YIELD MANAGEMENT
By: J. J. Keegan, Managing Principal

INTRODUCTION

The goal is revenue optimization.

While some feel that yield management can result in price discrimination (charging customers consuming identical goods different prices), demand pricing is used by many industries. From Expedia to Orbitz to e-Bay, customers have accepted that very rarely do different customers pay the same price. Sophisticated software systems and staff provide airlines, car rental agencies, and hotels the ability to manage price based upon availability, time, and demand.

Demand pricing has gotten very little attention in the golf industry. Currently, most golf course managers use a traditional approach to setting green fees. They will set a weekday and weekend price, based upon a minimal amount of data. Prices may be based upon competition, or what an owner wants to charge, or what the manager thinks the course is worth in the market. Heretofore, to stimulate rounds, golf courses have used newspaper advertising, participation in coupon books, and providing inventory to third party – all tactical applications.

Because a golf course has a perishable inventory of tee times, fixed capacity, predictable time-related demand, high fixed and low variable costs, it is an ideal industry in which the principles of revenue management can be applied. Because of these constraints, in 2008, management's focus should be on rate and revenue growth. Thus, each course owner must ask, "Are you maximizing the revenue from your most perishable commodity: tee times?"

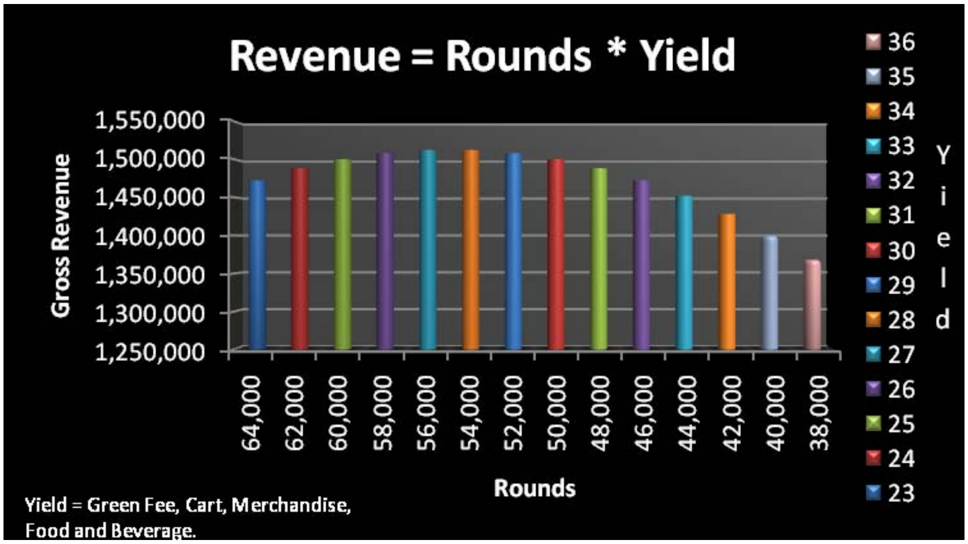
This article will focus on revenue management, available tools, and the early results that can be achieved.

A REVENUE (YIELD) MANAGEMENT PRIMER

With the expenses to operate a golf course largely fixed, maximizing revenue by adjusting revenue per round (yield) requires a delicate balance. This science is called "Yield Management." While it sounds precise, it is very subjective, it requires a lot of guesswork, and its accuracy is plagued by frequent errors and fickle consumers whose behavior is hard to anticipate.

The laws of retail pricing control. As the "rack rate, or "published rate," is adjusted upwards, rounds fall. Conversely, lowering rates boosts play. If golf was free, the course would be at capacity. If the fee was $1,000 per round, no one would play. The essential question is "What is the appropriate mix between price and rounds to maximize gross revenue?"

Finding the balance between these variables is essential, as evidenced below:



Note 1: The chart above was based on an "assumption" that increases in rates have a greater negative impact than decreases in round. Such assumption requires review for each facility.

The chart displays total revenue based on decreasing rounds but increasing revenue per round. Sixty-four thousand (64,000) rounds sold at $23 per round generate the same revenue as 46,000 rounds sold at $32. Which is better? While one might maintain there is no difference, in the golf business, perhaps the 46,000 rounds at $32 has a slight advantage, as the wear and tear on the course would be less.

Thus, yield management concerns allocating the right **capacity** to the right **customer** at the right **plac**e and the right **time** to **maximize total revenue.**

Currently, supply exceeds demand. Thus, there is downward price pressure within the industry. This pressure is exacerbated by third-party intermediaries, coupon books, and competitive advertising.

That fact makes it difficult for management to create loyalty, sell value, and implement revenue management.

What is an owner to do?

YIELD MANAGEMENT IN THE GOLF INDUSTRY

The options available to the course owner have been limited due to:

1. **Technology: golf industry software is behind that of other industries**.

Most software companies are very good at tracking and collecting money. Some are even outstanding in tracking customer or member information. However, none have the ability for sophisticated customer relationship or yield management.

Why doesn't this ability exist? A sophisticated yield management requires a large investment. The golf market is not big enough to justify this investment by small entrepreneurs who head the leading golf software management companies. The software development cost to build a yield management system for golf would exceed $2 million.

2. **The aptitude and attitude of golf course personnel at public golf courses**.

They are typically phobic, and the introduction of a golf management system creates inherent resistance. Those who reject change cite costs, the inability to train staff, and objections to abandoning the human touch of customer service.

What is the owner to do?

KEYS

The key is to predict demand levels so that price-sensitive customers who are willing to purchase at off-peak times can do so, while price-insensitive customers who want to purchase at peak times can also do so.

Stated differently, the balance being sought is to provide value to your core customers while attracting new customers at a discount; all while not providing discounts to your current customers who would have likely purchased at the rack rate.

The goal is simple: the revenue per available tee time sold should be 80% of the rack rate. The average golf course that we have examined is only realizing 55%.

The daily-fee golf business boils down to the simple fact that customer activity drives revenue. There are many segments of players with different demographics that will play at different times of the day, week and year.

Thus, the key element to any successful rate strategy is to understand customer activity and customer demand and then anticipate the level of demand in an upcoming period of time. Weather, Time of Year and Course Conditions are the driving factors in this determination.

Your posted rate (greens fee) should be set at a price that most people will pay, without discounting. The most important question: How many people are paying my high posted rate? Most people are pretty proud of this rate, even if only 2 to 10 people are paying this rate and they are using three different 3rd party vendors to actually sell tee times. The goal should be selling 80 rounds at the posted rate daily.

Is that possible? What should an owner do?

IMPLEMENTING

What an owner should do, with a goal of selling 80 tee times per day at the rack rate, is first to set another benchmark based on the average yield achieved during the past year.

To determine that number:

1) Calculate your total expenses.
2) Divide gross revenue by number of rounds played.
3) The result is your effective yield-per-round from all revenue sources.

With the benchmark (current revenue per tee time) established, the goal becomes to implement a revenue program in which the average yield exceeds that of the prior year. Decide whether increased yield is achievable and how much. If not, the guesswork starts. To achieve break even, is the rack rate increased, decreased or left unchanged? Opting to increase the rate or leave the rate unchanged, suggests marketing will be utilized. Decreasing the rate presumes a close look will also be in order to provide a cushion for the downside risk.

The minimum goal for any golf course today is to achieve break even. Presented below is an example of how revenue management has been successfully implemented.

The financial data for the first two months of each respective year were:

ABC Golf Course	2006	2007	2008
Rounds	7,535	3,910	5,717

Revenue	195,090	135,832	157,939
Yield	$25.89	$34.74	$27.62
Annual Rounds Projections			41,734
Fixed Expenses			$1,652,110
Yield Required			$39.58
Projected Loss			$499,138

Note: Fixed expenses include $173,000 for repayment of principal/interest on $2.5 million bond.

This chart projects a glum picture that underscores the fact that the market is oversupplied. Second, ABC Golf Club, with its debt load of $175,000, has a serious hurdle to overcome in rounds required to break even. Third, in a recent survey completed, golfers indicated that they are solely interested in price, not necessarily the experience.

Based on the analysis completed, bundling a value package was recommended, as outlined below:

	Before Noon ABC GC W/D	**Before Noon ABC GC W/E**	**After Noon ABC GC W/D**	**After Noon ABC Club W/E**
Yield Benchmark: $27.62 which would generate 59,815 round break even target				
Retail Rate	$42.50	$44.50	$38.50	$40.50
Value Rate	$29.00	$32.00	$27.50	$30.00
Discount	31%	28%	29%	26%
Green Fee	Yes	Yes	Yes	Yes
Cart	Yes	Yes	Yes	Yes
Range Balls: large	Yes	Yes	Yes	Yes
Tax Included	Yes	Yes	Yes	Yes

Note: Chart reflect prices as of March 1, 2008 with “rounding” adjustments as submitted February 20, 2008.

What appears to be a discount was implemented with stringent guidelines based on careful evaluation of predicted customer activity and customer demand for an upcoming period of time. Those guidelines were as follows:

1) The specials offered will only be available from the website. Customers can’t come to the course, indicate they heard about the promotion, and receive the value rate. One of the purposes of offering a special is to obtain valid email addresses.

2) Ten (10) value-priced tee times will be offered each day for sale, roughly one tee time every 45 minutes.

3) No value-priced tee times will be offered between 7:45 a.m. and 10:00.

4) Break points for the rates will be set between 7:00 a.m. and 7:44 a.m., 10:01 and 12:00, and 12:01 until close.

5) The “auto” adjustment feature within the software selected will be activated. If the 10:15 a.m. time is purchased, the software can automatically offer a subsequent customer the next closest time available, such as 10:22 a.m.

6) Yield adjustment will be incorporated offering the lowest price 5 days before the day of play. Each day thereafter, the value rate will be increased by $1 until the day of play. The goal is to get golfers to commit early.

7) When a total of twenty times (80 players) are sold, all value rates are withdrawn.

Action Plan

The yield management project will be tested from March 1, 2008 until April 30, 2008, at which time the results will be measured.

1) An accurate database was obtained from the list of 1,000 names. “Unsubscribe” and “bad addresses” were eliminated.

2) The **staff was encouraged to capture email addresses** from all customers. The following statements were made to each customer:

    - “Would you like to get a discount on your next round? Merely give me your email address and I will personally register you for the last-minute specials we send to our valued customers by email.”

      Or,

    - “If you would like to save money on your next round of golf, you merely need to provide me an email address so I can register you as one of our preferred customers.”

3) Customers were encouraged to register for specials by **posting the following sign on the POS Counters**:

    - Think Green Fee Prices Are Too High?
      Register Here for Last-Minute Tee Time Specials

   As a result of the above, the email database was expanded. From a net 700 names remaining after purging the database , within two weeks, the database increased to 1,200 with an end-of-month goal of 2,000.

4) The POS email database and the third-party yield managements were reconciled weekly.

5) **Newspaper advertisements** will be placed in the Wednesday edition of the local Sports Section for six weeks rotating the specials offered based on the terms outlined herein and on bookings registering on the website.

6) The **website was completely upgraded** by the third-party vendor.

7) For each incremental time sold, confirmations were reviewed to ensure **appropriate revenue benchmarks were achieved.**

8) Emails blasts were sent twice per week. While the golfer has the option to select the desired frequency, our goal was to limit their exposure to specials and create anticipation of future value.

9) Golfers were charged a reservation fee, and the reservation was secured by credit card.

10) Daily sales were posted to the accounting system and year-to- date projections were completed to determine profit earnings/loss for the year.

Results

While this article doesn't address the details of the yield management study performed to ascertain customer demand, proper pricing, and appropriate rate fences, the tentative results appear very positive.

Within the first two weeks, 30 golfers purchased 78 tee times totaling $2,190.50 for an average yield of $28.08. With a goal of $27.62, the yield realized through online sources was greater than the historical norm. Of the 30 golfers who booked, only three reservations were made by the same golfer. Thus, the primary criteria for the program were met, and the objective of stimulating incremental play from new customers was also achieved.

While the nuances of implementing yield management vary by locale based on demand factors and golfer preferences, if you would like to learn more about this revenue-generating technique and the tools used, please call me at 303.283.8880.