Maximizing Capital at Your Golf Operation

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The good news:

Golf's Demise Has Been Exaggerated.

The bad news: TIGHT BUDGETS ARE HERE TO STAY.

Golf has been absorbing discouraging data for years. Course closings, decreasing rounds and revenue, major brands reducing their presence—all have contributed to the sky-is-falling impression much of the world has about golf. And yet, recent data and positive press suggest a different story is developing for an industry that is feeling cautiously optimistic.

Saying we should be bullish about golf in 2017, Forbes.com pointed out that golf creates $70 billion of economic impact in the U.S. annually, influences two million American jobs and pours about $4 billion into charitable coffers. Further evidence of golf's health is seen in the remarkable success of Topgolf, destinations like Bandon Dunes and Cabot Lodge, and the healthy stock performance of Callaway.

The future of golf shows promise as well. Research from the National Golf Foundation (NGF) states: "The junior golf population remains relatively stable at 2.9 million and continues to show a transformation in diversity compared to years past. Thirty-three percent of golfers in the 6-17 age range are females, up from 17 percent in 1995."

NGF also reported that 2.5 million golfers teed it up for the first time last year, beating the old record set in 2000 during the height of Tiger Woods' popularity by 100,000 new golfers.

However, there are some facts that bring us back to earth, as shared at a 2017 Golf Industry Show presentation by *Golf Course Industry* magazine Publisher Pat Jones:

- The industry is still losing 150 courses per year, yet supply continues to exceed demand and will for at least another 10 years.
- Rounds have stayed consistent at 480MM/year, but revenue is down.
- Golfers are playing, but they are spending less and playing less expensive courses.
- Poor retail performances by food and beverage, pro shop and events have put more revenue pressure on the golf side of operations.
- Maintenance budgets continue to grow and now average $790K.
- Average labor costs are 56 percent and rank as the number one issue for operations.
- Water and water quality present longer term issues.

To be sure, the positive developments in golf are reasons for optimism. But capital challenges torment virtually every golf operation as they must meet the high expectations of golfers and the increasing revenue targets of owners and investors while relying on flat or shrinking maintenance budgets.

Fortunately, new technologies are proving essential to today's golf operations, especially in the areas where costs can affect the success—and sometimes survival—of a golf course: labor and water usage. These new technologies, properly executed, have shown to have immediate and substantial impact on overhead. For those operations that take advantage of innovative partnership programs, the stress of acquiring these technologies can be greatly reduced and even eliminated entirely.

The net takeaway is that golf operations have new strategies for maximizing their capital to service debt, acquire needed equipment, improve staff and refine their product in order to grab a bigger share of their market.

Labor

It's Your Biggest Expense, But Where's the Money Going?

Last year, it cost $9 billion to maintain America's golf courses with the lion's share of that money—56 percent—spent on labor. That number will continue to rise.

For such a significant percentage of their overhead, golf courses, for the most part, do not know precisely where labor expenditures go. Pinpointing fuel consumption, electric bills and fertilizer and fungicide usage is easily tracked. But how many man hours are spent raking bunkers? What's the cost of mowing areas that get no play? What would the savings be if fairway mowing was reduced by 10 percent?

In this era of heightened competition with ownership scrutinizing and pinching every dollar, superintendents who can quantify each task their crew takes on have a distinct advantage—not only in accurately forecasting maintenance needs, but also in defending expenditures and necessary acquisitions to owners.

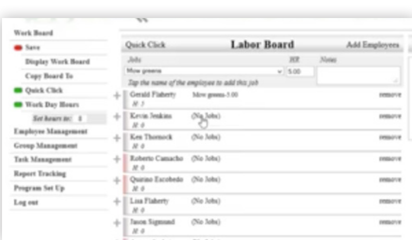
As reported in an article from the USGA in 2009, early pioneers of data accumulation and analysis relied on analog tools, hand-recording all their data on files and spreadsheets. It was labor intensive, but the insights revealed were immediately beneficial:

"Prior to tracking labor/time costs, requests for an increase in labor resources were structured according to what we thought was needed, versus knowing what it took (cost) to give our members what they expected. The program has evolved into a tool we use to quantify the labor costs of every aspect of course care. We know the labor cost of mowing the fairways and the labor cost of presenting the bunkers. We can summarize the cost of managing the tees as well as the naturalized areas. Tracking labor expenditures from year to year provides a mechanism to explain cost increases when members request a course setup change. Monitoring the trends can help explain how golfer demands affect labor costs."

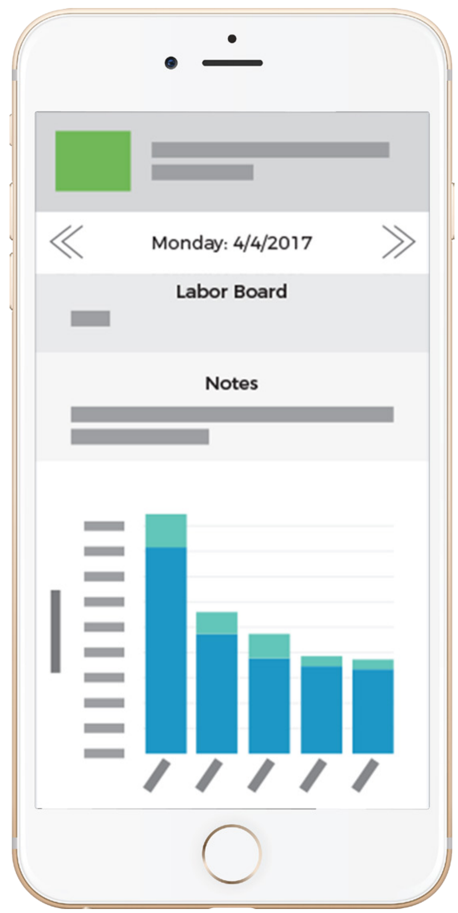
That same information can now be more easily captured and deeply analyzed using digital tools. One of the fastest growing is a web-based labor tracking application called taskTracker™. Developed by a superintendent, Gerald Flaherty, and a golf pro, Jaime Sharp, who won the Turf Industry's inaugural Excellence in Innovation Award for its development, taskTracker stores and retrieves labor data from all areas of golf course operations—bunker maintenance, greens speed, hand-watering fairways, maintenance and landscaping on other parts of the property. The simple, intuitive application can track as many tasks as the user wishes.

Labor

"Like most other superintendents, every morning I would write on the board what the guys were going to do, and every afternoon I would erase it. We were losing all of our data," Flaherty said in a 2015 *Club & Resort Business* interview. His solution—to record all course jobs on a spreadsheet and post the information on a TV screen in the break room—changed when Sharp offered to write the code to create an app to handle the chore.



Since then, the software has been updated numerous times, adding features and functionality as other operations share with Sharp and Flaherty what they would like the application to do. Nearly 400 courses have replaced their white board systems for taskTracker. These operations have found, as Flaherty did, that their jobs got much easier while they also quickly amassed vital information on their labor and labor costs. That information now fosters informed decision-making that allows them to move money around and use it more intelligently to meet the expectations of members and owners. "It's made us extremely more efficient," Flaherty said.



"We're not saving any money. We're just using it more wisely."

Smarter use of budgets is the key. These days, doing more without asking for more money is how superintendents shine.

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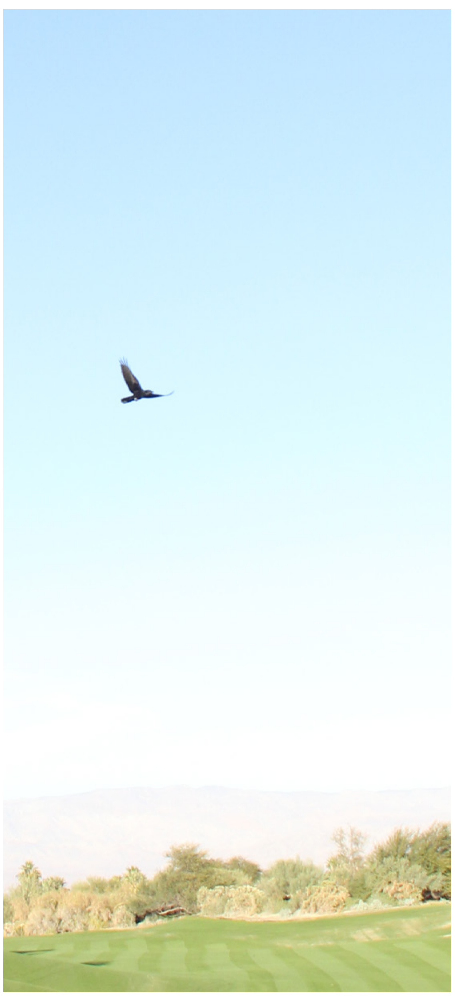
Water Quality

The Big Issue Looming on the Horizon

For those who rely on water to run their businesses, competition for the resource is always top of mind. California's recent emergence from a years-long drought was a relief



to the golf industry concerned that what was happening out West was foreshadowing what's to come nationwide. In 2015, with the drought still gripping his state, Governor Jerry Brown's executive order imposed serious restrictions on water usage, with the most severe hitting those courses using potable water for irrigation. The possibilities of fines on top of the already high costs of irrigation had the industry holding its breath and praying for rain, which, of course, eventually came.

The encouraging news is that many golf courses across the country have, over the past 10 to 15 years, grown more progressive in their water usage. Smart irrigation technology, turf reduction, firmer-and-faster maintenance practices and, especially, the use of recycled water have helped calm the outcry from environmentalists and government regulators. However, the costs associated with irrigation remain a significant line item for most golf operations. And that cost is going nowhere but up.

To flatten that trajectory, courses should continue their forward-looking business models and consider these emerging realities:

- The link between the quality of their water and the health of the soil

- The "see problem, spray problem" approach treats the symptom, without addressing the cause of the problem
- Whatever is sprayed runs off into nearby rivers, streams, lakes and is traceable to its source
- Healthy soil requires fewer inputs and less watering, lowering costs without jeopardizing the quality of playing surfaces

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Water Quality

Organics

Organics will inevitably become part of the conversation for golf courses across the country as consumers drive the migration away from synthetics in all areas of their

consumption, whether it's food or their lawns and living environments. Golf operations will soon find that organic alternatives that were once either lacking in efficacy or too expensive to deploy have reached parity in price and performance with synthetic alternatives.

In concert with product advances, leaps in the science of irrigation injection systems promise impressive savings. These technologies deliver nutrients and water quality enhancements through irrigation, making obsolete the usual morning spray routine and achieving unprecedented speed, safety and control.

As man-hours drop, water and product usage declines, superintendents will find they can redirect those dollars and hours to other areas of the course to improve the member/guest experience, improving the product without raising maintenance budgets.

Branch Creek™
Grow. Greener.™

We exist to help bridge the gap that exists between the demand for organic and our ability to supply it.

What goes in our soil affects our water.

REDIRECT DOLLARS AND HOURS to other areas of the course.

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Creative Options

For Acquiring New Technology

It's the quintessential Catch 22–you need the technology to maximize budgets but there's no room in your budget to acquire the technology. Fortunately we live in an era that is disrupting conventional challenges and finding creative ways to transact business. Consider that the biggest taxi company in the world, Uber, owns no taxis. Or that golf courses now use tee times rather than cash to tap into the massive exposure of Golf Channel/GolfNow.

Forward-looking vendors recognize the budgetary challenges confronting golf operations and have designed partnership programs to mitigate the issue. In some instances, suppliers allow their customers to amass points on the products they buy every day and then convert those points into purchases of the latest technology. In this way golf operations gain all of the budget-maximizing power that the new technology delivers with little or no out-of-pocket expense.

All of which leaves golf operations ready to maximize their budgets with two simple questions for their suppliers: 1) What are your latest technologies to help lower my labor costs, reduce my inputs and improve water quality, and 2) How are you going to help me pay for it?

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