Is Anyone Making Money in Golf?

Robert McDonald
University of New Haven

The case outlines the declines the golf industry from manufacturing to retailing to the management of courses and clubs. Financial statements are presented for Callaway Golf, a manufacturer and for ClubCorp, a management firm owning and operating over 200 courses. A quick overview of the weakness in sports retailing is given. Finally, three course pros discuss their diagnosis of the industry, and what actions could bring golfers back to the course.

INTRODUCTION

Bob Tiederman looked out the glass door of the Golf Shop at Hunter Golf Course in Meriden, Connecticut at the senior citizens heading to the first hole of the course. "Boy, I don't know if anyone will be golfing in ten years or so when I plan to retire. These old geezers either will be gone or unable to golf even nine holes of golf in ten years. The problem is that no one is replacing the male boomer age golfers. Millennials, minorities, and women are not attracted to golf. How do we replace the boomer generation now playing golf?"

Ten miles away, his professional colleague at the Lyman Golf Course, Jason Beffert, briefly thought about his retirement twenty-five to thirty years in the future "I don't worry about finding and keeping a golf superintendent job in that time horizon. Golf may not grow much in that time, but it will be steady, and I will always have a job in the industry."

GOLF- A DECLINING INDUSTRY

The largest market in the world for the golf industry has been the United States. The US industry generated $75 billion in business, but golf has been in a downward trend since 2005. The number of courses and players increased almost yearly from 1990 to 2005. Upscale housing developments attached to 18-hole golf courses contributed to this growth. In most cases, the home owners were not avid golfers with only about 25% playing golf, but the well-designed courses attracted new players. Also in the late 1990s equipment manufacturers developed better clubs and balls that enabled most golfers to increase shot distance and lower scores, encouraging golf play. At this same time, Tiger Woods spurred interest in golf when he started to win tournaments.

However, now there has been a ten-year decline from the 2005 highs. In 2015, there were about 24 million golfers, down 20% from a high in 2005, even though the country's population has grown. Since 2005, the number of golf courses has continually declined from over sixteen thousand to approximately fourteen thousand five hundred in 2015.

For the fifth-year, participation in golf fell as measured by those individuals playing at least once in the season. Most troublesome to the industry was that participation rates among players under 35 years old fell the most – 13% between 2013 and 2009, while their participation rates for other sports rose 29%. The millennials had given up on golf – it was too slow, too time consuming, and too expensive. Their chosen sports were the more active sports of biking, jogging, triathlons, and kitesurfing. Golf was not attracting the millennials, minorities, and women. Women felt isolated on the golf course and not welcomed in the male dominated setting. Golf was viewed as a game played by well-off, predominantly baby boomers. Some industry executives were worried golf will follow the baby boomer generation into the grave. Golf had lost six million players over the past decade, and it was facing an additional loss of six million players over the next decade.

Golf was a difficult game to master and required individual instruction adding to the relatively high cost of equipment and course fees. Many players quit golf out of desperation in failing to improve season after season. While a beginner swimmer had a shallow end for learning and a skier had the bunny slopes, a beginning golfer could be quickly on the 18-hole course, as there were no preliminary or amateur settings.

Starting with the great recession in 2009, many middle-income golfers who lost their jobs could no longer afford to play gold and needed the time to find a job. The economic upturn in the past seven years had favored the wealthier citizens in the US and that had benefited their closed private clubs. Municipal courses and private courses open to the public did not see as strong a recovery after the Great Recession. The public or municipal courses suffered from the drop-in demand and ran at losses in this ten-year period. A 27-hole course in New Britain, Connecticut, with origins dating to 1920s, showed four years of losses for 2011 to 2014 with the average annual loss of $211,000. Likewise, the municipal course in Meriden, Connecticut showed operating losses of $276,000 over four years. No doubt many citizens who did not play golf saw better uses of public resources going to golf. Some citizens in those municipalities argued to sell the golf course and to put the resources to use for the schools, roads, or senior housing. It did not help with the image of the average golfer being a senior citizen, white male, living off a generous pension with large amount of free time to play 18 holes of golf in the afternoon.

Two problems frequently mentioned for golf's decline was the excessive time required to play 18 holes – possibly five hours – and the cost of instruction, clubs, and a round of golf. Golf experts offered two other problems that were not as frequently mentioned, but were just as important: comfort and competence on the golf course. Not only did golf have an extensive book of formal rules (200 pages) but it also had a number of etiquette rules that were not formally written down, but learned on the course. The competence in golf addressed the need to have individual expensive instruction and the need to go to the driving range frequently to improve oneself. Many initial golfers never got comfortable on the course, fearful of violating some etiquette rules or taking too much time to knock the ball wildly around the course.

While most of the news about golf had been negative and depressing, there were some recent positive data. Rounds of golf played in 2015 were up 1.8%, the first year of growth since 2012, and rounds played in 2016 up to June were up 3%. Thirty-seven million people had expressed an interest in golf and had an expectation of starting play some day.

One hope for golf was the addition of golf to the Olympics in 2016. Golf advocates hoped the coverage of the golf Olympics in Rio de Janeiro would encourage the younger generation in Latin and South America to take up the game. This would be the first time in 112 years that golf had been an Olympic sport. Unfortunately, as the Olympics were set to begin, several of the world's best golfers were skipping this Olympics due to fears from mosquito infection and loss of income from missed tournaments.

PUBLIC COMPANIES AND SELECT FINANCIAL DATA

ClubCorp was the largest owner/operator of private golf courses and country clubs in the US. It had over 205 clubs, serving more than 430,000 members with 29,000 acres in real estate holdings. Six months after its initial public offering (IPO) in September 2013, the stock shot up 30% to $18. In April 2014, a favorable Barron's article projected the stock to rise to $24 within a year. The stock did rise to $24 by July 2015, but then rolled over in a slow decline to $10 by February 2016. Since then the stock has traded in the mid-teens. The firm operated country clubs and business clubs for professionals to entertain clients. The company saw profitable opportunities in acquiring declining clubs and turning them around for a small and wealthy client base. See Exhibit 1 for key data from ClubCorp's financial statements.

EXHIBIT 1:
Selected Financial Data for ClubCorp (000s)

	2015	2014	2013
Statement of Operations			
Total revenues	$1,052,867	884,155	815,080
Club operating costs	681,989	568,171	527,787
Cost of food and beverages	96,103	81,165	74,607
Depreciation and amortization	103,944	80,792	72,073
Selling, g & a expenses	82,616	73,870	64,073
Operating income	59,810	65,985	61,193
Loss from continuing operations before taxes	(7,941)	(28,137)	(38,987)
Income tax (expense) benefit	(1,629)	41,469	(1,681)
Loss from continuing operations	(9,571)	13,332	(40,668)
Net income/(loss)	(9,573)	13,329	(40,680)
Cash Flow Statement			
Depreciation	101,037	79,394	69,211
Amortization	2,907	1,398	2,863
Net changes in receivables/notes	6,619	29,741	(26,925)
Cash flow from operating activities	152,270	129,158	93,693
Purchase of property, equipment	(105,244)	(72,647)	(59,541)
Acquisition of clubs	(58,582)	(20,255)	(15,620)
Dividends to owners	(33,583)	(30,765)	(35,000)
Initial public offering	--	--	173,250
Balance Sheet			
Current assets	252,192	203,665	176,503
Current liabilities	335,003	311,433	287,070
Property, plant, equip, net	534,520	1,474,763	1,234,903
Total assets	2,170,862	2,065,071	1,736,217
Total shareholders’ equity	178,782	220,859	227,173

Source: Company 10K reports to the SEC.

EXHIBIT 2:
Selected Financial Data for Callaway Golf (000s)

	2015	2014	2013
Statement of Operations			
Sales	$843,794	886,945	842,801
Cost of sales	486,161	529,019	528,043
Gross profit	357,633	357,926	314,758
Selling expenses	228,910	234,231	226,496
Gen & admin expenses	68,567	61,662	68,087
Research & development	33,213	31,285	30,937
Income/(loss) from operations	26,943	30,748	(10,762)
Income/(loss) before income taxes	20,063	21,639	(13,322)
Income tax provision	5,495	5,631	5,559
Net income/(loss)	14,568	16,008	(18,921)
Cash flow statement			
Depreciation & amortization	17,379	21,236	25,543
Accounts receivable	(11,591)	(23,314)	(6,690)
Net inventories	(5,347)	47,334	(60,966)
Net cash provided by operating activities	30,581	36,880	(8,949)
Capital expenditures	(14,369)	(10,753)	(13,038)
Dividends paid	(3,391)	(3,105)	(5,599)
Balance Sheet			
Current assets	391,487	384,033	421,603
Current liabilities	178,636	184,128	226,196
Property, plant, equip, net	55,808	58,093	71,341
Total assets	631,224	624,811	663,863
Convertible notes, long term	-	108,574	107,835
Total shareholders' equity	412,945	291,534	284,619

Source: Company 10K reports to the SEC.

MANUFACTURERS AND RETAILERS OF GOLF EQUIPMENT
Callaway was a manufacturer of golf equipment exclusively giving direct evidence of how the decline in the golf industry was hurting. (See Exhibit 2 for key data from Callaway's financial statements.) Callaway had achieved a small profit in the 2015 and 2014. These were the first profits since 2008, after especially large losses in 2011 through 2013.

In the summer of 2016, Nike, a manufacturer of foot ware, apparel, and equipment quit the manufacture of balls, clubs, and bags while remaining in the apparel and foot ware lines of golf. Golf had slipped to its tenth business segment below women's training and action sports (surfing and skateboarding). Nike reported sales of its major sports lines with golf slipping from $792 million in 2014 to $706 million in 2016. In 1996 it signed a young minority player with great promise named Tiger Woods. In 2001 Nike made him the highest paid golfer with a $100 million contract. Part of Nike's problems in golf can be traced to problems Tiger Woods has had both on and off the golf course, starting in 2009.

TaylorMade Golf, a manufacturer, was part of Adidas and has had poor performance like the rest of the industry. Its sales in 2015 were $985 million, larger than Nike. In 2014, its sales had plunged 28%, when Adidas admitted misjudging the decline of players, as well as building large inventories of slow selling product. Adidas has been trying to sell this division.

In 2016, Golfsmith, one of the largest golf retailers in the US, was considering bankruptcy.

Dick's was a sports retailer with golf as a small part of its sales. Dick's did not disclose the sales activity for various sports in the segment note disclosures. In July 2014, Dick's dismissed over four hundred golf professionals in their stores. These professionals gave golf lessons and were knowledgeable salesmen attending to the needs of the golf shopper. Dick's planned to take store space away from golf and use it to expand women's and youth apparel.

Dick's acquired golf specialty retailer Golf Galaxy in 2007, but by 2014 Dick's was re-evaluating its strategy with Galaxy and considering shutting down some outlets. From fiscal 2013 through fiscal 2015, Dick's closed 8% of the Golf Galaxy stores, while suffering a 22% decrease in golf sales.

Sports Authority, once the largest retailer in the sports industry, liquidated its assets in 2016. The firm had struggled under large interest expenses after a leveraged buyout in 2010. The problems with golf only worsened the problems Sports Authority was already experiencing.

CHANGES IN GOLF TO ATTRACT NEW GOLFERS

Some of the suggested changes in golf included TopGolf, Footgolf, 15 inch cups, and easing of the course rules. TopGolf was an arcade like game where the player hits an electronic golf ball toward large holes in the outfield before them. Some of the facilities looked like driving ranges with comfortable booths in the foreground. It could be played in the daytime or in the evening. Frequently the setting was a "date night" with fast food and a large choice of alcoholic beverages. The scores were kept electronically through sensors in the ball and in the course holes. The hope in the golf industry was for participants to move up to real golf after having fun on the TopGolf course, however the transition had not shown up yet because of the stark differences between the two games, with TopGolf's faster action, available food, and alcohol, fewer rules, and shorter game duration.

Footgolf was a combination of football (soccer) and golf. Individual players or teams tried to kick a soccer ball into a 21-inch cup in as few kicks as possible. Frequently Footgolf was played on a real golf course, most likely a course that had been struggling under real golf. The distances were shorter than in real golf with FootGolf holes averaging 150 yards – at least two Footgolf holes for every one golf hole. The game was a recent development somewhat paralleling real golf's period of decline. Its origins were in Europe first, then South America. By October 2014, it was played at over 240 courses in the United States, enabling those struggling courses to survive. It was hoped that Footgolf's popularity will spread to real golf.

Course managers estimated that one third of the time playing a round of golf was spent on the green trying to get the ball in the cup. To speed up this part of the game, some courses had adopted a 15-inch cup compared to the 4 1/4-inch regulation cup. Players who attempted play on a golf course with 15-inch cups were pleasantly surprised how much fun the game was and how much faster a round of golf could be.

Golfers took pride in the sport's three-hundred-and-fifty-year history and its evolution of the rules and etiquette. On some formal courses, the pro shop has a large board with the course rules. Rules typically included:

- Collared shirts must be worn
- No jeans or denim
- Hats on the course must have brim facing forward
- Shorts cannot be more than five inches above the knee
- No alcoholic beverages on the course.

No doubt these rules irritated the millennial generation, and could be one reason that age group had not followed the sport.

"Gimme" and "mulligan" rules were unofficial rules allowed by casual golfers to speed up the game and to lower scores. The "gimme" occurred when a player would have a putt of two feet or less. The other players agreed that the putter did not have to try the shot, but was given the benefit of the doubt in the shot. A "mulligan" was a "do over shot", especially when taking the first shot on a hole off the tee. The player was given another shot without any penalty. Again, if golf allowed these rules more frequently, it might speed up the game, lower scores, and attract the missing millennials and women.

GOLF COURSE PROFESSIONAL MANAGERS

Robert Tiedemann was Golf Pro for Hunter Golf Course, Meriden, Connecticut. The course was a municipal course owned and operated by the City of Meriden. He stated, "The ultimate solution to golf's decline is for many golf courses to just close down. It is as simple as that. It is very competitive out there. Daily rates are low and I try to grab an occasional tournament or a league for added revenue. All the complaints against golf are legitimate – the game takes too long, it is expensive, and it takes an effort to master the fundamentals.

"The city of Meriden has been pretty good to us. A new $2 million irrigation system was bonded a few years ago, and I hope to get funds to clear out the rough and trim back some trees. A reduced rough along with trimmed trees should speed up the game, and cause golfers to lose fewer balls.

"This beautiful 18-hole golf course is an acknowledged asset for the city. The city is challenged to invest in this golf course with pressing demands in school construction, road and water system maintenance, welfare, and elderly needs. But why shouldn't the city put some money into the golf course even though the golfers are predominantly older, white males? The city invests in baseball diamonds, basketball courts, swimming pools, running tracks, soccer fields, and walking trails for recreation. When the golf course is closed in the winter months, citizens come out to walk the course, and kids ride their sleds on the hills. Towns and cities are trying to keep some open spaces, even to the point of purchasing farms and leaving them idle. This course is one hundred and ten acres of open space.

"I don't see the suggested changes doing much for golf. This includes 15 inch cups, TopGolf, FootGolf, or changing the rules for mulligans or gimmes. They change the basic golf too much, and the dedicated golfers might leave the game while the changes would not attract that many new golfers. I can see an occasional tournament or corporate event with 15 inch cups, but not every day in the game. One change I can see is Lyman Orchards' investment in the par 3 nine-hole course. It is still basically golf, it is fun, doable, and can be finished in a little over one hour. I also agree with making the course all fairway. I am trying in our way to reduce the rough and overhanging trees."

Jason Beffert was the Course Superintendent for Lyman Orchards Golf Courses, Middlefield, Connecticut. The course was a private course open to the public, and owned and operated by Lyman Orchards. Lyman Orchards included a producing farm, two championship golf courses, a par 3 nine-hole course and a comprehensive learning center for teaching golf. The property and business had been in the Lyman family for 275 years, with the ninth-generation family member managing the business. The family expanded into golf from the farming business in 1969 with a Robert Trent Jones designed course and added a Gary Player designed course in 1995. In 2012, the family, going against the obvious decline in the golf industry, invested millions in its golf business with the par 3 nine-hole course, a 2,000-square foot learning center building, and several acres for a practice area for putting, chipping and pitching.

Beffert reported, "There is a strong underlying interest in golf. It is true it is mainly the male boomer-age golfer, but they are the steady foundation of golf. Women and millennials are not attracted to the game. Many people have expressed an interest in learning golf, but somehow, they lose interest after the initial attempts at golf. I don't think golf is going away and it will not grow anything like the late 1990s, but there will be an underlying solid level of players for decades.

"The Lyman family made an investment in the future of golf with the par 3 course, the Golf Center, and a series of introductory golf lessons. We thought originally the junior age group would be the focus, but we have found a growing market in women golfers. We have close to 400 women in various levels of golf instruction and a little less than 200 juniors in classes. We plan to instruct the women and juniors, have them play the par 3 course, increase their skills and interest in golf, and then move them to the two championship level courses up the road. So far, we are four years into this effort and the results are encouraging but not over whelming yet. We hope this planned transition from par 3 to the major courses will grow. Meanwhile the family continues to invest in the two major courses.

"I don't see much hope in the glitzy proposals to increase interest in golf, like 15 inch cups, TopGolf, or FootGolf. For the two beautiful courses we have, I could not charge enough in FootGolf for kids to kick a soccer ball around the courses. The other proposals are too dramatic for the game of golf. I do see benefits in making the whole course fairway and eliminating the rough and trimming trees. The game would be faster, and there would be fewer lost balls."

Steve Birkmeyer was Course Pro for Wallingford Golf Club in Wallingford, Connecticut. The course was a private course, not open to the public, and owned and funded by the membership of the Club. Birkmeyer stated, "I don't think golf is going back to the glory days of 1990-2005, but the game is not going to disappear either. It will resemble the game thirty years ago, with municipal, private, and public courses each following a different business model, with no one especially prospering. Private club members will pay $5,000 per year for a membership or more than double what a golfer would spend at a municipal course, maybe $1,500-2,000. But at our course there are no tee times, just show up and start playing right away. There are not as many golfers on the course so 18 holes can be finished in under four hours versus at least five hours at a public course. We see the millennials graduating college at 22 years old and putting off marriage until 30, during which time they start their careers and are moving up the income scale. This is one group we are targeting for membership. We are also encouraging father son golfing activities. There is a strong tradition in the private clubs for fathers introducing their sons to golf, and then continuing to play together for decades.

“A few of our members entertain business prospects on the course and in the dining room, but it is a myth that much business is accomplished on the golf course. The tax code revisions in the past 30 years eliminated club membership as a deduction, as well as other club costs.

“Forty years ago, a club like ours would have a wait list with people willing to pay extra to move up on the list. We do not have a wait list now, and it is very competitive to attract members as it is competitive for the public courses to attract daily players, tournaments, leagues, and corporate activities.

“I don’t agree with the proposals to attract millennials and women to golf. Fifteen inch cups, TopGolf, FootGolf are too drastic a change to the underlying game and will not work. I do think Lyman Orchard will make money on its par 3 course- that was a good move.”