Golf Business Canada

National Golf Course Owners Association Canada • Spring 2017

Your Customer Forecast

Golf Industry Facts, Figures and Trends for the Future

Baby Boomers	Engaged Golfers	Women	Existing Golfers	Millennials
50+	25%	18+	86%	20s

25th Anniversary
POWERED BY NGCOA

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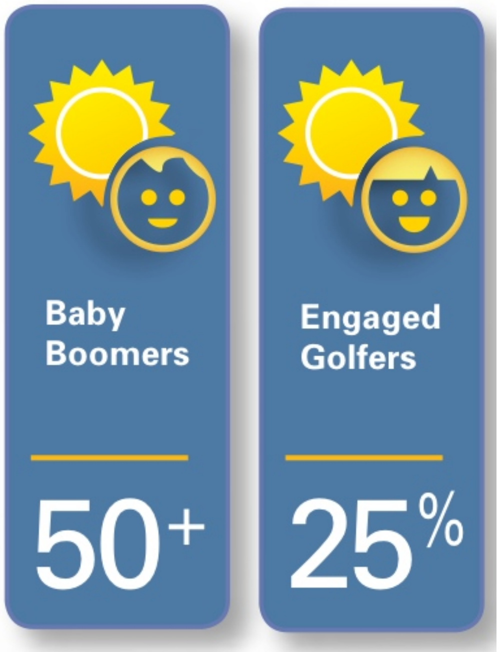
Your Customer Forecast

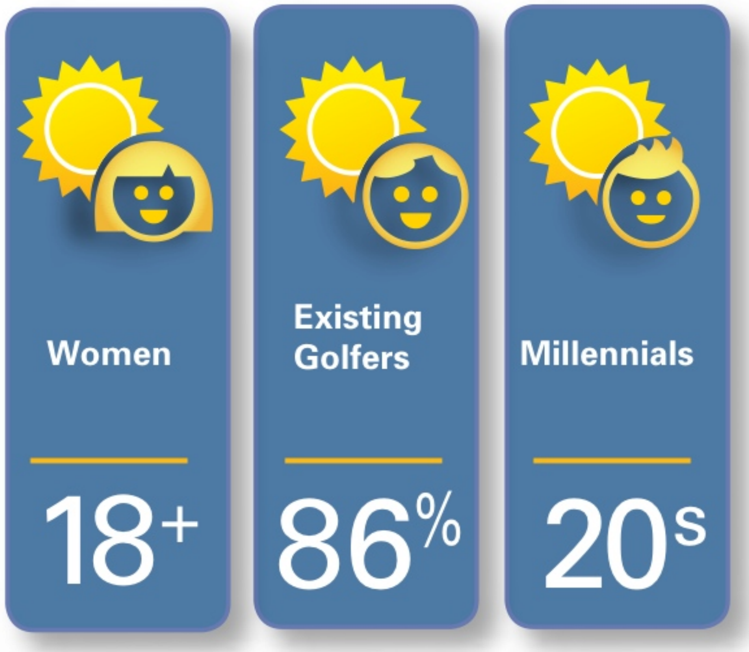


Like a driver rubbernecking to view a traffic accident, it has been difficult for golf course owners and operators to look away from the negativity and predicted carnage hurled at the golf business by the general media in recent years.

THE SKY IS NOT FALLING

With 2016 now in the rearview mirror, we look back at continued consolidation and change in the equipment space, illustrated by Nike's exit from hard goods, the bankruptcy and sale of Golfsmith/Golf Town, Acushnet's IPO and adidas' pending divestiture of its equipment assets.

Couple those events with reports of continued flatness in U.S. rounds played and retail sales, amplified by those looking to suggest a grimmer future where millennials reject golf for the pursuit of a deeper relationship with their mobile devices and other instant gratification inducing activities, and one can easily be lulled into thinking it is time to plow over the back nine and build some condominiums.



Golf Industry Facts, Figures & Trends for the Future

I'm not that doomsayer. To paraphrase the words of one Mark Twain, reports of golf's imminent demise are greatly exaggerated. In fact, I would maintain that societal evolution brings even greater opportunities for the golf business. As one who makes his living as a marketing researcher, studying the thoughts, attitudes and behaviours of golfers, travelers and other sports participants and enthusiasts, I can frame my conclusions with facts, figures and a perspective that is aided by close direct observation.

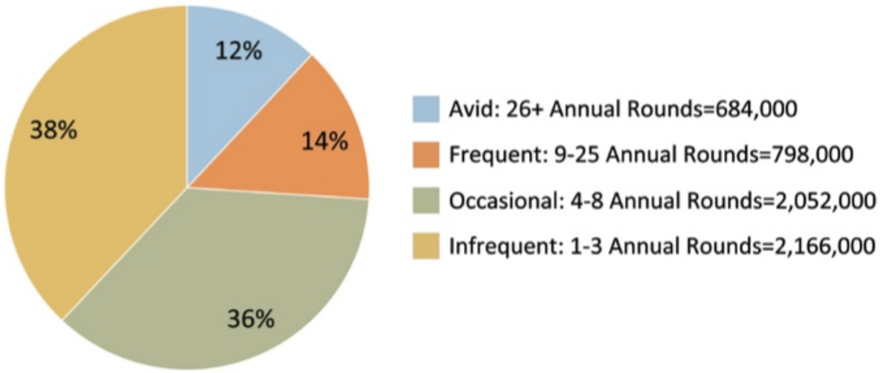
To rise above those who are quick to dismiss the future prospects of golf, it is important to acquire an acute understanding of what is really going on, beginning with an examination of today's customers.

THE PROPER CONTEXT

There is a popular notion being disseminated by some of the more venerable U.S. media brands, that golf participation has suffered unprecedented declines in the States. Citing National Golf Foundation data, these pundits have bemoaned a precipitous reduction in U.S. golfers from 30.6 million in 2003, to just over 24 million, ten years later.

The basis of such claims is immediately thrown into question by the rather loose definition of a golfer as anyone who basically swung a club outdoors on course or at a range. I am not so naïve as to fail to recognize that in many ways, we as a golf industry set ourselves up by embracing that broader definition of a golfer, so that we could tout the shattering of the 30 million barrier.

Estimated 5.7 Million Canadian Golfers



At our firm and among the equipment manufacturers, golf course owners and operators and other industry stakeholders that we work with, I have always been more apt to look at a participation number that has consistently hovered in the 6-8 million range over the past several decades as reflective of the more engaged golfer, who disproportionately represents roughly 80% of all expenditures on equipment, access fees and golf related travel.

However, the broader golfer definition and the 30 million mark of 2003 is what the alarmists now get to throw back in our face, typically without recognition that 2003 is a rather convenient selection for a benchmark comparison. Even if we were to accept the broader golfer definition, 2003 represents a high-water moment; an outlier or what I would define as a true market bubble.

In 2003, the Tigermania phenomenon had reached its high point. Woods captured 32 professional victories between 1999-2003, seven majors and an unprecedented "Tiger Slam" that saw him simultaneously hold all four Major titles, concurrently.

Data showed a direct correlation between higher television ratings and Tiger's participation in a particular event. 2003 also saw a robust U.S. economy, and golf was cool again with the preeminence of a new cultural icon whose popularity transcended the sport.

Concurrently the infrastructure of golf facilities was misaligned with consumer demand. High-end daily fees, striving to be country clubs for a day, were overbuilt, while a new breed of "tire kickers" found them to be overpriced and too difficult for their fascination with golf to be more than fleeting. Thus it was inevitable that the high-water mark was not sustainable.

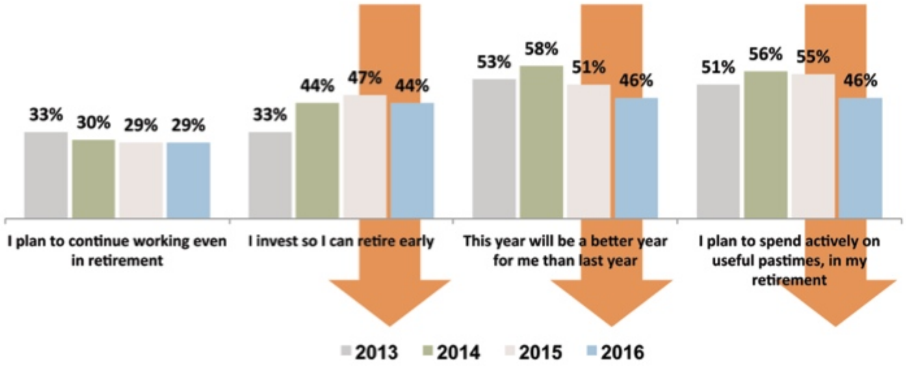
Yet, there's more to the context argument. Consider that if one again took the same one time a year qualification for golfers back to 1990, the total U.S. participation rate over a quarter century would be stable…right on the 24 million golfer number, which still represents significant growth over participation figures from the middle of the 20th century.

So, while we can dismiss the "sky is falling" assertions from an often uninformed mainstream media, consider that if we play the numbers game in Canada, there's an even more encouraging participation picture.

According to NGCOA Canada Rounds Played & Weather Reporting, 18 hole equivalent rounds played were up 10.6% in 2015 vs. 2014 and were up 6.2% over a three-year average. Based on direct, indirect and induced impacts, Canada's 2013 golf cluster economic impact accounts for about $14.3 billion of the country's Gross Domestic Product (GDP), up from $12.2 billion in 2008, according to the 2014 Economic Impact Study of golf in Canada conducted by the National Allied Golf Associations (NAGA).

THE CANADIAN GOLF MARKET

According to the 2012 Canadian Golf Consumer Behaviour Study conducted by NAGA there are an estimated 5.7 million golfers across Canada, roughly 1.5 million of whom play nine or more rounds annually. The Study estimated an equivalent number of roughly 1 million golfers entering and exiting the game on an annual basis, while 86% of the existing base were playing the same or more rounds than they had in the previous year. While participants skewed older, as they do globally, golfers age 25 or younger represented more than a quarter of the Canadian market.



Macro Economic Trends and the Golfer Mindset

• Fall in short term optimism, throws caution at other indicators that continue to show strength

Our research on the attitudinal and behavioural composition of the U.S. golf market further illustrates the most important thesis that viewing your golf customers as a homogenous mass is woefully shortsighted.

The 2015 Golfer Market Segmentation research conducted by our firm and Sports Illustrated Golf Group identified six market segments, four of whom while representing only 30% of the overall golf market (5.1 million golfers) contribute two thirds of all rounds played, three quarters of all golf equipment spending and nearly 80% of all golf related fees and golf related travel spending.

Consistent with this U.S. based research, the 2012 Canadian Golf Consumer Behaviour Study concluded that those golfers most engaged in the sport, represented 25% of the golfer population and that the majority of Canadian rounds were being played by just 26% of golfers.

ENGAGED GOLFER MARKET SEGMENTATION

The Canadian market can benefit from a better understanding of the attitudinal segments that our research uncovered. These segments were defined as:

Private Elite

A member of an upper echelon club, plays often and significantly outspends all golfers on a per capita basis. His affluence allows him to spend on quality.

The Equipment Junkie

Avid and equipment savvy, he spends the most on new golf equipment. He is also the most passionate about the game and its core values.

Generation Next

Yet to hit 30, but on the fast track both in terms of his game and career. Although he is not quite an avid golfer, he takes the game just as seriously as other top segments and wants an authentic experience.

Golf's Sweet Spot

Golf's workhorse, this large segment is a committed core golfer who loves the game and has made it a central part of his lifestyle. His golf spending is sizable but less than other top groups.

Despite their demographic differences, these four segments all shared disproportionately higher intended spending levels and a significantly greater commitment index to the game of golf than the larger and less engaged masses.

Attitudinally in common with each of these groups was an appreciation and reverence for the game's core values, the pursuit of an authentic golf experience that eschews forced trendiness or fads and an unwavering engagement in the game across both traditional and new media vehicles.

THE GOLFER MINDSET

A first step to attract the golfer of the future is to understand some macro level trends that put the game in context with the way in which these customers spend their leisure time. Much of our golfer research explains the market skew to older adults recognizing the difficulty that many have in managing a work/life balance.

We have often seen a phenomenon where those exposed to the game in their formative years, often lapse or significantly decline their participation as they initiate careers and families. The extension of individual retirement dates will continue to impact participation, and leads to a facility specific focus on promoting family and work centric playing opportunities.

"To paraphrase what one PGA professional stated....this makes me wish I had more understanding of the hospitality business rather than the golf business!"

Stagnant wages in real terms, the evolving nature of the workplace, brought about by an acceleration in the diffusion of artificial intelligence and technology, and consumer attitudes that are now placing a greater premium on the collection of experiences, rather than simply material purchases, also suggests a shift in how the golf facility of the future needs to articulate the benefits and differentiating aspects of time spent at the golf course.

To the latter trend, golf needs to be looked upon as an experience, not just competitive with other sports, but a variety of other ways to spend time and money. For many, the successful golf facility is evolving to be more than just 18 tees, fairways and greens.

Ask most golfers (and even a large percentage of non-golfers) what inhibits them from further engaging with the game, and you will typically get some variation of the push button response, that golf costs a lot of money and takes too much time. Our research has explored this to recognize that what the customer is really saying is a surrogate for the fact that other experiences deliver a better return on that investment of time and money.

The 2012 Canadian Golf Consumer Behaviour Study corroborates the Sports & Leisure Research Group research in concluding that "time and money constrain the playing of the game, but they do not drive the game…Engagement with [golf] is emotional and self-expressive – It is not functional (it is about how the game makes golfers feel)."

In our research, when golfers claim that golf is too expensive, or that they do not have enough time to play, they are really saying that the on-course experience doesn't justify that expenditure of time and dollars. They spend on lessons and equipment, yet they still can't break 100.

We surveyed over 15,000 golfers for the World Golf Foundation and the most strongly agreed upon statement by golfers being questioned about their commitment to the game was, "There are no guarantees in golf."

This statement spoke to inconsistent pace of play issues, and the aforementioned inconsistency of performance and on-course experience. The implications from this and the above findings suggest that facility operators should take a close look at creating a more uniform high level of customer service, greater focus on pace of play and course conditioning. In fact, these factors are typically among the most significant drivers of golfer satisfaction found in our ongoing research within the industry.

Concurrent with these dynamics, our ongoing golfer sentiment research shows a mindset that exacerbates the more competitive battle that golf facilities must fight for greater share of customer, against a broader set of alternative leisure options.

In our 2016 Omnibus work, we witnessed a three year low in short term optimism about financial security and the ability for one to actively pursue useful past times. That only amplifies the need to deliver a consistently superior customer experience and make golf the oasis or escape from the day-to-day annoyances of life.

To paraphrase what one PGA professional stated after watching me interview golfers from the opposite side of a one-way mirror, "This makes me wish I had more understanding of the hospitality business rather than the golf business!"

OPPORTUNITY SEGMENTS

Beyond the attitudinal segments identified earlier, facilities can gain a better hold on the most resonant and compelling ways to appeal to the most profitable customers, by better understanding what our golfer research has revealed about three more readily identifiable consumer groups:

Baby Boomers

Twenty years ago, not long after I entered the golf industry, there was a popular notion that the coming of age and progression into retirement of the baby boom generation would accommodate a Field of Dreams ("build it and they will come") approach to golf course development.

What those who accepted this logic failed to recognize was the generational dynamics that superseded how prior generations had embraced a similar life stage. Today's retirees were children of the "Godspell" era, the "me generation" that defined their self-worth through actualization, personal growth and the collection of experiences. Seeking a collection of relevant "experiences light" didn't always align with the benefits that golf connoted.

Rather, it suggested a repositioning of the game to be among those coveted experiences and opportunities to maintain an active relevancy. Golf facilities that embrace such an approach and don't marginalize today's retirees are winning with this segment.

Millennials

As I referenced earlier, the "Next Generation" segment from our Sports Illustrated research revealed an encouraging group of 20-somethings who have actually embraced golf for its traditional values, community building environment and idyllic respite from the rest of the world.

Millennials seek their own form of individualism and self-expression through social media and the expanded viral and virtual communities that they can live in outside of the confines of an often underwhelming entrance into a workplace that doesn't necessarily value them as they feel it should.

Boomers initially dreaded the prospects of working for "the man." Millennials feel that they should be running the company by age 30, because the "dinosaurs" that they work for just don't get how things are these days. Yesterday's "me" generation has bred today's "pay attention to me" generation.

The pay attention to me's seek to be heard, and dive head first into incessant sharing and citizen journalism that provides a forum to be heard, as the rallies and protests of the sixties and early 70s did for their parents and grandparents. These figurative and literal communities are a perfect breeding ground for golf. The me generation really does share similar values to the pay attention to me generation; it is just at a different life stage.

So, while our research suggests that there is nothing wrong with the introduction of "entry ramps" or derivatives of golf that can be a more short-term fit with this generation's life stage, it also suggests caution for those who might be apt to throw the baby out with the bathwater.

Some of the more patronizing attempts to make golf appear overly hip or cool are akin to a 50-something doing Jell-O shots or crowd surfing at a concert. It lacks authenticity and conformity to the game's brand essence. Thankfully, this next generation still values that authenticity.

The Women's Market

Extensive research that our firm has conducted for the likes of the Little Family Foundation, NGCOA and PGA of America have identified that despite recent strides that have been made to create more welcoming and need-specific services for women, the golf industry is still faced with flat to declining participation and large numbers of women who drop the game each year due to a variety of factors including hostile environment, poor placement of tee boxes, service lapses, limited accessibility to a desired golf experience and women-specific products and services.

The Golf Facility of the Future Needs To:

- Treat their facility as a brand
- Really listen to the customer
- Be mindful of competition beyond just golf and other sports
- Leverage their best customers in a viral way to spread the word about what differentiates their facility against other competitors
- In addition to player development, focus on the broader concept of customer development and hospitality
- Pay particular attention to CCRR: communications, community, recognition, and reward rather than just loyalty models that are often too focused on just the reward component.

Our multi-phase "The Right Invitation" research identified a suite of facility best practices shown to be key drivers of satisfaction and increased play. Generically these key drivers can be summarized as:

- The experience must be an enjoyable social occasion
- It should leave women with a sense of accomplishment
- It should not be fraught with unnecessary physical and emotional stress

More specifically, best practices for a woman friendly facility were identified as a combination of:

- Four or more sets of tees, with the forward most set of tees ideally under 4,500 yards to allow golfers to reach greens in regulation
- A golf shop of 500 square feet or more with a good selection of well displayed women's clothing and equipment and a dedicated women's department
- Both men and women staff present in the golf shop
- Abundant directional signage on the golf course
- Greeters present at the facility entry/starting area
- Ample jugs of drinking water present at a minimum of three tees per nine holes
- Both men and women staff available for golf instruction
- 2+ women's or non-gender specific restrooms per nine holes
- Healthy food options served
- Family golf day programs or tee times
- 9-hole and other flexible rates such as pay by the hole
- Corporate/women's golf leagues
- After hours socials for women
- On-site child care

Our study concluded that these best practices can be implemented at the grass roots level to address the salient needs of women golfers and provide a more inviting experience and increased satisfaction, participation and retention of women golfers.

In fact, the third phase of this research was a longitudinal study that actually tracked the key dependent variables of player participation and satisfaction as well as facility financial and rounds performance at select "best practices" and "control" public golf facilities.

It concluded that those facilities that deployed at least 80% of these women friendly best practices saw their women customers play 16% more golf than those playing regularly at control facilities, while exhibiting greater loyalty to the best practice facilities. In turn, those best practice facilities reaped stronger financial performance overall, relative to the control facilities.

EVOLUTION IS KEY

The common denominator across all of our golfer research is the conclusion that best customers come in many different shapes and sizes, and that these customers will continue to drive a disproportionate level of revenue at any golf facility. It is imperative for facilities to utilize more than intuition and casual observation to identify and better understand who these best customers are, and what makes them more inclined to patronize one specific golf facility over another.

You can track recency and frequency of visitation along with relative spending levels without expensive software. Customers can then be ranked and scored across these three variables (RFM) to identify different tiers of customers, each with varying levels of value.

The most valued tiers are those customers that can be a viral resource for attracting similarly minded customers, as well as strong advocates that can be recognized, communicated to and treated as a special, rewarded community, to assure that they will evangelize the differentiating aspect of your course or club.

Next, it begets the facility to deploy objective research and feedback loops across each of these RFM tiers as well as with lapsed customers, to better understand their overall and ongoing levels of satisfaction, as well as particular operational and messaging hot buttons. Analyze the gaps and differences across each segment and leverage that insight to craft a series of tailored messages and media strategies that align with their behaviours and beliefs. Listen to the customer and the rejector. Treat the golf facility as a brand, recognizing that the competitive set goes beyond other golf facilities down the street.

Finally, take the knowledge and apply it to what our research has revealed to be among the key elements that will define the successful golf facility of the future.

These critical success factors include offering unique opportunities that provide better value, recognizing that value is not analogous to price, rather it is return on investment of time and hard earned money. It is about creating an environment that is both family friendly and mindful of the golf facility's role within the fabric of customers' lives.

It recognizes that skill level or experience are not the key identifiers of best customers, so an inviting environment that welcomes a diverse mix of customer segments can increase the prospects of building and maintaining a core of customers.