Golf Course Maintenance Costs:

Surging Or Stable?

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In recent years, it has been increasingly rumored that a trend of real, rampant increases in the costs of maintaining golf courses has developed in the United States. This invalid conclusion has been based upon misleading perceptions and fueled by incomplete analyses of golf industry surveys. It has gained further apparent support from generalizations and other comments by some industry analysts — at least one of whom has suggested that golf course maintenance costs have more than *tripled* during the last 20 years.

An attitude is developing that golf course maintenance costs are to blame for many of the woes of the game, and that those costs therefore pose a threat to the future growth and affordability of golf.

The Truth Of The Matter

Are golf course maintenance costs running rampant in real terms? Are golf course superintendents the spendthrift culprits responsible for the purported increase in costs? Has the turfgrass/golf industry not met the economic resource challenges affecting golf? Is the golf course maintenance department to blame for the financial difficulties many golf clubs find themselves in? Is this area of financial management a weakness for the game of golf?

Well, contrary to the opinion of some, the answer to every preceding question is an emphatic *NO*. In REAL terms, golf course maintenance costs have *NOT been running rampant and, in fact, HAVE CLEARLY NOT* tripled over the past 20 years.

Golf course superintendents have steadfastly improved the effective management of their finances and costs over the past two decades. Our industry has, through ongoing research and development, substantially increased productivity and improved efficiency in the face of substantially increasing demands.

The golf course maintenance departments in clubs have contributed to improving the financial positions of clubs.

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Costs — The Story In A Nutshell

The accompanying story provides a reasonably comprehensive case for concluding that golf course maintenance costs have in fact been held at a fundamentally *stable* level for the past two decades. The following points — made directly and more subtly within the story — are highlights supporting that favorable conclusion:

- When dollar figures contained in available major research studies are recast in terms of *inflation-adjusted* dollars, it can be demonstrated that any *real* increases in overall golf course maintenance costs have been extremely modest indeed — on the order of, perhaps, three percent cumulatively since 1963.
- While *unit prices* of essential maintenance resources — energy, equipment, materials, supplies, labor and so forth — have undeniably increased at a relatively higher rate, modern management controls, techniques and innovations have been applied to compensate for those price increases, offset their potential effects on overall costs, and otherwise diminish their actual impact.
- Golf course managers' demonstrable success in cost containment has resulted from increased professional sophistication, education and expertise — in turn made possible by the vital support of numerous, significant advances within associations and other professional groups, universities and industry itself.

The true "bottom line" for the entire favorable case is at once straightforward and emminently supportable: Increases in overall *productivity* — achieved through vigorous professional commitments among and between superintendents themselves, their professional organizations, universities and industry — have held at bay the very real threat posed by inflation over the past two decades.

That fact should be a source of professional pride for all who've helped make it so.

And based upon our track record since the early '60s, the continued control over golf course maintenance costs will remain one of the greatest strengths of country club/golf operations and the game of golf.

An Essential Distinction: "Real" V. "Nominal"

In order to provide proof of the preceding positive statements, it is first necessary to clearly distinguish between the financial terms "real" and "nominal."

We can draw an analogy to the meaning of the two terms by considering the old saying, "You can't judge a book by its cover." The term *nominal* would apply to a book's cover and the term *real* to its contents.

Very often, the cover of a book gives you a *nominally* reliable analysis of what is contained in the book. However, as we all know, too often a cover can be misleading — not truly representing the *real* picture painted by the contents of a book. If divergence exists between the nominal part and the real part, a true picture can only be reliably determined by reading the actual contents of the book. This is the reason why the nominal part of a book — the cover — is wisely colloquialized as an unreliable indicator upon which to render judgment.

As with books, similar considerations arise with the economics of finance and the value of the dollar. Economists define two types of dollars — "Real Dollars" and "Nominal Dollars" — in order to account for the divergence between the purchasing power of this monetary unit as it was, as it is, and as it will be.

And yes, you guessed it, you can't judge the true purchasing value of the dollar from one year to another by judging its face — or nominal — value. *Real Dollars* are adjusted for inflation and represent purchasing power, while *Nominal Dollars* are representative of face value only.

Why The Distinction Matters

Increases in the general price levels of all goods and services have been significant over the past two decades. In the 1960s, price levels measured by the Consumer Price Index (CPI) increased on an average of only 2.8 percent per year. During the 1970s, price levels increased well over 6 percent per annum. What resulted was a substantial divergence between the nominal dollar and the real dollar. We commonly called this "inflation."

During the 10-year period from 1972 to 1982, the CPI showed that consumer prices increased by nearly 105 percent. During this same period it has been reported that golf course maintenance costs increased by approximately 108 percent. So the only real increase in maintenance costs ranged between a total of 3-4 percent over this same 10-year period.

Imagine how this has affected the ability of many in our industry to make straightforward, *meaningful* year-to-year comparisons of nominal financial statistics on clubs and golf courses. Unfortunately, nearly every financial comparison published in our industry *has* been presented in terms of *nominal dollars* — resulting in a difficult to interpret, distorted and 'unreal' picture.

Because of inflation, making comparisons from year to year in nominal dollars results in comparing "apples to oranges" — or one year's nominal dollar to another year's nominal dollar — and this divergence grows as the number of years compared increases.

Maintenance costs on golf courses — costs that are similar to the costs of producing any manufactured product — are actually the ongoing "production costs" of golf courses. Before assuming that any real increases in the production costs of golf courses have occurred, and in order to develop a more clear picture of industry trends, it is necessary to convert all applicable dollar figures from the given nominal dollars to the more accurate real dollars. This conversion is accomplished by factoring each nominal dollar figure by a yearly variable adjustment for inflation — for example, factoring in CPI — to derive a real dollar.

Traditionally, this adjustment factor is based upon the 1967 dollar, which is often referred to as the "absolute dollar," but may be factored into any year desired. By deinflating all post-1967 dollar figures, we are able to compare "apples to apples" in analyzing industry trends.

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For example, based upon the 1967 dollar value, in 1963 a consumer could buy the same amount of goods and services for $.92 that required $1.00 in 1967 and $2.95 in 1983. By picking up our high-technology hand calculators — which weren't even dreamed about in 1963 — and dividing the $2.95 figure by the $.92 figure, we find that the 1983 dollar has inflated by 3.22 times, or nearly 322 percent since 1963.

This means, in reality, that a 1963 dollar would be worth $3.22 today. In *nominal* terms, for country clubs and golf courses to be spending the same amount of purchasing power they spent in 1963 would require that golf course maintenance "costs" *must* have more than tripled during the last 20 years. However, *real* terms are a better measurement of the efficacy of our maintenance cost controls over the past two decades.

Real Maintenance Costs: No Increase Since 1963

From an understanding of real versus nominal, it can be interpreted that the real costs of golf course maintenance have been substantially less than what are represented by the nominal costs. In real dollars, costs of golf course maintenance have not increased at all significantly since 1963. This can be derived from nominal financial statistics on country club golf operations available from such sources as the annual report by Panel, Kerr & Forster entitled *Clubs In Town And Country*.

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And, if that stability can be demonstrated for country clubs — which in far too many cases are non-profit organizations operating on a luxury, social/committee structure rather than a pragmatic, business basis — then it can safely be assumed that bottom-line, profit-oriented golf operations such as resorts, daily-fee operations and more businesslike country clubs have applied even better cost control in the area of golf course maintenance.

Combining the generally liberal spending levels of country clubs with the more conservative spending levels of profit-making golf operations can only result in showing *the net effect of no real, overall industry increases in the maintenance costs of golf courses over the past 20 years.*

Searching For The Right Questions

There are other variables that must be examined in order for us to determine how much the productivity levels in golf course maintenance have increased. After all, financial analysis takes one beyond the realm of simplistic cost-accounting.

To more accurately pinpoint what trends have really been taking place within club/golf operations, it may be useful to study the financial track records of *all* operational aspects in real terms. This evaluation of financial performance could be accomplished by converting nominal operating reports on the "revenue" side of operations to real dollars and making comparisons over a 10-20 year period, as has been done for golf course maintenance. A number of valuable questions could then be answered.

For example, have revenues of country-club/golf operations generally shown real net gains or — at least — maintained parity with inflation? How have revenues of these operations, when adjusted to real terms, performed in relation to the real expansion of the Gross National Product (GNP)? How have gross revenues expanded in relationship to the tremendous increases of rounds played per golf course hour the past 20 years?

The answers to these questions will indicate how well the revenue side of operations has performed. It is, after all, possible that real revenue expansion has simply been unable to keep up with inflation — let alone the modest real increases in golf course maintenance expenses during this period. It is also possible that shifts in the country-club/golf market, as well as dramatic fluctuations in population dynamics, have caused real revenues to be caught on the short side of performance.

Beyond The Dollars

Even by converting the nominal dollars reported in financial comparisons to real dollars, distortion of the 20-year, improved cost-efficiency of golf course maintenance remains. We must look even beyond the real dollar accounting figures to other factors that can vary and necessitate greater real productivity or greater real cost. For example, what have the trends been in the level of wear-and-tear on golf courses since 1963, and what objective effect has this had on costs of maintenance?

Even for a novice analyst, it must be recognized that the amount of play golf courses receive has a direct bearing on the costs of maintaining them. After all, the more desirable a golf course is, the greater the demand by golfers to play it. This usually results in a greater amount of play.

The greater the amount of play and activity on a golf course the greater the amount of wear-and-tear. The greater the amount of wear-and-tear, the greater the costs of maintenance. While it can be argued that this relationship between play, wear-and-tear and maintenance costs is not one of direct proportion, it must certainly be conceded that play is a substantial factor affecting the costs of maintenance.

According to National Golf Foundation (NGF) statistics, in 1963 there were an estimated 7,477 golf courses in the United States. At that time 126,000,000 rounds of golf were played. That averaged approximately 16,850 rounds of golf per facility. (Please note that a round of golf does not depend upon the number of holes at a golf facility.)

In 1982, these numbers had increased to an estimated 12,140 golf courses, hosting 425,000,000 rounds of golf. The 1982 figures result in over a doubling of rounds per golf course of 35,000 rounds average per course.

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Even to the most casual observer, this should suggest increased wear-and-tear to golf courses has been significant! To top it off, this doubling of play has occurred during a period of years when the aesthetic appearance and quality of golf course maintenance have substantially *improved.*

It is, therefore, an amazing fact that, industry wide, the rounds of golf per golf course have more than doubled since 1963, while *real* maintenance costs per golf course have generally remained nearly static! And this has taken place during a period when golf course managers have had to deal with horrendous increases in the per-unit acquisition costs of such production resources as fuel/energy supplies, agricultural chemicals and fertilizers derived from fossil fuels, potable irrigation water and labor. This is clearly an indication that *productivity* in the area of golf course

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maintenance has substantially increased over the past 20 years.

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The Sources Of Increased Productivity

For those in the business of golf course management, it is not a surprising fact that the golf course maintenance bottom line and productivity have steadfastly shown real gains over the past two decades. These phenomena have not come about through coincidence. The productivity successes in golf course maintenance that we enjoy today are the fruits of continual past and present efforts. An explanation of this improved maintenance efficiency and productivity is in order.

For starters, the increase in knowledge and expertise of golf course superintendents as business managers has soared. It was nearly 25 years ago that an effort was undertaken by the GCSAA to place a heavy emphasis on professional education. The results have been effectively snowballing ever since. Most young people entering the profession today have management experience and have been through college. This trend is rapidly becoming an entrenched rule.

A great deal of effort has been directed at the continuing education of golf course managers in the field as well. The Association, industry and universities have worked very hard to disseminate information and apply new technologies. The improvement of the profession and the efforts of those golf course superintendents who participate and continue their own individual professional improvement have been the main forces behind the proud productivity track record of golf course maintenance. Just think what greater achievements could be made over the next 20 years if *every* golf course had a *participating* member of the GCSAA as the golf course superintendent.

Another major factor influencing improved efficiency of maintenance has been the ongoing turfgrass research effort supported by GCSAA, the United States Golf Association and others. There has traditionally been a strong allegiance between the efforts of GCSAA and the USGA Green Section in our mutual effort to improve golf course management. The results today speak of the success of this effort in education and research. Of course the nearly 50 colleges and universities — in the United States alone — that have carried the bulk of this education and research effort deserve considerable credit, both for upgrading the professional education of management and improving the array of scientific knowledge and technology.

Finally — and perhaps most critically in terms of tangible contributions to the success in improving the productivity record of golf course maintenance — are the manufacturers and commercial companies in the turfgrass/golf course maintenance business. Driven by their own needs to remain competitive in the face of increased challenge, they have unfalteringly listened to the demands of golf course managers and have commercially introduced the technological discoveries of the universities.

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By offering lower maintenance, higher technology mowers and equipment, they have allowed the same number of golf course employees to produce a greater amount of work. With such innovations as lighter, faster, hydraulic mowers, even such a simple task as mowing turfgrass is now accomplished with greater speed and precision.

Equipment manufacturers, seed producers, chemical manufacturers and communications-systems companies have *all* contributed to improving golf course maintenance efficiency and, thus, productivity and cost control.

Observations, Suggestions And Projections

The price of the game of golf has received copious amounts of attention in recent years. It has been suggested that price has impeded growth. Few have stopped to realize how successful the game has been.

Frankly, it can be seen that the game has grown at a respectable rate — approximately maintaining parity with real GNP — even though there has been no concerted marketing plan or effort within the industry. A lot of credit for the successful, passive growth of golf can go to the golf course superintendents, who worked hard to control the real costs of golf course maintenance.

It is frightening to speculate what the price of golf would be today if the game had actually experienced, as has been suggested, a more than tripling of real maintenance costs over the last 20 years! A great deal of the recognition due managers of golf courses for their performance has never been delivered — and, being the selfless breed they are, they hardly expect it. It is at least doubtful that their average salaries have maintained parity with the 105 percent cumulative inflation of the past 10 years.

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The game of golf can rest assured that the professional golf course superintendents who manage the golf course maintenance departments of the nation will not rest on the achievements of the past 20 years *or* overly concern themselves about recognition. The ongoing quest for improvement and greater gains in productivity has just begun.

Rather than simply speculating — or groping for nonexistent *real* evidence — that the current price of playing golf has been a result of increasing maintenance costs, perhaps some of our more vocal critics should be analyzing other business conditions within our industry. If the average number of rounds per golf course has doubled since 1963 at the same time that the number of golf courses has also doubled, is it not possible that price — if out of line — has been a result of supply and demand influenced by exclusivity?

Perhaps the golf business has reached a particular maturity in its "product life cycle" where an overall industry marketing strategy would be useful. A cooperative golf industry marketing effort could help expand the reach of golf.

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Expansion and growth would not be displeasing to those involved in managing golf courses, manufacturing turfgrass maintenance equipment or those manufacturing golf equipment and apparel. A good burst of expansion would serve to open up greater opportunity, brighten futures and enhance profits for all.

All in golf course management will most anxiously await the next round of published financial statistics on our industry. Those with an understanding of real versus nominal finances will, once again, rejoice in the results of continued success in golf course maintenance — and, hopefully, will make an effort to universally disseminate the knowledge of how to judge a book by its contents and not by its cover. □