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Think Playing Golf Is Tough? Try Operating A Course

Mary Ellen Biery, Contributor

Golf courses and country clubs, long symbols of wealth and status, aren't doing so well themselves, financially speaking.

New data from Sageworks, a financial information company, show that U.S. golf courses and country clubs, on average, face persistent unprofitability. And sales have sputtered downhill after a small rise in 2012, according to Sageworks' financial statement analysis of privately held courses and clubs.

Average net profit margins for privately owned golf courses and country clubs (NAICS 713910) have been negative for several years. Over the last 12 months, for example, golf courses and country clubs lost about 2 cents for every dollar of revenue generated by memberships, club shop sales and restaurant meals. That's about the same as in 2013 and only slightly better than the 4% margin, on average, for 2012.

Sales, meanwhile, increased in 2012 for the first time in five years and grew about 4%, but then reversed course in 2013 and were basically flat over the last 12 months, according to Sageworks' data.

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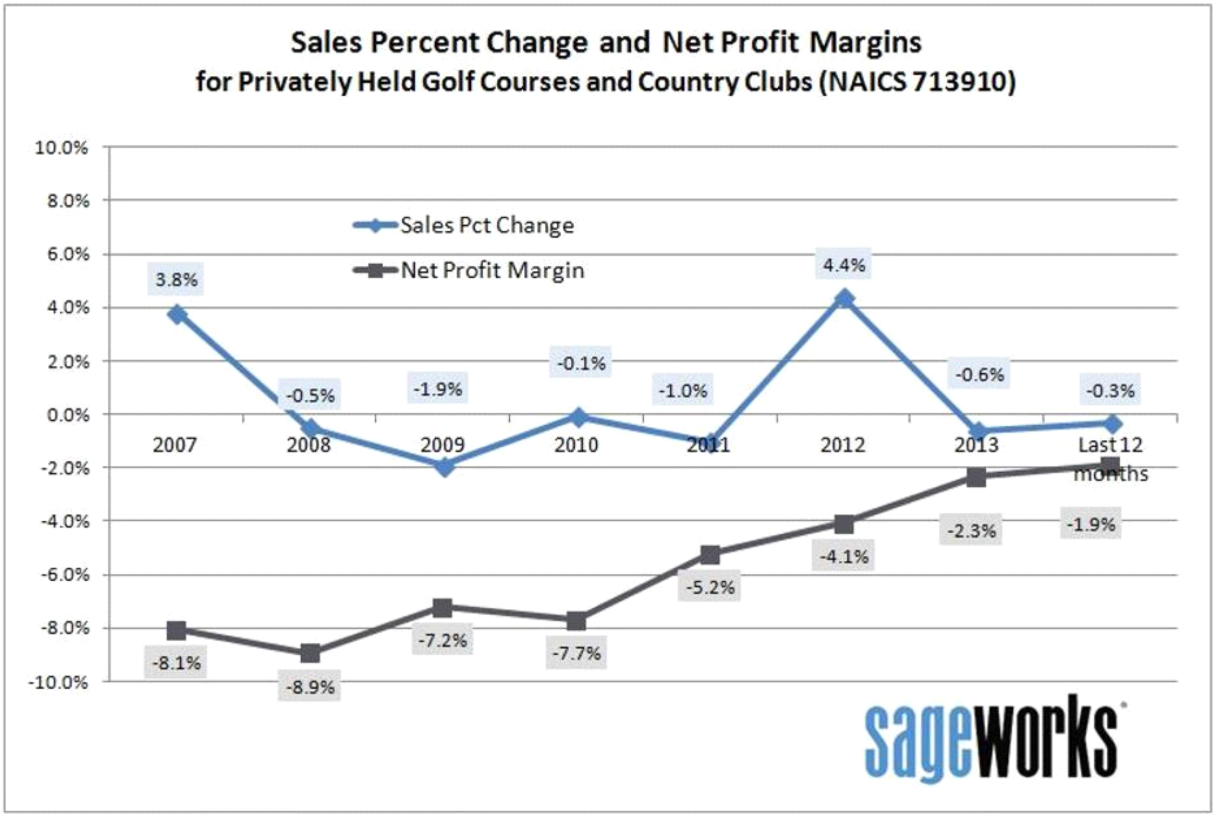
“Sales have turned negative, which wouldn’t be a good sign for this industry,” said Sageworks analyst Jenna Weaver. “You might naturally assume this means people aren’t purchasing as many rounds of golf, but it’s important to remember that it may also have to do with pricing– it could be that these businesses are lowering membership rates to attract more people.”

Many golf courses in recent years have shifted from privateclub models to public courses, which has likely brought down the rates for a round of golf, too, she noted. Declining sales “could also be influenced by pro shop sales, or if the country club has a spa or hotel associated with it, that could factor in,” Weaver said. She noted that previous data from Sageworks showed sales growth rates at hotels, restaurants and bars have been trailing the average for all privately held companies over the last 12 months. “While the economy is on an upward trend, everyone is still very conscientious,” Weaver said.

Indeed, luxurymarket research firm Unity Marketing says the affluent consumer segment (the top 20%) accounts for about 40% of overall consumer expenditures. But the firm in May noted that its tracking research found affluent consumers, after boosting spending on luxury goods and services in general during 2010 and 2011, have slowed their spending since 2012 “as their attitudes have taken a downward turn.” Demand among affluent consumers 45 years and older, in particular, has been lagging demand among younger wealthy consumers, Unity has found.

Bloomberg Businessweek, citing various data sources, recently reported that the number of golfers has continued to drop since a 2002 peak. It continued on to note that golfers last year played the fewest rounds since 1995, as the costs and difficulty of the game mean it’s losing out to other demands on business and personal spending, as well as on leisure time.

And while some courses are seeing stronger memberships and rounds played, some industry experts told Bloomberg they expect course closings to continue to outnumber openings by about 100 a year for the foreseeable future, especially given a generational shift and declining interest even among baby boomer players.



On an encouraging note, Sageworks' data show that even though golf courses have negative margins, they have strengthened steadily since 2008, when the average net profit margin was about 9%.

Weaver said golf courses and country clubs have reined in overhead costs nicely, cutting them since 2010 by about 3 percentage points. "Those overhead costs are ongoing costs that aren't direct labor or materials, so it's showing these country clubs and golf courses are able to carefully manage spending."

Through its cooperative data model, Sageworks collects financial statements for private companies from accounting firms, banks and credit unions, and aggregates the data at an approximate rate of 1,000 statements a day. Net profit margin has been adjusted to exclude taxes and include owner compensation in excess of their marketrate

salaries. These adjustments are commonly made to private company financials in order to provide a more accurate picture of the companies' operational performance.

Another positive trend is that debtservice coverage and liquidity ratios for golf courses and country clubs, on average, have improved since 2011, indicating overall financial health has been stable, according to data from Sageworks.

And perhaps Tiger Woods' return to competitive golf after more than a threemonth absence will attract more nearterm interest in the game.

"Any controversy or notable figures can certainly spark interest in an industry," Weaver said. "But the fees and timeintensive nature of the sport may make any boost less dramatic than it might be for something like tennis. It's a lot easier for kids to get a tennis racquet and go play on a public court, whereas with golf, it's not necessarily that easy or affordable."

Sageworks, a financial information company, collects and analyzes data on the performance of privately held companies and provides accounting and audit solutions.

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https://www.forbes.com/sites/sageworks/2014/06/29/golf-courses-operating-with-weak-sales-negative-profit-margins/2/#6451a84f5e3f