

# Back of the Cup

*A newsletter concerning the business of golf...*

*Re-launch Edition*

*January 2009*

*Produced by Jeff Blunden Advisory Services*

## *Introduction*

Welcome to the re-launch edition of the *Back of the Cup* newsletter (*BOTC*), produced by Jeff Blunden Advisory Services (JBAS). The *BOTC* will be a bi-monthly offering to the market, providing commentary on the key issues being faced by the golf industry and advice on how they can be best addressed. It is the objective of JBAS to keep you up to date with what is happening in the industry and what is being reported and talked about both locally and internationally. Additionally JBAS aims to provide insights into other industries and provide parallels to the golfing industry where possible. Given that we are ultimately all consumers, interpretation of other key consumer data or research will also be provided as it relates with the golf consumer world.

Some recent research from the USA is used as the basis for the article in this edition, investigating just how "recession proof" our industry might be. The research is sourced from one of the USA's most respected golf advisors, and encouragingly it suggests that while golf is not recession proof, it may in fact be "recession resistant." The key findings are outlined then interpreted and tested for relevance in our market after they have crossed the Pacific. We may have more in common than first thought.

Interestingly some recent research conducted by the USA's National Golf Foundation (NGF) on the same topic found that total golf spending is being cut back, not in direct participation costs but in retail spending and golf related travel. I'd be interested to hear from anyone in this sector if this reality is already playing out in their market. We attempt to quantify this later but given golf is a discretionary spend, one would have to think it will be a reality here too.

Taking our interpretation process one step further, and as a reminder to everyone of the commitment of JBAS to the

continued provision of relevant *Australian* research, JBAS would like to seek your opinions on the current climate to the industry via 2 short on-line surveys. The goal is to end up with the views of both the operators/managers and the golf consumers, providing some guidance as to the size of the challenges we face and the possible impact of the current climate on the industry. The results will be tabulated and will be the key topic of the next edition of the *BOTC*.

The article concludes with some suggestions as to how the industry should be readying themselves now for the likely participation and retention challenges in 2009. The suggestions made look to both repeat visitation and customer/member retention which right now should be everyone's, including the industry administrators, absolute key focus.

A key feature of the next edition of *BOTC* will be an article on the recently released ASC 2007 participation numbers, which have reset the current participation baseline. Whilst a slightly drier topic, a timely review of these numbers has always been completed for inclusion in past issues of *BOTC* so it would be remiss of JBAS not to do this as 2007 numbers have recently become available. With a desire however to get this edition out to market in early January, and the fact that the article in this edition is reasonably lengthy, it has been held off until the next edition.

As a heads up however, given our detailed review of past numbers, and with increasing familiarity with the methodology used, there are some developing concern about the annual accuracy of the ASC estimates. A total loss of over 20% in 2007 vs 2006 (100,000 male golfers in NSW alone and only 400 females) simply does not make any sense, the impact of which would have certainly been felt by now across all areas of the industry.

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## Introduction (cont)...

The wholesale movement of golf balls in 2007, a general proxy for demand levels, also doesn't indicate that such a large fall occurred. It is therefore suggested that in order to smooth the major annual ASC survey variations reported, an alternative and maybe more appropriate analysis would be to look at the rolling average of the annual numbers estimated. This would be a more reliable measure of how many people play the game on an annual basis. If the 2007 numbers reported are in fact true and do accurately reflect current playing numbers then there are certainly some wild and potentially fatal rides ahead for many in the coming year. More on this in the next *BOTC* issue.

In order to get this issue to the market as timely as possible, website development is on the side burner and will hopefully be complete by the end of January. The site [www.jbadvisory.com.au](http://www.jbadvisory.com.au) should be bookmarked as it will contain copies of all past publicly available reports authored by myself as well as all previous editions (now digitally remastered) of the *BOTC*.

They date back to 2004 and include topics such as:

- the science of budgeting and key financial indicators;
- the golf member demographic;
- the residential led supply risk;
- club board continuity needs;
- transferable memberships;
- the importance of master planning;
- the speed of play challenge;
- reciprocal rights;
- membership attrition;
- a 10 point checklist for club sustainability; and
- the importance of member communication and retention.

All good reading and still very relevant given the current environment.

Also to be found on the website will be an updated supply register, tracking new developments around the country. The JBAS database is currently tracking around 40 developments in various stages of dreams, planning or construction. Given the current environment some are likely to fall off totally or be slowed down significantly by year end.

It is our intention to continue to take survey grabs of industry sentiment on a number of relevant topics with the results (and their implications) feeding into future *BOTC* articles. As already outlined, the survey in this edition seeks your view of the current environment and potential industry implications. We hope that as keen industry participants that you will provide your views both this time around and in the future as well, with a promise that they will be reciprocated.

Finally if you have a topic that you would like to be explored or a view that you would like to discuss regarding this *BOTC* or any other issue then I would welcome an email or a phone call. If you know someone who hasn't received this and would want to directly receive future editions please pass on an email address and they will be added to the mailing list. Conversely if you don't want to automatically receive future editions please let us know and you'll be taken off the mailing list.

It is hoped that you enjoy this re-launch edition of the *Back of the Cup*. Apologies for this long introduction but there was a lot to cover. Future editions will get right to the key issues of the day. JBAS is now officially open for business and we wish you all the best for 2009.

Regards,

*Jeff Blunden*

**Director**  
**Jeff Blunden Advisory Services**

## How Recession Proof is the Australian Golf Industry?

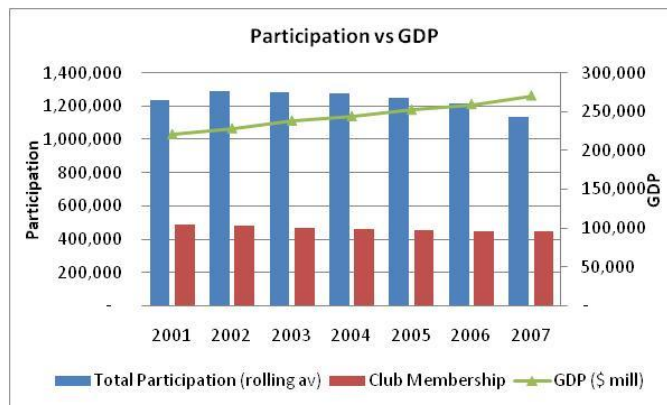
Given the state of the current economic climate, the answer to this question will define the year ahead for the industry. Right now however I suspect that given we are in very uncertain times, no-one really knows what to expect and many are likely silently hoping that the storm just happens to miss them. This article is therefore going to go a little deeper and look past the "hope" strategy, reference some existing research on the topic, and conclude with some guidance as to the potential resistance level of the industry and your own micro situation.

The basis for the first part of this article is some research from the respected US golf industry advisory firm Pellucid Corp. First published in 2005, the research piece is evidence of how long the US market has been faced with not only a difficult trading environment – oversupply, flat rounds, price pressure – but also a slowing economy.

The last time Australia was in a technical economic recession (by definition two or more back to back quarters of negative GDP growth) was in 1992. Interestingly in that year membership numbers at golf clubs grew by 1.9% (male 2.9% and female -1.1%), giving some credence to the theory that some people actually play more golf in challenging times. We are going to attempt to quantify this theory via the survey at the end of this article but maybe this gives us an appropriate marketing slogan for 2009 – "Get into Golf, the great escape."

How times, and society, have changed. In 1992 the industry was coming off 2% annual growth over the previous ten year period, one G Norman was ranked in the world's top 5 and Ian Baker Finch and Wayne Grady were winning their first and only majors. It could now well be argued that recession we are actually in is a golf one, not an economic one, as club membership numbers in Australia have fallen by 8% over the past six years. Total estimated rolling 5 year average participation numbers are holding up at around 1.15 million golfers per year but regardless of the measure we use, the worrying point to be made here is that this "golf recession" has actually occurred at a time when the economy was at full strength and going the other way. Wider economic prosperity (up until mid 2008), had never been as strong (reflected as GDP growth

and the personal financial health of many has also been improving year by year, as the following graph clearly illustrates.



Source: RBA, ASC, Golf Australia, JBAS

With the industry still facing many of its own internal challenges, one thing that is certain is that it is no longer operating in a strong economic environment. Granted, the word "recession" is a technical one and although it appears that we won't actually enter one by definition, it is the best/shortest way to describe the current economic environment - in 2008 a 43% fall was recorded in the ASX All Ordinary Index, the largest ever annual losses were recorded by superannuation funds since employer contributions become compulsory in 1992, the unemployment rate started ticking upward again, 6 years of interest rate rises were reversed in only 4 months and numerous other government incentives were handed out in order to stimulate the economy. Certainly not a pretty picture.

The reality is that the industry is now about to be really tested and its resilience to this economy environment fully questioned.

The obvious question to be therefore asked then is how might the golf consumer react and what can/should the industry expect in 2009?

### Over in Obama land...

Using the research from the USA to give us some initial guidance on this question, some interesting findings were presented. The research questioned a number of golfers asking would their participation in golf decline as their own economic circumstances deteriorated, and

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used changes in frequency and the quality of courses played as the key measures for golfer reaction.

One ray of hope is that the research found that 50% of golfers said there would be no impact at all on their golf participation habits. (Whilst it is not known what type of frequency these golfers had or how involved they were, my guess is they were more likely to be of the highly committed variety where golf is a key part of their life and sacrifices would be made in all other areas before golf.)

Given I am a glass half full kind of guy, this could actually be the end of the article as we also have a high portion of highly committed golfers (50% play at least 26 times per year) but the key information to be examined however is what the other 50% said.

In summary it was found that:

- Playing frequency is more likely to change than course quality;
- Value (being price and experience) trumps absolute lower price;
- The challenge for most operators is to maintain frequency rather than stopping downgrades to cheaper golf;
- Developing reasons for continued play and nurturing relationships are key requirements; and
- A clear understanding of the price/value equation being offered is a must.

All in all the US research suggests that the term "recession resistant" may be more apt for them but that there should still be considerable cause for concern in such uncertain times. If you take your eye off the ball in these times and expect business to be as normal, then you'll likely get hammered.

### **The Australian translation....**

So what might all of this mean on our side of the Pacific? There are five points to be made, focusing on course mix, price, frequency, payment cycle and value.

The first point is the mix of courses evident in the markets being compared. You might first think that the golf in the US is mainly of the public variety and that we are mainly of the club based variety. Therefore you'd naturally think that the key price decision made here is

the one off annual fee decision, (get through the pain of paying it and enjoy free golf for the rest of the year) not a recurring green fee decision and as such the Australian industry is therefore less exposed than to the daily vagaries of discretionary spend. Unfortunately this isn't the case. The facts are that approximately 28% of the US facilities are classified as private, and represent only 9% of all US golfers. This indicates that over 70% of facilities and 90% of all US golfers are exposed to/make regular value decisions. Their recession concern is therefore justifiably real.

In Australia 70% of our courses are classified as either fully private or semi private. At first glance one might think that we therefore do have a far smaller market that is exposed to daily discretionary spending decisions and that we are therefore somewhat immune. Dig a bit deeper however and that conclusion changes.

The most recent research available indicates that at our semi private courses (95% of the 70%) about 25% of rounds are actually non-member sourced, moving up to one third of rounds as green fees exceed \$60. The maths therefore suggests that a fair chunk of our market is exposed to the daily decision of the golfer, regardless of the type of facility. On this point we are therefore more like the Americans than we possibly first thought and based on course mix we are exposed to daily discretionary spending decisions.

The second point is price. In some of our markets there is simply not the depth of price choice available. In regional areas, where 80% of our courses are located, there is simply *the* golf course. No down grade in price is possible, except I guess if you choose to play only 9 holes. (I am told that GA's 9-hole golf program has had pockets of success but hasn't been as widely successful as they thought it might have been thus far. Maybe 2009 will be the year that it gets going?)

Some markets like Greater Melbourne for example, which has significant price choice and a wide selection of good value courses, are very exposed to the straight price consideration. Thankfully though if the US research does fully translate price isn't going to be the only battle that needs to be waged and frequency will also be equally as important.

The price consideration is even more vital in a year when, by my reckoning, most facilities will actually have to increase their prices. With CPI running at near 5%

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and significant cost increases incurred throughout the year in raw course and operating inputs, unless one is prepared to reduce profit expectations, actually plan to lose money or find further costs that can be reduced (warning – cutting course maintenance costs is a downward spiral that is very difficult to reverse and re-investment will be necessary before retail value can be increased), then how can price increases across the board not have to happen?

Is such a move risky? For some who have limited or not well established relationships with their customer base, then yes it is, but it is for this very reason why you are probably already feeling a bit nervous about the current climate in the first place. There is no comfort to be gained from making a loss however (particularly if you can't afford it) whilst also having limited relationships. It is never too late to start developing relationships but for those with strong relationships already in place they should have less of a challenge proving up the continued value proposition that they are offering.

The third point to be made, an extension of price, is that of the payment cycle. For a long time I have been talking about the importance of payment flexibility, that is options for the consumer. If you haven't already done so then you need to start immediately publicly promoting what options you have available. I know of one club that does offer quarterly payments but only if asked and then adds on an administration fee for the privilege! To me, particularly in this current environment, this is far too great of a risk to take as this is a time when retention strategies have never been more important. Payment flexibility is one of these strategies. Please make sure you don't lose a customer because your options are too inflexible.

The fourth point is frequency. The present reality within the golf industry is that current participation numbers confirm that frequency of play is going to be the most important variable to watch in the coming years. As total participation numbers have slightly slipped in recent years frequency of play needs to hold up otherwise double the pain will be felt. For public facilities this means doing all you can to encourage repeat visitation, and endear greater loyalty. Repeat visitation has always been important, now it is absolutely necessary. On the club side, frequency of play will largely define value and with the wider

economy in mind (and likely necessary price increases), this cannot be ignored.

For those who rely on a decent level of public play you'd better have some frequency programs in place and established relationships with your customer base. If you don't then make that your first job tomorrow because you will certainly need them. They must focus on on-going frequency being rewarded with value. I'd call it a loyalty benefit.

For those with less public reliance you still have some tasks to do as well. Target those with diminishing frequency and do all you can to improve the value proposition you are making, ensuring you don't lose anyone through lack of effort.

If you choose not to be pro-active in any way then don't be surprised when your numbers do fall. You may not be able to control the when, but some pro-active planning you will likely help you be able to control the size of the number.

Finally, it should be no surprise that the overall price/value equation must be the key focus, this being the result of the interaction of price and frequency. It must be understood as it is relevant in everything we buy and golf is no exception.

### **So just how recession proof are we?**

Based on what needs to be focused on and as evidenced in the findings of the US research, the preliminary conclusion is that some are likely more prepared than others and will win the battle ahead. The "others" however, depending on their level of acceptance of reality and preparedness to take immediate action, could be very exposed in the coming 12 months and the road ahead could be very rocky.

So just what should you be doing to ready yourself for the likely participation and retention challenges that 2009 will bring? Some ideas for consideration:

- Immediately accept the importance of both repeat visitation numbers and your member retention. Actively focus on this from now on. To do this you need to be working the relationships, collecting data, and most importantly communicating otherwise it will be out of (your) sight, out of (their) mind.

- Flexible payments options are an absolute must. Not just monthly, quarterly etc, but other combinations as well. For some a lower annual fee paired with a higher fee per round played may be an option, an early payment rebate could be another.
- Consider some new participation options. This might be a product for different periods of play – twilight, PM only, annual playing pass etc. Make sure golf can fit the time/funds available.
- Communicate with your guests/public golfers. Use the registration sheet to collect info/business cards and follow up with them. Ask about their experience, make them a good offer to return within a set period.
- Seek to understand future potential behaviour. Just like JBAS is doing with this article and the survey on the next page, you too should be surveying your customers.

These are just some simple preliminary ideas to stimulate thought. In this current climate doing nothing different is simply not an option.

But let's not stop there. Let's actually go a bit further and try and get a more definitive picture, a more complete answer and then develop an action plan...

### **Golf needs YOU! (and your opinions)**

In order to more thoroughly answer the question it is necessary to first understand the possible magnitude of the impact the industry might feel. Following this a focused defence/strategy can be prepared, not just a general one.

With near 10% of clubs having a 31 March year-end financial year and a further 25% having a 30 June year end, some industry guidance will naturally flow from the results reported but in my view this will be too late to mount the pro-active horse. With a view to mounting this horse now, it is the goal of JBAS to be able to provide a considered opinion/advice before these results materialise, enabling the time available now to prepare a focused strategy.

The following links therefore take you to two short on-line surveys (9 & 6 questions each, 1 min max to complete). As Facility Operators/Managers you have received a link to the Facility Survey, seeking your

views on likely rounds demand, membership and pricing decisions at your facility in 2009. This survey is being completed by facility operators only. As a facility operator I have however also assumed that you are also a golf consumer and as such have your own personal golf decisions to also make in 2009. You have therefore received the link to the Golf Consumer survey (the only survey link sent to the rest of the mailing list) that seeks the golfer's view of their likely participation habits in 2009.

[Click here to access the Golf Facility Survey](#)

[Click here to access the Golf Consumer Survey](#)

The link to the consumer survey has also been independently sent to a random sample of the *Ausgolf* golfer database, ensuring that we do receive the views of "Joe Public" not just those of people close to the industry (and likely highly committed golf consumers.) If you feel other friends or colleagues would also be interested in participating please pass on this newsletter/survey link. The more responses the better.

As stated, the goal is to end up with the views of both the operators and the consumers and then provide some guidance as to the size of the challenge we face and the possible impact of the current climate to the industry as well as some advance guidance on how to best prepare. I thank you in advance for responding and look forward to providing you with the results and subsequent analysis on this very important topic in the next edition of the BOTC in March.

For more information about how JBAS can help make your business "recession resistant" and best prepare for 2009 and beyond, or to discuss any other need you may have, please contact Jeff Blunden on 02 9418 7729 or email [jeff@jbadvisory.com.au](mailto:jeff@jbadvisory.com.au).

### *Committed Travel*

There is already some committed travel by JBAS to Melbourne organised for the back half of the week of January 12<sup>th</sup> and the week of the Australian Women's Open beginning February 9<sup>th</sup>. Please make contact if either of those times suit to meet with JBAS to discuss any requirements you may have. For those in the South East Queensland market, regular travel to Brisbane/Gold Coast is also currently occurring should that general location be more convenient.

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## About Jeff Blunden Advisory Services (JBAS)

JBAS is an independent advisory company offering dedicated, professional advice to the golf and leisure industries. Over the past seven years Jeff Blunden, the Principal of JBAS, has provided specialised advisory services to over 60 different clients in the Australasian region.

Invaluable assistance has been provided in most aspects of the golf industry, including club operations, new developments, project and membership structuring, strategic planning and market and consumer research.

As the author of most of the major reports produced for the industry, the resultant knowledge held by the company is significant and with an on-going commitment to research, the beneficiary of this knowledge will be the clients of JBAS.



Jeff Blunden, Director of JBAS

Specialist services offered by JBAS include:

- Operational analysis and financial reviews
- Asset oversight services
- Business strategic planning
- Competitive market reviews
- Board presentations
- Equipment brand/market share studies
- Member survey studies
- Consumer research projects
- Pro shop/retail operations reviews
- New development feasibility studies
- Asset due diligence
- Clubhouse development and spatial needs studies

If you have a need in the golf industry JBAS 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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