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**The Color of Money**
*By David Gould*

**With funding tight for capital projects, course owners are seeking creative ways to paint their businesses in a new light**

Penn Terra Golf Club in Lewisburg, Ohio, has irrigation issues that require new investment, clubhouse maintenance that's overdue, and cart paths in need of repaving. Chris Hale, who has owned the 6,100-yard daily fee facility since 1985, studied his business prospects a couple of years ago and crafted a plan. But he didn't approach his banker for a loan or summon contractors to Penn Terra. Instead, he went out and bought a driving range down the road.



"It took about \$60,000 in cash to purchase the business assets of what was a failing range and then renovate the facilities," says Hale, who has a long-term lease on the acreage the range occupies. "That came out of my own pocket, and it's been money well spent."

In its first year of operation, Hale's attractive, new North Dayton Golf Academy and Driving Range successfully captured an audience. More than 1,000 lessons were given, at an average rate of just more than \$60, plus all the practice buckets, merchandise and range-plan membership the instruction activity generated. This was income Hale and teaching partner Gip Hoagland could not have produced at Penn Terra, in part because the par-70 course lacks a full-length range. What's more, a standalone learning center with all the techno features is a much bigger draw to game-improvement golfers than anything you could create at a rural course with \$17 weekend green fees.

As for the fix-ups and rebuilding needed at the Penn Terra—Hale isn't going there. "I'd love to say there's a schedule for knocking out various projects, but there isn't," he admits. "Our capital budget for the golf course is zero. We're trying to keep the doors open, and we don't spend dollars we don't have."

Money is tight, golfers are staying home, private clubs are going public, and commercial lending remains in a semi-dysfunctional state. For many daily fee course operators, the goal is to steer clear of lenders and avoid new debt. That's generally possible through patience and patchwork, but avoiding capital projects doesn't bode well as a permanent plan. Based on broad industry data and interviews with course operators, two predominant scenarios emerge: Course owners are either letting problems mount (suffering the reduced revenues and add-on costs that procrastination causes) or gliding on the momentum of large investments made in the previous 10 to 15 years.

According to National Golf Foundation data, approximately one-third of all public-access courses currently operating were built in the past two decades. Dating back to 1990, upwards of \$20 billion has been invested in new-course construction in the United States. Mistakes were made in the design of these facilities—courses too difficult, clubhouses too big—but the kitchen equipment and irrigation lines are still relatively young and useful. Considering the sophisticated state of course construction and design in that building-boom period, the "bones" of most newer facilities should be sturdy yet. The upshot is that many a daily fee or semi-private facility from the infamous "golf-course-a-day" era continues to get by with the infrastructure it has.

"A new golf course is like a new car," says Forrest Richardson, a course architect and renovation expert. "There's a point where it still looks very nice, but the odometer says it's time to replace some major components. That point is coming up pretty soon for a lot of courses."

Playing tagalong to the newer-vintage facilities are old-school operations like Randy Ballinger's central Indiana course, Walnut Creek, which his family first established in 1970. The second-generation owner spearheaded an

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expansion of Walnut Creek, from 18 holes to 36, in 1998—a move he “doesn’t regret”—but current business conditions are preventing Ballinger from “taking on improvement projects and the new debt that goes with it.”

The expansion and renovation of Walnut Creek, named the Course of the Year for 2011 by the Indiana Golf Course Owners Association, covered major elements of the facility, although not the original 18. Still, a project that large and that recent provides an apparent safe zone for Ballinger’s operation. Golfers see it as a modern, attractive place to patronize, as proven by the facility’s avoidance of heavy discounting. Yet on the operation’s balance sheet is a bank note that needs servicing and will for many years to come.

This debt-service responsibility guides Ballinger’s no-nonsense theory on project expenditures at Walnut Creek. “We wait until we’ve got the money to pay for it,” he says flatly.

That motto did allow for at least an attempt at a cost-saving investment. This year, Ballinger and his managers formed a plan to install a new tee box system that would have provided a labor-saving (and thus money-saving) improvement. Walnut Creek’s maintenance crew spends several hours a day on the simple act of moving tee blocks to alter setup of the holes but mainly to prevent excess turf damage. Ballinger tested, on two holes, a new system of color-coded, in-ground plates that would have eliminated the need for daily marker moving. “The results weren’t what we needed, in terms of evening out the turf wear,” he says, “so we didn’t go any further with it.”

Not surprisingly, there’s extensive industry data regarding how much money courses normally spend on renovations and improvements. The numbers are gathered by state and updated every few years.

In Wisconsin, for example, using data sets from 2006-2008, research firm SRI International (supplemented by Golf Course Superintendents Association of America numbers) generated dollar totals for capital investment at public golf courses throughout the Badger State. These came to an average of \$59,788 per course. Skipping that size outlay completely, or cutting way down on it, would suggest some type of reckoning in the future. However, the problem is not as bad if the lion’s share of all that investment was discretionary and designed to boost a course’s status rather than simply to keep it functioning efficiently.

Jerry Sager, senior managing director for the New Jersey-based finance company First National of America, says lenders are probably more receptive to applications that target necessary repairs and overhauls than to proposals for discretionary capital projects aimed at attracting new or higher revenues. “For a well-managed course with a solid operating history, sticking to a schedule of major maintenance projects is a good thing,” he says. “We do a fair amount of lending on that basis.”

Where First National of America shies away is on requests that come with higher revenue projections based on what the capital project will accomplish. “We probably won’t do a loan for the course owner who tells us he’s breaking even but expects a revenue and profit lift because he’s putting in a new grill or getting GPS on his carts or repainting the clubhouse and buying new carpet,” Sager says. “Our response to that is, ‘Tell us how.’ Most of the time the projections just aren’t convincing.”

The reason, according to Sager, is that his company’s database of public-golf operating statistics says the applicant’s market won’t respond in the manner predicted. “It’s similar to what happens when a Burger King or a chain motel makes improvements,” Sager explains. “When the job is done the customers you have may appreciate it, but there won’t be a lot more of them and the price they’re willing to pay won’t go up.”

Despite the scarcity of lenders and more scrutiny applied to those owners who do apply for a loan, Richardson still sees plenty of capital projects at golf courses, including jobs he’s personally shepherding. Even so, financing is a big part of many conversations, and facility types other than private-owner daily fees show clear advantages.

“I see a lot of member financing of projects,” says the designer, “as well as work paid for out of municipal reserve funds.” Indeed, the list of golf renovation projects on any of the industry databases is currently peppered with military courses, university-owned layouts and courses that are part of major resorts.

Commenting on the issue of whether improvements can get financing based on projected revenue increases resulting from the project, Richardson sees a little daylight for the course owner.

“If there’s a reasonable chance you’ll reach a new customer by making certain changes, it’s worth making the case because things are changing in the market,” he says. “For example, take a look at creating a short-loop layout of five or six holes, which some courses can do without spending much. That’s a separate product you can promote to adult beginners as individuals or groups.”

Another possible wrinkle is to find "orphan" property deep in your land parcel, where you can build a new hole and take an existing hole out of play for conversion to a high-tech practice and teaching facility or even a residential lot. One capital-improvement tactic that Richardson greatly encourages involves changing tee boxes or removing or replanting trees to increase safety and reduce liability.

"People don't realize that holes are designed so that players in a given location can see golfers on another fairway and either wait to hit or adjust their shot to steer clear," he says. "A good architect can come through and show you where a limited amount of work can upgrade safety to where you could legitimately ask for a lower premium on your liability policy." Being able to tell a lender that your safety and liability situation is improved could be a plus in those discussions, as well.

Whether a capital-improvement loan gets the green light depends primarily on your operating statement and balance sheet. One tricky question involves the line item of "goodwill" on the balance sheet's asset side. In formal negotiations, many lenders might dismiss your relationship with area golfers and the local community as a non-factor, but many in the industry feel that goodwill is a quiet boost to your pricing power and an intangible positive influence on local lenders. Golfers have been able to chase low-ball rates for several years now, but that pattern often yields a negative golf experience. As a result, there's a mutual loyalty factor at work for courses that seem to be in it for the long haul. Local lenders, when they aren't tied in knots by federal regulations, are able and at least somewhat willing to factor that in.

Building a golf operation that "establishes a positive relationship with the community" is just what Ray and David Beck are setting out to do at a Kent, Ohio, course called The Fairways at Twin Lakes. The father-son duo, longtime operators of the oil and gas production firm Beck Energy, purchased a gone-to-seed private, nine-hole course from its members and entered the public-golf business. Neither Beck is a golfer, but they know the property well from having built and operated a natural gas well on the grounds. Despite healthy royalty payments from this productive well, the club failed financially and shut down. Waiting patiently until the sellers were willing to take just \$618,000 for the deed, the Becks took over and began painstaking restoration of the 1923 course, with a healthy list of capital repairs and restoration from one end of the 100-acre property to the other. Rather than a bank loan, the parent company's cash reserves, along with equipment and crews, are the means to getting all this done.

If it weren't for the course's intriguing history—it's where Donald Ross protégé Sandy Alves began his obscure but fairly remarkable design career in the 1920s—the new owners would have had considerably less excitement. In their view, they've purchased a piece of history and are restoring it "like a 1957 Chevy," according to David Beck. The plan is to break even off golf revenues and generate profits from a planned function-and-banquet business in the to-be-restored clubhouse, with its commanding lake views. "Our business plan," Beck says, "is all about providing something valuable to the community on a site where local people have gathered and enjoyed themselves for 90 years."

Therein lies an irony. The bankers of the world may not openly acknowledge the goodwill value of a daily fee or semi-private golf club, but in the real world entrepreneurs do keep writing checks to take possession of it.

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