White Paper on Third Party Distribution of Tee Times in Public Golf

The public golf industry is in a state of disorder. The fact that there are too many golf courses and too few golfers are just two of the pressure points in managing a profitable golf course. This oversupply and under demand has created opportunities for companies to offer distribution of tee times through the internet. This internet distribution system in place today for golf is similar to what airlines, hotels and car rental companies went through in the past decade. The internet has also brought great disruption to the retail markets with the influence of eBay and Amazon.

Some of these companies involved in the tee time distribution industry have made vast promises of untold riches for golf courses that participate in their distribution network and have made great promises to the golfers of terrific discounts. Other companies have been clearer about the limitations of the internet distribution network. This paper will take a look at some of the problems that are currently taking place with the current system.

Promises Made:

Third Party Promise #1

The third party distributor promises to market your tee times to a wider market area, reaching out to other neighborhoods, far flung communities and neighboring states. They are promising to expose your golf course to new customers thus adding more rounds.

Problem #1

While the third party distributor is promising that they will promote a golf courses tee times to this wide network, they are also promising the same thing to golf courses in other neighborhoods, other far flung communities and other neighboring states. In essence they are creating a network one golf course exchanges customers with a neighboring golf course and the third party distributor in most cases takes at least a per player booking fee and many times the sale of a bartered tee time..

Problem #2

While this exchange of customers might look good on paper, in actuality the third party distributor is also creating a relationship with the golfer via capturing email address and other specific customer information. Unless this information is forwarded onto the golf course, it enables the third party distributor to insert itself between the customer (golfer) and the provider (golf course).

Problem #2.5

As the third party distributor develops this relationship by also offer a rewards program for booking on the system, it reinforces the relationship between the third party distributor and the golfer.

Problem #2.5

The third party distributor will tell you that they cannot pass on the golfers email and information to you because the golfer has registered with them.

Problem #3

The third party distributor presents the picture of all golf courses as being equal creating the illusion that the golfer only needs to make their golf decision based on price. Many golf courses work hard to distinguish themselves by superior course maintenance, staffing and customer service and there is no place for that on the third party distributor internet platform.

Problem #4

The third party distributor provides the golfer who enrolls and uses the third party distributor network a rating and review process leaving the golf course without the opportunity to respond and/or rectify situations that may or may not be as presented by the golfer.

Problem #5

The third party distributors are now setting up websites to sell only the barter times that they have traded for this network system. Remember the promise made "to market your golf course to a wider market area, reaching out to other neighborhoods, far flung communities and neighboring states. By moving the barter times to a separate site, the system is created for the third party distributor to sell their inventory that a golf course has given them to make their money.

Problem #6

Remember the promise to bring you new rounds? According to all of the experts, the actual number of golfers is shrinking and so is the number of rounds being played. So if there are less golfers playing less rounds, where are the promised new rounds for a golf course going to come from? From another golf course of course! Who are those golf courses going to be? Probably golf courses that are on the distributor's network, but also from those golf courses that have not continued to market their facility, or those that have deferred maintenance or those that have downsized staff.

Third Party Promise #2

The third party distributor promises to market your tee times on their network in exchange for bartered tee times. This is presented as a noncash marketing solution for golf courses essentially trading tee times for advertising. The golf course can even give the third party distributor their worst tee time in exchange for marketing on the third party network.

Problem # 1

One of the promises of marketing is to deliver to the customer the attributes the customer perceives they will get from the purchase. Third party distributors marketing campaigns are designed about delivering rounds of golf at a discount. So currently the message is solely one of discounted golf. This helps deliver the brand promise of the third party distributor is does nothing to develop the brand of the golf course.

Problem #2

The third party distributor is allowed to price the exchanged or bartered time for any price the third party distributor wishes, thus destroying any pricing integrity a golf course has built up over the years. Does this affect the golfers perception of value in golf? If they can buy it online from someone else for less than they can buy it at the shop counter why would they ever return to the golf shop to buy their golf?

Problem #3

As the third party network expands, the number of tee times available at below market rates expand thus creating an opportunity for golfers to purchase golf at unreasonable and un-sustainable prices and creating the perception that golf is overpriced when in fact golf is underpriced.

Problem #4

The third party distributor views their bartered tee times as perishable inventory and further reduces the price of golf plus moves their inventory off of their main network to another website for disposal of those perishable tee times without equal promotion of non-bartered times.

Problem #4 Revisited

There would be some great value to the golf courses if the entire bartered inventory was moved to a separate site. This would confirm to the golfer that the golfer was buying the tee time from a third party. This would make the disclaimer of who actually owns the tee time and who sold it clearer for both the buyer and the golf course that must service the golfer.

Problem #5

The third party distributor model of lowering prices as the tee time gets closer runs counter to most other perishable consumer products.(read airlines) This is detrimental to all parties because it encourages golfers to wait until the last minute to book times and diminishes the value of the bartered times.

Third Party Promise #3

The third party distributor model promises to treat all golf courses equal because they have a general policy of not having a floor price on the bartered tee times they receive, meaning that the third party distributor sets the price of the barter tee time as low as FREE.

Problem #1

The fact is the third party distributors have in fact made **special** and separate agreements with groups across the country. There have been special deals with Multi Course Operations, Vacation Destination groups and others. These **special** deals are not available to the single standalone golf course. If you are a standalone golf course in a market where other golf courses are receiving **special** treatment are you being treated unfairly?

Third Party Promise #4

The third party distributors promise that they will help you with your website.

Problem #1

Just recently it has been discovered that a major third party distributor has been adding code to their client's website that remarkets golfers that visits the clients website to other golf courses.

Problem #2

The third party distributors have taken control of golf courses domain names and have claimed ownership of those domain names.

Third Party Promise #5

The third party distributors promise that the marketing efforts can be made without the golf course paying any money and can barter for those marketing efforts. Golf courses can trade them their worst tee times in the barter.

Problem #1

The definition of barter includes the words "exchange of goods or services without the use of money". The longer definition also includes "to the mutual benefit of the exchanging parties".

Problem #2

What are the tax implications? The IRS under topic 420-Barter Income states: You must include in gross income in the year of receipt the fair market value of goods and services received in exchange for goods or services you provide or may provide under the bartering arrangement.

Problem #3

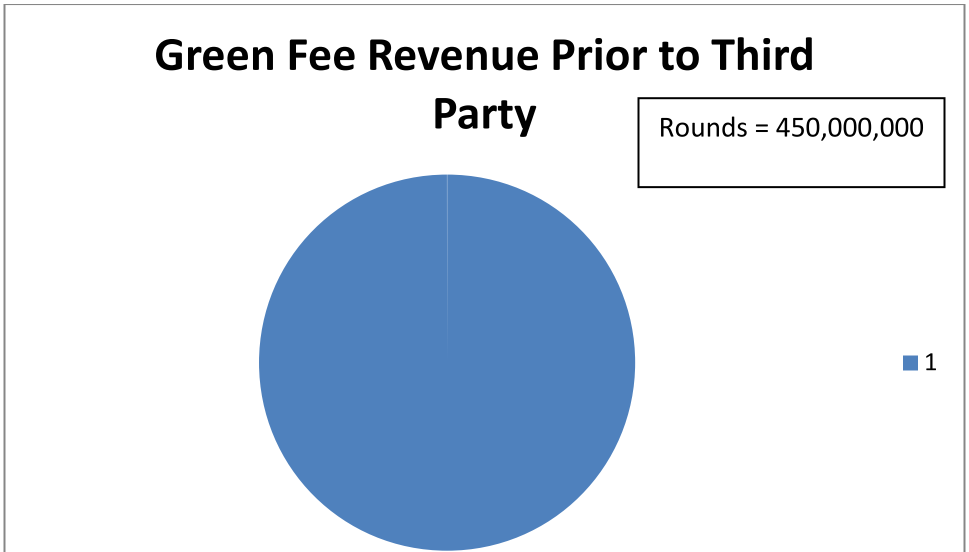
What is the true cost of the barter. If you are bartering one tee time per day for 180 days that is 720 green fees times whatever your rack rate would be. Example: Rack rate $30 times 720 equals $21,600. Now you can make the argument that you are trading the worst tee times and you wouldn't possibly sell them so in effect you are giving them nothing. However, the third party distributor sells them don't they? So even if you sold those times at $10 per round (which you could do) you are trading $7,200 to be on the their network. What could you do with $7,000 to $21,000 in marketing money?

Third Party Promise #6

The third party distributor promises to grow the business of golf.

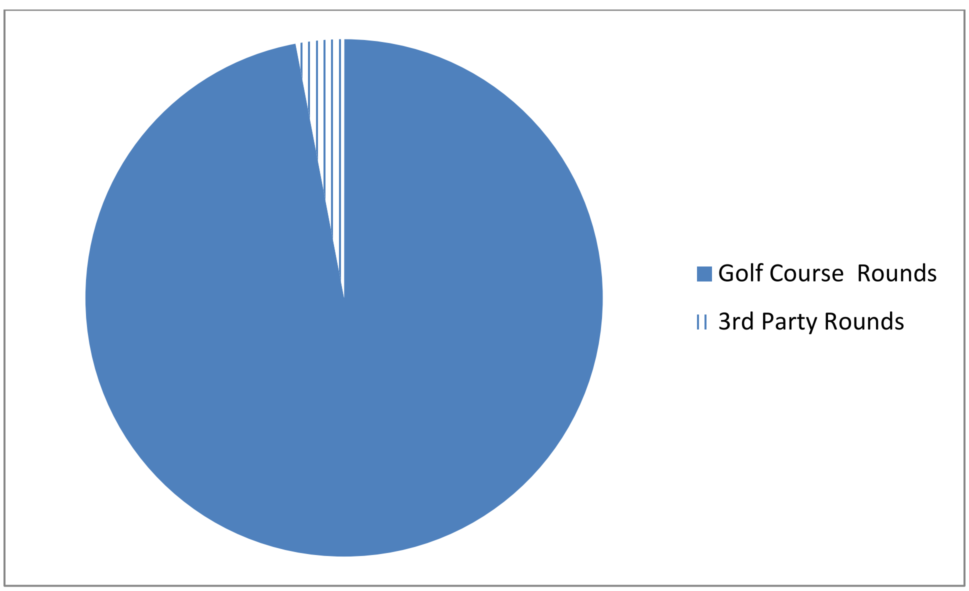
Problem #1

All parties who keep track of the statistics of the game agree that the number of golfers has been stagnant at best and is probably shrinking and the number of rounds is following the same pattern. So here is a great example of what has happened. Prior to the advent of the third party distributors, golf courses were able to retain all of the green fee and cart revenues.



100% of revenue went to the golf course.

After the third party distributor system went into place, golf courses are now giving up approximately 3% of the total rounds to the third party distributors of which the third party distributor earns a booking fee or a booking fee and green fee.



On a pie chart is looks like a relatively small amount but using real numbers it tells a more disturbing story.
Let's assume that the total number of rounds is 450,000,000, four hundred and fifty million rounds
At an average price of $30 per round that would be a total of $13,500,000,000 thirteen billion five hundred million in projected gross revenue. 3% of that for third party bookings equals 13,500,000 thirteen million five hundred thousand rounds at an average price of $30 would be a total of $405,000,000 four hundred five million dollars. It is quite a large amount of money. Is it no wonder that third party distributors want a part of it?

Now this illustration is not meant to portray that all of the money is going to the third party distributors, but it does illustrate just how big a money pot these distributors see in the golf business.

Look at it from a local market perspective:
If a market area is comprised of 40 golf courses and each golf course trades/barters one tee time per day to a third party distributor, the golf courses have essentially created a virtual golf course that is now their additional competition. This barter system is one in which no golf course receives any revenue until a new round of golf is sold outside the bartered rounds. Examine the numbers: 40 tee times at 4 players per tee time is 160 golfers at $30 per golfer is $4,800 in potential revenue for the tee times and another $320 in booking fees. The virtual golf course owned by the third party distributors now has a revenue stream of $5,120 for the day but pays no payroll, pays no taxes, owns no turf equipment, has no light bills, heat bills or any overhead associated with a typical golf course. Those costs are still the responsibility of the real golf courses. The virtual golf course is the most profitable golf course in the world. So instead of 40 golf courses splitting up the golf market in their own respective ways, there are now 41 golf courses of which one has no costs and unrestricted income.

What does the future look like for third party distributor?

Understand that the third party distributors are in business and that business is to sell your tee times. They make money at least two ways; 1) Adding a booking fee for every player they book. 2) Selling your tee times that you have bartered with them. That is their main business.

In order to grow their business they have to expand their network of golf courses.

Go back up and look at the pie charts again.
Here are the facts:
The number of golfers is shrinking, not growing.
The numbers of rounds are shrinking, not growing.
The numbers of golf courses are shrinking, not growing.

If the third party distributors are going to grow their business they are going to take that business from a shrinking number of golf courses, with a shrinking number of golfers playing a shrinking number of rounds.

The current situation is costing golf courses money.

So what does the future look like? What is the solution?

First and foremost is this. The third party distributors have no business if they have no inventory. The golf courses are completely in control of the inventory and exercising the control of where that inventory goes is completely up to them. Does the golf industry really need third party distributors or aggregators of inventory? If the answer is yes, what does that business model look like? How do the golf courses get back the control of their pricing and inventory? The current model makes golf look like a commodity where price is the only reason for a golfer to decide where to play. Can the new model move away from golf being a commodity?

The answers to these questions are yet to be written. Watch closely, listen carefully organize and make decisions wise!