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Strategizing A Yield Management Plan for Increasing Sales

What exactly is yield management? It is about selling tee times at prices that meet the value the consumer is willing to pay for that tee time. Or, in other words, it is about maximizing the price (green fees) you will receive for your inventory (tee times).

APPLICATION TO THE GOLF INDUSTRY

So, does yield management apply to the golf industry? According to researchers at Cornell and Harvard Universities, industries that benefit from yield management have the following characteristics:

Perishable or finite inventory: once a tee time comes and goes; it is gone!

Variable demand and fixed capacity: there are only so many tee times in a day, but demand for tee times varies dramatically.

Advance sales: what percentage of your tee sheet is pre-booked in advance every day?

Multiple pricing structures: how many prices do you offer? Early bird, twilight, second twilight, junior, senior, clubs, etc.?

Low marginal costs: the incremental cost to the operation of filling another foursome is almost zero.

Price as a powerful lever: our current thinking is if we "drop the price, ie. discount like crazy, they will come"…but is it really true?

So, based on that summary, yield management in the golf industry is, or should be, a critical tool in your overall revenue management strategy. We know our industry is a high fixed cost business. Whether we have 60 or 100 golfers on the course, the incremental "cost" of having those 40 extra golfers on the golf course is actually quite small. So what can we do to "acquire" those 40 extra golfers? If we can get them to consider our course, what will they pay us to play? How are those issues correlated?

As we have a fixed and finite inventory, ie. our tee times, we need to find ways to not only fill those times but do so at the highest price possible. The focus is on the "value" our customers and potential customers perceive for each tee time. Does a tee time at 7:30 am on a Saturday morning have more value than a 3:00 pm tee time on a Tuesday afternoon? To you, the golf course operator, the value is the same; to the consumer it is very different, and to various groups of consumers, it is different yet again.

A key component of yield management is about identifying those groups or "demand segments" of our golfing population that play at those different times, either at our course or others. Another key part of yield management is determining what value each demand segment attributes to those tee times. Certain demand segments will be willing to pay a higher price for the Saturday 7:30 am time just as other demand segments may not be willing to pay our rack rate for the 3:00 pm Tuesday time.

Understanding these differences, and gathering this information is critical. Once we have this information, we can find a strategy or plan to drive golfers to the available tee times for the maximum price they are willing to pay for that time.

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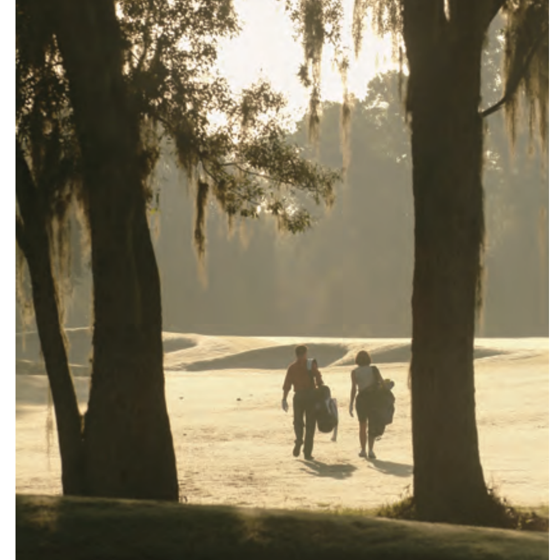


FINANCIAL OPPORTUNITIES AND CHALLENGES

All of the previously mentioned information sounds good, but complicated, so why go to all that trouble? In golf, we have a finite number of tee times (inventory) and we have a "maximum" price the market is typically willing to pay for one of our tee times (full price or "rack rate"). The challenge/opportunity is filling all of our tee times at our maximum rate, every day. If we maxed out every one of our 214 days of tee times (assuming you open April 1st and close October 31st) you have inventory of 57,647 rounds of golf (see chart below). Assuming your "rack rate" is $60 per round, your maximum green fee revenue would be $3,448,000! And that is solely green fees; what about power carts, food and beverage, retail, range, etc. If you assume each golfer spends on average an additional $20 per round; that is a further $1,115,000 of revenue for a total of roughly $4.5 million.

	April	May	June	July	Aug	Sept	Oct	
# of days	30	31	30	31	31	30	31	
Average # of TT per day								
# of hours of TT	9.50	10.50	11.50	11.00	10.50	9.50	8.00	
Minutes per TT	9.00	9.00	9.00	9.00	9.00	9.00	9.00	
# of TT per hour	6.67	6.67	6.67	6.67	6.67	6.67	6.67	
# of TT per day	63.33	70.00	76.67	73.33	70.00	63.33	53.33	
# of TT for month	1,900	2,170	2,300	2,273	2,170	1,900	1,653 "	
# of available TT	7,600	8,680	9,200	9,093	8,680	7,600	6,613	57,467
Total available TT	57,467							
Rack Rate	$60.00							
Total Potential Revenue		$3,448,000						

*TT = tee times

If we were all profiting $4.5 million, we would not need a yield management strategy, but how many golf course owners are collecting this revenue? $4.5 million in revenue is ideal, but is not the reality for most owners and operators. So, what are the benefits of building and implementing a yield management strategy?

Researchers at Cornell and Harvard have determined that an effective yield management strategy, as part of an overall revenue management approach, can result in as much as 7% increase in available revenue. So, if you are collecting $1.5 million in revenue, and by implementing a yield management strategy, you could drive 7% more revenue, or $300,000 more revenue (based on 7% of the total available revenue of $4.5 million) would that not get your attention?? Furthermore, given the costs of this additional revenue are relatively small, at least 65% of this falls to the bottom line, or potentially $200,000 falls into your pocket.

There are a number of challenges that affect our ability to achieve these numbers: competition, weather, pre-bookings vs. walk up, slow play, course conditions, customer service, market demand, customer segments, demographics, etc. So how do you assess all of these variables to come up with a strategy that brings you as close as possible to that target of maximum green fee and ancillary revenue? That is what yield management is all about. Let's explore the possibilities.

KEY COMPONENTS TO CONSIDER

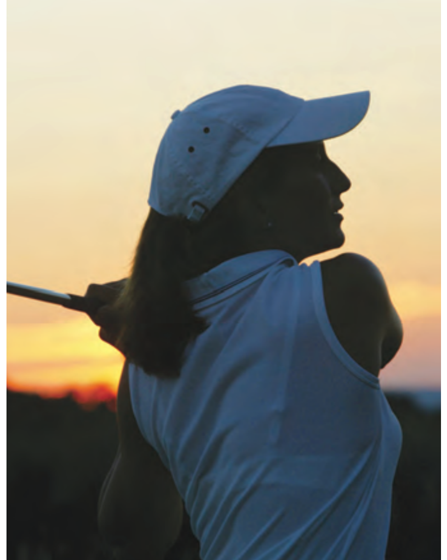
There are key components to consider when exploring yield management, and include the following:

- **Overbooking** (you may not think you have this problem, but consider how often you are turning away players at 8:00 am on a Saturday morning, but your tee sheet is empty at 1:00 pm? It is a different form of overbooking. The opportunity is finding the "value" the consumer would pay to come back and play at 1:00 pm. In addition, finding the incremental value the golfer is willing to pay to secure that coveted 8:00 am time).
- **Discount allocation** (the practice of determining the number of reservations [tee times] that can or should be allocated at a reduced rate without the loss of opportunities to sell at a smaller discount or full price).
- **Traffic management** (the practice of balancing discount allocation with available times and pace of play).

Who has not considered all or some of these components every day in running their golf course; especially discount allocation and traffic management? Or putting it another way: when do we start twilight, what do we charge for it; should we offer a 2 for 1 coupon or a 4 for 3 coupon, what time of day do we allow these coupons to be redeemed; do we partner with a third party tee time re-seller, what times do we offer, what discount rate, etc., etc., etc. Is yield management right for your course? Here are 5 factors to consider:

- Do you seek to optimize pricing to boost revenue – do you "guess" at what rates to put where on your tee sheet to generate incremental revenue?
- Do you know or can you identify your demand segments – do you truly know what golfer is playing when…and what they are willing to pay?
- Do you develop demand forecasts – do you look at your historical numbers to try and forecast future demand?
- Do you disaggregate your data – do you look at daily, weekly, and monthly information on rounds, pricing, etc.
- Are you using metrics to assess the effectiveness of your efforts – are you comparing your course to your market, to last year's performance, and last week's performance?

If you are curious about these things or are doing some and not all of them, then a yield management strategy will work well for your course.



> "Being a 9 hole course, we did not create a twilight, the rate was our rate. However, we did start charging a $2 per round premium between 3:00 pm and 6:00 pm."

7 TIPS FOR BUILDING A YIELD MANAGEMENT STRATEGY

1. Data, data and more data!

- SWOT and competitive analysis. Do a "humble" analysis of your strengths, weaknesses, opportunities and threats, and most importantly, do the same on your competition; honestly determine how you compare!
- Review your tee sheet for each day over at least a 2-4 year period and establish the trends, the gaps, and the opportunities. Compare these results to programs you ran in the past, perhaps a cart bundle promotion or a coupon deal, etc. Determine what worked and what did not. Most POS systems will deliver you custom reports around this. The goal here is to establish some benchmarks to work from.
- Debrief with all staff and golfers and request feedback. This is critical as it is the starting point to ultimately getting them to buy in to the "new strategy" you develop. This will also help determine your golfer segments and the "value" they attribute to each tee time.
- If you have an electronic booking system and online booking, review all information provided: how many online bookings, where did they come from; were you filling up at the start of rate time zone changes but empty before the time change; what impact did your tee time intervals have; how long does your average round take etc. The answers to these questions will help you establish your base line of data that you can benchmark against in building your strategy.

2. Demand segments

These are segments of your tee sheet broken down by high, medium and low demand. It is important to identify these segments so that you can assess and determine the correct rate structure that will attract players to the low demand times and drive players to medium demand times. It can also help identify those high or peak times where you can either charge a premium or come up with a strategy to deal with potential overbooking and move some of that demand into medium demand times. There is always an element of golfers that will pay whatever it takes to play at the time they want.

3. Disaggregate your data

It is important to break the historical data in to smaller, more precise data points vs. looking at a month at a time. For example, you will want to look at each weekday, each rate fence or time block for trends, averages, demand, type of booking etc., to allow you and your team to build a strategy to maximize yield during each of those times.

4. Develop demand forecasts

Once you have evaluated your demand segments and broken your data down into the right segmentation, you will begin to see demand patterns emerge that will be a starting point to building forecasts for each of these periods. It is important to tie this analysis into the value proposition: always keep in mind what "value" does the golfer attribute to that time.

5. Demand forecasts

Once you have your demand forecasts, you can look at how your price offerings may influence incremental demand at each forecast interval. Get creative and come up with different ways to promote value vs. simply discounting!

6. Brainstorm with your team

Once you have all of the data, brainstorm with your team; from you, the owner, to the head professional, pro shop staff, sales and marketing staff, 19th hole staff, and key members throughout the facility. This also helps for "buy in" as everyone created the strategy. Maybe bring in a couple of green fee players and get their thoughts, use your database of golfers…you should try and collect as much information on each golfer as possible, how many times have we all been asked for our postal code when we visit a retail store. Be creative, be honest, set goals, and targets.

7. Create realistic targets and goals

- Average green fee revenue; seek to achieve 75% of your rack rate for all green fees sold.
- Utilization; seek to achieve 60% utilization across all tee times. However, utilization can and should be more precise and match your demand forecasting. Saturday from open until 1:00 pm, 90%; Saturday from 1:00 pm to close, 40%, etc. These goals/targets form the basis for not only benchmarking assessment of how you are doing, but provide the whole team with something to work toward.
- The combination of a revenue target and utilization targets will help you create strategies to hit these targets throughout the season. This can provide you with a road map to empower all of your team to make decisions on a daily, weekly, and monthly basis to affect your yield and achieve these goals.

These steps are the building blocks to implementing an effective yield management strategy. Much of this work can be done at the end of a season or in the off season where you have the time to compile and analyze the data. Take a week and build a team to do this work, for an investment of $5,000 of time, you can build a strategy to grab $300,000 of revenue!

CASE STUDY: EAGLEQUEST COQUITLAM

One of the things we did at one of our Eaglequest golf facilities, our 9 hole course in Coquitlam, BC, was to assess an overbooked period. Our tee sheet was generally full everyday between 3:00 pm and 6:00 pm, and we were even turning people away on some days. Before

3:00 pm and after 6:00 pm, we were not as busy. Being a 9 hole course, we did not create a twilight, the rate was our rate. However, we did start charging a $2 per round premium between 3:00 pm and 6:00 pm. For the odd golfer that commented on it, there were times either before or after this which were available without the premium. Some golfers changed their timing to accommodate, driving revenue into those shoulder times. We did not miss any revenue as new golfers who valued those prime times did not mind the extra $2 and filled any gaps vacated by the occasional golfer that did not want to pay the premium. As a result, we generated an additional $10-20,000 in green fees annually, without any cost.

> "It all started with a deep dive into the data; a SWOT, competitive analysis and looking at all 'inventory', golfers, pricing, etc."

SUCCESSFUL STRATEGIES

Jeff Cieko, Co-Owner of CK Golf Solutions, works with a number of golf courses throughout BC providing advisory support. Courses are slowly starting to work on yield management strategies. However, those that do, are seeing increased traction, in particular, by using social media and other electronic means to communicate the message to golfers, and surprisingly, without discounting. According to Jeff "One of the most effective strategies is simply telling your customers you have an available tee time, and conveying that message to them as directly as possible."

For example, send an email, tweet, Facebook message, etc., on a Friday afternoon telling golfers you have a block of tee times available between 1:00 pm and 2:00 pm (remember the previous example). Jeff notes "The courses that started to do this have experienced as much as 60-70% take up of those times… without offering a discount!" Jeff advises to keep the message and your processes simple; look for and manage the gaps that occur.

In speaking with Andy Hedley of Golf BC, there were several keys to their aggressive yield management strategies. "It all started with a deep dive into the data; a SWOT, competitive analysis and looking at all 'inventory', golfers, pricing, etc." One of the more daring steps they tried at a couple of facilities was actually lowering their rack rate $10-15 per round as part of an overall refresh of their pricing strategies. The end result was increased rounds, revenue, and more importantly average green fee per round, actually increased! They found the right "value" point that appealed to a broader range of golfer's perceptions for those tee times without having to offer discounts.

For other operators across the country, online bookings are critical, and mobile apps are just starting to gain importance. However, as society continues to move aggressively into the mobile space, these mobile apps will become a very important tool in yield management, both for getting the message out, but also managing your value offerings, tee sheet, pricing implementation strategies, etc. One golf course operator said they actually monitor the bookings daily and offer subtle, as little as $1-2 per hour, pricing differences. Sometimes this is all it takes for you to hit the "value" range for a golfer.

In resort environments, determining the channel of the customer booking is critical in helping the golf course owner decide not only the price but the tee time that the customer will want. Some large resort operators in the United States have taken this to a very high level. Their booking systems only offer tee times and prices to customers based on the channel, ie. resort, travel agent, etc. the potential golfer comes from. Using all the IT tools at their disposal, they are able to marry the value the golfer perceives to the right tee time and price.

IMPROVE YOUR BOTTOM LINE

Yield management is a complex, yet simple concept. It is here to stay. Those courses who have already taken the time to complete deep data analysis are already on their way to increasing their revenue per available tee time. Those who have not…better get going so you can catch up, the opportunities are huge!