'value for money' proposition.
6. Operators will develop better pricing strategies for tee times and annual dues at private clubs.
7. Private clubs will develop a different capital maintenance structure whereby entrance fees may no longer fund all capital requirements, with more entrance fees being in the form of initiation fees or long-term debt with 'high' equity fees not returning at all, as this may not be the 'best' financial structure for the club.
8. Golf courses may face 'stiffer' regulations on the use of chemicals/pesticides with less or more costly water. The Club that reduces this risk and markets its efforts will enhance its value and the real estate values surrounding the golf course.

The most successful clubs/courses will be 'smart' operators that understand their market, have strong yield management, focus on women, the playability of the course, and justify the costs to support their vision.

Trends in the Business of Golf…and Why the Superintendent is So Important

BY HENRY DELOZIER

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In these tough times for golf facilities – public and private – the value of the golf course superintendent has seldom been greater. This reality – for better and for worse – measures the broad and deep impacts that are influenced by the superintendent. There are three smart moves that smart people are making:

1. **Know what matters.**
2. **Measure what matters.**
3. **Do what matters.**

As never before, golf course superintendents are called upon to increase the franchise value of the facility while simultaneously influencing the intrinsic value of the business.

The franchise value of your club represents the commercial value of the business. The golf course superintendent is expected to favorably impact the following factors:

- **Course Conditions:** The course and the club grounds are expected to be maintained at consistently high standards, on-schedule and on-budget.
- **Budget Management:** Superintendents are called upon to maintain top standards on ever-decreasing budgets… "do more with less" they say.
- **Personnel Management:** One of the supervisors of the largest labor force at most facilities, the superintendent must manage the people part of the business, as well.
- **Environmental Responsibilities:** At most facilities, the superintendent is the 'chief environmental officer' who is responsible to make the facility safe and environmentally responsible.
- **Club Issues:** In most facilities the superintendent is the 'problem solver' for issues that are beyond the agronomic realm in which he or she was trained.

These factors combine to form the basis of the commercial value of your facility. Does the club make a profit in a socially and environmentally responsible manner? Franchise value is based upon a multiple of the earnings of the business times a fair-market capitalization rate. The top superintendents are alert to the numbers that drive and support the franchise value of their clubs. This is why the superintendent must measure what matters most.

In addition, the golf course superintendent must look after the Intrinsic Value of the facility. What is Intrinsic Value?

"The discounted value of the cash that can be taken out of a business during its remaining life. Anyone calculating intrinsic value necessarily comes up with a highly subjective figure that will change both as estimates of future cash flows are revised and as interest rates move. Despite its fuzziness, however, intrinsic value is all-important and is the only logical way to evaluate the relative attractiveness of investments and businesses."

Every superintendent should pay attention to the Intrinsic Value of the facility because it is the commercial measure of intangible – but highly significant elements, such as:

- Principled Leadership
- Management Stability
- Uncommon Comparative Results
- Common Ambition

It is Intrinsic Value that is measured by such respected investors as Warren Buffet who looks for more than the simple calculus of dollars and cents when he considers investing in businesses.

Each golf course superintendent must consider his or her decisions in the context of Franchise and Intrinsic Value.

WHO CARES? AND WHY?

The superintendent exerts significant influence over the many aspects that drive the commercial and lifestyle value of most facilities. Following are five aspects that should be on the radar screen of every facility manager:

- The superintendent controls the largest numbers.
- Revenue flexibility, elasticity and reliability are largely influenced by the facility superintendent.
- Revenue growth is the new measure of success; 97% of golf facilities are not growing revenue.
- The largest proportion of labor costs are controlled by the superintendent; 55% of golf maintenance costs are payroll.
- Cost-cutting cannot be sustained; constant downgrades in standards and facility care diminish the value of the business.

Superintendents have been called upon to reduce costs for golf course and grounds care and upkeep. But forward-thinking and 'can-do' superintendents have found that they can favorably impact revenue at their facilities. Following is a short list of impacts that can be controlled by the superintendent:

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- Tee time inventory availability is largely controlled by the golf course superintendent. Make your course available to its golfers at the times that are most desirable to your best customers and members.
- Market attractiveness is up to the superintendent. Make the golf course suitable to the expectations of your immediate market of golfers. Golfers prefer to play courses that are in good shape and well attended.
- Customer retention is affected by many members of the staff; the golf course superintendent certainly is a key force in retaining golfers. Consider steps that you can take – like offering member and golfer feedback sessions, greeting golfers on the course to answer questions, and encouraging your staff to be customer-friendly.
- Member and customer satisfaction are critical to the long-term success of the project. Supportive superintendents are making a difference in customer satisfaction.

Many superintendents ask for specific examples of how they can influence revenue growth; the list that follows may provide some guidance:

- Evaluate the sources of golf rounds. Increase your profile to and awareness of the sources of rounds for your facility. Can you increase the capacity of your facility by increasing the number of tee times that are available when people most want to play?
- What target groups can increase utilization? Can you take actions that increase the number of rounds that are played at your course? Ask you best golfers to play your course more and more often. Can you find more practice options for golfers who want to practice and to improve their games?
- Why does utilization matter? Utilization is a measure of the efficiency of the management of the tee sheet and the capacity of the course.
- Where are they playing now? And why?
- Identify steps that can increase tee time inventory. Start your days earlier and extend the number of tee times when people want to play, especially if the bulk of your demand is first-thing in the morning.
- Consider new revenue sources. Where do your vendors host their 'field days' and holiday events? Can you influence the professional contacts within your database to use your facility more?
- Hole-in-One Competitions are an easy way for your club to increase revenue; do you encourage and support revenue-building concepts?

To improve the franchise and intrinsic value of your facility, you can introduce planning and measurement tools that can implemented in all departments. Start in your own department by using the following tools and tactics:

Planning for Capital Expenses (CapEx) is essential to the job of a superintendent; in most facilities, it is the greens and grounds operations that require the largest volume of capital equipment and projects. Use your Capital Expense Plan to set an example throughout your club. When doing so, keep the following facts in mind:

- 62% of facility 'CapEx' is golf course related.
- 9% of golf facilities maintain a working CapEx Plan.
- CapEx should be measured against normal (not exceptional) R&M Expenses. Often it is more cost-effective to acquire new equipment than it is to repair worn equipment.
- Identify <u>all</u> assets that must be replaced. Your list should be thorough and comprehensive. Many superintendents are surprised to find how substantial their CapEx needs are.
- Evaluate leasing versus purchase. Measure the readiness and availability of capital at your facility against the cost of capital via leasing sources.

In summary, golf course superintendents are called upon to understand the year-round demands of the business and to add value to their facilities. Bear in mind five critical strategic priorities:

- YOU control the value of your club.
- Measure the things that matter most.
- Revenue growth is critical to your success.
- Assertive expense management should have balance.
- Forward-looking CapEx planning saves money.

You Are a Public Golf Course Owner and Have Just Had the Worst Year Ever. Another Year Like This Will Mean the 'Bank' Owns Your Life's Work.

BY STEPHEN JOHNSTON

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WHAT TO DO?

To continue to do the same thing and expect a different result is not the answer. Get qualified 'third party advice'. Most will say they cannot afford the price; however the answer is that you will pay for it when you are still in control of your assets, or you will pay more when it is out of your hands.

A qualified industry expert must have operational and financial expertise in order to be able to give the appropriate advice. It is important that their recommendations are 'independent' and not based on 'what you want to hear'.

In order to ensure financial success, some consultants will refer to a "zero-based budget". In reality, your budget should work from the bottom up. The theory is simple – what are your fixed costs that are not employee related? The following costs are examples of fixed costs: insurance, utility, property tax, interest and debt charges. In essence, all costs that cannot be changed:

LET'S EXAMINE EACH DEPARTMENT

Pro Shop – Typically fixed charges are cart leases (if applicable), hydro/gas for carts and driving range balls, score cards and information system costs, etc.

Clubhouse/Administration – Utilities, property tax, insurance, interest, credit card discounts, equipment lease costs, if applicable, clubhouse supplies, information system costs, etc.

Greens Expenses – Based on curative approach–fertilizer/chemicals, equipment leases, repairs and maintenance, fuel, utilities.

Since the food and beverage operation will be dependant on the type of golf experience, and most costs are variable, leave this analysis until the end of the financial plan.

Based upon the previous year's revenue, include only 'bottom line' revenue (i.e. green fees, annual passes, driving range revenue and cart fees). Determine net available revenue/cash for employee and other costs.

For example, assume the following analysis:

Total green fees/dues	$ 850,000
Total cart revenue	175,000
Total driving range revenue	25,000
Bottom line revenue	1,050,000
Fixed costs, excluding payroll:	
Pro shop	40,000
Greens	100,000
Administrative/clubhouse	175,000
Cart lease	50,000
Equipment leases	100,000
Mortgage payment (Principal and interest)	200,000
Total fixed costs	665,000
Available cash to support all remaining services	**$ 385,000**

Pro Shop Services - Typically require a golf professional and support staff. Since this service drives perception about your golf course, and is key to marketing success, there needs to be ample coverage for service. These employees are responsible for merchandise sales, booking tee times, ensuring collections and an enjoyable round of golf. Historically, merchandise sales were $150,000 with a gross margin of $35,000. In previous years, payroll costs amounted to $175,000 for the department plus $25,000 for starters/rangers. Total payroll, including benefits, amounted to $200,000 with one permanent staff member (golf professional at $65,000).

Greens Department – This department has historically operated with a head greens superintendent, an assistant superintendent and a mechanic, totaling $160,000 including benefits. In addition, there are seasonal staff costs amounting to $150,000 including benefits. The golf course and its conditioning help to drive revenue. As such, it is imperative that this component of the golf operations meet patrons' expectations.

Clubhouse and General and Administrative Staff – Are required to ensure the premises are property cleaned, the information systems, purchase orders and accounting are completed in a timely manner, and all operating risks are evaluated. Although these individuals are not generally seen by patrons, they are an integral part of the operation. The payroll

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and benefits costs amount to $175,000 and include management (owner), accountant and clubhouse services. Consider a sale leaseback of equipment, if owned and there is the ability to do so based upon financial history.

Based upon the above analysis, employee costs amount to $685,000 (Pro Shop - $200,000; Greens - $310,000; and General and Administrative - $175,000).

The **food and beverage** function has typically been an operational issue, in that it loses money and requires over 50% of management/administrative time. The gross revenue from food and beverage approximates $400,000 and the cost of sales is $160,000; labor approximates $220,000 and sundry expenses for linen, supply costs etc., is $40,000. The result has been an operating loss of $20,000 excluding utilities and cleaning costs already accounted for in General and Administrative costs. The food and beverage operation caters to tournaments, outside banquets and daily patrons.

Based upon the above analysis, if the Club continued to be operated in a similar fashion, the operating loss would approximate $285,000 with no allowance for capital maintenance which is estimated at 3% of gross revenue or approximately $50,000.

In order to produce a return on investment of at least 10% based on an overall investment of $2,000,000, the bottom line net revenue would need to increase by $535,000 through a combination of increased revenue, cost cutting and an improved food and beverage operation.

How should you review these facts and make appropriate adjustments to ensure a profitable operation?

In hard times, difficult decisions need to be made. Cross-training of staff is essential, and everyone must 'get their hands dirty'.

Essential staff members are the owner, greens superintendent, golf professional, food and beverage manager/chef, and the accountant. Can any of these individuals be replaced or cross-trained? If the general rule is that golf course is the 'Profit Centre' and the clubhouse is the 'Cost Centre', it is important for future growth that the golf professional and the greens superintendent remain to support golf operations. The weak link is the food and beverage operation; and as such, the owner needs to be more active in its operation. As such, the chef is required, but management needs to focus on the business aspect of food and beverage. This will also include an analysis as to the impact of leasing the food and beverage operation to a third party for a guaranteed profit.

The key to this analysis will be an overall net improvement to the bottom line of (say) $75,000, being a small profit of $25,000 (through leasing or better management) and a reduction in the food and beverage manager of $30,000 with substitution by the owner. The food and beverage operation may need an overhaul and could be better off with lower gross revenues and better profitability, with fewer hours of operation and a smaller menu. The benchmark profit for an average food and beverage operation is 10% to 15% of gross sales, with best practices at 20% to 25% of gross sales.

The next essential service is marketing – along with competitive market knowledge. Defining the market niche for the club is key to future growth and prosperity. Developing a market analysis and a marketing plan is paramount for all managers/full time employees to focus on. Do not cut these costs!

If the short-term goal is to ensure a 'break even' position, the variable payroll and other expenses need to be controlled based upon revenue. Assuming prior years' bottom line revenue and improving food and beverage operations by $75,000, requires a reduction to payroll cost of $260,000 (operating loss of $285,000 plus capital maintenance of $50,000 less $75,000 food and beverage improvement). This would represent a 40% reduction in overall payroll costs – can this be accomplished and still compete in marketplace? The savings must come from cross-training, commission/performance compensation and fewer full time/seasonal employees.

The pro shop/starters/rangers need to have fewer paid hours of employment – if staff are to do more (i.e. control tee sheet, manage merchandise sales and maintain pace of play), they will require opportunity pay and help from other operations (i.e. congestion on the course – monitored or information given to pro shop staff by greens maintenance staff or use of a GPS system if available on carts). Pro shop staff should have a commission supplement for increased merchandise sales and improved green fee and cart revenue. This should result in a seasonal payroll savings of approximately $35,000.

From the greens payroll, both the mechanic and the assistant greens superintendent need to be seasonal, and seasonal staff needs to be reduced by 30%.

A compensation fund needs to be set up for increased bottom line revenue over prior years in order to support different hours of operation (i.e. more hours required when few are playing; i.e. start at 4:00 a.m., if no sound/light by-laws prohibiting early starts, or hand work which can be completed in the dark; i.e., raking bunkers, etc.). The greens superintendent must evaluate what impact the above has on playing conditions and 'management' must decide on reductions. Typically we have seen a 25% reduction in staff hours with minimal impact to 'expected' playing conditions.

The above changes should guarantee a payroll savings of $80,000.

Typically, General and Administrative/clubhouse payroll costs relate to the owner-manager, accountant and cleaning staff. Again, cost reductions come from cross-utilization of staff and variable costing. The clubhouse cleaning staff can almost be eliminated from the use of food and beverage and pro shop staff. The accountant cost can possibly be reduced with fewer hours during the off season. The owner-manager will put in more hours, so little savings will come from this position. Overall, General and Administrative payroll can reasonably be reduced by $40,000.

The macro analysis is complete and payroll costs have been reduced by $155,000; however, there is still a further reduction required of $105,000.

The last reduction in cost comes from a final review of all costs, including fixed costs, and sacrifice from full-time employees - including the owner. This reduction must be made up with significant performance bonuses if the bottom line revenue increases, so that any sacrifice can have at least a 25% payback as well as longer vacation times and better use of government unemployment plans.

The good news about a survival plan is that all employees focus on improving financial performance. There is significant short-term sacrifice, but in the long-term, assuming there are significant employee awards programs for improved profitability, the club will meet its ultimate goal of profitability. Success comes from a 'Team' approach. The ultimate key to success will be increased revenue from all staff working together and being significantly rewarded for their efforts.

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THE BUSINESS OF GOLF

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THE TEAM

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