GBAS
GOLF BUSINESS ADVISORY SERVICES

Back of the Cup

A NEWSLETTER CONCERNING THE BUSINESS OF GOLF

How are you going to reach the future?

The planning process that GBAS follows with its clients is based around three simple questions.

1. Where are you now?
2. Where do you want to be?
3. How are you going to get there?

We have spent a long time talking about the first question in past editions of the BOTC There is a lot of published information now available to help answer this question and there is no excuse for not having a firm understanding of what is happening in the market around you. The answer to the second and third questions can go hand in hand, with the destination sometimes limited by not only the market around you but existing or likely future resources available.

In our last edition we looked at the third question from a micro angle, suggesting that, with few easy wins readily available to materially improve outcomes, improved overall performance can come from a number of little wins across a number of areas of business. These separate improvements collectively adding up to a larger, material number. Referencing current data from the GMA benchmark tool we used examples of small increases/decreases in demand/spending/expenses that collectively added up to just shy of a $100k improvement annually.

This is the challenge of golf club operations at the moment and understanding all of your micro drivers, and then being able to impact them, has never been more important.

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Today we thought we'd look at question 3 from another angle, one that could be considered more risky but could bring with it more reward. The current operational challenges being faced are well understood by all. Member retention/attrition, wage costs, cost pressures, the changing shape of the P&L. etc. There is a whole other challenge looming though and that is the replacement cost of key infrastructure.

With every new restaurant, bar, renovated RSL club, even repositioned retail store that is unveiled, many golf clubs are looking increasingly aged, and appear not to be able to keep up with the world around them. The very look of a clubhouse building can impact ones view of the value of the membership proposition, certainly impacting ones view as to how frequently they might, or might not, use the non-golf facilities.

As one therefore looks at where they want to be, how to remain relevant and how to better compete in the current day, one of the biggest, and often insurmountable, hurdles is the cost of new infrastructure and how it is to be funded.

There are two ways you can look at answering question 3 – *How are you going to get there?* Do you look at this destination as a place you can afford to get to within your current available/realistic means or do you push harder and establish if there is a bigger opportunity available and if so, what funding could be/needs to be available to get you there?

"…With many clubhouses, golf greens and other infrastructure assets coming to the end of their useful lives the key question is how can we better save for and fund these future needs?…"

Right now it is present practice for many to treat the Club's annual depreciation cost as the Club's capital budget, (assuming they are profitable prior to this cost, don't wish to grow cash assets and all other cash uses remain steady.) With GMA member clubs currently averaging EBITDA results of 7% per annum on average revenues of $3.97 million, average depreciation costs of $350,000 per annum (reflecting 9% of revenue) are being incurred. Whilst this sum is useful funding for the annual replacement needs and some course machinery, it won't deliver on the big projects.

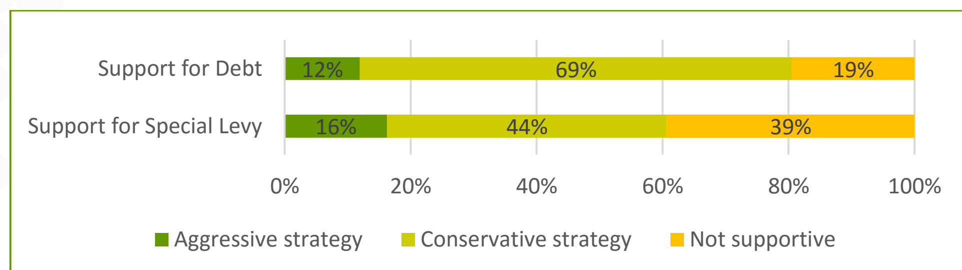
With many clubhouses, golf greens and other infrastructure assets (irrigation systems etc.) coming to the end of their useful lives from an age and/or design (wear and tear, drainage, traffic management) perspective, the key question is:

…how can we better save for and fund these future needs?

Some member research we recently completed for a club shed some further, interesting light on this topic and current member preferences. In order for us to better understand the acceptance for capital expenditure funding options outside of annual operating profits at this club, we measured what level of support was evident for two options they have available, the first being a special levy and the second some debt financing.

For the special levy we split it into two levels, defining an aggressive and conservative strategy in dollar terms relevant to the level of annual subscriptions applicable at the club.

We found that just under 20% didn't support either, with the majority of support evident for debt funding, followed by a conservative special levy strategy.



The Club was pleasantly surprised with this outcome and is now pushing ahead with its planning around the timing and finalised funding method for some long desired but until now unfunded projects.

Pleasingly, product improvement at this club is going to happen, though the choice/timing of a levy, if that is the preferred method, won't please everyone.

This reality is not an uncommon scenario, with levies almost universally viewed as a negative, often because of a noisy minority. To solve this issue and take away the vulnerability a club has to its support, is it time for all to establish a more permanent source of future capital funding?

We suspect that historically, revenues from club entrance fees were used for this purpose but with this income stream under pressure, varying materially from year to year and when last reported being taken into general revenues by 90% of clubs (and thus not accumulating for other specific purposes), this source is closed for many.

Some recent research out of the USA is useful when looking at the challenge of, and sources of capital funding in that market. In a survey of Club Managers by Global Golf Advisors during and after the 2015 CMAA World Conference, it was found that 60% of surveyed clubs charge a separate (special) capital levy to members, some allocate a portion of annual member subscriptions to capital, and more than 25% do neither. In terms of mix of funding, GGA's survey found that approximately 60% of clubs use a combination of debt and member levies to fund new capital projects.

Given that it is not uncommon for us to follow the lead of the USA in other industries, does this research offer a glimpse into the future for Australian clubs?

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A potential model worth considering is the one adopted for strata titled residential buildings in NSW. Approximately 10 years ago it became law for all owner's corporations (OC's) to prepare a 10-year plan of anticipated capital expenditure, reviewed and adjusted at least once every five years. Known as sinking funds, the aim of these plans was to assist the OC's in building up sufficient financial reserves so that when expensive capital projects arose, they could reasonably be paid for when needed. In a managed way, this process overcame the need to ask lot owners to pay large, special levies any time a sinking fund expense arises, and provided for resident certainty around the buildings future needs.

In the case of OC's, contributions are levied on lot owners in the scheme in accordance with the unit entitlement of each lot. Let's look at an example of how this would work, inserting a golf club and its numbers in place of an OC. If a capital replacement plan for a golf club surmises the need for say, $3 million over ten years, it would need to levy $300,000 from members each year. Assuming a club has 1,000 members with equal entitlements, each member would be required to contribute $300 per year to the sinking fund (annual subscriptions can be reduced accordingly in order to partially or fully offset a levy of this nature).

This approach is distinct from the charging of a special levy in that it displays a level of foresight and planning around the future capital requirements of the club to maintain long term sustainability.

So is this model a potential permanent solution to funding our future capital needs?

There may be a fourth option to consider as well. The golf industry is a broad one and is made up of numerous parts. Through the early part of this decade the course construction/renovation companies were all really busy, delivering 50+ new builds over the period. Times in this sector have slowed a little though and they are now being more flexible in how they deliver their work, and what work they will do. Two of the biggies, McMahons and Programmed Turnpoint have both been present at recent industry conferences and are actively working on industry relationships in this regard. Being friends with both and thus promoting equally, we know that they are both willing to utilise their own balance sheets and will give consideration to forward funding arrangements for capital construction projects you may require, i.e., get the work done now, payment over a period of time. If you are looking at a project you should certainly do your due diligence around this option.

So are you going to reach your future by the micro improvement approach or are you going to seek to reposition yourself in the market via some major capital investment? If the latter, will this funding come from a capital levy, debt funding or forward funding from one of the major construction companies? Whatever approach you choose, being first able to fully answer question #1 and then setting a goal for question #2, one that will/can take members along on the journey, will be crucial to success.

At a higher level, does the industry need to consider broad adoption of an annual capital levy to help fund future projects and help sustain the industry?

With another 20 client projects completed thus far this year, the reference points we have for our work continue to grow and remain unrivalled. Our knowledge is your benefit and we are here to help determine what approach, strategy and solutions best suit your club's circumstances.

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About Golf Business Advisory Services (GBAS)

Jeff Blunden
Managing Director of GBAS

GBAS is an independent advisory company offering dedicated, professional advice to the golf industry. Offering unrivalled experience and industry insight, our approach is grounded in research with a belief that data analysis always reveals the insights required to drive your business.

Specialist services offered by GBAS include:

- Strategic planning
- Operational reviews
- Member surveys
- Board presentations
- Consumer research
- Market research
- Asset oversight
- Due diligence
- Asset valuation
- Expert witness services

If you have a need in the golf industry GBAS is able to provide you with all of the necessary knowledge and experience required to help ensure you achieve your goals.

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