Communicating Capital Projects

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Communicating Capital Projects

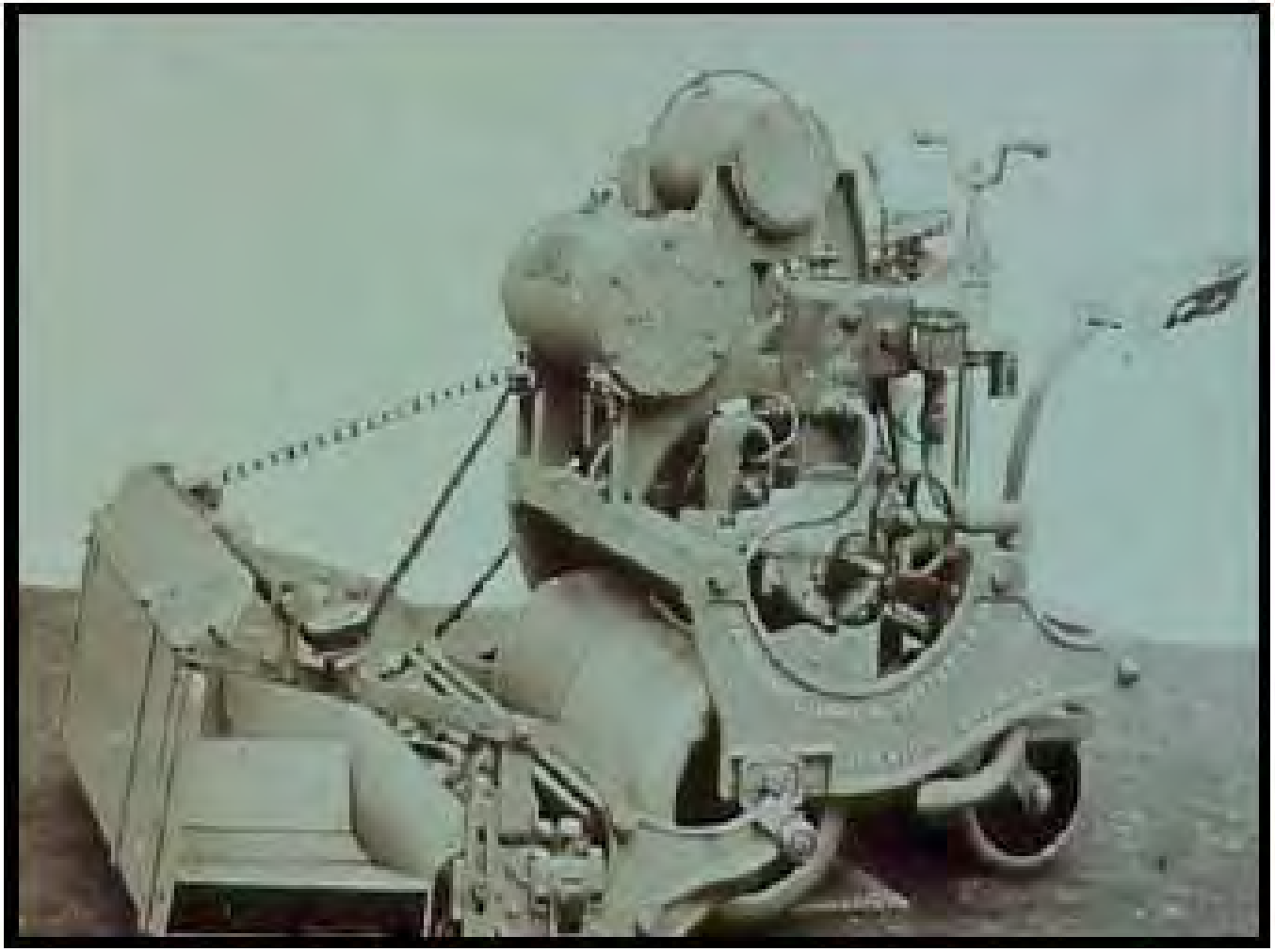
- Why is it important to better communicate capital projects?
- What tools are available?
- Prioritizing projects
- Communicating to stakeholders

Communication is key!

- Golf participation down.
- Rounds down.
- Revenue down.
- Expenses up.

- Equipment purchasing down.
- On-course improvements down.

What this means…



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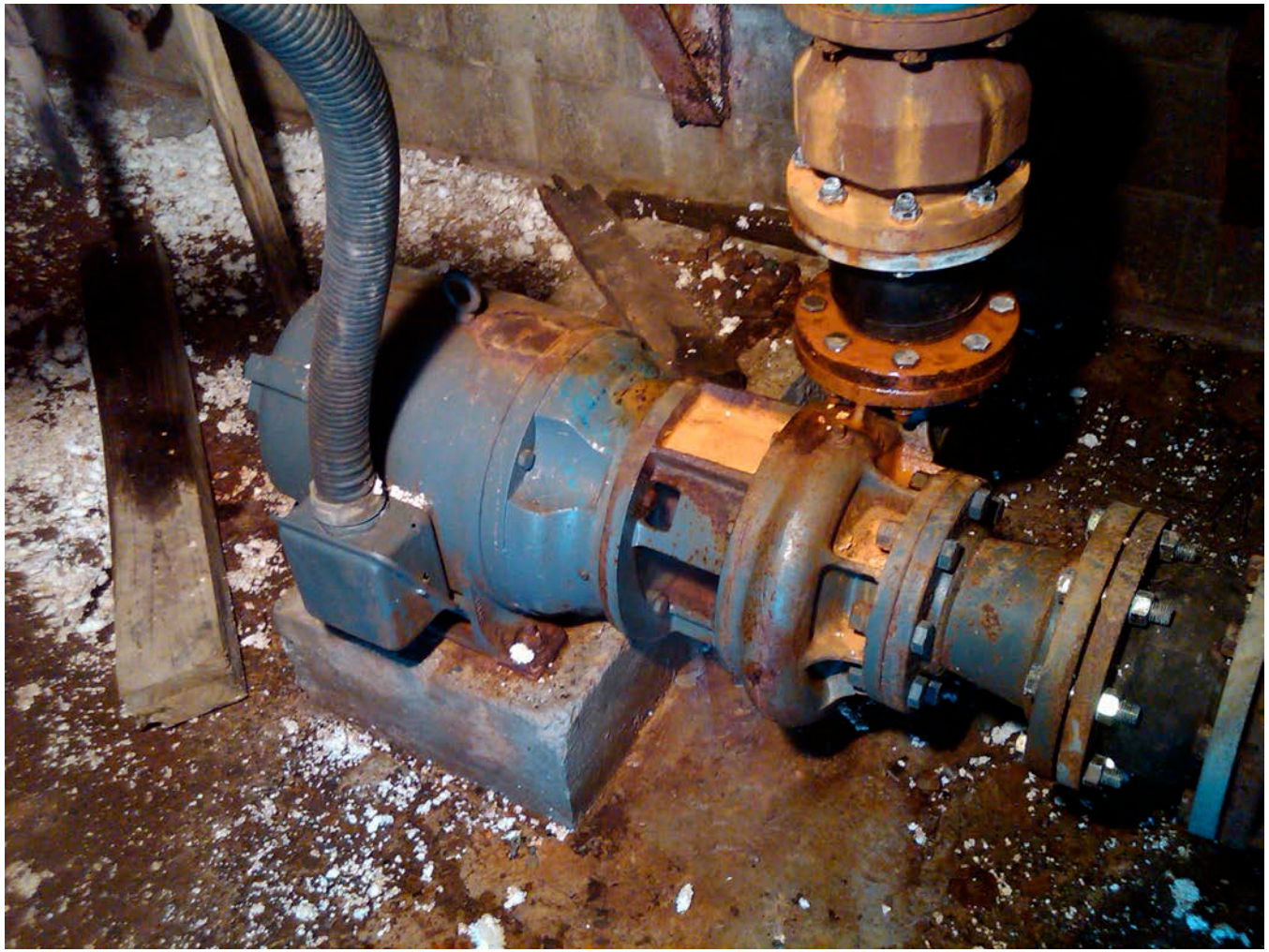

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Communication is key!

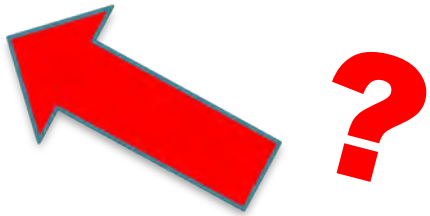
- "But I need it"
- "This would really help"
- "Everyone else is buying them"
- "It will make such an improvement"

- These no longer work!!!

Old way of project appraisal

1) Determine the amount of funds available

2) Prioritize projects
   - A, B, C 1, 2, 3



3) Approve projects

Using funds efficiently

- Quantification is an absolute.
  - If you can not properly quantify the benefit of your projects/purchases then you can not properly communicate them.

- Companies are refining and refocusing their capital spending.

How much bang for the buck?

- Quantify and rank projects with:
  - Net present value
  - Internal rate of return
  - Payback period
  - Discounted cash flow
- Sound boring?

The numbers game

- Does the project increase revenues?
- Does it decrease expenses?

- What is the financial impact of the project? This is needed to appraise the investment.

- Sometimes you have to think hard!

Example: drainage project

- Increase in revenues:
  - Selling carts one day sooner after a rain event
- Decrease in expenses:
  - Reduced compaction; reduced organic matter yields less aeration
  - Less pesticide due to healthier turf
  - Reduced labor

Example: irrigation project

- Increase in revenues:
  - Better quality turfgrass
- Decrease in expenses:
  - Reduced water use (HUGE)
  - Reduced electric use (MASSIVE)
  - Less pesticide due to healthier turf
  - Reduced labor

Example: equipment

- Increase in revenues:
  - Quality of product yields increased rates?

- Decrease in expenses:
  - Reduced parts expenses
  - Reduced maintenance labor
  - Increased fuel efficiency
  - Less rental equipment

Net present value

- Difference between present values of cash inflows and present values of cash outflows.
- Sensitive to the reliability of future inflows
- If NPV is positive project should be considered for acceptance

	2010	2011	2012	2013	2014	2015	2016
Revenue	4030	8060	8060	8060	8060	8060	8060
Expense	-24,000	-13,000	0	0	0	0	0
Cash Flow	-19970	-4940	8060	8060	8060	8060	8060

Internal rate of return

- Rate of growth a project is expected to generate over its life
- Essentially the discount rate that makes the NPV of cash flows equal 0
- Projects with the highest IRR should be accepted

Payback period

- Determines the length of time it will take to recoup the initial amount invested
- Doesn't tell the whole story, other factors needed considered too

Fairway drainage project

- Two year project
  - $24,000 expense in year one
  - $13,000 expense in year two
  - Increased revenues / decreased expenses of $4,030 in year one and $8,060 in year two

Fairway drainage example

	2010	2011	2012	2013	2014	2015	2016
Revenue	4030	8060	8060	8060	8060	8060	8060
Expense	-24,000	-13,000	0	0	0	0	0
Cash Flow	-19970	-4940	8060	8060	8060	8060	8060

- Net present value: $8,151
- Internal rate of return: 14%
- Payback period: ~5 years

Putting it together

Project	Priority
New clubhouse chairs	A++
New clubhouse paint	A+
New triplex	B
Improved fairway drainage	C

Project	Priority	NPV	IRR	Payback
New clubhouse chairs	A++	-2848	-2.2%	6
Fairway drainage system	C	8500	14%	5
New triplex	B	-8700	-8%	7
New clubhouse paint	A+	-13600	-75%	20

Questions?

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