Introduction to revenue management in the golf industry tourism essay

Companies using revenue management have reported an increase in revenue of 2-5 and in the golf industry these increases can be substantial (Pehlchen, 2003).

As we learned in class, Revenue Management is a technique to maximize revenue through allocating the right capacity to the right consumers at the right price by using different information systems and pricing strategies. Therefore mangers need to know the total worth of their customers. Here, customers have to be segmented into different groups and hotels and resorts need to know which types of customers they currently attract and more important which ones are creating most revenue and therefore who they would like to target in the future.

When looking at Revenue Management, hotels and resorts in the golf industry have to look at different rates they would like to set for different market segments, discounts they offer and when to offer them and to which extend they are planning to overbook and therefore might need to walk their guests. Furthermore, if they know how the client's price elasticity is, they could for example know whether a raise in prices will increase revenue or decrease due to the loss of demand.

The hotels and resorts have to be aware that demand can be controlled, directed and influenced for example with promotions or requiring a minimum length of stay. Herewith revenue can be increased potentially. By forecasting demand, maximum revenue can be made. Here, managers have to look at demand generators like events, the pace bookings are done as well as historical data.

Today, clients have become more used to revenue management due to the fact that more and more industries have started to implement different rates and packages according to forecasted demand. Only shortly after the airline industry introduced yield management in the 1980s, hotels followed the trend. Today, due to better information systems and more practice, hotels and resorts have become more and more effective with an increasing number of departments following the trend with generally great success.

In the following it will be analyzed why the golf industry is suitable for Revenue Management, by looking at the hotel rooms, restaurants, function space as well as the golf course separately. It will be evaluated why each segment is suitable for revenue management, how demand based pricing is used and the duration of the clients can be controlled, which rate fences are commonly used and implemented and how Revenue Management may be implemented in the analyzed area.

The Golf Industry

Why is the Golf industry suitable for Revenue Management?

Research has shown that revenue management is most effective when the operation has the following characteristics:

Perishable inventory – refers to a product or service that loses its value if it is not used by a given date or time, e. g. unused hotel rooms

Variable demand and relatively fixed capacity – demand varies and can be influenced and directed while the capacity stays the same

Advanced sales – due to reservations being done in advance, demand can be forecasted and prices adjusted

Multiple pricing structure – being able to divide the market into different segments, different prices can be set to attract certain segments at a certain time

Very low marginal costs – fixed costs are high, variable costs relatively low. Therefore selling an additional unit comes with relatively low costs

(Yield Management and the Golf Industry, n. d.)

How to introduce rate fences

The hospitality industry started introducing price fences to give the consumers a perceived feeling of fairness by offering discounted prices which come with certain rules and regulations. These rules and regulations have to be logical, transparent and fixed, often by targeting customers from a certain market segment. These rate fences can be either physical, e. g. considering the view of a room or furnishing of a function space or non-physical, considering e. g. the time of consumption.

Management can divide the market into different segments with special rates which can be according to demand offered or closed. It is psychologically better for businesses to introduce price differences as discounts rather than adding a surcharge during high demand times (Kimes & Wirtz, Has Revenue Management become acceptable?, 2003).

Implementation

Gathering information on customers is very important. By offering for example loyalty programs most hotels and golf courses can require clients to hand out their personal data which will then be used to promote special offers.

Management also needs to know the local culture. In some countries for example demand based pricing is viewed as rather fair while in others, clients are not so tolerant. For example in Sweden, it is viewed as fair to apply different prices during lunch and dinner periods, while in Singapore clients perceive it as unfair.

How to make sure policies are viewed as fair

Today, most U. S. golfers view most golf course revenue management practices as relatively fair and in general consumers increasingly accept differential pricing policies (Kimes & Wirtz, Has Revenue Management become acceptable?, 2003). According to Kimes, perceived fairness has been found to be a key factor to maintain customer satisfaction, loyalty and long term profitability.

Though consumers view a different price for the same product at a different time often as unfair, managers should either attach lower prices to restrictions or offer additional perceived value to higher prices.

Hotel Rooms

Fixed duration, variable pricing

Why are hotel rooms suitable for Revenue Management

With a fixed capacity in number of rooms, a perishable inventory and time variable demand due to the time of the year and different demand on different days of the week rooms are very suitable for revenue management. The cost structure of a high amount of fixed costs and a low amount of variable costs support the use of revenue management. Being able to manage both capacity and the price by analyzing their RevPAR, hotel rooms are the most suitable area of all discussed in this paper.

Demand based pricing

Today, managers of hotels are very effective when forecasting their demand for a specific night. Clients have become very used to the practice of varying prices in hotels and therefore nearly all hotels and resorts in the world put a great amount of work into analyzing their clientele to see which maximum rate they can charge for on a specific night.

Duration control

Before the client arrives, the hotel already knows relatively certain how long the guest will stay with them. Therefore only during the reservation procedure, hotels can

increase or decrease the duration of the clients stay. By applying early departure fee or minimum lengths of stay requirement, hotels can influence the duration of a stay.

Rate fences

Physical fences of the hotel rooms could be the view, size and furnishing of a room whereas non-physical fences would be the length of the stay, flexibility, time of purchase or the size of business provided.

To avoid that prices are viewed as not fair, hotels often set their rack rate very high and barely let any customer pay this rate. But therefore when clients perceive a price as too high, the hotel could show them their rack rate to make the client feel like they got a discount to increase guest satisfaction.

Implementation

First, data has to be collected on the room rate each segment is willing to pay as well as demand variety and booking patterns.

Then, demand has to be forecasted by using historical data in combination with assumptions on effects of new events or trends

When determine pricing and lengths of stay controls the effect that changes of prices have on the occupancy need to be calculated.

Last, employees have to be trained and changes have to be communicated with the clients, preferably by using the properties website.

Restaurant

Fixed pricing, variable duration

Why are restaurants suitable for Revenue Management?

Restaurants are perfect for Revenue management because they satisfy all required criteria. On one hand they have a fixed capacity due to the number of seats available in the restaurant, the kitchen size, the staffing levels as well as the menu design. Also, they have a perishable inventory where seat hours are sold, so if a seat is not sold during a particular time, revenue is lost.

Third of all, restaurants work with time-variable demand. Demand varies between different times of a day, days of the week as well as seasons. Some ways how to manage demand would be for example promotions, vouchers or special offers that are only available at certain times e. g. early bird specials. Flexibility in pricing as well as the possibility to segment customers allows revenue management to be applicable in restaurants.

Demand based pricing

Demand based pricing is not as much used in restaurants as in the rooms division. Even though special lunch menus, Christmas and New Years Eve menus as well as special promotions and vouchers offered in low season can be offered, most prices in a menu are fixed and change rarely.

Duration control

It is very difficult to predict the duration of a client`s stay in a restaurant. The management in restaurants will on one hand have to try to control and if possible minimize the duration of a meal especially in hot periods. The reduction of variations is especially important if they are not due to the clients but operations.

Especially when looking at the time between the arrival and the seating of a client, the restaurant can minimize the duration of a client`s stay. With an increase in staffing or improvement of operations and communication the seating process can be fastened. The menu design can also play a big part in duration control. If the design is very complicated, clients will take longer to decide what to choose

Rate fences

Generally, only few rate fences are found in restaurants. The restaurant could, for example, introduce a certain price for a separate " VIP" room or discounts for groups with a certain number as well as when the reservation was done. Commonly, special discounts for certain market segments are found. For example clients working for a certain company or with a special membership could get a discount on their meals.

Implementation

The steps to implement duration control and demand based pricing in restaurants are as follows:

When establishing a baseline different information needs to be collected. This information can be taken from various sources and then needs to be analyzed.

When trying to understand the causes, the management needs to find out which factors affected the RevPASH as well as the duration. This can be done through the use of service blueprints or for example fishbone diagrams.

The third step in implementing duration control in a restaurant and reduction in variability of service step duration would be the development of a strategy.

When implementing the new strategy, it is vital that the new standards and procedures are communicated to the employees as well as to the clients.

In the end, the results of the new strategy have to be monitored. This is vital for the motivation of employees as well as for possible corrective actions that might need to be taken.

Function Space

Fixed duration, variable pricing

Why is function space suitable for Revenue Management?

Unfortunately, Revenue Management has not yet been systematically applied in hotel`s function spaces, even though they are very suitable. All requirements are fulfilled when looking for example at a relatively fixed capacity, variable demand, customers that can be segmented, different customer`s price sensitivity or perishable inventory. Other than hotel rooms for example, function spaces charge a fixed price for their rooms with a relatively predictable duration.

Demand based pricing

Hotels still have difficulties in forecasting demand for function spaces because it is very complex due to the fact that it often also affects the sales of the Room and Food and Beverage Division. In general, hotels and resorts in the golf industry work with the formula that the expected contribution of a group needs to be higher than the displacement of other clients who would create higher total revenue. It always needs to be considered that function space revenue management is effected by the demand and current reservations of the Room and Food and Beverage Division

Duration control

Function Spaces have various different ways to control the rather predictable duration of a conference or meeting. By asking for pre-payment or a deposit, the possibility of no-shows, late shows or short shows are minimized. They also guarantee that the hotel rooms booked are picked up and not left early with loss of revenue by setting early departure fees or room prepayments.

In regard to duration control of the hotels operation, the turnaround time is an important factor to maximize revenue. Here, the balance between minimizing labor cost and turnaround time has to be evaluated.

Rate fences

Function Spaces are very suitable for the implementation of rate fences, which can be either physical or non-physical. Examples for physical rate fences could be for example higher prices for high-tech rooms or rooms with day light. Non-physical rate fences could be reduced rates for repeat customers, groups that have booked over the internet or that booked on a certain day of the week or in season with general low demand.

Golf Course

Fixed price, unpredictable duration

Golf courses have only in the past few years started applying revenue management. Due to the industry boom in the 1990s, revenue was high enough that such a system was not seen as requirement. But with the current decrease of demand, more and more golf courses turn to revenue management to know exactly when to offer reduced rates and rate fences to maximize total revenue. As more and more golf courses introduce revenue management, properties that fail to participate will find themselves in the long run in a competitive disadvantage.

“ Time is money when it comes to golf.

You can`t get as many rounds in on a tough course”

(Tiger, Licata, & Howard, n. d.)

Why are golf courses suitable for Revenue Management?

Golf courses have a relatively clear definition of their fixed capacity, predictable demand and perishable inventory (time a hole is available), flexible cost and pricing structure, variable demand and therefore apply for the use of revenue management.

The relatively fixed capacity, for example, can be measure by the golf courses size, number of holes as well as the hours of operation. In summer season revenue can therefore be increased due to more daylight hours (Kimes, 2000).

In the golf industry management needs to consider that tee times are perishable. Through managing their revenue by calculating the RevPATT, management integrates the duration of a golf round into their pricing revenue management.

Demand based pricing

Golf courses often fear unsatisfied clients when applying demand based pricing because they are scared to lose m customers. The problem in this area is that clients are jet not used to revenue management in golf courses specially with changing prices. Therefore golf courses have to slowly apply demand based prices by introducing lower rates for example when weather is bad.

Also, they have a relatively high average of clients who reserve before coming to play.

Golf courses could use overbooking as a revenue management tool but generally it is not practiced, but according to Kimes (Kimes, 2000) rely on walk in clients to generate non-guaranteed revenue. Kimes also states that golf courses can successfully overbook if their forecast on cancellations, no-shows and walk in customers is accurate. “ The displacement may be based on time of arrival, perceived importance or frequency of use” (Kimes, 2000).

Duration control

The goal of duration control of golf courses is to reduce the tee time interval.

Courses can reduce on one hand the uncertainty of when customers arrive as well as the variability of the length of a round. First, operators need to know how long players usually take to complete one round and how much these may vary to the average calculated.

To reduce the actual time clients spend on the golf course, there are several different strategies management can put into place to reduce the duration. Most courses use for example Marshalls to regulate the flow of play by reminding slow players to speed up.

Offering separate playing times for beginners and advanced players due to the different time which the two groups need to complete one round is a good way to not only reduce duration but also to increase guest satisfaction because advanced players do not have to wait for beginners. Reduced cart fee during busy times is another solution, but if too few golf carts are available, duration can increase.

Using peer pressure by posting play time to reduce duration is common use for example in Singapore (Kimes, 2000) while in some countries this practice might upset humiliated and non-competitive customers

Rate fences

Golf courses have the possibility to apply various different physical as well as non-physical rate fences. Physical rate fences could be for example the size of the party or whether golf carts are used. Non-physical rate fences could be the lead time in which the reservation is done and if it is guaranteed, if the client was a walk-in or on which day of the week, time of the day or in which season the customer booked. Members or corporate businesses could agree on a special rate as well.

Conclusion

Hotels and resorts in the golf industry use revenue management to skillfully optimize their total revenue. For consumers, fair price equals a positive price-value relationship. Why prices change due to demand is for managers often difficult to communicate but today clients understand that prices go up when demand is high and therefore the practice of revenue management is accepted by an increasing number of consumers. We have seen that there are some areas that have more problems than others to implement revenue management due to the different market segments they target as well as how used clients are to prices changing.

Today, an industry trend is found towards the use of revenue management in all areas analyzed and therefore one can only recommend to any manager in the golf industry to take a closer look at revenue management and start considering its use. At least the numerous success stories related to revenue management in the hospitality industry should be reason enough.