



Issues & Challenges for Golf Clubs in Victoria

Table of Contents

	Foreword	1
	Author's Acknowledgement	2
1.	Introduction	3
	Objectives	4
	Scope of Study	5
2.	Population Overview	7
	Introduction	7
	Population and Age Structure	7
	Population Forecasts	8
	Population Migration Patterns	9
	Income Trends	12
	Conclusions	14
3.	Victorian Golf Supply and Demand Overview	15
	Introduction	15
	History of Golf in Victoria	15
	Golf Course Supply	18
	Golf Participation	21
	Golf in Victoria	26
	Conclusions	36
4.	The Membership Challenge	39
	Introduction	39
	The Golf Club Environment	39
	Golf Club Capacities	40
	Threats to Traditional Golf Club Membership	41
	New Membership Structures	50
	Conclusions	59

5.	The Land Challenge	63
	Introduction	63
	Land Pressure	64
	Relocation or Development Proposals from Commercial Developers	67
	Planning	68
	How to Deal with Land Challenges	70
	Potential for Amalgamation	72
6.	The Environmental Challenge	77
	Introduction	77
	Water Availability	79
	Water Solutions	85
	Turf Quality	90
	Health and Safety - the Costs for Golfers and Club Employees	94
	Noise Pollution	98
	Conclusions	99
7.	The Challenge of Existing Cost Structures	101
	Introduction	101
	Expense Base	101
	Operating Expense Benchmarks	102
	Other Expense Saving Solutions	106
8.	The Governance Challenge	111
	Introduction	111
	Being a Director	111
	Filling Board Positions	112
	Golf Club Board Size	114
	Female Representation	116
	Club Governance Restrictions	117
	Constitutional Change	119

9.	Case Studies	123
	The Warringah Golf Club Chemical Spill	123
	Geelong Golf Club Closure	127
	Patterson River Country Club Re-Development	133

Liability limited by the Accountants Scheme, approved under the Professional Standards Act 1994 (NSW)
© Ernst & Young Australia 2004



Foreword

As the parent body for golf and golf clubs in Victoria, the Victorian Golf Association (VGA) is delighted to present this report outlining the issues and challenges for golf clubs in our state. We acknowledge the valued funding support given to make the project possible by the State Government, Department for Victorian Communities with particular thanks extended to The Hon. Justin Madden MLC, Minister for Sport and Recreation. We also acknowledge and thank the Australian Golf Union for allowing our consultants to draw on and use data from the 2002 and 2004 Australian Golf Club Surveys, and the Australian Golf Course Superintendents' Association for use of data from their 2003 Turf Industry Census.

The objective of this project is to assist clubs with the ongoing responsibility of identifying and building their own future. We know that the task of running a successful community golf club requires that committees and managers are skilled both as custodians and pioneers. We know that the quality of leadership in clubs is currently under challenge more so than at any other time during the past three decades. Golf in Victoria is experiencing significant change and, in some areas, is showing signs of vulnerability.

History confirms that there is no need for lack of confidence going forward, for it is not by accident that golf has enjoyed status over many years as a key industry within the Victorian economy and as the leading participant sport of choice for Victorians. However, we cannot be complacent.

The VGA's aim is to encourage and assist golf clubs to pay close attention to their strategic positioning. Our brief to Ernst & Young was to:

- Provide an overview of the main issues impacting on the golf industry and clubs, using research data and analysis rather than anecdotal evidence; and
- Review the key challenges for clubs in ways which provide ideas, frameworks and pathways to better strategic planning.

Our golf clubs come in a diverse range of shapes and sizes so the relevance of different sections of this report will vary accordingly. We hope that the report will be viewed as "leadership material" and that individual committees and memberships will take it upon themselves to explore, interpret and use the content in ways which add value for their clubs. The material is intended as a starting point, not an end in itself. In addition to providing copies of the report to all clubs, the report is accessible on the VGA website www.golfvic.org.au. The VGA will follow up with forums for member clubs and associations so that the sharing of information and ideas is enhanced. I commend the report to all golf club administrators and their members.

Richard Kirby
President, December 2004

Author's Acknowledgement

Ernst & Young is pleased to present this report for the Victorian Golf Association, addressing the issues and challenges for golf clubs in Victoria.

Ernst & Young has committed significant time and resources to improving the knowledge base of the golf industry and this effort has proven to be somewhat timely given the increasing challenges now being seen in many parts of the typical golf club operation.

Our efforts are also timely in that bodies such as the AGU and the VGA, and individual clubs have now recognised the value to the industry that external, impartial and well researched advice can bring, ending the long reliance on anecdotal evidence that the industry has had. Access to externally prepared information can also compensate for the declining availability of skilled and knowledgeable volunteer committee people as clubs face increasing corporate governance challenges.

The provision of quality information leads to more informed decisions being made. As the industry enters the 21st century much is changing in our social landscape. Golf in Victoria has a rich history, but history is in the past. We therefore encourage golf clubs to identify future opportunities, not restrictions from the past, when making decisions that may determine their future viability and success.

We trust that clubs will find this report informative and a useful tool when beginning to address the issues and challenges identified. Ernst & Young looks forward to providing clubs and the industry with further assistance in addressing these challenges.

Jeff Blunden
Senior Manager & Report Author
Ernst & Young Real Estate Advisory Services





Introduction

No organisation is immune from the forces of external change and the golf industry is no different. Golf clubs in Victoria are experiencing significant micro and macro change and increasing challenges as we enter the 21st century. These include:

- Shifts in consumer preferences relating to club membership and flexibility of playing / paying arrangements;
- Population and/or participation declines impacting negatively on membership recruitment/retention;
- Competition from golf facilities offering equity-based or other new forms of membership;
- Competition from new, high quality commercial golf courses funded generously from allied real estate developments;
- Rising cost structures and increasingly complex governance responsibilities placing increasing strain on volunteer committees and Boards; and
- Approaches from commercial developers with proposals for club re-location / re-development.

It is sound management practice to address these challenges in a proactive way. As this process has been undertaken the VGA has from time to time been approached by affiliated clubs for assistance in specific areas. Given the increasing complexity of some of the issues and also the increasing availability of skilled industry specialists, the VGA, in order to bring external perspectives and professional expertise to the issues, chose to commission Ernst & Young to provide a report which details the nature and implications of these major changes impacting upon golf clubs in Victoria.

The following report reviews the five major challenges identified, based on market research and data analysis, and also provides strategic ideas and advice to assist clubs in responding to change and building/retaining long-term competitiveness.

Appointment of Ernst & Young

Ernst & Young is acknowledged as the leading golf advisory group in Australia. They have been the research partners of the Australian Golf Union (AGU) since early 2002, and in conjunction with the AGU they have published the most detailed reports seen to date on the golf industry. The Australian Golf Industry Report - 2002 and the Australian Golfer Survey - 2003, provided first time detailed information on the two key components of our industry, being the golf club and the golfer. As society evolves and

the individual consumer (and golfer) therefore changes with it, the club industry is clearly challenged with keeping pace and satisfying these evolving needs.

Ernst & Young's sound research base as well as their experience in working with other providers of services to the industry, such as development and finance, and with clubs dealing with specific micro issues places the firm in a highly informed position and therefore they have with the necessary level of expertise to provide a report of this nature.

Objectives

A key objective of this report is the provision of generic information and advice to golf clubs. It is to provide a road map for dealing with specific or multiple issues affecting golf club operations and is to be used as a substantive starting point as clubs pursue their own strategic planning on these issues. Equally, the VGA recognises that individual clubs may need to seek club-specific additional advice beyond that covered in the report. Whilst many of these issues are indeed national issues, the VGA is seeking a report which focuses specifically on the Victorian market. In some cases examples from out of state may be used.

The VGA and Ernst & Young agreed that the following scope covered the key areas to be included in the report.

- The nature, forces and directions of change affecting golf clubs are to be reviewed and the key questions and challenges they need to address in planning for their immediate and long-term future are to be identified. Specific challenges identified are:
 - The membership challenge, responding to the increasing demographic and societal change being felt such as the ageing profile in golf clubs, changing consumer expectations/choice, competition from traditional and non-traditional golf venues, new types of membership structure which cater for golfers in different age groups and who have different frequencies of play; and the existing "low pay, high play" membership culture.
 - The land rent challenge, responding to the implications of rising land values and associated costs; the re-location or development approaches/proposals from commercial developers; and potential amalgamation with another club/s.
 - The environmental challenge, responding to the availability and cost of water and environmental protection, golfer expectations re turf quality, and health and safety issues and costs for golfers and club employees.

- The challenge of existing cost structures, responding to operating costs rising faster than membership income.
- The governance challenge, responding to the declining availability of quality leadership skills as volunteer Boards and Committees become less attractive due to increased governance complexity and liability.

The report is to conclude with a review of some actual examples of clubs which have faced the challenges brought on by change.

Scope of Study

To accomplish the objectives of this study, our work program comprised the following tasks:

- A general review of the key demographic drivers in Victoria as they relate to golf, these being current and forecast population levels, age structures, assessed on both a metropolitan and non-metropolitan basis.
- Analysis of Australian Sports Commission (ASC) participation statistics and club member statistics provided by the VGA, Women's Golf Victoria (WGV), AGU, and Women's Golf Australia (WGA) so as to determine the size and patterns evident in each of the defined Victorian markets.
- Analysis of the 2002 and 2004 AGU Club Survey results and the 2003 AGCSA Turf Industry Census results, determining the trends and patterns evident in a number of specific areas of Victorian golf club operations.
- Analysis of results from the 2003 Australian Golfer Survey, extracting the views and patterns evident in Victorian golfers.
- Discussions with appropriate parties for each of the specified challenges as identified by the VGA.

The report has been split into seven chapters. The first chapter addresses and analyses the general demographic patterns evident in Victoria with the second chapter providing an overview of the current golf supply and demand picture in Victoria. The chapters following then address each of the identified challenges in turn.





Population Overview

Introduction

This chapter provides an overview of the general population characteristics of Victoria. The study of these demographics is of particular relevance to this report as they provide an indication of the potential future direction for the golf industry in Victoria. We also review the migration patterns evident in the state and the impacts that they may have on the golf industry.

Population and Age Structure

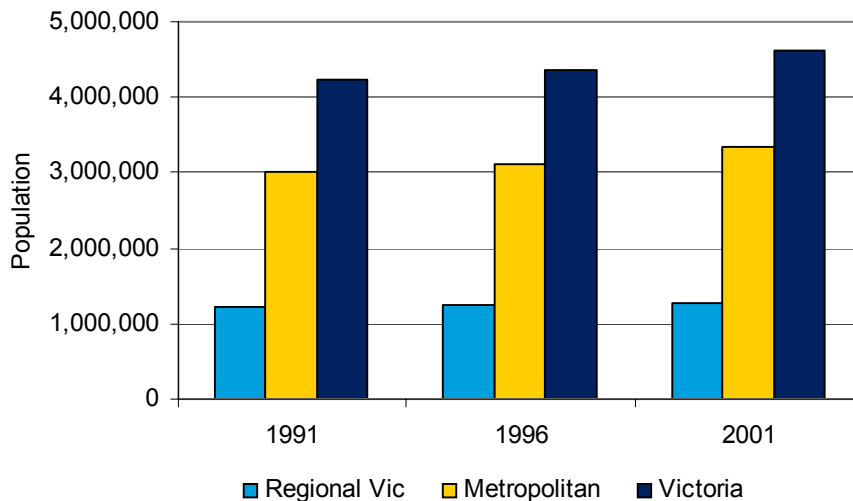
Victoria is Australia's second-smallest state by geographic area, covering approximately 227,000 square kilometres. The 2001 Census found that the state is home to 4.6 million people, of which 3.3 million reside within the greater metropolitan region of Melbourne. The state population has grown by approximately 9% since 1991, with growth of 10% and 4% respectively in the metropolitan and regional areas.

The following points are highlighted in regard to population growth:

- Over the 10-year period from 1991 to 2001 the growth in population within the two regions has largely occurred in the 35 year to 59 year age bracket.
- There has been a noticeable decline in the proportion of the population aged under 34.
- There has been a subsequent increase in the proportion of the population aged 35 to 59 years and 60 years and over. This trend is evidence of an ageing population.

The following graph illustrates the population patterns evident in Victoria for the period 1991 to 2001.

Victorian Population - 1991 to 2001



Source: Australian Bureau of Statistics (ABS)

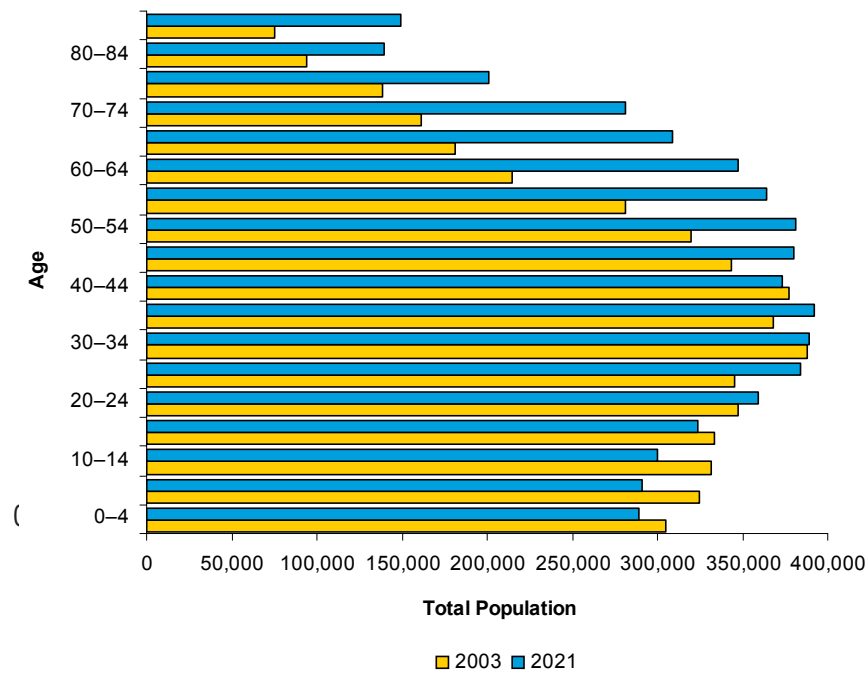
Population Forecasts

The current dynamics of the Victorian population has implications for the future delivery of services including health, education and housing. Sports that count amongst their participants a high number of aged people (such as golf) are also implicated by these dynamics. As identified in the previous section, the ageing of the population has become far more evident in recent years as the number of post retirement age persons grow faster than any other age group. Population forecasts prepared by the ABS currently estimate the trend to continue.

Population Forecast by Age

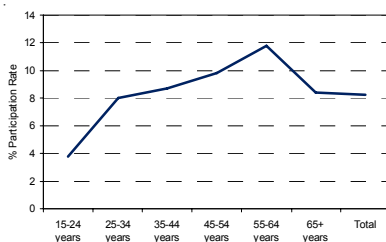
The total Victorian population is forecast to increase at a steady pace between 2003 and 2021 reaching 5.278 million by 2011 and 5.655 million by 2021. The pattern however is not evident across all age groups. Significant growth is anticipated in the older age groups between now and 2021. Approximately 50% growth is expected in the 50 years + group compared to only minimal growth of 1% expected in the sub 49 years group. These forecasts are illustrated in the following graph:

ABS Victoria Population Forecasts



Source: ABS & ASC

ASC Golf Participation Estimates



Source: ABS & ASC

The graph left illustrates the current golf participation levels in golf seen in Victoria. Analysis of the trend left and above clearly indicates that the forecast population growth is to be sourced from the age groups that also typically have the most participatory levels in golf. This is a generally encouraging macro trend for the golf industry in terms of total participation as a major "source" market grows. The patterns seen in intra-state migration need to be first understood as this major source market will not necessarily be growing in all areas of the state.

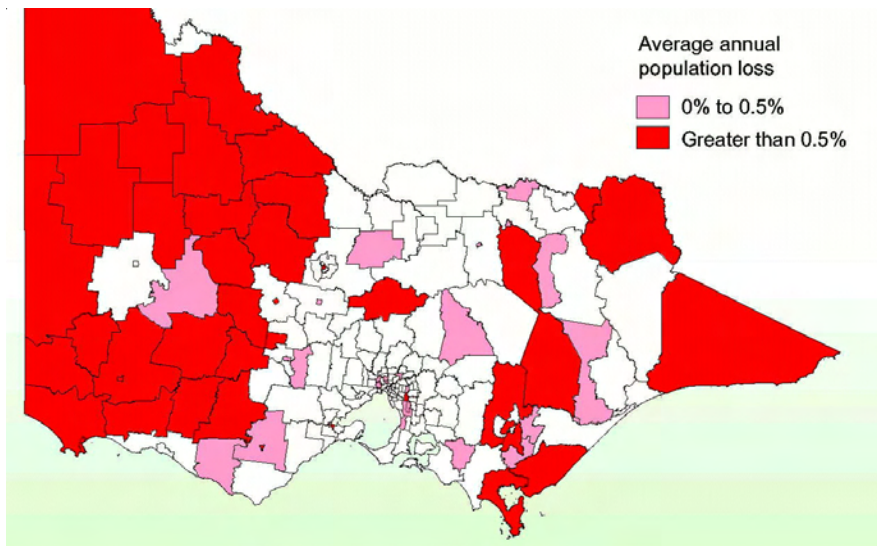
Population Migration Patterns

A review of Victoria's intra-state migration patterns indicates that although the population is ageing, the age mix evident in various regions is also shifting. Our review has found that the general population is moving both around Victoria, interstate and overseas, however the different age categories appear to be moving to opposing destinations.

In the past 50 years the regional areas of Victoria have experienced a significant decline in population. Victorians have been generally moving from regional areas into the metropolitan areas because of agricultural restructuring, changing mobility patterns and a cumulative cycle of decline.

The following maps illustrate the regions where net losses and gains in population levels have been experienced.

Average Annual Population Loss Victorian LGAs - 1991 to 2000



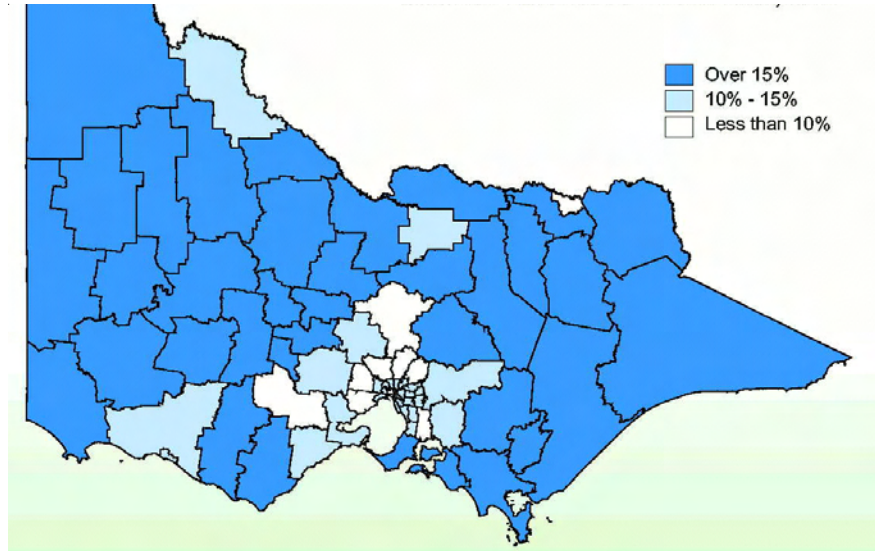
Source: Department of Infrastructure unpublished data and ABS Demographic Statistics

As the map above illustrates, an increasing number of regional areas have experienced declining population levels in the last 10 years. This pace was as a direct result of lower fertility rates and the already changing age mix, as fewer births and more deaths led to an unbalanced net result. The recession of the 1990s also pushed many younger people into the larger regional and metropolitan areas of both Victoria and other states, another contributing factor to the net population result. Certain regions did see increasing population growth however, with many of those areas more central to the larger population bases.

Ageing Regional Victoria

It is generally found that younger people are more willing to relocate than more aged people. Whilst some aged people will move at retirement age, the majority of the aged persons will remain in the geographical area in which they are established for reasons such as security, familiarity, support structures etc. This is referred to as ageing "in place." The impact of this pattern on Victoria is that regional areas are expected to age more quickly than the state average. Growth in the 50 year age plus category to 2021 is expected to exceed 75%, compared to the previously identified wider state average of approximately 50%.

Proportion of Population Aged 70 years and Over - Victorian LGAs 2021

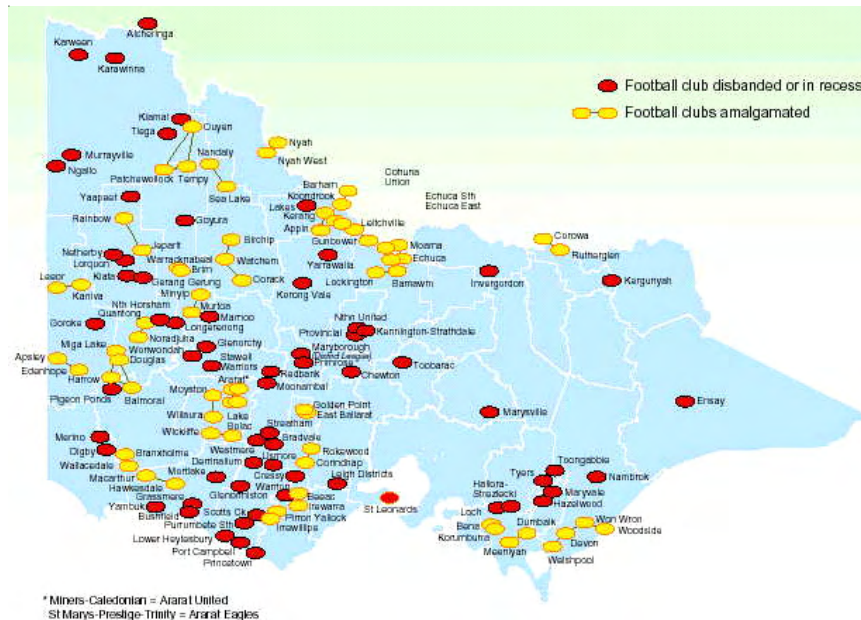


Source: Department of Infrastructure

Club Football Example

As populations change it is inevitable that certain services or sports which rely on particular age groups for participation will fall away. As an example, it is appropriate to detail the impact that the changing population flows and migration movements have had on football clubs in Victoria over the previous two decades. As previously noted, the size of many of the regional population centres, particularly those in the west of the state are declining. As the population base of young adults move to larger centres the ability of the local area to raise these sporting teams diminishes. The following map shows the locality of the football clubs that have either merged or amalgamated in the past 20 years evidencing the challenges that these clubs have had as the regional population mix shifts.

Localities which Lost or Amalgamated Football Clubs between 1981 and 2001



Source: Atlas of Victoria 1982; Country Football League 2000; Football Victoria 2001

This brief example of the impact of the shifting population patterns on the club football industry highlights the realisation that change is inevitable and industries have no choice but to move with change. The response from the club football industry has been mainly merger/amalgamation, although those which were more isolated had little choice but to disband. As the golf industry enters into the 21st century and faces the challenge of population movement and net intra-state migration flows, it is clear that golf clubs will not be immune from the impacts.

Income Trends

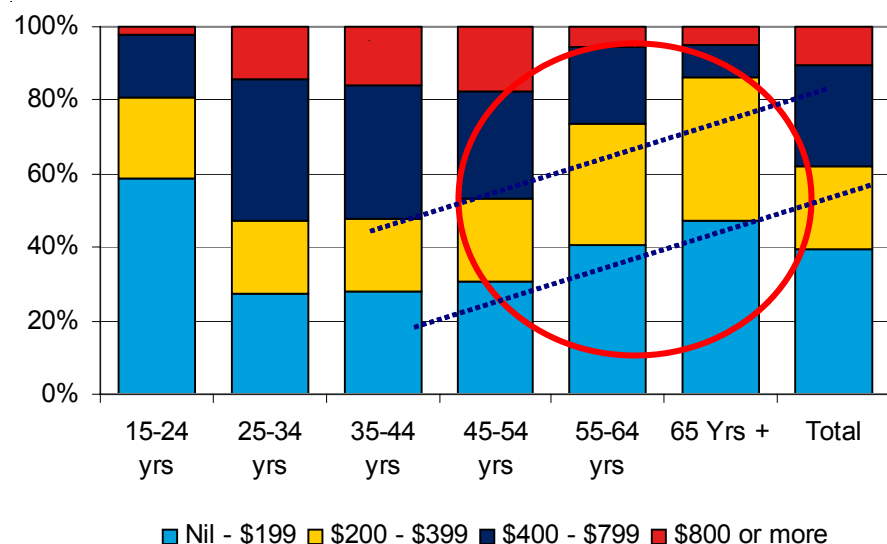
As highlighted earlier in this chapter, there is a significant change occurring in the migration patterns and resulting population mixes within Victoria. This report identified that the regional areas are ageing more rapidly than metropolitan areas, as the youth move towards the larger centres and the aged age "in place." It was also identified at the beginning of this chapter that the age groups which have the highest participation levels in golf are those above 54 years. In terms of absolute demand this was identified as an opportunity for the industry.

The "catch" to this opportunity is that despite demand being present in terms of numbers, state income data reveals that this group also typically earns below average levels of income.

As highlighted in the circle within the graph below, data from the 2001 census shows income levels progressively falling after the 44-year age point, in that a greater percentage of people move into the lower income brackets within each age group (the upward trend lines). At the 54-year age point the data shows that over 70% of the population at this age as having weekly incomes of between \$0 and \$400. This figure is approximately 20% above the state average and 25% more than the previous 35 to 44 year age group, indicating that from this point, prioritised spending choices are likely having to be made.

The following graph illustrates the income patterns recorded for Victorian residents in the 2001 Census.

Victorian Weekly Individual Income by Age - 2001 Census



Source: ABS

Whilst these figures do not take into account the availability of and access to retirement funds, they suggest that when applied to the golf industry, aged golfers will face affordability issues due to declining incomes. The impact of this reduced spending power may not necessarily be seen in total annual fee revenues, however it could be seen in spending in other ancillary areas. This potential threat is discussed in more detail in the membership chapter.

Conclusions

This chapter has provided an overview of the patterns evident within the Victorian population and the issues stemming from it. The population trends and forecasts indicate that the metropolitan region of Melbourne will continue to experience growth in population levels over the state average. Growth across the state however will be fuelled by a strong increase in the 50 years plus age bracket as the state's population continues to age. The required market is expected to see the most significant change as the impact of "ageing in place" moves, with 50% more growth in this age category.

This forecast trend has direct implications for the golf industry. The age groups where significant growth is expected already reflect the highest level of participation in golf and this seemingly presents an opportunity to the industry as future demand, albeit from a select portion of the population, seems certain. On the other hand, as young adults are expected to continue to move towards the larger centres and the aged population seek out and remain in regional locations, the shifting demand mix will create certain operational revenue challenges as the earning levels of the more aged persons decline, therefore potentially impacting the income streams generated from discretionary spending at golf clubs across the state.



Victorian Golf Supply and Demand Overview

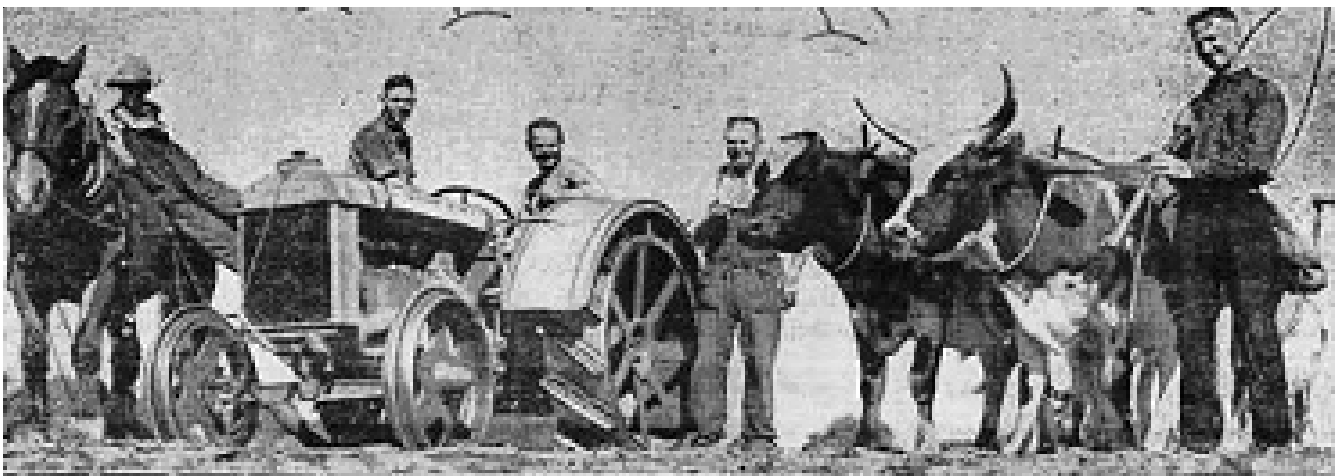
Introduction

This chapter provides an overview of the key fundamentals of golf in Victoria, these being golf course supply and golf demand. As golf course supply in many areas is closely linked to the history of golf in the state, a brief review of the states history is also provided, putting into context the current supply and demand challenges for golf in Victoria.

History of Golf in Victoria

The origins of golf in Victoria go back to 1847 with the formation of the state's first golf club, the Melbourne Golf Club. The club only had a short existence however as demand for space in the then burgeoning metropolitan area saw the golf course used for other purposes. Over the next ten years golf, as an organised sport, was very much forgotten and for nearly 40 years after the closure of the Melbourne Golf Club there are only isolated reported instances of golf being played.

The re-birth of club golf in Victoria stemmed from the reforming of the Melbourne Golf Club (latterly Royal Melbourne) in 1891 marking the recognised beginning of club golf in Victoria.



MODERN TRACTION CONTRASTS WITH CATTLE AND HORSE POWER on the new 18 hole public golf course at Frankston. Horses are used for hauling earth scoops, a motor tractor does the levelling work and oxen tow the plough which clears the ground of buried roots

The game spread rapidly over the 1890s and was being played in many areas around Melbourne as courses were created on vacant paddocks and carved out of scrublands. By 1899, five clubs existed and they came together to compete in a round robin interclub event creating the first ever 'pennant' season.

In 1902 the VGA was formed with a charter to organise these 'pennant' competitions and other highlights in the golfing calendar, as well as presiding over the growth and regulation of the game. At the same time club golf for women had also seen rapid growth and there was an increasing need for a governing body. In 1906, the Victoria Ladies Golf Union (VLGU) was formed adopting the same constitution as the VGA.

World War I was the first major challenge faced by the golf industry in Victoria. Most golf events were cancelled and almost every club suffered in some way. Those that suffered the most were the country based clubs as they lost the fit and young for active service as well as other war related employment schemes. At the onset of WWI, 126 clubs were affiliated with the VGA but when figures were next recorded in 1920 only 67 remained.

Golf in Victoria rebounded after WWI and golfers quickly returned to the game. The 1920s was largely characterised by the establishment of new courses as well as the redevelopment of existing ones. It was during this time that many of the states best courses were constructed. From the 67 clubs that survived the war, the number of clubs affiliated with the VGA had grown by the end of the 1920s to more than 200.

The Depression of the 1930s was the second challenge faced by golf in Victoria. However, due to the game's then middle to upper class heritage in the metropolitan areas, memberships slowed rather than collapsed and most clubs were able to survive by only slightly reducing membership fees. The golf industry in Victoria was again challenged by war in the 1940s with the onset of World War II, putting a temporary halt to growth of the game. The deterioration of golf courses, the loss of members to the armed forces and the general decreasing availability of funds resulted in the withdrawal of 170 of the 370 VGA affiliated clubs by the end of the war in 1945. The regional areas were most impacted with almost 40% of the 268 regional clubs that existed prior to the war not reforming at its conclusion.

After World War II new course development generally settled again as golf became increasingly accessible to the wider population, particularly in regional areas. Courses were built on land gifted by local councils and with construction often being aided by volunteer community labour, the golf club became a natural place for social interaction.



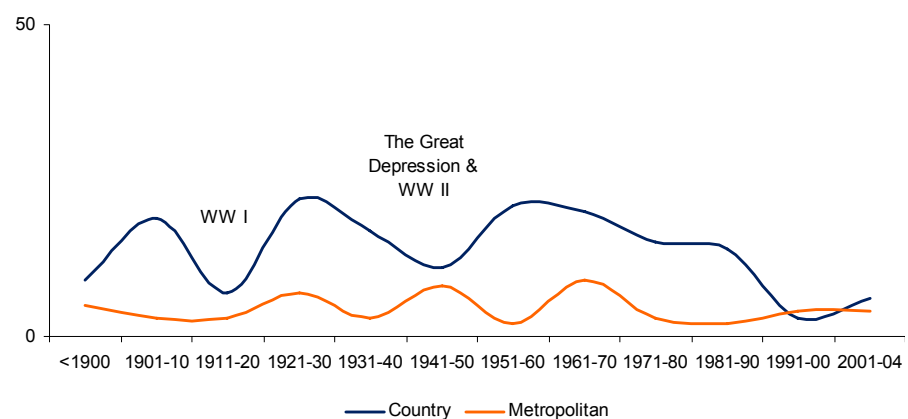
By the early 1970s, club membership numbers had reached 89,000 with new clubs being opened primarily in regional areas as land continued to be in abundant supply. Victoria's first golf resort region, the Murray River region, was the source of much development in the sixties, seventies and eighties, as destinations developed significant gaming facilities on the northern side of the Victorian border.

By the mid 1990s however new course development had slowed to an average of less than one course per year as golf participation patterns started to slow. Membership numbers which had previously grown at a compound average of 3% per year during the 1980s, declined during the 1990s, showing an average loss of approximately 1% per year across the decade.

More recently a mini boom has been experienced in Victoria with approximately thirteen new courses being opened since 2000. These new courses have been largely fuelled by the development of golf orientated residential estates as consumers look to secure access to open space particularly in urban areas as populations continue to grow. Quality public access golf has also been developed as a reaction to the changing golf consumer and their needs in today's society, presenting the traditional club environment with a new challenge as we move through the early years of the 21st century.

The following graph illustrates the general trend seen in golf development in Victoria through the 20th century and the early part of the 21st century.

Victorian Golf Course Openings by Region and Time Period



Source: AGU and Ernst & Young

The history of Victorian golf shows that challenges have been faced by the industry since its very inception. This century will be no different as this report further investigates the challenges on the immediate horizon.

Golf Course Supply

Introduction

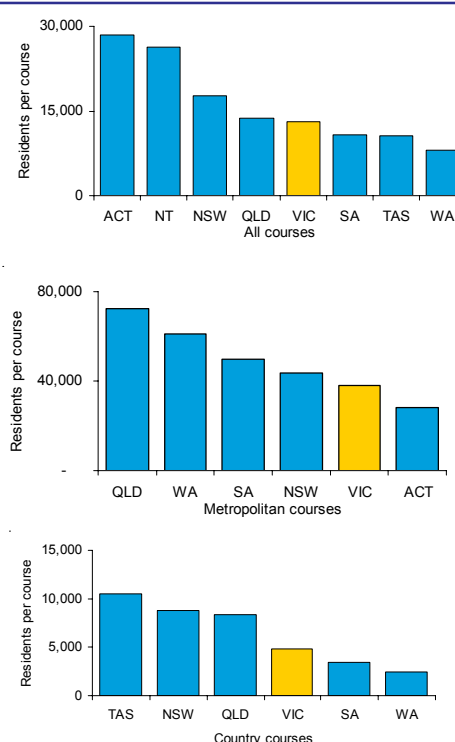
The Australian Golf Industry Report - 2002 revealed that golf course distribution across Australia varies considerably when measured against population levels. As demand is a key driver behind viable golf club and course operations, the existing supply and demand relationship can give initial indications as to the likely sustainability of any existing or new golf course development.

Course Distribution

As background to this report and as an interim indicator of the critical mass and simple club viability challenges felt by golf clubs in general in Victoria, the following findings have been identified in further analysis of golf course distribution trends seen in Victoria:

- Ernst & Young databases currently estimate 351 18-hole equivalent golf courses in Victoria, with 75% of these courses being regionally based.
- The ABS currently tracks information for 198 local government areas (LGA) in Victoria, representing an average of nearly 1.5 courses per LGA.
- With a population base of 4.645 million recorded via the 2001 Census, the current distribution of residents per 18-hole course in Victoria is approximately one course per 13,200 residents. This is above the national average of 12,000 yet below the eastern seaboard average of 13,500 residents per golf course.
- The Melbourne metropolitan region has the lowest number of residents per 18-hole golf course when compared to the other eastern seaboard capital cities, being one course per 38,000 residents against the eastern seaboard average of 51,300, and the national average of 45,600 residents per course.
- The distribution pattern evident in regional Victoria shows on average one 18-hole course per 4,900 residents. This is below the regional eastern seaboard average of 7,300 residents per course and the national regional average of 6,300 residents per course.

Victorian Golf Course Distribution

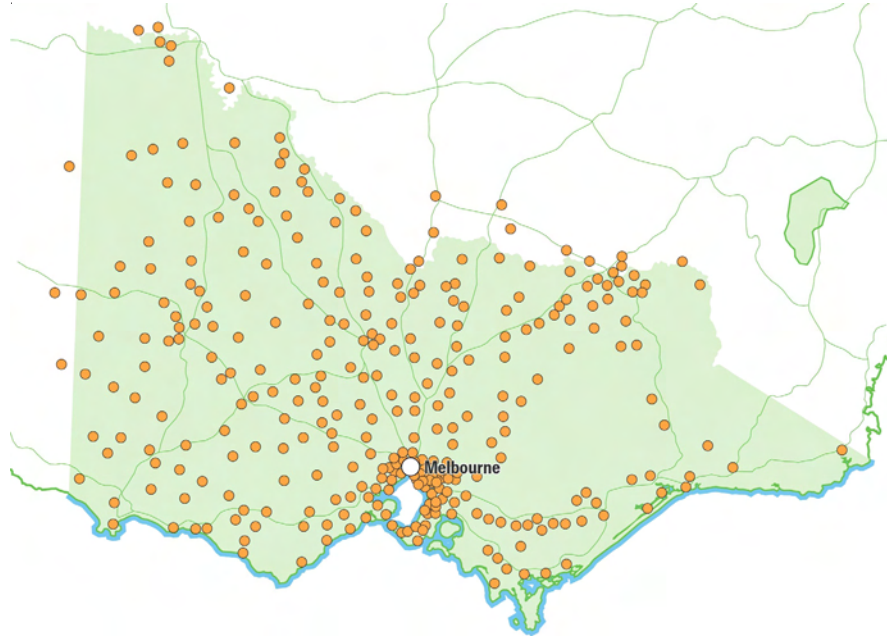


Source: ABS & Ernst & Young databases

The graphs (right) illustrate the distribution trends identified above.

The following map illustrates the location of golf courses across Victoria.

Location of Golf Courses in Victoria



Source: Ernst & Young

Recent New Supply

Not only does Victoria have an above average number of existing golf courses compared to the remainder of the country, significant new development has also been evident within the state. Ernst & Young databases show that 35 courses have been opened in Australia since 1998, with approximately 40% of these courses located in Victoria. The following table summarises the new golf course openings seen in Victoria since 1998.

Course	Location	Opening Date
Torquay Sands	Torquay	2004
Sandhurst Golf Club - North Course	Carrum Downs	2004
Growling Frog Golf Course	Whittlesea	2004
Thirteenth Beach - Creek Course	Barwon Heads	2004
Moonah Links - Legends Course	Rye	2003
Amstel Golf Club - Ranfurly Course	Cranbourne	2002
Thirteenth Beach - Ocean Course	Barwon Heads	2001
Hidden Valley Golf & Country Club	Wallan	2001
Moonah Links - Open Course	Rye	2001

Course	Location	Opening Date
Heritage Golf & Country Club - St John's	Wonga Park	2000
Stonelea Country Club	Acheron	2000
National Golf Club (Ocean Course)	Cape Schanck	2000
National Golf Club (Moonah)	Cape Schanck	2000
Sanctuary Lakes	Point Cook	1999

Source: Ernst & Young

Future Supply

The development of new golf courses in Victoria shows no signs of slowing with a number of courses currently under construction or planned for the coming years. Ernst & Young databases currently contain details on 23 new courses in various stages of planning or construction in Victoria. Those that are under construction or that we consider as having a reasonable chance of reaching construction stage are summarised in the following table.

Course	Location	Status
Waterford Valley	Rowville	Under Construction
St Andrews Beach - Gunnamatta	Rye	Under Construction
Heritage Golf & Country Club - Henley	Wonga Park	Under Construction
Kings Cove	Metung	Under Construction
The Golf Club San Remo	San Remo	Under Construction
St Andrews Beach - Fingal	Rye	Planning
Federation Lakes	Ballarat	Planning
Sandhurst Golf Estate - Champions	Melbourne	Planning
Eynesbury Station	Werribee	Planning
Big Hill	Bendigo	Planning
Cathedral Ranges Resort	Taggerty	Planning
Medallist - Cranbourne	Cranbourne	Planning
Medallist - Golf & Spa	Cape Schanck	Planning
Black Bull	Lake Mulwala	Planning

Source: Ernst & Young

Note: This list excludes courses being redeveloped or replaced

Supply Conclusions

As evident in the previous paragraphs, a number of new golf course developments are proposed in the short to medium term future in Victoria. This level of development will ensure that the state remains the most densely populated state in Australia in terms of golf courses on a per person basis, a further challenge to existing club operations.

Golf Participation

Introduction

The following section reviews golf participation trends across Australia and Victoria. A number of sources of information are used in the analysis, primarily being data from the ASC, membership data extracted from annual reports published by the VGA, membership information provided by WGV and other information as provided by the AGU.

Total Participation - Australia

Participation in golf is defined as those who have undertaken the game at least once within the last 12 months. The ASC is the public body that tracks the level of sports participation in Australia and in the report of 2003, titled "*Participation in Exercise, Recreation and Sport*," it stated that approximately 1.283 million people, or 8.2% of the population aged over 15 years, play golf. The Australian Bureau of Statistics (ABS) first comparably tracked this information in 1996-97 with results from that time estimating total participation in golf to be approximately 1.116 million participants or 8.4% of the population.

As slightly different methodologies were used in the collection of the data (age bracket groupings) exact growth patterns are difficult to determine however, the estimates suggest that the total golfing population has at least been constant over the past 6-year period and in all likelihood has grown by up to 150,000 golfers.

A more accurate measure in terms of the consistent appeal of golf as a game to the general population is the trend seen in the historic participation percentage. In this regard, the proportion of the population participating in golf has consistently fallen within a range of 8% to 10%, peaking in 1998/99 at 9.7% of the population.

The following table summarises the participation estimates based on the ABS and ASC data from 1998/99 to 2003.

	1998/99	1999/00	2001*	2002	2003
Participants	1,331,200	1,324,800	1,240,200	1,337,100	1,282,600
% change		(0.5%)	(6.4%)	7.8%	(4.1%)
% of population	9.8%	9.6%	8.2%	8.7%	8.2%

Source: ABS & ASC

Note: * change in methodology in 2001

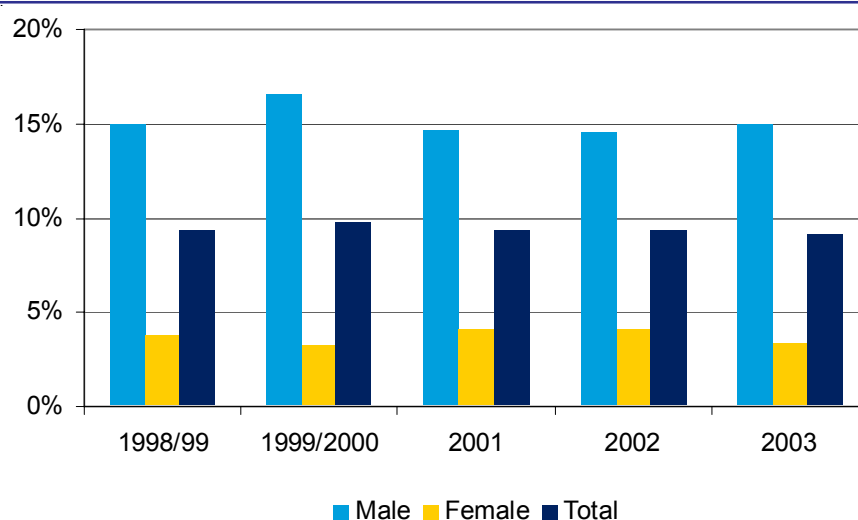
Participation by Gender

Historical participation information is also provided by the ASC on a gender basis. The historical participation reports show national male participation ranging from a high of 15.7% in 1998/99 to a recent low of 13.3% in 2003.

National female participation however is at a much lower level and has hovered between 3% and 4% since 1997/98, with current participation estimates in the middle of this range. In terms of mix, male golfers have historically accounted for approximately 80% of the total golf population, against 20% for female participants.

The following table summarises the historical participation estimates made by the ABS and ASC on a national male and female average.

National Historical Participation - Male and Female



Source: ASC

Note: Change in methodology in 2001

Golf Club Market Overview

Introduction

Having provided as background an overview on total golf participation numbers, club membership and social participation (non-club members) trends are now reviewed.

Club Golf in Australia

Analysis of total golf club membership numbers across Australia reveals a pattern of steady growth up to 1998. Many have said that the industry owes this growth to the profile of Greg Norman and it is therefore some coincidence that the year in which he was last ranked the number one golfer in the world was the year when Australia recorded its highest levels of golf club participation, reaching 500,000 in 1998. Since this time there has been a steady decline in golf club membership, with no state spared from declines in member numbers. Nationally, memberships have declined by an average of 1% per year or 6% in absolute terms since the high of 1998. As at 2003, approximately 470,000 memberships were held nationally.

The following table outlines the change in membership numbers in each state since 1998.

	Club Members 1993	Club Members 1998	Club Members 2003	Change since 1998	% Change	% of change since 1998
Victoria	133,931	125,463	124,926	(537)	(0.4%)	1.8%
NSW	204,055	209,667	190,009	(19,658)	(9.4%)	64.8%
Qld	73,481	80,531	78,456	(2,075)	(2.6%)	6.8%
SA	40,436	39,127	33,831	(5,296)	(13.5%)	17.5%
WA	29,140	30,136	29,369	(767)	(2.5%)	2.5%
TAS	15,577	15,220	13,206	(2,014)	(13.2%)	6.6%
Total	496,620	500,144	469,797	(30,347)	(6.1%)	100.0%

Source: AGU

As the above table identifies, Victoria as a state has experienced the smallest change in golf club membership over the last five-year period. The majority of the decline has been in NSW with approximately 65% of the total club membership decline occurring in that state.

Membership by Gender

Different trends are evident in each state when assessing club memberships on a gender basis as membership numbers from each has peaked at different times. Total female membership numbers nationally actually peaked in 1993, five years prior to the male national peak in 1998.

The table below shows that over the past five years, on a national basis the decline has been relatively even in each gender. On a state basis, more prominent trends are evident by gender with the Victorian trend discussed in greater detail later in this report.

The following table re-states the previous table detailing the state numbers by gender.

	Male Club Members 1998	Female Club Members 1998	Male Club Members 2003	Female Club Members 2003	% change Male	% change Female
Victoria	97,575	27,888	96,443	28,483	(1%)	2%
NSW	167,550	42,117	153,686	36,323	(8%)	(14%)
Qld	63,902	16,629	63,063	15,393	(1%)	(7%)
SA	30,887	8,240	26,613	7,218	(14%)	(12%)
WA	22,348	7,788	21,832	7,537	(2%)	(3%)
TAS	11,927	3,293	10,226	2,980	(14%)	(10%)
Total	394,189	105,955	371,863	97,934	(6%)	(8%)

Source: AGU

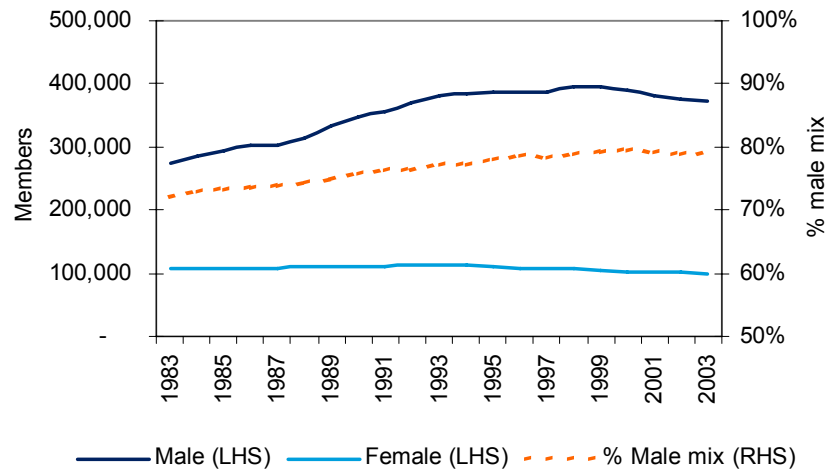
Gender Mix

The AGU has recorded both male and female club membership numbers since 1973. At this time the balance was approximately two thirds male, one third female. The male ratio has steadily increased since this time, reaching 78% in 2003, being almost four out of every five golf club members.

This decline in female membership can be attributed to the changing social environment and the increasing requirement for women to enter or stay for longer periods in the workforce. A potentially encouraging sign however is a potential swing in this pattern as recent numbers show a 2% upturn in the percentage female mix from 20% in 2001 to 22% in 2003.

The following table outlines the trends seen in membership nationally, identifying the membership numbers for each gender and the percentage male membership mix.

National Membership Trends 1983 - 2003



Source: AGU and WGA

Social Golf Market

As outlined in the previous section, the total golf market in 2003 was reported as approximately 1.282 million golfers. With approximately 470,000 golfers registered as club members at the end of 2003, it is estimated that the total remaining social golfer market to be approximately 813,000 golfers or 63% of all golfers in Australia. This percentage is consistent with that recorded when club memberships were at their peak nationally in 1998/99, identifying that no growth in absolute terms has occurred over the last five year period.

The following table summarises the estimates made for social golf participation since 1998/99.

	Total Participants	Less Club Members	Equals Estimated	Social Share of Total Market
1998/99	1,331,200	498,516	832,700	63%
1999/2000	1,324,800	489,685	835,100	63%
2001	1,240,200	483,752	756,400	61%
2002	1,337,100	477,084	860,000	64%
2003	1,282,600	469,797	812,800	63%
% Growth	(4%)	(6%)	(2%)	

Source: AGU & ASC

Note: Change in methodology in 2001

3

Victorian Golf Supply and Demand Overview

Social Participation Gender Mix

Using a similar methodology to that used above, we are also able to estimate the gender split within the social market. As detailed in the previous participation section, the level of female participation is significantly lower than male participation, accounting for approximately 20% of all golf participants in Australia. Applying the historical gender mix as determined by the ASC and the gender mix evident within the golf club market shows that a very similar gender mix exists within the social market.

The historical gender split and mix is illustrated in the following table.

	Total Estimated Social Participants	Total Estimated Male Social Participants	Social Mix - Males	Total Estimated Female Social Participants	Social Mix - Females
1998/99	832,700	654,600	79%	178,100	21%
1999/2000	835,100	669,800	80%	165,300	20%
2001	756,400	616,800	82%	139,600	18%
2002	860,000	684,900	80%	175,100	20%
2003	812,800	653,000	80%	160,000	20%
% Growth	(2)%	(0.2)%		(10)%	

Source: AGU & ASC

Note: Change in methodology in 2001

The preceding two tables clearly identify that on a national basis, growth in social golf participation has also stagnated, following the general trend of club golf. This background information should be considered as the specific patterns evident in golf in Victoria are investigated.

Golf in Victoria

Participation - Victoria

Analysis of the distribution of Australia's golfers identifies that approximately 79% reside in the Eastern Seaboard states. Victoria is the second most populous state with 28% of the total market, behind NSW (36%) with Queensland accounting for 17% of the market.

Victoria has consistently been the most participatory state in terms of golf participation across Australia for the past five years.

The table below outlines the state participation averages for males and females and the corresponding Australian averages for 1998/99 to 2003.

	1998/1999 %	1999/2000%	2001* %	2002 %	2003 %
Victoria male	15.0	16.5	14.7	14.6	15.0
Australia male	15.7	15.6	13.4	14.0	13.3
Victoria female	3.8	3.2	4.1	4.1	3.4
Australia female	4.1	3.8	3.2	3.6	3.3
Victoria total	9.3	9.7	9.3	9.3	9.1
Australia total	9.8	9.6	8.2	8.7	8.2

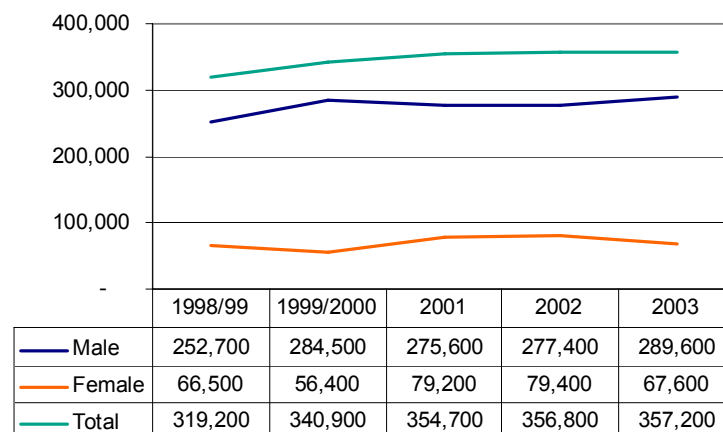
Source: ASC

Note: * Change of methodology in 2001

Participation Numbers

The Victorian market has experienced steady growth in terms of golfing numbers over the past six years. Participation has grown by approximately 12%, or 38,000 golfers from a base of 319,000 in 1998/99. This growth has largely been fuelled by an increase in male participation numbers, however more recently female numbers have been growing at a faster annual rate. In terms of mix, male golfers in Victoria have historically accounted for approximately 81% of the total golf population. This pattern is in line with the national trend. The following graph illustrates the historical participation trends for Victoria.

Victorian Golf Participation Trends



Source: ASC

Participation by Region

Assessment of the state participation numbers by region identifies different levels of participation within the state. Data obtained from the ASC for the period 2001 to 2003 indicates that despite total numbers being reasonably flat, metropolitan numbers have declined by 7% (mainly female) offset by the regional growth (mainly male.) These numbers are summarised in the following table.

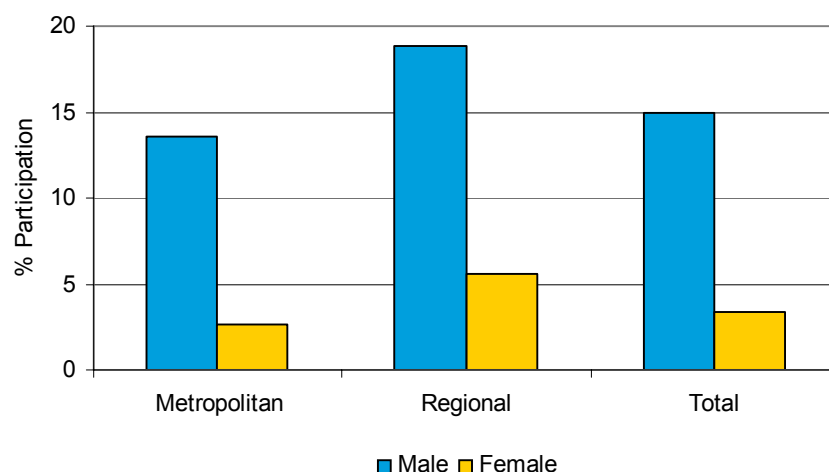
	Total Estimated Metropolitan Participants	Total Estimated Regional Participants	Total Participants	Metropolitan Share of Market
2001	247,200	107,500	354,700	70%
2002	261,300	95,500	356,800	73%
2003	229,700	128,200	357,900	64%
% growth	(7%)	+19%	1%	

Source: ASC

In terms of absolute numbers, the table above identifies the metropolitan region as the dominant source of golfer demand with currently two of every three golfers located in this region. These numbers however do not identify the different proportion of the population in each of these areas that participate in golf, a measure of golf's popularity against other sports.

The following graph illustrates the levels of participation evident in the metropolitan and regional areas also identifying the gender trends seen in these regions.

Victorian Participation Trends by Region



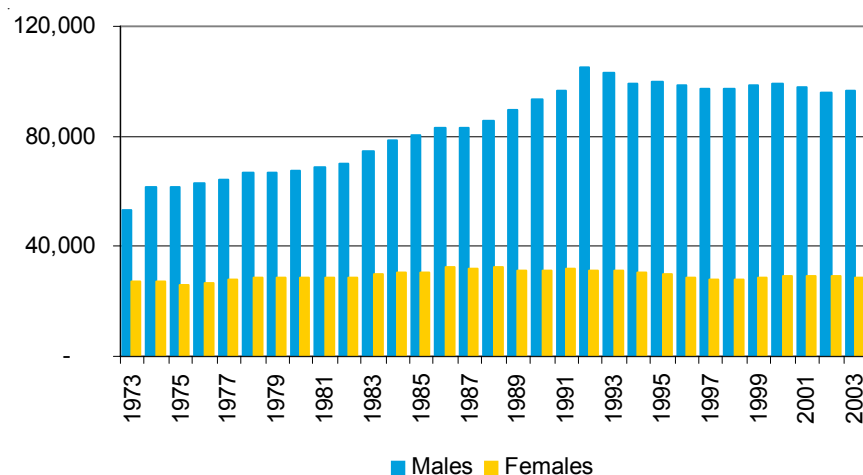
Source: ASC

As identified in this graph, participation in golf is generally stronger in rural areas, when measured as a percentage of the total population. Participation is typically stronger across all age groups, with regional golf attracting a significantly greater proportion of the population in the 35 to 54 years age group, when compared to the metropolitan region.

Club Membership

The club membership data tracked by the VGA and WGV shows a steady increase in member numbers up to 1992, averaging approximately 2.5% annual growth from the early 1970s. After 1992 a general pattern of slow decline has been evident, averaging approximately -1% per annum since that time.

Victorian Club Membership Trends - 1973 to 2003



Source: AGU

In recent times, measuring the period 1998 to 2003, membership numbers continue to be relatively flat. Male membership numbers have fallen by an average of 0.5% per annum over the period, whilst female numbers have been constant over the period.

The following table summarises this six-year period.

	Male Club Members	Female Club Members	Total
1998	97,575	28,257	125,832
1999	98,501	29,175	127,676
2000	99,180	29,139	128,319
2001	98,233	28,815	127,048
2002	96,094	28,386	124,480
2003	96,443	28,306	124,749
Av Growth	(0.5%)	0%	(0.2%)

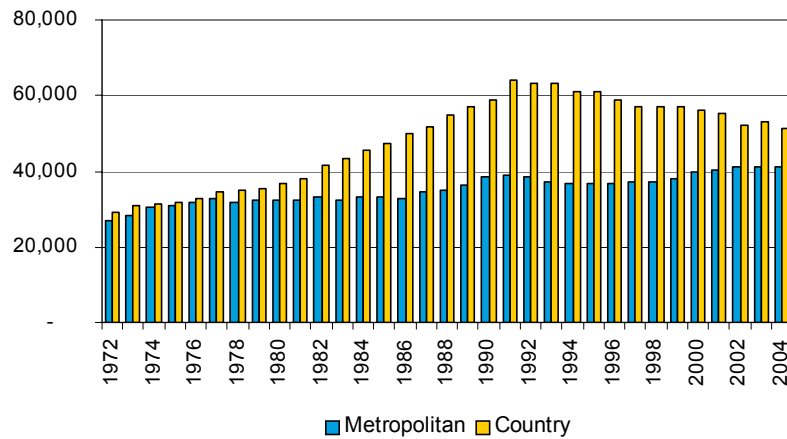
Source: VGA & WGV

Club Membership Numbers by Region

The state result suggests that, when compared to the national result, golf in Victoria is fairing comparably well in recent times, having already endured a membership decline through the 1990s as club memberships at a national level were still growing. The review of the state-wide membership picture however doesn't reveal the true strength or weaknesses of some of the sub markets within Victoria. Given the diversity of golf club operations and the depth of the population centres that exist in the state, a review of the membership numbers on a regional (metropolitan and non metropolitan) basis provides a clearer picture of the regionalised membership patterns.

Historical state numbers provided by the VGA indicate that the growth in total male numbers was sourced largely from the regional areas. From 1973 to 1992, growth of over 100% was seen in regional areas, as playing numbers grew from 29,000 to over 63,000 in the 20-year period. Over the same time frame, metropolitan numbers grew by approximately 40%, reaching 38,500 after beginning with 10,000 fewer members 20 years prior. This trend is illustrated in the following graph.

VGA Member Numbers 1972 to 2004



Source: VGA

The second half of the graph shows that in recent times metropolitan growth has been offset by regional declines. Regional membership numbers provided by the WGV also reveal the same trend.

The following table summarises the membership numbers for both males and females in metropolitan and non-metropolitan Victoria for the period 1998 to 2003.

	Metro Male	Regional Male	Metro Female	Country Female
1998	40,618	56,957	10,165	18,092
1999	41,500	57,001	10,682	18,493
2000	43,121	56,059	10,716	18,423
2001	42,968	55,265	10,712	18,103
2002	43,729	52,365	10,766	17,620
2003	43,577	52,866	10,641	17,665
Growth	7%	(7%)	5%	(2%)
Av Growth	1%	(2%)	1%	(1%)

Source: VGA & WGV

GolfPass

In 1987 the VGA introduced an alternative membership program to the market called GolfPass. This program was introduced into the public sector for golfers who wished to have an official golf handicap but were not members of an affiliated golf club. The introduction of GolfPass was also a way for the VGA to continue to represent the interests of all golfers in Victoria not just the club sector. The GolfPass program

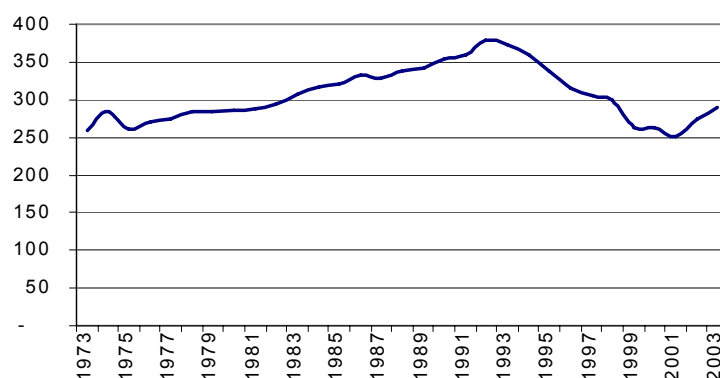
provided control of these golfers as well as an education path for potential eventual movement into golf clubs.

The program was particularly effective at the height of the golf boom when private clubs were near capacity and able to dictate terms to the potential new golf member. As long waiting lists existed in many of the metropolitan clubs, GolfPass was able to capture the social golfer and give them official recognition and handicap status. Membership numbers peaked in 1999 when they reached 3,400 however in recent times they have fallen to approximately 2,500. Approximately 500 females also transferred to a similar program started by the WGV in 2001. GolfPass membership numbers have historically accounted for approximately 6% of male metropolitan numbers in Victoria.

Club Sizes

Analysis of member and total club numbers largely confirms what the industry already knows, in that club golf has been under pressure in the state for some time. The following graph combines supply and demand data to present the historical trend evident in average club membership sizes since 1973. As can be clearly seen, strong increases were experienced through the 1970s and 1980s. The turning point was reached in the early 1990s when club numbers continued to grow despite declining demand resulting in a fall in average club sizes.

Average Club Sizes 1973 - 2003



Source: AGU

A review of the historical change seen in the size of Victorian golf clubs from 1994 to 2003 allows us to further understand and highlight where the membership pressure is generally being felt in Victoria. We have thus far identified that it is generally more prevalent in the regional areas however an assessment by club size allows us to determine what clubs by size, have experienced and continue to experience membership pressure. Data provided by the VGA and WGV on male and female club membership numbers was collated and assessed based on club sizes.

The following table summarises this data, being the aggregate of both the male and female membership numbers.

Membership Size	2003 % of Clubs	1994 % of Clubs	Change in Category Mix
Up to 200	61%	55%	Plus 6 points
201 to 400	15%	18%	Minus 3 points
401 to 600	8%	10%	Minus 2 points
601 to 800	5%	6%	Minus 1 point
801 to 1,000	4%	5%	Minus 1 point
1,000 +	8%	7%	Plus 1 point
Total *	100%	100%	
Average Size	306	323	

Source: VGA, WGV, & Ernst & Young

Note: * Total clubs reported with members 2003 and 1994

As the above table indicates, clubs have generally become smaller in size, with the average size falling by 6% to 306 members in 2003. An additional 6% of clubs have shifted into the category that has fewer than 200 members, now being three out of every five clubs in Victoria, and an increase from approximately one in two clubs in 1994. Those clubs with more than 800 members, being approximately 12% of the market have maintained their share of the market.

Sand Green Clubs

Additional data from the VGA illustrates the number of sand green clubs within the total club mix. The VGA currently report 111 clubs with sand greens, being approximately 30% of all clubs in Victoria. The majority of these clubs fall within the sub 200-member category, as illustrated in the table below.

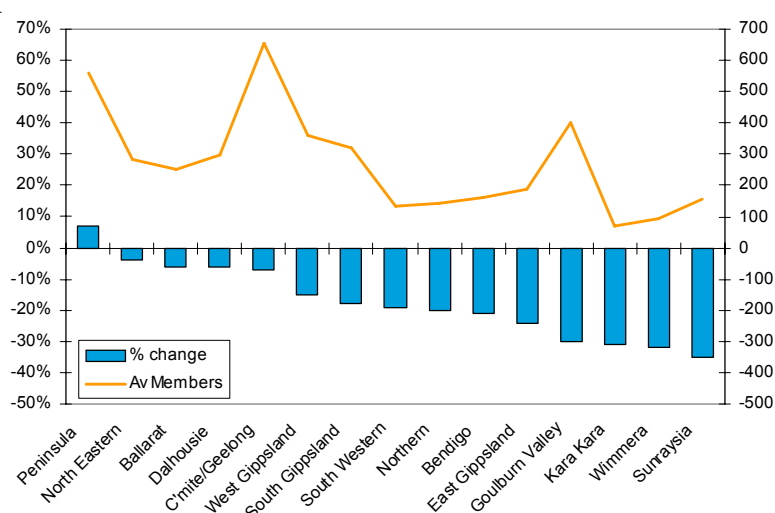
Membership Size	Sand Green % of All Clubs	% of Sand Green Clubs
Up to 200	61%	89%
201 to 400	14%	9%
401 to 600	4%	2%
Average	30%	

Source: VGA

Average Club Sizes in Regional Areas

Assessing average golf club membership numbers by regional district illustrates the general pressures being felt in regional Victoria. As shown in the graph below almost all VGA and WGV districts have recorded falls in average club membership numbers between 1994 and 2003.

% decline in Average Member Numbers per Golf Club-1994 to 2003



Source: VGA & WGV

Note: Geelong includes WGV South Western, South Western includes WGV Western, Sunraysia includes WGV North Western

Club Closures

This information highlights the struggle that many clubs have faced over this period, as the benefits of a critical mass have been decreasingly available to golf clubs across the state. Many clubs, particularly those with less than 200 members and those located in small regional towns, are surviving on the voluntary work done by a few members on a year by year basis. They will likely continue to be at the mercy of the local community and the changes that these micro environments see and is inevitable that some will likely fold. Analysis of historical VGA club data reveals that since 1994 18 golf clubs have disbanded. Many of these clubs were located in comparably remote regional areas and were forced to close as membership levels reached unsustainable levels. In many cases these small clubs are sustained by long-serving volunteers and as these people retire or become too old to continue to offer assistance to the golf club on a volunteer basis, it is highly likely that new volunteers will be difficult to find due to time pressures and changing community attitudes towards volunteerism.

Metropolitan Club Memberships

Although the total male and female memberships reported in the metropolitan markets indicate growth for both of over 5% since 1998, the reported numbers have been heavily impacted by recent development of the "share based" membership clubs. The Australian Golfer Survey - 2003 revealed that members of these clubs are almost three times more likely to hold more than one club membership than traditional membership holders. This finding therefore increases the potential impact of member double counting. When taking this into account, our re-cast of the reported like on like membership numbers shows male and female metropolitan membership numbers as stable across the 5-year period.

Social Golf in Victoria

As reported in the previous section, the size of the total Victorian golf market in 2003 was approximately 357,000 golfers. With approximately 125,000 golfers registered as club members at the end of 2003, it is estimated that the total social golfer market approximates 232,000 golfers or 65% of all golfers in Victoria. This number has grown by an estimated compound average of 5% per year since 1999 when social participation was measured at approximately 192,000 participants.

The following table summarises the estimates made for social golf participation since 1998/99.

	Total Participants	Less Club Members	Equals Estimated Social Participants	Social Share of Total Market
1998/1999	319,200	127,238	192,000	60%
1999/2000	340,900	128,164	212,700	62%
2001	354,700	127,210	227,500	64%
2002	356,800	125,090	231,700	65%
2003	357,000	124,926	232,300	65%
% Growth	12%	(2%)	21%	

Source: ASC, VGA, WGV, & AGU

Victorian Social Participation Gender Mix

As detailed in the National Participation Overview, the level of female participation is significantly lower than male participation, accounting for approximately 20% of all golf participants in Australia. In Victoria the female ratio is slightly lower at approximately

3 Victorian Golf Supply and Demand Overview

17% of all social participants. Our analysis, as outlined in the following table, illustrates the changing gender mix and identifies the significantly higher growth rate being seen in male participation in the social form of the game.

	Total Estimated Social Participants	Total Estimated Male Social Participants	Social Mix Males	Total Estimated Female Social Participants	Social Mix Females
1998/1999	192,000	154,200	80%	37,800	20%
1999/2000	212,700	185,300	87%	27,400	13%
2001	227,500	177,400	78%	50,200	22%
2002	231,700	181,300	78%	50,400	22%
2003	232,300	193,200	83%	39,100	17%
% Growth	21%	25%		3%	
Av growth	4%	5%		0.6%	

Source: AGU & ASC

The preceding tables clearly identify a strengthening social golf market, being approximately 20% in the five year period measured. This growth is largely sourced from increasing male participation.

Conclusions

The review of the level of golf course supply in Victoria reveals the state as having an above average number of golf courses per head of population when compared to other states in Australia. As the review of Victoria's golf history showed however, in many cases, particularly in the regional areas, the golf courses that currently exist were not originally developed based on supply and demand fundamentals as would be considered in today's environment. In many cases they were developed on land gifted by local councils, construction was often aided by volunteer labour delivering the projects for a fraction of what they would cost today.

Given that many of the regional courses (and for that matter even many of the metropolitan courses, particularly the local government owned public courses and original metropolitan fringe courses) were built for reasons other than significant golf demand, it should not come as a surprise that many of these clubs now face 21st century issues that challenge their very existence, with the main challenge being membership.

The review of golf demand patterns in Victoria shows the sport maintaining a reasonably consistent level of participation across the total population averaging over 9% for the past two years, with the highest participatory rates in both genders in Australia. Declines in golf club numbers have been experienced in regional areas, whilst the metropolitan numbers have been impacted (positively) by the recent development of new share based membership clubs.

Total participation numbers have been growing steadily since the late 1990s, though at a social level as more people are choosing to participate in the game in a non-club environment. Our review estimates participation growth in the social category to be approximately 21% from 1998 to 2003, largely sourced from male golfers, though recent total growth has been minimal. This trend identifies that golf as a game is still an attractive sport and that "the golfer" still exists in significant numbers in the community. This should be viewed as a positive for the Victorian golf club industry with the future challenge clearly being the conversion of these participants to the club environment.





The Membership Challenge

Introduction

The specific membership challenges evident in the Victorian market will now be addressed, with the membership numbers outlined in the preceding chapter as the supporting statistical base. The membership challenges to be discussed in this section are summarised as the increasing demographic and societal changes being felt at clubs around the state. This includes the ageing profile in golf clubs, changing consumer expectations/choice, competition from traditional and non-traditional golf venues, new types of membership structure; and the existing "low pay, high play" membership culture.

The membership challenge is clearly a numbers game. The Australian Golf Club Survey - 2004 identified that, on average, annual membership fees account for between 14% and 57% (40% average) of all golf club income (excluding gaming income.) With golf club operations predominantly having a fixed operational expense base with a focus on maintaining member facilities, the importance of growing membership numbers (and income) is therefore quite apparent.

As clubs lose members, particularly the smaller clubs, the revenues received via annual membership subscriptions naturally come under more pressure, as they still need to cover the same expense base. As will be discussed later in this report, the expense base is also shifting.

The Golf Club Environment

As concluded in the previous chapter, the challenge for the golf club industry in Victoria is how to attract the golfer back to a club environment. Before this challenge can be addressed, the definition of what, generally, a typical club environment actually is needs to be identified. Having identified this environment, we will then detail how the non-member views it. An appreciation of this view will therefore allow the club environment to identify what may need to be done to alter this general view and attract golfers back to this form of participation in the game.

Definition

A golf club is typically defined as "an organisation of golfers," or "a club of people who play golf." Legally, a golf club is defined as "an association of people who come together to pursue a common interest." Members pay a fee (typically annually) and they agree to be bound by the rules and regulations of the club. Some of these are statutory,

4 The Membership Challenge

some are set by the sport's ruling bodies, some by the club and the members themselves, but it is these rules and regulations that guide them towards the ultimate goal of a club, that being to always operate in the members best interests, providing the services that the members want.

Adding some financial relevance to this definition, golf club operations have as their goal the provision of a value for money golf experience in the best environment possible from the available funds.

Golf Club Capacities

Before examining the membership challenge, we are able to quantify this challenge in terms of current club capacities and the "space" available in golf clubs around Victoria.

The available capacity at golf clubs is the measure of total membership numbers divided by desired membership numbers. The desired number varies from club to club, reflecting the ideal balance of course space, course quality and revenue mix of each operation.

The table below summarises data from the Australia Golf Club Survey - 2004 that pertains to desired membership levels and the consequent member capacity measure. It reveals that, on average, golf clubs in Victoria desire 750 members and are currently at 70% capacity.

Annual Fee Category	Desired Members	Member Capacity
< \$100	140	61%
\$100-\$249	300	57%
\$250-\$499	730	59%
\$500-\$999	940	64%
\$1,000-\$1,499	1,170	87%
\$1,500-\$1,999	1,400	87%
\$2,000+	1,300	90%
Average	750	70%

Source: Australian Golf Club Survey - 2004

Threats to Traditional Golf Club Membership

In order to fully address the issue of membership, the threats to membership must be identified. Some of these threats, when identified and assessed, can actually be the source of new ideas.

Ernst & Young's research in the golf market and discussions with industry operators and administrators has found the following general threats to the golf industry.

- Loosing touch with current members;
- Changing consumer choices including cost of participation and time availability;
- New development; and
- Other sports.

Of the four basic threats above, the first two are the threats that are most actionable at a micro level. The membership related themes from these points are the cost to participate and the perceived value obtained from the club experience. These two themes are addressed through the following sections. The impacts of new development are also considered in light of current participation trends.

Know Your Member

These threats as discussed reinforce the basic need of the golf club - that is to know your member. All successful businesses in today's society know their customer and golf clubs should be no different. Whilst always seeking to develop and grow the customer base, knowledge of the current customer is vital as it will help shape club operations. For clubs to remain competitive in the environment currently faced, they must accept that they are a seller of a service and today's buyer has increasing choice in where they choose to spend.

Awareness of the following measures will help to ensure the product being offered remains relevant to current and future members.

- Membership gender and age mix;
- How often do they play (average rounds played per year);
- When they like to play (weekday, weekend, am, pm);
- What they spend (average spend per round);
- How far they travel to play; and
- Membership satisfaction levels - what they like and don't like.

4 The Membership Challenge

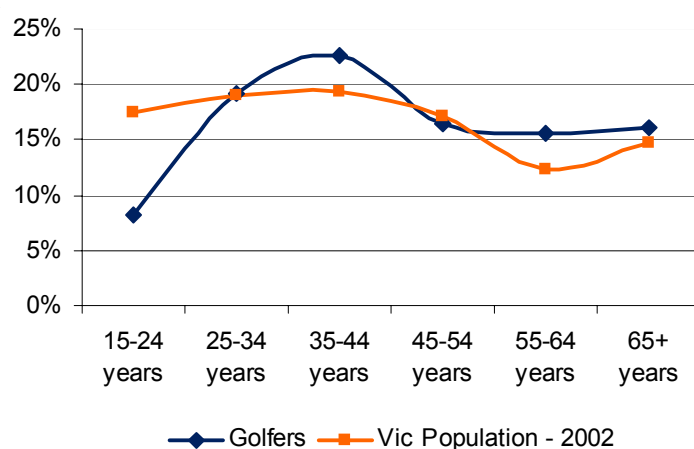
Has your club ever measured member satisfaction? Why is this important? Your current member is already a captured customer and is therefore financially considerably cheaper to retain. In short, they are your customers to lose.

The Ageing Club Profile

Gender and age mix has already been discussed in detail in the previous chapter, the current Victorian patterns identified. In this regard, one of the key trends that clubs need to be aware of is the ageing club profile and the impacts this could have on club operations.

As reported in the demographic overview, the ABS is currently forecasting a significant increase in the number of people who will be reaching the upper end of the age categories (55 yrs +) by 2021. At 2002 these categories accounted for 27% of the total population over 15 years of age. In 2003 the golf club industry already exceeded this measure by 5 percentage points with approximately 32% of the golfing population accounted for in the higher age categories. The following graph illustrates the current Victorian population and golf participation trends by age group.

Population and Golf Participation Estimates - 2002

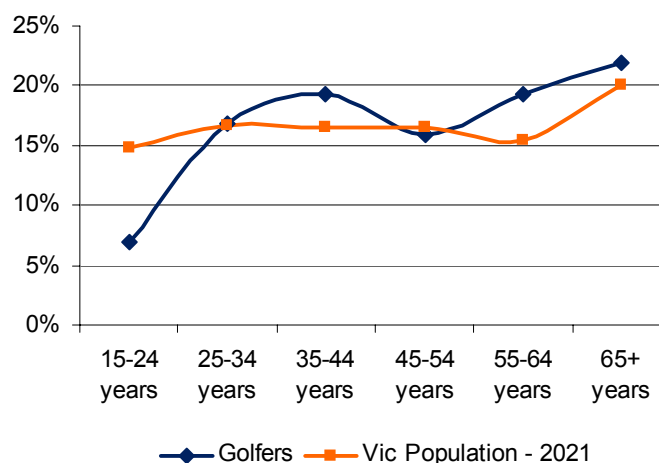


Source: ABS, ASC and Ernst & Young

Should the current age mix within the golf population stay consistent with forecast growth rates amongst the total population aged over 15 years, (i.e. clubs react to the ageing membership profile and ensure the age mix remains at least at current levels,) the total percentage of golfers aged 55 years or greater is expected to approximate 36% at 2011 and 41% at 2021. Should clubs not be able to maintain the current mix, as is probably inevitable in regional areas, by this time these numbers could easily exceed 50%. This upward trend is in line with wider population forecasts but there are greater implications (also referred to in the conclusion of the demographic chapter) for the club industry as explained in the next section.

The following graph illustrates the forecast Victorian population and golf participation trends by age group at 2021.

Population and Golf Participation Forecasts - 2021



Source: ABS, ASC and Ernst & Young

Frequency of Play and Member Yield

It is common knowledge that the older golfer plays more golf due to increased time availability. Research conducted by Ernst & Young in 2003, and Australian Sports Commission data from the same year shows that golfers aged over 54 years typically play at least 50% more rounds per year when compared to golfers in some other age brackets. This trend has bred a low pay, high play culture, with a large disparity evident in the average cost per game.

This average cost per game is referred to as "member yield." It is the annual fee paid divided by the number of annual rounds played. In public play terms, it is the average green fee paid for each game, i.e. the more frequent the play, the lower the average green fee becomes on a per game basis and therefore the better 'value' the annual fee becomes. Clearly, it will not be possible for all members to reflect the same member yield measure, however an awareness of the range evident in club membership should be held.

4 The Membership Challenge

Example

Take a golf club with 500 members with a playing profile as outlined in the following table.

	Average Rounds Per Year
24 yrs or less	37
25-34 years	23
35-44 years	28
45-54 years	35
55-64 years	46
65 years or greater	55
All members**	33

Source: Ernst & Young

Note: * 33 rounds per year is the state average for club golfers in Victoria as reported in the Australian Golf Industry Report - 2002

Each member pays \$500 per year for membership, excluding GST. The implied member yield, on a per age group basis when applying these assumptions is as follows.

	Average Rounds per Year	Annual Fee	Yield	Discount to Average
24 yrs or less	37	\$500	\$13.61	(10%)
25-34 years	23	\$500	\$21.51	+42%
35-44 years	28	\$500	\$17.96	+19%
45-54 years	35	\$500	\$14.17	(6%)
55-64 years	46	\$500	\$10.89	(28%)
65 years or greater	55	\$500	\$9.14	(40%)
All members**	33	\$500	\$15.15	

Source: Ernst & Young

As is evident in the previous table, only two age categories pay above the club average, being the 25 to 34 and the 35 to 44 year groups. These groups effectively subsidise the discounted yield of the remaining members. It could be argued that a fairer "user pays" system would be more appropriate in these circumstances, ensuring that those members who use the facilities the most also pay the most.

Many clubs have recognised this trend occurring in their own environment and it has been addressed in a variety of ways, including playing passes granting a certain number of rounds per year, premium pricing for rounds in peak periods. An example is provided later in this chapter.

Spending Patterns

The spending patterns evident in the typical golf club environment are a key indicator as to the future income health of the club. This issue is included in this report as the ageing golf profile currently evident, and likely to be further experienced in regional areas, makes the industry particularly susceptible to declining membership spending patterns. As disposable incomes decline, the proportion of income used for discretionary spending will also naturally be re-adjusted, meaning less funds are available to service costs within the club environment.

As the other ancillary income sources (food and beverage, cart hire, green fees) account for an average of 60% of club incomes in Victoria, any decline in these revenue sources will place further pressure on the main income stream, the annual membership subscription funds.

Travel Time

An awareness of average time spent by members in travelling to the golf club should be known by club management. Travel time will to an extent dictate the likely frequency of member play and their use of club facilities. Those with further to travel will likely have lower participation rates but will likely stay longer at the facility. The trends evident in this area should be considered when clubs are looking at existing areas of their operation or new areas that rely on a level of member frequency to be sustainable.

Changing Consumer Choices

One of the challenges confronting golf administration is to determine how to best react to the increasing number of options that the consumer generally has in today's society. From a specific membership viewpoint, the consumer is being met with questions as to length of commitment and annual cost versus the average cost to access the facility on an irregular basis. Combined with an increasing choice in facilities in some areas, the potential golf club member is now in a position of power. Addressing this point, we first look at the view of the non-club member.

The Non-Member View

As some clubs struggle to maintain membership levels and attract new members, the reasons why this may be the case need examining. In 2003 Ernst & Young conducted the Australian Golfer Survey, the first national survey ever undertaken that measured specific golf consumer habits, views, and participation trends. Approximately 12,000 golfers were surveyed, with 30%, (approximately 3,400) being Victorian residents.

One area questioned in the survey was the golfers view of the golf club. The respondents were asked whether they had been a member of a golf club before and if they had been why they weren't currently a member.

The following section picks up some of these views and themes, particularly those regarding the cost of participation.

- The majority of respondents cited the main reason for not being a club member was it was too expensive.
- The issue of affordability was consistent across both gender types and all age and income categories.
- The club's inflexible payment options, wrong social fit, and overly regulated environment were also frequently cited.
- For more aged golfers specifically, the inflexible payment options and an overly regulated environment were an increasing concern.
- One quarter of female respondents cited a lack of female orientation as their main reason for not being a current member.

Interestingly, the "too expensive" view was consistently held across all income levels and also across all typical green fee levels paid per public round. The conclusion drawn from this is that the "too expensive" response is actually an indicator to cashflow issues and payment cycles, not the total sum of the annual fee. Payment cycles are further examined in the following section.

Payment Cycles

The golf club industry has long been an industry where membership fees are typically paid annually, in advance. Our enquiries into this annual payment requirement found that this frequency was largely borne out of the cumbersome administration procedures and paper based systems that many clubs operated prior to the electronic age. Despite the electronic age now being a part of everyday life, and other industries having adapted to using it to their benefit, the club industry has generally been slow to alter its payment frequencies.

Example

Examples from the cable TV and health club industries are illustrated in order to put this opportunity into context. Subscriptions are made by many consumers for access to cable television. This is typically done so on a monthly basis, and can cost anywhere between \$45 and \$80 per month, depending on the service accessed. It is mainly paid by direct debit or placed directly onto a pre-agreed credit card. The only time the consumer sees this cost is when either the bank statement or credit card statement is received. The extraction of the subscription requires no involvement of the consumer and is therefore relatively painless.

Now consider the alternative scenario. An invoice is received in the mail for an annual subscription to the cable television service. It is for a yearly amount of \$500 to \$900. It needs to be paid by the consumer physically calling the company or sending a cheque. The consumer clearly has more time to consider their decision, with this decision more likely to consider the actual value of this service, against how many times this service may have been used in the preceding year. The chances of them withdrawing from the service are therefore greater. A smaller, albeit more regular financial cost, received painlessly, may well be more justifiable to the consumer as the perceived lost value is not as great.

Current Club Payment Cycles

Data from the 2004 Australian Golf Club Survey found that 54% of clubs in Victoria already offer some form of payment option other than one annual lump sum. This ranges from 20% of clubs with annual fees less than \$100 to over 85% of clubs with annual fees over \$2,000. The main payment options are summarised in the following table by annual fee level.

Annual Fee	Monthly Payment	Quarterly Payment	Six Monthly Payment
< \$100	1%	3%	1%
\$100-249	4%	4%	15%
\$250-499	27%	36%	22%
\$500-999	56%	41%	59%
\$1,000-1,499	47%	24%	65%
\$1,500-1,999	27%	7%	67%
\$2,000+	39%	15%	69%
Average	21%	17%	27%

Source: Australian Golf Club Survey - 2004

The payment frequency offered at each club is important as it determines the frequency of the "value for money" decision that the consumer makes in regard to membership. The decision essentially considers the cost either in totality (is it worth still playing) or against other golf experiences that may be generally available. Assuming the golf experience is of equal quality to any other option available that may have more favourable payment cycles, the value for money measure must fall in the club member's favour.

Logically, a discount (of significance) should be received when measured on a per game basis. This also takes into account the opportunity cost of the annual fee and the

4 The Membership Challenge

impact on member cashflows at the point at which it is incurred. If the facilities are not of equal quality then an even greater discount must be received.

Public Pricing

The consideration above equally applies to the social cost of participation at the same club and points us toward the process by which public (social access) green fees can be determined. Again, the relationship between the costs of the average game as a member must be seen as being value for money when compared to the ability to participate at the same facility as a social golfer.

Results from the 2004 Australian Golf Club Survey show that approximately 80% of clubs in Victoria classify themselves as either a public or semi-private facility with regular social golf access allowed. Clearly the social golfer is a source of demand for these clubs, and therefore the member/public price per game equation should be examined.

Analysis of data collected in the 2004 Australian Golf Club Survey reveals that the current average discount that the member receives against public stated green fees is 25%. This is computed by determining the average member yield (annual fee divided by average annual rounds played per member) and then dividing the public green fee by the result.

Example	Calculation
Annual Fee	\$540
Average rounds per member	30 round
Member yield	= \$540 / 30 round = \$18
Public green fee	\$24
Member "discount"	= 25%

Source: Ernst & Young

As outlined on the previous page, 54% of clubs already offer alternatives to the straight lump sum annual fee payment. It appears that those clubs with greater membership capacity are already addressing this point to a greater degree than those clubs with less membership capacity. This has two impacts. The first is that it reduces the impact on member cashflows, due to a smaller amount being paid, albeit more frequently. The second is related to this timing, in that if the member has not used their membership in recent times (most often the last reason for exiting club membership), the perceived cost for not doing so is a smaller one.

Conclusion

The health club industry is an appropriate example of an industry that also previously only offered annual membership alternatives. They however realised long before the

golf industry that the consumer was demanding something different in terms of options and commitment and they now offer numerous packages to suit all types of people leading all types of lifestyles. These include, frequent visit passes, early bird passes, season passes, and off peak only memberships. As explained in this section, and as already being seen in some clubs, adaptation of these options to the golf industry is an option if you have identified this need from your target market.

Issues raised in discussions with industry administrators and club managers around this topic and the ability to potentially alter payment frequencies were mainly focused around increased administration requirements, and a reduced ability to forward plan with a certain level of income certainty. The challenge for the industry is to overcome these administration issues and continue to adapt their current business practices to the consumer's changing needs and expectations.

Availability of Time

The second change readily identifiable in today's consumer is how they choose to spend their spare time. Given that golf has never been a relatively quick or time efficient game the industry was always likely to suffer when increased demands on time arose.

The Australian Golf Club Survey - 2004 found that 75% of clubs now report that golf, on average, has become at least a 4 hour plus game. These time estimates vary by club size and are summarised in the table below.

	Golf Members				Total
	1 - 300	301 - 700	700 - 1200	> 1200	
4 hours	40%	23%			26%
4hrs - 4.15	30%	46%	50%	50%	39%
4.16 - 4.30	20%	26%	46%	38%	27%
4.31 +	10%	6%	4%	13%	9%
Total	100%	100%	100%	100%	100%

Source: Australian Golf Club Survey - 2004

As time pressures increase, the challenge to the golf club and the wider industry is to find ways to reduce the time taken to play the game or adapt the game so participants do not drop out of the sport.

One potential solution, for which research also currently exists, is for clubs to offer official (handicapped) 9-hole events in conjunction with 18 hole events. The Australian Golfer Survey - 2003 found that this form of golf event was considered desirable by 33% of golfers who were faced with increasing time pressures and who may need therefore need to withdraw from the game or participate with less regularity. As identified in the table below, this level of interest reaches 63% of women who have the

4 The Membership Challenge

average female handicap (29.1), clearly marking this opportunity as significant at least for the female game.

The opportunity is also not unsubstantial for men as well with almost 50% of men with handicaps greater than 18 indicating an interest in this form of the game. (GolfLink reports the current average male handicap to be 18.0.)

Level of Interest in Official 9-Hole Competition

Handicap	Male	Female	Total
0-4	19%	30%	20%
5 - 9	26%	33%	26%
13-19	31%	26%	31%
20-27	40%	42%	40%
28 +	63%	63%	63%
Total	31%	46%	32%
Average Handicap	18.0	29.1	

Source: Australian Golfer Survey - 2003 and GolfLink

New Membership Structures

The type of golf membership being offered in the market has changed significantly in the past five years. Golf memberships are now offering everything from transferability, asset equity, frequent player cards, and premium playing time preferences to name a few. Each of these new types is briefly discussed.

Yield Management Memberships

Membership structures that focus specifically on yield issues have certain strengths and weakness when compared to the typical "all in" membership. A brief summary follows.

Membership Feature	Strength	Weakness
All in Membership	<ul style="list-style-type: none"> - Certainty of income - One Annual Subscription Period - Easier Annual Management of waiting list - Income can earn interest 	<ul style="list-style-type: none"> - No Flexibility - No Consideration of consumers cashflow - No Yield Management Opportunities - Annual cost may deter membership if not seen as value

Membership Feature	Strength	Weakness
Frequent Player Card	<ul style="list-style-type: none"> - Golf Played at time of choosing - Better value for money - Golf purchased in appropriate quantities 	<ul style="list-style-type: none"> - Limited ability to yield manage - Need to make regular sales - Price Saving needs to be significant over single game purchase
Premium Times	<ul style="list-style-type: none"> - Active Yield Management resulting in higher revenue 	<ul style="list-style-type: none"> - Not relevant if time not important - Not relevant if excess space always generally available

Source: Ernst & Young

The relevant question to each of the above options however is - are they individually a solution to the current membership challenges that your club may be facing? Each theme serves a different purpose, however the increasingly common thread is one of "user pays." The one assumption being relied on from this point is that there is an ability to manipulate the supply of golf as demand currently exceeds the level of golf (tee times) available. In other words, clubs have the ability to put golf demand into space where supply is available, and offer alternative pricing points in doing so, much like hotel and airline operators maintain and sell their inventory.

Information Gathering

In order to properly assess whether the application of any of these alternatives are appropriate for a club the first requirement is to know what playing frequencies are apparent in the current member playing patterns. This information can be gathered via a survey process as previously mentioned in the Know your Member section or via a review of member playing records.

Once this information is collected and analysed the club can determine if any opportunities exist for new membership categories to be created. You may find that certain times of the week are always full, which potential new members would pay a premium for or other "off peak" times are always available and which could be packaged up in a frequent player card with a certain number of rounds of play guaranteed in that particular time slot.

An appropriate example of the premium time is the Saturday morning tee time, (in some clubs it is the afternoon period) frequently sought after by golfers with young families and by those who don't get the opportunity to play mid-week. Instigating a user pays system (higher fees) for this premium period would potentially shift some default demand from this time, freeing up capacity to add new members, and better spreading demand across the entire available playing periods.

4 The Membership Challenge

Case Study

An example of an application of this alternative membership structure is found at a club in NSW as they recently addressed their membership issues in response to the changing club and consumer environment.

Strathfield Golf Club are a mid tier club in Sydney. Located approximately 20 kilometres from the CBD, the club largely services golfers in the immediate 10-15 kilometre area. The club has a member base of approximately 900 members though in recent times struggled to maintain its member numbers at renewal time, losing up to 60 players each year. The membership drives conducted by the club have had varying levels of success but the annual loss of members made it difficult for the club to plan with some certainty, given the potential vulnerability of future revenues. The Club realised that in order to achieve more certainty each year they had to address the annual loss of members and identified the inflexibility of the current membership structure as the major problem.

The membership structure they had did not allow for the differing playing patterns which were evident at the Club. They had an "all in" membership which among adults provided only for full playing, midweek or country membership. The new direction recently pursued is a membership structure that relates to the individual's frequency of play.

Under the scheme adopted by the Club, each member was issued at the beginning of the year a membership card containing a certain amount of "green fee points." The points vary according to the level of likely play selected by the member. Points are then deducted each time the member plays, according to the popularity of the day of play, structured as follows:

- Monday, Tuesday, Thursday and Friday - 10 points per round
- Wednesday and Sunday - 20 points per round
- Saturday - 30 points per round

One of five membership categories could be selected, with each priced on a sliding scale. The more golf played, the cheaper golf became when measured on a per game basis. The table below shows the number of points allocated to each membership category, as well as the new, scaled fee concept.

Membership Category	Green Fee Points	Annual Cost
Gold	Unlimited	\$2,200
Full Playing A	3,300	\$2,000
Full Playing B	2,000	\$1,600
Full Playing C	1,000	\$1,100
Full Playing D	300	\$500

Source: Strathfield Golf Club and Ernst & Young

In order to pay the annual fee, members were asked to estimate how many green fee points they will likely require throughout the year based on their normal playing patterns. In future years, members will be able to look back over their playing history and dependent on the amount of golf they expect to play, they can shuffle between the categories accordingly.

It was possible for a member to join at a lower membership category than the normal level of play, with the member able to "top up" points when they expired through the year. Additional points are only available in bulk blocks, thereby encouraging members to be generous in their initial estimates of their playing frequency at the start of the year, so as to receive a better ratio per dollar.

Other provisions of the new membership concept include:

- Nine hole rounds are possible and in such cases half of the green fee points allocated to the day on which the golf is played are deducted.
- Unused points are forfeited at the end of the financial year, however, in the final quarter of the year members are able to use their points to invite visitors to play in either social or competition golf.
- The Board has a right to authorise a "carry over" of points to a new financial year having regard to individual circumstances such as long-term illness.
- Under this new structure it will not be possible to pay annual subscriptions in instalments.

The Outcomes Thus Far

The scheme adopted by Strathfield Golf Club is now only three months old and the feedback from the club on the outcomes thus far are:

- Most members downgraded to a level below the old annual fee level.
- Annual fee incomes are budgeted to fall by approximately \$120,000 in the first year, however a surge in incomes may occur when green fee credits expire prior to the end of the year.
- A significant number of non-playing members (70) have reactivated their membership as they now have the ability to match their membership cost with playing frequency.
- Demand patterns are shifting away from the traditional high traffic day of Saturday to "cheaper" midweek days.
- Weekend slow play issues have been largely eliminated due to the demand shifts.

- The Club expects the annual attrition rate to be significantly reduced as members are able to adapt their membership in future years, stabilising the club's future income projections.
- The yield pattern is more fairly spread, in that the more golf played, the cheaper it becomes, yet those playing less frequent golf are not subsidising the higher levels of play, (as outlined in the example table on page 46.)

Conclusions

This yield management system can also be adapted for other uses, such as more fairly distributing the spread seen in member yields at clubs with a full membership quota. In this case however Strathfield Golf Club undertook the process as a way of stabilising their membership base and adjusting the annual cost of golf to the frequency of golf played. They expect their annual fee income to fall initially, as they make golf at their club more affordable, however in coming years they believe golf at their club will be an attractive yet affordable option and their membership base will subsequently grow as golfers are able to choose their cost of participation.

Asset Equity / Transferable Memberships

The "modern" golf club membership model, offering asset equity and transferability are mainly concerned with new golf developments. The new developments have had to raise significant levels of capital for land purchase and the funding of golf course and clubhouse construction and as land values and construction costs continued to grow in the current day, new financial offers had to be identified to raise capital to meet the increased financial requirements. This was achieved by re-packaging the traditional joining fee, the historical source of golf club capital needs.

In present times, as baby boomers focus on income generation and capital protection, traditional joining fees are perceived as "dead money." The fact that the joining fee has never been refundable is also no doubt a hurdle to entry to a golf club that some potential members will not accept. The "modern" membership was therefore born when this issue was removed by attaching transferability. A joining fee that could be re-couped on sale effectively ended the perception that club joining fees were still wasted money. By attaching transferability, the price to be paid could be increased, thereby also raising the amount of capital to a level that met development costs of the new club.

The transferable membership has typically been packaged in two distinct ways, being an equity and non-equity offering.

Modern Membership - Strengths and Weaknesses

Both models have strengths and weaknesses. The following table summarises the main strengths and weaknesses of the equity and non-equity golf membership models:

Membership Feature	Equity	Non Equity
Strengths	<ul style="list-style-type: none"> - Golf member has sense of ownership. - Shareholders/members own golfing assets. - Shareholders/members have security of tenure. - Provides developer with exit strategy from ownership of golf assets. - Able to participate in distribution of assets if liquidated. - Changes to constitution often require 75% shareholder approval; therefore only member approved share dilution can occur. 	<ul style="list-style-type: none"> - No future concerns re owning company's liabilities or shortfalls. - Often lower membership costs imply a lower level of risk. - Membership offer is more straightforward and cheaper to administer. - From an owner's perspective, it allows maintenance of control as no voting rights are granted
Weaknesses	<ul style="list-style-type: none"> - Requires offer via a prospectus issue. - Greater administration requirement. - No guarantee of secondary market. - Club cannot sell members shares, as in most cases they are not a licensed dealer. - Member could undersell club on price. - Doesn't allow for capital improvement funding over the long term. 	<ul style="list-style-type: none"> - Greater risk of membership value loss due to lack of tenure. - Golf access right only. - Limited voting rights for member, if any. - Potential membership dilution as no ability to control club constitution. - No guarantee of secondary market - In liquidation, liquidator will have over-ride to use.

Source: Ernst & Young

Case Study

Portsea Golf Club (PGC) is located on Victoria's Mornington Peninsula is one such club that has considered a new form of membership as it faces the increasing challenges of the 21st century. Not only does the club have to contend with environmental, governance and cost issues like all other clubs, it is also faced with a local market that has become increasingly competitive and a renowned international golfing destination.

In terms of course distribution, the state average is one golf course per 13,200 head of population. The Mornington Peninsula region is now home to approximately 16 golf courses, resulting in a distribution measure of one course per 8,600 residents, evidencing the competitive demand challenge in the region.

Many of these courses are public access and offer golfing conditions equal to or better than those found at many private golf clubs. This is a positive for the region as a whole, and PGC does attract a reasonable share of this public access green fee traffic, however when overlaying the membership challenge, and the need to maintain a membership base to fund club operations, the increased regional choice and quality is placing increasing pressure on the golf club.

To address this issue, PGC developed a new golf membership, being a membership that allows for the playing rights attached to be transferred. (This membership is a form of non-equity membership as discussed above.) PGC has been pro-active in this regard in that membership levels have actually increased by approximately 20% since 2000 as a result of some successful membership drives. The club recognised however that it needed to develop such a product now in order to reduce its potential exposure to the changing market conditions, secure funding of future capital needs, and to remain relevant to the new member market.

PGC is a unique club in that despite not being metropolitan based, it has a significant number of metropolitan based members (50%). In addition, the course is also a highly regarded layout, ranked number 40 by Golf Digest in early 2004 and the 9th best public access course by the Golf Course Guide in 2004. With these numbers in their favour, this new membership offer may well be successful at PGC yet it would not necessarily work for other clubs located in the area or for clubs in other regional areas that are suffering from similar fates.

The new membership offer being made by PGC however illustrates that with an understanding of the typical member profile and recognition of the wider operating environment, new membership alternatives and solutions can be developed if thought (and effort) are given to the membership challenge.

New Development

As discussed in the previous chapter, Victoria has seen significant levels of new golf development over the last five years. Further development is also planned for coming years with the state to remain the most densely populated state in terms of course distribution across the country.

Of those 14 clubs listed as having opened in the last five years on page 22, 10 clubs have, or are offering, a modern membership of either the equity or non-equity variety and with the exception of one club, all of the clubs with a modern membership are also located within sizeable residential developments, highlighting the real driving force behind current golf course construction at the present time.

The threat to the club industry from these developments is significant as in most cases the provision of golf is the ancillary product to the main product with golf not necessarily being considered on the usual supply and demand fundamentals.

If these new developments were generating new demand, the threat would not be as significant as it now appears. Given the patterns currently evident in golf participation and the softening of club numbers in regional areas, the new golf developments are only likely to continue to fragment the demand pool and draw from what already exists.

With this likely demand outcome in mind, it is recommended that thought be given to the following points:

Recommendations

1. Ensure you have a thoroughly considered view of the club's future trading prospects and operating environment. How strong are you and what local pressure could you withstand and for how long?
2. What benefits could you potentially bring to a new development? Any new golf development will need and will depend on some level of local demand.
3. Investigate the possibility of aligning an existing club with the new proposed development. The new development will most likely be of a significantly better quality than any existing course.
4. Would potential relocation open up some development opportunities on the club's existing land?

Declining Club Patronage

Whilst not a membership threat per se, a real threat to golf clubs is that of declining club patronage. The Australian Golf Club Survey - 2004 found that food and beverage income accounts for between 25% and 50% of club income across Victoria (excluding gaming and joining fee revenue). Evidencing the fact that revenues generated from spending in ancillary areas of golf clubs such as food and beverage are vitally important for golf clubs.

Given the added time pressures that seemingly exist in today's society, the heightened awareness of random breath testing, the pressure on membership generally and the fact that people are no longer looking to their golf club to be a key part of their social focus, clubs need to be cautious in attempts they make to change member spending habits. With this caution in mind, some ideas are presented which may be appropriate in addressing this growing concern.

- Consider a levy. Although not likely to be a popular decision, levies do secure the sale of a certain amount of product.
- Trial the sale of simple beverages on course. Juniors could be recruited to do this via a golf cart.
- Consider including a drink voucher with the daily competition fee.
- Take advantage of the club's liquor licence and offer good priced take away beverages.

Entry Point - Junior Club Members

The final area to be reviewed as part of the membership challenge is junior club participation. Juniors can be a very important component of the club, not only providing a base for adult membership but also a link to their parents who may not be currently involved in the golf club. The minimum age required for junior entry into golf clubs in Victoria is summarised in the tables below.

Annual Fee Category	Minimum Age
< \$100	11
\$100-249	11
\$250-499	12
\$500-999	11
\$1,000-1,499	12
\$1,500-1,999	13
\$2,000+	14
Average	12

Source: Australian Golf Club Survey - 2004

It is not surprising to see that the minimum age requirement increases as the average annual fee increases, as these clubs currently have indicated that they have less capacity available. In considering membership however, the policy towards junior ages should be considered, as they can be a source of current and potential future members.

Conclusions

The industry collectively faces a position of now having to "sell" itself to prospective members. Club membership is now a "buyers market" in most regions of the state, with only those clubs in the upper tiers of desirability being largely immune from present membership pressures. Regional areas are faced with a heightened challenge as declining population bases naturally impact the size of potential participants they can draw from, increasing the importance of current members and potential new junior participants. Following are recommendations concerning membership which could assist in the membership challenge.

Recommendations

1. Investigate the impacts of an adjusted subscription fee income stream, determining what alternative payment frequency schedules other than the annual payment option can be considered, and how many can be offered. This consideration will have increasing relevance to the ageing golfer, the potential volume of which was highlighted in Chapter 1.
2. Be aware of the "image" your club is projecting, ensuring it appeals to as many social types as possible. This may be achieved by offering a variety of events, or showing respect/flexibility around community events that would increase the appeal of the club and therefore encourage certain sections of the community to participate. Above all, build a people friendly club environment that encourages participation.
3. Offer different size competitions. As decreasing time availability has been identified as a key issue, look to developing a 2 hour 9-hole competition format, with locally adjusted handicaps.
4. Consider alternative membership structures, including different playing options, with a goal being to reduce the impression of golf being "too expensive." These include off peak time initiatives such as daylight saving rates, and Sunday access passes.
5. Offer different events on certain days to entice the public to try the game of golf. Each course can simply be turned into an 18-hole or 9-hole Par 3 course to reduce the initial time commitment and to make the first few games of golf more participant friendly

6. Despite the female members accounting for on average only 23% of total memberships in Victorian golf clubs, recognition of the importance of this category and the need for balance should be shown. This can be achieved by encouraging the female committee to be active in the golf club, for the club committee to support their events, and where appropriate volunteer their time. (Female representation on club boards will be discussed in the Corporate Governance section of this report.)
7. Look at the retention rate of juniors making the transition to adult categories. If it is poor, then consider the increased membership cost that is applicable. Juniors making the transition could be rewarded with a sub fee level that is commensurate with their early adult income earning capacity.
8. Seek closer relationships with other sporting groups in the area, such as tennis, football, netball etc. Invitation days between sports groups is one potential way to attract new players to the game.
9. In markets where new membership growth is not easy to achieve and for those clubs who do not have membership waiting lists, consider the cost of losing a member versus the cost of finding a replacement. Recording the frequency of member play, tracking and then contacting those who have not participated at the club in a defined period will remind the member of their importance to the club.
10. Conduct regular surveys of your members to find out what they think. This can be done professionally, or can be as simple as tick the boxes on a short survey when scorecards are being completed. Ensure a good cross sample of all members, including a balance on gender, age groups, handicaps, and weekday and weekend players. What is the collective view of all? In many cases it is the "noisy minority" that are heard above all others, not those who are most satisfied and who may have constructive ideas, not just criticisms.
11. Determine the relationship between the average member cost per game and that charged to the paying public for irregular social access. If the relationship does not show significant benefit to participating as a member, then the public green fee should be re-examined.
12. Seek to increase your "market share" by long term planning to lift interest in golf from young people. Targeted junior/school development programs which expose young people to golf will enable your club to build a pool of potential new members.

13. Conduct golf and club information programs targeted at specific adult groups, eg women, early retirees, coupled with club membership arrangements which match their needs and circumstances.
14. Be alert to new membership building initiatives in other clubs and other sports and look at adaptation for your needs.



The Land Challenge

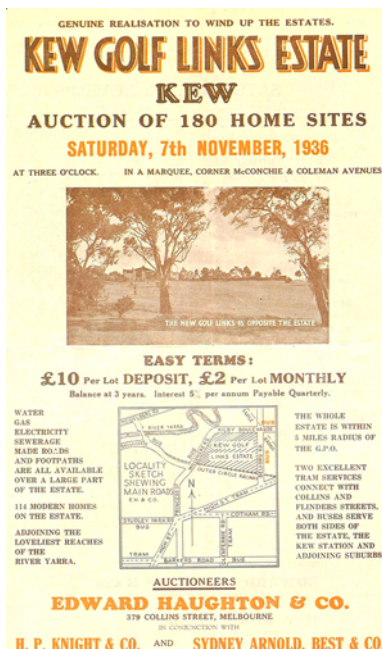
Introduction

The large parcels of land that are required for golf have always made the game vulnerable in this area. The challenges currently presented by land occupation are not new challenges for Victorian golf as historical records show that many of the state's earliest clubs were forced to relocate as the population base grew. Well known metropolitan clubs such as Royal Melbourne, Victoria, Kingston Heath, Metropolitan, Yarra Yarra, Commonwealth, Northern, Kew, Riversdale, and Keyborough all began life in different locations to where they are today. These club relocations also spurred the development of new clubs as breakaway members decided to do their own thing, with Huntingdale, Box Hill, and Eastern all born from the original movement of the Riversdale club.

Given this history, it should therefore come as no surprise that in the current day the 'cost' of using land is still one of the bigger challenges now being faced by clubs in Victoria. As outlined in the brief history of Victorian golf at the beginning of this report, golf clubs were initially established in most towns across the state due to the determination of a few, coupled with an abundance of very cheap land. At the time these clubs were located in fringe areas of towns or suburbs however continued urban population growth, spiralling land values, increasing council rates and water access issues, coupled with more modern issues such as insurance and public safety are all reasons for the increasing pressures being placed on golf club land.

As clubs grapple with these issues, opportunistic land developers are approaching clubs (who are in most cases asset (land) rich and cash poor) with offers that sometimes seem too good to refuse. But whose opportunity is this? It is certainly the club's to maximise, but in recent times the developer and associated service providers have also extracted significant benefits.

This chapter outlines the land challenge and how clubs should generally be dealing with the issues that arise from it. The reasons that clubs should always obtain independent advice when dealing with development approaches/proposals from commercial developers will be detailed as will some of the pitfalls associated with planning requirements. The internal challenges that may be felt on the membership front will be discussed and finally what seems to be a negative word in the golf industry, amalgamation, will be reviewed with the benefits of such decision outlined. Given the pressures being felt in many clubs across the state it is very surprising that only a handful of clubs are discussing this option.



Land Pressure

The pressures surrounding golf club land are coming from two sources. They are the spiralling land values being experienced in both metropolitan and regional areas and the knock-on effect on the club's main asset and the issues associated with urban sprawl.

Land Values

Results from the 2004 AGU Golf Club Survey show that approximately 45% of golf clubs in Victoria own their land. The balance are involved in lease arrangements with either state or local government bodies, or other entities.

Most golf clubs have occupied large pieces of land for many years. Land sizes in most cases ranging from 40 to 100 hectares. As illustrated on page 19, 53% of clubs have been in existence for over 50 years with 35% operating for more than 70 years. Over the period of club existence the underlying land values have in most cases significantly increased without any purposeful actions by the club, an ironic result for entities that are generally 'not for profit' organisations. As a result the underlying land value and its ownership has become the major asset of the golf club. It is therefore appropriate to actually document and illustrate the actual trend seen in land values across the state.

The Victorian Department of Sustainability & Environment (VDSE) produce an annual report titled "*A Guide to Property Values*." We have extracted some information from the 2002 report that details the historical trend seen in Victorian land and housing prices, to help illustrate the potential value of land that golf clubs are occupying, with many now located in areas that are surrounded by or have been encroached upon by residential development. Without entering the zoning debate, it is clear that these values have been recognised by developers and the development approaches made are aimed at unlocking these values.

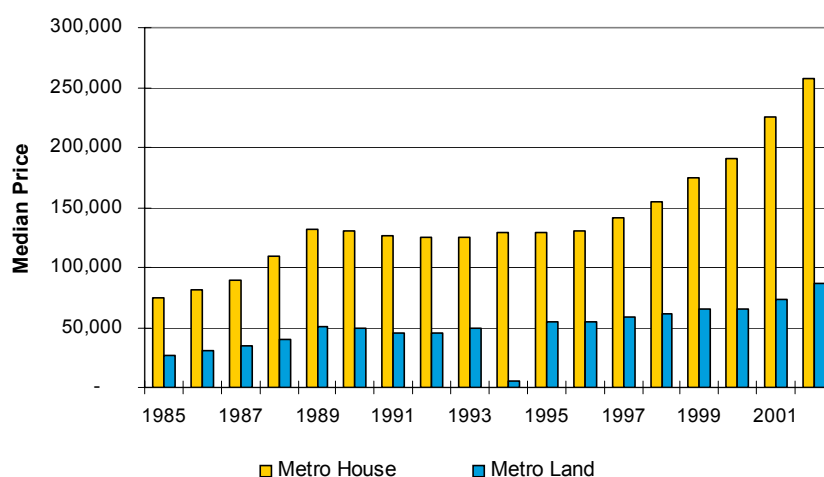
The key findings from the 2002 VDSE report are:

Metropolitan Values

- Metropolitan median house prices have grown by an average compound rate of 7% since 1985.
- Absolute growth of 94% has been recorded in metropolitan median house prices since 1995, with 31% recorded since 2000 in the same market.
- Metropolitan land prices have grown at similar rates to the housing rate with compound growth of 8% since 1985.
- Metropolitan land sales have recorded absolute growth of 95% since 1995 with 63% growth since 2000.

The following graph illustrates the findings from the metropolitan market.

Metropolitan Housing Price and Sale Trends 1985 - 2002



Source: Department of Sustainability & Environment

Regional Values

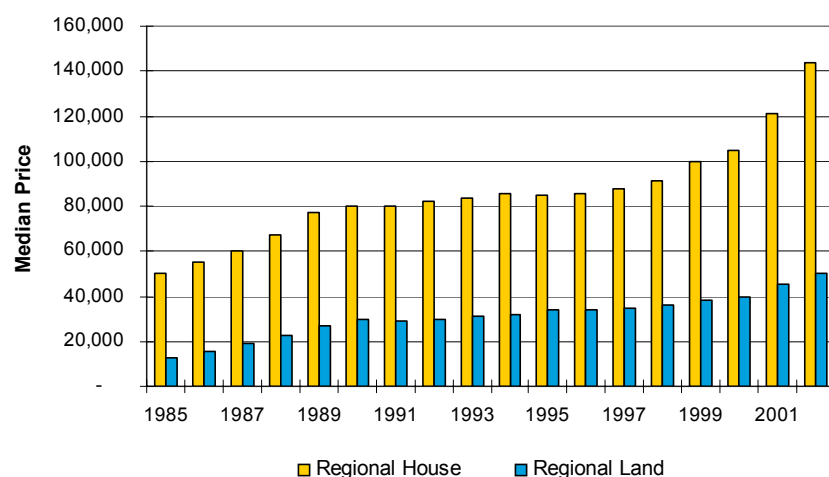
The following patterns have been evident in the regional Victorian market:

- Compound annual growth in regional Victoria has averaged 6% for house sites and 8% for vacant land sites since 1985.
- Growth in house prices in regional Victoria have largely matched those seen in the metropolitan region with absolute growth of 82% since 1995 and 48% since 2000.
- Sales of land only in regional centres have recorded absolute growth of 57% in the median price since 1995 with 33% growth since 2000.

5 The Land Challenge

The following graph illustrates the findings from the regional market.

Regional Housing Price and Sale Trends 1985 - 2002



Source: Department of Sustainability & Environment

Cultural and Recreational Lands Act (1963)

The Cultural and Recreational Lands Act of 1963 goes some way to providing clubs with protection from some of the associated costs attached to souring land vales, being increasing municipal ratings. During the 1950's many of the bigger clubs faced a considerable financial hurdle when the government at the time was proposing to rate golf courses based on unimproved residential land values. Common sense prevailed and clubs were spared this cost, however the Act provided for penalties if the courses so protected under the Act chose to eventually sell up. Given the spiralling land prices seen and illustrated above, this clause (some may say fortunately, others say unfortunately) offers little deterrent to this increasing possibility today.

Conclusions

The brief review of the trend seen in land and housing prices over the period 1985 to 2002 clearly illustrates the potential value of the land that many golf clubs presently occupy in both metropolitan and regional areas. Notwithstanding the zoning issues that will exist, as the industry enters the 21st century the potential value of golf club land may be the actual saviour to those clubs who own their land. Land "swaps" with developers and relocation to fringe areas are both opportunities that otherwise may not have been available if land pressures were not as they currently are.

The spiralling land values give some clubs another opportunity to create a new successful golf environment, replacing the former environment that may not have been sustainable well into the 21st century in their current shape. If opportunities are assessed and managed correctly, club longevity could be guaranteed for many, many years to come.

Urban Sprawl

The other major source of pressure on golf club land can be termed the general urban sprawl. This sprawl has created issues with golf course boundaries, in that the buffer zones that presently exist are now less than what would ideally be desired as clubs deal with errant golf balls straying into neighbouring properties. Apart from hole re-design or screening fences, the only protection generally available to the golf club is via insurance and as more claims are made against clubs due to the increased litigiousness of today's society, insurance premiums are continually being upwardly revised with this direction to never change.

Some land decisions made in previous troubled times are now also a source of increasing concern, as portions of or slithers of land sold to previously raise funds are now adding to club boundary problems. Equipment technology is playing a part, in that the golf ball goes further when hit off-line. With many courses now locked in by often un-associated residential development, club boundaries are under pressure. The law courts are now finding in the residents favour when it comes to protection from errant golf balls. Roads that in one time saw only low traffic may now be considerably busier and golf holes orientated along fence lines can also cause considerable traffic safety concerns. As a result of these issues clubs are being forced to re-orientate, re-align or even remove the offending golf holes.

Relocation or Development Proposals from Commercial Developers

As land pressures have taken further hold in the past few years the instances of clubs being approached by speculative land developers has significantly increased. Indeed there are certain development groups that have been formed to specifically focus on the golf industry and as a result there are many clubs in Victoria that currently have proposals before them for some type of development. These include development of small portions of land, relocation of club infrastructure, development of and/or swapping of adjoining land parcels, and full club relocation.

This focus of the development groups on golf clubs is not by chance. Recognising the significant increases in land values, the decreasing amount of developable parcels of land, particularly in metropolitan regions and larger regional centres, and the general declining health of some golf clubs, approaches by development groups are well planned, and thoroughly researched. They come armed with significant levels of information about site specifics, including land zoning, easements, club balance sheet strength, recent financial performance, even knowledge of the backgrounds of specific club Board members and general views of the membership. In short, they come with more knowledge than the club will ever have about property and more often than not they come with a pre identified, preferred solution.

PORTSEA
Golf Links Estate

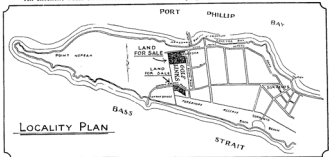
Allocations for Sale on Very Easy Terms, in Victoria's most fashionable and popular seaside resort, adjoining and overlooking the Golf Links.

Point Nepean road allotments just two minutes from glorious bathing beach and pier.

Back Beach allotments 4 minutes from Ocean and beautiful surfing beach, right on the London Bridge road.

The progress Portsea has made during the last few years is wonderful. Numbers of our well known business people have built seaside homes, and the Portsea Golf Links and Tennis Courts have added to the attractiveness of this beautiful seaside resort.

An excellent water service can be obtained on the property.



Portsea is splendidly served by Railway Motors and other Cars, also Boat Service, which give a continual daily service throughout the year, and the return fares are very reasonable.

Allocations with frontages of from 60 feet by Depths varying to 250 feet can be secured at the following prices: 10 Acres road allotments from 60 up to 100, ONE EASY TERM OF 50 PER CENT CASH, Balance over 2 years at 8 per cent interest. LONDON BRIDGE ROAD ALLOTMENTS, 10 PER CENT CASH, Balance over 2 years at 8 per cent interest. LONDON BRIDGE ROAD ALLOTMENTS, 10 PER CENT CASH, Balance over 2 years at 8 per cent interest.

Illustrated Circulars containing all information now obtainable from—

GUDGEON and GRACE
60 QUEEN STREET, MELBOURNE
Local Agent: JAMES MORTON, Portsea

The advertisement printed in the Herald newspaper on 12th January, 1927.

It is for this very reason, being the imbalance of property knowledge, why clubs should obtain independent advice when dealing with development approaches/proposals from commercial developers. Generally less knowledge ensures that clubs cannot:

- Perform their own due diligence;
- Assess the opportunity offered compared to others that may be available;
- Gain an understanding of the different levels of risk that may be attached to the proposal;
- Appreciate the timing issues;
- Determine how good the outcome potentially is for the club, both financially and socially;
- Understand the zoning issues;
- Have a full appreciation of the future environment that golf clubs will operate in, including what the golf club member of the future will want; and
- Fully understand and value the opportunity available to the developer.

After all, the opportunity available in this scenario belongs to the golf club, not the developer, as it is the club who owns the land and who should therefore at least equally determine, (if not even partially dictate) terms.

Planning

Introduction

As many in the golf industry and the wider community are aware, development proposals remain just that until approved by local government. As local government and other government bodies generally become stricter in their planning and development guidelines, receiving a development approval is far from a guaranteed outcome. Depending on the size of the proposal, the process can be a long one, it can be expensive, and it can be political.

The Pitfalls

As highlighted by the recent closure of Geelong Golf Club, significant hurdles can exist in the any planning process. (The unfortunate closure of Geelong Golf Club and the events that forced its closure are reviewed in more detail in a case study at the end of this report.)

In this case, the planning issue at hand was a re-zoning application seeking initially the closure of the course and development of up to 400 home sites. (The amended application was for the closure of 9 holes only and the development of approximately 200 home sites.) The outcomes to the developer were only guaranteed if the re-zoning application was successful. Whilst the outcomes have been somewhat complicated by the fact that in this case the club sold their land "as is" to the development group, relinquishing their title to the land before the final development application was lodged (due to the financial situation that the club was in) the application, was ultimately unsuccessful and denied by the local council in mid 2004.

The recent decision made by VCAT to reject the rezoning application lodged by Croydon Golf Club in their attempt to relocate to a piece of land in Lysterfield in another example of this risk. The club had believed that their application was going to be successful but one lone objector led to the application being rejected. This rejection has stalled the clubs re-location plans and delayed the expected development timelines.

These two events highlight only one of the planning pitfalls, being current land zoning. Re-zoning takes time and can be political. Therefore considerable allowances should be made as the outcomes are also not always guaranteed. Other potential pitfalls not encountered in this process but often encountered elsewhere, include heritage issues, environment (flora & fauna) issues, traffic flow issues, noise and signage issues. The common theme they all have is time, being the final planning pitfall as often expectations in regard to timeframes are too short.

The Member Communication Challenge

The member communication challenge can be classified as another planning pitfall and given the context of this report, it is appropriate for it to be discussed in more detail.

Member communication is vitally important in all clubs. As highlighted in the previous chapter, knowing your member and their collective views will ensure that the decisions made regarding all areas of club operations are made with the requisite levels of knowledge. Good communication can pre-empt any concerns that are typically raised when change occurs. A club/board strategy of "no surprises" will seldom fail. Poor communication and many surprises will.

When land as an issue enters the discussion mix, the need for clear member communication however escalates. Land as a topic touches the "concern" cord of every member, as land is the golf club and the golf club is the land. Any threat or change to either can potentially be viewed as a threat to their very participation in the game.

No decision will please everyone. In a golf club environment this is perhaps never truer, however decisions need to be made and therefore some members will inevitably be less pleased than others.

The following is an outline of the general 'rules' that should be followed in regards to member communication.

Communication Rules

1. If land oriented decisions are being considered at Board level, ensure that the members have a full understanding as to the reasons why and that the reasons have been previously well communicated to the members.
2. Outline the current financial position of the club and some "as is" scenarios at future dates. Include a general snapshot of the industry allowing your member to place your club in context to the wider market.
3. Commit to regular information updates. Regular and accurate information negates the impact that gossip will have within the club environment.
4. Commit to a timeline of events. Change will not happen tomorrow.
5. Identify those members with skills or possible contacts that could be of assistance with the project. Communicate to the members that these people have been co-opted by the Board.
6. Beware the destabilising impact of an unhappy member. Identify the potential "rogue" element/s that may exist in the club and actively seek out their concerns as they may be easily addressed. You need them working with you not against you.

How to Deal with Land Challenges

The challenges being presented in regard to land are perhaps the hardest to face in a golf club environment as they so often threaten the very existence of the club. Club constitutions and corporate governance regulate how these challenges can be met. The responsibility of the elected Board from the membership is to guide the club through their period of tenure. Traditionally these unpaid, voluntary decision makers seek stability and direction that will keep most of the members satisfied most of the time, with member inconvenience minimised. Decisions on land change this charter as the comfort from what is known and is tangible (the present golf course/hole) is potentially removed and replaced with the unknown (the proposed golf course/hole).

In order to properly address the land pressure challenges in the 21st century, it is recommended that golf clubs undertake the following:

1. Advise the members that you are seeking external, independent advice as to the best outcomes for the club, acknowledging the importance of removing the impact of emotion on any decisions made. This will also provide members with comfort that "market testing" of value and concept is being undertaken.
2. Communicate to the members that you are seeking alternative development / land solutions and that they are being equally considered. This highlights that you are not only pursuing one possible outcome, (implying that the decision has already been made as to what is the best outcome for the club) without their input.
3. Don't surprise the members with decisions that they can't see as likely to be made.
4. Seek out members of the club who may have land knowledge and importantly more relevant skills than current Board members.
5. Co-opt these members and establish a committee whose sole responsibility is orientated around land issues. Be sure to include the Superintendent and the General Manager.
6. Arm yourselves with as much information as possible. Seek advice from others who know more than you such as government/council representatives and other industry practitioners.
7. In discussions with these practitioners, be aware of their independence and proposed solutions that may benefit them disproportionately to those achieved by the golf club.
8. Be proactive with communication to the membership body particularly when looking at land issues. You will ultimately need their buy in to any changes and therefore you should keep them as informed as possible. No information is often perceived as bad news.

Potential for Amalgamation

As land pressures take hold, and clubs slowly come to terms with the changing demographic environment, golf participation patterns and generally more challenging operating environment, one solution that should be considered by many clubs, particularly the smaller clubs across the state will be that of amalgamation.

What is Amalgamation?

In a strict business sense, amalgamation is the joining together of two or more organisations that are incorporated under the same legislation. This definition is important, as an association cannot legally amalgamate with a company as both are subject to different legislation.

What Form Does it Take?

Amalgamation typically occurs in two ways. The first is a merger. In this instance both entities cease to exist and they roll their assets and resources into a new entity which satisfies the members of each. The second is a takeover, where only one entity ceases to exist with its assets and resources rolled into an existing entity.

Amalgamation in Victoria

Amalgamation has historically not been a positive word in golf clubs. The issues that could lead to amalgamation have been treated as tomorrow's problem, not today's. In fact in the last 20 years there has been no official golf club amalgamations recorded in Victoria. It is acknowledged however that "official" amalgamations may not pick up clubs that decided to informally get together, made possible by the fact that they had little by way of club assets to protect. This would be particularly applicable to clubs that lease the golf course land from another party (typically a council) and shared some form of clubhouse facilities with other users.

The review of regional Victorian club football highlighted the impact of shifting population, being the disbanding of over 60 regional clubs and the amalgamation of another 70 clubs. Our review of the golf club sizes and average membership numbers in the golf clubs across Victoria in the earlier chapter acutely highlights the membership pressures currently faced. Average club sizes have fallen by 6% since 1994 and 61% of clubs now have membership numbers of less than 200. Of these clubs over 70% have membership numbers of less than 100.

These numbers suggest that many golf clubs are only just surviving. It would appear that for many, club amalgamation may present some upside. The realities however are that as clubs singularly protect and value their heritage and history in the short term, many may be forced into closure in the medium to long term as the challenges of the 21st century continue to impact their operations.

Is Amalgamation only for Small Clubs?

Amalgamation is not just relevant to clubs that have seen their membership numbers reduced to very low levels. It is also relevant to clubs which may currently be in a reasonable financial and membership position, but can foresee times ahead that will create significant challenges for them, particularly in areas such as membership demand, course renovation, capital expenditure, and/or continued land pressures.

Some clubs in Victoria are located very close to one another, some even sharing roadways and fence lines, and if amalgamations were to occur it would likely be between these clubs first as they could benefit from more easily shared resources, such as maintenance, administration, and centralised clubhouse facilities. Acknowledging these times, there are reports that some clubs have indeed already begun informal discussions.

This consideration is very relevant for regional golf clubs which are servicing the same population base. As this report has highlighted, future success will depend on the ability to extract “flow on revenue and expense benefits from strength in numbers. With regional populations not experiencing any noteworthy growth, these benefits are simply not available whilst these clubs continue to compete for the same demand. Serious consideration should be given to accessing the benefits of strength in numbers that amalgamation will provide.

The challenge for the industry is initially the provision of data that will allow a view of the future to be formed. This macro information can then be applied at the micro level for a more localised view. Presently, amalgamation unfortunately remains tomorrow’s problem. Delayed action on this front and an ultimate merger from a weaker position only ensures that the volume of benefits to be potentially gained will not be realised until the amalgamated businesses have regained some strength.

The positive outcomes to be gained from amalgamation, orientated around general strength in numbers, are outlined below:

Larger Club	Smaller Club
Shared resources	Larger volunteer pool
Access to value of redundant land	Larger annual revenue stream
Larger annual revenue streams	Bigger competition sizes
Increased maintenance budgets	Increased maintenance budgets
Improved economies of scale	Improved economies of scale
Ensures better quality golf still available in area	Ensures golf still available in area
Chance to create better reciprocal agreements	

Source: Ernst & Young

Hypothetical Example

The following paragraphs are a hypothetical scenario of two clubs considering amalgamation. Any coincidences with existing clubs are unintended.

Club A and Club B are located on the fringes of metropolitan Melbourne, approximately 10 kilometres apart. Both have existed for over 60 years, with their history traced back to the enthusiasm and generosity of two local businessmen at the time. The clubs, despite their reasonably close location by today's standards, were developed separately as transportation between the two was initially difficult and they both typically pulled new members from opposite directions, one to the west and the other to the east. There was some cross-over in capture areas however with this having now increased given the ease of current travel options.

Both clubs were reasonably successful over the years, servicing a predominantly blue-collar market. Their respective courses, having been built by local volunteer labour and to no grand plan, were of a decent standard, but were never a major selling point of the club. Each Club's focus was the community and they happily co-existed with annual fees and associated revenues covering the annual expense base of the club. New members and the introduction of joining fees, albeit minimal amounts, provided the clubs with revenue to undertake small projects and maintain their respective facilities. Cash reserves never reached much more than \$100,000 and their land was the only strong point on the balance sheet.

Entering the 1990s both clubs slowly started facing financial challenges. Losses had been incurred in annual operations for the past few years, draining cash reserves. The infrastructure at both clubs was outdated and well worn with the small projects undertaken only maintaining what they had. New membership demand had also slowly diminished, as other more modern clubs opened in the area and people had generally less time for golf. Membership fee increases were unwelcome as the ageing membership could not generally afford the annual increases and special levies were occasionally also used to fund small projects but they too were not well received and they resulted in some members resigning. Membership drives were held at both clubs, with the attraction being reduced joining fees, and these had some success. The discounts offered however for new members were not sustainable in the long term and the increased member numbers didn't lead to increased spending in the clubhouse due to the tired facilities generally available.

As a consequence, club revenues were spiralling downward whilst other late 20th century issues continued to force costs upward. The urban sprawl had caught the clubs and what were once grazing cattle fields adjoining them had become urban subdivisions. Pressure was being felt with insurance due to the immediate proximity of fence lines and the member facilities continued to gradually decline, making member retention and new member attraction difficult.

Given the above circumstances, these two clubs have available to them the following general scenarios:

Scenario	Outcomes
Continue to trade "as is", fighting against industry pressure and declining aged membership, using levies, donations, etc to fund projects, reliance on volunteer help.	Small wins, likely continued slow decline with the club financial position becoming weaker each year, no attraction for new members. Club remains under threat in the medium term.
Look to use part of the club's main asset (land) to access funds to keep club competitive.	A potential solution, depends on size of land, unlikely monies will be sufficient for long-term gain and financial stabilisation Club remains under threat in the medium term if desirability of club hasn't changed.
Consider club relocation, accessing land values.	A potential solution, though does not necessarily recognize industry demand and pressures, need for different demographic, image, or positioning at new location (otherwise existing problems transfer). Club could still be under threat in the long term
Seek amalgamation solution with other club.	Accesses full land value, (even retain some development opportunity at old site) merge with some financial health still retained, accepts changing industry environment, creates strength in numbers, allows significant injection of funds into new facility, potential extension of facilities, increased appeal to market, retains golf in the area, club accessible by both sets of members.

This example outlines the general scenario likely being faced by many clubs around the state. It is not meant to be exhaustive in terms of benefits but is designed to present the amalgamation option in a more positive light. The example can be equally applied to both metropolitan and regional clubs, with the only difference being the relative financial strength and the probable priority order of the issues being faced.

Acknowledging that little change is likely to occur in the wider operating environment, the benefits of amalgamation need real consideration. In this example, if amalgamation could achieve the outcomes noted above, then the process is a good outcome for everyone involved. Importantly it accepts that society is always shifting and the industry must therefore shift with it. Whilst doing so strength in numbers is created, allowing two previously vulnerable clubs to face future challenges with more resources.

The immediate horizon for the industry generally was also one of increased pressure. As these two clubs had little prestige, the pressure on them was therefore the most intense. The reality of society is that businesses come and go. Few are sustainable forever without different directions being taken at different periods to cope with the challenges of the time.



The Environmental Challenge

This chapter addresses the challenges being presented to golf clubs when working in and with the environment in the 21st century. These sometimes complex risk management challenges include the availability and cost of water, water catchments, flora and fauna, occupational health and safety issues (for both golfers, club employees and club neighbours), and noise abatement. The challenge for golf clubs today is to manage all of these issues whilst also providing and maintaining playing surfaces to the quality expected for golf.

Introduction

The most analysed part of a golf club is its golf course with its day-to-day presentation and quality a constant topic amongst the membership. Given this constant focus it would appear that the course superintendent is charged with a seemingly impossible job in maintaining the course for day-to-day play, throughout all weather conditions, seasons and traffic patterns at a consistent level.

Add to this that golf courses are living, breathing organisms, and superintendents are now increasingly expected to also improve playing surfaces in the face of reduced water availability and desired use of less chemicals, whilst also giving consideration to occupational health and safety issues, it soon becomes clear that challenges are plentiful when it comes to golf and its relationship with the environment.

It must be stated that golf is not inherently bad for the environment. Its impact is dependent on the level of knowledge held at courses and the way they are developed and/or managed. Some would say that its impact is also dependent on the amount of funds that golf clubs and courses have available to control their interaction with the environment.

The document produced by the Society of Australian Golf Course Architects titled, *"Golf Courses - Benefits to the Community and Environment,"* succinctly summarises ten key benefits of golf courses. They are as follows:

- They provide wildlife sanctuaries;
- They preserve open space and remnant vegetation in urban environments;
- They protect topsoil from degradation;
- They protect water resources;
- They rehabilitate degraded landscapes;
- They promote physical and mental well-being;

- They promote indigenous flora and fauna
- They improve air quality and moderate temperature
- They utilise and treat water resources such as sewerage, stormwater and urban run-off; and
- They beautify the environment and provide community education on environmental issues.

As government regulations and society's expectations increase as to the level of care afforded to environmental interaction and the increased public scrutiny of golf as a potential environmental vandal, the industry's awareness of the environment has never been greater. Results from the 2002 Australian Golf Industry Report found that golf clubs in Victoria generally have a healthy level of concern about their interaction with the environment, with this level of concern heightened in the metropolitan area. The survey found that over 75% of metropolitan clubs were as a minimum concerned about the environment, with 58% of regional clubs having the same concern.

Two years on, the results from the 2004 Club Survey show that the level of concern has not abated, with the metropolitan areas still as concerned as they were two years ago. The level of concern for regional clubs has actually increased by approximately 10%, evidencing an increasing awareness of the industry's interaction with the environment in these areas.

The 2002 and 2004 Club survey responses are summarised in the table below.

Level of Concern for the Environment	2002 Metro	2002 Regional	2002 Total	2004 Metro	2004 Regional	2004 Total
No concern	9%	24%	20%	7%	13%	12%
Somewhat concerned	14%	19%	18%	15%	16%	16%
Concerned	34%	33%	33%	41%	39%	39%
Very concerned	26%	16%	18%	35%	21%	24%
Extremely concerned	17%	9%	10%	2%	11%	9%

Source: 2002 Australian Golf Industry Report and 2004 Australian Golf Club Survey

Environmental issues however are a challenge of the 21st century and are here to stay. In this regard, they must be faced by the industry. The document titled, *"Improving the Environmental Management of NSW Golf Courses,"* produced by the AGCSA, and equally applicable to all states, summarises the realities of the industry to be:

- Making do with lower quality water sources;

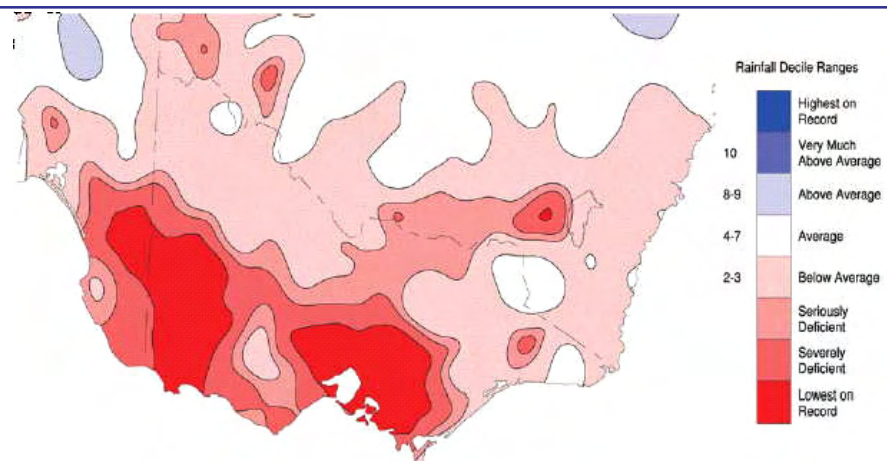
- Altering management practices;
- Treating the water and soils to offset the detrimental effects of salts, bicarbonates and nutrients;
- Introducing more water efficient and salt tolerant turf grass species;
- Having a greater knowledge of water quality and its impact on soils and plants;
- Undergoing increased soil, water and plant monitoring; and
- Using improved irrigation practices.

Some of these specific environmental challenges will now be addressed, being the availability and cost of water, turf quality and types, health and safety issues and costs for golfers and club employees, and noise abatement.

Water Availability

Victoria is officially in drought, with this current drought period beginning in 1997. Its impacts have been severe, with more current than 200 regional towns forced into water restrictions in May 2004. Of concern is that scientific research forecasts that rainfall levels may actually continue to decrease on an annual basis indicating that the golf industry may have to permanently adjust to reduced levels of rainfall in coming years. The map below details the rainfall patterns experienced in Victoria over the period to early 2003, clearly illustrating the water pressures being felt around the state.

Accumulated Victorian Rainfall - October 1996 to April 2003



Source: Yarra Valley Water

As the state responds to the decreasing supply of natural water sources due to the drought conditions, it is also faced with increasing demand issues. This issue is

particularly relevant in the metropolitan region, as 75% of the forecast population increase of 1.35 million by 2030 is expected to reside in the metropolitan area where, if current water practices remain unchanged, water supply capacities will be reached before 2020.

Current Water Restrictions

Given the current drought conditions, the Victorian water authorities have instituted a drought response plan to manage water during this period. Five stages of restrictions have been formalised, with their triggers being the capacity level of the major water sources.

Stage Two restrictions are currently in place, with the following conditions applicable to golf courses:

- Greens and tees can be watered by:
 - Hand held hoses at any time;
 - Manual watering systems (that turn on or off by hand) between 5am - 8am and 8pm - 11pm; and
 - Automatic watering systems (that turn themselves on and off) between 11pm and 6am.
- Fairways cannot be watered.

Government Water Strategy

In response to the forecast critical future water supply levels, the Victorian State Government has embarked on a major water research project. The final white paper produced, titled "*Securing our Water Future Together*" looks at smarter water practices for the state. The paper came up with a number of recommendations for future water use in Victoria which impact golf.

These recommendations include greater use of recycled water (increasing its usage from 1% to 20% by 2020), and a significant reduction in the unnecessary use of potable water, particularly relevant to parks, gardens and sporting grounds. As part of the white paper, some permanent water measures have been proposed and they are currently open for public comment. Those that are relevant to the golf industry are:

- A sprinkler, microspray or drip system or any other watering system must not be used to water a garden or lawn except between the hours of 8pm and 8am.
- All automatic-watering systems installed from 1 December 2004 must be fitted with either a rain sensor, soil moisture sensor, weather station or evapotranspiration device as part of the control system.

- All existing automatic watering systems must be fitted with either a rain sensor, soil moisture sensor, weather station or evapotranspiration device by 1 December 2005.
- A hand held hose fitted with a trigger nozzle can be used at any time.

The white paper recommendations and the proposed permanent water restriction conditions clearly will have an impact on the golf club industry. The VGA intends a detailed response to government on behalf of the industry with the data collected from the recently conducted club water survey to be used as the base to this document.

Golf Club Water Accessibility and Cost Concerns

With the government having made their intentions clear on future practices concerning water usage, the club industry had already had concerns about water access and cost. The 2002 Australian Golf Industry Report highlighted these concerns with the report stating that approximately 70% of Victorian clubs had a reasonable level of concern about water costs, with almost half being either very or extremely concerned about water.

Further analysis of the numbers revealed that there was an increasing level of concern when measured by region and annual fee categories, a reflection of the desire to provide playing surfaces commensurate with the level of annual fees paid (on that assumption that the clubs with the better playing surfaces have a greater reliance on regular water supply.)

The recently conducted 2004 Club survey confirms the industry's current concern for water, with those having an extreme concern about water almost doubling across the state in this two-year period.

The 2002 and 2004 Club survey responses are summarised in the table below.

Level of Concern for Water Costs	2002 Metro	2002 Regional	2002 Total	2004 Metro	2004 Regional	2004 Total
No concern	14%	16%	16%	6%	17%	15%
Somewhat concerned	6%	18%	16%	8%	11%	10%
Concerned	29%	25%	25%	17%	11%	12%
Very concerned	17%	20%	19%	25%	16%	18%
Extremely concerned	34%	21%	24%	44%	46%	46%
Total	100%	100%	100%	100%	100%	100%

Source: 2002 Australian Golf Industry Report

The level of concern represents a significant shift away from the historical views held by the industry towards water. Golfers in the early days typically held the view that you get what you are given in terms of playing sources and adapt to the resulting conditions. Clearly as golf as an industry has grown, its economic importance has increased, and as the expectation of the golfers have increased the views of the industry towards water have also necessarily changed, recognising that without water there is no golf.

Golf Course Water Sources

In order to further understand the water issue faced generally by the industry, it is necessary to highlight the sources of water currently relied on by the industry. Golf courses are perceived in the community as being very high users of water, with pictures such as that below being a common representation of the industry's perceived attitude to water consumption.

A Common Golf Course Sight



Source: AGCSA

General society however would not necessarily be aware of the positive, pro-active actions that the industry generally has taken towards the environment and water conservation. The current focus on water by the government however is an opportunity for the industry to be seen as a "champion" of the environmental and water causes. Increased awareness of industry practices, and communication of the efforts being made in regard to water are immediate opportunities for the industry to enhance its environmental reputation.

In order to do this successfully however, more information about the industry's use of water needs to be known. The data obtained from the current VGA survey is an ideal starting point from which this goal can be achieved.

In 2003 the AGCSA undertook its first ever industry survey, focusing on key areas of golf course maintenance. This survey, titled the "*2003 Turf Industry Census*," also collected information on golf course water sources as well as golf course dam capacities. A total of 74 Victorian clubs participated in the survey, with the response mix being one third metropolitan and two-thirds regional. The following table summarises the Victorian data received in regard to golf club water sources.

Water Source	Metropolitan	Regional	Total
Don't know	0%	3%	2%
Water mains	25%	21%	23%
Bore	6%	13%	11%
Dams	34%	33%	33%
River or creek	19%	13%	15%
Treated effluent	16%	16%	16%

Source: AGCSA 2003 Turf Census

Note: Approximately 20% of these clubs reported more than one water source

The results above give an indication of the level of reliance on the various water sources available around the state. A small percentage of clubs reported that they were already using treated effluent or recycled water with over 50% reliant on water from sources ultimately reliant on natural climate patterns.

A healthy number of clubs reported their water source to be on site dams, though further analysis of these numbers indicate that over 50% have storage capacities of less than 30 Mega litres, indicating that these dams may not necessarily satisfy the total annual water needs of these clubs. When the drought breaks the water challenge at these clubs will be more easily rectified. The dam storage capacity data is summarised in the table below.

Dam Capacity	Metropolitan	Regional	Total
1 - 10 Megalitres	6%	27%	19%
10+ - 30 Megalitres	41%	33%	36%
30+ - 60 Megalitres	29%	17%	21%
60+ Mega litres	24%	23%	23%

Source: AGCSA 2003 Turf Census

Irrigation Areas

The 2003 Turf Census also sought information on the existence of irrigation systems, and where present, the areas of the golf course typically irrigated. Approximately 93% of clubs surveyed had an irrigation system in place, with the areas irrigated summarised in the following table.

Areas Irrigated	Metropolitan	Regional	Total
Greens	100%	94%	96%
Tees	100%	92%	94%
Fairways	92%	79%	83%
Roughs	21%	6%	11%

Source: AGCSA 2003 Turf Census

The results above indicate that more extensive irrigation systems are generally seen in the metropolitan region, with the biggest differential evident in fairway and rough irrigation. The smaller sand green clubs are not represented in this sample as many do not irrigate their courses and accept the conditions as nature provides.

As the impacts of the current drought take hold, the rainfall dependent sources and the irrigation systems they feed will be placed under increasing pressure. The new government water strategy will also impact those clubs that rely on water from council mains, being approximately one in four golf clubs. Clearly the water challenge has never been so great.

2004 Water Pricing

As a result of the Victorian Government White Paper, potable water pricing has also been adjusted to help the government attain its goal of increasing the use of recycled water from one percent to 20 percent. The pricing adjustments are to be introduced on October 1st 2004 and will feature a tiered system for mains sourced water that is based on volumes, with higher users of water paying higher prices. These prices are summarised in the table below.

Quarterly Usage	Price Per Kilolitre
Up to 40,000 litres	75 cents
40,000 to 80,000 litres	88 cents
80,000 plus litres	\$1.30

Source: Melbourne Water

It is expected that under this system that average users will face water bills three to five percent higher than previous bills. For large users of water, such as golf clubs, annual water bills could increase by more than 10%. As an example, for a golf club that consumes 20 megalitres of water each year, the price adjustments will result in an annual water bill of approximately \$25,000.

Water Solutions

Having outlined the general water challenge, this section of the report addresses some of the water solutions available to golf clubs. Accepting that climate patterns cannot be altered, the solutions are reasonably limited. Bore licences, recycled water and less water dependent grasses are further investigated.

Bore Licences

In ground bores are one potential future source of water for golf clubs around the state. Commonly referred to as "Groundwater," bores take water from underground sources known as aquifers. Bore use (of greater than three metres in depth) is licensed by the regional water authorities, under section 51 of the Water Act 1989, and are a delegated responsibility from the Minister administering the Act.

Process

The typical process for bore construction is to apply to the regional bodies for a bore construction licence. This application must be accompanied by hydro-geological information on the water table and the bore "opportunity." The application is then advertised throughout the community and to other government bodies, and pending any opposition, will be granted. At this time drilling can begin.

Cost

One of the drawbacks to using bores as a potential source of water is their cost. Application, advertising, and hydro-geological report costs reach \$5,000 and bore drilling costs approximate \$110 per metre. With bores ranging in depth from anywhere between 10 metres and 150 metres, the resultant drilling costs can be very expensive.

Water Quality and Volume

The other drawback to bore construction is the uncertainty surrounding the water volume, its quality and likely lifetime. The hydro-geological reports will provide some level of comfort as to these issues but not until the bore is drilled will they be able to be ultimately confirmed. The risk therefore exists that an expense of up to \$20,000 could actually yield very little water. These drawbacks, if surmountable, are quickly equalised however by the cost of this water, being only \$1.80 per ML of licensed volume per annum plus a small annual licence fee.

Protected Areas

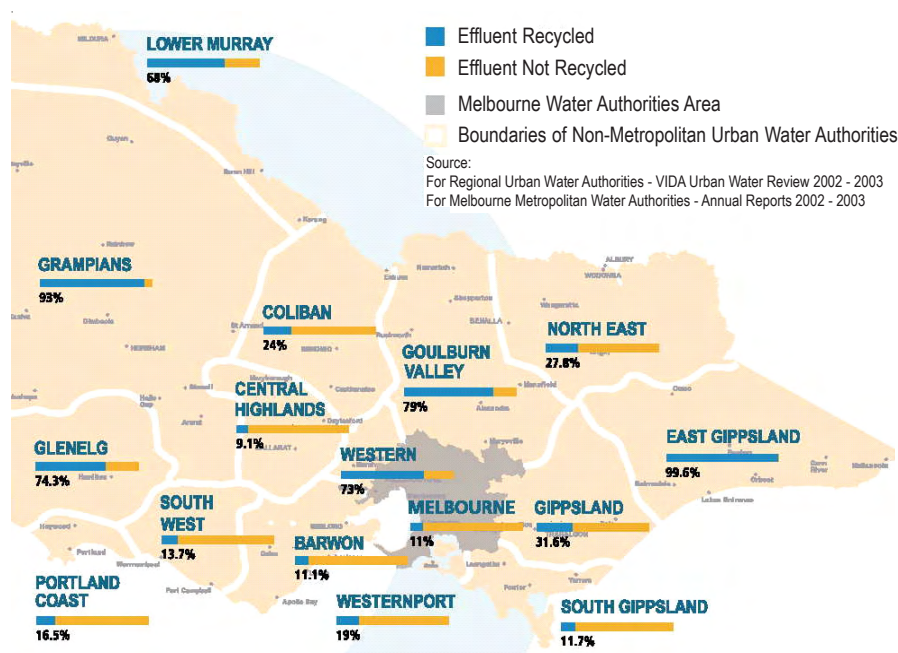
For some years, however there have been growing concerns that the groundwater aquifers are over utilised and therefore the underground water resource were unsustainable. A statewide program of regulation, moratorium and investigation was

therefore established with this program setting preliminary limits on the annual volumes allowed to be extracted from an aquifer. The program also sets in place a process to develop Groundwater Management Plans (GMPs) for the aquifers which are of most concern. Many GMPs already exist, with many fully or even over-subscribed. In this case, the water authorities in the relevant area need to be contacted to determine whether any new bore licences will actually be granted prior to beginning the bore opportunity process.

Recycled Water

The following map outlines the percentage of treated effluent currently being recycled across Victoria. As illustrated, certain regions of the state already recycle significant levels of effluent water, however the unweighted state average is less than half at approximately 42%. The opportunity that is apparent in Melbourne is very evident, given the size of the population, the existing infrastructure and the small percentage (11% - the second lowest in state) of current recycled effluent use.

Percentage of Treated Effluent Recycled Across Victoria



Source: Department of Sustainability and Environment

In terms of the metropolitan market, Melbourne Water is presently assessing volume and water quality requirements for a major water-recycling scheme for golf courses in southeast region of Melbourne. They are also investigating options for onsite water recycling and supply from the Eastern Treatment Plant. It is expected that these results will be used to develop water strategies with local councils. The proposed scheme for the southeast region is outlined below.

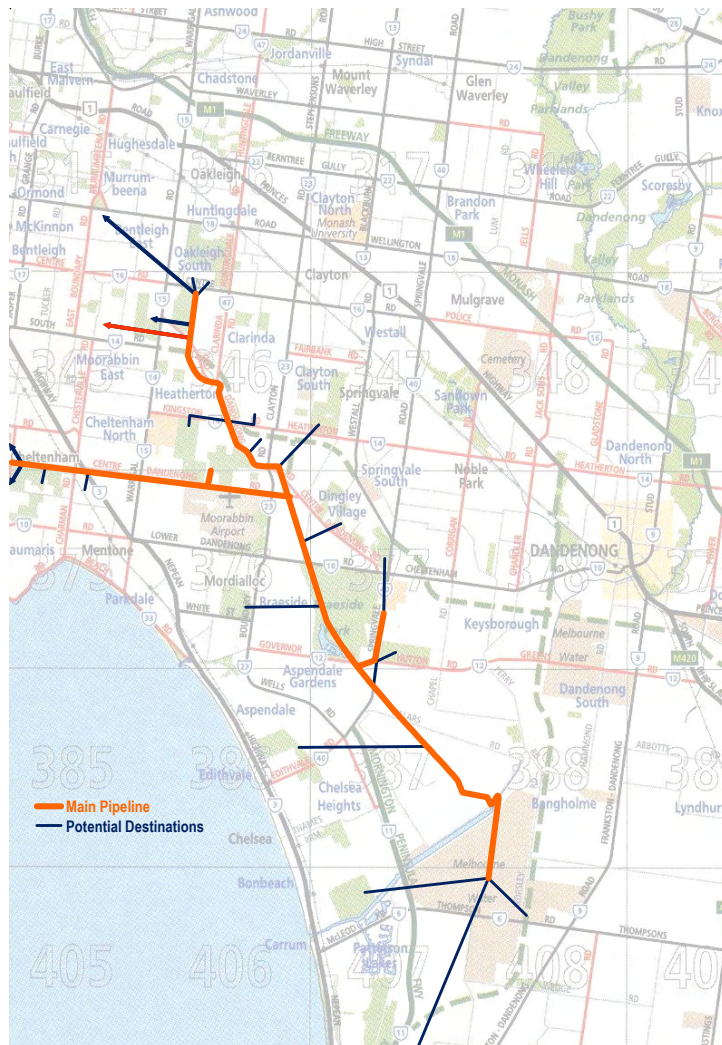
Proposed South East Recycled Water Scheme

A scheme is currently being investigated by Melbourne Water to provide effluent water to a number of golf, recreational and school ovals in the southeast region of Melbourne. Approximately 24 golf courses have been identified as being able to potentially be serviced by the scheme, if the \$20 million proposal is found to be feasible and approved. This region is being considered due to its convenient location to the existing water treatment plant located near Carrum Downs in south east Melbourne.

The scheme calls for the golf course to purchase a guaranteed amount of water on an annual basis, with pricing to be comparable to current mains water pricing. Annual requirements could range from anywhere between 10 megalitres and 40 megalitres, depending on the size of the golf course and the areas requiring water. Current construction estimates allow for a 12-month infrastructure upgrade (pipes being laid within existing pipes) with recycled water potentially to be available by the end of 2005.

The following map outlines the golf courses that are well placed to benefit from this scheme.

Potential Routing of South East Melbourne Recycled Water Scheme



Source: Melbourne Water & Ernst & Young

Water Recommendations

Water is not a finite resource and for some clubs and as previously stated there is no magical solution to the water challenge, particularly in regional areas. Indeed, the VGA report that some golf clubs in north-western Victoria have already had to discontinue play during the past months because of inadequate grass cover on fairways.

In summary, it is inevitable that the water challenge will prove to be too great for some, but there are some processes that can be undertaken that will ensure the best endeavours in regard to water are being made.

Recommendations

1. Development of a water management plan. This is a plan that identifies the work and practices that will improve irrigation and drainage management and water use efficiencies. The AGCSA can help specifically with this plan as they have a detailed document that assists in its preparation.
2. Perform an assessment of the efficiency of the irrigation system.
3. Determine a water budget for the course, reflective of the predominant turf types used, the expected quality of playing surfaces and the annual club operating budgets.
4. Document practices that could see irrigation efficiencies improved, such as stopping unnecessary uses, fixing leaks, metering usage, altering schedules etc.
5. If using town mains, you need to begin discussions with the council as to what other sources of water may be available.
6. Optimise the use of the least expensive water available and develop a plan which includes a strategy for dealing with restrictions or a need to develop alternative sources.

Note: The first four recommendations above are processes that the AGCSA can assist with and they are acknowledged as having assisted in the preparation of this section.

Turf Quality

Today's golfer has been increasingly exposed to very good playing surfaces, typically via the coverage of golf events on the television or first hand at higher quality public access facilities. This exposure is actually presenting the industry with more challenges with the quality of turf conditions found by today's golfers in their own typical golf venue now very front of mind.

In terms of the environment, the yearly presentation of turf in a consistent manner is a difficult outcome to achieve. Differing grass types, seasonality of weather, varying levels of water accessibility, drought, and chemical reduction programs all contribute to the daily and seasonal turf presentation challenge. In response, the industry better, more efficient and cost effective ways to satisfy turf expectations. In recent times, when water has become decreasingly available, some specific turf types have been identified as being more appropriate in these circumstances. They are discussed in more detail below.

Turf Types

Having outlined the growing challenge of presenting quality playing surfaces (whilst having access to decreasing amounts of water at an increasing cost), an alternative way to approach the challenge is to consider changing the grass type that requires water to a type that has less water dependency.

It is acknowledged that this solution will not be available to all clubs (perhaps only 20% of clubs in the state) and it is a solution that initially causes significant short to medium term inconvenience, but in the longer term such a solution can reduce the levels of water required, reduce future expenditure in this area and make clubs less vulnerable to water shortages.

(The following paragraphs précis information obtained from the document titled, *"Comparison of Couchgrass Establishment Methods,"* and *"Comparison of Couchgrass Establishment Methods (Year 2)"* published by the VGA Turf Research and Advisory Board. Both documents are available from the VGA website, www.golfvic.org.au.)

Studies conducted by the VGA Turf Research and Advisory Board and the AGCSA over the past few years found that the grasses that best withstood a lack of water, once fully established, were of the "couch" variety. The common "Legend" variety and the hybrid "Santa Ana" were found to have the following characteristics:

- The best fairway quality;
- Greater drought tolerance (well established couch can even survive with no water with watering being optional);

- The shortest winter dormancy period and good competitiveness against weeds; and
- Suitable when applied in either a one or two grass policy environment, assisted by coverage of the *Poa Annua* variety in the cooler winter months.

The common couch variety of Wintergreen was also found to have these positive qualities. Other couch grass benefits include cost of maintenance, as a range of cheap yet effective herbicides are available and appropriate for their maintenance.

These couch grasses are not without weakness however with some outlined below:

- Santa Ana and Wintergreen typically produce higher levels of thatch (less thatch is generated in the Legend variety) and therefore they will require greater expenditure in thatch treatment and periodical removal;
- During periods of winter dormancy divots don't recover and the couch grass also discolours; and
- Where recycled water is used the impact of salts needs to also be considered.

The VGA is currently trialling salt tolerant fairway grasses known as "seashore paspalum" with preliminary results expected in 2005. If these trials prove successful, the golf industry will be able to exploit an even bigger range of alternative water sources in future years.

Replacement Methods

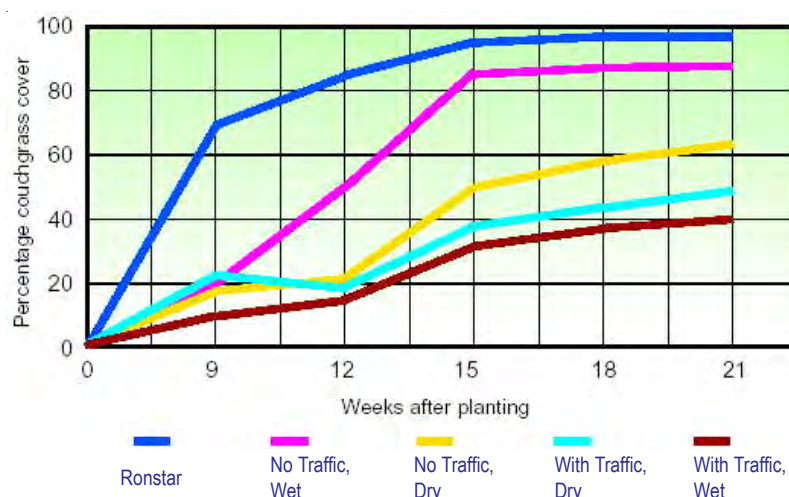
Different methods of fairway grass conversion have also been tried, including complete replacement, or systematic rotation. This report does not address the potential cost of grass conversion (due to the different requirements at each site) or look at the positives and negatives of each method however clearly they can also be significant in both time and member inconvenience.

Results from trials and fairways conversion already undertaken around the state have shown that full coverage can be achieved after approximately 21 weeks, given the right conditions, traffic management, water supply and chemical treatment. Even without traffic management, grass coverage was seen to be always increasing, though full coverage was likely to be achieved over two growing seasons, not one season as can be achieved with proper traffic management.

6 The Environmental Challenge

The following graph summarises the coverage patterns evident in one of the trials undertaken.

Couchgrass Coverage Timeline - Trial Testing



Source: Comparison of Couchgrass Establishment Methods (Year 2) VGA Turf Research & Advisory Board

Importantly, the trials conducted by the VGA give some defence to the argument that such programs are too disruptive. If patience can be shown for two growing seasons and a longer-term view held, it is clear that the benefits of turf replacement programs will outweigh the costs. As the industry looks to address the challenges presented by decreasing water availability, conversion of grass types used should be one solution that is given appropriate consideration.

Examples

Yarra Bend Golf Course

Yarra Bend is a popular public golf course, nearby to Melbourne's CBD area. Hosting approximately 70,000 rounds per year the course accommodates an average of 200 rounds per day. In response to tightening water restrictions and a desire to be responsible environmental stewards, Parks Victoria, the owners of the course, decided to seek an outcome that would reduce their annual water consumption. Acknowledging the high traffic patterns that the course receives, they have decided to proceed with a grass replacement program on two fairways per year, replacing the former kikuyu grass with a more drought tolerant couch grass.

The research undertaken by Parks Victoria forecasts a saving of approximately 70% of the course's current annual water consumption due to more efficient water practices and the change in turf types, a very positive outcome in terms of the courses' interaction

with the environment. This effort showcases the pro-active initiative of a government body perceived as a high user of water, and their proactive approach to water conservation.

Medway Golf Club

Another recent example of turf replacement seen in the Victorian golf club industry is the program undertaken at Medway Golf Club (MGC). MGC, founded in 1935, was a club that had a dominant cool season grass mix. The combination of these grasses, the declining quality of their irrigation systems as well the drought conditions recently experienced, were all contributing factors to the decision made by the Club to convert to a more drought tolerant grass type.

This decision was bought on by the reality that their course was literally "dead" and that in order to survive, a major fairway overhaul had to take place. The club undertook a major renovation program, including tree felling, installation of 22kms of new irrigation systems, increasing the storage capacities of the on-site dams, removal of kikuyu grass, and the creation of new green collars, spending close to \$1.2 million dollars over two years. In terms of turf replacement and traffic management, the club ensured some golf continuity through the project period by proceeding with the half fairway replacement option, playing only one half whilst the other half was replaced with new couch "sprigs," at a total cost of approximately \$200,000.

After two summer seasons, the final result is couch grass playing surfaces that will now withstand the water challenges currently being faced by the industry. The Club has also been able to reduce their annual water bill by almost 50%.

The MGC Annual Report of 2003 offered the following comment. "... please remember the courage of the directors who dared to take on this great challenge when the course passed away in 2001." This example, and this comment, may well be one that should be heeded by others now facing a similar challenge.

Other Examples

Kialla Country Club and Mortlake Golf Club are two other examples of regional clubs that have replaced fairway turf with a Legend couch variety. The respective replacement programs undertaken at these clubs has seen a significant improvement in the playing surfaces and consequent increase in the enjoyment of members as well as reduced fairways maintenance costs. The improved playing surfaces has also seen an increase in the numbers of green fee paying golfers visiting the clubs.

Health and Safety - the Costs for Golfers and Club Employees

Introduction

Not only does the environment present challenges in terms of what practices you can undertake, it also presents challenges in how they are undertaken. Occupational health and safety issues, noise abatement and costs for golfers, club employees and neighbours are a key component of environmental management.

In terms of golf operations, this is one area of the industry that has seen significant change, with a wider awareness of an employer's responsibility and obligation to their employees and the service provider's responsibility and obligation to their users now held. Poor past practices in this regard are simply no longer acceptable.

A number of sources for help and advice with OH&S are available to the golf industry.

They include:

- The National Occupational Health and Safety Commission;
- Victorian WorkCover Authority (VWA) and WorkSafe Victoria; and
- VGA & Clubs Victoria.

The National Occupational Health and Safety Commission;

Occupational Health and Safety falls under the auspices of the National Occupational Health and Safety Commission (NOHSC) (www.nohsc.gov.au). The economic cost of poor OHS performance in Australia is estimated to be about \$31 billion a year.

In 2002, all Australian governments and peak employer and employee bodies endorsed the National OHS Strategy 2002-2012 to accelerate OHS improvement. The National Strategy is a collaborative ten-year plan that reflects government and industry agreement to share responsibility for continuously improving Australia's workplace health and safety performance.

The National Strategy identifies five national priorities to bring about short and long-term OHS improvements, as well as longer-term cultural change. Equally applicable to the golf industry, they are to:

- Reduce high incidence/severity risks;
- Develop the capacity of business operators and workers to manage OHS effectively;

- Prevent occupational disease more effectively;
- Eliminate hazards at the design stage; and
- Strengthen the capacity of government to influence OHS outcomes.

The over-riding aim of OH&S is to ensure a "duty of care" has been taken in providing a place of work or in the provision of a service. Duty of care requires everything 'reasonably practicable' to be done to protect the health and safety of others, with the duty placed on all employers; their employees; and any others who have an influence on the hazards in a workplace. The latter includes contractors and those who design, manufacture, import, supply or install plant, equipment or materials used in the workplace.

The NOHSC website contains a number of useful tools and information pertaining to OH&S matters, including education and training materials, safe design resources and practical guidance materials and it is recommended that clubs familiarise themselves with this information to ensure they are fully aware of current government and community expectations.

Victorian WorkCover Authority (VWA) and WorkSafe Victoria

The VWA is the manager of Victoria's workplace safety system. Broadly, the responsibilities of the organisation are to:

- Help avoid workplace injuries occurring;
- Enforce Victoria's occupational health and safety laws;
- Provide reasonably priced insurance for employers;
- Help injured workers back into the workforce; and
- Manage the workers' compensation scheme by ensuring the prompt delivery of appropriate services and adopting prudent financial practices.

The VWA has statutory obligations as spelt out in several Acts of Parliament. These include:

- Health, safety and welfare in the workplace under the Occupational Health & Safety Act 1985
- Workers' compensation and the rehabilitation of injured workers under the Accident Compensation Act 1985 and the Accident Compensation (WorkCover Insurance) Act 1993

- Employer insurance and premium under the Accident Compensation (WorkCover Insurance) Act 1993
- Explosives and other dangerous goods under the Dangerous Goods Act 1995
- The transport of dangerous goods by road under the Road Transport Reform (Dangerous Goods) Act 1995
- High-risk equipment used in public places and on private premises under the Equipment (Public Safety) Act 1994.

WorkSafe Victoria is the VWA's occupational health and safety arm and they take the lead role in the promotion and enforcement of health and safety in Victorian workplaces. They are responsible for improving workplace safety through implementation of the organisation's compliance strategy which focuses on information and education, incentives, enforcement, investigations, prosecutions and penalties.

In general, the type of enforcement action taken by WorkSafe Victoria follows assessment of the situation and consideration of the following factors:

- Extent of the risk;
- Seriousness of the perceived breach and the actual or potential consequences;
- Whether or not the situation or hazard type is targeted by WorkSafe Victoria for priority prevention activity;
- Impact of the regulatory action, especially its impact on encouragement and deterrence;
- Compliance history of the employer, and
- Whether or not the incident of non-compliance is of considerable public concern.

The WorkCover website (www.workcover.vic.gov.au) details the rights, obligations & requirements of the employer and the employee. The website also provides a number of publications concerning guidance material, alerts & hazard guidance notes and guidance on how to comply with codes of practice and various regulations.

VGA and Clubs Victoria

In the golf environment, OH&S is particularly applicable in clubhouse operations and maintenance operations with the Occupational Health and Safety Act 1995 (Victoria) setting out the statutory requirements.

In 1995 the VGA published a document called the *Occupational Health and Safety Kit for Golf Clubs* to assist golf clubs in understanding and complying with the law in order

to protect their employees, contractors, club members and visitors. The kit provides guidelines on how to establish and operate a club policy and deals with resources; training; risk identification; government regulations; chemicals, plant, physical hazards, confined spaces, offices, kitchens and other areas. The information provided is key reading on the OH&S subject.

Perhaps the most vulnerable environment to OH&S issues is the golf club maintenance facility. It is in this area that intimate interaction with poisonous chemicals takes place and therefore proper training and procedures need to be in place to ensure that employees are protected at all times. In this regard the VGA has available a resources kit titled the *Pesticides Safety Kit for Golf Clubs*, which provides valuable safety information for club management and superintendents who are exposed to this area of club operations.

The Rural Training Council of Australia (RTCA) (www.rtca.com.au) is the peak body which oversees the industry's training in this specific area of expertise. This council and the training they provide ensures that adequate skills are learned to meet the known work challenges in the golf environment.

Consultancy Service

In 1997 the VGA established an arrangement with the Industrial Services Unit of the Chisholm Institute of TAFE to be a recommended supplier of Occupational Health and Safety training, audits and allied services for golf clubs.

Some of the services available include:

- Safety Audits;
- Golf Specific Policy and Procedure Manual;
- Assistance in the implementation of Policies and Procedures;
- OH&S course for Managers, Supervisors and OH&S representatives (Workcover approved);
- Effective OH&S Committees; and
- Safe Plant and Risk Management.

Clubs Victoria

Clubs Victoria (ClubsVIC) (www.clubsvic.org) is the central body and voice of Victoria's network of not-for-profit organisations. A member based organisation, they provide their members with advice in regard to many areas of club operations, including the development of occupational health and safety programs. This information should be

regularly accessed by all to ensure OH&S does not become a burdensome issue in your club environment.

Noise Pollution

Noise Pollution is an environmental challenge that is less obvious to many within the industry. As golf courses are increasingly located in high-density urban areas, particularly in metropolitan areas, the noise generated from golf course maintenance can become an issue that needs further consideration. The Victorian Environmental Protection Authority (EPA) currently enforce noise restriction guidelines as set out in the Environment Protection (Residential Noise) Regulations 1997.

The key restrictions in regard to operations of a golf course are set out in the table below.

Category	Item	Time Restrictions
1	A motor vehicle (except a vehicle moving in or out of premises), lawn mower or other grass cutting device and any equipment or appliance not falling within Group 2 having an internal combustion engine.	Monday to Friday: before 7am and after 8pm
2	An electric power tool , chain or circular saw, gas or air compressor, pneumatic power tool , hammer and any other impacting tool or grinding equipment.	Monday to Friday: before 7am and after 8pm Weekends and public holidays: before 9am and after 8pm
3	A musical instrument and any electrical amplified sound reproducing equipment including a stereo, radio, television and public address system .	Monday to Thursday: before 7am and after 10pm Friday: before 7am and after 11pm. Saturday and public holidays: before 9am and after 11pm. Sunday: before 9am and after 10pm

Source: EPA

The prohibited times as prescribed above apply when the noise from the identified items can be heard from inside a habitable room of another residential premises.

Conclusions

In concluding this chapter, reference to another detailed source of information for environmental guidance is appropriate. In 1996 the AGU, in conjunction with the Australian Turfgrass Research Institute, produced the document, "Environmental Strategy for Australian Golf Courses." The document contains detailed information concerning all areas of golf course interaction with the environment. The information provided is designed to assist course managers in addressing adverse environmental impacts, to enhance the environmental benefits of golf courses, to increase community awareness of the responsible practices undertaken in clubs across the country.

The document is an appropriate starting point for the preparation an environmental management plan (EMP), which should now be considered as an important priority for all golf clubs across the state. The act of developing an EMP will ensure that environmental issues are given full consideration and attention and summarily prioritized for action.



Revenue from Ordinary Business Activities

Subscriptions
Green Fees
Other Income
Bar
Gaming
Dining
Lady Members
Entrance Fees

Total Income**Expenses**

Bar Expenses
Gaming Expenses
Dining Expenses
Lady Members Expenses
House Costs
Match Costs
Course Costs
Administration Costs
Borrowing Costs

Total Expenses**Net Profit / (Loss) before Other Revenue****Net Profit / (Loss)**

The Challenge of Existing Cost Structures

Introduction

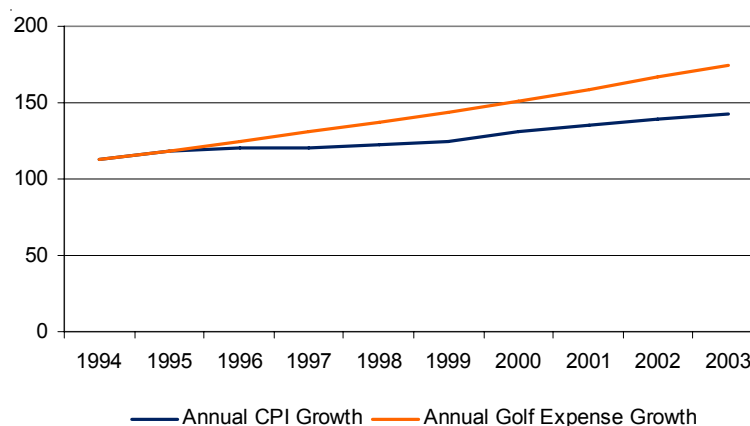
The following chapter addressed the challenges currently being faced with the existing cost structures evident within golf clubs. The general challenge is the response to these structures in an environment where annual operating costs may be rising faster than club incomes.

Expense Base

The Australian Golf Industry Report of 2002 found that on average golf club operating costs had risen by an average of 12% over the period 1994 to 2001. The recently conducted 2004 AGU Club survey, which collected the most recent financial information available from clubs Australia wide, found that the expense base of golf clubs around the country has continued to increase, in some cases significantly, with costs rising on average by 13% per year since 2001, an average of 5% per year since 1994. By comparison, since 1994, annual growth in the Consumer Price Index has averaged 3%.

The following graph illustrates this cost increase, against the equivalent trend as measured by the Consumer Price Index (CPI). In order to illustrate the comparable expense base growth experienced, the golf expense base as indicated in 1994 has been set at the 1994 CPI level, and then grown by the average growth in expenses over the last nine years.

Historical CPI Trend vs. Golf Club Expense Growth



Source: ABS & Ernst & Young

Operating Expense Benchmarks

Historically, limited sharing of expense data has occurred within golf clubs. Different size clubs, different types of facilities, different club revenues, different reporting periods, and different data being reported are all reasons for clubs to have not sought wider industry benchmarks when assessing their operating performance.

In today's climate however, golf clubs face increasing operational pressure. Club profitability (and growth in retained earnings) is dependent on the operating efficiencies and yearly expenses incurred. Poorly operated clubs (on the expense side) can quickly negate any gains made on the revenue side. Therefore as clubs seek better annual operating outcomes, one area for opportunity and exploration is industry benchmarking of golf club operating expenses.

In addition to the reason stated above, analysis of the expense structures evident in golf clubs has previously not been undertaken at the wider macro level as the data has generally not been available.

Expense Benchmarks

In 2004, the AGU, in conjunction with Ernst & Young, sought for the first time detailed operating data as part of the 2004 Golf Club Survey. The operating results of 250 golf clubs in Victoria have been analysed and are presented in this section.

It is first necessary to acknowledge the different revenue streams that currently exist in golf clubs around the state. This is important as some operating expense benchmarks are expressed as a percentage of total revenue and in order to accurately establish these benchmarks, total revenues first need to be reported on a like on like basis.

The present structures indicate that annual club revenues as reported by each club are not necessarily immediately comparable. The first main difference is in joining fee income. The 2004 survey indicated that just over 50% of golf clubs in Victoria receive joining fee income. Income from this source ranges from as little as \$100 to over \$800,000 per year, indicating a potentially large impact on total revenues if they were to be included. In addition, the treatment of this income stream is also different. Some clubs take the revenue into trading revenues whilst others set it aside as a capital fund.

The second main difference is gaming machine income. Results from the 2004 AGU Golf Club Survey indicate that approximately 17% of clubs in Victoria have some reliance on income from gaming machines. These incomes as reported range from as little as \$700 to over \$5 million per year, clearly identifying gaming revenue as also having a potentially large impact on total club revenues.

The following benchmarks are therefore presented with Joining fee income and Gaming revenue removed from the total revenue equation. Key items from a pro forma Profit and Loss statement are listed in the table below, identifying the relationship they have to a particular revenue line. Benchmarks are provided by total membership sizes and annual fee categories.

Income and Expense Benchmarks by Membership Numbers

Pro-Forma Profit and Loss	Relationship to	Members			
		less than 300	300 - 700	700 - 1200	1200 +
Membership Fees	Total income	34%	20%	48%	35%
Green Fees	Total income	12%	15%	10%	12%
Cart Hire Fees	Total income	1%	2%	2%	0%
F&B Revenue	Total income	31%	48%	28%	37%
Other Revenue	Total income	21%	15%	11%	15%
F&B CoS	F&B income	45%	38%	45%	42%
F&B Other	F&B income	17%	28%	52%	51%
Total F&B Expenses	F&B income	72%	70%	96%	93%
Course Maintenance	Total income	16%	10%	11%	8%
Course Wages	Total income	17%	16%	17%	14%
Course Wages	Total course expenses	42%	52%	50%	52%
Course Other	Total income	5%	5%	6%	5%
Total Course Expenses	Total income	40%	30%	34%	27%
Total House Expenses	Total income	7%	15%	8%	10%
Admin Wages	Total income	10%	13%	12%	10%
Total Admin	Total income	33%	56%	33%	42%

Source: Australian Golf Club Survey - 2004

The same pro-forma Profit and Loss Statement ratios are also presented by annual fee categories.

Income and Expense Benchmarks by Annual Fee Category

	Relationship to:	Annual Fee Category					
		\$100-- \$249	\$250-- \$499	\$500-- \$999	\$1,000-- \$1,499	\$1,500-- \$1,999	\$2,000+
Membership Fees	Total income	16%	16%	32%	36%	47%	48%
Green Fees	Total income	27%	13%	20%	10%	9%	12%
Cart Hire Fees	Total income	1%	1%	1%	2%	2%	3%
F&B Revenue	Total income	35%	49%	28%	35%	32%	27%
Other Revenue	Total income	21%	21%	12%	15%	10%	10%
F&B CoS	F&B Income	48%	42%	41%	34%	37%	45%
F&B Other	F&B Income	33%	30%	28%	44%	47%	51%
F&B Total	F&B Income	83%	74%	80%	78%	85%	96%
Course Maintenance	Total income	8%	8%	13%	11%	10%	12%
Course Wages	Total income	12%	14%	18%	16%	18%	17%
Course Wages	Total course expenses	45%	44%	50%	53%	56%	53%
Course Other	Total income	6%	9%	3%	3%	4%	3%
Total Ground Expenses	Total income	26%	32%	35%	30%	32%	32%
Total House Expenses	Total income	22%	7%	10%	12%	8%	9%
Admin Wages	Total income	13%	13%	9%	12%	11%	10%
Total Admin	Total income	62%	55%	34%	37%	33%	29%

Source: 2004 Australian Golf Club Survey - 2004

The benchmarks listed above can be used to help golf clubs assess their own operational performance. Some clubs will be above and below the benchmarks as identified. No outcome is necessarily good or bad in that efficiencies should always be being sought. Having an awareness of industry benchmarks is the first step in ensuring that club operations are being efficiently managed. Efficient operations won't create more revenue but will lead to more surplus funds at year-end.

Labour Benchmarks

In an ideal world, all costs would be variable, i.e. they would have a direct relationship to the revenues that are being achieved as they are being incurred. In the golf industry however, like many other high labour, service based industries, the cost of labour is a significant one and in many cases is largely fixed.

Evidencing this point, the Australian Golf Club Survey - 2004 found that the cost of labour accounts for 35% to 40% of all golf club expenses. Given the proportion of club expenses attributed to this area, further detail on staffing benchmarks is provided as clubs seek to efficiently manage their wage costs. Benchmarks are again provided by total membership sizes and annual fee categories.

Labour Benchmarks by Membership Numbers

Area of Operation	Position	Total Golfing Members			
		1 - 300	301 - 700	700 - 1200	> 1200
Administration	Full time	2	2	4	4
	Part time	2	1	3	2
	Casual	5	-	1	2
House	Full time	4	2	3	6
	Part time	3	2	2	7
	Casual	3	5	8	9
Pro Shop	Full time	3	2	3	3
	Part time	3	2	2	2
	Casual	4	2	3	3
Course	Full time	3	3	7	11
	Part time	1	2	1	4
	Casual	3	1	3	3

Source: Australian Golf Club Survey - 2004

Labour Benchmarks by Annual Fees

Area of Operation	Position	Annual Fee Category						
		<\$100	\$100-\$249	\$250-\$499	\$500-\$999	\$1,000-\$1,499	\$1,500-\$1,999	\$2,000+
Administration	Full time	1	4	1	2	3	3	6
	Part time	3	2	1	1	1	2	3
	Casual	-	2	1	1	1	1	6
House	Full time	-	7	1	2	4	4	6
	Part time	4	2	2	3	4	6	6
	Casual	2	2	3	5	10	11	11
Pro Shop	Full time	1	4	1	2	2	3	4
	Part time	3	5	1	1	1	3	3
	Casual	2	5	2	2	3	4	5
Course	Full time	3	3	2	5	8	10	12
	Part time	2	1	1	2	5	4	5
	Casual	1	2	1	1	2	2	8

Source: Australian Golf Club Survey - 2004

Please note some anomalies may exist in these numbers, particularly house numbers and pro-shop numbers. The likely cause is the impact of a high component of staff in a gaming area and/or if high course utilisation requires extra pro-shop staff.

Other Expense Saving Solutions

There are a number of other potential solutions that should be considered at club level as efficient operations are pursued. They are:

- Sub-contracting maintenance;
- Administration cost and equipment sharing;
- Group buying; and
- Leasing.

Sub Contracted Course Maintenance

As outlined in the expense benchmark tables, course wages are another significant expense in club operations. As a percentage of total revenue, course maintenance accounts for between 23% and 40%, with much of this expense being the cost of

course labour. Typical maintenance structures have a delegated course superintendent/head green-keeper, supported by other green keepers, grounds staff, mechanics, etc.

Independent maintenance companies have been able to exploit this largely fixed cost structure by employing the same skilled people in a more efficient manner. The model works by distributing the senior "knowledge" and cost across a number of courses, delegating responsibility to on site supervisors. This reduces total labour needs and the maintenance cost on a per course basis. The following table outlines the strengths and weaknesses of this potential solution.

	Strengths	Weaknesses
Contracted maintenance	Reduced course maintenance labour costs.	Less direct daily control of course maintenance.
	Guaranteed annual course maintenance budget.	Less senior knowledge on site.
	Contractor can use own machinery and/or access newer equipment.	Reduced maintenance cost may be offset by longer contract term.
	Potential revenue from sale of old equipment.	Machinery repurchase may be required if contract not renewed.

Example

Duntryleague Golf Club in Orange, NSW entered into a three year contract with a course maintenance company in 2002. The club made this decision as they set about addressing declining annual operating results and the increasing cost of replacement maintenance equipment. The club was not able to commit increased financial resources to course maintenance until it had strengthened its revenue streams and therefore chose to fix part of their expense budget by way of a course maintenance contract.

The decision to commit to this contract, including a prescribed capital works program, allowed the club to plan with some certainty and, as a minimum, at least maintain the quality of the golf course to the existing condition. The contract has reportedly saved the club approximately \$50,000 in its first year, with the major benefit being the savings in equipment turnover. Another benefit to the club was the removal of the club's exposure to staff turnover and wages increases. All existing staff were offered positions with the new maintenance company who, by way of their size, were also able to offer access to better training programs and the opportunity to work with newer equipment.

Administration and Equipment Cost Sharing

As clubs try to strip out any excess expenses evident in club operations, those clubs in close proximity have another potential solution available to them. As outlined in the

expense benchmark tables, club administration costs are another significant expense in club operations, accounting for between 30% and 60% of club operational revenues. The potential sharing of administration costs which are replicated across each club, such as accounts processing and membership functions (mailings etc), should be investigated by those clubs which can identify reasonable savings in these areas whilst incurring only minimal, if any, operational disruptions.

The second part to this potential expense saving solution equipment sharing. Golf clubs by nature require many pieces of equipment which aren't necessarily used on a daily basis. Some machinery only has seasonal usage and is used only when certain maintenance procedures are undertaken. Given this infrequent use, equipment sharing between clubs is another option for reducing the expense base evident within golf clubs. This expense would typically be a capital expense, so its impact will not necessarily be seen in the profit and loss statement, but sourcing equipment to be shared will free up funds for other capital purchases which may be more appreciated by the members.

Group Buying

Whilst group buying seems, an obvious idea and one suitable in an environment which appears to be reasonably similar from club to club, it is the very individual nature of golf clubs that have stopped this opportunity from being pursued as much as it perhaps should have.

It is worth re-stating what a golf club is, "a group of people with a like interest in golf." It is not necessarily a place where a group of members (or club management and superintendents) need to have the same like tastes or preferences as their counterparts at another club. Some clubs indeed are willing to forgo pricing opportunities for better quality product, or less bulk buying, as is their prerogative.

This is the inherent problem in securing group buying deals. As State associations do not control the clubs, they are unable to force them to use a particular supplier, merely being able to recommend preferred suppliers. As the supplier is therefore not guaranteed certain buying volumes, the group buying prices offered only reflect the potential buying volumes. The price difference offered is therefore seldom significant enough to change club buying behaviour. On this basis, the reluctance to pursue group buying initiatives is perhaps understandable given the different needs and tastes that exist in golf clubs around the state. However, as golf clubs seek further solutions to reducing their expense base, group buying remains a potential option.

In this regard, group-buying opportunities would appear to be most appropriate for generic goods and services, such as utilities, phone, etc. Other relevant areas would include some chemical purchases and other commonly consumed goods in the maintenance area.

Equipment Leasing

The leasing of equipment is another potential solution in terms of expense savings. One of the basic philosophies of leasing is that it allows you to pay for equipment as it is

used, rather than paying in full in advance for its future consumption. In this case, equipment leasing costs will actually appear as an expense on the profit and loss statement (and therefore will not necessarily improve profitability) however leasing does leave capital funds available for expenditure in areas where leasing options are not available, such as for course maintenance projects.

One of the common mistakes made by golf clubs is the retention of equipment long past its economic useful life. Whilst not a direct expense saving in itself, one of the other benefits of leasing (and a well managed leasing program) is the reduction in maintenance and repair costs to old equipment. Excess repairs mean downtime with equipment and possibly increased labour costs to get delayed jobs finished. By not continually putting funds to old equipment, leasing equipment can not only save associated repair expenses but also leave more funds in the capital budget for other uses.

Revenue Growth to Offset Cost Increases

Managing and containing cost increases is smart business for any organization. Clearly, successful financial operation of any club will be improved when attention is directed to new and improved revenue streams coupled with improved management of costs. The different circumstances and cultures of clubs mean that no set formula or particular ideas can be prescribed for revenue growth. Clubs need to be innovative, selecting activities and programs which suit their circumstances and capacity.

Cheltenham Golf Club, a nine-hole club located adjacent to some more famous neighbouring Sandbelt golf courses, is an example of a club that has succeeded in this area. The club land is subject to permissive occupancy restrictions and therefore the club welcomes public green fee golfers. In order to grow their revenue base the club has sought other external use of their facilities and the clubhouse is now consequently used as a regular meeting venue by community and other external groups. Being conveniently located in Melbourne's south east, the Club has also recently successfully hosted some half day 9 hole corporate events satisfying the needs of some of the local business community for a shorter golf hospitality experience.

This example is only one of many that could be included in this report. External catering services and the provision of function venues is a service that many clubs already provide very successfully and make significant revenues from. The example above shows that regardless of club size, there will likely be opportunities for some form of external revenue generation at most golf clubs with the associated revenue stream assisting in the challenge of controlling the cost of golf club operations.





The Governance Challenge

Introduction

As the golf industry faces the social, economic and competitive realities of this century as well as all of the other challenges as discussed within this report, effective, internal club governance has almost been taken as a given. To deal with these challenges, it is assumed that the internal workings of the club are already in order, however research into this area indicates that golf club governance itself is also presenting its own unique set of challenges.

It is vital that these governance issues are also addressed and dealt with if clubs are to have any chance of successfully responding to the external challenges. The phrase "getting your own house in order" aptly summarises the governance challenge being presented to golf clubs in the 21st century.

This chapter reviews the governance structure currently in place at golf clubs in Victoria. The general declining availability of skilled, quality leaders is highlighted, and the current gender balance evident in club boards around the state established. Despite the declining availability of members to voluntarily serve in elected positions, (not encouraged by the increased governance complexity and potential personal exposure to club liability,) the industry still has restrictions in place that limit terms that can be served. These limitations are also outlined.

The Australian Golf Club Survey - 2004, conducted by the AGU, included a number of questions on club corporate governance and structure. Much of this chapter sources information from this survey.

Being a Director

Being a director of a golf club board brings with it the same legal responsibilities and duties as any other public company. The general role of a director in a club environment is to formulate policy and to help ensure management carries out these policies. It is not to partake in the day to day running of the club. The significant duties legally assigned to directors are:

- To act with a degree of care and diligence that a reasonable person would exercise in the circumstances;
- To act in good faith;
- To exercise powers for a proper purpose;

- To avoid conflicts of interest;
- To act in the best interests of the company;
- To prevent the company incurring debt when possibly insolvent;
- To not make improper use of information or their position;
- To take reasonable steps to place themselves in a position to guide and monitor the management of the company; and
- To independently consider matters that come to the Board and make informed decisions.

Recent decisions by Australian Courts have shown that they have increased expectations as to the degree of care and skill that needs to be now shown by club directors. It is no longer acceptable for directors to only have regard to their own knowledge and skill and the courts now require them to take steps to further educate or inform themselves as they monitor a company's business.

As the expectation of the performance of a director increases, so to do the penalties and remedies for breaches of duty. Civil penalty orders can bring on criminal proceedings, in addition to orders for compensation for loss or damage. Intentional, fraudulent breaches can also constitute criminal offences and possibly lead to imprisonment. The Warringah Golf Club case study at the end of this report is one example of the level of penalties that are now being applied.

Filling Board Positions

With the duties of directors clearly defined, and an awareness of more recent court findings and potential penalties, it is no surprise that volunteer board positions across the state are becoming increasingly difficult to fill.

The Australian Golf Club Survey - 2004 found that on average, 52% of clubs are having difficulties with filling board positions, particularly those of President, Treasurer and Secretary. It is also anecdotally reported by office-bearers of clubs in Victoria that not only are recruits to the board hard to secure, but the quality of these recruits has generally declined in recent years in terms of their experience and know-how. The difficulty is generally greater at clubs with lower annual fee levels, as these clubs have fewer staff to support board responsibilities and less funds to spend in areas that satisfy governance requirements and responsibilities.

The following table summarises the findings from the 2004 survey by club membership number and annual fee categories.

Club Membership Numbers	% Clubs who Struggle to Fill Positions
<300	50%
300-699	67%
700-1,199	57%
1,200 +	25%
Average	52%

Source: Australian Golf Club Survey - 2004

Annual Fee Levels	% Clubs Who Struggle to Fill Positions
<\$100	44%
\$100-249	61%
\$250-\$499	65%
\$500-\$999	61%
\$1,000-\$1,499	50%
\$1,500-\$1,999	15%
\$2,000+	9%
Average	52%

Source: Australian Golf Club Survey - 2004

It is clear that the development of a club board is balancing act. As club members come and go, and pass through various stages of club involvement, so to does the availability of the preferred skill sets. Despite this cycle and the increasing responsibilities being placed on directors, there are steps clubs can take to ensure they are as prepared as possible for board change.

Recommendations

1. Develop a board induction program. Despite the seemingly long list of duties and responsibilities, with proper training and practical interpretations, it is not difficult to satisfactorily fulfil Director's obligations. An induction program will help pacify any fears that potential board members may have in this regard.
2. Develop a board succession plan. Identify potential board recruits early and begin to ascertain their interest in having greater club participation. Let them know that they are regarded as a potential recruit.
3. Develop a culture that exposes as many suitable people as possible to what the board does. Golf club boards are very appropriate training grounds for younger people seeking business skills.

4. Create ex-officio places for a female or junior representative,(if not already represented) or for people of certain ages on the board, widening the pool of people who can be potentially drawn from in future years.
5. Consider creating short-term, project orientated committees. This captures the enthusiasm certain people will have for specific projects in an area of interest.

Golf Club Board Size

As golf clubs around the state address the operating challenges currently faced, the structure of the golf club board will dictate how effective the board as a decision making body can be. As decisions are typically made on a majority basis, boards typically seek an odd number of members. In Victoria, the current average board size is 11 members.

The following table summarises the average size of golf clubs boards as reported in Victoria. The numbers are cross tabulated by specified annual fee levels.

Annual Fee Category	Average Board Size
<\$100	11
\$100-249	12
\$250-\$499	11
\$500-\$999	9
\$1,000-\$1,499	9
\$1,500-\$1,999	9
\$2,000+	11
Average	11

Source: Australian Golf Club Survey - 2004

The same data is also presented by club membership size.

Membership Number	Average Board Size
1-300	11
301-700	10
700-1,200	9
>1,200	10
Average	11

Source: Australian Golf Club Survey - 2004

Board to Member Ratio

The analysis above has revealed that board size across the state is reasonably consistent regardless of annual fee level or number of members, yet it is the clubs with lower annual fees and fewer members who struggle the most to attract people into board positions. The board/member ratio highlights an interesting finding in this regard. The analysis of this ratio reveals that the ratio is considerably higher for clubs with fewer members, as illustrated in the table below.

Membership Number	Board to Member Ratio
1-300	0.19
301-700	0.02
700-1,200	0.02
>1,200	0.02
Average	0.11

Source: Ernst & Young

Issue for Consideration

Given the general challenge to fill board positions being reported from around the state, one potential solution is to consider reducing the number of positions to be filled. By assessing the board to member ratio, those who struggle to fill their positions should look to reducing the number of positions that their constitutions require to be filled on an annual basis.

Despite a current industry average of 0.11 (impacted significantly by 0.19 in the less than 300 member category), recommended board numbers could follow those outlined in the table below, acknowledging that at least five positions, being President, Captain, Vice President or Vice Captain, Treasurer and Secretary, are required as a minimum to constitute a working board.

Membership Number	Recommended Board Size
1-300	5
301-700	7
700-1,200	9
>1,200	11

Source: Australian Golf Club Survey - 2004

Note: This issue for consideration is suggested with the full awareness of many smaller clubs co-opting large boards as they also provide a large volunteer pool to from which to draw. The value of volunteer labour to undertake duties other than those of the board is appreciated and fully understood and in this regard we are only suggesting consideration be given to a reduction in the number of formal board positions.

Female Representation

In the current day, female representation on club boards is an increasingly discussed issue. As society has moved through equal opportunity and gender equity, golf clubs have also been required to respond. Typically this meant the removal of any pure gender restriction on any types of membership or ability to serve in an elected position. In terms of board positions, the requirement to be a full fee paying member typically remained but therefore did not exclude any female members eligible under this category of membership.

In acknowledgement of the value that female representation can bring to club board level, in both a business and social sense, many clubs however have also reserved or set aside board positions for female representatives, regardless of their fee paying membership category. The Australian Golf Club Survey - 2004 found that, on average, 1 in 3 clubs in Victoria currently have female representation at board level. The following table summarises these numbers by various annual fee levels.

Annual Fee Level	% of Clubs
<\$100	40%
\$100-\$249	54%
\$250-\$499	26%
\$500-\$999	18%
\$1,000-\$1,499	0%
\$1,500-\$1,999	14%
\$2,000+	15%
Average	32%

Source: Australian Golf Club Survey - 2004

In line with the findings regarding the challenge of securing board members, it is therefore not surprising to find that higher levels of female representation are already present at these clubs.

Female Positions

Of the 32% of clubs that have positions reserved for female representation, the average number of positions held is two. When measured against the average board size of 11, this indicates approximately 18% of total board numbers (reasonably in line with the 23% mix of total female club numbers across the state). The following table summarises the average number of positions reserved for female representatives at golf clubs in Victoria.

Annual Fee Level	Average Female Positions	Average % Female Positions
<\$100	3	27%
\$100-\$249	2	17%
\$250-\$499	2	18%
\$500-\$999	2	22%
\$1,000-\$1,499	0	0%
\$1,500-\$1,999	1	11%
\$2,000+	2	18%
Average	2	18%

Source: Australian Golf Club Survey - 2004

Club Governance Restrictions

General Committee

Despite over 50% of clubs enduring some form of struggle to attract sufficiently skilled and qualified people to board positions, the 2004 club survey found that, on average, 60% of clubs have limits on the number of consecutive terms a general committee member can serve. The following table summarises this information by annual fee level.

Consecutive Terms for General Committee Position

Annual Fee Level	No Limit	1 Year	2 Years	3 or More Years
<\$100	61%	17%	6%	17%
\$100-\$249	33%	22%	33%	11%
\$250-\$499	41%	5%	32%	23%
\$500-\$999	38%	25%	25%	13%
\$1,000-\$1,499	17%	17%	50%	17%
\$1,500-\$1,999	29%		43%	28%
\$2000+	29%	14%	14%	43%
Average	40%	14%	27%	20%

Source: Australian Golf Club Survey - 2004

The survey also found that some club constitutions restrict the speed in which General Committee directors can progress through to Executive positions. These clubs are not significant in number but are more frequent when annual fees exceed \$1,000. The specific position that a minimum term is typically previously required is that of President, followed by Club Captain.

Executive Committee

In addition to limits imposed on the length of terms for General Committee positions, 20% of clubs across Victoria also have restrictions on the number of consecutive terms an Executive position can be held. The survey revealed that clubs with higher annual fees tend to have more limits in this area than clubs with lower annual fees. The following table summarises this information by annual fee level.

Consecutive Terms for Executive Committee Position

Annual Fee Level	No Limit	1 Year	2 Years	3 or More Years
<\$100	90%	3%	2%	7%
\$100-\$249	72%	7%	14%	7%
\$250-\$499	82%	2%	10%	6%
\$500-\$999	82%	11%	4%	4%
\$1,000-\$1,499	69%	15%		16%
\$1,500-\$1,999	62%	15%		24%
\$2000+	56%		22%	22%
Average	80%	6%	7%	7%

Source: Australian Golf Club Survey - 2004

The Pros and Cons of Limits

As data of this kind has never been measured before, it is not possible to determine the trend in this area of club governance. The survey results do show that a significant number of clubs already have no restrictions and limitations as club constitutions have already likely been re-visited and re-drafted to more accurately reflect today's governance challenges. Limitations and restrictions on board positions are not necessarily a burden however and do have some positive impacts. The following table summarises the pros and cons of these limits.

Pros and Cons of Limits

Argument for Leaving	Argument for Removing
Frequent turnover allows for fresh thinking.	Allows continuity of good governance to be maintained.
Ensures strong personalities cannot dominate club governance for an unlimited period	Places the onus back on members to seek change if it is considered necessary
Gives a number of suitably qualified people a chance to impact club operations.	Removes requirement of forced change in an environment where there may be not suitable replacements.

Source: Ernst & Young

Constitutional Change

The structural issues discussed thus far all stem from club constitutions that currently exist across the state. Many of these constitutions were written decades ago with their goal being to provide good governance practices and guidance - at the time of writing. However just as society changes over time, so do golf clubs, and as clubs change, then it is only natural for constitutional change to also occur. Constitutions are not static documents, they are documents that have important legal implications and therefore should be altered with appropriate frequency to ensure relevance to the operations they are guiding.

Constitutional change however does not come easily. The 2004 survey found that, on average, 65% of the member vote is required for any amendments to the constitution to be made.

The following table summarises these numbers.

Annual Fee Level	% of Member Vote Required
<\$100	66%
\$100-\$249	60%
\$250-\$499	58%
\$500-\$999	70%
\$1,000-\$1,499	69%
\$1,500-\$1,999	72%
\$2,000+	75%
Average	65%

Source: Australian Golf Club Survey - 2004

The challenge to make constitutional change is the significant level of member approval required to do so. As clubs currently service a wide range of members, across a broad age spectrum containing both genders, who in turn have a wide range of views, likes, dislikes, preferences, and varying certainty as to their future long term involvement in the club, the path to constitutional making change is not an easy one. Change however starts with communication.

Recommendations

Picking up some of the communication rules as noted earlier in this report, we recommend the following when communicating constitutional change.

1. If constitutional changes are being considered at Board level, ensure that the members have a full understanding as to the reasons why change is needed (removal of restriction of term, new membership structure etc) and that the reasons have been previously well communicated to the members.
2. Flag constitutional change well in advance of its need, the prior year AGM if possible. This will help ease the potential perception that change is being made for any particular person's or board's benefit.
3. Seek external, specialist advice in the constitution re-drafting of phrases. This will ensure that phrases won't be ambiguous or possibly able to be interpreted in a different way.

4. Make change in palatable steps. Total overhauls will be viewed with caution, as in most cases constitutions are rarely seen as totally deficient.
5. Don't surprise the members with additional recommended changes, regardless of how small they are, without giving due time for consideration.
6. Interaction of Board with Management. A final consideration should be given to board/management interaction. If clubs of sufficient size employ professional management, the directors should appreciate the need to ensure separation between the board role and the management role. Directors make policy and strategic plans and then monitor their implementation. Managers implement clubs policies and action these plans. At no time should the roles merge.



Case Studies

This report concludes with three case studies that address various parts of the preceding report. The first case study illustrates the potential impacts on clubs of decisions made concerning the environment and the consequent governance risks. The second case study looks at the impact of a number of the challenges discussed in this report, including the impacts of the evolving society, club membership, land pressure, and club governance. The final case study looks at a golf club, which acknowledging many of these pressures, decided to undertake some major changes in order to protect themselves from the realities of golf in the current climate and ensure their existence well into the 21st century.

The Warringah Golf Club Chemical Spill

Introduction

The environmental challenges facing the industry have never been more evident than those faced recently at the Warringah Golf Club (WGC), located on the northern beaches of Sydney. Like many clubs, particularly those with limited funds, there are always likely to be more pressing projects that club boards would like to undertake and which the member would directly benefit from. Costs incurred in compliance with environmental regulations was, until this case, probably an easy issue to put aside and saw the environment down the list of priorities.

This is now no longer the case, and the environment and golf's governance of it is now a real issue with the harsh legal and financial ramifications for golf clubs now widely known. In the wake of the Warringah chemical spill of 2001, the environmental accountability of both golf clubs and their superintendents has been concreted in the 2003 verdict of guilty.

History

On February 12 2001, the WGC superintendent had requested a staff member to use a now banned insecticide to spray the greens for an outbreak of Argentine Stem Weevil. The tractor used for the spraying broke down and in order for the machine to be fixed, the superintendent instructed the staff member to empty the pesticide onto a concrete slab. The concrete slab should have had bundings to restrict the flow of the insecticide but at the time they were yet to be installed, despite being previously requested of the club by the superintendent. As they were not installed, the insecticide entered a nearby stormwater grate and then flowed into Brookvale creek, a tributary of the Manly Lagoon.

As a result of the pesticide entering the waterway approximately 10,000 fish were killed and over four tonnes of dead marine life were recovered. The Environment Protection Agency (EPA) consequently charged WGC and its superintendent for negligently causing harm to the environment as a result of the catastrophic effects on the surrounding ecosystem.

Case - Findings

Specific findings by the court saw the WGC ordered to pay fines and costs of \$600,000 and the superintendent was sentenced to 250 hours of community service and to pay costs of \$50,000. The notable findings of the case were as follows:

- 71: "The primary offence was caused by either the wilful or negligent act of the superintendent in hosing the poisonous substance off the concrete slab under conditions where there were no adequate measures in place to prevent a discharge to the creek."
- 7: "The prosecutors submission that the condition of the greenkeepers compound made it 'the site of an accident waiting to happen' is adopted by the court."
- 11: "The court found that WGC was negligent in material respects by omitting to take reasonable steps to prevent the escape of a dangerous substance from its premises and thereby contributed to the conditions that gave rise to the commission of the offence. The contribution by WGC is the essential ingredient of the offence."
- The Court is convinced that a clear message must be sent to non-profit entities operating public facilities that they are equally liable to punishment. The general deterrent aspect of this sentence is important because the elements of this offence are not exclusive to golf clubs. Numerous entities utilise herbicides and pesticides in the course of their business.

Pond Clean Up Post Spill



Source: AGCSA Magazine

Lessons for the Industry

The above findings send a clear message to all clubs and superintendents around the country as the use of poisonous chemicals is an act which occurs on a regular basis. Despite this being a NSW case, the disaster served to educate the environmental bodies in all states and as a result they are now fully aware of the risk to the environment that poor environmental practices within golf clubs can cause. Anecdotal evidence from clubs indeed confirms this with many having increased visits from EPA officers since the WGC findings were handed down.

A number of lessons are learned from this accident, apart from the obvious environmental lessons. Despite paper work being a non traditional part of the superintendents work, this case now makes it an imperative, ensuring that one's recognition of potential problems can be confirmed should anything untoward actually happen in that area of concern.

Costs incurred or to be incurred which aren't seen as member or directly golf beneficial need to be identified, equally prioritised, brought to the attention of club committees, and importantly minuted. With the golf club found as being as liable as the superintendent in this case, it reinforces the need to adopt correct operating "best practice" procedures throughout the club and ensure communication procedures are also effective. This is not just communication within the club but also outside the club, with local councils, and bodies such as the EPA. If these issues aren't addressed, and environmental issues do occur, not only are the potential financial repercussions severe, but in the current age of considerably greater community environmental awareness, club credibility can also be compromised.

On the environmental front, the case highlights the need for an environmental management plan (EMP) to be in place. An EMP will:

- Reduce and manage the environmental risk present at the club;
- Force a club to perform its own or independent due diligence on its environmental practices; and
- Minimise the likelihood of club staff and director prosecution.

There has been a significant amount of publicity surrounding this accident and there have been varied reactions to the verdict. Most have agreed it was a long overdue wake up call the industry needed.

The president of the NSW Golf Course Superintendents Association stated "there is no doubt that it has started a process in NSW to ensure that clubs put policies in place. One percent of golf courses have the correct procedures in place at the moment but I guarantee that now it will go up by one percent per week".



However there are concerns that the expectations of the EPA are not clear to the industry. He continued to state, with specific reference to this case, that "there are no specific guidelines, no standardised formats for the construction of chemical wash down bays and chemical containment facilities.

Golf courses are expected to comply with EPA guidelines yet the EPA does not afford the industry standardised plans. We need to be proactive and work with the EPA rather than have them come to us."

Conclusion

Since the findings by the court WGC has spent over \$300,000 in works to ensure there are adequate environmental precautions in place, and consequently the club is experiencing financial difficulties. The court essentially found however that potential financial hardship is no excuse for any club not to carry out its environmental responsibilities.

The Court realised that the total financial burden imposed on the club as a consequence of the offence will be approximately \$600,000 though also appreciates that a significant proportion of that amount represents expenditure that the club should have incurred in any event. The Court believes that it is not unreasonable for the club to therefore have to organise its future financial affairs in a way that deals with a situation which, to a large extent, was brought about by historical business and financial decisions that did not take account of the full impact of the cost of implementing appropriate environmental safeguards.

This decision runs to the heart of many golf clubs which survive on the good deeds of their members. Volunteer boards, management and course staff, regular charity donations, an active community employer and supporter, and the ability to play golf at very affordable prices are characteristics of many golf courses around the country. In this case the WGC hosts over 70,000 rounds of golf per year, actively promoting itself as the cheapest course in its area, whilst providing employment opportunities for 21 people and working hard to keep the game affordable and its participants in the game for as long as possible.

The judges' final words however evidence the importance of the environment in the 21st century and are a warning to those that treat it as a secondary consideration.

"It may be altruistic to provide a prestigious recreational activity at a comparative low cost for people of limited means but such ideals nevertheless carry with them the overarching obligation to comply with a duty to protect the environment. The ultimate penalty reflects the failure of the defendant to recognise that obligation."

(This case study has used information provided by the AGCSA and specifically their December-January edition of the Australian Turfgrass Management Magazine.)

Geelong Golf Club Closure

Introduction

The closure of the Geelong Golf Club ("the Club") in June 2004 is the first example of a proposed club re-location /real estate development that did not achieve its desired outcome. This unfortunate event should serve as a warning to all industry participants as it is evidence that what appear as straightforward 21st century business decisions do not necessarily come easily in the golf club environment. This case study reviews the events that led to the closure of the Club, identifies the mistakes made and highlights the difficulties of adapting what is someone's leisure into what is another's business.

Background

As detailed in the demographic, membership and land challenge chapters earlier in this report, pressures are being felt on many fronts in golf clubs around the state. The Geelong Golf Club was one of these clubs.

Geelong Golf Club was the state's oldest golf club still located on its original site). Formed in 1892, it was one of the founding members of the VGA. The golf club was located in Northern Geelong, bordered to the south by Ballarat Road and urban residential development to the north. The golf course itself was a good regional course, but like most regional clubs it was a focal point for the local community as for many years it was the only golf club in the area.



By the early 1990s the Club had been feeling the effects of general industry pressures for some time and as a consequence was feeling significant financial pressure. The Annual Report from 1993 shows successive operating losses incurred, totalling \$160,000, as club incomes failed to cover club expenses over the prior two years. The course playing surfaces were also under examination as dominant cool season grasses and increasing water costs presented major challenges during the summer period. Membership numbers had also started to fall, with approximately 40 persons lost over the year.

By 1995 little had changed, with continuing operating losses, now totalling over \$323,000 since 1992. An ageing membership, and continued issues with drought, playing conditions, and the operations of the newly developed gaming facility (opened in response to the clubs financial position with a goal to actually secure its future) continued to place further pressure on the club.

By early 2001 the new development had not brought the club the financial respite as hoped and the Club's financial position had deteriorated significantly with what are now seen as planning oversights (no disabled access and restricted gaming access) impacting the business. Operating losses totalled over \$600,000 since 1992 and exacerbating the problem was the existence of approximately \$900,000 worth of debentures (which had also been sold to members to reduce the short term financial burdens) which were shortly to fall due, the average exposure for each being between \$10,000 to \$15,000. All told, club debts exceeded \$2 million.

The precarious financial position was highlighted in the Independent Audit Report from 2001 which stated, "...the Geelong Golf Club's financial viability is contingent on future profitable trading, ongoing financial support as well as a number of other actions... Should the Club fail to achieve these objectives the adoption of the going concern basis for the preparation of the financial statements will not be appropriate."

By 2002 the financial situation had worsened with monthly operating losses largely being funded by the Commonwealth Bank ("the Bank.") The Bank, being in possession of a valuation that stated the club land to be worth \$5 million, (subsequent valuations put the value at \$1.85 million.) were caught in a potential public relations disaster if they were to withdraw funding. Despite this valuation providing the Bank coverage on its debt the Bank became increasingly concerned about its position and advised the Club that the outstanding loans would shortly be called in.

The Club then approached a number of bodies for advice and help, and via the PGA, they were put in touch with PGA LINKS Management, a golf management company that is a joint venture between the PGA and the LINKS Group, a Melbourne based property development company. An investigation conducted by PGA LINKS Management subsequently found the Club to be in a worse financial position than previously identified. Learning this news and the drastic position that the Club was in, the Club board then requested PGA LINKS approach the LINKS Group for assistance.

The LINKS Group, having identified a potential development opportunity and the "win-win" by product of a lifeline to the Club, took effective control, eliminating the \$1 million bank debt, guaranteeing to pay out the debentures holders (\$900,000) as and when they fell due, and provided coverage for the monthly trading losses (by this stage up to \$30,000 a month) until a development solution was found. They began working on two fronts, being a new location for the Club in order to satisfy a key outcome required by the Board of Geelong GC and the development options for the Club land. Opposition to this deal was evident however, with a belief that the LINKS Group secured the land too cheaply and an anti-development lobby movement was started (which was ultimately successful in stopping the LINKS Group achieving its plans).

In terms of potential club location, both 13th Beach Golf Links and the new golf development The Sands, Torquay were considered the only golf facilities in the area which provided the required quality and importantly had space to accommodate an influx of new members. Both were requested to provide the terms on which they would accommodate the Geelong Club members. An AGM held at this time found almost 100% support for a move to 13th Beach, however negotiations of key terms was protracted and after a four month delay, it was the Sands development that ultimately submitted the only complying offer, being an offer to take all members with no conditions attached.

Some viewed this delay and somewhat surprising change with suspicion, though ultimately there was still just over 75% support from the membership for the move. (At the time 13th Beach was a fully operational golf venue, with a golf course ranked in the top 20 in the country, with another under construction. The Sands was still under construction and less well known by the membership.) The Club was able to retain its name and importantly align itself with a financially sound facility. Having found the Club a new home, all that was then needed was approval for redevelopment of the Geelong Golf Club land in accordance with the preferred plan as developed by LINKS, in order for the relocation to become unconditional.

The level of support for the Torquay Sands option proved to be a key issue. Under the previous club structure, 75% support would have been required for the club to make this change and as it had only just been achieved, the result gave the lobbyists more encouragement. (It is thought that the ability of the social member to vote was a major contributing factor to this decline in support and this impact is one which should be noted given they actually had no golf interests yet had a large impact on the golf outcomes.)

Two development alternatives were proposed by the LINKS Group. The first was a 400-lot retirement village, excess land being sold off for commercial and industrial use and nine "senior friendly" golf holes retained for community use. This application was submitted to Geelong Council and subsequently rejected, prior to public exhibition, in late 2003. The LINKS Group re-visited their proposal and modified the application, reducing the number of lots to approximately 200.

This revision impacted the Geelong members as it compromised the ability of the LINKS Group to deliver to the members the original transferable membership offer made. The final membership offer was a membership valued at \$2,700, being a category that allowed for one lifetime transfer only to a family member, after a three year period. During this period the LINKS Group also exercised its right to purchase the club land as stated in the loan agreement, securing the land title for an agreed sum of \$1.85 million. At this stage the total investment made by the LINKS Group was in excess of \$4 million.

As is now known, the Geelong Council rejected the 2nd rezoning and development application after public exhibition in July 2004, having been led to believe that the LINKS Group would not close the Club. This rejection came despite the application being endorsed by council staff who found in favour of the development. Much of the basis used was the thought that the land should remain as public open space. The reality is, that as a golf club, it never truly was public open space and the club, as a business, had failed to keep itself financially viable.

The LINKS Group had publicly stated that the Club would be closed if the 2nd application was not successful and in July 2004, true to their word, the Club doors were closed by The LINKS Group, bringing an end to 112 years of Geelong Golf Club history. Significantly, by this time over 400 members of the former Geelong Golf Club had individually pursued a separate option to move their golfing allegiance to The Sands, Torquay.

With VCAT not an option to the Links Group (VCAT handles disputes regarding planning permits for land as zoned, not re-zoning applications), the immediate plan for the land is unknown.

Lessons for the Industry

There are three over-riding lessons for the industry in this case study. They are:

- A recognition of the general industry operating environment;
- Preparation of a club for change in recognising this environment; and
- The communication that goes into this process.

Acknowledgement of the Industry Operating Environment

The first lesson is an acknowledgement of the general golf environment of the time. The issues which faced the club in the early 1990s were, and still are, commonplace throughout the industry. Unfortunately in this case they were not acknowledged and the club continued to trade beyond its means, incurring annual operating losses totalling over \$600,000. Necessary annual fee increases were not imposed, primarily because of the inherent resistance to increases from the ageing membership base, though the expense base was not consequently adjusted. As the member balance became heavily orientated toward the more aged golfer, this polarised potential new younger members and also led to declining ancillary revenues.

This resistance to price can be traced to a comparable over-supply of golf facilities in the Geelong region and therefore the key consideration for members was price. In this case the oversupply of clubs fragmented the golfing market, restricting the development of any superior facilities as efficiencies of scale are unable to be achieved in any club.

In essence, the product that Geelong Golf Club was offering had decreasing appeal to the market. The lesson is to know your market and have an understanding of what they want. Was the gaming facility the answer in this case? What did they need to be to survive in the market? The unfortunate timing of the decision to change grasses on the course and the delays in completing the project almost certainly caused operating problems, however if the operating environment that the Club was in had been recognised sooner, the Club may not have worked itself into the financial predicament it inevitably could not escape from.

Preparation for Change

The second industry lesson is that of preparation for change. Most of the club industry are operating with constitutions that were written many, many years ago. At the time they were designed to protect the members' interests and to ensure that if change was required, then a reasonable majority of members agreed. As society has evolved, and the golf club industry is now just one of a number of industries competing for the consumer's attention, the industry has realised that the club is now a business. Some clubs are now protecting millions of dollars worth of equity and assets and for this to be done in a prudent manner, business decisions have to be made. These decisions may not always be popular but if the club's goal is to seek continuity of club existence, then the long term needs to be put in front of the short term. How does this thought apply in this case?

In this case, the old constitution/structure allowed for social members to vote with the same entitlements as a fully paid up golf member. Many of these people were not golfers yet were able to impact the outcomes. In addition, awareness of the membership body their age, and their long-term interest in the club will give a good indication of their support for a long term proposal. An aged membership body will

clearly have more difficulty in accepting a long term solution that in reality will only be a short term solution for many.

Communication

As outlined in the earlier membership chapter, effective communication is vital in today's golf club environment. In the case of GGC, many communication efforts were made by the club to inform the members of the club's position but it appears that the membership as a whole had a certain level of apathy towards the club's future. Clearly the view of "we will always be" did not eventuate.

Despite communication attempts via newsletters, AGMs, EGMs, and open forums, the message was never able to get through in a clear and concise manner to all of the membership. Instead of the benefits brought to the club by the developer being appreciated, it was the value of the potential development that was seen as lost value to the club by a minority of members. There was also a failure to recognise development risk and equally no understanding of the value of achieving certain outcomes, which given the financial state of the club, were all that could have reasonably been expected.

Geelong Golf Club - August 2004



Source: Geelong Golf Club

Patterson River Country Club Re-Development

Introduction

The third club chosen for inclusion in this report as a case study is Patterson River Country Club (PRCC). PRCC is the first club in the state to undergo a major redevelopment of its assets, accepting the challenge presented to it in today's changing golf environment, and at the time of writing, appeared well on its way to a successful outcome. Given this result, it is appropriate to document the process that the Club went through, highlighting why and then how it proceeded with its development.

History

PRCC first opened its doors in 1930. Located at the end of the south-eastern tip of Melbourne, the club typically serviced residents in the local area and for some time was ranked in the top 20 courses in Victoria. Like many of the fringe mid tier clubs however it entered the 1990s with an increasing realisation that it was not well positioned to meet the growing needs and expectations of current and future members.



Despite its seemingly favourable location near Port Phillip Bay, the course had been constructed on a predominantly peat soil base and as a consequence had always suffered in wet conditions. Ageing club infrastructure, including the clubhouse and many greens and fairways were also in decline as were club membership numbers. Generally, the Club had less ability to compete in the wider market as a result of little long-term planning and as the club faced these realities it was forced to make some serious decisions about its long-term health and viability.

The Decision Making Process

As the Club faced the growing realisation that it was being left behind by the market it quickly realised that its potential "saviour" may be the land that it had been using part of as a practice range. The size of the land parcel was big enough for separate development, whilst allowing the club to retain approximately 60 hectares for its own use and also was of sufficient value to fund the redevelopment works deemed necessary to both the course and the clubhouse.

Development proposals were not new to the Club. There had been previous attempts by the Board to convince the members of the need for re-development prior to this time but they had been repeatedly rejected. These past experiences however had provided the Board with a valuable lesson, in that successful outcomes come from successful communication and well researched planning. In September 1998, following a number of member communication sessions, 96% of the Club voted in favour of the redevelopment opportunity, knowing that such a decision was to have significant impact on the short term playing conditions at the Club, as well as significant short term financial implications. For the Club to survive however, with any substance, they in reality had little choice.

The Development

The development option ultimately chosen by PRCC was perhaps the most disruptive option available to it. Acknowledging the wider market pressures (detailed in the previous paragraphs) it felt that a smaller upgrade of the club's infrastructure would not secure any more certainty for future years and that in order to best compete in the likely future environment, a total redevelopment of the course was necessary.

The Club developed a design brief, outlining its general requirements. By undertaking this process the Club was able to identify and eliminate issues that would later impact the club in terms of operations, being maintenance and playability issues. As such low input grasses were selected, multiple tee box requirements were confirmed, as were other general playability issues such as green sizes and bunkering. Pacific Coast Design (PCD) was selected to design and oversee construction of the new course, the board believing that the PCD product suited the proposed positioning of the "new" PRCC.

Master Plan

The agreed Master Plan saw a complete re-development of the golf course, including the removal of approximately one to two metres of peat soil so as to expose the Club to the lower levels of sand already present at the site, but previously inaccessible due in part to the cost of extraction. New lakes and drainage systems were to be created, (the land to be sold to the development group was separated from the club by the creation of a canal that links into the lake system on the course,) with the whole site recovered with

sand, providing a suitable base for the selected Santa Ana couch fairways. Over 300 pine trees were also removed from the site and the course routing overhauled to such an extent that only two of the new fairways were to run in their original direction.



The clubhouse was to also be overhauled, including refurbished function rooms, members bar, and remodelled of accommodation rooms for meeting use. A new club entry point was to be created as well as a terrace area outdoor dining.

Patterson River Master Plan



Source: Patterson River Country Club

Selection of Developer

The other key component of the development was the monies raised from the land that was separated and sold by the club. This was to be the source of monies used to help fund the course redevelopment and therefore the selection of an appropriate developer was an important decision. The club chose to run a public tender campaign, from which interviews with five interested parties were arranged. Proposed development schemes ranged from a caravan park to high density unit development and values from \$4.3 million to \$10.1 million.

Arising from the tender process, the Club awarded the development group Australand "preferred bidder" status, allowing them to negotiate directly before informing other parties of the tender outcome. Australand were ultimately selected due not only to their tender price, but also company size, stability and reputation, their likely ability to deliver the development and preparedness to work in partnership with the club to achieve the necessary re-zoning (which was the trigger for the sale contract becoming unconditional). Also considered in the sale was the 5% land tax, applicable retrospectively under the Recreation and Cultural Lands Act for clubs who sell otherwise exempt land.

The club was also able to negotiate a development marketing agreement, which facilitated the packaging of a joining fee and first year's subscription for two people into the purchase price of land, which gave rise to a total payment in the order of \$1,000,000 to the club and the probability of recurrent additional subscription revenue flow from these new members in subsequent years.

The Results

At the time of writing the construction of the golf course had reached practical completion and the Club is looking forward to a full growing season this summer which will see the cover on the couch fairways significantly increase. Ground floor redevelopment of the clubhouse has also been completed and stage 2 works are soon to begin.

Despite well researched logistics and financial planning, the development has not been completed without some foreseen and unforeseen costs. Some of these costs, being the potential pitfalls of a development such as this, are identified below.

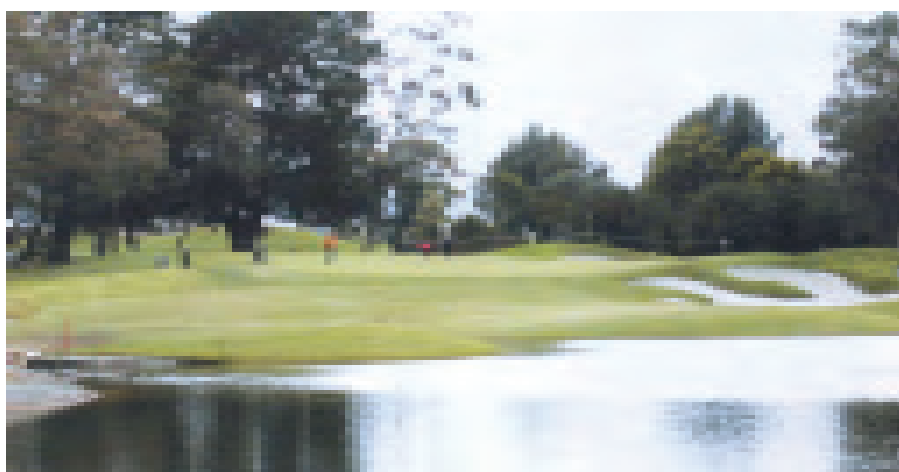
Declining Membership Numbers

As could reasonably be expected from a project such as this, when you turn the golf course at a golf club into a construction site, members will be lost. A review of membership numbers provided by the club shows that between 2001 and 2004, the period in which the development essentially took place, the club lost approximately 114

members, falling from 1,026 male and female members to 912 total members. At today's seven-day member rate, this difference amounts to lost income of approximately \$200,000 per annum over the 5 years since the project commenced, near 15% of the Club's total annual revenues. For any club, this is a sizeable loss of income to carry. With the major disruptions now over and having reached completion the Club now intends to pursue an aggressive marketing campaign to grow the membership numbers back to the desired maximum of 960.

Course Results

Having determined ahead of time what grasses and bunker sand would be used on the new holes, including greens and green surrounds, the actual performance of these grasses and sand was not able to be tested on site prior to planting/filling. Some grasses proved to be better than others in their particular application, resulting in the necessary re-laying of grasses in some areas, changing bent grass aprons to couch grass and the initial bunker sand being replaced. These issues are comparably minor however and are all part of "bedding down" new holes.



The original timeline saw a five-year construction period, allowing 18 holes to remain open during the entire period. As the summer period (2005) in Melbourne approaches, the course development final grow in and "polish" is being undertaken, seeing the development completed to the original timeline set.

Project Costs

In developments of this nature and of this size, estimating likely project costs with complete accuracy is extremely difficult. The project cost estimates for PRCC were no different. Original course costs were estimated at \$3.4 million, but due to extra costs incurred and some decisions made along the way, the final course costs are estimated at \$5.8 million, a 70% increase over the original estimate.

Of the \$2.4 million increase from original construction cost budget, \$1.575 million was incurred due to a change in project scope. This occurred when the club realised that there was sufficient sand underneath the peat base to warrant the sand inversion process which was not in the original specifications. This provided an opportunity to produce a vastly better drained course than was originally specified and rid the club of their former problems in this area. A significant portion of the budget increase can also be attributed to inaccurate geotechnical information. Unreliable estimates as to the quantity of sand present on the site led to more sand needing to be found as the project progressed. Clubs are advised to not take shortcuts in this area, to have thorough studies undertaken, and to also budget accordingly for soil/sand requirements.

Nearing project completion, the Club has a net cash position of approximately \$1 million, with a further \$1 million to be received from the golf membership sales as and when residential lots are sold. These funds are to be used over the coming years for further clubhouse refurbishment as the Club pursues documented operating strategies to secure its long-term future.

Lessons for the Industry

Decisions such as this one made by PRCC do not come easily for individuals, yet as a collective and from a distance they are often clearly seen as being necessary. In the VGA Magazine of November 2000, the Club was indeed applauded for the move as it faced head on the "what's in it for me?" syndrome that had been identified as (and still is) the biggest challenge that the industry has to face in coming years.

The first lesson learned from this case study is the need to put collective club interests ahead of personal interests. Many clubs and their members, in order to secure their long term playing future, will need to look past themselves and into the future as many more decisions, such as this one, which caused significant short term disruption to daily club life, will inevitably have to be made. Whilst the membership of PRCC are to be applauded for their adoption of the Board's vision, it is not unreasonable to state that their enthusiasm for the sale and re-build was stimulated to a large degree by a realisation that other options to enable the club to survive as high-quality metropolitan golfing venue did not exist.

The second lesson is directed to Club Boardrooms where the "custodians of the day" oversee the golf club. The unfortunate reality is that if these "custodians" also do not do their job properly and address change when it is needed, there may well not be a club over which to preside in future years. Empowered with a mandate to secure the future of the club, it is worth noting that the Board recognised that a physical re-invigoration only addressed part of the problem. It properly set about challenging the culture of the club that had in part contributed to the difficulties it had encountered.

This overhaul reflected itself in programming responses designed to introduce new user groups such as young women and children to the club, flexible payment options for subscriptions and joining fees, family membership packages and significantly, a re-writing of the club constitution with a view to reflecting modern business practices and to provide subsequent Boards with the flexibility to more efficiently respond to operational challenges.

The current environment is such that change in golf clubs is inevitable, some say necessary, and at some clubs it is even immediately required if they are to have any chance of surviving with any substance into the longer term. Club golf is as much about tomorrow as it is about today, and this case study of the path chosen by Patterson River is one example of how tomorrow's club golf, and that of future generations, can successfully be secured. Inevitably, as the club enters its new bright era, the membership may require reminders of the need for constant re-invention, in order to remain ahead of the pack. The challenge for subsequent Boards is to continue to exercise the strength of leadership that has for now restored Patterson River to a position of some authority.

As aptly stated in the April 2004 edition of the club magazine, *The River Review*, success belongs to those who plan for it.





© Ernst & Young Australia 2004.

This communication provides general information, current as at the time of production. The information contained in this communication does not constitute advice and should not be relied on as such. Professional advice should be sought prior to actions being taken on any of the information.

Ernst & Young disclaims all responsibility and liability (including, without limitation, for any direct or indirect or consequential costs, loss or damage or loss of profits) arising from anything done or omitted to be done by any party in reliance, whether wholly or partially, on any of the information. Any party that relies on the information does so at its own risk.

Liability limited by the Accountants Scheme, approved under the Professional Standards Act 1994 (NSW).

SYD_0410861