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NewsLinks

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Why Golf Courses are Struggling

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Everyone involved in the golf course business is aware that golf courses nationwide have been struggling to maintain market share, rates and revenues. In most markets, the downward cycle began sometime in the middle of 2001, even before the Sept. 11 tragedy.

The prevailing wisdom has been that the primary cause of the industry's woes has been over-building of golf courses since the early 1990s. Secondary factors cited have included the impact of Sept. 11 on travel and tourism, the lingering recession and loss of jobs, and unusual weather patterns in some parts of the country, such as the heavy rainfall in the Northeastern U.S. last spring and summer. These factors all have contributed to the ongoing "shake-out" period in the golf course industry, and the industry consensus clearly is that the major problem is **too much supply.** There is growing evidence, however, that the industry also faces some significant challenges on the **demand** side of the equation.

Declining Demand

Measured by rounds per 18 holes, golf demand continues to decline nationally. This measure peaked at 36,000 rounds per 18 holes in 2000 and since has slipped to about 32,000 rounds per 18 holes. For the average U.S. golf course, that means that the size of the proverbial "pie" has shrunk by about 10 percent. The number of new golf courses has had a lot to do with this, but new research indicates that overbuilding is only part of the story. Kitson & Partners recently participated in an industry "mini-summit" on the subject of golf participation trends and demographics. The discussion at this seminar, led by three of the leading researchers in the industry, shed new light on what the golf course business really has been dealing with for the past three years.

The first surprise factor is that golf participation - the percentage of Americans who play golf - has started to decline. Despite Tiger Woods and all the attention being focused on the game, the percentage of Americans who play golf has changed as follows since 1990:

Year	% of Population Participating	Total No. of Golfers
1990	11.1%	27,800,000
2000	11.2%	29,400,000
2001	9.7%	27,500,000
2002	9.3%	26,700,000

The consensus among the researchers we have talked with recently is that the number of golfers in America peaked in 2000 at about 29.4 million, and golf participation has been on the decline since that time. Data for 2003 are not yet available but most industry experts agree that the decline continued last year, and current estimates put the number of golfers in America at between 26 and 27 million. In essence, the number of golfers in the U.S. has declined over three years by about 3 million, equating to a decrease of about 10% in aggregate nationwide demand.

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Expressed in terms of numbers of rounds, the total decline in demand was approximately 60 million rounds (based on the average golfer playing 23 rounds annually).

The drop in demand hit some markets harder than others, but viewed from the perspective of the "typical" U.S. golf course playing about 35,000 rounds annually, demand has dropped by about 3,500 rounds annually since 2000. And remember, while golf demand has been on the decline over the past three years, the U.S. supply of golf courses has continued to increase. As shown in the bottom table to the right, an estimated 1,243 new golf courses opened from 2000 through 2003. Even if each of these new courses played only 25,000 rounds annually, the total national impact would be an additional 31 million rounds siphoned off from existing courses.

The combined impact of decreased demand and increased supply, viewed from the perspective of golf courses that were in business prior to 2000, has been huge:

- An estimated 60 million rounds lost because of declining demand;
- An estimated 31 million rounds lost because of new courses opening.

The question being asked throughout the industry is "When are things going to turn around?"

The short-term answer, based on results for the first quarter of 2004, is that rounds and revenues at most facilities are ahead of the first quarter last year. This is true at most Kitson & Partners facilities and consistent with what we are hearing from executives at other national management companies. First quarter figures are dominated by "sun-belt" facilities that are benefiting from the increase in tourism being reported in Florida, Arizona and other winter travel destinations.

The long-term answer will depend on four factors:

1. The extent to which Baby Boomers take up golf, or stay with it, as they reach retirement. Historically, the rate of golf participation drops from 11.7% in the 40 - 54 age group, to only 9% in the 55+ age group.
2. The extent to which Baby Boomers play more rounds as they reach retirement age. Golfers over the age of 55 average twice as many rounds annually as golfers in the 40 - 54 age group.
3. The extent to which today's "Gen X'ers" will take up golf they get older. Unfortunately, their current rate of golf participation is at least 30% below that of their parents.
4. The extent to which real estate developers will continue to inflate the national supply of golf courses beyond levels that can rationally be justified by consumer demand for golf.

The general feeling among industry leaders and researchers is that the Baby Boomer impact will cause a gradual, modest recovery lasting at least 10 years. Boomers are committed to golf, and it would be reasonable to assume that they will be fit enough to stay with the game longer than previous generations.What happens after the Boomers put down their clubs is going to depend on whether the golf industry can succeed in bringing several million new participants into the game.

More information available on industry trends:

In developing the enclosed article on "golf industry perspectives" Kitson & Partners consulted and utilized a number of resources, including:

National Golf Foundation — supplier of various industry statistics.

Pellucid — independent research firm, headed by Jim Koppenhaver, specializing in the golf industry

Golf Datatech — independent research firm that tracks rounds played on golf courses nationwide for the National Golf Course Owners Association

Golf Research Group — independent research firm, headed by Colin Hegarty, specializing in the golf industry

LONGITUDES — research group headed by Dr. John Rooney, a demographer who has been studying the golf industry for about 15 years

Articles that provided background included "Golf 's Prospects Dim Despite Bright Hopes," Wall Street Journal, Aug. 15, 2003; "Why Are We Playing Less?" Golf World Business, Nov. 7, 2003; "Supply & Demand" Urban Land, January 2004; "Keeping Score" Golf World Business Yearbook, January 2004.